

Economic measures to counteract the impact of COVID-19 in Spain

The COVID-19 epidemic is having a profound effect on Spain: according to official figures, as of 31 March over 90,000 people have been infected and, unfortunately, more than 8,000 have died. Faced with the gravity of the situation, the government declared a state of alarm on 14 March and, among other measures, imposed a limit on the movement of the population and declared the closure of schools, shops and other establishments, with the exception of essential services. Subsequently, it paralysed all non-essential economic activity between 30 March and 11 April.

As explained in detail in the economic outlook article «[The COVID-19 crisis: an unprecedented shock](#)» in this same *Monthly Report*, we can expect a drop in the rate of economic activity that will be significant and concentrated in time, in particular for the period while the containment measures are in force, and a rebound once they are lifted. The available economic activity indicators are few and far between, but high-frequency data such as daily electricity demand show us that the short-term impact could be very high (see first chart). In terms of GDP, the contraction for 2020 could be around -3.6% if the containment measures and the restrictions on economic activity are quickly relaxed in the coming weeks. However, this figure is shrouded in uncertainty and largely depends on how long the containment measures have to remain in place. If it is necessary to extend them for longer, the correction would be greater and the recovery, more gradual.

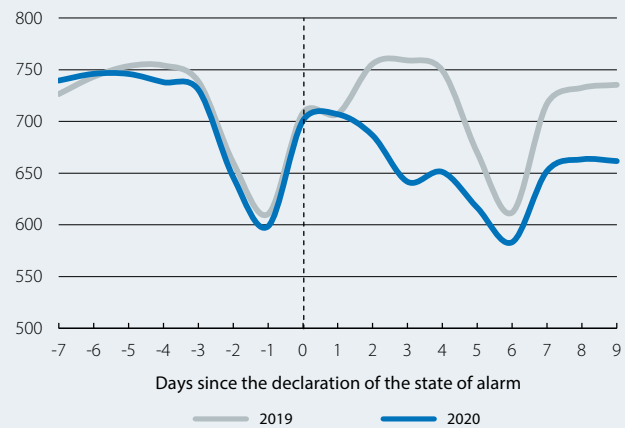
The response of public policies to mitigate the impact of COVID-19 in Spain

Faced with this public health crisis, the priority area for action is to strengthen the healthcare system in order to enhance its capacity to treat the sick and find scientific solutions to cope with the pandemic, both indispensable to enable us to resume life where we left off before the arrival of the COVID-19 as soon as possible.

However, in the face of a shock of this nature, which is temporary and due to an external cause, it is also important to minimise the spread to the economy in order to ensure that the stagnation in economic activity and employment is also temporary. This requires a robust and coordinated response from economic policies, both at the national and at the European and global level.¹ The objective is to allow economic activity and employment to quickly bounce back after the shock, preventing the

1. For more details on the measures implemented in the rest of the world, as well as the response from monetary and financial policy, see the Focus articles as well as the global economy article of the economic outlook section in this same *Monthly Report*.

Electricity demand (GWh)



Source: CaixaBank Research, based on data from Red Eléctrica de España.

circular flow of income in the economy from being interrupted and facilitating the circulation of money among the various economic players.²

To this end, the Spanish government has presented a battery of measures aimed at reducing the impact of the crisis on households, workers and firms.³ The direct aids approved to date amount to 21 billion euros (1.7% of GDP). In addition, other measures have been adopted, such as a line of guarantees of up to 100 billion and a moratorium on mortgage debtors. To protect households who find themselves in a particularly vulnerable situation as a result of this crisis, the government has established that essential supplies will be guaranteed (electricity, water, gas and telecommunications).

To protect workers, it has facilitated the adaptation of working hours and remote working whenever possible. Equally key has been enabling more flexible use of temporary lay-offs (known as ERTes) so that employees and self-employed workers affected by the crisis can maintain an income stream and quickly return to work once the period of confinement comes to an end. For this purpose, the coronavirus is considered force majeure and the coverage for unemployment resulting from ERTes has been extended to all workers affected by the crisis.

Finally, to protect companies, the government has established a deferral of tax payments for SMEs, a reduction of Social Security contributions for workers

2. See R. Baldwin (2020). «Keeping lights on: economic medicine for a medical shock». VoxEU, <https://voxeu.org/article/how-should-we-think-about-containing-covid-19-economic-crisis>.

3. For more details on the measures, see the Brief Note (*Nota Breve*) «[Políticas económicas contra el coronavirus](#)» of 18 March 2020.

affected by ERTes and a line of guarantees for companies and self-employed workers amounting to 100 billion euros in order to safeguard their liquidity, among other measures. In the first tranche of the line of guarantees (20 billion euros), the state will guarantee 80% of the loans for SMEs and self-employed workers, while for all other companies, the state guarantee will extend to 70% for new loans and to 60% for renewals.

A package of measures aimed at minimising the duration of the negative effects on employment and economic activity

The set of measures adopted by the Spanish government represents a robust response to the economic impact of the COVID-19 epidemic and lays the foundations for ensuring that the negative effects on employment and economic activity are temporary, and that activity bounces back once the epidemic has been controlled. Providing support for all affected sectors of society is necessary in order to prevent what is a temporary shock from leaving more permanent scars. The ultimate goal is to safeguard, insofar as possible, the population's economic well-being and the country's productive capacity.

One measure worth underscoring is the government's decision to favour the use of ERTes, thereby minimising dismissals (in fact, the government declared that all dismissals caused by the coronavirus will be considered unjustified, thus increasing their cost). The widespread nature of the promotion of measures for internal workforce reductions is a new development in the Spanish labour market, which in past crises has leaned in favour of external flexibility measures (such as dismissals). This commitment to so-called «flexicurity» measures poses a huge test for the Spanish labour market, and valuable lessons will be learnt for future crises. At present, employees affected by an ERTE receive unemployment benefit amounting to 70% of their social security contribution base for the first six months, with a minimum and maximum limit (502 and 1,402 euros, respectively). In this way, the employee continues to receive an income for the duration of the ERTE, albeit slightly less than their standard wage.⁴ Above all, the employment relationship with their employer remains intact, allowing them to recommence work as soon as possible (see the box on ERTes in a nutshell for more details).

These measures go hand in hand with specific aid for companies and self-employed workers (deferral of tax payments, reductions of Social Security contributions and state guarantees), which provide them with liquidity

4. The average unemployment benefit in 2019 based on social security contributions amounted to around 50% of the average gross salary.

Temporary lay-offs (ERTes) in a nutshell

A. What are they?

A temporary lay-off, or «ERTE» as it is known, is a temporary suspension of an employee's employment contract or a reduction in their working hours due to financial, technical, organisational or production-related causes, or as a result of force majeure (as in the case of COVID-19).

B. When can they be used?

ERTes are intended for companies to be able to reduce their workforce when they are experiencing temporary difficulties, without having to provide severance pay (unlike in the case of general staff lay-offs, or «ERE» as they are known).

C. What are the benefits?

For the employee:

- They receive unemployment benefits while they are not working.
- They maintain their job position during a crisis (thus avoiding the loss of their job).

For the company:

- It can reduce its workforce in times of difficulty (without incurring in redundancy costs).
- It can maintain its human capital when the recovery finally comes.

Source: CaixaBank Research.

in order to avoid bankruptcy during the state of alarm and should allow them to quickly resume activity once the crisis is over. It is worth pointing out that, as a counterpart to the aid offered to firms that implement ERTes, these companies must maintain those jobs for at least six months thereafter, which provides affected workers with some job stability.

The impact on the public accounts will be significant, but manageable. In particular, the necessary fiscal stimulus measures will apply upward pressure on the deficit and on public debt this year, which could rise to over 5% and 105% of GDP in 2020, respectively, but they should return to normal levels as soon as economic activity is back up and running.

All this action from public policies is aimed at mitigating the problems caused by the containment measures. Nevertheless, the high degree of uncertainty surrounding how the epidemic will evolve and the impact of the measures adopted will make it necessary to adjust these responses. The work of public policies does not end here: the next stage will involve continuing to adapt (and to adopt) measures that allow us all to return to work, safe and sound and as soon as possible.⁵

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5. See A. Ichino *et al.* (2020). «Transition steps to stop COVID-19 without killing the world economy». <https://voxeu.org/article/transition-steps-stop-covid-19-without-killing-world-economy>