

Outlook: year 1 after the pandemic

The title of this article reflects the central assumption of our economic forecasts for next year: it will be the year in which we will leave the pandemic behind. One of the keys to achieving this will be the successful deployment of the vaccines that have been discovered in record time, an extraordinary milestone in human history. Not so long ago, much of the scientific community doubted that it would be possible to obtain a vaccine in a matter of months rather than years. What has been achieved is proof of how far we can go when the world of research, private enterprise and the governments of different countries share a common goal and strive in a coordinated manner to achieve it. This is without doubt a valid lesson for other challenges we face, such as climate change.

The successful deployment of the vaccines will not be simple or immediate. Their production and distribution pose a formidable logistical challenge. Of course, it will also be crucial that the virus does not mutate in a way that reduces the vaccines' effectiveness, although it may be the case, as with the flu, that the vaccine will need to be updated periodically. Above all, it is essential that enough people are vaccinated in order to achieve so-called herd immunity, the threshold after which there are so many people immune to the virus that the famous R – the rate at which the virus spreads – is naturally below 1, at which point we can consider the epidemic under control. Some recent surveys suggest that it will be necessary to raise awareness that getting vaccinated is safe, effective and represents a show of solidarity. In short, it is necessary.

Until we achieve herd immunity, we will have no choice but to continue the widespread use of other tools to control the epidemic. These are tools we are already familiar with: masks, social distancing, hygiene standards, testing, contact tracing and isolations. Rapid antigen tests can also play an important role as part of this arsenal. At a much lower cost than a PCR test, with very high reliability and with the ability to deliver a result in 15 minutes, they will become a critical tool for increasing the detection of asymptomatic cases.

Controlling the epidemic will facilitate the economic rebound, but it will remain very important over the coming months to continue to support the sectors hardest hit by the virus. Indeed, as the impact of the pandemic becomes increasingly concentrated in a few sectors and we get close to bringing it under control, this support must be decisive. Furthermore, at the current juncture where many companies cannot afford to take on more debt, direct aid must assume a greater role.

The outlook for 2021 will also be marked by international relations. Within the EU, it will be absolutely crucial to unblock the European recovery plan, something which no one doubts will happen. The real possibility of leaving Hungary and Poland out of the plan should make it easier for them to agree to unlock it. As for Brexit, we are in stoppage time with no deal yet reached and we face the real possibility of it not being ready in time for January. The resulting disruption would no doubt facilitate an agreement early next year, but it would certainly be better if we could avoid the difficulties. Finally, the leadership change in the US is good news for multilateralism and international cooperation, including between the US and the EU. The tensions between the US and China, which reflect an underlying struggle for technological and economic world leadership, will continue, but the risks of a shock affecting the global economy as a whole will be lower.

Despite the seriousness of the crisis, Spain is in a different situation than it was in 2008. On that occasion, the economy amassed a 9% drop in GDP in five long years and it took three more years to return to pre-crisis levels. In this crisis, that same drop has taken place in three quarters and, although our expectation is that we might once again take three years to claw back the lost ground, everyone's goal should be to shorten this period. If we make good use of European funds to finance not only investments but also reforms that make us more competitive, we can do it.

Enric Fernández
Chief economist
30 November 2020