

Spanish economic dynamism since the health crisis: miracle or illusion?

Since the end of the health crisis, Spain has stood out from the other major European economies by its dynamism. In Q3 2024, Spanish GDP by volume stood at 7.3% above its 2019 level, compared to 4.8% for the Eurozone as a whole. Unemployment continues to fall, reaching 11.3%, compared to 26.3% at its peak in Q1 2013.

Temporary factors can partly account for this difference in momentum in Spain compared to the rest of the Eurozone: in particular, its relatively low dependence on hydrocarbons from Russia and its strong autonomy in electricity production have partly protected it from the inflationary shock experienced elsewhere in Europe. In addition, it benefits from significant European funding under the national recovery and resilience plan put in place since the health crisis, amounting to 13% of GDP in 2019 (one half in the form of subsidies, the other in the form of loans) and this has boosted economic activity since 2021. Finally, part of the growth in employee income and consumption has been supported temporarily by a return to normal of corporate margins, which had increased considerably after the 2008 financial crisis.

There are other more structural factors that account for the persistent over-performance of the Spanish economy. Firstly, it also has the advantage of strong tourist appeal, a real driver of growth since the end of the health crisis. Secondly, Spain has some very favourable demographic dynamics, driven by the immigration of qualified people from South America who are able to integrate the labour market fairly easily. Thus while real GDP growth is high, GDP per capita growth appears to be much closer to that of its European neighbours.

However, this economic performance must be put into perspective by looking at change over the last two decades. In 2019, Spanish GDP per capita was only a few percentage points higher than its level before the 2008 financial crisis. Investment has never caught up with its 2007 level and private consumption is only slightly higher than its level of 17 years ago, despite the increase in population. Therefore still today, part of Spanish growth results from a gradual fading of the stigma of the financial crisis.

Over the forecasting period to mid-2025, most of these factors are expected to continue to support Spanish growth, especially the demographic dynamics and the country's attractiveness as a tourist destination. In addition, European-funded recovery spending is likely to continue into 2025 while fiscal consolidation is expected to be moderate. However, the energy price gap is increasingly unlikely to account for a difference in momentum compared to other European countries, and inflation has already fallen sharply across Europe in Q3 2024. Finally, in the short term, real wage gains recorded since the health crisis are likely to continue to drive household consumption. However, in the absence of gains in productivity, the dynamics of real wages could stall, with company margins having returned to their 2007 level.

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Spain stands out from its European neighbours due to its dynamic growth

With European economies still in a catch-up situation after the health crisis, Spain stands out as its economic growth is significantly higher than that of its European neighbours (► **Figure 1**). Spanish GDP recovered its 2019 level in Q2 2022, and was at 7.3% above its 2019 average in Q3 2024 (compared to 4.8% in the Eurozone as a whole).

Spain was less affected by the rise in energy prices

In the spring of 2022 and as a result of Russia's invasion of Ukraine, the price of gas in Europe increased significantly, resulting in a historic rise across the continent in household consumer prices of both gas and electricity. Spain's relatively low direct dependence on hydrocarbons from Russia, as well as the activation of the "Iberian Mechanism" to cap electricity prices, made

possible by its low level of interconnection, limited increases in energy prices for Spanish consumers and manufacturers (► **Figure 2**, ► **Focus** in *Economic outlook*, March 2024). In this way, Spain was able both to preserve its household purchasing power and to limit the loss of price competitiveness caused by the rise in energy prices for European exporters (► **Focus** in *Economic outlook*, July 2024).

Since the health crisis, tourism has taken off again in Spain, as it has in most Southern European countries

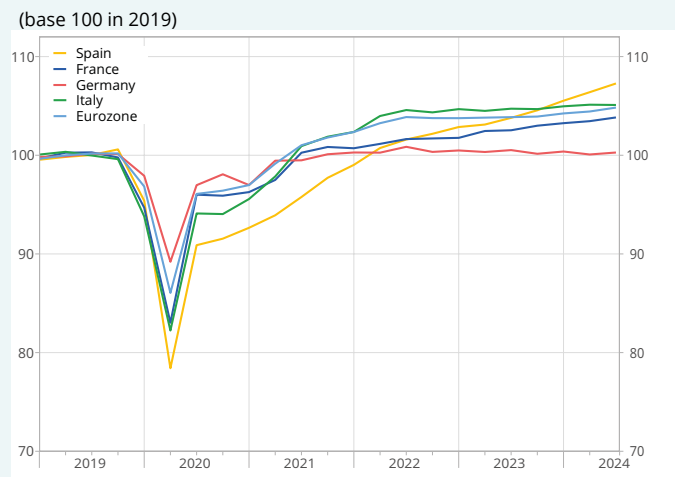
Since 2019, economic growth in the Eurozone has been driven by country-specific factors (► **Figure 3**). Compared to its European neighbours, Spain is characterised by stronger government consumption, and also, to a lesser extent, by a greater boost from foreign trade and private consumption. In contrast, the contribution of investment is negligible (► **Figure 4**).

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Concerning foreign trade, support for activity since 2021 comes mainly from the balance of services, and in particular from tourism services (► [Figure 5](#)). Between 2020 and 2023, GDP grew by 3.6% with the tourism balance alone accounting for 0.6 points of growth, while, conversely, the contribution of trade in goods was negative (-1.3 points). This situation contrasts with the 2010s, when Spanish foreign trade was driven more by trade in goods than by tourism.

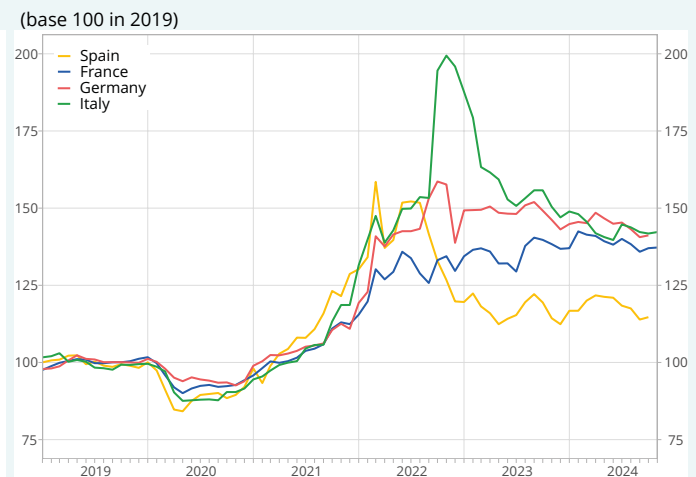
From 2021 and the gradual lifting of health measures, the Spanish tourism sector has in fact recovered its pre-crisis GDP weighting. In 2023, Spain welcomed a record 85.2 million foreign tourists, an increase of 13% in seven years, according to its national statistics institute (INE). This strong contribution to growth by tourism is common to all the major tourist destinations in Southern Europe, such as Croatia, Greece and Portugal (► [Box 1](#) on tourism in Europe).

► 1. Comparison of changes in GDP in the Eurozone



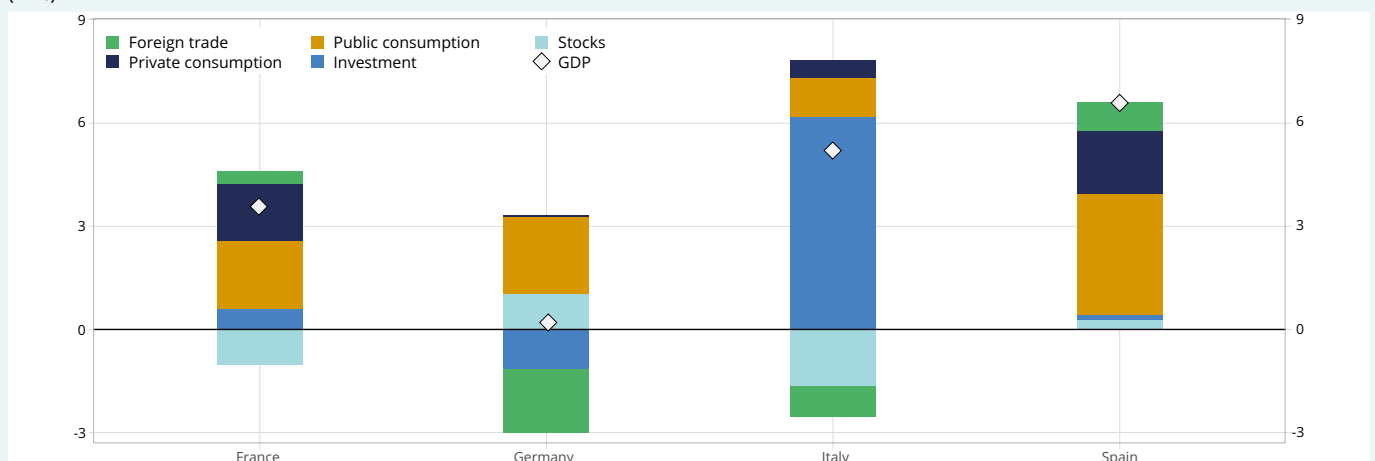
Last point: Q3 2024.
How to read it: in Q3 2024, Spanish GDP was 7.3% higher than its 2019 level.
Source: INSEE, Destatis, Istat, INE, Eurostat, INSEE calculations.

► 2. Comparison of energy price levels (within the meaning of the Harmonised Index of Consumer Prices, HICP) in the Eurozone



Last point: November 2024, for France and Italy, October 2024 for Spain and Germany.
How to read it: in October 2024, the energy HICP for Spain was 14.7% higher than its 2019 level
Source: INSEE, Destatis, Istat, INE, Eurostat, INSEE calculations.

► 3. Contributions to growth between Q4 2019 and Q3 2024 in the Eurozone (in %)



Last point: Q3 2024.
How to read it: between Q4 2019 and Q3 2024, Spanish GDP grew by 6.6%, and government consumption made a positive contribution to this of 3.5 percentage points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

Major support from the European recovery plan

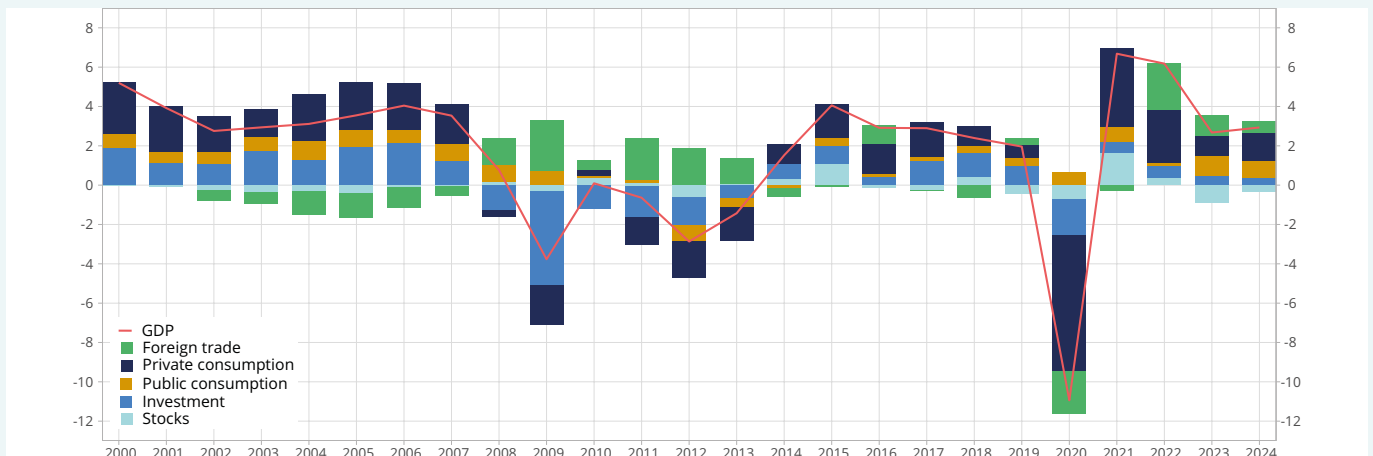
Since the health crisis, the Spanish economy has also been bolstered by significant budget expansion. The public sector deficit has certainly been substantially reduced, from 6.7% of GDP in 2021 to 3.5% in 2023, but this reduction was mainly due to the dynamism of revenue driven by growth, while the structural deficit remained virtually stable (from -4.3% of potential GDP in 2021 to -3.9% in 2023 according to the European Commission). Budget support for activity came mainly from the introduction of the European recovery plan (*NextGenerationEU*) of which Spain has been one of the main beneficiaries: expected funding represents €163 bn (€80 bn in subsidies and €83 bn in loans), i.e. 13% of Spain's 2019 GDP. By October 2024, Spain had received €48.3 bn, or 29.6% of the expected total. This funding boosts activity without affecting the public balance (with regard to subsidies).

Strong immigration supports growth

More structurally, Spanish growth has the advantage of strong demographic dynamics. In Q3 2024, Spanish GDP was 7.3 points above its 2019 level, against 3.2 points for GDP per capita (► [Figure 6](#)). However, while GDP returned to its pre-health crisis level in Q2 2022, GDP per capita did not make up this shortfall until Q1 2023. The increase in the Spanish population is largely due to the growth of the immigrant population. Between July 2021 and July 2024, net migration is expected to be 1.26 million compared to 190,000 for the natural balance (► [Funcas, 2024](#)). Over the same period, 40% of jobs created in Spain were filled by foreigners, representing some 800,000 jobs and highlighting the importance of demographic dynamics in GDP growth in recent years. According to the Spanish Ministry of Immigration, 3.1 million people held a residence permit at the end of June 2024, compared to 2.4 million at the end of 2021 and

► 4. Change in GDP and its contributions in Spain since 2000

(in %)



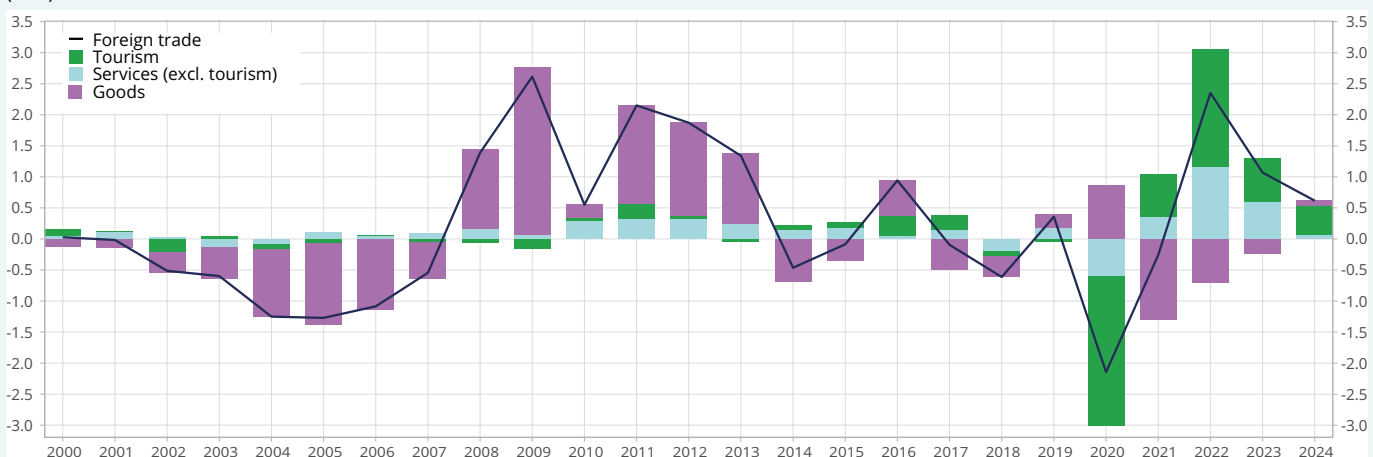
Last point: Q3 2024 growth overhang.

How to read it: in 2022, Spanish GDP grew by 6.2%, foreign trade made a positive contribution to this of 2.4 percentage points.

Source: INE, INSEE calculations.

► 5. Change in the contribution of foreign trade to GDP and its components in Spain

(in %)



Last point: Q3 2024 growth overhang.

How to read it: in 2022, the contribution of foreign trade to Spanish GDP growth was 2.4 percentage points (pp): tourism services made a positive contribution (+1.9 pp) while the contribution of trade in goods was negative (-0.7 pp).

Source: INE, INSEE calculations.

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2.3 million at the end of 2013 (► [Figure 7](#)). Almost half of this increase of 700,000 people in less than three years is made up of people from South America and a quarter are Ukrainian refugees. This influx of rather well-qualified South American migrants (► [Funcas, 2023](#)), has created a favourable supply shock specific to Spain: the ratio of people aged over 64 to those aged 15-64 is much lower than in France, Germany and Italy (► [Figure 8](#)).

Recovery from the stigma of 2008 was still not complete in 2019

Spain's good performance in recent years must also be put into its historical perspective. During the 2010s, the country had been further penalised by the sovereign debt crisis

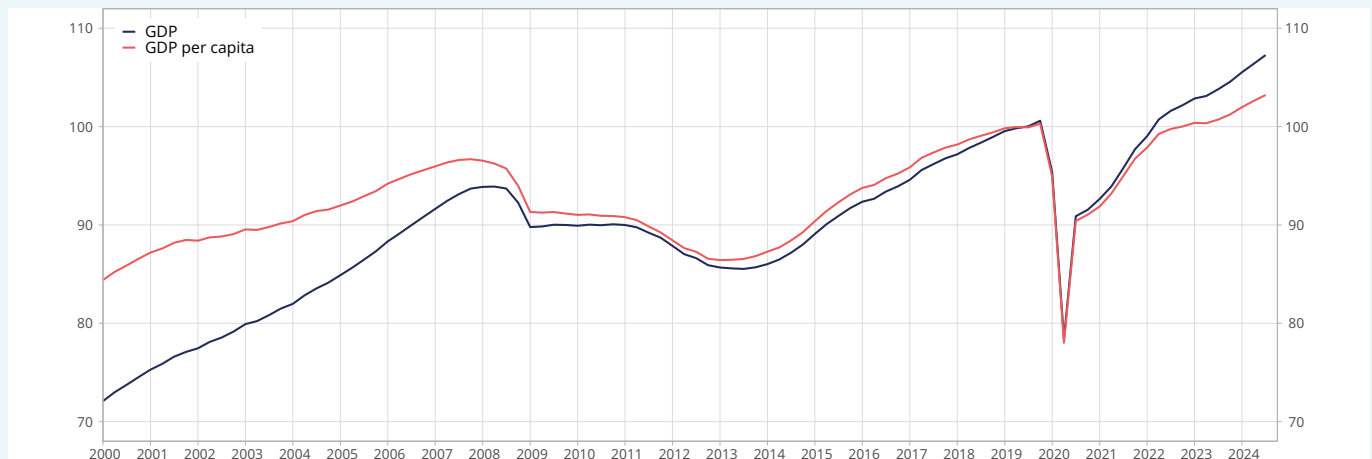
of 2008 and just before the health crisis activity was still lagging behind that of France and the Eurozone (► [Figure 9](#)). Regarding GDP per capita, this gap had still not been closed in 2023: it stood at 4.4% above its 2007 level in Spain compared to 9.5% in the Eurozone (► [Figure 10](#)).

For example, it was not until 2017 that Spain was back to its pre-financial crisis level of activity (compared to 2011 for France).

This is particularly the case for investment, which in Q3 2024, was 16.9% below its Q4 2007 peak (► [Figure 11](#)). While the 2007 level was boosted artificially by the real estate bubble, investment in equipment has also been in decline since then, and in 2024 was still below its 2007 level.

► 6. Change in GDP and GDP per capita in Spain since 2000

(in volume, base 100 in 2019)



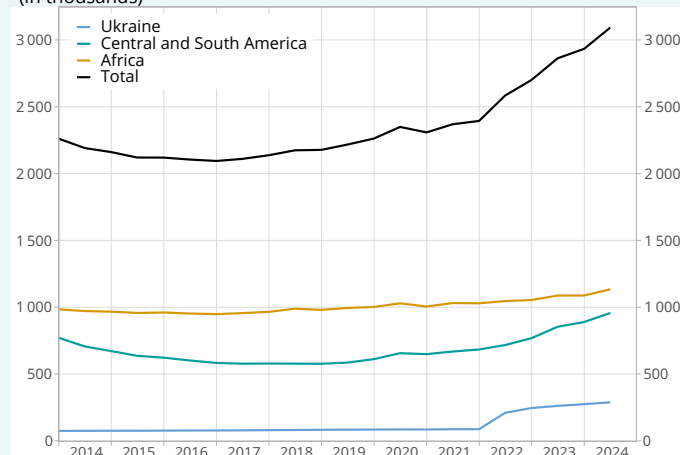
Last point: Q3 2024.

How to read it: in Q3 2024, Spanish GDP was 7.3% higher than its 2019 level compared to 3.2% for GDP per capita.

Source: INE, INSEE calculations.

► 7. Change in residence permit holders in Spain by country of origin since 2014

(in thousands)



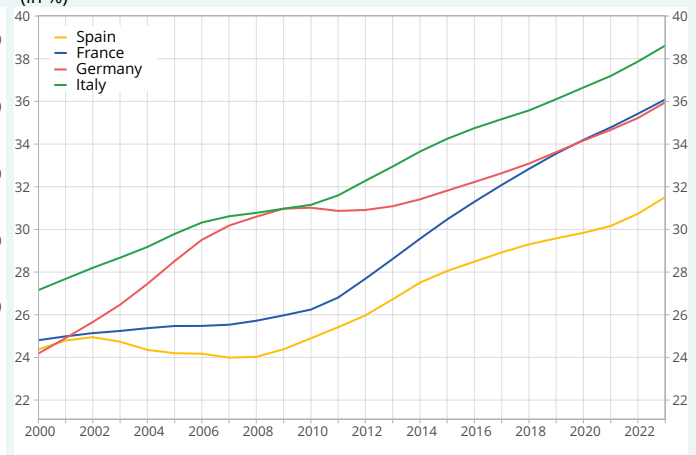
Last point: H1 2024.

How to read it: in H1 2024, 3.1 million people held a Spanish residence permit.

Source: Spanish Immigration Observatory (OPI), INSEE calculations.

► 8. Change in ratio of over-64s to those aged 15-64 in Europe

(in %)



Last point: 2023.

How to read it: in Spain, in 2023, there were 31.5 people aged over 64 for 100 people aged 15 to 64.

Source: World Bank, INSEE calculations.

To a lesser extent, this is also the case for private consumption: despite the increase in the population over the period, in Q3 2024 it was only 4.6% above its 2007 level, in a context of limited purchasing power gains over the previous decade.

A probable fall in structural unemployment with the improved functioning of the labour market

The potential for rebound in the Spanish economy can also be seen in the labour market, which over the past ten years has seen a spectacular decline in the unemployment rate (► **Figure 12**), from 26.3% in Q1 2013 to 11.3% in Q3 2024. However, this decline in the unemployment rate is not only cyclical: it was also made possible in the second half of the 2010s by a better functioning of the labour market. This was as a result of structural reforms between 2010 and 2012, which reduced the strong duality in the Spanish labour market by limiting the use of fixed-term contracts, and also by relaxing the rules for dismissal from open-ended contracts (► **Direction Générale du Trésor, 2016**). This resulted in the shift of the Beveridge curve in the second half of the 2010s: for a given unemployment rate, the job vacancy rate fell (► **Box 2**).

Temporary support for wage income and demand linked to the return to normal of business margins, which were very high in 2019

Finally, the period 2019-2024 saw temporary support linked to the compression of company margins. While the margin rate remained stable from 1999 to 2007, it increased sharply after the financial crisis, in particular due to the increase in unemployment, which significantly damaged employees' negotiating power. This margin

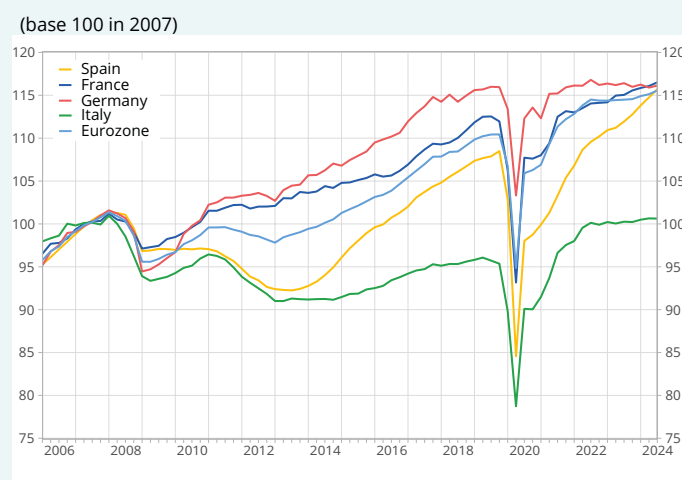
level remained high until 2019 and allowed companies, after the health crisis, to increase wages and thus fuel demand (► **Figure 13**) without deteriorating their price competitiveness. As a result, the margin rate fell sharply from 42.3% at the beginning of 2019 to 36.6% in Q2 2024 (► **figure 14**).

In the short term, most of these factors should continue to bolster activity

Over the forecasting period to mid-2025, the Spanish economy should continue to grow more quickly than its European neighbours, as suggested by the business tendency surveys (► **Sheet Eurozone**). Activity is expected to grow by +0.6% in autumn 2024, hampered somewhat by the severe floods in the Valencia region, and it should maintain this pace in Q1 2025, before slowing a little in the spring (+0.5%). The mid-year growth overhang for 2025 looks set to be +2.1%, after an already very dynamic year in 2024 (+3.1% average annual GDP growth).

The various factors supporting the economy are expected to persist, especially the demographic dynamics and the country's attractiveness for tourists. In addition, recovery spending financed from European funds should continue to increase in 2025 (€45 bn after €27 bn in 2024, including both loans and subsidies). According to the European Commission, cumulatively between 2021 and 2025, the recovery plan could thus increase Spanish GDP by between 2.7% and 3.5%. However, the difference in energy prices between Spain and the other European countries is expected to contribute less to the specific dynamism of the Spanish economy, with inflation having already fallen back sharply throughout Europe in Q3 2024.

► 9. Change in GDP in the Eurozone since 2006

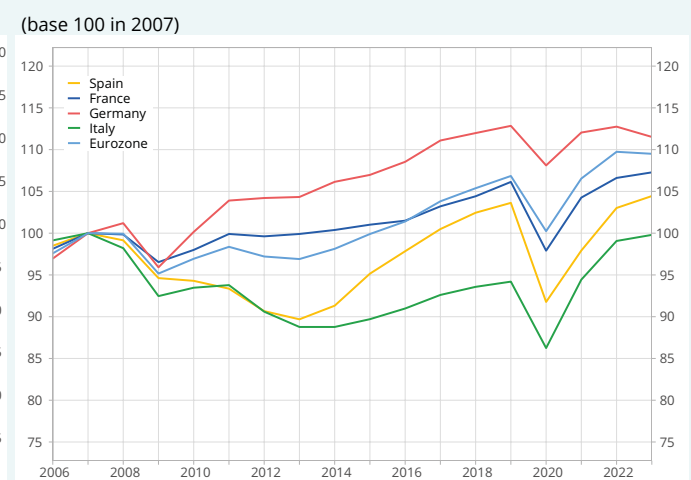


Last point: Q3 2024.

How to read it: in Q3 2024, the real Spanish GDP was 15.7% above its 2007 level.

Source: INSEE, Destatis, Istat, INE, Eurostat, INSEE calculations.

► 10. Change in GDP per capita in the Eurozone since 2006



Last point: 2023.

How to read it: in 2023, Spanish GDP per capita was 4.4% above its 2007 level.

Source: INSEE, Destatis, Istat, INE, Eurostat, INSEE calculations.

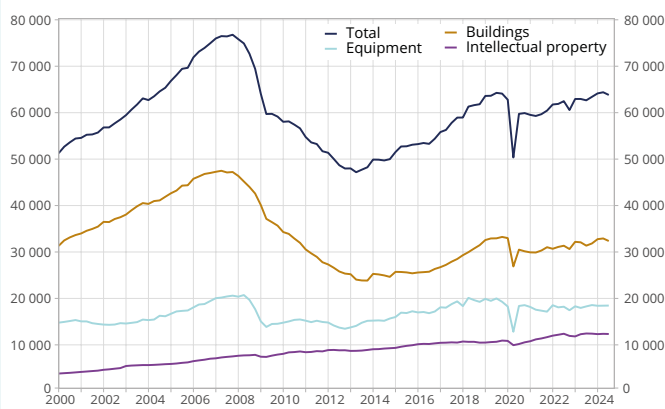
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Concerning the labour market, the catch-up that has been underway for ten years does not seem to be complete: the Spanish unemployment rate is still well above 10%, compared to an average of 6.3% in the Eurozone in Q3 2024. However, signs of tension are emerging: since the end of the 2010s, the Beveridge curve has stopped shifting and the drop in the unemployment rate observed since then now shows a slow rise in the job vacancy rate.

In addition, Spanish companies will not be able to draw on their margins indefinitely to finance real wage gains without productivity gains: this last support factor could quickly be exhausted. Conversely, the household savings ratio, which has increased significantly, could decline slightly, bringing a new boost to activity (► **Focus** on savings ratios of European households). ●

► 11. Change in investment and its components by volume

(in millions of euros 2020)



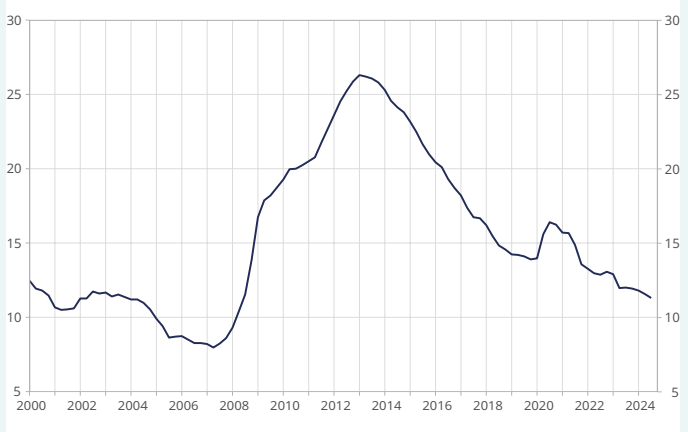
Last point: Q3 2024.

How to read it: in Q3 2024, total investment in Spain was €63.8 bn 2020.

Source: Eurostat, INSEE calculations.

► 12. Change in unemployment rate in Spain

(in %)



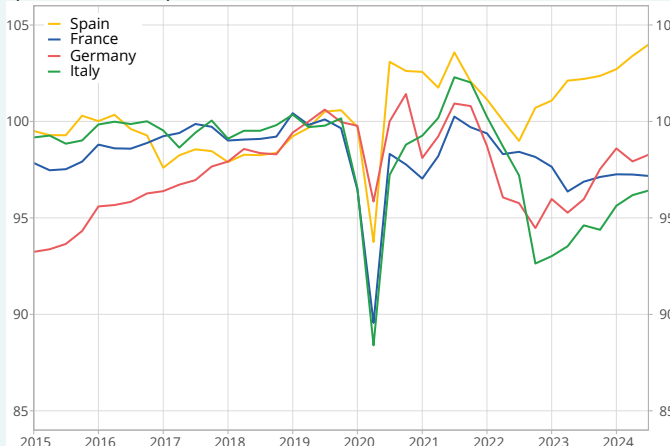
Last point: Q3 2024.

How to read it: in Q3 2024, the unemployment rate in Spain was 11.3%.

Source: INE, INSEE calculations.

► 13. Change in real wages compared to 2019 in Europe

(base 100 in 2019)



Last point: Q3 2024.

How to read it: in Q2 2024, en Espagne, the level of real wages deflated by the HICP was 3.4% above its 2019 level.

Source: Eurostat, INSEE calculations.

► 14. Change in margin rate of non-financial corporations in Spain

(in %)



Last point: Q2 2024.

How to read it: in Q2 2024, the margin rate of non-financial corporations was 36.6%.

Source: Eurostat, INSEE calculations.

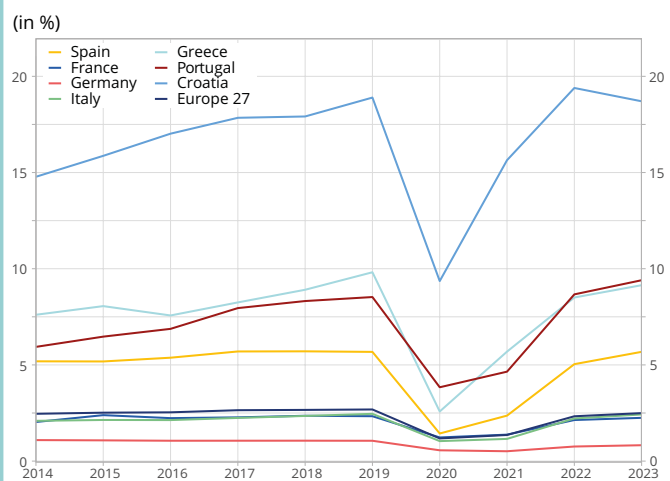
Box 1 – Impact of tourism on activity in the various European countries

Spain was the second European tourist destination in 2023 by the number of tourists, behind France, but it is differentiated from the other major European economies by the sizeable weight of the tourism sector in its national economic activity. Since 2014, apart from the health crisis, exports of travel services have accounted for just over 5% of nominal Spanish GDP (► **Figure 15**), a share that has remained relatively stable over this time, and which is well above the European average (2.5%). For comparison, this sector represents a smaller share of GDP in France (2.2%), Italy (2.3%) and Germany (1.0%) even though these countries are, respectively, the first, third and fourth tourist destinations in the European Union.

The share of tourism in the Spanish economy remains below that seen in other southern European countries, such as Portugal, Greece or Croatia. These last countries are also differentiated by a continuous increase over the last ten years in the weight of the tourism sector in their economies, in contrast to the leading European tourist destinations where this share remains more stable. Thus, in Croatia, exports of travel services accounted for 14.8% of GDP in 2014 compared to 19.4% in 2022.

It was in Croatia that the decline in tourist activity during the health crisis had the greatest impact on economic activity. In 2020, the collapse in exports of travel services contributed -10.4 points to the drop in the Croatian GDP (► **Figure 16**). In Greece, Portugal and Spain, the contribution of tourism to the decline in activity in this same year was between -7.5 and -4.4 GDP points. In 2023, the tourism sector in these countries continued to strongly boost growth, contributing between +2.2 points in Croatia and +1.2 points in Spain. In the major European economies, however, the boost from exports of travel services to economic activity was more limited, ranging from +0.4 points in Italy to +0.1 points in Germany. ●

► 15. Change in the share of exports of travel services compared to GDP in Europe

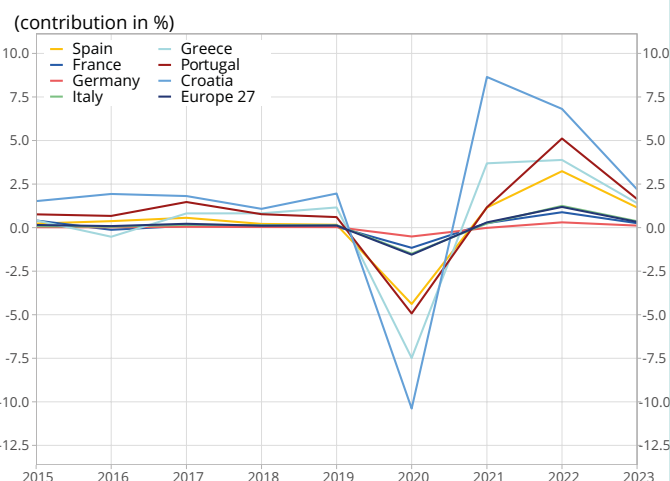


Last point: 2023.

How to read it: in 2022, exports of travel services accounted for 5.0% of Spanish GDP in current euros.

Source: Eurostat, INSEE calculations.

► 16. Change in contributions of exports of travel services to GDP growth in the different European countries



Last point: 2023.

How to read it: in 2022, in Croatia, exports of travel services contributed +6.8 percentage points to GDP growth in current euros.

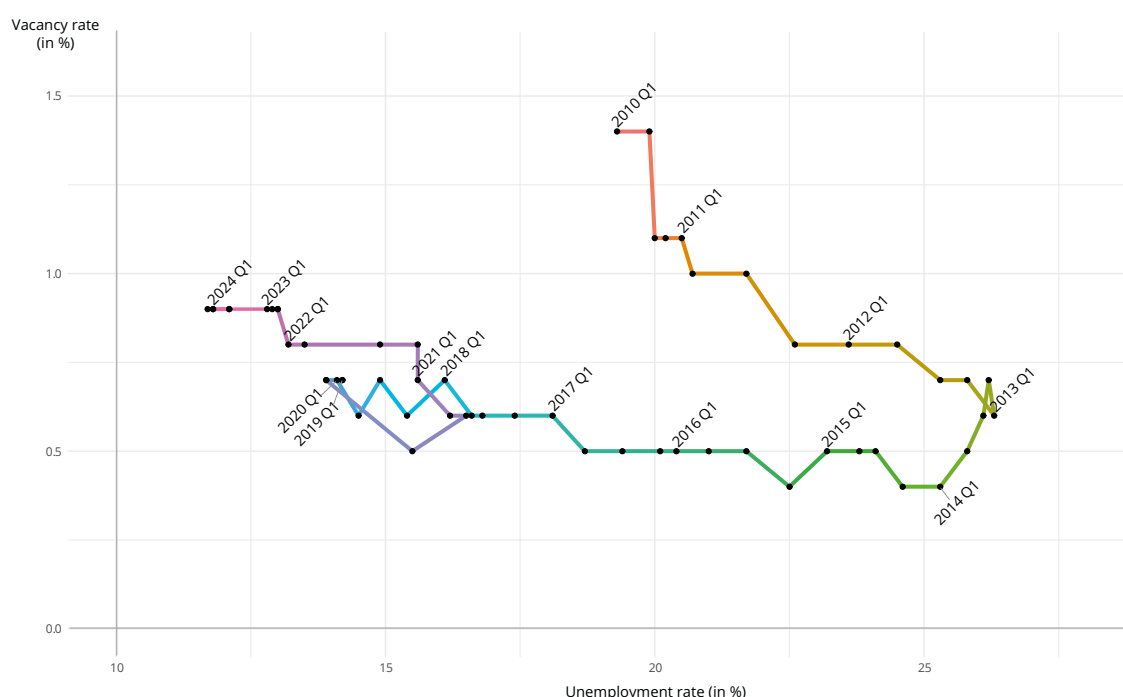
Source: INE, INSEE calculations.

Box 2 – The Beveridge curve in Spain

The Beveridge curve represents graphically the relationship between the unemployment rate (horizontal axis) and the job vacancy rate (vertical-axis). This curve normally slopes downwards: the higher the unemployment rate, the lower the job vacancy rate. Thus a shift “along” this curve indicates a cyclical or short-term change: a drop in unemployment increases hiring tensions. However, a shift of the curve towards the origin reflects an improvement in the functioning of the labour market, with the same unemployment rate associated with a lower job vacancy rate. This is one of the objectives sought when putting structural reforms in place in the labour market.

► **Figure 17** shows the Beveridge curve for Spain, from 2010 to 2024. From 2010 to 2013, it is stable, whereas the short-term situation shows a deteriorating trend: the unemployment rate increases as the job vacancy rate decreases. During the second part of the decade, the Beveridge curve shifts towards the origin, sign of an improvement in the functioning of the labour market: the unemployment rate declines while the job vacancy rate remains constant. From 2018, the Beveridge curve no longer shifts and a new decreasing relationship emerges between the unemployment rate and the job vacancy rate, closer to the graph axes than that observed at the beginning of the period: the same unemployment rate is associated with less severe hiring difficulties at the end of the period than at the beginning. This phenomenon suggests a probable drop in the Spanish structural unemployment rate over the last 15 years. ●

► 17. Beveridge curve for Spain, from 2010 to 2024



Last point: Q2 2024.

How to read it: in Q1 2010, the unemployment rate in Spain was 19.3%, for a job vacancy rate of 1.4%.

Source: INE, INSEE calculations.

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