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Economic and Business Outlook

Results of the 2024 World Competitiveness Ranking

June 2024

Overview

The world economy

- PMIs suggest that global activity continues to gain momentum.
- The ECB is starting to ease its monetary policy despite the upward revision of its growth and inflation forecasts and the increase in commodity prices.

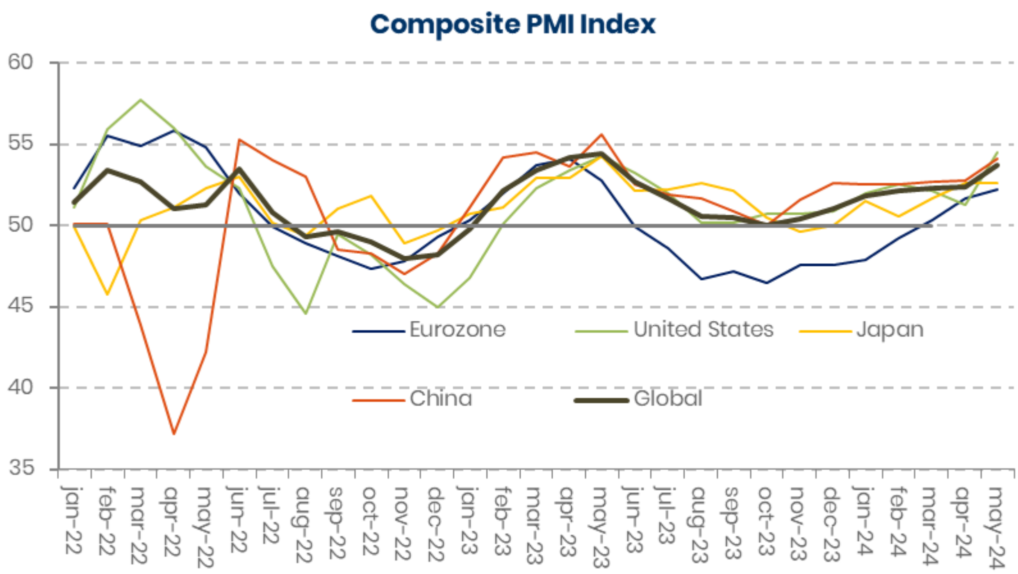
The Spanish economy

- The Bank of Spain and the IMF revise the growth outlook for the Spanish economy upwards to 2.3% (in line with CEOE) and 2.4%, respectively.
- Data for Q2 remain positive. The services sector continues to be the main driver of the economy, although industrial activity is beginning to gain momentum.
- Inflation rebounded in May due to higher energy and services prices.
- The accommodation and food service activities continue to drive Social Security registrations, which increased again in May. Job creation is expected to post a favourable Q2.
- The labour cost per worker per month slowed down in Q1 to 3.9%. However, Spain continues to be one of the European countries with the highest social contributions paid by companies as a percentage of GDP (in Spain, 9.5% of GDP compared to 7.1% in the EU).
- The budget execution data up to April show that the State Government accounts are in fiscal balance.
- Turnover continues to decline with notable differences across sectors and business confidence indicators continue to improve. Manufacturing production, according to the PMI, is consolidating its move out of contractionary territory. Meanwhile, business financing conditions remain high.
- The Spanish economy has fallen four places in the 2024 global competitiveness ranking, weighed down by the inefficiency of the public sector.

The International Scenario

The ECB has started to lower interest rates despite revising its inflation and growth forecasts upwards

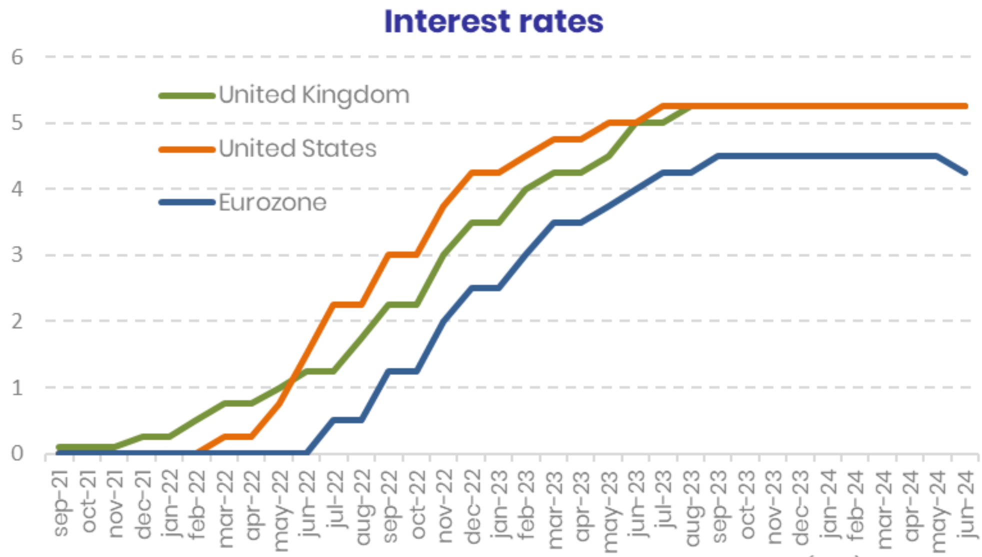
In May, the PMIs continued to suggest a greater dynamism in global activity, with the Global Composite PMI standing at 53.7 points, the highest level since a year ago. On the other hand, inflation data on both sides of the Atlantic show that the slowdown in prices has stalled in recent months. Nonetheless, at its June meeting, the European Central Bank cut interest rates for the first time since it ended its upward cycle in September 2023.



Source: Prepared in-house based on data from Markit Economics

As expected, the European monetary authority lowered its main interest rates by 25 basis points, bringing its main refinancing rate to 4.25%, the marginal lending facility to 4.5% and the deposit facility to 3.75%. However, at the meeting, they did not anticipate future movements, indicating that these will depend on data performance. In addition, they revised upwards their growth (to 0.9%) and inflation (to 2.5%) forecasts for the current year, thus lowering expectations for further rate cuts, with markets currently expecting only two additional rate cuts in 2024.

Meanwhile, a few days after the ECB's decision, the Federal reserve did not follow suit at its June meeting and left interest rates unchanged at between 5.25% and 5.5%, the highest since 2001 and where they have stood since last July. The Fed Chairman, Jerome Powell, has indicated that, although the situation now is somewhat better than at the beginning of the year, they will wait until they see more clear evidence that inflation is converging systematically towards the 2% target. In the voting, most of the Fed board members are divided between those who believe that one rate cut in 2024 is appropriate and those who believe that two rate cuts would be better, while some members are of the opinion that it is more appropriate for rates to remain unchanged this year. As in the case of the ECB, no future movements have been anticipated and they insist that decisions will be taken on a meeting-by-meeting basis and according to available data.



Source: Prepared in-house based on data from the European Central Bank (ECB), the Federal Reserve and the Bank of England.

As mentioned above, the reluctance of central banks to relax their monetary policies more intensely is due to signs of improvement in the world economy, with greater dynamism in the goods and services markets, particularly the latter, and to the fact that certain inflation components, mainly services, are still at rates far from the monetary authorities' targets. The resistance in services is due to the good performance of labour markets in many economies, with labour shortages and wage pressures that end up being passed on to prices. In addition, in recent months there has also been an upward trend in most commodity prices, which, if sustained, could make it difficult for inflation to approach the central banks' targets consistently.

In the United States, the May PMIs point to greater momentum in activity after a somewhat more subdued performance in Q1. Employment remains remarkably strong, with non-farm payrolls registering 272,000 new jobs in May, which is significantly better than in April, although below the average for Q1. The unemployment rate rose by one tenth to 4.0%. Meanwhile, inflation in May fell by one tenth to 3.3%, continuing the sideways path it has been on for the past year. Core inflation retreated two tenths, to 3.4%, the lowest rate since April 2021. As noted above, the dynamism of the economy and the employment growth, together with persistent high inflation rates, have led the Federal Reserve to keep its interest rates unchanged and to lower expectations about the number of rate cuts that will take place in 2024.

In the Eurozone, manufacturing PMIs improved in May, with services PMIs holding steady, while April's unemployment rate stood at 6.4%, the lowest in its historical series. In contrast, job vacancies are cooling off, which, in turn, will likely reduce wage pressures. Meanwhile, headline inflation in May rose by two tenths to 2.6%, the same increase seen in core inflation (excluding energy and food), which was set at 2.9%. On the other hand, following the recent elections in France, the region's political instability has increased, particularly in this country, with its risk premium also reflecting a rise.

In China, despite the positive growth surprise in Q1, signs of weakness persist. New bank lending, although increasing at a rate of 9.3%, is on a clearly declining year-on-year trend. Home sales are still very negative, while inflation in May held at a contained 0.3%, evidencing the moderation of activity. On a positive note, the May unemployment rate remained at 5.0%, the lowest record since October 2021.

As for commodity prices, in May, most of them posted a continuation of the upward trend seen throughout the year. The exception was oil, which broke this trend: the price of Brent crude oil fell to 82.9 dollars/barrel, 8.5% lower than in April, although it is still 7.5% higher than in May 2023 in year-on-year terms. The decline in prices is due to the fact that OPEC+, despite announcing that it would keep part of its current restrictions on production in place until the end of 2025, also indicated that voluntary cuts would be phased out starting in October. The markets have interpreted this statement as a sign that production will be increased, which would join the higher supply already available outside of OPEC+, mainly in the United States, Guyana, Brazil, and Canada.

The Spanish Economy

Domestic and international institutions raise growth forecasts to around 2.3% in 2024

Given the strength of the Spanish economy since the end of last year, the main domestic and international institutions are revising their growth forecasts upwards, in line with CEOE. Thus, the Bank of Spain forecasts this year's annual rate at 2.3% while reducing its projection for 2025 to 1.9%. The IMF estimates 2.4% for 2024 and maintains the growth rate for 2025 at 2.1%.

This confirms that the Spanish economy is showing positive signs in the short term, with a growth rate above the EU and Eurozone averages. Factors supporting growth in 2024 include the increase in disposable income, driven by job creation and wage rises, which will support consumption; less restrictive financial conditions, as the Euribor and ECB interest rates begin to fall; the performance of the foreign sector, boosted by the good performance of the balance of tourism and non-tourism services; and the impact of European funds on investment, which will be greater in 2024 and subsequent years given the delay in their implementation.

As for Q2, figures are favourable. The Bank of Spain's Survey of Business Activity (EBAE) has shown a higher proportion of companies reporting an increase in turnover during this quarter. Thus, the percentage of companies surveyed whose sales have increased rose by 10.1 pp to 32.3%, and the percentage of companies reporting a decrease in turnover fell to 20.6%, 8.3 pp lower than three months ago. In the labour market, the Social Security registrations indicator, adjusted for calendar effects, grew by 0.8% in Q2, versus 0.7% quarter-on-quarter in the previous quarter. In addition, other indicators relating to the services sector continue to be very strong, such as the PMI, tourist arrivals and spending, and the sector's turnover (excluding retail).

This positive evolution of the Spanish economy in the short term should not overshadow the need to correct macroeconomic imbalances (high unemployment rate and high public debt) and to address the remaining challenges (aging population, low productivity, lack of investment, excessive regulatory burden) in order to increase our growth potential, which is estimated to be below 1.5%.

Demand and Activity

In Q2, the economy continues to show strong momentum

The Spanish economy opened 2024 with a similar momentum to the one recorded at the close of 2023. According to information from the Quarterly National Accounts, growth in the last two quarters was 0.7% quarter-on-quarter, which is quite remarkable, especially in comparison with the European average.

This performance was likely driven by the positive contribution of the foreign sector and, in particular, by the significant dynamism shown by services exports, mainly tourism but also non-tourism services. However, the two major components on the demand side are expected to have registered very limited growth.

Although the data available for Q2 is still scarce, it suggests a similar growth rate for the economy during this period, with tourism services exports continuing to play a very important role. However, the economic context still presents many uncertainties and certain variables, such as interest rates and inflation, will continue to hinder growth in the coming quarters.

Private consumption is barely growing at 0.3% quarter-on-quarter, while both employment and wages are increasing steadily. This is leading to an increase in the household savings rate, which is at historically high levels. This weak consumption is probably influenced by the tightening of monetary policy, whose effect on household income is currently at its maximum level. This should improve as soon as the decline in the Euribor rates or the improvement in financial conditions to access credit starts to be reflected.

With regard to the industrial sector, data for Q2 continue to improve, so it seems that the sector's recovery is consolidating. The manufacturing PMI has shown a clear upward trend since the last few months of 2023 and in May, the latest available data, it stood at 54.0, reaching its highest level in the last two years. In this context, manufacturing companies are hiring more and there is also a rise in input prices, especially in raw materials. In recent months, there has been a recovery in orders for intermediate and capital goods, which had performed worse than consumer goods in previous months.

Meanwhile, the services sector continues to show remarkable dynamism and might even have accelerated in recent months. The services PMI, after reaching its best reading since May 2023 in Q1, came in at 56.9 in May, up from 56.2 in April, on the back of a further increase in new order intake. Against this backdrop, companies are increasing their hiring, despite wage and cost increases in general, which is being passed on to some extent to sale prices, albeit less strongly than in previous months. The outlook for the coming months remains optimistic, although more moderate than in previous months.

The latest available data for the tourism sector show that the inflow of international tourists continues to increase at very significant rates. In the first four months of 2024, the number of tourists visiting Spain increased by 14.5% to almost 24 million. Moreover, as average spending has been increasing, total tourist spending during this period was almost 23% higher than in the same period of 2023. Up to April, the number of international tourist arrivals already exceeds that of the same period in 2019 by 12% and, in terms of tourist spending, it is up 40.5%.

From the point of view of the foreign sector, according to customs data, in the first three months of 2024 the contractionary trend in both exports and imports has continued, although in this period exports are showing a greater contraction (-9.0% exports and -7.1% imports), and therefore the foreign balance has been slightly higher than in Q1 2023 (-€8.105 billion, compared to -€6.578 billion). This increase was mostly due to the reduction in the non-energy surplus (€8.8 million compared to a surplus of €1.6393 billion in the same period of 2023).

According to the Balance of Payments data published by the Bank of Spain, in the first three months of 2024 the current account surplus reached 10.3 billion versus a surplus of 10.5 billion in the same period of the previous year. This result, although similar, was due to a somewhat smaller balance of goods and non-tourist services (with a surplus of 0.4 billion versus 2.6 billion in the same period of 2023), which was offset by the surplus increase in the balance of tourist services (12.8 billion versus 9.9 billion in the same period of the previous year), in line with an even more favourable evolution of tourist inflows this year.

The Labour Market

The accommodation and food service activities and the public sector boosted Social Security registrations in May

The labour market evolved favourably in May, with a new increase in employment and a decrease in registered unemployment. Tourism and, to a lesser extent, the public sector, contributed significantly to the rise in the number of workers registered with the Social Security this month. In addition, the evolution of seasonally adjusted registration data suggests that employment will probably be more dynamic in Q2 than in Q1.

In May, Social Security registrations increased notably, by 220,289 workers, a considerable figure that is higher than the typical for this month of the year. In fact, this is the third best record in the historical series for May, after 2017 and 2018. However, in relative terms, the increase was 1.0%, slightly below the average rate of the most recent years (2021-2023) and of the pre-pandemic period (2014-2019).

In seasonally adjusted terms, the evolution has also been favourable. Thus, according to the Ministry of Inclusion, Social Security and Migration, there was an increase of 62,505 workers in May in seasonally adjusted registrations, a notable improvement over April. Moreover, the seasonally adjusted increase in May was similar to the average growth recorded in Q1 (63,240 individuals).

Going back to the gross data, the increase in Social Security registrations in May was largely due to the momentum of the private sector, which generated 190,592 jobs (86.5% of the total). However, this time the public sector also made a notable contribution to job creation, with 29,697 new workers, the highest growth recorded in the historical series for May. By branches of activity, it is worth highlighting the significant increase in registrations in the accommodation and food service activities (hotels and restaurants), with almost 80,000 new workers. This sector is playing a prominent role in job creation in 2024. Thus, between January and May of this year, Social Security registrations in the accommodation and food service activities increased by more than 288,000 people, which represents 40.2% of the increase in total registrations in this same period (set at 717,030 people). This is a further indicator of the good momentum of the tourism sector and the demand for food and beverage services.

In year-on-year terms, Social Security registrations continued to grow at 2.4%. In the private sector, the year-on-year rate also remained at the same level as in April, 2.3%, while in the public sector, employment rebounded notably in May to be set at 3.3% yoy (five tenths higher than in April).

By economic sector, the year-on-year evolution is heterogeneous. Services was the only sector with an improvement in registrations, with a slight acceleration to 2.9%. Industry, where the year-on-year rate had been posting a slight improvement this year versus the second half of 2023, fell by two tenths in May to 1.6%. Construction continued to slow down, with the year-on-year rate coming in at 1.5%. Finally, agriculture continued to lose jobs and intensified its rate of decline in May, to -1.4%.

Unemployment performed worse than employment. Specifically, registered unemployment fell in May by 58,650 people, with declines in all economic sectors (especially in services) and in the segment of the previously unemployed. However, in seasonally adjusted terms, unemployment increased by 4,485 persons. On the other hand, it should be noted that the number of employed job seekers or those with an employment relationship, which includes inactive workers under permanent seasonal contracts ("fijos-discontinuos" in Spanish), decreased by 12,832 people in May.

Pending the results of the Social Security registrations for June, everything points to employment continuing to show dynamism in Q2. According to CEOE estimates, effective registrations (discounting furloughs) corrected for seasonal effects will increase by around 0.8% quarter-on-quarter in Q2, slightly higher than the 0.7% recorded in Q1.

The results of the Quarterly Labour Cost Survey for Q1 2024 show a slowdown in labour costs in this period. In particular, labour cost per worker per month slowed to 3.9%, compared with 5.0% in Q4 2023. Wage costs grew by 3.7%, three tenths less than in the last quarter of 2023, while other costs moderated their year-on-year increase to 4.2%. Within other costs, compulsory contributions stood out, showing a notable growth of 4.1%, albeit less intense than in previous quarters. Nonetheless, Spain continues to be one of the European countries with the highest social security contributions paid by companies as a percentage of GDP. Specifically, this figure stood at 9.5% of GDP in 2022, above the EU average of 7.1%.

Inflation

Inflation rises in May due to the increase in energy products and services prices

In May, headline inflation rose by 0.3 to 3.6% and core inflation saw its gradual moderation cut short, rising by 0.1 to 3.0%.

Within core inflation, the prices of its components behaved heterogeneously. Thus, while Services prices saw their year-on-year rate accelerate by three tenths to 3.7%, Industrial Goods (excluding energy products) kept their rate of change at 0.7% and Processed Food, beverages and tobacco decreased by two tenths to 4.2% yoy.

Non-processed food prices decreased by four tenths yoy to 4.6%, after having recorded a rebound in the previous month.

Energy products have not only returned to positive year-on-year rates but are now the most inflationary component of the basket, overtaking food. Thus, Energy product prices showed a significant rise to 8.0% versus 5.0% in the previous month, mainly due to the increase in electricity prices in relation to May 2023, which more than offset the decline in gas prices compared with the previous year. Diesel and gasoline prices also showed higher increases, in line with the rise in oil prices in recent months.

If we compare the change in the HICP with the change in the HICP at constant taxes, we find that inflation would have risen by six tenths less in April. In other words, if the tax reduction measures had been maintained with respect to April 2023, inflation would have been 3.0%. In July, VAT on food is supposed to return to normal rates, although the government has announced its intention to extend the measure. In addition, if the price of electricity continues to rise, its VAT could be reduced again, so we will have to keep an eye on these measures and their possible impact on the price index.

Forecasts suggest that inflation will remain slightly above 3.0% during 2024 and core inflation will continue to ease, albeit very gradually, given the downward resistance of some of its components.

The Public Sector

The State budget execution up to April shows balanced government accounts

The State recorded a balanced budget in National Accounting terms up to April, compared with -0.15% of GDP in the same period of 2023. This result is explained by a moderate increase in revenues (2.8%), which has exceeded the increase in expenditures (0.2%). If we deduct financial expenses, the primary balance is positive, which, in terms of GDP, means it is 0.60% or 0.19 percentage points higher than in 2023.

Within revenues, 86% come from taxes, which increased by 6.4%. It is worth highlighting income tax collection, which was 17.9% higher than in the first four months of 2023. It is also worth noting the dynamizing role of revenues from electricity and gas once the VAT and electricity tax rates have been restored. In contrast to this buoyancy, the remaining taxes are showing a more contained trend, with VAT up 2.4% until April and Corporate Income Tax up 5.3%. Revenues from Social Security Contributions fell (-1.3%), as did the remaining revenue items, mainly due to no dividend income from the 2023 Bank of Spain's profits, as these were zero, in clear contrast to the results it recorded in 2022.

On the expenditure side, the evolution by item breakdown is very uneven. Among the items that increased most were interests, which rose by 16.2%; miscellaneous current transfers, by 29.6%; and intermediate consumption, by 9.9%, a rate explained by the expenditure on elections. Other items have more discreet increases, such as compensation of employees (3.8%), due to the consolidation of the 3.5% wage increase in 2023, and social benefits (5.8%), due to the increase in pensions for the passive classes. The items that fell the most were subsidies (-41.9%), international cooperation (-45.2%) and investment aid (-71.0%).

In this context, we should bear in mind that one of the biggest imbalances in the Spanish economy is the high public debt ratio (109% of GDP in Q1 2024, up from 107.7% of GDP at the end of 2023) and the structural deficit, which, according to the Bank of Spain, is estimated at around -3.7% of GDP, 0.6 higher than estimated in 2019.

Business Activity

- **Turnover in March continued its year-on-year decline, accumulating twelve months of consecutive falls due to the energy sector. The other sectors posted positive rates.**
- **According to the Bank of Spain's Survey of Business Activity (EBAE), companies perceive a marked increase in turnover in Q2 2024, although there is still a high degree of heterogeneity across sectors.**
- **Business financing conditions remain high. Nonetheless, there has been an increase in new lending to companies.**
- **Business confidence indicators continue to improve. The May composite PMI stood at 56.6, the highest level since April 2023.**
- **The number of companies registered with the Social Security in May is below pre-pandemic levels, especially in the small companies' segment.**

Turnover and sales

According to the National Statistics Institute (INE), turnover in March continued its year-on-year decline, accumulating twelve months of consecutive falls. Specifically, the year-on-year rate adjusted for seasonal and calendar effects stood at -6.5%. The decline in energy, water and sanitation continued (-37.1%), while the remaining sectors posted gains, with non-financial market services posting the highest growth rate (4.5%). The extractive and manufacturing industries recorded positive rates, although at very low levels (0.2%).

According to the Bank of Spain's Survey of Business Activity (EBAE), firms perceive a marked increase in turnover in Q2 2024, following declines in the previous three quarters, although there is still a high degree of heterogeneity across sectors. Inflationary pressures have eased in Q2 in input costs, selling prices, and labour costs, and this decline is expected to continue over the next year. Business activity has been supported by a lower negative incidence of constraining factors, although concerns about the uncertainty surrounding economic policies, energy input prices, and labour availability are still high.

According to the Tax Agency, **total Sales of Large Companies, deflated and adjusted for seasonal and calendar variations, increased by 0.4% in April versus the same month the previous year**. The disparate performance of total sales in these two months is explained by the ups and downs of exports, with a rebound in the previous month and a setback in this one. **Domestic sales** rose by 1.4% in April, one tenth higher than in the previous month. **Exports** fell by -2.5%, after the temporary upturn in March. This brings us back to the trend we have seen in recent quarters. By sector, the biggest falls were in Agriculture (-26.3%) and Manufacture of transport equipment (-12.5%), while the biggest increases were recorded in Construction (15.5%) and Social, cultural, recreational, and other services (12.1%).

Labour Costs

According to data from the Collective Bargaining Agreements Statistics of the Ministry of Labour and Social Economy, as of 31 May 2024, there are 2,723 agreements with known economic effects and registered for 2024, covering 1,005,783 companies and 8,895,211 people. The wage increase negotiated in the collective agreements which have economic effects in 2024 stands at 2.96% (3.26% in the same month of 2023). In the national sectoral agreements, wage increases stood at 3.00%, the same as in the regional agreements, and in the provincial agreements, at 2.92%. By sector of activity and taking into account the provisional nature of the data and possible statistical effects, Services recorded the highest wage increase (3.03%), followed by Construction (2.89%), Industry (2.82%) and Agriculture (2.49%).

These results are lower than those of the Quarterly Labour Cost Survey for Q1 2024, which show wage increases of 3.7%, albeit along a moderating path.

Financing conditions and costs

In April, **interest rates on loans to companies fell slightly for transactions of up to €250,000 and between €250,000 and €1 million**, to 4.9% and 4.7% respectively, but remained at restrictive levels. For transactions of more than €1 million, the interest rate increased by two tenths to 4.9%. New lending increased across the board, with the highest growth (20.3%) in transactions between €250,000 and €1 million.

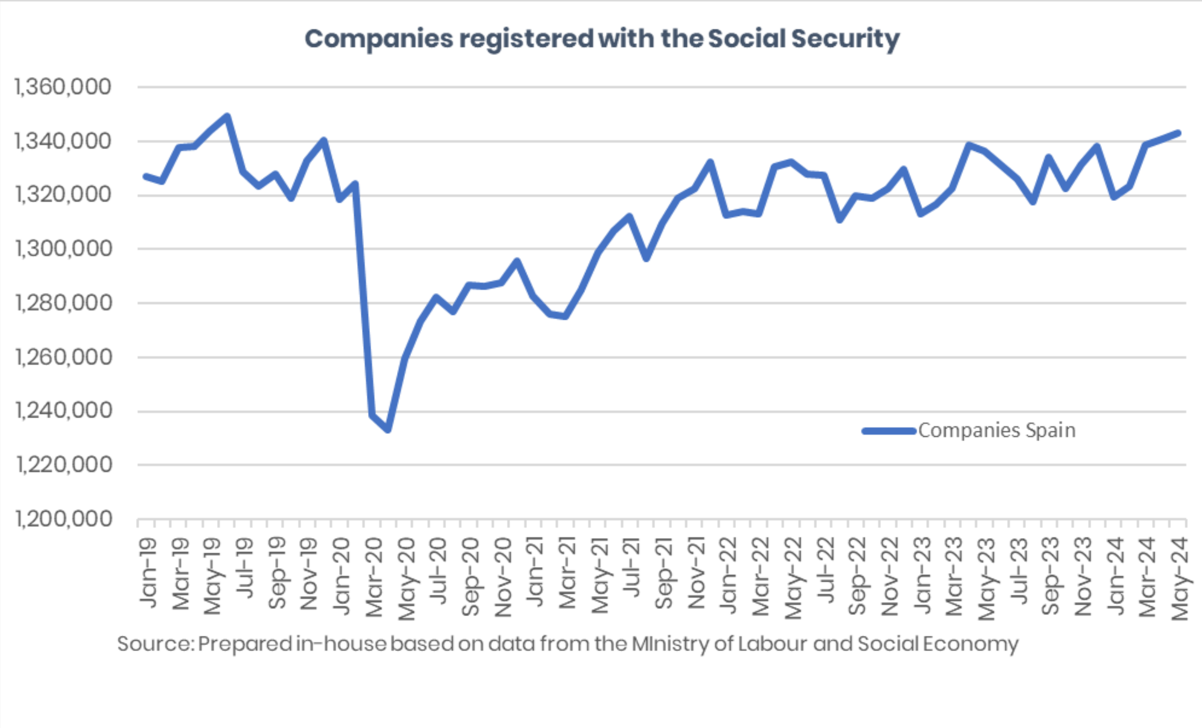
Business confidence

In terms of confidence indicators, the **composite PMI for May came in at 56.6, 0.9 points higher than in March (55.7). This is the highest level since April 2023**. This performance is explained by a further expansion of activity in the services sector (which increased by 0.7 points to 56.9) and by an increase in manufacturing production, which stood at 54 (52.2 in the previous month), consolidating its exit from contractionary territory.

The European Commission's Economic Sentiment Indicator worsened notably from the previous month: 101.1 in May versus 104.3 in April. Industry remains in contractionary territory, while construction and retail show positive results. The services sector continues to register favourable figures, but they are slightly worse than in the previous month (13 in May versus 13.7 in April).

Business dynamism

In May, 1,196 fewer companies were registered with the Social Security than in May 2019. By size, the number of the smallest enterprises, ranging from 1 to 5 workers, is still not back to pre-COVID levels. By economic sector, the number of companies registered with Social Security is below pre-pandemic levels in agriculture, industry, and services, and only construction has rebounded to its previous position.



Main Business Indicators (last update: June 2024)						
Indicator	2021	2022	2023	Penultimate data	Last data	Last given period
Turnover and sales						
	Annual rate			Year-on-year rate		
Business turnover index corrected for seasonal and calendar effects	23.1	11.7	-4.2	-2.4	-6.5	mar-24
Sales indicator for large companies	6.1	5.9	1.5	1.4	0.4	apr-24
Labour costs						
	Annual rate			Year-on-year rate		
Labour cost per worker	5.9	4.2	5.5	5.0	3.9	Q1 24
Business dynamism						
	Annual averages level			Monthly level		
Companies registered with the Social Security	1,301,461	1,321,657	1,327,404	1,340,814	1,342,887	may-24
Financing conditions and costs						
	Annual average level			Monthly level		
Interest rates applied to new credit transactions up to 250 thousand Euros	1.9	2.3	4.7	5.1	4.9	apr-24
Interest rates applied to new credit transactions from 250 thousand to 1 million	1.5	2.0	4.6	4.9	4.7	apr-24
Interest rates applied to new credit transactions over 1 million Euros	1.3	1.7	4.5	4.7	4.9	apr-24
	Annual rate			Year-on-year rate		
New corporate loans up to 250 thousand Euros	-5.9	15.7	5.3	-0.1	17.8	apr-24
New corporate loans from 250 thousand to 1 million Euros	-28.9	8.9	2.9	-10.1	20.3	apr-24
New corporate loans over 1 million Euros	-19.6	25.7	-22.1	-0.7	19.8	apr-24
Business confidence						
	Annual average level			Monthly or quarterly level		
Economic sentiment indicator	105.2	101.3	100.7	104.3	101.1	may-24
Business confidence indicator	120.8	126.8	132.7	134.0	136.0	Q2 24
Composite PMI Index	55.3	51.8	52.5	55.7	56.6	may-24
Manufacturing PMI Index	57.0	51.0	48.0	52.2	54.0	may-24
Services PMI Index	55.0	52.5	53.6	56.2	56.9	may-24
Stock markets						
	Annual averages level			Monthly level		
IBEX 35 Index	8,645.2	8,252.5	9,441.5	10,854.4	11,322.0	may-24

Source: INE, Bank of Spain, Eurostat, Ministry of Labour and Social Economy, Tax Agency, Ministry of Economy, Trade and Business, Madrid

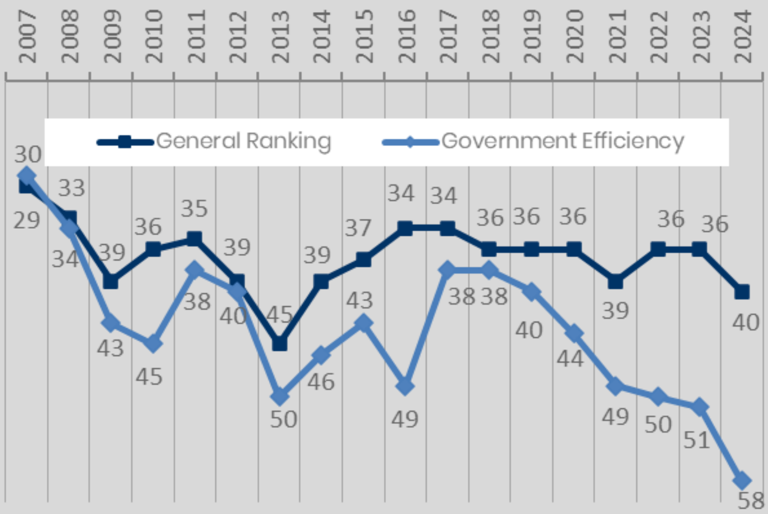
Results of the 2024 World Competitiveness

The World Competitiveness Yearbook, published by the IMD World Competitiveness Centre, addresses the political, social, and cultural dimensions of competitiveness, in addition to the strictly economic aspect, by assessing the ability of countries to provide those infrastructures, institutions and policies that strengthen and support business competitiveness.

The World Competitiveness Ranking 2024 is led by Singapore, Switzerland, and Denmark, followed by Ireland, Hong Kong, Sweden, the United Arab Emirates, Taiwan, and the Netherlands, in that order, while Norway is in tenth position.

Spain drops four spots to 40th place out of the 67 economies analysed, after having been ranked 36th for the previous two years. This would be the lowest position in the ranking since it was first compiled, with the exception of the 45th position reached in 2013. In the case of other major European economies, Germany drops two places to the 24th position, the United Kingdom rises one position to 28th and France improves two positions to 31st. Only Italy is below Spain in the ranking, in 42nd position, one lower than in 2023.

The report analyses the competitiveness of the participating countries based on four areas: Economic Performance, Public Sector Efficiency, Business Efficiency, and Infrastructure. Spain achieves its best ranking in Economic Performance and Infrastructure, where it is placed in 27th position. Its worst ranking is in the area of Public Sector Efficiency, where it is placed 58th, after following a clear deterioration path over the last few years.



Source: 2024 World Competitiveness Ranking. IMD

The area that has improved the most since the last edition of the ranking is Economic Performance, with a rise of five positions after having climbed a further three positions in the 2023 edition. Among the factors that have an impact in this area, there has been a notable improvement, compared to the previous edition, in the current account balance, tourism revenues, and inflation, among other. 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 the unemployment rate, 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. Noteworthy strengths in the Economic Performance front are exports of services, income from tourism, and foreign direct investment, both in Spain as well as from Spain to other countries.

Economic Performance	**2023**	**2024**	
Domestic Economy	31	32	↓
International Trade	13	12	↑
International Investment	11	14	↓
Employment	55	54	↑
Prices	36	26	↑
Government Efficiency	**2023**	**2024**	
Public Finance	58	59	↓
Tax Policy	57	60	↓
Institutional Framework	43	61	↓
Business Legislation	51	62	↓
Societal Framework	29	35	↓

Business Efficiency	**2023**	**2024**	
Productivity & Efficiency	30	35	↓
Labour Market	42	47	↓
Finance	29	30	↓
Management Practices	40	32	↑
Attitudes and Values	48	53	↓
Infrastructure	**2023**	**2024**	
Basic Infrastructure	25	25	■
Technological Infrastructure	22	26	↓
Scientific Infrastructure	25	25	■
Health and Environment	21	22	↓
Education	33	36	↓

Source: 2024 World Competitiveness Ranking. IMD

Spain registers its worst position in the ranking in Public Sector Efficiency, where it ranks 58th, after dropping seven positions from the previous year. Some of the criteria that continue to be a major drag on Public Sector Efficiency relate to labour market regulation and flexibility, public finances, the legal and regulatory framework, and the adaptability of government policies. However, factors that stand out as positive in this area include exchange rate stability, tariff barriers, and interest rate differentials.

Spain ranks 38th in Business Efficiency in this edition, down one place from 2023. Within this block of indicators, special mention should be made of the results obtained in terms of large companies, financial sector assets, and productivity. However, according to the results of the report, the margins for improvement in Business Efficiency lie in the need for economic and social reforms and the improvement of the value system. In addition, there is a need for further digital transformation of companies, including the use of digital tools and technologies in parallel with skilled workers.

In Infrastructures, Spain is still in 27th position and, in this edition, it is the factor in which it achieves its best result together with Economic Performance. This area analyses the degree to which basic, technological, scientific, and human resources meet the needs of companies. Spain ranks high in life expectancy, broadband internet, investment in telecommunications, health infrastructure, and universal health coverage, among others. However, certain aspects continue to be a constraint on our competitiveness, as they are not in line with the requirements of the productive system. These include environmental or scientific research legislation, foreign language proficiency, university education 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 in identifying the main challenges to competitiveness, with the aim of undertaking pending structural reforms and addressing possible actions by both public authorities and the companies themselves.

Forecasts

Economic forecasts for Spain (last update: Jun 2024) Annual rates of change, unless otherwise indicated	2019	2020	2021	2022	2023	2024	2025
GDP	2.0	-11.2	6.4	5.8	2.5	2.3	1.8
Private consumption expenditure	0.9	-12.4	7.2	4.8	1.8	1.8	1.5
Government consumption expenditure	1.9	3.6	3.4	-0.2	3.8	2.5	0.8
Gross fixed capital formation	4.5	-9.0	2.8	2.4	0.8	1.8	1.1
-Tangible fixed assets	5.3	-10.3	1.7	2.1	1.0	1.7	1.2
Construction	7.2	-9.2	0.4	2.6	2.3	2.4	1.3
Equipment and cultivated assets	2.4	-11.9	3.9	1.2	-1.3	0.2	1.1
-Intangible fixed assets	0.6	-2.7	7.7	3.8	-0.3	2.5	0.5
Domestic demand (*)	1.6	-9.0	6.7	2.9	1.7	2.0	1.3
Exports	2.2	-20.1	13.5	15.2	2.3	0.2	4.9
Imports	1.3	-15.0	14.9	7.0	0.3	-1.0	3.8
External demand (*)	0.4	-2.2	-0.3	2.8	0.8	0.4	0.5
GDP current prices	3.5	-10.2	9.2	10.2	8.6	5.6	4.4
GDP deflator	1.4	1.1	2.7	4.1	5.9	3.3	2.6
CPI (average annual rate)	0.7	-0.3	3.1	8.4	3.5	3.4	1.9
CPI (Dec/Dec)	0.8	-0.5	6.5	5.7	3.1	3.5	1.7
Core CPI (average annual rate)	0.9	0.7	0.8	5.2	6.0	2.9	2.1
Employment (Quarterly National Accounts)(**)	3.3	-6.5	7.1	3.7	3.2	2.5	1.7
Employment (LFS)	2.3	-2.9	3.3	3.6	3.1	2.2	1.5
Unemployment rate (LFS) (% active population)	14.1	15.5	14.9	13.0	12.2	11.4	10.9
Productivity	-1.3	-5.0	-0.6	2.0	-0.7	-0.2	0.2
Compensation per employee	2.5	2.8	0.3	2.9	5.2	4.0	2.9
Unit labour cost (ULC)	3.8	8.3	1.0	0.9	6.0	4.1	2.7
Current Account Balance (% of GDP)	2.1	0.6	0.8	0.6	2.5	1.8	1.7
General government net lending (+) / net borrowing (–) (% of GDP)	-2.9	-11.0	-6.9	-4.8	-3.6	-3.3	-3.0
Interest rates USA (Dec)	1.75	0.25	0.25	4.50	5.50	5.00	4.25
Interest rates Eurozone (Dec)	0.00	0.00	0.00	2.50	4.50	3.75	3.00
Brent Oil ($)	64.8	41.5	71.1	103.7	83.8	83.3	77.5

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

(*) Contribution to GDP growth

(**) Full-time equivalent jobs