BANCODE**ESPAÑA**
Eurosistema

MACROECONOMIC PROJECTIONS FOR SPAIN: 2020-2022

ÓSCAR ARCE

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Madrid
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DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH – BANCO DE ESPAÑA

VERY SEVERE CONTRACTION IN ECONOMIC ACTIVITY AS A RESULT OF COVID-19

➢ **Unprecedented decline in GDP in 2020 and subsequent recovery, under high uncertainty:**

1) Strong reduction in GDP in Q2 (with a higher incidence of lockdown than in Q1).

2) The forecast is for a rebound in activity in the second half of 2020 and a gradual recovery thereafter.

3) High uncertainty over how the pandemic will evolve, the transition to the new normal and the impact of economic policies in alleviating possible lasting effects on activity and employment.

➢ **Downward revision of inflation:**

- Over the 2020-2022 horizon, owing to lower core inflation.
- In 2020, energy prices also prompt a downward revision of overall inflation.

➢ **Several scenarios are envisaged: an "early recovery" scenario and another "gradual recovery" scenario.**

➢ **The risks surrounding the GDP path are tilted to the downside, which is illustrated by a third "risk of a very slow recovery" scenario.**

➤ **EARLY RECOVERY:**

- In Q2, economic agents have partly adapted their way of providing services to the restrictions imposed by the containment measures (the associated losses of activity would be lower than at the start of the lockdown).

- After the lifting of the state of alert, it will be possible to avoid significant fresh outbreaks, meaning the reintroduction of containment measures will not be necessary.

- The economic policy measures manage to prevent the destruction of firms and, therefore, the loss of capital stock; accordingly, the labour market downturn is also transitory and does not give rise to an increase in long-term unemployment.

➤ **GRADUAL RECOVERY:**

- In Q2, any learning curve for agents scarcely sees activity increase, meaning that the losses follow the pattern of the second fortnight in March.

- Fresh outbreaks, insofar as an effective medical solution does not become available, are less virulent than in the original pandemic bout and, therefore, have a lower economic cost.

- Some persistent damage to the productive system, concentrated in the sectors most exposed to social interaction, which are those where the full recovery of normal activity will be delayed.

➢ **RISK SCENARIO. VERY SLOW RECOVERY:**

- Possibility of more adverse epidemiological developments, with acute episodes of new infections, requiring additional strict lockdown measures, with a high economic cost.

- Corporate liquidity tensions leading to solvency problems, giving rise to more persistent effects on activity through several channels: destruction of firms, long-term unemployment, less availability and greater cost of financing.

➢ **ECONOMIC ACTIVITY DEVELOPMENTS IN THE SHORT TERM**

➢ **THE SPANISH ECONOMY UNDER THE EARLY RECOVERY AND GRADUAL RECOVERY SCENARIOS**

➢ **THE RISKS SURROUNDING THE RECOVERY: RISK OF A VERY SLOW RECOVERY SCENARIO**

➢ **PROJECTIONS FOR THE SPANISH ECONOMY IN THE CONTEXT OF THE EURO AREA**
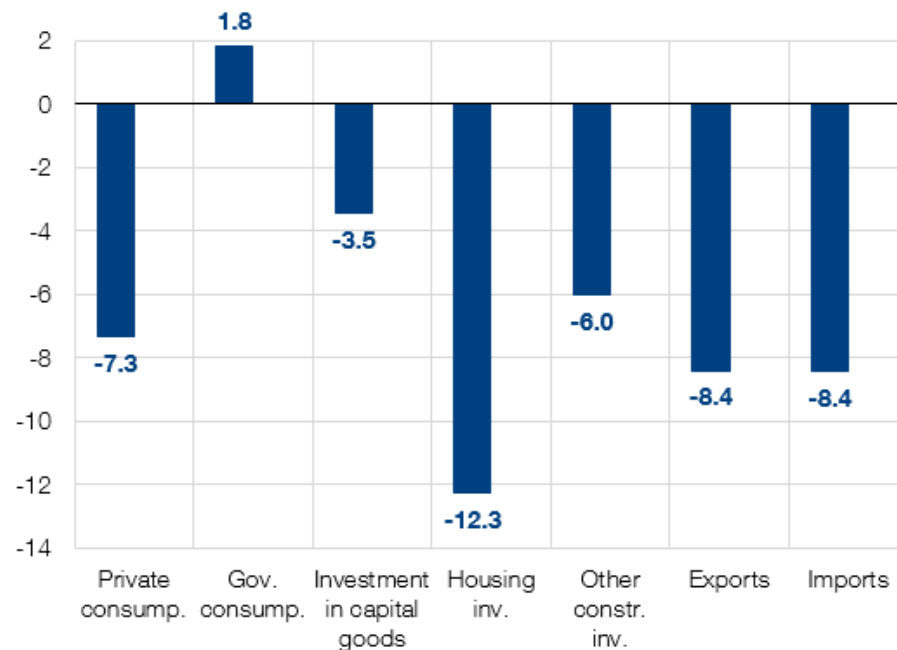
➤ **GDP declined by 5.2% quarter-on-quarter in Q1, a fall far greater than the biggest decline observed during the global financial crisis (- 2.6% in 2009 Q1).**

GDP IN 2020 Q1:
QUARTER-ON-QUARTER FALL (%) AND CONTRIBUTIONS (pp)
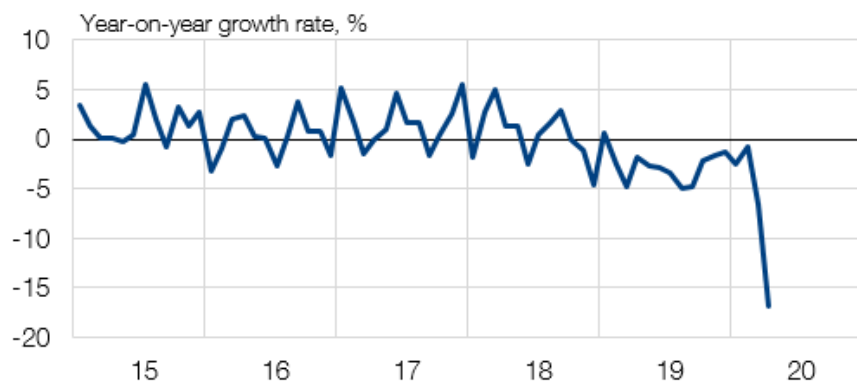
■ QNA ■ BANCO DE ESPAÑA FORECAST (20 APRIL)
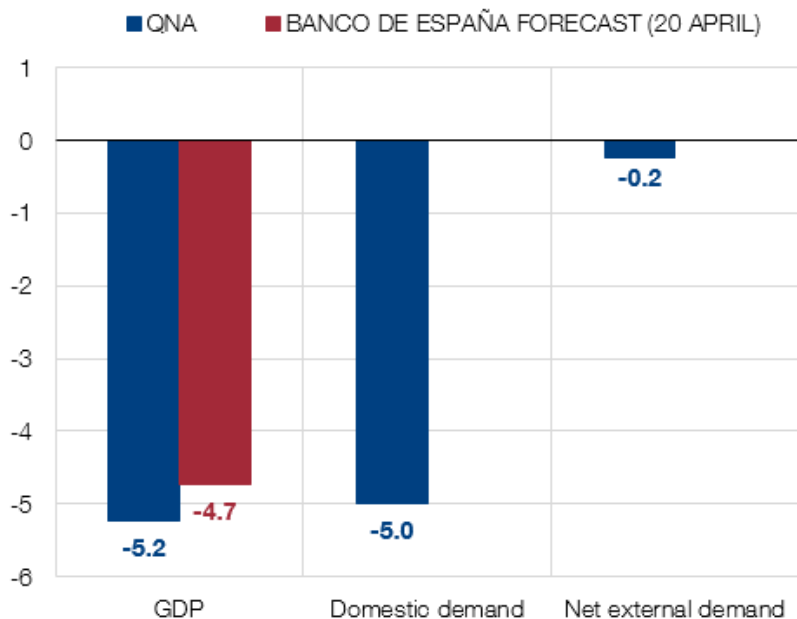
COMPONENTS IN 2020 Q1:
QUARTER-ON-QUARTER RATES (%)

Sources: Banco de España and INE.

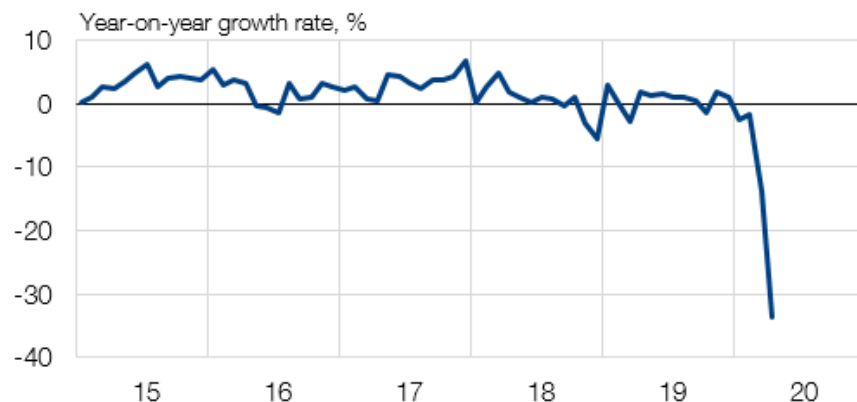# THE CONJUNCTURAL INDICATORS REVEAL UNPRECEDENTED DECLINES

ELECTRICITY CONSUMPTION

Year-on-year growth rate, %

RETAIL TRADE INDEX

Year-on-year growth rate, %

INDUSTRIAL PRODUCTION INDEX

Year-on-year growth rate, %

PRIVATE VEHICLE REGISTRATIONS

Year-on-year growth rate, %
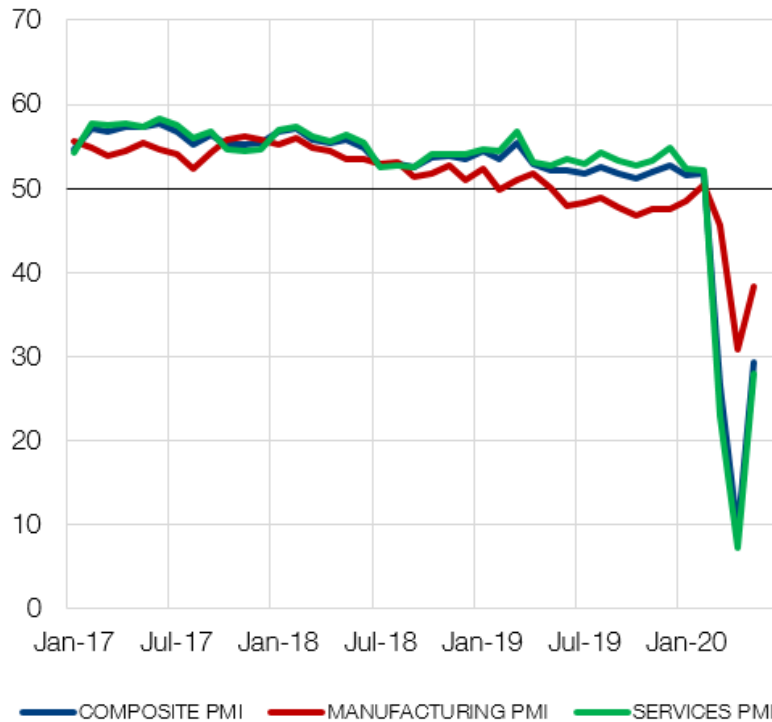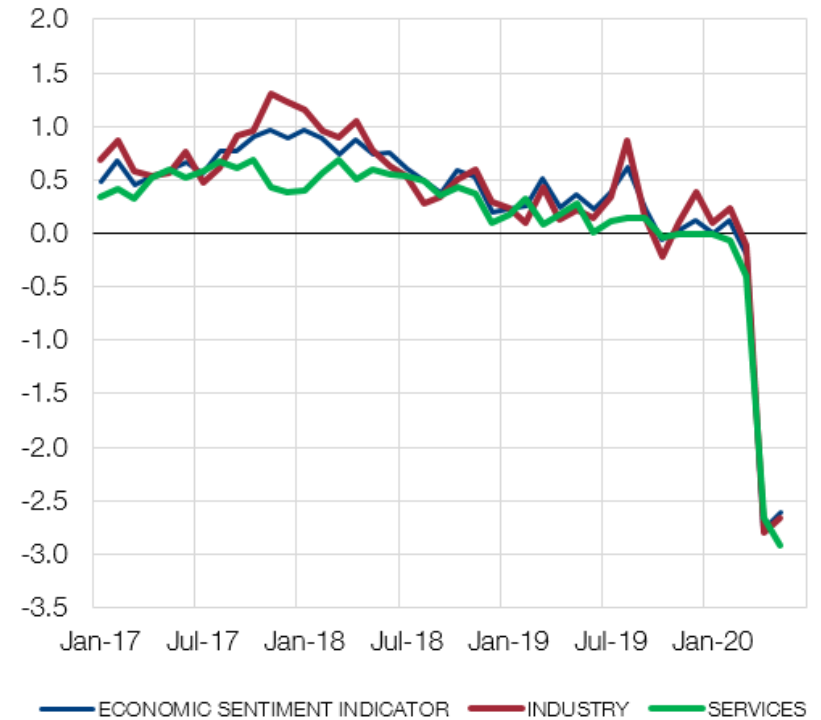
Sources: ANFAC, Banco de España and Ministerio de Asuntos Económicos y Transformación Digital. Latest observation: May (vehicle registrations), and April (other indicators).

STRONG DECLINE IN THE SOFT INDICATORS IN APRIL AND PARTIAL REBOUND IN MAY
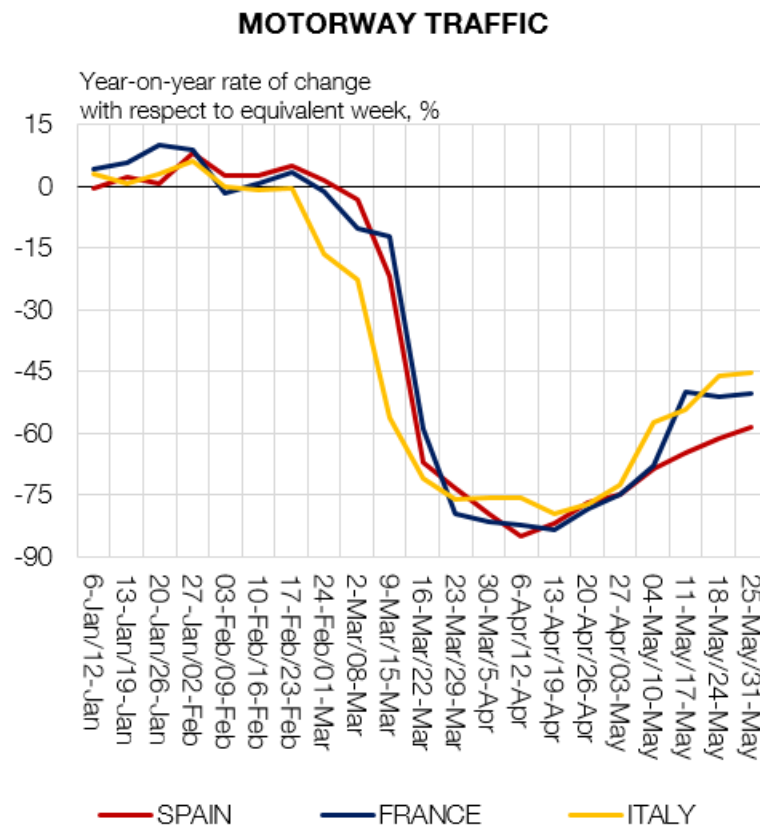
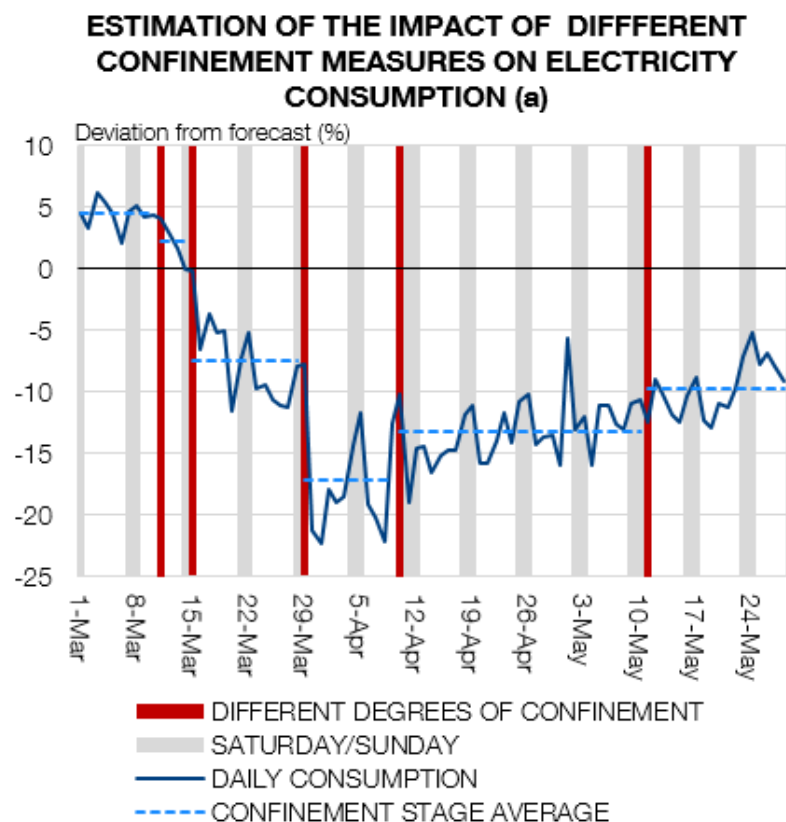### PURCHASING MANAGERS' INDEX

COMPOSITE PMI — MANUFACTURING PMI — SERVICES PMI

CONFIDENCE INDICATORS (EC, standardised)

ECONOMIC SENTIMENT INDICATOR — INDUSTRY — SERVICES

Sources: European Commission and IHS Markit. Latest data available: May.

➢ **The daily indicators are beginning to show signs of recovery as the lockdown-easing phases move forward, though they are still at very low levels.**

ESTIMATION OF THE IMPACT OF DIFFFERENT CONFINEMENT MEASURES ON ELECTRICITY CONSUMPTION (a)

Deviation from forecast (%)

DIFFERENT DEGREES OF CONFINEMENT
SATURDAY/SUNDAY
DAILY CONSUMPTION
CONFINEMENT STAGE AVERAGE

MOTORWAY TRAFFIC

Year-on-year rate of change with respect to equivalent week, %

SPAIN   FRANCE   ITALY

Sources: Banco de España, Red Eléctrica de España and Grupo Atlanta. Latest data: 28 May (electricity consumption) and 31 May (motorway traffic).
a. The period of estimation runs from 1 January 2019 to 28 May 2020.

SOCIAL SECURITY REGISTRATIONS ARE BEGINNING TO PICK UP TO SOME DEGREE IN MAY

➢ **Social Security registrations increased modestly in May, following the heavy declines observed since mid-March.**

➢ **The rebound in May has come about above all in activities, such as construction, that were greatly affected by the previous declines.**

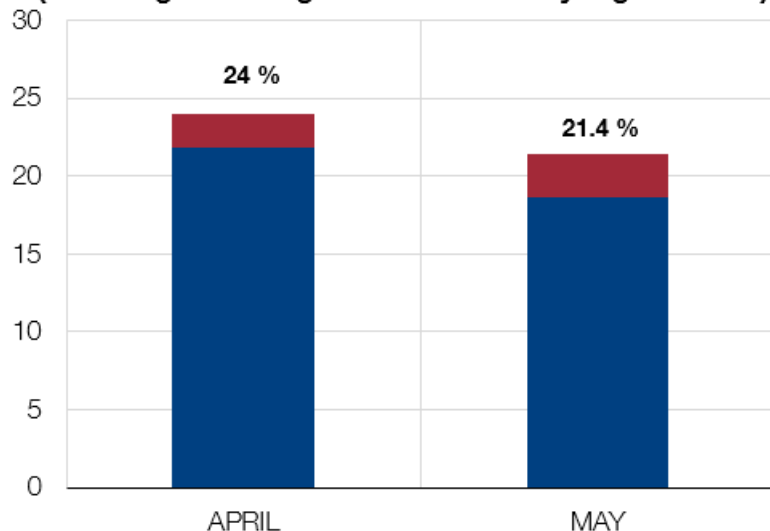**DAILY SOCIAL SECURITY REGISTRATIONS FROM BEGINNING OF MARCH**
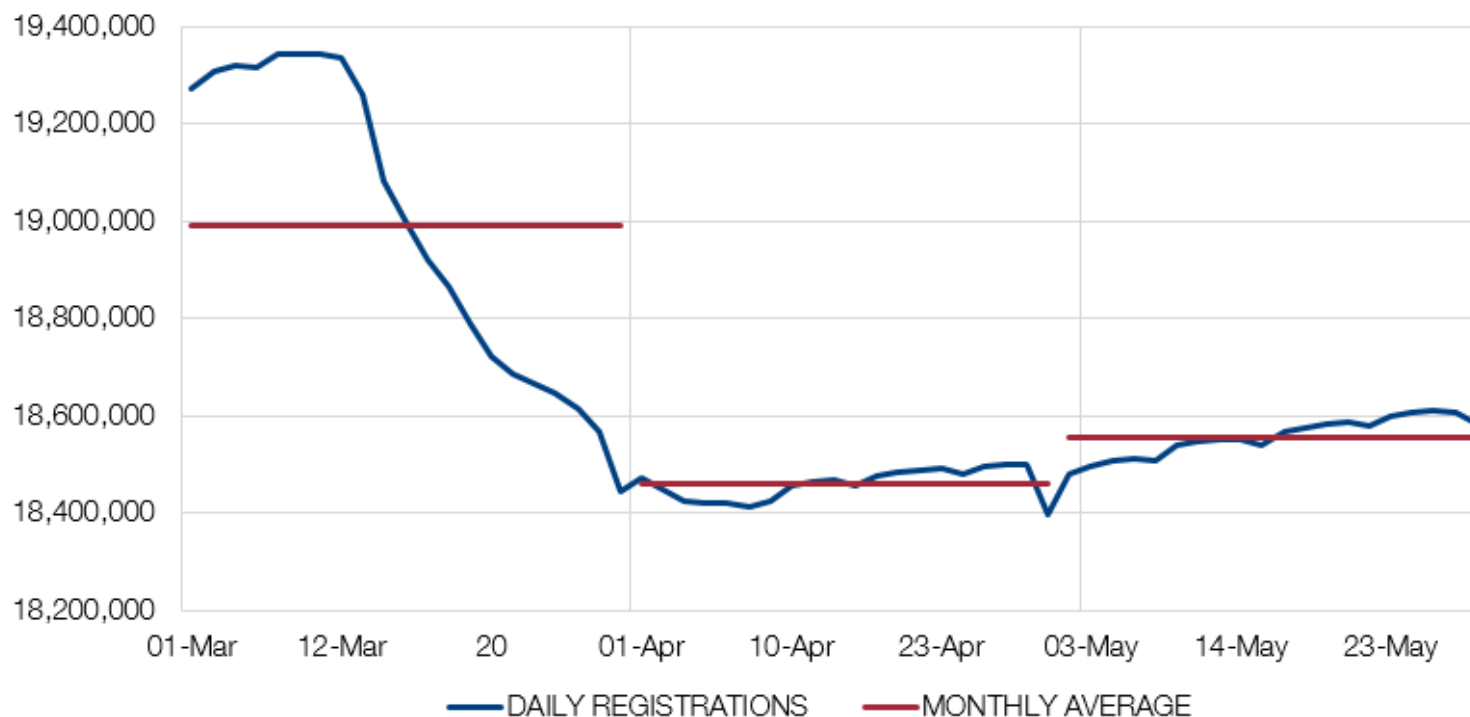
Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest data: 29 May.

SLIGHT FALL IN THE PERCENTAGE OF PERMANENT EMPLOYEES UNDER TEMPORARY LAYOFF ARRANGEMENTS

➢ **In May, the percentage of employees under ERTEs (temporary layoff arrangements) fell slightly, though it is still at over 20% of employment, with almost 3,000,000 workers affected. Moreover, 1,400,000 self-employed workers received benefits for standing down from activity.**

➢ **The pick-up in registrations and numbers of workers exiting ERTEs is somewhat greater in the provinces furthest ahead in lockdown-easing.**
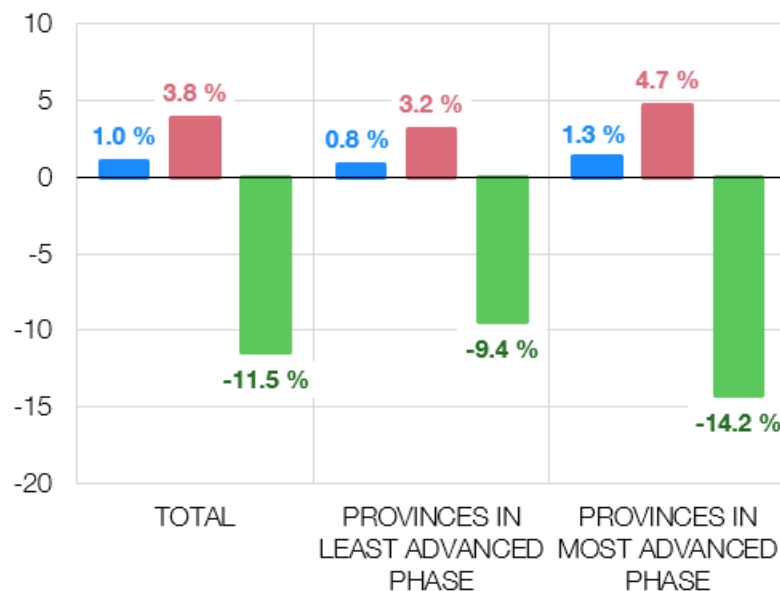

EMPLOYEES LAID OFF OR UNDER SHORT-TIME WORK ARRANGEMENTS (ERTEs)
(% total general regime social security registrations)

■ ERTEs DUE TO OTHER REASONS
■ ERTEs DUE TO FORCE MAJEURE

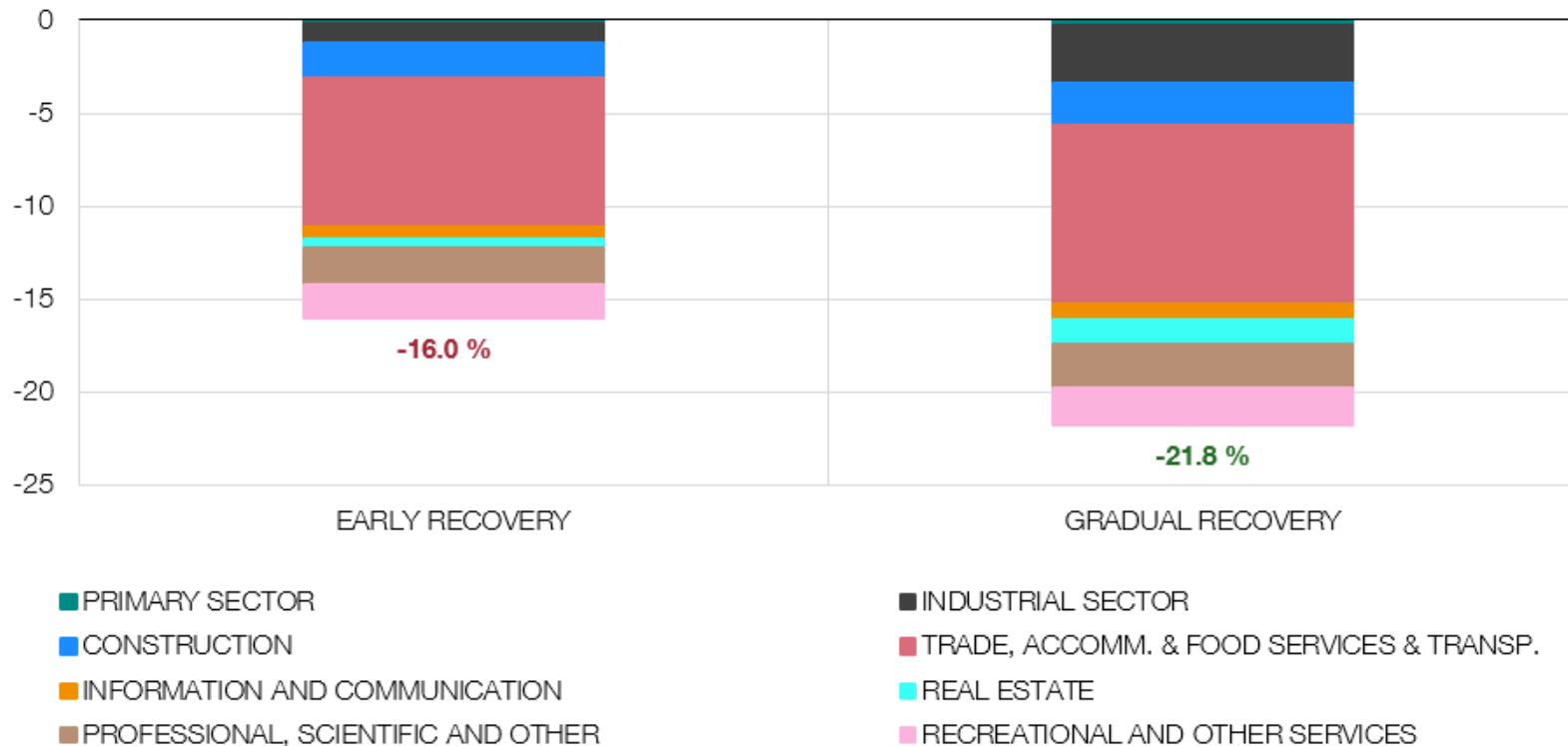SOCIAL SECURITY REGISTRATIONS IN MAY (%)

■ TOTAL REGISTRATIONS
■ REGISTRATIONS EXCLUDING ERTEs
■ WORKERS SUBJECT TO ERTEs

Source: Ministerio de Inclusión, Seguridad Social y Migraciones.

➢ **The calibration of the decline in GDP in this quarter takes into account heterogeneity by sector of activity and the lockdown-easing phase by province.**

➢ **The effect on activity is uneven across regions insofar as the productive structure differs** (see Prades and Tello, 2020).

FALL IN GDP IN Q2: CONTRIBUTIONS BY SECTORS (PP)

Sources: Banco de España and INE.

UNPRECEDENTED CONTRACTION IN ECONOMIC ACTIVITY IN 2020 AND SUBSEQUENT RECOVERY

Annual rate of change (%), unless otherwise indicated

| | | JUNE 2020 PROJECTIONS | | | | | |
| | | EARLY RECOVERY | | | GRADUAL RECOVERY | | |
	2019	2020	2021	2022	2020	2021	2022
GDP	2.0	-9.0	7.7	2.4	-11.6	9.1	2.1
Harmonised index of consumer prices (HICP)	0.8	-0.1	1.3	1.6	-0.2	1.2	1.5
Harmonised index of consumer prices excluding energy and food	1.1	0.9	1.1	1.3	0.8	1.0	1.1
Unemployment rate (% of labour force). Annual average	14.1	18.1	18.4	17.1	19.6	18.8	17.4
General government net lending (+) / net borrowing (–) (% of GDP)	-2.8	-9.5	-5.8	-4.8	-11.2	-6.8	-6.1
General government debt (% of GDP)	95.5	114.5	111.7	112.5	119.3	115.9	118.7

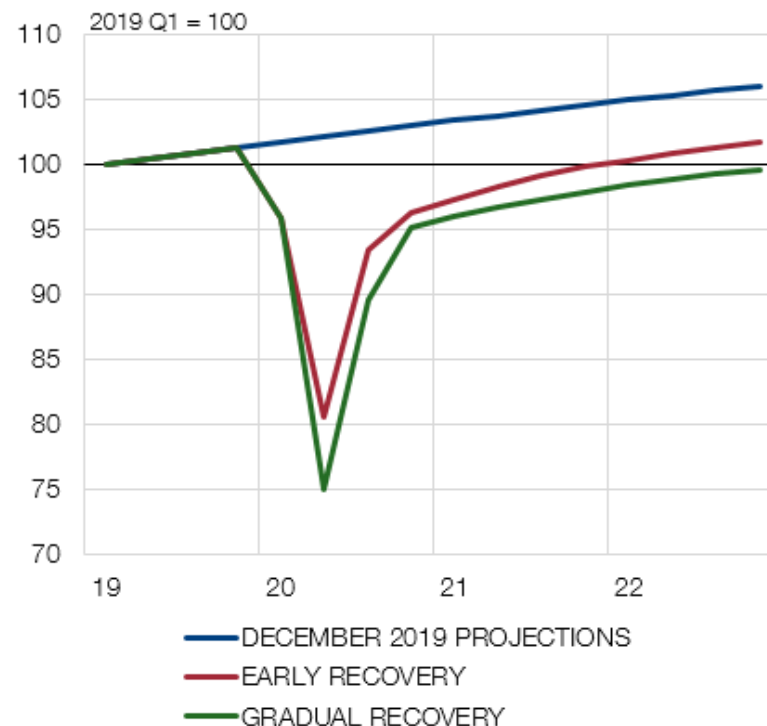Sources: Banco de España and INE. Projections cut-off date: 25 May 2020.

➢ **Rebound in activity in the second half of 2020.**

GDP IN 2020
(year-on-year growth rate, %)
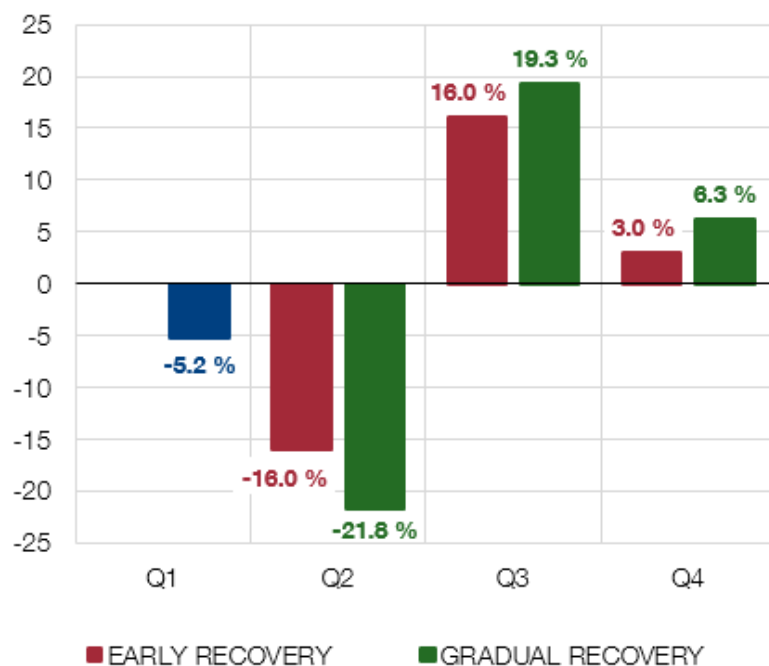
GROSS DOMESTIC PRODUCT
(chained volume index)

Sources: Banco de España and INE.

➢ **... and will pick up in 2021, underpinned by national demand.**

➢ **The contribution of external demand to growth will be slightly negative in 2020, positive in 2021 and approximately neutral at the end of the forecasting horizon.**

GDP GROWTH (%) AND CONTRIIBUTIONS (PP)

■ CONSUMPTION   ■ INVESTMENT   ■ EXPORTS   ■ IMPORTS   ◆ GROSS DOMESTIC PRODUCT
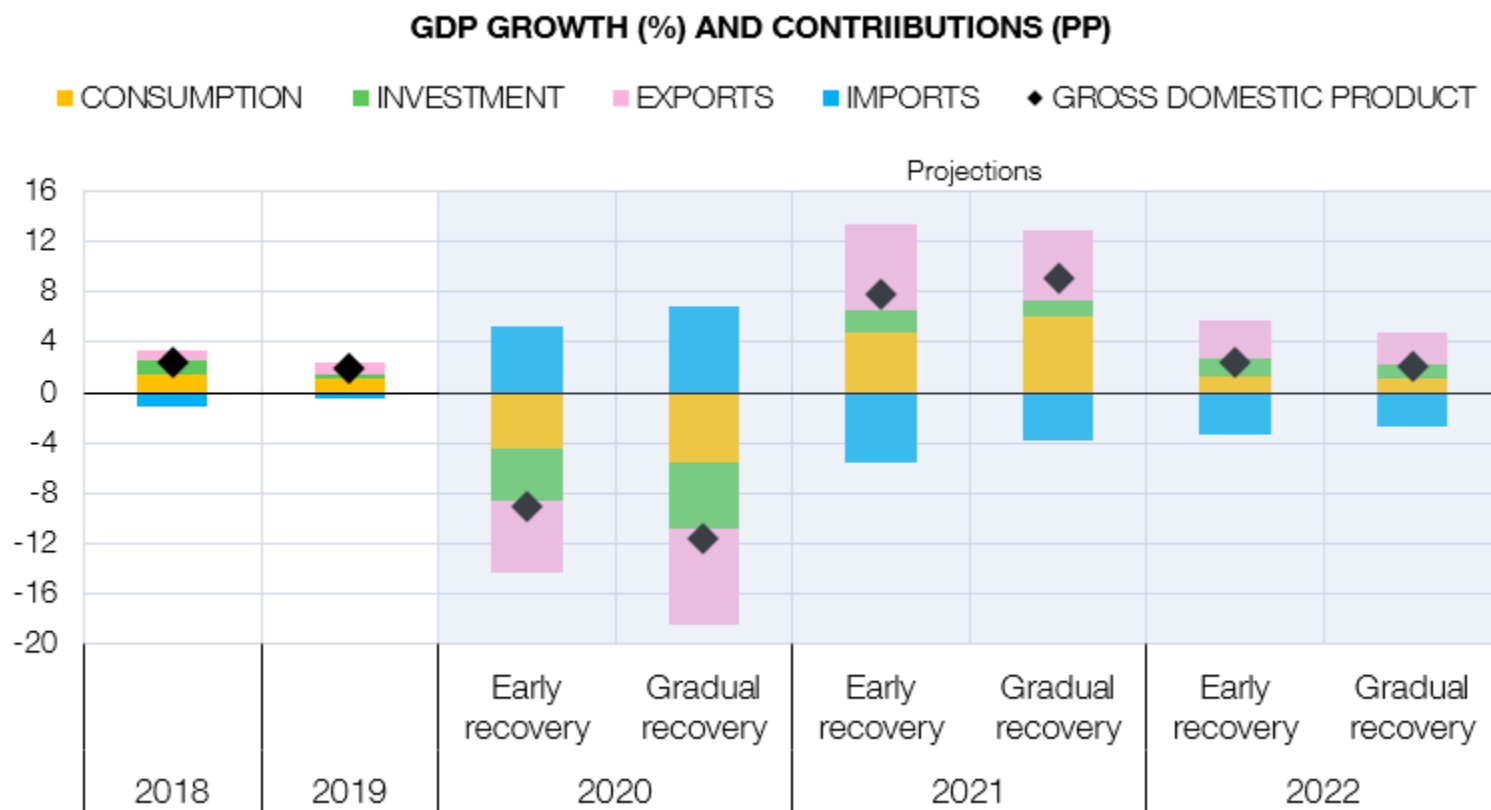
Sources: Banco de España and INE.

STRONG DECLINE IN THE DIFFERENT COMPONENTS OF DEMAND AND SUBSEQUENT RECOVERY

PRIVATE CONSUMPTION
(chained volume index)

INVESTMENT
(chained volume index)

EXPORTS
(chained volume index)

DECEMBER 2019 PROJECTIONS — EARLY RECOVERY — GRADUAL RECOVERY
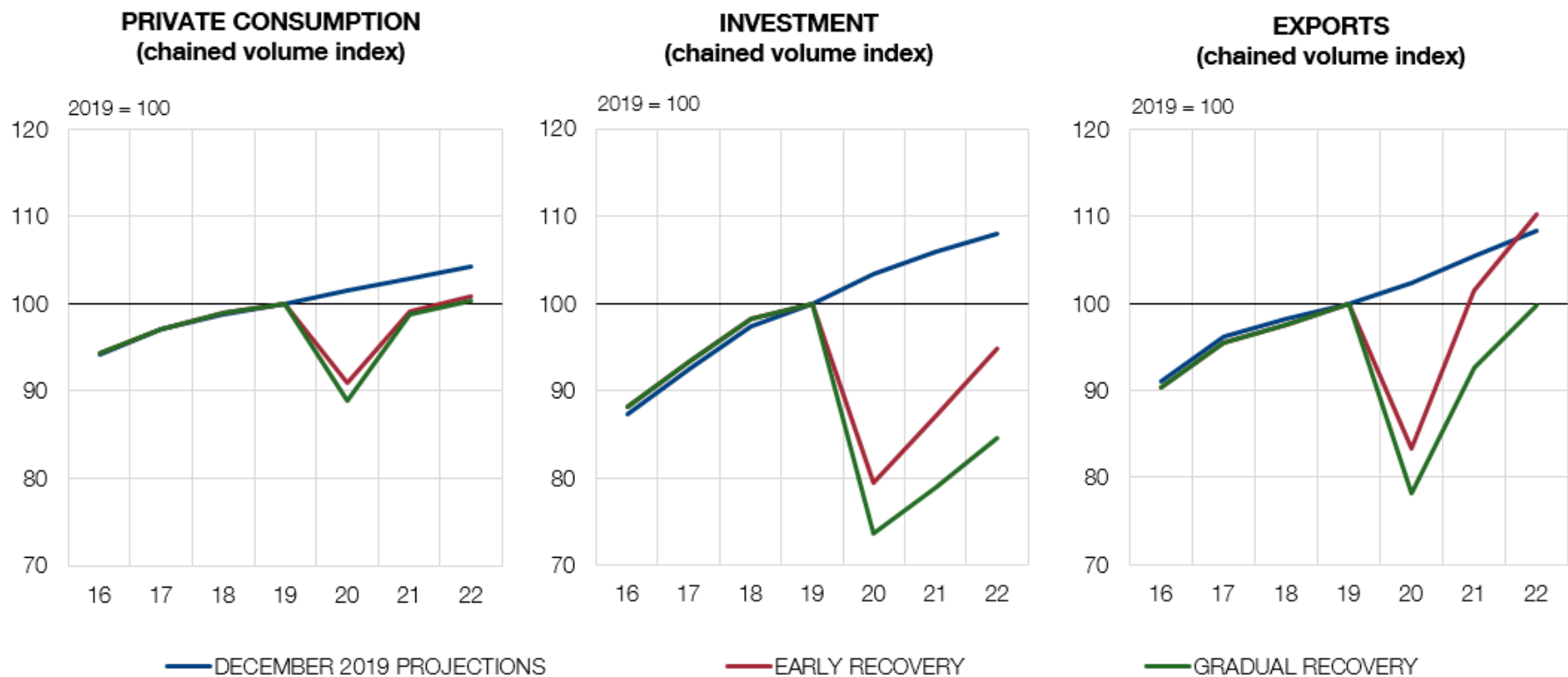
Sources: Banco de España and INE.

➢ **Employment, in terms of hours worked, will follow a very similar path to that of economic activity, showing declines of over 10% in 2020 and a subsequent recovery.**

➢ **The increase in unemployment will be contained by the use of ERTEs, although this will not prevent the unemployment rate rising to between 18% and almost 20% this year.**

GDP GROWTH (%) AND CONTRIBUTIONS (PP)

■ HOURS WORKED   ■ HOURLY PRODUCTIVITY   ◆ GROSS DOMESTIC PRODUCT
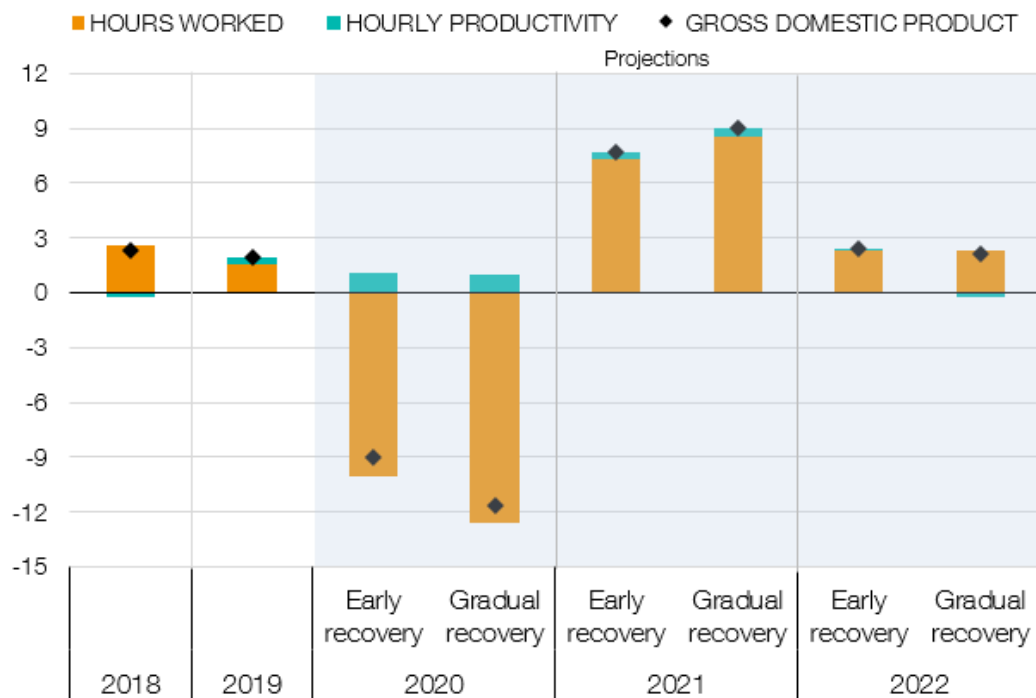
UNEMPLOYMENT RATE
(% of labour force)
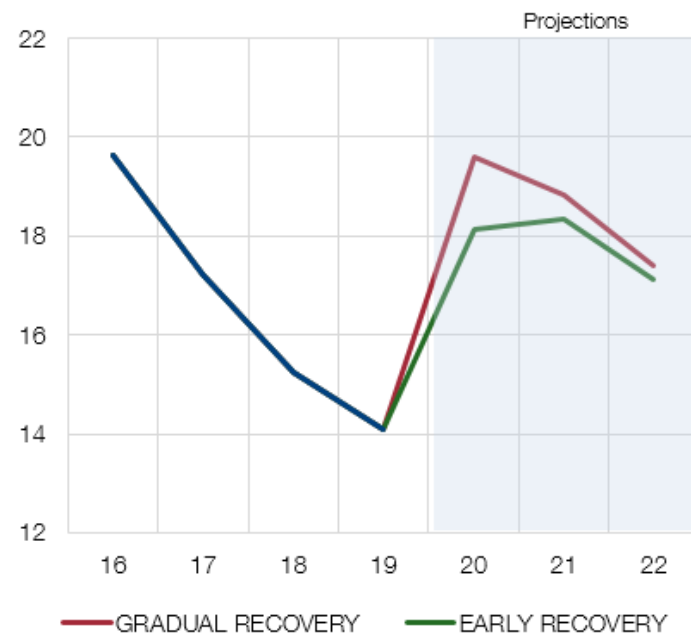
Source: Banco de España and INE.

➢ **The Government has adopted measures for a volume of around 2.5% of GDP (3.5% for the euro area on average) under the gradual recovery scenario, focused on supporting employment.**

➢ **The differences in the deficit under both scenarios are due to the effect of the automatic stabilisers, which most substantial owing to the strong decline in GDP.**

EX-ANTE IMPACT ON GENERAL GOVERNMENT BALANCE OF MEASURES AGAINST COVID-19 (GRADUAL RECOVERY SCENARIO)
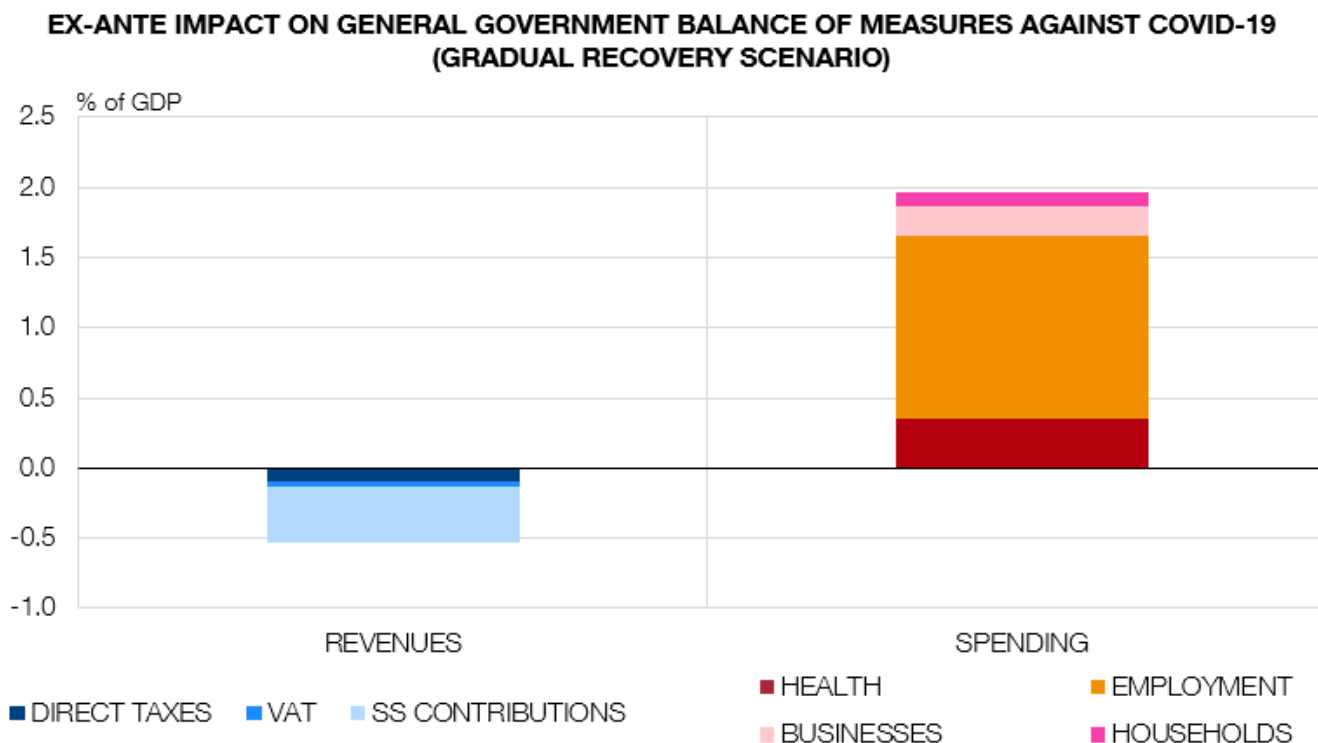
Sources: Stability Programme Update 2020-2023 and Banco de España.

➢ **Upward revision of the deficit: 7.4-9.1 pp (2020), 4-5 pp (2021) and 3.4-4.7 pp (2022).**

  • **2020**: worse end-2019 figure, measures against COVID-19 and, above all, worse macro.

➢ **Fiscal policy is expected to be clearly expansionary in 2020, reversing in 2021, given the transitory nature of the measures this year, and neutral in 2022.**

CHANGE IN THE 2020 BUDGET DEFICIT FORECAST SINCE DECEMBER
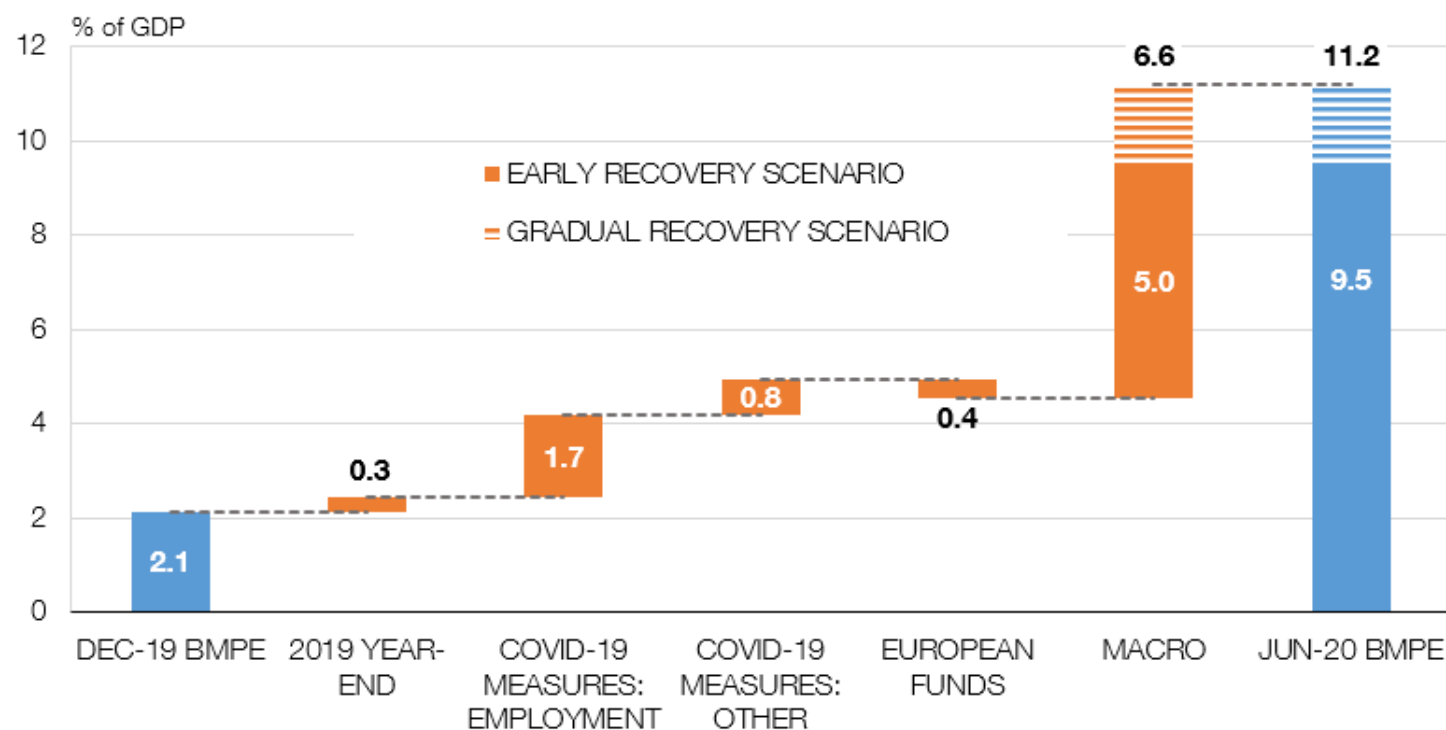
Source: Banco de España.

➢ **A gradual rise in overall inflation is forecast, after the low in 2020 Q2, stabilising at around 1.5%-1.6% until end-2022 as a consequence of**:

- Less negative contribution of energy prices, along with growth in food prices, and the gradual rise in core inflation.

OVERALL INFLATION (%) AND CONTRIBUTIONS (PP)

Legend: ENERGY — OTHER — ACTUAL HICP AND GRADUAL RECOVERY — HICP: EARLY RECOVERY

Sources: Banco de España and INE.

THE PROJECTED RECOVERY IS SUBJECT TO SIGNIFICANT DOWNSIDE RISKS

Activity

(-) Possibility of fresh (potentially acute) outbreaks of the pandemic, which will entail more restrictive and persistent containment measures, with a more adverse economic and financial impact.

(-) More persistent effects on productive capacity (increases in business insolvencies and in labour market hysteresis).

(-) Household and business liquidity and solvency problems, with more persistent adverse effects on investment and employment.

(+) Conversely, the adoption of more expansionary fiscal policies than foreseen will entail some upside risk**.**

(+) The approval of the EC recovery plan ("Next Generation EU") will have positive consequences, especially at the end of the projection horizon.

Prices

(-) Materialisation of downside risks to activity.

(-) Deanchoring of inflation expectations.

➢ **Risks: possible fresh outbreaks (with reintroduction containment measures); very persistent effects on the level of GDP; activation of financial channels (tightening of financing conditions).**

GROSS DOMESTIC PRODUCT
**(chained volume index)**
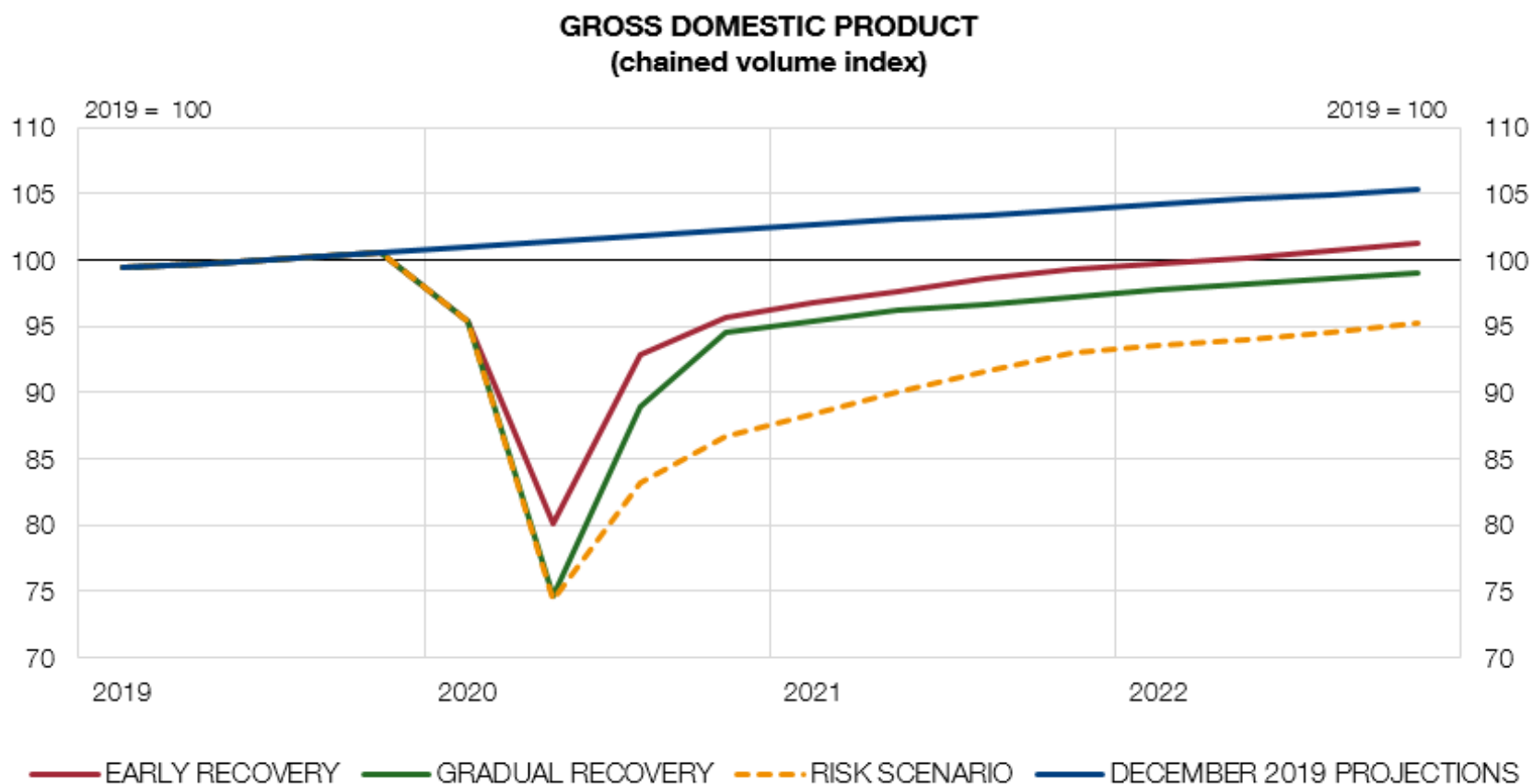
Sources: Banco de España and INE.

➢ EVOLUCIÓN DE LA ACTIVIDAD ECONÓMICA EN EL CORTO PLAZO

➢ LA ECONOMÍA ESPAÑOLA EN LOS ESCENARIOS DE RECUPERACIÓN TEMPRANA Y RECUPERACIÓN GRADUAL

➢ LOS RIESGOS EN TORNO A LA RECUPERACIÓN: UN ESCENARIO DE RIESGO DE RECUPERACIÓN MUY LENTA

➢ **PROJECTIONS FOR THE SPANISH ECONOMY IN THE CONTEXT OF THE EURO AREA**

➢ **The reduction in GDP in Spain in 2020 is expected to be sharper than in the euro area as a whole (differences of around 3 pp, depending on the scenario**).

➢ **However, the subsequent recovery will also be sharper in Spain.**

➢ **Several factors help explain the different time pattern of the impact of COVID-19 in Spain and in the euro area:**

- Longer and more intense lockdown in Spain than in the euro area as a whole.

- Sectoral structure more geared to services with high social interaction, as in tourism.

- Higher weight of SMEs in productive structure.

- Higher proportion of temporary contracts in the labour market.

- Somewhat lower fiscal response than in the euro area as a whole.

➢ **According to mobility indicators, there seems to have been a greater reduction in Spain in the number of visits by people to retail and recreational sites and to workplaces.**

LOCAL MOBILITY INDICATORS (a)
(seven-day moving average)
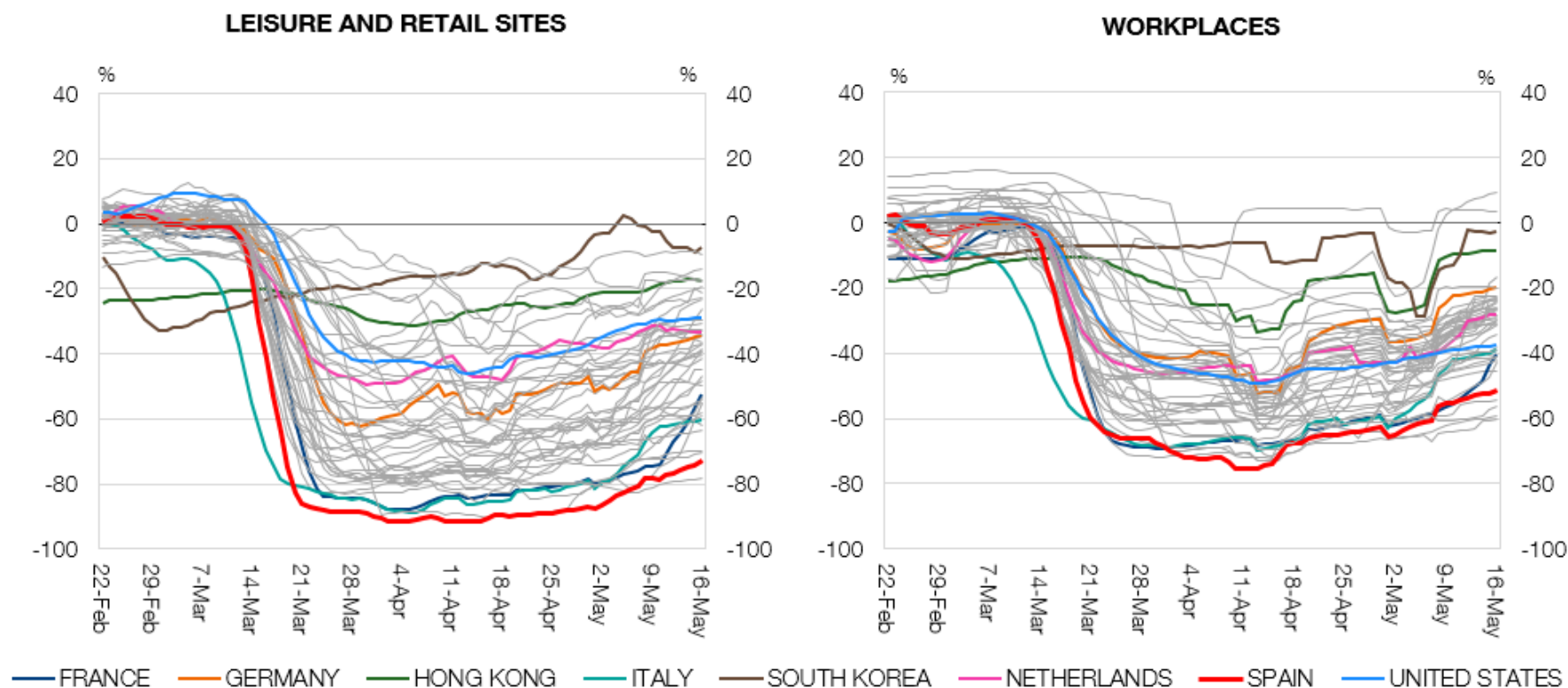
Source: Google.
a. Each of the grey lines represents a different country.

➢ **The share of tourist spending by foreign visitors in GDP is notably higher than that of the euro area.**

DOMESTIC TOURIST CONSUMPTION

% of GDP

Legend:
- ■ INBOUND TOURIST SPENDING
- ■ DOMESTIC TOURIST SPENDING
- ■ OTHER COMPONENTS OF TOURIST CONSUMPTION
- ■ TOTAL DOMESTIC TOURIST CONSUMPTION
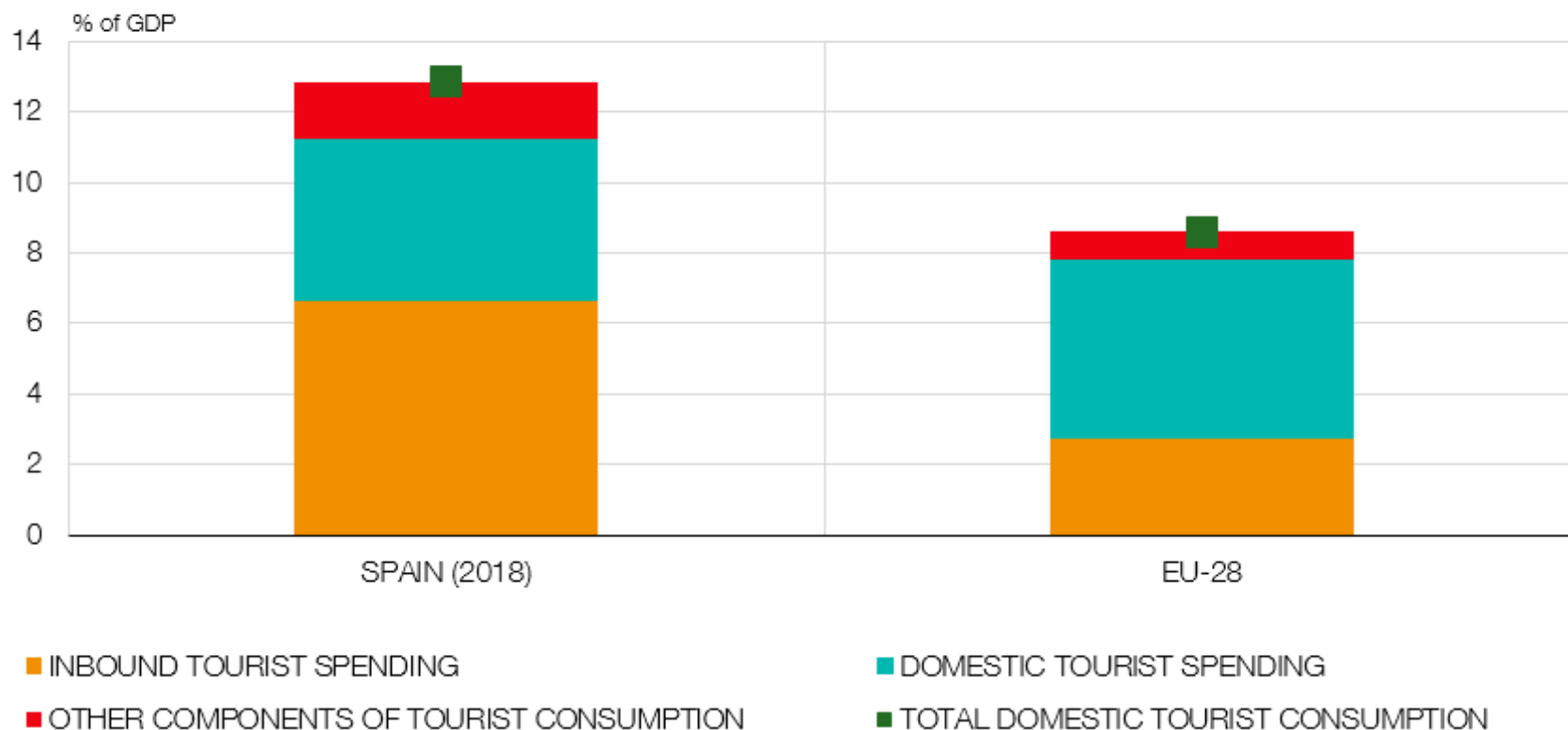
Sources: INE and Eurostat.

➢ **The size of businesses is small in Spain relative to the euro area, making them particularly vulnerable in this crisis.**

BUSINESSES BY NUMBER OF WORKERS AND COUNTRY (2017)

Legend: ■ 1-5 ■ 6-9 ■ 20 OR MORE

Sources: Banco de España and Eurostat.

➢ **The ratio of temporary to permanent contracts in Spain is substantially higher than in the rest of the euro area.**

RATIO OF TEMPORARY TO TOTAL EMPLOYMENT (%)
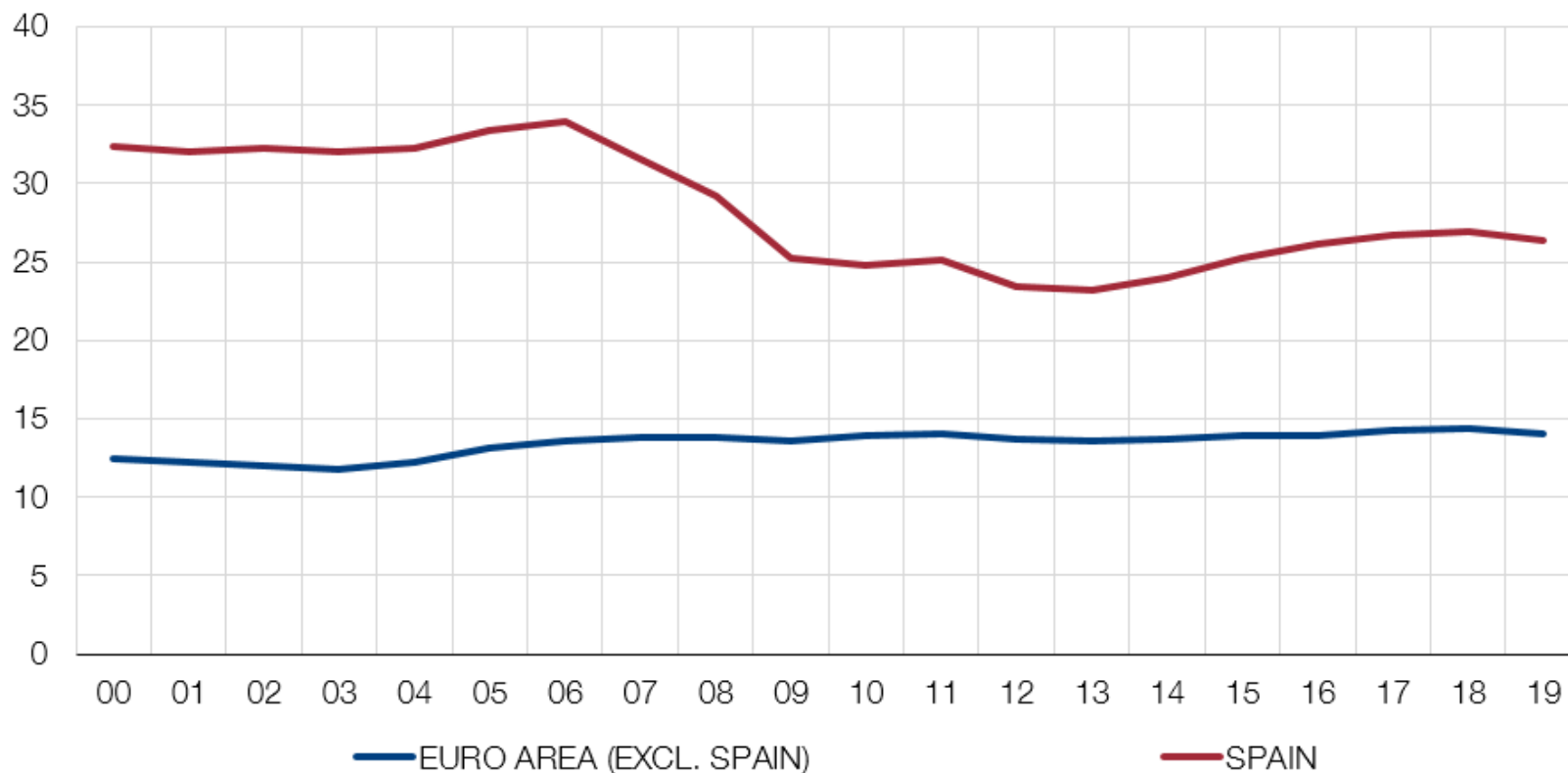
Fuente: Eurostat. Última observación: 2019.

> **The fiscal impulse appears to be have been smaller in those countries that had less fiscal space prior to the COVID-19 crisis.**

FISCAL SPACE AND DISCRETIONARY FISCAL RESPONSE IN EURO AREA (2020)

Sources: Banco de España and European Commission (Spring 2020 economic forecasts).

THANK YOU FOR YOUR ATTENTION

APPENDIX

➢ **Notable contraction in global output and drastic cut in international trade flows in 2020.**

➢ **Lower oil prices and contained increase in long-term interest rates, which is greater in the risk scenario.**

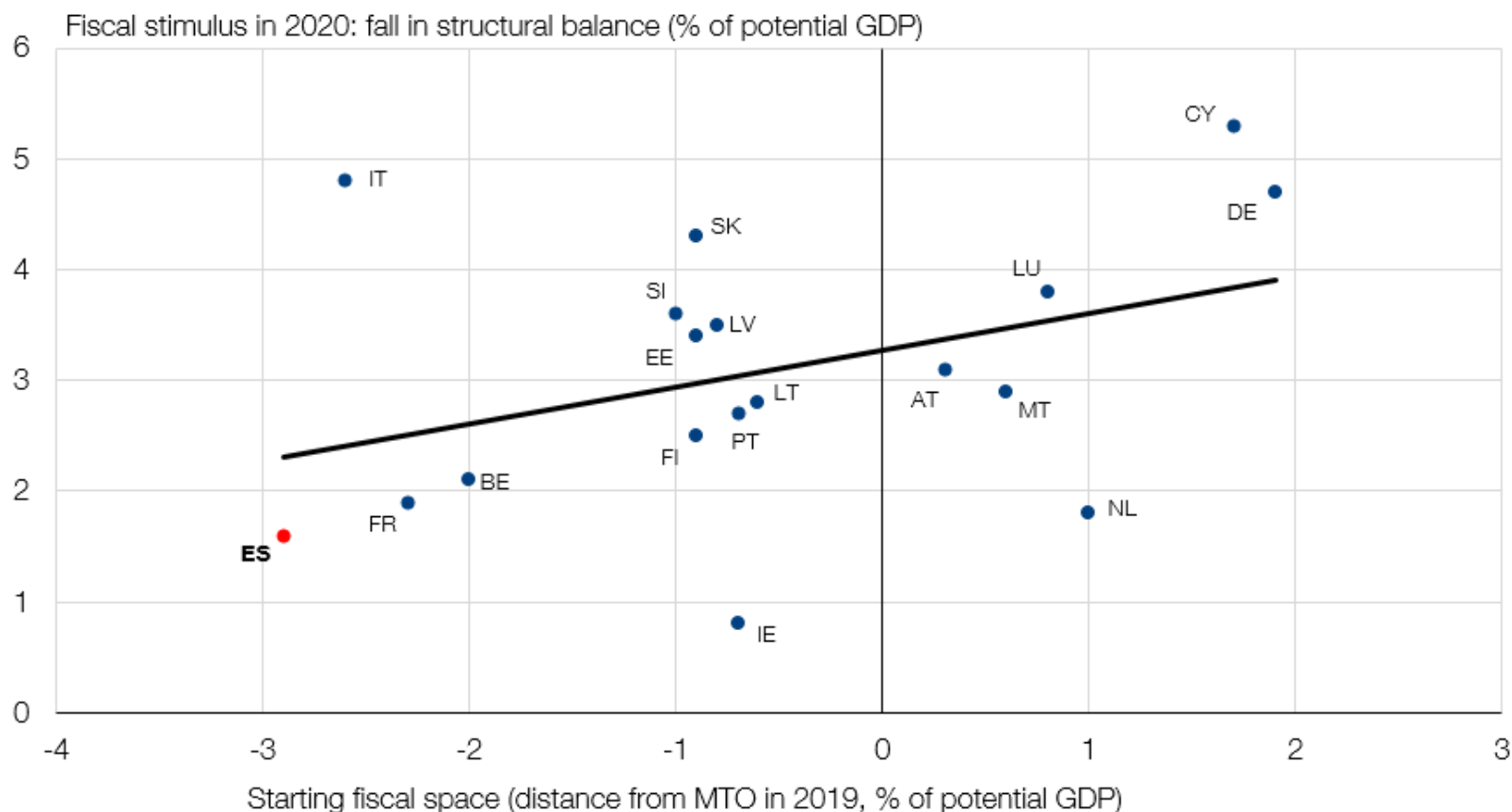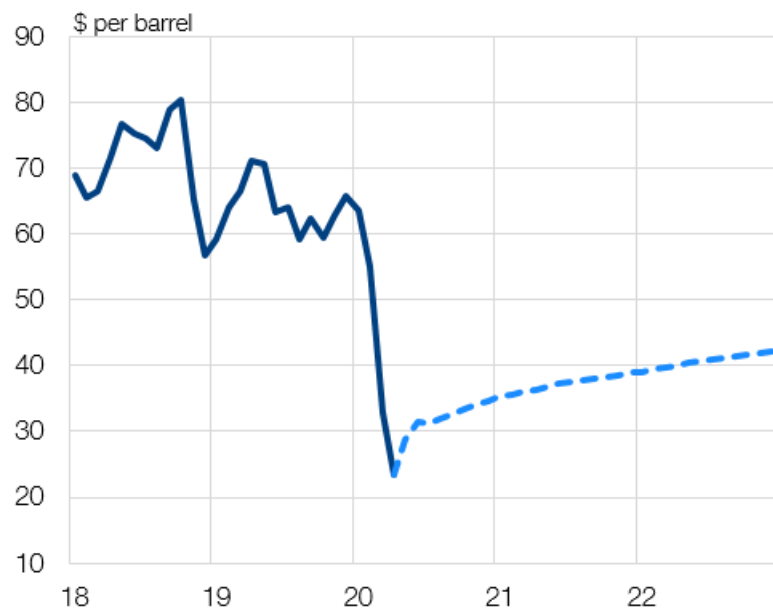| Annual growth rate, unless otherwise indicated | | JUNE 2020 PROJECTIONS | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | | EARLY RECOVERY | | | GRADUAL RECOVERY | | | RISK SCENARIO | | |
| | 2019 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| **International environment** | | | | | | | | | | |
| Global output | 2.8 | -2.4 | 7.8 | 4.1 | -4.5 | 6.0 | 3.8 | -7.8 | 5.2 | 3.7 |
| Spain's export markets | 1.5 | -9.3 | 11.2 | 4.5 | -14.0 | 8.3 | 4.7 | -21.0 | 6.8 | 4.8 |
| Oil price ($ per barrel) (level) | 64.0 | 36.0 | 37.2 | 40.7 | 36.0 | 37.2 | 40.7 | 36.0 | 37.2 | 40.7 |
| **Monetary and financial conditions** | | | | | | | | | | |
| Dollar/euro exchange rate (level) | 1.12 | 1.09 | 1.08 | 1.08 | 1.09 | 1.08 | 1.08 | 1.09 | 1.08 | 1.08 |
| Nominal effective exchange rate vis-à-vis non-euro area countries (level 2000 = 100) | 116.4 | 113.4 | 113.0 | 113.0 | 113.4 | 113.0 | 113.0 | 113.4 | 113.0 | 113.0 |
| Short-term interest rates (3-month EURIBOR) | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Long-term interest rate (10-year bond yield) | 0.7 | 0.6 | 0.9 | 1.1 | 0.7 | 1.0 | 1.2 | 1.0 | 1.4 | 1.6 |

Sources: Banco de España and ECB. Cut-off date for the assumptions: 18 May 2020..

➢ **Oil prices are expected to pick up gradually, according to the futures markets.**

➢ **A rising path is projected for core inflation, in line with the recovery in ULCs and in the goods imports deflator.**

OIL PRICE: SPOT AND ON FUTURES MARKETS

$ per barrel

CORE INFLATION (annual % change in HICP excluding food and energy)

- EARLY RECOVERY
- GRADUAL RECOVERY
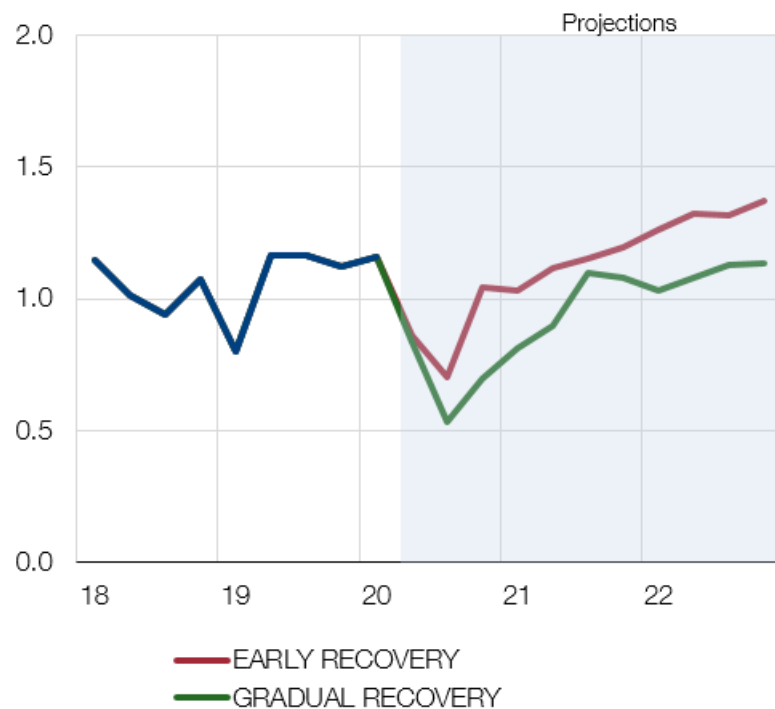
Sources: Banco de España, INE and ECB.

SCENARIOS

Annual rate of change (%), unless otherwise indicated		JUNE 2020 PROJECTIONS								
		EARLY RECOVERY			GRADUAL RECOVERY			RISK SCENARIO		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
GDP	2.0	-9.0	7.7	2.4	-11.6	9.1	2.1	-15.1	6.9	4.0
Harmonised index of consumer prices (HICP)	0.8	-0.1	1.3	1.6	-0.2	1.2	1.5	-0.3	0.9	1.2
Harmonised index of consumer prices excluding food and energy	1.1	0.9	1.1	1.3	0.8	1.0	1.1	0.6	0.5	0.7
Unemployment rate (% of labour force). Annual average	14.1	18.1	18.4	17.1	19.6	18.8	17.4	23.6	24.7	22.2

Sources: Banco de España and INE. Projections cut-off date: 25 May 2020

➢ **The scenarios show the high uncertainty over the fiscal forecasts:**

- **The deficit** will increase in 2020 to 9.5-14% of GDP, moderating thereafter as the transitory measures are phased out and activity recovers; but it will remain very high in 2022, between 4.8-8.7% of GDP.

- **Debt** will increase in 2020 to 114.5-126.7% of GDP. It will decline slightly under the two more moderate scenarios to 112.5-118.7% of GDP in 2022, but will continue increasing under the risk scenario, standing at 131.8% of GDP.
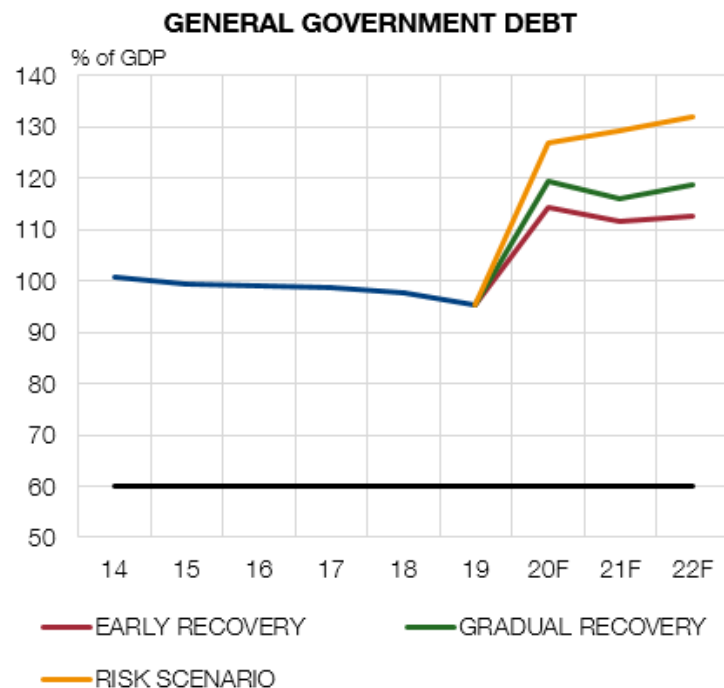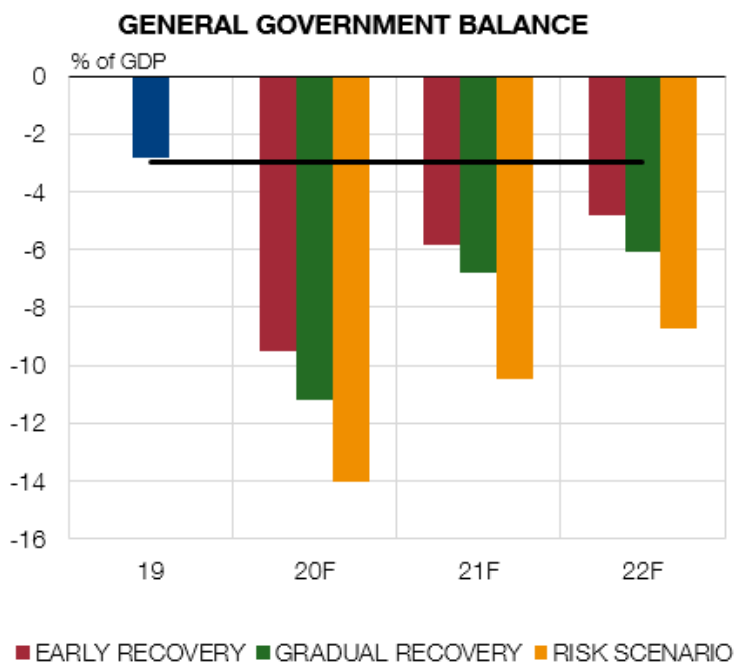
Sources: Banco de España and INE. F: forecast.

PROJECTIONS UNDER THE GRADUAL RECOVERY SCENARIO: 2019-2022

Annual rate of change (%), unless otherwise indicated

| | | JUNE 2020 PROJECTIONS | | | | | |
| | | EARLY RECOVERY | | | GRADUAL RECOVERY | | |
	2019	2020	2021	2022	2020	2021	2022
GDP	2.0	-9.0	7.7	2.4	-11.6	9.1	2.1
Private consumption	1.1	-9.1	9.0	1.8	-11.2	11.2	1.6
Government consumption	2.3	4.4	-1.5	0.8	4.6	-1.5	0.8
Gross fixed capital formation	1.8	-20.6	9.7	8.8	-26.5	7.4	7.1
Exports of goods and services	2.6	-16.7	21.8	8.7	-21.9	18.5	7.7
Imports of goods and services	1.2	-16.6	19.6	10.6	-21.5	14.0	9.1
Domestic demand (contribution to growth)	1.5	-8.5	6.5	2.7	-10.8	7.4	2.2
Net external demand (contribution to growth)	0.5	-0.5	1.2	-0.3	-0.8	1.7	-0.1
Harmonised index of consumer prices (HICP)	0.8	-0.1	1.3	1.6	-0.2	1.2	1.5
HICP excluding energy and food	1.1	0.9	1.1	1.3	0.8	1.0	1.1
Employment (hours worked)	1.5	-10.1	7.3	2.3	-12.6	8.5	2.3
Employment (no. of persons, Spanish labour force survey)	2.3	-3.9	0.6	2.3	-5.7	1.8	2.6
Unemployment rate (% of labour force). Annual average	14.1	18.1	18.4	17.1	19.6	18.8	17.4
National net lending (+) / net borrowing (–) (% of GDP)	2.3	2.5	3.3	3.0	2.3	3.5	3.0
General government net lending (+) / net borrowing (–) (% of GDP)	-2.8	-9.5	-5.8	-4.8	-11.2	-6.8	-6.1
General government debt (% of GDP)	95.5	114.5	111.7	112.5	119.3	115.9	118.7

Sources: Banco de España and INE. Projections cut-off date: 25 May 2020.