

# Spain: Fostering the recovery

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Economic policies reacted in a timely manner to the crisis, which hit the Spanish economy hard, with a 10.8% fall in GDP in 2020. Policy support, including short-time work schemes and loan guarantees, changed in line with the evolution of pandemic. With vaccination accelerating and containment measures easing, recovery is on the horizon. However, outlook remains uncertain due to the speed of vaccination, the recovery of tourism, unwinding of the sizeable households savings accumulated during the lockdown and the use of Next Generation EU funds. The latest *OECD Economic Survey of Spain* highlights that support should be continued until the recovery is firmly underway, but become more targeted to the most impacted sectors and viable firms.

## ***Structural reforms are key to a durable and inclusive recovery***

The crisis has exacerbated pre-existing challenges, such as high unemployment and inequalities, with the pandemic hitting disproportionately hard young, low-skilled, and temporary workers. Improving the efficiency of active labour market policies will be an important tool to reskill and enhance the employability of displaced workers. For example, the use of tools for the profiling of specific individual needs can allow interventions at an earlier stage, and tailor services more closely to individuals. Ensuring training opportunities for workers on short-time work schemes is also key to facilitate reallocation. An important challenge of Spanish labour markets is the widespread use of temporary contracts. While temporary employment can help impacted sectors in the near term, labour market duality should be lowered in the medium-term. Simplifying the menu of contracts and streamlining existing hiring incentives should be prioritised.

The Recovery, Resilience and Transformation Plan outlines to use the EU funds to advance the structural transformation of the Spanish economy to a more digitalised, inclusive and sustainable economy. Swift absorption of the funds can support the near-term recovery, but effective implementation and reforms are needed to enhance long-term growth. Given the high level of decentralisation in Spain, coordination across different levels of government will be key, together with a good governance system to strike the right balance between fast absorption and high accountability, by ensuring transparent procedures and criteria for investments.

***Once the recovery is firmly under way, medium-term fiscal challenges should be addressed***

Significant policy support has increased the public debt to GDP to 120% in 2020. Furthermore, the ageing-related spending pressures present before the pandemic will continue. Adequate and socially acceptable measures should be taken to ensure the long-term financial sustainability of the pension system. The Survey recommends linking the retirement age to life expectancy and further increasing the effective retirement age by disincentivising early retirement. New incentives to extend working lives, for example by increasing the number of required contribution periods to gain a full pension, could also be introduced. These reforms should be accompanied by measures to re-skill older workers, such as digital and ICT skills.

***Boosting digital diffusion will raise productivity growth and help firms' recovery from the crisis***

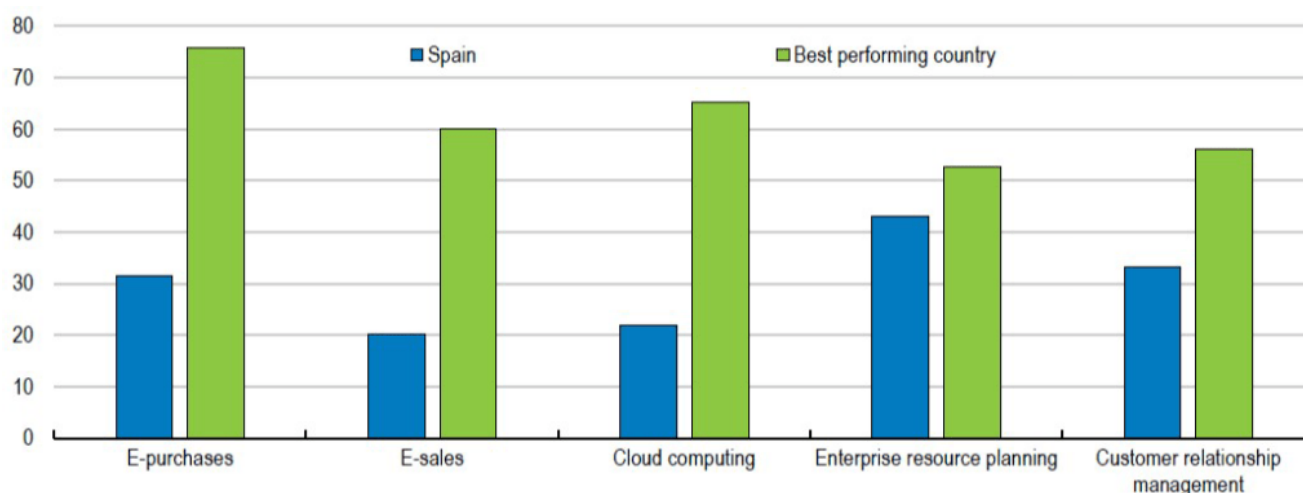
The pandemic has shown the benefits of a more digitalised economy (e-commerce, teleworking) and accelerated the pace of digital adoption, which can help boost growth through productivity gains. Spain has one of the best digital infrastructures in the EU, but there is considerable scope to reap the benefits of the adoption of digital technologies and

their effective use to produce new business models and products.

There is a mismatch between the skills employers need and the qualifications of jobseekers, which is expected to grow in the future in Spain. There is not only room to improve digital skills, especially those with low-education, but also the digital adoption of technologies by firms, especially SMEs. Only 20% of firms use e-sales and cloud computing services in Spain (Figure 1). Efforts to remove barriers to low productivity firms, improving their access to capital and incentivising them to boost their underlying capabilities, including intangible capital and the skills of workers, would increase firms' incentives and capabilities to make the most out of new technologies. These issues are covered in the Survey's in-depth chapter on digitalisation.

### **Figure 1. The adoption of digital technologies has scope to increase**

Percentage of firms which adopt each technology, 2019



### **References:**

Government of Spain (2021), *The Recovery, Transformation and Resilience Plan of the Spanish Economy*, Madrid.

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