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Spain in favour of a Marshall-type plan for the EU

With more than 270 000 cases and 27 000 deaths, the coronavirus crisis hit Spain hard, making it one of the most affected in the EU. But long before the pandemic, the Spanish economy had already been fragilized by its very structure and weak fundamentals.

The coronavirus crisis has hit Spain hard and the country's economy will be one of the most affected in the EU because of its structure and weak fundamentals before Covid-19 took a heavy toll (270 000 cases and 27 000 deaths), respectively the second and third highest numbers in the world).

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 in 2019 at 2.6% of GDP. It took Spain a decade to get the deficit below 3%, the EU's Stability Pact threshold which has now been discarded.

The IMF forecasts the economy will shrink 8% this year, based on coronavirus not resurging after the summer, and unemployment will reach 21%. Debt is forecast to reach 113% of GDP (the highest level since 1902 and up from 35.5% in 2007) and the fiscal deficit 9.5%. The decline in output will be roughly the same as that between 2009 and 2013, during Spain's 'Great Recession', following the global financial crisis and the bursting of the country's massive property bubble. Close to 900,000 jobs were shed between 14 March, when lockdown was imposed, and the end of that month – roughly the same number as between 2 October 2008 and 27 February 2009.

Importance of the tourism sector

The economy is particularly vulnerable because of the huge importance of the tourism sector (12% of GDP and 13% of jobs directly and much higher indirectly). The country received a record 83.7 million tourists last year, the second largest number in the world after France, of which 58.5 million came between March and September, the peak period. Hotels and restaurants have been closed since the middle of March and no one believes they will be back to normal before the end of the year. In addition, there were 41 million day-trippers last year – people who crossed over from Portugal or southern France or cruise-ship passengers who disembarked.

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Another factor behind the vulnerability is that more than a quarter of workers are on temporary contracts, the highest level in the EU, and they tend to be the first to lose their jobs. Small and medium-sized companies account for more than 70% of total employment and these firms tend not to have the financial resources and buffers to withstand significant shocks.

Risk of social exclusion

The fiscal response of the fragile minority coalition government of the Socialists and the more radical Unidos Podemos (the country's first such government since the 1930s) as of 16 April amounted to €13.9 billion (1.1% of 2019's GDP). This compares with Germany's 6.9% and France's 2.4%. Measures include €3.8 billion in medical expenditure and spending on the job retention scheme known as ERTE, under which companies affected by the virus can temporarily lay off workers most of whose wages are then paid by the state. There are around 4 million furloughed workers (16% of the labour force).

Other measures include moratoriums on social security contributions, mortgage payments on primary homes and on rents for those identified as vulnerable or at risk of social exclusion. Evictions are suspended for six months.

The government is pushing for a 'pact for national reconstruction', inspired by the idealized Moncloa Pacts in 1977, agreed between parties, employers and trade unions, after the death of the dictator Franco when serious economic problems threatened to knock the country off its newly democratic course. This time round the circumstances are very different and consensus, the watchword then, is no longer part of the bickering parties vocabulary (16 parties are represented in parliament).

Not surprisingly, given the magnitude of Spain's problems, it was Prime Minister Pedro Sánchez who 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, and he is at the forefront of pushing for greater financial solidarity by the northern EU countries with the southern ones. ●

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