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Briefing note

Macroeconomic projections for the Spanish economy (2020-2022)

This note describes the key features of the macroeconomic projections for the Spanish economy for the period 2020-2022, which the Banco de España has published today on its website (available at this [link](#)).

Usually, the Eurosystem's projections define a baseline scenario, accompanied by an assessment of the risks surrounding it. Given the notable uncertainty over the economic outlook to which the COVID-19 pandemic has given rise, the **Eurosystem has decided to alter this practice and has opted, instead, for the formulation of several alternative scenarios**, in line with the approach adopted in the wake of the crisis by other institutions.¹

In particular, the note includes a **so-called “early recovery” scenario and another “gradual recovery” scenario** (and a further risk scenario). The first scenario assumes that the improvement in activity observed since the final stretch of Q2 will subsequently continue without sizeable new obstacles (health care, economic or financial-related) emerging. Under the gradual recovery scenario, it is assumed the measures adopted to contain the pandemic in Q2 will exert a somewhat greater influence on activity; moreover, neither the potential emergence of fresh outbreaks (which, though less virulent than in the original bout, might lead to the reintroduction of some containment measures) nor more persistent harm to the productive system can be ruled out. Under both scenarios, uncertainty over how the disease unfolds, which will foreseeably remain in place into 2021, will check household and business expenditure.

In light of these considerations, **Spanish GDP under the early recovery scenario is expected to decline by 9% this year, and to rebound by 7.7% and 2.4%, respectively, in 2021 and 2022**. Under the **gradual recovery** scenario, the economic recovery would be slower, whereby **output would decline by 11.6% in 2020, before growing by 9.1% and 2.1% in each of the following two years**. At the end of the projection period, GDP would be around 0.5 pp above its pre-crisis level under the early recovery scenario, while it would be still lower, by 1.6 pp, under the gradual recovery scenario. It is estimated the unemployment rate will post a very significant increase this year (to 18.1% of the labour

¹ This was also the approach followed by the Banco de España in the formulation of the [Reference macroeconomic scenarios for the Spanish economy after Covid-19](#).

force, under the early recovery scenario, and to 19.6% under the gradual recovery scenario), declining somewhat subsequently.

All the **demand components**, with the exception of government consumption and public investment, will **contract substantially** in 2020, and rebound strongly subsequently. The **general government deficit will rise to 9.5% this year under the early recovery scenario and to 11.2% under the gradual recovery scenario**. And while there will be some correction in the following two years, it will remain at high levels. As a result, public debt will increase by approximately 20 and 25 pp of GDP in 2020, to around 115% and 120%, respectively, under each of these two scenarios, and will remain at very high levels in the following two years.

As regards **prices**, the HICP, excluding food and energy, will continue posting very modest rates of change. The downward pressures on prices resulting from the fragility of demand will be only partly offset by the increases in the costs of providing certain services arising from the social distancing measures in place. The rate of change of the **core HICP** will be **0.9% and 0.8%, respectively, in 2020 on average under the early and gradual recovery scenarios, and it will rebound to 1.3% in 2021 to 1.1% in 2022**. The overall HICP will continue to show negative rates of increase until early 2021, when the energy component is expected to rise strongly owing to the fact that the year-on-year rate of change will begin to be calculated against a lower level (because of the strong decline in oil prices in early 2020). In terms of annual average rates, the **overall HICP** is expected to increase **from -0.1% in 2020 to 1.6% in 2022, under the early recovery scenario, and from -0.2% to 1.5% under the gradual recovery scenario**.

The enormous uncertainty currently afoot means more unfavourable risk scenarios which could come about against a more-adverse-than-expected epidemiological background that would, in turn, entail more persistent contractionary effects on economic activity- cannot be ruled out. To illustrate the possible incidence of these risks, a “**very slow recovery**” scenario has been constructed. It includes implicitly the possibility of episodes with substantial rises in the number of new infections, requiring further strict lockdowns, and by financial channels that amplify the real shock and cause its effects to be notably more persistent. Under this risk scenario, the fall in GDP in 2020 would be -15.1%. The risks to the inflation path would also be predominantly tilted to the downside, and they would essentially stem from the potential greater weakness of demand under this scenario of more adverse epidemiological developments and a possible deanchoring of inflation expectations.