

## Spain in 2021: Many economic hurdles to recovery

Looking at the challenges for Spain in 2021, one could become dismayed. The health crisis was severe, and together with the specific characteristics of the Spanish economy, this has had a disproportionate effect on activity. We expect those same factors will lead to a slow recovery in 2021 and beyond



Spain's economic downturn in 2020 is likely to be the worst of all eurozone countries. Economic activity is currently still 9% lower compared to the pre-crisis level, while for the eurozone as a whole, the damage lies around 4%. The strict lockdown during the first wave, the second which came early, the reliance on tourism, a high share of small businesses in the service industry and, limited fiscal space all contribute to this.

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And many of the reasons why Spain was hit so hard will likely lead to a slow recovery in 2021 and

beyond. It is unlikely that the tourism sector fully recovers in 2021. And the high share of small businesses in the service industry will lead to a sharp increase in bankruptcies and redundancies. Indeed, recent research from the ECB shows that one in seven (14%) Spanish workers are in non-financial companies at risk of bankruptcy, which is the largest share in the eurozone. Compared to pre-crisis levels, the unemployment rate already increased by 2.5 percentage points to 16.3% in the third quarter, and we expect it to rise to 17.5% in the course of 2021.

Given the high structural deficit and elevated government debt before the Covid-19 crisis, it was also more difficult for Spain to embark on large fiscal stimulus plans. Indeed, some politicians were afraid that the European Commission would toughen its position on the budget rules and that eventually, bond investors would punish Spain with higher borrowing costs. [Research from Breugel](#), a think tank, shows indeed that current fiscal measures in Spain are limited compared to other hard-hit countries, such as France and Italy. We think the same issues will hold for 2021.

For further fiscal support, Spain is looking to Europe. First, it will be important that the European fiscal rules continue to be suspended. This is already the case for 2020 and 2021, but it will also be important for 2022 and probably longer. The European fiscal board, an advisory board to the commission, advised that fiscal rules should apply again when output is back to pre-pandemic levels. According to our current scenario, this will not happen before 2023. Second, Spain expects to receive €140bn in grants and loans from the Next Generation EU fund. This could give oxygen to public finances and the economy.

2020 is a year we all want to forget, but unfortunately, it will cast a long shadow. Given the depth of the recession in 2020 and some structural characteristics, the Spanish economy will need a lot of time to fully recover.

## The Spanish economy in a nutshell

	2019	2020F	2021F	2022F
GDP growth (%)	2.0	-11.5	3.2	3.0
Headline CPI (%)	0.8	-0.4	0.3	1.3
Unemployment rate (%)	14.1	15.6	17.0	16.5
Budget balance as % of GDP	-2.8	-12.0	-8.3	-5.7
Government debt as % of GDP	95.5	119.0	122.5	123.4

Source: Refinitiv Datastream, all forecasts ING estimates