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Increasing opportunities for the young in Spain

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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.

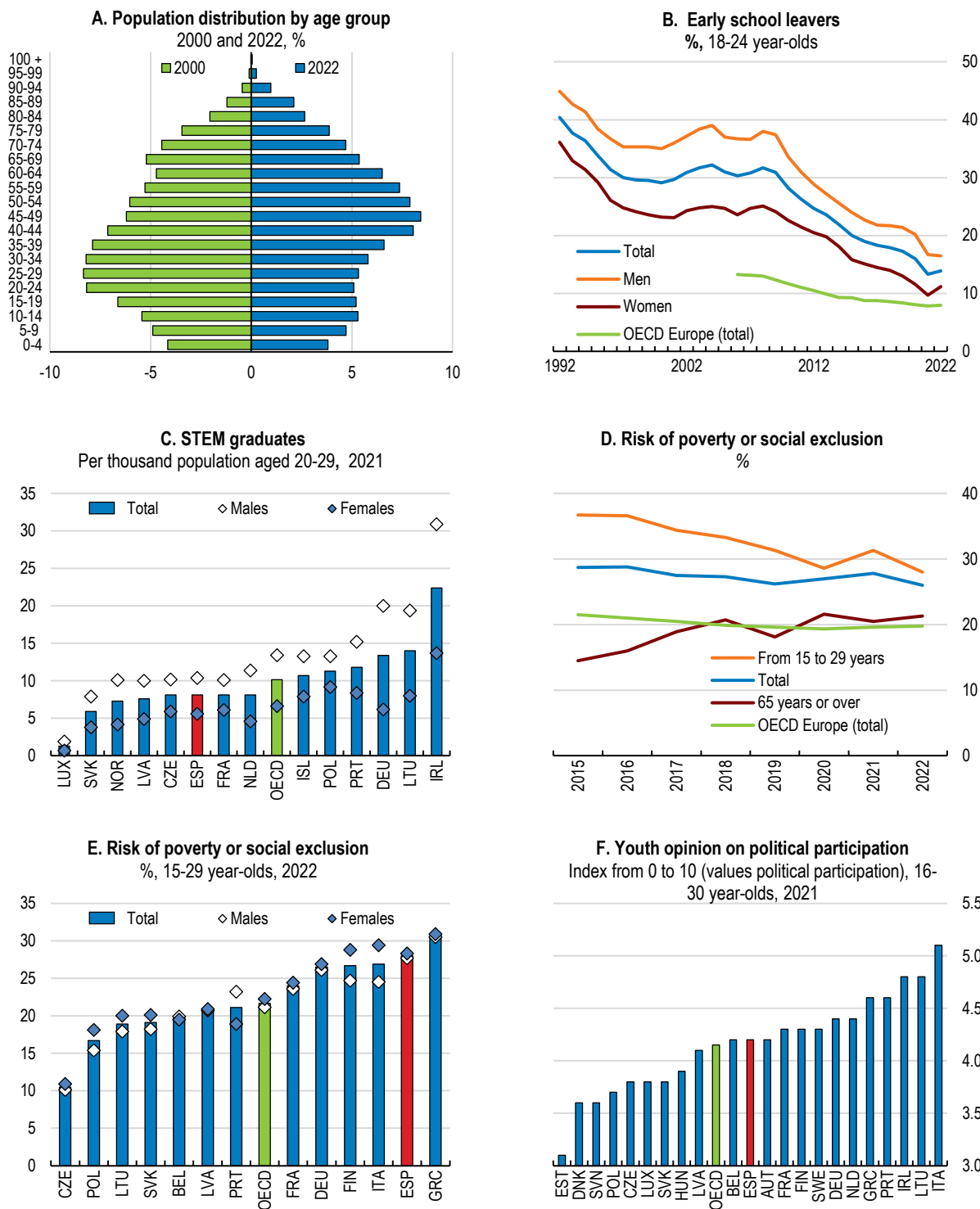
While 88% of those at the age to attend high school do so, roughly the same rate as the OECD, they more frequently leave education early, especially men. The share of early leavers has been steadily decreasing over the past 17 years (Figure 2.1, Panel B), but Spain has the second highest rate of early 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.

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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.

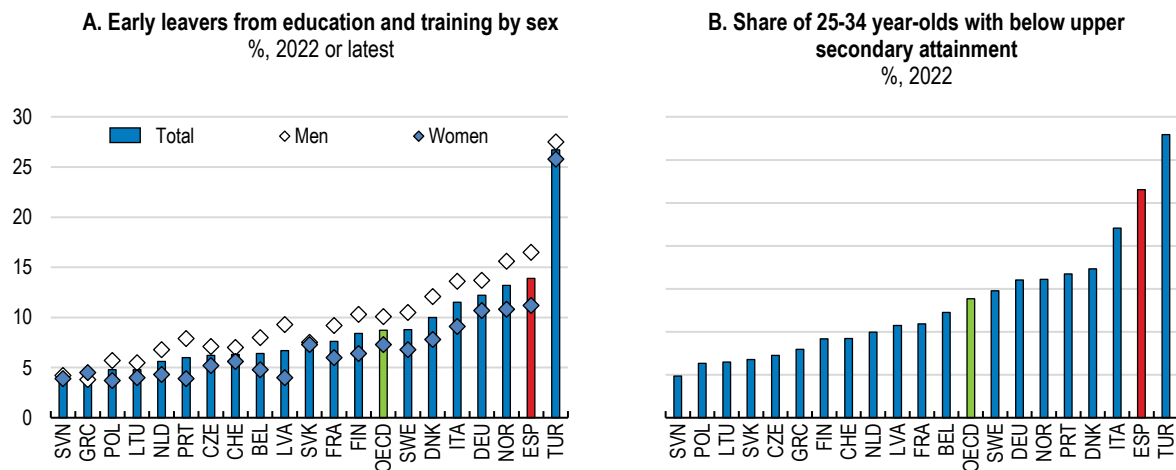
Many young Spaniards leave the education system early hindering their educational advancement and job prospects

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

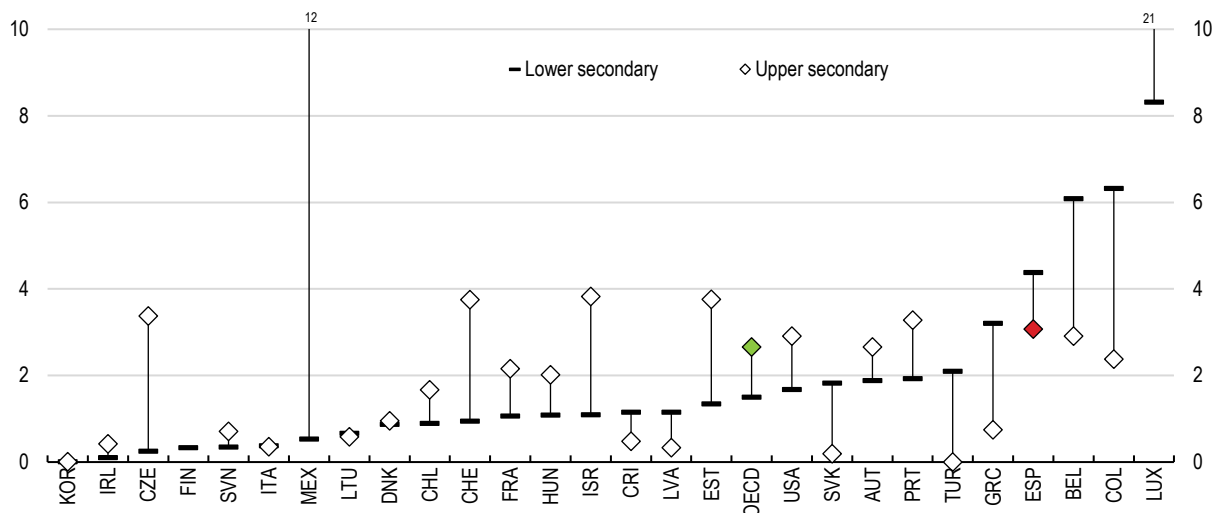


Source: Panel A: Eurostat. Panel B: OECD Education at a Glance database.

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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.

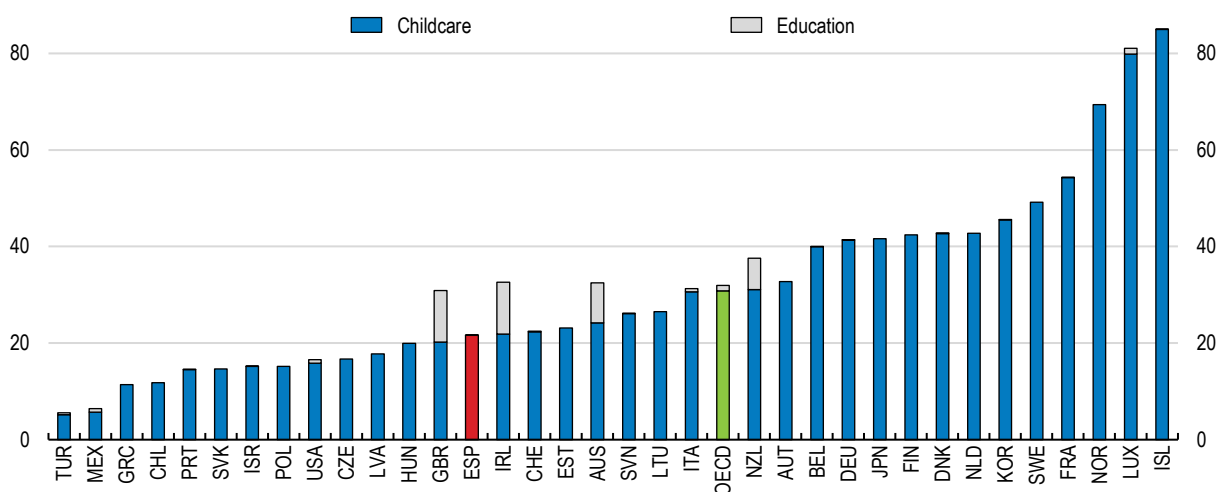
Increasing support for early childhood education and care

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/e11xiu>

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

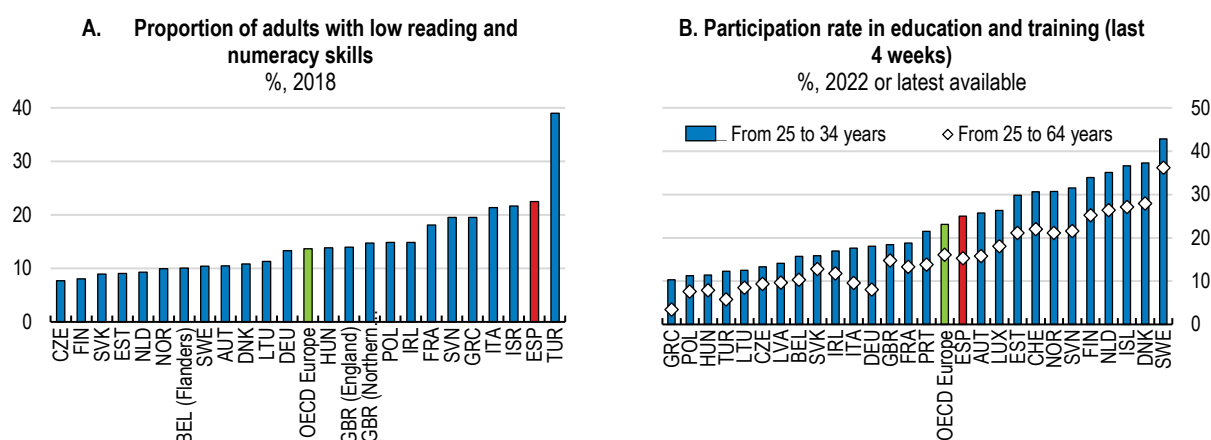
Reducing dead ends in the educational system and promoting a flexible and targeted adult learning system can provide second chances to early leavers from education and to young adults who need to upgrade

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

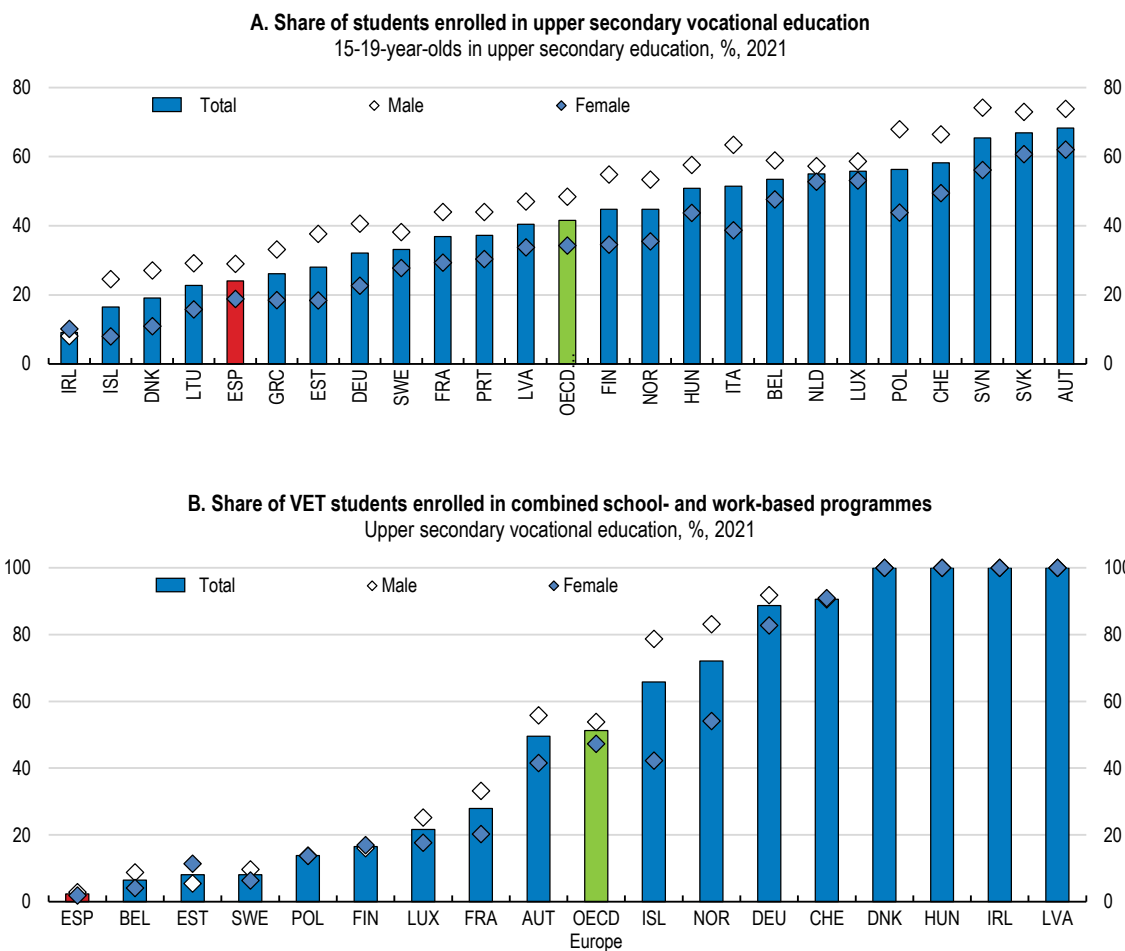
The new system will have a permanent procedure to validate skills acquired through professional experience and will cover all competences taught in the system. The system will be linked to training and will involve companies in the accreditation process.

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

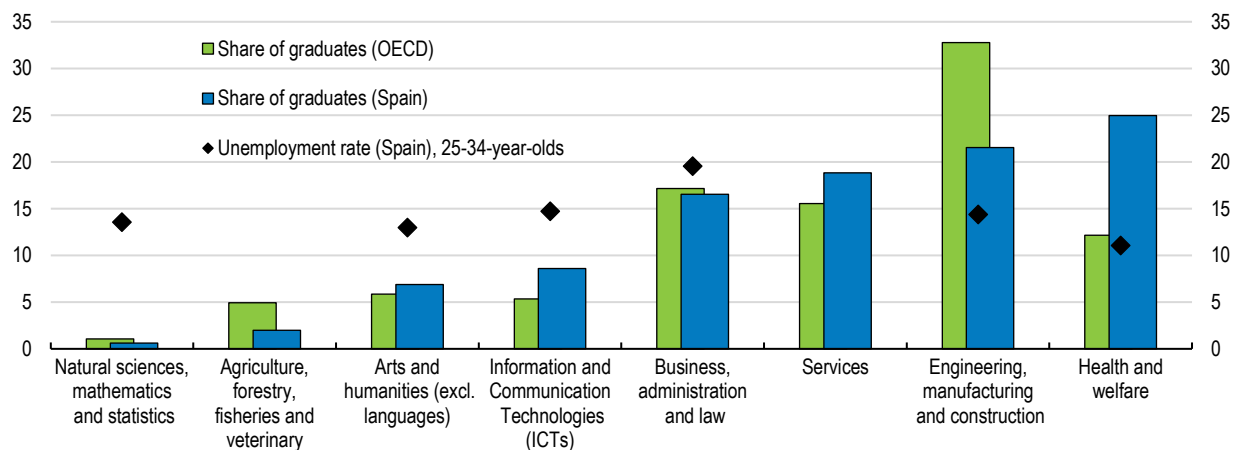


Source: Eurostat.

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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



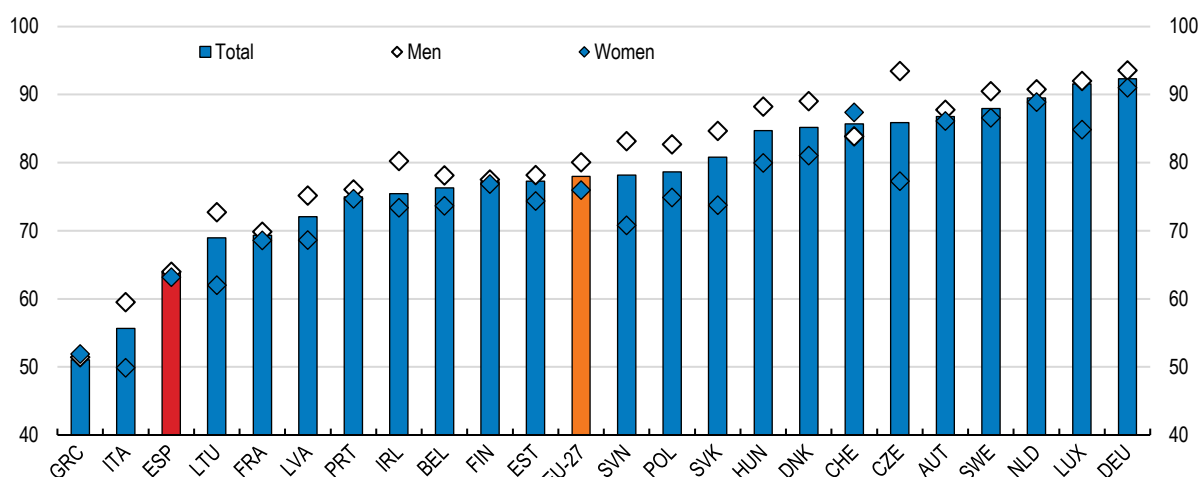
Source: Education at a Glance database.

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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.

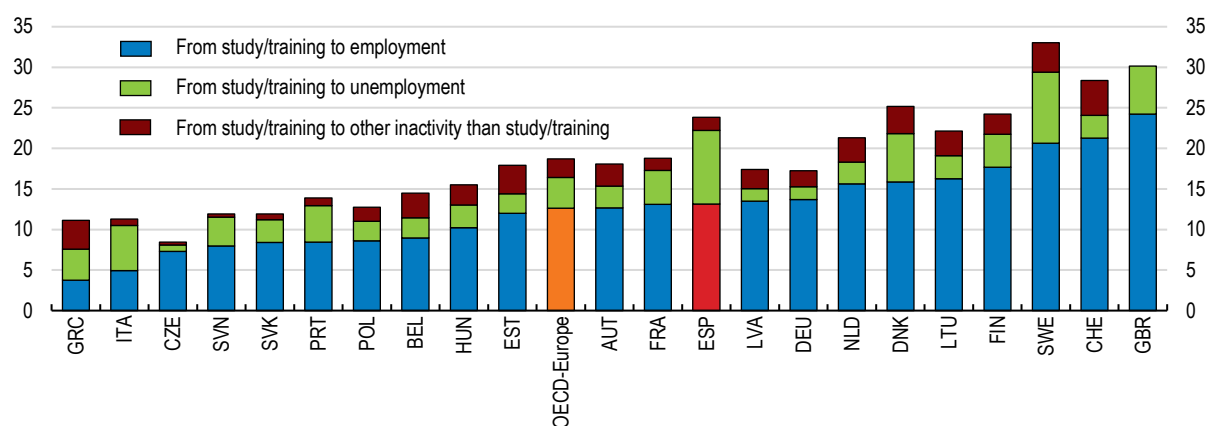
- Sweden. Schools collaborate to arrange and supervise work placements in companies and can apply for a state grant that will be partly earmarked for the employer.

Training levies

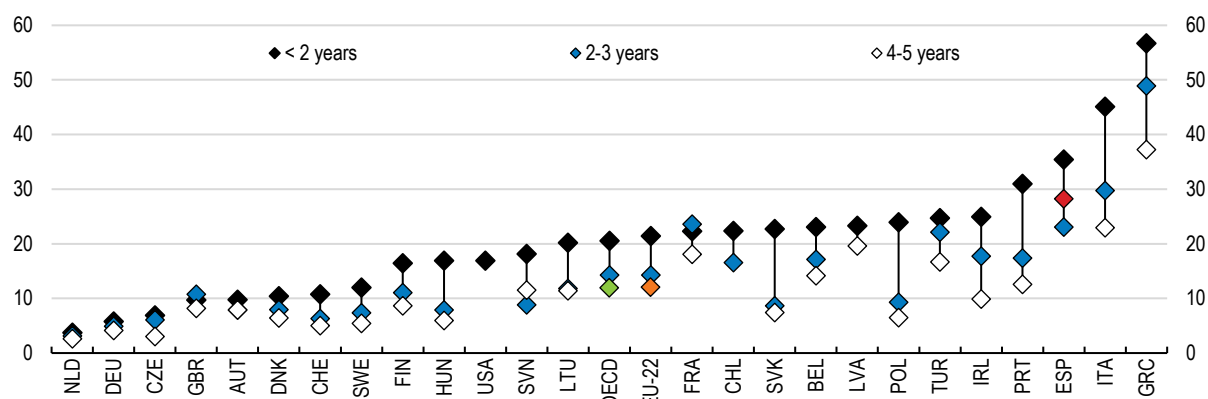
Employers can also contribute to a common fund to finance training across all companies, which can be mandated by law or stipulated in collective agreements. In France and Denmark all employers pay to finance the system, while in England only large employers contribute. In Austria, Germany and Switzerland 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

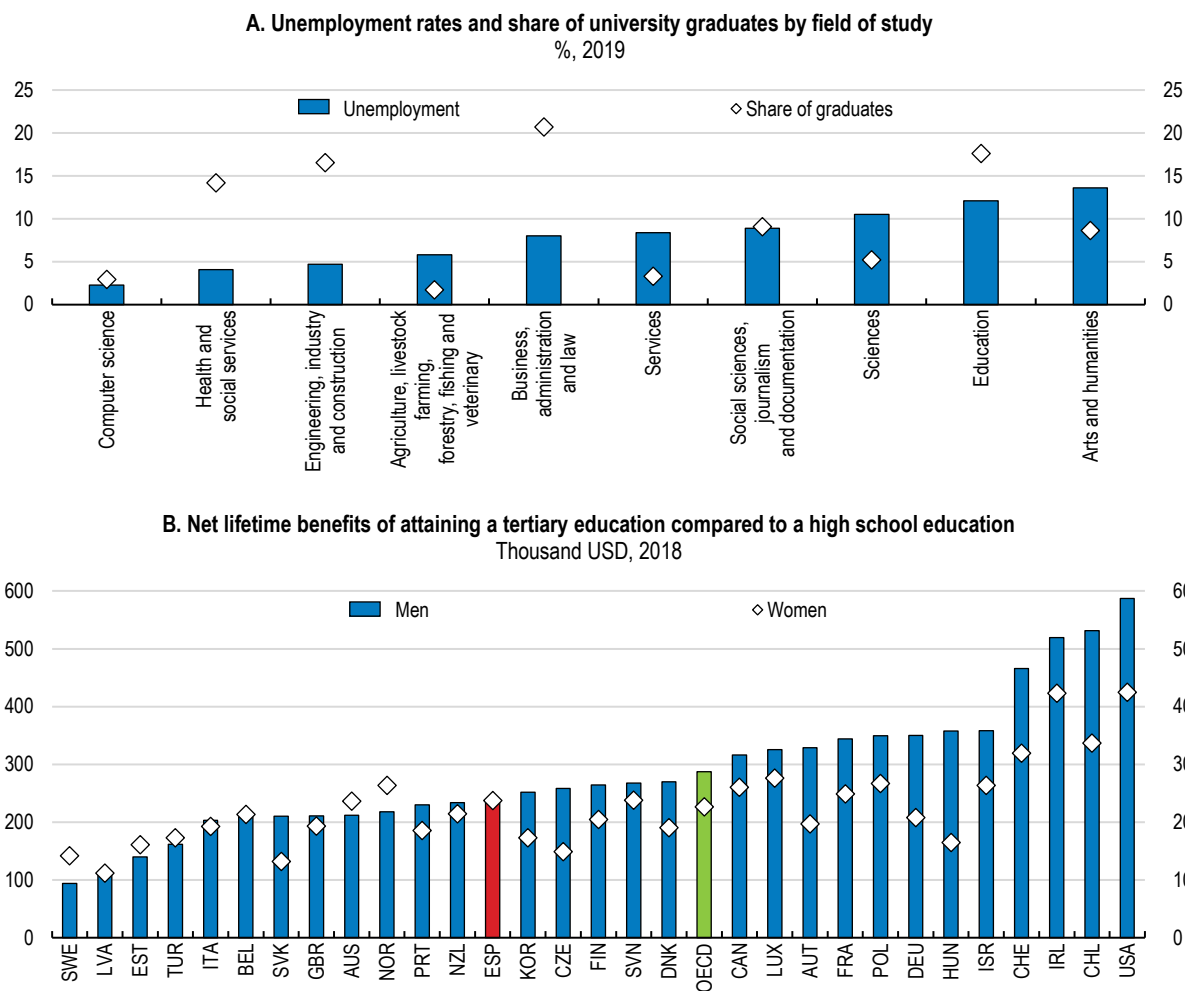


Notes: Panel B. adults aged 15-34 at graduation. Data reported under the category "Less than two years" refer to one year since completing education. Years of reference 2017 and 2018 combined. Data source differs from the EU-LFS.
Source: Causa, Luu and Abendschein (2021) *Labour market transitions across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

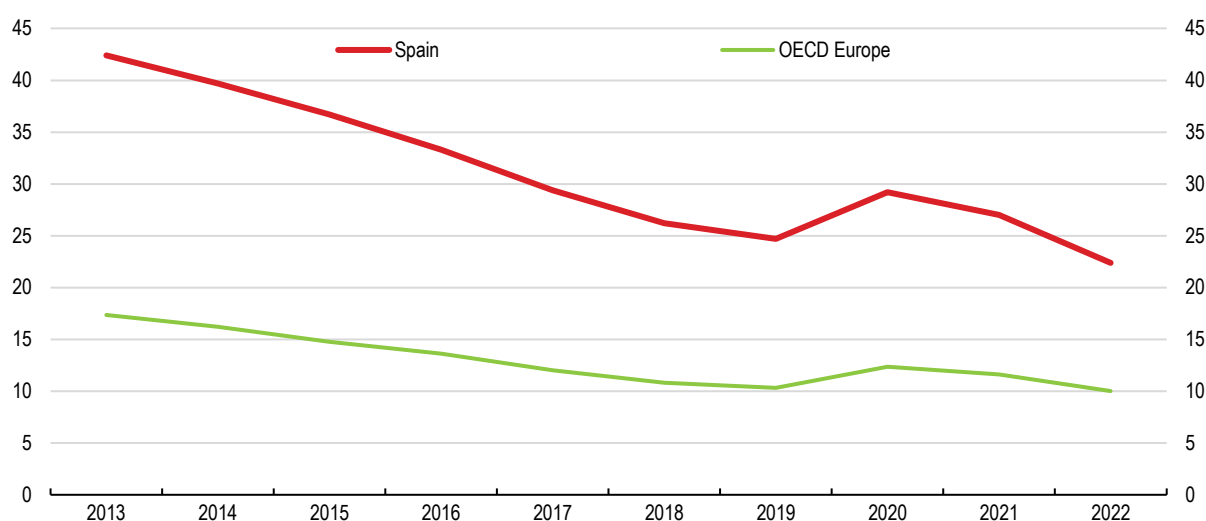
Labour market prospects of young people are relatively poor

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, %

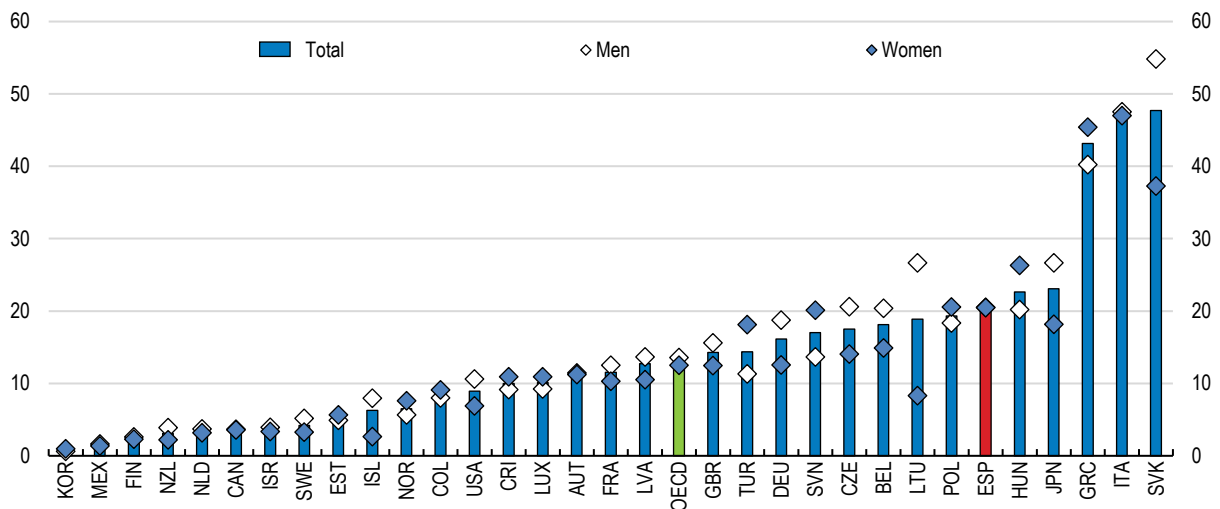


Source: Eurostat.


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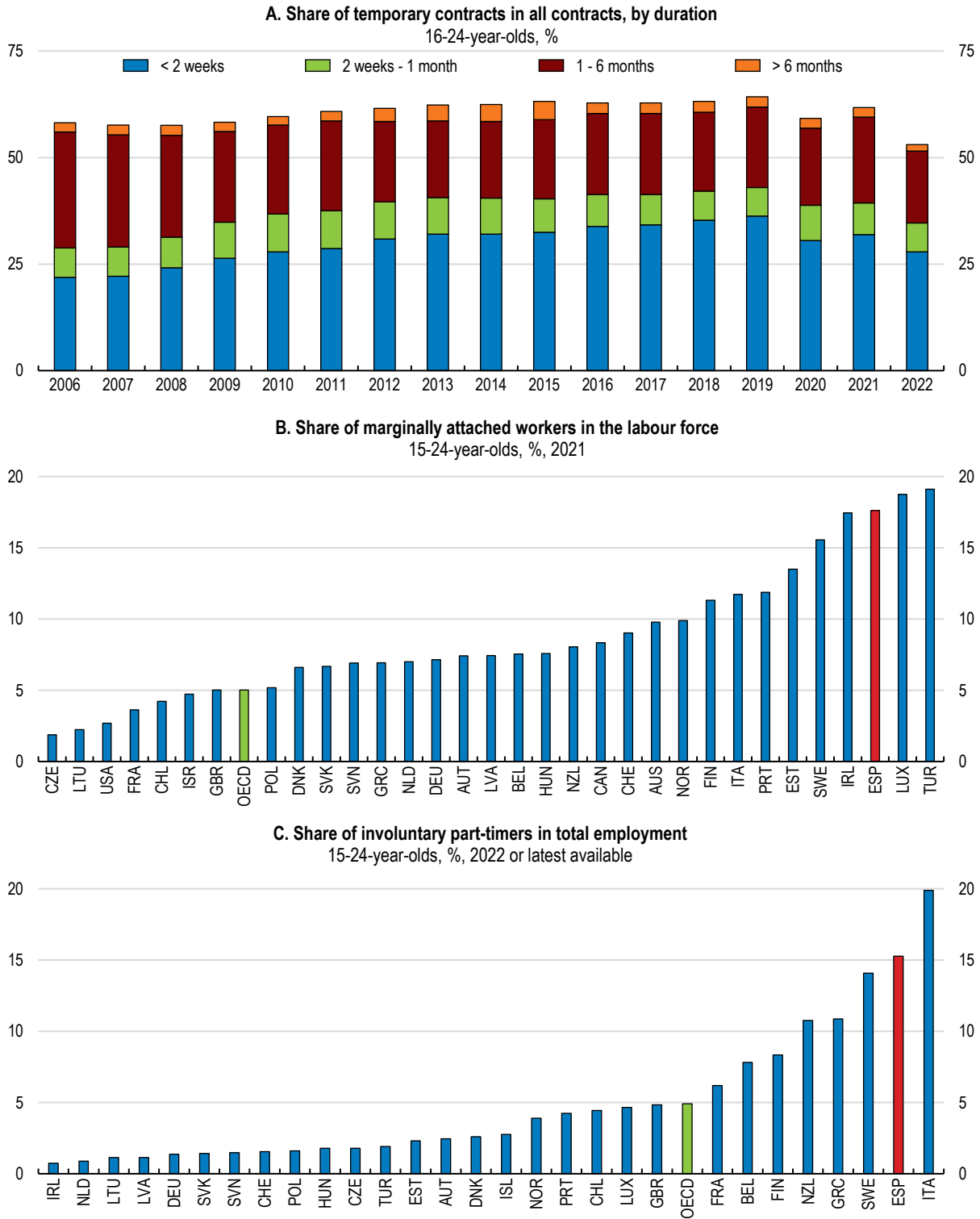
There is a prevalence of temporary and part-time work among the young

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.

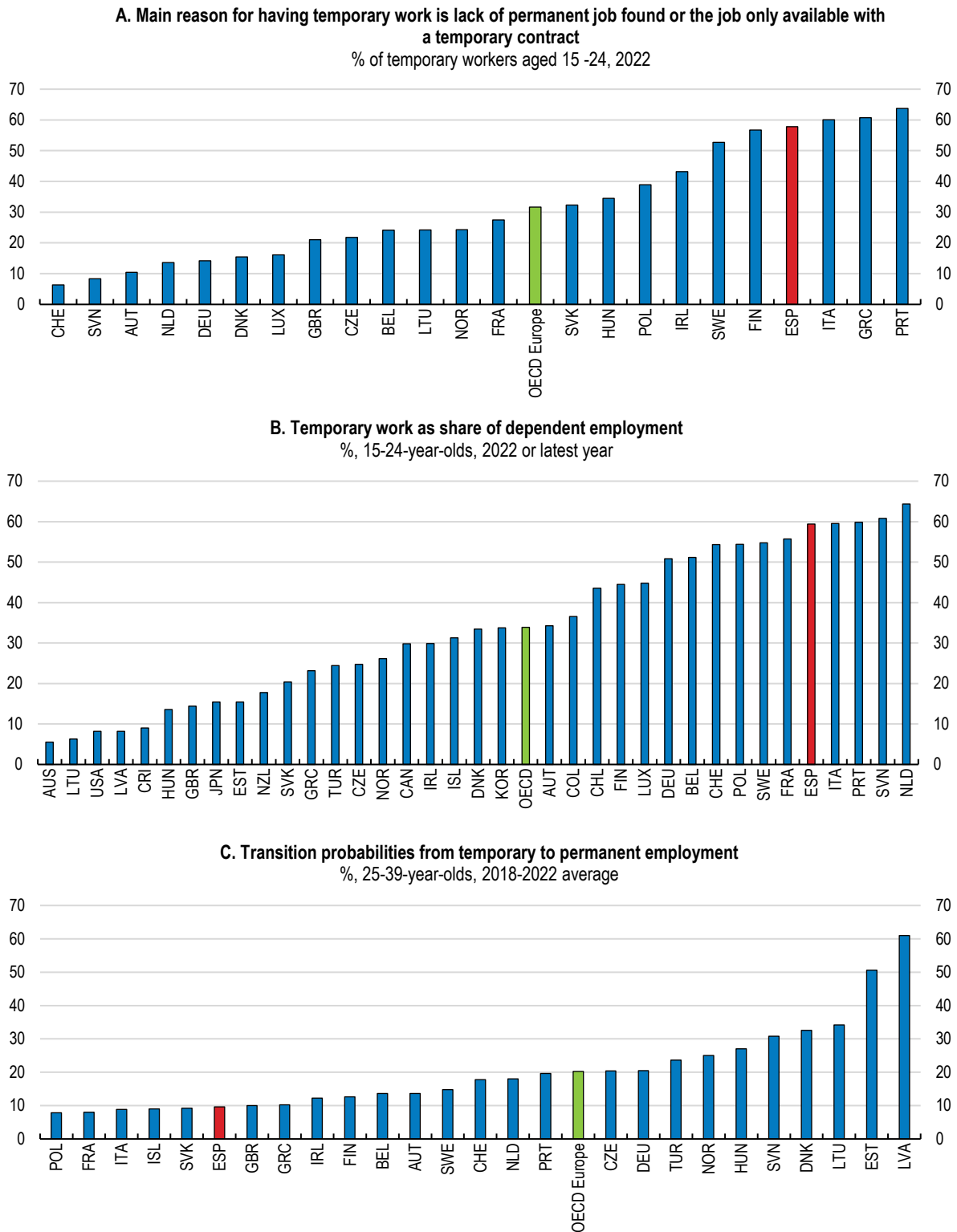
Figure 2.13. Young people face challenging working conditions



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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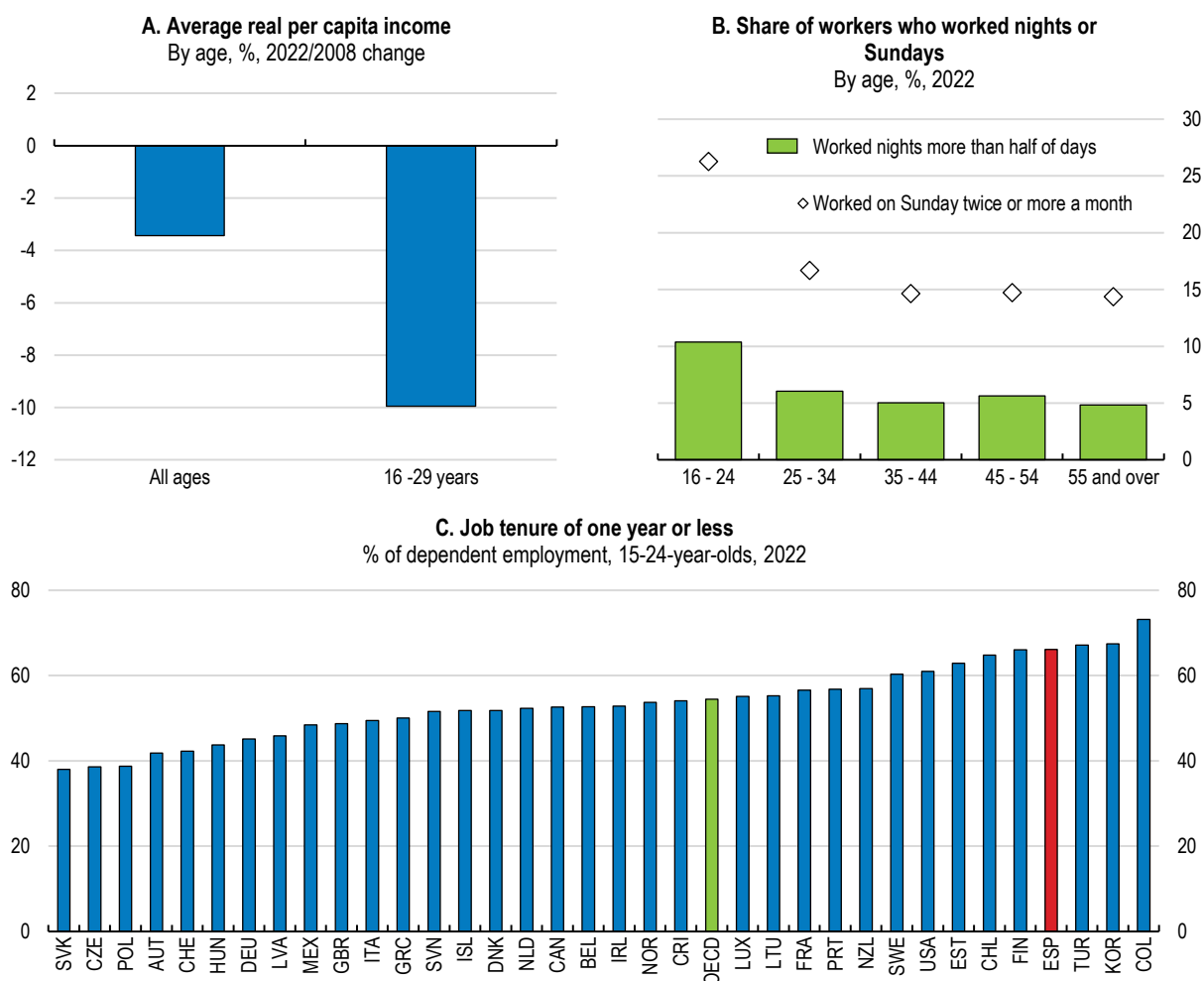
Figure 2.14. Young workers have struggled to get permanent jobs




Source: Eurostat; OECD Labour Force Statistics.

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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.

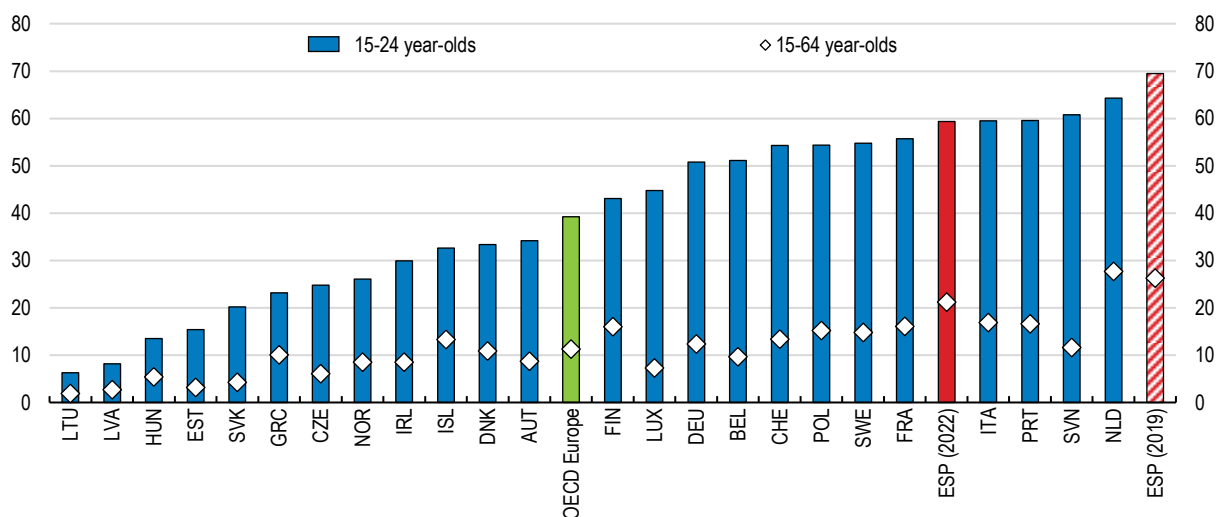
The new law also includes two mechanisms to address declines in activity without resorting to layoffs or subcontracting: the ERTE job-retention scheme used during the COVID-19 crisis and the new RED Mechanism. The RED scheme has two components a cyclical one aims to maintain employment, promoting the 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.

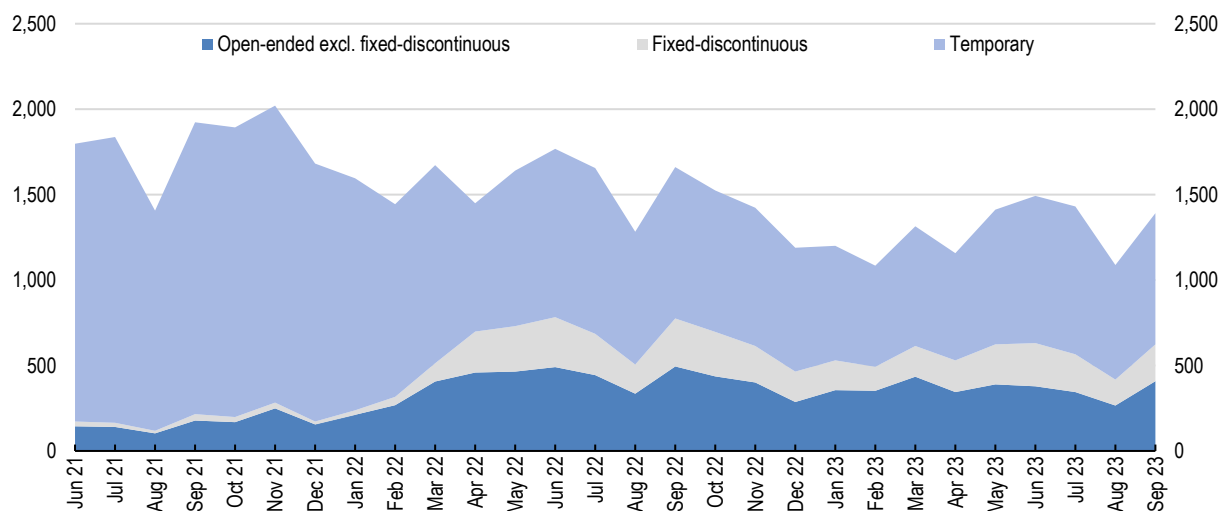
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Although it is still early to assess the full effect of all the changes introduced by the reform, data for 2022 suggest that so far it has been successful in improving some working conditions, especially for the young and for women. Following the reform, 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).


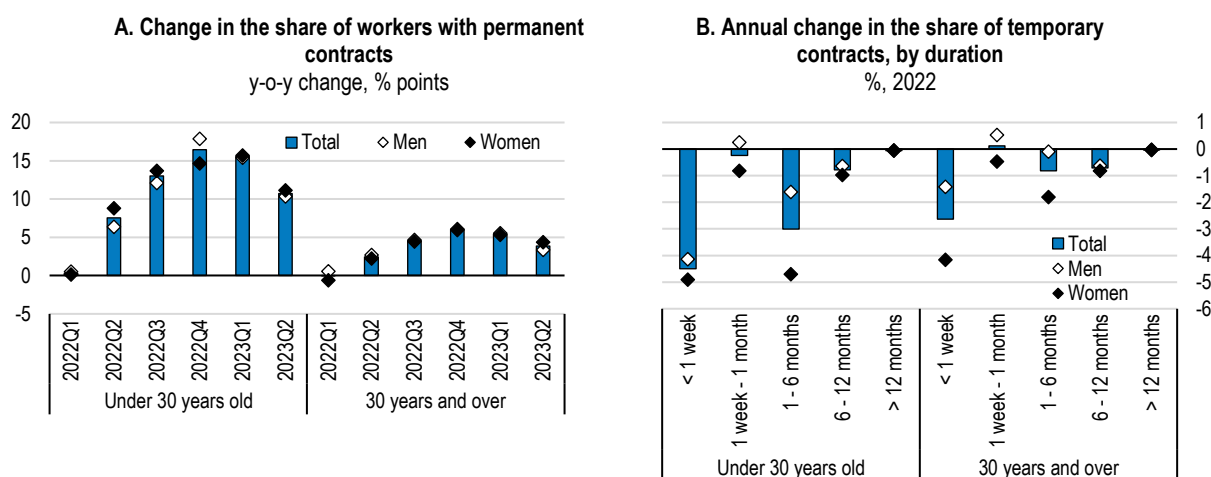
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Figure 2.18. More young workers are getting permanent contracts



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.

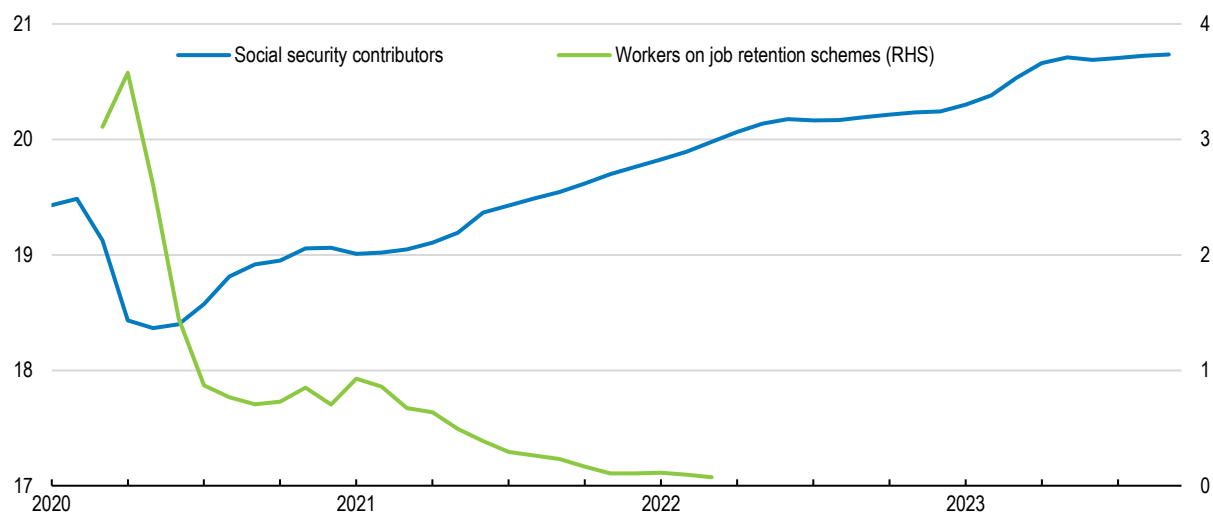
The reform also reinstates the extension of prior agreements for one year in case of failure to reach a new agreement, the so-called "ultra-activity" principle, to prevent companies from blocking wage increases by refusing any new agreement. Furthermore, to prevent companies from using subcontracting 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 advise 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.

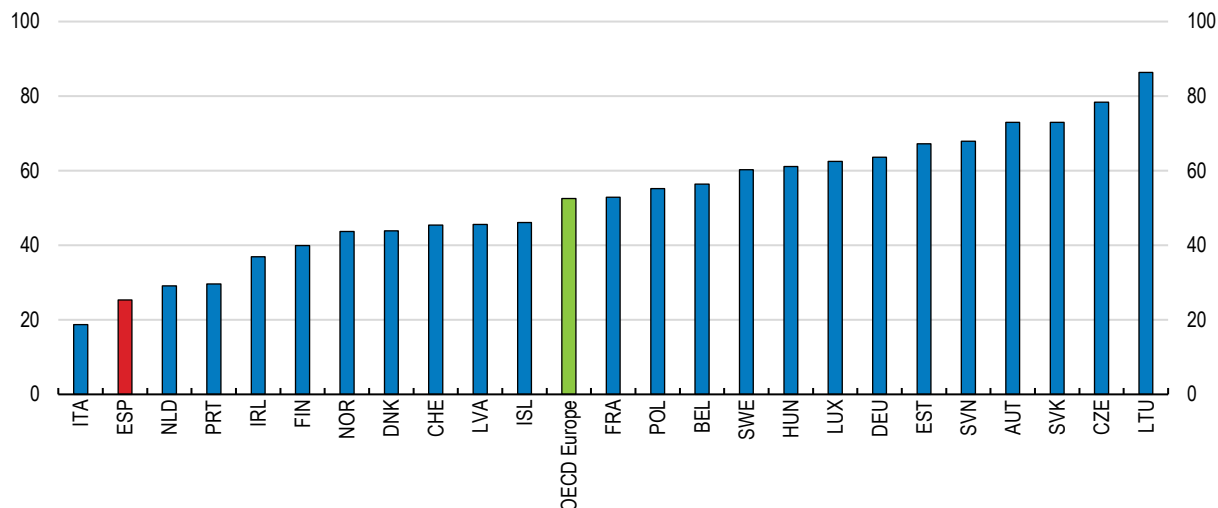
Strengthening active labour market policies

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.


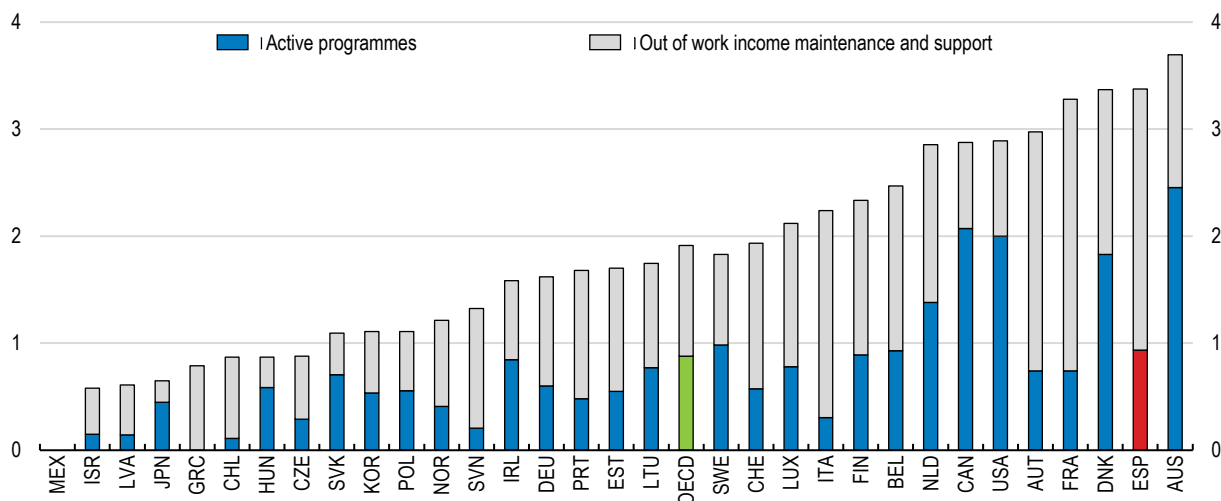

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Figure 2.21. Unemployment compensation accounts for most of labour market spending

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



Source: OECD Database on labour market programmes.

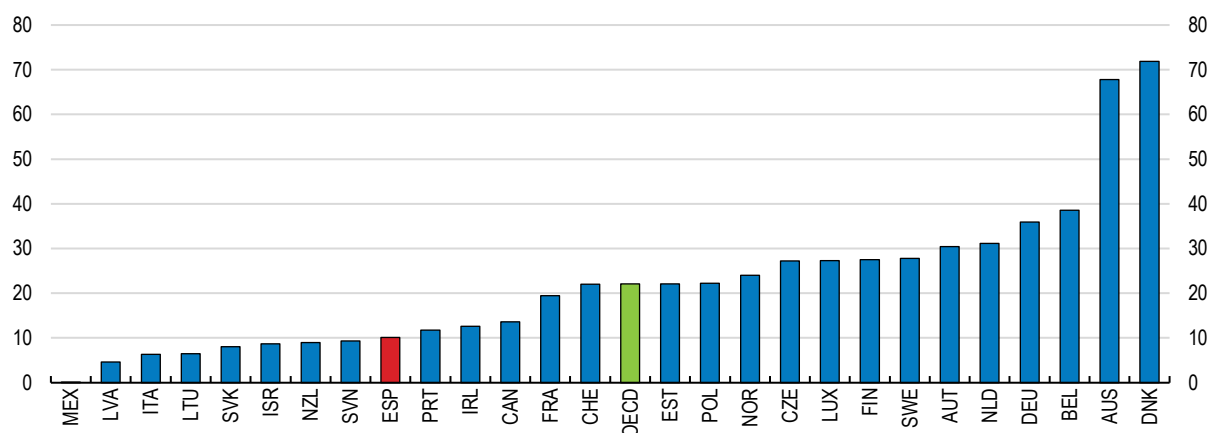
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Targeted support and training are also low and would benefit from the use of profiling tools to identify jobseekers at risk of becoming long-term unemployed and their training needs, as well as increasing the use of online tools, as discussed in the *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 (Veza, 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.

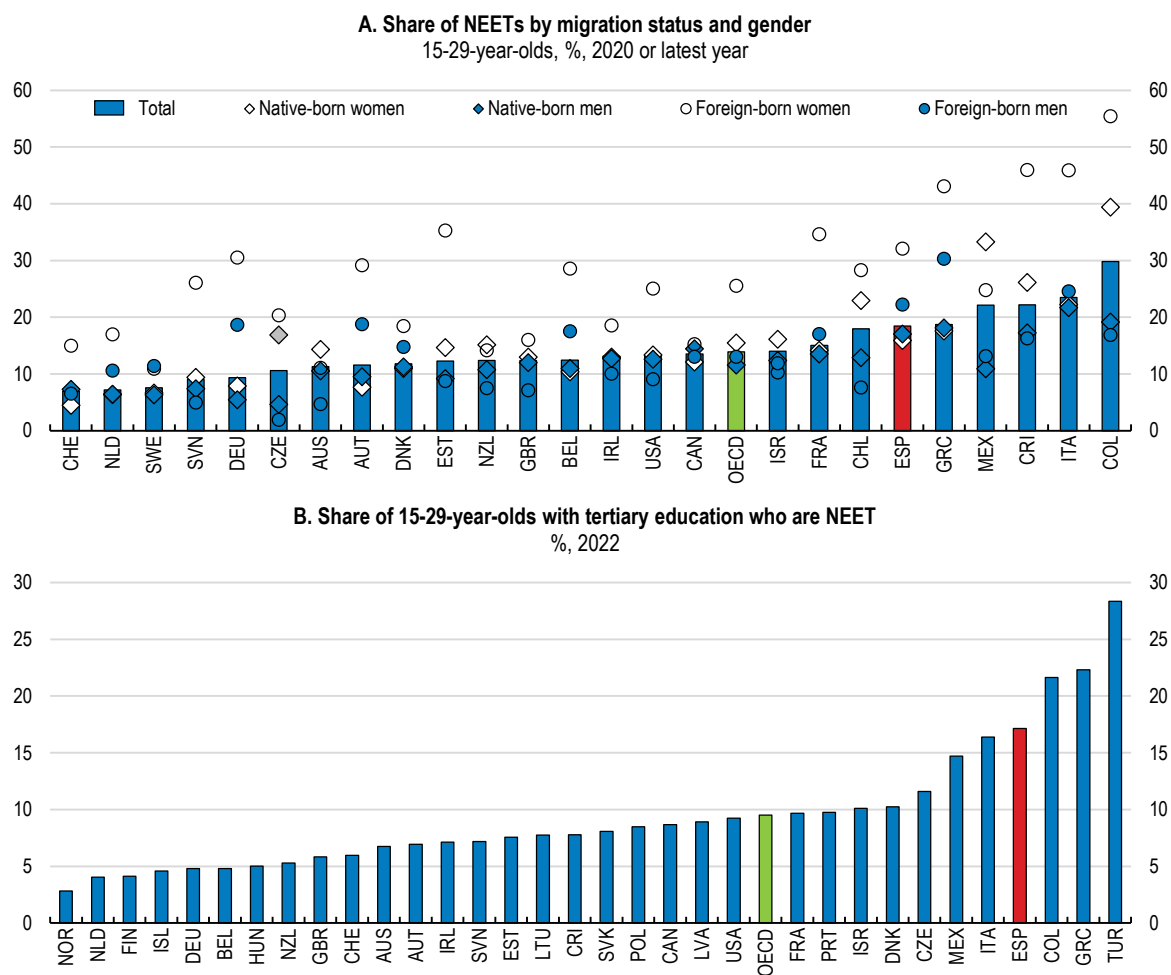
Two new laws complement the labour market reform. First, a 2023 royal decree restricts hiring incentives via reductions in social security contributions to the hiring of vulnerable unemployed persons or those with low employability and seeks to encourage the conversion of part-time and discontinuous 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.

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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

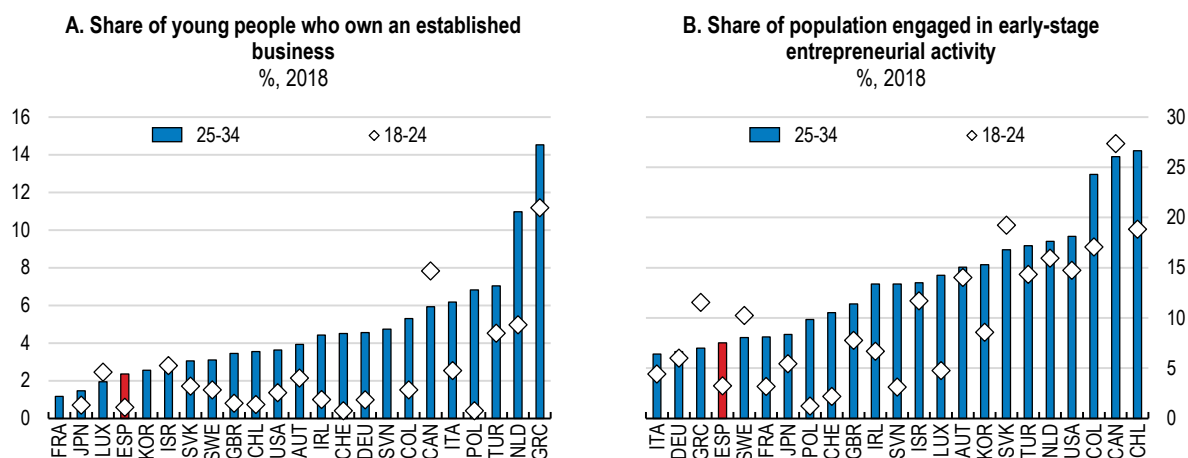
Entrepreneurship can be an alternative to salaried employment as a career path to improve well-being for young people. To that end, promoting a culture of entrepreneurship should be accompanied by appropriate support policies, since skill shortcomings and inability to begin an independent life can make 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.

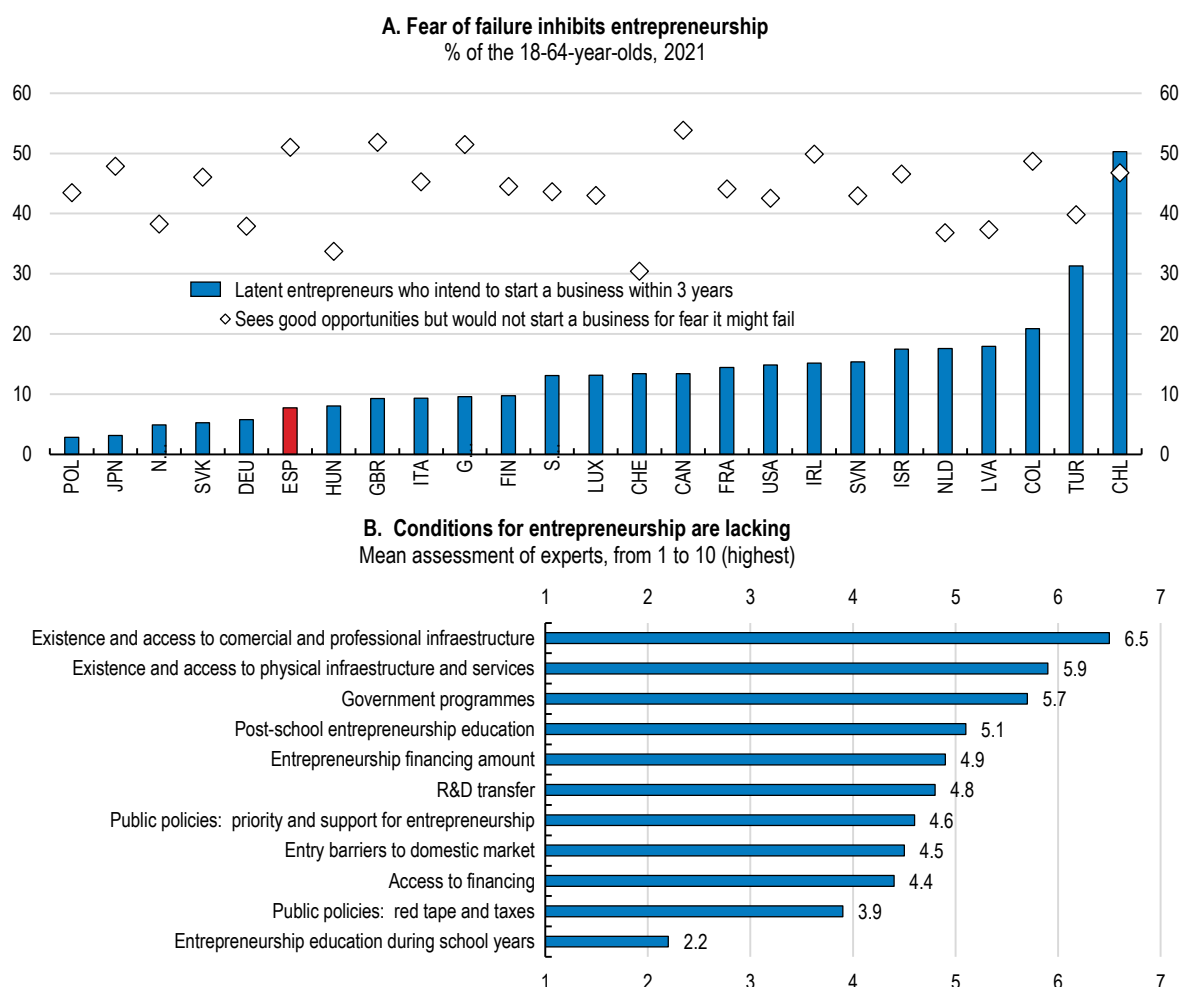
Figure 2.24. Youth entrepreneurship is low



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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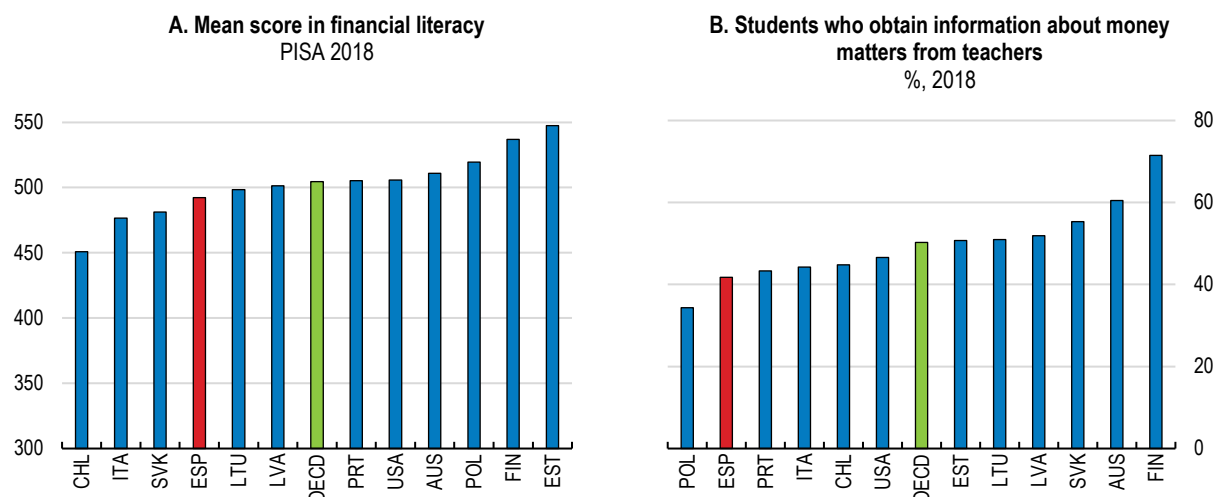
Providing opportunities to start a business

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?

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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

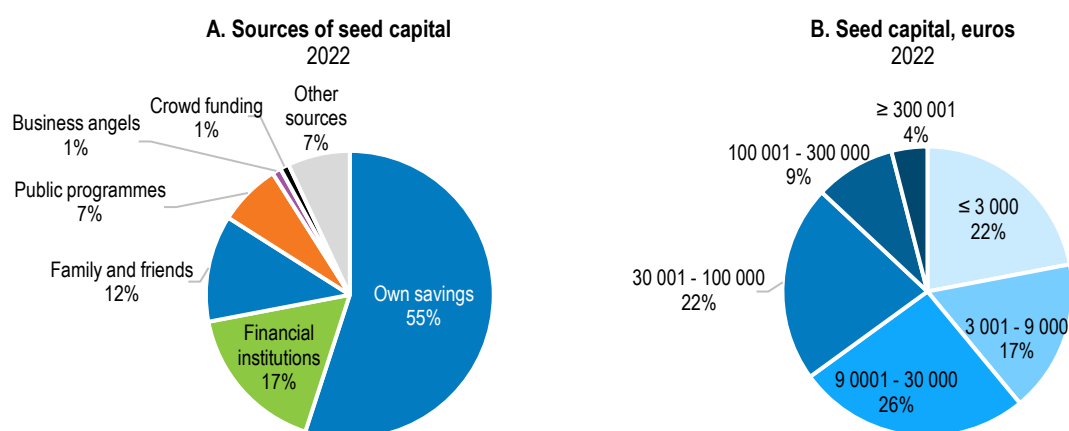
- [La Salle Technova Barcelona](#) is an innovation park that stimulates technology-based entrepreneurship and acts as a hub for connecting start-ups, investors, and corporations. It offers services such as incubation, pre-acceleration, acceleration, investment, open innovation, and start-up landing.
- 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: CAEJE, 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.

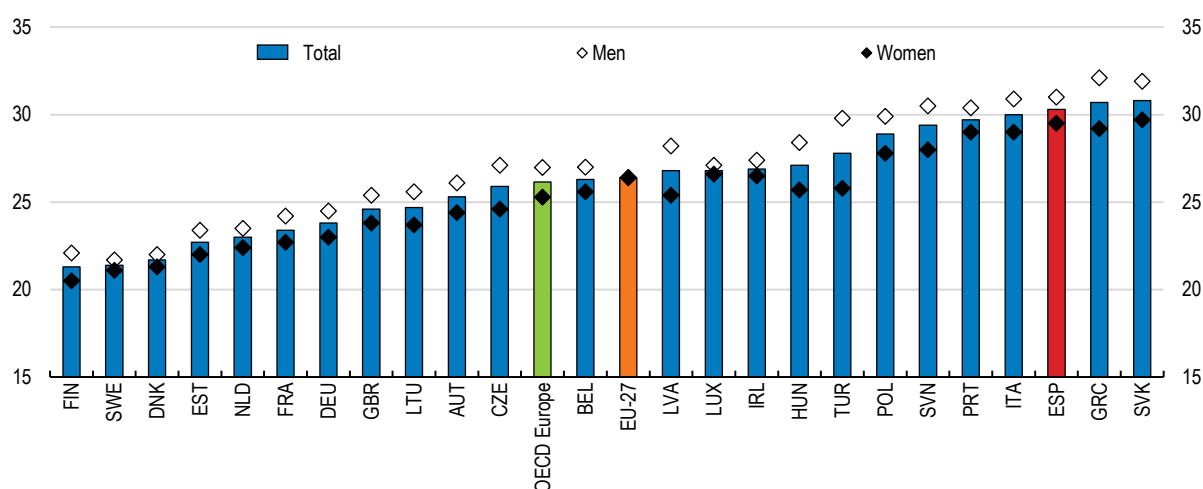
Lack of affordable housing limits labour mobility of the young

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

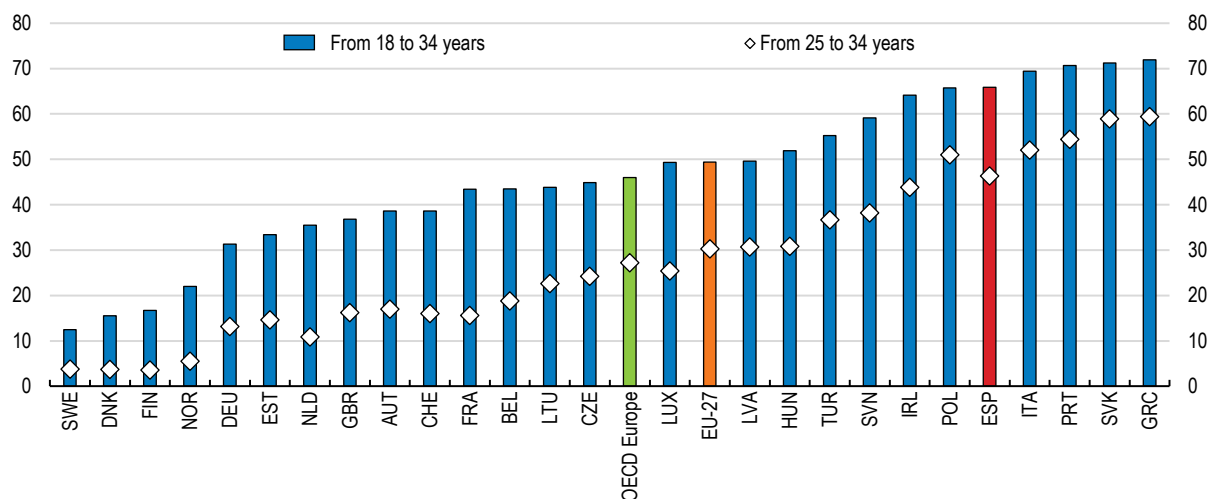


Source: Eurostat.

StatLink  <https://stat.link/ek0u9x>

Figure 2.29. Share of young adults living with their parents

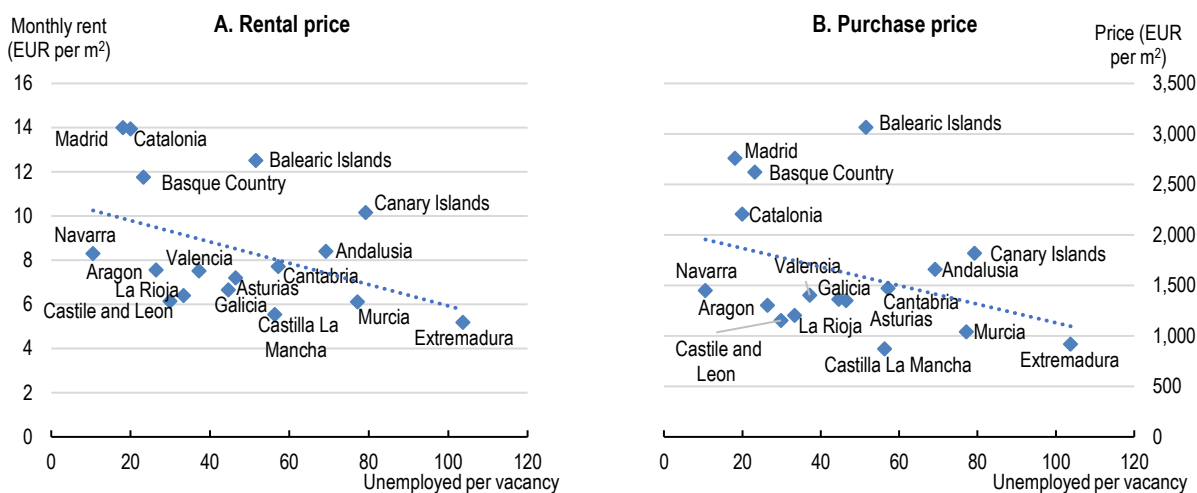
%, 2022 or latest year



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.

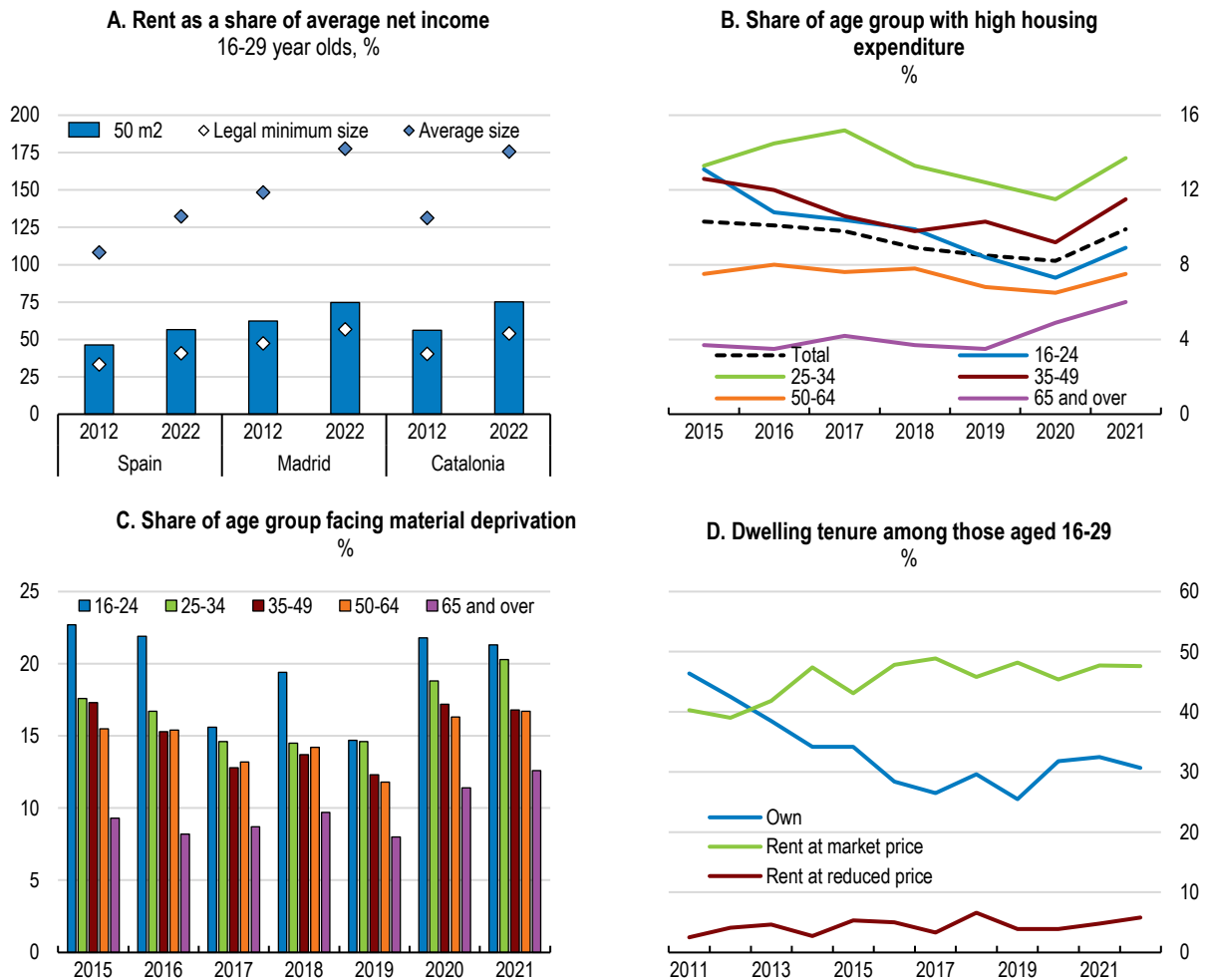
Source: INE, Idealista.

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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.

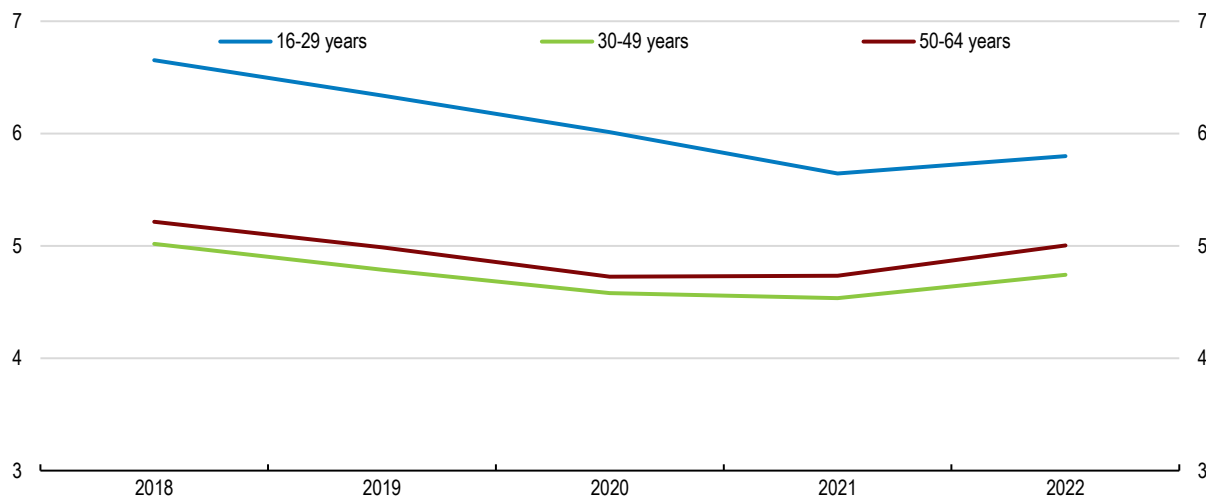
Source: INE, Idealista (2022). *Informe de precios. Evolución del precio de la vivienda en venta y alquiler en España*.

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, %

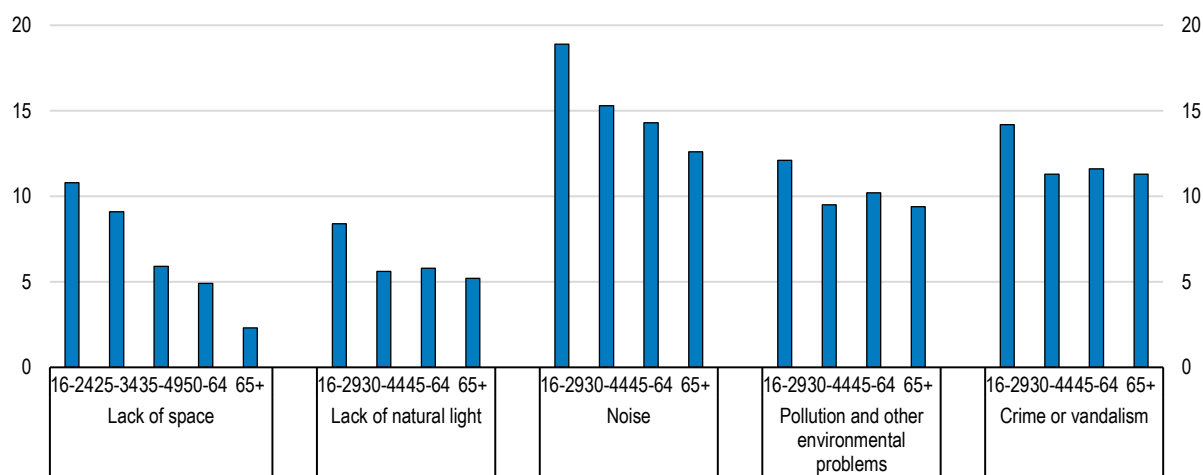


Source: La Caixa Research.

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Figure 2.33. Young people face worse housing conditions

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



Source: INE.

StatLink  <https://stat.link/nyoq1b>

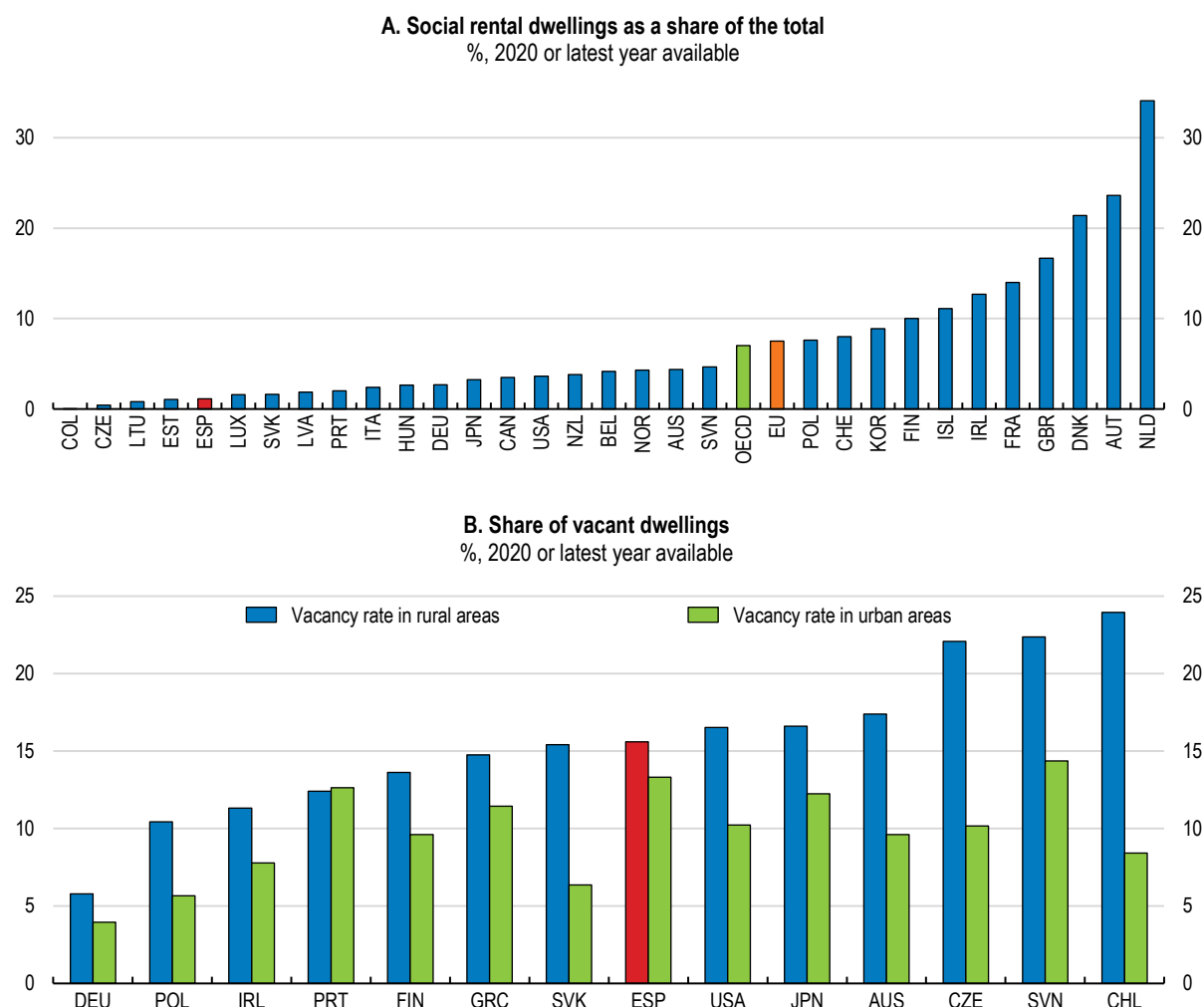
Making good-quality housing more affordable for the young

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.

StatLink  <https://stat.link/t3j9i0>

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).

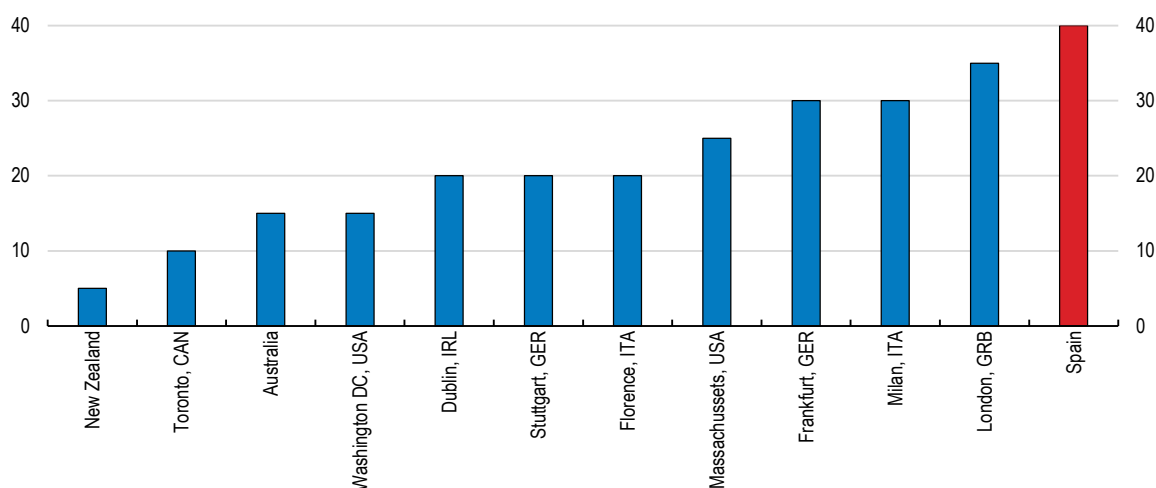
More efficient taxation can boost housing supply and lower prices

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 Özsögüt, 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).

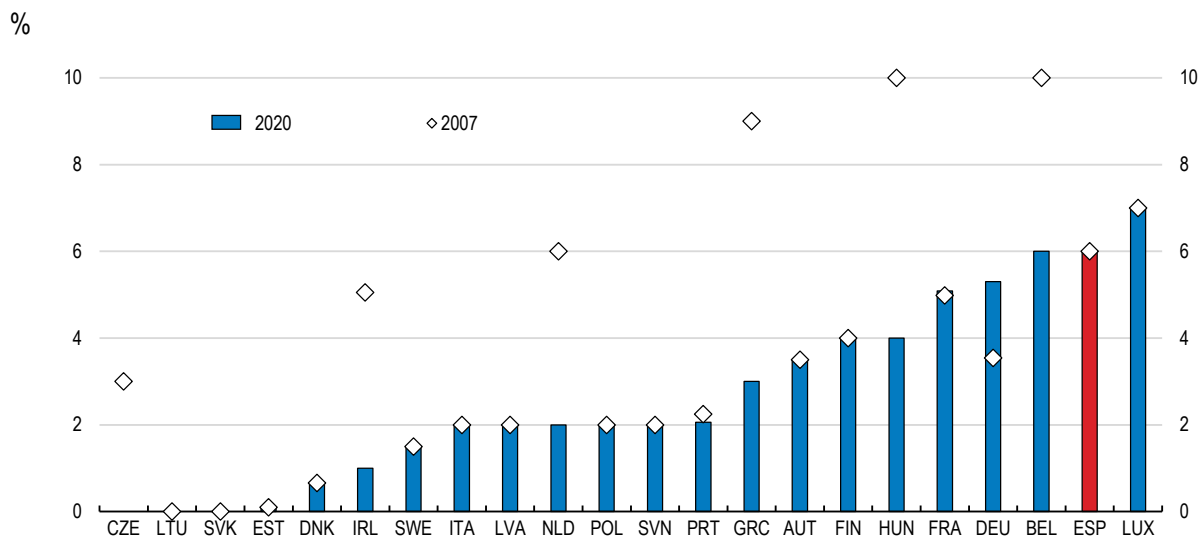
Box 2.6. 2023 Law on the Right to Housing

- 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

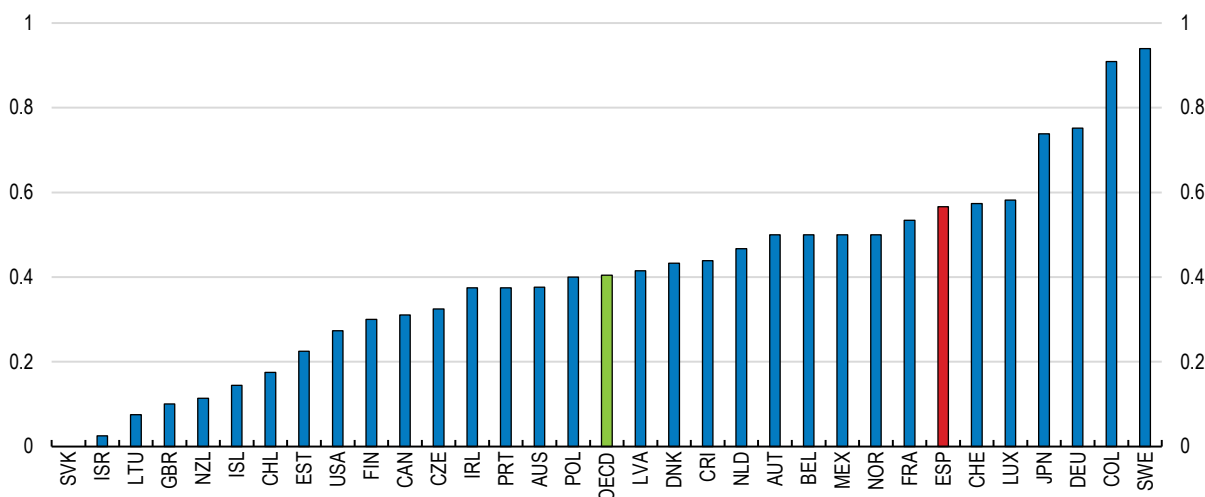


Note: Data reported by national experts, minimum rates.
 Source: Thiemann, Grünberger and Palma Fernández (2022). Housing Taxation Database 1995-2022.

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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*.

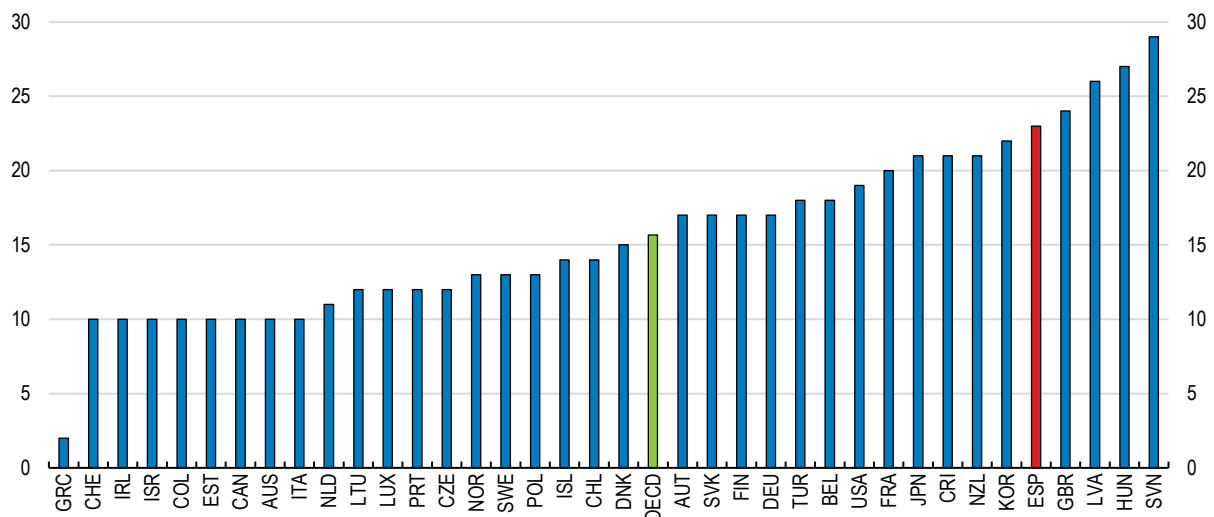
StatLink <https://stat.link/b3imzc>

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

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

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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