

THE SPAIN INVESTORS DAY AND THE PROSPECTS FOR THE SPANISH ECONOMY

2022 - 2023

The latest edition of the **Spain Investors Day (SID)** was held on January 12th and 13th, 2022, in a hybrid face-to-face and telematic format, with great merit in the context of the current Covid-19 wave of infections.

The Spain Investors Day has contributed to convey to international investors that the Spanish economy is facing a robust economy recovery,

despite the difficulties and **the need to foster the structural reforms.**

The SID is a **prominent appointment for investors on their European agendas.** The **successful participation in the 12th edition of the SID** demonstrates the renewed interest of investors in the Spanish economy and its listed companies. Spain counts on **very relevant companies and business opportunities of interest** to international investors.

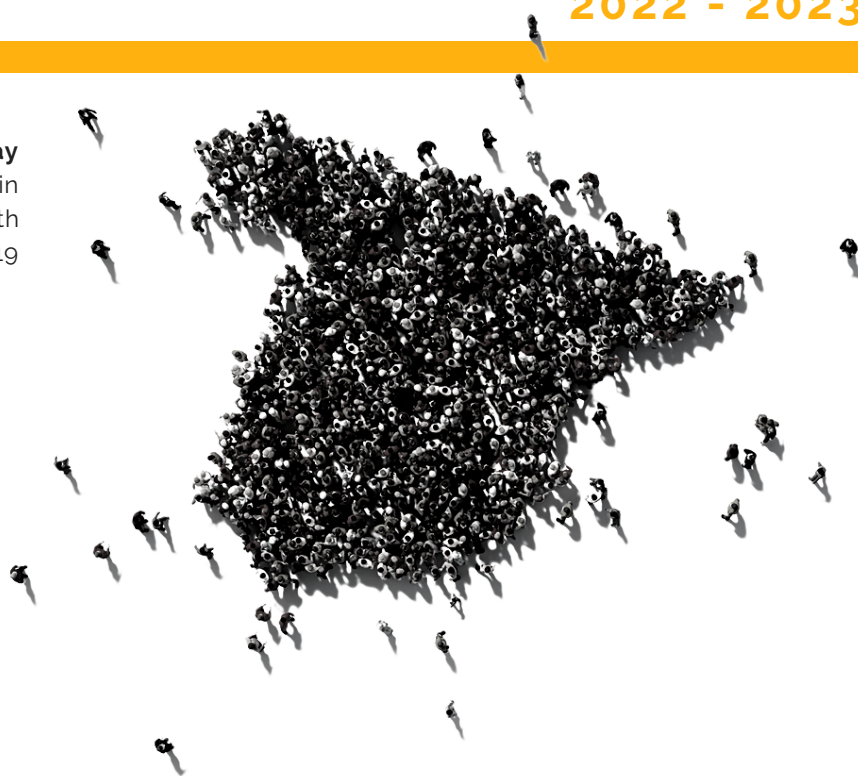
The world economy recovered during the year 2021 the levels of production prior to the pandemic, although with relevant regional asymmetries. **Vaccination has proven to be the most effective economic policy** for recovery. Thus, China and most developed countries, with higher levels of vaccination, have been able to return to their pre-covid production levels.

In Spain, the recovery consolidated throughout 2021, but it is still far from reaching its pre-crisis levels. This time it is not the financing problems that are weighing on the Spanish recovery, but those derived from the economic structure. **The difficulties faced by the industry**

due to the lack of components, especially in the automotive sector, and the **incomplete recovery of international tourism** are two of the main reasons for the current slower pace of recovery than expected. In addition, since the summer and despite the high accumulated savings due to the restrictions imposed to face the pandemic, **the recovery of household consumption has been slowed** by problems of lack of confidence and expectations, and new waves of Covid-19 cases. As a consequence, **the Spanish recovery is being slower than in other European countries.**

In this context, and **at Equipo Económico (Ee)** we foresee that, after reaching a **4.7% GDP growth in Spain in 2021,**

during 2022 we will continue to witness a robust economic recovery, with a rebound in GDP of 5.3%.



Economic growth this year 2022 will be driven by a **further increase in household consumption** and strong investment from Next Generation EU funds. Despite this, **the Spanish economy will not be able to reach pre-crisis levels until 2023**, when we estimate that the national product will grow by **3.6%**.

This slower pace of growth in activity contrasts with the vigorous recovery of the labor market. Thus, **social security affiliation exceeded 19.82 million affiliates in December 2021 for the first time in the historical series.** Although its progression is closely related to the creation of public employment and has occurred very unevenly by sectors. The more positive evolution of employment with respect to economic activity points, on the one hand, to lower productivity, and, on the other, to the need not to back down from relevant aspects of the Spanish labor market that are working.

In this scenario, **we consider that the unemployment rate would continue to gradually reduce to stand at 13.5% in 2023.**

Regarding **the significant growth in prices in Spain** – the CPI increased by 6.7% year-on-year in December 2021 – **has to do with the base effect, the increase in energy prices, the recovery of the sectors that had suffered the most from restrictions and the demand for non-energy industrial goods.**

These are, in principle, **temporary factors** and, for the time being, the effects of the second round would not be generalized. So, we estimate that the **CPI will grow on average by 3.1% and 3.5% per year in 2021 and 2022, respectively**; by the end of 2022 prices will stabilize at around 2%. **We expect that, in 2023, the average inflation rate will stand at 1.7%**, after the disappearance of the mentioned conjunctural factors.

Equipo Económico's Spanish macroeconomic outlook and forecasts.

	2020	2021*	2022*	2023*
GDP (% change vs. previous year)	-10.8	4.7	5.3	3.6
Household consumption	-12.1	3.7	4.6	2.8
Government consumption	3.8	2.4	2.8	2.0
Gross fixed capital formation	-11.4	5.6	7.1	6.0
GFCF in fixed assets	-12.2	4.5	7.5	6.3
GFCF in construction	-14.0	6.0	8.2	7.7
Exports of goods and services	-20.2	12.4	10.2	9.8
Imports of goods and services	-15.8	11.1	9.3	9.5
CPI (annual average)	-0.3	3.1	3.5	1.7
Unemployment (% active population)	15.5	15.2	14.3	13.5
Current balance (% GDP)	0.7	1.0	1.2	1.1
Public deficit (% GDP)	11.0	7.6	5.8	4.5

Source: INE (2019), (*) Equipo Económico Forecast.

Equipo Económico (Ee) is member of the FUNCAS Forecast Panel of the Spanish economy.

To achieve these forecasts, the Spanish economy has strong bases that will facilitate the continuation of the recovery. Among them, the **maintenance of its financing capacity with respect to the rest of the world for almost nine consecutive years, the ease of the business sector to obtain financing and the still high rate of household savings stand out.** However, **in the face of latent risks**, among which the pandemic remains the most notable and which will significantly condition the beginning of the year, and the lasting effects that the Covid crisis may have on the Spanish productive fabric,

there is a clear need to guarantee a framework of certainty, through an economic policy that generates confidence, based on reforms.

The **Next Generation EU program**, and the funds associated with it, **constitutes a relevant opportunity and framework to boost growth and investment in the medium and long term and the financing of structural reforms.** Although **its success is subject to sufficient execution** and, in addition, it cannot be an excuse for not establishing clear priorities among the numerous reforms that the Spanish economy needs. Among all the urgent, we highlight, for their relevance, the **reduction of unemployment, and the sustainability of the pension system and public accounts.** First, **the most important challenge that the Spanish economy continues to face is located in the labor market.** And it is linked not only to structural problems in it, but also to the ability to grow, compete and have the qualified human capital to meet the current offer. Therefore,

more training, qualification and flexibility remain the necessary bases for reducing unemployment.

Secondly, the reform of the pension system is the main thermometer on the true will to reform, in terms of its ability to tackle the shortcomings of the system or simply postpone them. Faced with the depth of the **demographic problem and the need for a dynamic labor market**, it is imperative that the reform be addressed comprehensively and with consideration for all parties. Contrary to the process we are witnessing in recent years, **the fundamental thing is to continue, and not to reverse, the progress in terms of sustainability of our current distribution system.**

Finally, we emphasize that only the **consolidation of the Spanish public accounts would allow us to have the necessary margins to face future crises.** Even considering the ongoing recovery, the European Commission predicts that the structural public deficit in Spain will still stand at 4.1% of GDP in 2022, and even higher in 2023, 4.6% of GDP. The sharp increase in tax collection throughout 2021 shows that **the problem would be on the side of efficiency in public spending, as well as the relevance of avoiding future tax increases that are detrimental to activity.** Meanwhile, there has been a significant increase in Spanish public debt, in a short period of time to stand at 1.42 trillion euros (121% of GDP) in October. **The stock of debt has grown at all levels of the Administration.** In this context,

the credibility that would be provided by the design of a medium- and long-term budgetary rebalancing plan is one of the structural reforms necessary to lay the foundations for a lasting recovery.

EQUIPO ECONÓMICO (Ee) is a professional services firm established in 2006 with wide-ranging experience in corporate consultancy on economic, financial and tax matters, and commercial law. Ee employs a qualified team of professionals with a proven track record in taking strategic decisions on a corporate and institutional, and national and international level.

This brief note has been drawn up by:

José María Romero Vera

Director for Economic analysis and International affairs
joseromero@equipoeconomico.com



Andrés Arronte Ledo

Economic analyst
andresarronte@equipoeconomico.com



Jorge Vindel González

Economic analyst trainee
jorgevindel@equipoeconomico.com



DISCLAIMER: The opinions expressed in this document are for information only. **EQUIPO ECONOMICO** does not assume any liability whatsoever in regard to the actions that any legal person or entity may decide in accordance with the observations contained herein