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OECD Economic Surveys: Spain 2023

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Note by all the European Union Member States of the OECD and the European Union

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Foreword

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Spain were reviewed by the Committee on 27 June 2023. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 17 July 2023.

The Secretariat's draft report was prepared for the Committee by Bertrand Pluyaud, Adolfo Rodríguez-Vargas and Peter Jarrett, under the supervision of Aida Caldera Sánchez. Research assistance was provided by Véronique Gindrey, editorial support by Karimatou Diallo and communication assistance by François Iglesias.

The previous Survey of Spain was issued in May 2021.

Information about the latest as well as previous Surveys and more details about how Surveys are prepared is available at <https://www.oecd.org/economy/surveys/>

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Glossary of acronyms

AIReF	Autoridad Independiente de Responsabilidad Fiscal (Independent Authority for Fiscal Responsibility)
ALMP	Active Labour Market Policies
CAASMI	Comisión Asesora para el análisis del SMI (Advisory Commission on Minimum Wages)
COVID	Coronavirus disease
ELET	Early leaving from education and training
ERTE	Expediente de Regulación Temporal de Empleo, a furlough scheme
EU-ETS	The European Union's Emissions Trading Scheme
FDI	Foreign direct investment
GTOs	Group training organisations
ICT	Information and communication technologies
INE	Instituto Nacional de Estadística
INJUVE	Instituto de la Juventud
IPREM	Indicador Público de Renta de Efectos Múltiples (Multi-Purpose Public Indicator of Income)
LNG	Liquefied Natural Gas
LOMLOE	Ley Orgánica 3/2020, de 29 de diciembre, por la que se modifica la Ley Orgánica 2/2006, de 3 de mayo, de Educación (Organic Law 3/2020, of 29 December, modifying the Organic Law of Education 2/2006, of 3 May)
MIS	Minimum Income guarantee scheme (Ingreso Mínimo Vital)
MP	Member of Parliament
NECP	The 2020 National Energy and Climate Plan 2021-2030
NEET	Not in education, employment or training
NIMBY	Not in my Backyard
NPLs	Non-performing loans
PERTE	Proyectos Estratégicos para la Recuperación y Transformación Económica (Strategic Projects for Economic Recovery and Transformation)
PES	Public Employment Service
PISA	Programme for International Student Assessment
PVAA	Plan de viviendas para el alquiler asequible (Housing Plan for Affordable Rent)
PVC	Photovoltaic Cells
RD&D	Research, Development and Demonstration
RED	Mechanism for Employment Flexibility and Stabilisation
RTRP	Recovery, Transformation and Resilience Plan
SEPE	Servicio Público de Empleo Estatal (Spanish public employment service)
SME	Small and medium-sized enterprises
STEM	Science, technology, engineering, and mathematics
VAT	Value Added Tax
VET	Vocational education and training

Basic statistics of Spain, 2022*

(Numbers in parentheses refer to the OECD average)**

LAND, PEOPLE AND ELECTORAL CYCLE				
Population (million)	47.6		Population density per km ²	95.3 (38.8)
Under 15 (% , 2021)	13.8	(17.2)	Life expectancy at birth (years, 2021)	83.2 (78.7)
Over 65 (% , 2021)	20.3	(18.0)	Men (2021)	80.3 (75.9)
International migrant stock (% of population, 2019)	13.1	(13.2)	Women (2021)	86.2 (81.7)
Latest 5-year average growth (%)	0.4	(0.4)	Latest general election	July 2023
ECONOMY				
Gross domestic product (GDP)			Value added shares (%)	
In current prices (billion USD)	1 418.5		Agriculture, forestry and fishing	2.6 (2.8)
In current prices (billion EUR)	1 346.4		Industry including construction	22.8 (28.3)
Latest 5-year average real growth (%)	0.8	(1.7)	Services	74.5 (68.8)
Per capita (thousand USD PPP, 2021)	46.5	(57.4)		
GENERAL GOVERNMENT Per cent of GDP				
Expenditure (2021)	47.4	(45.9)	Gross financial debt (OECD: 2021)	116.0 (106.7)
Revenue (2021)	42.6	(38.7)	Net financial debt (OECD: 2021)	77.2 (68.5)
EXTERNAL ACCOUNTS				
Exchange rate (EUR per USD)	0.95		Main exports (% of total merchandise exports)	
PPP exchange rate (USA = 1)	0.61		Machinery and transport equipment	25.2
In per cent of GDP			Chemicals and related products, n.e.s.	17.4
Exports of goods and services	40.9	(33.4)	Manufactured goods	14.9
Imports of goods and services	39.7	(34.8)	Main imports (% of total merchandise imports)	
Current account balance	0.6	(-1.0)	Machinery and transport equipment	25.3
Net international investment position	-61.0		Mineral fuels, lubricants and related materials	18.7
			Chemicals and related products, n.e.s.	15.3
LABOUR MARKET, SKILLS AND INNOVATION				
Employment rate (aged 15 and over, %)	50.4	(57.5)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	12.9 (5.0)
Men	55.8	(65.4)	Youth (aged 15-24, %)	29.8 (10.9)
Women	45.4	(50.1)	Long-term unemployed (1 year and over, %)	5.0 (1.2)
Participation rate (aged 15 and over, %)	58.6	(60.9)	Tertiary educational attainment (aged 25-64, %)	41.1 (40.7)
Average hours worked per year	1,644	(1,752)	Gross domestic expenditure on R&D (% of GDP, 2020)	1.4 (3.0)
ENVIRONMENT				
Total primary energy supply per capita (toe)	2.4	(3.8)	CO ₂ emissions from fuel combustion per capita (tonnes, 2021)	4.5 (7.9)
Renewables (%)	16.2	(12.0)	Water abstractions per capita (1 000 m ³ , 2020)	0.6
Exposure to air pollution (more than 10 µg/m ³ of PM 2.5, % of population, 2019)	47.1	(61.7)	Municipal waste per capita (tonnes, 2021, OECD: 2020)	0.5 (0.5)
SOCIETY				
Income inequality (Gini coefficient, 2020, OECD: latest available)	0.329	(0.315)	Education outcomes (PISA score, 2018)	
Relative poverty rate (% , 2020, OECD: 2018)	15.4	(11.4)	Reading (2015, OECD: 2018)	496 (485)
Median disposable household income (thousand USD PPP, 2020, OECD: 2019)	25.3	(27.4)	Mathematics	481 (487)
Public and private spending (% of GDP)			Science	483 (487)
Health care	10.5	(9.3)	Share of women in parliament (%)	43.0 (32.5)
Pensions (2019)	11.9	(9.5)	Net official development assistance (% of GNI, 2017)	0.2 (0.4)
Education (% of GNI, 2021)	4.0	(4.4)		

* The year is indicated in parenthesis if it deviates from the year in the main title of this table.

** Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

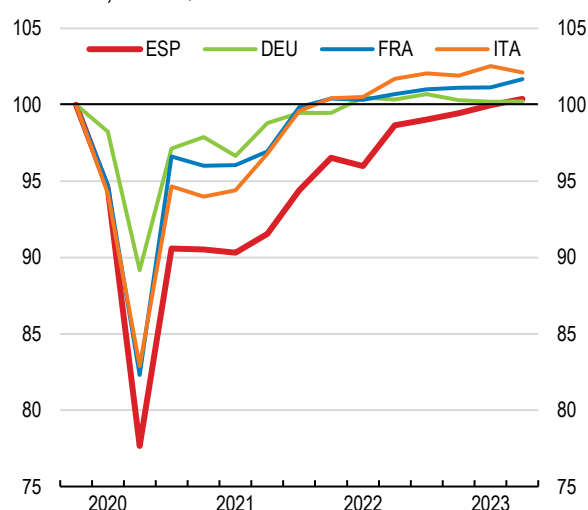
The economy is proving resilient

In a context of high inflation and an uncertain outlook due to Russia's war of aggression against Ukraine, the Spanish economy has held up well. The cost of living has increased, spurred by rising food and energy prices.

With higher inflation, lower external demand, and rising interest rates, activity has proved resilient (Figure 1). Supply shortages and a sharp rebound in demand led to a pick-up in inflation from early 2021, as in most OECD countries, which was then amplified by surging energy prices in early 2022 due to Russia's war of aggression against Ukraine. Headline inflation significantly eased in 2023 with lower energy prices, but it has slightly rebounded since June, and core inflation remains high.

Figure 1. GDP growth has been sustained

Real GDP, 2019Q4=100



Source: OECD Economic Outlook.

StatLink  <https://stat.link/spi58x>

Table 1. Economic growth is resilient

Annual growth rates, %, unless specified

	2021	2022	2023	2024
Gross domestic product	6.4	5.8	2.5	1.5
Private consumption	7.1	4.7	1.7	1.6
Unemployment rate (%)	14.8	12.9	11.9	11.5
Consumer price index	3.0	8.3	3.5	3.7
Fiscal balance (% of GDP)	-6.7	-4.7	-3.8	-3.5
Public debt (Maastricht definition, % of GDP)	116.8	111.6	109.4	110.0

Source: OECD Economic Outlook.

GDP growth is projected to slow down but to remain resilient supported by domestic demand (Table 1). Growth will also be supported by sizeable inflows of Next Generation EU funds.

Employment growth has been robust, and the 2021 labour market reform is showing promising results in shifting workers from temporary to permanent contracts, especially for the young. The unemployment rate has come down but remains the OECD's highest. Pervasive joblessness reflects structural issues that need the continuation of on-going reform efforts to address skill mismatches, keep reducing the share of temporary workers, enhance active labour market policies and increase incentives to return to work following unemployment. Improving women's and especially mothers' labour market integration should also remain a priority.

The financial sector remains resilient but rising interest rates could increase non-performing loans. Spanish households are highly exposed to rising interest rates, with 70% of the stock of mortgages at variable rates, although most new mortgages have been extended at fixed rates in recent years. Banks should maintain prudent provisioning and capital policies.

Public debt must be further reduced

As a result of the COVID-19 pandemic, public debt, which was already high, increased considerably in 2020, even though it has been reduced in the following years (Figure 2). Stronger and sustained fiscal consolidation is needed to maintain debt on a downward path and to create space for ageing-related and growth-oriented spending.

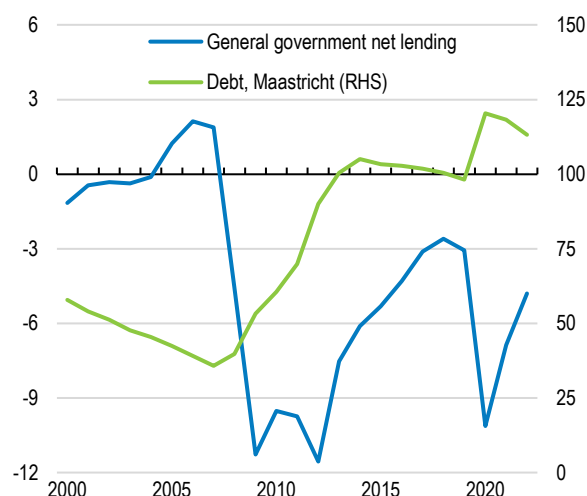
Sizeable public support helped to mitigate the inflationary shock on businesses and households. These measures should now end.

Pension and health-related outlays are set to rise in the longer term, substantial investments are needed to accelerate the green transition, and the government has committed to boosting defence spending. To make space for these future spending pressures, fiscal consolidation should rely on mobilising additional revenues and enhancing spending efficiency based on spending reviews. There is room to raise VAT, environment-related taxes and other excise duties, which are

lower than the EU average. A gradual alignment to the standard VAT rate of the items that are subject to a reduced rate and that benefit mainly higher-income households would help. Excises on alcohol and tobacco could be raised. But at the same time labour and some capital taxes could be cut.

Figure 2. Public debt has increased sharply

General government, % of GDP, 2000-2022



Source: OECD (2022), National Accounts database.

StatLink  <https://stat.link/43cpyt>

The recent pension reform increased minimum and non-contributory pensions and indexed benefits to consumer prices. Despite accompanying revenue-raising measures and changes to encourage delayed retirement, there will be a considerable increase in overall pension expenditure. Nevertheless, pension spending is expected to decline gradually from the late 2040s onwards. The sustainability of the new pension system will be re-examined regularly by the Fiscal Council. If it concludes that there is a deviation from the benchmark defined by the law, the government will need to take measures to compensate it or else an automatic increase of social contributions will kick in. Yet, it would be preferable to link the statutory retirement age to life expectancy at retirement and to cut pension accrual rates.

Despite recent small declines in inequality and poverty, one quarter of the Spanish population was poor or at risk of poverty and social exclusion in 2022, and child poverty remains

high. Social benefits should be better targeted at the neediest, notably poor families with children. Ensuring the regional transferability of social and housing rights would make the system more efficient and allow people to take advantage of more distant job opportunities. Take-up of the minimum income guarantee could be improved by further enhancing communication with eligible households.

Growth needs to be stronger and more sustainable

Population ageing, sluggish productivity growth and low investment weigh on Spain's growth potential. At about half of the OECD average, productivity growth over the past decade has been meagre. Making growth more sustainable will require greater efforts to lower fossil-fuel dependence and fight climate change and to address water problems.

Spain is making progress on its reform agenda and the implementation of its Recovery, Transformation and Resilience Plan. Harmonising regulations across the country would support business growth, especially for SMEs. Fostering partnerships between public research institutions and firms would bolster their currently low capacity to innovate.

Strengthening the prevention of corruption in the public administration would enhance the quality of public investment and lower fiscal costs. More systematic use of electronic contracting in public procurement procedures could help, as would continuing the implementation of the OECD Anti-Bribery Convention.

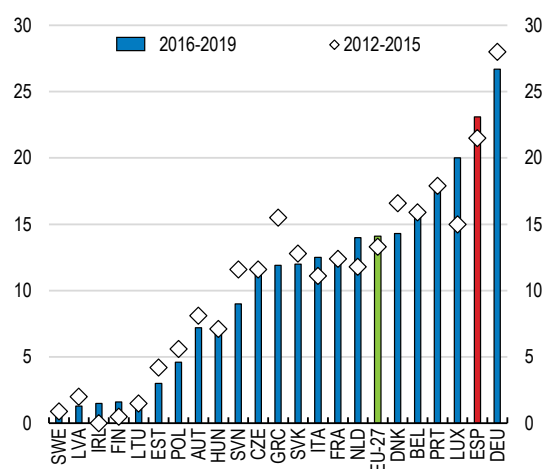
To achieve its climate-change objectives Spain will have to step up its actions. Despite improvements, Spain remains heavily reliant on fossil fuels, favoured by tax exemptions, modest fuel taxes and considerable subsidies in agriculture and fishing. Carbon prices are low compared to international best practice. Alternative measures applied to sectors outside the EU-ETS until the so-called EU-ETS2 takes effect would help reduce emissions. Stepping up the shift towards low/non-emitting transport modes can help reduce high transport-sector emissions. Continued efforts to overcome fossil-fuel dependence will be

necessary, including by promoting renewable energy, and seeking better storage and grid interconnections. The Recovery, Transformation and Resilience Plan, which devotes 40% of its resources to the green transition, will bring key support in this regard.

Drought associated with climate change and the expansion of irrigation of cropland are impacting water availability and quality. Actions should be promoted that focus on demand management, improving the efficiency of its use, through greater recourse to water reuse and the environmental recovery of water bodies. The price of water should better reflect its scarcity, in particular for agricultural purposes. Pollution from fertilisers should be addressed by adjusting taxation or regulating their use (Figure 3).

Figure 3. The concentration of nitrates in drinking water is problematic

Groundwater stations failing to meet the drinking water standard under the Nitrates Directive, %



Source: European Environment Agency (EEA).

StatLink <https://stat.link/kzumah>

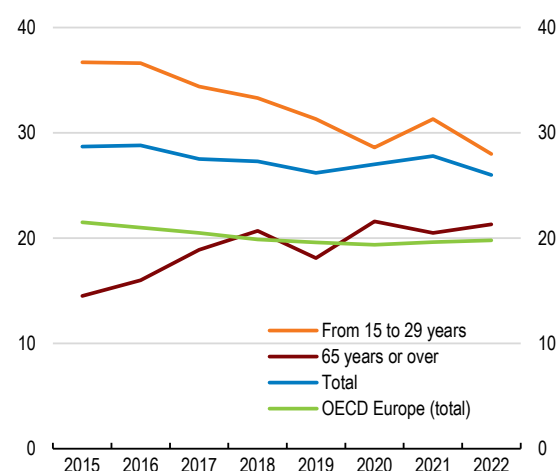
Spain must increase opportunities for youth

Enhancing education, facilitating youth labour market participation, improving entrepreneurship, and boosting access to housing are also crucial to fully realise Spain's growth potential and reduce the risk of poverty among young people (Figure 4).

Many young people in Spain leave the education system with low skills, limiting their job prospects. Grade-repetition and early-school-leaving rates have significantly declined, from 17.9% in 2018 to 13.9% in 2022 for the latter, a progress that needs to continue. Early-warning indicators and tailored support for students at risk of falling behind could help to lower early leaving. Support for enrolment in vocational education should continue because it equips students with skills in high demand. Promoting collaboration among firms to offer apprenticeships, supply teachers or share administrative burdens, as the new law on vocational education foresees, can bring more SMEs into the vocational education and training system. The Alliance for Vocational Training is a welcome initiative in this direction. Greater employer involvement in the design of university curricula and improvement on existing tools that offer information on labour market placements would help to better align studies and labour market needs.

Figure 4. Young people face high poverty risks

Risk of poverty or social exclusion, %



Note: OECD Europe includes European OECD countries and excludes Türkiye.

Source: INE.

StatLink <https://stat.link/up34om>

Youth labour-market integration is difficult. The unemployment rate of people under 25, at 27%, is one of the highest in the OECD. Poor job quality among the young is pervasive although the recent labour market reform helped to significantly reduce temporary employment. The minimum wage has

been raised considerably since 2018, increasing earnings and reducing wage inequality for young people. However, such large increases can harm employment for some groups, especially young people. Future minimum wage changes should be in line with labour market conditions and productivity. Youth entrepreneurship should also be fostered through better mentoring, training and access to financing.

Over 60% of Spanish people under 34 live with their parents, mainly due to insufficient earnings and job instability. Gradually increasing the stock of social rental housing should be a priority, as planned by the government. A draft law foresees temporary rent caps in stressed housing markets, which may reduce already low rental supply and increase rents in the longer run.

Main findings and key recommendations

MAIN FINDINGS	KEY RECOMMENDATIONS
Addressing medium-term fiscal challenges	
Support measures to alleviate the impact of high energy and food prices have been sizeable and only partly targeted towards the most vulnerable.	End the support measures that were put in place to alleviate the impact of high energy and food prices.
Public debt, at 113% of GDP is high, the fiscal deficit is still sizeable and pension and health-related expenditures are set to rise in the longer term.	Adopt a medium-term fiscal plan, step up the pace of deficit reduction from 2024, and ensure all extra spending is fully financed over the medium term.
Spending is tilted towards social spending, mostly pensions and unemployment benefits, with too little allocated to growth-enhancing items including education and training. Young people benefit less from public spending than others.	Based on spending reviews and sound cost-benefit analysis, set longer-term spending priorities more geared to growth-enhancing items, notably skill-building measures such as education.
Tax revenues are low by EU standards, and there is scope to improve the design of the tax system: the value added tax base is narrow; marginal personal income tax rates climb quickly already at modest levels of income, discouraging labour supply; and the tax system is not well geared to achieving environmental goals.	Mobilise additional tax revenues by gradually broadening the value added tax base, imposing higher excise duties on alcohol and tobacco and raising environment-related taxes, while reducing some capital taxes and the tax burden on labour for low-income households with children.
Promoting strong, inclusive and sustainable growth, and pursuing efforts to raise productivity and fight corruption	
Social expenditure is tilted towards contributory benefits favouring people with a job and a stable financial situation. Social assistance programmes do not adequately protect vulnerable groups. Child poverty is high.	Increase the amount and coverage of cash benefits for poor families with children.
The legal framework to fight corruption has been enhanced over the past decade, but the level of corruption is still perceived as rather high by citizens.	Continue efforts to reduce corruption in the public sector.
Despite improvements, Spain remains heavily reliant on fossil fuels, favoured by tax-exemptions, modest fuel taxes and considerable subsidies in agriculture and fishing.	Broaden the base for environment-related taxation including by phasing out exemptions and gradually increasing the tax rate on non-ETS emissions, and compensate partially and temporarily the most vulnerable.
Current policy efforts are unlikely to be sufficient to reach stated goals, notably net zero carbon emissions by 2050 and a cleaner energy mix through greater renewables.	Install more electric vehicle charging points and provide more support for the retrofitting of buildings.
Water quality is poor with toxic levels of nitrates concentration spreading because of intensive agriculture production. Securing water is also a worsening problem in parts of the country afflicted by persistent drought.	Promote a more efficient use of fertilizers by increasing taxes or improving their regulation. Encourage a better use of water through more efficient irrigation, reusing and recycling water or increasing water pricing for irrigation.
Tackling difficulties facing youth in the labour market, education, entrepreneurship and housing	
Expanding access to early childhood education has been a government priority since 2021, but expenditure on early childhood education is lower than in other OECD countries and poorer families face challenges to access early childhood education and care, while access to childcare seems a barrier to female labour force participation.	Continue expanding access to quality early childhood education and care to children under the age of three prioritizing disadvantaged children.
Early school-leaving and repetition rates in compulsory education are very high, curbing educational advancement and job prospects.	Train teachers to identify and support students at risk of leaving education early and address their learning needs.
Enrolment in vocational education and training programmes is growing but remains comparatively low, despite graduates' good labour market outcomes.	Foster collaboration between SMEs to provide apprenticeships to students, training to teachers or share managerial duties.
Despite recent efforts to reform vocational education and training, skill mismatches hamper school-to-work transitions. Close to 40% of 15–34-year-olds report that their highest level of education did not help them in their current job, one of the highest rates in the European Union.	Encourage collaboration between education institutions and businesses in designing and updating university degrees and in student counselling to promote a better alignment between studies and labour market needs. Publicise data on the success of students' labour market placements.
Recent rises in minimum wages have been rapid and large, which could potentially lower employment for vulnerable groups.	Make the recently established expert commission independent with a mandate to advice on minimum wage changes in line with labour market conditions and productivity and ensure their access to data.
Entrepreneurship is low, and Spanish entrepreneurs lack training on how to start a business and on financial literacy more generally.	Extend entrepreneurship education to more young people who are out of the formal education system.
Rental housing is expensive. The stock of social rental housing is stagnant and, at 1%, one of the lowest in the OECD. Many young people involuntarily delay living independently. Rent control regulations are among the most stringent in the OECD and further increases would risk curbing housing supply.	Encourage additional rental supply in stressed areas by increasing the stock of social rental housing, relaxing rent controls, and making taxation less distortive (e.g. by updating property values more regularly and reducing property transfer taxes).

1 Key Policy Insights

Following the outbreak of Russia's war of aggression against Ukraine, sizeable measures were implemented by the government to cushion the inflationary shock and to support the economy, and economic growth held up remarkably well in the second half of 2022 and the first one of 2023. Going forward, public policy should continue to address Spain's structural weaknesses. First, although the 2021 labour market reform has made it possible to reduce the high share of temporary contracts, unemployment remains the highest in the OECD and the integration of young people into the job market remains challenging. Second, income inequalities and poverty remain significant and poverty especially among young people. Third, Spain's growth potential is low and is expected to remain so, notably given the rapid ageing of the population. Stepping up the pace of fiscal consolidation should be a priority, given the demographic outlook and high public debt. Fulfilling Spain's ambitious objectives to fight climate change will require a strong commitment of all economic agents and a more environment-friendly tax regime.

Rising costs of living have brought new challenges since the COVID-19 crisis

Before the COVID-19 pandemic, the Spanish economy had experienced a period of sustained economic growth that was less dependent on the construction sector than the previous cycle. With the pandemic and Russia's war of aggression against Ukraine, the Spanish economy – like the rest of the world – has successively suffered two major shocks. Faced with these crises, the government took strong action to protect businesses and households. During the pandemic, the ERTE (Expedientes de Regulación Temporal de Empleo) short-time work scheme, guaranteed credits and various social measures limited the employment decline and made it possible to initiate a recovery, albeit at slower pace than in some neighbouring countries. Following the outbreak of the war against Ukraine, new measures were implemented to contain the inflationary shock and to support the economy. GDP growth held up remarkably well in the second half of 2022 and the first half of 2023.

Going forward, public policy should continue to address Spain's persistent structural weaknesses building on several major reforms undertaken since 2021 (Box 1.1). First, the recent labour market reform has made it possible to reduce the high share of temporary contracts from around 25% in late 2021 to around 17% in early 2023, and several recent labour market measures in terms of training contracts, active employment policies and hiring incentives should also support employment. Nonetheless, unemployment at 11.5% in August 2023 remains the highest in the OECD, despite having more than halved since 2013 and the integration of young people into the job market is still a challenge, as discussed in Chapter 2. Second, income and regional inequalities remain significant and poverty, despite coming down recently, is comparatively high, especially among the young. Third, Spain's growth potential is low and is expected to remain so, notably given the rapid ageing of the population. To reverse this situation, Spain will have to invest more, as capital intensity has been decreasing over the past few years (Figure 1.1), and must increase its total factor productivity, which is low compared to peer countries. This will require the continuation of the on-going reform efforts in many areas such as skills enhancement, dissemination of digital technologies, entrepreneurship and innovation. The investment and reforms under the national Recovery, Transformation and Resilience Plan (RTRP) will likely deliver higher potential growth (Box 1.1). The Government estimated that they can add around 2.6 percentage point of GDP per year on average between 2021 and 2031 (Ministerio de Asuntos Económicos y Transformación Digital, 2023^[1]).

The deteriorated public finances reduce the leeway for future public policies. As a result of the pandemic, public debt, which was already high before, at 98% of GDP, increased considerably until the first quarter of 2021, even though it has been reduced to 111.2% in the second quarter of 2023. Spain will continue to benefit from the Next Generation EU programme, which provides for EUR 77.2 billion (5.7% of 2022 GDP) to be invested by 2026 under the RTRP. Spain has received EUR 37 billion so far, thanks to the fulfilment of 29% of the milestones and targets set with the European Union, making it one of the countries that have executed their plan fastest and had adopted 60% of the reforms by end-2022, several aligned with past OECD recommendations. Continuing with a rapid and effective implementation of the investments and reforms is essential to seize this unique opportunity to transform and strengthen Spain's economy and face the challenges ahead.

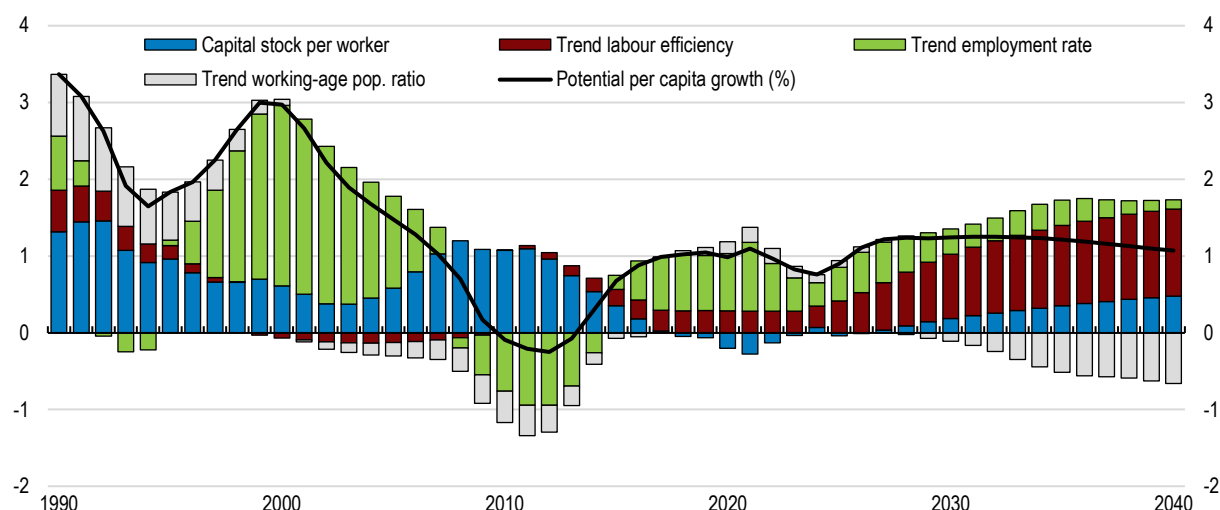
Foremost among the challenges facing Spain are climate change and other environmental issues, notably water scarcity and quality. Almost EUR 30 billion from the RTRP will be devoted to the green transition. The 2021 Law on Climate Change and Energy Transition sets the objective of carbon neutrality by 2050 and ambitious interim targets by 2030. To fulfil them, the 2020 National Energy and Climate Plan 2021-2030 will have to be fully implemented. Fortunately, Spain is well placed to confront this challenge with substantial technological capacity, the presence of leading companies and a consolidated value chain in key renewables sectors.

Box 1.1. Recent major structural reforms in Spain

- The **2021 labour market reform** restricts the use of temporary contracts and shrinks the menu of employment contracts. It also modifies the framework for collective bargaining and simplifies the procedure for companies to take advantage of the ERTE short-time work scheme. In addition, the new RED Mechanism for Employment Flexibility and Stabilisation will allow companies to cut working hours in case of cyclical downturn or difficulties specific to their sector.
- The **2023 Employment law** seeks to modernise active labour market policies, establishing a series of services to which all workers are entitled, and promotes the impact analysis of policies.
- The **2023 Royal Decree-Law on hiring incentives** aims to support employment via reductions in Social Security contributions or other instruments, with a focus on hiring vulnerable unemployed persons or those with low employability, and to encourage the transformation of permanent part-time and permanent discontinuous contracts into full-time and permanent ordinary contracts.
- The **2021 and 2023 pension reforms**. In 2021 the first part of the pension reform indexed benefits to consumer price inflation and eliminated the “sustainability” factor, which linked benefits to life expectancy, replacing it by an “intergenerational equity mechanism” relying on higher contributions. In 2022 legislation linked social contributions of the self-employed to their income. The second part of the reform agreed in 2023 will allow workers to choose between keeping the 25 years of contributions currently considered for calculating the pension benefit or retaining 29 years with the possibility of excluding two. Social security revenues will be strengthened by gradually increasing the maximum bases and maximum pensions. A “solidarity quota” will be phased in progressively, implying higher contributions for those earning the highest salaries.
- The **2022 Law on Business Growth** reduces financial and administrative barriers to the development of firms, while the 2022 **Start-up Law** introduces incentives for the creation of innovative companies.
- The **2022 Insolvency Law** reforms the framework for insolvency procedures and restructuring plans to favour out-of-court negotiations and swift reaction to financial distress situations.
- The **2022 Law on Science, Technology and Innovation** seeks to foster public research and promote the transfer of knowledge to firms.
- The **2022 Law on Telecommunications** includes measures to reduce administrative barriers to network and infrastructure deployment.
- The **2022 Organic Law on Vocational Education** introduces a single, integrated system of professional education.

Figure 1.1. On current policies, longer-run growth prospects are limited

Decomposition of potential output per capita growth, %



Source: OECD long-term projections based on (Guillemette, 2021[1]). The calculation of potential output incorporates the impact of investments only until 2024 but does not account for the long-term impact of policies and the structural reforms adopted as part of the Recovery, Transformation and Resilience Plan.

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The three main messages of this Survey are the following:

- It is imperative to step up the pace of fiscal consolidation, given the demographic outlook and high public debt. Enhancing Spain's growth potential and productivity will help to reduce public debt as a share of GDP. Policies to address the high cost of living should be phased out now that the recovery is firmly underway.
- Environmental challenges are immense. Spain's ambitious objectives to fight climate change can be reached only with a strong commitment by all economic agents. A swift implementation of the relevant RTRP programmes and adopting a more environment-friendly tax regime will be crucial to achieving them.
- Young people face important difficulties to fully realise their potential and contribute to the country's development. The 2021 labour market reform has led to a sharp decrease in temporary contracts for those under 30, significantly improving their situation. Further efforts are needed to offer young people access to training adapted to the needs of the job market, high-quality jobs, affordable housing, and better opportunities to set up their own business.

Spain has experienced a gradual but steady recovery

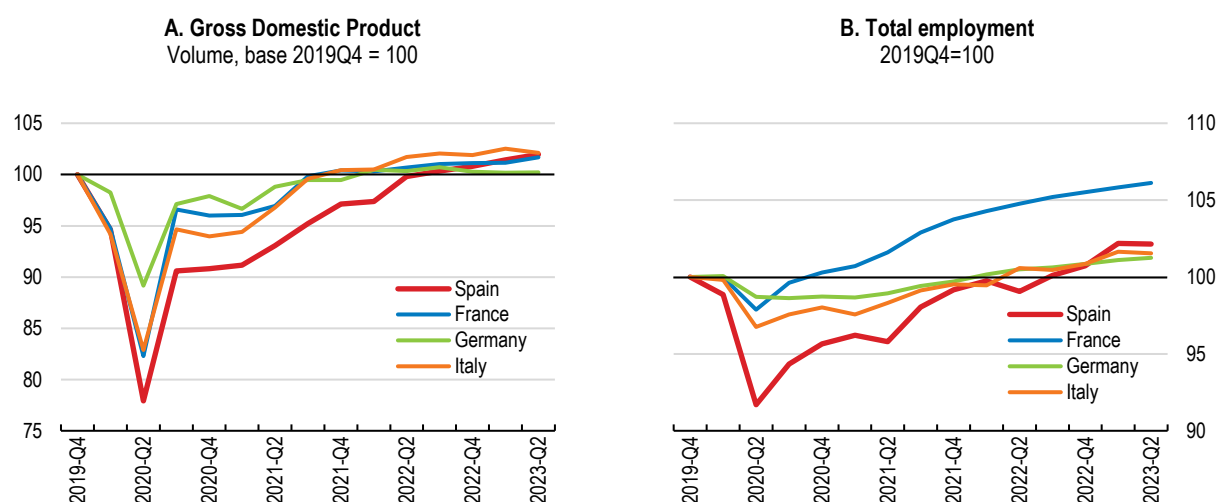
Government action has been decisive in shaping the recovery

With the gradual removal of COVID health-related constraints, activity increased markedly from the second half of 2020. However, the GDP recovery was slower than in the other major euro area countries (Figure 1.2, Panel A), with production lagging in construction and the automotive industry. The upturn in tourism, which provides 12% of total employment, was late, as in other popular tourist destinations.

From early 2021, the recovery was accompanied by inflationary pressures, in the context of a sharp rebound in demand and supply bottlenecks. Russia's war of aggression against Ukraine increased

pressures considerably, causing a sharp rise in the cost of energy and some food commodities, and exacerbated uncertainties about the global economic outlook. The rise in consumer prices curbed household consumption, and the worsened outlook held back business investment. Higher policy rates also weigh on the cost of financing business and household investment and other durables purchases, thereby bearing down on inflation. Spain's bilateral trade flows with Russia and Ukraine are relatively small (less than 2% of goods exports and imports in 2021), but Spain is indirectly exposed via higher energy prices and reduced trading partners' growth.

Figure 1.2. The GDP recovery was slower than in the other main euro area countries

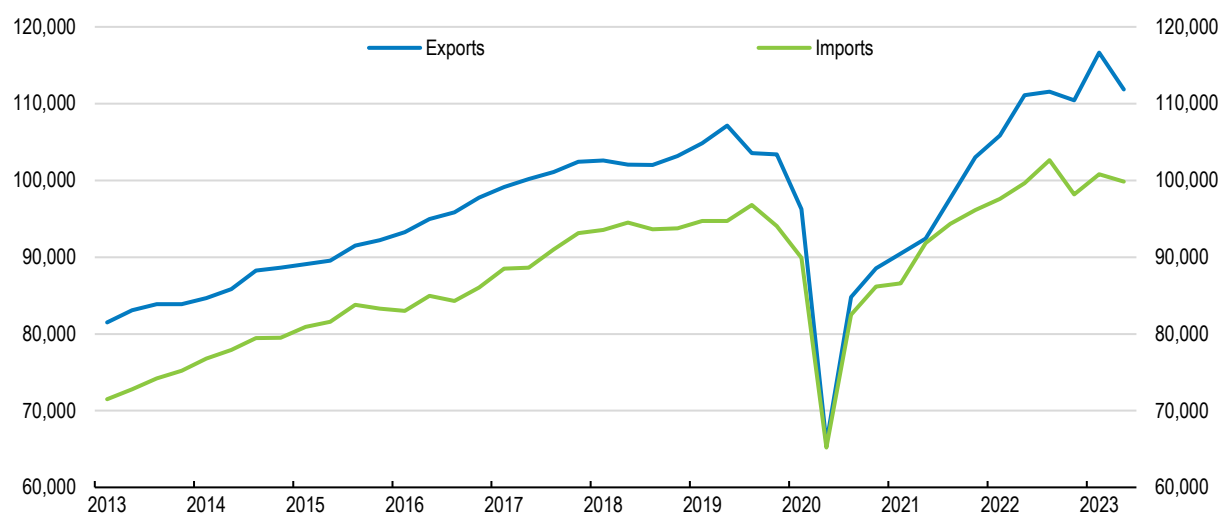


Note: Seasonally and calendar adjusted data; seasonally adjusted data, not calendar adjusted data for France in Panel B.
Source: Eurostat.

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Figure 1.3. Exports have been particularly dynamic

Exports and imports of goods and services, chain-linked volumes (base 2015), seasonally and calendar adjusted data, EUR millions

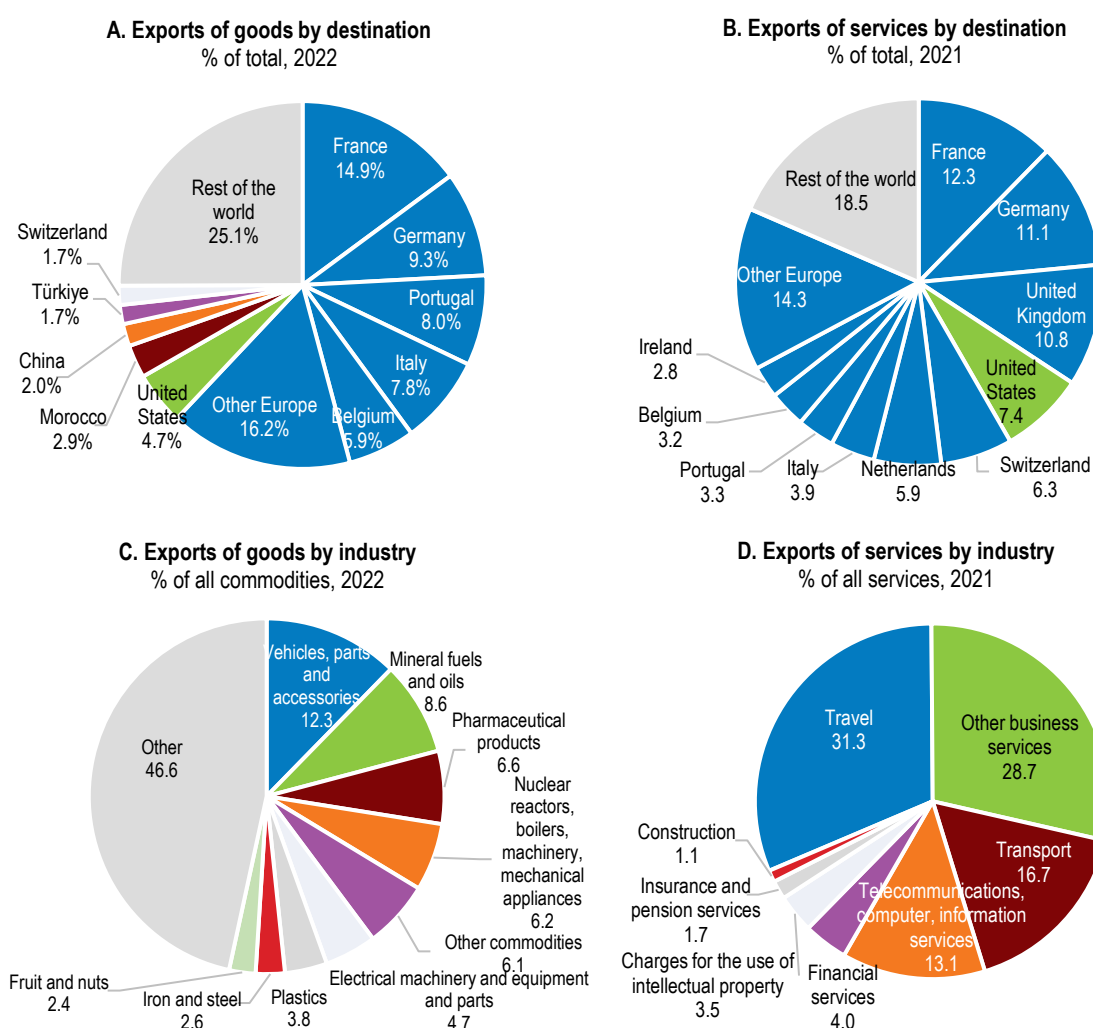


Source: Eurostat.

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Faced with this challenging environment, the Spanish economy has held up remarkably well, posting GDP growth of 5.0% between the fourth quarter of 2021 and the second quarter of 2023, with significant gains across most sectors. Net exports proved particularly dynamic, accounting for almost two-thirds of the increase in GDP. Exports, which were hit hard at the onset of the COVID-19 pandemic, have been a key driver of Spain's recovery, as in the last decade (Figure 1.3). Spain's exports go mostly to Europe, though they are fairly diversified by product (Figure 1.4). Government measures to support businesses and households helped mitigate the inflationary shock (Box 1.2). Moreover, household income and consumption have continued to be underpinned by dynamic employment, which increased by 3.1% year-on-year in the second quarter of 2023 (Figure 1.2, Panel B). However, business survey data point to a slowdown in the second half of 2023.

Figure 1.4. Exports are diversified



Source: OECD International Trade Statistics.

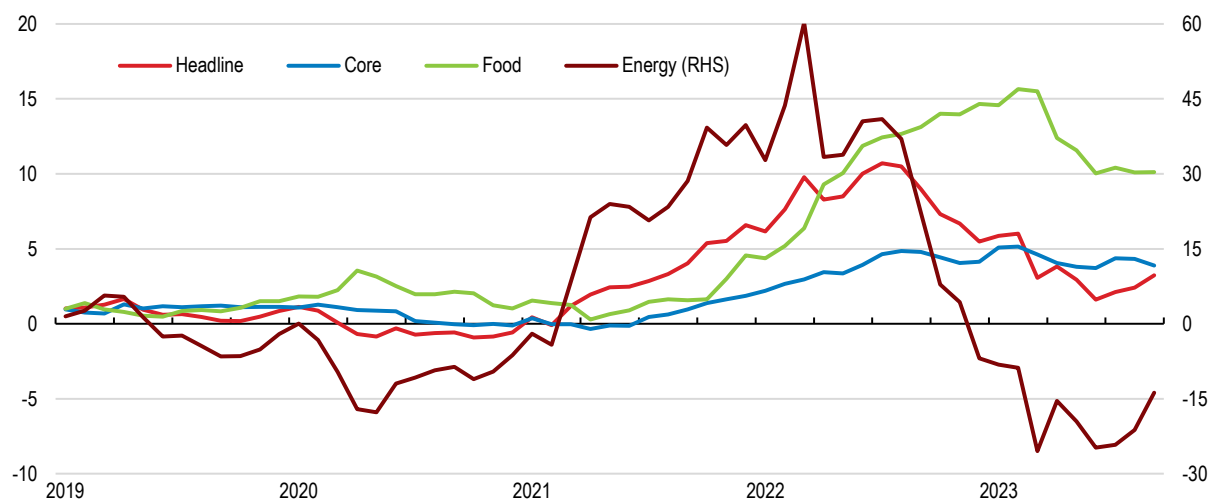
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Inflation has moderated significantly but price pressures remain high. The decline in oil and gas prices, tax cuts and the implementation of the “Iberian exception” mechanism (see Box 1.2) have brought annual headline inflation down from a double-digit rate in the summer of 2022 to 1.6% in June. However, a recent rebound in energy prices pushed inflation to 3.3% in September 2023. The moderation in energy prices

compared to 2022 has been larger than in other European economies; however, food and core inflation remain elevated (Figure 1.5). Some service prices continue to rise, fuelled by a lagged pass-through of past energy price increases and some wage pressures. Nominal wage growth is contained below headline inflation but has strengthened, with the year-on-year increase in compensation per employee reaching 5.4% in the second quarter of 2023. Firm managers expect further price increases in the short run, especially in services, although survey data show that inflation pressures are moderating. Core inflation is expected to recede slowly in 2024, with the growing impact of monetary policy tightening.

Figure 1.5. Food and core inflation remain high

Year-on-year increase in the harmonised index of consumer prices, %



Source: Eurostat.

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GDP growth is expected to slow after two years of strong growth in 2021-2022, in the context of the post-COVID-19 recovery, but will remain sustained, at 2.5% in 2023 and 1.5% in 2024. Domestic demand will moderate its pace but will remain the key driver of growth, amid weakened external demand (Table 1.1). Private consumption and investment will grow but less vigorously, limited by tight financial conditions and persistent inflation in 2024. GDP growth will benefit in the coming quarters from significant support from public spending linked to the RTRP. According to the government, the RTRP and associated reforms will boost GDP by 2.7 percentage points in 2023 and 3.1 percentage points in 2024 (Ministerio de Asuntos Económicos y Transformación Digital, 2023^[2]). The Fiscal Council (AIReF) estimated the impact at 2.3% in 2023 and 1.9% in 2024 (AIReF, 2022^[3]), while for the European Commission the RTRP will lift GDP between 1.8% to 2.5% by 2024 (European Commission, 2021^[4]). According to the Bank of Spain, the funds associated to the RTRP could raise GDP by 1.3% to 1.75% in annual average terms over a five-year horizon (Fernández Cerezo, 2023^[5]). In the short term the boost from the RTRP may reinforce upward pressures on prices, but eventually the added supply is likely to alleviate such stresses.

The outlook is overshadowed by significant uncertainties and downside risks. A further escalation of geopolitical conflicts could push up energy prices and inflation and worsen the economic outlook in Spain's main trading partners. A slow implementation of the RTRP could restrain growth more than expected. On the upside, a faster-than-expected improvement in the international environment would support activity, as would as a more rapid and efficient implementation of RTRP funds (Table 1.2).

Table 1.1. Macroeconomic indicators and projections

Annual percentage change, volume (2015 prices)

	2018 Current prices (billion EUR)	2019	2020	2021	2022	2023	2024
Gross domestic product (GDP)	1,203.9	2.0	-11.2	6.4	5.8	2.5	1.5
Private consumption	699.5	1.1	-12.3	7.1	4.7	1.7	1.6
Government consumption	225.3	1.9	3.6	3.4	-0.2	2.4	1.5
Gross fixed capital formation	234.0	4.5	-9.0	2.8	2.4	2.4	2.2
Housing	65.0	5.2	-9.7	0.9	1.4	1.7	1.6
Final domestic demand	1,158.8	1.9	-8.5	5.3	3.2	2.0	1.7
Stockbuilding ¹	12.4	-0.2	-0.8	1.4	-0.2	-0.2	-0.1
Total domestic demand	1,171.2	1.7	-9.2	6.7	3.0	1.7	1.6
Exports of goods and services	423.1	2.2	-20.1	13.5	15.2	3.3	2.1
Imports of goods and services	390.4	1.3	-15.0	14.9	7.0	1.5	2.6
Net exports ¹	32.7	0.4	-2.2	-0.2	2.9	0.8	-0.1
Other indicators (growth rates, unless specified)							
Potential GDP		1.5	1.3	1.2	1.3	1.3	1.2
Output gap ²		2.2	-10.3	-5.7	-1.6	-0.5	-0.3
Employment		2.3	-2.9	3.0	3.1	3.4	2.4
Unemployment rate ³		14.1	15.5	14.8	12.9	11.9	11.5
GDP deflator		1.4	1.1	2.7	4.1	5.9	2.4
Consumer price index		0.8	-0.3	3.0	8.3	3.5	3.7
Core consumer price index		1.1	0.5	0.6	3.8	4.0	3.0
Household saving ratio, net ⁴		4.2	10.8	7.0	2.4	3.2	1.6
Current account balance ⁵		2.1	0.6	0.8	0.6	2.4	1.8
General government fiscal balance ⁵		-3.1	-10.1	-6.7	-4.7	-3.8	-3.5
Underlying general government fiscal balance ²		-4.5	-3.0	-4.1	-4.6	-4.1	-3.9
Underlying government primary fiscal balance ²		-2.4	-1.1	-2.2	-2.5	-1.9	-1.5
General government gross debt (Maastricht) ⁵		98.2	120.3	116.8	111.6	109.4	110.0
General government net debt ⁵		85.0	107.3	99.7	77.2	75.0	75.6
Three-month money market rate, average		-0.4	-0.4	-0.5	0.3	3.4	3.9
Ten-year government bond yield, average		0.7	0.4	0.3	2.2	3.6	4.5

1. Contribution to changes in real GDP.

2. As a percentage of potential GDP.

3. As a percentage of the labour force.

4. As a percentage of household disposable income.

5. As a percentage of GDP.

Source: OECD (2023), OECD Economic Outlook database, September.

Table 1.2. Events that could lead to major changes in the outlook

Shock	Possible impact
Intensification of geopolitical tensions	Higher energy prices would lead to a negative terms-of-trade shock, a rise in inflation, a fall in incomes and a worsening of the current account balance. Loss of confidence from investors would trigger a fall in global demand and lower Spain's growth.
Slow implementation of the RTRP	Lower public and private investment would slow the pace of the recovery. The disbursement of the Next Generation EU funds, which is conditional on the achievement of investment targets, would be delayed.
A wage-price spiral	Higher inflation would have a negative impact on demand, slowing economic growth. A wage-price spiral could lead to higher monetary policy rates, leading to tighter financial conditions, reduced borrowers' repayment capacity and more constrained fiscal space.
Extreme weather events associated with climate change, such as heatwaves, wildfires, or severe droughts	Lower production in agriculture. Worsened health, infrastructures, buildings and equipment and the destruction of wildlife.
More resilient domestic demand	More resilient private consumption supported by income and savings could lead to stronger than expected growth.

The labour market has recovered well, but challenges remain

The Spanish labour market has recovered well from the COVID-19 pandemic, and the unemployment rate stood at 11.5% in August of 2023, two percentage points below its pre-crisis level. Employment growth has been robust, and total hours worked have reached pre-pandemic levels. A large part of job growth since end-2019 is likely due to a strong rise in the formalisation of contracts by workers wishing to be eligible for pandemic-related social benefits. In addition, although the recovery has been associated with a rise in job vacancies, Spain has avoided the acute labour shortages seen in other European economies.

The labour market recovery has been underpinned by decisive policy action. Early evidence suggests that the 2021 reform to reduce over-reliance on temporary contracts is showing significant results, as discussed in Chapter 2. The share of employees with temporary contracts is rapidly decreasing, reaching 17.4% in the second quarter of 2023, down from 25.3% at the end of 2021, and narrowing the gap with the European Union average of 13.5%. The share of temporary contracts among those below the age of 30 fell from 55.4% end 2021 to 37.0% in the second quarter of 2023. Also, the recent improvement in the labour market is part of a deeper trend, with a continuous decline in unemployment since 2013, only interrupted by the COVID-19 crisis.

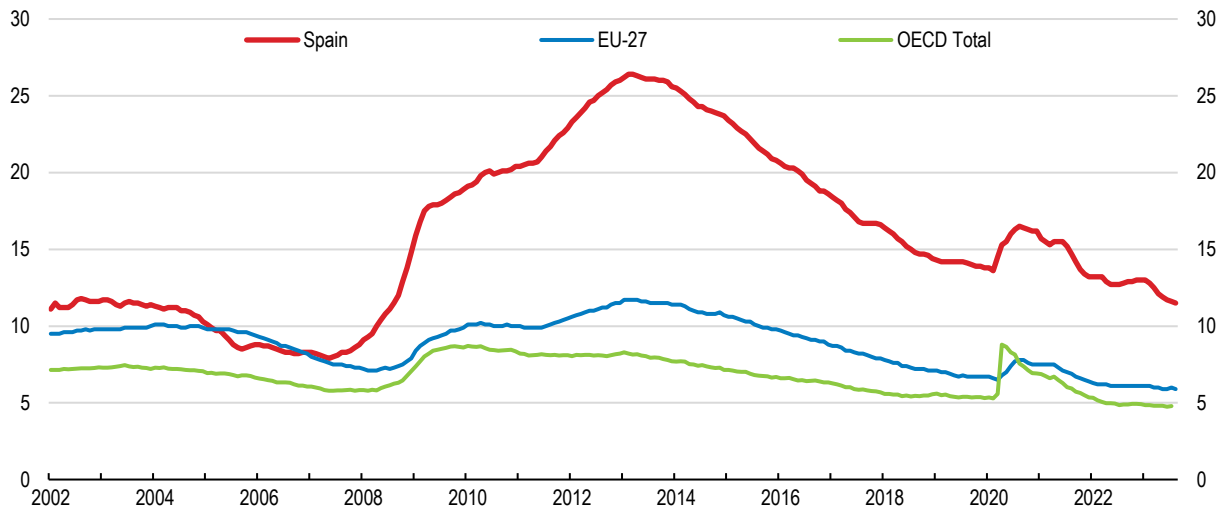
Despite this welcome progress, labour market challenges remain. First, the unemployment rate is still the highest in the OECD and more than double the OECD average (Figure 1.6). Second, the labour market remains especially difficult for young people (Chapter 2) and women. At 27%, youth unemployment is one of the highest in the OECD, though this is a considerable improvement compared to the pandemic high of 40% in June 2020. Third, average earnings are low compared to other OECD countries, reflecting low worker skills but also weak firm productivity. The rise in nominal wages in 2021 and 2022 was not enough to protect purchasing power in the context of high inflation, and real wages in Spain dropped by 1.4% between the first quarter of 2021 and the second quarter of 2023. Real wages for young people had been falling over the last couple of decades, unlike those of older workers.

High unemployment reflects structural issues to a large extent, including, low incentives to return to work for the unemployed skill mismatches and insufficiently effective active labour market policies, as discussed in Chapter 2. Recent reforms aim at reducing structural unemployment in various ways. First, the 2021 labour market reform is expected by reducing temporary work to create longer and more stable carriers and stimulate in-company training. Second, the *Expediente de Regulación Temporal de Empleo* (ERTE) scheme and the new scheme for the self-employed aim at reducing layoffs during temporary negative firm performance. Third, the investment and reforms under the RTRP are expected to increase output and, consequently, employment (AIReF, 2023^[6]). Fourth, the new employment law aims at providing personalized support and guaranteed services in favour of re-employment, and upskilling and reskilling programs are part of the Recovery Plan.

To complement these efforts and to further reduce unemployment it will be important to provide better job-search assistance, career guidance and work-experience programmes, as well as up-skilling and re-skilling support, as discussed in previous Surveys and in Chapter 2. Moreover, it will be important to strengthen monitoring of the unemployed as well as to give greater incentives to the unemployed to return to work. Activation requirements for the unemployed are lower than in most other OECD countries (Figure 1.7), in terms of availability to work requirements, required job search activity and imposed sanctions. Moreover, while the generosity of unemployment benefits is like in other EU countries, the replacement rate declines more slowly through the spell of joblessness than elsewhere, reducing the incentives to get back to work. A further barrier to the reemployment of the long-term unemployed is that, given a sufficient contribution history, unemployment benefits can be collected until retirement for those aged 52 or older (Domènech-Arumí, 2022^[7]). A welcome reform of the unemployment subsidies for those older than 52 years has been initiated to make it compatible with employment to encourage the reemployment of the older long-term jobless. Spain could follow in the steps of some OECD countries such as Italy and France to provide greater incentives to return to work by allowing combining unemployment benefits with work for some time (OECD, 2023^[8]). As discussed, and recommended in Chapter 2, increasing access to quality childcare, especially for vulnerable children, could boost female labour force participation and productivity, besides improving education outcomes for children.

Figure 1.6. Unemployment has decreased but remains higher than in other OECD countries

Unemployment rate, seasonally adjusted, % of the labour force



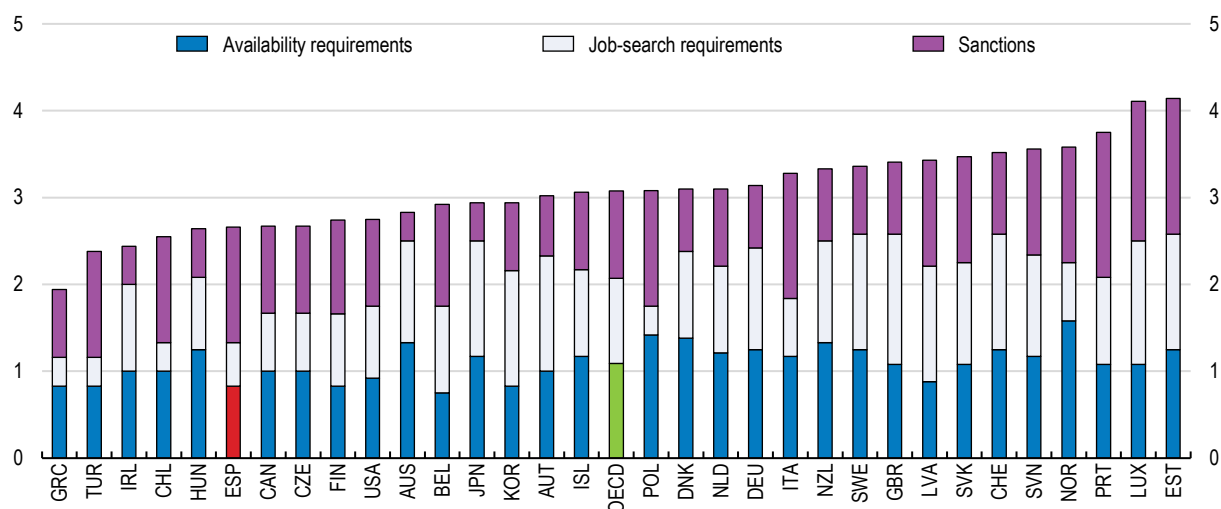
Note: EU-28 prior to February 2020.

Source: OECD Labour Force statistics.

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Figure 1.7. Activation requirements for the unemployed are lower than in most other OECD countries

Unemployment benefits strictness of activation requirements, index from 1 (least strict) to 5 (most strict), 2022



Source: OECD, Benefits and wages database.

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Table 1.3. Past recommendations on the labour market and actions taken

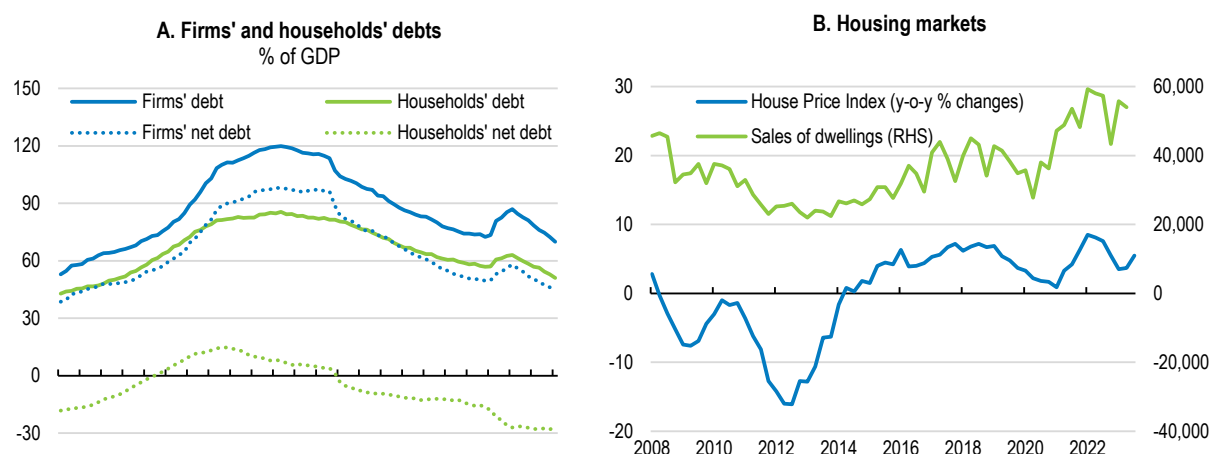
Recommendations in past Surveys	Actions taken since 2021
Simplify the menu of contracts firms can choose from.	The 2021 labour market reform streamlined the menu of temporary contracts available for companies.
Maintain a flexible labour market that allows firms to adapt to changing economic conditions, including through the priority of firm level agreements over sectoral and regional ones.	The 2021 labour market reform reinstated the priority of sectoral agreements over firm-level agreements for wage negotiations. It modified the ERTe short-time work scheme and introduced the RED Employment Flexibility and Stabilisation mechanism for particular macroeconomic or sectoral circumstances.
Establish a permanent commission to regularly evaluate the changes to the minimum wage.	A permanent commission was established in January 2021 to evaluate the changes and path of the minimum wage.
Target existing hiring incentives to specific vulnerable groups and link them to training programmes.	Royal Decree-Law 1/2023 reformed hiring incentives, targeting vulnerable groups and linking the incentives to training.
Ensure that workers on short-time work schemes are effectively prioritised for training.	The RED and ERTe schemes include training since 2022. The 2021 labour market reform increases incentives for training of temporary workers.
Increase spending on training and job-search assistance.	The allocation to finance employment promotion policies increased by 7.8% in 2022 and is being raised by 10.2% in 2023.
Remove barriers to competition of training centres across regions.	No action taken.
Introduce a single point of contact for social and employment services.	The 2023 Employment law clarifies responsibilities, promoting the role of Public Centers.
Introduce the use of profiling tools to identify job seekers at risk of becoming long-term unemployed and their training needs. Provide tailored guidance to workers.	The SEND@ digital tool provides guidance on the best-suited training programmes according to the characteristics of the job-seeker.

Financial risks have risen with higher interest rates, but private-sector finances have improved

Rising interest rates have increased financing costs for businesses and households, alongside financial risks due to persistent inflationary pressures and higher uncertainty. However, households' and firms' debts are now lower than in 2007 (Figure 1.8, Panel A), which implies that the weight of these additional costs relative to their income is lower than it was 2007. Also, firms and households have accumulated liquidities in the few past years, especially during the pandemic, which can serve as buffers and limit the

economic impact of the rise in interest rates (Ministerio de Asuntos Económicos y Transformación Digital, 2023^[9]). The consolidated debt of financial corporations, which had increased following the outbreak of COVID-19, has returned to its end-2019 level. Firms have received state guaranteed loans since the beginning of the pandemic for a total of about 8% of GDP. As support measures are gradually unwound, an increase in non-performing loans (NPLs) is possible, and close monitoring is warranted, but so far NPLs are still declining (Bank of Spain, 2022^[10]).

Figure 1.8. The private-sector financial situation has improved



Note: Panel A: data on firms' debt refer to consolidated debt.
Source: Bank of Spain; Eurostat, House Price Indices; and INE.

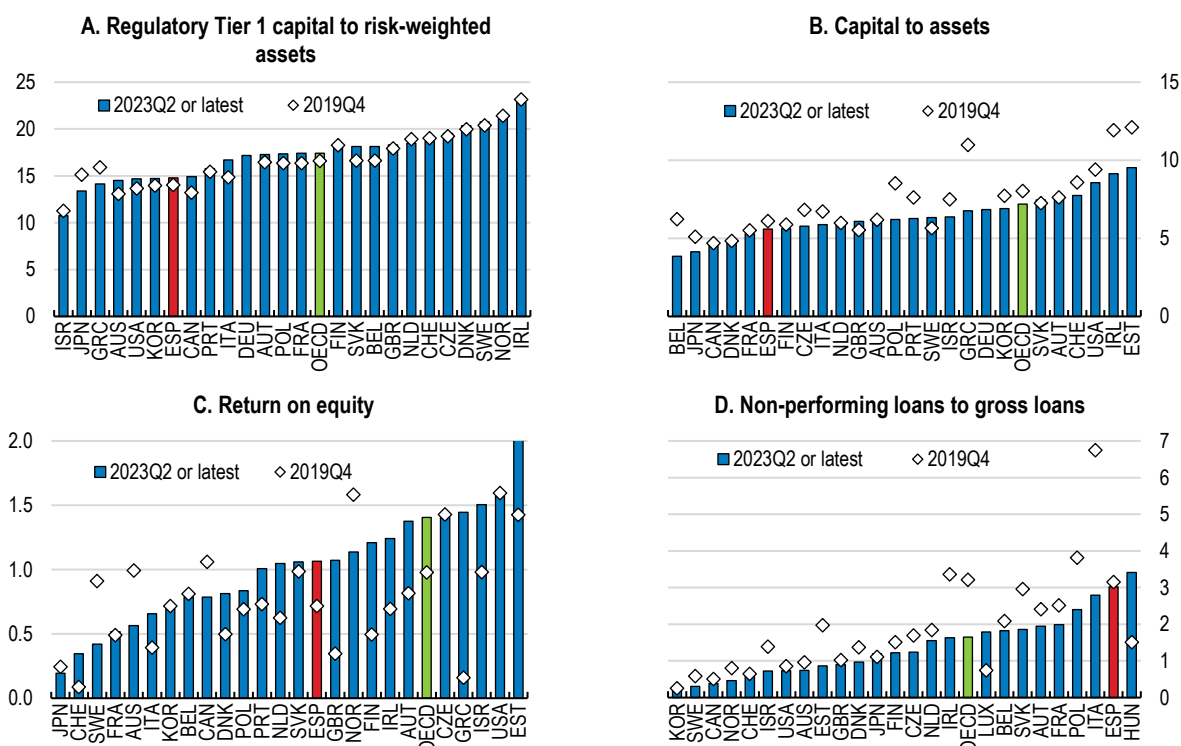
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Spanish households are highly exposed to rising interest rates, given the heavy concentration of variable-rate mortgages (70% of the stock), even if in recent years most new mortgages have been extended at fixed rates, and despite measures in 2022 to cushion the increase in financial costs for debtors, notably by facilitating the extension of the repayment period and the conversion of variable rate loans into fixed rates. For banks, this entails a risk of sizeable impairment losses, which calls for prudent lending and close monitoring. Tighter financial conditions are cooling the housing sector with prices and sales starting to decelerate from mid-2022 (Figure 1.8, Panel B). Before that, housing price increases had been strong in some regions (Madrid, coastal regions and the islands). However, analysis by the Bank of Spain suggests that housing overvaluation is moderate overall, especially in comparison with 2007-2008, and that risks for banks' balance sheets related to real estate are contained so far (Bank of Spain, 2023^[11]).

Spanish banks face the uncertain macroeconomic environment with higher levels of solvency than before the pandemic and lower NPL ratios (Bank of Spain, 2023^[11]). Their return on equity ratios have increased in 2022 and remain above the average cost of equity and their CET-1 capital ratio are above minimum requirements, but below the OECD average (Figure 1.9). Financial-sector direct exposures to Russia and Ukraine are negligible. The turmoil in the financial markets that followed the Silicon Valley Bank's bankruptcy in early 2023 raised fears of a generalised banking crisis and contagion to Europe. This risk has not materialised, and the direct exposure of Spanish banks appears limited, but caution is still warranted. Also, a deterioration of the macroeconomic outlook and further increases in interest rates will likely erode borrowers' repayment capacity. Therefore, close monitoring is needed, and banks should keep prudent provisioning and capital policies. Stress tests conducted by the Bank of Spain suggest that Spanish banks would be solvent in a scenario of prolonged high inflation, a sharp slowdown in GDP and significant tightening of financial conditions (Bank of Spain, 2022^[10]). However, there would be some heterogeneity in the resilience of individual banks. Against this background, the Bank of Spain has maintained its macroprudential stance by keeping the countercyclical capital buffer (CcyB) rate at 0%, which seems appropriate, given the prevailing downward risks for the economy.

Figure 1.9. Financial stability indicators are weaker than the OECD average

Financial stability indicators for deposit takers, %



Source: IMF Financial Soundness Indicators Database.

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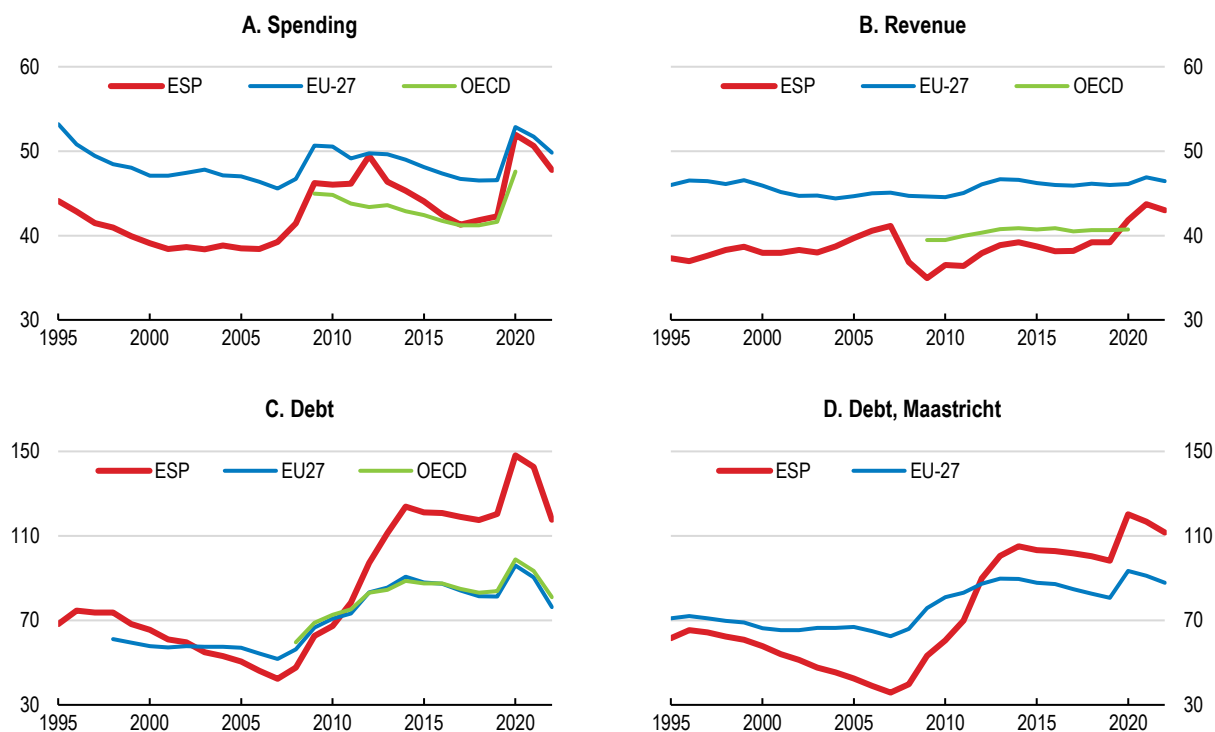
Public finances have improved, but government debt remains high

Spain has long had moderate government spending and revenues, but budget balance has been elusive. Public debt (Maastricht definition) reached over 100% of GDP following the Great Financial Crisis and 113.2% of GDP in 2022 (Figure 1.10). Gross public debt is even higher at 117.7% of GDP. Spending as a share of GDP is close to the EU-27 average (though well above the OECD mean), but revenue is several percentage points lower, making for a large structural deficit.

As outlined above, the government's fiscal response to the pandemic succeeded in limiting its impact but has taken a toll on public finances. Nevertheless, the headline fiscal deficit has more than halved in the last two years, to 4.8% of GDP in 2022, below the target set in 2021, driven by strong revenue growth and the withdrawal of COVID-related measures. The fiscal improvement more than offset the cost of measures taken in response to the surge in energy and food prices since the second half of 2021 (Box 1.2). Strong revenues have been underpinned by the recovery in activity, high inflation (the government attributes to inflation 5 percentage points of the 14.4% revenue gains in cash terms in 2022), a buoyant labour market, growing formalisation thanks to better law enforcement and an unusually high elasticity of revenue to output. Overall, while recent government deficits have been shrinking, closely in line with the euro area average, this has been mostly for cyclical and one-off reasons, and the underlying deficit has been largely unchanged at near 3% of GDP (Figure 1.11).

Figure 1.10. Spain has moderate government revenue and spending but also a large debt

General government, % of GDP, 1995-2022



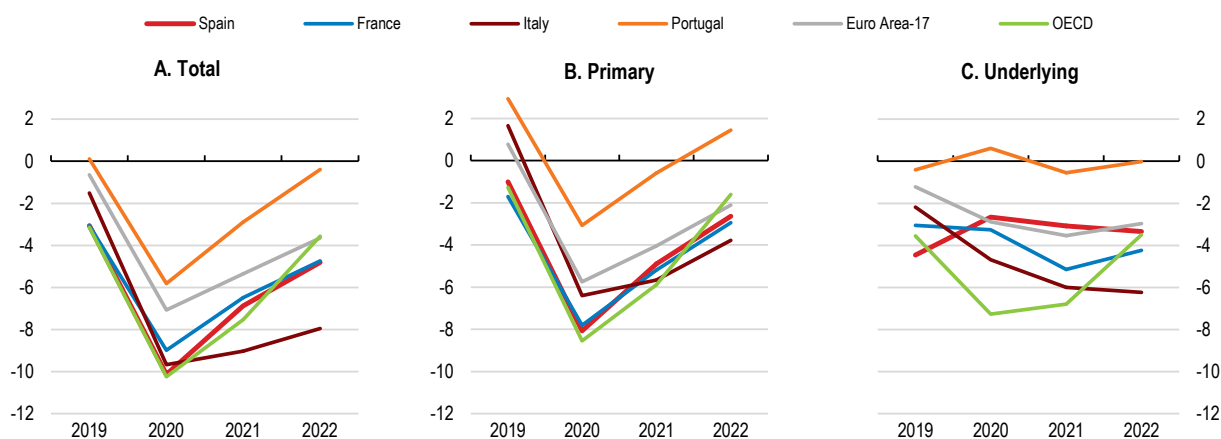
Note: Debt for EU-27 is based on the average of 22 OECD-EU countries; debt for OECD average excludes Colombia, Iceland, New Zealand, and Türkiye.

Source: OECD (2022) National Accounts database; OECD Economic Outlook database.

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Figure 1.11. Spain's recent government deficits have been shrinking but for mostly cyclical reasons

General government balances, 2019-2022



Source: OECD General government deficit (indicator) and OECD Economic Outlook database.

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The government deficit is projected by the OECD to decline to 3.8% of GDP in 2023 and 3.5% in 2024 (compared to the government forecast of 3.9% and 3.0% published in the October 2023 Stability Programme), driven down by new temporary taxes, the wind-down in emergency measures and the non-neutral effects of still high inflation. The budget for 2023 features a 10.5% rise in social spending, a 11.4% increase in pension spending (including 8.5% for inflation compensation, something that other demographic cohorts have clearly not benefitted from to such an extent), and a 25% increase in military outlays, following the commitment to reach the NATO standard of defence spending of 2% of GDP in the next five years. New temporary tax measures targeting some firms and higher-income households are expected to increase tax collection by over EUR 11 billion cumulated over 2023 and 2024. These include one-off taxes on large banking and energy companies, a cap on large business groups' corporate tax deductions and a temporary increase in taxes on wealth and personal and corporate income, mostly affecting richer households.

The authorities have acted promptly to mitigate the impact of high food and energy prices, implementing various policies (Box 1.2). The fiscal cost of the measures at more than EUR 38 billion (about 2.9% of single-year GDP, excluding loan guarantees of a further EUR 10 billion) has been high. The bulk of support in 2022 was untargeted, such as electricity tax reductions, fuel excise rebates and cuts in the VAT benefiting in many cases the better-off (García-Miralles, 2023^[12]). The measures have evolved since to target more households and vulnerable business sectors. According to the Bank of Spain the measures have reduced consumer prices by some 3 percentage points for the affluent, 4-5 points at the median income level and as much as 9 points for those at the bottom of the income distribution, though some of the effect is temporary (García-Miralles, 2023^[12]). Spain has gone from having one of the highest inflation rates in the European Union to one of the lowest. Fiscal support to mitigate the high cost of living should now be fully and rapidly phased out to help to limit fiscal costs, preserve incentives to lower energy use and limit additional demand stimulus at a time of high inflation to support monetary policy. If further assistance to the poorest is needed, that should come through the new minimum income guarantee (see below).

Sustained fiscal consolidation will be needed to reduce the ratio of public debt to GDP and create space for needed spending and responding to future shocks. The government projects that the deficit will fall only by a quarter percentage point per year in 2025-26, with Maastricht debt still in triple digits throughout, ending the period at 106.8% of GDP. Given the poor demographic outlook, and resulting ageing-related spending pressures, as well as the need to spend more on the green transition, it would seem prudent to step up the pace of fiscal consolidation to restore pre-COVID levels of debt in the coming few years. The government predicts an increase in ageing-related spending of around 3 percentage points of GDP by 2050, with about 1¾ points each from pensions, mostly concentrated in the 2030s and early 2040s, and health/long-term care. Failing fiscal consolidation, according to OECD estimates, public debt may follow an upward trend in the coming years (Figure 1.12, blue line), even in the case of a faster-than-projected growth (Figure 1.12, brown line). Higher interest rates on government debt (orange line) would lead to a more substantial albeit lagged increase in debt ratios, given an average maturity of debt of eight years. Even if ageing-related costs are offset, the current stance of government fiscal policy would not be sufficient to achieve a significant reduction of public indebtedness (green line).

Box 1.2. Measures taken to offset the effects of the recent energy and food price shocks

Since 2021 several measures have been taken.

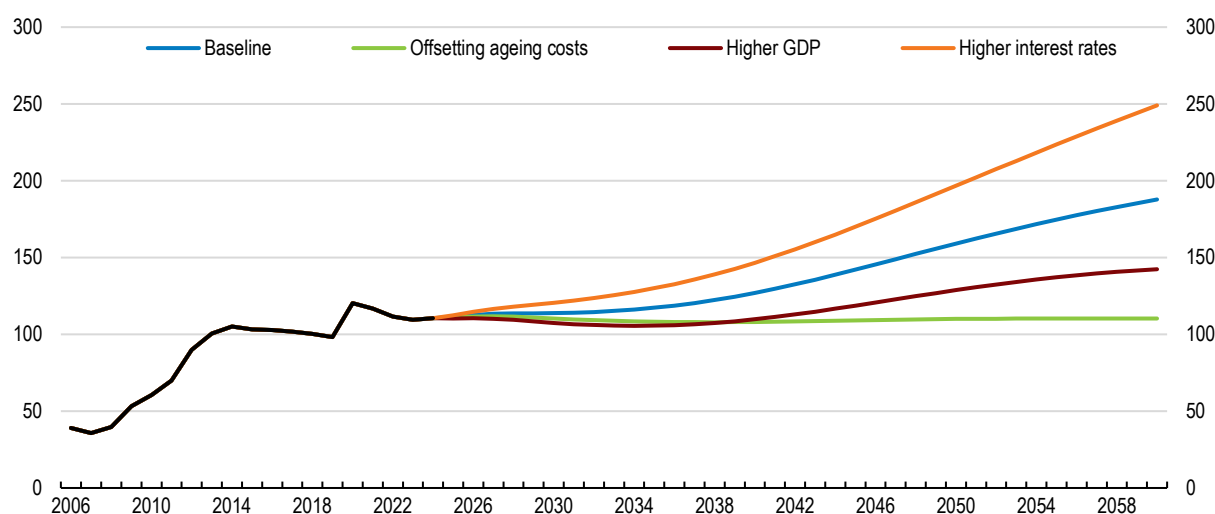
- A temporary cut in VAT on natural gas and electricity from 21% to 5% and an exemption on tax on the value of electricity produced. Basic food items are also temporarily subject to a zero rate of VAT (rather than 4%), and some other food items benefit from a halving of the VAT rate from 10 to 5% in 2023.
- Transport fuel excise rebates worth around EUR 6 billion have been curtailed for most users in 2023.

- One-off payment of EUR 200 targeted at 4.2 million households not covered by the minimum income guarantee scheme nor receiving a pension with annual incomes below EUR 27 000, subsidies to natural gas bills, a rise of EUR 100 for all monthly payments of scholarships for students above 16 years old and some direct compensation to promote public transportation. Overall support to households reached EUR 4.3 billion by end 2022, most of which was to subsidise household gas bills.
- Direct support to firms in the transportation, agriculture, fishing and energy-intensive sectors totalling EUR 1.8 billion to end-2022. In addition, a new public loan guarantee line (EUR 10 billion) for firms was created, and a six-month extension of the interest-only periods on COVID guarantees was granted to the most affected corporations.
- A 15% increase in non-contributory pensions and the minimum income guarantee.
- In June 2022, Spain and Portugal adopted a temporary cap on the price of electricity generated using natural gas (“Iberian exception”). According to the government, this scheme was expected to lower household electricity bills by 15-20%. It will end in December 2023.

In 2021, a cap was introduced for the uprating to the regulated tariff of natural gas, known as the “last resort tariff”, for customers that have annual consumption of less than 50 MWh and are not in the liberalised market. The cap was extended to cover multiple-owner buildings with natural gas central heating.

Figure 1.12. Fiscal consolidation efforts are necessary to set public debt on a downward trend

Public debt, % of GDP



Note: The baseline scenario consists of the ongoing Economic Outlook projections up to 2024 and the long-term projections of the Economic Outlook No. 113 database afterwards, except for the primary balance, which is projected to improve gradually until 2029 and then to be equal to 0.5% of GDP minus net total ageing costs (net increase in public pensions, long-term care and health costs compared to 2022, adding 0.65 percentage points of GDP to annual government spending in 2029 and up to 3.0 percentage points in 2050). The estimates for ageing costs are mainly based on the projections of the 2021 European Commission Ageing Report. These projections include estimates for the cost of the indexation of pension benefits on the Consumer Price Index and for the suppression of the sustainability factor. Estimates for the other measures of the 2021 and 2023 pension reforms are based on AIReF. The “offsetting ageing costs” scenario does not include these estimates of ageing costs (i.e. the primary balance is equal to 0.5% of GDP after 2029). The “higher GDP” scenario assumes higher real GDP growth by 1 percentage point each year compared to the baseline scenario. The “higher interest rates” scenario assumes higher interest rates by 1 percentage point from 2024.

Source: Adapted from OECD (2023) Economic Outlook: Statistics and Projections (database); Long-term baseline projections; European Commission (2021), *The 2021 Ageing Report – Economic and Budgetary Projections for the EU Member States (2019-2070)*; and AIReF (2023), *Opinion on the Long-term Sustainability of the General Government: The impact of demographics*.

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Given the magnitude of the longer-term public finance challenges, a medium-term plan to step up the pace of deficit reduction should be adopted. Fiscal consolidation will probably need to rely on both enhancing spending efficiency and mobilizing additional revenues. Besides lifting output by an estimated 2.2% on a ten-year horizon (Box 1.3, Table 1.4), the policy changes recommended in this *Survey* would lead to a net budgetary gain of 0.5% of GDP per year (Box 1.3, Table 1.5).

Box 1.3. Quantifying the impact of some recommendations

This box summarises potential long-term impacts of selected structural reforms included in this *Survey* on GDP (Table 1.4) and on the fiscal balance (Table 1.5). The quantified impacts are merely illustrative. The impact on GDP is estimated using historical relationships between reforms and growth in OECD countries. The estimated fiscal effects include only the direct impact and exclude behavioural responses that may occur due to policy change. Table 1.5. is not intended to provide a full description of the policy measures that the future evolution of public finances may require.

Table 1.4. Illustrative GDP impact of selected recommendations

Effect on the level of GDP

Policy	Scenario	5-year effect	10-year effect
Increase funding for early childhood education and care	Increase spending on early childhood education and care by 10% from 0.5% of GDP.	0.2%	0.3%
Link retirement age to life expectancy	Increase the effective retirement age by 1.5 years.	1.0%	1.6%
Reduce regulatory barriers	Lower the OECD Product Market Regulation index related to barriers to trade and investment by 10% from 0.48.	0.2%	0.4%
Total		1.4%	2.2%

Note: Changes in regulatory barriers proposed in the Survey correspond to fostering the mutual recognition of regulations by regions and the implementation of the Market Unity Law. The scenario proposed in this box is purely illustrative, as the Product Market Regulation index used here has not been designed to correspond exactly to these reforms.

Source: OECD calculations based on B. Égert and P. Gal (2017) *The quantification of structural reforms: A new framework*, OECD Economics Department Working Paper, No. 1354.

Table 1.5. Illustrative fiscal impact of selected recommendations

Recommendations	Budgetary effect in EUR billions	Budgetary effect as a % of GDP
Eliminate some reduced VAT rates	5.0	0.4
Increase taxes on alcohol and tobacco	1.3	0.1
Raise green taxes notably on carbon	5.0	0.4
Lower non-recurrent taxes on property	-1.5	-0.1
Lower the tax burden for low-income households with children	-3.0	-0.2
Total revenue measures	6.8	0.5
Link the retirement age to life expectancy at the age of retirement	1.5	0.1
Increase social rental housing	-1.0	-0.1
Increase cash benefits for poor families with children.	-1.0	-0.1
Implement the recommendations in the fiscal council spending reviews	2.0	0.2
Increase funding for early childhood education and care	-1.5	-0.1
Total spending measures	0.0	0.0
Net budgetary effect	6.8	0.5

Note: Some of the estimates in this table were taken from the White Book (see Box 1.4). The increase in “funding for early childhood education and care” corresponds to the scenario in the previous table. In this table “Link the retirement age to life expectancy at the age of retirement” is considered equivalent to reinstating the sustainability factor.

Source: OECD calculations.

The tax burden has risen but without much attention to efficiency considerations

Government revenue was 3.8% of GDP higher in 2022 than in 2019, and tax compliance has improved recently, increasing revenues, but there is scope to further cut down on tax evasion by providing the Tax Administration Agency (AEAT) with more resources, to make the tax system more efficient and to raise still more revenue following the last major tax reform in 2014 (OECD, 2017^[13]). In April 2021 an expert group comprising 15 members was established by the Minister of Finance to propose a broad-based tax reform. It reported in early 2022 in a detailed White Book (Institute for Fiscal Studies, 2022^[14]), but the economic context in general and the government's revenue situation had changed so much since the authors' deliberations that its impact was diminished (Box 1.4).

Box 1.4. Recommendations from the expert group on tax reform

The government commissioned an expert group to make recommendations to reform Spain's tax system as it applies to the environment, corporations, digital activities, and regional harmonisation. It reported in 2022 in a "White Book" (*Libro blanco sobre la reforma tributaria*).

The most important recommendation was to remove the reduced VAT rates of 10% and the super-reduced rate of 4%. This would generate over EUR 17 billion (about 23% of its current yield), though offsetting compensation for the poor would lower the net gain to EUR 14.5 billion (20%) (IMF, 2022, p. 13^[15]). The group also recommended eliminating the VAT exemption of financial and insurance services, which could raise a further EUR 2.8 billion. However, the group argued that it would seem necessary to combine that with the removal of the current 8% insurance tax and possibly the financial transactions tax of 0.2%, which was introduced in 2021 and has yielded about EUR 300 million per year, far less than had been expected. As well, a series of detailed recommendations pertained to digital services taxation in the wake of the January 2021 imposition of a 3% digital services tax and in conjunction with recent proposals from the European Commission.

The group also suggested raising environment-related taxes, with estimated net revenue effects of EUR 5.9 to 15.0 billion. It called for higher rates on car registration, diesel, natural gas, fuel used in agriculture and new taxes on airplane tickets, use of road infrastructure (road pricing), extractive industries, and aviation and maritime fuels, as well as a lower electricity consumption tax and a repealing of the energy production tax.

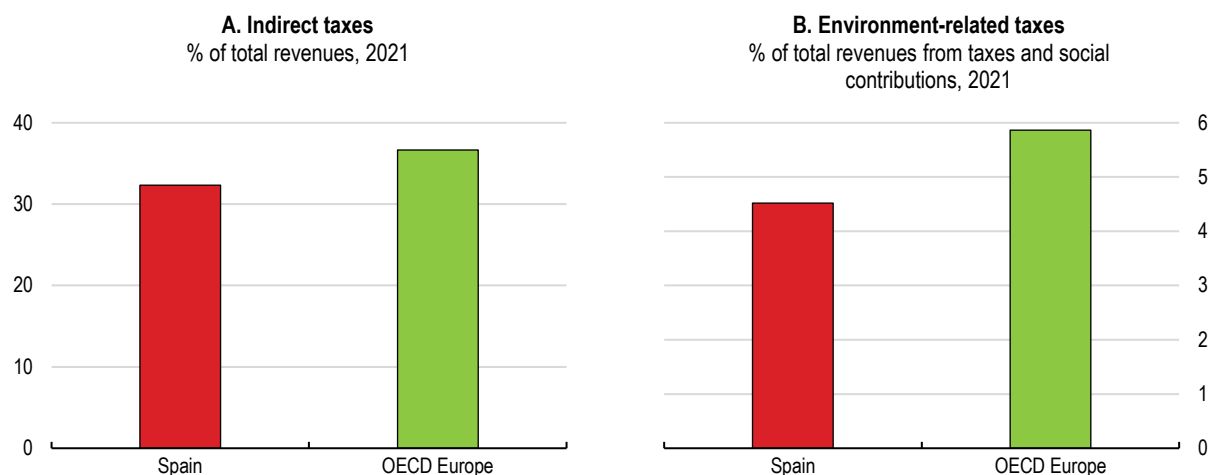
In the area of wealth and inheritance taxation the committee recommended harmonising the systems across the Autonomous Communities by setting boundaries. For example, on the progressive net wealth tax (currently imposed only by Norway and Switzerland in Europe), it suggested a higher threshold of EUR 1 million (up from the current 0.7 million) and a narrower rate range from 0.5-1.0%, compared to the current 0.2-3.5%. As regards inheritance tax (which generates only 0.6% of total tax revenue), it advised a cut in the top rate (which is currently as high as 81.6%) to no more than 25% for close heirs and an increase in the threshold from EUR 16 thousand to EUR 250 thousand, although Andalusia and Galicia have already got thresholds of EUR 1 million.

The government has been deliberately making the tax system more redistributive: for example, about 60% of personal income taxes are paid by the top income decile. Greater efforts have also been made to shrink inter-regional per capita income differences (the current system eliminates about 60% of such gaps). As well, the government is making the tax system slightly greener by implementing new taxes on single-use plastics and, in 2023, on municipal waste.

Despite this progress, Spain still has a tax-to-GDP ratio that is below average EU levels and room to raise some additional revenues, notably from the VAT, environmentally-related taxes and other excise duties, which are lower than those raised by their OECD European counterparts (Figure 1.13), as recommended

in past *Economic Surveys* (OECD, 2021^[16]). Relying more on these tax bases would limit distortions to economic growth. On the other hand, some taxes seem unusually high, notably non-recurrent taxes on property (which amount to 0.2% of GDP, whereas they round to zero in the average OECD country). Also, a recent OECD report found that well-designed inheritance taxes can raise revenue and enhance equity, at lower efficiency and administrative costs than other alternatives (OECD, 2021^[17]).

Figure 1.13. A small share of public revenue is raised from indirect and environment-related taxes

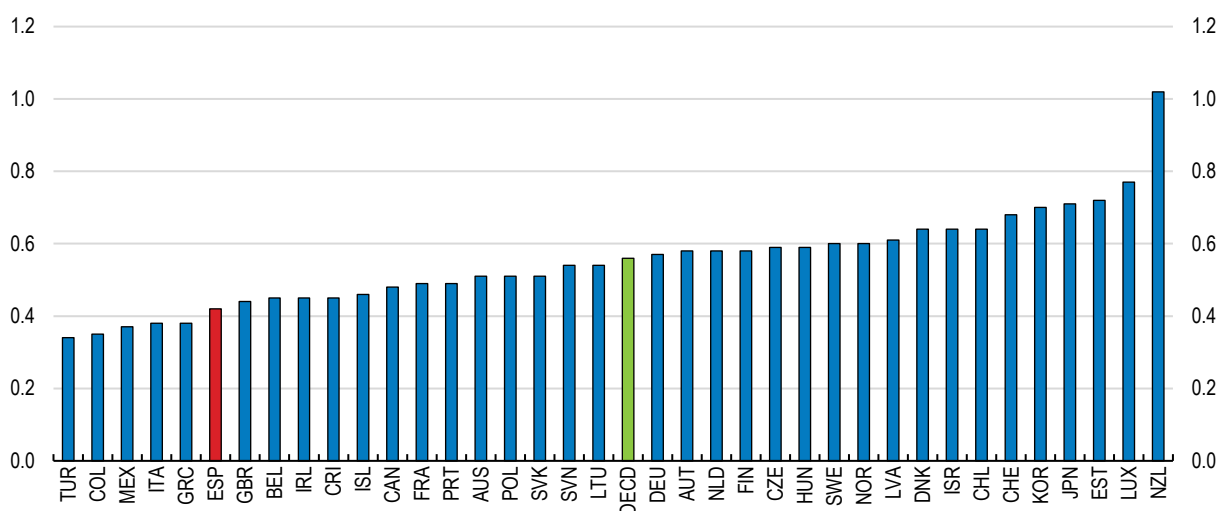


Source: European Commission; Eurostat.

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Figure 1.14. The VAT is underutilised

VAT Revenue Ratio, 2020



Note: Data for Türkiye refer to 2019.

Source: OECD (2022), Consumption Tax Trends 2022.

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VAT exemptions and reduced rates (notably on hotels and restaurants) significantly reduce VAT revenue and contribute to Spain's poor efficiency in VAT collection (Figure 1.14). The reduced VAT rates disproportionately benefit higher-income households (OECD, 2021^[16]). The government could consider moving towards a single uniform VAT rate in the medium term by gradually broadening the VAT base and

compensating lower income groups through targeted spending to reduce distortions and achieve greater equity. The 2022 “Create and Growth” law made electronic invoicing mandatory for operations between companies and freelancers, and a preliminary draft regulation seeks to extend electronic invoicing to all operations between companies. This is welcome, as such initiative could help to reduce tax avoidance and enhance tax collection, and efforts to promote electronic invoicing should be continued.

The personal income tax schedule rises steeply already at modest levels of earnings, discouraging labour supply. Work incentives are diminished for people earning less than the median income because of high marginal rates and large tax wedges (OECD, 2022^[18]). The average tax burden including all social contributions less cash benefits as a share of total labour costs (the “tax wedge”) is higher than the OECD average for all household situations. But, more importantly, it is significantly above the OECD-Europe average for the categories of single parents with two children earning 67% of the average wage (24.4% compared to 19.6%) and couples with one earner earning the average wage with two children (33.8% compared to 29.9%) (Figure 1.15). More effort to ease the tax burden on such households would be advisable to improve their work incentives and horizontal equity and fight poverty.

Figure 1.15. Average tax burdens are high for low-income households with children

% of labour costs, by household type and wage level, 2022



Source: OECD (2023), *Taxing wages*.

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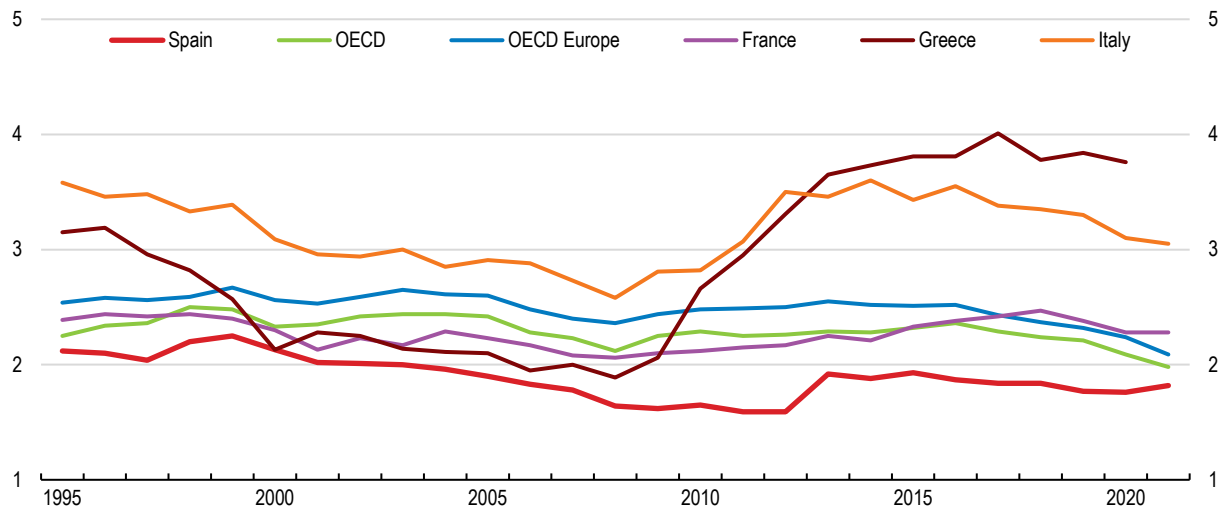
Spain has considerable scope to make the tax system more environmentally friendly. Environmental tax revenue as a share of GDP is low compared to most OECD European countries and has fallen over time from a peak of 2.25% in 1999 to 1.75% in 2021 and an expected 1.25% in 2022 (Figure 1.16), as against an OECD-Europe average of 2.27%. Spain’s implicit tax rate on energy in 2019 was just over EUR 200 per ton of oil equivalent, the sixth lowest among 17 EU countries (IMF, 2023^[19]). And its net Effective Carbon Rate in 2021 was only 20th in the OECD at less than half Switzerland’s leading rate (OECD, 2022^[20]). Several proposals to raise energy/environmental taxes were made in the recent experts’ White Book (Box 1.4), but few have been acted on, though an in-depth review of environmental taxation is underway.

Remaining environmentally costly features of the tax system include a tax advantage given to diesel over petrol in road transport, zero rates on fossil fuels used off-road (such as in commercial navigation, and aviation and rail transport) and particularly low rates on fossil fuels used in industry (notably zero in the fisheries sector). Moreover, several tax-related actions taken during the ongoing energy crisis have been detrimental to long-term environmental goals by suppressing price signals, notably the petrol tax breaks.

Most of these were eliminated at the end of 2022, but some were extended to the first half of 2023. It would have been preferable and less costly to resort rather to cash transfers or block tariffs – where a basic amount of energy is provided at a low price with a much higher tariff applied above that rate to encourage energy frugality – or social tariffs where low prices are offered only to low-income groups. More generally as environmentally related taxation increases, adequate compensation measures for lower-income groups must be provided for social equity reasons and to ensure the necessary public support for climate change mitigation.

Figure 1.16. Spain raises little environmentally related tax revenue

Environmentally related tax revenue, % of GDP



Source: OECD (2023), Policy Instruments for the Environment (PINE) Database.

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Improving spending efficiency

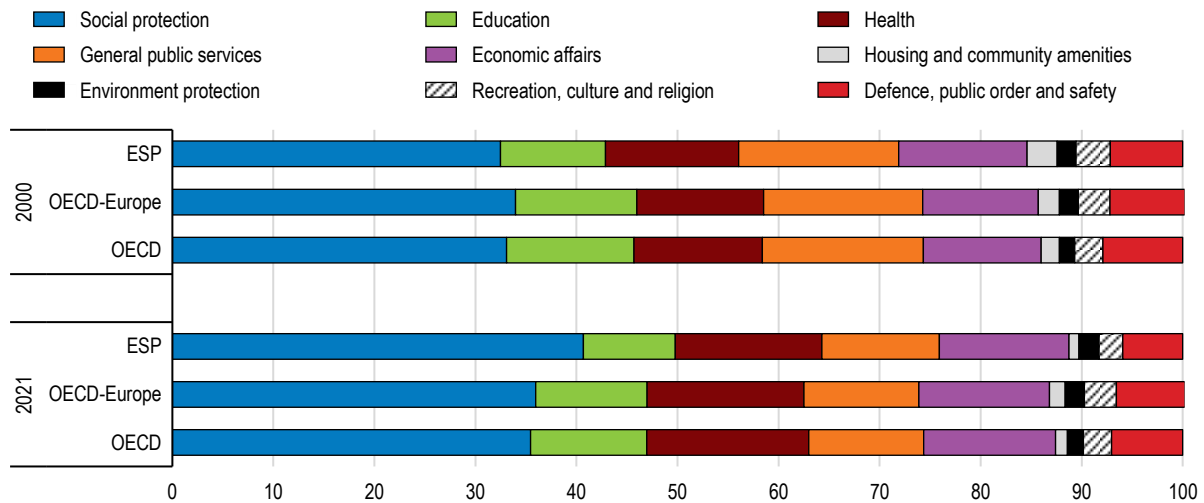
At 50.6% of GDP in 2021, Spain's public spending is relatively low compared to EU peers (though in the last year before the pandemic, i.e. 2019, slightly greater than the OECD average), but less of it is devoted to growth-enhancing spending, including education, training, and public investment, and relatively more to social protection, notably pensions and unemployment compensation (Figure 1.17). Some shift would seem appropriate in the medium term to strengthen growth.

Improving the quality and efficiency of public spending is appropriately becoming more of a focus. Since 2017, 11 spending reviews have been completed, and four are underway. Mandatory reports on measures taken in response to previous Fiscal Council recommendations have been part of the budget cycle since 2022. The latest March 2023 report credits the government with at least partial implementation of 184 of the 296 recommendations made by the Council. Proper follow-up is crucial to the success of this worthy endeavour. Following an RTRP commitment, the government is developing a strategy to reinforce the evaluation of public policies that will allow for ex ante, intermediate and ex post evaluation.

Significant efforts are also being made to improve transparency and integrity in the public sector through several open government initiatives under the Fourth Open Government Plan. They cover access to information, open data, citizen participation, regulatory footprints, a register of lobbyists, whistle-blower protection, open government inclusive communication, awareness-raising and training programmes, as well as an Observatory to promote best practises and 53 projects at regional and local levels.

Figure 1.17. The structure of government expenditure is weighted towards social spending

General government expenditure by function, % of total, 2000 and 2021



Note: OECD averages exclude Canada, Chile, Colombia, Costa Rica, Japan, Mexico, New Zealand, and Türkiye, for which data are not available on both periods.

Source: OECD Statistics on National Accounts.

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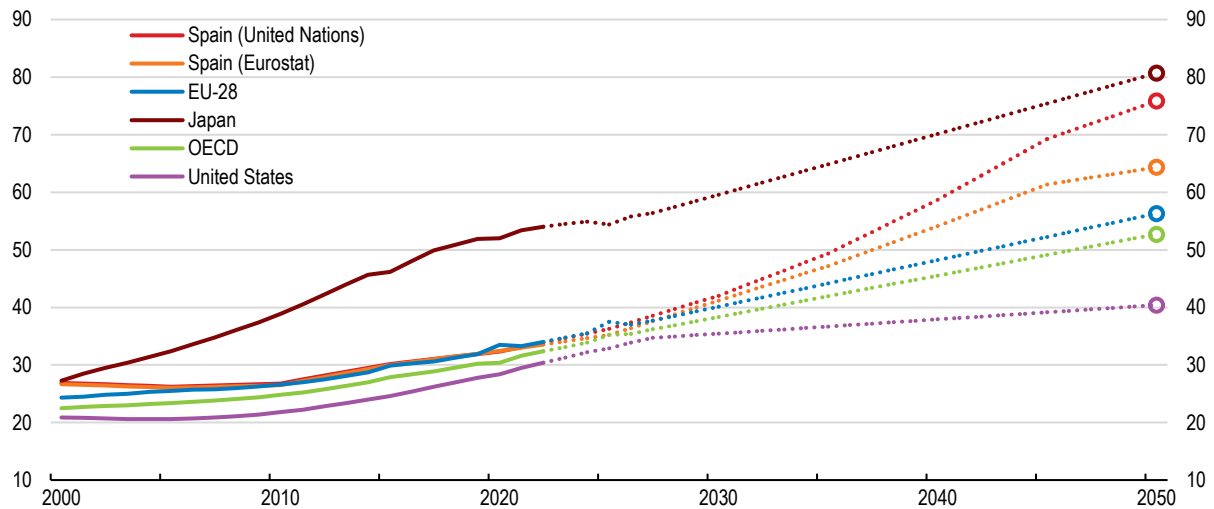
Longer-run spending pressures are significant in several areas

Given projected demographic trends (Figure 1.18), upward public spending pressures in the longer term will come notably from ageing-related items (pensions, health and long-term care), even if those related to pensions will begin to reverse somewhat after 2050. However, the green transition will also doubtlessly require extra government outlays. Moreover, the government is committed to raising the share of military spending in GDP from 1% to 2% of GDP by 2029 in line with its NATO commitments. The minimum income guarantee and extra grants to disabled and low-income university students are also adding to outlays and could do so more in the future if more of those eligible apply. Draft legislation on universities could push up that sector's claim on resources by about a quarter of a per cent of GDP on top, though that would merely bring Spain to around the OECD average share of GDP (based on 2019 data).

Less certain are the spending effects of employers potentially shifting seasonal workers to unemployment benefits under the revised labour-market legislation (see Chapter 2), the need for more social housing (see Chapter 2) and better pay for generally fewer numbers of public-sector workers, notably for those in the education and health sectors. There is a strong case for more funding for the public employment service to properly implement active labour market measures (see Chapter 2). In any case, some further priority setting will be required: while OECD and other estimates are that the structural deficit is over 3% of GDP in 2023, it could move up to closer to 5% of GDP in the coming years without some further consolidation effort.

Figure 1.18. The ageing of Spain's population is about to accelerate

Old-age dependency ratio, %



Note: The old-age to working-age demographic ratio is defined as the number of individuals aged 65 and over per 100 people of working age defined as those at ages 20 to 64.

Source: OECD Pensions Statistics.

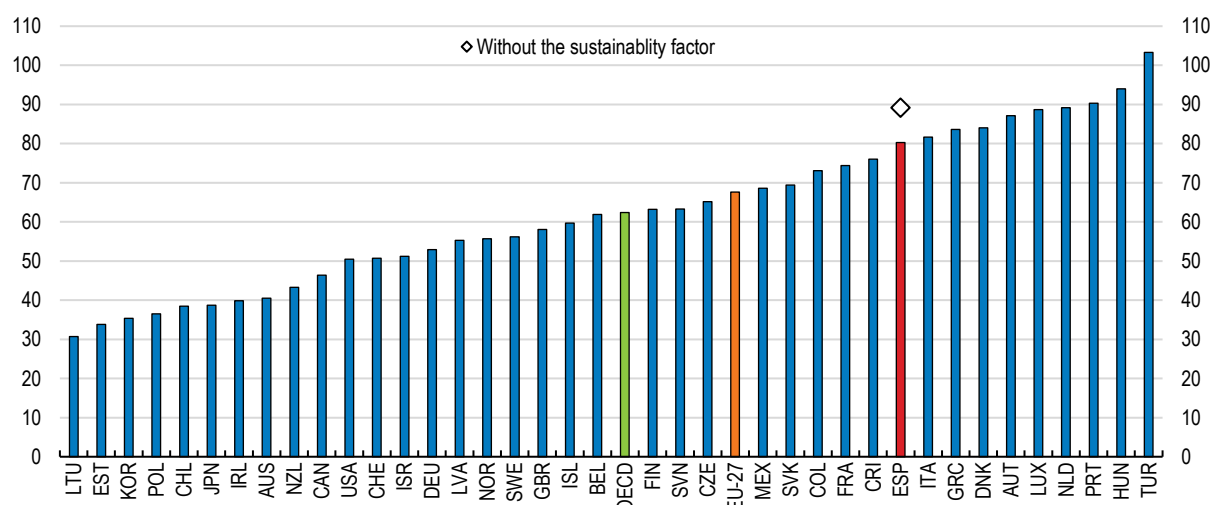
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Addressing the rise in pension spending

The Spanish contributory pension system has so far offered high replacement rates (Figure 1.19) at reasonable pension-spending to GDP ratios (11.3% of GDP in 2019), resulting in low old-age poverty (Figure 1.20). But population ageing is projected to increase long-term fiscal sustainability pressures, with a large rise in the old-age dependency ratio by 2050 (Figure 1.18 above). To address those pressures, the government undertook important pension reforms in 2011 and 2013. These notably included a gradual increase in the pension age to 67, which will be achieved by 2027, and a reduction of the replacement ratio. Full implementation of the 2011 and 2013 reforms would have led public spending outlays to rise by 1.7 percentage points of GDP by 2050 and then fall by 1.5 points through 2070 compared to 2016, according to the 2018 Ageing Report (European Commission, 2018_[21]). But it would have implied a significant reduction in the benefit ratio (average benefit payment in relation to the average wage), particularly affecting younger generations, even though it would have remained higher than in most other EU countries. Social pressure mounted after the reforms and led to a renewed linking of pension increases to inflation as of 2018 and a delay in implementing the sustainability factor that linked initial pension benefits to changes in life expectancy. These deviations from the reforms were estimated to result in additional pension spending of about 3-4 percentage points of GDP by 2050. But they also led to a short-term imbalance that is estimated at 2.2% of GDP in 2023 and that has resulted in rising debt in the social security system, which reached EUR 106 billion (7.9% of GDP) at end-2022.

Figure 1.19. Spain's pension system offers the average worker a high replacement rate

Net old-age pension replacement rate for workers with average wage, % 2020



Note: The net replacement rate takes account of personal income taxes and social security contributions paid by workers and pensioners. Replacement rates are slightly lower for women in Poland, Chile, Australia, Israel, Mexico, Colombia, Hungary and Türkiye, for which the male replacement rate is shown. Note that the estimate for Spain includes a sustainability factor that has since been removed, raising its rate.
Source: OECD Pension at a glance database.

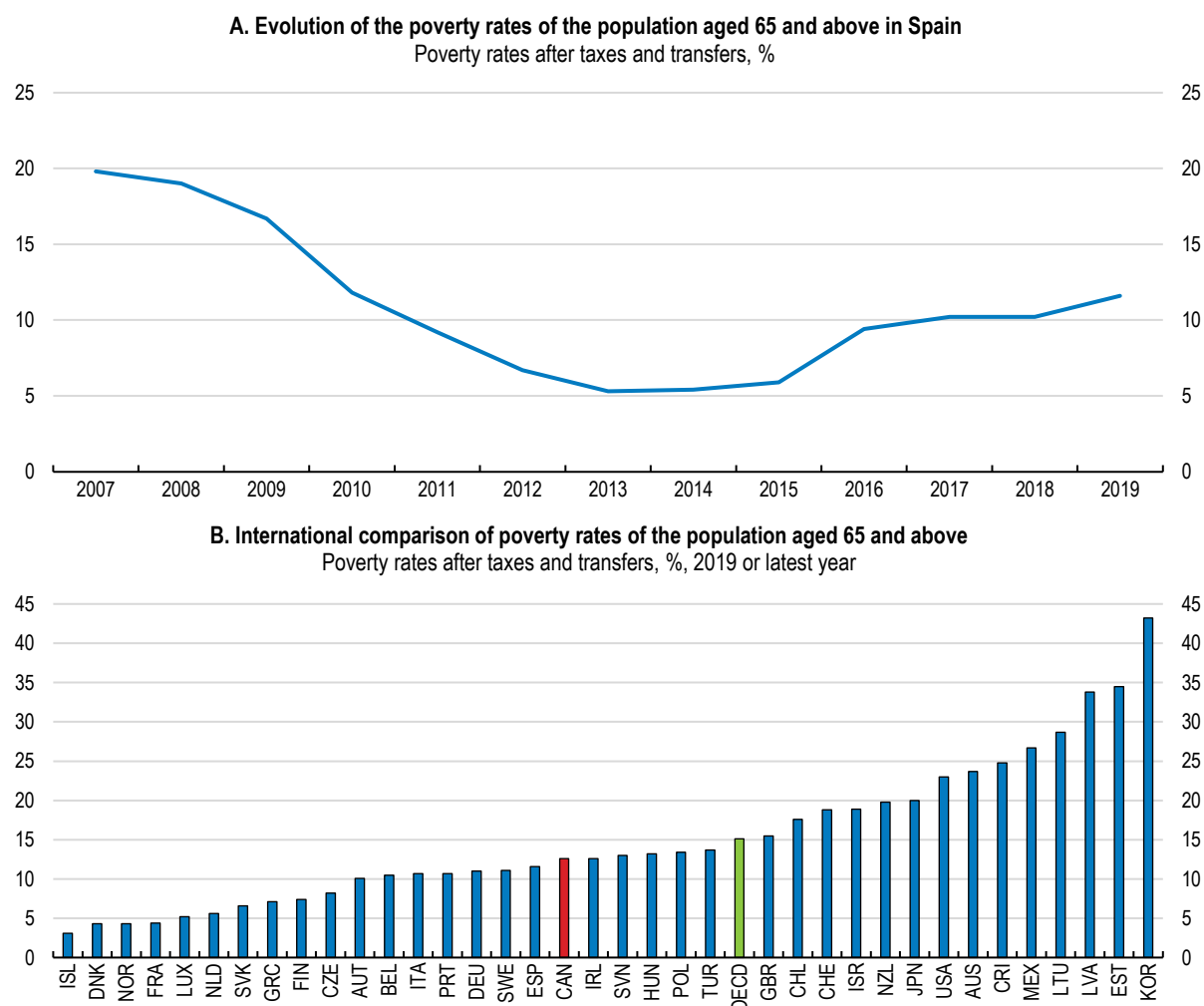
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In 2021, the first part of a pension reform indexed pension benefits to consumer price inflation and eliminated the “sustainability” factor, which linked benefits to life expectancy. Revenues will be strengthened by gradually increasing the maximum bases and, later, maximum pensions. A “solidarity quota” will be phased in progressively, implying higher contributions for the highest salaries. And an Intergenerational Equity Mechanism will add an initial 0.6 percentage point (1.2 points in 2029) in contributions, mostly on employers.

Spain's workers stop working comparatively early and enjoy an extremely long retirement (including both periods with a retirement pension and others on other forms of benefits). In 2020 the effective labour market exit age was only 60.7 years, and the average period of retirement exceeded 25 years, almost four years more than both the EU27 and OECD averages. Financial incentives to delay effective retirement have been enhanced by offering a choice of either a lump-sum payment upon retirement of around EUR 12 000 per extra year of work beyond the statutory retirement age (65 with 38.5 years of contributions; otherwise 67) or a 4% increase in pensions or a combination of both. In 2023, from January to May, 8.1% of pensioners retired one year later than their statutory retirement age, compared to 5.4% in 2021, according to the Ministry of Inclusion, Social Security and Migrations. There are also larger discounts for early retirement, heftier penalties on employers for laying off workers within two years of the legal retirement age and the prevention of labour agreements that force retirement for those beyond an agreed age. These are laudable measures, but they are unlikely to prove sufficient to fully balance the system, which will likely require some further changes in pension accrual rates.

Finally, in the same vein and in recognition of the fact that careers are now less linear and to remove gender biases, pensioners will be able to choose (until 2044) whether to set their initial pensions based on the best 29 years of contributions but with two low-earnings years excludable or to stick with the current 25 (lowest in the European Union, along with France and Slovenia). The self-employed, who typically had low pensions because 85% of them chose the lowest permissible contribution rate, will fully transition to the general regime based on actual incomes by 2032. Indeed, the fiscal council estimates the compensatory offsets (i.e. not including the impact of measures on increasing voluntary effective retirement age) at 1.3% of GDP.

Figure 1.20. Old-age poverty rates have risen somewhat but remain below the OECD average



Source: OECD Income Distribution Database.

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The new pension system's financial sustainability is to be examined by the Ministry of Inclusion and then re-examined every three years (starting in March 2025) by the Fiscal Council (AIReF) by agreement with the European Commission. AIReF has already made such an analysis, based on its latest demographic projections but excluding the growth impact of the RTRP reforms and associated spending. It shows that the pension reforms approved between 2021 and 2023 represent an increase in the deficit of 1.1 percentage point of GDP in 2050 and debt trending higher and reaching 186% of GDP by 2070. Legally such a scenario would be headed off by a rule that would trigger an automatic increase of pension contributions to correct 20% of the estimated gap every year beyond any corrective measures the government might otherwise decide, but the Fiscal Council judged the mechanism to be too imprecise to include in their baseline scenario.

New measures may be needed. Rather than impose extra contributions on the generation of active workers, the government should lengthen working lifetimes by linking the statutory retirement age to life expectancy at retirement, as recommended in the 2021 *Economic Survey*. But it should also look to accrual factors in the system, which allow a half pension after merely 15 years of contributions and a full pension after only 37 years (to be raised to 38.5 years), much less than corresponding periods elsewhere.

Furthermore, the reference period for the computation of pension rights should be extended, most likely to at least 40 years to ensure financial sustainability. Otherwise, if pension deficits continue to be met by general revenues, maintaining pension benefits will come at the expense of other priorities and to the detriment of the already disadvantaged younger generation (Chapter 2).

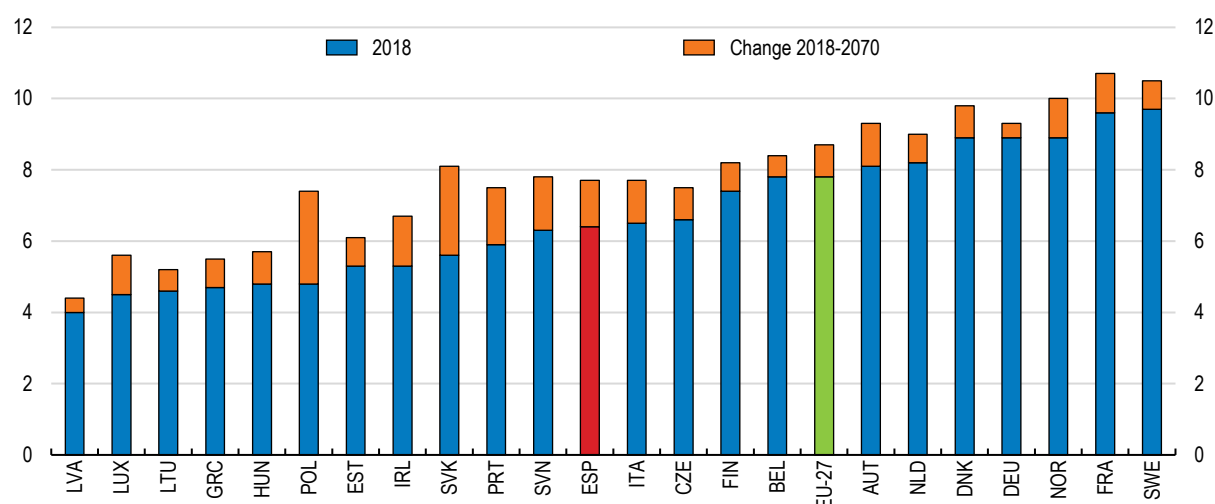
The health-care system will become more costly

The health-care system provides equity in access and delivers acceptable outcomes with moderate levels of spending (Figure 1.21). However, in the future, like other countries, Spain will face higher health spending as a result of population ageing, changes in relative prices and technological advances. Broader provision of active ageing services (which are available in only a minority of the autonomous communities and guaranteed in even fewer) would be helpful.

The COVID-19 pandemic and its aftermath (“long COVID” and the delays and lack of treatment provided) have put extraordinary demands on the health system. Human resources in the sector seem to be used at or near full capacity, and shortages of nurses are severe, numbering only 6.1 per 1000 population (Figure 1.22, Panel A). Spain should consider increasing the number of health professionals. This might mitigate the problem of many workers being unable to work because of illness (Figure 1.22, Panel B).

Figure 1.21. The share of GDP devoted to health care is still moderate but will rise somewhat

Public health and long-term care expenditure, % of GDP, 2018 and 2070 projection



Note: The “Ageing Working Group reference scenario” is used as the baseline scenario. In this scenario, health care expenditures are driven by the assumption that half of the future gains in life expectancy are spent in good health and an income elasticity of health care spending converging linearly from 1.1 in 2019 to unity in 2070.

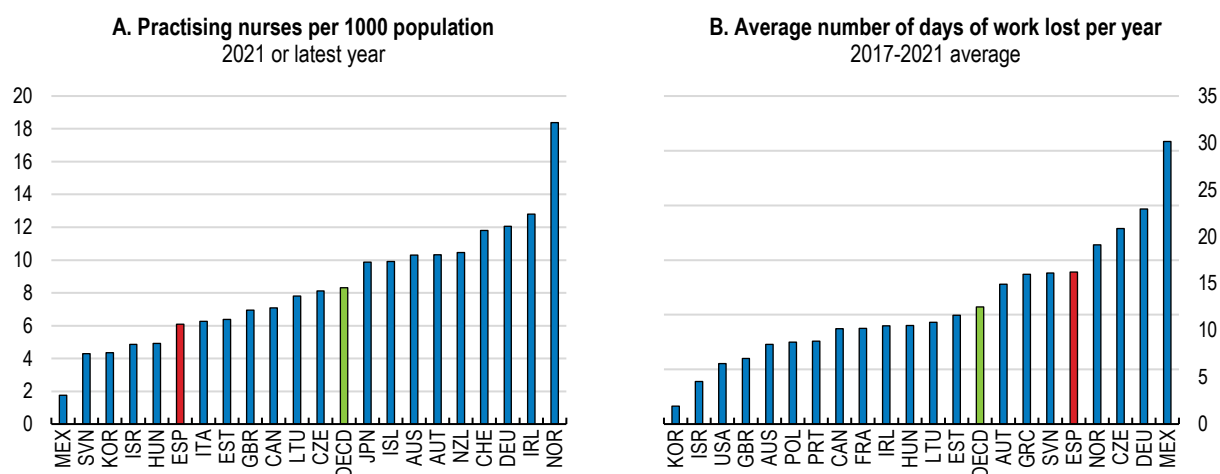
Source: European Commission (2021), The 2021 Ageing Report, Economic and budgetary projections for the EU Member States (2019-2070), Institutional Paper 148.

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The RTRP includes measures aimed at purchasing new equipment, strengthening the health workforce and retaining talent. A reform to enhance professional skills and reduce temporary employment of nurses and doctors aims to address shortages by reducing temporary contracts; shifting their deployment towards under-served geographical areas; and improving their working conditions by supporting their professional development. The RTRP also contains reforms to broaden the portfolio of services covered by the national health system to new types of interventions, such as dental care, preventive care for children, genomics and orthopaedic and prosthetic care.

Taxes to discourage certain unhealthy behaviours could be used more intensively to improve health outcomes. In 2021 the VAT on sugary beverages was raised from 10% to the standard rate of 21% after Catalonia had implemented a regional excise tax on such drinks in 2017, which seems to have had a favourable effect (Puig-Codina, 2021^[22]).

Figure 1.22. Spain has a lack of nurses and too many workers off work sick



Note: Panel B: Compensated or self-reported absences.
Source: OECD Health statistics 2022.

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Spain's taxes on distilled spirits, beer and wine are among the lowest in the European Union (Table 1.6) and could be raised. More fiscal and non-fiscal actions (e.g. advertising restrictions, packaging rules, age limits on vaping) could also be taken to discourage smoking. Spain's taxes on cigarettes are in line with those of comparator countries in the European Union. But, even with a fall of over 30% since 2010, Spain places fifth out of 22 OECD countries in terms of per capita tobacco consumption and eighth of 38 by share of adults who are daily smokers (Figure 1.23).

Table 1.6. Spain's alcohol taxes are low

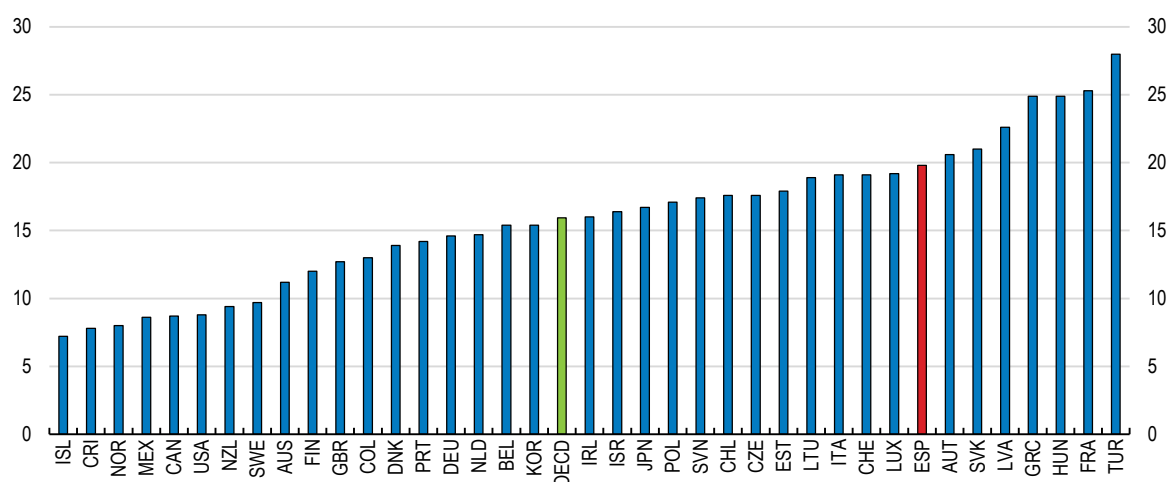
	Beer		Wine		Other alcoholic beverages	
	Excise rate per hectolitre per % abv (USD)	VAT rate (%)	Excise rate per hectolitre (USD)	VAT rate (%)	Tax per hectolitre of absolute alcohol (USD)	VAT rate (%)
France	9.06	20	4.61 to 11.41	20	2,125	20
Italy	8.65	22	0	22	1,218	22
Portugal	9.81 to 34.47	23	0	13 to 23	1,632	23
Spain	0 to 15.95	21	0	21	1,128	21

Note: % abv = percentage of pure alcohol by volume at 20°C. Lower excise rates for small independent breweries and on low-alcohol beer may apply.

Source: OECD (2022), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends*.

Figure 1.23. Spain has a high share of daily smokers

% of the population aged 15 and over, 2021 or latest year



Source: OECD (2022) Health Statistics 2022.

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Table 1.7. Past recommendations on fiscal and pension policies and actions taken

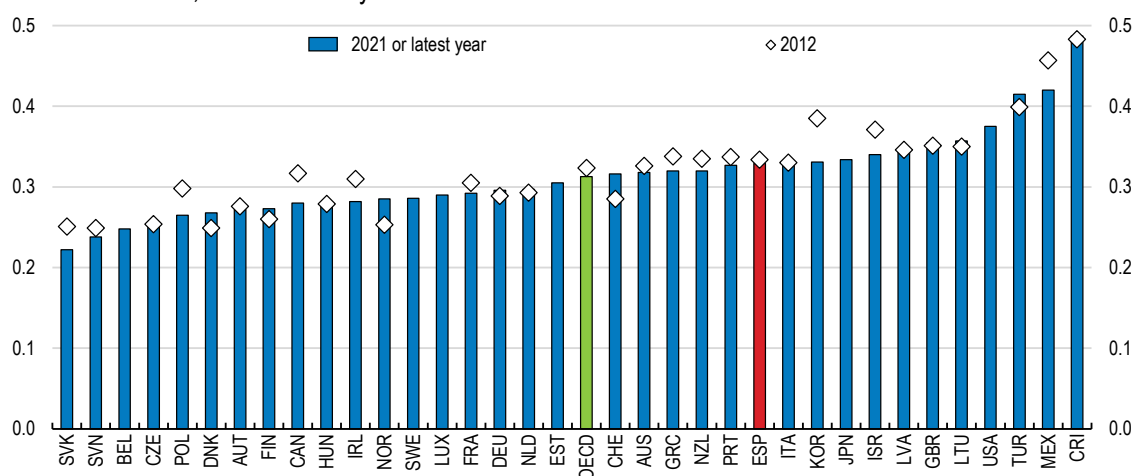
Recommendations in past Surveys	Actions taken since 2021
Keep fiscal policy supportive until the recovery is firmly underway, by prolonging support measures while making them more targeted.	The 2022 budget was supportive, and the 2023 budget curtailed support measures. New support measures have been taken in the context of the war in Ukraine.
When the recovery is firmly underway, announce a multi-year path for fiscal consolidation strategy, which includes all levels of government.	No action taken.
Increase systematic evaluation of policies at every level of government.	Policy evaluation is becoming more common. See text for further details.
Ensure efficient coordination and governance of the recovery plan by ensuring transparent procedures and criteria for investments.	With the requirements of the European authorities the Plan's investments have been treated efficiently and transparently.
Abolish reduced value-added tax rates that are regressive.	No action taken.
Increase taxation of fuels to better reflect emissions of CO ₂ and other pollutants.	No action taken. Taxes on fuels were temporarily lowered in 2022 to deal with the fallout from the energy cost increases.
Make the expenditure rule the main rule and link it to the debt ratio targets.	Both national and EU fiscal rules were suspended again for 2023. Negotiations are ongoing as to what rules will be applied from 2024.
Take adequate and socially acceptable measures to ensure the long-term financial sustainability of the pension system.	The pension system has been overhauled, and the Fiscal Council has quantified the effects, judging the reform to be not fully financed.
Link the statutory retirement age to life expectancy at retirement, discourage early retirement, for example by increasing the number of years of contribution to gain a full pension.	New system of adjustment coefficients to discourage early retirement established in the 2021 pension reform.
Further extend the pensionable earnings reference period and the number of years of contributions required to gain a full pension.	An option to extend by two years the pensionable reference period has been introduced in the 2023 pension reform. No change has been made for full pension qualification.
To increase the flexibility of combining work and pensions, do not reduce pension payments & allow additional pension entitlements to be earned.	The Royal Decree-Law 1/2023 on incentives for hiring and the social protection of artists establishes the compatibility between retirement pensions and artistic activities.
Facilitate greater choice of both pension scheme providers and investment options available through employers.	No action taken.

Reducing poverty by enhancing redistribution

Despite improvements in recent years, Spain is still characterised by marked income inequalities compared to European peers (Figure 1.24) and over one quarter of the Spanish population was at risk of poverty and social exclusion in 2021 (Figure 1.25). Disparities across regions are large, with poverty concentrated in the south. The risk of poverty is particularly prevalent among those under 25 because of high unemployment, low wages and higher costs of housing, calling for specific policies targeted towards youth (Figure 1.26 and Chapter 2). Spain has the highest child (0 to 17 year-olds) poverty rate in Western Europe, at 21.8%. The poverty rate is low for those aged 65 or over, although it has risen to near the EU average in recent years.

Figure 1.24. High income inequalities remain after redistribution

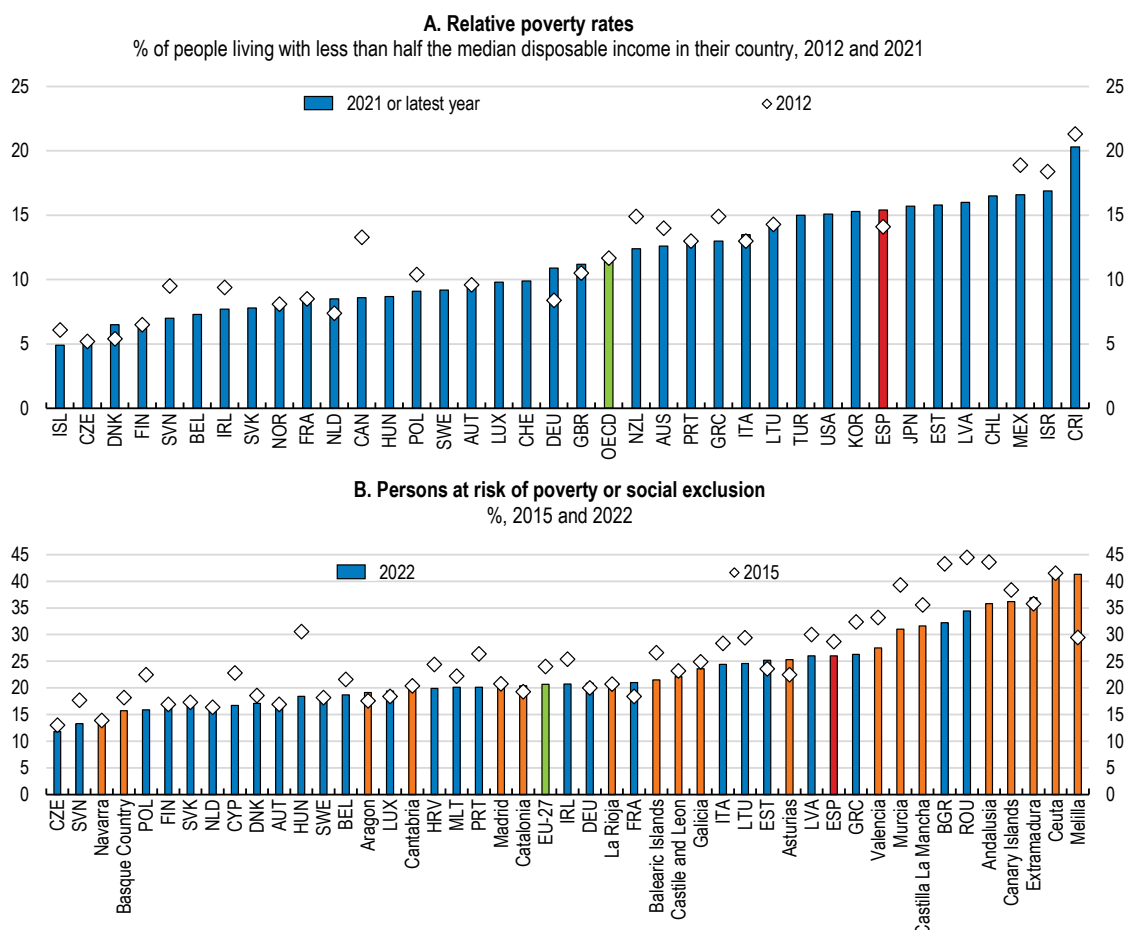
Gini income coefficient, 2021 or latest year



Note: Data for Spain refer to the year 2020. The Gini coefficient is based on the disposable income, post taxes and transfers.
Source: OECD Income Distribution Database.

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Figure 1.25. Poverty remains high

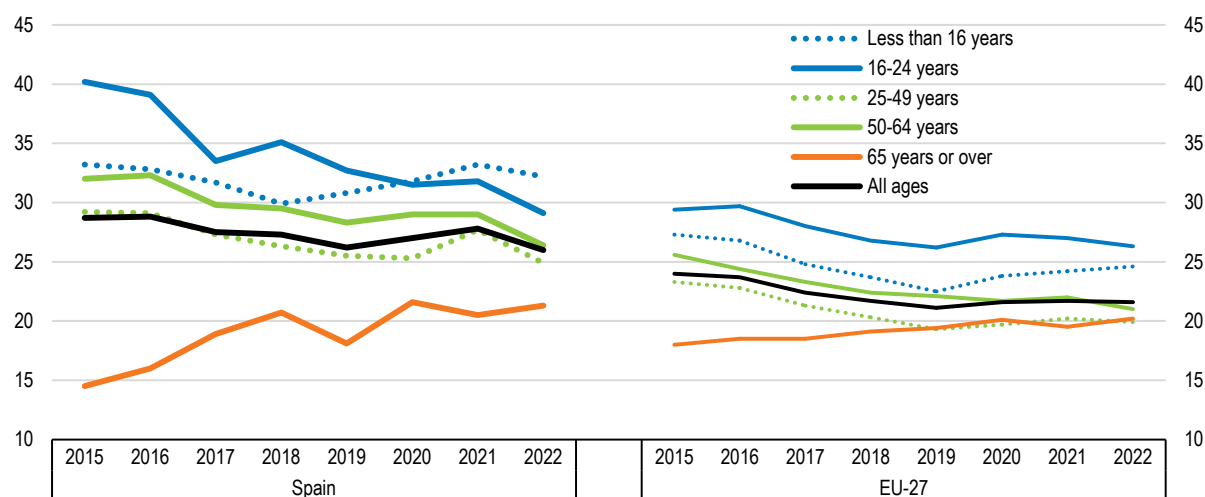


Note: Panel B: Persons at risk of poverty, or severely materially and socially deprived or living in a household with a very low work intensity. Persons at risk of poverty have an equivalised disposable income (after social transfer) below 60 % of the national median equivalised disposable income after social transfers. Details on the indicator are available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_\(AROPE\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)).
Source: OECD Income Distribution Database; Eurostat, Income and living conditions database.

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Figure 1.26. The risk of poverty is particularly high among young people

Persons at risk of poverty or social exclusion by age, %



Note: Persons at risk of poverty, or severely materially and socially deprived or living in a household with a very low work intensity. Persons at risk of poverty have an equivalised disposable income (after social transfer) below 60 % of the national median equivalised disposable income after social transfers. Details on the indicator are available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_\(AROPE\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)).

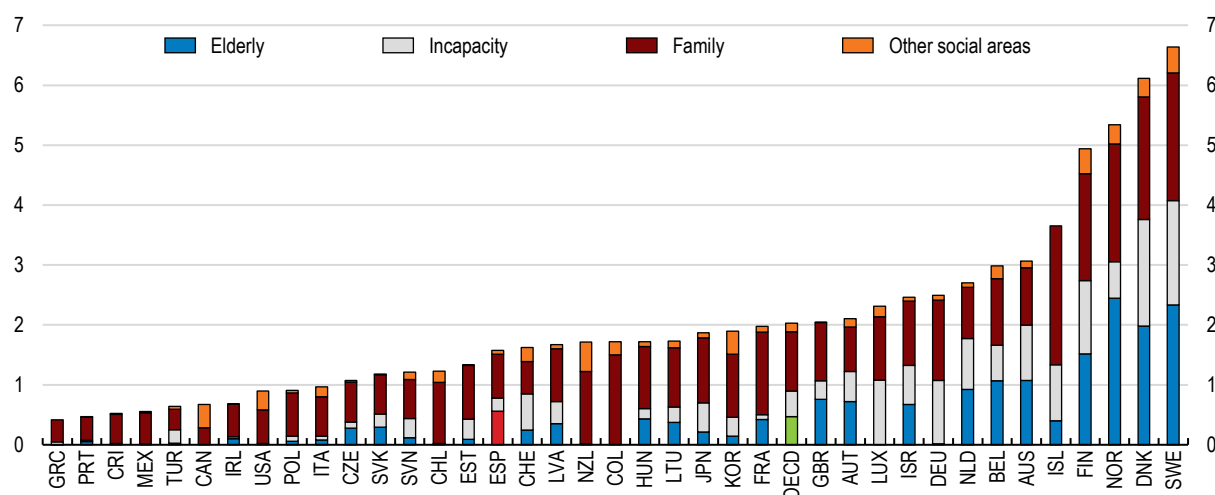
Source: Eurostat.

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Spain's spending on social services is below the OECD average (Figure 1.27). Spending on people with disabilities, family (including child benefits), and the elderly stands at about 1.6% of GDP, well below the European average. However, total public social expenditure, including benefits, is much higher than the OECD average, at 28.1% of GDP in 2022 against 21.1%. Hence, there should be some room for a reduction in total spending. Social expenditure is heavily centred on cash contributory benefits (e.g. pensions and unemployment benefits) (Figure 1.28). This leads to a bias in the selection of recipients in favour of people able to contribute and may not adequately protect vulnerable groups, such as people out of work (Levy, 2022). Furthermore, in Spain a larger proportion of cash social benefits goes to higher-income (30%) than lower-income households (e.g. 12% for the poorest quintile), in contrast to most EU members (Figure 1.29). Moreover, social assistance programmes are not fully effective at reducing poverty, due to several policy weaknesses, including insufficient adequacy and coverage, inefficiencies in the administrative systems, and lack of coordination. But social spending alone cannot reduce inequalities, and efforts should also be directed to making the labour market more inclusive, as discussed above and in Chapter 2.

Figure 1.27. Public spending on social services is below the OECD average

Public expenses for benefits in kind by target group (% of GDP), 2019 or latest year



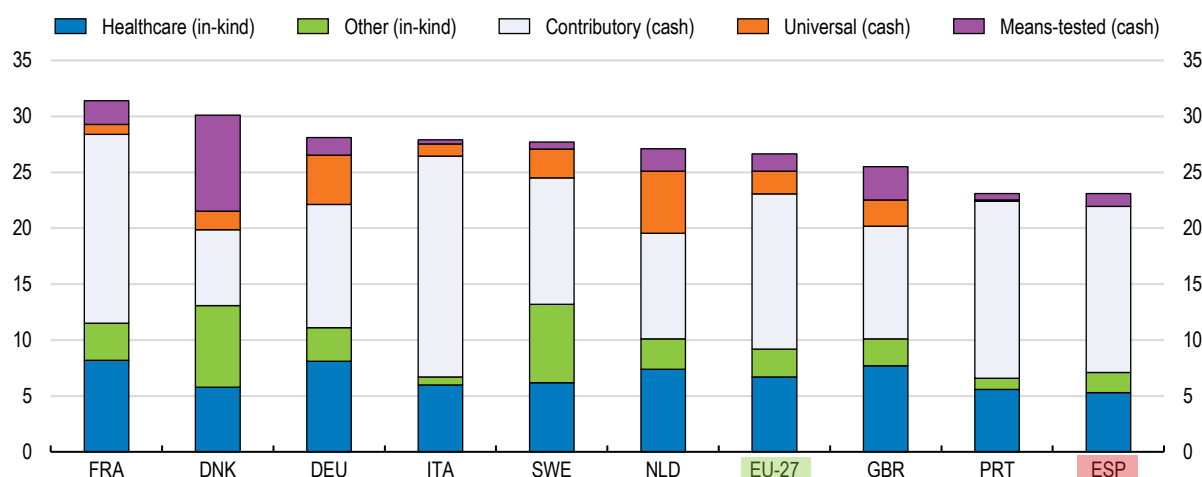
Note: The benefits selected are benefits in kind for older people (residential care, home care and other benefits), people with disabilities (residential care, home care, rehabilitative services and other benefits), families (other benefits) and other social areas.

Source: OECD (2023) Social Expenditure Database.

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Figure 1.28. Social expenditure is centred on cash contributory benefits

Social protection expenditure as a percentage of GDP, 2018

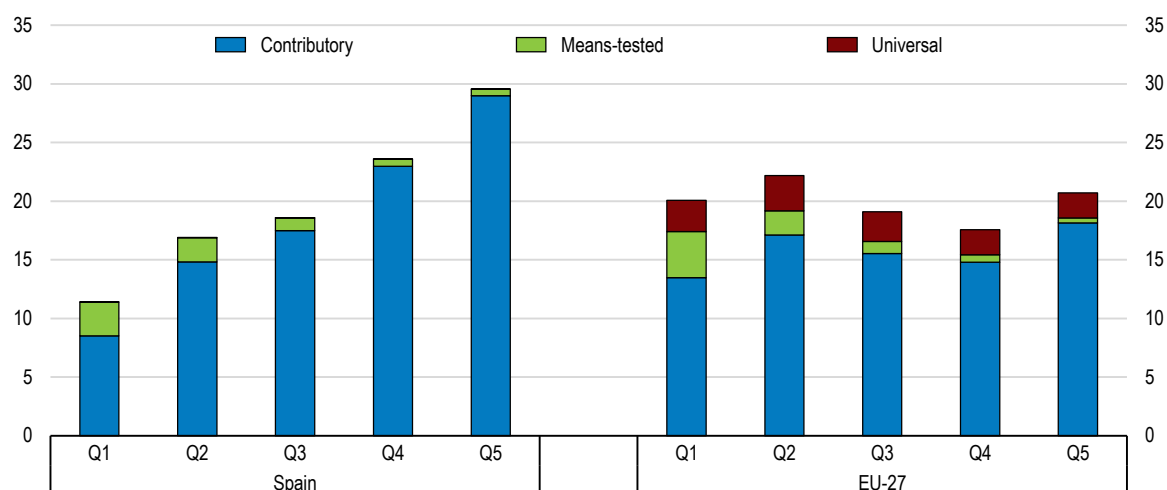


Source: Levy, H. (2022), "Social welfare systems and inequality in Europe, Closing Spain's social protection gap", *Inequality and social contract outreach report*, OECD and "La Caixa" Foundation.

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Figure 1.29. The distribution of social benefits favours wealthier people

Share of total social cash benefits received by quintiles of household disposable income, %, 2018



Note: Data for the EU-27 exclude the Slovak Republic. Data refer to year 2018, except for Ireland (2016) and Italy (2017).

Source: Levy, H. (2022), "Social welfare systems and inequality in Europe, Closing Spain's social protection gap", *Inequality and social contract outreach report*, OECD and "La Caixa" Foundation.

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Given the high level of decentralisation, a first step toward improving the effectiveness of social assistance would be a more coordinated approach. There is generally no single point of contact or one-stop shop to coordinate income support, social and unemployment services to offer a joint response to the challenges derived from lack of employment or other situations that push people towards social exclusion. These single locations grant users access to the services of social workers, health professionals (including mental health experts), employment specialists and legal advisors, among others. Spain could consider the experiences of Finland, where multi-sector services centres provide employment, social, health, rehabilitation and social security services to vulnerable people, or France where multiservice information and mediation points facilitate access to various public services and sources of social assistance, including legal assistance (OECD, 2022^[23]).

Reducing overlapping benefits and improving the transferability of social and housing rights across regions would also make the system more efficient, ensure continuity of care for citizens and facilitate their mobility and participation in the labour market, as stressed in the 2018 *Economic Survey* (OECD, 2018^[24]). Most regions do not have formal coordination mechanisms with other regions, and each has its own social services legislation. When citizens move between regions, they must reinitiate all the procedures to obtain services; moreover regions require residents to have been registered there for some time before receiving services. Lowering the complexity of the administrative processes and the bureaucratic hurdles to increase participation in the existing programmes is needed. As a result of the different regional regulations, there are important differences in the availability of social services across regions and high administrative complexity. Setting up a minimum guaranteed level of social services would help to reduce geographic inequities in access to services (OECD, 2022^[23]). A law is currently being drafted to establish common minimum services across the country, reduce barriers to access social protection and facilitate mobility.

Beyond this, the central government can support the regions and the local entities in improving service quality. Although the statistics are not complete or fully comparable, the number and diversity of profiles of social services professionals appears to be insufficient, undermining the efficiency of the service and generating a heavy workload and stress for workers (OECD, n.d.^[25]). Options to increase staff-to-population ratios and for continuous staff training and development should likewise be explored, leveraging European funds when possible. Finally, there is a need to bolster evidence-based policies in social

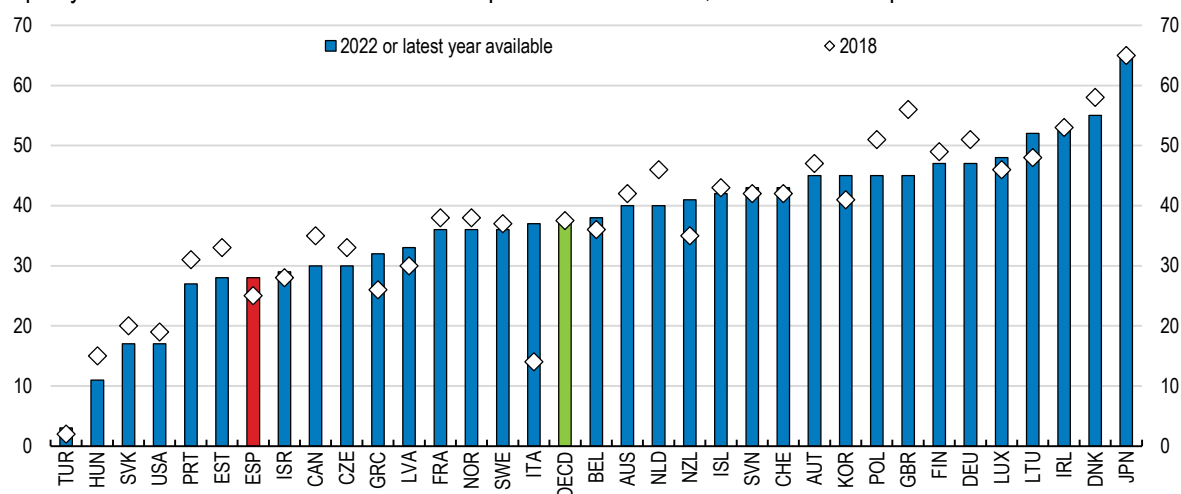
services, starting by using the evidence collected by the 34 experimental studies conducted in 2022 and 2023 on the impact of different inclusion itineraries for beneficiaries of the minimum income guarantee scheme across the country. Greater integration of information systems and enhanced data sharing between social services providers would help assess needs and improve quality. Strengthening impact evaluations would allow a better knowledge of which interventions are working and which are not. Better data can also contribute to the dissemination of best practices and improve future policy design.

To address extreme poverty and complement the inadequate social assistance programmes administered by regional governments, a new nationwide means-tested minimum income guarantee scheme (Ingreso Mínimo Vital, MIS) was introduced in May 2020. Moreover, a child support benefit exists since 2021. This is a step in the right direction, and indeed, the share of persons at risk of poverty or social exclusion decreased markedly in 2022, from 27.8% to 26.0%, around 850 000 fewer people. Nevertheless, there is scope for improvement. So far, the MIS has not reached as many households as it was meant to. By end-2022, close to 550 000 households had received the MIS, corresponding to 65% of the eligible households. For the year 2022, 82.2% of the planned budget was spent (EUR 2.5 billion out of EUR 3.0 billion).

Non-take-up is common and Spain does not differ from other countries in this regard. To increase take-up of the MIS by eligible households, the government has put in place a promotion campaign. Communication efforts should continue as, according to the limited available data, many potential beneficiaries are not aware of the benefit, especially among families in extreme poverty (Ayala Cañon, 2022^[26]). These efforts could also help reduce the large number of unsatisfied requests because of non-compliance with the eligibility criteria. Monitoring, identifying, and removing unnecessary barriers to access should be reinforced.

Figure 1.30. The minimum income appears relatively low by international standards

Adequacy of minimum income benefits for a couple with two children, % of median disposable income



Note: The indicator measures the income of jobless families relying on guaranteed minimum income benefits as a percentage of the median disposable income in the country. Housing supplements are included subject to relevant eligibility conditions. Families considered are a couple with 2 children aged 4 and 6 years old where both the principal and the spouse are unemployed. Data for Spain refer to the national minimum income scheme at the end of 2022 without any regional supplement. The methodology of the indicator is available at: <https://www.oecd.org/social/benefits-and-wages/OECD-TaxBEN-methodology-and-manual.pdf>.

Source: OECD, Benefits and wages: Adequacy of Guaranteed Minimum Income benefits.

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Furthermore, it will be important to assess the adequacy of the MIS to effectively reduce extreme poverty as it appears relatively low by international standards (Figure 1.30), even if support has increased compared to many regional schemes. While the MIS is recent and its implementation has progressed noticeably since it came in force, there is still room to enhance complementarities between the MIS and

the regional minimum income support schemes and coordination between the central administration and regions (AIReF, 2022^[27]). In particular, the complexity for users and the administrative costs induced by the coexistence of the MIS with regional minimum income schemes should be reduced. The law that introduced the scheme included an obligation to develop work incentives and the incentives entered into force in early 2023. The benefits are gradually phased out as earned income rises. This may have a larger budgetary cost, but it ensures that incentives to work are not compromised.

Table 1.8. Past recommendations on social policies and actions taken

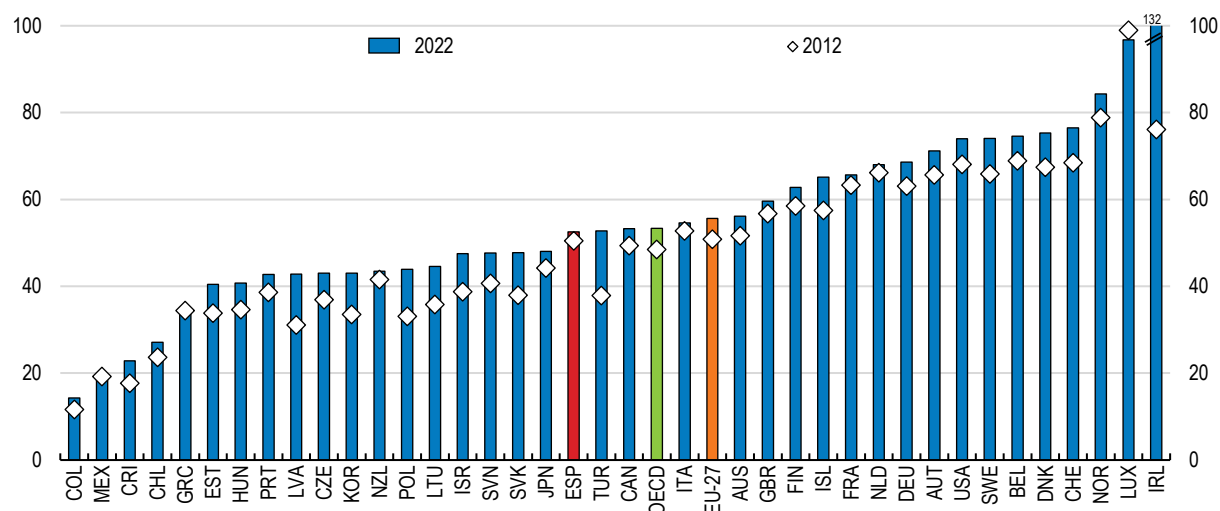
Recommendations in past Surveys	Actions taken since 2021
Ensure full portability of social and housing benefits across regions, by providing temporary assistance either by the region of origin or the central government.	The Housing Plan 2022-2025 and the Young Rental Voucher includes coordination mechanisms among regions to ease the portability of the housing subsidy.
Clarify and strengthen the role of regions in the implementation of the national minimum income guarantee scheme.	Law 19/2021 clarified the subsidiary role of regional income schemes and created mechanisms to share information between regional administrations and the Social Security.
Continue to expand early childhood education for those aged 0-3, targeting low-income households and disadvantaged areas.	The programme for the Promotion of the creation of public places of Early Childhood Education aims to create more than 65 000 places for children aged 0-3 in public schools.

Efforts to raise productivity must be pursued more vigorously

Continuous efforts are needed to improve Spain's productivity and innovation performance. Labour productivity is close to the OECD average, but far below some neighbouring countries (Figure 1.31). Between 2010 and 2022, Spain's labour productivity growth averaged only 0.6% per year, compared to 0.9% on average for the OECD and 0.8% in the euro area. The share of innovative companies is also low (Figure 1.32). Weak productivity performance has severe implications for future improvements in material living standards, given that ageing will soon become a larger drag on growth. Without vigorous efforts to boost productivity, the scope for further economic and social progress, to finance the needed policies and to help rebuild fiscal buffers, will be severely limited.

Figure 1.31. The level of productivity is relatively low and has grown little over the past decade

GDP per hour worked, USD, constant prices, 2015 PPPs



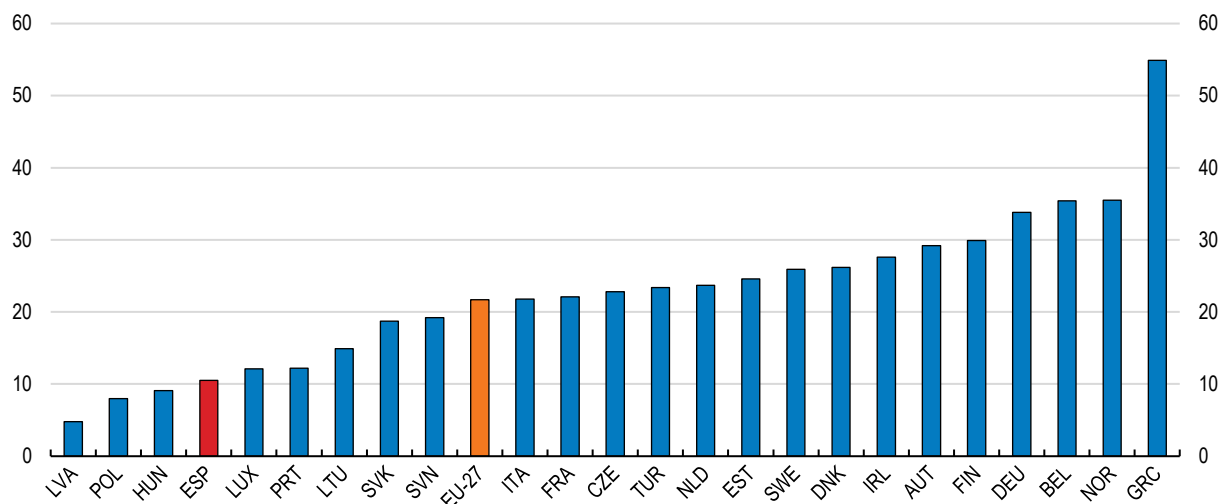
Note: The value for the OECD is the weighted average of the 38 OECD countries in the chart.

Source: OECD Productivity statistics.

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Figure 1.32. Innovative firms are few

Enterprises with on-going innovation activities, % of all enterprises, 2020



Source: Eurostat Community Innovation Survey 2020.

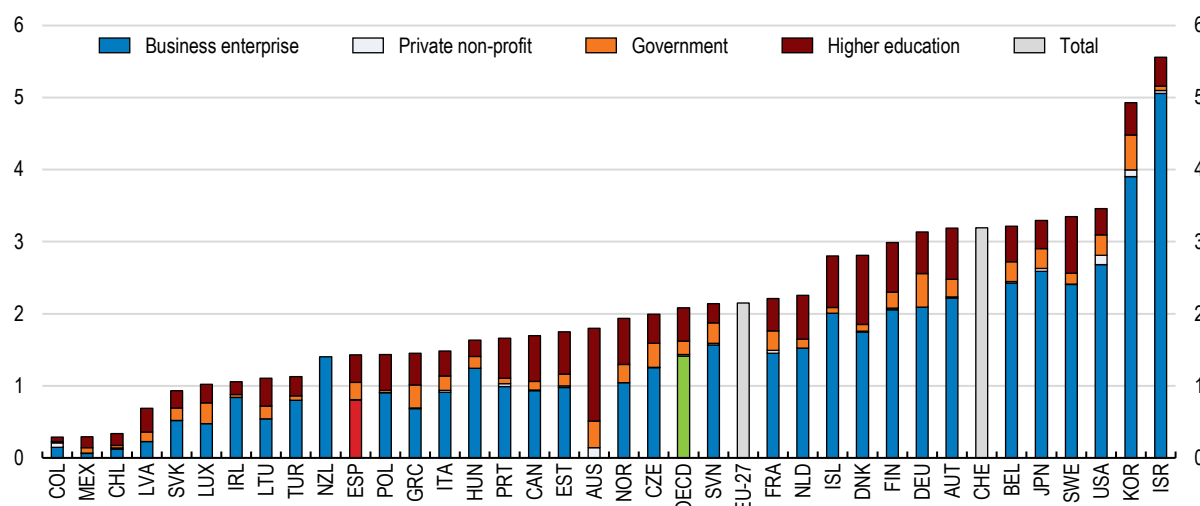
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As discussed at length in previous *Surveys* (OECD, 2017^[13]) (OECD, 2018^[24]) (OECD, 2021^[16]), several factors explain weak productivity and its persistence over time, notably a poor allocation of production factors between companies (Gopinath, 2017^[28]); insufficient public spending on education and training; low R&D investment (Figure 1.33); and an insufficient stock of ICT capital (Maudos, 2021^[29]). Productivity could be raised by reducing regulatory barriers (García-Santana, 2016^[30]) or size-related financial constraints and regulations (Arregui, 2023^[31]). Also, the 2021 *Economic Survey* (OECD, 2021^[16]) highlighted the need to reinforce the dissemination of innovation and digital technologies to companies to increase productivity (Table 1.9). Spain does not currently have a productivity board or commission. These bodies are common in OECD countries to propose independent recommendations for productivity-enhancing reforms. The European Council issued a Recommendation to this effect in 2016, and, to date, 18 countries of the European Union have created such a board (Lehofer, 2023^[32]). Creating such a body contributes to producing objective evidence and data on productivity trends and growth drivers and helping inform pro-productivity policies and interventions, and contributing to assessing and communicating the benefits of pro-productivity policies (OECD, n.d.^[33]).

Broader dissemination of digital technologies can further enhance productivity. Spain performs well overall in digitalisation, ranking 7th on the European Commission's Digital Economy and Society Index, with high scores regarding connectivity and the digitalisation of public services. However, there is room for improvement in some dimensions. First, ICT specialists are too few: they represent 4.1% of employment against an EU-average of 4.5%. Second, only 9% of firms use big data and 27% cloud technologies, against 14% and 34% on average in the European Union, respectively (European Commission, 2022^[34]). Leveraging the RTRP and its focus on digitalisation, with close to 30% of the total investments initially envisaged for digitalisation, including digital skills training (EUR 3.6 billion), the digitalization of public administrations (EUR 3.2 billion) and the digitalisation of businesses (EUR 3 billion), will help.

Figure 1.33. Spending on R&D is low

Gross domestic expenditure on R&D, % of GDP, 2021 or latest year



Note: The value for the OECD is the GDP weighted average of the 37 OECD countries in the chart.

Source: OECD Main Science and Technology Indicators Database.

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Table 1.9. Past recommendations on digitalisation and actions taken

Recommendations in past Surveys	Actions taken since 2021
Continue to reduce excessive regulatory burdens to develop communication infrastructure while reducing regulatory differences across regions, through the consultation mechanism in place.	The 2022 telecommunications act includes provisions to reduce restrictions on network and infrastructure deployment, including rights of use for the public domain and the obligation for public authorities to provide local urban planning of the necessary telecommunications infrastructure.
Fully roll out the National Plan for Digitalisation of Public Administration.	Ongoing. The "citizen folder" has been released. This digital tool allows people to receive notifications from the public administration and consult their personal data.
Strengthen Technology Centres' capacity to effectively conduct R&D through partnerships between firms, especially SMEs, and research institutes.	PERTEs bring together different types of actors, including technology centres and SMEs.
Shift job training subsidies to individuals at least partially, or develop public job training programmes targeted to low-skilled and older workers for specific purposes, such as promoting ICT skills.	The National Digital Competences Plan, included in the Digital Agenda 2026, has a funding of EUR 3.75 billion. It aims to improve digital competences in the population, with emphasis on groups at risk of social exclusion.

The RTRP provides a unique opportunity to promote long-term growth, without further constraining Spain's public finances. Spain's overall envelope of Next Generation EU (NGEU) grants was expanded from EUR 69.5 billion to EUR 77.2 billion (5.7% of 2022 GDP) in June 2022, following a recalculation of allocations to reflect GDP developments in 2020 and 2021. Additionally, EUR 83 billion in loans have been made available, as well as an additional EUR 2.6 billion in grants from the Re Power EU Initiative. Both elements are currently under negotiation. Spain is making progress in the execution of the investments. By early March 2023, authorized spending amounted to EUR 58.0 billion. A new IT management tool ("COFFEE"), developed by the Ministry of Finance, allows officials to monitor progress in satisfying the 416 milestones and targets (of which the European Commission has signed off on 121), helping implementation. The degree of success in the use of the funds will depend on effective implementation based on transparent procedures and criteria for prioritisation of projects and commitment to sound cost-benefit analysis, so Spain gets the most out of them.

Strengthening public-private cooperation to boost productivity growth

Public-private partnerships are rare in Spain, as highlighted in the OECD's last *Economic Survey* (OECD, 2021^[16]). Public-private partnerships in strategic sectors funded by the RTRP (known as PERTEs) target areas where private investment is insufficient and aim at accelerating Spain's digital transformation and its environmental transition. Twelve PERTEs have been created to date, with a total projected investment of EUR 40 billion, excluding the likely effects from the Re Power Initiative.

Fostering stronger collaboration among businesses and universities or public research organisations could support productivity. The 2022 reform of the Law on Science, Technology and Innovation should help in this regard, with its provisions to promote transfer of knowledge and innovation generated by the public sector and to facilitate cooperation between public administrations and companies. Notably, the reformed law stipulates that knowledge transfer activities carried out by public research staff must be considered for remuneration and promotion purposes. Further progress could be made by implementing the following recommendations as soon as possible (OECD, 2021^[35]):

- encouraging a systematic evaluation of science, technology and innovation policies;
- enhancing the participation of industry and civil society in the university governance system, to raise accountability vis-à-vis stakeholders and avoid having strategic decisions guided only by academic considerations, ignoring the needs of companies and citizens. This could be achieved by increasing the number of external stakeholder representatives in the university governing councils (currently limited to only three) or by broadening the role of social councils, in which civil society is traditionally represented.
- promoting performance-based contracts between regional governments and universities, with incentive mechanisms related to collaboration and knowledge transfer. The Basque government's University System Plan provides a good example in this regard (OECD, 2021, p. 210^[35]).
- offering “one-stop-shop” digital platforms to firms to inform them about existing public innovation support opportunities, building on existing but dispersed information; and
- increasing business incentives to recruit doctoral graduates.

Recent regulatory reforms should help, but there is still room for improvement

The predominance of small and micro firms is one of the reasons behind Spain's low aggregate productivity. There are several factors that could limit the growth of firms, including access to finance, regulatory barriers, and inadequate managerial skills. Differences in regulatory frameworks across regions hamper firms' growth and business competition. Several recent measures are welcome. The 2022 Law on Business Growth includes measures to eliminate financial and administrative barriers to firm creation and growth, amends the Market Unity Law notably to strengthen inter-administration cooperation and facilitates the right to complain about the non-respect of freedom of establishment or movement. The sectoral conference for Regulatory Improvement and Business Climate, established in 2021, aims to enhance cooperation and sharing of best practices among different levels of government to foster business activity and evaluates and promotes the implementation of the Market Unity Law. In 2017, a decision of the Constitutional Court limited the scope of this law by declaring unconstitutional the principle of “national effectiveness”, which stipulated that companies would not be subject to any other requirements than those imposed in their region of origin. However, it is still possible for regions to incorporate this principle into their own legislation, which would be welcome.

Several recent initiatives to support firms' growth are welcome. The 2022 start-up law aims to encourage the creation of innovative companies and to promote youth entrepreneurship, which remains low (Chapter 2). The law offers tax incentives for companies and investors, in particular those based abroad, and creates a new visa with favourable tax conditions for international teleworkers. Further efforts are needed to reduce the number of size-related regulations because of their growth-inhibiting effects, as

discussed in the 2018 *Economic Survey* (OECD, 2018^[24]). More than 100 regulations of this type have been identified, related to taxation, labour, accounting or financing (Arregui, 2023^[31]). They should be removed as needed, at least the most binding ones, or replaced by thresholds based on the age of the company.

An efficient insolvency regime encourages entrepreneurs to take the risk to start a new business and is positively associated with entrepreneurship development and productivity growth. The 2022 reform of the insolvency process is welcome, as it should help firms to restructure more smoothly and successfully, and favour a better allocation of capital by limiting the emergence of "zombie" companies (Adalet McGowan, Andrews and Millot, 2017^[36]). The reform gives a more prominent role to the pre-insolvency stage, with a broader coverage and new instruments, to allow firms in financial distress to act swiftly. The framework for restructuring has been overhauled to favour out-of-court negotiations and minimise judicial involvement. Under certain conditions, creditors will be granted the power to impose restructuring plans. Also, the law provides specific, simplified and quicker procedures for micro-enterprises. Moreover, it enhances the "second chance procedure" by expanding the possibilities of exoneration for debtors, to facilitate the continuation of their entrepreneurial activity. Finally, the process of selling business units is being expedited to avoid them losing value during the process.

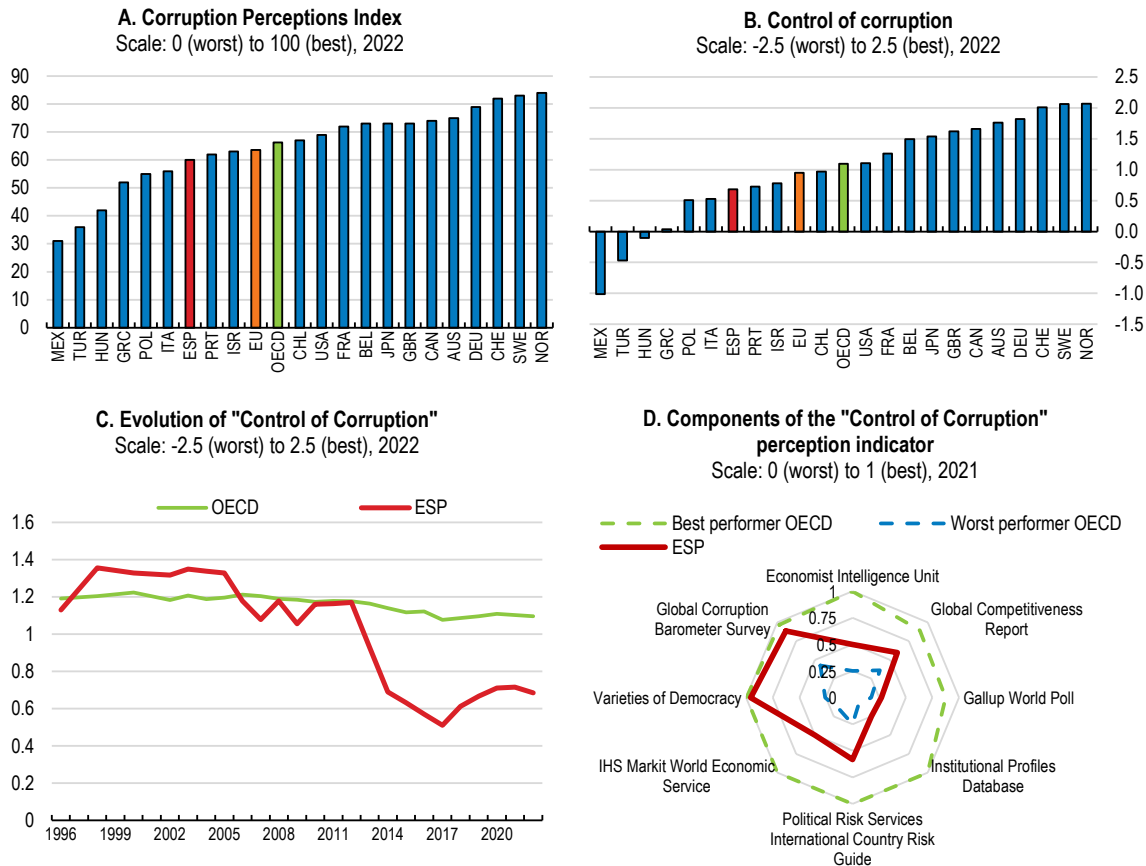
The fight against corruption should be strengthened

Fighting corruption is crucial to creating an economic and social environment based on trust and fair competition, conducive to investment and to productivity growth. In terms of perception, the level of corruption in Spain is seen as rather high by citizens, and increasingly so since 2013 according to the World Bank's "Control of corruption" perception index (Figure 1.34). Nevertheless, this indicator shows some improvement since 2016. Moreover, the legal framework to fight corruption has been strengthened over the past decade and notably in 2023 with the adoption of a law on whistle-blowers.

The prevention of corruption in the public administration, notably conflicts of interest, could be reinforced (GRECO, 2022^[37]). The adoption of the Law on Transparency and Integrity in the Activities of Interest Groups, which will regulate the activities of lobbies and force them to register is a step in the right direction. Also, the strong commitments in the 4th Spanish Open Government Plan 2020-2024 are welcome (Ministerio de Política Territorial y Función Pública, 2020^[38]). Their implementation is well under way and should be continued. As indicated in the 2021 *Economic Survey* (OECD, 2021^[16]), the recommendation of the OECD Council on public integrity can be used as a reference for future action. This recommendation provides policy makers with elements to build a public integrity strategy based on a comprehensive risk-based approach (OECD, 2017^[39]) and the government has recently published a draft following up on this recommendation.

Fair competition in public procurement can reduce fiscal costs and enhance the quality of public investment. Progress could be made in this area, notably by increasing the calls for bids, which are relatively infrequent and, when they do take place, are slow (Figure 1.35). About 11% of the communications or complaints received in 2021 by the Anti-Fraud and Corruption Offices and Agencies are related to public procurements. As stressed in the 2021 *Economic Survey* (OECD, 2021^[16]), electronic contracting should be systematically used, as it can raise both the efficiency and the transparency of public procurement procedures. However, the effective implementation of the legal obligation of electronic contracting is lagging (Comité de cooperación en materia de contratación pública, 2022^[40]). Also, creating a single repository of open and harmonised data for all existing procurement platforms could help increase transparency and prevent corruption (Independent Office for Procurement Regulation and Supervision (OIReScon), 2022^[41]). Regular use of electronic contracting and improving access to quality data are among the objectives of the National Public Procurement Strategy 2023-2026, which will need to be fully implemented (Comité de cooperación en materia de contratación pública, 2022^[40]).

Figure 1.34. Corruption is perceived as high



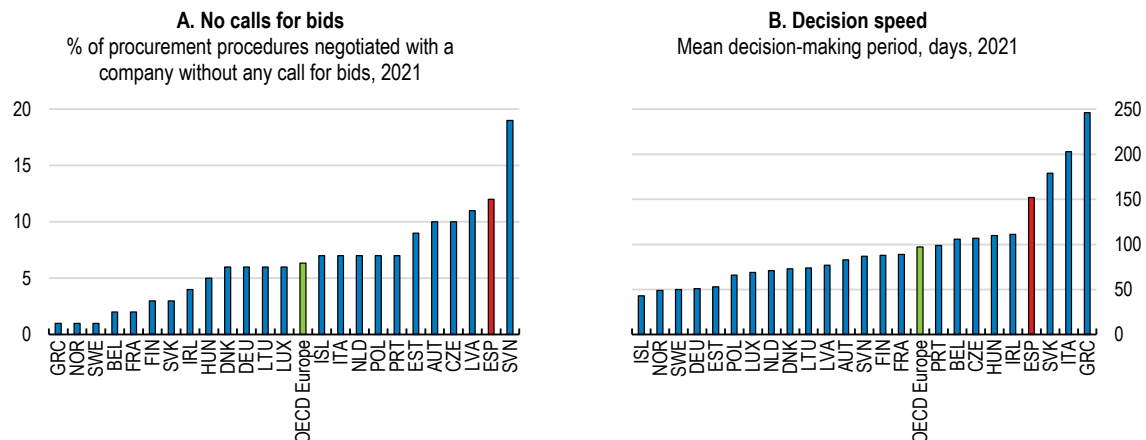
Note: Panel D shows individual indicators, which underlie the "Control of Corruption" indicator by the World Bank.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: World Bank, Worldwide Governance Indicators; Economist Intelligence Unit; World Economic Forum; Gallup World Organisation; French Ministry of the Economy, Industry and Employment and the Agence Française de Développement; Political Risk Services; IHS Markit; Varieties of Democracy Institute; Transparency International.

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Figure 1.35. Public procurement could be better handled

Public procurement indicators



Note: Decision speed refers to the number of days between the deadline for receiving offers and the date the contract is awarded. The European Commission indicates that these indicators "are affected by country-specific factors" and "should be interpreted carefully, ideally in the light of additional quantitative and qualitative information". More details on the methodology are available at https://single-market-scoreboard.ec.europa.eu/business-framework-conditions/public-procurement_en.

Source: European Commission.

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Spain should continue implementing the OECD Anti-Bribery Convention and follow the recommendations of the OECD Working Group on Bribery in this regard, as indicated in the 2021 *Economic Survey* (OECD, 2021^[16]). The OECD Working Group on Bribery highlighted the substantive 2015 reform of the Penal Code that consolidated the foreign bribery offence and further aligned relevant provisions on legal persons' liability with the Anti-Bribery Convention and Recommendation. In addition, it considered that the efficiency of anti-bribery efforts would be enhanced by ensuring that prosecutors have sufficient time to conduct investigations and that the amount of evidence needed for opening a judicial investigation into foreign bribery does not hinder effective investigation and prosecution of offences. The statute of limitations for pursuing a foreign bribery case against legal persons should be aligned with that applicable to individuals. Introducing a system of non-trial resolutions for foreign bribery cases should be considered. Also, authorities should seek to raise awareness of foreign bribery issues among companies and actively promote anti-corruption compliance, in particular among SMEs (OECD Working Group on Bribery, 2022^[42]).

Table 1.10. Past recommendations on other productivity-related policies and actions taken

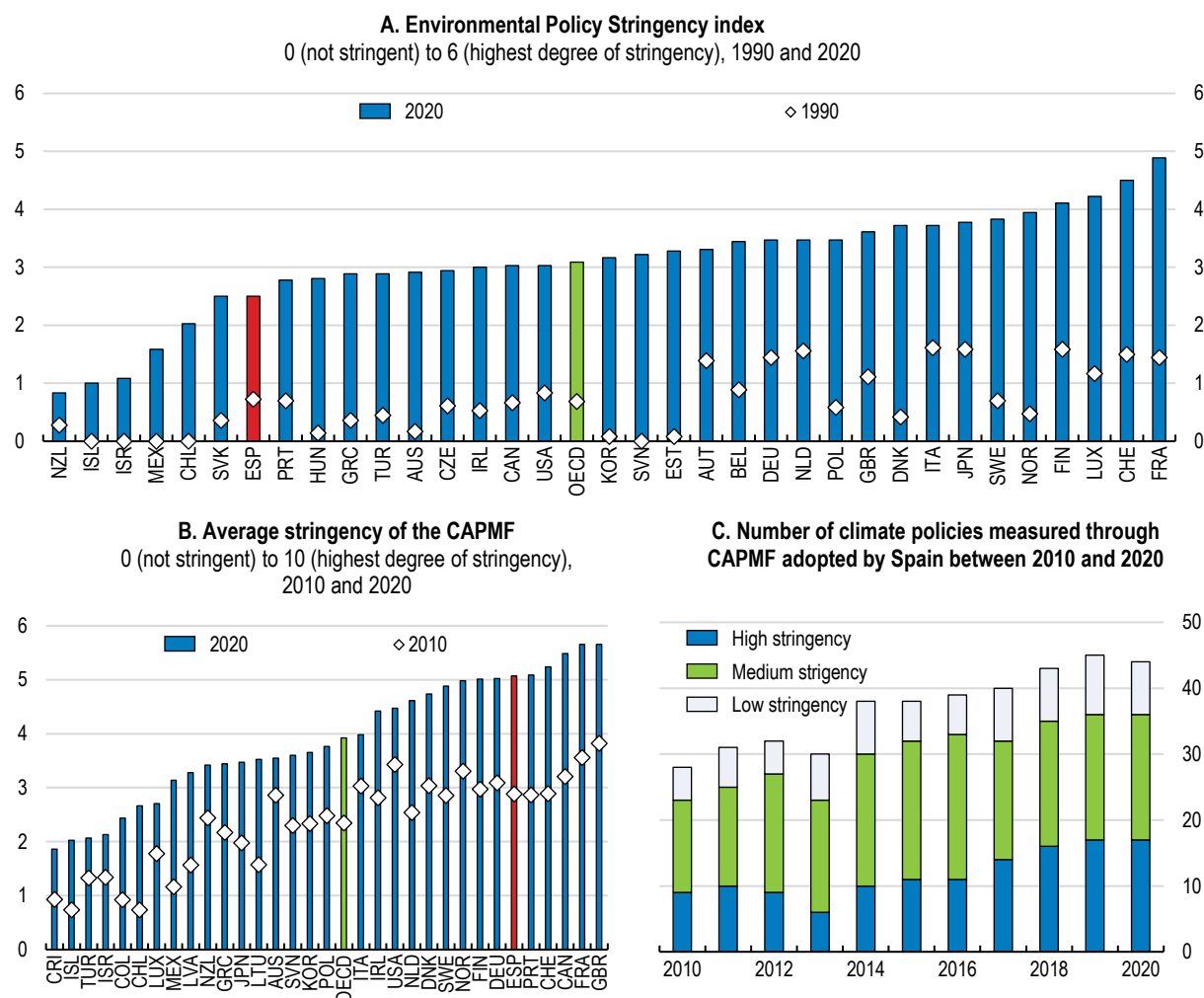
Recommendations in past Surveys	Actions taken since 2021
Ensure the swift disbursement of the new direct aid measures and increase the allocated funds, if needed.	Public aid in the context of the war in Ukraine followed that decided in the context of the pandemic. Notably, in total, over EUR 100 billion in loans have been guaranteed.
Promote out-of-court restructuring procedures, especially for small and medium sized enterprises.	In the 2022 reform of the insolvency process, the framework for restructuring was overhauled to favour of out-of-court negotiations.
Eliminate the existing regulations that depend on the size of firms, as needed.	No action taken.
Prioritise reforms that enhance long-term growth, while ensuring swift implementation to also support the near-term recovery.	The RTRP appears to be on track according to the European Commission. Budget commitments of EUR 42 billion were signed in 2021-22. Reforms implemented include the labour reform, the first phase of the pension reform, the Law on Creation and Growth of Companies, the law on start-ups, the bankruptcy reform, the Telecommunications Law, the Science Law and the reform of Vocational Training.
Regions should include the principle of national effectiveness of the Market Unity Law in their legislation.	Madrid, Murcia and Extremadura have included the principle of national effectiveness in their regulations. Their respective regulations have been added to a catalogue of best practices elaborated by the Sectoral Conference for Regulatory Improvement and Business Climate.
Assess the compliance of new legislation at all levels of government with the principles of the Market Unity Law.	The sectoral conference for Regulatory Improvement and Business Climate, established in 2021, oversees the evaluation and promotion of the implementation of the Market Unity Law.
Strengthen the ex-post evaluation framework of innovation support and consider increasing performance-based funding.	The reformed Law on Science, Technology and Innovation states that the Science, Technology and Innovation Advisory Board will be in charge of promoting the introduction of evaluation mechanisms.

Spain faces a range of environmental challenges

Spain has several areas of concern in the environmental domain. While it has reduced its energy and carbon intensity over the past decade, emissions from sectors not covered by the EU-wide emissions trading system (EU-ETS), including agriculture, transport and buildings account for 60% of Spain's greenhouse gas emissions. Water quality is poor and securing sufficient supplies of water is also a worsening problem in some parts of the country because of persistent drought. Spain uses a lot of fossil fuels, especially in road transport, in part because of a low car acquisition tax, and modest fuel tax and duty rates, notably on diesel. However, the higher fossil fuel prices induced by Russia's war against Ukraine will help to push down demand in the medium term. While environmental protection expenditure as a share of GDP was comparatively high in the decade ending in 2019 (D'Arcangelo, 2022^[43]) and has been trending up in recent years, Spain ranks relatively low on overall environmental policy stringency (which covers water and air quality as well as climate change) (Kruse et al., 2022^[44]). Over the years it has

trended up, but it remains below its historical peak from 2011-12 and in 2020 was seventh lowest in the OECD (Figure 1.36, Panel A). However, Spain has made good progress since 2010 on climate change policies according to the OECD's recently developed Climate Action Policy Measure Framework (CAPMF) (Nachtigall, 2022^[45]), having adopted 44 policies by 2020 many in high-stringency form (Figure 1.36, Panels B and C).

Figure 1.36. Environmental policy is not very stringent compared to other countries



Note: Panel B shows the percentage share of policies covered in the Climate Action Policy Measure Framework (CAPMF). Stringency is defined as the degree to which policies enable or incentivise GHG emissions reductions. It is operationalised by assigning for each policy a value between 0 (no policy in place) and 10 (highest value) based on the in-sample distribution across all countries and years. Source: Kruse, T., et al. (2022), "Measuring environmental policy stringency in OECD countries: An update of the OECD composite EPS indicator", *OECD Economics Department Working Papers*, No. 1703, OECD Publishing, Paris, <https://doi.org/10.1787/90ab82e8-en>; Nachtigall, D., et al. (2022), "The climate actions and policies measurement framework: A structured and harmonised climate policy database to monitor countries' mitigation action", *OECD Environment Working Papers*, No. 203, OECD Publishing, Paris, <https://doi.org/10.1787/2caa60ce-en>.

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The Spanish government has made addressing climate change one of its priority areas and should continue to leverage its RTRP funds, of which EUR 27.8 billion is allocated to the green transition. Achieving the 2030 targets in the 2020 National Energy and Climate Plan (reducing greenhouse gas emissions (GHGs) by 23% compared to 1990, reaching a 42% share of renewables in energy use and 74% renewable energy in electricity generation, and making a 39.5% improvement in energy efficiency) are estimated to require EUR 241 billion in investment by 2030, with 80% coming from the private sector.

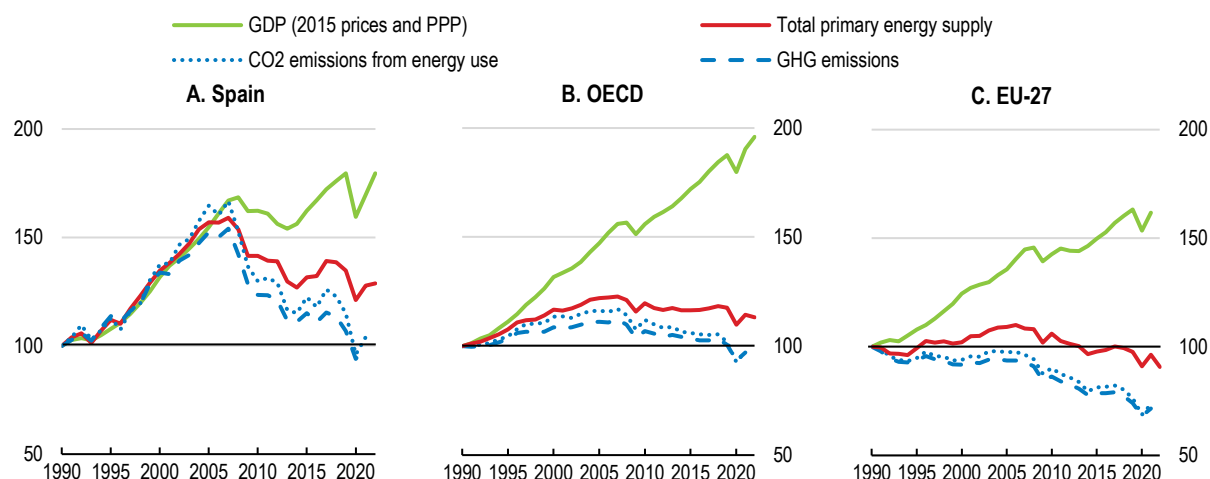
Much progress has been made in fighting climate change

Much progress has been made since the mid-2000s in the fight against climate change. CO₂ emissions have been decoupled from output growth both by cutting the energy intensity of GDP and using less emissions-intensive forms of energy, though the improvements have only recently begun to match or exceed those elsewhere in the OECD and especially in the European Union (Figure 1.37). Spain's success in decarbonisation owes much to the development of its renewables sector, which has been effectively supported by feed-in tariffs and auctions. In 2021, Spain's GHG emissions represented approximately 1.9% of the combined GHG emissions of OECD countries. In per capita terms they have fallen by 20% since 2010, and Spain is less emissions intensive per capita than most OECD countries (6.1 tonnes compared to an OECD average of 10.9 tonnes). Currently, transport is the first source of emissions (29.6%), followed by manufacturing and energy industries.

Mitigation efforts have been successful. The significant fall in emissions is due to the decarbonisation of manufacturing and construction (-33% since 2005) and of energy industries (-67%), driven by the phasing out of coal from the energy mix. It has been replaced by natural gas and renewables, the latter of which today represent 16.7% of total energy supply, compared to 5.9% in 2005. As a result, the energy industry accounts for only 14.3% of GHG emissions, down from 28.7% in 2005, which is far lower than OECD average of 27.6%. In any case, the challenges that remain to achieve the longer-run goal of net zero emissions remain considerable. Spain needs to accelerate mitigation efforts significantly, particularly in the transport sector, where emissions rose by 7.5% between 2012 and 2021. It has also failed to make any headway in cutting its emissions from agriculture, which have increased by 8.7% since 2012, primarily because of rising methane emissions from livestock herd expansion.

Figure 1.37. Decoupling of energy use and GHG emissions from output has continued

Index 1990 = 100



Note: GHG emissions excludes emissions/removals from land use, land-use change and forestry.

Source: OECD Economic Outlook: Statistics and Projections; IEA (2022), IEA Greenhouse Gas Emissions from Energy dataset; IEA (2023), IEA World Energy Statistics and Balances (database).

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Spain's set of policies designed to reach net zero by 2050 is a good start

The 2021 Spain 2050 Strategy aims to transform Spanish society to be carbon-neutral, sustainable and resilient to climate change. The Strategy sets the ambitious target of reducing gross emissions by 90% relative to 1990.

The National Energy and Climate Plan 2023-2030 (NECP) needs to be efficiently implemented and then monitored. While instability in the policy framework should be avoided, the Plan was revised in June 2023 to be consistent with the European Union's recently agreed more ambitious 55% cut in carbon emissions by 2030 compared to 1990 levels. The revised Plan's proposed target for 2030 implies a 32% reduction compared to 1990 levels, a significant increase from the previous version of the Plan but still less than the EU average abatement objective. It is also lower than the 43% net reduction relative to 2019 estimated by the Intergovernmental Panel on Climate Change to limit warming to 1.5°C with no or limited overshoot. A royal decree is expected to help address the expected coordination challenges, which have already been mitigated through sectoral conferences and the Ministry of Finance's recently developed COFFEE model of tracking projects and spending.

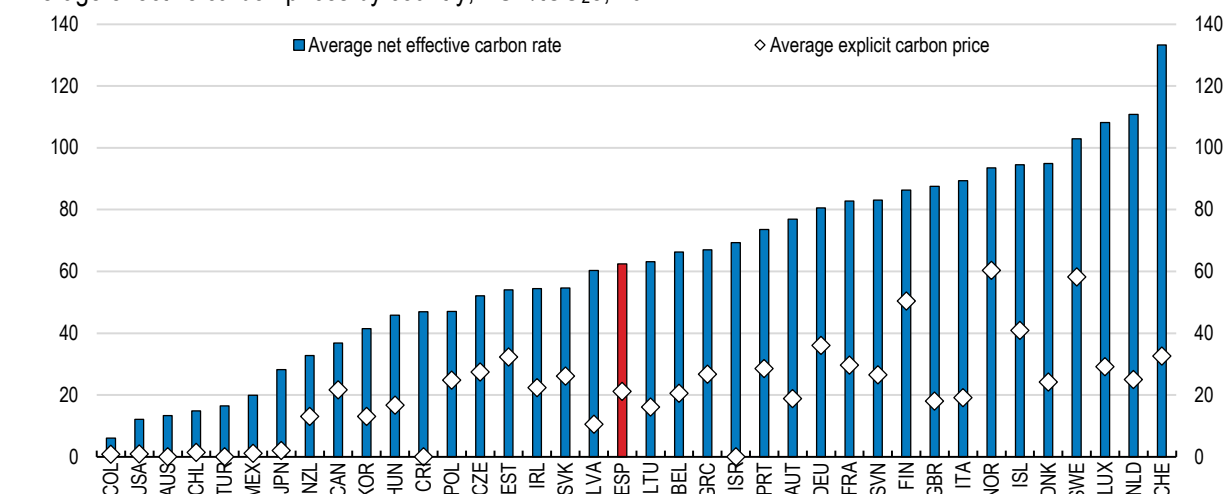
In Spain, the EU-ETS covers approximately 32% of total emissions. To reach the 2030 target, ETS sectors are expected to contribute to decarbonisation with an emissions reduction of 61% compared with 2005. Spain's NECP aims at deep emission reductions in electricity generation. This should result, firstly, from measures to deploy renewable energy, in particular solar and wind power. It should also result from the gradual phasing-out of coal. Most recently, the process has been supported by the closure of all coal mines by 2019 and of almost all coal-fired power stations by 2022. Discussions are also taking place regarding a faster withdrawal of free permits for the carbon-trading scheme through auctioning. However, there is still no carbon pricing in non-ETS sectors, other than a tax implemented in 2014 on fluorinated gases (which account for 3% of total emissions), which has succeeded in lowering such emissions by 65%. It is now urgent for non-ETS sectors to be tasked with a greater contribution to decarbonisation efforts.

The European Union is moving towards adopting a so-called ETS2 to cover emissions from fossil fuel combustion in the buildings, road transport and fuel distribution sectors from 2027 (OECD, 2023, forthcoming^[46]). Once ETS2 is in place all sectors except agriculture, fishing, waste, land use, land-use change and forestry (LULUCF) and emissions other than from fossil fuel combustion would be covered by a carbon pricing system. The goal of ETS2 is to cut sectoral emissions by 43% compared to their 2005 levels without offering any free allowances. The expected permit price is lower than for the existing ETS, but some sort of convergence could be considered in the future. A substantial mitigation facility (the so-called Social Climate Fund) is to be established as from 2026 with funding of EUR 86.7 billion, three-quarters of which generated by the associated auction proceeds, with the remainder from Member state co-financing. While this is a laudable proposal, and is deserving of strong Spanish support when Spain assumes the EU Presidency at mid-2023, Spain should act more quickly by making fuller use of both price and non-pricing measures to raise the effective price of carbon until the ETS2 is in place.

Spain has eliminated all its explicit subsidies to fossil fuels in recent years and has stringent non-carbon-pricing mitigation policies. However, it continues to offer some substantial implicit subsidies in the form of exemptions, particularly to its farmers and fishers. OECD estimates for 2018 point to a middling "carbon pricing score" (a measure of the share of emissions exposed to carbon priced at a given price or more) for Spain at EUR 60 per tonne (46%). While this is above the OECD average (41%), it is lower than for many of its European neighbours, notably Switzerland and Luxembourg (69%) (OECD, 2021^[47]). In all cases Spain's scores are essentially 100% for road emissions, much lower for others and lowest for agriculture and fishing. More recent OECD work for 2021 shows that Spain's average net Effective Carbon Rate rose by more than 30% since 2018, but that nearly a quarter of all emissions were still not subject to any positive carbon price (no change since 2018), while another quarter (road transport) faced carbon pricing of some EUR 150 per tonne. By way of comparison, Spain's average net Effective Carbon Rate per tonne is the eighth-lowest in the OECD-Europe (Figure 1.38). Bank of Spain modelling work shows that extending the ETS scheme to the entire economy would cut emissions by 14.5% and combining that with raising the rate by EUR 75 per tonne to EUR 100 would raise the estimated cut to 31.1% (Aguilar, 2022^[48]).

Figure 1.38. Net Effective Carbon Rates are only moderate

Average effective carbon prices by country, EUR/tCO₂e, 2021



Note: The net Effective Carbon Rate (net ECR) is the sum of permit prices from emissions trading systems, carbon taxes and fuel excise taxes minus fossil fuel subsidies that decrease pre-tax fossil fuel prices. The explicit carbon prices include emissions trading systems and carbon taxes. Effective carbon prices are averaged across all GHG emissions, excl. LUCF, of 71 countries, including those emissions that are not covered by any carbon pricing instrument. Fossil fuel subsidy estimates (component of net ECR) are based on data for 2020.

Source: OECD (2022), *Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action*, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, <https://doi.org/10.1787/e9778969-en>.

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Regarding industry, the NECP proposes incentives for incorporating renewables – in particular, biomass, biogas and solar – in industrial processes and intensifying research and innovation in low-carbon technologies, such as waste heat recovery and carbon capture technologies. The energy RD&D budget could be increased, as it has shrunk noticeably since 2012 and is now one of the lowest among IEA-member countries. Energy audits for large firms, which have been mandatory since 2016, could be made more effective by boosting penalties for non-compliance, as well as by requiring follow-up by firms if the implied investment payback period is reasonable. In addition, while publicly traded (large) firms have had to report annually on their environmental impact, a draft government regulation would require more firms to publish data on their carbon footprint.

Spain has committed to reducing emissions in non-ETS sectors such as transport, buildings, agriculture and waste by 26 % by 2030 compared with 2005. The NECP envisages significant reductions because of measures promoting a modal shift towards low- and non-emitting modes of transportation and, in particular, less need for trips by private cars. Measures foreseen include the creation of low-emission zones in cities over 50 000 inhabitants (from 2023), and the use of renewables, whose share in the sector is expected to reach 28% by 2030, by means of electrification and the use of advanced biofuels. More recently, the EU decision to ban the sale of vehicles powered by internal combustion engines as from 2035 will help to lower emissions. However, more support from the RTRP could be given for the installation of electric vehicle charging points, which are already mandatory in large petrol stations, as Spain has been lagging in this area (OECD, 2023, forthcoming^[46]). Additionally, offering lower registration taxes for electric vehicles could allow a faster shift to non-emitting forms of mobility. Ending the tax benefit in the form of lower fuel excise duty offered to drivers of diesel-powered vehicles would help cut both carbon and particulate emissions.

In the building sector, the government intends to reduce emissions by improving energy efficiency, as Spain's homes are less energy efficient than those of many other European countries. In addition to a recent increase in the personal tax incentive for housing insulation and to the EUR 6.8 billion in RTRP funds allocated for rehabilitation of housing and urban renewal, more efforts will be needed for retrofitting and to make greater use of solar panels in the housing sector. However, these will have to confront energy

poverty and affordability barriers, possibly through an enhancement of the thermal social bond subsidy measures for natural gas and electricity available to poor households that have existed since 2019. While temporary, many eligible households have not accessed these schemes. They may need to be made permanent in some form to handle affordability challenges.

Electricity accounts for about 19% of total energy supply in Spain, largely unchanged in recent years and below the OECD average of 22%. The government called for fundamental reform of the electricity market even before the war in Ukraine, not only because its structure is a barrier to decarbonisation but also because of the role of high prices in overall well-being and widespread energy poverty. Greater flexibility is being sought throughout the energy sector through new incentives and plans for storage (of liquified natural gas, for example, even though Spain is already the best endowed EU country in that regard) and auctions for long-term capacity and for so-called “active demand response” (for power interruptions in times of peak demand).

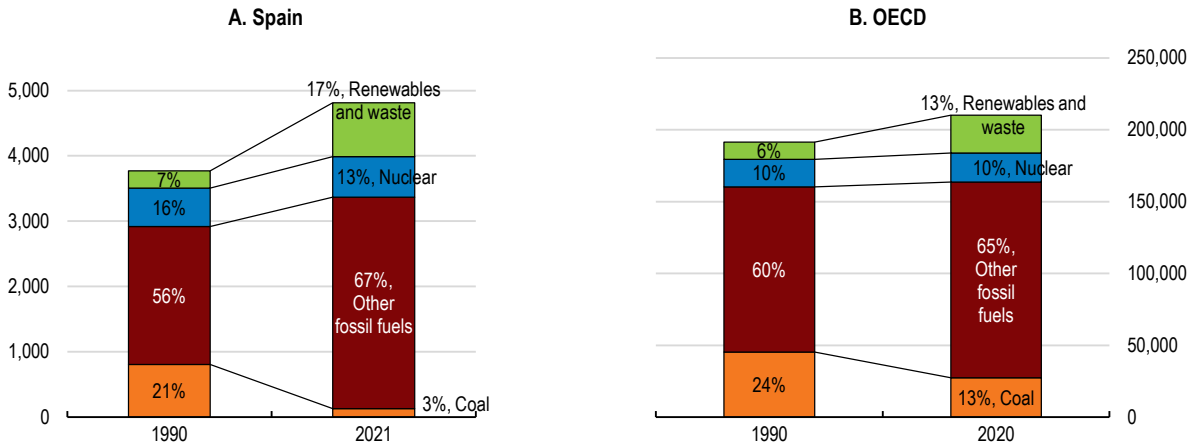
Over the medium term, continued efforts to overcome fossil fuel dependence will be necessary (Figure 1.39). Solutions include promoting investments in low-carbon alternatives, storage, and interconnections. A continued expansion of the renewables sector will be required to meet the government’s ambitious target of it accounting for 74% of electricity production by 2030 and 100% by 2050 (compared to a recent peak of 47% in 2021), especially because electricity demand will grow strongly because of electrification of other sectors, notably transport. Though the pace of installation of solar photovoltaic has jumped since 2019, the latest data show Spain to have been only near the IEA median for the share of electricity generated from renewables (International Energy Agency, 2021^[49]), and it appears that a fairly sharp fall occurred in this share in 2022 because of the drought’s effects on hydro power. In addition, green hydrogen for large off-grid needs based on both solar and wind energy will also benefit from an allocation of EUR 1.5 billion in RTRP funds. The greatest hurdles to renewables penetration are permitting barriers for new energy projects (for example, the time needed to get a permit for an onshore-wind farm, at around 85 months, is much greater than most EU countries for which data are available (OECD, 2023, forthcoming^[46]) and spreading NIMBY (not in my backyard) attitudes in some areas. However, a new law from March 2022 sets out streamlined procedures for approving renewable energy projects. Planned closure of some of Spain’s nuclear generating capacity (scheduled to take place between 2027 and 2035) will make the challenge of curbing GHG emissions more difficult.

Spain’s offshore wind and sea energy potential could be exploited following a December 2021 roadmap that pointed to the need to ensure that the relevant ports have the required infrastructure to absorb the power into the national grid. Spain, Portugal and France also agreed last December to move ahead with a sub-sea hydrogen pipeline connecting Barcelona with Marseille, which is expected to be operational by 2030, and thereby partially address poor energy interconnections between the Iberian Peninsula and the rest of Europe.

Spain faces multiple climate-related hazards that will increase in the coming decades, especially related to increasing temperature and drought. Based on 2016-2020 data, extreme heat (over 35°C) affects most residents, with 83.1% of the population exposed; wildfires are also a very real danger. On average, there are 6.3 additional extremely hot days per person compared to the 1981-2010 average. This underscores the need for targeted adaptation policies and for all nations to promote the global commitment to mitigation, something that Spain can take the lead on when it assumes the Presidency of the European Union in July 2023. The south of Spain is especially affected both by increased heat stress (up to 20 more hot days per year compared to 1981-2010) and drought. Moreover, average cropland soil moisture, an indicator for drought, has declined by 1.4% compared to 1981-2010, with particularly sharp declines of more than 10% in southern Spain. Spain released its latest climate-change adaptation plan in 2020 to cover the 2021-2030 period. It defines as key instruments for adaptation a programme of work with a clear timeline and milestones, together with sectoral and regional plans. In response to worsening drought conditions, the government also just announced an emergency spending package comprising EUR 1.4 billion to increase the availability of water and EUR 784 million to help farmers maintain production and avoid food shortages.

Figure 1.39. Like other countries Spain has shifted its energy supply towards gas and renewables

Total energy supply by source, PJ and %, 1990 and 2020-21



Note: Coal comprises coal, peat and oil shale. “Other fossil fuels” comprises oil products, natural gas, crude oil, natural gas liquids and feedstocks. Renewables and waste comprises hydro, geothermal, solar, wind and tide/wave/ocean energy and the use of these energy forms for electricity and heat generation, as well as solid biofuels, biogases, industrial waste and municipal waste.
Source: IEA (2023), IEA World Energy Statistics and Balances (database).

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Water scarcity and quality issues remain significant

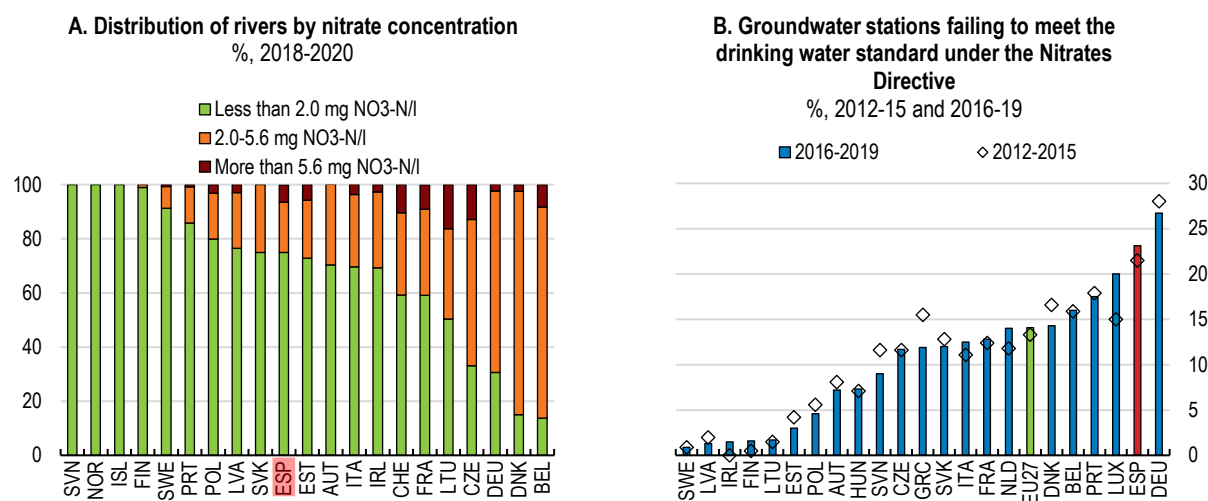
The historical and growing challenge of water scarcity due to insufficient rainfall exacerbated by climate change, widespread and increasing irrigation and other external pressures has important implications for the resilience of the water system, for personal welfare and ultimately for potential GDP as well as its sectoral composition. Since 1980 available water has declined by 12%, and projections call for further falls of 14-40% by 2050. Fortunately, the latest OECD data (up to 2020) show water stress (measured by gross water abstractions as a share of available resources) to have been falling, though it remains in the medium-high range. However, soil erosion already afflicts almost a quarter of Spain’s land area, overall vegetation and especially forests, which have been suffering from the increasing frequency of large and intense fires. Water problems have been magnified by coordination issues between the central government – responsible for most water investment – and the relevant local authorities, though the 2021 National Climate Change Adaptation Plan is expected to improve matters.

In 2022 the government approved the “Strategic orientation on water and climate change”, which includes the guidelines and lines of action to increase water security, better adapt to the consequences of climate change and increase resilience. The main lines of action focus on: demand reduction; the efficient use of water resources; recourse to non-conventional sources (such as water reuse and desalination); and the promotion of environmental recovery of water bodies. Investments within the Spanish RTRP, accounting for more than EUR 1250 million, will be used to achieve these goals.

The main challenge for water quality – arguably the only area where Spain suffers from a lower environmental quality of life than its EU neighbours (Eurofound, 2017^[50]) – is nitrate pollution (and the ensuing eutrophication) that results from inappropriate fertilizer use on croplands and intensive livestock raising, especially of pigs (Figure 1.40). The situation is worsening steadily: the nitrogen balance per hectare was 39kg in 2015 but jumped to 49kg in 2017, surpassing the latest EU-wide figure for the first time. From 2015 to 2019 nitrogen use rose by 4.5%. This picture is consistent with Spain’s increasing importance as a pork producer: the country is now the world’s largest exporter of frozen pig meat and has the European Union’s largest herd (over 34 million animals) (OECD, 2022^[51]), which also brings with it additional emissions from slurry. Nitrogen from animals also pollutes the air in the form of ammonia, for

example. Spain failed to meet its national ceilings on ammonia air emissions every year from 2010 to 2019, one of only two EU countries with that outcome (OECD, 2022^[37]), though more recent national data show that targeted reductions have been met, following a decades-long stagnating trend in contrast to the cuts already achieved by most other EU Member countries. The phosphorous balance has also increased sharply and is now the highest in the OECD: in the four years to 2019, its use rose by 21%. Late in 2022 the government approved a royal decree that aims to improve fertilizer use to lower nitrogen pollution of water through various regulatory requirements.

Figure 1.40. Nitrates are a problem in drinking water



Source: Waterbase, Water Quality, European Environment Agency (EEA).

StatLink  <https://stat.link/r6p1w0>

Late in 2021 the European authorities decided to take Spain to the European Court of Justice for not having done enough to combat nitrate pollution, which is estimated to afflict nearly a quarter of Spain's water (surface and groundwater). Wastewater treatment is also incomplete, resulting in legal actions by the European authorities. To its credit the government has started to deal more decisively with water-quality issues. In 2021, a ministerial order promulgated a National Plan for Purification, Sanitation, Efficiency, Savings and Reuse (DSEAR Plan) to overcome administrative coordination problems. In March 2022, the Strategic Project for Economic Recovery and Transformation (PERTE) for the digitalization of the water cycle was approved by the government, with an expected budget of more than EUR 3 billion from the RTRP. In August 2022, a proposed revision of the Water Law was released for public consultation, which would include an increase in the wastewater discharge control fee in line with the polluter-pays principle. Likewise, it is also worth noting the approval in 2022 of two Royal Decrees that include measures to protect water against diffuse pollution produced by nitrates from agricultural sources and that establish standards for sustainable nutrients in agricultural soils. Most recently, the government approved the Third Cycle Hydrological Plans that will govern the regulation of water resources until 2027. Over 6500 measures were enumerated with a budget of EUR 22.8 billion covering sanitation and purification, modernisation of irrigation systems, improvement of supplies, flood-risk management, restoration of the public hydraulic domain, construction of infrastructures and digitisation of the water cycle to ensure more efficient water use. This is slightly less than the EUR 28 billion in investment needs by 2030 estimated by the OECD (OECD, 2022^[52]) to ensure adequate supplies and to treat contaminants of emerging concern so as to maintain drinking water standards, even assuming a reduction in leakages.

In sum, the authorities are taking appropriate measures but may need to step up their efforts to ensure a more frugal use of water. Given that 63% of its consumption is for farmland irrigation, encouraging a better use of water through more efficient irrigation, reusing and recycling water or increasing water pricing for irrigation reflecting water scarcity is key. A reduction of irrigation is achievable only if a robust water allocation scheme covering return flows is implemented to prevent the materialisation of the well-known “rebound effect”, whereby water saved is used to extend irrigated land or grow more water-intensive crops. In any case, more should also be done to support innovation in irrigation and to encourage farmers to invest in water-saving equipment and households and other businesses to economise on their use of water both through price and non-price means. Comparing water prices across countries is difficult, but one recent private initiative found that households in Almeria, Barcelona, and Madrid paid less in 2021 per cubic metre than in most other European cities.

The OECD Council’s recommendation on water does not endorse the use of desalination where shortages exist. Rather, demand should be thoroughly managed through robust water allocation regimes, and better use of alternative water sources (rain water, reclaimed water) should be made before desalination is considered. In Spain’s case multiple desalination plants already exist. A step forward is a very recent not-yet-finalised compromise to set the price of desalinated water with a floor of EUR 0.35 per cubic metre; in any case more desalination capacity will almost certainly be required, even if that will be costly and energy intensive (at least the energy should be provided in renewable, carbon-free form) and will result in brine release. Similarly, much greater policy effort must be expended to safeguard water quality. That too has been damaged mainly by agricultural activities, both in the form of crop cultivation and livestock rearing. Steps need to be taken to restrain the use of fertilizers either by taxing or more severely regulating their use, at least in sensitive areas. In addition, much stricter standards should be applied to livestock slurry, even if that leads to smaller herds. Spain cannot afford to maintain such environmentally damaging activities.

Table 1.11. Past recommendations on environmental policies and actions taken

Recommendations in past Surveys	Actions taken since 2021
Over the medium term, increase taxation of fuels to better reflect emissions of CO ₂ , together with redistribution towards poorer households.	To protect poorer households from the effect of higher energy prices, fuel taxation was temporarily lowered in 2022.
Improve the use of water price signals and water governance by widening participation of stakeholders in river basin authorities to include more scientists and improving the efficiency of water supply and treatment services by benchmarking regulation of water utilities.	No action taken.
Increase the share of R&D in water-related technologies.	No action taken.

Table 1.12. Macroeconomic and structural policy recommendations (Key recommendations in bold)

MAIN FINDINGS	RECOMMENDATIONS
Addressing medium-term fiscal challenges	
Support measures to alleviate the impact of high energy and food prices have been sizable and only partly targeted towards the most vulnerable.	End the support measures that were put in place to alleviate the impact of high energy and food prices.
Higher interest rates could spark disruptions in financial markets and erode borrowers’ repayment capacity.	Supervisory authorities should closely monitor banks and encourage prudent provisioning and adequate capital policies.
Public debt, at 113% of GDP is high, the fiscal deficit is still sizeable and pension and health-related expenditures are set to rise in the longer term.	Adopt a medium-term fiscal plan, step up the pace of deficit reduction from 2024, and ensure all extra spending is fully financed over the medium term.
Spending is tilted towards social spending, mostly pensions and unemployment benefits, with too little allocated to growth-enhancing items including education and training. Young people benefit less from public spending than others.	Based on spending reviews and sound cost-benefit analysis, set longer-term spending priorities more geared to growth-enhancing items, notably skill-building measures such as education.
The pension reforms approved between 2021 and 2023 represent an increase in the deficit of 1.1 points of GDP in 2050. Debt could trend higher and reach 186% of GDP by 2070 according to the fiscal council.	Link the retirement age to life expectancy at the age of retirement. If this, together with the latest reforms, does not ensure sustainability of the system, modify the pension accrual factors and extend the reference period to compute pensions to at least 40 years.

The health-care system has been delivering reasonable value for money. However, some parts have been heavily squeezed.	Consider hiring more health workers.
Tax revenues are low by EU standards, and there is scope to improve the design of the tax system: the value added tax base is narrow; marginal personal income tax rates climb quickly already at modest levels of income, discouraging labour supply; and the tax system is not well geared to achieving environmental goals.	Mobilise additional tax revenues by gradually broadening the value added tax base, imposing higher excise duties on alcohol and tobacco and raising environment-related taxes, while reducing some capital taxes and the tax burden on labour for low-income households with children. Reduce tax avoidance and enhance tax collection by continuing to promote the use of electronic invoicing.
Promoting strong, inclusive and sustainable growth	
Long term unemployment affects over 40% of the unemployed. Activation requirements for the unemployed are lower than in most other OECD countries. Few unemployment benefits are compatible with employment.	Give greater incentives to work, by making activation stricter and by allowing the combination of unemployment benefits with work to some extent.
Social expenditure is tilted towards contributory benefits favouring people with a job and a stable financial situation. Social assistance programmes do not adequately protect vulnerable groups. Child poverty is high.	Increase the amount and coverage of cash benefits for poor families with children.
The lack of transferability of social rights between regions is an obstacle for people moving between regions.	Ensure the transferability of social and housing rights for individuals moving between regions.
Inefficiencies in the administrative systems, complex rules and lack of coordination mean that social assistance programmes are not effective at reducing poverty.	Set up one-stop shops to coordinate income support, social and unemployment services for vulnerable people. Develop permanent coordination mechanisms between administrations for social services to reduce administrative complexity for users.
Information regarding social services is fragmented, hampering the assessment of needs, of service quality and of policy effectiveness.	Integrate information systems, enhance data sharing between social services providers, and evaluate the impact of social policies regularly.
The coverage of the minimum living income scheme is much lower than the eligible population, and income levels it guarantees are relatively low by international standards, despite recent temporary increases.	Assess the adequacy of the national minimum income scheme in reducing poverty. Simplify access to national and regional minimum income schemes.
Despite improvements, Spain remains heavily reliant on fossil fuels, favoured by tax-exemptions, modest fuel taxes and considerable subsidies in agriculture and fishing.	Broaden the base for environment-related taxation including by phasing out exemptions and gradually increasing the tax rate on non-ETS emissions, and compensate partially and temporarily the most vulnerable.
Current policy efforts are unlikely to be sufficient to reach stated goals, notably net zero carbon emissions by 2050 and a cleaner energy mix through greater renewables.	Install more electric vehicle charging points and provide more support for the retrofitting of buildings. Speed up permitting procedures for new renewables capacity.
Water quality is poor with toxic levels of nitrates concentration spreading because of intensive agriculture production. Securing water is also a worsening problem in parts of the country afflicted by persistent drought.	Promote a more efficient use of fertilizers by increasing taxes or improving their regulation. Encourage a better use of water through more efficient irrigation, reusing and recycling water or increasing water pricing for irrigation.
Pursuing efforts to raise productivity and fight corruption	
Collaboration between the business sector and researchers is weak. Innovative companies are too few and private-public partnerships rare.	Promote collaboration and knowledge transfer between businesses and universities through performance contracts that reward collaboration and participation of businesses in university governance.
Differences in regulatory frameworks across regions hamper firms' growth and business competition.	Continue to incentivize the reduction of regulatory barriers and better regulation of economic activities by fostering the mutual recognition of regulations by regions and the implementation of the Market Unity Law.
The legal framework to fight corruption has been enhanced over the past decade, but the level of corruption is still perceived as rather high by citizens.	Continue efforts to reduce corruption in the public sector.
According to the OECD Working Group on Bribery, Spain continues to close foreign bribery cases prematurely, and prosecutors have insufficient time to conduct their investigations and face challenges in deploying adequate investigative measures.	Continue to implement the OECD Anti-Bribery Convention.
Information on public procurement is not easily available.	Create a single repository of procurement-related data.

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2 Increasing opportunities for the young in Spain

Adolfo Rodríguez-Vargas, OECD

Spain is a richer, healthier, more open, and freer country to live in today than one generation ago. However, young people in Spain have a difficult transition to an independent, productive, and happy adult life. Early school leaving and grade repetition are frequent, even if they have come down. Youth unemployment is among the highest in the OECD, and those young people who find work often face temporary and part-time positions, low-paid jobs, and subpar working conditions. Increasing funding for early childhood education and care, supporting students at risk of falling behind and improving career counselling can help more people make the most of their education. Labour market outcomes for the young can also be improved by strengthening the connection between the educational system and the labour market, including by fostering collaboration between SMEs to provide apprenticeships to students. A well-funded and better-connected public employment service is also key. Boosting the low level of entrepreneurship among young people requires additional support policies, both financial and educational, to compensate for skill shortcomings and difficulty accessing financing. A challenging transition from education to work, coupled with lack of housing and high rental prices, often means delaying independent life. A higher provision of social rental housing would make housing more affordable for more young people.

Quality of life in Spain is much better today than it was one generation ago. Income per capita has increased substantially and life expectancy and other well-being measures are among the highest in the world. The country attracts many people who are looking for a better life. The authorities efficiently responded to the challenges posed by the COVID-19 pandemic and the increase in energy and food prices stemming from Russia's war of aggression against Ukraine.

Nonetheless, Spanish young people face difficulties in transitioning to an independent, productive, and happy adult life (OECD, 2018^[1]; OECD, 2017^[2]; OECD, 2021^[3]). High unemployment, poor-quality jobs, weak educational outcomes, complicated transitions from school to work and difficulty to move out of the parental home, together make life in Spain worse for the young than in other EU and OECD countries. Cyclical factors like the Global Financial Crisis, or exceptional shocks like the pandemic and the repercussions of Russia's war against Ukraine, have worsened these problems. But some of the most pressing concerns have been present for decades and have even worsened over time. The government is doing reforms to improve the functioning of the labour market, education outcomes and facilitate access to housing, including the promotion of dual training through the reform of vocational education, an increase in grants to promote the mobility of students, and a labour market reform to reduce temporary work.

Increasing opportunities for young people in Spain would have wider positive impacts. Enhancing education outcomes and facilitating youth labour market participation would support Spain's growth potential, while higher activity rates among the young would contribute to higher tax revenues, which would be beneficial considering mounting ageing-related costs. Equipping youth with the skills needed for the green transition would facilitate the necessary investments and support Spain's achievement of its climate goals.

This chapter first gives a snapshot of the challenges facing young people in Spain. Next, it reviews the factors underpinning their educational outcomes, the difficulties they face on the labour market, as well as obstacles for finding affordable, quality housing, and to start a business. It then discusses policy options to address these challenges. The analysis is aligned with the Recommendation of the Council on Creating Better Opportunities for Young People, an OECD legal instrument adopted in 2022 (OECD, n.d.^[4]). Increasing opportunities for youth will involve, among other things, ensuring not only that the young stay in the education system, but that the education they receive equips them with valuable skills for a productive life. Furthermore, when they enter the labour market, they should be able to find a stable job that pays them enough to lead an independent life with ease, and that their entrepreneurial spirit will not be stifled by excessive barriers. Finally, the last section briefly discusses how difficult it is for young people to access housing and the burden housing costs place on their finances. It discusses policy options to increase rental supply, reduce housing costs, and increase regional mobility.

Since different ministries and government levels in Spain are responsible for policies that affect the young, youth policy could become more impactful if different relevant actors, including the central, regional and local governments align their policy instruments. Various co-ordination and co-operation bodies operate, but their performance needs to be improved. Strengthening cooperation between regions to enhance the exchange of data, knowledge, and experiences between them would help. In addition, while laws and policy programmes sometimes include monitoring and evaluation requirements, these are not always carried out as planned nor entirely independently. By monitoring and evaluating reform implementation and impact in a more systematic way, policies could be improved. Finally, the business sector has a role to play, by providing traineeships, and input into education curricula to ensure a better alignment with labour market needs, and by promoting financing options for young entrepreneurs.

A snapshot of young people in Spain

Young people between 15 and 29 years of age represented 15.6% of the total population of Spain in 2022 (Figure 2.1, Panel A), a decrease by around six percentage points over the last two decades, and on par with the EU average. Close to 65% of them live predominantly in urban areas, a slightly higher percentage

than the total population. They are also more likely to have been born outside of Spain than older generations.

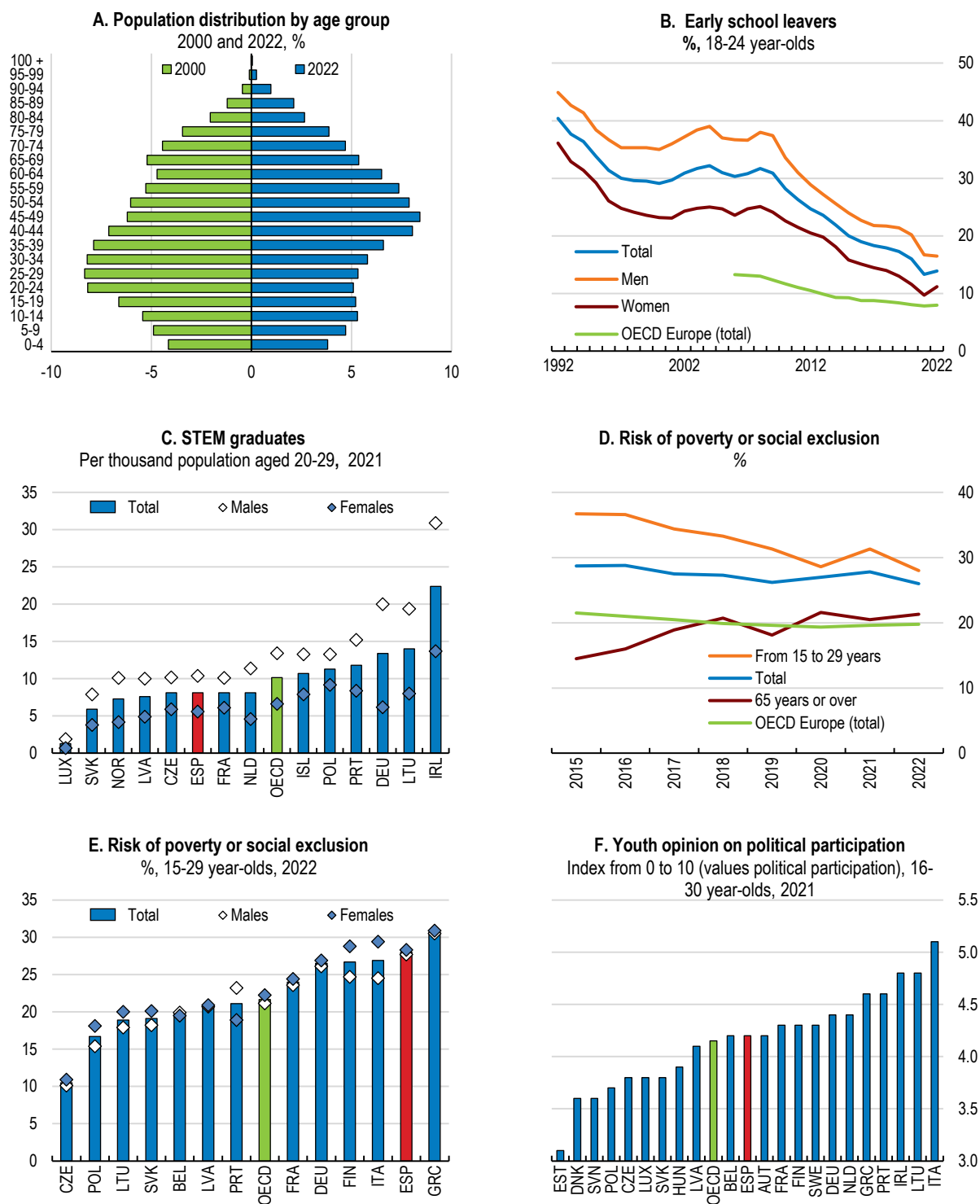
While 88% of those at the age to attend high school do so, roughly the same rate as the OECD, they more frequently leave education early, especially men. The share of early leavers has been steadily decreasing over the past 17 years (Figure 2.1, Panel B), but Spain has the second highest rate of early school leaving among EU countries. Educational attainment in upper secondary education among those over 25 is also below the OECD average. PISA results on mathematics and science sit slightly below peers in OECD countries. Spain is one of the 24 OECD countries where tertiary education is the most common highest level of attainment among 25-34 year olds (OECD, 2022^[5]), but fewer pursue a career in science, technology, engineering, and mathematics (Figure 2.1, Panel C), with graduation rates for women significantly below those for men, although the share of women entering these fields in tertiary education is higher than the OECD average (OECD, 2022^[5]). Addressing these issues would boost human capital accumulation in Spain, improving the country's long-term potential growth.

Spanish young people have struggled for decades with one of the highest unemployment rates in the OECD. Unemployment for young people under 25 reached more than 55% after the global financial crisis. It increased by over 10 percentage points in just four months during the pandemic, and while by August 2023, youth unemployment had returned to levels similar to those before the crisis (27)%, it is still three times the OECD average of 11% and remains among the highest in OECD member countries. There are also wide regional differences, with unemployment rates around 20% in Catalonia and the Basque Country and above 35% in Andalusia and Extremadura. A third of young Spaniards looking for a job do not believe that they will get one (INJUVE, 2021^[6]). Seven out of ten under 25 years old with a job in 2021 had a temporary contract, a situation that has started to improve, as discussed below. Better labour market outcomes for young people would help increase growth prospects and widen the tax base.

Young people in Spain are now a group at risk of poverty. The share of young people at risk of poverty and social exclusion has remained above that for the total population (Figure 2.1, Panel D). In the last two decades, and especially after the great recession, the share of people aged 15 to 29 at risk of poverty or social exclusion has increased because of high youth unemployment, low wages and rising housing cost (Banco de España, 2020^[7]), making it one of the highest in the OECD, especially for women (Figure 2.1, Panel E). That risk is three times higher for those who did not graduate from high school compared to those with tertiary education (Ministerio de Sanidad, Consumo y Bienestar Social, 2019^[8]). This process has also affected families with young children, leading to higher child poverty and vulnerability. About a third of the children and teenagers below 18 years old are at risk of poverty or social exclusion, and 12% of them live in severe poverty, double the EU average. Spain ranks third in terms of child poverty in the OECD, which affects 22% of children, compared to the OECD average of 12.9%. Child poverty rates are much higher among people with a migrant background, especially for children under four. Child poverty is an important determinant of poverty in adulthood, generating a vicious circle of poor educational outcomes, and low-quality jobs (OECD, 2022^[9]). Besides worse job prospects and lower earnings, people who have experienced childhood disadvantages also experience worse health outcomes.

Young Spaniards struggle to move out of the parental home. On average, they leave at 30 years old, almost four years later than the OECD average, a situation that has worsened over time. Five years ago, half of young people aged 25-29 lived with their parents, a high figure that had risen to 66% in 2022. According to surveys, the main reason for this is lack of financial stability. Close to 65% of young people would like to have children (INJUVE, 2021^[6]), but many postpone it because of bad employment prospects, their inability to move out of the parental home, or an unsatisfactory work-life balance, contributing to a low birth rate of 1.2 in 2021, compared to the OECD average of 1.6. From 2016 to 2020, the share of young people who say they do not want to have children almost doubled, to 18% (INJUVE, 2021^[6]).

Figure 2.1. A quick snapshot of the Spanish youth



Note: Panel F: Mean of answers to the question “To be a good citizen, how important do you think it is for a person to join a political party to get politically active? (0 is extremely unimportant and 10 is extremely important). OECD Europe includes all European OECD countries and does not include Türkiye.

Source: Panels A and D: INE; Panels B, C, and E: Eurostat; Panel F: Flash Eurobarometer Youth Survey.

StatLink  <https://stat.link/wogly3>

Around 50% of young people in Spain declare themselves to be satisfied with their life, but the level of satisfaction falls to 40% when asked about perspectives for the future, and to 30% when asked about their current financial situation. Self-reported overall health is generally good, but in 2021 around 16% of young people acknowledged to have suffered from mental health issues, more than double the 2017 share, and only half of them have sought professional help (Sanmartín et al., 2022^[10]). Mental health issues preceded the pandemic but were probably worsened by it, as elsewhere in the world due to the covid pandemic or the uncertainty generated by the war in Ukraine. Besides its toll on well-being, this is a drag on Spain's growth potential, as people reporting mental health conditions are much more likely to be unemployed (OECD, 2021^[11]), and there is clear evidence that poor mental health is associated with loss of productivity (de Oliveira et al., 2023^[12]).

Young people think political participation is important, as their European peers (Figure 2.1, Panel F). The young are underrepresented in Congress: the gap between the share of people aged 20 to 39 in the population and the share of MPs aged 40 or below was one of the largest in the OECD in 2020. Young people (18–34-year-olds) represented less than 6% of the central government workforce in Spain compared to the OECD average of 19% in 2020 (OECD, 2021^[13]). Trust in government among the young in Spain is slightly below the average in OECD countries (44% vs 47%) and has fallen by 10 percentage points since 2006–2007 (OECD, 2020^[14]) (Gallup World Poll).

Improving educational attainment

Higher levels of educational attainment are typically associated with improvements in labour market outcomes and well-being. However, the accumulation of human capital by Spanish students is held back by high early school leaving and grade repetition rates. Too many people leave the education system with low levels of education. Furthermore, enrolment in vocational education and training remains low, despite recent increases, and the educational system could be better connected with the labour market. This section discusses education challenges in Spain, describes recent government efforts to improve educational outcomes and proposes options to keep improving drawing from relevant policy experiences in OECD countries.

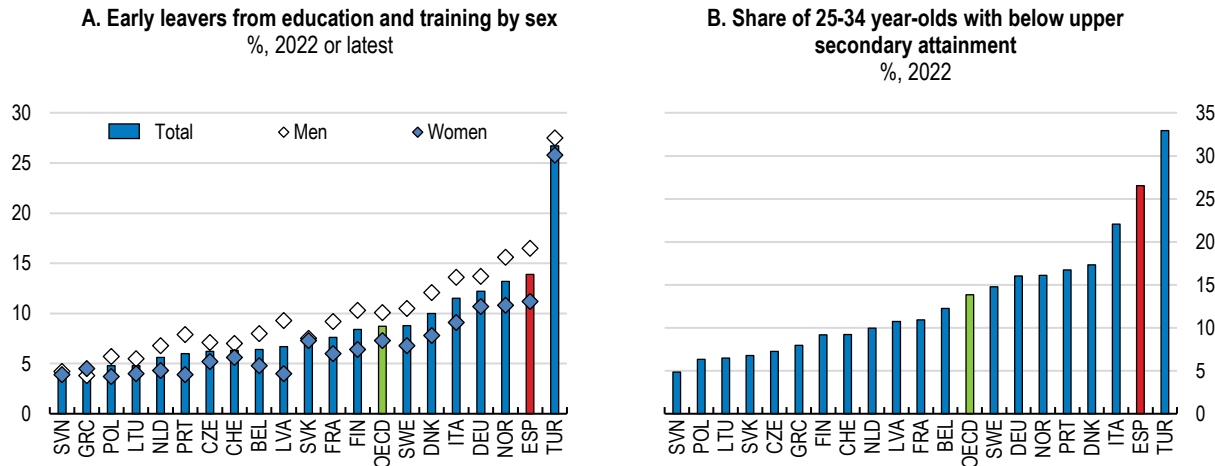
Many young Spaniards leave the education system early hindering their educational advancement and job prospects

Too many people leave the education system with low levels of education. In 2022, the percentage of the population between 25 and 34 years of age who had completed compulsory education and was still studying was 74%, compared to 85% in the EU-27 and the OECD. In 2022, 13.9% of students aged 18 to 24 left education early, 3 percentage points above the mean for the OECD, although down from almost 25% a decade ago. Some 36% of the population between 25 and 64 years has only attained below upper secondary education, almost double the OECD average.

Despite significant and constant advances in the last three decades, Spain still has one of the highest rates of early leaving from education and training (ELET) in the European Union, with notable regional and gender disparities (Figure 2.2). The rate for boys has stayed significantly higher than for girls (16.5% vs 11.2% in 2022) and rates for Andalusia and Murcia are almost triple those of the Basque Country and Cantabria. Economic reasons, either the need to look for work or other family needs, and failure in school are the most frequent factors forcing young people to quit education (González-Anleo et al., 2020^[15]; Soler et al., 2021^[16]). ELET rates are much higher for young people living in households from the lowest two income quintiles (Soler et al., 2021^[16]). High early school-leaving is reflected in poor educational attainment, as almost a third of young adults in Spain have below upper-secondary education, one of the highest shares in the OECD (Figure 2.2). In turn, educational attainment affects participation in the labour market. People with low education are at higher risk of structural unemployment because they often work in routine jobs that are more likely to become automated (Arntz, Gregory and Zierahn, 2016^[17]), or in

sectors that are subject to seasonal variations in demand, like tourism. In Spain, the unemployment rate of adults aged 25-34 with below upper-secondary education was 28% in 2021, the third highest in the OECD, and almost twice the national average (OECD, 2022^[5]).

Figure 2.2. High early-leaving rates hinder educational attainment

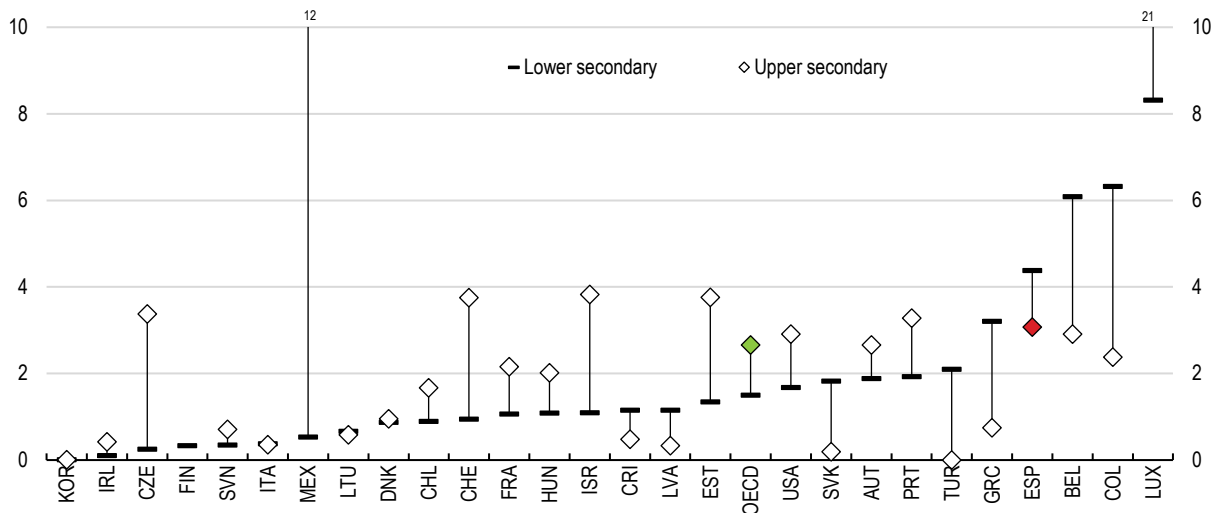


Source: Panel A: Eurostat. Panel B: OECD Education at a Glance database.

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Figure 2.3. Spain has the highest share of repeaters in the OECD

% of repeaters in lower- and upper-secondary education, 2021



Source: Education at a Glance database.

StatLink <https://stat.link/rymw28>

The share of 15-year-old students who have repeated at least once has fallen from 35% in 2009 to 29% in 2018. Despite this progress, Spain still has one of the highest shares of grade repeaters in the OECD (Figure 2.3). Moreover, the share of disadvantaged students who repeat is one of the highest in the OECD (OECD, 2016^[18]). Grade repetition has been found to lower students' motivation and attainment expectations, hinder school performance and increase education costs and can also contribute to

maintaining inequalities in the education system and later in the labour market (OECD, 2012^[19]; Ikeda and García, 2014^[20]). The 2020 Organic Law on Education (LOMLOE) aims at making repetition exceptional, limiting the number of times a student can repeat and calling for targeted support to avoid repetition, particularly in disadvantaged environments.

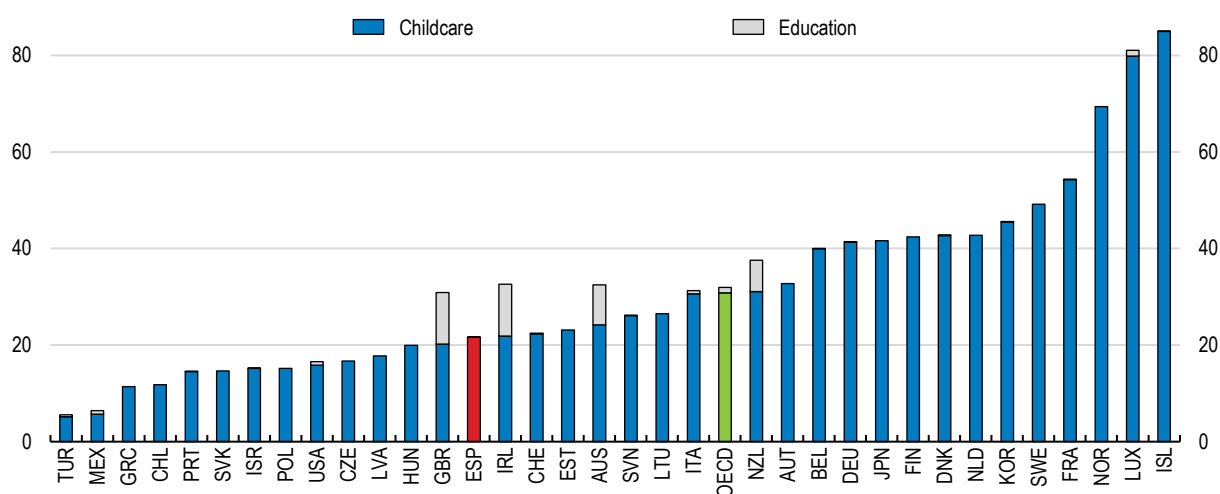
Increasing support for early childhood education and care

Investing in early childhood education and care (ECEC) has been shown to reduce early leaving from school rates (OECD, 2017^[21]). Children who attend high-quality education at an early age are more likely to perform better later in school, especially those from disadvantaged backgrounds, who often lack enough opportunities to develop their abilities at home (OECD, 2017^[22]). In 2021, 36% of 0–2-year-olds and 96% of 3–5 year-olds were enrolled in ECEC, above the OECD average. However, almost a quarter of low-income households report that they would like to use more formal childcare but cannot afford it (OECD, 2021^[3]) and public spending on early childhood education and care is below the OECD average (Figure 2.4). The Recovery, Transformation and Resilience Plan allocates funds to increase early childhood education and care, including the creation of 60 000 early childhood education and care spots, which represent around 3.7% of all children aged 0–5 enrolled in 2021. The approval of the 2020 Organic Law on Education (LOMLOE) and the Royal Decree 95/2022, which dictate that the cycle of 0–2 year of age will include education besides care services, and prioritises access for young children at risk of poverty and social exclusion are welcome reforms. Funding should continue beyond the three-year timeline of the Plan, and ensure that there will be sufficient staff to provide high quality early education and care for all the children in the system.

Greater availability of childcare can also boost women's participation in the labour market, which would increase incomes and productivity (OECD, 2023^[23]; Criscuolo et al., 2021^[24]), and enhance intergenerational social mobility (Causa and Johansson, 2010^[25]). Having access to quality childcare can also make it easier for young people to decide having children, contributing to raising current low birth rates.

Figure 2.4. Early childhood education and care should receive more funding

Per capita public expenditure on childcare and primary education for children aged 0–5, in thousand USD PPP, 2019



Source: OECD Family Database.

StatLink  <https://stat.link/e1lxu>

Better supporting disadvantaged students

Supporting disadvantaged schools and students at risk can also improve educational outcomes and reduce inequalities. For example, in Finland, early intervention, additional instruction for lagging students and tailored learning helped lower grade repetition rates (Väljärvi and Sahlberg, 2008^[26]). Timely support requires reliable early warning indicators of students at risk. That is the case in Latvia's *Tackling early school leaving* project, where at the start of the school year teachers create individual support plans for each student drawing on an assessment of risk factors (OECD, 2021^[27]). Early intervention strategies can also benefit from involving local authorities and parents, as has been the case of Portugal's strategy to prevent grade repetition and school failure (OECD, 2021^[27]; OECD, 2020^[28]). Focusing school support on disadvantaged learners can reduce early leaving from school and student absence, as shown in the *Education Territories of Priority Intervention Programme*, which covers around 16% of Portuguese schools (OECD, 2021^[27]; General Direction of Education of Portugal, 2021^[29]). Spain's Territorial Cooperation Programmes, such as the Educational Guidance, Advancement and Enrichment Programme (PROA+) or the Inclusive Education Programme, that target challenging schools, aim at promoting early problem detection and intervention, and strengthen the role of families in the first stages of education, are welcome.

Spain is well positioned to further profit from digitalisation in several areas, including the provision of public services (see Chapter 1). Digitalisation offers an opportunity to provide direct, tailored, and flexible support to students at risk. One example is *Menttores*, an eight-week programme launched by EsadeEcPol and the Fundación Empieza Por Educar, providing free, online after-school tutoring for disadvantaged students in Madrid and Catalonia, using free software, which has reduced repetition rates, improved participants' grades, and increased satisfaction with school (Arriola et al., 2021^[30]). The Plan on Digitalisation and Digital Competences of the Educational System, aims at increasing digital competences of teachers and students, expanding schools' access to digital equipment, and providing digital learning resources, can foster the adoption of this type of tutoring. The Ministry of Education already provides teachers, families, and students with information on available resources through a dedicated website ([Education Resources for Online Learning](#)). In addition, the Recovery, Transformation and Resilience Plan is allocating significant resources to improve the digital training of citizens and, thus, reduce the digital gap that mainly affects the most disadvantaged groups. Furthermore, the Digital Competences for Children (CODI) programme aims to close the digital divide by providing training to 950 000 students aged 10-17.

Reducing school segregation

School segregation decreases opportunities for children to learn and interact with peers from different socio-economic, cultural or ethnic backgrounds, which can weaken social cohesion (OECD, 2019^[31]). Social diversity in Spanish schools is similar to that in other OECD countries, but evidence suggests that socioeconomic school segregation harms achievement both for native-born and foreign-born students in Spain (Murillo and Belavi, 2021^[32]) and that there is high socio-economic segregation in primary education (Ferrer and Gortázar, 2021^[33]; European Commission, 2022^[34]). The share of poor students in privately-run schools that receive public funding (*escuelas concertadas*) is less than half that of public schools (Zancajo, Verger and Fontdevila, 2022^[35]). This can be partly due to economic barriers, as these schools tend to charge voluntary contributions covering extra-curricular activities and materials, and admission often relies on the allocation of discretionary points based on attendance to expensive early childhood education and care programmes or alumni affiliations (OECD, 2023^[36]).

Avoiding segregation is one of the objectives of the 2020 Organic Law on Education (LOMLOE), which mandates education authorities to ensure that admission regulations do not lead to segregation, and to implement compensatory measures in areas or education centres where there is a concentration of vulnerable students. Further measures could be taken to reduce school segregation such as reserving a share of places in oversubscribed schools for students of disadvantaged backgrounds, or using a lottery

to assign places in schools in high demand (OECD, 2019^[31]). Easier access to information about school admissions can also improve the chances of disadvantaged families to get into good schools.

Improving the quality of teachers

The quality of teaching is a key ingredient for good education outcomes. Many Spanish teachers face job instability and inadequate training. Around 23% of teachers are on fixed-term contracts according to the government and recent efforts to reduce temporary employment among teachers, including the goal set by law in 2021 to reduce temporary employment to 8% by 2024, are welcome. Around 91% of Spanish teachers receive training in content, but only 59% report having been trained in pedagogy and 67% in classroom practice of the subjects they teach, below the 89% and 88% OECD averages (OECD, 2021^[3]), even if these figures have increased over time, especially for newly recruited teachers. Furthermore, the selection process for teachers to enter into the civil service emphasizes accumulation of knowledge over teaching skills (Fernández Morante, de Pro Bueno and Sanz Arazuri, 2020^[37]). Mentoring in Spanish schools could be strengthened, as only 2.9% of lower secondary teachers are assigned a mentor as part of a formal arrangement at the school compared to an OECD average of 8.5% (OECD, 2021^[3]). The Plan for the Modernization of Vocational Education and Training aims at reskilling and upskilling teaching staff, with an emphasis on digital and green skills.

Despite these challenges, there is no formal national teacher appraisal system, with a quarter of teachers working in schools where they are never appraised, against 7% OECD-wide (OECD, 2021^[3]). This makes it difficult to provide effective support to teachers to improve. Introducing an appraisal and feedback framework, as recommended in the *2021 OECD Economic Survey of Spain*, would allow teachers to progress in their career and improve their teaching skills. Furthermore, financial incentives and support networks could be set to encourage good teachers to go to poorly-performing schools, as done in France with the Priority Education Zones, and in Australia, through the High-Achieving Teachers programme. In 2021, the Ministry of Education and Vocational Training (MEFP) presented a proposal to reform the teaching profession to improve the initial and continuous training of teachers, the evaluation of teaching work and working conditions.

Rethinking school-day schedules

In Spain, many schools operate on an intensive, morning-centred schedule (Ferrero, Gortázar and Martínez, 2022^[38]). However, close to 47% of households pay for extra-curricular classes for their children (Martínez and Moreno, 2023^[39]). Gradually introducing additional school time in disadvantaged schools can increase students' performance and facilitate female labour market participation. Spending more time in school has been shown to increase graduation rates, and to improve learning and other social and behavioural indicators (Wu, 2020^[40]; Seidlitz and Zierow, 2020^[41]), with the benefits concentrated on disadvantaged students (Radinger and Boeskens, 2021^[42]). Additional school time has also been found to positively affect female labour participation in several countries, like Chile (Contreras, Sepúlveda and Cabrera, 2020^[43]), Switzerland (Felfe, Lechner and Thiemann, 2016^[44]), Mexico (Padilla-Romo and Cabrera-Hernández, 2019^[45]) and Germany (Shure, 2019^[46]; Gambaro, Marcus and Peter, 2019^[47]).

Several OECD countries, like Denmark and Portugal have moved to full-day, flexible systems coupled with increased provision of school cafeterias and extra-curricular activities (Radinger and Boeskens, 2021^[42]). A feasible transition to additional school time requires careful discussion, planning, and funding. This includes ensuring sufficient investment in school infrastructure, subsidised meals for those not able to afford them and adequate compensation for teachers (Ferrero, Gortázar and Martínez, 2022^[38]).

Providing second chances to early leavers from education

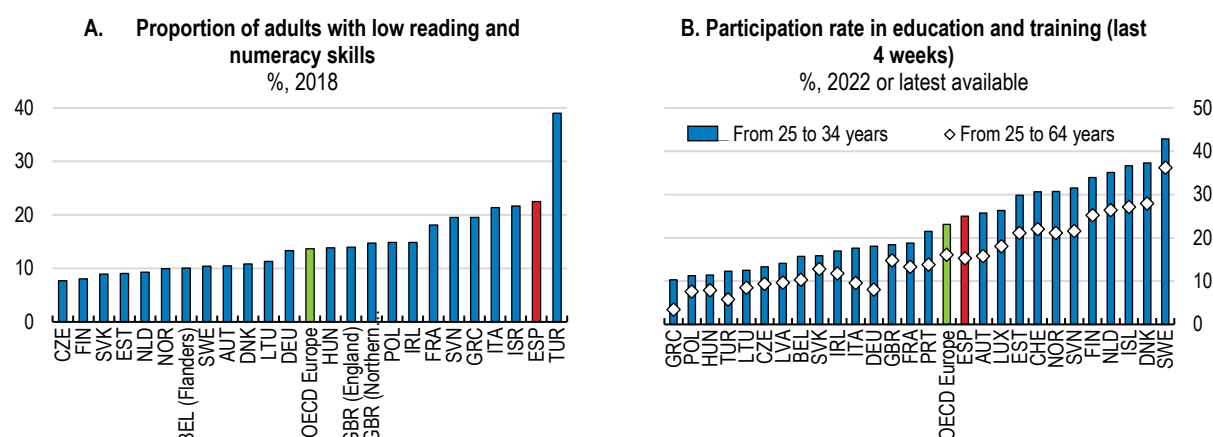
Reducing dead ends in the educational system and promoting a flexible and targeted adult learning system can provide second chances to early leavers from education and to young adults who need to upgrade

their skills. There is evidence that programmes that develop post-school career paths, like VET education, are more effective in re-engaging early leavers than those that concentrate on improving numeracy or literacy scores (Polidano, Tabasso and Tseng, 2015^[48]). Regional distance learning programmes and Second Chance schools (E2O) targeting young people who have complex needs or lack employability skills and provide flexible and individualized itineraries to allow educational continuity to exist in Spain, among other programmes. Several examples from the OECD put emphasis on the role of mentorship, and on flexibility in the curricula. In the Flemish community of Belgium, the Centres for Adult Education provide second-chance education (*Tweedekansonderwijs*), a programme with a modular structure and evening courses to give early school leavers a chance to obtain a secondary diploma (OECD, 2019^[49]). Slovenia runs PUM-O, a customised one-year programme operating in small groups with mentors to prepare young people to return to formal education or find a job (OECD, 2017^[50]). In Germany, the *Joblinge* programme combines collaboration with regional employers with individual mentorships and skills training to help young people find a vocational training place or a job (OECD, 2021^[51]).

The new plan to reform the Spanish VET system seeks to enable all vocational upper-secondary students to progress to higher education and certify the competences acquired outside formal education (Box 2.1), which is welcome. The 2022 Organic Law on Universities will allow young people with accredited relevant knowledge the right to study a career or specialisation course even if they do not have a high-school diploma. Furthermore, the Aulas Mentor programme offers online training aimed at adults who need flexible life-long learning opportunities (Ministerio de Educación y Formación Profesional, 2021^[52]).

Engaging adults in the workplace can help increase participation in lifelong education and identify training needs. The OECD Survey of Adult Skills (PIAAC) shows that adults perform relatively worse than the average of European OECD members in reading and numeracy skills, despite similar participation rates in education and training (Figure 2.5). Spain could take the example of the United Kingdom, where the *Unionlearn* programme has since 2006 helped around 250 000 workers to identify their training needs and arrange education options with their employers (OECD, 2019^[53]). The workplace also presents an opportunity to provide training in basic skills, as in Norway, where more than 30 000 adults have received reading, writing, numeracy, and digital skills through the *Skills Plus Work* scheme (OECD, 2019^[53]). Career counselling should be targeted to low skilled adults, and be provided by well-trained staff, as in Iceland's Lifelong Learning Centres and Portugal's *Qualifica* Centres.

Figure 2.5. There is scope to improve skills in the adult population



Note: Panel A: percentage of adults who score at or below Level 1 in both literacy and numeracy in PIAAC.

Source: Panel A: (OECD, 2019^[54]) Skills Matter: Additional Results from the Survey of Adult Skills. Panel B: Eurostat.

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Enrolment in vocational education and training is low

Vocational education and training (VET) programmes can be an attractive option for young people who want to enter the labour market earlier (OECD, 2019^[54]). Formal VET has been found to provide higher returns than academic studies in many countries (Saltiel, 2021^[55]) (Lukesch and Zwick, 2020^[56]), and to increase earnings and employment for graduates (Silliman and Virtanen, 2022^[57]). Enrolment in vocational education and training reached 1 030 052 students in the academic year 2020/2021, an increase of more than 23% compared the academic year 2018/2019, according to the government. However, the share of upper-secondary VET students remains significantly below the EU average (Figure 2.6, Panel A), and it is even lower among younger students, particularly women.

High quality VET can provide specific technical skills that are in short supply in Spain, particularly via the dual VET system in place since 2012, in which students receive school-based training and work-based learning in a company (OECD, 2021^[3]). Dual-track graduates in Madrid have been found to enjoy substantially better labour market outcomes than their full-time track peers: on average, 27% more full-time equivalent days of work during the first year after their graduation and 32% higher earnings (Bentolilla, Cabrales and Jansen, 2018^[58]). Despite recent increases, enrolment in dual VET education remains very low, with 2.3% of upper-secondary VET students enrolled in dual school- and work-based learning programmes (Figure 2.6, Panel B).

Box 2.1. New organic Law on Vocational Education

The 2020 Plan for the Modernisation of Vocational Training aims at integrating VET into a single system under the Ministry of Education, making all VET education dual. The Plan also aims at promoting regular public-private collaboration, establishing procedures to validate professional competences acquired in the workplace, providing flexible vocational education plans and a reappraising of vocational education options. The new Organic Law on Vocational Education of March 2022 is the first milestone of the Plan; it introduces a single, integrated system of professional education. The new vocational education and training (VET) model is based on three pillars: VET provision, validation of prior learning and careers guidance.

VET provision

The system is designed to be flexible, to offer education options at any age and for people with diverse educational backgrounds. Education is cumulative, certifiable and accreditable, and is based on a range of courses varying in length and depth, from units of micro-training to vocational education, specialisation courses and dual education. The reform foresees pathways to higher education in every level of instruction, aiming at eliminating dead ends in the system.

Validation of prior learning

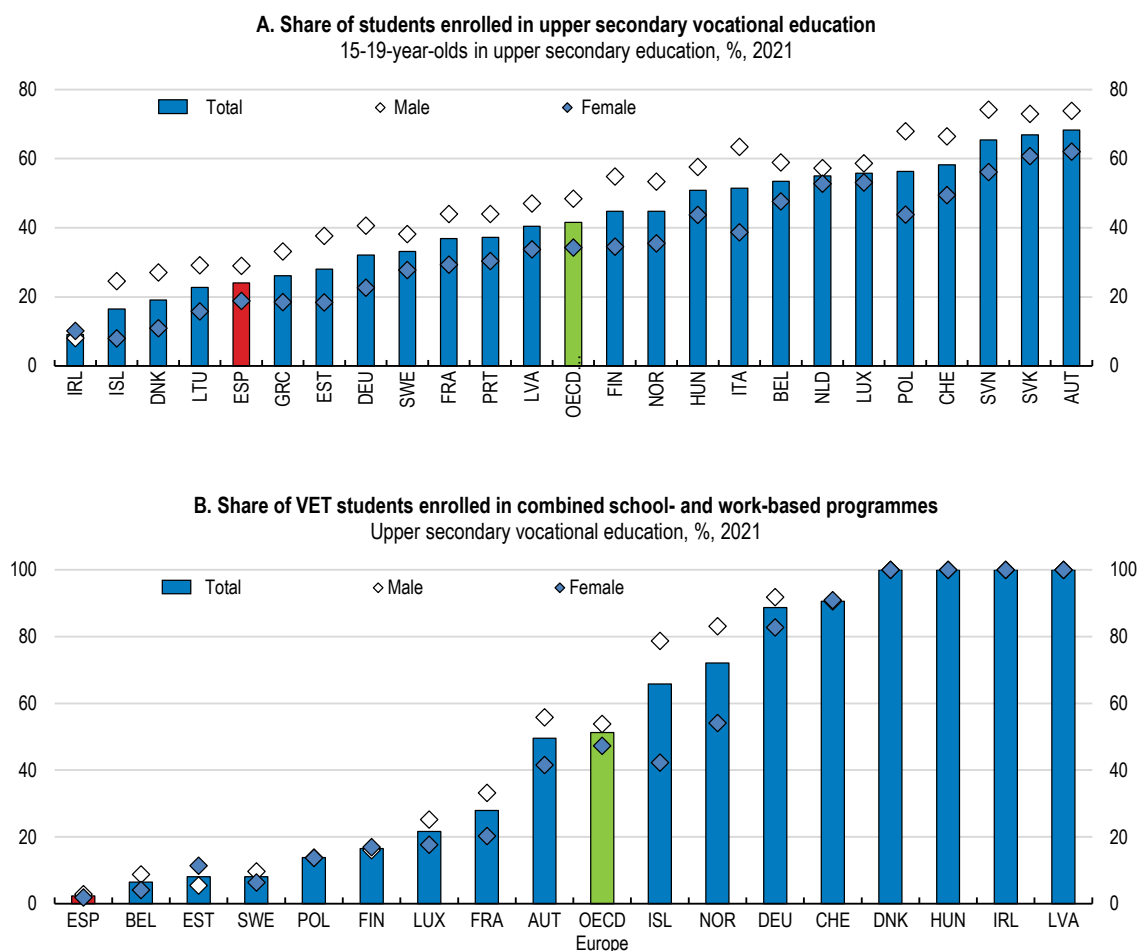
The new system will have a permanent procedure to validate skills acquired through professional experience and will cover all competences taught in the system. The system will be linked to training and will involve companies in the accreditation process.

Careers guidance

The General Strategy for Career Guidance of the Vocational Education System will incorporate careers guidance into the education and validation processes, to offer customised advice to all parties involved in the system. It will be focused on delivering effective educational paths for the acquisition of the desired competences.

Source: Ley Orgánica 3/2022, de 31 de marzo, de ordenación e integración de la Formación Profesional (2022), CEDEFOP (2022). *Spain: VET Revolution*.

Figure 2.6. VET enrolment is low

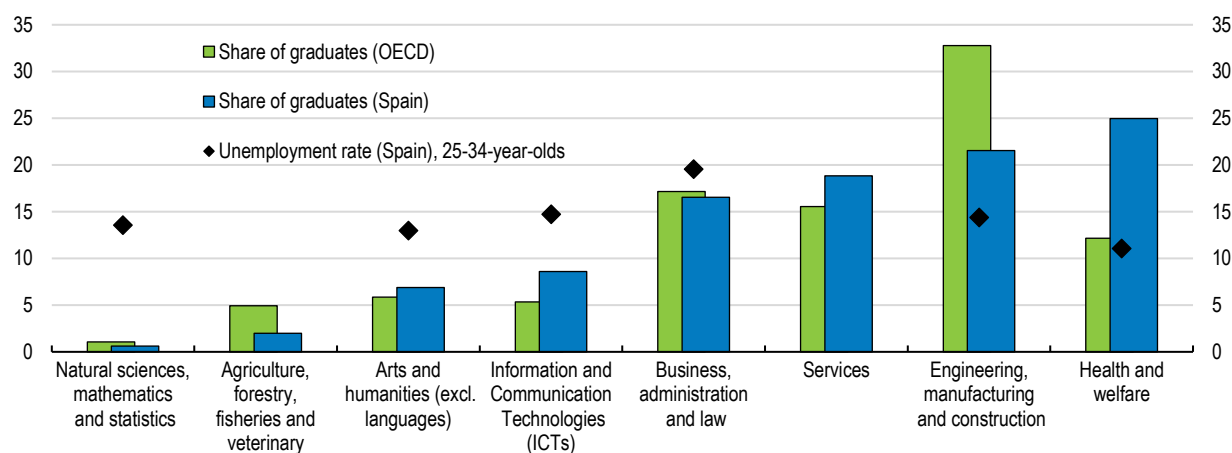


Source: Eurostat.

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Figure 2.7. Share of VET graduates in engineering is comparatively low

Share of graduates in upper secondary vocational education by field of study, %, 2021



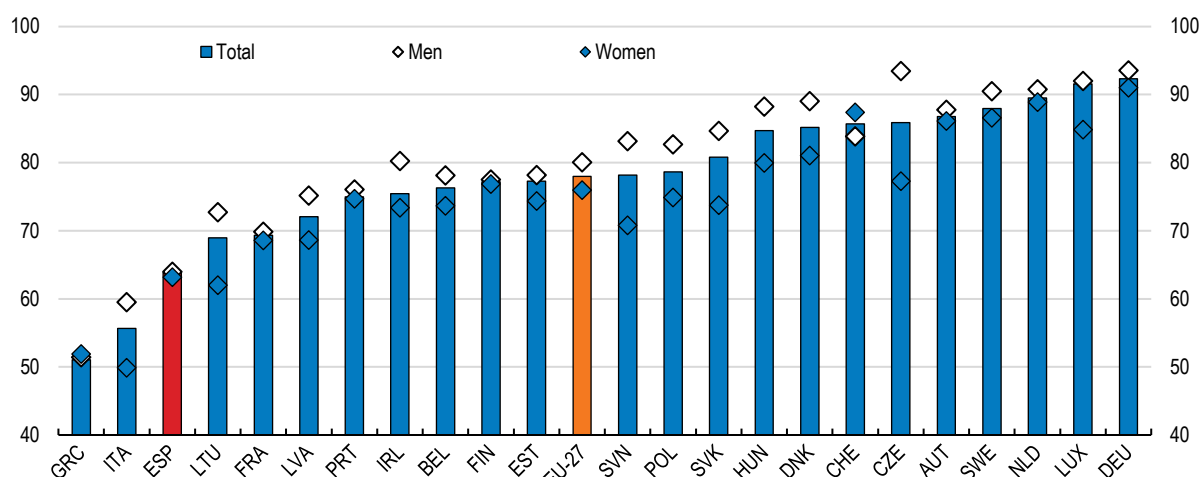
Source: Education at a Glance database.

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The fields of specialisation chosen by students in vocational education could be better aligned with labour market needs. Only 22% of graduates come from engineering, manufacturing and construction, fields with one of the lowest unemployment rates, much less than the OECD average of 33% (Figure 2.7). The employment rate of recent upper-secondary VET graduates in Spain (64%) is one of the lowest in the European Union and well below the EU-level objective for 2025 of 82% (Figure 2.8).

Figure 2.8. Recent VET graduates struggle to find employment

Employment rates of recent graduates of medium VET (20-34) not in education or training, %, average 2018-2022



Note: Recent graduates refers to persons with a vocational upper secondary & post-secondary non-tertiary education (ISCED 2011 levels 3–4) having graduated within one to three previous years.

Source: Eurostat (2023).

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Strengthening work-based learning

Several *OECD Economic Surveys of Spain* (OECD, 2018^[1]; OECD, 2017^[2]; OECD, 2021^[3]), have advocated for the development and modernisation of VET, since it can help lower youth unemployment and early school leaving rates and facilitate the transition of young people from education to work. The Organic Law on Vocational Education of March 2022 aims at promoting, modernising and making vocational training more appealing. The reform, inspired by the Basque country's model, creates a single integrated system instead of the two current independent tracks and aims at making all vocational training dual (Box 2.1). The reform's success hinges on its implementation, which faces challenges such as ensuring the training of enough teachers for the new competences, involving companies to offer training places, and attracting more students to the system.

Spain has allocated close to EUR 748 million to create more than 330 000 new VET places as part of the commitments under the Recovery, Transformation and Resilience Plan since 2020. Strengthening the collaboration between businesses and companies, especially SMEs, within the VET system is a key element of the new reform of vocational education and training.

Involving more small firms in dual programmes to provide more places for students should be a priority, as currently it is mostly the larger firms that participate in dual VET. To that end, the rules regarding student participation in VET education should take into account the characteristics of SMEs of different sectors (Bentolila, Cabrales and Jansen, 2020^[59]). Recently, the chambers of commerce have run awareness raising campaigns to promote the participation of SMEs in dual VET. Cost-benefit simulations of apprenticeships in Spain show that, regardless of the economic sector or occupation, very small firms tend

to have the highest net costs after considering the benefits from the apprenticeship (Mühlemann and Wolter, 2015^[60]). In several OECD countries business participation in VET is fostered by capacity building or financial incentives (Box 2.2). Collaboration between companies to provide training to teachers or to share managerial duties, as in Austria or Germany, could help more Spanish SMEs to join the VET system by reducing the financial and administrative costs of participation through economies of scale (OECD, 2022^[61]). Some initiatives in Spain go in this direction, like the *Tknika* centre in the Basque Country, which allows firms, especially SMEs to access services and infrastructure, as detailed in the *2021 OECD Economic Survey of Spain* (OECD, 2021^[3]). In addition, the Basque Country's successful vocational training model has served as a reference for vocational training reform at the national level. Furthermore, more than 130 businesses have joined the Alliance for Vocational Training, and a protocol has been signed with five of the most important technology companies in the country to create a Vocational Training Technology Hub.

Tax incentives for businesses that participate in VET should be avoided, as they could end up producing windfall gains for larger businesses that would have engaged in VET even in the absence of a tax incentive. Several countries, like Austria and the Netherlands, have abandoned tax incentives in favour of direct subsidies to reduce inefficiencies and reach companies that would benefit the most. Small companies should receive information about financial incentives and the procedures to access them (OECD, 2022^[61]). The effectiveness of any incentive should be evaluated on a regular basis.

Increasing VET enrolment will require ensuring that young people see it as a desirable career path, and one that will also compensate them fairly for the work carried out. The Labour Market Reform of 2021 introduced a single training contract with two modalities: the work-study contract and the contract for obtaining an appropriate level of professional practice. Remuneration for these contracts cannot be lower than 60% of the wage for the equivalent employee group during the first year of education, which increases to 75% in the second year. In both cases the remuneration cannot be lower than the inter-professional minimum wage, in proportion to the time worked. Taken together, these conditions might lead companies to limit the length of the training programmes they offer.

Skills mismatches hamper the school-to-work transition

Young people in Spain face a difficult transition from school to employment. The share of Spanish students who go directly from study or training to unemployment is the highest in the OECD, which results in an unemployment rate of up to 35% for recent graduates (Figure 2.9) and a higher-than-average share of 15-29 year-olds not in employment, education or training.

Skills mismatches is one factor behind the poor integration of young people in the labour market in Spain. Close to 40% of 15–34 year-olds report that their highest level of education did not help them in their current job, one of the highest rates in the European Union (Eurostat, 2016^[62]). Among upper-secondary graduates, the reported rate of mismatch is much higher for graduates from general programmes than for graduates of vocational ones (51.9% vs 37.6%) (Boto-García and Escalonilla, 2022^[63]). Vacancies in manufacturing, IT and logistics, and operations and logistics have been consistently among the hardest to fill in recent years (Manpower Group, 2021^[64]; Manpower Group, 2022^[65]). Despite this, enrolment in technical vocational options, as discussed above, remains low, and the share of university graduates in STEM courses lags that of OECD peers (OECD, 2021^[3]), with a much lower share for women than for men. Shortages in engineering and technology skills, particularly relating to computers and electronics, and in basic skills, are above the OECD mean (OECD, 2021^[3]).

Box 2.2. Measures to foster business involvement in VET

Capacity building

Training of teachers

- Finland. The Finnish National Board of Education has published a manual focused on the process of transformation and innovation of VET programmes and work-based learning practices, and is aimed at VET providers, colleges, training centres and employers.
- Estonia. VET teachers are responsible for training of in-company trainers through seminars and courses, which range between 8 and 40 hours and confer a certificate. Topics include preparation and evaluation of work practice, and supervision and training provision.
- Switzerland. Trainers for apprenticeships need a special qualification that requires 100 hours of training in pedagogy and the VET system. Furthermore, companies can self-assess on 28 quality criteria with the *QualiCarte*, a simple instrument applicable to all professions.
- Norway. The Norwegian Directorate for Education offers free online resources for apprentice instructors, including instructional videos.
- Austria. Practice schools function as normal schools but also as centres for pedagogical and practical studies for training of teachers.
- Denmark. The Horizontal Innovation through Competence Development project partners with SMEs to develop VET teachers' competences to deliver entrepreneurial skills.

Collaboration between companies to provide training

- Germany. Apprenticeship sharing can be carried out through several models, including one with a lead enterprise and one or more partner firms; a training consortium of several small firms; or a training association, set up by the companies to deal with managerial tasks.
- Austria. Companies that cannot fulfil some standards because of size or specialised requirements can form alliances to share apprenticeships, which are supervised by the state and mediated by the Economic Chambers.
- Australia. Group training organisations (GTOs) select and hire apprentices, arrange and monitor their work at the companies, take care of administrative duties, and ensure a broad education for apprentices, which sometimes implies rotating them between several firms.

Financial incentives

Tax provisions and direct subsidies

- France. Companies employing apprentices can be exempt of the apprenticeship tax on payroll.
- Austria. Tax credits on income tax were replaced with direct subsidies for apprenticeships, to better target companies needing support. The amount of the grant decreases with each year of training.
- Netherlands. Tax deductions on income and payroll taxes have also been replaced with subsidies.
- Australia. The Australian Apprenticeship Incentives Program provides a range of incentives, like wage subsidies and hiring incentives, which included subsidies of up to 50% of wages paid to students during the COVID-19 pandemic.

Transfers to companies that provide work-based learning

- Estonia. Schools design the plan for apprenticeship study and cover the training at school, the training of supervisors and the wage of the school supervisor, which, depending on the

conditions of the contract, can amount to 50% of the apprenticeship place cost for the company.

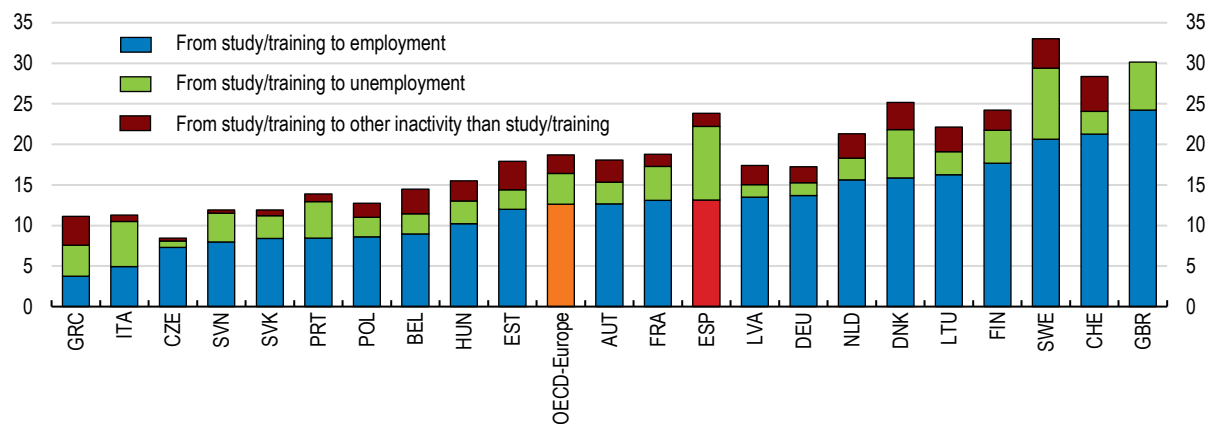
- Sweden. Schools collaborate to arrange and supervise work placements in companies and can apply for a state grant that will be partly earmarked for the employer.

Training levies

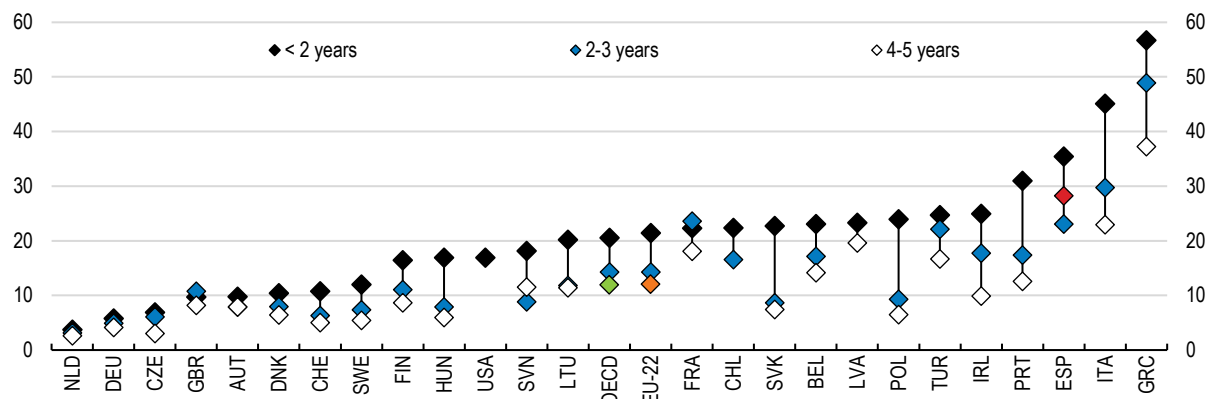
Employers can also contribute to a common fund to finance training across all companies, which can be mandated by law or stipulated in collective agreements. In France and Denmark all employers pay to finance the system, while in England only large employers contribute. In Austria, Germany and Switzerland levies are collected by sector. Levies can be used to correct market failures or to reduce inequalities by supporting smaller companies.

Source: OECD (2022) *Engaging Employers in Vocational Education and Training in Brazil. Learning from international practices*. OECD (2021) *Teachers and Leaders in Vocational Education and Training*.

Figure 2.9. Spanish youth face a difficult transition from school to employment



B. Unemployment rates of recent graduates not in education with upper secondary education as their highest level of education, by years since graduation %, 2018

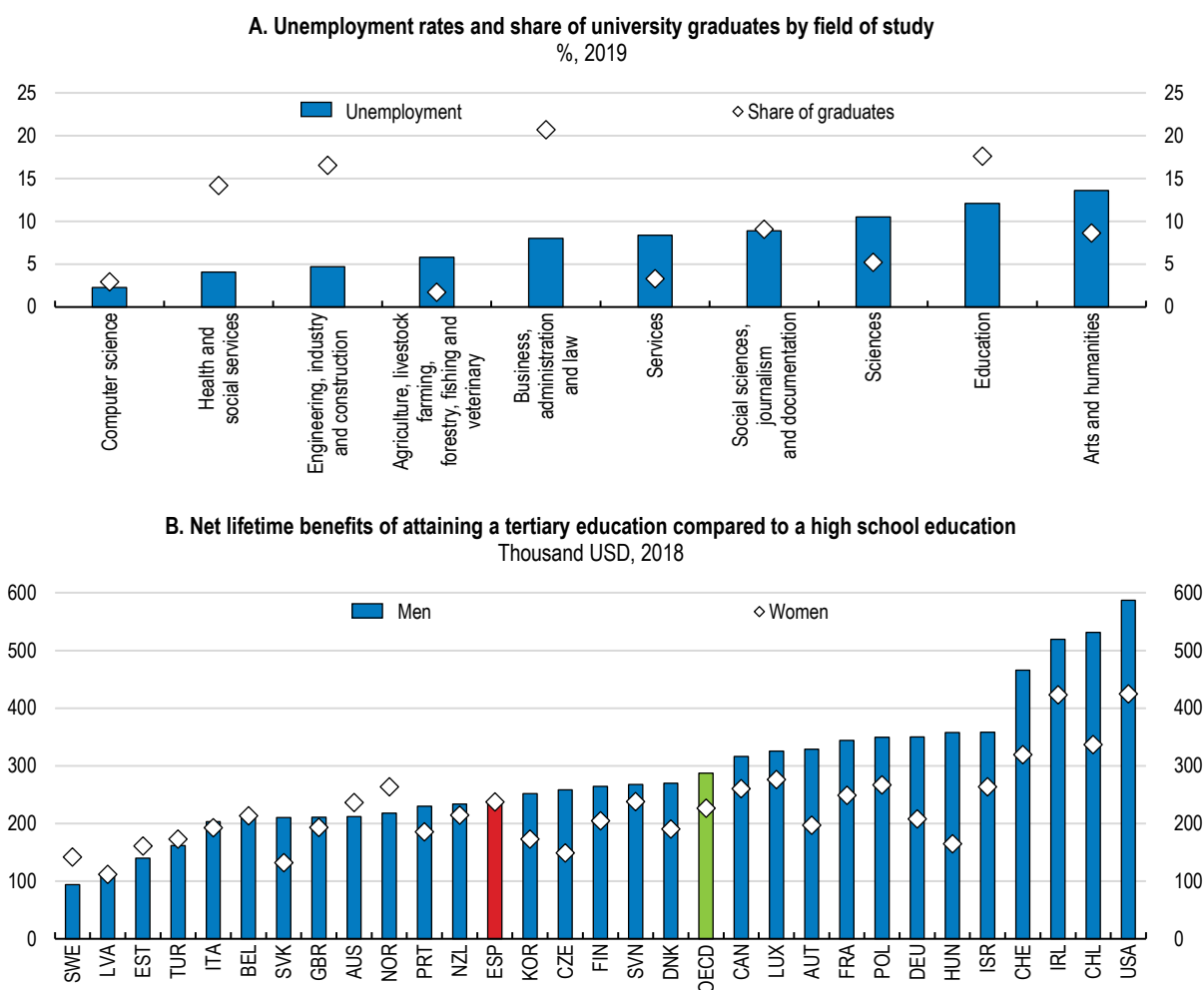


Notes: Panel B. adults aged 15-34 at graduation. Data reported under the category "Less than two years" refer to one year since completing education. Years of reference 2017 and 2018 combined. Data source differs from the EU-LFS.
Source: Causa, Luu and Abendschein (2021) *Labour market transitions across OECD countries: Stylised facts*; OECD Economic Surveys: Spain 2021; OECD Education at a Glance 2021.

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Tertiary education needs to better align to labour market demand. Lifetime income benefits of attaining tertiary education compared to those of high-school education are below the OECD average (Figure 2.10), and one in five tertiary graduates says that their education does not help them perform their job demands. The field of study with the lowest unemployment rate (computer science) has one of the lowest rates of graduates, whereas fields with the highest unemployment rates have relatively high graduates' shares (education, arts and humanities). Around 37% of Spanish university graduates are over-qualified for their first job; four years after graduation a quarter of university graduates still hold jobs for which they are over-qualified (Calderón-Maldonado, 2018^[66]; García-Crespo and Calderón-Maldonado, 2021^[67]).

Figure 2.10. Financial returns to tertiary education are relatively low



Source: INE; OECD Education at a Glance 2021.

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Making educational options better reflect labour market needs

The transition from education to work can improve if businesses contribute to the design of degrees and curricula, as is the case in some OECD countries. In Denmark, the Universities Act mandates that employers advise institutions on accreditation, quality assessment of curricula and in the design of new study programmes. In Portugal, polytechnics design short-cycle programmes with employer participation to fill shortages of technicians and to increase access to higher levels of education for VET students.

Business participation in the design of degrees and curricula could be enhanced in both universities and the VET system. In Denmark, regional Labour Market Councils comprising, among others, trade unions and employers' associations, can decide which job centres offering short VET programmes can receive subsidies, to ensure that these programmes are tailored to the demands of businesses. In the newly reformed Spanish VET system companies are expected to have a central role in the definition of the competences included in the National Catalogue of Standards and Professional Competences. On the other hand, the private sector contributes very little to the design and updating of university degrees, and the law to reform the university system approved in March 2023 does not change this situation. One regional initiative that could be emulated is the Basque *University+Business Strategy*, which aims to improve the link between universities and the business sector through the development of university education that includes training in enterprises, the articulation of joint projects of education and knowledge transfer, and the creation of clusters around topics and centres.

Systematically collecting, analysing, and disseminating information about labour market outcomes for university graduates in an easily accessible way can also help young people make informed career choices. In Spain, data from the Integrated System of University Information (SIIU), from the Ministry of Universities, feeds the online tool *Qué Estudiar y Dónde en la Universidad* (QEDU). This tool allows to compare social security data on affiliation and income by degree, type of university and individual university, in a similar way as in other OECD countries like Denmark and the Netherlands (*Uddannelseszoom* and *Studiekeuze123*, respectively) (OECD, n.d.^[68]; OECD, 2019^[69]). QEDU could also provide data on tuition costs, like in the Netherlands, or ready-made materials like factsheets by study programme and field of study, as is done in Austria (OECD, 2022^[70]).

Regularly assessing the relevance of the teaching university curriculum, as is done for vocational education and training, where curricula are updated according to labour market needs, could help to keep up with the changing needs of the labour market and update pedagogical approaches. For example, Finland conducts two to three skills anticipation exercises each year at sectoral levels, with cooperation between ministries, research institutes, labour market organisations, higher education and VET institutions, and other stakeholders. The VATTAGE and MITENNA model estimate the education and training required to meet labour market needs, and those forecasts are available for the wider public, labour market intermediaries like career advisors, and are used to design national-level education strategies (CEDEFOP, 2022^[71]).

In Spain there are regional initiatives that could be emulated. The Catalan quality assurance agency (AQU Catalunya), regularly publishes data and information on the labour market relevance of study programmes, including the labour market outcomes of graduates and the opinion of employers on the skills of recent graduates, and has been collaborating with the quality assurance agencies of other Autonomous Communities to encourage assessment of graduate employability. In Andalusia the regional agency of quality assurance (DEVA) evaluates the adequacy of curricula to meet labour market demand when renewing degrees (Andalusian Agency for Knowledge, 2021^[72]). On a national level, in 2022 the National Agency for Quality Assessment and Accreditation of Spain (ANECA) started a project to promote a framework for university self-assessment on employment and employability (ANECA, 2021^[73]).

The transition towards a greener economy presents challenges but also provides opportunities for young people. Across the OECD, the demand for non-polluting jobs is higher than current employment levels in these jobs, and green-task jobs pay a wage premium of around 20% over polluting jobs, as they are associated with higher levels of qualification and experience (OECD, 2023^[74]). Without developing new skills, workers in polluting jobs are at risk of becoming unemployed. Less than 20% of Spanish workers in polluting jobs have participated in training recently (OECD, 2023^[74]). STEM skills are those most in demand for green-task jobs. Industries with the highest demand for green task jobs include manufacturing, construction, and professional, scientific and technical activities. Increasing STEM skills should be a priority, especially among women, since they are under-represented in green-task jobs (OECD, 2023^[74]).

Efforts should also focus on adult learning. In Spain, increasing demand for renewable energy specialists in Navarre has been addressed by setting up a specialised training centre, CENIFER (OECD, 2023^[74]).

About 64% of people in Spain have at least basic digital skills, compared to the EU average of 54%. However, the share of ICT specialists in employment is comparatively low, 4.1% versus the EU-average of 4.5%, with a wide gender gap, as barely a fifth of ICT specialists are women (European Commission, 2022^[75]). The RTRP could help improve these outcomes, as discussed in Chapter 1.

Providing career counselling to reduce skills mismatches

Many high school students pursue VET and university careers with poor employment prospects (Figure 2.10) or end up holding jobs after graduation for which they are over-qualified, even though the share of 15-year-old students who attend schools that provide career counselling is well above the OECD average (OECD, 2019^[76]). Despite labour market shortages in professionals that require STEM-related skills, enrolment in technical vocational options remains low. Career counselling that incorporates detailed information on employment prospects and wages by field of study can help reduce skills mismatches and ease the school-to-work transition. Experience shows that counselling that starts early, that intervenes at key transition points in the educational process, and that is personalised is more likely to be successful (Musset and Mytna Kurekova, 2018^[77]).

There is evidence that in-school career talks, where guest speakers do a presentation on requirements, educational options, and job prospects of their occupation, are linked to better employment outcomes for young people (Covacevich et al., 2021^[78]). For example, in the United Kingdom the education charity Inspiring the Future helps organise such talks with schools (OECD, n.d.^[79]). Spanish schools could liaise with their regional universities and companies to bring speakers to schools on a regular basis, as well as resorting to alumni networks to organise talks with former students who are familiar with school and community conditions.

Schools can also arrange study programmes for exploration of career options and personal strengths, like the World of Work programme in southern California for students aged 5 to 17. Career guidance can also be incorporated in the compulsory curriculum, as in Finland, where students aged 13 to 16 must complete 76 hours of careers education (OECD, n.d.^[79]).

Job shadowing sessions or visits to workplaces allow students to familiarise themselves with work environments from an early age and have been shown to help them transition to work (Covacevich et al., 2021^[78]). In Canada, the charity The Learning Partnership organises Take Our Kids to Work Day (TOKWD), when students aged 14-15 accompany their parents to work or visit other workplaces. The Canadian province of New Brunswick also organises Engagement Days, when students meet with people working in an enterprise to talk about their career experience (OECD, n.d.^[79]).

Many young people lack enough knowledge to navigate the labour market for the first time, so providing them with practical information early on can ease the process. In Croatia, the Career Information and Counselling Centres (CISOK), run by the Croatian Employment Service (CES), provides workshops to students aged 14 to 16, where they learn to identify personal interests and strengths, as well as more practical knowledge to enter the labour market, like finding job opportunities or preparing documentation and interviews (OECD, n.d.^[79]).

Career guidance can also benefit young people who have finished their education. The OECD Survey of Career Guidance for Adults found that receiving a personalised career development roadmap is associated with a 25% higher likelihood of improved employment prospects within six months of receiving career guidance (OECD, 2021^[80]). Implementation of this type of service must recognize that young adults have different information needs, should incorporate quality standards and counsellors with adequate training, while also frequently monitoring results. Some examples in OECD countries include the *Cité des métiers*

in Belgium and the *House of Guidance in Luxembourg*, both one-stop guidance services, the National Careers Service in the United Kingdom, and regional guidance centres in Slovenia.

Improving youth labour market outcomes

Youth unemployment is one of the highest in the OECD (Figure 2.12), but the unemployment figure alone does not fully show the extent of the challenges young people face in the labour market. The quality of jobs available to many young people is subpar, with widespread temporary and part-time positions, low-paid jobs and comparatively worse working conditions, although there have been some recent improvements as discussed below. These longstanding challenges have been addressed in several earlier OECD Economic Surveys and the *2012 OECD Economic Survey of Spain* included a thematic chapter on improving employment prospects for young workers (OECD, 2012^[81]).

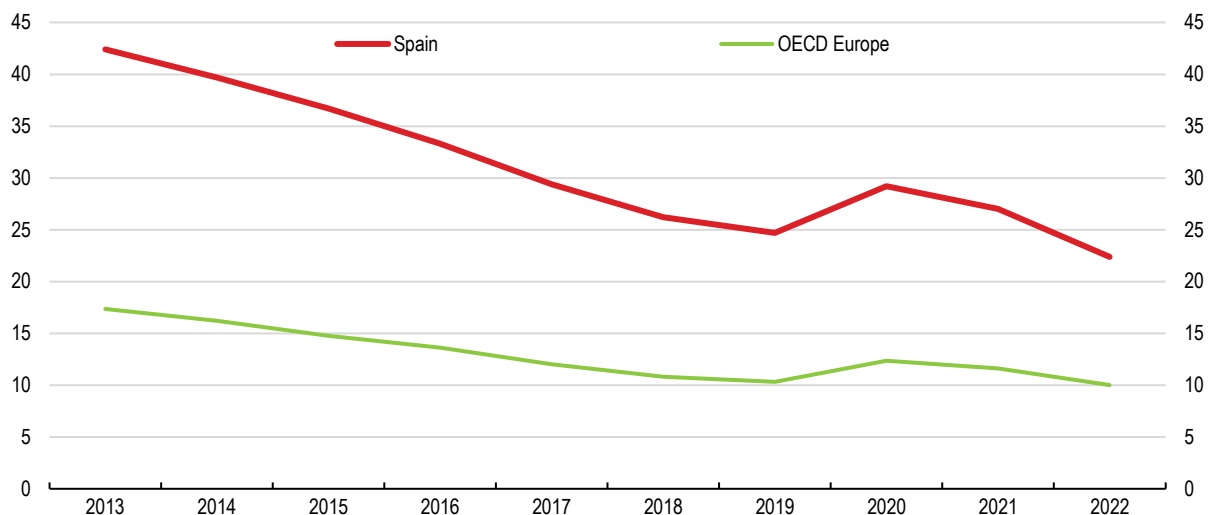
Labour market prospects of young people are relatively poor

Youth unemployment and long-term unemployment remains high

Young people, women, the less educated, low skilled, and immigrant workers were affected disproportionately by the COVID-19 pandemic, as many of them worked in the hard-hit tourism and hospitality sectors and were more likely to have temporary contracts (OECD, 2021^[3]). The labour market has recovered strongly since, but youth unemployment continues to be structurally high (Figure 2.11). Youth participation and employment rates are also low in international comparison and are stagnant. Long-term unemployment among the young is also well above the OECD average (Figure 2.12), and the incidence of marginally attached young workers is also one of the highest in the OECD (Figure 2.13). Close to 30% of unemployed young people who are looking for their first job have been looking for two years or more (INE, 2022^[82]).

Figure 2.11. Youth unemployment has decreased but remains very high

Rate of unemployment, 15–29-year-olds in the labour force, %

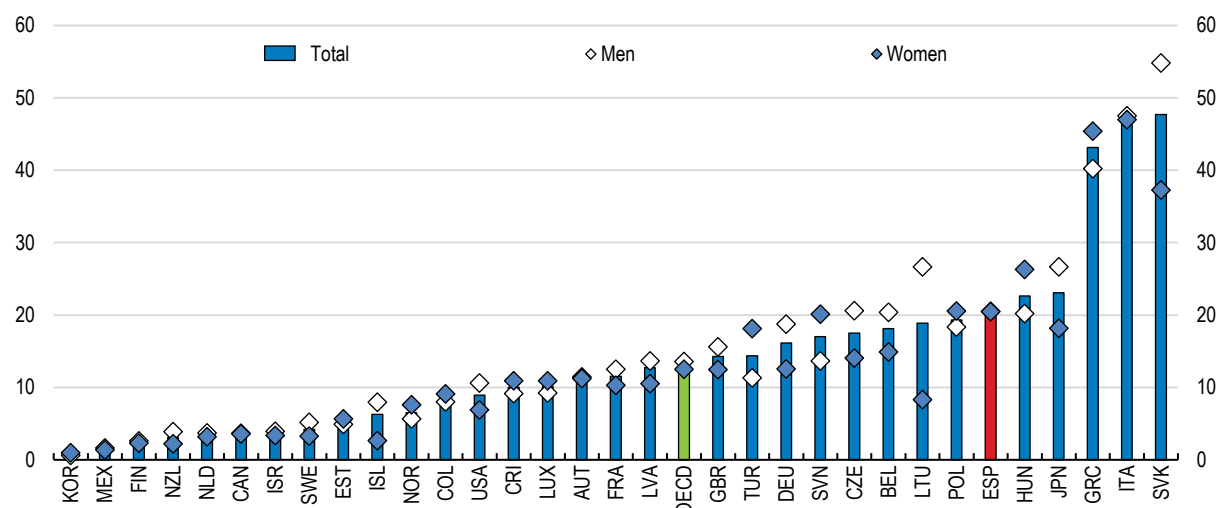


Source: Eurostat.

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Figure 2.12. Youth long-term unemployment is higher than the OECD average

Share unemployed for one year or over among the 15–24-year-old unemployed, 2022



Source: OECD Labour Force Statistics.

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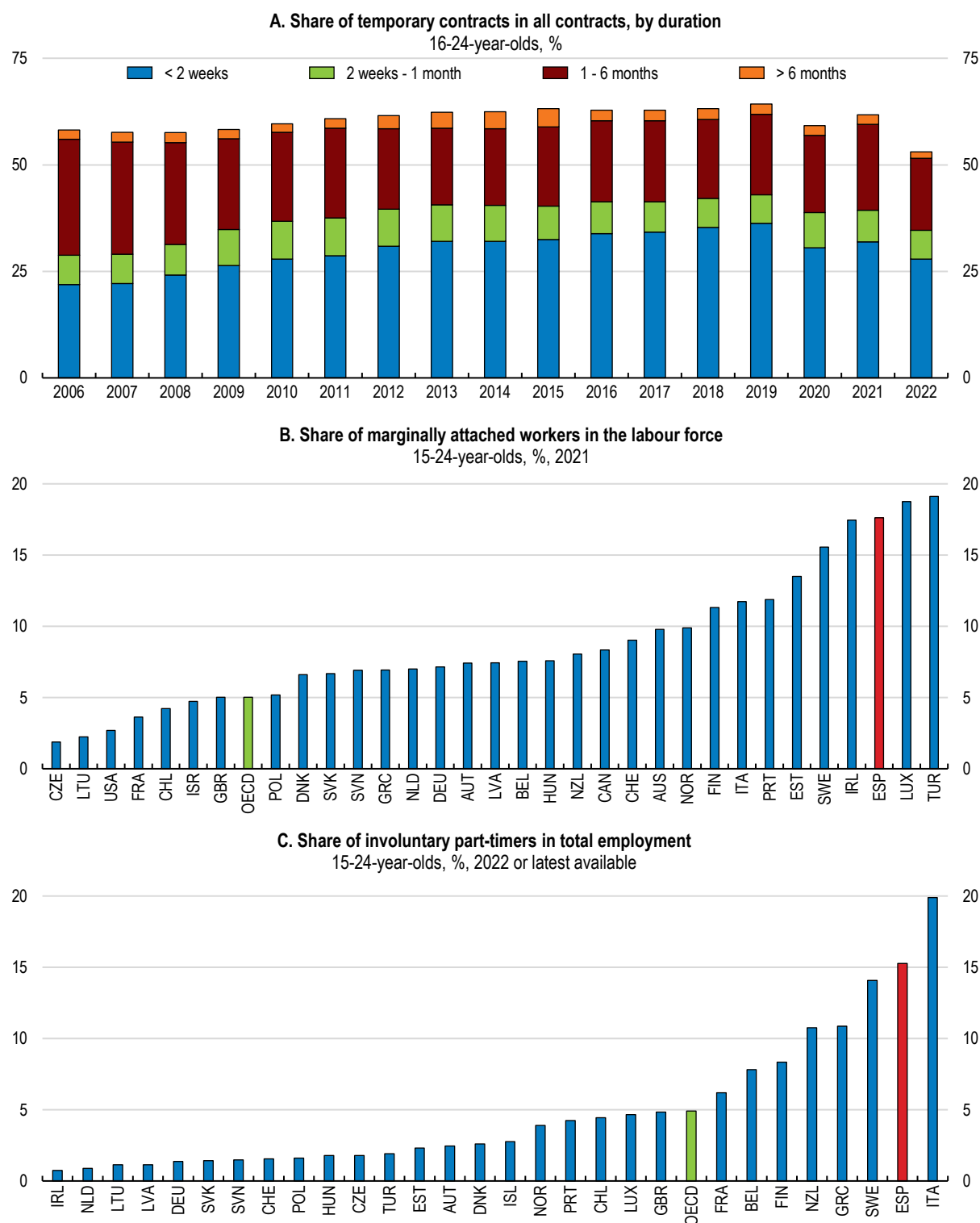
There is a prevalence of temporary and part-time work among the young

Before the introduction of the 2021 labour market reform, Spain had the highest rate of temporary contracts among the young in the OECD. In 2021, close to a third of all employment contracts for those under 25 lasted two weeks or less (Figure 2.13, Panel A). Overreliance on temporary contracts reduces opportunities for training and accumulation of human capital that allow young people to progress to better jobs.

Part-time work among the young is also very high by OECD standards. This is not always by choice: the incidence of involuntary part-time employment was the second highest among OECD countries in 2022 (Figure 2.13, Panel C). Of those working part time, 40% did so involuntarily in 2022, one of the highest shares in the OECD.

Young workers in Spain have struggled to get permanent jobs (Figure 2.14). This diminishes their bargaining power, leading to subpar wages and working conditions. For instance, the average income of younger people in Spain fell 10% in real terms over 2008–22 (Figure 2.15). Weak bargaining power might also affect job stability: around 66% of Spanish workers aged 16–24 have been in their job for a year or less, one of the highest rates in the OECD. Younger people are also more likely to accept non-standard work schedules, like working nights and Sundays.

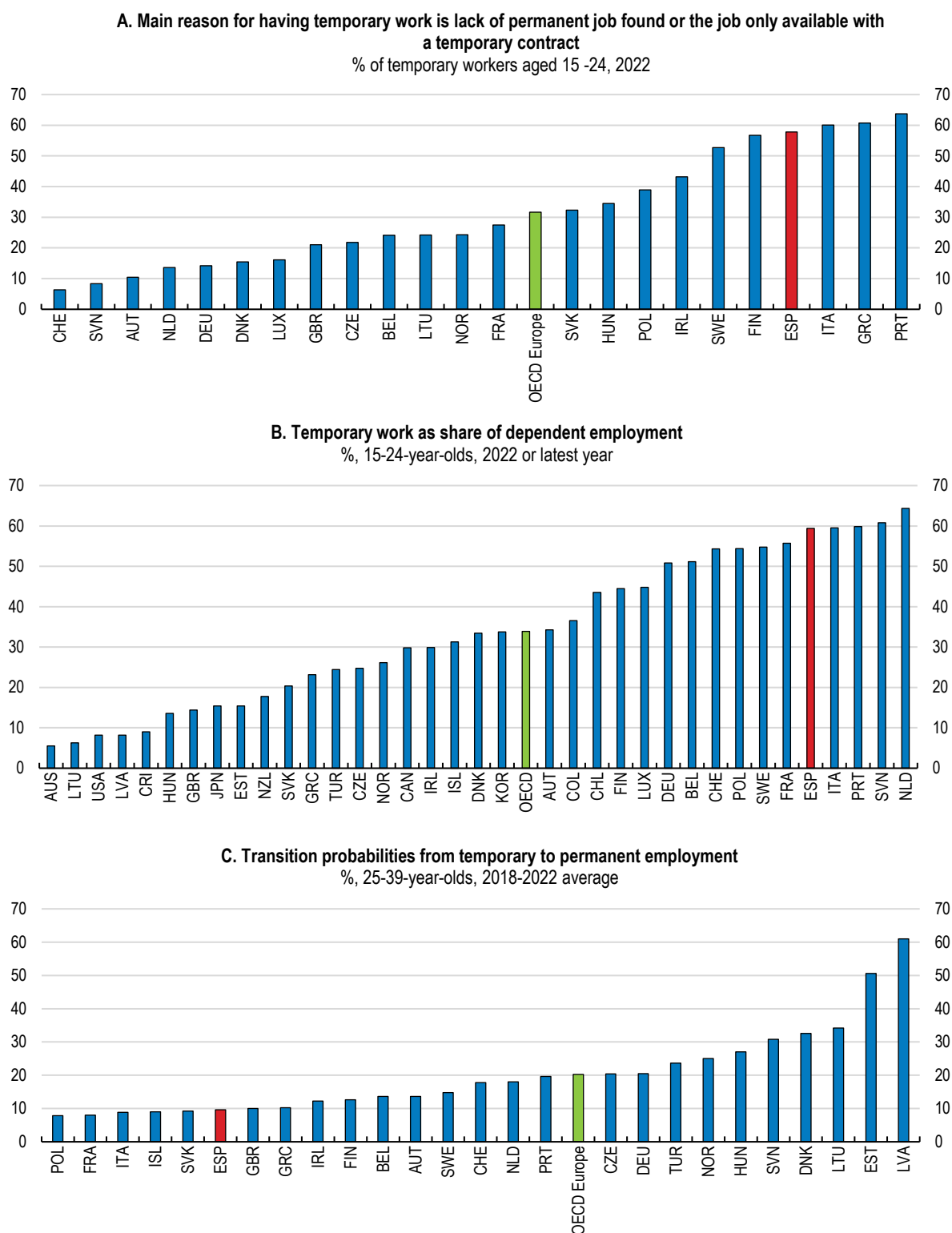
Figure 2.13. Young people face challenging working conditions



Note: Marginally attached are persons aged 15 and over, neither employed, nor actively looking for work, but are willing/desire to work and are available for taking a job during the survey reference week. Additionally, when this applies, they have looked for work during the past 12 months.
Source: SEPE; OECD Labour Force Statistics.

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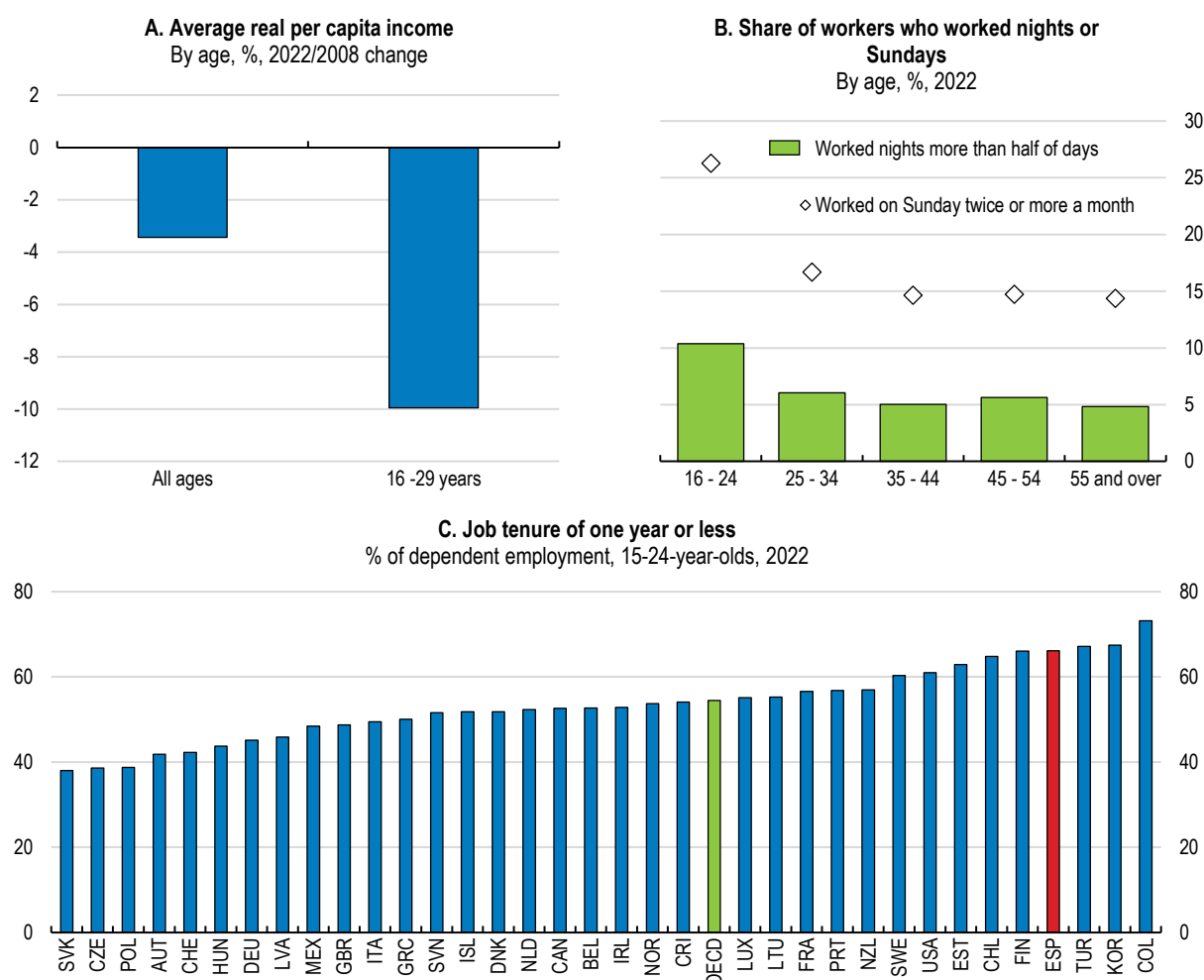
Figure 2.14. Young workers have struggled to get permanent jobs



Source: Eurostat; OECD Labour Force Statistics.

StatLink  <https://stat.link/g8nxzk>

Figure 2.15. Young people face worse working conditions than other age groups



Source: INE; OECD Labour Force Statistics.

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Policies for better youth labour market outcomes

Recent labour market reforms aim at tackling labour market duality

In 2021 a labour market reform was agreed by all social partners as a condition to access European funds. The reform aims at reducing labour market duality, improve the ability of firms to adjust to shocks, and introduces changes to collective bargaining (Box 2.3). The reform reduces the number of contracts, as recommended in the previous *OECD Economic Survey of Spain* (OECD, 2021^[3]), and restricts the conditions for companies to use temporary contracts, given their extraordinary prevalence (Figure 2.16). To that end, the reform imposed additional social security contributions for contracts of less than 30 days, and increased fines on companies abusing fixed-term contracts.

Box 2.3. The 2021 labour market reform

The menu of contracts was reduced to three:

- Permanent contracts including open-ended discontinuous contracts, which establish a continuing work relationship between employer and employee and can now be used in activities other than seasonal work. Workers with open-ended discontinuous contracts are entitled to the same protection as the rest of workers with permanent contracts.
- Temporary contracts cover only work of temporary nature and must explicitly state the justification for the temporality, and its expected duration. Contracts for works and services, especially used in construction, were eliminated. Fixed-term contracts can only be used to temporarily substitute a permanent worker, to cover unforeseen increases in demand, or for occasional, predictable, and short-lived situations. In other cases, all temporary contracts must be converted to permanent.
- Training contracts include work-study training contracts and contracts for professional practice leading to a degree.

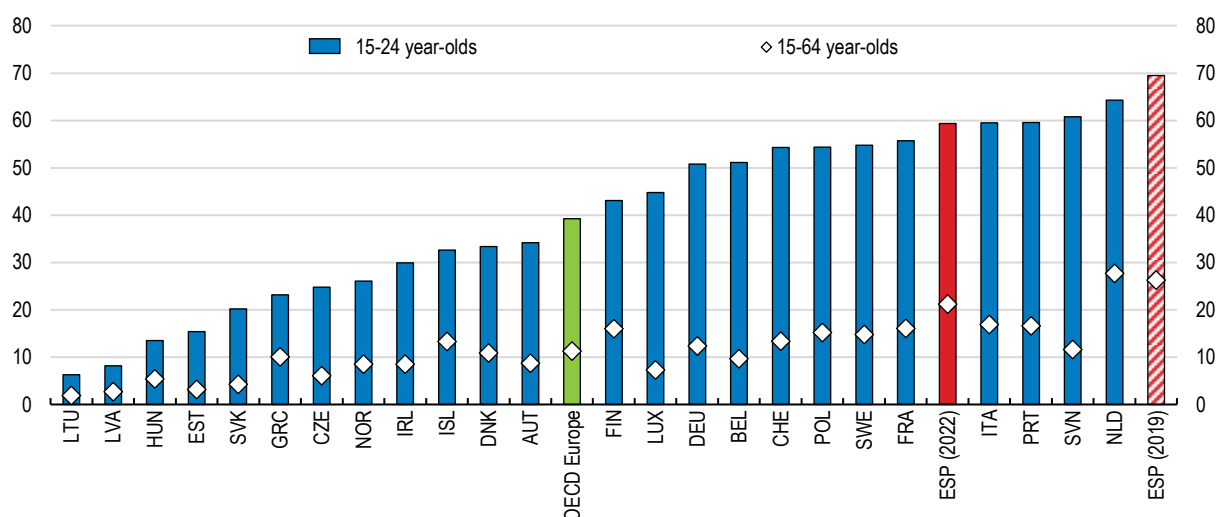
The new law also includes two mechanisms to address declines in activity without resorting to layoffs or subcontracting: the ERTE job-retention scheme used during the COVID-19 crisis and the new RED Mechanism. The RED scheme has two components a cyclical one aims to maintain employment, promoting the adjustment through working hours; and a sectoral one that maintains employment but also seeks to facilitate the reconversion of workers. The RED has been used already for the travel agencies sector.

The reform reinstates two collective bargaining measures abolished in 2012: the primacy of sectoral agreements on wages over firm-level agreements, and the indefinite extension of the previous collective agreement if a new one is not reached within a year (i.e. ultra-activity).

Source: Real Decreto-Ley 32/2021.

Figure 2.16. The share of temporary contracts decreased after the recent reform

Incidence of temporary employment, %, 2022



Source: Eurostat.

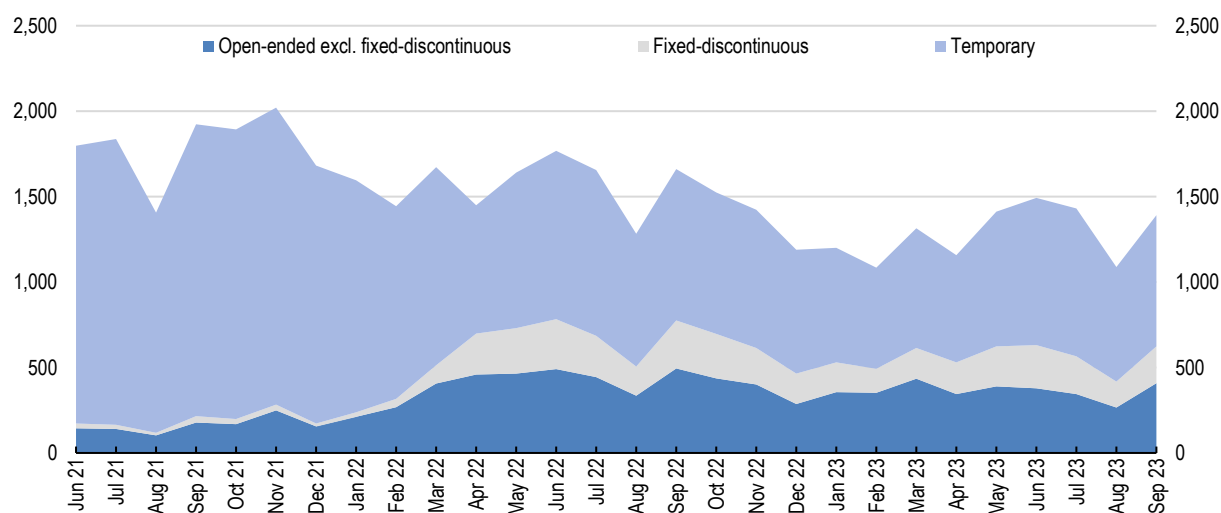
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Although it is still early to assess the full effect of all the changes introduced by the reform, data for 2022 suggest that so far it has been successful in improving some working conditions, especially for the young and for women. Following the reform, the number of registered temporary contracts fell sharply, while permanent contracts surged (Figure 2.17). A third of temporary contracts made permanent during 2022 were for workers younger than 30, and the share of young workers with permanent contracts increased by more than 16 percentage points in 2022 (Figure 2.18, Panel A). Short-term contracts, those of very short duration, have become less common, especially for young women (Figure 2.18, Panel B). Fixed-discontinuous contracts, that can be suspended in the cases provided for by law, increased ten-fold compared to 2021, but they only account for 40% of the increase in permanent contracts, without marked differences in their prevalence among age groups. These contracts provide more stability to workers and may ease their access to loans or rental housing (see section 2.5 on access to housing). The reform did not address the large difference in dismissal costs of permanent versus temporary workers (OECD, 2017^[2]). This may imply more stringent employment conditions for firms and a negative effect on hiring (Doménech, 2022^[83]). Employment growth has been strong in 2022 and continues to be strong in 2023, but close monitoring will be needed to see whether the recent shift towards permanent contracts will lead to increased employment stability.

It is too early to draw definitive conclusions about the reform's impact on employment. Distinguishing what part of the growth in employment is due to the recovery, and what to the labour market reform is difficult. Moreover, it is uncertain whether the sharp increase in fixed discontinuous contracts (Figure 2.17) will be sustained and translate into better quality jobs. There is also a risk that employers shift workers on fixed discontinuous contracts to public benefits during the low season, as done before.

Figure 2.17. The share of temporary contracts decreased markedly with the 2021 reform

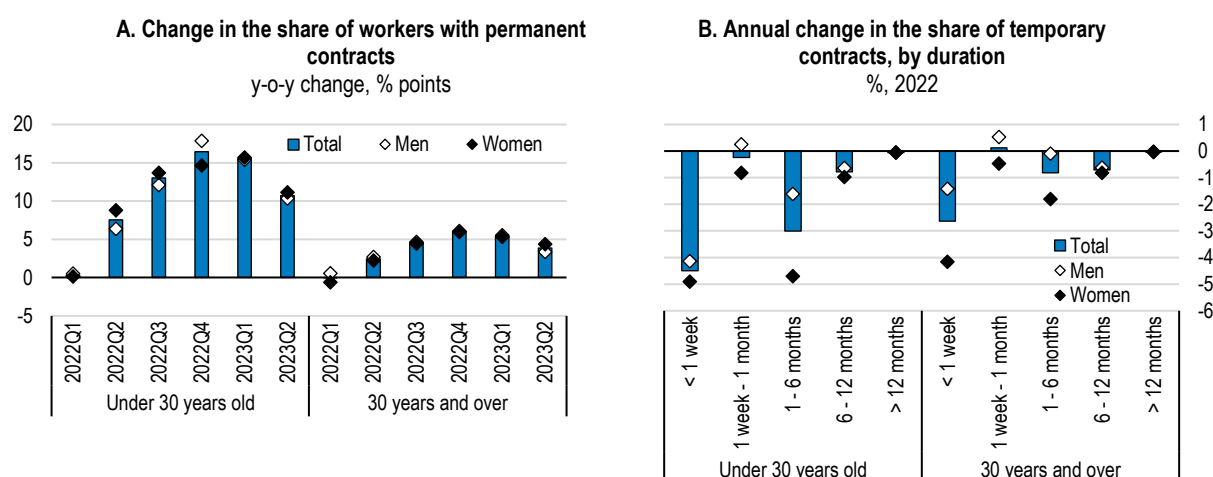
Registered contracts, thousands



Source: Ministry of Labour and Social Economy (MITES).

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Figure 2.18. More young workers are getting permanent contracts



Source: INE; State Public Employment Service (SEPE).

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Furthermore, changes in the law to restore primacy to sectoral agreements over firm-level agreements might reduce the ability of firms to deal swiftly with cyclical fluctuations, even if firms can still choose not to comply with sectoral agreements under certain economic, technical organisational or productive conditions. Indeed, the introduction of the priority of firm-level agreements over sectoral and regional agreements and opt-outs from collective agreements had helped to increase wage adaptability (OECD, 2018^[84]). It is welcome, however, that the priority of firm-level over sectoral bargaining is maintained for aspects other than wages, retaining a certain flexibility for companies.

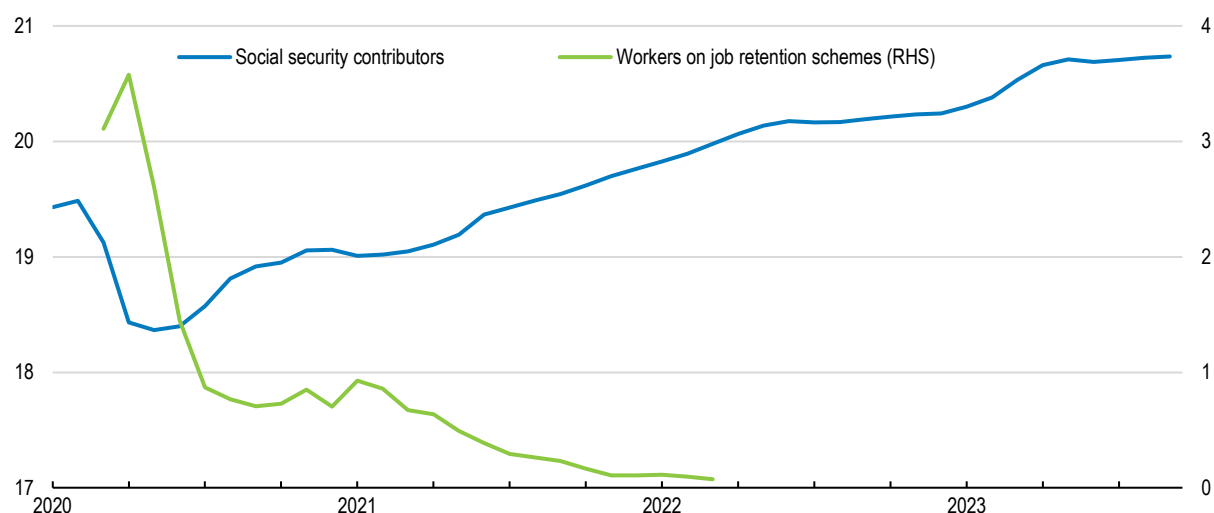
The reform also reinstates the extension of prior agreements for one year in case of failure to reach a new agreement, the so-called "ultra-activity" principle, to prevent companies from blocking wage increases by refusing any new agreement. Furthermore, to prevent companies from using subcontracting to lower wage costs by circumventing collective agreements, an activity subcontracted to another company will be covered by the collective agreement corresponding to this activity. Overall, these measures are likely to protect the interests of workers and to avoid a deterioration in the quality of certain jobs due to domestic outsourcing (OECD, 2021^[85]) but may remove some flexibility for companies. Continued monitoring will be important to evaluate whether the reforms are preserving the necessary flexibility for firms to adapt to economic conditions, such as changes in demand, or changes in the structure of the economy (OECD, 2021^[3]).

To enhance the ability of firms to adjust to shocks, the reform simplified the procedure for companies to take advantage of the ERTE short-time work schemes that were successfully used during the COVID pandemic to preserve employment and incomes (Figure 2.19). It also created the RED scheme which allows companies to reduce the number of hours worked and suspend contracts in the event of an unfavourable macroeconomic shock (for a maximum of one year) or in the event of difficulties specific to the company's sector of activity (for an initial period of one year with up to two extensions of six months each). Such schemes can help to preserve human capital, especially if accompanied by training, as discussed in the 2021 *Economic Survey of Spain* (OECD, 2021^[3]). Thus, it is welcome that the reform introduced an incentive for firms to provide training to employees while on the ERTE or in RED mechanisms, and a "re-skilling plan" is mandatory in the case of RED. Close monitoring of the effects of these schemes will be needed to assess the balance of costs and benefits. In particular, there is a risk that the RED scheme unduly keeps firms with structural difficulties alive (OECD, 2022^[86]).

A labour market reform aimed at improving working conditions for digital platform workers entered into force in August 2021. It introduced a legal presumption that platform workers are not self-employed, but dependent on the digital platform company. The law also obliges platforms to be transparent with employees' representatives about the algorithms used to allocate workers to jobs. While the law may dissuade some digital platforms to stay in Spain, it should help to reduce fake self-employment, which typically results in low-quality jobs and distorts competition among companies.

Figure 2.19. Job-retention schemes allowed a swift employment recovery from the COVID-19 crisis

Total number of workers affiliated to Social Security, millions



Note: The number of workers on job retention schemes includes COVID-19 related affiliations only (identified up to March 2022).

Source: Ministry of Inclusion, Social Security, and Migration.

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Minimum wages have been raised considerably

In February 2023, the government reached its goal of taking the minimum wage to 60% of the average wage, higher than the OECD average of 43% in 2021. To that end, minimum wages have been raised by 47% over 2018-2023, including a hefty 22% hike in 2019 to EUR 900 in a single step affecting 6% of salaried workers. Several evaluations suggest that the 2019 increase led to higher probability of losing employment and decreased employment growth, although estimates of the size of the effects vary significantly across studies (Table 2.1). The young, women and those on temporary contracts have been found to be particularly affected by the increased likelihood of employment loss and hours reductions. The increase also led to the bunching of wages around the minimum wage. However, there is also evidence that the 2019 minimum wage hike increased earnings and decreased wage inequality, especially for workers younger than 30, and those born outside Spain.

To set the path for the minimum wage to hit the government's goal the Ministry of Labour created an Advisory Commission on Minimum Wages (CAASMI). Going forward, the mandate of this Commission should be modified as to advice the government in setting the minimum wage according to labour market conditions and productivity developments, as advised in the *2021 OECD Economic Survey of Spain*, rather than to meet a predefined goal. The members of the commission should also be independent and have access to good data, including to track the evolution of wages in real time.

Table 2.1. Evidence suggests negative employment effects from the 2019 minimum wage increase

	Effects	Comments
AIREF (2020)		
Panel regression	Fall of 0.13 to 0.23 percent points (pp) in employment growth	
Barceló, Izquierdo, Lacuesta, Puente, Regil and Villanueva (2021)		
Workers who earn at most 30% above minimum wage, difference-in-difference estimate	Decrease of 0.6 to 1.1 pp in employment growth	
Workers affected by the minimum wage increase who worked 30 days in the last month, logistic regression estimate	Rise of 2.3 to 3.2 percent points in probability of losing employment Fall of 1.2 to 2.7 percent points in probability of getting employment Fall of 4.4 pp in employment	Largest effect for 45-64 year olds Largest effect for 16-24 year olds
Hospitality workers, discontinuity design		
De la Rica, Gorjón, Martínez de Lafuente and Romero (2021)		
Workers, including part time, working less than 30 days a month, and agricultural and domestic service workers, multinomial logit with matching	Rise of 1.92 pp in probability of losing employment Rise of 0.84 pp in probability of reduction of work intensity Fall in wage inequality	Larger impact for full-time workers, both on employment and work intensity Larger loss in employment for workers older than 30 years Reduction on wage gap for workers younger than 30 and workers born outside Spain Larger loss of work hours for workers younger than 30 years
Fernández-Baldor Laporta (2022)		
Workers affected by the minimum wage increase, propensity score matching and differences-in-differences	Increase of 0.32 to 0.44 pp in probability of losing employment	
Hijzen, Montenegro and Pessoa (2023)		
Workers affected by the minimum wage increase, difference-in-difference estimate	Increase in full-time equivalent monthly earnings of 5.8% on average. Reduction of employment by 0.6% (about 7400 jobs)	Wage effects are stronger for workers on open-ended contracts. Employment effects are stronger for workers on fixed-term contracts.

Source: AIREF (2020). Impacto sobre el empleo de la subida del Salario Mínimo Interprofesional a 900€ mensuales; Barceló et al (2021). Los efectos del Salario Mínimo Interprofesional en el empleo: nueva evidencia para España; de la Rica et al (2021). El impacto de la subida del Salario Mínimo Interprofesional en la desigualdad y el empleo; Fernández-Baldor Laporta (2022). The short-term impact of the minimum wage on employment : evidence from Spain. Hijzen, Montenegro and Pessoa (2023). Minimum wages in a dual labour market: Evidence from the 2019 minimum-wage hike in Spain.

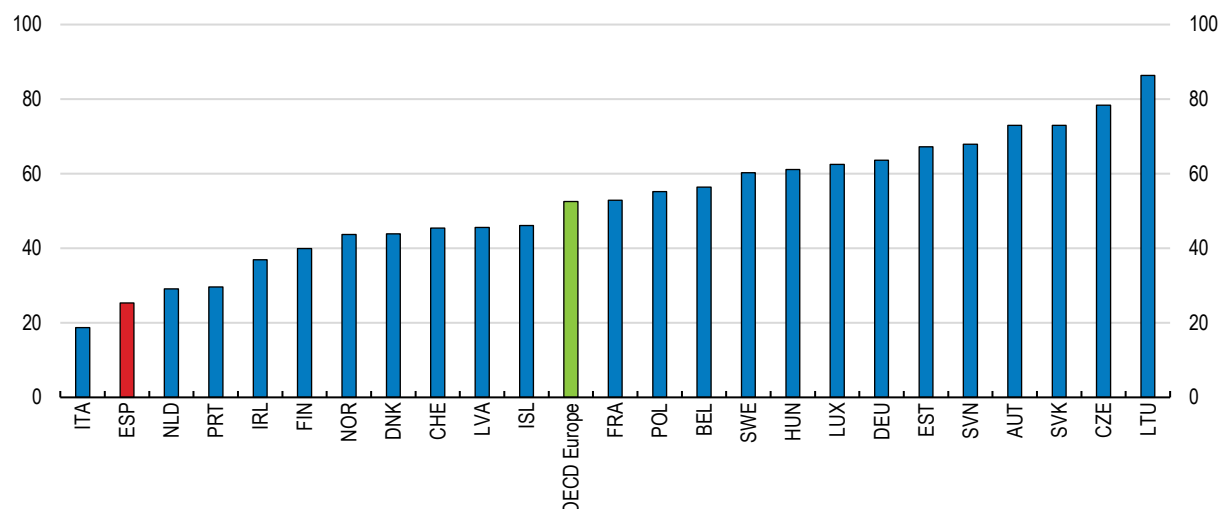
Strengthening active labour market policies

In Spain, the share of jobseekers who regularly contact public employment services is among the lowest in the OECD (Figure 2.20) and spending on active labour market policies (ALMPs) per unemployed person is significantly lower than in other OECD countries (Figure 2.22), with most of the spending in labour market policies going to unemployment compensation (Figure 2.21). Criteria to keep receiving unemployment benefits is among the least stringent in the OECD (OECD, 2022^[87]), and very few benefits are compatible with employment, all of which can discourage job search. Besides, as most unemployment benefits are based in previous work history, young people are often not covered.

The use of public funds could be improved. Spending on labour market programmes is heavily skewed towards hiring subsidies (around 40% of the total). Hiring incentives, like discounts for employers' social security contributions, need to be better targeted to populations whose employability is low (AIREF, 2020^[88]), such as migrants, low-educated workers, or the young. There needs to be enough counsellors at the public employment service, which is not the case now, and they need to be well trained to guide jobseekers effectively towards the offers and policies adapted to their situation.

Figure 2.20. Contacts between the PES and jobseekers need to be more frequent

Share of jobseekers in regular contact with the public employment services, %, 2020

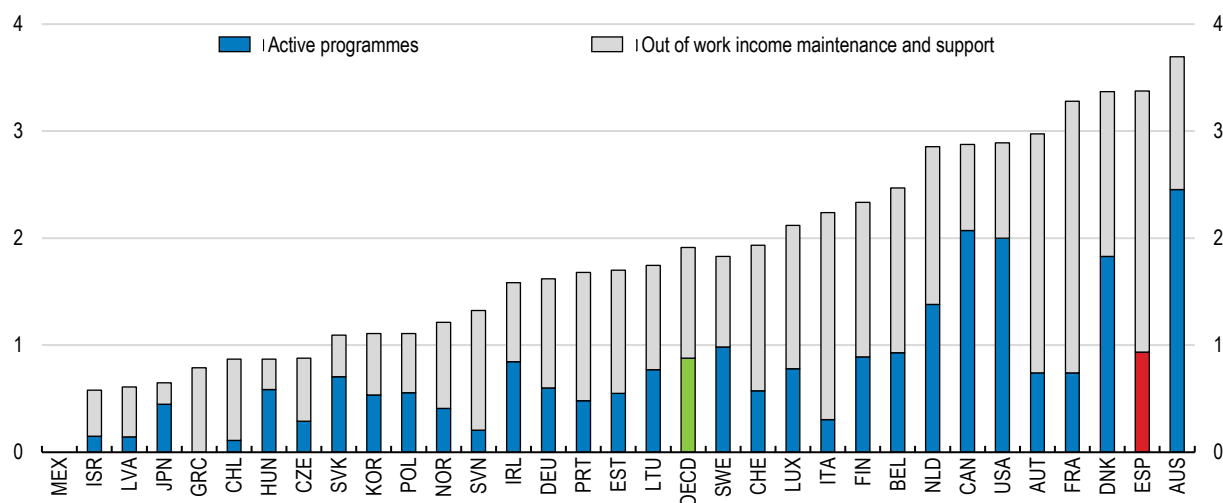


Source: Eurostat, EU Labour Force Survey.

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Figure 2.21. Unemployment compensation accounts for most of labour market spending

Labour market policy spending, % of GDP, 2019-20 average



Source: OECD Database on labour market programmes.

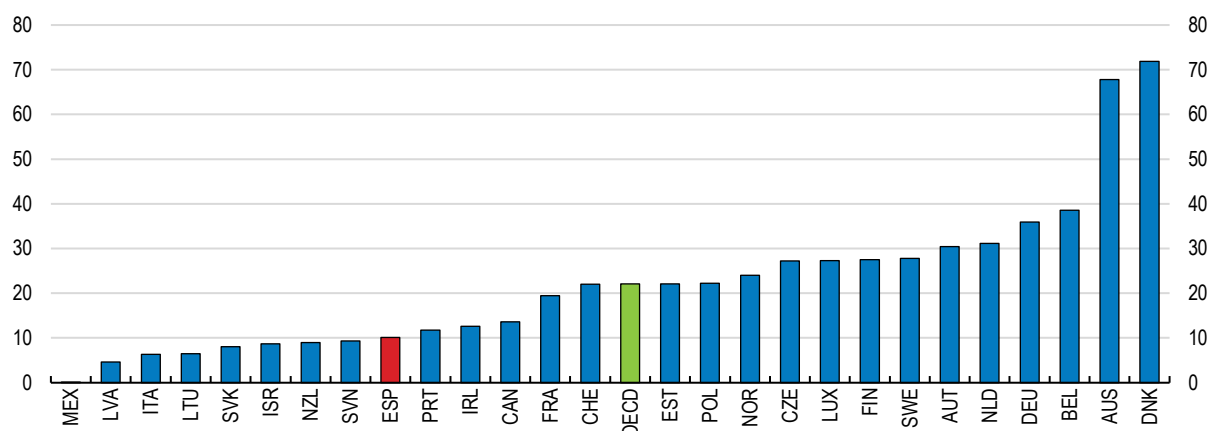
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Targeted support and training are also low and would benefit from the use of profiling tools to identify jobseekers at risk of becoming long-term unemployed and their training needs, as well as increasing the use of online tools, as discussed in the *2021 Economic Survey of Spain*. This would particularly benefit young people experiencing difficulties to transition from study to work. A promising initiative is SEND@, a digital tool for employment counsellors developed by the Spanish public employment service (SEPE). The programme has been found to change the job search behaviour of participants and boost their use of active labour market policies, which leads to faster exits from unemployment and an increase in occupational mobility of jobseekers (OECD, 2022^[89]). Promoting participation in the programme among the young by

highlighting its results, improving accessibility, collecting feedback from users and promoting data exchanges with other institutions to facilitate evaluation of results would help expand its reach and foster further digitalisation of employment services in Spain (OECD, 2022^[89]).

Figure 2.22. ALMP spending per unemployed person remains low

Total ALMP spending per unemployed as a % of GDP per capita, 2019



Note: 2018 for New Zealand.

Source: OECD (2022), Statistics on Labour Market Programmes (database).

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To further increase youth employment, employment programmes targeted at young people should focus on vulnerable populations that can gain the most in terms of employability and include training and employment services, as evidence suggest that such programmes are more successful (Vezza, 2021^[90]; Levy-Yeyati, Montané and Sartorio, 2019^[91]; Kluve et al., 2019^[92]). Programmes involving employers (Datta et al., 2018^[93]; Weidenkaff and Witte, 2021^[94]), and lasting longer are more effective (Escudero et al., 2019^[95]). Several regional programmes in Spain follow such approach, for example the *Lehen Aukera* in the Basque Country, aimed at people under the age of 30 with limited work experience, that has been found to reduce unemployment spells and increase the number of days worked following the programme, all with moderate risk of deadweight effects (de la Rica, Martínez de Lafuente and Lizarraga, 2022^[96]). In Andalusia *Emple@30+*, for people over the age of 30 is effective only for those without work experience or who have been unemployed for two years or more (Rebollo-Sanz and García Pérez, 2021^[97]).

The government has recently put in place several plans targeted at youth. First, a new strategic plan (*Juventud Avanza*), endowed with EUR 5 billion, aims at coordinating youth policies across ministerial departments and with the Spanish Youth Council. The main element is the *Youth Guarantee Plus Plan 2021-2027* that aims at revamping labour market policies for young people through personalized guidance and training. Evaluation will be key to ensure that the plan delivers better labour market outcomes. Second, the Youth Employment programme will promote youth employment among 18 000 unemployed young people with school and work-based training (*TánDEM*); hire 10 000 young researchers in public institutions (*Investigo*); and provide a first professional experience in the public administration to around 9 000 young people.

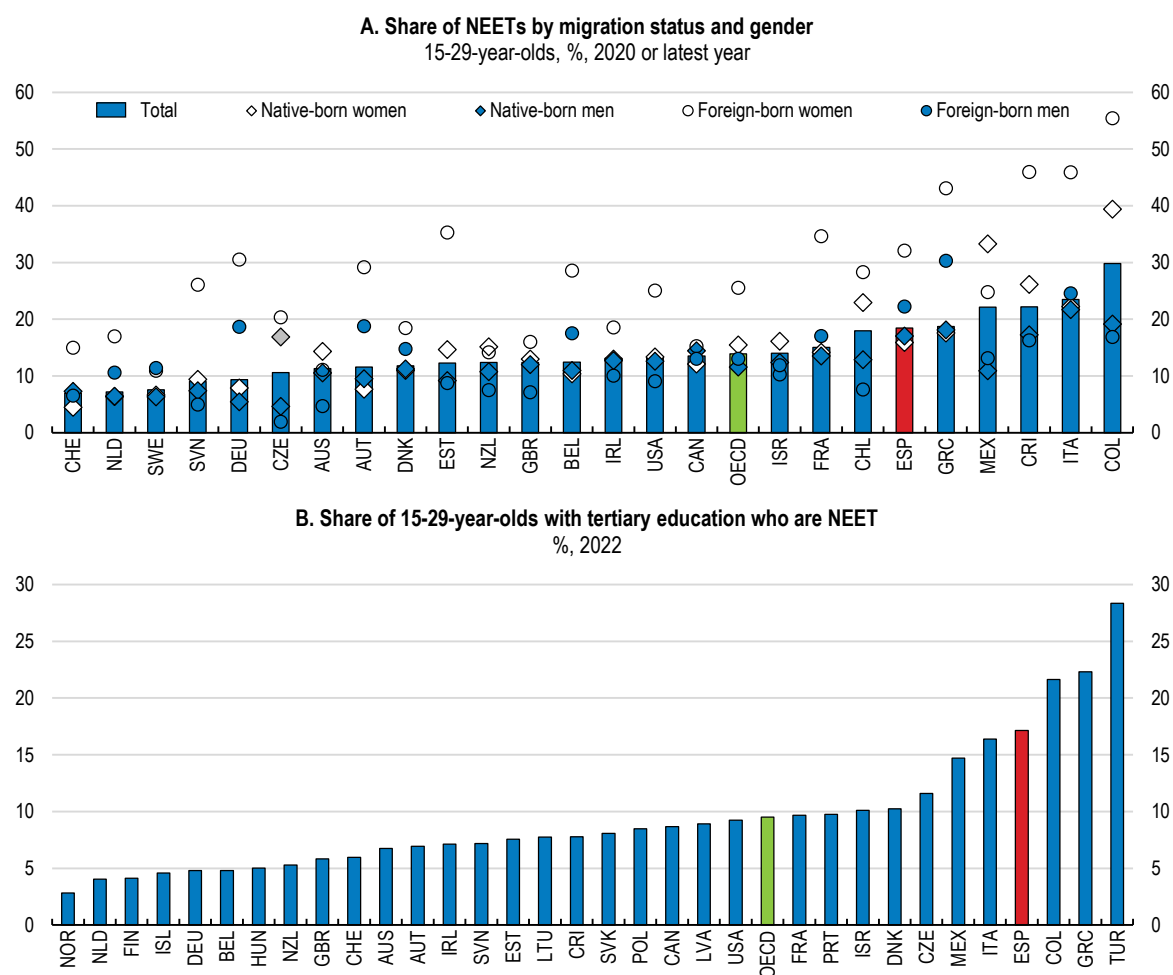
Two new laws complement the labour market reform. First, a 2023 royal decree restricts hiring incentives via reductions in social security contributions to the hiring of vulnerable unemployed persons or those with low employability and seeks to encourage the conversion of part-time and discontinuous contracts into full time contracts. Second, the 2023 law on employment reforms public employment services and seeks to improve active labour market policies by defining a series of services to which all workers are entitled

including personalized profiling, tutoring and job search and entrepreneurship guidance. The law also creates the National System of Employment, comprising the Spanish Agency of Employment and the public employment services of the Autonomous Communities. This should help to enhance data sharing, notably through the creation of an integrated public information system for the employment service. In addition, an employment analysis office will be responsible for analysing labour market policies.

Reaching unregistered NEETs

The share of 18-24 olds who are not in employment, education or training (NEET) is higher than the OECD average, particularly for women, and the share of young people with tertiary education who are NEETs is among the highest in the OECD (Figure 2.23). The share of inactive people among NEETs, however, is similar to the OECD average. Granular knowledge about NEETs can help develop quicker, more targeted measures to support them. Most OECD countries resort to one or several tools to reach unregistered NEETs. One of the most common is collaboration with associations and community-based organisations, which is found in two thirds of EU countries (European Commission, 2021^[98]).

Figure 2.23. Many young Spaniards are not employed nor in education



Source: Education at a Glance database.

StatLink  <https://stat.link/mp30r>

Spain could follow the examples of Belgium and Luxembourg, whose employment services established local partnerships to implement a systematic approach to reach out to unregistered young NEETs, engaging with them to build trust in the employment services, and then providing guidance and monitoring

(OECD, 2020^[99]). This approach seems particularly relevant for Spain, given that there also regional disparities in the share of NEETs. Another successful example is peer-to-peer outreach, where “youth ambassadors” promote public employment services. Between 2015 and 2017, 60% of NEETs reached this way pursued employment or training in Sweden (OECD, 2020^[99]). Another good practice is that of Denmark, where 60 youth guidance centres across the country are tasked with contacting all NEETs under the age of 25 (OECD, 2020^[99]). This is also the case of the Spanish State Public Employment Service (SEPE), which is in charge of registering young NEETs with the National Youth Guarantee System and providing information services. SEPE could further leverage its strong regional presence by liaising with local organisations to improve its ability to reach local young populations in a more systematic and proactive way.

Fostering entrepreneurship among the young

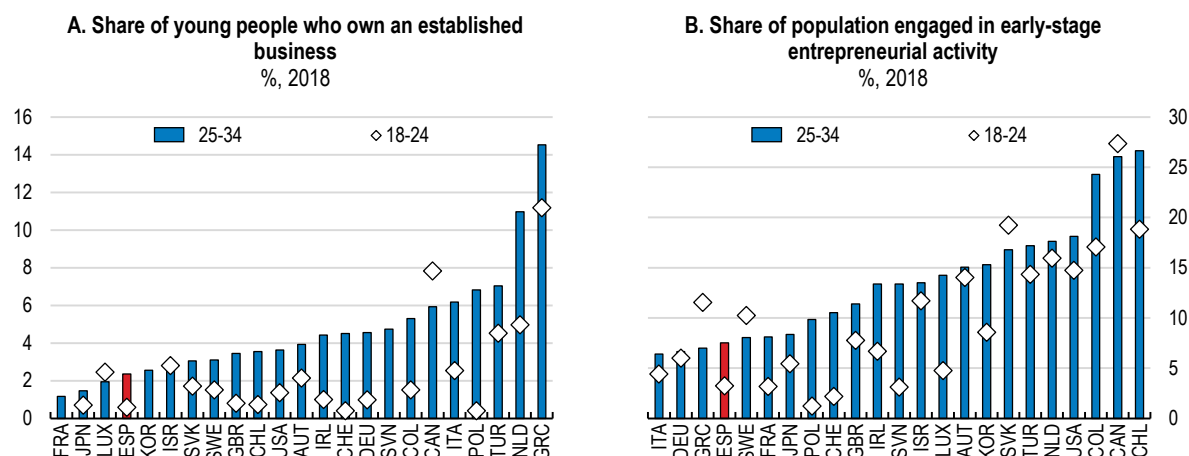
Entrepreneurship can be an alternative to salaried employment as a career path to improve well-being for young people. To that end, promoting a culture of entrepreneurship should be accompanied by appropriate support policies, since skill shortcomings and inability to begin an independent life can make starting a business especially challenging for young people. These policies can also help young people gather experience and skills and join networks that can be useful later in their careers (OECD/European Commission, 2020^[100]).

Entrepreneurship among the young is low

Entrepreneurship in Spain is on par with the OECD average, with around 7% of people aged 18 to 64 owning an established business versus 7.4% OECD-wide (Global Entrepreneurship Monitor, 2022^[101]). However, youth entrepreneurship in Spain remains low in international comparison. The young account for a relatively small share of the self-employed in Spain, and among these, the share of employers is one of the lowest in the European Union. Young Spanish people rarely own established businesses and early-stage entrepreneurial activity among those aged 18 to 34 years is one of the lowest in the OECD (Figure 2.24). Around 72% of all early-stage entrepreneurial activity is undertaken by people older than 35, and only 6% by those between 18 and 24 years, as compared with 57% and 13%, respectively, for the OECD. OECD estimates for this Survey suggest that family background is related to entrepreneurship among recent Spanish university graduates, with children of better-off, more educated parents more likely to start a business after graduation (Rodríguez-Vargas, forthcoming^[102]). Young entrepreneurs, on the other hand, are more likely to lead businesses of medium to high technological level and that innovate in products, especially among early-stage businesses (Observatorio del Emprendimiento de España, 2022^[103]).

The conditions for fostering entrepreneurship in the general population are roughly on a par in Spain with other European Union countries in terms of skills, lending for SMEs and administrative burdens (OECD/European Commission, 2021^[104]). However, the share of the population with intentions to start a business is among the lowest in the OECD, and more than half of those who see good opportunities to do so would not follow through because of fear of failure (Figure 2.25). This suggests that there remain areas to improve the business environment. In a recent survey of Spanish experts, the main barriers are access to financing, red tape and taxes, and entrepreneurial education at school, but there is also scope to improve in other areas that matter for businesses such as access to infrastructure or government support for businesses (Observatorio del Emprendimiento de España, 2022^[103]). The government aims at strengthening skills that matter for entrepreneurship throughout the education system, by making competences in entrepreneurship an integral part of the curricula for all educational levels. Education authorities are responsible for providing teachers with materials, training and curricular developments on these subjects.

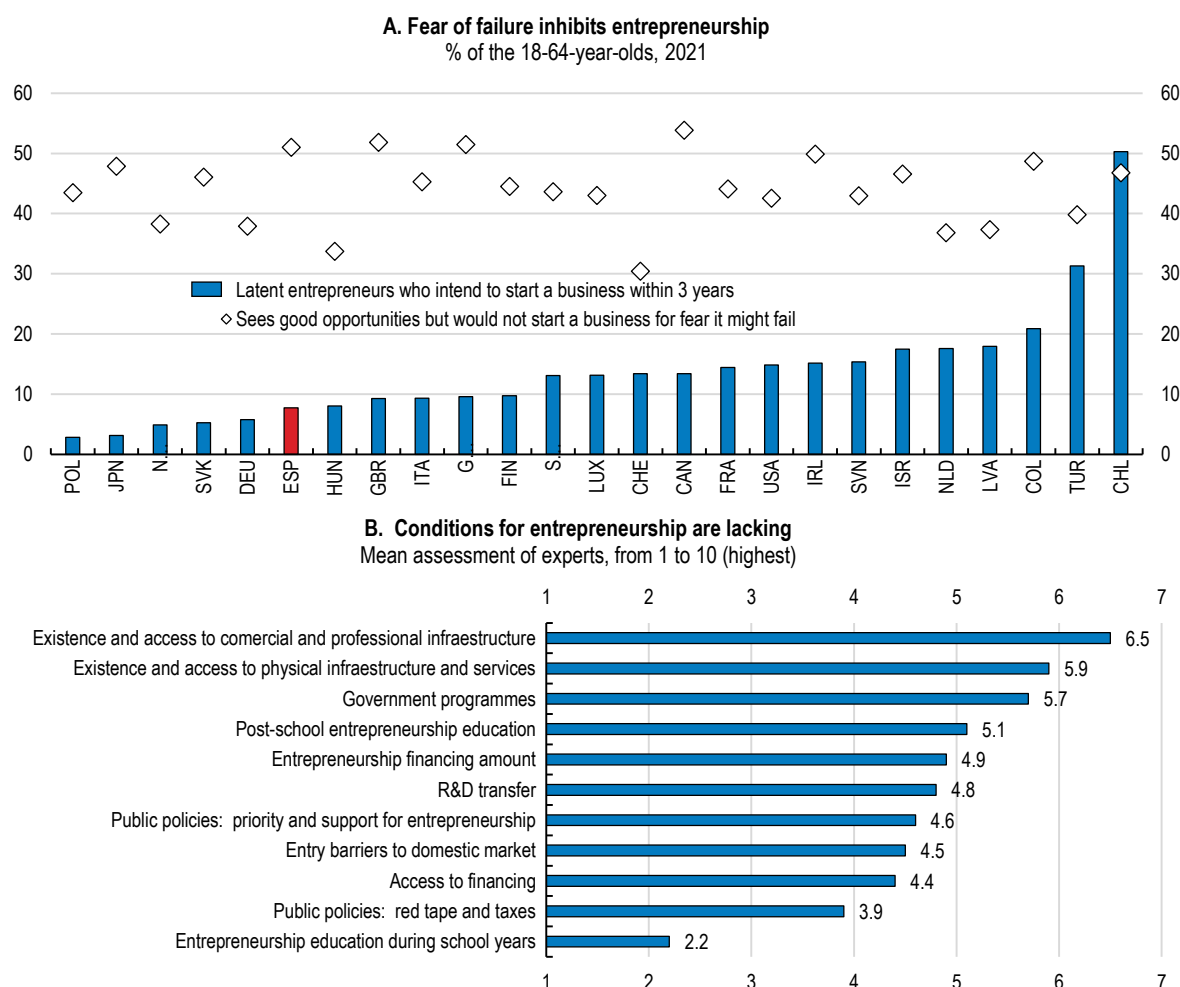
Figure 2.24. Youth entrepreneurship is low



Source: Global Entrepreneurship Monitor 2018/2019 Global Report.

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Figure 2.25. Entrepreneurship is held back by lack of opportunities



Source: Global Entrepreneurship Monitor (2022); Adult Population Survey, Observatorio del Emprendimiento de España (2022).

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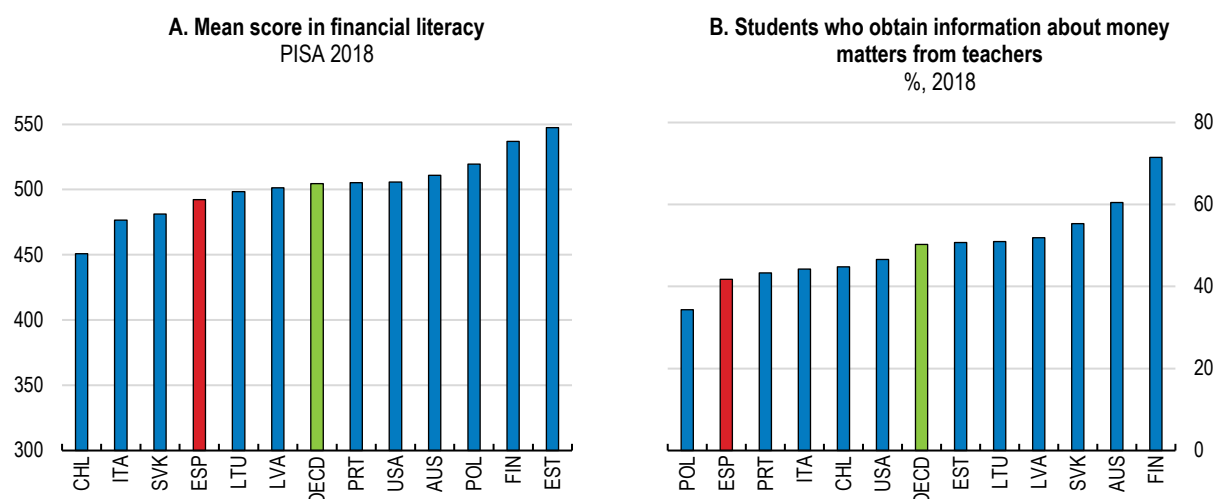
Providing opportunities to start a business

Entrepreneurial skills should be improved

Entrepreneurial skills go beyond those required to successfully work as an employee and include skills and personal characteristics that allow for the generation and implementation of ideas, as well as more practical knowledge related to opening and operating a business. Entrepreneurial education in school has been shown to be a predictor of business success (Berrone et al., 2014^[105]), and leads to better outcomes in the labour market (Charney and Libecap, 2000^[106]). As of 2021, a third of Spanish early-stage entrepreneurs had little or very little training on how to start a business (Observatorio del Emprendimiento de España, 2022^[103]). Furthermore, financial literacy among the young seems lacking, as only one in eight 18-34 year-olds answered correctly all three questions in the Financial Competences Survey of the Bank of Spain, compared to one in five in people over 35 (Banco de España, 2016^[107]), and the PISA 2018 results show that Spanish students lag on overall financial literacy and exposure to financial literacy education in school (Figure 2.26) (OECD, 2020^[108]). This suggests the provision of entrepreneurial competences and skills in early stages of education should be improved. The Bank of Spain and the National Securities Market Commission (CNMV) have launched a series of Financial Education Plans since 2008, which contributed to the inclusion of financial literacy in the educational curriculum in the new education law (LOMLOE). The most recent Plan, for 2022-25, was produced in accordance with the OECD Recommendation on Financial Literacy (2020), and is aimed at school children, university students, vulnerable populations, and new users of financial services.

The 2020 Organic Law on Education (LOMLOE) aims to teach entrepreneurship skills in primary, secondary and vocational education. The most significant challenge for the successful implementation of the law is providing adequate support to teachers (OECD/European Commission, 2016^[109]). Support should entail budgeting enough resources for the development of programmes, the provision of teacher training and the development of teacher networks and good practice observatories (OECD/European Commission, 2020^[100]). Denmark is one of the few countries in the OECD to have implemented a specific national strategy to embed entrepreneurship in all levels of education. Spain could follow Denmark's example and establish a centralised agency to coordinate efforts, especially regarding teacher training and development of pedagogical material. In 2010 the Danish Foundation for Entrepreneurship (FFE-YE) was created from a collaboration between the ministries of Science, Technology and Innovation; Culture; Education; and Economic and Business Affairs, with the goal of promoting entrepreneurship education, funding entrepreneurial projects, carrying out research and supporting the development of teacher competences, pedagogical tools and impact measurements (OECD/European Commission, 2020^[100]). During the 2019/20 school year 24% of Danish students received entrepreneurship education (FFE-YE, 2020^[110]), and evidence suggests that such education increases both the desire to start a company and other entrepreneurial behaviour outside school, like managing extracurricular activities (FFE-YE, 2015^[111]). In Spain, an evaluation of 14 entrepreneurship programmes taught by the Junior Achievement Foundation showed an increase in expectations for self-employment (Méndez, 2021^[112]). A welcome initiative is *Entrepreneurship Classrooms* within the VET system, which aims at strengthening entrepreneurial soft skills, and establishing a network of schools, firms and other institutions to foster the development of businesses.

Figure 2.26. Financial literacy can be improved



Source: OECD (2020) PISA 2018 Results (Volume IV): Are Students Smart about Money?

StatLink  <https://stat.link/upw8vj>

Entrepreneurship training can also be provided outside the formal education system. For example, in Hungary, young people under 25 years old and job seekers up to 30 years old can access the Youth Entrepreneurship Programme (GINOP and VEKOP), which offers entrepreneurship training, mentoring and business counselling, and whose content can be adapted to local needs (OECD/European Commission, 2020^[100]). The aim of the programme is to support 6 500 young people in business creation and as of May 2020, 3059 applications had been received (European Commission/OECD, 2020^[113]). In Türkiye, KOSGEB (Small and Medium Enterprises Development and Support Administration) established the E-Academy platform to provide free online training, covering how to start a new business in traditional sectors, as well as innovation management, intellectual property rights and management of growth processes and strategies in more innovative sectors (OECD, 2021^[114]).

Online resources can help teachers assess their entrepreneurship knowledge and improve it according to their needs. For example, the EU COSME programme has co-funded *EntreCompEdu*, an online training course available in several languages that helps educators design and implement entrepreneurial material (EntreComp Europe, 2021^[115]). In Finland, the Measurement Tool for Entrepreneurship Education is used by primary and secondary school teachers as a self-evaluation system that provides personalised feedback on their current entrepreneurship education practices and covers subjects ranging from the design of educational activities and networks to the implementation of complete courses (Technopolis Group, 2015^[116]). In Spain, the Santander International Entrepreneurship Centre of the University of Cantabria offers an online open course (MOOC) to train teachers on co-operative entrepreneurship so that it can be incorporated into curricula. Evidence suggests that MOOCs are an effective tool to teach entrepreneurship, as they enable collaborative learning and improve the students' ability to recognise opportunities and acquire resources (Al-Atabi and DeBoer, 2014^[117]). To increase engagement and effectiveness, online resources for teachers should account for regional differences in the business environment and opportunities.

Entrepreneurship networks can provide the young with access to opportunities

Young people usually lack enough labour market experience to build professional networks. Networks can facilitate access to financing, business partners and customers, as well as help develop new products and learn business practices (OECD/European Commission, 2020^[100]). Public policy can foster the development of dedicated entrepreneurship networks where the young can participate. For instance, in the Netherlands, *YES!Delft* offers a support package that includes business incubation, networks and

training, and fosters connections between young tech entrepreneurs and external investors (OECD/European Commission, 2020^[100]). In Spain several regional programmes help promote entrepreneurship networks among young people (Box 2.4). These initiatives could be replicated in other regions with public support, including promotion, referrals from public entrepreneurship programmes and financial support, and should encourage strong participation by youth (OECD/European Commission, 2020^[100]).

Ensuring that financial support also reaches the young

In late 2022 Spain's Congress passed new start-up legislation (*Law 28/2022 promoting the ecosystem for startups*). The law provides a series of tax changes for firms and individuals that are intended to encourage start-ups. It includes a reduced rate of corporate income tax during the first four years of existence of the firm, and a tripling of the limit on tax-free stock options, expanded incentives for business angels, a special regime lasting five years for foreign talent (including the diaspora) and a system of digital nomad permits. Further, it lowers social charges for entrepreneurs who also work as salaried employees at a larger firm.

In Spain, young and innovative firms without collateral find it difficult to access bank loans, and venture capital financing is limited and concentrated on firms in later stages of development (OECD, 2021^[3]). Around 70% of seed capital comes from the immediate environment of the entrepreneur, personal savings and contributions from family and friends, and there is ample room to increase financing from public programmes, business angels and crowdfunding, especially as most firms require relatively modest seed capital (Observatorio del Emprendimiento de España, 2022^[103]) (Figure 2.27).

Box 2.4. Fostering youth entrepreneurship networks in Spain

Madrid

- The Spanish Confederation of Young Entrepreneur Associations (CEAJE) and the National Federation of Associations of Self-Employed Workers (ATA) support [Comunidad de Madrid, + Emprendimiento](#), to provide advice, information, and training to SMEs, and to carry out awareness and dissemination actions on entrepreneurship and business development.

Catalonia

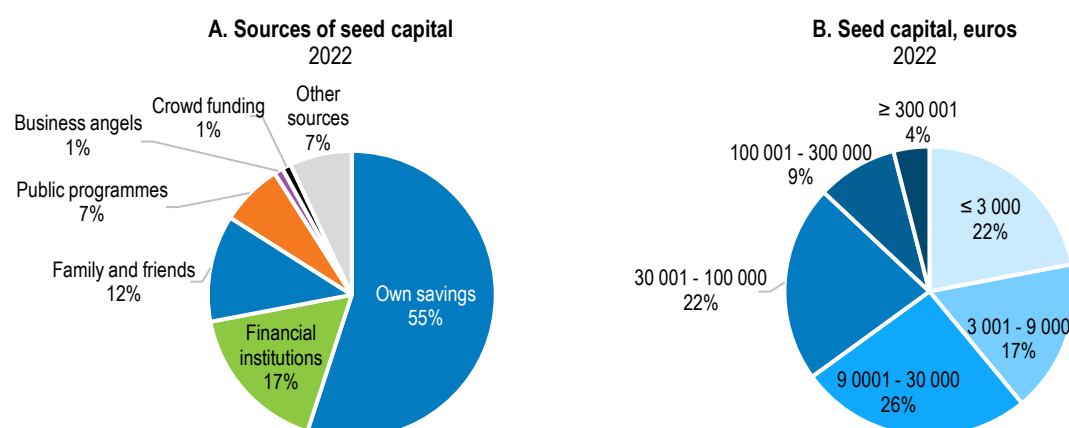
- [La Salle Technova Barcelona](#) is an innovation park that stimulates technology-based entrepreneurship and acts as a hub for connecting start-ups, investors, and corporations. It offers services such as incubation, pre-acceleration, acceleration, investment, open innovation, and start-up landing.
- The [BCN Health Booster](#) is an acceleration programme, launched in 2021 by the Barcelona Science Park (PCB) and the Barcelona City Council, aimed at start-ups in the life sciences sector with an innovative project and social impact. The programme began in the context of the Barcelona Science Plan, born out of collaboration between public centres, companies, universities and administrations. This three-year programme provides free training, mentoring and advice from renowned experts and access to a laboratory within a pioneering ecosystem in incubation and acceleration of companies.

Valencian Community

- The [Lanzadera](#) project combines training with access to investors in the first steps of a project's life. If the project is solid, it also provides participants with the tools to make it grow by facilitating access to investors, mentors, companies and practical training. In addition, it has its own university centre and business school (EDEM) whose mission is to train businessmen, managers and entrepreneurs, as well as to promote leadership and entrepreneurship.

Source: CAJE, ATA, Lanzadera project, La Salle Technova.

Figure 2.27. Seed capital is usually low and self-financed



Source: Observatorio del Emprendimiento de España (2023).

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Young Spanish entrepreneurs can access several tailored public aid programmes. Self-employed workers can request a flat or reduced social security contribution rate during the first two years of activity, and men under 30 years of age, or women under 35, can request an additional 30% reduction. Farmers under 40 years of age and with a minimum training level can receive complementary payments from the National Strategic Plan to implement the EU's Common Agricultural Policy. The National Innovation Enterprise (ENISA) provides guarantee-free funds for young entrepreneurs with innovative projects. Amounts to borrow must be between EUR 25 000 and EUR 75 000. However, since 70% of businesses started in 2021 required less than EUR 30 000 in seed capital, the minimum amount for this loan might limit its potential reach. Furthermore, the *Youth Guarantee Plus Plan 2021-2027 for Decent Work for Young People* also supports entrepreneurship through microcredits for consulting services, advice and physical spaces.

Other initiatives to fund technological or innovative businesses can also benefit young entrepreneurs, although they are not targeted at young people. *Fond-ICO Next Tech* is a fund to promote the development of innovative, high-impact digital projects and investment in scale-ups by supporting public financing instruments, attracting international resources and boosting the venture capital sector. The fund is part of the Recovery, Transformation and Resilience Plan and aims at mobilising up to EUR 4 billion in public-private partnerships by taking stakes and investing in companies/funds specialising primarily in the digital and artificial intelligence sectors. The Centre for the Development of Industrial Technology (CDTI) in the Ministry of Science and Innovation promotes innovation and technological development of Spanish companies and has several programmes for technological and innovative start-ups. Two of them are the *5+5 Entrepreneurship* programme, which fosters technology start-up in public universities, and the *INNVIERTE* programme, aimed mainly at SMEs with high growth potential.

Crowdfunding accounted for only 1% of seed capital in Spain during 2021. The new *Create and Grow* law (*Ley Crea y Crece*) aims to increase crowdfunding financing by adapting national regulations to European standards, introducing more flexibility for crowdfunding platforms to provide their services in Europe. Furthermore, the law reinforces investors' protection and allows the creation of vehicles to group investors to reduce management costs. This law is an important step to improve regulation, but further actions are needed to increase awareness of crowdfunding as a financing option for SMEs. In the Netherlands, it was found that SMEs' lack of knowledge and of trust were two of the main barriers for crowdfunding development (Douw&Koren, 2013^[118]). The Dutch government has since established a dedicated section about crowdfunding in the Point of Single Contact website for businesses, where firms can find detailed information on how to set up a crowdfunding plan, determine the return on investment, choose a platform

and follow through with the campaign. Furthermore, the Dutch SME Financing Foundation has published a Code of Conduct for SME Financing, which covers transparency, pricing and complaint procedures, among others, which can help increase trust in crowdfunding (Stichting MKB Financiering, 2022^[119]). In this same vein, in the United Kingdom the P2P Finance Association has developed rules for their participating platform members, covering the minimum amount of funds to maintain in the platform, credit risk management, transparency, IT security and dispute resolution (Robano, 2018^[120]).

Promoting better access to affordable housing for young people in Spain

A difficult transition from education to the labour market, coupled with lack of affordable housing, often means a difficult transition to independent life for young Spaniards.

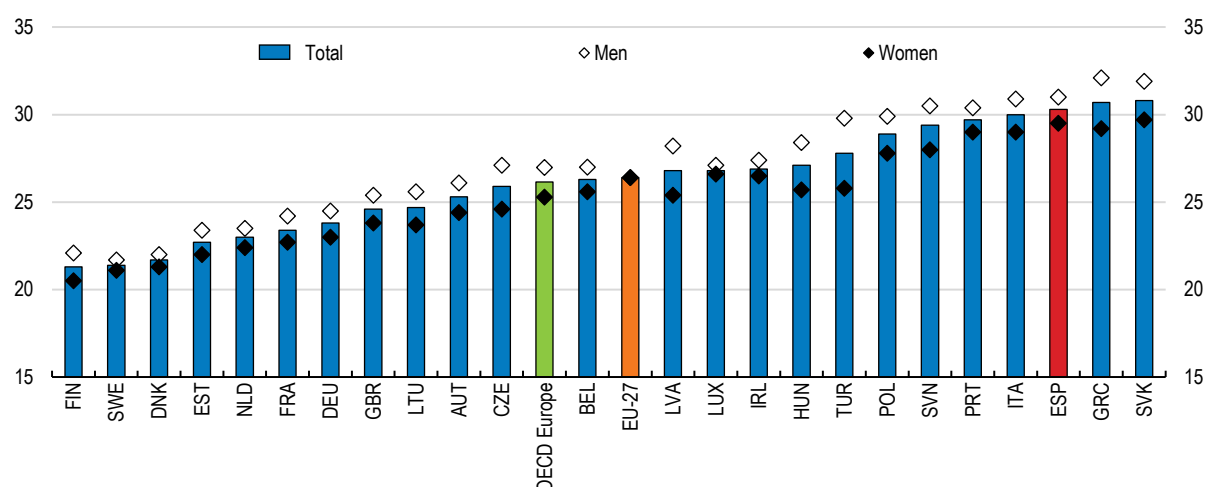
Lack of affordable housing limits labour mobility of the young

Young people in Spain struggle to make the transition to adulthood and to look for employment outside the region where their parents live. The age at which young people leave the family home has been steadily rising and is currently 30 years, well above the EU average (Figure 2.28). That has led to one of the highest shares in the OECD of adults under 34 still living with their parents (Figure 2.29). This is not a voluntary or cultural issue, as 65% of those aged 25-29 who live with their parents want to leave the family home (INJUVE, 2021^[6]). Lack of one's own income, insufficient earnings and job instability are the main obstacles for getting one's own abode. Only 22% of 15-29-year-olds live exclusively from their own income, while 36% are completely dependent on others (INJUVE, 2021^[6]).

Spanish regions where more jobs are available generally have higher housing prices (Figure 2.30), which makes it difficult for unemployed young people to look for work there. Furthermore, the negative effect of housing prices on labour mobility between regions has been compounded in Spain by the pervasiveness of temporary contracts (Liu, 2018^[121]).

Figure 2.28. Average age of young people leaving the parental household

2022 or latest year

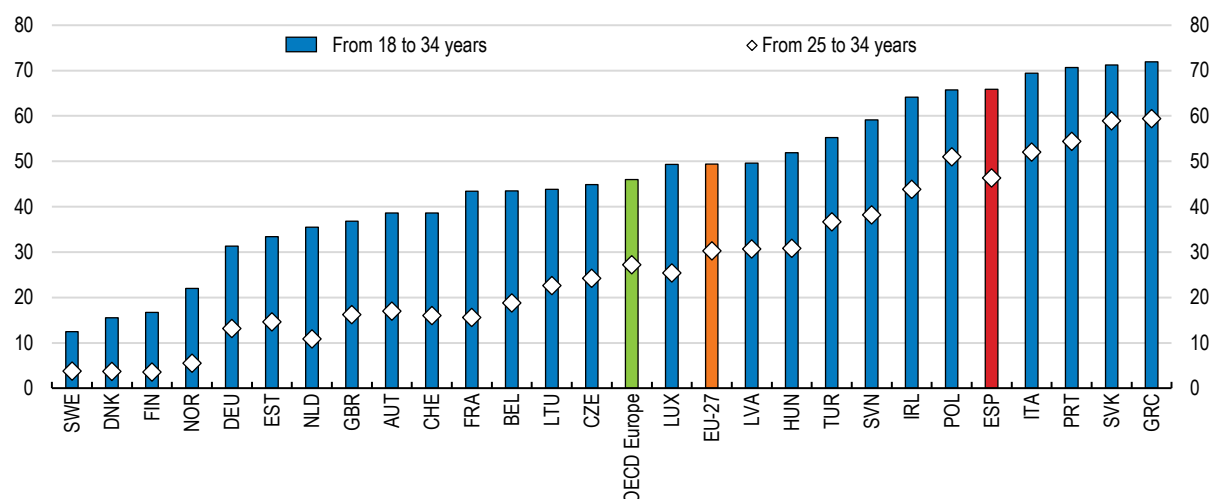


Source: Eurostat.

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Figure 2.29. Share of young adults living with their parents

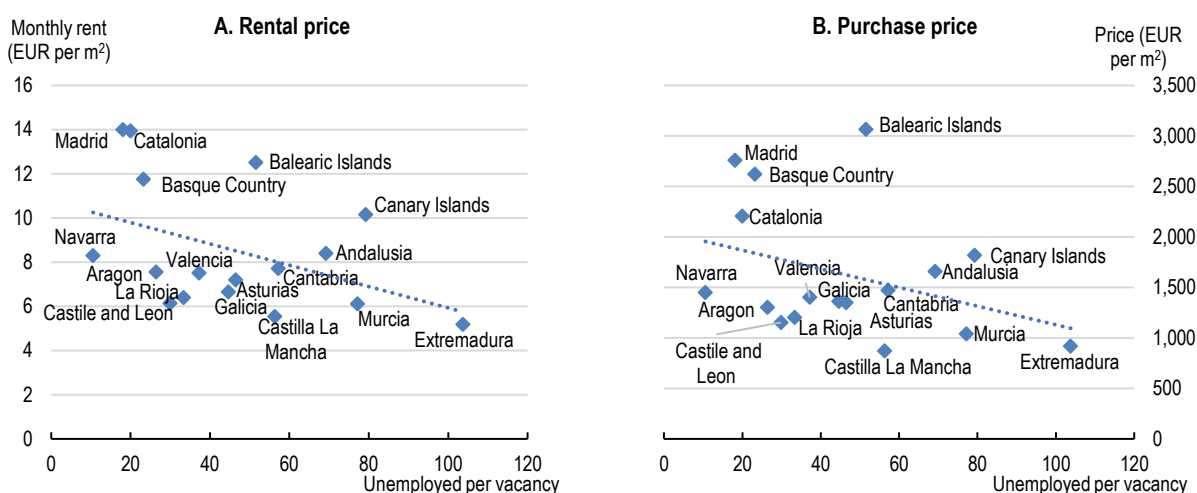
%, 2022 or latest year



Source: Eurostat.

StatLink <https://stat.link/ji8ve5>

Figure 2.30. Regions with more jobs available have higher housing prices



Note: Data are averages for 2017-18-19-21-22.

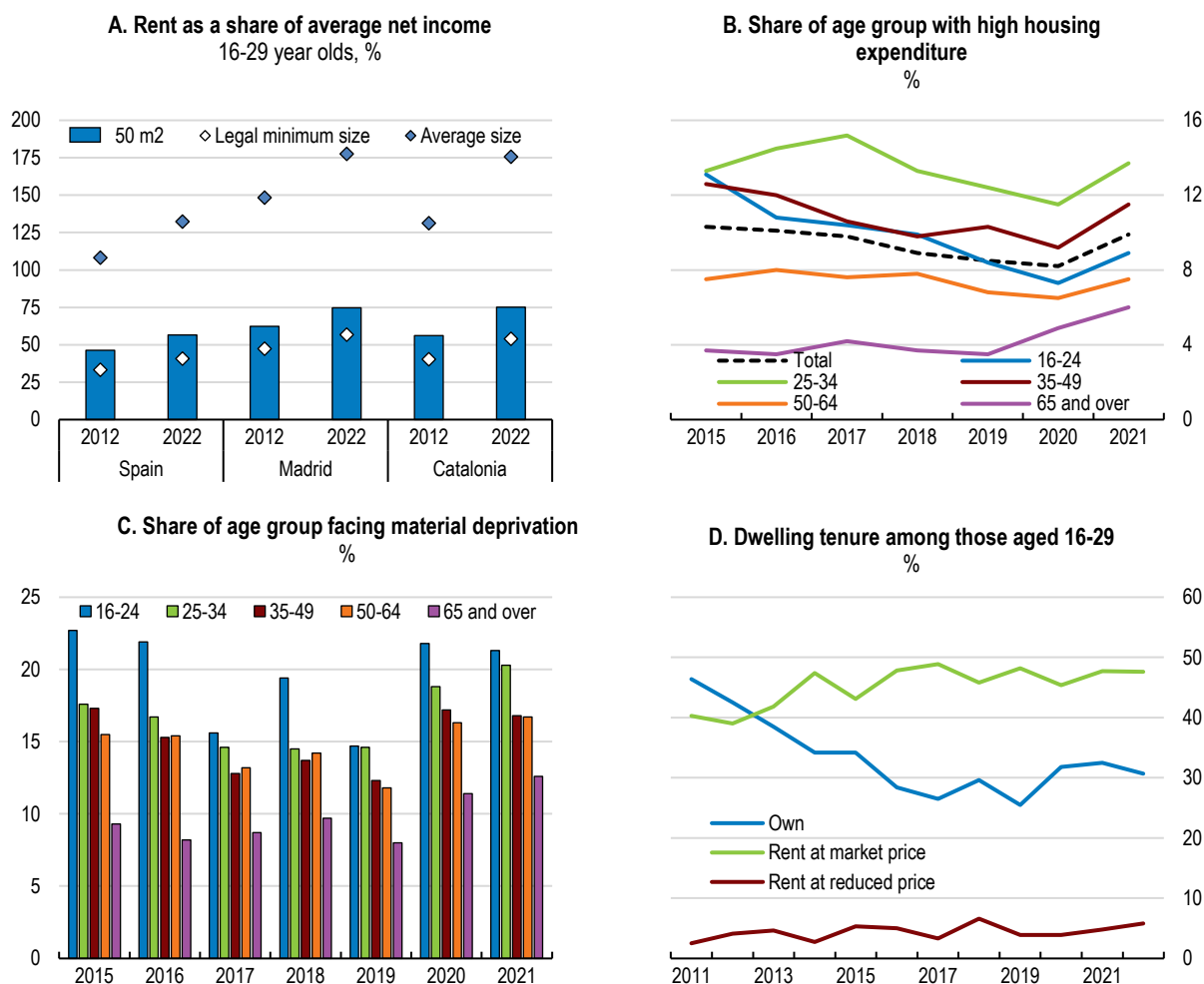
Source: INE, Idealista.

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In Spain, 75% of households own their home and 14% rent it, close to the OECD averages, but social rental housing accounts for only 3% of households, less than half the OECD average. Only 1% of the housing stock is social compared to 7% in the OECD. Since there is very little social rental housing, and buying a home is increasingly challenging, most young people rent. But renting is expensive, particularly in large cities, like Madrid, Barcelona, and regions like Balears. Average rental prices have risen around 40% in the last decade (Idealista, 2022^[122]; Idealista, 2022^[123]), but nominal wage growth for young people has been under 10% over the same period. The cost of renting for a young person with an average income is well above the OECD threshold income for housing overburden of 40% of monthly rent, even for

dwellings with the minimum legal size (Figure 2.31, Panel A). Shared renting is a more viable option but might still be out of reach for many. Close to 35% of young people who have left their parents' home share accommodation (50% for Madrid) (Consejo de la Juventud de España, 2021^[124]). As in many countries, buying is out of reach for most young people: the down payment for an average new home is almost four times the average annual wage (Consejo de la Juventud de España, 2021^[124]). As a result, the rate of home ownership for young people in Spain is significantly lower than for older population, at just 32%.

Figure 2.31. The young face high housing costs



Note: Average dwelling size of 81m² according to Ministerio de Fomento (2019). *Observatorio de Vivienda y suelo*; average rent in EUR/m² from Idealista; legal minimum size for rental flats according to local regulations for Madrid (36m²) and Catalonia (38m²) and 36m² for the rest of Spain. A person faces material deprivation when they are unable to meet three out of seven criteria, which include ability to keep the dwelling warm, ability to face unforeseen expenses and paying housing-related expenses on time.

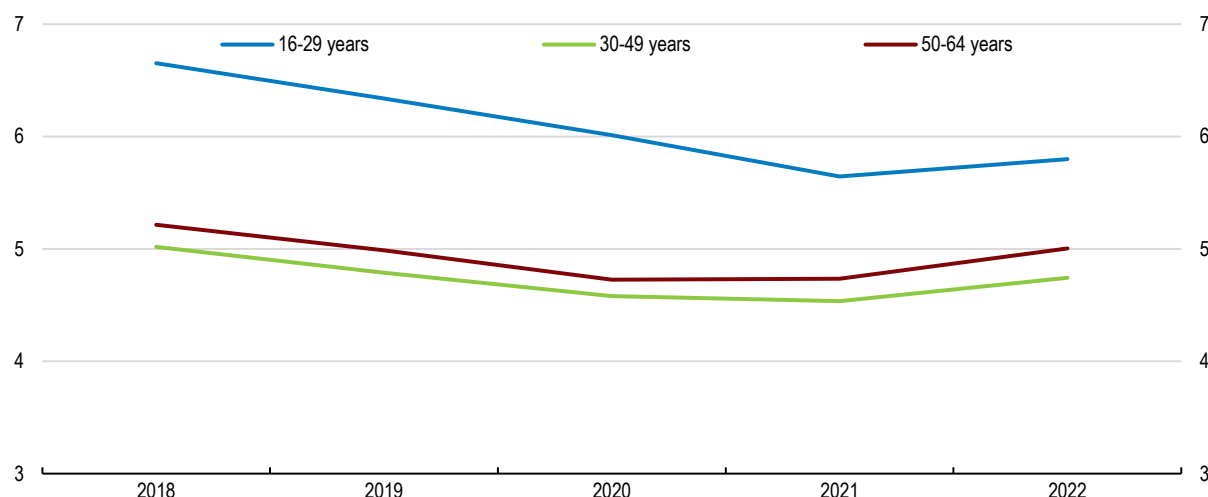
Source: INE, Idealista (2022). *Informe de precios. Evolución del precio de la vivienda en venta y alquiler en España*.

StatLink  <https://stat.link/4e3hzk>

Expensive rents and poor labour market outcomes make young people more likely to be overburdened by housing costs. This can hinder their ability to pay for other living expenses or education, partake in entrepreneurial projects or build up wealth. Expenditure on electricity and gas represents a higher share of labour income for younger people than for their elders (Figure 2.32). Getting affordable accommodation means that young people endure worse housing conditions, like noise, higher pollution, or lack of space (Figure 2.33).

Figure 2.32. Energy bills are comparatively heavier for the young

Average of monthly median expenditure in electricity and gas as a share of labour earnings, %

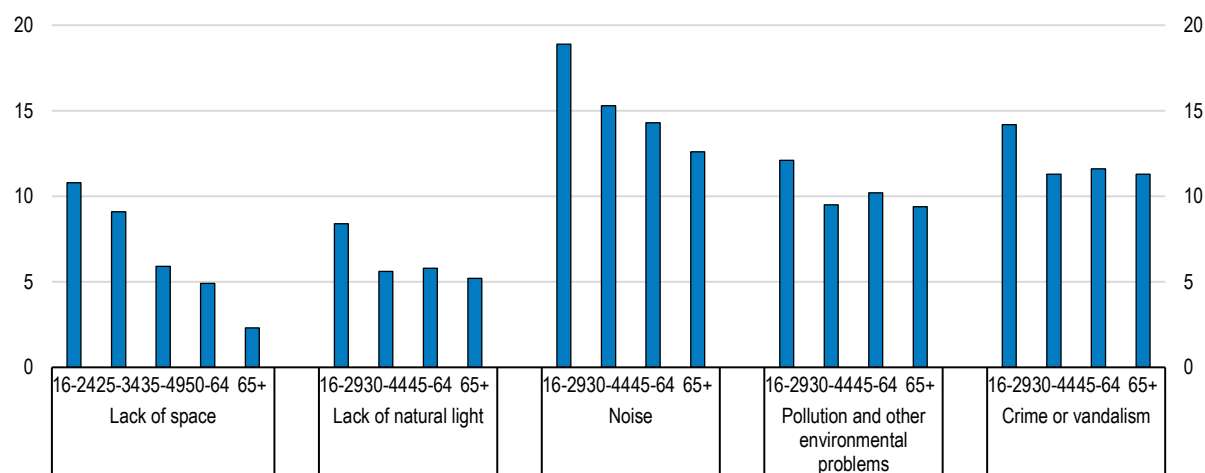


Source: La Caixa Research.

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Figure 2.33. Young people face worse housing conditions

Share in each age group, %, 2021 or latest year



Source: INE.

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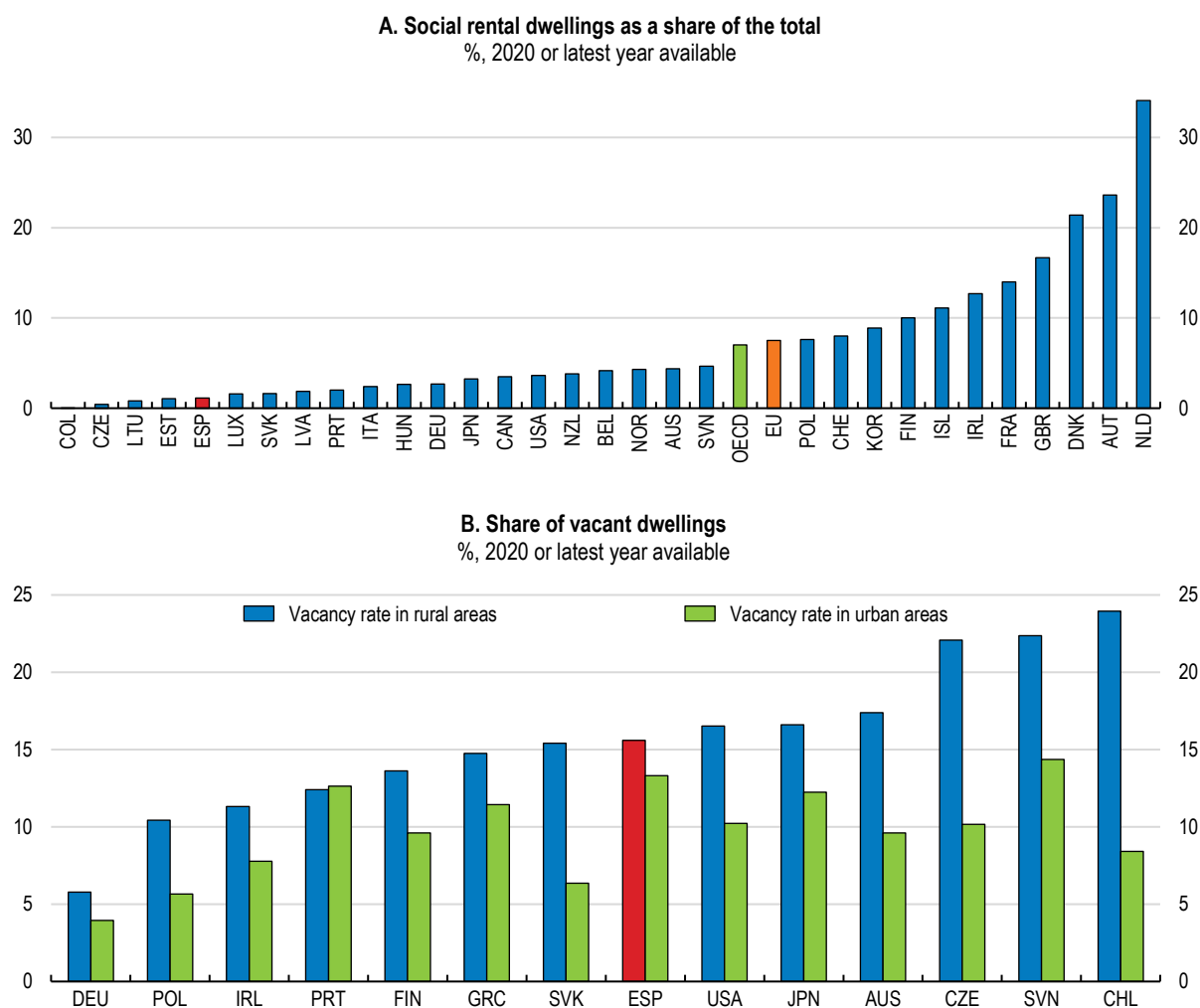
Making good-quality housing more affordable for the young

Gradually increasing the stock of social rental housing should be a priority

Ensuring that there is enough housing supply to meet demand is key to housing affordability. Since 2013 the number of new social housing units has steadily fallen each year, so that by 2018 new units amounted to less than 10% of those added at the 2009 peak (López-Rodríguez and Matea, 2019^[125]). At the same time, as of 2011, the year of the last official estimate, Spain had a sizable stock of vacant housing

(Figure 2.34), a fifth of which was built over the 2001-11 period, coinciding with the last years of the property bubble (INE, 2011^[126]). In 2019, around 1.8% of total housing stock was unsold newly built homes, which are concentrated along the Mediterranean coast and in Madrid and Toledo (Ministerio de Transportes, Movilidad y Agenda Urbana, 2019^[127]).

Figure 2.34. There is room to boost housing supply, especially of social rental housing



Notes: Data for Spain refer to the year 2019 (Panel A), and 2011 (Panel B). Panel A: UE is a simple average of the countries in the chart.
Source: OECD Affordable Housing Database.

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In recent years several plans have aimed to increase the stock of social rental housing, which is welcome. The Plan 20 000 of 2019 aimed at building 20 000 rental dwellings, though, it is unclear how many units have been built. More recent measures, like the Housing Plan for Affordable Rent aim at adding 180 000 units, 30% of them reserved for young people, and the Recovery, Transformation and Resilience Plan includes EUR 1 billion for public rental housing (Box 2.5). However, more clarity would be welcome on the expected timeline of availability of these units, given that in some cases, due to the nature of the programmes, they might take years to build. Given the fiscal costs of these measures, to ensure their efficiency and effectiveness it is crucial that their design and implementation include clear governance rules and criteria to access housing, like regular means-testing to access rental housing and regular tracking of changes in eligibility, as recommended in the previous *OECD Economic Survey of Spain*.

(OECD, 2021^[3]). Regular means-testing can avoid allocating social dwellings to households who could afford market prices (Andrews, Caldera Sánchez and Johansson, 2011^[128]). Furthermore, to avoid social segregation, social housing should be well integrated into the transport and public services infrastructure (Andrews, Caldera Sánchez and Johansson, 2011^[128]).

A scheme worth considering, albeit with a longer-term horizon, are special-purpose funding instruments to channel resources to the construction of affordable housing, like revolving housing funds where rents paid by tenants are reinvested in the fund to finance construction and upkeep. In Austria and Denmark, where these funds have been in place for decades, the funding for this type of scheme comes from a mix of market loans and rental payments, with state guarantees to help keep borrowing costs low. For example, in Denmark, 2.8% of tenants' rents go to loan repayment and, once the loan is repaid, are used to finance renovations and improvements (De Pace et al., 2022^[129]). In Slovakia and Slovenia the funds are completely financed by the state. Latvia is also working to set up a revolving housing fund of this type.

The government has approved a Law on the Right to Housing (Box 2.6) which seeks to address the lack of affordable housing in Spain through a series of regulations and tax measures aimed at increasing the supply of dwellings and limit price increases.

To increase the availability of social housing, the Law proposes to allocate 40% of new residential construction to social housing, half of it for social rental units. This policy can generate benefits for lower-income households, like providing access to scarce affordable housing, encouraging integration, and improving equity (Moreno Monroy et al., 2020^[130]; Ramakrishnan, Treskon and Gree, 2019^[131]). However, careful monitoring should ensure that such inclusionary zoning does not reduce incentives to start new projects or drive up market prices (Ramakrishnan, Treskon and Gree, 2019^[131]; Schwartz et al., 2012^[132]). Moreover, the proposed share of 40% of new developments to be set aside for affordable housing seems high when compared with international experience (Figure 2.35).

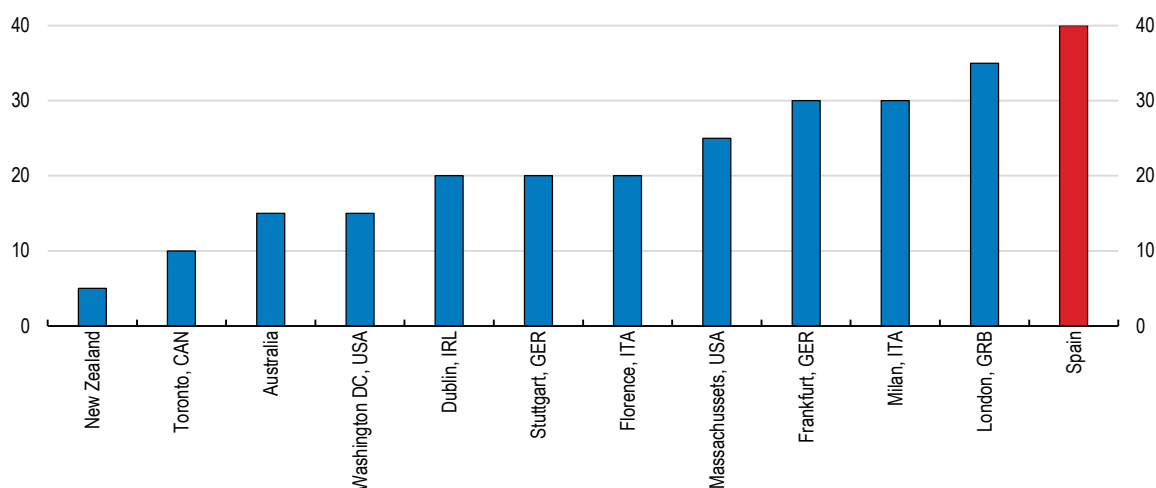
More efficient taxation can boost housing supply and lower prices

To increase the supply of housing, the Law also introduces surcharges on local council property taxes for dwellings that have been vacant for two years for owners of four or more dwellings. There are successful examples of this approach in Canada (Vancouver's Empty Homes Tax) and France (*Taxe sur les Logements Vacants*), where residential vacancies decreased 25% and 13%, respectively, after the introduction of surcharges (Housing Vancouver, 2020^[133]; Segú, 2020^[134]). In Melbourne, Australia, the effect has been more limited (Fitzgerald, 2020^[135]). The analysis of these cases shows that the effects of the tax on increased supply can be amplified by the implementation of measures to monitor and enforce compliance. Strong fines for non-compliance might be behind the success of the tax in Vancouver, while the lack of robust enforcement measures has been behind the more muted effect in Melbourne (OECD, 2022^[136]). This tax is more likely to work when local housing shortages are driven by excess vacancies, so its implementation ideally should follow analysis of local housing market conditions (OECD, 2022^[136]). There is also a risk of owners turning their dwellings into short-term rentals to avoid paying the tax, which can be addressed through regulation, like considering a property to be vacant if it is registered as a short-term rental (OECD, 2022^[136]).

Other measures can also help to increase housing supply, like frequent updating of property values for tax purposes (OECD, 2022^[136]). According to statistics from the General Directorate of the Cadastre of Spain, only 5.5% of urban properties have had their values updated in the last five years. Regularly updating property values for tax purposes would create incentives to use the housing stock more efficiently. For example, some older households living with spare space in markets where prices have risen significantly but valuations for tax purposes have not, would have an incentive to downsize or move away, thereby freeing up housing space for younger households (OECD, 2022^[136]). Spain could follow the example of other OECD countries that regularly revalue land and properties including New Zealand, Lithuania, Denmark, and Norway.

Figure 2.35. The inclusionary zoning provision in the new housing law is on the higher side

Mandatory share of new developments for social housing in selected areas



Note: Washington DC: Share of surface.

Source: Queenstown Lakes District Council (NZL), City of Toronto, OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center (2022) (AUS, Frankfurt, Milan), Scanlon (2019) (London, Dublin, Stuttgart), Proyecto de Ley 121/000089 (ESP), Thaden and Wang (2017) (Massachusetts), DHDC (n.d), Calavitas (2006) (Florence).

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The Law on the Right to Housing also creates a new category of social accommodation, called “incentivised affordable housing” for owners who rent to vulnerable groups at below market price, who would receive benefits to be defined by local authorities but which could include tax incentives. Implementation of such tax incentives should be carefully designed, including setting clear eligibility criteria, and monitoring to avoid loopholes that undermine their effectiveness in bringing more affordable housing to the market. Moreover, authorities should monitor that this type of subsidy does not crowd out non-subsidised housing construction and leave housing supply unchanged (OECD, 2022^[136]). Evidence from OECD countries on the effectiveness of tax incentives is mixed. For example, in the United States the Low-Income Housing Tax Credit (LIHTC), a tax incentive to construct or rehabilitate affordable rental housing, increases the number of low-income housing units (Baum-Snow and Marion, 2009^[137]) and leads to significantly lower rents for tenants compared to similar market-priced accommodation (O'Regan and Horn, 2013^[138]). A similar scheme in France, the *dispositif Pinel*, has produced very modest reductions in rents (Deniau et al., 2019^[139]).

The Law also introduces income tax deductions for small landlords to help keep rents low, for example for those who reduce their rents from the previous lease agreement or rent to vulnerable groups at below market price. While the intent of this measure is laudable, it may be difficult to implement in practice as it will require defining and identifying small landlords, careful monitoring to ensure that rents are lowered, which might be complex and expensive and strong coordination with the regions that have similar measures in place. Moreover, it might have undesirable effects. Israel applied a similar measure, where landlords who earn less than approximately EUR 1360 per month in rental income are exempt from paying tax on that income and are not obliged to report it. There is evidence that many taxpayers earning rental income above the threshold do not report it (OECD, 2022^[136]), for example resorting to informal payments (Horesh, 2019^[140]).

Higher housing transaction costs, including transfer taxes, have been linked to lower mobility, in particular among younger households (Caldera Sánchez and Andrews, 2011^[141]; Causa and Pichelmann, 2020^[142]). Transfer taxes in Spain are among the highest rates in the OECD, ranging from 6-10% of the property value, depending on the region (Barrios et al., 2019^[143]; Millar-Powell et al., 2022^[144]) (Figure 2.36). Reducing this tax would help to increase residential mobility, but should be done gradually (OECD, 2022^[136]).

The Law also includes mechanisms to stabilise or temporarily cap rents in stressed housing markets, even though Spain already has more restrictive rent controls than average (Figure 2.37) and would benefit from easing them. If rent controls are to be introduced, their potential benefits and adverse effects in the short and long run should be weighed to strike a balance between the interests of tenants and landlords, especially because the adverse effects can hit young people harder.

First, rent controls can reduce long-term availability of rental housing. Controls generally benefit incumbent tenants, but reduce returns to investment in new housing for developers, encouraging landlords to leave the market and discouraging potential landlords (Arnott, 1995^[145]; Whitehead and Williams, 2018^[146]; Diamond, McQuade and Qian, 2019^[147]). Stringent rent controls have been found to have detrimental effects on housing supply and lower the house price elasticity of residential construction (Cavalleri, Cournède and Özsöğüt, 2019^[148]). In San Francisco, rent regulation has reduced supply by 15% (Diamond, McQuade and Qian, 2019^[147]), while in Berlin it appears to have had smaller negative short-run effects (Mense, Michelsen and Konstantin, 2019^[149]; Deschermeier, Seipelt and Voigtländer, 2017^[150]; Thomschke, 2016^[151]).

Furthermore, there is some evidence that rent controls can also increase the market price of the rest of the housing stock, reducing affordability for non-incumbents, many of whom would be young people. There is evidence that the introduction of caps on rents led to an increase of 5.1% in market rents in San Francisco (Diamond, McQuade and Qian, 2019^[147]), and to an increase of 4% in rents in Berlin (Mense, Michelsen and Konstantin, 2019^[149]). Besides reducing supply and increasing prices, rent controls can also have other undesirable effects. They can be regressive because they are not means tested and could benefit more affluent households and owners of unregulated housing whose rents increased after the controls (Favilukis, Mabile and Van Nieuwerburgh, 2021^[152]). There is also evidence that rent controls introduced by the city of San Francisco caused a 20% decline in mobility (Diamond, McQuade and Qian, 2019^[147]).

Box 2.5. Programmes to improve youth access to affordable housing in Spain

Housing Plan for Affordable Rent (PVAA). This programme aims to increase the public social rental housing stock by close to 180 000 units, 30% of them reserved for young people.

- Up to 34 000 units built on public land through public-private partnerships over 10 years.
- 20 000 units financed by the Recovery, Transformation and Resilience Plan.
- 14 000 units built in coordination with Autonomous Communities and municipalities as part of State Housing Plans.
- Close to 10 000 from agreements with municipalities.
- Close to 10 000 units from agreements with banks to establish a Social Fund.
- 50 000 housing units from SAREB, the special purpose entity that manages assets from restructured Spanish banks. Of those, 14 000 are already inhabited (2 000 of them are social rentals), 21 000 are built homes that SAREB owns and will offer to the autonomous communities for social housing, and 15 000 will be built in land owned by SAREB.
- The government plans to build 20 000 social housing units, half of them in Madrid, on land owned by the Ministry of Defence.

Youth Rent Bonus. The bonus is aimed at young people (18-35) who can prove income from a productive activity, which must not exceed three times an indicator used as a reference for granting public assistance (IPREM). The amount per person is EUR 250 per month for rents lower than EUR 600 (or EUR 900 subject to approval). The bonus can be received for up to two years. The government has allocated EUR 400 million for this programme for 2022-23, which would allow the funding of bonuses for around 66 000 people.

State Plan for Access to Housing (2022-2025). It aims to boost the stock of public housing, increase supply of affordable housing for youth, seniors and the disabled, and increase the availability of affordable rental housing. Two programmes focus on young people:

- *Rent assistance for young people.* For young people with an income of up to three times the IPREM or 4-5 times for disabled people. The amount of the subsidy is a maximum of EUR 600 monthly (or EUR 900 subject to approval) not exceeding 60% of the rent, or 75% if combined with the Youth Rental Bonus. The subsidy for room rental is EUR 300 monthly, with exceptions. The subsidy can be received for up to five years.
- *Subsidy for purchasing housing in areas of less than 10 000 inhabitants.* Age and income limits are the same as above. The amount is EUR 10 800 and must not exceed 20% of the price. Limits of EUR 120 000 in the dwelling cost, and of 10 000 inhabitants in the municipality or population.

Government support for mortgages. The government will guarantee 20% of the mortgage of people under 35 whose yearly income is lower than EUR 37 800, through the Official Credit Institute (ICO). The measure also covers low-income families.

Source: Real Decreto 42/2022, Sánchez (2022), La Moncloa (2022).

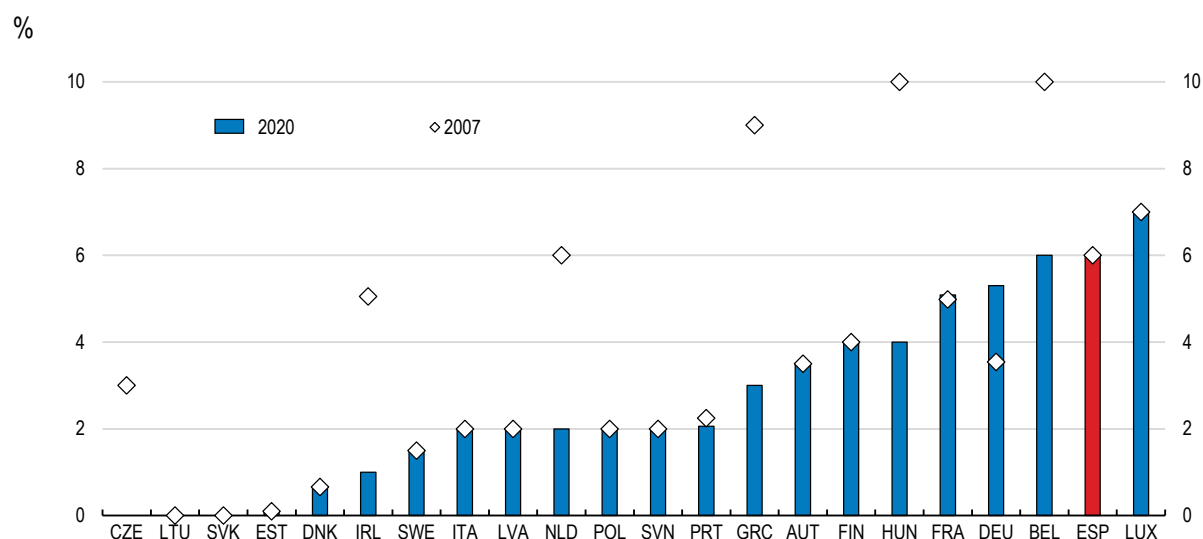
Box 2.6. 2023 Law on the Right to Housing

- Declaration of zones with stressed housing markets, for up to three years. One of two criteria must be met:
 - Expenditure on mortgage or rent, plus services and basic home supplies, must represent 30% or more of the average household income in the zone.
 - Growth of house prices or rents over the last five years has been at least three percentage points higher than that of the CPI of the relevant Autonomous Community.
- Definition of large landlord as an owner of 10 or more housing units or more than 1500 m2 of residential construction, or five or more residential buildings in zones with stressed housing markets.
- Mandates the National Statistics Institute to create a new official reference index for updating rental prices to use from 2025 onwards.
- Caps on rent increases in stressed areas:
 - From 2025 onwards, rents on new leases will be limited to the rent on the previous contract, updated with the official reference rent price index of the area. Small landlords can increase rents up to 10% with respect to the previous lease if improvements on the dwelling have been made in the last two years.
- Possibility to allocate 40% of new residential construction to social housing, half of it for social rental units, with mechanisms to compensate the developers to be agreed with local authorities.
- Incentivises affordable housing, whereby owners will receive incentives (related to urban planning, fiscal, other) to rent their property, new or existing, to disadvantaged tenants at below-market prices.
- Creation of a social housing fund through public-private partnerships.
- Income tax deduction for small landlords to keep rents low: 50% deduction from the rental property income for first-time landlords, 60% if the dwelling has been recently refurbished; 70% for first-time landlords who rent to 18–35-year-olds in stressed areas or owners of incentivised

affordable housing, and 90% for new lease agreements in stressed areas that have at least a 5% reduction on the previous rent.

- Surcharges for owners of four or more dwellings on local council property tax for vacant dwellings: 50% if vacant for more than two years and 100% if vacant for over three years, possible additional surcharge of 50% if owner has more than two empty properties.

Figure 2.36. Transfer taxes are high



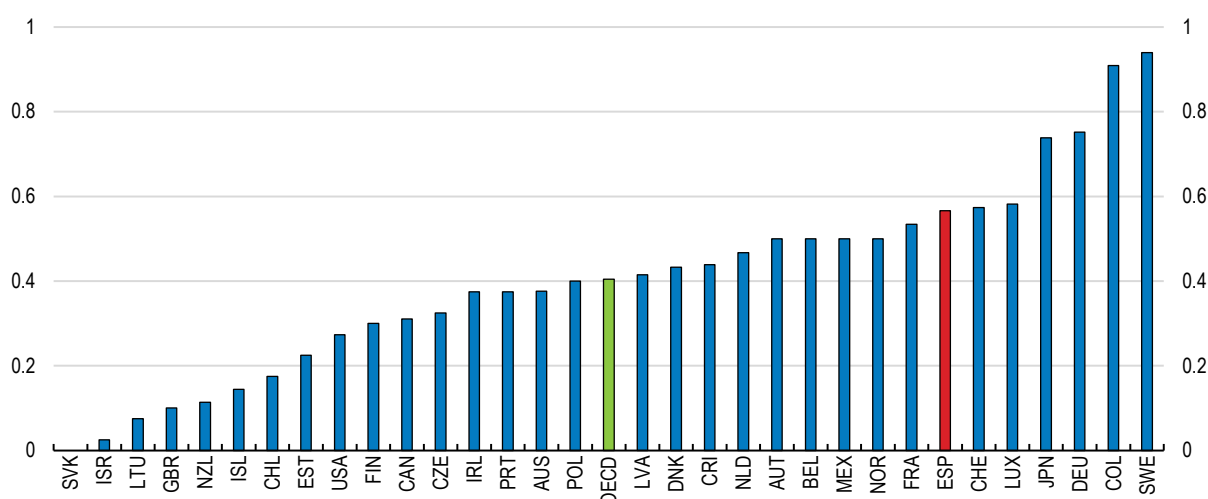
Note: Data reported by national experts, minimum rates.

Source: Thiemann, Grünberger and Palma Fernández (2022). Housing Taxation Database 1995-2022.

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Figure 2.37. Rent controls are relatively tight

OECD Rent Control Index



Note: 0 (no restrictions) to 1 (all types of restrictions) according to answers to the 2019 OECD Questionnaire on Affordable and Social Housing. The index summarises restrictions on setting the initial rent level initially, on up-dating it and on passing costs (like renovation expenses) on tenants.

Source: Cournède, De Pace and Ziemann (2020), *The Future of Housing: Policy Scenarios*.

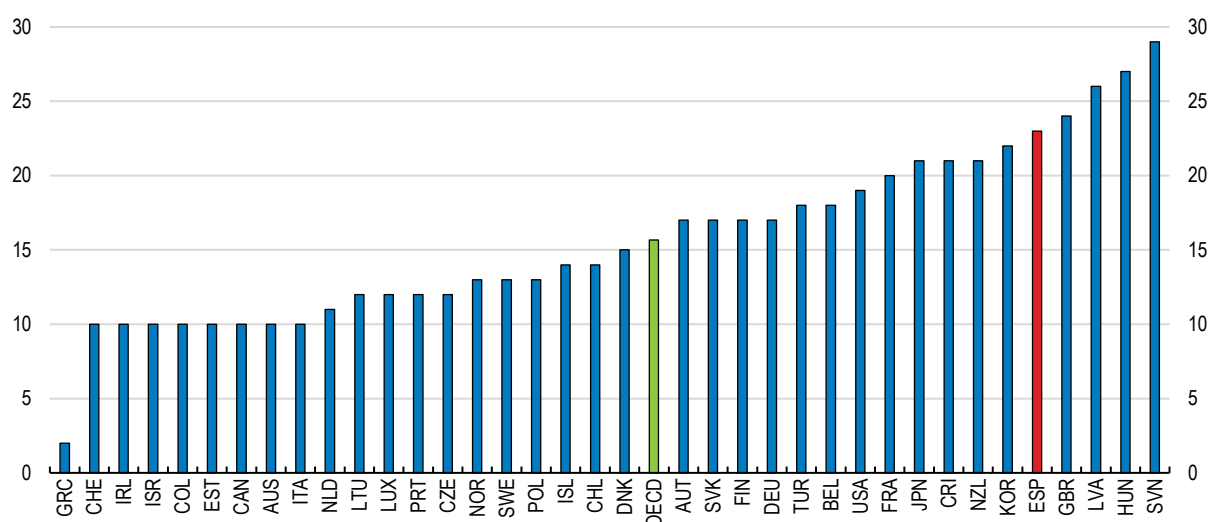
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Harmonising building regulations can make housing supply more responsive

Evidence shows that a high degree of decentralisation of land-use decisions, as is the case in Spain (Figure 2.38), is associated with more restrictive policies, which lowers the responsiveness of supply (OECD, 2021^[153]). Harmonising building regulations across municipalities and simplifying and accelerating the process to comply with them would reduce regulatory uncertainty. In Luxembourg, where developers faced similar requirements at the municipal level, a 2017 law has considerably simplified construction procedures, including streamlining the process of preparation of land plans and shortening deadlines for their adjustment, as well as introducing tacit consent when there is no answer from the administration within a predefined time limit (OECD, 2019^[154]). Similarly, to increase the supply of housing the Israeli government streamlined land-use procedures, removed barriers to construction and created Housing Headquarters, a committee that concentrates and oversees all housing authorities (OECD, 2018^[155]; OECD, 2021^[153]).

Figure 2.38. Governance of land use is highly decentralised

OECD land use governance indicator



Note: 0 (least restrictive), to 30 (most restrictive).

Source: Courmède et al. (2020), *The Future of Housing: Policy Scenarios*.

StatLink  <https://stat.link/51pjsi>

Housing allowances might have a limited reach

The Youth Rent Bonus, introduced in early 2022, and the Rent Assistance for Young People scheme, allowances support renting for young people (Box 2.5). The maximum rent thresholds to qualify for the bonus at EUR 900 are relatively low, which might limit their scope. For example, the monthly rent for an average-sized flat in Madrid is close to EUR 1100 (Idealista, 2022^[122]). Only 10% of eligible recipients is estimated to benefit from the bonus (Collado, Martínez and Galindo, 2021^[156]). The main risk is that since these allowances support demand and not supply, in markets where housing supply is not very responsive, they might end up driving up house prices and rents, offsetting the desired effect on household affordability (OECD, 2021^[153]; Collinson and Ganong, 2018^[157]). Given the limited size and timeframe of the programmes these effects might be small, but nonetheless such effects should still be monitored to avoid wasting public money.

Table 2.2. Policy recommendations from this chapter (Key recommendations in bold)

MAIN FINDINGS	CHAPTER 2 RECOMMENDATIONS
Enhancing education and training outcomes	
Expanding access to early childhood education has been a government priority since 2021, but expenditure on early childhood education is lower than in other OECD countries and poorer families face challenges to access early childhood education and care, while access to childcare seems a barrier to female labour force participation.	Continue expanding access to quality early childhood education and care to children under the age of three prioritizing disadvantaged children.
Early school-leaving and repetition rates in compulsory education are very high, curbing educational advancement and job prospects.	Train teachers to identify and support students at risk of leaving education early and address their learning needs. Improve early warning indicators of students at risk of falling behind in schools and provide tailored support and resources. Gradually increase school time in disadvantaged areas, while providing school meals and extracurricular activities, and adequately compensating teachers.
The share of university graduates in STEM courses is comparatively low, and the share for women is much lower than for men. ICT share in employment is comparatively low, with a wide gender gap.	Promote greater participation in STEM disciplines, especially among women.
Enrolment in vocational education and training programmes is growing but remains comparatively low, despite graduates' good labour market outcomes.	Foster collaboration between SMEs to provide apprenticeships to students, training to teachers or share managerial duties. Provide targeted and means-tested direct subsidies to SMEs to increase participation in VET education.
Despite recent efforts to reform vocational education and training, skill mismatches hamper the school-to-work transition. Close to 40% of 15–34-year-olds report that their highest level of education did not help them in their current job, one of the highest rates in the European Union.	Encourage collaboration between education institutions and businesses in designing and updating university degrees and in student counselling to promote a better alignment between studies and labour market needs. Publicise data on the success of students' labour market placements.
Improving labour market outcomes for young people	
Recent rises in minimum wages have been rapid and large, which could potentially lower employment for vulnerable groups.	Make the recently established expert commission independent with a mandate to advice on minimum wage changes in line with labour market conditions and productivity and ensure their access to data.
The share of youth not in employment, education or training is high.	Ensure stronger coordination between public employment service and local organisations to activate local youth not in employment, education or training.
Long-term unemployment and the share of marginally attached workers are high. The public employment service lacks the means to ensure an adequate number and quality of contacts between jobseekers and counsellors.	Introduce the use of profiling tools to identify jobseekers at risk of becoming long-term unemployed and their training needs.
Fostering entrepreneurship among the young	
Entrepreneurship is low, and Spanish entrepreneurs lack training on how to start a business and on financial literacy more generally.	Extend entrepreneurship education to more young people who are out of the formal education system.
Financing from crowd funding and business angels is very low.	Increase awareness of crowdfunding and angel investors as financing options by providing online resources for businesses.
Public funds account for a tiny fraction of seed capital.	Promote the use of public entrepreneurship financing programmes through universities, local governments and youth associations.
Promoting access to housing for young people in Spain	
Rental housing is expensive, and the stock of social rental housing is stagnant and, at 1%, one of the lowest in the OECD. Many young people involuntarily delay living independently. Rent control regulations are among the most stringent in the OECD and further increases would risk curbing housing supply.	Encourage additional rental supply in tense areas by increasing the stock of social rental housing, relaxing rent controls, and making taxation less distortive (e.g., by updating property values more regularly and reducing property transfer taxes). Use regular means testing to allocate rental housing and regularly assess eligibility for continued access to social rental housing.
The proposed tax measures to increase the availability of housing and its affordability can be hard to implement and compliance difficult to monitor.	Ensure that the implementation of new housing tax measures have clear eligibility criteria and include feasible monitoring mechanisms.

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Spain implemented sizable measures to cushion the impact of the pandemic and of the inflationary shock after Russia's war of aggression against Ukraine. The economy has held up well, but public debt, which was already high, has increased because of the pandemic, making it urgent to step up the pace of fiscal consolidation. Public policy should continue to address Spain's structural weaknesses. Growth potential is low and will remain so with the rapid ageing of the population. Fulfilling the country's objectives to fight climate change will require a strong and broad commitment in favour of a cleaner energy mix and a more environment-friendly tax regime. Unemployment remains the highest in the OECD and the integration of young people into the job market remains challenging, although recent reforms have reduced the high share of temporary contracts. Improving educational and labour market outcomes among the young should entail strengthening the connection between the educational system and the labour market, supporting students at risk of falling behind, improving career counselling, and providing a more efficient public employment service. Boosting the low level of entrepreneurship among young people requires additional financial and educational support. More social rental housing in stressed areas would facilitate access to housing for young people.

SPECIAL FEATURE: INCREASING OPPORTUNITIES FOR THE YOUNG IN SPAIN

