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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](#)). In relation to those published last December, the current projections include new information that has since become known, namely the preliminary Quarterly National Accounts estimates for 2020 Q4 and the changes observed in the technical assumptions underlying the construction of the scenarios.

The economic outlook remains subject to **high uncertainty**. This is linked, in the short term, to both **pandemic-related developments and the speed of the ongoing immunisation** of the population, and, in the medium term, to the **economic consequences of the crisis**. In turn, these consequences will hinge on two aspects. First, on the scarring the pandemic may leave on the productive system and labour market, in terms of business deaths and long-term unemployment. And second, on the speed at which crisis-induced changes in agents' behaviour may turn around (in particular, the sharp rise in the household saving rate and the severe decline in tourism exports).

The **baseline scenario** envisages the possibility of fresh outbreaks of the virus in the coming months. Curbing them might require containment measures similar to those recently in force. It is further projected that the progressive administration of vaccinations will enable a gradual withdrawal of these measures, until they have practically disappeared by late 2021. As regards the changes in agents' behaviour as a result of the crisis, under the baseline scenario the household saving rate is expected to fall over the course of the projection horizon, though it will be holding at somewhat above its pre-pandemic level at the end of this horizon. The incompleteness of the vaccination process in the coming quarters will mean that inbound tourism flows will not have largely normalised until 2022.

Under the baseline scenario, **GDP is expected to grow by 6% in annual average terms in 2021**. After sluggish growth in the first half of the year, this would be the result of the acceleration in activity in the second half, linked to progress in vaccination and to the implementation of projects under the European NGEU programme. Compared with the December projections, the diminished strength of activity in the short term will see the average growth rate in 2021 down 0.8 pp on that envisaged under the December baseline scenario. The marked dynamism of GDP projected for the second half of 2021 would give rise to a forceful carry-over effect in 2022, whereby **output in the economy would also post a high rate next year (5.3%) before easing in 2023 (1.7%)**.

Given the high uncertainty still prevailing, it has been decided, as in previous quarters, to **formulate two alternative scenarios along with the baseline scenario**. The scenarios differ regarding the assumptions as to the course of the pandemic and progress in immunising the population, and also in relation to the medium-term effects of the pandemic on the productive system and on agents' behaviour. The mild scenario projects the swifter resolution of the health crisis and less scarring from the crisis than under the baseline, while the opposite is the case under the severe scenario.

Set against the December projections, the range of change **across GDP levels in 2023 Q4 under the different scenarios is somewhat smaller, owing to less, purely epidemiological uncertainty**. The differences between the scenarios would be due to a greater extent to the medium-term scarring from the crisis and the substantially cautious behaviour of economic agents in their spending decisions. The recouping of pre-pandemic GDP levels is expected to be in 2023 under the baseline scenario, and would be brought forward by a little over a year under the mild scenario. Meantime, under the severe scenario, GDP would still be somewhat below its observed pre-crisis level at the end of the projection horizon.

The recent rebound in the **HICP** is largely temporary in nature. The increase in the energy component in recent months is expected to be reversed in the second half of 2021. That would take the inflation rate onto a declining path. In terms of annual average rates, the HICP is expected to grow by 1.4% in 2021, and by 0.8% and 1.2%, respectively, in each of the two subsequent years. Accordingly, at the end of the projection horizon, the rate would be some distance off the price stability reference value of 2%.

The **risks** surrounding the output growth projections under the baseline scenario remain tilted to the downside in the short term. Essentially, the risks are linked to more acute episodes of contagion or to slower progress in the vaccination roll-out than envisaged under the baseline scenario. Beyond the short term, uncertainty has tended to abate in recent months with confirmation of the effectiveness of the different vaccines, and this has reduced the likelihood of more unfavourable scenarios materialising. Uncertainty has also tended to lessen as a result of the recently approved US fiscal package and the agreement for the United Kingdom's withdrawal from the European Union. Consequently, the risks surrounding the growth projections under the baseline scenario are more balanced in the medium term than they were some months back.