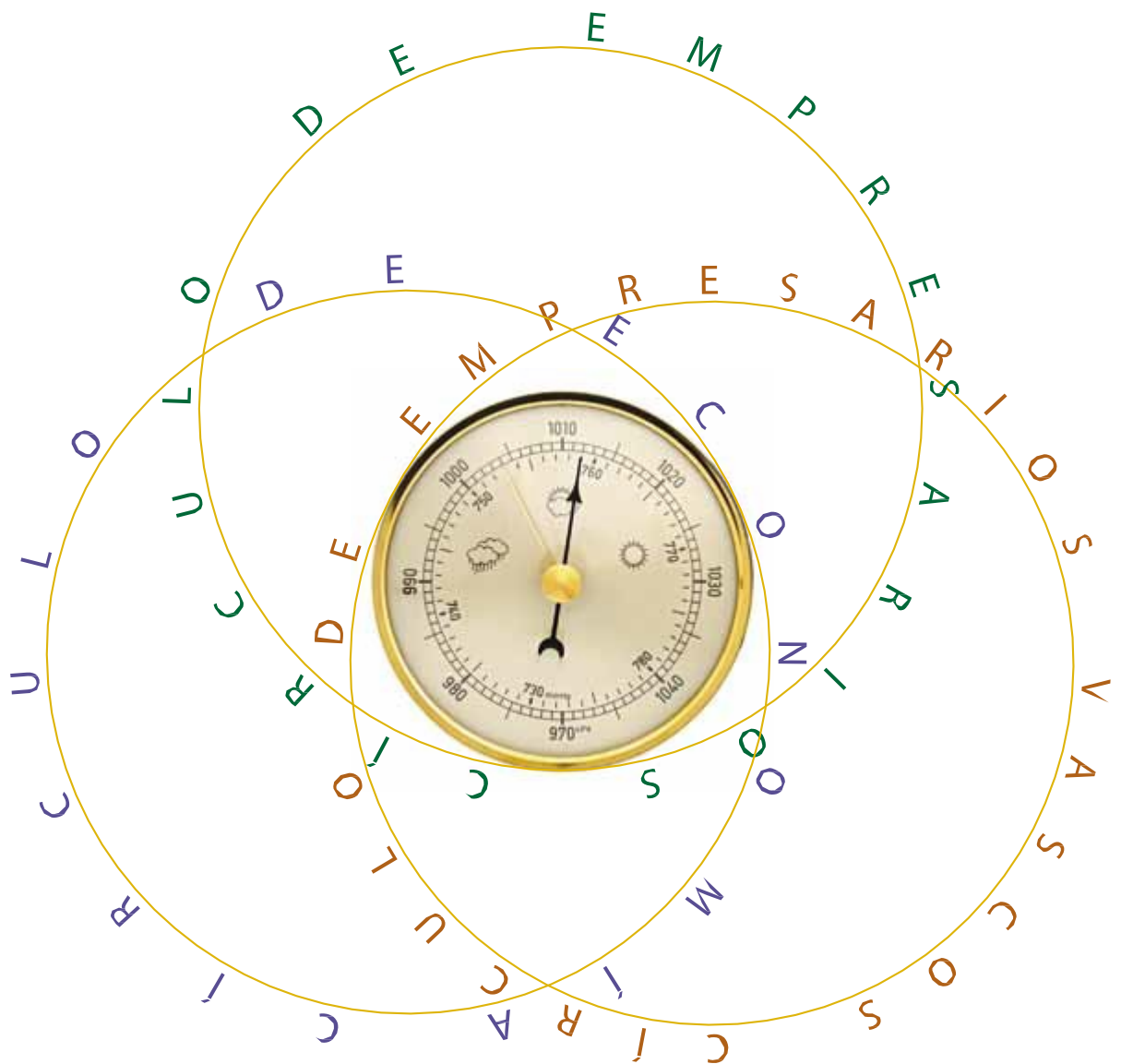
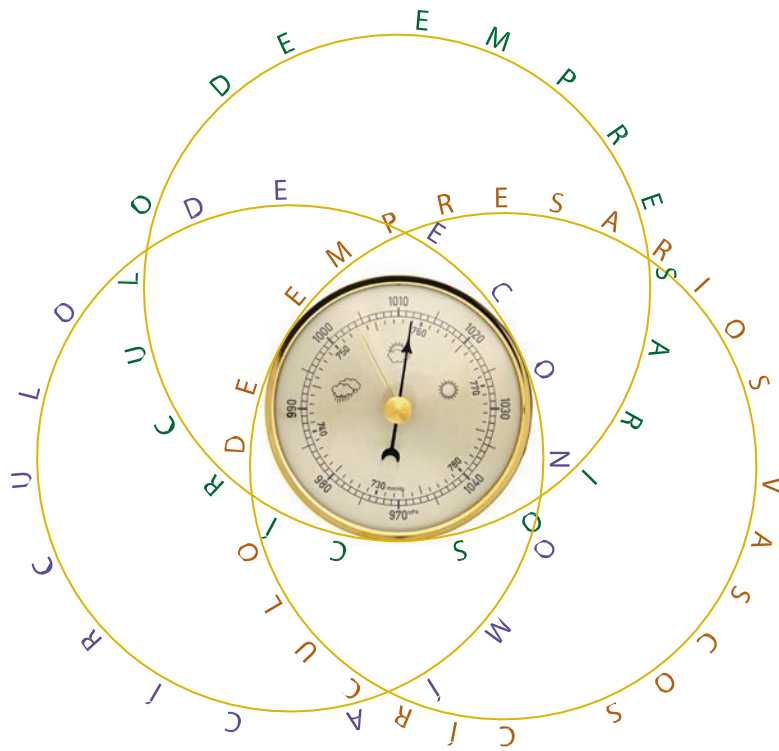


The Barometer of the Círculos

2016



The Barometer of the Círculos 2016



2016



Santander

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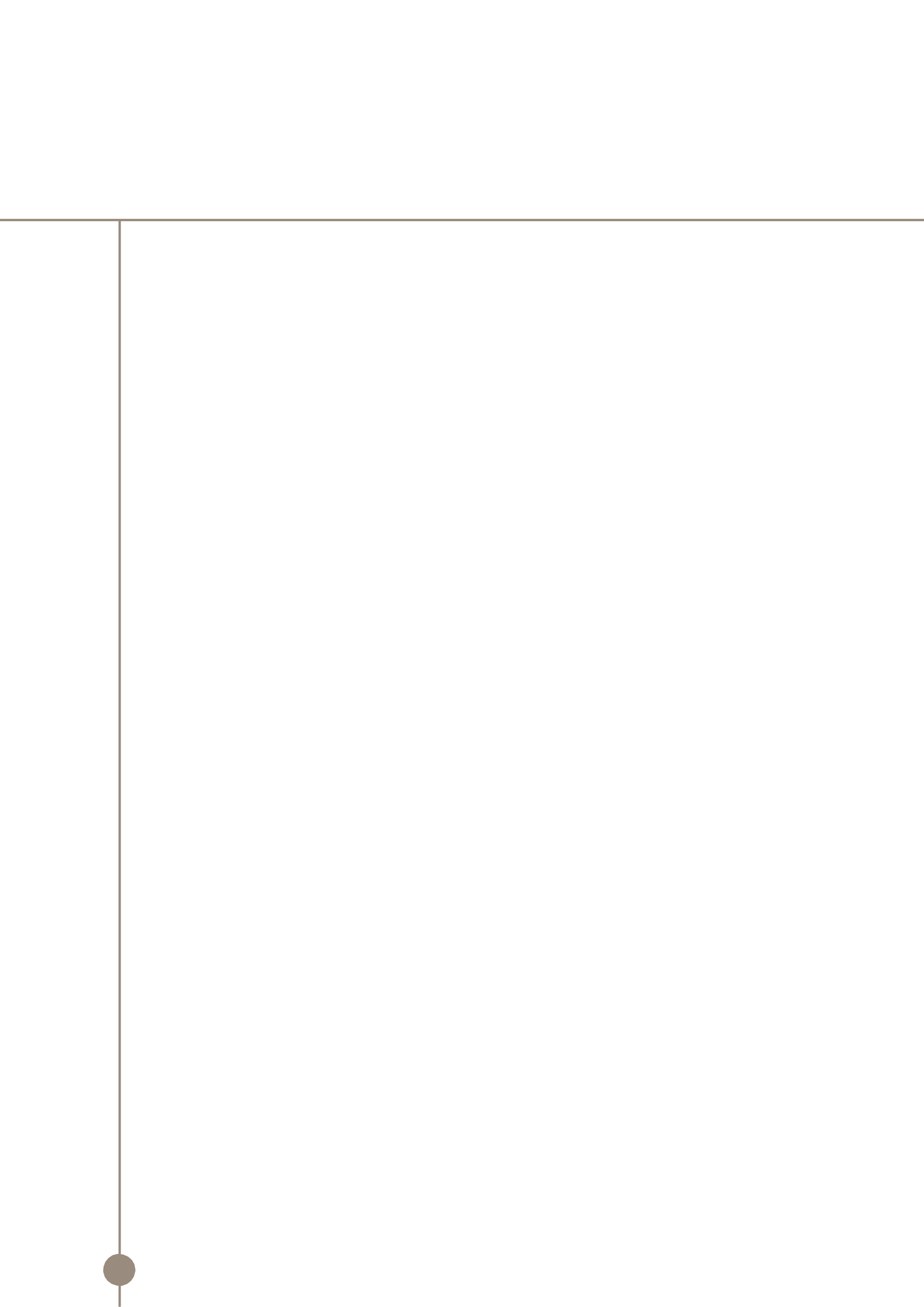
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Letter from the Círculos

The Barometer of the Círculos, in this third edition, seeks to contribute to collectively solving the big problems that affect Spain. On this occasion, in addition to presenting the shared vision of the Círculo de Empresarios, the Círculo de Economía and the Círculo de Empresarios Vascos, it has enjoyed the participation –begun in 2015– of the Asociación Valenciana de Empresarios, the Club Financiero Vigo-Círculo de Empresarios de Galicia, and the Institución Futuro de Navarra.

The 2016 Barometer diagnoses the structural situation of the Spanish economy so as to identify the principal competitive strengths and weaknesses of our economic and business surroundings. If in 2015 the survey was more representative geographically and by sectors, this year's Barometer sampling includes a significant number of small and medium-sized firms, precisely the kind of operations that must become larger and more numerous in Spain.

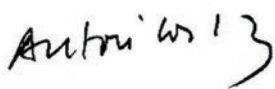
This analysis of the Spanish economy is complemented by a study of Spain's position in the principal international indicators of competitiveness, and for the first time in this edition we provide specific sectorial indicators. We also present the opinions of a broad range of businessmen and presidents of Spanish companies and multinational firms operating in Spain.

Based on the conclusions obtained in this Barometer, we present a body of recommendations about those economic and company areas in which action should be taken by both the Public Administrations and the companies themselves. To this end we present some of the best practices of other countries and of Spain in such areas as youth employment, dual vocational training, intraentrepreneurship, and commitment to growth.

The recommendations of the 2016 Barometer seek to consolidate the financial recovery and shore up growth, which will make it possible to resolve the serious problems that plague Spain. Among them: high levels of unemployment and debt, which affect the sustainability of the Welfare State.

Here at the Círculos, we believe it is necessary to promote a more dynamic and competitive Spain that will generate higher levels of wealth and wellbeing, guarantee equality of opportunities, and allow Spain and its companies to face the challenges of a global society.

As with previous editions, we hope that this 2016 Barometer will generate broad debate in society and help design a longed-for project that will usher in a new period of hope, progress and national structuring.



Antón Costas Comesaña
President Círculo de Economía



Javier Vega de Seoane
President Círculo de Empresarios



Jorge Sendagorta Gomendio
President Círculo de Empresarios Vascos

Executive summary

In 2015 the Spanish economy grew by 3.2%, one of the highest rates in the EU. The most recent predictions by the principal national and international organizations indicate that this trend will be maintained, although at a slower pace due to geopolitical risks, unknowns about world economic developments, and national political uncertainty, and how they will affect investment and hiring.

During the course of 2015, Spain was able to strengthen the economic recovery and accelerate the creation of employment. Nevertheless the country continues to have three large imbalances:

- The unemployment rate is at 21% of the workforce, thus tripling the OECD average (6.5%) and doubling that in the Eurozone (10.3%).
- The net debt has reached 250.2% of GDP, with 150.2% corresponding to the private sector (excluding the financial sector) and 100% to the public sector.
- The public deficit is at 5% of GDP, thus falling short by 8 decimal points of the objective assumed with the European Commission.

STRUCTURE OF THE BAROMETER OF THE CÍRCULOS

The Barometer is produced in three ways.

The first is based on a review of the principal international indicators on competitiveness and its three principal conclusions (Global Competitiveness Report of the World Economic Forum, IMD World Competitiveness Yearbook, and Doing Business from the World Bank). In this edition, and for the first time, we have collected the results of 32 international sectorial indexes that compare more concrete aspects of the Spanish economy and institutions (Annex 2).

The second consists of an on-line survey to measure quantitatively the opinion of businessmen about the strengths and weaknesses of the Spanish economy, and to discover how they rate the principal laws and norms approved by the government, and which ones they consider to be the priorities for the future. In this edition, 265 managers have taken part, most of them members of some of the Círculos.

Finally, the third one presents the results of an online survey, with 23 interviews with businessmen in different sectors. It allows us to learn the factors that determine the competitiveness of their companies and the reforms they consider to be priorities in shoring up the recovery and creating jobs.

In addition, the 2016 Barometer presents examples of international best practices¹ and this year, for the first time, of company best practices in Spain in the areas of youth employment, dual vocational training, intrapreneurship and company growth.

Among Spain's comparative advantages as identified by the 2016 Barometer, and which support our short- and medium-term growth potential, we can highlight:

- A qualified and competitive labor force that is valued internationally.
- The high quality of our infrastructures.
- The size and location of the domestic market.
- The strengthening of the industrial sector and, especially, of the overseas sector as a whole.
- The competitiveness that has resulted from the convergence of unit labor cost with the EU average.

On the other hand, the aspects that most concern businessmen are the quality of the Spanish educational system, the situation in the labor market, and the oversized and inefficient Public Administrations (PPAA). As a result, it will be necessary to carry out structural reforms that will contribute to correcting the large imbalances and challenges faced by the Spanish economy.

With regard to its structure, the Barometer concentrates on five aspects:

- The perception of Spain as a market and production center in the global context.
- The potential of the basic resources in physical infrastructures, human capital and technology as the basis for future growth.
- An evaluation of the labor and financial markets.
- An analysis of the factors that determine dynamism in the business sector, such as entrepreneurship and the functioning of the markets of good and services.
- The contribution of the Public Administrations to developing the competitive environment.

In each one of them, we evaluate the performance of the economy in its most relevant aspects, with an analysis of 32 variables.

¹ El Anexo 3 recopila las buenas prácticas internacionales seleccionadas en ediciones anteriores.

Composition of the 2016 Barometer



Source: In-house

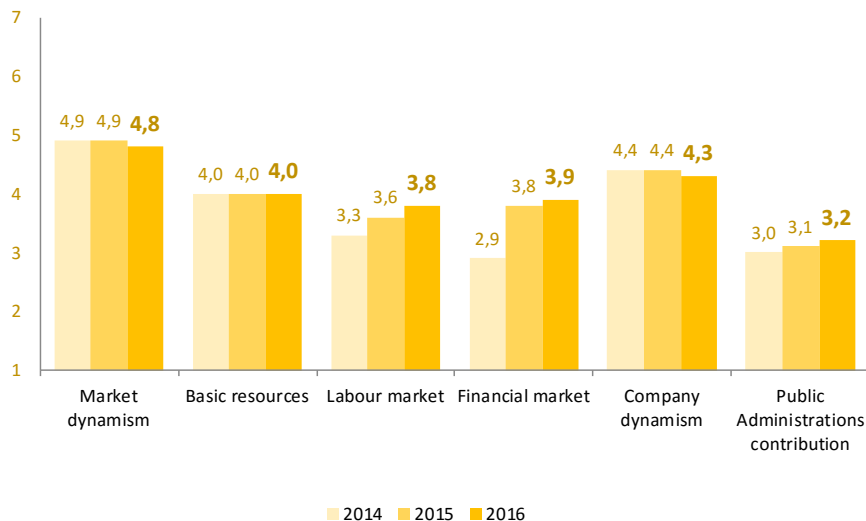
The 2016 Barometer ends with a series of recommendations aimed at stimulating competitiveness, generating economic growth and guaranteeing the sustainability of the Welfare State.

Summary of results

The valuations obtained in the 2016 Barometer are similar to those

of previous editions (2015 and 2014), except in the cases of the financial and labor markets, where they improve substantially with respect to 2014. In 2016 the most highly valued aspect is Market Dynamism, which earns an average score of 4.8 in a range of 1 to 7. By contrast, the Contribution of the Public Administrations (PPAA), had the poorest score (3.2).

Average scores by sections. 2016, 2015 and 2014 Barometers



Note: The range of valuations runs from 1 to 7. The middle point is 4.
Source: In-house, with data from the 2014 and 2015 Barometer of the Círculos.

MARKET DYNAMISM

While there are still positive expectations, optimism has been moderated somewhat about an increase in domestic demand, exports and investment overseas. And there are aspects that companies find concerning, such as the need to consolidate macroeconomic equilibrium and uncertainty about the institutional and regulatory framework.

The survey reveals that the principal appeal of the products and services of Spanish companies continues to be their good quality/price ratio, their adaptation to local needs, and their technological level.

Spanish companies list the following principal reasons for investing abroad: to become established in markets with more potential for growth and profits, the diversity of those markets, and their potential to generate growth so as to gain critical mass on a global level.

For their part, the branches in Spain of foreign multinational companies have strengthened their position, and especially value the size of the Spanish market and the high qualifications of the workforce.

BASIC RESOURCES

The quality of its physical infrastructures is one of the Spanish economy's most important competitive advantages. Nevertheless, there is concern over the high price of energy and the insufficient development of railway transport of merchandise, in particular the intermodal connections. To this must be added the lack of a long-range planning policy for infrastructures that will assure their maintenance and new investments.

Spain's educational system is still clearly deficient. Aspects such as the capacity for learning receive high marks from those people who were surveyed, but there are competitive disadvantages with regard to the quality of Spanish formal education and students' command of foreign languages. Spain's students are below the OECD average for competence in math and science, at all levels, and also behind in dual vocational training.

Among the most frequently expressed suggestions for improving the quality of education:

- The urgent need for a State Pact on the educational model.
- Improvement in foreign language competency.
- Promoting the values of entrepreneurship, starting in primary education.
- Adapt the granting of diplomas to the needs of markets and companies. This would demand greater cooperation between the companies and the universities, and adapting the university offer to the labor market.
- Greater development of dual vocational training.

As for innovation, the businessmen feel that Spain is not badly positioned with regard to innovative capacity, in spite of the fact that international indexes place the country behind the principal European nations. Those surveyed feel that the public measures that should be developed are: promote tax benefits for research and development, encourage University-company cooperation, and support public-private programs of co-financing, adjusting them to the needs of the company.

LABOR AND FINANCIAL MARKETS

The 2016 Barometer shows a relatively negative assessment of the way the labor market functions in Spain, with its ineffectiveness reflected in the high rate of unemployment. By contrast, the businessmen point out the convergence of Spanish unit costs with the Eurozone average. They approve of the recent labor reform law, although they feel it is necessary to give companies more power to peg salaries to productivity. The importance of partnership

agreements should be strengthened, and internal flexibility should be improved.

Likewise, there is concern about the inefficient use of funds to train workers, and they request that the training offer be the result of a rigorous analysis of company needs.

With regard to the financial market, there exists the perception that access to credit has been normalized. Nevertheless, there is less development of alternative sources of financing, especially for newly created or smaller companies. Finally, there is not the necessary compliance with the Payment Periods Law, on the part of both the companies and the Public Administrations, which is especially hard on the small and medium-sized firms.

COMPANY DYNAMISM

With regard to company dynamism, those surveyed have a positive opinion about the competitiveness of markets, the capacity of companies to adapt to changing conditions; they feel that the most efficient companies are the ones with the greatest capacity to grow in size. In these three areas they feel that Spain is at a high level, equal to or higher than the average in OECD countries.

Nevertheless there are still problems because of the incorrect supervision of competition and regulatory and bureaucratic barriers, in which Spain is notably below the OECD average.

The small and medium-sized companies that were surveyed were not very positive about the mechanisms that supervise competition, or about the capacity of companies to adapt. And in spite of empirical evidence, they're more skeptical about the correlation between the size of a company and its efficiency.

Entrepreneurship continues to be an area that can be improved, and regulatory and educational measures should be applied.

Finally, with an aim to achieving sustained growth by the medium-sized companies, there are proposals to increase their international importance, foment innovation and have strategic partners and strong leadership.

PUBLIC ADMINISTRATIONS

With regard to competitiveness, the contribution of the Public Administrations is the least valued aspect. There is the perception that the Administration is too large, its structure too complex, and that the management of public resources, both financial and human, is far from the criteria of efficiency demanded in the private sector. As a result, those surveyed propose to reduce the size of the Administration, improve the management of public employment by making it more like that in the private sector, promote and improve the use of technology, and redistribute territorial powers.

Finally, in the 2016 Barometer corruption is one of the aspects that has been reduced in comparison with the 2015 edition. Most of the businessmen who were interviewed observe that, while it cannot be said that corruption is generalized in Spain or is greater than in surrounding countries, it is concentrated in some sectors and public institutions, something that has considerable social repercussion.

To achieve more efficient and effective management of the Public Administrations, the people who were surveyed recommend, in this order:

- Reduce the size of the Administration.
- Improve the management of public employment, making it more like that in the private sector.
- Improve the use of technology.
- Redistribute territorial powers.

9. Recommendations

Basic resources

INFRASTRUCTURES

Spain has recently demonstrated cyclical behavior in its investments in infrastructures. They went from 5.1% of GDP in 2009 (55,030.7 million euros) to 2% in 2014 (20,823.2 million), thus reflecting the lack of long-term strategy. This situation contrasts with those in Germany and France, which during the crisis have maintained their level of annual investment –53,000 and 75,000 million euros respectively.

Investment in infrastructures is an essential element for economic development and the creation of employment, generating greater competitiveness, and in wellbeing and territorial cohesion. In the case of Spain, each million euros invested generates an average of 14 direct and indirect jobs and a fiscal impact of 50% over the total investment.

Spain maintains a good position in certain transportation infrastructures (a network of excellent highways, its high-speed train system, airports and ports). But in spite of the necessary fiscal consolidation, it is important to maintain the existing infrastructures and promote new investments that will allow Spain, given its geographic location, to become a logistical platform and a place for business to locate. In Spain only 4% of the transport of merchandise is done by train, as against the 13% in the UK, the 16% in France and the 28% in Germany. Likewise, it is necessary to fill some gaps in infrastructures and facilities for the citizenry (water, health, education...) and meet the challenges of the global economy such as the management of natural resources, urban transportation, and demographic changes, among others.

- Reaching a State Pact that is stable and long-term, without excluding public-private collaboration, following the experience of UK and France. This strategy will make it possible to maintain the quality of the existing infrastructures, and develop new projects that meet Spain's socio-economic needs and satisfy European norms.
- Renew the water infrastructures, improving the treatment and reutilization of waste waters.
- Promote measures to renovate buildings, following European norms about energy efficiency, as in Sweden and Denmark.
- Promote intermodal connections and redesign the management of infrastructures, principally in the railway-port transportation of merchandise, thus promoting the development of Spain as a world logistical platform.
- Advance in the projects of electrical and gas interconnections with Europe so as to improve the security of the supply and augment the potential of alternative sources of energy.
- Support investment in urban renewal and transportation, and in adapting our cities to the new technologies, as is done in Japan, the UK and France.

EDUCATION

Spain leads the EU in the rate of early school leaving with 22% among young people between 18 and 24 years of age, thus duplicating the EU average of 11%. If we analyze the level of studies of our young people between 25 and 34, just 36% reached the level of Basic Secondary Education, a figure that rises to 51% if we take into account those who quit studying after high school. Only 22% have a diploma in Vocational Training, as against the 61% in Germany and the 63% in Austria.

This situation limits the future and employability of young Spaniards, as reflected in the high rate of youth unemployment in Spain, which is now at 46.5%, far above the European average of 20%. Our educational system has revealed itself to be inefficient in halting early school-leaving, or in providing the knowledge, capacities and skills demanded by a more global and digitalized economy.

According to the OECD, until 2020 in the EU approximately two-thirds of the jobs that will be created will require a diploma in Vocational training. The Spanish educational system has to meet this challenge, because the rate of dual vocational training here is very low: 3% as against the 60% in Germany.

Additionally, the digital transformation is modifying –and causing the appearance of– new products and forms of design, production, distribution and access to knowledge. According to the World Economic Forum, some 65% of the children who are today beginning their primary education will take jobs that don't even exist today. Our educational model must answer these new needs with greater innovation and creativity. We must form our young people so they can acquire new skills and abilities such as collaborative teamwork, the management of their time, and the capacity to seek out, filter and prioritize information, all of which will allow them to adapt to a job market that is permanently changing.

We believe that the high rates of early school-leaving and youth unemployment, and the changes in traditional employment with respect to candidates and their professional skills, necessitate a stable, long-range educational reform by means of a State Pact. Education in Spain must be based on the entrepreneurial spirit, ethics, merit, effort, creativity, communication talents and a knowledge of languages.

Essential education

- Reduce the high level of early school-leaving after Obligatory Secondary Education by implanting methods to detect and prevent it. Get the student involved in designing his professional career and ease the transition between different courses of study, as is done in Denmark, Switzerland and Germany.
- Redesign the system of scholarships and grants, which should be based on a student's academic accomplishments, so that there are no economic and financial barriers to education for highly qualified students. This will guarantee the principle of equal opportunity.

- Promote on all educational levels the entrepreneurial spirit, the social value of the businessman, social responsibility, and greater economic and financial training. Students must accept that a failure in business is part of the learning process.
- Dignify the work of teachers and recognize their importance in improving the competitiveness and wellbeing of society. Their salary levels must be determined on the basis of their dedication and the quality of their teaching.
- Invest in the ongoing training of teachers, who must acquire new technological and professional skills, as is done in Finland.
- Promote a knowledge of foreign languages, English in particular. All students should have a command of English, as in Holland.
- Improve the training in digital skills at all educational levels, promoting the practical application of information technologies, as is done in the UK.
- Support the professional guidance of young people through coordinated cooperation among all the sectors in charge of their education: schools, teachers, companies and families. Include this guidance as an obligatory subject of study, as is done in Germany, Austria and Switzerland.
- Create an independent body to certify schools based on their excellence, as in Germany.
- Following the Madrid Autonomous Community, publish the results obtained by students at schools and training centers in admission tests to higher education, which will make it possible to evaluate their quality.
- Increase the offer of middle-range dual vocational training to the levels of the leading European countries, both by number of degrees in each professional sector and number of places. To equal the leading European countries –Austria, Holland and Switzerland– there must be 353,000 new places.
- Unify the criteria for recognizing university curriculum in the different Autonomous Communities, something that will encourage the geographic mobility of students.
- Offer courses specific to dual professional training such as electives in Junior Secondary Education so as to encourage the educational option, as is done in Norway.

Dual Vocational Training

- Encourage dual professional training, following the experience of Germany, Austria and Switzerland, by creating an efficient system of grants and/or training loans, with more resources and a greater integration of companies in the educational system.
- Define a standard regulatory framework common to all the Autonomous Communities so as to facilitate the spread of dual professional training in the large companies. This would guarantee the principles of quality in the companies doing the training: apprentice salary, selection of candidates by the companies, quality of teaching through the certification of the trainers, and flexibility in its

application so as to guarantee that it is adapted to the needs of the companies, as in Germany and Denmark.

- Involve the company as much as possible in creating and adapting educational content. Grant the company associations the capacity to quickly develop and update the training curriculum and in a period of less than one year, as is done in Germany, Switzerland and Denmark. At the same time, create an independent organization by sectors and trades to identify the needs of the labor market, as in Norway and Holland.
- Facilitate the application of dual vocational training in small and medium-sized companies with support measures (economic, counseling, flexibility, etc.) for those that lack infrastructure and the necessary resources to adopt it on their own (shared training centers), as in Germany and Switzerland.

KNOWLEDGE ECONOMY

If Spain is to be competitive it must invest in research and technological development (R+D). There must be talent with knowledge and innovative capacities, and a company framework capable of adapting and creating products and services that respond to market changes and society.

In Spain during 2014, total spending on R+D equaled 1.2% of GDP, a far cry from the aim of 2% established by the European Commission for the year 2020. Spain's greatest gap with the EU is in investment by the private sector, 0.6% as against the 1.3% in the EU and the 1.6% in the OECD.

Spain is in the group of countries considered "moderate" in developing innovation, according to the EU Innovation Scoreboard 2015, along with Croatia, Cyprus, Italy, Portugal and Greece, among others. At the same time, since 2014 Spain has dropped back two positions, to 19th place in the EU28, due to the reduction of company investment in R+D, and to the reduced number of small and medium-sized companies that innovate in processes, products and marketing, and which cooperate among themselves or with institutions in the development of innovation projects. In addition, in Spain there is little public-private cooperation, with public R+D financed by private companies at 0.037% of GDP (0.052% in the EU). A reflection of this: Spain is country number 27 (out of 141) in the Global Innovation Index 2015 (INSEAD), which is led by Switzerland, the UK and Sweden.

Another factor that works against innovation in Spain is the inefficient coordination between the central government and the Autonomous Communities in their R+D policies. The innovative companies, especially the smaller ones, are forced to work in a fragmented environment of many different institutions and initiatives on the regional and national level.

The intensive and efficient use of digital technologies is a key factor in transforming Spain's companies, with regard to both processes and structures, and has positive effects on their productivity, competitiveness and international expansion. The small size of Spain's companies limits digitalization of the economy: only 28.7% of the micro-enterprises (micro-enterprises account for 94.5% of the total number of companies in Spain) have their own webpage, and just 8.1% have adopted some kind of service in the Cloud through the Internet.

Innovative institutional framework

- Transform the CDTI –a public undertaking that promotes innovation and technological development of Spanish companies– into a national public-private entity, with a high level of company participation so as to design a long-term (10 years) strategy for developing the Spanish system of science, technology and innovation, based on the example of Israel. It will select and develop those areas most in need of innovation, manage the financing, and generate synergies between universities, business schools and companies.
- Move forward in developing the Map of Scientific and Technological Infrastructures through greater coordination between the central Administration and the Autonomous Communities.
- Give greater freedom and strategic orientation to the Public Research Offices, the universities, and their research units. At the same time, introduce evaluation mechanisms to assign and manage resources depending on the research results.
- Begin the process of integrating the technological centers, science and technology parks and business incubators so as to transform them into innovation clusters for excellence.
- Adapt the infrastructures to the technological changes that will permit the development of new businesses and opportunities for growth, and improve their quality and accessibility.

Company innovation

- Promote cooperation between companies and groups and institutions of higher education and research through the creation of clusters, as in the Basque Country.
- Limit the collateral that is demanded to obtain funding for R+D projects, especially for the startups and the small and medium-sized companies.
- Speed up the granting of technological certifications from the Spanish Innovation Certification Agency (ACIE).
- Include as deductible expenses any costs incurred in the certification process for companies in R+D projects.
- Permit the simultaneous fiscal deduction for R+D and the general bonuses for companies.
- Incentivize the use of information technologies among the small and medium-sized companies.

Innovative talent

- Support young research talent by changing the structure of research careers in the public sector, introducing promotion programs and encouraging mobility between institutions or between the public and private sectors. Likewise, encourage the use of the EU Blue Card, a scientific visa that allows foreign citizens to work in the EU, thus attracting research and innovative talent.
- Get more young researchers into the private sector, along with technological managers to develop innovation in products and processes. In view of the small average size of Spanish companies, these people will enjoy the support and supervision of universities and research institutions, and receive grants from the public sector for a time.

Labour

Spain's greatest challenge is to reduce the unemployment rate, which is currently at 21%, triple the OECD average (6.5%) and double that of the Eurozone (10.2%). In spite of the advances brought by the labor reform laws, the market is marked by structural unemployment of between 14% and 18%. In addition, it is characterized by a high number of temporary jobs, reduced flexibility, unfavorable taxation, and an inefficient design of passive and active employment policies.

While it is true that the economic recovery, along with the effects of the labor reform, have made it possible to create a million jobs since 2014, there are still worrisome levels of long-term unemployment (47.2% of the total) and youth unemployment (46.5% of the total). This situation constitutes one of the principal dysfunctions of our work market, with direct effects on the employability of the workforce and their economic situation, and indirect effects on the economy as a whole and social wellbeing. Approximately one of every two young Spaniards is without work, thus surpassing by 40 points countries like Germany, Denmark and Austria (with rates of between 7-11%).

Additionally, youth unemployment is principally concentrated among young people with little training and professional experience. The most vulnerable among them are those who left school before completing their secondary education, do not work and do not receive any kind of training. In Spain they represent 25.8% of the young people between the ages of 15 and 29, as against the 15.5% of the OECD.

The percentage of temporary jobs in Spain is at 25.6%, in contrast with countries like the UK (5.4%), Austria (8.9%) or Germany (13%). The principal causes of this are the importance of tourism in the services sector and Spain's labor legislation, which makes it expensive for employers who have to dismiss workers. This has negative effects on productivity, the possibility of workers moving geographically, training, salary rises, the development of intensive activities in physical and technological capital, and the fertility rate, among other things.

During the crisis Spain has been the only OECD country with a sharp drop in employment while there was an increase in the number of hours worked per employee. By contrast, in Germany, with a greater reduction of its GDP in 2009, adjustments in the working day made it possible to create employment. This fact underlines the lack of internal flexibility of the Spanish work market before the labor reform of 2012.

Finally, the creation of employment is made more difficult by the high fiscal pressure on work that Spanish companies must support: employers must pay for 83% of the total cost of their workers' Social Security contributions. By contrast, in the UK, Germany, Holland and Ireland these contributions are shared much more equitably between employer and worker.

In conclusion, the deficiencies in the Spanish labor market –along with those affecting our productive fabric, educational system and institutional framework– demand new reforms that will create stable, quality employment. For this reason it is necessary to improve the present labor relations system so that it will respond to a new period marked by globalization and digital transformation.

- Modernize the hiring system by making it more rational and simple through three basic contracts, for both part-time and full-time workers: permanent contract, contract for business needs (of a set length) and youth contract (for training).
- Make the compensations the same for ending both part-time and full-time contracts, and reduce their employer costs so as to be more in line with countries like the UK, Germany and Sweden, which have lower rates of temporary work and unemployment than Spain.
- Establish a mixed system of collective negotiation adapted to each company, in the case of salaries and hours, and to sectorial agreements, thus following the Danish system. This would make it possible to pay salaries on the basis of worker productivity, thus taking into account differences in the competitiveness and size of companies in the same sector.
- Promote internal flexibility in labor relations by making it easier for workers to move more freely within a firm, even if they are from different professional groups and have different levels of training. This would reduce the need for ratifications and administrative requisites.
- Reduce company contributions to Social Security by at least 2 points, so as to progressively reach the levels of countries like Germany and Holland where there is less unemployment.
- Reformulate the active employment policies by demanding that unemployed people be actively seeking work, and promote employment among people who are out-of-work by means of greater public-private cooperation. The companies should have more powers in the design, management and financing of the programs to train their employees, as is the case in Germany, Denmark and the UK. This would make it easier for workers to find jobs in the sectors that need them.
- Support unemployed young people and the long-time unemployed by lengthening the period when they can receive unemployment subsidies, but making this aid conditional upon them accepting job and training offers.
- Adopt specific measures to promote youth employment, many of which are already being applied in Germany, Australia, Holland and the UK:
 - Support youth employment through dual training programs, on both the professional and university levels. These programs should be designed and developed in coordination with the different social players.
 - Promote non-labor practices in the companies by facilitating agreements between companies and the Public Service for State Employment. If these agreements were also signed with private placement agencies they would become more common.
 - Develop programs for the orientation and professional qualification of young people.
 - Establish a specific national minimum wage linked to training for young people with few qualifications, similar to the systems in the UK, Germany, etc.
- Promote the creation by public organizations of Job Clubs via Internet as in the case of Sweden.
- Create a “contract for bringing young people (between 18 and 26) into the job market”, with a maximum duration of three years, although later it could become permanent.
- Recommend that more companies join the Strategy for Entrepreneurship and Employment program, set up in 2013 by the Ministry of Employment and Social Security.
- Develop company initiatives similar to InCharge, which was set up by 25 German companies to increase opportunities for unemployed young people and help them join the European job market through labor exchanges, tutoring and assessment programs, training, work practice and employment offers from companies.

Financing

Financing plays a key role throughout the life of companies, contributing among other things to their creation and growth, their R+D activities, and their international expansion.

Since the end of 2014, access to financing in Spain has developed favorably, principally because of lower interest rates and increased domestic demand. This view is supported by the figures for credit to new companies, which increased by an average 9.8% in 2015, with operations of up to 1 million euros being the sector that increased the most (by 12.8%). According to the last semi-annual survey by the European Central Bank (September 2015), some 11% of the small and medium-sized companies that were surveyed feel it is a problem to get financing, as against 30% in 2012. Likewise, the crisis and the development of alternative sources of financing have permitted Spanish companies to reduce their dependence on bank loans, from 78% in 2010 to 70% at present. Nevertheless, this source of financing is still much higher than it is in Germany (55%), France (45%) and the UK (35%).

In Spain alternative sources of financing still play a limited role. In the case of the Alternative Fixed Income Market (MARF), since its creation in en 2012 it has channeled 1,370 million euros company share issues, and its future depends on the number of companies able to comply with the requirements for operating in it. In 2015 the average sales of the companies operating in the MARF were 61 million euros. If we take into account that only 0.1% of Spanish companies have billings of more than 50 million euros, in Spain there would only be 3,000 potential companies that could issue shares in this market (Institute of Market Studies, 2015).

In addition, in the European securitization market (in terms of amount outstanding), Spain represents 12% of the total volume, as against the United Kingdom and Holland, with 29% and 18% respectively (Institute of Financial Studies 2015). Greater development of this market would help improve the efficiency of the allocation of resources and to the diversification of risks, reducing the cost of capital and stimulating the economic growth of our companies.

In this new financial environment, marked by historically low interest rates and greater regulatory demands, companies must correctly manage their liability structure to facilitate their access to financing, and thus be able to

grow. For their part, the economic authorities should adopt a series of measures such as:

- Establish a single more transparent code that effectively protects consumers and investors.
- Revise banking regulation with regard to company financing, so that capital requirements do not penalize loans to small and medium-sized companies. When granting loans, it is necessary to take into account the solvency and credit quality of the companies, based on some audited accounts, in "abbreviated" form where appropriate. These same criteria should also be applied in the stress tests of bank assets.
- Promote the use of –and reduce the costs associated with– non-banking finance instruments: debt funds, venture capital funds, MARF and the Alternative Equity Market (MAB). The development of alternative sources of financing should be accompanied by greater transparency and information about its advantages and possible risks.
- Simplify and unify the regulatory framework of the securitization market, which would improve the access to and the quality of information, and would attract new investors, as has happened in the UK and Holland.
- Reconsider the limitations placed on crowd funding, following the model in the US, while taking into account the differences in financial practices in both countries.
- Harmonize the Venture Capital Law with norms in the rest of Europe.

BUSINESS DYNAMISM

Spain needs new measures to guarantee market unity, favor compliance with the Payment Periods Law, promote the internationalization of our companies, support entrepreneurship, and allow the survival of viable companies in the framework of a modern and dynamic economic system.

Market unity

- Make more effective and transparent the way the Autonomous Communities' Law of Market Unity is being judged by the Agency for Quality Evaluation (Treasury Department and Public Administrations) so as to eliminate duplications in administrative procedures for companies and people.

Internationalization

- Improve the financing of exporting companies by means of credit insurance, co-risk programs with financial institutions through CESCE, the promotion of public mutual guarantee schemes, and the development and use of channels of alternative financing.
- Give the ICEX more resources and reinforce economic diplomacy

Entrepreneurship

- Promote financing via business angels and private individuals:

- Reduce taxes to 1% on capital gains earned by newly-created companies or startups, as long as the investment is made in the first five years of the company's life and the investment is maintained for at least two years.
- Integration of capital losses in the personal income tax with a limit of 150,000 euros/year. If that figure is not reached in a year, taxpayers can continue to claim those losses for the following four years until reaching that limit.
- Promote alternative forms of finance by creating an Entrepreneurial fund with public-private seed money and private management for the development of small companies.
- Create a new system for calculating the Social Security quotas for newly-created companies and startups linked to their business volume, up to 100,000 euros in annual billings, and proportional to this figure for the first three years.

Company cooperation and concentration

- Reactivate the tax deduction arising from mergers, which was removed on January 1, 2015.

Payment periods

- Comply effectively with the regulations for payment periods, by both the Public Administrations and the large companies. Audits must confirm that bills have been paid on time and a sanctioning mechanism must be established, following the French model.
- Increase the flexibility of policies of debt delay with the Administration.

Bankruptcy

- Totally eliminate the status of privileged creditors currently enjoyed by Treasury and Social Security.
- Eliminate any existing company debts to the Treasury Department and Social Security when buying a company.
- During the pre-bankruptcy stage oblige Treasury and Social Security to negotiate on equal terms with the other creditors.
- In meetings of creditors, permit the approval of agreements with reduced majority.
- Regulate and make more professional the figure of insolvency administrator, as happens in the UK.
- Speed up trial and judicial procedures, and encourage arbitration and mediation, in an effort to achieve greater legal certainty.

MEDIUM-SIZED COMPANIES

The economic crisis has contributed to the small average size of Spanish companies, with an increase in the number of micro-enterprises and small firms (with fewer than 50 employees): 99.3% of the total in 2014 as against 99.2% in 2009. Of the others, 0.6% are medium-sized (between 50 and 250 employees) and 0.1% are large. These figures contrast with those in Germany and the UK, where the micro-enterprises have decreased in number in favor of the small and medium-sized firms.

In spite of constituting only 0.7% of Spanish companies, the medium-sized and large firms generate 54% of the

Gross Value Added and 40% of the employment. In terms of employment, the crisis has most affected the micro-enterprises and small firms, with a reduction of 25%, as against the 20% in middle-sized companies and 6% among the large companies. If Spain had enjoyed the company composition of the UK during the crisis, more than 500,000 jobs could have been saved.

Likewise, worker productivity grows in proportion to company size, with the result that the middle-sized and large companies are the ones with the greatest ratios of Gross Value Added per employee. Our middle-sized and large companies have productivity similar to that of their counterparts in Germany, the UK and the USA. In some cases it is even greater for the middle-sized firms compared to Germany and the UK. Thus, if Spanish companies were similar in size to those in Germany, our aggregate productivity would increase by 13%, which would mean 15,000 new companies (12,000 of them medium-sized) and 400,000 new jobs.

Thus the largest companies contribute positively to the economic growth and stability of a country because of their greater productivity and their offer of more stable employment, as well as their access to easier financing at a lower cost. All this favors their capacity to do business overseas, innovate, access technology and attract develop and retain talent. In addition, a greater number of larger companies makes it easier to adapt to new challenges of a geo-economic, geopolitical, demographic and technological nature. And thus the need for Spanish companies to grow in size, which requires applying specific measures in every part of our economy. Concretely, in Spain there are fiscal, labor and bureaucratic measures that discourage growth. But to go beyond the 50-employee figure –and/or a certain billings figure (6 million euros) or level of assets– brings new obligations, and this often reduces a company's incentives to make the conversion into a medium-sized firm, increase competitiveness and finance itself with its own funds. Raising these thresholds would help increase the average size of Spanish companies.

Labour

- To constitute a works committee, a decision that should be made by the workers, there should be 100 or more employees in a firm.
- Reduce the number of trade union representatives who are released from their production work in medium-sized companies (those forms with up to 250 employees).

Fiscal

- Raise the threshold of billing in the payment by installment of the Corporation Tax and VAT, as well as integration into the Unit of Large Taxpayers, from 6 to 20 million euros.
- Minimize the Inheritance Tax, thus facilitating the survival of a business project and the work of the heirs that remain as leaders of the company, following the examples of Austria, Norway and Canada.

Administrative sphere

- Establish a new “abbreviated” audit for the companies that comply with two of the following three requirements: they have assets of between 2.85 and 4 million euros; a turnover of between 5.7 and 8 million euros; fewer than 50 workers.

- Make general the use of the single window in proceedings with the Administration, as in Sweden, Denmark and Austria.

Company cooperation and concentration

- Encourage the appearance of new programs to support companies, based on Cre100do, which facilitates access to experts in areas such as human resources and technological innovation, among others.
- Identify and define maps of spaces for opportunities in the company's areas of activity.
- Introduce some type of specific deduction for expenses incurred by the small and medium-sized companies in the merger processes.

Financing

- Revise the banking regulation regarding company financing so that demands for capital do not impede the granting of loans to small and medium-sized companies.

FISCAL

Following the reforms of 2014 and 2015, Spain's tax system continues to maintain some tax rates and social contributions by employers that are higher than the averages in the OECD and the Eurozone. This greater tax pressure on work and savings does not take in more tax money (37.9% of Spanish GDP in 2015 as against 45.2% for the EU). Of principal concern is indirect taxation, which in the case of VAT was 6.1% of GDP, slightly above Italy (6%) and far below most of the European countries, such as Finland (9.3%), Sweden (9%) or Portugal (8.5%). These lower VAT incomes are explained in part by the incidence of fraud and the underground economy, which in Spain reached 18.2% of PIB in 2015, according to estimates by Friedrich Schneider. Other reasons would be the high level of unemployment and of self-employment, a lack of conscience and of fiscal education, and the low competitiveness of our tax system (Spain occupies position 29 out of 34 countries in the 2015 Tax Competitiveness Index).

Spain still needs fiscal reform measures to increase tax collection, not by creating any new taxes or raising the existing ones but through broadening the tax bases, exerting less tax pressures on work and savings, improving fiscal education and raising the awareness of the taxpayers, and fighting against the black economy and fraud.

We at the Círculos believe that these new measures will accelerate the process of fiscal consolidation and the creation of quality employment. At the same time, they will stimulate competitiveness in Spain and the growth of our companies, while attracting investment and talent and developing innovation. Taken as a whole, this new tax reform would help sustain our Welfare State and social equity.

Legal certainty, transparency and neutrality

- Increase stability and predictability on the part of the Administration in the application and interpretation of the tax system so as to guarantee legal certainty for domestic and international investors, for companies

and for private individuals.

- Improve transparency and access to information about tax collection with regards to the different types of such revenues and the way they are spent, as is the case in New Zealand, Sweden and Norway.
- Simplify the tax system, eliminating some taxes and improving the wording of the regulations, by means of clearer and simpler rules, as in the UK, which would help reduce litigation.
- Make more similar the taxes on the activities of legal entities and natural persons, with the personal income tax and the corporation tax much closer, and the tax base dependent on the accounting profit.
- Apply the principle of fiscal co-responsibility in decisions about spending and its implications for income.

A more competitive tax system

- Apply a flat rate, and a reduced one, in the Corporation Tax, thus following the trend in the most competitive OECD countries.
- Minimize the Inheritance and Gift Tax, because it overtaxes savings, and make it more in line with the top average rate in the OECD (15%).
- Eliminate the Wealth Tax, because it has practically disappeared in the OECD.
- Reduce the indirect fiscal pressure that companies must bear. Authorities must give companies better information, and rationalize the periods during which inspections are made and the periods and ways in which conflicts can be resolved. Promote the possibility of reaching formal agreements with the Tax Administration, thus following the lead of Holland and New Zealand.
- Increase tax benefits for companies that reinvest their profits, and establish special tax categories to attract and retain talented workers so that multinational competence centers will come to Spain.
- Eliminate the exit tax –which has been in use since January 1, 2015– because it discourages entrepreneurs of technological and innovative startups.
- Approve the efficiency of the Tax Administration and its relation with taxpayers so as to promote greater cooperation, create procedures that allow for the exchange of information, and reduce the obligations of management. Promote greater coordination between the Directorate-General for Taxation and the Tax Agency, and speed up the resolution of conflicts as is done in the UK and Belgium.

Fight against the black economy and fraud

- Promote education and social awareness about our shared responsibility for the Welfare State, as is done in Sweden, Chile and Japan.
- Prioritize available resources, promoting investigative activity and the exchange of information among Administrations.
- Increase resources to support inspections by the Tax Agency, which will reduce waiting times.
- Provide tax incentives for bringing to light illegal activity, as us done in France, and make the

penalties more severe, as in Norway and Holland.

- Adopt measures to make it a general practice to carry out commercial transactions by electronic means, as in the Scandinavian countries.
- Change the system of bonus remunerations for inspectors: it should not be when they initiate proceedings against a firm but when the resulting sanctions are confirmed.

Contribution of the Public Administrations

Spain has a high public deficit that makes it hard on growth and competitiveness. After failing, by 8 decimal points, to achieve the 2015 objective of a deficit at 4.2% of GDP, Spain should place it this year at 2.8%. This scenario for fiscal consolidation is made more difficult by the evolution of the primary balance, the deficits in the Autonomous Communities and in Social Security, the public debt and unemployment.

The primary deficit for the total of the Public Administrations was at –2.1% of GDP in 2015 (Treasury Department, 2016), far from the recommendations of the OECD, which considers that in order to speed up the rhythm of fiscal consolidation it is necessary to generate in a stable and continuous way a primary surplus of at least 1%.

In spite of the fact that in 2015 Spain's nominal GDP increased by nearly 4%, the public debt continues to be unchecked, in large part because of the behavior of the Autonomous Communities, whose debt represents a third of the total increase. The total public debt has risen to 100% of GDP: the Central Administration accounts for 75% of it, the Autonomous Communities for 20.8%, and the rest is from city halls (2.8%) and Social Security (1.4%). Since 2007, the debt of the Autonomous Communities has grown at a greater rate (330%) than that of the Central Administration (161%).

While total public spending was reduced slightly in 2015 (to 42.4% of GDP), and while it is still below the EU average (48%), the necessary fiscal consolidation and compliance with procedures for excessive debt make it imperative that Spain's Public Administrations become more efficient, transparent and responsible in applying their budgets. Since 2007, the production costs of the Public Administrations have gone from 19.5% of GDP to 21,3% in 2014, principally because of the development of the labor costs of public employees, which increased by 1 percentage point over GDP in the period (OECD 2015).

The budgets of the Autonomous Communities and the way they are executed lack transparent and homogenous design. Of the 13 Autonomous Communities analyzed by the Tax Department, eight of them did not present their 2016 budgets with clear, sufficient and periodic information about their spending, especially in the areas of health and pharmaceutical outlays.

Our Social Security system is conditioned by the increasing life expectancy of the population. Increased spending on pensions, among other social outlays, is placing the sustainability of the Welfare State at risk.

Since 2007, the ratio of Social Security contributors to pensioners has been dropping steadily, from 2.71

contributors for each pensioner to 2.26. Meanwhile, the quantity of the average pension has increased by 32.5%. Increased spending on pensions, along with some insufficient income, makes it necessary to finance the system by using the Reserve Fund, depleting thus fund by 47,201 million euros since 2012. Its present balance is 32,481 million (3% of GDP), and if this trend continues at the same pace, the Reserve Fund will be exhausted in 2019.

This situation makes it necessary to effect structural reforms in Spain's pension systems. The parametric reforms that have been approved (raising the retirement age, increasing the number of years of contributions, etc.), while they may help sustain the system, do not guarantee the amounts of future pensions and only delay a solution to the problem.

Spain needs an Administration that guarantees the current Welfare State by using fewer resources with greater quality and efficiency, and is at the service of citizens and companies. To this end, there has been positive progress by the Commission to Reform the Public Administrations (CORA), which to date has implemented 86% of the 222 measures proposed, with a saving estimated by the Government –for the Public Administrations as a whole and during the period of implementation of these measures– of 30,495 million euros (81.1% of the total). Likewise it is essential to increase the transparency of our Administration, make more progress in the fight against corruption, and achieve a simple regulatory framework, one that is stable and predictable and that favors economic growth and equity.

It is also necessary to improve the functioning and quality of our judicial system. The competitiveness of a country is directly related to its institutional judicial framework: the rule of law and legal certainty are essential. A legal system that functions irregularly generates added costs, which must be borne by society as a whole and which undercut dynamism and economic growth. In particular, there are negative consequences on the creation of companies, their growth, and the degree of specialization they can achieve.

When compared with other countries, Spain's legal system has organizational deficiencies, especially with regard to duration of judicial proceedings and the small number of alternative methods to resolve conflicts. In Spain it takes an average of 264 days to settle civil cases in the first instance (CEPEJE 2014), far above countries like Austria (135) and Denmark (165). This situation, along with other factors, is the reason why only 36% of Spaniards have a positive opinion about our legal system, as against the 66% in Austria and the 83% in Denmark.

With regard to perceptions of judicial independence, according to the EU Justice Scoreboard (2015), Spain occupies 25th place in the EU28. The ranking is headed by Finland, Denmark and Ireland. Worldwide, New Zealand and Finland lead this index, while Spain is in 97th place out of 144 countries.

Finally, corruption and the lack of ethics are a direct threat to the competitiveness of the production system: they limit the growth necessary to resolve our economic and social problems and guarantee the sustainability of our Welfare State. Spain is not a corrupt country, but the presence of unethical behavior and corruption in many sectors of society has caused disaffection and a loss of confidence in our politicians and our social and business institutions.

Efficiency and quality in public service

- Reformulate the structure of the territorial Administration, reducing the number of town halls and eliminating the provincial councils, centralizing services, promoting scaled-down economies and facilitating cooperation between the communities that share services and installations.
- Reinforce coordination and collaboration with the Autonomous Communities to avoid applying conflicting criteria in different parts of Spain in areas like internal commerce, consumption or environmental policies.
- Generalize the use of the statutory declaration and of positive administrative silence.
- Promote public-private cooperation in providing services, passing on some Public Administration activities to be carried out jointly with the private sector. Achieve greater efficiency in costs and high-quality services, with more flexibility and agility, so as to adapt to the changes that will come in society.
- Evaluate the economic policies proposed by the Public Administrations and the political parties, and improve transparency and accountability, following the examples of institutions in Holland, the UK and Sweden. To do this, it is necessary to create an independent autonomous organization, with a president named by Parliament for a single period of 10 years. This organization should include the Office of Economic Policy and the Court of Audit, and should be responsible for reviewing and giving publicity to all the accounts of the Public Administrations and its dependent entities (forecasting end execution), by means of a report that consolidates all the income and expenses of all the Administrations.
- Modify the Statute of Public Employment, introducing mobility, flexibility and incentives in the existing contracts and approving a new legal framework for new contracts within the Public Administrations, one that is more similar to the private sector, with regard to hiring, firing and salaries, to make it similar to the public sector model in countries like the UK, Denmark or Sweden. Reserve the status of civil servant for those jobs of responsibility whose stability and independence are necessary for the functioning of these institutions, as occurs in Sweden and the UK
- Regenerate the spirit of public service to achieve an Administration that serves citizens by committing its resources to social policies, minimizing administrative costs and carefully controlling spending.

Social security and pensions

- Progressively transform the current 'pay as you go' system into a mixed system based on three pillars (payment, obligatory capitalization and voluntary capitalization) so as to guarantee decent benefits over the long term, as in Sweden.
- Diversify the investments of the Reserve Fund, following the experience of Norway, including public revenue from other countries as well as corporate debt, initially with a residual rate that could increase progressively, so as to end up in the future

incorporating a percentage of variable income. This would guarantee the survival of the system and increase its profitability.

- Faster and more secure justice
- Promote efficiency in managing judicial expenses through greater coordination among all the Administrations involved, and via greater participation of the Council General of Judicial Power (CGPJ).
- Create an independent agency, with its own budget, to design and execute –along with the Administrations, the CGPJ and the Attorney-General's Office– a technological strategy for administering justice in Spain.
- Implant the adequate criteria and systems of Information and Communications Technologies (TICs) that will make it possible to evaluate the indicators of judicial activity, thus establishing a system of objectives and incentives based on results, in terms of quality and time.
- Reduce the high level of litigation by improving the quality of the norms, especially in the administrative sphere. Encourage alternate means of resolving conflicts, such as arbitration and mediation, and levy economic costs for the abusive use of penal jurisdiction. In the administrative-judicial sphere, create and empower an independent supervisory body to penalize the Administration for imposing fines and/or sanctions that are later overturned judicially.

- Regulate class action cases in the administrative sphere –something that already exists in the civil area– so that lawsuits that have the same origin or cause can be concentrated.
- Improve legal certainty by carrying out the reforms already existing in the Penal Code in relation to the legal person, and establishing clear and comprehensible criteria.

Ethics against corruption

- Companies, along with the politicians, the Public Administrations and private citizens, should develop ethical and responsible codes of behavior in their activities.
- While companies can legitimately seek profits, they should also promote the training and equality of their employees, and demonstrate commitment to their suppliers and clients. Likewise, they should develop policies of social responsibility.
- It is necessary for the business world to insist on the importance of ethical behavior and promote such values as solidarity, transparency and practices of good governance.
- Businessmen and their professional associations should condemn unethical behavior, and implant codes of conduct and monitoring mechanisms to control and sanction. There should be internal company systems to report abuses, as exist in most of the companies quoted on the stock market, and even more widely in the UK and France.

The **Barometer**
of the **Círculos**
2016

