SPAIN
2021-2022 SCENARIO

AN UNCERTAIN SUMMER

16 July 2021

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

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SUMMARY

AFTER THE DECLINE IN Q1, THE OUTLOOK IS IMPROVING

The worsening pandemic in late 2020 and early 2021 led to tighter restrictions on mobility and resulted in an economic decline in Spain in the first quarter of the year. GDP fell by 0.5% in Q1, after stagnating in Q4 2020. As a result of these developments, in the first quarter of 2021, Spanish GDP was 9.4% below the level reached at the end of 2019, a significantly larger gap than that observed in the Eurozone (5.1%). The fall in GDP mainly reflected the decline in private consumption and construction investment, while at the sector level there was still considerable variances between different branches of activity. Among the main demand-side GDP items, only government consumption and investment in equipment and intangible fixed assets showed positive growth rates. Moreover, as the contraction of exports was much smaller than that of imports, net foreign demand also made a positive contribution to growth in the first quarter. On the supply side, only the primary sector and the public administration, education and health sectors showed higher value-added than before the public health crisis began. In contrast, the service industries most affected by the pandemic – trade, transport, and accommodation and food services, as well as arts and entertainment – remained 20% to 30% below the levels of activity reached at the end of 2019.

The economic recovery should have gained ground throughout the second quarter: the pandemic has shown a more favourable course, progress has been made in vaccinating the population (41% of whom had received two doses by 7 July) and some restrictions have been gradually relaxed. This diagnosis is based on the improvement of several indicators: spending with payment cards, energy consumption, and employment. The PMI indices show an exceptional rebound in confidence in the service sector in Q2 (the indicator rose from 48 in March to 62.5 in June), while the level observed in industry remains very high. The components of the European Commission's June economic sentiment surveys also confirm a recovery in confidence across all sectors, particularly in May and June. We expect GDP growth of 1.4% in Q2, driven by a rebound in consumption and investment after the decline in Q1.

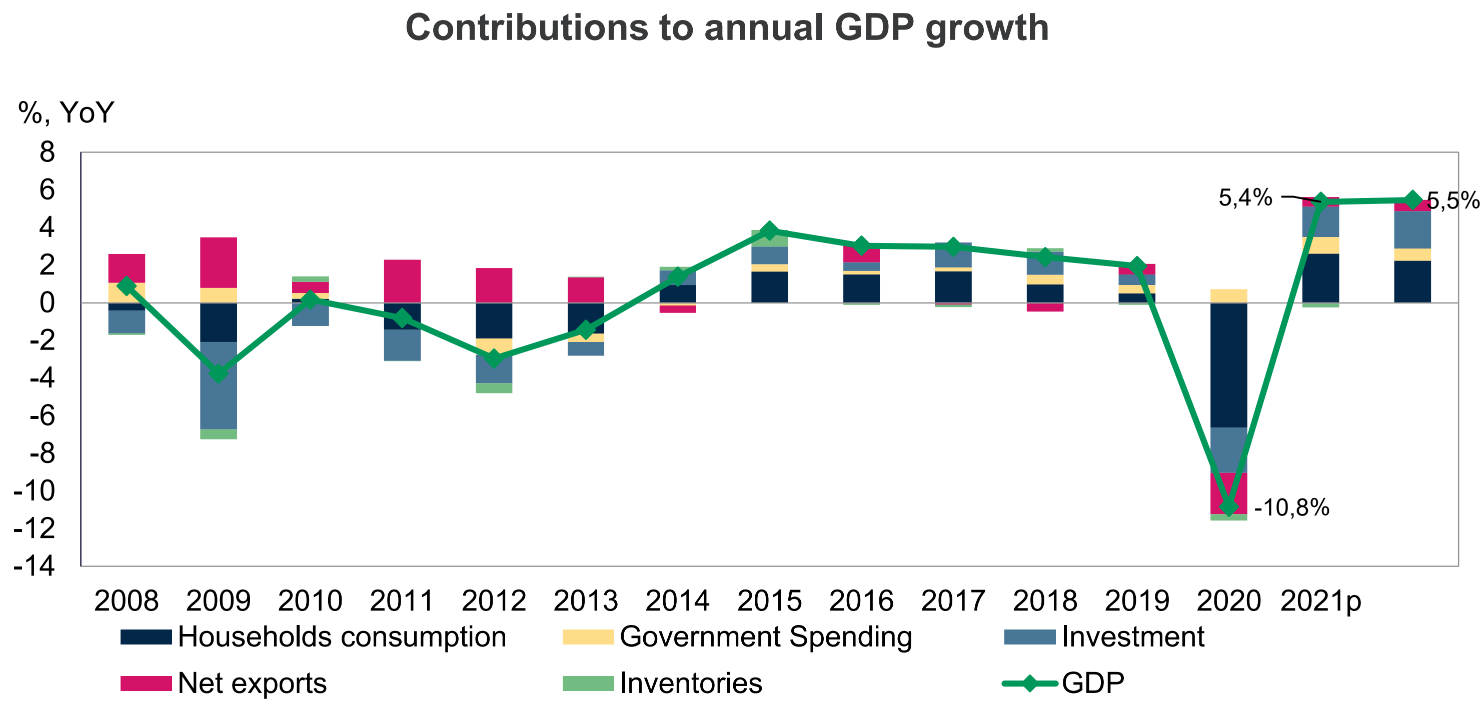
In the face of summer, the intensity and timing of the recovery remains highly dependent on the course of the pandemic, the progress of the vaccination campaign, and the subsequent relaxation of lockdown measures. In particular, the recovery of tourism will be contingent on the remaining restrictions being lifted on the movement of people between Spain and certain countries of origin for tourist flows (which could be delayed due to the spread of more contagious variants of the virus). We are projecting 4.8% consumption growth in 2021 and 4.2% in 2022, following negative growth in Q1, which will delay the recovery. Investment will benefit from the government's stimulus plan, which promises public investment growth of 7.7% in 2021 and 9.3% in 2020.

Our GDP growth forecast is 5.4% in 2021. In 2022 growth is expected to be 5.5%, which would still leave Spanish GDP 1% below its 2019 levels. The crisis' most persistent economic effects have not yet fully manifested. The effect of rising unemployment will hinder consumption throughout 2021 and 2022, which will discourage private investment. The unemployment rate looks set to rise from an average of 15.2% in 2020 to 16.7% in 2021, and would gradually decline thereafter.

The Spanish recovery plan will be an important tool to mitigate the effects of unemployment and private investor uncertainty. In the Finance Bill, the government has planned to spend €26.6m on the National Funds account in 2021 to accelerate economic recovery. The initial strategy is to focus them mainly on projects that can be implemented quickly.

SUMMARY

SUSTAINED GROWTH



Sources: Eurostat, Crédit Agricole S.A / ECO

Spain	2020	2021	2022	2021				2022			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	-10,8	5,4	5,5	-0,5	1,4	3,4	1,4	1,0	0,9	0,9	0,8
Households consumption	-12,1	4,8	4,2	-1,0	1,1	2,1	1,0	0,9	0,9	0,7	0,6
Investment	-11,4	7,7	9,3	-1,9	1,9	6,1	2,0	2,0	1,5	1,5	1,0
Change in inventories*	-0,3	-0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net export*	-2,2	0,5	0,6	0,4	0,1	0,7	0,2	0,0	0,0	0,1	0,1
Unemployment	15,6	16,8	16,8	15,5	16,3	17,4	17,8	17,7	17,1	16,2	16,2
Government net lending	-11,0	-8,4	-5,0								

* Contributions to GDP growth

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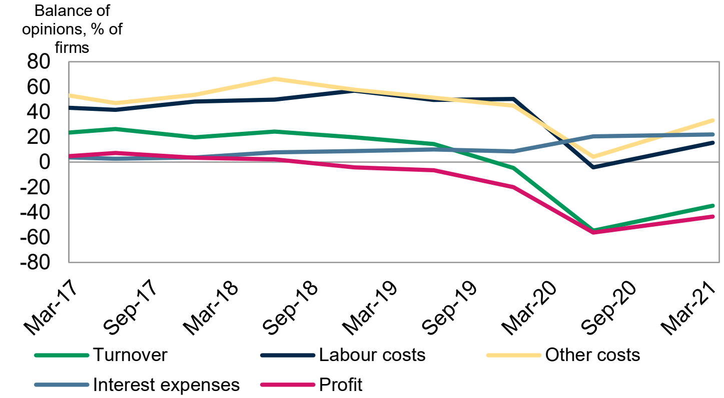
FOCUS: SITUATION OF SPANISH SMES

BUSINESS DECLINING, AT A SLOWER PACE

On 1 June, the European Central Bank (ECB) published the results of the Survey on the Access to Finance of Enterprises in the Eurozone (SAFE), which covers the period from October 2020 to March 2021. The survey asks companies, mainly small and medium-sized enterprises (SMEs), about their economic and financial situation over the past six months, their external financing needs and the conditions under which they have or have not obtained such financing. In the case of Spanish SMEs, the data from this latest edition of the survey show that their activity has continued to deteriorate due to the weak economic situation, although at a slower pace than in the period between April and September 2020, when the first wave of the pandemic took place.

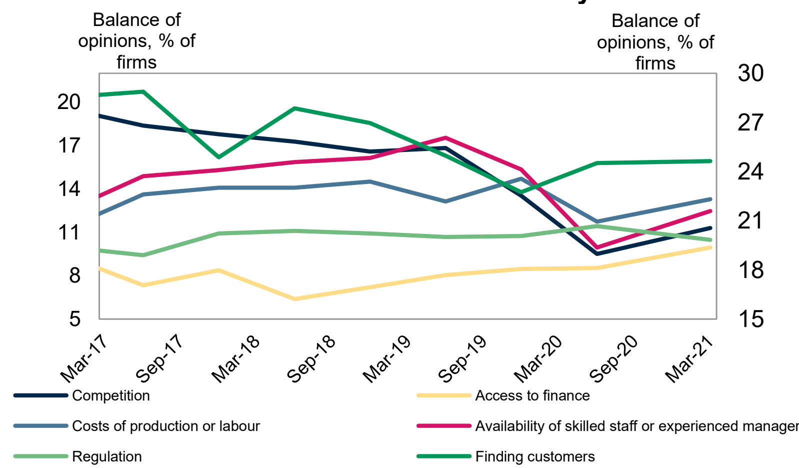
Thus, although the number of companies reporting an increase in revenue between October 2020 and March 2021 was, for the third time in a row, lower than the number reporting the opposite, the difference between the two groups (net percentage) has narrowed significantly, to 35% (55% in the previous edition of the survey). This change in revenue, combined with rising costs (staff and other costs), has led to a high number of companies reporting a fall in profits: 43% in net terms, compared with 56% previously. When asked about their main concern, the lack of customers is the reason cited by the highest percentage of Spanish SMEs (24%). On the other hand, access to financing was once again the least cited concern of businesses. The proportion of Spanish SMEs that sought a bank loan was 29% (49% in the previous edition, when SMEs made massive use of the government guarantee lines managed by the ICO). In addition, firms' perceptions of access to financing continued to improve, although at a slightly slower pace than six months earlier.

Trends in sales and profits



Sources: ECB, Crédit Agricole SA / ECO

Main obstacles to SME activity



Sources: ECB, Crédit Agricole SA / ECO

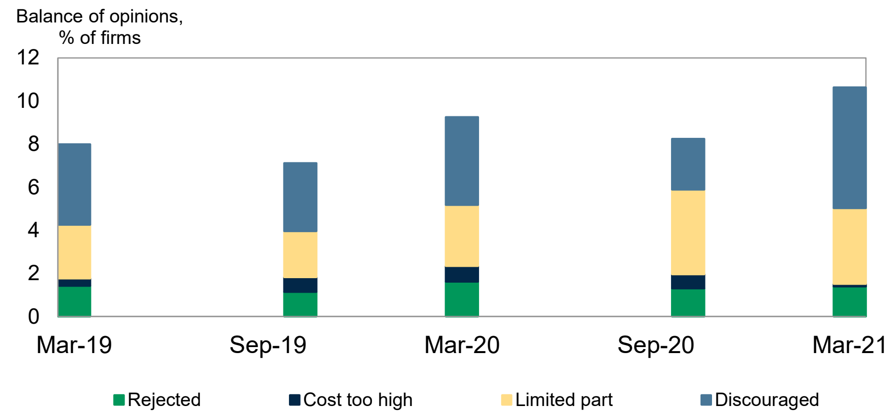
FOCUS: SITUATION OF SPANISH SMES

HIGHER INTEREST RATES AND TIGHTER COLLATERAL REQUIREMENTS

The indicator of difficulties in obtaining bank loans deteriorated, with an increase of 3 pp in the proportion of Spanish companies experiencing such difficulty, to 11%, which is mainly due to the increase in the number of companies that did not apply for financing because they thought it would not be granted (discouraged applications). With regard to financing conditions, the net percentage of firms reporting an increase in interest rates rose significantly to 14%. In addition, SMEs have again seen a tightening of collateral requirements and loan conditions other than amount and term. In contrast, the net proportion of companies reporting an increase in the amount of loans (14%, compared with 25% one month earlier) and most importantly, in maturities (25%, +5 pp) remained positive, likely due to the extension of loan maturities under the government guarantee programme, which was approved by the government last November.

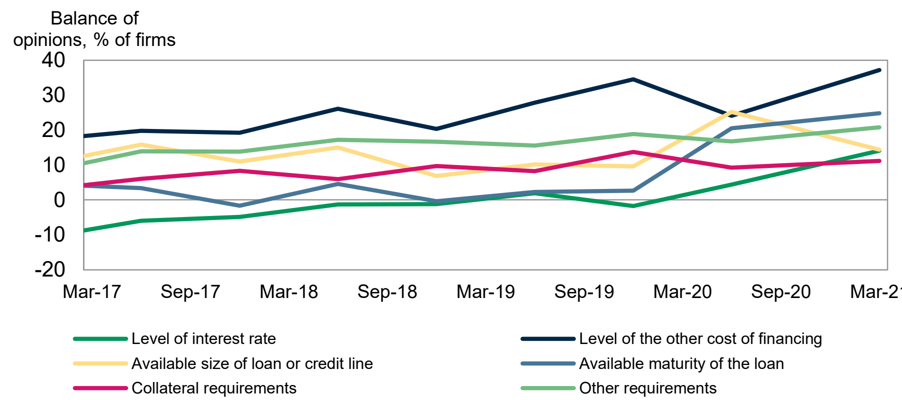
In summary, the latest edition of SAFE shows that between October 2020 and March 2021, Spanish SME activity continued to deteriorate, although more moderately than in the previous cycle. Against this backdrop of economic weakness, the perception of SMEs as a whole regarding their access to external financing continued to improve, although the proportion of businesses that reportedly experienced difficulties in obtaining such financing increased. In addition, SMEs reported some increase in interest rates and tighter collateral requirements, although other financing conditions have changed favourably, including loan maturities. The progress of SMEs is fundamental in Spain, as they represent 99% of the Spanish productive environment. The Spanish government has been less generous than its neighbours with companies throughout the crisis, focusing particularly on preserving employment and household purchasing power. The rapid implementation of the recovery plan will be fundamental to generating the demand required to sustain SME activity.

Difficulties in obtaining bank loans



Sources: ECB, Crédit Agricole SA / ECO

Changes to the conditions for granting a loan



Sources: ECB, Crédit Agricole SA / ECO

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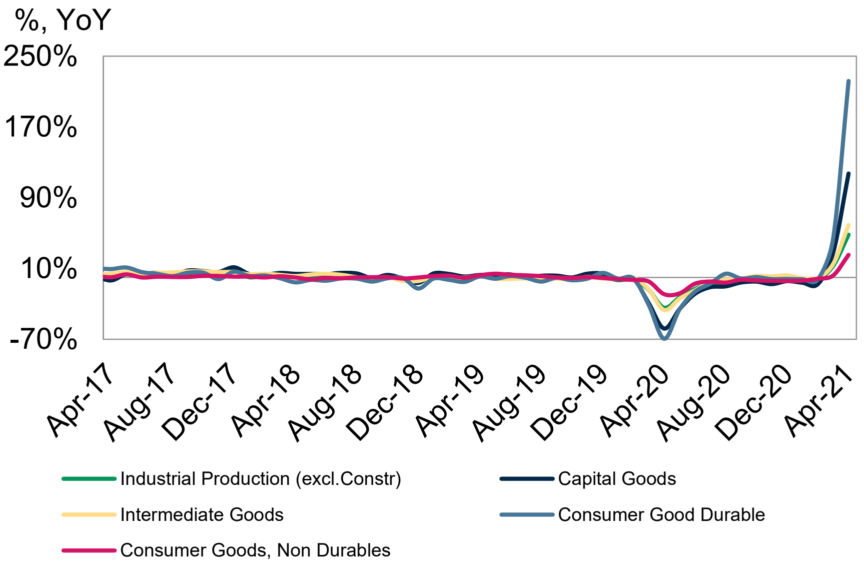
RECENT ECONOMIC TRENDS

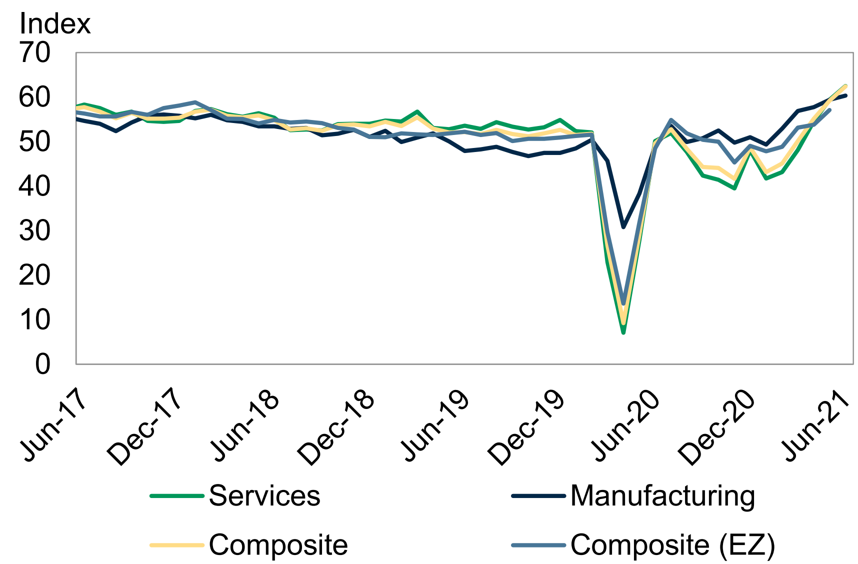
MORE WIDESPREAD RECOVERY IN Q2

Industrial output



Sources: Eurostat, Crédit Agricole SA / ECO

Purchasing Managers Index (PMI)



Sources: Markit, Crédit Agricole SA / ECO

The economic recovery should have gained ground throughout the second quarter: the pandemic has shown a more favourable course, progress has been made in vaccinating the population and some restrictions have been gradually relaxed. This diagnosis is based on the improvement of several indicators: spending with credit cards, energy consumption, and employment. The PMI indices show an exceptional rebound in confidence in the service sector in Q2 (the indicator rose from 48 in March to 62.5 in June), while the level observed in industry remains very high. The industrial output index posted three consecutive months of increases in May, rising 4.3% from April. Similarly, with information collected mainly in the first half of May, the survey of Spanish companies carried out by the Bank of Spain indicates a favourable revenue trend in the second quarter.

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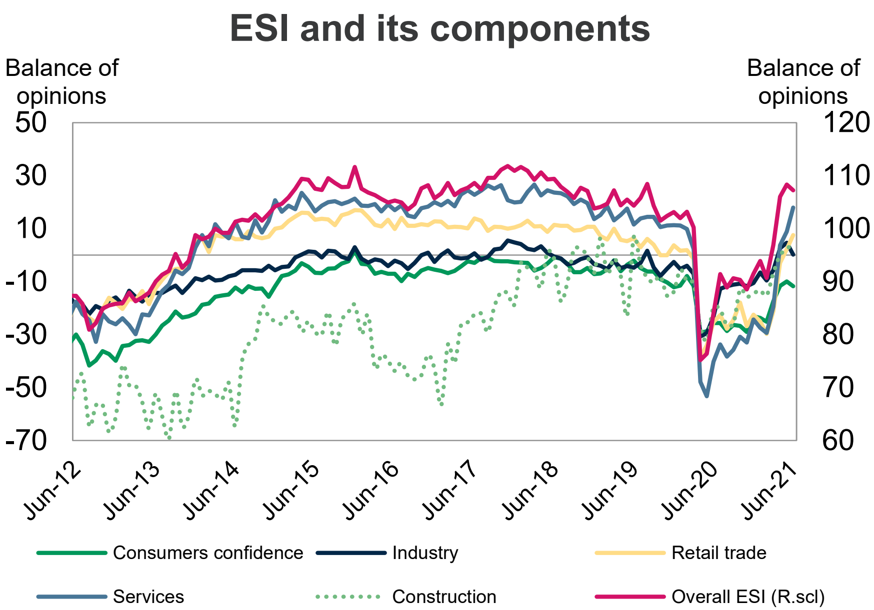
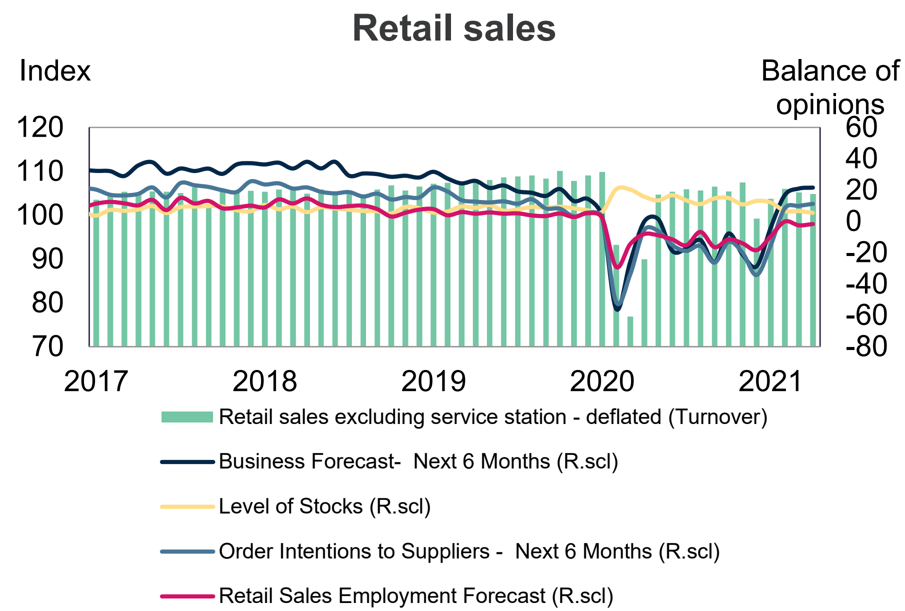
IMPROVED SURVEYS IN ALL SECTORS



Sources: Eurostat, Crédit Agricole SA / ECO



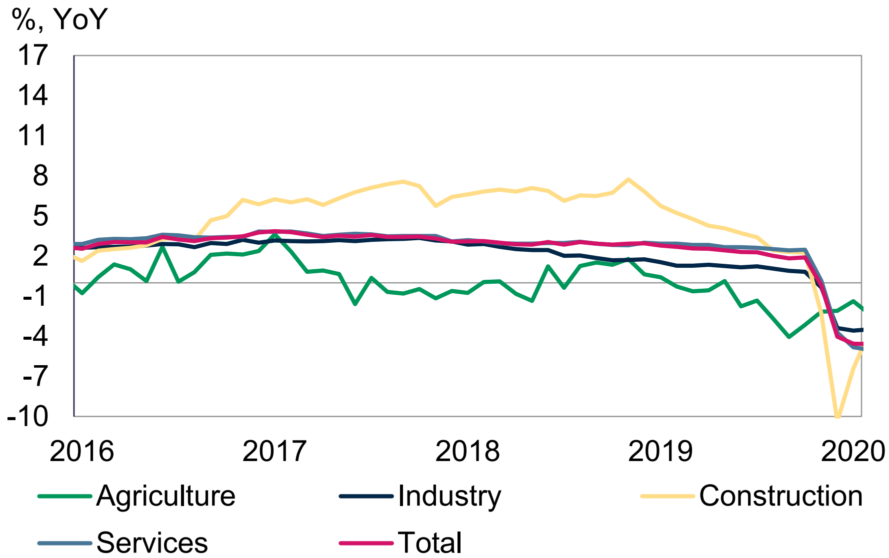
Sources: ICI, Crédit Agricole SA / ECO

The components of the European Commission's June economic sentiment surveys also confirm a recovery in confidence across all sectors, particularly in May and June. The services revenue index from April (latest data available) indicates that tourism is starting to show signs of recovery as the summer season begins (revenue at accommodation services jumped by 10% month-on-month in April and that of travel agencies by 6.3%). On the other hand, the tensions in supply chains caused by the shortage of supplies, the rise in their prices and the increase in suppliers' delivery times are reflected in the turnover of land transport and wholesale activities. The retail sales index showed some sluggishness in April and May; the overall index remained stable, as did economic expectations over the next six months, future orders to suppliers and industry employment forecasts.

OUTLINE OF OUR SCENARIO

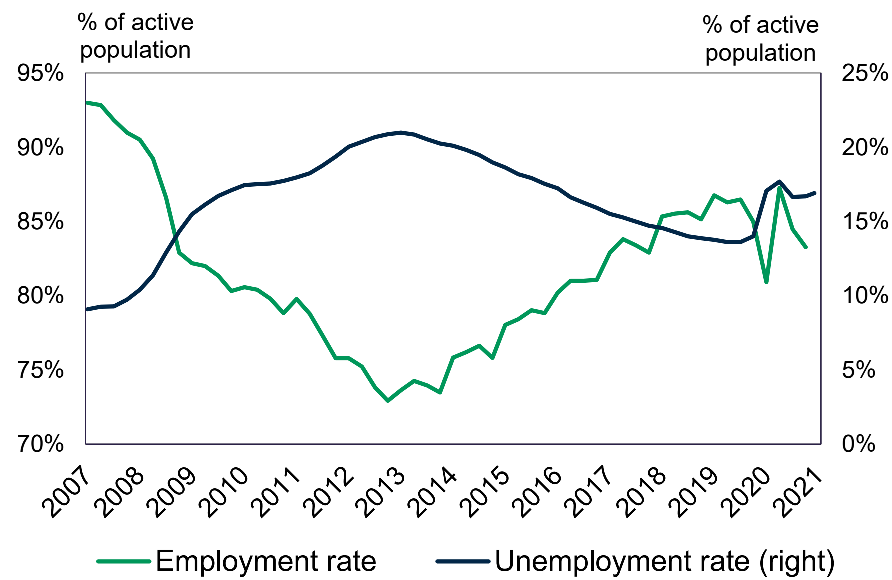
CLEAR IMPROVEMENT IN EMPLOYMENT IN Q2

Employment: Social Security enrolment



Sources: Ministère du Travail, Crédit Agricole SA / ECO

Unemployment rate

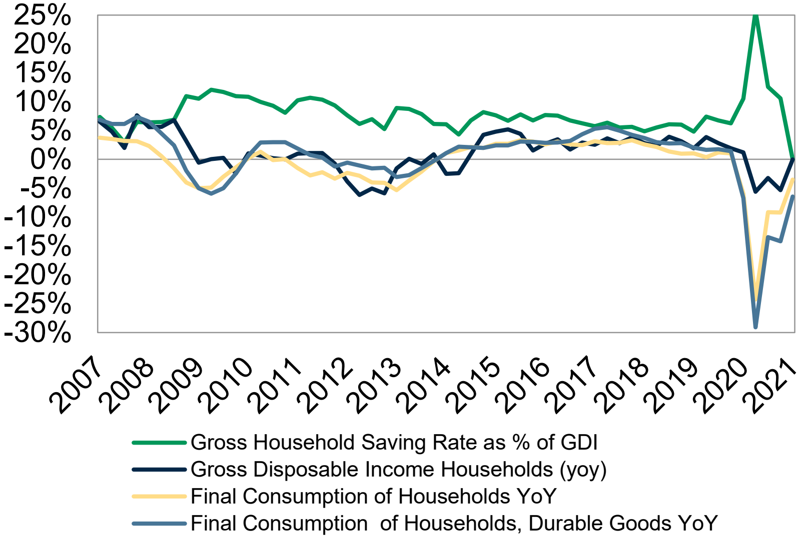


Sources: Ministère du Travail, Crédit Agricole SA / ECO

After the downturn observed at the beginning of the year (employment fell by -0.7% in Q1 compared to Q4), the number of employees has improved significantly in recent months. In particular, in May, total enrolment increased by almost 212,000 and by 233,000 in June. The number of workers on ERTE registered further declines, averaging 573,500 in May and 447,000 in June. As a result, the effective enrolment rate in May was 4.4% below its pre-crisis level, a marked improvement on the 6.4% gap observed in the average for the first quarter of the year. In any case, there is still considerable sectoral heterogeneity in employment trends, so that some sectors – such as hotels and arts and recreation – are still a long way from the employment levels they reached in February 2020, while others – such as information and communication, education and health – have already exceeded those levels. We project that unemployment will increase in 2021, due to the lockdowns which will gradually be lifted, but which will remain present for the entire current year, and that tourism will have an incomplete restart this year. We also consider the permanent effects of the crisis, which will lead to a loss of jobs, as a consequence of the bankruptcy of companies whose financial and/or business model is no longer viable (according to the Bank of Spain, 40% of Spanish companies ended 2020 under financial pressure). However, we have revised our unemployment forecast down slightly to a peak of 17.7% in Q1 2022.

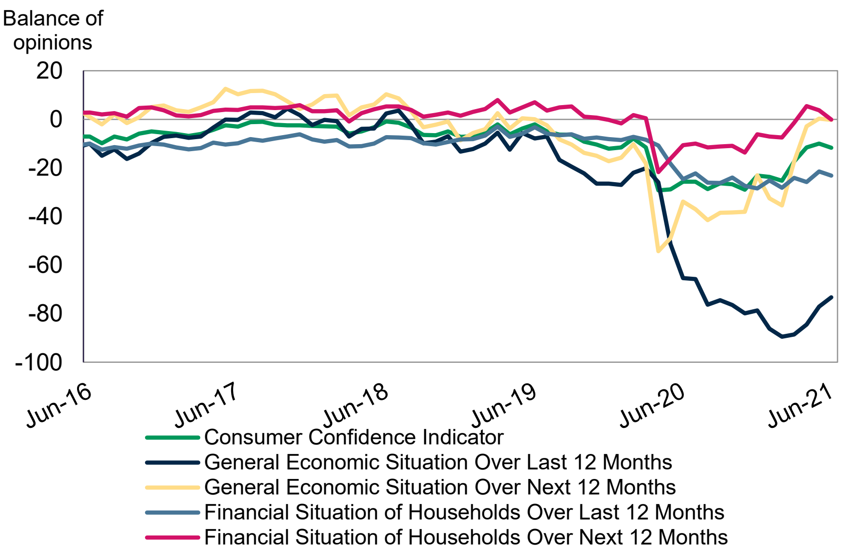
HOUSEHOLD CONSUMPTION AND WAGES

Change in gross disposable income and its components



Sources: Eurostat, Crédit Agricole SA / ECO

Household survey



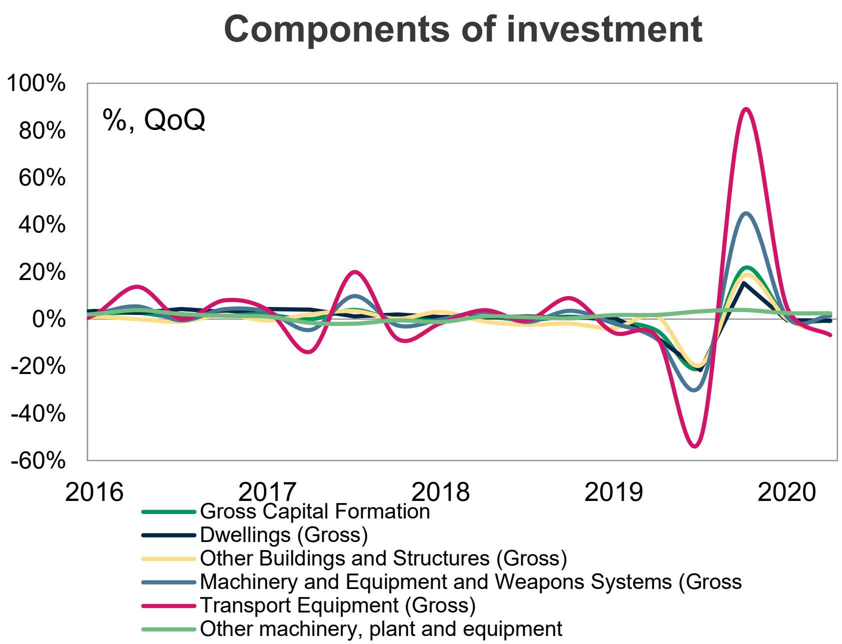
Sources: Commission européenne, Crédit Agricole SA / ECO

Private consumption fell by 0.6% in Q1 compared to Q4. Consumption of durable goods declined by 15.5%, while non-durable goods and services rose 2%. The household savings rate stands at 10.6% of gross disposable income, unchanged from Q4 2020, and the investment rate has declined slightly to 5.3% (5.7% in Q4 2020). In recent months, the gradual easing of restrictions, the acceleration of the vaccination campaign and the improvement in the labour market are thought to have contributed to more dynamic private consumption. This can be inferred, for example, from recent developments in payment card spending, consumer confidence and consumer credit.

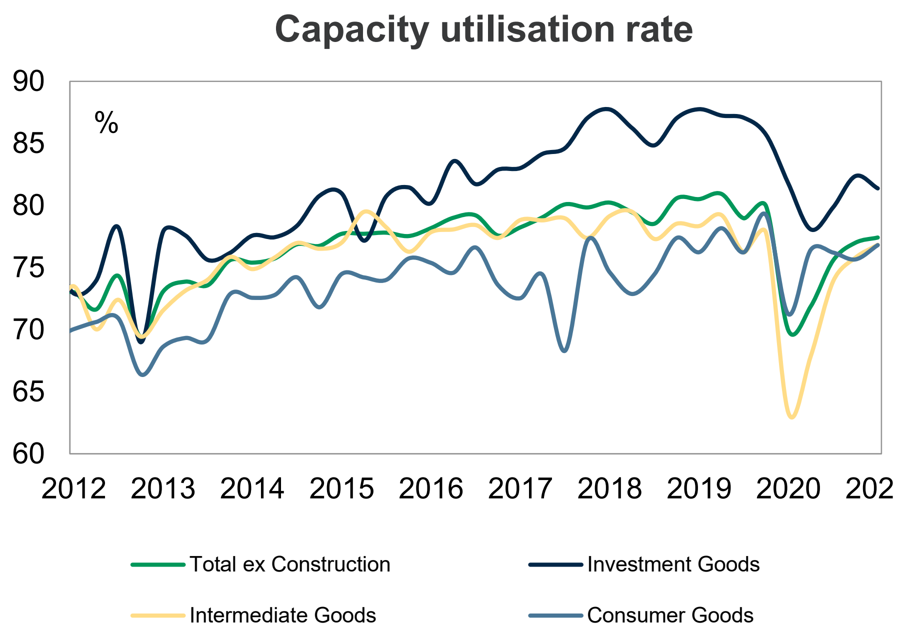
The pace at which the volume of savings built up by families (primarily in the form of bank deposits) could be released, once the epidemiological situation starts to return to normal, will be a key factor for future consumer and economic behaviour. We expect consumption to rebound by 1.1% in Q2, after the decline in Q1, followed by an acceleration in Q3, when households could release some of their accumulated savings. Thereafter, we expect consumption to be less vigorous, and by the end of 2022 it will still be 4% below its pre-crisis levels.

OUTLINE OF OUR SCENARIO

INVESTMENT, CONSTRUCTION DEEPLY HURTS Q1



Sources: INE, Crédit Agricole SA / ECO.

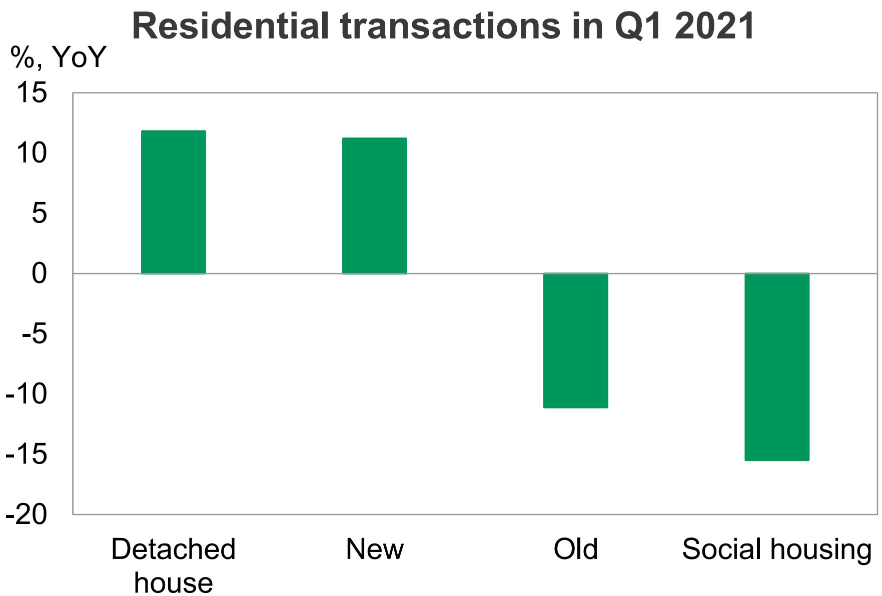


Sources: Ministère de l'Industrie et du Commerce, Crédit Agricole SA / ECO.

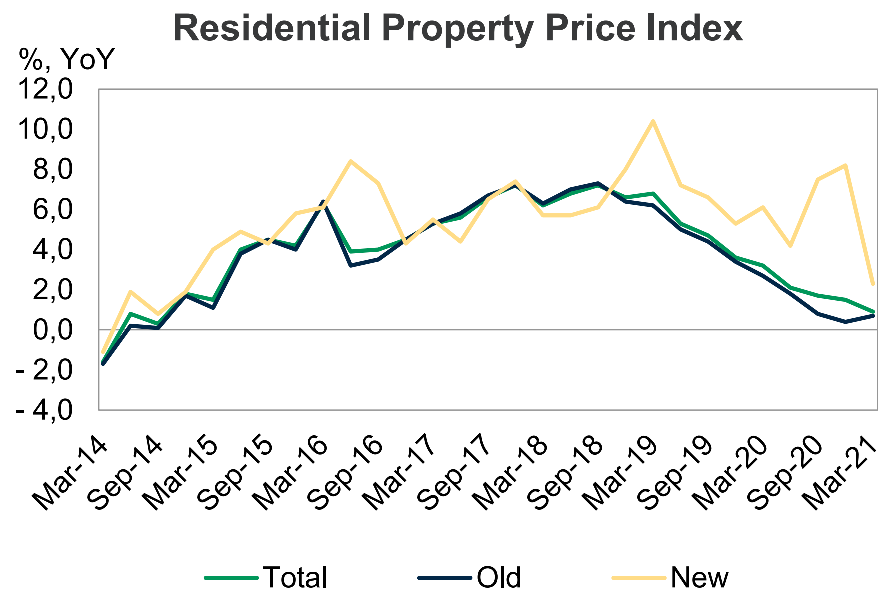
Investment fell by 1.9% in Q1 on a quarterly basis (+1% in Q4), due to the halt in the construction sector (-5%), which was paralysed for almost three weeks by Storm Filomena. Productive investment, on the other hand, grew by 0.9%, driven by investment in machinery and equipment. Business investment was reported to have increased at the beginning of the second quarter. The composite business PMI (in positive territory since March) and the European Commission's confidence indicators (which show a strong recovery in industry and services in recent months) support this view. Similarly, industrial output forecasts and order book opinions reached historic highs in June. However, there are tensions such as the extremely high proportion of industrial companies that are pointing to the lack of installed equipment as one of the factors limiting their capacity to produce or a very marked increase in the price of supplies. We expect investment to rebound by 1.9% in Q2 2021, driven by construction. In the second half of the year, assuming an effective vaccination campaign, companies could resume investment, but it is public investment, via the recovery plan, that is likely to take over as the driving force behind investment.

OUTLINE OF OUR SCENARIO

CONSTRUCTION PICKS UP IN Q2



Sources: INE, Crédit Agricole S.A.



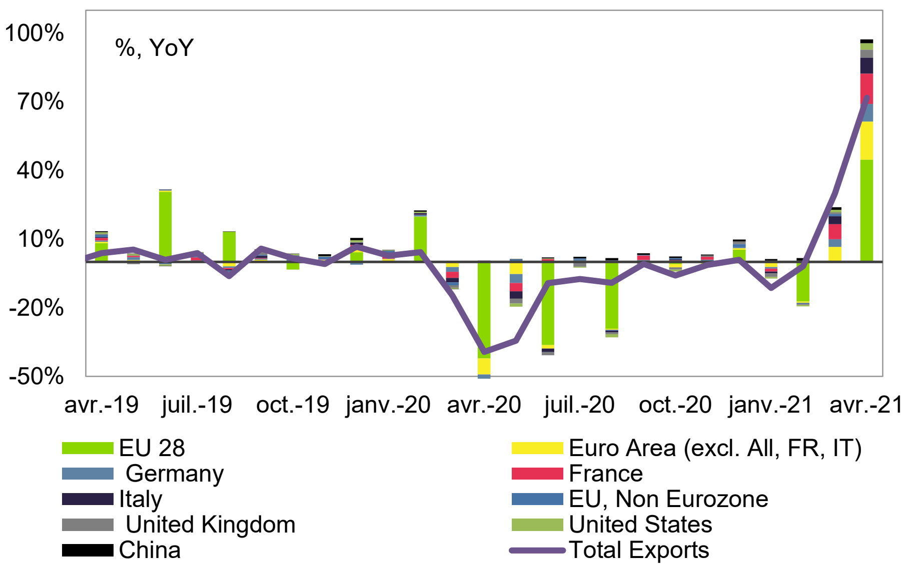
Sources: INE, Crédit Agricole S.A.

In the first three months of the year, housing investment contracted by 2.9% compared with the previous quarter due to the adverse effects of bad weather on construction activity. The number of transactions carried out between January and March is 3.5% lower than in the same period in 2019, with notable heterogeneity depending on the type of housing. The slowdown in housing investment would have been transitory, according to some recent indicators that allow the progress of the execution of the work to be approached – for example, the consumption of cement and membership in the construction sub-sector – so that this component of demand has been reactivated in recent months. In addition, the balance of credit for home purchases has shown greater dynamism in recent months, increasing slightly on a quarterly basis. For its part, house prices have maintained the gradual deceleration process observed since the second half of 2018, which has been particularly intense in the case of older homes. Along those lines, the INE house price index moderated its year-on-year growth rate in the first quarter of the year to 0.9% (1.5% in Q4 2020).

OUTLINE OF OUR SCENARIO

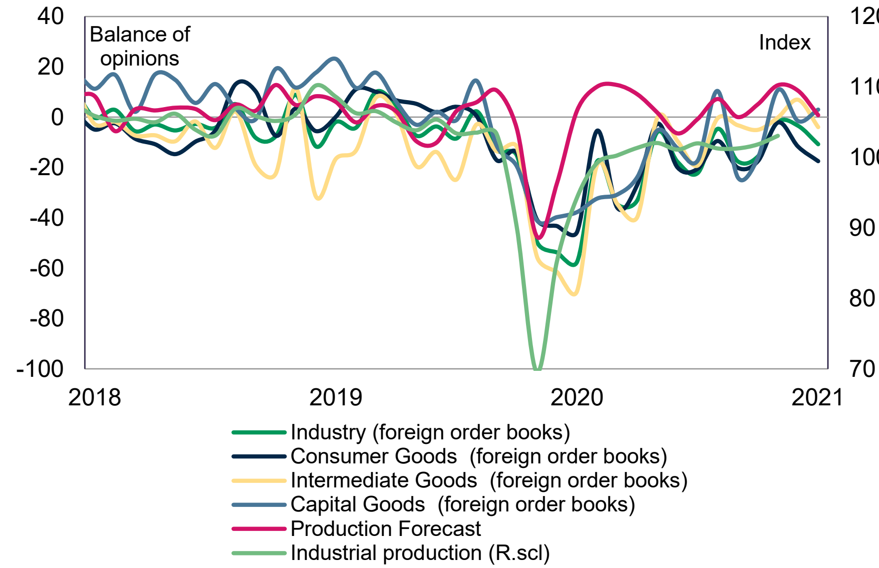
INTERNATIONAL TRADE

Exports by destination



Sources: Banque d'Espagne, Crédit Agricole SA / ECO

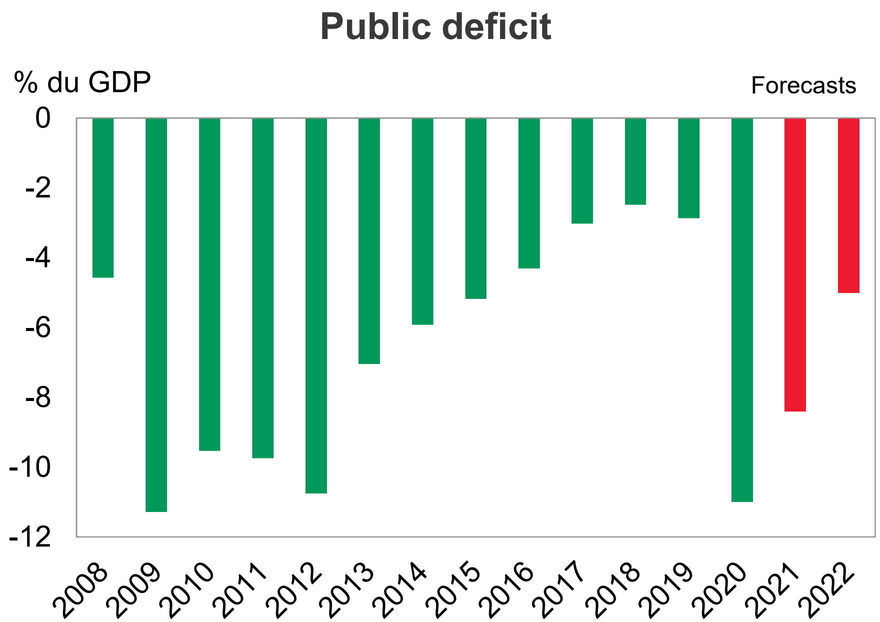
Export order books



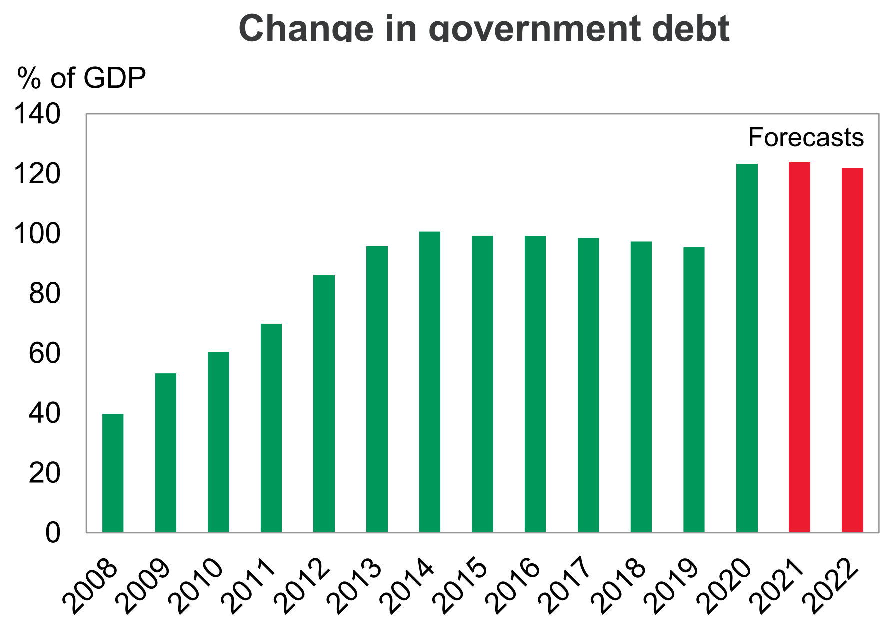
Sources: ICI enquête minis. de l'Industrie & du Commerce , Crédit Agricole SA / ECO

In Q1 2021, international trade added 0.36 points to GDP growth, due to the sharp slide in imports (-1.3% quarter-on-quarter) and exports (-0.1%). The trend in new export orders and intermediate consumption purchases in the manufacturing PMI indicates an increase in exports and imports of goods in Q2. However, recent supply problems for some intermediate products have likely limited the resumption of these trade flows, especially in industries most integrated into global value chains, such as the automotive industry. The outlook for the summer tourist season remains shrouded in considerable uncertainty. Up to May (the latest data available) foreign tourist arrivals and expenditure in Spain remained at very low levels. The intensity with which these flows may recover in the coming weeks and during the summer will depend on the course of the pandemic, the restrictions on international mobility established by neighbouring countries (notably the UK) and the effective deployment of the EU Covid digital certificate. We are projecting a 10.2% increase in exports in 2021, which will see their greatest contribution in the second half of the current year. In 2022, the recovery will continue and tourism services are expected to normalise their contribution to the current balance. This will result in 8.4% export growth in 2022.

PUBLIC FINANCE: COVID-19 REPORTEDLY COST THE GOVERNMENT €45BN IN 2020



Sources: Programme de stabilité et de croissance, Crédit Agricole SA / ECO



Sources: Programme de stabilité et de croissance, Crédit Agricole SA / ECO

In the first quarter of the year, the general government deficit increased again. In particular, excluding local government, the government deficit increased to 1.3% of GDP, compared to levels of 0.9% and 0.3% in the same period of 2020 and 2019 respectively. These developments are mainly the result of increased government expenditure, while revenues, boosted by measures to support household incomes, are estimated to have already returned to their pre-crisis level. In late May, the government also approved a further extension of employment protection measures for ERTE workers and self-employed persons who have stopped working. The approved extension, which will be in force until the end of September, maintains similar conditions to those already applied to these instruments since their last renewal. It also introduces incentives for the reincorporation of ERTE workers into the business in the form of exemptions from 85% to 95% of social security contributions in the sectors most affected by the pandemic. The public deficit is expected to fall in 2021 to -8.4%, taking into account the package recently approved by the government. As for the debt, it is expected to increase slightly to 123% of GDP in 2021, and then gradually decline in the following years.

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FOCUS: THE SPANISH RECOVERY PLAN

€70 BILLION, 40% IN ENERGY TRANSITION 30% IN DIGITAL

Spain expects to receive around **€70 billion between 2021 and 2023 in the form of grant transfers** from the European recovery plan. This sum could be supplemented by a further €70 billion in the form of loans that the country can apply for to implement its investment programmes. Spain will receive an initial automatic payment of around €9 billion and the remainder will be released as intermediate steps are taken and reforms are implemented. **In the Finance Bill, the government has planned to spend €26.6m on the National Funds account in 2021 to accelerate economic recovery. The initial strategy is to focus them mainly on projects that can be implemented quickly.**

Among the largest investments**, €6.5 billion, i.e. 9%** of the 2021-2023 budget, **is allocated to the de-carbonisation of urban mobility** with the installation of 150,000 fast charging stations, and support for purchases of electric vehicles. **Energy renovations in housing and the construction of social housing has a budget of €6.8 billion, i.e. 10% of the** of the plan’s expenditures. **The tourism sector** will receive **€3.4 billion (5%**), in order to finance the improvement of the sector’s competitiveness. The digital transition is the second-largest area. **Digitising public administration accounts for 6% of the budget, and digitising SMEs 7%. A total of 30% of the budget is dedicated to digital transformation**: these investments are aimed at simplifying and digitising administrative procedures, alongside grants to SMEs supporting digitisation projects in the value chain of the various industrial sectors. **The national plan for digital skills (€3.5 billion, 5%) aims at cross-cutting digital training for the entire population. Finally, €4 billion will be dedicated to digital connectivity and 5G.**

The plan also addresses the **weaknesses of the labour market**, which is characterised by a sharp divide between workers on open-ended contracts and those on fixed-term or involuntary part-time contracts. It recommends **simplifying contractual arrangements with the aim of making open-ended contracts the norm**. The aim is to encourage the use of **permanent-discontinuous contracts for seasonal activities** and to penalise the excessive use of very short-term contracts. The plan also includes proposals for the **pension system**, such as incentives to **delay the retirement age through improved benefits, advantages for companies that retain older workers and the promotion of pension savings schemes**.

Finally, in terms of macroeconomic impact, the government provides an estimate of **2 additional growth points on average in 2021 and 2022**, while the impact in the medium and long term would amount to 0.4 additional points per year. Half of this improvement is expected to be reissuance attributable to digital projects, accompanied by the positive effect of structural changes on continuing education and on the modernisation of active employment policies. The plan could generate around 12 jobs for every €1 million invested, giving a total of **840,000 jobs over three years**.

THE GOVERNMENT'S RESPONSE AND ITS FISCAL IMPLICATIONS

THE SPANISH RECOVERY PLAN

***Next Generation* EU**
- €750bn

Spain
- € 140bn

Grants
- €72,7bn

Loans
- €67,3bn

ALLOCATION OF FUNDS (NEXT THREE YEARS)	%	€ Bn
Urban and rural agenda, fight against depopulation and agricultural development	20,7	13,9
Infrastructures and ecosystems	15	10,1
Energetic transition	9,2	6,2
Modernization of public administrations	6,2	4,2
Modernization and digitization of the industrial fabric and SMEs	23,1	15,5
Science and innovation	7,1	4,8
Education	10,5	7,1
Labour market	7%	0,0
Culture and sport industry	1,2	0,8
Modernization of the tax system	10	6,7
Total	100	67,3

Sources: La Moncloa, Crédit Agricole SA / ECO

CONSULT OUR LAST PUBLICATIONS

Date	Title	Theme
15/07/2021	The ECB's missed opportunity: gearing up for the next war… or the last one?	Eurozone
13/07/2021	France – Scenario 2021-2022: A recovery well underway	France
06/07/2021	Middle East – Political risk is not improving	Emerging countries
02/07/2021	World – Macroeconomic Scenario for 2021-2022: painfully divergent trajectories	World
02/07/2021	World – 2021-2022 Macroeconomic Scenario: economic and financial forecasts	World
01/07/2021	Covid-19 in sub-Saharan Africa: the dangers of the third wave	Emerging countries
25/06/2021	Henry, Milan and the rest	World
10/06/2021	Asia: vaccination delays a worry	Asia
03/06/2001	Seaweed: towards a greener future	Agrifood
27/05/2021	Robinhood: FinTech at its worst	FinTech
25/05/2021	United-Kingdom – After a not-bad Q1, the recovery is looking strong	United Kingdom
21/05/2021	Battery metals under pressure	Mines & metals
18/05/2021	France – 2021-2027 Stability Programme: Public debt ratio stabilised at high level	France
06/05/2021	Italy – 2021-2022 Scenario: Exiting the third wave	Italy
05/05/2021	United-Kingdom – Coming Scottish elections: putting independence to the test	United Kingdom

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