

## European frustration

It seemed like this time was different. Historically, the European project has advanced reluctantly, seeking to make virtue of necessity. To a large extent, the broad European institutional fabric has been shaped in response to events, following long and tense negotiations. In contrast, the measures taken since the start of the pandemic, such as the Next Generation EU economic stimulus programme, which is of a magnitude never before seen in the Old Continent and has been adopted relatively quickly, or the ECB's unwavering action, invited optimism. It seemed that this time Europe was shifting gear and taking some initiative.

However, China first and more recently the US have shown that Europe remains one step behind. While those economies are consolidating their economic expansion, the major European countries have once again folded to curb the spread of the virus, with the consequent impact on the economy. Translated into figures, China's GDP will close Q1 more than 6% above the pre-pandemic level. In the US, GDP growth will be around 1.5% quarter-on-quarter for Q1 and will likely reach the pre-pandemic level in Q2 of this very year. In contrast, in the euro area the decline in GDP could approach -1% in Q1, and it is not expected to reach pre-pandemic levels until the second half of 2022.

In the case of the US, in addition to the encouraging data for economic activity and the labour market, there appears to be another economic stimulus package on the horizon. The Biden administration is very active, and just a few weeks after approving a 1.9-trillion-dollar fiscal package to stimulate the economy in the short term, it announced its intention to implement another ambitious programme, this time focusing on medium-term investment in infrastructure and education, which could amount to 2 trillion dollars spread over several years. This has reinforced the expectation that economic activity will continue to gather strength over the coming quarters, so we have revised our growth forecasts for this year up by slightly more than 1 pp, to 6%. The improvement in the outlook is widespread among the analyst community, which is helping to consolidate the rally in the yield on the 10-year US bond. It has already amassed an increase of more than 75 bps since the beginning of the year. This is a significant rally which was not expected just a few months ago, and one which the Fed does not see as cause for concern since it largely reflects the improved economic outlook.

The situation is rather different in Europe. We have revised the growth expected for this year slightly downwards due to the tightening of the measures imposed to combat the

pandemic in the major European countries. We now place it at 4.1%, 0.2 pps below the previous forecast. The ECB has increased the pace of asset purchases to ensure that interest rates remain close to the levels of recent months. The economy is still too fragile to allow for even the slightest sign of tightening in the financial conditions. Furthermore, the German Constitutional Court has once again taken centre stage by temporarily suspending the ratification of the European recovery fund (its implementation requires its ratification by all Member States). Let us hope this will not lead to delays in the first disbursements of the fund which *a priori* are expected this summer.

The European context is not helping the Spanish economy, and neither have the developments in the pandemic in recent months, having forced the authorities to maintain the restrictions on mobility and activity, and in some cases even to tighten them. Thus, following the stagnation of the recovery process in Q4 last year, we are likely to see a slightly negative growth rate for Q1 this year, of around -0.5% quarter-on-quarter according to CaixaBank Research estimates. That is what is suggested by CaixaBank Research's consumption indicator, which closed Q1 2021 with a slightly bigger decline than that registered in Q4 2020, as well as by developments in the labour market.

The recent trends in Spain's economic activity indicators fit in with CaixaBank Research's scenario, so we maintain the GDP growth anticipated for this year at 6.0% (in line with the Bank of Spain's new baseline scenario). We are confident that the impasse in the economic revival in which the Spanish economy and other European countries currently find themselves will be overcome in Q2. We expect the vaccination rate to gain momentum over the coming weeks, which will allow the population at risk to be immunised during this Q2 and thus enable the restrictions to be significantly eased, paving the way for Spain to follow those countries that are one step ahead. In addition, in Spain it is imperative that the programme of direct aid to businesses recently approved by the government is implemented quickly. This should provide important support for businesses that are suffering the most as a result of the measures imposed to contain the pandemic. The fact that there are other countries that are one step ahead is certainly a source of frustration, but it must also give us hope. Very soon, we will find ourselves in a similar situation.

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