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Economic Outlook

June 2022

Special report titled "Results of the World Competitiveness Ranking 2022"

Overview

- Central banks accelerate the tightening of their monetary policy in response to rising prices and the long-term inflation expectations' de-anchoring risk.
- The OECD and the World Bank revise their global growth forecasts downwards due to the effects of the war in Ukraine and the restrictions on activity in China.
- In May, oil prices resumed their upward trend, pressured by geopolitical tensions with Russia.
- The recovery of the Spanish economy loses intensity in 2022 as the factors holding back growth become more persistent.
- The increase in interest rates in recent weeks is an additional element that weighs down on the reactivation process and increases the vulnerability of the Spanish economy.
- The labour market returns to normal in 2022 and, for the time being, seems to be unaffected by the uncertainty in the economic arena. CEOE estimates that job creation in Q2 will be somewhat less intense than in Q1, with a quarter-on-quarter growth of 1.0% in terms of seasonally adjusted effective registrations with the Social Security.
- Inflation in Spain is still above 8%. Core inflation continues its upward trend and is close to 5%.
- High inflation, the lifting of restrictions and the good performance of employment are boosting public revenues and, as a result, the public deficit is narrowing.

SPECIAL REPORT
• **Results of the World Competitiveness Ranking 2022**

The International Scenario

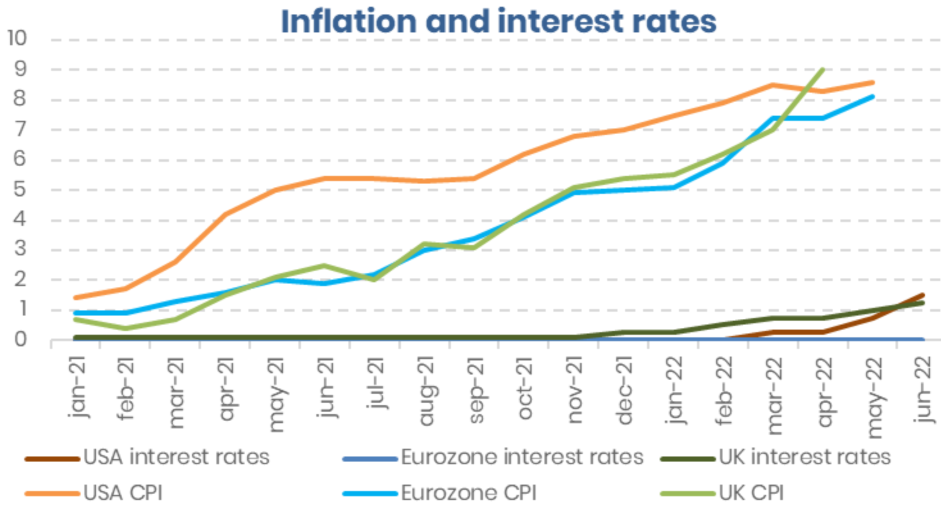
Monetary policy tightening accelerates in response to persistently high inflation and despite deteriorating growth forecasts

As the war in Ukraine and its effects (by way of sanctions, restrictions on production, higher prices of raw materials and limitations on trade) continue to drag on, the outlook for world growth is deteriorating and inflationary pressures are becoming stronger and more persistent. Also contributing to this scenario is the reduced activity in China caused by its zero COVID policy, which has led to closures in ports and cities and is having a negative impact on global supply chains.

The biggest current concern is inflation, which continues to rise and in many advanced economies is at a 40-year high. In the United Kingdom, April inflation rose to 9.0% while, in the United States, the May figure rebounded to 8.6%, with core inflation at 6.0% and significant wage pressures. In the Eurozone, inflation also reached record highs in May, with rates at 8.1%. Although this is due mainly to the increase in energy prices, inflation is also becoming increasingly generalized throughout the economy, with core inflation set at 4.4%, its highest rate in its historical series.

We started 2022 with inflationary pressures stemming from bottlenecks in some sectors, which, together with maritime transport problems, were affecting world production, but it was expected that these imbalances would start to be redressed, mainly from Q2 onwards. However, the war in Ukraine and its consequences changed the picture. Energy prices have come under increased pressure, especially in Europe, due to restrictions on purchases of Russian oil and gas. But prices have also risen very rapidly in other commodities for which Russia and Ukraine are major producers and exporters, especially some cereals, which could lead to global food problems in lower-income economies. In addition, there is the risk of global trade breaking up into blocks, which would reduce efficiency and detract from growth. On the other hand, measures to contain COVID in Asia, and particularly in China, have slowed economic activity and production, which has added additional pressure to global supply and transportation chains, thus delaying their return to normalization.

In light of this scenario, central banks are accelerating the tightening of their monetary policy, not only because of the existing high prices, but also because of the increasing persistence of high inflation rates and the growing risks of a de-anchoring of long-term inflation expectations. The dilemma that central banks face is that this increase in interest rates will detract from activity rates at a time when the outlook for global growth is deteriorating.



Source: Prepared-in house based on data from the Ministry of Economic Affairs and Digital Transformation

In the United States, at its June meeting, the Federal Reserve raised interest rates by 75 basis points, to between 1.5% and 1.75%. Such a rate hike had not been seen since 1994 and it is likely that there will be a similar hike implemented at the next meeting in July, before slowing the pace and ending the year with interest rates at around 3%. The overheating of the economy, with both demand and supply pressures, has led the Fed to intensify the tightening of its monetary policy, given that the inflation rate stood at 8.6% in May and the labour market is strong. In May, employment continued to grow at a good pace, with 390,000 new jobs, while the unemployment rate remained at 3.6%, practically pre-pandemic levels, while hourly wage costs increased at a year-on-year rate of 5.2%. On the other hand, the Fed has revised its economic forecasts, lowering growth for 2022 from 2.8% to 1.7%. It has also cut its estimates for 2023 by half a point to 1.7%. As for prices, it expects the average CPI to be 5.2% this year and 2.6% next year. The Federal Reserve's swift rate hikes and the existing uncertainty are reinforcing the strength of the dollar, which has appreciated against the main currencies, in particular against the yen, which is trading at a 24-year low against the U.S. currency.

In the United Kingdom, the Bank of England raised interest rates by a quarter of a point. This is the fifth consecutive rate increase at sets them at 1.25%, their highest level in 13 years. Inflation reached 9% in April and forecasts suggest that it could exceed 10% on average for the year, impacted by the increase in energy prices, but also by the heating up of the economy, the labour shortage, and the rise in the price of certain foods and other goods following Brexit. However, the increase in rates to cool demand comes at a time when its economy is slowing down (it contracted by 0.3% in April) and there are notable tensions with the EU due to the British government's intention to alter the Northern Ireland protocol. Thus, the Bank of England itself has pointed out the risk that the economy could enter into a recession.

Meanwhile, inflation in the Eurozone also continued to rise to an all-time high of 8.1% in May, strongly affected by the rise in energy prices. Moreover, high prices are also extending to the whole economy, with core inflation at 4.4%, which is the highest value recorded in the series. The ECB's signals that it will end its debt purchase program in June and begin raising rates in July have led to a notable rebound in Euribor, which is used as the main mortgage benchmark, and a rise in government bond yields. In addition, there is a sharp and rapid widening of spreads between countries, mainly in the peripheral economies of the South versus Central Europe. This situation has prompted an emergency meeting of the ECB to curb increases in risk premiums that do not strictly correspond to the fundamentals of each country and, therefore, discourage positions in the financial markets that could make the financing of government debt more expensive. The institution is preparing a mechanism to flexibly reinvest the maturities of the Pandemic Emergency Purchase Program (PEPP), so that it can buy more debt from the countries with the greatest needs, although there are still no details on the limits of this flexibility and on whether it will entail any type of conditionality or commitment on the part of the beneficiary countries. Meanwhile, the ECB members' statements make it clear that there will be at least two official rate hikes before the end of the year.

In this context, both the OECD and the World Bank have revised their forecasts and, in line with other international organizations, they've pointed out that the war in Ukraine and the pandemic policies in China have led to adverse impacts, and that the world economy is heading towards a scenario of lower growth and higher and persistent inflation. The OECD has lowered its global growth forecast for this year by one and a half points to 3.0%, while the World Bank sets it at 2.9%, 1.2 lower than its January estimates.

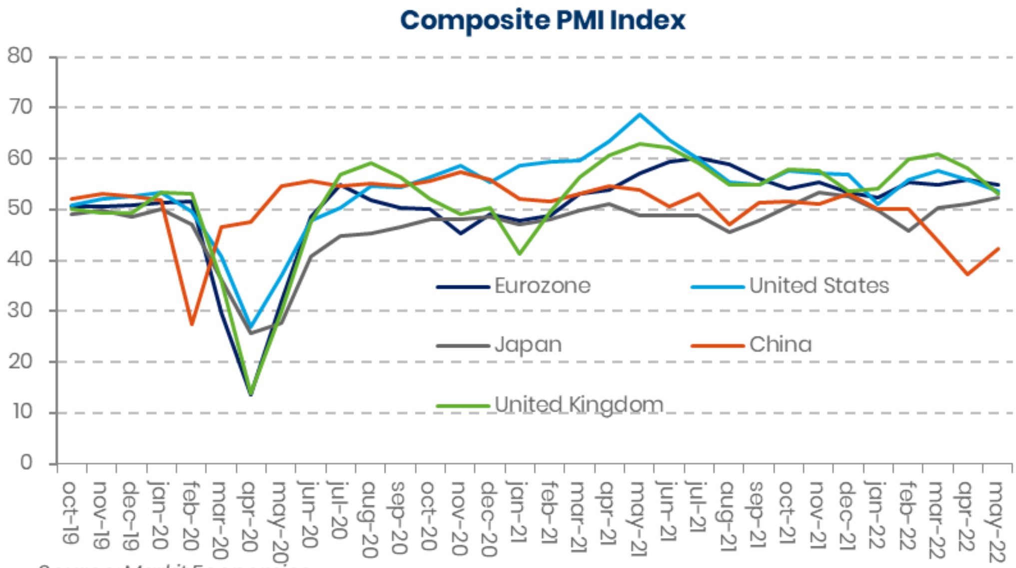
OECD and World Bank forecasts (June 2022)						
	OECD			World Bank		
(y-o-y rate)	2021	2022	2023	2021	2022	2023
World growth	5.8	3.0	2.8	5.7	2.9	3.0
United States	5.7	2.5	1.2	5.7	2.5	2.4
Japan	1.7	1.7	1.8	1.7	1.7	1.3
Eurozone	5.3	2.6	1.6	5.4	2.5	1.9
Germany	2.9	1.9	1.7			
France	6.8	2.4	1.4			
Spain	5.1	4.1	2.2			
Italy	6.6	2.5	1.2			
United Kingdom	7.4	3.6	0.0			
China	8.1	4.4	4.9	8.1	4.3	5.2
India	8.7	6.9	6.2	8.7	7.5	7.1
Brazil	5.0	0.6	1.2	4.6	1.5	0.8
Mexico	4.8	1.9	2.1	4.8	1.7	1.9
World trade	10.0	4.9	3.9	10.3	4.0	4.3

Source: OECD and World Bank

As for inflation, the OECD expects consumer prices to remain high: at around 5.5%, on average, in the main advanced economies, and at 8.5%, on average, in the remaining OECD countries. They estimate that prices will subsequently ease in 2023, as supply chain pressures subside, energy prices moderate and the effects of the tightening of the monetary policy take hold. However, average inflation in 2023 will still be above the central banks' targets in many regions.

We should bear in mind that there is great uncertainty and that there are numerous risks that could affect growth. These include a possible interruption of Russian gas supplies to all of Europe, with increases in raw material prices and problems in global supply chains that would have a very negative impact on growth and would continue to put upward pressure on prices, making central banks' decisions more difficult. Another risk to inflation containment would be that second-round effects become more widespread, which could lead to a further tightening of monetary policy, and, in turn, detract from activity growth. In addition, financial markets may find it difficult to adjust to tighter conditions and higher interest rates, with greater pressure on emerging economies and the most indebted countries to attract capital flows. This is compounded by the tensions that may arise in lower-income economies as a result of higher commodity prices, especially those related to food products. In addition, we should not forget that the pandemic is still present and that there might be new variants that could once again force restrictions on activity and mobility, impacting global demand and supply.

Meanwhile, the PMIs continue to show positive growth in the world economy, albeit modest, with the global composite index for May standing at 51.5 points, slightly better than in April. Among the most important economies, the United States, the United Kingdom and the Eurozone lost momentum, with manufacturing performing worse than services, while in Asia, Japan and China they showed some improvement, although China's PMIs are still clearly in negative territory as a result of the restrictions on activity taken to combat COVID.



Source: Markit Economics

Raw material prices have continued to be highly volatile, with energy and food products rising, while some industrial metals have been buffered by lower demand from China. In May, oil prices resumed the upward trend of recent months, which had been interrupted in April, with the monthly average standing at $114/barrel, 8.9% higher than in the previous month. This represents a year-on-year increase of 64% in dollars and 84% in euros. The lower COVID restrictions in China and the geopolitical tensions, with sanctions against Russia and limitations on the purchase of crude oil from this country, have caused the price to continue to rise in early June, fluctuating around $130/barrel. This will continue to put pressure on inflation, at least in the short term.

The Spanish Economy

The recovery loses momentum in 2022

The Spanish economy is recovering at a slower pace than anticipated a few months ago, due to the fact that the factors holding back growth are becoming more persistent and less cyclical. These include high inflation and bottlenecks in the supply of intermediate goods and raw materials. In addition, there is the change in the monetary policy stance, which is already evident in the rise in interest rates such as the Euribor (up around 0.7% so far in June) or public debt rates, which have climbed to over 3% vs. values of around 0% at the end of 2021. These circumstances generate a greater degree of uncertainty, which is holding back investment and consumption decisions and poses a risk to fiscal stability, given that public debt stood at 117.7% of GDP in Q1 2022.

This lower intensity of the recovery is reflected in the Bank of Spain's Survey of Business Activity. According to this source, companies perceive a more dynamic evolution of their turnover in Q2 2022, although they warn that this recovery remains below the expectations of three months ago. The recovery remains very uneven by sector, being concentrated in the service sectors due to the lifting of the restrictions associated with the pandemic. On the other hand, turnover is declining in agriculture, construction, and administrative activities. According to the Bank of Spain, the companies surveyed continue to observe additional increases in the prices of their intermediate consumption, although somewhat lower than in the previous quarter, a trend that is being reflected in sales prices. In terms of employment, new jobs are still created while, at the same time, there is a certain shortage of labour in some sectors such as the hotel and catering industry and construction.

This institution has reduced the 2022 growth outlook for Spain once again, to 4.1% from the 4.5% estimated in April, while GDP could be below 3% in 2023. It has also reduced the inflation projected for this year (7.2% on average, vs. 7.5% previously), but raised estimates for 2023 (to 2.6%), while the unemployment rate could also show a more positive performance in both years.

Another of the areas to follow in the coming months will be the foreseeable loss of accumulated competitiveness for the Spanish economy and its consequences on the foreign sector, given the positive differential with Europe in the different evolution of prices and costs.

Demand and Activity

The economic outlook worsens as inflation and supply problems persist

The evolution of the Spanish economy during Q2 has been marked by the worsening of some risk factors that were already weighing on the economy, such as the increase in raw material and transportation prices or the difficulties in the supply of materials and components. The prospect that the conflict in Ukraine could continue for longer than initially expected is having a greater negative impact on activity and prices. In addition, rising inflation is leading to a shift in monetary policy, bringing forward interest rate hikes that were not expected until next year and may weigh further on the evolution of consumption or investment. In spite of this, the Spanish economy is expected to show somewhat higher growth in Q2 in comparison to Q1, although still quite modest and with notable variations from one sector to another.

These risk factors are mainly impacting industrial activity and the primary sector, which are more dependent on energy products and certain raw materials that have suffered sharp price increases, such as cereals and oils. Bottlenecks in the distribution of raw materials and components are also having a greater impact on these sectors. All of this is reflected in a deterioration of expectations, which can be seen in both the confidence indicator published by the European Commission and the manufacturing PMI.

The summer tourist season is expected to be very positive

This performance contrasts with figures posted by the services sector, which continues to recover following the lifting of pandemic-related restrictions and the arrival of the good weather since Easter. Expectations for this sector continue to improve, after the dip at the end of 2021 and the beginning of 2022, and the outlook for the coming months is positive, especially for tourism and hospitality. Thus, the latest available data regarding the tourism sector show how the inflow of international tourists continues to recover, standing at around 6.1 million tourists in April, 9 times the figure recorded on the same month last year, and only 14.6% below the tourists in April 2019, before the start of the pandemic. This is a significant improvement with respect to previous months, when the number of tourists barely reached 70% of pre-covid figures. Moreover, the total expenditure made by international tourists is already practically the same as in April 2019. The sector's outlook for the summer in view of the bookings that are being made is very positive and it could be a record season, exceeding the 2019 figures, as Spain continues to be the preferred destination for many Europeans and is also favoured because of the high rate of vaccination against Covid-19 in comparison with other destinations.

With regard to the evolution of household consumption, after March's drop in consumption indicators (domestic sales by large companies, retail trade indexes...), a rebound was observed again in April, mostly due to spending on services. However, high inflation, together with the increase in the Euribor, will reduce households' purchasing power, so their contribution to growth could be lower than initially expected. With regard to vehicle registrations, they continue to register figures below those of 2021 and, in the first five months of the year, they accumulated a decline of -11.5%. Declines in the rental channel continue to weight down on the total figure, while in recent months both individuals and companies show positive growth.

The trade deficit continues to widen

Regarding the foreign sector, the customs information available for the first four months of the year shows a much more dynamic evolution of imports over exports in nominal terms, due both to the greater growth in real terms and to the increase in import prices. Thus, exports increased 23.2% year-on-year (5.1% in volume terms) and imports went up 39.0% year-on-year (15.0% in volume terms). The result of these flows was a trade deficit in this period of -€21.8109 billion, compared to -€4.5597 billion in the same period of 2021. According to the Balance of Payments data published by the Bank of Spain, in the first three months of 2022, the current account deficit was 1.2 billion, compared to -0.4 billion in the same period of the previous year. This balance was due to the notable deterioration in the balance of non-tourist goods and services (-6.7 billion, compared to a surplus of 1.8 billion in the same period of 2021), which was offset by the surplus in the balance of tourist services (7.9 billion, compared to 0.5 billion in the same period of the previous year).

The Labour Market

The labour market returns to normal in 2022 and withstands the existing uncertainty better than the economic activity

In 2022, the labour market is performing favourably, which contrasts with the growing uncertainty related to economic activity and rising prices. The labour market is returning to normal this year and behaving similarly to the 2014-2019 period, as opposed to the positive surprises seen in certain months of 2021. In addition, CEOE estimates point out that seasonally adjusted effective employment (excluding ERTE-furloughs) will show a slight slowdown in Q2.

In the coming months, the labour market is expected to continue performing positively, favoured by the seasonal nature of the summer season. However, we should bear in mind that employment figures will also be conditioned by the current difficulties that companies are having to face, within a context of great uncertainty, problems in the supply of raw materials and the rising cost of the inputs necessary to carry out their activity.

In May, Social Security registrations increased by 213,643 jobs on monthly-average terms, a figure similar to the one recorded in May 2021 and also to the average increase posted in the 2014-2019 period (+213,582 people). The increase in the number of registered workers in May was almost entirely due to the private sector, as there were only 300 new contributors in the public sector. With these results, the number of people registered with the Social Security is now firmly above 20 million, standing at 20,232,723 people on a monthly average in May, the highest figure in the historical series dating back to 2001. This contrasts with the fact that economic activity is still below pre-pandemic levels.

Social Security registrations increased in all sectors, although the greatest growth was recorded in services, which accounted for 77% of the increase in total registrations in May. Within this sector, it is worth highlighting the dynamism of activities related to hotels and restaurants. Favoured by good weather conditions and the absence of restrictions associated with the pandemic, these activities registered more than 85,000 new contributors in May, a record since the beginning of the available series in 2009.

The other sectors (agriculture, industry and construction) improved their performance in May after months of more sluggish behaviour. Even so, the year-on-year rates of Social Security registrations for industry and construction, 2.6%

and 2.9% respectively, are far behind those recorded for services (6.2%) and the economy as a whole (5.0%). The number of workers in agriculture continued to fall compared to the previous year, specifically by -3.1%.

In seasonally adjusted terms, the number of registered workers accumulated thirteen months of increases, and in May it grew by 33,366 jobs, somewhat below the average for the first four months of the year (38,155). However, the estimates from the Ministry of Inclusion, Social Security and Migration point to a greater dynamism in June, with some 85,000 new contributors in seasonally adjusted terms.

The number of workers still under furlough schemes (by start date) decreased in May by 4,465 people, bringing the total to 29,565 people on a monthly average. According to data recently published by the Ministry of Inclusion, Social Security and Migration, in June the number of workers furloughed continued to decrease gradually and stood at an average of 23,778 people in the first half of this month.

Registered unemployment fell by 99,512 workers in May, bringing the total number of unemployed below 3 million, specifically to 2,922,991 people. Unemployment fell in all sectors including the group of workers with no previous employment experience, and most prominently in the services sector, which accounted for almost two thirds of the reduction in unemployment.

The continued good performance of permanent contracts, which in May accounted for 44.5% of total contracts, is worth noting. However, the monthly increase in this type of contract was 4.5% this month, much lower than in previous months. On the other hand, temporary contracts gained dynamism and increased by 21.1% compared to April, largely due to the tourist season, thus breaking the downward trend seen in this type of contract in the first months of the year.

According to estimates by CEOE's Department of Economic Affairs, based on the preliminary data for June released by the Ministry of Inclusion, Social Security and Migration, the employment balance in Q2 will be positive, although the pace will be somewhat slower than in Q1. Specifically, it is estimated that effective registrations (discounting furloughs), adjusted for seasonality, will increase by around 1.0% quarter-on-quarter in Q2, one tenth less than the 1.1% recorded in Q1.

Inflation

Inflation rises to 8.7% due to the increase in energy and food prices

In May, inflation accelerated again by four tenths to 8.7%. The rise in the price of energy products continues to be the main inflationary element, although notable price increases are starting to be seen in other components.

In May, core inflation increased by five tenths to 4.9% year-on-year, still almost 4 points below the headline CPI. Within the core component, Services prices increased their year-on-year rate by one tenth to 3.4%; Industrial Goods prices excluding energy increased by three tenths to 3.6% and Processed Food, beverages and tobacco accelerated their year-on-year rate by 1.3 points to 10.0%

Non-processed food prices decreased slightly by four tenths to 10.1% year-on-year. Of note is the increase in the prices of products as basic as cereals, bread, milk, lamb, beef and poultry, all with growth slightly above 10%, and eggs (25.3%).

Energy product prices eased their year-on-year growth rate to 34.2% in May, slightly above April's rate, due to the increase in the price of energy raw materials. In May, crude oil prices resumed their upward trend, reaching a monthly average of 114 $/barrel, and in the first days of June the price has continued to rise, fluctuating around 129 $/barrel. If it remains at these levels, it will mean increases of close to 95% in year-on-year rates in euros, which will continue to put upward pressure on inflation.

Over the coming months, inflation will be strongly influenced by developments in Ukraine and the economic sanctions imposed on Russia, which may have a significant impact on the price of some raw materials, including gas, crude oil, cereals and oils, which in turn have an impact on the price composition of many other products. In addition, other factors that were already pushing up inflation, such as supply difficulties or the strong growth in the prices of some intermediate goods, will also be a factor. All this will keep inflation high in the short term.

The Public Sector

High inflation and the positive behaviour of employment continue to favour tax collection

At the start of 2022, the State continued the reduction of its public deficit level. At the end of April, the negative balance in national accounting terms was 67.6% lower than in the same period of 2021. In GDP terms, it represents -0.5%, compared to -1.7% accumulated up to April 2021. The State's primary balance is also improving and is currently positive (0.1% of GDP), which contrasts with -1.1% of GDP in the same period of 2021.

State resources have increased significantly in the first four months of the year, by 16.7%, while expenditures have decreased by -4.0%. Tax revenues are benefiting from high inflation and the good performance of the labour market, as shown in VAT revenues, which rose by 19.4%, and direct taxes (personal income tax and wealth tax), which increased by 18.6%. On the other hand, the increase in the price of energy-related raw materials and the end of the restrictions are also boosting the collection of excise taxes. It is worth noting the higher revenues from the tax on hydrocarbons (+14.4%), alcohol and beverages (+60.2%) and tobacco (+7.4%).

On the other hand, the decrease in expenses up to April is explained by an item with no correspondence in the current year but which was implemented in 2021, namely the recording of the standardized guarantees linked to the guarantee lines granted by the State during 2020, due to the total forecast of defaults throughout the life of these guarantee systems. Discounting this 2021 expense, spending would have increased by 0.8% in the first four months of 2022.

Considering the rest of the expenditure items, we should take into account the decrease in the contribution to the EU from GNI resources, as well as the lower transfers to other public administrations, especially due to the decrease in the resources transferred to the Social Security Funds up to April. On the other hand, intermediate consumption, compensation per employee and expenditure linked to pension payments continued to increase. It should also be noted that accrued interest has increased by 8.9% with respect to the first four months of 2021, amounting to 7.921 billion. Public debt continues to grow in absolute terms with a balance of 1.454 billion euros, 4.4% more than in the same period of 2021, although in terms of nominal GDP, the ratio stood at 117.7% in Q1 2022, 0.7 points lower than at the end of 2021.

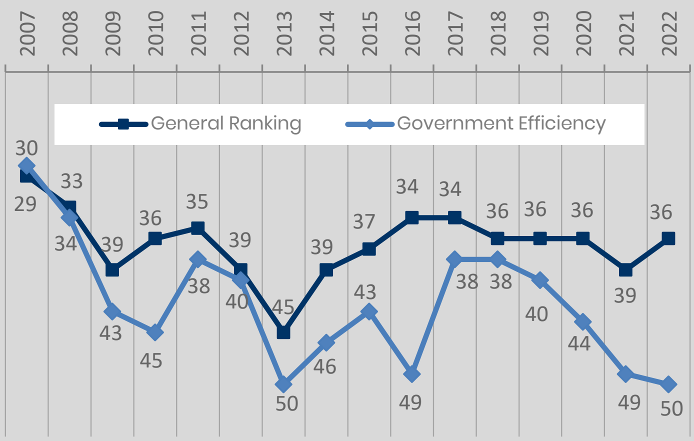
Results of the World Competitiveness Ranking 2022

The **World Competitiveness Ranking**, compiled by the IMD World Competitiveness Center, addresses the political, social, and cultural dimensions of competitiveness, in addition to the strictly economic aspect, by assessing the ability of countries to provide the infrastructure, institutions and policies that strengthen and support the competitiveness of companies.

The World Competitiveness Ranking 2022 is led by Denmark, Switzerland, and Singapore, followed by Sweden, Hong Kong, the Netherlands, Taiwan, Finland, and Norway, in that order. The United States is in tenth position.

Spain climbs three places to the 36th position, out of a total of 63 economies analysed, after having dropped the previous year to the 39th position, thus regaining the ranking held between 2018 and 2020. With respect to other major European economies, Germany remains in 15th position, the United Kingdom drops five positions to 23rd place, France improves one to 28th. The only country below Spain in the ranking is Italy, in 41st position, unchanged with respect to 2021.

The report analyses the competitiveness of the participating countries based on four areas: Economic Performance, Public Sector Efficiency, Business Efficiency, and Infrastructure. Spain shows its best ranking in the area of Infrastructures, where it is placed in 25th position. The worst position in the ranking is in the area of Public Sector Efficiency, where it holds the 50th position, after having followed a clearly downward trend over the last few years.



Source: World Competitiveness Ranking 2022. IMD

The area that has improved the most since the last edition of the ranking is **Economic Performance**, moving up seven positions after having dropped eleven in the 2021 edition. Among the factors that make up this area, there has been a notable deterioration, with respect to the previous edition, in inflation, revenues from tourism or concentration of exports by product, among others. Aspects 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 unemployment among young people and long-term unemployment, which have worsened in the last edition. Other aspects such as the resilience of the economy (its capacity to adapt to change) or the relocation of companies are seen as a hindrance to competitiveness. The strengths that stand out within the Economic Results section are foreign investment in Spain as well as Spain's investment abroad and exports of services.

Economic Performance	**2021**	**2022**
Domestic Economy	46	39
International Trade	31	20
International Investment	16	15
Employment	54	52
Prices	32	32
Government Efficiency		
Public Finance	58	59
Tax Policy	52	53
Institutional Framework	37	40
Business Legislation	44	46
Societal Framework	28	28

Business Efficiency	**2021**	**2022**
Productivity & Efficiency	29	26
Labor Market	47	43
Finance	30	32
Management Practices	47	47
Attitudes and Values	48	45
Infrastructure		
Basic Infrastructure	23	23
Technological Infrastructure	22	17
Scientific Infrastructure	26	25
Health and Environment	20	19
Education	34	34

Source: World Competitiveness Ranking 2022. IMD

Spain posts its worst position in the ranking in **Public Sector Efficiency**, where it is placed 50th after dropping one position from the previous year. Some of the criteria that continue to be a major drag on the efficiency of the public sector refer to public finances, labour market regulation and its flexibility, the companies' high rate of contribution to the Social Security or the adaptability of government policies. However, among the factors that stand out as positive in this area are the stability of the exchange rate, tariff barriers or the interest rate differential.

Our country ranks 40th in **Business Efficiency** this edition, dropping one place with respect to 2021. Within this block of indicators, the results obtained in relation to large companies, financial sector assets and productivity stand out. However, according to the results of the report, the room for improvement in business efficiency lies in the need for economic and social reforms and the lack of entrepreneurship. In addition, companies need to undertake a greater digital transformation, including the use of digital tools and technologies or Big Data.

In **Infrastructure**, Spain improves one position to 25th place and it continues to be Spain's best-performing factor. This area analyses the degree to which basic, technological, scientific, and human resources meet the needs of companies. Spain holds a very good position in secondary and university education, qualified engineers, health infrastructures and universal health coverage, among others. However, certain aspects continue to weigh on our competitiveness because they do not meet the requirements of the productive system. These include legislation on scientific research, language skills, high-tech exports, 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, it can be of great use to identify the main challenges for competitiveness in the Spanish economy, with the aim of enabling public authorities and the companies themselves to undertake pending structural reforms and address possible actions.

Forecasts

Economic forecasts for Spain (last update: June 2022)						
Annual rates of change, unless otherwise indicated						
	2018	2019	2020	2021	2022	2023
GDP	2.3	2.1	-10.8	5.1	4.2	3.2
Private consumption expenditure	1.8	0.9	-12.2	4.7	3.1	2.7
Government consumption expenditure	2.3	2.0	3.3	3.1	2.2	1.3
Gross fixed capital formation	6.3	4.5	-9.5	4.3	7.4	5.4
-Tangible fixed assets	7.5	5.8	-10.5	4.1	7.1	5.7
Construction	9.5	7.1	-9.6	-2.8	3.3	4.7
Equipment and cultivated assets	4.6	3.7	-12.1	15.7	12.2	6.8
-Intangible fixed assets	1.1	-1.5	-4.3	5.5	8.9	3.9
Domestic demand (*)	2.9	1.6	-8.6	4.7	3.1	2.7
Exports	1.7	2.5	-20.1	14.7	11.3	6.9
Imports	3.9	1.2	-15.2	13.9	8.3	6.0
External demand (*)	-0.6	0.5	-2.2	0.4	1.1	0.4
GDP current prices	3.5	3.4	-9.7	7.3	7.7	4.2
GDP deflator	1.2	1.3	1.1	2.2	3.5	1.0
CPI (average annual rate)	1.7	0.7	-0.3	3.1	7.0	1.9
CPI (Dec/Dec)	1.2	0.8	-0.5	6.5	4.5	1.5
Core CPI (average annual rate)	0.9	0.9	0.7	0.8	3.9	2.1
Employment (Quarterly National Accounts)(**)	2.2	2.6	-7.6	6.6	3.1	2.8
Employment (LFS)	2.7	2.3	-2.9	3.0	2.5	1.7
Unemployment rate (LFS) (% active population)	15.3	14.1	15.5	14.8	13.7	12.9
Productivity	0.1	-0.5	-3.5	-1.4	1.1	0.4
Compensation per employee	1.8	2.6	1.3	-0.7	2.0	1.8
Unit labour cost (ULC)	1.7	3.1	5.0	0.7	0.9	1.4
Current Account Balance (% of GDP)	1.9	2.1	0.8	0.9	0.0	0.5
General government net lending (+) / net borrowing (–) (% of GDP)	-2.5	-2.9	-10.3	-6.9	-5.2	-4.5
Interest rates USA (Dec)	2.50	1.75	0.25	0.25	2.75	3.50
Interest rates Eurozone (Dec)	0.00	0.00	0.00	0.00	0.50	1.00
Brent Oil ($)	70.9	64.8	41.5	71.1	114.0	104.2

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs