

**EXECUTIVE
BOARD
MEETING**

SM/20/164
Correction 1

November 9, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Spain—Selected Issues**

Board Action:

The attached corrections to SM/20/164 (10/27/20) have been provided by the staff:

Evident Ambiguity

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**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

Page 30

Questions:

Ms. Schaechter, EUR (ext. 37791)
Ms. Liu, EUR (ext. 34157)
Mr. Stepanyan, APD (ext. 38963)
Mr. Salas, EUR (ext. 35549)

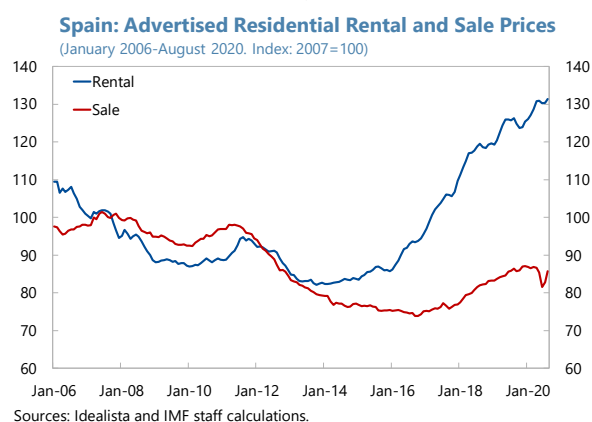
RENTAL HOUSING AFFORDABILITY IN SPAIN¹

1. Pressure on rental affordability adds to social challenges and has triggered some policy actions. Though homeownership in Spain remains high, demand for rental housing has increased in recent years, especially among young households in some urban areas. However, rental-housing supply has not kept up. These trends have contributed to a pre-COVID surge in market prices faced by renters, increasing concerns about affordability problems and arguably compounding intergenerational inequality as well as labor immobility. To offset these pressures, the authorities reinstated rent-stabilization policies in 2019 (Royal Decree-Law 7/2019) and devised allowances for low-income tenants, among other measures. More recently, novel official data on rental housing prices have been [published](#). Other ongoing initiatives aim, for example, to increase the public provision of social rental housing.

2. The COVID-19 crisis could worsen rental affordability problems, especially for vulnerable groups. The Great Lockdown may aggravate affordability problems by compressing incomes relatively more than the potential decline in rental prices, particularly as temporary relief measures adopted by Spain (including moratoria on evictions and rental payments) expire. The crisis may also disproportionately affect vulnerable groups—such as young people, poor households, and migrants—who often rent. These groups are among the hardest-hit segments by the crisis as low-skilled workers are less likely to telework (Espinoza and Reznikova, 2020) and many of them are employed in some of the worst-affected industries, such as tourism (Alvargonzález et al., 2020).

A. Rental Prices and Affordability: Recent Trends

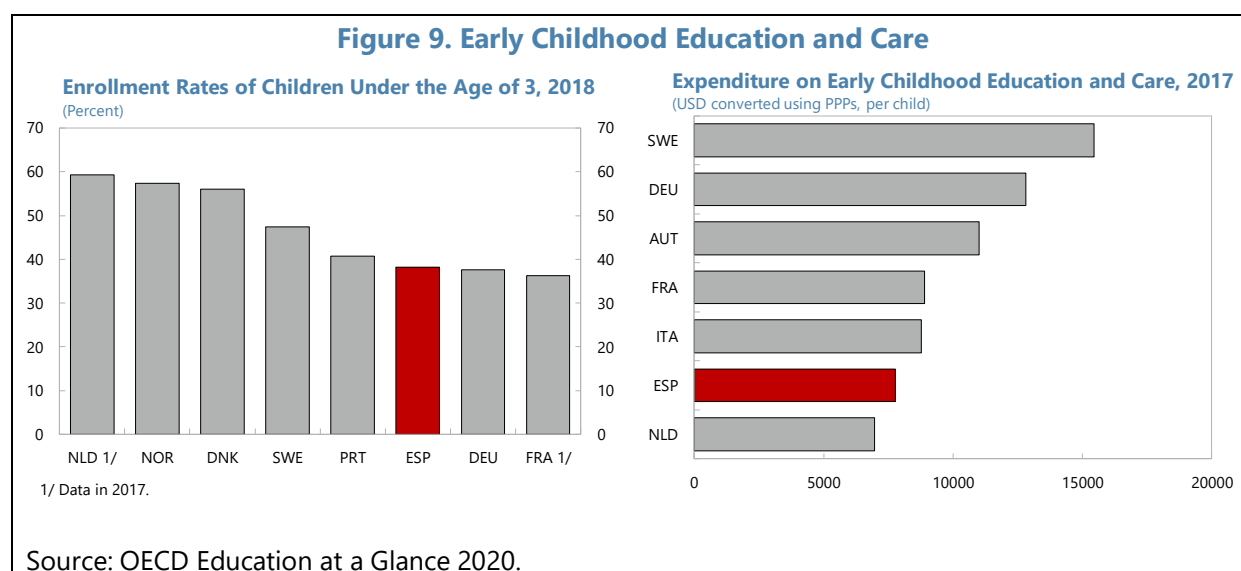
3. Residential rental prices strongly increased in recent years. In part because until very recently (July 2020) Spain lacked official data on market rental prices, this analysis uses *advertised* price data from Idealista, an online real estate platform with extensive coverage of Spain's rental market.² A country-wide rental price index, based on prices by square meter, started to rise in 2014. In August 2020, rental prices were around 30 percent higher than in 2007; by contrast, [Idealista's](#) house sale prices were about 15 percent lower than in 2007. Pre-COVID pressures on rental prices were larger in big cities (e.g., Madrid, Barcelona) and other major touristic destinations (e.g., Palma, Malaga). Likely drivers of these trends, some of



¹ Prepared by Jorge Salas.

² By August 2020, the newly published official data only covered 2015–2018. One advantage of the Idealista data is their availability for a longer span of years. A key caveat is that these advertised prices tend to be higher than market prices, although they still provide useful insights on price dynamics (López-Rodríguez and Matea, 2019). Spain's national statistics office publishes CPI-related rental price indices, but these data imperfectly reflect ongoing market prices as they also capture subsidized prices and slow-moving prices from multiyear contracts.

16. A key policy area is to boost family and childcare support. Previous studies found that policies fostering childcare provisions could have strong and positive effect on female labor force participation and gender equality (Alonso, Brussevich, Dabla-Norris, Kinoshita, & Kochhar, 2019). According to the OECD Education at a Glance 2020 report (OECD, 2020), about 38 percent of children under age 3 in Spain were enrolled in some forms of early childhood education and care in 2018 (Figure 9), which is close to the OECD average but relatively low compared with euro area peers (enrollment rate of children at age 3–5 was in line with that of peers). Although part of this could be due to the demand effect, the relative low level of public spending (per child) suggest that there may be room for more and efficient expenditure on the provision of childcare services. In addition, a right design of the leave policies for childbirth and parenting could help mitigate the work-family pressure and assist women smoothly transitioning back to work. In particular, bridging the gap between maternity and paternity leaves and incentivize fathers to take paternity leaves would be the most effective way to reduce gender inequality. In this regard, the recent extension of paternity leave in Spain from 5-8 to 8-16 weeks is an important step toward the right direction.



17. Increasing working arrangement flexibility could also help promote better family work life balance, supporting female labor force participation. The low level of voluntary part-time employment in Spain warrants an in-depth analysis of the drivers behind the supply and demand of this type of jobs. While economic cyclicalities may play a role,⁹ accessibility to high-quality part-time jobs was low even before the crisis, indicating potential distortions in the labor market. The literature identified several factors that might have hindered employers' incentives to create part-time jobs, including the more expensive social security contribution cost relative to hiring full-time workers (Anghel & Arellano, 2010), the sizeable administrative and other fixed costs (Moral-Carcedo, Campos, & Álvarez-Carrasco, 2012), and the somewhat protective legal framework (Rodríguez, 2005). On the demand side, workers may find part-time jobs unattractive as they often provide

⁹ Involuntary part-time employment usually goes up during economic downturns due to the supply-side factors, whereas voluntary part-time employment may go down as some may choose to lengthen their work hours to offset the impact of job losses of other members in the household.