Economy... at a glance

June 2018

World Competitiveness Ranking 2018

Spain has lost two positions in the World Competitiveness Ranking developed by the Institute for Management Development (IMD), dropping from the 34th position to 36th out of a total of 63 countries that were analysed. Among European countries, Spain comes in at the 18th position, despite being the fifth largest economy in the EU.

Spain loses competitiveness in prices, business legislation, tax policy, the proper running of the labour market and scientific infrastructures.

In this edition (30th), the US leads the ranking, followed by Hong Kong and Singapore.

IMD World Competitiveness Ranking, 2018

Source: Círculo de Empresarios based on IMD, 2018

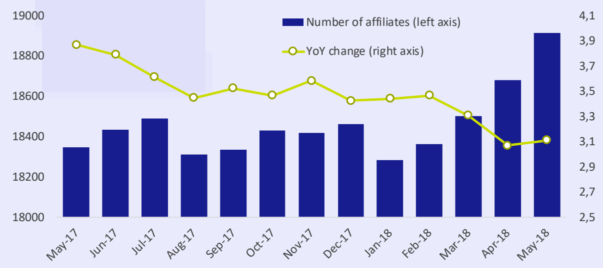
Labour Market

In May, the number of Social Security affiliates increased by 237,207, reaching a total of 18,915,668 contributors, with a year-on-year increase of 3.1% (+570,254 people).

Progress in the following stands out:

- Female affiliation hit a record high (in the historical series) with 8,773,053 women affiliates that account for 46.38% of the total contributors.
- Affiliate-to-pensioner ratio, which after falling to 2.23 in December 2017, stood at 2.28 (back to 2016 levels).

Social Security affiliates
Thousands of people, %



Source: Círculo de Empresarios based on Ministry of Labour, 2018

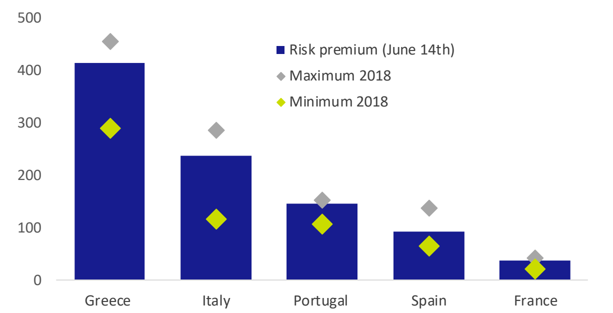
The number of unemployed people decreased by 83,738, to a total of 3,252,130, a record low since December 2008. In year-on-year terms, unemployment fell by 208,998 people (-6.04%) and 1,788,092, since its maximum level of February 2013.

Risk Premium

Despite an environment of high economic dynamism in the Eurozone, political uncertainty has pushed risk premiums above their annual minimum levels, mainly in Greece and Italy.

Specifically, the risk premium of Spain even soared to 134 bp with an annual minimum of 66 bp, while that of Italy already exceeds 230 bp (record highs since December 2013).

Risk premium (10Y yield spreads between euro area economies and Germany)
Basis points



Source: Círculo de Empresarios based on Funcas and ECB, 2018

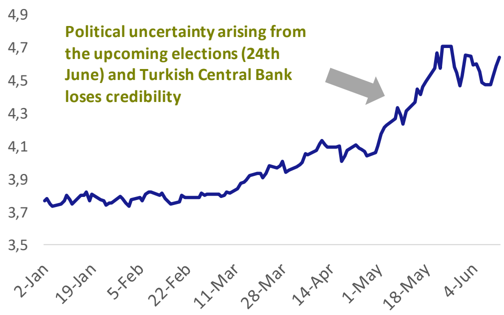
Emerging Markets

The recent appreciation of the dollar and the upturn in the Internal Rate of Return (IRR) of the 10-year US bond (up to around 3%) with a recent interest rate hike to a range of 1.75-2%, have generated financial turmoil in emerging markets, mainly in Turkey and Argentina, where its structural risks have worsened.

Turkey

The Central Bank of Turkey has raised interest rates to 17.7% to control the upturn in inflation (12.15% in May), and thus recover the credibility in its strategy of reaching the 5% target. Also, this interest rate movement curbs the substantial depreciation accumulated during the year of the Turkish lira (-22% against the dollar).

Turkish Lira to US dollar (USD/TRY), 2018



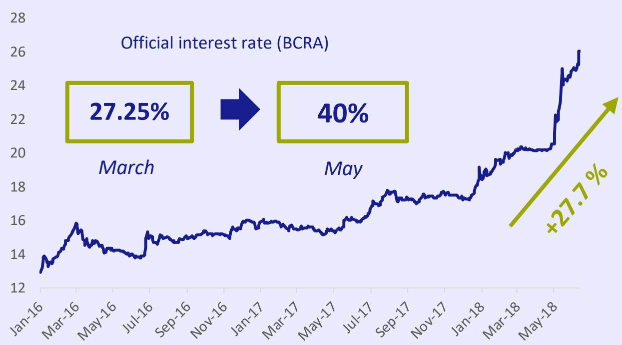
Source: Círculo de Empresarios based on Investing, 2018

Argentina

Since January 2018, the Argentine peso has lost 27.7% of its value against the dollar, which has led its Central Bank to intervene in the foreign exchange market, reducing its reserves by 10%, and raising interest rates to 40%. This situation has compelled the government to ask the IMF for a three-year $50 billion *stand-by* credit facility. The agreement entails adjustments to reduce its main imbalances: high inflation (27.5% estimated in 2018, Fitch), and current and fiscal deficits of more than 5% of GDP. Specifically:

- Control inflation (targets: 17% in 2019, 13% in 2020, and 9% in 2021).
- Achieve primary balance in 2020 and a surplus of 0.5% in 2021 (adjustment equivalent to 3% of GDP).
- Maintain the level of social spending over GDP for three years.

Argentine Peso to US dollar (USD/ARG)

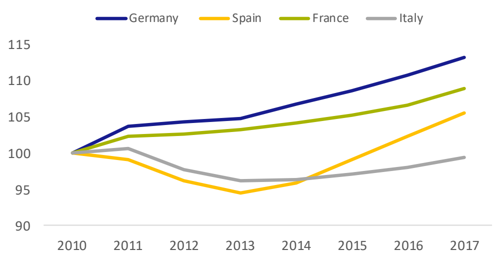


Source: Círculo de Empresarios based on Investing, 2018

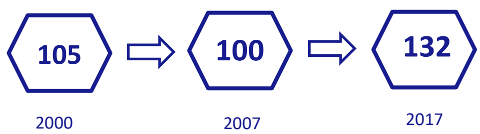
Italy

With an average growth rate of 0.5% for two decades and a high level of public debt (132% of GDP in 2017), and adding on the uncertainty generated by Euroscepticism of the new government of Italy, which has put its 2-year bond under pressure as it spiked to 2.8% at the end of May (-0.33% in April). According to Bruegel, the main measures proposed by the new government (basic income, tax reform, etc.) would have an estimated cost of 6 to 7 points of its GDP ($109bn-$126bn).

Real GDP growth
2010=100



Italy's government debt (% GDP)



Source: Círculo de Empresarios based on Eurostat, 2018