# Update of the forecasts for the Spanish economy

Almost three months have now passed since the state of alarm was declared. At first, we looked on with concern at the harsh economic impact of the lockdown measures, and more recently we have regained some optimism thanks to the rebound in activity that is taking place as the mobility restrictions have been gradually relaxed. Nevertheless, when we look into the future, uncertainty remains very high. It is very difficult to anticipate how the virus will behave over the coming months. We also do not know exactly when we will have an effective treatment or a vaccine. Unfortunately, all the indicators suggest that we will have to live with the virus for several more quarters. All of this forces us to update the forecast scenario and incorporate, on the one hand, a more substantial fall in economic activity in Q2 2020 than we previously anticipated and, on the other, a more gradual recovery.

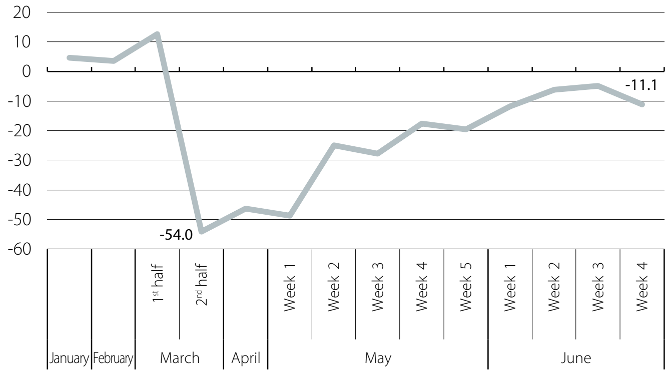
We have been able to follow the significant impact of the lockdown measures practically in real time through the evolution of card spending on CaixaBank POS terminals and cash withdrawals at CaixaBank ATMs.[1] As can be seen in the first chart, the initial impact of the lockdown measures was both sudden and dramatic. The drop was of around 50% year-on-year as early as the end of March and throughout April. It can also be seen that the recovery has been rapid as the restrictions on mobility have been gradually lifted.

Other sources of information paint a similar picture. Social Security affiliate data also reflect the strong initial impact of the crisis and a recovery that is gradual and still only partial. At the end of June, the number of people affiliated with Social Security who were not on «ERTE» furlough schemes or registered as temporarily inactive was still –22% lower than in June 2019. On the other hand, electricity consumption, which had fallen by 20% year-on-year in April, registered a 10% decline at the end of June. Similarly, cement consumption, which had fallen by more than 50% year-on-year in April, «only» fell by 11% in May.

In short, the measures taken to contain the spread of the pandemic have had an unparalleled impact on economic activity. Furthermore, while the recovery that commenced once the lockdown measures began to be lifted has been significant, the pace of economic activity remains far from pre-crisis levels. Thus, the first factor that determines the new forecast scenario is the fall in GDP in Q2 2020, and all the indicators suggest that it is going to be both profound and historic. It will likely approach –20% in quarter-on-quarter terms.

***Spain: Spanish card activity on CaixaBank POS terminals and at CaixaBank ATM***

*Change in spending compared to the same week of the prior year (%)*




**Note:** *Card spending includes in-person spending, cash withdrawals and e-commerce.*
**Source:** *CaixaBank Research, based on internal data.*

The second factor driving the new forecasting scenario is the evolution of the pandemic. As noted earlier, this is no doubt the primary source of uncertainty. The baseline scenario assumes that a vaccine will not be available until Q2 2021 and that, until this milestone is reached, further outbreaks are likely to occur and could presumably be tackled by imposing local lockdowns. In other words, we assume that over the next few quarters we will have to continue to live with the virus, but we will not have to resort to extreme and widespread lockdowns. 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, this rally will be partial and pre-crisis levels will not be reached in the short term, since we will have to live with the virus and continue to operate in an environment of high uncertainty that will stifle confidence across the board. All of this will continue to put pressure on many households and businesses, and it will therefore be necessary to maintain economic policy measures that help to mitigate the impact of the crisis for a few more quarters to come.

The third element that we believe will most likely play a particularly important role in determining how the Spanish economy recovers over the coming quarters is the tourism sector. This is because of its importance in the economy (it accounts for around 12.5% of GDP) and because of the strong impact that the social distancing measures and mobility restrictions are having on this sector. It is very difficult to foresee how international mobility will evolve over the coming months while we remain without a vaccine. Nevertheless, at this stage it seems highly unlikely that the sector will come close to reaching last year's figures. In fact, while domestic tourism is expected to partially offset the sharp decline in visits by international tourists, the fall in tourism GDP could end up reaching around 50% for this year as a whole.

All of these factors suggest that the economic shock will not only be very strong, but that it will also be more persistent than initially expected. Despite the economic policy measures that are being implemented, which are both quick and decisive, it will be very

1. A weekly note analysing these data can be found on CaixaBank Research's website (www.caixabankresearch.com).

### Spain: macroeconomic projections

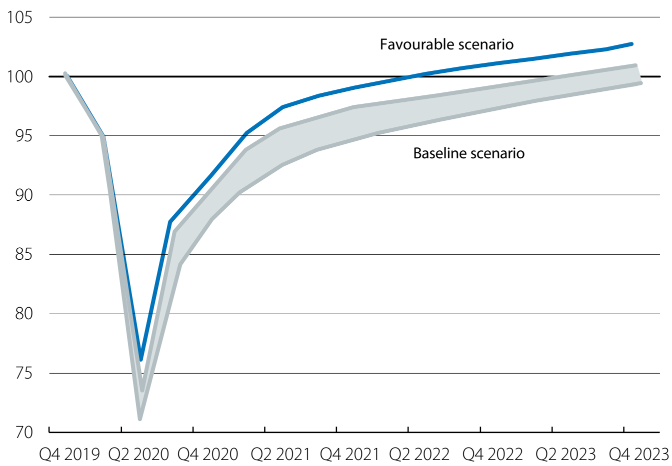
| | 2019 | 2020 | 2021 | 2022 | Acum. 2020-2022 |
|---|---|---|---|---|---|
| **Real GDP** *(annual change)* | 2.0 | –14.0 | 10.5 | 3.3 | –1.8 |
| **Unemployment rate** *(annual average)* | 14.1 | 19.3 | 19.5 | 17.7 | 3.6 |
| **Inflation** *(annual change)* | 0.7 | –0.5 | 1.6 | 1.7 | 2.8 |
| **Budget deficit** *(% of GDP)* | –2.8 | –13.6 | –7.6 | –4.8 | –26.1 |
| **Public debt** *(% of GDP)* | 95.5 | 123.8 | 118.1 | 116.6 | 21.1 |

***Notes:*** *The figures for the baseline scenario represent the midpoint of the range of forecasts. The cumulative deficit is the sum in pps of the deficit for 2020-2022. The cumulative debt balance is the difference between the debt in 2022 and the debt in 2019.*
***Source:*** *CaixaBank Research.*

difficult to prevent many investment decisions from being postponed, many companies from having to shut down, or many people from losing their jobs. In short, it will be very difficult to prevent this crisis from restricting the economy's productive capacity beyond the day when a vaccine becomes available. In this context, the pressure on economic policy is even greater, since, in addition to the measures already in place to soften the blow of the crisis, it will be essential to implement measures that support the relaunch and modernisation of the economy.

When we convert all these hypotheses and dynamics into concrete figures, the forecast scenario remains dominated by uncertainty and, therefore, we use a range for our baseline scenario. Specifically, we envisage that GDP could fall by between 13% and 15% in 2020 and that the unemployment rate will reach around 20%. In 2021, the recovery is expected to gain momentum, with GDP growing by between 10% and 11%, although it would still remain well below the level reached in Q4 2019. In fact, we believe we will have to wait until 2023 to recover pre-crisis levels of activity.

### Spain: fluctuation of real GDP
*(100 = Q4 2019)*




***Source:*** *CaixaBank Research.*

The deterioration in the public accounts is also expected to be very significant. The fall in revenues combined with the increase in spending – both because of the action of the automatic stabilisers and because of the set of measures that the government has implemented to deal with the health crisis – are likely to bring the budget deficit up to around 14% of GDP this year, while public debt will exceed 120% of GDP. In 2021, the deficit is expected to fall somewhat below 8%, thanks to the recovery in economic activity and because part of the fiscal stimulus will come from the EU. In this context, the rapid and effective action of the ECB has been, and will continue to be, fundamental in keeping funding costs contained. It will also be of the utmost importance that a European-level economic stimulus plan, similar to the one proposed by the European Commission, is finally adopted.

As has been mentioned, one of the main unknowns is how the pandemic will evolve over the coming quarters. If we are finally able to keep the virus under control more effectively, either because it loses virulence or because we end up having an effective treatment or a vaccine earlier than expected, then the decline in GDP could be around 12% in 2020 and the subsequent recovery could be quicker, allowing pre-crisis levels to be reached as early as 2022. However, we must also remain cautious and keep in mind the risk of further major outbreaks or the possibility that we may have to live with the virus for even longer if the vaccine takes time to arrive.

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