

THE SPAIN INVESTORS DAY AND THE PROSPECTS FOR THE SPANISH ECONOMY IN 2023/2024

The recent Spain Investors Day (SID) was held on January 11th and 12th, 2023, gathering over an important number of relevant global investors and Spanish listed companies.

The Spain Investors Day, once again, served as a platform to showcase the stability of the Spanish economy to international investors,

despite ongoing challenges after the Covid-19 crisis and the effects of current war in Ukraine.

The SID is a **highly regarded event on the European investment calendar**, and the positive participation in its 13th edition indicates a renewed interest in the Spanish economy.

Spain offers to international investors many noteworthy business opportunities and high-class listed companies. Also, numerous **strategic ESG investment possibilities** and its position as **European leader in energy transition**, being Europe a world leader in this respect.

At the start of 2023 it remains a **high degree of uncertainty** surrounding key factors that will have a significant impact on the world economy, such as the **war in Ukraine**. In this context, **current global economy is facing strong inflationary pressures, requiring a robust response from monetary authorities**, and impacting activity levels.

In 2023, we expect a slowdown in global economy, with heterogenous impact across countries.

Europe is expected to face stagflation, with practically no growth and still high inflation, especially in Germany. Although, **eurozone now has more tools to tackle the crisis compared to the European sovereign debt crisis**, and single currency's viability is not in question.

The Spanish economy continues to grow and has weathered the effects of the Ukraine crisis better than anticipated,

supported by factors such as **reduced dependence on Russia for energy** and a **strong rebound in the tourism sector**. However, **the recovery is still uneven** and sectors like industry and construction are yet to fully recover to pre-pandemic levels of output and employment.

Some institutions believe that the Spanish economy will experience a technical recession this winter. However, at Equipo Económico (Ee) **our GDP growth forecasts** continue to indicate otherwise and **predict a null quarter-on-quarter growth**.



At Equipo Económico (Ee) we have slightly revised our GDP growth forecast for 2023 upward to 2.1%,

higher than the average consensus among economic analysts. While these projections indicate a **slowdown in 2023**, due to a decrease in domestic and external demand -specifically in some of the main European markets for Spanish goods and services-, **it will not fall into a recession.**

Our estimates for 2024 predict a GDP growth of 2.3%. Despite the positive impact of Next Generation EU (NGEU) funds on investment, the Spanish economy will continue to remain only slightly above its potential growth level.

Inflationary pressures will continue to be high in 2023 and 2024, though at a lower intensity than in 2022, due to a decrease in global supply and energy shocks.

Furthermore, we anticipate that the government's strong increase in tax collection will result in a **public deficit of 4.2% of GDP in 2022, remaining at 4.0% of GDP in the following two years, due to the lack of public spending consolidation roadmap.**

We anticipate an average annual growth of the CPI to be 3.9% in 2023,

with notable declines during spring and summer months, because of the high price indices recorded in the same months of 2022. Additionally, the significant disparities in price growth across sectors will persist. **We do not expect average annual CPI growth to reach the ECB's medium-term target of 2% until the end of 2024.**

The dynamism of the labor market will lose momentum in line with the evolution of activity. The positive progress of employment in 2022 and the reactivation of the tourism sector would have allowed a 3.9% growth in employment in 2022. **We expect a still high growth of employment of 2.7% in 2023 and 2.3% in 2024**, resulting in an unemployment rate of 13% in 2022 and falling to 12.8% and 12.5% in 2023 and 2024, respectively.

Equipo Económico's (Ee) forecasts for main macromagnitudes of the Spanish economy in 2022-2024.

% annual growth	INE	Ee forecasts:		
	2021	2022*	2023*	January 2023. 2024*
GDP	5,5	5,2	2,1	2,3
Household consumption	6	2,2	1,4	1,5
Government consumption	2,9	-1,2	0,7	1,2
Gross Fixed Capital Formation	0,9	5,5	5	5,5
GFCF in fixed assets	6,5	6,3	2,5	2,7
GFCF in construction	-3,7	4,6	7,7	7,1
Exports of goods and services	14,4	18	3,7	2,9
Imports of goods and services	13,9	8,9	3,9	3
CPI	3,1	8,4	3,9	3,5
Core CPI	0,8	5,1	3,6	3,1
Employment	6,6	3,9	2,7	2,3
Unemployment rate (annual average)	14,8	13	12,8	12,5
Budget Balance (% GDP)	-6,9	-4,2	-4	-4,0
Current Account Balance (% GDP)	0,9	0,7	0,4	0,5

Source: (*) Equipo Económico for forecasts 2022-2024; INE (National Statistics Institute), Bank of Spain and Spanish Ministry of Finance for 2021.

The slower growth projected for the Spanish economy will not be sufficient to address several of the main imbalances it has been facing. Such as a level of price growth considerably higher than GDP growth, which will persist in 2023 and 2024. One of the most significant risks is the possibility of a second-round price/wage effect occurring in the coming months. Additionally, the structural fiscal imbalance of public administration, with spending exceeding the capacity to generate revenue regardless of the economic cycle, is causing public debt to reach its highest levels in recent economic history. Another imbalance is the still very high unemployment rate, well above the eurozone average, which is hard to understand in the context of a shortage of certain professional profiles and the aging population in Spain.

On the other hand, and in contrast to previous crises, the Spanish economy is well-financed, and has been able to maintain its external financing capacity despite the impact of energy on the trade balance. Furthermore,

companies have made significant progress in reducing their levels of debt

since the Great Recession. Additionally, the support provided by the European framework and the financing offered by the NGEU recovery program are of great help. There is no doubt that the receipt of these funds will boost investment in the coming years. However, the implementation of NGEU funds and their flow into the real economy has been delayed and rather poor in 2021 and 2022.

These imbalances and risks that the Spanish economy is facing underscore the need of adopting structural supply-side reforms to fight inflation, ensure the sustainability of public finances, reduce the unemployment rate, and promote international competitiveness.

However, current Spanish economic policy is impacting negatively on business costs, through increased taxation, which acts as a hindrance to competitiveness and serves as a strong disincentive for activity and international investors. Furthermore, the economic policy orientation for 2023, as outlined in the General State Budget, is not well-suited for the current moment of the Spanish economy. Among other reasons, it is notably expansionary, increasing public spending that becomes structural, while it is financed by temporary revenues linked to the recovery cycle after the Covid-19 crisis. This puts additional pressure on the structural public deficit and debt.

In this complex international and national economic scenario,

the respect for the institutional framework, regulatory certainty and consistency in economic policy orientation are key factors in maintaining the competitiveness of the Spanish economy

and attracting international investment flows, which generate growth, employment, and welfare.

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.

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