

# Spain

# Economic Outlook

1Q21

## Key points. Global



Global GDP will expand by around 5.3% in 2021 and 4.1% in 2022 after contracting by approximately 2.6% in 2020.



In the short term, growth will be affected by the more negative evolution of the pandemic in many countries.



However, continued support for economic policies, mainly in the major developed economies, and coronavirus vaccination programs will boost growth from the middle of the year onwards.



Uncertainty will remain high despite forecasts for "normalization" and there are both upward and downward risks to growth forecasts.

## Key points. Spain



GDP growth forecast for 2020 is revised upward from -11.5% to -11.0%.

Although progress in the Spanish economy was slightly better than expected in the third quarter of last year, the slowdown in the fourth quarter would have been significant.



GDP will increase by 5.5% in 2021, 0.5 pp less than expected three months ago. The deterioration observed in the EMU as a result of the spike in infections, the increased uncertainty recorded in Spain because of the third wave and the exhaustion of some of the demand policies explain the revision.



In 2022 we expect growth to accelerate to 7%. Mass vaccinations, both in Spain and elsewhere in Europe, the approval of the Spanish National Budget for 2021, the deployment of the NGEU, impulse measures taken by the ECB and the government, and high unutilized productive capacity could be behind the rally.



**Risks.** In the short term, monitoring the disease and the speed of the vaccination process is a priority and push the forecasts downward. The efficient use of NGEU funds and consensus on reforms that increase the potential growth of the economy are key.

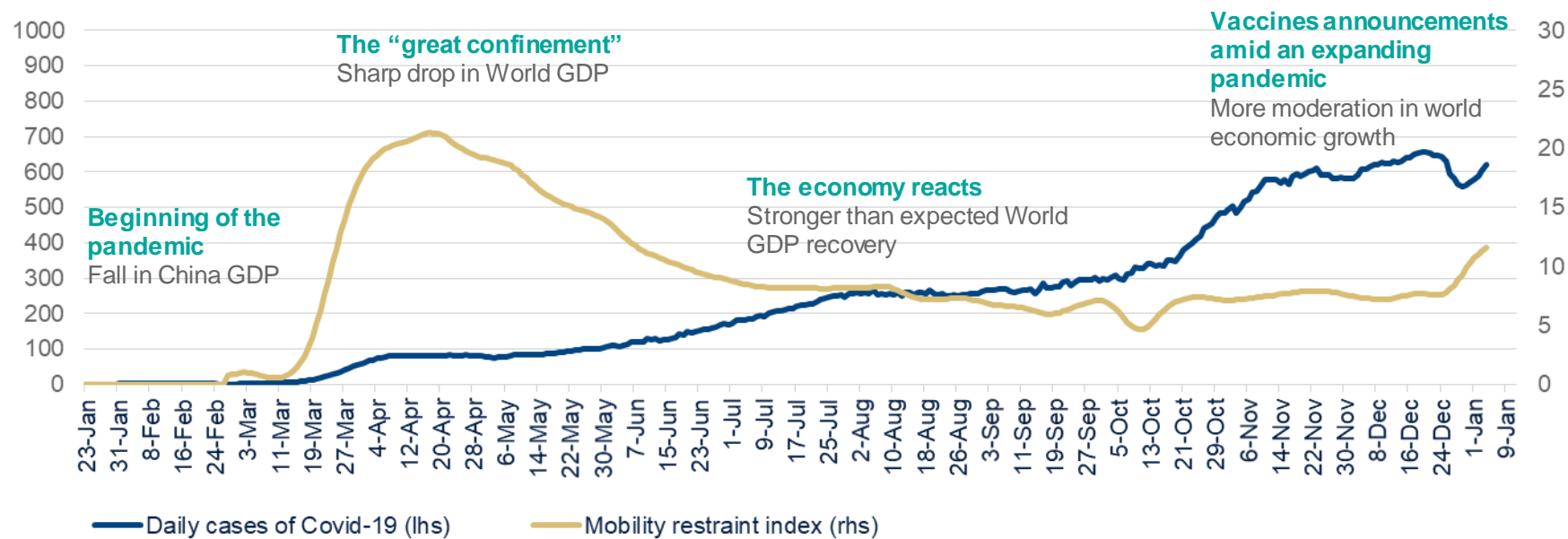
01

# Global Economic Outlook 1Q21

# Covid-19 vaccines are a key progress after a year marked by the expansion of the pandemic, lockdowns and an economic crisis

## WORLD DAILY CASES OF COVID-19 AND GLOBAL MOBILITY RESTRAINT INDEX (\*)

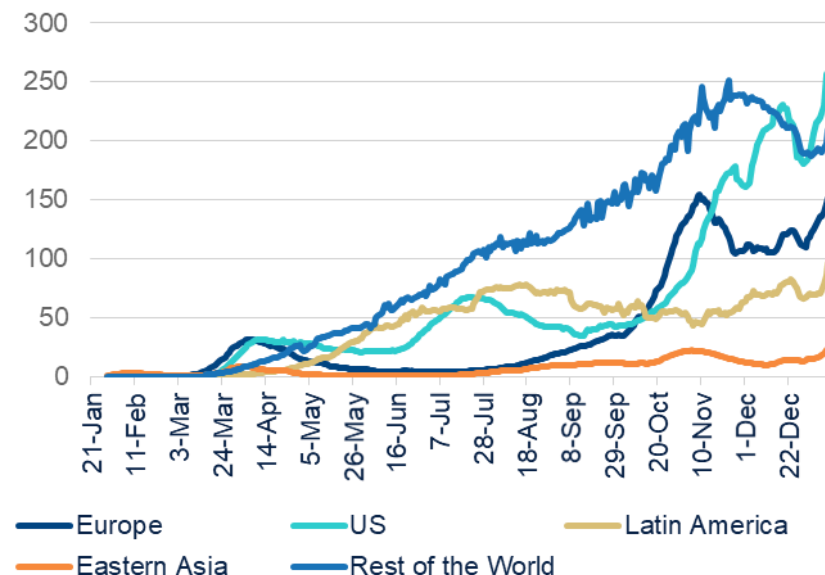
(DAILY CASES: THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE; INDICATOR: HIGHER VALUES INDICATE LOWER MOBILITY)



\*: The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). It is the simple average of all countries within Google Mobility Reports.  
BBVA Research based on data from John Hopkins University and Google.

# Infections have surged in the last months, particularly in the US and Europe; the new strains of the virus pose a threat

## DAILY CASES OF COVID-19 (\*) (THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)



- In the **US, Europe and Latam** contagions have increased again in the last few weeks.
- **Eastern Asia** is experiencing outbreaks, but the situation remains under control.
- **Rising uncertainty** on the evolution of the pandemic due to **the new strains** of the virus.
- **Mobility** has decreased again, particularly in recent weeks and in Europe, but less than in the first wave.

(\*): Europe: Germany, Spain, France, Italy, Portugal, United Kingdom, and Turkey. Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay. Eastern Asia: China, South Korea, Japan and Singapore.  
Source: BBVA Research based on data from John Hopkins University.

## Covid-19 vaccines inoculation process has already started in some of the main world economies, in line with expectations

### EU



Population covered by the vaccine purchase contracts already signed

(not all approved yet)

Inoculation started at a low pace with the BioNTech/Pfizer vaccine.

### US



Population covered by the vaccine purchase contracts already signed

(not all approved yet)

Inoculation started with the BioNTech/Pfizer and Moderna vaccines.

### CHINA

Inoculation started with the Sinopharm vaccine.

### OTHER REGIONS

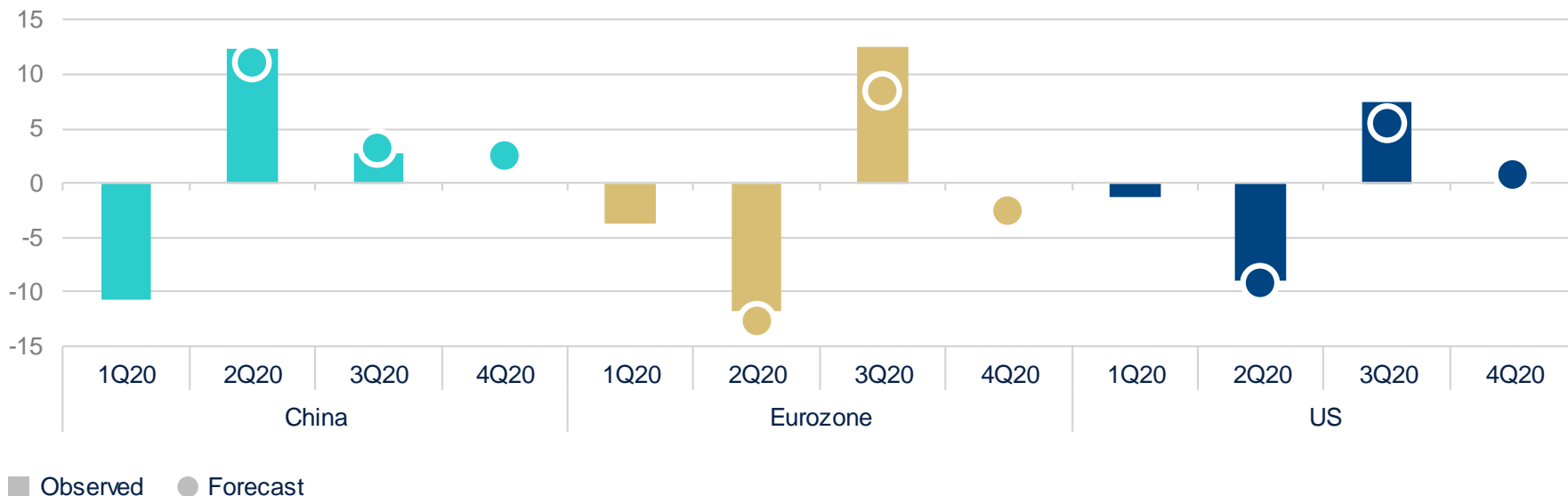
Heterogeneity across countries.

Ongoing vaccination in Israel, United Kingdom, Russia, Argentina, Chile, Mexico etc.

# Economic growth has picked up significantly more than expected in the third quarter, but has moderated in the fourth due to the increase in infections

## GDP: OBSERVED AND FORECASTED

(Q/Q %)

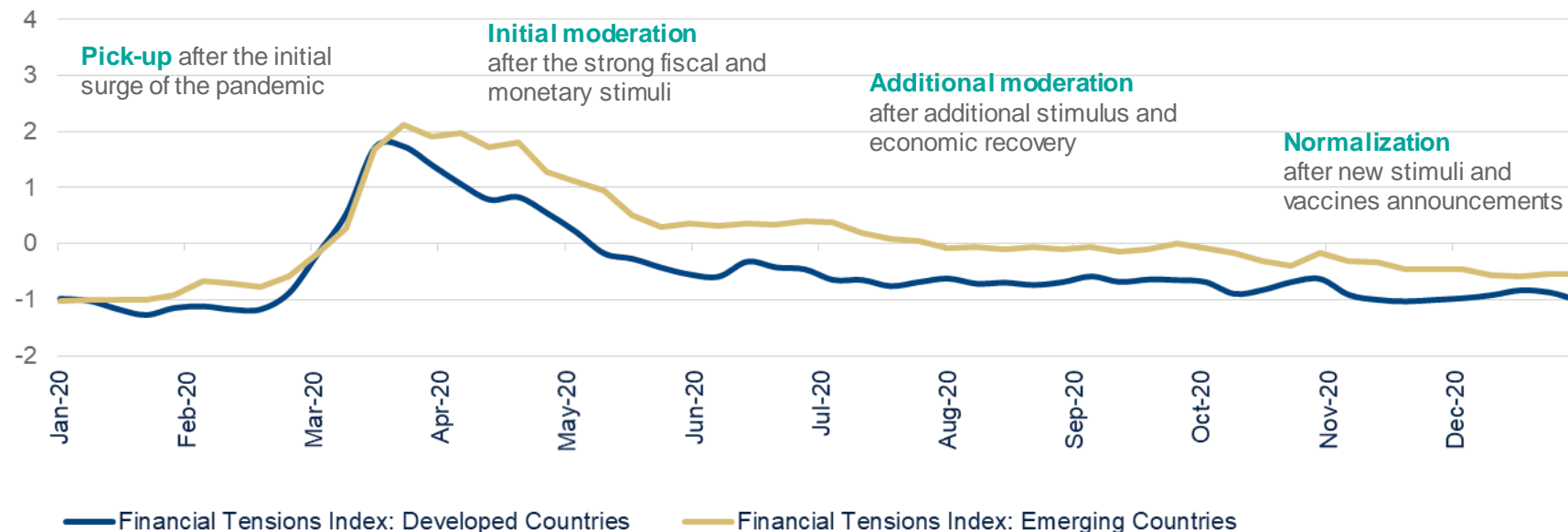




# Financial tensions have converged to pre-crisis levels, thanks to economic stimulus and the vaccines

## FINANCIAL TENSIONS

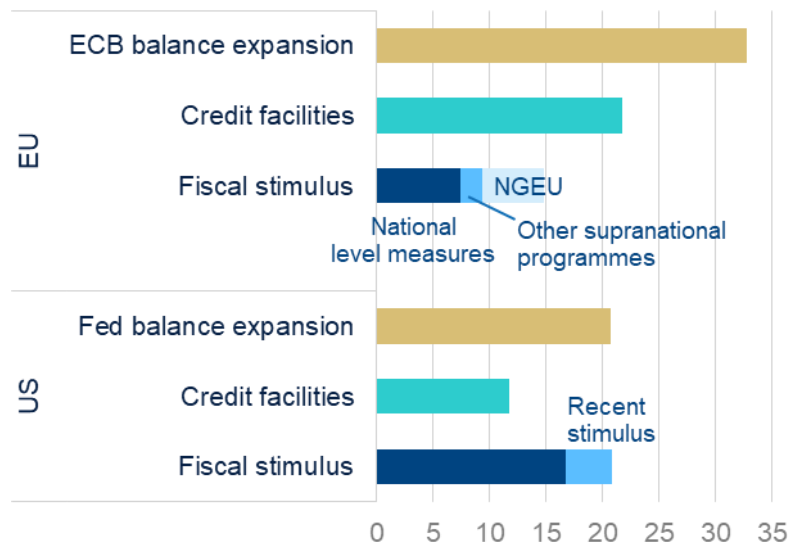
(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



# Economic policy remains committed to the recovery: reinforced monetary stimulus, NGEU approval, and new fiscal measures in the US

## ECONOMIC STIMULUS \*

(% OF GDP)



- **ECB:** new stimuli announced in December, including the extension of the asset purchasing programme.
- **Fed:** economic support through zero level interest rates and quantitative easing.
- **Fiscal policy in Europe:** NGEU funds will be available from around mid-year.
- **Fiscal policy in the US:** imminent additional measures after a recent package of 0.9 trillion dollars.

\* Fiscal stimulus: expenditure increases and tax cuts, excluding resources used in credit programs. In the case of the Eurozone, national level measures represent the average stimulus launched in Germany, France, Italy and Spain while supranational measures include the EIB measures and the SURE. Credit Programs: in the case of US it includes the Fed credit facilities. For the Eurozone it represents the average of Credit Guarantee Funds in Germany, France, Italy and Spain. CBs balances: expected accumulated increase between 2020 y 2021.

Source: BBVA Research based on local statistics.

# A large-scale distribution of vaccines will pave the way for economic recovery, which will be gradual and heterogeneous across countries

## MAIN ASSUMPTIONS BEHIND FORECASTS, UNDER A HIGHLY UNCERTAIN ENVIRONMENT

### COVID-19



**Massive distribution of vaccines** in the main economies in 1H21 and afterwards in the others.

**Return to “normality” in 2022**

### Economic Policy



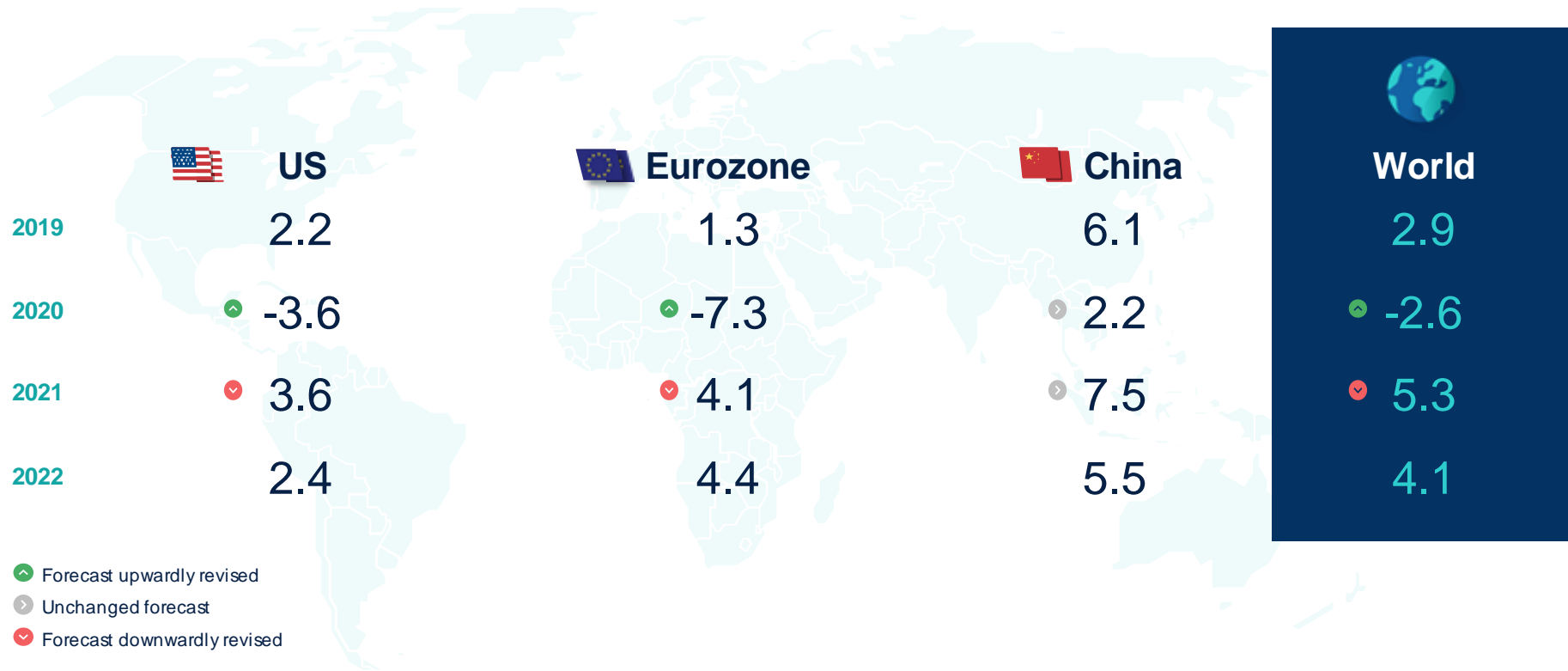
**Stimulus will be maintained,** or even amplified, at least until the recovery consolidates.

### Financial Markets



**Volatility and risk aversion will remain relatively low,** in 2021-22.

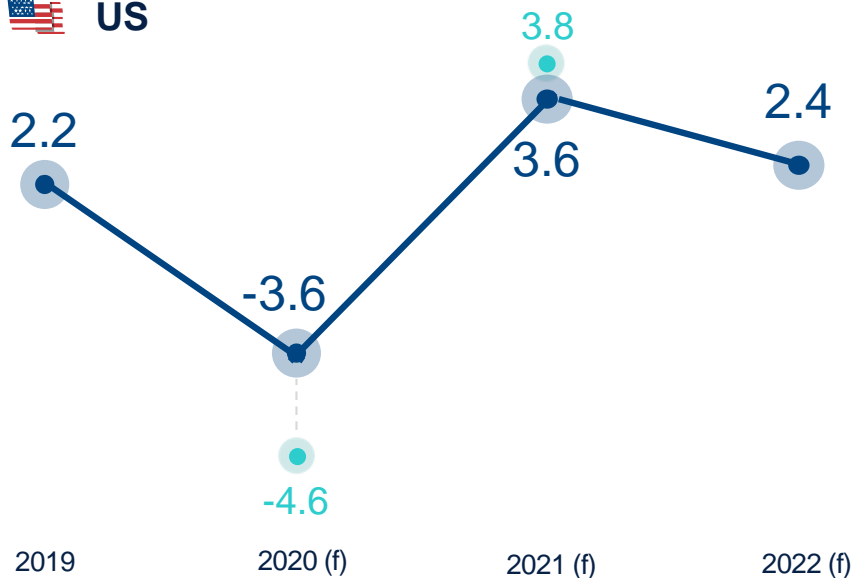
# Economic growth will slow down more than expected in the short-term, due to rising contagions, but it will invigorate from mid-year on



## US: GDP is forecast to grow 3.6% in 2021 and 2.4% in 2022, but prospects of more stimulus add an upward bias to these figures

GDP: ANNUAL GROWTH (%)

 US



● Actual ● Previous

(f): forecast.

Source: BBVA Research.

- Growth is moderating at the end of 2020 and beginning of 2021, due to the pandemic.
- Given that the Democratic Party will control the Presidency and Congress, there are reinforced expectations of new stimulus to sustain the recovery.
- More fiscal measures will be announced soon, adding an upward bias to growth forecasts.
- Fed will keep supporting the economy through asset purchases and unchanged rates until 2025.
- Inflation will stay around 2%.
- Covid evolution and its effects on the economy remain as the main sources of uncertainty.

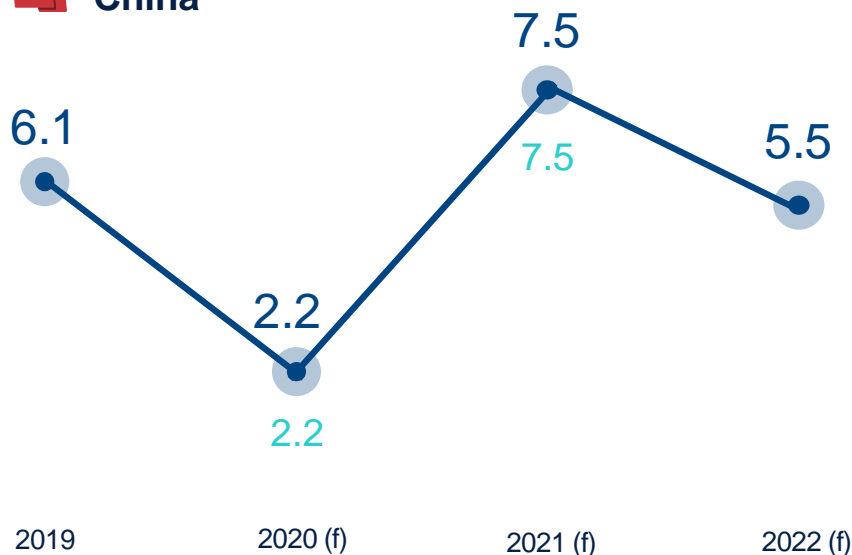
# China: after skipping a contraction in 2020, the economy will grow significantly again in 2021

## GDP: ANNUAL GROWTH

(%)



China



● Actual ● Previous

(f): forecast.

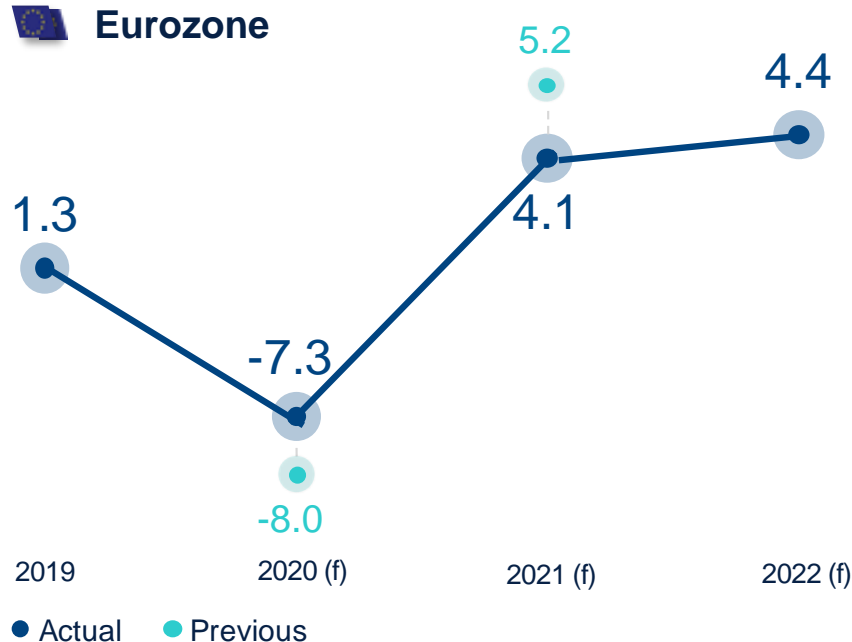
Source: BBVA Research.

- The recovery continues with a greater dynamism in supply, although the gap with demand is narrowing.
- Inflationary pressures are limited and deflation continues to pose a risk.
- Interest rates will remain unchanged, but tighter financial regulation is likely.
- No additional fiscal stimulus is foreseen.
- Risks also include the US relationship, SOE bonds default and the housing market.

## Eurozone: slower recovery in 2021 due to the ongoing expansion of the pandemic; NGEU funds and vaccines will boost GDP from mid-year on

### GDP: ANNUAL GROWTH

(%)



(f): forecast.

Source: BBVA Research.

- **Lower private demand** due to rising contagions and new confinements, but also support from public spending and exports in the short-run.
- **NGEU**: Little effect in the short-term, but in the long-term its impact could be somewhat larger.
- **Monetary policy** has turned even more accommodative on greater uncertainty and the risks coming from the pandemic and low inflation.
- The euro will continue to appreciate moderately, converging gradually to its equilibrium level.
- After achieving a *brexit* deal, the main **risks** are those related to the pandemic.

# Uncertainty will remain high, despite improved prospects



## Epidemiological uncertainty

- Virus strains and new waves of contagions.
- Vaccines: distribution pace, effectiveness, social rejection.
- Herd immunity.
- “New normalcy” and social preferences.



## Financial uncertainty

- Deterioration of corporate, public sector and banking balance sheets (NPL, bankruptcy, debt, restructurings).
- Financial tensions.
- Flows into emerging markets.



## Economic uncertainty

- Stimulus effectiveness.
- Savings evolution.
- Significant disruptions in sectors and value chains.
- Inflation and oil prices.
- Lagged recovery in emerging economies.
- Impact of the pandemic on potential GDP.



## Geopolitical uncertainty

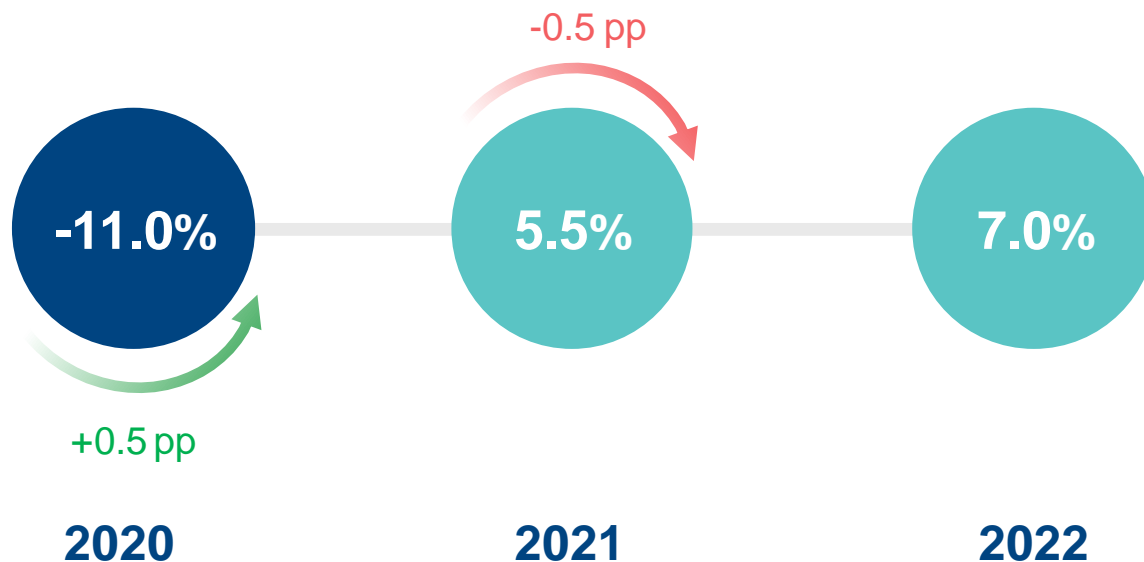
- China – US rivalry.
- Social unrest.
- New US government.
- Protectionism.



02

# Spain Economic Outlook 1Q21

**Growth in 2020 is revised upward, growth in 2021 is revised downward and the economy is expected to accelerate in 2022**

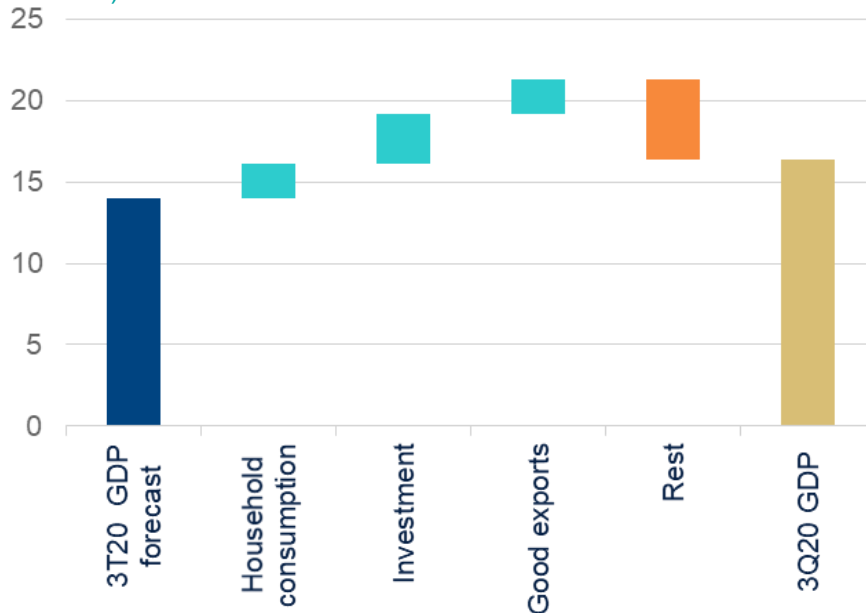


● Outlook revised upward    ● Outlook unchanged    ● Outlook revised downward

## Lower fall in 2020

Economic developments were more favorable than predicted in 3Q20

### CONTRIBUTION TO THE FORECAST ERROR OF THE Q/Q GDP GROWTH IN 3Q20 (PERCENTAGE POINTS)



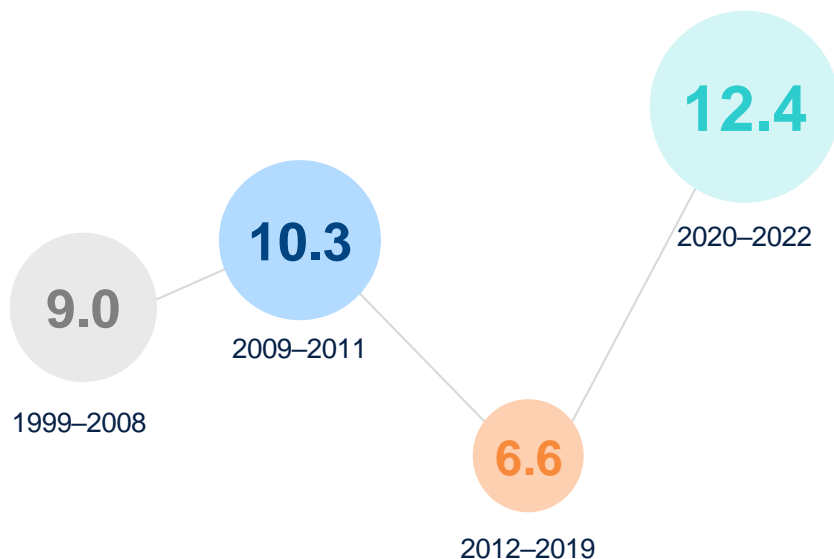
- GDP grew by 16.4% q/q in 3Q20, the biggest variation in real terms in the historical data, and above what was estimated three months ago (BBVA Research: 14.0%).
- Almost all components of demand advanced more than expected.
- Part of the consumer and investment demand also caused imports to accelerate.

# Lower fall in 2020

Economic developments were more favorable than predicted in 3Q20

## HOUSEHOLD SAVING RATE

(% OF DISPOSABLE INCOME)



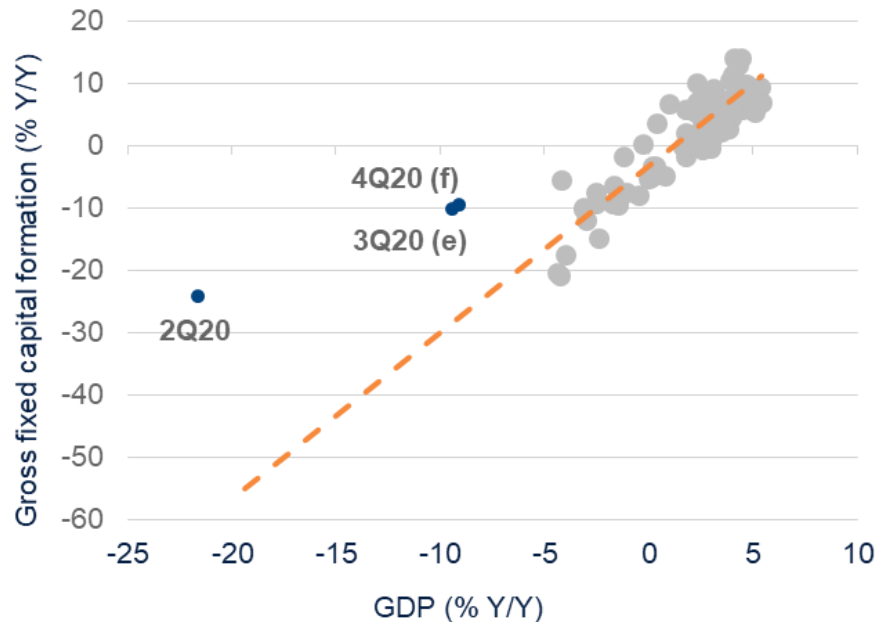
- Private consumption increased by 20.3% q/q in 3Q20, almost 4 pp higher than expected (16.6%).
- Factors that explain this recovery include:
  - A greater impact on expenditure of the easing of mobility restrictions and reduced uncertainty about the disease.
  - A more positive than expected evolution of household income and wealth.
  - A fall in the saving rate which, in any case, remains at historically high levels.

# Lower fall in 2020

Economic developments were more favorable than predicted in 3Q20

## GROSS CAPITAL FORMATION AND GDP

(Y/Y GROWTH SINCE 1Q95, %)

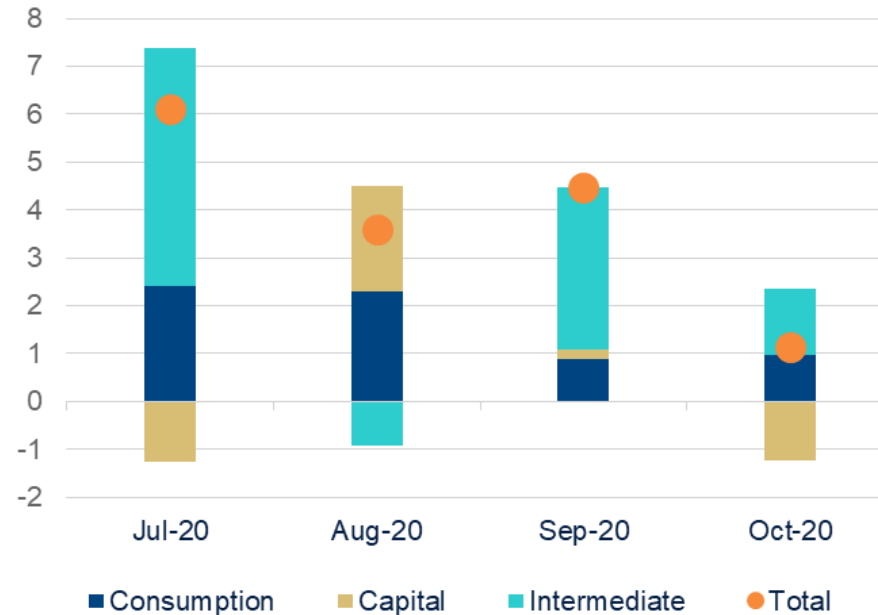


- Investment grew 21.7% q/q in 3Q20, well above expectations (6.4%).
- By component, of note was the growth of expenditure on machinery and equipment (45.0% q/q), which has already recovered to the levels seen at the end of 2019 when transport material was excluded.
- Given the evolution of GDP, investment is evolving relatively well.
- This positive development is explained by the measures that have stimulated the flow of credit to companies, the increase in public spending—particularly on health—and the rebound in exports of goods.

## Lower fall in 2020

Economic developments were more favorable than predicted in 3Q20

### CONTRIBUTION TO THE GROWTH OF EXPORTS OF GOODS BY VOLUME (MONTHLY GROWTH, SWDA DATA, %)

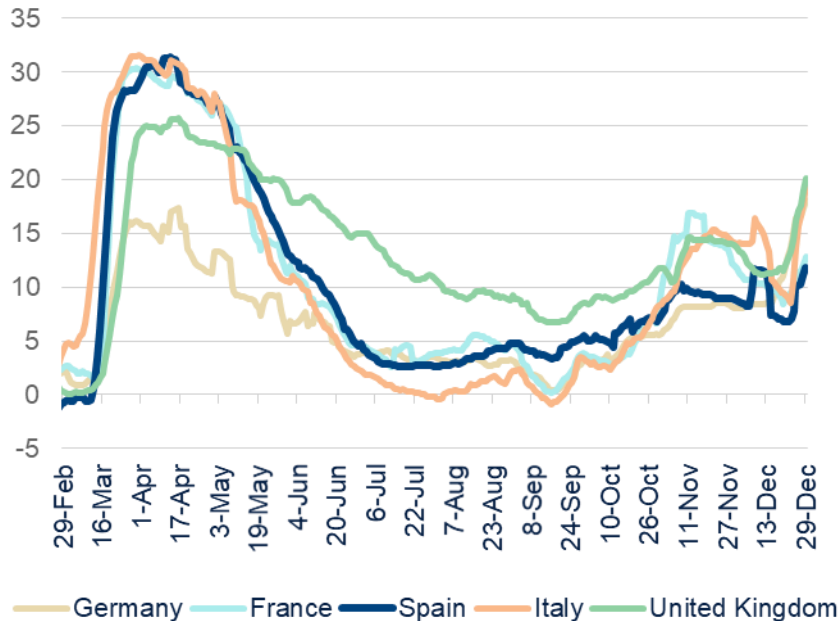


- Strong upturn in goods exports, caused by the increase in demand in the Eurozone and the United Kingdom, continued momentum in the agriculture and health sectors and the recovery in automotive output.
- However, the contribution of foreign demand to growth (1.3 pp) was lower than expected (3.8 pp) due to the surge in imports of both goods and services.

# Lower fall in 2020

Mobility and confidence have not been as affected as in the EMU

## RATE OF RESTRICTIONS ON MOBILITY (CHANGES COMPARED TO FEBRUARY, 7-DAY MOVING AVERAGE, %)



- Although Spain has increased exposure to the type of services most affected by the measures to contain the epidemic, **mobility has not changed as negatively** as it has in neighboring countries.
- In addition, for the time being, **activity and confidence indicators have worsened less** than in other European economies.
- In the short term, therefore, **the impact on GDP may be somewhat less negative** than in the rest of the EMU.

# Growth in 2021 is revised downward

Activity barely increased in the fourth quarter of last year

## SPAIN: GDP FORECAST IN 4Q20

(Q/Q GROWTH, %)



2.0%

Previous BBVA  
Research  
scenario



0.1%

New BBVA Research  
forecast

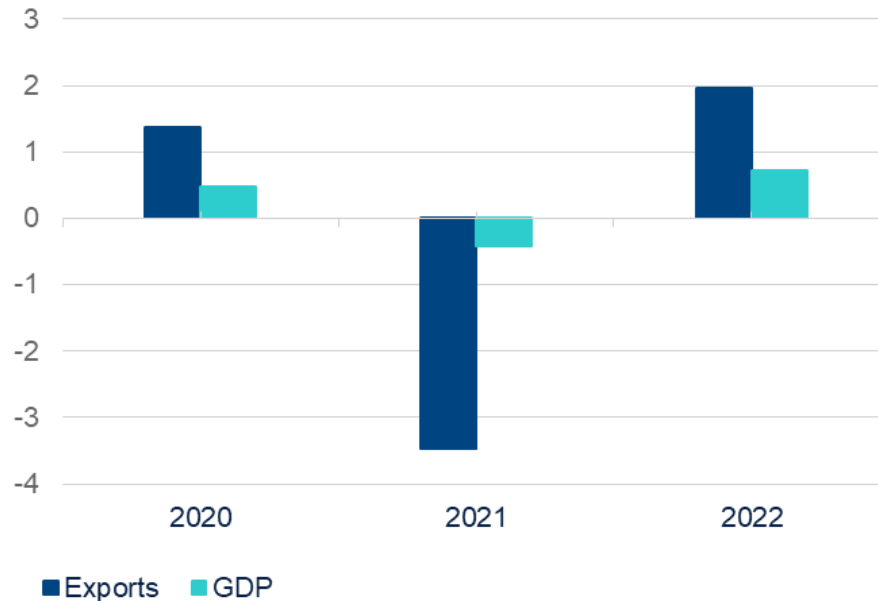
- Social Security affiliation has continued to grow over the past few months, which has traditionally been a good indicator of the evolution of activity.
- However, wage earners covered by a Temporary Redundancy Plan (ERTE) and the self-employed with benefits spiked again in 4Q20. At the end of December, more than 1.1 million workers were affected by income protection measures.
- The concentration of the adjustment in the hospitality and trade sectors could push the estimate further downward.



# Growth in 2021 is revised downward

Lower than anticipated progress in the EMU impacts national activity

## SPAIN: IMPACT OF THE REVISION OF EMU GROWTH (PERCENTAGE POINTS OF Y/Y GROWTH RATE)



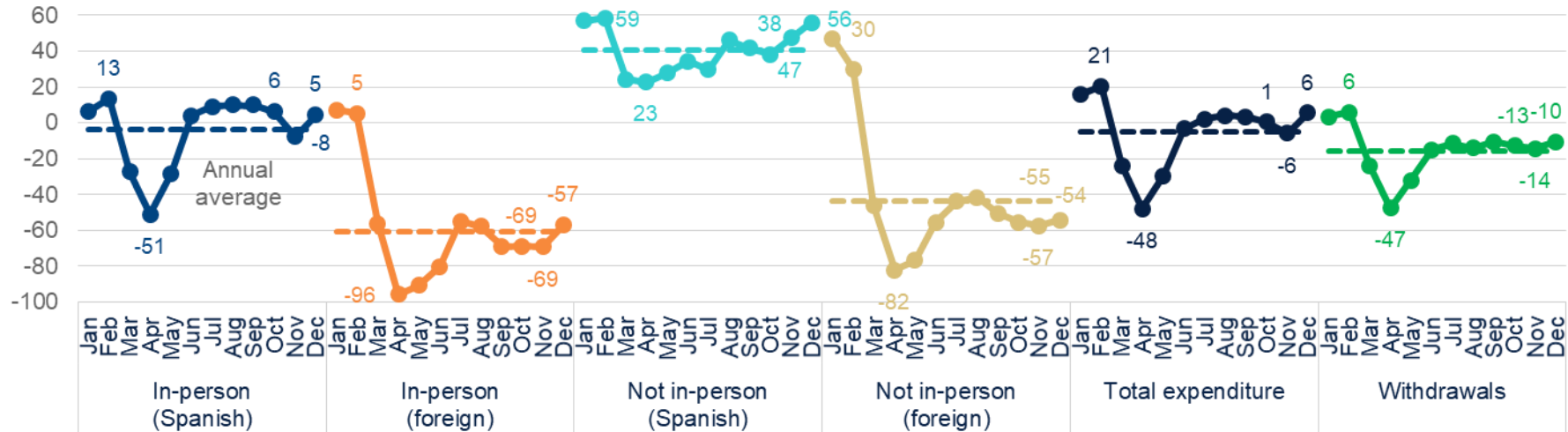
- GDP growth will be adversely affected by **worsening activity throughout the Eurozone** at the end of 2020 and, presumably, in the early months of this year.
- This is the result of the **deterioration of health indicators** and the implementation of social distancing measures and restrictions on the opening of certain establishments.
- This could have dampened activity in the EMU (and to a lesser extent in Spain) in 4Q20 and **could drive growth downward for the beginning of 2021.**

# Growth in 2021 is revised downward

Uncertainty about future infections increases Impact on consumer spending

## MONTHLY EXPENDITURE PER CARD BY NATIONALITY AND TYPE OF POS\*

(2020 VS 2021, Y/Y GROWTH, %)



\*Expenditure with cards issued by BBVA plus expenditure at BBVA POS by non-customers.

Source: BBVA Research based on BBVA data.

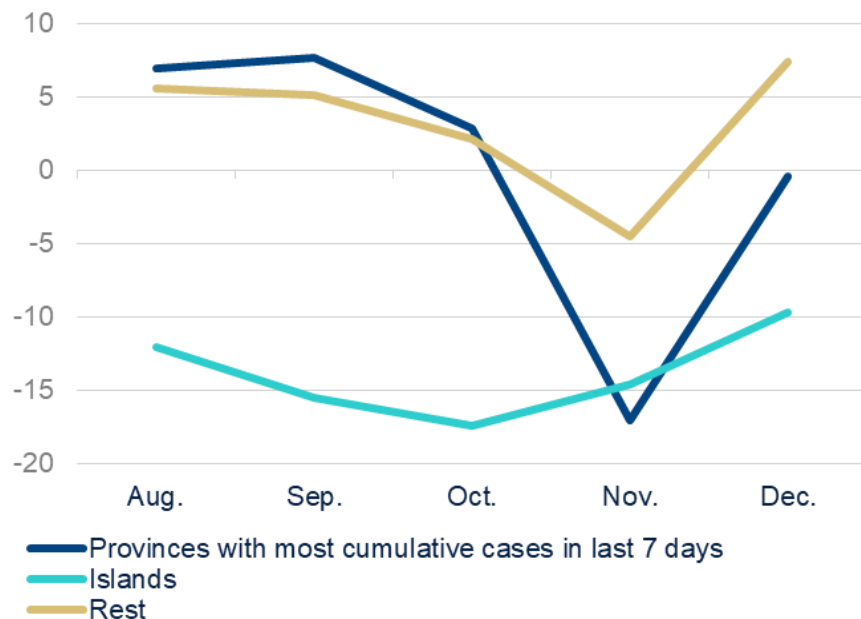
The increase in infections negatively affected household expenditure in both October and November. In December, improved health indicators caused an upswing, but the new increase in infections could lead to a shift in consumption.

# Growth in 2021 is revised downward

Uncertainty about future infections increases. Impact on consumer spending

## IN-PERSON EXPENDITURE WITH CARD\*

(Y/Y GROWTH, %)



- The **downturn in household consumption** appears to have been more severe in provinces with the highest cumulative incidence of COVID-19.

\*In-person expenditure with cards issued by BBVAplus expenditure at BBVAPOS by non-customers.

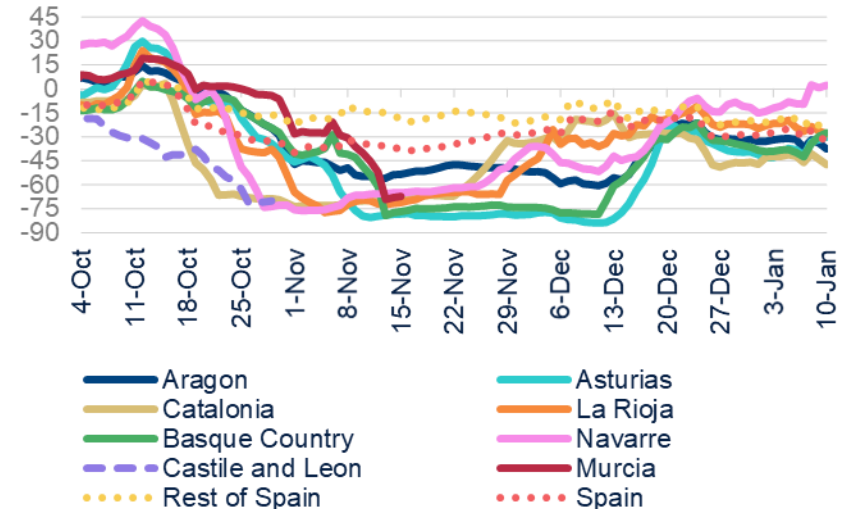
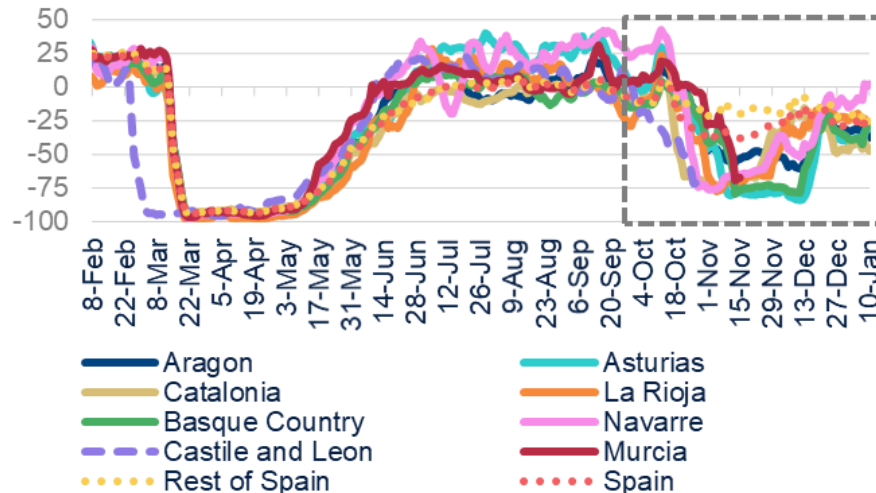
Provinces with highest 7-day cumulative incidence (CI7): Provinces with cumulative incidence of COVID-19 cases per 100,000 inhabitants 50% higher than the Spanish average in the fourth quarter of 2020.

Source: BBVA Research based on BBVA and Ministry of Health data.

# Growth in 2021 is revised downward

Uncertainty about future infections increases. Impact on consumer spending

## AVERAGE WEEKLY CARD EXPENDITURE IN THE BAR AND RESTAURANT SECTOR BY AUTONOMOUS COMMUNITY (2020 VS 2019, Y/Y GROWTH IN %)



\*In-person expenditure with cards issued by BBVAplus expenditure at BBVAPOS by non-customers.  
Source: BBVA Research based on BBVA data.

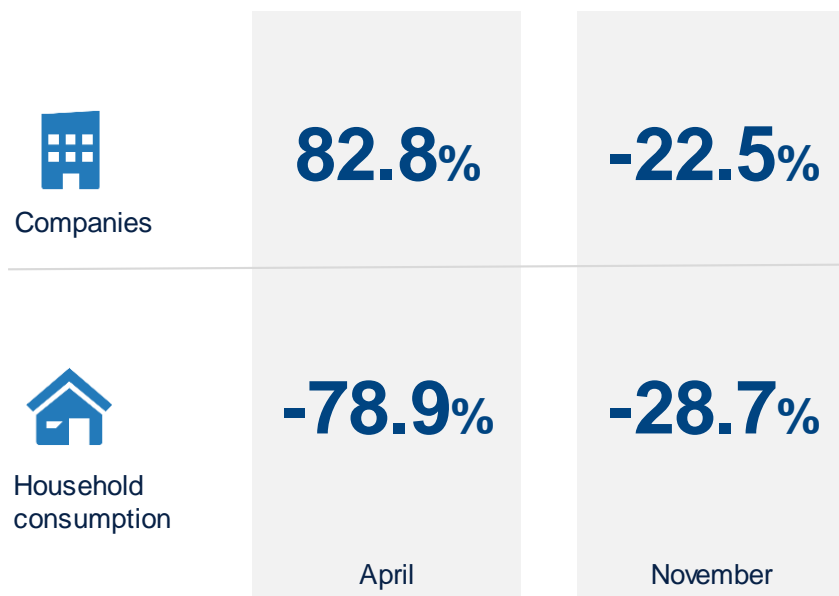
The services industry—including hospitality, tourism and retail—continues to be the industry most impacted by the restrictions, and similar declines in activity to those recorded in May have been seen.

# Growth in 2021 is revised downward

Demand for credit weakens

## SPAIN: CREDIT FLOW BY AGENT

(Y/Y GROWTH, %)

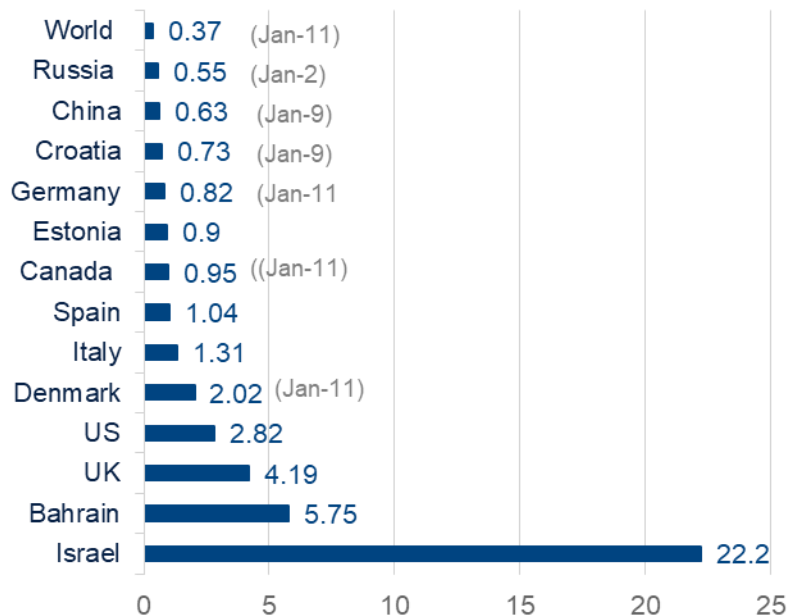


- The demand for credit from companies has **weakened** as a result of the deterioration in forecasts for the economic environment and the increase in financing in 2Q20.
- This has more than offset **the high level of liquidity presented by banks** and the fact that government-backed credit lines are still open.
- **Consumer financing has also weakened**, affected by the contraction in demand for certain durable goods, such as automobiles, which face high economic, technological and regulatory uncertainty.

# GDP is expected to accelerate as 2022 approaches

Advances in vaccination could support improvements in expenditure

## DOSES OF VACCINE ADMINISTERED PER 100 INHABITANTS AT JANUARY 12, 2021



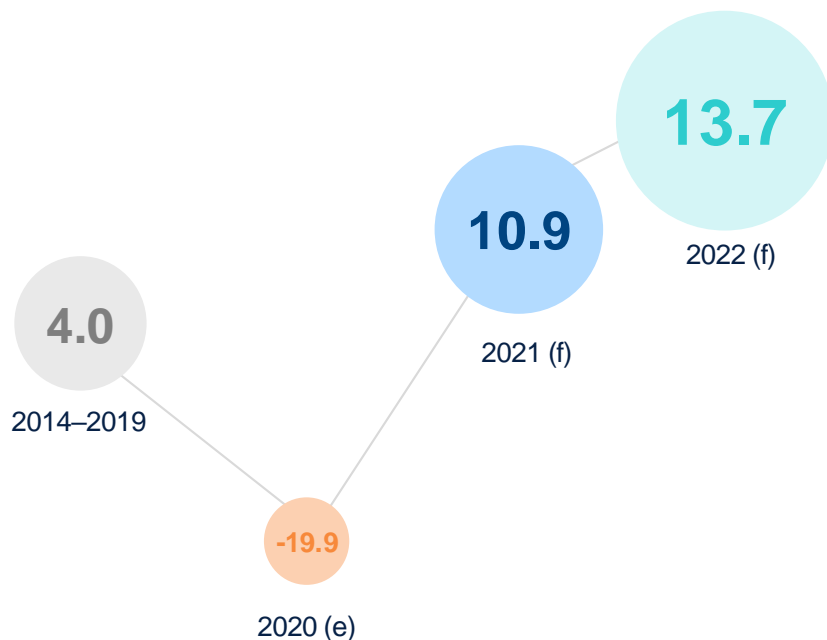
- An effective, rapid and mass vaccination campaign would boost activity by reducing health uncertainty and easing restrictions on businesses and mobility.
- Both factors would improve income and wealth prospects, which would stimulate the spending that has been blocked due to the fear of infection and supply constraints and it would reduce a significant portion of the savings accumulated during the crisis.

# GDP is expected to accelerate as 2022 approaches

Generalized inoculation at the European level would favor the foreign sector

## SPAIN: EXPORTS OF GOODS AND SERVICES

(Y/Y GROWTH, %)



- Funds associated with the NGEU program could have multiplier effects between countries. They would particularly favor the manufacturing industry and could be an integral part of the strategy to move toward a more sustainable economy (such as the automotive sector).
- There will be significant growth in foreign tourism, albeit starting from low levels. Uncertainty about the continued impact of the pandemic on people's willingness to travel, the reduction in supply in some market segments and the rise in air transport costs is high.

# GDP is expected to accelerate as 2022 approaches

The Spanish National Budget is committed to expansionary fiscal policy in 2021

## CERTAINTY



Although the Budget gives certainty to various Public Authorities, it is based on optimistic growth expectations and a recovery in public revenues to above 2019 levels that will be difficult to comply with.

## GUARANTEE



Where there is less uncertainty is in the increase in expenditure, except in the absorption capacity of NGEU, meaning that Budget guarantees a highly expansionary fiscal policy over the coming months.

## INITIATION



The Budget creates a necessary bridge pending the initiation of NGEU-funded projects...

## CONDITIONALITY



...as long as Spain approves measures that satisfy the conditions in order to receive the funds promised by Europe.

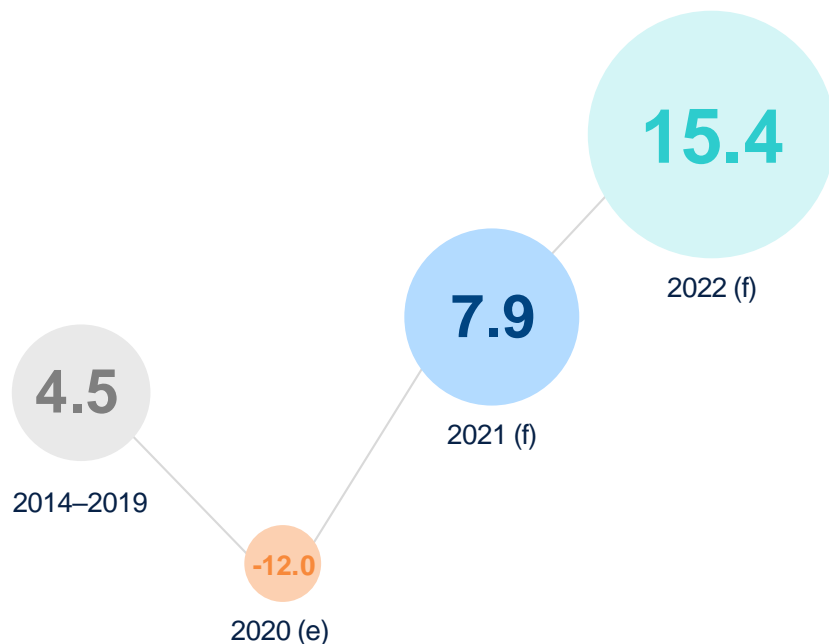


# GDP is expected to accelerate as 2022 approaches

The NGEU will have an increasing effect over time

## SPAIN: GROSS FIXED CAPITAL FORMATION

(Y/Y GROWTH, %)

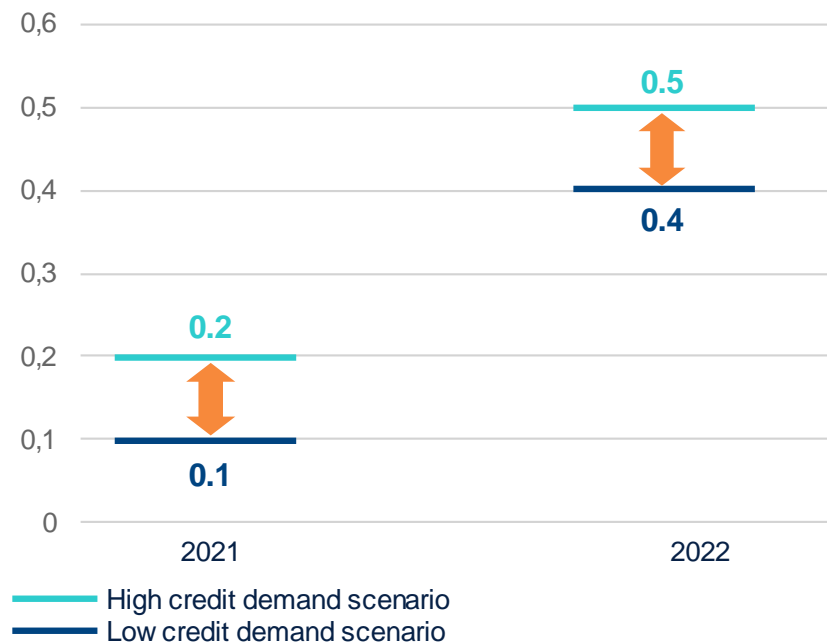


- Some projects may not start in the first half of the year due to **bureaucratic issues**.
- Estimates as to the **impact of these funds on the economy** continue to point to a significant effect over the next three years: **1.5 pp of GDP on average per year**.
- In general, **it is expected that both** private and public investment **will benefit from the virtuous circle** that expansionary fiscal policy can produce, improved confidence related to the mass vaccination campaign and favorable financing conditions.

# GDP is expected to accelerate by 2022

Impact of new ICO and TLTRO III credit conditions

## IMPACT OF NEW TLTRO III CONDITIONS ON ANNUAL GDP GROWTH

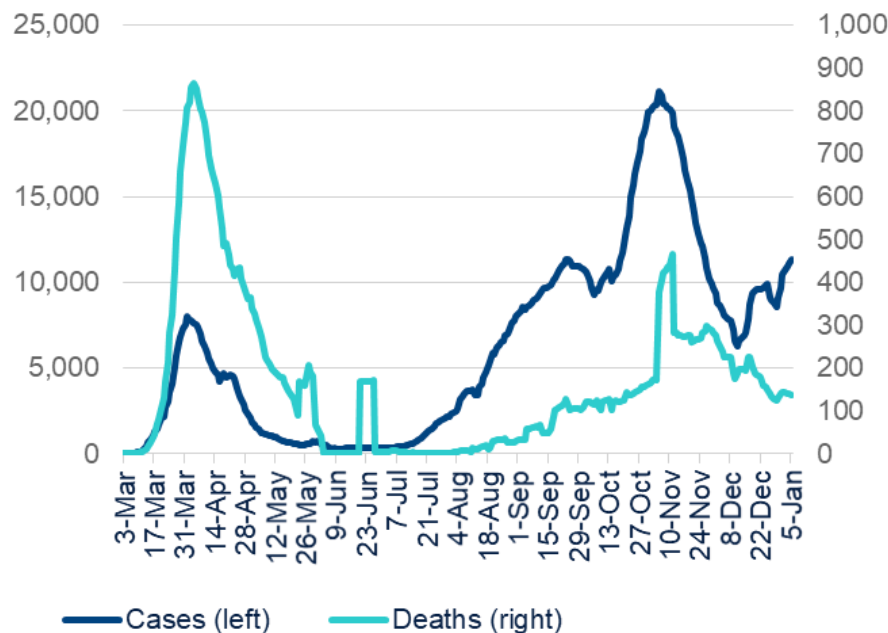


- The new terms and conditions of TLTRO III operations encourage banks to maintain the **loan portfolio**, particularly in the corporate lending and consumer segment.
- Also, **changes to the terms of ICO loans** may cause companies and families to delay the start of their deleveraging.
- It is highly likely that in the coming months there will be an **increase in the credit supply** (compared to a scenario in which these decisions were not made).

# Risks

Controlling the disease may take longer

## SPAIN: NUMBER OF DAILY CORONAVIRUS CASES (7-DAY MOVING AVERAGE)



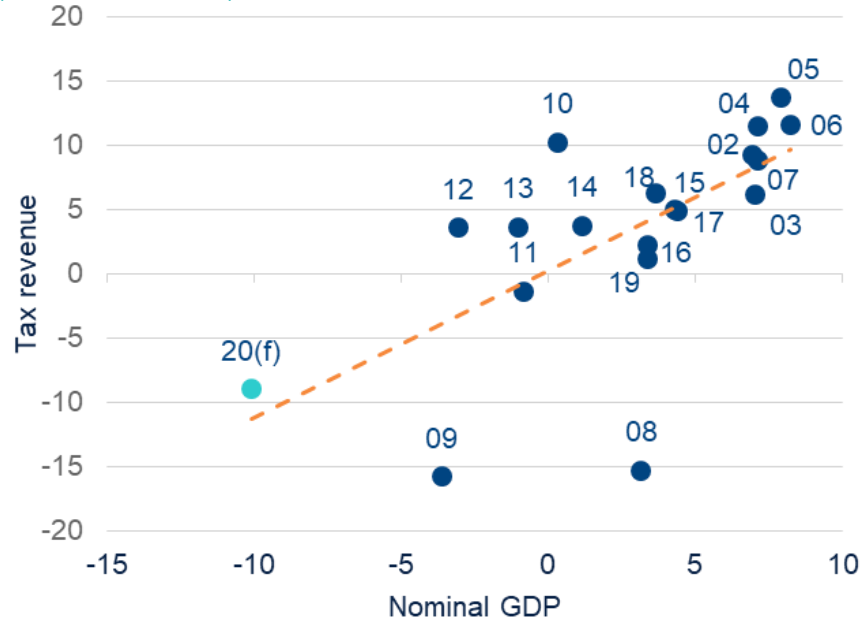
- There is **uncertainty about when herd immunity will be reached** and whether it will last over time.
- In the meantime, **social distancing measures may continue to be necessary** to limit the spread of the disease, with the associated economic cost.
- In addition, there is also the possibility of different regions in Europe and Spain progressing at **different speeds in the immunization process**, which would lead to an uneven recovery.

# Risks

Fiscal pressure has increased compared to other recessions

## PUBLIC ADMINISTRATIONS: TAX REVENUES AND GDP

(Y/Y GROWTH, %)

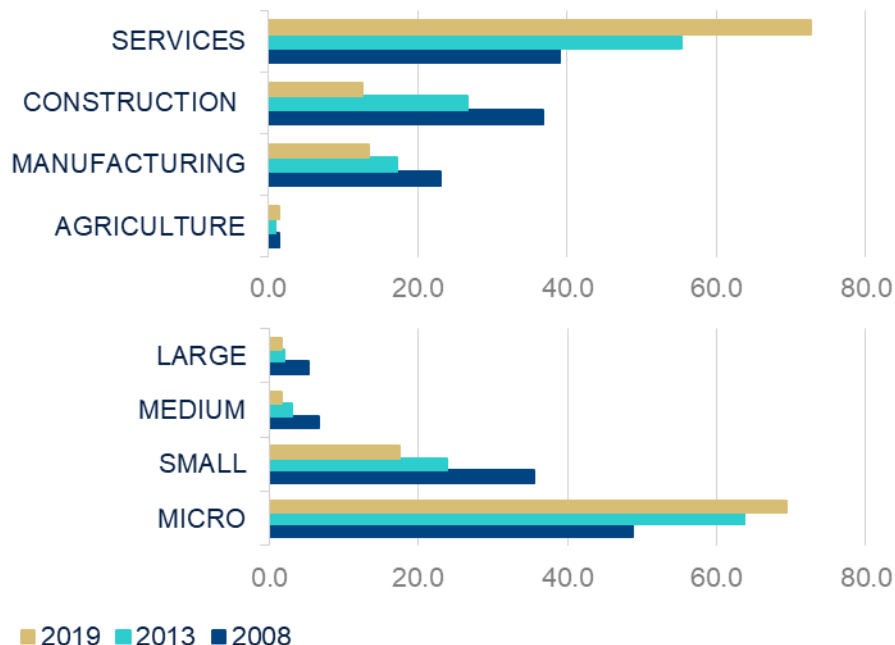


- Although budgets are expansionary, **they include** (few) measures **to increase collections** (financial transactions, less income tax deductions, etc.) **which raises uncertainty**.
- At the same time, **revenue has not fallen as much as it did in previous recessions**, partly thanks to a greater tax burden on businesses and families.
- It would be desirable for current expenditure levels not to be consolidated and for the reduction of the deficit to not result in increased fiscal pressure but rather in the **growth of the taxable bases as a result of increased potential growth**.

# Risks

## Solvency problems

### COMPANIES DECLARED BANKRUPT BY INDUSTRY AND BY SIZE (%)



■ Definition of the appropriate strategies to address debt restructuring:

- **Containment:** moratoriums, grace periods, refinancing, suspension of bankruptcy proceedings.
- **Transition:** facilitate debt restructuring, sustainable debt identification, viable enterprises, streamline extra-judicial mechanisms.
- **Stabilization:** permanent measures to combat excessive indebtedness (strengthening of the insolvencies framework) and to support the recapitalization of viable companies.

# Risks

## Not addressing the necessary measures

### REFORM AGENDA



The Spanish Government must present a **reform agenda** in the coming months, which will have to be approved by the European Commission.

### THERE IS A LOT AT STAKE IN SPAIN



**There is a lot at stake in Spain.** Firstly, because it is in its own interest to seize this opportunity to create the conditions for a more vigorous and sustainable recovery.

### CREDIBILITY AT STAKE



Secondly, because **the country's credibility is at stake.** The ECB's intention to prevent the fragmentation of sovereign-debt markets may be disputed if any member of the monetary union fails to meet its commitments.

# 03

## Forecasts

# Forecasts

% y/y	2019	2020 (f)	2021 (f)	2022 (f)
<b>National final consumption expenditure</b>	1.3	-8.8	5.7	5.4
Private consumption	0.9	-13.0	6.5	6.5
Public consumption	2.3	3.8	3.5	2.4
<b>Gross fixed capital formation</b>	2.7	-12.0	7.9	15.4
Equipment and machinery	4.4	-13.6	9.7	14.8
Construction	1.6	-14.7	7.0	14.8
Housing	4.1	-18.2	2.7	10.2
<b>Domestic demand*</b>	<b>1.4</b>	<b>-9.3</b>	<b>5.6</b>	<b>7.2</b>
<b>Exports</b>	2.3	-19.9	10.9	13.7
Exports of goods	0.8	-9.2	11.0	10.1
Exports of services	5.5	-42.4	10.6	25.6
Final consumption by non-residents in Spain	2.7	-70.3	40.0	59.8
<b>Imports</b>	0.7	-16.3	11.8	15.1
<b>External demand*</b>	<b>0.6</b>	<b>-1.7</b>	<b>0.0</b>	<b>-0.2</b>
<b>Real GDP at market prices</b>	<b>2.0</b>	<b>-11.0</b>	<b>5.5</b>	<b>7.0</b>

\* Contribution to GDP growth.

(f): Forecast.

Source: BBVA Research based on INE and BoS data.



# Forecasts

% y/y	2019	2020 (f)	2021 (f)	2022 (f)
Employment (full-time equivalent) based on Spanish Quarterly National Accounts	2.3	-7.2	4.7	4.5
Employment, based on Labor Force Survey	2.3	-2.8	1.9	4.8
Unemployment rate (% of labor force)	14.1	15.8	17.0	13.9
CPI (annual average)	0.7	-0.3	0.7	1.2
GDP deflator	1.4	0.9	1.1	1.5
Public deficit (% GDP)	-2.9	-11.5	-8.9	-5.6
Current account (% GDP)	2.0	0.8	1.1	0.9

(f): Forecast.

Source: BBVA Research based on INE and BoS data.

# Spain

# Economic Outlook

1Q21