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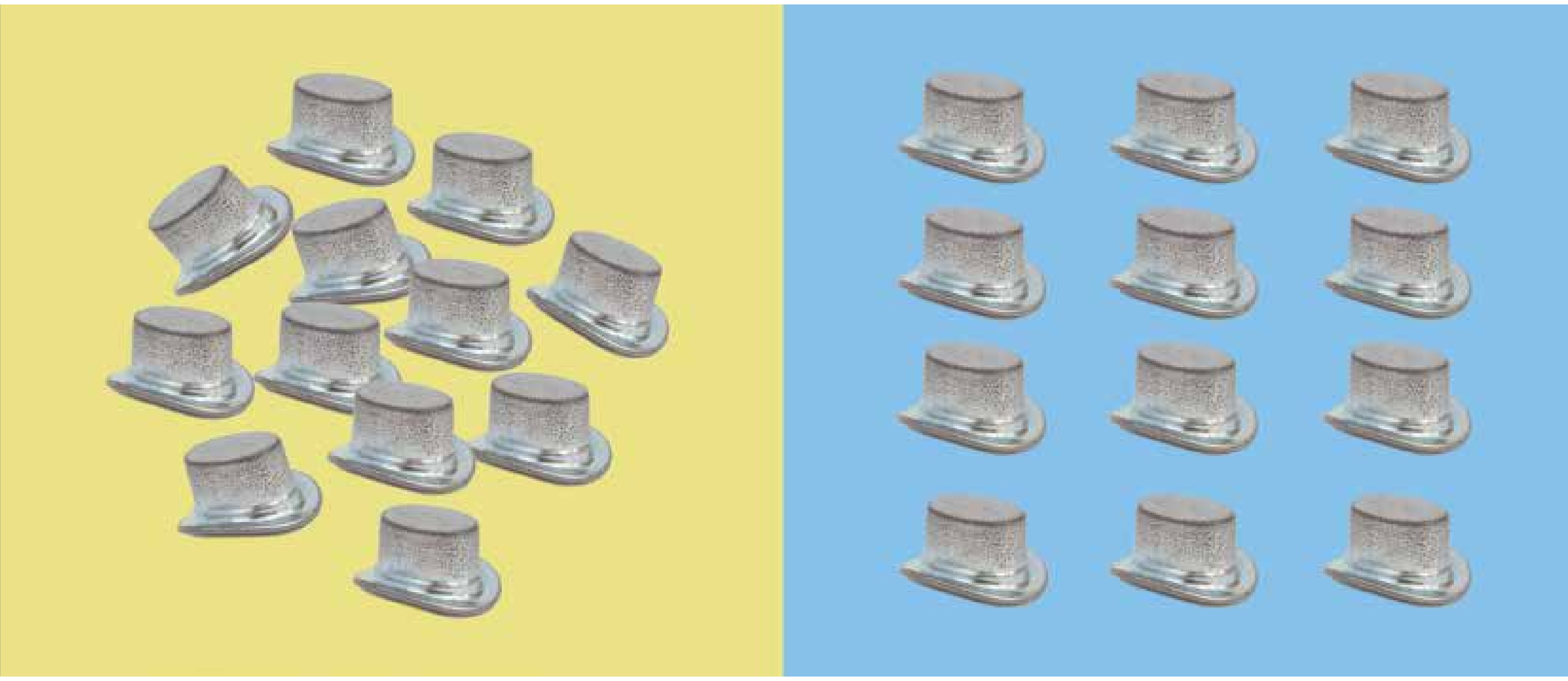

ECONOMIC & FINANCIAL ENVIRONMENT

FINANCIAL MARKETS

INTERNATIONAL ECONOMY
Savings and COVID-19: how far will Europe's saving fever go?

SPANISH ECONOMY
Analysing private consumption during the COVID-19 crisis

PORTUGUESE ECONOMY

DOSSIER: CAPITALISM(S): MOVING TOWARDS A NEW PHASE

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Capitalism(s) for tomorrow's world

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
July-August 2020

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INDEX

1 **EDITORIAL**

3 **KEY POINTS OF THE MONTH**

4 **FORECASTS**

7 **FINANCIAL MARKETS**

10 **INTERNATIONAL ECONOMY**

13 *Savings and COVID-19: how far will Europe's saving fever go?*
Javier Garcia-Arenas
(with technical assistance from Pablo Pastor y Camarasa)

17 **SPANISH ECONOMY**

19 *Analysing private consumption during the COVID-19 crisis*
Oriol Carreras

22 *What can we expect from Spain's ERTEs and similar furlough programmes? A European perspective*
Javier Garcia-Arenas

25 **PORTUGUESE ECONOMY**

28 **DOSSIER: CAPITALISM(S): MOVING TOWARDS A NEW PHASE**

28 *Capitalism: crisis? What crisis?*
Álvaro Leandro and Àlex Ruiz

30 *Capitalism, variety is the spice of life*
Álvaro Leandro and Àlex Ruiz

32 *The promises of the varieties of capitalism, or on the impossibility of having it all*
Álvaro Leandro and Àlex Ruiz

35 *Capitalism(s) for tomorrow's world*
Álvaro Leandro and Àlex Ruiz

Five priorities to stimulate the recovery

The lifting of the lockdown has brought about a widespread rebound in economic activity indicators. The important thing now is to stay on this path and to give strength and continuity to the recovery. The challenge that lies ahead is without doubt enormous – the shock of the nearly two months of strict lockdown has been tremendous and we will still have to live with the virus without a vaccine or effective treatment – but it is also true that there is a way to mitigate the effects of the crisis and to try to overcome it as soon as possible. This approach involves five interconnected priority areas: controlling the virus, stimulating short-term demand, improving the potential for economic growth, giving consideration to medium-term fiscal sustainability and moving ahead with the European project.

The number one priority remains the containment of the virus. Since we will have to live with it, we should try to do so as harmoniously as possible. Avoiding uncontrolled spreading, which would force us to go back into lockdown, and minimising the costs in terms of social and economic activity are two objectives that must go hand in hand. It is a shared responsibility. On an individual scale, we can all play our part by maintaining good hand hygiene, social distancing and using face masks. Companies can do so by ensuring a safe environment for their staff and customers. The health authorities, meanwhile, can help by detecting cases of infection early, tracking contacts and promoting the isolation or quarantine of those affected. Today, the best possible investment is in the ability to detect and contain potential outbreaks.

In the short term, stimulating demand is also an essential ingredient, not only to support economic activity but also to preserve social cohesion. The measures which, for now, are helping to sustain consumption and safeguard the productive fabric of our economies – such as subsidies for temporary workforce reductions, loan guarantees and moratoriums on debt repayments – must focus on the hardest hit groups and sectors, while incentives for investment and purchases of durable goods must take on a more prominent role. It makes sense, for instance, to support the renovation of the fleet of cars on the road or the acquisition or renovation of homes in order to take advantage of the knock-on effect that these sectors can have and to counteract the effect that uncertainty can have on such large spending decisions. It is also a good time to support business investment linked to the energy transition and the digital transformation. Let us take advantage of the need to stimulate the economy to promote necessary and profitable investments.

Such investments would not only stimulate activity in the short term but would also have the capacity to boost competitiveness and, therefore, the potential for economic growth in the medium term, which ties in with the third priority area mentioned above. In addition to investments, reforms are needed to boost productivity growth. Such reforms, for instance, could help to reduce the duality of the labour market, promote vocational training, improve public employment services, modernise the administration of justice or encourage business growth. This last point is worth emphasising: Spain needs its SMEs to aspire to become big corporations, and to this end, they cannot be penalised if they grow, as is the case now.

There is no doubt that the situation we are currently experiencing, and the fiscal stimulus policies we are witnessing, will trigger a surge in the public deficit and debt. This is the responsible action which we must now take. However, it is also true that these actions will need to be framed within a medium-term plan that ensures the sustainability of the public accounts. This is key for retaining the confidence of buyers of public debt and for recovering a fiscal margin that will be needed when a new crisis arrives. The tax system will need to be revised and made more efficient, especially by simplifying it. But there is also ample scope for reducing the shadow economy and curbing tax evasion, as well as for improving the efficiency of public spending. Although a temporary increase in certain taxes may be necessary, it would be preferable to wait until the recovery is well on track, perhaps mid-next year, before implementing it.

Finally, the situation we are currently experiencing requires a boost to the European project and, in particular, the fiscal stabilisation institutions needed to counter major shocks like the one we are now enduring. The recovery plan proposed by the European Commission is a major step in this direction, and hopefully it will be possible to finalise it during this month of July. To push it forward, it may be necessary to link the disbursements to certain conditions being met, something that no one should fear or stigmatise. After all, such conditions, if well defined, should serve to reduce the vulnerabilities of individual countries, enhance their capacity for growth and promote social cohesion, three principles that no one can renounce.

Enric Fernández
Chief economist
30 June 2020

Chronology

MARCH 2020

3 The Fed cuts its reference rates by 50 bps, to the 1.00%-1.25% range.
11 The World Health Organization declares COVID-19 a pandemic.
12 The ECB increases asset purchases for 2020 by 120 billion euros, enhances the appeal of the TLTRO-III, introduces bridge liquidity operations (LTROs until June) and eases regulatory requirements.
14 The Spanish government declares the state of alarm.
15 The Fed cuts its reference rates by 100 bps, to the 0.00%-0.25% range, and launches a package of measures (purchases of treasuries and MBSs of 500 and 200 billion, a 150-bp cut in the discount window rate and the elimination of reserve requirements).
18 The ECB launches a programme of asset purchases to combat the COVID-19 crisis (PEPP), amounting to 750 billion euros. It is not subject to issuer/issue limits, and it allows temporary deviations from the capital key and assets with a wider range of maturities.
The Spanish government approves extraordinary urgent measures to deal with the impact of the COVID-19 pandemic.
23 The Fed announces that its treasury and MBS purchases will be unlimited and launches other purchase programmes (corporate debt, promissory notes, assets backed by consumer credit, etc.).

JUNE 2020

4 The ECB expands the envelope for the pandemic emergency purchase programme (PEPP) by 600 billion euros (to 1.35 trillion), extends its duration until mid-2021 and announces a programme of reinvestments for the PEPP until the end of 2022.
21 The Government of Spain ends the state of alarm.

MAY 2020

5 The German Constitutional Court rules that the PSPP (the Public Sector Purchase Programme that the ECB has been implementing since 2015) does not take due account of the principle of proportionality and calls for an analysis of its costs and benefits within three months.
27 The European Commission proposes a recovery plan which includes a 750 billion-euro fund financed by issues of debt by the Commission itself and in which 500 billion euros would be distributed among EU countries in the form of (non-refundable) transfers.

APRIL 2020

9 The Eurogroup agrees on a 540 billion-euro rescue package in the form of loans to help combat the COVID-19 crisis.
12 OPEC and its allies reach a new agreement on crude oil production cuts until early 2022.
30 The ECB reinforces the abundance of liquidity with improvements in the TLTRO-III and the launch of additional injections to combat the pandemic (PELTRO).

Agenda

JULY 2020

1 Portugal: employment and unemployment (May).
2 Spain: registration with Social Security and registered unemployment (June).
9 Portugal: short-term investment statistics (H1).
10 Portugal: international trade (May).
15 Spain: financial accounts (Q1).
Portugal: tourism activity (May).
16 Governing Council of the European Central Bank meeting.
17 Portugal: coincident economic activity indicator (June).
Portugal: Moody's rating.
22 Spain: loans, deposits and NPL ratio (May).
28 Spain: labour force survey (Q2).
28-29 Federal Open Market Committee meeting.
30 Spain: CPI flash estimate (July).
Spain: state budget execution (June).
Euro area: economic sentiment index (July).
US: GDP (Q2).
31 Spain: GDP flash estimate (Q2).
Euro area: GDP (Q2).

AUGUST 2020

4 Spain: registration with Social Security and registered unemployment (July).
5 Portugal: employment (Q2).
6 Portugal: NPL ratio (Q1).
7 Spain: industrial production (June).
10 Portugal: turnover in industry and services (June).
14 Portugal: GDP flash estimate (Q2).
Portugal: tourism activity (June).
17 Japan: GDP (Q2).
21 Spain: international trade (June).
Spain: loans, deposits and NPL ratio (June).
28 Euro area: economic sentiment index (August).
31 Spain: CPI flash estimate (August).

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.

Oriol Aspachs
Head of Research

Average for the last month in the period, unless otherwise specified

Financial markets

	Average 2000-2007	Average 2008-2016	2017	2018	2019	2020	2021
INTEREST RATES							
Dollar							
Fed funds (upper limit)	3.43	0.48	1.50	2.50	1.75	0.25	0.25
3-month Libor	3.62	0.70	1.61	2.79	1.91	0.40	0.40
12-month Libor	3.86	1.20	2.05	3.08	1.97	0.80	0.90
2-year government bonds	3.70	0.73	1.84	2.68	1.63	0.40	0.50
10-year government bonds	4.70	2.61	2.41	2.83	1.86	0.95	1.10
Euro							
ECB depo	2.05	0.40	–0.40	–0.40	–0.50	–0.50	–0.50
ECB refi	3.05	1.00	0.00	0.00	0.00	0.00	0.00
Eonia	3.12	0.65	–0.34	–0.36	–0.46	–0.45	–0.45
1-month Euribor	3.18	0.79	–0.37	–0.37	–0.45	–0.43	–0.43
3-month Euribor	3.24	0.98	–0.33	–0.31	–0.40	–0.40	–0.40
6-month Euribor	3.29	1.14	–0.27	–0.24	–0.34	–0.33	–0.33
12-month Euribor	3.40	1.34	–0.19	–0.13	–0.26	–0.25	–0.25
Germany							
2-year government bonds	3.41	0.69	–0.69	–0.60	–0.63	–0.60	–0.50
10-year government bonds	4.30	1.98	0.35	0.25	–0.27	–0.30	–0.15
Spain							
3-year government bonds	3.62	2.30	–0.04	–0.02	–0.36	0.09	0.21
5-year government bonds	3.91	2.85	0.31	0.36	–0.09	0.28	0.37
10-year government bonds	4.42	3.82	1.46	1.42	0.44	0.70	0.65
Risk premium	11	184	110	117	71	100	80
Portugal							
3-year government bonds	3.68	4.42	–0.05	–0.18	–0.34	0.22	0.32
5-year government bonds	3.96	5.03	0.46	0.47	–0.12	0.48	0.53
10-year government bonds	4.49	5.60	1.84	1.72	0.40	0.75	0.75
Risk premium	19	362	149	147	67	105	90
EXCHANGE RATES							
EUR/USD (dollars per euro)	1.13	1.31	1.18	1.14	1.11	1.15	1.18
EUR/JPY (yen per euro)	129.50	126.36	133.70	127.89	121.40	123.25	126.26
USD/JPY (yen per dollar)	115.34	97.50	113.02	112.38	109.25	107.18	107.00
EUR/GBP (pounds per euro)	0.66	0.83	0.88	0.90	0.85	0.91	0.91
USD/GBP (pounds per dollar)	0.59	0.63	0.75	0.79	0.76	0.79	0.77
OIL PRICE							
Brent ($/barrel)	42.3	85.6	64.1	57.7	65.2	42.0	55.0
Brent (euros/barrel)	36.4	64.8	54.2	50.7	58.6	36.5	46.6

Forecasts

Percentage change versus the same period of the previous year, unless otherwise indicated

International economy

	Average 2000-2007	Average 2008-2016	2017	2018	2019	2020	2021
GDP GROWTH							
Global	**4.5**	**3.4**	**3.9**	**3.6**	**2.9**	**–4.2**	**6.1**
Developed countries	***2.7***	***1.2***	***2.5***	***2.2***	***1.7***	***–7.6***	***6.3***
United States	2.7	1.4	2.4	2.9	2.3	–6.1	5.1
Euro area	2.2	0.4	2.7	1.9	1.2	–10.4	8.4
Germany	1.6	1.1	2.8	1.6	0.6	–7.3	5.9
France	2.2	0.6	2.4	1.7	1.2	–12.9	9.6
Italy	1.5	–0.7	1.8	0.7	0.3	–14.0	10.0
Portugal	1.5	–0.3	3.5	2.6	2.2	–12.0	8.2
Spain	3.7	0.0	2.9	2.4	2.0	–14.0	10.5
Japan	1.5	0.4	2.2	0.3	0.7	–6.9	3.3
United Kingdom	2.9	1.1	1.9	1.3	1.4	–12.0	8.0
Emerging and developing countries	***6.5***	***5.2***	***4.8***	***4.5***	***3.7***	***–2.1***	***6.0***
China	10.5	8.4	6.9	6.6	6.1	1.0	9.3
India	9.7	6.9	6.6	6.8	4.9	–4.5	5.0
Indonesia	5.5	5.7	5.1	5.2	5.0	–1.0	4.0
Brazil	3.6	1.7	1.3	1.3	1.1	–4.5	1.9
Mexico	2.4	2.0	2.1	2.2	–0.3	–8.5	2.6
Chile	5.0	3.3	1.2	4.0	1.1	–4.7	3.5
Russia	7.2	0.9	1.8	2.5	1.3	–6.3	2.5
Turkey	5.4	4.8	7.5	2.8	0.9	–5.3	3.3
Poland	4.0	3.2	4.9	5.2	4.1	–4.6	4.2
South Africa	4.4	1.8	1.4	0.8	0.2	–5.4	0.4
INFLATION							
Global	**4.2**	**3.8**	**3.2**	**3.6**	**3.6**	**2.8**	**3.5**
Developed countries	***2.1***	***1.5***	***1.7***	***2.0***	***1.4***	***0.7***	***1.7***
United States	2.8	1.6	2.1	2.4	1.8	0.7	1.9
Euro area	2.1	1.4	1.5	1.8	1.2	0.9	1.8
Germany	1.7	1.3	1.7	1.9	1.4	1.0	1.9
France	1.8	1.2	1.2	2.1	1.3	1.1	1.9
Italy	1.9	1.5	1.3	1.2	0.6	0.5	1.6
Portugal	3.0	1.2	1.4	1.0	0.3	–0.5	1.1
Spain	3.2	1.3	2.0	1.7	0.7	–0.5	1.5
Japan	–0.3	0.3	0.5	1.0	0.5	–0.1	0.5
United Kingdom	1.9	2.3	2.7	2.5	1.8	1.4	2.2
Emerging countries	***6.7***	***5.8***	***4.3***	***4.8***	***5.0***	***4.2***	***4.6***
China	1.7	2.6	1.6	2.1	2.9	2.4	2.6
India	4.5	8.5	3.3	3.9	3.7	2.5	3.5
Indonesia	8.4	5.7	3.8	3.3	2.8	2.0	4.4
Brazil	7.3	6.4	3.5	3.7	3.7	3.0	3.5
Mexico	5.2	3.9	6.0	4.9	3.6	2.0	2.5
Chile	3.1	3.5	2.2	2.7	2.3	2.9	3.1
Russia	14.2	9.3	3.7	2.9	4.5	2.6	3.3
Turkey	27.2	8.1	11.1	16.2	15.5	8.5	9.8
Poland	3.5	2.1	1.6	1.2	2.1	2.8	2.7
South Africa	5.3	6.2	5.3	4.6	4.1	3.9	4.2

Forecasts

Percentage change versus the same period of the previous year, unless otherwise indicated

Spanish economy

	Average 2000-2007	Average 2008-2016	2017	2018	2019	2020	2021
Macroeconomic aggregates							
Household consumption	3.6	–0.6	3.0	1.8	1.1	–12.7	8.5
Government consumption	5.0	0.8	1.0	1.9	2.3	5.2	2.4
Gross fixed capital formation	5.6	–3.8	5.9	5.3	1.8	–31.1	25.5
Capital goods	4.9	–1.6	8.5	5.7	2.6	–32.2	25.5
Construction	5.7	–6.5	5.9	6.6	0.8	–32.5	25.6
Domestic demand (vs. GDP Δ)	4.5	–1.2	3.1	2.6	1.5	–12.5	9.7
Exports of goods and services	4.7	2.8	5.6	2.2	2.6	–24.0	17.6
Imports of goods and services	7.0	–1.1	6.6	3.3	1.2	–21.2	15.6
Gross domestic product	**3.7**	**0.0**	**2.9**	**2.4**	**2.0**	**–14.0**	**10.5**
Other variables							
Employment	3.2	–1.5	2.8	2.5	2.3	–6.4	0.8
Unemployment rate (% of labour force)	10.5	20.8	17.2	15.3	14.1	19.3	19.5
Consumer price index	3.2	1.3	2.0	1.7	0.7	–0.5	1.5
Unit labour costs	3.0	0.1	0.7	1.2	2.3	10.5	–7.9
Current account balance (% GDP)	–5.9	–1.1	2.7	1.9	2.0	1.6	2.1
External funding capacity/needs (% GDP)	–5.2	–0.7	2.9	2.4	2.4	1.8	2.3
Fiscal balance (% GDP)[1]	0.4	–7.1	–3.0	–2.5	–2.8	–13.6	–7.6

Note: *1. Excludes losses for assistance provided to financial institutions.*

Forecasts

Portuguese economy

	Average 2000-2007	Average 2008-2016	2017	2018	2019	2020	2021
Macroeconomic aggregates							
Household consumption	1.7	–0.2	2.1	2.9	2.2	–10.6	9.2
Government consumption	2.3	–0.7	0.2	0.9	1.1	3.8	–1.6
Gross fixed capital formation	–0.3	–3.5	11.5	5.8	6.6	–25.7	9.7
Capital goods	1.2	–0.1	12.5	7.5	3.6		
Construction	–1.5	–6.2	12.2	4.6	9.0		
Domestic demand (vs. GDP Δ)	1.3	–1.0	3.3	3.1	2.8	–11.2	7.5
Exports of goods and services	5.2	3.5	8.4	4.5	3.7	–33.7	51.1
Imports of goods and services	3.6	1.6	8.1	5.8	5.3	–32.4	46.0
Gross domestic product	**1.5**	**–0.3**	**3.5**	**2.6**	**2.2**	**–12.0**	**8.2**
Other variables							
Employment	0.4	–1.1	3.3	2.3	1.0	–6.4	1.4
Unemployment rate (% of labour force)	6.1	12.2	8.9	7.0	6.5	11.6	10.5
Consumer price index	3.0	1.2	1.4	1.0	0.3	–0.5	1.1
Current account balance (% GDP)	–9.2	–4.1	1.2	0.4	–0.1	–0.3	–0.1
External funding capacity/needs (% GDP)	–7.7	–2.7	2.1	1.4	0.9	0.8	1.0
Fiscal balance (% GDP)	–4.6	–6.4	–3.0	–0.4	0.2	–11.8	–6.2

Forecasts

Despite the doubts, the financial markets continue to recover

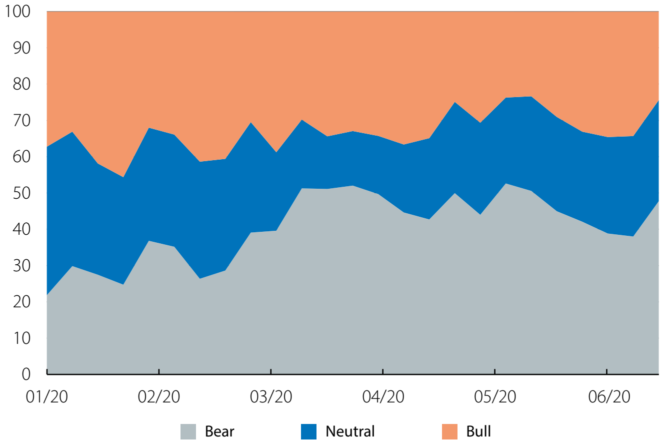
Investors debate between recovery and resurgence. We have now left behind the weeks of March when the paralysis of most economies due to the COVID-19 outbreak and a large dose of uncertainty among investors led to the biggest collapse in the financial markets in several decades. Since then, the powerful monetary and fiscal stimuli from the central banks and governments, as well as the gradual lifting of social distancing measures, have fuelled investor sentiment and facilitated an appreciation of riskier assets, such as equities, speculative-grade corporate debt and commodities. However, following this stabilisation of sentiment, investors have acted more cautiously in recent weeks. In June, the markets also maintained a positive tone but risk appetite was more restrained, as the economic data have confirmed that the decline in economic activity in recent months has been very sharp and the projections continue to suggest that the economic recovery will be gradual and dependent on the absence of new outbreaks (indeed, in June there were sessions marked by financial volatility due to a rise in cases, especially in the US and Latin America).

The stock markets register gains in an uncertain scenario. Since the heavy losses endured in the stock markets in March, equities have registered significant gains around the world (the global MSCI index is up 35%), despite still being down on a year to date basis. The recovery of the stock market indices has occurred unevenly between regions, mainly due to the sectoral composition of each index and their differing price multiples. Nevertheless, some of the common aspects that have supported gains across the board include the improved economic outlook and the wide range of fiscal and monetary stimuli. The most representative example lies in the US and European stock markets, where the decisive responses from the Fed and the ECB and the EU's proposed Recovery Fund boosted investors' risk appetite in June (EuroStoxx 50 +6.0%, S&P 500 +1.8% and Nasdaq +6.0%). However, this buoyancy in stock prices was not free of volatility. There were several sessions in which the rise in COVID-19 infections and institutions' caution regarding the pace of economic recovery dragged the stock indices down.

The oil price moves clear of its recent lows. Another asset that followed a very similar path is oil. In June, the price of a barrel of Brent continued to rise, reaching over 43 dollars, a level not seen since the beginning of March. This rise was due to a gradual acceleration in the demand for fuel (linked to the restoration of activity in most countries and the improvement in investor sentiment) and the continuing decline in supply from OPEC and its allies. Indeed, this latter factor gained prominence following the extension of the agreement to cut production by 9.7 million barrels a day until the end of July (initially, the cuts were due to be relaxed starting in early July)

US: market sentiment

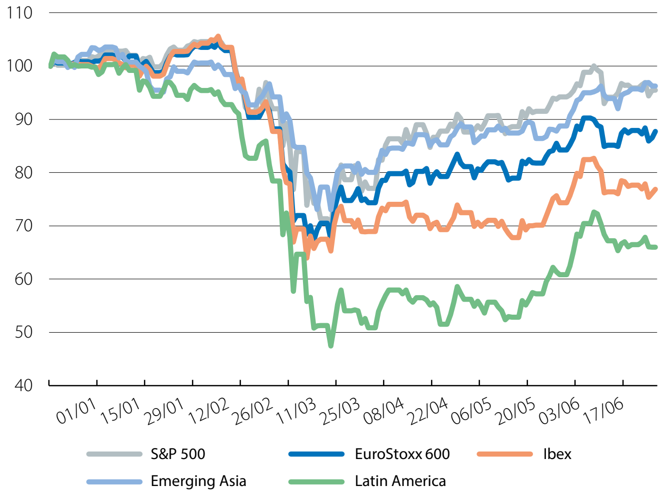
(%)



Note: *Percentage of investors who respond to the American Association of Individual Investors sentiment survey: bull, bear or neutral.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Main international stock markets

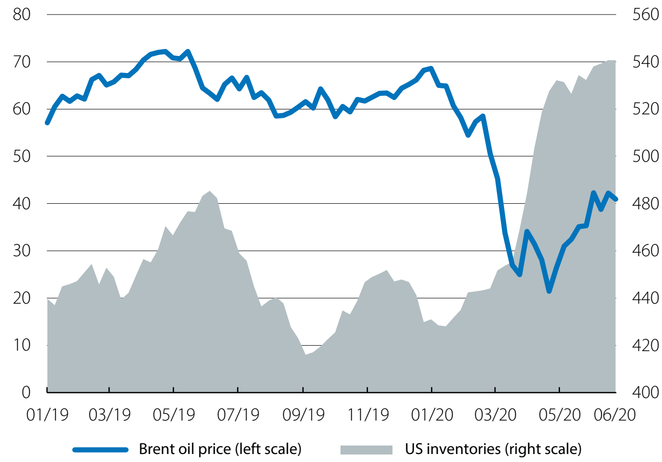
Index (100 = January 2020)



Source: *CaixaBank Research, based on data from Bloomberg.*

Oil: price of a barrel of Brent and US crude oil inventories

(Dollars per barrel) *(Million barrels)*



Source: *CaixaBank Research, based on data from Bloomberg.*

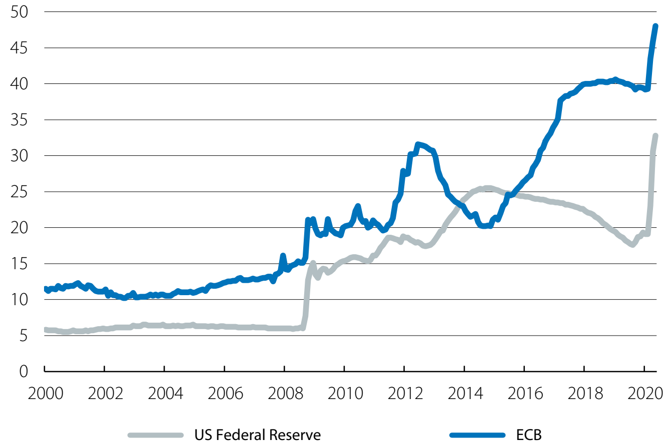
and a stricter enforcement of the production quotas among its members. Meanwhile, the price of a barrel of WTI (West Texas Intermediate, the benchmark oil price in the US, which in previous months had temporarily fallen to negative prices) was also boosted by activity being halted at several shale extraction wells and rose to 38 dollars.

The ECB redoubles its efforts to combat COVID-19. At its last meeting in June, the bank presented a gloomier view of the economic outlook (it estimates that euro area GDP will fall by around 9% in 2020, although it also offered a more severe scenario in which it could fall by 12.6%), despite the signs of incipient recovery from some economic activity indicators. For this reason, and in an attempt to ease the financial and economic tensions that could arise from such an uncertain scenario, the ECB announced significant measures: (i) a 600-billion-euro increase in the pandemic emergency purchase programme (PEPP), which will be added to the 750 billion already announced in March, (ii) the extension of the PEPP until at least June 2021 and (iii) the reinvestment of the principal of PEPP maturities up until the end of 2022. These measures were in addition to other existing asset purchase programmes and official interest rates being kept at their historical lows. In addition, liquidity injections reached a historic peak in June, with demand for June's TLTRO reaching 1.3 trillion euros (a net increase in liquidity of 548 billion euros, after discounting the portion corresponding to refinancing previous operations).

The other major central banks are also expanding dovish measures. Like the ECB, other central banks took further steps to address the adverse economic scenario triggered by the pandemic. On the one hand, the Fed facilitated access to some of the programmes aimed at supporting corporate credit and hinted at the possibility of controlling the sovereign yield curve through its participation in the treasuries market, like the Bank of Japan is already doing. On the other hand, the Bank of England increased the total sovereign debt it intends to purchase by the end of the year by 100 billion pounds (to 745 billion). Similarly, in emerging economies, China's central bank cut the repo rate to 2.35%, while in Brazil official rates fell to new historic lows (2.25%).

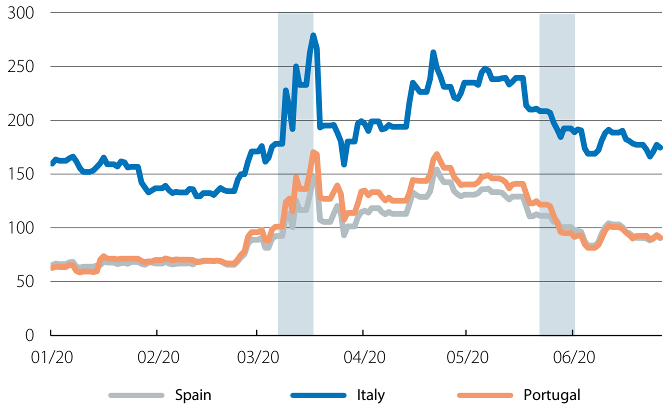
Yields in the euro area periphery continue to decline. In June, the ECB's actions through the PEPP and the fourth TLTRO auction continued to favour a decline in long-term yields in the debt of the euro area periphery to pre-COVID-19 levels. Investor optimism regarding the EU's recovery fund and Fitch's confirmation of Spain's rating (A–) also helped in this regard. The yield curves of lower-risk debt such as that of the US and Germany, meanwhile, remained relatively stable in the face of the rise in uncertainty regarding the economic outlook towards the end of the month. In this context, the US dollar weakened against most advanced currencies and the euro stood above 1.12 dollars.

Central bank balance sheets as a percentage of GDP
(%)



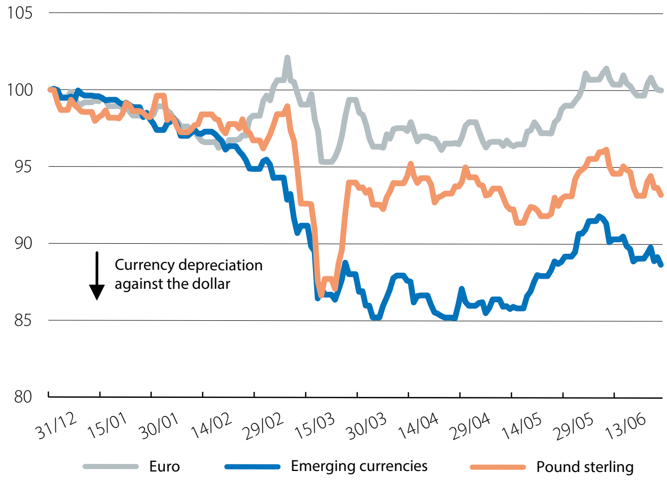
Source: *CaixaBank Research, based on data from Bloomberg.*

Euro area: risk premiums of 10-year public debt
(bps)



Note: *The shaded areas indicate, from left to right, the spread of COVID-19 in March and the EU's Recovery Fund proposal in May.*
Source: *CaixaBank Research, based on data from Bloomberg.*

International currencies against the dollar
Index (100 = January 2020)



Source: *CaixaBank Research, based on data from Bloomberg.*

Interest rates (%)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	0.00	0.00	0	0.0	0.0
3-month Euribor	–0.42	–0.31	–12	–3.9	–7.6
1-year Euribor	–0.23	–0.09	–14	2.4	–0.8
1-year government bonds (Germany)	–0.55	–0.57	2	9.0	12.4
2-year government bonds (Germany)	–0.69	–0.66	–3	–8.6	7.0
10-year government bonds (Germany)	–0.45	–0.45	–1	–26.9	–9.7
10-year government bonds (Spain)	0.47	0.56	–10	–0.1	13.1
10-year government bonds (Portugal)	0.48	0.50	–3	3.4	6.3
US					
Fed funds	0.25	0.25	0	–150.0	–225.0
3-month Libor	0.30	0.34	–5	–161.2	–203.6
12-month Libor	0.56	0.67	–12	–144.0	–164.6
1-year government bonds	0.15	0.16	–1	–141.6	–178.1
2-year government bonds	0.15	0.16	–1	–142.1	–163.9
10-year government bonds	0.66	0.65	0	–126.1	–136.8

Spreads corporate bonds (bps)

	30-June	31-May	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	67	72	–5	23.0	16.1
Itraxx Financials Senior	80	85	–6	27.9	17.5
Itraxx Subordinated Financials	167	181	–14	53.1	39.1

Exchange rates

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.123	1.110	1.2	0.2	–0.5
EUR/JPY (yen per euro)	121.240	119.770	1.2	–0.4	–0.9
EUR/GBP (pounds per euro)	0.906	0.899	0.7	7.1	1.5
USD/JPY (yen per dollar)	107.930	107.830	0.1	–0.6	–0.5

Commodities

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	360.1	367.1	–1.9	–10.3	–11.3
Brent ($/barrel)	41.2	35.3	16.5	–37.7	–36.8
Gold ($/ounce)	1,781.0	1,730.3	2.9	17.4	28.7

Equity

	30-June	31-May	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	3,100.3	3,044.3	1.8	–4.0	4.6
Eurostoxx 50 (euro area)	3,234.1	3,050.2	6.0	–13.6	–7.5
Ibex 35 (Spain)	7,231.4	7,096.5	1.9	–24.3	–21.9
PSI 20 (Portugal)	4,390.3	4,330.7	1.4	–15.8	–15.4
Nikkei 225 (Japan)	22,288.1	21,877.9	1.9	–5.8	2.6
MSCI Emerging	995.1	930.4	7.0	–10.7	–6.5

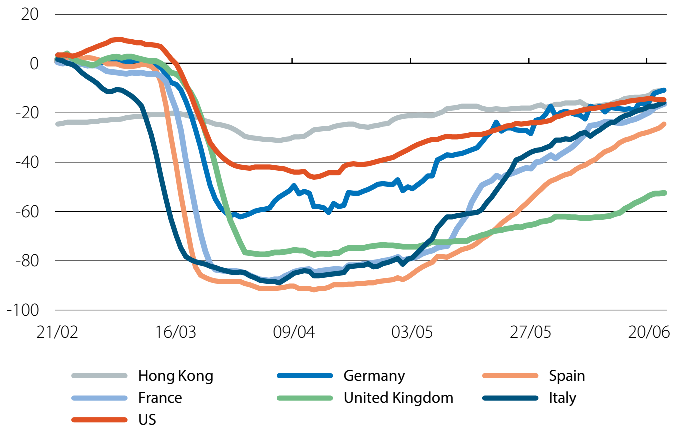
One step forward and another step back: the global economy advances in the de-escalation phase, but COVID-19 casts a long shadow

A second fateful quarter with some glimmers of hope towards the end. The major economies have seen improvements in their macroeconomic data in May and June as the lockdown measures have been largely relaxed, following the unprecedented collapse of April. However, the economy started from such a low point in May that this progress will only serve to slightly mitigate the GDP declines in Q2 that are expected to be both historic and widespread (with the exception of China). In particular, the economic activity indicators suggest declines in GDP for Q2 in the euro area and the US of around 20% and 10%, respectively. The recovery will be gradual but incomplete in the remainder of the year, as the severity of the social distancing measures – which are unlikely to disappear altogether – will need to be repeatedly adjusted depending on the outbreaks of SARS-CoV-2 that occur. The recent re-implementation of some rather restrictive lockdown measures in the metropolitan area of Lisbon or in Texas in response to new outbreaks serves as an illustrative example of this new reality. Indeed, generally speaking it will not be possible to lift the measures entirely until an effective vaccine or treatment is discovered. Therefore, even if the economic response to counter the pandemic is strong enough (as is the case on the part of the ECB and the Fed), the uncertainty surrounding the virus will continue to restrict the economy's productive capacity. This diagnosis is shared by the IMF, which has downgraded its forecast for the global economy in its June Update. The Fund now predicts a 4.9% drop in global GDP in 2020 (compared to –3.0% in its spring forecasts) and a more gradual recovery in 2021 (+5.4% versus the previous +5.8%). These forecasts are similar to those of CaixaBank, which, after a substantial downward revision in the European economies, now forecasts a 4.2% drop in global GDP followed by a 6.1% rebound in 2021.

In Europe, swords are raised high ahead of negotiations on the recovery plan. The negotiations to approve this plan presented by the European Commission at the end of May have already begun. Let us remember that the European Commission proposed a recovery plan which would include a fund of some 750 billion euros (5.4% of EU GDP), of which 500 billion euros would be disbursed in the form of transfers, while 250 billion euros would come in the form of loans. The negotiations will be arduous, and the multi-step process, long and winding: once there is a political agreement between Member States, it will have to be approved by the European Parliament and, finally, by the state parliaments. The plan is relatively large in macroeconomic terms and represents a very

Footfall in retail areas

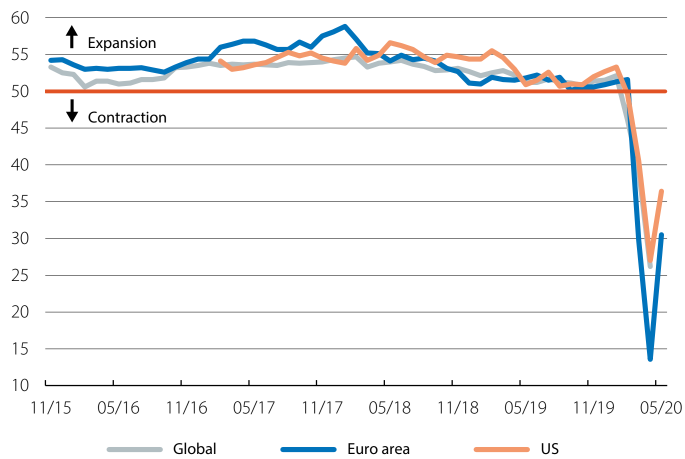
*Change relative to the base level * (%)*



Notes: *Data based on 7-day averages. * The base level corresponds to the average footfall recorded on the same day of the week between 3 January and 6 February.*
Source: *CaixaBank Research, based on data from the Google Mobility Report.*

Composite PMI

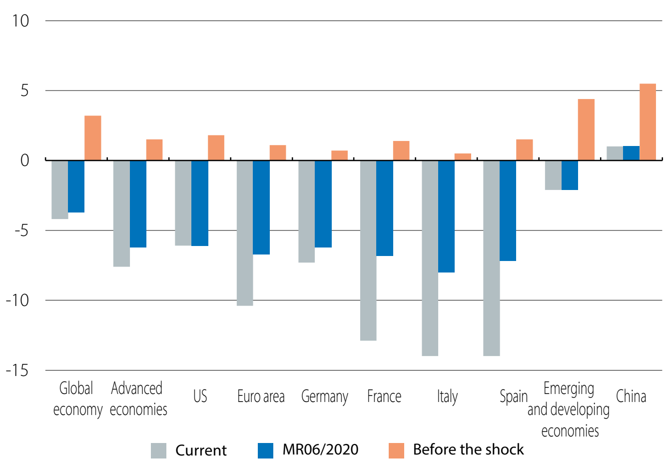
Level



Note: *The May data for the euro area and the US correspond to the Flash PMI.*
Source: *CaixaBank Research, based on data from IHS Markit.*

CaixaBank Research's 2020 growth forecast

(%)



Source: *CaixaBank Research.*

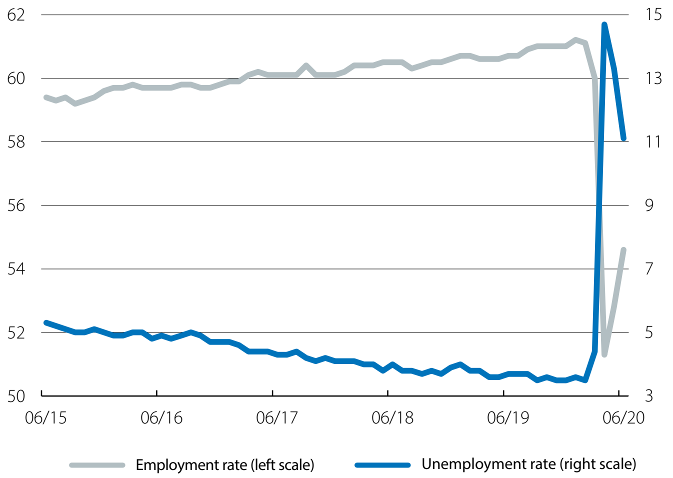
encouraging first step towards a truly federal Europe, especially if new taxes (green, digital, etc.) are adopted at the European level. Given the substantial support for the plan (it is strongly inspired by a Franco-German proposal), we can expect a version that is reasonably similar to this initial proposal to be approved. That said, the two major sticking points will be determining the final amount of transfers versus loans (it could be modified) and the extent to which conditions are attached to the receipt of the funds.

ADVANCED ECONOMIES

Significant downward revision of the euro area's macroeconomic outlook. The economic activity indicators for the euro area in Q2 suggest a quarter-on-quarter drop in GDP of around 20%. This, together with the prospects of a gradual but incomplete recovery of the economy in the second half of the year, has led us to revise our growth forecast for the euro area in 2020 substantially downward (by 3.7 pps) to –10.4%. This revision is widespread across all countries: down to –7.3% in Germany (previously –6.2%), –12.9% in France (previously –6.8%) and to –14.0% in Italy (previously –8.0%). Thus, the economies with less fiscal space and where the pandemic has been more intense, such as Spain and Italy, will be significantly harder hit than economies such as Germany (following its latest fiscal package, which includes measures such as a temporary cut in VAT and a limit on social security contributions, the combined total of all the direct aids announced now represents slightly more than 13% of GDP). Looking ahead to 2021, the rebound will be significant but gradual, and the euro area is unlikely to recover to pre-crisis levels before 2023. In spite of this sombre picture, it is worth highlighting that as the lockdown has been gradually lifted, economic activity has recovered some of its strength. We need look no further than the euro area's composite PMI, which rose to 47.5 points in June following a partial recovery in May (31.9). Moreover, consumer confidence in the euro area also improved in June for the second consecutive month, increasing from –18.8 in May to –14.7 in June – a possible indication of a recovery in consumption in the second half of the quarter.

Improvement in the US labour market, although SARS-CoV-2 offers no respite. On the one hand, the US composite PMI stood at 46.8 points in June, an improvement compared to May (37.0) but still below the 50-point threshold that separates recession from expansion. On the other hand, the labour market indicators were positive in June, with the creation of 4.8 million jobs, an improvement on the already hopeful figure for May (+2.5 million jobs). However, it should be recalled that 1.4 million and 20.7 million jobs were destroyed in March and April, respectively. With these figures, the unemployment rate fell to 11.1% (–3.6 pps compared to April). Nevertheless, these green shoots could be cut short if the rise in the number of people infected with COVID-19 in June, which was particularly acute in the country's Southern and Western states, forces a tightening of lockdown measures.

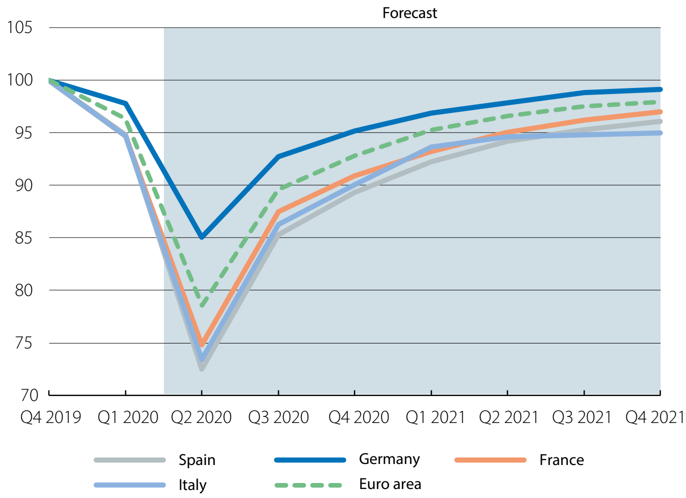
US: labour market



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

Euro area: GDP

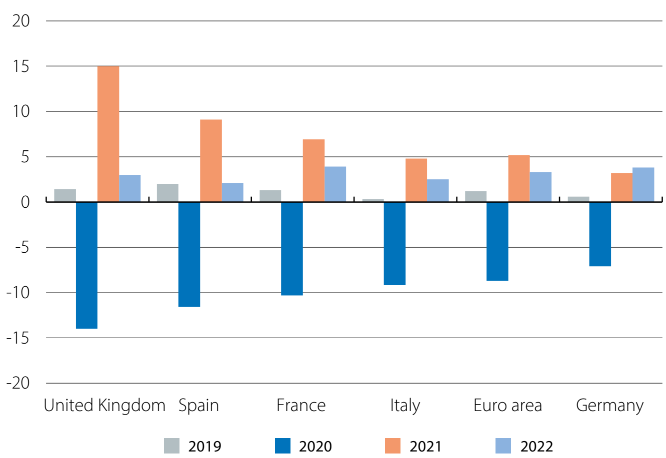
Index (100 = Q4 2019)



Source: *CaixaBank Research.*

Central banks' baseline GDP forecast scenario

(%)



Source: *CaixaBank Research, based on data from Eurostat and national statistics offices.*

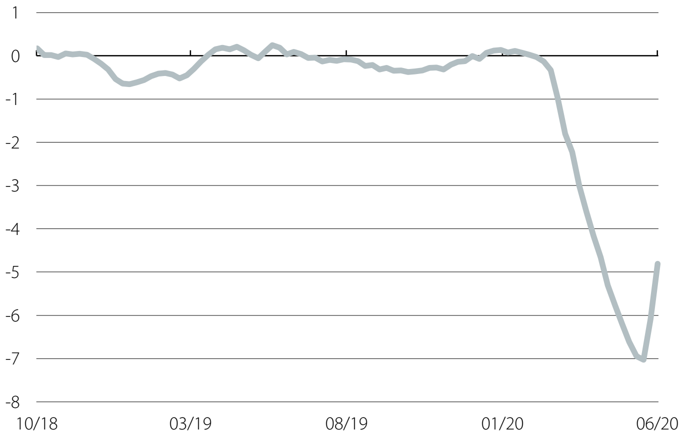
Bleak economic outlook for the United Kingdom, where the Brexit's sword of Damocles remains ever present. According to official estimates, GDP fell by 20.4% in April compared to March (–5.8% in March), the series' largest drop since its inception in 1997. This estimate for the month of April indicates an unprecedented decline in economic activity in Q2. As for Brexit, it will continue to be a source of uncertainty for the remainder of the year: the British Government has decided not to request an extension to the transitional agreement which expires at the end of 2020 (the deadline was 1 July). Therefore, the British Government will be seeking a basic trade agreement before the end of the year, or a number of sectoral agreements with the EU. The negotiations will be fierce, given the existing chasm on issues like regulatory alignment on matters such as the setting of state aid or labour and environmental regulation, which the EU considers indispensable. As such, the possibility of a no-deal Brexit at the beginning of 2021 cannot be ruled out.

EMERGING ECONOMIES

Economic activity improves in China. In China, industrial production grew by 4.4% year-on-year in May (3.9% in April), while retail sales contracted by 2.8% year-on-year, clearly improving on the –7.5% registered in April. In addition, the services index which measures tertiary sector activity returned to positive territory for the first time since the pandemic began, with year-on-year growth of 1.0% in May (–4.5% in April). These indicators suggest that activity in China's economy is normalising – in some sectors such as real estate, car sales and manufacturing, the rebound has been strong –, albeit gradually. Looking ahead to the next few months, we expect the economy to shift up a gear, propped up by the fiscal stimuli, provided that local outbreaks of the coronavirus like those that occurred in the second half of June in Beijing are contained. Finally, in the geopolitical sphere, the passing of a security law that gives China more power in Hong Kong could lead to increased instability on the island and heightened tensions with advanced economies.

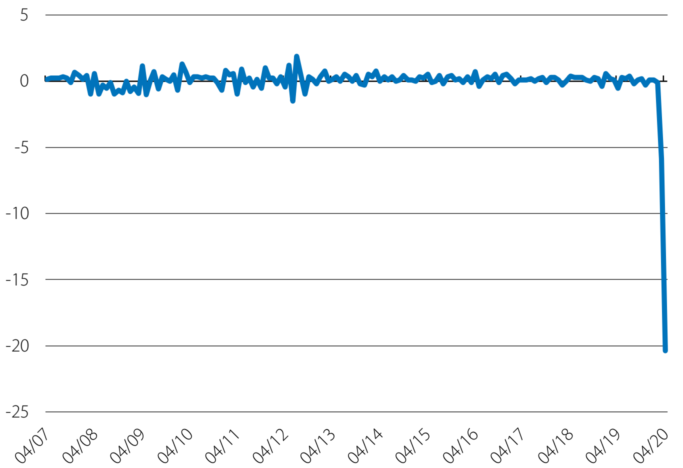
Latin America faces a difficult context. In the rest of the emerging economies, the outlook for Q2 is negative and the IMF has already warned of the impact of the pandemic on economic growth in Latin America, a continent heavily affected by COVID-19 due to the fragility of its healthcare institutions and poor public finances. In this scenario, according to the Fund, Brazil is expected to suffer its biggest recession in several decades in 2020, while Mexico is expected to endure a decline of 10.5% (similar to our forecast of –8.5%).

Germany: weekly economic activity index
*Quarter-on-quarter change (%) **



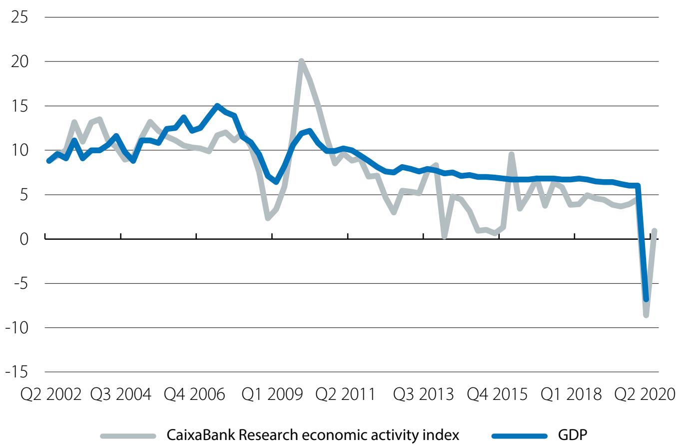
Note: ** Growth in economic activity in the last 13 weeks compared to the previous 13 weeks.*
Source: *CaixaBank Research, based on data from Bundesbank.*

United Kingdom: GDP growth
Month-on-month change (%)



Source: *CaixaBank Research, based on data from the United Kingdom Office for National Statistics.*

China: economic activity index versus official GDP
Year-on-year change (%)



Note: *The growth in the economic activity index for Q2 is obtained based on the economic activity data for April and May.*
Source: *CaixaBank Research.*

Savings and COVID-19: how far will Europe's saving fever go?

- **The increase in bank deposit volumes in European economies indicates a substantial increase in savings. The «pent-up savings» effect resulting from the lockdown is expected to be quickly undone, but saving driven by uncertainty will persist until the outlook improves.**
- **Both saving patterns during the 2008 financial crisis and a statistical exercise suggest a high increase in the euro area's savings rate in 2020, which will be partially undone in 2021. This phenomenon could be particularly accentuated in the economies hardest hit by the COVID-19 outbreak.**

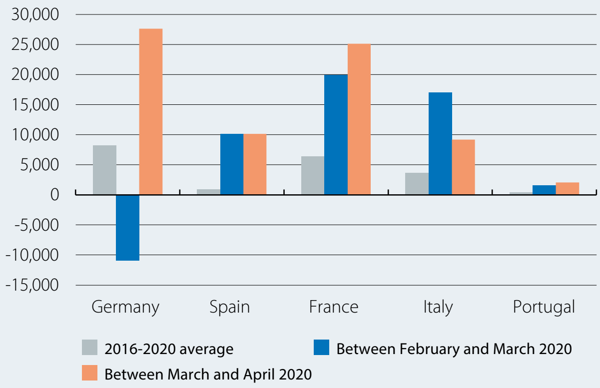
Analysing European consumers' saving patterns at this time is key, since a revival of consumption will serve as one of the pillars that will support the economic recovery after the coronavirus. At present, we already have macroeconomic data suggesting substantial changes in saving habits following the virus' arrival (see first chart). Volumes of bank deposits in the major European economies increased significantly in both March and April. In Spain, for instance, the increase amounted to 20 billion euros in March-April (equivalent to 1.6% of GDP in 2019), while in France it was 45 billion (1.9% of GDP). In Germany, the increase reached 16 billion (0.5% of GDP).

This increase in deposits appears to indicate a significant rise in savings. This is natural in the short term: on the one hand, there is a «pent-up savings» effect, since the options for consumption have been considerably reduced with the lockdown. On the other hand, there is also a precautionary saving factor: usually, in demanding circumstances like the current one, households save more faced with the uncertainty over what the future holds for their work and finances and to prepare for potential unforeseen events.

Looking ahead to the next few months, it is quite possible that the «pent-up savings» effect will be undone as the economy is reactivated in the new normal. In contrast, precautionary saving will continue to weigh down on consumption, as uncertainty over the economic outlook and the possibility of further outbreaks of SARS-CoV-2 will remain high.

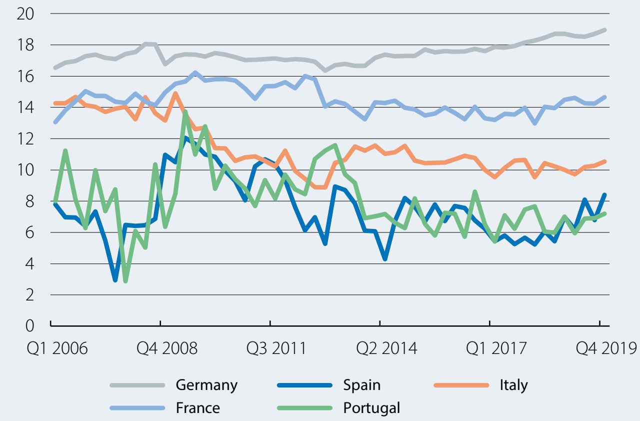
The 2008 financial crisis is a good reference point for analysing what happens to saving habits in times of uncertainty and economic hardship and, therefore, it serves to shed some light on what might happen in the current circumstances. In the euro area, the household savings rate (savings divided by gross disposable income) experienced a relatively modest rise between 2008 and 2009, and by 2010 this increase had already been undone. However, in the economies hardest hit by the crisis and with more modest pre-crisis savings rates, such as Spain and Portugal, the rise between 2008 and 2009 was much higher (+3.6 pps and 4.5 pps, respectively) and the savings rate reverted to pre-crisis levels much later (in 2012 in Spain and in 2014 in Portugal). This contrasted with the relative stability in the savings of German households.

Euro area: monthly increase in bank deposits
(EUR millions)



Source: *CaixaBank Research, based on data from the ECB.*

Europe: savings rate in the major countries
(%)



Source: *CaixaBank Research, based on data from Eurostat.*

This difference between Mediterranean and Northern countries (the latter save more and their savings rate fluctuates less) may be linked to cultural factors, such as differences between the Catholic and Protestant religion[1] or citizens' differing degrees of patience. For instance, a study published by the ECB shows that German-speaking households in Switzerland have an 11-pp higher probability of saving than similar households in nearby French-speaking areas, due to the fact that the former

1. See B. Arruñada (2004). «The economic effects of Christian moralities». Universitat Pompeu Fabra.

tend to place greater value on income they will receive in the future.[2]

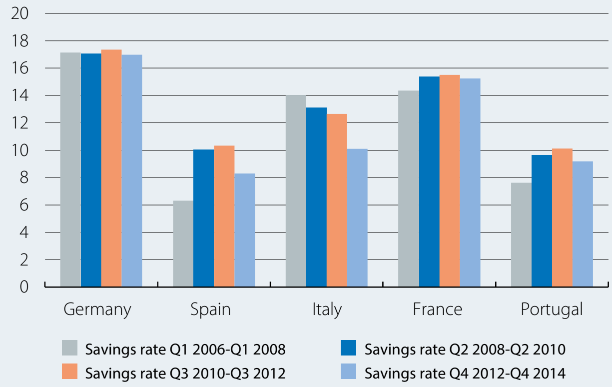
In the 2008 crisis, precautionary saving played an important role; not in vain, according to one study,[3] this type of saving was responsible for at least 40% of the changes in saving habits that occurred in advanced economies (according to the same study, the rest was due to interest rates, public transfers and reduced wealth, in equal proportions). In the current scenario, the unprecedented magnitude of the decline in economic activity and the high degree of uncertainty point towards a contraction in consumption that would lead to a significantly higher rise in the savings rate in 2020 than that seen in 2009, which would then begin to be undone in 2021.

Finally, we looked at what the predicted savings rate would be based on our forecasts for growth, unemployment and the European reference rate, controlling a measure of macroeconomic volatility.[4] For the euro area, the prediction indicates an increase in the savings rate from 13.0% in 2019 to around 20% in 2020 (a record level), and a fall in 2021 down to 14.0%. The forecasts produced by major institutions such as the European Commission paint a similar picture, predicting an increase in the savings rate up to record levels in 2020 in the euro area (reaching 19.4%) and a fall in 2021 that would bring it down to 14.0%.

This increase in 2020 may seem exaggerated, but it is in fact consistent with the European Commission's forecasts for the variables that determine the savings rate. In particular, they expect a very sharp fall in consumption (of around 9%) but only a very moderate drop in gross disposable income (GDI, of less than 2.0%).[5] However, if the fiscal boost ends up failing to live up to expectations, the drop in GDI could be greater than currently anticipated, which would somewhat temper the surge in the savings rate.

Europe: savings rate before and after the financial crisis

(%)



Source: *CaixaBank Research, based on data from Eurostat.*

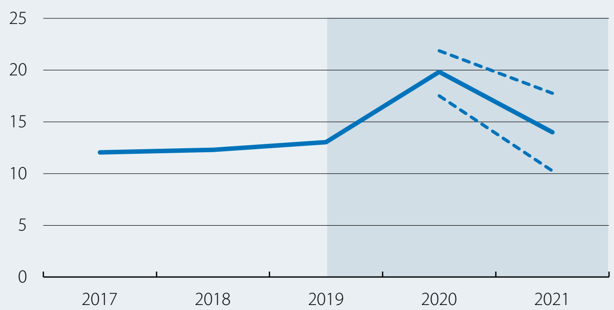
The rise in savings rates in the hardest hit economies, such as Spain and Italy, could be particularly high. However, come 2021, the recovery in economic activity and the reduced uncertainty should help these economies to undo much of the increase in savings.

In short, precautionary saving has come to stay, at least until the uncertainties surrounding the coronavirus dissipate. At the current juncture, these uncertainties are unusually high, meaning that we will probably have to wait some time before European households are as spendthrift as just a few months ago.

Javier Garcia-Arenas
(with technical assistance from Pablo Pastor y Camarasa)

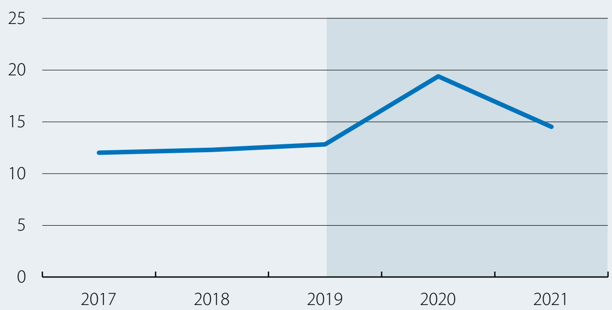
Euro area savings rate: statistical model predictions

(%)



Euro area savings rate: European Commission forecasts

(%)



Note: *In the left-hand chart, the estimates are derived from the model specified in note 4 of the article, while the dotted lines represent 95% confidence intervals.*
Source: *CaixaBank Research, based on data from AMECO.*

2. See B. Guin (2017). «Culture and household saving». Working Paper Series nº 2069. European Central Bank.
3. See A. Mody, F. Ohnsorge and D. Sandri (2012). «Precautionary savings in the great recession». IMF Economic Review, 60(1), 114-138.
4. We use a linear regression for the major European economies with panel data that include fixed country and year effects. The R^2 of the model is 88%.
5. Indeed, the European Commission does not have aggregate forecasts for GDI for the euro area as a whole, but using forecasts for the various individual economies we have built a weighted average for the entire euro area.

Year-on-year (%) change, unless otherwise specified

UNITED STATES

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
Activity									
Real GDP	2.9	2.3	2.3	2.1	2.3	0.3	–	–	–
Retail sales (excluding cars and petrol)	4.7	3.9	3.8	4.3	4.0	3.1	1.0	–14.1	–3.9
Consumer confidence *(value)*	130.1	128.3	128.3	132.1	127.0	127.3	118.8	85.7	86.6
Industrial production	3.9	0.9	1.2	0.2	–0.7	–2.0	–4.9	–16.2	–15.3
Manufacturing activity index (ISM) *(value)*	58.9	51.2	52.4	49.4	48.1	50.0	49.1	41.5	43.1
Housing starts *(thousands)*	1,248	1,295	1,257	1,288	1,433	1,484	1,269	934	974
Case-Shiller home price index *(value)*	211	217	216	217	219	222	223	...	...
Unemployment rate *(% lab. force)*	3.9	3.7	3.6	3.6	3.5	3.8	4.4	14.7	13.3
Employment-population ratio *(% pop. > 16 years)*	60.4	60.8	60.6	60.9	61.0	60.8	60.0	51.3	52.8
Trade balance [1] *(% GDP)*	–2.2	–2.7	–2.9	–2.9	–2.7	–2.6	–2.6	–2.6	...
Prices									
Headline inflation	2.4	1.8	1.8	1.8	2.0	2.1	1.5	0.3	0.1
Core inflation	2.1	2.2	2.1	2.3	2.3	2.2	2.1	1.4	1.2

JAPAN

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
Activity									
Real GDP	0.3	0.7	0.9	1.8	–0.7	–1.9	–	–	–
Consumer confidence *(value)*	43.6	38.9	39.4	37.1	38.1	36.0	30.9	21.6	24.0
Industrial production	1.0	–2.7	–1.5	–1.9	–6.7	–4.3	–6.8	–15.9	...
Business activity index (Tankan) *(value)*	20.8	6.0	7.0	5.0	0.0	–8.0	–	–	–
Unemployment rate *(% lab. force)*	2.4	2.4	2.4	2.3	2.3	2.4	2.5	2.6	...
Trade balance [1] *(% GDP)*	–0.1	–0.3	–0.5	–0.4	–0.3	–0.2	–0.2	–0.5	–0.6
Prices									
Headline inflation	1.0	0.5	0.8	0.3	0.5	0.5	0.4	0.1	0.0
Core inflation	0.3	0.6	0.6	0.6	0.7	0.7	0.6	0.2	0.4

CHINA

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
Activity									
Real GDP	6.7	6.1	6.2	6.0	6.0	–6.8	–	–	...
Retail sales	9.0	9.0	8.5	7.6	7.7	–18.2	–15.8	–7.5	–2.8
Industrial production	6.2	5.8	5.6	5.0	5.9	–7.3	–1.1	3.9	4.4
PMI manufacturing *(value)*	50.9	49.7	49.6	49.7	49.9	45.9	52.0	50.8	50.6
Foreign sector									
Trade balance [1,2]	352	421	393	427	421	361	361	394	415
Exports	9.9	0.5	–1.0	–0.3	1.9	–13.4	–6.6	3.4	–3.3
Imports	15.8	–2.7	–3.6	–6.2	3.4	–2.9	–1.0	–14.2	–16.7
Prices									
Headline inflation	2.1	2.9	2.6	2.9	4.3	5.0	4.3	3.3	2.4
Official interest rate [3]	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Renminbi per dollar	6.6	6.9	6.8	7.0	7.0	7.0	7.0	7.1	7.1

Notes: *1. Cumulative figure over last 12 months. 2. Billion dollars. 3. End of period.*
Source: *CaixaBank Research, based on data from the Department of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Standard & Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Thomson Reuters Datastream.*

EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
Retail sales *(year-on-year change)*	1.6	2.3	2.1	2.7	2.0	–1.3	–8.8	–19.6	...
Industrial production *(year-on-year change)*	0.8	–1.3	–1.3	–1.6	–2.1	–5.9	–13.5	–28.0	...
Consumer confidence	–4.9	–7.1	–7.0	–6.8	–7.6	–8.8	–11.6	–22.0	–18.8
Economic sentiment	111.5	103.1	103.8	102.0	100.6	100.1	94.2	64.8	67.5
Manufacturing PMI	55.0	47.4	47.7	46.4	46.4	47.2	44.5	33.4	39.5
Services PMI	54.5	52.7	53.1	52.8	52.3	43.8	26.4	12.0	28.7
Labour market									
Employment (people) *(year-on-year change)*	1.5	1.2	1.2	1.1	1.1	0.4	...	...	...
Unemployment rate *(% labour force)*	8.2	7.6	7.6	7.5	7.4	7.2	7.1	7.3	...
Germany *(% labour force)*	3.4	3.2	3.1	3.1	3.2	3.4	3.5	3.5	...
France *(% labour force)*	9.0	8.5	8.5	8.5	8.2	7.7	7.6	8.7	...
Italy *(% labour force)*	10.6	9.9	10.0	9.7	9.5	8.8	8.0	6.3	...
Real GDP *(year-on-year change)*	1.9	1.2	1.2	1.3	1.0	–3.1	–	–	...
Germany *(year-on-year change)*	1.6	0.6	0.3	0.7	0.4	–2.3	–	–	...
France *(year-on-year change)*	1.8	1.5	1.8	1.6	0.9	–5.0	–	–	...
Italy *(year-on-year change)*	0.7	0.3	0.4	0.5	0.1	–5.4	–	–	...

Prices

Year-on-year change (%), unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
General	1.8	1.2	1.4	1.0	1.0	1.1	0.8	0.3	0.1
Core	1.0	1.0	1.2	1.1	1.3	1.3	1.2	1.1	1.2

Foreign sector

Cumulative balance over the last 12 months as % of GDP of the last 4 quarters, unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
Current balance	**3.2**	**2.8**	**1.2**	**2.8**	**2.8**	**3.0**	**3.0**	...	...
Germany	7.4	7.1	9.3	6.9	7.1	7.1	7.1	6.8	...
France	–0.6	–0.7	–1.5	–0.7	–0.7	–0.7	–0.7	–0.8	...
Italy	2.5	3.0	–0.1	2.6	3.0	3.3	3.3	...	...
Nominal effective exchange rate[1] *(value)*	**98.9**	**97.3**	**97.3**	**97.7**	**96.9**	**96.7**	**98.1**	**97.5**	**97.7**

Credit and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	03/20	04/20	05/20
Private sector financing									
Credit to non-financial firms[2]	3.9	3.8	3.9	3.9	3.5	3.9	5.5	6.6	...
Credit to households[2,3]	3.0	3.4	3.3	3.4	3.5	3.6	3.4	3.0	...
Interest rate on loans to non-financial firms[4] *(%)*	1.2	1.2	1.1	1.1	1.2	1.1	1.1	1.2	...
Interest rate on loans to households for house purchases[5] *(%)*	1.6	1.5	1.6	1.5	1.4	1.4	1.4	1.3	...
Deposits									
On demand deposits	7.9	8.0	7.7	8.6	8.8	9.3	10.9	12.5	...
Other short-term deposits	–1.5	0.3	0.4	0.7	0.3	–0.2	0.0	–0.3	...
Marketable instruments	–4.2	–1.9	–4.6	0.1	–3.3	3.9	10.1	6.7	...
Interest rate on deposits up to 1 year from households *(%)*	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	...

Notes: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated. 2. Data adjusted for sales and securitization. 3. Including NPISH. 4. Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. 5. Loans with a floating rate and an initial rate fixation period of up to one year.*

Source: *CaixaBank Research, based on data from the Eurostat, European Central Bank, European Commission, national statistics institutes and Markit.*

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.

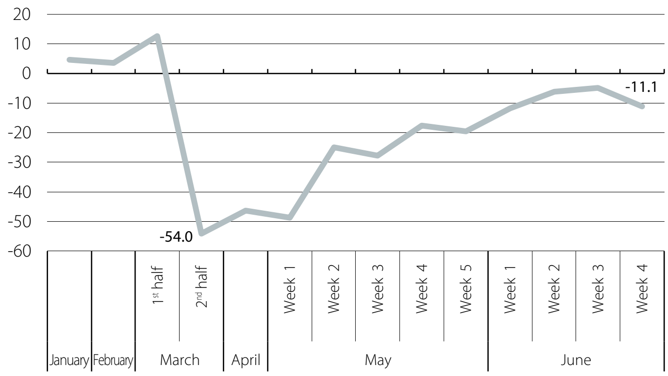
We have been able to follow the significant impact of the lockdown measures practically in real time through the evolution of card spending on CaixaBank POS terminals and cash withdrawals at CaixaBank ATMs.[1] As can be seen in the first chart, the initial impact of the lockdown measures was both sudden 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

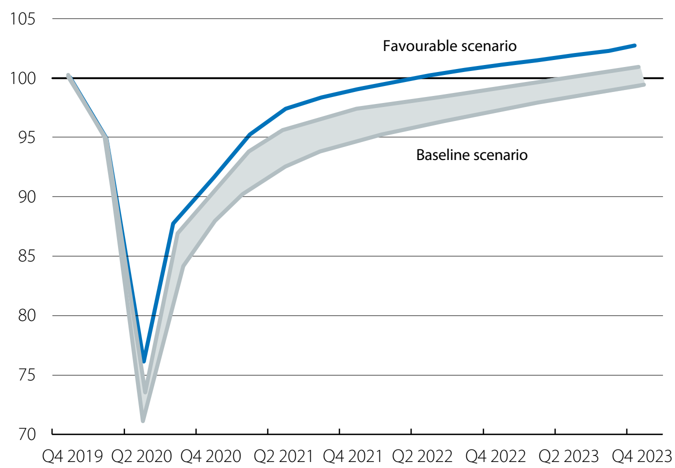
	2019	2020	2021	2022	Acum. 2020-2022
Real GDP *(annual change)*	2.0	–14.0	10.5	3.3	–1.8
Unemployment rate *(annual average)*	14.1	19.3	19.5	17.7	3.6
Inflation *(annual change)*	0.7	–0.5	1.6	1.7	2.8
Budget deficit *(% of GDP)*	–2.8	–13.6	–7.6	–4.8	–26.1
Public debt *(% of GDP)*	95.5	123.8	118.1	116.6	21.1

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.

Oriol Aspachs and Oriol Carreras

Analysing private consumption during the COVID-19 crisis

- **Expenditure by Spanish and foreign cards on point-of-sale (POS) terminals, plus cash withdrawals at CaixaBank ATMs, allow us to monitor the health of the economy, in real time, throughout the COVID-19 crisis.**
- **Card spending fell sharply, by around 50%, during the first few weeks of the lockdown. However, the lifting of the lockdown has been accompanied by a sustained, albeit still incomplete, recovery in spending.**
- **Sharp declines were registered in all categories except for spending on essential goods, which experienced a significant spike. The recovery is also proving to be quicker in spending on retail, leisure and catering and transport than it is in the category of tourism goods and services.**

The outbreak of the COVID-19 pandemic makes it necessary to monitor the state of the economy in real time. Whereas the most well-known indicators are published with a substantial delay, debit and credit card spending on CaixaBank POS terminals plus cash withdrawal at CaixaBank ATMs provides a very high-frequency indicator of what is happening with private consumption.[1] Using this indicator, below we analyse the weekly evolution of consumption throughout the COVID-19 crisis.

What is the impact of the crisis on private consumption according to card spending data?

The first chart shows the weekly evolution of card activity among both residents and foreigners. From the chart we can draw several conclusions. Firstly, there were changes in consumption patterns before the state of alarm was declared: spending by residents rallied in the first half of March due to higher consumption of essential products, as we shall see later on, whereas spending by foreigners began to fall due to the fear of the pandemic, the expectation of the oncoming lockdown and the cancellation of major events.[2]

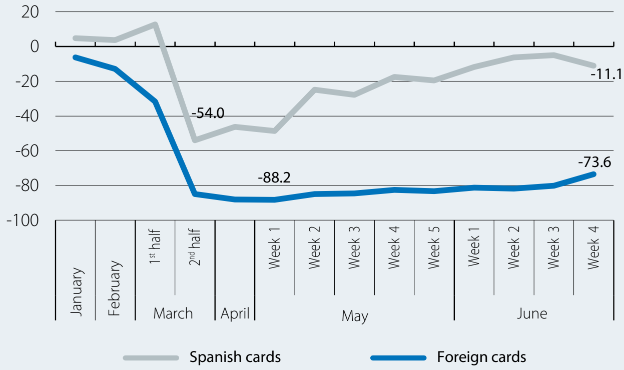
Secondly, the impact of the lockdown was very pronounced: between the second half of March and the first week of May, Spanish card activity fell by half, while that of foreign cards fell by around 90%. The figure for spending by residents is in line with the official data available to date: according to GDP data for Q1 2020 published by the National Statistics Institute, nominal private consumption fell by 6.3% quarter-on-quarter. This suggests a 40% collapse in this measure of private consumption in the second half of March, a figure not dissimilar to the 54% drop we observed in our indicator during the same period.[3]

Finally, the gradual lifting of the lockdown, which commenced on 4 May,[4] has allowed for a significant recovery in spending by residents: spending went from falling by 49% year-on-year in the first week of May (the week before the lockdown measures began to be eased) to falling by just 11.1% in the last week of June. If we exclude e-commerce and cash withdrawals, residents' spending is already in positive territory, with 0.9% year-on-year growth. However, the recovery in foreign spending has been much more restrained, reflecting the restrictions on international mobility that were not lifted until the end of June (and even then, only partially with certain countries).

In the second chart, we analyse the breakdown by type of expenditure. The impact of the crisis on the pattern of household spending has been very uneven. On the one hand, spending on essential goods rose sharply, even during the first half of March before the state of alarm was declared. On the other hand, all other categories of spending registered declines of more than 80% throughout the lockdown period. However, the speed

Spain: evolution of card activity

Change 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.*

1. This indicator is built based on individual transactions, so it can be calculated by the day or even for specific times of day. Furthermore, it should be noted that CaixaBank's POS network is the largest in Spain and represents 27% of the total POS terminal turnover in Spain.
2. Such as the cancellation of the World Mobile Congress, which was due to take place from 24 to 27 February.
3. To estimate the fall in consumption in the second half of March using Q1 GDP data from the National Statistics Institute, we assumed that private consumption in January, February and the first half of March grew at the same rate as the average growth in private consumption in 2019. To the extent that the data suggest higher growth in consumption in the first half of March, as we have seen, this methodology could be underestimating the fall in consumption in the second half of March.
4. 4 May corresponds to the second week of May in the chart.

of recovery has not been consistent across all categories of goods and services. More specifically, spending on retail (appliances, textiles, furniture, etc.), on leisure and catering and on transport has recovered more quickly than spending on tourism goods and services. In the case of retail spending (the category that has recovered the quickest), as early as the second week of June spending was already above the figure recorded during the same period last year, possibly due to the materialisation of pent-up demand for these types of goods that had accumulated during the lockdown. However, in the last week of June, the exhaustion of this factor has brought this category of spending back to neutral territory.

Also of note is the greater relative weight of e-commerce spending during the lockdown. As can be seen in the third chart, e-commerce (especially of the retail variety)[5] steadily gained relative weight between the third week of March and the first week of May, reaching almost 17% of total spending. Nevertheless, as the lockdown was gradually lifted and Spaniards were once again able to make purchases in person, the relative weight of purchases of this type gradually decreased, eventually reaching levels similar to those seen prior to the COVID-19 crisis.

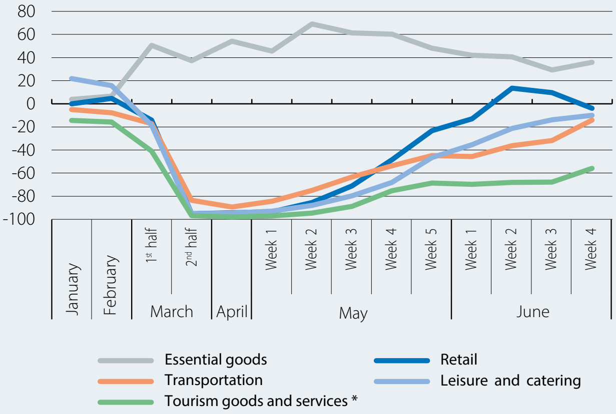
The lifting of the lockdown in detail

In the fourth chart, we show the evolution of card spending in three groups of provinces. These groupings are based on the speed with which each province advanced through the various phases of the lockdown de-escalation process.[6] Group A comprises the provinces that advanced through the phases more quickly (i.e. whenever the de-escalation plan allowed it). Group B is the group of provinces that advanced through the phases with a one-week delay relative to group A. Finally, group C, which includes Barcelona and Madrid, is the group of provinces that took the most time to advance through the phases.

As expected, the recovery in spending was greater in the provinces that advanced through the phases more rapidly. In particular, in the last week of May and the first week of June, whereas spending in group C (still in phase 1) was still slightly more than 20% below the figure for the previous year, in the provinces of groups A and B, which were already in phase 2, spending was already back at levels similar to the previous year. However, once group C advanced to phase 2 in the second week of June,

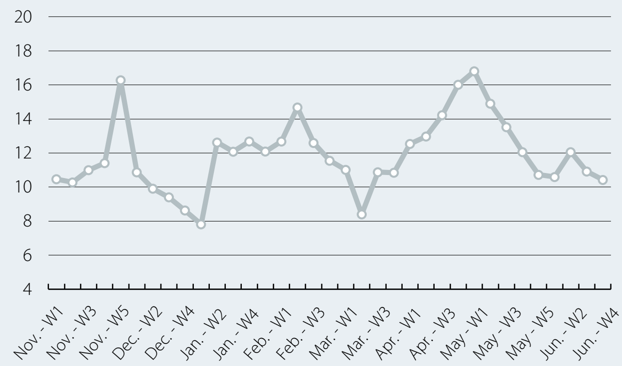
5. Whereas in January and February 2020 e-commerce accounted for around 10% of all retail spending, in April and the first half of May it represented more than 80% of the total.
6. The Government of Spain announced a phased plan to lift the lockdown which began on 4 May and ended on 22 June. The process involved four phases, from 0 to 3, with 0 being the most restrictive phase and 3 being the least restrictive.

Spain: in-person spending with Spanish cards by type of establishment
Year-on-year change (%)



Note: * «Tourism goods and services» includes spending on accommodation, travel agencies and in souvenir shops.
Source: CaixaBank Research, based on internal data.

Spain: residents' e-commerce spending as a proportion of the total (excl. withdrawals)
(%)



Source: CaixaBank Research, based on internal data.

the differences between the three groups faded almost completely.

The evolution of the proportion of inactive retail merchants[7] offers another angle from which to measure the economy's recovery process. As the last chart shows, the percentage of merchants with no transactions registered on their CaixaBank POS terminals rose to 73%. This figure shows the extent to which the lockdown measures forced a large number of businesses to close their doors to the public. Nevertheless, with the gradual lifting of those measures, businesses reopened and this percentage fell. With data up to the fourth week of June, the percentage of inactive CaixaBank POS terminals was 7% above the pre-crisis level.

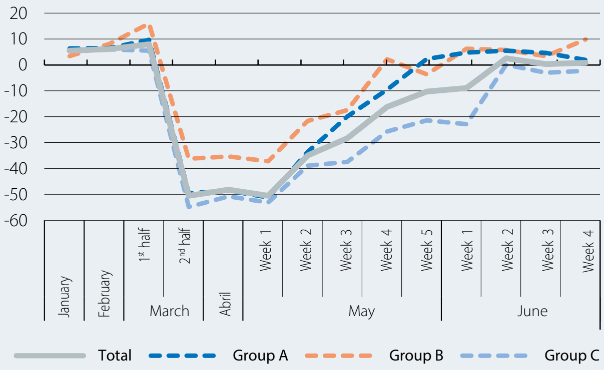
In short, card activity data offer us high-frequency information that is very valuable for understanding how

7. Measured by the percentage of retail merchants with CaixaBank POS terminals that registered no turnover.

private consumption reacted over time. During the COVID-19 crisis, we have seen that the lockdown measures had a profound impact on household consumption and that there were significant differences depending on the type of goods and services in question. In addition, the card data show that the recovery in spending during the gradual lifting of the lockdown was very rapid, albeit incomplete, since at the end of June spending had not yet recovered to pre-crisis levels. With the advent of the new normal, we expect consumption to continue to recover, albeit much more gradually, underpinned by an improvement in spending on transport and in consumption in the field of leisure and catering. We also expect that domestic and foreign tourism spending, which is still at very low levels, will begin to gain momentum with the lifting of restrictions on mobility within Spain and the reopening of international borders with some countries. However, the impact of the current crisis on the labour market (we expect the unemployment rate to rise above 20% by the year end) suggests that consumption will take a long time to recover to its pre-crisis levels.

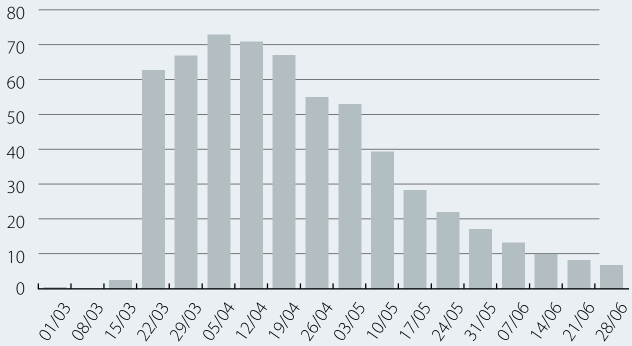
Oriol Carreras

Spain: inter-person card spending * by province group
Year-on-year change (%)



Note: ** Excluding withdrawals.*
Source: *CaixaBank Research, based on internal data.*

Spain: inactive merchants (adjusted so that 1 March = 0%)
(% of the total)



Note: *The series is standardised so that the proportion of inactive merchants is equal to 0% in the week of 2 to 8 March.*
Source: *CaixaBank Research, based on internal data.*

What can we expect from Spain's ERTEs and similar furlough programmes? A European perspective

- Temporary workforce reduction programmes (such as Spain's ERTEs) have become a widely used tool in Europe to prevent a sharp increase in unemployment following the COVID-19 outbreak.
- These programmes have a positive impact on the labour market in the event of temporary shocks affecting firms that are viable in the medium term. However, when a shock is of a more permanent nature, the destruction of jobs is not so much avoided as delayed.

ERTEs have established their role as a key economic policy in Spain for cushioning the immense impact of the COVID-19 outbreak on the labour market. In June, they affected 1.83 million workers (3.4 million at the beginning of May) and represent the bulk of the exceptional expenses incurred in tackling the economic and social emergency we are currently experiencing. As we can see in the first chart, Spain is no exception: temporary workforce reduction programmes, which include ERTEs in Spain, are being widely used throughout Europe.

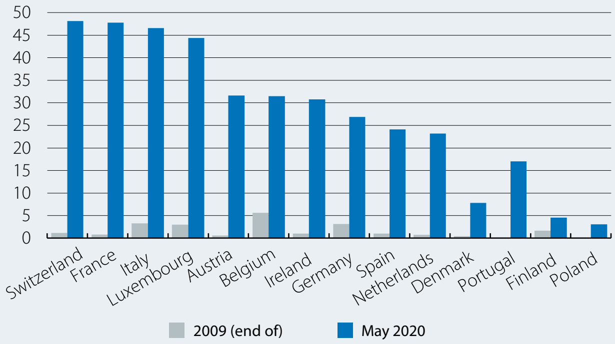
Although there are differences in the institutional design of the programmes implemented in most European economies, they share certain common features: the procedures involved have been streamlined and the eligibility requirements eased, the state covers a fairly high fraction of the salary that workers affected by a total or partial reduction in their work no longer receive, and they are relatively long-lasting (especially in Germany and France).

When analysing the impact of such furlough schemes, we must differentiate between the short and medium term. Their positive effects in the short term are widely documented, as they allow firms to retain their staff – thus saving redundancy costs and the cost of searching for replacements when the economy is reactivated – as well as offering workers some certainty. In addition, they allow the aid to be tailored to reductions in working hours and have a lower public cost than alternatives such as wage subsidies or unemployment benefits.

In this regard, the *Kurzarbeit* in Germany was particularly effective during the Great Recession, saving an estimated 400,000 jobs. According to some estimates, the *Kurzarbeit* reduced Germany's unemployment rate in 2009 by 1.3 pps, and 4 out of 5 workers covered by this scheme were able to return to their usual job.[1] Furthermore, the positive effects on firms can be long-lasting: it has been documented that French companies that used this workforce reduction mechanism after the financial crisis fared better on average[2] than similar companies that did not use this type of programme.[3]

Europe: percentage of workers in temporary workforce reduction programmes

(%)



Note: *The data for Portugal correspond to mid-June and have been provided by the Government of Portugal.*
Source: *CaixaBank Research, based on data from the European Trade Union Institute for 2020 and from the OECD for 2009.*

Various empirical studies have used sophisticated statistical techniques to identify the causal effects of these diverging paths and have corroborated the effectiveness of such programmes implemented during the Great Recession (2008-2009). It is estimated that in Germany, 0.35 jobs were saved for each worker enrolled in the programme.[4] This may seem a low figure, but in reality its level well below 1 is logical, since some jobs would have been preserved in the absence of these programmes as well. As an example, in France it is estimated that only 0.17 jobs were saved per worker covered by such schemes.[5]

One interesting element is the fact that, in the 2008 financial crisis, the positive effects were only observed among workers on permanent contracts, since firms are most interested in retaining them. In contrast, no

1. See J. Tilly and K. Niedermayer (2016). «Employment and welfare effects of short-time work». Working paper.

2. After 3 years, they were larger and had a lower probability of going bankrupt. In addition, they managed to recover their pre-crisis levels of profitability, as measured by ROE (return on equity) and ROA (return on assets).
3. See P. Cahuc and S. Carcillo (2011). «Is short-time work a good method to keep unemployment down?». Nordic Economic Policy Review, 1(1), 133-165.
4. See T. Boeri and H. Bruecker (2011). «Short-time work benefits revisited: some lessons from the Great Recession». Economic Policy, 26(68), 697-765.
5. *Op. cit.* note 3.

beneficial effects were observed among temporary workers. This situation is very likely to be repeated in the current crisis, and it will have to be given particular consideration in economies with a high degree of labour market duality such as Spain or Italy.

However, experience with these programmes also shows that, while they are particularly effective for cushioning temporary shocks, they lose their effectiveness if the shocks persist in time. This explains why these programmes were especially effective for Germany, where the shock of the Great Recession had a temporary effect limited to 2009. In contrast, the effects on employment ended up being lost in Italy, where the shock was much more persistent as it continued through to 2012 due the sovereign-debt crisis. In fact, when the shock is temporary, firms that use temporary workforce reduction programmes manage to retain between 10% and 15% of the staff that they would have laid off if the shock were permanent.[6] Furthermore, as the last chart shows for the case of Italy, during the last financial crisis the positive effect of maintaining employment was only short-lived (during the year in which the programme was administered). Two years later, in contrast, the probability of being employed was exactly the same for a worker who had been included in a furlough scheme and another with similar characteristics who had been fired at the time of the shock.

In addition, extending these programmes for longer than necessary slows down the reallocation of resources towards the most productive firms and can thus reduce aggregate productivity. Once again, Italy is an illustrative case: the empirical evidence shows that a 1-pp increase in the fraction of workers included in furlough schemes reduced employment in all other firms by 0.94% and cut productivity by 2%.

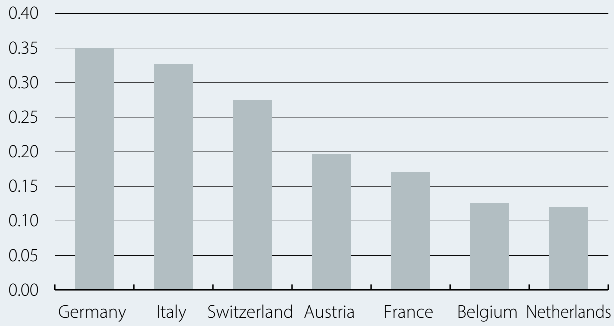
In short, subsidised furlough schemes are proving to be a key tool for cushioning the shock of the coronavirus outbreak on the labour market. However, looking ahead, we will have to tread very carefully in order to adapt such schemes to the new normal. In particular, their duration will have to be carefully fine-tuned. Withdrawing them too early could stifle some companies with a temporary drop in demand which therefore need them to survive until demand recovers. Keeping them in place for too long, however, may do nothing more than prolong the agony for some firms that will no longer be able to stay float, either because the decline in demand is more permanent or because the firms in question were starting from a position of relative weakness. In addition, furlough schemes covering workforce reductions triggered by force majeure will need to be quickly transformed into schemes covering those triggered by economic factors. On top of this, firms and workers will need to be properly incentivised to successfully return to work and to recommence productive activity. To this end, such schemes will need to be made more flexible and differentiated by sector – for example, being maintained in sectors affected by social distancing measures while a vaccine is still being sought –, while reducing working hours, rather than simply cutting staff numbers, will need to be encouraged.

Javier Garcia-Arenas

6. See G. Giupponi and C. Landais (2018). «Subsidizing labor hoarding in recessions: The employment & welfare effects of short time work». CEP Discussion Paper nº 1585.

Jobs saved in 2009 for each worker in a temporary workforce reduction programme with reduced working hours following the 2008 financial crisis

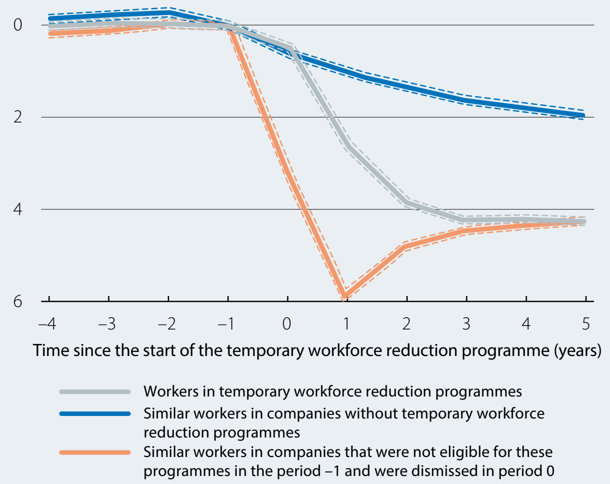
(Number)



Source: *CaixaBank Research, based on data collected from the main studies carried out in the various economies.*

Italy: probability of obtaining employment following temporary workforce reduction programmes in the 2008 financial crisis

Change in the probability of being employed compared to the period –1 (pps)



Note: *In most cases, period 0 corresponds to 2009, the year in which the Great Recession affected the Italian economy.*

Source: *G. Giupponi and C. Landais (2018). «Subsidizing labor hoarding in recessions: The employment & welfare effects of short time work». CEP Discussion Paper n° 1585.*

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	04/20	05/20	06/20
Industry									
Industrial production index	0.3	0.7	1.4	0.8	0.4	–6.0	–33.6	...	...
Indicator of confidence in industry *(value)*	–0.1	–3.9	–4.6	–2.0	–5.2	–5.4	–30.7	–29.5	–23.2
Manufacturing PMI *(value)*	53.3	49.1	49.9	48.2	47.2	48.2	30.8	38.3	...
Construction									
Building permits *(cumulative over 12 months)*	25.7	17.2	21.9	13.0	8.0	0.0	–10.8	...	...
House sales *(cumulative over 12 months)*	14.2	3.3	5.7	1.6	–2.6	–4.4	–8.8	...	...
House prices	6.7	5.1	5.3	4.7	3.6	3.2	–	–	–
Services									
Foreign tourists *(cumulative over 12 months)*	4.0	1.5	1.5	2.1	1.4	–0.8	–13.0	...	...
Services PMI *(value)*	54.8	53.9	53.2	53.5	53.6	42.5	7.1	27.9	...
Consumption									
Retail sales	0.7	2.3	2.2	3.3	2.3	–3.7	–31.6	–19.0	...
Car registrations	7.8	–3.6	–4.4	–7.9	5.1	–27.6	–96.5	–72.7	...
Consumer confidence index *(value)*	–4.2	–6.3	–4.0	–5.8	–10.5	–10.3	–29.2	–28.8	–25.6
Labour market									
Employment [1]	2.7	2.3	2.4	1.8	2.1	1.1	–	–	–
Unemployment rate (% labour force)	15.3	14.1	14.0	13.9	13.8	14.4	–	–	–
Registered as employed with Social Security [2]	3.1	2.6	2.8	2.5	2.2	1.2	–4.0	–4.6	...
GDP	**2.4**	**2.0**	**2.0**	**1.9**	**1.8**	**–4.1**	**–**	**–**	**–**

Prices

Year-on-year change (%), unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	04/20	05/20	06/20
General	1.7	0.7	0.9	0.3	0.4	0.6	–0.7	–0.9	–0.3
Core	0.9	0.9	0.8	0.9	1.0	1.1	1.1	1.1	...

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	04/20	05/20	06/20
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	2.9	1.8	2.3	1.7	1.8	1.0	–2.7	...	...
Imports *(year-on-year change, cumulative over 12 months)*	5.6	1.0	3.9	3.0	1.0	–1.0	–3.9	...	...
Current balance	**23.3**	**24.6**	**21.4**	**22.2**	**24.6**	**25.6**	**21.2**	**...**	**...**
Goods and services	32.6	34.8	32.1	32.5	34.8	35.1	30.2	...	...
Primary and secondary income	–9.3	–10.2	–10.7	–10.2	–10.2	–9.5	–9.0	...	...
Net lending (+) / borrowing (–) capacity	**29.1**	**28.6**	**27.6**	**28.0**	**28.6**	**29.6**	**25.1**	**...**	**...**

Credit and deposits in non-financial sectors [3]

Year-on-year change (%), unless otherwise specified

	2018	2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	04/20	05/20	06/20
Deposits									
Household and company deposits	3.2	5.4	5.8	5.4	5.4	4.5	7.4	8.7	...
Sight and savings	10.9	10.7	10.9	10.3	10.3	8.9	12.7	14.0	...
Term and notice	–19.9	–13.4	–12.8	–13.2	–13.9	–16.4	–16.6	–16.6	...
General government deposits	15.4	8.8	15.7	3.7	–2.1	–6.2	–7.5	–9.2	...
TOTAL	**3.9**	**5.6**	**6.3**	**5.3**	**4.8**	**3.8**	**6.4**	**7.6**	**...**
Outstanding balance of credit									
Private sector	–2.4	–1.5	–1.1	–1.1	–1.5	–1.0	0.8	1.9	...
Non-financial firms	–5.5	–3.4	–3.0	–2.3	–3.0	–1.7	4.1	7.2	...
Households - housing	–1.1	–1.3	–1.3	–1.6	–1.5	–1.7	–2.0	–2.1	...
Households - other purposes	2.8	3.2	4.4	3.4	2.2	2.5	0.6	0.5	...
General government	–10.6	–6.0	–7.2	–5.4	–1.2	1.7	2.0	–0.2	...
TOTAL	**–2.9**	**–1.7**	**–1.5**	**–1.4**	**–1.5**	**–0.9**	**0.9**	**1.8**	**...**
NPL ratio (%) [4]	**5.8**	**4.8**	**5.4**	**5.1**	**4.8**	**4.8**	**4.7**	**...**	**...**

Notes: *1. Estimate based on the Active Population Survey. 2. Average monthly figures. 3. Aggregate figures for the Spanish banking sector and residents in Spain. 4. Period-end figure.*
Source: *CaixaBank Research, based on data from the Ministry of Economy, the Ministry of Public Works, the Ministry of Employment and Social Security, the National Statistics Institute, the State Employment Service, Markit, the European Commission, the Department of Customs and Special Taxes and the Bank of Spain.*

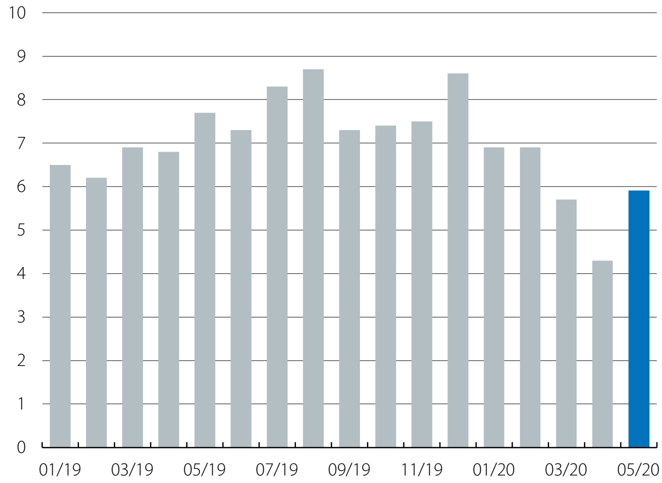
Activity is kick-started, but the decline in 2020 will be severe

Economic activity is gradually restored. The gradual lifting of the lockdown during the course of May brought about a progressive revival of economic activity. Credit and debit card spending shows that purchases increased in May to 5,900 million euros (200 million more than in March), while passenger car sales have also registered a recovery both in May (5,741 units sold, compared to 2,748 in April) and in June (5,474 units in the first 22 days of June, +73% *versus* the same period in May). By mid-June, electricity consumption was already growing by slightly more than 9% compared to the same period in May. In spite of this initial revival of the economy, the lockdown (which was necessary to control the pandemic) has generated an unprecedented shutdown in economic activity that will be reflected in a sharp fall in GDP for Q2 2020 as a whole. Furthermore, in addition to the immediate effects of the shutdown of activity between mid-March and April, the economy's performance over the coming months will largely depend on how the pandemic itself develops, which is highly uncertain. Without an effective vaccine or treatment, the pandemic will continue to determine economic activity, while uncertainty will likely weigh on business' and households' decisions. For this reason, we have revised our GDP forecasts downwards and we expect Portugal's economic activity to shrink by around 12% in 2020, followed by GDP growth of slightly above 8% in 2021.

The labour market feels the intensity of the recession. In April, employment decreased by almost 2% year-on-year, while the inactive population increased by 4.4%, as a result of the impact of the lockdown on people's ability to actively seek employment. In addition, the underemployment rate (a better measure of unemployment in the current situation, as it includes the unemployed, those in part-time employment who would like to work more and also inactive people who would like to or could work) rose to 13.3% (12.4% in March). The indicators available for May and June also show a marked increase in the number of people registered as unemployed in job centres (May: 34% year-on-year and +30% compared to pre-coronavirus levels; mid-June: 4% compared to the end of May, a slightly more moderate figure thanks to the reopening of sectors such as accommodation and catering).

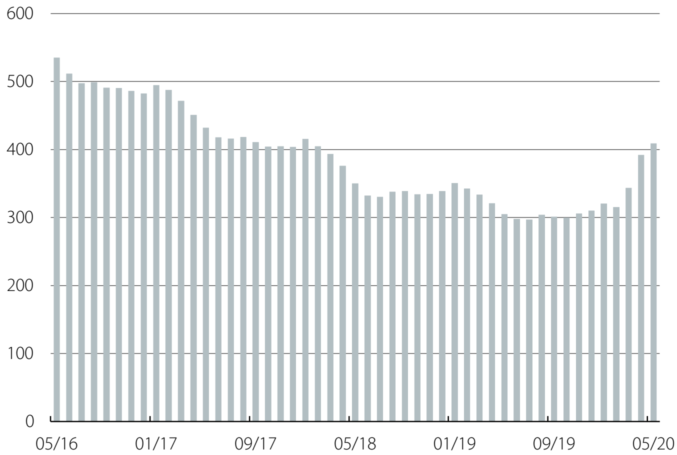
The general government budget balance deteriorated substantially in May (–4.1% of GDP for the year to date, compared to –0.7% for the same period in 2019), reflecting an increase in expenditure and a decrease in revenues. The costs associated with the fight against the pandemic contributed to this deterioration (+915.4 million euros, especially due to the costs related to temporary employment suspension programmes and the purchase of medical equipment and products). In addition, the deferral and suspension of tax payments contributed to a 868.7-million-euro reduction in revenue collection. These trends will continue to intensify over the coming months, both because the recovery in economic

Portugal: card payments
(EUR billions)



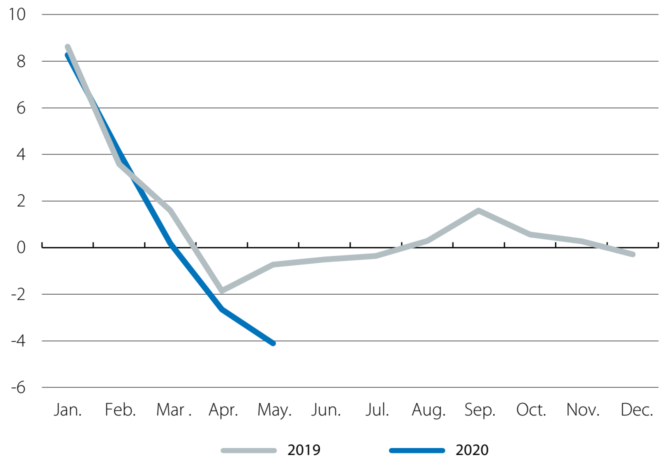
Source: *CaixaBank Research, based on data from SIBS Analytics.*

Portugal: unemployment registered in job centres
(Thousands of people)



Source: *CaixaBank Research, based on data from IEFP.*

Portugal: general government balance *
(% of GDP)



Note: ** Public accounting data.*
Source: *CaixaBank Research, based on data from the DGO.*

activity is expected to be gradual and because the government's fiscal policy will continue to support the economy. As such, the government expects the deficit to reach 6.3% of GDP in 2020 (compared to the surplus of 0.2% registered in 2019).

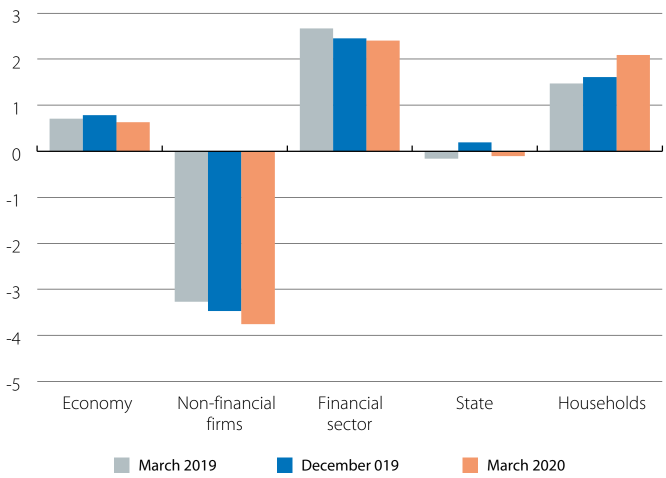
The economy's lending capacity decreased to 0.6% of GDP in Q1 2020 (four-quarter cumulative balance). This represents a 2-decimal-point decline compared to the 2019 year end and reflects a deterioration of the lending capacity/funding needs in all sectors except households, in which the savings rate increased by 6 decimal points (reaching 7.4% of disposable income). This increase in household savings could reflect both the constraints of the lockdown itself and greater caution in household spending in a more uncertain environment.

The current account deficit deteriorated to 0.6% in April (1,173 million euros, 12-month cumulative balance), which represents a deterioration of 3 decimal points compared to March and one of 5 decimal points compared to the 2019 year end. This deterioration is largely due to the decline of the surplus in the tourist balance (5.7% in April, –4 decimal points compared to December 2019 and the lowest level since 2014), hampered by restrictions on international mobility. The balance of goods, meanwhile, improved by 1 decimal point *versus* the 2019 year end, bringing it to –7.8% of GDP.

First signs of the impact of COVID-19 on the housing market. In Q1 2020, the home price index still registered growth of 10.3% year-on-year and of 4.9% quarter-on-quarter. However, in March, when the state of alarm began, the number of transactions decreased by 14.1% year-on-year and their value fell by 3.3%. Moreover, the decline in transactions intensified in April, reaching –17% year-on-year. Faced with this weakening demand, a slowdown in prices is to be expected over the coming months.

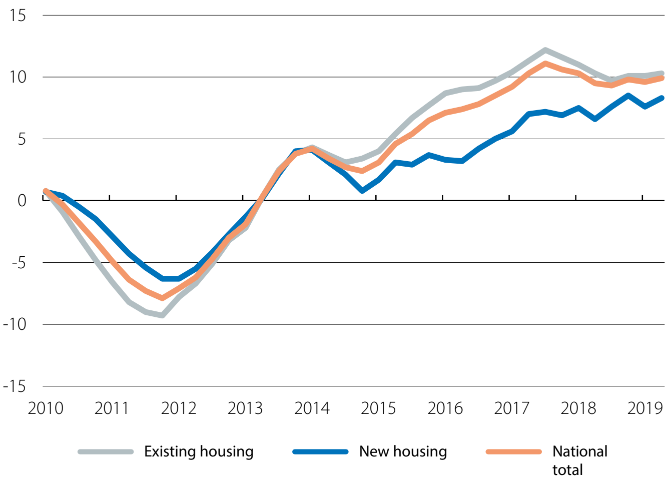
The COVID-19 pandemic poses risks to financial stability. The Bank of Portugal's latest financial stability report highlights the following risks to the banking sector: the increase in NPLs, the loss of value of real estate assets and of public debt portfolios, the increased pressure on profitability in a context of low incomes and rising provisions, and the difficulties that banks will experience in strengthening their capital position in an incomplete banking union. It also mentions the risk of cybercrime, which is associated with a more digitalised economy and financial system, and the financial risks associated with climate change. As for the latest data to be published, growth in the stock of loans to households slowed in April (1.5% year-on-year *versus* 1.7% in March), driven by the moderation of consumer credit with the slowdown in new lending (–51% year-on-year in April). In contrast, corporate credit adjusted for portfolio sales rose by 3.3% year-on-year in April, compared to 2.5% in March, with new lending growing by 1% (excluding refinancing).

Portugal: lending capacity by sector
(% of GDP)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: housing prices
Average annual change (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: lending to the private sector *
April 2020

	Balance (EUR millions)	Year-on-year change (%)
Loans to individuals	116,883	1.5
Housing loans	93,119	0.4
Consumer credit and other purposes	23,764	6.2
Consumer credit	17,246	10.5
Loans to companies	67,744	–1.8
Total loans to the private sector	184,627	0.3

Notes: ** Loans granted to the non-financial private sector. Excludes securitisations.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*

Activity and employment indicators

Year-on-year change (%), unless otherwise specified

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	04/20	05/20	06/20
Coincident economic activity index	2.7	1.9	1.8	1.3	–0.2	...	–2.5	–4.0	...
Industry									
Industrial production index	0.1	–2.2	–4.0	0.4	–1.4	...	–27.4	–26.0	...
Confidence indicator in industry *(value)*	0.8	–3.2	–3.7	–4.3	–4.6	–24.8	–15.9	–26.8	–31.7
Construction									
Building permits *(cumulative over 12 months)*	19.1	8.2	13.8	8.2	2.9	...	...	...	...
House sales	16.8	1.7	–0.2	6.1	–0.7	...	...	...	...
House prices *(euro / m² - valuation)*	8.6	10.4	11.0	11.1	11.2	...	9.5	8.9	...
Services									
Foreign tourists *(cumulative over 12 months)*	4.8	7.1	6.0	7.1	2.7	...	–7.3	...	...
Confidence indicator in services *(value)*	14.1	12.9	11.5	10.6	5.8	–36.9	–18.2	–39.6	–52.9
Consumption									
Retail sales	4.2	4.4	4.3	3.7	3.0	...	–21.8	–13.0	...
Coincident indicator for private consumption	2.5	3.3	3.9	3.0	–1.3	...	–5.7	–8.0	...
Consumer confidence index *(value)*	–4.6	–8.0	–7.6	–7.1	–8.6	–27.7	–21.0	–29.1	–33.1
Labour market									
Employment	2.3	1.0	0.9	0.5	–0.3	...	–1.8	–4.0	...
Unemployment rate (*% labour force*)	7.0	6.5	6.1	6.7	6.7	...	6.3	5.5	...
GDP	**2.6**	**2.2**	**1.9**	**2.2**	**–2.3**	**...**	**...**	**...**	**...**

Prices

Year-on-year change (%), unless otherwise specified

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	04/20	05/20	06/20
General	1.0	0.3	–0.2	0.3	0.4	–0.3	–0.2	–0.7	0.2
Core	0.7	0.5	0.1	0.4	0.2	–0.1	–0.2	–0.4	0.3

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	04/20	05/20	06/20
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	5.2	3.5	2.1	3.5	1.4	...	–2.2	...	...
Imports *(year-on-year change, cumulative over 12 months)*	8.3	6.4	7.8	6.4	2.6	...	–1.6	...	...
Current balance	**0.8**	**–0.2**	**–0.6**	**–0.2**	**–0.6**	**...**	**–1.2**	**...**	**...**
Goods and services	1.5	0.8	0.2	0.8	0.4	...	–0.2	...	...
Primary and secondary income	–0.7	–1.0	–0.8	–1.0	–1.0	...	–1.0	...	...
Net lending (+) / borrowing (–) capacity	**2.8**	**1.9**	**1.4**	**1.9**	**1.5**	**...**	**1.2**	**...**	**...**

Credit and deposits in non-financial sectors

Year-on-year change (%), unless otherwise specified

	2018	2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	04/20	05/20	06/20
Deposits [1]									
Household and company deposits	3.8	5.0	5.3	5.2	5.7	...	6.6	...	...
Sight and savings	14.3	14.4	15.1	14.9	16.5	...	17.0	...	...
Term and notice	–3.0	–2.4	–2.5	–2.8	–3.4	...	–2.5	...	...
General government deposits	–1.9	–13.6	–17.1	–13.7	–7.6	...	–9.3	...	...
TOTAL	**3.5**	**4.0**	**4.1**	**4.2**	**5.1**	**...**	**6.0**	**...**	**...**
Outstanding balance of credit [1]									
Private sector	–1.5	–1.2	–0.7	–0.6	–0.2	...	0.3	...	...
Non-financial firms	–4.0	–4.2	–3.3	–3.3	–3.5	...	–1.8	...	...
Households - housing	–0.8	–0.1	0.0	–0.2	0.1	...	0.4	...	...
Households - other purposes	4.2	4.1	4.2	6.3	8.5	...	6.2	...	...
General government	2.4	–8.5	–6.4	–7.1	–5.0	...	–4.0	...	...
TOTAL	**–1.4**	**–1.5**	**–1.0**	**–0.9**	**–0.4**	**...**	**0.1**	**...**	**...**
NPL ratio *(%)* [2]	**9.4**	**6.1**	**7.7**	**6.1**	**...**	**...**	**...**	**...**	**...**

Notes: *1. Residents in Portugal. The credit variables exclude securitisations. 2. Period-end figure.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal, Bank of Portugal and Datastream.*

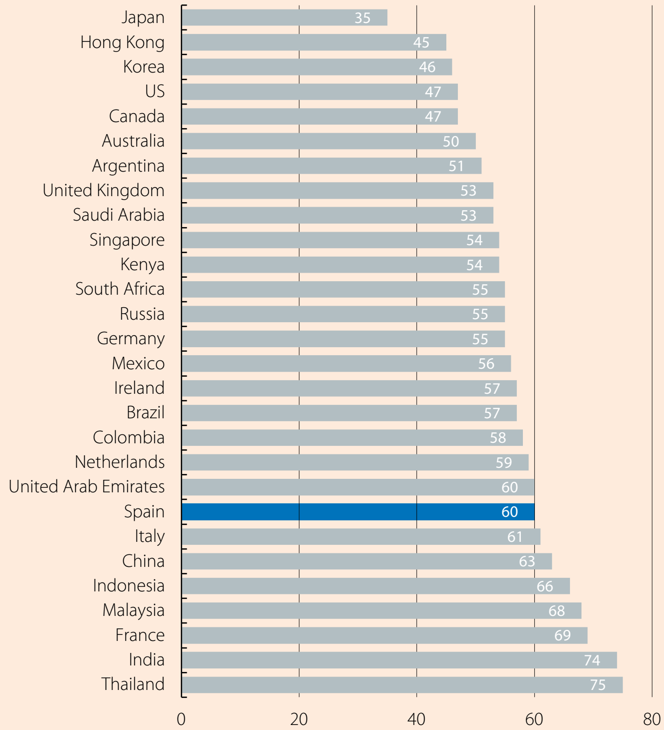
Capitalism: crisis? What crisis?

Is capitalism in crisis? Is the «economic system based on the private ownership of means of production and the free market», as it is defined by the Royal Spanish Academy, failing?

At the very least, we can point out some dysfunctions it is showing: according to a leading study by the Edelman Foundation, 56% of those interviewed stated that «capitalism does more harm than good» and 74% considered that it was unjust.[1] Also, in that same study, in 22 out of the 28 countries examined, more than 50% of respondents believed that capitalism was harmful (60% in Spain). The questioning of capitalism is therefore geographically widespread, but perhaps of particular relevance is the disaffection arising in the US, without doubt the country we associate most closely with the market economy.

Rejection of capitalism in the world

(% of respondents who claim that capitalism, as it exists today, does more harm than good in the world, 2020)



Source: *CaixaBank Research, based on data from the Edelman Foundation.*

Crisis at capitalism's doorstep

During the current US presidential race, the media have emphasised that a portion of the electorate supported «socialist» positions. This atypical situation surely explains why one of the Democratic Party candidates, Bernie Sanders, was able to remain for many months as a possible nominee despite proposals which, in the North American context, could be considered closer to the extremes than to the centre. The fact that in the eyes of a European voter we need to translate «socialist» as social democrat in order to better understand what Sanders proposed does not exempt us from reflecting on the substance of the matter: is the US, the epicentre of the market economy, questioning capitalism?

The data suggest that, at a minimum, the economic model is being re-evaluated in North America. Opinion studies conducted by the Pew Research Center support the view that, year after year, a significant percentage of Americans tend to be dissatisfied with capitalism.[2] Indeed, in 2019, 33% of respondents claimed to have a negative view of this economic and social system. Of course, disaffection with the market economy is not uniform, as it varies according to ideology (there is greater dissatisfaction among Democrats), income level (there is less support among those on lower incomes), and age (younger people tend to have a more critical view).

A broader perspective: from the crisis of capitalism to the crises of capitalism

The question now is to what extent this is a recent phenomenon. This is not an easy question to answer, since most studies focus on the last two decades. One of the few exceptions is the data collected by Blasi and Kruse,[3] which provide an insight into the degree of opposition to capitalism in the US since 1938. According to this exercise, the current levels of disaffection with capitalism, contrary to our tendency to view the present as an exceptional time, are not extraordinary, since its support declines in every major crisis. This was the case in the Great Depression of the 1930s, in which 38% of respondents claimed to have positions with anti-capitalist elements; in 1975, in the midst of the «oil crisis», when this percentage was 34%, and in 2010, following the Great Recession, when 40% of those interviewed stated that they had a negative view of capitalism. In boom periods, by contrast, the portion of critics of the system stood at around 20%.

1. See Edelman (2020). «Edelman Trust Barometer 2020». Global Report (January).
2. See Pew Research Center (2011) «Political Survey Dataset»; (2012) «Pew Research Center's Global Attitudes Project»; (2019) «Generation Z looks a lot like Millenials on Key Social and Political Issues», and (2019) «In Their Own Words: Behind Americans' Views of 'Socialism' and 'Capitalism'».
3. See J. Blasi and D. Kruse (2018). «Today's youth reject capitalism, but what do they want to replace it?». The Conversation.

Capitalism: dysfunctions and shocks are not the same thing

In short, it seems unquestionable that we are in a phase of growing disaffection with capitalism and that this disaffection is geographically widespread (even reaching the epicentre of the system, the US). It is also apparent, however, that the current phase is not so different from other peaks of disaffection in previous eras. That said, the criticisms of capitalism have taken somewhat different forms in each period in history. What forms are they taking today?

When we review the multiple debates and articles on this topic, a series of common factors begin to emerge: lower economic growth than in the past; stagnation, if not decline, in productivity; increased inequality in income and opportunity; a predominance of short-termism; an inability to internalise negative externalities (such as the environmental impact) and, finally, a certain degree of financial instability that refuses to budge.

This hotchpotch of the evils of capitalism, when presented in this way, offers few clues as to the underlying trends. If we read a little deeper into it, however, we can see that this list combines factors of a very different nature. Specifically, it includes two types of elements.

The first type consists of what we could call structural dysfunctions of capitalism. The market economy is a system which, by its very nature, has a number of characteristics that have undesirable effects. In the case of capitalism, these are the so-called market failures – exchanges for which the price mechanism fails to provide accurate information on their social benefits and costs and which require public intervention to correct them insofar as possible. This category includes the regulation of negative externalities, such as pollution. Another factor that falls within this category of structural dysfunctions would be the tendency for short-termism to predominate. The fact that there are dysfunctions inherent in capitalism is not something new – in fact, many of the institutions we have established actually strive to minimise these effects. For instance, giving the central banks independence is an attempt to respond to the short-sightedness of monetary policy makers. Similarly, the creation of a market for CO_2 emissions is intended to help internalise the social costs generated by the pollution that companies produce.

The second block of «evils» is different. When it is said that capitalism no longer works (which essentially translates as «we are not growing like we used to» and/or «it only benefits a few»), what is really happening is something quite different. In fact, the reality is that we are currently going through a historic phase of accelerated change, dominated by elements such as the technological leap, the intensification of globalisation, demographic ageing and the environmental transition. At this historic turning point, capitalism is certainly acting as an intermediary in the face of this series of shocks and trends, but it cannot be considered the ultimate cause. This does not mean that such mediation is automatic or neutral, as not all forms of capitalism are equal (and here we come to the key point of our diagnosis of the «crisis» of capitalism).

This means, for instance, that one of the main sticking points in the debate – when certain economies seem unable to reconcile economic growth and redistribution (or to combat inequality) – is not such an obvious trade off in reality, since other countries seem to have managed to find a reasonable balance.

Capitalism: an adaptive system

Our thesis is that these differences between different forms of capitalism matter - and a lot. Although the defence of this thesis will be the subject of the following three articles, we would like to give our readers a little spoiler. The basic premise is that, while there are certain core characteristics that are shared by all capitalist economies, in practice there are a number of differences between countries (or, strictly speaking, between groups of countries) which end up forming a series of clearly differentiated varieties of capitalism, and these varieties work better or worse depending on the characteristics of the environment or the moment in history in question. For instance, and of particular importance in the present climate, the system's ability to combat pandemics is not going to be the same in one variety of capitalism as it is in another.

In fact, the existence of different varieties of capitalism between different countries points towards a fundamental feature of this economic system: its capacity to adapt and evolve. In the face of criticisms from those who understand the capitalist system as something monolithic and immutable, a historical review allows us to dismiss this static view since, as we will make clear in our final article, today's capitalism and that of 1945 present many differences. Therefore, and to convince you, dear reader, we ask you to accompany us in the following articles of the Dossier. Let us delve into this enriched view of capitalism (capitalisms, in reality) in order to better understand the causes and consequences of this complex interrelationship between global trends, economic systems and prosperity.

Álvaro Leandro and Àlex Ruiz

Capitalism, variety is the spice of life

The US and Germany are very different - that much is clear - but they share a common trait: both are capitalist countries. In fact, if we take a quick look at all the countries of the world, it is easier to identify those that are not capitalist: essentially North Korea and Cuba.[1] Therefore, capitalism is not merely the dominant economic model - it is practically universal. That being the case, when we look at the economic reality in more detail, questions begin to arise: is an economic system in which free dismissal is commonplace (the US) really the same as another in which it is heavily regulated (practically all of Europe)? Is one where public social spending amounts to 31% of GDP (France) the same as another where it barely exceeds 11% (South Korea)? We could go on, but the scepticism seems justified: in reality, are all the countries that are conventionally regarded as capitalist really so? The short answer is yes, the economy can be organised in a wide range of institutional forms while still operating under the logic of the market. In other words, capitalism can take significantly different forms without altering its underlying nature.

Free market economy versus coordinated market economy

In the academic literature, these different forms are referred to as varieties of capitalism. Indeed, the very evolution of this body of literature sheds some light on the subject we are interested in, namely the reflection on the anomalies (such as low growth, rising inequality, etc.) that capitalism seems to accumulate, as set out in the previous article of this Dossier. In our view, we are better prepared to delve deeper into this debate if we are able to identify forms of capitalism that are better prepared to deal with these problems.

The first great distinction offered by the literature is quite logical, since it proposes the existence of two major varieties. The first, which typically embodies the US, is known as the liberal market economy and, as set out in the first table, is characterised by elements such as a greater predominance of coordination through the market, a highly-flexible labour market and a less important role of regulation and public intervention. The second major variety is known as a coordinated market economy or, alternatively, a «social market economy». This variety is characterised, inter alia, by less market-mediated coordination, a more regulated labour market and a greater role of public intervention.[2]

Main characteristics of the key varieties of capitalism

	Liberal market economies	Coordinated market economies
Coordination mechanisms and main institutions	Market and contracts	Market (to some extent) and non-commercial institutions (collective bargaining, multi-sectoral organisations, etc.)
Key sectors	Innovative sectors which produce radical changes and in which dynamism is important	Sectors based on the accumulation of competencies and incremental change
Political system	Presidential, with few parties and majority electoral systems geared towards political competition	Several parties, proportional and parliamentary systems geared towards consensus-building
Type of welfare state	Liberal, complementary	Universalist
Labour market	Flexible and dynamic, a predominance of the legal framework at the company level, tending towards high rotation	Predominance of the legal framework at the sectoral or national level, long-term contracts, rigidity and less flexibility
Workers' competencies and skills	General, favouring rotation between sectors	Specialised and idiosyncratic, geared towards permanence in the sector
Horizon of productive investment	Short term	Long term
Typical organisational structures within companies	Vertical, with decision-making capacities concentrated within senior management levels	Horizontal, with greater sharing of decision-making capacities among players
Type of innovation	Dynamic, disruptive	Incremental

Source: *CaixaBank Research, based on J. Aguirre y R. Lo (2012). «Variedades de capitalismo. Una aproximación al estudio comparado del capitalismo y sus aplicaciones para América Latina». Centro Interdisciplinario para el Estudio de Políticas Públicas. Working Paper 85.*

A world of diverse capitalisms in transition

While attractive for their simplicity, these two categories seem overly simplified, as it is too rigid a structure to accommodate the multiplicity of forms of capitalism that exist, particularly since it has become the dominant productive model following the fall of the Berlin Wall. As the former communist economies develop towards different forms of capitalism and the liberalising processes of Europe's economies within the framework of the EMU accelerate, as globalisation expands and incorporates more countries and, finally, as the technological revolution accelerates, it becomes apparent that hybrid forms of capitalism take on greater importance.

Thus, it is possible to detect varieties that share many of the liberal characteristics but not all of them (which we refer to as quasi-liberal market economies), and others that resemble social market economies but with differences (which we call quasi-

1. Nominally communist countries are more numerous, but in practice they are hybrid systems, with easily identifiable elements of capitalism. A prime example is Vietnam - or even Venezuela.
2. See P.A. Hall and D. Soskice (Eds.). (2001). «Varieties of capitalism: The institutional foundations of comparative advantage». OUP Oxford.

coordinated market economies). In addition, a more detailed review of the past shows that there has been a variety which is commonly referred to as a state-dominated economy and which, characterised by an important role of the state in coordination mechanisms, has been relevant in certain countries.

In short, it is possible to use this latest academic literature to paint an updated picture of today's capitalist world that allows us to understand it better.[3] Specifically, the taxonomy proposed is built using a series of variables that reflect the disparity of institutional arrangements that can be used to organise a market economy (e.g. the degree of worker protection, the importance of financial markets, labour relations, etc.). By means of a segmentation exercise, countries that have similar indicators in these areas can be identified and the five varieties of capitalism discussed above can thus be proposed: liberal, coordinated, quasi-liberal, quasi-coordinated, and state-dominated market economies (see the results in the second table).

As can be seen in the second table with our updated classification of countries assigned to the different varieties of capitalism, the growth of hybrid varieties of capitalism becomes apparent, namely quasi-liberal and quasi-coordinated varieties. In particular, it is important to note that countries that are typically coordinated have relaxed some of their most characteristic aspects through reforms that introduce liberal elements. The prime example of such hybridisation is surely Germany, which went from being an archetypal coordinated market economy to being quasi-coordinated following the major liberalising reforms of the 2000s (in particular, the so-called Hartz labour-market reforms, which made it significantly more flexible). Another interesting element to note about the transitions between varieties is the disappearance of the variety we call the state-dominated market economy. This is largely the result of the liberalisation process which took place in economies such as Spain and Portugal as part of their full integration into the European market and the subsequent privatisations that took place in the transition towards the creation of the single currency.

Varieties of capitalism: member countries

	1990	2015
State-dominated economies	Turkey Italy Spain Belgium Greece	
Coordinated market economies	Austria Germany Denmark Finland Sweden France Netherlands	Portugal Italy France
Quasi-coordinated market economies	Norway Japan	New Zealand Japan Greece Turkey Poland Germany Czech Republic South Korea Hungary Poland
Quasi-liberal market economies	Australia New Zealand Ireland Switzerland	Sweden Ireland Finland Denmark Austria Netherlands Norway Spain Belgium
Liberal market economies	US United Kingdom Canada	Australia Canada US Switzerland United Kingdom

Note: *Update of the classification by Schneider and Paunescu, with new data up to 2015. Developed using* the cluster analysis technique, a method of grouping, with socio-economic and institutional data (e.g. the degree of worker protection, the importance of financial markets, labour relations, etc.).
Source: *CaixaBank Research, based on Schneider and Paunescu (2012), and data from the OECD, UNCTAD, the IMF and the World Bank.*

In short, if these trends are a reasonably good representation of the world over the past 30 years, upon reviewing them the reader may well find themselves raising the questions that we addressed in the first article of the Dossier. Which of these varieties are capable of generating better growth rates on a sustained basis? Which ones are better at limiting the tendency towards inequality? Which ones are more innovative? Paradoxically, the academic world has paid relatively little attention to this relationship between varieties of capitalism and economic and social outcomes. While there are some exceptions,[4] the questions that are relevant to the ordinary citizen have not been sufficiently studied. We, on the other hand, cannot afford to ignore such an important issue. Let us, therefore, seek to shed some light on the outcomes of the different varieties of capitalism in the next article. Some surprises await us.

Álvaro Leandro and Àlex Ruiz

3. See M.R. Schneider and M. Paunescu (2012). «Changing varieties of capitalism and revealed comparative advantages from 1990 to 2005: A test of the Hall and Soskice claims». Socio-Economic Review, 10(4), 731-753.
4. See D. Acemoglu, J. Robinson and T. Verdier (2012). «Can't We All Be More Like Nordics? Asymmetric Growth and Institutions in an Interdependent World». NBER Working Paper 18441. National Bureau of Economic Research. Working Paper 18441. National Bureau of Economic Research.

The promises of the varieties of capitalism, or on the impossibility of having it all

The American political philosopher John Rawls coined the concept of the «veil of ignorance». Under this somewhat cryptic expression lies a suggestive notion: in order to determine which society is the best one to live in, we must ask ourselves: «if I did not know what position I would have in this society, in what kind of society would I choose to live in at birth?» Rawls raised this concept in terms of a fairer society, but we are going to propose the following reflection: in view of the available evidence and your preferences, in which variety of capitalism would you, dear reader, prefer to «live»? Let us review the list of the main options available.

One way to draw up this list is to compare different socio-economic characteristics in the different varieties of capitalism (see table below). As mentioned in the previous article, a first major distinction can be made between those economies that have greater coordination through the market, a high degree of labour flexibility or a less prominent role of regulation and public intervention (liberal economies) and those that are characterised by less market-mediated coordination, a more regulated labour market and a more prominent role of public intervention (coordinated economies, also known as social market economies). In addition, we can identify two variants that share some, but not all, characteristics (quasi-liberal and quasi-coordinated) and a fifth variety whose most relevant feature is the predominance of public activity. This exercise allows us to draw our first major conclusion: in many areas, hybrid varieties – i.e. quasi-coordinated and quasi-liberal market economies – currently seem to offer good possibilities in terms of growth, innovation and inclusiveness.

However, in order to refine our analysis, we must go beyond the current cross section and, by means of an econometric exercise (see the methodological details in the chart), connect the main socioeconomic variables with the various forms of capitalism and their evolution over time since 1990. Let us take a look at the result of this analysis.

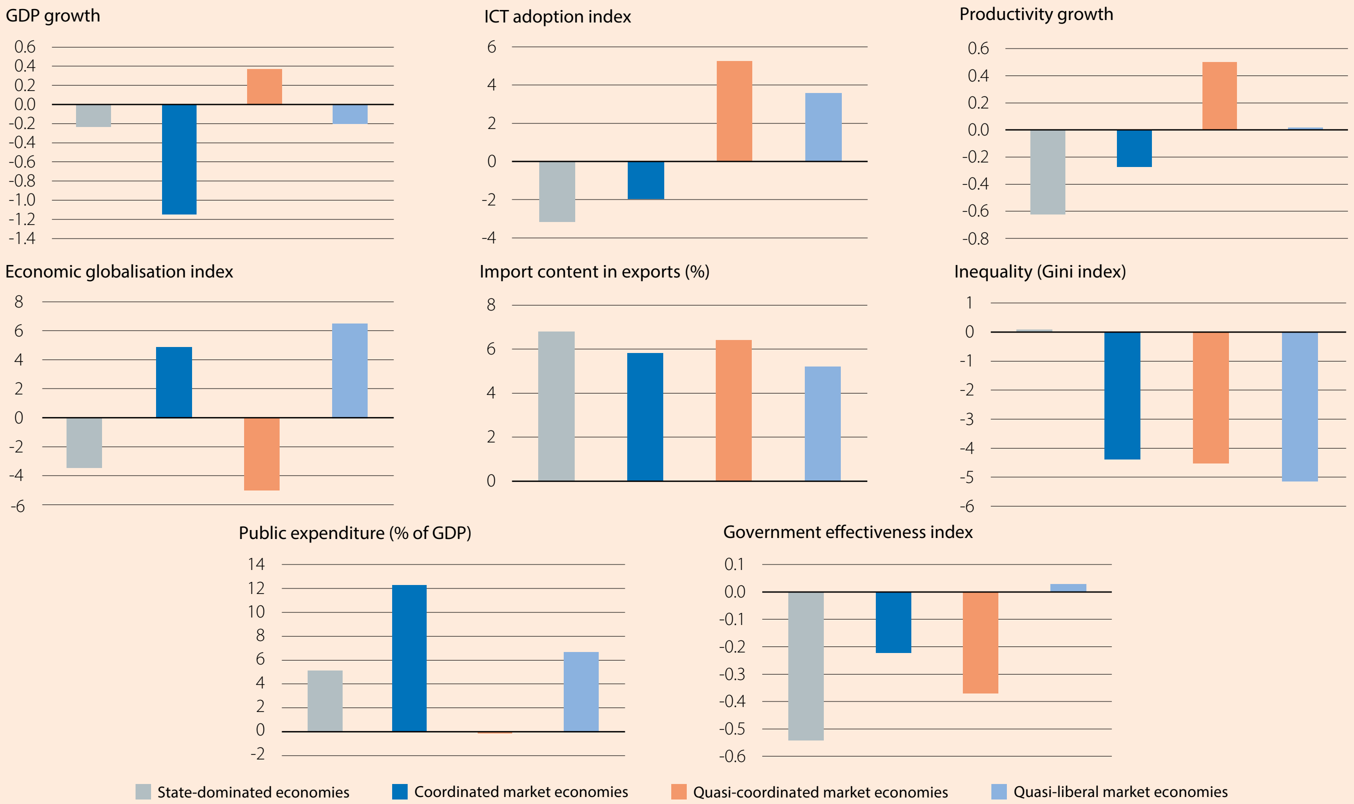
Key characteristics of the varieties of capitalism

	Liberal market economies	Coordinated market economies	Quasi-coordinated market economies	Quasi-liberal market economies
Equity sphere				
Gini index (2015-2018)	35.3	34.5	32.7	29.6
Inclusive growth index (2018)	5.2	4.4	4.7	5.4
Growth sphere				
GDP growth (2015-2020)	0.5	0.4	0.6	1.1
Inflation (2015-2020)	1.2	0.7	2.3	1.1
Digitalisation/technology sphere				
ICT adoption index (2018)	74.0	69.8	71.9	76.3
Productivity growth (2015-2018)	0.5	0.4	0.6	1.1
Labour productivity growth (2015-2019)	0.7	0.4	1.7	1.4
Remote working (2018)	43.3	35.3	31.2	39.7
Globalisation sphere				
Globalisation index (2015-2017)	85.8	84.8	81.0	88.2
Economic globalisation index (2015-2017)	74.5	75.5	71.6	83.5
Import content in exports (%) (2015)	18.8	29.0	27.8	27.0
Sphere of importance of public intervention				
Deficit as a percentage of GDP (2015-2019)	–1.6	–2.5	-0.6	0.0
Debt as a percentage of GDP (2015-2019)	72.9	117.9	82.0	64.5
Hospital beds per 1,000 (2015-2018)	3.3	4.2	7.0	3.9
Total expenditure on healthcare as a percentage of GDP (2015-2018)	11.8	9.8	8.0	9.8
Investment in healthcare as a percentage of GDP (2015-2018)	51.0	58.0	19.6	54.2
Regulatory quality (2015-2018)	1.7	0.9	1.0	1.6
Government effectiveness (2015-2018)	1.7	1.0	1.0	1.6
Satisfaction of needs sphere				
Life expectancy (2015-2018)	81.6	82.3	80.1	81.9

Notes: *Averages of the years in brackets. Higher values of the inclusive growth index correspond to more inclusive growth.*
Source: *CaixaBank, based on data from the OECD, the IMF, the World Bank and the KOF Swiss Economic Institute.*

The impact of the different varieties of capitalism on the main socio-economic variables

Difference compared to liberal market economies



Notes: *These charts show the results of 6 OLS linear regressions using panel data with 26 countries and 7 periods. In each regression, the dependent variable is one of the six socio-economic variables, while the explanatory variables are binary variables that denote the variety of capitalism to which each country belongs in each period (the binary variable for the liberal market economy variety is excluded) and control variables for GDP per capita and fixed time effects. The charts show the magnitudes of the coefficients of the four binary variables denoting the variety of capitalism. Since the binary variable for the liberal market economy variety was excluded, these coefficients can be interpreted relative to this variety. For example, the results of the regression with the Gini index as the response variable suggest that, on average and using GDP per capita and fixed time effects as control variables, coordinated market economies have a Gini index that is 4.37 points lower than liberal market economies, while in state-dominated economies the difference compared to liberal market economies is not significant.*

Source: *CaixaBank Research, based on data from Schneider and Paunescu (2012), the OECD, the World Bank, the IMF, UNCTAD and the KOF Economic Institute.*

Growth as an indispensable requirement

Throughout this Dossier we have reiterated that any economic system that is unable to create prosperity at a minimally acceptable level is condemned. On this note, if growth is the goal then our econometric exercise, which is summarised in the charts below, is quite conclusive: quasi-coordinated and liberal market economies are the two forms of capitalism that offer the most growth in the long term. On the other hand, the coordinated variety offers worse results in terms of growth.

What is the basis for this outcome? Firstly, quasi-coordinated economies stand out for their higher productivity growth, whether measured in terms of apparent labour productivity or in terms of total factor productivity (TFP). Another area that can be linked to long-term prosperity is the ability to take advantage of globalisation, as there is a clear link between an economy's openness to international trade and growth.

The great dilemma: efficiency in exchange for equity?

So far, the list of options can be summarised as follows: if creating prosperity is the goal, regardless of the extent to which it is done in accordance with innovation or globalisation, then the best option is to play it safe and choose liberal, quasi-liberal, or quasi-coordinated economies. State-dominated economies (when they existed) lag further behind. Coordinated economies are best avoided. But what if the price that must be paid for this growth is an unacceptably low level of equity? Judging what is considered unacceptable is beyond our reach and will depend on everyone's individual preferences. What we can assess, however, is to what extent the different varieties of capitalism are equitable. The results offer some surprises.

Whereas liberal economies display the least equity (as expected), it is somewhat surprising that the «hybrid» forms, namely quasi-liberal and quasi-coordinated economies, are more equitable than coordinated ones. It is indeed a paradox that despite coordinated economies having higher public spending than the rest – suggesting a greater predominance of public intervention in the economy – this does not translate into higher levels of equity. Part of the problem might be that the efficiency indicators for the public sector of coordinated economies are not all that good, although the state-dominated and quasi-coordinated economies are not exactly exemplary in this area either.

On the ability to choose

In any case, on the basis of our analysis we come to the interesting conclusion that at least two of the varieties of capitalism, namely quasi-coordinated and quasi-liberal, have managed to offer satisfactory results in terms of growth while simultaneously achieving a good level of equity (at least comparatively speaking). This offers us a glimmer of hope to counter the apocalyptic views that deny capitalism the chance to reach a certain virtuous equilibrium related to human welfare.

The question, however, is whether this preference for one variety of capitalism or another is solely based on economic considerations. While an in-depth exploration of this issue is beyond the scope of this article, one thing we can do is propose an underlying thesis: cultural elements, defined in a broad sense, undoubtedly also play an important role. In a previous Dossier[1] we found that what we referred to as the illiberal shift in economic policy could be linked, to a not so negligible degree, to cultural factors such as the values of each society. As explained in the article «Capitalism, variety is the spice of life» of this same Dossier, the fact that the number of countries within the liberal category has fallen by half in the last two decades can be linked, to some extent, to this illiberal shift. Therefore, while there is no denying the importance of economic factors, the fact that cultural elements also appear to be behind this option should not be overlooked. This is a lesson we must remember, because, as we will explore in the next article of the Dossier, tough times lie ahead for the varieties of capitalism that are less well equipped for the world we are entering into.

Álvaro Leandro and Àlex Ruiz

1. See the Dossier «The threat of the illiberal shift» in the MR01/2020.

Capitalism(s) for tomorrow's world

At this point in the Dossier, we trust we have convinced the reader that the different varieties of capitalism offer a combination of differing economic and social outcomes. No particular one of them is, *a priori*, inherently better than the others, as everything will depend on the historical context: some are better equipped for certain situations, while they will fare worse in other circumstances. So, in the world that lies ahead of us, which varieties of capitalism are likely to work the best? As for the rest of them, is there hope for change and evolution?

Tomorrow's world began yesterday

We are writing, still, under the impact of the COVID-19 outbreak and its halo of uncertainty, incomparably greater than that of old times. In this context, is it possible to identify any key aspects of the medium- and long-term future that will not be overwhelmed by the vortex of recent events? With all possible prudence, we believe that reviewing the lessons of the past provides us with two major conclusions. The first is that history reminds us that major shocks, including pandemics like the current one, have structural effects. In other words, they change the long-term dynamics.[1] The second is that such shocks act in many spheres, but particularly in the institutional sphere.

After all, the different varieties of capitalism are the result of a particular combination of a number of institutional elements. Therefore, the question that needs to be considered now is what kinds of pressures will the different varieties suffer as a result of the transmission of this shock. It is time to raise questions such as whether the varieties that rely the most on coordination through the market, a high degree of labour flexibility or a less prominent role of regulation and public intervention (liberal economies) will work the best. Or will it be those characterised by less market-mediated coordination, a more regulated labour market and a greater role of public intervention (coordinated - or social - market economies) that will fare the best? Alternatively, perhaps the «hybrid» varieties (quasi-liberal and quasi-coordinated economies) will yield better results in the future.

Critical spheres of change: economic dynamism, resilience and equity

In recent months, various analyses have been produced that identify different aspects of our economy, society and politics that will change as a result of the pandemic. In particular, there is expected to be an acceleration in certain trends, such as digitalisation, with the emergence of new ways of working and consuming. It is also expected that we will see changes in the ways we produce, with a shift towards less globally fragmented value chains. These analyses also mention the increased role of governments and public action in order to help withstand the economic shock and provide greater resources to the health system.

We could go on, but this list is already sufficient to illustrate three major spheres that encompass what we might call demands, or requirements, on the system: economic dynamism, resilience and equity. These three spheres are by no means self-contained compartments, but defining them as separate blocks can help us to understand them better.

The sphere of economic dynamism is critical in any economic system since, in our view, if it is not met then the system simply collapses. Communism failed because its efficiency level and, consequently, its growth levels were very low. Capitalism, on the other hand, is predominant because it tends to be efficient and, as a result, capable of delivering sustained economic growth over time. This demand will therefore persist in the future, as it did in the past.

A second sphere is that of resilience, which underlies many of the aforementioned changes. This relates to ensuring that the economic system is stronger than it was in the past. This resilience operates at different levels, such as the shift towards local suppliers (viewed as less vulnerable) and the relocation from major corporate headquarters to smaller units (even employees' own homes). But it also encompasses public policy decisions, such as bolstering healthcare resources or economic interventions to support private liquidity and funding needs. This sphere of resilience is relatively new and has accelerated following the pandemic, although some elements had already begun to emerge in recent years.

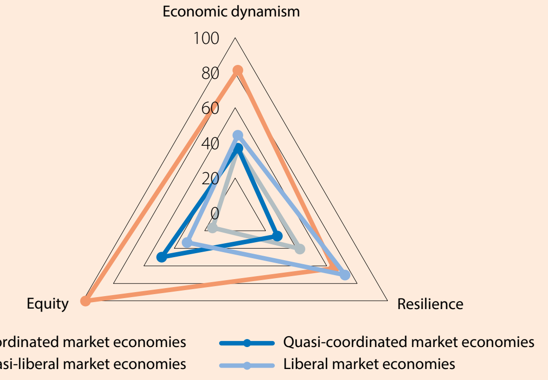
Finally, the last sphere is that of equity. Strictly speaking, many economic systems have been able to generate sufficient economic growth for long periods without addressing equity issues. However, at least since the Great Recession of 2008-2009, it has become clear that society understands that a certain degree of inclusiveness of growth is indispensable. The COVID-19 crisis, in our view, intensifies the demand for prosperity for all (or at least for many), as demonstrated by the measures, either currently being conceived or already implemented, that should promote inclusive growth.

1. In this regard, see the Dossier «The world after COVID-19» in the MR05/2020.

Differing pressures on the different varieties of capitalism

Are the different varieties of capitalism ready to meet the demands of dynamism, resilience, and equity? In order to answer this key question, we have associated a wide range of socio-economic characteristics compiled in the article «The promises of the varieties of capitalism, or on the impossibility of having it all» with the three spheres mentioned above (see chart).

Varieties of capitalism: position in key spheres in the future



Notes: *An index ranging from 0 to 100 is calculated for each sphere, such that if a particular variety is the best in all the variables that make up that sphere then it scores 100 and if it is the worst it scores 0. The economic dynamism sphere comprises growth, inflation, the ICT adoption index, TFP growth, labour productivity growth, the remote working index, the total globalisation index, the economic globalisation index and the content of imports in exports. The equity sphere comprises the Gini index and the inclusive growth index.*
The resilience sphere comprises the ICT adoption index, the remote working index, public debt, the public deficit, hospital beds per 1,000 people of the population, total healthcare expenditure, investment in healthcare, regulatory quality and government effectiveness.
Source: *CaixaBank Research.*

As expected, the different varieties are not all in the same position to meet the demands set out above. Quasi-liberal economies (which, according to our classification, include Spain and the Nordic countries, among others) appear to be in the best position, as they offer good results in all three spheres: they have the best starting point in terms of economic dynamism and equity, and the second best in terms of resilience. Liberal economies appear to have resilience levels similar to quasi-liberal economies, but with lower levels of growth and equity. Finally, quasi-coordinated and coordinated economies seem to be subject to greater tensions since, while both varieties exhibit a similar level of economic dynamism, coordinated economies are in a relatively worse position in terms of equity, while quasi-coordinated economies fall short of the other varieties in terms of resilience.[2]

This diagnosis certainly tells us which varieties are in a better or worse position to deal with the shock in the short term, but this may not necessarily be the case in the long term, since one of the fundamental elements of capitalism is its capacity to adapt.

On the possibility of change in capitalism

As we have seen in the article «Capitalism, variety is the spice of life», in recent decades state-dominated capitalism has disappeared and the more «pure» varieties, such as liberal and coordinated capitalism, have lost representatives in favour of «hybrid» models. This suggests that change is not just a theoretical possibility, it is a historical reality. Under normal conditions, the institutions that make up the varieties of capitalism evolve slowly. However, when major disruptions occur, that evolution accelerates or, in dramatic cases, new varieties may even appear. Once again, building future scenarios is fraught with uncertainty, but the past can provide us with some lessons.

When we review the institutional history of capitalism over the last two centuries, we can identify three major phases.[3] The first one begins in the mid-19th century and continues, with notable ups and downs, up until the inter-war period. This is a world in which capitalism takes the form that we usually describe as *laissez-faire*, that is, with few regulatory and institutional counterweights to the market and, in most countries, a non-existent or only an incipient welfare state. In the financial sphere, it is the time of the gold standard.

After the Second World War, the system mutates and significant elements of public intervention are introduced (for instance, the welfare state is developed in Europe). Furthermore, the system of multilateral institutions is developed and the foundations for today's economic and financial globalisation begin to be laid. This is the time of Keynesian economic policy.

Finally, following the collapse of the Bretton Woods system and the supply shocks of the 1970s and 1980s, capitalism is reformed with a decline in the role of public intervention in the economic system, a shift away from Keynesian policies in favour of the supply-side economy, and the introduction of what, in a previous Dossier, we referred to as the liberal consensus.[4]

From this brief review we can draw a simple but powerful conclusion: since approximately 1850, capitalism has repeatedly transformed itself, partly in response to a wide variety of shocks and trends, and with each transformation the institutional fabric that sustains it has also undergone profound changes. This capacity to adapt has been the key to its survival, and we believe that this time should be no different.

Álvaro Leandro and Àlex Ruiz

2. These results are different from those we identified in the analysis in the previous article, from which quasi-coordinated economies emerged better off. However, the two analyses differ, since here we are focusing on the economies' position as it stands today. With all the necessary caution, our interpretation is that, looking ahead to the future, the current position in the various spheres is more relevant than that derived from the historical analysis performed previously.
3. On this note, see, for instance, J.G. Ruggie (1982). «International regimes, transactions, and change: embedded liberalism in the postwar economic order». International organization, 36(2), 379-415.
4. See the Dossier «The threat of the illiberal shift» in the MR01/2020.

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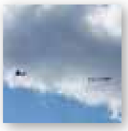
We recommend:

The COVID-19 dilemma: mobility and economy

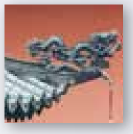


At a time when many countries have begun to adjust the social distancing measures, we analyse the relationship between mobility and economic activity and how it can affect economic performance in the short term.

The COVID-19 outbreak boosts remote working

The health crisis brought about by COVID-19 has forced large parts of society to adapt to remote working, a relatively minority practice in Spain prior to the outbreak of the pandemic. Does Spain simply lack the potential to telework or, on the contrary, does the country have the potential but fails to exploit it?

Gradual recovery in China: cautious optimism with some restrictions

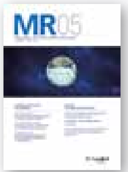


China is one quarter ahead of all other countries, as it was the first to suffer the effects of COVID-19 as well as the first to contain the epidemic. We study the speed of its recovery to obtain clues about how advanced economies will perform over the coming months.

The new green Europe

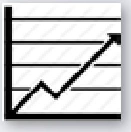
While our efforts must now focus on combating the effects of the coronavirus, we must not forget that climate change is one of the biggest challenges we face in the 21st century. We take a look at how the EU is positioning itself in the face of the environmental challenge, at the Green Deal proposed by Europe and at the role that the financial sector can play.

The world after COVID-19



COVID-19 is plunging the world into a recession without precedent in modern times. How will it change us? We explore the lessons that history offers us and analyse the transformations of productive systems and the role of economic policy.

Brief Notes on the latest economic and financial developments



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