

11.12.2020

Briefing note

Macroeconomic projections for the Spanish economy (2020-2023)

This note describes the key features of the macroeconomic projections for the Spanish economy for the period 2020-2023, published today by the Banco de España on its website (available at this [link](#)). These projections are part of the projections prepared by the Eurosystem for the euro area as a whole.

Given the notable degree of uncertainty about the economic outlook, which is persisting as a result of the health crisis, the **Eurosystem has chosen to present, together with the baseline scenario, two other scenarios called mild and severe**. The three scenarios differ from one another based on the assumptions made about the unfolding of the pandemic, the severity and duration of the containment measures applied and the time frame required for the widespread introduction of an effective medical solution to the illness. They also differ in terms of the depth of the effects of the current crisis on agents' behaviour and in terms of the scale and persistence of the possible damage to the productive system caused by the pandemic. The three scenarios incorporate the implementation of spending projects under the Next Generation EU (NGEU) European programme over the three years of the projection horizon.

The **baseline scenario** incorporates the possibility that in the next few months new outbreaks of the disease will arise, of a similar intensity to the most recent outbreaks, which will require the application of analogous restrictions to those observed in recent months. The distribution of an effective medical solution during 2021 would permit a gradual reduction of the containment measures until their full phase-out at the beginning of 2022.

The **mild scenario** assumes that the pandemic will unfold slightly more favourably as from 2021 Q1 and vaccines will be distributed earlier. This may reduce the severity of any containment measures that may be needed over the next few quarters.

Finally, the **severe scenario** incorporates a higher rise in the disease in the short term, which would require stricter containment measures. These restrictions would not only cause greater harm to the services sectors which involve a high degree of social interaction, but they would also directly affect the other sectors. Additionally, it is assumed that the medical solutions against the disease are disseminated more slowly.

Under any of the three scenarios considered regarding the unfolding of the pandemic, **the sharp contraction of GDP in 2020 would be followed by a relatively strong recovery in**

the subsequent three years. In 2020 GDP would fall by 10.7%, 11.1% and 11.6% in the mild, baseline and severe scenarios, respectively. The intensity of the recovery in 2021 will differ notably according to the epidemiological scenario considered (6.8% in the baseline scenario, 8.6% in the mild scenario and 4.2% in the severe scenario). **The recovery in GDP to pre-COVID-19 levels, would be delayed until mid-2023 under the baseline scenario.** In the severe scenario, where the impact of the health crisis on the economy is more persistent, at the end of the projection horizon GDP would still be 2.8% below the level at end-2019. The **unemployment rate** would show a significant increase that year and, despite its downward path as from 2021 H1, at end-2023 it would still slightly exceed the figure of 14% under the baseline scenario, which is somewhat higher than pre-pandemic levels.

The **general government deficit will rise to 10.5% of GDP in 2020 under the baseline recovery scenario. These developments, together with the decline in GDP, will be reflected in a sharp increase in the public debt ratio, which will stand at close to 120% of GDP this year.** Over the projection horizon, the budget balance is expected to improve substantially, as a result both of the temporary nature of some of the discretionary measures adopted this year and of the cyclical improvement. Nevertheless, the government deficit will remain in 2023 at levels that are still very high from a historical standpoint (4.5% of GDP in the baseline scenario). The differences between the scenarios in terms of the general government deficit and GDP will be reflected in the path of the debt ratio which will tend to stabilise in the baseline scenario at around this year's level.

Turning to **prices**, the gradual recovery in demand for consumer goods and services, particularly in the sectors hardest hit by the pandemic containment measures would lead to gradual, albeit moderate, increases in the rate of change of the core component. Thus, **after averaging 0.5% in 2020 and 2021, the rate of change in the HICP excluding food and energy, would gradually climb to 1.1% in 2023 under the baseline scenario.** The overall HICP is estimated to begin to post positive rates as from spring 2021 in line with the anticipated quickening of the energy component. In terms of the average annual rate, the overall HICP would grow by 1.3% in 2023 under the baseline scenario.

The risks surrounding the growth path of GDP in the baseline scenario have eased recently, although they remain on the downside due to the possibility of more unfavourable epidemiological developments than those considered in that scenario. Furthermore, in the event of weaker activity, a strengthening of the feedback loop between the worsening of actual developments and of agents' financial position cannot be ruled out. In turn, **the risks to inflation are also on the downside.** That would be the result of a hypothetical materialisation of the downward risks to activity, of a weaker feed-through of the recovery in demand to prices and, finally, of agents potentially assigning a relatively higher weight to the recent period characterised by very low price growth when forming their expectations about future inflation.