

MACROECONOMIC PROJECTIONS FOR SPAIN: 2021-2023

ÓSCAR ARCE

Director General Economics, Statistics and Research

Madrid

14 June 2021



CONTENTS

1. Overview

2. Developments in economic activity in the short term

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

- Narrative
- Macroeconomic projections

4. Risks

5. Analysis

- Uncertainty over the short-term projections for activity
- Borrowing conditions of households and firms

CONTENTS

1. Overview

2. Developments in economic activity in the short term

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

- Narrative
- Macroeconomic projections

4. Risks

5. Analysis

- Uncertainty over the short-term projections for activity
- Borrowing conditions of households and firms

ACTIVITY SHOWS SIGNS OF ACCELERATING IN THE SHORT TERM. THE PANDEMIC, CONSUMPTION, TOURISM AND THE NGEU CONTINUE TO CONDITION THE MEDIUM TERM

Recent developments

- Vaccination is progressing at a good pace. By end-August, 70% of the population are expected to have been vaccinated.
- The QNA Flash estimate for 2021 Q1 showed a contraction in GDP of 0.5%, in line with the baseline scenario of the March projections.
- The short-term indicators generally show an improvement in activity since March, which is expected to have quickened in the past two months.

Macroeconomic projections

- GDP growth has been revised upwards in 2021, owing to better-than-expected epidemiological and economic developments, and in 2022 owing to a greater estimated impact of the NGEU funds.
- The medium-term outlook continues to depend on the course of the pandemic, private consumption, tourism and the implementation of the NGEU.

Inflation

- There has been a bigger-than-expected rise in prices in recent months, which appears to be largely explained by temporary factors.
- However, in the medium term inflation is expected to hold at moderate levels (a significant output gap and a still-weak recovery).

CONTENTS

1. Overview

2. Developments in activity in the short term

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

- Narrative
- Macroeconomic projections

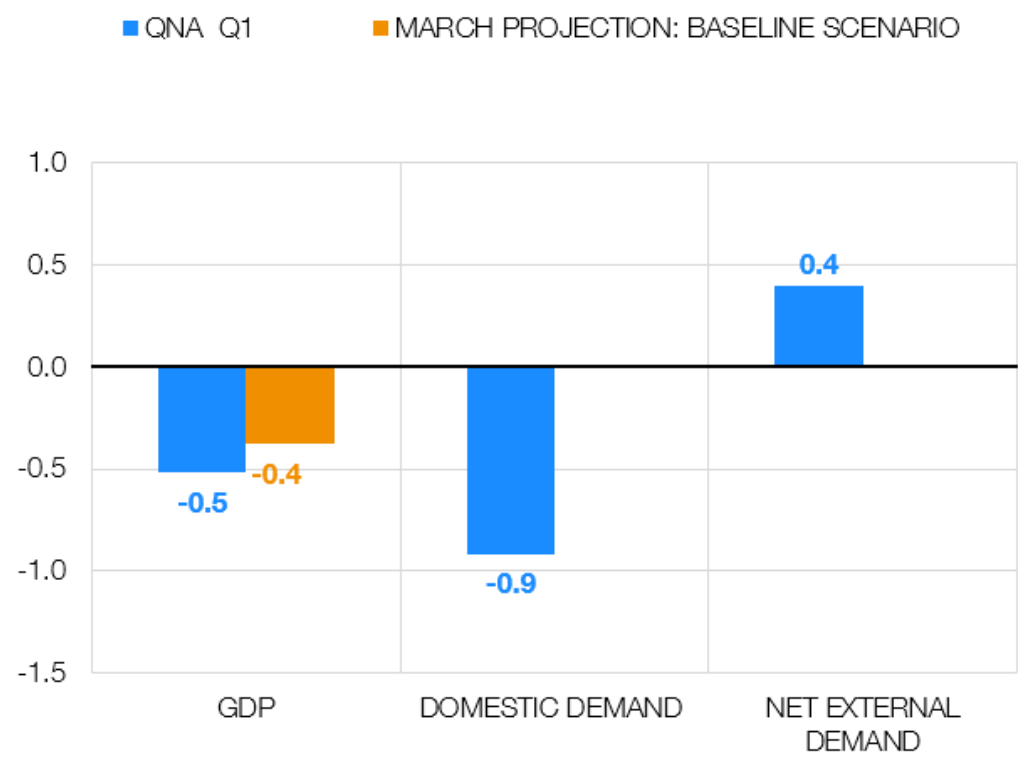
4. Risks

5. Analysis

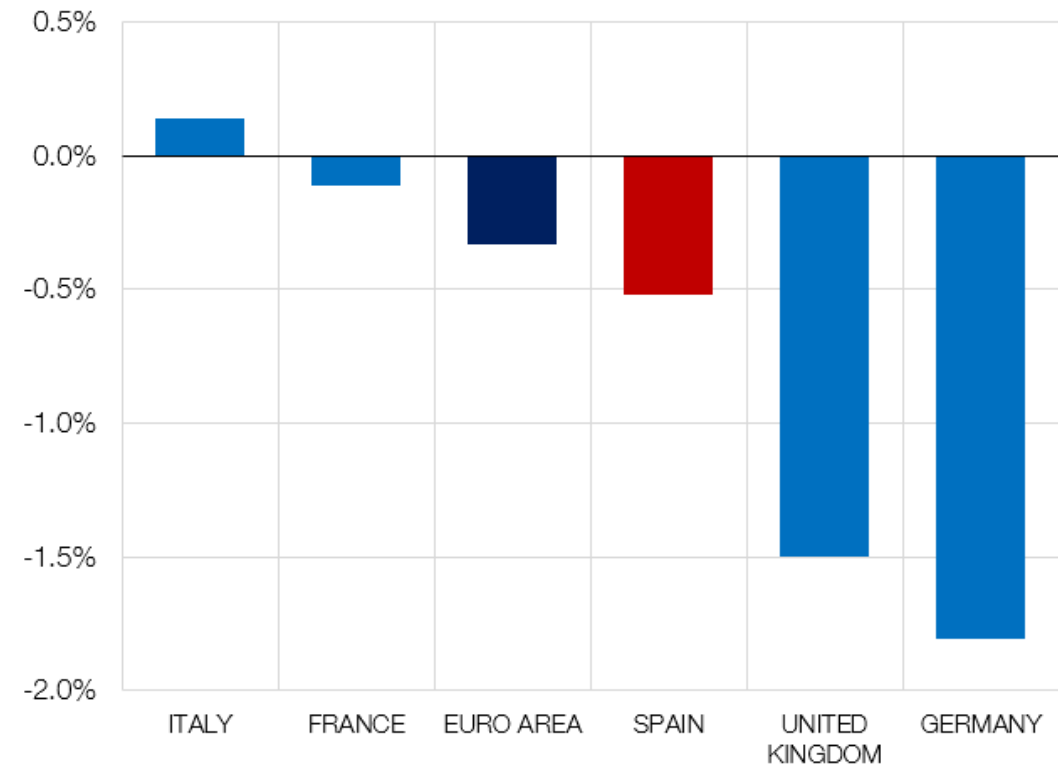
- Uncertainty over the short-term projections for activity
- Borrowing conditions of households and firms

THE DECLINE IN GDP IN Q1 WAS IN LINE WITH THAT EXPECTED UNDER THE BDE MARCH BASELINE SCENARIO AND WAS SLIGHTLY GREATER THAN THAT OBSERVED IN THE EURO AREA

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

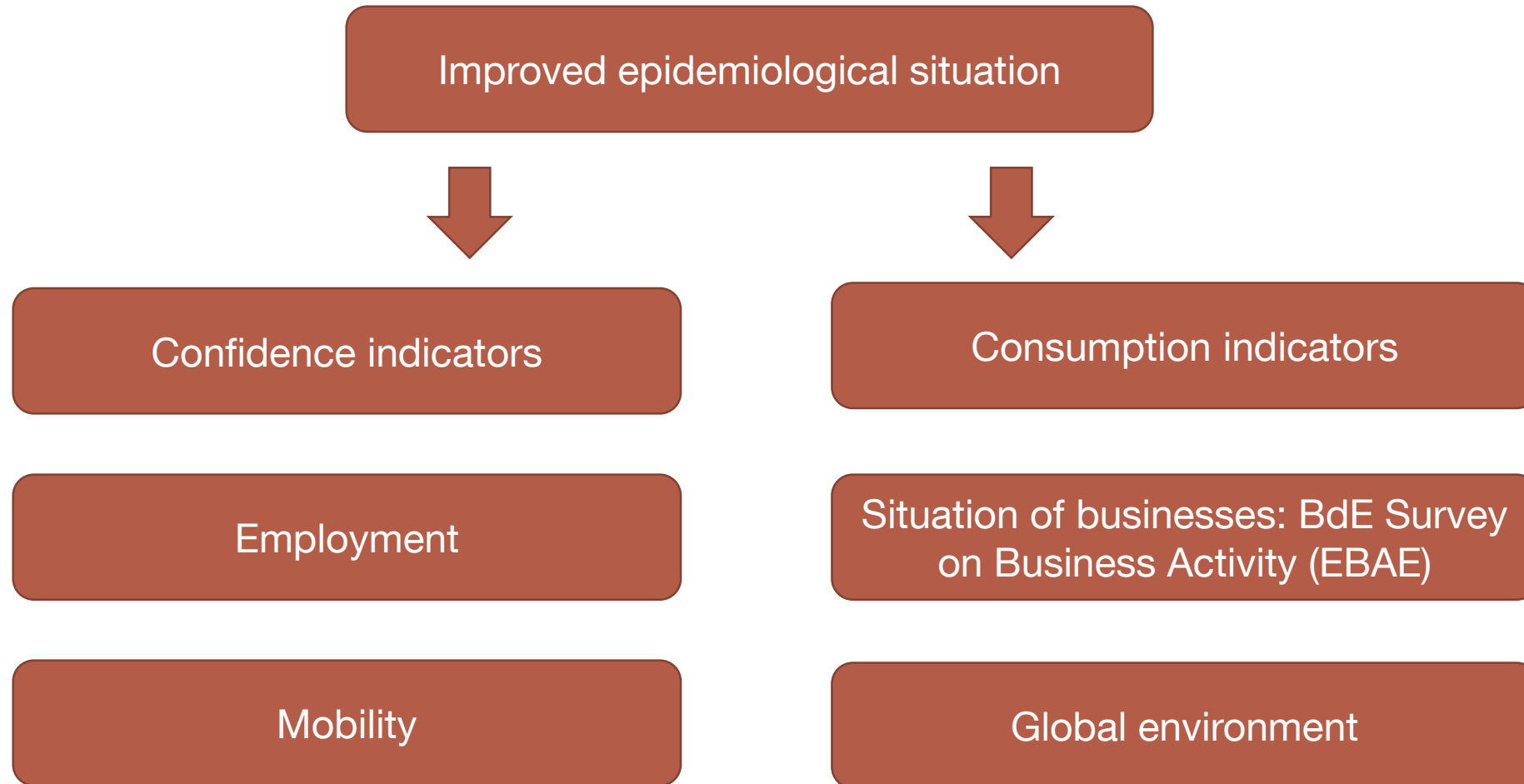


GDP GROWTH IN 2021 Q1

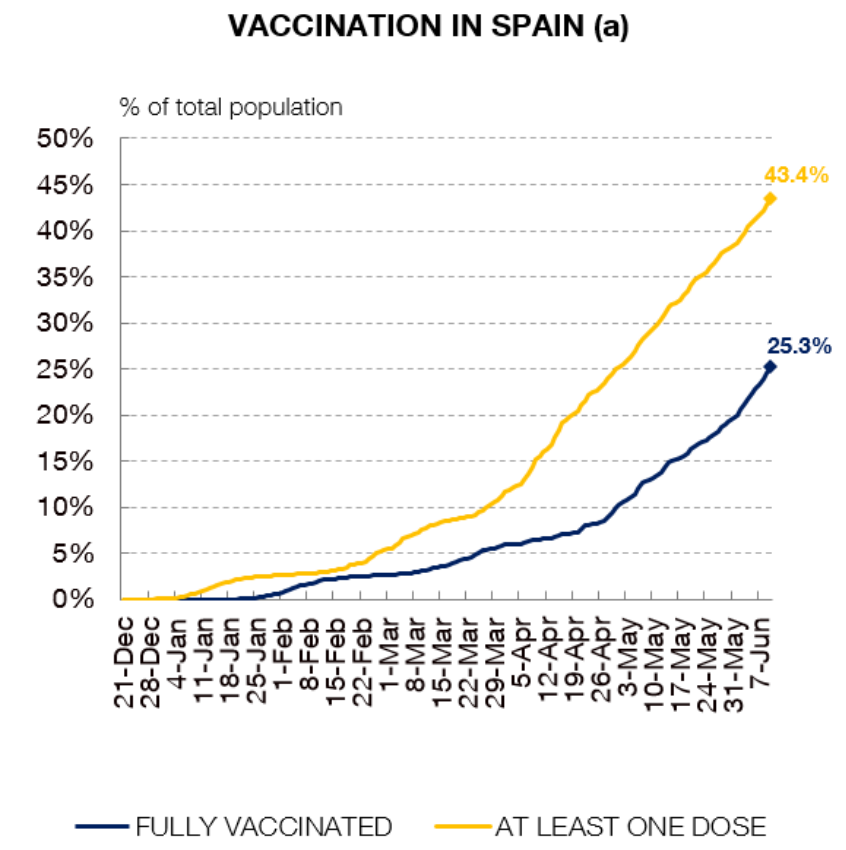
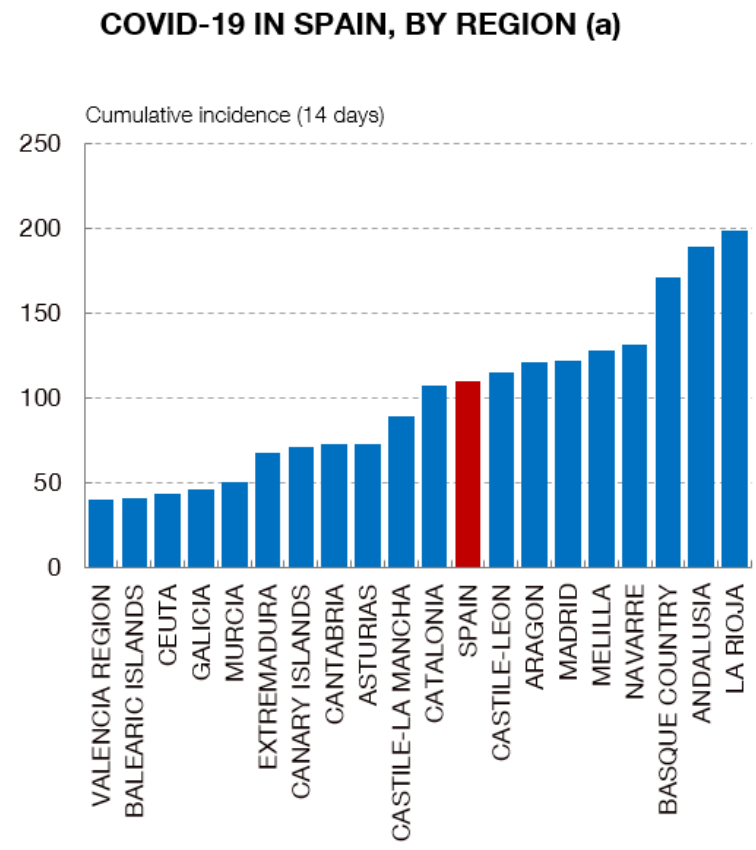
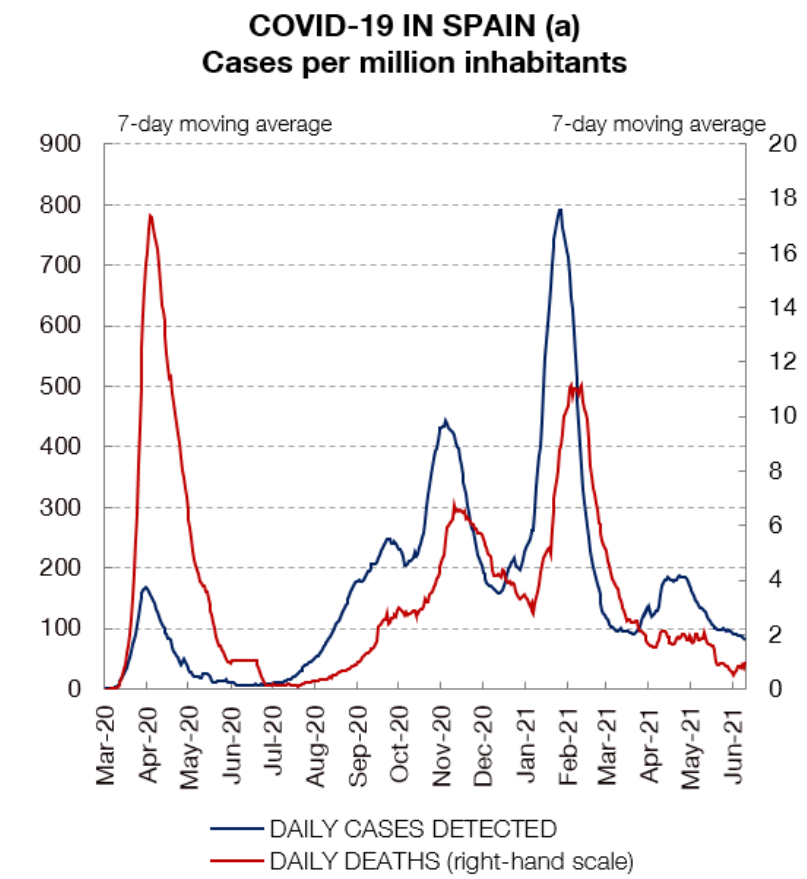


Sources: Banco de España, INE, Eurostat and Office for National Statistics.

GREATER DYNAMISM OF ACTIVITY IN THE LATEST PERIOD



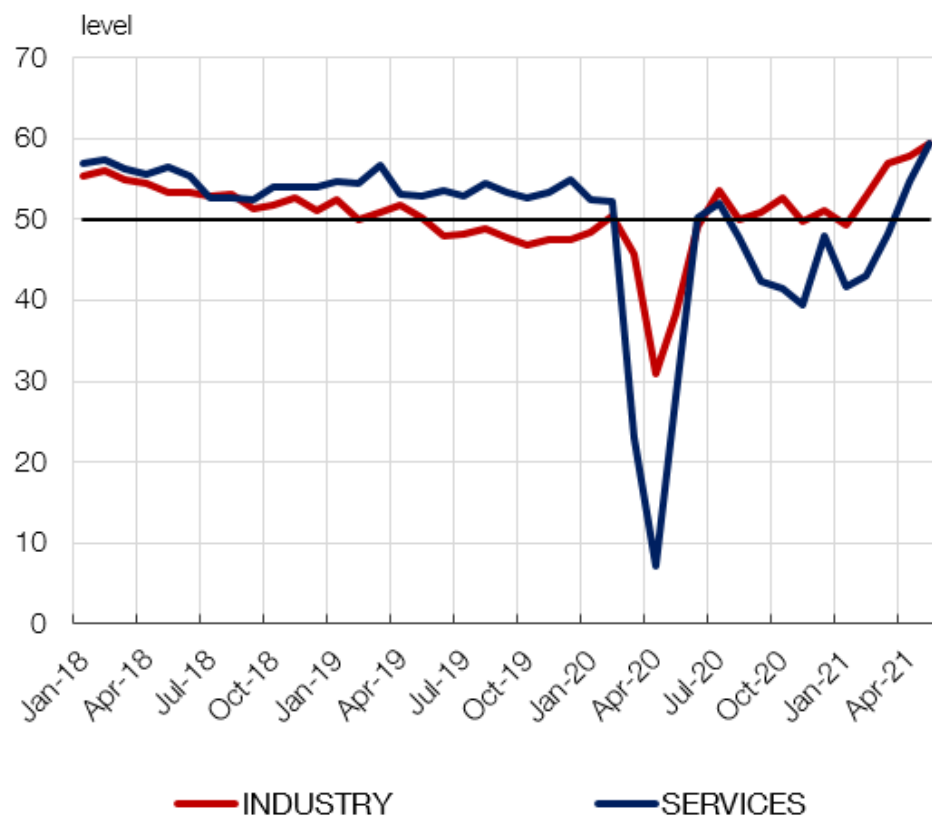
PANDEMIC: CUMULATIVE INCIDENCE FALLS AND THE TARGET OF VACCINATING 70% OF THE POPULATION IN SPAIN BY END-AUGUST SEEMS FEASIBLE



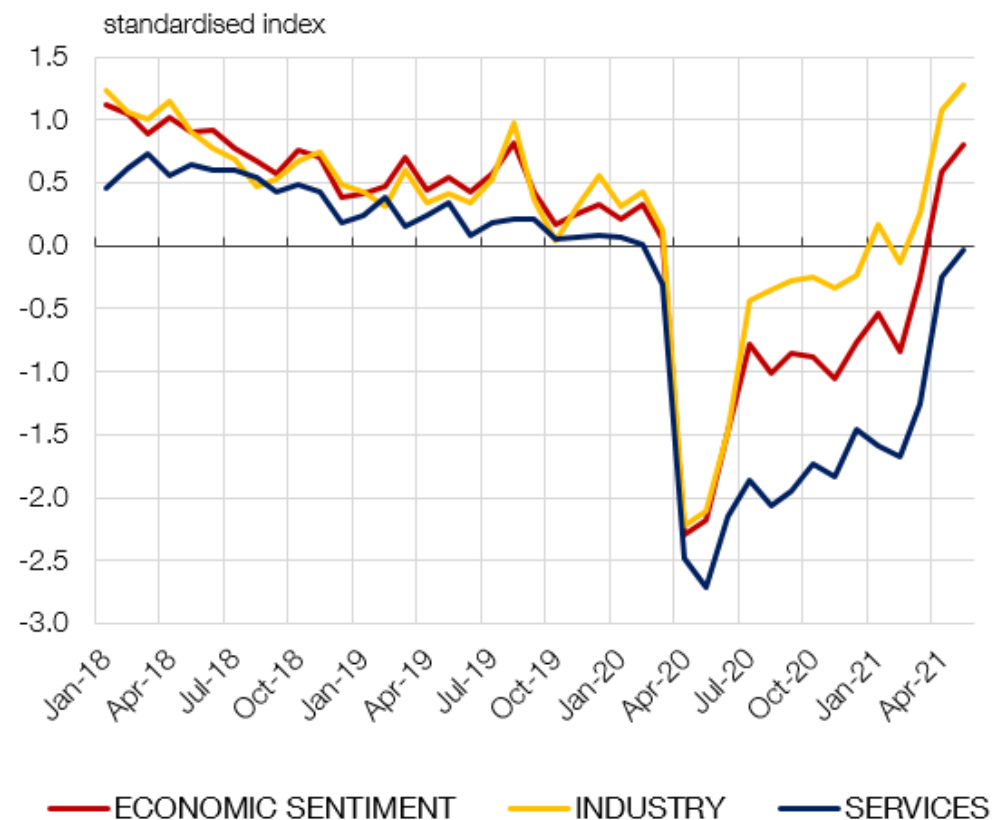
Source: Ministerio de Sanidad.
a. Latest update: 10 June.

THE SURVEY-BASED INDICATORS HAVE SHOWN SIGNIFICANT INCREASES IN RECENT MONTHS.

PURCHASING MANAGERS' INDICES



EUROPEAN COMMISSION CONFIDENCE INDICATORS

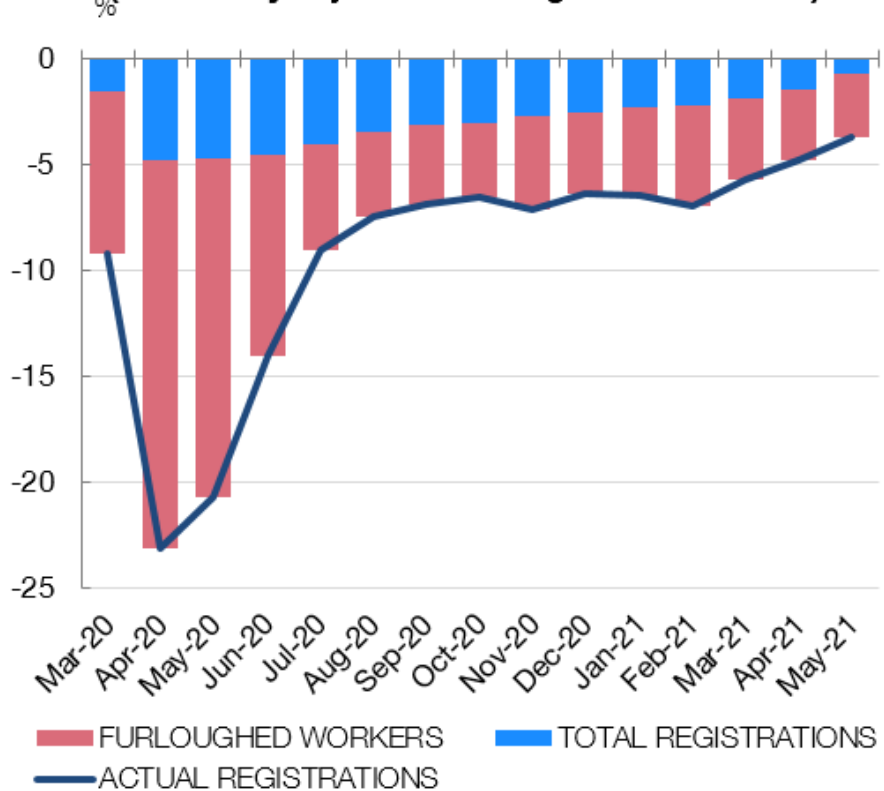


Sources: IHS Markit and European Commission. Latest observation: May.

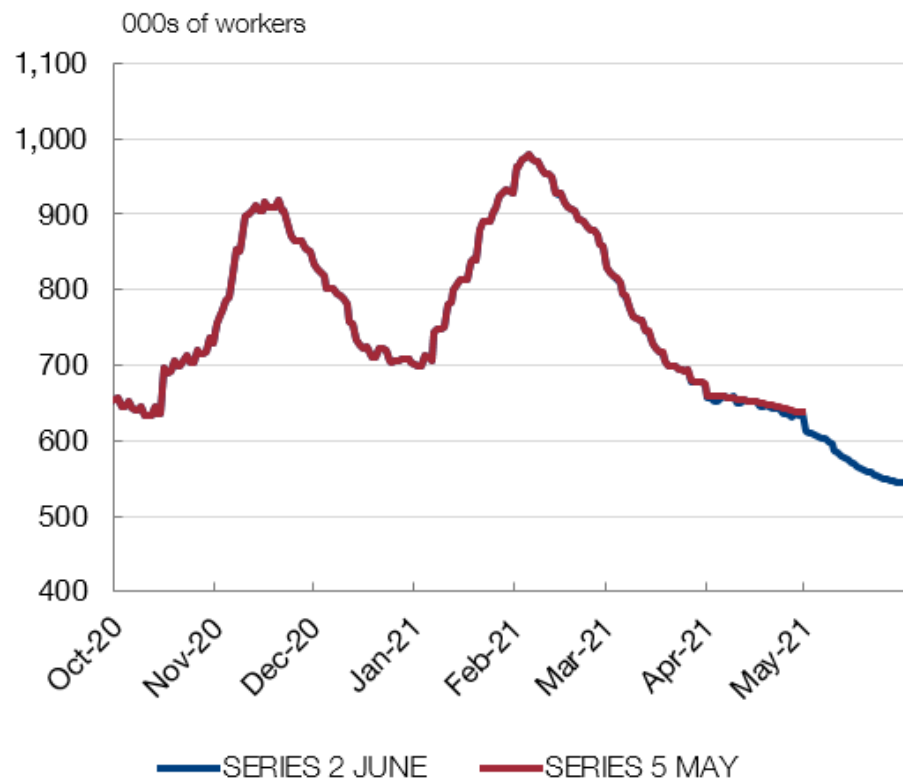
THE PICK-UP IN EMPLOYMENT ACCELERATES FROM MARCH

CHANGE IN TOTAL REGISTRATIONS, FURLOUGHED WORKERS AND ACTUAL REGISTRATIONS VS FEBRUARY 2020

(Seasonally adjusted total registrations series)



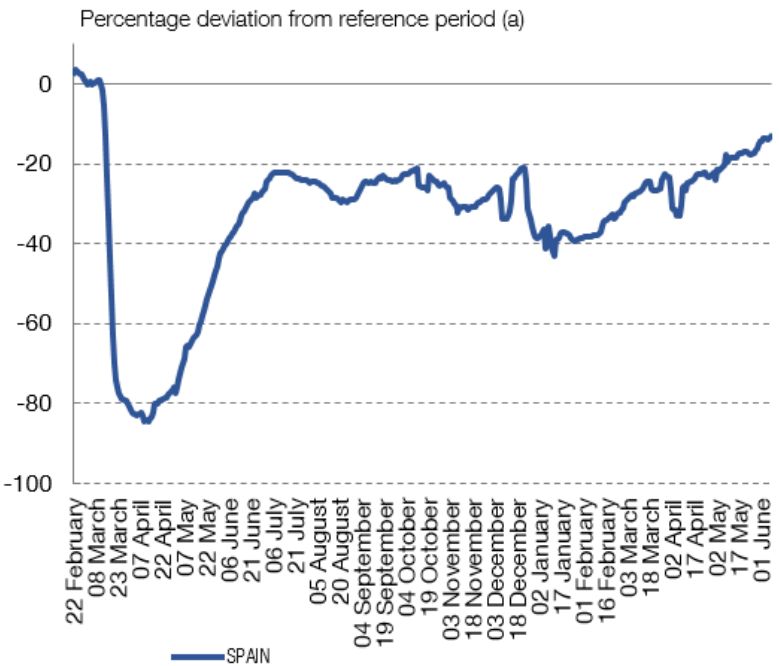
FURLOUGHED WORKERS



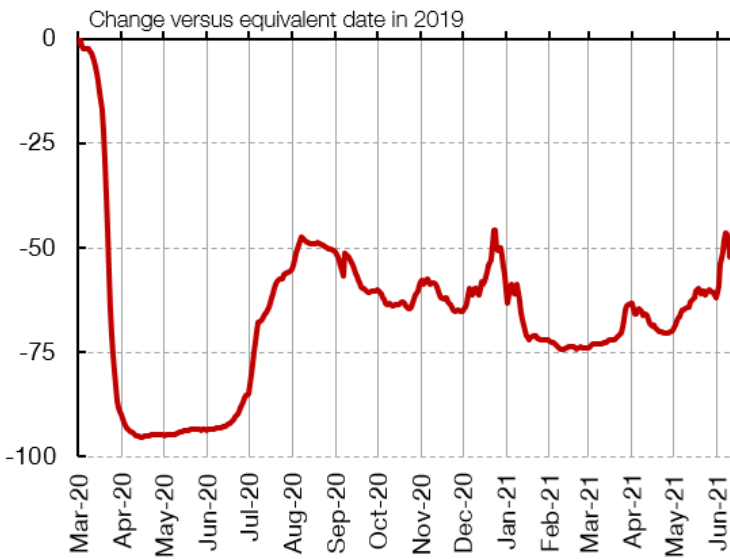
Source: Ministerio de Inclusión, Seguridad Social y Migraciones. Latest observation: May.

INCREASE IN MOBILITY IN MAY

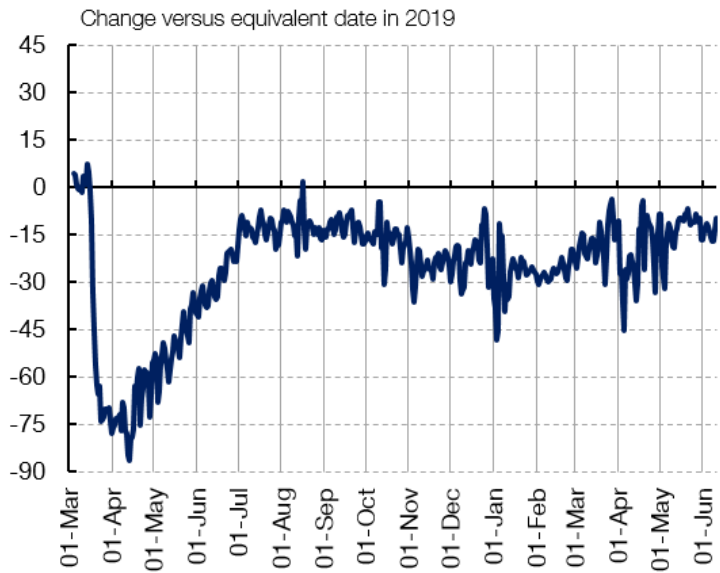
GOOGLE MOBILITY INDICATOR
(average of indicators for recreation outlets, workplaces and transit stations)



AIR TRAFFIC AT SPANISH AIRPORTS
(7-day moving average)

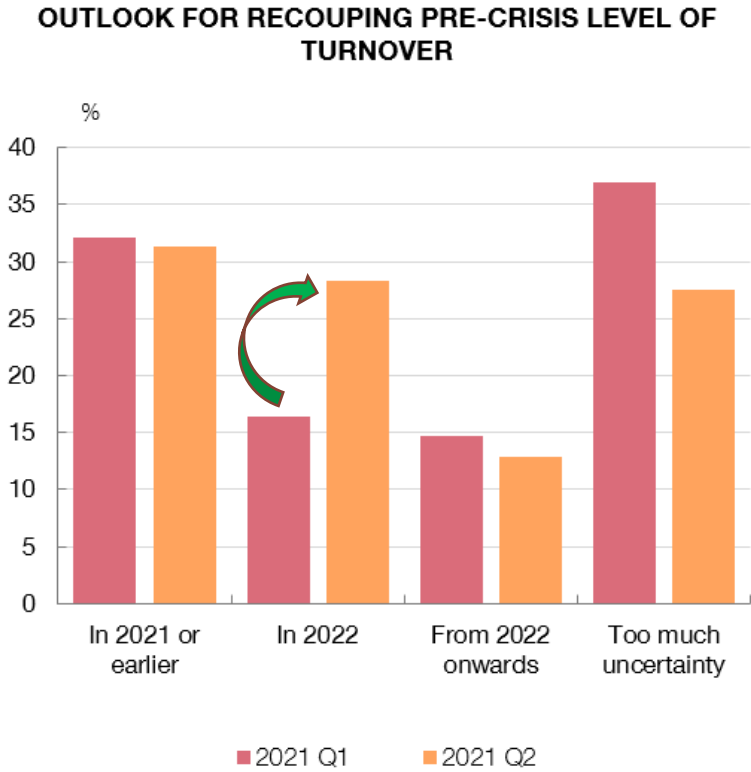
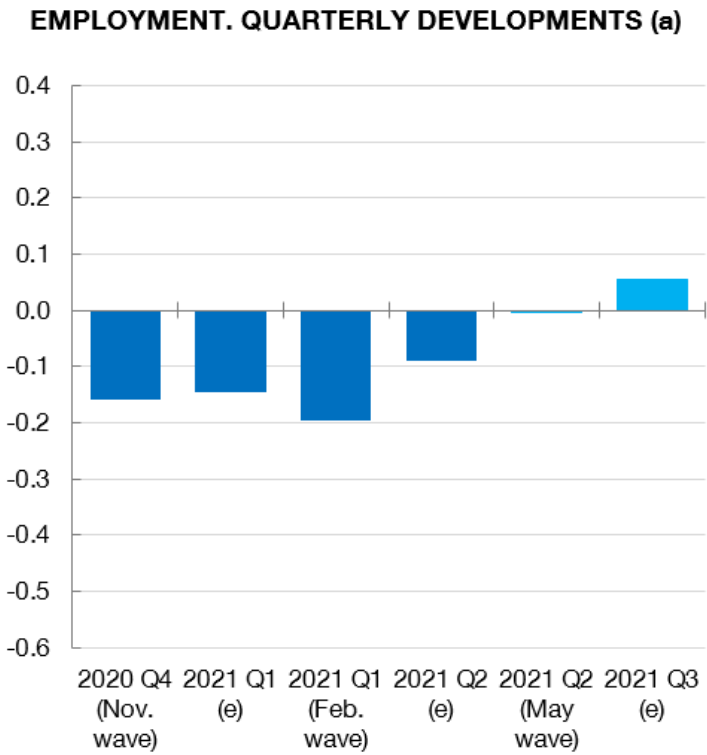
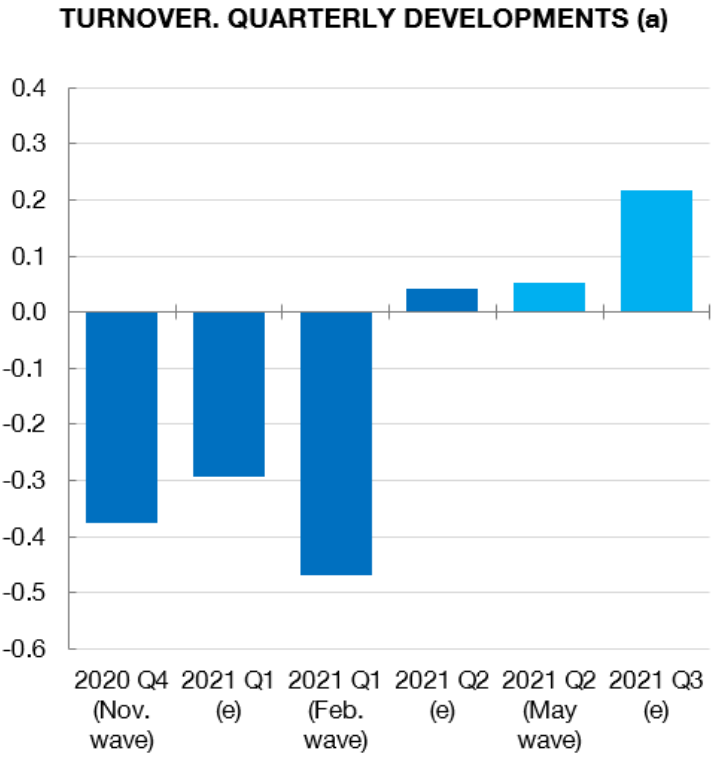


TOTAL DEMAND FOR PETROL AND DIESEL FUEL
(4-day moving total)

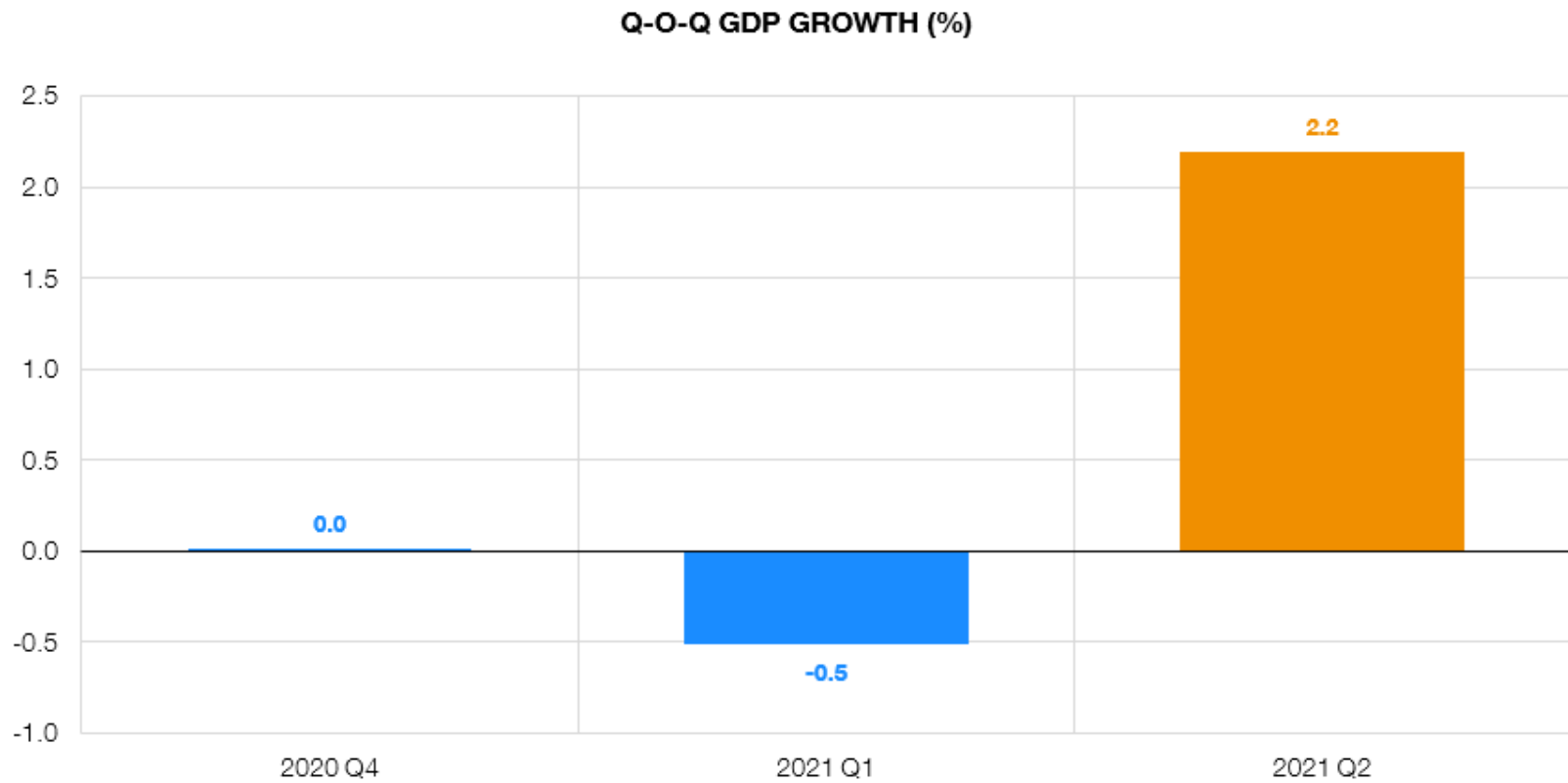


Sources: Google, European Organisation for the Safety of Air Navigation and Dirección de Estudios de Repsol. Latest data: 7 June (mobility), 10 June (air traffic and petrol stations).
a. Percentage deviation relative to mobility observed in a reference period before the pandemic (3 January-6 February 2020). 7-day moving averages depicted.

ACCORDING TO THE BANCO DE ESPAÑA'S EBAE SURVEY, THE IMPROVEMENT IN BUSINESS EXPECTATIONS IN 2021 Q2 HAS BEEN CONFIRMED. THE IMPROVEMENT IS ACROSS THE BOARD AND RUNS INTO THE MEDIUM TERM



Source: EBAE (Banco de España).
(a) Index calculated as: Significant decline=-2; Slight decline=-1; Stability=0; Slight increase=1; Significant increase=2



Sources: Banco de España and INE.

CONTENTS

1. Overview

2. Developments in economic activity in the short term

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

- Narrative
- Macroeconomic projections

4. Risks

5. Analysis

- Uncertainty over the short-term projections for activity
- Borrowing conditions of households and firms

THREE SCENARIOS HAVE BEEN PREPARED TO REFLECT THE HIGH UNCERTAINTY STILL MARKING THE CURRENT ECONOMIC AND HEALTH CONTEXT

SOME KEY FACTORS OF THE EXERCISE

Technical assumptions

US fiscal policy

Financing conditions

Fiscal policy and NGEU

Brexit

THE MAIN FACTORS OF UNCERTAINTY ARE CENTRED ON:

Private consumption/saving

Tourism

External sector

Pandemic

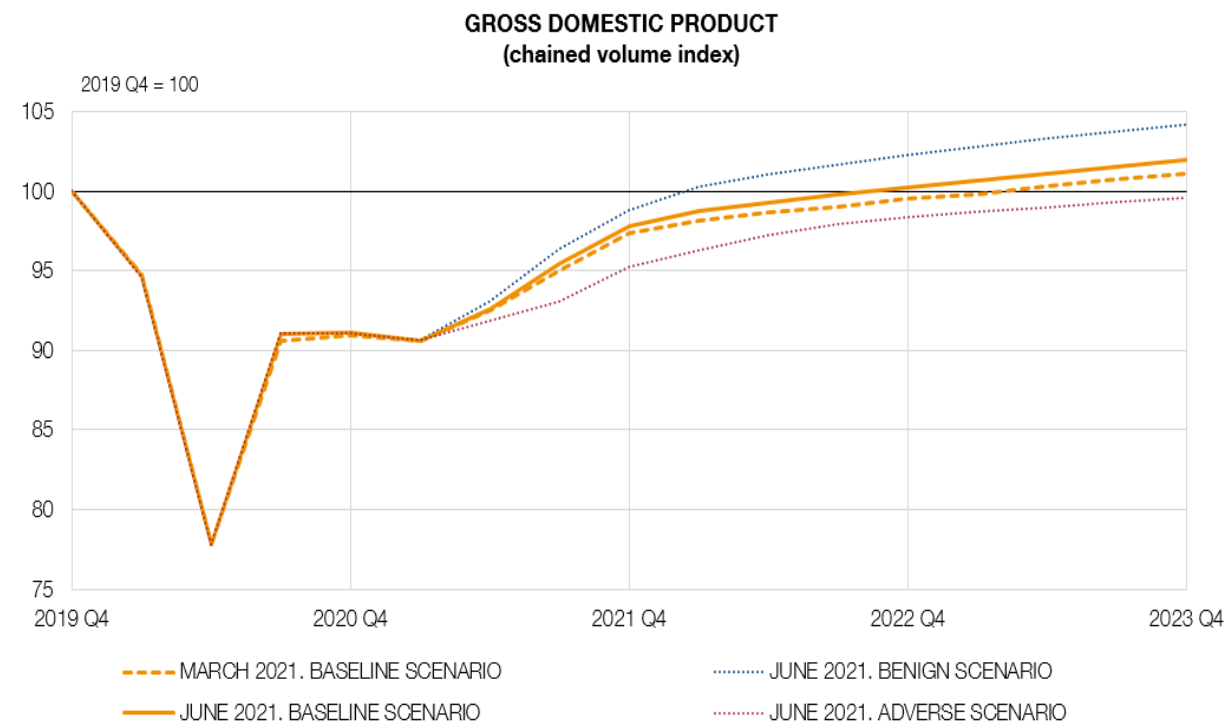
MACROECONOMIC PROJECTIONS: 2021- 2023

		JUNE 2021 PROJECTIONS (a)								
		BASELINE SCENARIO			ALTERNATIVE SCENARIOS					
					BENIGN			ADVERSE		
Annual rate of change (%), unless otherwise indicated	2020	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	-10.8	6.2	5.8	1.8	6.8	7.0	2.2	4.6	5.2	1.7
Harmonised index of consumer prices (HICP)	-0.3	1.9	1.2	1.2	1.9	1.3	1.3	1.9	1.1	1.1
HICP excl. energy and food	0.5	0.3	1.0	1.1	0.3	1.1	1.3	0.2	0.8	1.0
Unemployment rate (% of labour force). Annual average	15.5	15.6	14.7	13.7	15.2	13.7	12.8	16.2	15.7	14.6
General government net lending (+)/net borrowing (-) of GDP (%)	-11.0	-8.2	-4.9	-4.3	-7.8	-4.1	-3.3	-8.9	-5.9	-5.4
General government debt (% of GDP)	120.0	120.1	117.9	118.0	119.0	114.7	113.3	122.6	122.1	123.4

Sources: Banco de España and INE.

a) Projections cut-off date: 26 May.

GRADUAL RECOVERY HORIZON OF OUTPUT



	2020	JUNE 2021 PROJECTIONS			MARCH 2021 PROJECTIONS		
		2021	2022	2023	2021	2022	2023
GDP	-10.8	6.2	5.8	1.8	6.0	5.3	1.7
Harmonised index of consumer prices (HICP)	-0.3	1.9	1.2	1.2	1.4	0.8	1.2

CHANGES IN GDP FORECASTS IN THE JUNE BASELINE SCENARIO COMPARED WITH THAT FOR MARCH

2021: ↑ Changes in exogenous variables and upward revision for the current quarter

↓ Revisions of past data

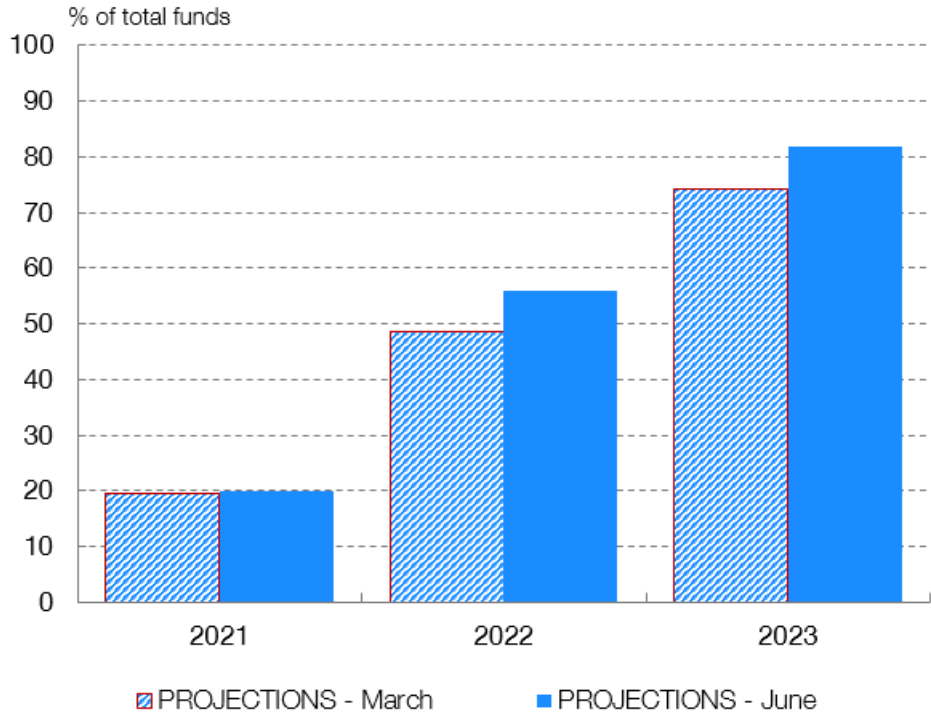
2022: ↑ Changes in exogenous variables and re-estimation of degree of absorption of the NGEU

2023: ↑ Changes in exogenous variables

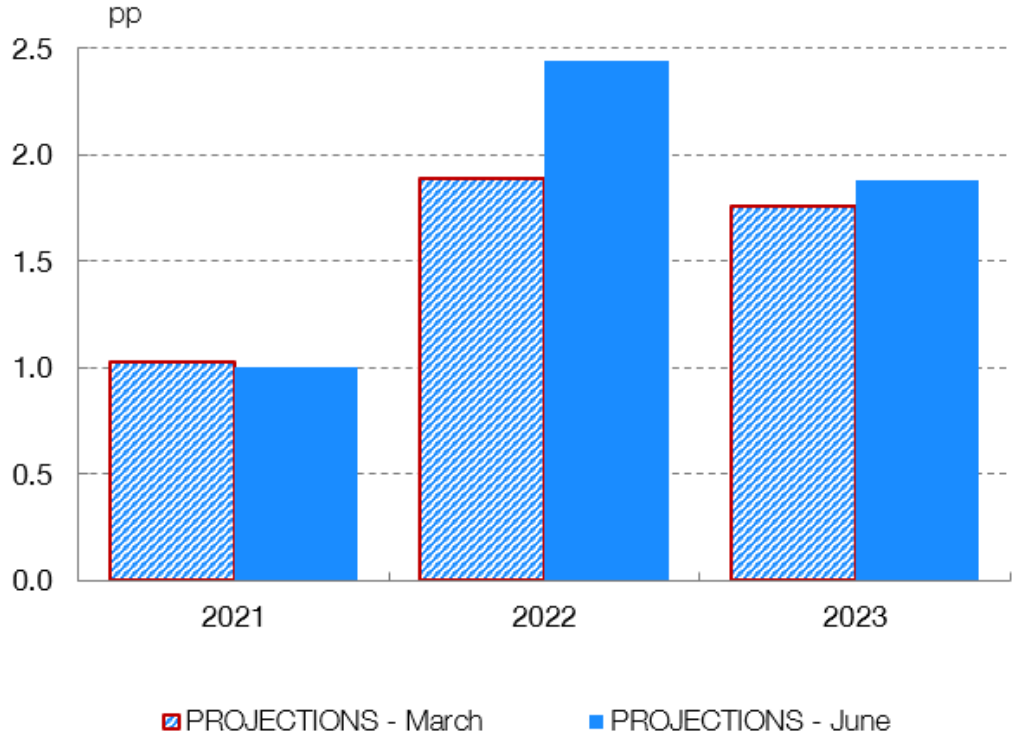
Sources: Banco de España and INE.

IN LIGHT OF NEW INFORMATION, THE TAKE-UP AND MACROECONOMIC IMPACT OF THE NGEU FUNDS OVER THE COURSE OF THE PROJECTION HORIZON WILL BE REVISED SLIGHTLY UPWARDS

NGEU ABSORPTION ASSUMPTIONS
(RRF + REACT-EU)

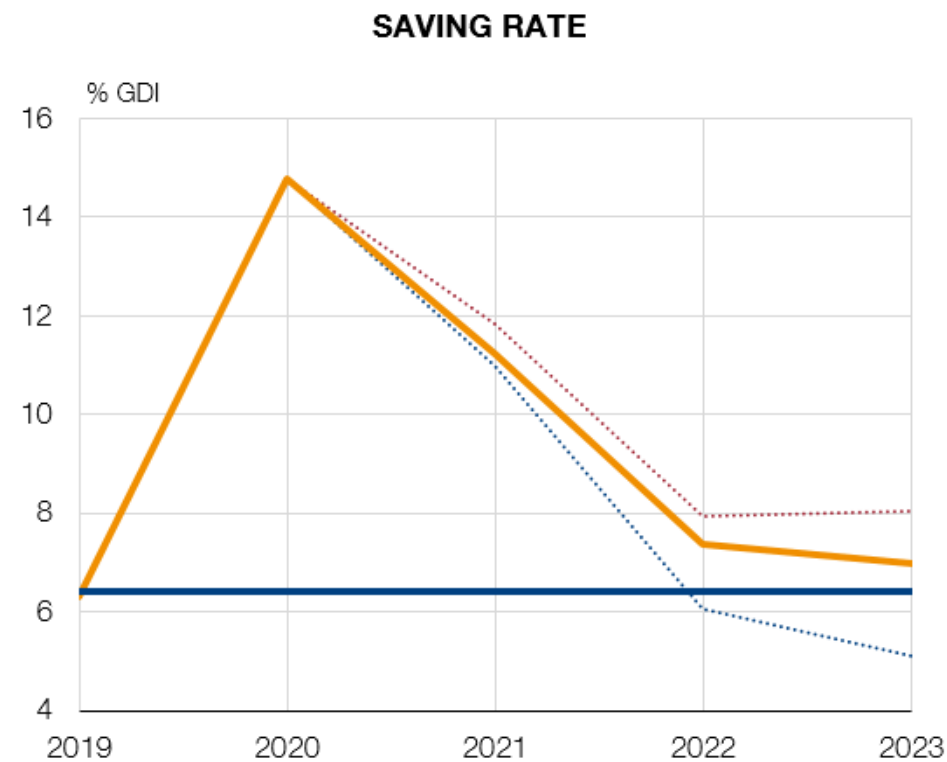
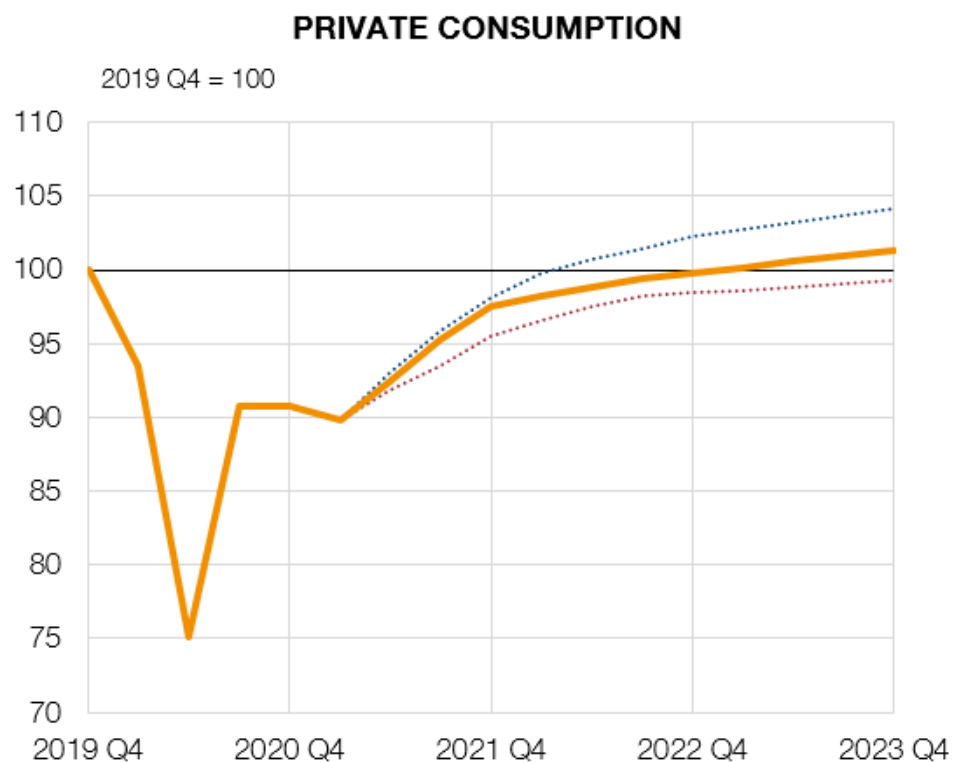


NGEU IMPACT ON GDP



Source: Banco de España.

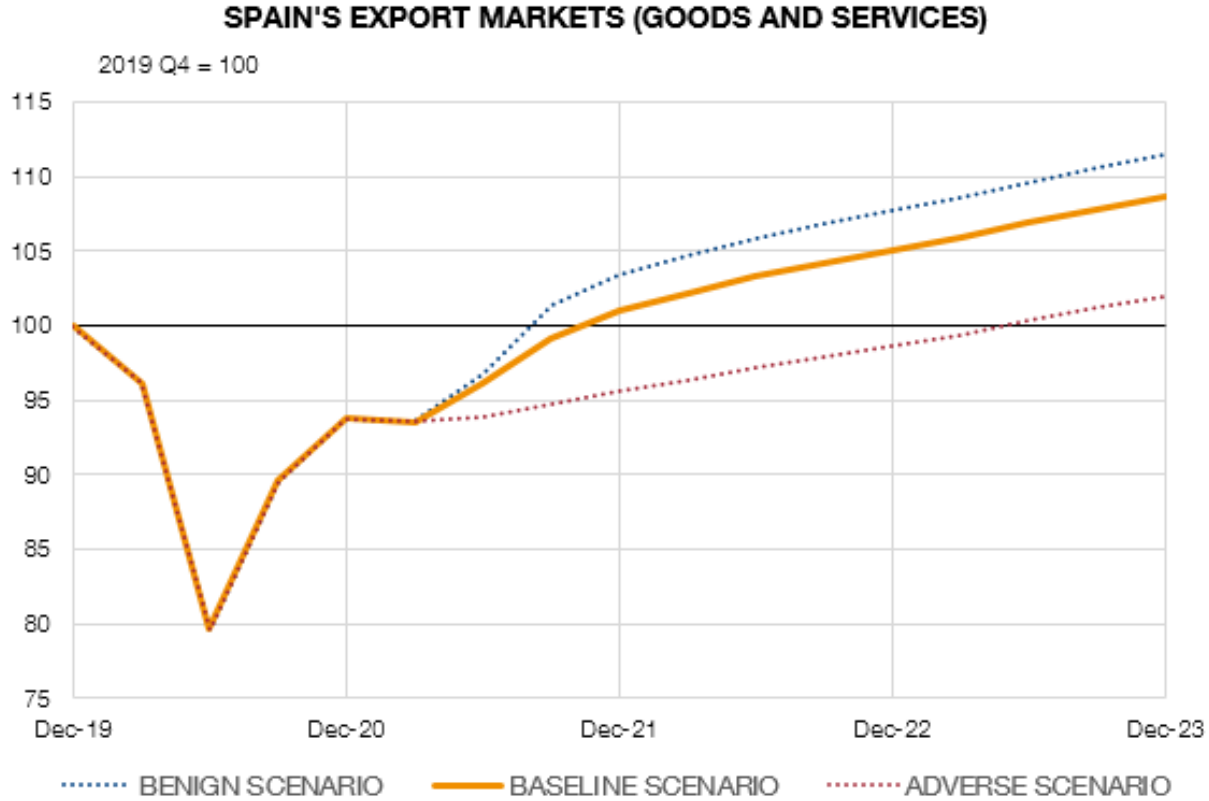
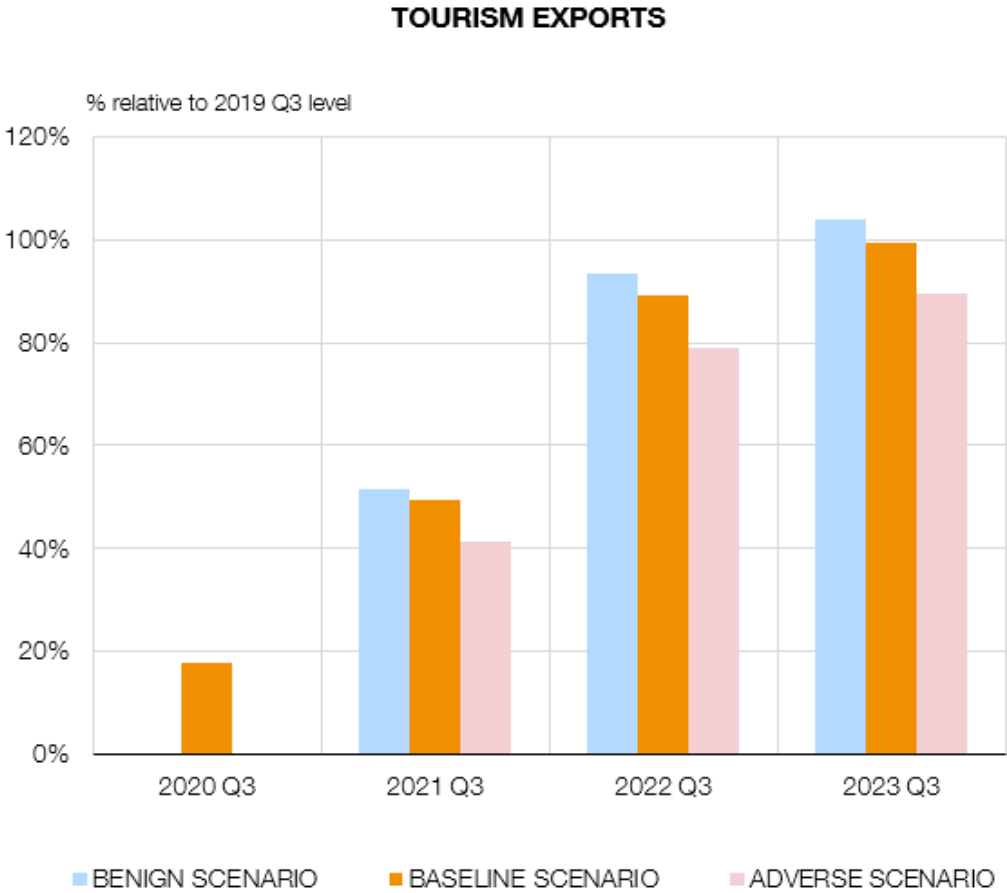
UNCERTAINTY OVER THE PATH OF RECOVERY OF CONSUMPTION AND CHANGES IN THE SAVING RATE IS HIGH



..... BENIGN SCENARIO — BASELINE SCENARIO ADVERSE SCENARIO — AVERAGE, 2015-2019

Sources: Banco de España and INE.

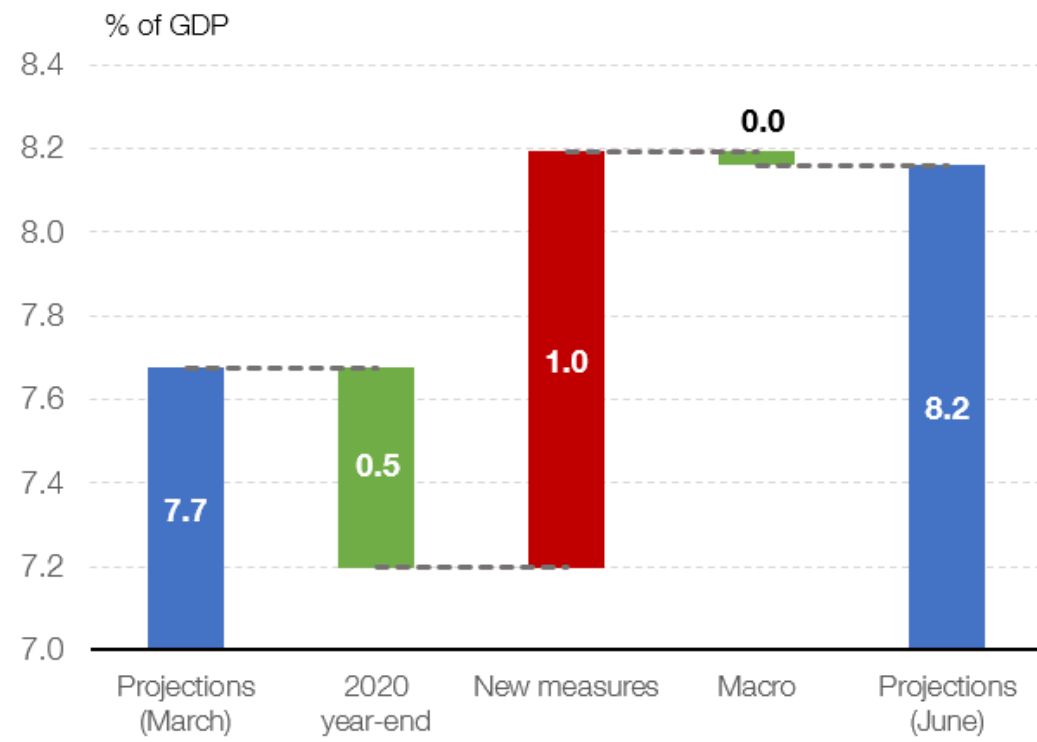
THE COURSE OF THE RECOVERY IN INTERNATIONAL TOURISM IS PARTLY CONDITIONAL UPON THE UPCOMING SUMMER SEASON



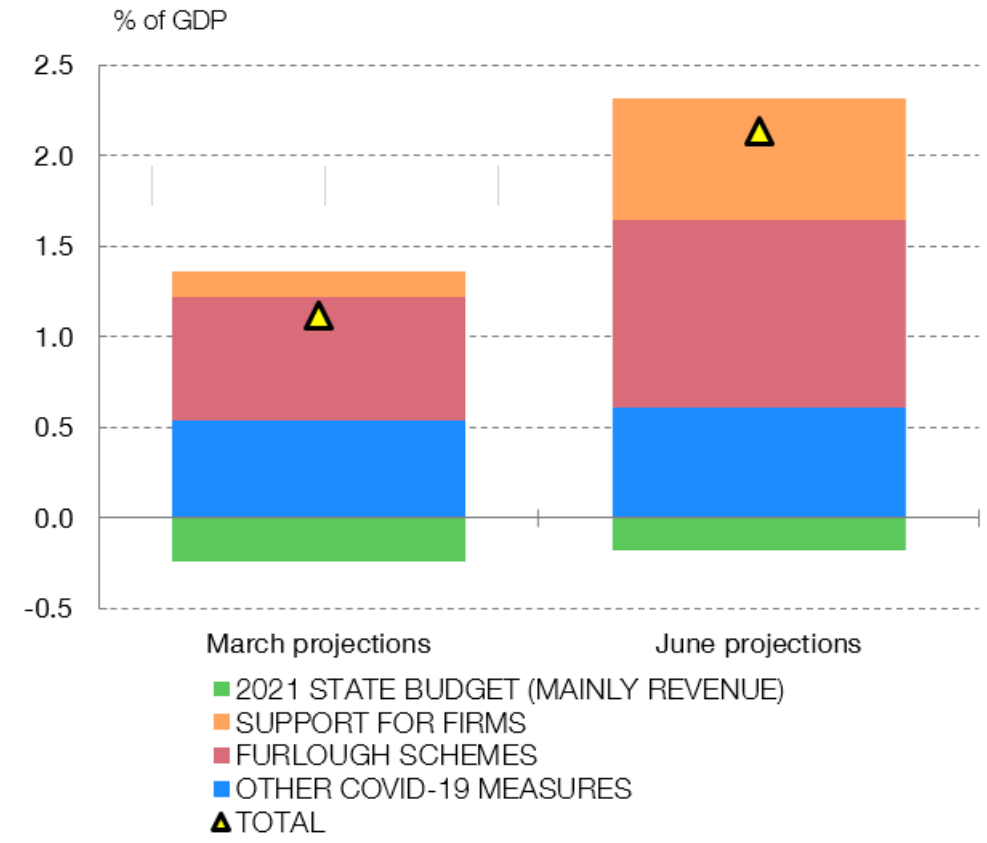
Sources: Banco de España and INE.

IN 2020 THE GOVERNMENT DEFICIT WAS BETTER THAN EXPECTED, BUT IN 2021 IT HAS BEEN REVISED UPWARDS Owing to the new measures adopted since March (direct grants and extension of furlough schemes)

CHANGE IN THE 2021 BUDGET DEFICIT FORECAST SINCE MARCH (a)

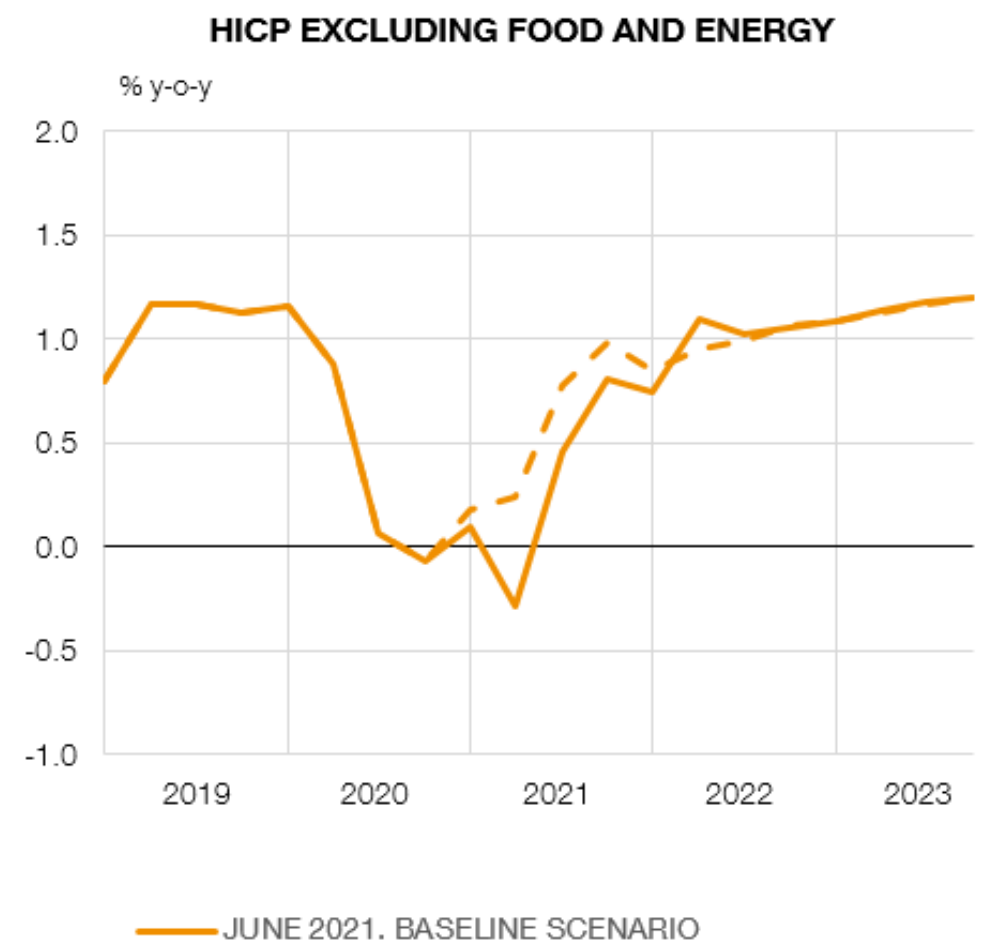
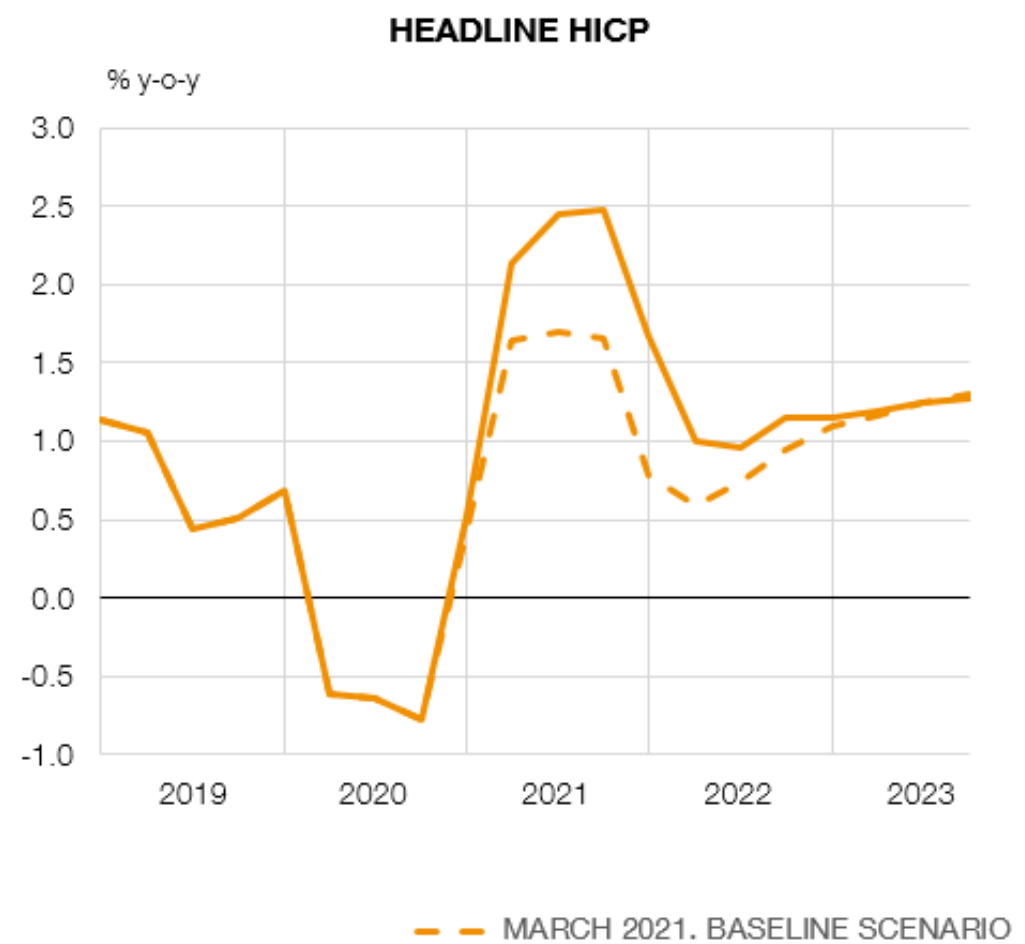


MEASURES INCLUDED FOR 2021



Source: Banco de España.
a. Relative to the March baseline scenario.

FORESEEABLY TEMPORARY RISE IN INFLATION, WHICH WILL HOLD AT MODERATE LEVELS IN THE MEDIUM TERM



Sources: Banco de España and INE.

CONTENTS

1. Overview

2. Developments in economic activity in the short term

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

- Narrative
- Macroeconomic projections

4. Risks

5. Analysis

- Uncertainty over the short-term projections for activity
- Borrowing conditions of households and firms

THE BALANCE OF RISKS HAS TURNED MORE FAVOURABLE, ESPECIALLY AS REGARDS THE COURSE OF ACTIVITY IN THE SHORT TERM

Main sources of medium-term uncertainty

Speed at which the NGEU programme funds become available and their multiplier effect on activity

Persistent effects of the crisis on potential growth (labour market hysteresis, destruction of the productive system,...)

Effectiveness of public policies so as to avoid these adverse effects, to promote the reallocation of resources and to drive the structural transformation of the economy

CONTENTS

1. Overview

2. Developments in economic activity in the short term

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

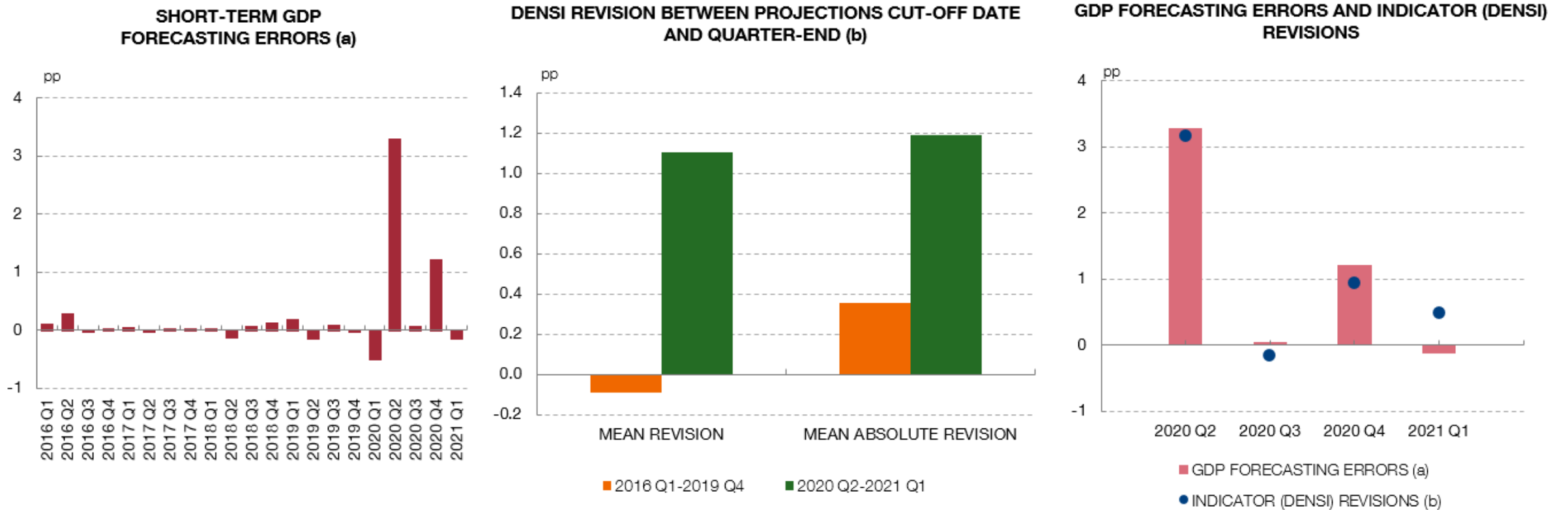
- Narrative
- Macroeconomic projections

4. Risks

5. Analysis

- **Uncertainty over the short-term projections for activity**
- **Borrowing conditions of households and firms**

GDP FORECASTING ERRORS DURING THE PANDEMIC HAVE BEEN RELATIVELY HIGH, AND ARE LARGELY ON ACCOUNT OF HIGHER VOLATILITY AND INTRA-QUARTER CHANGES

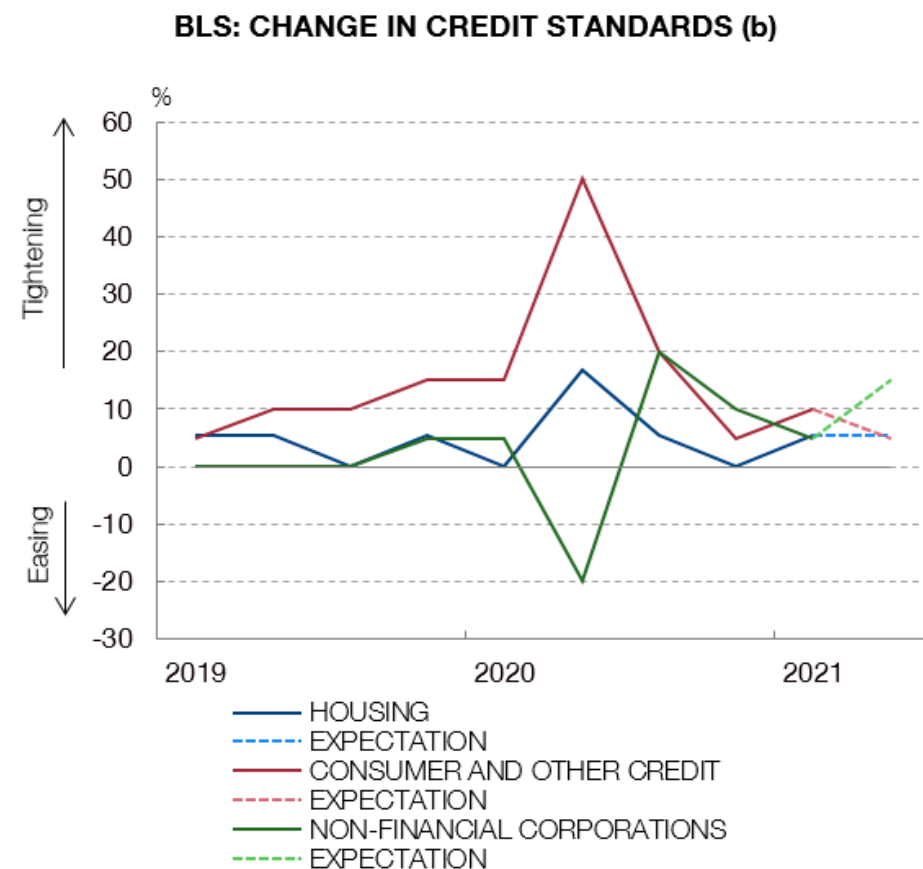
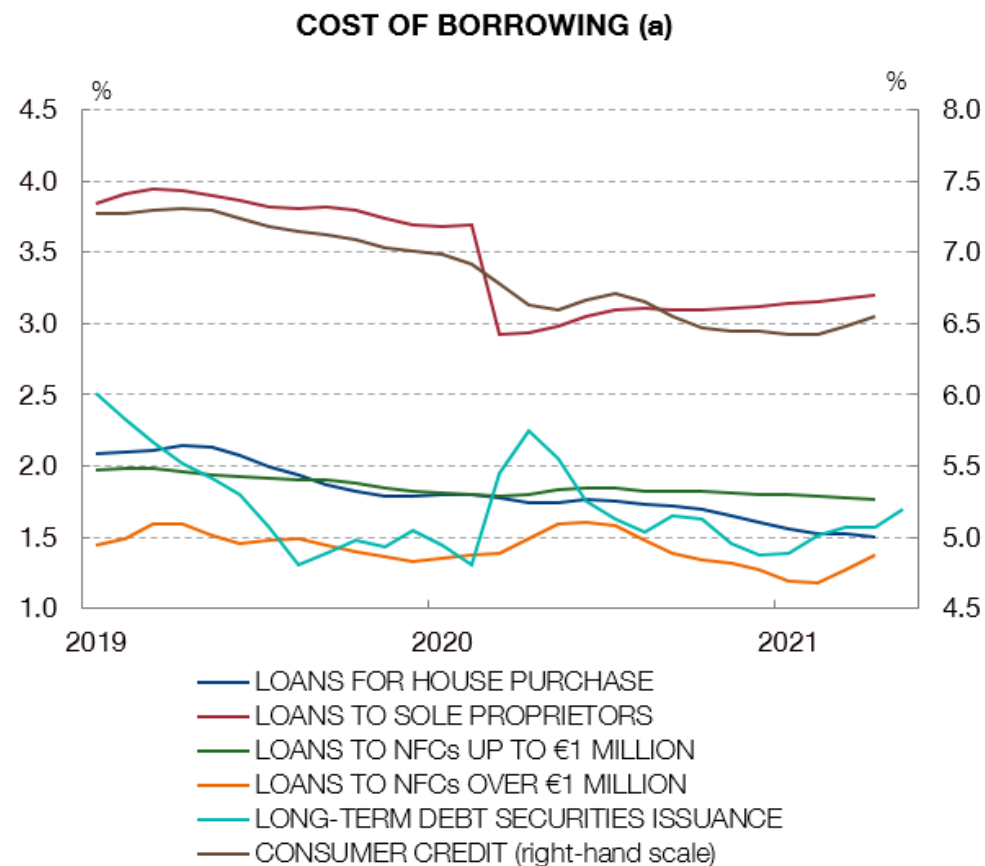


Sources: Banco de España and INE.

a. Difference between the quarter-on-quarter GDP growth rate published by INE in its flash QNA estimate and the rate forecast by the Banco de España

b. Difference between the DENSI calculated with all the information for the quarter and that calculated solely with the information available at the projections cut-off date.

HOUSEHOLDS' AND FIRMS' FINANCING COSTS HAVE HELD AT LOW LEVELS, WHILE LENDING STANDARDS HAVE TIGHTENED SLIGHTLY



Sources: Refinitiv Datastream and Banco de España.

a. Bank lending rates are NDERs (narrowly defined effective rates), i.e. they exclude related charges, such as repayment insurance premiums and fees. They are also trend-cycle interest rates, i.e. they are adjusted for seasonal and irregular components (small changes in the series with no recognisable pattern in terms of periodicity or trend).

b. Indicator = percentage of banks that have tightened their standards considerably \times 1 + percentage of banks that have tightened their standards somewhat \times 1/2 – percentage of banks that have eased their credit standards somewhat \times 1/2 – percentage of banks that have eased their credit standards considerably \times 1.

THANK YOU FOR YOUR ATTENTION



APPENDIX



ASSUMPTIONS ON THE INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

Annual rate of change unless otherwise indicated	2020	June 2021 projections (a)			Difference between the current projections and those under the March 2021 baseline scenario (b)			
		2021	2022	2023	2020	2021	2022	2023
International environment								
Spain's export markets (c)	-10.9	8.6	6.4	3.5	0.4	0.9	1.0	0.3
Oil price in US dollar/barrel (level)	42.3	65.8	64.6	61.9	0.0	0.9	3.3	3.0
Monetary and financing conditions								
USD/EUR exchange rate (level)	1.14	1.21	1.21	1.21	0.00	0.01	0.02	0.02
Nominal effective exchange rate against non-euro area (d) (2000 = 100)	117.8	122.7	123.0	123.0	0.2	1.8	2.0	2.0
Short-term interest rates (3-month EURIBOR) (e)	-0.4	-0.5	-0.5	-0.3	0.0	0.0	0.0	0.1
Long-term interest rate (10-year bond yield) (e)	0.4	0.5	0.9	1.1	0.0	0.2	0.3	0.3

Sources: Banco de España and ECB.

a. Cut-off date for the assumptions: 18 May 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 May 2021 ECB staff macroeconomic projections for the euro area.

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

e. For the projection period, the values in the table are 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 rate of change in volume terms and % of GDP	2020	JUNE 2021 PROJECTIONS (a)		
		BASELINE SCENARIO		
		2021	2022	2023
GDP	-10.8	6.2	5.8	1.8
Private consumption	-12.1	7.1	5.7	1.7
Government consumption	3.8	1.9	0.3	0.9
Gross fixed capital formation	-11.4	8.1	9.3	1.6
Exports of goods and services	-20.2	11.9	9.5	4.3
Imports of goods and services	-15.8	11.6	8.4	3.4
National demand (contribution to growth)	-8.8	5.9	5.3	1.4
Net external demand (contribution to growth)	-2.0	0.3	0.5	0.4
Nominal GDP	-9.9	7.2	7.1	3.4
GDP deflator	1.1	1.0	1.3	1.6
Harmonised index of consumer prices (HICP)	-0.3	1.9	1.2	1.2
HICP excluding energy and food	0.5	0.3	1.0	1.1
Employment (hours)	-10.4	6.7	5.4	1.8
Unemployment rate (% of labour force). Annual average	15.5	15.6	14.7	13.7
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.1	1.5	3.1	3.1
General government net lending (+)/net borrowing (-) (% of GDP)	-11.0	-8.2	-4.9	-4.3
General government debt (% of GDP)	120.0	120.1	117.9	118.0

Sources: Banco de España and INE.

a. Projections cut-off date: 27 May 2021.