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Economic Outlook

April 2021

MONOGRAPH ON THE EFFECTS OF THE CRISIS ON THE TOURISM SECTOR

Overview

- The IMF revises the outlook for the world economy upwards to 6.4% in 2021 and 4.4% in 2022, although it warns of the high degree of uncertainty associated with vaccination and the different intensity in the recovery among countries.

- PMI indices point to a worldwide acceleration of growth in March, driven by the good performance of manufacturing and the recovery of the services sector.

- Oil prices rose again in March due to the temporary blockage of the Suez Canal and the production restrictions from OPEC+ countries.

- Very negative balance of the Spanish economy in 2020 in terms of GDP and public finances: a GDP fall of -10.8%, with stagnation in the last quarter of the year. The public deficit with financial aid stood at -11% of GDP (-10.1% without financial aid) and public debt ends 2020 at record highs, set at 120% of GDP vs. 95.5% in 2019.

- The Government revises its growth forecasts for 2021 downwards to 6.5%, in line with the IMF (6.4%), which revised its estimates for Spain upwards.

- Progress has been made in finalising the Recovery, Transformation and Resilience Plan. However, there is still relevant information missing on issues such as the conditions that Europe will require before final approval, the scope of the reforms, the final specification of the projects and the mechanism to control the expenditure of these funds.

- The situation of the labour market weakened in Q1, with a very uneven impact across sectors.

- The significant rebound in energy due to the oil price tensions in international markets explains the rise in inflation in March to 1.3%.

MONOGRAPH ON THE EFFECTS OF THE CRISIS ON THE TOURISM SECTOR
• Tourism in 2020, the worst year in history

The International Scenario

The outlook for the global economy improves, although there is still a high degree of uncertainty and divergence in the strength of the recovery.

The IMF has updated its outlook for the world economy for 2021 and 2022, with GDP growth forecasts now standing at 6.0% for this year and 4.4% for 2022, figures that are somewhat more optimistic than a few months ago. In both cases, the revision has been upwards (0.5 and 0.2 percentage points respectively in comparison to last January) due to the fact that it anticipates greater dynamism than expected in the second half of 2021 for most of the economic areas. The rollout of vaccination plans, together with expansionary policies, especially additional fiscal support measures in some countries, explain this improvement in global GDP, which leaves behind the -3.3% decline in 2020. However, the degree of uncertainty remains very high, not just in terms of the vaccination rollout but also due to the unpredictability of other factors such as the effectiveness of economic policies, the evolution of financial conditions and commodity prices, and the subsequent reactivation of household consumption.

The divergence in the intensity of the recovery across countries is another of the characteristics highlighted by the IMF. This institution points out that the economies most dependent on tourism or commodity exports, together with those that had a more limited margin for action (due to their fiscal situation in some cases or because of their limited health capacity), are the ones that have suffered most from the consequences of the pandemic and, as a result, are the ones that are lagging most behind in the recovery process. It also states that, even within countries, there is a huge disparity between different population groups, with young people, women and low-skilled workers bearing the brunt of the crisis.

Within the scenario for 2021 and among the group of advanced economies, the US stands out with GDP growth of 6.4% this year (the same rate estimated for Spain), after a decline of -3.5% in 2020. This strong growth is supported by a very expansionary monetary policy and has mainly been reinforced by the fiscal plans approved in December and March, for a combined amount of $ 2.8 trillion, equivalent to 13.5% of the US GDP in 2020. Meanwhile, the Federal Reserve, which has also revised its forecast for US GDP in 2021 up to 6.5%, estimates that the increase in activity will be accompanied by a gradual decline in the unemployment rate from the current 6.2% to 4.5% by the end of this year. In contrast, other regions, such as Japan, the United Kingdom and the Eurozone, will growth at significantly lower rates than the declines posted in 2020 and are not expected to return to 2019 GDP levels until at least the second half of 2022.

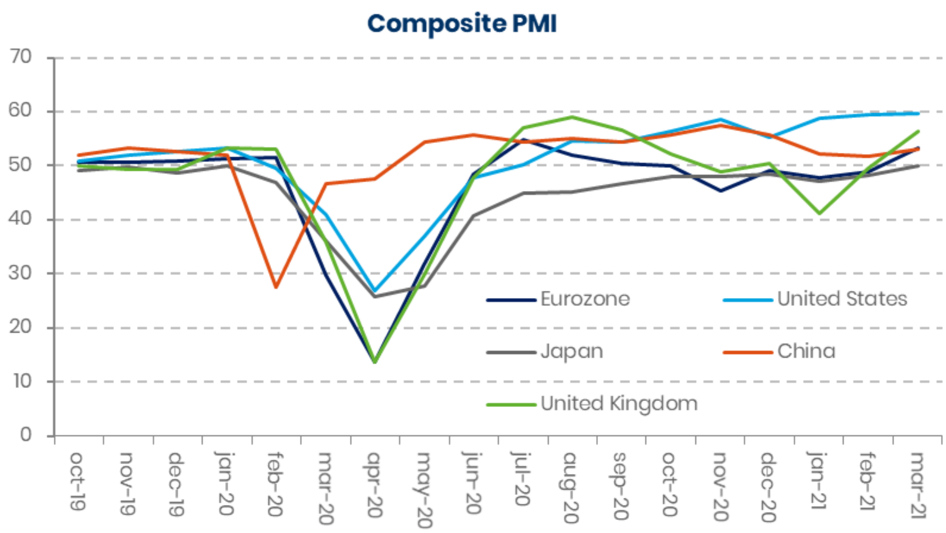
Among emerging economies, growth in India of 12.5% stands out as being the highest, following a decline of -8.0% in 2020, and China's is set at 8.4%, after being one of the few economies that grew in 2020, specifically by 2.3%. Meanwhile, forecasts for Latin America, one of the regions most affected by the coronavirus, both in health and economic terms, are less favourable and it is expected to take longer to return to pre-crisis levels.

IMF growth forecasts (April 2021)

GDP (year-on-year rate)	IMF 2020	IMF 2021	IMF 2022	dif. from Jan. 2021	dif. from Jan. 2022
World growth	-3.3	6.0	4.4	0.5	0.2
Advanced economies	-4.7	5.1	3.6	0.8	0.5
United States	-3.5	6.4	3.5	1.3	1.0
Japan	-4.8	3.3	2.5	0.2	0.1
United Kingdom	-9.9	5.3	5.1	0.8	0.1
Euro Area	-6.6	4.4	3.8	0.2	0.2
Germany	-4.9	3.6	3.4	0.1	0.3
France	-8.2	5.8	4.2	0.3	0.1
Spain	-11.0	6.4	4.7	0.5	0.0
Italy	-8.9	4.2	3.6	1.2	0.0
Emerging economies	-2.2	6.7	5.0	0.4	0.0
China	2.3	8.4	6.0	0.3	0.1
India	-8.0	12.5	6.9	1.0	0.1
Brazil	-4.1	3.7	2.6	0.1	0.0
Mexico	-8.2	5.0	3.0	0.7	0.5
World trade	-8.5	8.4	6.5	0.3	0.2

Source: IMF

With regard to the economic climate, it is worth highlighting that the PMI confidence indicators suggest that global growth intensified in March, boosted by the notable recovery in services and the ongoing improvement in the manufacturing sector, despite some delays in supplies and the shortages of some raw materials. The Global Composite Index stood at 54.8, its highest level since August 2014. Growth continues to be led by the United States, whose U.S. Composite PMI stands at 59.7 points and marks a 79-month high. Other countries also showing notable growth with above-average figures are Germany, the United Kingdom, India and Australia, while, in contrast, in Brazil the PMIs for March anticipate a contraction in activity. By sectors, the ones showing the greatest dynamism in March were those related to Technology Equipment, the Bank and Insurance sectors, and the Machinery and Equipment sector.



Source: Markit Economics

With regard to central banks, both the Federal Reserve and the ECB maintained their monetary policies unchanged, continuing their asset purchase programmes and low interest rates. However, the president of the ECB, Christine Lagarde, expressed her concern about the tightening of financial conditions in the Eurozone and announced that, over the coming months, the ECB would increase the pace of purchases, precisely to avoid this financial tightening and to prevent it from having a negative impact on the recovery. Moreover, she showed her willingness to go further if necessary, although, for the time being, the total amount and duration of the asset purchase programme remains unchanged.

On the other hand, oil prices continued to rise in March for the fifth consecutive month, with Brent crude at a monthly average of $65.9/barrel, up 105% from a year earlier. In euros, the price increase was somewhat lower (90.8%) due to the greater strength of the EU currency compared to March last year. The temporary blockage of the Suez Canal, as well as the production restrictions still in place by OPEC countries and their partners, are the main elements that have continued to put upward pressure on prices. In the first days of April, prices seem to have slowed down and have traded around 62 $/barrel, due to the increase in COVID cases, which could delay the recovery and contain oil demand.

The Spanish Economy

The Government cools down expectations for its recovery scenario

Over the last few weeks, the final GDP and public deficit figures in 2020 were released. These figures continue to reflect the severe crisis that the Spanish economy has experienced as a result of the pandemic. GDP recorded a fall of -10.8% in 2020, which is two tenths of a percentage point better than the preliminary number, but still indicates a clear stagnation of the economy in the last quarter of the year (0% in quarterly terms), which contrasts with the slight increase initially estimated (0.4% quarter-on-quarter). Meanwhile, the public deficit stands at -11% of GDP, if we include the financial aid derived from incorporating the SAREB into the general government sector (previously it was included under financial companies). Excluding this financial aid, the government deficit stands at -10.1% of GDP.

Looking ahead to 2021, the IMF has revised its outlook for the Spanish economy upwards to 6.4%, a rate very similar to the government's latest forecast, which has lowered its forecast to 6.5%, compared to the forecasted range between 7.2% (inertial scenario) and 9.8% (with European funds) with which the budget was drafted. The negative aspects of the IMF's forecasts are unemployment, with the unemployment rate rising to 16.8%; the scant redressing of the fiscal imbalance, with a public deficit of -9% of GDP; and the growth forecast for 2022 (4.7%), which is insufficient to reach pre-crisis levels by year-end, making Spain one of the countries that will take the longest to recover.

In the area of economic policy, it is worth underlining the presentation of the Recovery, Transformation and Resilience Plan. The launch of this plan is important for several reasons. Firstly, because it sets out the general guidelines for Spain's economic policy over the coming years. Secondly, because progress is being made in defining it, which is essential for its implementation, given the Spanish economy's need to intensify the recovery process. Thirdly, because this plan will be supported by € 140 billion of European funds, with the positive consequences this will have for the transformation and modernisation of the Spanish economy, especially if we take into account the experience in management and efficiency of the private sector. And fourthly, because this plan comes hand in hand with a series of reforms that, if implemented properly, would multiply the positive effect of the investment and improve the level of confidence in the Spanish economy. However, there is still information missing, especially in areas as important as the conditions required by Europe in order to approve it, the scope of the reforms, the final specifications of the projects and the mechanism for monitoring the spending of these funds.

Demand and activity

Available information points to a setback in Q1

According to the latest estimate published by the INE, the Spanish economy stagnated in Q4 2020 (0.0% quarter-on-quarter), compared to a first estimate of 0.4%. On the other hand, growth in Q3 was revised upwards to 17.1% quarter-on-quarter, the highest growth in the historical series. This new GDP estimate for the second half of the year brings the average decline in 2020 to -10.8% year-on-year, compared with a first estimate of -11.0%.

Following the stagnation in Q4, the data available for the first months of 2021 is showing more negative signs, indicating that the quarterly rate in Q1 could again show a decline. This evolution would be determined by a series of factors that have had a negative impact on activity and demand at the beginning of the year. The main factor was a third wave of greater impact than the second, which led to an increase in restrictions on mobility and in certain sectors of activity (basically the hotel and restaurant industry) of varying intensity depending on the Autonomous Regions. This was compounded with other phenomena, such as the impact of the storm Filomena, the rise in energy prices and, once again, the complete perimeter lockdown of the Autonomous Regions at Easter. On a positive note, especially from March onwards, there has been a certain acceleration in the vaccination process, and it seems feasible that in a couple of months the most vulnerable population will have been vaccinated, which will undoubtedly have a positive impact and result in a lower number of deaths. It is essential for the recovery of the economy in the second half of the year that the percentage of the population vaccinated is high, both in Spain and in our neighbouring countries, so that the restrictions on mobility are eliminated and the tourism sector may be able to recover.

Against this backdrop, expectations, after deteriorating further in January and February, improved notably in March. Consumer confidence reached its highest level since April 2020. Retail confidence is also more optimistic, mainly due to its outlook for the future business situation. By sector, they all improved, especially services and construction. PMIs also showed a more positive sentiment, with manufacturing remaining at expansionary levels and services improving and rapidly approaching the 50 level.

Data on household consumption in Q1 shows a more negative trend than in Q4, although in March there was a better performance. Thus, for example, car registrations, after the significant drops suffered in January and February as a result of purchases having been brought forward to December ahead of the rise in the registration tax, have shown a notable upturn in March (128% year-on-year). We have to bear in mind that this variation is affected by the fact that, in March 2020, dealers were closed for half a month due to the state of emergency. Compared to a normal year such as 2019, the fall would be approximately -30%, milder than the figure recorded in previous months. Registrations continue to be strongly affected by the declines in the rental channel. New lending and credit to households fell less sharply in February (-6.4% vs.-19.1% in January), due to a lower decline in consumer and other loans and higher growth in housing loans (25.0%, compared with 2.9% in the previous month).

On the other hand, company financing stock continues to grow, and even accelerates (7.1%), as a result of the lower fall in new operations by non-financial corporations (-15.5%, vs. -23.9% in January). These figures show that corporate borrowing is still on the increase, albeit at a more moderate pace.

From the external sector's point of view, exports of goods improved in February, falling by 1.9% year-on-year (after having fallen by 11.4% in the previous month) with exports to the United Kingdom recovering somewhat, following the sharp decline in January. Meanwhile, imports also performed better than in the previous month, falling by 5.7% compared with the 16.4% drop in January. This means that the trade deficit of goods was almost halved compared with a year earlier, as a result of the improvement in both the energy and non-energy components.

According to the Balance of Payments data published by the Bank of Spain, in January the Spanish economy recorded an external financing requirement of 0.9 billion, similar to the 1 billion recorded in the same month of the previous year. The decline in the tourism surplus (0.2 billion, compared with 2 billion a year earlier) was offset by the notable correction of the deficits in non-tourism goods and services and in primary and secondary income. The inflow of international tourists fell more sharply in February (-93.6%, 4.1 points worse than in January) and, at the same time, the rate of decline in tourism expenditure increased by 2.8 points in February, to -93.3%.

The Labour Market

Weakness in the labour market in Q1

The data for Social Security registrations and registered unemployment in March show that there has been some worsening of the labour market in the first months of 2021 compared with the second half of 2020. This reflects the difficulty of returning to normal activity and employment while the pandemic continues to be an issue and causes restrictions to remain in place. Moreover, some sectors are still heavily affected by curfews and capacity and mobility restrictions, so the labour market recovery is very uneven and incomplete.

March recorded an increase of 70,790 in Social Security registrations, the lowest increase in a month of March since 2013 (except for the fall in 2020), with the average increase in the number of workers registered in this month being around 140,000 over the 2014-2019 period. The year-on-year rate improved to -0.5% (-2.1% in February), given that the impact of the pandemic on employment started being felt significantly in March 2020. In seasonally adjusted terms, there was a fall in the number of registered workers of -45,438 in March, even greater than that recorded in February (-30,211), confirming the weakness of the labour market at the start of 2021.

The total number of workers registered with the Social Security in March continues to be below 19 million. With regard to unemployment, there has been a fall of 59,149 registered unemployed, bringing the total figure to just under 4 million unemployed workers.

Following the decline in February, the daily number of workers affected by furlough schemes (ERTE) continued to show a gradual fall in March, ending the month at 745,615 people, a decrease of 113,926. It is worth noting that around a third of the total number of workers affected by ERTE belong to the food and beverage services sector. In addition, there are four activities in which more than 40% of the workers are in ERTE, namely: Travel agencies (60.5%); Accommodation activities (56.7%); Gambling activities (42.7%) and Air transport (42.1%).

The balance of Social Security registrations in Q1 2021 is negative and has worsened with respect to Q4 2020. Therefore, a decline in GDP is to be expected for the start of this year. Specifically, the number of workers registered with the Social Security fell by some 153,000 compared with the last quarter of 2020, and effective Social Security registrations (excluding ERTEs), seasonally adjusted, fell by -0.2% quarter-on-quarter, vs. an increase of 1.7% in the last quarter of 2020.

Inflation

The sharp rebound in energy prices explains the rise in inflation in March

In March, the year-on-year rate for the Consumer Price Index (CPI) rose to 1.3% from 0.0% in February. This increase is almost entirely due to the rise in the energy component and, specifically, in electricity and fuel prices. In contrast, core inflation remained at 0.3% year-on-year, reflecting the weakness of the Spanish economy's recovery at the start of the year.

An analysis of the core inflation components shows that they remain at very low rates. Service prices fell by one tenth of a percentage point to 0.0%; prices of industrial goods excluding energy products increased by one tenth of a percentage point to 0.3%; and processed food, beverages and tobacco prices fell by one tenth of a percentage point to 0.6% year-on-year.

Meanwhile, the year-on-year rate of change in unprocessed food prices stabilised at 2.6%. The largest increases compared with the same month in 2020 were concentrated on fresh fruit, meat and vegetables.

Energy prices were the most inflationary component of the CPI in March, with a year-on-year rate of 8.4%. In fact, if we exclude energy products, CPI stood at 0.5% in March. Fuel and electricity prices were the ones that accelerated this rate of growth as a result of the notable rise in oil prices already discussed in the section on the international economy above.

In the coming months, inflation will be conditioned by the upward trend in oil prices and the recovery in demand for some goods and services, following the sharp fall during this crisis. In any case, we can state that the current situation is one of price stability, with an average annual rate forecast for 2021 of around 1%-1.5%.

The Public Sector

In 2020, the public deficit exceeded -10% of GDP and public debt stood at 120% of GDP.

The crisis caused by the pandemic has had a considerable impact on our country's public finances. According to the Ministry of Finance, the public deficit for 2020 stood at -10.1% of GDP without taking into account financial aid. However, if we include the reclassification of SAREB, which, according to Eurostat criteria, should be included within the general government sector and, specifically, at the central government level, the public deficit rises to -11% of GDP. The inclusion of SAREB has had a negative impact on the deficit of almost 10 billion euros.

By sub-sectors, it is worth noting that the Central Administration has the highest imbalance in 2020, reaching -7.5% of GDP, followed by the Social Security Funds, with a negative balance of -2.7% of GDP, which would have been higher had the State not transferred 20 billion to this system. The Autonomous Communities recorded a reduced deficit of -0.2% of GDP, due to the notable transfers received from the Central Government, which increased by 9.4%, while the Local Entities maintained their surplus at around 0.3% of GDP, a balance that is partly explained by the 3.5% increase in State resources.

Despite the economic downturn in 2020 and the significant fall in nominal GDP, revenues have only fallen by -5%, a decline that is concentrated in tax revenues, especially VAT and special taxes (-12.8%) and corporate taxes (-12.7%). In contrast, expenditure soared due to the pandemic, with a growth of 10.1%. Among the latter, subsidies stand out (71%), as this item includes exemptions for contributions associated with ERTEs and the ceasing of activity by the self-employed; social benefits (15.9%), which include ERTEs and unemployment benefits; and compensation of employees (4.5%).

With final information from the National Accounts, the Bank of Spain has published that the public debt for all public administrations according to the Excessive Deficit Protocol (EDP) reached 120% of GDP at the end of 2020, a much higher ratio than the 95.5% of GDP in the same period of 2019. The crisis caused by the pandemic has had a very significant impact on public finances, pushing public debt to record highs.

Forecasts

Economic forecasts for Spain (last update: April 2021) Annual rates of change, unless otherwise indicated	2016	2017	2018	2019	2020	2021	2022
GDP	3.0	3.0	2.4	2.0	-10.8	5.4	6.2
Private consumption expenditure	2.6	3.0	1.8	0.9	-12.4	6.8	7.5
Government consumption expenditure	1.0	1.0	2.6	2.3	3.8	3.7	0.6
Gross fixed capital formation	2.4	6.8	6.1	2.7	-11.4	4.8	11.0
-Tangible fixed assets	1.7	7.7	7.6	2.7	-13.3	5.1	11.7
Construction	1.6	6.7	9.3	1.6	-14.0	3.0	11.9
Equipment and cultivated assets	1.9	9.2	5.2	4.3	-13.0	8.2	11.3
-Intangible fixed assets	5.2	2.9	-0.7	2.6	-1.7	3.2	7.5
Domestic demand (*)	2.0	3.1	3.0	1.4	-8.8	5.0	5.5
Exports	5.4	5.5	2.3	2.3	-20.2	6.6	9.4
Imports	2.6	6.8	4.2	0.7	-15.8	5.0	6.7
GDP current prices	3.4	4.3	3.6	3.4	-9.9	6.9	7.2
GDP deflator	0.3	1.3	1.2	1.4	0.9	1.5	1.0
CPI (average annual rate)	-0.2	2.0	1.7	0.7	-0.3	1.3	0.5
CPI (dec/dec)	1.6	1.1	1.2	0.8	-0.5	1.4	0.6
Core CPI (average annual rate)	0.8	1.1	0.9	0.9	0.7	0.6	0.6
Employment (Quarterly National Accounts) (**)	2.8	2.9	2.6	2.3	-7.5	2.1	4.5
Employment (LFS)	2.7	2.6	2.7	2.3	-2.9	-0.5	3.0
Unemployment rate (LFS) (% of active population)	19.6	17.2	15.3	14.1	15.5	16.9	14.8
Productivity	0.2	0.1	-0.2	-0.3	-3.6	3.3	1.8
Compensation per employee	-0.6	0.7	1.0	2.1	1.4	0.6	1.1
Unit labour cost (ULC)	-0.8	0.6	1.2	2.4	5.3	-2.7	-0.7
Current Account Balance (% of GDP)	3.2	2.8	1.9	2.0	0.7	1.2	1.5
General government net lending (+) / net borrowing (–) (% of GDP) (***)	-4.1	-3.0	-2.5	-2.8	-10.1	-9.0	-6.0
Interest rates USA (dec)	0.75	1.50	2.50	1.75	0.25	0.25	0.25
Interest rates Eurozone (dec)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Brent Oil ($)	43.3	54.3	70.9	64.8	41.5	58.7	54.3

Source: CEOE, INE (National Statistics Institute), Banco de España, Eurostat

(*) Contribution to GDP growth

(**) Full-time equivalent jobs

(***) Excluding aid to the financial sector

Tourism in 2020, the worst year in history

The crisis-related restrictions have had a negative impact of around 100 billion euros on the GDP linked to tourism

The aim of this box is to try to quantify the impact of the pandemic on tourism and the possible scenarios for 2021. There is no doubt that the tourism sector has been the hardest hit by the crisis caused by the global health pandemic. The lockdown and restrictions on mobility at national and international level have had a strong impact on activity and demand in this sector, whose businesses were forced to close almost completely for a large part of 2020.

In the case of Spain, the negative effect of the pandemic on this sector is even more pressing, given its importance in our productive structure. The Tourism Satellite Account published by the National Statistics Institute (INE) shows that it accounted for 12.4% of the GDP in 2019, three tenths more than in 2018. Moreover, since 2015, the contribution of tourism to GDP had increased by 1.3 points, from 11.1% to 12.4%. In terms of jobs, employment in tourism-related industries reached 2.7 million in 2019, which represented 12.9% of total employment in the economy. The contribution of tourism-related employment has increased by 0.8 points from 2015 to 2019.

The evolution of tourism indicators reflects the dismal performance of this sector in 2020:

- According to Frontur, the number of tourists that Spain received was almost 19 million, which contrasts with 83.5 million in 2019. This represents a drop of 77% in 2020.
- Egatur statistics indicate that, in 2020 as a whole, cumulative expenditure reached €19.8 billion, compared to €91.9 billion in 2019, i.e., 78.5% lower.
- The tourism balance surplus plummeted in 2020, standing at €9.0 billion after reaching €46.3 billion in 2019. This implies a decline of 80.6%.
- In 2020 as a whole, overnight hotel stays fell by 73.3%.

In business terms and analysing turnover, tourism-related activities[1] have lost more than 50% of their turnover. Thus, travel agencies stand out, with a -75% drop in turnover, followed by accommodation (-68%) and air transport (-60.1%), which, between them, have lost approximately €45 billion. Also linked to tourism, the food and beverage services sector recorded a decline in turnover of more than 23 billion euros.

[1] For more information, see the box entitled "The drop in Spanish companies' revenues in 2020" in the March Economic Outlook.

The impact of the pandemic on the GDP linked to tourism in 2020

Subsequently, an estimate has been made of the loss in weight of tourism in the Spanish economy, based mainly on the evolution of tourism expenditure, both inbound and domestic. However, all these estimates should be taken with a certain degree of caution, given that they aim to provide a first approximation to the impact of the crisis on the sector.

Inbound tourism expenditure is closely linked to the results of the Egatur Tourism Expenditure Survey. The data from this survey show that, in 2020, spending by foreigners in Spain fell by -78.5% vs. 2019. Moreover, this notable decline is fairly homogeneous, given the magnitude of the fall. Looking at the different expenditure items, the decreases range from falls slightly over -76% in meals and activities to a little over -82% in package holidays. Therefore, considering the aforementioned average of -78.5% and applying this performance to the inbound tourism data for 2019, which according to the Tourism Satellite Accounts stood at €84.571 billion, we could approximate estimates for inbound tourism expenditure in 2020 at slightly above €18 billion.

To analyse the evolution of domestic tourism expenditure, the Residents' Tourism Survey is used. It collects, among other variables, resident spending within Spain. In this case, the decline in 2020 was -45.2% compared to 2019. As in the previous case, applying this decline to domestic tourism expenditure in 2019, which, as shown in the Tourism Satellite Accounts, was set at €55.908 billion, this component's estimate for 2020 would be just under €31 billion.

Based on these estimates, whereby we would set internal tourism expenditure (the sum of inbound tourism expenditure and domestic tourism expenditure) for 2020 at close to €49 billion, and assuming the same correlation between internal tourism expenditure and tourism GDP, we could estimate that, in 2020, tourism GDP would be slightly below €54 billion, which means a decrease compared to 2019 of around €100 billion. This means that GDP linked to tourism would go from exceeding 12% of the total Spanish GDP in 2019 to being below 5% in 2020.

Impact of the crisis on the Tourism sector in 2020

(figures in million euros)	**2019**	**2020**	**Change (%)**	**Change (mill.)**
Inbound tourism expenditure	84,571	18,223	-78.5	-66,348
Domestic tourism expenditure	55,908	30,663	-45.2	-25,245
Internal tourism expenditure	140,479	48,886	-65.2	-91,593
Tourism GDP	154,487	53,761	-65.2	-100,726
Spanish GDP	1,244,772	1,121,698	-9.9	-123,074
Contribution of tourism to Spanish GDP (%)	12.4	4.8		

Source: Prepared-in-house and INE (Tourism Satellite Account of Spain and Quarterly National Accounts of Spain).

This significant fall was uneven throughout the year, due, on the one hand, to the seasonality of the sector and, on the other, to the evolution and scope of the restrictions over the past year. Once again, based on the performance of tourist spending, both by nationals and foreigners, we have estimated a quarterly distribution of tourism GDP: we can see that in Q2, when the measures adopted to contain the pandemic were stricter, the loss in tourism GDP was very pronounced, exceeding -94%, and led to a fall of close to €38 billion. In Q3, the figure was also very high but, in this case, it was also due to the seasonality of the sector, as this quarter is where around 38% of the year's tourism GDP is concentrated. On the other hand, the relaxation of mobility restrictions in the summer months mitigated the fall, with the decline in tourism GDP for this quarter standing at -57% vs. 2019. In Q4, restrictions worsened once again, and tourism GDP fell by nearly -80% compared to the previous year.

Quarterly distribution of Tourism GDP

(million euros)	Distribution in 2019 %	Tourism GDP in 2019	Tourism GDP in 2020	Change (%)	Change (mill. euros)
Quarter 1	16.9	26,124	19,908	-23.8	-6,216
Quarter 2	25.9	39,965	2,224	-94.4	-37,741
Quarter 3	37.7	58,170	24,960	-57.1	-33,210
Quarter 4	19.6	30,229	6,669	-77.9	-23,559
TOTAL	100.0	154,487	53,761	-65.2	-100,726

Source: Prepared-in-house.

Scenarios for 2021: still far from 2019

Finally, based on the information for 2019, a series of scenarios have been drawn up that include different estimates of the evolution of tourism activity, which will be conditioned by the development of the pandemic, the vaccination rollout and the restrictions on mobility at both domestic and international level.

Under the first scenario, the estimated loss in tourism GDP in Q1-2021 is set at --80% vs. 2019, a somewhat worse performance than what happened in Q4-2020. It should be noted that the data for January and February has been very negative, with a drop in spending by foreigners of -90.3% and -93.1% respectively in comparison to the same months of 2019, although in the case of the domestic tourism, the evolution of overnight stays points to somewhat less intense falls, slightly above -70% in the first two months of the year. In any case, and considering the exceptionally negative start to 2021, where restrictions have been combined with unfavourable weather conditions, it is reasonable to expect an improvement in March and in the aggregate results for Q1. Even so, Q1 will show considerable losses compared to the figures for 2019 and also 2020. This scenario foresees a progressive and mild normalisation of tourism GDP as the year unfolds, with declines vs. 2019 of -65% in Q2, -50% in Q3, somewhat better than the figures recorded in 2020, and falls around -40% in the final stretch of the year. In other words, we believe that approximately 60% of the sector's activity will have been recovered by Q4. In this scenario, tourism GDP would stand at just over €66 billion in 2021, significantly better than in 2020, but still a long way from the figures posted in 2019.

A second, more optimistic, scenario would envision a Q1 similar to the previous scenario, and a more dynamic recovery of the tourism sector, where the key relies on the international tourism, and which could only occur if there is a greater relaxation of mobility restrictions. In this second scenario, the pace of normalisation foresees a Q2 with declines of -60% with respect to 2019, while in the summer season it returns to levels of activity set at 60% of the 2019 figures (i.e., with declines of -40%) and in the final part of the year tourism activity normalises at 70% (declines of -30% with respect to 2019). In this case, tourism GDP would reach €77 billion in 2021, some 11 billion more than in the previous scenario, although it would be barely half of what was recorded for 2019.

Scenarios for Tourism GDP in 2021

(million euros)	Tourism GDP in 2019	Lower range Fall compared to 2019 (%)	Lower range Tourism GDP in 2021	Upper range Fall compared to 2019 (%)	Upper range Tourism GDP in 2021
Quarter 1	26,124	-80.0	5,225	-80.0	5,225
Quarter 2	39,965	-65.0	13,988	-60.0	15,986
Quarter 3	58,170	-50.0	29,085	-40.0	34,902
Quarter 4	30,229	-40.0	18,137	-30.0	21,160
TOTAL	154,487	-57.0	66,435	-50.0	77,273

Source: Prepared-in-house.

In short, it is expected that, after the poor start to the year, where tourism GDP for Q1 will continue to struggle in comparison to the figures recorded in 2019 and also in 2020, the following quarters will see a gradual normalisation. Thus, tourism GDP for the year as a whole would be set at between €66 billion and €77 billion, contributing between one and two GDP points to the growth of the economy in 2021. However, even in the best scenario, the sector's figures will still be a long way from the levels of 2019, making support measures for companies and workers in this area still necessary.