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Economic Outlook

June 2021

REPORT ON THE 2021 WORLD COMPETITIVENESS RANKING RESULTS

Overview

- The OECD points to a strong recovery of the global economy, although with considerable disparity across regions.

- May PMIs confirm the good momentum of the US economy and the improvement of the Eurozone, although they suggest some weakness in Asia.

- Central banks believe that the rise in inflation is mainly due to transitory factors and that it will slow down at the end of the year and throughout 2022, so they are keeping their monetary policies unchanged.

- The Bank of Spain estimates a better scenario for the Spanish economy in 2021 and 2022. Thus, GDP growth forecasted for this year rises to 6.2% and 5.8% for 2022, two and five tenths more, respectively, than what it estimated in March.

- The European Commission approves the Recovery, Transformation and Resilience Program, with an expected fund disbursement of €19 billion in 2021.

- The Spanish economy is experiencing a remarkable rebound in Q2, supported by the positive evolution in the vaccination rollout and the improvement of the external sector, although it is still awaiting the real activation of tourist arrivals.

- The labour market improved in May with the lifting of the state of alarm and the relaxation of restrictions. However, there are still some 1.2 million fewer effective registered workers than two years ago.

- Headline inflation continued its upward trend in May due to higher energy prices, while core inflation remained very subdued.

- Public debt continued its upward trend at the start of 2021, with the ratio over GDP reaching 125%.

REPORT ON THE 2021 WORLD COMPETITIVENESS RANKING RESULTS

- **The lack of efficiency in the public sector is the main obstacle to the competitiveness of the Spanish economy**

The International Scenario

The OECD points to a strong recovery of the global economy, although with disparity across regions

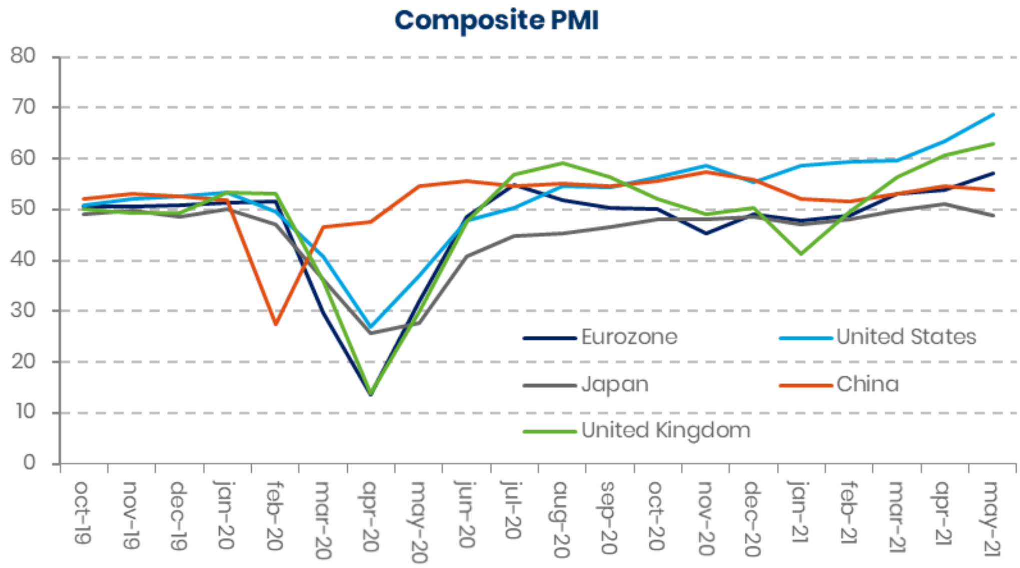
The OECD's latest economic outlook report, published at the end of May, points to an improvement in global prospects, albeit very unevenly. Overall, it estimates global GDP growth of 5.8% for 2021 and 4.4% for 2022, two and four tenths of a percentage point higher, respectively, than estimated in the March report. These rates of recovery mean that most countries will be back at pre-pandemic GDP levels by the end of 2022, although the global economy will remain below the growth path that was foreseen prior to Covid. In addition, the disparities in the vaccination rollouts and in the accessibility to vaccines between advanced economies and some less developed economies, together with significant differences in the support measures deployed by their governments, will delay the recovery of the latter over time.

OECD growth forecasts (May 2021)

	OECD			dif. From March	
GDP (year-on-year rate)	**2020**	**2021**	**2022**	**2021**	**2022**
World growth	-3.5	5.8	4.4	0.2	0.4
United States	-3.5	6.9	3.6	0.4	-0.4
Japan	-4.7	2.6	2.0	-0.1	0.2
United Kingdom	-9.8	7.2	5.5	2.1	0.8
Euro Area	-6.7	4.3	4.4	0.4	0.6
Germany	-5.1	3.3	4.4	0.3	0.7
France	-8.2	5.8	4.0	-0.1	0.2
Spain	-10.8	5.9	6.3	0.2	1.5
Italy	-8.9	4.5	4.4	0.4	0.4
China	2.3	8.5	5.8	0.7	0.9
India	-7.7	9.9	8.2	-2.7	2.8
Brasil	-4.1	3.7	2.5	0.0	-0.2
Mexico	-8.2	5.0	3.2	0.5	0.2
World trade	-8.5	8.2	5.8		

Source: OECD

The PMI indicators for May confirm the substantial improvement in the world economy, with the global composite PMI index standing at 58.4 points, its highest level in more than 15 years. This increase is driven by record increases in the United States and the United Kingdom as well as the good dynamism seen in the Eurozone, which posted its best figure in three years. Meanwhile, Asia is showing certain weakness signs, with a declining composite PMI index in China, pointing to a slower pace of growth, while Japan and India's composite PMIs fell below 50 points, anticipating a possible downturn in activity.



Source: Markit Economics

Overall, the recovery continues to gain momentum as borders reopen and mobility restrictions are eased, thus promoting world trade growth, while travel is gradually resuming, all of which leads to an increase in consumption and hours worked at a global scale. Furthermore, supportive monetary and fiscal policies are enabling higher confidence and more dynamism in the economy.

In response to these re-openings, the services PMI continued to outpace the manufacturing PMI in May for the second consecutive month, rising at its fastest pace since April 2006, while manufactures fell slightly in relation to the previous month, when they had reached the highest level in the last decade. By sector, the strength of the real estate sector stands out, followed by the remarkable increase in tourism and recreational activities, as a result of greater mobility, and by health-related services.

This rapid improvement in the economy is leading to a notable increase in inflation, believed to be transitory to a large extent, but which causes some concern in case it might end up conditioning monetary policies and lead to an earlier than expected tightening strategy, mainly by the Federal Reserve.

The increase in inflation over the past few months is due to baseline effects, given the low prices recorded in the previous year; to transitory factors derived from bottlenecks caused by mismatches between supply and demand for certain products; and to higher energy and other commodity prices. In the latter part of the year and throughout 2022, inflationary pressures are expected to ease as temporary factors disappear. The existence of excess production capacity, which will gradually be absorbed, will also help to restrain prices.

In the Eurozone, inflation stood at 2% in May, following the negative rates posted during the second half of 2020. The ECB estimates that it could continue to rise until the fall, due to factors such as the end of the VAT rebate in Germany. However, its forecasts point to a subsequent moderation, expecting inflation to average 1.9% in 2021, then fall to 1.5% in 2022 and 1.4% in 2023, so they consider that tightening financial conditions is not appropriate and could pose a risk to the recovery. Thus, at its June meeting, the ECB maintained its monetary policy unchanged and even indicated that it will extend the asset purchasing pace during Q3, which it had already increased in Q2.

It is also worth noting that some of the factors that are pushing up prices may be of a less transitory nature. In this sense, changes in the energy model may discourage long-term investments in the oil sector, delaying the adjustment between a demand that will increase significantly in the short term and a more contained supply. In addition, some raw materials, such as copper, are mainly produced in African and South American countries, which are more affected by the pandemic and have lower rates of vaccination. This limits production and generates mismatches between supply and demand. Meanwhile, the commitment to greater technological development, such as the deployment of 5G networks, among others, may generate a higher structural demand for certain goods and components, such as chips or semiconductors. Meeting this higher demand requires more time and higher costs to increase production and, therefore, it leads to a shortage of these goods, especially in those sectors with a high production concentration.

Some of these phenomena are taking place in China, where a large part of the technological products marketed in the rest of the world are manufactured, and where the strong demand for chips and semiconductors is pushing up prices. In addition, the country has limited the production of certain products to reduce polluting emissions and, moreover, the increase in steel exports has put pressure on the price of steel in the Chinese domestic market. Thus, despite the fact that its inflation rate stood at the moderate rate of 1.3% in May, the accumulation of these factors, among others, have raised production prices to 9% year-on-year for said month, the highest rate since September 2008. This, together with the strength of the yuan against the euro and especially against the dollar, is likely to result in a rise in the price of products from China, which will end up exporting inflation to the rest of the world.

In the United States, inflation in May was 5%, the highest rate in thirteen years. In addition to the factors described above, such as higher energy prices, temporary mismatches in certain products and the baseline effect, we should also add internal elements such as the notable dynamism of the economy, supported by a good vaccination rate, and the fiscal stimuli deployed. In addition, recent indicators show a strengthening of the labour market, with the creation of 559,000 jobs in May and a drop in the unemployment rate to 5.8%. Although employment figures are still far from pre-Covid levels (7.6 million fewer jobs than in February 2020), some wage pressures are occurring, putting upward pressure on inflation due to labour shortages in certain sectors, especially in some of the lower-skilled ones. Government subsidies for unemployment benefits, the non-attendance of part of the student body, and concerns about contagion are keeping activity levels below pre-pandemic levels, although this situation is expected to be progressively resolved from September onwards.

For the year as a whole, the Fed expects headline inflation to rise to 3.4% and core inflation to 3.0%, to subsequently fall to 2.1% in 2022, while GDP will grow by 7.0% this year and 3.3% the next. As for its monetary policy, it has kept it unchanged, insisting that the inflation effects are transitory for the most part. Nonetheless, a change has been noted in rate hike expectations, which previously were not foreseen until 2024, and estimates now point to the possibility of seeing two of them in 2023.

With regard to oil, the price of Brent crude in May averaged $69.5 per barrel, an increase of 149.4% year-on-year. In euros, the increase was somewhat lower, specifically 123.8%, due to the weaker dollar. This notable price increase is due, on the one hand, to a strong rebound effect against 2020 prices and, on the other, to the moderate increase in the rate of production that OPEC+ countries have agreed to maintain at least until July, which contrasts with the solid signs of recovery in the global economy and the prospects of increased demand for crude oil. In the first weeks of June, the price has continued to rise to close to $75 per barrel, the highest level since October 2018, while futures point to a slight post-summer moderation.

The Spanish Economy

The Bank of Spain, the latest institution to join in the upward revision of the forecasts for the Spanish economy

The Bank of Spain has recently published its projections report for the Spanish economy, where it foresees a better scenario for 2021 and 2022. Thus, in its central scenario, GDP growth for this year rises to 6.2% (6.0% previously) and 5.8% for 2022 (5.3% previously). According to this institution, this upward revision is explained by the positive advances in the vaccination process, the lower uncertainty, the improvement of international markets and the fiscal and monetary boost provided by the European funds and the ECB's expansive policy, respectively. Thus, pre-pandemic GDP levels should be achieved by the end of 2022.

The unemployment rate will continue to fall at a very modest rate (14.7% in 2022), despite the significant upturn in activity. Inflationary pressures in 2021 (the HICP will average 1.9%) will be cushioned in 2022, as inflation will return to rates of around 1%. What will remain high and worrying is the fiscal imbalance in 2021 (-8.2% of GDP) as well as the public debt ratio (which stabilizes at 120.1% of GDP). For 2022, this institution estimates a significant reduction in the deficit (-4.9% of GDP), although it will remain at high levels, as will public debt (117.9% of GDP).

Within this recovery context, the turning point occurs in Q2, with an estimated quarterly GDP growth of 2.2%, according to the Bank of Spain. The vaccination rollout is allowing activity and demand to return to normal levels, albeit unevenly across sectors, which reflects in the improvement of the labour market, greater confidence and the increase in household consumption. However, there are elements of uncertainty and risks that may slow down this momentum, such as the performance of foreign markets, the delay in the application of European funds, a non-transitory upturn in inflation or the extent of the adverse effects that this crisis may have left behind.

The European Commission approved Spain's Recovery, Transformation and Resilience Program, with an initial funding of €9 billion, which could arrive at the beginning of the summer if ECOFIN gives the go-ahead. This disbursement could be followed by an additional €10 billion until the end of 2021 if Spain successfully meets the assessment criteria on the use of these resources. The amount approved for 2021 is less than the €27 billion that the Government estimated it would receive when it drafted the budget.

Demand and Activity

In Q2, there was a notable upturn in activity supported by the successful vaccination rollout

The indicators available for April and May point to a notable upturn in activity in Q2, which that could grow at quarter-on-quarter rates between 1.3% (AIReF) and 2.2% (Bank of Spain), after the -0.5% decline in Q1. The improvement in the indicators related to morbidity, ICU occupancy and cumulative incidence, as a result of the progress made in the vaccination rollout, which continues to advance at a good pace, has allowed a gradual withdrawal of the restrictions on activity and mobility. In addition, the sense of protection provided by the vaccine, especially in the case of the more vulnerable population (over 60), who is practically fully vaccinated, encourages people to take part in activities outside the home and boosts consumption. This improvement in the rate of vaccination will also be key to the reactivation of domestic and foreign tourism in the coming months, insofar as it will allow the lifting of some mobility requirements still in place (quarantines, PCR tests...). In light of this scenario, some institutions are revising their forecasts upwards for 2021 and 2022.

In this context, agents' expectations continue to improve and most of them stand at pre-crisis levels. Specifically, the latest consumer confidence figure for May is at levels similar to those of the first quarter of 2020, when the impact of the pandemic was yet to be reflected. Retail confidence has also shown a very significant improvement in May, by more than 5 points, driven by the current business situation and improved expectations for the future. By sectors, they all improved significantly, especially the services sector, which in the last two months has shown an advance of almost 30 points. The PMIs also showed a more positive perception, remaining comfortably above the 50 level (in fact, set at close to 60), in both manufacturing and services.

The latest indicators relating to household consumption, corresponding to April and May, show a more positive trend than in the first months of the year, and it is very likely that this trend will further improve in the summer months. Thus, for example, the retail trade index (excluding petrol stations) registered a high level of dynamism in April, mainly on spending not related to food, which rebounded significantly; meanwhile, spending on food fell slightly, showing a recovery in household consumption and reflecting a change in the type of spending. The stock of credit to households stabilized (0.0%) due to a higher demand for credit in April, driven by an increase in the housing segment and, to a lesser extent, by credit for other purposes, while consumer credit remains practically stagnant.

Passenger car registrations accumulate several months of significant advances, although the year-on-year rates are still conditioned by the lockdown in 2020. Compared to the years prior to the pandemic, the number of registrations is still slightly more than 40% lower than in a normal month of May. Both the rental and corporate channels are beginning to increase their purchases, but the weakness of the private car channel is a cause for concern, and the implementation of the MOVES III plan should be expedited.

From the point of view of the foreign sector, with information up to April, exports of goods outperformed imports. Thus, between January and April, and in terms of volume, exports rose by 13.7% year-on-year and imports grew by 7.8% year-on-year. The result of these flows was a cumulative trade balance for these first four months of -€4.56 billion, 50.3% lower than in 2020 and 54% lower than in 2019. In addition, the non-energy balance showed a surplus of €1.854 billion, compared to a deficit of €2.485 billion in 2020. According to the Balance of Payments data published by the Bank of Spain, in March the Spanish economy recorded a financing capacity before the foreign sector of 0.3 billion, compared to a financing need of 0.3 billion in the same month the previous year. The improvement in the balance of goods and services (0.7 billion, vs. 0.1 billion a year earlier), despite the deterioration of the tourism and travel balance, which reduced its surplus by 0.6 billion, allowed the current account balance to be set at -0.2 billion, compared to a deficit of -0.6 billion in the same period of the previous year.

The latest available data regarding the tourism sector is still very negative. Although the inflow of international tourists increased in April to 630,647 tourists, this was -91.1% less than in the same month of 2019 as a comparison to pre-pandemic levels. Similarly, the total expenditure made by international tourists visiting Spain in April reached €671 million, which compared to pre-pandemic levels represents a decrease of -90%, in comparison to April 2019. The main visitors at present come from Germany, France and Italy, while the deterioration in the inflow of visitors from the United Kingdom continues to be the most pronounced. The improvement in the tourism sector from the second half of the year will be one of the factors that will drive the economy and will also lead to an improvement in the current account balance.

The Labour Market

The labour market continued to improve in May with the lifting of the state of alert and the easing of restrictions

The increase in the number of Social Security registrations and the fall in registered unemployment in May show that the lifting of the state of emergency and the relaxation of restrictions have contributed to the improvement of the labour market during this month. However, there is still some way to go to reach pre-crisis levels. According to sources from the Ministry of Inclusion, Social Security and Migrations, the workers registered with the Social Security will record in June a notable increase, around 190,000 people, so the result for the second quarter will be positive.

In May, registered unemployment fell by 129,378 people, the largest drop in the historical series for this month. Meanwhile, Social Security registrations increased by 211,923 people, a figure similar to that recorded in the same month of 2019, before the pandemic emerged. In seasonally adjusted terms, the number of people registered with the Social Security has increased by 45,434, which is a notable improvement compared to the decreases of the last three months.

Going back to the gross figures, the year-on-year rate of Social Security registrations rebounded in May to 3.8%, although it should be noted that the 2020 numbers were conditioned by the strong impact of the pandemic. It is therefore more appropriate to compare employment in 2021 with the situation in 2019, before the pandemic. Thus, despite the good results in May 2021, Social Security registrations are still lower by 174,892 people compared to the same month in 2019. In addition, it should be taken into account that, although they have been reduced in May, there are still 573,489 workers under furlough schemes (ERTE) (monthly average), and that at the end of the month there were 458,357 self-employed workers receiving extraordinary benefits. Altogether, this represents some 1.2 million fewer effective contributors than in May 2019. It is, therefore, necessary to point out that there is still a long way to go to reach pre-crisis levels of effective employment.

According to estimates from CEOE's Economics Department, the employment balance in the second quarter will be positive. It is estimated that effective Social Security registrations (excluding furloughs) corrected for seasonality will have increased by around 1.4% quarter-on-quarter, compared to the decline recorded in Q1. If, in addition to those under furlough schemes, we exclude those self-employed individuals receiving extraordinary benefits (the number of which has been increasing in recent months), the growth in effective registrations would be around 1.0% in Q2.

Inflation

Inflation continued its upward trend in May due to the increase in energy prices

In May, the year-on-year CPI rate rose to 2.7%, five tenths of a percentage point higher than in April. This increase is mainly due to the rise in the energy component and, specifically, in the prices of electricity, heating oil and fuels.

Core inflation, on the other hand, increased by two tenths of a percentage point to 0.2% year-on-year. An analysis of its components shows that they remain at very low rates. Thus, Services prices reduced their rate of fall by three tenths, although they remain in negative territory (-0.1%); the prices of Industrial Goods excluding energy products went up by one tenth to 0.5%; and Processed foods, beverages and tobacco went down one tenth to 0.2%.

Non-processed food prices increased their year-on-year rate by more than one point to 1.4% (0.2% in April), although they remain quite subdued. The largest increases with respect to the same month in 2020 are concentrated in sheep meat and oils and fats, while the sharpest declines are recorded in milk and cereals and their by-products.

Energy prices are the most inflationary component of the CPI, with a year-on-year rate of 24.0% (21.4% in April). In fact, the CPI rate excluding energy products stood at 0.3% in May. Fuel prices, together with electricity and heating oil prices, are responsible for this accelerated rate of growth, due to the notable upturn in the price of oil, which rose by 123.8% in euros in May.

The Harmonized Consumer Price Index accelerated its year-on-year growth rate to 2.4% in May (2.0% in April), while the Economic and Monetary Union's average index also rebounded to 2.0%, thus accumulating two months of positive spread with the Monetary Union.

In the coming months, despite the upward trend seen in commodity prices, and especially oil prices, it is expected that they will have a reduced impact on inflation which, coupled with the fact that the core CPI will continue to post very subdued levels, will keep prices restrained in the near future.

The Public Sector

Public debt continues its upward climb in 2021

Public debt data published by the Bank of Spain indicates that public debt continues its upward trend, having reached a new all-time high at the beginning of the year. According to the Excessive Deficit Protocol methodology, the General Government debt stood at 125.3% of GDP in Q1 2021, compared to 119.9% at the end of 2020. In year-on-year terms, the debt balance of the General Government as a whole increased by 13.7%, with the Central Administration debt growing the most, by 14%, while the one pertaining to Regional Governments grew by 3% and that of the Local Bodies decreased by 3.3%.

Meanwhile, the State is starting to reduce its public deficit from very high levels (-11% of GDP in 2020). At the end of April, the State deficit in national accounting terms was 15.1% lower than in the same period of 2020. In terms of GDP, it represents -1.4%, compared to -1.8% accumulated up to April 2020. The primary deficit is also decreasing and stands at -0.8% of GDP, compared to -1.1% of GDP in the same period of 2020.

State resources have increased by 6.7% in the first four months of the year, while expenditure has increased by 1.1%. It is worth recalling that these figures are distorted by the outbreak of the pandemic in March 2020 and by the reversion to the State of two sections of two toll highways in January last year, which in this case affect both expenditures and revenues (although not the deficit).

Tax revenues increased by 12% up to April 2021 compared to the same period in 2020. Given the standstill in activity and demand that was experienced in March and April 2020, the Government Comptroller's Office (IGAE) itself acknowledges that it is better to compare this figure to 2019. Thus, tax revenues in the first four months of 2021 are 3.5% lower than in the same period of 2019.

As for expenses, the increase is mainly explained by current transfers between public administrations, 4.7% higher than in 2020. This higher amount is due to those allocated to the Social Security Funds, which have risen from €7.353 billion in 2020 to €10.033 billion at the end of April 2021. Pandemic-related expenditures continue to increase, being 43.3% higher than in April 2020, of which the majority (92%) are transfers to the Autonomous Communities and the remaining 8%, spending on vaccines.

Forecasts

Economic forecasts for Spain (last update: June 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	6.0
Private consumption expenditure	2.6	3.0	1.8	0.9	-12.4	5.2	6.1
Government consumption expenditure	1.0	1.0	2.6	2.3	3.8	2.6	1.7
Gross fixed capital formation	2.4	6.8	6.1	2.7	-11.4	5.5	7.6
-Tangible fixed assets	1.7	7.7	7.6	2.7	-13.3	6.1	8.3
Construction	1.6	6.7	9.3	1.6	-14.0	1.8	8.4
Equipment and cultivated assets	1.9	9.2	5.2	4.3	-12.2	12.4	8.2
-Intangible fixed assets	5.2	2.9	-0.7	2.6	-1.7	2.6	4.4
Domestic demand (*)	2.0	3.1	3.0	1.4	-8.8	4.5	4.2
Exports	5.4	5.5	2.3	2.3	-20.2	9.2	10.6
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	6.9	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	1.8	1.0
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	4.3	4.5
Employment (LFS)	2.7	2.6	2.7	2.3	-2.9	0.9	1.7
Unemployment rate (LFS) (% active population)	19.6	17.2	15.3	14.1	15.5	15.5	14.6
Productivity	0.2	0.1	-0.2	-0.3	-3.6	1.2	1.5
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	-0.7	-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	-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	65.6	63.9

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs

The lack of efficiency in the public sector is the main obstacle to the competitiveness of the Spanish economy

Results of the 2021 World Competitiveness Ranking[1]

The **World Competitiveness Yearbook**, one of the most prestigious and comprehensive reports on international competitiveness, prepared by the IMD World Competitiveness Centre, addresses the political, social and cultural aspects of competitiveness, in addition to the strictly economic component, by assessing the capacity of countries to provide the infrastructure, institutions and policies that strengthen and support the competitiveness of companies.

The 2021 World Competitiveness Ranking is led by Switzerland, Sweden and Denmark, with the Netherlands, Singapore and Norway following, in that order. Hong Kong is in seventh position, ahead of Taiwan, the United Arab Emirates and the United States, which complete the first ten positions.

Spain drops three places to the 39th position out of a total of 64 economies analysed, after having held the 36th position the previous three years. With respect to other large EU economies, all of them move up several positions with respect to the last ranking, especially the Nordic economies, except Spain. Thus, Germany is in 15th position within the ranking, the United Kingdom in 18th, France in 29th. Only Italy is below Spain, ranking 41st, which is three positions higher than in 2020.

The report analyses the competitiveness of the participating countries based on four areas: Economic Performance, Public Sector Efficiency, Business Efficiency and Infrastructures. Spain achieves its best ranking in the Infrastructures section, where it places 26th. The worst position in the ranking is in the Public Sector Efficiency section, where it ranks 49th, after dropping four and five positions respectively in 2020 and 2021.

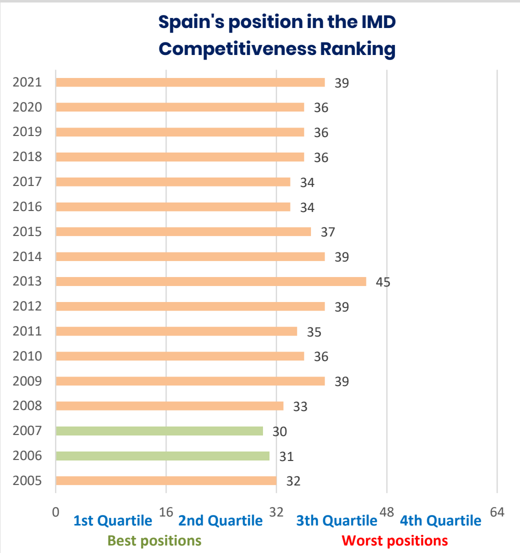
[1] CEOE is the Institute for Management Development (IMD)'s partner in Spain for the compilation of the World Competitiveness Yearbook

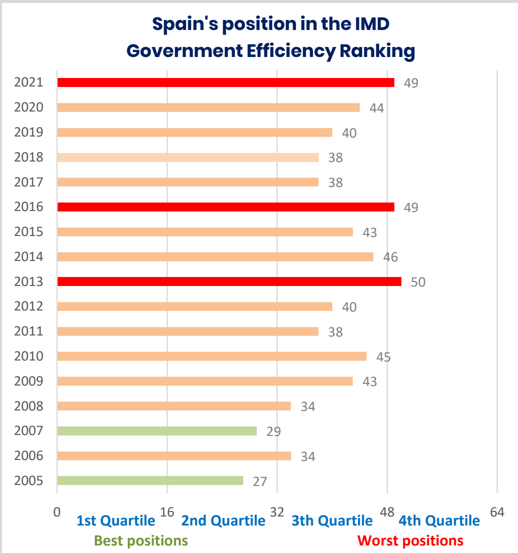
Economic Performance	2020	2021	
Domestic Economy	34	46	↓
International Trade	22	31	↓
International Investment	14	16	↓
Employment	54	54	=
Prices	26	32	↓
Government Efficiency			
Public Finance	54	58	↓
Tax Policy	46	52	↓
Institutional Framework	38	37	↑
Business Legislation	42	44	↓
Societal Framework	24	28	↓

Business Efficiency	2020	2021	
Productivity & Efficiency	30	29	↑
Labor Market	54	47	↑
Finance	27	30	↓
Management Practices	51	47	↑
Attitudes and Values	51	48	↑
Infrastructure			
Basic Infrastructure	24	23	↑
Technological Infrastructure	26	22	↑
Scientific Infrastructure	26	26	=
Health and Environment	20	20	↑
Education	36	34	↑

Source: World Competitiveness Ranking 2021. IMD

Spain records its worst position in the ranking in the **Public Sector Efficiency** section, placing 49th after dropping five places. Some of the criteria that have shown a worse performance with respect to the last edition are those related to the public sector deficit and total public debt, the stability of the exchange rate or the bureaucracy. In addition, public finances, labour market regulation and flexibility, high employers' social security contributions and the adaptability of government policies continue to be a major obstacle to competitiveness. On the other hand, among the factors that improve in this edition, it is worth highlighting tax evasion and corruption.





Source: World Competitiveness Ranking 2021. IMD

The area in which the competitiveness of the Spanish economy has improved the most in the last year has been **Business Efficiency**, which has gone up three positions to 39th. Within this block of indicators, the results obtained in terms of financial sector assets, productivity and large companies stand out. However, according to the results of the report, business efficiency is weighed down by the need for economic and social reforms. In addition, there is a need for greater digital transformation of companies, including the use of digital tools and technologies or Big Data.

At the other extreme, the area that has dropped the most since the last edition of the ranking has been **Economic Performance**, falling eleven positions. Among the factors that make up this area, there has been a notable deterioration, with respect to the previous edition, in GDP growth, Gross Fixed Capital Formation or Employment, as well as a worse performance of exports and, consequently, of the Current Account Balance. Issues related to the labour market continue to be one of the main weaknesses of the Spanish economy, placing us almost at the bottom of the ranking in variables such as youth unemployment or long-term unemployment. Other aspects, such as the resilience of the economy (its capacity to adapt to change) or the relocation of companies, are seen as a drag on competitiveness. In this latest edition, inflation, foreign investment (both in Spain and from Spain abroad), and exports of services stand out as strengths within the section that discusses Economic Performance.

In the section relating to **Infrastructures**, Spain remains in 26th position and it is still the area where Spain achieves its best result. This area analyses the degree to which basic, technological, scientific and human resources meet the needs of companies. Spain occupies a very good position in life expectancy at birth, secondary and university education and universal healthcare coverage, among others. However, certain aspects continue to hinder our competitiveness since they don't meet the requirements of the productive system. These include language skills, high-tech exports, legislation on scientific researchers or the transfer of knowledge.

The results of this report highlight some of the main structural weaknesses of the Spanish economy that affect its competitiveness and limit its growth in the medium and long term. In this regard, the report can be of great use to identify the main challenges to the competitiveness of the Spanish economy as a step towards undertaking pending structural reforms and addressing possible actions by both, public agents and the actual companies themselves.