

IZA COVID-19 Crisis Response Monitoring:

Spain

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May 16, 2020

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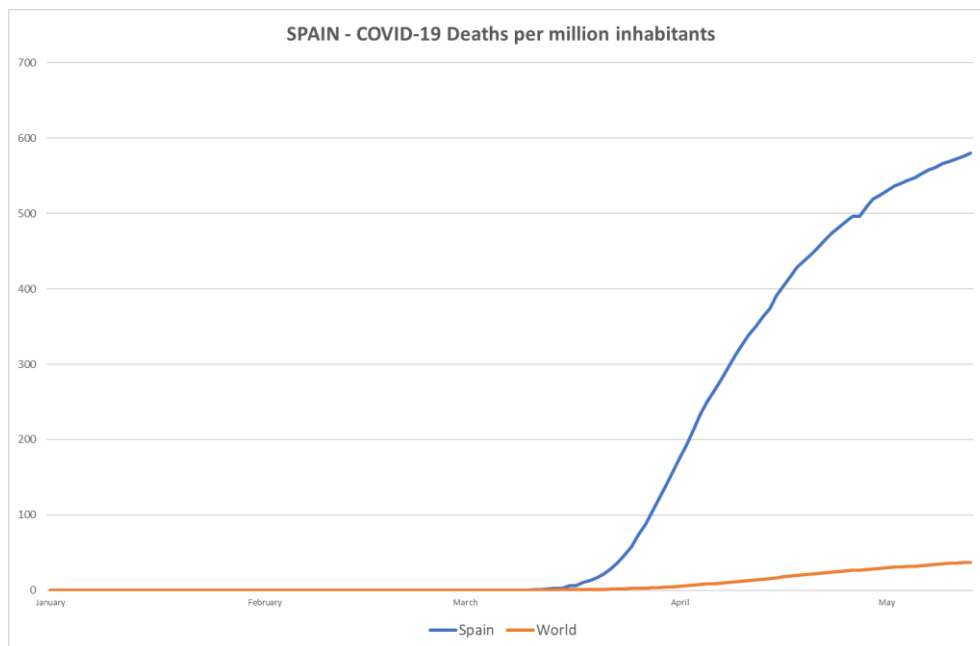
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Country context and background

Spain is one of the countries that has been hit hardest by COVID-19 as shown in Figure 1, where we can see the evolution of total confirmed death cases per million inhabitants in Spain and in the world. The magnitude of the health crisis also explains why the lockdown has been stricter and longer than in other European countries with notable exceptions such as Italy and France.

Figure 1

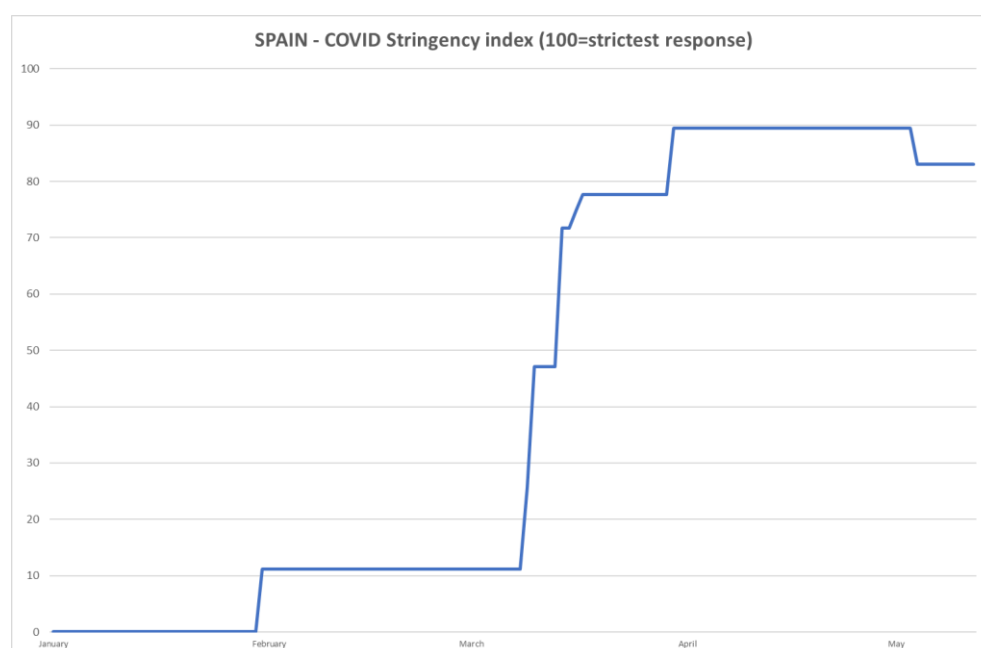


Source: Own elaboration using data from <https://ourworldindata.org/covid-deaths>

Figure 2 shows the evolution of the Government Stringency Index for Spain computed by the Oxford Coronavirus Government Response Tracker (OxCGRT). This index is a composite measure of nine of the response metrics: school closures; workplace closures; cancellation of public events; restrictions on public gatherings; closures of public transport; stay-at-home

requirements; public information campaigns; restrictions on internal movements; and international travel controls. The index on any given day is calculated as the mean score of the nine metrics, each taking a value between 0 and 100. A higher score indicates a stricter government response (i.e. 100 = strictest response). As we can see from this figure, in mid-March the Spanish government started to adopt measures to fight against the pandemics. These measures became stricter at the end of the month with a full lockdown (except for essential activities) for two weeks, although several restrictions are still in place. A “new normality” is only expected to be reached by the end of June. Table 1 presents the chronology and a brief summary of the adopted measures in this context. As shown in Figure 3, measures have been effective as it has been possible to flatten the curve and to significantly reduce the number of new COVID-19 cases.

Figure 2



Source: Own elaboration using data from <https://ourworldindata.org/policy-responses-covid>

Table 1. Chronology of policy responses to COVID19 in Spain

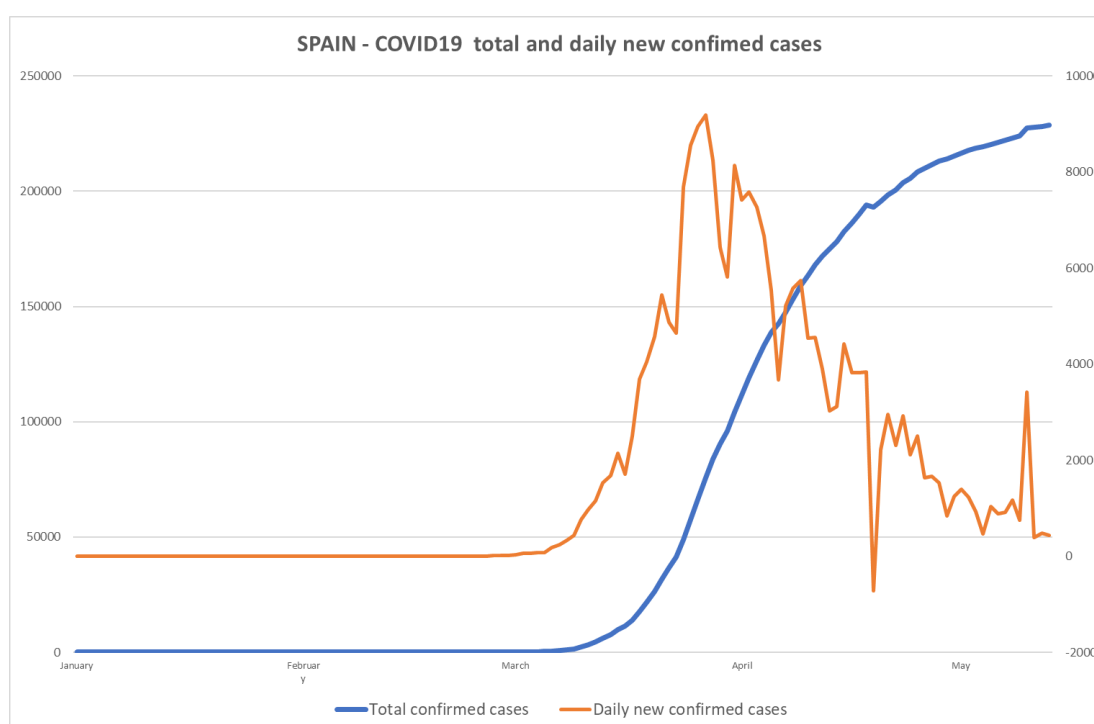
January 31 st 2020	First patient diagnosed in La Gomera (Canary Islands)
February 9 th 2020	First patient diagnosed in Palma de Mallorca (Balearic Islands)
February 24 th 2020	First patient diagnosed in the peninsula (Catalonia, Madrid and Valencia)
March 11 th 2020	Educational activities suspended in Madrid and in the rest of Spanish regions similar measures were adopted in the next few days (still in force)
March 14 th 2020	Declaration of the state of alarm Extended March 27 th , April 10 th , April 24 th , May 8 th (until May 24 th)
March 28 th 2020	Halting of all non-essential activity
April 13 th 2020	Lifting of some restrictions to non-essential sectors
April 26 th 2020	Children under 14-year-old allowed to go outside
May 2 nd 2020	Beginning of the plan for easing lockdown restrictions Phase 0 (preparatory): People can go out for short walks and individual sports in their municipality of residence Border controls and internal restrictions to mobility

May 11 th 2020	Phase 1 (initial): Opening of small shops, terraces, etc in some regions according to different indicators related to COVID-19 prevalence and to the capacity of the health system. Phase-1 regions in this date cover around half of the Spanish population. More regions will be added sequentially according to the evolution of the indicators.
May 25 th 2020	Expected date for Phase 2 (intermediate) – Opening of new sectors and activities
June 6 th 2020	Expected date for Phase 3 (advanced) – 50% capacity – telework recommended
June 22 nd 2020	Expected date for the “new normality” (until a vaccine is available)

Source: Own elaboration using data from

https://administracion.gob.es/pag_Home/atencionCiudadana/Estado-de-alarma-crisis-sanitaria.html

Figure 3



Source: Own elaboration using data from <https://ourworldindata.org/grapher/total-and-daily-cases-covid-19>

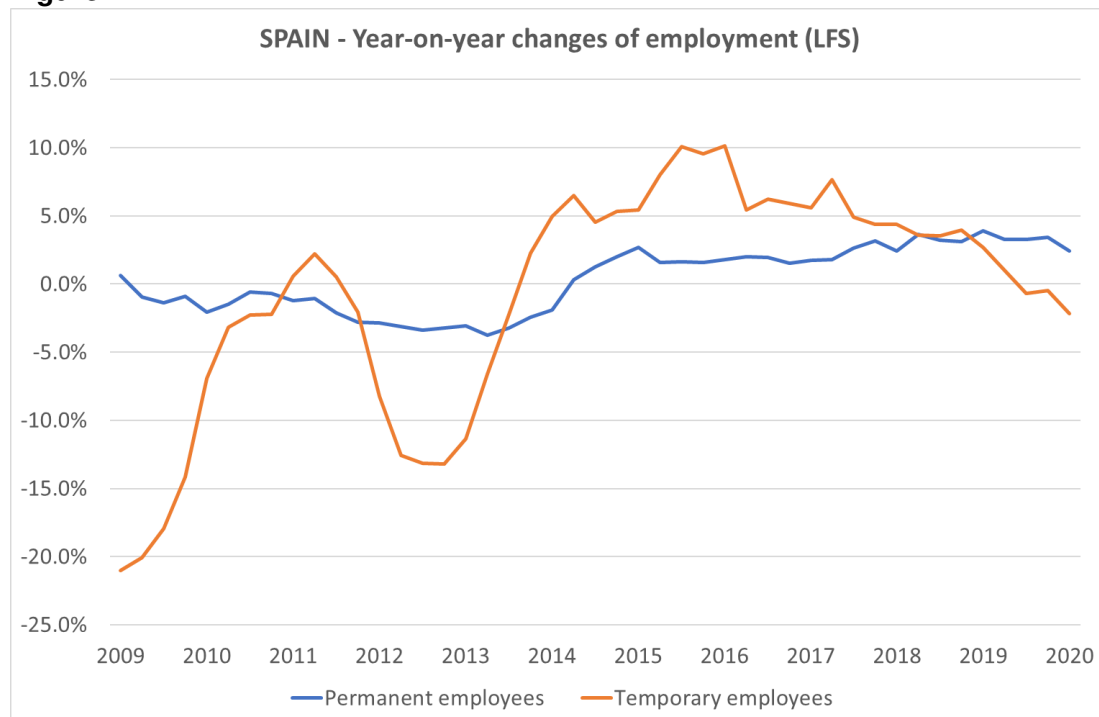
According to your knowledge, how do you assess the following issues:

1. **The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms:** According to early information, who is affected the most? What do you see in terms of sectoral employment reactions, and regarding permanent, fixed-term or agency workers? Are current figures/estimates more or less in line with earlier forecasts or are there some unexpected/surprising deviations?

Recent forecasts for the Spanish economy expect GDP to contract by 9-10 percent during 2020 due to the negative impact on activity of COVID19, particularly during the first half of the year. Employment would decrease in a similar rate to GDP while unemployment rate would go up from the current 14% to 19%.

Taking into account the chronology of the restrictive measures adopted in Spain, Labour Force Survey data for the first quarter of 2020 is not very helpful to assess the impact of the crisis on the labour market due to the fact that it is only marginally covering the lockdown period starting the last days of March. However, LFS data shows that some firms anticipated the negative shock in activity and decided to decrease employment levels by reducing temporary workers. Figure 4 shows a decrease of -2,2% in temporary employment in the first quarter of 2020 compared to the first quarter of 2019 representing more than 90,000 jobs. As it is well known, the proportion of temporary employees in Spain is above 25% and it is much higher than in other European countries (EU average is around 14%).

Figure 4



Source: Own elaboration from LFS data.

Table 2 presents an estimate of the direct impact on employment of the full lockdown adopted between March 28th and April 12th. During this period, one third of workers was only allowed to telework. A recent report by the Bank of Spain¹ has estimated that in 2019 only an 8.4% of total workers worked from home regularly or occasionally. Although this proportion could have increased during this period, it seems reasonable to assume that in most cases the activity was stopped due to the lockdown. Assuming 50 weeks per year, a reduction of 50% of production during 2 weeks represents a fall of 2 percentage points compared a normal year. As far as the activity has not been fully recovered yet and assuming a similar reduction in the activity during April and mid-May (6 weeks), only due to this effect, the accumulated fall in activity would be around 5 percentage points. In fact, as shown in Figure 5, data for GDP for the first quarter of 2020 compared to the same period of the previous year shows a decrease in -4.1% (after adjusting for calendar and seasonal effects). According to Eurostat², seasonally adjusted GDP decreased by 3.2% in the euro area and by 2.6% in the European Union during the first quarter of 2020, compared with the same quarter in the previous year, while in France and Italy, it has decreased by -5.4% and -4.8%, respectively.

Table 2

Impact of the lockdown on employment	Allowed to work	Only telework allowed	Total
Essential activities	13,100	1,600	14,700
Non-essential activities	0	5,079	5,079
Total	13,100	6,679	19,779
% on total employment	66.2%	33.8%	100.00%

In thousand persons

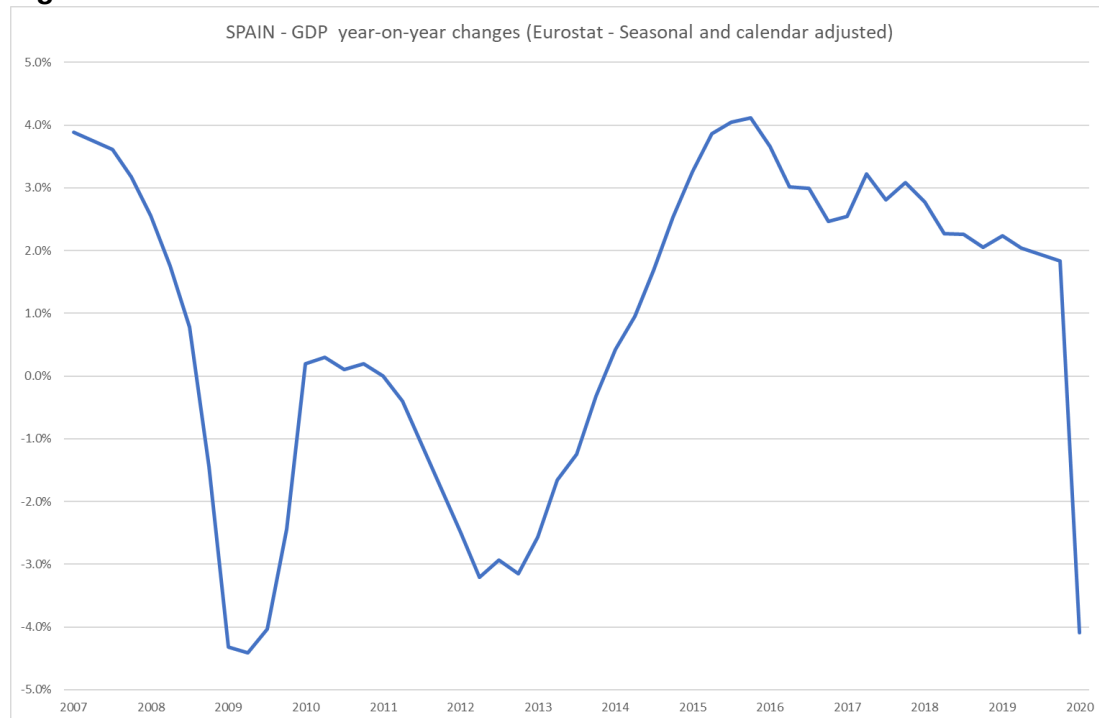
Source: Own estimates using data from the Spanish Labour Force Survey 2019 average values and estimates from the Spanish National Institute of Statistics

(https://www.ine.es/covid/nota_tecnica_dirce.pdf)

¹ Anghel, B., Cozzolino, M., Lacuesta, A. (2020), El teletrabajo en España, Artículos Analíticos, Boletín Económico 2/2020.

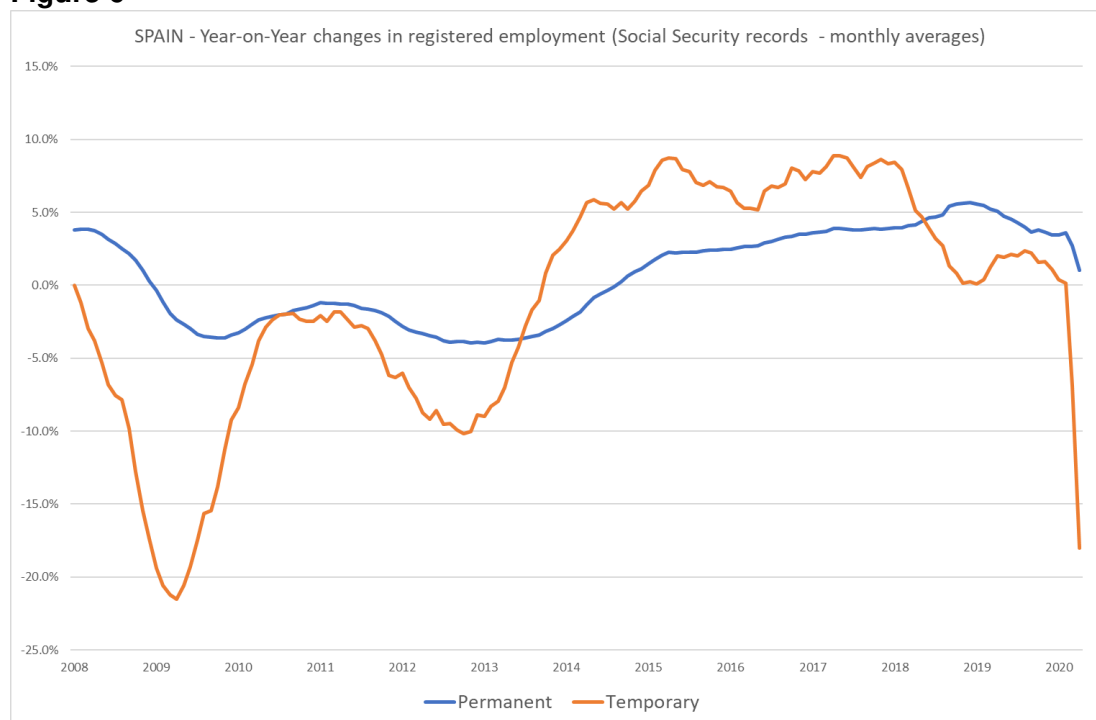
² <https://ec.europa.eu/eurostat/documents/2995521/10294864/2-15052020-AP-EN.pdf/5a7ea909-e708-f3d3-8375-e2510298e1b8>

Figure 5



Source: Own elaboration using data from Eurostat.

Available information from Social Security records allows to analyse the monthly evolution of registered employment. The year-on-year changes in permanent and temporary employment is shown in Figure 6. We can clearly see that temporary employment is much more volatile than permanent one along the business cycle and that the values for the latest available observations show an unprecedented decrease in both cases. As we can also see in Table 4, registered employment measured as monthly averages did not change in March 2020 compared to March 2019, but it felt a 4.5% in April compared to the same month of the previous year. However, this variation is mainly explained by the huge drop in temporary employment: -6.9% in March and -18.0% in April compared to the same months of the previous year.

Figure 6

Source: Own elaboration from Social Security records.

Table 3

Registered employment	Monthly averages			
	% Change from same month previous year		% Change from previous month	
	March 2020	April 2020	March 2020	April 2020
Total	0.0%	-4.5%	-1.6%	-3.5%
Permanent	2.7%	1.0%	-0.2%	-0.9%
Temporary	-6.9%	-18.0%	-5.2%	-10.0%

Source: Own elaboration from Social Security records.

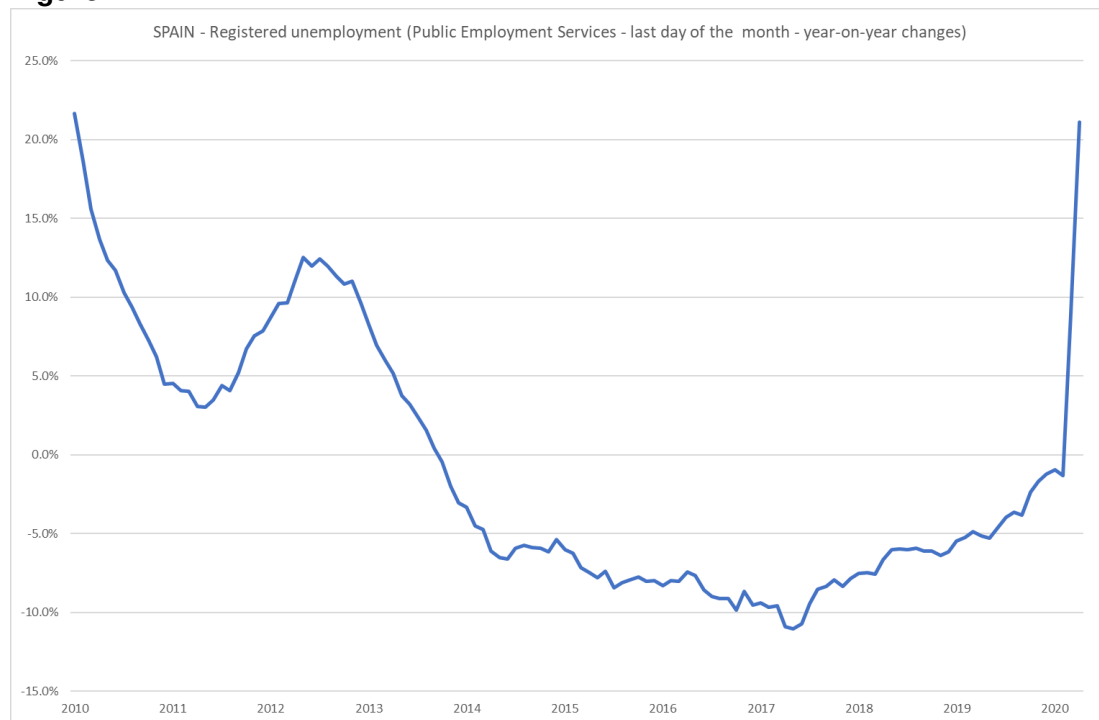
Table 4 complements this analysis by looking at the number of registered employment the last day of the month. Looking at the values for total employment, two interesting results emerge when compared to the information shown in Table 3: first, part of the adjustment in employment did already take place at the end of March and second, the evolution of employment during the second part of April seems to be a bit more positive than the picture shown when looking at monthly averages. In fact, looking at sectoral evolutions, there seems to be a certain improvement during April compared to March.

Table 4

Registered employment	Last day of the month			
	% Change from same month previous year		% Change from previous month	
	March 2020	April 2020	March 2020	April 2020
Total	-3.4%	-4.1%	-4.3%	-0.3%
Agriculture	-3.5%	-1.5%	-0.8%	3.0%
Manufacturing	-2.9%	-3.3%	-3.1%	-0.7%
Construction	-10.8%	-8.4%	-11.3%	2.4%
Services	-3.2%	-4.4%	-4.2%	0.7%

Source: Own elaboration from Social Security records.

Figure 7 shows the evolution of registered unemployment using administrative data from Public Employment Services records. As shown also in Table 5, registered unemployment increased by 21.1% in April 2020 compared to April 2019 (data for the last day of the month), reaching more than 3.8 million with an increase of 670 thousand individuals, affecting all sectors with a similar intensity.

Figure 7

Source: Own elaboration from Public Employment Services records.

Table 5

Registered unemployment	Last day of the month			
	% Change from same month previous year		% Change from previous month	
	March 2020	April 2020	March 2020	April 2020
Total	9.0%	21.1%	9.3%	8.0%
Agriculture	2.7%	9.0%	4.3%	2.5%
Manufacturing	7.8%	18.9%	9.1%	8.9%
Construction	22.1%	31.7%	22.9%	7.8%
Services	9.9%	24.0%	9.0%	8.8%
No previous job	-5.7%	-2.4%	1.9%	3.0%

Source: Own elaboration from Social Security records.

However, it is important to mention that unemployment has not increased to a higher extent due to the flexibility introduced in temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo). In fact, the government affirmed that all dismissals caused by the coronavirus will be considered unjustified, thus increasing their cost. This measure is new in the context of the Spanish labour market as in previous crisis, external flexibility mechanisms were in place instead of internal ones such as temporary lay-offs. As shown in Table 6, the number of workers covered by ERTEs at the beginning of May were 3,3 millions representing a 20% of registered employment in all sectors. However, these shares vary substantially across sectors with values above 50% for activities related to tourism and leisure activities.

Table 6

Data for April 30 th	Registered employment	Workers covered by ERTes	Proportion
Accommodation	1,430	933	65.2%
Creative, arts and entertainment	306	155	50.5%
Other services	510	136	26.7%
Retail trade and repair of vehicles	3,073	813	26.5%
Real estate	141	26	18.1%
Construction	1,145	135	11.8%
Administrative and business support	1,308	200	15.3%
Education	1,031	152	14.7%
Transportation and support activities	896	135	15.1%
Manufacturing	1,990	369	18.6%
Scientific and technical activities	1,020	114	11.2%
Other sectors	4,338	220	5.1%
Total	17,187	3,387	19.7%

In thousands.

Source: Own elaboration using data from the Spanish Ministry of Labour, Migrations and Social Security³

2. **The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 (as listed in the OECD inventory):** Is this summary appropriate? Have there been most recent changes or new initiatives? How do you assess the overall policy set adopted so far? Have certain aspects or target groups been neglected in the policy packages adopted?

The OECD inventory has been updated on May 15th with information for Spain up to May 12th. This update is relevant as some measures were recently adopted in relation to the extension of “ERTes” after the end of the State of Alarm (<https://www.boe.es/buscar/act.php?id=BOE-A-2020-4959>).⁴

Spain is one of the few countries that has adopted measures along the 10 dimensions analysed in the OECD inventory since the beginning of the health crisis.

Different measures (“Social Shield”⁵) have been adopted in order to ensure an adequate level of social protection of workers

Workers under precautionary confinement and/or suffering from COVID-19 benefit from a more generous coverage than the one for regular illnesses (similar to workplace

³ <http://prensa.mitramiss.gob.es/WebPrensa/noticias/ministro/detalle/3800>

⁴ The ILO briefing of country policy responses provides also a good summary of the measures adopted in Spain but it has not been updated yet.

<https://www.ilo.org/global/topics/coronavirus/country-responses/lang--en/index.htm#ES>

⁵ https://www.mscbs.gob.es/ssi/portada/docs/Ampliar_el_Escudo_Social_para_no_dejar_a_nadie_atras.pdf

accidents – 75% of social security regulatory base instead of 60%). During the two weeks of full lockdown, a full paid leave was granted for workers of non-essential activities that could not be carried out by teleworking with a compensation of non-worked days before the end of the year. Workers with family responsibilities due to school closures or need to provide care for family members can adapt their time and working conditions during this period (recently extended until three months after the end of the state of alarm). Firms cannot terminate temporary contracts during the crisis.

Minimum contribution periods for unemployment benefits have been suspended during the crisis, including for temporary workers and eligibility has also been extended for some groups of workers (those with permanent discontinuous contracts or domestic employees). Extraordinary allowances and benefits for self-employed workers, affected by the suspension of economic activity, has also been adopted. It is also possible to combine unemployment benefits with temporary employment in agriculture under certain conditions.

There have been significant changes in the temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo). Procedures have been simplified and access is now granted to all workers affected by employment suspension or working time reduction, regardless of their contribution period. The objective is to minimize dismissals during this period and facilitate a quick recovery of the activity once the confinement measures are lifted. Unemployment benefits received under the temporary employment adjustment scheme do not count in terms of consumption of unemployment benefit rights during the state of alarm and there is an exemption of social contributions during the period (100% for SMEs, 75% for the other firms). Recent legislative changes have also allowed that ERTes can be applicable in sectors considered essential but having nevertheless suffered a reduction in revenues due to confinement measures. All temporary employment adjustments process related to the Covid-19 crisis are covered under these provisions, even if they were initiated before the approval of the measure. The condition to use ERTE's is that economic dismissals are not allowed in these firms, being this one aspect that has been recently reformed after an agreement with firm associations and trade unions.

Additional measures have been adopted to support vulnerable families and workers. Social services programs have received additional funding and specific measures have been adopted to provide food to children affected by school closures. A three-month credit moratorium on the payment of credits and non-mortgage loans by vulnerable groups has also been introduced. Utility companies cannot cut services (water, gas, energy) in case of non-payment. A social benefit to cover the costs of energy provision has been extended to households affected by COVID-19. Evictions are prohibited due to missed payments for all households during the state of alarm and for vulnerable households (those affected by the ERTes or whose incomes have fallen by more than 40% due to COVID-19) during the next 6 months.

3. **Regarding policies providing immediate liquidity to small firms and freelancers:** How do you see the actual take-up of support by small firms and self-employed? To what extent do the measures in practice help mitigate the economic impact of COVID-19? How do you see the delivery and implementation by public agencies and other entities, taking into account the trade-off between quick delivery and deadweight losses or misallocation?

Different measures have been adopted to guarantee the liquidity and stability of firms and self-employed workers.

The government has introduced the possibility of tax payment deferrals for a period of six months, upon request, without interests. Additionally, firms and self-employed with no social security debts are allowed to defer Social Security debt payments due between April and June 2020 with 0.5% interest. Additional measures have been taken in order to align tax bases to the current situation. These measures are supposed to provide more than 15 billion euros in liquidity for firms. Firms that have received public loans are also allowed to postpone their repayment. Moreover, guarantees to facilitate access of loans to companies and self-employed have been already granted. A specific financing line of 400 million euros has been approved for firms and self-employed workers in the tourist, transport and hospitality sector and specific measures for exporting firms have also been adopted.

Firms are exempted of social contributions for workers affected by ERTes during this period (100% for SMEs, 75% for the other firms) and specific bonuses have been introduced in the tourism sector. As previously mentioned, self-employed workers can benefit from the moratorium on mortgage payments to offices/commercial premises from 1 to 3 months.

4. **Regarding dependent workers:** How do you assess the effectiveness of unemployment insurance and short-time work in stabilizing income and jobs at the moment? To what extent do short-time work measures help reduce or postpone inflows into unemployment (and for whom)? Is this being complemented by sectoral or firm-level agreements? What is known about the support delivered to job seekers now? Has activation by ALMPs come to a halt?

The extraordinary measures described above have been effective at the moment. Short-time work measures have reduced inflows into unemployment particularly in those sectors in non-essential activities with a higher direct impact of the lockdown, but that expect a quick recovery in demand at the end of the state of alarm (probably by end of June). However, there are other sectors that will face substantial limitations in their capacity due to social distancing measures to prevent a new wave of contagions, but also an important fall in their demand. This is clearly the case of touristic activities that will face very important restrictions for international visits that would not be fully compensated by domestic demand.

Public Employment Services are devoting all their efforts to process the demands related to ERTes, but anyway, there is no real possibility of keeping the rest of services linked to ALMP working as usual due to the restrictions imposed by the state of alarm. The situation will only improve by the end of June.

5. To what extent are **working conditions and work organization within firms** changing at the moment, in particular in sectors where there is an increased or normal workload? How do working time / mobile working rules or care arrangements respond to that in practice?

Policies aim to reduce workers' exposure to COVID-19 in the workplace involve, on the one hand, the adoption of individual protection equipment and the adoption of the guidelines and specific orientations established by health and safety at work authorities. Most of these measures would be in place even in the phase of "new normality". Th

As previously mentioned, when possible, teleworking has been encouraged to continue with the activity during the COVID19 crisis. According to estimates by the Bank of Spain, following the methodology by Dingel and Neiman (2020)⁶, remote work could have easily increased to 30.6% of total employment from the current 8.4% during in the crisis or will do it in the next months. Some specific measures have been already adopted to support a fastest adoption of new technologies by small and medium-sized firms.

6. How do you assess the situation of **new labor market entrants** this year, in particular with school or university graduates? Are there policy innovations and initiatives to cope with this particular situation regarding hiring, provision of apprenticeships etc.?

The situation for new labour market entrants this year is going to be very difficult, particularly during the summer time when they are usually offered internships that could be converted into temporary contracts when they end. At the moment, the focus of the policies is not considering the specific situation of this group. It is possible that this implies a higher enrolment in higher studies for the next academic year starting September-October, but teaching is also going to be subjected to important restrictions regarding face-to-face activities. For this reason, flexible and blended learning activities will probably be adopted in post-compulsory educational levels allowing this potential increase in domestic demand (probably compensating the fall in the international demand, particularly at the university level).

7. Do you see **further remarkable developments** and issues, maybe unexpected policy innovations, changes in employment, new trends? Can you already identify **(changes in) medium-term or long-term trends on the labor market** that are due to the crisis (e.g. accelerated structural change)? How will the general functioning of the labor market in your country be affected in the long run?

One innovation in the context of the Spanish labour market is is the government's decision to favour the use of ERTes, thereby minimising dismissals. The promotion of measures for country-wide internal workforce reductions is a new policy that has not been adopted in previous crisis.

The policy debate is now focusing on how to design public policies in order to provide an adequate support to citizens. The adoption of an unconditional basic income as an alternative to other social welfare measure has been discussed during the last weeks,

⁶ Dingel I. J., Neiman, B. (2020), How many jobs can be done at home?, NBER Working Paper, n.º 36948.

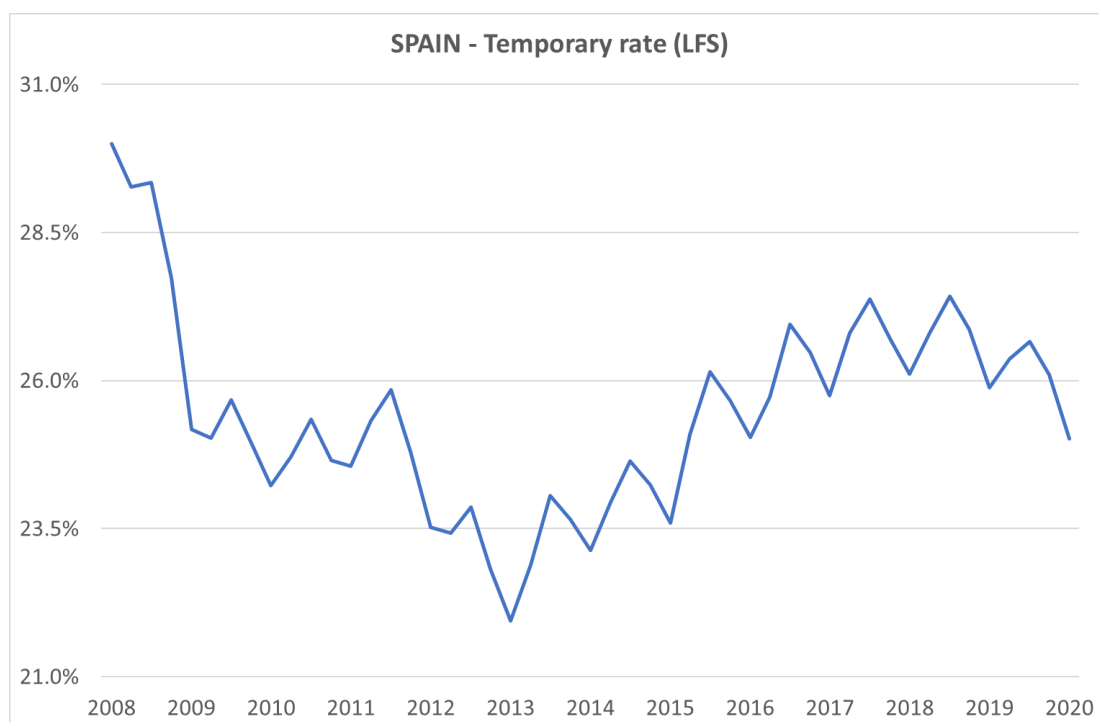
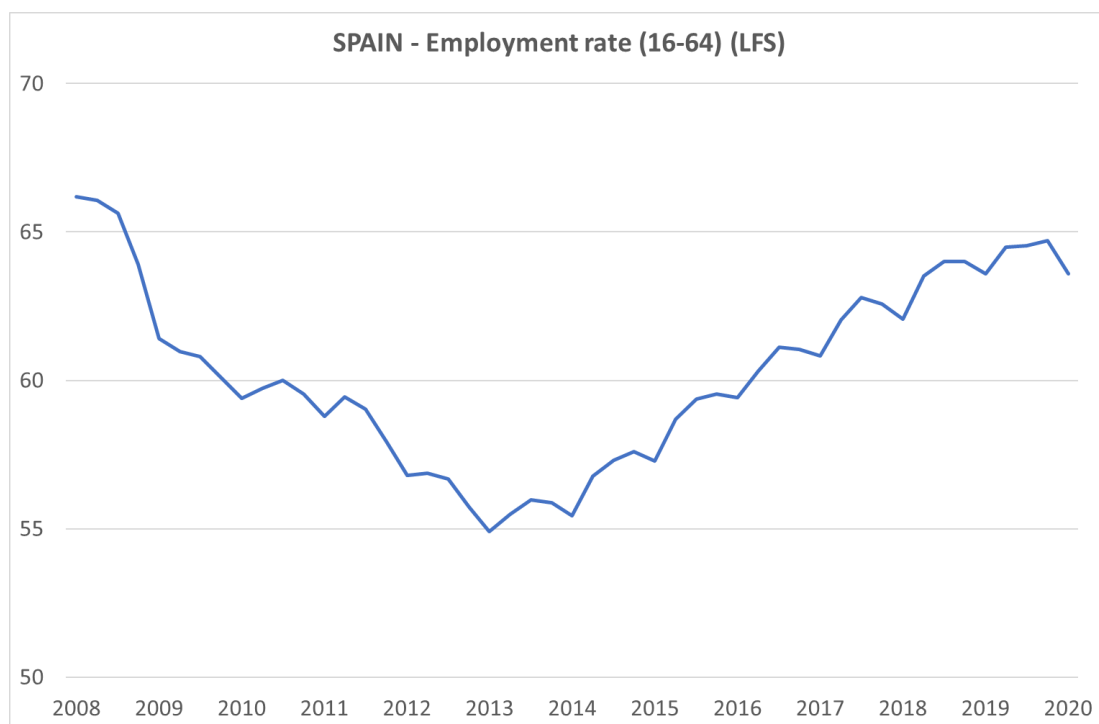
but the government has not done any formal proposal and it is not clear whether they will really consider introducing this policy in the medium run.

8. Can the **current policy stance** (reduced economic activity, combined with public income support) be sustained, and for how long? What do you see as necessary and **useful next steps**, in particular to revive economic activity (soon)? How do you see the **current and future fiscal viability** of the crisis relief measures?

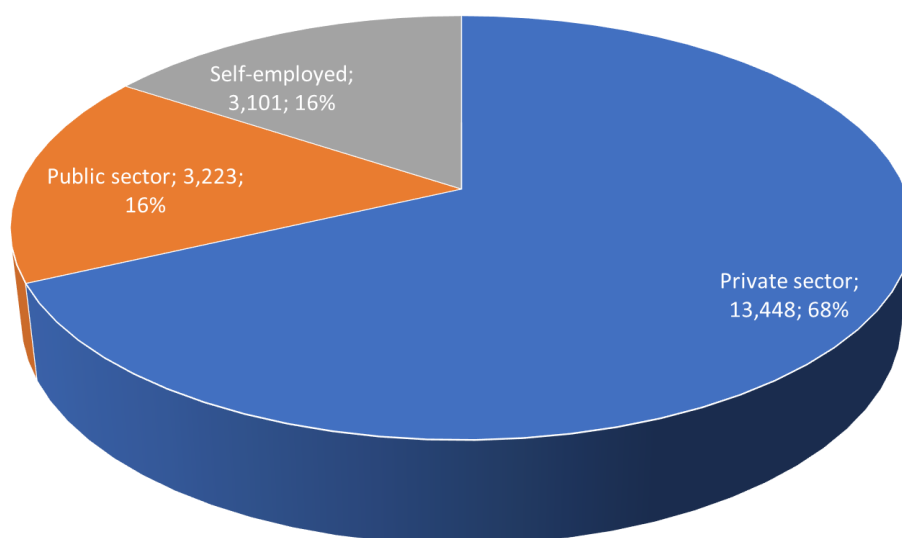
As all countries, Spain is facing a simultaneous supply and demand shock caused by the pandemic and the response to it in terms of the lockdown. Due to the higher incidence of disease, the supply shock is longer and more intense than in other countries. At the same time, the demand shock is also going to be of higher magnitude due to the productive specialisation of the Spanish economy, particularly in some regions. For these reasons, the current level of public intervention must be sustained even after the current health crisis is overcome. This creates a clear tension in public finances, although some of the adopted measures such as tax delays, will have no final impact on the budget. In fact, once the confinement measures are relaxed or no longer in force, in most sectors the activity will rebound and this will alleviate the pressure on public expenses, particularly those related to income support policies for workers in non-essential activities. The government has forecasted public deficit to reach 10% of GDP and a level of public debt of 115% of GDP in 2020. For 2021, GDP is expected to grow by 6,8% from previous year while the unemployment rate will reduce to 17,2% (2 points less than the expected value for 2020), so public finances should come back to a sustainable path. In fact, and although the impact on public accounts will be significant, it seems manageable if the lockdown does not extend beyond June or a new set of confinement measures is required in the next fall/winter.

ANNEX

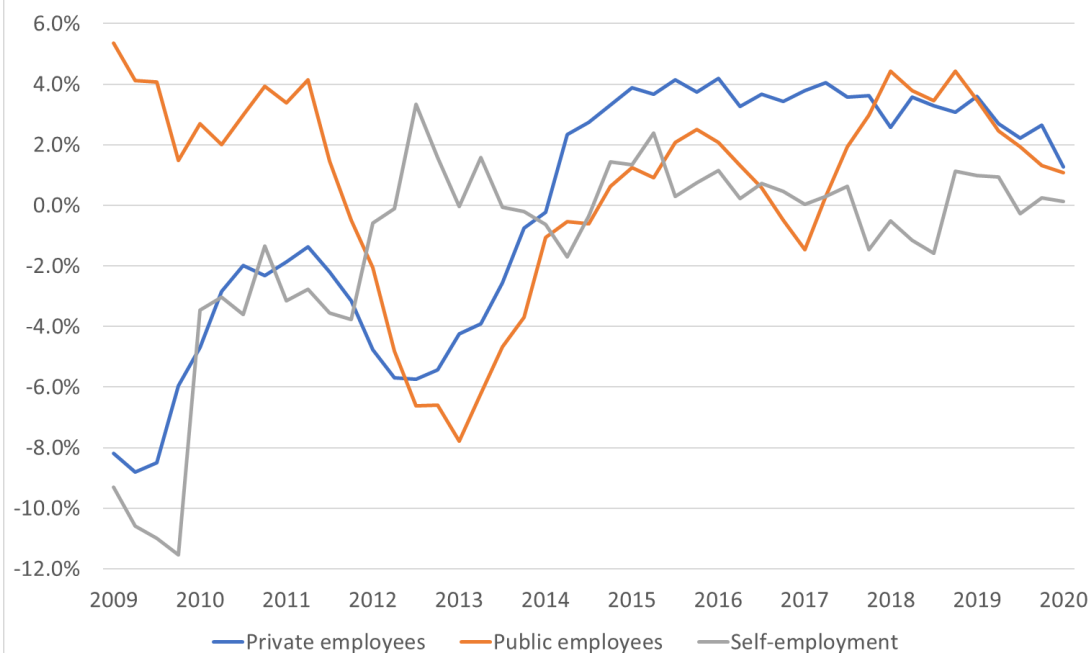
Background information from the Labour Force Survey

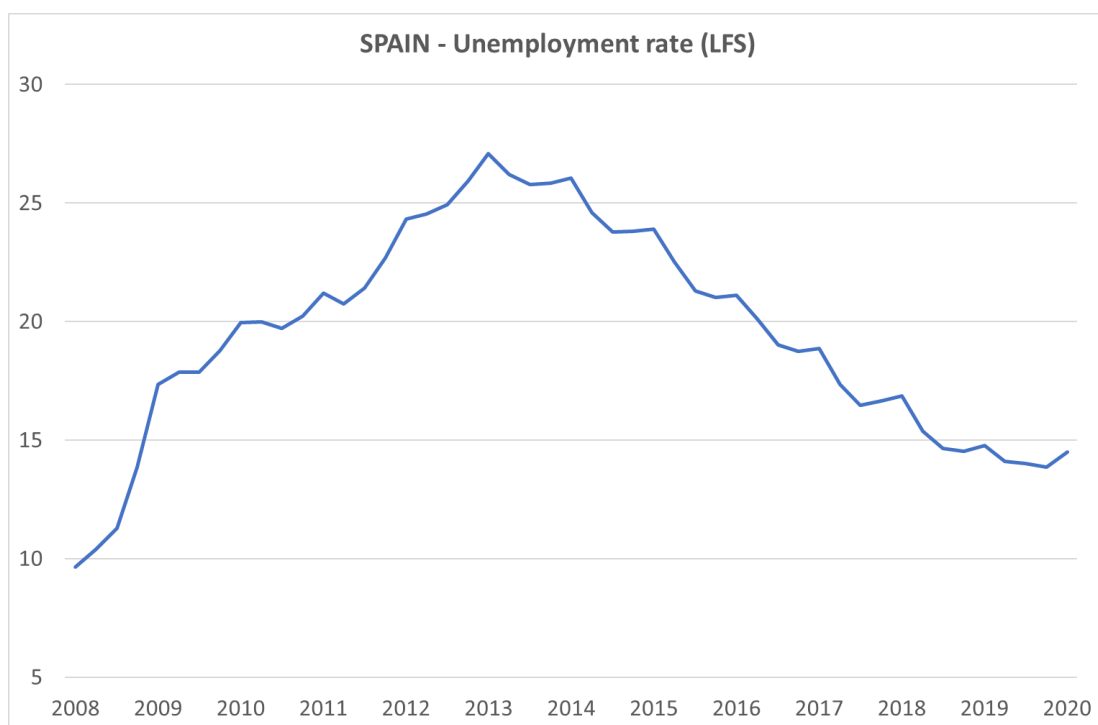
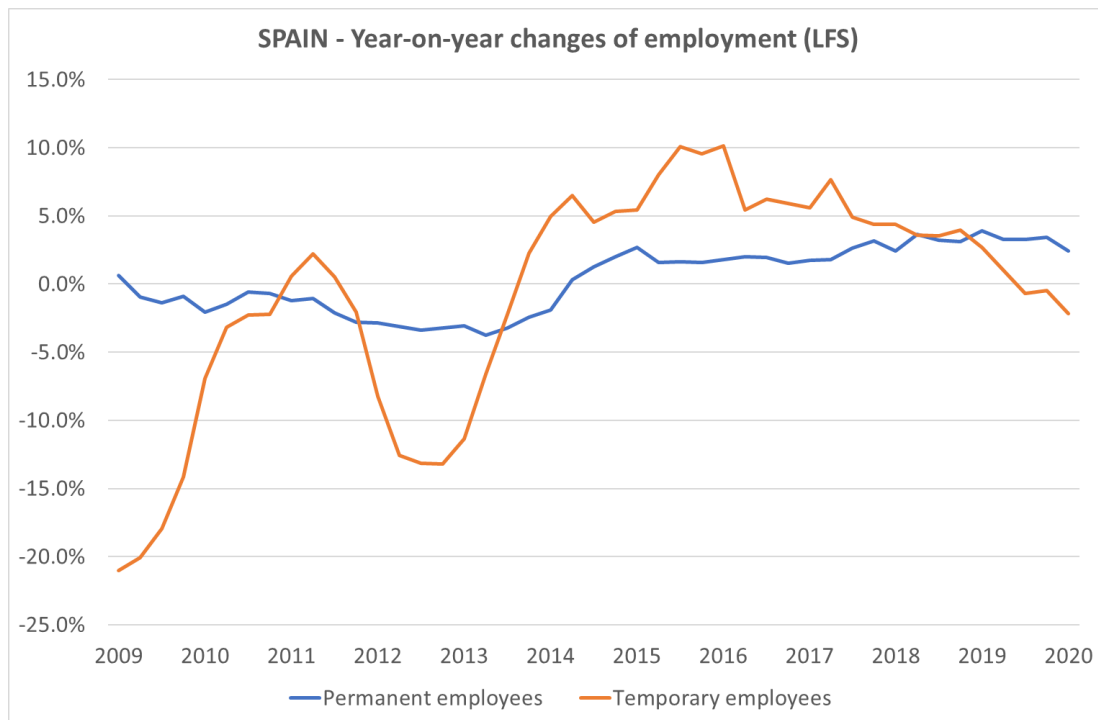


SPAIN - Distribution of employment 2019 (LFS - in thousands)

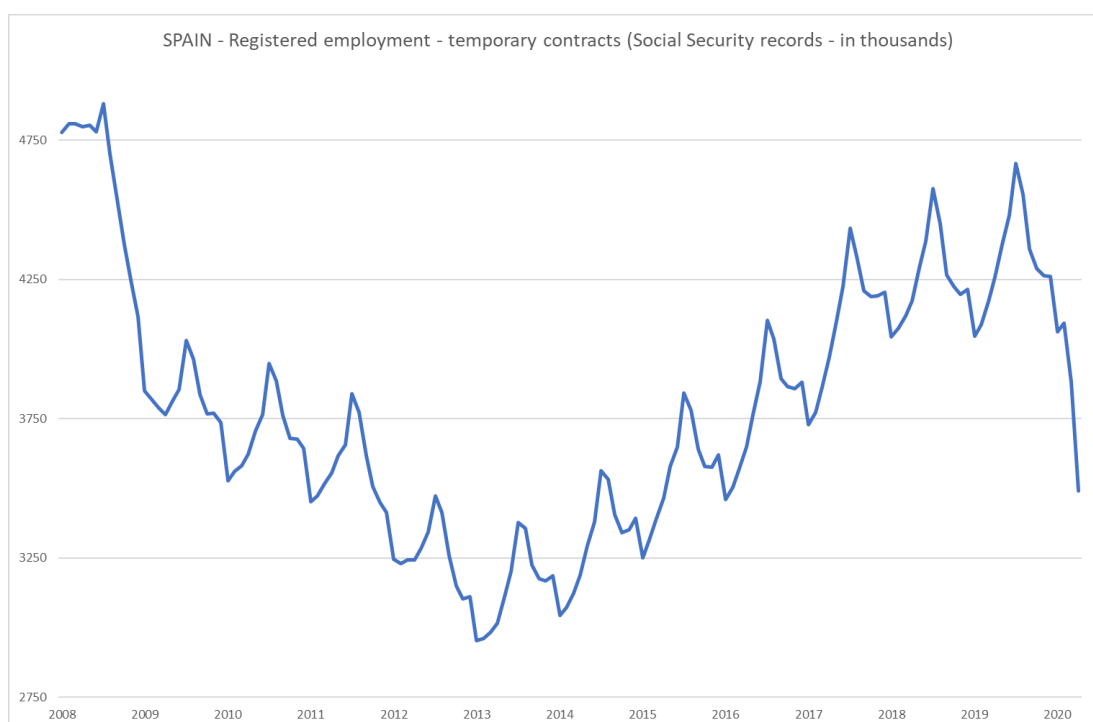
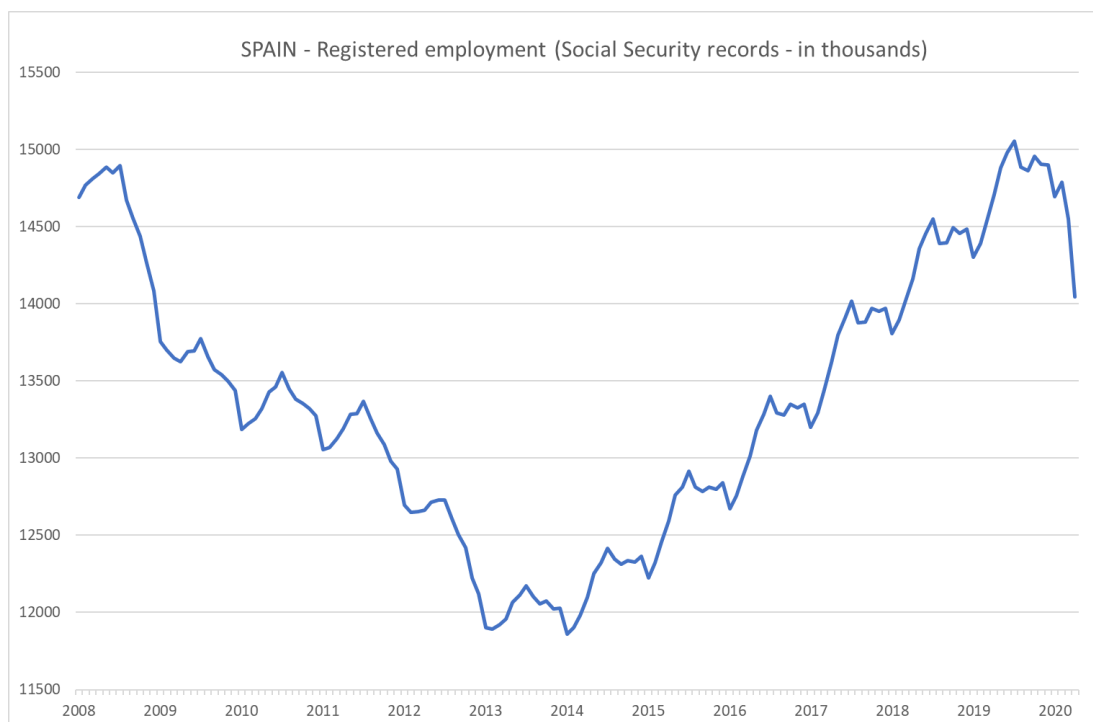


SPAIN - Year-on-year changes of employment (LFS)





Additional information from Social Security records



Additional information from Public Employment Services records

