

NATIONAL PERSPECTIVE: SPAIN

OUR SHIFT TO SUCCESS

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For the first time in its modern history, Spain's economy has come out of an international crisis stronger than it went into it. It's a testament to the profound positive shift underway in continental Europe's fourth-largest economy.

While most of the continent is still reeling from the fallout of the pandemic and subsequent price shocks stoked by Russia's invasion of Ukraine, Spain has emerged from both shocks with a strong and balanced growth performance and without permanent scars. The shock from COVID-19 led to an 11 percent drop in economic output in 2020, but our policy response was different this time around.

We learned from past lessons and did not resort to the belt-tightening measures that increased unemployment and reduced income during the 2008 financial crisis. Instead, we put in place a social safety net, with furlough programs that supported nearly 3.4 million workers at their peak, and public credit lines that bridged the liquidity needs of over 674,000 mostly small- and medium-sized firms.

This hands-on strategy, coupled with European Union recovery funds to bolster investments, and

Spain's new model of balanced and sustainable growth is overcoming traditional dilemmas

productivity-enhancing reforms, has made the Spanish economy more competitive and inclusive.

Spain was the world's fastest-growing major developed economy in 2024, contributing about half of the overall growth in the euro area while representing only a tenth of its GDP. Our economy is well placed to be at the top again this year, despite the specter of a global trade war and rising geopolitical tensions, and was the only major advanced economy to have its 2025 growth projection revised up by the IMF in its latest outlook, in April.

The key to Spain's transformation is a balanced economic model that capitalizes on our strengths and has spurred record job creation alongside higher productivity and our largest-ever current account surplus. We are one of the world's greenest economies and have become a hub for foreign investment. We have reduced income inequality without putting our public finances at risk.

Dynamic labor market

The robust labor market performance came thanks to a sweeping reform in 2021 that broadened permanent hire options. We are creating record numbers of jobs despite a slowdown in the euro area, with our economy generating more new employment than France and Germany combined last year.

Many of the new jobs have been taken up by immigrants, mostly from Latin America—two-thirds of new workers in 2019–24 were foreign-born. This has helped ease acute labor shortages and finance our social security as the economically active population ages and the birth rate declines.

These are high-quality and more stable jobs. Over the past two years, job creation in high-value sectors such as information and communications technology has expanded at twice the pace of overall employment. Temporary employment, once a chronic feature of the Spanish economy, has dropped sharply to converge with the EU average.

This process has gone hand in hand with increased awareness of the importance of social inclusion. Repeated increases in the minimum wage, by a total of 61 percent since 2018, among other measures, mean that Spain has the lowest wage inequality among developed economies, according to the International Labour Organization.

Along with other policies, such as a “minimum vital income,” this is contributing to greater economic equity: Spaniards are recovering their purchasing power at a faster pace than their euro area peers, according to the Organisation for Economic Co-operation and Development.

External resilience

Another important change in our model is the improved performance of the external sector. Unlike during past expansion cycles, Spain is not overreliant on foreign capital to finance growth, which reduces the risk of dangerous financial bubbles, as occurred during the real estate crisis over a decade ago. On the contrary, we recorded our highest-ever balance of payments surplus last year, equivalent to 4.2 percent of GDP.

Spain welcomed a record 84 million visitors last year, and our increasingly diversified tourism sector remains an important driver of growth. However, it was overtaken recently by non-tourism exports, including financial services, IT, and professional consulting, which generated more than €100 billion last year. Growth in these higher-value, higher-skill services highlights the modernization of our economy.

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The growing competitiveness of our companies and highly skilled labor force have turned Spain into one of the world’s top investment destinations. Between 2018 and 2024, Spain was the world’s fifth-largest recipient of greenfield projects, those that most increase productive capacity and employment, according to the *Financial Times* investment tracker.

A key factor behind our competitive edge was our early bet on green energy. After decades of

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heavy public and private investment, we have increased our share of electricity generated by renewable sources from just over 20 percent in 2019 to 56 percent last year. According to our central bank, this change in the energy mix was responsible for lowering electricity prices by 40 percent, increasing our competitiveness, strategic autonomy, and energy independence.

Fiscal sweet spot

Our balanced model is underpinned by a strong commitment to fiscal responsibility, which has led to a steep reduction in our public debt and deficit. Our debt-to-GDP ratio has dropped by more than 22 percentage points from its peak during the worst of the pandemic in 2021, inching closer to 100 percent. Our budget deficit is down by 7 percentage points and has fallen below the EU's offi-

cial threshold of 3 percent for the first time in six years. That discipline has reinforced market confidence, as reflected in record demand for our sovereign bonds, contained credit costs, and a string of credit rating upgrades.

More important, fiscal responsibility has been compatible with the protection of our welfare state, which is critical for social acceptance of our reforms. Indeed, Nobel laureates Daron Acemoglu, Simon Johnson, and James Robinson stress the importance of institutions' social purpose when explaining differences in economic development. Ultimately, Spain has managed to find the sweet spot that balances strong growth and social progress with sustainable public finances.

This growth model would not have been possible without the great precedent set by the post-pandemic recovery plan, which has accompanied Spain's investment and reform drive, helping to modernize and decarbonize our economy. The recovery funds for investment and reform are already bolstering growth and employment and are expected to add 3.4 percent to GDP by 2031, compared with a no-plan counterfactual scenario. Stronger growth is helping spread wealth and reduce inequalities.

Spain has already invested almost €50 billion in the green and digital transitions, and has implemented critical reforms to reduce red tape, enhance the business environment, improve digitalization and innovation, promote the green transition, and reinforce social protection.

We have more to do, of course, to turn these strong macroeconomic results into tangible improvements to people's lives. This includes continuing to reduce unemployment, improving training opportunities and aligning them with business needs, lowering inequalities, and promoting equitable opportunities for all.

One of the government's top policy priorities is to solve the housing challenge to ensure that our citizens, especially young people, have access to affordable homes—a critical building block for people's personal and professional decisions.

Spain's new model of balanced and sustainable growth is about challenging traditional dilemmas and reconciling efficiency and competitiveness with environmental sustainability, social inclusion, and fiscal responsibility. Striking this balance is the result of better policy choices that have led to a structural shift in our economy, making it more resilient for the long run. **F&D**

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People enjoy time together at a café in Seville, Spain.