

# 1

## RISKS LINKED TO THE MACROFINANCIAL ENVIRONMENT



## 1 RISKS LINKED TO THE MACROFINANCIAL ENVIRONMENT

As usual, this first chapter of the FSR analyses the macrofinancial environment of the Spanish economy in the recent period, highlighting the most significant risks. Emphasis is duly placed on the harsh impact the pandemic has had on activity and the restrictions introduced to contain it in Spain and in the countries with which Spain has the closest trading and financial links. The progressive lifting of these restrictions allowed for a significant pick-up in GDP, but the new wave of infections appears to have checked the path of recovery to some extent. The financial markets have recovered from their initial fall-off, with some disparity in the improvements seen by asset, country and sector. Turning to the real estate sector, there has been a notable slowdown in house prices, but to date with no across-the-board declines. The last section of this chapter highlights the increase in financial vulnerability for certain households and firms as a result of the crisis, and for the public sector, which has seen its debt climb significantly.

### 1.1 Macroeconomic environment

#### 1.1.1 Systemic and materially significant countries

**Developments in the international economy in the first half of 2020 were influenced by the spread of COVID-19 and by the implementation of the measures adopted to halt the pandemic.** The adverse impact on global economic activity was very marked in the first half of the year (see Chart 1.1), although something of a recovery ensued following the lifting of the strictest lockdown measures as from May. GDP estimates for Q2 showed historical declines in most countries. In the United States, GDP fell at a quarter-on-quarter rate of 7.1%, much less than the 19.8% collapse in the United Kingdom, and similar to the fall in Japan (-7.9%), which thus posted three consecutive quarters of declines. In China, the first economy to be affected by the pandemic, the figures for Q2 and Q3 denoted a substantial improvement in activity, with growth of 11.7% and 2.7% quarter-on-quarter, respectively, compared with the 10% contraction recorded in Q1. Most analysts' forecasts for the change in GDP this year are very negative, as they indicate that the main economies, with the exception of China, will have gone into recession in 2020 (see Chart 1.1). They foresee a partial recovery in activity in 2021.

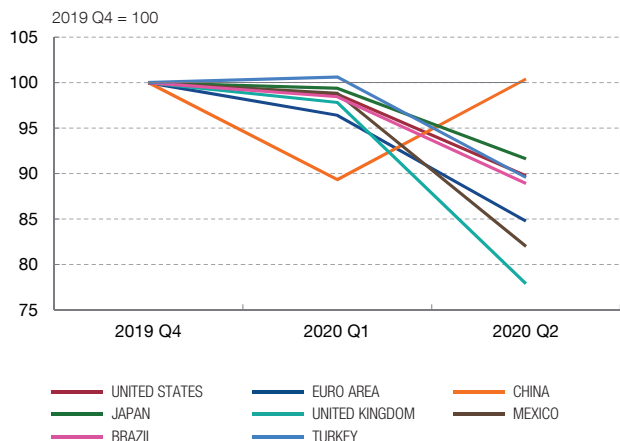
**The pick-up in global activity, following an initial phase of a certain degree of control of the pandemic and easing of the lockdown measures initially adopted, is proving very uneven across regions and sectors.** The pandemic has still not been fully contained worldwide, and the absence of a comprehensive medical

Chart 1.1

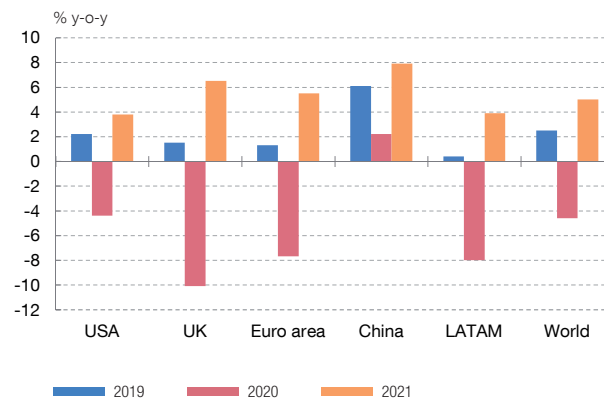
**THE HEALTH CRISIS AND THE STRINGENT LOCKDOWN MEASURES ADOPTED PROMPTED SHARP FALLS IN ACTIVITY WORLDWIDE IN THE FIRST HALF OF THE YEAR. SINCE JUNE, ACTIVITY HAS PICKED UP SOMEWHAT, BUT AGAINST A BACKDROP OF CONSIDERABLE UNCERTAINTY**

The pandemic continues to spread worldwide, although lockdown measures have been eased in most countries, prompting a pick-up in global economic activity. This recovery has been uneven by region and sector and influenced by the delicate balance between getting the economy moving again and controlling the pandemic. In any event, there has been a very severe negative impact on activity and the expectations as to the duration and intensity of the effects are still clouded with great uncertainty.

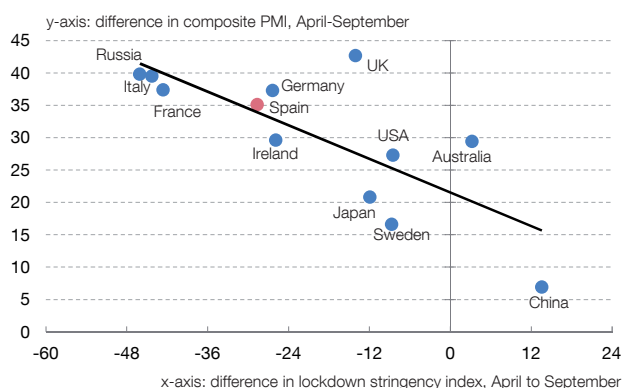
1 GDP: MAIN WORLD ECONOMIES



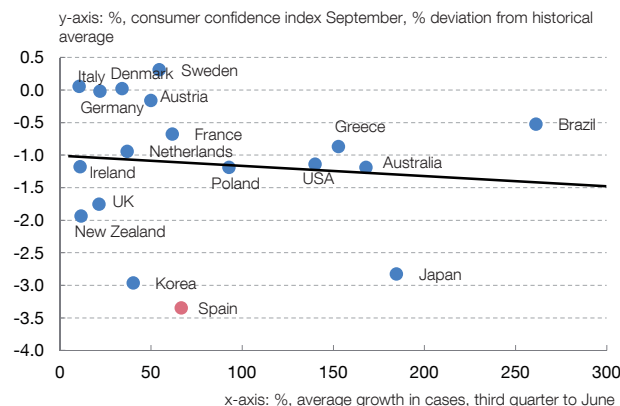
2 REAL GDP GROWTH FORECASTS. CONSENSUS SEPTEMBER 2020



3 LOCKDOWN STRINGENCY (a) AND ECONOMIC ACTIVITY



4 INFECTION AND CONSUMER CONFIDENCE



SOURCES: Consensus, national statistics, IHS Markit, OECD and Oxford COVID-19 Government Response Tracker.

a The lockdown stringency index measures the severity of the measures taken to contain the spread of the disease, taking values between 0 (zero measures) and 100 (total lockdown).

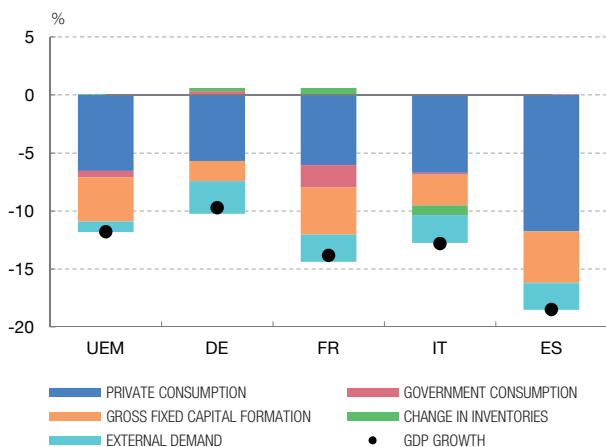
solution means that economic uncertainty is very high. The evidence available on global economic activity for Q3 shows a very limited recovery in consumption and investment. The easing of the restrictions on movement has prompted a rise in the demand for goods (see Chart 1.1), especially for durable goods such as vehicles and small electrical household appliances. However, in the case of services consumption, progress has remained more limited, given that certain social distancing measures have been maintained (see Chart 1.1). In this respect, the increase in infections in

Chart 1.2

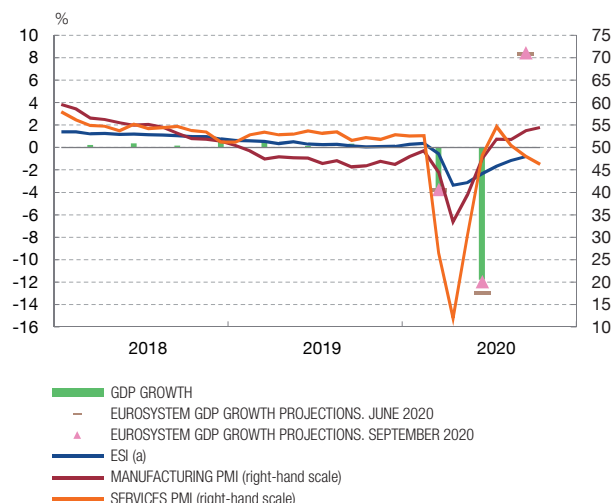
**ECONOMIC ACTIVITY IN THE EURO AREA HAS SUFFERED A HISTORICAL CONTRACTION OWING TO THE ONSET OF THE PANDEMIC**

Euro area GDP fell by 11.8% in 2020 Q2, with particularly sharp declines in Spain, France and Italy. By component, private consumption declined the most, mainly weighed down by the stringency of the containment measures and the deterioration of confidence owing to the health crisis. The latest information points to a partial recovery in 2020 Q3.

1 GDP AND CONTRIBUTIONS - 2020 Q2  
Quarter-on-quarter rate



2 GDP AND SURVEY INDICATORS  
Quarter-on-quarter rate (forecasts and ESI) and levels (PMI)



SOURCES: Eurostat, European Commission, Markit Economics and ECB.

a Economic Sentiment Indicator of the European Commission. Normalised series.

some countries since July has checked the recovery of the purchasing managers' indices, especially in the services sector, after they had returned to close to their pre-pandemic levels.

**Euro area GDP contracted by 11.8% in Q2, whereas a substantial increase – albeit subject to high uncertainty – is expected in Q3.** The decline in output in Q2 was uneven across countries, varying as a function of the stringency of the lockdown measures and the dynamics of the spread of the virus. In terms of components, the contraction in private consumption and gross fixed capital formation was compounded by the negative contribution of the external sector, with exports falling strongly (see Chart 1.2). Activity rebounded robustly early in Q3, although it slowed somewhat in August against the backdrop of an increase in infections (see Chart 1.2) and an appreciating exchange rate, in conjunction with the possibility of a no-deal Brexit. Nonetheless, the monetary, fiscal and labour market policy measures adopted will foreseeably continue to support agents' incomes. As a result, the Eurosystem's September forecasting exercise points to a decline in GDP of 8% in 2020, with a recovery as from Q3, and an increase of 5% in 2021.

**The risks facing the global and European economies are essentially associated with the uncertainty over how the pandemic will unfold.** The longer this situation

lasts, the more persistent the effects on firms' investment and hiring decisions and on consumer spending decisions will be. Conversely, the recession might be less severe if economic normalisation comes about more quickly than expected. The development of a safe and effective vaccine might likewise boost confidence and growth in 2021. But certain geopolitical risks have re-emerged: some are more specific to Europe, such as the lack of agreement on the new UK-EU economic relationship (or even that there may be a breach of part of the Brexit withdrawal agreement), and others more global, such as the political uncertainty over the US presidential elections or the increase in US-China trade tensions. Lastly, high public and private debt, in a low-growth environment, may fuel financial difficulties and bear down on the prospects of recovery in the world economy.

**The main emerging market economies with a significant Spanish banking presence<sup>1</sup> also witnessed an unprecedented collapse in their GDP in Q2** (see Chart 1.1). In Mexico, GDP fell by 17.1% in Q2, with an especially marked decline in the manufacturing sector, although since June it has posted a stronger recovery. The economic policy response to the crisis has been more muted in Mexico than in other emerging market economies.<sup>2</sup> The Mexican central bank is the only one in Latin America that has not cut its official interest rate to a record low and maintains it above zero in real terms. In addition, the high debt of PEMEX, the State oil company, could have a negative impact on the sovereign risk outlook.<sup>3</sup> In Brazil, GDP fell at a quarter-on-quarter rate of 9.7%, compared with -16% on average for the other five biggest Latin American economies. This better relative performance would be due, on one hand, to the short-term economic benefits of less severe containment measures being imposed, with the ensuing social cost; and, on the other, to the notable monetary and fiscal stimuli, on a similar scale to those of the developed countries. In Turkey, GDP fell by 11% quarter-on-quarter in Q2, although the decline in activity was partly cushioned by the stimulus measures for credit to the private sector adopted before and during the pandemic, which gave rise to very high growth rates in credit to the private sector (30% in real terms in lending to households). This has exacerbated the imbalances of the Turkish economy even further. For its part, since August, the Turkish central bank has begun to reverse its expansionary monetary policy (see Chart 1.3), without having managed until now to significantly reduce inflation or mitigate depreciation pressures on the Turkish lira.

**The financial variables in the emerging market economies have continued along the recovery path that emerged after the initial shock of the pandemic.**

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1 Each year the Banco de España identifies the countries that are most significant for Spain from the financial stability standpoint, according to the proportion of the Spanish banking system's international exposures. This exercise is conducted in accordance with the recommendations of the European Systemic Risk Board (ESRB). In 2020, six emerging market countries have been identified in this category: Mexico, Brazil, Turkey, Chile, Peru and Colombia.

2 See the IMF's "[Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#)".

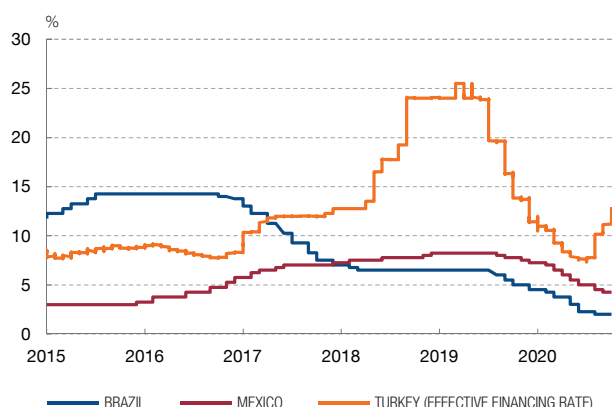
3 In their recent credit rating downgrades, Fitch Ratings and Moody's point to this factor as the possible catalyst for a further downgrade.

Chart 1.3

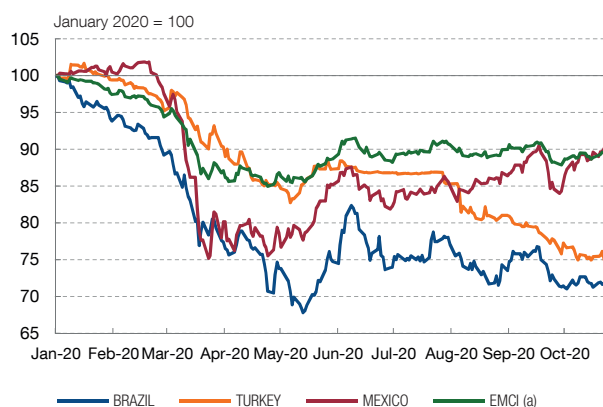
**THE CENTRAL BANKS OF THE EMERGING MARKET ECONOMIES FURTHER EASED THEIR ECONOMIC POLICY, ALTHOUGH THIS DID NOT PREVENT A WIDESPREAD STABILISATION OF THEIR CURRENCIES**

The central banks of Brazil and Mexico continued to reduce their official interest rates, in the case of Brazil to a record low, against a backdrop of a strong fall in activity and absence of inflationary pressures. In September, Turkey's central bank raised the effective interest rate at which it provides liquidity to contend with the downward pressures on the Turkish lira, since the net international reserves continued to decline, moving to negative territory, with the Turkish lira depreciating further over the summer and autumn. Exchange rates of other emerging economies appreciated, although without recovering their pre-pandemic levels.

1 OFFICIAL INTEREST RATES



2 EXCHANGE RATES AGAINST THE DOLLAR



SOURCE: Reuters.

a Aggregate index of exchange rates of emerging market economies vis-à-vis the dollar. A fall indicates depreciation.

The battery of measures adopted by the fiscal, macroprudential and monetary authorities of the emerging market economies has contributed to this. These measures include cuts in official interest rates, in some cases to record lows (see Chart 1.3), the launch in some countries of programmes for purchase both of public and private debt securities in secondary markets,<sup>4</sup> and credit support programmes. Naturally, the measures implemented in the advanced economies are also affecting the emerging market economies. Thus, in September, the stock market indices were at levels similar to those observed before the onset of the pandemic, while exchange rates, with the exception of Turkey (see Chart 1.3), and sovereign spreads have recovered some of the ground lost between end-February and end-March. In addition, the high portfolio capital outflows recorded in March were offset in part in the following months by capital inflows, with a larger share of debt securities than equities. Lastly, issues of debt securities in the international markets and, in particular, sovereign issues recovered momentum as from April, posting record highs in cumulative terms.

4 See Box “Asset purchase programmes of Latin American central banks” in “Report on the Latin American Economy. Second Half of 2020”, Analytical Articles, Economic Bulletin 4/2020, Banco de España.

## 1.1.2 Spain

**Spanish GDP will record its largest fall in recent history in 2020.** The slump in activity, concentrated in the first half of the year, is a direct consequence of the pandemic and of the measures taken to halt its spread. Specifically, GDP fell in quarter-on-quarter terms by 5.2% in Q1 and by 17.8% in Q2 (see Chart 1.4). In the components of domestic demand, the decline was very pronounced. Consumption and private investment were dragged down by spending decisions being deferred as a result of the lockdown measures and the increased uncertainty about the economic outlook for households and firms. Net external demand also made a negative contribution, albeit to a lesser extent, since the sharp decrease in exports was largely offset by the fall in imports. In particular, tourism flows collapsed as the spread of the pandemic led to borders being closed and restrictions being placed on international movements.

**Activity has fallen more in Spain than in other European countries.** In addition to the greater relative stringency of the lockdown measures, the reasons for this include: the larger relative importance in Spain of retail, accommodation and food service activities and other sectors linked to tourism and recreation (the sectors hit hardest by the health crisis), a productive structure that is dominated by small firms, and a higher level of temporary employment (see Chart 1.4).

**Activity picked up in Q3, but without returning to its pre-crisis level.** The improvement in activity in Q3 lost momentum, in any event, towards the end of the quarter, as a consequence of the course taken by the pandemic. The information available shows that activity began to pick up as the lockdown easing began at the end of Q2 and that it continued to improve gradually. However, according to most of the available indicators, the recovery appears to have lost momentum since the end of July, especially in tourism and leisure activities. According to the Banco de España's latest projections, GDP will climb by between 13% and 16.6% in quarter-on-quarter terms in Q3, under the two scenarios envisaged.<sup>5</sup> But the levels of activity reached would still be some 10% lower than those recorded in the same period a year earlier.

**At end-2022 activity is still expected to be below its pre-crisis level.** The Banco de España's projection scenarios assume that as from the second half of 2021, a safe and effective remedy will have been made available for widespread distribution to the population. Under this assumption, it would no longer be necessary to maintain

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<sup>5</sup> The reason for this GDP growth range is the uncertainty, at the time of preparation of the projections, about the impact of fresh outbreaks of the disease on activity in the part of the quarter already elapsed and about the course of the disease and the stringency of the measures required to contain it in the remainder of the quarter. Hence two alternative scenarios were drawn up for Q3, each of which represents a different starting point for the rest of the projection period. For more details, see Box 1 of the [Quarterly Report on the Spanish Economy](#), Economic Bulletin 3/2020, Banco de España.

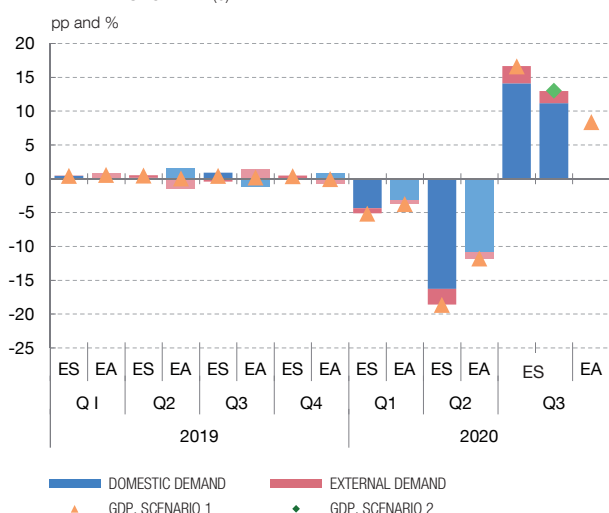


Chart 1.4

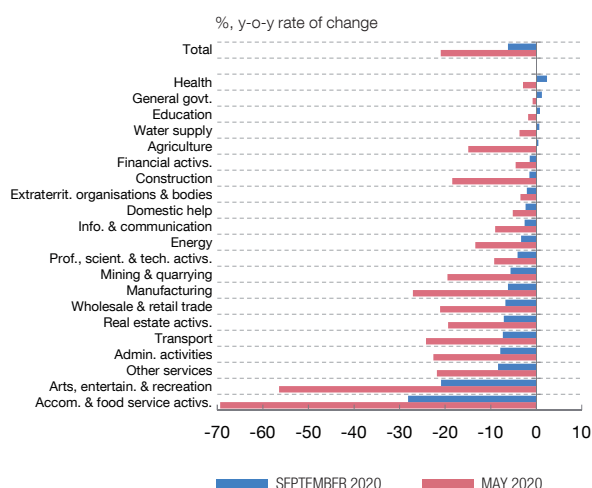
**THE SPANISH ECONOMY WILL ALSO SEE A SHARP CONTRACTION IN 2020, CONCENTRATED ON H1, OWING TO THE EFFECTS OF THE LOCKDOWN MEASURES AND THE DETERIORATION IN AGENTS' CONFIDENCE (a)**

The health crisis is having a greater economic impact in Spain than in other countries. This is due, among other factors, to the nature of the Spanish productive system which has a higher share of the sectors that have been hit hardest by the measures taken to contain the pandemic. The pick-up in activity that began towards the end of Q2 has slowed in recent weeks, in the light of fresh outbreaks of the disease and increased uncertainty about the economic outlook for households and firms. A return to pre-pandemic activity levels is not expected before 2023. The risks are on the downside, in view of the possibility of the pandemic taking an adverse course and of the negative effects of the crisis being more persistent.

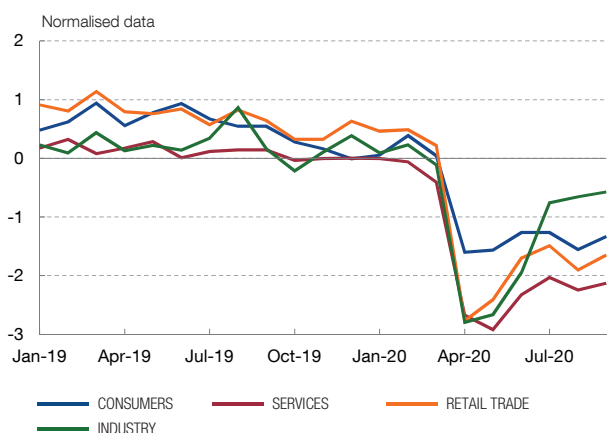
1 CONTRIBUTIONS TO QUARTERLY GROWTH OF REAL GDP IN SPAIN AND IN THE EURO AREA (b)



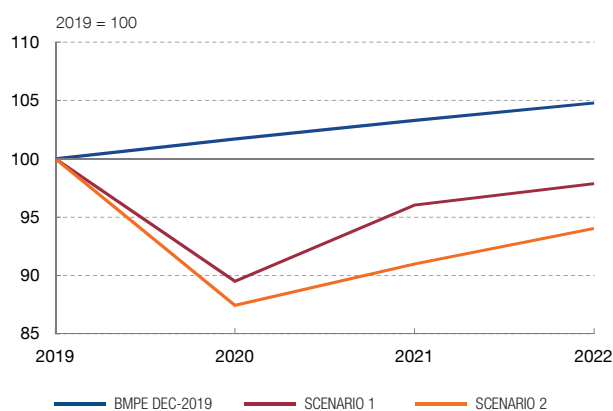
2 ACTUAL SOCIAL SECURITY REGISTRATIONS BY SECTOR (c)



3 CONFIDENCE INDICATORS (d)



4 ANNUAL GDP LEVELS



**SOURCES:** Banco de España, European Commission, INE and Ministerio de Inclusión, Seguridad Social y Migraciones.

- a Two GDP growth scenarios are simulated up to 2022, according to the intensity of the outbreaks of the disease and the potential measures rolled out to contain it. Scenario 1 incorporates a series of assumptions on the course of the pandemic similar to those envisaged in the gradual recovery scenario in the June projections. In particular, it is assumed that any outbreaks will require only limited lockdown measures in terms of their geographical and sectoral scope. Scenario 2 envisages more serious outbreaks that will require more stringent measures, but not to the extent of those taken during the state of alert. In consequence, the impact on the economy is more pronounced and more protracted than in scenario 1. For more details, see [Box 1 of the Quarterly Report on the Spanish Economy](#), Economic Bulletin 3/2020, Banco de España.
- b For 2020 Q3, Banco de España projections for the Spanish economy and ECB projections for the euro area.
- c Actual Social Security registrations are defined as total registrations less the number of workers subject to short-time work arrangements.
- d Series obtained by subtracting the average and dividing by the standard deviation. Latest observation September 2020.

any kind of restrictions on mobility or activity. However, the damage to employment and the productive system is expected to be more persistent, impeding a rapid and comprehensive recovery in activity (see Chart 1.4).

**The downside risks to the above-mentioned macroeconomic scenarios look more likely than the upside risks.** As in the rest of the world, the downside risks relate primarily to the course taken by the pandemic. If infection rates rise, with the ensuing restrictions on activity, or the pandemic becomes protracted, the effects on the productive capacity of the economy could be much longer lasting. The destruction of firms and jobs could lead to a loss of both physical and human capital, which would ultimately impact potential growth. By contrast, the scenarios used do not factor in the positive effects of the future implementation of the new temporary pan-European recovery package (NGEU) approved in the summer by the European Council. This is a temporary instrument that will be funded by the European Commission through debt issuance in an amount of up to €750 billion, of which more than €300 billion will be provided to Member States in the form of grants, distributed according to the severity of the impact of the pandemic on the activity of each Member State.<sup>6</sup>

## 1.2 Financial markets and the real estate sector

### 1.2.1 Financial markets

**The economic policies adopted and lower investor risk aversion have prompted a recovery in the price of risk assets in the international financial markets in recent months, reversing, to some extent, the decreases observed since the onset of the health crisis.** Thus, the main stock market indices have risen and credit risk premia have fallen (see Chart 1.5). This more optimistic market sentiment has also been reflected in lower asset price volatility, although it has recently risen again in some markets, such as the foreign exchange market, and higher-rated long-term sovereign yields have increased (see Chart 1.5). That said, these yields are low and below the pre-pandemic levels, especially in the United States, in keeping with the expectations that monetary policy will remain accommodative for some time, expectations which have been revised to a greater extent for the US economy. In recent months, this has led to dollar depreciation against the currencies of the other developed economies (see Chart 1.6).

**The stock market recovery has been uneven across geographical areas, as a consequence of the differences in the macroeconomic impact of the health**

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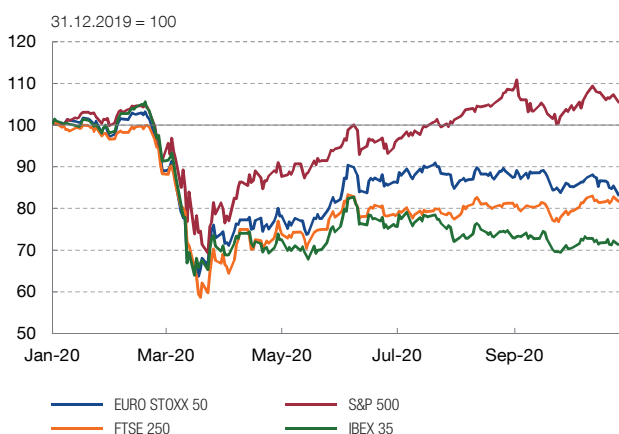
<sup>6</sup> The lack of specifics of the programme advised its non-inclusion in the projection scenarios. Box 9, *The macroeconomic impact of the Next Generation EU programme under various alternative scenarios*, in the Quarterly Report on the Spanish Economy, Economic Bulletin 3/2020, Banco de España, presents a series of simulations on the effects of the programme on the Spanish economy.

Chart 1.5

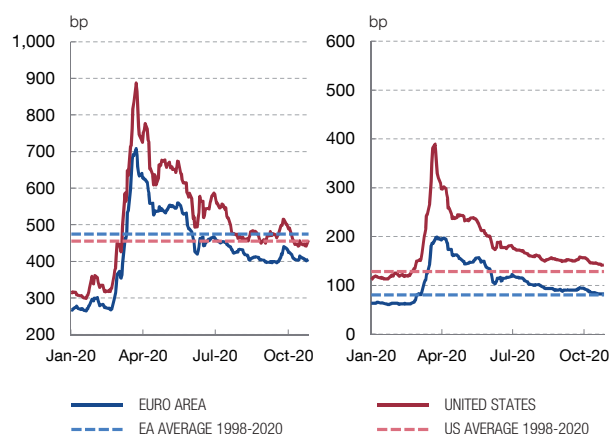
**FINANCIAL ASSET PRICES HAVE TENDED TO RECOVER IN RECENT MONTHS, AFTER THE SHARP INITIAL CORRECTION FOLLOWING THE OUTBREAK OF THE HEALTH CRISIS**

In recent months, stock market indices have risen, albeit with differences across geographies, and credit spreads and price volatilities have fallen, while higher-rated long-term sovereign yields have remained at low levels, although somewhat above the lows observed at times of maximum risk aversion.

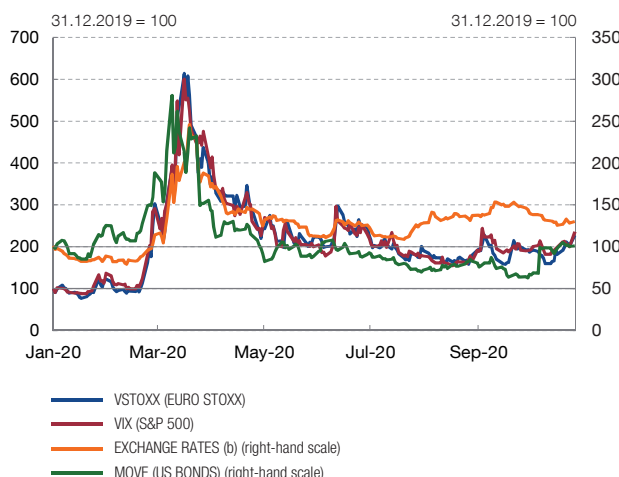
1 STOCK MARKET INDICES



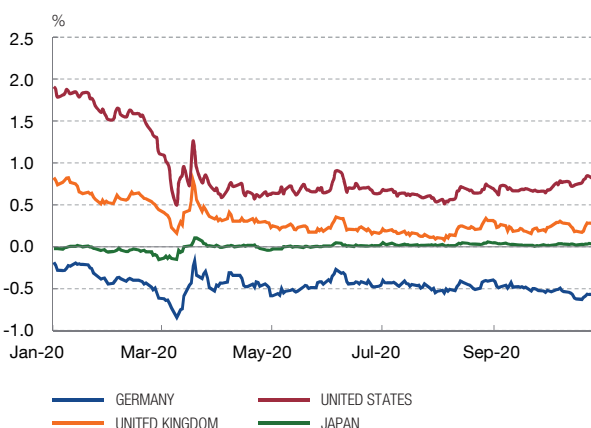
2 CORPORATE BOND YIELD SPREADS RELATIVE TO SWAP CURVE (a)  
HIGH YIELD (left) AND INVESTMENT GRADE (right)



3 VOLATILITIES



4 10-YEAR BOND YIELDS



SOURCE: Thomson Reuters Datastream.

a High yield: ICE Bank of America Merrill Lynch High Yield Index. Investment grade: ICE Bank of America Merrill Lynch Corporate Index.  
b Average of 3-month volatilities for USD/EUR, USD/GBP and JPY/USD.

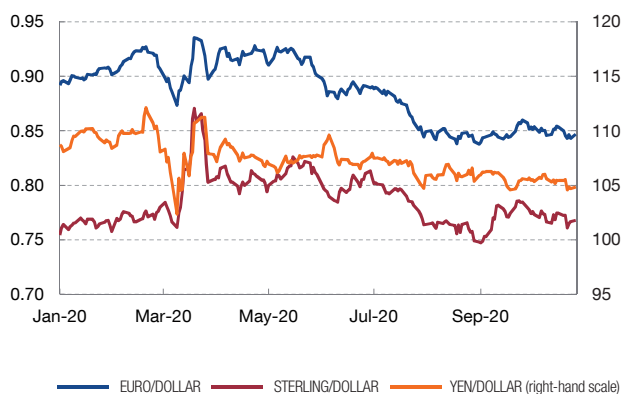
**crisis and the sectoral composition of stock markets.** In the United States, stock market indices have risen very sharply: the S&P 500 reached all-time highs over the summer and at the cut-off date for this report was slightly above the highs recorded in February. This performance has been led by the technology stocks, which account for a high share of the US stock market indices and whose profitability outlook has been comparatively less affected by the crisis. In the euro area, the EURO STOXX 50 posted a robust recovery up to early June but has since come to a halt, partly

Chart 1.6

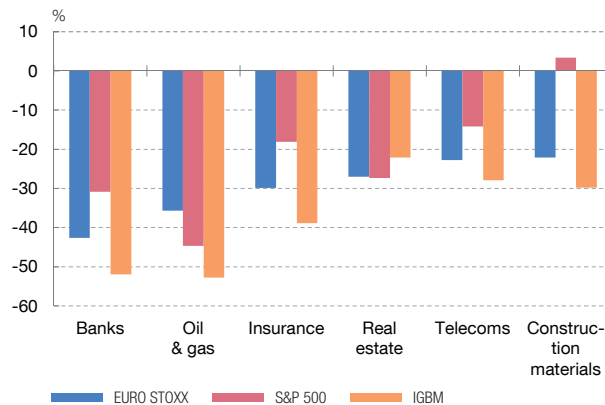
**AGAINST THE BACKDROP OF US DOLLAR DEPRECIATION, AN UNEVEN SHARE PRICE RECOVERY BY SECTOR AND GEOGRAPHY HAS BEEN OBSERVED, WHILE SOVEREIGN RISK PREMIA DECLINED IN THE EURO AREA**

US dollar depreciation against the other currencies is associated with the Federal Reserve’s more accommodative monetary policy. The stock market recovery has been uneven by sector and geography; the banking sector in particular has posted a negative performance. US stock prices are high compared with listed company earnings, which is not the case in the euro area and Spanish stock markets. Sovereign risk premia in the euro area have declined, assisted by the ECB’s asset purchase programme and the agreement adopted on the European fund to tackle the crisis caused by the pandemic.

1 BILATERAL EXCHANGE RATES AGAINST THE DOLLAR



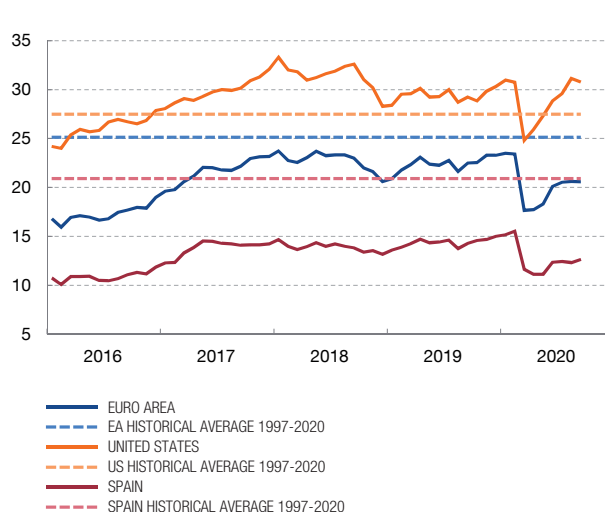
2 EURO STOXX SECTORS WITH MOST LOSSES AND EQUIVALENT FOR S&P 500 AND IGBM (FROM 21.2.2020 TO 26.10.2020)



3 10-YEAR YIELD SPREAD OVER GERMAN BENCHMARK



4 CYCLICALLY-ADJUSTED P/E (a)



SOURCES: Robert J. Shiller and Thomson Reuters Datastream.

a Cyclically-adjusted P/E is calculated as the share price to the 10-year moving average of earnings.

influenced by the worsening of the health crisis in some countries. At the cut-off date for this report, it stood 19.6% below the highs recorded in February (see Chart 1.5). By country, the stock market recovery appears to show a clear connection with the incidence of the pandemic on the respective economies.

**The recovery in the stock markets has also been very uneven across sectors, with bank share prices still very much below their pre-crisis levels. Market**

concern for the quality of banks' credit portfolios going forward, the pressure on their net interest income and the modest profitability outlook in the medium term all explain why bank share prices are recovering more slowly. At the cut-off date for this report, banking sector indices were down by more than 30% in the United States and 40% in the euro area, compared with February (see Chart 1.6). The fall is even more pronounced – above 50% – in the case of the Spanish stock market.

**The decline in corporate credit risk premia has been most acute among high-yield bonds, whose premia rose the most when the crisis hit.** Specifically, investment-grade bond premia have fallen compared with their highs in March, by 247 bp in the United States and by 117 bp in the euro area, while those of high-yield bonds, with a lower credit rating, have fallen by 429 bp and 303 bp, respectively. Central banks' asset purchase programmes have been pivotal in this development, along with improved market sentiment. These premia are still above the levels observed prior to the climbs recorded in late February and early March, although in the high-yield segment they are close to or below their historical average (see Chart 1.5).

**This improvement in financing conditions in corporate debt markets has been accompanied by an increase in funds raised; part of firms' high liquidity needs have been met in this way.** The volume of investment-grade corporate bond issuance in the year to September is significantly higher than that of the same period in previous years, in the United States and, to a lesser extent, in the euro area. The issuance volume in the United States is also higher than in previous years in the high-yield segment, by contrast to the case of the euro area. One possible reason for the greater dynamism in the US high-yield market could be that these securities are included in the central bank's asset purchase programme,<sup>7</sup> which is not the case in the euro area.

**The number of corporate bond downgrades has fallen significantly in recent months.** In cumulative terms since the start of the crisis, the number of downgrades globally and in the euro area is 28% and 34.7% lower, respectively, than that observed in a period of the same length following the collapse of Lehman Brothers in September 2008. Moreover, in this case to date, downgrades from investment grade to high yield account for 4.6% globally and 5.3% in the euro area, figures which are lower than those observed following the collapse of Lehman Brothers (7.2% and 6.9%, respectively). In any event, further deterioration in the macroeconomic outlook could translate into renewed downgrades. In addition, the credit ratings of a large proportion of issues at the low end of investment grade have negative outlook.

**Long-term yield spreads in the euro area sovereign debt markets have also narrowed, assisted by the ECB's asset purchase programme and by the European Union's decision to mobilise €750 billion to ease the economic**

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<sup>7</sup> The Federal Reserve does not purchase these securities directly, but through ETFs.

**damage caused by the pandemic.** These spreads narrowed further following the ECB's announcement on 4 June that it was to extend the Pandemic Emergency Purchase Programme (PEPP) by €600 billion, and also following the European Council's agreement to create the NGEU Fund referred to above.<sup>8</sup> At the cut-off date for this report, 10-year yield spreads over the German benchmark were still somewhat wider (some 10 bp wider in the case of Spanish yields) than those recorded before the increase in late February and early March (see Chart 1.6).

**The rapid rise in the prices of risk assets in some segments, against a backdrop marked by persistent high uncertainty about the economic effects of the pandemic, has generated doubts as to their sustainability.** The signs of high valuations are not widespread, and are most evident in certain markets, such as corporate high-yield, where yield spreads are close to or even below their historical average (see Chart 1.5) or in the US stock markets where the price-to-earnings ratio (P/E), in cyclically-adjusted terms,<sup>9</sup> is somewhat above its historical average. By contrast, in the euro area and in Spain share prices do not seem high in comparison with listed company profits, in cyclically-adjusted terms (see Chart 1.6).

**Any deterioration in the favourable expectations that seem to underlie the current price of certain assets, materialisation of any of the risks described in the previous section or large-scale corporate bond downgrades could prompt a correction in some asset valuations.** In the case of credit rating downgrades, the effect would be especially acute if they represent a shift from investment grade to high yield. This is because some regulations and the investment mandates of some investors, including some central banks such as the ECB, require that investments be made exclusively in high-rated assets. Accordingly, any assets that lose their investment-grade status must be disposed of. As a result, the value of these securities could suddenly fall, which would have an adverse impact on financial stability through various channels. First, it would entail a tightening of financing conditions for the different agents, hampering their ability to repay their debts, on account of both the direct and indirect impact of the consequent macroeconomic deterioration. Second, financial intermediaries would suffer losses on their portfolios that included assets affected by the fall in value.

## 1.2.2 The real estate market in Spain

**Housing demand is recovering slowly, after collapsing in the early months of the health crisis.** Thus, as Chart 1.7 shows, registered housing sales fell by more

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<sup>8</sup> For more details, see Box 5, "Next Generation EU: Main characteristics and impact of its announcement on financial conditions", in the Quarterly Report on the Spanish Economy, Economic Bulletin 3/2020, Banco de España.

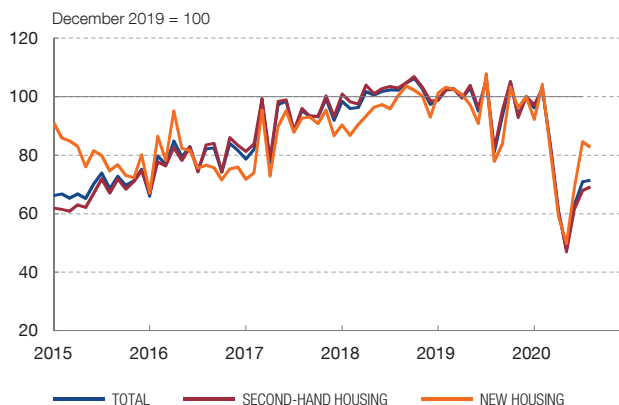
<sup>9</sup> Cyclically-adjusted P/E is calculated as the share price to the 10-year moving average of corporate earnings.

Chart 1.7

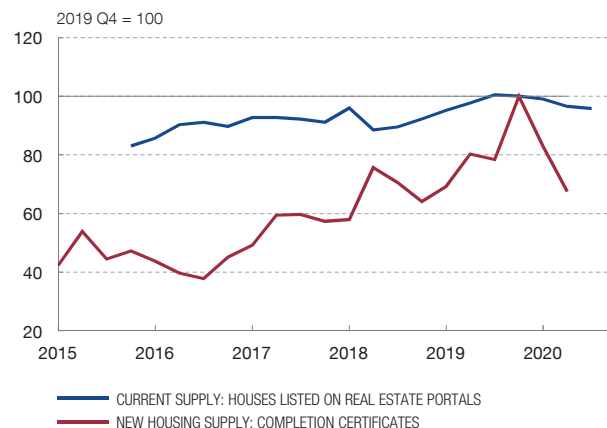
**HOUSING MARKET SALES RECOVERED PARTIALLY FOLLOWING THE INITIAL IMPACT OF THE HEALTH CRISIS, WHICH INTENSIFIED THE SLOWDOWN IN PRICES IN THIS SECTOR (a)**

Demand is showing more relative weakness than supply, against a backdrop of high uncertainty regarding how the pandemic unfolds and its potential impact on households' labour and financial situation. In this setting, the slowdown in the growth of housing prices already observed in 2019 has intensified.

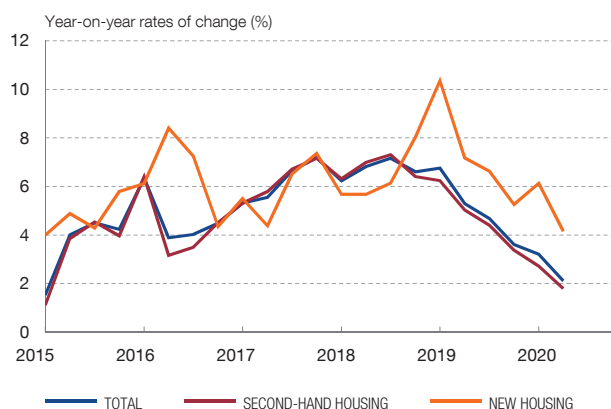
1 HOUSING SALES (b)



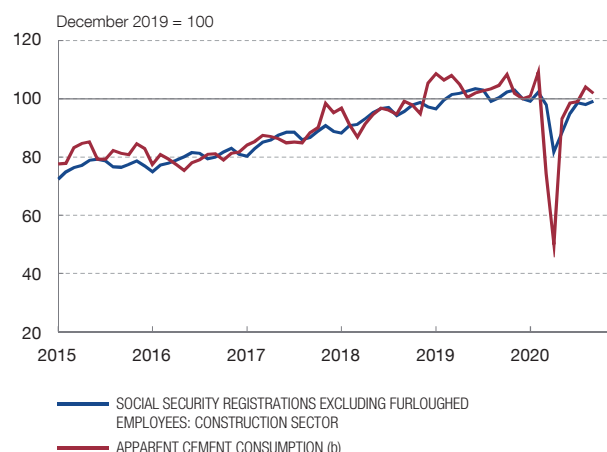
2 HOUSING SUPPLY



3 HOUSING PRICES



4 EFFECTIVE SOCIAL SECURITY REGISTRATIONS AND CEMENT PRODUCTION



**SOURCES:** Banco de España, Instituto Nacional de Estadística, Ministerio de Asuntos Económicos y Transformación Digital, Ministerio de Inclusión, Seguridad Social y Migraciones, Ministerio de Transportes, Movilidad y Agenda Urbana, and Tinsa.

- a Latest observation: 2020 Q2 (completion certificates, housing prices), Q3 (current housing supply), August (housing sales), September (social security registrations, apparent cement consumption).
- b Seasonally adjusted series.

than 50% year-on-year in May, the largest drop in the available historical series. Since then, sales have started to recover, assisted by the completion of house purchases that had been deferred during lockdown. Nevertheless, the figures remain below their pre-crisis levels.

**Housing supply has contracted less than housing demand since the start of the pandemic** (see Chart 1.7). Thus, the number of residential properties for sale on

the main real estate portals<sup>10</sup> fell by something less than 5% in 2020 Q3 compared with the figure a year earlier. The supply of new housing, proxied by completion certificates, fell more acutely (by almost 16% year-on-year in Q2), although to a lesser extent than housing sales. The latest figures (to September) on other production indicators point to a significant recovery, to levels close to those of the same period a year earlier (see Chart 1.7).

**The growth in house prices continued to moderate in 2020 H1, although with no sign of widespread decreases, on National Statistics Institute (INE) data to June.** The average price of housing scarcely changed in Q2 in comparison with three months earlier, while the year-on-year rate of growth fell to 2.1%, compared with 3.6% at end-2019. The relative resilience of house prices to date compared with how they performed during the global financial crisis is due to various factors. The present crisis did not originate as a result of financial excesses and an oversized real estate sector. Moreover, although the decline in GDP has been more acute than in previous crises, the recovery is expected to be faster, although the outlook is clouded by great uncertainty. In addition, before the onset of the pandemic, there were no clear signs that the real estate market was either overvalued or oversized.

**By contrast, rental market prices appear to have begun to fall in some areas.** Specifically, according to figures from the main real estate portals to September, in recent months rental prices appear to be falling in most provincial capitals, especially in Catalonia, the Madrid region and the Balearic and Canary Islands. The increase in the residential rental supply to the detriment of the holiday rental supply triggered by the health crisis<sup>11</sup> appears to have contributed to the recent drop in prices in cities that have historically recorded more tourism activity. This is in addition to the deterioration in the labour market, which has had most impact on young people who are precisely those most likely to demand rental housing.

**In the real estate credit market, credit standards have tightened somewhat and this, together with the sudden fall in demand for credit, has led to a sharp decline in new lending, even though the terms and conditions of loans granted appear to have barely changed since the onset of the pandemic.** Thus, the Bank Lending Survey shows that financial institutions applied stricter credit standards in Q2 and Q3 as a consequence of the higher risks perceived. These intermediaries also indicated that loan applications had fallen dramatically between March and June, affected by the restrictions on mobility and the greater uncertainty. Interest rates on loans granted remained relatively stable and there was also little change in other conditions, such as the loan-to-price (LTP) ratio.

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<sup>10</sup> Information provided by Tinsa.

<sup>11</sup> According to AirDNA data on two of the most active digital platforms in this segment (Airbnb and Vrbo), from the start of the pandemic to end-August the number of holiday rental properties in Spain fell by more than 8%.

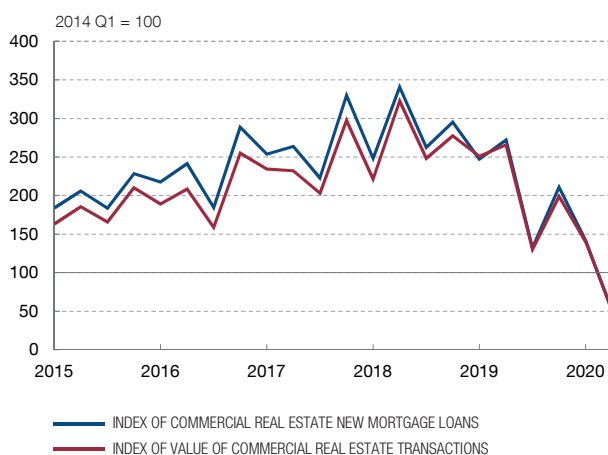


Chart 1.8

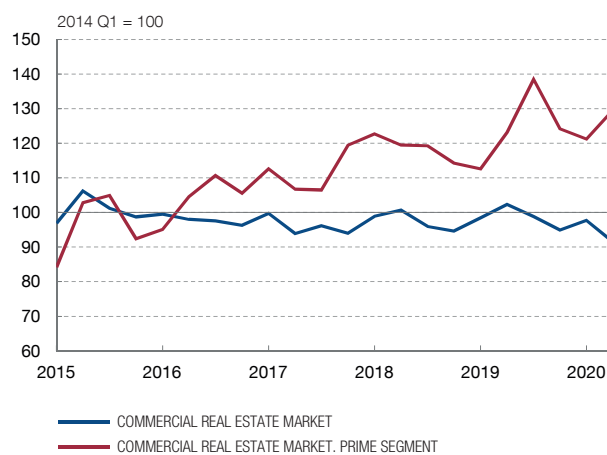
**THE OUTBREAK OF THE PANDEMIC LED TO A SHARP FALL IN SALES IN THE COMMERCIAL REAL ESTATE MARKET AND A MORE MODERATE DECLINE IN SALE PRICES**

The pandemic led to a sharp fall in transactions in 2020 H1. The contraction was more moderate in terms of prices, with differing developments in the prime segment.

1 NEW TRANSACTIONS IN THE COMMERCIAL REAL ESTATE SECTOR (a)



2 PRICE PER M2 IN THE COMMERCIAL REAL ESTATE MARKET (b)



SOURCE: Association of Registrars.

- a The credit includes any loan collateralised by commercial real estate. The value of commercial real estate transactions is obtained based on the number and price of these transactions, taking into account the aggregate value of all the transactions.
- b The indices of commercial real estate prices are calculated based on the median values of the prices of commercial real estate transactions in Spain as a whole or in prime locations. The prime segment refers mainly to sales of commercial premises in the main central business sectors of Madrid, Barcelona, Bilbao, Palma de Mallorca, Valencia and Málaga.

**Sales also fell sharply in the commercial real estate market in 2020 Q2, down to levels close to those of the post-crisis trough in 2013.** As Chart 1.8 shows, the total sales value fell by 80% year-on-year in Q2, on data from the Association of Registrars. This same source points to a similar drop in new credit transactions.<sup>12</sup> The breakdown by asset type shows similar decreases in all three market segments (offices, retail and industrial premises).

**Sale prices in the commercial real estate market fell in Q2** (see Chart 1.8). According to data from the Association of Registrars, between March and June the median price per m2 in new transactions declined in all three segments in quarter-on-quarter terms, falling more sharply in offices (15.2%) than in retail (5.7%) or industrial premises (5.9%). By contrast, in the prime segment,<sup>13</sup> this same indicator showed a positive change, although it is important to note that this series is more volatile.

12 Note that this figure, which comes from the Association of Registrars, may change owing to the delays in registrations in recent months.

13 The prime segment is defined (in accordance with the classification used by various specialist real estate consultancy firms) as the central business districts of six large cities: Madrid, Barcelona, Bilbao, Palma de Mallorca, Valencia and Málaga.

**Credit standards in the commercial real estate market appear to have remained stable in 2020 Q2.** In comparison with the housing market, transactions where LTP is under 80% continue to account for a much higher share in this segment, amounting to some three-quarters of all new transactions, compared with one-half in the residential segment. The stricter credit standards in the commercial real estate market are designed to offset to a certain extent the higher relative risk of these transactions, given borrowers' limited liability.

## 1.3 The non-financial sectors

### 1.3.1 Non-financial corporations and households

**The increase in Spanish non-financial corporations' liquidity needs as a result of the COVID-19 crisis is mainly being covered through bank lending on very favourable conditions.** This has been supported by the measures adopted by the authorities, including the ICO's guarantee facility and the improvement in the conditions of the ECB's longer-term refinancing operations.<sup>14</sup> Against this backdrop, the balance of lending to non-financial corporations by domestic credit institutions increased at a record pace, from a year-on-year contraction of 1.1% in February to year-on-year growth of 8.1% in June, although this rate of growth has moderated slightly in the following months (see Chart 1.9).<sup>15</sup> Fund raising in the capital markets recovered as financing conditions normalised, with the outstanding amount of this type of financing posting year-on-year growth of 8.4% in June, moderating somewhat in the following months, in line with bank lending. Part of this funding is being used by firms to maintain their liquidity buffers, often in the form of bank deposits, in view of the high level of uncertainty.

**The impact of the COVID-19 crisis on corporate profits is proving to be very negative and uneven by sector and size.** Although public income support measures such as the furlough schemes and moratoria on tax payments and social contributions have cushioned the impact of the fall in company turnover on profits, the information available for H1 evidences a strong contraction of corporate earnings. Thus, the average return on assets (ROA) halved, decreasing from 4% to 2%,<sup>16</sup> while the percentage of firms with low returns increased (see Chart 1.9). The simulations performed and presented in Chart 1.9 point to a sharp contraction of firms' profitability

14 For more details on the characteristics of the loans benefiting from State guarantees, see Box 4.3 in Banco de España Annual Report 2019: "Developments in bank finance for productive activities in the context of the COVID-19 crisis".

15 In line with these developments, the Bank Lending Survey (BLS) for Q2 indicated an easing of credit standards both for large corporations and for SMEs and a strong increase in the demand for funds by the latter.

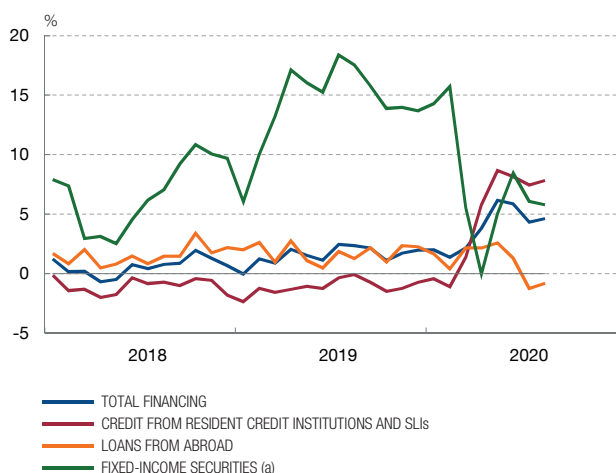
16 Data from the sample of companies from the Banco de España Central Balance Sheet Data Office (CBSO) database. For further details, see A. Menéndez and M. Mulino: "Results of non-financial corporations to 2020 Q2", Economic Bulletin 3/2020, Banco de España.

Chart 1.9

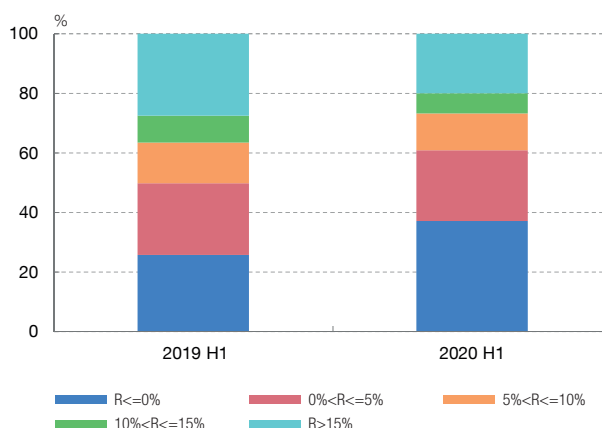
**THE DEBT LEVEL OF FIRMS INCREASES IN RESPONSE TO THE LIQUIDITY NEEDS DERIVING FROM THE CRISIS, WHICH HAS ALSO STRONGLY REDUCED THEIR PROFITABILITY**

The COVID-19 pandemic is generating an increase in the liquidity needs of Spanish companies in order to meet their payment commitments. These financing needs are being covered by means of bank loans and corporate debt issuance, a process that has been fostered by public guarantee programmes and by various measures adopted by the ECB. Also, the COVID-19 crisis is causing a strong fall in firms' income, profits and returns. At the aggregate level, the debt and financial burden ratios have also grown, in terms of GDP, likewise conditioned by the strong fall in output.

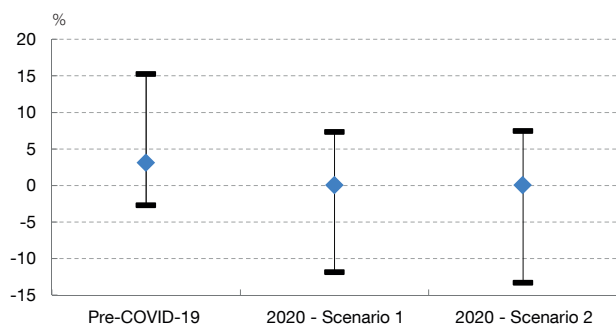
1 FINANCING OF NON-FINANCIAL CORPORATIONS  
Year-on-year change



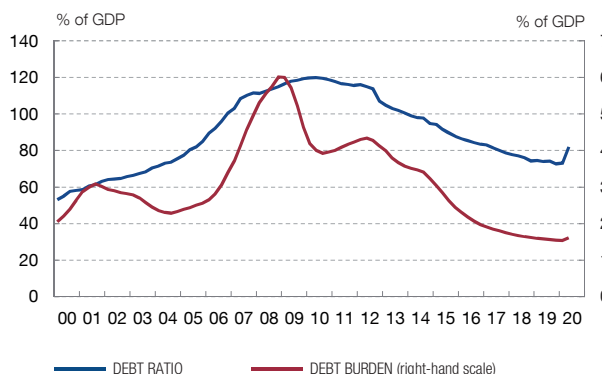
2 PERCENTAGE OF FIRMS BY RANGE OF RETURN ON ASSETS (b)



3 DISTRIBUTION OF RETURN ON ASSETS (c)



4 DEBT AND DEBT BURDEN RATIOS (d)



SOURCE: Banco de España.

- a The fixed-income securities series relates to net issuances.
- b The data are from the Central Balance Sheet Data Office quarterly survey (CBQ). Return on assets = (Ordinary net profit + Financial costs) / Assets net of non-interest-bearing borrowing.
- c Results obtained from the simulation of the income of Spanish non-financial corporations under two scenarios based on the extent of the fall in such income as a result of the health crisis. The points relate to the 25th percentile, the median and the 75th percentile. This exercise was carried out using the Central Balance Sheet Data Office integrated database (CBI) for 2018 and the same methodology was applied in R. Blanco, S. Mayordomo, A. Menéndez and M. Mulino (2020), "Spanish non-financial corporations' liquidity needs and solvency after the COVID-19 shock", Occasional Paper No 2020, Banco de España.
- d The debt burden of firms only includes interest payments, given the difficulty of reliably estimating the amount of repayment instalments.

in 2020 as a whole, although with a high degree of heterogeneity. The breakdown by firm type evidences that SMEs appear to be the ones trending most unfavourably as regards profitability, particularly companies in the accommodation and food service activities, leisure, motor vehicle, retail, transport and storage sectors.<sup>17</sup>

**The increase in indebtedness and the decline in corporate earnings appear to be greater for SMEs and for firms operating in the sectors most affected by the pandemic.** The aggregate debt ratio for the sector in terms of GDP has rebounded for the first time since 2010, to stand at 81% in 2020 Q2 (the highest level since 2017), owing to both the increase in debt and the fall in GDP (see Chart 1.9). These developments also seem to have resulted in a slight increase in the interest burden ratio, defined as interest payments relative to GDP, because the effect of the increase in debt on interest payments is recorded more gradually over time. Although the intensity of these increases will be corrected to some extent as the GDP data for the coming quarters are incorporated, the simulations shown in Box 1 also point to an impairment of the financial position, measured as the ratio of net debt to net assets at each firm, which would be worse in the SME segment and in the sectors most affected by the pandemic.

**Aggregate household indebtedness has decreased in recent months as a result of the fall in new lending.** The contraction was sharper in the consumer credit segment (see Chart 1.10), as a result of the decline in both demand and supply, the latter owing to greater risks perceived by lenders,<sup>18</sup> affecting above all the most vulnerable groups. As mentioned earlier, new lending for house purchase also decreased, although less markedly. The only component that showed greater buoyancy was that of loans granted to sole proprietors, who were able to access both the State guarantee programme and the moratoria on financial obligations. Although loan moratoria, which affect 7% of the outstanding amount of loans to households,<sup>19</sup> have slowed the fall in credit to this sector by reducing the volume of repayments, the year-on-year growth rate declined to -0.9% in August, compared with the increase of 0.3% recorded in February (see Box 1.2).

**The crisis is also having a major impact on household income.** Gross disposable income (GDI) in this sector declined by 8.8% in 2020 Q2 in year-on-year terms. This is mainly explained by the increase in unemployment, which rose from 14% at end-2019 to 16.3% in 2020 Q3, and by the number of workers subject to furlough schemes or short-time work arrangements, which peaked at around 3 million at end-May. This

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17 For further details, see R. Blanco, S. Mayordomo, A. Menéndez and M. Mulino (2020): “Spanish non-financial corporations’ liquidity needs and solvency after the COVID-19 shock”, Occasional Paper No 2020, Banco de España.

18 See A. Menéndez (2020): “Bank Lending Survey in Spain: June 2020”. Economic Bulletin 3/2020, Banco de España,

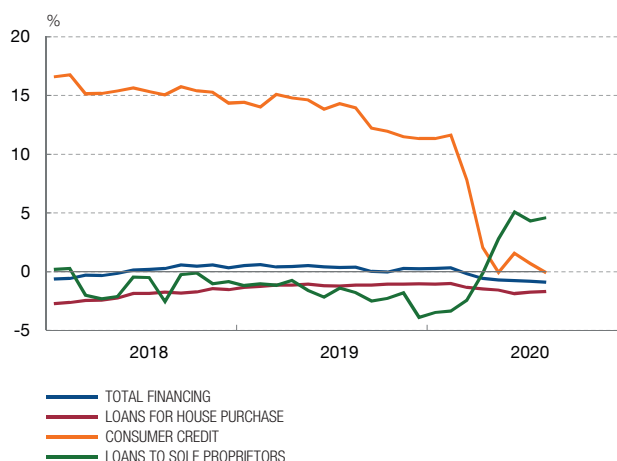
19 See Box 2, “Analysis of the loan moratorium schemes adopted in Spain in response to the COVID-19 crisis”, in the Analytical Article “Recent developments in financing and bank lending to the non-financial private sector”.

Chart 1.10

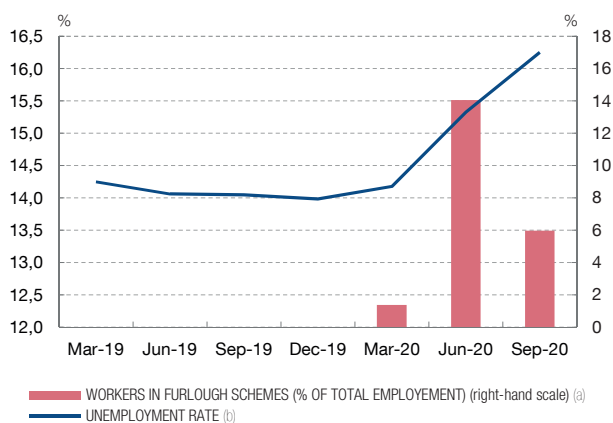
**THE FINANCIAL SITUATION OF HOUSEHOLDS IS DETERIORATING OWING TO THE ADVERSE PERFORMANCE OF INCOME, DESPITE A REDUCTION IN DEBT**

Lending to households has decreased owing to supply and demand factors. In spite of this, the debt and debt burden to gross disposable income ratios increased as a result of the decline in income. Savings increased significantly in Q2 for precautionary reasons resulting from the high uncertainty linked to the pandemic and owing to the lockdown measures, leading to a reduction in the consumption of certain goods and services. These savings were mainly channeled through bank deposits.

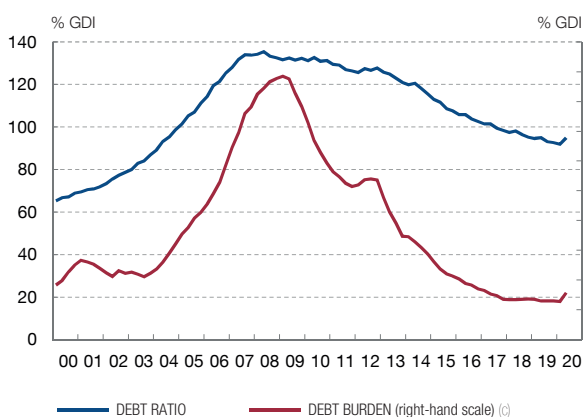
1 HOUSEHOLD FINANCING  
Year-on-year change



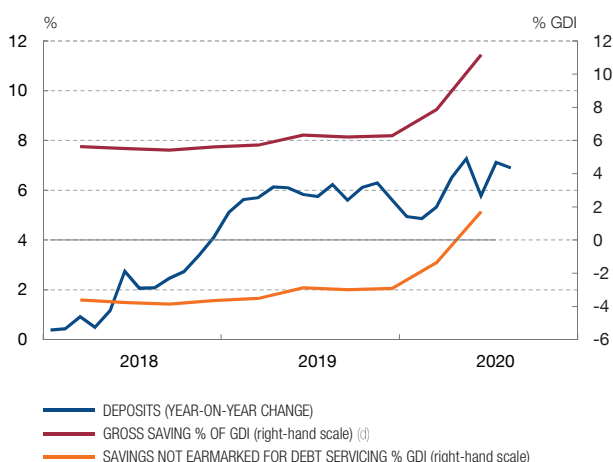
2 WORKERS IN FURLOUGH SCHEMES AND UNEMPLOYMENT RATE



3 DEBT AND DEBT BURDEN RATIOS



4 DEPOSITS AND GROSS SAVING RATE



SOURCE: Banco de España.

- a Furlough schemes (% of employment): monthly averages for Q1, Q2 and Q3.
- b The unemployment rate is seasonally adjusted.
- c The household financial burden comprises interest and debt principal repayments.
- d Gross saving % GDI: four quarters are accumulated for calculating gross disposable income.

figure has since declined gradually to somewhat more than 725,000 in late September (see Chart 1.10).<sup>20</sup>

<sup>20</sup> Under current regulations, after six months, benefits under these schemes drop from 70% to 50% of salary. Unemployment benefits are lower than the previous salary and last according to each worker's circumstances.

**This fall in income increases financial pressure on households.** Although household debt has not risen in the wake of the crisis, the drop in income hampers households' ability to repay their debts. Thus, the debt-to-GDI ratio for the sector as a whole increased by nearly 2 pp in H1 to 95% (see Chart 1.10). These developments also resulted in an increase in the debt burden ratio (defined as interest payments and debt repayments as a percentage of GDI), which rose by 28 bp to 11.6%, despite the fact that average financial costs have not increased. Once again, the scale of this increase will moderate to some extent with GDI Q3 data. Also, loan moratoria for the most vulnerable households have helped mitigate these effects to date, but their duration is limited. Thus, financial pressure for some groups might rise once the moratoria expire. The increase in household savings not earmarked for debt servicing, resulting from the strong fall in consumption, seems to have been channelled towards bank deposits, which posted year-on-year growth of 6.9% in August (see Chart 1.10). However, there is no up-to-date information on the distribution of these savings in the household sector, making it difficult to assess the degree to which this development may mitigate the higher degree of financial pressure for certain household groups.

### 1.3.2 General government in Spain

**Recent developments in public finances reflect the impact of the pandemic, which has been particularly severe in Spain, and of the measures adopted to contain it.** The latest information available reflects a substantial increase in the general government deficit, which in June stood, in cumulative 12-month terms, at 6.9% of GDP, somewhat more than 4 pp above the level recorded in 2019 (see Chart 1.11). This figure reflects, in part, the fall in income, especially concentrated during the spring, when there were more restrictions in place, and the increase in expenditure. Somewhat more than 70% of this increase in expenses is explained by the discretionary measures adopted in response to COVID-19. General government debt rose in June to 110% of GDP (14.6 pp more than in December 2019), in part as a result of the public finances shortfall in H1. However, this was also due to debt issuances scheduled for the year being brought forward, leading to an increase in the financial assets held by general government vis-à-vis the other sectors of 3 pp of GDP in H1.

**The latest scenarios published by the Banco de España in September<sup>21</sup> anticipate a very pronounced shortfall in the general government balance for 2020 as a whole and a partial correction over the following two years.** In comparison with those published in June, the latest scenarios include the new budgetary measures approved over the summer (the minimum income scheme,

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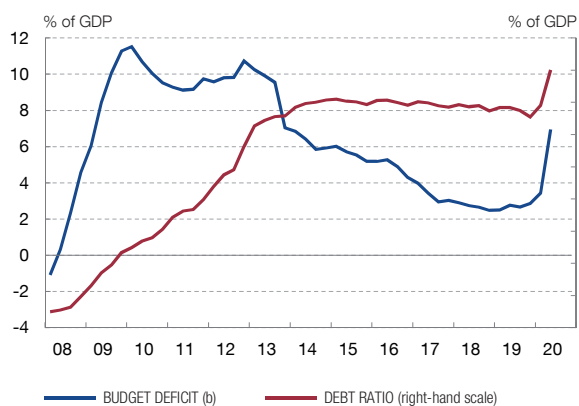
<sup>21</sup> See [Macroeconomic scenarios for the Spanish economy \(2020-2022\)](#).

Chart 1.11

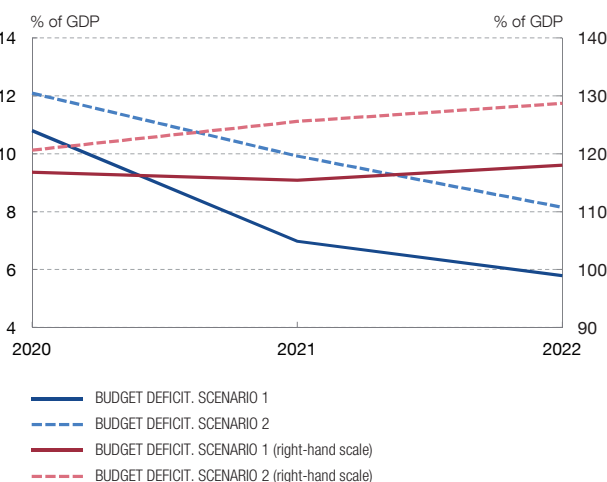
## THE COVID-19 PANDEMIC WILL HAVE A STRONG NEGATIVE IMPACT ON THE SPANISH GENERAL GOVERNMENT'S FINANCIAL POSITION

The high impact of the COVID-19 pandemic on Spanish public finances increases the vulnerability of Spanish general government to possible additional shocks. The response of the European authorities significantly mitigates these risks in the short term, but it does not prevent the need for a consolidation process that is credible and sustained over the medium term, once the effects of the crisis have been overcome.

1 GENERAL GOVERNMENT FINANCIAL POSITION



2 BANCO DE ESPAÑA FORECASTS (a)



**SOURCES:** Intervención General de la Administración del Estado and Banco de España.

**a** Macroeconomic scenarios of the Banco de España projections published in September 2020. Scenario 1 envisages the emergence of fresh outbreaks that would only require containment measures of limited scope, both from a geographical standpoint and in terms of the sectors affected. Scenario 2 envisages more intense outbreaks of the pandemic which, nonetheless, would not require the application of such strict and widespread containment measures as those that were in force before lockdown began to be eased.

**b** Four-quarter cumulative data.

extension from 30 June to 30 September of the extraordinary measures relating to the furlough and temporary discontinuation of activity schemes for the self-employed, the regional government financing fund and extension of the guarantee facilities for loans to firms). In accordance with the assumptions used, the general government balance in 2020 could stand at -10.8% or -12.1% of GDP, depending on whether the macroeconomic scenario that ultimately materialises is closer to the first or the second scenario considered in September by the Banco de España (see Chart 1.11). The temporary nature of the bulk of the discretionary measures approved this year, together with the expected cyclical improvement, would help correct the public finances shortfall in 2021 and 2022, although in 2022 it would still stand above 5% of GDP under either scenario, significantly higher than in 2019.

**The increase in public debt will be very pronounced in 2020, heightening the challenges facing Spanish public finances.** The debt ratio this year would grow by more than 20 pp under scenario 1 and by around 25 pp under scenario 2, to stand at 116.8% and 120.6% of GDP, respectively. The ratio would continue to increase, in cumulative terms, during the following two-year period, particularly under scenario 2. The crisis has a temporary component, which would allow for a significant recovery

of the general government balance in the coming years, once the crisis is over. However, general government will emerge from this crisis in a vulnerable position for several reasons. These include the foreseeably high debt level that will be reached, the probable existence of persistent negative effects of the crisis on economic activity, the high structural component present in the budget deficit even before the COVID-19 outbreak, the significant contingent commitments arising from the measures implemented and the challenges derived from population ageing.<sup>22</sup>

**The European authorities' response significantly mitigates short-term risks.**

This response has been forceful, largely because the COVID-19 shock is common to the EU as a whole. In turn, the actions taken acknowledge the different needs of the Member States based on how hard they have been hit by the pandemic, thus supporting the construction of the European project. The monetary measures adopted by the ECB, particularly the PEPP, are helping to prevent tensions in the sovereign debt markets, fostering very favourable financing conditions which will foreseeably remain in place in the coming quarters. In the fiscal field, in addition to the support measures adopted by the European institutions in spring, there is the aforementioned NGEU fund, from which Spain could receive up to €140 billion through loans and grants, roughly in equal parts.

Once the current crisis has been overcome, restoring Spanish public finances will require a considerable effort. When the pandemic is over, general government will foreseeably have very high financing needs and debt levels, which will require a very large effort to correct. However, this effort should be delayed until the Spanish economy has fully recovered from the effects of the crisis. Authorities will then have to implement a credible and sufficient consolidation programme over a protracted period, providing headroom to respond to other possible shocks and fostering long-term growth.

### 1.3.3 Financial flows vis-à-vis the rest of the world and the international investment position

**The health crisis has also affected financial flows between the Spanish economy and the rest of the world.** In 2020 Q2 the financial account of the balance of payments, excluding the Banco de España, had a credit balance of €43 billion, the highest since 2017 Q1 (see Chart 1.12). There were substantial divestments out of non-residents' portfolios in the early months of the pandemic, which subsequently reversed, in line with the easing of tensions on the international financial markets. As regards other investments, in April there was a strong drop in deposits of foreign nationals at Spanish banks. Overall, these declines in foreign liabilities, together with

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22 See [Chapter 4](#) of Banco de España Annual Report 2018.

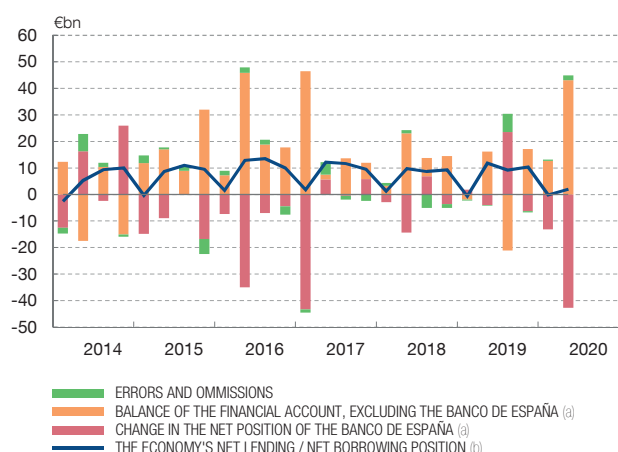


Chart 1.12

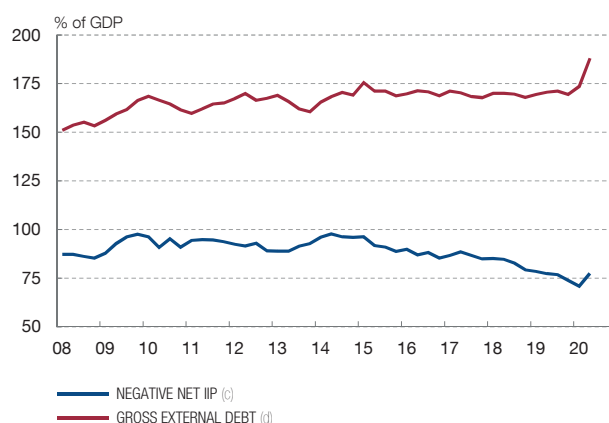
**FOREIGN CAPITAL INFLOWS DECLINED IN THE EARLY MONTHS OF THE HEALTH CRISIS, WHILE THE NEGATIVE NET IIP AND THE GROSS EXTERNAL DEBT OF THE ECONOMY INCREASED**

Following the outbreak of the health crisis, the credit balance of the financial account increased, mainly owing to the divestment of the rest of the world in Spain, a movement that reversed subsequently. This increase was concentrated in March and, especially, April, reversing in May and June.

1 THE ECONOMY'S NET LENDING/NET BORROWING POSITION AND FINANCIAL TRANSACTIONS WITH THE REST OF THE WORLD



2 NEGATIVE NET IIP AND GROSS EXTERNAL DEBT



SOURCE: Banco de España.

- a Net change in assets less net change in liabilities.
- b A positive (negative) value in the series denotes a credit (debit) position.
- c The negative net IIP is the difference between the value of the external liabilities of the resident sectors and that of the assets to the rest of the world.
- d External debt comprises the balance of all liabilities that entail future repayment of principal, interest or both (i.e. all final instruments, except equity securities, financial derivatives and monetary gold bullion).

the Eurosystem's asset purchase programmes, seem to have conditioned the performance of the financial account of the Banco de España. Since March, it has shown a high debit balance, although it has moderated in recent months since external capital inflows into the Spanish economy resumed.

**The negative net international investment position of the Spanish economy and the external debt have risen, in terms of GDP, owing to valuation effects and the decline in output.** The Spanish economy's negative net IIP increased by €30 billion in 2020 Q2, owing to negative valuation effects and other adjustments, since the flow of financial transactions with the rest of the world was slightly positive. Relative to GDP, the negative net IIP stood at 77.5%, up 6.5 pp from the previous quarter, influenced by the strong contraction of output. The nation's gross external debt rose by €56.8 billion in 2020 Q2, owing to valuation effects, standing at 188.3% in terms of GDP, its all-time high (see Chart 1.12). The Spanish economy's high net debtor position continues to be an element of vulnerability, particularly in the current setting of high uncertainty about future economic developments.

