Economy...
at a glance

CÍRCULO DE EMPRESARIOS
ideas for growth

April 2020

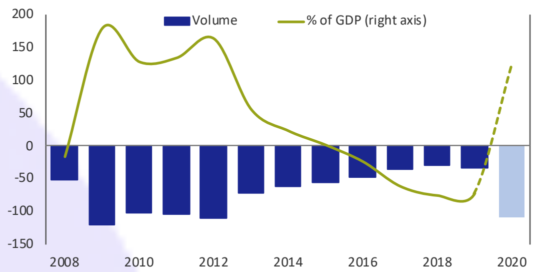
Public deficit, Spain

In 2020, the IMF forecasts that Spain's public deficit will increase to 9.5% of GDP (compared to 2.6% in 2019), against a backdrop of GDP shrinking by 8% yearly.

On spending, an increase is expected as a result of the measures approved by the government to mitigate the impact of COVID-19, and welfare benefits. Regarding revenue, there will be a significant fall as a result of the economic standstill. On the other hand, public debt will increase to 113% of GDP, 18pp higher than in 2019.

Forecasts for 2021, place the deficit at 6.5% of GDP, and the debt at 115% of GDP, with a rebound in growth of 4.3% yearly.

Public deficit evolution, Spain
€bn and % of GDP



Source: Círculo de Empresarios based on IMF, 2020.

Hospitality industry, Spain

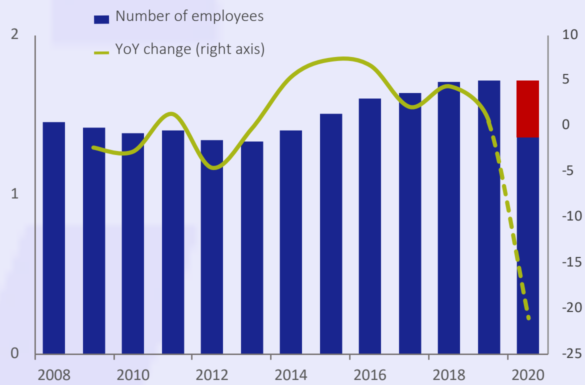
In 2019, the hospitality industry represented 6.2% of GDP and 8.7% of total employment (around 1.7 million people); and its annual turnover rose to €124 billion in 2018.

According to EY and Bain & Company, due to the lockdown imposed to combat COVID-19, in 2020, there could be employment losses in the region of 25% (350,000-360,000 jobs). At the same time, 680,000 additional jobs are at risk, and turnover could fall by 40% (€49-€52 billion).

In light of this, VAT revenue from the sector could decrease by between €4.9-€5.2 billion). At the same time, social spending on unemployment benefits could increase by €3.5 billion.

The need for sector financing, without support measures for an increase in liquidity, could increase by between €15-16 billion.

Hospitality industry's employment, Spain
Million of jobs and YoY change (%)



Note: forecasts are based on the lockdown lasting until 30th May.

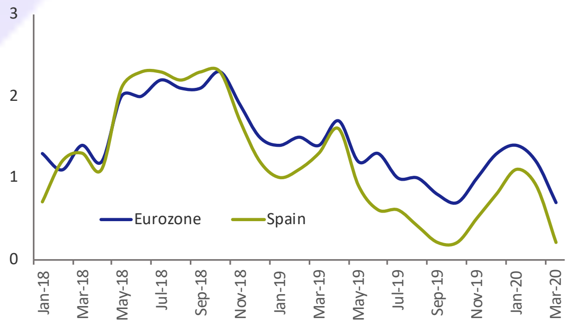
Source: Círculo de Empresarios based on INE, EY and Bain & Company, 2020.

HICP, Spain

In March, the Harmonized Index of Consumer Prices (HICP) continued its downward trend, reaching 0.1% year-on-year, 1.2pp less than in March 2019. This is partly explained by the decrease in the price of fuel, electricity and package tours.

Since November 2018, inflation has been below Eurozone levels, registering a differential of 0.5pp in March.

HICP evolution
YoY change (%)



Source: Círculo de Empresarios based on INE and Eurostat, 2020.

IMF growth forecasts

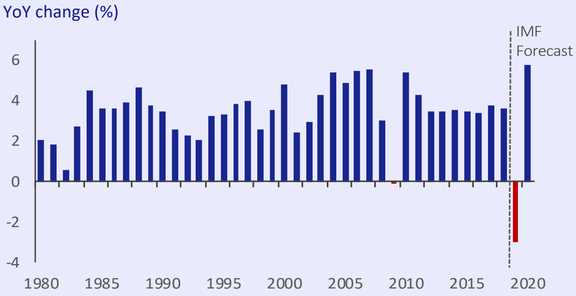
The IMF, in its spring forecast, projects a 3% yearly contraction of global GDP as a result of the impact of COVID-19. This forecast is 6.3pp lower than the one in January, when the organization forecast a limited impact from coronavirus in the region of 0.1 and 0.2 pp on world GDP growth.

In advanced economies, a greater fall in GDP is forecast of 6.1% yearly, in contrast to the 1.6% increase forecasted in January. The biggest downturns will take place in Italy and Spain (-9.1% and -8% yearly, respectively).

In emerging economies, the reduction in growth perspectives has been smaller (-1% compared to 4.4% in January). The biggest setbacks will be in Mexico and South Africa (-6.6% and -5.8% respectively). In contrast, growth is forecast in India (1.9% yearly) and China (1.2% yearly).

In light of this, it is forecasted that the greatest impact will take place in the first half of 2020. In 2021, increases in world GDP will bounce back to 5.8% yearly, conditioned by the future results of the efforts to contain the spread of the pandemic.

World GDP growth
YoY change (%)

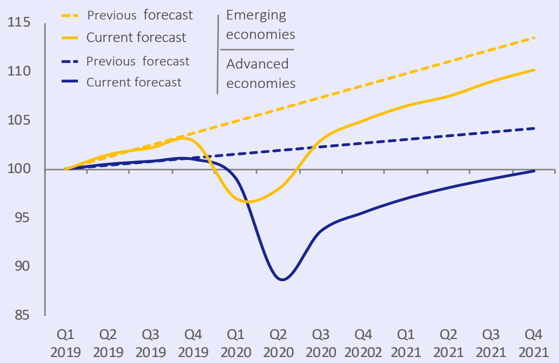


GDP forecast
YoY change (%)

	2020	2021
Advanced ec.	**-6.1**	**4.5**
US	-5.9	4.7
Eurozone	-7.5	4.7
Germany	-7.0	5.2
France	-7.2	4.5
Italy	-9.1	4.8
Spain	-8.0	4.3
Japan	-5.2	3.0
UK	-6.5	4.0

	2020	2021
Emerging ec.	**-1.0**	**6.6**
China	1.2	9.2
India	1.9	7.4
Russia	-5.5	3.5
Brazil	-5.3	2.9
Mexico	-6.6	3.0
Saudi Arabia	-2.3	2.9
Nigeria	-3.4	2.4
South Africa	-5.8	4.0

GDP forecast current prices
Index Q1 2019 = 100



Source: Círculo de Empresarios based on IMF, 2020.

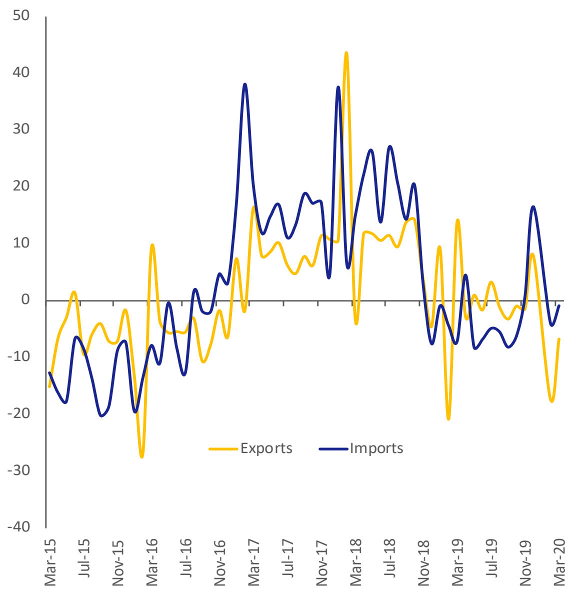
Trade in goods, China

In March, the development Chinese foreign trade of goods improved market expectations, although it remained at low levels.

Exports fell by 6.6% yearly (compared to forecasts of -14%), to $185.15 billion (1.6% of GDP). Imports fell by $0.9% (compared to forecasts of -9.8%), to $165.25 billion (1.4% of GDP). As a result of this, China registered a trade surplus of $19.9 billion (0.2% of GDP).

These figures show a certain relative improvement, but the future of Chinese trading will be conditioned by foreign market developments, currently affected significantly by COVID-19.

Foreign trade of goods, China
YoY change (%)



Source: Círculo de Empresarios based on China General Customs Administration, 2020