

Ukraine, energy prices and labor reform: three key economic issues for Spain in 2022

The Ukraine conflict, the link between energy prices and inflation rates, and Spain's recent labor reform are three current issues with implications for Spain and Europe in the coming months, according to economists Jordi Gual and Nuria Mas.



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Russia is no longer a global superpower in terms of its economic might. And yet, Europe relies on Russia's energy resources. Meanwhile, after invading and annexing Crimea, Russia's own economic strategy has been to isolate itself and restructure in order to limit its dependence on other countries. This situation was explained by [Jordi Gual](#) in a webinar co-hosted by [Nuria Mas](#) on the outlook for Spain, Europe and the world in the year ahead.

Russia's set-up is very relevant in light of threatened sanctions in the Ukraine conflict. According to Gual, because Russia has stockpiled foreign currency reserves and reduced its dependence on foreign trade, imposing new sanctions wouldn't affect it too much. Russia has also trimmed its budget and tightly controlled its public debt -- only a small fraction of its debt is now held by foreigners.

Currently, Russia's main connection with the West is Europe's need for its oil and, especially in the case of Germany, for its gas, Gual explained. In addition, financial links include private-sector loans extended by Western banks to Russian citizens and companies. As such, tensions may turn out to be significant.

Energy is fundamental

If inflation is on the rise now in Spain, it's surely due to higher energy prices, Gual and Mas agree. That's because energy is fundamental, and Spain relies on imports to fulfill most of its energy needs. Consequently, that makes Spain poorer as higher prices cut into its income, Gual explained. Countries like Spain with less bargaining power in energy markets feel the economic fallout most.

That would be why Spain's central bank chief, Pablo Hernandez de Cos, has spoken of an "income pact" to avoid entering into a "vicious spiral" powered by higher inflation and higher wages. The most liberal alternative to this might be to have those who use the most energy pay the most in order to encourage its rational use. However, in Gual's view, "it's not clear that such a thing is going to work in an economy like Spain's, with its corporatism."

These difficulties add to those caused by the pandemic. According to Mas, Spain won't see its GDP recover to pre-COVID levels until early 2023. "In the third quarter of last year, Spanish GDP was 5.9 percentage points below its pre-pandemic state," Mas explained. "We have grown a lot, but we still have a long way to go."

Jobs are the solution

The solution to almost any economic problem is to generate more employment, Mas said. However, in Spain, only 59% of the working-age population is currently employed. More jobs are needed, especially jobs with added value. The quality of jobs is important because "we are in a world where different cities -- and, yes, they are usually cities -- are competing with each other to attract talent," Mas added.

Spain's new labor reform could help create jobs, as it aims to reduce temporary employment contracts. According to Mas, that is desirable in theory, although the most important thing in practice is to make sure short-term contracts are transformed into other types of agreements. To create more quality and long-term posts, workers must be sufficiently attractive to companies. Ultimately, workers' productivity and training are essential, especially for young people. And while Spain's unemployment rate is currently 13.3%, "for young people, it is almost double that rate," Mas pointed out. Therein lies one of Spain's great challenges.

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