

ECONOMIC BULLETIN

2/2021

BANCO DE **ESPAÑA**
Eurosistema



QUARTERLY REPORT ON THE SPANISH ECONOMY

1 Overview 7

2 International financial markets 42

3 External environment of the Spanish economy 45

4 The Spanish economy 53

Analytical Articles 67

Banco de España publications 73

Acronyms and abbreviations 74

Boxes

- 1 Macroeconomic projections for the Spanish economy (2021-2023): The Banco de España's contribution to the Eurosystem's June 2021 joint forecasting exercise 14
- 2 Some determinants of the growth differential between the euro area and the United States since the onset of the pandemic 25
- 3 Outlook for household saving in the euro area and in the United States 29
- 4 Recent developments in Spanish SMEs' access to external finance according to the ECB's six-monthly survey 32
- 5 Accuracy of short-term economic projections during the pandemic: the importance of the cut-off date 35
- 6 Recent changes in CO₂ emissions in Spain 38

QUARTERLY REPORT ON THE SPANISH ECONOMY

The latest information points to growing dynamism in the world economy. At the start of the year, global activity lost momentum as a result of the rise in COVID-19 infections in numerous regions and the subsequent reinforcement of pandemic-containment measures. However, since the final stretch of Q1 there has been a gradual strengthening in activity which, more recently, is estimated to have gained in intensity on the information available.

Nonetheless, the trends observed are notably uneven across the different areas. The improvement has basically been in the advanced economies, against the background of progress in vaccination programmes. This has helped significantly contain infection figures and, above all, the severity of the health consequences of the pandemic, allowing restrictions to be eased. The upshot is a significant rebound in economic activity in Q2 in this group of countries (see Chart 1.1). Yet in many emerging economies, including some of the biggest, such as India, the incidence of the pandemic in recent months has been very high. Lockdown measures have, accordingly, been maintained or even stepped up in some cases.

In the short term, the contrast between the buoyancy of the advanced economies and the greater weakness of the emerging ones is even likely to heighten. Given the current pace of vaccination, the advanced countries are likely to reach herd immunity before year-end. Conversely, the emerging economies' vulnerability in the face of the pandemic will continue to be higher, given their limited capacity to accelerate the vaccination process.

From a sectoral standpoint, the recent increase in activity would appear to be concentrated in the services sectors. The global services PMI has increased sharply and continuously since February, in step with the re-opening of the advanced economies (see Chart 1.2). Meantime, the global manufacturing PMI has held stable – albeit at high levels – since last autumn, consistent with the robust expansion in activity. The lack of further improvements since then probably reflects, in part, the disruption to global production chains that has begun to be felt in certain specific segments of the manufacturing sector. Where this phenomenon is notably manifest is in the lack of semiconductors, an input used in the production of several categories of goods.

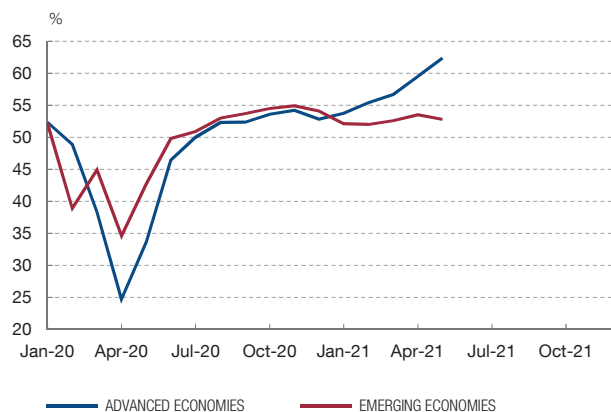
Commodities price rises and the greater buoyancy of economic activity are leading to greater inflationary pressures. In a setting in which the degree of cyclical slack appears to still be high, this quickening in prices should be transitory. It is believed to be linked, in part, to the above-mentioned disruption to productive processes.

Chart 1

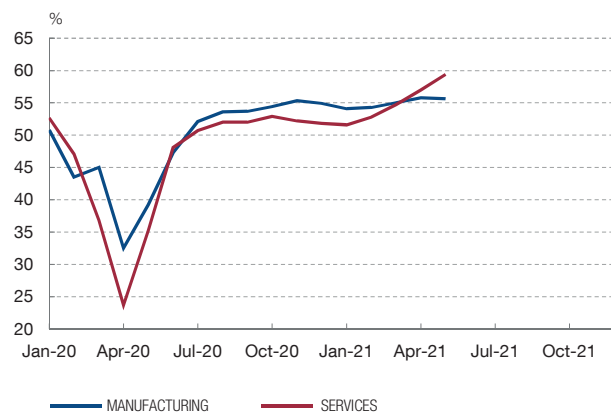
DIVERGENCE IN GLOBAL RECOVERY, BY GEOGRAPHICAL REGION AND SECTOR

In 2021 to date, the gradual control of the pandemic in the advanced economies has led to a progressive recovery in activity. Conversely, in many emerging economies the rise in infections has meant that this group, on the whole, has performed much less dynamically. The recent improvement has been centred on services, these sectors having been more affected by the restrictions introduced to combat COVID-19.

1 PURCHASING MANAGERS' INDEX, BY REGION (a)



2 PURCHASING MANAGERS' INDEX, BY SECTOR (b)



SOURCES: IHS Markit and Banco de España.

a The aggregate of the advanced economies excludes the euro area. The PMI data are for production.

b The PMI data correspond to the global manufacturing and services indices.

On international financial markets, the brighter outlook for global activity has, in recent months, tended to be conducive to risk-appetite. But, at the same time, the possibility that recent price rises may pave the way for more persistent increases in inflation has stirred fears of a potential tightening of monetary policies.

In the euro area, the favourable course of the pandemic and the across-the-board improvements in confidence presage a strengthening of the pick-up in activity in the immediate future. This favourable outlook rests on the assumption that there will be no fresh setbacks on the health front and, in particular, that the envisaged vaccination rollout will run to plan. Against this backdrop, private agents' enhanced confidence, the increase in consumption (underpinned by a gradual decline in the saving rate), the rise in global demand and the support of economic policies should, on the latest Eurosystem projections presented to the ECB Governing Council on 10 June, provide for euro area GDP growth of 4.6% and 4.7% in 2021 and 2022, respectively. In both instances, that marks an upward revision of 0.6 pp on the March projections.¹

Inflationary pressures in the euro area remain modest. The overall HICP indicator has risen quite sharply in recent months. This has been due to the energy component, affected by the base effects caused by the decline in oil prices in spring last year, at

¹ See the [Eurosystem staff macroeconomic projections for the euro area, June 2021](#).

Table 1

MAIN SPANISH MACROECONOMIC AGGREGATES (a)

	2020					2021		
	2020	Q1	Q2	Q3	Q4	Q1	Q2	
National Accounts							Favourable	Baseline
Quarter-on-quarter rate of change, unless otherwise indicated								Adverse
Gross domestic product (GDP)	-10.8	-5.4	-17.8	17.1	0.0	-0.5	2.7	2.2
Contribution of national demand (b)	-8.8	-4.6	-15.2	15.4	0.4	-0.9	2.4	2.0
Contribution of net external demand (b)	-2.0	-0.8	-2.6	1.6	-0.4	0.4	0.3	0.2
Year-on-year rate of change								
Employment: hours worked	-10.4	-4.3	-25.0	-6.4	-6.1	-3.6	26.3	25.9
Price indicators								
Harmonised index of consumer prices (HICP)	-0.3	0.7	-0.6	-0.6	-0.8	0.5	2.1	2.1
Harmonised index of consumer prices excluding energy and food	0.5	1.2	0.9	0.1	-0.1	0.1	-0.3	-0.3

SOURCES: INE and Banco de España.

a Information available to 27 May 2021. The shaded figures are Banco de España projections under favourable, baseline and adverse scenarios.

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

the onset of the pandemic. However, core inflation (which excludes the energy and food components) has held at very moderate levels and, although a rise is expected in the second half of the year, this will be on account of temporary factors which will foreseeably be reversed in 2022. On the latest Eurosystem projections, both the overall HICP and the core indicator are expected to post an annual average rate of 1.4% in 2023.

In Spain, the conjunctural information available also suggests a notable rise in activity in Q2. After output shrank in Q1, owing essentially to the stringency of the lockdown measures in force at the start of the year, the dynamism of the economy is estimated to have increased significantly (see Table 1 and Chart 2). Behind this momentum are the improvements in the qualitative indicators, the increase in effective Social Security registrations and the results of the third edition of the Banco de España survey on economic activity (EBAE by its Spanish acronym)². Household spending is being boosted by improved confidence, against the backdrop of the significant scaling down of the pandemic-containment measures (especially following the end of the state of alert on 9 May) and the headway in the vaccination campaign. The improvement in external markets, as a result of the recovery in demand from the advanced economies as a whole and from China, is translating into an expansionary goods exports performance.

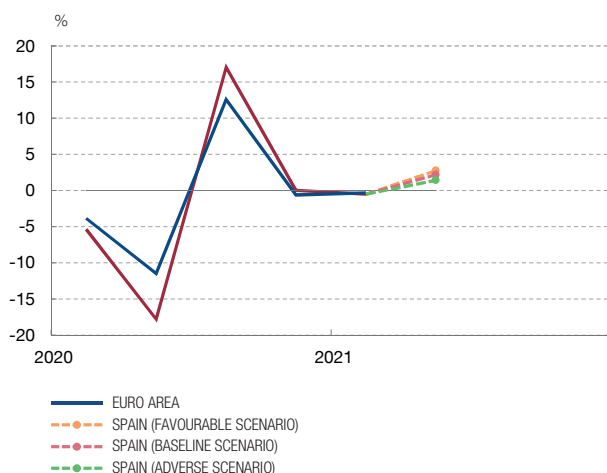
² See M. Izquierdo (2021) "Encuesta a las empresas españolas sobre la evolución de su actividad (EBAE): tercera edición", Notas Económicas, Banco de España.

Chart 2

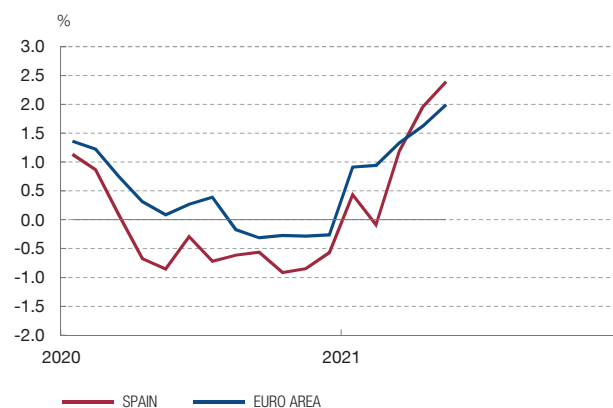
ECONOMIC ACTIVITY HAS RISEN IN 2021 Q2 (a)

The reduction in the rate of infections and the headway in the vaccination campaign have allowed an easing of the containment measures. This has led to a rise in activity and in employment, particularly in the sectors most affected by the restrictions. Consumer price inflation has risen both in Spain and in the euro area as a whole, owing particularly to the impact on the rate of the energy component of the strong fall-off in oil prices a year back.

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 Q2 data are Banco de España projections.

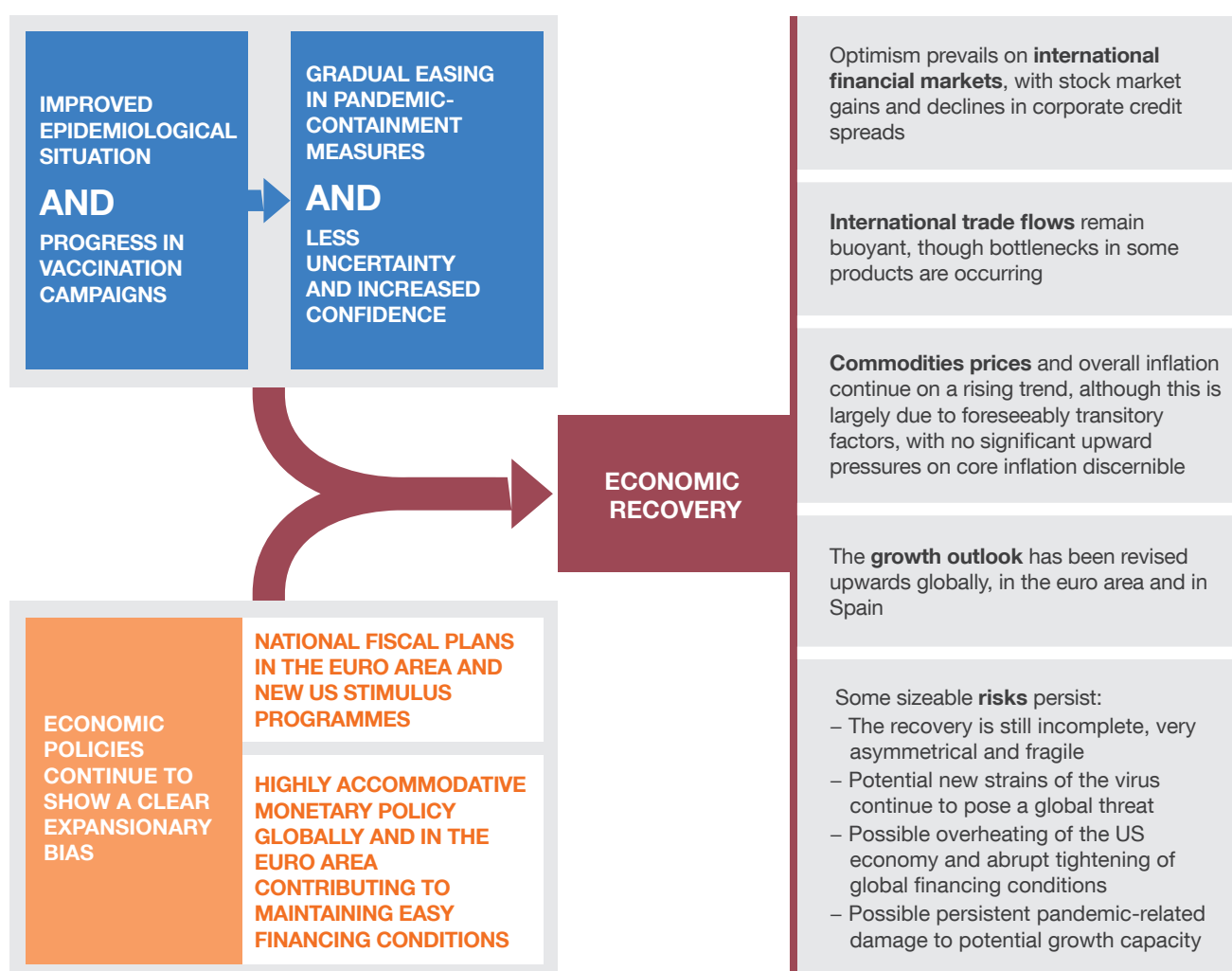
Looking to the summer, the intensity and the exact timing of the rise in activity continue to hinge crucially on the course of the pandemic, progress in the vaccination campaign and the subsequent easing of the containment measures. In particular, the recovery in tourism, so crucial for the Spanish economy, depends on the lifting of the restrictions still in place on people travelling between Spain and some of the main countries of origin of incoming tourists. A question mark currently hangs over any such lifting in the short term owing to the spread of more contagious strains of the virus.

The baseline scenario of the latest Banco de España projections envisages GDP growth of 6.2% and 5.8% in 2021 and 2022, respectively.³ The lesser incidence of the pandemic, against the background of the progress in vaccination, and the implementation of the projects included under the European funds of the Next Generation EU (NGEU) programme will give rise, under this baseline scenario, to high growth in activity in the second half of this year. That will also exert a sizeably positive impact on the increase in GDP over the course of 2022. In 2023, the output

³ These projections are part of the [Eurosystem staff macroeconomic projections for the euro area](#). Box 1 in this Report describes in detail the projections by the Banco de España for Spain.

Figure 1

ECONOMIC DYNAMICS IN RECENT MONTHS AND THE ATTENDANT OUTLOOK IN SPAIN AND GLOBALLY



SOURCE: Banco de España.

growth rate will be 1.8%. The pre-crisis level of GDP will be reached towards the end of next year.

As has been the case since the start of the pandemic, the high uncertainty prevailing has prompted alternative scenarios to be set out. These scenarios differ from the baseline in the assumptions formulated about pandemic-related developments, the pace of the reduction in the saving rate and the scarring left by the pandemic on the economy's productive system. Under the favourable and adverse scenarios, GDP is expected to grow by 6.8% and 4.6%, respectively, this year.

The risks to economic activity are currently more balanced than in past projections exercises. Uncertainty remains high, however. First, epidemiologically

speaking, there are still fears that the high circulation of the virus in extensive regions of the world may give rise to the emergence of new vaccine-resistant strains. And insofar as this were to entail continuing travel restrictions, it would adversely affect tourism flows. Second, the hypothetical rise in business insolvencies would lead to job losses and, possibly, to a deterioration in financial institutions' capital, which might bear unfavourably on their capacity to lend. Conversely, the baseline scenario envisages a relatively slow reduction in the saving rate from the high levels seen during the crisis. But there is a possibility that this process may unfold more swiftly and sharply, and even that households may spend a substantial proportion of the income saved since the start of the lockdown.

As in other geographies, Spain too has recently seen some increase in inflationary pressures in the early price-formation stages. The rise in the inflation of commodities and non-energy industrial prices has not so far filtered through to the consumer prices of these goods. Indeed, the past evidence available suggests that this pass-through, which will in any event take around six months, will be only partial.

Under the baseline scenario, the pace of the core component of consumer prices will continue to be modest. The high degree of slack in the economy and moderate wage growth both point in this direction. In the medium term, the pick-up in activity will prompt something of a rise in core inflation (the HICP measure excluding energy and food), to 1.1% on average in 2023. In terms of overall inflation, this rate would be 1.2%. Apart from the risks arising from the potential materialisation of other forms of uncertainty affecting activity, this baseline scenario is subject to the risk of the inflationary pressures observed in the preliminary stages of the price-formation chain ultimately being more persistent than expected.



BOX 1

The macroeconomic forecasts for the Spanish economy in the 2021-2023 period have been revised slightly upwards



BOX 2

The health crisis has had a greater economic impact on the euro area than on the United States, and a slower path of recovery is expected in the short term



BOX 3

The release of the reservoir of saving that households have built up in this crisis could significantly boost the ongoing recovery in the euro area and the United States



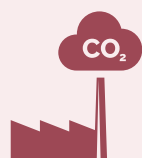
BOX 4

From October to March, the proportion of Spanish SMEs having difficulty obtaining bank loans grew



BOX 5

During the pandemic, short-term GDP growth forecasting errors have been greater than usual, against a much more uncertain economic background



BOX 6

In 2020, CO₂ emissions in Spain declined by 17.4%, mainly because of the impact of the pandemic

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE

Overview

After its Governing Council meeting on 10 June, the European Central Bank (ECB) released its latest projections for the euro area, covering the period 2021-2023.¹ This box describes the projections for the Spanish economy that constitute the Banco de España's contribution to these aggregate euro area forecasts. The projections for Spain include the new information that has come to light in the period from the publication date of the previous projections (23 March, in *Economic Bulletin* 1/2021²) to 27 May.

The recovery the Spanish economy embarked on in the second half of last year was interrupted in 2021 Q1, when GDP fell by -0.5%, according to INE's preliminary estimates (a rate very close to the Banco de España figure of -0.4% in its March baseline scenario). This fall-off in output was in a setting in which the rise in the incidence of the pandemic around the turn of the year made a tightening of the measures applied to contain it necessary, and in which other temporary factors (including the snowstorm in early January and the blocking of the Suez Canal) also exerted something of an adverse impact on economic activity. In any event, the decline in the incidence of the pandemic as from early February allowed for a gradual easing in restrictions, which was conducive to a progressive improvement in activity over the course of the quarter.

On the latest information available, this rebound in activity has stepped up notably in Q2, in line with the more favourable course of the pandemic. Specifically, progress in the vaccination campaign has led to a reduction in infections which, since they are moreover concentrated in younger population groups, has given rise to a fall in the proportion of serious cases and, therefore, of deaths. That has provided for a gradual easing of the lockdown

measures, marked most notably by the end of the state of alert on 9 May.

The improved conjunctural data is particularly patent in firms' response to the latest edition of the Banco de España Survey on Economic Activity (EBAE by its Spanish acronym),³ in effective Social Security registrations (i.e. discounting furloughed workers) and in the confidence indicators. In all instances, a common feature is that the recovery is sharper in services, in keeping with the partial lifting of the restrictions that weighed on those activities in which social interaction plays a key role. And that, in short, is – from the standpoint of the productive sectors – widening the base underpinning the recovery. By way of example, the PMI services index has stood since April, for the first time in almost a year, at levels consistent with the expansionary behaviour of the sector's value added.

In light of this information, GDP is expected to rise significantly in quarter-on-quarter terms in Q2. However, the uncertainty over the scale of this rebound is high. First, estimates from the short-term models are beset by the logical constraints derived from the relative shortage of data for Q2. In particular, there is no quantitative information on developments in activity in June, and that for May is very limited. Further, interpreting the incoming data has become more complex as from this quarter because the year-to-year comparisons have lost much of their informativeness (since they are set against the months in 2020 subsequent to the outbreak of the pandemic).⁴ Given the caution these considerations demand, it is estimated that GDP growth in Q2 could rise to 2.2% quarter-on-quarter under the baseline scenario of these projections.

Despite the favourable recent developments, the economic outlook for the rest of the year remains greatly

¹ See the [Eurosistem staff macroeconomic projections for the euro area, June 2021](#).

² Compared with the [Macroeconomic projections in Spain \(2021-2023\)](#), published as Box 1 of the "Quarterly report on the Spanish economy" in *Economic Bulletin* 1/2021, the current projections include the changes observed between 16 March and 18 May in the technical assumptions, in the budgetary assumptions and in the projected course of the external setting of the economy (except regarding the euro area, for which the data cut-off date is 26 May). Furthermore, the projections include the Quarterly National Accounts (QNA) preliminary estimates for 2021 Q1.

³ M. Izquierdo (2021), *Encuesta a las empresas españolas sobre la evolución de su actividad (EBAE): tercera edición*, Notas Económicas, *Economic Bulletin* 2/2021, Banco de España.

⁴ Further, from a more technical perspective, the difficulties the models are experiencing in correctly interpreting the incoming data (given that these are more influenced by the ups and downs of the pandemic and the restrictions adopted to counter its effects than they are by the changes in economic dynamics) are being compounded in these months, because of the diminished capacity of the procedures to isolate the purely seasonal component of the series.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

influenced by the uncertainty as to the time horizon needed to fully overcome the health crisis. The current acceleration in the ongoing vaccination rollout is contributing, as indicated, to containing the rate at which the pandemic is spreading. And that provides a favourable setting for the Spanish economy to embark upon a sustained growth phase. Yet, on the other hand, the very lifting of the containment measures is checking the decline in the rate of reproduction of the virus, which prevents fully ruling out the possibility of a fresh outbreak of the pandemic, as shown by the experience of some economies which have moved forward more swiftly than Spain in the vaccination process. These difficulties in fully controlling the virus in the short term, which also – naturally – affect other economies in our orbit, are significant for Spain insofar as our productive structure rests to a greater extent than in other countries on tourism, a fact all the more important given the proximity of the summer high season. Specifically, drawing on the tourist sector's latest forecasts, it is estimated under the baseline scenario of these projections that tourism exports will post, in Q3 this year, a level close to 50% of that recorded in the same period in 2019 (see Chart 2).

In line with the official forecasts, the projections consider that, by late August, 70% of the Spanish population will have been vaccinated. Thereafter, it would be possible to take further steps towards lifting and ultimately eliminating the containment measures by end-2021.⁵ Under this assumption, activity in Spain as from the second half of this year would cease to depend on epidemiological considerations.

The projections envisage a continuation of the surge in activity until end-2021, in step with the pick-up in the productive sectors that have so far been most affected by the pandemic-related restrictions. The increase in output will be boosted, moreover, by a series of additional factors. First, the outlook for growth in Spain's trading partners is gradually improving, assisted by the ongoing support of economic policies globally.⁶ The recovery in world markets is being led by the advanced economies, whose progress in terms of

vaccination has been much greater than that of the emerging countries taken as a whole. The improvement in Spanish export markets has been particularly marked in the cases of the United States – where the economic outlook has been assisted by the recent fiscal policy announcements – and, to a lesser extent, the United Kingdom.

Moreover, the monetary policy measures adopted by the ECB to date and the fiscal policy measures in Spain will continue, over the projection horizon, to provide considerable support to aggregate demand and to private agents' incomes. That will restrict, under this baseline scenario, the scarring the crisis may leave on the productive system and labour market (in terms of the destruction of firms and of increased structural unemployment). Also, that would limit the scale of the phenomena involving the financial amplification of the crisis, resulting from the “doom loop” of worsening solvency of households and firms on one hand, and of financial institutions on the other. Among the economic policy measures that will be conducive to increasing the pace of activity, it is specifically worth mentioning the Next Generation EU (NGEU) programme.

Compared with the March exercise, the overall impact of the changes in the current projection assumptions on economic growth is positive. Specifically, the favourable effects on activity of the more dynamic performance of external markets exceed the negative impact of certain other assumptions, including in particular higher crude prices and, to a lesser extent, the appreciation of the exchange rate.

In consequence, GDP growth is expected to reach 6.2% in 2021 overall (see Chart 3 and Table 1). The period of high output growth rates up to the end of 2021 will be followed by another period of more moderate growth up to the end of the projection horizon. However, the strong economic momentum during the rest of this year will give rise to a significant carry-over effect on the average rate of change of GDP in 2022, of 5.8%. In 2023, GDP growth will slow to 1.8%.⁷ GDP will not return to its pre-

5 The EU vaccination strategy calls on Member States to accelerate vaccine rollout, so that “by summer 2021, Member States should have vaccinated a minimum of 70% of the adult population”.

6 The assumptions on export market developments, which are set out in greater detail in Annex 1, are drawn from the Eurosystem staff macroeconomic projections for the euro area, June 2021.

7 See J. González Mínguez and C. Martínez Carrascal (2019), “The relationship between average annual and quarter-on-quarter GDP growth rates: implications for projections and macroeconomic analysis”, Analytical Articles, *Economic Bulletin* 3/2019, Banco de España.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

pandemic level until the last part of 2022, and will be 1.9% above that level at the end of the projection horizon. This suggests that the impact of the health crisis, albeit temporary, will be relatively persistent (see Chart 4).

These projections, in comparison with those published in March, include an upward revision of GDP growth for 2021 and 2022 (of 0.2 pp and 0.5 pp, respectively), which

reflects the positive impact on activity of the change in the projection assumptions and the greater dynamism of GDP in the current quarter. This offsets the modest negative effects associated with the revision of the historical data.⁸

The uncertainties relating to the pandemic and its economic consequences

The level of uncertainty surrounding the course of the pandemic has decreased significantly since the last

Chart 1
TOURISM EXPORTS (2019 = 100)

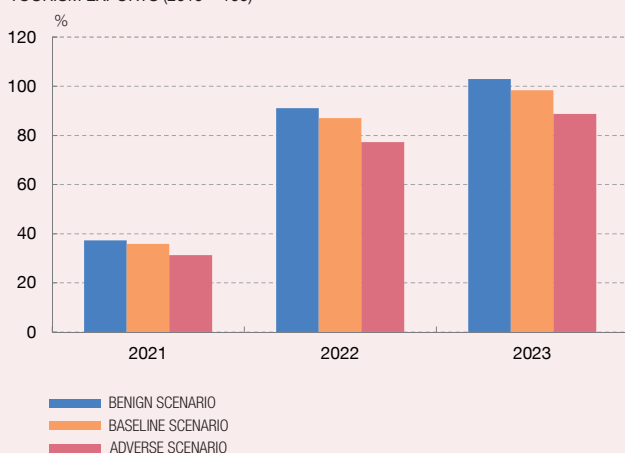
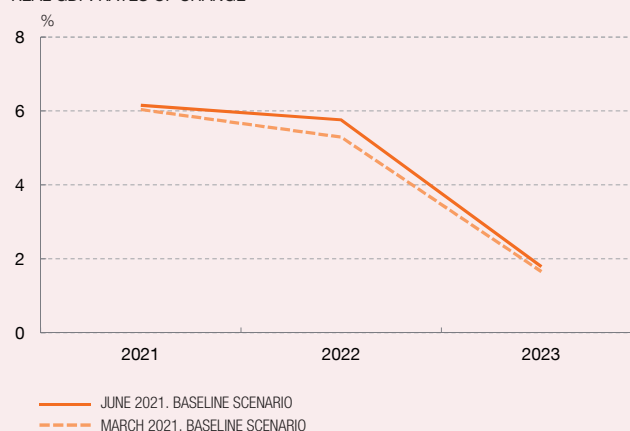


Chart 2
REAL GDP. RATES OF CHANGE



SOURCES: Banco de España and INE.

Chart 3
REAL GDP. LEVEL (2019 Q4 = 100)

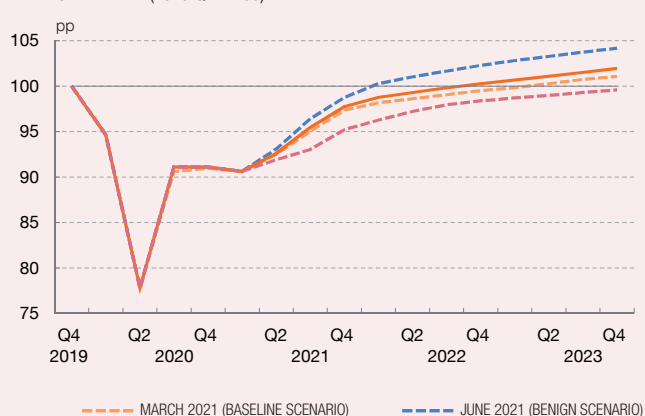
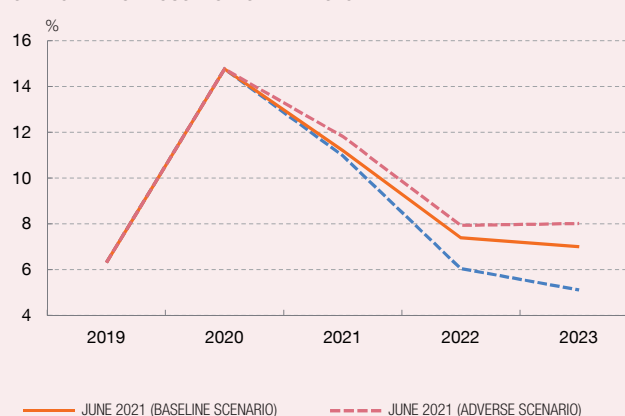


Chart 4
SAVING RATE OF HOUSEHOLDS AND NPISHs



SOURCES: Banco de España and INE.

⁸ According to the INE flash estimate, the quarterly decline in GDP in Q1 was 0.1 pp more than that envisaged in March under the baseline scenario. The latest Quarterly National Accounts figures also entailed minor revisions to the growth rates of the previous two quarters. All this means that the starting point of the level of activity for these forecasts is somewhat less favourable, from the standpoint of the annual average growth rate in 2021, than was anticipated under the baseline scenario published in March.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

projection exercise. However, as described above, these uncertainties are still relatively high, especially in the very short term. In addition, even when the health crisis is over, the consequences of the pandemic will remain. These consequences may take very different forms, ranging from possible scarring in terms of destruction of the productive system and higher long-term unemployment, to changes in economic agents' behaviour. In view of these sources of uncertainty, and as has been the case since the start of the pandemic, two alternative scenarios are formulated, the benign and the adverse scenario.

In the very short term, the differences between the two scenarios are warranted, as indicated above, by the scant volume of data available at the current juncture on 2021 Q2 and by their hard-to-calibrate relationship with economic activity, in a setting in which the relationship between this variable and the mobility indicators has recently tended to become less stable.

In the second half of 2021, one of the aspects that changes in the different scenarios is the course of the pandemic. The alternative scenarios include the same vaccination timeline as the baseline scenario, since considerably fewer uncertainties are now envisaged in this respect. Under the benign scenario the decline in the incidence of the pandemic observed in recent weeks continues, enabling the easing of the remaining restrictions

on economic activity to be brought forward. By contrast, the adverse scenario envisages the possibility of fresh infections, possibly linked to the appearance of variants of the virus that are more infectious and may be resistant to vaccines, requiring the re-establishment of restrictions on movement and on some economic activities that entail high levels of personal contact. These alternative assumptions are critical to determine the rate of recovery of tourism in the summer months.

In 2022 and 2023 the differences between the various scenarios are not related to the course of the pandemic, but they do have as a common denominator the uncertainty surrounding the economic consequences of the pandemic in the medium term, insofar as possible changes in economic agents' behaviour are concerned, and also the possible scarring of the Spanish productive system as a result of the crisis.

Possible changes in households' behaviour have direct implications for two components of aggregate demand: private consumption and tourism flows. In the case of private consumption, the pandemic has triggered a huge surge in the household saving rate, given that households have substantially reduced their current expenditure in a setting in which their income has scarcely been affected thanks to the economic policy measures adopted.⁹ This increase in the saving rate has been partly forced by the

Table 1
MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (a)

Annual rate of change

	GDP				Harmonised index of consumer prices (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
June 2021 (baseline scenario)	-10.8	6.2	5.8	1.8	-0.3	1.9	1.2	1.2	0.5	0.3	1.0	1.1	15.5	15.6	14.7	13.7
March 2021 (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

SOURCES: Banco de España and INE.

NOTE: Latest QNA figure published: 2021 Q1.

a Projections cut-off date: 27 May 2021.

b Annual average.

⁹ See "Household saving during the pandemic and its possible effects on the future recovery in consumption", Box 4, "Quarterly report on the Spanish economy", *Economic Bulletin* 1/2021, Banco de España.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

pandemic containment measures which made it impossible to consume certain goods and services. And it is partly attributable to more precautionary saving by households against the backdrop of uncertainty.

Over the projection horizon, the lifting of the measures imposed thus far to contain the virus will see the forced saving component disappear completely, while the lower uncertainty should lead the voluntary saving component to shrink. Under the baseline scenario, it is assumed that the saving rate steadily declines over the coming years, although the average for 2023 would remain somewhat above its pre-crisis level (see Chart 1). This implies that the high volume of savings built up since the onset of the pandemic would not be reduced. Several factors support this assumption. First, it is chiefly higher-income households that have saved and they have a lower propensity to consume. Second, the suppressed spending may not be easily recovered, since most would have been spending on services (such as hotels and restaurants, for example) that cannot be easily deferred (unlike spending on durable goods). Lastly, households may decide to voluntarily restrict their spending levels in anticipation of higher taxes in the future on account of the high volume of government debt built up during the crisis.

Under the benign scenario, it is assumed that households will use a portion of the savings built up in the form of liquid assets during the crisis to increase their consumption. The corollary to this would be a more pronounced reduction in the household saving rate compared with the baseline scenario, to stand below pre-crisis levels from 2022. By contrast, under the adverse scenario, more cautious behaviour by households will lead to a somewhat slower recovery in consumption, such that the saving rate will hold above pre-crisis levels throughout the projection horizon.

The pace of recovery in tourism exports also varies between the scenarios. This owes, in the near term, to the differing assumptions regarding the course of the pandemic and, from 2022, agents' attitudes towards spending, including the levels of precautionary saving they wish to maintain, how far the preference – seemingly observed since the onset of the pandemic – for domestic tourism is reversed and, in the case of firms, the resumption of business travel. At the end of the projection horizon, inbound tourism flows will stand close to pre-crisis levels under the baseline scenario and above pre-

crisis levels under the benign scenario. They will remain around 10% below pre-crisis levels under the adverse scenario.

As regards the fallout of the crisis on the productive system, as has been noted, the baseline scenario envisages moderate scarring at the aggregate level. As an example, in the labour market, the average expected unemployment rate in 2023 (13.7%) is 0.4 pp below that observed in 2019, the last year prior to the onset of the pandemic, yet this does not reflect a decline in the labour force, which on the contrary is expected to grow by 0.4% between 2019 and 2023 in average annual terms. Similarly, given the projected trajectory for non-financial corporations' gross investment and the pace of consumption of fixed capital, the corporate capital stock would be higher in 2023 than prior to the pandemic. These favourable developments partially reflect the effectiveness of the policies deployed to address the crisis, one of whose central aims was precisely to stave off any lasting damage to the economy's productive capacity. They also, in part, owe to the fact that, although the crisis has had a very severe impact on some sectors (such as hospitality), the bulk of the effects are likely to be temporary, since a priori these sectors were not oversized; this stands in contrast to the global financial crisis, when there was an evident need to reduce capacity in the construction sector.

However, despite these positive aspects, it cannot be ignored that the crisis may bring about far-reaching structural changes in the economy's productive system, requiring the reallocation of factors of production between different sectors and firms. Unlike the baseline scenario, the more benign scenario assumes that this reallocation of resources will be frictionless. By contrast, under the adverse scenario, the overindebtedness of some segments of the corporate sector, on account of the lengthy period of severely reduced revenue during the pandemic, will lead to a higher volume of business failures. The subsequent adverse impact on banks' capital ratios would drive up the cost of finance for households and firms, while also reducing its availability, with the ensuing adverse repercussions for economic activity.

Under the benign scenario, GDP growth in 2021 would be somewhat higher than under the baseline scenario throughout the projection horizon, which would allow GDP to stand 4.2 pp above the pre-crisis level at end-2023 (see

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

Chart 4). By contrast, the more moderate pace of GDP recovery under the adverse scenario would see GDP remain slightly short of its pre-crisis level at end-2023.

Developments in the main macroeconomic aggregates in the baseline scenario

From the standpoint of the composition of aggregate demand, the projected recovery will rely mainly on the domestic component. However, the contribution of the external sector to GDP growth will also be positive over the three-year projection horizon.

All components of private domestic demand will rebound strongly this year after declining sharply in 2020 (see Table 2). Private consumption declined in 2021 Q1, affected by the tightening of the pandemic-containment measures at the start of the year. However, according to the indicators available, this aggregate has strengthened in the current quarter. This greater dynamism seems to be borne out by the lower accumulation of household bank deposits and the slight increase in consumer lending. As vaccines are rolled out, a loosening of the restrictions that, despite the easing in Q2, still constrain some activities is to be expected. This will allow the expansionary behaviour of this aggregate to continue.

Consumption will also benefit from the gradual recovery in the labour market and, as a result, in household income, where the weight of labour income will increase at the expense of public transfers. In addition, the gradual decline in uncertainty over the health and economic developments will likely favour a reduction in the precautionary component of saving and further boost household spending. As a result, consumption would rise by 7.1% in 2021 under the baseline scenario. In 2022, on average, the rate would still be high (5.7%) owing to the positive carry-over effect stemming from the strong growth expected between Q2 and Q4 this year. Consumption would reach its pre-pandemic level in early 2023.

Among the components of gross capital formation, residential investment is similarly expected to regain upward momentum as uncertainty is dispelled and future household income expectations, which have been

adversely affected by the deterioration in the labour market since the outbreak of the pandemic, improve. An additional factor that will boost growth in this aggregate is the implementation of the NGEU. In this regard, in the detailed description of how Spain would use the transfers it receives from the European Recovery and Resilience Facility, a large amount is allocated to housing rehabilitation, according to the Recovery, Transformation and Resilience Plan (RTRP).

In line with its expected recovery profile over the projection horizon, investment by non-financial corporations will be particularly buoyant in 2021 H2, spurred by the implementation of the NGEU, the recovery in final demand (which will increase capacity utilisation) and the gradual decline in uncertainty. The different productive sectors' digitalisation needs, which have increased after the pandemic, would also contribute to a rise in this aggregate, in a setting of low financing costs, although these are expected to increase somewhat.

In any event, productive investment will foreseeably behave unevenly across sectors. In particular, in those industries whose revenues have dwindled significantly as a result of the measures applied to contain the pandemic, there will be firms emerging from the health crisis with a weakened financial position. They are therefore more likely to face a shortage of funds with which to undertake new investments.¹⁰ In this respect, it should be noted, first, that this financial distress should be alleviated by the measures put in place to support viable firms in a vulnerable situation and, second, that the investment needs of these firms are unlikely to be high, at least in the short term, given their current low level of capacity utilisation.

The pandemic has had a significant impact on trade with the rest of the world. Its effect has proved much more short-lived in the case of goods flows, which have now returned to pre-crisis levels, than in tourism, as the restrictions still in place impinge much more strongly on the movement of people between different countries. However, a number of factors simultaneously at play at the beginning of the year dampened the vigour of goods exports. These include the shortage of electronic

10 See Chapter 3 "The effects of the COVID-19 crisis on the productive sectors in Spain: economic and financial implications", Annual Report 2020, Banco de España.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

components – which especially affected the car industry, whose share of Spanish goods exports is particularly high (11%) – and certain logistical difficulties associated with the implementation of Brexit or the Suez Canal obstruction. The first of these factors is relevant, insofar as there is a risk that it could persist to some extent throughout 2021. By contrast, the different stimulus packages announced in the United States (the destination of 5% of Spain's goods exports), which are included in the external assumptions of this projections exercise, will contribute positively to the buoyancy of goods exports.

In the case of tourism exports, the fresh wave of the pandemic in Spain between end-2020 and early 2021 and the consequent restrictions on movement and activity

meant that flows of tourists remained at very low levels in Q1. Looking ahead to the summer, the strides made with the vaccination campaigns in Spain and in the main tourism generating markets will only lead to a slight and partial recovery, insofar as sufficiently high levels of population immunity are yet to be achieved. In the projections, inbound tourism flows will not return to pre-health crisis levels until end-2023.

Imports will also recover gradually over the projection horizon, in tandem with the trajectory of final demand. Further, growth in imports will be underpinned by the high momentum of components with a larger import content, such as investment in capital goods and exports. Similarly to exports, tourism by Spanish residents in the rest of the

Table 2
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES OF THE SPANISH ECONOMY (a)

Annual rate of change in volume terms and % of GDP

	2020	June 2021 projections								
		Benign scenario			Baseline scenario			Adverse scenario		
		2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	-10.8	6.8	7.0	2.2	6.2	5.8	1.8	4.6	5.2	1.7
Private consumption	-12.1	7.6	7.3	2.4	7.1	5.7	1.7	5.9	5.4	1.3
Government consumption	3.8	1.8	0.1	0.8	1.9	0.3	0.9	2.0	0.4	0.8
Gross fixed capital formation	-11.4	8.2	9.4	1.7	8.1	9.3	1.6	7.0	8.8	1.4
Exports of goods and services	-20.2	13.4	10.7	4.3	11.9	9.5	4.3	8.5	6.4	4.1
Imports of goods and services	-15.8	11.8	8.8	3.6	11.6	8.4	3.4	10.4	6.3	2.4
National demand (contribution to growth)	-8.8	6.1	6.2	1.9	5.9	5.3	1.4	5.0	5.2	1.2
Net external demand (contribution to growth)	-2.0	0.7	0.8	0.3	0.3	0.5	0.4	-0.4	0.0	0.5
Nominal GDP	-9.9	8.0	8.5	3.8	7.2	7.1	3.4	5.5	6.4	3.2
GDP deflator	1.1	1.1	1.4	1.7	1.0	1.3	1.6	0.9	1.2	1.4
Harmonised index of consumer prices (HICP)	-0.3	1.9	1.3	1.3	1.9	1.2	1.2	1.9	1.1	1.1
HICP excluding energy and food	0.5	0.3	1.1	1.3	0.3	1.0	1.1	0.2	0.8	1.0
Employment (hours)	-10.4	7.2	6.4	2.1	6.7	5.4	1.8	5.4	4.9	1.8
Unemployment rate (% of labour force). Annual average	15.5	15.2	13.7	12.8	15.6	14.7	13.7	16.2	15.7	14.6
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.1	1.9	3.7	3.7	1.5	3.1	3.1	0.8	2.1	2.3
General government net lending (+)/net borrowing (-) (% of GDP)	-11.0	-7.8	-4.1	-3.3	-8.2	-4.9	-4.3	-8.9	-5.9	-5.4
General government debt (% of GDP)	120.0	119.0	114.7	113.3	120.1	117.9	118.0	122.6	122.1	123.4

SOURCES: Banco de España and INE.

NOTE: Latest QNA figure published: 2021 Q1.

a Projections cut-off date: 27 May 2021.

world will remain very weak for a relatively extended period of time.

In the labour market, hours worked will return to an upward path as of Q2, in line with the recovery in output. Hours worked are projected to grow by 6.7% in 2021, subsequently moderating to 5.4% and 1.8% in 2022 and 2023, respectively. This recovery in employment would lower unemployment, which would fall below its pre-pandemic level as of end-2022.

The general government balance is expected to improve significantly over the projection horizon, after the acute deterioration in 2020. The decrease in the budget deficit will be due to the temporary nature of some of the discretionary measures adopted to contend with the fallout from the pandemic and to the cyclical improvement. Nevertheless, the general government deficit will still be very high in 2023 (4.3% of GDP). As a result of these budget balance developments and the projected path for nominal GDP, the government debt-to-GDP ratio, which in 2020 surged to 120%, would barely decline by 2 pp over the projection horizon.

Prices and costs

Since the early summer of 2020, core inflation has recorded rates of change of approximately zero. Such low growth rates are largely associated with the negative base effects stemming from the decline in the prices of the services hardest hit by the pandemic. The disappearance of these base effects as of summer 2021, together with the gradual recovery in demand for consumer goods and services, above all precisely in those sectors most adversely affected by the containment measures, appears to lead to gradual increases in the core inflation rate from mid-2021. Despite this upward pattern, core inflation will remain at moderate levels over the projection horizon to stand at 1.1% on average in 2023.

Headline HICP has increased considerably in 2021 to date. This is above all the result of the energy component, which is being highly influenced by the base effects stemming from the sharp drop in oil prices during the initial stages of the pandemic. In 2022, the marked deceleration in energy prices would comfortably offset the increase in the prices of services and, to a lesser degree, of non-energy industrial goods, such that the change in headline HICP would moderate to 1.2%, the level at which it would remain in 2023.

Risks

The macroeconomic outlook remains highly uncertain. Among these uncertainties, the share of purely epidemiological aspects has fallen, against a background in which the vaccines have proven highly effective against the virus and the immunisation of the population has accelerated. However, epidemiological developments will continue to have a bearing on activity in the coming quarters, given the possibility of fresh bouts of infections, linked to a potential spread of variants of the virus that are more infectious and, in the worst-case scenario, resistant to vaccines. The likelihood of a variant with such characteristics emerging in Spain is low, given the headway made with the vaccination campaign, which has significantly reduced the spread of the virus. However, the probability of episodes of this kind arising from cases imported from abroad is somewhat higher. Nevertheless, in terms of the pandemic, the greatest risk to economic activity is the possible emergence of more contagious strains in emerging economies where the virus is more widely spread and fewer strides have been made with vaccination.

Furthermore, as described above, economic risks exist that, while linked to the pandemic, are essentially associated with how consumers might use the savings reservoir they have built up since the onset of the crisis, the pace of the recovery in tourism exports and the persistence of the effects of the crisis on potential growth (via the possible impact on long-term unemployment and business deaths). How all these risks might materialise has been captured by constructing alternative scenarios.

Lastly, these scenarios have not factored in other sources of uncertainty, such as how quickly the projects under the NGEU programme will be implemented and the difficulties of measuring their multiplier effect on activity, and the scope of the public policies to ward off fall-out effects from the crisis, help reallocate resources and drive the economy's structural transformation.

All these factors that may result in activity drifting from the pattern considered under the baseline scenario are also sources of uncertainty regarding the path of inflation. Further, under the baseline scenario it is assumed that there will be limited pass-through to final prices and wages of the higher input costs for firms. Otherwise, this would result in greater inflationary pressure. In the

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

opposite direction, the response of consumer prices to the recovery in demand could be weaker than that included in the baseline scenario, in light of the low sensitivity of the former of these variables to the latter in recent years.

Considered overall, all these elements result in a risk profile that is balanced in relation to the projections' baseline scenario in terms of both activity and prices.

ANNEX 1

Projection assumptions

The assumptions are taken from the “June 2021 Eurosystem staff macroeconomic projections for the euro area”. The cut-off date for the data included in the projections is 18 May in all cases, except for Spain's euro area export markets, for which it is 26 May. 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 10 working days prior to that date. The paths for export markets and the prices of competitors in their domestic currency have been prepared by Eurosystem staff.

In comparison with the March scenarios, some notable changes to the assumptions used for the baseline scenario have been made. First, export market developments are now expected to be more favourable than was anticipated three months ago, especially in 2021 and 2022, with upward revisions to growth rates of around 1pp in 2021 and 2022 and 0.3 pp in 2023 with respect to the March projections. Second, oil prices are now somewhat higher than anticipated in March, especially in 2022-2023. Following their sharp fall in 2020, oil prices increased notably in 2021, in line with the recovery in world demand. They are expected to stand on average this year at \$65.8 per barrel, an upward revision to the March assumption of 1.4%. Subsequently, they are expected to trend downwards, reaching \$61.9 in 2023 (5.2% higher than in the March projections exercise).

Third, non-energy commodity prices in 2021 have also been revised upwards significantly, with respect to March, but their subsequent downward trend is also more marked, so that in 2023 they will be somewhat lower than was anticipated three months ago.

The other changes to the external assumptions used in March are more modest and, consequently, have a smaller impact on the projections. The euro exchange rate (assumed in the projection horizon using its spot market rate) has appreciated slightly compared with three months ago. The appreciation with respect to March is somewhat greater against the dollar than in nominal effective terms, but is no more than 2% in either case.

Lastly, the yields on securities traded on 10-year sovereign bond markets have followed a slightly upward trend in recent months, and, as a result, are somewhat higher over the projection horizon than in the March projections exercise. As for market expectations of short-term interest rates, 3-month EURIBOR is assumed to rise slightly, from -0.5% in 2021 to -0.3% in 2023.

With regard to fiscal policy, the projections are based on the budgets for 2021 approved by the various tiers of government, as well as Spain's Stability Programme Update for 2021-2024 (SPU 2021) and the RTRP recently sent to Brussels. The latest available budget outturn data, based on National Accounts criteria and published by the National Audit Office (IGAE), are taken into account.

With respect to the previous quarter, the new extension, to September this year, of the special benefits for self-employed and furloughed workers approved on 27 May¹¹ is incorporated, as are subsidies to businesses with viability problems as a result of the pandemic, which were approved in March.¹² Also, the estimate of the revenue from the new taxes introduced at the beginning of this year or currently pending approval is revised slightly

11 The conditions applicable to the self-employed and employees whose activity is suspended due to COVID-19 are slightly revised for this extension. Most notably, however, new exemptions from social contributions are introduced for workers returning to their jobs and for the self-employed who were receiving benefits on 31 May (see Royal Decree-Law 11/2021).

12 These measures include: €7 billion in the form of direct subsidies to businesses, €3 billion for debt restructuring and €1 billion for capital injections (see Royal Decree-Law 5/2021). The negative impact on the general government balance is €10 billion, since the capital injections raise general government financial assets and debt, but do not affect the budget balance. The projections assume that the bulk of this impact will take place in 2021 (€8.5 billion).

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

downwards.^{13 14} All in all, the net overall impact on the general government deficit of the measures approved for this year amounts to 2.1 % of GDP (2 pp less than in 2020).

Also, the assumptions on absorption by Spanish general government of the NGEU funds have been revised in the light of the new information contained in the RTRP (which, following its presentation on 30 April, must be approved

shortly by the European authorities) and the SPU 2021. The degree of detail on the projects to be undertaken using NGEU funds is now greater. However, a considerable degree of uncertainty still remains regarding the rate at which these funds can be absorbed by Spanish general government and, consequently, regarding the timing of their use. The new projections for 2021 incorporate around 50% of the amount announced by the Government

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

Annual rate of change, unless otherwise indicated

Annual rate of change, unless otherwise indicated		June 2021 projections			Difference between the current projections and those of the corresponding scenario of March 2021 (b)			
	2020	2021	2022	2023	2021	2022	2023	
International environment								
Spain's exports markets (c)	Benign scenario	10.0	7.7	3.5	-0.1	1.9	0.3	
	Baseline scenario	-10.9	8.6	6.4	3.5	0.9	1.0	0.3
	Adverse scenario		5.1	3.3	3.3	1.6	0.3	-0.4
Oil price in dollars/barrel (level)	42.3	65.8	64.6	61.9	0.9	3.3	3.0	
Monetary and financial conditions								
Dollar/euro exchange rate (level)	1.14	1.21	1.21	1.21	0.01	0.02	0.02	
Nominal effective exchange rate against the non-euro area (d) (2000=100)	117.8	122.7	123.0	123.0	0.9	1.4	1.4	
Short-term interest rates (3-month Euribor) (e)	-0.4	-0.5	-0.5	-0.3	0.0	0.0	0.1	
Long-term interest rates (10-year Spanish government bond yield) (e)	0.4	0.5	0.9	1.1	0.2	0.3	0.3	

SOURCES: Banco de España and ECB.

- a Cut-off date for assumptions: 18 May 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 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 June 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.

13 This includes the new taxes on certain digital services and financial transactions and the tax increases included in the State Budget for 2021, as well as the new taxes on non-reusable plastics and waste, currently before Parliament. The estimated overall impact is revised slightly downwards on the basis of the latest information available and the latest government estimates included in the SPU 2021.

14 The impact on the 2021 public finances of the reversion to the State of various motorway sections owned by ACESA is also taken into account, as is the compensation of that company for construction work carried out (see SPU 2021).

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2021-2023): THE BANCO DE ESPAÑA'S CONTRIBUTION TO THE EUROSISTEM'S JUNE 2021 JOINT FORECASTING EXERCISE (cont'd)

for this year, considering both funds from the RRM and from REACT-EU. For the projection horizon as a whole, absorption is expected to be slightly above 80% of the total funds available in the form of grants, the largest stimulus being concentrated in 2022.

Beyond 2021, and excluding the impact of the European funds, the forecasts are based on the usual technical assumptions. In particular, those items subject to greater discretionality -such as public investment and procurement, in particular, given their volume- are expected to grow in line with the growth potential of the Spanish economy. Also, 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.¹⁵

With these assumptions and forecasts for the fiscal policy variables, and given the output gap estimated in a manner consistent with the other macroeconomic projections, the fiscal policy stance, measured as the change in the primary structural balance, net of European funds,¹⁶ is expected to be clearly expansionary again in 2021 (1.8 pp of GDP) and slightly expansionary in 2022 (0.4 pp), becoming contractionary in 2023 (-1.0 pp). These changes reflect the fact that the largest annual stimulus from the European funds is estimated to occur in 2021.

¹⁵ Specifically, it is assumed that government revenue will grow in line with tax bases, which mainly depend on the macroeconomic context. The same applies to pension expenditure (determined by demographic trends and 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).

¹⁶ The European NGEU funds to be received entail 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.

SOME DETERMINANTS OF THE GROWTH DIFFERENTIAL BETWEEN THE EURO AREA AND THE UNITED STATES SINCE THE ONSET OF THE PANDEMIC

Marina Diakonova and Ana del Río

This early-release box was published on 1 June

In 2020, euro area GDP shrank by 6.7%, almost double the decline observed in the United States (3.5%). This relatively poorer behaviour of economic activity in the euro area reflected not only the deeper economic impact of the first wave of the COVID-19 pandemic, but also the fall-off in activity in the euro area in the final stretch of last year (and in early 2021) with the successive waves of the virus. This downturn was not observed in the United States (see Chart 1).

Moreover, most analysts' forecasts also predict a swifter exit from the crisis in the United States than in the euro area, a typical feature of the recoveries from previous recessionary episodes (see Chart 2). Thus, according to the European Commission's spring forecasts,¹ while the United States would exceed its pre-crisis GDP level by mid-2021, this would not occur in the euro area until early 2022.

Chart 1
GDP
Actual and European Commission's spring forecasts

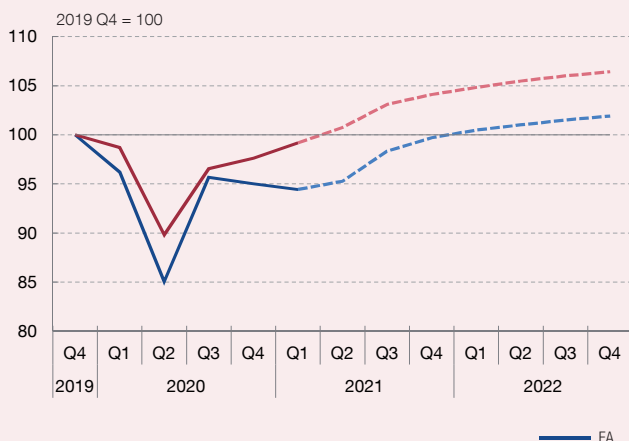


Chart 2
PAST ECONOMIC RECOVERIES
Historical average 1970-2019 (a)

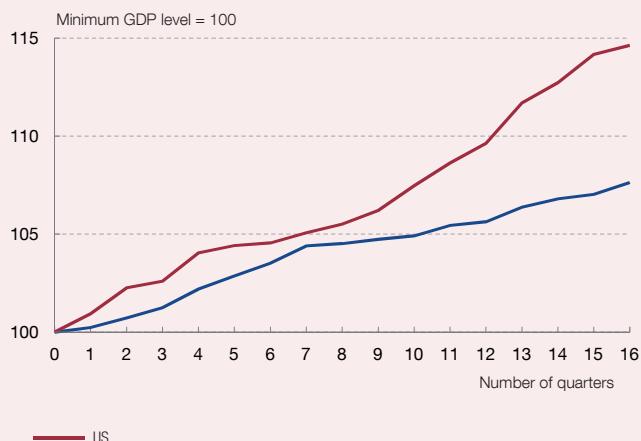


Chart 3
INCIDENCE OF THE PANDEMIC

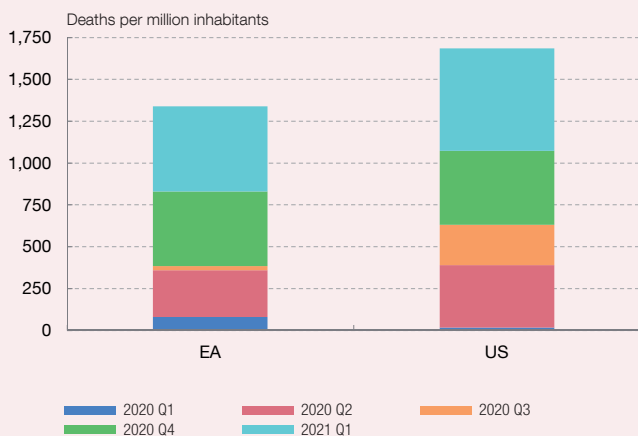


Chart 4
CHANGE IN MOBILITY
Relative to pre-crisis reference period (b)



SOURCES: European Commission, Fred, Google Mobility Report, John Hopkins University and Banco de España.

a Includes four recessions: 1975 Q1, 1980 Q3, 1993 Q1 (1991 Q1 for the United States) and 2009 Q2.

b Quarterly average of daily data on an average index of mobility at grocery and pharmacy stores, retail and recreation centres, workplaces and transit stations. Data to 24 May.

1 See European Commission (2021), *Spring 2021 Economic Forecast: Rolling up sleeves*.

SOME DETERMINANTS OF THE GROWTH DIFFERENTIAL BETWEEN THE EURO AREA AND THE UNITED STATES SINCE THE ONSET OF THE PANDEMIC (cont'd)

This box sets out some of the factors that might account for this economic disparity since the onset of the pandemic, paying particular attention to specific aspects of the health crisis.

Firstly, it is worth stressing that, since the start of the pandemic, the restrictions applied to contain the expansion of the virus have been less stringent in the United States than in the euro area. Although this has prompted more unfavourable epidemiological developments in the US economy (see Chart 3),² one consequence has been a lesser reduction in mobility in the United States. Thus, for instance, in 2020 as a whole, the decline in mobility in the United States was 16%, compared with 20% in the euro area (see Chart 4).³ As Chart 5 shows, these differences in the behaviour of mobility – essentially associated with the differing severity of the lockdown measures in each region – help account for around 1 pp of the greater economic impact of the health crisis in the euro area.⁴ Mobility, therefore, is a significant but insufficient factor to fully explain the differential economic impact of the crisis in 2020 in both regions. Moreover, the different share in each region of the services sectors most affected in this crisis does not appear to be a key factor for explaining these differences. This is because these services generally display a relatively similar weight in these economies.⁵ Consequently, the conceptual framework used in this analysis would suggest the presence of other differential factors between the United States and the euro area that are not reflected in the variables considered.

In this respect, one factor not included in the aforementioned analysis and which might, at least partly, account for the bigger average decline in GDP in 2020 in

the euro area, is this region's greater trade openness and, in conjunction, the bigger relative share in its productive structure of manufacturing (16% of GVA compared with 11% in the United States). In 2020 H1, the decline in manufacturing activity totalled 20% in the euro area, set against 13% in the United States (see Chart 6). Such activity was affected not only by the stricter lockdowns across Europe, but also by the severely distorted international trade flows during the first stage of the pandemic.⁶ However, while the subsequent pick-up in manufacturing has been significant, its sharp initial contraction is estimated to have contributed notably to explaining the decline in activity in 2020 as a whole.

In addition, some of the more favourable economic developments in the US may be the result of the impetus from economic policies. For instance, while the central banks' monetary policy response in the euro area and in the United States was admittedly swift and forceful (ensuring favourable financing conditions and, in the case of the euro area, preventing financial fragmentation), in the United States the lowering of the policy interest rates from 1.50-1.75% at the onset of the health crisis to 0-0.25% seems to have provided a further stimulus.

Comparing the fiscal policy response is a complex task⁷ because of, among other reasons, the particular features of the measures approved, the distinct role of the automatic stabilisers in each region and the fact that a significant portion of the euro area's support has been channelled through public guarantees, which do not have an immediate direct impact on the budget deficit. In any event, the usual measurements for quantifying fiscal impulse – depicted in Chart 7, drawing on data from the IMF's April 2021 *Fiscal Monitor* – indicate that to date it

2 See Box 1.1, "Global epidemiological developments", Chapter 1, *Annual Report 2020*, Banco de España.

3 To date in 2021, the fact that the US vaccination campaign has moved ahead appreciably more rapidly than in the euro area has prompted these differences to widen even further.

4 Regression for 27 EU countries and the United Kingdom. The impact of the crisis on 2020 GDP is accounted for by mobility variables, the share of the sectors most affected by the crisis and working from home (specifically, the number of employees who began to work from home as a consequence of the pandemic, according to the Eurofound Survey (2020), *Living, working and COVID-19 dataset*, Dublin). All variables expressed in differences with respect to the United States. The approach by A. L. Gómez and A. del Río (2021) in "La crisis sanitaria y el impacto inicial desigual sobre las economías del área del euro", *Documento Ocasional*, Banco de España, forthcoming, is followed. For similar evidence, see IMF (2021), *Differences in Output Performance between Europe and the United States during COVID-19*, Online Annex, Regional Economic Outlook Update Europe.

5 The services sectors comprising accommodation services and restaurants, artistic and recreational activities, and other services account for around 6% of GVA in the United States and the euro area. At a greater level of aggregation, retail, transport and hospitality, and artistic, recreational and other services have a share of 22% of GVA in the euro area, only marginally higher than the figure for the United States (21%).

6 See Box 2.2, "Global trade flows against the background of the pandemic", Chapter 2, *Annual Report 2020*, Banco de España.

7 See Box 2, "Fiscal policy response to the crisis in the euro area and the United States", "Quarterly report on the Spanish economy", *Economic Bulletin*, 4/2020, Banco de España.

Box 2

SOME DETERMINANTS OF THE GROWTH DIFFERENTIAL BETWEEN THE EURO AREA AND THE UNITED STATES SINCE THE ONSET OF THE PANDEMIC (cont'd)

appears to have been somewhat larger in the United States. Looking ahead, both areas are considering a

further significant fiscal impulse,⁸ with investment, particularly that related to combating climate change,

Chart 5
ECONOMIC IMPACT DIFFERENTIAL VIS-À-VIS THE US IN 2020
Contributions (a)

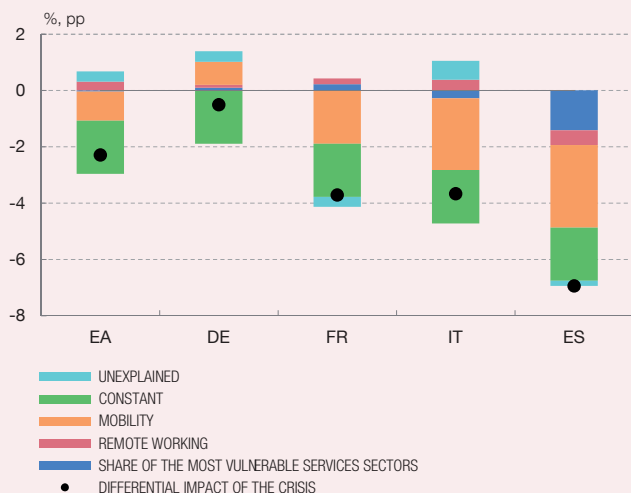


Chart 6
ACTIVITY IN THE MANUFACTURING SECTOR

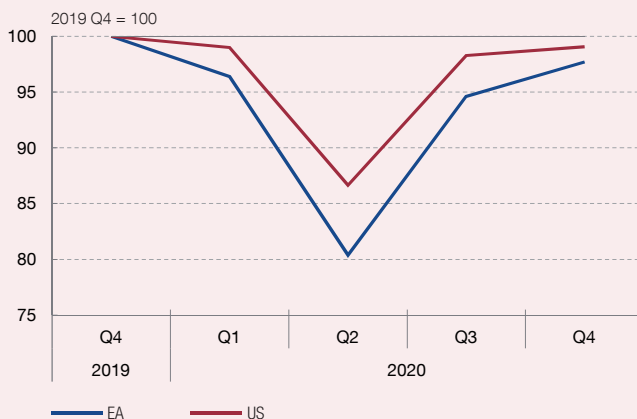


Chart 7
FISCAL IMPULSE
IMF forecasts (April) (b)

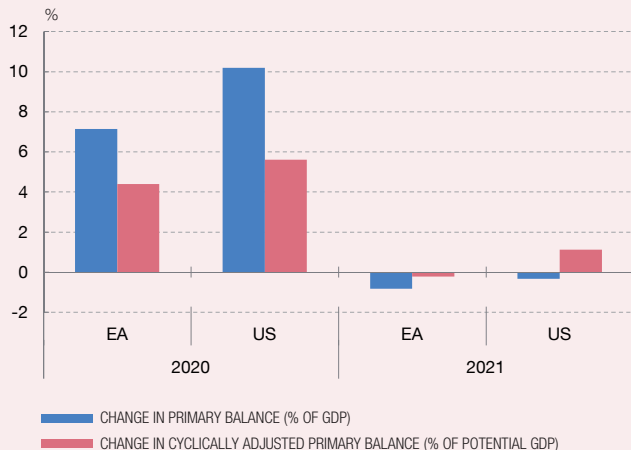
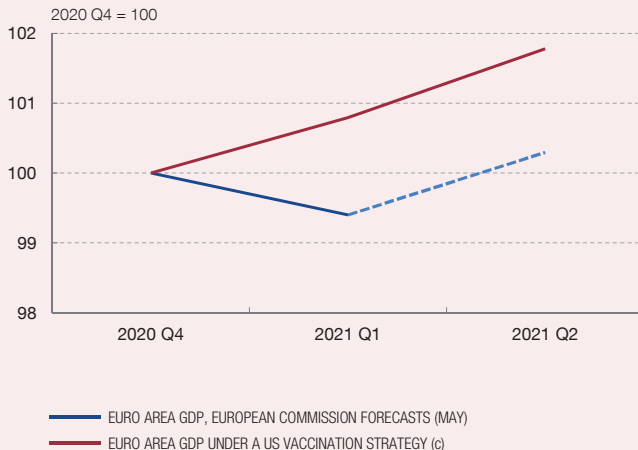


Chart 8
EURO AREA GDP UNDER A VACCINATION STRATEGY SIMILAR TO THAT OF THE US



SOURCES: Bureau of Economic Analysis, Eurostat, IMF and Banco de España.

- Cross-sectional regression weighted by the size of GDP for the 27 European Union Member States and the United Kingdom. The economic impact is measured as the difference between the change in GDP observed in 2020 and the change forecast before the health crisis, taking into account the European Commission's January 2020 forecasts for all the countries except for the United States, which are drawn from the IMF's January forecasts. All the variables are expressed as differences vis-à-vis the United States.
- "Euro area" includes the NGEU programme and "United States" includes the plans approved in December 2020 (Consolidated Appropriations Act, 2021) and March 2021 (American Rescue Plan).
- Rungcharoenkitkul (2021) methodology applied to the six biggest euro area economies. Data to 11 May.

⁸ See Box 3, "Analysis of US fiscal policy plans", "Quarterly report on the Spanish economy", *Economic Bulletin*, 1/2021, Banco de España.

SOME DETERMINANTS OF THE GROWTH DIFFERENTIAL BETWEEN THE EURO AREA AND THE UNITED STATES SINCE THE ONSET OF THE PANDEMIC (cont'd)

taking centre stage. In the United States these measures will materialise in the as yet unapproved American Jobs Plan and American Family Plan, the latter more focused on transfers to households, whereas in the euro area the stimulus will take the form of the Next Generation EU (NGEU) programme. The NGEU funds will complement those deployed in the Member States' national plans.⁹

Lastly, the fact that, in recent months, vaccination of the population has progressed more swiftly in the United States than in the euro area would also help explain why the US economy has been performing better. In this regard, by using the quantitative framework for analysing interactions between epidemiological developments, mobility restrictions and economic performance proposed by Rungcharoenkitkul (2021),¹⁰ it is possible to assess the impact that a vaccination strategy similar to that of the United States would have had on GDP in the euro area. Specifically, Chart 8 considers a counterfactual (hypothetical) scenario in which the vaccinated population in the euro area would have reached 29% of the total population at the end of Q1 – rather than the 12% observed – and in which the EU target of vaccinating 70% of the adult population would be achieved at the beginning

of July (instead of before the end of the summer, as envisaged in the EU's current strategy).¹¹ The economic effects of this alternative vaccination scenario would mostly arise in 2021 Q1 and the beginning of Q2, when the drop in mortality stemming from a faster vaccination strategy would have enabled the lockdown measures to have been eased earlier. Indeed, these more favourable epidemiological developments would have prevented the slowdown in economic activity observed in the euro area in 2021 Q1 and enabled somewhat greater growth in Q2. In terms of the year as a whole, this would result in euro area GDP in 2021 being on average 0.7 pp higher.

In short, the economic crisis induced by the COVID-19 pandemic has been less acute in the United States than in the euro area, and the US economy is also expected to recover more quickly. The evidence presented in this box suggests that these differences may be partly explained by the role of public policies, in terms of containing the pandemic and at the economic level, and by other structural factors related to the euro area's greater sensitivity to developments in world trade (which was hit hard in 2020 H1) and to the greater flexibility that the US economy has historically shown.

⁹ See Box 2.3, "NGEU: an initiative bolstering the EU project", Chapter 2, *Annual Report 2020*, Banco de España.

¹⁰ See P. Rungcharoenkitkul (2021), "Macroeconomic consequences of pandexit", Working Papers, No 932, Bank for International Settlements.

¹¹ See Communication from the Commission of 19 January 2021, "A united front to beat COVID-19".

OUTLOOK FOR HOUSEHOLD SAVING IN THE EURO AREA AND IN THE UNITED STATES

Irma Alonso, Fructuoso Borralló and Daniel Santabábara

This early-release box was published on 11 June

One particular feature of the health crisis prompted by COVID-19 has been the unprecedented increase in the household saving rate globally. In the euro area and the United States, saving climbed from 13% and 7.5% of household gross disposable income at end-2019, respectively, to 20% and 16% at end-2020 (see Chart 1). This increase cannot be explained solely by developments in the usual determinants of consumption, which include income, wealth, interest rates and the level of uncertainty. On this occasion, a significant share of the increase in saving appears to have been “forced”, i.e. driven by households being unable to materialise a portion of their usual spending on certain goods and services owing to the pandemic lockdown measures.

Indeed, according to an econometric model proxying household consumption,¹ forced saving in the euro area in 2020 amounted to an estimated 4.4 percentage points (pp) of GDP (accounting for virtually all of the increase in saving that year), while in the United States forced saving was 3.3 pp of GDP (around 50% of the rise in saving during 2020 in the country; see Chart 2). The fact that this saving component is larger in the euro area is consistent with the more stringent restrictions on mobility in the region compared with the United States.²

This analysis also highlights the notable contribution to household saving growth in the United States by the increase in households’ disposable income, up 7% in 2020, supported by the significant direct transfers to them.³ By contrast, in the euro area, household income held roughly stable over the year as a whole despite being buoyed by the public support measures. Lastly, there has also been an increase in precautionary saving in both areas owing to uncertainty over the course of the health and economic situation. This uncertainty was more evident in the United States, perhaps in part due to the lower social protection afforded to US citizens. In particular, according to the model, this saving component

would account for 1.1 pp of GDP of the increase in US saving, compared with 0.2 pp of GDP in the euro area.

Looking ahead, progress in the vaccination campaign and the gradual remission of the pandemic will likely give rise to the progressive lifting of restrictions on movement, leading to the normalisation of household consumption and saving patterns to levels more in keeping with those observed pre-crisis. The containment observed during the crisis in the consumption of services entailing greater social interaction could lead to a significant upturn in demand during this new phase, particularly in relation to travel, hospitality and other leisure activities. Meanwhile, insofar as the normalisation of activity and the economic recovery help dissipate agents’ uncertainty, there should also be a gradual release of precautionary saving. The demand for consumer durables, which usually contracts when uncertainty increases, might also be expected to rebound in the short term as uncertainty abates. Indeed, as Chart 3 shows, the demand for such goods has picked up in the United States in recent months while in the euro area it is below pre-pandemic levels, which is consistent with an earlier and sharper recovery of the US economy.

Against this background, surveys on household expenditure intentions point to a favourable performance of consumption in the coming quarters in both areas (see Charts 4 and 5). Thus, in the United States, household expenditure intentions for the next 12 months have been quickening since mid-April 2020, for all income levels, and stand, on average, 1 pp above the pre-pandemic level. In the euro area, meantime, large-value purchase plans are also trending positively, although they are only above pre-crisis levels in the case of high-income households.

In any event, the intensity of the release of built-up saving that might occur in the short term is subject to high uncertainty and will be conditional upon several factors. First, the households that have saved most during this crisis have been those with higher income levels, which

- 1 Error correction model for household consumption, based on 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. The explanatory variables in the long-term equation are income, wealth and interest rates. Uncertainty is a short-term contemporaneous factor, which is proxied in the euro area by consumer confidence and in the United States by changes in the unemployment rate. See also J. A. Cuenca, C. Martínez Carrascal and A. del Río (2021), “Household saving during the pandemic and its possible effects on the future recovery in consumption”, Box 4 of the “Quarterly report on the Spanish economy”, *Economic Bulletin*, 1/2021, Banco de España.
- 2 See M. Diakonova and A. del Río (2021), “Some determinants of the growth differential between the euro area and the United States since the onset of the pandemic”, Box 2 of the “Quarterly report on the Spanish economy”, *Economic Bulletin*, 2/2021, Banco de España.
- 3 See L. Cuadro Sáez, F. López Vicente, S. Párraga Rodríguez and F. Viani (2020), *Fiscal policy measures in response to the health crisis in the main euro area economies, the United States and the United Kingdom*, Occasional Paper No 2019, Banco de España.

OUTLOOK FOR HOUSEHOLD SAVING IN THE EURO AREA AND IN THE UNITED STATES (cont'd)

Chart 1
HOUSEHOLD SAVING RATE IN THE EURO AREA AND IN THE UNITED STATES



Chart 2
BREAKDOWN OF THE INCREASE IN HOUSEHOLD SAVING IN 2020

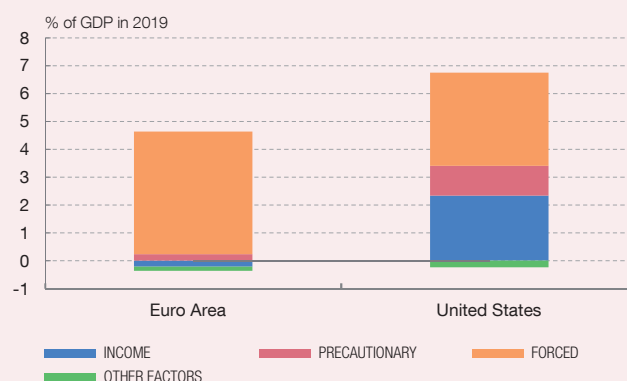


Chart 3
HOUSEHOLD CONSUMPTION

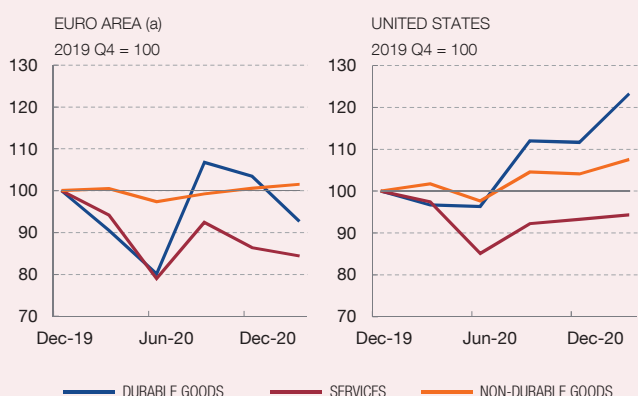


Chart 4
SPENDING PLANS IN THE NEXT TWELVE MONTHS IN THE EURO AREA: EUROPEAN COMMISSION CONSUMER SURVEY

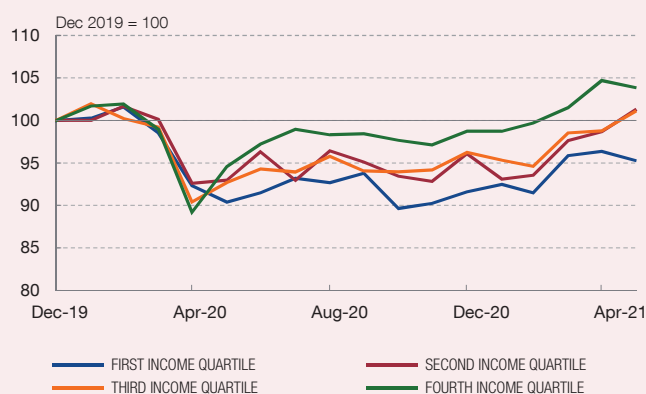


Chart 5
SPENDING PLANS IN THE NEXT TWELVE MONTHS IN THE UNITED STATES: NEW YORK FED SURVEY OF CONSUMER EXPECTATIONS

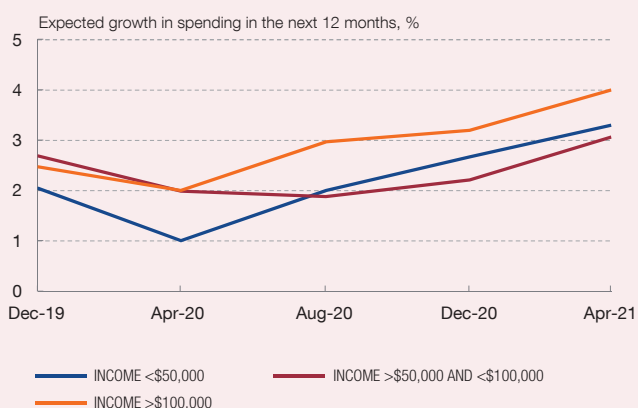
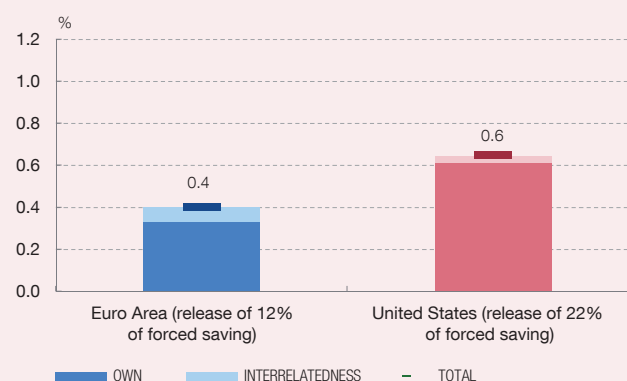


Chart 6
SIMULATED IMPACT ON GDP OF A 1% INCREASE IN PRIVATE CONSUMPTION (b)



SOURCES: Bureau of Economic Analysis, European Commission, Eurostat, OECD, New York Fed and own data.

a Data for Germany, France, Italy and the Netherlands.

b Simulations using the NiGEM model. The shock to consumption lasts for a year and the results correspond to the contemporaneous effects on GDP. As regards the technical assumptions, monetary policy is assumed to be exogenous, nominal exchange rates hold constant and agents' expectations are considered to be adaptive. The euro area aggregate comprises France, Germany, Italy and Spain.

have a lower propensity to consume.⁴ Second, a sizeable portion of the saving built up since the outbreak of the pandemic has stemmed from not consuming specific services of a non-deferrable nature (such as those related, for instance, to restaurants). That poses doubts over the scale of any future rebound in the consumption of these types of services. Finally, households might decide to maintain a high level of saving over a longer period, e.g. if they perceive a worsening income outlook owing to the relatively persistent scarring that the current crisis might cause to economic activity, or if they expect future tax rises owing to the current high public debt.

For an idea of the potential impact on economic activity of the future saving rate normalisation, we set out below different hypothetical scenarios simulated using a macroeconometric model.⁵ Specifically, the model simulates the impact of a reduction in the reservoir of forced saving built up in 2020 in the United States and the euro area, calibrated such that this entails, in one year, a 1% increase in private consumption in each of these economies.⁶ The results of the models suggest that this release of saving would, that same year, raise GDP in the euro area and in the United States by 0.4% and 0.6%, respectively (see Chart 6). The effect is more marked in

the United States since, in this economy, consumption has a greater share in GDP, agents show a greater propensity to consume and the household consumption basket has a smaller imported content. One should highlight that a portion of these estimated impacts on activity arises from the interrelatedness of both regions. Specifically, one-sixth of the estimated impulse to activity for the euro area – accounting for 0.07% of GDP – is due to the demand for European products generated by the increase in US consumption.

By way of further illustration, it is estimated that, if all of the accumulated saving identified as “forced” were to translate into consumption over the course of one year, both in the euro area and in the United States, their GDP would increase by 2.9% and 3.1%, respectively, in that period compared with an alternative scenario under which none of this saving were released. The impact would be similar in both cases, given that the higher US consumption multiplier – linked to the above-mentioned structural factors – would be offset by the higher estimated forced saving for the euro area. However, in the US case it should be considered that any future reduction in the bigger reservoir of precautionary saving built up might add an extra differential impulse to the increase in output.

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 Specifically, the NiGEM model of the National Institute of Economic and Social Research. The documentation for the model can be found at <https://nimodel.niesr.ac.uk/>. In the simulations presented in this box, monetary policy is assumed to be exogenous, nominal exchange rates hold constant and agents show adaptive expectations.

6 This reduction in the saving accumulated would involve drawing down, in one year, approximately 12% and 22% of the forced saving reservoir estimated in 2020 for the euro area and the United States, respectively.

RECENT DEVELOPMENTS IN SPANISH SMES' ACCESS TO EXTERNAL FINANCE ACCORDING TO THE ECB'S SIX-MONTHLY SURVEY

Álvaro Menéndez Pujadas

This early-release box was published on 11 June

On 1 June, the European Central Bank (ECB) published the results of the Survey on the Access to Finance of Enterprises (SAFE) in the euro area, which covers the period from October 2020 to March 2021. The survey asks firms, essentially small and medium-sized enterprises (SMEs), about developments over the preceding six months in their economic and financial situation, their external finance needs and the terms and conditions on which such financing has, or has not, been obtained.

In the case of Spanish SMEs, the data of this latest round of the survey show that the decline in their activity, as a result of the weakness of the economic situation, continued, albeit at a lower rate than in the period from April to September 2020, during which the first wave of the pandemic took place. Thus, although the number of firms reporting higher turnover between October 2020 and March 2021 was, for the third consecutive round, lower than the number reporting turnover declines, the difference between the two groups (the net percentage) narrowed significantly, to 35% (from 55% in the previous survey round; see Chart 1). These turnover developments, combined with the increase in (personnel and other) costs, led to a large number of firms reporting a decline in profits, although significantly fewer than in the previous round (43% versus 56%, in net terms), while in the euro area as a whole the number was lower (35%).

When asked about their main concern, the difficulty of finding customers was the one reported by the highest percentage of Spanish SMEs (24%, see Chart 2), while, in the euro area, this concern was in second place, narrowly behind the difficulty in finding skilled labour. In contrast, and despite the complex economic situation since the onset of the pandemic, access to finance was once again, of the concerns included in this question, the one cited by the lowest number of firms, both in Spain and in the euro area (10% and 9%, respectively, percentages similar to those recorded six months earlier).

In this context, the proportion of Spanish SMEs applying for bank loans in the reference period stood at 29% (see Chart 3), somewhat higher than in the euro area as a whole (27%), although almost 20 percentage points (pp) down from the extraordinarily high percentage recorded in the previous round of the survey. That figure largely reflected the large-scale recourse by Spanish SMEs to the public guarantee facilities managed by the ICO that were set up in 2020 to mitigate the adverse effects of the pandemic on business liquidity. Also, SMEs' perception of their access to bank finance continued to improve, albeit at a slightly lower rate than six months earlier (see Chart 4). As was the case in the previous round of the survey, the improvement in access to finance reported by firms contrasts with the deterioration they had anticipated for this period six months previously.

Chart 1
TURNOVER AND PROFIT (a)

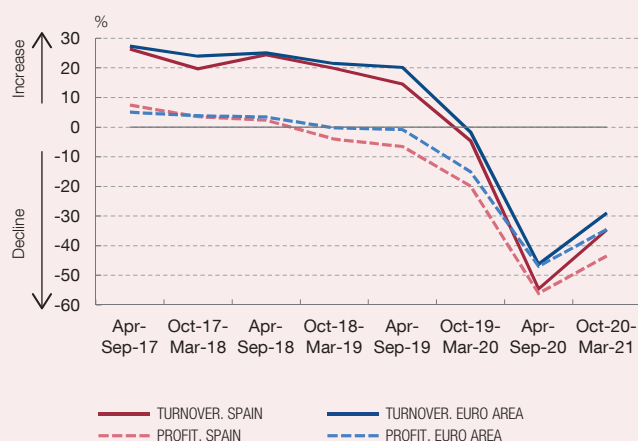
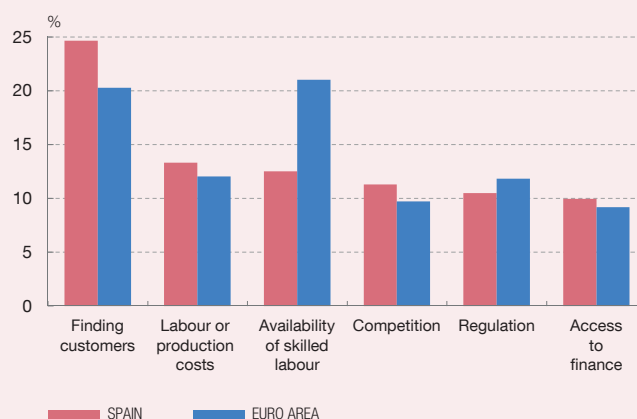


Chart 2
MAIN PROBLEMS AFFECTING BUSINESS. OCTOBER 2020 - MARCH 2021



SOURCE: ECB.

a Percentage of firms reporting an increase minus percentage reporting a decline.

RECENT DEVELOPMENTS IN SPANISH SMES' ACCESS TO EXTERNAL FINANCE ACCORDING TO THE ECB'S SIX-MONTHLY SURVEY (cont'd)

It should be noted, moreover, that the improvement in access to finance continued to occur even though the number of SMEs considering that both the general economic situation and their specific situation were obstacles to obtaining new loans again exceeded those who considered the opposite. At the same time, 11% of

Spanish SMEs perceived an improvement in the willingness of banks to lend (5 pp down from six months previously, but almost double the percentage recorded in the euro area), while access to public financial support had no impact, following its positive consideration in the previous round.

Chart 3
SMEs THAT HAVE APPLIED FOR BANK LOANS



Chart 4
PERCEIVED AVAILABILITY OF BANK LOANS (a)

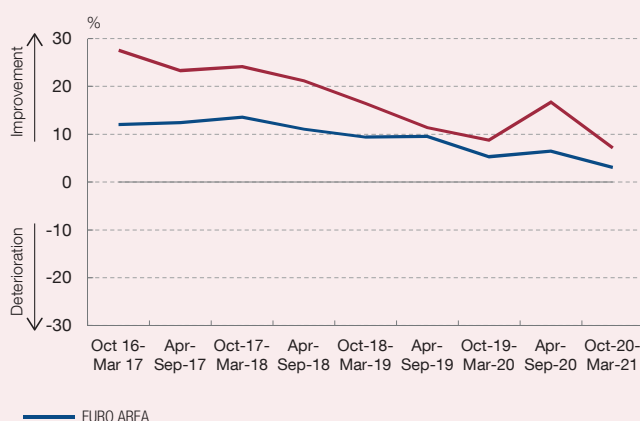


Chart 5
SMEs HAVING DIFFICULTIES OBTAINING BANK LOANS (b)

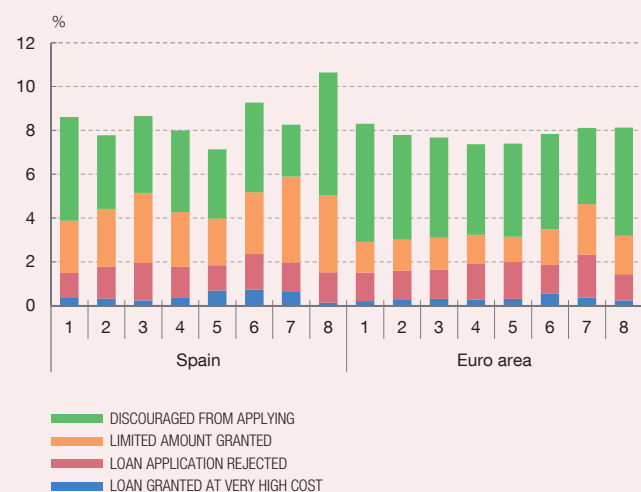
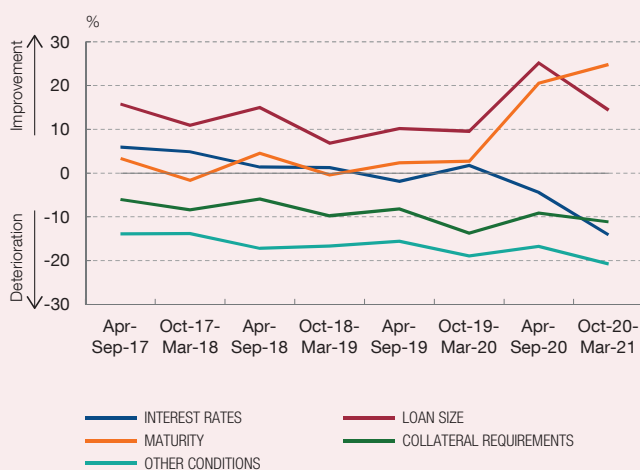


Chart 6
BANK LOAN CONDITIONS. SPAIN (c)



SOURCE: ECB.

- a Percentage of firms reporting an improvement minus percentage of firms reporting a deterioration.
- b This indicator reflects the proportion of firms in one of the following situations: those whose applications for funds were rejected; those which were granted funds but only a limited amount; those which were granted a loan but at a cost they considered very high; and those which did not apply for finance for fear of rejection (discouraged from applying). The numbers on the horizontal axis depict the rounds of the survey, with 1 corresponding to the period April-September 2017 and 8 to the period October 2020-March 2021.
- c Percentage of firms reporting an improvement in conditions (lower interest rates, increase in amounts and maturities, and lower collateral and other requirements) minus percentage of firms reporting a deterioration in these conditions.

RECENT DEVELOPMENTS IN SPANISH SMES' ACCESS TO EXTERNAL FINANCE ACCORDING TO THE ECB'S SIX-MONTHLY SURVEY (cont'd)

In any event, despite the perception that access to bank finance has improved, 5% of SMEs' loan applications were rejected in the period from October 2020 to March 2021, up 2 pp on six months earlier and 1 pp higher than the rate recorded in the euro area as a whole. In a similar vein, the broadest indicator of difficulty in obtaining bank loans¹ worsened. Thus, the proportion of Spanish companies encountering difficulties of this kind increased by 3 pp, to 11% (compared with 8% in the euro area). This was mainly due to the increase in the number of firms that did not apply for financing because they believed it would not be granted to them (discouraged from applying) (see Chart 5). It should be noted in this connection that the reason for the apparent discrepancy between the changes in the indicator of access to bank finance and the indicator of difficulties in obtaining bank loans is mainly that while the former indicator comprises the perception of all firms, regardless of whether they had requested or wished to apply for financing, the second indicator is constructed solely on the basis of the information furnished by companies which had applied for loans or that would have liked to but did not because they believed the funding would not be granted to them (overall, these firms account for less than 50% of the total).

With regard to financing conditions, the net percentage of firms reporting an increase in interest rates grew significantly, to 14%, 10 pp more than six months earlier (see Chart 6). In addition, SMEs perceived once again, in net terms, a tightening of collateral requirements and of other loan terms and conditions other than size and maturity. In contrast, the net proportion of companies indicating an increase in loan amounts continued to be positive (14%, compared with 25% in the previous survey round), as was (even more so) that indicating a lengthening of maturities (25%, up 5 pp on six months earlier). This

latter development appears to be linked to the extension of repayment periods for loans granted under the public guarantee scheme which was approved by the Government in November 2020.

Lastly, this round of the survey included a question on the impact of the different government support measures for firms adopted in response to the pandemic. In Spain, 31% of the SMEs surveyed had access in the previous 12 months to assistance to alleviate staff expenses, 14% had benefited from tax cuts and fiscal moratoria, and 21% had received other types of support, such as loan guarantees. In all three cases the percentages were below those reported for the euro area as a whole (48%, 25% and 32%, respectively). Also, a very high proportion of the Spanish SMEs that have received assistance (between 71% and 87%, depending on the type of measure used) believe that these actions have contributed significantly to covering their liquidity needs in the short term. In contrast, most of the firms (63%) consider that the measures (in force or envisaged) aiming to reduce solvency risks in the medium term will not have a significant impact on their debt repayment ability.

In short, the latest round of the SAFE shows that from October 2020 to March 2021 the activity of Spanish SMEs continued to deteriorate, albeit more moderately than in the previous round. Against this backdrop of economic weakness, SMEs as a whole perceive that their access to external financing has continued to improve, although the proportion of firms that have experienced difficulties in obtaining such financing has increased. SMEs also signalled a slight increase in interest rates and a tightening of collateral requirements, although they reported that other financing conditions had evolved more favourably, particularly loan maturities.

¹ This indicator reflects one or more of the following situations: rejected loan applications; loan applications for which only a limited amount was granted; loan applications which resulted in an offer that was declined by the SME because the borrowing costs were too high; and cases where SMEs did not apply for a loan for fear of rejection.

ACCURACY OF SHORT-TERM ECONOMIC PROJECTIONS DURING THE PANDEMIC: THE IMPORTANCE OF THE CUT-OFF DATE

Pablo Aguilar, Samuel Hurtado and Alberto Urtasun

This early-release box was published on 7 June

Since the onset of the COVID-19 pandemic, the outlook for economic activity in the short term has been subject to extraordinary uncertainty. Specifically, the exceptional nature of this shock (which is completely unconnected to previous economic dynamics), the marked severity of its economic and social impact and the extraordinary nature of the measures rolled out to contain the spread of the virus and mitigate its adverse effects on economic activity have posed considerable challenges for short and medium-term macroeconomic forecasting.

Addressing these challenges has required significant changes in the way projection exercises are conducted.¹ Thus, for instance, since the outbreak of the health crisis numerous institutions (including the Banco de España), in an attempt to reflect the high uncertainty that has characterised the macroeconomic and epidemiological setting, have opted to draw up a number of alternative scenarios on the basis of different assumptions as to the course of the pandemic, the severity of the containment measures and, in some cases, other factors such as the effectiveness of economic policies. Moreover, in these exceptionally volatile circumstances, the use of various high-frequency indicators – for example, relating to changes in mobility, electricity consumption or card payments – has gained importance in projection exercises. These indicators provide almost-real-time signals on the dynamism of economic activity, as opposed to the more usual monthly activity indicators. However, high-frequency indicators generally provide a noisier signal and are, therefore, less useful in ordinary times when economic activity shows greater inertia.

Despite these methodological innovations, forecasting economic activity in the short term is still an extraordinarily complex task, as evidenced by the larger-than-usual forecasting errors observed since the beginning of 2020. This can be seen in Chart 1, which shows, from 2016, the deviation between the GDP growth rate for the current quarter estimated in the Banco de España's projection exercises and the rate published by the National Statistics

Institute (INE) in its flash Quarterly National Accounts estimate. Indeed, since 2020 Q1, taking as reference the baseline scenario of the Banco de España's projections, the average quarterly forecasting error in absolute terms was one percentage point (pp), well above the deviation of 0.1 pp observed on average for 2016-2019.²

In this setting, this box explores to what extent the recently observed larger forecasting errors may have been influenced by the behaviour of economic activity between the cut-off date in each of these projection exercises and the end of the quarter for which GDP is estimated. In particular, the hypothesis assumed is that, since the onset of the pandemic, in an exceptionally volatile economic and health situation, not having information on activity for the last weeks of the quarter (from the projection cut-off date onwards) could have played a very significant part in the forecasting errors observed, especially compared with other quarters prior to the pandemic when economic activity was much less volatile.

To assess the validity of this hypothesis, this box uses an indicator developed by the Banco de España, specifically the Daily Economic News Sentiment Indicator (DENSI). This indicator aims to measure changes in economic sentiment in Spain drawing on news in the press, and is able to approximate, with noise but practically in real time, the behaviour of GDP in the short term.³ Using the DENSI, which is a daily indicator, it is possible to construct a measure that approximates the changes occurring in the behaviour of economic activity in the time elapsed between the cut-off date for each of the Banco de España's projection exercises and the relevant quarter-end. In other words, the DENSI provides for an assessment of significant changes in economic activity in the final stretch of the quarter in which the forecasts are drawn up, that could not be taken into account in the projection exercise as the changes occurred after the cut-off date.

Chart 2 shows, for each projection exercise, the number of days between the cut-off date for the projections and the quarter-end, while Chart 3 depicts the average change

1 See M. Izquierdo (2021), "Developments in the projections of the main macroeconomic variables in 2020", Box 8, "Quarterly Report on the Spanish Economy", *Economic Bulletin* 1/2021, Banco de España.

2 Since the spring of 2020, the Banco de España has been publishing several scenarios (usually three) in each projection exercise. The exception was the September Quarterly Report, when only two scenarios were published; in that case, what was then referred to as scenario 1 is considered the baseline scenario.

3 See P. Aguilar, C. Ghirelli, M. Pacce and A. Urtasun (2021), "Can news help measure economic sentiment? An application in COVID-19 times", *Economics Letters*, Vol. 199.

ACCURACY OF SHORT-TERM ECONOMIC PROJECTIONS DURING THE PANDEMIC: THE IMPORTANCE OF THE CUT-OFF DATE (cont'd)

in the DENSI during that period, where a positive change denotes an improvement in sentiment.⁴ In the light of this evidence, two aspects can be highlighted. First, that in the June and December projection exercises, the Broad Macroeconomic Projection Exercises (BMPE) that are conducted jointly with the other Eurosystem national

central banks, the forecasts are generally drawn up earlier in the quarter. Since in these exercises the period between the cut-off date for the projections and the quarter-end is longer, the DENSI is more likely to reflect more significant changes that were not taken into account when the projections were made.

Chart 1
SHORT-TERM GDP FORECASTING ERRORS (a)

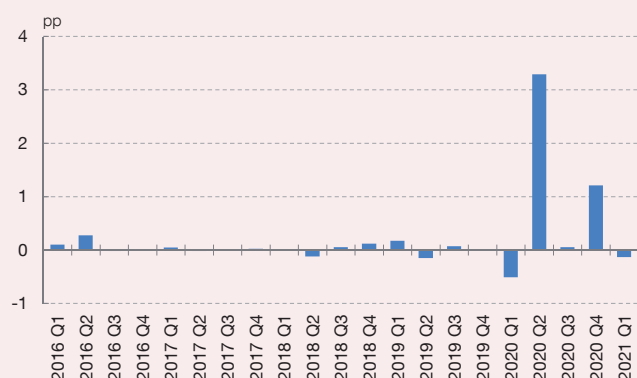


Chart 2
DAYS FROM PROJECTIONS CUT-OFF DATE TO QUARTER-END

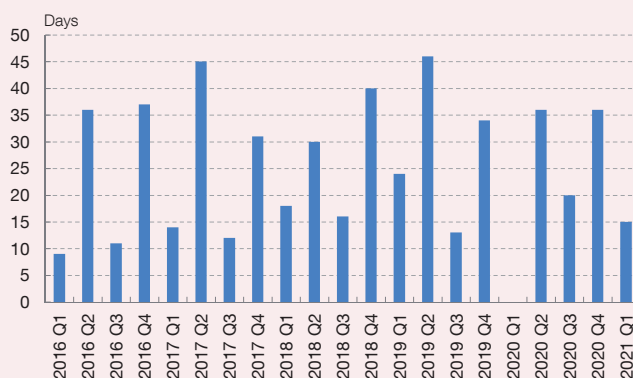


Chart 3
DENSI REVISION BETWEEN PROJECTIONS CUT-OFF DATE AND QUARTER-END (b)

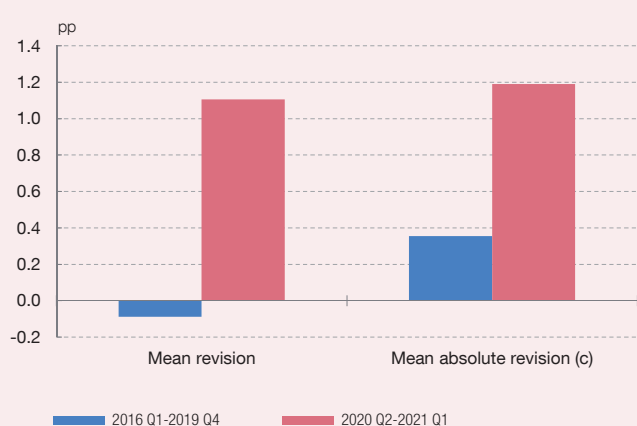
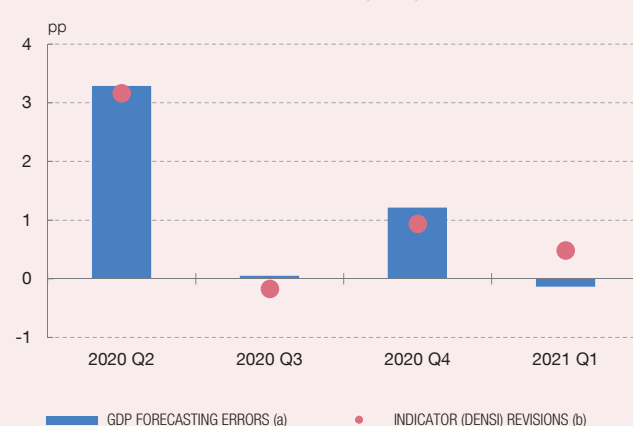


Chart 4
GDP FORECASTING ERRORS AND INDICATOR (DENSI) REVISIONS



SOURCES: INE and Banco de España.

- a Difference between the quarter-on-quarter GDP growth rate published by INE in its flash QNA estimate and the rate forecast by the Banco de España in its macroeconomic projection exercise.
- b Difference between the DENSI calculated with all the information for the quarter and that calculated solely with the information available at the projections cut-off date. Normalised to the scale of the GDP forecasting errors, in percentage points.
- c Average of the absolute value of the revisions.

4 Calculated as the difference between the average of the DENSI for the full quarter and the average for the days elapsed in the quarter up to the cut-off date for the projection exercise. In the case of 2020 Q1, faced with the exceptional situation caused by the onset of the pandemic, the Banco de España decided to delay the publication of its forecasts from March, when they are traditionally published, to April. In consequence, in that case, the cut-off date for the projection exercise was after the quarter-end, and hence the change in the DENSI was zero.

ACCURACY OF SHORT-TERM ECONOMIC PROJECTIONS DURING THE PANDEMIC: THE IMPORTANCE OF THE CUT-OFF DATE (cont'd)

Second, consistent with the considerable volatility in economic activity perceived since the start of the health crisis, the changes observed in the DENSI between the cut-off date for the projections and the quarter-end have been much greater than those observed in pre-pandemic exercises. This is especially true for the projection exercises conducted in June and December 2020. As Chart 4 shows, the fact that, in those periods, the quarter-end information, which was not included in the analysis, pointed to a clear improvement in economic activity explains, to a certain extent, the underestimation in those projection exercises of the GDP growth rate in the current quarter.

To sum up, the analysis presented here highlights the fact that, since the start of the pandemic, against the backdrop of high volatility in economic activity, the number of days between the cut-off date for the projection exercise and the quarter-end appears to have had a significant impact on the accuracy of the forecasts for the GDP growth rate in the short term. In the specific case of the short-term projections for the GDP growth rate in the current quarter, this analysis may also reveal the cost incurred, in terms of lower forecasting accuracy, as a result of their being drawn up and published considerably in advance of the official GDP flash estimates that the INE publishes approximately 30 days after the close of the corresponding quarter.

RECENT CHANGES IN CO₂ EMISSIONS IN SPAIN

María de los Llanos Matea, Aitor Lacuesta and Darío Serrano-Puente

This early-release box was published on 4 June

In 2020, CO₂ emissions in Spain fell by 17.4%.¹ This reduction, which was also observed in the European Union (EU) and worldwide (with falls in emissions of 10.4% and 6.2%, respectively), was mainly due to the COVID-19 pandemic and the effects that the measures rolled out to contain it had on economic activity in general and on certain sectors (most notably transportation) in particular.

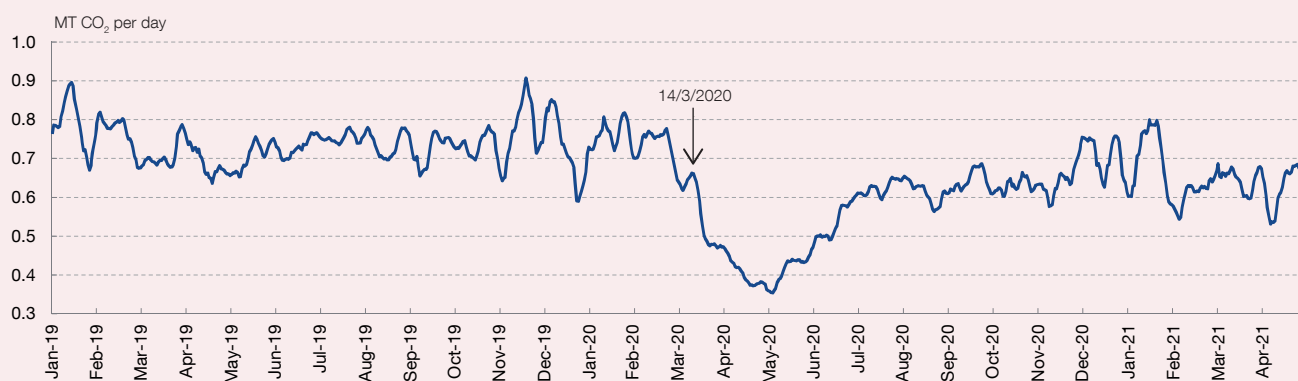
Indeed, most of the fall in CO₂ emissions in Spain arose in the second half of March and in April, after the first state of alert was declared on 14 March, with the introduction of the most stringent restrictions on people's movement and the activity of certain sectors (see Chart 1). Since then, the gradual easing of these confinement measures led to an equally gradual increase in emissions, although they have not yet returned to pre-crisis levels.

In addition, Chart 2 shows that in 2020 the largest reductions in CO₂ emissions occurred in international and domestic air transport. This was also the case in the EU-28 as a whole and is consistent with the sharp decline in activity recorded in this sector since the onset of the pandemic, mainly due to restrictions on movement and a voluntary reduction in travel. CO₂ emissions linked to the

land transport sector and industry also declined very significantly in the early stages of the pandemic (somewhat more sharply than in the EU in the case of land transport). However, unlike in the air transport sector, they have already returned to levels similar to those prior to the health crisis. In contrast to these developments, carbon dioxide emissions in the residential sector showed no noticeable year-on-year deviations in 2020, whereas energy sector emissions over virtually the entire year, including before the pandemic, were lower than in 2019, recording an annual average fall of 22%.

There is evidence, however, that not all of the decline in CO₂ emissions in 2020 was linked to the adverse effects on economic activity of the pandemic and the lockdown measures. For example, in the particular case of the Spanish electricity sector, which accounts for around 20% of the economy's total emissions, some studies suggest that a significant part of the decline in its emissions over 2020 was due to structural as well as transitory factors unrelated to the pandemic. Specifically, [Fabra et al \(2021\)](#)² have estimated the emissions that the Spanish electricity sector would have generated over the past year in a hypothetical scenario of no pandemic, using

Chart 1
CO₂ EMISSIONS IN SPAIN (a)
7-day moving average



SOURCE: Carbon Monitor.

a Includes the energy, industrial, residential and land and air transport sectors.

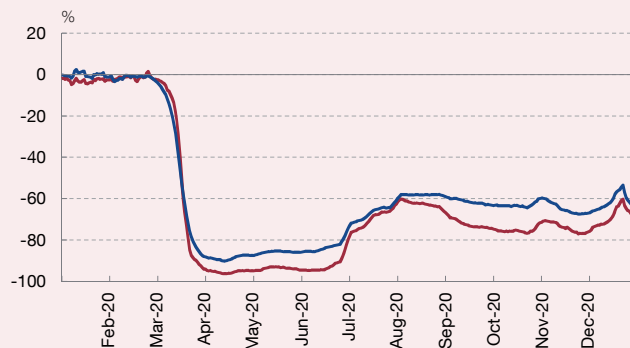
1 According to data provided by [Carbon Monitor](#) for the energy, industrial, residential and air and land transport sectors. Over the course of 2020, total emissions decreased by around 47 million tonnes.

2 See N. Fabra, A. Lacuesta and M. Souza (2020), "Degrowth versus Decoupling: Competing strategies for carbon abatement?", *EnergyEcoLab*, 109.

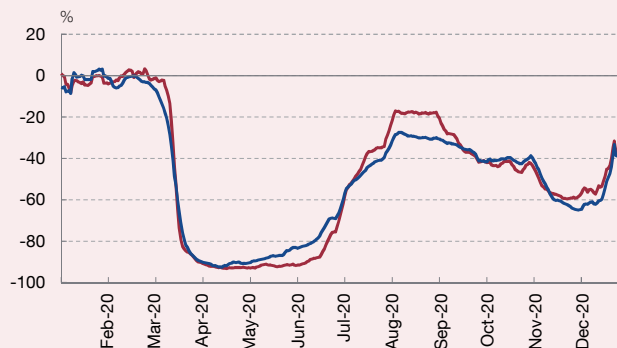
RECENT CHANGES IN CO₂ EMISSIONS IN SPAIN (cont'd)

Chart 2
CO₂ EMISSIONS THROUGHOUT 2020 IN SPAIN AND THE EU-28 (a)
Year-on-year 7-day moving average rates

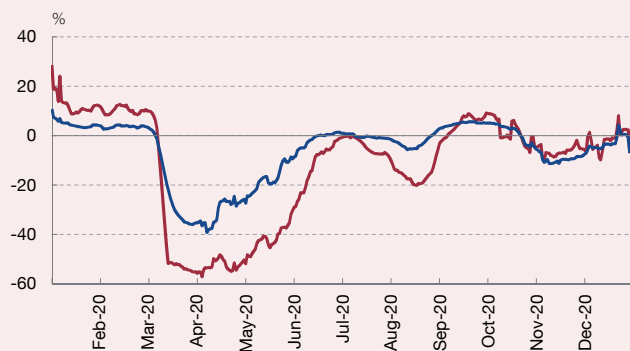
1 INTERNATIONAL AIR TRANSPORT



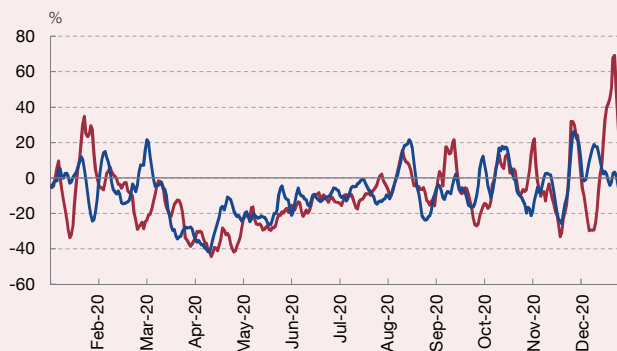
2 DOMESTIC AIR TRANSPORT



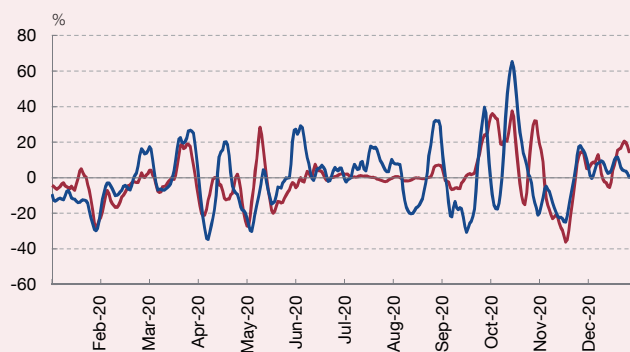
3 LAND TRANSPORT



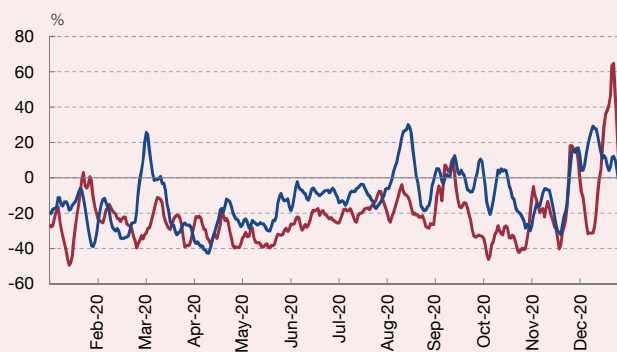
4 INDUSTRY



5 RESIDENTIAL SECTOR



6 ENERGY SECTOR



— SPAIN

— EU-28

SOURCE: Carbon Monitor.

a The EU-28 includes the United Kingdom throughout the period.

RECENT CHANGES IN CO₂ EMISSIONS IN SPAIN (cont'd)

a model that includes most of the technical and institutional parameters of electricity market auctions. Specifically, the authors concluded that 64% of the reduction in this sector's CO₂ emissions in 2020 (equivalent to 17% of the decrease in emissions observed in the economy as a whole) appears to be unrelated to economic activity. Drivers behind this decline include the closure of coal-fired power plants and weather conditions in 2020, which was particularly wet and sunny compared with 2019, and increased investment in renewable energy, all of which altered the relative share of the different sources of electricity generation. Specifically, as a result of these factors, hydroelectric and photovoltaic power production, whose level of CO₂ emissions is relatively low, increased by 42% and 71%, respectively, in 2020.

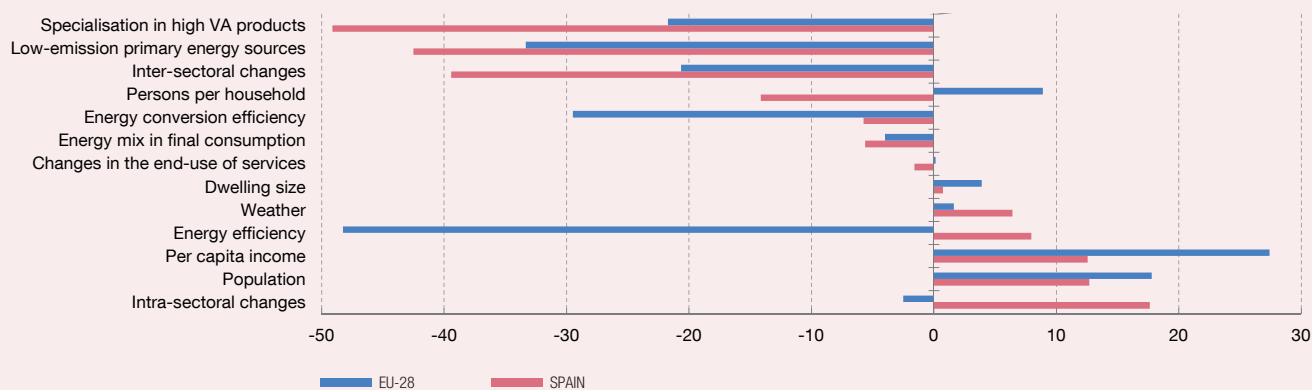
Looking ahead, in keeping with the EU's global leadership of the fight against climate change in recent years, Spain has just committed to attaining very ambitious goals over the coming decades in terms of reducing greenhouse gas emissions, developing renewable energy sources and increasing energy efficiency.³ Achieving these goals will foreseeably require very profound changes in agents' behaviour patterns and in the current growth model. Such

a structural transformation should be helped by the implementation over the coming years of the NGEU programme in Spain.

In any event, until the different climate-change public policies that will be implemented in the short and medium term are sufficiently defined, it may be useful to determine what other factors, aside from the COVID-19 pandemic, have influenced CO₂ emissions in Spain in recent decades. In this regard, Chart 3, based on [Serrano-Puente \(2021\)](#),⁴ indicates that the increase in the share of renewables in the energy mix between 2007 and 2018 was one of the factors that contributed the most to falling final energy consumption-related CO₂ emissions (a drop of 19%, compared with 11% in the EU-28). The changes in the sectoral composition of the Spanish economy between 2007 and 2018, in line with, for example, a greater tertiarisation of activity, also contributed significantly to this reduction.

Conversely, and unlike in the EU-28 between 2007 and 2018, the scant improvement in energy efficiency in Spain stands out. According to the evidence provided in the Ministry of Energy, Tourism and Digital Agenda's

Chart 3
STRUCTURAL FACTORS BEHIND THE DECREASE IN EMISSIONS BETWEEN 2007 AND 2018 (a)



SOURCE: Serrano-Puente (2021).

a Emissions in Spain fell by 19% between 2007 and 2018. In the chart, a bar of -10% (10%) for a given factor means that this factor has reduced (increased) total emissions by 1.9%.

3 See *Ley 7/2021, de 20 de mayo, de cambio climático y transición energética* (Climate Change and Energy Transition Law 7/2021 of 20 May 2021, only available in Spanish).

4 See D. Serrano-Puente (2021), "Are we moving toward an energy-efficient low-carbon economy? An input-output LMDI decomposition of CO₂ emissions for Spain and the EU28", *SERIEs*.

RECENT CHANGES IN CO₂ EMISSIONS IN SPAIN (cont'd)

2017-2020 National Energy Efficiency Action Plan, this would not necessarily be linked to technically inefficient equipment. Rather, it would in part be due to such equipment being somewhat underused in the decade following the global financial crisis. In this regard, in

periods of lower economic activity, the energy consumed by the different sectors would not decrease in proportion to activity, since, despite operating below its capacity, the fixed energy consumption of such equipment would continue to be relatively high.⁵

5 By way of illustration, consider a machine that consumes a significant amount of energy when starting up (fixed energy consumption) and a relatively small amount of energy for each unit of output produced. In this particular case, the energy consumption per unit of output will be higher (lower) in periods of low (high) output.

In recent months, optimism has been the prevailing sentiment in international financial markets, fuelled by the improvement in the health situation, headway in the vaccination campaigns and the favourable performance of economic indicators. However, uncertainty over the persistence of the pick-up in inflation in many economies since the beginning of the year and the ensuing doubts in the markets as to the duration of the current expansionary monetary policy stance have triggered some isolated episodes of increased volatility

Global stock market indices have responded positively to the fiscal stimulus packages announced in most advanced economies (especially in the United States), the easing of the pandemic-containment measures in light of the improved health situation and the relatively widespread upward revision of economic growth expectations. The rally in stock markets in the year to date has seen new record highs in the S&P 500 index, the FTSE 250 and EURO STOXX 50 indices exceeding January 2020 levels, and a significant rise in the IBEX 35 (see Chart 3.1). Notable amid this high sectoral heterogeneity was the rise in the banking sector. In any case, uncertainty over the persistence of the recent rebound in inflation in some countries, the possibility of overheating in the US economy in the short term and the emergence of new COVID-19 variants have caused some bouts of volatility in recent months.

In Q2, long-term sovereign bond yields rose in the euro area countries. At the cut-off date of this Report, the yield on the 10-year German Bund had risen by 10 bp over the quarter to its highest level since mid-2019 (see Chart 3.2). By contrast, after increasing strongly at the start of the year, yields on equivalent bonds in the United States and the United Kingdom have hardly moved in the quarter to date. This divergence in sovereign bond yields between the United States and the euro area may have at least partly borne on the recent depreciation of the US dollar against the euro. Sovereign risk premia in the euro area have increased in Italy, Portugal and France (by 13 bp, 12 bp and 12 bp, respectively, although in the latter two cases this increase was partly due to a change in the related benchmark bond), decreased in Greece (by 5 bp) and remained virtually unchanged in Spain.

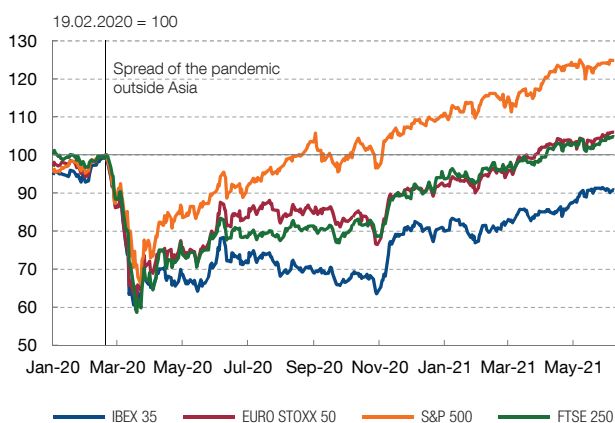
Improved macroeconomic expectations and positive market sentiment have provided for a continuing falling trend in corporate bond spreads in the euro area, especially in the high-yield segment (see Chart 3.3). Despite this, financing costs in euro area corporate bond markets have risen in recent months owing to the pick-up in risk-free interest rates. Corporate bond issuance continued to increase

Chart 3

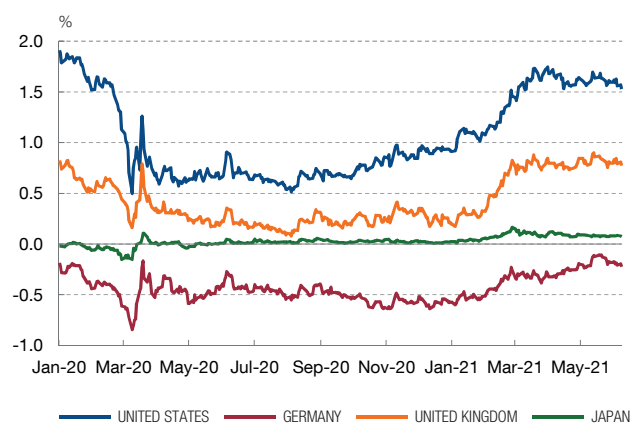
INTERNATIONAL FINANCIAL MARKETS REMAIN FIRM, WITH FURTHER INCREASES IN THE PRICES OF RISKY ASSETS

In 2021 Q2, stock market indices rose in the advanced countries against the backdrop of an improved health situation, progress in vaccination campaigns and the favourable performance of economic indicators. Long-term public debt yields increased in the euro area and remained relatively stable in other advanced economies. Spreads continued to narrow in corporate bond markets, especially in the high-yield segment. In emerging market economies, financial markets have shown no significant changes in recent months.

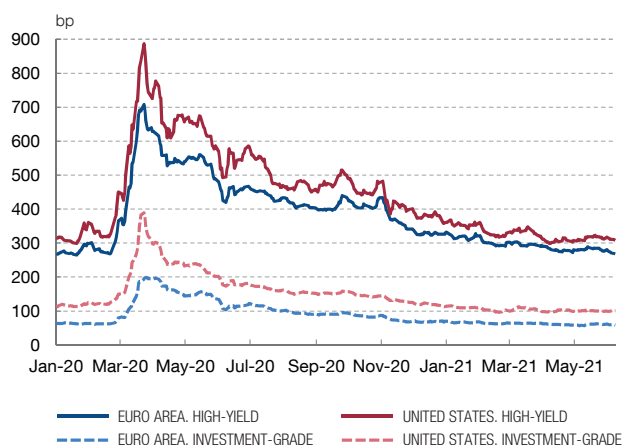
1 STOCK MARKET INDICES



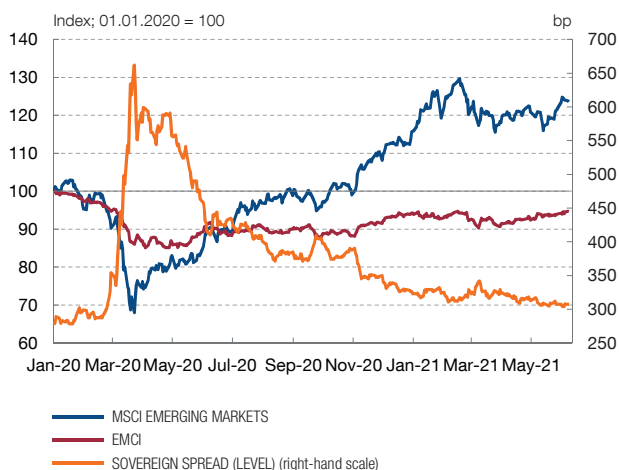
2 10-YEAR SOVEREIGN BOND YIELDS



3 CORPORATE BOND YIELD SPREADS RELATIVE TO SWAP CURVE



4 FINANCING CONDITIONS IN EMERGING MARKET ECONOMIES



SOURCE: Refinitiv Datastream.

this quarter, although it remains below the volumes posted in previous years in the investment-grade segment, probably owing to firms' lower financing needs after the high volume of funds raised in 2020.

There have been no major developments in the financial markets of the emerging economies in recent months (see Chart 3.4). In particular, local-currency-denominated sovereign bond yields have risen more slowly than in previous months and there have been moderate portfolio capital inflows and a slight decline in the volume of issues, particularly sovereign issues. In any event, apart

from these dynamics, there is some concern over the possibility of a potential overheating of the US economy, which could lead to a tightening of financial conditions for those emerging market economies with greater fiscal or external vulnerability.

3 EXTERNAL ENVIRONMENT OF THE SPANISH ECONOMY

3.1 External environment of the euro area

While the global economy has continued to grow in 2021 to date, it has done so at a slightly slower pace than in 2020 Q4 and with evident cross-country heterogeneity. This is due to uneven epidemiological developments and differing degrees of economic policy support.

The recovery in global economic activity continued in 2021 Q1, albeit at a slower pace than in 2020 Q4 and with notable differences among the world's main economies. The uneven course of the pandemic and different rates of vaccination globally placed constraints on the ability to ease the health measures implemented to contain the disease in each country and, therefore, to press forward with the return to normal in activity (see Charts 4.1 and 4.2). GDP contracted by 0.6% in the euro area, 1.3% in Japan and 1.5% in the United Kingdom in 2021 Q1. It also slowed sharply in the emerging economies, affecting above all Asia due to the worsening of the pandemic in some countries, such as India, and to the gradual deceleration in China's growth rate. Conversely, the United States recorded a marked acceleration in its growth rate in the same period (up to 1.6% quarter-on-quarter), thanks to economic policy support – in particular the fiscal stimulus packages – and to headway with the vaccination campaign (see Chart 4.3). The United States will be one of the few economies to close the output gap in 2021. Global trade continued to grow during this period, albeit at a more moderate pace. Particularly of note is the fall-off in trade between the EU and the United Kingdom. This would partly reflect short-term Brexit-related disruptions.

The high frequency indicators for Q2 suggest that the recovery will continue in both manufacturing and services. In recent months, headway with the vaccination campaign is prompting the gradual lifting of containment measures and the return to normal economic activity in developed countries. These developments appear to be reflected in improved output, expenditure and employment. However, the current output gap in those economies is still very wide and, except for the United States, the IMF expects closing the gap to be a relatively slow process (see Chart 4.4 and Box 3 on the outlook for consumption and saving behaviour). In the emerging regions hardest hit by outbreaks of the pandemic, such as India and Latin America, growth in Q2 is likely to be smaller than previously expected.

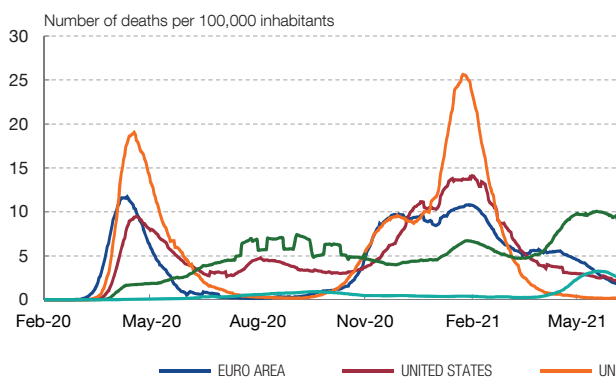
Inflation rates have picked up substantially in the early months of 2021, driven by the base effects linked to the steep decline in prices in 2020 and higher

Chart 4

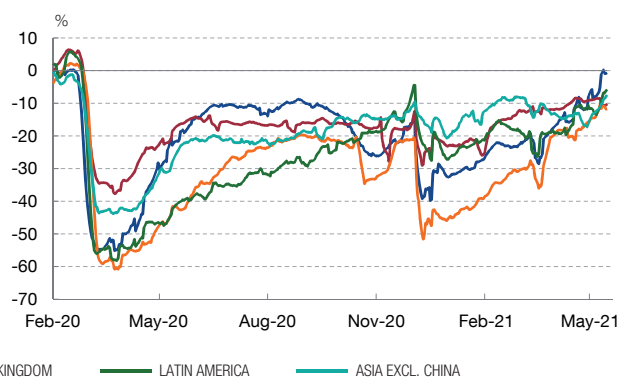
THE IMPACT OF THE COVID-19 PANDEMIC ON WORLD ECONOMIC ACTIVITY

While the global economy continued its recovery in 2021 Q1, it did so at a slower pace and with evident cross-country heterogeneity. This largely reflects the uneven course of the pandemic. Growth seems to have quickened in Q2, underpinned by the gradual reopening of the economies and economic policy. Inflation rose, driven by the base effects amplifying the effects of higher energy, food and some input prices.

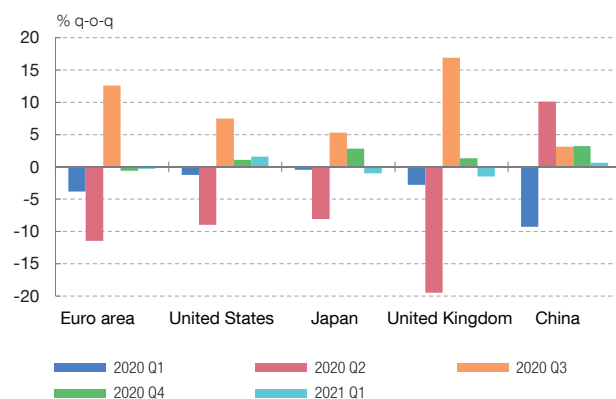
1 NEW COVID-19 DEATHS PER 100,000 INHABITANTS. 14-DAY TOTAL



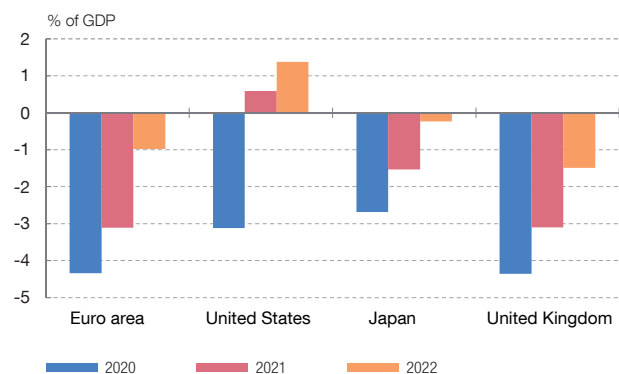
2 MOBILITY INDICATORS (a)



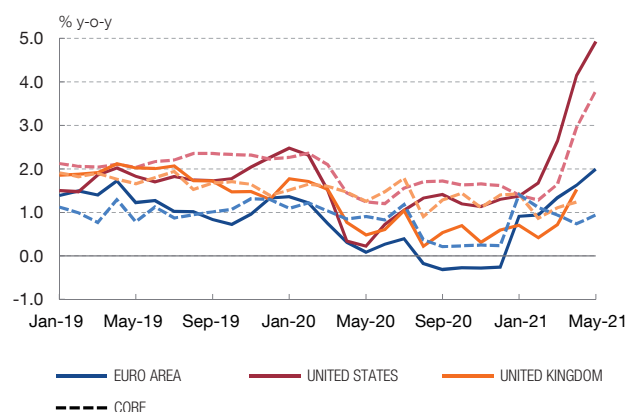
3 QUARTERLY GDP GROWTH



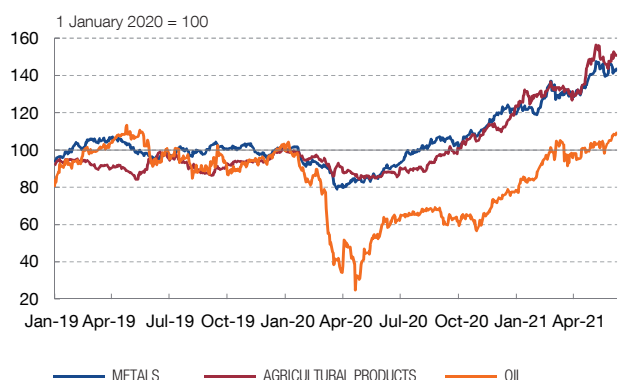
4 OUTPUT GAP



5 TOTAL AND CORE INFLATION IN ADVANCED ECONOMIES



6 COMMODITY PRICE DEVELOPMENTS



SOURCES: Consensus Forecast, IMF, Google, 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.

energy, food and some intermediate goods prices (see Charts 4.5 and 4.6). Growth in aggregate demand, prompted by the reopening of the economies and the gradual recovery in activity, has coincided, in some cases, with supply-side problems associated with the emergence of bottlenecks in the supply of certain inputs. This has resulted in the prices of some products increasing significantly. While this type of imbalance tends to be temporary, the adjustment between supply and demand may not be immediate in some sectors, such as the semiconductor industry (semiconductors are a key component for the automobile industry and the production of electronic equipment). In any event, the combined action of the aforementioned factors has given rise to a marked increase in inflation rates, which, in some cases, such as the United States, has been greater than expected (+5% year-on-year in May).

In most advanced and emerging economies central banks have maintained the measures adopted to mitigate the economic impact of the pandemic, thus preserving the extraordinarily expansionary stance of their monetary policies. However, in some emerging economies the central banks seem to regard the monetary easing cycle as having ended in Q1. For instance, in Brazil and Russia, the monetary authorities decided to raise the policy interest rates between March and May in order to prevent the higher prices from resulting in a deanchoring of inflation expectations and ultimately feeding through to the core components. Looking ahead, the risk of certain emerging economies undergoing some turbulence, as a result of a potential tightening of global financing conditions amid an unsynchronised exit from the crisis, will hinge on the relative degree of macrofinancial vulnerability. Broadly speaking, they would currently be less vulnerable than in other previous recessions in terms of external imbalances and the banking sector. However, in many cases, they would be more vulnerable fiscally.

Turning to fiscal policy, the US Administration has announced new stimulus packages that, foreseeably, will not only drive economic growth in the US in the short term, but will also have positive effects on the world economy as a whole. The initiatives proposed in March and April 2021 (the American Jobs Plan and the American Families Plan) will essentially raise public investment in infrastructure, government spending on education and social benefits for households over the next ten years. If approved as is in 2021, such increase in spending would total approximately \$4 trillion and would be partially financed through tax hikes for the highest income firms and households. These plans are expected to increase growth in the United States while having certain positive spillover effects on the rest of the world.¹

¹ For an analysis of the impact of previous US fiscal packages, see **Box 3**, “Quarterly report on the Spanish economy”, *Economic Bulletin*, 1/2021, Banco de España.

3.2 The euro area

In 2021 Q2, the strides made in the vaccination campaign and improved epidemiological developments appear to be enabling the resumption of the economic recovery path after the declines recorded in activity in the two previous quarters. Inflation's current upward trajectory largely reflects temporary factors whose effects will foreseeably dissipate as the year unfolds. While economic slack remains high, significant core inflationary pressures have so far gone undetected.

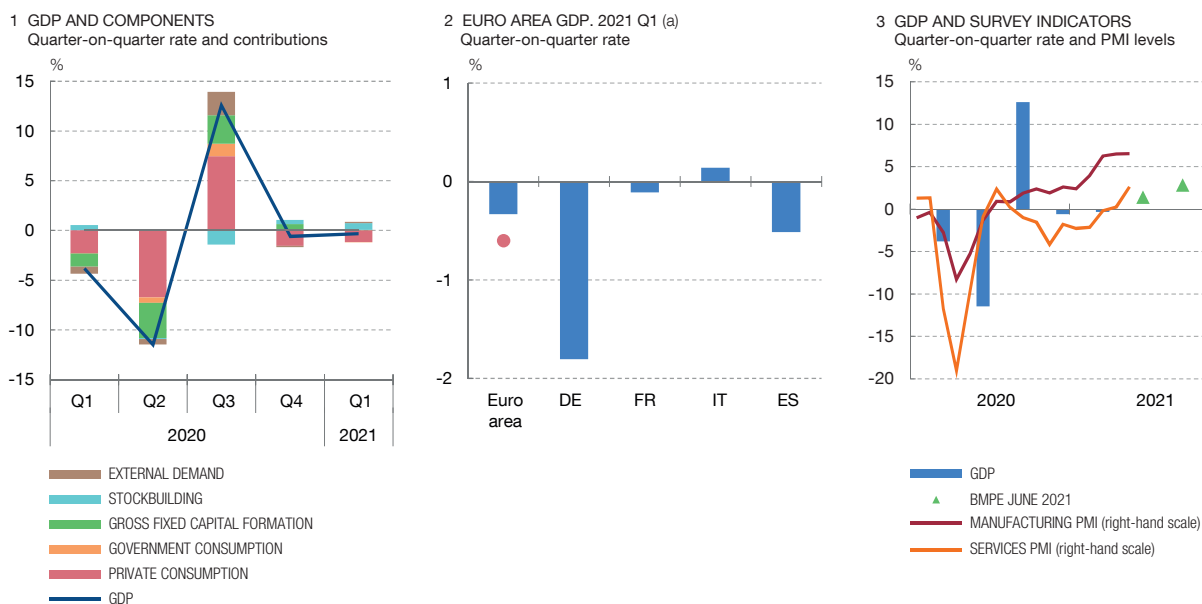
Economic activity in the euro area worsened again in the early months of the year, amid the prolongation of the pandemic containment measures launched following the deterioration in the health situation at end-2020. Euro area GDP contracted by 0.3% in 2021 Q1 as a result of the fall-off in private consumption, partially offset by stockbuilding (see Charts 5.1 and 5.2). However, it must be borne in mind that this figure was boosted by the high growth recorded by Ireland in that period (7.8%). Thus, excluding Ireland from the euro area aggregate, euro area GDP would have fallen by 0.6% in 2021 Q1, a figure similar to that recorded in 2020 Q4. The increase in Ireland's sales abroad and the steep drop in its imports also impacted net external demand's slightly positive contribution to the euro area's quarterly growth. By sector, the services hardest hit by the pandemic containment measures once again bore the brunt of the decline in activity, although the recovery in manufacturing activity also slowed due to the emergence of some bottlenecks in the supply of certain intermediate goods affecting above all the automobile industry.

The latest activity indicators suggest that in the spring euro area GDP returned to the path of economic recovery that was interrupted in 2020 Q4 (see Chart 5.3). In recent months, the strides made in the domestic vaccination campaigns and improved epidemiological developments have prompted a gradual easing of the pandemic containment measures. This appears to have enabled slight growth in consumption and the activity of services. However, this seems to have been uneven across countries. For example, the latest information on the European Commission's confidence indicators and the Purchasing Managers' Indices, with a widespread increase by sector and by country, seemingly points in this direction. Other manifold factors also seem to be underpinning the upturn in activity. These notably include the improvement in foreign trade, the continued expansionary stance of the ECB's monetary policy and the prolongation of the fiscal stimulus packages, with the launch of the NGEU-funded investment plans. Even so, in the near term the euro area's recovery is expected to be slower than in other geographical areas (see Box 2, on the determinants of the growth differential between the euro area and the United States during the pandemic).

Chart 5

THE EURO AREA ECONOMY CONTRACTED AGAIN IN Q1

Economic activity was impacted by the deteriorating health situation at the start of the year and the widespread prolongation of the containment measures. This had an adverse impact on private consumption, particularly in Germany. GDP is expected to start on a recovery path from April, with robust growth in 2021 H2.



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

a The red dot denotes the euro area q-o-q GDP growth rate excluding Ireland.



The June Eurosystem staff Broad Macroeconomic Projection Exercise² (BMPE) revised GDP growth upwards for the euro area to 4.6% in 2021 and 4.7% in 2022.

As compared with the March exercise, in the early stages of the year activity in the euro area (excluding Ireland) behaved less dynamically than expected and oil prices were higher. However, these factors have been offset by a more dynamic international environment,³ owing to an improved short-term outlook, linked to the progress of vaccination efforts and the stimulus of the new fiscal measures adopted by euro area governments (primarily through increased transfers to firms and households). These projections are somewhat more optimistic than those of other international organisations and private analysts for 2021 and 2022 (see Table 2). The exercise notes that the projections remain subject to greater uncertainty than usual (albeit less than during the early stages of the health crisis) owing to three hard-to-calibrate aspects: the epidemiological course of the pandemic itself, consumer behaviour as regards use of the reservoir of savings built up since the onset of the crisis (see Box 3), and the scarring effects of a crisis that has persisted for longer than initially expected.

² See [Eurosystem staff macroeconomic projections for the euro area, June 2021](#).

³ The June BMPE factors in the American Rescue Plan approved in March (which was not included in the March projections exercise) and the two US fiscal packages subsequently announced but not yet approved (the American Jobs Plan and the American Families Plan).

Table 2

EURO AREA GDP AND HICP GROWTH FORECASTS (a)

	2021		2022		2023	
	GDP	HIPC	GDP	HIPC	GDP	HIPC
ECB (June 2021)	4.6 (0.6)	1.9 (0.3)	4.7 (0.6)	1.5 (0.3)	2.1 (0)	1.4 (0)
European Commission (May 2021)	4.3 (0.5)	1.7 (0.3)	4.4 (0.6)	1.3 (0)		
OECD (May 2021)	4.3 (0.4)	1.8 (...)	4.4 (0.6)	1.3 (...)		
IMF (April 2021)	4.4 (0.2)	1.4 (...)	3.8 (0.2)	1.2 (...)	1.9 (...)	
Consensus Forecast (May 2021)	4.2 (0)	1.7 (0.1)	4.3 (0)	1.3 (0)		

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

a In brackets is the change with respect to the previous forecast, which was March for the ECB, February for the European Commission, March for the OECD, January for the IMF and April for Consensus Forecast.

In the fiscal policy arena, the Stability Programmes submitted by the Member States in April point to a continuation of the measures to support activity. The BMPE expects the euro area deficit to stand at 7.3% of GDP in 2021 (down 0.2 pp on 2020) and to subsequently shrink to just over 3% in 2022, primarily due to the withdrawal of the stimulus programmes and the economic recovery taking hold. At the cut-off date of this Report, 23 countries have submitted their recovery and resilience plans – linked to use of NGEU funds –, which must be approved by the European institutions within three months of their receipt.

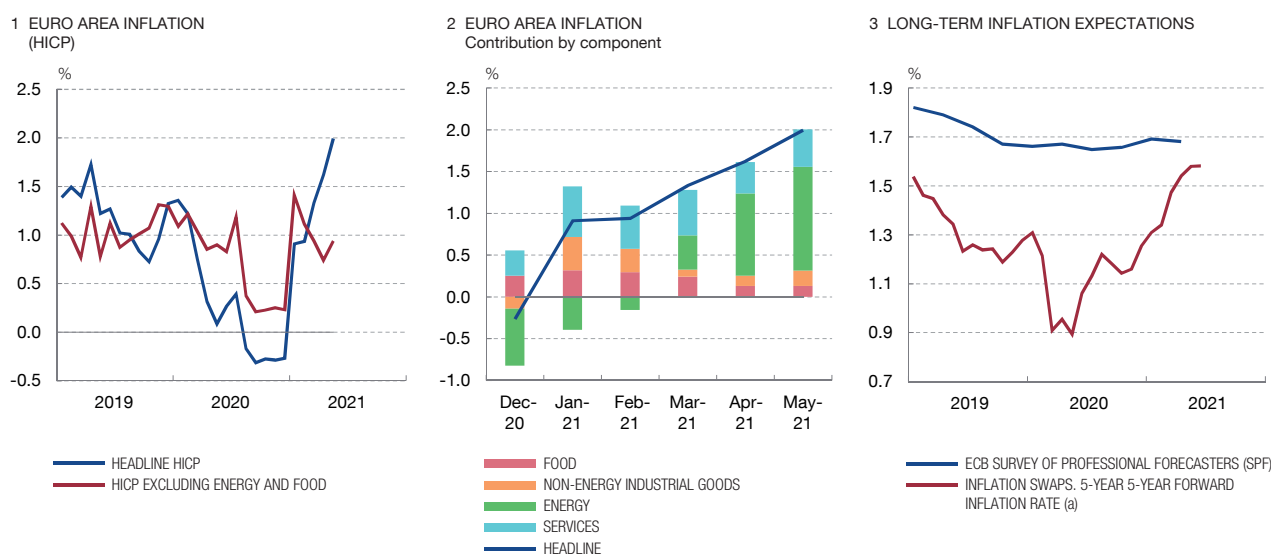
The rise in headline inflation, which began early in the year, continued, affected by various temporary factors. In May, headline inflation climbed to 2%, driven mainly by the energy component and, to a lesser extent, by services. Core inflation rose to 0.9% (see Charts 6.1 and 6.2). Among the most prominent factors conditioning the course of inflation since the beginning of the year are the reversal, in January, of the temporary VAT reduction in Germany, the rise in energy prices, the postponement of the sales period in some countries, and changes in the HICP consumption basket weights.

Against a background in which there is still a high degree of slack in the economy and the recovery of aggregate demand remains weak, no significant inflationary pressure is expected in the years ahead. The June BMPE expects the average inflation rate to rise to 1.9% in 2021 (up from 0.3% in 2020) and to subsequently ease to 1.5% in 2022 and 1.4% in 2023 (see Table 2). As has been noted, the pick-up in inflation in 2021 appears to broadly reflect the impact of various idiosyncratic and temporary factors which will gradually dissipate over the course of the year. Accordingly, the projections for core inflation point to moderate growth in 2021 (1.1%) and a gradual increase to 1.4% in 2023. Market-based inflation expectation indicators remain well short of the medium-term reference levels of 2%, despite the rebound in recent months from the lows reached in 2020 (see Chart 6.3).

Chart 6

EURO AREA INFLATION REMAINS ON A RISING TRAJECTORY

The pick-up in inflation in recent months has broadly been linked to temporary factors, such as rising energy prices, the end of the German VAT reduction, the changes in weights and the postponement of the sales period. However, core inflation remains low. Inflation expectations are holding at moderate levels, despite rising from the lows reached in 2020.



SOURCES: Bloomberg, Eurostat and ECB.

a Monthly average of daily data.



At its most recent monetary policy meeting in June, the ECB Governing Council decided to reconfirm its very accommodative monetary policy stance. Thus, in Q3, net asset purchases under the pandemic emergency purchase programme (PEPP) will continue at a significantly higher pace than in the initial months of this year. As with the April meeting, policy interest rates were left unchanged and no additional changes were made to the design of the asset purchase programmes or refinancing operations. Following these decisions, the market does not expect the key policy rates to change over the coming quarters.

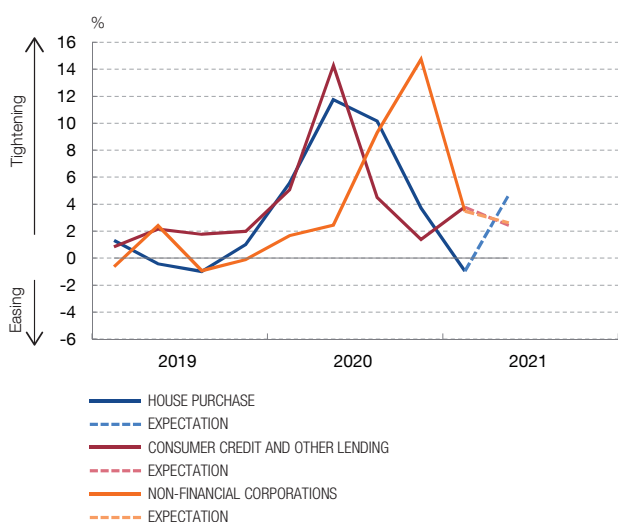
Financing conditions for the non-financial private sector remain loose, although credit standards continued to tighten in Q1. According to the Bank Lending Survey (BLS), this tightening was moderate and affected both consumer credit and other lending to households and lending to firms. If banks' expectations prove accurate, this pattern may have continued in Q2 and extended to loans for house purchase (see Chart 7.1). Nevertheless, the latest round of the survey of euro area SMEs on their access to financing does not signal a deterioration in the availability of bank loans in the period from October 2020 to March 2021 (see Box 4). The average cost of loans declined further, although marginally, reaching near-record lows in most segments in April. By contrast, the cost to firms of long-term

Chart 7

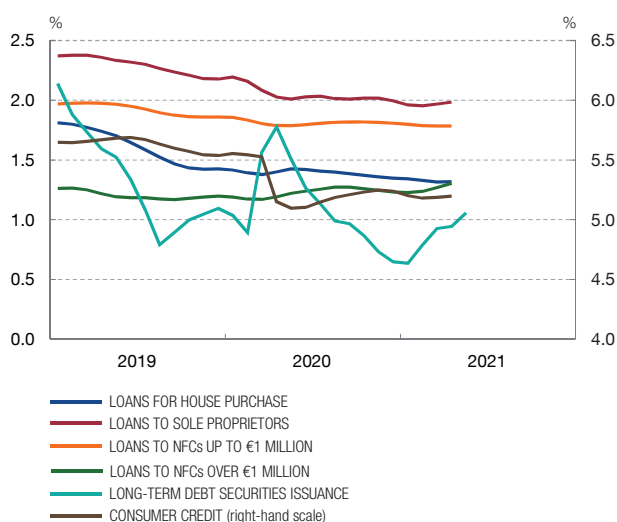
FINANCING CONDITIONS REMAIN LOOSE, ALTHOUGH CREDIT STANDARDS APPEAR TO HAVE TIGHTENED AGAIN IN 2021 Q1

According to the Bank Lending Survey, in 2021 Q1 credit standards tightened again in most segments, albeit more moderately. If banks' expectations prove accurate, this trend may have continued in Q2 and extended to all loan types. Overall, average interest rates on bank financing stand close to all-time lows. By contrast, the cost to firms of long-term debt security issuance has picked up in recent months, in keeping with yields on long-term sovereign debt.

1 BLS: CHANGE IN CREDIT STANDARDS (a)



2 COST OF BORROWING (b)



SOURCES: Refinitiv Datastream and ECB.

- a Indicator = percentage of banks that have tightened credit standards considerably $\times 1$ + percentage of banks that have tightened credit standards somewhat $\times 1/2$ – percentage of banks that have eased credit standards somewhat $\times 1/2$ – percentage of banks that have eased credit standards considerably $\times 1$.
- b Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognisable pattern in terms of periodicity or trend).



debt security issuance has climbed in recent months, in keeping with the increase observed in interest rates on long-term sovereign debt (see Chart 7.2).

Against this background, the funding raised by the non-financial private sector has behaved more dynamically in recent months, particularly for non-financial corporations. Thus, the growth of bank lending to firms has quickened, while business financing through the issuance of debt securities recently returned to growth, having shrunk slightly at end-2020 and in early 2021. The pace of credit to households has also increased, albeit slightly, thanks to faster growth in lending for house purchase, the less pronounced decline in consumer credit and the recovery in other lending.

The cost of bank borrowing for non-financial corporations and households has remained low, while credit standards have tightened slightly again

The IBEX-35 has gained 6.7% in Q2 to date, while on the sovereign debt market the Spanish 10-year risk premium has barely moved. Rising banking sector stock prices, in particular, have driven these gains in Spain, which outpace the increase of some 4.5% in the EURO STOXX 50, against a generally improved backdrop for both the macroeconomic outlook and the course of the pandemic. On the sovereign and corporate debt markets, long-term bond yields have risen in the quarter, in keeping with the pattern observed in the other euro area markets. Thus, for example, in the quarter to date, the Spanish 10-year bond yield has risen by 10 bp, to 0.44%, with no major change in the risk premium vis-à-vis its German equivalent.

The cost of bank loans to households and non-financial corporations has remained low, albeit with some slight upticks in certain segments, while credit standards have continued to tighten. In recent months, interest rates have risen on new lending to firms over €1 million, consumer credit and lending to sole proprietors. By contrast, in all other segments the cost of bank loans has barely changed (see Chart 8.1). According to the BLS, credit standards tightened slightly in 2021 Q1, owing to lenders' increased risk perception. Moreover, banks expected this pattern to continue in all segments in Q2 (see Chart 8.2). In keeping with these developments, the Survey on the Access to Finance of Enterprises (SAFE) in the euro area shows that, between October 2020 and March 2021, the proportion of Spanish SMEs that had experienced difficulties obtaining bank finance increased (see Box 4).

The health crisis worsened in late 2020 and early 2021, giving rise to a tightening of the pandemic containment measures, which resulted in a downturn in economic activity in Spain in the first quarter

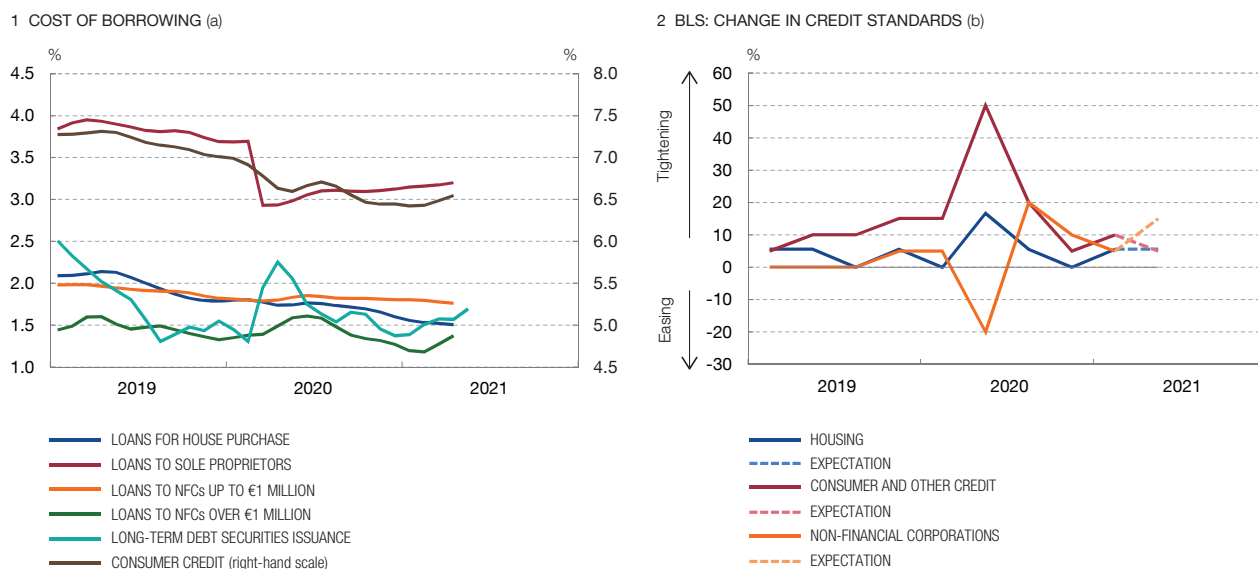
GDP fell by 0.5% in Spain in 2021 Q1, after a sluggish performance in 2020 Q4. This contraction was slightly more pronounced than that envisaged under the baseline scenario of the Banco de España's March projection exercise (a fall of 0.4%)⁶ and was essentially due to the adverse course of the pandemic in

⁶ See Box 1, "Macroeconomic projections in Spain (2021-2023)", in the "Quarterly Report on the Spanish economy", *Economic Bulletin* 1/2021, Banco de España.

Chart 8

THE COST OF BANK BORROWING HAS REMAINED LOW, WHILE CREDIT STANDARDS HAVE TIGHTENED SLIGHTLY AGAIN

In recent months, interest rates on new lending have remained low, although there has been a slight uptick in some segments. On the debt markets, the average cost of issuance of non-financial corporations' long-term debt securities has risen by some 30 bp since the start of the year, in keeping with the increase in long-term sovereign bond yields. According to the BLS, credit standards tightened slightly again overall in 2021 Q1. Lenders expected this tightening to continue in Q2.



SOURCES: Refinitiv Datastream and Banco de España.

- a** Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognisable pattern in terms of periodicity or trend).
- b** 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 credit standards somewhat $\times 1/2$ - percentage of banks that have eased their credit standards considerably $\times 1$.



late 2020 and early 2021. In particular, the worsening of the health crisis led to a tightening of certain restrictions on mobility and economic activity, among other adverse effects, which had a negative impact on output growth. Consequently, in 2021 Q1, Spanish GDP was 9.4% below the end-2019 figure, a substantially wider gap than that observed in the euro area (around 5.1%) (see Charts 9.1 and 9.2).

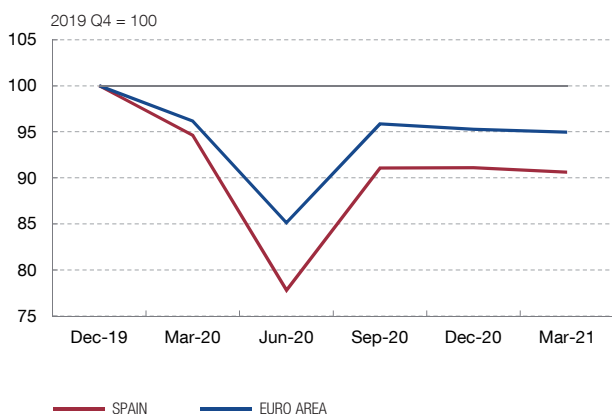
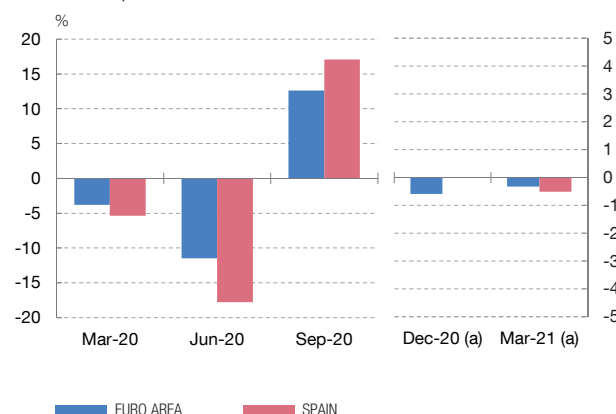
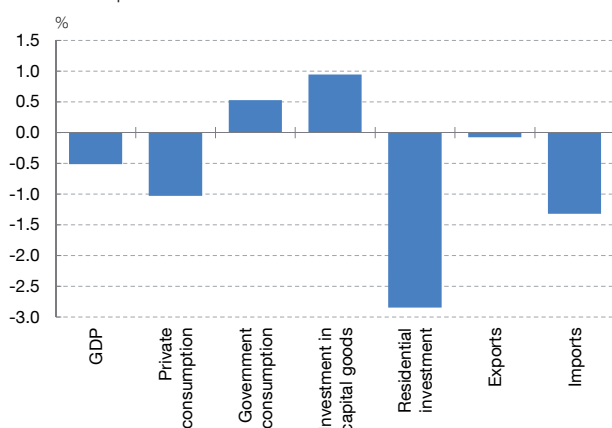
The fall in GDP mainly reflected the decline in private consumption and in investment in construction, while among the different branches of economic activity cross-sectoral heterogeneity remained high. Of the main GDP components on the demand side, only government consumption, along with investment in capital goods and in intangible fixed assets, showed positive growth rates (see Chart 9.3). In addition, to the extent that exports contracted much less markedly than imports, net external demand also made a positive contribution to growth in Q1, while on the supply side, only the primary sector and general government, education and health care recorded higher value-added than before the start of the health crisis. By contrast, in the services sectors most affected by

Chart 9

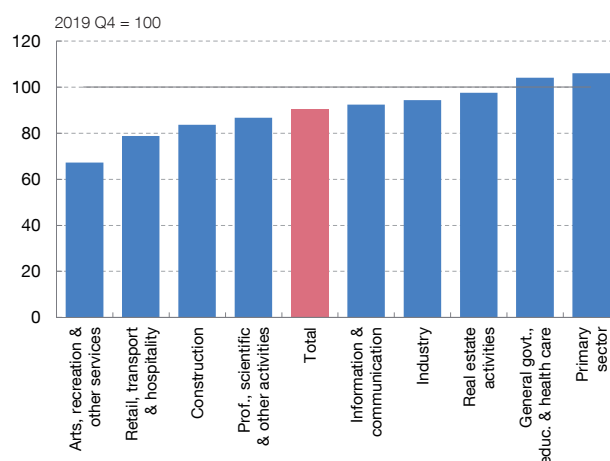
ECONOMIC ACTIVITY CONTRACTED IN 2021 Q1

The health crisis worsened in late 2020 and early 2021; this led to a tightening of the pandemic containment measures, which resulted in a fall in Spanish GDP in Q1. This contraction (0.5%) was slightly more pronounced than that envisaged under the baseline scenario of the Banco de España's March projection exercise (a fall of 0.4%), and than the decline in GDP in the euro area overall in the same period (a fall of 0.3%). The drop in Spanish GDP in the quarter mainly reflected the decline in private consumption and in investment in construction, while among the different branches of economic activity cross-sectoral heterogeneity remained high.

1 GDP. SPAIN AND THE EURO AREA

2 GDP GROWTH
Quarter-on-quarter rates3 CHANGE IN GDP AND ITS COMPONENTS IN 2021 Q1
Quarter-on-quarter rates

4 GROSS VALUE ADDED, BY ECONOMIC ACTIVITY, IN 2021 Q1



SOURCES: INE and Eurostat.

a Right-hand scale.



the pandemic – retail, transport and hospitality, and arts and recreation – activity levels remained between 20% and 30% below those recorded at end-2019 (see Chart 9.4).

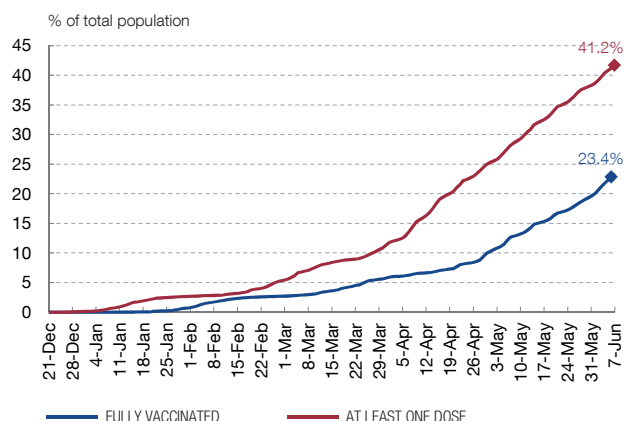
The gradual improvement in the epidemiological situation and the progress made in the vaccination campaign have driven the economic recovery in Q2

Chart 10

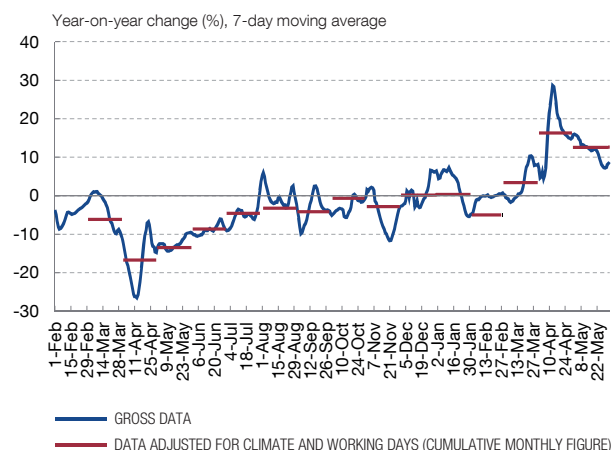
THE IMPROVEMENT IN THE HEALTH SITUATION AND THE PROGRESS MADE IN THE VACCINATION CAMPAIGN HAVE DRIVEN THE ECONOMIC RECOVERY IN Q2

The economic recovery has steadily gained traction in Q2, as the pandemic has taken a more favourable course, the immunisation programme has progressed and various restrictions have gradually been eased. In this respect, a clear improvement has been perceived in recent months in various high-frequency indicators, for example on electricity demand, card payments and mobility.

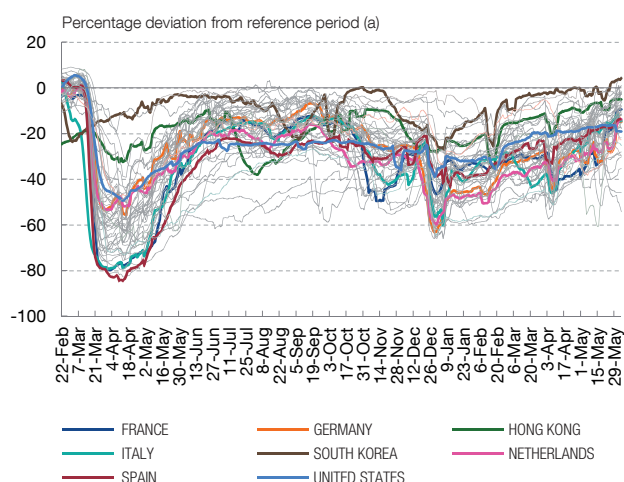
1 VACCINATION IN SPAIN



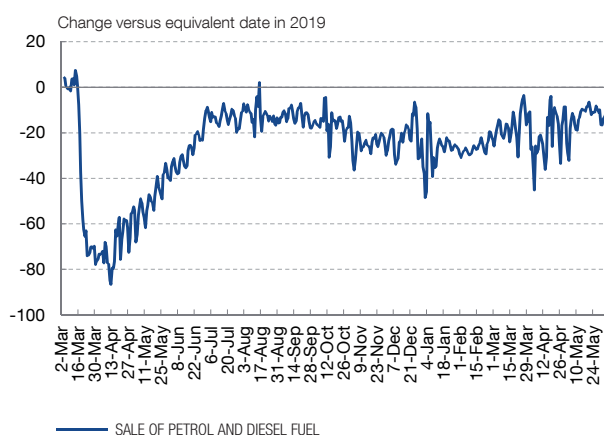
2 ELECTRICITY DEMAND



3 LOCAL MOBILITY INDICATORS. RETAIL AND RECREATION OUTLETS, TRANSIT STATIONS AND WORKPLACES



4 TOTAL DEMAND FOR PETROL AND DIESEL FUEL (4-day moving total)



SOURCES: Ministerio de Sanidad, Google, Dirección de Estudios de Repsol, Red Eléctrica de España 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.

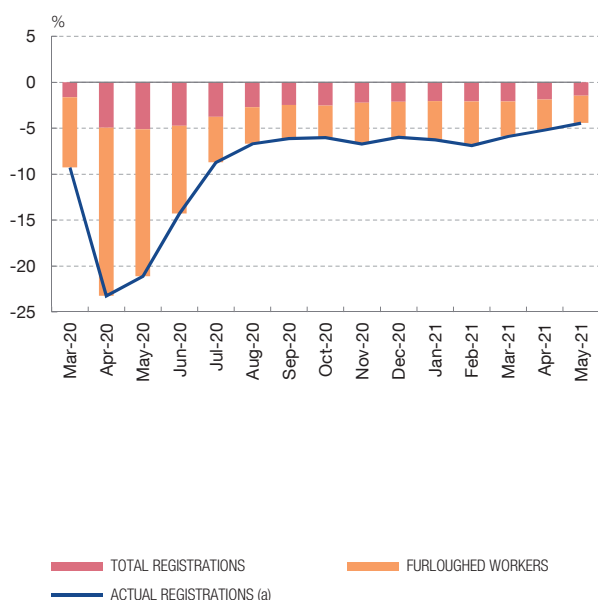
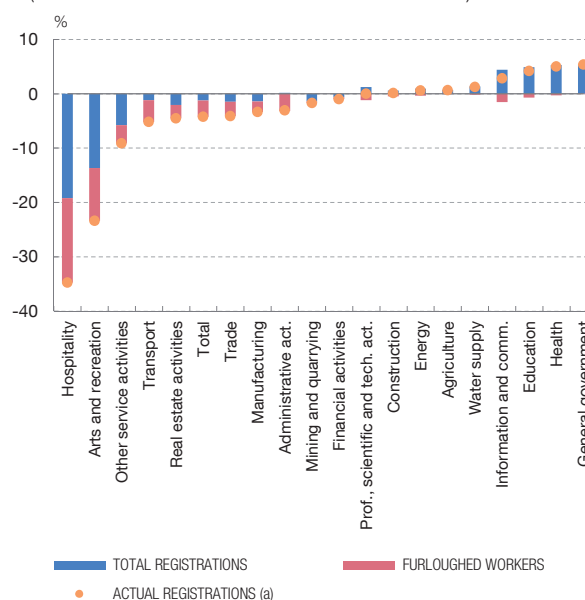


The recovery in economic activity has steadily gained traction in Q2, as the pandemic has taken a more favourable course, the immunisation programme has progressed (see Chart 10.1) and various restrictions have gradually been eased. This diagnosis is based, in particular, on the improvement perceived in recent months across a wide range of indicators, especially employment and survey indicators and various high-frequency indicators that provide key information on, for example, electricity demand, card payments and mobility (see Charts 10.2 to 10.4). In addition, drawing on information obtained essentially in the first half of

Chart 11

EMPLOYMENT HAS SHOWN CONSIDERABLE BUOYANCY IN RECENT MONTHS

Actual social security registrations in May were 4.4% down on their pre-pandemic levels, a clear improvement on the average 6.4% gap observed in 2021 Q1. By sector, although employment in the hospitality sector and arts and recreation services has improved in recent months, it is still very far from the levels recorded before the onset of the pandemic.

1 CHANGE IN TOTAL AND ACTUAL REGISTRATIONS VS FEBRUARY 2020
(AVERAGE MONTHLY AND SEASONALLY ADJUSTED DATA)2 CHANGE IN ACTUAL REGISTRATIONS BY SECTOR. MAY VS FEBRUARY 2020
(AVERAGE MONTHLY AND SEASONALLY ADJUSTED DATA)

SOURCE: Ministerio de Inclusión, Seguridad Social y Migraciones.

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



May, the Banco de España Business Activity Survey (EBAE) suggests that business turnover will perform well in Q2.⁷

The Banco de España's latest projections suggest that GDP could grow significantly in Q2.⁸ Indeed, under the baseline scenario, GDP would grow by 2.2% between April and June, primarily on account of domestic demand expansion. However, considering that the information available to date on economic activity in the quarter overall is limited, and in view of the difficulties observed since the onset of the pandemic for the short-term forecasting models to correctly translate the information available into output growth, this projection exercise also considers two alternative scenarios.⁹

7 See M. Izquierdo (2021), "Encuesta a las empresas españolas sobre la evolución de su actividad (EBAE): tercera edición", *Notas Económicas*, Banco de España.

8 See Box 1, "Macroeconomic projections for the Spanish economy (2021-2023)".

9 For an analysis of the importance of the cut-off date of projection exercises for the accuracy of GDP growth forecasts in the short term, see Box 5, "Accuracy of short-term economic projections during the pandemic: the importance of the cut-off date".

Chart 12

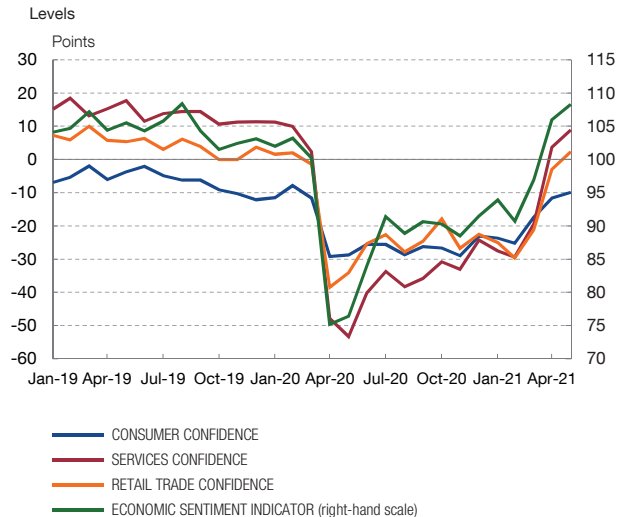
HOUSEHOLD CONSUMPTION APPEARS TO HAVE PICKED UP IN 2021 Q2

The gradual easing of the pandemic containment measures, the speeding up of the vaccination campaign and the improvement observed in the labour market appear to have recently contributed to greater buoyancy of private consumption. This may be inferred, for example, from the developments in payment card spending and consumer confidence in recent months. Nevertheless, despite the recovery of consumption, the household saving rate appears to have remained relatively high.

1 DOMESTIC CARD SPENDING



2 CONFIDENCE INDICATORS



SOURCES: Sistema de Tarjetas y Medios de Pago, European Commission and Banco de España.

Employment has shown considerable buoyancy during the second quarter

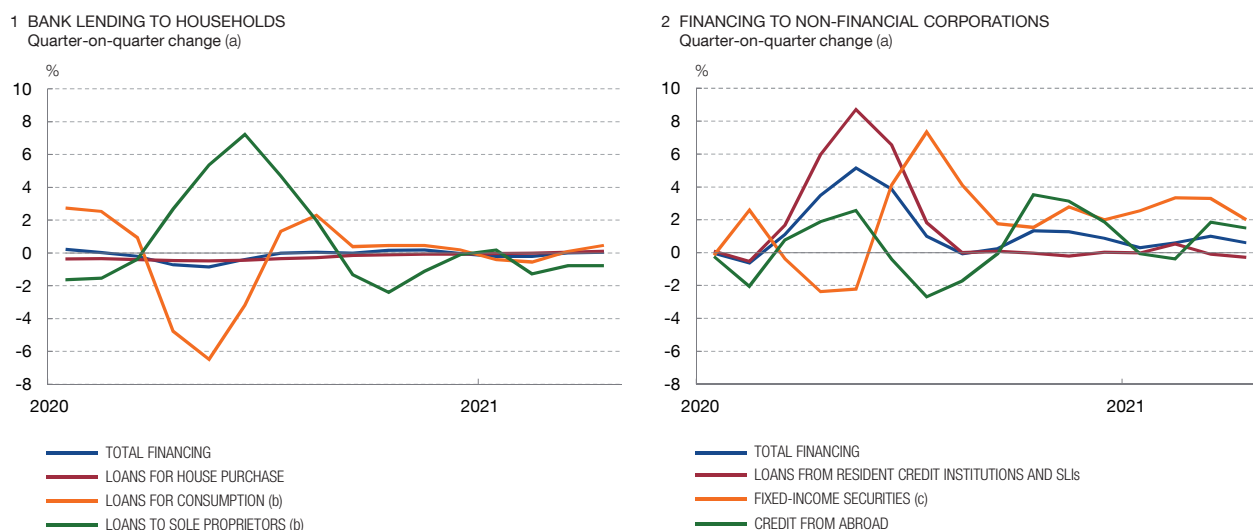
Following the decline observed at the start of the year, actual social security registrations have increased significantly in recent months. Specifically, in May, total social security registrations rose by almost 212,000 persons (a very similar increase to that of May 2019), and the number of workers on furlough fell again, to 573,500 on average for the month. Thus, actual social security registrations in May were 4.4% down on their pre-pandemic levels, a clear improvement on the average 6.4% gap observed in 2021 Q1 (see Chart 11.1). In any event, employment growth remains highly uneven across sectors, with some, such as the hospitality sector and arts and recreation services still far from the employment levels of February 2020, while others, such as the information and communication, education, healthcare and general government sectors, have already exceeded them (see Chart 11.2).

These developments in employment would be consistent with a rise in the hours worked in Q2, and with a fall in the unemployment rate. Specifically, the total number of hours worked, which declined by 2% in Q1, will foreseeably increase again in Q2, in line with the expected rebound in economic activity. According to the baseline scenario of the projections exercise, the rate of unemployment would decrease from 16% in Q1 to around 15.5% in Q2, in a setting in which the participation rate would also recover.

Chart 13

IN RECENT MONTHS, HOUSEHOLD LENDING HAS STOPPED CONTRACTING, WHILE FINANCING TO FIRMS HAS LOST MOMENTUM

In the case of households, the outstanding amounts of loans for house purchase and consumption has shown greater, albeit relatively contained, dynamism in recent months. By contrast, the rate of growth of corporate financing from banks and through the capital markets has moderated recently, while the outstanding amounts of loans to sole proprietors has continued to decline.



SOURCE: Banco de España.

- a Seasonally adjusted rates.
- b Excludes securitised lending.
- c Includes issues by resident subsidiaries of non-financial corporations.



The foreseeable growth of output in Q2 is expected to be driven by household consumption and investment

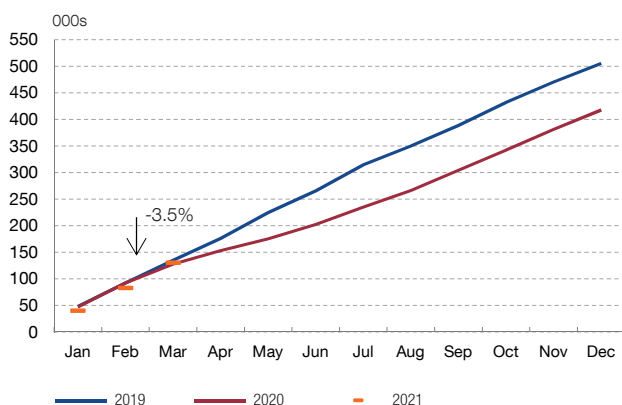
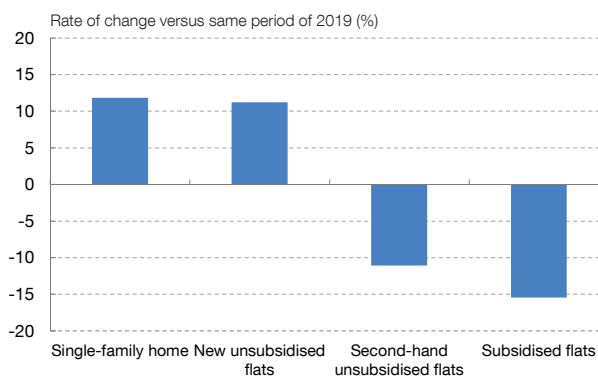
In recent months, the gradual easing of the pandemic containment measures, the speeding up of the vaccination campaign and the improvements observed in the labour market appear to have contributed to greater buoyancy of private consumption. This may be inferred, for example, from the recent developments in payment card spending, consumer confidence and consumer credit (see Charts 12 and 13.1). All of this would also be consistent with a fall in Q2 in the household saving rate, which nevertheless remains relatively high. In recent months, households appear to have continued accumulating liquid assets, such as cash and deposits, albeit at a slower pace than in previous quarters, thus increasing their wealth, which has also been boosted by the increase in the value of equities and, to a lesser extent, the growth in real estate wealth.

Housing investment is estimated to have risen slightly in Q2. In Q1, housing investment contracted by 2.9% on the previous quarter, partly as a result of the adverse effects that the extreme weather conditions affecting some regions during much of January had on construction activity and perhaps also on house purchases.

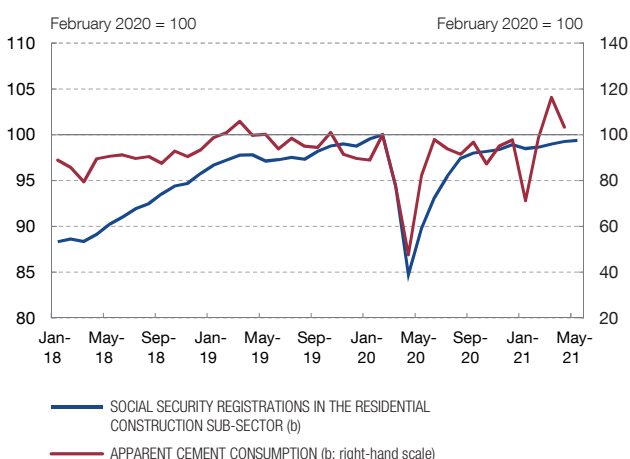
Chart 14

HOUSING INVESTMENT IS ESTIMATED TO HAVE RISEN SLIGHTLY IN Q2

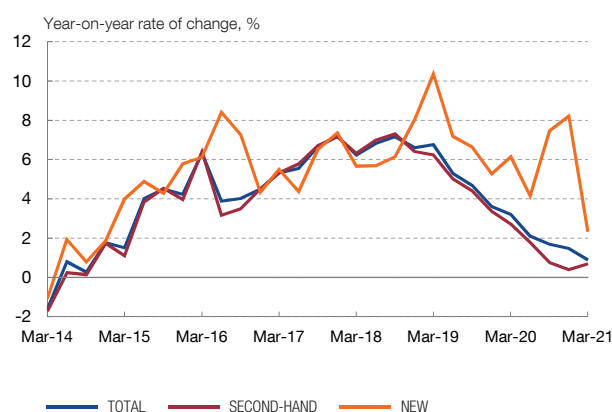
According to some indicators, such as the apparent consumption of cement and social security registrations in the residential construction sub-sector, housing investment seems to have recovered in recent months, after contracting in 2021 Q1, partly as a result of the adverse effects that the extreme weather conditions affecting some regions at the beginning of the year had on construction activity and perhaps also on house purchases. In any event, these developments would be consistent with the gradual deceleration in house prices observed since 2018 H2, especially for second-hand homes.

1 HOUSING, REGISTERED SALES:
CUMULATIVE IN THE YEAR (a)2 HOUSING, SALES THROUGH PUBLIC DEEDS:
2021 Q1

3 HOUSING INVESTMENT INDICATORS



4 HOUSE PRICE INDEX



SOURCES: Banco de España, Centro de Información Estadística del Notariado, INE and Ministerio de Trabajo y Economía Social.

a The percentage shown in the chart refers to the decline in housing sales in 2021 Q1 versus 2019 Q1.

b Series adjusted for seasonal and calendar affects.



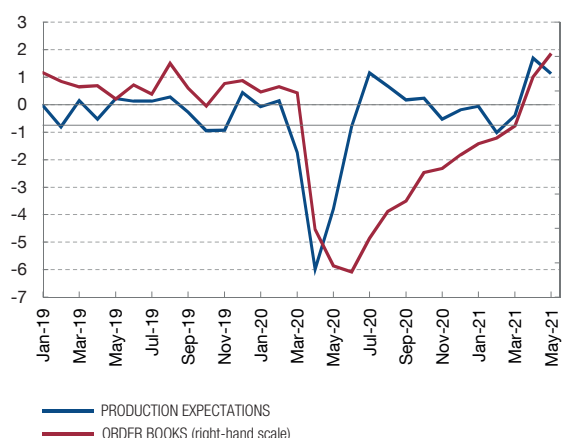
The volume of house purchases from January to March was 3.5% lower than in the same period of 2019, with notable heterogeneity across different types of housing (see Charts 14.1 and 14.2). The slowdown of housing investment appears to have been transitory, according to some recent indicators which approximate developments in residential construction (such as the apparent consumption of cement and social security registrations in the residential construction sub-sector), and this demand component seems to have recovered in recent months (see Chart 14.3). Moreover,

Chart 15

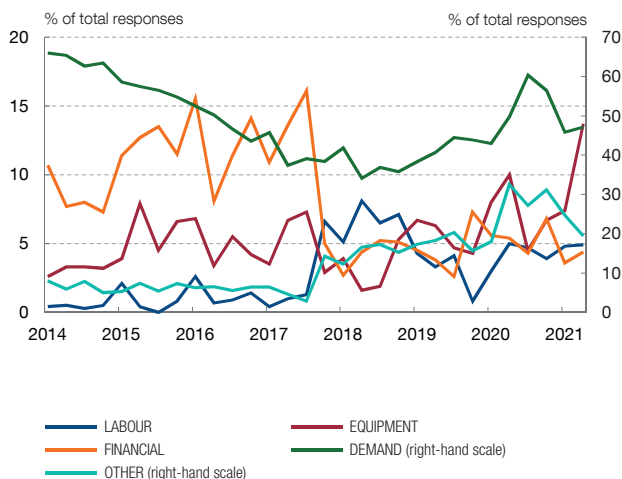
BUSINESS INVESTMENT IS EXPECTED TO CONTINUE TO GROW IN Q2

The confidence indicators that provide key information about developments in investment in capital goods and in intangible assets suggest that the demand component would grow between April and June. Thus, for example, the industrial production expectations stand at very high levels within the historical series, while in Q2 the industrial order book exceeds the values posted before the onset of the health crisis. The proportion of industrial firms that mention the lack of installed equipment as one of the factors limiting production has reached a record high in Q2.

1 INDUSTRIAL CONFIDENCE INDICATORS (a)



2 FACTORS LIMITING INDUSTRIAL ACTIVITY (b)



SOURCE: European Commission.

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

b The percentages of the responses stating the indicated factors, together with the response "none" (not shown in the chart), sum to 100%.



the outstanding amounts of loans for house purchase has shown greater dynamism in recent months, growing slightly in quarter-on-quarter terms (see Chart 13.1). The gradual deceleration in house prices observed since 2018 H2 continued and was particularly pronounced in second-hand homes. The year-on-year rate of the house price index published by the National Statistics Institute (INE) moderated to 0.9% in 2021 Q1, 0.6 pp down on the previous quarter (see Chart 14.4).

Business investment continued to grow in early Q2. Examples of indicators pointing in this direction are the composite activity PMI, which has been in expansionary territory since March, and the European Commission's confidence indicators, which have shown a strong recovery in recent months, both for industry and services. In addition, the industrial production expectations rebounded strongly to April, while in Q2 the indicator approximating the industrial order book has reached higher values than those posted before the onset of the health crisis (see Chart 15.1). All this in a setting in which the share of industrial firms that mention the lack of installed equipment as one of the factors limiting production has reached a record high in Q2 (see Chart 15.2).

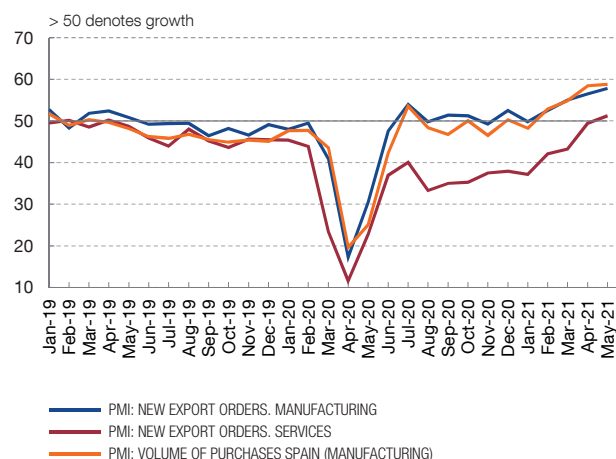
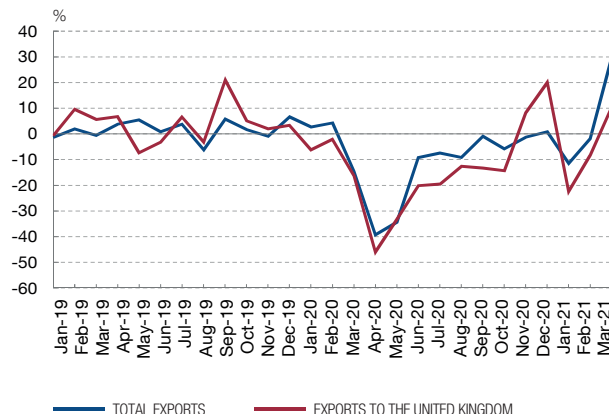
However, financing to firms and sole proprietors has recently lost some of its momentum, largely as a result of the high liquidity buffers they built up in 2020.

Chart 16

FOREIGN TRADE IS EXPECTED TO RECOVER

Manufacturing-sector survey indicators anticipate that foreign goods trade will be clearly favourable in Q2, while the available foreign tourism indicators remain far below their pre-pandemic levels. Meanwhile, Brexit does not seem to have so far had a significant impact on Spanish goods exports to the United Kingdom, besides some essentially temporary distortions in late 2020 and early 2021.

1 PURCHASING MANAGERS' INDICES

2 NOMINAL EXPORTS OF SPANISH GOODS
Year-on-year rates

SOURCES: IHS Markit and Departamento de Aduanas.

Thus, in April, the outstanding amounts of loans extended by resident financial institutions to firms contracted by 0.3% quarter-on-quarter, the rate of growth of corporate financing raised through the issuance of fixed-income securities slowed to 2% quarter-on-quarter and the outstanding balance of lending to sole proprietors declined further (see Chart 13). The corporate sector's debt ratio increased again in 2021 Q1, mainly owing to the fall in GDP, since the volume of corporate debt remained relatively stable. Moreover, the debt burden ratio in terms of GDP has also risen recently, albeit moderately, owing to the low costs of debt.

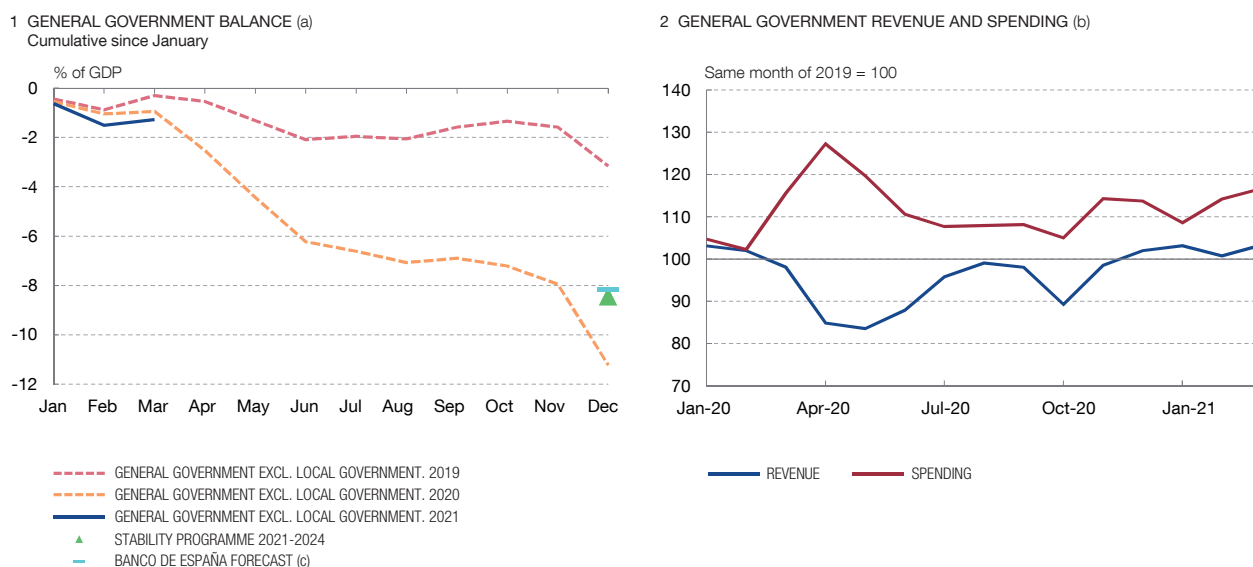
Foreign trade is expected to resume its recovery path in Q2, although how travel receipts will evolve continues to be subject to significant uncertainty

The performance of new export orders and inputs purchases in the manufacturing PMI suggests that goods exports and imports grew in April-June (see Chart 16.1). Nevertheless, the supply problems that have recently been observed for some inputs appear to have limited the recovery of these trade flows, especially in those industries that are more integrated into global value chains, such as the car industry. Meanwhile, on the information available to date, the Brexit-related distortions to Spanish goods exports to the United Kingdom in late 2020 and early 2021 appear to have been essentially temporary (see Chart 16.2).

Chart 17

IN 2021 Q1, THE GENERAL GOVERNMENT DEFICIT INCREASED ONCE MORE

In 2021 Q1, the budget deficit, excluding local government, rose to 1.3% of GDP, higher than the figures posted in the same period in 2020 and 2019. This was chiefly due to the increase in public spending, while general government revenue appears to have already returned to levels similar to those observed before the pandemic.



SOURCES: Banco de España, IGAE and Stability Programme 2021-2024 (April 2021).

- a** The 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** Baseline scenario of the macroeconomic projections for the Spanish economy published in June.
- c** Relating to the aggregate for general government, excluding local government and transfers within general government. Corrected for the temporary impact of the reversion of several motorway concessions to the State in January 2020 and the reclassification of Sareb under general government in December 2020.



The outlook for the summer tourism season continues to be surrounded by very high uncertainty. To April (the latest available figure), arrivals of foreign tourists and their spending in Spain remained very low, around 90% down on the levels observed in the same period in 2019. The potential strength of their recovery over the coming weeks and during the summer will hinge on the course of the pandemic, the restrictions on international travel imposed by Spain's main source markets (especially the United Kingdom) and the effective roll-out of the EU Digital COVID Certificate.

The Government published the Recovery, Transformation and Resilience Plan and the Stability Programme Update 2021-2024

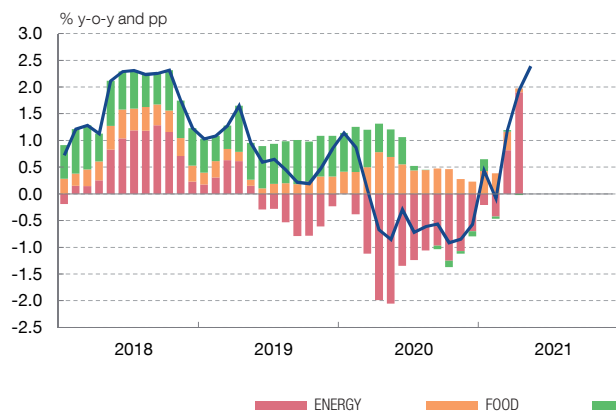
In 2021 Q1, the general government deficit increased once more. Specifically, excluding local government, the budget deficit rose to 1.3% of GDP, compared with 0.9% and 0.3% of GDP in the same period in 2020 and 2019, respectively (see Chart 17.1). This was chiefly due to the increase in public spending, while general government revenue, benefitting from the measures deployed to sustain household

Chart 18

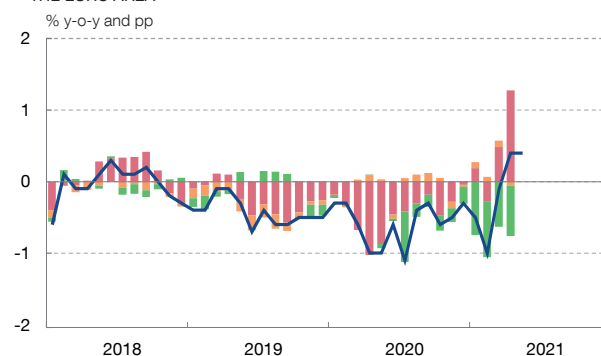
INCREASE IN INFLATION STEMMING MAINLY FROM RISING ENERGY PRICES

Headline inflation has continued to rise in Spain in recent months — somewhat more steeply than in the euro area as a whole — mainly on account of the acceleration of energy prices, in part owing to a significant base effect stemming from the decline in these prices in the spring of 2020. Meanwhile, tourism-related prices continued to show a much more moderate behaviour than usual.

1 INFLATION IN SPAIN: CHANGE AND CONTRIBUTIONS



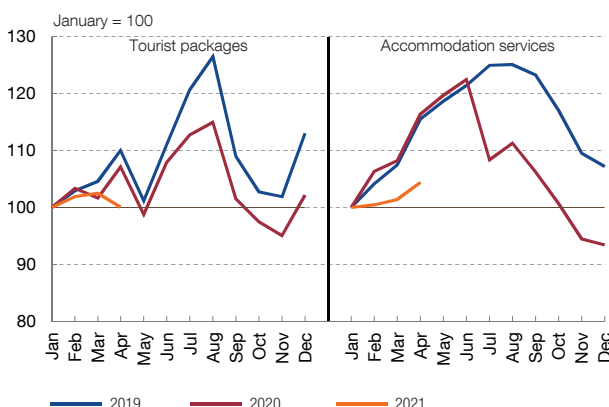
2 CONTRIBUTIONS TO THE INFLATION DIFFERENTIAL BETWEEN SPAIN AND THE EURO AREA



3 SPOT OIL PRICES AND FUTURES MARKET



4 HICP SERVICE PRICE INDICES



SOURCES: INE, Eurostat, Reuters and Banco de España.



income, appears to have already returned to levels similar to those observed before the pandemic (see Chart 17.2).

On 30 April, the Government submitted to the European authorities the Recovery, Transformation and Resilience Plan (RTRP) and the Stability Programme Update 2021-2024 (SPU). The Government estimates that the resources obtained in the form of grants through the Recovery and Resilience Facility (RRF) and REACT-EU will allow for additional investment of over 2 pp of GDP on average in the period 2021-2023. Nevertheless, there is a high level of uncertainty about the capacity to absorb these funds and the pace of their

absorption. Meanwhile, the SPU envisages that fiscal policy will be expansionary in 2021 and neutral in the period 2022-2024.¹⁰

In late May, the Government also approved a further extension to the employment protection measures for furloughed workers and the self-employed who have suspended their activity.¹¹ The extension was approved until end-September of this year and maintains similar conditions to those applicable since the measures were last renewed. However, it also includes incentives for the return of furloughed workers, comprising a waiver of between 85% and 95% of social security contributions in the sectors hardest hit by the pandemic.

Headline inflation has continued to rise in recent months owing mainly to energy prices, as there is still no discernible significant upward pressure on core inflation

In May, the year-on-year growth rate of the HICP rose to 2.4%, prolonging the pick-up observed in headline inflation since late 2020 (see Chart 18.1). This progressive increase in prices, which has been somewhat sharper than that observed in the euro area as a whole (see Chart 18.2), mainly reflects the increase in the growth rate of energy prices – electricity and also heating and vehicle fuel prices – in recent months. This acceleration is in turn largely attributable to the base effect associated with the sharp decline in these prices in 2020 following the outbreak of the pandemic (see Chart 18.3). Consequently, the impact of this component is likely to be temporary, with the result that headline inflation is expected to fall back below 2% after a few months.

In contrast, core inflation (HICP excluding energy and food) has remained at very low levels and is expected to increase only very gradually over the coming quarters. Specifically, core inflation fell to -0.3% in April owing to the deceleration of services prices, in a setting in which tourism-related items continued to lose pace and any possible Easter-related effect was obscured by the impact of the strict spring 2020 lockdown on this item. Nevertheless, core inflation is expected to quicken slightly in the second half of the year. Indeed, the trajectory of tourism and leisure-related prices (following the correction of the base effect stemming from the decline observed in this component in mid-2020) and the gradual recovery projected for activity in these sectors should contribute to this acceleration (see Chart 18.4).

Cut-off date: 8.6.2021.

Publication date: 14.6.2021.

10 According to the SPU, the budget deficit is expected to decrease by 2.6 pp to 8.4% of GDP in 2021 and to continue to decline gradually over the rest of the period considered, to stand at 3.2% of GDP in 2024. This reduction is expected to stem chiefly from the disappearance of the support measures introduced to tackle the COVID-19 crisis and from the cyclical recovery of GDP. In any event, according to this programme, the Spanish economy's structural budget deficit and public debt ratio will still stand at 4.2% and 112.1% of GDP in 2024, respectively, in both cases well above their pre-pandemic levels.

11 See Royal Decree-Law 11/2021 of 27 May 2021.

Chronology of published Analytical Articles corresponding to this Economic Bulletin.

THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2020

Laura Álvarez, Pana Alves, Esther López and César Martín

Published on 3 June 2021

In 2020, the Spanish economy recorded net lending of 1.1% of GDP, significantly below the previous year's level of 2.5%. This decline essentially reflects the impact of the health crisis on travel credits, which contracted sharply, owing to the restrictions on international mobility and on activity in accommodation and food and travel services to contain the pandemic. The widening of the secondary income deficit also contributed to the decline in net lending, albeit to a much lesser extent. These developments offset the improvement in the other components, which was particularly notable in the goods and primary income balances. Cross-border financial transactions were strongly influenced by the increase in the volume of Eurosystem asset purchases, as reflected by a large surplus on the financial account of resident sectors, excluding the Banco de España. By contrast, the financial transactions of the Banco de España with the rest of the world showed a large increase in its liabilities. Spain's negative net international investment position increased to 84.3% of GDP, essentially as a result of the sharp fall in GDP and the decline in the value of external financial assets owing to the appreciation of the euro. Finally, in terms of GDP, the nation's gross external debt stood at all-time highs (199.4%) owing to the contraction in economic activity and the assumption of new liabilities, in particular by the Banco de España, given the increase in its positions vis-à-vis the Eurosystem as a result of the implementation of the asset purchase programmes.

THE IMPACT OF THE COVID-19 HEALTH CRISIS ON THE HOUSING MARKET IN SPAIN

Pana Alves and Lucio San Juan

Published on 11 May 2021

The residential real estate market has been affected by the COVID-19 pandemic, which broke out at a time when the cycle of this market was in a mature phase. Activity fell off sharply in the early months of the health crisis, owing to the effect of

the restrictions adopted. It has since seen a slow recovery and remains highly influenced by epidemiological developments and the related impact on agents' economic outlook. The pandemic has triggered manifest changes in the type of housing in demand, attributable to households' new needs arising from the lockdown and increased remote working. As compared with other crises, prices are showing greater downward rigidity, particularly in the case of new housing, although the impact of the pandemic is proving highly uneven across regions. The pandemic-induced economic crisis has not driven up the cost of financing for house purchase which has continued to decline to record lows. Nevertheless, there are some signs of a tightening of credit standards and of some of the terms and conditions applied to loans.

FISCAL REBALANCING PLANS IN THE MEDIUM TERM: THE CASE OF THE UNITED KINGDOM

Júlia Brunet and Susana Párraga

Published on 6 May 2021

The extraordinary fiscal policy response to mitigate the strong economic impact of the COVID-19 pandemic has pushed public debt notably higher, exceeding its peak levels of the last five decades in the main advanced economies. Additionally, support for the economic recovery will foreseeably require maintaining a sizeable fiscal impulse in the short term. In this setting, announcing medium-term plans to rebalance public finances would be suitable, according to the studies available. These plans recoup the countercyclical room for manoeuvre of fiscal policy, as well as anchor economic agents' expectations and reduce the potential risks of high government indebtedness for future economic activity. This article describes the example of the United Kingdom, the first country to propose a gradual fiscal adjustment programme for the medium term, while maintaining public support for the economic recovery in the short term.

REPORT ON THE LATIN AMERICAN ECONOMY. FIRST HALF OF 2021. OUTLOOK, VULNERABILITIES AND POLICY SPACE

International Economics and Euro Area Department

Published on 28 April 2021

The economic recovery in Latin America continued into the first part of this year, but lost momentum owing to the adverse course of the pandemic. Against this macro-financial backdrop, the region's banking systems remain healthy, although some indicators, such as bank profitability, have started to feel the effects of the persistence of the crisis. The strength of the recovery will be chiefly determined by the course of

the pandemic, in particular by how fast the vaccine is rolled out and its effectiveness. It will also hinge on the momentum of foreign demand and commodity prices, the resolution of potential social tensions in the region, global financial conditions, the degree of support from economic policies, whose headroom has narrowed, and regional and global economic safety nets. Given the high level of uncertainty surrounding the economic outlook, the report presents alternative scenarios relating to a series of epidemiological, economic and financial variables. However, it should be noted that, broadly speaking, the region has fewer structural vulnerabilities now than in previous episodes of turmoil. In any event, the complex economic situation reinforces the need for institutional and economic reform agendas that address the region's structural problems.

INTERNATIONAL CAPITAL MARKETS DURING THE COVID-19 CRISIS

Laura Álvarez, Alberto Fuertes, Luis Molina and Emilio Muñoz de la Peña

Published on 21 April 2021

This article analyses the main trends in securities issuance activity on international markets in 2020, a year in which capital markets were very buoyant despite the COVID-19 crisis. In 2020, record figures were posted for issues on fixed-income markets globally, driven by the measures adopted by governments and central banks to smooth financing and foment market liquidity. In terms of sectors, issuance by the public sector and non-financial corporations increased, while there were declines in the banking sector. By region, increases in issuance volumes were across the board, with notably greater dynamism in the United States and the United Kingdom. Finally, as regards time horizon, there was a strong increase in the second quarter of the year, with record figures posted. This may have been due to the fact that many issuers attempted to bring forward their issues in that quarter given the enormous uncertainty over the course of the pandemic and future financing conditions. Equity market issues were also notably buoyant, with figures not recorded since 2009.

APRIL 2021 BANK LENDING SURVEY IN SPAIN

Álvaro Menéndez Pujadas and Maristela Mulino

Published on 20 April 2021

According to the Bank Lending Survey, during 2021 Q1 the loan supply contracted slightly once again in almost all segments both in Spain and in the euro area, which is linked to banks' heightened risk perceptions. Loan applications slipped across the board in the two areas. Banks consider that monetary policy measures generally continued to contribute to improving their financial situation and prompted an easing of the terms and conditions on new loans and an increase in lending volumes.

FURLOUGH SCHEMES IN THE COVID-19 CRISIS: AN INITIAL ANALYSIS OF FURLOUGHED EMPLOYEES RESUMING WORK

Mario Izquierdo, Sergio Puente and Ana Regil

Published on 30 March 2021

This article uses microdata from the Spanish Labour Force Survey (EPA) to conduct an initial analysis of the use of furlough schemes as a temporary employment adjustment mechanism in this crisis. The information drawn from the survey shows there has been an intensive use of furlough schemes since the COVID-19 crisis broke, with more than 20% of dependent employees furloughed in 2020 Q2. This is far higher than the incidence observed in previous recessions. Analysis of the employment transitions of furloughed workers shows that they were much more likely to resume employment in Q3 than workers who lost their jobs but were not furloughed. These schemes have, therefore, been highly effective in allowing workers to resume work once the lockdown measures adopted in spring 2020 were lifted. However, considering the furlough schemes that began in Q3 and those that were longer-lasting, there is less difference between furloughed and non-furloughed workers in terms of the probability of their resuming work. This essentially reflects the ongoing low level of activity associated with the continuation of the pandemic-related restrictions.

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2020 Q4. PRELIMINARY YEAR-END DATA

Álvaro Menéndez Pujadas and Maristela Mulino

Published on 26 March 2021

The COVID-19 crisis has significantly impacted firms' economic and financial performance. Thus, the Central Balance Sheet Data Office Quarterly Survey evidences that in 2020 the ordinary earnings and average profitability of the firms of this sample fell sharply. While profitability worsened across the board, in some sectors, such as industry, wholesale and retail trade and hospitality, and information and communication, the deterioration was particularly severe. Further, extraordinary earnings performed particularly negatively, resulting in a sharp drop in net profit. Financial positions have also been dented; the average debt and debt burden ratios both increased. In light of greater uncertainty, firms increased their liquidity buffers as a precautionary measure. The article contains a box that concludes that the increased financial pressure borne by some firms seems to bear a greater relation to the drop in ordinary earnings than to the rise in debt, which, overall, appears to have been moderate for the sample firms.

PERSONAL LOAN RATES AND HOUSEHOLD CHARACTERISTICS: SPAIN COMPARED WITH OTHER EURO AREA COUNTRIES

Cristina Barceló, Ernesto Villanueva and Elena Vozmediano

Published on 25 March 2021

Interest rates on new lending to households for purposes other than house purchase are generally higher in Spain than in other euro area countries. This may be because borrowers have different characteristics, or because Spanish households pay higher interest rates than similar households in other countries, owing to regulatory aspects, different competition levels or other factors.

Data from the Eurosystem's Household Finance and Consumption Survey, which compiles data on household wealth, debts and income in each euro area country, show that borrowers in Spain have fewer assets and are more likely to be unemployed than those in the other countries analysed. However, these differences between borrowers explain only a small part of the difference between Spanish personal loan rates and those applied in the other euro area countries. In consequence, most of the difference is due to the different way in which Spanish financial institutions assess household characteristics. One possible explanation for the higher interest rates in Spain is that, even when comparing employed persons with similar characteristics, Spanish households have a higher risk of job loss than German and French households and, for the same income level, greater income instability than German households. The survey data also show that Spanish indebted households that pay higher interest rates are also more likely subsequently to fall behind in their debt payments and to experience income declines. In Spain, therefore, high interest rates reflect this greater future income instability.

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.

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.

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 ⁹).
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.