

IZA COVID-19 Crisis Response Monitoring
Spain (October 2020)

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ABSTRACT

Spain is one of the countries that was hit hardest by COVID-19 during the first half of 2020. For this reason, the lockdown was stricter and longer than in other European countries in order to flatten the curve. However, the second wave of the pandemics has already heavily impacted and new restrictions have been adopted. Around 6 million workers are now unemployed or covered by temporary employment adjustment schemes (ERTEs – Expedientes de Regulación Temporal de Empleo), which have been recently extended. 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 Mínimo Vital – IMV). However, the impact on public accounts will be significant and much longer than expected, and it will take time to come back to a sustainable path.

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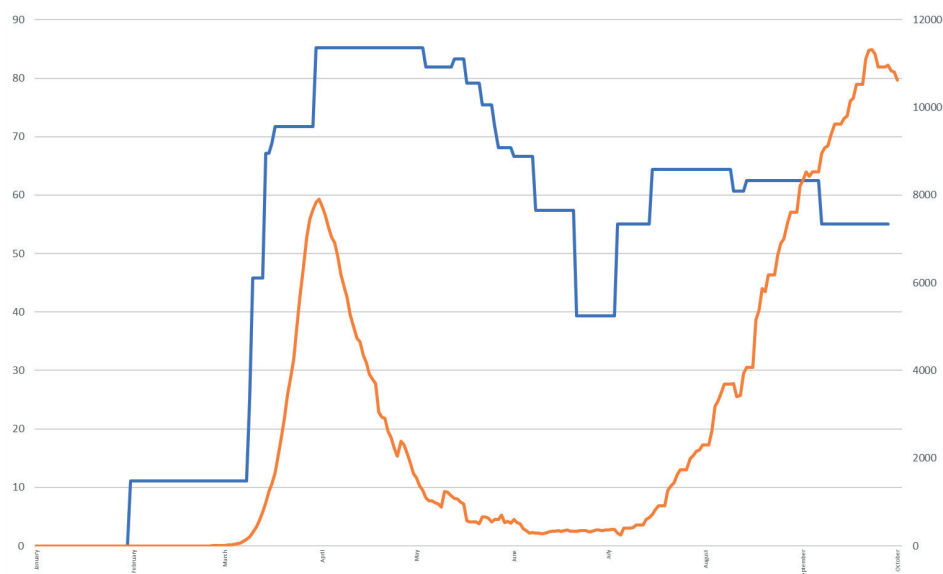
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Labor market impact of COVID-19

Spain is one of the countries that was hit hardest by COVID-19 during the first half of 2020. The magnitude of the health crisis also explains why the lockdown was stricter and longer than in other European countries with notable exceptions such as Italy and France. Due to the positive evolution of the pandemic, several restrictions were relaxed between May and July, but the change in the trend in new COVID-19 cases made necessary to reintroduce some of them during the summer. 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 were effective during the first half of 2020 as it was possible to flatten the curve and to significantly reduce the number of new COVID-19 cases. However, as previously mentioned, the situation has dramatically changed in recent months in terms of contagions achieving new records during September, while the number of deaths has not followed the same path (probably due to the medical knowledge acquired during the first half of the year and improved capacity and technical equipment in the public health system). The dramatic increase in the number of new positive cases has required the adoption of new restrictive measures at the beginning of October, particularly in highly dense urban areas with high levels of contagions.

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.
June 2020	Phases 2 and 3 are achieved during May and June in all regions. The “new normality” involves opening of nearly all sectors and activities although with several restrictions.
September 2020	Primary and secondary schools and universities restart educational activities under strict prevention measures.
October 2020	Internal restrictions to mobility adopted in urban areas with high levels of contagions.

Source: Own elaboration using data from https://administracion.gob.es/pag_Home/atencionCiudadana/Nueva-normalidad-crisis-sanitaria.html

Recent forecasts for the Spanish economy by the Bank of Spain¹ expect GDP to contract by 10–13 percent during 2020 due to the negative impact on activity of COVID19, while the recovery of economic activity during 2021 will be less intense than initially expected². Employment would decrease less than GDP (thanks to the adoption of short-time work schemes, ERTes) while unemployment rate would go up from the 14% at the end of 2019 to 19%–22% depending on whether an early or gradual recovery is expected compared to a more risky scenario.

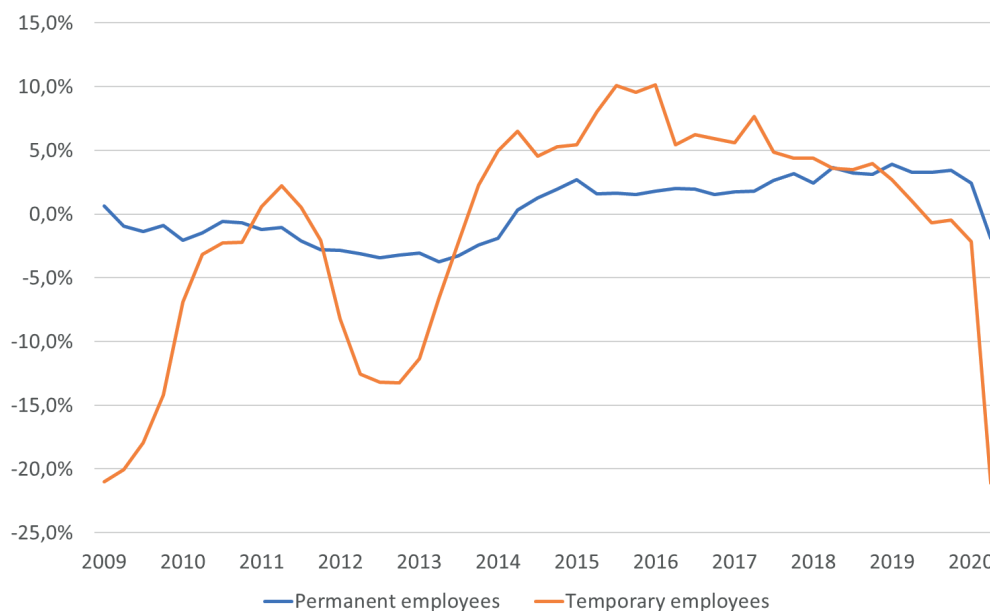
Taking into account the chronology of the restrictive measures adopted in Spain, Labour Force Survey data for the first and second quarter of 2020 is not very helpful to assess the potential recovery in the labour market due to the reactivation of most activities. LFS data shows that during the first quarter of 2020 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

¹ <https://www.bde.es/ff/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/20/T3/descargar/Fich/be2003-it-Rec1.pdf>

² <https://www.bde.es/ff/webbde/SES/AnalisisEconomico/AnalisisEconomico/ProyeccionesMacroeconomicas/ficheros/be08062020-proye.pdf>

to the first quarter of 2019, but the fall in temporary jobs was much more intense during the second quarter of 2020 with a decrease of -21,1% representing more than 900,000 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 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 Spain³ 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 full lockdown, and only partially recovered during the partial recovery of activity between May and June.

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)

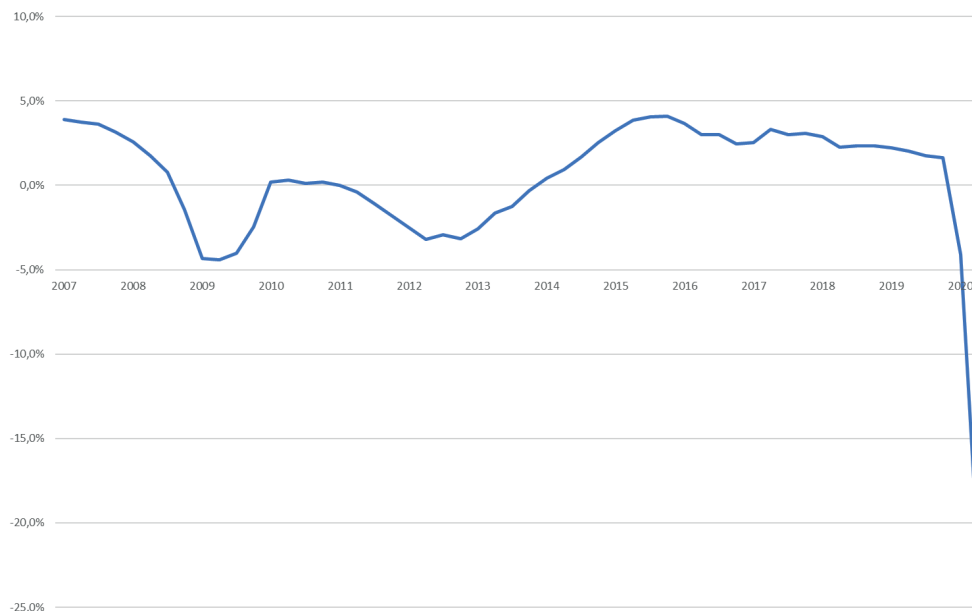
As shown in Figure 3, data for GDP for the first quarter of 2020 compared to the same period of the previous year shows a decrease in -4.1% for the first quarter of 2020 and -21.5% for the second quarter (after adjusting for calendar and seasonal effects). According to Eurostat⁴, seasonally adjusted GDP decreased by 3.2% during the first quarter of 2020

³ Anghel, B., Cozzolino, M., Lacuesta, A. (2020), El teletrabajo en España, Artículos Analíticos, Boletín Económico 2/2020.

⁴ <https://ec.europa.eu/eurostat/documents/2995521/10294864/2-15052020-AP-EN.pdf/5a7ea909-e708-f3d3-8375-e2510298e1b8>

and by 15% during the second in the euro area and by 2.6% and 14.4% in the European Union compared with the same quarter in the previous year, respectively. The size of the shock on activity during the first half of 2020 has been much more intense in Spain than in most European countries.

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

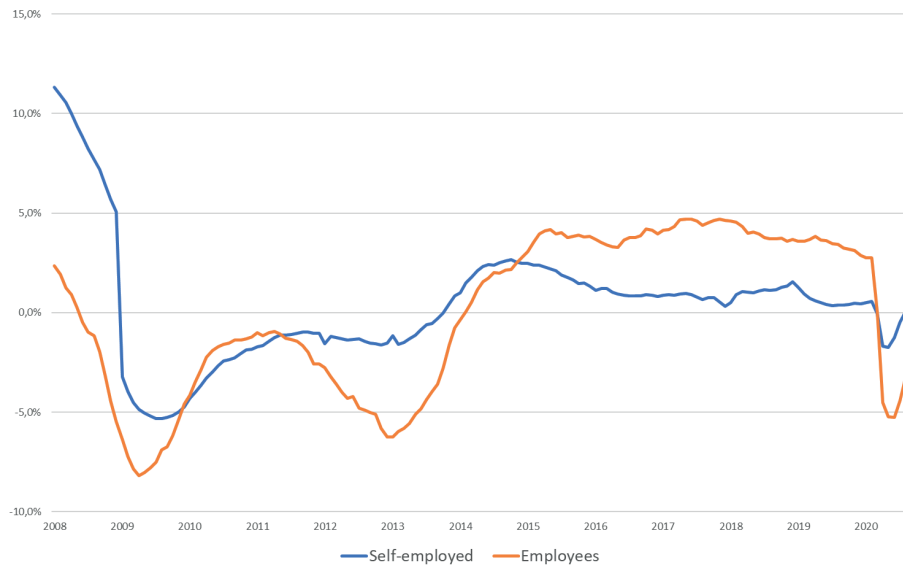


Source: Own elaboration using data from Eurostat.

Available information from Social Security records allows to analyze the monthly evolution of registered employment until September 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. During May and June, employment experienced substantial changes compared to the previous year, but the trend has clearly reverted, although 2019 levels have not been achieved yet (except for permanent workers that have been covered by short-term work schemes during the whole period). 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 stabilization and recovery 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 fell 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, -18.0% in April and -19.2% in May compared to the same months of the previous year. According to latest data corresponding to September 2020, overall employment is still 2.3% below September 2019, while temporary employment is -10.5% than it was in the same month of the previous year. However, the trend has clearly reverted as nearly all productive activities have been reactivated during the third quarter of the year. However, it is also important to mention that there are relevant 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.⁵

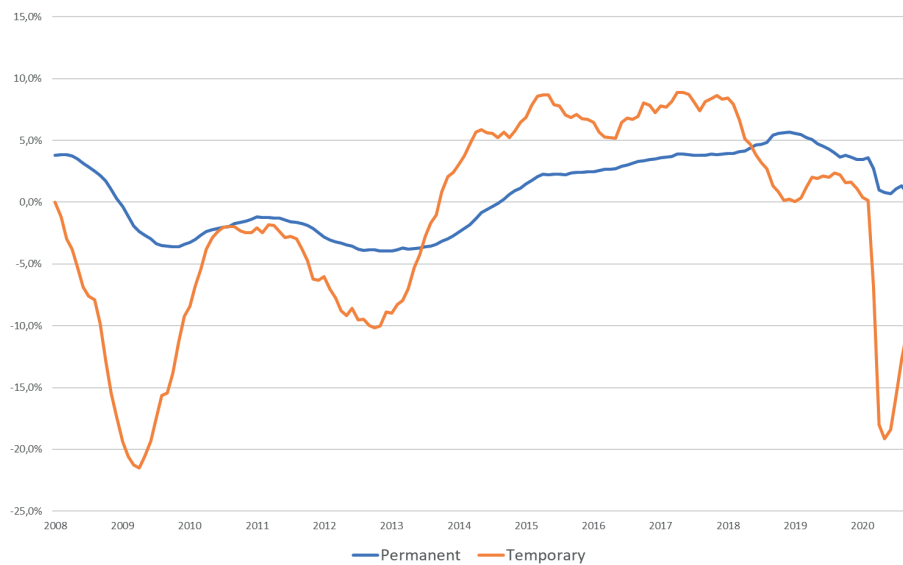
⁵ <https://nadaesgratis.es/admin/impacto-economico-regional-de-la-pandemia-que-sabiamos-hasta-ahora-de-lo-que-podia-ocurrir>

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



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.

Figure 6 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 not accelerated during the summer and, as previously mentioned, it has slightly slowed during August.

Figure 7 compares the evolution of the Stringency Index with daily electricity demand showing a clear association between economic activity and the different phases of the pandemics and policies adopted to fight against it.

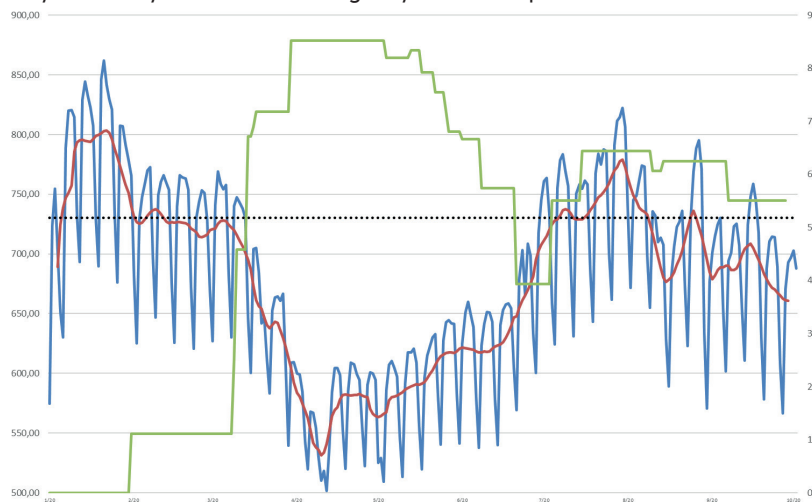
Table 3: Registered Employment

	Monthly averages 2020													
	% Change from same month previous year							% Change from previous month						
	Mar	Apr	May	Jun	Jul	Aug	Sep	Mar	Apr	May	Jun	Jul	Aug	Sep
Total	-0.2%	-4.0%	-4.6%	-4.6%	-3.8%	-2.7%	-2.3%	-1.3%	-2.9%	0.5%	0.4%	0.9%	0.0%	0.4%
Self-employed	0.0%	-1.7%	-1.8%	-1.3%	-0.5%	0.0%	-0.1%	-0.2%	-1.3%	0.3%	0.8%	0.5%	0.0%	0.0%
Employees	0.0%	-4.5%	-5.2%	-5.3%	-4.4%	-3.3%	-2.8%	-1.6%	-3.5%	0.4%	0.6%	1.4%	0.1%	0.3%
Permanent	2.7%	1.0%	0.8%	0.7%	1.1%	1.3%	0.7%	-0.2%	-0.9%	0.3%	-0.3%	-0.8%	-0.1%	1.3%
Temporary	-6.9%	-18.0%	-19.2%	-18.4%	-15.6%	-12.7%	-10.5%	-5.2%	-10.0%	1.3%	3.4%	7.7%	0.9%	-1.8%

Source: Own elaboration from Social Security records.

Figure 6: Spain – Registered employment (Social Security records – in thousands)

Source: Own elaboration from Social Security records.

Figure 7: Daily electricity demand and stringency index for Spain

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

Figure 8 shows the evolution of registered unemployment using administrative data from Public Employment Services records. Registered unemployment increased by 21.1% in April 2020 by 25.3% in May and by 28.1% in June 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 847 thousand individuals compared to June 2019. The increase has affected all sectors

with a similar intensity. Since then, unemployment has increased when compared to the same month of the previous year, but the trend has clearly changed and between June and September the number of registered unemployed has reduced in nearly 90 thousand individuals.

However, as previously mentioned, it is important to highlight 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 8: 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.

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 Security⁶

Figure 9 shows the evolution of the number of employees and self-employed workers covered by short-term work schemes (ERTes and extraordinary subsidy for self-employed) during the second and third quarter of 2020. As we can see from the figure, in May 2020 the number of workers covered by these schemes arrived to 4.5 million (including employees and self-employed). In June, this figure already reduced in a -25% and in July in a -42%, but the reduction has not been so intense during August and September. On September 30th there were still 2.2 million workers covered by short-term work schemes (around half of workers covered in May). A report by the Spanish Ministry of Labour⁷ shows that by mid-June, more than 90% of workers covered by ERTes had come back to their jobs although it is important to recognize that the evolution of self-employed has not been so positive. Moreover, and due to the fact that the evolution of the pandemic has worsened, and new restriction measures have been adopted, it is difficult to assess if the labor market situation will keep improving during Autumn.

Figure 9: Spain – Workers covered by short-work schemes (in thousands)

Source: Own elaboration from Ministry of Labour monthly reports.

⁶ <http://prensa.mitramiss.gob.es/WebPrensa/noticias/ministro/detalle/3800>

⁷ <http://prensa.mitramiss.gob.es/WebPrensa/downloadFile.do?tipo=documento&id=3.839&idContenido=3.814>

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”⁸) 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 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 was reformed after an agreement with firm associations and trade unions. ERTes were initially designed to cover the situation of workers until the end of the state of the alarm, but they were extended until June 30th and prorogued again until September 30th. A new extension until January 31st 2021 has been recently approved and legislation has been changed to allow new entries into the system due to restrictive measures recently approved.

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

⁸ https://www.mscbs.gob.es/ssi/portada/docs/Ampliar_el_Escudo_Social_para_no_dejar_a_nadie_atras.pdf

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 Mínimo Vital – IMV) entering into force on June 15th 2020. 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, 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)⁹, 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 during the second quarter of 2020, 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. However, the situation has recently improved as since September 2020, primary and secondary schools have reopened with the beginning of the academic year.

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.

⁹ Dingel I. J., Neiman, B. (2020), How many jobs can be done at home?, NBER Working Paper, n.º 36948.

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 11–12% of GDP and a level of public debt of 117–120% of GDP in 2020. For 2021, GDP is expected to grow between 4% and 7% from previous year while the unemployment rate will remain at higher levels than in 2020. As recently highlighted by the IMF,¹⁰ 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. Moreover, once the economy is on a sustainable growth path, it will be important to carefully plan structural reforms to support growth, facilitate debt reduction and guarantee pension sustainability.

¹⁰ <https://www.imf.org/en/News/Articles/2020/09/29/mcs092920-spain-imf-staff-concluding-statement-of-the-2020-article-iv-mission>