Spain: A terrible shock and a weak recovery

Spain has been one of the worst-hit countries by Covid-19, both in terms of health and the economic perspective. The severe lockdown measures have had a large effect on activity in the first half of the year, so the likelihood of a quick recovery is minimal compared to other eurozone countries. For now, we think GDP will contract by 11% in 2020

Spanish Prime Minister Pedro Sanchez

Source: Shutterstock

The pandemic and lockdown measures

In Spain, the first Covid-19 infection was identified on 31 January and by 13 March the virus had spread to all 50 regions.

The Spanish government declared a state of emergency and placed the country in lockdown on the weekend of 14 March. People were ordered to stay at home unless they had to buy food or medicine or go to work or hospital. All non-essential shops closed, together with restaurants and bars. As the health crisis aggravated, the lockdown measures intensified even further.

On 28 March all non-essential activity was banned and so non-essential workers had to stay home.

Government action to combat the economic fallout

The economic impact caused by the lockdowns was going to be large and that was obvious from the start.

On 17 March, the government announced a package of measures worth €200bn which is 20% of GDP. €117bn would be mobilised by the government - €100bn in guarantees and €17bn in direct stimulus - and the rest would come from private companies. The plan also allowed some mortgage and utility payments to be delayed, and some social security contributions to be suspended. The measures also made it easier to temporarily suspend employment, rather than make employees redundant and retain some benefits.

Given the severity of the crisis, the overall fiscal stimulus wasn't that large. And we think concerns regarding debt sustainability were at play.

> *Immediate fiscal stimulus in Spain now accounts for 2.3% of GDP, deferrals for 0.9% and other liquidity or guarantee schemes for 9.2%.*

For example, the minister of economy Nadia Calviño, said they need to conserve fiscal firepower in case the epidemic lasted longer than anticipated. Government officials were afraid of a change of position by the European Commission about budget rules, and bond investors punishing Spain with higher borrowing costs.

Over the course of the crisis, some emergency measures were added. According to Bruegel, a think tank, immediate fiscal stimulus now accounts for 2.3% of GDP, deferrals for 0.9% and other liquidity or guarantee schemes for 9.2%.

The government is currently discussing a recovery plan and more details are expected in the next few weeks. Given the fiscal position of Spain, with a debt to GDP ratio of above 100% in 2019, we don't expect the government to put a lot more money on the table. However, the funding could come from Europe.

The recent proposal by the European Commission, dubbed 'Next-generation EU', has an important mechanism of solidarity built-in and would provide some extra funds. Even though the plan is not yet agreed, it is expected that Spain, as one of the worst-hit countries, will get a larger share of the pie.

The immediate economic impact was severe

Given that the lockdown in Spain was quite severe in comparison to other eurozone countries, the impact on the 1Q GDP growth figures was large too.

GDP contracted by 5.2% quarter-on-quarter - one of the worst within the Eurozone. Given the fact that the lockdown measures only impacted 1Q during the two final weeks, this doesn't bode well for 2Q.

And indeed, the figures for April and May were abysmal. For example, PMIs for the service industry in April dropped to 7.1, from the record low of 23 in March. Admittedly, the figures improved somewhat in May, as the lockdown measures gradually eased, but remained terrible. The PMI for the service industry, for example, recovered to 28 in May, but this is still the third-worst reading ever recorded.

Gradually lifting lockdown measures

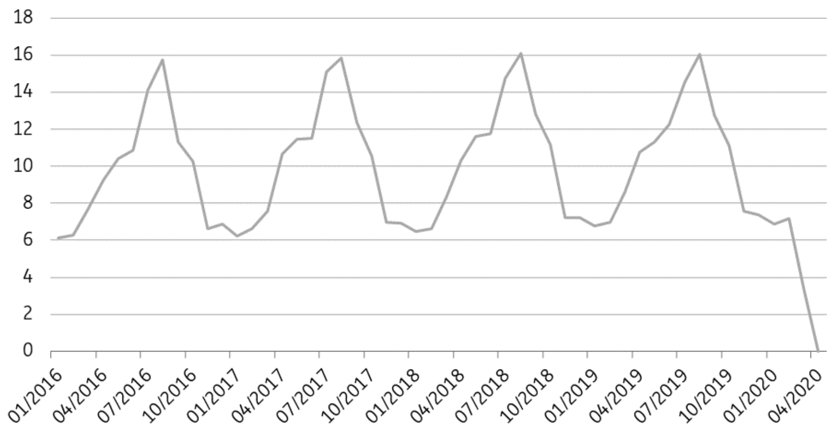
Since mid-April, some non-essential sectors, such as construction have re-opened.

The rest began to open up from the beginning of May onwards on the basis of a four-phased plan. Currently, most of the country is in the final phase, which is the least restrictive. Importantly, Spain opened its borders for European tourists on 21 June.

As the lockdown measures ease, activity should also recover. Unfortunately, the Spanish economy will probably recover slower than other eurozone countries.

We recently investigated which eurozone countries are the most vulnerable for a slow recovery. We took a number of indicators into account, such as sectoral composition and percentage of employment in small businesses, and Spain ranked as one of the countries that were most vulnerable to a slow recovery.

Zero international tourist in April (in millions)



Conclusion

Given that the lockdown was stricter in Spain and the fact that a fast recovery is less likely, we forecast a sharper downturn in 2020 and a weaker recovery compared to the eurozone average.

For now, we think GDP will contract by 11% in 2020. In 2021 and 2022 we see the economy growth by 4% and 1.8%, respectively.

The Spanish economy in a nutshell

	2019	2020F	2021F	2022F
GDP (%)	2.0	-11.0	4.0	1.8
Private consumption (%)	1.1	-12	5	2
Investment (%)	2.0	-19	4	1
Government consumption (%)	2.3	3	1	1
Net trade contribution	0.5	-0.1	-0.1	0
Headline CPI (%)	0.8	0	0.8	1.3
Unemployment rate (%)	13.7	19	17	16
Budget balance as a % of GDP	-2.8	-7.9	-3.8	-2.7
Government debt as a % of GDP	95.5	115.2	114.1	113.6

Source: Refinitiv Datastream, ING forecasts

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com