

Spain's recovery plan after the Covid-19 crisis

May 4, 2020

In collaboration with

Deloitte. esade

CEOE
CONFEDERACIÓN ESPAÑOLA DE
ORGANIZACIONES EMPRESARIALES

Index

Introduction	3
The health crisis raises complex economic scenarios that require robust public measures, both in scope and effectiveness	4
In the short term, the greatest priority is preserving and strengthening the business sector and society as a whole	6
In the medium term, we need to become more competitive and modernise our production sector, to ensure growth	9
Accelerate the recovery of the sectors that have been most affected during the crisis	12
Lean on our strengths to turn them into driving forces able to propel and mobilize our economy	13

Introduction

The objective of this report is to **identify the measures aimed at tackling the economic crisis followed by the Covid-19 health emergency**: a crisis that threatens economic growth, employment, the business sector and the sustainability of our Welfare State in an extraordinary way, both in the short and medium term.

Despite having been partially mitigated by some of the measures already taken, human losses as well as social and economic consequences are, at this stage, irreversible. Nevertheless, to prevent this situation from becoming structural, we must focus on the future and propose a Covid-19 exit strategy for the Spanish economy to return to a path of sustained and balanced growth as soon as possible. We are aware that the de-escalation process will not be easy and will most likely be uneven across sectors. However, we believe that the measures proposed will help speed up the recovery as much as possible.

The measures proposed have an ambitious scope as we understand that the government, business sector and society will only be able to react accordingly from this perspective. The **proposed strategy** is a combination of a **defensive and proactive approaches**. On the defensive part, we include the mitigation of the existing risks, the preservation of the productive sector and the recovery of activity, especially in the most affected industries. On the proactive side, we include the identification and development of leverage, as well as driving elements that will play a key role in the adaptation and growth of the economy as a whole within a different and complex economic and structural environment, at both national and international level.

This document, prepared by CEOE in collaboration with Deloitte and ESADE, is structured in two main blocks: **economic scenarios and exit strategy**.

The **economic scenarios** assess the present and future situations based on the definition of two health scenarios (central and adverse), which are taken as starting points, and consider the allowed mobility in each scenario and its effects on the business or productive sector, with the aim of estimating the economic impact. This block attempts to answer a series of questions such as: what is the starting point for the Spanish economy? Are the public policies implemented effective enough? What are the potential future scenarios?

The **strategy** needed for a rapid exit from the crisis includes different transversal measures, distinguishing those that can be of a defensive nature, from others that are more pro-active or that drive activity. This block seeks to answer a series of questions such as: what horizontal measures should be implemented for the economical recovery? (in the short and long term) What is the weight of the sectors most affected by the crisis? What sectors can act as driving forces in the economy?

The health crisis raises complex economic scenarios that require robust public measures, both in scope and effectiveness

Spain is **one of the most affected countries** in the world by the COVID-19 health crisis. The high number of deaths, the emotional stress endured by the population due to the confinement measures and the impossibility, in some cases, of saying farewell to their loved ones, the stress to which the emergency services (i.e., healthcare workers, police, etc.) have been subjected, and the uncertainty regarding a return to normality have reached levels that were difficult to imagine just a few weeks ago.

In the fight against the pandemic, the Spanish authorities imposed **severe restrictions on mobility** in order to minimize contact and thus reduce the rate at which the virus could be transmitted. The restrictive measures adopted by Spain to date, which have been coherent with the health emergency that we are experiencing, represent, within the global context, some of the most severe taken worldwide, only comparable to the measures adopted in China and Italy. They are resulting in a significant drop in healthcare distress, but also in a decrease in economic activity.

The health crisis will be followed by an **economic crisis** that could have equally severe consequences: millions of people unemployed, families in a vulnerable state with no income and the destruction of the economic sector, with the disappearance of hundreds of thousands of SMEs and self-employed individuals without work, giving rise to a social and economic crisis. It is clear that key sectors for our country's GDP, such as tourism (83 million international tourists in 2019), are going to be particularly impacted, and that the preponderance of SMEs and micro-enterprises in our business sector require, without delay, a reaction from the Government with equal or greater force than the health measures adopted. The impact of COVID-19 on the economic activity has not been experienced by the world economy since the Great Depression of 1929. It will be much more severe than the recession that Europe and Spain experienced during the last sovereign debt crisis, the aftermath of which is still being felt.

The IMF predicts that **the global economy will contract by 3% in 2020 and Spain's economy by 8%**. Similarly, the Bank of Spain has also updated its forecasts, estimating a fall in GDP for Spain of 6.8% in the most favourable scenario and of 9.5% in an intermediate scenario. The Stability Program 2020-2021 that the Government has just presented includes a forecast of a GDP decline of 9.2% for this year.

Our growth projections (see Table 1) are similar for a health scenario in which we overcome the pandemic in the 3rd quarter of 2020 and return to normality, in terms of mobility, in the second half of 2020. Conversely, if the containment and distancing measures applied in the first phase of the crisis were extended to the second half of the year, with the possibility of a new outbreak, both the IMF and the Bank of Spain predict significantly worse growth figures. In our analysis, if this scenario (new outbreak) were to lead to a new general confinement of the population, it would result in a downturn of the Spanish economic activity in 2020 of an additional 4 p.p., setting growth at -12.0%. This scenario could worsen if there is no early, coordinated and robust action taken on the health front (mass testing) as well as on the economic front (support measures), to prevent what would initially be a temporary shock from causing permanent damage, long-term unemployment and the closure of productive enterprises.

In order to assess the possible economic impact for Spain, a **central scenario** has been defined, with and without a new outbreak, as well as an additional **adverse scenario**. Both are explored within a timeline that spans from the start of the pandemic in Spain (March 2020) to the beginning of 2021. In turn, each of the health scenarios has been divided into five health phases, those that have already taken place (i.e. *strict quarantine* and *"light" quarantine*), and those that could occur in the future (i.e. *modulation*, *normalization* and *exit*), depending on how the pandemic evolves. Each of the five health phases translates into public and private measures restricting mobility with the aim

of mitigating the health impact. Finally, mobility restrictions translate into a drop in economic activity for each of the health phases.

Table 1

Economic scenarios 2020		% Change in real GDP
Central	Without new outbreak in autumn	-8.0%
	With new outbreak in autumn	-12.0%
Adverse		-15.5%
Government forecast (Stability Programme 2020-2021)		-9.2%

Source: prepared in-house (central and adverse scenarios)

Government forecast from the Stability Programme 2020-2021 presented on April 30th 2020.

At a European level, **the European Union's reaction to mitigate the economic effects** of the virus has come faster and has been more ambitious than on previous occasions. In particular, a strong reaction from the ECB has significantly reduced volatility in the debt markets and is likely to contain, at least temporarily, the risk premium disadvantage for the most indebted countries. Looking forward, it will be important to specify certain aspects of the programmes developed, such as the financing of SURE (European Support to mitigate Unemployment Risks in an Emergency), the terms for ESM loans or the availability of the new European Reconstruction Fund. If designed properly, even in a scenario of significant worsening of public accounts, the instruments implemented at European level should allow for financing that can be afforded by the most indebted countries, ensuring sustainable debt dynamics.

Meanwhile, **the Spanish government has launched a programme** presently centred on guaranteeing liquidity measures to sustain the productive sector and protection programmes aimed at the most vulnerable groups. Looking ahead, an important element to mitigate the economic and social crisis will be the **simplification of the procedures for granting aid**, the extension of its scope in certain cases and the adoption of measures that allow for a gradual recovery of activity, placing people at the core of this process.

Finally, given that according to our scenarios, the return to normal activity will probably be progressive, the government will have to **extend the duration of the measures already approved and implement other measures** such as those suggested in this analysis, and keep them in force as long as necessary to inflict the least possible damage to the growth and recovery process of the Spanish economy. It is important to stress that the sustainability of the public debt required to implement the suggested stimulus measures must be based, fundamentally, on solid economic growth, additionally contributing to reducing possible tensions arising from the announced European programs.

The actions required are far-reaching and must be maintained over time, so a **broad political consensus** supported by employers and social partners is required for the credibility of the programme. This requires a **relevant financing plan** based on public-private partnerships, tax policy measures, and strong and decisive financial support from the European Union.

In the short term, the greatest priority is preserving and strengthening the business sector and society as a whole

Our most urgent and immediate priority must be **to preserve the productive structure** of our economy **to the greatest extent possible**, as the countries around us have already started to do, with the aim of minimizing the effects of this crisis; and to help the most affected and/or vulnerable groups.

In the short-term, the **main challenges** are: resuming normal activity safely in order to prevent new confinements, which would have a serious impact on economic activity, by implementing the health measures that would enable normal economic activity to return as soon as possible; tackling companies liquidity problems; preserving the business sector, paying special attention to SMEs and the self-employed individuals by implementing measures that would allow cash outflows to "hibernate"; and ensuring that no group is left behind:

Resuming normal activity in a safe, gradual and staggered way to prevent, in the event of new outbreaks of the virus, new confinements that would have a serious impact on economic activity (up to 4 p.p. of loss of GDP in addition to the fall of the central scenario analysed in this paper) and on the citizenship's trust:

- **Increasing diagnostic capacity through tests and traceability of those infected is fundamental in the short term.** On the other hand, private companies should be authorized to test their personnel according to their needs. In this context, given the foreseeable shortage of reliable diagnostic tests on the international market, Spain must optimise both their development/acquisition and their use. This will mean coordinating possession and implementation among the different actors (public -State and Autonomous Regions- and private), so that priority is given to: the periodic execution of territorially representative studies to monitor the prevalence of the virus among each population, so that outbreaks can be reliably detected; the systematic testing of people who are particularly exposed -e.g. essential workers- and the availability of strategic reserves that can be allocated to areas where extensive outbreaks occur.
- **Use specific technology** (serological tests with registration and monitoring of infection status, traceability of possible contacts that infected citizens may have had, geolocation with anonymized data, mobile checkpoints in cities to verify infections, etc.) applied to the control of the pandemic and verification of the health status of workers and general population who abandon confinement and migrate to a situation of more or less restricted mobility.
- **Define a plan for mobility restrictions**, in view of the probability of new increases in the infection curve, which should be clear, flexible and structured in stages corresponding to different isolation degrees and formats. **This plan should be monitored taking into account specially the Autonomous Regions, the local governments and Business Organisations, which know the reality of their own territories the best.**

This will help companies, workers and citizens to manage social distancing during the next health-driven stages. This would be a clear, understandable and well-communicated modular scheme, where expected behaviours and restrictions imposed are defined according to the degree of alert.

Addressing the liquidity issues that companies face as a result of reduced revenues due to lack of activity and the fact they still have to pay most of their costs:

- **Increase and expedite liquidity for companies:**
 - Speed up the administrative process for ICO (Official Credit Institute) lines. Extend the scope of these lines or create new specific funding programmes, which should be

adapted to the specifics of each sector and even allow for the increase of guaranteed risk to 100%, if conditions require it.

- Extend the scope of the tax and social contribution measures adopted. Extend the deferral and postponement of tax debt collection to all companies affected by the crisis. Similarly, the deadlines for self-assessment of taxes must be postponed for at least six months and corporate income tax instalments must be suspended.
 - Remove the limits on negative taxable bases that may be offset and on the deductions of financial expenses for Corporate Income Tax.
 - For Corporate Tax or Personal Income Tax on business and professional returns from activities, allow deductions for donations of goods and services and for debt write-offs agreed within the context of the health crisis, and exclude them from being considered self-consumption in Value Added Taxes to save additional cost to the companies and entrepreneurs who are making them.
 - Expedite payments by public administrations, amongst others, by prompting payment of outstanding invoices and tax refunds.
 - Eliminate corporate social security contributions for those companies undergoing ERTes (Temporary Employment Regulation Schemes) and reduce contributions for those companies that commit to keeping their employees under clearly defined conditions and timeframes.
- **Matching costs with the recovery of activity and demand**, reducing counter-productive rigidities:
- Extend the exceptional measures on suspension of employment contracts and reduction of working hours and implement new ones, with the aim of allowing re-sizing of the companies' workforce so they are able to adapt to the gradual recovery of activity, limiting the scope of the commitment to preserve employment and the effects of potential non-compliance.
 - Restore the causes for contract termination as a measure to safeguard the survival of companies and, thus, employment. Termination due to legitimate circumstances that have nothing to do with the coronavirus and the state of alarm should not be restricted.
 - Allow the possibility of flexible inclusion and exclusion of workers in the ERTes (Temporary Employment Regulation Schemes) depending on the evolution of the activity during the transition period.
 - Simplify the processes of substantial modification of the working conditions, geographical mobility, and the disengagement from the collective agreement.
 - Increase the percentage of working hours that can be irregularly distributed by the company and the period for compensating them.

Support SMEs and self-employed workers, who make up a high percentage of our productive structure and are also more vulnerable to episodes such as the present one.

Additionally, for SMEs and self-employed workers, the following will be necessary:

- Initiatives that allow "hibernation" of cash outflows thanks to specific measures in the field of fiscal/tax (deferred payment of taxes and self-assessments) and labour/social issues (delayed payment of social security contributions); as well as those aimed at accelerating cash inflows (expediting payments by public administrations), and increasing resilience to similar events in the future (promoting digitalisation).

Lastly, in the regulatory field:

- In matters of bankruptcy and restructuring, the requirement to apply for bankruptcy should be temporarily suspended for companies whose insolvency situation is a consequence of the crisis alert.

- Any prohibitions on activity, additional obligations and possible restrictions on the exercise of private entrepreneurship that may have been imposed in the context of the health crisis should be lifted as the situation returns to normalcy.

Ensuring no group is left behind (the elderly, people who have suffered from the disease, healthcare workers). If there is one thing to be learned from this crisis it is the importance of solidarity and of supporting each other as a society. Looking ahead, it will be essential to:

- Develop specific programmes for the protection and the reinforcement of the elderly, of those affected by COVID-19 and of the healthcare workers.
- Develop acknowledgement programs for healthcare workers, police force, etc.
- Foster the offer of rental housing to promote geographical mobility and people's employability.
- Modify regulations to monetize assets (similar to pension fund redemptions and allow families to monetize their real estate assets).
- Make easier access to microcredits as temporary solutions for lower income groups.
- If income support is established, it should be efficient, transitory, and focused on the re-employability of its beneficiaries.

In the medium term, we need to become more competitive and modernise our production sector to ensure growth

This crisis will bring forth changes in society that will have **medium-long term effects** and will lead to a transformation of the economy. It is essential to combine the previous defensive approach of preservation and recovery of the existing business sector, with a proactive approach for the future, promoting recovery efforts and support to sectors in their process of adaptation to the structural changes that may take place, anticipating them and developing our strengths as the driving elements of the process.

We will, therefore, have to further digitalise the model for interacting at all levels, transform and adapt our economy, build trust to attract investors and become better prepared to face the next crisis and manage future risks. In this context, we need to:

Develop a **model for interacting at all levels that relies more on digitalisation**, both in public and private sectors: teleworking, e-commerce, distance education and leisure are here to stay. This will require progress in facilitating access to technology, especially with regard to digital literacy (i.e., older people, non-users or individuals who do not know how to use the Internet, low income individuals), for which the following will be necessary:

- Continue to promote access to and coverage of existing telecommunications networks through policies and regulations that promote the deployment of new infrastructures and the upgrading of existing ones, as well as investments in this particular sector, especially by continuing to make public funds available for the roll-out of digital infrastructures to rural areas, while ensuring reasonable conditions of access and use of the spectrum and a regulatory environment for the future deployment of mobile networks, 4G and 5G, aligned with expected investment returns.
- Promote actions and develop advanced solutions that, through digitalisation, may leverage the sustainability of businesses and the public administration (tele-working, remote assistance, tele-medicine, e-commerce, etc.).
- Generate a trustworthy digital environment for citizens based on the security of their transactions and the privacy of their data.
- Address the digital divide that arises as a result of different variables such as income level, health status, educational level, age, etc.

It is mandatory to intensify and strategically strengthen R&D&I activities as a lever for business competitiveness, as this health crisis has revealed. Public Administrations must assume greater leadership, both promoting greater public and private investment in R&D&I and facilitating efficient collaboration between the different actors. The role of large companies as driving elements of the innovative national ecosystem is unquestionable, but SMEs must also be taken care of so that they are not relegated. Among the actions to be undertaken we can point out the following:

- Review of the Spanish strategy for science, technology and innovation and its instruments for financing and business liquidity, to adapt it to the new reality caused by the health crisis and including driving macroprojects that boost our technological capacity. In addition, the regulatory regulations of the system must be rationalized and harmonized.
- Promotion of cooperation and collaboration relations of R&D&I between the company and the different members of the system, such as Public Research Organizations, Universities and Technology Centres.
- Promotion of human capital and employment in the field of R&D&I through the training collaboration of educational institutions and companies, and the promotion of actions such as Torres Quevedo programmes or industrial doctorates.

- Reinforcing of the system of incentives. On the one hand, streamlining the R&D&I tax mechanisms, making their requirements more flexible and giving them greater legal certainty. On the other, promoting the qualification and requalification programmes for workers and updating the discounts on Social Security contributions.
- Industrial Property must be guaranteed at the international level, to make the innovative effort profitable and to make business competitive advantages sustainable. Furthermore, in the European framework, the next framework programme *Horizon Europe* must be implemented, without undue delay or financial cuts.

Spain is going to live **a process of transformation and we need to modernize and adapt our economy over the next 5-10 years**. This will require us to:

- **Revive the industry**, through a reinforcing set of measures geared towards high-value growth:
 - o Give a determined boost to this sector as it is an economic engine and plays a driving role for many auxiliary sectors, while being a source of high-quality employment. In this sense, it is about increasing its weight on GDP from the current 14% to 20%.
 - o Focus on the traditional industry, as well as on pre and post production activities that have greater added value.
 - o Clustering to gain efficiencies and offset the small average size of our companies or encourage the attraction of high value-added activities (e.g., software development centres).
- Continue with the energy transition, favouring a progressive de-carbonisation and promoting renewable energies and the improvement of energy efficiency, as well as all those technologies that enable emission neutrality in the established timeline, supported by appropriate economic signs.
 - Spain's response to this crisis must be aligned with the EU's reconstruction strategy, which favours growth based on sustainability and energy transition.
 - The National Integrated Energy and Climate Plan (PNIEC) establishes the path to be followed by the different sectors for the energy transition. In addition to the many benefits for the environment and air quality, the ecological transition is presented as a catalyst for reviving economic activity, with the PNIEC foreseeing investment opportunities of more than €240 billion.
- Rethink employment policies within the framework of social dialogue in order to identify guidance and training needs that would improve the employability of workers and meet the labour market's demands. To this end, it would be advisable to implement strategies that promote education (dual education and distance learning) and acknowledge companies as the main driving force behind vocational training. To achieve these goals, the destination and purpose of training funds should be maintained as a fundamental tool for generating and promoting new jobs.
- Promote exports and foreign investment through economic policies that improve competitiveness and aid programmes for exports.

Development of a national financial strategy in order to finance the impact of the crisis on the different activity sectors, as well as the structural changes needed to adapt to the new context:

- To implement a set of flexibility measures that enable financial entities to offer credit lines not only without penalising their solvency, but also contributing to strengthening it.

- To design specific guarantee lines or additional programmes for companies in strategic sectors immersed in significant leverage situations and that are excluded from the criteria established in the current credit lines.
- Credit and surety insurance policies play a decisive role in the recovery of the business sector since, being an anti-cyclical measure, they generate trust and security. The Compensation Consortium should be enabled to properly carry out credit and surety reinsurance activities similarly to how it is already being done in countries such as Germany and France.

Building trust to attract investment through a series of measures that should enable: the strengthening of market unity, the simplification of procedures and licenses issued by the different public administrations, tax incentives for investors and promoters, the promotion of public-private collaboration through concessions, as well as aid for any imbalances that may have been suffered by the latter; and in general, a flexible legal framework that offers incentives, and that conveys trust and legal certainty in order to attract investment.

We need to be better prepared to face the next crisis and manage future risks, which requires the following steps:

- Analysing future scenarios and defining a strategy for fighting epidemics (technology for early identification of infected people, individualized confinement, subsidies in case of quarantine) and other types of extreme events (e.g., events produced by climate change).
- Establishing coordination mechanisms among the public administrations (European Union, Governments, Autonomous Regions, local governments), public services (healthcare and emergency personnel, police, etc.) and the private sector for responding to extreme events.
- Strengthening the business sector, especially SMEs and strategic local industry (e.g. health, medicines, vaccines, health material, electronic equipment).

In order to promote a better and quicker exit from the crisis, it is of great importance to get the economic policy priorities right and to wisely choose what instruments will be applied. It is important to **foster a recovery that supports private initiative** and contributes to strengthening the different economic sectors in order to achieve **a more modern, more competitive, more resilient and also more sustainable economy**.

Speeding the recovery of the sectors that have been mostly affected during the crisis

Spain's priority must be to accelerate the recovery of the economic sectors that have been most affected by the COVID-19 crisis, due to their significant impact on GDP and the number of jobs that generate. It is essential for the following to recover their levels of activity and employment:

- The **tourism sector and the food service activities**. The tourism sector represents 12.3% of the national GDP and generates 2.6 million jobs (53% women vs. 46% national total; 22% youth vs. 14% national total). For its part, the food service activities are a key sector in Spain, and its companies are small in size and intensive in employment, which makes them especially sensitive to the drop of income. Since the beginning of March, it has come to a virtual standstill, with its revenues having been reduced to zero, and the expected impact on this activity in 2020 is more than 60% for travel and hotels and more than 45% for restaurants, in comparison to 2019.
- The **industrial sector** accounts for 14% of GDP and 2.2 million jobs. The state of alarm has led to the suspension of activity in most of the sector's companies, with the exception of those that guarantee essential activities. This sector also has a high presence in international markets. According to data from the Ministry of Industry, Trade and Tourism, in 2019 Spain exported goods worth €290 billion, the sectors with the greatest weight being chemical or metal products, machinery and electronic equipment, vehicles and components and food and beverages.
- Stimulate **the transport sector**. The transport sector represents nearly 4% of the national GDP and accounts for 800,000 jobs. This sector includes a wide range of activity segments that have been affected differently, being the shock suffered by the passenger segment especially significant due to its link to tourism. This segment also has a fundamental role in the logistic processes for industry, trade and exports.
- Reactivate **consumption** to accelerate the recovery of **trade**. The trade sector accounts for 13% of GDP and employs 3.2 million people, 800,000 of them being self-employed. The impact on the sector has been across-the-board and could result in an average drop of 35-40% during 2020.
- Strengthen the **healthcare sector: these companies, which account for nearly 6% of the national GDP and one million jobs¹**, have been at the forefront of the reaction to the COVID-19 crisis in our country, both from a clinical and healthcare perspective to cope with the expansion of the virus and treat those infected, and to ensure the critical supply of the required drugs, medical equipment and healthcare supplies. Inexplicably, these increased responsibilities have meant heavy sacrifices among the sector, both in terms of lost revenue and in delays in payments from the different public administrations.
- Stimulate the **culture and entertainment** sector, which is being heavily affected by the crisis. Culture-related activity is responsible for 3.2% of Spain's GDP and employs more than 690,000 people.

¹ Source: experts and specialized press. Data from the National Statistics Institute (INE) for 2019 shows 16% of GDP and almost 4.5 million jobs in aggregate terms for the Public Administration, education and healthcare sectors.

Lean on our strengths to turn them into driving forces able to propel and mobilize our economy

Our society and our business sector have strengths on which we must rely to overcome this situation. We have leading companies in sectors such as energy, construction, finance, telecommunications and technology (and many others) that can act as driving forces for the economy, mobilizing investment and generating employment.

We have to be able to **combine our efforts for a complete recovery including an adaptation of the economic model**, in order to incorporate in our own productive model those activities that may have greater potential growth in the future, a greater “snowball effect”, that are more technology-intensive, that have export capacity and, as far as possible, that are more aligned with European priorities, among them those related to energy transition and the digitalization of our productive sector. They should be used as competitive levers for all the other industrial activities.

The **financial sector** offers high levels of solvency and liquidity as a result of the efforts made over during the last decade; it is a critical sector for the availability of financial resources for the productive sector and the households.

The **energy sector** (as the rest of the economy) is immersed in an energy, green transition that has the capacity to mobilize investments of over €240 billion, mostly being of private nature. Likewise, energy means a cost in industrial processes, being for some of them a significant one, and lowering it would enable an improvement of our companies’ competitiveness abroad.

The last few weeks have been a large-scale run in digital transformation. We have adopted teleworking, distance learning, ePartying, eGaming, and all kinds of digital versions of our lives. The **technology and telecommunications** sectors are essential in this transformation by providing the infrastructure and software to develop our digital interactions.

The infrastructure and building sector has the capacity to mobilise employment and investment for the development of new infrastructures needed in the country to improve its economic and social structure (essential services, connectivity between towns and cities and providing support to industry), the competitiveness of our economy (network infrastructures, rail freight corridors), and to combat climate change and increase our resilience to its impact on the environment (water, waste management, energy). An important area for the future is the renovation of existing housing, which will be added to the activity of building new homes.

Long-term growth depends on a friendly business environment supported by the European context

The adaptation and transformation of our productive sector will only be possible if it can **lean on a favourable environment for business**, which implies:

In the **fiscal front**:

- Avoiding, to the extent possible, tax increases in today's context and in the one that lies ahead, since they can hinder the adaptation process and destroy the business sector.
- The fiscal framework must boost competitiveness and long-term growth by promoting business investment and maintaining and creating jobs, recovering and extending the incentives that existed in the past.
- Long-term private savings must be encouraged after the crisis is overcome.
- Once growth is normalized, we must reverse the public deficit increase and focus on recovering the structural consolidation of our public finances. This should be accomplished mainly through restraint and by improving the efficiency of public expenditure, which would need continuous assessments and act as a catalyst to reinforce trust and credibility in the sustainability of our public finances.

With regard to the **regulatory framework**:

- A simplification of the regulatory framework, basing our legislative activity on the principles of good regulatory practice and intelligent regulation, and strictly applying the principles of necessity, proportionality, and justification.
- Avoiding, to the extent possible, the reversion of the structural reforms carried out in the previous crisis. These reforms are working correctly, and it would be advisable to avoid introducing additional rigidities and destroying part of the resilience and competitiveness attained by our business sector.
- Freedom of enterprise and economic and labour flexibility must be guaranteed, in order to ease the adaptation of our companies to the new context, and for them to remain competitive and continue to meet the needs for goods and services at each point.
- The right of ownership and legal certainty must be guaranteed, avoiding any tax measures that could be considered as confiscatory, as well as any expropriation regulation.

In relation to **education**:

- It is important to strengthen structures that reward effort, hard work and training. Education, especially regarding new technological and STEM skills, is the critical catalyst for making our modernization and structural transformation more inclusive.

Finally, it is worth pointing out how **social dialogue should serve as a meeting and consensus point**:

- Social dialogue must be the natural framework for the reforms needed to modernise our productive sector and to face challenges such as an aging population, digitalisation and climate change, among others.

With regard to Europe, BusinessEurope, with the participation of CEOE, calls for the implementation of a clear, ambitious and coordinated EU recovery plan that will help restore business confidence and investment capacity. This plan should be based on four pillars:

- A rapid deployment of EU investment funds as part of an ambitious and coordinated EU fiscal stimulus, which should include new European Recovery Fund backed by the European budget and with sufficient capacity to undertake the necessary investments. In addition,

the European budget should take on a stronger stabilizing role through investment in areas and industries that are key for the reconstruction.

- A revitalized single market to ensure a level-playing field for all companies. The EU must give priority to European policies aimed at strengthening the productive sector with special attention to SMEs, including employment, industrial, digital, Research&Development and energy and climate transition policies. This also requires speeding the process of the Banking Union and the Capital Markets Union.
- The EU must push for keeping global markets open by supporting multilateral solutions. Overcoming this global crisis will require strong international coordination, with international institutions playing a key role. The recovery of global trade and the rebuilding of value chains is important.
- Strengthening EU governance to ensure that EU financial support boosts coordination among member states' economic policies, with participation of social agents and social dialogue, as well as greater implementation of structural reforms by the member states.

A team of over 40 professionals from three institutions (CEOE, Deloitte, and ESADE) have participated in the drafting of this report. The document is the result of a multidisciplinary effort from the different members of the team.

Founded in 1977, the Spanish Confederation of Business Organisations (CEOE) brings together, on a voluntary basis, two million companies and self-employed individuals from all activity sectors, who become linked to CEOE through more than 4,500 grassroots associations.

Deloitte is the leading professional services organization in Spain. We strive to achieve business excellence and focus on training, promoting and encouraging our human capital and providing the best service to our clients.

ESADE is a global academic institution known for its quality education, its international vision and a clear focus on the holistic development of the individual. It keeps close ties to the business world. ESADE delivers its academic services through three main areas: education, research and social debate.