

# MACROECONOMIC PROJECTIONS FOR SPAIN 2020-2022

**ÓSCAR ARCE**

Director General Economics, Statistics and Research

Madrid

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- 1. Overview**
- 2. Scenario description**
- 3. Developments in economic activity in the short term**
- 4. Scenarios for the Spanish economy in the period 2020-2022**
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# **VERY SEVERE CONTRACTION IN ECONOMIC ACTIVITY AS A CONSEQUENCE OF COVID-19**

- **Very sharp decline in activity in Q2 as a consequence of the impact of the health crisis and the containment measures.**
- **Gradual recovery in Q3, with a loss of strength towards the end of the quarter.**
- **Two scenarios are considered for activity developments:**
  - 1) Different assumptions regarding epidemiological developments
  - 2) Marked fall in GDP in 2020 and subsequent recovery, with a high level of uncertainty
  - 3) The return of activity to its normal level will be incomplete; at the end of 2022, activity will be below its pre-pandemic level.
- **The risks are on the downside in the coming quarters, linked to epidemiological developments and the availability of an effective treatment and, also, to other risks stemming from the external environment.**
- **Overall inflation has an upward profile until the beginning of 2021, and subsequently stabilises, strongly influenced by the behaviour of energy, while core inflation rises very moderately over the whole of the horizon.**



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- The availability of an effective medical solution from the second half of 2021 would allow any containment measures in place at that time, the impact of which would be particularly notable in the “social industries”, to be lifted.
- Despite the projected recovery, at the end of 2022, under both scenarios, the level of GDP would be lower than before the pandemic.
- In both scenarios, the degree of uncertainty surrounding the development of the pandemic and its impact on business and household incomes will continue to weigh on the spending decisions of these agents in the coming quarters.

### ➤ **SCENARIO 1:**

- Similar epidemiological assumptions to those of the gradual recovery scenario of June: emergence of fresh outbreaks, although only requiring containment measures of limited scope, both from a geographical standpoint and in terms of the sectors affected, and therefore causing relatively limited additional disruption to economic activity.
- The consequences of the containment measures are expected to directly affect sectors linked to accommodation and food service activities and leisure (and, on the demand side, tourism) and indirectly influence other productive sectors through spillover effects.

### ➤ **SCENARIO 2:**

- More intense outbreaks and the return of more stringent confinement measures, particularly affecting those services sectors where social interaction is a key element, and likewise directly affecting other productive sectors.
- The result is a sharper and longer-lasting contractionary impact on activity.
- The availability of an effective medical solution would lead to an improvement in activity, more markedly so under scenario 2, in keeping with the greater intensity of the outbreaks of the pandemic until that time.

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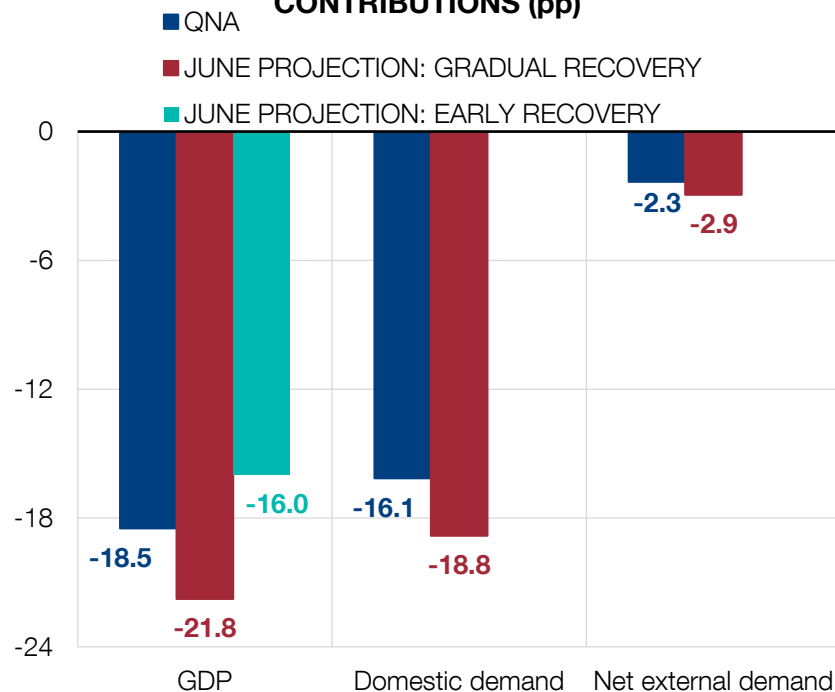
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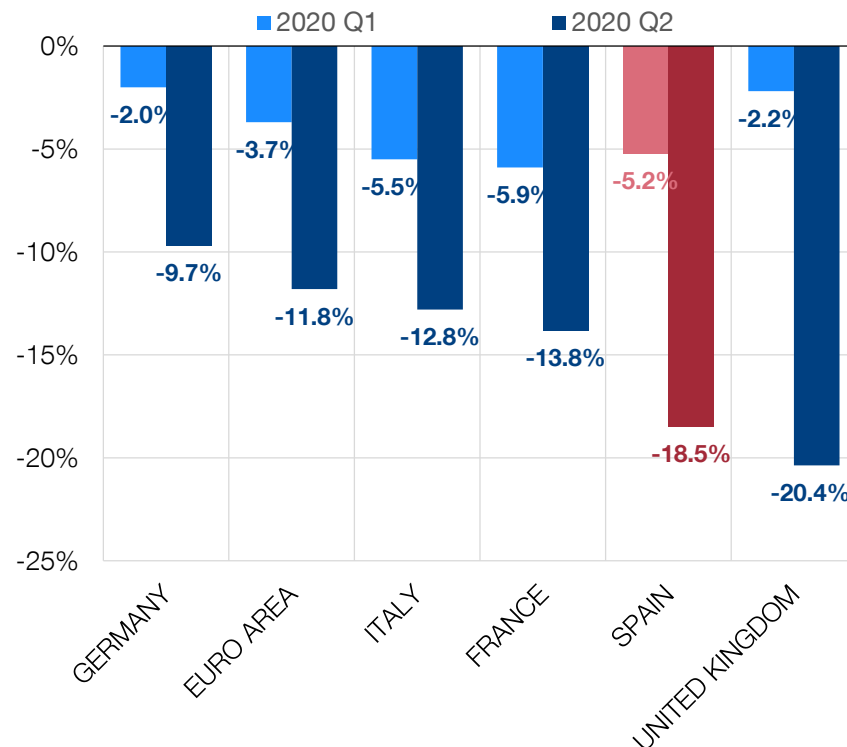
# MARKED DECLINE IN ACTIVITY IN Q2

- GDP fell 18.5% quarter-on-quarter in Q2, the sharpest decline in the available time series since 1970.
- This decline stands mid-range between “early recovery” and “gradual recovery”, the two scenarios published in June.
- The drop in activity was more marked than in the majority of European countries.

**QUARTER-ON-QUARTER GDP GROWTH (%) AND CONTRIBUTIONS (pp)**



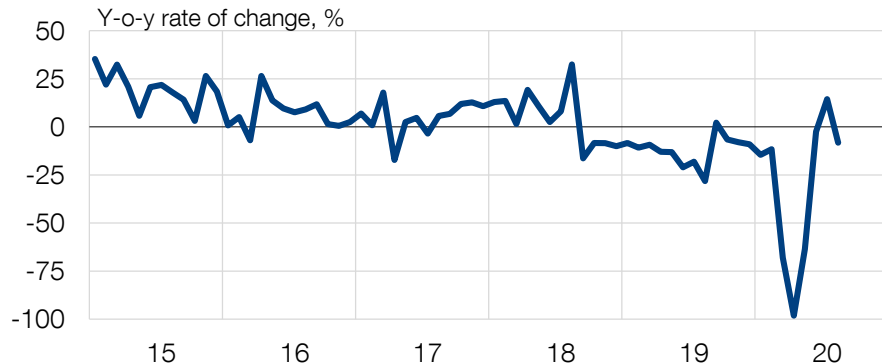
**GDP GROWTH. QUARTER-ON-QUARTER RATES**



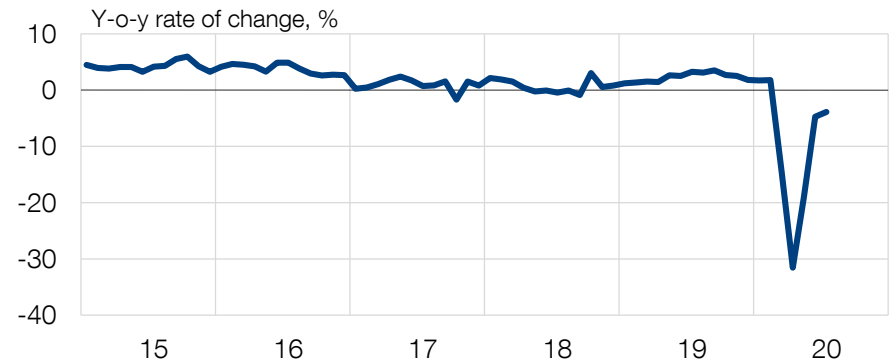
Sources: Banco de España (Q2 projection of the June Quarterly Report), INE (Quarterly National Accounts for Q1 and Q2), ECB and Office for National Statistics.

# THE CONJUNCTURAL INDICATORS APPEAR TO SHOW AN INTERRUPTION IN AUGUST TO THE GRADUAL RECOVERY PATH THAT BEGAN IN MAY

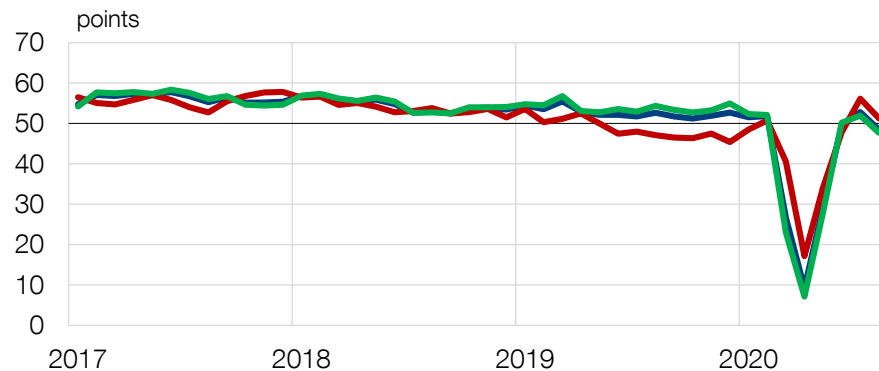
**PRIVATE VEHICLE REGISTRATIONS**



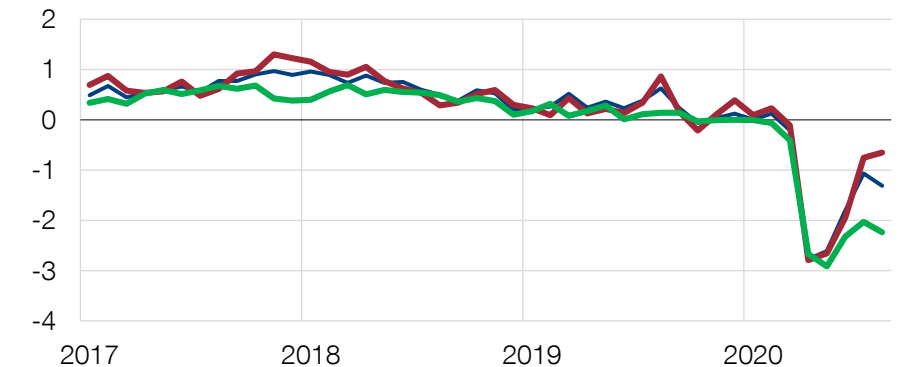
**RETAIL TRADE INDEX**



**PURCHASING MANAGERS' INDICES**



**CONFIDENCE INDICATORS (standardised)**



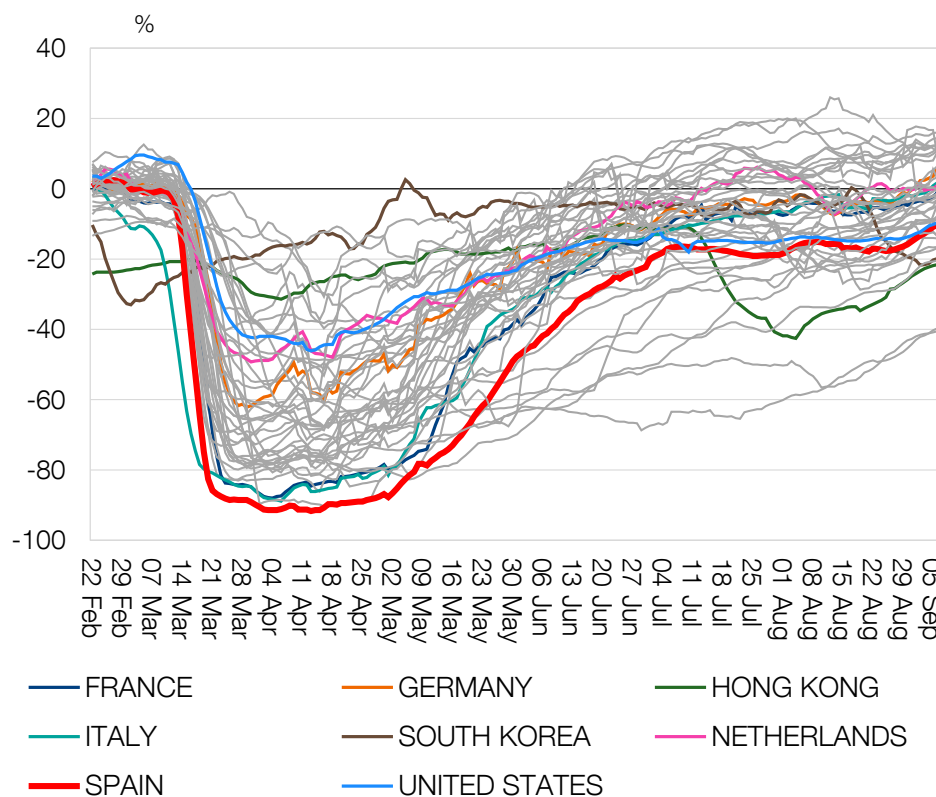
— COMPOSITE PMI — MANUFACTURING PMI — SERVICES PMI

— ECONOMIC SENTIMENT INDICATOR — INDUSTRY — SERVICES

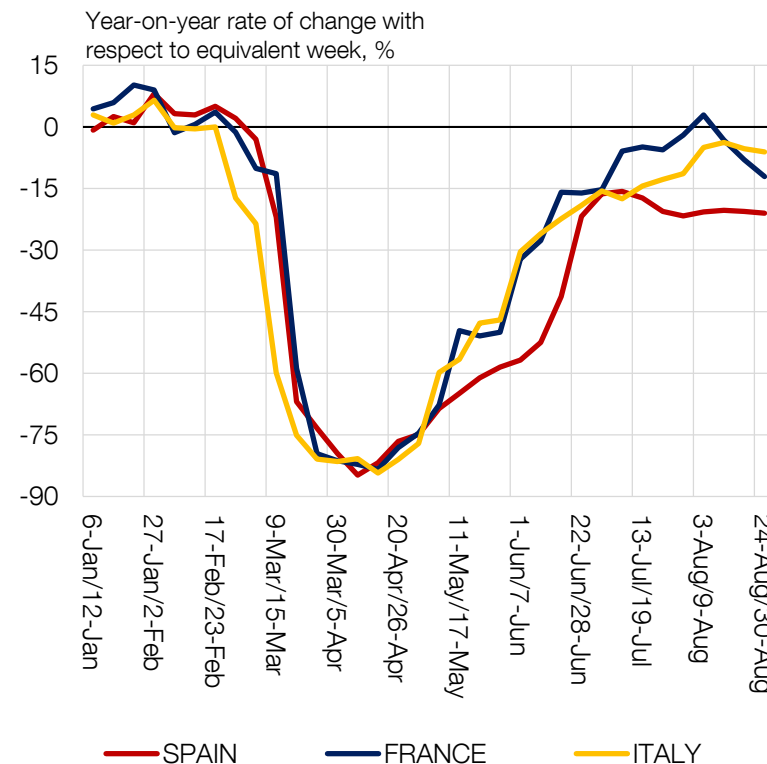
Sources: ANFAC, INE, IHS Markit and European Commission. Latest observation: August (registrations, purchasing managers' and confidence indices) and July (retail trade index).

- The recovery path followed by high-frequency indicators slowed during the summer months, broadly remaining below pre-crisis levels.

**LOCAL MOBILITY INDICATORS (a). RETAIL AND RECREATION OUTLETS, PUBLIC TRANSPORT STATIONS AND WORKPLACES (7-day moving average)**



**MOTORWAY TRAFFIC**

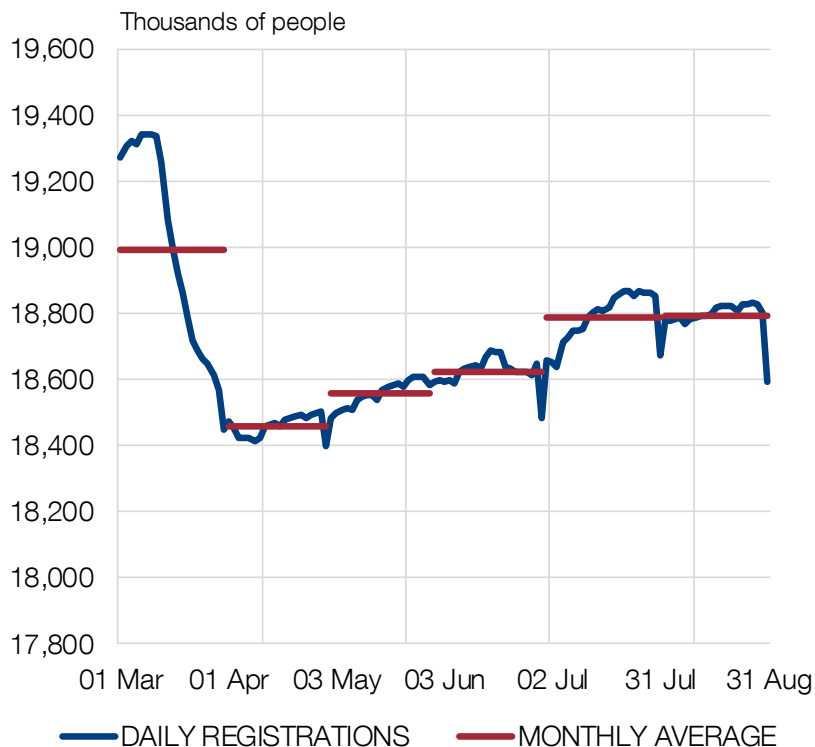


Sources: Sources: Google and Atlantia Group. Latest data: 6 September (mobility) and 30 August (motorway traffic).  
a. Each grey line represents a different country).

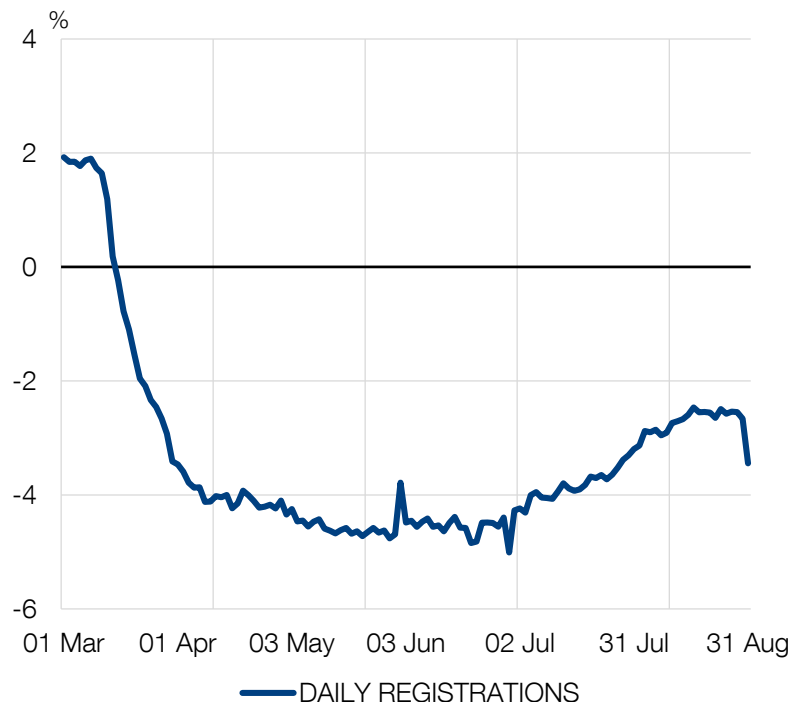
# GRADUAL AND INCOMPLETE RECOVERY IN SOCIAL SECURITY REGISTRATIONS

- Social Security registrations have recovered in recent months, with the August average standing 2.8% below the level recorded a year previously (-4.8% in May).
- In year-on-year terms, the increase was more marked in July and the first half of August, with indications of the recovery losing momentum since then.

**DAILY SOCIAL SECURITY REGISTRATIONS FROM BEGINNING OF MARCH**



**YEAR-ON-YEAR RATE OF CHANGE IN DAILY SOCIAL SECURITY REGISTRATIONS**

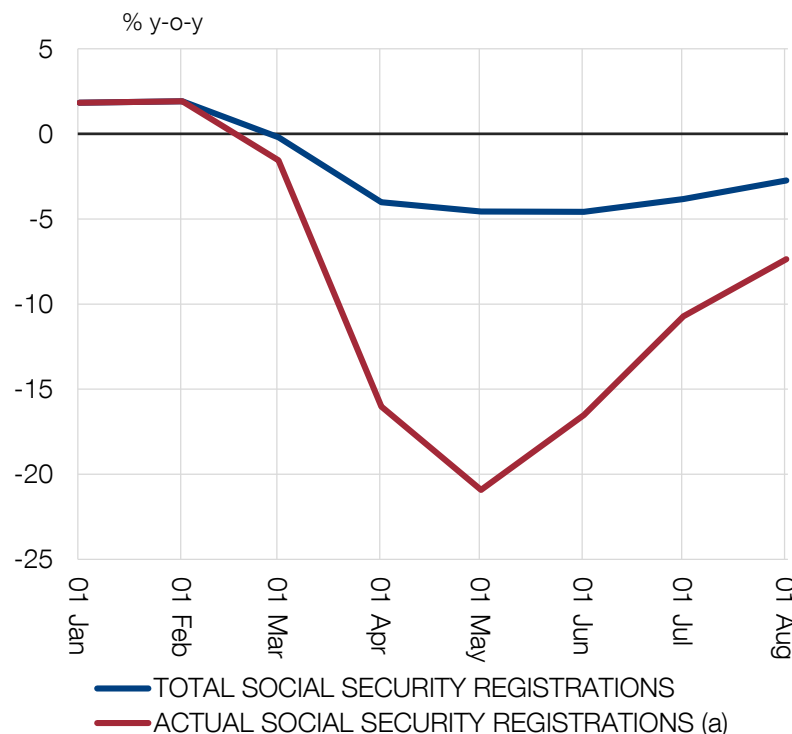


Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest data: 31 August.

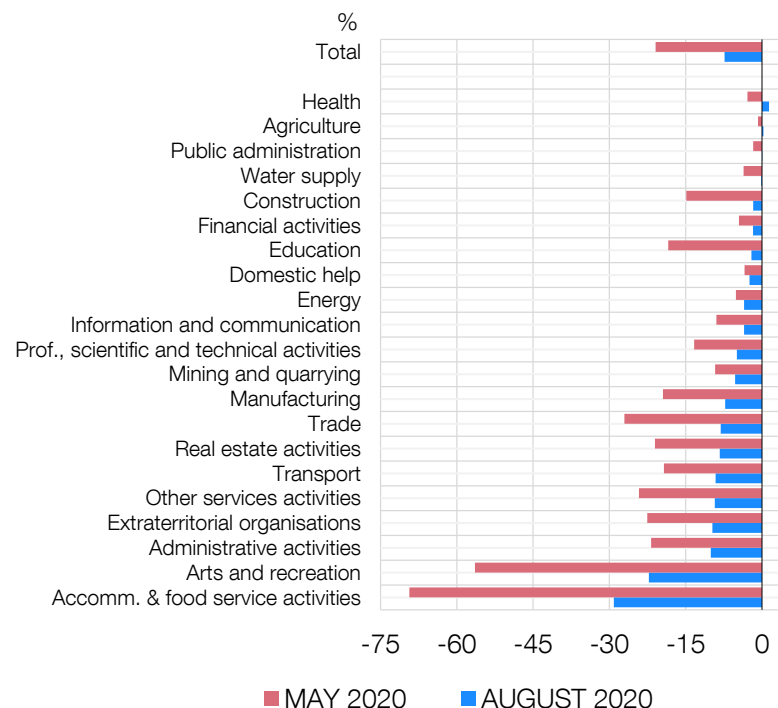
# THE NUMBER OF WORKERS ON FURLOUGH HAS DECLINED SHARPLY, ALLOWING A NOTABLE RECOVERY IN ACTUAL SOC. SEC. REGISTRATIONS

- The number of workers on furlough has fallen by more than 70% from the highs recorded in April, reaching just over 800,000 at the end of August. This reduction has allowed actual registrations to recover to a year-on-year decline of -7.4% from the lows of -20.9% in May.
- The recovery is quite uneven by sector of activity: some services sectors, such as accommodation and food service activities (-29%), remain well below the employment levels of a year ago.

**TOTAL AND ACTUAL SOCIAL SECURITY REGISTRATIONS. MONTHLY AVERAGE DATA**



**YEAR-ON-YEAR RATE OF CHANGE IN ACTUAL SOCIAL SECURITY REGISTRATIONS BY SECTOR OF ACTIVITY**



Source: Ministerio de Inclusión, Seguridad Social y Migraciones.

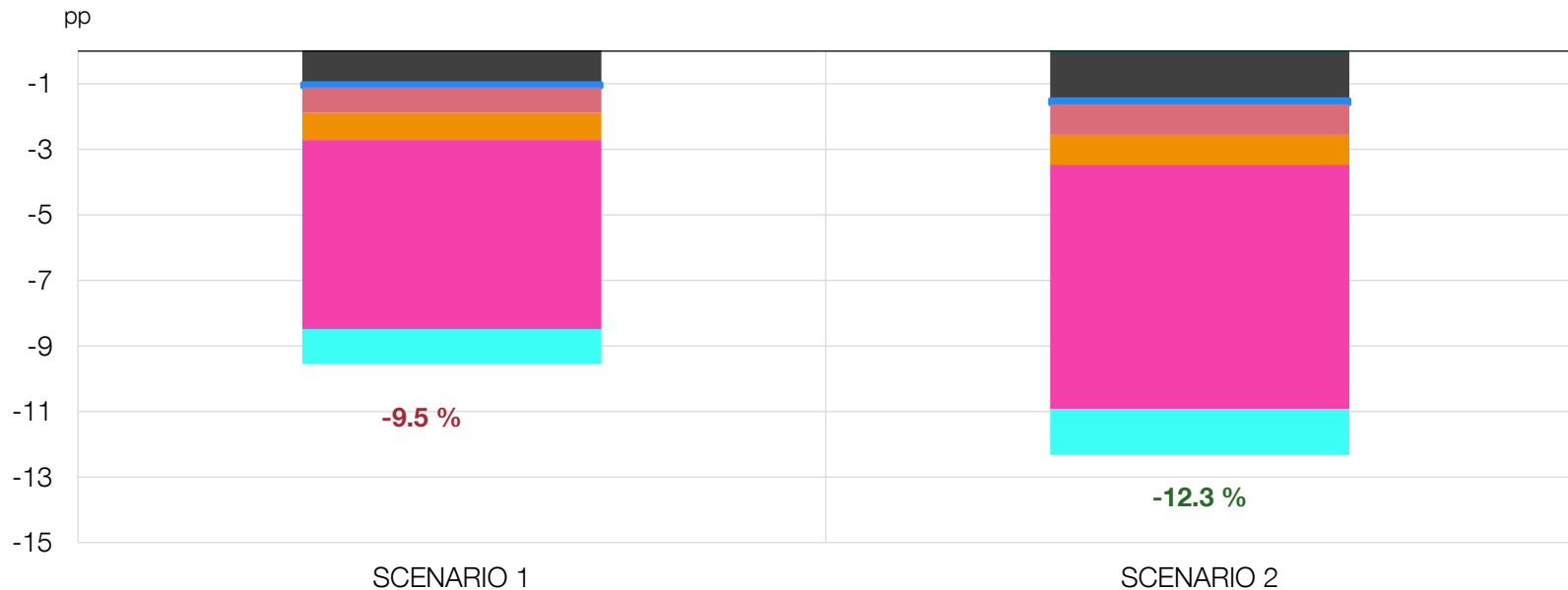
a) Actual Social Security registrations: total registrations less workers on furlough



# THE DOWNTURN IN THE TOURISM SECTOR PLACES CONSTRAINTS ON THE PERFORMANCE OF GDP IN Q3

- The calibration of the decline in GDP this quarter compared with 2019 Q3 takes into account above all the restrictions on activities related to tourism and recreation which have curtailed their recovery since August.
- Possible spillovers to the other sectors of activity are also taken into account (see Prades and Tello, 2020).

Y-O-Y FALL IN GDP IN Q3: CONTRIBUTIONS BY SECTORS (PP)



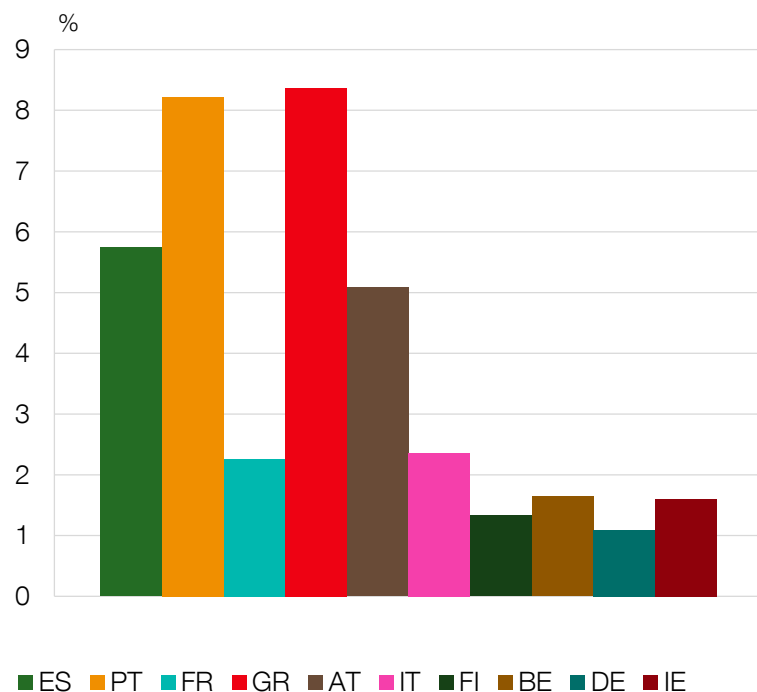
■ PRIMARY SECTOR  
■ CONSTRUCTION  
■ TRANSPORT  
■ OTHER SERVICES  
■ INDUSTRIAL SECTOR  
■ RETAIL AND WHOLESALE TRADE  
■ TOURISM  
■ PUBLIC ADMINISTRATION, EDUCATION AND HEALTH

Sources: Banco de España and INE.

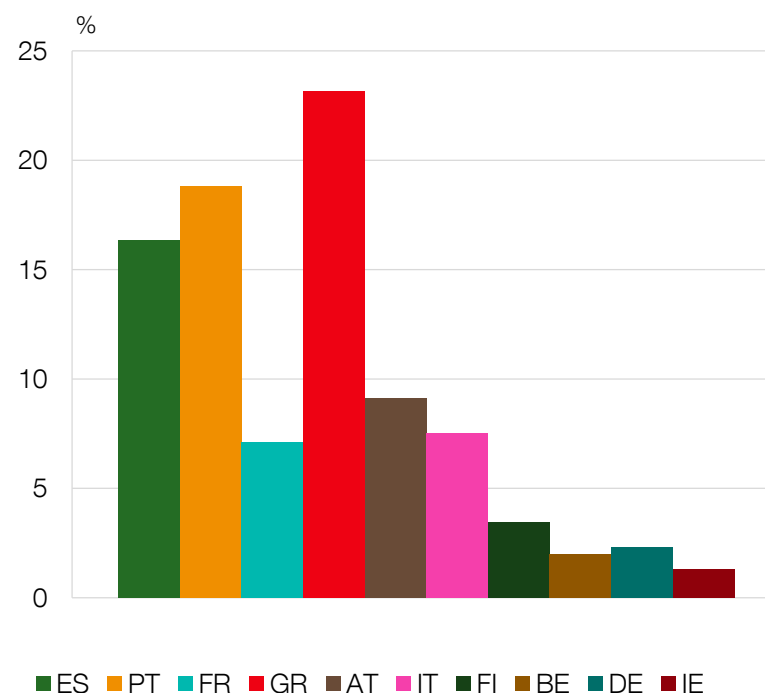
# SPAIN IS HIGHLY EXPOSED TO INBOUND TOURISM

- The Spanish economy is highly sensitive to inbound tourism. The relative weight of tourism exports is higher than in the main euro area economies.

WEIGHT OF TOURISM EXPORTS IN GDP (2018)



WEIGHT OF TOURISM IN EXPORTS (2018)

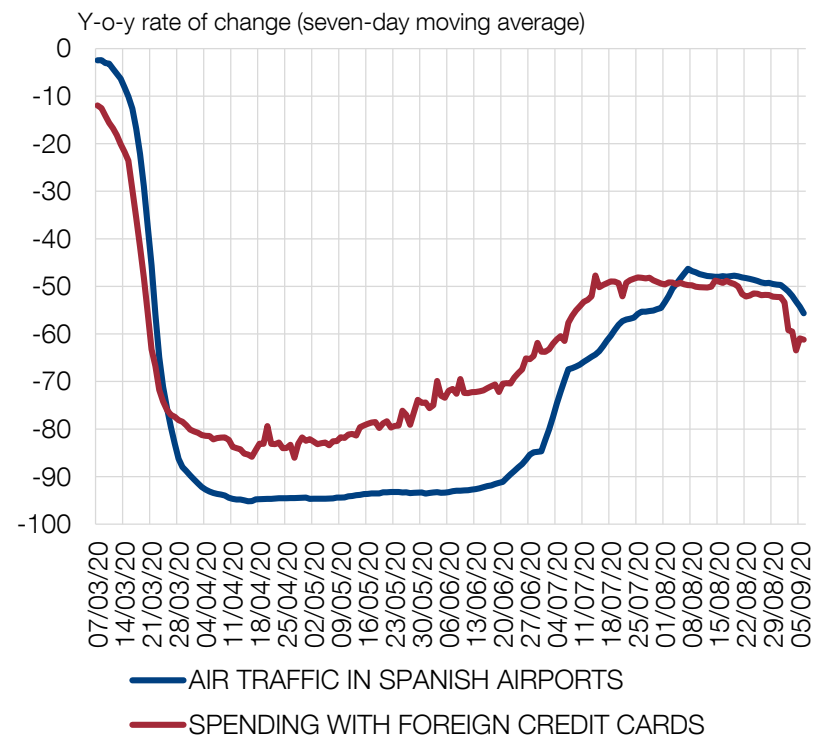


Sources: OECD and Eurostat.

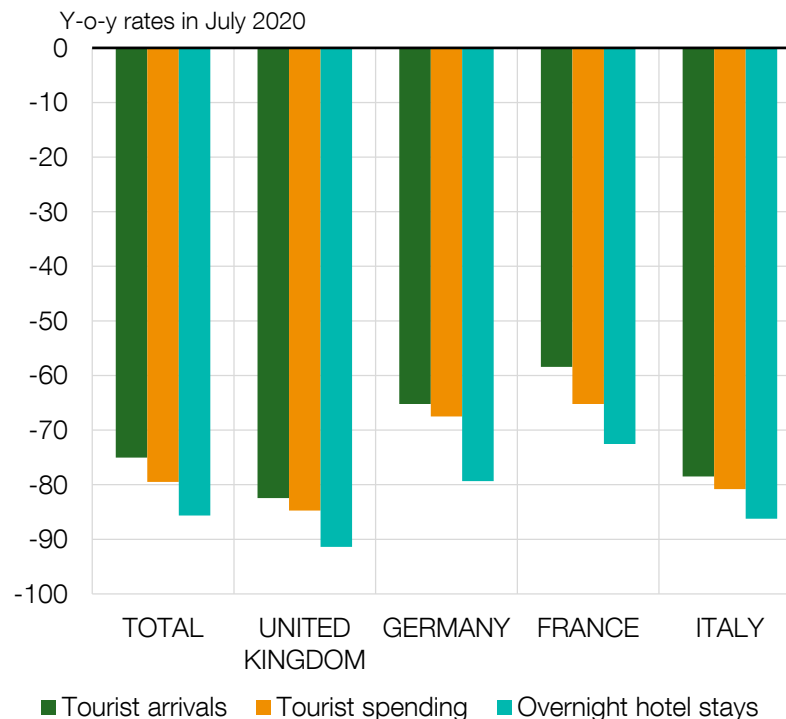
# FRESH OUTBREAKS OF THE PANDEMIC IN SPAIN HAVE DISRUPTED THE RECOVERY OF INBOUND TOURISM

- The worsening of the health crisis has led the main countries that provide tourists to impose new restrictions on travel to Spain.
- This has curtailed the incipient recovery of inbound tourism observed at end-June and in early July.

## RECENT DEVELOPMENTS IN SPENDING WITH FOREIGN CREDIT CARDS AND AIR TRAFFIC



## SPAIN: INBOUND TOURISM INDICATORS BY MAIN SOURCE MARKETS



Sources: Eurocontrol, INE and Banco de España

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# SLUMP IN ACTIVITY IN 2020 AND SUBSEQUENT RECOVERY

Annual rate of change (%), unless otherwise indicated

		SEPTEMBER 2020 PROJECTIONS						JUNE 2020 PROJECTIONS		
		SCENARIO 1			SCENARIO 2			GRADUAL RECOVERY		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>GDP</b>	2.0	-10.5	7.3	1.9	-12.6	4.1	3.3	-11.6	9.1	2.1
<b>Harmonised index of consumer prices (HICP)</b>	0.8	-0.2	1.0	1.2	-0.3	0.8	1.1	-0.2	1.2	1.5
<b>Harmonised index of consumer prices excluding energy and food</b>	1.1	0.7	0.8	1.0	0.6	0.5	0.8	0.8	1.0	1.1
<b>Unemployment rate (% of labour force). Annual average</b>	14.1	17.1	19.4	18.2	18.6	22.1	20.2	19.6	18.8	17.4
<b>General government net lending (+) /net borrowing (-) (% of GDP)</b>	-2.8	-10.8	-7.0	-5.8	-12.1	-9.9	-8.2	-11.2	-6.8	-6.1
<b>General government debt (% of GDP)</b>	95.5	116.8	115.4	118.0	120.6	125.6	128.7	119.3	115.9	118.7

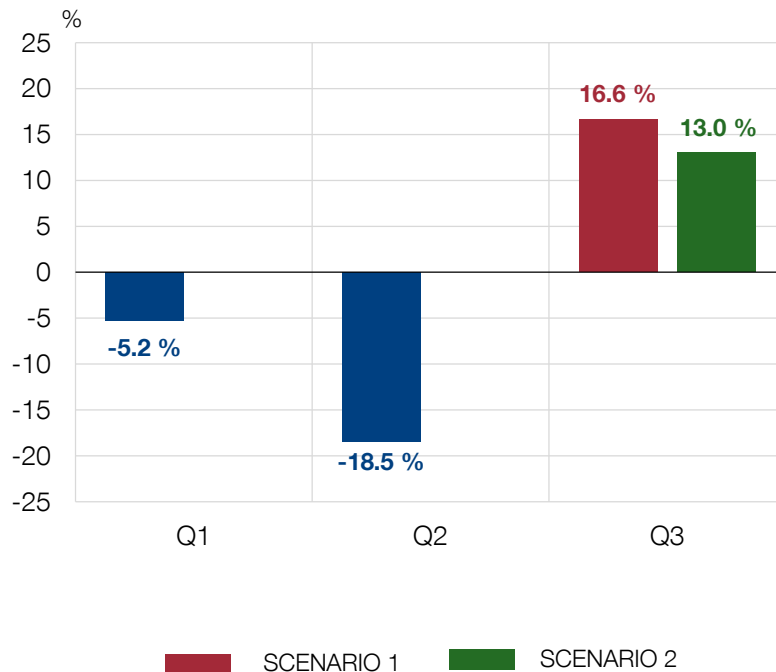
Sources: Banco de España and INE. Projections cut-off date: 10 September 2020.



# REAL GDP AT END-2022 WOULD BE BELOW THE DECEMBER 2019 LEVEL UNDER BOTH SCENARIOS

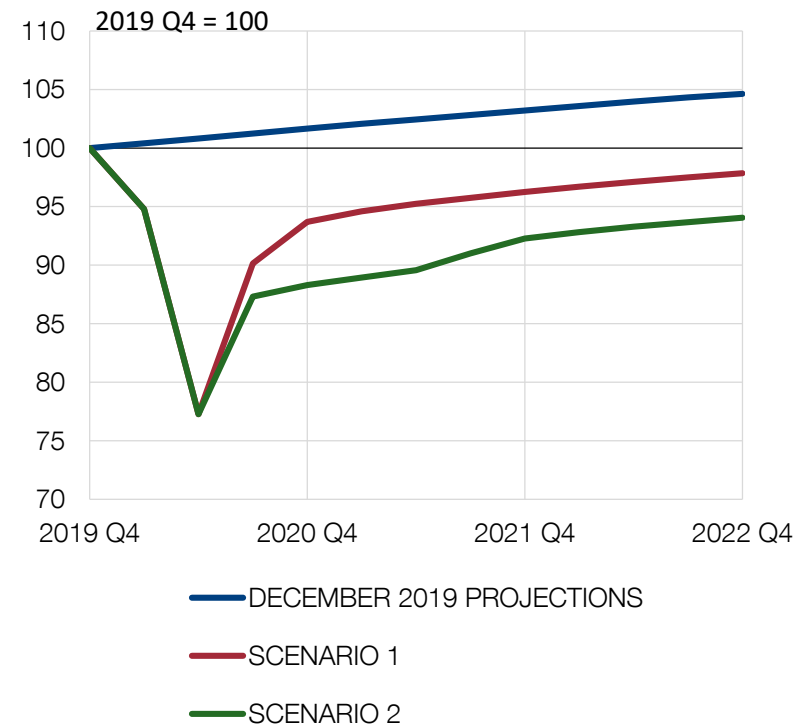
## ➤ Pick-up in activity in 2020 Q3.

**GDP IN 2020**  
(Q-o-q rate of change, %)



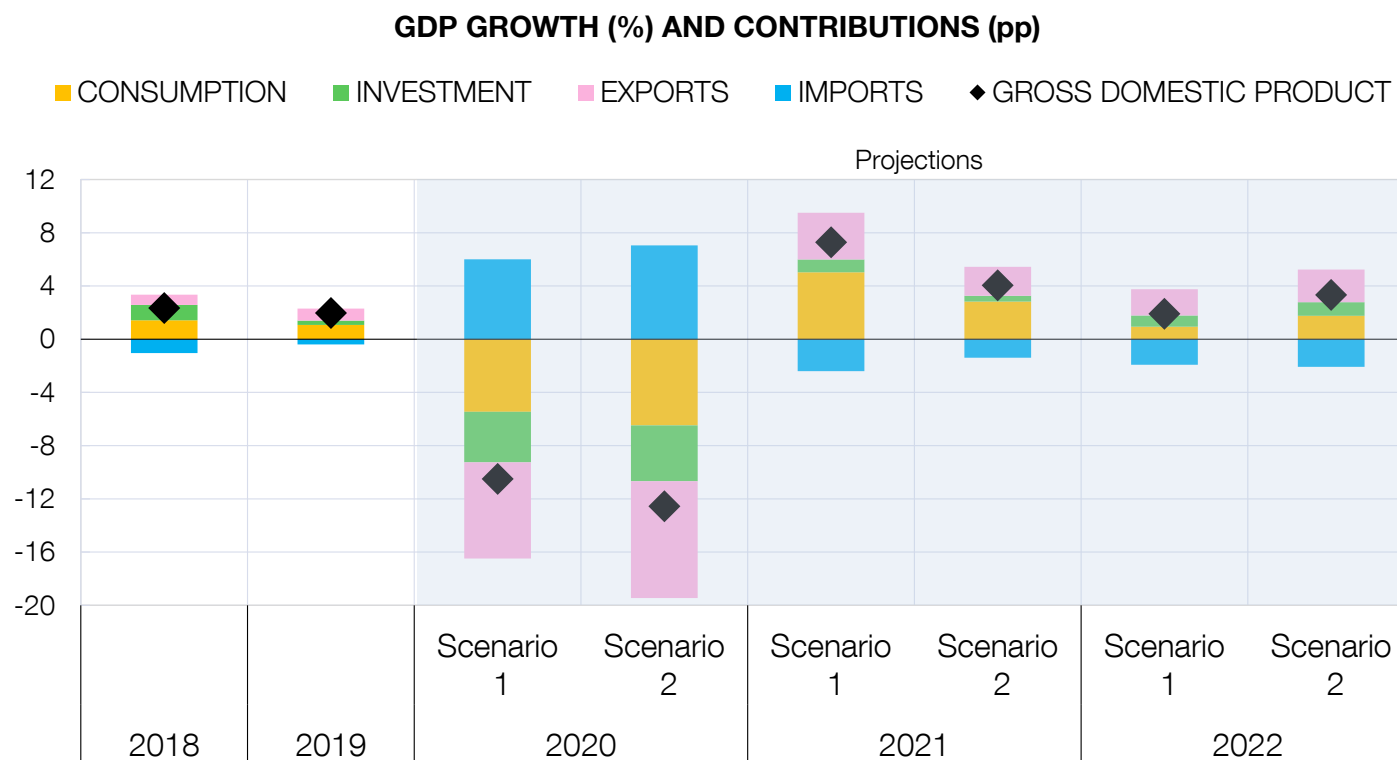
Sources: Banco de España and INE

**GROSS DOMESTIC PRODUCT**  
(Chained volume index)



# FINAL DEMAND WILL RECORD A STEEP DROP IN 2020

- ... and recover in 2021, underpinned mainly by growth of domestic demand.



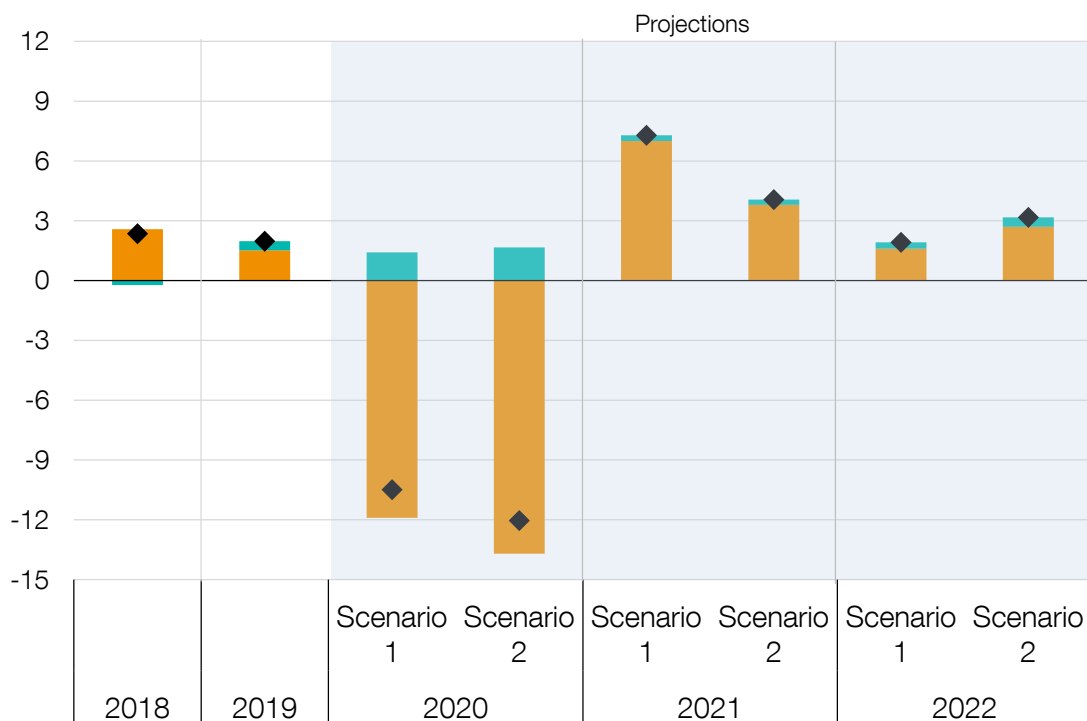
Sources: Banco de España and INE.

# EMPLOYMENT WILL FOLLOW A SIMILAR TREND TO THAT OF GDP

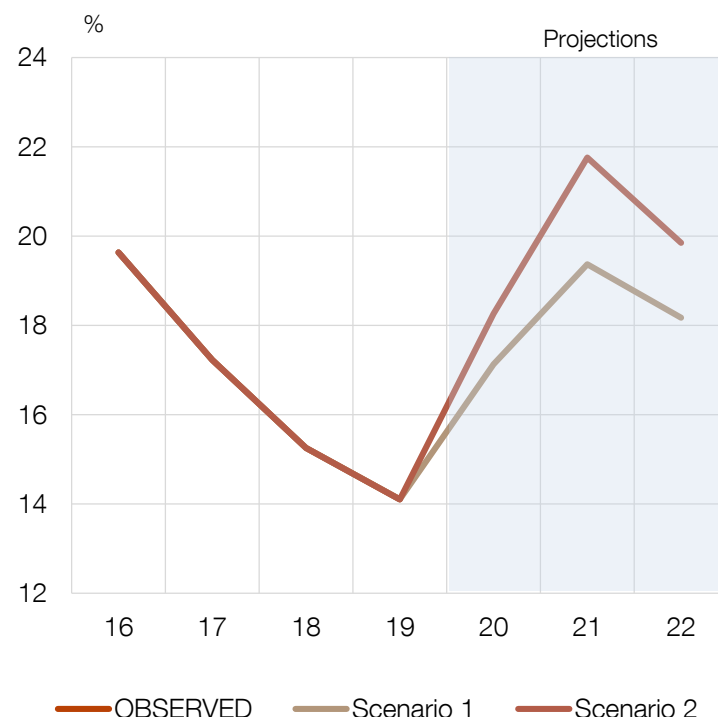
- Employment, in terms of hours worked, will follow a very similar trend to that of economic activity, declining by more than 10% in 2020 and recovering thereafter.
- The increase in unemployment will be contained by the use of furlough schemes and greater inactivity in 2020 Q2, although the unemployment rate is expected to rise to between 17% and 18% this year.

**GDP GROWTH (%) AND CONTRIBUTIONS (PP)**

■ HOURS WORKED ■ PRODUCTIVITY PER HOUR ◆ GROSS DOMESTIC PRODUCT



**UNEMPLOYMENT RATE  
(% of labour force)**



Sources: Banco de España and INE.

# PUBLIC FINANCES: CHANGES IN GENERAL GOVERNMENT DEBT AND DEFICIT

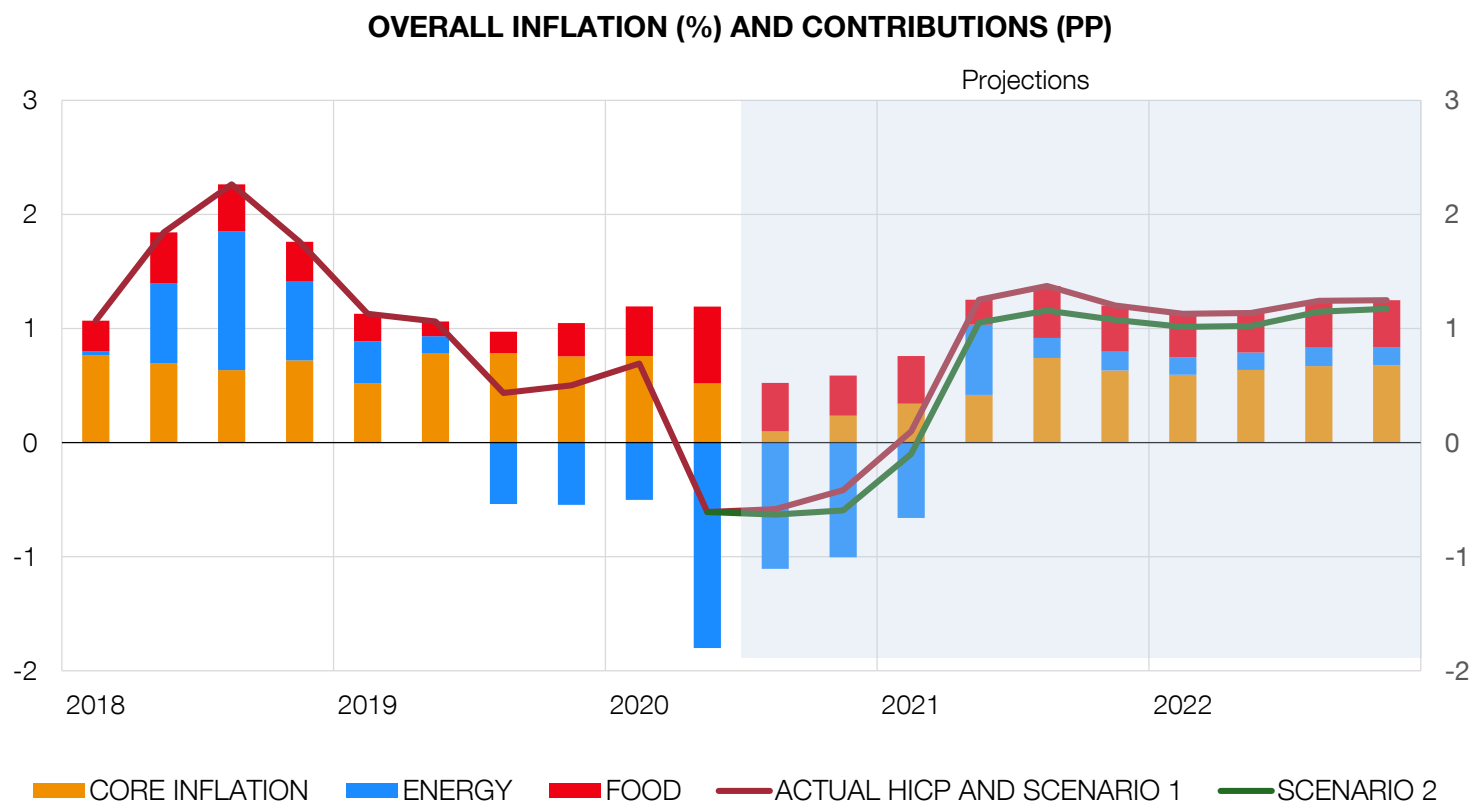
- **New spending measures are included** (extension of furlough schemes until September, minimum living income, fund for regional governments), **which worsen the deficit in 2020-2022. The Next Generation EU programme is not included** given the uncertainty over its amount, structure and timing for Spain.
- **The deficit is expected to stand between -10.8% and -12.1% of GDP in 2020, subsequently decreasing in the following years.**
- **Debt rises significantly in 2020 and, to a lesser extent, in 2021-2022.**

		Scenario 1			Scenario 2		
As a % of GDP	2019	2020	2021	2022	2020	2021	2022
General government balance	-2.8	-10.8	-7.0	-5.8	-12.1	-9.9	-8.2
General government debt	95.5	116.8	115.4	118.0	120.6	125.6	128.7

Source: Banco de España.

# INFLATION WILL RISE AND THEN LEVEL OFF, HIGHLY INFLUENCED BY CHANGES IN ENERGY

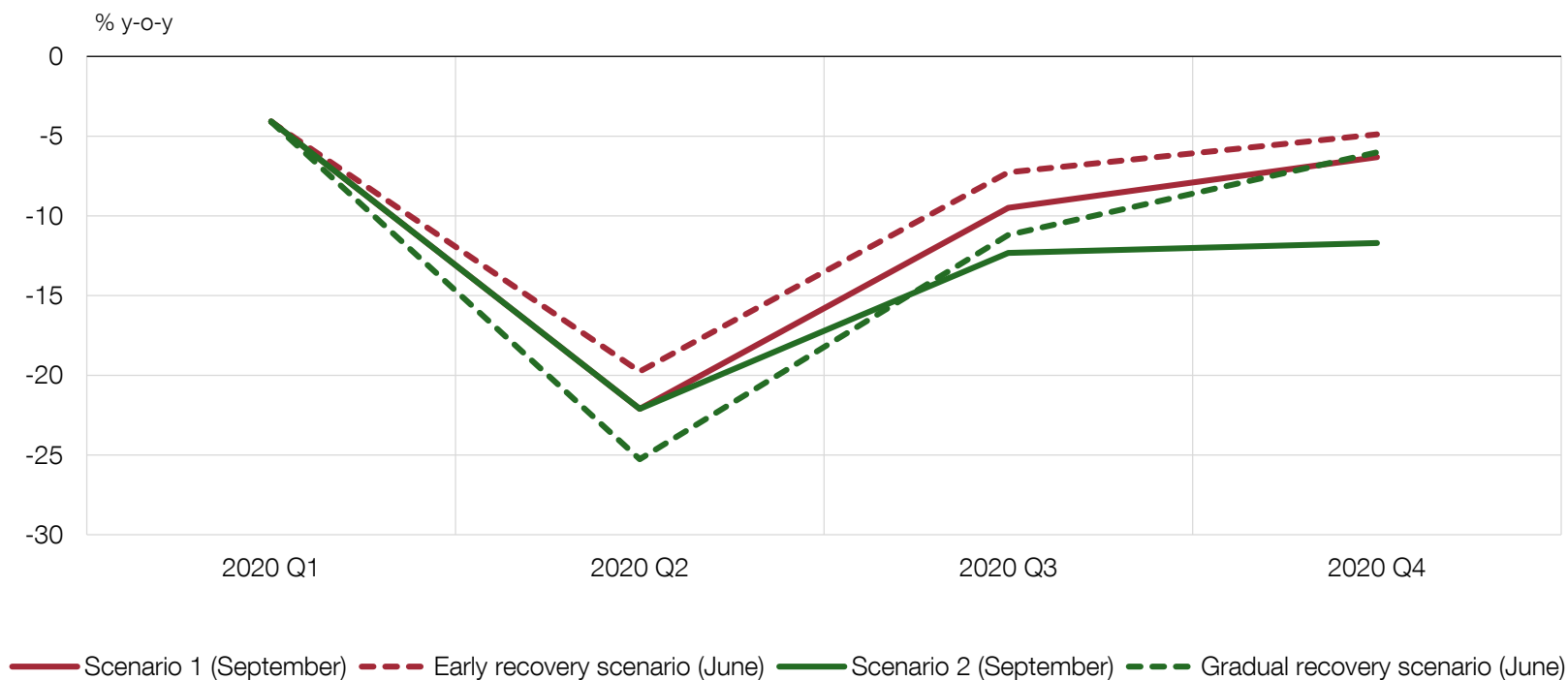
- **The overall inflation rate is expected to be negative in H2, gradually increasing and levelling off around 1.1%-1.2% until end-2022:**
  - progressively larger contribution from energy prices.
  - gradual increase in core inflation.



Sources: Banco de España and INE.



## REAL GDP. COMPARISON OF THE CURRENT SCENARIOS FOR 2020 WITH THE JUNE SCENARIOS



Sources: Banco de España and INE.

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## Activity

**(-)** As regards the course of the pandemic:

- Possibility of more intense outbreaks over the coming quarters, entailing stringent lockdown measures, with a larger impact on “social industries”.
- Possible delay in the discovery and/or distribution of an effective solution, which will have a bearing on the path of recovery in the medium term.

**(-)** More protracted effects on productive capacity (higher levels of business insolvency and hysteresis effects in the labour market).

**(-)** Possible lack of agreement in Brexit negotiations; China-US geopolitical/trade tensions.

**(+)** The launch of the EC’s recovery plan (“Next Generation EU”) approved on 27 July, above all in the second half of the projection horizon.

## Prices

**(-)** Materialisation of downside risks to activity.

**(-)** Deanchoring of inflation expectations

**(+)** Cost increases associated with the possible introduction of hygiene and sanitary measures in some productive processes.

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- In July the European Council resolved to create the Next Generation EU (NGEU) fund to address the impact of the COVID-19 crisis and speed up the digital and ecological transition.
- Government estimates indicate that Spain would be eligible for funds of €140 bn (12.6% of GDP), 47% in direct grants and the remainder in loans.
- These funds are not included in the projections, as there is still great uncertainty as to the amount and composition of the funds and the time frame.
- Instead, their potential macroeconomic impact has been calculated in accordance with different assumptions on the specifics of the programme for Spain:
  - the time frame for the projects (early or late implementation);
  - the grants / loans split; and
  - the type of projects to be funded (investment or other expenditure).
- The uncertainty in the empirical evidence on the scale of the fiscal multiplier has also been considered using a range of values (investment 0.8-1.3, other expenditure 0.4-0.7).



# MACRO IMPACT OF NEXT GENERATION EU PROGRAMME (II)

- **Four simulation exercises have been performed using the MTBE model for a cumulative standardised stimulus of €10 bn (0.9% of GDP):**
  - A combination of assumptions most conducive to economic growth – exercise 1 – boosts GDP by 0.2-0.3 pp on average in 2021-23.
  - Late implementation – exercise 2 – would delay the maximum impulse and the expansionary effect on 2021-23 would be more moderate.
  - If the funds are received via loans – exercise 3 – the additional cost would drive up the deficit and debt and thus limit the increase in GDP.
  - Lastly, if the funds were applied to other expenditure – exercise 4 – which according to the empirical evidence generates a smaller multiplier effect, the impact on GDP would be lower.
- In short, the impact of the NGEU programme on recovery will depend on the correct choice and implementation of the projects to be funded and on their capacity to strengthen long-term growth.

Percentage differences in level	GDP		Public debt (% of GDP)	
	2021	2022	2021	2022
Exercise 1: “early implementation” + “grants” + “public investment”	0.19 – 0.3	0.21 – 0.35	-0.22 – -0.35	-0.35 – -0.57
Exercise 2: “late implementation” + “grants” + “public investment”	0.02 – 0.04	0.08 – 0.13	-0.03 – -0.05	-0.1 – -0.18
Exercise 3: “early implementation” + “loans” + “public investment”	0.14 – 0.27	0.15 – 0.29	-0.1 – -0.2	-0.09 – -0.18
Exercise 4: “early implementation” + “grants” + “current expenditure”	0.06 – 0.09	0.12 – 0.19	-0.07 – -0.11	-0.18 – -0.29

THANK YOU FOR YOUR ATTENTION



# APPENDIX

## PROJECTION ASSUMPTIONS

Annual rates of change, unless otherwise indicated		September 2020 projections		
		2020	2021	2022
International environment				
Global output	2.8	-4.2	6.1	3.7
Spain's export markets	1.5	-13.1	7.3	4.3
Oil price (\$ per barrel) (level)	64.0	42.1	45.9	48.5
Monetary and financial conditions				
Dollar/euro exchange rate (level)	1.12	1.14	1.19	1.19
Nominal effective exchange rate vis-à-vis non-euro area countries (2000 level = 100)	116.4	117.7	121.4	121.4
Short-term interest rates (3-month euribor)	-0.4	-0.4	-0.5	-0.5
Long-term interest rate (10-year bond yield)	0.7	0.4	0.4	0.6

SOURCES: Banco de España and ECB. Cut-off date for the assumptions: 10 September 2020.

# PROJECTIONS 2020-2022

Annual rate of change in volume terms and as % of GDP	2019	September 2020 projections (a)					
		Scenario 1			Scenario 2		
		2020	2021	2022	2020	2021	2022
<b>GDP</b>	2.0	-10.5	7.3	1.9	-12.6	4.1	3.3
<b>Private consumption</b>	1.1	-11.2	9.4	1.7	-13.1	5.5	3.2
<b>Government consumption</b>	2.3	5.4	-1.3	-0.1	5.6	-1.2	-0.5
<b>Gross fixed capital formation</b>	1.8	-19.5	6.0	5.3	-21.9	2.4	6.5
<b>Exports of goods and services</b>	2.6	-20.7	11.5	6.2	-25.2	7.4	8.0
<b>Imports of goods and services</b>	1.2	-18.7	8.4	6.6	-22.0	4.9	7.3
<b>Domestic demand (contribution to growth)</b>	1.5	-9.3	6.2	1.8	-10.9	3.3	2.9
<b>Net external demand (contribution to growth)</b>	0.5	-1.2	1.1	0.1	-1.7	0.8	0.4
<b>Harmonised index of consumer prices (HICP)</b>	0.8	-0.2	1.0	1.2	-0.3	0.8	1.1
<b>HICP excluding energy and food</b>	1.1	0.7	0.8	1.0	0.6	0.5	0.8
<b>Employment (hours worked)</b>	1.5	-11.9	7.0	1.6	-14.1	3.8	2.7
<b>Unemployment rate (% of labour force) (b)</b>	14.1	17.1	19.4	18.2	18.6	22.1	20.2
<b>National net lending (+)/net borrowing (-) (% of GDP)</b>	2.3	1.7	2.1	2.1	1.1	1.3	1.5
<b>General government net lending (+)/net borrowing (-) (% of GDP)</b>	-2.8	-10.8	-7.0	-5.8	-12.1	-9.9	-8.2
<b>General government debt (% of GDP)</b>	95.5	116.8	115.4	118.0	120.6	125.6	128.7

SOURCES: Banco de España and the INE. Latest published QNA data: 2020 Q2.

a. Projections cut-off date: 10 September 2020.

b. Annual average.