

# Spanish Economy to continue growing by 2024, only if it can overcome the challenges of inflation, public debt, and the economic slowdown

- 2021 and 2022 have been years that have constituted a path of growth and recovery for the Spanish economy, and the expectations are for this trend to continue in 2023 and 2024
- Spain maintains its rating thanks to a resilient and improved labor market, lower inflation, and lower public debt
- Resolving political uncertainty, controlling inflation, and accelerating growth will be pivotal for Spain in the upcoming years

Madrid, July 31<sup>st</sup>, 2023

EthiFinance Ratings has affirmed Spain's unsolicited credit rating at "A-" with a stable trend. The assessment, performed at the second annual review, reflects the agency's perception of the country's risk profile, which remains stable according to its rating methodology.



Source: INE and EthiFinance Ratings

Spain has achieved this rating thanks to certain combined factors that have allowed the country to grow and recover positively during 2022. Some factors that explain the rating awarded by EthiFinance Ratings are the recovery of tourism and the labor market, which have produced a GDP growth of 5.5%. On the other hand, it is paramount to highlight that Spain's growth rate during the

years 2021 and 2022 has been constant, and expectations are for it to continue on this trend for 2024.

One of the primary aspects of the EthiFinance Ratings relates to the Spanish labor market, which has reached its highest number of affiliates since the financial crisis of 2008, with 20.9 million contributors to the Social Security system. Similarly, other macroeconomic measures that have contributed to this rating have been the fall in the unemployment rate, and public debt, which increased in 2020 due to spending during the pandemic, reaching 120% of GDP, but has been reducing in the years 2021 and 2022, now standing at 110.6% and with forecasts of reducing. On the other hand, the control of inflation has also contributed and is expected to fall (Spain was already, in July 2023, one of the countries with the more pronounced drop in the inflation rate, along with Luxembourg).

Spain's rating responds to a risk profile that has remained stable; however, the European rating agency of double materiality warns that it presents some challenges that make the future of Spanish growth dependent on overcoming the challenges identified. Specifically, downside risks related to the persistence of underlying inflation still at high levels, the loss of productivity, the decline in household purchasing power, and parliamentary fragmentation that hinders visibility on the fiscal path in 2024. "Although there has been some reduction in the vulnerability of finances due to cyclical factors, it persists, especially in the face of a possible reactivation of fiscal rules in the future," says Antonio Madera, head of sovereign ratings and financial institutions at EthiFinance Ratings. "The high dependency ratio, aggravated by an aging population, also poses risks to public finances and the long-term sustainability of the social welfare system," adds Madera.

Another aspect that deserves special mention regarding Spain's economic growth is the political uncertainty caused by the general elections held on July 23rd. According to the rating given by EthiFinance (up to 9% of the rating is dependent on this situation), the current situation in the political sphere may be a sensitive factor given that the absence of government could postpone investors' decisions and hinder the adoption of structural reforms. Therefore, the outcome of this situation also plays a pivotal role in the final grade.

Despite these challenges, EthiFinance Ratings believes that the NGEU (Next Generation EU) Funds will positively impact the growth potential in the medium term if the country implements the structural reforms required by Brussels. In terms of international trade, the stabilization of prices in energy markets and the positive performance of the tourism sector are expected to drive the maintenance of a current account surplus of 1.0% of Gross Domestic Product (GDP) in both 2023 and 2024. These factors will have a positive effect on the country's credit rating.

# EthiFinance Ratings

Main financial figures

|                                                        | 2019   | 2020   | 2021   | 2022   | 2023E  | 2024E  |
|--------------------------------------------------------|--------|--------|--------|--------|--------|--------|
| Real GDP (%change)                                     | 2,2%   | -11,3% | 5,5%   | 5,5%   | 2,1%   | 2,0%   |
| Per capita GDP (working capital, €)                    | 26.425 | 23.668 | 25.204 | 27.312 | 29.481 | 30.713 |
| CPI (annual variation, %)                              | 0,9%   | -0,3%  | 3,1%   | 8,4%   | 3,2%   | 3,3%   |
| Unemployment rate                                      | 13,7%  | 16,1%  | 14,8%  | 12,9%* | 12,6%  | 12,1%  |
| Population at risk of exclusion                        | 25,3%  | 26,4%  | -      | -      | -      | -      |
| Population (thousands of habitants)                    | 47.134 | 47.382 | 47.619 | 47.857 | 48.225 | 48.369 |
| Dependency ratio (<19 y >65 years old/20-64 years old) | 54,3%  | 54,2%  | 54,0%  | 54,2%  | -      | -      |
| NPLs                                                   | 4,9%   | 4,5%   | 4,4%   | 3,9%   | -      | -      |
| ROA (financial sector)                                 | 0,5%   | 0,5%   | 0,5%   | 0,6%   | -      | -      |
| Current Account Balance (%GDP)                         | 2,1%   | 0,8%   | 0,9%   | 0,5%   | 1,0%   | 1,0%   |
| NIIP (%GDP)                                            | -74%   | -85,5% | -78,3% | -62,8% | -60,7% | -      |
| Fiscal Balance (%GDP)                                  | -2,9%  | -11,0% | -6,9%  | -4,8%  | -3,9%  | 3,8%   |
| Public Debt (%GDP)                                     | 96,0%  | 120,0% | 118,7% | 113,2% | 110,6% | 109,1% |

\*\*EPA's quarterly average

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