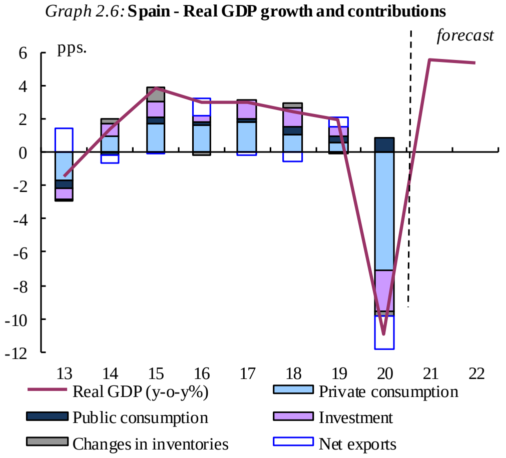
2.6. SPAIN

GDP growth in Spain rebounded strongly in the third quarter of 2020, after the unprecedented contraction in the first half of the year. The rebound was mainly driven by domestic demand, with a strong increase in both private consumption and investment. Net exports also posted a positive contribution to GDP growth. Containment measures, which began to be re-introduced in August in an effort to stem the increase in infection rates in several regions, have continued and tightened further though in a less severe way than in other large European countries. Mobility and social interaction activities declined, thus weakening economic activity in the final months of the year. Nonetheless, GDP growth in the fourth quarter remained in positive territory, at 0.4%, even though domestic demand components strongly reduced their pace of growth. As a result, GDP decreased by 11% in 2020 as a whole.

The near-term outlook for 2021 is clouded by the rise in infection rates in the first weeks of the year and the more restrictive measures put in place by most Spanish regions. As a result, private consumption and investment are expected to fall in the first quarter before recovering slightly in the second. As the vaccination process advances and restrictions are progressively lifted, economic activity should pick-up strongly, driven by the materialisation of pent-up demand over the second half of 2021. As a result, the household saving rate is expected to decline. Investment is also set to rebound, driven by improved expectations about the economy and lower uncertainty. A soft recovery in international tourism should result in exports growing faster than imports and a positive contribution to growth from net exports in 2021. Overall, GDP is forecast to grow by 5.6% in 2021. In 2022, the tourism recovery is expected to gain momentum, with most impediments to activity fully lifted, while domestic demand growth will likely moderate once pent-up demand is reabsorbed. This would result in a still robust growth rate of 5.3%.

Graph 2.6: **Spain - Real GDP growth and contributions**



Policy measures to protect jobs and provide liquidity for firms taken in the first stage of the pandemic were extended several times and are expected to remain in place until mid-2021. They will continue to help mitigate job losses and cushion the damage of the crisis to productive capacity. A downside risk is that of a surge in corporate insolvencies, mainly concentrated in those sectors most affected by activity restrictions, materialising as policy support measures are wound down. This could lead to an increase in unemployment and result in reduced productive capacity. On the upside, the forecast does not incorporate the impact of the frontloaded Recovery and Resilience Plan, which is expected to provide a significant boost to domestic demand as it is implemented, and to potential growth over time. After declining in the second half of 2020, HICP inflation is forecast to increase to 0.8% in 2021, driven by the gradual strengthening of the price of consumer services and the unwinding of the base effect due to the drop in oil price in 2020-Q2. In 2022, headline inflation is expected to rise further to 1.1%.