

Overview



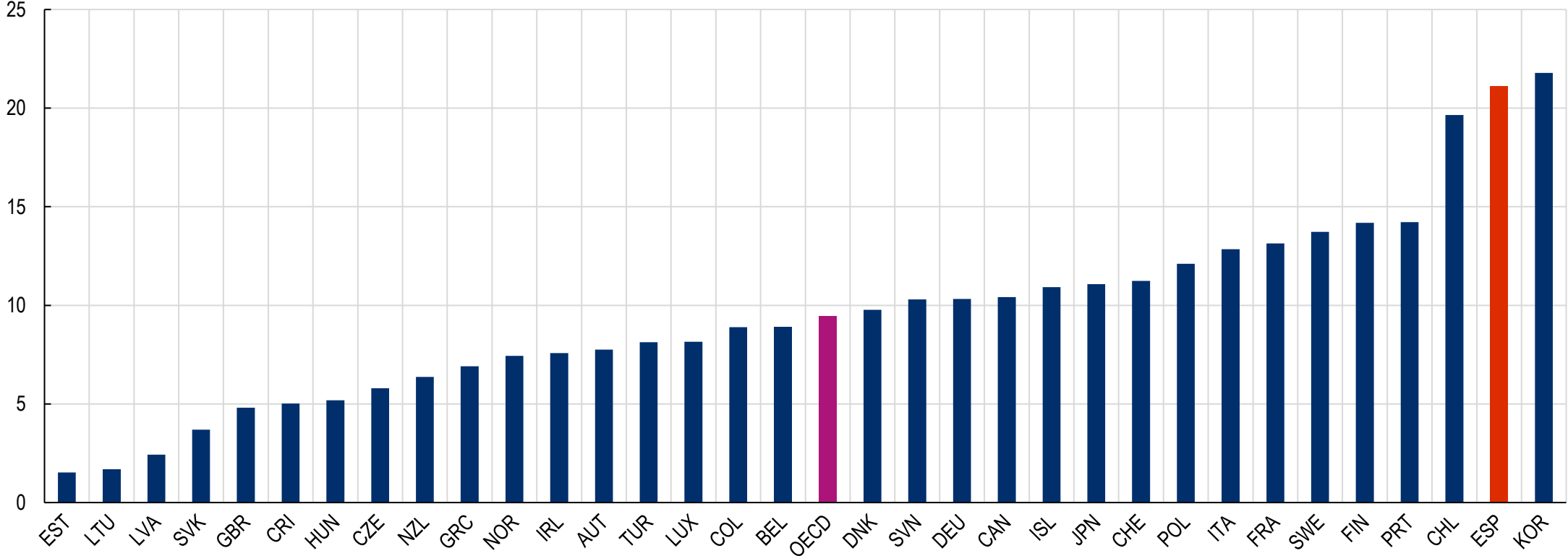
- **Labour market duality** and its consequences
- **Employment protection** and its role for labour market duality
- The **2021 labour market reform** and its implications for duality
- Possible **next steps** to further reduce duality in the future

Part I. Labour market duality and its consequences



Temporary employment is widespread in Spain

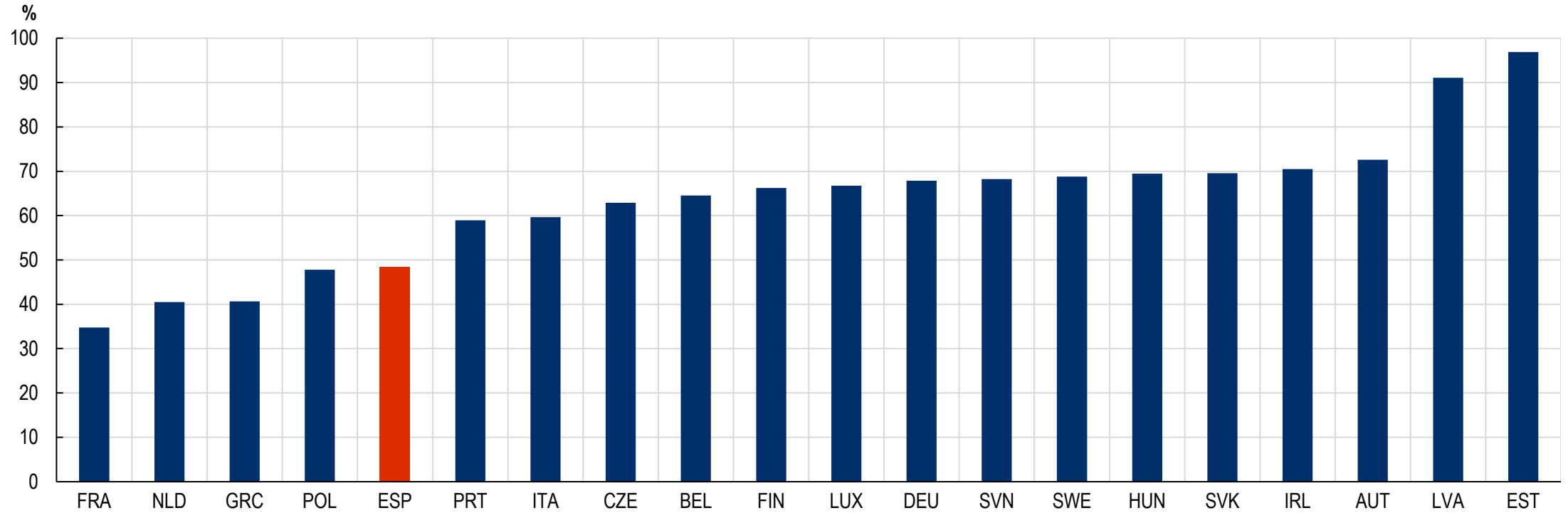
Temporary employment as a percentage of total employment, 2021





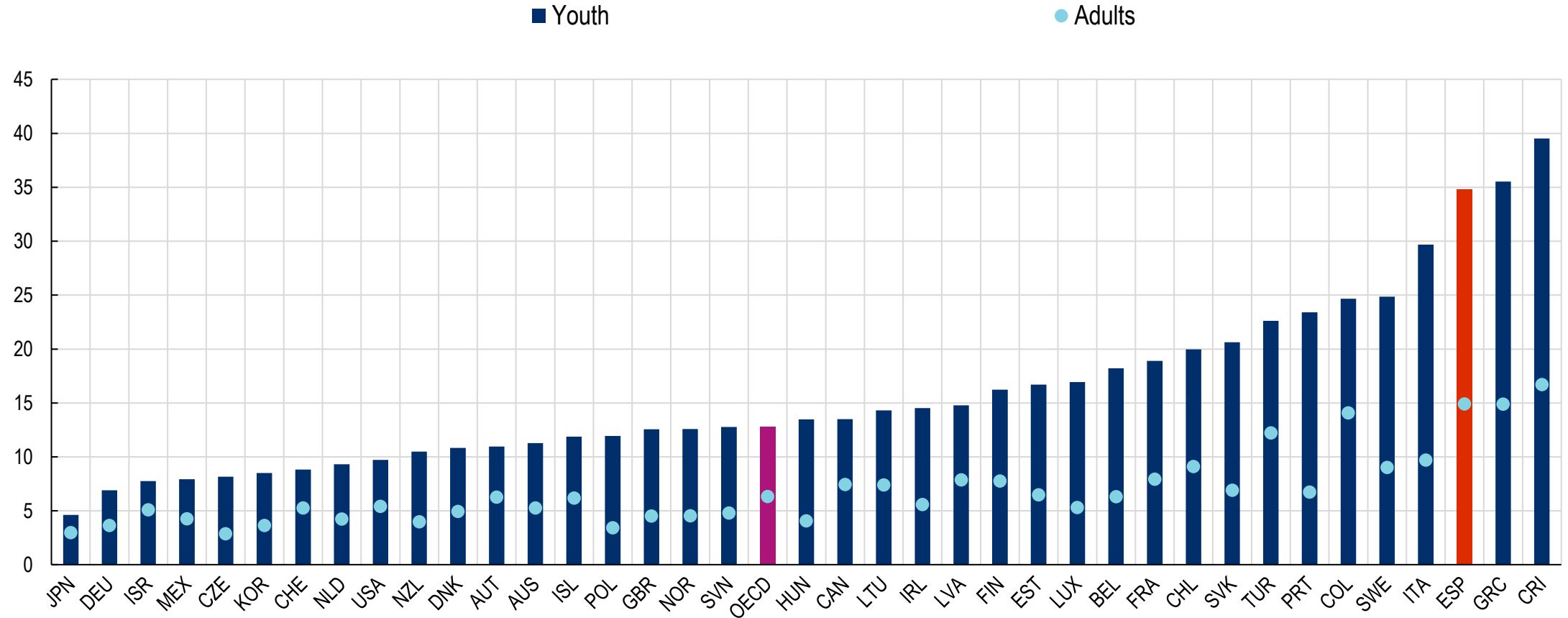
A high incidence of temporary jobs reduces their effectiveness as steppingstones towards permanent jobs

Three-year probability of moving from temporary to permanent job, average over 2004-15



A higher incidence of temporary jobs is not associated with lower unemployment

Number of unemployed youth (15-24) and adults (15-64) as a percentage of corresponding labour force, 2021



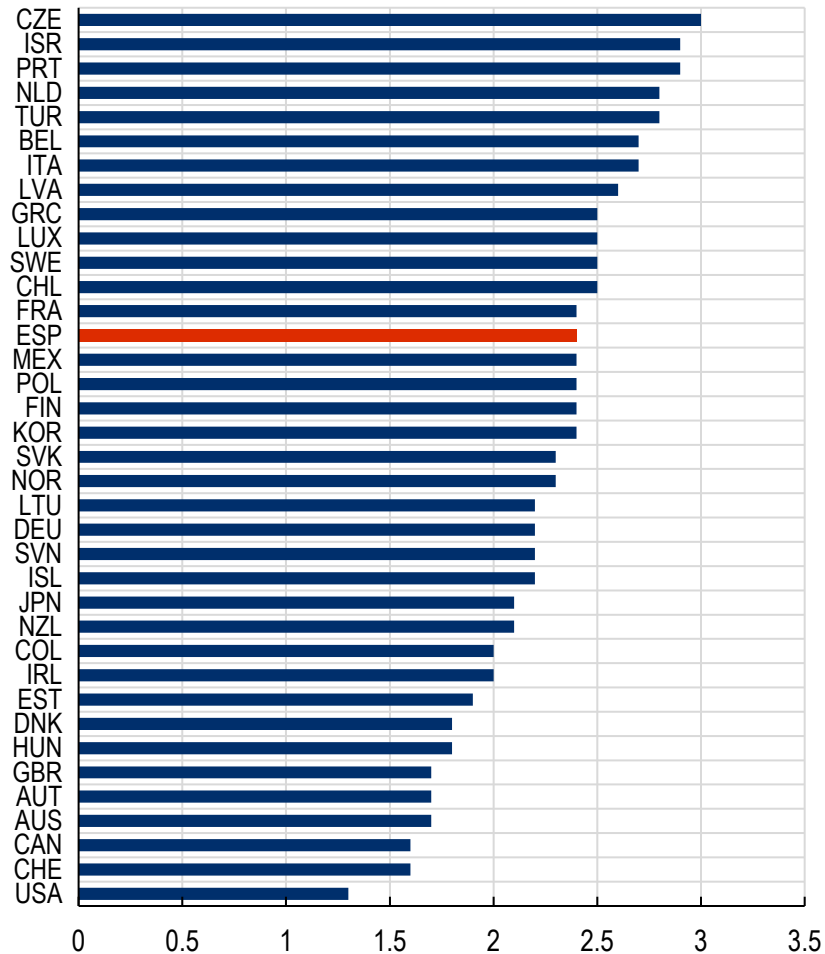
Part II. Employment protection and its role for labour market duality



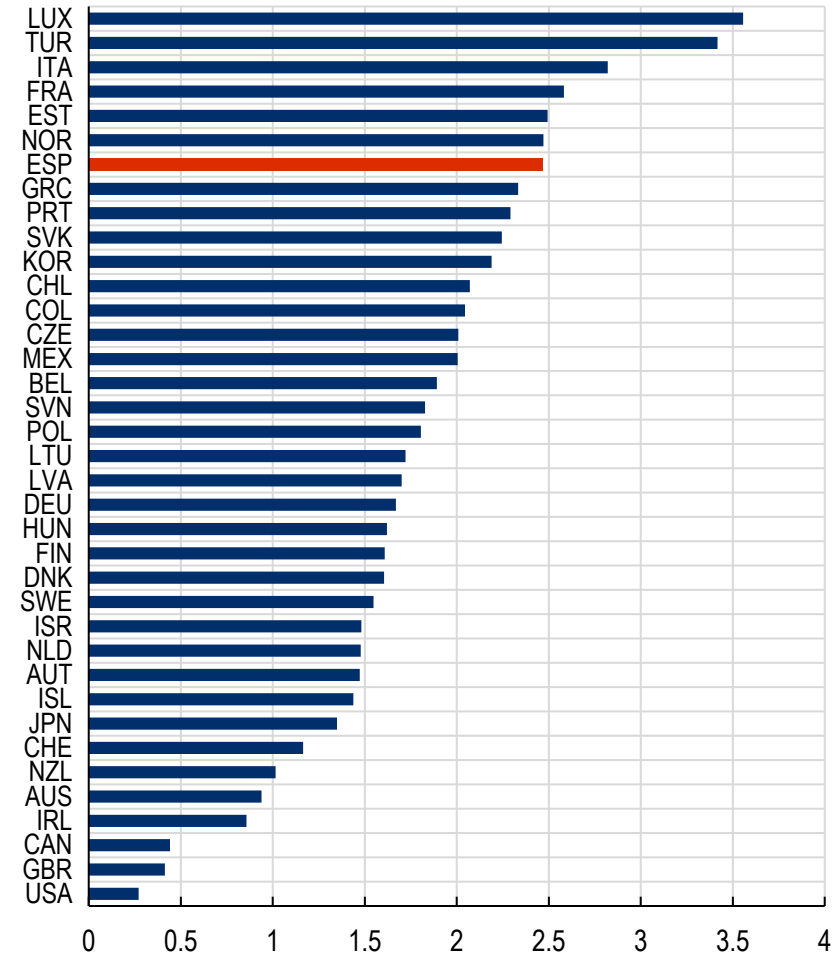
Employment Protection is relatively strict in Spain

Employment Protection Legislation indicators, 2019 (pre-reform)

A. Strictness of regulation of individual dismissals of regular workers

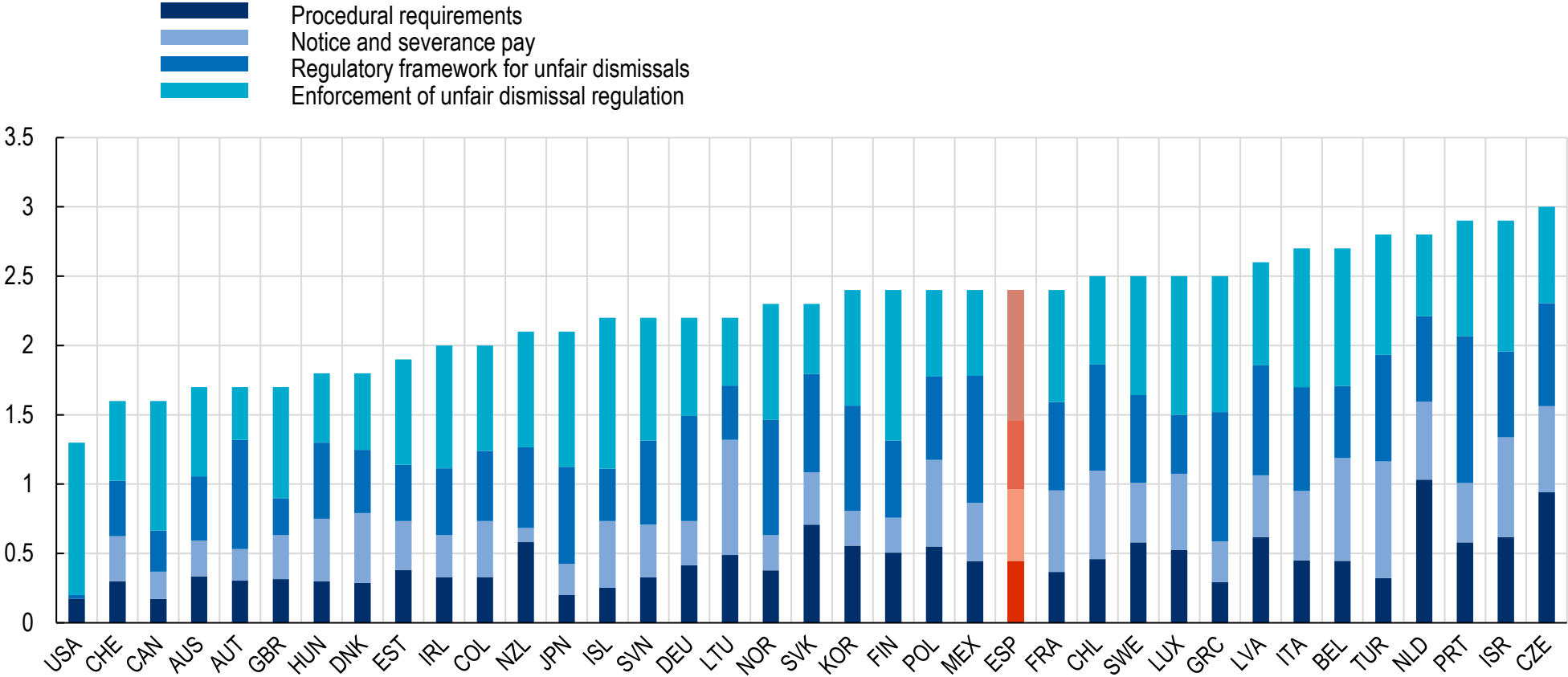


B. Strictness of regulation of temporary contracts



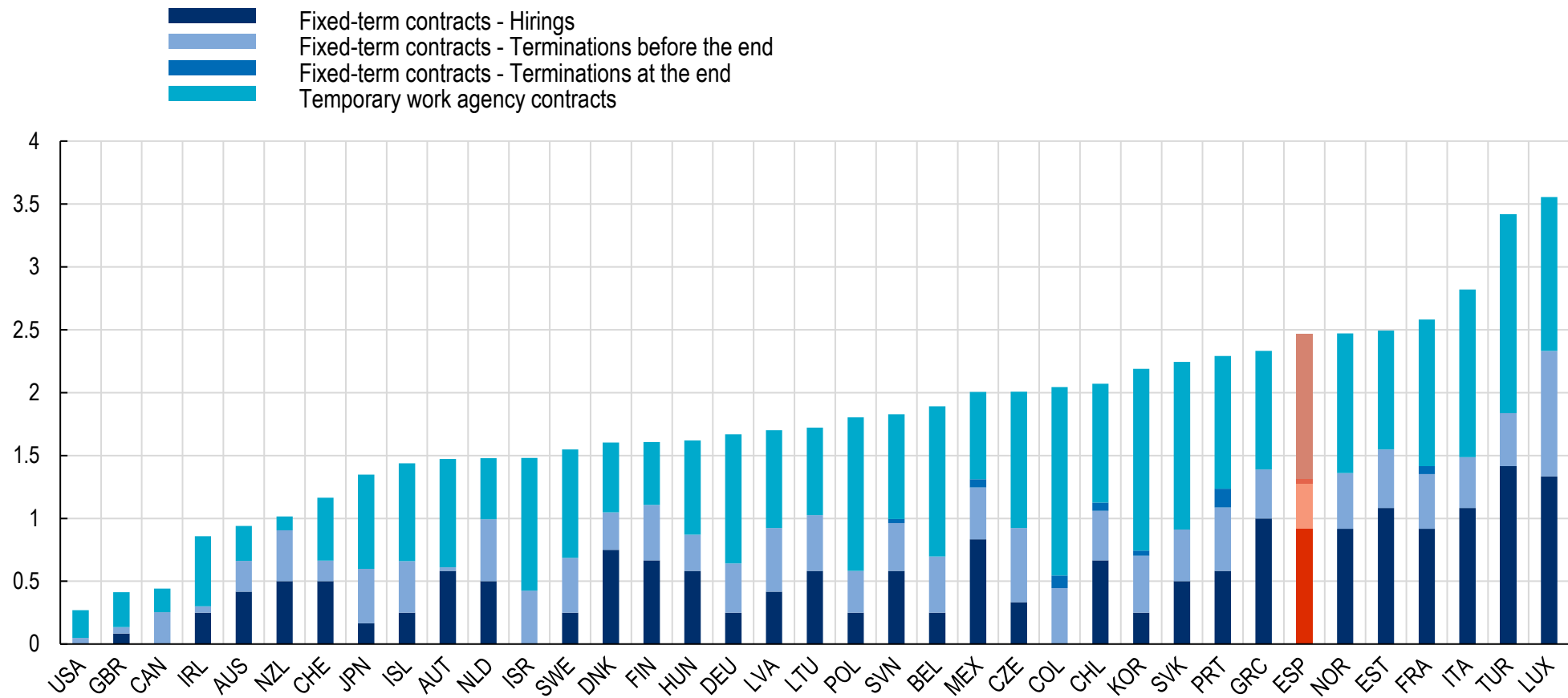
High severance pay and strict enforcement of unfair dismissal

Employment Protection Legislation in relation to the individual dismissals of regular workers, 2019



The scope of using temporary contracts is restricted to objective reasons

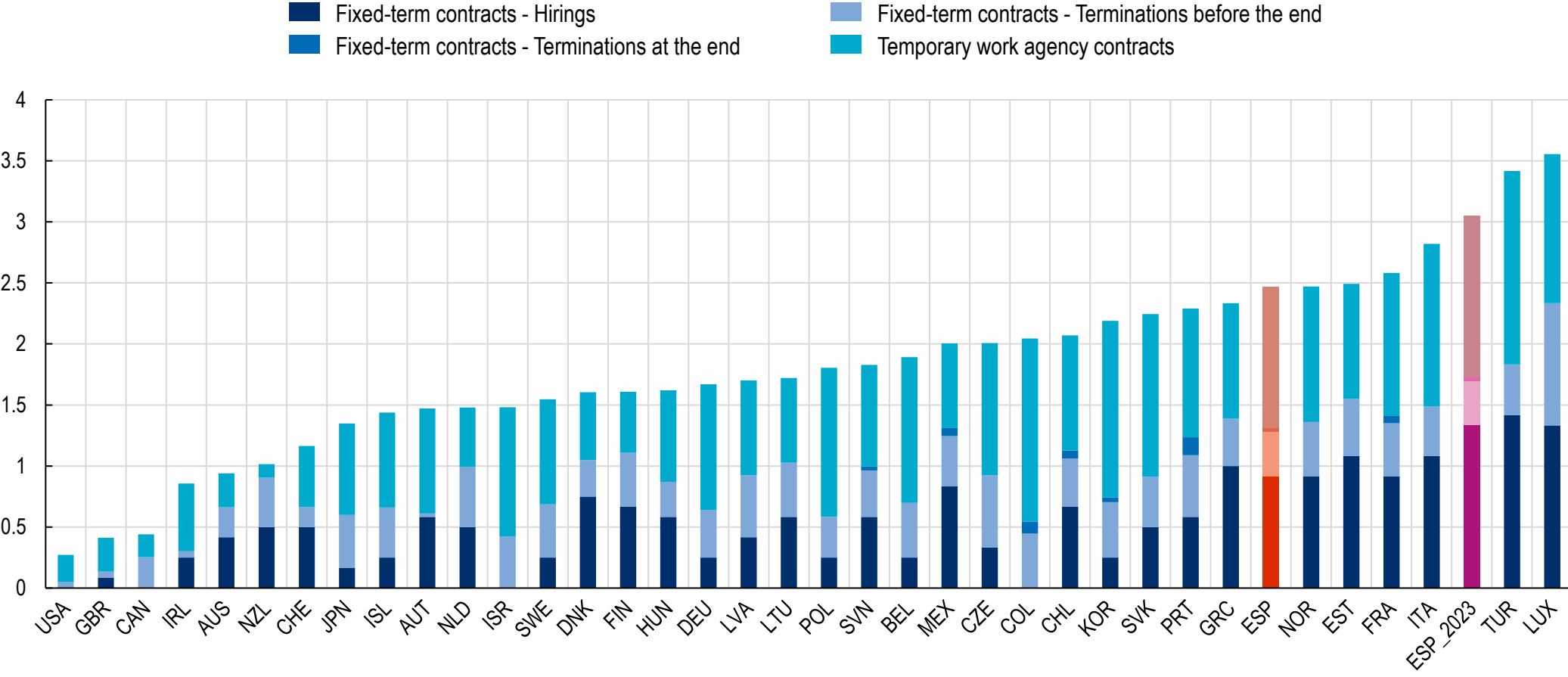
Employment Protection Legislation in relation to the use and termination of temporary contracts, 2019





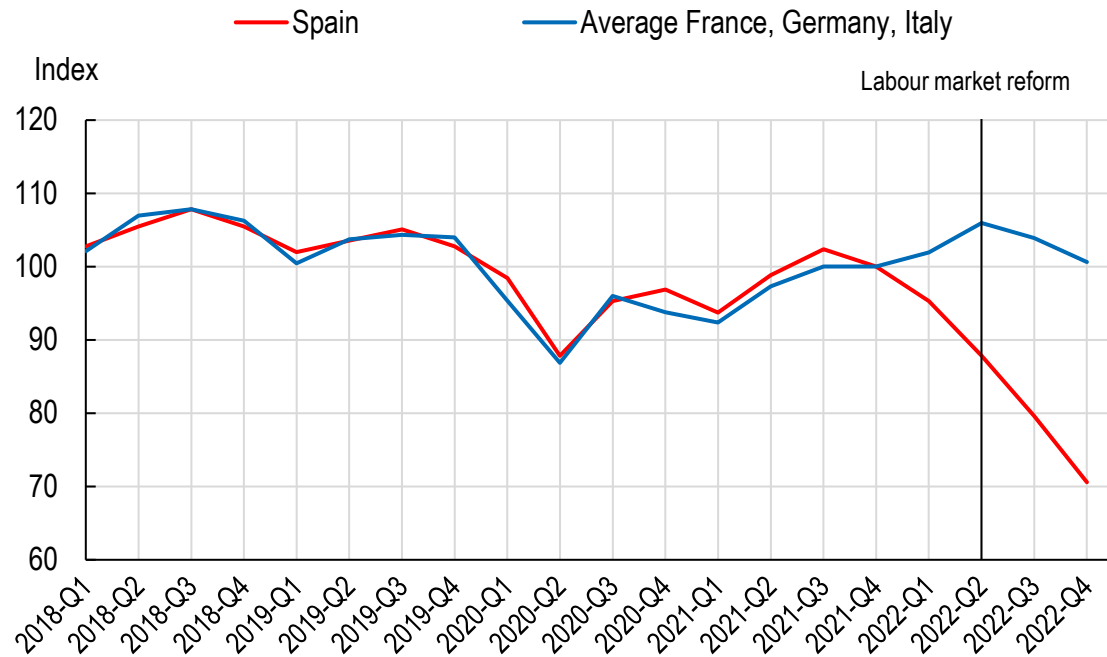
The 2021 reform further restricted the scope for using temporary contracts

EPL indicator for temporary contracts, 2019 and 2023

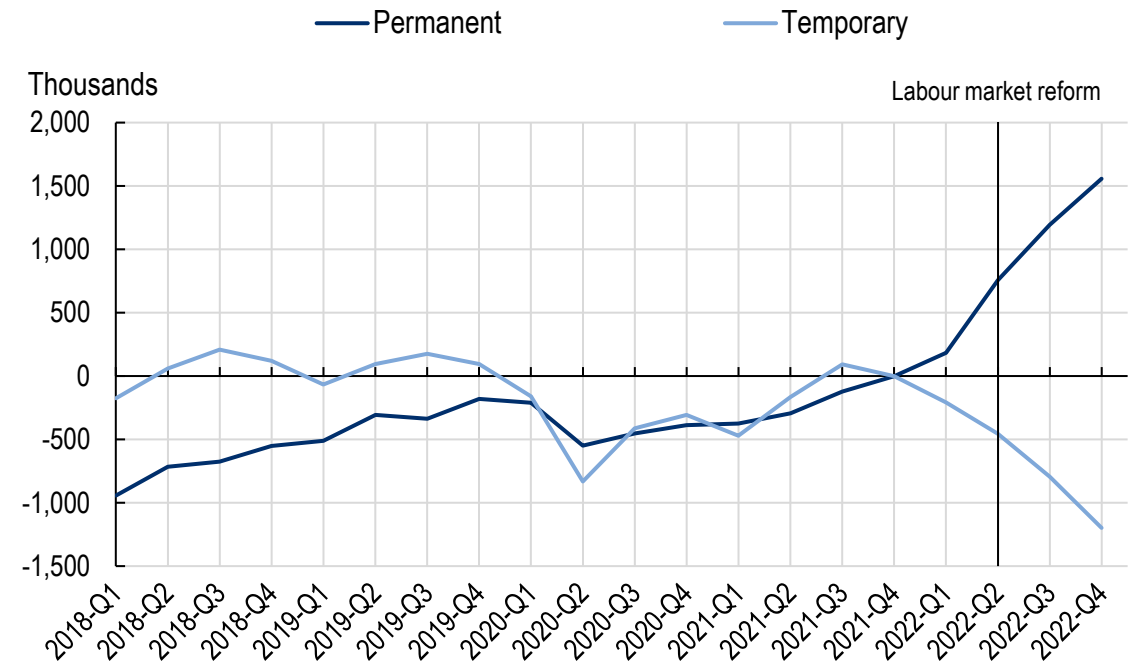


The 2022 reform has already resulted in a sharp reduction in the use of temporary contracts

A. Incidence of temporary workers
Index 2021 Q4=100



B. Permanent and temporary employees in Spain
Difference compared to 2021 Q4



The 2021 reform increased the use of open-ended intermittent contracts (*Contrato fijo-discontinuo*)

- The use of open-ended intermittent contracts was extended (*Contrato fijo-discontinuo*)
 - Before reform: strictly limited to seasonal work
 - After reform: all temporary activities and contract work
- > Can now be used for many of the activities that were previously conducted with temporary contracts
- Its implications are ex ante unclear and need to be close monitored
 - Stronger job security
 - Limited income security: no guaranteed minimum amount of activity
 - Increased unemployment benefit expenditures

Part IV.
Possible next steps to
further reduce duality
in the future



Striking a better balance between security for workers and flexibility for firms

- Regulate open-ended intermittent contracts (*Contrato fijo-discontinuo*)
 - Guaranteed minimum amount of income/activity
 - Experience rating employer contributions (bonus-malus system)
- Allow workers who end their contract by mutual consent to receive unemployment benefits
 - Neither resignation nor termination via mutual consents give access to unemployment benefits in Spain (quite uncommon)
 - Weak incentives for workers to consider termination by mutual consent or resignation
- Re-balance the length of notice period (currently rather short) and severance pay (rather high)

Re-balance length of notice period and severance pay

Notice period and severance pay for individual dismissals of regular workers
 Four years of job tenure, measured in months of pay after dismissal notice, 2019

