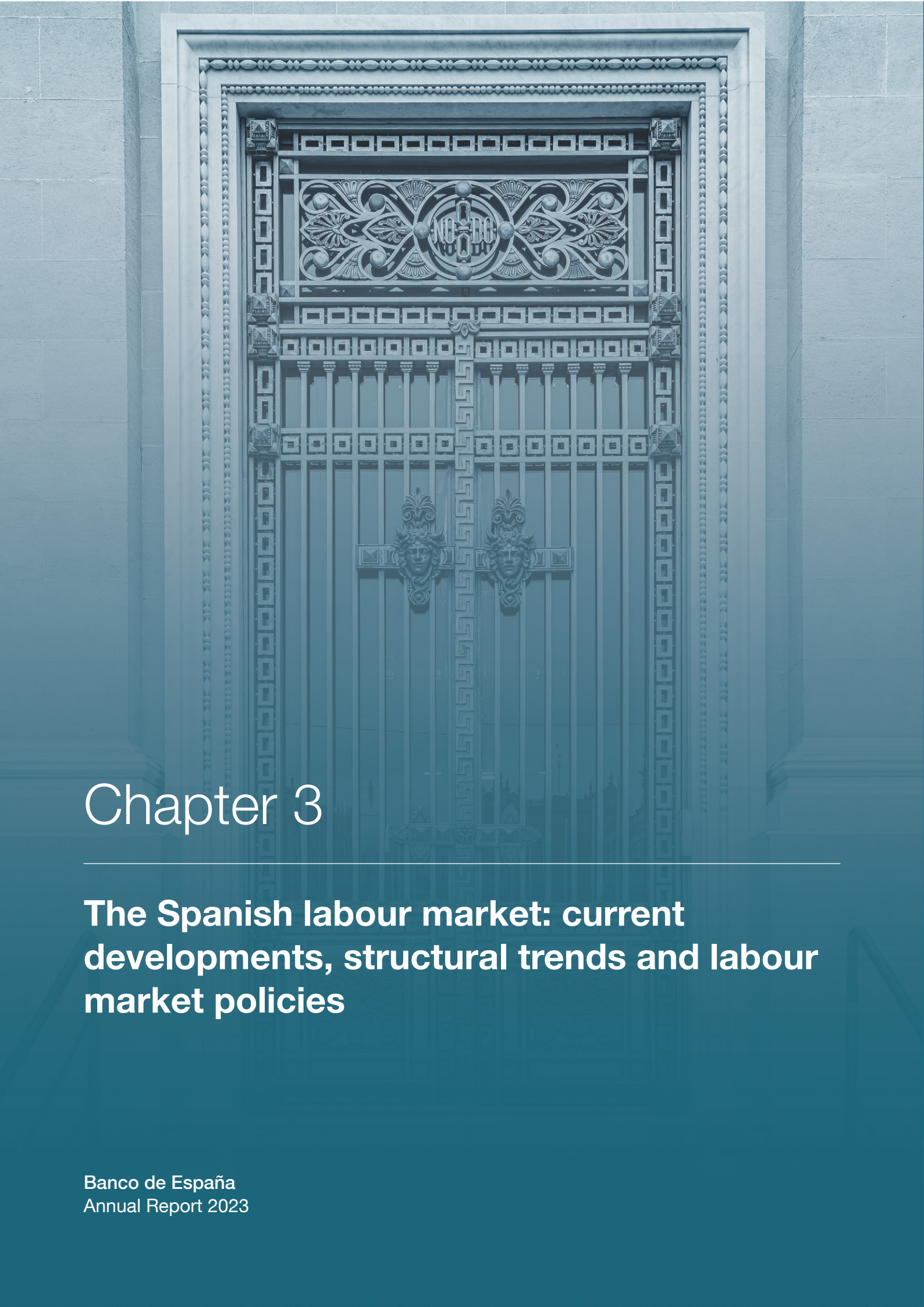
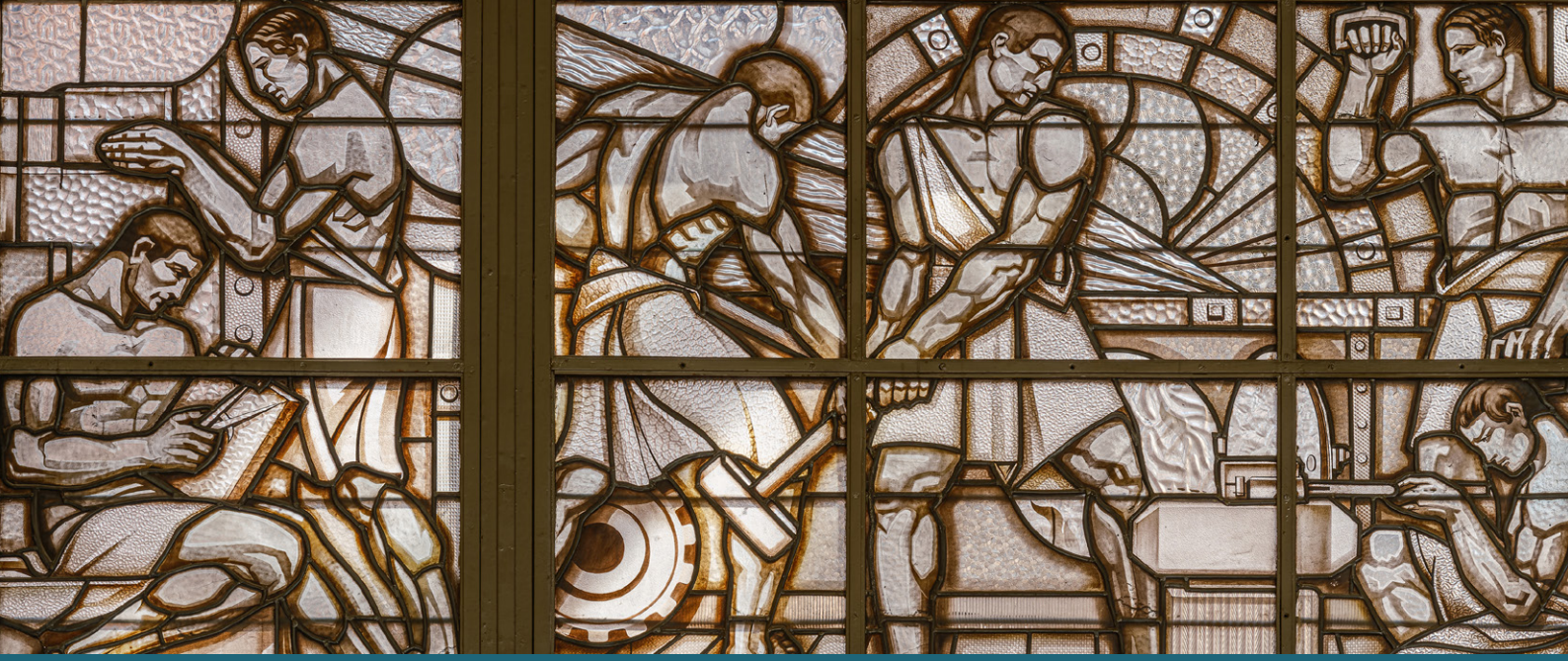


Chapter 3

The Spanish labour market: current developments, structural trends and labour market policies

Banco de España
Annual Report 2023

Contents



Chapter 3
Takeaways

— Recent Spanish labour market developments have mainly been marked by employment's considerable momentum. By contrast, labour productivity has barely increased since the onset of the pandemic.

— Despite strong job creation, the unemployment rate in the Spanish economy remains excessively high. The Spanish labour market is nevertheless showing signs of tightness similar to those of other countries with lower unemployment rates. For example, firms are reporting labour shortages as one of the main constraints on their business activity.

— Looking ahead, the technological and demographic changes under way could revolutionise the labour market, with very significant implications for labour demand and supply and for the employability and productivity of certain groups.

— A labour market policy overhaul is a priority in light of the challenges facing the Spanish labour market posed by a persistently higher unemployment rate than other European countries, technological changes and population ageing.

— Specifically, active labour market policies (training and job mediation) are especially necessary to absorb the disruptive effects of technological change on employment and to make older workers more employable.

— Meanwhile, unemployment benefits should afford the unemployed appropriate protection, but without disincentivising job-seeking and labour mobility.

— Turning to other aspects related to the labour market's institutional framework, to foster the necessary occupational reallocation of employment, more headway should be made in defining the objective grounds for dismissal and in making such processes less uncertain.

— In addition, amid growing heterogeneity across businesses on many fronts, collective bargaining should afford some flexibility so that working conditions – e.g. in terms of working hours – can be adapted to firms' individual circumstances.

1 Introduction

Recent Spanish labour market developments have mainly been marked by employment's considerable momentum.

Such developments have unfolded against a very complex backdrop shaped, among other factors, by the COVID-19 pandemic, the energy crisis, Russia's invasion of Ukraine, the conflict in Gaza and monetary tightening around the world. According to the Spanish Labour Force Survey (EPA), between 2019 Q4 and 2023 Q4 a total of 1.28 million jobs were created in Spain, 783,000 of them in 2023. In the same period, the employment rate (proportion of the population aged 16-64 in employment) rose by 2.2 percentage points (pp), from 63.7% to 65.9%. Section 2 reviews these and other recent key developments in the Spanish labour market. In addition, Box 3.1 documents how the temporary employment ratio and other indicators that serve as a proxy for job stability have fared in recent quarters.

Despite employment's buoyancy, in the Spanish economy the unemployment rate remains excessively high.

The unemployment rate has trended downwards since mid-2020. However, at end-2023 it stood at 11.8%, twice that of the EU-27. This difference is particularly stark in terms of youth unemployment, the incidence of long-term unemployment and the employment status of workers approaching the retirement age. This negative differential in the unemployment rate and that observed in labour productivity are the main reasons why Spanish per capita income has failed to converge with that of other European countries in recent decades (Banco de España, 2023).

Looking ahead, the technological change and demographic shifts under way could revolutionise the labour market.

Technological change stems mainly from advances in robotics and artificial intelligence; the demographic shifts are above all related to the ageing workforce, resulting from lower numbers of new entrants in the labour market and a longer working life. Both factors have important implications for labour supply and demand and for the effectiveness of labour market policies. Section 3 analyses the labour market implications of technological and demographic change and the different factors that could amplify or mitigate them.

Given this situation, reviewing labour market policies is a priority.

With a persistently higher unemployment rate than other European countries, and faced with technological change and population ageing that could pose an extraordinary challenge to the employability and productivity of certain groups of workers, labour market policies need to be rethought. Specifically, active labour market policies (training and job mediation) are especially necessary to absorb the disruptive effects of technological change on employment and to

make older workers more employable. Meanwhile, unemployment benefits should afford the unemployed appropriate protection, but without disincentivising job-seeking and labour mobility. Turning to other aspects related to the labour market's institutional framework, to foster the necessary occupational reallocation of employment, more headway should be made in defining the objective grounds for dismissal and in making such processes less uncertain. In addition, amid growing heterogeneity across businesses on many fronts, collective bargaining should afford some flexibility so that working conditions – e.g. in terms of working hours – can be adapted to firms' individual circumstances. The final section of this chapter discusses labour market policies as they currently stand and possible avenues to improve them.

2 Spanish labour market: current developments

2.1 Employment (number of persons employed)

One of the most striking features of the Spanish economy's recent performance is the buoyancy of employment measured by the number of persons employed.

During the pandemic, employment fell (and unemployment rose) much less than might have been expected after economic activity collapsed (see Chart 3.1). The furlough schemes (ERTEs) – which constituted the main economic policy response to the labour market fallout from the COVID-19 crisis – were an important contributing factor. During the subsequent economic recovery in 2021 and 2022, employment also grew at a pace that, by historical standards, did not square with the observed path of GDP. More recently, economic activity has been weighed down by adverse geopolitical events, persistent high inflationary pressures and the interest rate hikes required to tame them. This has also slowed the pace of employment growth. Even so, it has continued to grow at relatively high rates. According to the EPA, 780,000 jobs were created in Spain in 2023 (590,000 in H1 and 190,000 in H2), raising the number of persons employed in Spain to 21.25 million, an all-time high which stands 6.4 pp above the end-2019 level.

A broad set of countries have also seen employment perform strongly since the COVID-19 crisis.

The patterns of the recovery in employment rates are qualitatively similar in Spain and the EU-27 (see Chart 3.2). However, in Spain the number of persons in effective employment fell more in 2020-2021 and employment has recovered slightly more quickly since then. Labour markets across Europe have decelerated recently. Yet when set against economic activity employment in Spain and other European countries is proving more resilient than in similar episodes in the past.

There are several potential reasons for employment's relative strength.

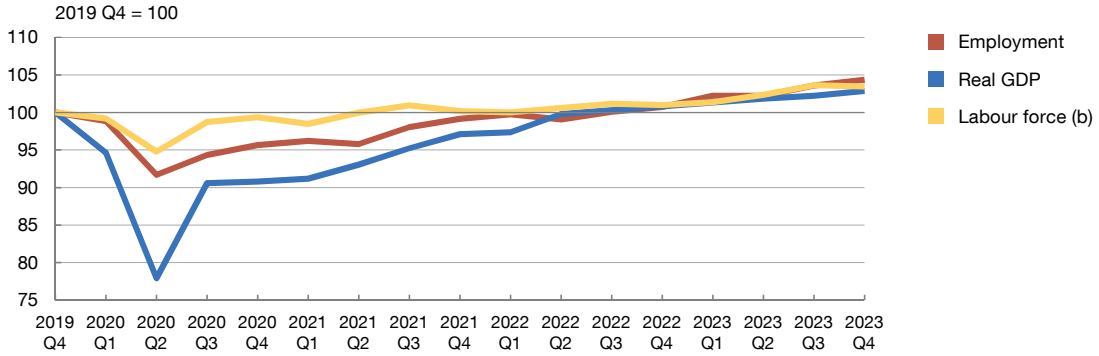
- As detailed in Section 2.2, some of the recent strength of employment in the Spanish economy is attributable to public sector employment growth and immigrant inflows. All this in a setting in which, in the wake of the pandemic, new hiring needs have arisen in certain sectors and occupations. Specifically, some of the sectors that have seen higher growth in their activity in recent years are particularly labour intensive. This has contributed to aggregate employment outperforming GDP relative to other past episodes.

- Meanwhile, the Banco de España's regular business surveys suggest that "labour hoarding" has also played a role in the recent period. Labour hoarding refers to when firms decide not to terminate employees when activity is at a low ebb in anticipation of future labour demand. Considerable uncertainty surrounds the relative share of the main determinants of labour hoarding – which is also somewhat prevalent in other

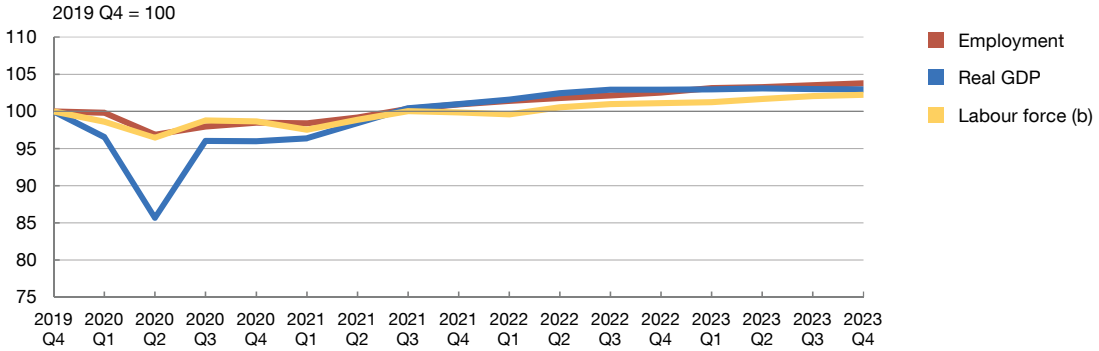
Chart 3.1

The sound performance of the labour market since the crisis is qualitatively similar in Spain and the euro area. Employment has outstripped GDP in both areas

3.1.a Quarterly change in real GDP and total employment. Spain (a)



3.1.b Quarterly change in real GDP and total employment. EA-19 (a) (c)



SOURCE: Eurostat (Quarterly National Accounts and Labour Force Survey).

a GDP and employment according to the National Accounts, seasonally adjusted data.
b Economically active population aged 15-64.
c EA-19 refers to the euro area countries in the period 2015-2022.

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European economies (European Commission, 2023) – and how persistent it could be. Its possible determinants include: (i) the experiences from the pandemic (it was the first time that ERTEs were used across the board in Spain as a means of adjusting the workforce in response to a recession without destroying employment); (ii) firms finding it more difficult of late to hire new workers (see Section 2.5 for more details); and (iii) firms potentially expecting the recent adverse shocks to be temporary.

2.2 Some key traits of the composition of employment

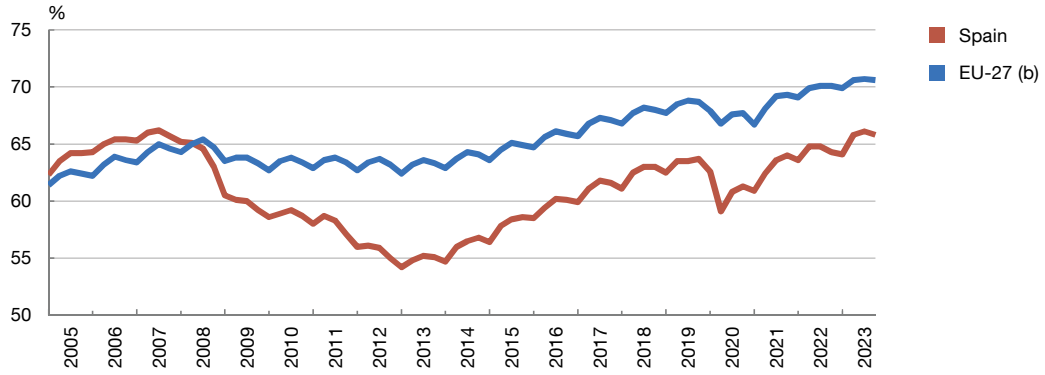
Employment has grown with considerable heterogeneity across sectors, occupations and regions.

The heterogeneous performance of employment across sectors, occupations and geographical areas has become more pronounced in the most recent period (Section 3 argues that this will

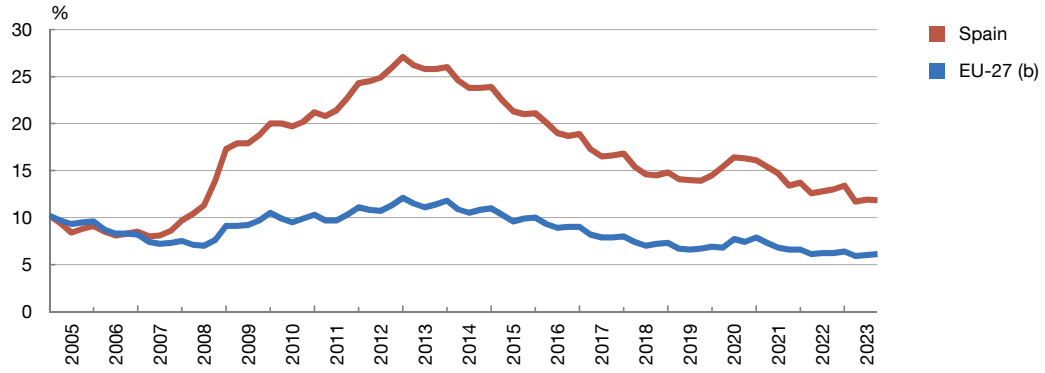
Chart 3.2

During the pandemic, employment rates fell and unemployment rates increased much less than might have been expected after economic activity collapsed

3.2.a Employment rate (a)



3.2.b Unemployment rate (c)



SOURCE: Eurostat (Labour Force Survey).

a Employment rate measured as employed people as a percentage of the working-age population (aged 15-64).
b EU-27 refers, throughout the period considered, to the aggregate of the European Union Member States from 2020 onwards.
c Unemployment rate measured as unemployed people as a percentage of the total labour force (aged 15-64).

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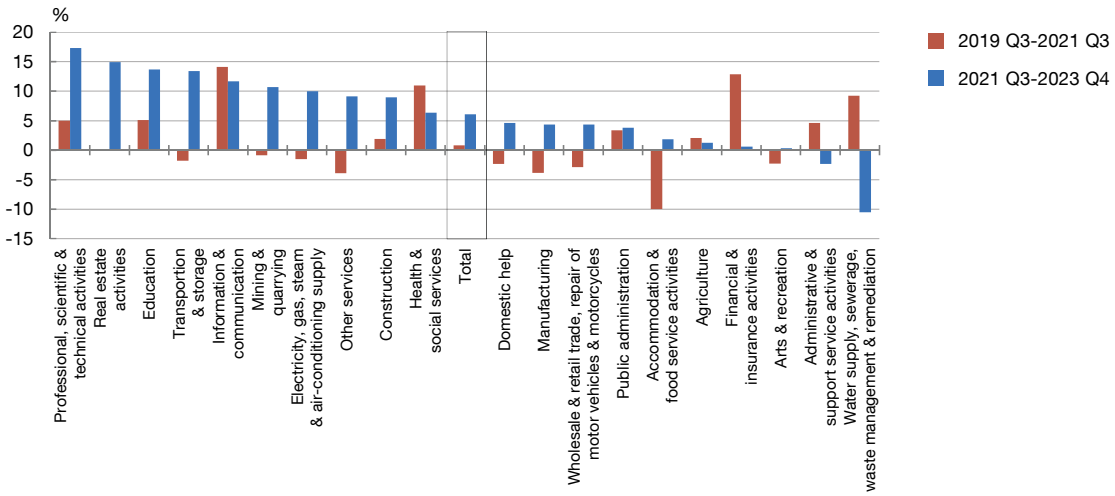
probably intensify in the coming years). Since 2019, and despite the pandemic, employment has continued to grow more in the services sector (excluding trade and hospitality) than in construction and industry. By occupation, the largest fluctuations (decreases during the pandemic and increases thereafter) are observed in trade and food service workers and skilled labour in the agricultural, livestock and construction sectors. Also noteworthy is the sharp employment growth in technical, scientific and intellectual professions in the most recent period (see Chart 3.3), something also observed in the EU-27 as a whole. By geographical area, the regions that have historically had the lowest employment rates (such as the Canary Islands, Extremadura, Castile-La Mancha and Andalusia) have been those where such rates have grown the most since 2019 (see Chart 3.4.a). Lastly, it should be noted that the growth of the employment rates has above all been due to the greater presence of tertiary-educated persons in employment (see Chart 3.4.b).

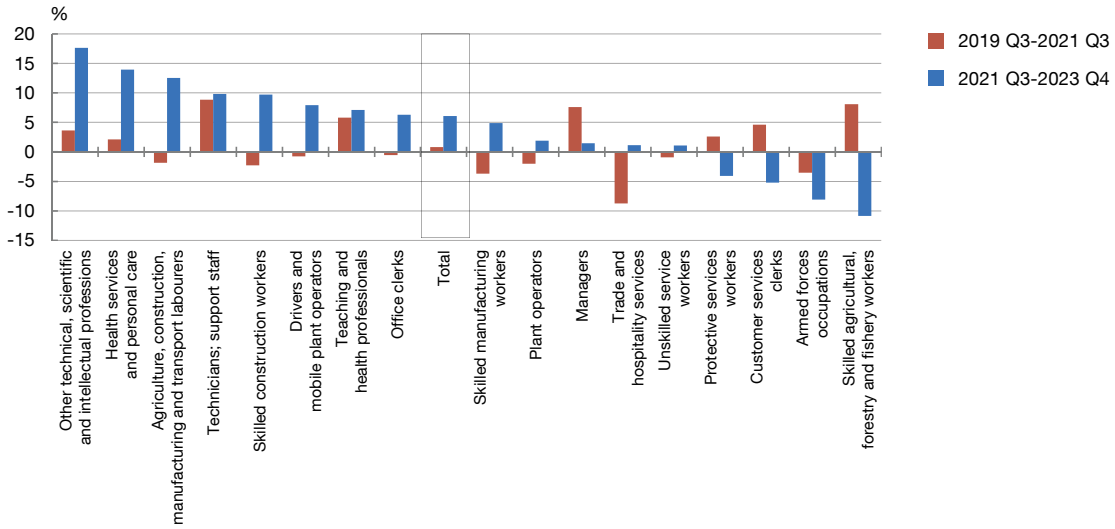
Chart 3.3

Employment has performed differently across sectors and occupations, partly because of the necessary reallocation of employment during the pandemic

3.3.a Employment growth rate, by sector



3.3.b Employment growth rate, by occupation



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SOURCE: INE (EPA).

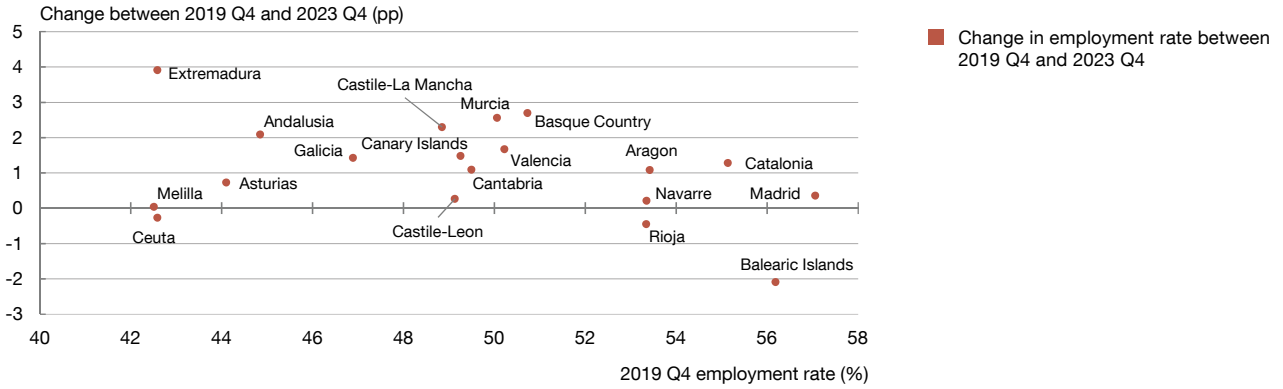
Employment has grown more in the public sector than in the private sector.

Between end-2019 and end-2023 the number of salaried workers in the public sector increased by 340,000, i.e. average annual growth of 2.4%, outstripping that in paid employment in the private sector (1.7%). However, in the same period private sector employment increased by 850,000 people (see Chart 3.5.a). As a result, the share of public sector employees in total paid employment rose from 16.3% to 16.9%. This trend was particularly noticeable between 2020 and 2022 (when the public sector accounted for 17.3% of total paid employment), while private sector paid employment grew more in 2023.

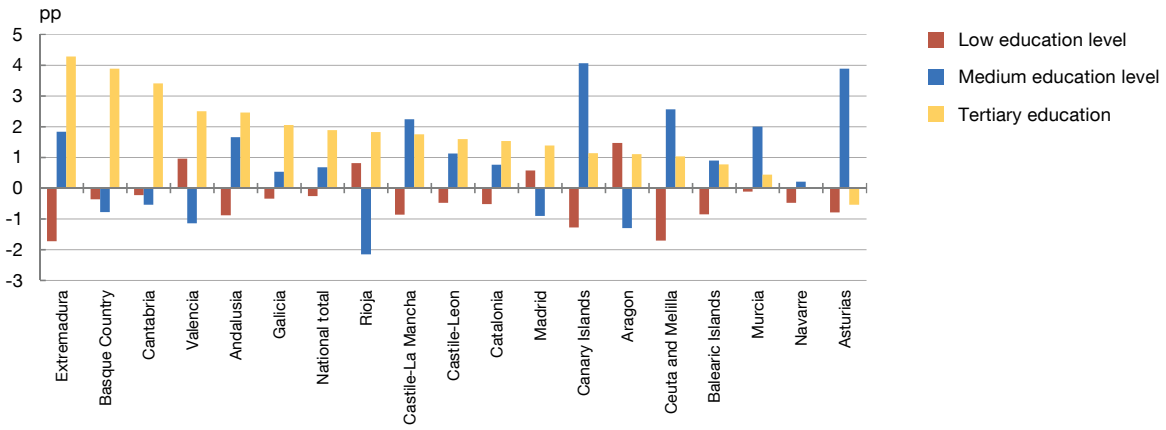
Chart 3.4

Employment rates have grown more in the regions where they were lower, above all due to the contribution of the population group with high educational attainment levels

3.4.a Change in employment rate by region since 2019 Q4, based on its value at that date (a)



3.4.b Contribution to the change in each region's employment rate, by educational attainment level (a) (b)



SOURCE: INE (EPA).

a Employment rate calculated for the working-age population.
b "Low education level" refers to lower secondary education. "Medium education level" includes upper secondary education, the Spanish Baccalaureate, vocational training and other studies. "Tertiary education" comprises diplomas, bachelor's degrees, master's degrees and doctorates. Banco de España calculations drawing on EPA microdata.

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The recovery in migratory flows, which were very adversely affected by the pandemic, has contributed considerably to employment's recent strength.

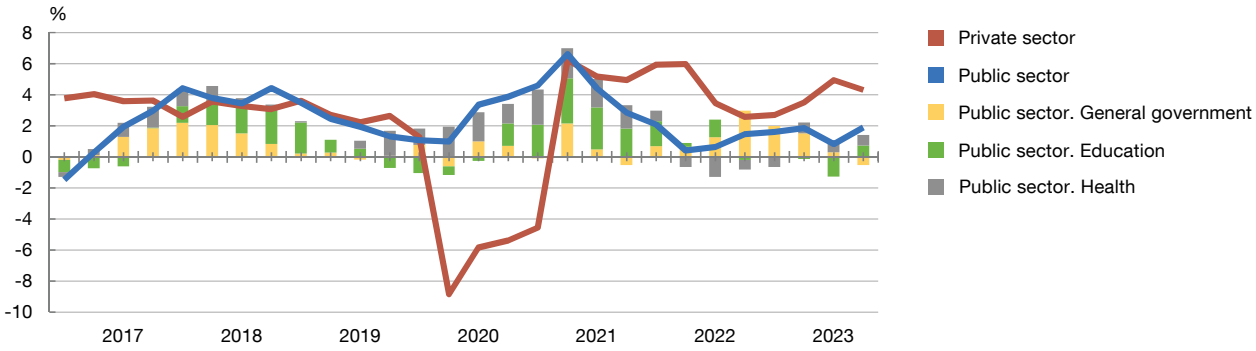
Between early 2022 and end-2023, the population in Spain grew by 1,000,000 and the labour force increased by 788,000. Virtually all of these increases (96.1% and 71.7%, respectively) were due to immigration (see Chart 3.5.b). Turning to employment, foreign nationals accounted for 54% of the 1.06 million new persons employed in the same period.[1] The demographic forecasts of the National Statistics Institute (INE), Eurostat and the Independent Authority for

1 See Section 7 of Chapter 2 of this report for more details on the composition and labour-market participation of these migratory flows.

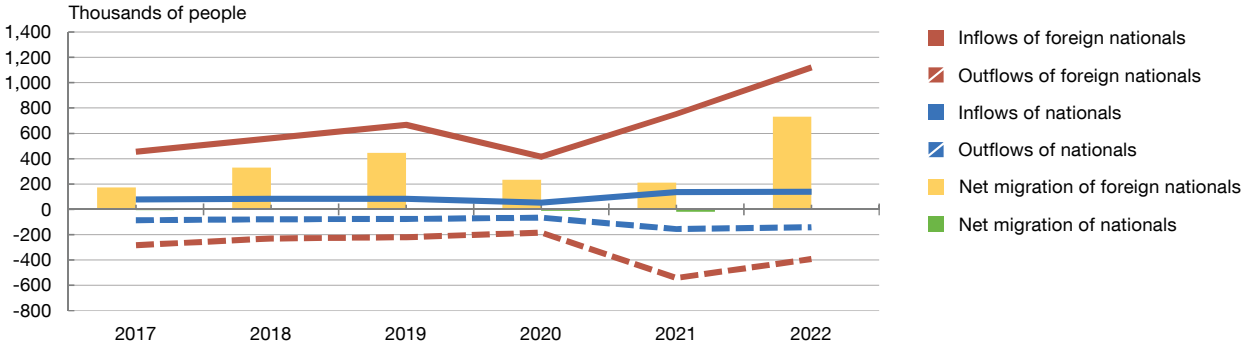
Chart 3.5

Public sector employment and immigrant inflows are other factors that have contributed to employment's buoyancy

3.5.a Public sector and private sector employment (a). Year-on-year rate of change



3.5.b Migration flows of nationals and foreign nationals (b)



SOURCES: INE (EPA, Migration Statistics, Residential Variation Statistics, Statistics on Migrations and Changes of Residence) and Banco de España.

a Public sector employment measured by public sector paid employment. General government, education and health account for more than 85% of public sector paid employment.
b Banco de España calculations drawing on data from the Migration Statistics, Residential Variation Statistics and Statistics on Migrations and Changes of Residence.

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Fiscal Responsibility (AIReF) all point to immigration maintaining this momentum over the coming years, with net inflows of 200,000-500,000 in 2024 and 2025.

2.3 Employment (hours worked)

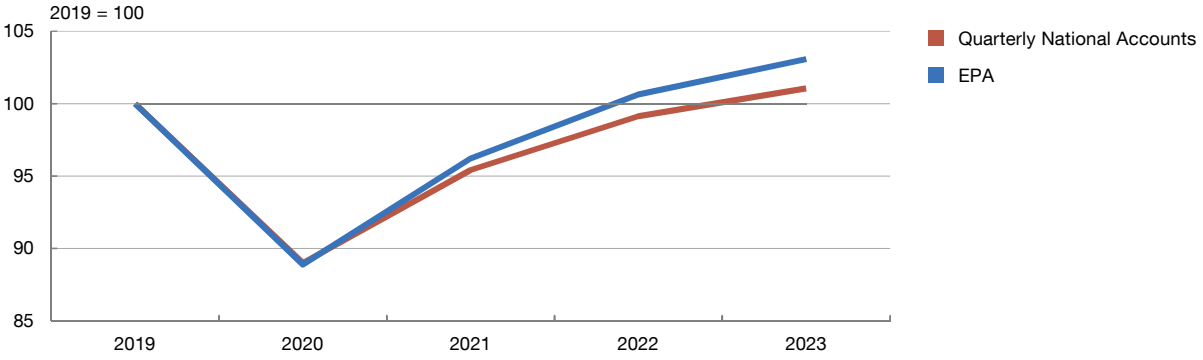
Compared with the considerable buoyancy of the number of persons employed, hours actually worked have grown considerably less and hours worked per person employed have decreased.

On National Accounts data, actual hours worked decreased by more than 10% in 2020 and gradually recovered thereafter, reaching their pre-pandemic level at end-2023. On EPA data, in 2022 hours worked were already above their 2019 level (see Chart 3.6).

Chart 3.6

Compared with the robust growth of the number of persons employed, the recovery in total hours worked has been more modest

3.6.a Hours actually worked, by different statistics



SOURCE: INE.

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Hours worked per person employed are also decreasing in other European countries and this decline should be contextualised within the gradual downward trend in working hours.

Prior to the pandemic hours worked per person employed were already clearly trending downwards in both Spain and the EU. This was the result, among other factors, of changes in the sectoral composition of activity, a higher incidence of part-time employment and, less so, productivity gains, which leave more time for leisure (Cuadrado, 2023). During the pandemic, hours worked fell much more sharply than the number of persons employed (essentially as a result of the roll-out of the ERTEs), prompting a sharp drop in this variable. However, it returned to its previous trend once the worst phases of the health crisis were over (see Chart 3.7.a).

One of the most prominent factors contributing to the sluggishness of hours worked per person employed[2] is the greater prevalence of sickness and inability to work leave.

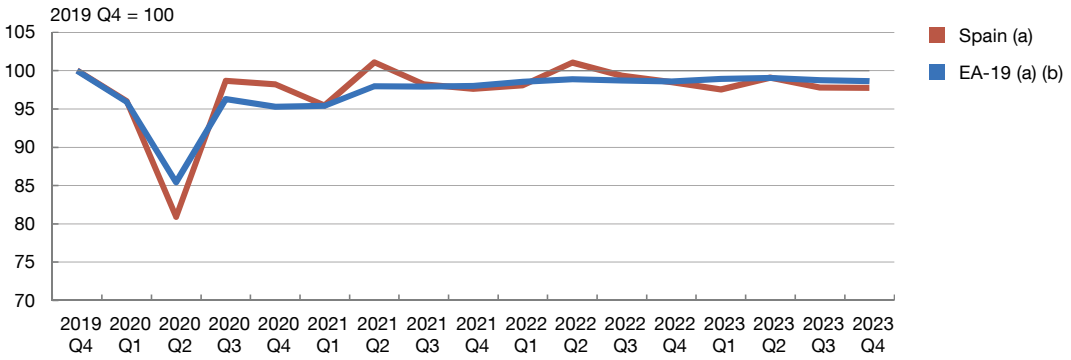
The prevalence of this leave, which rose considerably during the pandemic, has held more recently at relatively high levels (see Chart 3.7.b), a pattern also observed in many other countries. This phenomenon, which is surrounded by considerable uncertainty, could be attributable to multiple factors, including most notably: the possible persistent health sequelae of COVID-19 (Hurtado and Izquierdo, 2023); changes in healthcare protocols to contend with the pandemic (e.g. how sick leave is granted); absenteeism's typical procyclicality; employment's recent greater buoyancy in the public sector (where this type of leave is usually more prevalent);

2 The higher relative growth in employment in the public sector – where hours worked per person employed are typically lower than in the private sector – has also contributed to these developments. Conversely, between end-2019 and end-2023 the percentage of persons in part-time employment in Spain fell from 14.7% to 13.5%. All else being constant, this would have contributed to an increase in hours worked per person employed.

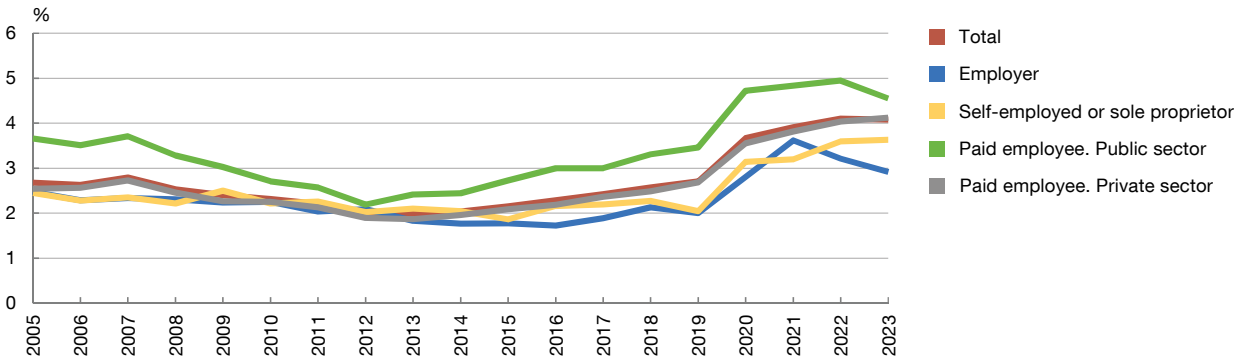
Chart 3.7

Hours worked per person employed in Spain and the EA-19 have grown moderately since the pandemic, still weighed down by a high incidence of sick leave

3.7.a Hours worked per person employed in Spain and the EA-19



3.7.b Persons employed absent from their job because of sickness or accident in Spain, by employment status (c)
As a % of the total of each category



SOURCES: Eurostat (Quarterly National Accounts) and INE (EPA).

a Hours worked per person employed. National Accounts.
b EA-19 refers to the euro area countries in the period 2015-2022.
c Banco de España calculations drawing on EPA microdata.

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and the ageing labour force (see Section 3.2). Should this higher incidence of sick leave continue, it could adversely affect productivity, employment and potential economic growth.

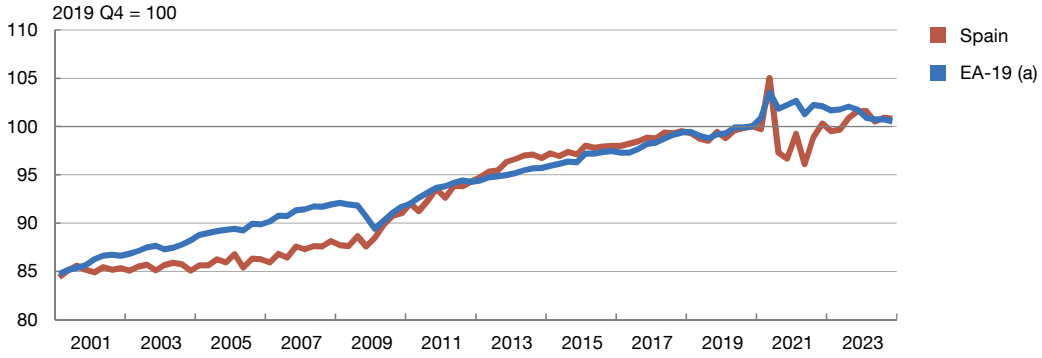
2.4 Productivity, compensation per employee and unit labour costs

In contrast to employment, labour productivity has barely increased since the onset of the pandemic.

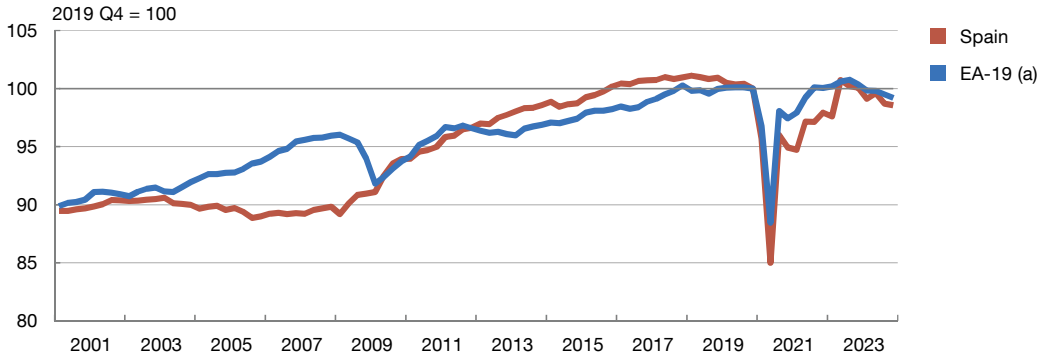
In the period 2019-2023, GDP per hour worked only grew by 0.8% in Spain, a figure which is not too dissimilar from that observed in the euro area as a whole. However, a decrease in labour productivity can been seen in Spain and the euro area (-1.4% and -0.8%, respectively) when measured in terms of persons employed (see Chart 3.8).

Chart 3.8
Productivity is stuck at 2019 levels, both in Spain and in the euro area, and fell in 2023

3.8.a Apparent labour productivity per hour worked



3.8.b Apparent labour productivity per person employed



SOURCE: Eurostat (Quarterly National Accounts).

a EA-19 refers to the euro area countries in the period 2015-2022.

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Meanwhile, since end-2019 compensation per employee has increased in Spain by 16.9% in nominal terms and by 1.2% in real terms, growing more markedly in 2023.

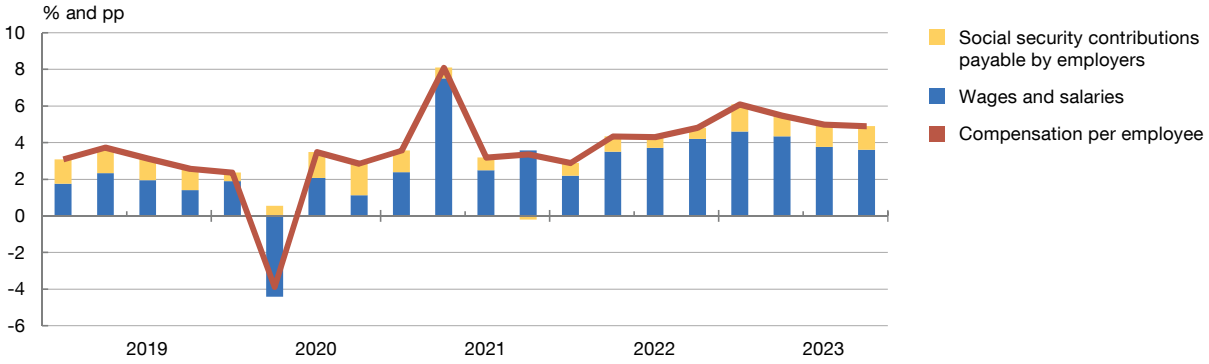
Growth in nominal compensation per employee increased from below 2% in 2020 to over 5% in 2023 (and even above 6% in the market economy sectors). This growth is essentially associated with the increase in inflation, such that real compensation per employee grew relatively moderately (see Chart 3.9).

- *Amid high inflationary pressures, wage increases negotiated under collective agreements have been relatively moderate.* In 2023 and 2024 to date, such wage settlements are very much aligned with the recommendations – for wage increases of 4% in 2023 and 3% in 2024 and 2025 – established in the fifth Employment and Collective Bargaining Agreement reached by the social partners in March 2023. Meanwhile, although the onset of the inflationary episode prompted an increase in the prevalence of indexation clauses (from 19% in 2019 to 24% in 2023), for the time being their impact on the rise in wage costs is proving very limited.

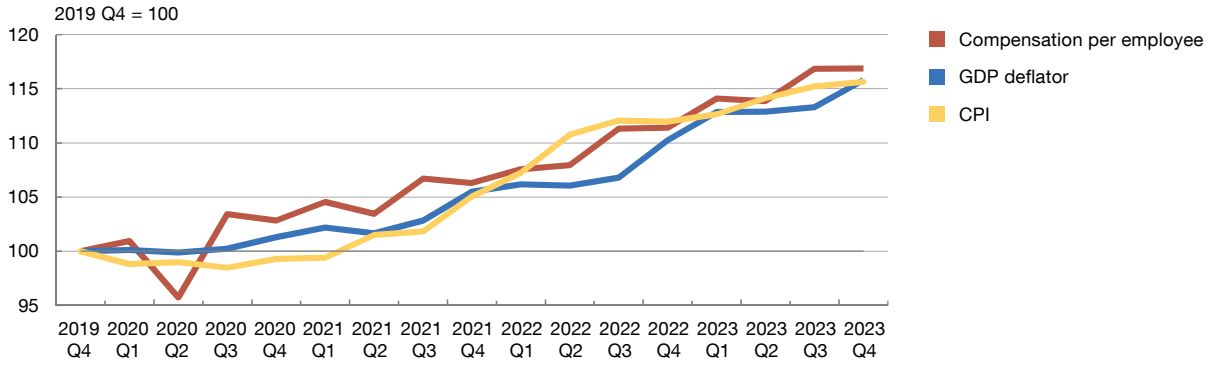
Chart 3.9

Compensation per employee grew by 5.3% in 2023, with sizeable wage growth and a notable contribution from social security contributions. Real compensation per employee grew more moderately

3.9.a Compensation per employee and its main components
Year-on-year rates of change and contribution by components



3.9.b Compensation per employee and price indices since end-2019



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SOURCE: INE (Quarterly National Accounts and CPI).

- *The increase in social security contributions contributed to the rise in labour costs in 2023.* This increase stemmed from two measures: the introduction of the intergenerational equity mechanism (IEM) and the rise in the maximum contribution base.[3] Their aim is to partially reduce the sizeable public pension shortfall in Spain. However, it should be noted that, according to simulations conducted using the Quarterly Macroeconometric Model of the Banco de España, a 1 pp increase in the average effective rate of social security contributions could, after four years, prompt a decrease in the number of persons employed of close to 0.25%.[4]

- *The national minimum wage has continued to rise.* Since 2018, and taking into account the increase recently approved for 2024, the national minimum wage has risen by 54%

3 In 2023 the IEM contribution rate was 0.5% for employers and 0.1% for employees. In 2024 these rates have been raised to 0.58% and 0.12%, respectively. Meanwhile, the maximum contribution base increased by 7.92% in 2023 and 5% in 2024.

4 In 2022, social security contributions represented 12.8% of GDP in Spain, compared with 10.7% (arithmetic mean) and 12.9% (weighted average) in the EU.

in Spain, to €1,134 a month (in 14 payments per year). Thus, the ratio between the minimum and average wage in Spain has moved closer to that observed in other European economies and even surpassed the goals of a gross minimum wage-to-gross median wage ratio of 60% and gross minimum wage-to-gross average wage ratio of 50% recommended by the Directive of the European Parliament and of the Council on adequate minimum wages in the European Union adopted in October 2022.[5] As a result of these developments, the percentage of workers earning the national minimum wage in Spain rose from 5.1% to 11.5% between 2018 and 2023, and, according to estimates, it will reach 12.7% in 2024. Having reached these levels, it would be advisable for potential future increases in the national minimum wage to take into account (through a detailed ex ante analysis) the possible adverse effects that, in the absence of productivity gains, such increases could have on the employment of certain groups of workers, firms and regions.[6]

- *Wage drift has been greater than observed in the past.* Wage drift refers to the part of wage growth that is not explained by growth in negotiated wages and salaries and the minimum wage. In Spain this gap has traditionally been negative in economic upswings and positive in recessions, mainly as a result of changes in the sectoral and occupational composition of employment and labour mobility. However, in recent years, marked by robust GDP growth in Spain, wage drift has been positive (close to 2 pp in 2023). Although much uncertainty still surrounds the reasons for, and degree of persistence of, this procyclicality of wage drift (which is a new development in Spain, but relatively common in other European economies), it could be at least partly attributable to the Spanish labour market's considerable tightness of late (see Section 2.5).

Overall, compensation per employee growth, combined with productivity's sluggishness, has driven unit labour costs (ULCs) higher than those observed in other euro area countries.

On the latest National Accounts data, ULCs increased by 6% in 2023. In Spain ULCs have grown by 2.6 pp more than in the euro area as a whole since 2019 (see Chart 3.10). This relative deterioration in ULCs could ultimately affect Spanish firms' price competitiveness and delay the return of inflation to the target of 2% over the medium term. In this respect, recent Banco de España estimates (Aguilar, Domínguez-Díaz, Gallegos and Quintana, 2024) suggest that, for each percentage point increase in this differential, Spanish exports could decrease by between 0.2% and 0.3%, while GDP could diminish by 0.6%.

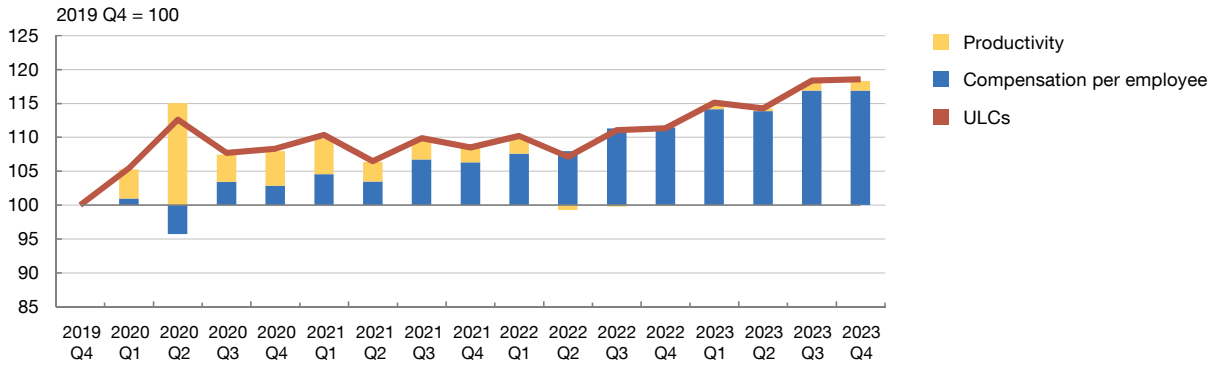
5 In this respect, it should be noted that the variability across provinces of the percentage of workers earning the national minimum wage and of the minimum wage-to-median wage ratio is very high. Specifically, the minimum wage-to-median wage ratio in Álava, Vizcaya, Guipúzcoa, Navarre, Barcelona and Madrid is somewhere between 50% and 60%, while in provinces such as Almería, Ourense, Badajoz, Lugo and Cuenca it exceeds 80%.

6 Some studies indicated that, overall, minimum wage increases did not have a sizeable adverse impact on employment in the period 2018-2021, but that they were detrimental to older workers and reduced hours worked and the flow of job creation for young adults (Barceló, Izquierdo, Lacuesta, Puente, Regil and Villanueva, 2021). Meanwhile, a recent study (Anghel and Tagliatti, 2024) shows that the employment impact of the national minimum wage is particularly high in small and medium-sized enterprises and in regions with the highest unemployment rates.

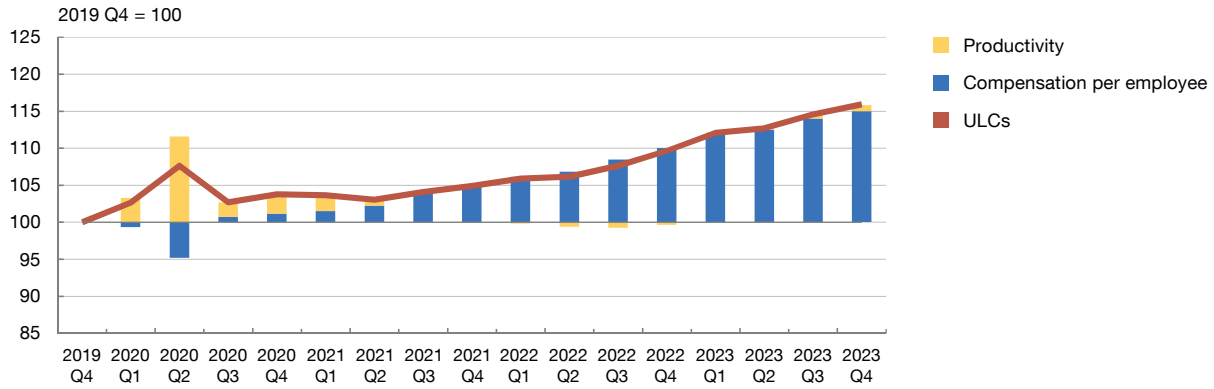
Chart 3.10

The higher growth in ULCs in 2023 was due to both an increase in compensation per employee and a decrease in productivity

3.10.a ULCs in Spain (a)



3.10.b ULCs in the EA-19 (a) (b)



SOURCE: Eurostat (Quarterly National Accounts).

a Seasonally adjusted time series. ULCs are decomposed under the assumption that the productivity of employees is equal to that of persons employed.
b EA-19 refers to the euro area countries in the period 2015-2022.

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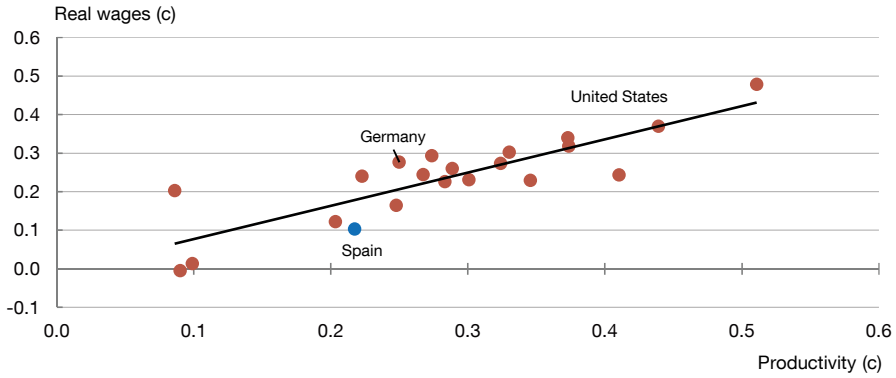
Over a broad time horizon, productivity growth is the main determinant of real wage growth, although, in certain settings, productivity gains do not necessarily entail equivalent increases in real wages.

- *The international evidence for recent decades points to real wages increasing more markedly in economies where productivity growth is stronger.* Chart 3.11 depicts apparent labour productivity and average real wages in the period 1990-2019 in the advanced economies. There is a significant positive correlation between the two variables: the greater the productivity growth, the larger the increases in average real wages. This evidence also helps explain the scant growth in real wages in Spain over recent decades: productivity growth in Spain has been weak both in absolute terms and compared with developments in other major global economies.

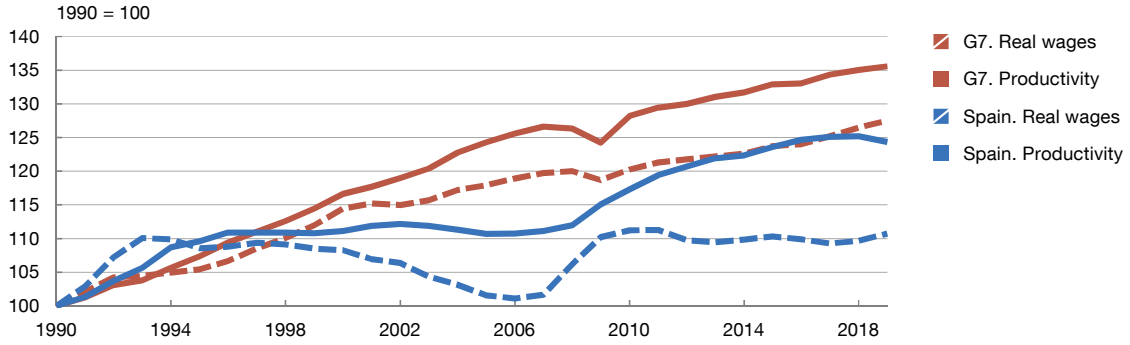
Chart 3.11

There is a positive association between wages and productivity, despite lower aggregate growth in wages than in productivity since 1990

3.11.a Relationship between real wages and labour productivity: advanced economies (a) (b)



3.11.b Real wages and labour productivity in Spain and the G7 (a)



SOURCES: OECD and Banco de España.

a Real wages are measured as compensation per employee deflated by the GDP deflator. Labour productivity is expressed as the ratio of real GDP to the total number of persons employed.
b The following advanced economies are considered: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States.
c Rate of change between 1990 and 2019, as a percentage.

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- *This does not mean that growth in apparent labour productivity necessarily entails equivalent increases in real wages.* In the vast majority of the countries depicted in Chart 3.11, growth in apparent labour productivity in the period 1990-2019 outstripped that observed in average real wages. Spain is among the countries where this gap is wider.

- *The reasons behind this gap have been and continue to be a focal point in the economic literature, although it is yet to offer conclusive findings on the relative importance of each of the possible determinants.* The main determinants analysed notably include technological change, with greater complementarity between it and capital than between it and labour in recent decades. Another focal point for researchers has been the globalisation of economic activity, which has prompted some offshoring of the most labour-intensive activities and also reduced the negotiating power of workers in

advanced economies. A further aspect highlighted in the literature as a possible reason for wage stagnation compared with productivity growth is related to the greater monopsony and monopoly power exerted by firms,[7] in a setting in which, as mentioned above, workers' negotiating power has weakened. Lastly, the importance of the major changes that have arisen in the composition of labour supply – e.g. in terms of ageing workers (see Section 3.2), the incorporation of women into the labour market and immigration – has also been highlighted.[8]

2.5 The unemployment rate and indicators of labour market tightness

Employment growth has brought down the unemployment rate.

At end-2023, the unemployment rate stood at 11.8%, down 5.6 pp from the onset of the pandemic and the lowest rate recorded in Spain since end-2008. Robust job creation contributed positively to this decline, while labour force growth has prevented an even steeper fall in the unemployment rate.[9]

However, a positive differential remains between the Spanish unemployment rate and that of the main European economies.

At end-2023, the Spanish unemployment rate was still twice that of the EU-27 as a whole (5.9%). Meanwhile, the rate of youth unemployment (16-24 year-olds) was 28%, almost triple the OECD rate (10.7%) and around double that of the average for the EU-27 (14.9%). In addition, despite the high labour turnover in Spain, 39% of the unemployed had been jobless for over one year, versus 25.4% in the OECD as a whole. These indicators of the considerable scale of unemployment in the Spanish economy, even during strong economic recoveries, and its uneven distribution across population groups (see Chart 3.12), suggest that a large portion of unemployment is structural.

The causes of the persistence of this positive differential in the unemployment rate between Spain and most other European countries have been the subject of much research over the course of recent decades.[10]

Although such causes continue to be discussed and assessed empirically, the economic literature has generally argued that a considerable portion of the cross-country differences in

7 For example, Deb, Eeckhout, Pattel and Warren (2022) estimate overall developments in monopoly and monopsony power using a sample of US firms and find that increasing monopoly power accounts for 75% of wage stagnation while increasing monopsony power accounts for 25%.

8 See Grossman and Oberfield (2022) for a recent overview of the potential determinants of the decoupling of wages and productivity.

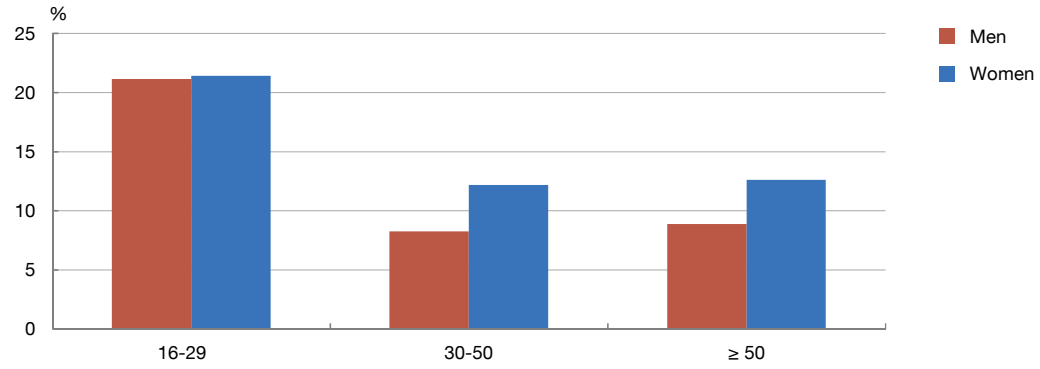
9 Taking the working-age population as that aged 16-69, had the participation rate remained constant, the unemployment rate would have been 1 pp lower (10.8%) at end-2023.

10 Literature on this matter was already abundantly available at the end of the 20th century. See Bertola (2017) for a recent review of this literature.

Chart 3.12

Youth unemployment remains almost twice that of the rest of the population. This difference is somewhat more pronounced among men

3.12.a Unemployment rate in 2023, by age group and gender



SOURCE: INE (EPA).

unemployment rates are related to the very institutions and policies that have a direct impact on the functioning of the labour market. These typically include the design of active labour market policies (which should mainly target making the unemployed more employable) and passive labour market policies (which should offer an appropriate level of protection for the unemployed while providing sufficient incentives for them to return to work), and other factors that influence both the rate of job creation and job stability (e.g. the different types of contracts available, the level of termination costs and many factors with a bearing on collective bargaining). These matters are discussed in Section 4.

Despite the high unemployment rate, the Spanish labour market is showing similar signs of tightness to those of other countries with lower unemployment rates.

Two indicators should be mentioned in this regard:

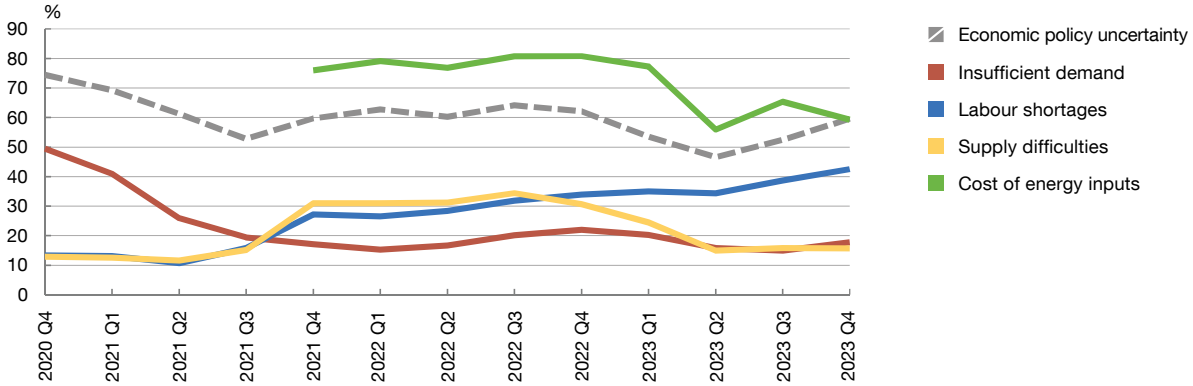
- First, the regular business surveys conducted by the European Commission and the Banco de España highlight that firms perceive labour shortages as one of the main constraints on their productive activity (see Chart 3.13.a). Specifically, the percentage of firms reporting this view rose from 25% in early 2022 to 42.5% at end-2023.

- Second, although job vacancies are difficult to measure with the standard statistical tools (and, therefore, the available information should be interpreted with caution), there are indications of labour supply shortages in several sectors and occupations. This is the case both in low-skilled sectors and occupations (e.g. hospitality and trade) and in those requiring some professional qualifications (particularly among technology and engineering firms). In any event, for the economy as a whole, both in Spain and in the euro area, the vacancy rate has increased in recent years as the unemployment rate has fallen (see Chart 3.13.b).

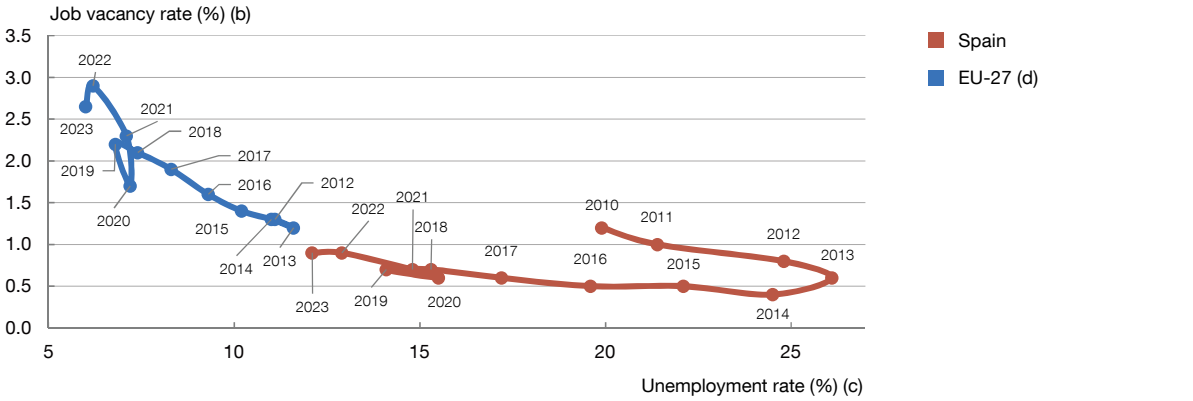
Chart 3.13

Labour shortages are a constraint on business activity. The job vacancy rate has increased in Spain and the EU-27

3.13.a Constraints on business activity (a)



3.13.b The Beveridge curve



SOURCES: Banco de España (EBAE) and Eurostat (Labour Force Survey and job vacancy rate).

a In the Banco de España Business Activity Survey (EBAE), the firms reporting an adverse or very adverse impact of each of the factors on their activity. The index is constructed by assigning the following values to firms' qualitative responses: significant increase = 2; slight increase = 1; unchanged = 0; slight decrease = -1; and significant decrease = -2.
b The job vacancy rate is measured as the ratio of the number of job vacancies to the sum of the number of occupied posts plus the number of job vacancies.
c The unemployment rate is the ratio of the unemployed to the total labour force (aged 15-74).
d EU-27 refers, throughout the period considered, to the aggregate of the European Union Member States since 2020.

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The reasons for the labour market tightness in Spain, in a setting in which unemployment rates are still so high, may vary across sectors and occupations.

Labour market tightness may arise on the demand side (due to an increase in the number of jobs created by firms), on the labour supply side (on account of a higher reservation wage), because of lower job matching efficiency, and through a combination of several of these factors.

- In some sectors and occupations, it is likely that the skill mismatch between new openings and job seekers has increased and, therefore, that matching efficiency has

decreased. This hypothesis is particularly plausible in the current setting, where the education system is not keeping pace with the rapid technological developments (see Section 4 of Chapter 2 of this report).

- In other cases, matching may have slowed, at least in part, as a result of higher reservation wages, i.e. the wages that workers demand to accept a given position. This hard-to-quantify phenomenon could be partly attributable to a wide range of factors (e.g. to the increased scope of minimum income schemes or to job seekers having higher expectations).

Furthermore, during the worst phases of the pandemic, in some countries – especially in the United States – voluntary exits from the labour market increased considerably and, as a result, the participation rate fell. However, this phenomenon – which has now reverted in the United States in recent years – seems to be of little relevance to explain Spanish labour market dynamics. Indeed, in 2020 the participation rate fell far more moderately in Spain than in the United States and, since then, the Spanish rate has followed an upward path, taking it 0.7 pp above its pre-pandemic level at end-2023.[11] Since end-2019, this increase has been around 1 pp for workers aged 20-34, around 1.5 pp for those aged 35-54 and, particularly notably, around 4 pp for those aged 55-69.

11 Participation rate referring to the population aged 16-69.

3 Impact of technological and demographic change on the labour market

3.1 New technologies, the organisation of labour, employment and wages

With each new wave of technological development, concerns about the impact of technology on employment resurface.

Broadly speaking, this impact could materialise via three main channels:

- The first relates to productivity growth as a result of innovations, which allow more goods and services to be produced with fewer factors of production.
- Another is associated with the displacement of some workers performing certain productive tasks that may be rendered redundant by the new technologies.
- Third, technological innovations create new jobs that require complementary skills and professional qualifications.

Historically, however, overall employment levels in the face of technological innovations are estimated to have remained stable or even increased.

In particular, the displacement effect has traditionally been outweighed by increased productivity and the emergence of new jobs. Thus, when technological advances are accompanied by a relatively swift adaptation of the labour supply from the education and professional standpoint and significant increases in output, consumption and wages, they have boosted economic growth and, thereby, social welfare (Autor and Salomons, 2017).

Previous technological changes were limited to the automation of very specific tasks that complemented human work or to manual or routine tasks.

These changes tended to displace some low-skilled workers, while increasing the productivity of high-skilled ones (skill-biased technological progress), or enabled routine tasks to be automated, increasing workers' productivity (routinisation).

Conversely, the development of robotics and artificial intelligence (AI) could make it possible to automate productive tasks across all occupations, including those requiring a higher level of professional qualification.

AI and robotisation are general-purpose technology innovations with the capacity to perform creative and not just routine tasks. They therefore have the potential to revolutionise the labour market. The possibility that these technological changes will be more disruptive than those

observed in the past, not only for the labour market but also in many other areas, is arousing growing public concern and academic interest.

In this regard, besides the potential positive effects of these new technologies on productivity, there are also some risks.

These include the emergence of biases towards the selection of more AI-intensive (rather than human-work intensive) technologies, the loss of economies of scope in human judgement and decisions as they are delegated to machines and intensive use of "smart machines" to monitor workers. Concern about these (and other) possible negative effects[12] has already given rise to some regulatory initiatives. For example, in early December last year, the Presidency of the Council and negotiators from the European Parliament reached a provisional agreement on harmonised AI rules (the AI Act). This project aims to ensure that the AI systems introduced in the European market and used in the EU are safe and respect the EU's fundamental rights and values, while seeking to stimulate investment and innovation in the field of AI in Europe.

Evidence on the labour impact of these new technological changes is still very limited and should be interpreted with caution.

A number of studies have sought to measure the effects of robotisation and AI on employment using various approaches. One of them is to analyse the behaviour of different segments of the labour market in terms of their exposure to the new technologies. The results generally vary depending on the country and the time period under review. In the Spanish manufacturing sector there is some evidence that the new wave of technological innovation has led to both productivity and employment growth: compared to the companies that did not install robots, those that did so increased their output by between 20% to 25% after four years, reduced the share of labour costs in their total costs by between 5 pp and 7 pp and saw net job creation at a rate of 10% (Koch, Manuylov and Smolka, 2021). One possible explanation for these findings is that firms that automate are more productive and competitive, meaning that they can reduce the price of their products and thus gain market share, which increases their labour demand (Aghion, Antonin, Bunel and Jaravel, 2022).[13]

Labour demand has so far increased relatively more in occupations that are potentially more exposed to robotics and AI developments.

Albanesi, Dias da Silva, Jimeno, Lamo and Wabitsch (2023) show that in EU countries the share of occupations that are more complementary with advances in robotics and AI in employment increased over the period 2011-2019. This effect seems to be stronger the more young people and high-skilled workers are employed in these occupations (see Chart 3.14). Meanwhile, the wage losses associated with the introduction of new technologies tend to be higher for older

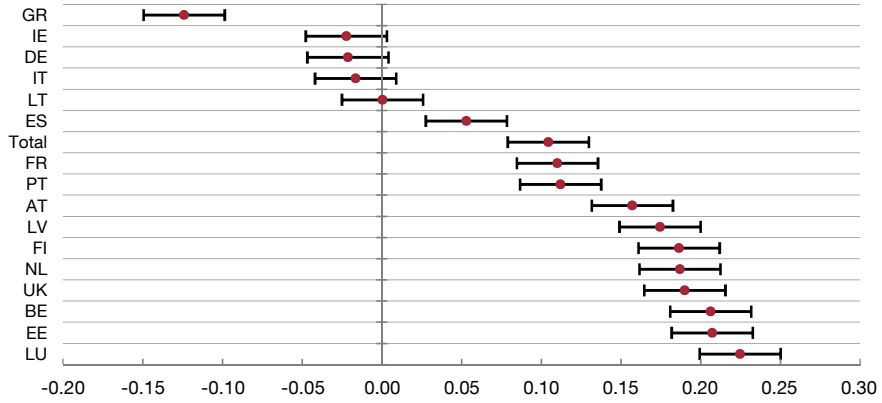
12 Acemoglu (2021) outlines the possible negative effects of AI beyond the labour market.

13 Robotisation could also affect inflation dynamics through changes in workers' bargaining power and the weight of labour in production (Basso and Rachedi, 2023).

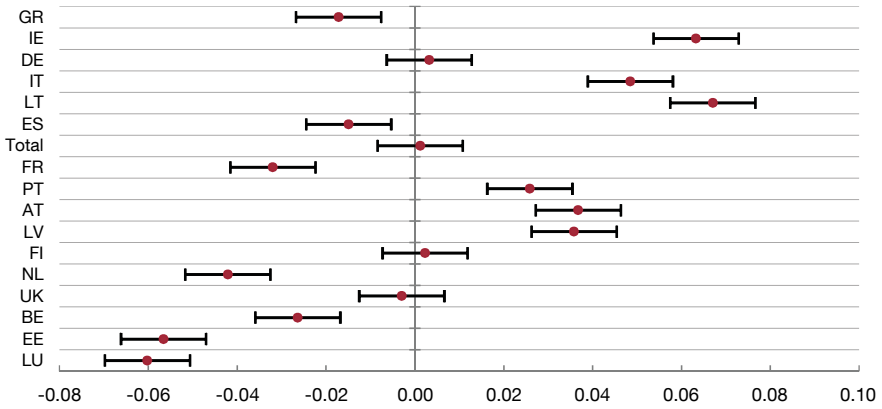
Chart 3.14

Employment has increased more in the occupations most exposed to robotics and AI developments, whose impact on wages depends on their complementarity with workers' occupational skills (a)

3.14.a Association between occupations' total share in employment and their exposure to new technologies



3.14.b Association between occupations' relative wages and their exposure to new technologies



SOURCE: Albanesi, Dias da Silva, Jimeno, Lamo and Wabitsch (2023).

a Error bars indicate standard error with 95% confidence.

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manual workers, while younger workers, more likely to take up jobs in the more technological sectors, tend to see their wages rise (Humlums, 2021).

Exposure to new technologies and their degree of complementarity with human work will determine which workers will be displaced and which will benefit from further increases in productivity.

Much uncertainty surrounds the degree of complementarity between new technological developments and human work, especially as it is not yet possible to predict with any degree of certainty the real potential of these innovations. For example, it is entirely possible that the latest AI developments, based on generative language models, will have very far-reaching and

profound implications for many productive activities that require high levels of qualification. The limited empirical evidence available so far on the impact of robotics and AI on the labour market may therefore not be truly representative of the changes that will occur in the near future.

- *In principle, complementarity with robotics and AI will foreseeably be greater for workers who understand how these new technologies work and who are able to provide added value to the tasks carried out by robots and algorithms.* Workers who are versatile enough to perform several different and horizontal tasks in the production of goods and services will also benefit comparably. Conversely, those workers who are limited to a small number of tasks – whether routine, manual or otherwise – are likely to be displaced by the new technologies.[14]

- *In any event, digitalisation and advances in AI could also increase employment opportunities for low-skilled workers and provide tools that complement their skills.* There is evidence, for example, that these developments have led to an increase in self-employment – i.e. a higher number of workers doing work for firms without having a stable employment relationship with them – and the creation of new jobs associated with the gig economy, which has been a quantitatively important source of employment. In this regard, it will be important to understand the extent of the impact on employment and productivity of the emergence of new forms of self-employment and the decline in the share of paid employees in the labour force. In particular, as pointed out by Gómez García and Hospido (2022), the working conditions of self-employment and/or gig work are generally different from those of the employees displaced by the new technologies.

- *In short, the bias towards high-skilled workers observed with previous technological developments could disappear or even change sign with these new technological developments.* If this were the case, these innovations could even contribute to reducing income inequality.

The use of the new technologies in the production of goods and services is still in its infancy and how quickly they are deployed will foreseeably depend on various institutional factors.

Some studies have pointed out that the pace of this deployment will hinge on the development of digital infrastructure, human capital and workers' digital skills, and the flexibility of the labour market and labour market policies. A combination of indicators of these institutional factors puts the Spanish economy somewhat behind other developed countries in terms of preparedness for the implementation of the new technologies (Cazzaniga et al., 2024).

Teleworking is an example of how the new technologies can change firms' internal organisation and the way labour services are provided.

14 See Green (2024) for preliminary estimates of the impact of AI on the demand for skills.

The COVID-19 pandemic gave a significant boost to teleworking (Anghel, Cozzolino and Lacuesta, 2020). Thus, in Spain the percentage of remote workers increased from 4.8% in 2019 to 7.6% in 2022. However, this percentage, which varies significantly across occupations, is still significantly lower than in other European countries. In particular, in the EU-27 it increased from 5.4% to 10.2% in the same period.

The impact of teleworking on productivity depends on how it is implemented and is likely very heterogeneous across occupations.

The most plausible hypothesis is that the relationship between teleworking and productivity is in the shape of an inverted "U" (OECD, 2020a). With very low levels of teleworking, productivity would probably suffer because workers would be less satisfied and find it more difficult to perform their tasks efficiently. Similarly, with very high levels of teleworking, productivity could decline due to the significant reduction in interaction and knowledge flows between teams, an aspect which, in some occupations, is essential to properly performing certain tasks. Conversely, intermediate levels of teleworking would benefit from productivity gains arising, for example, from lower commuting costs and higher employee satisfaction. The impact of teleworking on productivity also depends on how various logistics issues are resolved, such as the infrastructure available for remote working, the working conditions at employees' homes and the nature of the tasks to be performed. For this impact to be positive, it is essential for workers to have sufficient digital skills, an area where there is room for improvement in Spain (Banco de España, 2023).

Measurement of the impact of teleworking on productivity is still at a very early stage and more time will be needed to calculate this impact over different time horizons.

The empirical evidence available so far supports the hypothesis of a positive association between teleworking and productivity: Bergeaud, Cette and Drapala (2023) combine survey data on approximately 1,600 French companies with financial information from their balance sheets and estimate a 0.6% increase in total factor productivity for each percentage point increase in the proportion of workers who telework. As mentioned above, these findings should be interpreted with due caution. In any event, what has been clearly observed in recent years is a notable increase in the percentage of job offers that allow remote working, as well as in workers' preferences for this type of job (Adrjan, Ciminelli, Judes, Koelle, Schwellnus and Sinclair, 2021; Colonnelli, McQuade, Ramos, Rauter and Xiong, 2023).

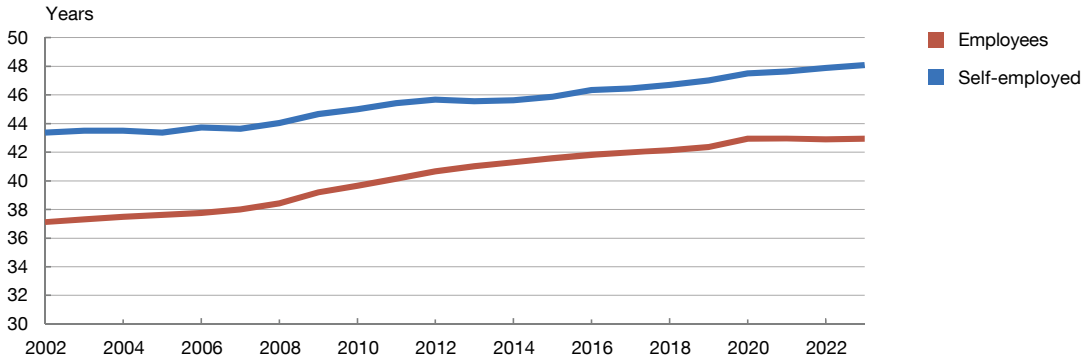
3.2 Ageing of the labour force

The demographic changes affecting the Spanish population (and that of most advanced countries) are profoundly changing the composition of the working population by age group and will continue to do so in the future.

The fall in birth rates, the sizeable baby boomer generation reaching retirement age and the continuing increase in longevity are leading to a significant ageing of Spain's working population,

Chart 3.15
The fall in the birth rate between 1977 and 1997 and longer working lives have led to a significant increase in the average age of the working population

3.15.a Average age of employees and the self-employed (a)



SOURCES: INE (EPA) and Banco de España.

a Banco de España calculations drawing on EPA microdata. Average age of persons employed aged 16 years and over.

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which will intensify in the coming years.[15] So far this century the average age of employed persons in Spain has risen by approximately 6 years – from 37.5 to 43.5 – and that of the self-employed has done so by 4 years – from 44 to 48 (see Chart 3.15).

The ageing of the Spanish working population has a negative impact on the rates of growth of aggregate employment and productivity and, therefore, on potential economic growth.

- *Participation and employment rates for workers approaching the retirement age are lower than for middle-aged workers.* Therefore, an increase in the relative share of older people automatically entails a decline in aggregate participation and employment rates (see Chart 3.16 and, for more details, Cuadrado, Fernández Cerezo, Montero and Rodríguez, 2023).

- *Similar differences by age group are also observed in the case of productivity,* reflecting greater productivity growth at the start of working life than in later stages.[16] Thus, aggregate productivity growth also falls, due to a composition effect, as a result of an ageing working population.

- *But population ageing could also change the historical distribution of employment and productivity rates by age group.* Indeed, countries with older working populations have lower productivity growth rates among younger age groups and are less inclined to

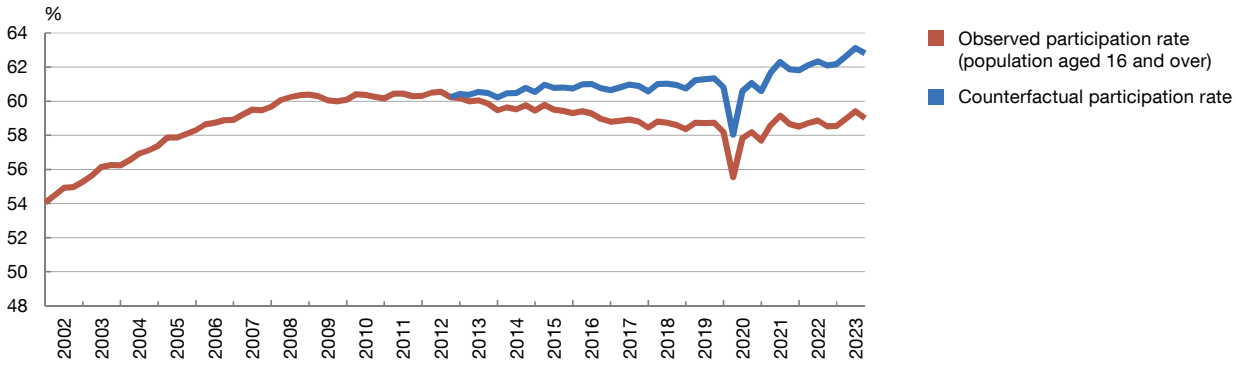
15 For more details on this demographic change and its possible implications, see Banco de España (2019).

16 These differences are often approximated by the relative wage by age over the working life. See Anghel, Jimeno and Jovell (2023).

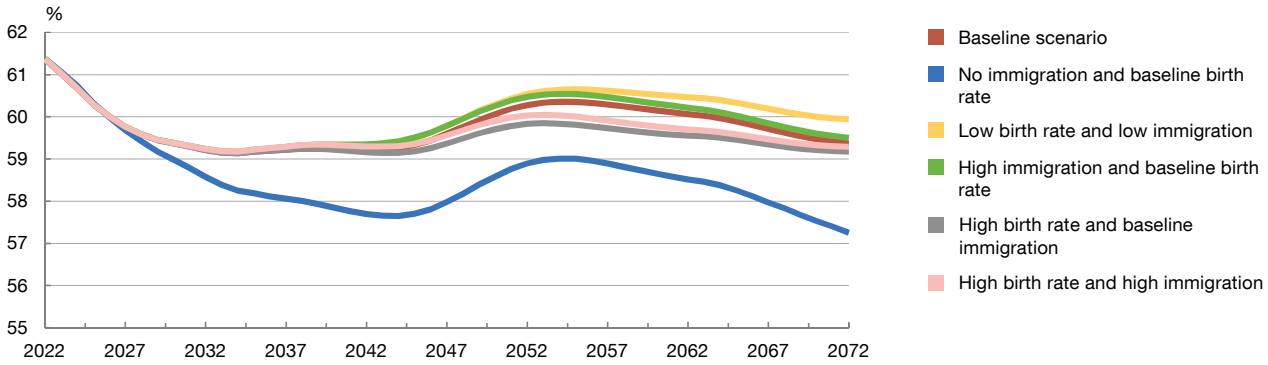
Chart 3.16

The ageing of the Spanish working population will drag down the aggregate employment growth rate over the coming decades

3.16.a Observed and counterfactual participation rate (a)



3.16.b Employment rate projections (b)



SOURCES: INE (EPA and population projections) and Banco de España.

a The counterfactual participation rate is calculated by setting the weightings applied to each five-year population bracket at their 2012 average level and applying the observed participation rate to each population group quarter by quarter.

b Calculations using EPA data and the INE population projections. See Anghel, Jimeno and Jovell (2023). The scenarios are defined as follows:
- No immigration and baseline birth rate: No immigration and projected baseline birth rate.
- Low birth rate and low immigration: The short-term fertility indicator for 2071 is set two standard deviations below the baseline scenario and immigration values in the years 2036 and 2071 are reduced by 10%.
- High immigration and baseline birth rate: Immigration values in the years 2036 and 2071 are increased by 10% and the projected baseline birth rate is used.
- High birth rate and baseline immigration: The short-term fertility indicator for 2071 is set two standard deviations above the baseline scenario and the projected baseline immigration is used.
- High birth rate and high immigration: The short-term fertility indicator for 2071 is set two standard deviations above the baseline scenario and immigration values in the years 2036 and 2071 are increased by 10%.
- High birth rate and baseline immigration: The short-term fertility indicator for 2071 is set two standard deviations above the baseline scenario and the projected baseline immigration is used.
- High birth rate and high immigration: The short-term fertility indicator for 2071 is set two standard deviations above the baseline scenario and immigration values in the years 2036 and 2071 are increased by 10%.

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implement technological innovation. One explanation for the former is that, in older countries, young people have fewer opportunities for promotion and, therefore, experience lower productivity growth at the start of their working life (Liang, Wang and Lazear, 2018). The latter is because the productivity of young people in the R&D sector is relatively high, which means there is less technological innovation in older countries (Aksoy, Basso, Smith and Grasl, 2019).

Moreover, demographic and technological changes interact with each other and population ageing also affects labour demand.

- *The economic impacts of the demographic and technological transformation will be closely interrelated.* Robotics and AI can increase the productivity of the workers that are not displaced and perform some of the tasks that smaller cohorts of young workers would no longer be able to carry out. Moreover, the creation of new labour-intensive jobs based on these technological innovations will depend on the ability of displaced workers, a large proportion of whom will likely be older workers, to re-enter the labour market.

- *Population ageing will also shape labour demand through changes in household consumption patterns and the emergence of new activities related to the "silver economy".* With a larger population benefiting from longer retirement periods, demand for certain personal services and leisure-related activities can be expected to increase. This change in the composition of consumption[17] could lead to a significant sectoral and occupational redistribution of employment and to the creation of new jobs.

Several factors could, at least in part, mitigate the potential adverse effects of the ageing of the Spanish workforce on economic activity, but this will require decisive economic policy action.

These factors include migration flows, longer working lives, and training and labour market policies.

- *Migration flows rejuvenate the working population somewhat.* In Spain foreign workers are on average 3.4 years younger than national workers. However, immigration cannot be expected to be the panacea for the problem of the generational replacement of workers in Spain (see Section 7 of Chapter 2 of this report). This would require much stronger migration flows than assumed even in the most optimistic demographic projections. In addition, immigrants tend to have different professional qualifications and occupy different jobs from nationals who retire from the labour market. In this regard, migration policies should proactively anticipate the recruitment needs that will arise in the Spanish labour market as a result of future retirements and promote the arrival of immigrants able to meet these labour needs.

- *The extension of working lives, which is already taking place, also helps to reduce some of the adverse effects of population ageing on the labour market.*[18] The

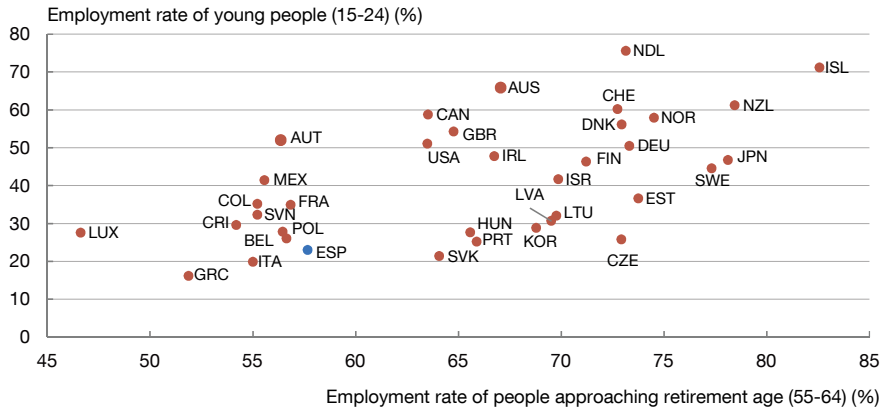
17 Aside from these possible effects of ageing on the composition of the consumption basket, it is unclear how demographic change might affect aggregate consumption. On the one hand, the accumulation of wealth by the generations approaching retirement could fund a higher level of consumption. On the other hand, however, the preference of older people to pass on their wealth to the next generation (through inheritance) and to keep precautionary savings due to uncertainty about longevity and pension benefits could lead to lower consumption. The available empirical studies so far do not point to a sizeable increase in consumption at advanced ages.

18 A longer working life also contributes positively to the financial sustainability of the pension system (see Section 9.2 of Chapter 2 of this report). Indeed, part of the extension of working life in the Spanish economy in recent years stems directly from various legislative changes to the country's pension system, for example, the gradual increase of the statutory retirement age to 67, introduced by the 2013 pension reform.

Chart 3.17

Youth employment rates are higher in countries where the employment rate of the population approaching retirement age is also higher

3.17.a Relationship between the employment rate of young people and that of the population approaching retirement age in various countries in 2022 (a)



SOURCE: OECD.

a Australia, Austria, Belgium, Canada, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Mexico, Norway, Netherlands, New Zealand, Poland, Portugal, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Türkiye, United Kingdom and the United States.

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participation and employment rates of workers approaching the retirement age have increased significantly.[19] However, longer working lives cannot fully offset the decline in new entrants to the labour market. First, although there is still some scope to further extend the working lives of Spanish workers, this process faces some obvious limitations, for example those related to the health of older workers (Crespo, Denis and Jimeno, 2023). Furthermore, it is important to stress that older workers are not perfect substitutes for younger workers, since their professional qualifications, skills and abilities are not the same. Therefore, even if older workers stay in the labour market for longer, they will not be able to fill the types of jobs for which younger workers are in demand. This is consistent with the fact that the employment rate of young people does not fall when the retirement age is postponed. In fact, the opposite is often true: countries with higher employment rates among the older population also tend to have higher youth employment rates (see Chart 3.17).

- *The potential adverse impact of population ageing (and new technologies) on the economy as a whole could be reduced by training and labour market policies that help workers (re)adapt their professional qualifications to the labour market's new demands.* As has been argued in this and the previous section, the demographic and technological changes under way are expected to significantly alter the sectoral and occupational composition of labour demand and call for new professional skills in the labour supply.

19 Since end-2019, the employment rates of the 60-64 and the 65-69 age groups have increased by 2.5 pp and 9.6 pp, respectively, while their participation rates have increased by 3 pp and 8 pp, respectively.

Vocational and occupational education and training, together with active and passive labour market policies and, more generally, the institutional framework of the labour market, play an extraordinarily important role in this context, as will be discussed in the following section. The adaptation of all these policies to the new needs generated by the technological and demographic changes should be high on Spain's structural reform agenda and could lead to significant progress on multiple fronts. For example, in reducing Spain's high youth unemployment, which partly reflects a mismatch between the human capital acquired in the education system and that demanded by the labour market and which will not automatically decrease as a result of a lower number of young people entering the labour market (Bentolila, Felgueroso, Jansen and Jimeno, 2022).

4 Labour market policies

Spain's unemployment rate is higher than that of other European countries and yet, at the same time, the country faces labour shortages. This, together with the fresh challenges posed by the technological and demographic changes currently under way, means that labour market policies are due for a comprehensive rethink.

Labour market policies encompass (i) all of the aspects that make up the institutional framework within which employment relationships take place (e.g. the types of contracts on offer, termination costs, the statutory working week, etc.), and (ii) active and passive labour market policies, which, in turn, are closely linked with education policy as a whole, among other aspects.

Labour market policy must be considered in its entirety.

Some of the main instruments of Spanish labour market policy are addressed individually in the rest of this section. Nonetheless, it should be noted that these instruments all complement each other and that the ability of each instrument to efficiently meet its goals rests on their combined overall design.

- For example, termination costs (which essentially aim to prevent the inefficient destruction of jobs) and unemployment benefits (which seek to mitigate the fall in wage income suffered by unemployed workers) both have an impact on employability and labour mobility. The economic literature suggests that a combination of high severance payments and generous unemployment benefits (which drive up reservation wages) is associated with a high level of structural unemployment.

- Active and passive labour market policies offer another example of complementarity. No matter how efficient active policies are, if the incentives to look for work are not tailored accordingly, transitions from unemployment to employment will be low and, by extension, so will aggregate employment. Equally, unemployment benefits that are heavily geared towards incentivising job-seeking will neither be sufficient nor able to meet their goal if the active labour market policies do not effectively help to make workers more employable.

4.1 Active and passive labour market policies

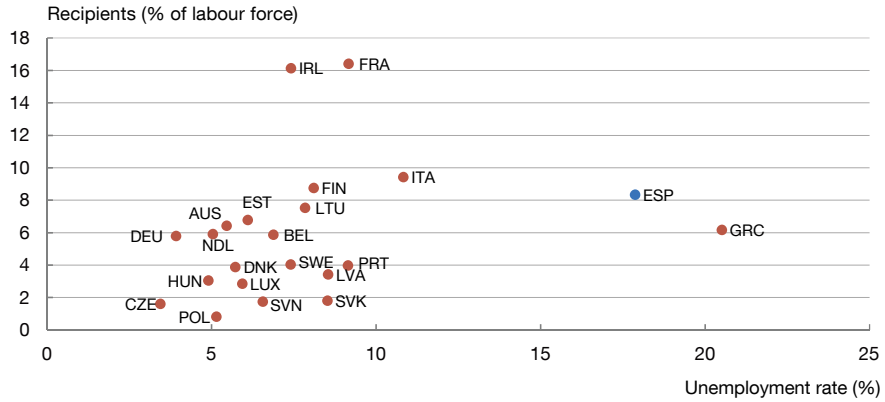
Active and passive labour market policies are a cornerstone of the welfare state.

Together, these two policies seek to sustain the income of the unemployed, while at the same time aiming to facilitate their return to the labour market through a range of initiatives to boost their human capital and employability.

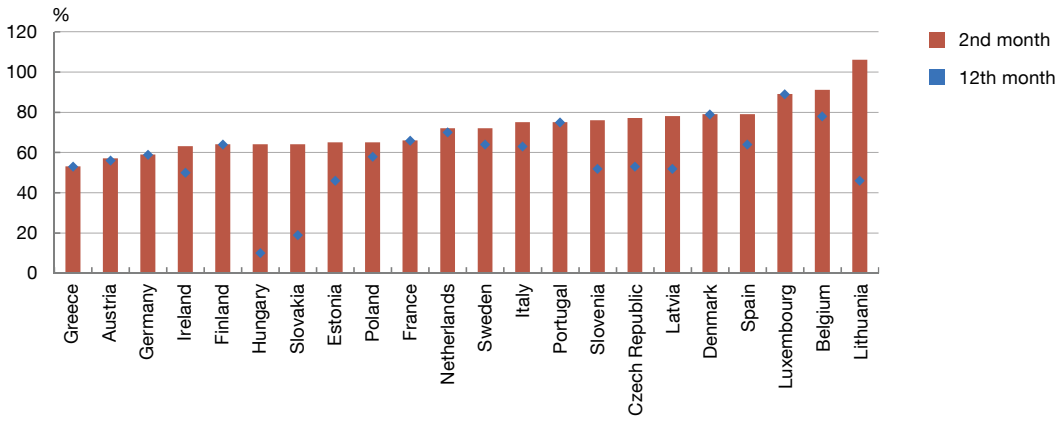
Chart 3.18

Unemployment benefit coverage relative to the unemployment rate is comparatively low in Spain, and the unemployment benefit replacement rate is relatively high compared with other EU countries

3.18.a Correlation between the unemployment rate and unemployment benefit recipients, 2014-2021



3.18.b Net replacement rate of unemployment insurance benefits, 2022 (a)



SOURCE: OCDE.

a The net unemployment benefit replacement rate is the proportion of previous income represented by the unemployment benefit, 2 and 12 months after becoming unemployed, for a single, childless person whose previous in-work income amounted to 67% of the average wage.

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As international comparisons suggest, in Spain these policies display some significant drawbacks that reduce their effectiveness in meeting their goals.

- *The level of coverage/protection that passive policies afford the unemployed has been comparatively low.* In Spain, around 8% of the labour force receives unemployment benefits, slightly above the EU average. But this is down to the fact that the Spanish unemployment rate is far higher than the figure for the EU. When this coverage is measured in terms of the unemployment rate, the share of unemployed persons receiving unemployment benefits stands at around 55%, below the EU average (see Chart 3.18.a). The prevalence of long-term unemployment and the high levels of unemployment and heavy turnover among new entrants to the labour market (who therefore take longer to become eligible for unemployment benefits) are partly

responsible for the comparatively low coverage and spending on unemployment benefits in Spain.

- *The unemployment benefit replacement rate is fairly high by international standards.* In Spain, the average replacement rate for unemployment insurance benefits (relative to the previous net wage) stands between 60% and 80% – the longer unemployment lasts, the lower the figure –, one of the highest among OECD countries (see Chart 3.18.b). Moreover, although the duration of unemployment insurance benefits is capped at 24 months, unemployment assistance benefits can in certain cases last indefinitely. This means that older, less employable workers account for the bulk of spending on unemployment benefits.

- *By international standards, both the extent to which the unemployed participate in active policies and the amounts spent on such policies are low in Spain when set against the unemployment rate* (see Chart 3.19). Spain's active policies have been characterised by, inter alia, (i) limited coverage of unemployed workers, (ii) the very minor role played by the (national and regional) public employment services in the intermediation of new placements and in back-to-work training, and (iii) insufficient evaluation of their outcomes.

In a context in which, in addition to the green transition, the technological and demographic changes currently under way will lead to major shifts in the sectoral and occupational structure of employment, improving the performance of the country's active and passive labour market policies is crucial.

As noted above, these structural processes will lead to the emergence of new jobs and tasks in certain industries, while destroying jobs in many other sectors and occupations. The better the labour supply is able to adjust to the new demands of the job market, the more positive the impact such transformational changes will have on employment and productivity. Active and passive policies have a key role to play here, in support of the role played by the education system as a whole. In this regard, as detailed in Chapter 2 of this report (Section 4), among other aspects it is essential to ensure that (i) public policies continue to enable students to remain and prosper in the formal education system, (ii) the university education on offer is able to cater swiftly to new demands, and (iii) quantitative and qualitative progress is made in dual vocational training.

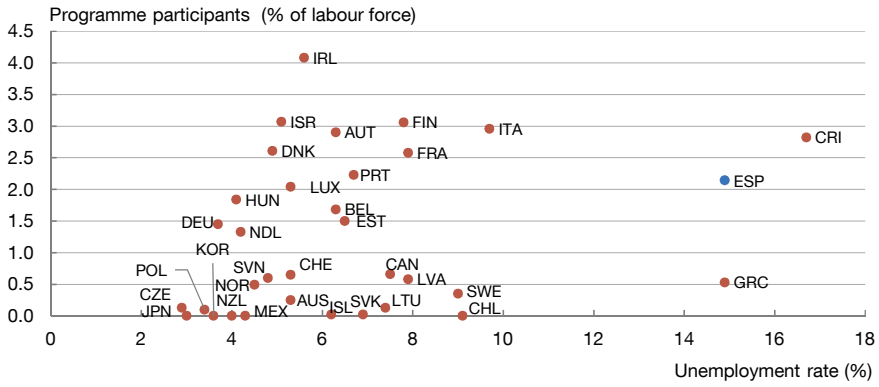
In terms of active labour market policies, progress is needed on several fronts:

- *With regard to training programmes, new technologies call for more horizontal and versatile skills, which are hard to acquire without others traditionally provided by the education system.* In a context of considerable technological change, building general human capital (which allows for an increase in productivity across a broad set of tasks) is likely to be more necessary than building specific human capital (which only boosts productivity in specific tasks at particular firms). With this in mind, the content and

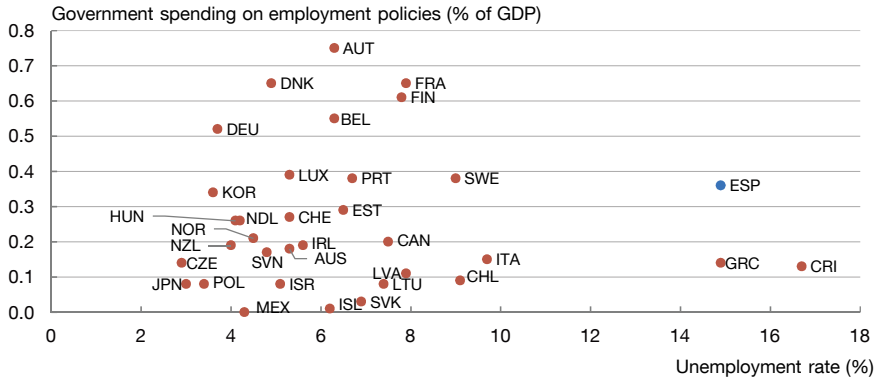
Chart 3.19

The coverage offered by active policies relative to the unemployment rate is comparatively low in terms of both programme participant numbers and spending

3.19.a Relationship between the unemployment rate and participation in active policies, 2021



3.19.b Relationship between the unemployment rate and spending on active policies, 2021



SOURCE: OECD (Labour Market Programmes).

a Training programmes, direct job creation and public employment and government services. Countries included: Australia, Austria, Belgium, Canada, Chile, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, Norway, New Zealand, Poland, Portugal, Slovakia, Slovenia, South Korea, Spain, Sweden and Switzerland.

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teaching methods of the formal education system and back-to-work training must be brought up to date, targeting the skills needed to understand, perform and add value to the tasks that can be carried out by the new technologies. Moreover, in a digitalised world in which information-gathering and data analysis are paramount, greater emphasis should be placed on the STEM disciplines (Science, Technology, Engineering and Mathematics).

- *As far as job mediation is concerned, the public employment services should introduce new techniques for job profiling and matching job-seekers to the available vacancies.* These techniques should help identify the training needs of the unemployed and tailor them to the changing demands.

- *Training and job intermediation programmes must be assessed continuously.* Such assessments should help to identify the volume of resources needed by the public employment services, to better allocate such resources and design action plans, and to evaluate potential partnerships and synergies with the private sector.

The recently approved Employment Law[20] seeks to modernise active policies, although it is still too early to assess whether it will be able to address the shortcomings consistently identified in these policies over recent decades.

The new legislation aims primarily to improve the coordination of the different employment programmes across regional governments (with the creation of the Spanish Employment Agency), to ensure an adequate supply of services and, in short, to introduce a new approach to labour market policy with a view to making the programmes rolled out more effective. To this end, the Law sets out new methods for measuring the employability of the workers participating in the programmes, and seeks to enhance the evaluation of such programmes, while broadening the guaranteed services by scaling up professional profiling, individual mentoring and continuous counselling, with the design of professional pathways and bespoke plans for unemployed workers.

The review of passive labour market policies should make returning to work a more attractive prospect for the unemployed, while ensuring that benefits are sufficient and improving coordination with active labour market policies.

The economic literature shows that the incentives to return to work are greater when benefits decline over time, and when the amount and duration of such benefits are capped. However, these parameters should be calibrated to ensure that the primary goal of unemployment protection programmes can also be met; namely, to prevent a substantial loss of income should this contingency arise (Landais, Michaillat and Saez, 2018). Thus, the international evidence suggests that unemployment benefits that are relatively broad-based, generous and long-lasting are only compatible with low unemployment rates when the incentives to return to work are also significant, and, in particular, when the public employment services are highly efficient when it comes to intermediation, counselling, profiling, training and monitoring job seekers (Asenjo and Pignatti, 2019).

In the light of the best practices implemented in other European countries and the available empirical evidence, the following options may be worth exploring with a view to a possible reform of Spain's passive labour market policies:

- *Introducing changes to the duration of the benefits/subsidies – which could be conditional on the economic cycle – and/or decreasing their amount over time, without reducing the level of protection ex ante.* Based on the international evidence and certain studies of the impact that unemployment benefits have on the prevalence and

20 Law 3/2023 of 28 February 2023 (only available in Spanish).

duration of unemployment (Rebollo and Rodríguez Planas, 2020, and Banco de España, 2023), Spain has some leeway to adjust the eligibility requirements, the benefit replacement rates, the way in which such benefits vary over the duration of unemployment and their maximum duration, so as to strike a better balance in terms of the trade-off between income replacement and job-seeking incentives that underlies the design of passive labour market policies.

- *Allowing certain benefits/subsidies to be compatible (for part of or their entire duration) with employment.* In particular, converting a portion of the benefits/subsidies into wage complements when new employment is found would help facilitate labour mobility and the return to work. Thus, the incentive to return to work would not rest solely on the eventual decline in benefits/subsidies over time (Armand, Carneiro, Tagliati and Xia, 2022).

- *Improving the integration of the myriad income policies rolled out by the different tiers of general government, to provide efficient and robust social security that protects groups with a very limited employability.* Unemployment assistance benefits are an extension of contributory benefits when an unemployed worker is in a situation of vulnerability (based on their income or wealth). Their rationale is thus no different from that of subsistence income and anti-poverty schemes, such as the minimum income scheme and similar initiatives rolled out at municipal and regional level. Combining all these programs would help to make them more effective (broader coverage) and more efficient (greater positive impact per resource deployed) (AIReF, 2022).

- *Strengthening the coordination of active and passive labour market policies with a view to also enhancing their efficacy and efficiency.* As things stand, all of these interventions are fragmented across the different tiers of government (general, regional and local) and information does not flow freely between such tiers. This can mean that many of the requirements for activating or qualifying for the different programmes are not fully coordinated. Similarly, the family circumstances and financial position of unemployed workers are not always given sufficient consideration when determining the income criteria on which access to such benefits depends.

Component 23.R10 of the Recovery, Transformation and Resilience Plan envisages a streamlined, enhanced approach to unemployment assistance, although the specific details have yet to be approved.

The main aim is to integrate various special schemes that have emerged over time within the ordinary unemployment assistance benefit paid once contributory benefits have run out; an integration that would take place in coordination with the roll-out of the minimum income scheme. This Component also aims to broaden unemployment protection, linking such protection to a firmer commitment to returning to work, and enabling this subsidy to serve as a transition to welfare protection when the beneficiary does not rejoin the job market and finds themselves in a position of vulnerability. Royal Decree-Law 7/2023 was approved in late 2023

to implement these reforms, although it was not ultimately ratified by Parliament. This reform is still therefore pending.

4.2 Other institutional aspects of the labour market

Other aspects of the institutional framework of the Spanish labour market should be reconsidered to enable labour supply and demand to adjust more smoothly to the far-reaching challenges posed by the sweeping technological and demographic changes under way.

In its current guise, this institutional framework is the result of the numerous reforms that the Spanish labour market has undergone over recent decades. The latest of these reforms affected the available hiring arrangements, made certain changes to collective bargaining, consolidated the use of furlough schemes as a temporary employment adjustment mechanism and created the RED mechanism, among other measures. This reform was approved in late 2021 and, as noted in Box 3.1, it is too early to properly assess its overall impact on employment levels and stability, wages, productivity and other macroeconomic aggregates. In any event, it is essential to ensure that the various elements that make up the institutional framework of Spain's labour market do not contribute to prolonging the high levels of unemployment and do not stand in the way of either the process of reallocating employment across sectors, firms and occupations that is likely to gather pace or the need to extend workers' working lives.

Longer working lives should be encouraged by doing away with certain aspects that, in practice, serve to drive older workers out of the labour market.

Thanks to the latest technological developments, jobs that do not call for physical or mental skills for which older workers are ill-suited now account for an increasingly large share of total employment (Acemoglu, Søndergaard Mühlbach and Scott, 2022). However, most of these positions are not being taken by older workers, whether for reasons of demand (e.g. the fact that employers prefer younger workers, differences in labour costs across ages, etc.) or of supply (e.g. the fact that older workers tend to be less mobile, early voluntary transitions to retirement, etc.). Against this backdrop, aside from raising the statutory retirement age, action should be taken on various fronts to encourage workers to prolong their working lives, such as (i) more flexible hiring arrangements for older workers, (ii) incentivised reassignments, retraining and vocational training, (iii) an end to mandatory exits from employment, or (iv) working retirement *(jubilación activa)* programmes that provide incentives to combine retirement benefits with employment income. On this last point, certain aspects of the current regulations governing working retirement in Spain (Royal Decree-Law 5/2013 of 15 March 2013) could restrict the use of these programmes. For example, the fact that they may only be activated after reaching the ordinary statutory retirement age and the fact that pensions are not updated at the end of the compatibility period (Sánchez Martín and Jiménez Martín, 2021).

Recent years have seen the adoption of various measures that seek to keep workers in the labour market for longer.

These notably include new incentives for postponing retirement, an exemption on making social security contributions for certain contingencies beyond the statutory retirement age and the limits on clauses governing mandatory retirement under the age of 68. While, in principle, these initiatives have the potential to significantly boost the labour market participation of older workers, in reality the efficacy of such measures (i.e. their ability to substantially shape workers' decisions on whether to retire, compared with a scenario in which no such measures exist) remains uncertain.[21]

Collective bargaining should allow for a degree of flexibility to enable employment conditions to cater to firms' individual circumstances.

This is particularly important in a context such as the current one, in which, thanks to technological and demographic changes, new forms of employment are emerging and there is growing heterogeneity across firms in a number of aspects (e.g. in terms of how they organise their work and their internal flexibility). In this regard, the 2021 labour market reform restored the pre-eminence of sectoral agreements in certain areas, albeit retaining some of the internal flexibility mechanisms (e.g. opt-outs and unilateral modifications of working conditions by employers) designed for distressed firms. It is important to ensure that firms, particularly SMEs and start-ups, are still able to adapt to a highly volatile, complex environment.

The regulations governing termination costs must ensure that workers are adequately protected, while at the same time facilitating mobility across sectors and occupations.

In terms of the scale of termination costs and while international comparisons are complex, the data published by the OECD suggests that the costs of fair dismissals on objective grounds are higher in Spain than those seen in other European countries, whereas the additional severance for unfair dismissal is lower (see Chart 3.20 and OECD, 2020b). Meanwhile, according to the Ministry of Labour and Social Economy's statistics on dismissals and their costs, in 2023 around 75% of the dismissals settled at court in Spain were declared unfair or null and void.[22] This finding, together with the less stringent requirements for initiating and executing disciplinary dismissals, appears to explain why many dismissals in Spain go through this channel (Jimeno, Mora-Sanguinetti and Martínez-Matute, 2020). In this regard, to facilitate the necessary reallocation of workers across sectors and occupations, further progress should be made on defining the objective grounds for dismissal and on reducing the uncertainty associated with these processes. This would be particularly important if severance payments for unfair dismissal were determined based on dissuasive and compensatory costs (Article 24 of the Revised European Social Charter), with the amount varying depending on the individual circumstances of each worker, which would likely exacerbate litigation over dismissals and push up costs, with potentially adverse effects on employment.

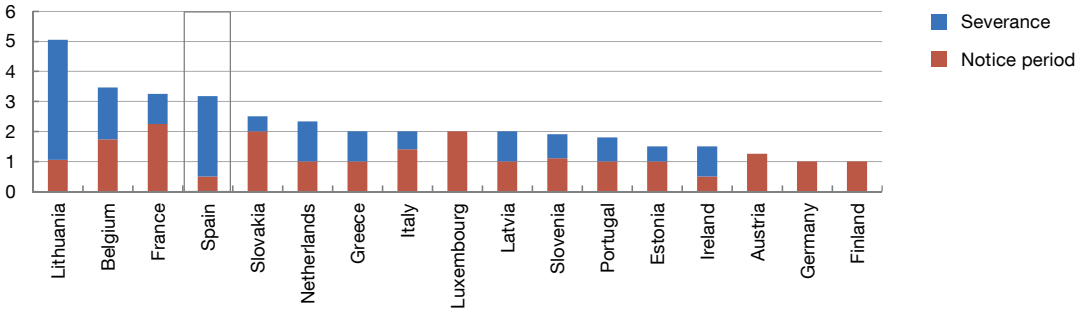
21 Box 2 in Chapter 2 of this report sets out some estimations on the potential impact of incentives for postponing retirement.

22 Moreover, the severance costs of collective dismissals under redundancy programmes (around 8.6% of the total in 2023) tend to be higher than those established by law.

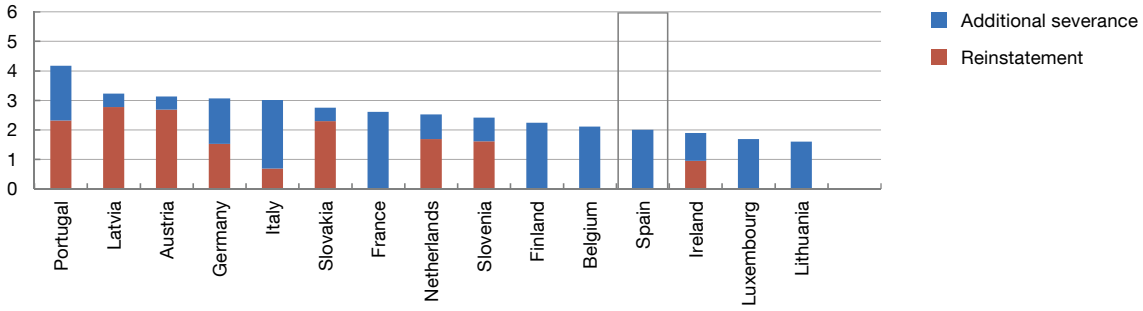
Chart 3.20

By international standards, severance payments for fair dismissals are relatively high in Spain. However, the additional costs of unfair dismissal are not among the highest

3.20.a Indicator of individual dismissal costs of fair dismissals on economic grounds, 2019 (a) (b)



3.20.b Indicator of additional dismissal costs of unfair dismissals, 2019 (a) (c)



SOURCE: OCDE (Employment Protection Legislation Database, http://oe.cd/epl).

a The values depicted do not represent the amounts of severance payments for dismissal, but rather are the result of converting such severance payments and other dismissal-related items into a scale from 0 to 6.
b For regular workers with four years of job tenure, measured in months of pay after dismissal notice. Includes only individual dismissals for economic reasons. Figure 3.2 of "OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis".
c For regular workers, with 20 years of job tenure, where the dismissal is deemed unfair. Figure 3.4 of "OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis".

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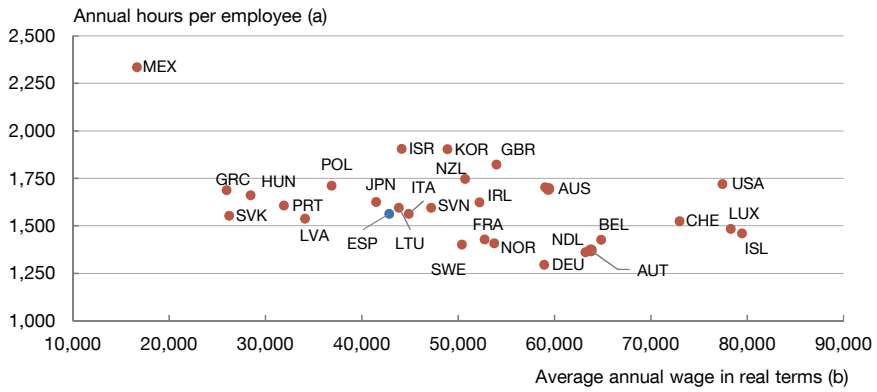
The working week follows a downward secular trend.

In Spain, the statutory working week has been capped at 40 hours since 1983. However, average working hours have fallen significantly. According to the Spanish Labour Force Survey, between 2005 and 2023 weekly contract working hours for main, full-time employment declined by 48 minutes, down to 38.91 hours a week. Meanwhile, over the same period, actual hours worked fell by 3.1 hours to 33.1 hours a week. This decline should be seen as part of a trend that can primarily be attributed, both in Spain and at a global level, to various factors of a structural nature, such as the greater weight of the services sectors, a higher female labour market participation rate and the rise in the part-time employment rate, as well as to the productivity improvements deriving essentially from the introduction of numerous technological changes (see Chart 3.21). As argued throughout this chapter, such technological changes are likely to enable further reductions to working hours in the coming decades.

Chart 3.21

Productivity gains allow for shorter working hours and higher wages. Accordingly, the correlation between the two variables is found to be negative at international level

3.21.a Relationship between real wages and hours actually worked in OECD countries, 2022



SOURCE: OCDE.

a Annual hours actually worked per employee based on National Accounts
b Equivalent full-time wage, calculated using National Accounts. All sectors of the economy. Expressed in US dollar (PPP).

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Looking ahead, it is essential to bear in mind that average working hours vary considerably across types of firm and sectors.

The decline in the duration of the average working week has been highly heterogeneous across sectors and firms, reflecting the specific characteristics of firms, its uneven impact on productivity and labour costs and workers' preferences. This heterogeneity must be maintained going forward, particularly if the statutory working week is ultimately reduced, in which case the different firms and sectors should be afforded ample flexibility to adapt to the legislative change if the possible negative effects of this measure on labour costs, productivity and the aggregate level of employment and activity are to be avoided (Kramarz, Cahuc, Crepon, Skanks, van Lownell and Zylberberg, 2008).[23]

23 According to Arellano, García and Ulloa (2023), eight million salaried workers have a working week of more than 37.5 hours. Bringing the maximum working week down to that figure would therefore entail a reduction of 29.1 million hours a week, representing 5.5% of the total hours actually worked. According to these estimates, without factoring in wage or productivity adjustments, the ensuing increase in ULCs would reduce GDP and employment growth by around 0.6 pp and 0.8 pp, respectively.

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Box 3.1

THE RECENT BEHAVIOUR OF THE TEMPORARY EMPLOYMENT RATIO AND OTHER INDICATORS PROXYING JOB STABILITY

The labour market reform adopted in late 2021 cut down on temporary contracts in an attempt to increase job stability. Specifically, it eliminated contracts for specific tasks and services (which accounted for around 40% of temporary contracts prior to the reform), capped the maximum duration of seasonal contracts at six months (which can be extended to 12 months via collective bargaining), tightened the limits on successive temporary contracts and cut the duration of work-experience contracts from 24 to 12 months. By contrast, some aspects of permanent contracts were relaxed – notably the use of permanent seasonal employment contracts – and, albeit only for the construction sector, the completion of the construction work was included as grounds for termination of permanent contracts.

The temporary employment ratio has fallen sharply since the reform was adopted. According to the Spanish Labour Force Survey (EPA by its Spanish acronym), in 2023 Q4 it stood at 16.5%, versus 25.4% at end-2021 (see Chart 1). This decline has been steeper in the private sector, where the temporary employment ratio has fallen by just over 10 percentage points (pp), to 13.2%. In the public sector, however, it has held at close to 30% over the last two years.[1] Overall, this decline has enabled the Spanish temporary employment ratio to make up considerable ground on the euro area average (14.5% in 2023 Q3).

This sharp fall in the temporary employment ratio has also been observed in social security registrations, where the proportion of workers registered with a temporary contract decreased from 30.4% to 14.9% between December 2021 and December 2023. This 15.6 pp decline is explained by an increase in full-time permanent contracts (8.6 pp), in part-time permanent contracts (4.1 pp) and in permanent seasonal employment contracts (3 pp) (see Chart 2). The latter were hardly used in Spain before the 2021 reform and their prevalence in total numbers registered with social security has more than doubled, rising from 2.4% in 2021 to 5.7% in 2023. The decline in the temporary employment ratio has been widespread across sectors, although sharper in some of the sectors with the highest pre-reform ratios, such as construction, hospitality, arts, administrative activities, agriculture and other service activities. In all these sectors, except construction, a sizeable portion of the fall in the temporary employment ratio since the reform was implemented is explained by the growth of permanent seasonal employment contracts.

Against this background, this box looks at recent developments in other indicators which proxy job stability in the Spanish labour market. This descriptive exercise is not a causal assessment of the 2021 labour market reform. As stated in other Banco de España reports, such an assessment would need to take into account the impact of the measures adopted on multiple dimensions (e.g. employment, unemployment, wages, productivity and other macroeconomic aggregates),[2] consider a broad time horizon and analyse the possible asymmetric effects of the reform on different groups of workers, firms and sectors (which would require the most granular data possible).

Labour turnover indicators can be calculated drawing on social security hiring and separation data to analyse the extent to which the sharp reduction in the temporary employment ratio has resulted in higher job stability. Using the ratio of the sum of the total number of employment contracts starting and the total number of employment contracts ending in a given month to the stock of employees as a measure of labour turnover, Chart 3 shows that since the reform was adopted labour turnover has fallen from an average of 1.33% in the period 2015-2019 to an average of 1.12% in the period 2022-2023. This decline is the result of the change in the percentage of workers with permanent and temporary contracts, as the turnover for employees with a permanent contract increased (from 0.25% to 0.61%) and it only decreased slightly for workers with a temporary contract (from 3.40% to 3.19%).

The higher turnover of permanent contracts since the entry into force of the labour market reform reflects the greater labour market inflows and outflows of workers with permanent contracts, in general, and of those with

1 Under Law 20/2021 of 28 December 2021, a public examination and merits-based selection process must be held for positions in the public sector held by temporary employees. The deadline for this process is 31 December 2024. As the majority of temporary contracts in the public sector are interim contracts for unfilled vacancies, compliance with this rule will pose a considerable challenge for recruiting public sector staff.

2 See, for example, Anghel, Barceló and Villanueva (2023), who analyse the possible impact of the 2021 labour market reform on private consumption and precautionary saving by workers switching from a temporary to a permanent contract.

Box 3.1

THE RECENT BEHAVIOUR OF THE TEMPORARY EMPLOYMENT RATIO AND OTHER INDICATORS PROXYING JOB STABILITY (cont'd)

Since the labour market reform was adopted in late 2021, the temporary employment ratio has fallen sharply, approaching the euro area average. In terms of labour turnover, the gains are smaller due to the higher turnover among new permanent contracts.

Chart 1
Temporary employment ratio (a)

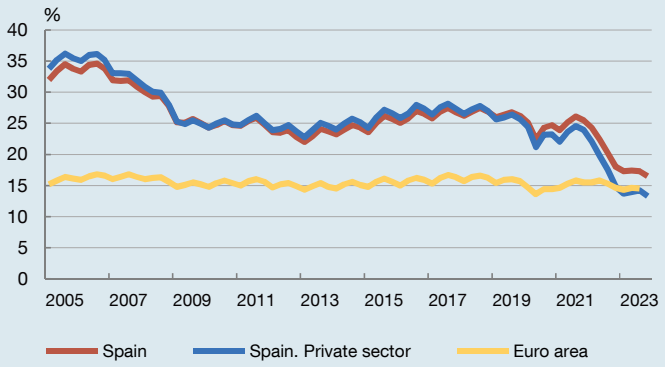


Chart 2
Cumulative change in the temporary employment ratio of numbers registered with social security and contributions by type of permanent contract (b)

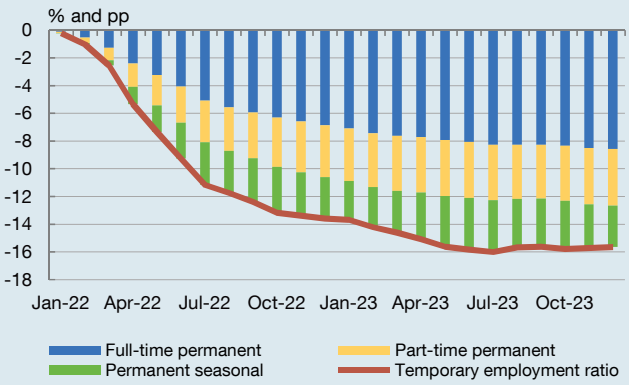


Chart 3
Turnover rate. Total and by type of contract.
Monthly average of contracts starting and ending as a percentage of the numbers registered with social security (c)

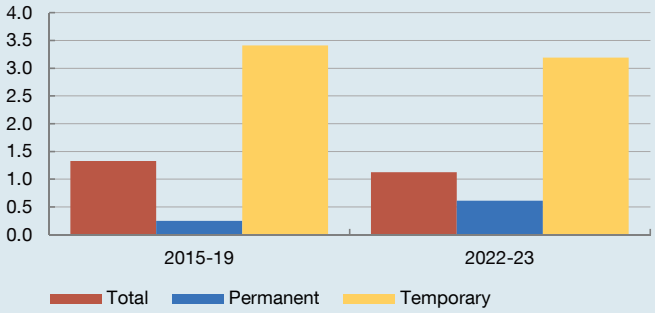


Chart 4
Termination rate, by type of contract
Average monthly terminations as a percentage of the numbers registered with social security (c)

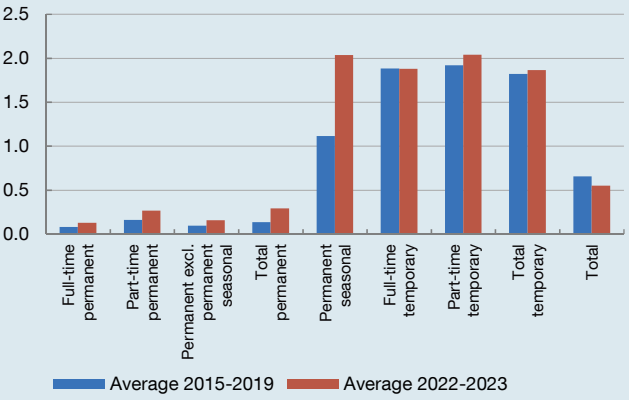


Chart 5
Survival probability of a contract starting in March of each year (d)

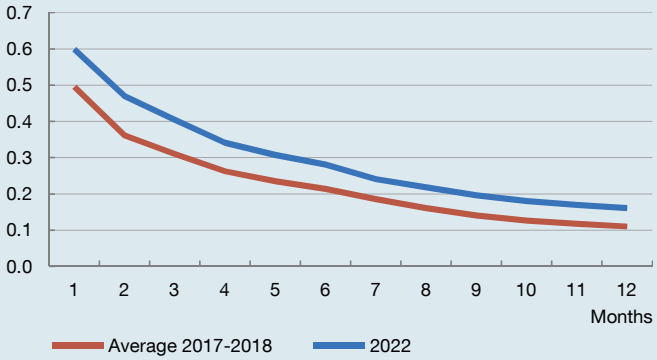
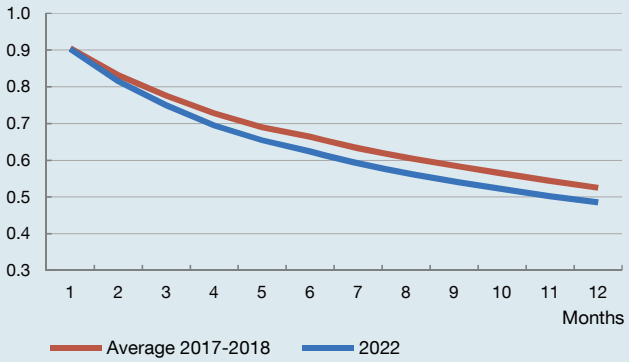


Chart 6
Survival probability of a permanent contract starting in March of each year (d)



SOURCES: INE (EPA), Eurostat (LFS), Tesorería General de la Seguridad Social and Banco de España.

a EPA data for Spain and LFS data for the euro area.
b Data for numbers registered under the General Social Security Regime, by type of contract and working hours.
c Data on hires and terminations for numbers registered under the General Social Security Regime, by type of contract.
d Banco de España calculations drawing on individual records for employment relationships beginning between 2017 and 2022 provided by the Ministry of Inclusion, Social Security and Migration.

Box 3.1
THE RECENT BEHAVIOUR OF THE TEMPORARY EMPLOYMENT RATIO AND OTHER INDICATORS PROXYING JOB STABILITY (cont'd)

permanent seasonal contracts in particular. Specifically, the termination rate for these contracts has increased significantly compared with the period 2015-2019 (see Chart 4). Indeed, the termination rate for permanent seasonal contracts before the reform stood practically midway between that for other permanent contracts and that for temporary contracts. However, since 2022 this rate has almost doubled and is now the same as for temporary contracts. In any event, despite the higher rate of outflows of workers with a permanent contract, their greater job stability compared with that of temporary workers has led to a reduction in the overall outflow rate.

These aggregate turnover figures should nevertheless be taken with caution, as, for example, they do not distinguish between contracts signed before and after the 2021 reform. However, individual information on employment relationships in Spain has recently become available, allowing this analysis to be refined.[3] In particular, the first-year survival rate of contracts starting in March 2022 can be calculated and compared with that of contracts starting in March 2017 and March 2018. The one-year time horizon means that these contracts were not affected by the outbreak of the pandemic. This is a more consistent comparison than that based on aggregate data. However, economic cycle differences between the two periods analysed and labour market shocks in general may affect the new contracts' survival rates. The differences observed cannot therefore be interpreted as being caused by the reform.

Chart 5 shows that 16.1% of all the employment relationships that began in March 2022 were still ongoing a year later. This is a higher survival rate than observed for the contracts signed in March 2017 and March 2018 (11% on average) and in March 2021 (14.9%).[4] Again, the overall survival rate improved despite the deterioration in the survival rate of permanent contracts (excluding permanent seasonal contracts) following the labour market reform. Thus, 48% of the permanent contracts signed in March 2022 were still ongoing one year later, while this percentage was 52.5% on average for permanent contracts signed in March 2017 and March 2018 (see Chart 6).

Overall, both the findings drawing on aggregate data and those drawing on more granular data show that job stability in Spain's labour market increased slightly following the reform adopted in late 2021. This is because, despite the slight increase in job instability in new permanent contracts (especially permanent seasonal contracts), the share of permanent contracts increased significantly compared with that of temporary contracts.

In any event, two aspects should be noted. First, while the Spanish economy's temporary employment ratio has converged significantly with the European average in recent years, other internationally available measures of job stability suggest that there is still room for improvement in this area in Spain. Thus, although outflows from employment into unemployment decreased in Spain from 3.3% of the labour force in the first three quarters of 2019 to 2.8% in the same period of 2023,[5] this percentage is still significantly higher than that observed for the euro area as a whole (1.2%).

Second, as mentioned above, the analysis presented in this box does not provide an assessment of the impact of the 2021 labour market reform because, among other reasons, in order to do so the impact on the Spanish labour market of the multiple shocks to economic activity in recent years would need to be delimited. However, the recent availability of individual information on all employment relationships in Spain will allow a more complete analysis to be carried out in the future, in which these causal impacts could be estimated, for example, based on the asymmetric behaviour observed in the employment relationships of different types of workers and firms.

3 Information is available on each employment contract's start and end dates reported to social security between January 2017 and March 2023, broken down by type of contract, some worker characteristics (age, gender and nationality) and the firm's economic sector and province.

4 Using these granular data, it can also be shown that 80% of the workers who started employment relationships in March 2022 were still employed a year later, whether by the firms with which they established these relationships or by others. This probability is slightly higher than that observed for workers who signed their job contracts in March 2017 and March 2018 (79.2% on average).

5 In Spain outflows from unemployment into employment rose from 23.7% to 25%, a somewhat smaller increase than in the euro area as a whole, while transitions from economic inactivity to employment increased slightly more in Spain than in the euro area.