An incomplete economic recovery

Once again, we are forced to adjust significantly our forecasts scenario. We do not do so because the economic policy response is not up to the circumstances. Indeed, in most countries, in both the monetary and the fiscal sphere, the measures being taken to soften the blow of the economic crisis are proving to be bold, rapid and effective. We are also confident that this will continue to be the case in the coming quarters. During the past month, the major central banks have remained highly active, adjusting or expanding the packages of measures that they have been implementing since the crisis erupted. In the fiscal sphere, the latest developments are also positive. It seems increasingly likely that the recovery plan proposed by the European Commission will be approved. This would be great news, given how it would bolster measures aimed at stimulating demand and improving productive capacity, and given the improvement in the European institutional architecture that it could lead to in the medium term.

The economic activity indicators that have been published over the past month have also injected some further optimism. After a few months of hibernation, we are beginning to see a marked rebound in activity in most countries as the lockdown measures and mobility restrictions are being gradually lifted.

Nevertheless, all the indicators suggest that the decline in GDP in the second quarter will have been greater than that foreseen in our forecast scenario. The rebound in the indicators is significant, but the starting point was very low, and most of them still remain far from pre-crisis levels. The differences between countries are also notable, depending on the severity of the lockdown and the impact of the pandemic, the productive structure and the economic policy response. But the fall in GDP will be widespread and profound, even historic.

Moreover, when we look into the future, uncertainty remains very high, largely because it is very difficult to anticipate how the virus will behave over the coming months. Today, it seems likely that we will have to live with it for some time to come, but we trust that we will not have to resort to extreme and widespread lockdown measures. This should allow the rebound in activity that is already becoming apparent in the latest indicators to continue during the second half of the year. However, confidence cannot be fully restored until we leave the pandemic definitively behind us.

All of this leads us to work with a forecast scenario that envisages a very sharp fall in economic activity in 2020. At the global level, we expect the drop in GDP to exceed 4% this year. In the euro area, which will be heavily affected by the sharp decline that GDP is likely to experience in the second quarter due to the severe lockdown measures imposed in most countries, we expect the fall to be of around 10%. In contrast, in the US, where the lockdown measures have been less restrictive and the economic policy measures very decisive, we anticipate a decline of around 6%. Beyond the differences in the decline in GDP in 2020, the recovery is expected to be gradual and most countries are unlikely to recover pre-crisis levels until the end of 2022 or 2023.

The Spanish economy will be particularly hard hit by the severe lockdown measures it had to impose, and the fall in GDP could be of around 20% quarter-on-quarter in Q2 2020. Moreover, the importance to the economy of tourism, a sector that is particularly vulnerable to restrictions on mobility, will mean that the recovery will be somewhat slower. Specifically, we predict that GDP will contract by between 13% and 15% in 2020 and that the unemployment rate will reach around 20%. In 2021, we expect the recovery to gain momentum and GDP to grow by more than 10%, but we will probably have to wait until 2023 to recover pre-crisis levels of activity. Finally, the fiscal effort needed to protect the economy's productive fabric and households is expected to lead to a sharp deterioration in the public accounts: the budget deficit is likely to approach 14% of GDP this year, while public debt could exceed 120%.

Producing forecasts in such an uncertain context is a very difficult task. Depending on how the pandemic develops, the fall in GDP could be lower this year, or the recovery next year, somewhat faster. The figures may turn out to be different. However, unfortunately, it seems unlikely that the adjectives used to describe the scenario will change.

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