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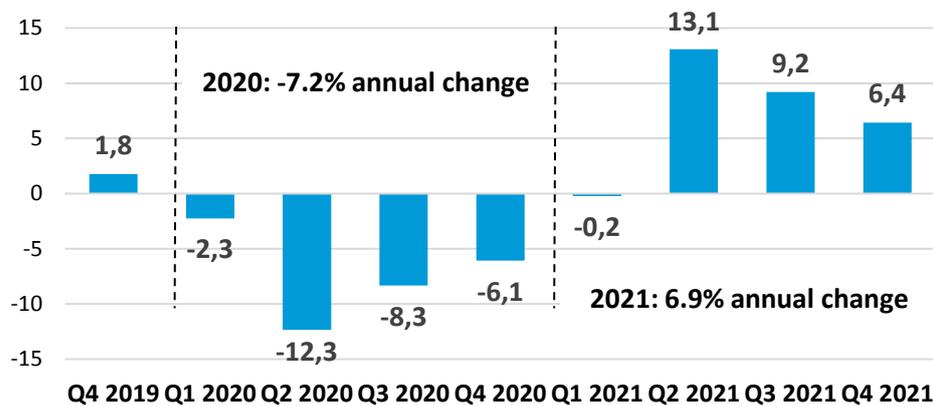
Spain · Macroeconomic update**Key messages**

- The uncertainty surrounding the forecast scenario remains unusually high, both in Spain and the rest of the world, due to unknowns regarding the future evolution of COVID-19 as well as doubts concerning the effectiveness of the measures being taken.
- To date, the containment measures and restrictions on economic activity implemented to curb the spread of the coronavirus have been stricter than expected and this is having a very significant impact on economic activity. In addition, the situation is expected to take longer to return to normal.
- In this context, CaixaBank Research has revised its GDP growth scenario for the Spanish economy, which now points to a 7.2% drop in 2020, assuming the containment measures will start to be lifted gradually as from May. In this scenario, the cumulative drop in GDP in the first half of 2020 is slightly over 13% and, in Q4 2020, GDP is still 6% below its Q4 2019 level. It should be noted that the repercussions of this shock may be felt for a long time in certain sectors such as tourism, which could slow down the recovery.
- In 2021, if the economic policy measures are effective and there is no further outbreak of the virus, GDP could increase significantly and, by the end of the year, reach similar levels to those recorded in Q4 2019 (6.9% growth for 2021 as a whole).
- Given this situation, the unemployment rate is expected to rise sharply to over 20% in the second quarter, but then falling rapidly in 2021, in line with the recovery in economic activity, to around 14.5% by the fourth quarter of 2021. As in the other major European economies, we expect the necessary fiscal stimulus measures will push up the public deficit as well as public debt.
- There is a high degree of uncertainty surrounding this scenario, however, and larger reductions in GDP and/or a more gradual recovery cannot be ruled out. There are several risk factors affecting the scenario:
 - A slower return to normal with social distancing measures being maintained longer than expected, or a reinstatement of the lockdown and restrictions on economic activity due to another outbreak of the virus.
 - Economic policy measures being less effective than expected. In this respect, many emerging countries are especially vulnerable as they have a limited capacity to respond and many were already suffering from considerable macroeconomic imbalances. At a European level, the measures announced by the Eurogroup go in the right direction but are insufficient, both in terms of

their size and because they still do not provide mechanisms for countries to share their expenditure and debt. The ongoing negotiations regarding the stimulus plan for the recovery will be crucial in supporting a stronger response from countries with less fiscal margin.

Spain: GDP

Year-on-year change (%)



Source: CaixaBank Research.

Comparison of the previous and new scenario

| Variable | Scenario | 2020 | 2021 | Cum. 2019-2021* |
|---|----------|------|------|-----------------|
| GDP (annual change %) | Previous | -3.6 | 5.7 | 1,8 |
| | Current | -7.2 | 6.9 | -0.8 |
| Unemployment rate (% of the labour force) | Previous | 16.5 | 13.8 | -0.3 |
| | Current | 19.3 | 15.8 | 1.7 |
| Public deficit (% of GDP) | Previous | -5.6 | -2.7 | -8.3 |
| | Current | -9.8 | -6.0 | -15.8 |

Note: (*) The cumulative unemployment rate is the change, in pp, between the 2021 figure compared with 2019 (14.1 annual average). The cumulative deficit is the total, in pp, of the deficits of 2020 and 2021.

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