



# Spain

## The persistent labour market duality

- Temporary jobs were widely used by companies when the crisis broke out.
- Spain aimed at reducing the job market's duality notably by increasing the compensation paid when temporary contracts were terminated.
- So far, however, the reforms seem to have had little impact on the hiring behaviour of companies.

The job market reforms, implemented for the most part as of 2012, aimed in particular at giving companies greater internal flexibility and reducing the duality of the job market. These reforms helped get the country back on track to growth and job creations as of 2014 (+938,000 since Q4 2013). Coupled with a shrinking active population - the combined effect of emigration and an aging population - these reforms helped to bring down the unemployment rate as of summer 2013. However, despite this improvement, the job market is still fragmented, split between permanent jobs on the one hand and temporary jobs on the other.

### Promotion of permanent job contracts

Temporary jobs were a form of employment widely used by companies when the crisis broke out. Temporary employment as a share of total payroll employment was 31.5% in 2007, compared to a eurozone average of 16.4% for the same period. Temporary employment thus became the main adjustment variable when the economy collapsed. Nearly 60% of the 3.7 million jobs destroyed between late 2007 and late 2013 were temporary jobs.

Dismissal procedures were eased and the notion of layoffs on economic grounds was also revised. Companies reporting losses or experiencing three consecutive quarters of year-on-year declines in sales or revenues are now allowed to terminate job contracts on economic grounds. In cases of unjustified dismissals, the amount of compensation was capped at 33 days per year of service and 24 months' pay (as opposed to 45 days per year of service and 42 months' pay, previously). Administrative authorisation is no longer required for collective layoffs.

Alongside efforts to ease dismissal procedures for permanent jobs, labour reforms also sought to curb the use of short-term contracts by increasing the compensation paid when contracts were terminated (12 days of pay per year of service as of 1 January 2015). Companies also benefit from a reduction in employers' charges when training and apprenticeship contracts are transformed into permanent contracts. A new type of permanent contract was also created for companies with fewer than 50 employees. Known as a "company support contract", it provides a 1-year trial period and reduced fiscal and social contributions.

### Praising temporary jobs

Temporary employees as a share of sector employees (4 quarter moving average) (%)

— Total; — Manufacturing; - - - Construction; - - - Services

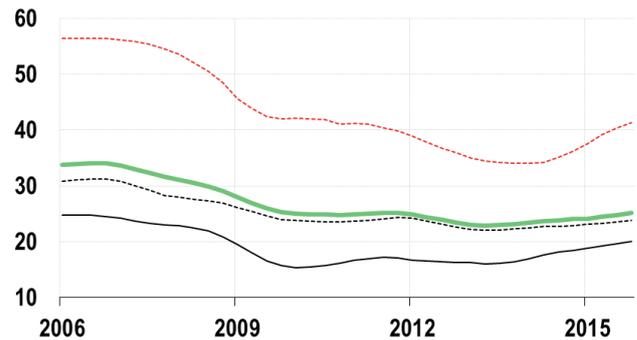


Chart 1

Source : Eurostat

### Temporary contracts are still in demand

As a share of total employees, temporary contracts will apparently remain below pre-crisis levels due to structural changes in the Spanish economy. The construction sector is particularly inclined towards short-term contracts (nearly 40% of jobs in the construction sector in 2015), but its weighting has declined to 6% of total employment in 2015 from 13.3% in 2007. It will apparently hold below the 2007 level for some time. Indeed, economic policies aim specifically at favouring sectors offering higher value added.

So far, however, the reforms seem to have had little impact on the hiring behaviour of companies. The increase in employees as of Q3 2013 went hand in hand with an increase in temporary employment. Of the payrolls created since then, nearly 60% have been temporary contracts (see chart 1). As a share of total employees, temporary employment has increased by nearly 3 points since spring 2013, to 25.7% in Q4 2015. Moreover, the transition rate from a temporary contract to permanent employment is low, at only 12% in 2014 (vs. 29.7% in 2006 according to Eurostat).

This means that the job market's duality will probably continue to hurt the Spanish economy. Employees with temporary contracts are not paid as well. They are more highly exposed to part-time work and benefit from less training than full-time employees. This lack of training in turn undermines their employability and increases the risk of job market exclusion.