BANCO DE ESPAÑA
Eurosistema

MACROECONOMIC PROJECTIONS FOR SPAIN 2020-2023

ÓSCAR ARCE

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DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH – BANCO DE ESPAÑA

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THE EVOLUTION OF THE PANDEMIC WILL CONTINUE TO INFLUENCE ACTIVITY IN THE SHORT TO MEDIUM TERM

Recent developments

- Strong growth in GDP in Q3, although the recovery lost momentum as from the end of the quarter.

- The evolution of the pandemic, the containment measures and the available activity indicators point to a downturn in activity in Q4.

Macroeconomic projections

- Three macro scenarios, which differ, essentially, as regards the behaviour of the pandemic in the short term, the measures to contain it, agents' adaptation to the crisis and the persistence of its effects in the medium term.

- Strong decline in GDP in 2020, followed by a relatively robust recovery in subsequent years, albeit subject to a high degree of uncertainty.

Inflation

- Highly influenced in the short term by oil price developments and by weak demand, which has brought core inflation to a low level.

- Moderate growth profile for core inflation in the medium term.

IMPORTANT ELEMENTS OF UNCERTAINTY STILL PERSIST

Possible fresh outbreaks of the pandemic

Deterioration in potential growth and structural changes

Medical progress and vaccination process

Impact of NGEU

Agents' degree of adaptation to the pandemic

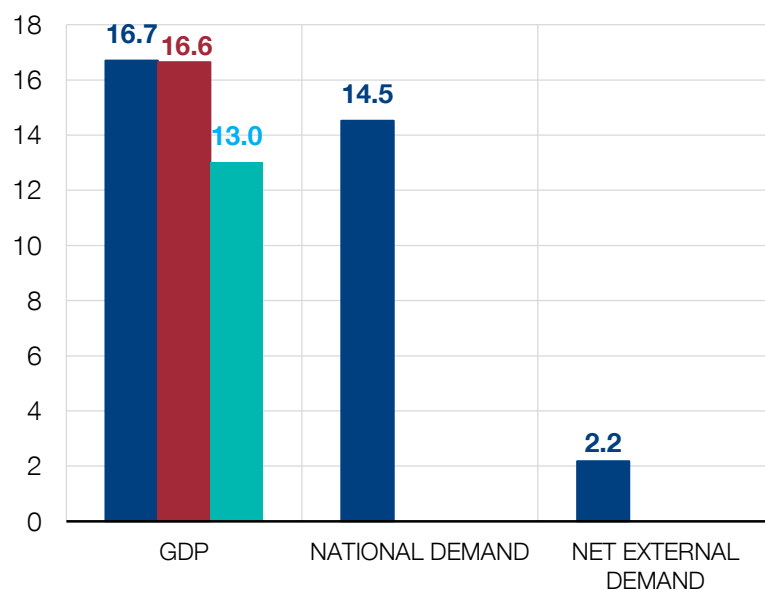External geopolitical factors: Brexit, new US policy, etc.

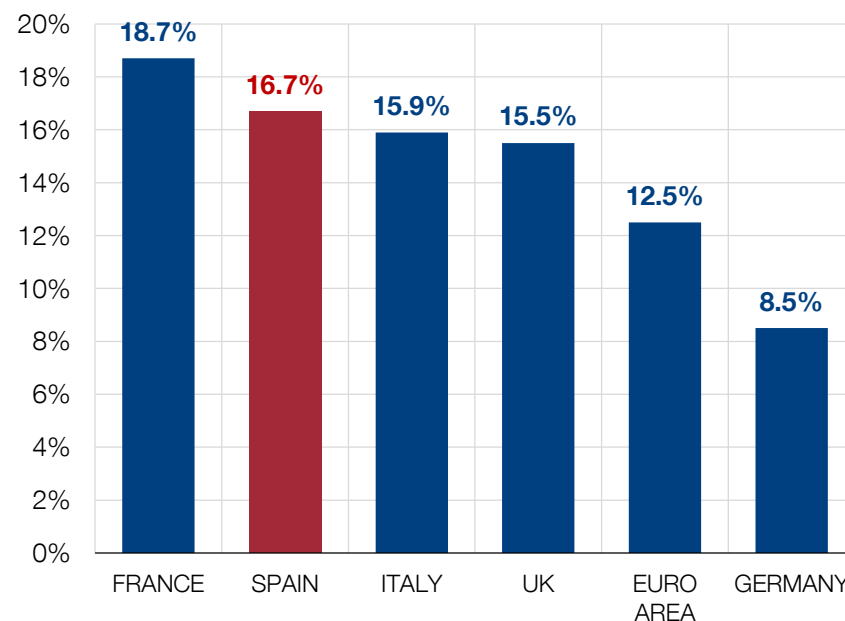# CONTENTS

GDP GROWTH (%) AND CONTRIBUTIONS (pp)

- ■ QNA - Q3 flash estimate
- ■ BE September - Scenario 1
- ■ BE September - Scenario 2

**GDP GROWTH IN Q3.
Q-O-Q RATES**

SOURCES: EUROSTAT, INE and Banco de España.

IN RECENT MONTHS THE RECOVERY PROCESS HAS SLOWED SIGNIFICANTLY

Indicators

- ... of mobility
- ... of confidence
- ... of activity
- ... of spending
- ... of employment

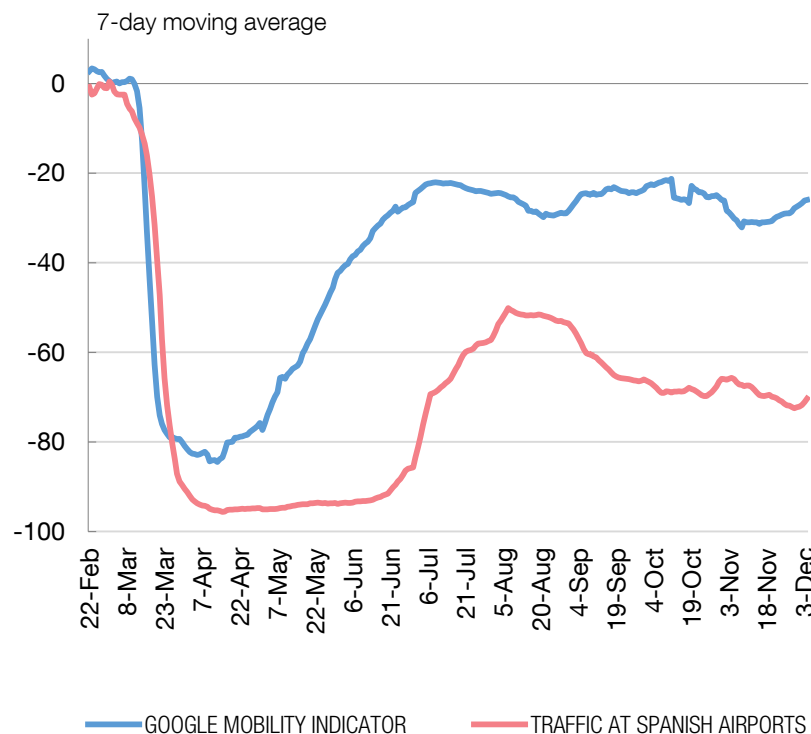## Factors to highlight

- Extraordinary sectoral heterogeneity
- Evident slowdown but without collapse of activity. Mixed recent signals.
- Recent deterioration lower in Spain than in the euro area

THE RECOVERY IN MOBILITY AND SPENDING WITH CARDS WAS DISRUPTED FOR A LARGE PART OF Q4…

Mobility indicators

Spending indicators

MOBILITY INDICATORS

7-day moving average

GOOGLE MOBILITY INDICATOR — TRAFFIC AT SPANISH AIRPORTS

RECENT SPENDING WITH CARDS

Y-o-y rates of change (7-day moving average)

TOTAL — IN PERSON — ONLINE
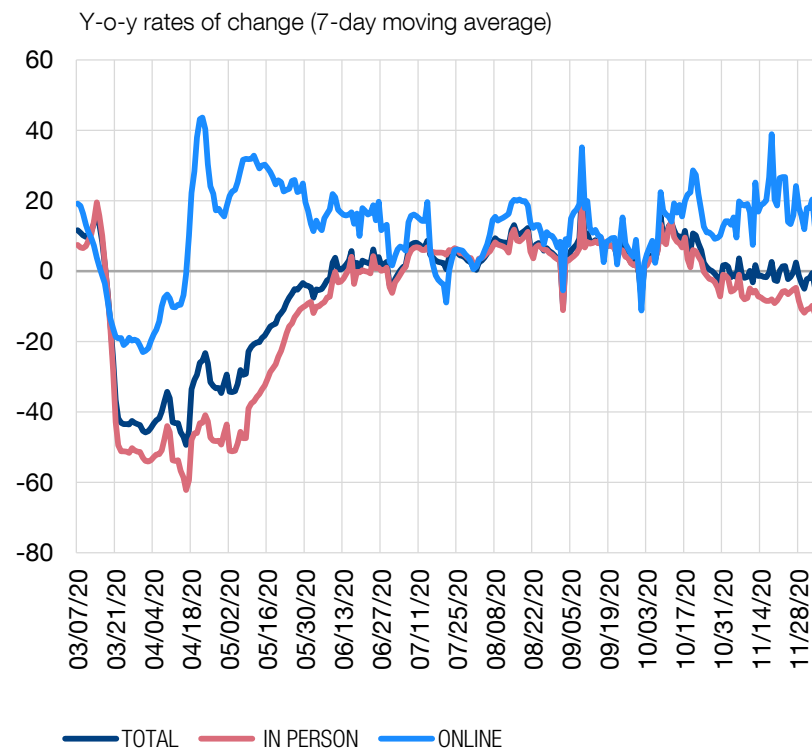
SOURCES: Google, European Organisation for the Safety of Air Navigation, Sistema de Tarjetas y Medios de Pago and Banco de España.

Confidence indicators

CONFIDENCE INDICATORS (standardised)

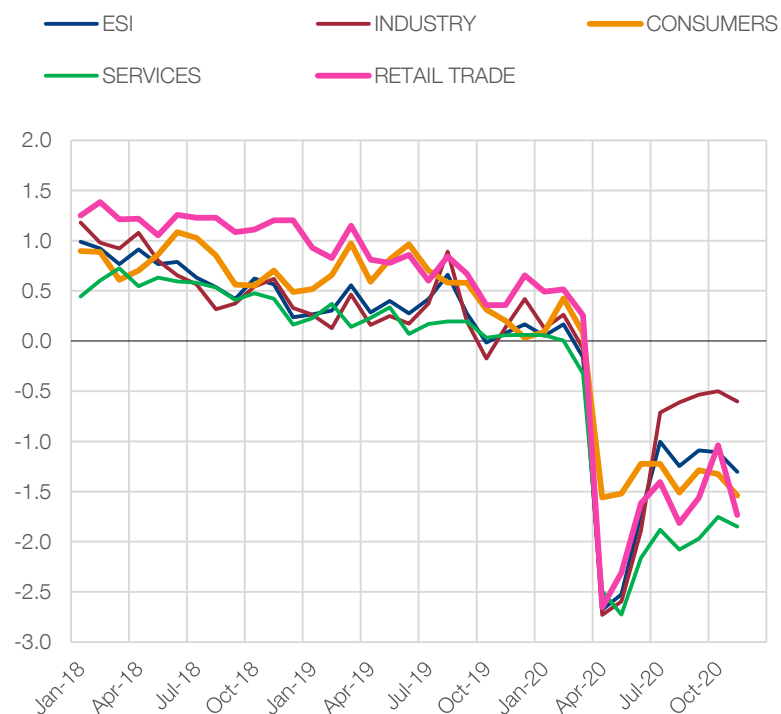— ESI — INDUSTRY — CONSUMERS
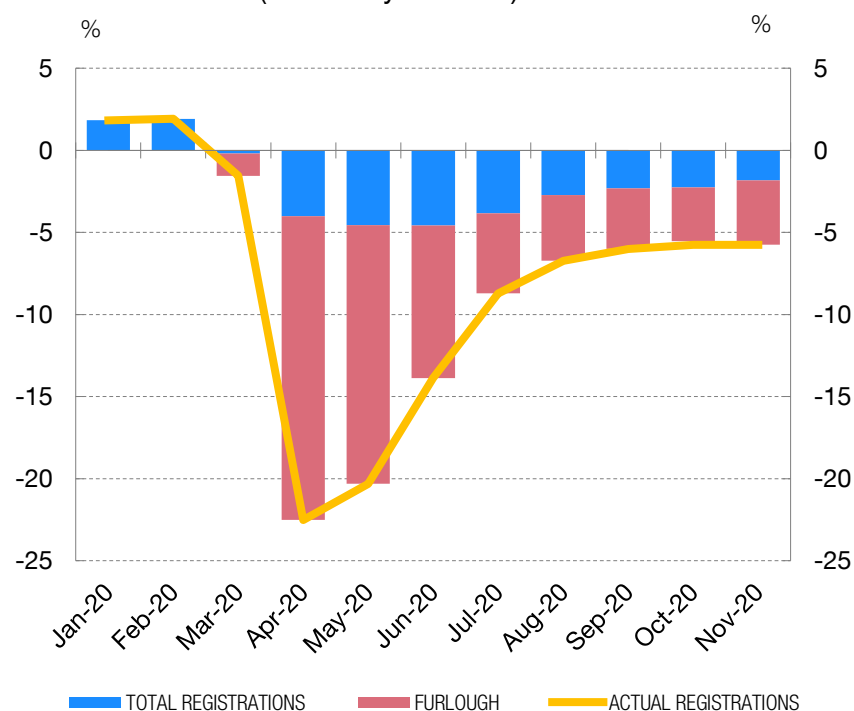— SERVICES — RETAIL TRADE

PURCHASING MANAGERS' INDEX

— COMPOSITE PMI
— PMI OUTPUT. MANUFACTURING
— PMI ACTIVITY. SERVICES
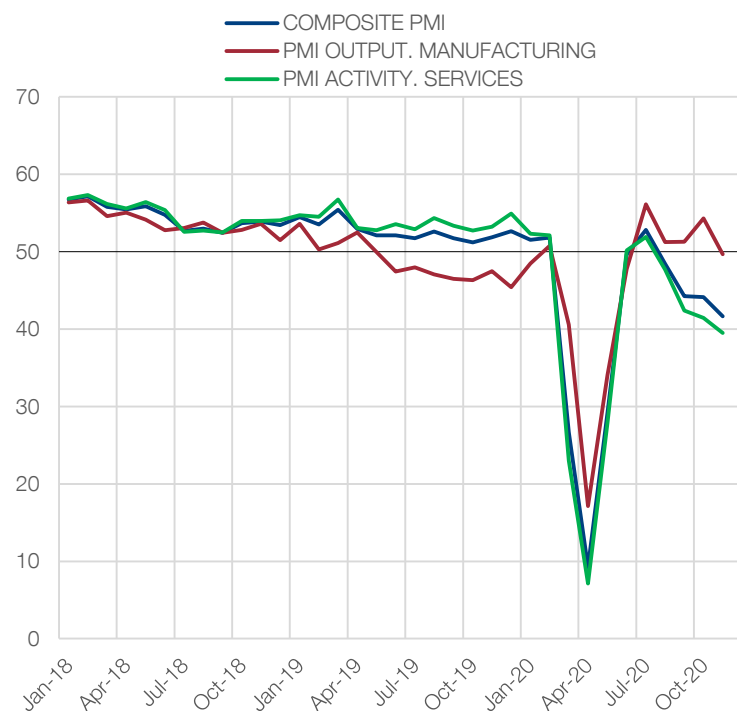
SOURCES: European Commission and Markit Economics. Latest data observed: November.

Employment indicators

SOCIAL SECURITY REGISTRATIONS
(Year-on-year rates)

**ACTUAL REGISTRATIONS (a)
(YEAR-ON-YEAR RATE IN NOVEMBER)**

TOTAL REGISTRATIONS — FURLOUGH — ACTUAL REGISTRATIONS

TOTAL REGISTRATIONS — FURLOUGH — ACTUAL REGISTRATIONS
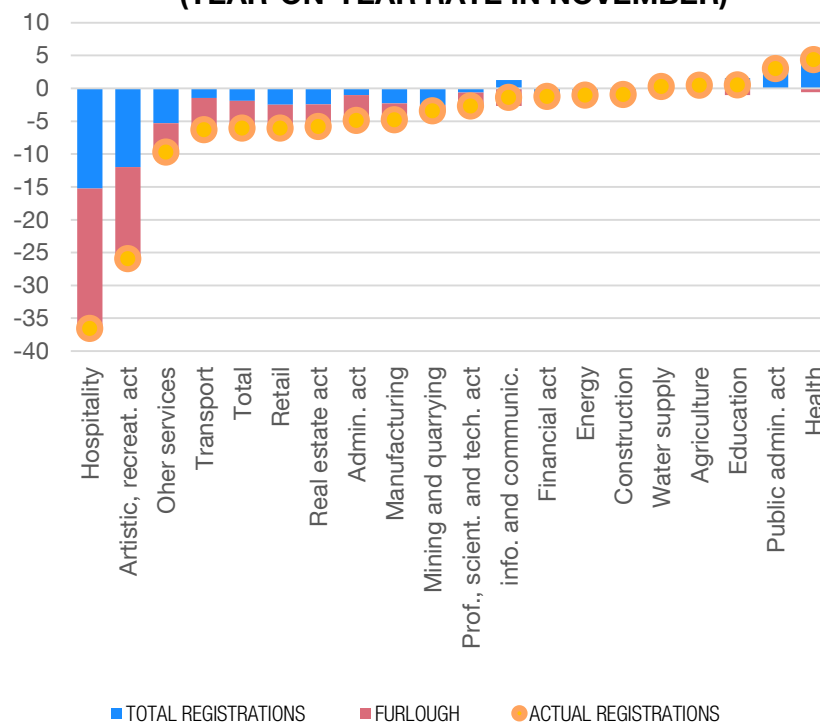
SOURCE: Ministry of Inclusion, Social Security and Migration. Latest observed figures: November 2020.
a) Actual registrations are calculated as total registrations less the number of workers on furlough (ERTE, by the Spanish abbreviation).

THE ECONOMIC IMPACT OF THE SECOND WAVE IN Q4 COULD BE MORE MODERATE IN SPAIN THAN IN THE EURO AREA

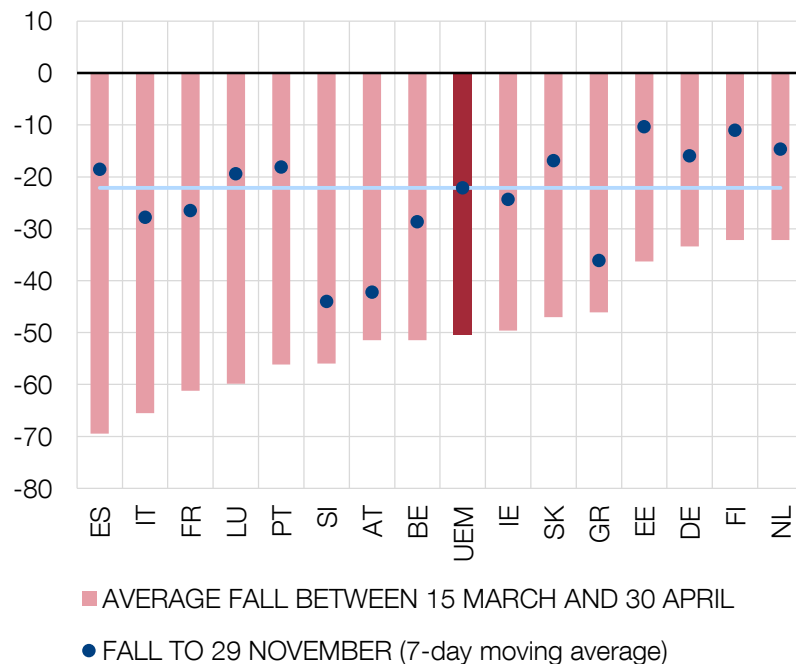## Spain vs Euro area

GOOGLE MOBILITY (FOOD AND RETAIL ESTABLISHMENTS AND WORKPLACES) (a)

CHANGES IN THE ECONOMIC SENTIMENT INDICATOR FROM SEPTEMBER TO NOVEMBER

■ SPAIN ■ ITALY ■ FRANCE

■ AVERAGE FALL BETWEEN 15 MARCH AND 30 APRIL

● FALL TO 29 NOVEMBER (7-day moving average)
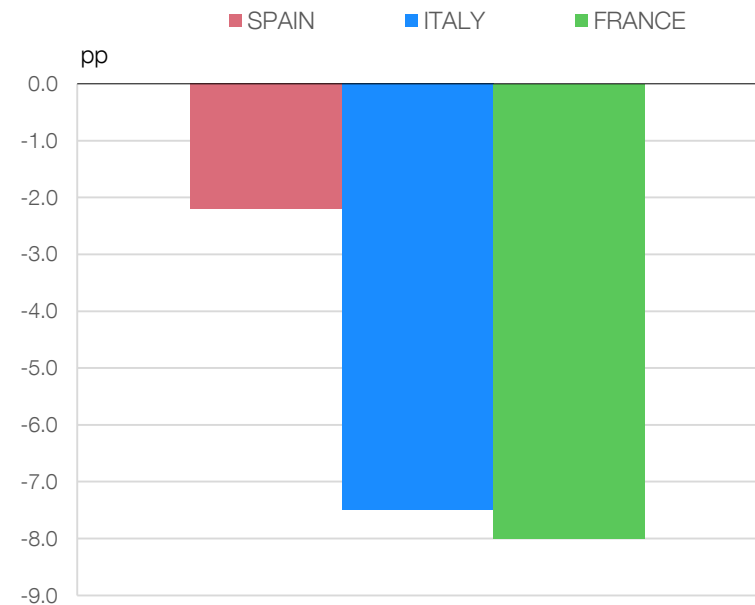
SOURCES: Google and European Commission.
a) Change with respect to the beginning of the year.

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THE HIGH UNCERTAINTY IN THE SHORT AND MEDIUM TERM HAS PROMPTED THE FORMULATION OF THREE ALTERNATIVE SCENARIOS

Mild scenario

- Evolution of the pandemic controlled in the coming quarters, with gradual easing of containment measures
- Swift adjustment by agents to the pandemic/restrictions
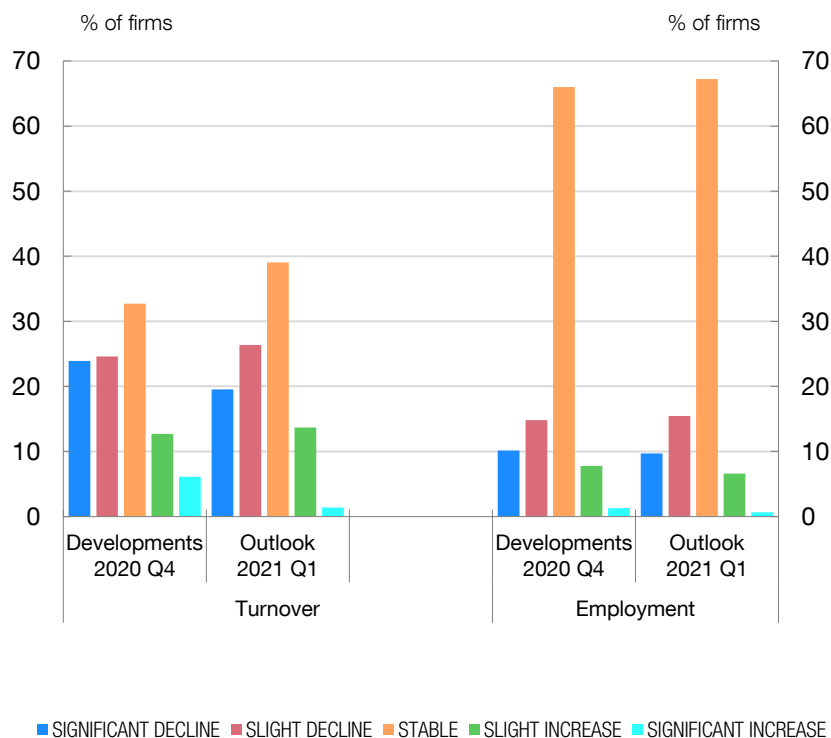
Baseline scenario

- Fresh outbreaks of the disease of moderate intensity requiring measures similar to those currently in place
- The path of recovery remains uneven by sector

Severe scenario

- Severe outbreak of the pandemic in the short term and delayed immunity. Tightening of containment measures
- More limited recovery and adjustment

RESULTS OF THE NEW SURVEY ON BUSINESS ACTIVITY

TURNOVER AND EMPLOYMENT: DEVELOPMENTS AND OUTLOOK

% of firms

■ SIGNIFICANT DECLINE ■ SLIGHT DECLINE ■ STABLE ■ SLIGHT INCREASE ■ SIGNIFICANT INCREASE

DEVELOPMENTS IN ACTIVITY AND EMPLOYMENT IN Q4, BY SECTOR (a)

■ TURNOVER ■ EMPLOYMENT
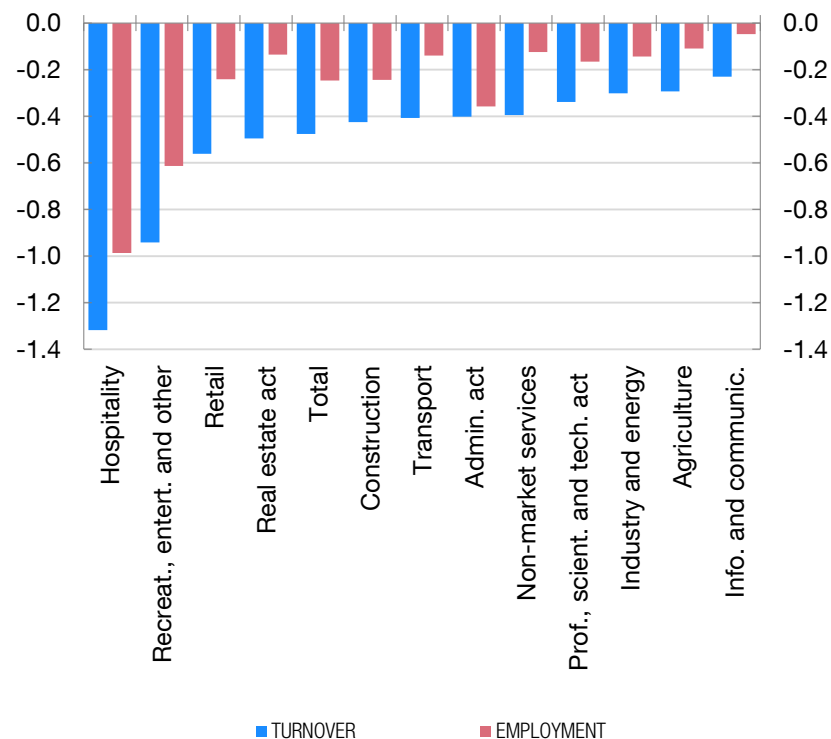
SOURCE: Banco de España Business Activity Survey (EBAE).
a) Calculation of index: Significant decline=-2, Slight decline=-1, Stable=0, Slight increase=1, Significant increase=2.

ESTIMATE OF SHORT-TERM GROWTH (I): RESTRICTIONS AND MOBILITY

1. Restrictions indices (based on press reports)

2. Mobility indicators (Google)

3. Activity indicators

4. GDP

Two regressions (1 --> 2 & 2 --> 3) using monthly data by region

Added and rescaled for step 3 --> 4

INDEX OF COVID-19 RESTRICTIONS (a)

MILD SCENARIO — BASELINE SCENARIO — SEVERE SCENARIO

GDP GROWTH. YEAR-ON-YEAR RATES

GDP EXPLAINED BY RESTRICTIONS — GDP EXPLAINED BY VOLUNTARY MOBILITY
GDP OTHER — GDP. BASELINE SCENARIO
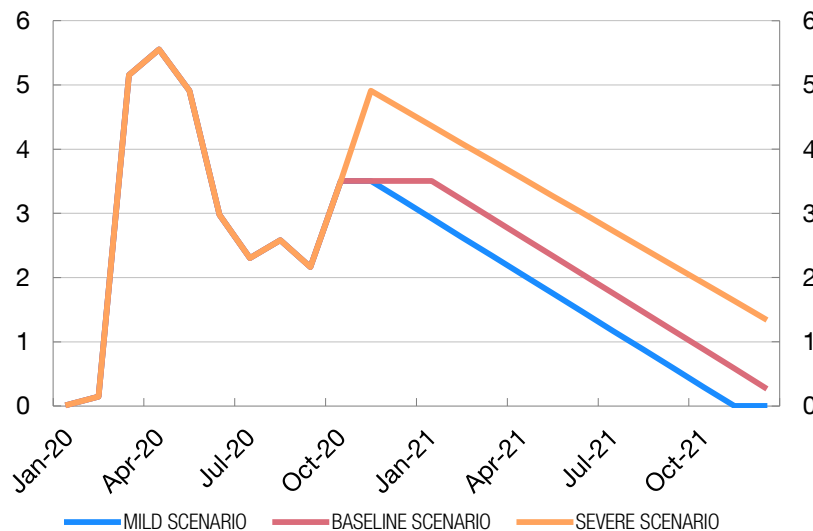
SOURCE: Banco de España.
a) The higher the value of the index, the greater the severity of the containment measures.

ESTIMATE OF SHORT-TERM GROWTH (II): SUPPLY APPROACH

1. Monthly breakdown of GDP by sector*

Ratio of actual Social Security registrations (k) by sector

88 sectors, NACE at 2 digits

EFFECTIVE EMPLOYMENT RATIOS =
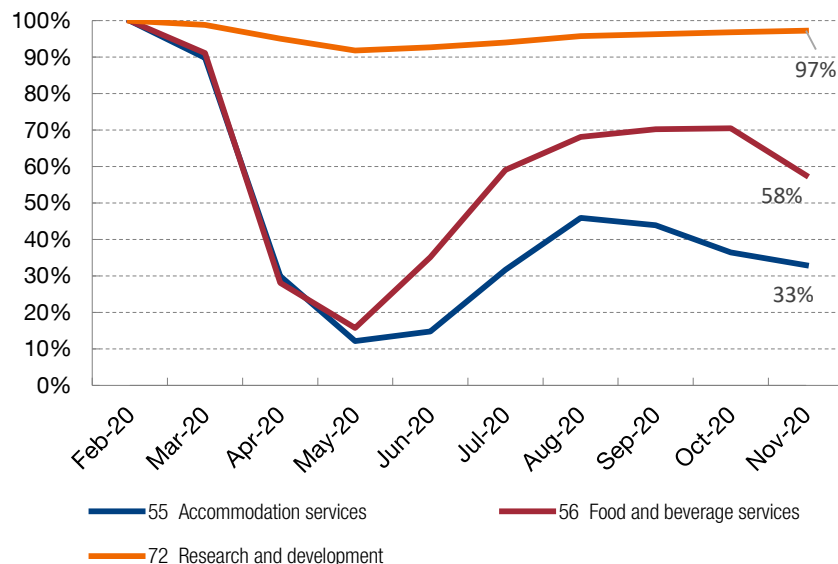**Actual social security registrations/counterfactual social security registrations**

- 55 Accommodation services
- 56 Food and beverage services
- 72 Research and development

97%

58%

33%

* Following the methodology proposed by De la Fuente: APUNTES - 2020/14, FEDEA.

2. Projected GDP by sector

Relationship between k and severity of restrictions
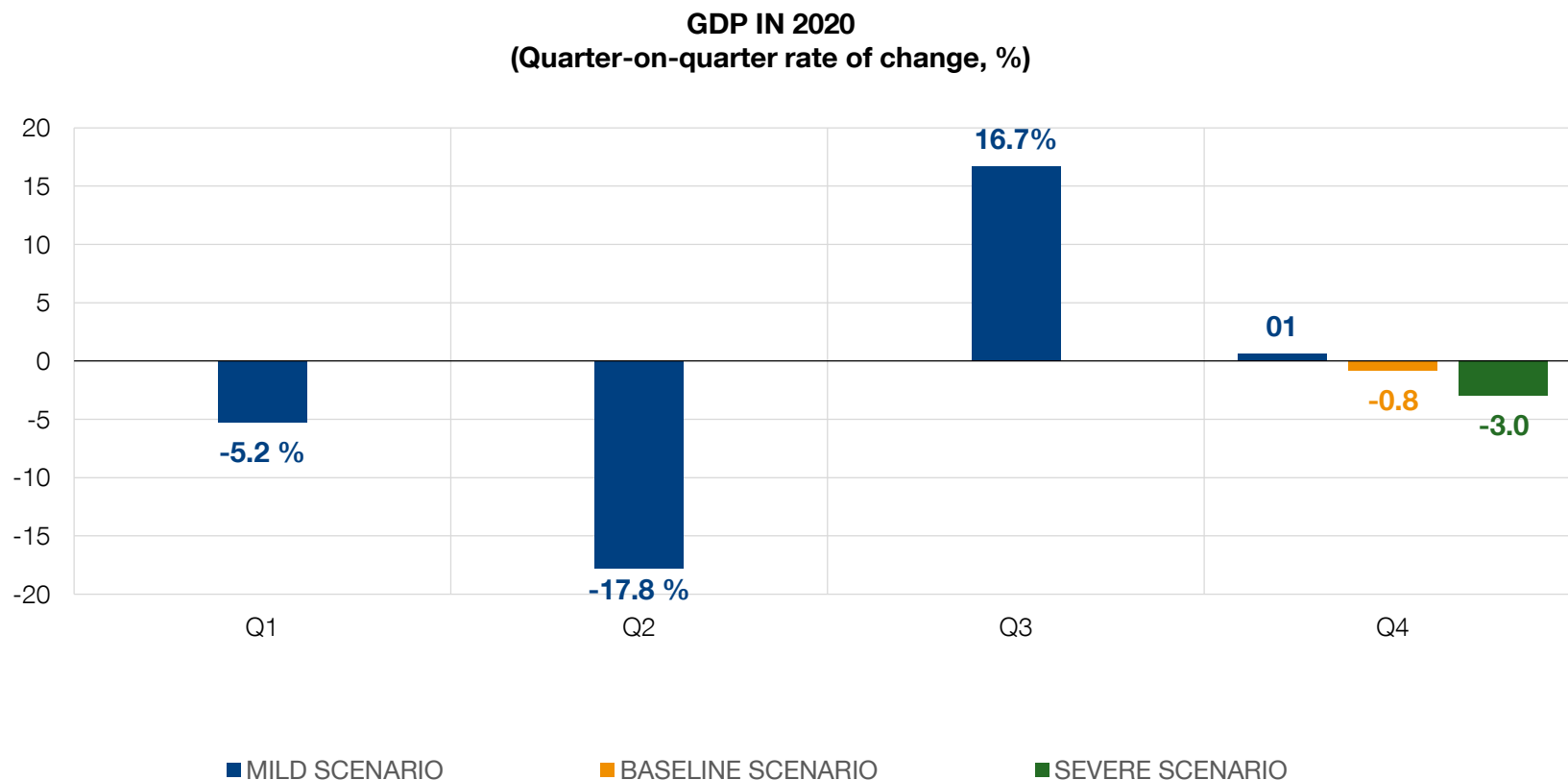
2 alternatives

A: one regression per sector. The higher the beta value, the greater the effect of restrictions on employment in the sector (k).

B: regression between the average of k of the sectors hardest hit by restrictions (tourism, hospitality, leisure, etc.). The effect on other sectors is estimated by means of input-output carry over.

A baseline scenario with a more moderate fall in GDP in Q4 in Spain (-0.8%) than in the euro area (-2.2%)

GDP IN 2020
(Quarter-on-quarter rate of change, %)

■ MILD SCENARIO   ■ BASELINE SCENARIO   ■ SEVERE SCENARIO

SOURCES: Banco de España and INE.

MACROECONOMIC PROJECTIONS OF THE BANCO DE ESPAÑA 2020-2023

Annual rate of change (%), unless otherwise indicated	2019	DECEMBER 2020 PROJECTIONS											
		MILD				BASELINE				SEVERE			
		2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
GDP	2.0	-10.7	8.6	4.8	1.9	-11.1	6.8	4.2	1.7	-11.6	4.2	3.9	1.5
HICP	0.8	-0.3	0.7	1.3	1.4	-0.3	0.6	1.2	1.3	-0.3	0.5	0.9	1.1
Core inflation	1.1	0.5	0.6	1.1	1.3	0.5	0.5	0.9	1.1	0.5	0.2	0.6	0.8
Unemployment rate (annual average)	14.1	15.7	17.1	14.0	12.4	15.8	18.3	15.6	14.3	16.2	20.5	18.1	17.6
General government lending (+) / borrowing (–) (% of GDP)	-2.9	-10.3	-6.7	-4.0	-3.2	-10.5	-7.7	-5.2	-4.5	-10.9	-9.6	-7.1	-6.7
General government debt (% of GDP)	95.5	116.1	113.7	111.7	111.5	116.7	117.1	116.8	118.0	117.8	122.8	124.9	128.7

Sources: Banco de España and INE. Cut-off date for projections: 25 November 2020.

ESTIMATED ABSORPTION OF NGEU FUNDS

- The draft State Budget for 2021 envisages using all the NGEU funds in 2021-23 available through the Recovery and Resilience Facility (RRF) in the form of transfers (€72 bn/€26.6 bn in 2021): 50% for public investment and 30% for assistance to private investment and the remainder to finance current spending.

- The **BE projections** assume a **somewhat more gradual absorption than that envisaged in the 2021 State Budget,** albeit swifter than in the past: implementation of 100% of current spending and 70% of spending on investment in 2021 (80% by 2023), with a **breakdown by spending category in line with the 2021 State Budget**.

ASSUMPTIONS ON THE ABSORPTION RATE OF THE NGEU FUNDS (a)
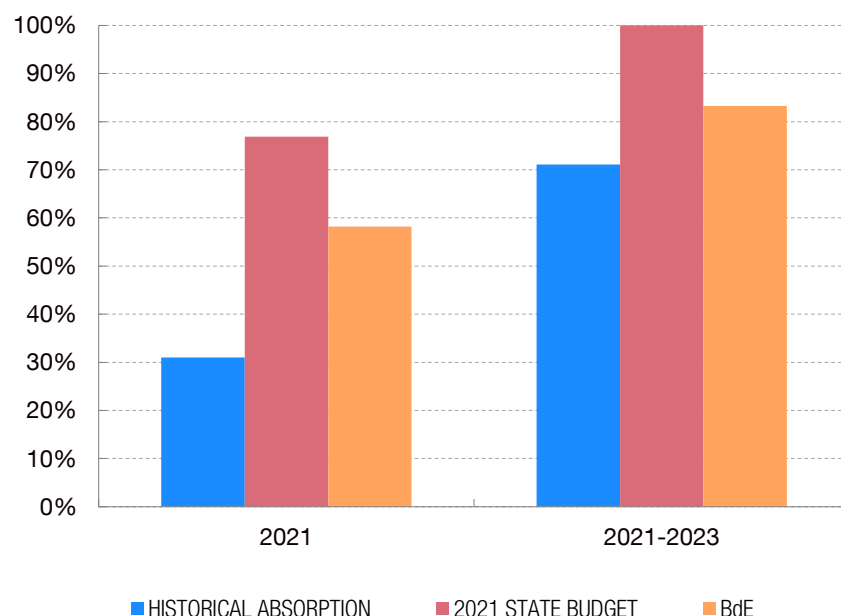
ASSUMPTIONS ON THE COMPOSITION OF THE USE OF NGEU FUNDS
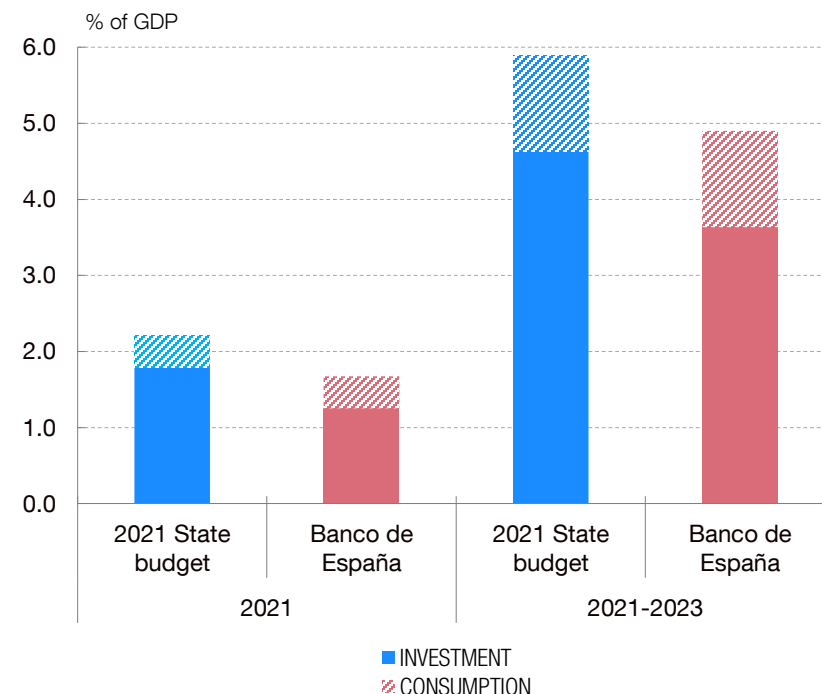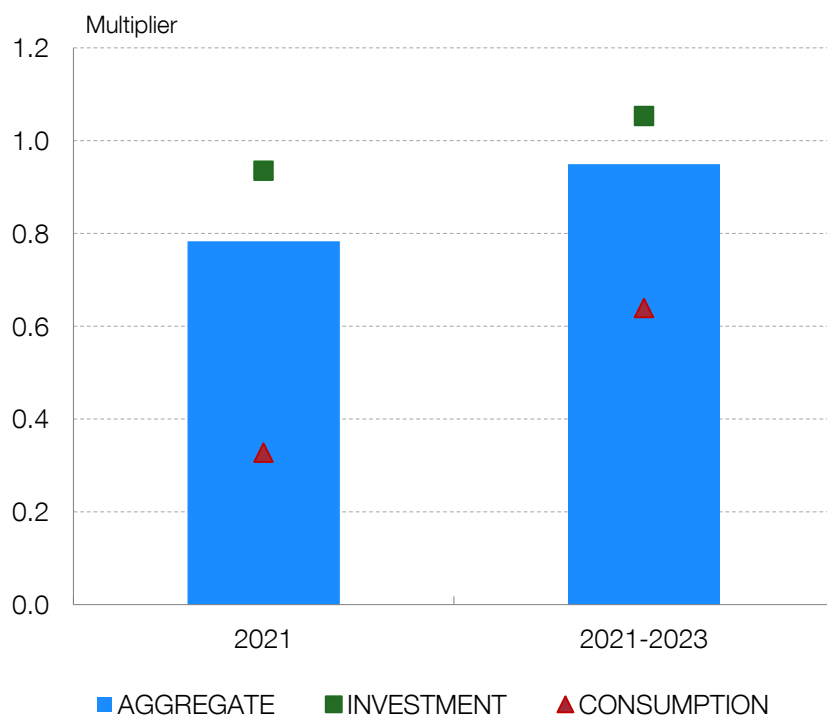

SOURCES: State Budget, EUROSTAT and Banco de España.
a) According to the EC, Spain has NGEU grants of €35 billion in 2021, of which the 2021 State budget envisages using €26.6 billion.
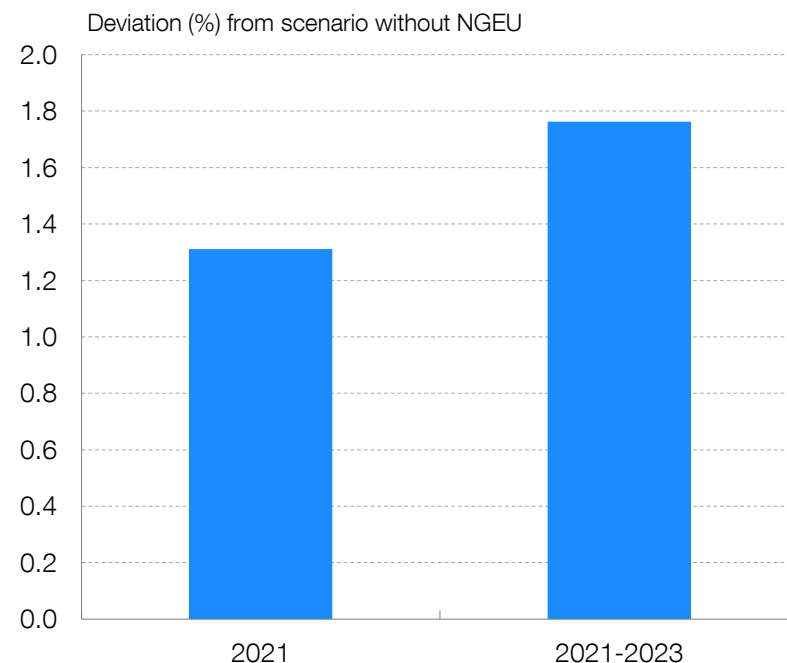
THE NGEU COULD HAVE A SUBSTANTIAL IMPACT ON ECONOMIC GROWTH

- These projections assume a **multiplier effect** of spending on investment and consumption in line with the average of the empirical evidence available.

- This fiscal impulse will have an **impact on GDP** of 1.3 pp in 2021 and 1.8 pp in the 2021-2023 period as a whole.

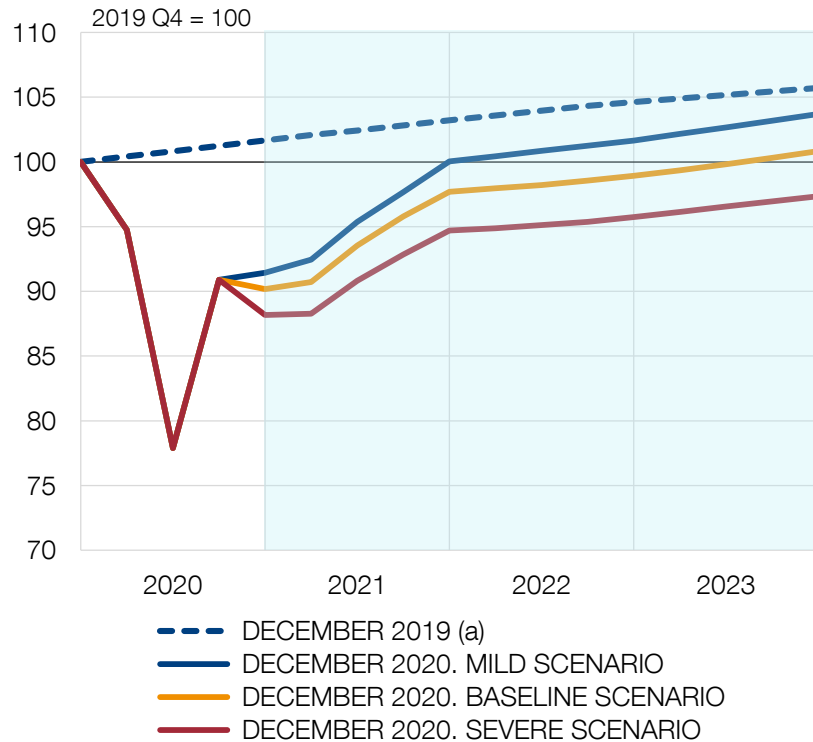**ASSUMPTIONS ON THE MULTIPLIERS OF THE NGEU FUNDS**
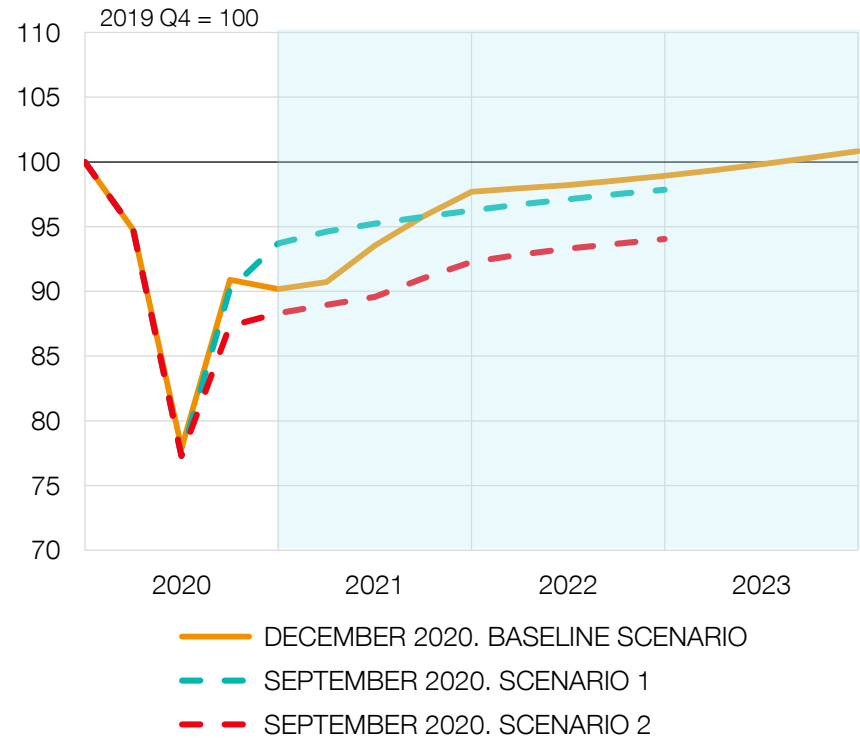
IMPACT OF NGEU ON GDP

Source: Banco de España.

GROSS DOMESTIC PRODUCT
(Chained volume index)

2019 Q4 = 100

- - - DECEMBER 2019 (a)
——— DECEMBER 2020. MILD SCENARIO
——— DECEMBER 2020. BASELINE SCENARIO
——— DECEMBER 2020. SEVERE SCENARIO

GROSS DOMESTIC PRODUCT
(Chained volume index)

2019 Q4 = 100

——— DECEMBER 2020. BASELINE SCENARIO
- - - SEPTEMBER 2020. SCENARIO 1
- - - SEPTEMBER 2020. SCENARIO 2

SOURCES: Banco de España and INE.
a) For 2023, trend projection of the path.

GDP GROWTH (%) AND CONTRIBUTIONS (PP)

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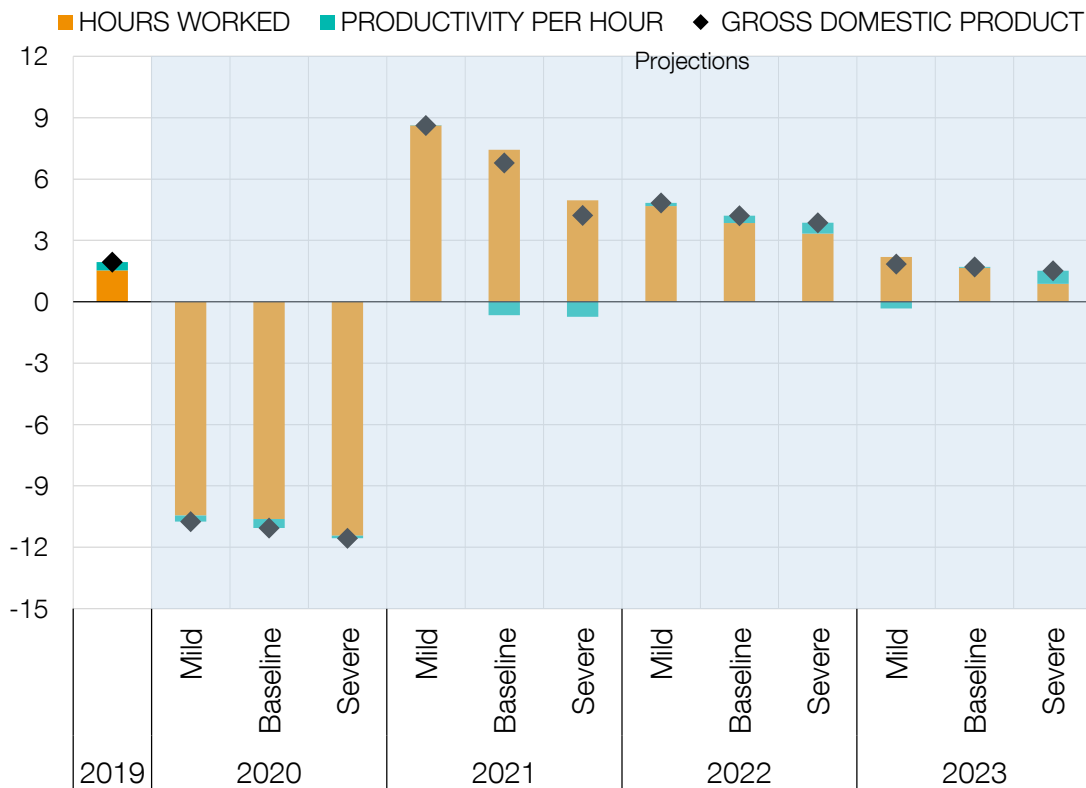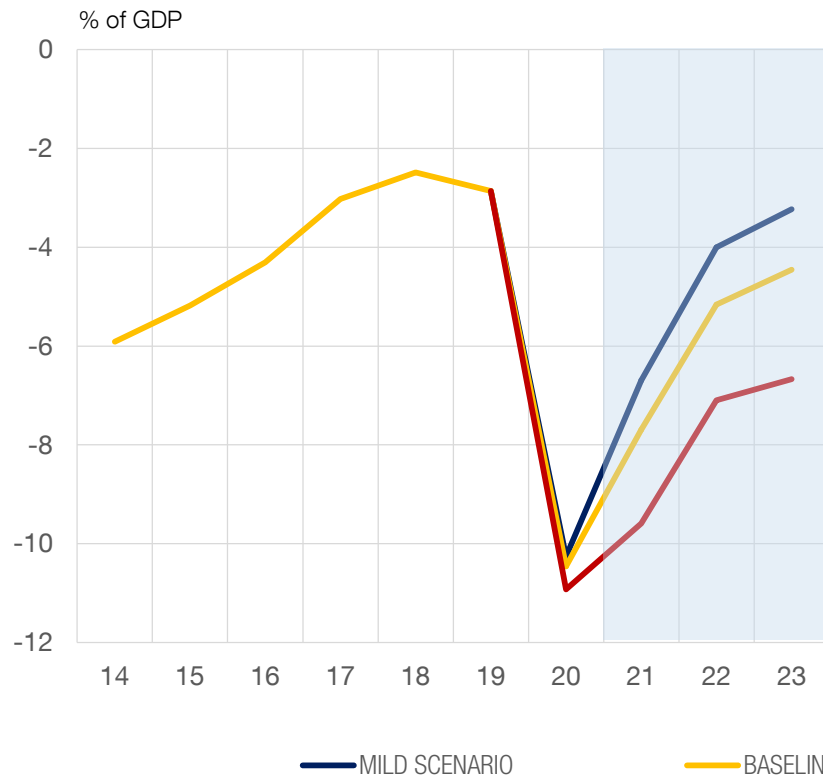
UNEMPLOYMENT RATE
(% of labour force)
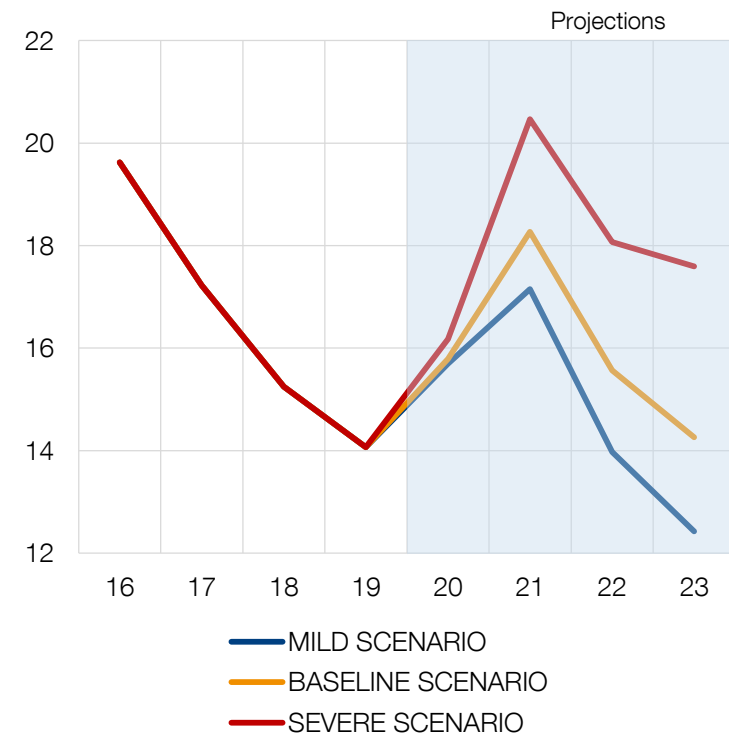
Sources: Banco de España and INE.

VERY SIGNIFICANT DETERIORATION IN PUBLIC FINANCES IN 2020, WITH PERSISTENT EFFECTS ON PUBLIC DEBT

GENERAL GOVERNMENT BALANCE (a)

GENERAL GOVERNMENT DEBT (a)

MILD SCENARIO   BASELINE SCENARIO   SEVERE SCENARIO
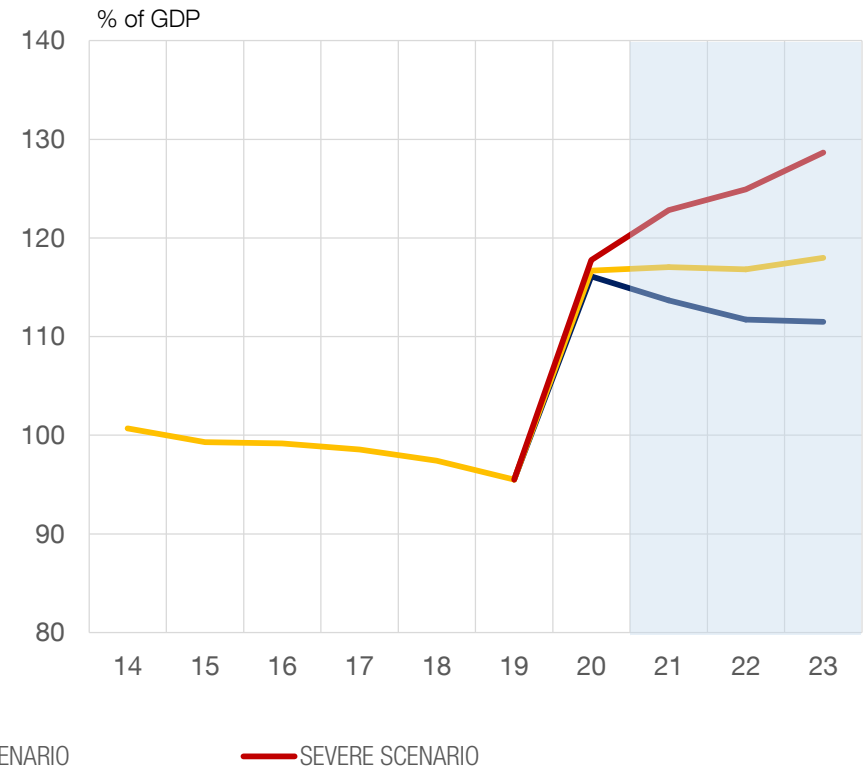
SOURCES: IGAE and Banco de España.
a. December 2020 projections.

HEADLINE HICP
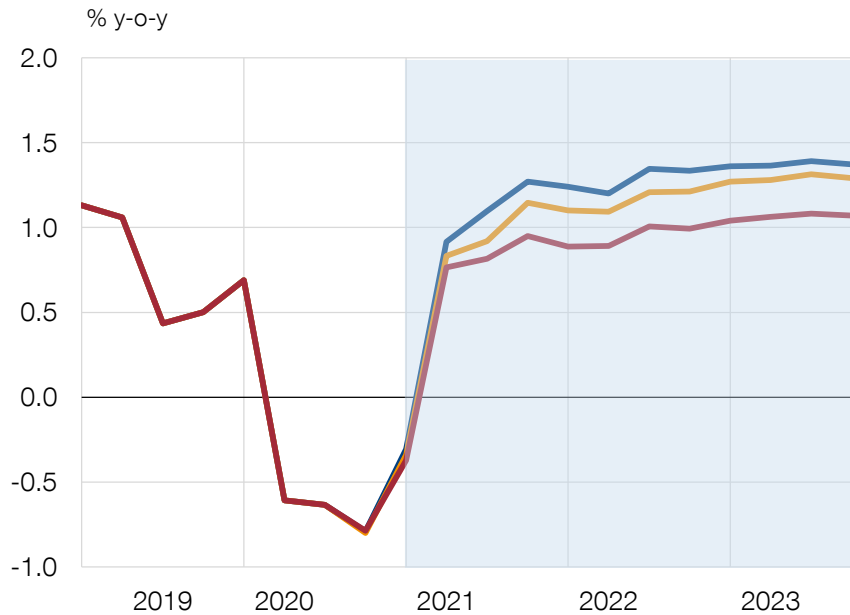
HICP EXCLUDING ENERGY AND FOOD
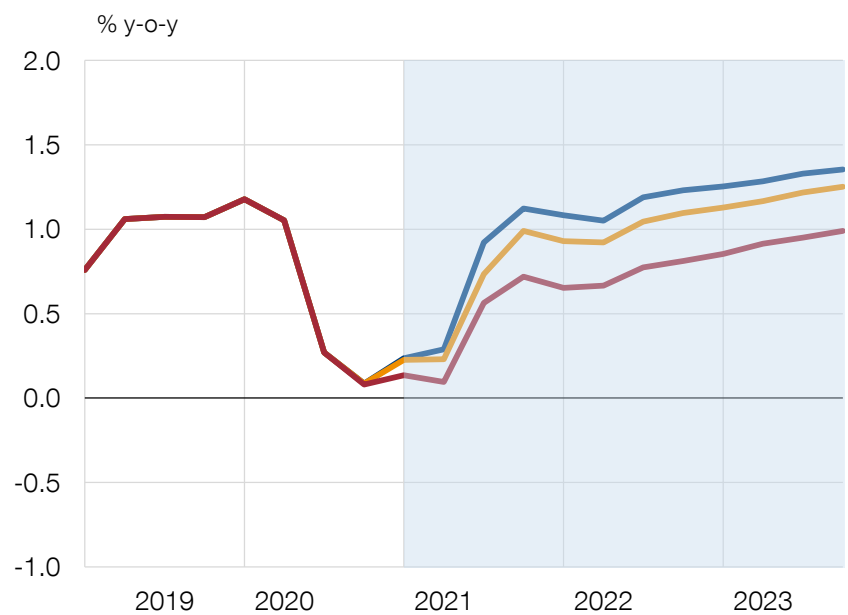
MILD SCENARIO · BASELINE SCENARIO · SEVERE SCENARIO

SOURCES: Banco de España and INE.

CONTENTS

1. **Overview**

2. **Developments in economic activity in the short term**

3. **Scenarios for the Spanish economy in the period 2020-2023**
    - **Narrative**
    - **Calibration in the short term**
    - **Macroeconomic projections**

4. **Risks surrounding the projections**

RISKS SURROUNDING THE PROJECTIONS

Economic activity

- As regards the evolution of the pandemic:

    - Potential fresh outbreaks of the pandemic, which would entail containment measures, with a greater impact on "social industries".

    - The roll-out of a medical solution will shape the path of recovery in the medium term.

- Uncertainty regarding the impact of NGEU (see Box 2, Projections Report).

- Scale and speed of agents' process of adapting to the new environment.

- Possible adverse developments in the financial conditions of the private sector.

- Persistence of the effects of the crisis on productive capacity (structural changes, potential growth, business vulnerability).

- External geopolitical factors:

    - Outcome of the Brexit negotiations.

    - Fiscal and foreign policy (multilateralism and trade) of the new US administration.

Prices

- Materialisation of downside risks to activity.
- Persistence of declines in inflation expectations.

THANK YOU FOR YOUR ATTENTION

APPENDIX

Annual rate of change unless otherwise indicated		2019	December 2020 projections (a)			
			2020	2021	2022	2023
International environment						
World GDP		2.7				
	Mild scenario		-3.2	8.3	4.2	3.3
	Baseline scenario		-3.5	5.6	3.9	3.4
	Severe scenario		-3.7	2.4	2.9	4.0
Spain's export markets (b)		1.4				
	Mild scenario		-11.2	12.3	5.4	3.3
	Baseline scenario		-11.5	6.9	5.3	3.5
	Severe scenario		-12.0	0.2	4.1	5.2
Oil price in US dollar/barrel (level)		64.0	41.6	44.0	45.7	46.9
Monetary and financial conditions						
US dollar/euro exchange rate (level)		1.12	1.14	1.18	1.18	1.18
Nominal effective exchange rate against non-euro area (100 = 2000)		116.4	117.6	121.0	121.0	121.0
Short-term interest rates (3-month EURIBOR) (c)		-0.4	-0.4	-0.5	-0.5	-0.5
Long-term interest rate (10-year bond yield) (c)		0.7	0.4	0.2	0.3	0.5

SOURCES: Banco de España and ECB.

a. Cut-off date for the assumptions: 18 November 2020.
b. Obtained from Eurosystem staff macroeconomic projections.
c. The figures in the table are technical assumptions, prepared using the Eurosystem's methodology, and should not be interpreted as a Eurosystem prediction as to the course of these variables