Differences between countries

The virus does not distinguish between people or countries. Therefore, the pandemic is global in nature, as is the economic recession. Nevertheless, there are significant differences between countries, both in the health and in the economic spheres. Those able to better manage the pandemic are experiencing a more buoyant economic recovery.

Globally, China is recovering particularly well, having contained the pandemic for the time being without the need to impose severe mobility restrictions. This has led to a notable recovery in economic activity, and retail sales, industrial production and exports are already registering positive growth rates in year-on-year terms.

In contrast, developed countries are having more difficulties in containing the pandemic. In fact, many of them are experiencing a second wave of infections, forcing new mobility restrictions to be imposed. It is still too early to assess what the impact of the new measures will be, but some business confidence indicators, such as the European PMIs, already suggest a slowdown in the rate of recovery. The mood in the financial markets has also turned with the new wave of infections. Risk aversion reared its head again in September, demand for safe-haven assets increased, and the asset classes most sensitive to the business cycle, such as stocks and commodities, registered losses.

But there are also significant differences among developed countries. Germany is one of the countries weathering the crisis the best. It is managing to contain the second wave without having to enforce excessively restrictive measures, and this is resulting in a less pronounced deterioration in the economy, as well as a faster recovery. At the opposite end of the spectrum, the Spanish economy is among those suffering the most. September brought a shift in the trend shown by CaixaBank's internal data on card spending.

We are confident that the containment measures being implemented will prevent us from falling back into a situation like that of the spring. Nevertheless, the environment of high uncertainty, which looks set to stay, coupled with the mobility restrictions that will have to be imposed in regions where outbreaks occur, will severely limit the economy's ability to recovery over the coming months. Thus, at the end of this year we anticipate that GDP will remain 6.1 pps below its pre-crisis level for the euro area as a whole and 11.2 pps below in Spain.

Beyond better preventive management of the pandemic – something for which there is clearly scope in many countries –, it will not be until we can carry out rapid and reliable tests en masse and on a recurring basis, and ultimately until we have an effective vaccine, that the pace of recovery will be able to significantly accelerate. We expect these catalysts will be activated next year and, therefore, our forecast scenario incorporates a significant and widespread rebound in economic activity in 2021, with growth rates ranging from 5.1% in the US to 6.6% in the euro area and 8.6% in Spain.

These figures are significant, yet they will not be enough to return economic activity to pre-crisis levels. The length of time during which the economy will have endured the pressure of the virus will end up leaving scars. Many businesses will have to close their doors permanently despite the many aid programmes put in place, and many people will end up losing their jobs.

In this context, in the short term it is essential to make every effort to improve the preventive management of the pandemic. This is without doubt not only the best health policy to pursue, but also the best economic policy. The two policies must go hand in hand; there is no trade off between them.

In parallel, traditional economic policy tools must run at full steam. On the monetary side, the Fed has already made it clear that under the new mandate financial conditions will remain highly accommodative for longer than we previously expected. As for the ECB, although differences of opinion have once again increased within its Governing Council, we are confident that it will announce an extension of its support measures in the coming months.

With regard to fiscal policy, there is broad consensus that decisive action must be taken. Nevertheless, if this desire is to translate into effective action, it is imperative for there to be broad political consensus – something that has become more difficult in countries affected by political fragmentation. The urgency of the moment, however, demands that an extra effort be made. The success of that undertaking will largely determine whether the differences between countries are reduced, or not.

Oriol Aspachs
Head of Research