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Briefing note

Macroeconomic projections for the Spanish economy (2021-2023)

This note describes the key features of the **macroeconomic projections for the Spanish economy** for the period 2021-2023, published today by the Banco de España on its website (available at this [link](#)). Compared with those published in March, the current projections include new information that has since become known and the changes in the technical assumptions underlying developments in the different variables.

The economic outlook remains subject to **high uncertainty**, although this appears to have lessened somewhat compared with prior months. Such uncertainty is still linked, in the short term, to **pandemic-related developments and the ongoing immunisation** of the population; and, in the medium term, to the **consequences of the crisis**. The current projections expect the headway made in immunising the population to allow for a gradual lifting of the containment measures over the coming quarters and their ultimate elimination by end-2021. Turning to the consequences of the crisis, it is expected to leave moderate scarring on the economy's productive capacity. As regards possible crisis-induced changes in agents' behaviour, the saving rate is projected to fall relatively quickly from its current high level; however, at the end of the projection horizon it will remain slightly higher than its pre-pandemic level. Inbound tourism flows will not approach full normality until 2022, once the health crisis is over.

GDP is expected to grow by 6.2% in annual average terms in 2021. After economic output fell in Q1, this high growth rate stems from the marked recovery already visible in the current quarter and which will quicken in the second half of the year. The momentum behind output is attributable to the progress in the vaccination campaign, lower uncertainty, the recovery in export markets and the ongoing impetus from economic policy, including the European NGEU programme and the ECB's expansionary monetary policy. Further, this notable growth in the second half of the year will give rise to a sizeable carry-over effect in 2022, resulting in **GDP also posting a high growth rate next year (5.8%) before easing in 2023 (1.8%)**. Spain is expected to return to its pre-pandemic GDP level towards the end of 2022.

Set against those published in March, the current projections revise GDP growth upwards in 2021 and 2022 (by 0.2 pp and 0.5 pp, respectively), reflecting the positive impact of the change in the assumptions underlying the projections and the greater momentum projected for output in this quarter.

As regards **prices**, core inflation will gradually rise, in step with the progressive recovery in demand for consumer goods and services (particularly in the sectors hardest hit by the lockdown measures). In any event, it will remain at moderate levels over the projection horizon to stand at 1.1% on average in 2023. Headline HICP's rate of change is expected to moderate in 2022 to 1.2% (holding at that level in 2023), after surging to 1.9% this year as a result of the energy component.

Relatively high **uncertainty** continues to surround the **output** growth projections. To capture this uncertainty, two alternative scenarios were constructed to complement the baseline scenario. The benign scenario projects a swifter resolution of the health crisis and less scarring from the crisis than under the aforementioned baseline, while the opposite is the case under the adverse scenario.

In addition to the uncertainty over health-crisis developments, other significant doubts persist over the pace and scope of the recovery in household consumption (after a period in which the level of household saving increased considerably); the revival of inbound tourism flows; the implementation and multiplier effect on output of the projects under the NGEU programme; and, more generally, the scope of the public policies to lessen the scarring from the crisis and drive the economy's structural transformation.

All these risks to output are also sources of **uncertainty** over the path of **inflation**. Moreover, how prices behave may differ from the baseline scenario projections should – compared with the assumptions included therein – consumer prices respond more weakly to the recovery in demand (more closely along the lines of the response observed in recent years) or if the recent higher prices of some productive inputs pass through to the cost of the consumption basket more forcefully and more persistently than envisaged in this exercise.