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SPAIN

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SPAIN

SELECTED ISSUES

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Approved By
European Department

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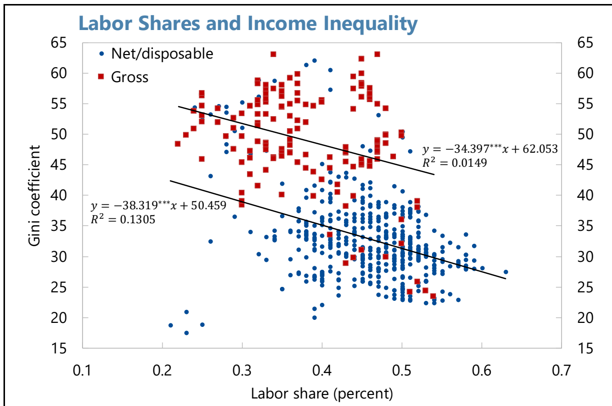
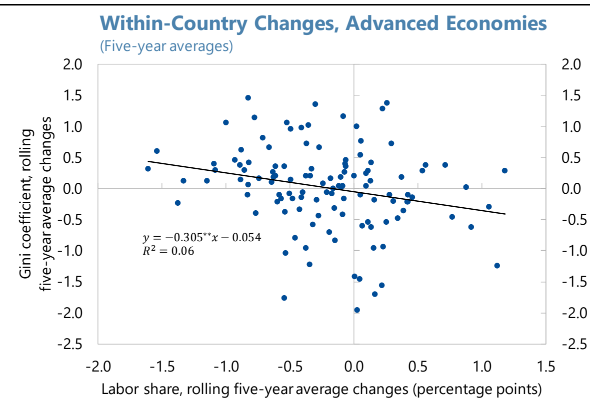
The COVID-19 pandemic will exacerbate Spain's already large inclusion gap. Responding in the recovery with policies that support social objectives should be a key priority and calls for several structural changes. This paper summarizes some of the main drivers behind the social dispersion, which pre-dates the COVID-19 crisis, and policy options. The focus is on how to address the fragmented labor market, tackle pressures on rental-housing affordability, and lower the gender pay gap.[1, 2]

ADDRESSING WAGE DISPERSION: LESSONS FROM PAST POLICY CHOICES[3]

1. **Declining labor shares contributed to more unequal income distributions for several decades.** In 2018, the labor share in Spain was more than 5 percentage points below its 1995 level;[4] a decline that is slightly larger compared with the EU peers (text chart). Technological progress, amplified by countries' initial exposure to routinization, and global integration, particularly for the tradable sector, were the main driving factors behind the relative reduction in labor income (IMF World Economic Outlook, April 2017). With more than half of jobs in Spain at high risk of automation or risk of significant change (OECD, 2018), strong forces are at play that could extend the declining trend unless compensating measures are taken. Lower labor shares have also been strongly associated with higher income inequality (as measured by the Gini coefficient) in advanced economies, probably because low-skilled workers bore the brunt of the fall in labor share and capital ownership is concentrated among wealthier segments of the population.



Sources: April 2017 WEO, Chapter 3.



Sources: April 2017 WEO, Chapter 3.

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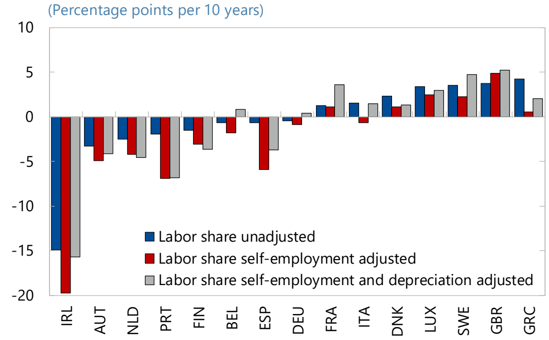
[1] We would like to thank seminar participants for their helpful suggestions on earlier versions of this Selected Issues Paper hosted by Banco de España on February 29, 2020.

[2] For an analysis of the effectiveness of social spending in Spain see Svetlana Vtyurina (2020), "Effectiveness and Equity of Social Spending—The Case of Spain", IMF Working Paper 20/16.

[3] Prepared by Ara Stepanyan.

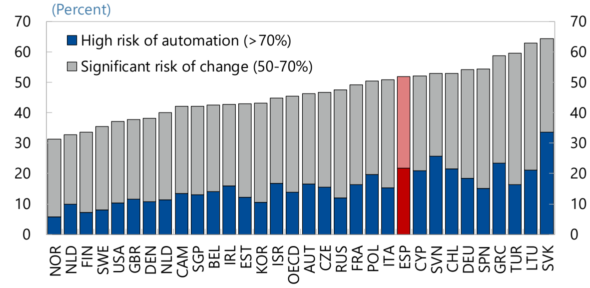
[4] The labor share is measured as the share of compensation of employees in GDP adjusted for the wage share of self-employed and depreciation of physical capital.

Changes in Unadjusted and Adjusted Labor Shares, 1995-2018
(Percentage points per 10 years)



Sources: April 2017 WEO, Chapter 3.

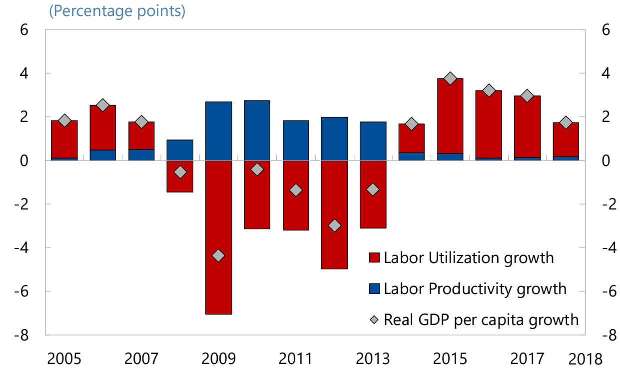
Jobs at Risk of Automation
(Percent)



Source: Nedelkoska, L. and G. Quintini (2018), "Automation, skills use and training", OECD Social, Employment and Migration Working Papers.
Note: The occupants with more than 70 percent of tasks specific enough that could be performed by a state of the art computer-controlled equipment are considered at high risk of automation. If the share of these tasks range between 50-70 percent, the occupation is considered at significant risk of change.

2. **The 2012 labor reforms catalyzed the recovery thereby reversing some of the negative socioeconomic effects of the crisis.** Several studies show that the reforms accelerated and strengthened the recovery. The growth in GDP per capita was largely driven by greater labor utilization, supported by the increased flexibility of the labor market, which brought down the unemployment rate by more than 13 percentage points from its post-crisis peak. But the contribution from labor productivity growth was marginal (text chart).

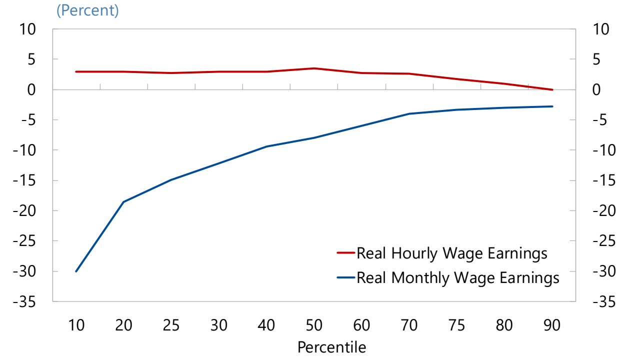
Spain:GDP Per Capita Growth Decomposition
(Percentage points)



Sources: Eurostat; World Economic Outlook; and IMF staff calculations.

3. **The 2012 reforms also helped improve income equality but appear to have deteriorated average hours worked and in-work poverty.** Staff's analysis suggests that the strong job creation, helped by the reforms, led to a lower path for the post-reform Gini coefficient compared to a possible evolution of the Gini coefficient in the absence of the reforms.[5] In addition, the analysis shows no systematic impact of the 2012 labor reforms on the risk-of-poverty of the overall population (Box 1). However, the reforms seem to have reduced average hours worked and contributed to more in-work poverty. These outcomes are probably interrelated, since higher in-work poverty seems to reflect fewer hours worked,

Spain: Changes in Real Monthly and Hourly Wages between 2006 and 2014, by Earning Percentile
(Percent)



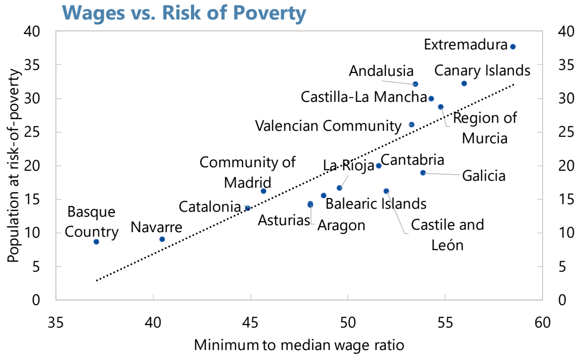
Source: Bank of Spain.

[5] See Stepanyan and Salas, 2020, "Distributional Implications of Labor Market Reforms: Learning from Spain's Experience", IMF Working Paper, 20/29.

given the largely unchanged distribution of hourly wages (text chart).[6] Reduced duration of temporary contracts in recent years may have been a factor behind less hours worked. In addition, the greater flexibility of part-time contracts in combination with the possibility to allow overtime for part-time workers, introduced as part of the 2012 reform package, may have contributed to these results, since it has increased the attractiveness of part-time contracts for employers. These factors should be carefully reviewed to address possibly unintentional consequences from the earlier reforms. The structural change in the economy towards the service sector with higher demand for part-time employment may have played an important role as well.

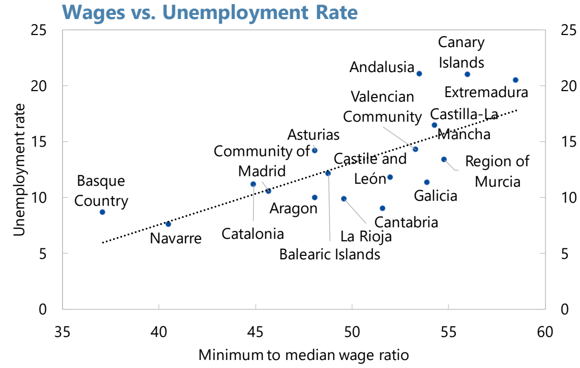
4. Unintended consequences of a minimum wage increase on employment could partially offset the positive income effects for low wage earners. Staff's analysis shows that the job-loss probability for low wage earners following the minimum wage increase in 2017 was highest for those beyond their late thirties who have held low-paid jobs for a while. In addition, the job-loss probability was higher for younger workers, particularly with temporary contracts, from regions where the minimum-to-median wage ratio was above the national average (Box 2). Interestingly, regions with higher minimum-to-median wage ratios are also those with high unemployment and poverty rates, which makes reduction in inequality more challenging. This suggest that the negative impact of the increase in the minimum wage was felt more in the worst-off regions. In support of low-income households and to tackle in-work poverty, the authorities could consider an Earned Income Tax Credit (EITC) program as a complement to the Minimum Income Scheme. The EITC programs are typically more efficient than relying predominantly on the minimum wage in addressing poverty and income inequality, because they directly target low-income workers and stimulate their labor force participation.

Spain: Regional Distribution of Minimum to Median Wages vs. Risk of Poverty



Source: Instituto Nacional de Estadistica and Social Security Administrative Labor Records.

Spain: Regional Distribution of Minimum to Median Wages vs. Unemployment Rate



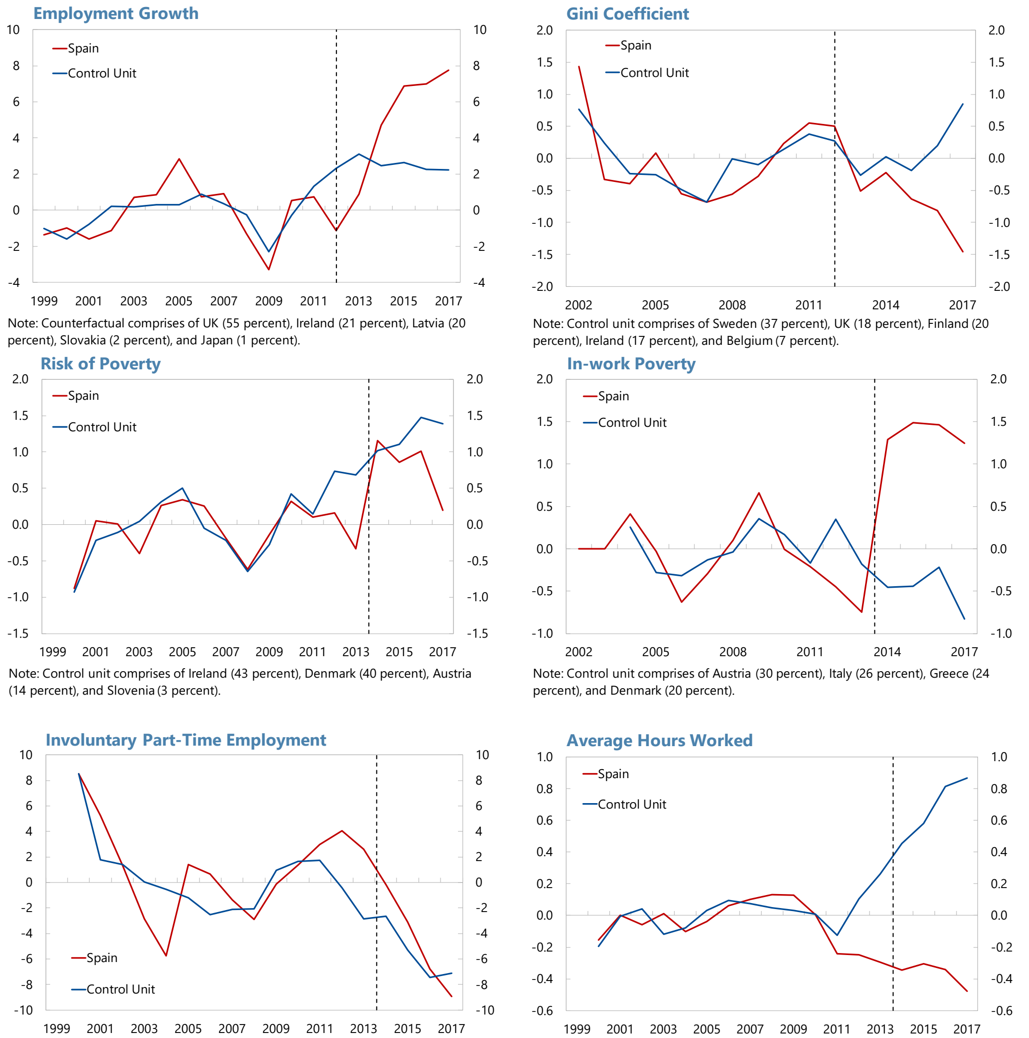
Source: Instituto Nacional de Estadistica and Social Security Administrative Labor Records.

[6] Anghel et al., 2018, ("Income, Consumption, and Wealth Inequality in Spain," Banco de España, Documentos Ocasionales No. 1806) document that the increase in wage income inequality during the crisis was largely due to drops in jobs and hours worked at the lower-income decile (thus reducing their real relative monthly earnings), while the distribution of hourly wages did not change much.

Box 1. The Impact of the 2012 Labor Market Reforms on Absolute and Relative Measures of Living Standards

Empirically it is difficult to disentangle the impact of structural reforms from other factors. Staff analysis adopts a new two-step approach to allow comparison of the actual developments of the social economic indicators (red lines) with counterfactuals of how the indicators would have evolved without the 2012 labor market reforms (blue lines) (Stepanyan and Salas, 2020).[1/]

Spain: Synthetic Control Analysis of the 2012 Labor Market Reform Episode
(Time-variant country-specific component)



Employment Growth — Note: Counterfactual comprises of UK (55 percent), Ireland (21 percent), Latvia (20 percent), Slovakia (2 percent), and Japan (1 percent).

Gini Coefficient — Note: Control unit comprises of Sweden (37 percent), UK (18 percent), Finland (20 percent), Ireland (17 percent), and Belgium (7 percent).

Risk of Poverty — Note: Control unit comprises of Ireland (43 percent), Denmark (40 percent), Austria (14 percent), and Slovenia (3 percent).

In-work Poverty — Note: Control unit comprises of Austria (30 percent), Italy (26 percent), Greece (24 percent), and Denmark (20 percent).

Involuntary Part-Time Employment — Note: Control unit comprises of Iceland (54 percent), Italy (30 percent), and Germany (16 percent).

Average Hours Worked — Note: Control unit comprises of Italy (57 percent), Ireland (20 percent), Latvia (13 percent), Slovakia (5 percent), and Sweden (5 percent).

[1/] The counterfactual is estimated as the time-variant country-specific components from a group of advanced OECD countries using the synthetic control method. The time-variant country-specific components capture policy shocks, such as labor market reforms, and other country-specific idiosyncratic shocks. They are obtained by first removing the time-invariant country-specific component from the original series; second, cleaning the data from common shocks; and third, detrending the remaining series by fitting the trend on the data up to the reform and extending this estimated trend for the post-reform period.

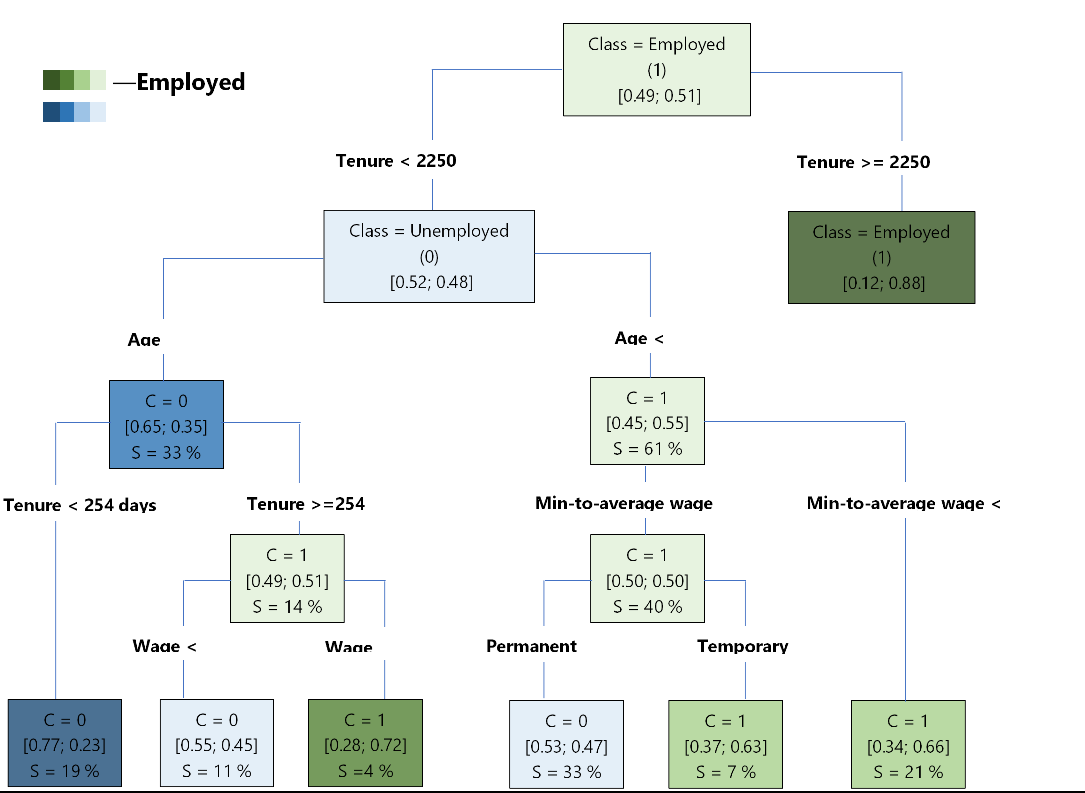
Box 2. The Risk of Losing A Job: What Role May Higher Minimum Wages Play?

Age, type of contract and region were key factors that impacted the job loss probability following the 2017 minimum wage increase by 8 percent. The analysis identifies these drivers using machine learning techniques with micro-level data from the Continuous Sample of Working Lives database.

The empirical findings show that minimum wage earners who are older than 37 years and have a tenure of at least nine months, but less than six years, had 17 percentage points higher probability of losing their jobs due to the minimum wage increase than workers earning just above minimum wage who were not affected. For younger people (below 38 years old) that are from regions with a minimum-to-median wage ratio above 48 percent, the job loss probability was nearly 16 percentage points higher than for workers from other regions.

Moreover, the prevalence of labor market duality exacerbates the job loss probability of low wage earners. Older (than 38 years) low wage earners with less than nine months tenure (largely on temporary contracts) had a 77 percent probability of losing their jobs compared with only a 12 percent probability for those low wage earners that had been in their job for more than six years (thus, predominantly under fixed-term contracts). Similarly, for young people in regions with a high minimum-to-median wage ratio, the job loss probability was 16 percentage points higher for workers under temporary contracts than for those under permanent contracts (for more details see Stepanyan (forthcoming)).

Spain: Factors Affecting the Job Losing Probability of Low-Wage Earners—A Decision Tree

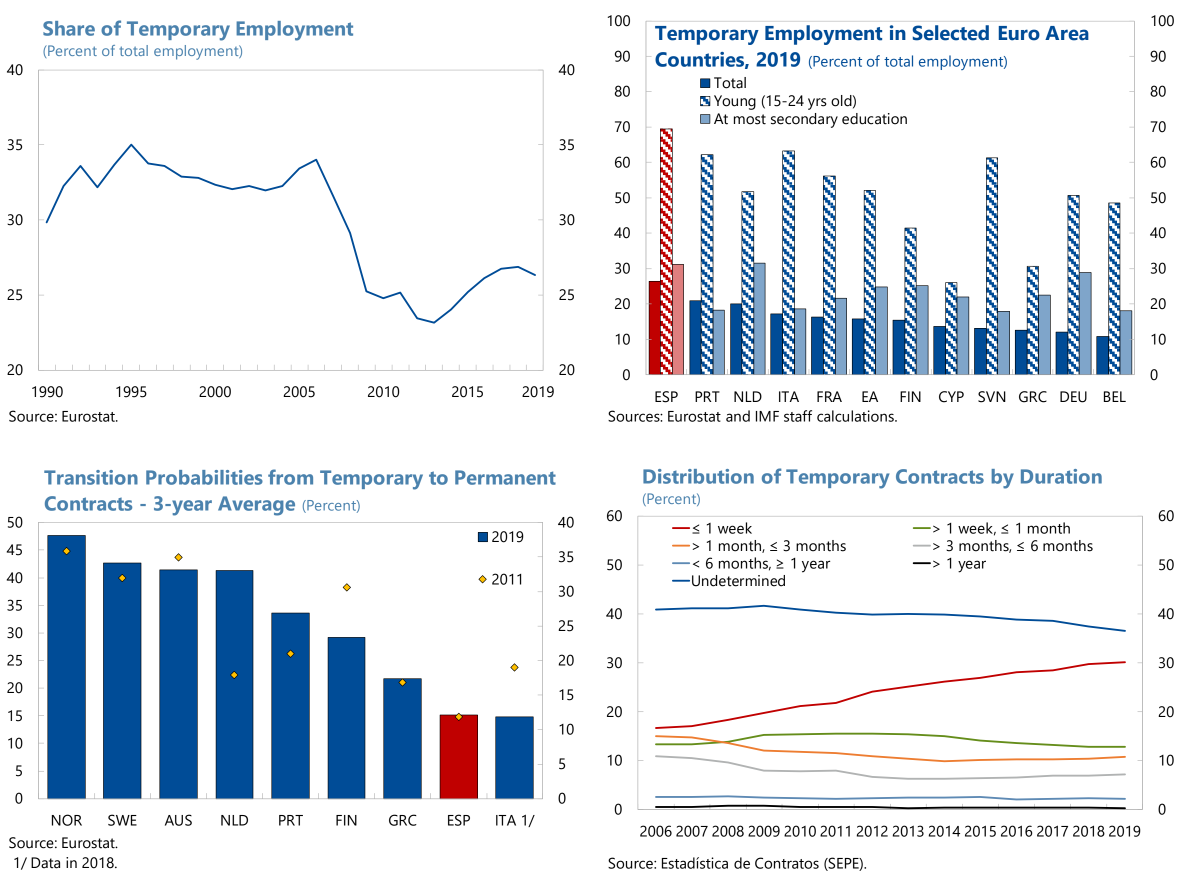


Note: The decision tree is built by splitting a sample of low wage earners according to attributes (potential factors influencing employability of low wage earners) that increase the purity of the split subsample, i.e. higher share of individuals with a similar outcome. The node is classified as employed (unemployed) if there are more individuals in the node that continued working (lost their jobs) one year after the minimum wage increase. The darker the shading of the node, the higher is its predicted likelihood.

LABOR MARKET DUALITY AND SEVERANCE PAY REFORM[1]

1. The high prevalence of temporary employment has been a prominent feature of the Spanish labor market since the nineties. Despite several rounds of reforms in the past decades, the labor market remains largely segmented. In recent years, the strong economic recovery has supported a modest pickup in the creation of permanent jobs. Nevertheless, the share of temporary jobs in overall employment remains among the highest in the EU, particularly for the young and low-skilled workers. In addition, the likelihood for Spanish workers transitioning from fixed-term to open-ended contracts is very low relative to EU peers. Another striking feature of Spain's labor market is the large volume of contracts with very short duration (see Felgueroso et al., 2018 and Conde-Ruiz et al., 2019). According to high frequency data, the average share of temporary contracts with a duration less than a week reached about 30 percent in 2019 and the share for contracts lasting less than a month was about 43 percent.

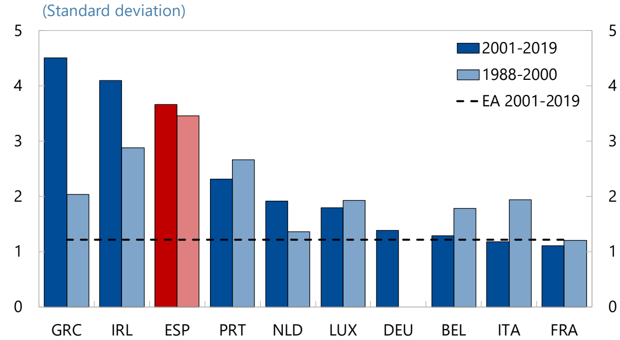
Figure 1. Labor Market Duality



[1] Prepared by Lucy Liu.

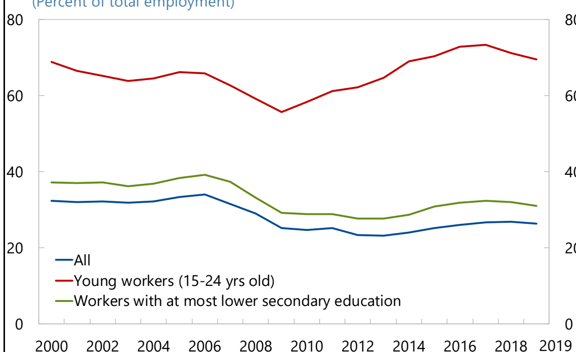
2. Persistent labor market duality is associated with high employment volatility, low productivity growth and rising income inequality. In an economy that has a large share of temporary employment, fixed-term contract often plays a disproportionate role in labor market adjustment through economic cycles, leading to excessive job turnover (Blanchard and Landier, 2002) and high employment volatility (Costain et al. 2010). Labor market segmentation also hinders human capital accumulation as temporary employees receive inadequate training, and impedes reallocation of workers toward productive jobs, thereby hampering productivity growth (Dolado et al. 2016). The adverse effect of duality on temporary employees implies that this group of workers (particularly among the young and low-skilled) bears a larger cost of labor market adjustment and faces worse wage dynamics than the rest of the population, which leads to high income inequality.

Employment Growth Volatility: 1988-2019
(Standard deviation)



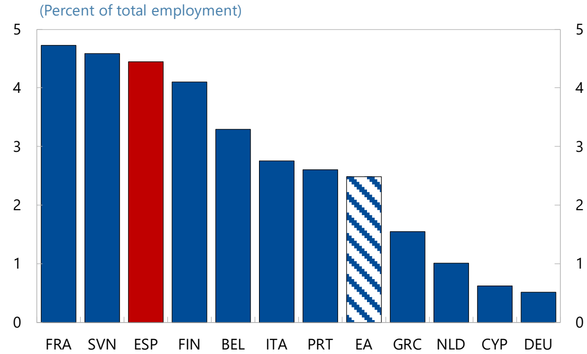
Sources: Eurostat and IMF staff calculations.
Note: The period of 1988-2000 for Germany is omitted, given the structural break of reunification.

Spain: Share of Temporary Employment
(Percent of total employment)



Source: Eurostat.

Share of Precarious Employment, Average of 2008-19
(Percent of total employment)



Source: Eurostat.
Note: Defined as percentage of employees with a short-term contract of up to 3 months.

A. Severance Pay

3. The large gap in firing costs between permanent and temporary jobs is the main contributor to Spain's labor duality. The divide in the stringency of employment protection legislation in Spain can be traced back to early 1980s, when the government introduced a two-tier labor market reform to liberalize the use of temporary contracts (see Bentolila et al. 2008 for a description of the institutional background). The resulting large difference in the dismissal costs between the two types of contracts created a strong disincentive for employers to offer open-ended contracts. This, together with a rigid collective bargaining system that limited the scope of wage adjustment during the crisis, has resulted in high reliance on fixed-term contracts to carry out workforce adjustment to shocks, and thus an excessively high share of temporary employment.[2]

4. The 2012 labor market reform aimed at enhancing firms' internal flexibility and reducing duality, but the impact is limited. The reforms adopted several measures to reduce the hiring and separation cost of permanent workers, as well as to narrow the employment protection gap in the two types of contracts through an increase in severance pay for temporary employees. The empirical evidence suggests that the reforms have had positive effects on alleviating duality, but the economic significance is small (IMF 2015, García-Pérez and Domènech 2017). This is in part due to the still large difference in termination costs between permanent and temporary contracts. Severance pay for unfair dismissal under permanent contracts is currently 33 days' pay per year of service, up to a maximum of 24 months' pay, while fair dismissal entitles workers with 20 days' pay per year worked up to a maximum of 12 months' pay. In contrast, severance pay for temporary contracts is only 12 days' pay per year of service.

B. Reform Proposals

5. Lowering long-standing labor market duality requires deep reforms to minimize the employment protection gap. This could be achieved, for example, by simplifying the menu of contracts firms can choose from. One proposal is to introduce a single open-ended contract with severance pay rising smoothly with tenure.[3] This could be accompanied by separate contracts that would allow firms to provide staff training and hire workers based on seasonal demand fluctuations (e.g. in tourism and agriculture sectors). The rationale for maintaining a positive severance pay is to prevent inefficient layoffs, as firms may not internalize the cost of financing unemployment benefit and dismiss more workers than at the optimum (see Blanchard and Tirole 2003 and Pissarides 2010). A gradually increasing severance pay is to compensate the loss of human capital which is rising with tenure in a specific firm. One concern about this proposal is that by tying severance pay to seniority, it creates a disincentive for employees to move, therefore causing inefficient job turnover and labor mobility. To address this issue, proposals have been made to complement the single contract with an introduction of an Austrian-style separation fund, which allows workers to carry entitlements to severance pay acquired from one job to subsequent jobs.

6. The separation fund model introduced in Austria aimed at boosting labor mobility.[4] In 2002, Austria reformed its employment protection law by replacing its traditional severance pay system with a system of individual saving accounts—known as the "Austrian backpack". Under the new system, employers contribute a certain fraction (1.53 percent in Austria's case) of

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[2] Note that if bargained wages are sufficiently flexible and there are no other frictions, dismissal costs should not affect firms' hiring decisions, as a risk-neutral firm and a risk-averse worker would agree on an optimal contract to reflect the cost of severance pay in the bargained wage (Lazear, 2009).

[3] One of the first proposals along this line was presented by a group of Spanish economists in April 2009.

[4] The other objective of the Austrian reform was to create an additional savings vehicle for retirement.

an employee's salary into an individual fund, which is portable across jobs. The fund is accessible in the event of dismissal or at retirement as a supplement to pension income. The "Austrian backpack" model has several advantages. First, because of its transferability, the separation fund allows severance payments to grow with tenure without attachment to one firm, and thus removes one of the obstacles to voluntary mobility. Second, given that compensation for dismissal is paid throughout the employment relationship, the marginal costs of dismissing workers with different seniority is the same. Hence, the system prevents the "last-in-first-leave" type of dismissal practice, which is common under the traditional ex-post compensation system. Third, the system could help ease the financial-constraint problem faced by firms, particularly SMEs, as contributions are made on a continuous basis rather than at the time of economic downturn when dismissal is more likely to happen. The empirical evidence on the impact of the Austrian employment protection legislation reform has been mixed: while early studies find limited effect on labor mobility (Hofer et al. 2012),[5] a recent paper covering a longer period of data suggests that the reform substantially increased job-to-job mobility in Austria (see Kettemann et al. 2017).

7. Simulation results suggest that a mixed model of a single contract and a separation fund could substantially reduce duality in Spain while ensuring protections for workers. Using individual level data on wages and labor market variables, Conde Ruiz et al. (2011) qualitatively evaluated the impacts of several reform proposals, including a single open-ended contract, a single contract combined with an Austrian fund (a mixed model), and the existing system in 2011 combined with an Austrian fund.[6] Their simulation results show that adoption of a single contract alone could reduce the share of temporary employment to a minimum and extend the expected job duration, while lowering dismissal costs for the employers (Table 1). Nevertheless, from the perspective of the workers, the adoption of such a contract would reduce employees' expected severance payments substantially throughout their working lives relative to the status quo.[7] In contrast, the single contract plus Austrian fund mixed model could have similar effects on labor market duality, but would allow most workers to receive higher expected severance payments throughout their working lives compared to the status quo except the young and qualified (Table 2). The dismissal costs for employers under this model are similar to the level from the existing system in 2011. Finally, the 2011 system plus an Austrian fund entails the highest expected dismissal cost with almost no impact on labor market duality.[8] Overall, the

[5] Hofer et al. (2012) explained that the limited impact was likely due to the small distortions of Austria's former severance pay system on job mobility, which suggested that other factors, such as economic conditions, seemed to play a role in explaining Austria's low mobility.

[6] The status quo in Conde Ruiz et al. (2011)'s analysis is the system before the 2010 reform, under which severance pay is eight days' pay per year of service for temporary workers and 45 days for permanent employees with unfair dismissal.

[7] Qualified young people who were unemployed or employed under a temporary contract at the initial simulation period suffered the largest loss, because these individuals are more likely to enter into a permanent contract in the status quo and accumulate a longer period of entitlement to severance pay.

[8] The study did not evaluate the effect of an Austrian fund on mobility.

key conclusion from the simulation is that the mixed proposal of a single contract and an Austrian fund has the potential to meaningfully reduce the degree of labor market segmentation in Spain, without raising the dismissal cost for firms or reducing employment protection for workers.

Table 1. Spain: Scenario Simulation Results

(Percent of deviation from status quo 1/)

	Expected dismissal cost 2/	Share of temporary contracts	Expected job duration
S1: post-2010 reform	11.0	-12.9	8.2
S2: single open-ended contract	-2.5	-96.1	32.7
S3: post-2010 reform + Austrian fund	18.5	-13.8	8.2
S4: single contract + Austrian fund	10.3	-96.1	32.7

Source: Conde Ruiz et al. (2011) and IMF staff calculations.
1/ Status quo refers to the system before the 2010 labor market reforms.
2/ Cost is calculated in terms of expected days of compensation or contribution to the Austrian fund as a percent of total annual salary.

Table 2. Spain: Expected Severance Pay Under the Mixed Model

(Percent of deviation from status quo)

Qualification	Age	Initial employment status		
		Unemployed	Temporary	Permanent
Skilled	18-30	-	-	-
	31-45	+	++	+
	46-64	++	++	+
Unskilled	18-30	+	-	-
	31-45	++	+	+
	46-64	++	++	+

Source: Conde Ruiz et al. (2011) and IMF staff calculations.

-	< 0	+	> 0, < 20%	++	> 20%

8. Other policies aiming at bringing down the legal and administrative costs of permanent contracts should also be considered. In particular, the persistent legal and administrative uncertainties that create obstacles for dismissal procedure should be addressed. Measures on this front could include simplifying the list of possible causes for nullifying a dismissal and differentiating the corrective actions between annulments based on procedural and substantial grounds (see IMF Country Report No. 17/23).

9. Policies that promote better integration of the young and address skills mismatches remain crucial.

- Active labor market policies should focus on improving the employability of young people and the long-term unemployed. The recently adopted action plans are important steps toward promoting youth employment and reducing long-term unemployment. Their implementation should be guided by expenditure reviews from the independent fiscal council (AIReF) to ensure optimal resource allocation and well-targeted program design.

- Measures to improve training and education outcomes and enhance incentives for labor mobility could also help bring the young and low-skilled unemployed back to the labor market (see IMF Country Report No. 18/330). In particular, better coordination between businesses and universities and more involvement of businesses in developing curricula for the vocational education system could boost labor market access of young graduates and meet skill needs of employees. Moreover, enhancing lifelong learning could ensure timely adoption of the existing human capital to the fast-changing skill demand.

- The rising trend in the use of very short duration contracts, especially among youth and low-skilled workers, warrants thorough analysis and measures against abuse.
- Finally, the authorities' plan to update the Workers' Statute is a positive step toward protecting the welfare of workers, but should aim to improve the workers' social welfare without erosion of the economy's competitiveness.

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RENTAL HOUSING AFFORDABILITY IN SPAIN[1]

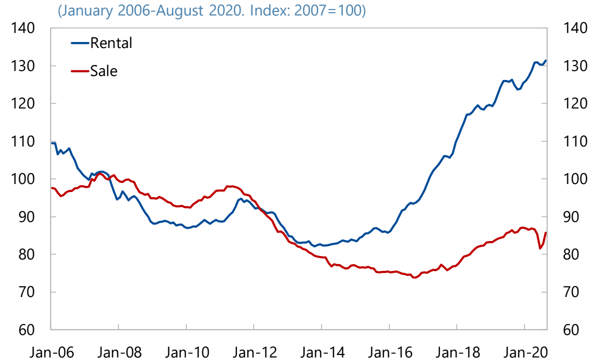
1. **Pressure on rental affordability adds to social challenges and has triggered some policy actions.** Though homeownership in Spain remains high, demand for rental housing has increased in recent years, especially among young households in some urban areas. However, rental-housing supply has not kept up. These trends have contributed to a pre-COVID surge in market prices faced by renters, increasing concerns about affordability problems and arguably compounding intergenerational inequality as well as labor immobility. To offset these pressures, the authorities reinstated rent-stabilization policies in 2019 (Royal Decree-Law 7/2019) and devised allowances for low-income tenants, among other measures. More recently, novel official data on rental housing prices have been published. Other ongoing initiatives aim, for example, to increase the public provision of social rental housing.

2. **The COVID-19 crisis could worsen rental affordability problems, especially for vulnerable groups.** The Great Lockdown may aggravate affordability problems by compressing incomes relatively more than the potential decline in rental prices, particularly as temporary relief measures adopted by Spain (including moratoria on evictions and rental payments) expire. The crisis may also disproportionately affect vulnerable groups—such as young people, poor households, and migrants—who often rent. These groups are among the hardest-hit segments by the crisis as low-skilled workers are less likely to telework (Espinoza and Reznikova, 2020) and many of them are employed in some of the worst-affected industries, such as tourism (Alvargonzález et al., 2020).

A. Rental Prices and Affordability: Recent Trends

3. **Residential rental prices strongly increased in recent years.** In part because until very recently (July 2020) Spain lacked official data on market rental prices, this analysis uses *advertised* price data from Idealista, an online real estate platform with extensive coverage of Spain's rental market.[2] A country-wide rental price index, based on prices by square meter, started to rise in 2014. In August 2020, rental prices were around 30 percent higher than in 2007; by contrast, Idealista's house sale prices were about 15 percent lower than in 2007. Pre-COVID pressures on rental prices were larger in big cities (e.g., Madrid, Barcelona) and other major touristic destinations (e.g., Palma, Malaga). Likely drivers of these trends, some of

Spain: Advertised Residential Rental and Sale Prices
(January 2006-August 2020. Index: 2007=100)



Sources: Idealista and IMF staff calculations.

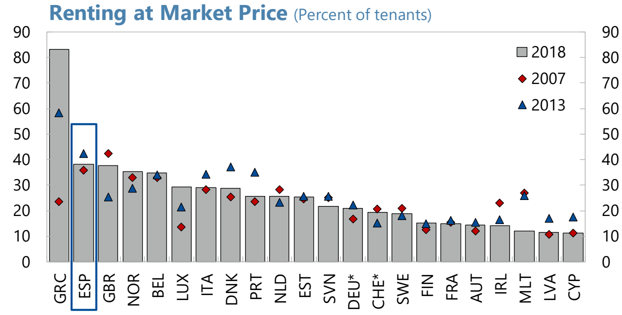
[1] Prepared by Jorge Salas.

[2] By August 2020, the newly published official data only covered 2015-2018. One advantage of the Idealista data is their availability for a longer span of years. A key caveat is that these advertised prices tend to be higher than market prices, although they still provide useful insights on price dynamics (López-Rodríguez and Matea, 2019). Spain's national statistics office publishes CPI-related rental price indices, but these data imperfectly reflect ongoing market prices as they also capture subsidized prices and slow-moving prices from multiyear contracts.

which are discussed in López-Rodríguez and Matea (2019), include: population dynamics, increased propensity to rent (especially by young and low-income households, partly due to worse labor-market conditions following the 2008 and 2012 crises), changes in lending standards for mortgages, reduced tax bias toward owner-occupied housing, higher tourist demand for online accommodation services, and supply shortages.

4. Rental affordability deteriorated after the global financial crisis. Spain is one of the EU countries with the largest share of overburdened tenants—i.e., tenants spending more than 40 percent of their income in rents or, more broadly, in total housing costs (rents plus utilities, regular maintenance and repairs, structural insurance, and other related expenses). According to Eurostat data, the "overburden rate" remained in 2018 above its pre-global financial crisis level. Moreover, these overburden rates are disproportionately higher for low-income households, including the young.[3] Over 2014–18, rental affordability, as measured by Idealista's effort rate (the ratio of expenses on rents to income), worsened more in cities with faster cumulative rental-price growth (Figure 1, second panel).

Incidence of Total Housing Cost Overburden for Tenants Renting at Market Price (Percent of tenants)



Source: Eurostat based on EU-SILC.
Notes: Instead of 2007, data for Switzerland and Germany is for 2010. The overburden rate reflects the share of the population living as tenants with market rental prices whose total housing costs (net of housing allowances) represent more than 40 percent of the total disposable household income (net of housing allowances).

B. Policy Considerations

5. Supply shortages have been probably exacerbated by regulatory obstacles. A correlation analysis between rental price growth and a measure of "efficiency of building regulations" across Spanish provinces suggests that simplifying building regulations would help boost supply. For Spain as a whole, building regulations also appear to be more inefficient than in other European peers. While Spain's rental market regulation is not among the most stringent in Europe, both excessive tenancy protection and high legal uncertainty for the real estate sector should be avoided to prevent adverse effects on rental housing supply that intensify affordability problems.

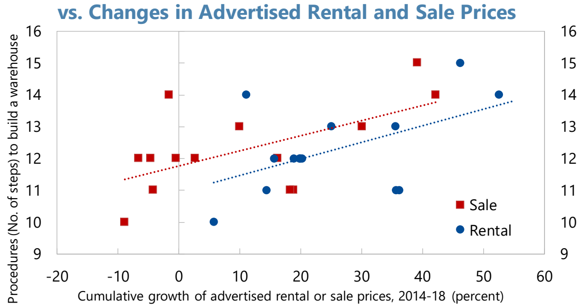
6. A host of additional policies can enhance rental affordability.[4] To provide better access to affordable rental housing, efforts across different levels of government could usefully focus on tackling supply-side constraints, since by some estimates the elasticity of housing supply is relatively low in Spain (see, e.g., Inchauste et al., 2018), while also ensuring swift access to rent support for the neediest. Some priorities may include: (i) easing and simplifying land use regulation; (ii) accelerating rezoning processes, especially for affordable housing development; (iii) increasing the stock of social

[3] Overburden rates across different income and age groups are documented, for example, in the OECD's Affordable Housing Database and Elfayoumi et al. (2020).

[4] López-Rodríguez and Matea (2020) and Elfayoumi et al. (2020) provide thorough discussions of policies for the rental housing market.

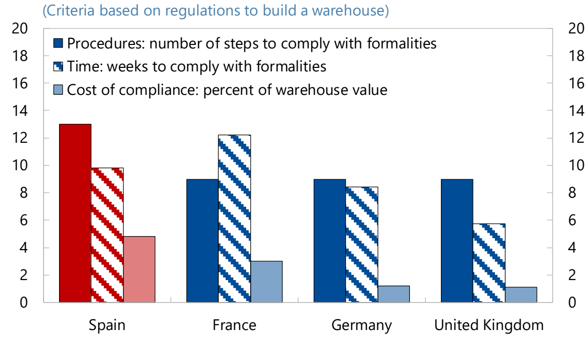
rental housing, targeting it primarily to low-income people;[5] (iv) improving the efficiency of regional processes for granting tenant allowances; and (v) ensuring good public infrastructure between fast-growing cities and more affordable locations.

Spain's Provinces: Efficiency of Building Regulation vs. Changes in Advertised Rental and Sale Prices



Sources: Idealista; World Bank "Doing Business in Spain 2015"; and IMF staff calculations.
Note: 'Procedures to build a warehouse' is a variable used by Doing Business to assess the 'ease of dealing with construction permits'. The chart assumes that that variable is informative also about dealing with construction permits for residential housing.

Dealing with Construction Permits: Efficiency of Building Regulation, 2018
(Criteria based on regulations to build a warehouse)

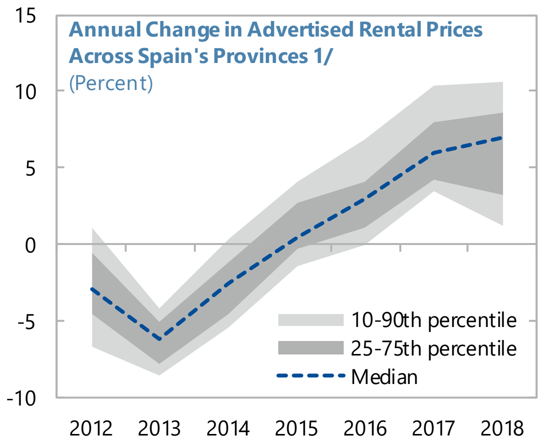


Sources: World Bank "Doing Business 2019" and IMF staff calculations.

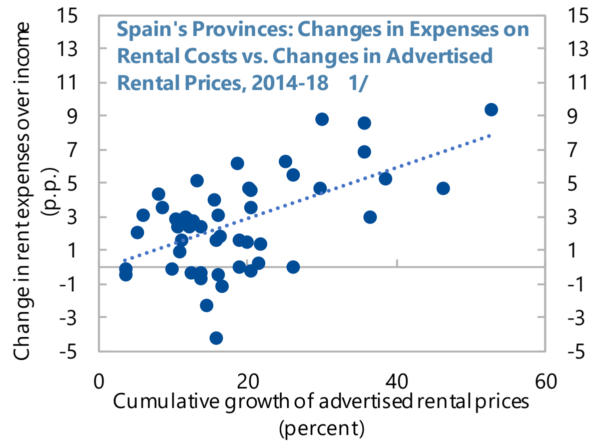
[5] The stock of social rental housing is low in Spain vis-à-vis other advanced economies, as documented in the OECD Affordable Housing Database.

Figure 1. Spain: Rental Price and Affordability Developments

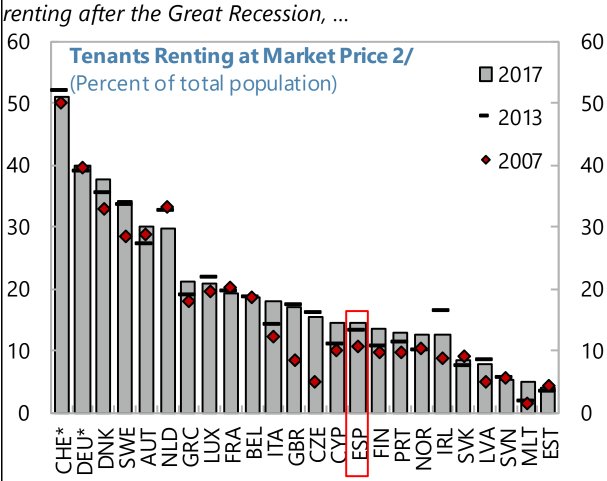
Rental prices have recently increased in many provinces…



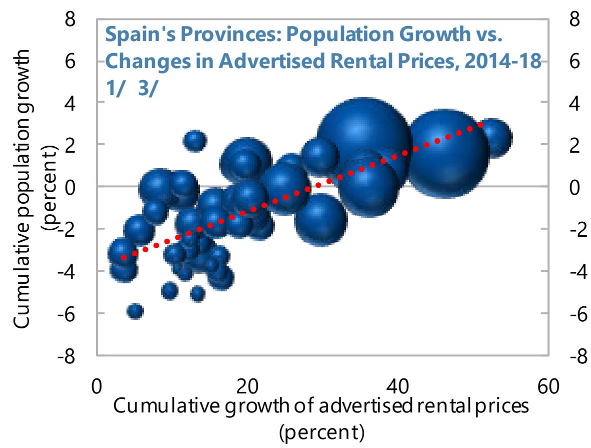
… and affordability problems have worsened in some locations.



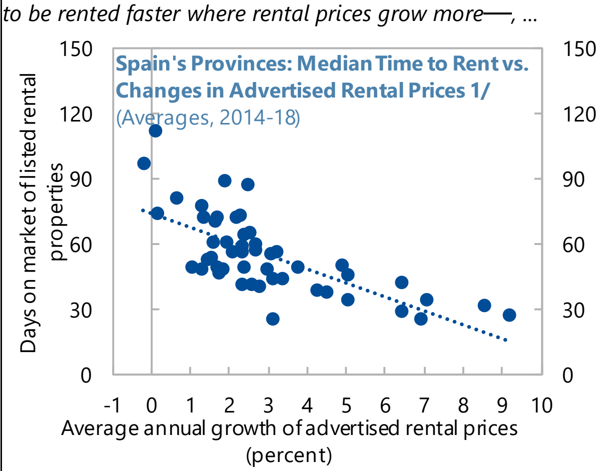
Higher rental prices are driven in part by stronger demand for renting after the Great Recession, …



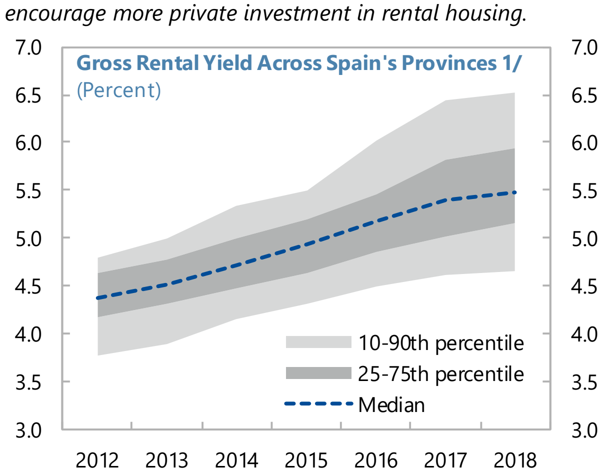
… demographic changes (including population growth), …



… and supply shortages—with evidence that properties tend to be rented faster where rental prices grow more—, …



… although rising gross rates of return have started to encourage more private investment in rental housing.



Sources: Idealista; INE; Eurostat based on EU-SILC; and IMF staff calculations.
1/ Data for capital cities of 50 provinces (Ceuta and Melilla are excluded). For this analysis, complete annual data from Idealista were only available until 2018.
2/ Instead of 2007, data for Switzerland and Germany is for 2010.
3/ The size of the bubbles represents provinces' population levels as of 2018.

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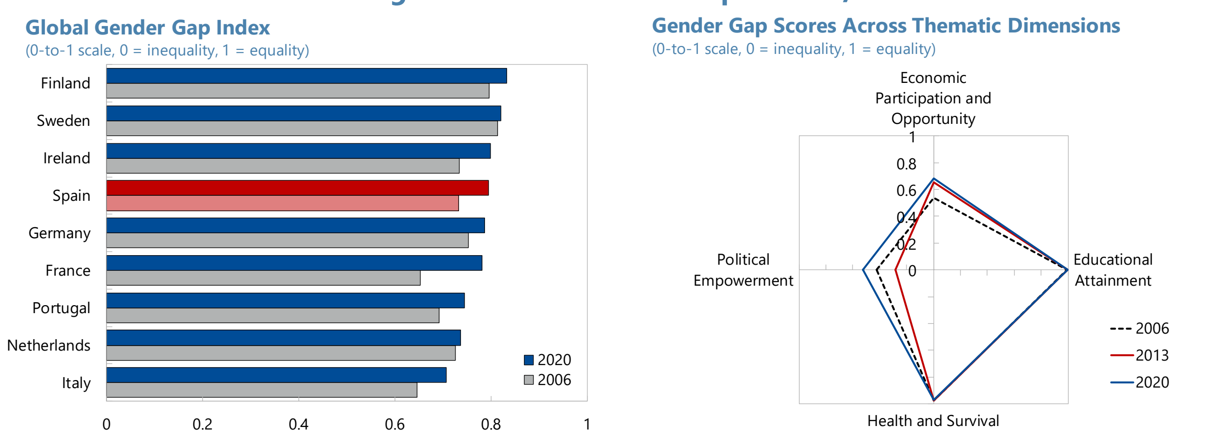
GENDER EQUALITY IN THE SPANISH LABOR MARKET[1]

1. **Spain made substantial progress in narrowing gender gaps over the past decades, but inequality persists in a number of areas.**[2] According to the latest 2020 World Economic Forum (WEF) Global Gender Gap Index, Spain is ranked 8th among the 153 countries worldwide and 4th within the EU.[3] Compared with the status in 2006, Spain's gender gap scores advanced about 6 percentage points in the overall assessment (Spain ranked 11th worldwide in 2006), closing almost 80 percent of the gap (Figure 1). The country has improved in all dimensions except for Health and Survival, where it had already closed 97 percent of the gender gap. The gap in Political Empowerment narrowed substantially in 2019 thanks to the large share of women among ministers in the previous socialist government which has continued since. Despite substantial improvement in Economic Participation and Opportunity, the differences between women and men in wages, income, and the representation in managerial positions remained large.[4] In contrast, the gender gap in the Education Attainment area has been nearly closed (99.8 percent).

Figure 1. Global Gender Gap Index 1/



Source: World Economic Forum Global Gender Gap Report 2006, 2018 and 2020.
1/ The index examines the gap between men and women along four thematic dimensions: Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment. The score for each subindex is calculated based on economic indicators. The 2020 index was constructed using data mostly from 2018, except several indicators related to health and eduction (2016 or 2017) and political empowerment (2019). See WEF Global Gender Gap report 2020 Appendix B for technical details on the methodology and the data.

2. **The COVID-19 pandemic will likely have a regressive effect on gender equality, putting decades of progress at risk.** While the impact of the pandemic is widespread, women's jobs and

[1] Prepared by Lucy Liu.

[2] Unless indicated, gender gaps in this section refers to the differentials between male and female.

[3] The rankings may vary across years and also depend on the specific indices used. For instance, using the 2017 index produced by European Institute for Gender Equality (EIGE), Spain was ranked 9th in the EU, whereas the 2018 WEF Global Gender Gap Report placed Spain at the 13th among the EU countries.

[4] See details in WEF Global Gender Gap Report 2020 (World Economic Forum 2019).

livelihood are particularly vulnerable to the economic fallout of the pandemic. First, women are disproportionately represented in sectors that were hit hardest by lockdowns and social distancing measures, such as service industries, tourism, retail and hospitality. Using 2019:Q2 Labor Force Survey data, (Hupkau & Victoria, 2020) estimated that about 29 percent of women in Spain worked in positions that were directly affected by lockdowns compared with 21 percent of men.[5] Second, women disproportionately shoulder the burden of unpaid work. According to the 2015 National Survey of Working Conditions (*Encuesta Nacional de Condiciones de Trabajo 2015*), Spanish women on average spent nearly two hours more every day than men on unpaid housework. The pandemic has substantially increased family care responsibilities due to school closures, care for the elderly, and limited options for outsourcing housework. Survey data collected by (Farré, Fawaz, González, & Graves, 2020) at the beginning of the lockdown suggests that women assumed more responsibilities in housework even in families with both parents working during confinement. While the effects of lockdowns could dwindle as the economy returns to normal, the overall impact of the pandemic on working mothers is likely to be long-lasting, due to high returns to experience in the labor market.

3. The economic benefits of gender equality have been well documented in the literature. Research that focuses on the macroeconomic impact generally finds positive and significant effects of women empowerment on growth and economic development.[6] For instance, higher female labor force participation may contribute to an expansion of the talent pool in the labor market, potentially promoting efficient resource allocation, boosting labor productivity, and increasing potential growth (Cuberes & Teignier, 2016). Narrowing gender gaps in education and employment could help lower income inequality (Gonzales, Jain-Chandra, Kochhar, Newiak, & Zeinullayev, 2015), and improve economic diversification particularly in developing countries (Kazandjian, et al. 2016). In ageing countries, higher female labor force participation can boost growth and mitigate the impact of a shrinking labor force, which in turn help ensure the sustainability of the pension system (Steinberg & Nakane, 2012). More recent research suggests that bringing more women into the labor force could yield larger gains than an equivalent increase in male workforce (Ostry, et al. 2018). This is because women can bring in different skills and ideas, which could complement the talent of men in the production process.

A. Pre-COVID Trends and Recent Development

4. Female working age population in Spain on average are more educated than male. While adult men still have a higher literacy rate, the enrollment rate for women had exceeded that for men across all education levels by 2017 (Figure 2). The female-male differential is particularly large at the tertiary education level and has been continuously widening over the last two decades. As a result, the percent of women in the labor force that have tertiary education has been higher than the share for men since 2000, enabling Spain to outperform the euro area average of education

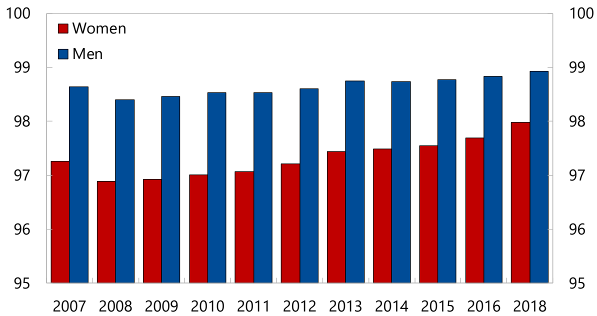
[5] The same study also documented a larger share of men than women working in jobs that have low tele-workability given their predominance in construction and manufacturing sector. This would mitigate the differential effects of the pandemic on men and women. Nevertheless, social security contribution data in June-August shows a stronger job recovery in the construction and manufacturing industries than in the service sector, which indicates that the overall impact could still be larger for women.

[6] See Elborgh-Woytek, et al. (2013) and Kochhar, Jain-Chandra and Newiak (2017) for summaries of empirical findings on the potential effects of gender equality in various countries.

attainment over the past two decades. Across the age distribution, younger women are more likely to complete higher education than younger men, whereas men tend to be more educated in older cohorts. The female-male differential is particularly large for the generations between 25 and 44 years old, where more women have tertiary education and men are more likely to complete lower secondary or less.

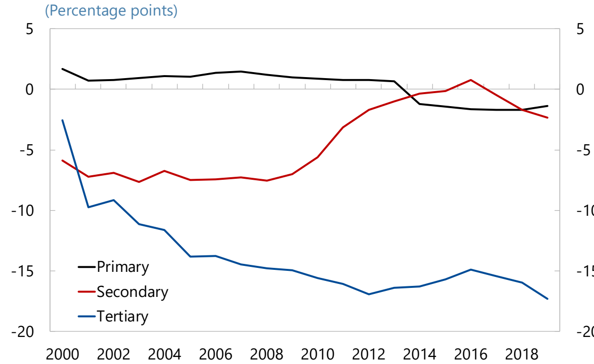
Figure 2. Gender Gaps in Education

Literacy Rate in Spain 1/
(Percent)



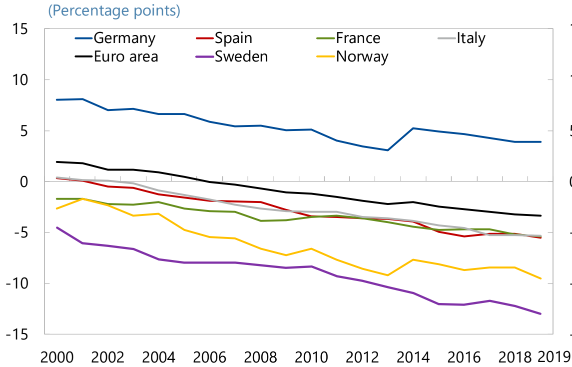
1/ Percentage of people ages 15 and above who can read and write with understanding a short simple statement about their everyday life. Data for 2017 is missing.

Gaps in Enrollment Rate in Spain by Education Levels 1/
(Percentage points)



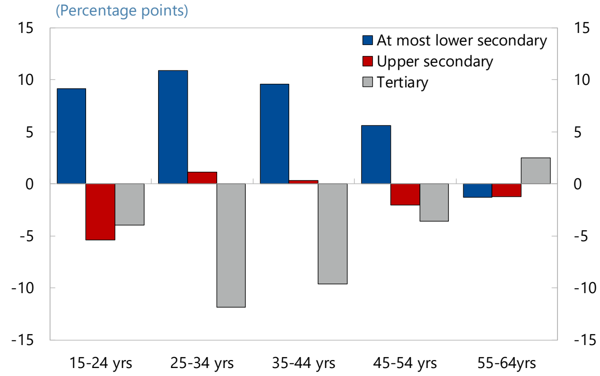
1/ Ratio of enrollment to the corresponding population at each education level.

Gaps in Tertiary Education 1/
(Percentage points)



1/ Share of labor force with tertiary education.

Gaps in Education in Spain by Age Groups, 2019 1/
(Percentage points)

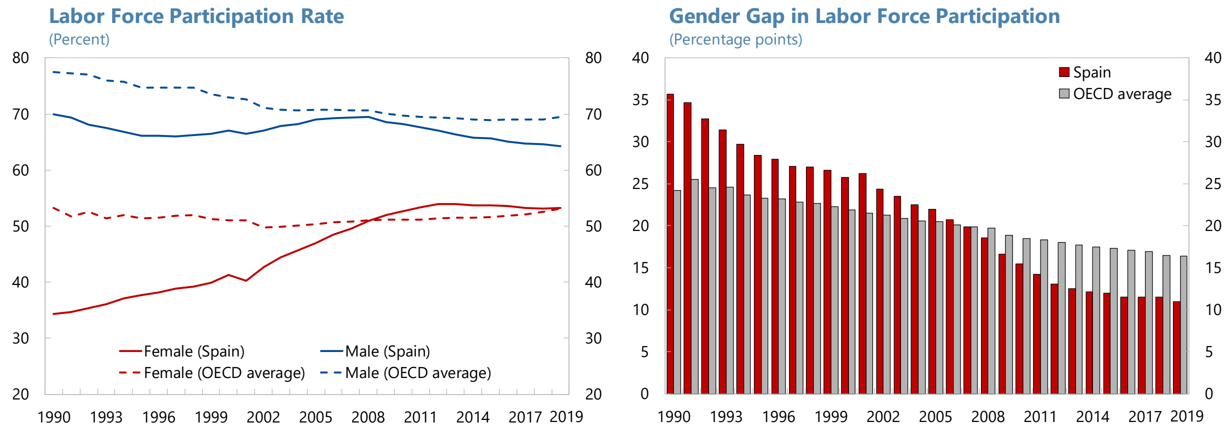


1/ Share of labor force at different educational levels.

Source: World Bank World Development Indicators (WDI), Eurostat, and IMF staff calculations.

5. The steady progress in female education attainment to some extent has facilitated a fast expansion of female labor force in Spain. Over the past decades, Spain had one of the largest increases in female labor participation among EU countries (Christiansen, Lin, Pereira, Topalova, & Turk , 2016). Between 1990 and the peak in 2012, female participation rate increased by nearly 20 percentage points, rising from well below to above the OECD average (Figure 3). Since the European debt crisis, the progress has stalled, but the gap between male and female the participation rates continued to fall, driven largely by an even larger decline in male labor force participation. The current gender gap in labor force participation is well below the OECD average.

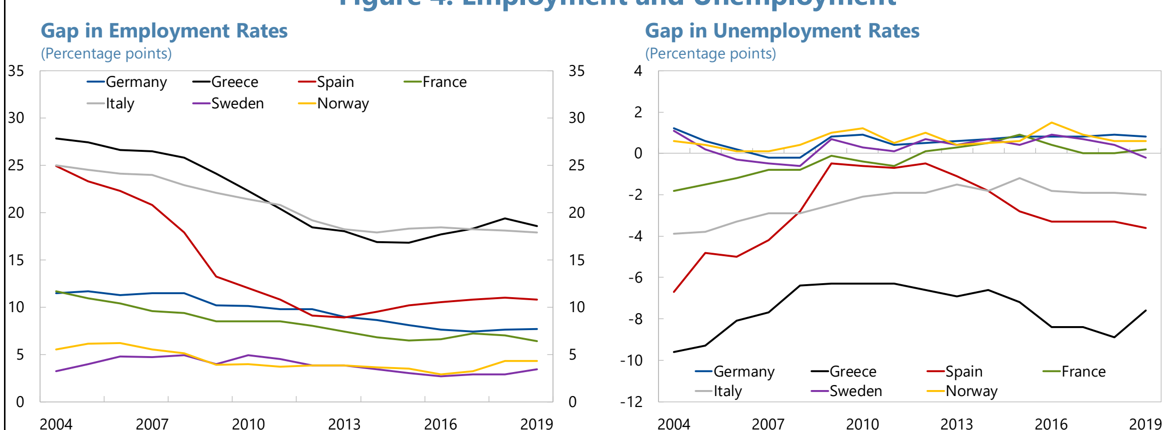
Figure 3. Labor Force Participation



Source: OECD and IMF staff calculations.

6. **Spain made impressive progress in narrowing gender gaps in job market conditions before the global financial crisis, but it has regressed since then.** Traditionally Spain had one of the highest gender inequalities in the euro area in terms of both employment and unemployment (negative gap). This was partially driven by its stubbornly high structural unemployment. During the economic boom years, favorable labor market conditions benefited both men and women, but women employment was growing in an even faster pace. As a result, the gender gaps in employment and unemployment both narrowed sharply (Figure 4). Since 2012, however, the progress has been reversed. While many European countries have seen a slowdown in gender (un)employment inequality reduction, the setback in Spain was among the strongest ones together with Greece. Interestingly, the gap in unemployment rates was virtually closed during the crisis years, but this was largely due to the collapse of the construction sector, which led to a much larger increase in the unemployment rate for men than for women. In the post-crisis period, male workers had a faster recovery in the job market than female workers, so gender gaps in employment and unemployment were on the rise until 2019 when the gaps saw a small narrowing again.

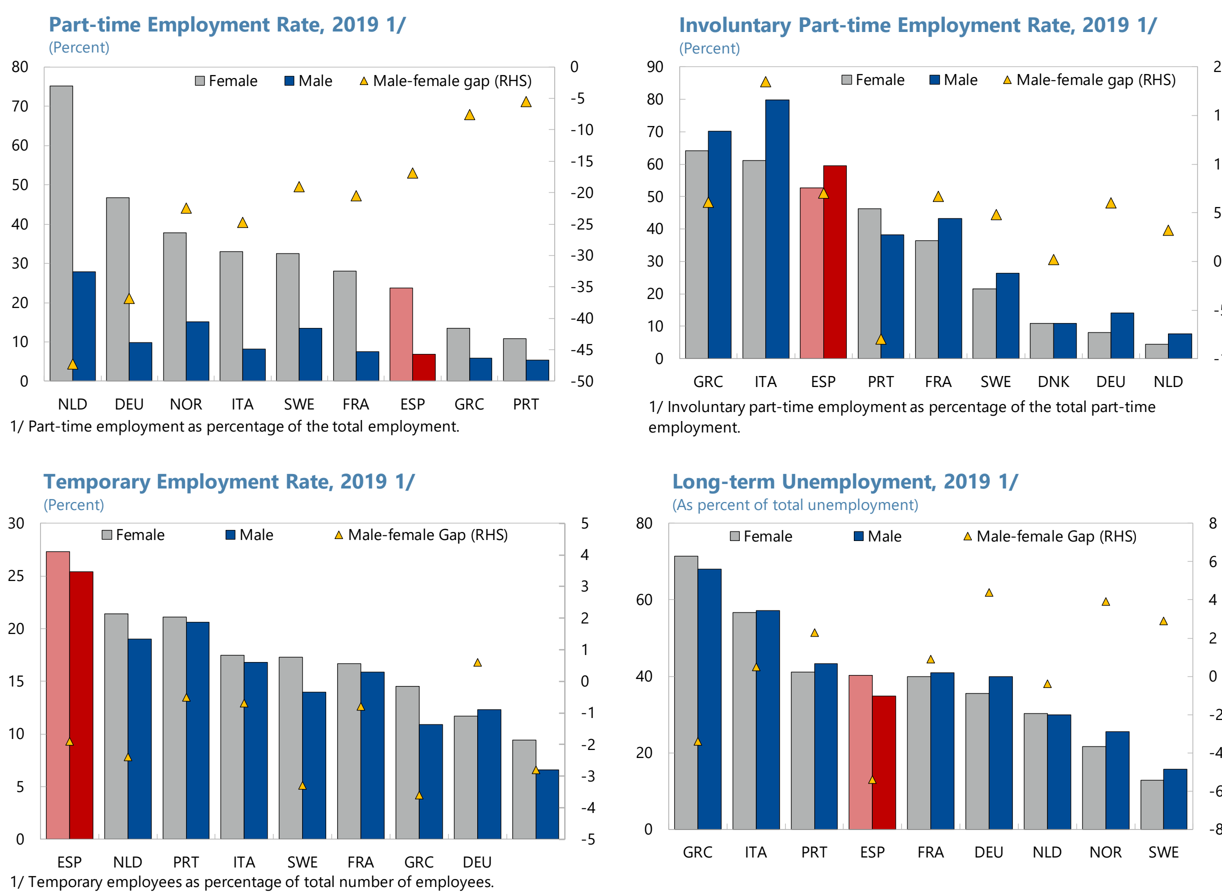
Figure 4. Employment and Unemployment



Source Eurostat and IMF staff calculations.

7. Voluntary part-time employment is relatively low in Spain, though the differential between male and female is small. Spain's part-time employment rate is low compared with euro area peers, while involuntary part-time employment is high (Figure 5, upper panel). This is true for both men and women. As in other euro area countries, Spanish women tend to have a higher total part-time employment but a lower involuntary part-time employment than men.[7] The differences between men and women are generally small by the euro areas standard. While gender inequality seems not to be a major concern in this area, infrequent use of voluntary part-time employment could reflect potential structural weakness in Spain's labor market. These distortions tend to have a disproportional impact on female labor force participation and job market performance, as women have a higher likelihood to use part-time jobs to maintain flexible work schedules and achieve better family-work life balance.

Figure 5. Selected Labor Market Indicators



Source: Eurostat and IMF staff calculations.

[7] The smaller share of involuntary part-timer employment for women is partially explained by the denominator effect, as the "total part-time employment" is higher for women than for men. If we use "total employment" as the denominator, women would have a higher involuntary part-time employment rate than men. This again could be subject to the denominator effect given the lower total employment for women.

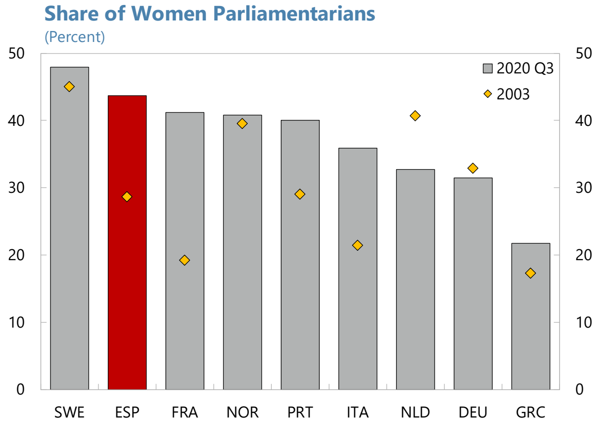
8. Spanish women face high temporary employment and long-term unemployment relative to their EU peers, but the gender differentials in these areas are moderate. Reflecting the pervasiveness of labor market duality, both women and men have the largest share of temporary employment in the euro area (Figure 5, lower panel).[8] In general, women's temporary employment rates tend to be higher than those of men, but the differences are not particularly prominent by European standards. The share of long-term unemployment among women is also ranked as one of the highest in the euro area. Although the size of the gender gap is moderate, Spain is one of the few European countries in which the share of long-term unemployed among women is consistently larger than that among men.

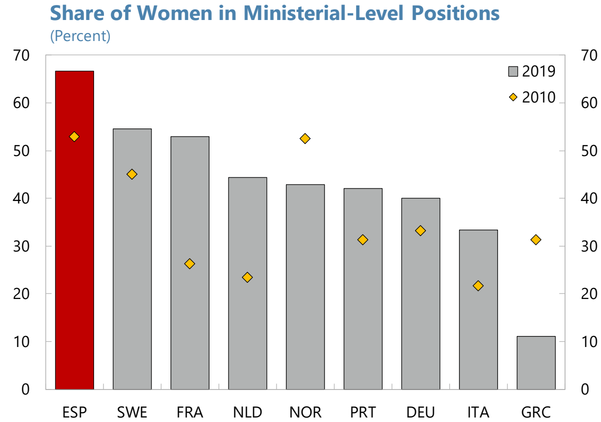
9. Spain made remarkable progress in empowering women politically, but women representation in the private sector managerial positions is yet to advance. Between 2003 and 2020, the percentage of women parliamentarians rose by about 15 percentage points, Figure 6). The share of women in ministerial positions surged to nearly 67 percent in 2019, the highest worldwide, thanks to the large representation of women in the previous socialist government. It is 50 percent in the coalition government that took office in January 2020. Despite these major steps forward, progress in promoting women professional development in the private sector has been slow. While inequality between men and women presence in managerial positions is in line with the OECD average, women representations in top executive positions in largest listed companies is one of the lowest among euro area peers.

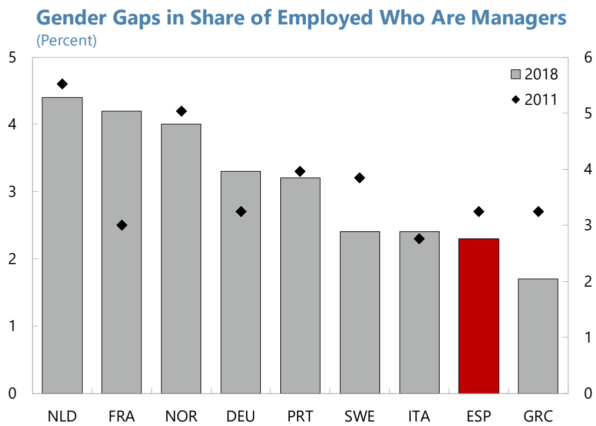
10. Spain's gender wage gap is close to the euro area average. Without adjusting for individual and job characteristics, the male-female differential in hourly earnings was about 15 percent in 2017 (Figure 7). The gender pay gap widened sharply during the global financial crisis but subsequently narrowed. Since 2015, however, the gap expanded again but remained below the euro area average and was more or less on par with peers. Staff analysis finds that occupation and industry segregations are the main contributor to Spain's gender wage differentials. Once controlling for these and other individual and job characteristics, the gender wage gap declines to about 10 percent.

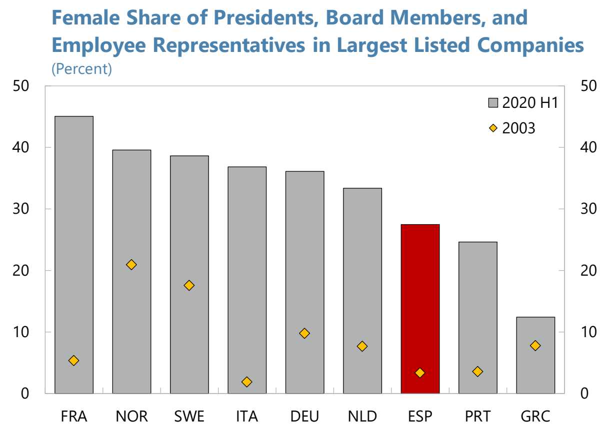
[8] See Appendix I for the background of the labor market duality issue in Spain.

Figure 6. Governance Structure



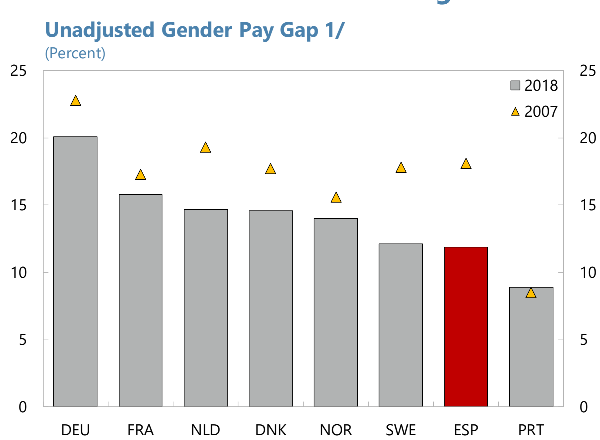


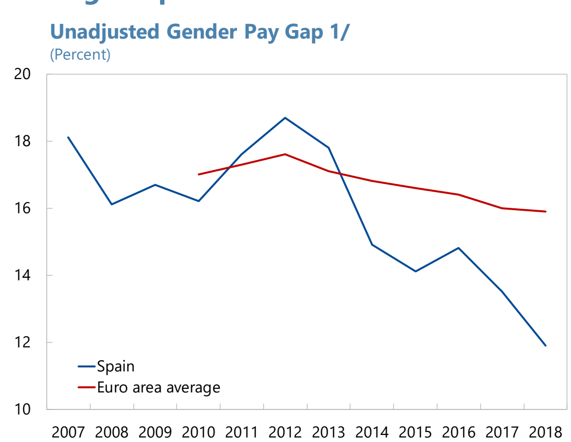




Sources: OECD, European Institute for Gender Equality (EIGE), and World Bank WDI database.

Figure 7. Gender Wage Gaps





Sources: Eurostat.

1/ Differences between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

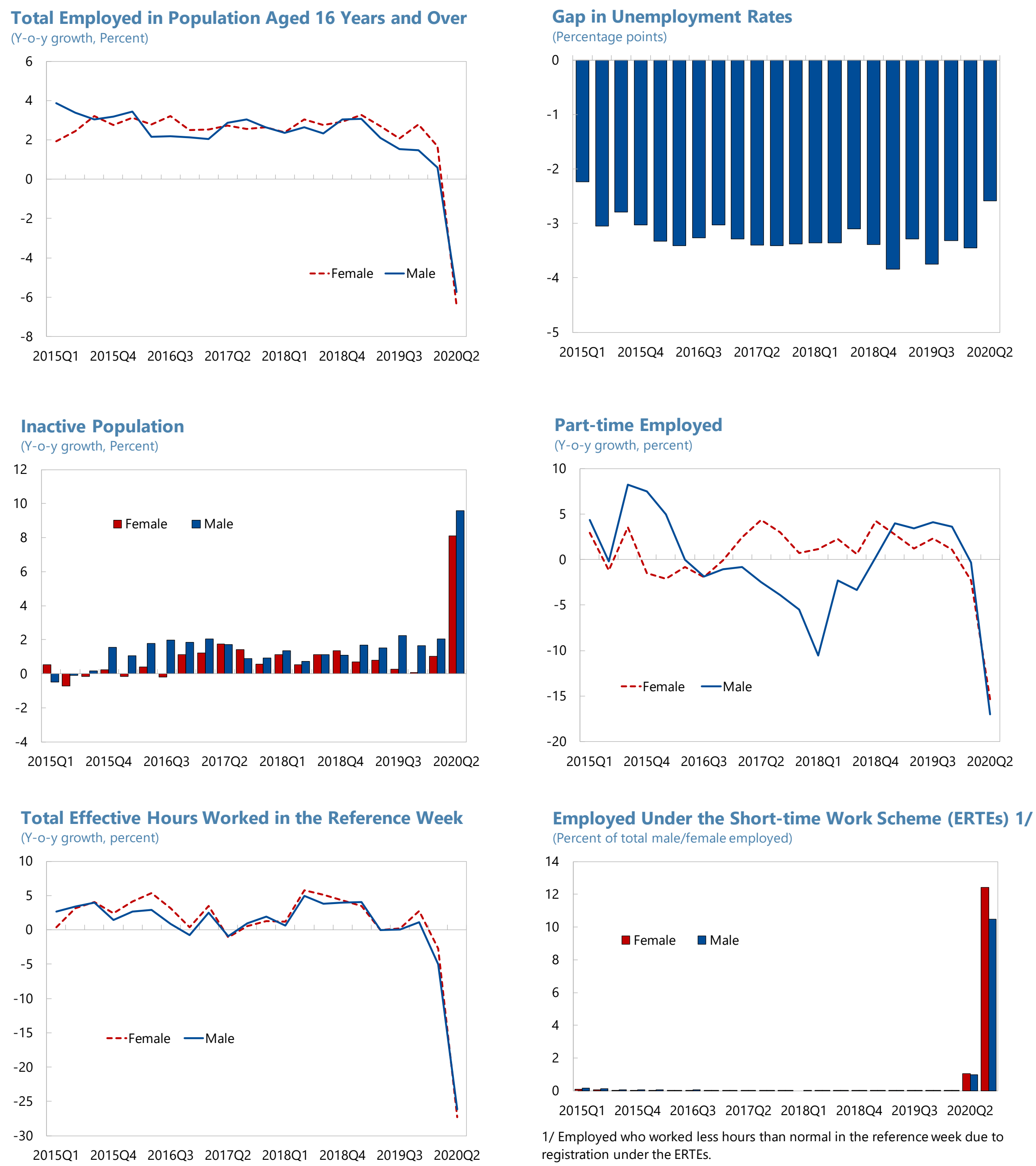
12. The evidence of the pandemic impact on gender inequality has been mixed so far at the aggregate level. According to the latest Labor Force Survey data, both male and female workers experienced substantial job losses in 2020:Q2, but the year-over-year decline was slightly higher for women than for men (Figure 8). This was despite the fact that women had a stronger employment growth than men in the two years preceding the crisis. Nevertheless, the increase in men's unemployment rate was higher than that of women's, resulting in a moderate narrowing of the gender gap (negative) in Q2. Compared with the situation for the female labor force, the declines in active population and part-time employed among men were also stronger. On the other hand, women employees had a larger reduction in total weekly working hours than men, in part due to their stronger take-ups of the short-time work scheme.

13. Studies based on the household survey data largely find a disproportional impact of the pandemic on women at least in the short term. These studies collect and analyze real-time data of households paid and unpaid work, which allows them to have a granular analysis on the differential effects of the pandemic on men and women. For example, using a household survey data collected in early May of 2020 for a representative sample of the Spanish population aged 24–50, (Farré, Fawaz, González, & Graves, 2020) find that women were more likely to be furloughed, become unemployed, or work from home (if they still had a job) during the lockdown. They also document that women were taking more responsibilities in housework and childcare during confinement, although the gap in the hours spent on certain unpaid housework between men and women seemed to have narrowed slightly, given the increased contributions from men during the lockdown. Overall, the pandemic appeared to have increased gender inequality in the labor market as well as responsibility sharing of certain unpaid housework.

B. Policy Considerations

14. Policies should focus on limiting the scarring effects of the pandemic, while creating a supportive environment for women career development over the longer term. In the near term, actions are needed to promote work-life balance and protect women's wellbeing. This could include extensions of income support to the vulnerable and further promotion of teleworking. While the pandemic presents a host of challenges for gender policies, it also brings important changes that may ultimately enhance gender equality in the labor market (Alon, Doepke, Olmstead-Rumsey, & Tertilt, 2020). For instance, the increased paternal involvement in childcare may help shift social norms and improve the future distribution of the division of labor in unpaid work; and the wide-spread and effective use of teleworking may facilitate a structural transformation of business models toward greater flexibility in future work arrangement. Therefore, it is crucial for policymakers to leverage these positive structural changes and accelerate the reforms needed for tackling gender inequality. In this respect, the resources provided under the EU Recovery and Resilience Facility presents an exceptional opportunity for the government to advance its gender policy agenda.

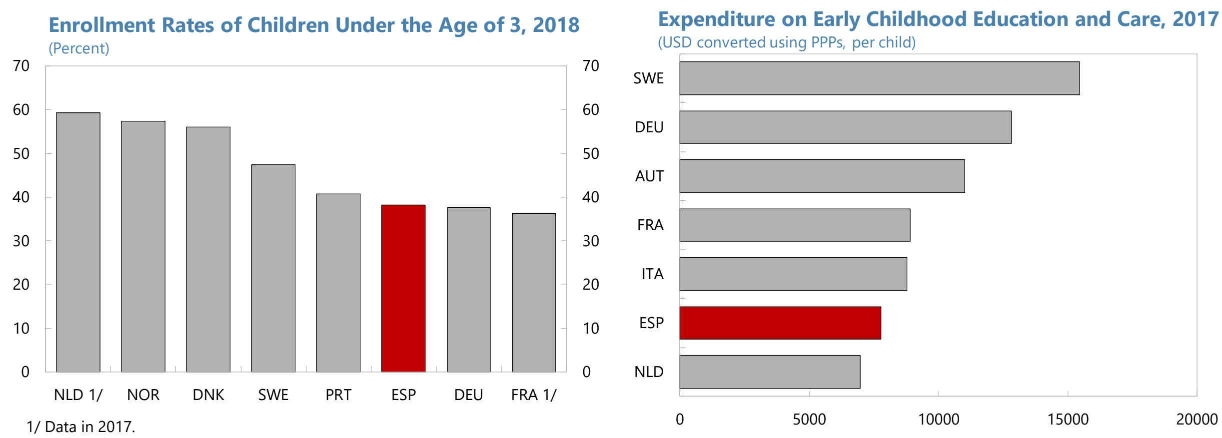
Figure 8. Gender Equality During COVID-19



Source: INE Economically Active Population Survey and IMF staff calculations.

16. A key policy area is to boost family and childcare support. Previous studies found that policies fostering childcare provisions could have strong and positive effect on female labor force participation and gender equality (Alonso, Brussevich, Dabla-Norris, Kinoshita, & Kochhar, 2019). According to the OECD Education at a Glance 2020 report (OECD, 2020), about 38 percent of children under age 3 in Spain were enrolled in some forms of early childhood education and care in 2018 (Figure 9), which is close to the OECD average but relatively low compared with euro area peers (enrollment rate of children at age 3–5 was in line with that of peers). Although part of this could be due to the demand effect, the relative low level of public spending (per child) suggest that there may be room for more and efficient expenditure on the provision of childcare services. In addition, a right design of the leave policies for childbirth and parenting could help mitigate the work-family pressure and assist women smoothly transitioning back to work. In particular, bridging the gap between maternity and paternity leaves and incentivize fathers to take paternity leaves would be the most effective way to reduce gender inequality. In this regard, the recent extension of paternity leave in Spain from 8 to 16 weeks is an important step toward the right direction.

Figure 9. Early Childhood Education and Care



Source: OECD Education at a Glance 2020.

17. Increasing working arrangement flexibility could also help promote better family work life balance, supporting female labor force participation. The low level of voluntary part-time employment in Spain warrants an in-depth analysis of the drivers behind the supply and demand of this type of jobs. While economic cyclicality may play a role,[9] accessibility to high-quality part-time jobs was low even before the crisis, indicating potential distortions in the labor market. The literature identified several factors that might have hindered employers' incentives to create part-time jobs, including the more expensive social security contribution cost relative to hiring full-time workers (Anghel & Arellano, 2010), the sizeable administrative and other fixed costs (Moral-Carcedo, Campos, & Álvarez-Carrasco, 2012), and the somewhat protective legal framework (Rodríguez, 2005). On the demand side, workers may find part-time jobs unattractive as they often provide

[9] Involuntary part-time employment usually goes up during economic downturns due to the supply-side factors, whereas voluntary part-time employment may go down as some may choose to lengthen their work hours to offset the impact of job losses of other members in the household.

limited training opportunity and may have long-lasting consequences for their career development (Fernández-Kranz, Paul, & Rodríguez-Planas, 2015). These obstacles therefore point out potential areas for policy actions at both national and regional levels. Other policies to promote flexible working arrangement may include measures to encourage firms to offer flexible working schedules, working places, and leave policies. Finally, the promotion of flexible working arrangement should be designed in the way that it will not deter women's career development. In this regard, it is key to encourage expansion of high-quality part-time jobs and complement it with the above-mentioned parental leave policies and childcare support.

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