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Summary

Coronavirus lockdown extended until 9 May, some restrictions lifted.
Sánchez wins backing from Popular Party for national pact.
Deeper recession than after the global financial crisis.

Domestic Scene

Coronavirus lockdown extended until 9 May, some restrictions lifted

The coronavirus lockdown, as of 14 March, has been extended until 9 May. Some restrictions were removed on 13 April when factory and construction workers were allowed to resume their jobs after a two-week ban, and children up to the age of 14 will be allowed out for a short walk as of this weekend. Elsewhere, the wider lockdown remains in hotels, restaurants, bars, places of entertainment and most retail outlets.

With 208,389 notified cases, the second-highest in the world after the US, and 21,717 deaths, the third-largest number (see Figure 1), as we went to press, the authorities believe the peak of the epidemic has been passed. The daily toll of new cases and deaths has slowed, but there is only a glimmer of light in the tunnel. Eight out of 10 respondents in a survey by 40 dB support extending the lockdown, which is hardly surprising since 97% of them say they are 'very' or 'quite' worried by the virus.

Figure 1. Notified cases and deaths by country

	Notified cases	Deaths	Cured
World	2,569,469	177,936	690,035
US	825,306	45,075	75,673
Spain	**208,389**	**21,717**	**85,915**
Italy	183,957	24,648	51,600
France	159,300	20,829	39,842
Germany	148,453	5,086	99,400

Source: https://www.worldometers.info/coronavirus/#countries.

The impact of COVID-19 varies considerably from region to region. Madrid and Catalonia, both heavily populated, account for close to half the total number of cases and 55% of deaths (see Figure 2). The worst affected region in terms of deaths per 100,000 inhabitants is Madrid (46).

Figure 2. Coronavirus (COVID-19) by region (1)

	Notified cases	Deaths	Infected per 100,000 inhabitants	Deaths per 100,000 inhabitants
Andalucía	11,610	1,050	138	13
Aragón	5,054	656	383	50
Asturias	2,429	211	237	21
Balearic Islands	1,836	164	160	14
Basque Country	13,044	1,124	591	51
Canary Islands	2,094	121	97	6
Cantabria	2,160	167	372	29
Castilla y León	16,839	1,554	702	65
Castilla-La Mancha	17,321	2,140	852	105
Catalonia	43,807	4,247	571	55
Extremadura	3,230	404	303	38
Galicia	8,634	368	320	14
Madrid	56,199	7,557	888	114
Murcia	1,695	123	114	8
Navarre	4,899	401	749	61
La Rioja	3,792	298	1,197	94
Valencia	10,538	1,106	211	22
Spain (2)	208,389	21,717	443	46

(1) Figures at 21/IV/2020.

(2) Excluding the North African enclaves of Ceuta and Meliila.

Source: Health Ministry.

Of those countries with a population of more than four million and with over 5,000 confirmed cases, Spain has the highest number in the world per one million inhabitants (see Figure 3).

Figure 3. COVID-19 cases one million inhabitants

	Cases per one million inhabitants
Spain	**4,252**
Belgium	3,370
Ireland	3,142
Italy	2,962
US	2,322
France	2,300
Portugal	1,906
UK	1,822
Germany	1,757

Source: John Hopkins University and World Bank. Data at 20/IV/2020.

The death toll from the virus is widely viewed to be considerably higher as it is not yet known how many of the elderly who died in care homes or in the wider community are included in the official statistics. Spain is following World Health Organisation (WHO) guidelines and only including in its figures those proved to have contracted the virus. Figures provided by the Madrid and Catalan regional governments last week that included the deaths of people in care homes with virus symptoms but were not tested showed Madrid's death toll increasing from 6,724 to more than 11,500 and Catalonia's almost doubling to more than 7,000. The series recording cases and deaths is being revised.

Opposition parties have rounded on the government for failing to give the real number of deaths. 'Nobody trusts you anymore!', Pablo Casado, the leader of the conservative Popular Party (PP) told Prime Minister Pedro Sánchez at a stormy meeting of parliament.

The contentious issue of the true death toll is compounded by the fact that aggressive testing for the virus is far from widespread. According to the Health Ministry, as of last week close to one million tests had been carried out in a population of 47 million. Other factors behind the severe impact of the virus in Spain are the relatively larger proportion of multigenerational households and the high share of elderly in the total population.

While opposition parties in other EU countries have tended to rally around their government in their handling of the COVID-19 crisis, this has not been the case in Spain, even though a survey by the state CIS shows 88% of respondents in favour of cross-party support.

In neighbouring Portugal, Rui Rio, the leader of the centre-right opposition party (PSD), sent a letter to party activists saying that criticising the government's handling of the virus crisis 'is not, at the moment, an ethically correct posture' and 'it is not, above all, a patriotic position'.

The PP's leader, Pablo Casado, accused the government of 'arrogance, lies and incompetence' in its management of the crisis. VOX called for a government of 'national emergency' of technocrats. Its leader, Santiago Abascal, has railed against Sánchez's 'criminal management' of the crisis –Macarena Olona, a VOX MP, went as far as accusing the 'socialcommunist' government of 'euthanasia' by allowing thousands of the elderly to die of coronavirus in care homes–. VOX filed a complaint at the Supreme Court against Sánchez and his ministers for their handling of the crisis.

The Socialist party denounced VOX to the office of the State Attorney General for posting a doctored picture on Twitter showing dozens of coffins wrapped in the Spanish flag filling the Gran Vía, one of the busiest streets in central Madrid. 'This captures perfectly the pain the government and its media satellites want to hide', reads the caption. The coffins were added to an existing photo.

The lack of testing and protective equipment also explains the inordinately large number of frontline health care professionals who have been infected –around 15% of the total number of confirmed cases–. More than 30 of them have died.

Sánchez wins backing from Popular Party for national pact

Prime Minister Pedro Sánchez's gained grudging support from the Popular Party (PP), the main opposition, for negotiating a 'pact for national reconstruction', but the far-right populist VOX, the third-largest party, wants nothing to do with it and called for a change of government.

Sánchez gave into the demand of Pablo Casado, the PP's leader, that the pact be negotiated via a parliamentary commission and not outside the legislative body. This gives opposition parties greater control as the government is a fragile minority coalition. Without the PP's support, a pact would not be viable.

The leftist coalition government's proposal is inspired by the idealised Moncloa Pacts in 1977, agreed between political parties, trade unions and employers after the death of the dictator General Franco in 1975, when spiralling inflation and balance of payments problems threatened to knock the country off its newly democratic course.[1]

This time round, the circumstances are very different; there is little that unites the political class, in stark contrast to 43 years ago when there was overwhelming backing for democracy.

[1] See my post on the Moncloa Pacts for more background at https://blog.realinstitutoelcano.org/en/coronavirus-in-spain-time-to-revamp-the-moncloa-pacts/.

Politics in Spain, long before the coronavirus crisis, became infected by the virus of fragmentation (16 parties are represented in parliament), polarisation and rancour, stemming from the impact of Spain's 2008-14 'Grand Recession' and the push for independence in Catalonia. Consensus, the watchword during the transition to democracy, is no longer part of politicians' vocabulary.

The coalition of the Socialists (120 of the 350 seats in parliament) and the more radical Unidas Podemos (35 seats) since January (after four inconclusive elections in as many years), the first one since the Republic in the 1930s, depends for its survival, explicit or tacit, on parliamentary support from eight other parties including pro-independence Catalan and Basque MPs.

Casado initially opposed the pact, calling it a 'distraction'. 'The Moncloa Pacts marked a change of regime to European democracy', he said. 'But we are already in a democracy, we're already in the EU. It would be dangerous were such a [new] pact to lead to a covert change of regime'.

More than 90% of Spaniards, according to pollster Metroscopia, support a pact, something that probably influenced Casado's decision not to reject it outright, but 79% view it as improbable.

The PP (89 seats) might limit its support to agreeing some accords but not a global pact. Inés Arrimadas, leader of the liberal Ciudadanos, has been more supportive from the start as she sees a chance to dilute the influence of UP, which is in favour of radical measures such as some nationalisations. Her more constructive approach could also help shift the party back towards the centre after its disastrous lurch to the right under its previous leader, Albert Rivera, who resigned after the party's collapse in the November 2019 general election. Cs only has 10 MPs, down from 57, compared to VOX's 52.

As well as more measures to mitigate the economic impact of the virus, a pact could also embrace tax, pension, social security and labour market reforms, and agreement for the 2021 budget.

This time round negotiating a pact would also involve the 17 regional governments (they did not exist in 1977), making agreement even more complicated. Quim Torra, the hard-line secessionist Premier of Catalonia, critical of the central government's handling of the crisis, has been promoting the idea that an independent Catalonia would have handled the situation better as there would have been few virus cases and deaths.

Oriol Junqueras, the former Deputy Premier of Catalonia and serving a prison sentence for his role in the illegal 2017 independence referendum and declaration of secession, accused the government of a 'centralised, nationalist, militarist, oligopolistic and desperately inefficient' response to the coronavirus crisis.

The political atmosphere has also been poisoned by Pablo Iglesias, a Deputy Prime Minister and leader of Podemos using the anniversary of the proclamation of Spain's Second Republic on 14 April 1931 to sing the praises of a change in the form of state.

This did his Socialist partners no favours at a time of national crisis when the form of state is hardly the most pressing issue.

The Bourbon monarchy was restored in 1975 after the death of Franco in 1975, as he had named Juan Carlos his successor as head of state. Juan Carlos's grandfather, Alfonso XIII, went into exile in 1931.

The smoothest way to enact a pact would be through a German-style grand coalition between the Socialists, the PP and Cs, but the chances of this happening are wafer-thin. Not even an agreement on the terms of how the academic year should finish for primary and secondary school students, following the ending of classes as of 14 March, has been achieved. The regional governments of Madrid, Andalusia and Castile-León (all of them run by the PP) disassociated themselves from the Education Ministry's decision that all students should automatically pass and only repeat a course in exceptional cases.

The economy

Deeper recession than after the global financial crisis

Spain's economy will probably be the hardest hit in the EU by the coronavirus crisis because of its structural composition, particularly the heavy dependence of tourism, and its weak fundamentals before COVID-19 arrived.

Growth had already slowed down, the jobless rate was at 14% (double the EU average), public debt was close to 100% of GDP and the fiscal deficit remained stubbornly high (2.8% of GDP). It took Spain a decade to get the deficit below 3%, the EU's Stability Pact threshold which has now been ditched.

The IMF forecasts the economy will shrink 8% this year, based on coronavirus not resurging after the summer, and unemployment will hit 21% (see Figure 4). The Bank of Spain's GDP forecast is gloomier: a fall of between 6.6% and 13.6%, depending on how long the confinement measures are in place. Debt is forecast to reach 113% (the highest level since 1902 and up from 35.5% in 2007) and the fiscal deficit 9.5% (the pre-crisis target was 1.8%). These figures take into account the measures so far to mitigate the impact of the virus, and assume the worst of the coronavirus crisis and hence the lockdown will be over by mid-year.

Figure 4. The IMF's real GDP growth and unemployment forecasts, 2020

	Real GDP change (% over 2019)	Unemployment (% of labour force)	Fiscal deficit (% of GDP)
France	-7.2	10.4	9.2
Germany	-7.0	3.9	5.5
Italy	-9.1	12.7	8.3
Spain	**-8.0**	**20.8**	**9.5**
UK	-6.5	4.8	8.3

Source: IMF.

The jobless rate this year will be below the peak of 26% in 2013, at the height of Spain's last recession, but the GDP shrinkage will be far deeper than the fall of 2.9% in 2012. The decline in output this year, based on the IMF's figures, will be roughly the same as that between 2009 and 2013, following the global financial crisis and the bursting of the massive property bubble, and the steepest in one year since 1936 (-26.8%) at the start of the country's three-year civil war.

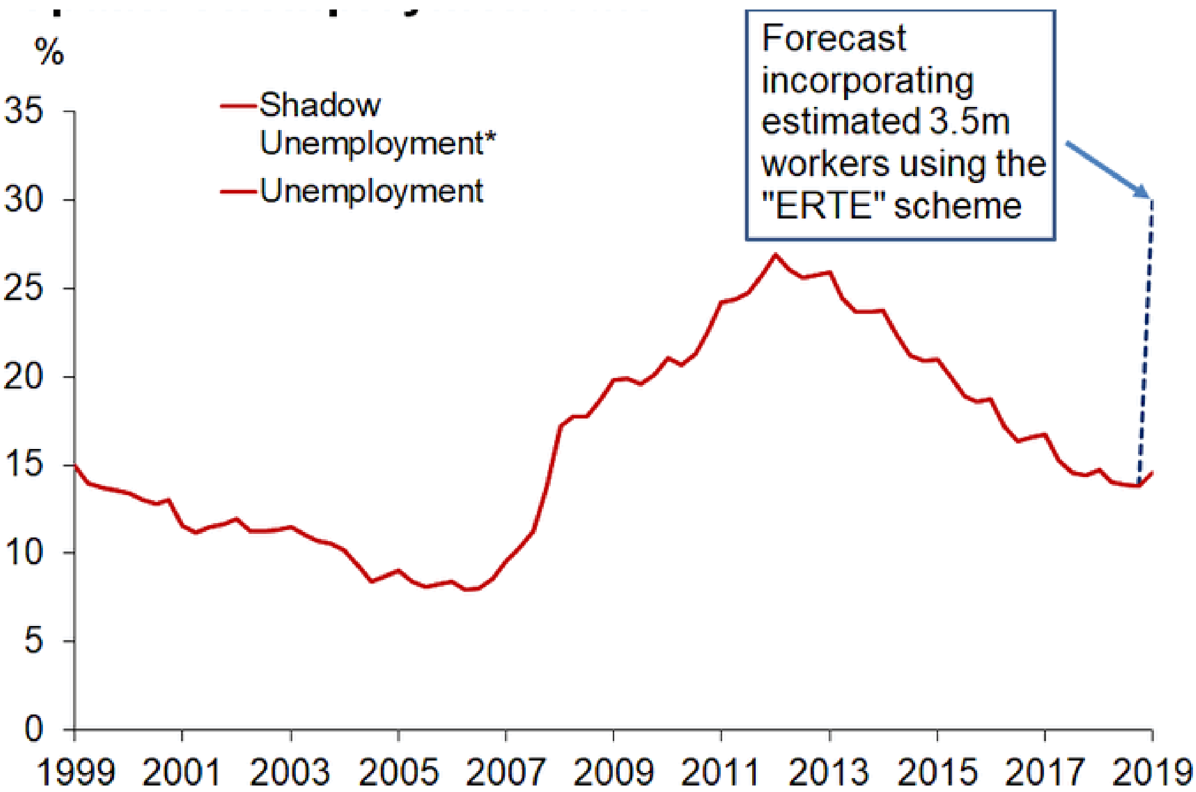
The only bright spot for a country heavily dependent on imported energy is the collapse of oil prices. Banks are also more solvent (CET 1 ratio of 12.79% at the end of 2019), as a result of the measures taken to strengthen their balance sheets after the financial crisis, and inflation is low.

The vital tourism sector, which generates 12% of GDP and accounts for 13% of jobs directly, (much higher indirectly) is at a standstill. Last year Spain received 58.5 million of its total 83.7 million international tourists (a record year) between March (the start of the holiday season) and September, the peak period. With hardly any flights coming into Spain and all types of accommodation on lockdown, the outlook is bleak for the rest of the year. Reyes Maroto, the Tourism Minister, said social distancing might have to be in place on beaches in the summer, assuming the country is back to some kind of normality.

Almost 900,000 jobs (based on the fall in the number of social security contributors) were shed between 14 March, when a state of emergency was declared and a lockdown imposed, and the end of that month. This was roughly the same number as that between 2 October 2008 and 27 February 2009. The number of registered unemployed rose last month by 302,265 (the highest monthly increase ever) to 3.54 million, a figure that does not reflect the full extent of the job losses as not all those unemployed are registered in government offices or they do not have the right to unemployment benefits.

The short-term job retention scheme (ERTE), under which companies impacted by coronavirus can temporarily lay off workers and most of whose wages are then paid by the state, is containing the rise in unemployment. Since 14 March, over 450,000 companies employing some 4 million workers (16% of the work force) have been affected by the ERTEs (more than double the total number registered between 2009 and 2019 under normal use of ERTEs). Ángel Talavera at Oxford Economics forecasts a jobless rate of 30% including furloughed workers (see Figure 5).

Figure 5. Spain: unemployment rate, 1999-2019 (%)



Note. 'ERTE' scheme reflects furloughed workers note accounted in headline unemployment numbers.

Source: Oxford Economics/Haver Analytics.

These ERTEs will end when the state of emergency is over. After then employers who get rid of workers because of the virus or its impact will have to pay 33 days compensation for every year worked (the norm for unfair dismissals) instead of 20 days.

The ERTE scheme is not as strong as equivalent ones in Germany (the *kurzabeit* programme), Italy, France and the UK. 'We are concerned about the combination of a relatively weak partial unemployment system compared to its larger European peers and Spain's already relatively more vulnerable labour market structure', said Deutsche Bank.

More than a quarter of workers are on temporary contracts, the highest level in the EU, and they are usually the first to lose their jobs. Small and medium-sized companies (SMEs) account for more than 70% of total employment, well above the EU average, and microcompanies (fewer than 10 employees) account for more than 40% of jobs outside the financial sector. These firms are vulnerable because they do not have the financial resources and buffers to withstand significant shocks.

The self-employed have been helped with loans and a six-month moratorium on their social security payments, among other measures. The Social Security Ministry estimates a total of 6.3 million people (30% of the labour force) are protected in one form or other. Including the 1.9 million unemployed before COVID-19 receiving benefits, 35% are covered.

The government is expected to roll out a basic income scheme in May which would benefit around one million households.

The immediate fiscal impulse, based on measures announced by the end of March, amounts to €13.9 billion (1.1% of 2019's GDP). These include:

- €3.8 billion in medical expenditure, €2.8 billion of it to regional health services and €1 billion to a contingency fund to be directed by the Health Ministry.

- €25 million in meal allowances to ensure basic access to food for vulnerable children.

- €110 million to fund research into a vaccine and other treatment.

- €300 million to regional governments to combat the social impact of COVID-19.

- €300 million in additional expenditure by local authorities to fund social services and primary assistance to dependent persons.

- €5.1 billion of additional measures, as estimated by the IMF, including:
    - Expenditure related to the use of ERTEs.
    - Extraordinary allowance for the self-employed affected by the suspension of activity.
    - Support for those identified as economically vulnerable, to meet rent payments or service debt obtained to cover their rent (up to €900 a month).
    - Extension of eligible recipients of the 'social coupon' (on electricity), including the self-employed who have seen their monthly income fall by over 75% from the previous semester's average.
    - A subsidy for domestic workers who have seen their contracts suspended or terminated, amounting to 70% of their contribution base.
    - An allowance for temporary workers now redundant, who are not eligible for regular unemployment benefits (around €450 a month).

Deferral measures:

- €14 billion in deferred tax expenditure for six months for SMEs and the self-employed.

- Moratorium on mortgage loan payments (estimated at €5 billion by Breugel) on primary homes for those identified as economically vulnerable, facing extraordinary difficulties procuring payment as a result of COVID-19.

- Guaranteed supply of water, electricity and gas regardless of payment to consumers identified as vulnerable or at risk of social exclusion.

- Moratorium on rent payments for those tenants identified as economically vulnerable whose landlord satisfies certain conditions for a maximum of four months. Evictions are suspended for six months. Tenants will have to pay back the missed rent over a period of six years, and can access interest-free loans. Landlords owning eight or more properties will have to bear the moratorium on rent. Contracts expiring over the next six months are automatically renewed.

- Six months discretionary moratorium on social security contributions of companies and the self-employed that meet certain conditions.

- €100 billion in credit guarantees for companies and the self-employed, for refinancing and new credit.

- €440 million liquidity support for companies and self-employed workers in the tourism sector.

- Up to €2 billion in guarantees through the Spanish Export Insurance Credit Company.

Spain’s measures so far are worth around 12% of GDP, much lower Germany (60%), France (26%) and the UK (21%), according to Breugel (see Figure 6).

Figure 6. Discretionary 2020 fiscal measures in response to coronavirus (of 2019 GDP) (1)

	Immediate fiscal impulse	Deferral	Other liquidity/guarantee (2)
Belgium	0.7	1.2	0.0
Denmark	2.1	7.2	2.9
France	2.4	9.4	14.0
Germany	6.9	14.6	38.6
Greece	1.1	2.0	0.5
Hungary	0.4	8.3	0.0
Italy	0.9	13.0	7.3
Netherlands	1.6	3.2	0.4
Spain	**1.1**	**1.5**	**9.1**
UK	4.5	1.4	14.9
US	5.5	2.6	4.1

(1) Measures adopted between 30 March and 16 April 2020. Cut-off date earlier for some countries.

(2) Includes only government-initiated measures (excludes central bank measures) and shows the total volume of private sector loans/activities covered, not the amount the government put aside for the liquidity support or guarantee (the amount of which is multiplied to cover a much larger amount of private sector activity).

Source: Bruegel.

Fearful of shortages of fruit and vegetables or of rising prices because of scarcity, due to fewer workers in agriculture, the government has made hiring of the unemployed and immigrants easier. Jobless people will still receive welfare benefits while temporarily employed and legal migrants will be able to extend their work permits.

Restrictions at the borders with Portugal and Spain and the lockdown have forced many workers to stay at home. Fewer than half of 16,000 Moroccan seasonal workers who were due to arrive in Huelva to pick red fruits were able to make it.

Not surprisingly, given the magnitude of its problems, it was Spain that launched the idea of a Marshall-type plan for the EU, in reference to the US's 1948 programme to rebuild war-torn Western Europe (from which Spain was excluded because of Franco's support for Hitler), and it is at the forefront of pushing for greater financial solidarity by the northern EU countries with the southern ones.

Prime Minister Pedro Sánchez proposed at the EU summit on 23 April the creation of a €1.5 trillion fund to help the worst-hit countries recover from the coronavirus crisis. The fund would be financed by perpetual debt raised by the bloc and the cash sent to countries would count as transfers and not debt. Funds would be allocated on the basis of the size of a country's GDP shrinkage and the rise in unemployment.

Under such indicators, Spain would be one of the main beneficiaries.