

SPANISH MACROECONOMIC PROJECTIONS: 2021-2023

ÓSCAR ARCE

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Madrid

23 March 2021



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1. Overview

2. Economic activity in the short term

3. Scenarios for the Spanish economy in the 2021-2023 period

- Narrative
- Macroeconomic projections

4. Risks

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THE PANDEMIC CONTINUES TO INFLUENCE ACTIVITY IN THE SHORT TERM. CONSUMPTION, TOURISM AND THE NGEU WILL BE KEY IN THE MEDIUM TERM

Recent developments

- Slowdown in activity in 2020 Q4, though a positive surprise compared with the BdE December baseline scenario.
- Unfavourable performance in 2021 Q1, especially in services. Signs of some pick-up as the quarter unfolds.

Macroeconomic projections: 2021-2023

- Three projection scenarios set out to reflect high uncertainty.
- Compared with the December projections, growth in the first half of 2021 has been revised slightly downwards.
 - More sluggish start to the year and part of the previously envisaged positive impact of the NGEU for 2021 passed on to 2022.
- No significant change in the medium term outlook for output.
- The alternative scenarios differ as to the course of private consumption and tourism.

Inflation

- The rise in inflation in 2021 is forecast to be temporary, influenced by climbing commodities prices, which do not entail significant changes in the medium-term inflation scenario.

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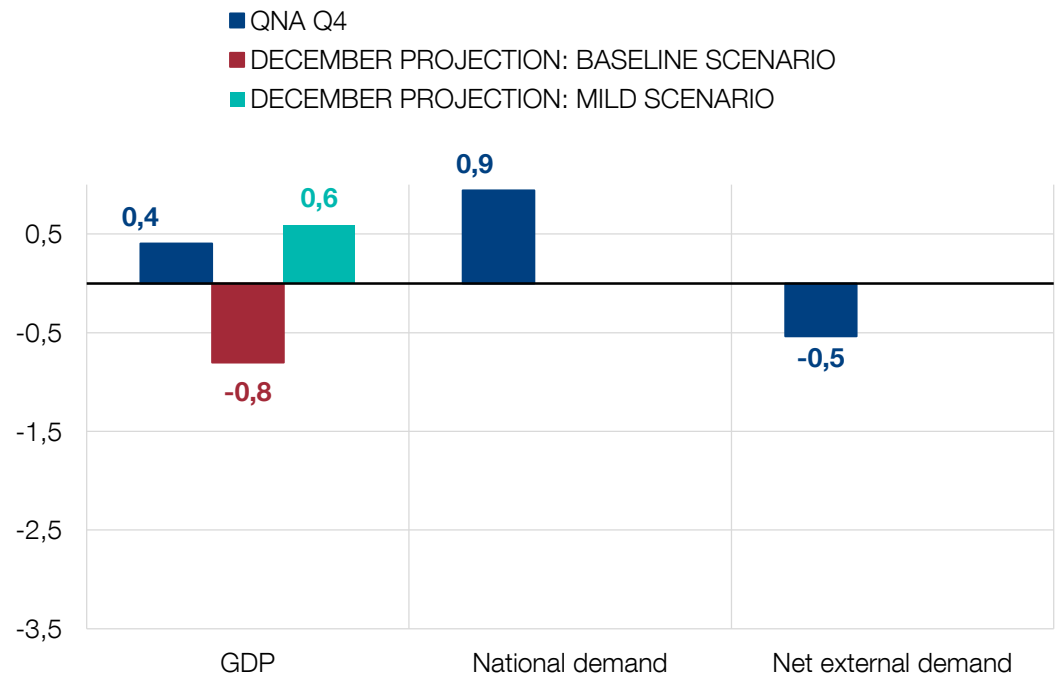
3. Scenarios for the Spanish economy in the 2021-2023 period

- Narrative
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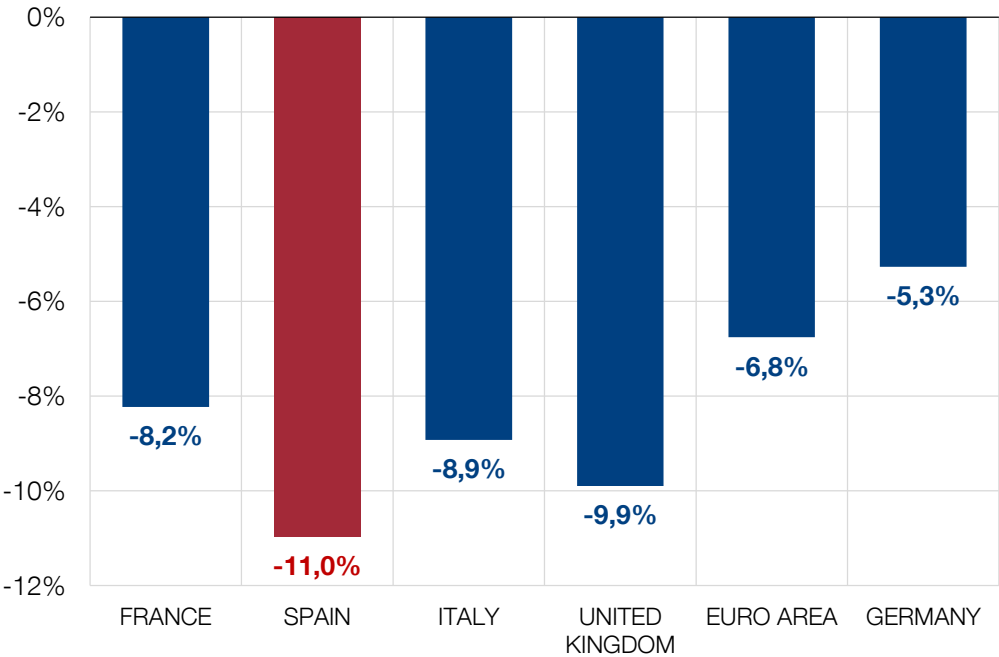
4. Risks

SLOWDOWN IN ACTIVITY IN Q4, BUT POSITIVE GROWTH

QUARTER-ON-QUARTER GROWTH OF GDP (%) AND CONTRIBUTIONS (pp)



GDP GROWTH IN 2020



SOURCES: Banco de España, INE and Eurostat.

A FURTHER DIP IS FORESEEN IN Q1, ALBEIT WITH A GRADUAL IMPROVEMENT AS THE QUARTER UNFOLDS

Indicators of:

consumption

employment

mobility

spending

Key factors

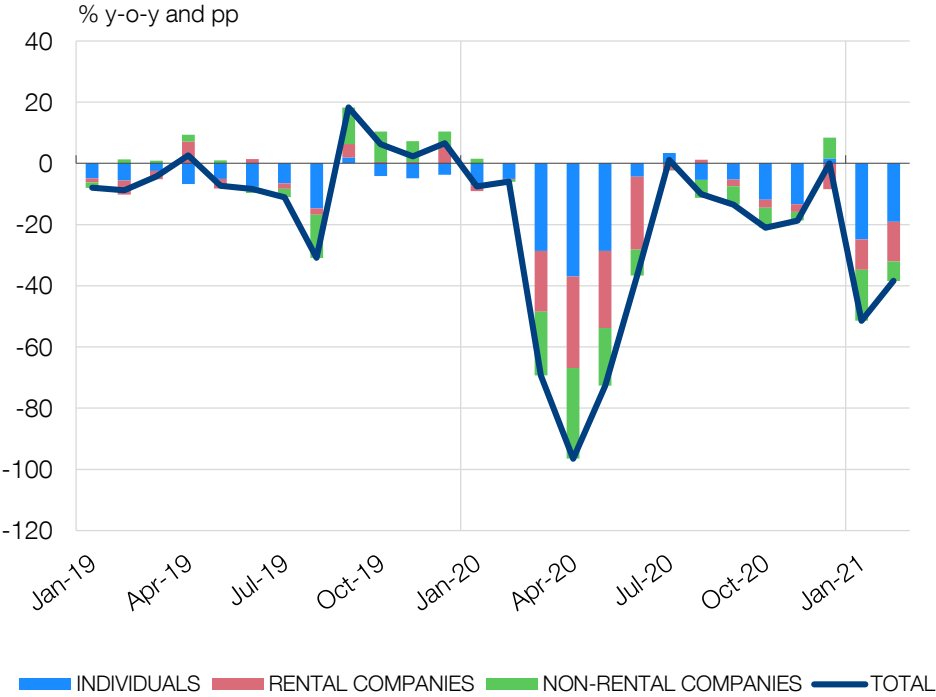
Fall-off in mobility and activity at the start of the year; signs of incipient recovery

Signs of more pronounced worsening in the labour market

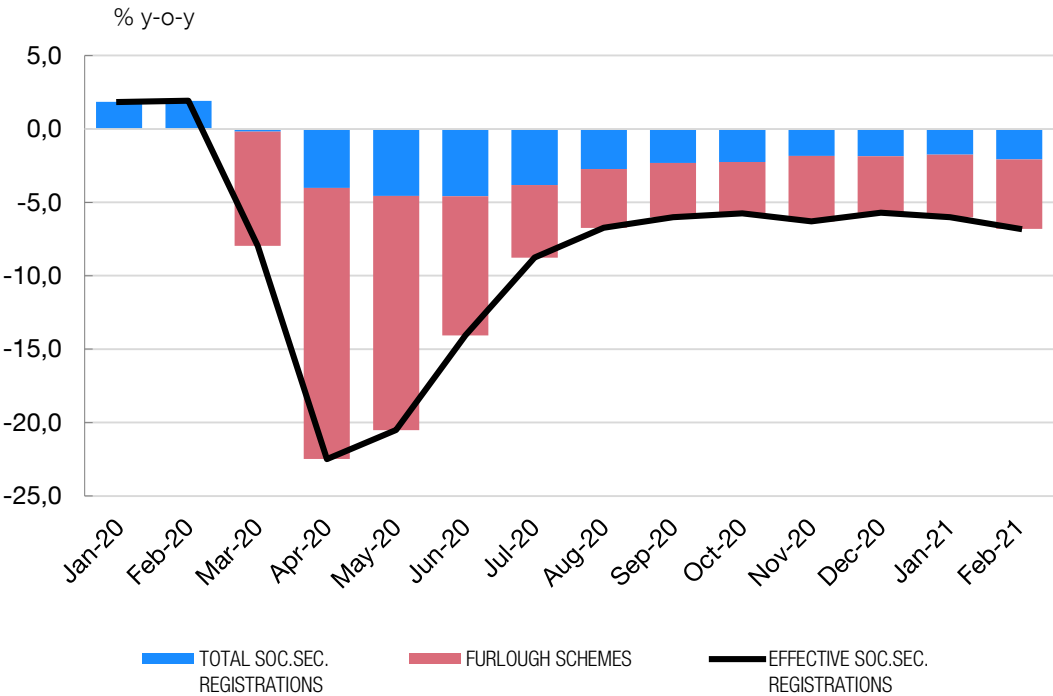
Improved economic growth outlook globally and in the euro area

UNFAVOURABLE DEVELOPMENTS AT THE START OF Q1, WITH DECLINES IN CONSUMPTION AND EMPLOYMENT

NEW CAR REGISTRATIONS.
Growth and contributions



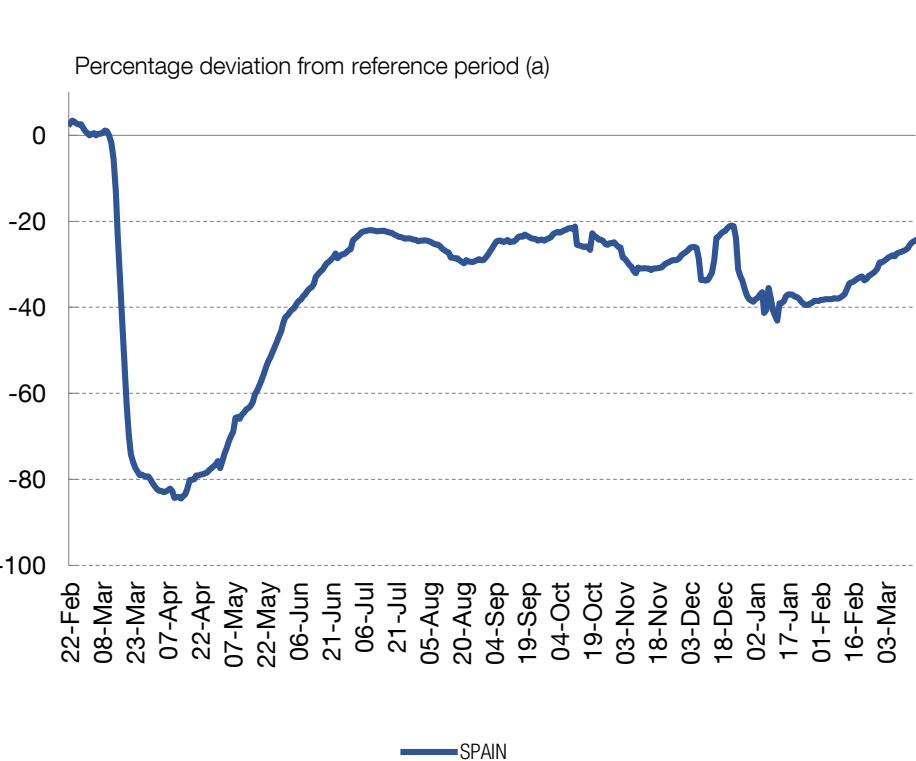
TOTAL SOCIAL SECURITY REGISTRATIONS, FURLOUGH SCHEMES AND
EFFECTIVE SOCIAL SECURITY REGISTRATIONS



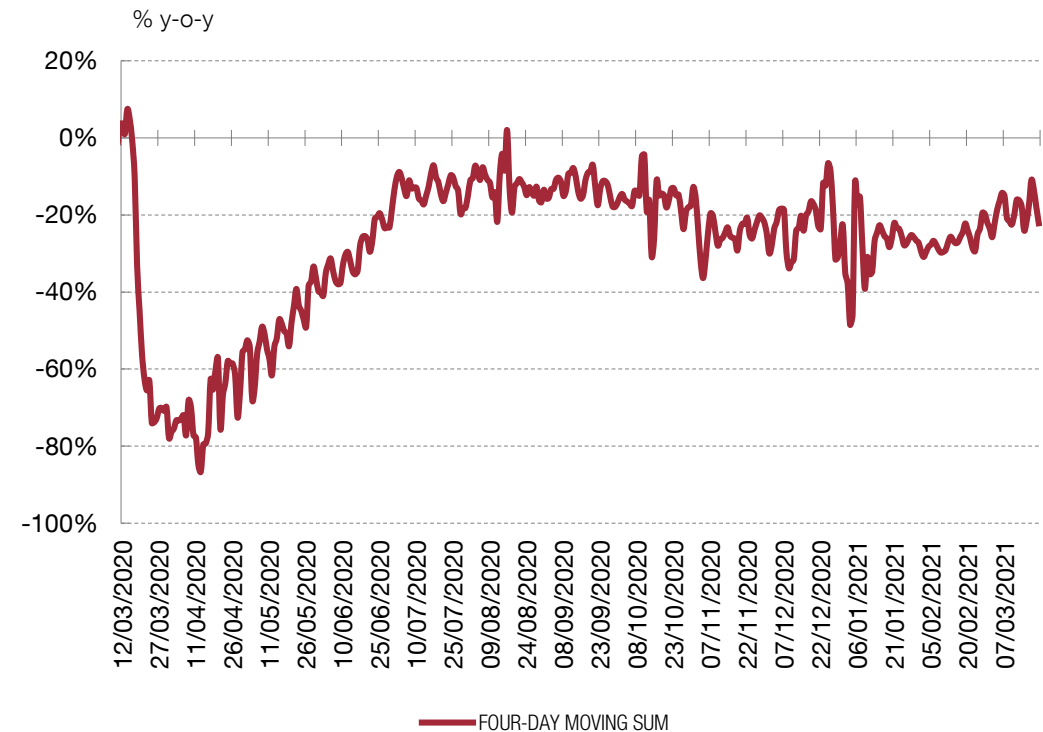
SOURCES: ANFAC, Ministerio de Trabajo, Migraciones y Seguridad Social and Banco de España. Latest observation: February 2021.

AFTER POSTING DECLINES AT THE START OF THE YEAR, THE HIGH-FREQUENCY MOBILITY INDICATORS POINT TO A RECOVERY IN RECENT WEEKS

GOOGLE MOBILITY INDICATOR
(average of recreation, workplace and transit station indicators)



PETROL AND DIESEL SALES



SOURCES: Google, Dirección de Estudios de Repsol and Banco de España. Last observations: 16 March (mobility) and 21 March (fuel).

a) Percentage deviation from the mobility observed in a pre-pandemic reference period (3 January-6 February 2020). 7-day moving averages are depicted.

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SIGNIFICANT FACTORS OF UNCERTAINTY PERSIST, ADVISING THE FORMULATION OF THREE FORECASTING SCENARIOS

FIRST HALF OF 2021

Course of the pandemic and of vaccination in the short term

Restrictions on mobility and activity

Agents' adaptability

2021-2023 HORIZON

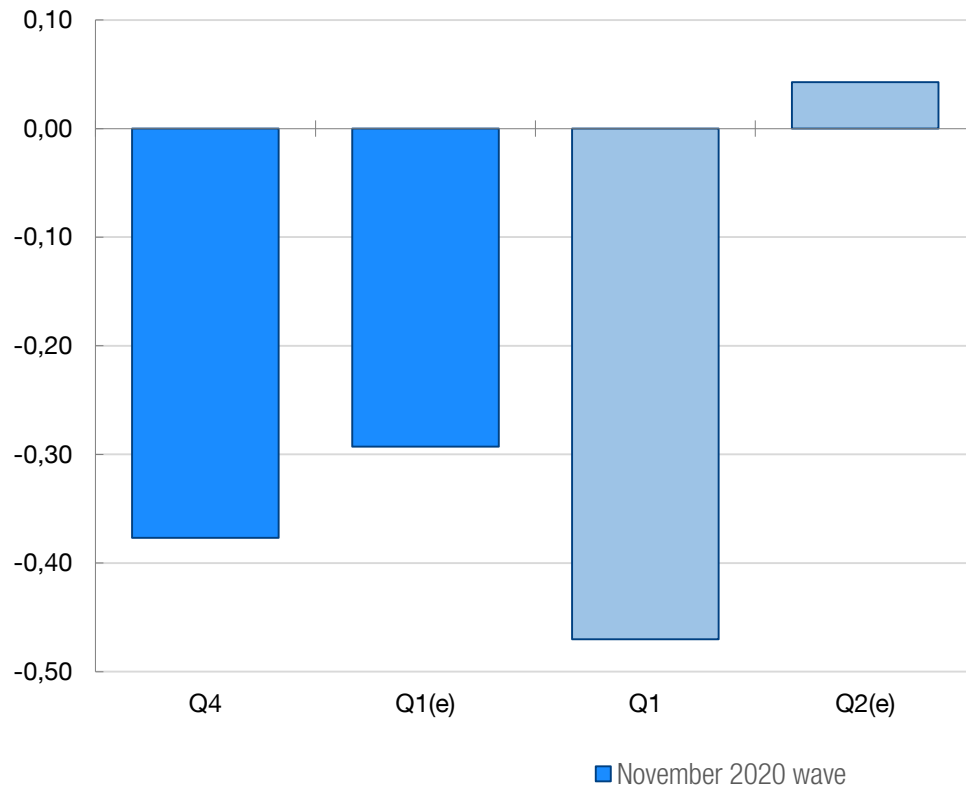
Roll-out of the NGEU programme

Developments in private consumption and the saving rate

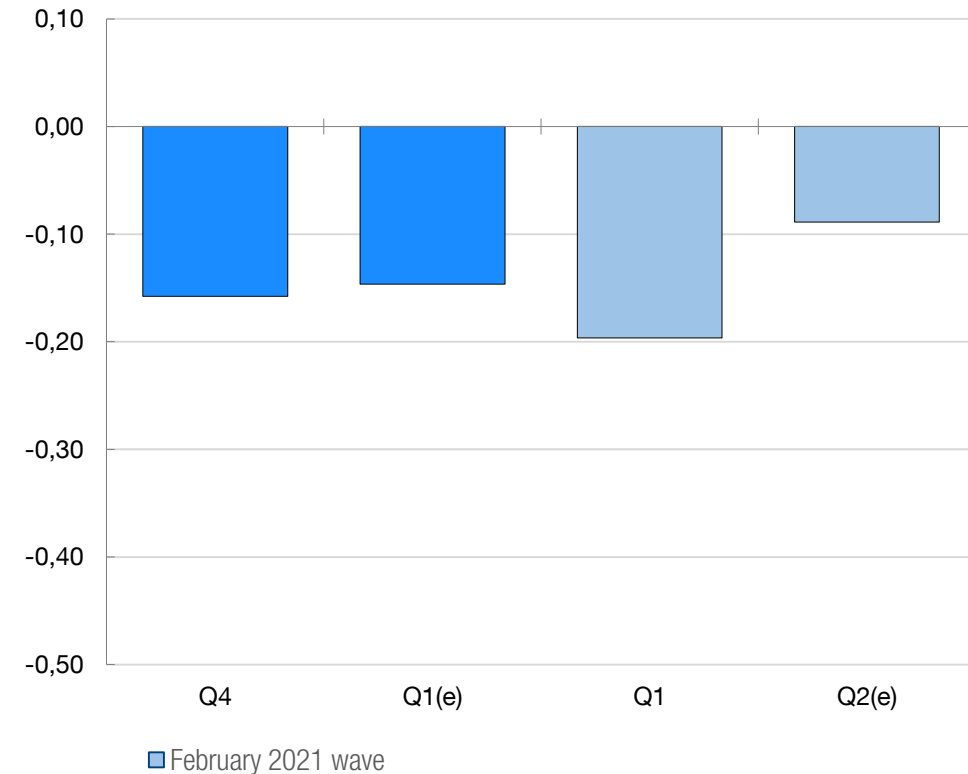
Path of recovery of international tourism

BUSINESS EXPECTATIONS CORROBORATE A MORE UNFAVOURABLE THAN EXPECTED PERFORMANCE IN Q1

QUARTERLY CHANGES IN TURNOVER (a)



QUARTERLY CHANGES IN EMPLOYMENT (a)

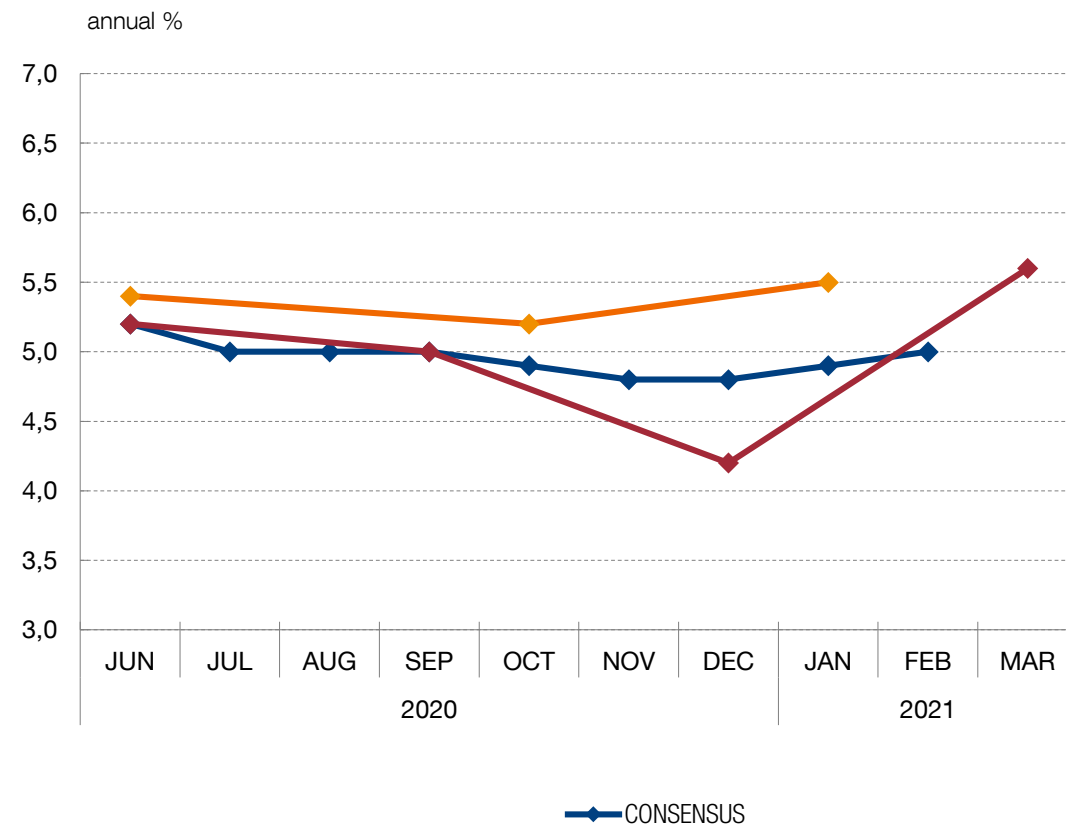


SOURCE: EBAE (Banco de España Survey on Business Activity).

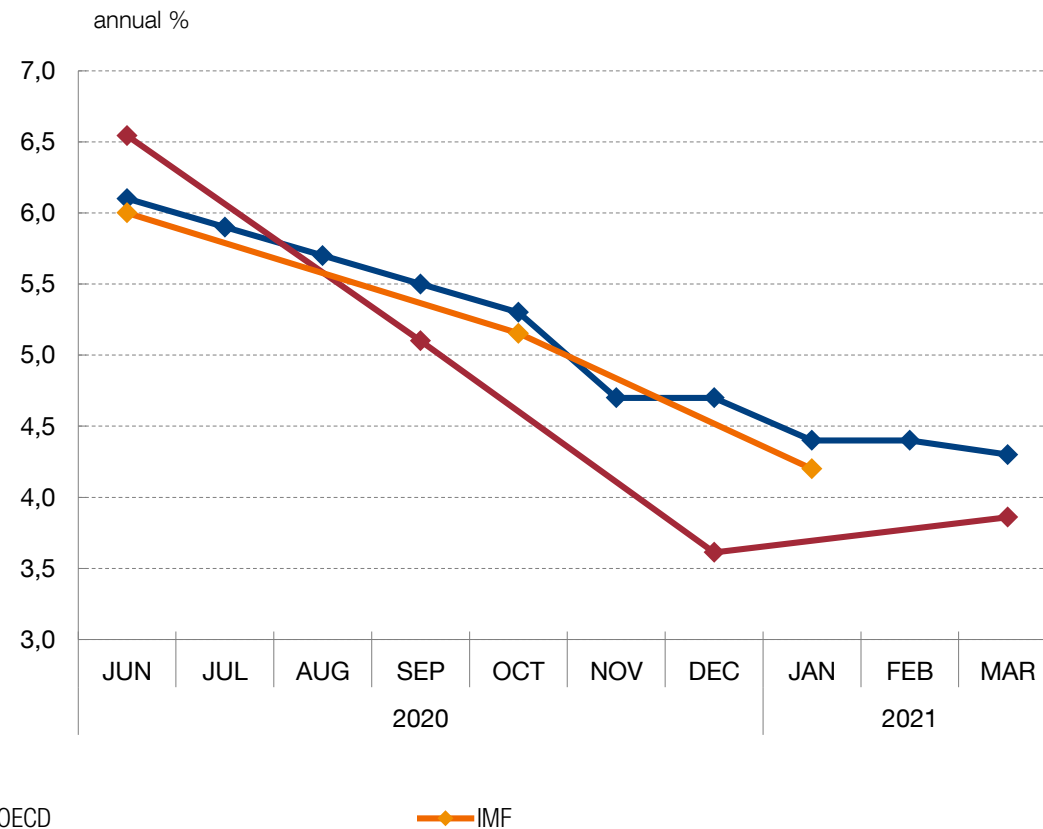
a) Expected change (e) compared with the previous quarter. Index calculated as follows: Significant decline=-2; Slight decline=-1; Stability=0; Slight increase=1; Significant increase=2

THE LATEST FORECASTS INCLUDE SOME IMPROVEMENT IN THE EXTERNAL ENVIRONMENT

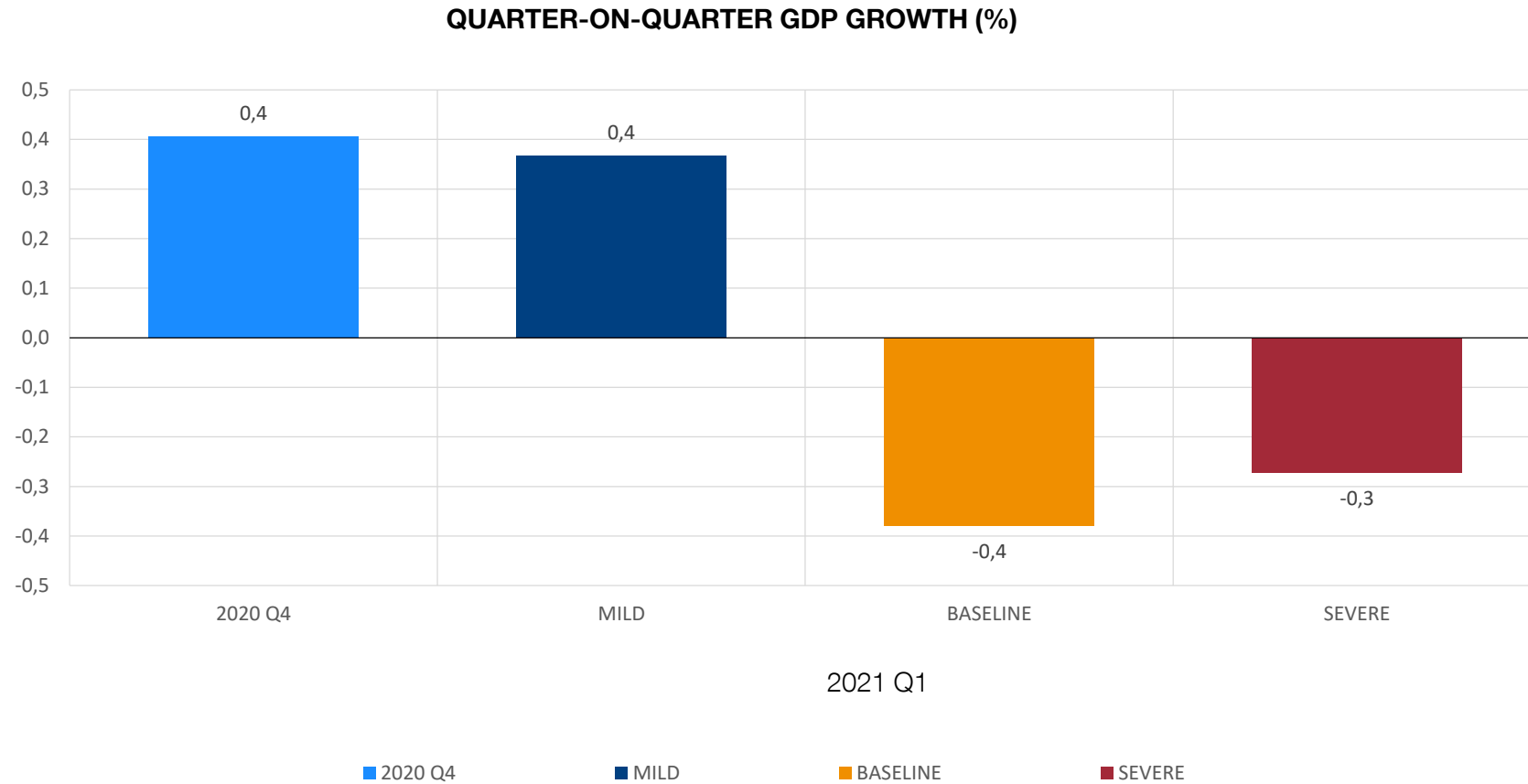
GLOBAL GDP GROWTH FORECASTS - 2021



EURO AREA GDP GROWTH FORECASTS - 2021



SOURCES: Consensus Forecast, OECD and IMF.



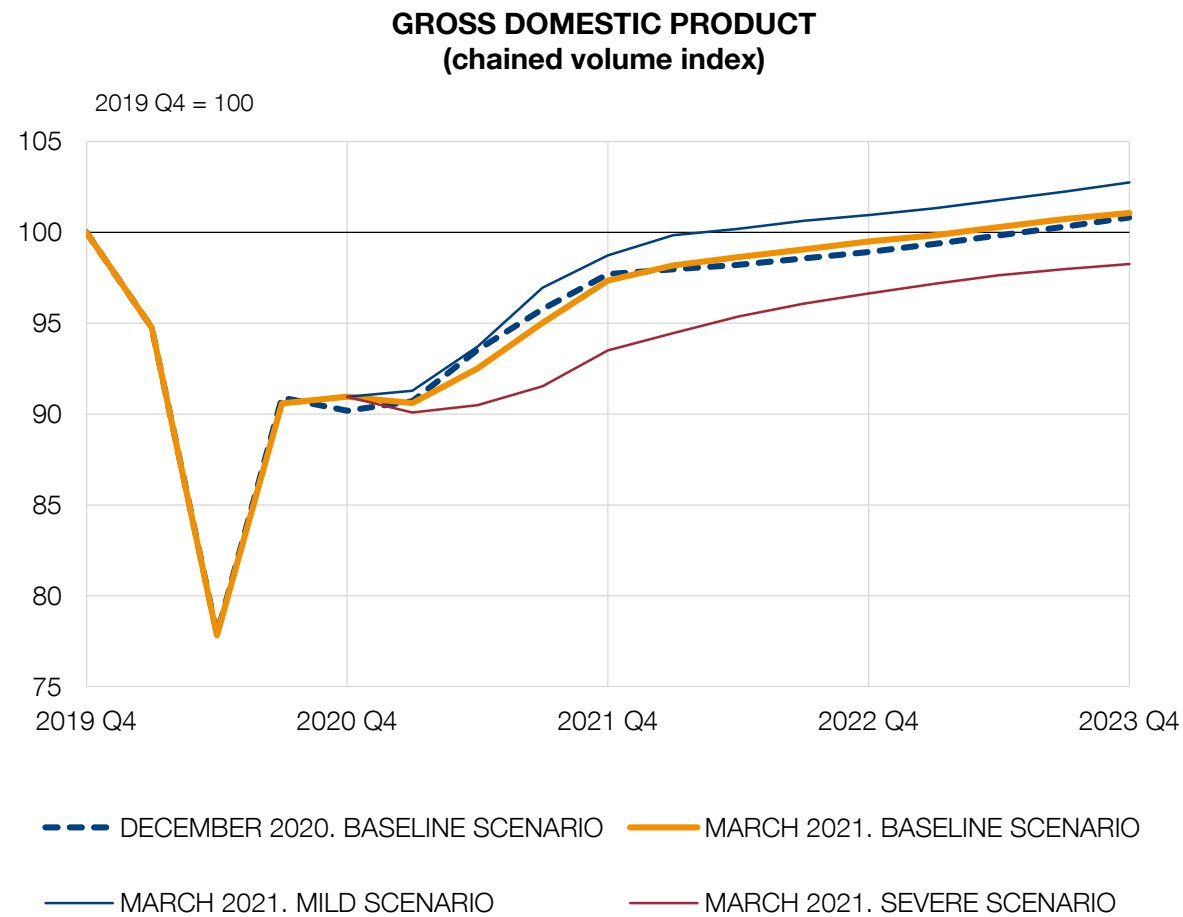
SOURCES: Banco de España and INE.

		MARCH 2021 PROJECTIONS (a)								
		BASELINE SCENARIO			ALTERNATIVE SCENARIOS					
					MILD			SEVERE		
Annual rate of change (%) unless otherwise indicated	2020	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	-11.0	6.0	5.3	1.7	7.5	5.5	1.6	3.2	4.6	2.2
Harmonised index of consumer prices (HICP)	-0.3	1.4	0.8	1.2	1.4	0.9	1.3	1.3	0.6	1.0
HICP excluding energy and food	0.5	0.5	1.0	1.1	0.6	1.1	1.3	0.4	0.7	0.9
Unemployment rate (% of labour force). Annual average	15.5	17.0	15.1	14.1	15.9	13.9	12.8	18.3	17.2	16.1
General government lending (+) / borrowing (-) (% of GDP)	-10.5	-7.7	-4.8	-4.4	-6.8	-3.9	-3.4	-9.1	-6.5	-5.8
General government debt (% of GDP)	117.1	117.9	116.4	117.6	115.4	112.7	112.8	122.6	123.6	125.5

SOURCES: Banco de España and INE.

a) Cut-off date for the projections: 16 March 2021.

OUTLOOK FOR GRADUAL RECOVERY IN OUTPUT

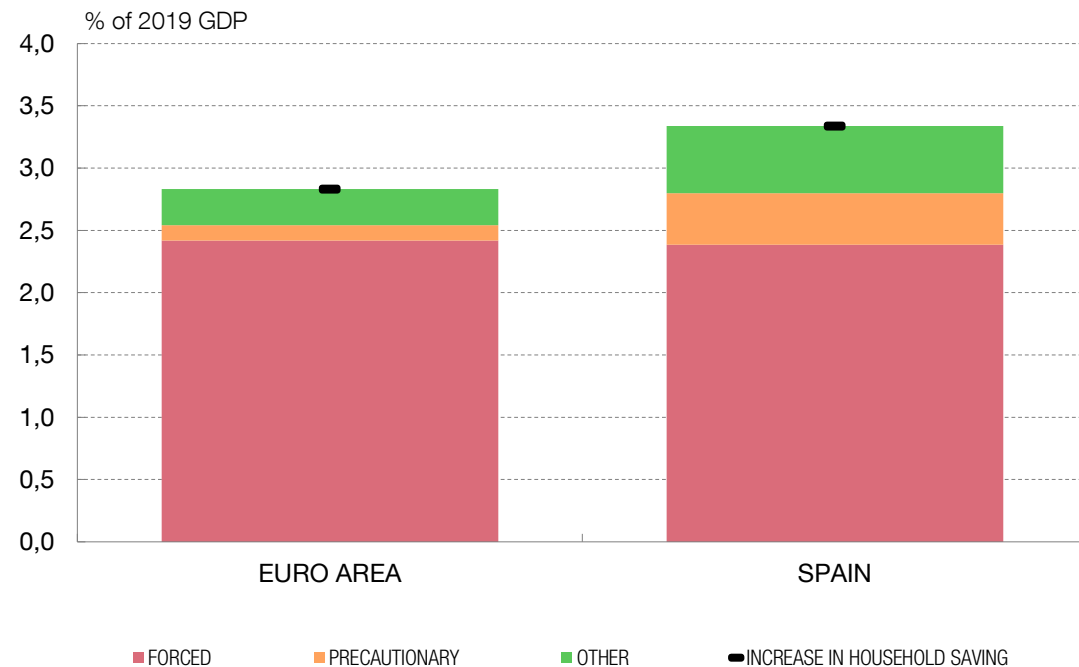


	MARCH 2021 PROJECTIONS			DECEMBER 2020 PROJECTIONS		
	2021	2022	2023	2021	2022	2023
GDP	6.0	5.3	1.7	6.8	4.2	1.7
Harmonised index of consumer prices (HICP)	1.4	0.8	1.2	0.6	1.2	1.3

SOURCES: Banco de España and INE.

DETERMINANTS OF THE INCREASE IN HOUSEHOLD SAVING.

Cumulative increase between 2020 Q1 and Q3 relative to the same period of 2019



EMPLOYMENT IN THE SECTORS HARDEST HIT BY THE PANDEMIC (% of total employment) AND SPENDING ON ITEMS MOST AFFECTED BY THE PANDEMIC (% of total spending) Breakdown by income quartile

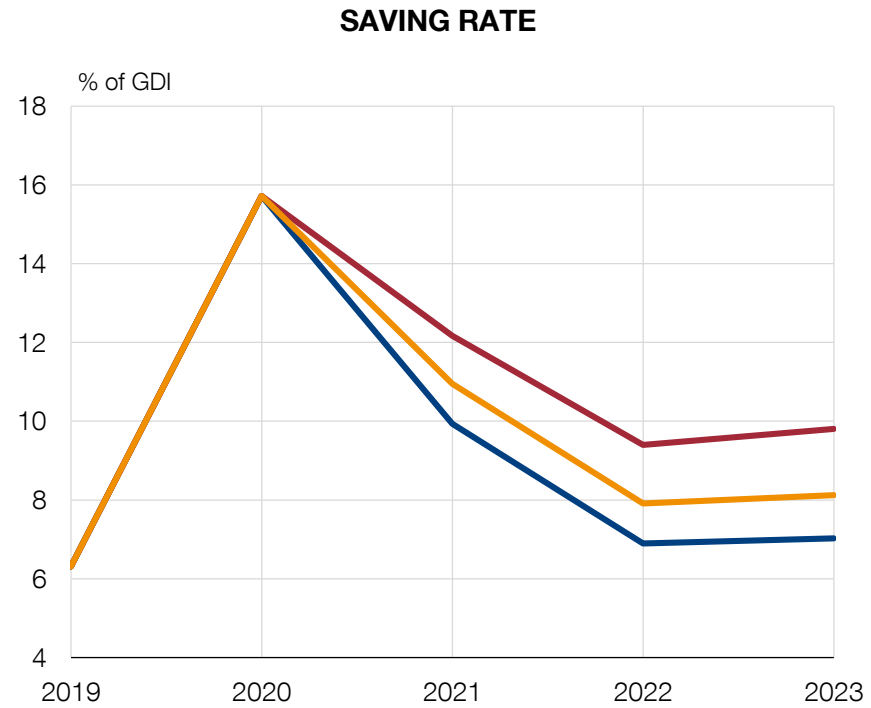
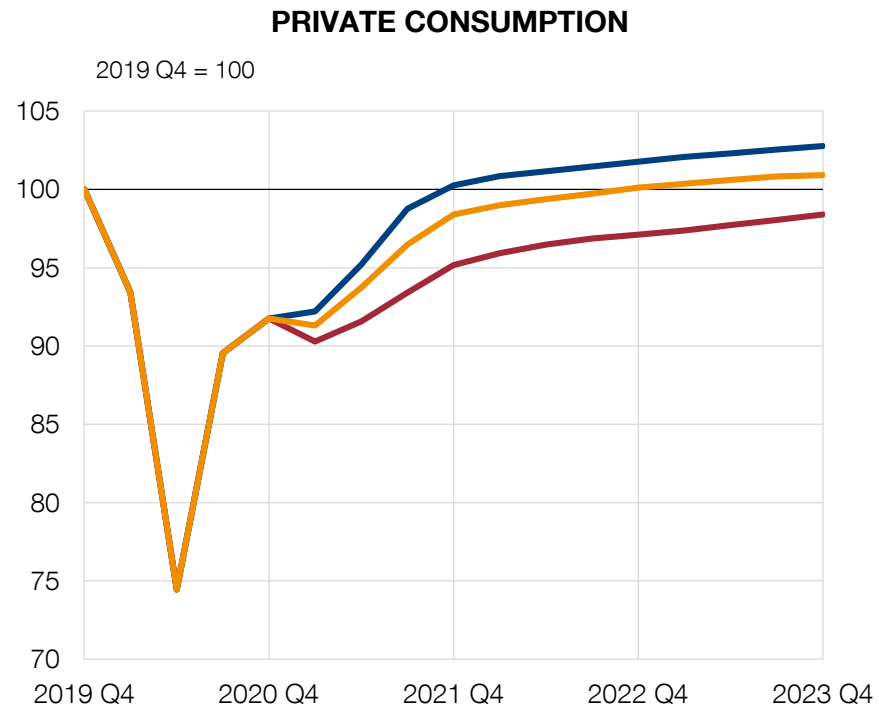


SOURCES: INE, Eurostat and Banco de España.

a. Share of spending on items most affected by the pandemic by households with income in a certain income quartile as a percentage of total spending by households in that income quartile.

b. Share of employees in the sectors hardest hit by the pandemic residing in a household with income in a certain income quartile as a percentage of total households in that income quartile.

HIGH LEVEL OF UNCERTAINTY SURROUNDING THE PATH OF THE RECOVERY IN CONSUMPTION AND SURROUNDING THE SAVING RATE



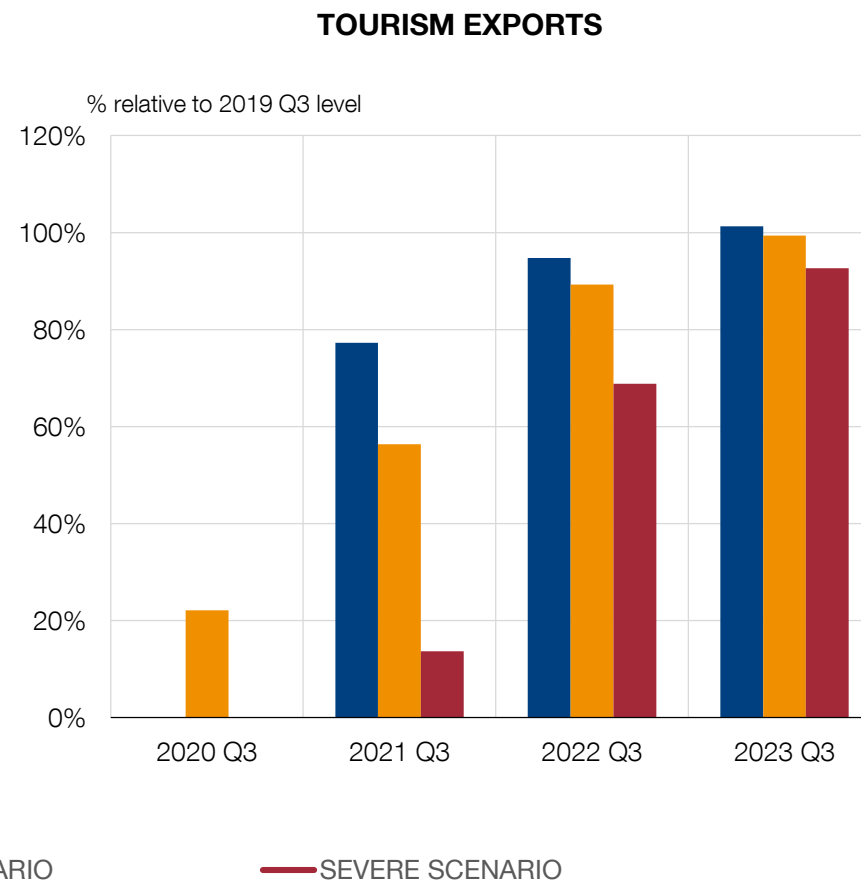
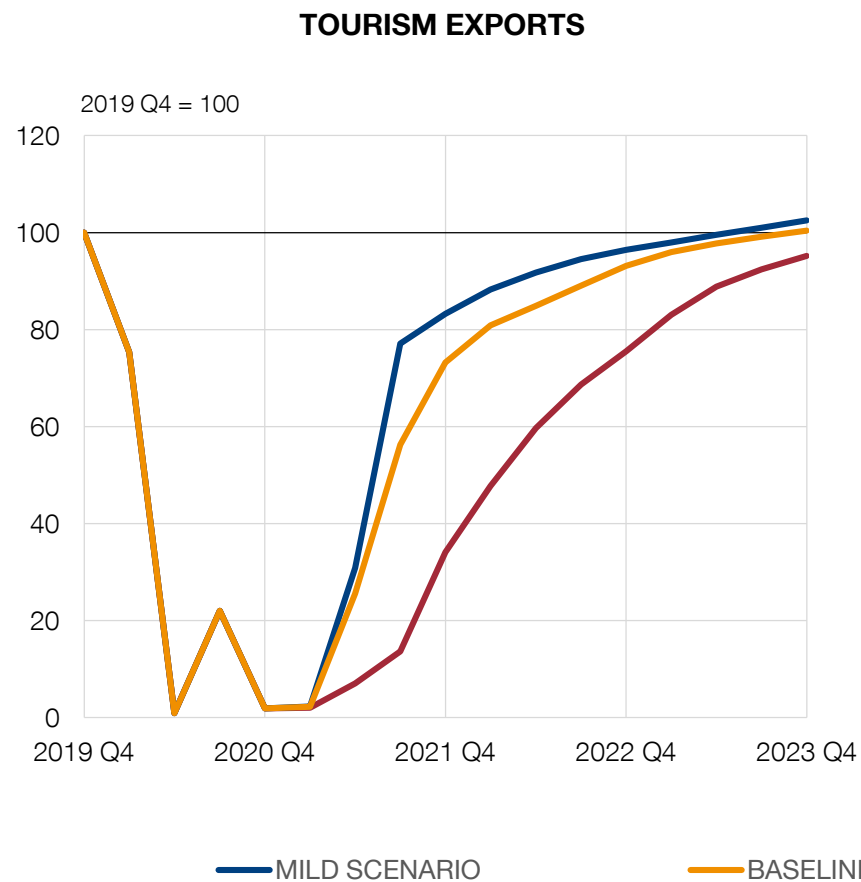
— MILD SCENARIO

— BASELINE SCENARIO

— SEVERE SCENARIO

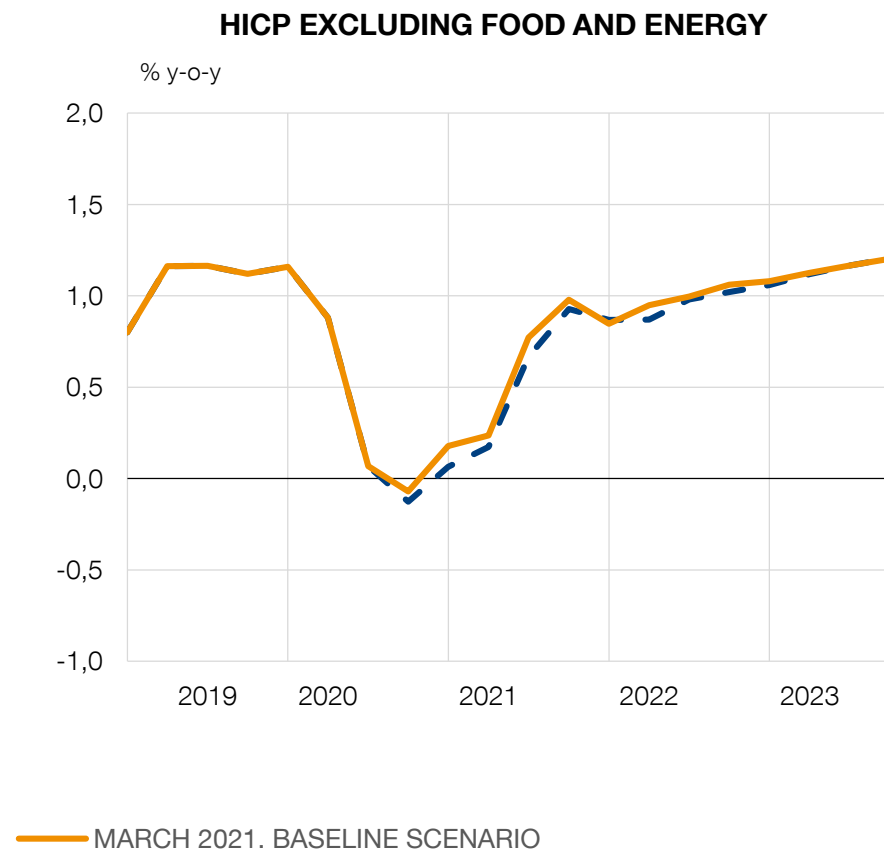
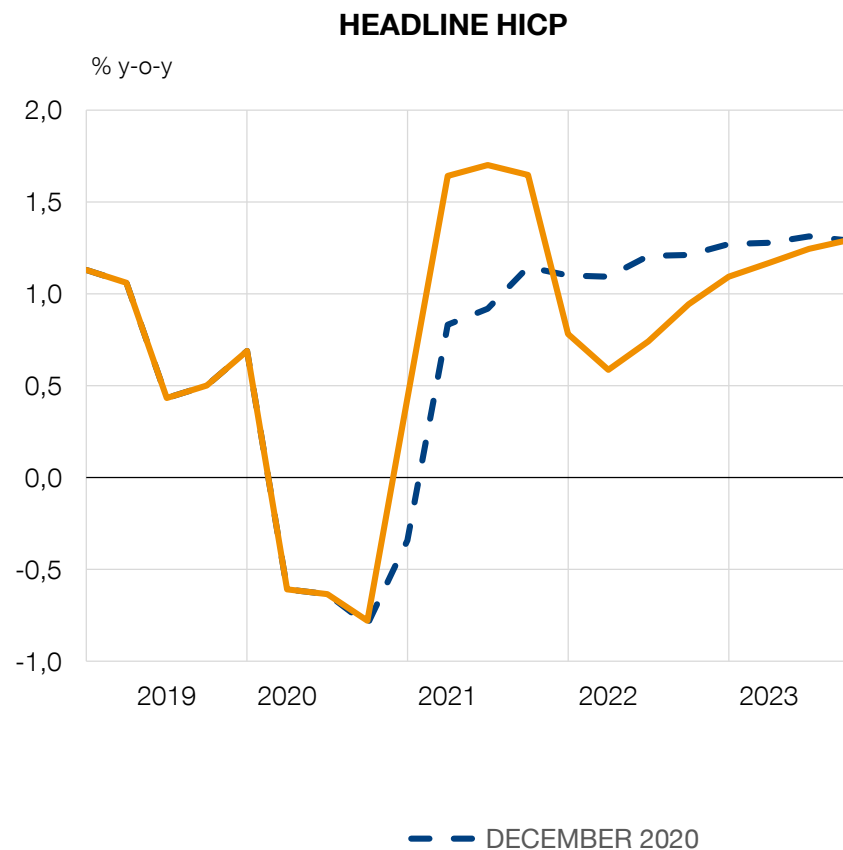
SOURCES: Banco de España and INE.

THE PATH OF THE RECOVERY IN INTERNATIONAL TOURISM IS PARTIALLY CONTINGENT ON THE COMING SUMMER SEASON



SOURCES: Banco de España and INE.

INFLATION WILL HOLD AT MODERATE LEVELS IN THE MEDIUM TERM



SOURCES: Banco de España and INE.



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Economic activity

- Related to the course of the pandemic:
 - Potential fresh outbreaks of the pandemic, which would entail containment measures with a greater impact on the “social sectors”.
 - The roll-out of a medical solution will shape the path of the recovery in the medium term.
- Uncertainty surrounding the impact of NGEU.
- Scale of the process to adapt to the new environment and agents’ speed in doing so.
- Possible adverse developments in the private sector’s financing conditions.
- Persistence of the effects of the crisis on the labour market and productive capacity (elements of hysteresis in unemployment, structural changes, potential growth, business vulnerability).
- New package of support measures in Spain.
- Fiscal package in the United States.

Prices

- Materialisation of downside risks to activity.
- Inflationary pressures associated with rising commodity prices.

THANK YOU FOR YOUR ATTENTION



ANNEX



ASSUMPTIONS ABOUT THE INTERNATIONAL ENVIRONMENT AND THE MONETARY AND FINANCING CONDITIONS

Annual rate of change unless otherwise indicated	2020	March 2021 projections (a)			Difference between the current projections and those under the December 2020 baseline scenario (b)		
		2021	2022	2023	2021	2022	2023
International environment							
Spain's export markets (c)	-11.3	7.7	5.4	3.2	0.8	0.1	-0.3
Oil price in US dollar/barrel (level)	42.3	59.3	55.7	53.7	15.3	10.1	6.7
Monetary and financing conditions							
USD/EUR exchange rate (level)	1.14	1.21	1.21	1.21	0.02	0.02	0.02
Nominal effective exchange rate against non-euro area (d) (2000 = 100)	117.8	122.5	122.4	122.4	1.5	1.5	1.5
Short-term interest rates (3-month EURIBOR) (e)	-0.4	-0.5	-0.5	-0.4	0.0	0.0	0.1
Long-term interest rate (10-year bond yield) (e)	0.4	0.4	0.6	0.8	0.2	0.3	0.3

SOURCES: ECB and Banco de España.

a. Cut-off date for the assumptions: 16 March 2021. The figures in levels are annual averages and the figures in rates are calculated on the basis of the corresponding annual averages.

b. The differences are in rates for export markets, in levels for the oil price and the USD/EUR exchange rate, in percentages for the nominal effective exchange rate and in percentage points for the interest rates.

c. Assumptions about the behaviour of Spain's export markets presented in the table are drawn from the March 2021 ECB staff macroeconomic projections for the euro area.

d. A positive percentage change in the nominal effective exchange rate reflects an appreciation of the euro.

e. For the projection period, the values in the table constitute technical assumptions prepared using the Eurosystem's methodology. These assumptions are based on prices traded on the futures markets or their proxies, and should not be interpreted as a Eurosystem prediction as to the course of these variables.

MACROECONOMIC PROJECTIONS: 2021-2023

Annual rates of change, %	March 2021 and December 2020 projections															
	GDP				Harmonised index of consumer prices (HICP)				HICP excluding food and energy				Unemployment rate (% of labour force) (b)			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
MARCH 2021 (a)																
MILD SCENARIO	-11.0	7.5	5.5	1.6	-0.3	1.4	0.9	1.3	0.5	0.6	1.1	1.3	15.5	15.9	13.9	12.8
BASELINE SCENARIO	-11.0	6.0	5.3	1.7	-0.3	1.4	0.8	1.2	0.5	0.5	1.0	1.1	15.5	17.0	15.1	14.1
SEVERE SCENARIO	-11.0	3.2	4.6	2.2	-0.3	1.3	0.6	1.0	0.5	0.4	0.7	0.9	15.5	18.3	17.2	16.1
DECEMBER 2020																
MILD SCENARIO	-10.7	8.6	4.8	1.9	-0.3	0.7	1.3	1.4	0.5	0.6	1.1	1.3	15.7	17.1	14.0	12.4
BASELINE SCENARIO	-11.1	6.8	4.2	1.7	-0.3	0.6	1.2	1.3	0.5	0.5	0.9	1.1	15.8	18.3	15.6	14.3
SEVERE SCENARIO	-11.6	4.2	3.9	1.5	-0.3	0.5	0.9	1.1	0.5	0.2	0.6	0.8	16.2	20.5	18.1	17.6

SOURCES: Banco de España and INE.

a. Cut-off date for the projections: 16 March 2021.

b. Annual average.

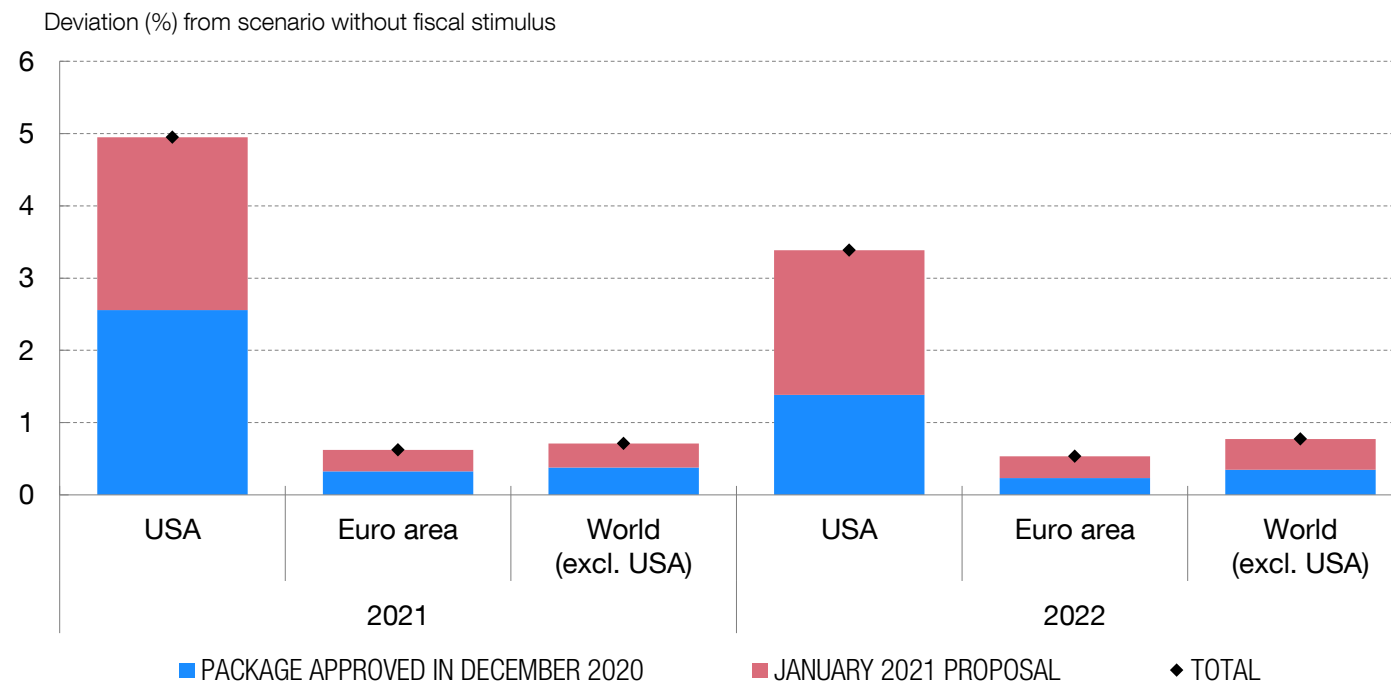
		MARCH 2021 PROJECTIONS (a)		
		BASELINE SCENARIO		
Annual rate of change in volume terms and % of GDP		2021	2022	2023
	2020			
GDP	-11.0	6.0	5.3	1.7
Private consumption	-12.4	8.8	4.8	1.1
Government consumption	4.5	1.4	-0.4	1.7
Gross fixed capital formation	-12.4	7.1	9.5	1.5
Exports of goods and services	-20.9	11.1	8.2	5.3
Imports of goods and services	-16.8	12.4	7.2	4.5
National demand (contribution to growth)	-9.1	6.2	4.9	1.4
Net external demand (contribution to growth)	-1.9	-0.2	0.4	0.3
Nominal GDP	-10.0	7.0	6.6	3.1
GDP deflator	1.1	0.9	1.2	1.4
Harmonised index of consumer prices (HICP)	-0.3	1.4	0.8	1.2
HICP excluding energy and food	0.5	0.5	1.0	1.1
Employment (hours)	-10.4	7.5	5.0	1.7
Unemployment rate (% of labour force). Annual average	15.5	17.0	15.1	14.1
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.4	1.9	3.0	2.8
General government net lending (+)/net borrowing (-) (% of GDP)	-10.5	-7.7	-4.8	-4.4
General government debt (% of GDP)	117.1	117.9	116.4	117.6

SOURCES: Banco de España and INE.
a. Cut-off date for the projections: 16 March 2021.

THE UNITED STATES: FISCAL MEASURES TO ALLEVIATE THE EFFECTS OF THE PANDEMIC

- Two fiscal packages, one approved in December and another announced in January, temporarily and sequentially extend various business and household support measures expiring this year.
- Overall, the packages would increase GDP by 5% in the United States in 2021 and have positive effects on the rest of the world.

EFFECTS ON THE GDP OF THE USA AND OF OTHER ECONOMIES



SOURCES: Banco de España drawing on the Congressional Budget Office, Committee for a Responsible Federal Budget, Tax Policy Center and simulations using the NiGEM model.