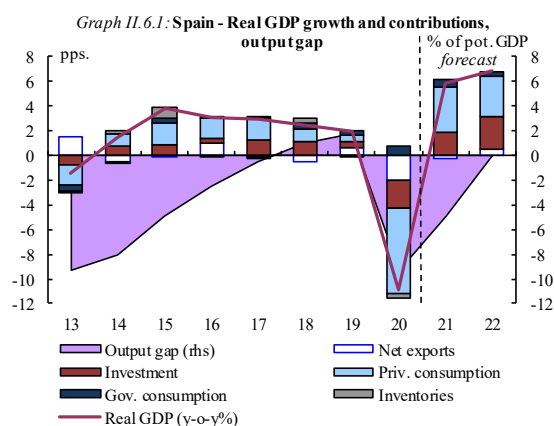


6. SPAIN

The strong rebound expected from the second quarter of 2021 should allow Spain's GDP to return to its pre-pandemic level by the end of 2022. The implementation of the Recovery and Resilience Plan will play a major role in the economic expansion, particularly in 2022. Dynamic domestic demand is expected to be the main driver of the recovery, accompanied by external demand in 2022, when tourism is projected to return to more normal conditions. The economic downturn worsened the general government balance in 2020, but the deficit is forecast to decrease gradually from 2021 onwards.

Economic growth is expected to resume in the second quarter of 2021

The severe outbreak of the COVID-19 pandemic in Spain and the strict lockdown measures taken in response to it resulted in an unprecedented decline in GDP in 2020 (-10.8%). The high number of infections in the first two months of 2021 forced Spain to tighten restrictions, which led output to drop further in the first quarter of the year (-0.5% of GDP, q-o-q). With the lifting of some restrictions in March, and the acceleration in the pace of vaccination, economic activity is set to begin growing over the second quarter and to continue more vigorously in the second half of the year. As was the case with the downturn in 2020, the recovery is also expected to remain uneven across sectors. Manufacturing production has started to pick up, while sectors with high social-interaction, such as leisure and tourism-related activities, are set to recover at a slower pace.



The Recovery and Resilience Plan is decisive for the expected rebound

The implementation of the Recovery and Resilience Plan (RRP) is expected to play a decisive role, driving the rebound in the second half of 2021 and helping to sustain the economic expansion over the forecast horizon. Spain is the

biggest beneficiary of grants from the Recovery and Resilience Facility (RRF) in absolute terms (EUR 69.5 billion) and this forecast assumes that half of this amount will be absorbed over the forecast horizon. If efficiently implemented, with its combination of strategic projects accompanied by broad reforms, the economic impact will be significant, particularly in 2022, when strong demand effects would be accompanied by a gradual contribution from the supply side.

Spain to return to its pre-pandemic GDP level within the forecast horizon

Overall, real GDP is projected to grow by 5.9% in 2021 and by 6.8% in 2022. As a result, Spain's GDP is expected to return to its pre-pandemic level by the end of 2022. With the prospect of a relaxation of restrictions in the second half of 2021, part of the accumulated savings prompted by the pandemic is expected to be unwound, spurring private consumption, but also investment. The higher absorption of RRF funds envisaged in 2022, with potential crowding-in effects on private investment and a carry-over effect from 2021, are forecast to provide a noticeable boost to economic growth in 2022. The contribution of external demand to GDP growth is set to turn positive in 2022, when tourism-related activities are likely to approach their 2019 level.

Inflation is expected to rebound in 2021, as a more sustained outlook for demand spurs a gradual rise in the prices of consumer services. Upward pressures are also likely to come from prices of electricity and of fuels such as diesel and petrol.

While uncertainty has decreased slightly, the outlook for Spain's economy is still subject to a larger degree of uncertainty than normal. This is due to uncertainties linked to the recovery of tourism-related activities, the response of private agents to the potential relaxation of containment measures, and the size and impact of public measures to contain the effect of the pandemic and

support the recovery, including the actual absorption of the RRP.

Policy measures have cushioned the impact of the COVID crisis

Existing short-term work schemes ('ERTEs') were made more generous at the outset of the crisis to mitigate job losses and are currently legislated to remain in place until the end of May 2021. In addition, several measures were taken to protect the self-employed by means of benefits for suspension of activity. Despite these measures, the fall in employment pushed the unemployment rate to 15.5% in 2020. Unemployment is forecast to slightly increase in 2021 (15.7%) before falling in 2022, when job creation is expected to reduce it to around 14.4%. Corporate liquidity has been enhanced by a programme of public guarantees for new bank loans and payment moratoria, among other measures. Nevertheless, impaired profitability could lead to the materialisation of corporate insolvencies with risks for productive capacity and employment. To limit these risks in the short term, the authorities adopted in March 2021 a further package of measures to support SMEs.

Government debt to come down from peak

As a result of the COVID-19 crisis and the policy response to it, the general government deficit widened by more than 8 pps. to 11.0% of GDP in 2020. A few one-off events, in particular the reclassification into the general government sector of SAREB, also took place, adding around 1 pp. to the deficit ratio and 3 pps. to the debt ratio in 2020. In 2021, the deficit is projected to narrow to around 7.6% of GDP, as a subsiding pandemic and the impact of a gradual implementation of the RRP of Spain leads to a rebound in economic activity, while the net impact of measures are set to weigh less on public finances. Thanks to a stronger impact on economic growth from the RRP in 2022, the deficit is forecast to narrow to 5.2% of GDP in 2022. Public guarantees provide crucial support, but also constitute a risk to the fiscal outlook. Due to the large government deficit, the severe contraction in GDP and the impact from the SAREB reclassification, the general government gross debt-to-GDP ratio rose by almost 25 pps. from 95.5% of GDP in 2019 to 120% in 2020. As growth resumes and the deficit narrows, the debt ratio is expected to gradually come down to around 116.9% of GDP by the end of 2022.

Table II.6.1:

Main features of country forecast - SPAIN

	2019			Annual percentage change						
	bn EUR	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	1244.8		100.0	1.5	3.0	2.4	2.0	-10.8	5.9	6.8
Private Consumption	713.8		57.3	1.2	3.0	1.8	0.9	-12.1	6.4	5.8
Public Consumption	234.9		18.9	2.6	1.0	2.6	2.3	3.8	2.7	1.9
Gross fixed capital formation	247.3		19.9	0.0	6.8	6.1	2.7	-11.4	9.6	12.7
of which: equipment	79.8		6.4	0.7	9.2	5.4	4.4	-13.0	12.2	15.0
Exports (goods and services)	434.3		34.9	3.2	5.5	2.3	2.3	-20.2	10.4	12.8
Imports (goods and services)	396.9		31.9	2.0	6.8	4.2	0.7	-15.8	11.7	11.7
GNI (GDP deflator)	1246.6		100.1	1.6	2.8	2.6	1.9	-10.6	5.6	6.8
Contribution to GDP growth:										
Domestic demand				1.2	3.2	2.7	1.5	-8.5	6.1	6.3
Inventories				0.0	0.0	0.3	-0.1	-0.3	0.0	0.0
Net exports				0.3	-0.2	-0.5	0.6	-2.0	-0.2	0.5
Employment				0.4	2.8	2.5	2.3	-7.5	4.5	2.0
Unemployment rate (a)				16.1	17.2	15.3	14.1	15.5	15.7	14.4
Compensation of employees / head				2.4	0.7	1.0	2.1	1.4	0.5	2.0
Unit labour costs whole economy				1.3	0.6	1.1	2.4	5.2	-0.8	-2.6
Real unit labour cost				-0.6	-0.7	-0.1	1.0	4.1	-1.8	-3.6
Saving rate of households (b)				8.4	5.8	5.6	6.3	14.8	11.1	7.3
GDP deflator				1.9	1.3	1.2	1.4	1.1	1.0	1.1
Harmonised index of consumer prices				2.1	2.0	1.7	0.8	-0.3	1.4	1.1
Terms of trade goods				0.1	-0.4	-1.4	-0.5	1.7	-0.3	-0.2
Trade balance (goods) (c)				-4.8	-1.9	-2.5	-2.1	-0.8	-1.5	-2.3
Current-account balance (c)				-3.3	2.8	1.9	2.1	0.7	-0.1	0.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.8	3.0	2.4	2.5	1.1	0.4	0.7
General government balance (c)				-4.0	-3.0	-2.5	-2.9	-11.0	-7.6	-5.2
Cyclically-adjusted budget balance (d)				-3.2	-2.8	-3.1	-3.9	-5.4	-4.6	-5.2
Structural budget balance (d)				-1.8	-2.7	-2.8	-3.7	-4.2	-4.9	-5.2
General government gross debt (c)				63.8	98.6	97.4	95.5	120.0	119.6	116.9

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.