

## **Editorial introduction: How has the pandemic hit the Spanish economy and what should governments do?**

In 2020, the world was suddenly hit by the most severe global pandemic in a century due to the coronavirus disease (COVID-19), first detected in late 2019. Beyond the health and human tragedy of the disease, the pandemic triggered the most serious global economic crisis since Second World War in terms of speed and intensity.

To mitigate the propagation of the virus, governments around the world implemented unprecedented protective strategies, such as restrictions on movement and travel, recurrent population lockdowns and social distancing imposed in shops, eateries, public transport, schools and cultural activities. As a result, hospitality and travel industry has collapsed; businesses have closed, unemployment has skyrocketed, the inequalities in our societies have been exposed; and social isolation has been widely imposed worldwide, which plunged most major economies into recession.

Despite the high degree of correlation in the peak of this recession around the world, the severity of the economic consequences of the pandemic may vary significantly across countries depending on the structure of their economies in terms of sectorial composition and firm sizes. The reason is that the strategies implemented to curb the spread of the pandemic have a varying impact on different sectors of activity. For example, they are particularly damaging to those sectors in which interaction with the end consumer plays an important role, such as tourism-related activities.

In addition, rebuilding economies post-COVID-19 will require enormous effort, resources and expertise. The success of the different ongoing countercyclical economic stimulus implemented by policymakers during the COVID-19 crisis to support their economies, employers and employees will facilitate the transition back to normal, although with a great uncertainty. To achieve such a goal, it will be important to examine the potential transformations in the productive structures and labor regulation, which pose enormous economic challenges and raise many questions for economic studies.

In this context, the stimulus measures following the impact of the coronavirus on the global economy are also being unprecedented. Many countries have introduced strong measures both in terms of fiscal and monetary policy. Some of these measures are rescue packages, asset purchase programs, lowering interest rates or loans to aid companies affected by the pandemic.

Quantifying these different sources of uncertainty is a key issue to assess the potential to narrow the adverse economic effects of the pandemic. It is not clear how the world economies will look like once the pandemic comes under control, when the recovery will occur and the shape it will have.

This monographic issue of *Applied Economic Analysis* aims to assess the impact (direct and indirect) of the COVID-19 pandemic on Spain. For this purpose, we collect a set of papers that cover a range of topics related to the impact of the crisis on the main



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macroeconomic aggregates, the likely persistent effects on the labor market, the consequences on trade of goods and services, the vulnerability and resilience of nonfinancial corporations to this exogenous shock and, finally, the cost of the COVID-19 including health strategies of prevention, treatment and tracking.

This monographic issue also focuses on the expected stabilizing effect of the ongoing economic policies to accelerate the recovery of the Spanish economy. Besides, some recommendations related to the government's response in dealing with the COVID-19 pandemic are formulated, as an option to minimize wider economic impacts at different horizons.

The first article in the issue, "The stabilizing effects of economic policies in Spain in times of COVID-19" by Emilio Boscá, Rafael Domenech, Javier Ferri, José Ramón García and Camilo Ulloa, estimates the historical decomposition of the main economic variables in Spain, in terms of the contributions of structural shocks, conditional on the information available until the third quarter of 2020. Boscá and coauthors use a dynamic and stochastic general equilibrium model (so-called EREMS) and obtain that negative total factor productivity and demand shocks explain most of the fall of GDP in the second quarter of 2020 although it has been partially offset the stabilizing effects of countercyclical economic policies. Among them, they point out public consumption, transfers to the private sector and credit impulse. They also simulate the potential effects of the European Union (EU) recovery fund branded Next Generation EU on the Spanish economy from 2021 to 2024. Although they acknowledge that the preliminary estimates must be taken with some caution, they obtain that GDP could increase between two and three percentage points in 2024, with a cumulative fiscal multiplier of 1.08 in these four years.

Juan J. Dolado, Florentino Felgueroso and Juan F. Jimeno contribute with an article that reviews the experience of the Spanish labor market during the COVID-19 crisis, "Past, present and future of the Spanish labor market: When the pandemic meets the megatrends." They document that, as in past recessions, the Spanish labor market has been one the worst hit by COVID-19 worldwide. The response to the pandemic has led to sharp falls in labor demand of nonessential retail, hospitality and leisure businesses, which employ more than 30% of total employment. As this phenomenon occurred in most countries, they analyze the poorer performance of Spain by focusing on institutions in place, how the Spanish labor market fared in previous recessions, the specifics of the current policies to respond to COVID-19 and the challenges ahead given the new megatrends underway (digitalization, robotics and artificial intelligence and platform economy). In this context, they consider that employment and social policies need to be reconsidered. Protecting workers (and not jobs) and providing resources (not ideal entitlements) should be at the center stage when defining their objectives and designing their instruments.

Vicente Salas contributes with the article "Spanish non-financial corporations and the COVID pandemic: vulnerability, resilience, and transformation." He assesses the vulnerability, resilience and transformation capabilities of the Spanish nonfinancial corporations to external shocks. His results indicate that the Spanish corporate sector is highly vulnerable and has low resilience to external shocks. The low average labor productivity may be a consequence of the adoption of inefficient management practices and lack of skills of the working population. These appear to be serious handicaps for Spanish firms in face of the changes demanded by the Next Generation EU program.

Asier Minondo takes up the challenge of assessing the impact of the pandemic on trade of goods and services in his contribution "Impact of COVID-19 on the trade of goods and services in Spain." He documents that Spain's export specialization in transport equipment, capital and products that are consumed outdoors and tourism, which relies on the movement

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of people, has made the COVID-19 trade crisis more intense in Spain than in the rest of the EU. However, because Spanish firms maintained their relationship with foreign customers, it is reasonable to expect a rapid recovery of good exports after the health crisis ends. Besides, he speculates that the COVID-19 crisis will cause permanent changes to Spanish trade because it may lead to changes in the composition of service exports, have a negative impact on the growth of Spanish exports in the medium term and increase their concentration in EU countries.

In the article “The costs of COVID-19 and the cost-effectiveness of testing,” Beatriz Gonzalez and Laura Vallejo provide an estimation of the cost of the COVID-19 in Spain, and they find that the monetary value because of premature mortality and long-term morbidity consequences correspond to 3.1% of the overall total cost, the direct health and non-health-care cost is about 2.1% and the rest of the cost is the loss of GDP due to outbreak responses. They also analyze the cost-effectiveness of the test-tracking-quarantine (TTQ) strategy conducted in Spain, obtaining that for every euro spent on TTQ, 7 euros will be recovered via saved health-care resources.

Finally, Angel de la Fuente and coauthors in “The economic consequences of COVID in Spain and how to deal with them” examine the effects of the pandemic on effective employment and GDP and provide an overview of the heterogeneous consequences across the autonomous communities. They find that Spain is among the countries that are suffering the most due to its heavy reliance on tourism and other badly hit activities, the prevalence of small firms with limited financial reserves and the weakness of its initial fiscal position, which has limited its ability to respond to the crisis. Once the consequences have been analyzed, they reflect on what has been done and what remains to be done to overcome the devastating human and economic tolls of the COVID-19 pandemic. Finally, they outline a strategy for dealing with the current crisis and improving Spain’s economic performance in the long term. In this agenda for the future, they highlight the need to achieve political consensus and a broad budget agreement.

In conclusion, the costs of COVID-19 to the Spanish economy and the challenges and tasks that it poses for the future are enormous. The Editors of this monographic issue like to thank the authors that contribute to it for their dedicated service in helping us to understand the key aspect of the current pandemic crisis, to discuss the main measures that have been taken to mitigate its adverse economic consequences and to provide some reflections on what else could be done. We also owe a great debt of appreciation to the Editorial Board of *Applied Economic Analysis* for approving the project.

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