

Recovery or reconstruction?

«The end of the tunnel». With this title we opened the *Monthly Report* of November 2009. We praised the latest indicators with a sense of optimism: «After several long quarters of recession, the two key players in the world economy, the United States and the Euro Area, recorded growth in activity in the third quarter». We focused on describing the resilience of consumption, investment and the foreign sector, and we treated China separately, in the emerging economies section. This is a classical approach to analysing the economic outlook that is well-established in the profession, and one which we used begrudgingly as we felt that it was not entirely useful for capturing the underlying trends which ultimately condition the economic reality. Four years later, we would overhaul the structure of the *Monthly Report* to accommodate such considerations. Central banks had taken on a leading role during the crisis, but we expected them to quickly «focus all efforts on studying how to withdraw the extraordinary monetary injection in a orderly fashion». We stressed the need for structural reforms, but the economic bible had not yet incorporated into its pages the importance of taking into account political, social and institutional aspects in assessing the opportunity and capacity to implement them.

In October 2013 we once again felt like we were at the end of the tunnel. It had been longer and darker than it had appeared in 2009. The good performance of the economic activity indicators, which at the time gave us information on the economic situation with a two or three month time lag, led us to entitle this section with another relatively optimistic message: «Economic recovery and sources of political instability». After the experience of the previous few years, we were no longer making assertive statements. In fact, we would never do so again. We began to identify the counterpoint as lying within a sphere that would become key, politics. It had already gained prominence, but for the moment it was only perceived as a headache for the economic recovery. We did not yet understand the underlying factors that were blocking it, and which would continue to block it in virtually all countries. China was the exception. China was on its own path.

Monetary policy had taken on a central role and was acting as a sedative. Complete anaesthesia. The Fed decided to «delay the withdrawal of stimuli, preferring to wait for the economic recovery to firm up». The ECB was «ready to hold another long-term liquidity auction» if necessary. As the years went by, it would become clear that the support that central banks can offer, while substantial, also has its limits. We incorporated institutional aspects into the heart of the economic narrative in order to assess the economy's capacity to recover, although we incorrectly only focused on Europe, stating that «it is vital to strengthen the governance of European institutions». We continued to underscore, with even greater conviction and speed but with little success, the need for reforms to make the productive process more efficient. Social aspects were not yet receiving attention, but they would begin to do so over the next few years until they eventually became a central element of any economic analysis. As they should be.

June 2021: «Recovery or reconstruction?». We once again find ourselves at the end of the tunnel. Now we can say it with more conviction because we take the pulse of economic activity in real time. The two main protagonists of the world economy, the US and China, have been in full recovery mode for several quarters now. The recovery has finally also arrived in Europe and in Spain. CaixaBank Research's consumption indicator clearly reflects this: spending by Spaniards, which we approximate with the sum of cash withdrawals and card payments, exceeded in May the level observed before the pandemic, in May 2019. Quarter-on-quarter GDP growth could reach around 2% in Q2. The economic flank invites optimism. If COVID-19 does not mutate, and the vaccines remain as effective as they currently are and continue to be distributed at a good pace, then the rebound in economic activity over the coming quarters will be significant. GDP growth could reach 6% this year and around 5% in 2022, and the risks could lie predominantly on the upside. Consumption and investment could pick up by more than expected if pent-up demand is rapidly activated. The foreign sector will benefit from the recovery of tourism and global trade.

But now we also take the pulse of the social situation in real time and we know that the consequences of the pandemic would have been devastating if we had not had an advanced welfare state. Furthermore, we see that this welfare state needs to be further developed, as there are groups of the population to which it is not providing sufficient support. The experience of recent years has shown us that social cohesion is essential, both economically and politically.

At the political and institutional level, we are about to see a historic milestone: the Europe-wide implementation of the NGEU programme. The high volume of funds that will begin to be mobilised in the coming months should underpin the economic recovery. And the economic reforms that are being designed, if implemented, should serve to make the productive process more efficient and public policies more effective. This will help to strengthen social and territorial cohesion, to quickly move towards a more environmentally friendly economy and to strengthen the governance of European and Spanish institutions. However, the high political and social polarisation currently raging in Europe obliges us to be cautious. To what extent can the programmes that have been presented be effectively implemented? To what extent will the misgivings that exist between European countries remain subdued? The risks involved are by no means minor, given the heavy public debt burden that the COVID-19 crisis has left us with and the fragility of the social peace we still enjoy.

We are once again at the end of the tunnel, but this time we know that there is more than one way out. Inertia leads us towards recovery. Returning to the point we were at before the pandemic is tempting after so much suffering. But conviction must lead us towards reconstruction. We must set the course for a destination that is sustainable at the economic, social, environmental and territorial levels.

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