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The Economic Consequences of the Health Crisis in Spain: Five Questions for a Common Diagnosis *†

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Abstract/Résumé

In a context of uncertainty regarding the intensity and the duration of the "coronavirus crisis", the aim of this paper is to offer a picture of how the Spanish economy has coped in these crucial times. The paper is structured by attempting to answer five main questions. The first one refers to the impact of the health crisis on the real economy after a long and harsh lockdown that affected most of the Spanish population. Besides a serious drop of GDP, we look at the differential effects of the halt in the economic activity on the main sectors that characterize the country's economy. A second section looks at how the halt in production has caused an intense growth of social problems. The already high unemployment figures that existed before the crisis have increased as a lot of firms have been forced to stop their activity, increasing inequality and poverty ratios in the country. The third question looks at the financial perspective of the crisis, stressing the need to maintain liquidity and resources, which has become an essential strategic variable that must be supported by the governing institutions of the monetary system, especially the European Central Bank. In this context, government intervention and the maintenance of the Welfare State became key actors in achieving a quick and effective response to the economic and social crisis, thus why the fourth section is dedicated to the main regulatory and fiscal policies applied by the Government and state institutions. Finally, we dedicate the last section to presenting some considerations related to the macroeconomic effects of the COVID-19 crisis in the European context and the main policies proposed by the European institutions.

Keywords/Mots-clés: Coronavirus, COVID-19, Economic Crisis, Real and Financial Economies, Economic Policies, Public Deficit and Debt

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Key aspects

- The most severe projections regarding the impact of the COVID-19 pandemic on the Spanish economy indicate that by the end of 2020, GDP could fall by more than 10%[1] and the unemployment rate could get close to 20%. However, significant growth is expected for the following year.
- Spain's productive model has proven to be especially vulnerable to the measures adopted. Freelancers and small businesses have been affected the most, as well as business with scarce funds. The excessive dependence of the economy on the service sector, which has been especially damaged by the pandemic and the measures taken in its wake, has aggravated the crisis.
- The halt of productive activity has had a strong effect both on supply, as the chains of production have been interrupted, and on demand. In this context, public intervention is essential to avoid a fall in the demand for goods and services and maintain productive activity.
- It is likely that the unemployment rate will surpass the worse figures of the Great Recession. This accentuates the need for more resources to face the new situation. In the short term, large public resources will be necessary to face the growth in unemployment and ensure its full coverage. Guaranteeing coverage for families with no income, who are unable to meet their basic needs, is an indispensable requirement of public policy in the current crisis.
- The unavailability of liquidity for public and private economic agents has become a central element of the current crisis. This explains the importance of the actions of the European Central Bank, who has taken measures that would previously be considered unthinkable, although it is yet to be seen if they are sufficient.
- European institutions have been forced to respond to the demand for coordinated action and decisive policies to face the pandemic and its economic consequences. However, it has been extremely complex to reach a consensus in such a delicate field and thus none exist as of July 1st 2020.
- The policy measures implemented result in a significant growth in public deficit and debt. This raises a serious issue regarding the sustainability of debt in the medium-term, as well as impacting on public services and public benefits for future generations. On the other hand, it may be difficult to limit debt, especially considering the limited fiscal space available to Spain. For the EU, it is not merely a question of solidarity, but also, and more importantly, of survival.

1. Introduction

Despite the short time since the beginning of the pandemic, much has been written and said about the impact that COVID-19 is having on the Spanish economy. Prospects could not be worse: a steep fall in production, increased unemployment, financial difficulties for consumers and entrepreneurs, etc. Everything seems to signal that the future will be bleak, and that overcoming economic stagnation will be very challenging. Many institutions and specialists have already made projections and analyses quantifying this impact, with the worse scenarios

[1] The latest IMF's forecast (end of June) was -12,8%

projecting a fall in GDP of around 10% for all of 2020, although a modest growth is projected in the next year[2].

In recent weeks, the deconfining process has begun, anticipating a general re-opening of the economy. To understand the situation at the beginning of this process, it seems appropriate to discuss what major effects the measures taken to fight the COVID-19 pandemic have had on the Spanish economy.

Therefore, the purpose of this paper is to offer some explanatory remarks on how we have reached the current situation, what have been the main problems and obstacles, and what the most realistic ways out are. To do so in a structured manner, the document aims to answer a set of five key questions:

- What is happening in the real economy? Has all production been halted? Which sectors have been affected the most? Which have resisted, or even increased their production and revenue, during this period of stagnation?
- What are the social consequences of the current crisis and the halt of the economy?
- What are the effects on the financial side? What problems do banks and other financial institutions face? How is the European Central Bank responding, and what is its relevance in the current situation?
- What is the public sector doing? What are the most important measures it is taking? How should we evaluate these measures?
- What can be said about macroeconomic policies? Why is it so difficult to reach agreements in the European Union? What alternatives are being proposed?

Given the current uncertainty regarding the intensity and the duration of the crisis, the aim of this paper is merely to offer an image of the economy in these crucial times. However, even though we do not dispose of specific measuring instruments or comparable experiences, if we can infer anything of the rapid impact of the crisis on virtually every country in the world, it is the intense interdependence among them, a clear consequence of globalization as we know it[3].

2. What is happening in the real economy?

As is well known, the coronavirus crisis has required that a huge part of the world's population remains confined in their homes for various lengths of time, with the aim of preventing the spread of a virus that has displayed a high capacity to propagate and infect a vast amount of

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[2] Although, as has been said, the current uncertainty raises serious doubts regarding forecasts of the impact of crisis in terms of GDP, during the first weeks of the pandemic specialists projected falls between 3.2 and 5.2% of the GDP in 2020 and an increase in unemployment rates between 3.5 and 5.2% (Pérez & Maudos, 2020); Raymond Torres (2020) mentioned a reduction in the GDP of 10% in the first semester and a fall of more than 3% at the end of the year; the IMF has estimated a fall of the GDP by 8% during this year, and an increase in unemployment of up to 20.8%, although it projects a possible economic growth of 4.3% in 2021, together with a slight reduction in unemployment, to around 17% of the active population. Lastly, the Bank of Spain projected falls between 6.6 and 15.1% in GDP for 2020. These projections depended on the length of the period in which the measures were enforced, on the duration of the effects generated on the productive sectors, and on the problems of liquidity and solvency of private economic agents.

[3] In the framework of fiscal theory, the pandemic can be understood as a global good (or bad), as it affects practically every nation. Similarly, the potential vaccines would also have this characteristic. In fact, the discovery of a vaccine by one country whose production is available to all counties is also a kind of global public good; however, the doses of vaccines as such are private gods (rival use and exclusion possible).

citizens, leading to many deaths, especially amongst individuals over 70 years old. In Spain, since the approval of the Royal Decree 463/2020 on March14th, in which a state of emergency was declared to manage the sanitary crisis generated by COVID-19, most citizens (with some regional differences) had to remain in their homes from mid-march to early may, reducing considerably their mobility. As the pandemic continued spreading, the government, following the advice of health experts, decided to increase the period of confinement, limiting, with a few exceptions, the mobility of every person not working in essential services[4]. The relaxation of confinement measures began on the last days of April, enabling the population to have some degree of mobility.

The obvious consequences of these measures have been the halt of a large part of the economic activity in Spain, as has occurred, to differing extents, in practically all its neighbouring countries. Most businesses were forced to alter or halt their activity, while both salaried and freelance workers have been forced to stay at home, working remotely when possible. Many, however, have lost their jobs, either permanently or temporarily. The consequences for the real sector of the economy could not have been more devastating. Spain's productive model, based mainly on the construction sector and the growing activity of the service sector, has been especially vulnerable to the adopted measures, as it has been unable to respond to these measures through adopting other means of production.

Consequently, a large part of the activities of the industrial sector and of the service sector (including commerce, transport, communications, finance, tourism, hospitality, culture, sports, show business, programming, design, or consultancy activities, as well as many public services activities), without doubt the most important sector in terms of employment, have been paralyzed[5].

Although it is difficult to determine to what extent different economic agents are impacted by the crisis, there is little doubt that freelance workers and small businesses – especially those without the necessary savings to cover their basic costs – have been hit the hardest[6]. The halt of productive activity is being especially harsh on business that had already had scarce profits in the previous year, business with low saving capacity, and business that are still required to pay fixed costs (not related to production, such as rent or security and surveillance services) even without disposing of the income normally obtained from their ordinary economic activity.

The most immediate effect of the halt in activity was a fall in supply, with all the consequences this has for people, communities, and productive sectors. Unemployment has surged, especially amongst temporary and part-time workers, but a significant part of full-time workers, as well as

[4] According to the Royal Decree-Law 10/2020, which regulates a remunerated, retrievable permit for workers in non-essential services, the following are deemed essential activities: those related to the primary and food sector, the fabrication of work clothes or pharmaceutical products, and those linked to the transport and distribution of basic products (energy, water or telecommunications). The duration of the most severe confinement period lasted from March 20th to April 9th.

[5] In terms of employment, the service sector represented in 2019 the 75.8% of the total labour force in Spain, above the European average (74%). The industrial sector was composed of 20.2% of the total labour force and the primary sector of 4%. In terms of added value, the average percentages in 2018 were: 73% in services, 25% in industry, and 2% in the primary sector (Eurostat, 2019).

[6] Freelancers and small businesses have a greater role in the Spanish productive structure than in other European countries, which increases the negative effects of the pandemic, due to its greater danger and less capacity to face the crisis.

those freelancers or entrepreneurs that have been forced to close their businesses[7], have also been affected. In this context, public intervention is essential to limit the rupture of productive chains and avoid a fall in the demand for goods and services.

Demand, the other side of the coin, has also been affected, in spite of various attempts to sustain it via public policies. An important part of household consumption (which has been greatly affected by unemployment and incertitude, leading to an increase in savings), as well as a large part of productive investment, has become stagnant. Another factor has been the strong reduction in external demand and the growing limitations of international commerce. These factors contribute to explaining the recession and the fall in production. In essence, the halt of productive activity caused by the sanitary "shock", has led to distortions in the circular flow of income (Baldwin, 2020).

It is true that not all sectors have been equally affected by the crisis. As well as most of the activities in the agrarian and livestock sectors, the option of teleworking has been extended (and reinforced) in many parts of the service sector (finance, education services, management activities, consultancy, programming, etc.). Furthermore, the sale of food and sanitary products, as well as some of the newer activities such as home-delivery services or online leisure activities, has flourished. These have been able to maintain their activity and even obtain gains linked to an increase in demand for their products and to a reduction in competitive tensions.

Lastly, as a consequence of the crisis, the strength of the demand for certain goods and services has led to an increase in their prices. This has occurred in the case of various food and household products, as well as in those linked to the production of sanitary equipment. One specific case is that of the sale of pharmaceutical products, especially those prescribed most often by doctors, whose price has increased in an occasionally unjustified manner because of short-term demand.

3. What social consequences does the present crisis and the halt of the economy cause?

Not so long ago, Spain had the dubious honour of registering one of the highest unemployment rates in the EU, second only to Greece. In 2013, the unemployment rate in Spain rose to 26.1% of the active population, according to Eurostat data, meaning that more than one out of four labour force member did not have a job. The average unemployment rate during that year was 15 percentage points higher than that of the other 28 countries in the EU (10.9%), meaning that unemployment was, and sadly still is, a structural problem of the Spanish economy. According to the same source, in 2019 the unemployment rate in Spain was 14.1%, which despite the recovery in recent years, was still far higher than the European average, which had gone down to 6.4%.

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[7] According to data from the Ministry of Social Security, between April 9th and the end of the month, the number of contributors to the Social Security decreased by 800,000 and the number of unemployed by the end of April was 3,831,203 up from 3,246,047 in February. Adding the number of workers that were subject to furlough schemes (ERTE, in Spanish), the number of workers receiving some kind of unemployment benefits at the end of April was 5,197,451. The IMF forecast for the Spanish economy projects a growth in unemployment up to 20.8% in 2020, an inflation rate of -0.3%, a deficit of approximately 10.5% of the GDP and a level of public debt that could reach 114% of GDP in 2021, respectively up from 2,7% and 95,5% in 2019.

Another problem are the existing limitations of the unemployment benefits system. According to data from the Ministry of Labour, at the end of February of this year, the total amount of unemployed workers amounted to 3,246,047. Of these, 2,247,497 obtained resources from the unemployment system, including all the possible benefits: contributory benefits, non-contributory benefits, minimum income schemes ("Renta Activa de Inserción"), different welfare payments, and the active labour market policies. Unemployment coverage figures – which have substantially increased since 2016, when the coverage rate reached its lowest level (55.7%) – were around 66.1% at the time, meaning that, before the present crisis, the Spanish unemployment benefits system was covering only two out of three unemployed workers.

What is expected in the current situation? Unemployment has increased substantially since the coronavirus crisis started, as have unemployment benefits, which, as has been stated previously, covered over 5 million individuals at the end of April. If the current situation does not change, it does not seem implausible to suggest that the unemployment rate will in a short time exceed the 2013 figure. This implies the need for higher resources to face this new situation. In the short term, only with abundant public resources will it be possible to tackle the massive increase in unemployment and ensure every citizen is covered in terms of income support.

On the other hand, this sort of crisis primarily affects the most vulnerable groups of our society, as is usually the case in times of stagnation. Spain has for a long time had serious problems regarding income inequality and poverty, the indicators of which have worsened in times of recession and have failed to improve substantially in time of economic growth[8].

Therefore, in addition to a general decrease in wages (even if temporary) and the loss of savings of the middle-class, it is necessary to highlight the especially vulnerable situation of those groups which were already vulnerable before the crisis. These groups include those that have to face mortgage payments, immigrants with precarious jobs, families in which most members are unemployed, elderly citizens without or with very low pensions, the so-called "poor" workers (who receive salaries below the poverty threshold), a large share of temporary workers (who are often the first to get fired), domestic and care workers with minimum help or benefits, etc.

The connection between the economic consequences of the crisis and the social effects it has generated is obvious. Therefore, new groups have to be added to those previously mentioned: owners of closed businesses, a large number of freelance workers, and people working in businesses that have been forced to halt their activity, all of which have immediately turned into necessary recipients of help and protection.

Consequently, in the present situation, only public institutions have the capacity to attend to the vast amount and variety of social necessities that have risen with the sanitary crisis, as well as to provide the largest possible amount of resources to fight the pandemic and support those workers most directly involved in this fight. In societies such as those in Europe, it is evident that

[8] According to figures from EUROSTAT, the Spanish 80/20 distance index, which measures the relation between the 2nd and 8th decile of average income, was 6.03 in 2018, while this figure was 5.12 in the case of the UE28. In the same year, the Gini index in Spain was 33.2%, while the European average was 30.8%. During the same year and according to the same source, the poverty risk indicator was 21.5%, as opposed to the European average of 17.1%. Lastly in terms of the AROPE (an indicator of poverty and social exclusion, used in the European Union to measure compliance with the objectives of the so-called "2020 Strategy"), the Spanish index was 26.1% in 2018, while the average figure for the UE28 was 21.8%, both figures far from the objectives detailed in the "Europe 2020 Strategy".

the public sector is the essential actor in answering the threats generated by COVID-19 as well as its economic and social effects.

4. What are the effects in the financial sector?

We live in monetized economies in which most of the means of payment we use proceed from money generated in the financial sector, especially the banking sector, under the direction and the supervision of monetary institutions, in the case of the Eurozone the European Central Bank. Real economic activity needs financial resources in order to maintain itself. Businesses need money to cover their costs (which naturally include their workers' salaries) and ensure their production and their ongoing activities, while individuals need monetary resources, which come from their labour or from their accumulated savings, to cover their needs.

The purpose of the financial sector is to connect the savings of citizens and businesses (held in saving deposits, investment funds or pension funds and plans, amongst other instruments) with those who need resources to cover their needs, maintain or grow their businesses, or test new activities or products. Credit, an essential element of the financial system, is a word which in its origin means "to trust" or "having trust". This element of trust is present in a large part of our economic activities. We trust in money as a general instrument of payment and we do not question its value, or we obtain a credit to acquire a car or a house assuming that the resources that we obtain today will be returned, along with interests, at a given time.

In times of economic expansion, credit tends to grow due to consumers' desire to acquire goods and services, or entrepreneurs and investors' desire to invest in new activities and businesses. The expansion of credit is produced under a rather secure framework: basic needs can be covered reasonably well, citizens have steady incomes, and the situation is expected to continue in the future. When these conditions are not met, the financial system is heavily affected, as non-payments begin to occur, citizens with savings stop adding to them, and the equilibrium of financial entities is undone. This is partly what happened in the Great Recession and what is happening in the current situation.

Banks are being directly affected by the crisis in the real economy, which is reflected in the value of their stocks in the stock market. Banks have a pro-cyclical character, meaning the halt of production generates an impact on financial institutions, as they anticipate the negative effects of the recession on their results (which in turn are also affected by debtor's loss in solvency and non-payments). This explains the decrease in the value of bank stocks. These trends, which are relatively common in every crisis, are now added to an array of measures specifically implemented to protect those families who are facing the most difficulties and with pending mortgage payments; these measures establish deferments in the payment of their debts. Although these measures are justified from a social protection standpoint, they undoubtedly have negative repercussions on lenders, in this case, financial institutions.

Therefore, the availability of liquidity has become a central element of this crisis. The decrease in the value of financial assets makes cash the most demanded asset by individuals. On the other hand, resources destined to protect businesses in problematic situations are a necessity. These resources can only be facilitated by banks, who must therefore be supported by the central institutions of the monetary system and by the economic authorities of the country so they can maintain their activity. In the absence of an intervention, the race for liquidity pushes the price of financial assets downwards, increasing the intensity of the crisis, and leads to a loss in the wealth of many saving citizens[9].

All this, points to the importance of policies launched by the US Federal Reserve and by the European Central Bank. Both have chosen to act, on one hand, on interest rates, by reducing them in order to incentivize access to credit, and, on the other, on the bond market, by buying bonds and therefore injecting liquidity in the system. But while the American central bank could act forcefully upon interest rates, the ECB had less room to manoeuvre, as interest rates in Europe were already very low. The ECB's alternative was to put forward a large amount of money through the acquisition of bonds to maintain the financial system's liquidity, as well as to ensure that banks follow their strategy, using this money to guarantee the financing of the real economy during the harsh conditions of the current situation.

5. What is the public sector doing?

In all the spheres mentioned thus far, public institutions have been forced to intervene on a level hardly imaginable before the crisis, with the aim of attending the needs of the most affected and trying to minimize the damage inflicted upon the productive forces of the country during the confinement period as well as in the following phase.

One thing that has been made clear in the management of the present crisis is the irreplaceable role of the public sector. What would have happened if the level of intervention had remained at its usual level? In a case like the present, is the market an efficient auto-regulatory and equilibrium-inducing mechanism?

As is clear, in the context of a pandemic such as the one humanity is currently facing, the regulatory tasks of the state or of public institutions are crucial. Evidently, the most immediate measures are directed towards the protection of public health, providing healthcare systems with the necessary resources, as well as adopting rules regarding citizen's behaviour, which involve establishing measures of control that can be very harsh, and which have enormous economic consequences. Furthermore, in democratic societies where basic social rights are guaranteed, it is essential that that these social and economic measures preserve citizens' liberty and dignity, and that they are implemented with the highest possible degree of transparency. This means the freedom to act of European countries is different to that of other countries, such as China, where the guarantee of citizens' basic rights and liberties is less of a concern.

Regulation involves the implementation of measures in different spheres of social and institutional life, such as the decision to implement the confinement of the population via the State of Alarm Decree, an option granted by Article 116.2 of the Spanish Constitution. Other measures include rules regarding the restriction of mobility, decisions on the labour market, health measures designed to prevent infection, the movement of people or commodities, measures that ensure compliance with the restrictions, or the use of members of the armed

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[9] A mass withdrawal of an asset as liquid as an investment fund forces banks, in the face of a decrease in savings, to find liquidity immediately, which can lead to the sale of risky assets, leading to a freefall of market rates. Though in all crises there are clear speculative and non-solidary movements, which must be denounced and fought against, a large part of this downwards spiral can be explained by the need of banks to recover financial equilibrium and fulfil the thresholds determined by financial institutions. On the other hand, it is necessary to guarantee that the banking sector functions correctly, avoiding abusive behaviour that may be produced in a context where public endorsements are extended.

forces and police in order to assist in the fight against the pandemic. These regulatory measures have undeniable economic effects, although quantifying them is an extraordinarily complex task.

However, in the micro domain of economic policies, we can highlight some of the measures taken by the Spanish government, most of which are managed by the autonomous communities and published in the Statement of Activities published by the Ministry of Finance on March 30th:

1. With the goal of protecting the productive system affected by the halt in economic activity, in the field of fiscal policy, measures such as the following have been implemented: postponements and flexibility in the payment of taxes, national and regional, support for the maintenance of permanent jobs in those sectors hit hardest by the crisis (tourism, commerce, hospitality, leisure activities); increased spending in the health sector and in health research; extension of temporary job subsidy schemes or furlough schemes (ERTE)[10], destined to facilitate the survival of various businesses and their workers, with specific benefits for small business (less than 50 workers); extraordinary benefits to freelancers who have had to halt their activity; and the later measure of conceding recoverable paid leave to workers who have had to stop their activity as a consequence of the confinement of businesses that do not work in the production of essential goods and services (Royal Law Decree 10/2020, March 28th)[11]. At the European level, the crisis has opened the door to the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument, a system of European support towards alleviating unemployment which complements those already in place at a national level. This issue will be discussed later on.
2. In the framework of monetary policy, most efforts have been focused on guaranteeing the liquidity and financing of businesses during the crisis and further on. Amongst the measures that have been implemented, we can highlight the concession of credits to businesses and freelancers and the extension of guarantees to businesses, particularly to those that export goods and services, through the Official Credit Institute (ICO). At the European level, the ECB has agreed to facilitate the liquidity and financing of the system through a novel programme, offering 750 billion euros to keep the market afloat and increase the purchase of public and private debt[12]. This is considered the most important measure, given the effects it has on the interest rate risk premiums of the Eurozone's most indebted countries. Therefore, credit risk would be shared by the

[10] These furlough schemes (known as ERTE) are decisions that allow the temporary suspension of workers' contracts or a reduction of their working hours. As long as the ERTE lasts, workers receive unemployment benefits. This instrument, similar to ones used in other countries, has been used by many companies, who are also incentivized by exemptions of the social security linked to their workers' contracts for the duration of the ERTE. These benefits have not prevented abuses by certain businesses, either by their own accord or in compliance with their workers, that maintain the regular work hours of the employees and "complement" the unemployment benefits up to the full salary. An explanation of these cases of fraud and abuse, and of the complaints it has received, can be found at https://www.eldiario.es/economia/Trabajadores-denuncian-ERTE-suspendido-trabajando_0_1014549304.html

[11] This Royal Decree was in force between March 30th and April 9th of April, therefore including Easter, which implied a reinforcement of mobility restrictions during its duration.

[12] This is done through the Pandemic Emergency Purchase Programme (PEPP), approved on March 18th, which, according to the head of the ECB, will last "as long as necessary" and in which the prohibition of buying more than 33% of the debt of every emitting state has been eliminated.

Central Bank (through the supply of liquidity), by the European governments (through the extension of guarantees), and by the banking system[13].

3. Regarding social protection policies towards citizens and families, some of the main measures adopted, as well as those already mentioned, are: measures to attend to the needs of the most vulnerable families, such as the extension of free school lunches; a reinforcement of the Social Services Plan, especially regarding domestic care and telecare; a guarantee of water and energy supply during the crisis; suspension of mortgage payments; stabilization in the prices of supply of liquefied gases (butane, propane, used as cooking and heating fuel); prohibition to lay off workers for COVID-related causes; or establishing a status of temporary incapacity, similar to a paid leave, for isolated workers to avoid infection, with an income equivalent to 75% of their social security contribution regulatory base. Lastly, the government announced the approval of a 'minimum vital income', soon to be applied, as a final layer of protection for those families and individuals with not enough resources.

6. What has happened at the macroeconomic level?

From a macroeconomic perspective, the policies used follow a Keynesian logic: in times of recession, public policies prevail over market forces, temporarily replacing the actions of private economic agents. This demands the use of expansive policies by public institutions, as well as of automatic stabilizers.

As has been mentioned previously, a multi-faceted expansionary monetary policy has been implemented, with the aim of supplying the maximum possible liquidity to soften the impact of the economic crisis and to spark economic recovery after the most immediate effects of the pandemic have passed. As was pointed out, the behaviour of governments, leaning towards the supply of new credit lines and guarantees that facilitate the financing of credit institutions, complements the efforts of the ECB to supply liquidity to banks via the mentioned LTRO and PELTRO credits (long term loans with very attractive interest rates), thus facilitating the financing mechanisms of the real economy.

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[13] The guarantees will complement the actions of the ECB, materialized through what are known as TLTRO (Targeted Long-Term Refinancing Operations), whose precedent, especially the LTRO (Longer-Term Refinancing Operations), were already used during the 2008 crisis, and whose objective in the time of its creation was to temporarily replace the activity of the inter-banking market (monetary loans between banks), thereby avoiding the collapse of the European banking system. The extension of guarantees avoids the consumption of a bank's capital, a factor worthy of consideration in times of serious crises. In this new modality (TLTRO-III), destined especially towards small businesses and approved by the ECB on March12th, there has been a clear improvement in conditions, especially those regarding interest rates. On April 30th, the Governing Council of the ECB approved a relaxation on the conditions of TLTRO III, reducing the interest rate of these loans to 50 points beneath the average interest that is applied to the main financing operations. Finally, on the same day the ECB approved seven new emergency operations known as PELTRO (Pandemic Emergency Longer-term Refinancing Operations). These are operations with no specific aim ("non-targeted"), whose interest rate will be 25 points lower than that of the main interest rate of the ECB. Taking into account that the average interest rate applicable to the ECB's main financing operations is 0%, both the TLTRO III and the PELTRO will have negative effective interest rates. The idea is to supply as much liquidity as possible to the financial system of the eurozone in favourable conditions in these very difficult times.

Fiscal policy must follow a similar direction: it must be expansive and do so through increases in expenditures or tax reductions. In a crisis as intense in the short term as this one, and with such a high probability of durability, the immediate consequence is a rise of the deficit and public debt. This is a crucial factor in the current situation, as in some European countries the indicators of public debt to GDP were far higher than the Maastricht targets (60% of GDP) even before the crisis.

However, the severity of the present situation has forced EU authorities to be more flexible regarding the stability criteria set in Maastricht, and especially in Stability and Growth Pact (SGP)[14], which was subject to a large amount of attention and control during the previous crisis. Currently, it does not seem that the issue of deficit and debt will be an essential factor while confronting the COVID-19 crisis, at least in the short term. This, combined with the flexibilization of state aid by individual countries and the ECB's announcements regarding guarantees in the supply of liquidity, is an essential element in framing the fiscal policies which must be applied.

What European citizens expect in the present situation is for EU institutions to act decisively, offering a unified image in light of the seriousness of the situation and the need for decisive policies to counter the pandemic and its economic consequences.

However, until today the confrontation between EU countries with regards to the need for an immediate answer to the most serious problems caused by the crisis – with the most disputed aspects being the conditionality of the available instruments and the different viewpoints regarding the mutualisation of debt through "coronabonds" – have made an agreement impossible. However, on April 9th, the Eurogroup achieved an important compromise, which they then sent to the European Council for approval. The central element of the deal was its differentiation of, on one hand, the most immediate measures and, on the other, the need to elaborate a major recovery plan, to be applied once the pandemic has passed.

Consensus regarding the immediate measures was easier to reach. On one hand, the use of part of the European Stability Mechanism (ESM)[15] funds has been approved, up to 240 billion euros, in order to supply lines of credit to the countries with the most difficulties. The aim of this decision is to attend to the crisis' sanitary needs, thus limiting the conditionality that has characterized the ESM since its inception in 2012 in the context of the Eurozone's debt crisis. This limitation on conditionality is one of the factors that has led the southern European countries, especially Italy, to agree to this consensus. According to the representatives of the

[14] Specifically, the "general escape clause" of the SGP has been activated, which allows for a relaxation of the fiscal rules contained in the pact to confront the pandemic and the costs needed to soften adverse economic effects. However, the new options to concede internal state aid, in a scenario where the fiscal space of each country is different can make the adoption of structural measures in the framework of the Union more difficult. It can also intensify competitive imbalances between member states and thus hamper the functioning of the single market. For now, most of the state aid authorised by the Commission comes from Germany (51% at the end of May), France (17%) and Italy (16%).

[15] This is an instrument created by the European Council in March 2011 as a permanent medium to tackle problems of financial instability in the Eurozone. It facilitates financial aid to countries that may suffer serious financing problems. Initially, after a state's petition for aid, the stability risk of the eurozone was evaluated, as well as the degree of sustainability of the soliciting country's debt. If help was approved, its amount was determined through a cooperation agreement, after the soliciting country accepted a plan of macroeconomic adjustment to guarantee the sustainability of the debt. In the new scenario these requirements are much more flexible, with the condition that the money is destined to the fight against the pandemic. In June 2020, as these lines are being written, the procedure of assignment of ESM funds between the countries of the Union has already started.

Spanish Government, although it is not foreseen to use this mechanism in the short term, it should be understood as a security instrument to face the current crisis.[16]

The Eurogroup also approved the use of the European Investment Bank and its pan-European Guarantee Fund, which will have available a lending capacity of around 200 billion euros[17], mostly destined towards European businesses. The guarantees offered by this entity can be employed in Spain as a mechanism to reinforce the guarantee lines of up to 100 billion euros offered by the ICO (Official Credit Institute), which the government approved to facilitate business' liquidity.

The last of the immediate measures included a system of support to combat unemployment and support business (SURE)[18], announced by the president of the Commission at the beginning of April, with a budget of 100 billion euros and destined to help those countries with the most serious unemployment problems[19].

Regarding the second big component of the agreement, European countries accepted the need to implement a plan of reconversion, solidarity or medium-term recovery with ample resources that could be obtained with the emission of long-term debt. However, in the document approved by the Eurogroup, the option of financing this via Eurobonds was not considered[20]. This, as has been mentioned, has been one of the most contentious issues of the negotiations, as, more than ever before, many countries have not only pushed for a flexibilization of the stability criteria, but have also demanded a process of debt mutualisation. This would involve the emission of European bonds, issued in solidarity by the members of the Union, to facilitate the financing of the necessary policies and overcome the crisis once the confinement has ended and economic activity has resumed.

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[16] Some countries, especially the Netherlands, point out that these aid lines should strictly limit themselves to meeting the direct demands linked to the health problem, so that, in the case of trying to address with the resources of the ESM the economic adjustments derived, according to the Dutch rulers, the conditions provided for in the normal operation of the intervention mechanism should be applied.

[17] The European Investment Bank (EIB), joint owned by all EU countries, has as its main objectives: to provide an impulse to Europe's growth and employment potential, to provide support to measures destined to fight climate change, and to foster EU policies in other countries. It is financed in capital markets and its essential function is to provide advantageous credits to projects within the framework of EU objectives.

[18] SURE (Support to mitigate Unemployment Risks in Emergency) is designed, in the words of the European Commission, to protect jobs and the workers affected by the coronavirus pandemic. This new instrument has been given 100 billion euros to be used as loans, made by the EU to its member states with favourable conditions. SURE, which some consider to be the first step towards a future, permanent regime of unemployment reinsurance, will provide support to finance regimes of reduction of labour time and other similar measures, including those that affect freelance workers, adopted by member states. This is applicable, for example, in the case of the furlough schemes (ERTE) used in Spain and other countries to protect businesses and workers during the crisis. See https://cincodias.elpais.com/cincodias/2020/04/01/economia/1585751017_171668.html

[19] SURE is not a direct mechanism to combat unemployment, but simply another instrument proceeding from Europe's financial funds and destined to concede special credits to countries with serious unemployment issues. SURE has not been conceived as a reinsurance system, but would not impede its creation in the future. Once more, northern countries, again especially the Netherlands, insist in the temporary and extraordinary nature of this programme, which must not be confused with an unemployment insurance similar to the ones that exist in member states.

[20] The signatories of the deal did accept, in the letter of the president of the Eurogroup to the Council, a mention of coronabonds as one of the possible resources to finance the recovery plan.

The supporters of the so-called "coronabonds" or Eurobonds claim that the crisis affects every country, that the virus "knows no borders", that they are necessary to defend countries with especially harsh economic and social problems and with more risk in sovereign debt markets, and that in a time like the present, the EU's future is at stake, because most citizens will not understand a lack of solidarity and commitment between member states, considering the need to maintain the single market, essential for the economy of every EU state[21]. From a more general perspective, the creation of public debt is considered to be one more step in the process of unity, as it implies the creation of a European Treasury embryo, an indispensable complement of the Monetary Union[22]. In short, they consider that it would be a fundamental step on the road to consolidate a monetary and fiscal union.

However, as has been mentioned, some countries such as Germany, Austria, Finland, or the Netherlands have been directly opposed to Eurobonds and maintain their stance against any sort of risk mutualisation. They emphasized this position, with different degrees of intensity, during the last Eurogroup debate. The opinion of the Dutch prime minister – according to a statement he later rectified – was that they "would have to guarantee debts of other countries which isn't reasonable". Some of the main arguments make reference to the legal problems of the "no bailout" clause[23], the risk of turning mutualisation into a permanent money transfer from rich European countries to southern ones[24], or that mutualisation may stimulate excessive debt, making it is too early to promote its use.

Other issues include: the slow process that the approval of Eurobonds would need in contrast to the urgent needs linked to the economic emergency (fast solutions are required and the adoption of coronabonds would require many different phases for their design, approval and application); the necessary legislative changes at a national level, the approval of which is by no means guaranteed in countries like Germany; and the fear that the coronabonds debate will fuel support for populist parties, who are opposed to debt mutualisation, in the north. On the other hand, the implementation of Eurobonds could make Germany (through its bonds) lose its role as Europe's country of reference and refuge in the case of a new sovereign debt crisis[25].

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[21] As the representatives of the countries with the most economic difficulties often point out, the demand for solidarity must be understood as a way to guarantee better results for everybody. In reality, the only way to fortify the Union and the single market is for every country to overcome the crisis. As has been pointed out by Fabio Panetta, member of the ECB Executive Board, the need for "a symmetrical and forceful response to this crisis" is not just because of "solidarity towards anyone in particular, that is a moral category, but because of our tight economic interlinkages".

[22] As well as the proposals of some countries in favour of Eurobonds, commissioners Gentiloni and Breton proposed the creation of a Recovery Fund with the capacity to issue debt in the long-term.

[23] Article 125 of the Lisbon Treaty forbids financial rescues of member states on behalf of the EU. Furthermore, article 123 of the Treaty of the Functioning of the European Union considerably limits the possibilities for the ECB to act, by banning it and the central banks of each member state from authorizing overdrafts or conceding any type of credit in favour of institutions, agencies, or organisms of the Union, central governments, regional or local authorities, public law organisms, or public companies of member states, as well as the direct acquisition of debt instruments.

[24] Apart from the different levels of GDP per capita, it is often pointed out that the basic indicators of the SGP show worse results in southern countries, pointing to a lack of frugality and efficiency in the functioning of their economic systems.

[25] The sovereign debt crisis took place in the years 2010 and 2011 and led to the design of diverse rescue plans in some European countries (Greece, Ireland, Portugal, Spain and Italy). An interesting reflection on the debate between those in favour and against coronabonds can be found in Otero-Iglesias (2020).

In essence, it seems that the final decision regarding an eventual issuing of Eurobonds is in the hands of the European Council, although given the statements of the nations most opposed, it does not seem that the short-term approval of this instrument will be possible. Furthermore, it is likely that the measures approved by the Eurogroup will reflect what it considers to be politically acceptable in the short and medium-term.

Prior to the Council meeting scheduled for April 23rd, the Spanish government made public a proposal for an ambitious recovery plan of up to 1.5 trillion euros, which could be financed through the emission of perpetual debt[26]. Days before, George Soros had already supported the emission of perpetual debt by the EU, making reference to its low fiscal cost, the possibility to collect funds in different phases through a system of quotas, and the confidence that these debt securities produce, given the high status of the issuer (the Commission). This would turn them into attractive actives for the ECB in its bond buying strategy.

In a meeting that ended up being less contentious than expected, the Council approved the Eurogroup's proposals regarding the urgent measures previously mentioned. In the agreements, the Council defined four basic lines of action (according to the conclusions by the president of the Council): a completely operative single market, an unprecedented effort in investment, a global performance, and an operative governing system. The urgent measures proposed by the Eurogroup were approved, determining that the package must be operative by June 1st of 2020.

Additionally, the Council agreed to "work towards establishing a recovery fund, which is needed and urgent. This fund shall be of a sufficient magnitude, targeted towards the sectors and geographical parts of Europe most affected, and be dedicated to dealing with this unprecedented crisis". Similarly, the Council summoned the Commission to present an urgent proposal to design this fund, based on a rigorous analysis of different needs and linked to the Multiannual Financial Framework, that in any case must be adapted to manage the crisis and its consequences. The results achieved in the fourth videoconference of the European Council, despite being acceptable and positive, do not resolve all the doubts. For now, the agreement involves the acceptance of an important amount of the recovery plan, which could reach up to 1.6 trillion euros, and which should connect with the Multiannual Financial Framework and the Union's budget. It must also increase the expenditure ceiling of the Union's budget, up to almost doubling its percentage in relation to the GDP. Consequently, the need for a common fiscal answer seemed to be accepted[27].

On May 27th, the president of the Commission presented the recovery plan that had been demanded by the Parliament and Council. The Commission put on the table the creation of a new recovery facility named Next Generation EU, that would borrow money in the name of the EU to finance EU-wide expenditures. The new mechanism, which is yet to be approved by the Council, is connected to the EU budget for the period 2021-2027, which it reinforces with three

[26] The Spanish proposal can be found at https://elpais.com/espana/2020-04-19/espana-propone-un-fondo-europeo-de-15-billones-con-deuda-perpetua.html

[27] Most recently, the European Parliament has approved a resolution which requests the strengthening of the Union's budget, an increase of the Union's own resources and a recovery fund which goes beyond the already approved investment programmes, which are quantified in 2 trillion euros, financed mostly through common debt. The essential part of this fund must be destined towards the real economy through direct transfers, and the European Parliament has warned the Commission that it must not present a plan with "phantom multipliers" in order to justify the funds. The resolution was supported by 80% of the Parliaments' representatives but it is not binding on the European Commission.

main goals: repairing the immediate economic and social damages of the pandemic, activating economic recovery and preparing a better future for the following generations.

The Commission's strategy is centred around two instruments: the recovery plan (Next Generation EU) of up to 750 billion euros[28] ,destined to provide a boost to the EU's budget in the period 2021-2024 via new resources obtained in financial markets, and the reinforced long-term budget of the Union for the period 2021-2027.

Consequently, the EU budget's total financial capacity will rise to 1.85 trillion euros (1.10 trillion of the previous multiannual budget plus 0.75 trillion). If we add the above mentioned figures that have already been approved by the Council on April 23rd 2020 (540 billion euros), the extraordinary aid will rise to 1.29 trillion euros (0.75 and 0.54 trillion), which added to amounts in the budget, will form a total volume of resources of more than 2.3 trillion euros.

According to the available information, the main chapters of the new increased multiannual budget are Values and Cohesion (nearly a trillion euros), which covers most of the recovery plan, Environment and Natural Resources (in which the Common Agrarian Policy, CAP, is integrated), and Single market, Innovation, and Digitalization.

The Commission's proposal involves an important change in the size and goals of the shared budget. Regarding expenditure ceilings, the budget is close to 2% of the Gross National Income of member states, breaking with the traditional limit of around 1%. This plan aims to guarantee the economic stability of the region, stimulating recovery from the crisis around three basic goals: a green change in the economy (the Green Deal), digitalization, and resilience of the sanitary sector in the framework of the Union.

The proposed recovery fund would provide 440 billion euros in the form of transfers, materializing the rest of the resources (up to 750 billion euros) in loans and guarantees. At the same time, most of the transfer funds will be channelled through the Recovery and Resilience Facility, which focuses on the hardest hit nations. These are, naturally, destined to aid and structural reform projects that are in line with the EU's priorities. EU authorities hope that this provision of resources will generate an increase in the trust of economic agents, who are invited to participate in the recovery, and will have positive effects on the economy.

Despite the expectations the Commission's proposals have created, doubts and critiques of the recovery plan have also been raised. Some have pointed out that the plan lacks ambition given the severity of the situation, or that temporary application problems and delays (related to administrative processes, programme design and approval, etc.) could occur. Furthermore, it has been pointed out that while the recovery plan will be in effect during the period 2021-2024, some initiatives and programmes will require longer periods. On the other hand, some have lamented that this occasion is not being seized to propose reforms of traditional policies or of budgeting methods. Another issue is that the strategy does not go in depth in the issue of the EU's internal resources, a key aspect with regards to appropriately paying the accumulated debt in due time. From another point of view, countries opposed to the use of transfers (the so-called "group of frugal countries" which include The Netherlands, Austria, Denmark and Sweden), continue to opposed them or, at least, demand a greater weight of loans compared to transfers.

[28] A week earlier, in May 19th, France and Germany made public a proposition to allocate 500 billion euros to face the crisis, through non-reimbursable subsidies, especially aimed at the countries most affected by the pandemic. This proposition implied strong support for the Commission, so that it could present an ambitious proposal to the Council.

Lastly, although formally the Commission does not explicitly support the emission of Eurobonds or coronabonds to finance the economic recovery plan, it is in favour of financing through long-term debt (between 5 and 30 years) with low interest rates, which would be linked to the EU's budget.

7. Final considerations

The situation created by the coronavirus and its economic repercussions does not have a clear precedent in terms of previous recessions, such as the Great Depression of the 1930s, the economic crisis of 1987, or the Great Recession of 2008. It also is not plausible to consider the two World Wars as examples of a clear precedent that can help us interpret the current situation and find solutions to the problems we have at present. There are no decisive recipes or magic formulas that propose effective ways to overcome the situation, although a few instruments used in the past can be used, at least partially, to look for alternatives.

The huge incertitude we are currently facing in regard to the length and consequences of the pandemic makes it difficult to elaborate a concrete diagnosis and to agree upon the necessary measures to overcome the crisis[29]. What has been made clear is that the halt of economic activity — which has been a consequence of the confinement of the population due to the health crisis, social distancing and the limitations on mobility — is a radical decision with massive economic effects.

The rapid spread of the infection has created an urgency which has forced governments around the world to apply multiple measures to ease the most perverse economic effects, directly attend the social consequences, and try to reduce the costs linked to the closure of businesses and rising number of unemployed amongst workers, freelancers or managers of small or medium-sized enterprises.

Everywhere around the world, the unfolding of events has frequently led governments to apply improvised measures and has made evident the lack of resources needed to adequately confront a crisis such as this one. This has sparked criticism by opposition parties – with important differences in content depending on the country – towards the strategies and measures taken by governments. These criticisms and complaints from the opposition have been especially harsh in Spain, despite the efforts made to explain the severity of the situation and the measures that were slowly being implemented. On the other hand, the message of "leaving no one behind", in contrast to what happened during the Great Recession, has materialized in a wide array of social measures with high levels of expenditure and obvious economic repercussions, such as the introduction of a minimum living income, destined to combat the situations of severe poverty of many families in the country.

The resulting economic crisis will without a doubt be an intense and long one, as the different forecasts are projecting, with worse possible scenarios every week. A recovery during the present year is implausible, and we should expect an overall decrease in production and an increase in unemployment. In this context, the measures taken by different governments, and particularly by the Spanish one, have leaned towards trying to minimize the detrimental effects of the crisis on the productive apparatus, attempting to guarantee the basic needs of the most vulnerable groups and trying to maintain jobs and businesses via a wide arrange of resources;

[29] Some economists, such as the Nobel prize winner Paul Romer, have affirmed that there will be no real solutions to the economic problems until the incertitude generated by the pandemic, its consequences and its control is resolved.

on the other hand, public institutions and monetary authorities have tried to ensure the liquidity and financing necessary to confront this exceptional situation, and to prepare for economic recovery from the moment the transition period towards the normalization of economic and social activity begins.

The public policies implemented imply a significant rise in the public deficit and debt, which might lead to a sustainability problem in the medium-term, as well as condition the services and benefits of future generations. Given the framework in which our economy operates, the actions taken to attend the economic situation cannot be understood without taking into account the decisions taken at a European level. Following a series of struggles to reach an agreement, the Eurogroup approved and sent the European Council a proposal of immediate measures destined to fight the crisis based on three instruments: the use of part of the resources of the ESM with a very limited conditionality, the funds issued by the European Investment Bank, and the Commissions' resources channelled through SURE, a mechanism designed to support countries with large unemployment figures. Aside from these immediate measures, the Eurogroup has appealed to the Council of the Union in the need to design a programme or recovery plan in the medium-term.

In their meeting on April 23rd, the Council took responsibility for the Eurogroups's proposal and summoned the Commission to, at the shortest possible notice, present an estimate of the basic needs and an ambitious and reasonably financed recovery plan. Though all countries agree on the need for a plan, there are significant differences regarding its financing, in particular concerning the use of coronabonds, as well as on the size of the plan, the strategies to distribute funds, and the finance mechanisms[30]. However, the Council's agreement represents an intermediate solution between those who defend the mutualisation of debt as soon as possible and those who favour the application of strict conditions to obtain aid. This seems to be the direction that the governments of Germany and France have taken, who, as mentioned before, have proposed the creation of a European recovery fund of 500 billion euros which would include real transfers to the worst-hit countries. This would be materialized through the Union's budget, via a temporary raise of the ceiling of expenditure and financed through the issuing of debt by the Commission. As is explained in the text, the Commission has partially adopted Merkel and Macron's recovery plan, proposing an economic recovery fund of 750 billion euros at the end of May, linked to the Multiannual Financial Framework and divided in two parts: two thirds of it in transfers and one third in the form of loans. This fund, destined to soften the most severe effects of the pandemic, stimulate recovery and make EU nations more resilient, will be financed by the emission of debt linked to the EU budget.

[30] Recently, the ECB has promised to expand its monetary expansion policy adding 600 billion euros to the initial figures. However, this is far from the only unresolved major issue. To consolidate the process of banking unity, the decisions regarding the Deposit Guarantee Fund for Credit Institutions, or the means of protection for the Single Resolution Mechanism are still pending. The increase of the common budget is another issue that is systematically postponed, but which would be essential if a Treasury of the Union really is to be created in the image of those in federal systems. On the other hand, as has been noted by Feás (Voz Populi, 2020), amongst others, maybe the most important problem that the Union has when it comes to making important decisions is the decision-making system itself. The demand for unanimity in fiscal matters is an excessively rigid rule, which makes many of the proposed advances and developments impossible. Regarding the geopolitical consequences of the crisis, see Barroso & Cornago (2020).

Currently, the three key factors of the eventual reconstruction process in the European context are: the ECB's degree of flexibility in its strategy to acquire bonds and supply liquidity[31], the characteristics and reach of the recovery plan that the Commission has elaborated and which is yet to be approved by the European Council, and the maintenance (or not) of the flexibilization of the central elements of the SGP, singularly in those aspects regarding State Aids and its effects on competitiveness in the single market. An additional issue that must be taken into account in the future is the possibility to increase the Union's resources through some of the fiscal schemes that have been considered through the years.

In any case, given the severity of the current crisis, the approval of a recovery fund with ample resources seems vital, due to the European Union's need to offer an image of decisiveness and solidarity in the overcoming the crisis. As has been recently said, it is not merely a question of solidarity, but also of survival.

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