

Recoveries and setbacks

The recovery of GDP in Q3 was very good news. Having fallen by 22% in the first half of the year, in Q3 economic activity recovered more than half of the lost ground. This was much better than most analysts expected, although the latest data, such as those from the labor force survey, already indicated that our forecasts were overly prudent. And since we do not revise the forecasts every day – it would drive both those who follow them and ourselves mad – overly prudent they were proved to be.

The news, however, has been overshadowed by the new wave of infections we are currently experiencing and which threaten to roll back economic activity in the fourth quarter. During the course of Q3, economic activity lost momentum as the quarter advanced. With the tightening of social distancing restrictions with which we have begun Q4, it will be difficult to prevent a further decline in GDP.

The situation we are currently experiencing has once again placed the supposed dichotomy between health and the economy at the heart of the debate. But does such a dichotomy really exist? In a sense, yes. Faced with the imminent risk of collapse of the health system, a situation that would trigger a surge in the number of deaths, there may be no choice but to «close the economy». What we must ask ourselves is whether we can avoid reaching the point where we have to face such a dichotomy. And the answer is that perhaps we can. At the very least, it is worth doing everything possible to try. Allow me to use a war-based simile. Can wars be won without massive collateral damage? Yes, using precision weapons and strategies.

What strategies are best suited to combat the COVID-19 pandemic and avoid massive collateral damage to the economy? The experts have been telling us for a long time: at the individual level, responsible behaviour – hand hygiene, distancing, face masks and isolation in the event of infection – and, in terms of health management, the capacity for case detection and contact tracing. If we make these strategies work, there is no dichotomy between health and the economy. The two go hand in hand.

China is perhaps one example from which lessons can be drawn. There, the pandemic appears to be under control, and the economy has already bounced back above pre-COVID levels. Some will say that the Chinese political system and its ability to restrict freedoms is what explains the country's apparent success, but I wonder to what extent the political system is related to the will and ability to conduct 9 million tests in just a few days, as occurred in the city of Qingdao after a small outbreak was discovered. Closer to home, Slovakia has recently set out to test its entire adult population in the space of a few days with rapid tests to detect asymptomatic cases and stop the spread of the virus. Rapid tests can serve as an effective tool for managing and controlling the pandemic.

Devoting resources to testing and tracing capabilities is currently the best economic policy. But, of course, it is not the only one that must be carried out. As the Dossier of this *Monthly Report* shows, the public sector is playing a key role in supporting those who have lost much or all of their income due to the pandemic. This policy of income maintenance has not only been key to mitigating the rise in inequality, but it has also helped to sustain the pulse of the economy. This is yet another example that dispels accepted blueprints: less inequality and more economic efficiency can go hand in hand. We are faced with a set of circumstances which require us to spread the costs of the crisis, for the purposes of both efficiency and equity.

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