

# ECONOMIC BULLETIN

1/2021

BANCO DE **ESPAÑA**  
Eurosistema







### QUARTERLY REPORT ON THE SPANISH ECONOMY

<b>1 Overview</b>	7	Analytical Articles	65
<b>2 International financial markets</b>	40	Economic Notes	69
<b>3 External environment of the Spanish economy</b>	42	Banco de España publications	71
<b>4 The Spanish economy</b>	49	Acronyms and abbreviations	72
<b>Boxes</b>			
1	Macroeconomic projections in Spain (2021-2023)	11	
2	Listed companies' earnings expectations since the onset of the COVID-19 crisis	19	
3	Analysis of US fiscal policy plans	22	
4	Household saving during the pandemic and its possible effects on the future recovery in consumption	25	
5	Open strategic autonomy in the EU	29	
6	Banco de España Business Activity Survey (EBAE)	31	
7	Business births and deaths since the onset of the pandemic	34	
8	Developments in the projections of the main macroeconomic variables in 2020	37	

## QUARTERLY REPORT ON THE SPANISH ECONOMY



**The global economy continues to be much influenced by COVID-related developments.** In 2020 Q4, the rise in infections gave rise to new pandemic-containment measures, which have been stepped up in many countries in the opening months of 2021. However, global activity is proving relatively robust. That would suggest, first, that these measures are more accurately focusing on restricting those areas of mobility and production in which the risk of contagion is greater. And second, that agents have become increasingly more adaptable to the restrictions imposed by the pandemic. Moreover, economic policies continue to play a crucial role in supporting activity. The strongly expansionary stance of monetary policies, against a background of low inflation, is contributing to the continuation of very favourable financial conditions for spending by private and public agents; and, in particular, it is helping the fiscal authorities in their response to combating the crisis, by contributing directly to keeping public debt costs very low.

**The euro area is showing greater weakness than other regions.** The rise in global GDP in 2020 Q4 was in contrast to the decline observed in the euro area. The effects on the services sector of the increased severity of the containment measures are expected to have been only partly alleviated by the buoyancy of manufacturing, underpinned by the relative strength of external demand. The latest conjunctural information suggests that the rebound in the pandemic and the containment measures adopted to counter it will have led to a prolongation of the sluggish phase in activity at the start of the year, in a setting in which the information available tends to point to a heightening of the divergences in sectoral performance.

**The ECB's latest macroeconomic projections envisage a strengthening of activity in the euro area over the course of the year.** Underpinning these expectations is the continuing support of monetary and fiscal policies and, in particular, in the latter case, the roll-out of the Next Generation EU (NGEU) economic recovery and transformation programme and, above all, the expected acceleration in the vaccination process, following the delays seen in the early months since it began. A sufficiently high level of group immunisation as to lift the bulk of the containment measures might be attained in the second half of the year. That would lead to less uncertainty and to a significant recovery in demand.

**The medium-term risks have become more balanced.** In the coming months the downside risks related to the course of the pandemic will remain prevalent. In the medium term, the expectations that vaccination may provide an effective solution to the pandemic have translated into an improvement in the balance of risks. This will further be supported by the EU-UK trade agreement and, above all, by the US fiscal stimulus.

Table 1

**MAIN SPANISH MACROECONOMIC AGGREGATES (a)**

	2020	2020				2021		
		Q1	Q2	Q3	Q4	Q1		
National Accounts						Mild	Baseline	Severe
Quarter-on-quarter rate of change, unless otherwise indicated								
Gross domestic product (GDP)	-11.0	-5.3	-17.9	16.4	0.4	0.4	-0.4	-0.9
Contribution of national demand (b)	-9.0	-4.5	-15.5	15.1	0.9	0.2	-0.6	-1.1
Contribution of net external demand (b)	-1.9	-0.7	-2.4	1.3	-0.5	0.2	0.2	0.2
Year-on-year rate of change								
Employment: hours worked	-10.4	-4.2	-24.9	-6.2	-6.3	-1.6	-2.4	-2.9
Price indicators								
Harmonised index of consumer prices (HICP)	-0.3	0.7	-0.6	-0.6	-0.8	0.4	0.4	0.4
Harmonised index of consumer prices excluding energy and food	0.5	1.2	0.9	0.1	-0.1	0.2	0.2	0.2

**SOURCES:** INE and Banco de España.

**a** Information available to 16 March 2021. The shaded figures are Banco de España projections under mild, baseline and severe scenarios.

**b** Contribution to the quarter-on-quarter rate of change of GDP, in percentage points.

**As in other advanced economies, the inflation rate in the euro area has risen recently.** The acceleration in euro area consumer prices in the first two months of the year has been in response, first, to dearer oil, the result of brighter global economic prospects and also of certain supply-side factors, and whose impact on inflation will be temporary. Second, it has been due to certain likewise temporary and purely technical factors. These include the unusually substantial effects of the change in CPI weightings at the start of the year and the consequences of price imputation during the lockdown. The presence of these temporary factors will hamper interpretation of inflation rate developments during this year. Nonetheless, underlying inflationary pressures remain modest, in step with the weakness of demand and the high degree of cyclical slack. Looking ahead, the ECB's March macroeconomic projections confirm that the inflation outlook at the end of the projection horizon remains some distance off the monetary policy objective.

**Against the backdrop of the transitory nature of the rise in inflationary pressures, the ECB Governing Council of 11 March announced an increase in the pace of asset purchases in the coming months.** Behind this decision was not only the prospect of the medium-term price stability objective not being met; a further factor was the rise in sovereign bond yields in the weeks running up to the Council. This rise could, were it to intensify, prompt a tightening of the current favourable financing conditions, in a setting in which a slight decline in overall euro area activity in Q1 is projected and in which the outlook for medium-term recovery is still shrouded in uncertainty. In this respect, the rise in long-term rates in the euro area would essentially reflect the pass-through of higher US bond yields, against the

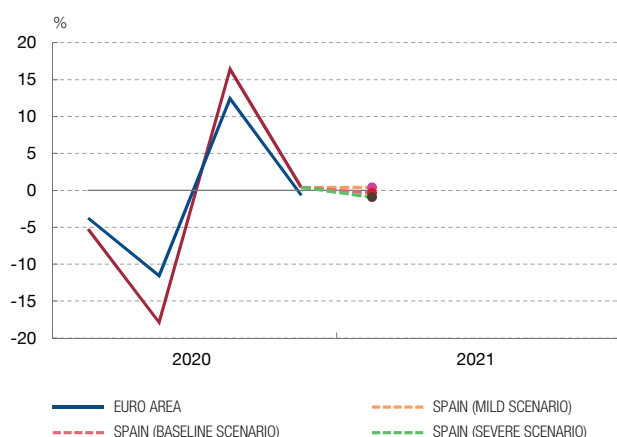


Chart 1

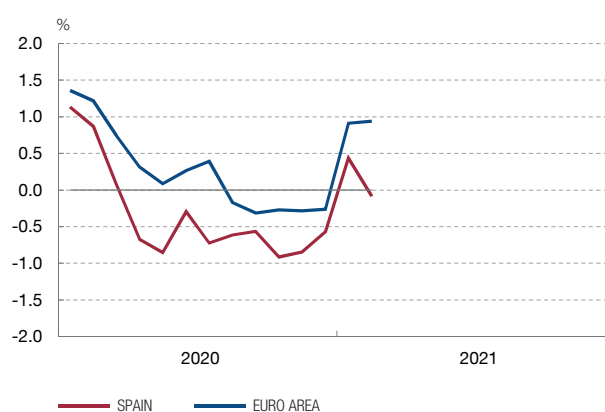
**THE RECOVERY LOST MOMENTUM AT THE END OF THE YEAR (a)**

The worsening of the pandemic at the start of the year led to a tightening of the restrictions on the movement of persons and activity in certain industries. This resulted in a marked sectoral divergence between the buoyancy of manufacturing and the greater weakness of services that require a high level of social interaction. The reduction in cases and the partial lifting of containment measures led to more positive activity in March. Consumer price inflation has surprised on the upside, mainly on account of the rise in oil prices and certain temporary technical factors.

1 GROSS DOMESTIC PRODUCT (b)



2 HARMONISED INDICES OF CONSUMER PRICES



SOURCES: Eurostat, INE and Banco de España.

a Quarter-on-quarter rates of change based on the seasonally adjusted series in the case of GDP, and year-on-year rates of change in the case of the consumer price indices.

b The Q4 data are Banco de España projections.



background of the forceful fiscal stimulus approved in the United States. Moreover, according to the financial markets, higher euro area inflation expectations would only offer a partial explanation, whereby the rise in nominal yields incorporates an increase in real yields and, therefore, a tightening of financing conditions.

**In Spain, economic activity also continues to be greatly influenced by epidemiological developments.** The authorities are responding to the successive oscillations in infection rates by means of changes in the stringency of the containment measures, which is making for relatively pronounced fluctuations in activity and employment even within each quarter. Hence, the better pandemic figures in December meant that, following a month of tighter restrictions and lower activity in November, modest quarter-on-quarter growth was ultimately posted in 2020 Q4.

**In line with forecasts for the euro area as a whole, Spanish GDP might be expected to have fallen off slightly in 2021 Q1.** The path of infections, of the subsequent restrictions to mitigate them and, therefore, of economic activity over the course of Q1 this year will have been similar to that of the previous quarter. Specifically, activity is estimated to have weakened in January, stepped up in February and tended to have fallen off in March, following the pattern of the stringency of the restrictions.

**In the short term, the possibility of fresh outbreaks of the virus will continue to influence economic activity.** The experience since the onset of the pandemic has shown the difficulties of striking a balance between protecting public health and maintaining economic activity in the sectors characterised by a greater degree of social interaction. However, over time a given level of contagion appears to be exerting increasingly less influence on activity, insofar as the restrictions are more and more confined to the areas in which they are more effective in halting contagion and in which agents are learning to adapt their economic decisions to the circumstances. Conversely, the spread of new, potentially more infectious strains of the virus might call for tighter restrictions on mobility and activity.

**Activity should rebound forcefully as from the second half of the year.** As the vaccination process progressively runs its course, the lifting of restrictions and the reduction in uncertainty should infuse domestic spending with considerable momentum. Private consumption will further be boosted by households' possible recourse to a portion of the saving they have built up since the start of the pandemic. Moreover, the resolution of the health crisis will allow for the gradual recovery in international tourism flows.

**In the Banco de España's new macroeconomic projections, the prevailing uncertainty continues to be reflected by means of several alternative scenarios.** The three scenarios considered differ, from an epidemiological perspective, in terms of the intensity of the fresh outbreaks of the virus in the short term and the pace of the vaccination programme subsequently (see Box 1). The scenarios also have a second differentiating facet, namely the behaviour of agents in the future, which is not totally unrelated to the course of the pandemic and which considers factors such as those cited in relation to consumers' attitude towards spending and to the speed at which tourism flows pick up. Under the different assumptions considered, GDP growth in 2021 is expected, in the mild, baseline and severe scenarios, to post average rates of 7.5%, 6% and 3.2%, respectively. In the first of these scenarios, the pre-pandemic level of activity will be reached by mid-2022, while in the baseline scenario this would occur a year later, and in the severe scenario, beyond end-2023.

This box describes the key features of the most recent update to the Banco de España's macroeconomic scenarios for the Spanish economy. In comparison with the previous scenarios, published on 11 December 2020,<sup>1</sup> the current ones incorporate the new information that has become available since then, including the preliminary Quarterly National Accounts estimates for 2020 Q4 and the changes in the technical assumptions underlying the construction of the scenarios (see Table 2).<sup>2</sup>

Following the slump in activity in the first half of 2020, the Spanish economy picked up notably in the second half of the year. This recovery lost momentum after the summer, against a background of the reintroduction of various containment measures as a result of fresh outbreaks of the pandemic. Despite this, adaptation to the restrictions by firms and households, the more focused nature of the restrictions in comparison with those in the spring and the easing of measures in December allowed GDP to increase slightly in Q4 (by 0.4% quarter-on-quarter, according to the INE's preliminary estimates). This growth rate was higher than in the baseline scenario published by the Banco de España in December, and was close to the rate in the mild scenario (the most favourable of the three considered).

Consequently, the starting point for the level of activity at the beginning of 2021 was somewhat higher than envisaged in the baseline scenario published in December. However, in the first two months of this year the fresh tightening of measures to contain the third wave of the pandemic appears to have once again adversely affected the economy's buoyancy (especially in tourism, transport and hospitality-related sectors). That said, the ongoing decline in new cases since the beginning of February has allowed an easing of restrictions that appears to have prompted a certain improvement in activity already in March, according to high-frequency indicators.<sup>3</sup>

The estimation of GDP growth in the current quarter is surrounded by a high degree of uncertainty, as it has been since the start of the pandemic, owing to the volatility of the data available (largely relating to the fluctuations in

infections and in the measures to curb them) and the instability of the relationship between the indicators and activity. Given this situation, it was decided to formulate once again a baseline and two alternative scenarios that differ even in the short-term. The quarter-on-quarter growth rate of GDP is -0.4% under the baseline scenario, and -0.9% and 0.4% under the two alternative scenarios.

Beyond the current quarter, the scenarios diverge in two dimensions: the course of the pandemic and the medium-term consequences of the crisis. These two dimensions are not mutually independent: the more unfavourable the future epidemiological developments, the more profound the expected consequences of the crisis. The differences between the scenarios in the first of these two dimensions are mainly in 2021 and are a consequence, in the next few quarters, of the assumptions regarding the severity of the COVID-19 outbreaks and, from the summer, of the progress made in vaccinating the population.

The baseline scenario envisages that in the next few months there will be new outbreaks of the disease similar in severity to those at the beginning of the year, necessitating the imposition of containment measures similar to those recently in force. In addition, the progressive administration of vaccines is projected to allow a gradual lifting of containment measures, until they have practically disappeared by the end of 2021. The mild scenario assumes a somewhat more favourable course of the pandemic from the second quarter of this year and a more rapid vaccine rollout, which will lessen the economic impact of any containment measures in the coming quarters. In contrast, the severe scenario envisages a sharper rise in cases in the short-term, requiring stricter containment measures than in the first two months of the year. Moreover, population immunity is achieved somewhat later under this scenario.

As regards the second dimension, the differences between the scenarios stem, in turn, from two different sources. First, the consequences that the health crisis may have for the productive system and employment, in terms of the destruction of firms and long-term unemployment.

1 *Macroeconomic projections for the Spanish economy (2020-2023): the Banco de España's contribution to the Eurosystem's December 2020 joint forecasting exercise.*

2 The December projections were based on the information available as at 18 November 2020. The cut-off date for the current exercise is 16 March 2021, except for the data relating to export markets and competitors' prices in domestic currencies, which have been taken from the *March 2021 ECB staff macroeconomic projections for the euro area*, with a data cut-off date of 16 February 2021.

3 Including card payments data (which approximate private consumption) and various personal mobility indicators.

The greater these effects, the more acute and persistent will be the impact on activity; in these circumstances, this impact may also be exacerbated by a larger volume of loan write-offs, so that less financing is available to the private sector, and at a higher cost. The second source relates to the degree of persistence of the COVID-induced changes in agents' behaviour. For these purposes, different assumptions have been considered regarding the spending decisions of households, in Spain and in the rest of the world, and both their direct impact on various demand aggregates (private consumption, housing investment and tourism exports) and their indirect impact on the economy as a whole.

Household saving increased considerably in 2020, as a consequence of the restrictions that the containment measures in force during the year imposed on the realisation of certain types of spending and, to a lesser extent, on account of the more cautious behaviour of consumers, given the high degree of uncertainty. The savings built up as a result may, when the health crisis is resolved, be allocated by these agents at least partly to spending.<sup>4</sup>

In the baseline scenario, the saving rate declines over the projection horizon, although at the end of the horizon it remains above its pre-pandemic level (see Chart 1). By contrast, under the mild scenario, the fall is greater and the saving rate comes very close to its pre-pandemic

level. Finally, under the severe scenario, the persistently more cautious behaviour of households leads to a slower consumption recovery.

The rate of recovery of tourism exports also varies in the different scenarios. Under the baseline scenario, the incompleteness of the vaccination process in the coming quarters means that inbound tourism flows will not have largely normalised until 2022 (see Chart 2). Under the mild scenario, this demand component recovers somewhat sooner, while under the severe scenario the later immunisation of the populations of Spain and of the main countries providing tourists for Spain and the more cautious behaviour of households mean that in 2023 this demand component is still below its pre-pandemic levels.

In comparison with the December baseline scenario, the changes in the external assumptions have generally been modest (see Annex 1) and have also tended to offset one another, so that their overall effect on the outlook for economic activity is also limited: it is negative in 2021 and approximately neutral over the next two years. Contributing to the slightly negative impact this year are higher oil prices, a somewhat higher euro exchange rate, somewhat higher long-term interest rates and a slightly later implementation of the Next Generation EU (NGEU) projects. These changes broadly cancel out the positive effect of the somewhat more dynamic performance of external markets in the short term.

Chart 1  
SAVING RATE OF HOUSEHOLDS AND NPISHs

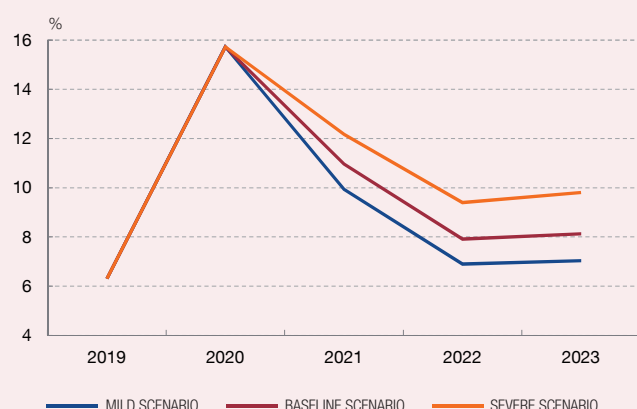


Chart 2  
TOURISM EXPORTS (2019 = 100)



SOURCES: Banco de España and INE.

4 See Box 4 of this report "Household saving during the pandemic and its possible effects on the future recovery in consumption".

Under the baseline scenario, GDP grows at an annual average rate of 6% in 2021; following a weak first half, this is a consequence of an acceleration in activity in the second half, prompted by vaccination progress and NGEU programme implementation (see Chart 3 and Table 1). Also, the pronounced buoyancy of GDP in the second half of 2021 has a powerful carry-over effect in 2022, so that the economy's output also grows at a high rate (5.3%), before slowing in 2023 (1.7%). In terms of average GDP growth rates, the differences between scenarios are greater in 2021 than in the last two years of the projection horizon, reflecting the fact that the recovery takes place earlier under the mild scenario and later under the severe one.

Under the baseline scenario, GDP does not return to pre-pandemic levels until 2023 (see Chart 4). This occurs slightly more than a year earlier in the mild scenario, while in the severe scenario, at the end of the projection horizon GDP is still slightly below the level observed before the health crisis.

The worsening of the economic outlook in the short term means that the average rate of growth of GDP in 2021 under the present baseline scenario is 0.8 percentage points (pp) lower than envisaged in the December baseline scenario, even though the subsequent recovery is stronger (see Table 1). Compared with the December projections, the gap between the GDP levels under the different scenarios in 2023 Q4 is somewhat narrower. This reflects the lower purely epidemiological uncertainty, so that the

remaining differences are more attributable to the extent of the medium-term consequences of the crisis and to the lower or higher level of caution in agents' spending decisions.

### Main aggregates

Following the sharp contraction in 2020, both the different components of private domestic demand and external trade flows are expected to pick up notably in 2021 overall, albeit with varying intensity according to the scenario considered (see Table 2).

Private consumption will probably have decreased slightly in Q1, owing to the greater stringency of the measures needed to contain the pandemic in the first two months of the year. Over the course of 2021 this aggregate is expected to recover significantly, as the vaccination process gradually progresses, allowing for an easing of restrictions (and, therefore, of limitations on spending on some goods and services) and a reduction in uncertainty regarding both the health and the economic situation (and, therefore, a decline in the precautionary saving component). In consequence, private consumption grows in 2021, by 8.8% under the baseline scenario, compared with 10.7% under the mild scenario and 6.1% under the severe scenario. Once the health crisis is fully over and normal spending levels have been restored, consumption growth rates will also tend to moderate. But they should still be relatively high on average in 2022, owing to the positive carry-over effects originating in the second half of this year.

Chart 3  
REAL GDP. RATES OF CHANGE

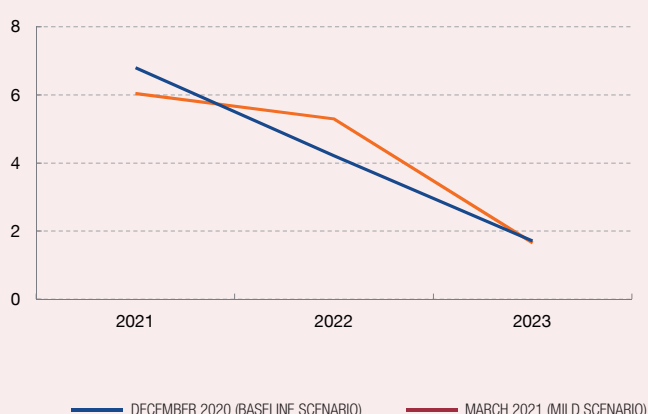
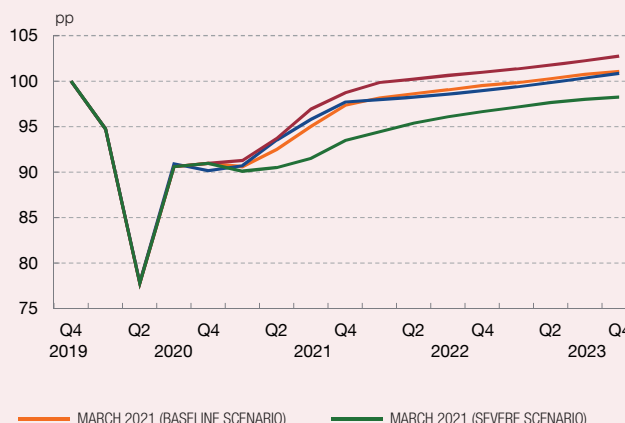


Chart 4  
REAL GDP. LEVEL (2019 Q4 = 100)



SOURCES: Banco de España and INE.

Among the components of gross capital formation, there was a particularly sharp contraction in investment in housing in 2020. Over the projection horizon this component is not expected to start to recover until the present uncertainty has faded and households' future income expectations, which have been weakened by the deterioration in the labour market outlook, have strengthened.

Investment by non-financial corporations will continue to be weighed down in the first half of 2021 by the high level of uncertainty. But it is expected to pick up significantly in the second half as this uncertainty eases, final demand recovers and project execution under the NGEU framework provides additional support for business investment. Recovery in this demand component could be affected by the deterioration in the financial position of certain segments of the corporate base, which have had to increase their indebtedness to meet the liquidity needs stemming from the fall in income as a consequence of the crisis and the lockdown measures.

The restrictions on the movement of goods and persons introduced in response to the pandemic have had a considerable impact on foreign trade. These restrictions,

which are much more stringent and persistent in the case of the movement of persons, have meant that tourism exports and imports have been especially hard hit. In the most recent period, the emergence of new variants of the virus, which are more contagious than the initial ones, has led to increased restrictions on the entry of travellers from other countries where there is a higher incidence of these variants. This has set back the expectations for a recovery in inbound tourism flows. Under the baseline scenario, exports and imports of goods and services overall return to pre-pandemic levels in mid-2023.

At the start of the year, it seems likely, on the data available, that the recent moderation in economic activity is being accompanied by a certain decline in hours worked. This is against the backdrop of a resurgence in the pandemic, which has led to containment measures being reimposed and, as a result, to fresh increases in the numbers of furloughed workers and self-employed individuals whose activity has been suspended. From Q2, hours worked are expected to head up again, in keeping with the recovery in GDP. Under the baseline scenario, this variable grows by 7.5% in 2021, compared with just 5% and 1.7%, respectively, in 2022 and 2023. As a result of employment developments, the unemployment rate

Table 1  
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES OF THE SPANISH ECONOMY (a)

Annual rate of change

	March 2021 and December 2020 projections															
	GDP				HICP				HICP excluding energy and food				Unemployment rate (% of labour force) (b)			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
March 2021																
Mild scenario	-11.0	7.5	5.5	1.6	-0.3	1.4	0.9	1.3	0.5	0.6	1.1	1.3	15.5	15.9	13.9	12.8
Baseline scenario	-11.0	6.0	5.3	1.7	-0.3	1.4	0.8	1.2	0.5	0.5	1.0	1.1	15.5	17.0	15.1	14.1
Severe scenario	-11.0	3.2	4.6	2.2	-0.3	1.3	0.6	1.0	0.5	0.4	0.7	0.9	15.5	18.3	17.2	16.1
December 2020																
Mild scenario	-10.7	8.6	4.8	1.9	-0.3	0.7	1.3	1.4	0.5	0.6	1.1	1.3	15.7	17.1	14.0	12.4
Baseline scenario	-11.1	6.8	4.2	1.7	-0.3	0.6	1.2	1.3	0.5	0.5	0.9	1.1	15.8	18.3	15.6	14.3
Severe scenario	-11.6	4.2	3.9	1.5	-0.3	0.5	0.9	1.1	0.5	0.2	0.6	0.8	16.2	20.5	18.1	17.6

SOURCES: Banco de España and INE.

NOTE: Latest QNA figure published: 2020 Q4.

a Projections cut-off date: 16 March 2021.

b Annual average.

starts to fall in 2021 under the baseline scenario, although it remains above its pre-pandemic levels until mid-2023.

In the realm of public finance, the general government balance is expected to improve considerably over the projection horizon, as a result of both the temporary nature of the discretionary measures adopted in response to the pandemic and the cyclical improvement. However, at the end of the projection horizon, the budget deficit will still be very high (4.4% of GDP under the baseline scenario) and public debt will be at similar levels to those seen in 2020.

Core inflation has eased very significantly since the start of the pandemic. In the short term, interpreting consumer price fluctuations will pose certain technical difficulties associated with COVID-19. This is because the

considerable changes in the structure of household spending in 2020 significantly altered the weights of the different groups of goods and services. In addition, during the months of severe lockdown in spring 2020 price checking was not possible, so imputations had to be made instead. Core inflation is expected to follow a moderately upward path over the projection horizon, as demand gradually strengthens, to reach 1.1%, on average, in 2023. Increased momentum in the prices of tourism-related items, which were particularly disinflationary in 2020 as a result of the slump in demand, is expected to make a significant contribution to this pick-up in core inflation.

In the opening months of 2021, the energy component of inflation is rising sharply. This stems partly from the recent

Table 2  
MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY. 2021-2023 (a)

Annual rate of change in volume terms and % of GDP

	2020	March 2021 projections								
		Mild scenario			Baseline scenario			Severe scenario		
		2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	-11.0	7.5	5.5	1.6	6.0	5.3	1.7	3.2	4.6	2.2
Private consumption	-12.4	10.7	4.9	1.1	8.8	4.8	1.1	6.1	4.3	1.3
Government consumption	4.5	0.9	-0.4	1.6	1.4	-0.4	1.7	1.8	-0.6	1.5
Gross fixed capital formation	-12.4	9.2	10.3	1.6	7.1	9.5	1.5	4.8	8.3	3.4
Exports of goods and services	-20.9	13.1	9.3	4.9	11.1	8.2	5.3	5.8	9.5	6.0
Imports of goods and services	-16.8	14.7	8.4	4.0	12.4	7.2	4.5	10.2	8.6	4.6
National demand (contribution to growth)	-9.1	7.8	5.1	1.3	6.2	4.9	1.4	4.4	4.3	1.7
Net external demand (contribution to growth)	-1.9	-0.3	0.4	0.3	-0.2	0.4	0.3	-1.2	0.3	0.5
Nominal GDP	-10.0	8.6	6.9	3.2	7.0	6.6	3.1	3.9	5.6	3.5
GDP deflator	1.1	1.0	1.3	1.6	0.9	1.2	1.4	0.7	0.9	1.2
Harmonised index of consumer prices (HICP)	-0.3	1.4	0.9	1.3	1.4	0.8	1.2	1.3	0.6	1.0
HICP excluding energy and food	0.5	0.6	1.1	1.3	0.5	1.0	1.1	0.4	0.7	0.9
Employment (hours)	-10.4	9.0	5.1	1.7	7.5	5.0	1.7	5.3	4.6	2.2
Unemployment rate (% of labour force). Annual average	15.5	15.9	13.9	12.8	17.0	15.1	14.1	18.3	17.2	16.1
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.4	1.8	2.9	2.7	1.9	3.0	2.8	1.0	2.1	2.0
General government net lending (+)/net borrowing (-) (% of GDP)	-10.5	-6.8	-3.9	-3.4	-7.7	-4.8	-4.4	-9.1	-6.5	-5.8
General government debt (% of GDP)	117.1	115.4	112.7	112.8	117.9	116.4	117.6	122.6	123.6	125.5

SOURCES: Banco de España and INE.

NOTE: Latest QNA figure published: 2020 Q4.

a Projections cut-off date: 16 March 2021.



oil price increase and partly from the base effect of the decline a year earlier. On the current assumptions, this price increase is expected to reverse in the second half of the year, when the energy component is expected to follow a downward path, with pass-through to the average level of the consumer price index in 2022. In terms of annual average rates, under the baseline scenario the HICP is expected to increase from -0.2% in 2020 to 1.4% in 2021, 0.8% in 2022 and 1.2% in 2023. On average in 2023, the inflation rate is somewhat higher under the mild scenario (1.3%) and somewhat lower under the severe scenario (1%).

### Risks to the baseline scenario

Macroeconomic developments continue to be subject to high uncertainty. The risks surrounding the economic growth projections under the baseline scenario remain on the downside in the near term, until such time as more severe outbreaks of infection linked to the new more infectious variants of the disease can be ruled out. In addition, the vaccine manufacturing process is experiencing some delays; if this problem is not solved, there could be deviations from the immunisation timeline considered in the baseline scenario.

Beyond the short term, uncertainty has tended to ease in recent months as the vaccines have proved effective, and this has reduced the likelihood of the most adverse scenarios materialising. In consequence, the risks surrounding the economic growth projections under the baseline scenario are more balanced in the medium term than they were some months ago. Other factors that have also contributed to this are the Brexit agreement and the stimulus package ratified by the United States Congress on 11 March which should provide a boost to global growth. The stimulus package is not considered in these projection scenarios, as it was approved after the cut-off date for the assumptions used regarding the international setting of the Spanish economy.

The risks to inflation are also more balanced now. Although the increase in oil and other commodity prices is no more than a return to normal after the sharp falls recorded at the start of the pandemic, increasing cost pressures could give rise to some second-round inflationary effects on final goods prices. Yet the high level of slack in the use of factors of production could lead to the disinflationary patterns observed throughout 2020 becoming more persistent.

## ANNEX 1

### Projection assumptions

The construction of the scenarios is shaped by certain assumptions as to the trajectory of a set of variables. The assumptions regarding the paths of interest rates, exchange rates, and oil and other commodity prices are based on the prices observed in the respective markets in the ten working days prior to the cut-off date of the projections (in this case, 16 March). The trajectories for the export markets and competitors' prices in domestic currencies were taken from the [March 2021 ECB staff macroeconomic projections for the euro area](#), which use information up to 16 February.

There are two key changes compared with the December scenarios. The first is the significant rise in oil prices since the cut-off date for the previous projections, amid oil supply cuts and greater dynamism in the world economy (see Table 3). The oil futures curve shows a declining slope. Consequently, in annual average terms, oil prices are expected to increase sharply in 2021, and to then decrease in the following two years. In contrast, three months ago oil prices were expected to head upward slightly in the three-year period from 2021 to 2023. The second key change is the projected path for export markets in the near term under the baseline scenario, which is now more encouraging than that expected three months ago. This is reflected in an upward revision of 0.8 pp in 2021 compared with the December baseline scenario.

Further, the recent rise in ten-year sovereign bond yields has resulted in somewhat higher levels for this variable over the projection horizon. Conversely, no major changes have been observed in market expectations of short-term interest rates or, therefore, in the cost of bank financing to firms and households, which is mostly linked to one-year market rates.

The euro exchange rate (assumed in the projection horizon using its spot market rate) has appreciated slightly compared with three months ago. Specifically, the exchange rate appreciation over the projection horizon, compared with the assumption used in December, amounts to around 0.5% in nominal effective terms and close to 1% against the dollar.

In the realm of fiscal policy, the public finance projections are based on the latest budget outturn data with the National Accounts' criteria published by the IGAE (National



## MACROECONOMIC PROJECTIONS IN SPAIN (2021-2023) (cont'd)

Audit Office). As regards the assumptions considered, the new development for 2021 vis-à-vis the December projections is the latest extension, until May 2021, of the benefits for the self-employed and workers on furlough schemes associated with the effects of the pandemic.<sup>5</sup>

Overall, it is estimated that the measures approved in 2020 to combat the fallout from COVID-19 increased

expenditure by around 3.5 pp of GDP. The corresponding increases over the projection horizon are expected to be 1.4 pp in 2021 and 0.3 pp in both 2022 and 2023.<sup>6</sup>

Lastly, the assumptions relating to the NGEU programme have scarcely changed vis-à-vis those prepared in December, given the lack of new information, pending the submission of the Recovery and Resilience Programme to

Table 3  
INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (a)

Annual rate of change, unless otherwise indicated

		March 2021 projections			Difference between the current projections and those of the corresponding scenario of December 2020 (b)		
	2020	2021	2022	2023	2021	2022	2023
International environment							
Spain's exports markets (c)	Mild scenario	10.1	5.7	3.2	-2.1	0.3	-0.1
	Baseline scenario	-11.3	7.7	5.4	3.2	0.8	-0.3
	Severe scenario		3.6	3.0	3.6	3.4	-1.1
Oil price in dollars/barrel (level)	42.3	64.9	61.3	58.9	20.9	15.7	11.9
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.14	1.20	1.19	1.19	0.01	0.01	0.01
Nominal effective exchange rate against the non-euro area (d) (2000=100)	117.8	121.8	121.6	121.6	0.8	0.6	0.6
Short-term interest rates (3-month Euribor) (e)	-0.4	-0.5	-0.5	-0.5	0.0	0.0	0.1
Long-term interest rates (10-year Spanish government bond yield) (e)	0.4	0.3	0.6	0.8	0.2	0.2	0.3

SOURCES: Banco de España and ECB.

- a Cut-off date for assumptions: 16 March 2021. Figures expressed as levels are annual averages; the figures expressed as rates are calculated on the basis of the related annual averages.
- b The differences are in rates for world output and export markets, in levels for oil prices and the dollar/euro exchange rate, in percentages for the nominal effective exchange rate and in percentage points for interest rates.
- c The assumptions regarding the behaviour of Spain's export markets presented in the table are obtained from the *March 2021 ECB staff macroeconomic projections for the euro area*.
- d A positive percentage change in the nominal effective exchange rate denotes an appreciation of the euro.
- e For the projection period, the figures in the table are technical assumptions, prepared following the Eurosystem's methodology. These assumptions are based on futures market prices or on proxies thereof and should not be interpreted as a Eurosystem prediction as to the course of these variables.

- 5 Also, on 12 March the Spanish Council of Ministers approved a support programme for firms with viability problems arising from the pandemic, for a total amount of €11 billion. This programme has not been included in the scenarios, as the date of its approval was very close to the cut-off date for the projections, and the degree of detail of the measures calls for a rigorous and detailed analysis. Of the total volume of funds approved, around €7 billion will be granted in the form of direct aid to firms in the hardest-hit sectors (tourism, food service activities and small retailers) and will therefore increase the general government deficit. The rest will be used to restructure the debt of firms operating in those sectors (€3 billion) and for capital injections in some firms (€1 billion), with the latter entailing increases in the financial assets and debt of general government.
- 6 Further, the projections for 2021 retain a set of measures already considered in December, the foremost of which are those stemming from the State and Social Security Budget Law. These include an estimation of the revenue impact of the new taxes entering into force this year, and the increases in pensions and the public sector wage bill (0.9%), contributory benefits (1.8%) and the Multipurpose Public Indicator of Income (IPREM, by its Spanish abbreviation) (5%).

the European Commission. In any event, the expenditure timeline has been reviewed, with the result that, compared with the December scenarios, a delay of one quarter is now assumed in the investment expenditure financed by the programme. As a result, 100% of current spending and 55% of the investment expenditure announced by the Government for 2021 are included in that year.<sup>7</sup> Over the 2021-2023 projection horizon as a whole, 80% of the total grants available, for both current consumption and investment, are included.

For the period 2022-2023, the projections are based on the usual technical assumptions for the items for which there is no specific information. First, those items subject to greater discretionality – such as public investment and

procurement, in particular, given their volume – are assumed to move in line with the growth potential of the Spanish economy. Second, in the absence of specific measures, the trajectory of the remaining items of the general government accounts is assumed to be governed by their usual determinants.<sup>8</sup>

Given this set of budgetary projections and the output gap estimated in a manner consistent with the other macroeconomic projections, the fiscal policy stance, measured by the change in the primary structural balance net of European funds,<sup>9</sup> is expected to be expansionary in 2020 and 2021 (2.1 pp and 1.2 pp of GDP, respectively) and approximately neutral over the rest of the projection horizon.

7 The December scenarios included 70% of the investment announced for 2021. See Box 2 “The impact of the NGEU initiative on the scenarios for the Spanish economy”, in *Macroeconomic projections for the Spanish economy (2020-2023): the Banco de España's contribution to the Eurosystem's December 2020 joint forecasting exercise* for further details on these assumptions and the possible alternative scenarios.

8 Specifically, it is assumed that government revenue will grow in line with tax bases, which mainly depend on the macroeconomic context. Something similar applies to pension expenditure (which is determined by demographic trends and the expected indexation of its amount to the CPI), spending on unemployment benefits (which depends mainly on developments in unemployment) and interest expense (the changes in which reflect developments in public debt and interest rates).

9 The increase in European funds to be received entails a smaller structural deficit, but not a more contractionary fiscal policy stance, as they do not result from taxes collected from resident agents. Consequently, to correctly measure the fiscal policy stance, the change in the primary structural balance must be adjusted for this effect by subtracting the change in the net balance of funds from the European Union.

**LISTED COMPANIES' EARNINGS EXPECTATIONS SINCE THE ONSET OF THE COVID-19 CRISIS**

Irene Roibas

This early-release box was published on 12 March

The impact of the COVID-19 crisis on stock market indices has been uneven across geographical regions. Market indices in the euro area countries and, in particular, in Spain have trended less favourably than their US counterparts. This performance has largely reflected the different impact investors expect the crisis to have on the future profits of listed companies in these regions and their levels of uncertainty.<sup>1</sup> A further conditioning factor has been the weight of the different economic sectors in stock market indices. Specifically, the banking industry has a greater relative weight in the IBEX 35 and is among those that have posted the biggest declines and those whose earnings expectations have most sharply diminished.

As Chart 1 shows, the level that analysts<sup>2</sup> on the whole expected the earnings per share of companies listed on the S&P 500, the EURO STOXX 50 and the IBEX 35 to reach in 2022 fell by around 5% from early February to late March 2020, essentially as a result of the global spread of the pandemic. In the following months, faced with the worsening health crisis, analysts continued revising these expectations downwards. The process was much more pronounced in the case of the companies comprising the IBEX 35, largely reflecting the relatively greater economic impact of the crisis on Spain and on the countries to which listed Spanish companies are exposed.<sup>3</sup>

Whereas expected earnings in 2022 for S&P 500 companies began to rise from mid-July, there was no such parallel process in Europe and in Spain until early November, following the announcement of effective vaccinations against the virus. Since then, the improvement in earnings expectations ahead of 2022 has been relatively modest. Indeed, profits are expected to be at levels around 20% and 30% lower than those expected

in February 2020 for EURO STOXX 50 and IBEX 35 companies, respectively. The more favourable performance of expected earnings for S&P 500 companies would be in line with the brighter prospects of a US economic recovery when compared with the euro area. In any event, analysts on the whole expect the adverse impact of the pandemic on listed companies' profits in 2022 to be smaller than it will be in 2021. That would be consistent with a gradual recovery in business activity throughout the forecasting horizon, and with a somewhat sharper pick-up in the case of listed Spanish firms.

As Chart 2 shows, uncertainty over profit forecasts in 2022, proxied by the coefficient of variation of analysts' estimates, increased across the board early in the pandemic and has only lessened gradually in recent months. This increase in uncertainty has proven more acute and persistent in the case of the IBEX 35 companies compared with what has happened to companies in the other two indices. In any event, in the three markets analysed, the level of uncertainty over earnings forecasts is greater for 2021 than for 2022. Once again, this suggests that investors expect the business landscape to progressively normalise over the coming quarters. In relative terms, this normalisation is expected to move at a swifter pace in the case of listed Spanish companies.

The impact of the pandemic on corporate earnings expectations has also been uneven across economic sectors. Chart 3 tracks the changes in earnings expectations for 2022 of the companies included in the sectoral sub-indices of the FTSE SPAIN<sup>4</sup> since the start of the COVID-19 crisis. In line with the greater impact of the crisis on certain segments of economic activity, in the early months of the pandemic earnings expectations diminished more markedly in the energy and banking

1 According to equity valuation models, long-term earnings expectations are, along with investor risk aversion and the foreseeable course of the risk-free interest rate, fundamental determinants of the stock market price of the different companies. See, for example, Durham (2013), "Which component of treasury yields belongs in equity valuation models? An application to the S&P 500", *The Journal of Portfolio Management*, 39 (4), pp. 80-90.

2 The earnings expectations have been extracted from the I/B/E/S database.

3 Changes in the earnings expectations of the companies included in these indices may not be representative of the changes shown by these countries' overall companies (listed and unlisted alike). For example, the IBEX 35 only includes the biggest Spanish companies by market capitalisation. Given that, in the main, these companies are large international groups, whose earnings may be influenced by the course of economic activity not only in Spain but also in other world regions (in particular in Latin America), their economic dynamics may differ – sometimes substantially – from those of other, less international Spanish companies.

4 As sector-by-sector information on the earnings expectations of the Ibex 35 companies is not available, we have used the FTSE Spain. This index includes a broader set of companies as it also incorporates small and medium-sized firms in terms of their market capitalisation. For the same reason, in the case of the euro area we have used the EURO STOXX, which is a sub-set of the STOXX Europe 600 index, made up only of euro area companies.

## LISTED COMPANIES' EARNINGS EXPECTATIONS SINCE THE ONSET OF THE COVID-19 CRISIS (cont'd)

sectors.<sup>5</sup> Admittedly, since early November the announcement of effective vaccinations has helped stabilise expected profits in these sectors, with the

prospects for banking even improving somewhat. That said, expectations remain far below the pre-crisis level. This sectoral heterogeneity can also be seen in euro area

Chart 1  
LISTED COMPANIES' EARNINGS PER SHARE (EPS) EXPECTATIONS (a)

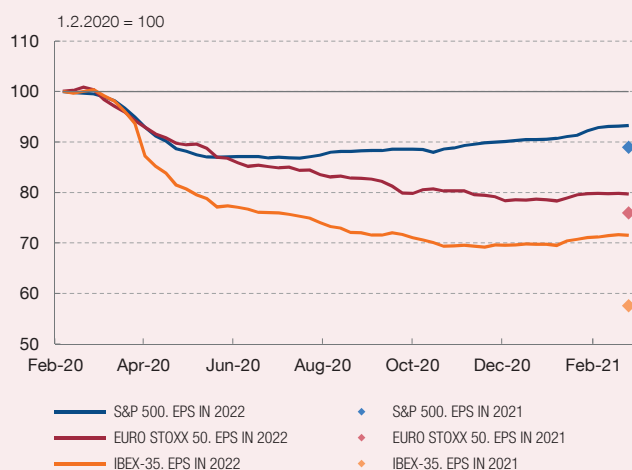


Chart 2  
DISPERSION OF LISTED COMPANIES' EARNINGS PER SHARE EXPECTATIONS (b)

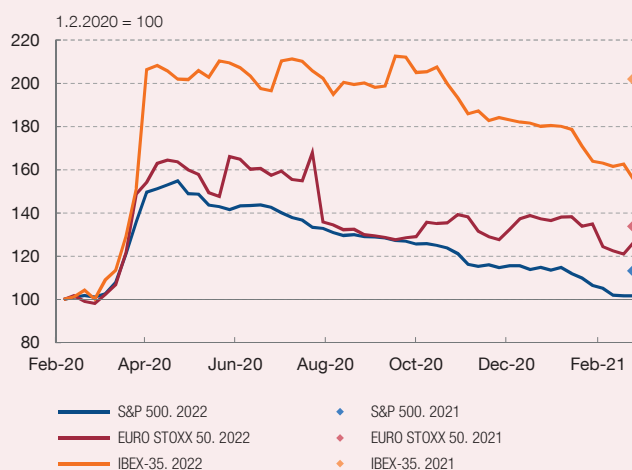


Chart 3  
SPANISH LISTED COMPANIES' EARNINGS PER SHARE EXPECTATIONS FOR 2022, BY SECTOR (a) (c)

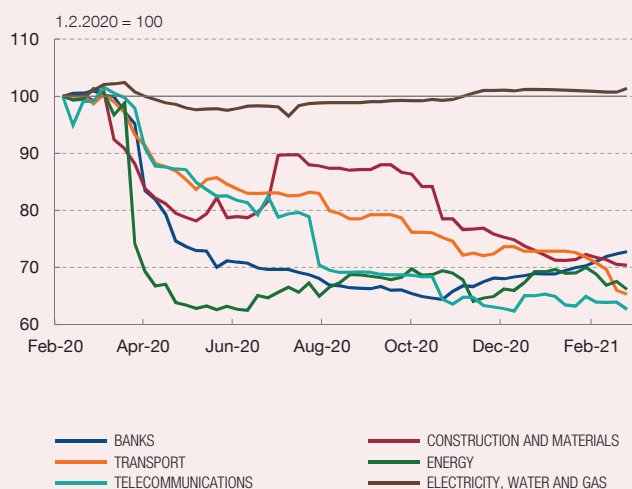
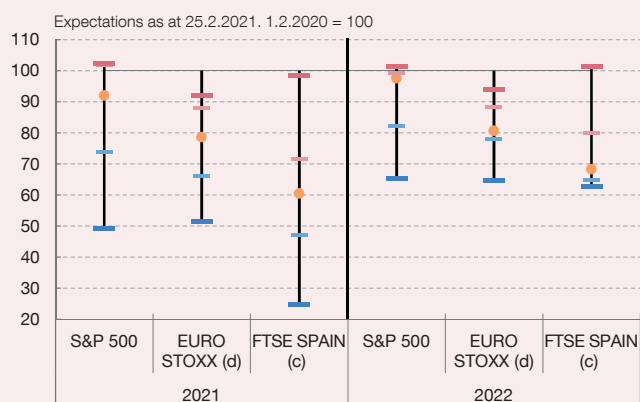


Chart 4  
DISTRIBUTION BY SECTOR OF LISTED COMPANIES' EARNINGS PER SHARE EXPECTATIONS (a)



SOURCE: I/B/E/S Thomson Reuters Datastream.

- a Average of analysts' estimates.  
b Coefficient of variation of analysts' estimates.  
c See footnotes 4 and 5 to the box.  
d See footnote 4 to the box.

5 There is no information available on earnings expectations for certain sectors, such as real estate and commercial goods and services. Classified under the latter sector are tourism and leisure, whose earnings expectations will have been most adversely affected by the pandemic.

and US listed companies. In this connection, Chart 4 shows the distribution of expected earnings, at the cut-off date for this box, for 2021 and 2022 of the companies included in the sectoral indices of the S&P 500, the EURO STOXX and the FTSE SPAIN, comparing them with

the levels forecast in early 2020. An across-the-board reduction can also be seen in cross-sectoral dispersion in 2022 compared with 2021, especially in the case of the Spanish index, owing essentially to the better expectations for next year in the sectors most affected by the pandemic.

## ANALYSIS OF US FISCAL POLICY PLANS

Susana Párraga and Moritz Roth

This early-release box was published on 2 March

Since the onset of the COVID-19 pandemic, the US fiscal policy response has been very significant.<sup>1</sup> However, the persistence of the ongoing crisis has made it necessary recently to amplify the initial stimulus with two new fiscal packages. The first was passed in December 2020, and the second announced in January 2021. Essentially, these packages will temporarily and sequentially extend several support measures for households and firms due to expire at the end of 2020. They include most notably loans to SMEs under the Paycheque Protection Program (PPP), extensions to unemployment benefit and direct stimulus payments to individuals (see Chart 1.1). If the plan announced in January should be approved in full, the overall amount of both packages might exceed 14% of GDP and would be concentrated in the first two quarters of this year.

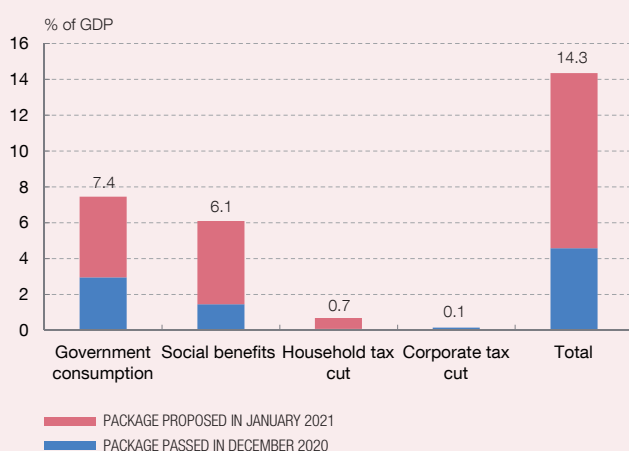
These two stimulus programmes aside, President Biden's electoral programme<sup>2</sup> also included a fiscal stimulus plan geared to mobilising funds of up to 10% of GDP for the period running from end-2021 to end-2024. This proposal would focus on a substantial infrastructure plan accompanied by increases in government consumption and in social benefits (see Chart 1.2). Further, on the revenue side, this plan would entail tax hikes for large corporations and higher-income households, which would partly finance the increase in expenditure and selectively reduce the tax burden of lower-income households.<sup>3</sup>

This box simulates the economic effects on the United States and the rest of the world of these three fiscal packages, using the NiGEM model.<sup>4</sup> The composition of the fiscal packages influences their economic impact,

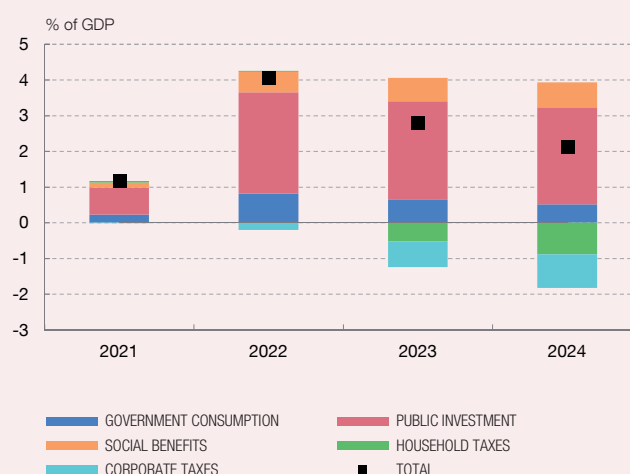
Chart 1  
US FISCAL POLICY PLANS

The persistence of the COVID-19 crisis has led different US political forces to consider the advisability of adopting additional fiscal measures.

1 FISCAL MEASURES TO ALLEVIATE THE EFFECTS OF COVID-19 IN 2021



2 PRESIDENT BIDEN'S CAMPAIGN FISCAL PLAN



**SOURCE:** Banco de España, drawing on the Congressional Budget Office, Democrat campaign proposals and, among other specialist analysts, the projections of the Committee for a Responsible Federal Budget and the Tax Policy Center.

**NOTE:** The GDP used as a denominator for determining the scale of the measures already includes the macro effect of such measures.

1 See Box 2 of Banco de España Economic Bulletin 4/2020, "Fiscal policy response to the crisis in the euro area and the United States".

2 See <https://joebiden.com/joes-vision/>.

3 See Tax Policy Center (2020). "An updated analysis of former Vice President Biden's tax proposals", 15 October 2020.

4 The model's documentation, drafted by the National Institute of Economic and Social Research, is available at <https://nimodel.niesr.ac.uk/>. The simulation includes various assumptions, one of which is that the plans announced should be approved in their entirety. Moreover, it is assumed that monetary policy does not react to the fiscal stimulus until 2024, whereafter it responds endogenously to the sustained increase in inflation caused by fiscal policy. Further assumptions are that expectations are adaptive and that nominal exchange rates hold constant.

given that the fiscal multipliers<sup>5</sup>, which can only be estimated with notable uncertainty, vary significantly depending on the economic policy instrument used. Hence, the implicit multipliers in the NiGEM model are 0.8 for government consumption, 1.0 for public investment, 0.2 for transfers to and taxes on households, and 0.1 for firm-related tax measures. Under this model, the fiscal measures legislated in December 2020 and announced in January this year would raise the level of US GDP by 5% in 2021, with this effect gradually waning in the following years<sup>6</sup> (see Chart 2.1). It is worth pointing out that both packages have a similar impact on GDP, since the January proposals, while mobilising more funds, would give rise to a lower fiscal multiplier as they earmark a large portion of such funds to social transfers.

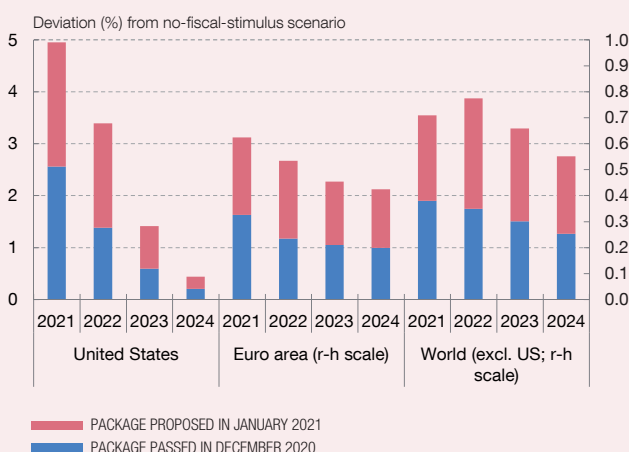
As regards the spillover effects on the rest of the world, the combined fiscal stimulus of these two US programmes would have positive effects on global GDP (see, once again, Chart 2.1), mainly on account of the increase in US demand on global markets. Specifically, the level of global GDP (excluding the United States) would rise by 0.7% in 2021, with the effect gradually fading but still at 0.5% in 2024.<sup>7</sup> For the euro area the effects would be slightly lower: the level of GDP would increase by around 0.6% in 2021 and by 0.4% in annual average terms in the following years. These results are consistent with the empirical evidence on the spillovers of US fiscal expansions on the rest of the world.<sup>8</sup>

Compared with these two programmes, President Biden's campaign fiscal plan, whose realisation is still very uncertain,

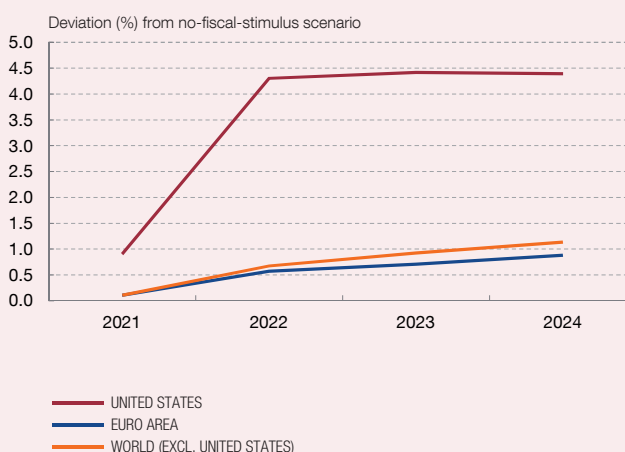
Chart 2  
GLOBAL MACROECONOMIC IMPACT OF US FISCAL POLICY PLANS

The additional fiscal packages in the United States would have positive effects on US and rest-of-the-world economic activity.

1 EFFECTS ON US AND OTHER ECONOMIES' GDP OF THE FISCAL MEASURES TO ALLEVIATE THE IMPACT OF COVID-19



2 EFFECTS OF THE CAMPAIGN FISCAL PLAN ON US AND OTHER ECONOMIES' GDP



SOURCE: Banco de España, based on simulations with the National Institute Global Econometric Model (NiGEM).

5 The fiscal multipliers measure the impact on GDP arising from a change in a specific fiscal instrument for an amount equivalent to 1% of GDP. The multipliers implicit in the NiGEM model are consistent with the literature for the United States. See IMF Working Paper WP/1073 and Ramey, V. (2019). "Ten years after the financial crisis: what have we learned from the renaissance in fiscal research?", J. Economic Perspectives, 33 (2), 89-114.

6 These results are in line with estimates by other US specialist analysts, although the various studies differ as to the scale and composition of the fiscal impulse, and to the type of model used. See, for example, the analysis by the Committee for a Responsible Federal Budget "The Response & Relief Act Would Support the Economic Recovery", that by Brookings "The macroeconomic implications of Biden's \$1.9 trillion fiscal package" and the "Penn Wharton Budget Model Analysis of the Biden Platform".

7 The results of the simulations are relatively persistent spillovers on the rest of the world owing to the combination of an increase in US external demand, as well as in the other economies, and a real appreciation of the dollar against other currencies.

8 See A. Ilori, J. Paez-Farrell, and C. Thoenissen (2020), "Fiscal policy shocks and international spillovers", CAMA Working Paper 95/2020, November 2020, and P. Blagrove, G. Ho, K. Koloskova, and E. Vesperoni (2017), "Fiscal spillovers: the importance of macroeconomic and policy conditions in transmission", Spillover Notes 11, IMF.

would posit a higher fiscal multiplier and more persistent effects on economic activity owing to its bias towards public investment.<sup>9</sup> Were this plan to be implemented in full, the level of US GDP would increase by a further 1% in 2021 and by 4.4% more in annual average terms from 2022 to 2024 (see Chart 2.2). This plan could also raise global GDP and that of the euro area by an additional 0.1% in 2021. The effects on economic activity would be greater over the period running from 2022 to 2024, during which time global GDP and that of the euro area would respectively average an increase of 0.9% and 0.7% per annum.

The results set out in this box should be taken with caution and seen as an initial approximation to the potential

effects of the fiscal packages analysed on economic activity. For one thing, the fiscal impulse ultimately implemented might be lower than announced, given the ambitiousness of the proposals and US political dynamics. For another, while they remain active, the social distancing and pandemic-containment measures might mean that the fiscal multiplier of these stimulus programmes will be lower than empirically documented in other previous episodes.<sup>10</sup> Lastly, while the simulations take into account the trade links between the different world economies, they do not consider other potential transmission channels, such as financial ones, or the effects on uncertainty and confidence.

9 The model does not allow certain details of the fiscal plans to be included, which might affect the results. For instance, the net budgetary change of the tax measures is used and certain measures earmarked for households with lower average income are not included. Insofar as these households usually have a high marginal propensity to consume, the total effect of the fiscal stimulus set out in this box might be skewed to the downside. Further, the fiscal measures affecting higher-income agents might cause significant changes to their behaviour, leading them to reduce labour supply (households) or their level of investment (households and firms), which would skew the results in the opposite direction.

10 See Congressional Budget Office (2020), (2020), "Key methods that CBO used to estimate the effects of pandemic related legislation on output", Working Paper 2020-07.



## HOUSEHOLD SAVING DURING THE PANDEMIC AND ITS POSSIBLE EFFECTS ON THE FUTURE RECOVERY IN CONSUMPTION

José Antonio Cuenca, Carmen Martínez Carrascal and Ana del Río

This early-release box was published on 10 March

One key aspect associated with the economic crisis prompted by COVID-19 has been the extraordinary increase in saving rates (see Chart 1). Indeed, from January to September 2020 (the latest available figure), household saving was around 3.5 pp of GDP higher than observed, on average, in the first three quarters of the last five years both in Spain and the euro area (see Chart 2). A significant portion of this excess saving has built up in the form of bank deposits (see Chart 3).

The course of saving has reflected a much more marked decline in household consumption than in household income. The latter has been sustained, to some extent, by the public support measures deployed to mitigate the adverse economic effects of the pandemic (see Chart 4). In turn, several factors – beyond the decline in household income – have contributed to the record fall-off in private consumption. A portion of the fall in consumption would be the result of households' wish to increase their

Chart 1  
HOUSEHOLD SAVING RATE (a)

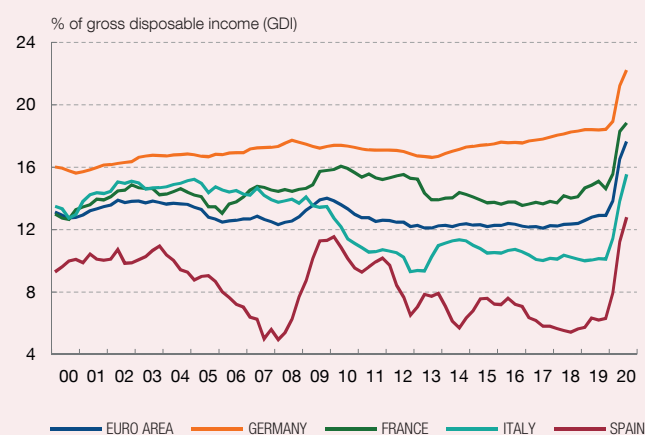


Chart 2  
EXCESS SAVING IN THE FIRST THREE QUARTERS OF 2020  
Difference from average saving observed in the same period over the last five years  
% of 2019 GDP

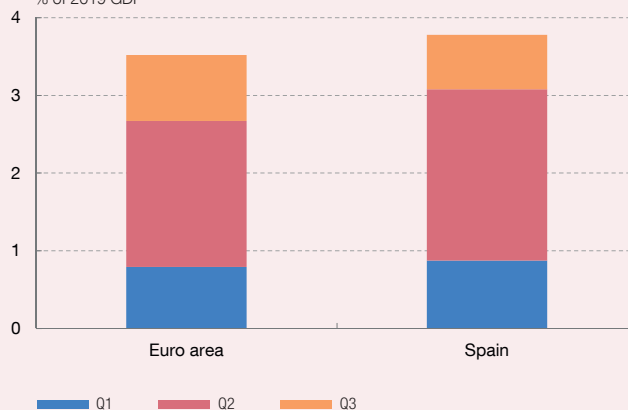


Chart 3  
HOUSEHOLD BANK DEPOSITS  
Cumulative 12-month flows

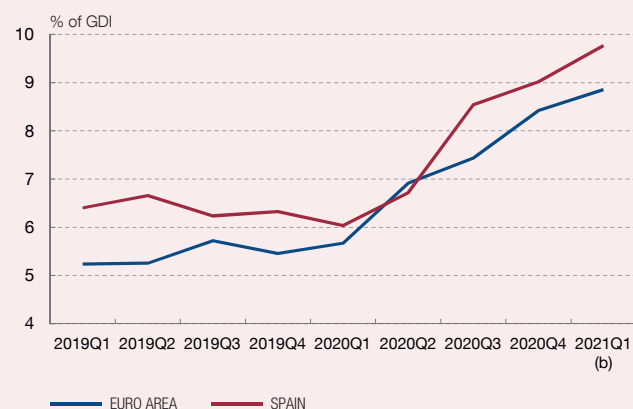
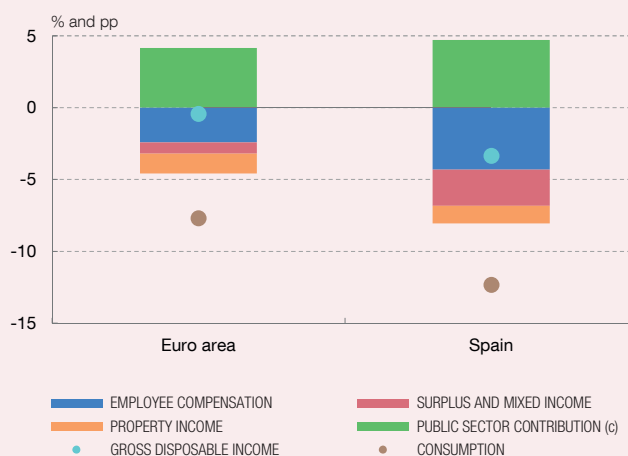


Chart 4  
HOUSEHOLD INCOME AND CONSUMPTION  
In the first three quarters in 2020. Year-on-year increase and contributions. Deflated by the HICP



**SOURCES:** Eurostat, INE, ECB, Banco de España and own calculations.

a Four-quarter moving average. GDI is adjusted for the change in pension fund entitlements.

b The figures for 2021 Q1 refer to January.

c Includes the contribution of social benefits other than transfers in kind, social contributions and personal taxes.

## HOUSEHOLD SAVING DURING THE PANDEMIC AND ITS POSSIBLE EFFECTS ON THE FUTURE RECOVERY IN CONSUMPTION (cont'd)

precautionary saving, ahead of a very uncertain health and economic situation.<sup>1</sup> Their perception concerning their future financial position and the trend of unemployment has worsened notably (see Chart 5).

The behaviour of private consumption in recent quarters has also been considerably influenced by the restrictions progressively imposed by the authorities on people's mobility and on specific activities in order to contain the pandemic. These restrictions undoubtedly set this crisis apart from any recent, previous recessionary episode. And, largely, they have, along with the fear of contagion, prevented households from attaining their wished-for level of consumption since the onset of the crisis. This has given rise to a sizeable volume of saving that might be classified as forced.<sup>2</sup> In this connection, the consumption models used by the Banco de España suggest that the forced saving reservoir accumulated to 2020 Q3 could be close to 2.5% of both euro area and Spanish GDP (see Chart 6).<sup>3</sup> The fact that the most pronounced decline in consumption has been observed precisely in transport-related spending items and those entailing a greater degree of social interaction – and which, therefore, have been most affected by the restrictions – would also point to the predominantly forced nature of the increase in household saving (see Chart 7).

Foreseeably, in the coming months, progress in the vaccination process will allow a gradual easing of the pandemic containment measures still in force, contributing to a progressive lessening of the uncertainty over the health and economic situation. That, in turn, will provide help for the release of a portion of the private saving reservoir accumulated, potentially lending greater

momentum to the recovery in consumption. In any event, the scale of this effect is subject to high uncertainty, and some arguments suggest that its impact could be relatively limited.

First, a major portion of unsatisfied consumption in recent quarters attributable to the restrictions is spending on services, which generally cannot be deferred. In this respect, once consumption habits are restored, it is not to be expected that habitual spending on specific services, such as restaurants and leisure, will be added to by spending that did not materialise during the health crisis.

Second, the extraordinary saving reservoir built up since the onset of the pandemic is concentrated mainly in higher incomes, whose marginal propensity to consume is lower.<sup>4</sup> Lower-income households do not only have a lower saving capacity; in fact, the increase in saving over recent quarters might have been more limited or even, in some cases, non-existent despite the fact that the public support measures may have contributed to sustaining these households' incomes.<sup>5</sup> Here, it is worth mentioning that, on one hand, low-income workers account for a relatively higher proportion of employment in those sectors most affected by the pandemic (see Chart 8).<sup>6</sup> On the other hand, spending that has not been possible owing to the effect of the containment measures (and which has been saved) – essentially that linked to those items entailing greater mobility and social interaction – has less weight in the spending of low-income households.

Lastly, the economic literature also emphasises the possibility that households may decide to maintain a relatively high level of saving because they foresee future

1 See, for example, Christelis D., D. Georgarakos, T. Jappelli and G. Kenny (2020), *The Covid-19 crisis and consumption: survey evidence from six EU countries*, Working Paper No. 2507, European Central Bank.

2 See the Deutsche Bundesbank survey (2020), "Households' saving behaviour during the pandemic", *Monthly Report*, December, and the analysis for the euro area in *COVID-19 and the increase in household savings: precautionary or forced?*, European Central Bank, *Economic Bulletin* 6/2020.

3 This quantification is obtained from the consumption equation for the euro area set out in A. del Río and J.A. Cuenca (2020) *Euro area household income and saving during the first wave of the pandemic*, *Economic Bulletin* 1/2021, Banco de España; and, for Spain, using the consumption equation included in the Banco de España Quarterly Macroeconometric Model. Forced saving is calculated on the basis of the forecasting error of these equations, taking the data observed to 2020 Q1. Forced saving would rise by 1 pp if the calculation were made taking the latest observed figures as those to 2020 Q4. The European Commission, in its Winter 2021 Economic Forecast, estimates excess saving of the order of 3% of euro area GDP.

4 See, for example, M. Ampudia, R. Cooper, J. Le Blanc and G. Zhu (2020), *MPC Heterogeneity in Europe: Sources and Policy Implications*, NBER Working Paper Series, No. 25082.

5 See, for the UK, the evidence in Davenport, A., R. Joyce, I. Rasul and T. Waters (2020), *Spending and saving during the COVID-19 crisis: evidence from bank account data*, The Institute for Fiscal Studies.

6 For an analysis of the financial position of the workers most affected by the pandemic, see P. Alvargonzález, M. Pidkuyko and E. Villanueva (2020), "The financial position of the workers most affected by the pandemic: an analysis drawing on the Spanish Survey of Household Finances", *Analytical Articles*, *Economic Bulletin* 3/2020, Banco de España.

## HOUSEHOLD SAVING DURING THE PANDEMIC AND ITS POSSIBLE EFFECTS ON THE FUTURE RECOVERY IN CONSUMPTION (cont'd)

Chart 5  
HOUSEHOLD EXPECTATIONS AS TO UNEMPLOYMENT DEVELOPMENTS AND THEIR FINANCIAL POSITION  
European Commission consumer confidence survey. Monthly average

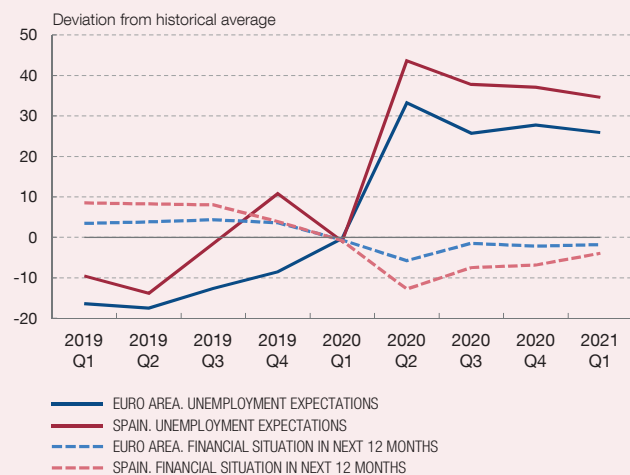


Chart 6  
DETERMINANTS OF THE INCREASE IN HOUSEHOLD SAVING  
Cumulative increase between 2020 Q1 and 2020 Q3 compared with the same period in 2019 (a)

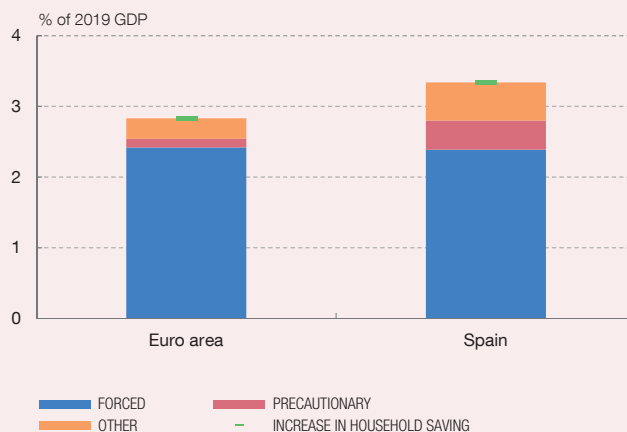


Chart 7  
SPENDING ITEMS THAT HAVE MOST CHANGED IN THE WEIGHTING OF THE HICP (EURO AREA) AND THE CPI (SPAIN)  
Change in weight between 2020 and 2021

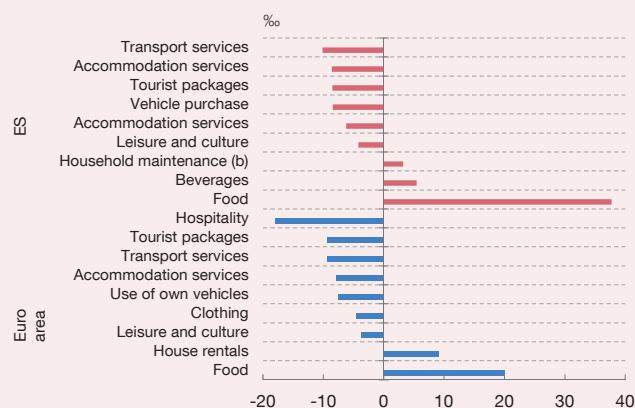
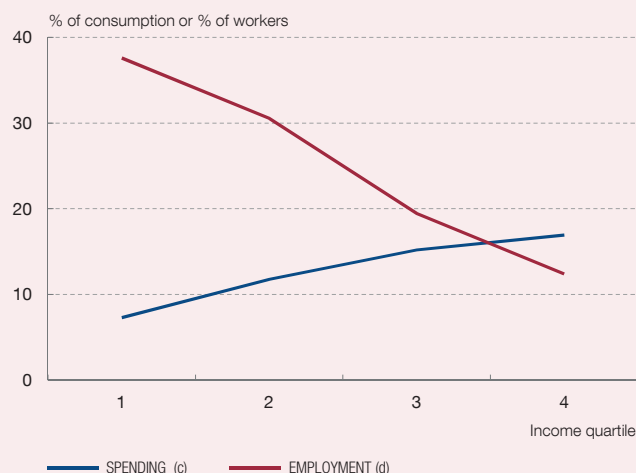


Chart 8  
PERCENTAGE OF EMPLOYMENT AND OF SPENDING IN SECTORS OF ACTIVITY AND IN SPENDING ITEMS MOST AFFECTED BY THE PANDEMIC  
Breakdown by income quartile



SOURCES: Eurostat, ECB, INE, Banco de España and own calculations.

- The breakdown is obtained following the approach set out in del Río and Cuenca (2020), using a consumption equation for the euro area and, for Spain, the equation of the Banco de España Quarterly Macroeconometric Model for this aggregate. Forced saving is calculated on the basis of the forecasting error of these equations, taking the data to 2020 Q1. Forced saving would rise by 1 pp if the calculation were made taking 2020 Q4 as the latest observed figure.
- Spending on goods and services intended for household maintenance.
- Proportion of spending on transport services, recreational and cultural services, tourist packages, and hotels, cafeterias and restaurants relative to total spending. The proportions have been calculated with the 2019 Household Budget Survey, using total spending as an indicator of the level of household income.
- Proportion of workers in the sectors most affected by the pandemic (hospitality, transport, personal services, other services and domestic staff) who reside in a household with income in a specific income quartile relative to the total households in that income quartile. The percentages have been calculated on information from the 2014 Spanish Survey of Household Finances.

**HOUSEHOLD SAVING DURING THE PANDEMIC AND ITS POSSIBLE EFFECTS ON THE FUTURE RECOVERY IN CONSUMPTION** (cont'd)

tax rises in response to the notable increase in public debt in this crisis (the Ricardian channel). Further, some papers also identify possible adverse fallout effects of this crisis on future spending. In particular, the extreme circumstances of recent months might structurally alter individuals' behavioural patterns, making them more inclined to save insofar as they assign a greater probability to this type of extreme event.<sup>7</sup>

In short, since the onset of the COVID-19 crisis, the pandemic containment restrictions have prevented some

habitual household spending. This has given rise to a most sizeable reservoir of forced saving, both in Spain and in the euro area. Foreseeably, a portion of these funds, built up essentially in the form of bank deposits, may add greater momentum to the pick-up in consumption once the epidemiological situation allows and uncertainty abates. However, the distribution of saving by income level and certain factors, such as a possible persistent increase in the precautionary and Ricardian components of household saving, suggest that the magnitude of this channel might be partly curtailed.

---

7 See, for example, U. Malmendier and L. Sheng Shen (2019), *Scarred Consumption*, International Finance Discussion Papers, No. 1259, Board of Governors of the Federal Reserve System.

**OPEN STRATEGIC AUTONOMY IN THE EU**

Pilar L'Hotellerie-Fallois Armas, Marta Manrique Simón and Antonio Millaruelo de Lafuente

This early-release box was published on 4 March

The European Council of 1 and 2 October 2020 defined “achieving strategic autonomy while preserving an open economy” as a key objective of the Union.<sup>1</sup> True, there is no full consensus around the implications of this objective. But Open Strategic Autonomy (OSA) broadly encompasses the EU's aspirations to independently project its influence on the global stage – by reinforcing the multilateral governance framework and through dialogue and cooperation with external partners – and to defend, at the same time, its interests and values at home and abroad. This box reviews the setting in which this objective arises and the EU's main initiatives in this area.

The notion of strategic autonomy, traditionally used in connection with the EU Common Foreign and Security Policy, was introduced as a more cross-cutting component into the EU Global Strategy in 2016.<sup>2</sup> Recently, the economic facet of this notion has gained in significance as the considerable exposure of European economic activity to numerous geopolitical risks has become patent. The European economy's high sensitivity to this type of shock stems, among other factors, from its dependence on external commodities sources (both energy commodities and other raw materials essential for the development of new technologies<sup>3</sup>) and from its high trade openness (meaning the EU is particularly vulnerable to the recent questioning of the multilateralism set in place by the Bretton Woods consensus in the wake of the Second World War<sup>4</sup>, to the deployment of protectionist policies in the United States in recent years<sup>5</sup> and to events such as Brexit). Moreover, the supply problems with medical and healthcare equipment and products further

to the COVID-19 pandemic<sup>6</sup> (exacerbated in part by the export restrictions imposed by some governments) have prompted a debate on how best to mitigate these supply risks. Alternatives such as building up strategic reserves, increasing internal production, diversifying supplies, and simplifying and bringing certain supply chains closer to home<sup>7</sup> have all been considered.

These issues have led the European Commission (EC) and the Council to place OSA at the heart of their actions to strengthen the resilience of the EU economy and financial system and to reinforce their global integration. Hence, in January 2021, the EC proposed reinforcing strategic autonomy in the financial system and in payment systems by adopting twin measures.<sup>8</sup> The first aims to increase the international stature of the euro, promoting its use and that of euro-denominated reference instruments and indices, and fostering its role as a benchmark currency in key sectors such as energy and commodities. The possibility of a digital euro will be part of this set of initiatives.<sup>9</sup> As to the second measure, actions to increase the resilience of EU financial market infrastructure and to improve the effectiveness and independence of the Union's sanctions regime<sup>10</sup> have been identified.

Economic and trade measures have so far taken the form of an update of the guiding principles of EU trade policy.<sup>11</sup> In this connection, making European value chains more sustainable and resilient has become an explicit objective, in tandem with reaffirming commitment to multilateralism and to a stable rules-based framework for international

- 1 See European Council Conclusions, 1 and 2 October 2020. For a discussion on the background to OSA, see also “Why European strategic autonomy matters”, European External Action Service (December 2020), and Lippert, Ondarza and Perthes, eds. (2019), *European Strategic Autonomy - Actors, Issues, Conflicts of Interests*, SWP Research Paper 4, March 2019, Berlin.
- 2 See European External Action Service (2016), *Shared Vision, Common Action: a Stronger Europe - A Global Strategy for the European Union's Foreign and Security Policy*.
- 3 See EU Commission-JRC (2020), *Critical Raw Materials for Strategic Technologies and Sectors in the EU - A Foresight Study*, September.
- 4 See P. Hernández de Cos (2019), “Global Imbalances and Capital Flows in the Era of New Technologies”. Opening Remarks - Banco de España and the Reinventing Bretton Woods Committee.
- 5 See E. Gordo Mora, I. Kataryniuk and D. Santabábara (2020), “El auge del proteccionismo: implicaciones para la economía global”, *Economistas*, No 166, pp. 67-79.
- 6 See Banco de España (2020), “International trade in medical products during the COVID-19 pandemic”, Box 4, *Economic Bulletin*, 4/2020.
- 7 See, for example, Sebastien Miroudot (2020), “Reshaping the policy debate on the implications of COVID-19 for global supply chains”, *Journal of International Business Policy*, 3, pp. 430-442.
- 8 See Commission Communication - “The European economic and financial system: fostering openness, strength and resilience”, 19 January 2021.
- 9 The EC and the European Central Bank have set up a working group to study this matter. See “Joint statement by the European Commission and the European Central Bank on their cooperation on a digital euro”, 19 January 2021.
- 10 See, for example, *EU-Iran: the way forward*, European Parliamentary Research Service (2020).
- 11 See EC communication “Trade Policy Review - An Open, Sustainable and Assertive Trade Policy”, 18 February 2021.

**OPEN STRATEGIC AUTONOMY IN THE EU (cont'd)**

trade. Further, the EC will review in 2021 the industrial policy strategy it published in March 2020<sup>12</sup> so as to take into account the vulnerabilities identified as a result of the COVID-19 crisis. Also, to ensure that competition conditions in the internal market are not distorted, the EC has launched a foreign direct investment analysis mechanism. This will be supplemented in 2021 with a system for assessing the State aid that international firms seeking access to the European market may have received.<sup>13</sup>

In conclusion, Open Strategic Autonomy in the EU appears to be shaping up as a coordinating framework for a very broad set of policies to boost the external projection of the Union. It is a commitment to trade openness and multilateralism, reinforcing at the same time the region's economic and financial resilience. It is still too soon to accurately gauge the implications of this relatively incipient strategy. But some aspects of it may actually

hinder convergence and cohesion among the Member States and distort the workings of the single market. A case in point might indeed be aspects relating to any future far-reaching review of industrial policy strategy. Admittedly, a renewed, common industrial policy might contribute to the EU retaining its leadership in sensitive and high-value-added sectors, boosting economies of scale and positive network effects. However, insofar as this policy focuses on specific sectors and activities, it might affect different EU countries and regions asymmetrically, given the prevailing differences in productive specialisation. Were these heterogeneous effects to materialise, a resolute strengthening of the European governance framework would be in order. Permanent mutual insurance tools to mitigate asymmetries – such as a central fiscal capacity, unemployment insurance and a common safe asset – and reinforced cohesion policies would need to be set in place.

12 See Commission Communication “A new industrial strategy for Europe”, 10 March 2020.

13 The attendant arrangements are included in the *White Paper on levelling the playing field as regards foreign subsidies*, published in June 2020.

In February, the Banco de España conducted the second round of its Business Activity Survey (EBAE) to obtain first-hand information about firms' activity in the current quarter and about the immediate outlook. Similarly to the first wave launched in November last year, the survey compiles qualitative information about turnover, employment and prices. Furthermore, given the current setting, additional questions were included on the impact of the pandemic and the strategies that businesses intend to adopt in the coming months in response. The survey questionnaire was sent, on 18 February, to a sample comprising 13,000 firms, 44.5% of which typically respond to Central Balance Sheet Data Office (CBSO) surveys. This box compiles the responses to the questionnaire received up to 3 March. Overall, the firms' response has been very satisfactory, with 4,855 responses received in total (a response rate of 37.2%).<sup>1</sup>

Chart 1 summarises the view the firms have provided in the first two rounds of the EBAE about their future turnover and employment, both in the quarter when the survey was conducted and the following quarter.<sup>2</sup> Their opinions are summed up in the chart in an index which translates their qualitative responses into a numerical indicator.<sup>3</sup> Based on this methodology, non-financial corporations in Spain reported that turnover is performing negatively in 2021 Q1, which reflects the effects of the resurgence of the pandemic after the Christmas period and of the restrictions approved by the authorities to contain it. Specifically, 45.4% of the firms surveyed envisage that their turnover will fall in the quarter and only 13.3% expect it to improve. Compared with the November survey, these responses show a deterioration in respect of both the assessment of 2020 Q4 made at that time and of the outlook expected for 2021 Q1.

When the firms are asked about the factors shaping their activity, the results are very similar to those of Q4: high uncertainty about how the pandemic and economic policy will unfold and falling demand are the two factors reported as having the greatest negative impact on turnover.

Turning to the short-term outlook, the firms surveyed anticipate an improvement for Q2 – the quantitative

indicator in the chart shows a slightly positive value – stemming from the fact that, for the first time since end-2020, the firms expecting their turnover to improve (32.6%) outnumber those expecting a further deterioration (23.2%). By sector, the most adverse perception of developments in this quarter is concentrated in the services that have been hardest hit by the restrictions, such as hospitality and leisure and entertainment (see Chart 2). Looking ahead to Q2, the improvement in expectations is quite widespread by sector and, highly significantly, includes sectors which have performed less favourably in recent times.

In terms of employment, the firms surveyed described a similar picture, with Q1 being rather more negative than they had anticipated at the end of last year and an improvement expected for Q2. In symmetry with the previous round, when firms indicated that turnover was performing less well than employment, in the latest survey expectations for improvements in employment are lower than expectations for improvements in turnover. This is indicative of the fact that, as is to be expected, fluctuations in firms' sales are not generally fully reflected in employment demand.

Firm size continues to be one of the key factors that explain the latest developments in both turnover and employment, with smaller firms reporting a worse perceived performance in Q1, as well as less favourable expectations for Q2 (see Chart 3).

Regarding prices (see Chart 4), firms report having faced higher input costs, probably related to higher commodity prices. This increase in prices exceeded that observed at end-2020, and expectations at that time for early 2021, and is quite widespread across the different branches of activity. Nevertheless, firms in the industrial, retail and transportation sectors report the highest increase in the price of their inputs in Q1. Prices are expected to increase somewhat more moderately in Q2. As in the last quarter, input costs appear to be squeezing firms' margins, as the firms surveyed report that the price of their products or services has fallen slightly in the quarter. But this decline is somewhat less than in the previous quarter, and they

1 This response rate is a significant increase on the response rate of the first wave which was 30.9%.

2 The findings presented in this box were calculated using weights which replicate the employment distribution in the Statistics of Firms Registered with Social Security by strata according to sector (15) and size (4). The results of the first and second wave are compared using weighted data and, consequently, some values provided now may not coincide with the information published in December.

3 The firms' qualitative responses and the assigned values are mapped as follows: steep decrease = -2, slight decrease = -1, stable = 0, slight increase = 1, steep increase = 2.



## BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY (EBAE) (cont'd)

Chart 1  
QUARTERLY CHANGE IN TURNOVER AND EMPLOYMENT

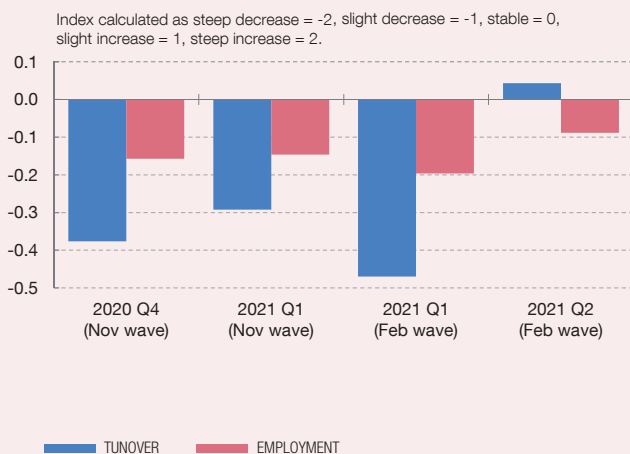


Chart 2  
QUARTERLY CHANGE IN TURNOVER AND OUTLOOK BY SECTOR

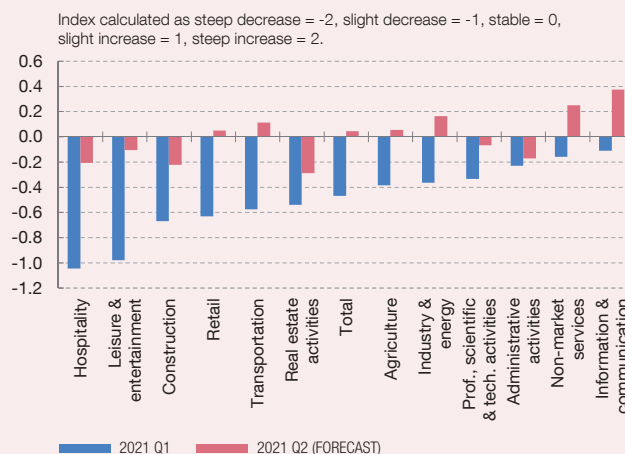


Chart 3  
QUARTERLY CHANGE IN TURNOVER AND EMPLOYMENT BY FIRM SIZE

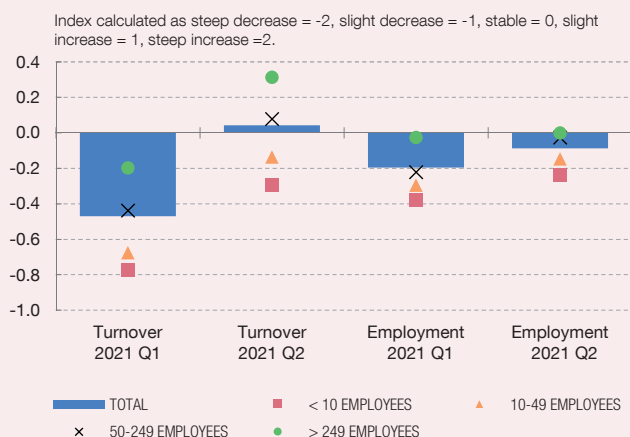


Chart 4  
QUARTERLY CHANGE IN PRICES

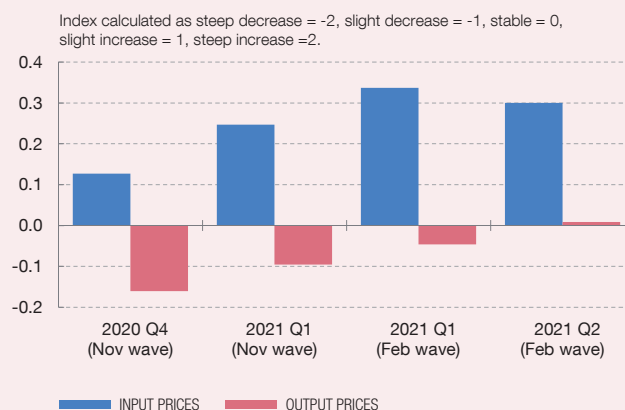


Chart 5  
MEASURES EXPECTED FOR 2021 H1 BY FIRM SIZE

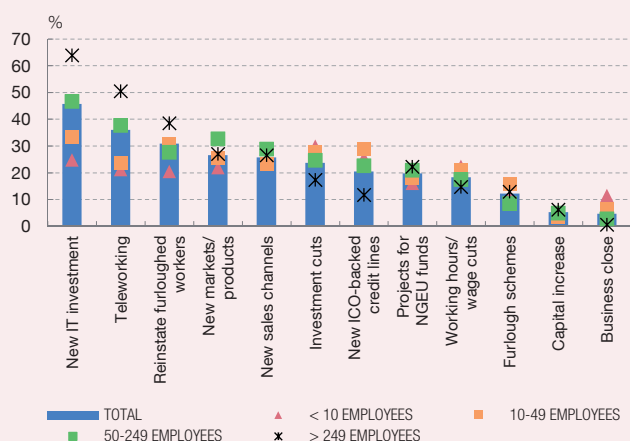
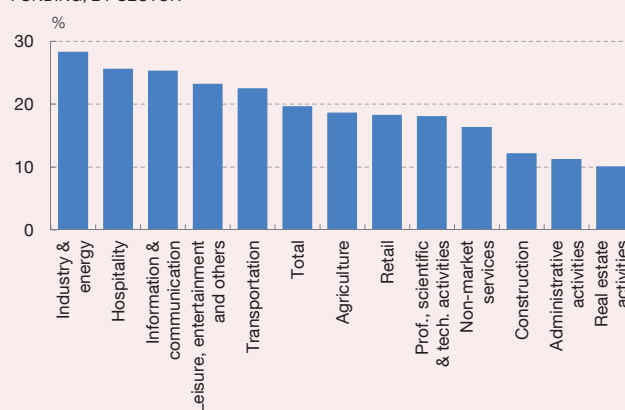


Chart 6  
FIRMS REPORTING THAT THEY INTEND TO SUBMIT PROJECTS FOR NGEU FUNDING, BY SECTOR



SOURCE: EBAE.



expect prices to hold steady in Q2. By sectors, product prices in the activities most affected by the crisis, namely hospitality and leisure and entertainment, continue to fall.

Lastly, firms were asked how likely they were to take certain measures in H1 to adapt to the consequences of COVID-19. Chart 5 shows the proportion of firms reporting that they will certainly or very likely implement each of the measures. It also depicts the breakdown of this percentage by firm size. As the chart shows, investment in new technologies and the adoption of teleworking are the two measures that the highest proportion of Spanish firms report they intend to take in the near future in response to the changes deriving from the crisis. In both cases there are significant differences by firm size, with smaller firms being less willing to adopt these measures. This could reflect their lower responsiveness to the crisis.

Similarly, although in this case there is less difference by firm size, smaller firms expect it will be more difficult for them to reinstate furloughed workers and open up new markets. By contrast, in relative terms, they expect to resort more than medium-sized and large firms to reductions in existing investment plans, applications for new ICO-backed credit lines, shorter working hours or wage cuts for their employees and, ultimately, suspension of activity. To conclude, 19.7% of the firms surveyed report that they intend to submit projects for Next Generation EU (NGEU) funding; this percentage is only slightly higher for large firms (22.2% for those with more than 250 employees). In this case, the differences by business sector are more pronounced, with firms in the industrial, hospitality, and information and communication services sectors being the most resolved to opt for these projects (see Chart 6).

**BUSINESS BIRTHS AND DEATHS SINCE THE ONSET OF THE PANDEMIC**

Mario Izquierdo

This early-release box was published on 17 March

A priori, growth in the number of firms in the economy would be expected to tend to behave cyclically, accelerating during upswings and slowing, or even turning negative, during recessions. In principle it is also plausible that, in gross flow terms, the peak of the business cycle would be accompanied by higher and lower business birth and death rates, respectively, than during the business cycle's trough. From a more structural standpoint, sizeable increases in the total number of firms would in theory be associated with a greater accumulation of factors of production (jobs and capital) and faster productivity gains. Higher business churn rates could indicate a high level of competition in the economy and an appropriate reallocation of resources to their most productive uses.

Against this backdrop, it is useful to analyse business demography data in the current crisis. The pandemic and the attendant restrictions on economic activity and movement have entailed a marked drop in income for many firms and, therefore, a decline, often steep, in their liquidity flows. The authorities have attempted to mitigate the effects of these developments by deploying a raft of measures, such as ICO-backed bank loans, moratoria on taxes and loan repayments, and waivers of employer social security contributions under the short-time work schemes (ERTE by their Spanish initials). However, certain firms will conceivably not have managed to survive, even with the measures implemented, either because of their pre-crisis vulnerabilities or because the impact of the crisis has been particularly severe. Conversely, a source of economic policy concern that will become increasingly relevant in the future is the possibility of some elements of the measures' design delaying the necessary discontinuation of activity by non-viable firms. This would hinder productive resources from being shifted towards activities benefiting from the structural transformations in the economy, some of which have been triggered by the pandemic.

According to the Statistics of Firms Registered with Social Security, the number of active firms had decreased by

almost 50,000 (3.6%) between February 2020 and February 2021.<sup>1</sup> The largest drop (almost 8%) since the onset of the crisis was recorded in April (see Chart 1). In the following months the fall-off in the number of firms moderated significantly as the restrictions were gradually eased. However, in step with activity, this relatively more favourable behaviour flagged after the summer months and the declines stabilised at their current levels.

The pronounced heterogeneity of the effects of COVID-19 at the sectoral and regional levels has also been reflected in the unevenness of the decrease in the number of firms across sectors and regions, such that the decline has been much steeper in the hardest-hit productive activities and geographical areas. By sector, the steepest decreases were recorded in the services that have borne the brunt of the various pandemic containment measures (see Chart 2). Specifically, in hospitality and arts and recreation the number of firms is currently more than 8% lower than the pre-crisis level. Similarly, very contrasting developments have been recorded by region, with a much larger decrease in the number of firms in certain regions, such as the island regions. In the Balearic Islands and the Canary Islands, the number of firms has decreased by 6.7% and 6.6%, respectively. This is consistent with the greater weight of the hardest-hit services activities in their productive structures.

It is often argued that smaller firms are more vulnerable to the effects of the pandemic.<sup>2</sup> However, this assertion would be subject to two qualifications were the materialisation of vulnerability to be measured by the figures for deaths of businesses registered with social security by firm size bracket (where size is defined by staff headcount) since the onset of the COVID-19 pandemic. First, the lowest business death rate appears to have arisen in micro-enterprises (fewer than ten employees). It only seems to be above that threshold where an inverse relationship between firm size and death rate since the onset of the pandemic has been observed (see the red bars in Chart 3). Specifically, the number of active firms

1 In these statistics, firms are deregistered when they have no employees registered for social security purposes. Consequently, the deregistration of a firm is not necessarily linked with its definitive winding-up, since it may decide to rehire once the crisis has been overcome. It may however be considered an approximate indicator of the effects of the crisis on business demography.

2 Drawing on firm-level microsimulations, financial pressure on Spanish firms as a result of COVID-19 seems to have increased more markedly at smaller firms. See R. Blanco, S. Mayordomo, Á. Menéndez and M. Mulino (2020), "The impact of the COVID-19 crisis on the financial position of non-financial corporations in 2020: CBSO-based evidence", Analytical Articles, *Economic Bulletin*, 4/2020, Banco de España. Furthermore, the magnitude of the drop in turnover and employment induced by the health crisis appears to have decreased as firm size increased. See A. Fernández Cerezo, B. González, M. Izquierdo and E. Moral-Benito (2021), "The economic impact of COVID-19 on Spanish firms according to the Banco de España business activity survey (EBAE)", Analytical Articles, *Economic Bulletin*, 1/2021, Banco de España.

**BUSINESS BIRTHS AND DEATHS SINCE THE ONSET OF THE PANDEMIC (cont'd)**

Chart 1  
FIRMS REGISTERED WITH SOCIAL SECURITY



Chart 2  
Y-O-Y CHANGE IN NUMBER OF FIRMS AND EMPLOYEES IN FEBRUARY 2021  
BY SECTOR

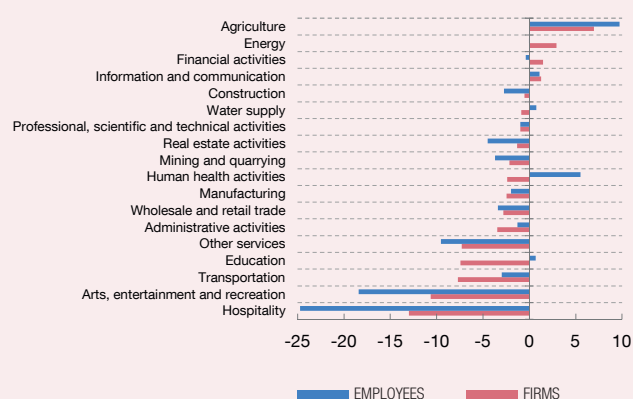


Chart 3  
Y-O-Y CHANGE IN NUMBER OF FIRMS BY SIZE IN FEBRUARY 2021

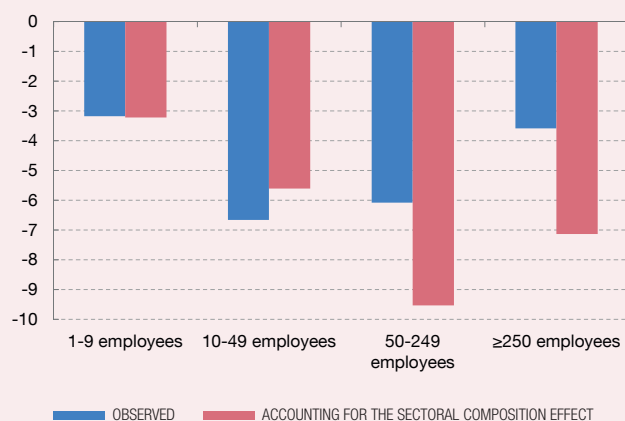


Chart 4  
ANNUAL CHANGE IN NUMBER OF FIRMS REGISTERED WITH SOCIAL SECURITY

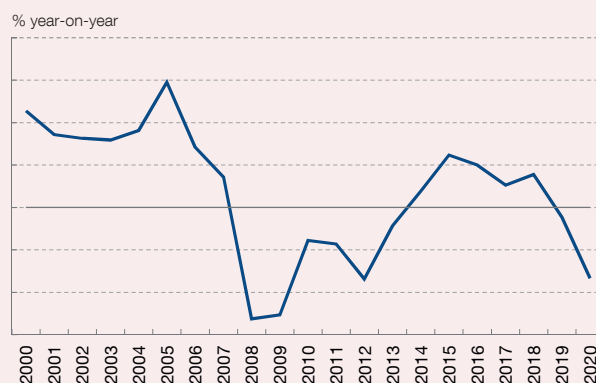


Chart 5  
Y-O-Y CHANGE IN REGISTRATIONS AND DEREGISTRATIONS OF CONTRIBUTION ACCOUNT CODES IN THE SOCIAL SECURITY SYSTEM

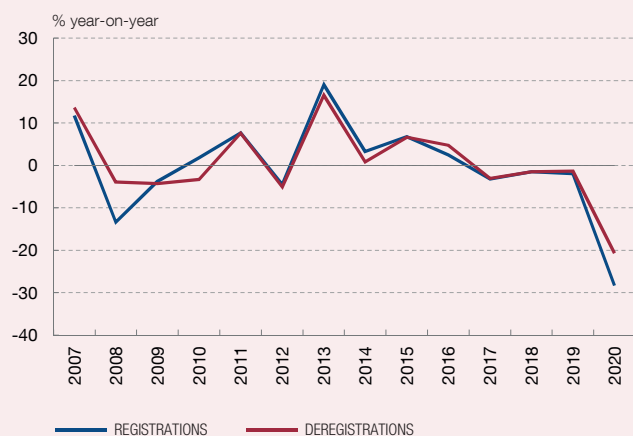
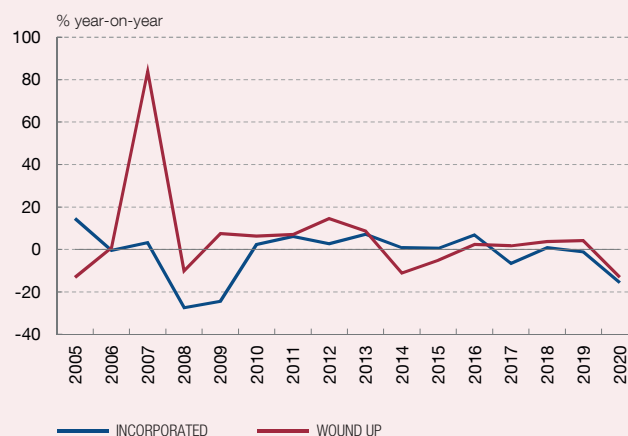


Chart 6  
Y-O-Y CHANGE IN FIRMS INCORPORATED AND WOUND UP



**SOURCES:** Statistics of Firms Registered with Social Security (Ministerio de Inclusión, Seguridad Social y Migraciones) and Mercantile Companies Statistics (INE).

with between 10 and 49 employees has decreased by almost 6.7% to February compared with 3.6% in the case of firms with 250 or more employees. Second, a portion of this gap is also related to the average firm size being larger in the case of those operating in sectors whose activity has been less affected by the crisis. In particular, larger firms are more common in manufacturing or the energy sector, such that when correcting for this sectoral composition effect, the correlation between firm size and changes in the stock of active firms tends to invert (see the blue bars in Chart 3).<sup>3</sup>

In terms of calendar-year average rates, in 2020 the percentage decrease observed in the number of firms was lower than in the first two years of the previous crisis (2008 and 2009), and comparable to that of 2012 (see Chart 4), although the fall-off in activity was far greater in 2020. This divergence could be a reflection of how the two crises differ as regards two, interrelated, dimensions: their causes, associated with a build-up of imbalances in the previous recession and exogenous in the present crisis, and their degree of persistence, which should in principle be lower this time around.

Separate analysis of the gross flows of business births and deaths reveals that a marked decline in new registrations<sup>4</sup> lies behind the decrease in the total number of firms in the current crisis. Specifically, the number of firms registered in 2020 was 28.3% lower than in the preceding 12 months (see Chart 5). However, it is striking that no increase has yet been observed in the flows of business deregistrations, but instead, a notable decrease, albeit smaller than in the case of business registrations (-20.7%). Consequently, there has been a sharp drop in the business churn rate, defined as the sum of business births and deaths, a variable which posted a year-on-year fall of 24.5% in 2020, considerably higher than in 2008, at the onset of the previous recession (-8.7%).

The Mercantile Companies Statistics also reflect this downward trend in the flows of business births and deaths

in 2020, with declines in the number of newly incorporated and wound-up firms of 15.8% and 13.1%, respectively, compared with the previous year (see Chart 6). Similarly, the Bankruptcy Proceedings Statistics showed a decrease in the number of firms subject to insolvency proceedings in 2020 as a whole (14.4%), as a result of the insolvency moratorium approved last April.<sup>5</sup>

In short, the significant decline in the indicators of the flow of business deaths since the start of the pandemic seems rather counterintuitive, compared to what would be expected in a recession. Along with the temporary nature of the shock, this decline may be explained by the effects of the support measures adopted. In principle, the interpretation is a positive one, insofar as these measures have been effective in preserving the productive system. However, looking ahead, two contrasting considerations should be added. First, the prolongation of the crisis suggests that it would be advisable to extend the measures over time for viable firms, shifting the focus of the support provided from liquidity considerations to solvency concerns, in keeping with the measures recently approved under Royal Decree-Law 5/2021, which include direct financial assistance amounting to €7 billion for firms with solvency problems, but still economically viable, from the sectors most affected by the crisis.

Second, the authorities must remain watchful in order to prevent economic policy actions from hindering the process of reallocating the economy's resources to their most efficient uses, which would occur if the measures were to contribute to delaying the exit from the market of non-viable firms. In this connection, the transposition to Spanish law of the EU Directive on insolvency proceedings should be taken as an opportunity to encourage the use of pre-insolvency arrangements as a way of avoiding congestion in the competent courts when the insolvency moratorium expires, and to implement mechanisms for the swift and efficient winding up of non-viable firms.

3 To distinguish the effect of the sector of activity, what the rate of change in number of firms would have been for each of the size brackets had the sectoral structure been that of the economy as a whole rather than that actually observed has been calculated.

4 This information is available for registrations and deregistrations of contribution account codes, not for registered firms, the difference being that a firm may have more than one contribution account code. Consequently, although these flows do not refer strictly to registered and deregistered firms, they could be considered a good approximation.

5 Recently extended until end-2021 under Royal Decree-Law 5/2021.

**DEVELOPMENTS IN THE PROJECTIONS OF THE MAIN MACROECONOMIC VARIABLES IN 2020**

Mario Izquierdo

This early-release box was published on 18 March

The emergence of COVID-19 prompted a drastic change, from March 2020, in the paths of the main macroeconomic variables, such as GDP, employment and the unemployment rate. These sudden developments completely altered the outlook for these aggregates, which also became subject to an exceptionally high level of uncertainty. This led the Banco de España, and other institutions, to draw up alternative scenarios, in which the paths of the different variables were shaped by various sets of assumptions as to the intensity of the COVID-19 outbreaks or when a medical solution would become widely available.

Shaping outlooks to certain assumptions about the trajectory of specific variables is not new. Projections are often based on concrete assumptions about the course of oil prices or fiscal policy measures, for example. What has been unprecedented since the emergence of COVID-19 is that the projected path of macroeconomic variables has been subject to the hypothetical materialisation of certain epidemiological assumptions.

Uncertainty was especially high during the spring of last year, driven in particular by the difficulties in estimating the effects of the restrictions on mobility and economic activity (in March and April) and of the subsequent gradual lifting of these measures (in May and June). In this context, the three scenarios published by the Banco de España in April envisaged average falls in GDP in 2020 of -6.8%, -9.5% and -12.4%, respectively.<sup>1</sup> The three scenarios published in June projected GDP declines of -9%, -11.6% and -15.1%.<sup>2</sup>

In the second half of the year uncertainty lessened for several reasons, the first of which was the shorter time period remaining until year-end. The greater knowledge about the relationship between the lockdown measures and activity also had an effect, as did even the perception that it was increasingly unlikely that another lockdown as stringent as that imposed in the spring would be needed.

All this was reflected in a significant narrowing in the gap between the rates of decline of GDP projected under the most extreme scenarios. Specifically, the two September scenarios foresaw GDP decreases of -10.5% and -12.6%, while the three December scenarios envisaged falls of -10.7%, -11.1% and -11.6%.<sup>3</sup>

Chart 1 shows the changes over the year in these GDP projections, together with the latest estimate (-11%). As can be seen, the decline in economic output in 2020 was at the mid-point between scenarios 2 and 3 published in April (around 1.5 pp off in each case) and 0.5 pp below the rate projected under the gradual recovery (intermediate) scenario published in June. It was closer to the more benign of the two scenarios published in September and was practically the same as the December baseline scenario. In any event, aside from the high degree of uncertainty about the size of the decline in GDP, no systematic bias of either sign is detected in the projections, which broadly speaking include positive and negative differences vis-à-vis the latest figure available.

Chart 2 shows a similar comparison for employment projections, measured in terms of number of hours worked. This variable was chosen to measure changes in employment in 2020, as opposed to employment in terms of numbers of people or full-time equivalent jobs, because the latter were distorted owing to the high number of workers furloughed under the short-time work scheme, who are classified for statistical purposes as employed even when they are not contributing to economic output.

As the chart shows, the difference for 2020 as a whole between successive projections of hours worked and the latest figure available (decline of -10.4%) showed a somewhat more negative bias than in the case of GDP. In other words, given the behaviour of activity, either the number of hours worked tended to be underpredicted or the trajectory of this variable was more favourable than that inferred from its historical relationship with GDP.

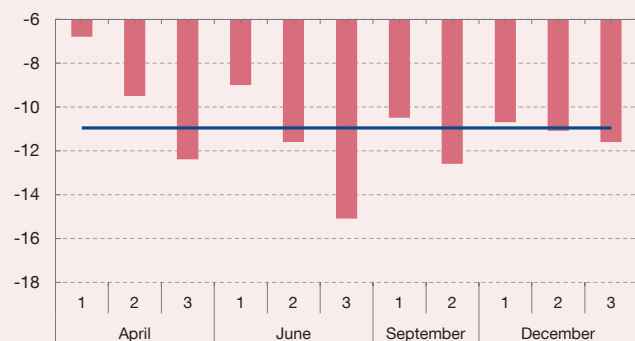
1 See "Reference macroeconomic scenarios for the Spanish economy after COVID-19", Analytical Articles, *Economic Bulletin* 2/2020, Banco de España, for which the cut-off date was 13 April. In addition to the three scenarios mentioned (prepared with help from the Quarterly Macroeconomic Model of the Banco de España), this publication included three further scenarios for 2020. These envisaged declines in GDP of -6.6%, -8.7% and -13.6% and were constructed drawing on alternative assumptions about the lockdown measures in the year and their impact on each productive sector.

2 See "Macroeconomic projections for the Spanish economy (2020-2022): the Banco de España's contribution to the Eurosystem's June 2020 joint forecasting exercise", for which the cut-off date was 25 May.

3 See Box 1 "Macroeconomic scenarios for the Spanish economy (2020-2022)" in the "Quarterly report on the Spanish economy", *Economic Bulletin* 3/2020, Banco de España, and "Macroeconomic projections for the Spanish economy (2020-2023): the Banco de España's contribution to the Eurosystem's December 2020 joint forecasting exercise", for which the cut-off dates were 10 September and 25 November, respectively.

## DEVELOPMENTS IN THE PROJECTIONS OF THE MAIN MACROECONOMIC VARIABLES IN 2020 (cont'd)

Chart 1  
FORECAST ANNUAL CHANGE IN GDP IN 2020 UNDER THE DIFFERENT SCENARIOS



FINAL FIGURE

Chart 2  
FORECAST ANNUAL CHANGE IN HOURS WORKED IN 2020 UNDER THE DIFFERENT SCENARIOS

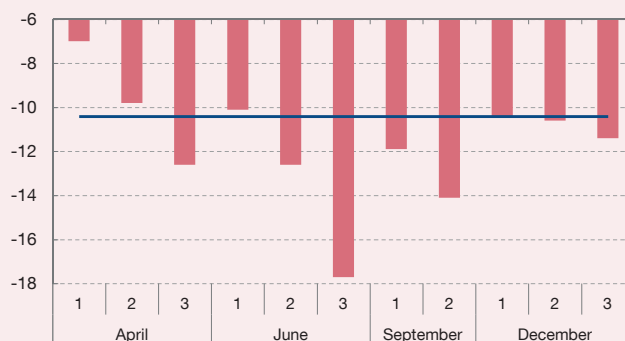
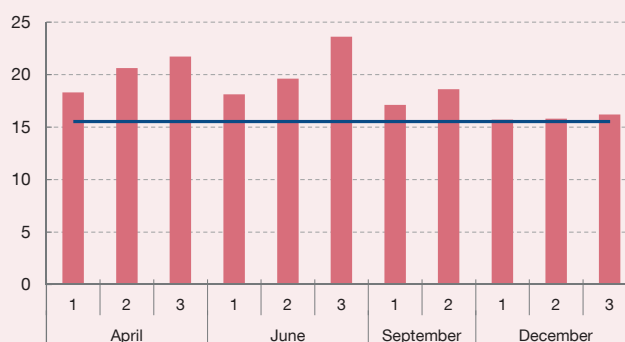
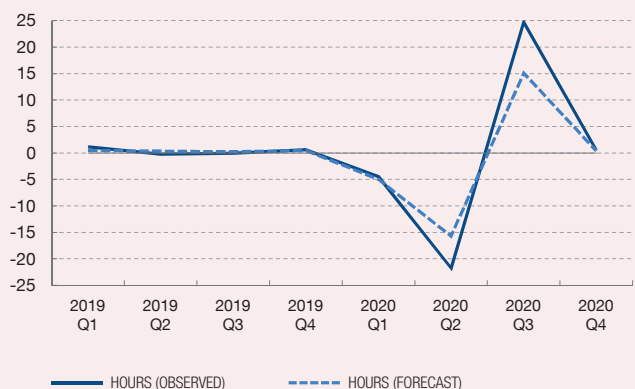


Chart 4  
FORECAST UNEMPLOYMENT RATE IN 2020 UNDER THE DIFFERENT SCENARIOS



FINAL FIGURE

Chart 3  
QUARTER-ON-QUARTER CHANGE IN HOURS WORKED



HOURS (OBSERVED) HOURS (FORECAST)

Chart 5  
LABOUR FORCE



FINAL FIGURE

Chart 6  
FORECAST UNEMPLOYMENT RATE IN 2020 UNDER THE DIFFERENT SCENARIOS



SOURCES: Spanish Labour Force Survey (INE), Quarterly National Accounts (INE) and Banco de España macroeconomic projections.



Chart 3 sheds some light in this respect. As the chart shows, the sensitivity of hours worked to GDP was higher than the historical relationship between the two variables would warrant, both in Q2 (negative difference) and Q3 (positive difference).<sup>4</sup> However, in absolute terms, the positive difference in Q3 is twice the negative difference in Q2. This confirms that, for the year as a whole, the number of hours worked was more favourable than was to be expected according to GDP growth,<sup>5</sup> considering the historical relationship between the two variables.

Lastly, in the case of the unemployment rate, there was a systematic overprediction throughout 2020, with the sole exception of the December projections when the year was almost at its close (see Chart 4). Thus, for example, the three scenarios published in April envisaged average unemployment rates in 2020 of 18.3%, 20.6% and 21.7%, compared with the final figure of 15.5%. So what are the reasons for such significant deviations which, moreover, also appeared in other institutions' projections?<sup>6</sup>

There are two main reasons, the first of which is the unexpected sharp fall (by more than one million people) in the labour force in Q2. This stems from the fact that the Spanish Labour Force Survey (EPA) classified as economically non-active a very large number of people who, although unemployed and available for work, were unable to actively seek work in Q2 because of the lockdown restrictions (see Chart 5).

The second reason is connected with one of the typical characteristics of the process of preparing macroeconomic projections, namely, as is explained above, the fact that they are dependent upon certain assumptions. Specifically, in the case of economic policy measures, only those measures that have already been approved are included in the projection exercises. For this reason, the successive scenarios drawn up by the Banco de España only included the extensions to the short-time work schemes as and when they received Government approval. Thus, for instance, the duration of the schemes considered in the April scenarios coincided with the duration of the first state of alert, while the duration of those considered in the

scenarios published in June, September and December 2020 was limited by the duration approved (i.e. up to 30 June 2020, 30 September 2020 and 31 January 2021, respectively). Accordingly, each of the extensions prolonged the period of time in which a large number of workers remained under these short-time work schemes. Given that the EPA criteria used to classify persons according to their employment status do not consider furloughed workers to be unemployed, this has, for the full year, a direct positive impact on employment figures (in number of persons) and a direct negative impact on unemployment rate figures.

Chart 6 depicts the successive unemployment rate projections (shown in Chart 4) broken down by the effects of the two above-mentioned factors plus a third residual element. This last component (the red section in each bar) depicts what would have been the unemployment rate projection at each time and under each scenario had the assumptions on the labour force and furlough scheme extensions in 2020 coincided with actual developments.

Broadly speaking, the chart shows that the unemployment rate projections made in the baseline scenarios of the different projection exercises would have been closer to the final level observed had the overprojection bias been eliminated. This is especially true in the first half of the year, before the unexpected fall in the labour force and successive furlough scheme extensions were known.

The drop in the labour force in 2020 Q2 is an extraordinary factor which, as indicated above, was linked to the strict lockdown in the first state of alert. There is, therefore, no reason why a similar trend should be observed in 2021. The unemployment rate projections for this year included in the scenarios published by the Banco de España in this report are based on the assumption that, in accordance with current legislation, the short-time work schemes will last only until the end of May. However, the impact on the unemployment rate of a hypothetical extension beyond that date would, in principle, be lower than in spring 2020, as the number of furloughed workers is much lower than the peak recorded in April 2020.

4 The exercise conducted consisted of a regression, using seasonally-adjusted quarterly rates, of hours worked to GDP for the period 1995-2019, allowing for different values of the GDP ratio and the regression constant in growth periods and recessions.

5 As indicated above, furloughed workers under the short-time work schemes are considered to be employed. Given that these schemes have been much more widely used in this crisis than in the past, replicating this exercise for employment measured in numbers of persons would result in a much larger correction to this variable in accordance with its historical relationship with GDP (-8.2%) than that actually observed (-4.2%).

6 For example, the mean of the average unemployment rate projections for 2020 in the Forecast Panel published by FUNCAS (*Panel de previsiones de la economía española*, Spanish version only) in May 2020 was 20.2%.

## 2 INTERNATIONAL FINANCIAL MARKETS

International financial markets generally moved at a favourable tempo during Q1 to date, mainly underpinned by progress in the global vaccination campaign, the fresh fiscal stimuli announced in the United States and the improvement in medium-term economic expectations in some countries

**Progress in the vaccination campaign, the improvement in medium-term economic expectations in certain countries and the announcement of a new stimulus package in the United States drove up world stock prices, in a setting of increased risk appetite** (see Chart 2.1). The S&P 500 index reached new all-time highs during the quarter, accumulating a gain of 5.5% at the cut-off date for this report with respect to the levels at end-December. In the same period, the EURO STOXX 50 was up 8.4%, led by gains in those stock market sectors, such as banking, whose prices had experienced the biggest falls since the onset of the health crisis. These gains allowed the EURO STOXX 50 to stand close to its pre-pandemic levels. However, this European index, along with most national indices in the euro area, has still fared worse in relative terms than US stock market indices since the outbreak of the pandemic. This would be in line with a weaker recovery in the earnings expectations of companies listed in European indices compared with that of companies listed in US indices (see Box 2).

**These same factors, together with rising inflation expectations in some countries, have contributed to a significant increase in higher-rated long-term sovereign bond yields** (see Chart 2.2). The increase in ten-year government bond yields was particularly marked in the United States and the United Kingdom (71 bp and 59 bp relative to December, respectively). In these two countries, yields on these securities are already slightly above pre-pandemic levels. This is also the case for ten-year German bonds, although their yield so far this year has risen relatively less markedly (24 bp). Euro area sovereign risk premia remained low, with a notable decline in the Italian spread during the quarter, driven by the appointment of Mario Draghi as prime minister following a period of political instability.

**The positive market stance was also reflected in fresh declines in corporate credit risk spreads** (see Chart 2.3). In the investment-grade segment, these spreads hovered at around pre-pandemic levels both in the euro area and in the United States. Although the pick-up in sovereign debt yields has been passed through to corporate bond issuance costs, issuance of these instruments has continued to increase in both areas, at a pace exceeding that of previous years in the high-yield segment. In addition, the number of credit rating downgrades of securities issued by non-financial corporations remained subdued globally.

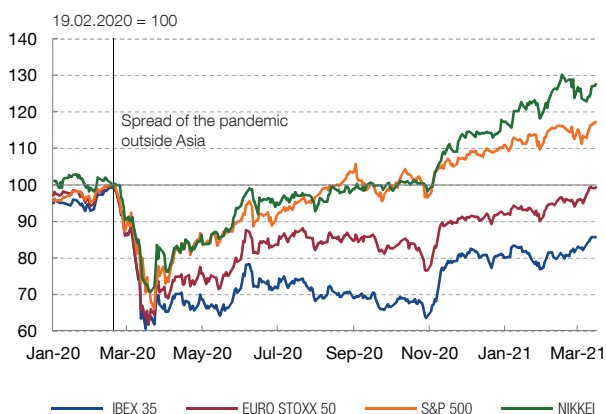


Chart 2

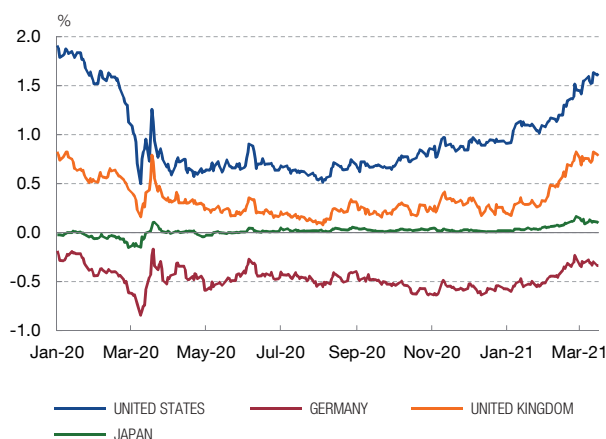
## RISING STOCK MARKETS AND HIGHER-RATED LONG-TERM SOVEREIGN BOND YIELDS

In Q1, international financial markets saw a revaluation of risky assets, including emerging market assets, and a rise in long-term sovereign debt yields, while corporate credit risk spreads continued to narrow. In a setting of greater risk appetite, these developments appear to have been favoured by global vaccination progress, the increase in expected growth and inflation in some countries and the announcement of a new stimulus package in the United States. In the case of the emerging markets, the increase in long-term interest rates in the United States has also had a bearing on the latest financial developments.

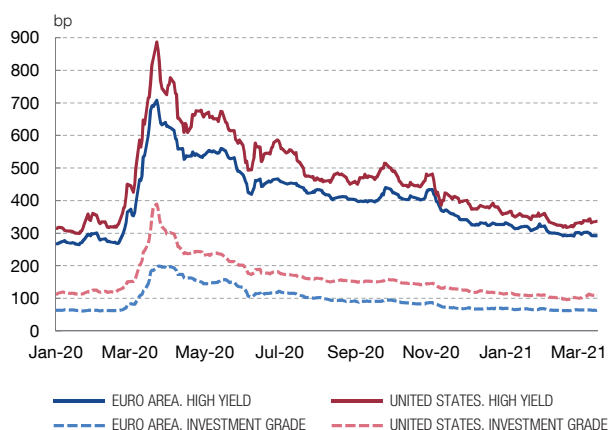
1 STOCK MARKET INDICES



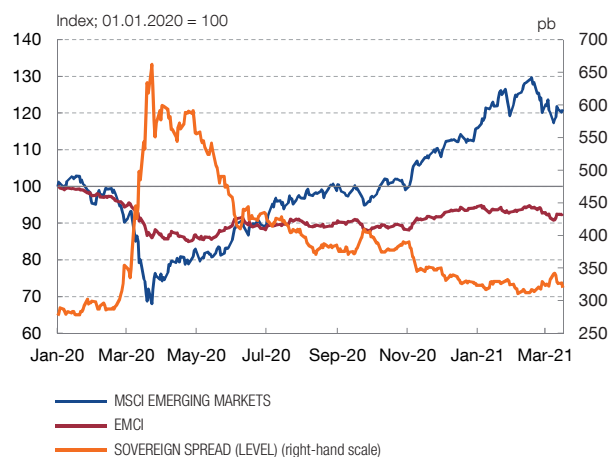
2 10-YEAR SOVEREIGN BOND YIELDS



3 CORPORATE BOND YIELD SPREADS TO SWAP CURVE



4 FINANCING CONDITIONS IN EMERGING MARKET ECONOMIES



SOURCE: Thomson Reuters Datastream.

**These favourable developments in financial markets have also spread to the emerging economies.** In the year to date, the emerging markets have performed positively, with stock market indices rising, risk premia falling and exchange rates appreciating (see Chart 2.4). However, in recent weeks these developments have begun to be affected by the level of long-term interest rates in the main advanced economies. On the foreign exchange market, the dollar held stable against the euro and depreciated against sterling during the first two months of the year, although improved expectations for economic recovery in the United States have boosted the appreciation of its currency since end-February.

### 3 EXTERNAL ENVIRONMENT OF THE SPANISH ECONOMY

#### 3.1 External environment of the euro area

The global economy continued to recover in the final stretch of 2020, albeit at a slower pace than in Q3 owing to the adverse unfolding of the pandemic, and evidenced greater heterogeneity across countries. However, the better evolution of the pandemic over 2021 Q1, the progress made in the vaccination process and the new fiscal stimuli announced have led to an upward revision of the global growth outlook for the coming months

**The worsening of the pandemic in autumn did not prevent global economic activity from continuing to recover in 2020 Q4, albeit at a slower pace than in Q3 and highly unevenly by region and sector.** Activity growth was largely possible owing to the ongoing support of economic policies, the more selective nature of the containment measures adopted compared with those adopted during previous waves of the pandemic and the heightened adaptation of economic agents to the new health crisis juncture. GDP grew quarter-on-quarter by 1% in the United States and the United Kingdom, and by 2.8% in Japan (see Chart 3.1), which was insufficient to bring these economies back to their pre-pandemic GDP and employment levels (see Chart 3.2). The recovery also continued in the emerging market economies, according to the data for China (2.6% quarter-on-quarter), Turkey (1.7%) and Latin America (around 4%). World trade improved once again and the pre-pandemic levels of trade in goods were recovered.

**At the global level, the impact of the pandemic moderated over 2021 Q1, allowing for greater mobility and prompting an increase in activity** (see Charts 3.3 and 3.4). The high-frequency indicators show an improvement with respect to the previous quarter in the performance of manufacturing in the United States and Japan. However, the latest data are more difficult to interpret in the case of China, owing to the effect of the New Year, and of the United Kingdom, owing to disruptions in the provision of certain supplies as a result of Brexit. The services sector has also behaved unevenly, in part owing to the epidemiological situation in each country, with a less positive performance in the United Kingdom and Japan than in the United States. In the latter country employment continued to perform favourably (the unemployment rate declined to 6.2% of the labour force in February). The Consensus Forecasts for 2021 reported in February, which were highly influenced by the health and vaccine rollout prospects, point to upward revisions in expected growth for the United States and emerging Asia (including China).

**Despite the rise in commodity prices in recent months, inflation rates remain low** (see Charts 3.5 and 3.6). The overall increase recorded in commodity prices since mid-2020 is due to both the increase in demand, as a result of the global economic recovery, and different supply factors. For instance, oil supply has been influenced by the agreements of the OPEC and its members to restrict production and by adverse weather-related factors affecting shale oil in the United States. However, in a setting in which aggregate demand still shows signs of weakness, inflation rates remain at relatively low levels (around 1.5% in the United States and below zero in China and Japan).

**As regards economic policies, the main change in the year to date is the extension of the fiscal stimulus in the United States.** The tax package approved in this country in December, which represented around 4% of GDP and extended some of the support measures that were due to expire at end-2020, was joined by another stimulus plan approved in March, for an amount representing around 10% of GDP, which will have a significant effect both in the United States and in other economies (see Box 3). As regards monetary policy, the central banks of developed countries have maintained the measures adopted to mitigate the economic impact of the pandemic, thus preserving the accommodative stance of their policy. A new noteworthy event was the United States Federal Reserve's decision in December to link its forward guidance on asset purchases to the effective progress made in fulfilling its price stability and maximum employment goals. Emerging economy monetary policies also generally maintained their accommodative stance, while certain countries resorted to interventions in foreign exchange markets to avoid an excessive appreciation of their currencies. As exceptions, the Central Bank of Brazil initiated a cycle of policy interest rate hikes with an initial increase of 75 bp, to 2.75%, in the face of an upturn in inflationary pressures, and the Central Bank of Turkey increased its policy interest rate by 200 bp in both December and March, to 19%, in an attempt to curb inflation, stabilise the lira, attract international investors once again and rebuild foreign currency reserves.

## 3.2 The euro area

**The worsening of the epidemiological situation in 2020 Q4 and the opening months of 2021 cut short the economic recovery in the euro area. Inflation, which had been very low up to end-2020, rose sharply in January, driven by a variety of mainly temporary factors**

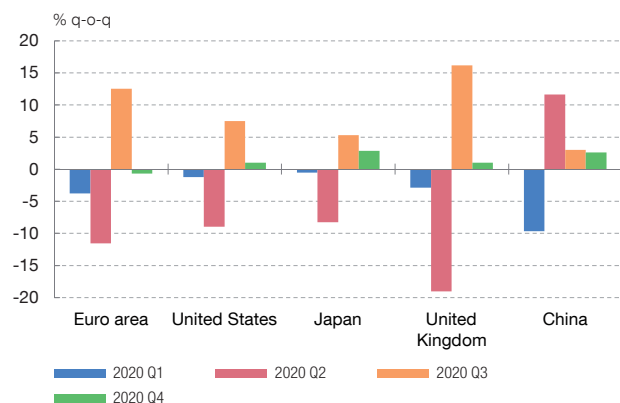
**The euro area recovery was cut short in the final stretch of 2020.** GDP in the euro area fell by 0.6% in quarterly terms in Q4 (see Chart 4.1). This decline in activity, which was, however, lower than anticipated in the Eurosystem's December projection exercise, was largely a consequence of the fresh containment measures imposed in light of the considerable deterioration in the health situation in the autumn. Essentially,

Chart 3

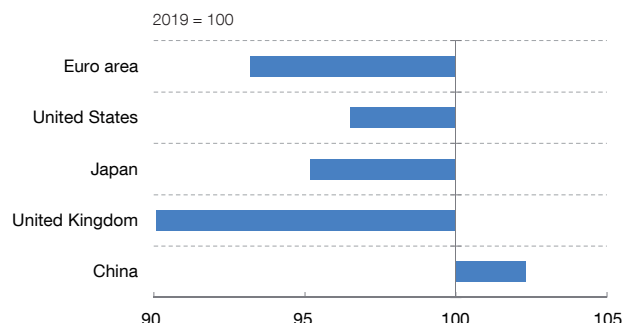
## THE IMPACT OF THE COVID-19 PANDEMIC ON WORLD ECONOMIC ACTIVITY

Despite the worsening of the epidemiological situation, the recovery in activity continued in 2020 Q4, albeit at a slower rate and with greater cross-country heterogeneity, shored up by the selective deployment of measures to contain the pandemic and continued economic policy support. Inflation remains very low despite the increase in commodity prices.

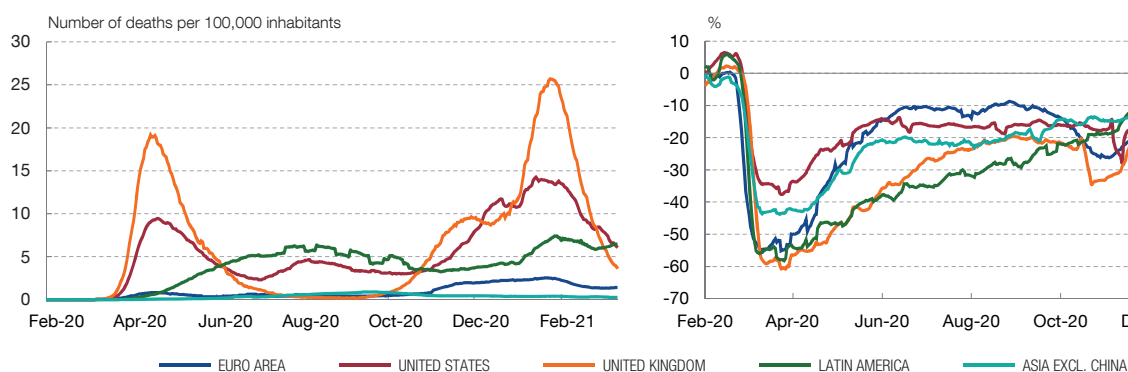
1 GDP QUARTER-ON-QUARTER GROWTH



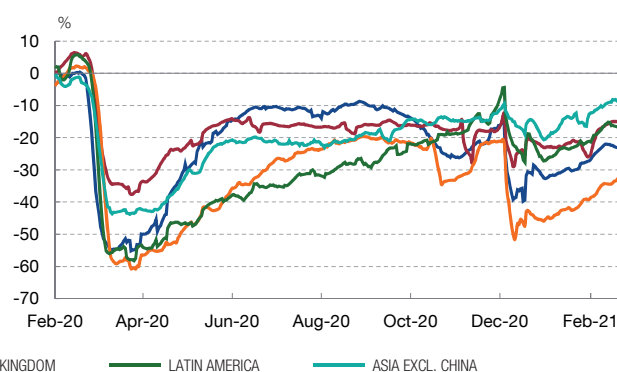
2 LEVEL OF GDP IN THE MAIN WORLD ECONOMIES IN 2020



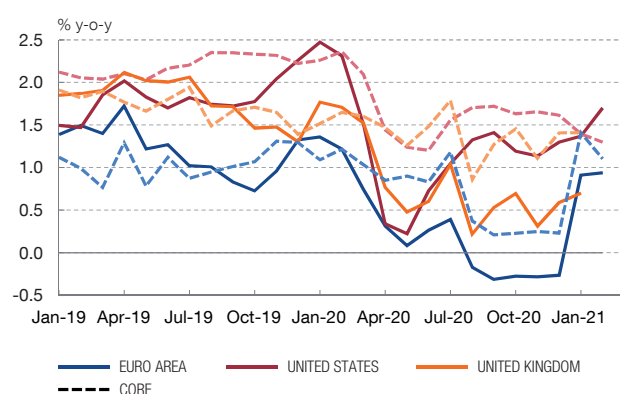
3 NEW DEATHS PER 100,000 INHABITANTS. 14-DAY TOTAL



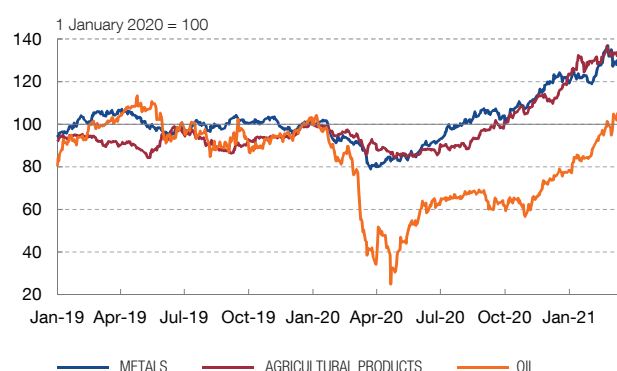
4 MOBILITY INDICATORS (a)



5 TOTAL AND CORE INFLATION IN ADVANCED ECONOMIES



6 COMMODITY PRICE DEVELOPMENTS



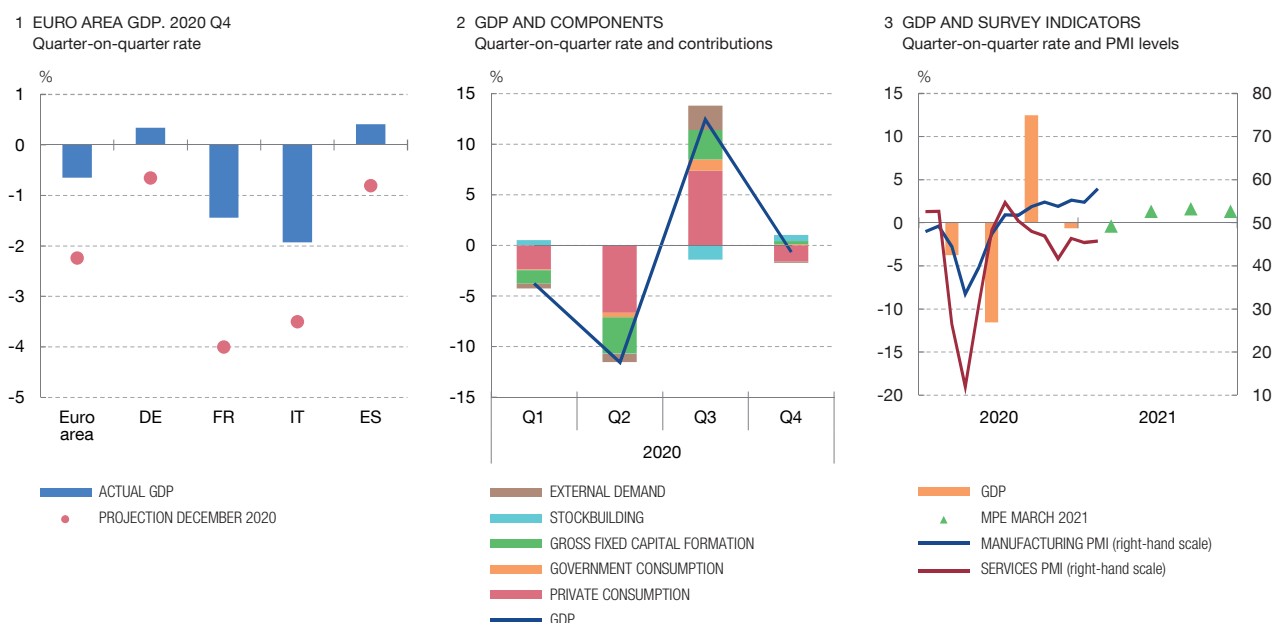
SOURCES: Google, Consensus Forecast, Johns Hopkins University - Coronavirus Resource Center, JP Morgan and Thomson Reuters.

a 7-day moving average of mobility to retail, leisure and food outlets and workplaces.

Chart 4

### THE EURO AREA ECONOMY CONTRACTED IN Q4, ALBEIT LESS THAN EXPECTED

The contraction of economic activity was strongly influenced by the negative impact on private consumption of the pandemic containment measures deployed in the final stretch of 2020. GDP is expected to decline again in 2021 Q1, before embarking on a relatively strong recovery over the rest of the year.



SOURCES: Eurostat, Markit Economics, ECB and national central banks.



the drop in GDP reflected the contraction in domestic demand owing to the negative contribution of private consumption (see Chart 4.2). The decline in activity and in employment was concentrated in services, especially in those most directly exposed to social interaction and to the restrictions imposed. By contrast, manufacturing recorded solid growth (see Chart 4.3).

**After a further contraction at the start of the year, GDP is expected to embark on an intense recovery in the following quarters.** The prolongation over time of the restrictions on mobility and, in some cases, their increased stringency, have further weakened consumption and activity in the services sector in Q1 to date. However, activity across the euro area should be able to resume a relatively robust growth trajectory in the coming quarters, assisted by progress in the vaccination campaigns, the foreign trade momentum, continuation of the fiscal stimulus packages, the start of the execution of investment projects funded under the NGEU programme and the continuation of the ECB's expansionary monetary policy stance. In addition, the eventual normalisation of the health situation should allow for a certain release of the savings that families have built up during the pandemic, contributing to the expected recovery in consumption (see Box 4).

Table 2

**EURO AREA GDP AND HICP GROWTH FORECASTS (a)**

	2021		2022		2023	
	GDP	HICP	GDP	HICP	GDP	HICP
ECB (March 2021)	4.0 (0.1)	1.5 (0.5)	4.1 (-0.1)	1.2 (0)	2.1 (0)	1.4 (0)
European Commission (February 2021)	3.8 (-0.4)	1.4 (0.3)	3.8 (0.8)	1.3 (0)		
OECD (March 2021) (b)	3.9 (0.2)	0.7 (...)	3.8 (0.5)	1.0 (...)		
IMF (January 2021) (c)	4.2 (-1)	0.9 (...)	3.6 (0.5)	1.2 (...)		
Consensus Forecast (March 2021)	4.3 (-0.1)	1.5 (0.3)	4.2 (0.1)	1.3 (0.1)		

**SOURCES:** ECB, European Commission, Consensus Forecast, IMF and OECD.

**a** In brackets, change with respect to the previous forecast, which was December 2020 for the ECB, November for the European Commission, December for the OECD, October for the IMF and February for Consensus Forecast.

**b** The OECD GDP data correspond to March 2021, while the OECD HICP data correspond to December 2020.

**c** The IMF GDP data correspond to January 2021, while the IMF HICP data correspond to October 2020.

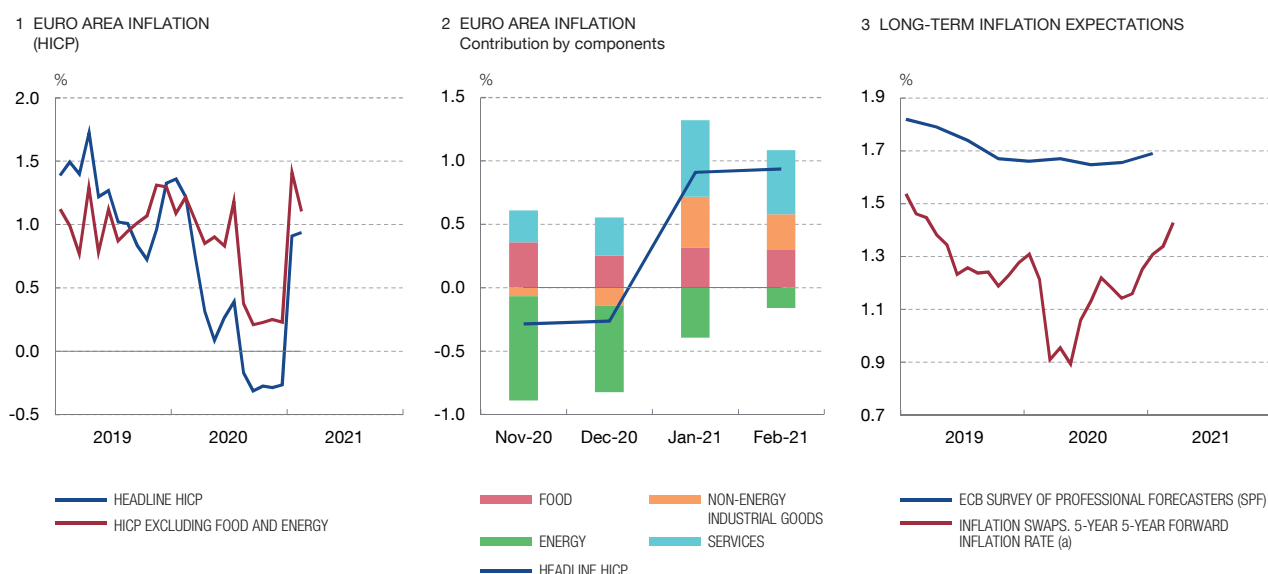
**In its March macroeconomic projection exercise (MPE), the ECB forecasts economic growth in the euro area of around 4% both in 2021 and 2022.** Compared with the December projections exercise, the deterioration in the economic situation at the start of the year and higher oil prices have been offset by the better-than-expected performance in 2020 Q4 – which has a positive impact on the average rate of growth in 2021 – and by a more favourable global scenario following the Brexit agreement and the tax measures approved in the United States in December. The additional stimulus package approved recently by the US Congress poses an upside risk for both the global and the euro area economy (see Box 3). Although these projections are consistent with those of other international organisations and private analysts (see Table 2), they are still subject to a high degree of uncertainty. This uncertainty hinges on the course of the health situation and the pace of the vaccination campaigns, and on the adverse effect that the consequences of this crisis, which is lasting longer than was initially expected, may have on the economic recovery.

**Budget policy will accompany the economic recovery.** The escape clause in the Stability and Growth Pact, which provides for a suspension of compliance with the quantitative targets to correct public finance imbalances, will remain activated until GDP recovers its pre-pandemic levels. In addition, after the deactivation of the clause, optimal flexibility will be applied to take into account potential heterogeneity between countries' rates of recovery. This will allow European countries to extend and expand the measures approved to support businesses and households during the pandemic. The Member States also have other measures at their disposal in the shape of the funds to be distributed under the NGEU programme, which aims to finance reforms and investments in Member States, focused especially on those that have been most affected by the crisis.

Chart 5

**EURO AREA INFLATION INCREASED AT THE START OF THE YEAR**

The increase in inflation, broadly based across the different components, is largely explained by the end of the temporary VAT reduction in Germany, the rise in energy prices, and other temporary technical factors. Long-term inflation expectations remain low.



SOURCES: Bloomberg, Eurostat and ECB.

a Monthly average of daily data.



**Inflation in the euro area rose sharply at the start of the year, affected by a range of mainly temporary factors.** The increase was widespread among the components of headline inflation, which stood at 0.9% in the first two months of the year, compared with -0.3% in December (see Charts 5.1 and 5.2). In turn, core inflation rose to 1.1% in February. The factors behind this increase in inflation notably include the end of the temporary VAT reduction in Germany in January, the surge in energy prices, delays in seasonal sales in some countries and the change in weights in the harmonised index of consumer prices (HICP). This last factor, which affects the seasonality of the index, was responsible for around 0.3 percentage points (pp) of the growth in inflation in January. This effect will gradually fade as the year progresses.

**Looking forward, weak demand appears to rule out significant inflationary pressures.** The March MPE forecasts a temporary increase in inflation in 2021, up to 1.5%, which will fall back to 1.2% and 1.4% in 2022 and 2023, respectively (see Table 2). In turn, inflation expectations, both in the short and the long term, also remain at very contained levels, well below the 2% medium-term target (see Chart 5.3).

**At its last monetary policy meeting, in March, the ECB Governing Council unanimously resolved to significantly increase the pace of net asset purchases**

**under the pandemic emergency purchase programme (PEPP) over the next quarter.** The Governing Council also reiterated that it will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. As at the January meeting, it held policy interest rates unchanged and made no further changes to the design of the asset purchase programmes or the refinancing operations. The market is not expecting any policy rate changes in the coming months.

**Although financing conditions in the different economic sectors remain accommodative, since the beginning of the year there has been an increase in the cost of financing through long-term debt instruments.** In synchrony with the rise in long-term interest rates in the United States in recent months, in the euro area the cost of financing for longer-term public debt has increased significantly since the start of the year (see section 2). This increase has also been passed through to corporate bond yields. For its part, the cost of bank lending remains at historically low levels in all segments, with no significant changes in recent months. Nevertheless, in accordance with the Bank Lending Survey (BLS), credit standards tightened again slightly in 2020 Q4 in all loan types. The participating credit institutions expect this trend to continue in the early months of 2021.

**Financing raised by firms and households is sluggish in quarter-on-quarter terms.** The outstanding amount of bank loans granted to non-financial corporations has risen at low rates in recent months, while financing raised on the fixed income markets has decreased slightly. The rate of growth of credit to households has declined, as a consequence of lower momentum in all its components. In particular, although loans for house purchase continue to grow, the rate of increase has slowed, while both consumer credit and, to a lesser extent, other lending, are contracting.



**Financing conditions in the Spanish economy remain comfortable, although credit standards appear to have tightened slightly in recent months**

**The IBEX-35 has made gains in Q1 to date, led by rising stock prices in the more cyclical sectors.** Between December and the cut-off date of this report, the IBEX-35 accumulated a gain of 7.2%, compared with an increase of 8.4% posted by the EURO STOXX 50. This gain is consistent with the recent recovery in the medium-term earnings expectations of listed firms (see Box 2). On the sovereign bond market, the Spanish 10-year risk premium has risen slightly since end-2020, standing at 66 bp at the cut-off date of this report. At that same cut-off date, the 12-month EURIBOR, whose downward trend was interrupted in February, registered levels similar to those in December (-0.50%).

**Private sector borrowing costs have remained low.** Average interest rates on new bank loans have held relatively stable in recent months and spreads over market interest rates have narrowed in practically all segments (see Chart 6.1). By contrast, the average cost of financing through corporate debt has risen slightly, standing at 1.5% in February, up 19 bp on the pre-health crisis level.

According to the Bank Lending Survey (BLS), credit standards tightened slightly in 2020 Q4, except in the lending for house purchase segment (see Chart 6.2). This change owes to increased risk perception among lenders. The institutions' expectations indicate that this pattern will continue in 2021 Q1 in the loans to firms segment and that credit standards for households will remain unchanged.

**Following the sharp increase in the previous quarter, economic activity in Spain grew moderately in 2020 Q4, and at a more favourable rate than envisaged in the baseline scenario of the Banco de España projection exercise published in December**

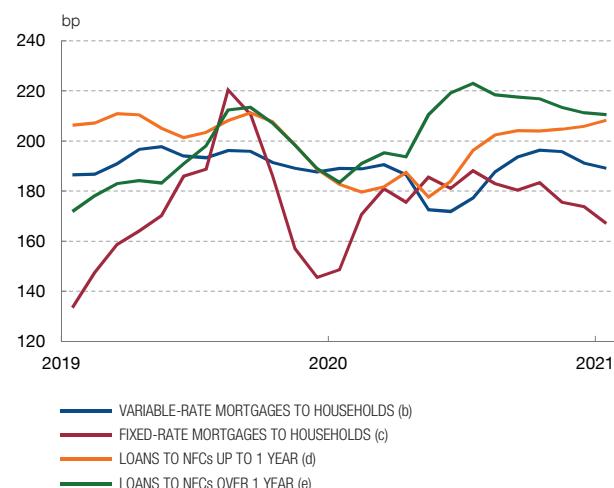
**Spanish GDP grew marginally in 2020 Q4, but remains some way off pre-pandemic levels.** Early in the quarter, the worsening of the health crisis prompted a tightening of the measures implemented to contain the pandemic. However, these measures were far more targeted than those deployed in the spring and were eased again in the latter weeks of December. All this, together with something of a learning process and economic agents adapting to the pandemic, allowed Spanish GDP to rise 0.4% in the quarter as a whole (see Chart 7.1). This increase was marginally smaller than that envisaged in the mild scenario of the Banco de España projection exercise published in December. However, it represented a

Chart 6

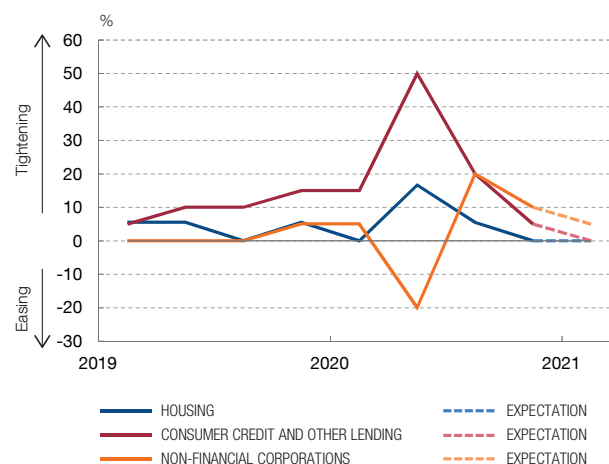
# BANK LENDING SPREADS HAVE NARROWED IN RECENT MONTHS, WHILE CREDIT STANDARDS HAVE TIGHTENED SLIGHTLY

The spreads between bank interest rates on new loans and market interest rates have narrowed in recent months, except for loans to non-financial corporations of up to one year. According to the latest Bank Lending Survey (BLS), credit standards tightened again slightly in 2020 Q4, except in the loans for house purchase segment where they held stable; this trend could continue in 2021 Q1 for loans to firms.

1 SPREADS BETWEEN BANK AND MARKET INTEREST RATES (a)



2 BLS: CHANGE IN CREDIT STANDARDS (f)



SOURCES: Thomson Reuters Datastream and Banco de España.

- a Interest rates on bank loans are NDER (narrowly defined effective rate), i.e. excluding related fees and charges, and are adjusted for the seasonal and irregular component.  
b Spread with respect to the previous month's 12-month EURIBOR.  
c Spread with respect to the same month's 20-year interest rate swap.  
d Spread with respect to the previous month's 3-month EURIBOR.  
e Spread with respect to the same month's 3-year interest rate swap.  
f Indicator = percentage of banks that have tightened their standards considerably  $\times 1$  + percentage of banks that have tightened their standards somewhat  $\times 1/2$  – percentage of banks that have eased their standards somewhat  $\times 1/2$  – percentage of banks that have eased their standards considerably  $\times 1$ .



more favourable change in activity than the modest contraction in output anticipated in the baseline scenario of those projections.<sup>1</sup> As a result of this performance, GDP contracted by 11% in 2020 as a whole and at end-2020 stood 9.1% below its end-2019 level (see Chart 7.2).

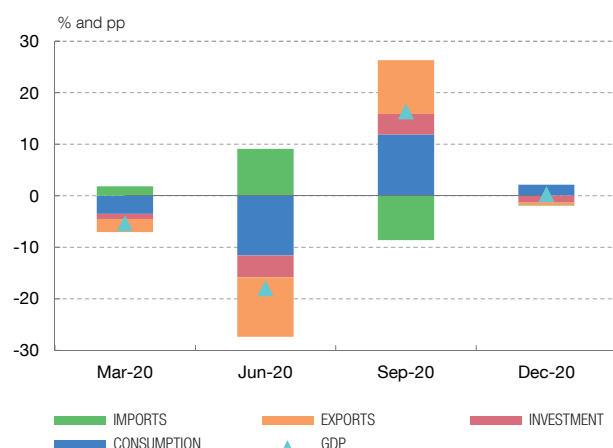
**The growth differential between Spain and the euro area turned positive again in the final stretch of the year** (see Chart 7.3). GDP in the euro area contracted by 0.7% in 2020 Q4, hit by the sharp deterioration in activity observed in France and Italy, partly owing to the relatively more adverse course of the pandemic in those countries during the quarter. In any event, the contraction in 2020 in the euro area overall (6.6%) was far less pronounced than that observed in Spain, leading euro area GDP at end-2020 to stand 4.9% below its pre-pandemic level.

<sup>1</sup> The projection exercise of early December did not envisage the easing of restrictions that took place in Spain in the run-up to Christmas. This helps to explain why the economic performance in 2020 Q4 was more favourable than that forecast under the baseline scenario of those projections and was very close to that envisaged under the mild scenario. See the *Macroeconomic projections for the Spanish economy (2020-2023): the Banco de España's contribution to the Eurosystem's December 2020 joint forecasting exercise*.

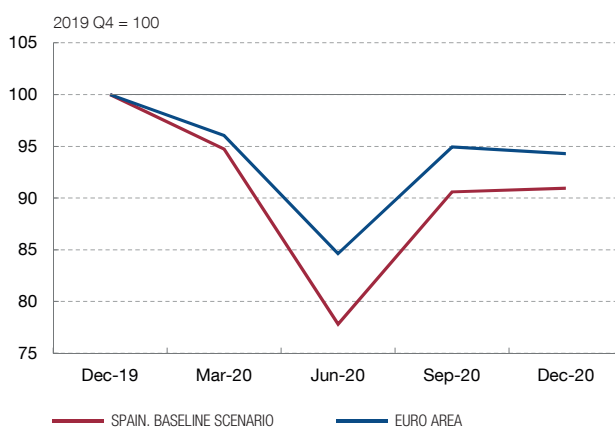
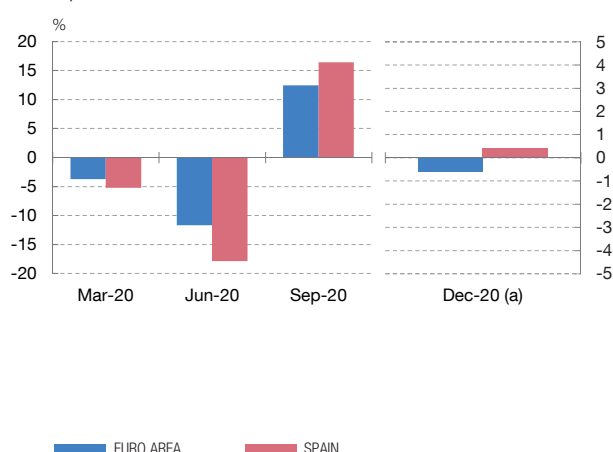
Chart 7

**ECONOMIC ACTIVITY GREW SLIGHTLY IN 2020 Q4**

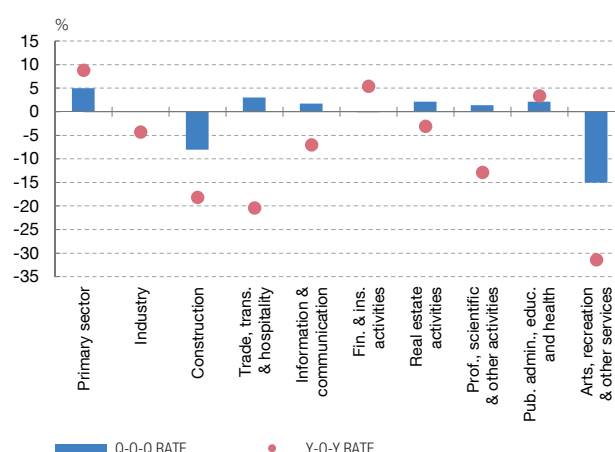
Despite the health crisis worsening in the autumn, Spanish GDP grew slightly in 2020 Q4 thanks to the increase in private and public consumption. The observed growth was more pronounced than that envisaged in the baseline scenario of the Banco de España December projection exercise and that registered in the euro area as a whole for the same period. Developments in activity remained highly uneven across the different productive sectors, in terms of the gap between present and pre-pandemic activity levels.

1 GDP GROWTH  
Q-o-q rates and contributions

2 GDP IN SPAIN AND THE EURO AREA

3 GDP GROWTH  
Q-o-q rates

4 GROSS VALUE ADDED, BY SECTOR OF ACTIVITY, IN Q4



SOURCES: INE, Eurostat and Banco de España.

a Right-hand scale.



**In 2020 Q4, Spanish GDP growth was underpinned solely by the increase in government and private consumption.** In a climate of heightened uncertainty amid a worsening pandemic and the reintroduction of certain restrictions, investment in housing and in capital goods declined during the quarter. For its part, the contribution to growth made by external demand turned negative owing to a decline in exports (particularly tourism exports) and a moderate increase in imports.

**Developments in activity were, again, highly uneven across the productive sectors, heightening the cross-sector disparity in terms of the cumulative gap in activity levels compared with the pre-pandemic scenario.** Set against the relatively favourable performances recorded in recent quarters by the primary sector, financial and insurance activities, public administration, education and health (with positive year-on-year growth rates), the sharp declines observed in construction, wholesale and retail trade, transportation and hospitality, and arts and recreation services stand out (see Chart 7.4). From the standpoint of firms, an analysis of the statistics of businesses registered with Social Security reveals a marked reduction in the registrations and deregistrations of firms since the outbreak of the pandemic. This latter aspect would appear to have prevented, for the time being at least, a more pronounced decrease in the total number of firms in Spain in recent months (see Box 7).

**The worsening of the health crisis in early 2021 has represented an additional drag on the buoyancy of activity, which could mean a slight decline in GDP in Q1**

**In the early stages of 2021, the containment measures were tightened with a view to halting the third wave of infections, which is expected to have weakened activity.** This is borne out by the trajectory of various high-frequency indicators at the start of 2021 (see Chart 8). For example, for a large part of January and February, the mobility indicators – especially those on air and road traffic and on fuel sales – fell more sharply year-on-year than in 2020 Q4. Electricity demand and credit card payments showed similar dynamics. Along the same lines, based on information gathered chiefly during the second half of February, the Business Activity Survey prepared by the Banco de España indicated that Spanish firms anticipated adverse developments in their turnover in 2021 Q1 (see Box 6).

**In recent weeks the notable improvement in the epidemiological situation in Spain has enabled the lockdown measures to be relaxed somewhat, which is expected to have had a favourable impact on activity.** Indeed, the same indicators that pointed to a weakening of activity at the start of the year show signs of a change in trend in dynamics in the last stretch of the quarter, with activity recently recovering some strength (see, again, Chart 8).

**Against a backdrop of an ongoing high level of uncertainty, the Banco de España's latest projections suggest that GDP could decrease slightly in 2021 Q1.<sup>2</sup>** As in preceding quarters, there is considerable uncertainty as to the course of the pandemic and as to agents' response to the health crisis. This has made it advisable to prepare three alternative scenarios (namely, *mild*, *baseline* and *severe*) to assess the macroeconomic outlook for the Spanish economy. In line with the changing developments during the quarter in the activity indicators described above, these scenarios envisage a GDP growth rate for January-March ranging from

---

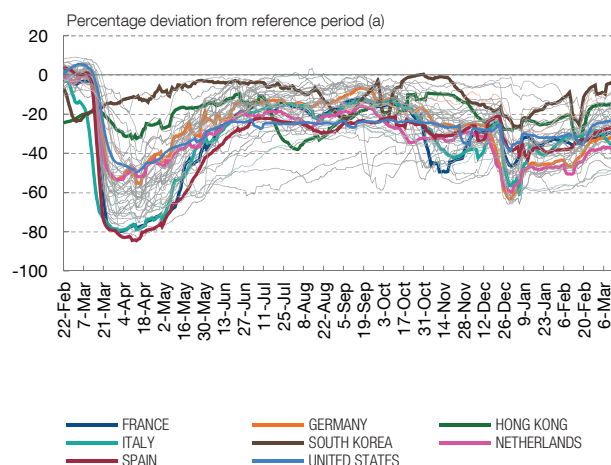
2 See Box 1 in this report, "Macroeconomic projections for Spain (2021-2023)".

Chart 8

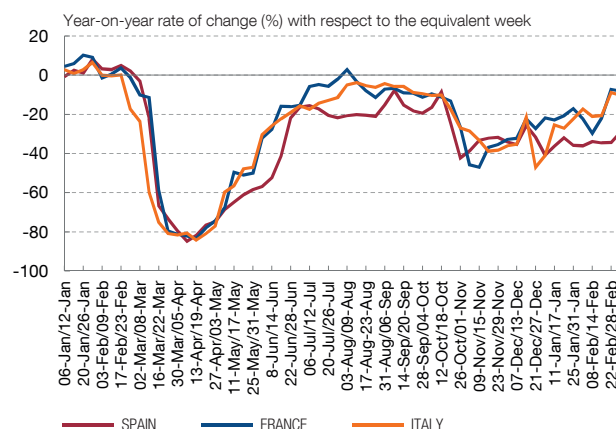
## THE WORSENING OF THE HEALTH CRISIS IN LATE 2020 AND EARLY 2021 APPEARS TO HAVE ADVERSELY AFFECTED THE STRENGTH OF ACTIVITY

The tightening of the measures imposed to contain the third wave of the pandemic appears to have weakened the recovery in activity during much of January and February, as signalled by various indicators for mobility, electricity demand and bank card spending. However, in the last stretch of the quarter, coinciding with an improvement in the epidemiological situation and the easing of certain restrictions, these indicators appeared to suggest that activity may have recovered some strength.

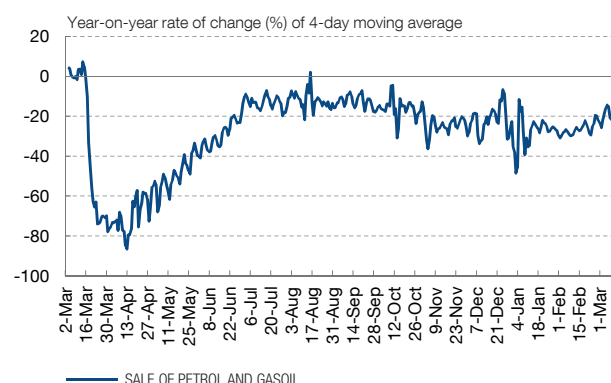
1 LOCAL MOBILITY INDICATORS. RETAIL AND RECREATION OUTLETS, PUBLIC TRANSPORT STATIONS AND WORKPLACES



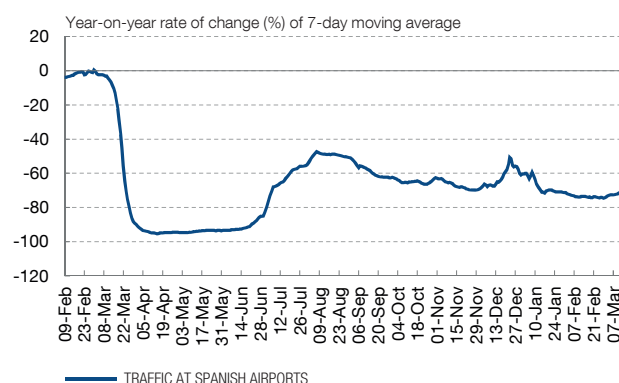
2 MOTORWAY TRAFFIC



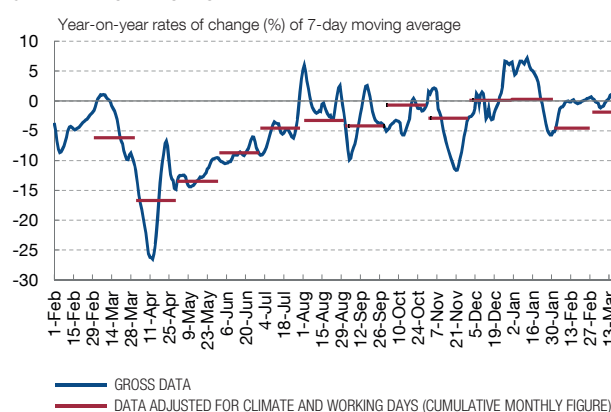
3 SALE OF PETROL AND GASOIL



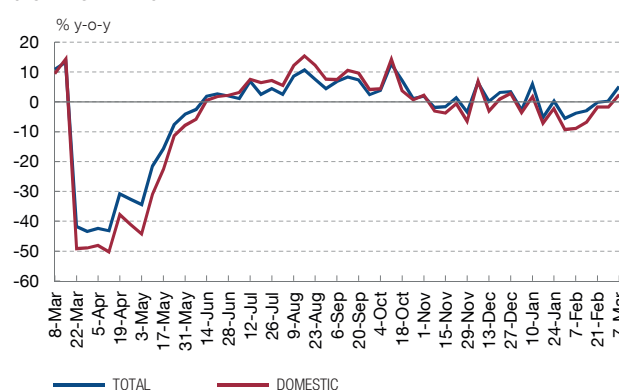
4 TRAFFIC AT SPANISH AIRPORTS



5 DEMAND FOR ELECTRICITY



6 CARD SPENDING



**SOURCES:** Google, Atlantia Group, Repsol Research Division, European Organisation for the Safety of Air Navigation, Red Eléctrica de España, Sistema de Tarjetas y Medios de Pago, and Banco de España.

**a** Percentage deviation from mobility observed in a pre-pandemic reference period (3 January to 6 February 2020). 7-day moving averages are depicted.

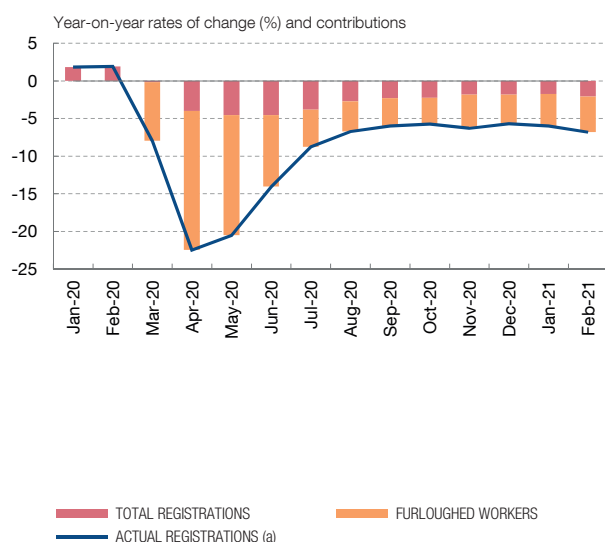


Chart 9

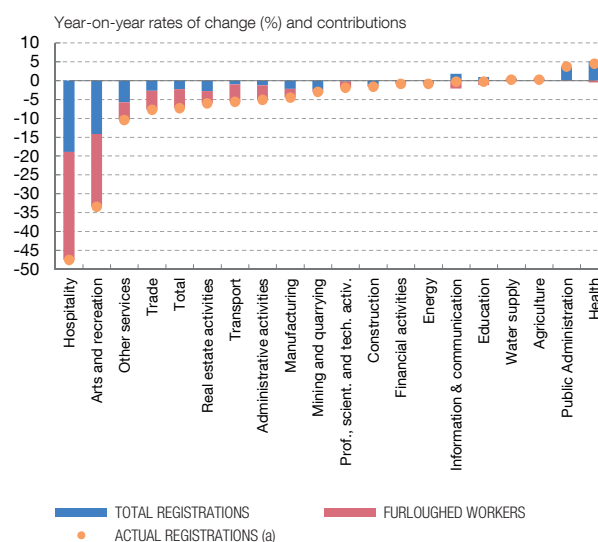
## RECENT DEVELOPMENTS IN EMPLOYMENT

In February, the year-on-year rate of change in total Social Security registrations worsened to -2.1% which, together with the rise in the number of furloughed workers, increased the year-on-year rate of decline in actual registrations to -6.8%. Workers on furlough were concentrated in the services activities most affected by the restrictions, leading to falls of almost 50% in actual registrations in hospitality.

1 YEAR-ON-YEAR RATE OF CHANGE IN TOTAL AND ACTUAL REGISTRATIONS (AVERAGE MONTHLY DATA)



2 YEAR-ON-YEAR RATE OF CHANGE IN ACTUAL REGISTRATIONS BY SECTOR IN FEBRUARY (AVERAGE MONTHLY DATA)



SOURCE: Ministerio de Inclusión, Seguridad Social y Migraciones.

a Actual registrations are calculated as total registrations minus the number of workers on furlough.



a slight increase of 0.4% (under the mild scenario) to a moderate contraction of 0.9% (under the severe scenario). In turn, the baseline scenario foresees a slight decline of 0.4% in output, reflecting a negative contribution of domestic demand, while the contribution of external demand would be slightly positive, amid some recovery in both exports and imports.

### The path of improvement in employment weakened in Q1 owing to the impact of the third wave of the pandemic

**Total Social Security registrations declined by -2.1% year-on-year in February, below the rate observed in the preceding three months** (see Chart 9.1). This deterioration was mainly observed in market services – where employment saw a year-on-year decline of 4.6% – and, to a lesser extent, in construction. Conversely, employment in non-market services rallied, rising by 3.7% year-on-year.

**The decline in total Social Security registrations was accompanied by an increase in furloughed workers.** Following the tightening of the restrictions to contain the third wave of the pandemic, the number of workers on furlough schemes

increased in early 2021 to an average of 909,661 in February – nearly 900,000 at the end of the month –, of which virtually half belonged to hospitality sectors. As a result, the year-on-year decline in actual Social Security registrations rose to -6.8% in February, a similar rate to that of August 2020. Moreover, in the first two months of the year, the sectoral heterogeneity in employment developments continued to increase, with the result that, in February, actual Social Security registrations saw year-on-year declines of close to 50% in hospitality and 35% in arts and recreation services, in contrast to the year-on-year increases observed in public administration and healthcare services (see Chart 9.2).

**In line with the most recent developments in economic activity, employment, measured in terms of hours worked, is expected to decrease slightly in 2021 Q1.** As already mentioned, the easing of the containment measures in recent weeks, once the peak of the third wave of the pandemic had passed, is expected to have enabled a slight increase in the buoyancy of economic activity in the last stretch of the quarter. In the Banco de España's latest projection exercise, this stronger activity is expected to also be reflected in the behaviour of employment in March, such that, under the baseline scenario, hours worked would decline slightly in 2021 Q1 as a whole, following the slight increase observed in 2020 Q4.

**The possible contraction in output in 2021 Q1 is expected to chiefly be the result of a negative contribution of domestic demand to growth**

**According to the available indicators, household consumption fell back in early 2021.** New private car registrations, residents' overnight stays in hotels, the retail trade index and several consumer confidence indicators point in this direction (see Charts 10.1 and 10.2). Similarly, the year-on-year decline in new consumer loans stepped up in recent months and the stock of these loans contracted (see Charts 11.1 and 11.2).

**The household saving rate is estimated to remain high.** In a setting where the pandemic's impact on household income has been mitigated to some extent by the various support measures put in place by the authorities, the most recent developments in consumption are estimated to be consistent with a continuing relatively high household saving rate in recent months. The pace at which households could release the volume of savings that they have built up since the onset of the pandemic – essentially in the form of bank deposits – once the epidemiological situation returns to normal, will be a key factor for the future behaviour of consumption and economic activity (see Box 4).

**Housing investment is estimated to have fallen again in 2021 Q1.** In 2020 Q4, housing investment fell against a backdrop of fewer housing starts and lower agents' confidence. At the beginning of 2021, residential construction activity was also held

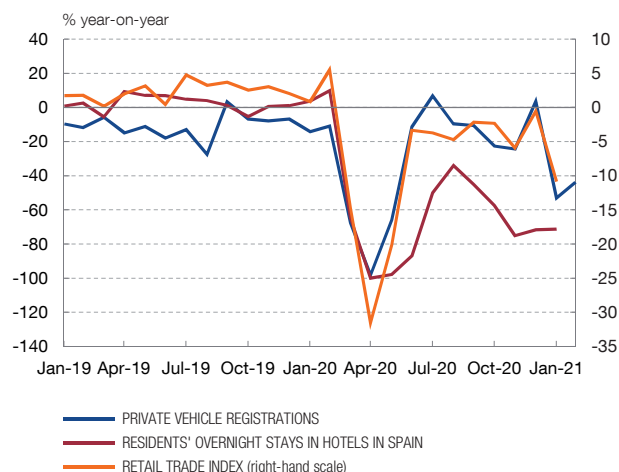
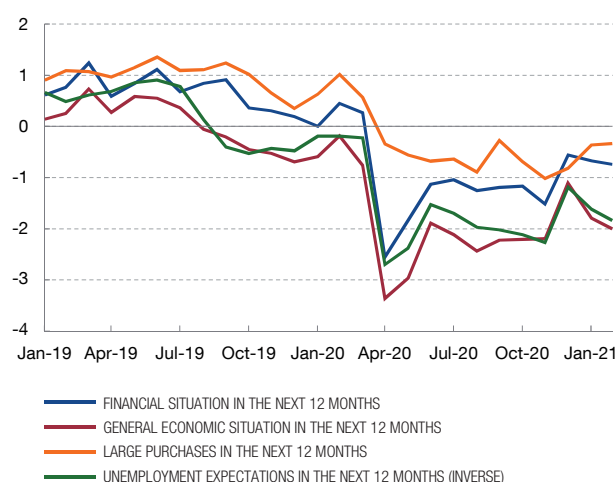


Chart 10

## HOUSEHOLD CONSUMPTION IS ESTIMATED TO HAVE FALLEN IN THE EARLY MONTHS OF THE YEAR

Household spending is estimated to have fallen at the beginning of 2021 against a backdrop of tighter restrictions to contain the pandemic and high uncertainty which dampened consumer confidence. This would have contributed to the household saving rate holding at relatively high levels in recent months.

1 HOUSEHOLD CONSUMPTION INDICATORS

2 CONSUMER CONFIDENCE INDICATORS  
Standardised data (a)

SOURCES: INE, ANFAC, European Commission and Banco de España.

a Series computed by subtracting the average and dividing by the standard deviation.



back temporarily by the halting of work in certain areas due to the snow storm, as evidenced by the decline in the consumption of certain inputs in the sector (see Chart 12.1). On the demand side, transactions remained stronger in the new housing segment up to January, reflecting perhaps sales agreed in the past before construction commenced and possibly changes in households' preferences resulting from the new post-pandemic needs (see Charts 12.2 and 12.3). Against this backdrop, the stock of loans for house purchase continued to slide somewhat, although the moratoria on mortgage and non-mortgage loan repayments<sup>3</sup> have continued to contribute to holding back the decline in outstanding loan balances.

**House prices continued to slow in 2020 Q4.** The year-on-year growth rate of house prices fell to 1.5% in this period. This deceleration was due to slower growth in average existing house prices which eased by 0.4 pp to 0.4% (see Chart 12.4). By contrast, average new house prices quickened once again.

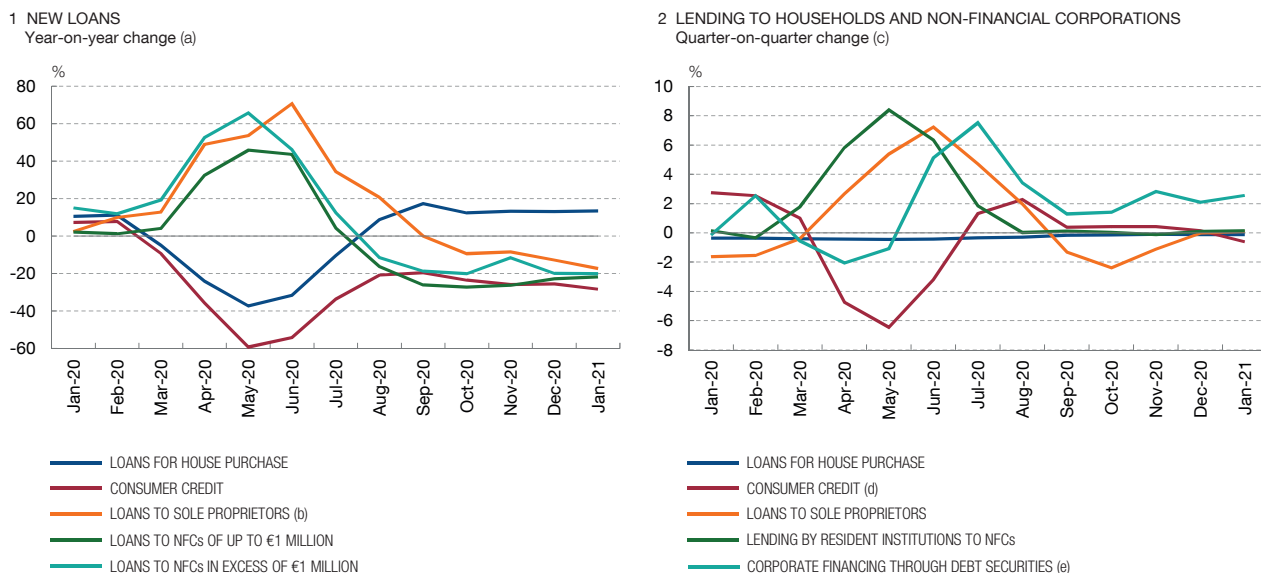
**Business investment remained sluggish in early 2021, affected by the ongoing high level of uncertainty.** Examples of indicators pointing in this

<sup>3</sup> At end-February these moratoria accounted for a range of between 5.0% and 8.5% of the outstanding debt due to the overlap of legislative moratoria and those extended by the banks, since the same borrower may be granted both types of moratoria.

Chart 11

### NEW CONSUMER LOANS AND LENDING TO PRODUCTIVE ACTIVITIES DECLINED WHILE HOUSING LOANS RECOVERED

In recent months, the contraction of new consumer loans quickened whereas loans for house purchase continued to recover. New lending to productive activities continued to contract. The stock of consumer credit fell in quarter-on-quarter terms, whereas the stock of loans extended by resident financial institutions to households for house purchase and to non-financial corporations show virtually flat rates of change. Corporate financing in the capital markets has picked up recently.



SOURCE: Banco de España.

- a Three-month cumulative flow.
- b Includes renegotiations of previous loans.
- c Seasonally adjusted rates.
- d Excludes securitised lending.
- e Includes issuance by resident subsidiaries of non-financial corporations.



direction are the activity PMI, which remained in contractionary territory in January and February, the European Commission's confidence indicators for industry and services, which held at low levels, and the business confidence indicator for investment goods production published in the Ministry of Industry, Trade and Tourism's monthly business survey (see Chart 13.1). Similarly, in January the industrial production index for capital goods and commercial vehicle registrations posted negative year-on-year growth rates which were lower than in December (see Chart 13.2).

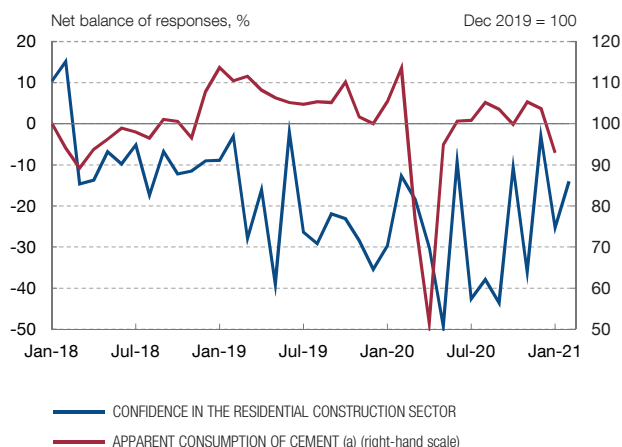
**In recent months, new lending to businesses and sole proprietors has continued to decline, following the substantial volume raised during the first wave of the pandemic** (see Chart 11.1). According to the BLS, lacklustre lending to firms is linked not only to slightly tighter credit supply conditions, but also to weaker loan demand. Given this situation, lending by resident financial institutions to non-financial corporations shows virtually flat quarter-on-quarter rates of change (see Chart 11.2). Conversely, corporate financing in the capital markets has picked up recently.

Chart 12

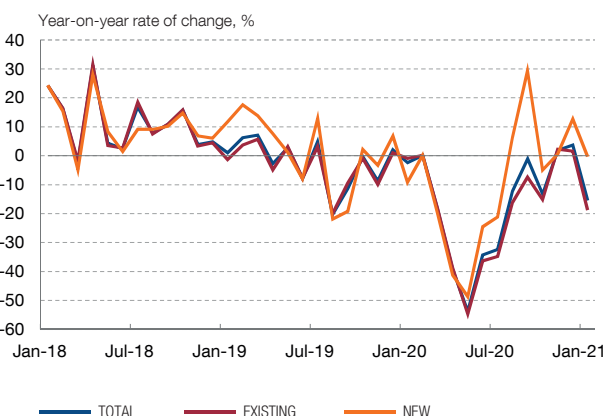
## HOUSING INVESTMENT IS PROJECTED TO DECLINE AGAIN IN THE EARLY MONTHS OF 2021

The latest available indicators anticipate a fresh slide in residential construction activity in 2021 Q1. In January this activity was partly affected by the halting of work due to the snow storm and subsequent cleaning. Sales are expected to remain more buoyant in the new rather than used housing segment.

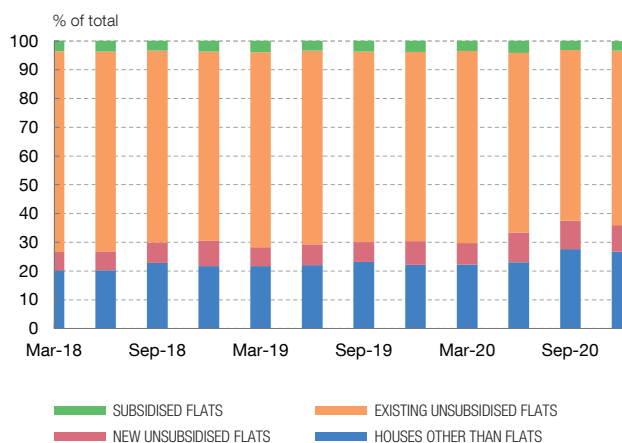
1 COINCIDENT INDICATORS OF RESIDENTIAL INVESTMENT



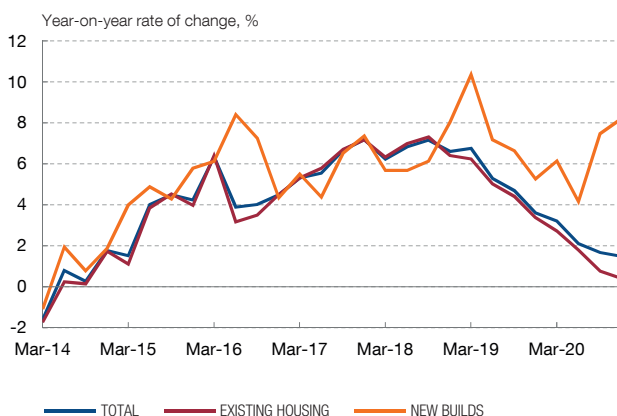
2 REGISTERED HOUSE SALES



3 SALES THROUGH PUBLIC DEEDS



4 HOUSE PRICE INDEX



**SOURCES:** Banco de España, Centro de Información Estadística del Notariado, Instituto Nacional de Estadística and Ministerio de Asuntos Económicos y Transformación Digital.

a Seasonally adjusted series.



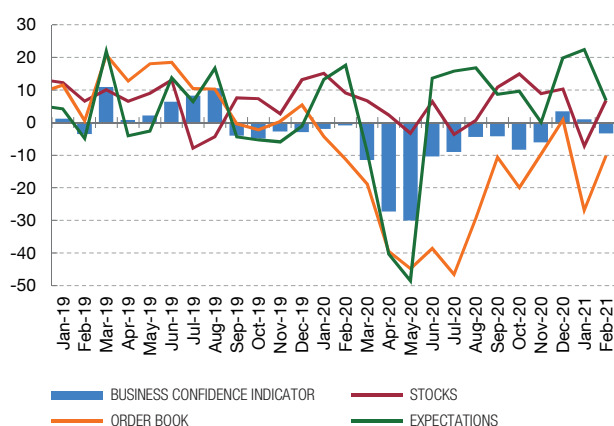
**Drawing on provisional data, the corporate sector's aggregate financial position appears to have continued to worsen in 2020 Q4.** Increased debt and, to a greater extent, lower GDP pushed the corporate sector's debt-to-GDP ratio upwards by slightly more than 3 pp (compared with Q3), to reach 85%, its highest level since 2016. Consequently, the sector's debt burden ratio has also risen, albeit much more moderately, owing to the low cost of outstanding debt.

Chart 13

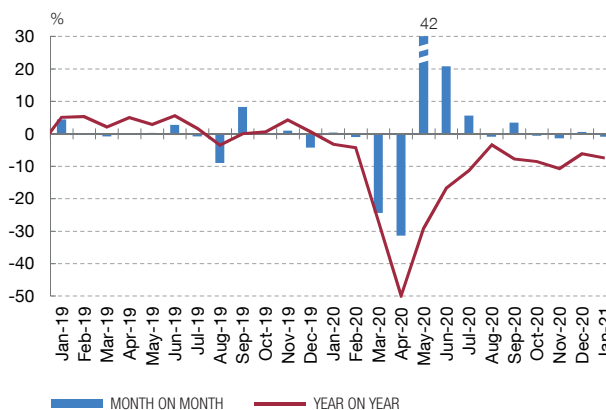
**BUSINESS INVESTMENT WILL REMAIN SLUGGISH IN Q1**

Investment in capital goods and intangibles is estimated to have fallen off slightly in early 2021. Data pointing in this direction include, for example, the recent deterioration in the business confidence indicator for investment goods production published in the Ministry of Industry Trade and Tourism's survey, and the more pronounced year-on-year fall in the industrial production index for capital goods in January.

1 BUSINESS CONFIDENCE INDICATOR. INVESTMENT GOODS (a)



2 INDUSTRIAL PRODUCTION INDEX. CAPITAL GOODS (b) (%)



**SOURCES:** Ministerio de Industria, Comercio y Turismo and INE.

- a The business confidence indicator is obtained as the arithmetic mean of the net balances of responses obtained about: 1) the order book in the reference month; 2) the stock of finished products in the reference month (sign changed); and 3) the three-month output outlook.  
b Excluding cars.



## Foreign goods trade shows signs of improvement

**Net external demand could make a slightly positive contribution to GDP growth in Q1.** In 2020 Q4, the contribution of net external demand to growth turned negative again (-0.5 pp), stemming from the decline in (essentially tourism) exports and the meagre rise in imports (see Charts 14.1 and 14.2). Nevertheless, the latest information available on new export orders and inputs purchases from the manufacturing PMI indicates an uptick in goods imports and exports in the first few months of the year, although, by contrast, the negative effect of Brexit could be significant, at least in the short term. The outcome of more buoyant trade could mean net exports make a slightly positive contribution to GDP growth in Q1 (see Chart 14.3).

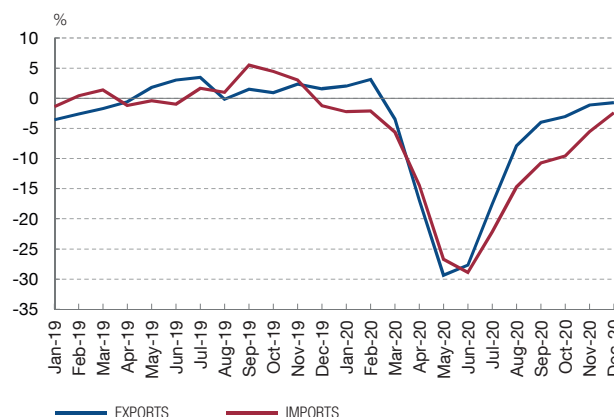
Turning to services, tourism exports were hit for most of the quarter by restrictions on international movement in Spain's main source markets and by the worsening epidemiological situation. Consequently, tourism exports are estimated to hold at very low levels, with declines of around 90% in year-on-year terms in foreign tourist arrivals and in their spending (see Chart 14.4). Based on recent developments in new export orders from the services PMI, services exports are expected to be more sluggish than goods exports in 2021 Q1.

Chart 14

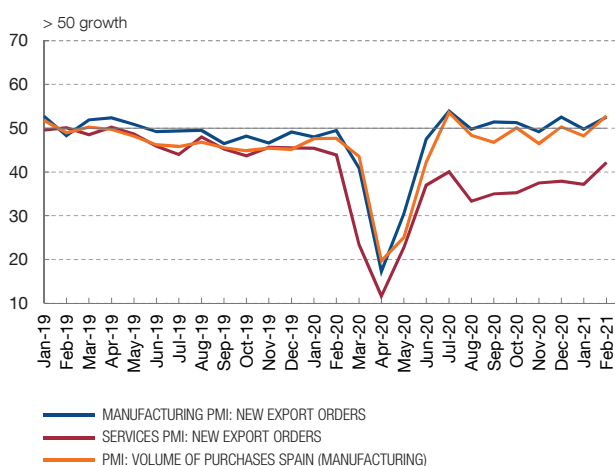
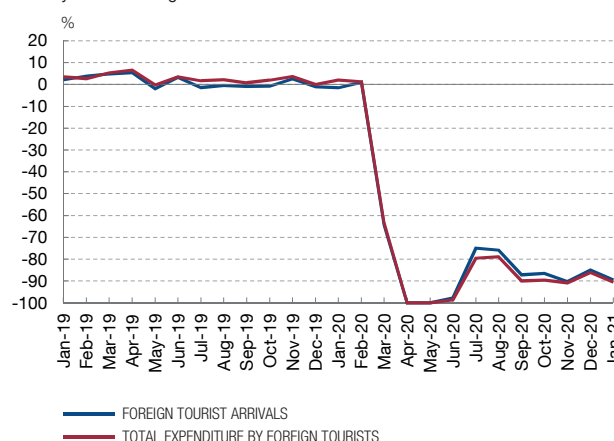
## A SLIGHT IMPROVEMENT IN FOREIGN TRADE IS EXPECTED

The manufacturing sector's opinion indicators point to a slightly expansionary tone in foreign trade in goods at the beginning of 2021, while the available foreign tourism indicators continue recording particularly sharp year-on-year contractions.

1 EXPORTS AND IMPORTS OF GOODS AND SERVICES (a)

2 REAL EXPORTS AND IMPORTS OF GOODS  
(Deflated data from Customs)  
Y-o-y rates from 3-month moving average

3 PURCHASING MANAGERS' INDICES

4 FOREIGN TOURISM INDICATORS  
Y-o-y rates of change

**SOURCES:** INE, Customs and Excise Department, Ministerio de Asuntos Económicos y Transformación Digital and Markit.

a QNA data at constant prices. Seasonally adjusted series.

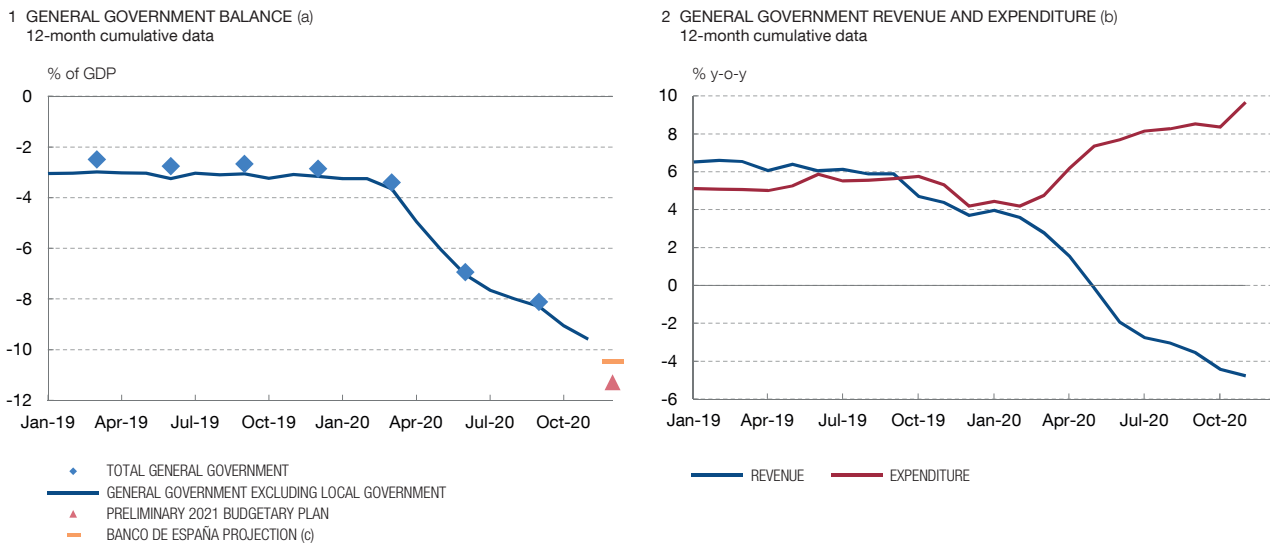
The latest general government budget outturn data suggest that the end-2020 figures are in line with the December projection. The momentum of healthcare expenditure and spending intended to support households and firms contending with the pandemic is expected to continue in the early months of 2021

Public finances, which were severely affected by the pandemic in 2020 H1, deteriorated at a more moderate pace in the second half of the year. However, the growth rate of the general government deficit, as a percentage of GDP, was

Chart 15

## PUBLIC FINANCES CONTINUE TO DETERIORATE

Public finances have deteriorated further in recent months, driven by increased spending on benefits and government consumption, largely associated with epidemiological developments. However, this appears to be compatible with end-2020 figures in line with the Banco de España's December projection.



**SOURCES:** Banco de España, IGAE and 2021 Budgetary Plan (October 2020).

- a IGAE only provides quarterly information on general government as a whole. It publishes the data on the total, excluding local government, on a monthly basis.  
 b Relating to the aggregate for general government, excluding local government and transfers within general government.  
 c Baseline scenario of the March macroeconomic projections for the Spanish economy.



somewhat higher in Q4 than in Q3. In November, the deficit excluding local government appears to have increased, in 12-month cumulated terms, to 9.6% of GDP, 6.4 pp above that recorded in December 2019 (see Chart 15.1). In particular, growth in spending seems to have accelerated in 2020 Q4 as a result of greater social benefits for furloughed workers and the self-employed that have suspended activity, and increased government consumption (see Chart 15.2). In any event, these data seem to be in line with the end-2020 projections included in the December Banco de España Spanish economic projections report. General government debt stood at 117.1% of GDP in December, according to the flash estimate published in February, 21.6 pp above the level recorded 12 months earlier.

**The Government has prolonged the employment protection schemes until the end of May 2021 and has approved a fresh raft of measures to bolster business solvency.** On 12 March, the Government approved a set of extraordinary measures to shore up business solvency that will reportedly mobilise €11 billion and is structured around three areas of action. First, direct financial assistance totalling €7 billion for firms from the sectors hardest hit by the fallout from the pandemic. These subsidies are intended for firms whose revenue has decreased

by more than 30% relative to 2019, so that they can service existing debts. A total of €2 billion of these funds are earmarked for the Canary Islands and the Balearic Islands, while the remainder is distributed amongst the other regions using the same criteria as the REACT-EU programme. Second, the creation of a €3 billion fund to, in conformity with the corresponding financial institutions and as part of a debt renegotiation agreement, extend the maturities of the ICO-backed lending to firms or apply debt reductions to said loans. Further, the deadline for applying for new ICO-backed loans is extended to 31 December 2021. Third, the creation of a medium-sized enterprise recapitalisation fund. This €1 billion fund is managed by COFIDES.

### **Inflation has been notably volatile in the early stages of the year, largely due to the behaviour of energy prices**

**In January, the harmonised index of consumer prices (HICP) rose sharply to 0.4%, 1 pp higher than in December** (see Chart 16.1). The main factor behind this increase was the acceleration in energy prices — both electricity prices and heating and vehicle fuel prices — which were particularly affected by oil price developments (see Chart 16.2). However, food and core component prices also contributed to this increase, albeit to a lesser degree. It was tourism-related items that contributed, in particular, to the more expansionary behaviour of core component prices. The annual revision of the weights in the HICP, while more important than usual as it includes changes in household consumption patterns as a result of the pandemic, seems to have had a relatively small impact (less than 0.1 pp) on the level of headline and core inflation in January.

**In February, the inflation rate fell to -0.1%, correcting somewhat the sharp rise observed in January.** This mainly reflected the slowdown in the energy component, itself caused by electricity prices, while, by contrast, the prices of oil-related products continued to rise. Smaller increases in the prices of the hospitality and tourism items also led to a decrease in the rate of change in the core component. Overall, in the first two months of the year inflation accelerated more in the euro area than in Spain, further widening the negative inflation differential (see Chart 16.3).

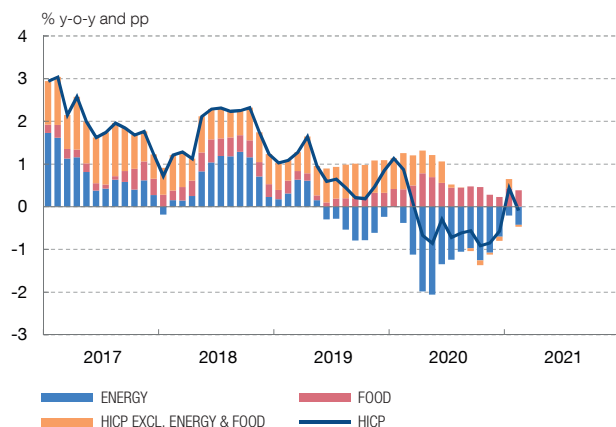
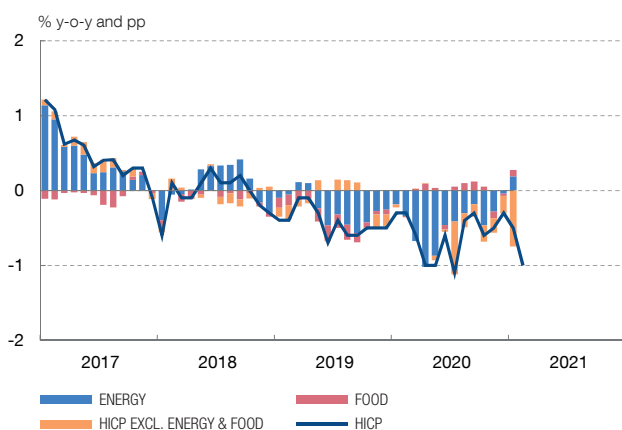
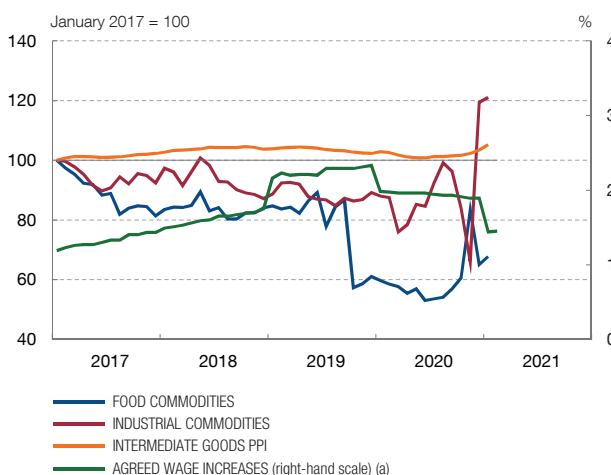
**In the coming months, the inflation rate is expected to rise above 1%.** This projected increase appears to reflect a greater contribution by energy prices, even turning positive. This seems to be the result of the recent increase in commodity prices and also the correction of the base effect stemming from the drop in said prices recorded at the beginning of 2020 (see Chart 16.4). Furthermore, the foreseeable increase in inflation in the coming months would also be attributable to a slight rise in core inflation. Above all, this seems to be due to tourism prices, whose rate would increase on account of both the partial correction of the base effect stemming from the mid-2020 drop and the outlook for a slight recovery expected in



Chart 16

**INFLATION VOLATILITY AND MODERATION IN WAGE INCREASES**

Headline inflation has been notably volatile in the initial months of 2021, reflecting the acceleration in energy prices, faster growth (albeit still modest) in food prices and a slight increase in core inflation. Wage rates, meanwhile, recorded smaller increases than last year.

**1 INFLATION IN SPAIN: DEVELOPMENTS AND CONTRIBUTIONS****2 SPOT OIL PRICES AND FUTURES MARKET****3 CONTRIBUTIONS TO SPANISH-EURO AREA INFLATION DIFFERENTIAL****4 INFLATIONARY PRESSURES**

**SOURCES:** INE, Eurostat, Reuters, Ministerio de Trabajo, Migraciones y Seguridad Social and Banco de España.

**a** Cumulative data year-to-date.



the tourism sector in the summer months, associated with the projected improvement in the epidemiological situation.

Cut-off date: 16.3.2021.

Publication date: 23.3.2021.



Chronology of Analytical Articles. 2021 Q1.

### THE EU-UK TRADE AND COOPERATION AGREEMENT (TCA)

Alejandro Buesa, Iván Kataryniuk, Pilar L'Hotellerie-Fallois and Susana Moreno

Published on 22 March 2021

On 20 December 2020 the European Union (EU) and the United Kingdom (UK) signed a Trade and Cooperation Agreement (TCA) setting the terms on which trade relations between both areas will be based. This article describes the essential points of the agreement, in both the trade and financial areas, and the governance framework that will regulate its fulfilment. It further analyses how the TCA will affect both areas' GDP, and which adjustment measures are being taken to offset potential adverse effects.

### IMPACT OF THE DIVIDEND DISTRIBUTION RESTRICTION ON THE FLOW OF CREDIT TO NON-FINANCIAL CORPORATIONS IN SPAIN

David Martínez-Miera and Raquel Vegas

Published on 15 March 2021

This article analyses the impact of Recommendation ECB/2020/19 (to credit institutions to refrain from making dividend distributions and performing share buy-backs aimed at remunerating shareholders) on lending by Spanish banks between January and September 2020. Specifically, we use a sample of Spanish banks and exploit the fact that only some of them (those that had already approved dividend pay-outs before the recommendation) were able to pay dividends during the first few months of the pandemic. This quasi-natural experiment allowed us to analyse the impact of dividend restrictions on lending. Banks that limited their dividend distributions during the period analysed extended significantly more credit (12% to 23% more than banks that did not limit them) to non-financial corporations after the entry into force of the recommendation. At the same time, firms that received loans with public guarantees, such as, for example, loans that benefit from the ICO's guarantee facilities established in response to the COVID-19 pandemic, received more credit from banks that did not make dividend distributions than from those that did, which suggests that these two measures may complement one another.

## THE COST OF ELECTRICITY FOR SPANISH FIRMS

María de los Llanos Matea Rosa, Félix Martínez Casares y Samuel Vázquez Martínez

Published on 9 March 2021

This article analyses the cost of electricity for Spanish firms. This cost is compared with other expenditure by Spanish industrial firms on goods and services and with their turnover, distinguishing by firm size and sector. Generally, in the industrial sector, the ratio of electricity expenditure to spending on goods and services increases as firm size diminishes, while the ratio of electricity expenditure to turnover is much higher for micro enterprises than for others. By sector, cement, lime and plaster manufacturing posts the highest ratios, followed by several extractive industries, some intermediate goods-producing basic metal industries and the energy, water and waste group.

Regarding the price of electricity, the article examines, in particular, the importance of the regulated cost component – paid through what are known as access charges – for medium-sized and large electricity consumers by sector. Owing to the design of the access charges, the highest average prices correspond to the lowest consumption bands. The average access charge by supply voltage has been stable since the last tariff review in 2014. In real terms, access charges decreased in the period 2014 to 2019.

## THE GENDER GAP IN FINANCIAL COMPETENCES

Laura Hospido, Sara Izquierdo and Margarita Machelett

Published on 1 March 2021

The Survey of Financial Competences shows that men are better at answering financial literacy questions than women. This article documents the magnitude of the gender gap in this area, reviews the hypotheses that, according to the academic literature, might explain the gender gap and quantifies the contribution of each hypothesis in the case of Spain. The findings suggest that a significant gender gap in financial literacy remains when considering the differences between men and women in terms of their socio-demographic characteristics, numeracy and reading comprehension skills, attitudes as measured by interest in finance, specialisation in household tasks and risk preferences. However, the gender gaps are significantly smaller in regions with more egalitarian financial arrangements for custody and marriage, suggesting that social norms may be important in explaining these disparities. Finally, the article advises treating any measurement of financial competences that merely adds up the correct responses to financial literacy questions with caution. The use of alternative measures of financial competences changes the size of the gap usually observed.

## THE ECONOMIC IMPACT OF COVID-19 ON SPANISH FIRMS ACCORDING TO THE BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY (EBAE)

Alejandro Fernández Cerezo, Beatriz González, Mario Izquierdo and Enrique Moral-Benito  
Published on 25 February 2021

The COVID-19 health crisis had a highly uneven impact across sectors and regions in 2020. However, there is hitherto little evidence regarding the heterogeneous impact of the crisis on different firms within each sector and region. This article provides an initial description of the characteristics determining how severely firms have been affected by the pandemic. To this end, it uses the responses (just over 4,000) given in the first round of the Banco de España Business Activity Survey (EBAE), launched in November 2020. The results show that turnover and employment declined more markedly at smaller-sized firms. Moreover, within each sector and region, the crisis has had more adverse effects on younger firms, less productive firms and those located in urban areas. In the case of jobs, higher temporary employment ratios are associated with larger reductions in employment.

## THE ECONOMIC PERFORMANCE OF SPANISH PROVINCES DURING 2020 AND ITS DETERMINANTS

Alejandro Fernández Cerezo  
Published on 10 February 2021

This article presents an estimation of changes in provincial GDP over the course of 2020. The pandemic's impact on activity has been highly uneven across Spain's provinces, with the island provinces and those on the Mediterranean coast being the most affected. The factors that lie behind this disparity are also explored. The steepest declines in activity were associated with a greater weight of tourism – particularly inbound tourism – in provincial activity, a higher proportion of temporary employment, a lower weight for the public sector and lower levels of public mobility. However, after controlling for the effects related to mobility and economic structure, the excess mortality prompted by the pandemic does not appear to be a significant variable in explaining the cross-province differences in GDP change during 2020.

## RECENT DEVELOPMENTS IN FINANCING AND BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR

Pana Alves, Fabián Arrizabalaga, Javier Delgado, Jorge Galán, Eduardo Pérez Asenjo, Carlos Pérez Montes and Carlos Trucharte  
Published on 29 January 2021

Financing conditions for households and businesses have remained accommodating in the second half of 2020, assisted by the support measures introduced by the

economic and monetary authorities to contend with the fallout of the COVID-19 pandemic. However, there are signs of some tightening in credit standards, linked to financial institutions' increased risk concerns. The recovery in economic activity since the summer has favoured a more dynamic flow of credit to individuals, while, after the large volume of financing granted to productive activities over the spring, new lending to this sector declined significantly. The strong negative impact of the COVID-19 pandemic on economic activity did not filter through in any significant way into the quality of deposit institutions' private sector credit portfolio until 2020 Q3. Although the decline in non-performing loans observed in previous years generally slowed across portfolios in 2020, and despite the pick-up in specific portfolios, such as those relating to consumer credit, total non-performing loans have continued to decline on a year-on-year basis. Growth in the volume of public guarantees for lending to business eased in the second half of the year and the volume of credit subject to non-expired moratoria, which is concentrated mostly in banking association schemes, stabilised.

### **JANUARY 2021 BANK LENDING SURVEY IN SPAIN**

Álvaro Menéndez Pujadas and Maristela Mulino

Published on 19 January 2021

According to the Bank Lending Survey, during 2020 Q4, both in Spain and in the euro area there was a slight contraction in the credit supply, linked to banks' higher risk perceptions, against a background of a worsening economic outlook, which was also reflected in lower demand for loans. These trends were recorded in most of the segments analysed. In a similar vein, according to the banks responding, the NPL ratio contributed in both areas to a slight tightening of credit standards in loans to firms and consumer credit and other lending to households. In 2020 H1, credit standards and the terms and conditions on loans with government guarantees eased considerably in both areas, while a contraction was observed in the supply of loans without guarantees in the same period. Furthermore, applications for loans with guarantees rose robustly between January and June, both in Spain and in the euro area, owing to firms' higher liquidity needs in those months and the need to build up precautionary liquidity buffers, while the demand for loans without guarantees dropped significantly.

### **EURO AREA HOUSEHOLD INCOME AND SAVING DURING THE FIRST WAVE OF THE PANDEMIC**

Ana del Río and José Antonio Cuenca

Published on 21 December 2020

This article assesses the immediate impact the first wave of the pandemic had on euro area household income, consumption and saving, both at the aggregate level

and for the main economies in the area. Drawing on the institutional sector accounts, with information to Q2, there was a contained decline in household income, despite the worsening labour market, thanks to the speed and extensive scope of the economic policy measures approved. However, the collapse in consumption during the lockdown meant that saving rebounded in an extraordinary fashion. The outbreak of the second wave and uncertainty over the scale of the economic impact will contribute, for some time longer, to saving remaining relatively high and to the accumulated reservoir of private saving not fully materialising in the form of greater expenditure.





Chronology of Economic Notes. 2021 Q1.

### **TURKEY: MACRO-FINANCIAL SITUATION**

Juan Carlos Berganza, Paula Sánchez Pastor and Begoña Lara

Published on 8 March 2021

As in other countries, the effect of the pandemic and the global recession on the Turkish economy was mitigated by the fiscal, financial and monetary support implemented by the country's authorities. In fact, Turkey was one of the few economies of significant size to record positive GDP growth in 2020 as a whole. However, this policy support also exacerbated the pre-existing macroeconomic imbalances. First, the sharp increase in credit is among the determinants behind the growth in domestic demand. Second, a notable weakening of the lira was observed, leading the already-high inflation rate to rise further. However, in the final stretch of the year the Turkish central bank shifted towards more orthodox monetary policy, helping to restore – at least in part – investor confidence. The banking sector has remained healthy, although overall asset quality has deteriorated as exposure has increased.



## BANCO DE ESPAÑA PUBLICATIONS

The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.). The full list of Banco de España publications can be found on its website at <https://www.bde.es/f/webbde/Secciones/Publicaciones/Relacionados/Fic/Catalogopublicaciones.pdf>.

The list of articles published in the Economic Bulletin since 1990 can be consulted at [https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/indice\\_general\\_ingles.pdf](https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/indice_general_ingles.pdf).

Most of these documents are available in PDF format and can be downloaded free of charge from the Banco de España website at <https://www.bde.es/webbde/en/secciones/informes/>. Requests for others should be addressed to [edicionpublicaciones@bde.es](mailto:edicionpublicaciones@bde.es).

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

© Banco de España, Madrid, 2021  
ISSN: 1695 - 9086 (online edition)

## ACRONYMS AND ABBREVIATIONS

AIReF	Independent Authority for Fiscal Responsibility	FSB	Financial Stability Board
AMCESFI	Spanish macroprudential authority	FSF	Financial Stability Forum
APP	Asset Purchase Programme	GDI	Gross disposable income
BCBS	Basel Committee on Banking Supervision	GDP	Gross domestic product
BE	Banco de España	GFCF	Gross fixed capital formation
BIS	Bank for International Settlements	GNP	Gross national product
BLS	Bank Lending Survey	GOP	Gross operating profit
BOP	Balance of Payments	GVA	Gross value added
CBA	CBSO Annual Survey	HICP	Harmonised Index of Consumer Prices
CBI	Integrated CBSO Annual Survey	IASB	International Accounting Standards Board
CBQ	CBSO Quarterly Survey	ICO	Official Credit Institute
CBSO	Central Balance Sheet Data Office	IFRSs	International Financial Reporting Standards
CCR	Central Credit Register	IIP	International Investment Position
CDSs	Credit default swaps	IMF	International Monetary Fund
CNE	Spanish National Accounts	INE	National Statistics Institute
CNMV	National Securities Market Commission	LTROs	Longer-term refinancing operations
COVID-19	Coronavirus disease 2019	MFIs	Monetary financial institutions
CPI	Consumer Price Index	MREL	Minimum requirement for own funds and eligible liabilities
CSPP	Corporate sector purchase programme	MROs	Main refinancing operations
DGF	Deposit Guarantee Fund	MTBDE	Banco de España quarterly macroeconomic model
EBA	European Banking Authority	NAFTA	North American Free Trade Agreement
EC	European Commission	NCBs	National central banks
ECB	European Central Bank	NFCs	Non-financial corporations
ECOFIN	Council of the European Communities (Economic and Financial Affairs)	NPISHs	Non-profit institutions serving households
EDP	Excessive Deficit Procedure	OECD	Organisation for Economic Co-operation and Development
EFB	European Fiscal Board	ONP	Ordinary net profit
EFF	Spanish Survey of Household Finances	OPEC	Organisation of Petroleum Exporting Countries
EFSS	European Financial Stability Facility	PEPP	Pandemic Emergency Purchase Programme
EMU	Economic and Monetary Union	PER	Price/earnings ratio
EONIA	Euro overnight index average	PMI	Purchasing Managers' Index
EPA	Official Spanish Labour Force Survey	PPP	Purchasing power parity
ESA 2010	European System of National and Regional Accounts	QNA	Quarterly National Accounts
ESCB	European System of Central Banks	SDRs	Special Drawing Rights
ESFS	European System of Financial Supervisors	SEPA	Single Euro Payments Area
ESM	European Stability Mechanism	SGP	Stability and Growth Pact
ESRB	European Systemic Risk Board	SMEs	Small and medium-sized enterprises
EU	European Union	SRM	Single Resolution Mechanism
EURIBOR	Euro interbank offered rate	SSM	Single Supervisory Mechanism
EUROSTAT	Statistical Office of the European Communities	TFP	Total factor productivity
FASE	Financial Accounts of the Spanish Economy	TLTROs	Targeted longer-term refinancing operations
FDI	Foreign direct investment	ULCs	Unit labour costs
FOMC	Federal Open Market Committee	VAT	Value Added Tax
		WTO	World Trade Organization

## COUNTRIES AND CURRENCIES

In accordance with the protocol order, the EU Member States are listed using the alphabetical order of the country names in the national languages.

BE	Belgium	EUR (euro)
BG	Bulgaria	BGN (Bulgarian lev)
CZ	Czech Republic	CZK (Czech koruna)
DK	Denmark	DKK (Danish krone)
DE	Germany	EUR (euro)
EE	Estonia	EUR (euro)
IE	Ireland	EUR (euro)
GR	Greece	EUR (euro)
ES	Spain	EUR (euro)
FR	France	EUR (euro)
IT	Italy	EUR (euro)
HR	Croatia	HRK (Croatian kuna)
CY	Cyprus	EUR (euro)
LV	Latvia	EUR (euro)
LT	Lithuania	EUR (euro)
LU	Luxembourg	EUR (euro)
HU	Hungary	HUF (Hungarian forint)
MT	Malta	EUR (euro)
NL	Netherlands	EUR (euro)
AT	Austria	EUR (euro)
PL	Poland	PLN (Polish zloty)
PT	Portugal	EUR (euro)
RO	Romania	RON (New Romanian leu)
SI	Slovenia	EUR (euro)
SK	Slovakia	EUR (euro)
FI	Finland	EUR (euro)
SE	Sweden	SEK (Swedish krona)
UK	United Kingdom	GBP (Pound sterling)
JP	Japan	JPY (Japanese yen)
US	United States	USD (US dollar)

## CONVENTIONS USED

M1	Notes and coins held by the public + sight deposits.
M2	M1 + deposits redeemable at notice of up to three months + deposits with an agreed maturity of up to two years.
M3	M2 + repos + shares in money market funds and money market instruments + debt securities issued with an agreed maturity of up to two years.
Q1, Q4	Calendar quarters.
H1, H2	Calendar half-years.
bn	Billions (10 <sup>9</sup> ).
m	Millions.
bp	Basis points.
pp	Percentage points.
...	Not available.
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth.
0.0	Less than half the final digit shown in the series.