IZA Institute of Labor Economics
Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

Spain (June 2020)

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ABSTRACT

Spain is one of the countries that has been hit hardest by COVID-19 during the first half of 2020. For this reason, the lockdown has been stricter and longer than in other European countries in order to flatten the curve. Around 6 million workers are now unemployed or covered by temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo). Different measures ("Social Shield") have been adopted in order to ensure an adequate level of social protection of workers such as the new minimum income scheme (Ingreso Minimo Vital – IMV). However, the impact on public accounts will be significant, and it will take time to come back to a sustainable path.

Cite as:

Ramos (2020): IZA COVID-19 Crisis Response Monitoring: Spain (June 2020).

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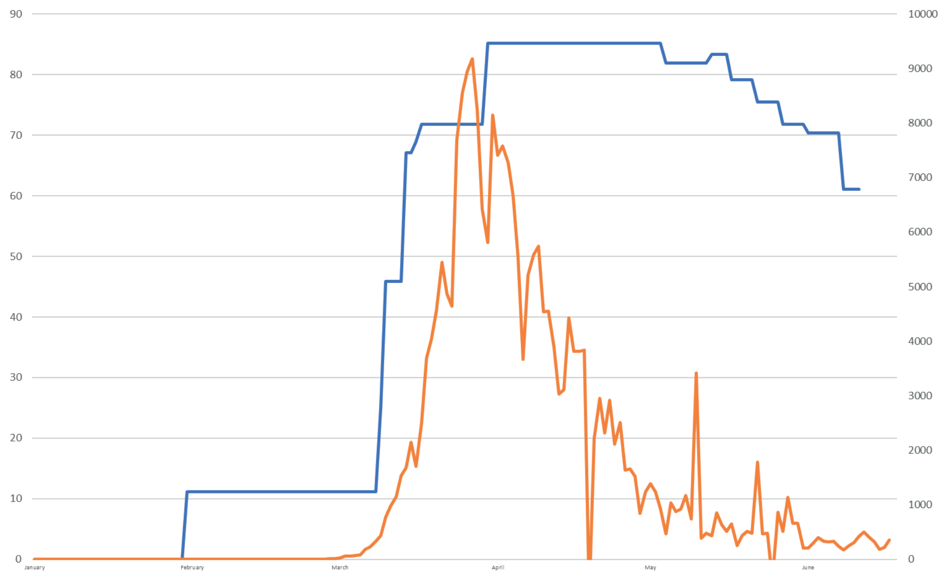
Labor market impact of COVID-19

Spain is one of the countries that has been hit hardest by COVID-19 between the first half of 2020. 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 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. Table 1 presents the chronology and a brief summary of the adopted measures in this context, that are now being relaxed although several restrictions are still in force. As also shown in Figure 1, 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 1: Spain – COVID Stringency index (100=strictest response) and new COVID-19 cases



Source: Own elaboration using data from http://ourworldindata.org

Table 1: Chronology of policy responses to COVID19 in Spain

January 31st 2020	First patient diagnosed in La Gomera (Canary Islands)
February 9th 2020	First patient diagnosed in Palma de Mallorca (Balearic Islands)
February 24th 2020	First patient diagnosed in the peninsula (Catalonia, Madrid and Valencia)
March 11th 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 14th 2020	Declaration of the state of alarm involving recentralization of regional competences, severe restrictions of mobility and the cease of activity in non-essential sectors. Extended March 27th, April 10th, April 24th, May 8th, May 22nd, June 5th (following until June 21st)
March 28th 2020	Halting of all non-essential activity
April 13th 2020	Lifting of some restrictions to non-essential sectors
April 26th 2020	Children under 14-year-old allowed to go outside
May 2nd 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 11th 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 25th 2020	Expected date for Phase 2 (intermediate) – Opening of new sectors and activities
June 6th 2020	Expected date for Phase 3 (advanced) – 50% capacity – telework recommended
June 19th 2020	Some regions reach the “new normality”. It is expected that the rest follow in the next days (June 22nd in most cases)

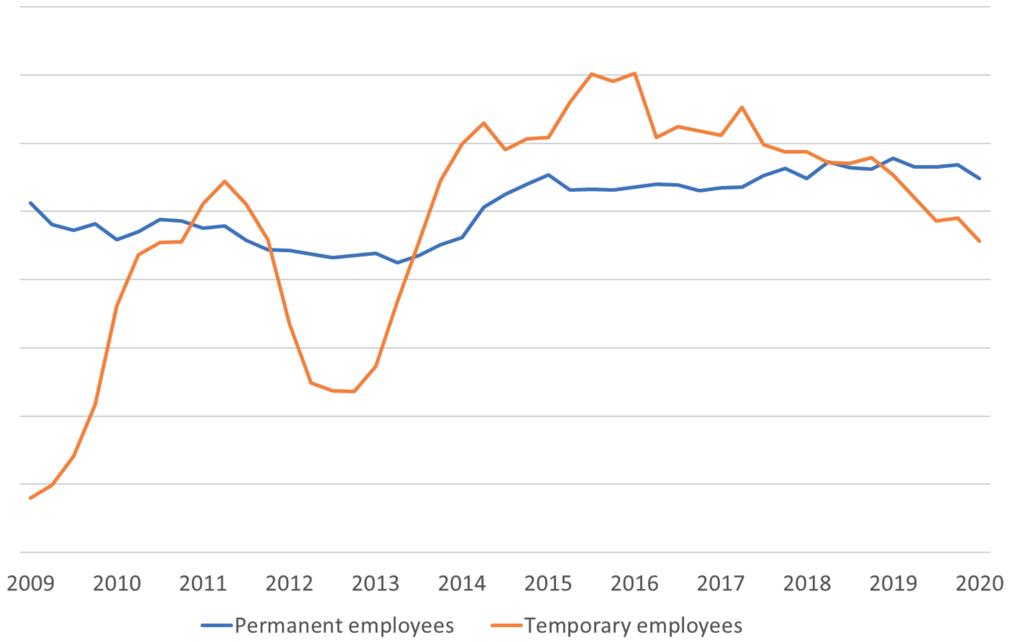
Source: Own elaboration using data from https://administracion.gob.es/pag_Home/atencionCiudadana/Estado-de-alarma-crisis-sanitaria.html

Recent forecasts for the Spanish economy[1] expect GDP to contract by 9-15 percent during 2020 due to the negative impact on activity of COVID19. Employment would decrease in a similar rate to GDP while unemployment rate would go up from the 14% at the end of 2019 to 18%-25% depending on whether an early or gradual recovery is expected compared to a more risky scenario.

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 labor 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 2 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%).

1 https://www.bde.es/f/webbde/SES/AnalisisEconomico/AnalisisEconomico/ProyeccionesMacroeconomicas/ficheros/be08062020-proye.pdf

Figure 2: Spain – Year-on-year changes of employment (LFS)



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 Spain[2] 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 to 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 6 percentage points. In fact, as shown in Figure 3, 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 Eurostat[3], 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 decreased by -5.4% and -4.8%, respectively.

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

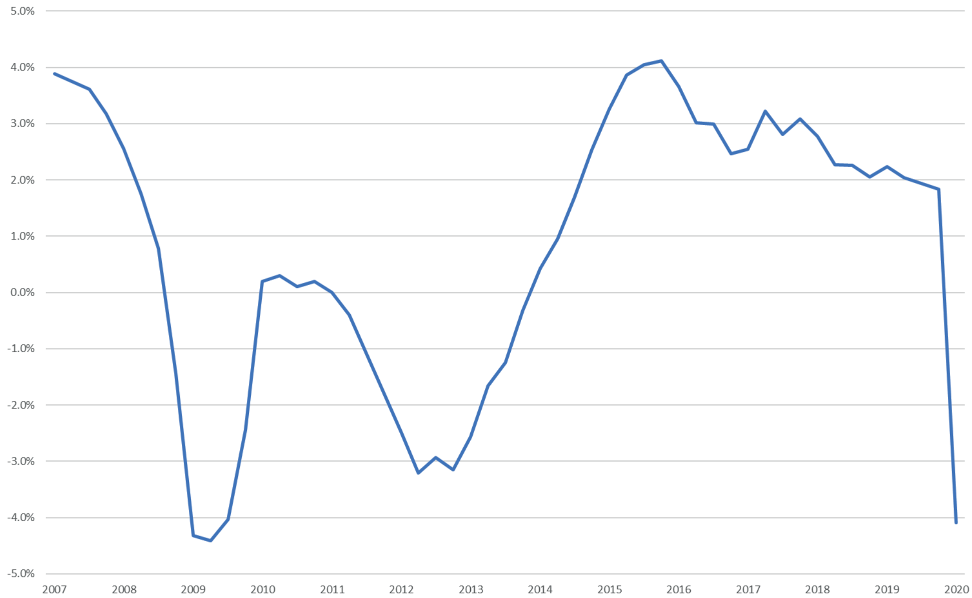
3 https://ec.europa.eu/eurostat/documents/2995521/10294864/2-15052020-AP-EN.pdf/5a7ea909-e708-f3d3-8375-e2510298e1b8

Table 2: Impact of the lockdown on employment, in thousand persons

	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%

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)

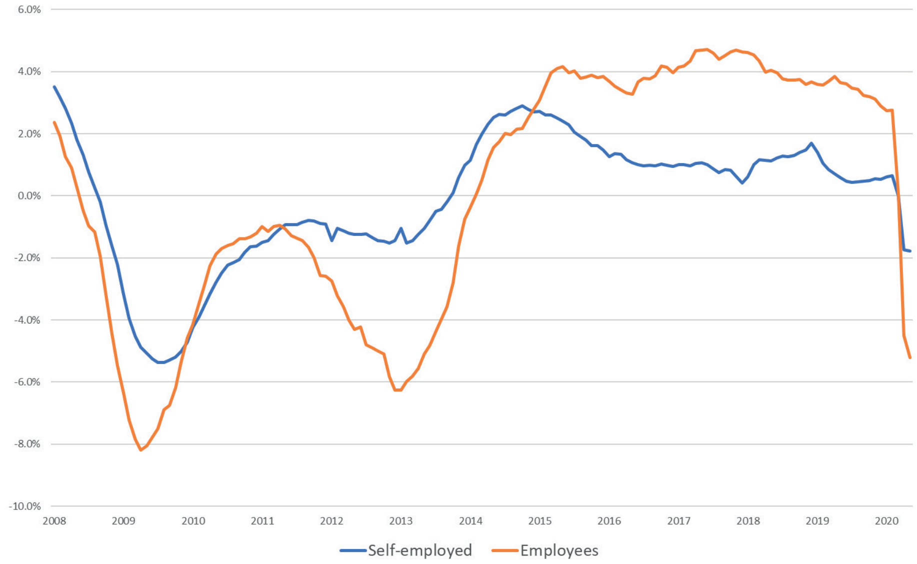
Figure 3: Spain – GDP Year-on-year changes (Eurostat - Seasonal and calendar adjusted)



Source: Own elaboration using data from Eurostat.

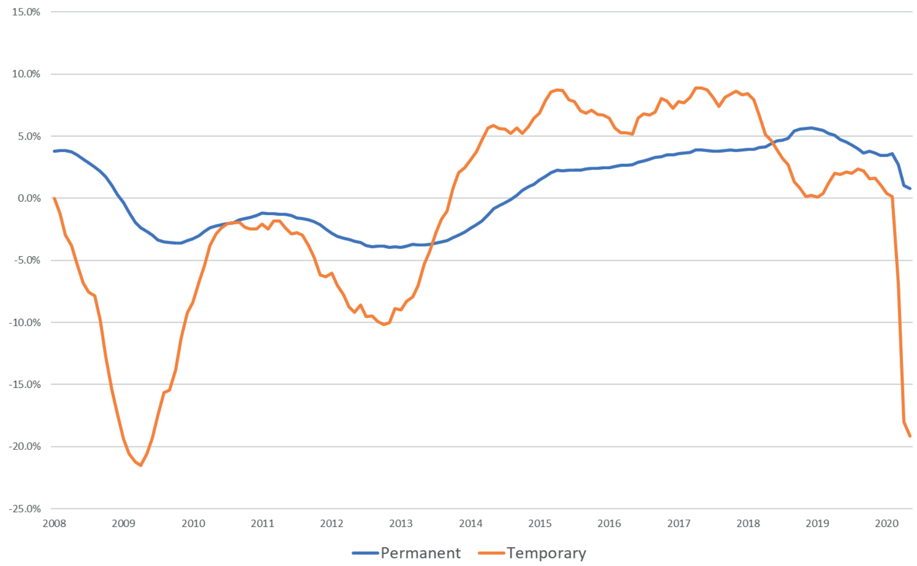
Available information from Social Security records allows to analyze the monthly evolution of registered employment until May 2020. The year-on-year changes in the number of employees and self-employed is shown in Figure 4 while Figure 5 shows the same information distinguishing between permanent and temporary workers. As we can see, all groups experience an unprecedented decrease in April, although in the case of temporary employment, data for March were also significantly lower than in the previous month, probably due to anticipation effects. Looking at the figures, 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 observation shows an important stabilisation compared to previous months. As we can also see in Table 3, total employment measured as monthly averages did not fall substantially in March 2020 compared to March 2019 (-0.2%), but it felt a 4.0% in April compared to the same month of the previous year. This variation was 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. However, although data for May is still below the levels of the same month of the previous year (except for permanent employees), in all cases it has slightly recovered when compared to April 2020. Figure 6 shows the regional variation in the year-on-year changes in employment in May 2020 compared to May 2019. As we can see in the map, there are important variations in the size of the shock on employment associated to the regional sectoral specialization, but also due to the fact that some regions were allowed to restart economic activity before the others based on pandemics-related indicators.

Figure 4: Spain – Year-on-year changes in registered employment (Social Security records, monthly



Source: Own elaboration from Social Security records.

Figure 5: Spain – Year-on-year changes in registered employment (Social Security records, monthly averages)



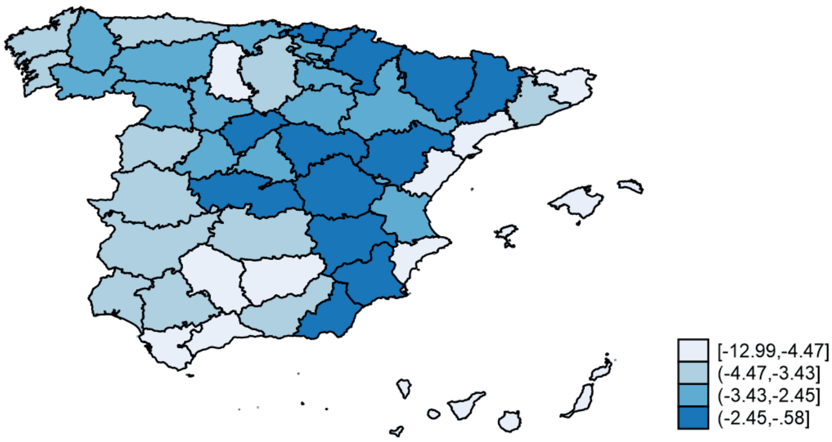
Source: Own elaboration from Social Security records.

Table 3: Registered Employment

	Monthly averages					
	% Change from same month previous year			% Change from previous month		
	March 2020	April 2020	May 2020	March 2020	April 2020	May 2020
Total	-0.2%	-4.0%	-4.6%	-1.3%	-2.9%	0.5%
Self-employed	0.0%	-1.7%	-1.8%	-0.2%	-1.3%	0.3%
Employees	0.0%	-4.5%	-5.2%	-1.6%	-3.5%	0.4%
Permanent	2.7%	1.0%	0.8%	-0.2%	-0.9%	0.3%
Temporary	-6.9%	-18.0%	-19.2%	-5.2%	-10.0%	1.3%

Source: Own elaboration from Social Security records.

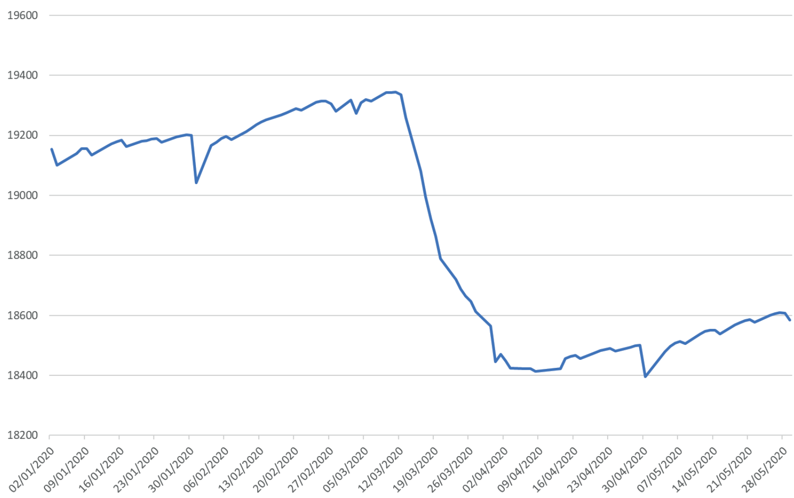
Figure 6: Spain – Year-on-year growth rate of employment, Spanish provinces – May 2020



Source: Own elaboration from Social Security records.

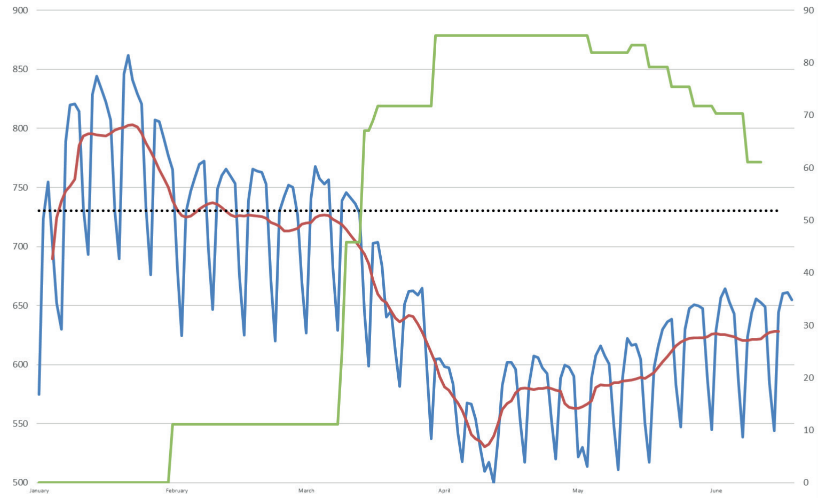
Figure 7 shows the evolution of the daily number of total registered employment. We can see how since the beginning of April, the trend in employment destruction has clearly changed, although the speed of recovery has been slow during May. Figure 8 compares the evolution of the Stringency Index with electricity demand showing a clear association between economic activity and the end of the stricter phase of the lockdown.

Figure 7: Spain – Registered employment (Social Security records – in thousands)



Source: Own elaboration from Social Security records.

Figure 8: Daily electricity demand and stringency index for Spain



Source: Own elaboration using data from http://ourworldindata.org and from Red Eléctrica de España.

Figure 9 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 and by 25.3% in May compared to the same month of the previous year (data for the last day of the month), reaching more than 3.8 million with an increase of 778 thousand individuals compared to May 2019. The increase has affected all sectors with a similar intensity.

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 labor market as in previous crisis, external flexibility mechanisms were in place instead of internal ones such as temporary lay-offs.

Figure 9: Registered unemployment (Public Employment Services – last day of month – year-on-year changes)

Source: Own elaboration from Public Employment Services records.

As shown in Table 4, the number of workers covered by ERTEs at the beginning of May were 3.3 million 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. Similar measures were adopted for self-employed workers with more than

1.5 million being covered. If we sum all workers affected by these measures together with unemployed ones, the total number of persons affected by the economic downturn in Spain due to COVID-19 could have reached more than 8 million during April. However, a recent report by the Spanish Ministry of Labour[4] shows that by mid-June, 1.1 million of workers were no longer covered by ERTEs, with more than 90% coming back to their jobs.

Table 4: Data for April 30th, in thousands.

	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%

Source: Own elaboration using data from the Spanish Ministry of Labour, Migrations and Social Security[5]

Orientation and targeting of adopted measures

Spain is one of the few countries that has adopted measures along the 10 dimensions analyzed in the OECD inventory since the beginning of the health crisis. Different measures ("Social Shield"[6]) 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 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

4 http://prensa.mitramiss.gob.es/WebPrensa/downloadFile.do?tipo=documento&id=3.839&idContenido=3.814

5 http://prensa.mitramiss.gob.es/WebPrensa/noticias/ministro/detalle/3800

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

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, have 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 rest). 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. The discussion now at the policy level is whether ERTEs would be ceased immediately after the new normality has been reached or would be extended, at least, until the end of September.

But the most relevant measure in this area is the approval of a new minimum income scheme (Ingreso Minimo Vital – IMV) entering into force immediately. It guarantees an annual income level to all citizens depending on a vulnerability assessment based on the characteristics of the household and its wealth and income levels. For a household formed by a single adult, the minimum guaranteed amount is 5,538 euros per year but this figure increases up to 12,184 for a household formed by 2 adults and 3 children. The government expects that about 850,000 households and 2.3 million people would benefit from this scheme with a total expense of around 3 billion euros.

Immediate liquidity support to businesses

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 tourism, transport and hospitality sectors 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.

Support of dependent workers

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 during July (after the end of the state of alarm). 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 improve during the next months once the new normality is fully reached, although budgetary cuts have been already adopted regarding some programs.

Working conditions and work organization

Policies aimed 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". 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)[7], remote work could have easily increased to 30.6% of total employment from an 8.4% before 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. In fact, although the new normality has been reached, there are still some sectors where the recommendation is still to telework.

In this context, it is important to mention that due to the closure of all childcare facilities and schools, the conditions for remote working have been especially hard for those families with young children, particularly for women as far as there are still important gender inequalities regarding home production duties.

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

New labor market entrants

The situation for new labor 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).

Policy innovations and labor market trends

One innovation in the context of the Spanish labor market is the government's decision to favor the use of ERTEs, thereby minimizing 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 measures were discussed at the beginning of the crisis, and as previously explained, a new minimum income scheme has been adopted covering the needs of those in situation of relative poverty.

Next steps and fiscal viability

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 the 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 specialization 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). However, a more recent assessment by the Bank of Spain considers that deficit could increase to 11% in 2020 and debt to 119.3% under a gradual recovery scenario. In this case, fiscal consolidation would only take place very slowly with deficit over 6% and debt levels still at 118.7% in 2022, figures that are well in line with the June 2020 OECD Economic Outlook[8]. In sum, the impact of the measures adopted on public accounts have been significant, and it will take time to come back to a sustainable path. Probably, some exceptional measures should have to be adopted during the fall/winter in order to keep a more balanced evolution of public finances.

8 https://doi.org/10.1787/0d1d1e2e-en