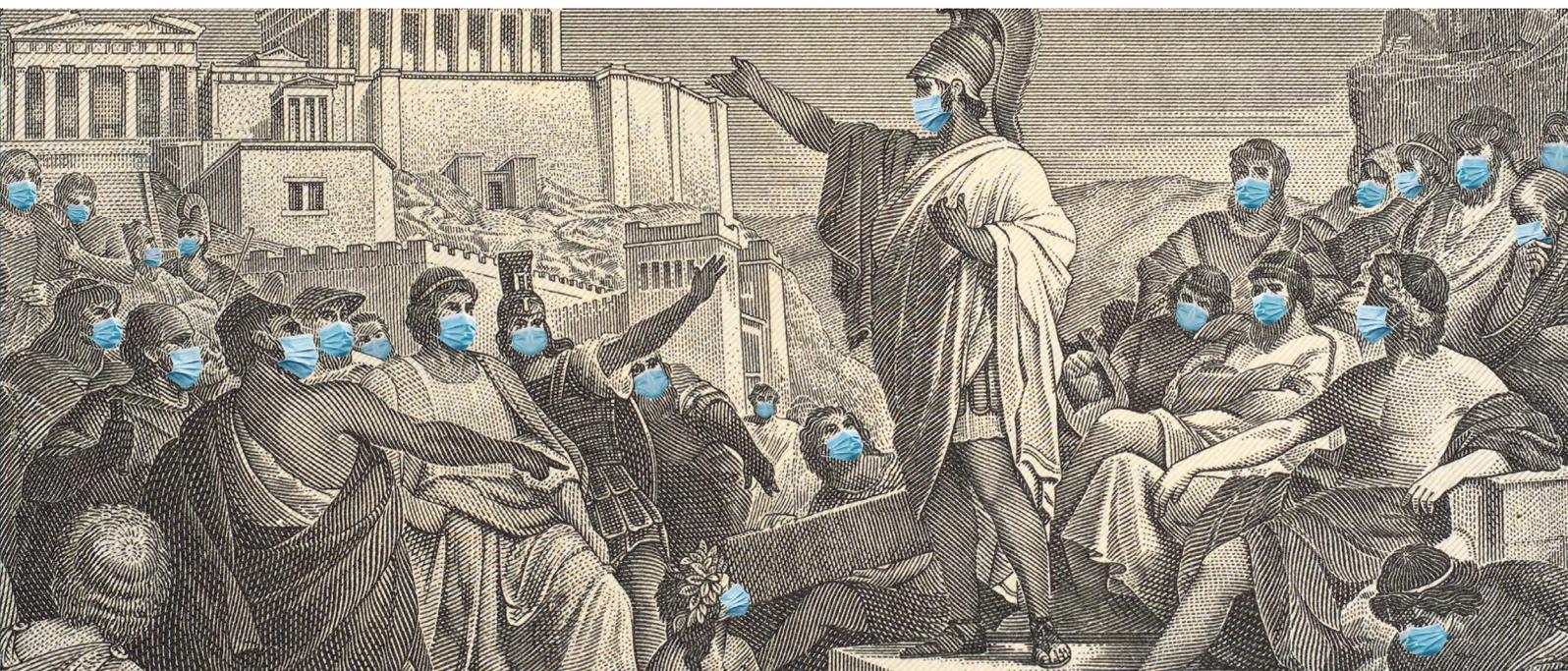


# MIR02

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

NUMBER 453 | FEBRUARY 2021



## ECONOMIC & FINANCIAL ENVIRONMENT

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### FINANCIAL MARKETS

*Sharp rise in public debt: will the euro area resist?*

### INTERNATIONAL ECONOMY

*Brexit: from brothers to distant cousins*

### PORTUGUESE ECONOMY

*Disposable income in Portugal: holding up well in a historic crisis*

## DOSSIER: DEMOCRACIES IN TIMES OF PANDEMIC

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*Democracy and COVID-19: the decisive moment*

*Have democracies been more lax with lockdowns and testing?*

*Have democracies achieved better control over social interactions?*

*Democracy and the pandemic: more light than darkness*

**MONTHLY REPORT -  
ECONOMIC AND FINANCIAL  
MARKET OUTLOOK**  
February 2021

The *Monthly Report* is a publication developed jointly by CaixaBank Research and BPI Research (UEEF)

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## Operation summer

The Spanish economy shrunk by 11% last year, around 4 points more than the euro area as a whole. Much of this difference is explained by the significant role of tourism in our country, a sector badly hit by the pandemic. For the same reason, the outlook for 2021 is closely linked to the recovery of tourism activity.

The year has got off to a bad start, constrained as we are by the new outbreaks, and it will be difficult for things to change much in time for Easter, which is just around the corner. But every effort must be made to produce a turning point in the spring and to ensure that the summer season marks the beginning of a strong recovery in the sector. If tourism fails, 2021 will not be a good year for the Spanish economy.

According to estimates by the National Statistics Institute, tourism contributed 12.4% of GDP in 2019. More than half of that contribution came from international tourism, but this segment plummeted last year by almost 80% (the drop would have been greater had it not been for activity in the first quarter). National tourism held up somewhat better, partly because people did not travel abroad, but the drop still stood at around 50%. Overall, the decline in tourism activity can be estimated at around 65%, which deducted some 8 points from GDP (multiply  $0.124 \times 65\%$ ). This is equivalent to 100 billion euros (multiply  $0.08 \times 1.25$  trillion, which was GDP in 2019).

The key to these figures improving lies in the vaccines (although rapid tests will also be an important tool). If they are rolled out as planned and remain effective against mutations of the virus, we will be facing a completely different situation. This does not mean that we will return to 2019 figures, or even close, but it will allow us to achieve much better figures than last year, thus allowing the sector to begin to rebuild itself.

While herd immunity is not expected to be achieved before the end of the summer, the effect of the vaccines on economic activity in general, and on tourism in particular, should become apparent much earlier. According to data published by the Carlos III Health Institute (Instituto de Salud Carlos III), almost 1 in 2 hospitalisations due to COVID-19 and 1 in 3 ICU admissions has affected people over the age of 70. If we expand this age group to include all those over 60 years of age, it accounts for 2 out of every 3 hospitalisations or ICU admissions. This means that the immunisation of these age groups could greatly reduce the pressure on the healthcare system and would facilitate the easing of the current restrictions on mobility. In fact, once immunised, these age groups could be the first to help relaunch tourism this spring.

Of course, it is not just Spain that will need to roll out the vaccines as quickly as possible – international tourists' countries of origin will need to do so too. In this regard, there is reason to be optimistic when we look at our main markets. The leading source of tourists visiting Spain is the United Kingdom, accounting for almost 20% of the total, and the vaccination process there is further ahead. France, Germany, Italy, Belgium and the Netherlands, meanwhile, provide Spain with 1 in 3 international tourists, and the vaccination rate in these countries ought to be in line with that of Spain. Furthermore, it is important to emphasise that most of these tourists already know our country well and perceive it as a safe destination. If they are able to come, they will.

In addition to the vaccines, it is important that the tourism sector avoids tackling the recovery from a position of extreme weakness. The crisis has lasted longer than initially anticipated, and while the ERTE furlough schemes and ICO credit lines have been a great help, direct subsidies are now needed above all. Such subsidies could help to cover fixed costs, for instance, or to pay taxes and social security contributions which are yet to be paid or which have had to be paid all these months with a minimum income. In short, they are needed to prevent the sector from reaching the finishing line – or rather the starting line – out of breath.

**Enric Fernández**  
Chief economist  
February 2021

## Chronology

### JANUARY 2021

- 15** The official global COVID-19 death toll surpasses 2 million people.
- 20** Joe Biden takes the oath of office to become the new US president. Earlier in the month, Donald Trump supporters had stormed Congress in protest at the election results.

### NOVEMBER 2020

- 15** Australia, New Zealand and 13 Asian economies (including China) sign a large-scale trade agreement known as the Regional Comprehensive Economic Partnership.
- 20** The first COVID-19 vaccines seek official approval from the authorities after the trial phase comes to an end.

### SEPTEMBER 2020

- 25** The European Council approves the granting of 87.4 billion euros in SURE loans to 16 Member States. Spain will receive 21.3 billion.
- 28** The official global COVID-19 death toll surpasses 1 million people.

### DECEMBER 2020

- 2** The United Kingdom becomes the first Western country to approve the use of a vaccine against COVID-19.
- 10** The ECB increases the PEPP budget to 1.85 trillion, prolongs its net purchases until March 2022 and launches three new TLTRO-III operations.
- 24** The EU and the United Kingdom reach a trade agreement to regulate their economic relations from 1 January 2021, when the United Kingdom leaves the single market and customs union.

### OCTOBER 2020

- 16** The rating agency Moody's downgrades the United Kingdom's credit rating from Aa2 to Aa3.
- 25** The Spanish government declares a new state of emergency.
- 28** France announces a new lockdown and other European countries (such as Germany) also impose tighter mobility restrictions than in previous months.

### AUGUST 2020

- 27** The Fed updates the strategic framework for monetary policy and announces that it will pursue an average inflation rate of 2%, temporarily tolerating higher inflation following periods with inflation below 2%.

## Agenda

### FEBRUARY 2021

- 2** Spain: registration with Social Security and registered unemployment (January).  
Portugal: GDP flash estimate (Q4).  
Euro area: GDP (Q4).
- 10** Portugal: employment and unemployment (Q4).
- 15** Portugal: tourism activity (December).  
Japan: GDP (Q4).
- 19** Spain: foreign trade (December).
- 24** Spain: loans, deposits and NPL ratio (December).
- 25** Euro area: economic sentiment index (February).  
Portugal: business and consumer confidence indicator (February).
- 26** Spain: balance of payments (December).  
Spain: CPI flash estimate (February).  
Portugal: CPI flash estimate (February).

### MARCH 2021

- 2** Spain: registration with Social Security and registered unemployment (February).
- 3** Portugal: employment and unemployment (January).
- 5** Spain: Moody's rating.
- 11** Governing Council of the European Central Bank meeting.
- 12** Portugal: S&P rating.
- 16-17** Federal Open Market Committee meeting.
- 17** Spain: quarterly labour cost survey (Q4).
- 19** Spain: S&P rating.  
Portugal: Moody's rating.
- 22** Spain: loans, deposits and NPL ratio (Q4).
- 25** Spain: balance of payments and NIIP (Q4).  
Portugal: home prices (February).
- 25-26** European Council meeting.
- 26** Spain: GDP breakdown (Q4).  
Portugal: GDP breakdown (Q4).
- 30** Spain: CPI flash estimate (March).  
Euro area: economic sentiment index (March).
- 31** Spain: household savings rate (Q4).  
Spain: state budget execution (February).

## The economy resists the second wave

«Fear is always ready to see things worse than they are». These words by Tito Livio are not only old, but also wise... and particularly relevant in the context of the current pandemic. We are surrounded by a steady stream of negative and concerning news. Many households and businesses are in a critical situation. In these circumstances, discerning that some things are going better than we expected a few months ago seems to be somewhat wishful thinking. But even if it does not seem to be the case, the economy – as a whole – is one of them. The surge in infections in the major developed countries and the severity and persistence of the restrictions on mobility and activity have brought us back to the worst moments of last April. But we have adapted, with resignation and also with a spirit of perseverance.

The fall in economic activity that occurred last year was certainly historic (feel free to replace this adjective with another more grandiose one), but it was lower than that expected just a few months ago by at least the vast majority of economists, including our own. For the US, the euro area and Spain, in October 2020 (not so long ago) fewer than 15% of the think-tanks that participate in the so-called consensus of economists either got their forecasts right or were overly optimistic. The bulk of us were overly pessimistic, and that was when we were not even expecting such a virulent second wave of infections. If we had known what was around the corner, we would no doubt all have painted an even gloomier picture of the economic scenario. When we take this factor into consideration, the resilience that the economy has shown over the last few months is even more surprising. Once again, the difficulties we have in anticipating changes in the behaviour of people, policies or technology have become apparent, and in recent months there has been much improvement on all fronts. Will we be overly pessimistic once again?

The latest indicators suggest that the recovery process has stalled in the major developed economies. Some closed Q4 2020 with slight advances in quarter-on-quarter terms, such as the US (+1.0%), Spain (+0.4%) and Germany (+0.1%), while others, such as France (-1.3%) or Italy (-2.0%), took a step backwards. Indicators for the month of January show that this pattern persists. The recovery process is on pause. There is no significant progress, but we do not see any falls like those experienced in the first wave either. In Spain, the year-on-year rate of change in the number of people registered with Social Security who are not affected by an ERTE furlough scheme improved only slightly in January compared to the figures for the previous months. Household consumption followed a similar pattern, according to CaixaBank Research's real-time indicator. And wage inequality, which rose sharply

in April and May but improved markedly in the following months, has not spiked after the outbreak of the second wave, also according to CaixaBank Research's real-time inequality monitor.

The IMF's new forecast scenario envisages that this dynamic will continue until the distribution of the vaccines has protected the risk groups. This is a milestone that most developed economies expect to achieve during the second quarter. Until this point is reached, the downside risks will continue to dominate: the technical difficulties posed by the ambitious vaccination plans underway are evident and the new strains of the virus pose a frightening threat. However, the IMF also indicates that, once this milestone is achieved, there could be substantial positive surprises: the improvement in confidence that could occur once the population is immunised may be accompanied by a higher-than-expected rebound in consumption and investment. Overall, the IMF forecasts global growth of 5.5% this year and of 5.9% for Spain (very similar to the figures in the CaixaBank Research scenario). However, it points out that growth could be 0.75 pps higher at the global level if the upside risks materialise, and that the rebound could be even greater in developed economies.

In the financial sphere, the IMF stresses that, while non-financial firms have had limited solvency issues to date, the pressure on the business sector will remain high in all countries. On this note, it expects there to be a rise in defaults, especially if the measures introduced to support the economy's productive fabric are withdrawn before the recovery is well established. In this regard, it should be recalled that Spain has seen a surge in corporate debt, but that the starting point, at the aggregate level, was relatively comfortable following years of debt reduction. The level of debt thus remains clearly below the levels reached during the previous crisis and also below that of the euro area as a whole. This does not mean that over-indebtedness is not an issue at all, especially in the sectors hardest hit by the crisis, but it is not a widespread problem.

Portraying the economic reality that surrounds us is an extremely difficult task. It requires us to constantly combine grandiose words, because we feel that these are historic times, with a great assortment of nuances, because there is great uncertainty and events are happening at a breakneck pace. However, the confusion and exhaustion that this can lead to should not cloud our view and make us see things as being worse than they already are.

**Oriol Aspachs**  
Head of Research

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

### Financial markets

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
<b>INTEREST RATES</b>							
<b>Dollar</b>							
Fed funds (upper limit)	3.43	0.55	2.50	1.75	0.25	0.25	0.25
3-month Libor	3.62	0.75	2.79	1.91	0.23	0.25	0.35
12-month Libor	3.86	1.26	3.08	1.97	0.34	0.50	0.70
2-year government bonds	3.70	0.80	2.68	1.63	0.13	0.25	0.50
10-year government bonds	4.70	2.58	2.83	1.86	0.93	1.40	1.50
<b>Euro</b>							
ECB depo	2.05	0.32	-0.40	-0.50	-0.50	-0.50	-0.50
ECB refi	3.05	0.90	0.00	0.00	0.00	0.00	0.00
Eonia	3.12	0.55	-0.36	-0.46	-0.47	-0.45	-0.45
1-month Euribor	3.18	0.67	-0.37	-0.45	-0.56	-0.48	-0.43
3-month Euribor	3.24	0.85	-0.31	-0.40	-0.54	-0.50	-0.40
6-month Euribor	3.29	1.00	-0.24	-0.34	-0.52	-0.48	-0.38
12-month Euribor	3.40	1.19	-0.13	-0.26	-0.50	-0.45	-0.35
<b>Germany</b>							
2-year government bonds	3.41	0.55	-0.60	-0.63	-0.73	-0.60	-0.45
10-year government bonds	4.30	1.82	0.25	-0.27	-0.57	-0.40	0.00
<b>Spain</b>							
3-year government bonds	3.62	2.06	-0.02	-0.36	-0.57	-0.39	-0.06
5-year government bonds	3.91	2.59	0.36	-0.09	-0.41	-0.28	0.12
10-year government bonds	4.42	3.60	1.42	0.44	0.05	0.10	0.50
Risk premium	11	178	117	71	62	50	50
<b>Portugal</b>							
3-year government bonds	3.68	4.02	-0.18	-0.34	-0.61	-0.32	0.05
5-year government bonds	3.96	4.67	0.47	-0.12	-0.45	-0.32	0.14
10-year government bonds	4.49	5.35	1.72	0.40	0.02	0.10	0.53
Risk premium	19	353	147	67	60	50	53
<b>EXCHANGE RATES</b>							
EUR/USD (dollars per euro)	1.13	1.29	1.14	1.11	1.22	1.22	1.22
EUR/JPY (yen per euro)	129.50	126.40	127.89	121.40	126.39	130.54	130.54
USD/JPY (yen per dollar)	115.34	98.97	112.38	109.25	103.83	107.00	107.00
EUR/GBP (pounds per euro)	0.66	0.83	0.90	0.85	0.90	0.89	0.90
USD/GBP (pounds per dollar)	0.59	0.64	0.79	0.76	0.74	0.73	0.74
<b>OIL PRICE</b>							
Brent (\$/barrel)	42.3	82.5	57.7	65.2	50.2	60.0	62.0
Brent (euros/barrel)	36.4	63.2	50.7	58.6	41.3	49.2	50.8

Forecasts

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

### International economy

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
<b>GDP GROWTH</b>							
<b>Global</b>	4.5	3.4	3.5	2.8	-3.5	5.5	4.0
<b>Developed countries</b>	2.7	1.3	2.2	1.7	-4.9	4.6	3.0
United States	2.7	1.5	3.0	2.2	-3.5	4.9	3.4
Euro area	2.2	0.7	1.9	1.2	-6.8	4.3	2.7
Germany	1.6	1.3	1.6	0.6	-5.3	3.2	2.2
France	2.2	0.8	1.7	1.5	-8.3	5.7	3.1
Italy	1.5	-0.5	0.8	0.3	-8.9	5.0	2.5
Portugal	1.5	0.0	2.9	2.2	-7.6	4.9	3.1
Spain	3.7	0.3	2.4	2.0	-11.0	6.0	4.4
Japan	1.4	0.5	0.6	0.3	-5.2	3.5	1.3
United Kingdom	2.9	1.1	1.3	1.4	-11.0	6.9	4.1
<b>Emerging and developing countries</b>	6.5	5.1	4.5	3.7	-2.5	6.2	4.6
China	10.6	8.3	6.7	6.0	2.3	8.3	4.5
India	9.7	6.9	6.8	4.9	-8.9	9.5	7.3
Brazil	3.6	1.6	1.8	1.4	-4.4	3.0	2.5
Mexico	2.4	2.1	2.2	0.0	-8.3	3.5	2.2
Russia	7.2	0.9	2.5	1.3	-3.1	3.0	2.2
Turkey	5.4	5.1	2.8	0.9	-2.2	4.0	3.4
Poland	4.2	3.4	5.4	4.6	-2.8	3.0	4.9
<b>INFLATION</b>							
<b>Global</b>	4.1	3.7	3.6	3.5	3.2	3.5	3.2
<b>Developed countries</b>	2.1	1.5	2.0	1.4	0.6	1.2	1.5
United States	2.8	1.7	2.4	1.8	1.2	2.3	2.0
Euro area	2.1	1.4	1.8	1.2	0.3	1.1	1.2
Germany	1.7	1.3	1.9	1.4	0.4	1.2	1.3
France	1.8	1.2	2.1	1.3	0.5	1.1	1.2
Italy	1.9	1.5	1.2	0.6	-0.1	0.9	1.0
Portugal	3.0	1.2	1.0	0.3	0.0	0.9	1.3
Spain	3.2	1.4	1.7	0.7	-0.3	1.1	1.5
Japan	-0.3	0.3	1.0	0.5	0.0	0.0	0.0
United Kingdom	1.9	2.4	2.5	1.8	0.9	1.5	1.2
<b>Emerging countries</b>	6.7	5.7	4.9	5.1	5.1	4.5	4.3
China	1.7	2.6	2.1	2.9	2.5	0.8	2.3
India	4.5	8.0	3.9	3.7	6.6	9.7	4.7
Brazil	7.3	6.1	3.7	3.7	3.2	4.1	3.5
Mexico	5.2	4.2	4.9	3.6	3.4	3.8	3.7
Russia	14.2	8.7	2.9	4.5	4.9	3.5	4.0
Turkey	27.2	8.4	16.2	15.5	14.6	10.4	8.0
Poland	3.5	2.0	1.2	2.1	3.7	2.1	2.4

Forecasts

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

### Spanish economy

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
<b>Macroeconomic aggregates</b>							
Household consumption	3.6	-0.6	1.8	0.9	-12.6	7.9	3.5
Government consumption	5.0	0.9	2.6	2.3	4.5	6.3	2.4
Gross fixed capital formation	5.6	-2.8	6.1	2.7	-12.4	5.6	7.5
Capital goods	4.9	-0.5	5.4	4.4	-13.4	12.7	8.0
Construction	5.7	-5.2	9.3	1.6	-15.8	0.8	7.1
Domestic demand (vs. GDP Δ)	4.4	-0.7	2.7	1.5	-8.7	6.7	4.0
Exports of goods and services	4.7	3.1	2.3	2.3	-20.9	6.6	7.6
Imports of goods and services	7.0	-0.3	4.2	0.7	-16.8	7.8	6.6
<b>Gross domestic product</b>	<b>3.7</b>	<b>0.3</b>	<b>2.4</b>	<b>2.0</b>	<b>-11.0</b>	<b>6.0</b>	<b>4.4</b>
<b>Other variables</b>							
Employment	3.2	-1.0	2.6	2.3	-7.5	0.0	2.2
Unemployment rate (% of labour force)	10.5	20.5	15.3	14.1	15.5	17.9	16.5
Consumer price index	3.2	1.4	1.7	0.7	-0.3	1.1	1.5
Unit labour costs	3.0	0.1	1.2	2.4	5.8	-5.6	-0.1
Current account balance (% GDP)	-5.9	-0.8	1.9	2.0	1.1	1.6	2.1
External funding capacity/needs (% GDP)	-5.2	-0.4	2.4	2.4	1.3	1.8	2.3
Fiscal balance (% GDP) <sup>1</sup>	0.4	-6.7	-2.5	-2.8	-12.4	-9.2	-6.6

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

■ Forecasts

### Portuguese economy

	Average 2000-2007	Average 2008-2017	2018	2019	2020	2021	2022
<b>Macroeconomic aggregates</b>							
Household consumption	1.7	0.1	2.6	2.4	-6.7	4.0	3.6
Government consumption	2.3	-0.6	0.6	0.7	0.7	2.2	0.2
Gross fixed capital formation	-0.3	-2.0	6.2	5.4	-7.4	-0.6	4.1
Capital goods	1.2	1.2	8.9	2.8	-	-	-
Construction	-1.5	-4.4	4.7	7.2	-	-	-
Domestic demand (vs. GDP Δ)	1.3	-0.5	3.1	2.7	-5.6	3.4	3.8
Exports of goods and services	5.2	4.0	4.2	3.5	-16.4	20.3	8.2
Imports of goods and services	3.6	2.2	5.0	4.7	-11.0	15.5	8.4
<b>Gross domestic product</b>	<b>1.5</b>	<b>0.0</b>	<b>2.9</b>	<b>2.2</b>	<b>-7.6</b>	<b>4.9</b>	<b>3.1</b>
<b>Other variables</b>							
Employment	0.4	-0.6	2.3	1.0	-3.9	-0.8	1.7
Unemployment rate (% of labour force)	6.1	11.8	7.0	6.5	7.4	9.1	7.7
Consumer price index	3.0	1.2	1.0	0.3	0.0	0.9	1.3
Current account balance (% GDP)	-9.2	-3.6	0.4	-0.1	-1.8	-1.0	-0.6
External funding capacity/needs (% GDP)	-7.7	-2.2	1.4	0.9	-0.8	0.0	1.0
Fiscal balance (% GDP)	-4.6	-6.1	-0.3	0.1	-7.2	-5.7	-3.1

■ Forecasts

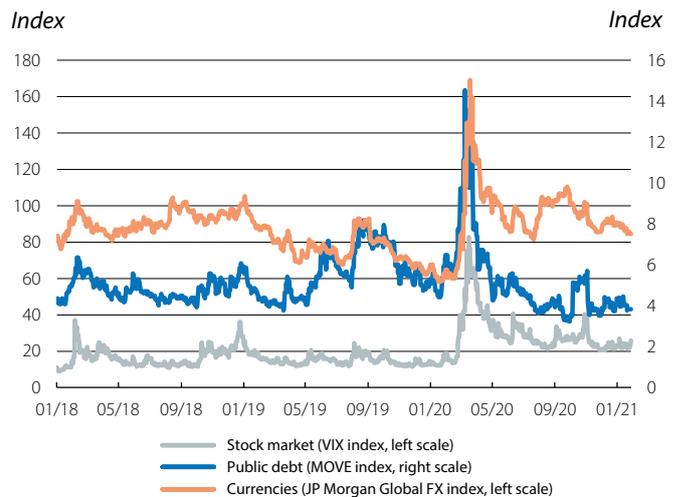
## A hesitant start to the year in the financial markets

**The markets start 2021 in search of direction.** Investor sentiment began the year with optimism, propped up by the fading of some sources of uncertainty, such as Brexit and the transition of the US presidency, the start of vaccinations in various countries and expectations of an initial fiscal package proposal by Joe Biden. However, with the deterioration of indicators regarding the pandemic and the tightening of lockdowns in most advanced economies, risk appetite declined. Notably, the various economic sentiment indicators remain somewhat contained, especially in the euro area, suggesting that economic activity will continue to be restricted by the pandemic in this first quarter of 2021. In this context, stock markets showed a mixed tone throughout January, while sovereign yields remained anchored by the central banks, which are determined to maintain dovish financial conditions. Indeed, the major central banks focused their latest meetings on dispelling rumours of a possible premature withdrawal of the monetary stimuli. Furthermore, as usual, the Fed and the ECB reiterated that they have room to take further steps and provide an even more accommodating financial environment if the situation required it.

**Stock markets are not yet immune to COVID-19.** The major stock market indices kicked-off the year with broad-based gains in the first few weeks, spurred on by a hopeful start to the global roll-out of vaccinations. However, the realisation that the pandemic will continue to weigh down on economic activity during Q1 ended up dampening investors' spirits. Most of the euro area's indices fell over the month as a whole (the Eurostoxx 50 by -2.0%, the Ibex 35 by -3.9% and the PSI-20, -2.1%), whilst the US indices were able to weather the situation somewhat better and registered new all-time highs in some sessions, partly supported by a better-than-expected start to the business earnings season (S&P 500 -1.1% and Nasdaq +0.3%). In Asia, meanwhile, both the emerging economy indices and those of Japan registered considerable gains (Emerging Asia +4.2% and Japan +0.8%).

**OPEC adjusts its oil production to changing demand.** With economic growth expected to be contained in Q1, OPEC and its allies (OPEC+) decided to postpone the production increase of 2 million barrels a day (mbd) previously planned for early 2021. Following the meeting held on 5 January, it was agreed that Russia and Kazakhstan would increase their production slightly and gradually until March (+0.15 mbd in total) and that Saudi Arabia would voluntarily cut its production by 1 mbd. Thus, not only did OPEC+ not increase production for Q1 2021, but it cut it overall. This support from the bloc isolated the Brent oil price from the deteriorating economic and investor sentiment, allowing it to actually increase by almost 8% over the month as a whole, reaching 55 dollars.

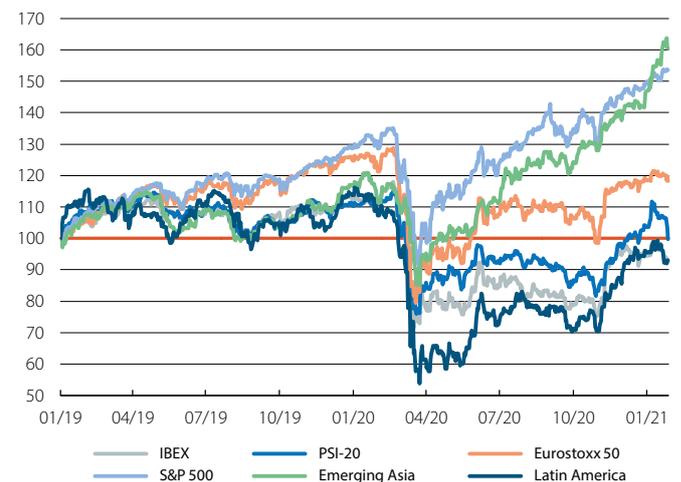
### Implicit volatility in the financial markets



Source: CaixaBank Research, based on data from Bloomberg.

### Major international stock markets

Index (100 = January 2019)

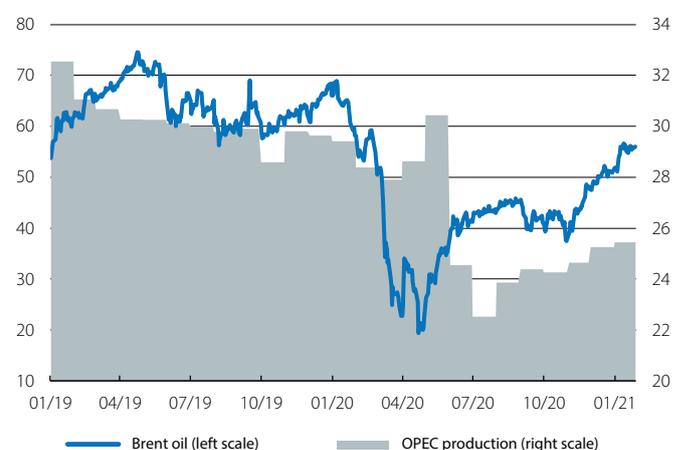


Source: CaixaBank Research, based on data from Bloomberg.

### Oil: Brent price per barrel and OPEC production

(Dollars per barrel)

(Million barrels per day)



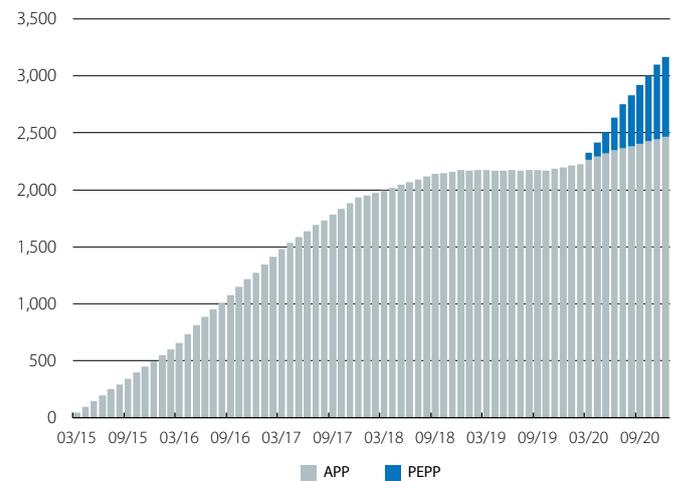
Source: CaixaBank Research, based on data from Bloomberg.

**The ECB's asset purchases will remain key in 2021.** Following the Governing Council's meeting on 21 January, Christine Lagarde explained that the ECB is comfortable with the economic forecasts presented in December, in which the ECB already projected a continuation of the pandemic during Q1 2021, an incomplete recovery in economic activity until early 2022 and weakness in core inflation in the short and medium term. In addition, Lagarde noted that, with the measures announced in December, the ECB has given itself enough muscle to face 2021 with confidence. In particular, the Pandemic Emergency Purchase Programme (PEPP) has the capacity to buy up debt worth a total of 1.85 trillion euros (in 2020 the ECB spent 0.76 trillion and the budget has a further 1.1 trillion remaining, equivalent to 9.2% of the euro area's pre-pandemic GDP). This capacity can be used up until Q1 2022 with a flexible rate of net purchase which can be adapted to the requirements of the prevailing situation on a weekly basis. In other words, with the available capacity of the PEPP alone, the ECB could buy as many assets in 2021 as it acquired with the sum of all its programmes in 2020 (this capacity will allow it to continue to provide coverage for its fiscal policy, as we discuss in the Focus «[Sharp rise in public debt: will the euro area resist?](#)» in this same *Monthly Report*). In addition, the ECB stated that it is equally likely that the programme will not be used in its entirety as it may need to be extended.

**The Fed will maintain the stimulus for as long as the risks persist.** At its January meeting, the institution headed by Jerome Powell kept official interest rates at rock bottom (0.00%-0.25%) and net asset purchases at the current monthly rate (80 billion dollars in treasuries and 40 billion in MBSs). While Powell acknowledged that the medium-term outlook had improved, he also indicated that the short-term risks remain high (increase in infections, new variants of the virus, and a slow rate of vaccination). Powell was thus clear in stating that the Fed must maintain an accommodative environment during 2021, he ended speculation about a possible early withdrawal of the stimuli and he stressed that, when the withdrawal does come, it will be gradual and announced well in advance.

**Sovereign yields reflect a slight improvement in the medium-term outlook.** This is illustrated by the rally in yields on the German *bund* and especially on 10-year US treasuries at the start of the year. The rebound in the latter was largely driven by the growth and inflation expectations which investors attributed to Joe Biden's fiscal stimulus proposal. In the euro area periphery, meanwhile, risk premiums remained relatively stable with the exception of Italy. After the Italia Viva party withdrew its support for Giuseppe Conte's government, the latter lost its absolute majority in the chambers and the parties must now garner new support in order to avoid early elections. This situation did not go unnoticed by investors and the Italian risk premium rose only slightly, reflecting the fact that they do not expect to be going to the polls early.

**Public debt held by the ECB**  
(EUR billions)



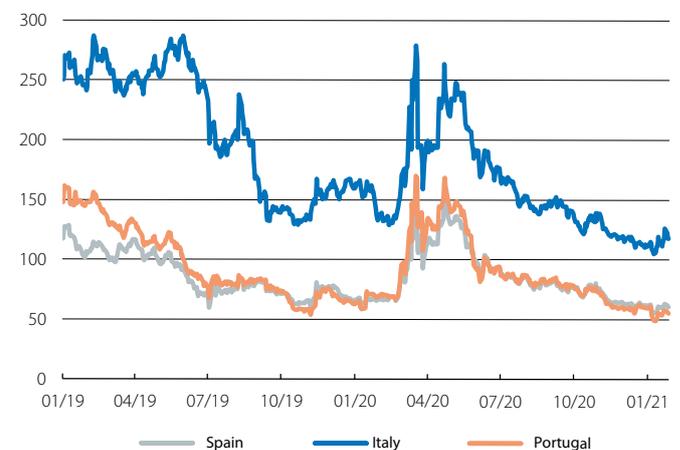
Source: CaixaBank Research, based on data from the ECB.

**10-year public debt yields**



Source: CaixaBank Research, based on data from Bloomberg.

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



Source: CaixaBank Research, based on data from Bloomberg.

## Sharp rise in public debt: will the euro area resist?

- The COVID-19 crisis is causing a sharp increase in public debt. However, the sustained reduction in interest rates and the lengthening of maturities are offering European economies some cover and are easing the financial burden.
- In 2021, general government funding needs will be supported by European funds and the ECB's accommodative policy.

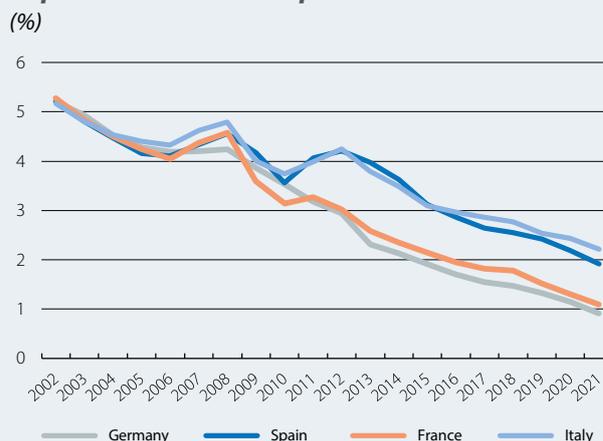
The COVID-19 pandemic is causing a sharp increase in debt. Since the outbreak of the pandemic, public debt ratios have risen suddenly and significantly to almost unprecedented levels (the historical precedents are closely linked to major wars). For instance, in Italy and Spain a jump of +25 pps of GDP is expected in just one year, whereas it took five and three years, respectively, to amass a similar increase after the financial crisis of 2007-2008 (and that was starting from a position of greater margin for fiscal manoeuvre).<sup>1</sup>

The rise in public debt is a necessary and effective reaction to soften the blow of an unprecedented fall in household and business incomes: borrowing entails cutting this exceptional decline up into smaller parts and distributing them over time. In many cases, however, public debt was already high to begin with. The sustainability of the debt is not in question,<sup>2</sup> but the surge has generated concern, and in the medium term there are worries that a heavier debt burden will hold back economic performance.

One basic condition for managing the sharp increase in public debt, and for laying the groundwork in order to gradually reduce it in the future, is that the economic recovery must be underpinned by sustained growth. To this end, it is key that the crisis does not become entrenched (for instance, due to an overly timid economic policy or premature withdrawal of the stimulus), and that opportunities to boost underlying growth are taken advantage of (for instance, by improving the economy's capacity to adapt to new technologies and to the energy and environmental transformations).

Furthermore, when assessing the consequences of the increase in debt, not only is it necessary to consider the level it reaches but also, in the short term, the financial burden it entails (debt payment flows relative to income flows). In an environment of low interest rates and with debt financed over long maturities, the financial burden should be manageable. Indeed, the current conditions in the euro area should allow for precisely this. In particular, the sustained reduction in interest rates over the past two decades (see first chart) and the lengthening of debt

### Implicit interest rate of public debt



Source: CaixaBank Research, based on data and forecasts from the European Commission (autumn 2020 forecast).

### Average maturity of public debt



Source: CaixaBank Research, based on data from the Treasury Departments of Germany, Spain, France and Italy.

maturities (second chart) are offering European economies breathing space and easing their debt burden in terms of payment flows. In other words, as the third chart shows, the debt service ratio (formally defined as the interest and maturing principal payments as a percentage of GDP) has become much less stressed than the sharp increases in the debt-to-GDP ratios might suggest.

In 2021, the more sustained revival of the economy should provide some relief for the debt burden, both because of the «denominator effect» of GDP on public

1. See the article «[The debt burden of the COVID-19 crisis](#)» in the Dossier of the MR10/2020.

2. See the Focus «[Should we be concerned about the sustainability of public debt in the euro area?](#)» in the MR05/2020.

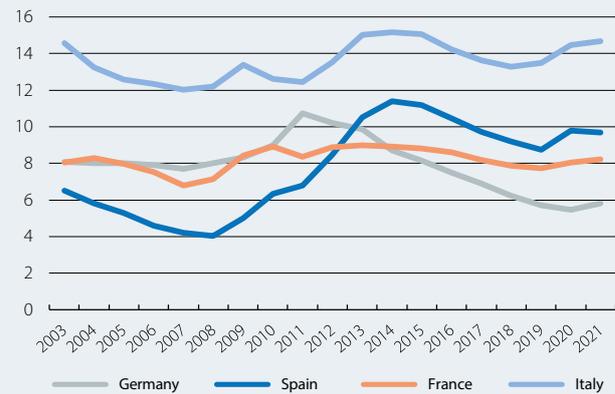
debt or public deficit ratios, and because of the inherent cyclical impact of economic activity on the public accounts (with the recovery of tax revenues and reduced pressure from the automatic stabilisers on expenditure). On the other hand, while in this scenario the public accounts will not have such a large deficit in 2021 as they have had in 2020, the public balances will nevertheless remain in clearly negative territory. That said, government funding needs are well covered. Firstly, investors' risk appetite has withstood the onslaught of the pandemic, as demonstrated by the success of the issues of debt by all national treasury departments in 2020. Secondly, in 2021 we will see the first disbursements of European funds under the Next Generation EU programme.<sup>3</sup> Thirdly, the ECB's accommodative monetary policy will continue to provide cover for the necessary action from fiscal policy. Indeed, the ECB's asset purchase programmes will remain highly active in the secondary markets throughout 2021, generating significant liquidity and favouring the willingness of private investors to absorb public funding needs in the primary markets (see fourth chart).

The importance of the ECB's role is apparent not only when analysing the 2021 public deficits, but also when assessing the debt burden in terms of debt-to-GDP ratios. In fact, the public debt ratios are much less stressed when the role of the ECB is taken into account (see last chart). In other words, public debt as a whole has a more stable investment base, and this protects it from financial turbulence. Moreover, the ratios also show less stress when taking into account net debt: that is, when financial assets held by the government (such as gold reserves, foreign currencies, deposits or debt securities) are discounted from the usual ratios (which are gross). However, it should not be forgotten that at some point the central bank will stop accumulating public debt on its balance sheet. When that time comes, it will be important for governments to have sufficiently cleaned up their accounts.

Adrià Morron Salmeron

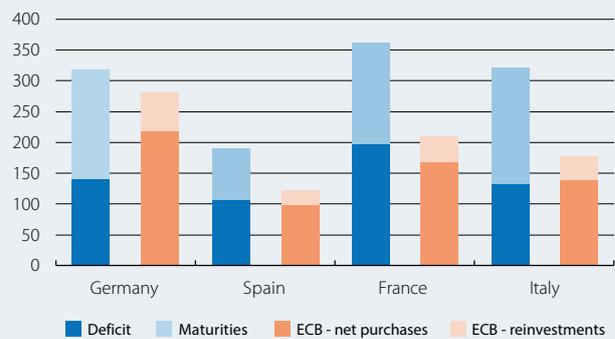
3. See «Everything you ever wanted to know about the European Recovery Plan but were afraid to ask» in the MR11/2020. In addition, Member States can also apply for loans from the European Stability Mechanism (ESM).

**Debt service ratios estimates \***  
(% of GDP)



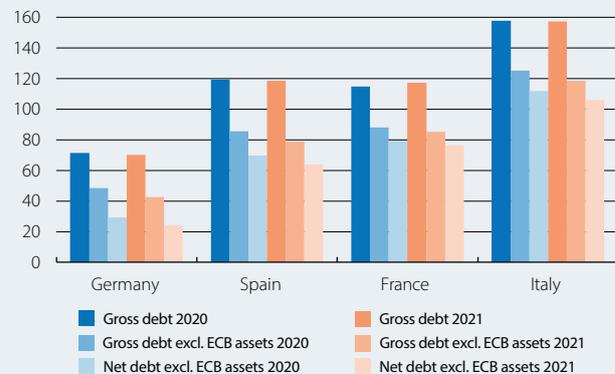
**Note:** \* Ratio between payments of interest charges and annual maturities, and nominal GDP.  
**Source:** CaixaBank Research, own calculations based on data from the European Commission (average cost of debt, nominal GDP and gross public debt) and from the Treasury Departments of Germany, Spain, France and Italy (average residual maturity of the debt).

**Public funding needs in 2021**  
(EUR billions)



**Note:** It is assumed that the ECB makes purchases under the PEPP at a rate of 60 billion euros per month (i.e. at a similar rate to that of Q4 2020 and with which 65% of the programme's total remaining capacity is spent in 2021), while the APP continues to have net purchases of 20 billion per month throughout 2021.  
**Source:** CaixaBank Research, based on own calculations and forecasts, forecasts by the European Commission (autumn forecast) and data from the Treasury Departments of Germany, Spain, France and Italy.

**Public debt<sup>(1,2)</sup>**  
(% of GDP)



**Notes:** 1. It is assumed that the ECB makes purchases under the PEPP at a rate of 60 billion euros per month (i.e. at a similar rate to that of Q4 2020 and with which 65% of the programme's total remaining capacity is spent in 2021), while the APP continues to have net purchases of 20 billion per month throughout 2021. 2. Net debt subtracts government-owned financial assets (gold, currencies, deposits, debt securities, loans, insurance, etc.) from gross debt.  
**Source:** CaixaBank Research, based on own calculations and forecasts, and forecasts by the European Commission and the International Monetary Fund.

## Commodities: the resurgence of a market in the midst of the global recession

- Commodity prices ended 2020 with significant growth, whilst the major global economies (except China) suffered sharp declines in their GDP.
- The combination of demand and supply factors and elements of the financial situation have led to a mismatch between commodity prices and activity in the real economy.

The COVID-19 crisis has dealt a major blow to the world economy and plunged it into the deepest recession since World War II. This contraction also spread to the commodity market, where the decline in the prices of many commodities initially drove them to their lowest levels since 2009, with oil leading the race to the bottom. CaixaBank Research estimates suggest that, at the end of 2020, global GDP stood around 3% below its pre-pandemic level. However, this figure stands in stark contrast to the significant recovery in commodity prices, which mostly ended up above their levels of the 2019 year end (see first chart).

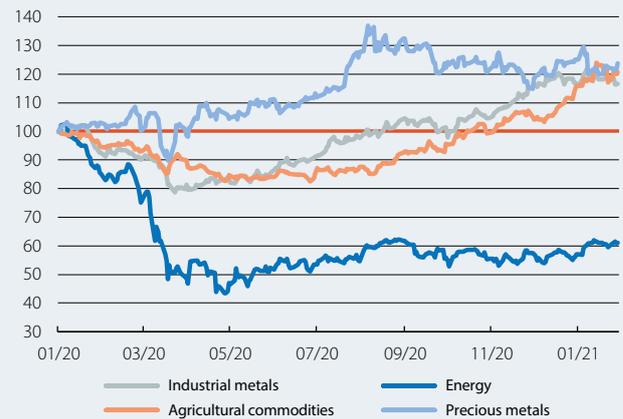
Why did commodity prices rise if the global economy was going through a deep crisis? The answer lies in a combination of demand and supply factors and financial elements.

Firstly, we will look at the demand-side catalysts. Following the initial impact of the pandemic, the gradual lifting of mobility restrictions beginning in Q2 and the economic stimulus packages boosted the recovery of economic activity, thus leading to an increase in demand for commodities, particularly those linked to the business cycle. In the autumn, faced with a rise in infections, many countries had to reimpose some of the restrictions on mobility. However, by doing so less stringently, they avoided truncating the recovery in industrial activity and the increase in international trade (which even exceeded its levels of late 2019). Also, unlike the rest of the world, China’s success in controlling the pandemic allowed its economy to continue to grow (+6.5% year-on-year in Q4 2020), largely thanks to its industrial might, and it relaunched its imports of commodities, particularly industrial metals.

In addition, there is another demand-side factor that has favoured the rise in some commodity prices, albeit more in the medium term. As a way to alleviate the negative impact of the COVID-19 crisis on their economies, many governments have designed recovery plans aimed at driving the transformation towards a more environmentally friendly energy system. This has encouraged a rise in the price of metals closely linked to the energy transition, such as copper,<sup>1</sup> which by the year end had amassed a 70% increase since its low point in March. Similar

### Commodity price index

(100 = January 2020)



Source: CaixaBank Research, based on data from Bloomberg.

### Chinese industrial production and industrial metals price index

Year-on-year change (%)

Index



Source: CaixaBank Research, based on data from Bloomberg.

increases, albeit smaller in percentage terms, also occurred in aluminium, zinc and iron ore.

Secondly, we have the supply-side catalysts. The restrictions on mobility not only weakened demand for commodities, but also froze supply in many commodity-producing and exporting economies (such as Chile, the main producer of copper ore, or the grain producers India

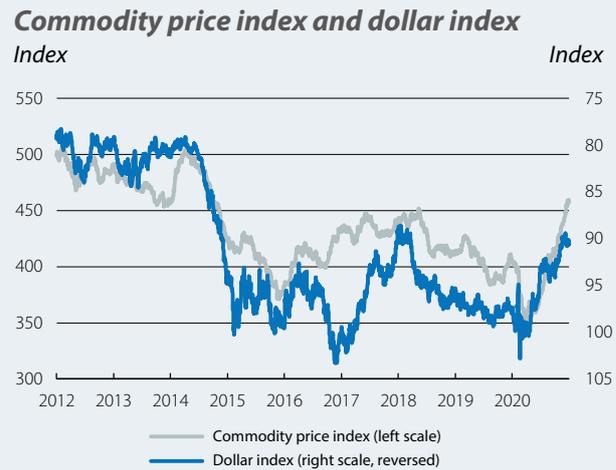
1. Copper has become a metal of widespread use in all transitions to green energies (electrification, renewable energies, 5G communications, etc.), with the particularity that it cannot be replaced by other metals in these processes.

and Brazil, which have been hit hard by the pandemic). This situation was exacerbated by a series of climatic disasters, such as La Niña (in the South Pacific), extreme droughts and hurricanes, which also dented productive capacity (especially in the case of agricultural commodities and, in particular, cereals such as wheat or soya). Overall, commodity inventories declined globally and provided some support for prices. One of the exceptions to this reduction in inventories was oil. In this market, OPEC and its allies cut production to support price recovery, but the market remained marked by excess supply and the Brent oil price still ended up 20% below its pre-pandemic level.

Thirdly, this recovery in commodity prices also has certain elements that are more specific to the financial markets. On the one hand, fiscal and monetary stimuli, more flexible mobility restrictions and medical advances to combat the pandemic (especially with the development of vaccines) all contributed to a widespread improvement in investor sentiment beginning in the summer. This improvement was particularly visible in stock market gains, but it also had a positive impact on all financial assets closely linked to the business cycle, including commodities. Moreover, this improvement in sentiment led to a depreciation of the dollar (a currency that investors usually regard as a safe-haven asset in times of trouble) and provided an additional boost to commodity prices.<sup>2</sup> On the other hand, the pandemic has generated an environment of high and persistent uncertainty, in which large investment funds and many emerging-country central banks have increased their purchases of precious metals as a way to hedge risk (such as gold, the price of which rose by 25% in 2020 and reached 2,000 dollars per ounce).

In short, the combined effect of these factors suggests, to a large extent, that the rise in commodity prices observed in 2020 reflects investors' anticipation of a more sustained revival of the global economy in 2021 – improvements that are already apparent in the performance of industrial production and the buoyancy of international trade.

*Beatriz Villafranca*



Source: CaixaBank Research, based on data from Bloomberg.

2. Since Bretton Woods, the price of most raw materials is established in dollars. When the dollar weakens, commodity prices fall in terms of other currencies, thus encouraging demand for commodities among those holding those other currencies, which finally pushes prices up.

**Interest rates (%)**

	31-Jan.	31-Dec.	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
<b>Euro area</b>					
ECB Refi	0.00	0.00	0	0.0	0.0
3-month Euribor	-0.55	-0.55	0	-0.3	-15.5
1-year Euribor	-0.51	-0.50	-1	-1.3	-22.8
1-year government bonds (Germany)	-0.65	-0.71	6	6.1	-5.0
2-year government bonds (Germany)	-0.73	-0.70	-3	-3.3	-6.3
10-year government bonds (Germany)	-0.52	-0.57	5	5.1	-8.4
10-year government bonds (Spain)	0.10	0.05	5	5.1	-13.7
10-year government bonds (Portugal)	0.04	0.03	1	0.9	-22.7
<b>US</b>					
Fed funds	0.25	0.25	0	0.0	-150.0
3-month Libor	0.20	0.24	-4	-3.7	-154.9
12-month Libor	0.31	0.34	-3	-3.1	-149.6
1-year government bonds	0.08	0.10	-3	-2.8	-134.7
2-year government bonds	0.11	0.12	-1	-1.2	-120.4
10-year government bonds	1.07	0.91	15	15.2	-44.1

**Spreads corporate bonds (bps)**

	31-Jan.	31-Dec.	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	52	48	4	4.3	5.8
Itraxx Financials Senior	63	59	4	4.0	8.8
Itraxx Subordinated Financials	118	111	7	7.5	3.8

**Exchange rates**

	31-Jan.	31-Dec.	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
EUR/USD (dollars per euro)	1.214	1.222	-0.7	-0.7	9.4
EUR/JPY (yen per euro)	127.130	126.180	0.8	0.8	5.8
EUR/GBP (pounds per euro)	0.886	0.894	-0.9	-0.9	5.4
USD/JPY (yen per dollar)	104.680	103.250	1.4	1.4	-3.4

**Commodities**

	31-Jan.	31-Dec.	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	458.4	443.8	3.3	3.3	13.4
Brent (\$/barrel)	55.9	51.8	7.9	7.9	-3.9
Gold (\$/ounce)	1,847.7	1,898.4	-2.7	-2.7	16.3

**Equity**

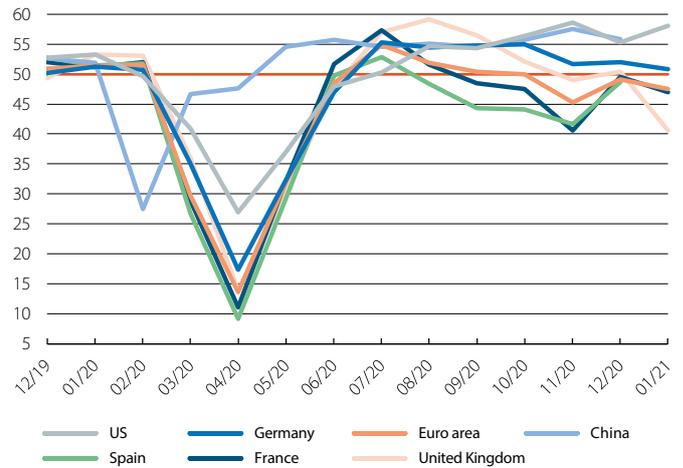
	31-Jan.	31-Dec.	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	3,714.2	3,756.1	-1.1	-1.1	15.2
Eurostoxx 50 (euro area)	3,481.4	3,552.6	-2.0	-2.0	-4.4
Ibex 35 (Spain)	7,757.5	8,073.7	-3.9	-3.9	-17.2
PSI 20 (Portugal)	4,794.6	4,898.4	-2.1	-2.1	-8.7
Nikkei 225 (Japan)	27,663.4	27,444.2	0.8	0.8	19.2
MSCI Emerging	1,329.6	1,291.3	3.0	3.0	25.2

## Global recovery in 2021, but with uncertainties

**Further outbreaks determine economic activity in early 2021.** On the one hand, in European countries, where the outbreaks and mobility restrictions intensified towards the end of 2020 and remained in place in early 2021, the latest economic activity indicators show that the economy is still hampered by the pandemic. For instance, the euro area’s composite Purchasing Managers’ Index (PMI), which measures business sentiment, fell back to 47.8 points in January (49.1 in December) and remains below the 50-point threshold that separates expansionary from contractionary territory. This weakness is largely due to the decline in the services sector, which has been particularly affected by the aforementioned restrictions. In contrast, US economic activity continues to hold up better against the onslaught of the pandemic. This is because, despite the high incidence of COVID-19 in the country, many states have avoided imposing new restrictions on mobility. The exception was the important state of California, which in recent days has eased the strict limits on mobility that it had imposed at the end of last year.

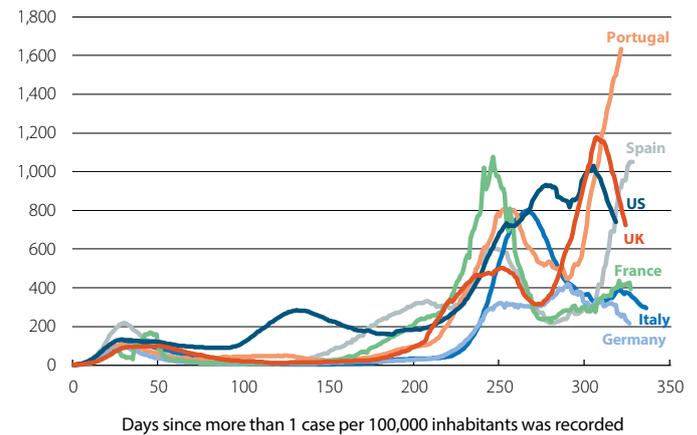
**Reasonably positive outlook for 2021 as a whole.** In the medium term, the outlook for 2021 as a whole is reasonably positive: growth of 5.5% for the global economy, following an estimated contraction of 3.5% in 2020, according to CaixaBank Research’s latest forecasts. This is a very similar scenario to that presented by the IMF in its January Outlook update. In fact, the Fund has revised its forecast for the global economy slightly upwards, given the smaller-than-expected declines in economic activity in 2020 and the expectation of a stronger recovery in 2021 thanks to the vaccines. Moreover, while the IMF still sees downside risks, it considers them to be limited to early 2021, whilst in the medium term it notes that economic performance could be better than expected, precisely because of the roll-out of the vaccines. Although the scenario is dominated by the pandemic (with vaccines, treatments and new strains of the virus) and the economic measures needed to alleviate its effects on economic activity, we should not forget that geopolitical uncertainty will not disappear from the global landscape. In particular, tensions between China and the US will continue to be present with Biden in the White House (see the Focus «[US: what will the new administration bring?](#)» in the MR12/2020). In this regard, the new president has already signed an executive order that prioritises the purchase of American goods for contracts with the federal government. This is a step in line with the *Buy American* slogan proclaimed during his campaign, which is not dissimilar from his predecessor’s slogan *America First*. On the other hand, Janet Yellen, the new US Treasury secretary, criticised China’s «abusive» practices before the Senate Committee on Finance.

**Composite PMI by country**  
Level



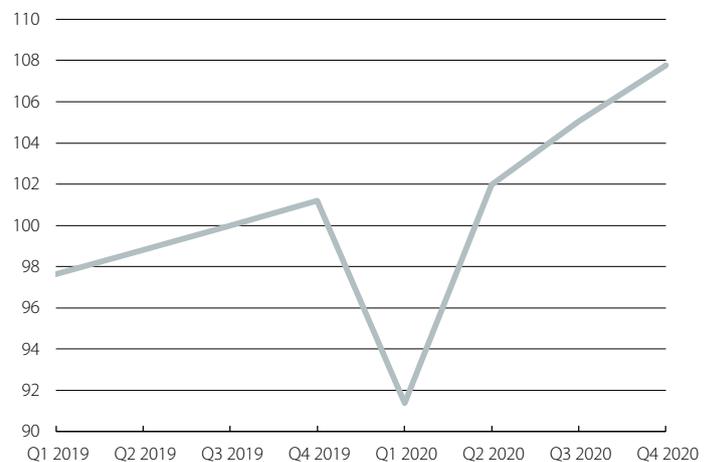
Source: CaixaBank Research, based on data from Markit.

**Cumulative incidence of COVID-19**  
14-day cumulative number of cases per 100,000 inhabitants \*



Note: \* Since >1 death per million inhabitants was recorded. Data available until 28 January 2021.  
Source: CaixaBank Research, based on Johns Hopkins CSSE, UN World Population Prospects.

**China: real quarterly GDP**  
Level (100 = Q3 2019)



Source: CaixaBank Research, based on data from the National Statistics Office of China.

## CHINA

**China, the only major economy that will have grown in 2020: +2.3%.** The country was the first to suffer the effects of COVID-19, but it has also been the first to recover pre-pandemic levels of economic activity. Aggressive and rapid containment measures, substantial fiscal and monetary support, and a strong recovery in the global trade in goods have facilitated the Asian giant's rapid rebound. In particular, in the final tranche of the year GDP grew by 6.5% year-on-year. This was not only higher than expected but also the highest since the end of 2018. In quarter-on-quarter terms, the growth stood at +2.6%, leaving the annual count at 2.3% (see the [Nota Breve at www.caixabankresearch.com](#)). In this encouraging context, in December industrial production grew by 7.3% year-on-year, the fastest pace since March 2019; retail sales grew by 4.6%, slightly below the figure for November (5.0%), and exports continued to register strong gains (+18.1% year-on-year), supported by the recovery of sales to the US. Despite the good figures, it is important to mention that the country continues to have imbalances which it must address, such as its excessive reliance on investment versus consumption or its high levels of indebtedness (especially in the private sector). These elements have prompted the government to place greater emphasis on improving the quality of economic growth and, in particular, that of credit. This is evident from the rise in defaults observed in the corporate bond market in recent months, since this trend has been tolerated by the authorities as they resume the process of financial cleansing, now that the economy is set on the road to recovery.

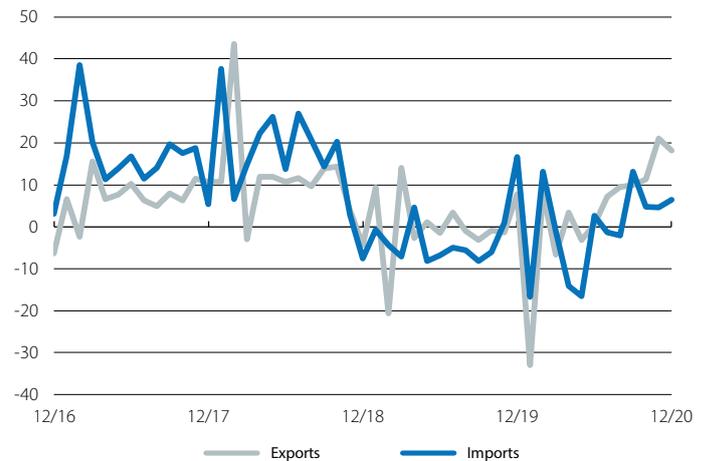
## US

**US GDP fell by 3.5% in 2020, after registering some growth in the final leg of the year.** This is a much bigger decline than that registered in the Great Recession of 2009 (-2.5%), showing the severe impact that the pandemic has had on US economic activity. Nevertheless, in the second half of 2020, GDP was already growing at positive rates following the collapse in Q2 2020. Specifically, in Q4 2020, GDP grew by 1.0% compared to the previous quarter (4.0% annualised). This is a significant rate of growth which added to the exceptional advance registered in Q3 (+7.5% quarter-on-quarter), following the collapse in Q2 (-9.0% quarter-on-quarter). Thus, in Q4, GDP was only -2.5% below its pre-pandemic levels (see the [Nota Breve at www.caixabankresearch.com](#)).

**A substantial recovery is anticipated in 2021, favoured by economic policies.** For Q1 2021, further outbreaks and new variants of the virus could dampen the recovery. However, the latest economic activity indicators, such as the PMI or the New York Fed's weekly indicator, continue to show an economy that is holding up better than most advanced European ones. On the other hand, the economic shock has been less intense and the recovery stronger, largely thanks to a rapid and decisive economic policy response. Specifically, while the Fed maintains a highly dovish monetary policy (see the Financial

### China: foreign trade in goods \*

Year-on-year change (%)



Note: \* Change obtained from nominal data denominated in dollars.  
Source: CaixaBank Research, based on data from the Chinese Customs department.

### US: GDP

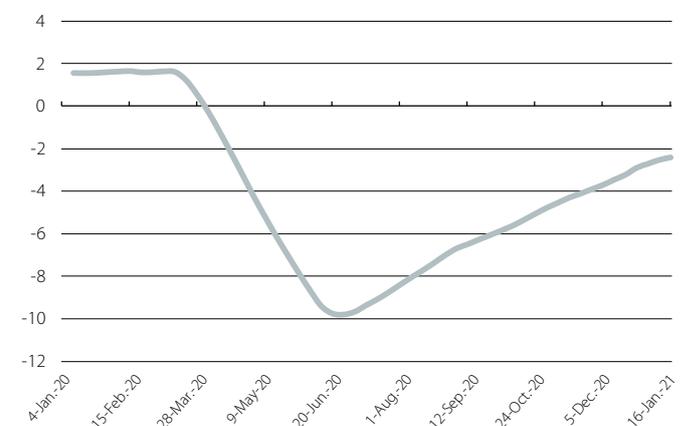
Change (%)



Source: CaixaBank Research, based on data from the Bureau of Economic Analysis.

### US: weekly economic index

Change (%; 13-week moving average) \*



Note: \* The weekly index is scaled to coincide with year-on-year GDP growth. The 13-week average is used to coincide with a quarter.

Source: CaixaBank Research, based on data from the New York Fed.

Markets section), the fiscal packages approved during 2020 (the most recent in late December) are estimated to amount to some 4 trillion dollars (~20% of GDP), half of which would be in the form of direct spending. Furthermore, President Biden has already announced that he intends to approve a new package to the tune of 1.9 trillion dollars. Although this will be decided in Congress, the Democratic majority in both houses could favour an agreement that deviates little from the new president's substantial proposal. In view of all this, we have revised our US GDP forecasts for 2021 as a whole up by +0.7 pps to 4.9%.

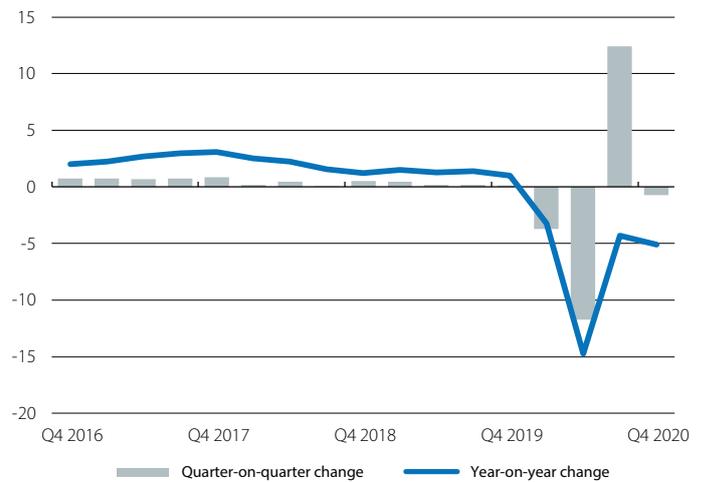
**EUROPEAN UNION**

**Euro area GDP fell by a considerable 6.8% in 2020, following a further contraction in Q4.** As in the case of the US, this is a bigger annual decline than in 2009 (-4.5%). However, unlike in the US, euro area GDP fell in the last quarter of the year (-0.7% quarter-on-quarter, -5.1% year-on-year) after a decisive rebound in Q3 (+12.4% quarter-on-quarter). That said, the decline was somewhat lower than expected, as a result of more targeted restrictions which had less impact on the manufacturing sector and, possibly, due to a certain adaptation to the pandemic on the part of firms and workers (see the [Nota Breve at www.caixabankresearch.com](#)). By country, the fall in economic activity for 2020 as a whole has been uneven: GDP fell by 5.3% in Germany, 8.3% in France, 11.0% in Spain (see the Spanish Economy section) and 8.9% in Italy. This disparity reflects the different structure of the economy in each country, as well as the different containment and economic support measures implemented by the various governments. In the closing stages of the year, the differences between countries were also significant: France and Italy registered contractions, with GDP falling by 1.3% and 2.0% quarter-on-quarter, respectively, while Germany and Spain registered slight growth, with GDP growing by 0.1% and 0.4%, respectively.

**Recovery in 2021, despite a difficult start to the year.** While the end of 2020 was somewhat better than expected, Q1 2021 could be somewhat worse. The stress on health systems and the rise in the number of COVID-19 cases in major European countries in recent weeks have led to an extension of the mobility restrictions and could put the euro area's revival on hold in Q1 2021. This is shown by sentiment indicators such as the composite PMI, which stood at 47.8 points in January, suggesting a slight contraction in economic activity in the first month of the year. As in Q4, the weakness at the start of the year is concentrated in services (the sector's PMI stood at 45.4 points), while the recovery of industry appears to continue (at 54.8 points, the manufacturing PMI remained in expansionary territory in January). For the year as a whole, however, we expect to see a substantial recovery (+4.3%), which will accelerate from Q2 supported by progress in the roll-out of the vaccines as well as economic policies, including both Next Generation EU and the maintenance of a highly dovish monetary policy by the ECB (see the Financial Markets section). That said, this recovery will probably still be insufficient for the region as a whole to recover its pre-pandemic levels in 2021.

**Euro area: GDP**

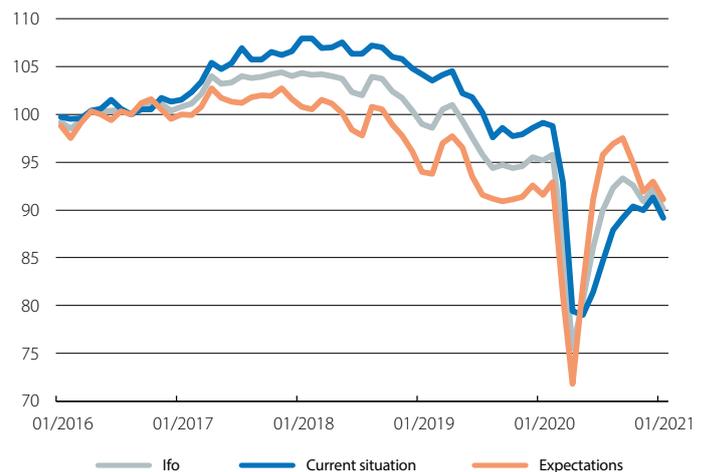
Change (%)



Source: CaixaBank Research, based on data from Eurostat.

**Germany: Ifo Business Climate Index**

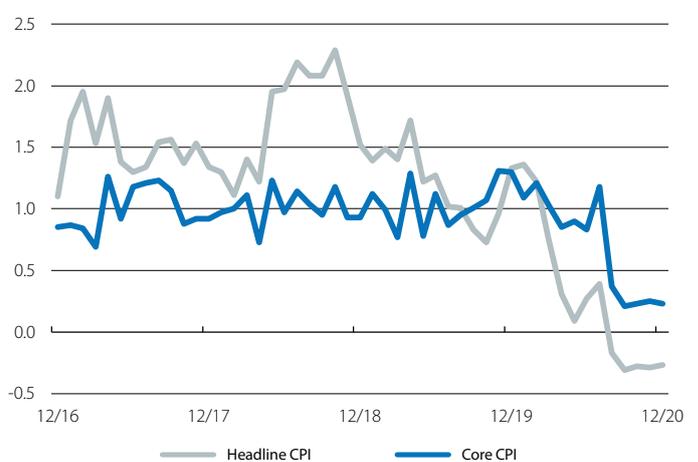
Level (100 = 2015)



Source: CaixaBank Research, based on data from the Ifo Institute for Economic Research.

**Euro area: CPI \***

Year-on-year change (%)



Note: \* Data corresponding to the HICP. Source: CaixaBank Research, based on data from Eurostat.

## Brexit: from brothers to distant cousins

- The Trade and Cooperation Agreement between the UK and the EU avoids a «hard» border in Ireland and, within the EU, preserves the indivisibility of the «four freedoms» of the single market: the movement of goods, services, capital and people.
- It does not prevent an increase in barriers in the trade of services, but it does ensure that the trade of goods between the UK and the EU will be free of tariffs or quotas. It also sets out a mechanism for resolving disputes, although the European Court of Justice will not have a role in this scheme.
- The agreement mitigates the short-term economic impact of Brexit in both the UK and the EU. Among EU countries, the impact will vary depending on their commercial and financial link with the UK.

Following a last-minute agreement, the United Kingdom left the single market and customs union with the European Union on 1 January 2021. Up until that point, the UK had been in a transition period, as stipulated in the Withdrawal Agreement under which Brexit was made official in February 2020. The end of this transition period opened the path to negotiations for the UK and EU to reach a trade and cooperation agreement in order to avoid a trade relationship governed by WTO rules, which would have involved tariffs and other trade frictions. In addition to determining the relationship for the trade of goods, this agreement also concerns other aspects, such as fishing rights in the North Sea, trade in services, tourism, the United Kingdom's participation in various European programmes (such as the Erasmus scheme, which the UK will no longer participate in), security, aviation and much more. The Agreement itself is a 1,246-page document, but below we address the most important points.

### Trade of goods and services

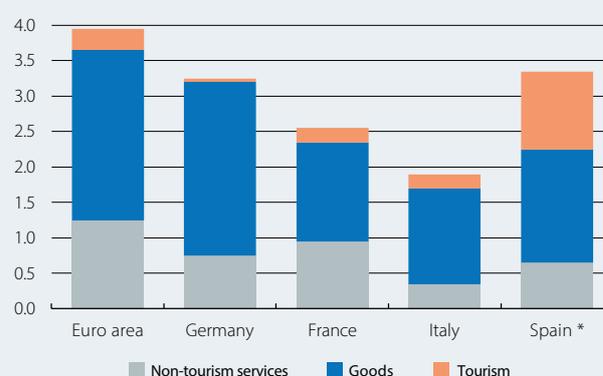
The agreement between the EU and the UK can be summarised as a «basic free trade agreement». It ensures that there will be no tariffs on goods when they cross borders and no limits or quotas on the quantity of goods that can be traded. With these new rules, the trade relationship will be among the closest in the world. However, it does not avoid new frictions, which are significant compared to the previous trade relationship (border and regulatory controls, rules of origin,<sup>1</sup> strict local content requirements, etc.).

In the sphere of trade in services, the agreement goes beyond WTO provisions in some respects (for example, it facilitates short-term business travel and the temporary transfer of highly-qualified employees). However, it does not prevent an increase in barriers, as it does not include aspects such as the (automatic) mutual recognition of professional qualifications or many other elements relevant to the financial sector.

In the sphere of financial services, upon leaving the single market British banks lost their financial «passport»,

1. The rules of origin require that goods being traded (specifically a % of their added value) have been produced in the UK or the EU. It prevents, for example, the UK from re-exporting goods to the EU that were previously imported from other countries that could enter the UK at lower tariffs than if entering the EU directly.

### Exports of goods and services to the United Kingdom. International comparison (% of GDP)



Note: \* For Spain: 2019. All other countries: 2018.

Source: Bank of Spain («Brexit: situation and economic consequences», December 2020).

a European mechanism that allows banks in any Member State to open branches and have customers throughout Europe as long as they adopt a set of regulatory and supervisory rules relating to financial services. It does not mean that the British banks have lost all access to Europe, or vice versa. A system of «equivalence» exists, under which Europe or the United Kingdom can grant market access to a third country if they consider that there is «equivalence», that is, that their laws are in the same spirit and achieve the same result as their own regulations. However, the ease of cross-border operations provided by this system is inferior to that of the passport system, and «equivalence» will have to be determined for each different type of financial service.<sup>2</sup> In addition, the European Commission reserves the right to unilaterally withdraw the concession within 30 days if the conditions are altered. All in all, by leaving the EU, the UK lost access to a particularly close and stable framework for European financial relations, but both the EU and the UK are already in the process of approving «equivalences» in some areas. This is a process that will continue over the coming months and will largely determine the financial relationships that will exist between the two blocs.

2. To date, equivalence has been prioritised in the areas most important to financial stability. For example, equivalence has already been agreed in the sphere of clearing houses.

### A level playing field

Another key element of the negotiation was ensuring that the conditions established would provide a level playing field for fair competition between the two regions, while also avoiding changes in rules and regulations in different areas that could result in unfair competition. With the new relationship, the UK and the EU will be free to maintain a high level of protection in areas such as environmental protection, the fight against climate change, carbon pricing, social and labour rights, tax transparency and state aid. Thus, in the medium term, frictions may arise as the two legal and regulatory frameworks gradually diverge. Under the agreement, the two regions will have access to a dispute resolution mechanism under which they can adopt reprisals if one region strays from the agreement. This mechanism provides for compensation or rebalancing measures, including the suspension of parts of the agreement or the imposition of tariffs. Crucially, there will be no role in the United Kingdom for the European Court of Justice, a British red line in the negotiations. Any disputes between the UK and the EU which cannot be resolved will be referred to an independent court.

### Fishing

On fishing, the UK and the EU have agreed on a new framework for joint management of fish stocks in EU and UK waters. In particular, over a 5.5-year transition period, the EU will gradually reduce its fishing quotas in UK waters (by a total of 25%), with annual consultations thereafter.

### Tourism and travel

The movement of people between the UK and the EU will face certain barriers that will make it less fluid. Travellers will have to go through passport control and UK citizens will no longer be able to use the queue for European citizens when entering Europe, which will mean longer waiting times at airports and borders. In both cases, visas will also be required for extended stays abroad, usually for periods greater than 6 or 12 months. Immigration rules (such as work permits) will apply to people moving between the EU and the UK, although EU citizens currently residing in the UK, and vice versa, will have a transition period to allow them to obtain the necessary authorisations and documents.

### Ratification

The agreement has been ratified by the UK House of Commons, while ratification by the EU will take a few months yet. However, the European Commission has already presented the treaty as an exclusive EU agreement with limited provisional application until 28 February 2021. This means that the EU can provisionally implement the agreement with the approval of EU countries but without the consent of

the European Parliament. MEPs said they will review the agreement in early 2021, so we expect its final ratification to occur before the provisional application period comes to an end.

### Reactions to the agreement and consequences

The financial markets received the deal without major stock-price movements, reflecting the fact that the deal was broadly in line with what investors had long expected.<sup>3</sup> Overall, as previously mentioned, this is a basic but comprehensive agreement. Moreover, there is nothing stopping the two blocs from continuing to negotiate in order to reach additional and more extensive agreements in areas that have been left out of the trade agreement or are not covered by it in great detail. For instance, new agreements can still be negotiated to re-strengthen the trade relationship in the field of financial services (as mentioned earlier, with the agreement reached, the British financial sector loses its financial passport) or to improve coordination in the areas of security and the sharing of data. In terms of macroeconomic impact, the agreement avoids short-term disruptions, both in the United Kingdom and in Europe, and while Brexit poses a number of new non-tariff barriers to trade, tourism and other economic areas, in the short term these woes are dwarfed by the COVID-19 pandemic, which remains by far the biggest factor determining the performance of the British and European economies. In the longer term, the agreement establishes a relationship between the UK and the EU similar to that envisaged in scenarios analysed in studies by the Bank of England and the Bank of Spain, in which they projected a greater macroeconomic impact on the British economy than on that of Europe.<sup>4</sup> However, precisely what consequences the agreement will end up having remains to be seen and will depend on how trade and foreign investment between the UK and Europe evolve, as well as London's prevalence as an international financial hub. In Europe, the impact will be mixed across the different economies, depending on their trade and financial links with the United Kingdom.

*Álvaro Leandro*

3. The euro-sterling exchange rate barely moved on the day the deal was struck.

4. The Bank of England study (<https://www.bankofengland.co.uk/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability>) estimated an impact on UK GDP over three years of between -1.25% and -3.5%, while the Bank of Spain study (<https://www.bde.es/ffweb/bde/SES/Sections/Publications/InformesBoletinesMagazines/Analiticists/20/T4/download/Files/be2004-art40e.pdf>) estimated an impact of only -0.4% on EU GDP.

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

## UNITED STATES

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Activity</b>									
Real GDP	2.2	-3.5	0.3	-9.0	-2.8	-2.5	-	-	-
Retail sales (excluding cars and petrol)	3.9	2.1	3.1	-4.9	5.3	4.7	6.3	5.3	2.6
Consumer confidence (value)	128.3	101.0	127.3	90.0	93.1	93.8	101.4	92.9	87.1
Industrial production	0.9	-6.8	-1.9	-14.2	-6.5	-4.7	-5.0	-5.4	-3.6
Manufacturing activity index (ISM) (value)	51.2	52.5	50.4	45.7	55.0	59.0	58.8	57.7	60.5
Housing starts (thousands)	1,295	1,397	1,484	1,079	1,432	1,592	1,530	1,578	1,669
Case-Shiller home price index (value)	217	...	222	224	229	...	236	239	...
Unemployment rate (% lab. force)	3.7	8.1	3.8	13.1	8.8	6.8	6.9	6.7	6.7
Employment-population ratio (% pop. > 16 years)	60.8	56.8	60.7	52.9	56.1	57.4	57.4	57.4	57.4
Trade balance <sup>1</sup> (% GDP)	-2.7	...	-2.6	-2.7	-2.9	...	-3.0	-3.1	...
<b>Prices</b>									
Headline inflation	1.8	1.2	2.1	0.4	1.2	1.2	1.2	1.2	1.4
Core inflation	2.2	1.7	2.2	1.3	1.7	1.6	1.6	1.6	1.6

## JAPAN

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Activity</b>									
Real GDP	0.3	...	-2.1	-10.3	-5.7	...	-	-	-
Consumer confidence (value)	38.9	31.1	36.0	24.7	30.5	33.0	33.6	33.7	31.8
Industrial production	-2.7	-10.3	-4.3	-20.5	-12.6	-3.7	-3.2	-3.1	-4.8
Business activity index (Tankan) (value)	6.0	-19.8	-8.0	-34.0	-27.0	-10.0	-	-	-
Unemployment rate (% lab. force)	2.4	2.8	2.4	2.8	3.0	3.0	3.1	2.9	2.9
Trade balance <sup>1</sup> (% GDP)	-0.3	0.1	-0.2	-0.5	-0.3	0.1	-0.2	0.0	0.1
<b>Prices</b>									
Headline inflation	0.5	0.0	0.5	0.1	0.2	-0.8	-0.4	-1.0	-1.2
Core inflation	0.6	0.2	0.7	0.3	0.1	-0.3	-0.2	-0.3	-0.4

## CHINA

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Activity</b>									
Real GDP	6.0	2.3	-6.8	3.2	4.9	6.5	-	-	-
Retail sales	8.1	-2.9	-18.2	-4.0	0.9	4.6	4.3	5.0	4.6
Industrial production	5.8	3.4	-7.3	4.4	5.8	7.1	6.9	7.0	7.3
PMI manufacturing (value)	49.7	49.9	45.9	50.8	51.2	51.8	51.4	52.1	51.9
<b>Foreign sector</b>									
Trade balance <sup>1,2</sup>	421	535	361	411	450	535	411	449	480
Exports	0.5	3.6	-13.6	-0.2	8.4	16.7	10.9	20.6	18.1
Imports	-2.7	-1.1	-3.1	-9.9	2.9	5.0	4.4	3.9	6.5
<b>Prices</b>									
Headline inflation	2.9	2.5	5.0	2.7	2.3	0.1	0.5	-0.5	0.2
Official interest rate <sup>3</sup>	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Renminbi per dollar	6.9	6.9	7.0	7.1	6.9	6.6	6.7	6.6	6.5

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 &amp; Poor's, ISM, National Bureau of Statistics of Japan, Bank of Japan, National Bureau of Statistics of China and Refinitiv.

## EURO AREA

## Activity and employment indicators

Values, unless otherwise specified

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
Retail sales (year-on-year change)	2.4	...	-1.2	-6.8	2.4	...	4.2	-2.9	...
Industrial production (year-on-year change)	-1.3	...	-5.8	-20.2	-6.6	...	-3.5	-0.6	...
Consumer confidence	-7.1	-14.3	-8.8	-18.5	-14.5	-15.6	-15.5	-17.6	-13.9
Economic sentiment	103.1	88.2	100.0	69.4	86.9	91.4	91.1	87.7	90.4
Manufacturing PMI	47.4	48.6	47.2	40.1	52.4	54.6	54.8	53.8	55.2
Services PMI	52.7	42.5	43.8	30.3	51.1	45.0	46.9	41.7	46.4
<b>Labour market</b>									
Employment (people) (year-on-year change)	1.2	...	0.4	-3.0	-2.1	...	-	...	-
<b>Unemployment rate (% labour force)</b>	7.6	8.0	7.3	7.6	8.6	8.3	8.4	8.3	8.3
Germany (% labour force)	3.1	4.2	3.6	4.2	4.5	4.5	4.5	4.5	4.6
France (% labour force)	8.5	8.2	7.7	7.1	9.1	8.8	8.6	8.8	8.9
Italy (% labour force)	9.9	9.1	9.2	8.5	9.7	9.1	9.5	8.9	9.0
<b>Real GDP (year-on-year change)</b>	1.2	-6.8	-3.2	-14.7	-4.3	-5.1	-	...	-
Germany (year-on-year change)	0.6	-5.3	-2.1	-11.2	-4.0	-3.9	-	...	-
France (year-on-year change)	1.5	-8.3	-5.7	-18.9	-3.9	-5.0	-	...	-
Italy (year-on-year change)	0.3	-8.9	-5.6	-18.0	-5.0	-6.6	-	...	-

## Prices

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
General	1.2	0.3	1.1	0.2	0.0	-0.3	-0.3	-0.3	-0.3
Core	1.0	0.7	1.1	0.9	0.6	0.2	0.2	0.3	0.2

## Foreign sector

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Current balance</b>	2.4	...	2.1	2.3	2.1	...	2.2	2.2	...
Germany	7.1	...	7.1	6.8	6.9	...	7.0	7.0	...
France	-0.7	...	-0.8	-1.4	-1.8	...	-1.9	-2.0	...
Italy	3.0	...	3.2	2.9	3.5	...	3.4	3.5	...
<b>Nominal effective exchange rate<sup>1</sup> (value)</b>	92.4	94.0	91.2	93.4	95.6	95.7	95.8	95.2	96.1

## Credit and deposits of non-financial sectors

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Private sector financing</b>									
Credit to non-financial firms <sup>2</sup>	3.8	6.2	3.9	7.0	7.1	6.9	6.8	6.9	...
Credit to households <sup>2,3</sup>	3.4	3.2	3.6	3.0	3.0	3.1	3.2	3.1	...
Interest rate on loans to non-financial firms <sup>4</sup> (%)	1.2	...	1.1	1.2	1.3	...	1.3	1.2	...
Interest rate on loans to households for house purchases <sup>5</sup> (%)	1.5	...	1.4	1.4	1.4	...	1.4	1.4	...
<b>Deposits</b>									
On demand deposits	8.0	12.9	9.3	12.9	14.1	15.2	14.3	15.0	...
Other short-term deposits	0.3	0.6	-0.2	0.3	1.0	1.4	1.4	1.2	...
Marketable instruments	-1.9	9.6	3.7	7.0	10.2	17.4	13.8	14.7	...
Interest rate on deposits up to 1 year from households (%)	0.3	...	0.3	0.2	0.2	...	0.2	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.

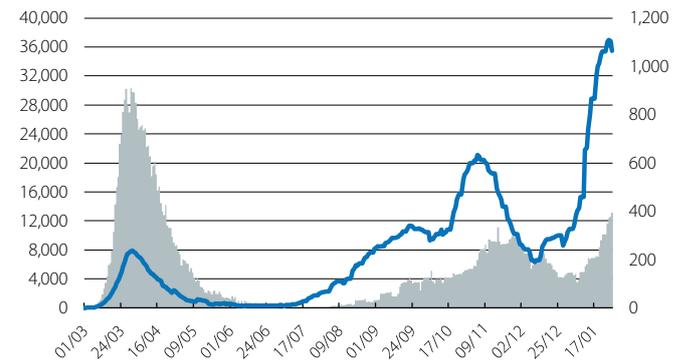
## Spain: a difficult start to the year

**The third wave of infections dominates the beginning of the year.** The return from the Christmas holidays has been accompanied by a new and significant surge in COVID-19 infections. This third wave, aggravated by the emergence of a new, more contagious strain of the virus (the British variant), has forced authorities to re-impose mobility restrictions similar to those implemented last November. The current incidence of the virus is greater than in the last quarter of 2020 (for instance, the number of new confirmed cases was approaching 36,000 a day at the time of writing, whilst the peak reached during the second wave was just over 20,000 at the beginning of November). However, the latest data show that the measures taken to curb the spread are beginning to take effect. Whereas in January the seven-day average of the percentage of positive coronavirus tests rose continuously until it reached 18% in the week of 16-22 January, this percentage has already begun to decline and stood at 16% in the week of 23-29 January. Meanwhile, the roll-out of the vaccine among risk groups continues, and although the main risk groups would not be immunised until early summer at the current rate of vaccination, we can expect to see a certain acceleration as the vaccines' production and distribution rates increase. In addition, for the rest of the population, the reduced logistical complications should facilitate a quicker roll-out.

**GDP remains more resilient than expected in the closing stages of the year.** Despite the restrictions imposed in Q4 2020 to curb the second wave of COVID-19, the economy managed to continue to recover at a modest rate in the closing stages of the year. Economic activity grew by 0.4% quarter-on-quarter, leaving GDP 9.1% below the level of Q4 2019. Moreover, unlike the previous quarter, in Q4 the Spanish economy performed better than other euro area countries, possibly because the measures imposed to contain the spread of the virus were less severe in Spain than in other countries. However, the breakdown by component shows some signs of fragility in the recovery. Whereas in Q3 the expansion was widespread across the various components, in Q4 there was growth in private and public consumption (2.5% and 4.0% quarter-on-quarter, respectively) but not in investment or exports, which fell by 3.1% and 1.4% quarter-on-quarter, respectively. With this first estimate of GDP in Q4 2020, the fall in GDP for 2020 as a whole compared to 2019 is 11.0%, an unprecedented figure which shows the severity of the pandemic's impact on the economy.

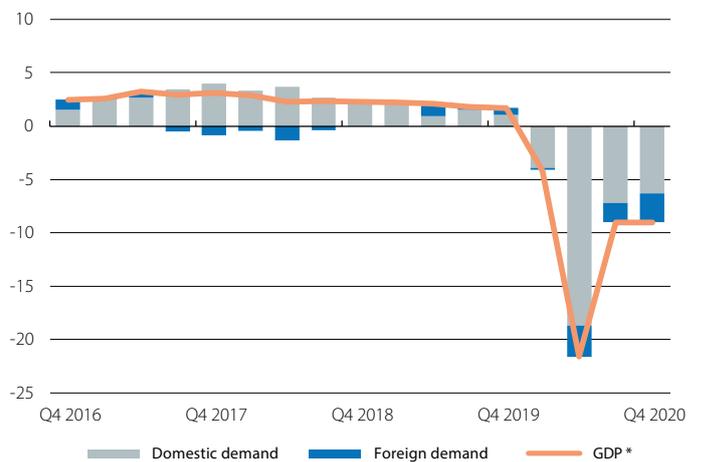
**The recovery in economic activity stagnates in January.** There are still few economic activity indicators available to shed light on the economy's performance in the first quarter of the year. However, CaixaBank's consumption indicator fell by 9% year-on-year on average in January, a figure equal to the average for the months of November and December. Also, between 7 and 26 January, Google's indicator for mobility in

**Spain: daily new confirmed cases and deaths**  
(Daily confirmed cases) \* (Daily deaths) \*\*



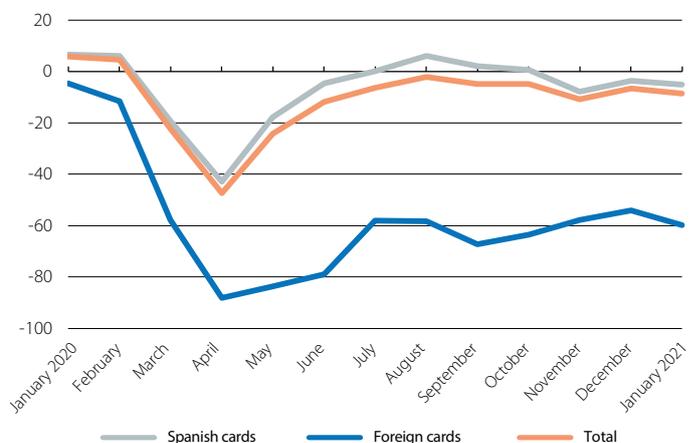
**Notes:** 7-day averages for infections and deaths.  
\* Positive PCR and antigen tests by date of notification. \*\* Deaths by date of notification.  
**Source:** CaixaBank Research, based on data from the Ministry of Health.

**Spain: GDP**  
Contribution to year-on-year growth (pps)



**Note:** \* Year-on-year change (%).  
**Source:** CaixaBank Research, based on data from the National Statistics Institute.

**Spain: CaixaBank consumption indicator \***  
Year-on-year change (%)



**Note:** \* This indicator includes spending on cards issued by CaixaBank, non-client spending on CaixaBank POS terminals and cash withdrawals from CaixaBank ATMs.  
**Source:** CaixaBank Research, based on internal data.

shopping centres stood 47% below the baseline mobility level (mobility registered in the first two weeks of February 2020). This figure is worse than in November (-38%), reflecting the impact of the mobility restrictions. In addition, during the week of 20 to 26 January, mobility around workplaces was 28% below the baseline level, as well as below the figures for November (-21%). Thus, the set of indicators available so far suggests that economic activity could be around the levels of November. If the indicators continue to show the same picture throughout the quarter, GDP could remain flat, or even show a slight decline in Q1 2021.

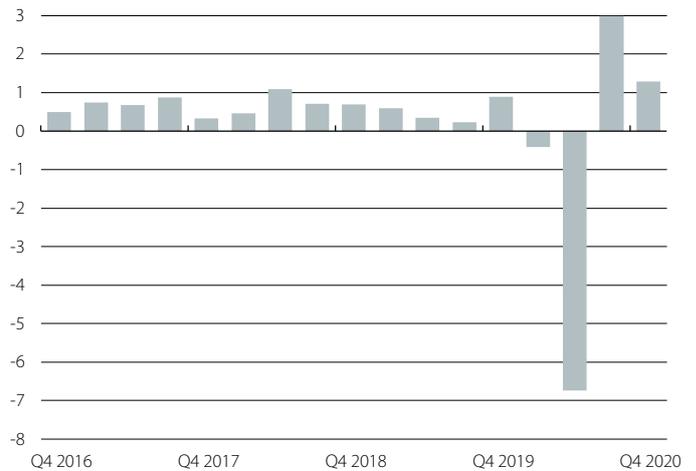
**The labour market continues to be affected by the COVID-19 pandemic, although it showed encouraging performance in Q4 2020.** According to the Labour Force Survey (LFS), employment increased by 167,000 people in Q4 (+0.9% quarter-on-quarter and -3.1% year-on-year) and offset part of the loss of employment in the first half of the year, moderating the reduction in employment compared to Q4 2019 down to 623,000 people. These figures provide only a partial view, since the National Statistics Institute (NSI) considers workers on furlough to be still employed (following recommendations from Eurostat and the ILO, since there is a guarantee of return to the job after the end of the suspension period). Thus, the actual number of hours worked, which provides a more reliable indicator of economic activity, fell by 6.1% year-on-year in Q4, down 1.1 pps from Q3, corroborating the good performance of the labour market in the closing stages of 2020. The number of unemployed people, meanwhile, remained virtually stable (-3,000 people) and the unemployment rate stood at 16.1%, slightly lower than in Q3 (-0.2 pps). For 2020 as a whole, the unemployment rate was 15.5%. While this represents a significant increase over 2019 (14.1%), it is much lower than expected by the consensus of analysts (17.8% last September, according to the Funcas consensus), indicating that the ERTE furlough schemes have worked well.

**Slight rise in Spanish inflation in January.** The CPI registered a year-on-year change of 0.6% in January (-0.5% in December) driven by electricity and food prices, which have registered a bigger rise than a year ago. On the other hand, the NSI also published the leading indicator for core CPI for the first time, according to which core inflation stood at 0.6% year-on-year in January (+5 decimal points compared to December). With weak demand, inflation is expected to remain moderate over the coming months.

**Slight improvement in the trade balance in November.** The deficit in the balance of goods stood at -1.3% of GDP (12-month cumulative balance), an improvement of 1.4 pps compared to the figure a year earlier. Half of this improvement was due to the lower energy deficit, as a result of both lower energy demand and the oil price, which was still down in year-on-year terms. The other half was due to a greater decline in non-energy imports than that registered among non-energy exports (-11.0% compared to -8.1% year-on-year, respectively).

**Spain: employment (seasonally adjusted data)**

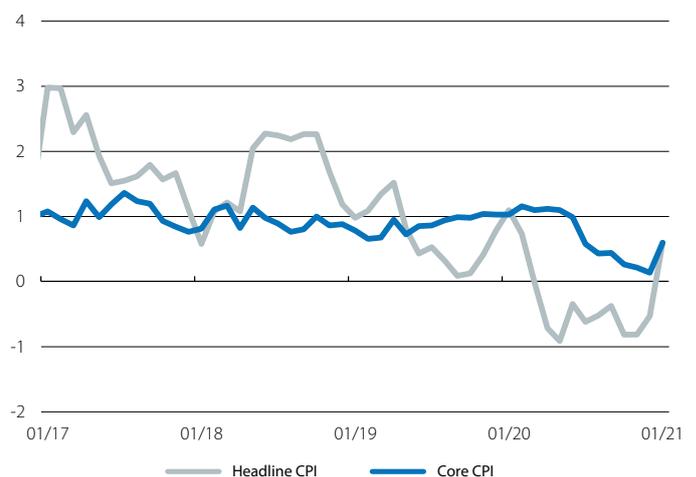
Quarter-on-quarter change (%)



Source: CaixaBank Research, based on data from the National Statistics Institute (LFS).

**Spain: CPI**

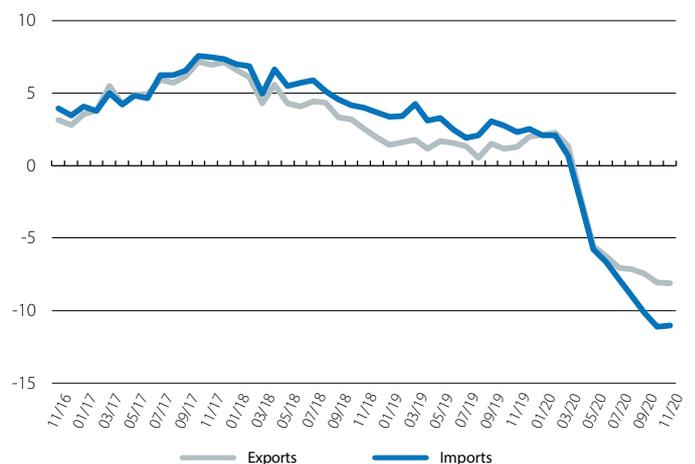
Year-on-year change (%)



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

**Spain: foreign trade in goods \***

Year-on-year change in the 12-month cumulative balance (%)



Note: \* Nominal data, series not seasonally adjusted. Excludes energy.  
Source: CaixaBank Research, based on data from the Department of Customs.

**Activity and employment indicators**

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

	2018	2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Industry</b>										
Industrial production index	0.3	0.7	0.2	-6.4	-24.3	-4.9	...	-1.6	-3.8	...
Indicator of confidence in industry (value)	-0.1	-3.9	-5.2	-5.4	-27.8	-11.9	-11.0	-10.8	-11.7	-10.6
Manufacturing PMI (value)	53.2	49.1	47.2	48.2	39.4	51.4	51.1	52.5	49.8	51.0
<b>Construction</b>										
Building permits (cumulative over 12 months)	25.7	17.2	8.0	0.1	-12.5	-19.1	...	-21.9	-18.2	...
House sales (cumulative over 12 months)	14.2	3.6	-2.0	-3.7	-12.3	-18.2	...	-18.6	-17.9	...
House prices	6.7	5.1	3.6	3.2	2.1	1.7	...	-	-	-
<b>Services</b>										
Foreign tourists (cumulative over 12 months)	4.0	1.4	1.2	-1.0	-22.8	-50.7	-72.5	-67.7	-72.8	-77.1
Services PMI (value)	54.6	53.9	53.6	42.5	28.4	47.3	43.0	41.4	39.5	48.0
<b>Consumption</b>										
Retail sales	0.7	2.3	2.3	-3.9	-18.4	-3.4	-2.7	-2.8	-3.9	-1.5
Car registrations	7.8	-3.6	5.1	-27.6	-68.6	-7.5	-13.2	-21.0	-18.7	0.0
Consumer confidence index (value)	-4.2	-6.3	-10.5	-10.3	-27.9	-26.9	-26.3	-26.7	-29.0	-23.1
<b>Labour market</b>										
Employment <sup>1</sup>	2.7	2.3	2.1	1.1	-6.0	-3.5	-3.1	-	-	-
Unemployment rate (% labour force)	15.3	14.1	13.8	14.4	15.3	16.3	16.1	-	-	-
Registered as employed with Social Security <sup>2</sup>	3.1	2.6	2.2	1.2	-4.4	-3.0	-2.0	-2.3	-1.8	-1.9
<b>GDP</b>	<b>2.4</b>	<b>2.0</b>	<b>1.7</b>	<b>-4.2</b>	<b>-21.6</b>	<b>-9.0</b>	<b>-9.1</b>	-	-	-

**Prices**

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

	2018	2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
General	1.7	0.7	0.4	0.6	-0.7	-0.5	-0.7	-0.8	-0.8	-0.5
Core	0.9	0.9	1.0	1.1	1.1	0.5	0.2	0.3	0.2	0.6

**Foreign sector**

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

	2018	2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Trade of goods</b>										
Exports (year-on-year change, cumulative over 12 months)	2.9	1.8	1.8	1.0	-7.2	-8.9	...	-9.6	-9.6	...
Imports (year-on-year change, cumulative over 12 months)	5.6	1.0	1.0	-1.0	-9.3	-13.3	...	-14.2	-14.4	...
<b>Current balance</b>	<b>23.2</b>	<b>26.6</b>	<b>26.6</b>	<b>27.1</b>	<b>17.7</b>	<b>11.0</b>	...	<b>9.5</b>	<b>9.5</b>	...
Goods and services	32.8	37.5	37.5	38.0	27.8	20.5	...	18.9	18.4	...
Primary and secondary income	-9.5	-10.9	-10.9	-10.9	-10.2	-9.5	...	-9.4	-8.9	...
<b>Net lending (+) / borrowing (-) capacity</b>	<b>29.0</b>	<b>30.8</b>	<b>30.8</b>	<b>31.3</b>	<b>21.6</b>	<b>15.1</b>	...	<b>13.9</b>	<b>14.1</b>	...

**Credit and deposits in non-financial sectors<sup>3</sup>**

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

	2018	2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	10/20	11/20	12/20
<b>Deposits</b>										
Household and company deposits	3.2	5.4	5.4	4.4	8.0	9.0	8.7	9.2	7.9	9.0
Sight and savings	10.9	10.7	10.3	8.9	13.0	13.8	13.6	14.2	12.8	13.8
Term and notice	-19.9	-13.4	-13.9	-16.4	-16.1	-16.5	-16.8	-16.2	-16.5	-17.6
General government deposits	15.4	8.8	-2.1	-6.2	-6.6	5.2	11.8	4.4	14.6	16.3
<b>TOTAL</b>	<b>3.9</b>	<b>5.6</b>	<b>4.8</b>	<b>3.8</b>	<b>7.1</b>	<b>8.7</b>	<b>8.9</b>	<b>8.9</b>	<b>8.4</b>	<b>9.4</b>
<b>Outstanding balance of credit</b>										
Private sector	-2.4	-1.5	-1.5	-1.0	1.5	2.0	2.3	2.4	2.1	2.4
Non-financial firms	-5.5	-3.4	-3.0	-1.7	6.1	7.1	7.8	7.8	7.5	8.1
Households - housing	-1.1	-1.3	-1.5	-1.7	-2.1	-1.8	-1.5	-1.6	-1.6	-1.3
Households - other purposes	2.8	3.2	2.2	2.5	0.7	0.3	-0.2	0.9	-0.5	-0.8
General government	-10.6	-6.0	-1.2	1.7	0.1	1.1	8.9	2.8	8.3	15.6
<b>TOTAL</b>	<b>-2.9</b>	<b>-1.7</b>	<b>-1.5</b>	<b>-0.9</b>	<b>1.5</b>	<b>1.9</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>	<b>3.1</b>
<b>NPL ratio (%)<sup>4</sup></b>	<b>5.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.7</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>

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.

## The third wave puts Portugal's recovery on hold

The pandemic led to a 7.6% fall in GDP in 2020. This is a contraction on an historical scale and greater even than those registered in the Great Recession (-3.1% in 2009) or the sovereign debt crisis (-4.1% in 2012). Nevertheless, the economy has demonstrated remarkable resilience. Specifically, in Q4, GDP managed to grow by 0.4% quarter-on-quarter despite the mobility restrictions, thus moderating the loss compared to pre-pandemic levels to -5.9% year-on-year. These figures were better than initially suggested by the indicators and reflect the fact that the restrictions in Q4 2020 were more targeted than in Q2 2020. In addition, they suggest a certain adaptation among economic players to the situation provoked by the pandemic, as well as indicating that economic activity has the capacity to resume a stronger recovery when the lockdown eases and the pandemic is brought under control. For the time being, however, this recovery will be temporarily interrupted by the severe deterioration of the health situation that Portugal is suffering in the early stages of 2021 (in January the country suffered almost the same number of deaths due to COVID-19 as it did in the whole of 2020).

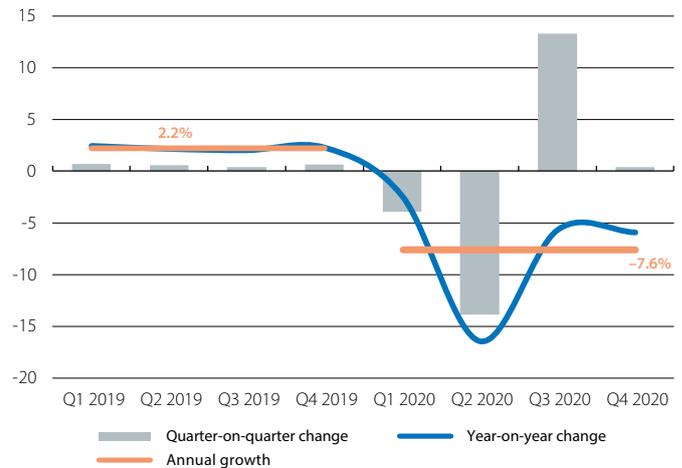
### 2021 begins overshadowed by the third wave of infections.

The sharp increase in infections and the strain on the health system have forced the authorities to impose a more severe lockdown. Indeed, this situation will affect the whole of Q1 2021, thus interrupting the recovery initiated last summer, as suggested by the Bank of Portugal's daily economic activity indicator which declined steadily throughout January. Nevertheless, the medium-term prospects for recovery remain positive. On the one hand, the vaccinations are helping to recover some of the lost ground and will be essential in boosting mobility, tourism and activity in general. In addition, companies have shown an ability to adapt to e-commerce and teleworking, while the government has streamlined and bolstered support measures to households and businesses (the simplified furlough scheme has been reactivated to mitigate income losses, and the government-secured credit lines have been bolstered). Portugal will also receive a boost from the European funds (NGEU and bolstered multi-year funds), as well as benefiting from the ECB's accommodative monetary policy.

### The labour market has held up better than in the past.

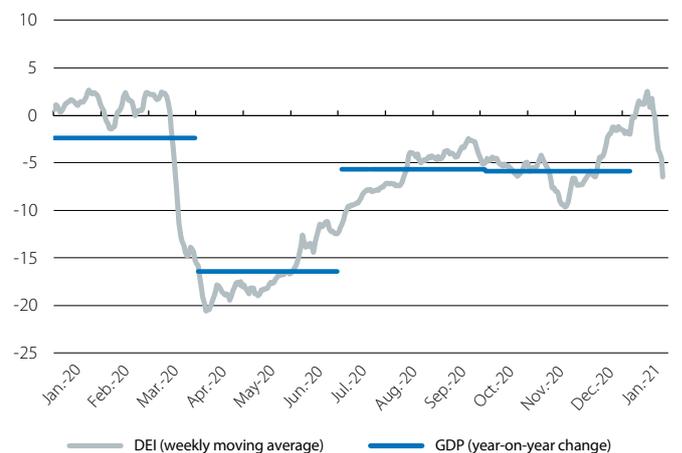
The unemployment rate fell for the fourth consecutive month in December, reaching 6.5%, even lower than in December 2019 (6.7%). However, the employed population declined by 0.2% month-on-month, bringing it to 4,793,400 people and widening the gap compared to pre-pandemic levels by -45,200 jobs. Overall, these figures indicate that the pandemic has had a somewhat more benign impact on the labour market than that witnessed in previous crises, thus highlighting the important protective role played by support policies such as the furlough schemes. In fact, with the deterioration of the pandemic the government has extended its support for the labour market, and the simplified furlough scheme (available to companies forced to close during the current state of

Portugal: GDP Change (%)



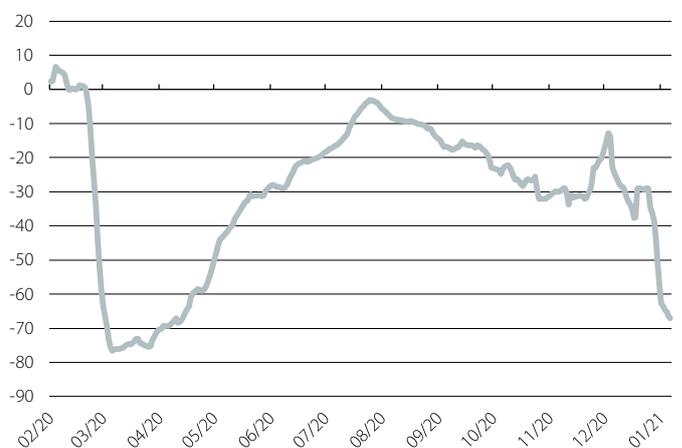
Note: GDP at constant prices and corrected for seasonal and calendar effects.  
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: daily economic indicator (DEI) and GDP (%)



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

Portugal: mobility in retail and leisure Change relative to the baseline level (%) \*



Notes: 7-day moving average figures. \* The baseline level corresponds to the average mobility recorded on the same day of the week between 3 January and 6 February 2020.  
Source: CaixaBank Research, based on data from Google Mobility Report.

emergency) now covers 86,300 people. However, the environment remains highly demanding and, when the protection for employment begins to be withdrawn, the unemployment rate is likely to rise.

**The pandemic drove up the budget deficit, although it ended the year better than expected.** Specifically, the public deficit (cash criterion) will have stood at -5.2% of GDP (-10,320 million euros). While this is a significant increase over 2019 (-0.3%), it is clearly lower than the government's forecasts (-7.1% of GDP). This behaviour is explained by a better than expected execution of revenues (+1,068 million euros compared to the sum estimated in the state budgets), together with a lower execution of expenditure (-2,600 million euros, also compared to the budget). For 2020 as a whole, the measures introduced to support firms and households, together with COVID-19-related expenditures, exceeded 4,500 million euros, or around 2.3% of GDP. This budget execution suggests that when the public deficit figures are published on an accruals basis, they will place it at 6.3% of GDP (1 point lower than anticipated in the 2021 state budget), as the government itself has indicated. Public debt, meanwhile, will have reached 133.7% of GDP (+16.5 pps compared to 2019).

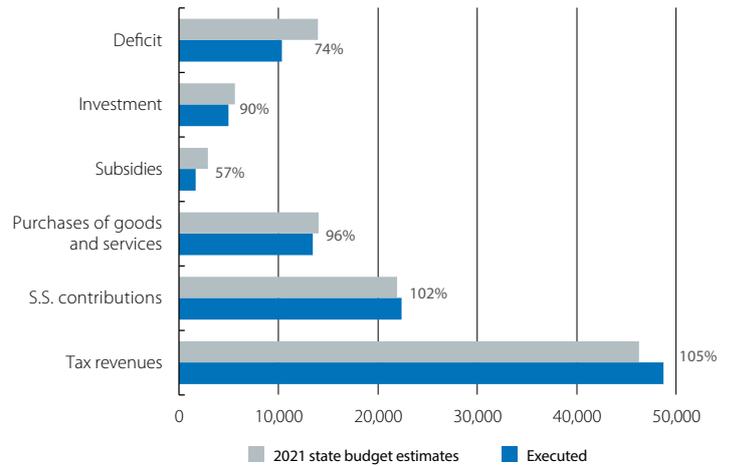
**The current account deficit stabilises.** The cumulative 12-month current account balance remained at -1.1% of GDP in November. On the one hand, the balance of goods improved (-5.8% of GDP), with exports falling (-8.8% year-on-year) more moderately than imports (-13.6%). On the other hand, however, the surplus in the balance of services fell to 4.3% of GDP (-3.9 pps year-on-year), dragged down by a greater collapse in tourism exports (-52.2% year-on-year) than in tourism imports (-38.4%). Exports are expected to recover in 2021, especially in the case of sales of capital and industrial goods, although overall they are expected to remain some 10% below 2019 levels.

**Tourism ends 2020 with the lowest number of overnight stays since 1993.** In December, the number of guests in tourist accommodation fell by 70.7% year-on-year to 462,500 (in November the decline had been 76.8%). The number of overnight stays decreased by 72.3%, due to a drop among both residents and non-residents. Thus, the pandemic brought tourism numbers in 2020 to historic lows: in total, there were 10.5 million guests and 26 million overnight stays, corresponding to annual declines of 61.2% and 63%, respectively. The shock for the year as a whole was particularly marked in the case of overnight stays by non-residents (-74.9%, compared to -35.3% for residents).

**The real estate market shows the first signs of cooling.** According to data from Confidencial Imobiliário, home prices continued to decelerate and rose by 4.8% year-on-year in December, the lowest growth rate since August 2016. That said, prices still ended 2020 1.8% above their pre-pandemic levels. However, it should be noted that in Q4 2020 home prices in Lisbon fell by 0.8% (the first decline since June 2015). With these dynamics, and the prospect of a possible delay in the revival of tourism, home prices are likely to show more signs of correction in 2021 (remember that the real estate market tends to react late to the real impacts of the economy).

**Portugal: budget execution by item**

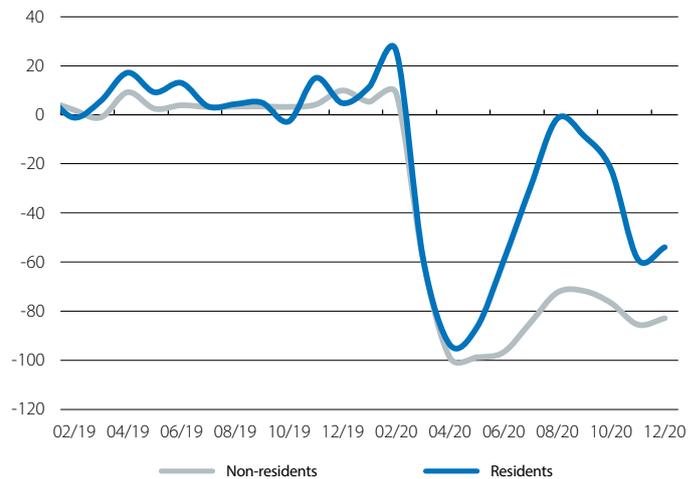
EUR millions and degree of execution (%)



Source: CaixaBank Research, based on data from the DGO and the 2021 Portuguese State Budget.

**Portugal: overnight stays in tourist accommodation**

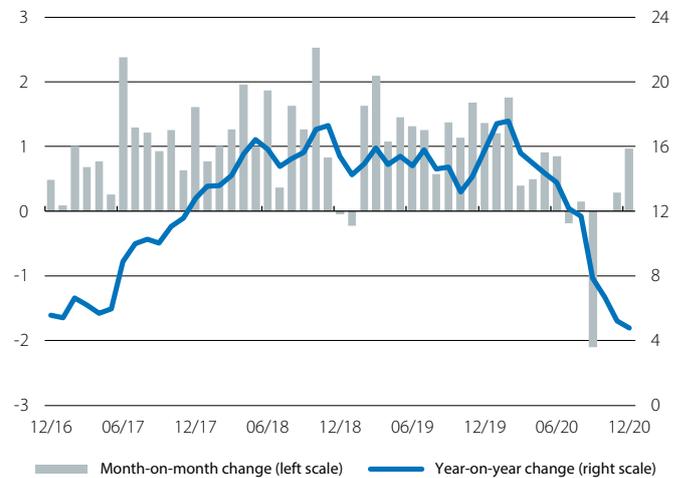
Year-on-year change (%)



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

**Portugal: home prices**

(%)



Source: CaixaBank Research, based on data from Confidencial Imobiliário.

## Disposable income in Portugal: holding up well in a historic crisis

- The pandemic forced households to postpone consumption in 2020. However, unlike previous crises, disposable income has not suffered a setback this time round.
- This better tone in disposable income reflects the public measures introduced to support jobs and incomes.

In the crisis caused by COVID-19, private consumption in Portugal has suffered a sharp contraction (almost 6% year-on-year in nominal terms in the cumulative period of the first three quarters of 2020). This fall was very significant, but not surprising, as it has been common in previous crises. However, unlike in 2011 and 2012, the decline in consumption is not explained by a reduction in disposable income. In fact, unlike in the previous crises, disposable income actually increased slightly in 2020 (see first chart). What can explain this behaviour in the current crisis brought on by the pandemic?

Firstly, it is important to clarify the concept of household gross disposable income (GDI).<sup>1</sup> GDI includes workers' wages, property income (rent, interest, dividends), the gross operating surplus of self-employed workers, and both domestic and foreign transfers (state benefits and remittances from migrants), less any taxes and social security contributions paid. In Portugal, more than half of the disposable income comes from wages.

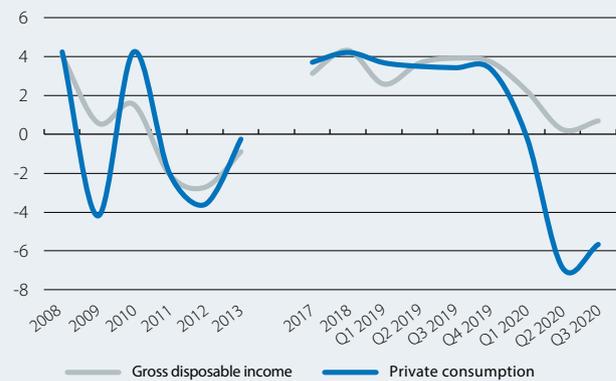
With data up to Q3 2020, year-to-date GDI had increased by 0.7% year-on-year, in clear contrast to the declines suffered during the sovereign debt crisis (-2.0% in 2011 and -2.7% in 2012). Furthermore, GDI in Portugal has performed better than across the euro area as a whole (0.0% in the first three quarters of 2020 overall), as well as outperforming the EU (-1.3%)<sup>2</sup> or, for example, Spain (-3.5%).

There are various reasons for this differential behaviour compared to previous crises. The first is the evolution of the labour market: in the first three quarters of 2020 the population in work fell by 2.4% year-on-year on average, notably less than the -3.2% and -4.1% declines registered in 2011 and 2012, respectively. Two factors cushioned the pandemic's impact on the labour market: i) the possibility of resorting to telework (it is estimated that over 23% of the employed population – more than one million workers – worked remotely during most or all of Q2)<sup>3</sup> and ii) the public measures introduced to support employment.

In particular, temporary furlough schemes affected more than 880,000 people last July (almost 19% of Portugal's employed population) and have been key to minimising

### Portugal: private consumption and disposable income \*

Year-on-year change (%)



Note: \* Current prices on a three-quarter cumulative basis (for example, for Q3 2020 the cumulative decline in 2020 is shown).

Source: CaixaBank Research, based on data from Eurostat.

the loss of household incomes (as well as minimising uncertainty). In Portugal, these furlough schemes guarantee two thirds of workers' remuneration. Furthermore, while the unemployment rate stood at 5.6% in Q2, we estimate that it could have exceeded 20% if these measures had not been implemented.<sup>4,5</sup>

Alongside the measures to support employment, the government created other social support mechanisms which have also proved important in stabilising household incomes. In the first wave of the pandemic, and with the closure of schools, parents had access to financial support for child care equivalent to two thirds of their base pay, with a minimum of 635 euros. In addition, those isolating for preventive medical reasons receive financial support equivalent to 100% of their remuneration for 14 days. In the event of infection, the affected person is entitled to a sick pay benefit, valued at a similar amount to the support granted in the event of preventive isolation, but for up to 28 days. These aids are available to both employees and self-employed workers.

4. Estimates suggest that, in the euro area, household occupational incomes would have fallen by around 22% in the absence of these support measures (compared to an actual decline of 7%). In addition, employment support programmes differ between euro area countries, which can help to explain why disposable income has also behaved differently from one country to the next. See Dias da Silva *et al.* (2020). «Short-time work schemes and their effects on wages and disposable income». ECB Economic Bulletin for April.

5. See the Focus «The Portuguese labour market in times of the pandemic», in the MR09/2020.

1. When we refer to households, we also include non-profit institutions serving households.

2. The latest available figure for the EU is from Q2.

3. Data from the National Statistics Institute of Portugal.

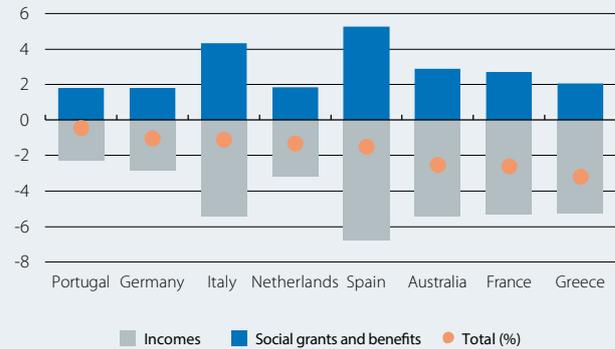
The support measures for the payment of rents (who faced arrears and suffered significant declines in their income) and the moratoria on loan repayments have also helped households to accommodate the economic impact of the pandemic. These measures do not directly affect the statistical calculation of GDI but they do help to relieve the pressure on households, because housing-related expenses represent, on average, around 20% of the mean income of Portuguese households (rent or imputed rent are the main components, but this category of expenses also includes repairs and utility supplies, among others).<sup>6</sup>

In short, the package of public measures aimed at supporting households during the pandemic has relieved the pressure on household income. In the specific case of support for employment and subsidies, it is estimated that without these measures GDI in the EU as a whole would have fallen by 5.9% on average in 2020.<sup>7</sup> In the specific case of Portugal, social contributions and benefits have boosted disposable income by 1.7 pps (cumulative figure for the first three quarters of the year). In other words, these contributions and benefits have grown by 7.9% year-on-year, but if they had remained stable, Portuguese disposable income would have fallen by 1.0%.

Beyond these aggregate figures, the COVID-19 crisis is affecting different groups of the population to different extents. In particular, the poorest, who have more precarious jobs and fewer qualifications, are hit the hardest, thus aggravating social inequalities. However, this increase in inequality also appears to have been tempered by the public support measures, as suggested by some estimates by the European Commission.<sup>8</sup>

Vânia Duarte

**Portugal: contribution to the change in household disposable income in 2020 \*** (pps)



**Note:** \* OECD estimates. Excludes the contribution from all other components of GDI (such as taxes and social security contributions) which, according to the OECD, was small in 2020.  
**Source:** CaixaBank Research, based on data from the OECD (2020). «OECD Economic Outlook».

6. See OECD (2020). «How's life? 2020: Measuring Well-being».  
 7. See European Commission (2020). «Households' income and the cushioning effect of fiscal policy measures in the Great Lockdown».  
 8. *Ibid.*

## Activity and employment indicators

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	11/20	12/20	01/21
Coincident economic activity index	1.0	-6.2	-3.5	-6.9	-7.8	-6.7	-6.7	-6.4	...
<b>Industry</b>									
Industrial production index	-2.2	-7.0	-1.4	-23.5	-0.7	-2.3	-3.2	-4.4	...
Confidence indicator in industry ( <i>value</i> )	-3.2	-15.8	-4.6	-24.8	-19.1	-14.5	-15.0	-14.3	-14.7
<b>Construction</b>									
Building permits ( <i>cumulative over 12 months</i> )	5.9	...	2.1	-1.0	-0.8	...	...	...	...
House sales	1.7	...	-0.7	-21.6	-1.5	...	...	...	...
House prices ( <i>euro / m<sup>2</sup> - valuation</i> )	10.4	8.3	11.2	8.9	6.9	6.0	6.3	6.0	...
<b>Services</b>									
Foreign tourists ( <i>cumulative over 12 months</i> )	7.8	...	3.2	-29.7	-57.6	...	-71.3	...	...
Confidence indicator in services ( <i>value</i> )	12.9	-21.6	5.8	-36.9	-37.2	-18.0	-17.0	-17.2	-18.3
<b>Consumption</b>									
Retail sales	4.4	-3.8	3.0	-12.9	-2.2	-3.3	-4.9	-4.1	...
Coincident indicator for private consumption	2.0	-5.4	-3.4	-7.3	-7.1	-3.6	-3.6	-2.1	...
Consumer confidence index ( <i>value</i> )	-8.0	-22.4	-8.6	-27.7	-26.9	-26.2	-26.9	-26.2	-25.7
<b>Labour market</b>									
Employment	1.0	...	-0.3	-3.8	-3.0	...	-1.1	-1.1	...
Unemployment rate ( <i>% labour force</i> )	6.5	...	6.7	5.6	7.8	...	7.1	6.5	...
<b>GDP</b>	2.2	-7.6	-2.4	-16.4	-5.7	-5.9	...	...	...

## Prices

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	11/20	12/20	01/21
General	0.3	0.0	0.4	-0.3	0.0	-0.2	-0.2	-0.2	0.3
Core	0.5	0.0	0.2	-0.1	-0.1	-0.1	-0.2	-0.1	0.5

## Foreign sector

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	11/20	12/20	01/21
<b>Trade of goods</b>									
Exports ( <i>year-on-year change, cumulative over 12 months</i> )	3.6	...	1.5	-6.8	-7.8	...	-9.3	...	...
Imports ( <i>year-on-year change, cumulative over 12 months</i> )	6.0	...	2.8	-7.6	-12.1	...	-14.7	...	...
<b>Current balance</b>	-0.2	...	-0.6	-0.9	-2.4	...	-2.2	...	...
Goods and services	0.8	...	0.4	-1.1	-3.0	...	-2.9	...	...
Primary and secondary income	-1.0	...	-1.0	0.2	0.6	...	0.7	...	...
<b>Net lending (+) / borrowing (-) capacity</b>	1.9	...	1.5	1.5	-0.1	...	0.1	...	...

## Credit and deposits in non-financial sectors

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

	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	11/20	12/20	01/21
<b>Deposits<sup>1</sup></b>									
Household and company deposits	5.2	...	6.4	9.0	9.2	...	9.7	...	...
Sight and savings	14.8	...	17.6	20.1	18.4	...	18.5	...	...
Term and notice	-2.9	...	-3.2	-1.0	0.4	...	1.1	...	...
General government deposits	5.6	...	-10.4	-15.7	-13.8	...	-11.9	...	...
<b>TOTAL</b>	5.2	...	5.7	7.9	8.2	...	8.9	...	...
<b>Outstanding balance of credit<sup>1</sup></b>									
Private sector	-0.1	...	0.5	0.5	2.1	...	2.8	...	...
Non-financial firms	-3.7	...	-2.6	1.0	4.4	...	5.8	...	...
Households - housing	-1.3	...	-0.8	-0.3	0.5	...	1.2	...	...
Households - other purposes	16.5	...	15.7	2.2	2.0	...	0.8	...	...
General government	-4.7	...	-4.9	-9.7	-5.6	...	-6.2	...	...
<b>TOTAL</b>	-0.3	...	0.2	0.1	1.8	...	2.4	...	...
<b>NPL ratio (%)<sup>2</sup></b>	6.2	...	6.0	5.5	5.3	...	...	...	...

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.

## Democracy and COVID-19: the decisive moment

The COVID-19 pandemic is having a vast impact on many aspects of our society. The nearly 2 million deaths due to COVID-19 registered to date are not just a statistic, but a veritable human tragedy. Angela Merkel could not have made it any clearer: Germany is facing its biggest crisis since World War II. Substitute Germany with the world, and you will not lose a shred of truth. In this scenario, the demands which citizens and businesses are placing on their governments to take effective measures commensurate with the challenge that lies before us are also great. Are our political systems up to it?

To answer this question it is worth taking a step back to look at the bigger picture. We are at a unique moment in humanity's political history, for democracy is currently the dominant political system: 59% of the world's countries enjoy one form or another of democracy, only 13% are autocracies, and the remaining 28% share democratic and autocratic elements.<sup>1</sup>

This is good news, but the situation has a less agreeable counterpoint, in that there is growing disaffection among citizens with the way their democracies are functioning. At this point in the discussion, it is worth asking whether this trend is merely a superficial public debate or whether its roots run deeper. Fortunately, an issue as fundamental as democracy itself is being monitored by numerous institutions and academia. The overall results of decades of study are undeniable.

In a recent survey by Foa *et al.* (2020),<sup>2</sup> which is based on more than 25 data sources, 3,500 national studies and spanning a period of around 50 years in advanced countries and 25 years in emerging countries, it is found that, from approximately 2011, the degree of dissatisfaction with democracy has accelerated and now reaches 57.7% of those individuals surveyed (an increase of around 20 points over a 15-year period). Although the trend is fairly widespread geographically, it is particularly pronounced in the US, Western Europe and Latin America. This is what is known in the economic literature as «democratic recession», although given that the underlying trend appears to be of a more structural rather than cyclical nature, it might be more suitable to call it «democratic decline».

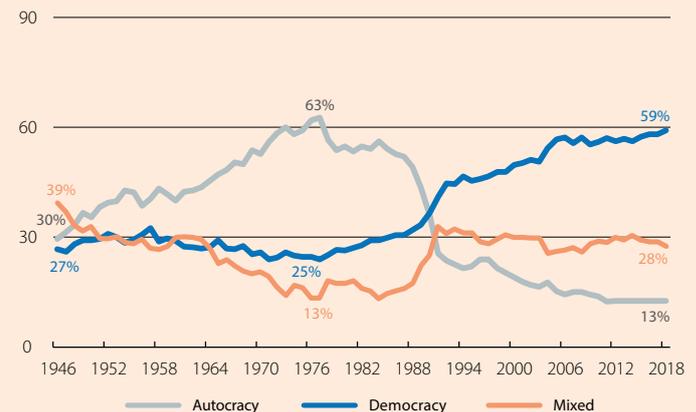
Therefore, in a world that is still largely democratic but has a growing discontent with this political system, the fundamental question is whether democracies can cope with the COVID-19 crisis with guarantees of success and thus strengthen their legitimacy and prospects for continuity or, on the contrary, whether this crisis will further accentuate the system's decline. This issue becomes even more relevant with the growing public perception that the response from autocratic models (read: China) has been more effective in the fight against the pandemic than in other countries with democratic systems.

To address this point, we must revisit the issue of citizens' dissatisfaction with democracy. Although this discontent is a clear empirical reality, there is less consensus on what the precise causes are. However, although such an analysis is beyond the scope of this Dossier, it is possible to identify an underlying reading which many studies share: the essential problem that is causing citizens' distancing from democracy is the feeling that it is failing in its essential function to address and solve the problems of the time. For instance, it is perceived to provide an inadequate response both to one-off crises, such as the refugee crisis of 2015, and to longer-term developments, such as demographic decline, the digital transition or combating climate change.

However, while this reading can be generally shared, it has the additional problem that it may be confusing two different situations. The first is that the decision-making process in a political system can make it difficult to make the most appropriate decisions. The second is that the capacity of states, and in particular that of their public administrations, might not be optimal to properly implement the political decisions that are taken.

### The world's political systems

(% of countries classified within each system, 1946-2018)



**Note:** The countries included in the sample have a population of at least 500,000 inhabitants. Those labelled as mixed have a combination of characteristics of democratic and autocratic systems.  
**Source:** CaixaBank Research, based on data from the Center for Systemic Peace.

1. Of all countries with a population of more than 500,000 inhabitants. Data from the Center for Systemic Peace (Polity IV project).

2. R.S. Foa, A. Klassen, M. Slade, A. Rand and R. Collins (2020). «The Global Satisfaction with Democracy Report 2020». Cambridge: Centre for the Future of Democracy.

The political causes of inadequate decision-making to deal with a crisis vary greatly, but there are two circumstances that have been shown to be repeated in democracies. The first is that democracy allows blockages to occur in the decision-making process, and to a greater extent than other political systems. Moreover, such blockages are more likely with greater political divisions in the country.<sup>3</sup> The second circumstance, which is also relatively frequent in democracies, is the role of interest groups, which can shift political decisions away from what would be in the public's general interest.<sup>4</sup>

As we mentioned, these political causes are different from the state's ability to implement policies. There is ample evidence, as well as a theoretical basis, to argue that there is a clear relationship between the level of development and that ability. However,

### **Dissatisfaction with democracy**

(% of respondents)



**Note:** The chart shows a measure of the level of dissatisfaction in democracies representing 2,430 million people in Latin America, Africa, the Middle East, Europe, North America, East Asia and Australia. The sample of democracies remains constant.

**Source:** CaixaBank Research, based on data from the Centre for the Future of Democracy.

political system and culture, we will perform an empirical analysis, which will be the subject of the following two articles. Don't miss them, they throw up some surprises.

it is also true that even states with the same level of development differ in their ability to adequately develop and implement decisive policies. Moreover – and this is a crucial point – there is evidence that sociocultural factors matter in policy implementation. For example, however efficient the government administration may be, in a society that is highly biased towards individualism, policies requiring cohesive collective behaviour or greater voluntary coordination will be less successful than if collectivism were the dominant trait.<sup>5</sup>

Thus, on the subject in question – the response to the COVID-19 crisis and whether or not this episode could accelerate democracy's decline – it is important to analyse the relationship between decisions aimed at combating the pandemic and political determinants, the state's capacity and sociocultural traits. To shed some light on these complex relationships between an efficient response to the COVID-19 crisis, the

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3. See, for instance, J. March and J.P. Olsen (1984). «The new institutionalism: organizational factors in political life». *The American Political Science Review*, 78(3), 734-749.

4. On this matter, see M. Olson (1982). «The rise and decline of nations: economic growth, stagflation, and social rigidities». Yale University Press.

5. See Y. Gorodnichenko and G. Roland (2015). «Culture, institutions and democratization». National Bureau of Economic Research, n° w21117.

## Have democracies been more lax with lockdowns and testing?

A pandemic is a decisive test for any political system, but under the current conditions this is especially true for democracies. At a time of reduced citizen support for democracy, it is suggested that the response to the COVID-19 crisis from certain autocratic countries – China in particular – has been more effective in the fight against the coronavirus. But the fact is that this question, so raised, misrepresents the reality. With the data available to hand, it seems undeniable that China has been very effective in combating the pandemic. Testing millions of people in a matter of days is not something every country can do. However, we should also not forget that other clearly democratic countries have been able to produce great results in controlling the pandemic, such as New Zealand. Furthermore, other autocratic countries have shown little success in lowering the human cost of the crisis. In short, in order to objectively determine whether or not being democratic is a key factor in the war against the virus, we must be thorough in our assessment, in this case by using an empirical analysis.

What shape should an analysis on such a complex and ever-changing issue take? To start with, when we compare what different countries have done to combat COVID-19, it is clear that the response prior to the availability of the vaccines has essentially consisted of three elements: lockdowns (including restrictions on mobility and social distancing measures), the capacity to test and trace transmissions, and the reduction of mobility that eventually occurs. The first two are health policy tools, while the third is a result of the policies implemented.

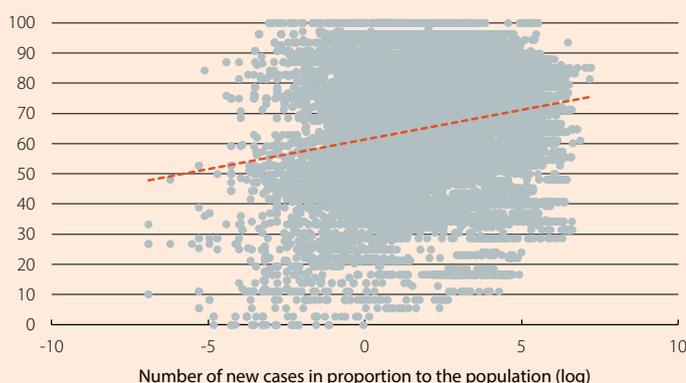
Lockdowns and testing, as we know, are aimed at preventing the virus from spreading beyond certain hotspots. Ideally they should be used together: the source of the outbreak is identified early, contacts are detected, and quarantines or lockdowns are imposed on small groups. Unfortunately, for most of 2020, with a low testing and contact tracing capability in many countries, lockdowns were imposed en masse rather than selectively.

Having established the different components of the response, we are now in a position to begin to ask ourselves the key questions regarding the relationships between democracy and the intensity of the use of these tools (lockdowns and testing), and also between democracy and the ability to control social interactions (mobility). The first of these issues will be analysed in this article of the Dossier, while the second will be the subject of the following article.<sup>1</sup>

Thus, what we want to understand first is the relationship that exists between the political system and the stringency, or laxity, of the lockdown measures and the intensity of testing. In other words, what we first want to know is whether two countries equally affected by the pandemic (measured by the number of cases in proportion of the population)<sup>2</sup> have responded with

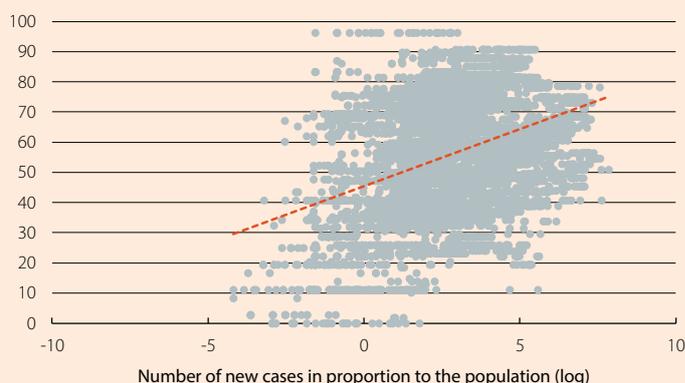
### Relationship between the number of COVID-19 cases in a country and the stringency of restrictions in autocratic countries

Lockdown stringency index



### Relationship between the number of COVID-19 cases in a country and the stringency of restrictions in democratic countries

Lockdown stringency index



**Notes:** Daily data from 102 countries between February and November 2020. Democratic countries are those with a value greater than 90 in the index by Freedom House.

**Source:** CaixaBank Research, based on data from Freedom House and the University of Oxford.

1. See the article «[Have democracies achieved better control over social interactions?](#)» in this same Dossier.
2. It is interesting to consider the extent to which autocratic countries may be reporting fewer cases than are actually occurring, either for political convenience (to reduce suspicions of inefficiency in the fight against the pandemic) or because their data collection systems are less developed than in democracies (which tend to be more advanced countries with better statistical systems). If this were generally the case, then the results would still be even more favourable towards democracies, since the «lukewarm» response from autocracies would be even weaker than suggested, due to the underestimation of the severity of the pandemic.

more or less stringent lockdowns depending on whether they were more or less democratic. Secondly, we will ask ourselves whether two countries equally affected by the pandemic have conducted different amounts of testing depending on their level of democracy.<sup>3</sup>

A first, illustrative glance at the data (see the trend lines in the charts of this article) already suggests a stronger relationship between the number of cases and the severity of the lockdown in more democratic countries. Using a panel regression analysis with controls<sup>4</sup> statistically confirms that the response to the first question is favourable towards democracy: countries with a greater degree of democracy have responded with stricter lockdowns when affected to the same degree by the pandemic. This is an important result, as it contradicts the superficial view that democracies have been «weak» and that we must therefore consider how important it is to be more or less democratic.

Based on our estimate model, we can conclude that the institutional factor plays a rather important role. A practical example will help to understand the sensitivity. With 100 being the highest possible level of democracy, according to the indicator by Freedom House, Spain has a level of 92 and Colombia, a level of 55. Now suppose that the intensity of the pandemic (measured by the number of new cases per 100,000 inhabitants) were to multiply by a factor of 10 (as happened in Spain between 6 and 13 March, for instance). In this scenario, the result suggested by the model is that the change in the stringency of the lockdown would be 1.5 points higher in Spain than in Colombia. How should we interpret 1.5 points? It would be the increase in the stringency of the lockdown that would occur when the authorities go from recommending staying at home to imposing a compulsory residential lockdown with the exception of leaving home for work, school, exercise and essential purchases.<sup>5</sup> This is by no means a minor jump.

The same result is obtained when using the second health policy tool, testing capacity. The model's results suggest a greater response from democracies than from autocracies. As was the case with the strictness of the lockdowns, being more or less democratic represents a significant difference.

Ultimately, contrary to that suggested by some criticisms, democracies have not been lax in their fight against the COVID-19 pandemic compared to autocracies. A different question, and indeed a more consequential one, is whether their responses have been effective in addition to «hard». In other words, we must return to the second question mentioned at the beginning and ask ourselves whether the desired social behaviour, namely control over mobility, has been achieved. We will explore this issue in the next article, allowing us to get closer to answering the complex question of whether democracies have measured up to this great health crisis.

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3. As a step prior to this analysis, it was studied whether the two key public health variables (i.e. how strict the lockdowns have been and the number of tests) have responded to the number of cases. The results are as expected: the authorities of the various countries have reacted by imposing stricter lockdowns and increasing the level of testing when the number of cases grows (and vice versa).

4. The relationship between the stringency or laxity of lockdown measures in a given country, the impact of the pandemic there and its political system is analysed using the following panel regression with fixed effects:  $Stringency_{i,t} = a_0 + a_1 Covid_{i,t} + a_2 [Covid_{i,t} \times D_i] + u_i + u_t + \mu_{i,t}$ , where  $Stringency_{i,t}$  is a measure, developed by Oxford University, of how strict the lockdown measures have been in country  $i$  and on day  $t$ ,  $Covid_{i,t}$  is the number of daily new COVID-19 cases in proportion to the country's population, and  $D_i$  is a measure of the country's political system on a scale ranging from 0 to 100 from less to more democratic, based on a measure of the political rights and civil liberties in 195 countries developed by Freedom House. The coefficient  $a_2$  can be interpreted as the difference in the stringency of the lockdown measures to curb the impact of the pandemic in democracies relative to authoritarian countries. The data cover 102 countries between February and November 2020. This model follows a similar approach to that used by C.B. Frey, G. Presidente and C. Chen (2020). «Democracy, Culture, and Contagion: Political Regimes and Countries Responsiveness to Covid-19», Covid Economics 18.

5. The index which measures the stringency of the lockdown is the aggregate of a set of social distancing metrics, one of which is the degree of residential lockdowns. When this metric shifts from being a mere recommendation to stay at home to an obligation to do so, the aggregate stringency index increases by 1.5 points.

## Have democracies achieved better control over social interactions?

For now, we have reached the half-way point in our attempt to answer the question of whether democracies are proving more or less successful in the fight against the pandemic. In the previous article<sup>1</sup> we have presented empirical evidence that at least they have not been weak. On the contrary, they have been more «aggressive» in imposing more stringent lockdowns and have been more ambitious in terms of testing. However, what we are really interested in is not stringency, but effectiveness. It could be that democracies have been more aggressive in their anti-COVID health policies because they are rather ineffective in achieving the desired social behaviour, namely the reduction in mobility (which, as we know, leads to the decline in social contacts and the breakdown of the chains of contagion). This is a rather more complex question than that addressed in the previous article, since more factors potentially intervene. So let us take it step by step.

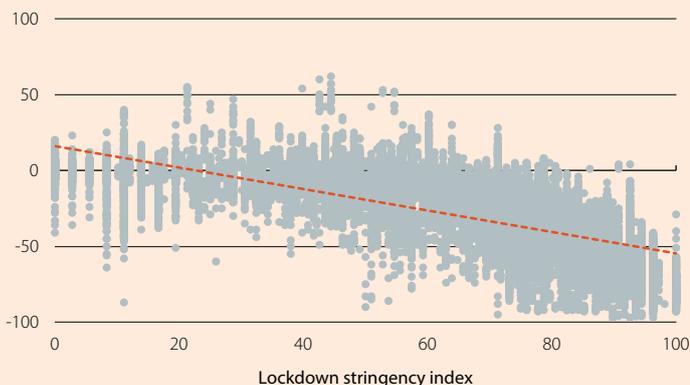
In specific terms, the question we are interested in answering is whether, with the same intensity of lockdown restrictions or testing, two countries with different degrees of democracy have achieved different reductions in mobility among their population.<sup>2</sup> Again, the result of our empirical analysis is favourable towards democratic countries. The desired behaviour (a reduction in social interactions and mobility) has occurred to a greater extent<sup>3</sup> in more democratic countries with an equal application of the tools at hand.<sup>4</sup>

However, this relationship is only a top-level one. In the first article of this Dossier we have encountered the notion that a democracy's success depends on three different aspects: the political one, the capacity of the state and the cultural one. Now it is time to find out whether what we have interpreted as the good performance of the more democratic countries in reducing mobility could in fact be due to the degree of efficiency of public policies or to the prevalent type of sociocultural behaviour – that is, the importance of individualism or collectivism (working on the basis that, in the former case, stricter tools are required since the degree of social «discipline» is foreseeably lower).

With these sophistications, the results are maintained. Firstly, when we try to explain mobility in terms of the degree of democracy and state capacity, we find, as expected, that the greater the administrative capacity to implement public policies, the greater the reduction in mobility. For instance, according to our results, if the lockdown stringency index (measured on a scale between

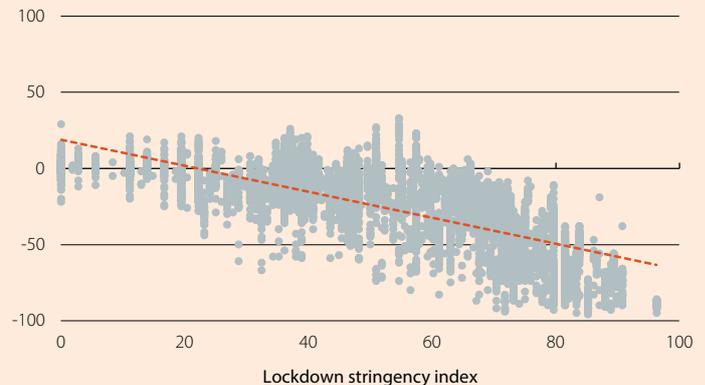
### Relationship between mobility and the stringency of restrictions in less democratic countries

Mobility index



### Relationship between mobility and the stringency of restrictions in more democratic countries

Mobility index



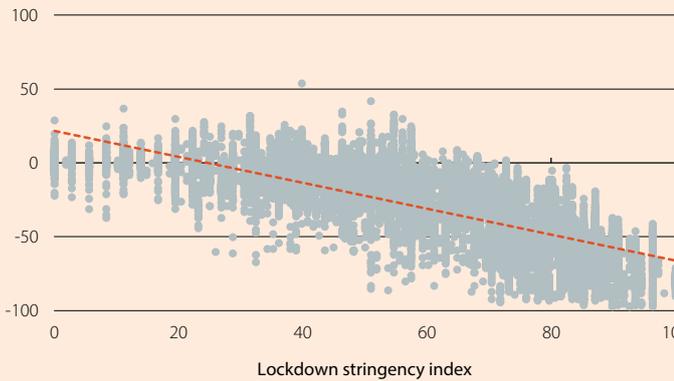
**Note:** Daily data from 102 countries between February and November 2020. Democratic countries are those with a value greater than 90 in the index by Freedom House. «Mobility data» refer to the mobility of the population in retail.

**Source:** CaixaBank Research, based on data from Freedom House, the University of Oxford and Google.

1. See the article «[Have democracies been more lax with lockdowns and testing?](#)» in this same Dossier.
2. An initial, preliminary analysis has been performed to determine whether the increase in the stringency of lockdowns corresponds to a reduction in mobility using the following panel regression with fixed effects:  $Mobility_{i,t} = a_0 + a_1 Stringency_{i,t} + u_i + u_t + \mu_{i,t}$  where  $Mobility_{i,t}$  is a measure, developed by Google, of the reduction in mobility in country  $i$  and on day  $t$  compared to the previous year and  $Stringency_{i,t}$  is a measure, developed by Oxford University, of the severity of the lockdown measures. The regression analysis confirms the expected relationship and, therefore, that the more stringent the lockdown measures, the greater the reduction in mobility. In short, the tool chosen by countries «works» in achieving the desired social outcome.
3. The difference in favour of democratic countries is of a relatively small magnitude (see first chart), but the results are statistically significant.
4. To perform this analysis, the regression described in note 1 above is expanded by adding an interaction between  $D_i$ , a measure of the political system in the country on a scale ranging from 0 to 100 based on data from Freedom House, and  $Stringency_{i,t}$ . In this regression,  $Mobility_{i,t} = a_0 + a_1 Stringency_{i,t} + a_2 [Stringency_{i,t} \times D_i] + u_i + u_t + \mu_{i,t}$ , the coefficient  $a_2$  can be interpreted as the differential of the reduction in mobility, for the same degree of lockdown stringency, in democracies compared to more authoritarian countries. A significant coefficient is obtained, with an  $R^2$  of 0.645.

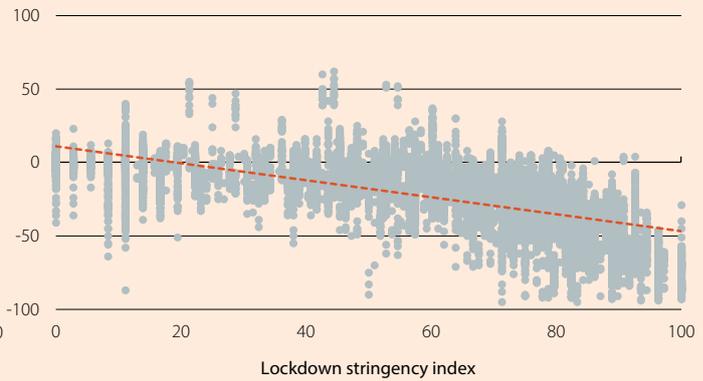
**Relationship between mobility and the stringency of restrictions in less individualistic countries**

Mobility index



**Relationship between mobility and the stringency of restrictions in more individualistic countries**

Mobility index



**Note:** Daily data from 108 countries between February and November 2020. Individualistic countries are those with a value greater than 80 in the index by Hofstede (2001). «Mobility data» refer to the mobility of the population in retail.

**Source:** CaixaBank Research, based on data from Hofstede (2001), the University of Oxford and Google.

0 and 100) were to increase by 10 points in two identical countries, but where one had the administrative capacity of Spain and the other that of Colombia (which is significantly lower), then the mobility index would fall by around 5.6 points in the country with the greater administrative capacity, while it would fall by only 5.1 points in the second country, assuming the same conditions apply in both of them. In spite of the control arising from the capacity of the state, being more democratic continues to have a positive correlation with the desired social behaviour, that is, a reduction in mobility.<sup>5</sup>

Something similar occurs with sociocultural elements and, in particular, with the importance of individualism in a country.<sup>6</sup> Generally speaking, the greater the degree of individualism – and always taking the stringency of lockdown measures into account – the worse the result in terms of control over mobility. Repeating the previous exercise, mobility would fall by around 6.7 points in a country with the degree of individualism of Spain (51/100), while it would fall by only around 6.1 points in a country with the degree of individualism of the US (91/100). This makes sense, since in societies in which the collective element or the importance of the group are greater, the expected level of discipline is also greater than in more individualistic societies. However, when we incorporate the degree of democracy into the analysis, we once again see that democracies are more effective in achieving the reduction in mobility.

In other words, although states with a greater capacity to effectively implement policies and countries with more collectivist tendencies have been better at controlling mobility, even when we incorporate these factors democracies continue to do so better than autocracies.

Do these results mean that democracies are saved and can rest easy? Clearly not. For starters, the human drama we are living through does not allow us the luxury of such complacency. Moreover, being better in relative terms may not be enough for citizens. Exercises like the one presented in this article, well-publicised, should help us to make a less critical reading of the true state of democracy. But let us not be fooled, citizens will express their dissatisfaction with the response from democracies based on far more transcendental elements than the obligatory and necessary effort of economists and technicians to interpret the world properly. What history will ultimately decide is what role this health crisis has in the broader context of the political crisis. In other words, it will help to shed some light on the question of whether or not the pandemic can act as a spark to ignite the regeneration of democracy. This judgement is still a few years away, but we can attempt to explore the matter now – a tentative exercise which we conduct in the next article.

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5. An interaction between  $Stringency_{i,t}$  and  $Eff_i$ , a measure of state capacity developed by the World Bank, is added to the regression described in the footnote above, such that the final regression is:  $Mobility_{i,t} = a_0 + a_1 Stringency_{i,t} + a_2 [Stringency_{i,t} \times D_i] + a_3 Stringency_{i,t} \times Eff_i + u_i + u_t + \mu_{i,t}$ . Significant coefficients are obtained both for  $a_2$  and for  $a_3$ , with an  $R^2$  of 0.736.

6. The impact of culture on the relationship between the stringency of lockdown measures and the reduction in mobility in each country is analysed using the following panel regression with fixed effects:  $Mobility_{i,t} = a_0 + a_1 Stringency_{i,t} + a_2 [Stringency_{i,t} \times Individualism_i] + u_i + u_t + \mu_{i,t}$ , where  $Individualism_i$  is a measure of the individualistic/collectivist culture in the country, according to an analysis by Hofstede (2001). A significant coefficient is obtained for  $a_2$ , with an  $R^2$  of 0.779.

## Democracy and the pandemic: more light than darkness

At this point in the Dossier, two major conclusions can be considered reasonably well-founded. The first is that democracy is undoubtedly in bad shape and it is accused of being incapable of solving the problems of the present and the future. The second is that, although the COVID-19 crisis has caught democracies off guard, the evidence from our empirical analysis suggests that its response to the pandemic has not, generally speaking, been worse than that of autocracies. In fact, it is quite the opposite. The most notable exception is probably China, but saying that the Asian giant has responded with a good anti-COVID strategy does not mean that democracies have got it all wrong.

Now let us take another more normative and prospective step. The time has come to take the bull by the horns and try to answer the question of whether the pandemic could mark a turning point for the trend of popular disaffection with democracies or whether, on the contrary and most unfortunately, it will be another missed opportunity to regain harmony with democracy. Anybody expecting definitive answers in black or white, we are sorry to say, will be disappointed. What they will find, however, are some reflections which we hope will shed some light on this crucial topic and suggest which shade of grey we read from it.

### Changes of preferences and pandemics

A first obligatory reflection concerns the key question of the possible change of preferences which a shock like the current pandemic can induce and the ability of the political system to respond to these hypothetical new preferences. History provides us with some important lessons. First of all, the great pandemics of the past have tended to generate political responses which suggest that such a change of preferences does indeed tend to occur in the wake of such health crises.<sup>1</sup>

A second reflection is that this political response has not always been successful. Since analogies connecting the fateful 1930s with our present situation abound, it is worth mentioning a recent study by Kristian Blicke, a Federal Reserve economist. In it, he notes that there is a correspondence between the German electoral constituencies that were hardest hit by the 1918-1920 flu pandemic and those where the Nazi Party obtained better results in the various electoral contests of the time.<sup>2</sup> The author argues, rather convincingly, that the combination of prior preferences (in this case, anti-semitism) and the shock of the 1918 flu pandemic made radical alternative political stances more appealing.

In our view, and in general terms, the democracies of today are much more functional than those that existed in the 1930s, and the response this time around is bound to be better than it was in the past. We therefore believe that, while preferences will change, public decision-makers will be capable of producing policies that are adapted to them and, generally speaking, better. This will depend, to no small extent, on the next element to be taken into consideration, which we call the «shielding» of the regulator.

### The critical role of technocracy

We are now delving into an issue that is extremely controversial, but inevitable, in the debate before us: that of how to protect the regulator from the excessive influence of interest groups. The answer is a greater role of technical groups in the decision-making process (technocracy), whereby these groups have a sufficient degree of independence so as to limit pressure from lobbies. If anyone thinks this is impossible, we must remember that there is a very powerful precedent of unquestionable success: that of modern central banks. Indeed, the central banks' «shielding» (independence) responds fundamentally to the need to isolate monetary policy from political decision-making (given that, in their legitimate effort to win elections, politicians pursue objectives other than price stability). This shielding is effective too: independent central banks consistently generate more stable and lower inflation expectations than non-independent ones.

In this regard, technical bodies with the same degree of independence would provide better protection for public policies that are likely to be «captured» by sectoral interests or excessive electoralism. It would thus be possible to reach a reasonable degree of consensus on technical matters, which could be integrated into those great agreements which we tend to define as state policies and whose effects tend to materialise over a period far exceeding the electoral cycle.

In this area, again, we are more hopeful than fearful. The ability we credit democracies with to emulate best practices in other countries or spheres ultimately justifies our view that here, once again, the future is more white than it is black. Many democracies have tended to establish independent technical groups that have been able to manage areas of public policy which required it. And if there are concerns that the technical experts might have their own agenda, let us recall that strong political control exists in these independent bodies too. After all, it is precisely the mechanism through which their objectives are set (whether relating to price stability, competition or public health) and which controls their effectiveness. But the mechanisms remain separate from the day-to-day politics.

1. See the Dossier on the world after COVID-19 in the MR05/2020, in particular the article «[COVID-19 and black swans: lessons from the past for a better future](#)».

2. See K.S. Blicke (2020). «Pandemics Change Cities: Municipal Spending and Voter Extremism in Germany, 1918-1933». Federal Reserve Bank of New York.

**Scientific knowledge and policy**

The independence of technocracy is intrinsically associated with what are referred to as «evidence-based public policies» – in other words, the ability to use the best scientific and social knowledge available in order to develop public policies. We believe this to be quite a solid legacy of the current crisis: science, which in this case has led to the development of the vaccines, has been revalidated as a fundamental element of society. But we have to go further. Adhering to technical criteria must become a core attribute of public decision-making. There is still a long way to go, as the pandemic itself has shown (see the attached chart for a sample of countries), but democracies ought to be better placed to address this shortcoming.

**Efficient policy will either be global or it will not exist at all**

Another key element for the implementation of efficient public policies, and which adds weight to democracy’s claim to legitimacy, is that they must be designed within the appropriate geographical framework. In other words, if many of the public goods (and evils) which democracy pursues are of a global nature, then the optimal scale on which to tackle them will necessarily be supranational. Key policies for addressing structural change in relation to climate change or digitisation, for instance, must be designed with a global approach and global coordination. Typically, this requires an international framework for cooperation, and for us here in Spain the strongest of these is the EU. If guidelines are established within this framework which contradict local preferences, then political disaffection will grow. The complex solution involves finding common ground in the preferences of the different states and finding approaches to local implementation that allow room to adapt to national idiosyncratic factors. Are our democracies capable of achieving this complex balance? We cannot be too particular, nor do we want to be negative, but the challenge ahead is substantial and success may not be guaranteed. In our chromatic analogy, the outlook is a darker shade of grey than we would like.

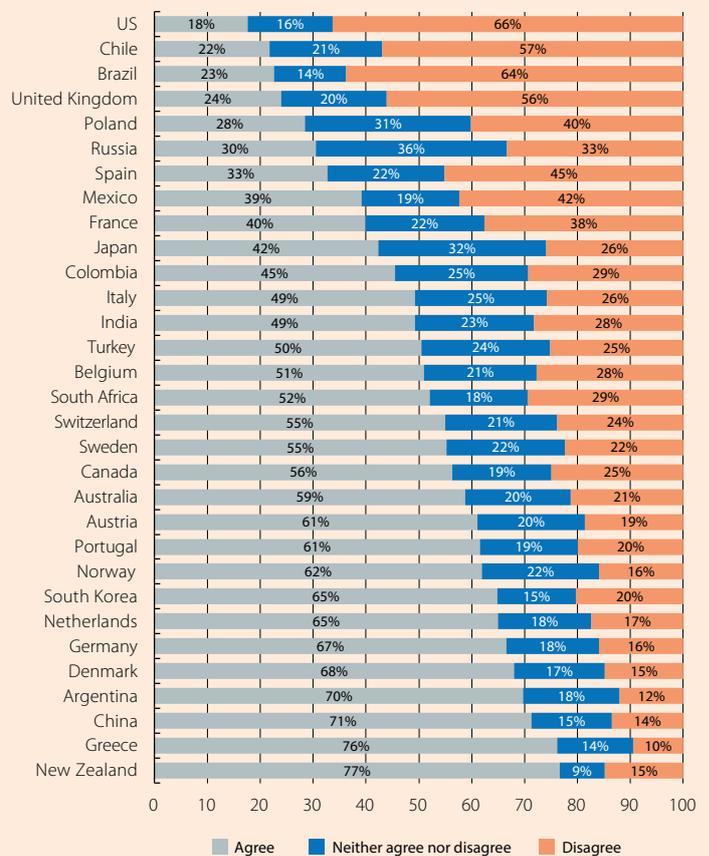
**Political fragmentation**

Finally, it is time to delve into another controversial and complex issue, that of political polarisation and fragmentation. This has been one of the underlying factors in the tendency for blockages to arise that have a detrimental impact on decision-making processes. Of course, this is a fundamental issue to which a great deal of space and effort has been devoted in the pages of this *Monthly Report* in recent years. Our synthesis could be as follows: i) history concludes that political polarisation is present in many secular systemic political changes, and ii) the underlying factors which have fuelled an increase in polarisation in the past (in particular, technological change, globalisation, and demographics; perhaps also cultural factors) are active in our contemporary societies.

This does not mean that we are doomed to repeat the crises of the past. Structural factors restrict us, but they do not determine our fate, especially in societies that are fortunate enough to have a voice and a vote in the process. Churchill was probably right when he said that democracy is the worst form of government, except for all the others. In the same spirit, today’s liberal democracies are far from perfect, there is no doubt about it, but their quality and, above all, their potential for improvement should allow ways to be found to recover the indispensable common story that every society needs in order to build its future.

Álvaro Leandro and Àlex Ruiz

**Use of scientific advice on COVID-19 by politicians**  
(% of respondents)



**Note:** Percentage of scientists consulted who consider that their advice on COVID-19-related matters is taken into account by politicians.  
**Source:** CaixaBank Research, based on data from Frontiers .

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