IZA Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

# Spain (December 2021)

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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 Minimo 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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## Labor market impact of COVID-19

With more than 87,000 deaths (nearly 1900 COVID-19 deaths per million inhabitants compared to a world average around 650), Spain is one of the countries that has been hit hardest by the pandemics. The magnitude of the health crisis also explains why the lockdown has been stricter and longer than in most European countries. Figure 1 shows the evolution of the Government Stringency Index for Spain computed by the Oxford Coronavirus Government Response Tracker (OxCGRT), together with the evolution of new COVID-19 cases since the beginning of the pandemics up to latest data. As we can see in this figure, due to the positive evolution of the pandemic, several restrictions were relaxed before the summer of 2020, but the change in the trend in new COVID-19 cases made necessary to reintroduce some of them. In fact, during fall and winter, Spain experienced two pandemic waves that were much more intense than the first one. The situation clearly improved during the first half of 2021, although during summer 2021 the number of cases increased again, particularly among younger cohorts. However, thanks to the high number of vaccinated people (nearly 80% of total population in early November 2021 as we can see in figure 2[1]), the public health system has not experienced the same level of collapse as in the previous waves.

According to estimates from Eurostat[2], Spanish GDP felt by -10.8% in 2020 compared to 2019 due to the negative impact on activity of COVID19. The drop in GDP during 2020 was much more intense in Spain than in most European countries (EU GDP decreased by -5.9% in 2020 compared to 2019). The evolution of Spanish quarterly GDP (seasonally and calendar adjusted) is shown in Figure 3, where we can see that economic activity significantly improved during the third quarter of 2020 (after the full lockdown), but since then GDP growth stagnated until more recently when it seems to start recovering the pre-pandemics trend. In fact, latest economic forecasts by the Bank of Spain published in September 2021[3] expect the economic recovery to consolidate during the rest of 2021 and 2022 with a year-on-year growth rate around 6%. However, consensus forecasts published in November 2021[4] by Funcas, a Spanish think-tank, have substantially revised downwards macroeconomic forecasts for this year with an expected growth not above 5.0%. mainly due to inflationary pressures and supplies shortages and delays.

Regarding the labour market impacts of the pandemics, data from the Labour Force Survey shown in table 1 indicates that employment rates and unemployment rates have nearly recovered pre-pandemics level by the third quarter of 2021. In fact, available information from monthly Social Security records that allows to analyze the evolution of registered employment until October 2021 shows a similar picture.

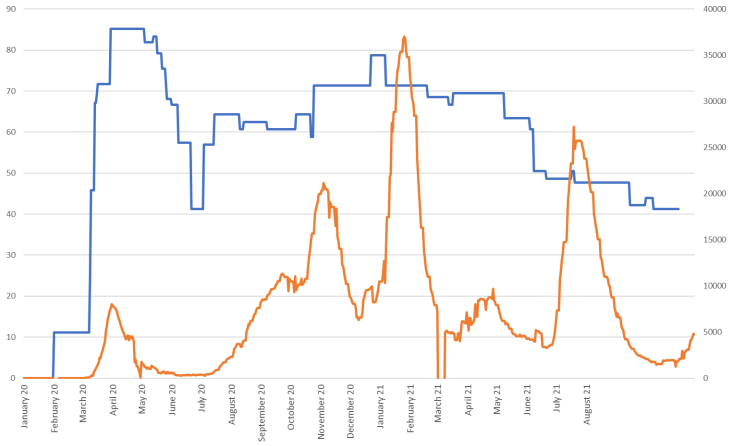
1 Vaccination campaign has not started yet among children below 12 years old, while boosters have been already offered to those over 70 years old and they will soon be extended to other age groups.

2 https://ec.europa.eu/eurostat/databrowser/view/tec00115/default/table?lang=en

3 https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/21/T3/Fich/be2103-it-Rec1.pdf

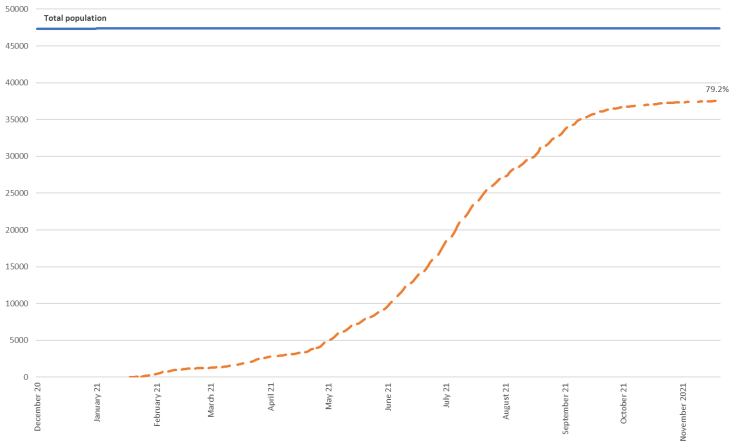
4 https://www.funcas.es/textointegro/panel-de-previsiones-de-la-economia-espanola-noviembre-2021/

**Figure 1:** Spain – COVID Stringency index (100=strictest response) and new COVID-19 cases



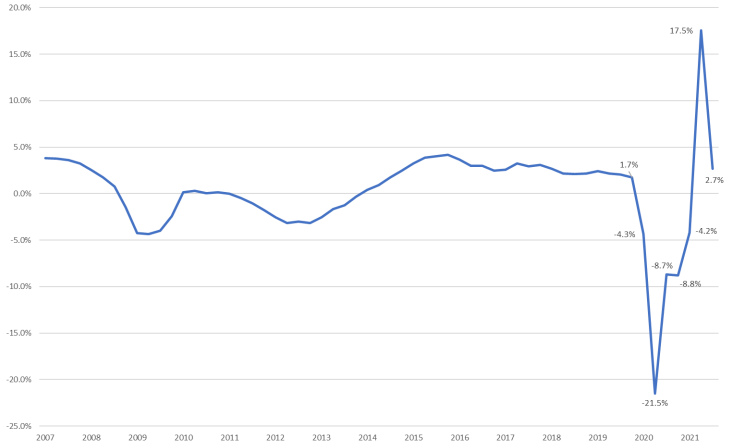

Source: Own elaboration using data from http://ourworldindata.org.

**Figure 2:** Spain – People fully vaccinated (in thousands)




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

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




Source: Own elaboration using data from Eurostat.

**Table 1**

| | 2019 | | | 2020 | | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 |
| GDP y-o-y growth | 2.2 | 2.0 | 1.7 | -4.3 | -21.5 | -8.7 | -8.8 | -4.2 | 17.5 | 2.7 |
| Employment rate (16-64) | 63.4 | 64.3 | 62.0 | 63.6 | 60.1 | 61.8 | 62.3 | 61.9 | 63.5 | 64.7 |
| Unemployment rate (16-64) | 15.4 | 14.2 | 15.6 | 14.5 | 15.4 | 16.4 | 16.3 | 16.1 | 15.4 | 14.7 |

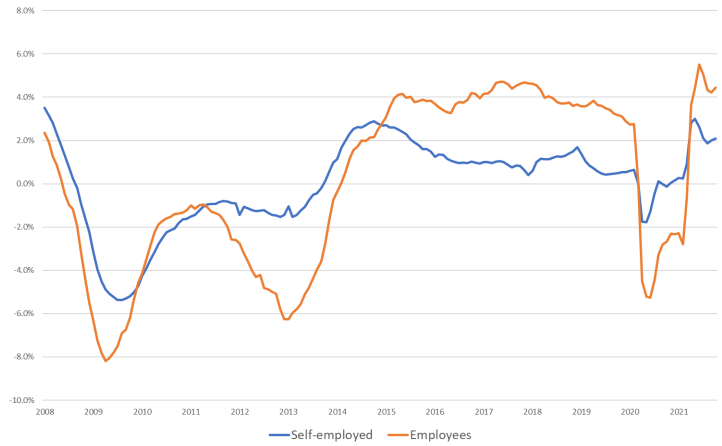
Source: Own elaboration from INE's Quarterly National Accounts and Labour Force Survey.

As we can see in Figure 4, registered employment already achieved the pre-pandemics level during summer 2021. The year-on-year changes in the number of employees and self-employed is shown in Figure 5 while Figure 6 shows the same information distinguishing between permanent and temporary workers. As we can see, all groups experience an unprecedented decrease in April 2020, although in the case of temporary employment, data for March 2020 were also significantly lower than in the previous month, probably due to anticipation effects. However, during the rest of 2020 and the three first quarters of 2021, trends have been very similar for all groups. 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 observations show an important stabilization and recovery compared to 2020.

**Figure 4:** Spain – Registered employment (Social Security records – in thousands)

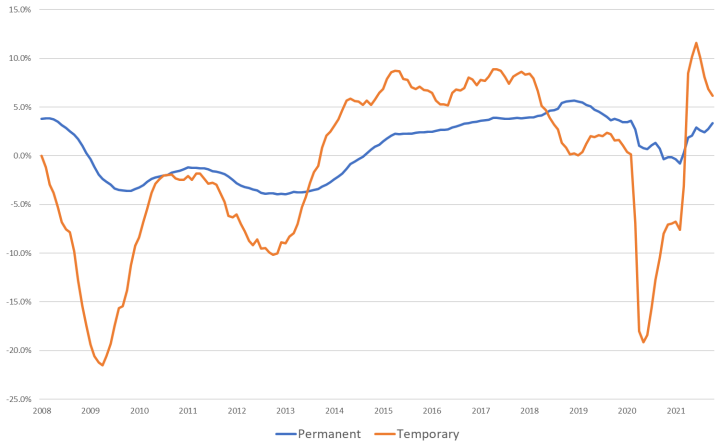

Source: Own elaboration from Social Security records.

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




Source: Own elaboration from Social Security records.

**Figure 6:** Spain – Year-on-year changes in registered employment (Social Security records – monthly averages)



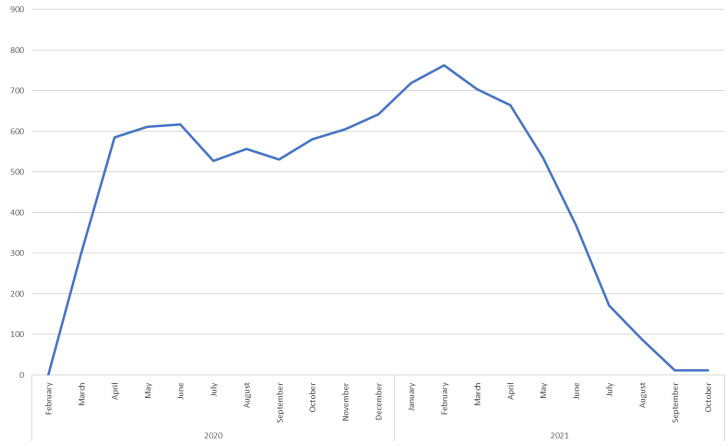

Source: Own elaboration from Social Security records.

Figure 7 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 affected all sectors with a similar intensity, but during 2021, in parallel to the improvement in economic activity, the trend has clearly reversed and, as we can see in figure 8, the level of unemployment at the end of October has reached the pre-pandemics level. However, 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). Figure 9 shows the evolution of the number of workers covered by short-term work schemes (ERTEs). As we can see from the figure, in May 2020 the number of workers covered by these schemes arrived to more than 3.6 million (4.5 million when including employees and self-employed). On October 30th 2021 there were only 191 thousand workers covered by short-term work schemes, although most of them develop activities that are still subjected to full/partial restrictions that would probably still be maintained for some time.

**Figure 7:** Spain – Registered unemployment (Public Employment Services – last day of month – in thousands)

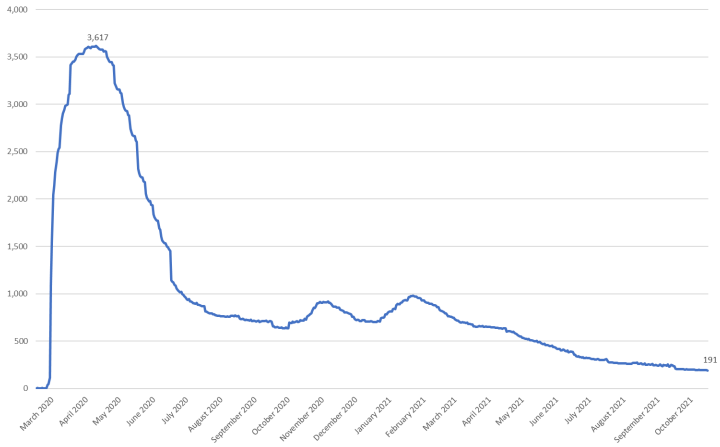

Source: Own elaboration from Public Employment Services records.

**Figure 8:** Spain – Registered unemployment compared to February 2020 (in thousands)




Source: Own elaboration from Public Employment Services records.

**Figure 9:** Spain – Workers affected by ERTEs (in thousands)




Source: Own elaboration from Public Employment Services records.

## Orientation and targeting of adopted measures

Spain is one of the few countries that adopted measures along the 10 dimensions analyzed in the OECD inventory since the beginning of the health crisis. Different measures ("Social Shield"[5]) have been adopted during 2020 and 2021 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 could adapt their time and working conditions during this period. 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

5 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 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 2020 and prorogued again until September 30th 2020. New extensions until January 31st 2021, May 31st 2021, September 30th 2021 and February 20th 2022 have been systematically approved with some minor modifications. The last extension approved in September 2021 put the focus on the need to (re)training workers still covered by ERTEs.

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.

But the most relevant measure in this area is the approval of a new minimum income scheme (Ingreso Minimo 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 expected that about 850,000 households and 2.3 million people would benefit from this scheme with a total expense of around 3 billion euros. According to latest data available, in September 2021 nearly 1,5 million applications have been received since the adoption of the measure, but only 337,000 of them fulfilled the criteria covering around 800,000 people, a figure that is still far away from the initial objective of the government.

## 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. In March 2021 additional measures were adopted in order to provide additional liquidity to firms through direct subsidies to the firms that have been most affected during the pandemics (more than 30% drop in sales during 2020 compared to 2019) with an initial budget of 7000 million euros. The subsidy could vary between 3000 and 20000 euros per firm. Additional 3000 million euros have been also allocated to help firms to restructure their debt levels.

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 reduced inflows into unemployment particularly in those sectors in non-essential activities with a higher direct impact of the lockdown, but that have experienced a recovery in demand during the last year. However, there are some other sectors that still face substantial limitations in their capacity due to social distancing measures to prevent a new wave of contagions, but at the same an important fall in their demand. This has been clearly the case of touristic activities that have faced important restrictions for international visits that have not been fully compensated by domestic demand, but also other firms in the leisure activities sector.

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 particularly during 2020. The situation has improved during 2021, but the situation varies substantially among regions due to the high level of decentralization of these services.

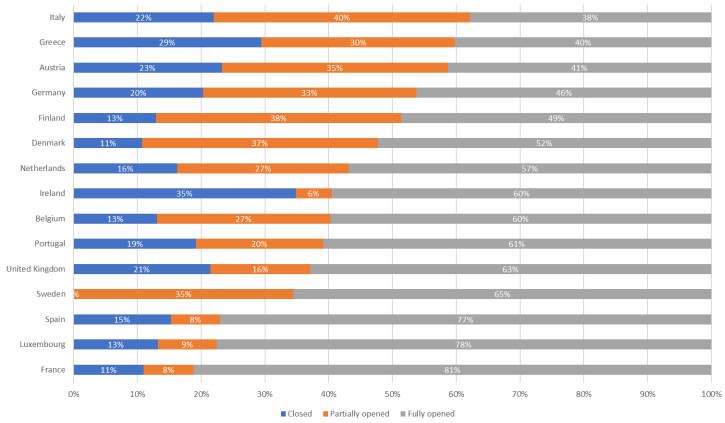
## Working conditions and work organization

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)[6], 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, as far as the "new normality" has been reached, there are only a very few 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 were 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]. However, the situation has recently improved as primary and secondary schools reopened in September 2020 with the beginning of the academic year and have remained mostly opened during the academic year 2020-2021, that have been extended for the current academic year. Universities have also recovered face-to-face teaching since September 2021. In fact, Spain is one of the EU-15 countries where schools have been less affected by full or partial closures as it can be seen in figure 10.

**Figure 10:** Situation of schools between February 2020 and October 2021 (without considering academic breaks)




Source: Own elaboration from UNESCO data.

## New labor market entrants

The situation for new labor market entrants has been very difficult, particularly during the summer time when youth are usually offered internships that could be converted into temporary contracts when they end facilitating the transition from school-to-work. Figure 11 shows the ratio between the youth unemployment rate (under 25 years old) compared to the total unemployment rate. As we can see, before the pandemics this ratio was around 2.3 (a value that is well in line with that found in the literature, see for instance Pastore, 2018[8]), but during the pandemics it jumped to 2.6 and it only started to decrease in summer 2021. However, although the situation has improved since then, there are still difficulties related also to the uncertainties that are still in place. In fact, during the pandemics, the focus of

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

7 Farré, L., Fawaz, Y., Gonzalez, L., Graves, L. (2020), How the COVID-19 Lockdown Affected Gender Inequality in Paid and Unpaid Work in Spain, IZA DP 13434.

8 https://wol.iza.org/articles/why-is-youth-unemployment-so-high-and-different-across-countries/long

the policies has not considered the specific situation of this group that is characterized by high unemployment rates and a high level of precariousness during the early stages of their work career due to the extreme duality of the Spanish labour market.

**Figure 11:** Youth unemployment rate (less than 25 years old) compared to total unemployment rate


Source: Own elaboration using data from Labour Force Survey.

## Policy innovations and labor market trends

As previously mentioned, the main innovation in the context of the Spanish labor market has been 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 and that has been quite successful. 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 was adopted during the second half of 2020 covering the needs of those in situation of relative poverty.

## Next steps and fiscal viability

As all countries, Spain faced 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 has been longer and more intense than in other countries. At the same time, the demand shock has also been 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, in most sectors the activity has already 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 also expects a highly positive impact of the investments associated to the Recovery and Resilience Facility (NextGenerationEU). During 2020 public deficit reached 11% of GDP while public debt represented 120% of GDP. As highlighted by the IMF,[9] the

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

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 in the future in order to keep a more balanced evolution of public finances. For instance, the government has recently announced a temporary increase in social contributions in order to guarantee the sustainability of public pensions for baby boomers that will start to retire in the next years. In fact, 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.