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Economic Outlook

July 2021

SPECIAL REPORT: Analysis of the implementation at regional level of the direct aids established through RDL 5/2021 and 6/2021. Differences with the programmes implemented in other countries.

Overview

- **The global economy continues its robust recovery, albeit with increasing disparity across countries.**
- **PMI indicators point to notable dynamism in the United States and Europe, while growth in Asia seems to be losing momentum.**
- **Food and commodity prices continue to show very high year-on-year increases, with oil prices at their highest levels since 2018.**
- **The European Commission has revised upwards the Spanish economy's growth outlook for 2021 to 6.2%. For 2022, it is somewhat less optimistic than last spring, with GDP estimated at 6.3%.**
- **The Spanish economy recorded an activity improvement in Q2, supported by more positive expectations as a result of good progress in the vaccination rollout and the lifting of restrictions.**
- **The labour market balance in Q2 was positive, with some 400,000 more Social Security registrations than in Q1. Moreover, effective Social Security registrations (discounting ERTE-furloughs), seasonally adjusted, grew by 1.8% quarter-on-quarter.**
- **Inflation remains high (2.7%) due to the increase in energy product prices.**
- **The public deficit is narrowing over the course of 2021 on the back of buoyant revenues. Strong expenditure growth prevents a further narrowing of the fiscal imbalance.**

SPECIAL REPORT

- **Analysis of the implementation at regional level of the direct aids established through RDL 5/2021 and 6/2021. Differences with the programmes implemented in other countries.**

The international scenario

The global economy continues its recovery, albeit with increasing disparity across countries

The recovery in global activity continues to be very robust, although there is greater disparity between regions, influenced by factors such as the pace of vaccination, the impact of the pandemic on the population, the fiscal and monetary policies of their governments and central banks and the sectoral composition of their economies, among other.

The European Commission, in line with other international organisations, has once again revised its growth forecasts upwards, in this case for the EU and the Eurozone, to 4.8% for 2021 and 4.5% for 2022, respectively. Among the reasons for this improvement, they point to the good pace in vaccinating the population, the lower incidence of Covid cases, which have enabled the relaxation of restrictions and allowed for greater mobility, as well as an increase in consumption. The fact that the contraction in Q1 (-0.1% for the EU and -0.3% for the Eurozone) was lower than previously anticipated also played a role. However, despite this good outlook, by the end of 2022 the European economy is still estimated to remain one percentage point below the pre-crisis trend. It should also be noted that the speed of the recovery is very heterogeneous across countries, and while some will be able to recover their 2019 GDP levels in Q3 of this year, others will not do so until the latter part of 2022.

European Commission forecast (July 2021)

	GDP			Inflation		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**
EU-27	-6.0	4.8	4.5	0.7	2.2	1.6
Eurozone	1.4	-6.5	4.8	0.3	1.9	1.4
Spain	-10.8	6.2	6.3	-0.3	2.1	1.4
Germany	-4.8	3.6	4.6	0.4	2.8	1.6
France	-7.9	6.0	4.2	0.5	1.6	1.2
Italy	-8.9	5.0	4.2	-0.1	1.4	1.2

Source: European Commission

In the United States, growth remains very solid. In addition to the 1.6% quarter-on-quarter increase in Q1, confidence indicators are showing positive signs and trade, the residential sector and the labour market are all posting good performance rates. Moreover, a new $1.2 trillion infrastructure plan has been approved which, although with a lower allocation than initially proposed, will keep contributing to boost activity to rates that could exceed 7% for the year as a whole. This increased activity is being reflected in the labour market, with 850,000 new jobs created in June. Thus, 15.6 million non-agricultural jobs have already been recovered, although some 6.8 million additional jobs are still needed to return to pre-crisis levels. Despite this lower employment, low activity rates are putting upward pressure on wages, which, together with the overheating of the economy, have pushed June's CPI up to 5.4%, the highest rate since 2008, and core inflation to 4.5%, the highest since 1991.

In China, growth is softening. In Q1, the country's economy grew by 0.6% quarter-on-quarter, significantly below the 3.0% recorded in the second half of 2020. The increase in production costs and the containment observed in confidence indicators could be anticipating a slower pace of activity, although the growth forecast for the year still stands at close to 8.0% and it is expected to go back to rates just shy of 6.0% in 2022, in line with pre-pandemic figures. In this regard, the Chinese government has shown its intention to seek more balanced growth and improve its financial stability, even if this means less dynamic activity.

Meanwhile, in other Asian economies, new outbreaks of the pandemic are being felt and restrictions on activity and mobility are being introduced, which could affect growth in the short term. On the other hand, in the emerging economies of Africa and Latin America, the slower pace of vaccination and, in some countries, even having limited access to these vaccines, together with the lower fiscal margins available to their governments, will delay recovery over time.

The global composite PMI index for June remained slightly below the 15-year high reached in May, with the United States and Europe showing very firm growth. The Eurozone posted its highest values since 2006, while in Asia the indices point to some weakness, with China at its lowest level in 14 months, although still in expansionary territory, while in Japan and India growth is expected to contract. Other economies, such as Brazil and Russia, recorded some improvement. By sectors, services performed well, with the second-best values in 15 years, only behind May's results, and for the third consecutive month above the results of the manufacturing sector which, nevertheless, continues to suggest growth at a global level, despite bottlenecks in certain goods. It is worth noting the good performance of the tourism and recreational activities sectors. Telecommunication services and industrial services are also among the fastest growing sectors.

As for central banks, both the Federal Reserve and the ECB have indicated that the increases in inflation in recent months are mainly due to transitory effects. They believe that they are caused by mismatches between the quick increase in global demand for certain goods and commodities and a less agile supply response, which creates bottlenecks in certain sectors and puts upward pressure on prices.

Therefore, they have shown their intention to continue implementing very expansionary monetary policies, with low interest rates, and will also keep their asset purchase programmes. The Fed's symmetrical objective will allow it to delay the rate hike, despite the notable rise in prices in the United States. Thus, its chairman, Jerome Powell, has pointed out that, although the labour market is improving, it is still far from the levels he considers appropriate to start reducing bond purchases.

Meanwhile, the ECB, following the Fed's footsteps, has also revised its strategy from "close to, but below 2%" to a medium-term, symmetrical target of 2%. In addition, it has acknowledged its intention to include imputed home prices in the CPI measurement, although this is a longer-term project. With this strategy revision, the ECB is signalling its greater willingness to allow high CPI rates for longer, so no change in its monetary policies, which will remain very accommodative, is expected in the short term.

In June, despite a slight easing, food and commodity prices remained very high, with year-on-year increases of 45% in the case of food and 85% in the case of industrial products. Meanwhile, oil prices continue to rise, pressured by the increase in global demand stemming from the improving economy, while supply remains contained by the OPEC+ agreements to limit production. Thus, Brent crude oil stood at $73.3/barrel on average in June, its highest level since October 2018, with an increase of 81% year-on-year. In the first days of July, the price continued to rise, oscillating around $78/barrel, due to lack of consensus to expand production. Finally, in mid-July, the OPEC+ countries agreed to gradually increase monthly production by 400,000 barrels a day each month from August to December.

The Spanish economy

The European Commission improves its outlook for the Spanish economy

In July, the European Commission (EC) has again revised its forecasts for the Spanish economy upwards to 6.2% for 2021, while scaling back optimism for 2022 with a cut in GDP growth estimations by several tenths of a percentage point to 6.3%. Along these lines, but with somewhat more conservative forecasts, at CEOE we estimate GDP growth of 5.7% this year and 6.0% in 2022.

According to the EC, the improved outlook for 2021 is due to a stronger than expected recovery in Q2 and Q3, for which it forecasts quarterly GDP growth of 2.0% and 3.1%, respectively. According to this institution, the faster vaccination rollout, the improvement in confidence indicators and in the labour market, and the strength of consumption due to the savings cushion justify this upward revision for the Spanish economy's outlook in the short term. Moreover, the implementation of the Recovery and Resilience Plan is expected to strengthen public and private investment and provide a new boost to the economy. With respect to this, it should be noted that the latest ECOFIN meeting on July 13 gave the go-ahead to the recovery plan and Spain is set to start receiving the corresponding funds, whose first tranche amounts to €9 billion. In addition to the fiscal push, we should also remember that the ECB's expansionary monetary policy will remain in place.

However, a certain amount of caution should be exercised regarding the recovery process of the Spanish economy in the short term, which will depend on the management of the fifth wave of the pandemic and its impact on tourism; the increase in raw materials and its effect on inflation and on production; and the sound implementation of European funds.

Finally, it is worth noting the increase in private indebtedness. The Spanish Economy's Financial Accounts point to an increase in private sector debt in Q1 2021, which reached 149.3% of GDP, compared with 130.3% of GDP a year earlier. The rebound in the debt-to-GDP ratio was due to the increase in debt and, to a larger extent, the decline in GDP. However, the behaviour for households and companies has differed, with the ratio of the former falling to 62.8% of GDP while the latter rose to 86.6% of GDP. At the household level, what stands out is the 8.6% year-on-year increase in net financial wealth.

Demand and activity

Activity rebounds in Q2 supported by improved expectations

With Q2 2021 just finished, the indicators available for this period show a notable upturn in activity, following the -0.5% decline in Q1. Progress in the vaccination rollout has led to a notable decline in Covid19-related morbidity indicators and, although it seems that we are in a fifth wave of the pandemic, this is not yet reflected in the number of hospital admissions or deaths, as it is mainly the younger population that is getting infected. However, the rising incidence since the end of June, especially in some regions or towns, is leading to the re-introduction of restrictions that had already been lifted, such as nightlife closures and curfews. The main problem from an economic point of view is that, given the increased incidence, many countries are advising their citizens to avoid travelling to Spain. This may have a negative impact on the recovery of tourism in Q3, which was already not expected to be very positive.

Within this context, activity and employment will record a significant improvement in Q2, which could accelerate in Q3 and Q4 due to driving factors such as bottled-up household consumption, expansionary monetary and fiscal policies, the increase in international tourist arrivals and the arrival of the first NGEU funds. For all these reasons, CEOE's forecasts have been revised slightly upwards with respect to the previous forecast, bringing GDP growth in 2021 to 5.7% and maintaining the expected growth in 2022 at 6.0%

During Q2 there was a notable improvement in agents' expectations, in particular it is worth mentioning the progress seen in those sectors that were more pessimistic, such as retail trade and the services sector, which, with the latest available data for the March-June period, showed increases of almost 30 and 40 points, respectively. The PMIs have also shown very favourable trends this quarter, with both manufacturing and services standing above 50 (indicating an expansion in activity) and reaching over 60 points in June.

The indicators relating to household consumption for Q2 show a more positive trend than in the first few months of the year, and this is likely to improve in the coming quarters. Thus, for example, the retail trade index (excluding service stations) recorded an average increase of 3% in April and May compared with Q1, mainly due to strong growth in non-food spending, while food expenditures fell slightly. The lifting of restrictions has led to higher spending on those services that were constrained by the pandemic, such as restaurants, leisure and tourism. Car registrations showed a 45% increase in Q2 compared to Q1, although in June they were still 25.8% below the level recorded in 2019. In the accumulated figure for the first six months, passenger car registrations are down 34% compared to two years ago, with all segments still showing more than a 20% decrease in deliveries compared to the same period in 2019. The temporary reduction in the car registration tax and the increase in mobility are expected to encourage undecided buyers in the coming months.

From the point of view of the foreign sector, with information up to May, exports performed better than imports. Thus, in the first five months of the year and in terms of volume, exports increased by 19.5% year-on-year and imports grew by 13.2% year-on-year. The result of these flows was an accumulated trade balance for this period of €-4.419 billion, 51.2% lower than in 2020 and 64.9% lower than in 2019. According to the Balance of Payments data published by the Bank of Spain, in the January-April period the Spanish economy recorded a financing need with respect to the external sector of -0.2 billion, compared with a financing need of -0.4 billion in the same period of the previous year. Despite the deterioration in the tourism and travel balance (0.7 billion, compared with 5.1 billion a year earlier), the better performance of the balance of goods and of primary and secondary income allowed the current account balance to remain practically unchanged in comparison to the previous year (-1.7 billion compared with -1.6 billion).

The latest available data on the tourism sector are still very negative, albeit timidly progressing. The international tourist entries increased in May to 1,363,624 tourists, which was -82.7% lower than in the same month of 2019 (for comparison purposes with a pre-pandemic figure). Similarly, the total expenditure made by international tourists visiting Spain in May reached €1.392 billion, which compared to the pre-pandemic levels of 2019 represents a decrease of -82.8%. The main issuing countries at present are Germany, France and Italy, while the deterioration in the inflow of visitors from the United Kingdom continues to be the most pronounced. In Q3, tourism is expected to continue increasing to reach figures of around 40% of pre-pandemic levels.

The labour market

The labour market boosts its improvement again in June

The notable rise in Social Security registrations and the sharp fall in registered unemployment in June show that, as restrictions were eased, the labour market continued its recovery in Q2. Despite this improvement, there is still some way to go to reach pre-crisis levels of actual employment. To this end, some key elements for the improvement of economic activity and, in turn, of the labour market in the second half of the year include the pace of the vaccination campaign, the evolution of the pandemic, which seems to have entered its fifth wave, and the extent to which international restrictions are lifted.

In June, registered unemployment fell by 166,911 people, the largest fall in the historical series for this month. Meanwhile, Social Security registrations increased by 233,056 people, which is the highest increase recorded in June since the series began in 2001. This improvement also gains strength in seasonally adjusted terms, with an increase of 202,857 people, thus intensifying its growth after the change in trend in May.

Going back to the gross figures, it is more appropriate to make the year-on-year comparison with 2019, given that the 2020 data were conditioned by the impact of the pandemic. Thus, despite the favourable results in June 2021, the number of registered workers is still 17,420 lower than in the same month of 2019. However, it should be noted that it is private sector enrolment that is still well below the 2019 figures, specifically by 246,021 people. Moreover, although the number has once again decreased, there were still 459,544 workers under furlough (ERTE) schemes in June (on a monthly average). Overall, this represents 476,964 fewer actual contributors than in June 2019, i.e. still 2.4% below the pre-crisis level of actual employment.

The employment balance in Q2 was positive. Social Security registrations increased by some 407,000 people with respect to the previous quarter. Moreover, seasonally adjusted actual Social Security registrations (excluding those under furloughs) grew by around 1.8% quarter-on-quarter, after the fall recorded in Q1. With regard to the forecasts for the year as a whole, job creation will be less intense than GDP growth, due to the reincorporation of workers affected by furlough schemes, who are considered to be employed for statistical purposes. Thus, CEOE expects employment in LFS terms to grow by 1.0% in 2021 and 1.7% in 2022. Moreover, part of the unemployed workers who were rendered inactive during the pandemic could go back to being considered unemployed again. Thus, the unemployment rate will be similar to that of 2020, just one tenth of a percentage point lower to be set at 15.4%, before softening in 2022 to around 14.6%.

Inflation

Inflation held steady at 2.7% in June on higher energy prices

In June, the year-on-year Consumer Price Index (CPI) stood at 2.7%, the same rate as in May. The increase in electricity and certain unprocessed food prices have contributed to inflation remaining at these rates.

Core inflation also remained unchanged at 0.2% year-on-year. By component, mixed behaviour was observed. On the one hand, Services prices increased their fall rate by two tenths of a percentage point to -0.3%. On the other hand, both the prices of Industrial goods excluding energy products, whose rate of change increased by two tenths of a point to 0.7%, and Processed food, beverages and tobacco, whose rate of change accelerated by five tenths of a point to 0.7%, are beginning to show a change in trend.

Unprocessed food prices still show a year-on-year rate of change of 1.4%. The largest increases with respect to the same month in 2020 are concentrated in meat and fish, while the sharpest decreases are recorded in fruit and vegetables.

Energy prices are the most inflationary component of the CPI, with a year-on-year rate of 23.5% (24.0% in May). In fact, the CPI rate excluding energy products was set at 0.3% in June. Specifically, fuel prices, together with electricity and heating oil, continue to increase at very high rates, due to the notable rise in oil prices, among other factors. In June, Brent crude oil stood at $73.3 per barrel on a monthly average, an increase of 81.2% year-on-year, which is somewhat more moderate than in previous months but still very significant. In July, the average price stands at around $78 per barrel, which would represent an increase of 77.6% compared to a year earlier (similar to last month). Oil prices are expected to continue to exert upward pressure on inflation in the coming months, albeit more moderately.

The Harmonised Index of Consumer Prices accelerated its year-on-year growth rate to 2.5% in June (2.4% in May), while the average index for the Economic and Monetary Union slowed by one tenth of a percentage point to 1.9%, according to the flash estimate from Eurostat. This makes three months of positive spread with the Monetary Union.

The public sector

The public deficit starts to improve in 2021, but at a gradual pace

This year, the public sector is redressing the high public deficit levels reached in 2020 (-11% of GDP), albeit at a slow pace. Thus, at the end of May, the State deficit in national accounting terms was 6.3% lower than in the same months of 2020. In terms of GDP, it represents -2.5% up to May, compared with -2.9% of GDP for the same period a year earlier. If the primary deficit is taken into account, it is also lower in 2021 (-1.7% of GDP, compared to -2.1% of GDP in 2020).

This decrease in the budget imbalance in the first five months of the year is explained by a remarkable dynamism of revenues (11.1% in accumulated terms), while expenditures continue to grow at a good pace (5.1% in the same period).

Within resources, tax revenues show a notable year-on-year growth rate (16.8%), which is partly explained by the sharp fall they registered up to May 2020 due to the outbreak of the pandemic and the subsequent economic crisis. Therefore, to analyse the tax revenue recovery, it is more useful to compare the figures with those for 2019, also aligning them with all the regulatory changes that have taken place since March 2020, as the State Comptroller General's Office (IGAE) points out. According to this body, in homogeneous terms, tax revenues at the end of May 2021 would stand at €57.814 billion, representing a decrease of -3.8% compared to the same period in 2019.

On the other hand, it should be noted that the increase in non-financial uses is due to current transfers between public administrations, which amounted to 60.581 billion at the end of May, 10.2% more than in 2020. The main recipient of these resources is the Social Security Funds, which went from 7.941 billion in 2020 to 11.677 billion at the end of May 2021. This increase is due to the transfer to the State’s Public Employment Service (SEPE) of 1.984 billion, with no equivalent in the previous year, and to an increase in transfers to the Social Security System of 22.1%, to 9.693 billion.

The European Commission's latest forecasts for Spain's public deficit, released last spring, point to -7.6% of GDP in 2021, a trend that will continue in 2022, with -5.2% of GDP.

Forecasts

Economic forecasts for Spain

(last update: July 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	5.7	6.0
Private consumption expenditure	2.6	3.0	1.8	0.9	-12.4	5.4	5.9
Government consumption expenditure	1.0	1.0	2.6	2.3	3.8	2.4	1.7
Gross fixed capital formation	2.4	6.8	6.1	2.7	-11.4	5.8	7.6
-Tangible fixed assets	1.7	7.7	7.6	2.7	-13.3	6.5	8.3
Construction	1.6	6.7	9.3	1.6	-14.0	2.4	8.4
Equipment and cultivated assets	1.9	9.2	5.2	4.3	-12.2	12.5	8.1
-Intangible fixed assets	5.2	2.9	-0.7	2.6	-1.7	2.6	4.1
Domestic demand (*)	2.0	3.1	3.0	1.4	-8.8	4.8	4.1
Exports	5.4	5.5	2.3	2.3	-20.2	9.0	11.1
Imports	2.6	6.8	4.2	0.7	-15.8	6.0	5.1
GDP current prices	3.4	4.3	3.6	3.4	-9.9	7.2	7.0
GDP deflator	0.3	1.3	1.2	1.4	1.0	1.5	1.0
CPI (average annual rate)	-0.2	2.0	1.7	0.7	-0.3	1.9	0.9
CPI (dec/dec)	1.6	1.1	1.2	0.8	-0.5	2.1	0.8
Core CPI (average annual rate)	0.8	1.1	0.9	0.9	0.7	0.5	0.8
Employment (Quarterly National Accounts)(**)	2.8	2.9	2.6	2.3	-7.5	4.4	4.6
Employment (LFS)	2.7	2.6	2.7	2.3	-2.9	1.0	1.7
Unemployment rate (LFS) (% active population)	19.6	17.2	15.3	14.1	15.5	15.4	14.6
Productivity	0.2	0.1	-0.2	-0.3	-3.6	1.3	1.4
Compensation per employee	-0.6	0.7	1.0	2.1	1.4	0.5	1.1
Unit labour cost (ULC)	-0.8	0.6	1.2	2.4	5.3	-0.8	-0.4
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)	-4.3	-3.0	-2.5	-2.9	-11.0	-8.3	-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	68.8	67.8

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs

Analysis of the implementation at regional level of the direct aids established through RDL 5/2021 and 6/2021. Differences with the programmes implemented in other countries.

The COVID-19 pandemic has prompted the European Union's Next Generation programme, aimed at restoring the economy and making it stronger in the event of a crisis such as the one experienced in 2020, by loosening the general State Aid scheme, which generically prohibits this type of aid.

The basic features of the aid programme are as follows:

- Aid will be granted automatically if specific conditions are met.
- The aid must be targeted at sectors particularly affected by the crisis.
- The funds will be used exclusively to compensate for past damage caused by the COVID-19 pandemic and will not be used to alleviate future damage.

This line of aid has been implemented in Spain through RDL 5/2021, whose Title I provides for the creation of the Covid line of direct aid to self-employed individuals and non-financial companies with registered offices in Spain as well as to non-resident, non-financial entities operating in Spain through a permanent place of business**.**

To qualify for this aid, the beneficiaries' annual turnover in 2020 must have dropped by at least 30% compared to 2019, and their activity must be included in the CNAE 09 codes listed in Annex I of RDL 5/2021.

Also excluded from the aid are **those companies and entrepreneurs** that, in their Personal Income **Tax return for 2019**, declared a **negative net result** for the business activities calculated on the basis of the direct estimate method or, **where appropriate**, whose taxable base in the Corporate Income Tax or Non-Resident Income Tax, **before the application of the capitalisation and compensation reserve for negative taxable bases, was negative for said financial year.**

The temporary period of the liabilities eligible for aid extends from the 1st of March, 2020, to the 31st of May, 2021, and they must stem from contracts entered into prior to the 13th of March, 2021.

Furthermore, the aid has a targeted nature, and must be used for the payment of fixed costs, payment to suppliers, reduction of debts derived from the economic activity and, in the event of a surplus, debts with bank creditors, with priority being given to the reduction of any debt with a public guarantee.

The aid facility is endowed with 7 billion euros and RDL 5/2021 establishes the criteria for determining the maximum amounts of direct aid and modulates them according to the drop in turnover.

Subsequently, and through RDL 6/2021, certain elements of this aid were modified, allowing the Autonomous Communities and the Autonomous Cities of Ceuta and Melilla to establish exceptions to the requirement stipulating that those entrepreneurs or professionals who had declared a negative net result in the financial year 2019 would not be eligible for this aid, being able to take into account exceptional circumstances occurred in 2019 and duly justified in their announcements for aid requests.

In addition, they were also **allowed to grant direct aid to entrepreneurs or professionals and entities operating in activities classified under National Classification of Economic Activities (CNAE 09) codes not included in Annex I of RDL 5/2021** that had been particularly affected in their geographical area, duly justified in their announcements for aid requests.

Using these powers, the Autonomous Communities have implemented RDL 6/2021 in different ways, as shown in the table on the following page.

As a result of this regulatory disparity, **there are significant differences between Autonomous Communities.** In several of them, minimal changes have been introduced, adding only a few CNAE. However, in other Autonomous Communities it has been decided to significantly expand the beneficiary sectors, in addition to introduce other additional flexibility measures concerning to the conditions for receiving aids, although **there are no a priori reasons justifying such differences.**

In any case, **while it may be justifiable for certain territories to include companies included in CNAE codes that were not included in the annex to RDL 5/2021** in order to take into account the peculiarities of each specific territory and the local impact that the health crisis may have had, **this is not the case for the differences in assessing whether a company was not viable before the pandemic** or was already in financial difficulties at the time and is, therefore, excluded from the aid.

Thus, **with regard to losses**, in relation to the general criterion of excluding from aid those companies and entrepreneurs that, in the Personal Income Tax return for 2019, had declared a negative net result for the business activities calculated on the basis of the direct estimate method or, where appropriate, whose taxable base for the Corporate Income Tax or Non-Resident Income Tax, before the application of the capitalisation and compensation reserve for negative taxable bases, was negative in said financial year, **there are 12 territories that have not made any amendments while another 7 have modified the criteria**. For example, Andalusia or Galicia have made it such that for a company to be deemed as having had pre-crisis difficulties it is not enough to have losses declared in 2019, but **equity balance criteria should also be taken into account** (equity below half of capital); in the Canary Islands, Cantabria, Castilla - La Mancha and La Rioja **losses are allowed if they were due to special or extraordinary circumstances**; and in the Basque Country, aid is granted in any case to certain self-employed and individual entrepreneurs.

Indicators and implementation of aid in Autonomous Communities

Autonomous Communities	Aid Amount (€ million)	Regional Total Amount % GDP	Average amount of aid available per company	Regional regulatory publication*	Additional CNAES (4 digits)	Loss flexibility
Andalucia	1,109.2	0.67	2,089	**15/06/2021**	154	**Ratio of equity to share capital less than 0.5**
Aragon	141.3	0.37	1,559	**28/06/2021**	396	**General**
Canary Islands	1,144.3	2.43	7,491	**05/06/2021**	594	**Profits in 2018 and losses 2019 due to extraordinary circumstances.**
Cantabria	55.4	0.39	1,424	**21/06/2021**	0	**Investment losses included in 2017/18/19 auditor report**
Castile-León	232.6	0.39	1,452	**19/05/2021**	475	**General**
Castile-La Mancha	206.3	0.48	1,603	**09/06/2021**	300	**Losses due to changes in means of production, regulatory, regularizations or start of activity are excluded**
Catalonia	993.3	0.42	1,577	**16/06/2021**	All Included	**General**
Community of Madrid	900 *	0.37	1,231	**29/04/2021**	81	**General**
Community of Valencia	647.1	0.56	1,746	**25/05/2021**	93	**General**
Extremadura	106.5	0.51	1,581	**16/06/2021**	109	**General**
Galicia	234.5	0.36	1,185	**11/06/2021**	All Included	**Admits losses 2019 if economic solvency is accredited (accounting ratios)**
Balearic Islands	855.7	2.53	8,555	**04/06/2021**	50	**General**
La Rioja	32.5	0.37	1,432	**17/06/2021**	All included	**Depreciation provisions and impairments are excluded to compute losses**
Navarre	67.6	0.32	1,522	**30/06/2021**	400	**General**
Basque country	268 *	0.29	1,874	**02/07/2021**	78	**Certain self-employed and individual entrepreneurs are excluded**
Principality of Asturias	107.8	0.45	1,575	**30/06/2021**	104	**General**
Region of Murcia	142.5	0.44	1,473	**02/06/2021**	36	**General**
Ceuta	13.9	0.79	3,605	**26/03/2021**	N.P	**General**
Melilla	12.3	0.76	2,344	**26/03/2021**	N.P.	**General**
TOTAL	**7,270.8**	**0.67**	**2,135**			

** State regulatory publication: Royal Decree-Law 5/2021 of March 13th and Royal Decree-Law 6/ 2021 of April 21th*

** This amount includes the 220 million euros contributed by the Community of Madrid and 50 million euros provided by the Basque Country*

Of these alternatives to the general scheme, **the line followed by Andalusia and Galicia seems to us to be particularly appropriate, since the criterion of considering the loss of one financial year (2019) as disqualifying from aid, without taking into account the**

magnitude of such losses and their impact on the equity of the entity that suffers them, seems to us to be excessive. The wording of RDL 5/2021 (and which applies in 12 territories) is such that a company can have a non-significant loss that in no way diminishes its viability and yet not obtain aid when it may urgently need it, thus, in fact, compromising its future viability.

What is not debatable is that **it makes no sense for the criteria for calculating losses that exclude from eligibility to the aid programme to be different, since losses are no different depending on geographical location**. In this sense, and although it is positive that the regulation allows some territories to improve the inadequate common regulation, **it would be necessary to go a step further and apply the best criteria** (for example, those implemented by Andalusia and Galicia) or, **at least, to exclude extraordinary circumstances from the calculation of losses** (as in the Canary Islands, Cantabria, Castilla-La Mancha and La Rioja). Otherwise, there would be unjustified comparative disadvantages, since companies in the same economic circumstances would or would not be entitled to aid depending on the territory in which they are located.

On the other hand, and **because the duration of the pandemic and its economic effects are extending over time with the emergence of new waves that are mostly impacting the tourism sector which, unfortunately, will continue during the summer of 2021, it would also be necessary to extend the temporary period of liabilities eligible for aid which ends on the 31st of May, 2021. This deadline should be extended at least until the end of September**, by which time we should have reached vaccination levels that would allow a relative return to normality.

Finally, **it is worth objecting to the targeted nature of the aid**, since, by earmarking it for paying fixed costs, suppliers, reducing debts arising from economic activity and debts with bank creditors, **companies and entrepreneurs who have paid their debts using their own funds are being penalised, since those who have made a greater financial effort of their own instead of resorting to non-payment or external financing are being excluded from this aid**.

International comparison

In terms of international comparison, aid in Spain is far behind Germany, with €50 billion, Italy with €25 billion and France with €18.6 billion, all in direct aid to combat the economic damage caused by COVID-19.

But **the differences are not only in the amount of the aid, but also in the speed of access and the requirements and conditions for receiving it**.

With regard to accessibility to the aid, in Germany and France it started being available in Q4 of 2020 to those companies that had suffered an administrative restriction of activity, and it was extended to all sectors from the beginning of 2021

With regard to which companies are eligible for aid, while in Spain it has been limited to those included in certain CNAE codes, Italy, Germany and France have extended it to the

whole economy. Moreover, in Germany, Spain and Italy, the threshold of income lost due to the crisis in order to be eligible for the aid is at least 30% compared to 2019. In France, however, the criteria are more permissive for the sectors most affected by the crisis, which are eligible for aid without requiring a minimum percentage drop in activity.

The viability requirement, which in Spain has been regulated by excluding companies with losses in 2019**, is not as rigorous in the rest of our neighbouring countries. Thus, in Italy, France and Germany, only those companies with viability problems or on the verge of closure are excluded without any reference to objective circumstances such as losses in 2019,** conditions much more lenient than those established in the Spanish regulations and closer to those of the Autonomous Communities of Andalusia and Galicia, which are, in our opinion, a model to follow.

Finally, **with regard to the amount of aid, the German system is the most generous and the Spanish system the most restrictive, since in our country only 20-40% of the income lost by companies in the sectors most affected by the pandemic is compensated, compared to 20-60% in Italy, 90% in Germany and up to 100% in the case of small businesses in France**, which, moreover, has no budget ceiling for the aid plans.

Conclusions

Spanish regulations on aid arrive several months later than those of neighbouring countries and, moreover, their coverage is more limited, as they only apply to the sectors most affected by the pandemic**. In addition, its implementation is more complex due to the involvement of the Autonomous Communities, which will further delay the arrival of the aids. The Spanish model also suffers from the following shortcomings** that need to be corrected**:**

- **There are large disparities among Autonomous Communities in the inclusion of additional CNAE eligible codes, without there being any a priori reasons to justify these differences.**
- **Excluding from aid those companies and entrepreneurs with losses in 2019 is inappropriate, as it does not take into account the amount of these losses and whether they effectively affect the viability of the company,** so the strategy followed by Andalusia and Galicia of assessing the impact of the losses on the equity of the company that suffers them is more appropriate.
- Given that the duration of the pandemic, and its economic effects, are extending over time, **it would also be necessary to extend the term of the liabilities eligible for aid, at least until the end of September**.
- Lastly, it is worth objecting to the **targeted nature of the aid**, since, by allocating it to paying fixed costs, suppliers, reducing debts arising from economic activity and debts to bank creditors, **those companies and entrepreneurs** who, using their own funds, have paid their debts, are being penalized, and **those who have made a greater financial effort of their own rather than resorting to non-payment or external financing have been excluded from the aid.**