New economic policies and post-pandemic Spanish economic growth

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ABSTRACT

Since recovering the pre-pandemic GDP level in 2020, Spain has been recording growth rates well above the eurozone average. Furthermore, against a backdrop of demographic dynamism, Spanish per capita income is also growing, the employment rate is rising, and the unemployment rate has fallen below 10% for the first time in 17 years. Productivity growth has also accelerated, a novelty in Spain, where it has traditionally behaved countercyclically.

We analyse the factors behind this behaviour of the Spanish economy, emphasizing the changes in economic policy implemented since 2020. These changes focus on fiscal and labour policies, the reinforcement of the welfare state, and the first steps of a new industrial policy, with an emphasis on the energy transition. Of course, some problems remain, such as the housing price crisis and the insufficient translation of productivity gains to wages.

KEYWORD

Spain, Economic Policy, Labour Policy, Fiscal Policy, Real wages

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1. Introduction

Spain initially suffered more than other economies from the pandemic's economic impact due to its productive structure. However, by 2022 it had already recovered its 2019 real GDP level, and since then it has recorded growth rates well above the eurozone average. As can be seen in Table 1, the average growth of the Spanish economy in 2022–2025 (3.8%) has clearly exceeded the average for the monetary union (1.6%) and that of the other three largest economies.

Table 1: Macroeconomic performance in the eurozone and its four largest economies

	2022–2025				
	Eurozone	**Spain**	**Germany**	**France**	**Italy**
GDP growth	1,6%	3,8%	0,3%	1,6%	1,8%
Population growth	0,5%	1,0%	0,5%	0,3%	–0,1%
GDP per capita growth	1,1%	2,7%	–0,2%	1,3%	1,9%
Employment growth	1,4%	3,0%	0,5%	1,0%	1,7%
Change in the employment rate (15–64)	2,9%	4,5%	1,4%	2,3%	4,3%
Change in the unemployment rate (total)	–1,3%	–4,4%	0,2%	–0,3%	–3,2%
Inflation rate	4,6%	4,3%	4,9%	3,7%	4,3%

Source: Eurostat

In a context of rapid population growth (1% per year, mainly due to the influx of migrants), this has allowed GDP per capita to grow as well (2.7% per year, compared to 1.1% for the eurozone average), and there has been an intense process of job creation.

In these four years, 30% of all employment growth in the eurozone has occurred in Spain, and the employment rate has risen by more than 4 points, even after accounting for the increase in the active population. The unemployment rate fell below 10% at the end of 2025 for the first time in 17 years. Moreover, as we will see below, this employment growth has occurred at the same time that permanent contracts have massively substituted temporary ones.

Among the other three larger economies in the eurozone, only Italy comes close to Spain in terms of per capita growth and in the evolution of employment and unemployment rates over these four years. However, it does so in a context of demographic decline.

These high growth figures are compatible with an inflation rate similar to that of the rest of the eurozone, a net lending position vis-à-vis the rest of the world close to 4% of GDP at the end of 2025, and a declining public debt-to-GDP ratio. After increasing during the pandemic, this ratio has returned rapidly to the 2019 level, around 100% of GDP.

In this article, we analyse the factors that may explain this behaviour of the Spanish economy, emphasizing the changes in economic policy since 2020 compared to the previous crisis, while also highlighting some pending challenges.

In the second section, we briefly outline some key features of economic growth in Spain during this period. In the third, we present the main features of the new economic policy implemented over the past few years. Specifically, we will focus on labour policy, fiscal policy, the reinforcement of the welfare state, the initial steps of a new industrial policy, with a strong emphasis on the energy transition, and the way the inflationary shock was addressed. The fourth section presents data on the positive role that immigrants' arrival is playing. In the fifth section, we will examine an issue that is generating significant debate in the Spanish economy: to what extent this strong macroeconomic performance is translating into an improvement in household purchasing power. To this end, we will look at the evolution of disposable income, real wages and housing prices. Finally, the sixth section presents the main conclusions.

2. Relevant characteristic of Spanish economic growth (2022–2025)

Table 2 shows that this growth is mainly driven by strong domestic demand, boosted by increased household income and public investment. In total, domestic demand contributed 3.1 points to the 3.8% growth recorded by GDP (annual average). However, economic growth has also benefited from a very strong export performance, despite an unfavourable international environment.

In this regard, it is particularly noteworthy that, alongside exceptional performance in tourism services, exports of non-tourism services have also grown significantly. Specifically, this growth was led by knowledge-intensive activities, especially business services and information technology. Together with the positive

contribution from the external sector and the current account surplus, this marks a significant shift in the dynamics of the Spanish economy and a notable difference from previous periods of strong growth.

Table 2: Contributions to GDP growth, Spain (average annual contribution, real %)

	2000–2007	2014–2019	2022–2025
Private consumption	2,2%	1,3%	1,8%
Private investment	1,1%	1,1%	0,6%
Public demand	1,0%	0,3%	0,7%
Domestic demand	4,4%	2,6%	3,1%
Exports	1,2%	1,3%	1,9%
Imports	–2,0%	–1,3%	–1,3%
External demand	–0,8%	0,0%	0,6%
GDP growth	3,6%	2,6%	3,8%

Source: Eurostat

Moreover, per capita growth has not only been higher than that of other European economies in recent years, but it is also higher than that experienced in Spain during previous periods of expansion this century – the real estate bubble (2000–2007) and the recovery following the Great Recession and prior to the pandemic (2014–2007) – as shown in Table 3.

Table 3: Decomposition of GDP per capita in productivity and hours worked (Spain, growth rates, real %)

	2000–2007	2014–2019	2022–2025
GDP per capita	2,2%	2,4%	2,7%
Labour productivity (per hour)	0,4%	0,5%	0,7%
Hours worked (% ot total population)	1,8%	2,0%	2,0%

Source: own elaboration with data from Eurostat

As we can see, this economic growth has not only led to intense job creation but has also been accompanied by higher productivity growth than in previous periods of expansion. This is a novelty in the Spanish economy, where labour productivity has typically behaved countercyclically, rising mainly during periods of job destruction. Both job creation and increased productivity are important.

On the one hand, this employment growth is necessary to enable people living in households with increasing employment intensity (more members working and fewer atypical contracts) to share in the benefits of the good macroeconomic results. In an economy such as Spain's, historically characterized by higher-than-average unemployment rates, reducing unemployment and increasing employment rates are primary objectives. In recent years, not only has the unemployment rate fallen (although it remains high, at around 10% in 2025), but the percentage of households with members of the labour force who were all unemployed had fallen by 2.6 points at the end of 2025 compared to the end of 2021. Similarly, the percentage of households in which all active members were employed had increased by 5.6 points.

On the other hand, the growth in productivity per hour recorded in recent years (0.7% annually) is higher than that observed during the real estate bubble (0.4%) or in the period prior to the pandemic (0.5%). It was only higher during the Great Recession (2008–2013), when it grew by 1.6%, but this was due to massive job losses that resulted in a decline in GDP per capita. The increase in productivity per hour accounted for 26% of GDP per capita growth in 2022–2025, versus 21% in 2014–2019 and 18% in 2000–2007.

This rise in productivity stems from a combination of various factors (Consejo de la Productividad de España 2026). First, the sectoral composition of newly created jobs is improving. In previous expansions, job growth was concentrated in sectors with low average productivity (such as construction, hospitality and certain personal services), whereas in the current expansion, employment has partially shifted towards advanced services, technology and professional activities, thereby raising average productivity. Furthermore, as will be seen later, the investment programme linked to the Next Generation EU funds, has boosted investment in business digitalization, energy transition projects and technological modernization. Finally, an additional key factor: the 2021 labour reform has significantly reduced temporary employment and labour turnover, and the 60% increase in the minimum wage appears to have discouraged less productive and lower-value-added activities in favour of those that are more capital- and skilled-labour-intensive.

This increase in hourly productivity is also relevant, especially considering that its level in Spain is around 76% of the eurozone average and 65% of that of Germany or France. Furthermore, increased productivity can make it possible to achieve the same rates of GDP per capita growth while reducing working hours per employed person, and is necessary to ensure adequate growth once the economy approaches full employment, especially if the weight of the working-age population declines in the coming years.

Figure 1: Change in real GDP from the onset of each crisis (%, average four quarters)

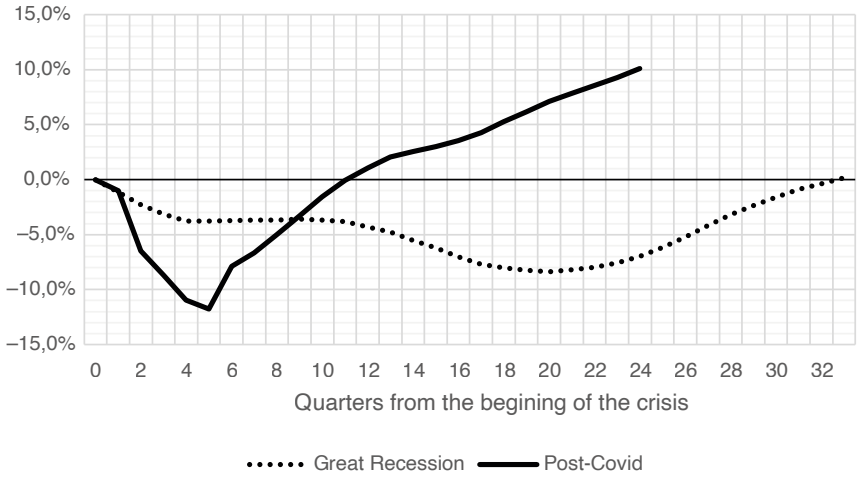
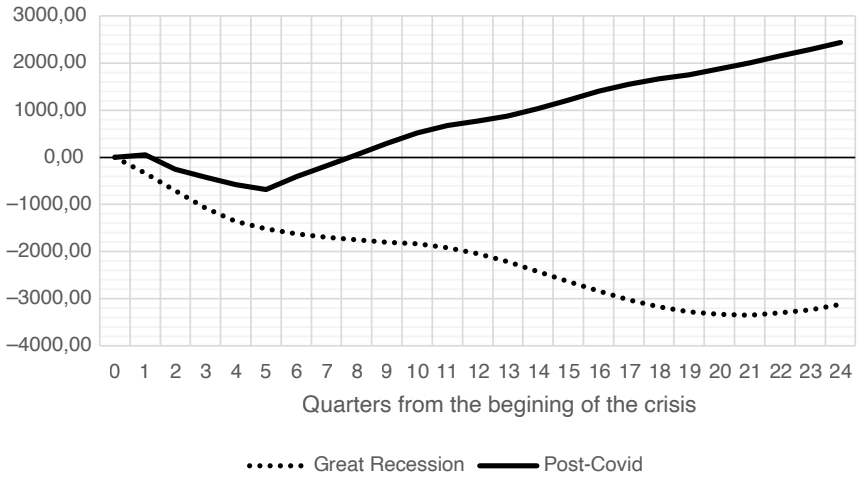


Figure 2: Change in employment (thousands, average four quarters)



Source: Own elaboration with data from Eurostat

To conclude this section, it is worth noting the difference between the rapid recovery of the economy from the 2020 recession and the persistent negative effects of the 2009 crisis.

Figures 1 and 2 show the evolution of GDP and employment in Spain, using the fourth quarters of 2008 and 2019 as references. In 2009, Spanish GDP contracted by

3.8%, and 1.4 million jobs were lost. It took almost 9 years to recover its pre-financial crisis GDP, and at that time, there were still 2 million fewer people employed. In 2020, the GDP decline was greater (–11%), but fewer jobs were lost (577,000), and GDP recovered its pre-pandemic level in just three years. By the end of 2021, employment was already higher than at the end of 2019.

The financial and pandemic crises are different in nature. However, the policies implemented in the first case proved to be counterproductive and aggravated its consequences, whereas those implemented after the pandemic have contributed to a more favourable economic adjustment. In the next section, we explain the main features of this new economic policy developed since 2020.

3. New economic policy

European economies addressed the Covid-19 pandemic crisis with an economic policy response very different from that implemented after the 2008 financial crisis. In this international context, Spain underwent a profound shift in its economic policies for the period 2020–2025. This section highlights the most salient features of this change and its possible impact on economic and employment growth over recent years, following Álvarez and Uxó (2026) who discuss in greater detail the characteristics of the new economic policy implemented in Spain since 2020 and the national and international context that enabled it. Specifically, we underline five elements of this new economic policy: 1) a labour policy aimed at employment stability and the abandonment of the strategy of wage devaluation; 2) an expansionary fiscal policy; 3) the use of New Generation-EU funds to push a programme of structural transformation through targeted public investment, mainly related to energy transition; 4) the strengthening of the welfare state; and 5) "unconventional" fiscal and regulatory policies to tackle inflation.

3.1 The shift in labour policies

The labour policies implemented in Spain since 2020 represent a U-turn from those in place previously. Specifically, we will focus here on the measures adopted to reinforce labour stability and on the abandonment of the "wage devaluation" strategy.

One of the first relevant decisions of this new approach was to promote and facilitate the use of job retention schemes (so-called ERTEs) to tackle the consequences of the Covid-19 pandemic on economic activity. Although these mechanisms already existed in Spanish law and have been widely applied in Europe, their use is a significant novelty in Spain. It contrasts sharply with what happened in the 2009 recession, when job retention support played no meaningful role, never covering

more than 0.8% of the workforce. In April 2020, however, 23% of workers were on job retention support,[1] which helped maintain their incomes, avoid company closures, and accelerate employment recovery once the economy reopened, initiating a period of intense job creation.

The use of ERTEs in 2020 was only the first step in a broader shift in the approach to employment policies, leading to a profound change in labour market regulation aimed at drastically reducing the excessive temporary nature of contracts in Spain.

In 1995, the temporary employment rate reached 35%, while the average duration of these contracts gradually decreased, causing increasing harm to the economy: a negative impact on productivity, an overreaction of employment to changes in GDP due to excessive external flexibility, and increased precariousness and in-work poverty. Once these problems were recognized, various reforms were carried out to address the so-called "duality" of the Spanish labour market. The conventional diagnosis of these reforms, however, was that this duality resulted from excessive protection of "insiders", meaning that the abuse of temporary contracts could only be avoided by reducing this protection. The labour reforms of 2001, 2010 and 2012 followed this path, encouraging both internal and external flexibility in companies. The reality, however, is that the incidence of temporary jobs only decreased significantly during the Great Recession. By the end of 2019, the temporary rate still stood at 26% of total employees.

The labour market reform approved in 2021 completely changed this approach. It attributed the excessive reliance on temporary contracts to poor regulatory design, which had allowed companies to use them (inappropriately) for "structural" jobs and not only to address temporary changes in demand (as should have been the case). In this way, they had reduced their workforce's bargaining power and lowered the costs associated with potential layoffs. Consequently, the core of the reform was to consider that permanent contracts should be signed by default, limiting temporary contracts to exceptional, adequately justified situations. The types of contracts were also reduced and simplified, and the acceptable reasons for temporary contracts were restricted and more clearly defined. The reform also strengthened the presumption that the employment relationship is permanent and increased penalties for fraud.

Other measures to reinforce stability included reforming training contracts, penalizing excessive turnover resulting from very short-term contracts, and introducing a new internal adjustment mechanism intended to facilitate the regular application of job retention schemes, which proved very successful during the pandemic.

1 This instrument was not only used in Spain but was also adopted by other major European economies: in April 2020, 15% of all employees in Germany, 34% in France and 30% in Italy were on job retention schemes (Anderton et al. 2020).

Figure 3: Temporary rate (%, average four quarters)

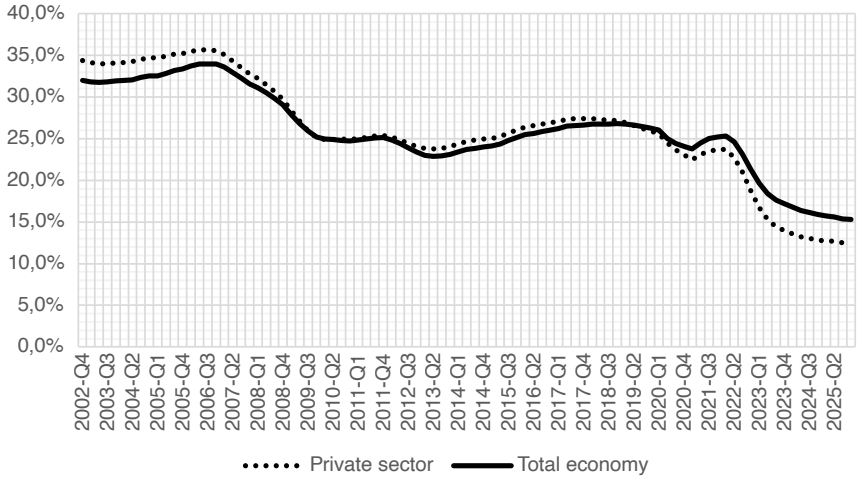
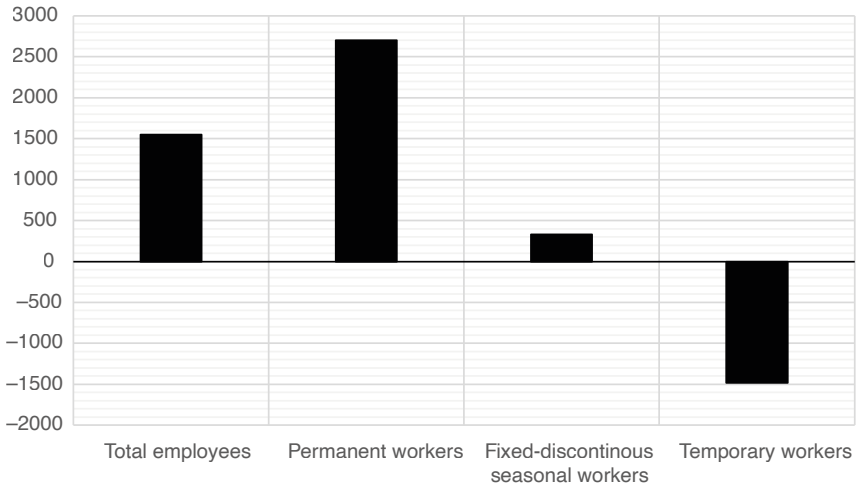


Figure 4: Change in the number of employees (2021Q4–2025Q4, thousands of people)



Source: Labour Force Survey

Although it will probably take more time to see the full effects of the reform, the results of its first four years in force are remarkable. The temporary employment rate has been substantially reduced, reaching 15% in 2025, ten points lower than before the pandemic. In the private sector, the temporary employment rate is below 13%, similar to the European average (Figure 3). This has had a strong impact on job stability: between the last quarter of 2021 and the last quarter of 2025, the

number of employees with temporary contracts has decreased by almost 1.5 million, while 3.3 million permanent jobs have been created, as well as 293,000 fixed-discontinuous jobs (Figure 4). This is a far-reaching structural change, unknown in the Spanish labour market in recent decades. Moreover, this reduction in the temporary rate occurred as employment increased strongly, whereas the Spanish economy had traditionally relied on the widespread use of temporary contracts during expansion phases.

The second main element of the change in labour policies in recent years is the explicit abandonment of the "internal devaluation" strategy pursued by the Spanish government after the global financial crisis (Cárdenas et al. 2020). The "hard" wage devaluation strategy had already been softened at the end of the recovery period before the pandemic, in 2017–2018. However, the clearest sign of the new orientation of wage policy was the 2019 increase in the minimum wage, when the new administration raised it by 22%. Moreover, in 2020 the government decided to continue increasing it over the following years until it reached a level equivalent to 60% of the average wage, as established by the European Social Charter. The cumulative rise in the minimum wage between 2019 and 2025 was 61%, fulfilling this objective and protecting the purchasing power of minimum wage earners from the inflationary process that began in 2021.

Besides the minimum wage increases, other measures envisaged in the 2021 labour market reform also reinforced this new wage policy: it strengthened collective bargaining by re-establishing the priority of sectoral over company-level agreements, prevented outsourcing services from being used to deteriorate labour conditions and restored the ultra-activity of collective agreements (their effects continue to apply after their expiry until a new one has been signed).

The decision to raise the minimum wage by 22% in 2019 sparked intense debate at the time, with some institutions, such as the Bank of Spain, warning that it could adversely affect employment. However, the strong employment growth in these years and the positive assessments of the effects of minimum wage increases by various international organizations fostered widespread support for this policy. For example, Hijzen et al. (2023) concluded that the increase in the minimum wage significantly improved the incomes of Spanish households at the bottom of the wage distribution, without a notable adverse effect on employment.

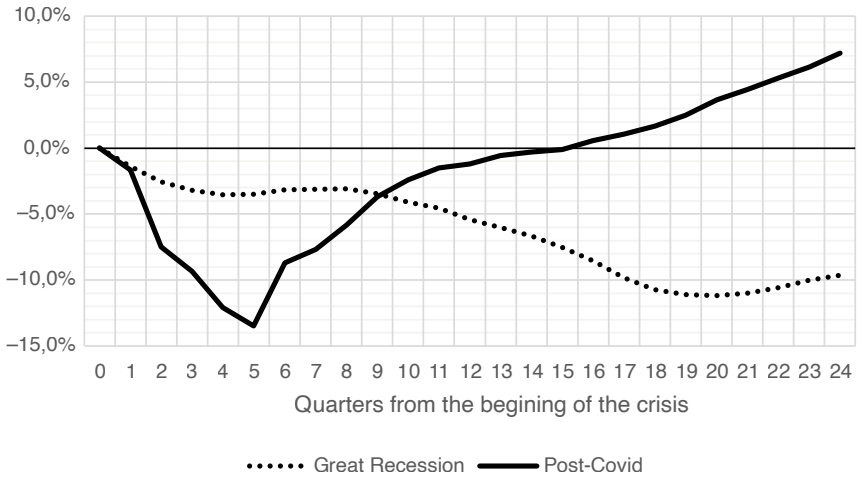
These new labour policies have had significant effects on the performance of the economy: employment creation, higher wages,[2] and the greater stability of contracts after the 2021 labour reform strengthened domestic demand and is one of

2 According to national accounts data, the real average wage per employee in 2025 is 1.7% higher than in 2021 and 4.7% higher than in 2019.

the factors that explain the resilience of the Spanish GDP and employment growth (Anghel et al. 2023). Furthermore, the concentration of wage growth in the lowest deciles, with a higher propensity to consume, has reinforced this expansive effect. For example, González, Sala and Trivín (2025) find that the 2019 minimum wage increase led to a 4.5% increase in household consumption.

Figure 5 shows the cumulative change in private consumption from the onset of the Great Recession and the pandemic (again, the fourth quarters of 2008 and 2019). We can confirm that, compared to the post-financial crisis evolution, households' consumption has experienced rapid growth since the pandemic.

Figure 5: Change in private consumption (real %, average four quarters)



Source: Own elaboration with data from Eurostat

3.2 Expansionary fiscal policy

The role of fiscal policy after the pandemic has been very different from the austerity policies implemented during the global financial crisis. Certainly, this change has benefited from three important decisions adopted at the European level: the suspension of fiscal rules in 2020; the launching of Eurobonds for the first time to mutualize debt and finance the Next Generation EU funds;[3] and the ECB's massive purchase of public debt in secondary markets.

3 In the context of the Covid-19 pandemic, the European Union launched an exceptional mechanism for the partial mutualization of debt to finance the Next Generation EU programme. Through this scheme, the European Commission was authorized to issue joint debt on the financial markets on behalf of

Figure 6 shows, in this case, the cumulative change in the sum of real public consumption and investment after the financial crisis and after the pandemic. During the Great Recession, the initially expansionary fiscal response in 2009 gave way to a strong contractionary stance from 2010 onwards. By the end of 2013, public expenditure was nearly 10% below its level at the end of 2008. In contrast, fiscal policy followed a markedly different trajectory after 2020. Public expenditure not only increased that year (by 4.2%), but the expansionary stance was sustained thereafter – largely supported by the inflow of Next Generation funds.[4] By the end of 2025, public spending was 20% higher than in the fourth quarter of 2019.

Segarra and Uxó (2025) use a super-multiplier model to estimate the effects of both fiscal policy stances, accounting for all indirect effects on consumption, investment and imports. Their results confirm that, between 2010 and 2013, fiscal policy became procyclical and contributed to a second recession, whereas after 2020, public spending significantly fostered GDP growth. This countercyclical orientation softened the initial economic downturn and helped accelerate the subsequent recovery.

This fiscal policy obviously increased public deficits and debt. However, precisely because the new economic policies drove a rapid recovery in employment and GDP once the Covid-related health restrictions were lifted, the deficit and the debt-to-GDP ratio have fallen rapidly, as shown in Figure 7. In 2025, the public deficit (–2.5%) and debt (100.6%) are forecast to be roughly the same as in 2019.

Therefore, in recent decades Spain has experienced two very different approaches to ensuring the sustainability of public finances. The first, unsuccessful, attempt was based on austerity, i.e. harsh cuts to the main pillars of the welfare state implemented between 2010 and 2013. The second, after the pandemic, is based on a strategy that we could describe as a "partially balanced fiscal expansion" (Uxó et al. 2018). It combines a significant increase in public spending with tax hikes on the economic and business sectors with the highest capacity to pay. This strategy has made it possible to raise the pace of tax collection while strengthening economic growth, allowing the public deficit to be reabsorbed and the debt-to-GDP ratio to decrease.

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the member states. These securities ("blue bonds") were characterized by their high credit quality and by being collectively guaranteed by the EU, which allowed for financing to be obtained on more favourable terms. The funds raised were subsequently distributed among member states in the form of grants and loans to finance investments. These grants were conditional on the implementation of reforms aimed at economic recovery and the digital and green transition.

4 These funds have also enabled the government to compensate for its lack of parliamentary support for approving new budgets since the 2023 general election.

Figure 6: Evolution of real public expenditure in Spain since the onset of the Great Recession and the pandemic (% change)

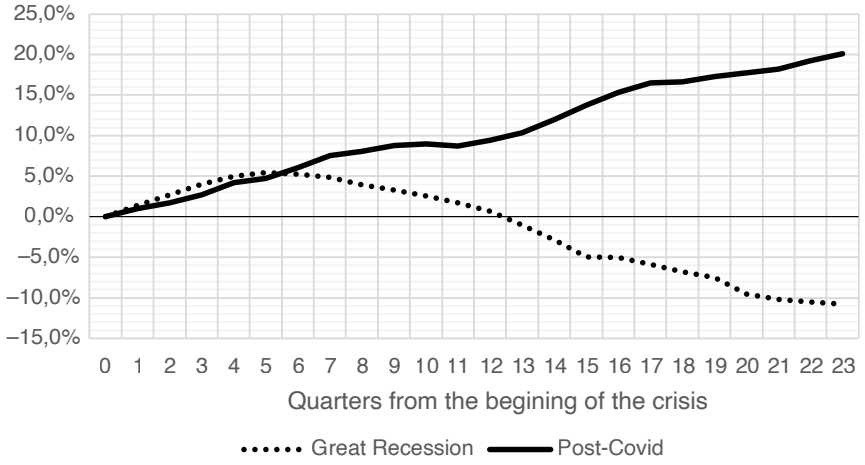
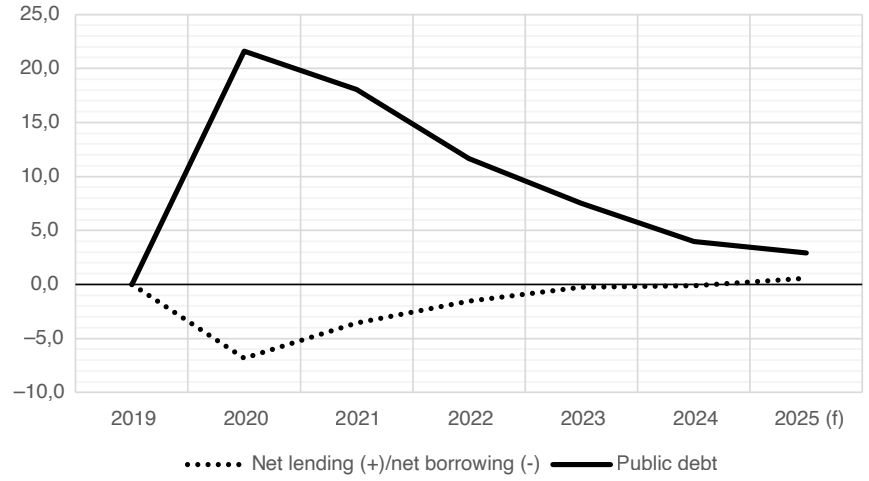


Figure 7: Change in the fiscal balance and public debt since 2019 (points of GDP)



Source: Own elaboration with data from Eurostat. Data on public balance and debt for 2025, forecast by Bank of Spain (2025a)

3.3 Public investment, industrial policy and energy transition

After a sharp decrease during the austerity years, public investment registered an average annual growth rate of 5.9% in 2022–2025.[5] Besides its contribution to the expansionary stance of fiscal policy, this was also able to help drive supply-side structural reforms through a new industrial policy, specifically through the Recovery, Transformation, and Resilience Plan (PRTR, in Spanish), which was drawn up to channel Next Generation EU funds.

The recovery in public investment following the fiscal cuts of 2012–2016 began as early as 2018–2019. But undoubtedly, the Next Generation funds – linked to the Recovery and Resilience Facility – received by Spain will be essential for pushing forward the new wave of public investment that has been underway since 2020. Initially, the Next Generation funds amounted to €69 billion in transfers, channelled through the PRTR. However, in October 2023, an "addendum" was approved, providing for an additional €10 billion in transfers and up to €84 billion in loans. Finally, in December 2025, the Spanish government decided not to request 75% of these loans, arguing that their terms are currently less favourable than those Spain can obtain directly in the debt markets. Therefore, the total amount of Next Generation funds received by Spain would be €89 billion in transfers and nearly €22 billion in loans.

The most novel aspect of the plan's design is the implementation of the so-called Strategic Projects for Economic Recovery and Transformation (PERTE, in Spanish). This instrument may be useful for developing a new active industrial policy grounded in M. Mazzucato's "missions" idea (Mazzucato 2021; García Tabuenca et al. 2024). To some extent, the PERTEs are also inspired by the Important Projects of Common European Interest (IPCEI) and aim to promote collaboration among public administrations, companies and research centres on strategic, complex projects with high pull and strong multiplier effects.

Each PERTE identifies a key area for the future of the economy, selected according to its relevance for growth and employment (sectors that can significantly contribute to economic growth and have a combination of knowledge, experience, resources and actors that can address market failures or societal challenges) and its quantitative or qualitative importance (sectors with a high technological or financial risk that allow the integration and growth of small and medium-sized enterprises, and projects with disruptive and ambitious research and innovation phases followed by an initial industrial deployment).

5 Nevertheless, in terms of GDP, public investment in Spain is still almost one percentage point below the European average.

So far, the government has approved twelve PERTEs, including significant investments in electric vehicles, renewable energy, green hydrogen, and microelectronics and semiconductors, among others. Although it is still too early to assess their capacity to drive these structural transformations, it can be said that, to a certain extent, it is the first attempt to recover a "selective" industrial policy – abandoned in Spain for decades.

Among these structural objectives, the energy transition is undoubtedly a priority for Spanish economic policy. In addition to its contribution to decarbonization and the fight against climate change, it can have very positive economic effects that will potentially be greater than in other countries, precisely because of Spain's historical dependence on fossil fuel imports and its high availability of natural resources associated with electricity generation from renewable sources (sun and wind).

Table 4: Public investment in Green PERTE (million euros)

PERTE	Transfers, 1st phase	Transfers, addendum	Loans, addendum	RePower	Total
Development of the electric vehicle	2.870	250	1.000		4.120
Renewable energy, hydrogen and storage	6.600	1.557		2.640	10.797
Industrial decarbonization	450	1.020	1.700		3.170
Circular economy	192	600			792
Other PERTE (1)	4.093	4.225	13.986		22.304
Total	14.205	7.652	16.686	2.640	41.183

(1) Chip (Microelectronics and semiconductors), Advanced healthcare, Agrifood supply chain, New language economy, Digitization of the water cycle, Social and care economy, Aerospace industry, Shipbuilding industry.

Source: PRTR

Consequently, Spain has set ambitious targets for the expansion of renewable energy in electricity production (Uxó/Álvarez 2025), which require substantial (private and public) investment. The Integrated National Energy and Climate Plan (PNIEC, in Spanish) estimated it at €308 billion in the period 2021–2030, and Next Generation has contributed with a significant increase in public funds devoted to the energy transition.

Of the twelve plans approved, four have content clearly linked to the energy transition or environmental objectives ("Green PERTE"): development of the electric and connected vehicles; renewable energy, renewable hydrogen and storage; industrial decarbonization; and circular economy. As shown in Table 4, they are endowed

with €16.179 million in transfers, representing 66% of the total transfers allocated to the PERTEs, and €2.7 million in loans (16% of the loans allocated to the PERTEs). Considering the private investment expected to be mobilized around these Green PERTEs, the final investment figure would be €53 billion.

In Spain, the energy transition is seen as an opportunity with significant economic and environmental effects. First of all, they take the form of direct increases in GDP and employment coming from new investments, but there are also indirect effects, such as energy savings (which free up resources for other types of expenditure) and the expenditure shift from energy imports towards the domestic renewables sector. Effectively, the combination of increased energy efficiency, more installed renewable capacity, and electrification of sectors such as transport, construction and parts of industry will reduce energy imports and Spain's tradition of energy dependence.

Moreover, one of the main opportunities the energy transition can bring to Spain is to turn lower electricity prices into an advantage for its domestic industry's competitiveness and to attract investment. Cubero et al. (2025) analyse the effect on electricity prices of the expansion of renewable electricity generation and find that each percentage point increase in their share of electricity generation reduces electricity prices by 0.74 percentage points. Furthermore, this influence is non-linear due to the "merit order mechanism" that characterizes the electricity market, and it increases when this share exceeds 60%.

Transferring their results to the evolution of renewables in Spain, they find that the increase in the weight of renewable energy from 45% to 60% between 2021 and 2023 has reduced the wholesale price of electricity by 12.5%. However, the effect of the increase to 65% in 2024 was proportionally much larger, reducing the price by another 7.5% that year. In total, the cumulative reduction would already be 20%. Finally, if the PNIEC targets are met in 2030 (a further 15 percentage point increase in the share of renewables), an additional 20% reduction in electricity prices in Spain could be expected.

In fact, wholesale electricity prices in Spain have already fallen from above the European average to below it. Spanish households and companies have started to enjoy lower electricity prices, as shown in Figures 8 and 9. For example, in the industry sector, electricity prices were 20% lower than the European average in 2024, whereas during the previous expansionary phase (2014–2019), they were 25% higher. This change is due to both reduced exposure to natural gas from Russia and Spain's competitive advantages in solar and wind-based electricity generation. As the latter derive mainly from favourable climatic and geographic conditions (longer hours of sunshine and wind, as well as large areas of low-population-density land that facilitate their installation), they can become structural if accompanied by the necessary investments.

Figure 8: Household electricity prices (Spain vs EU)

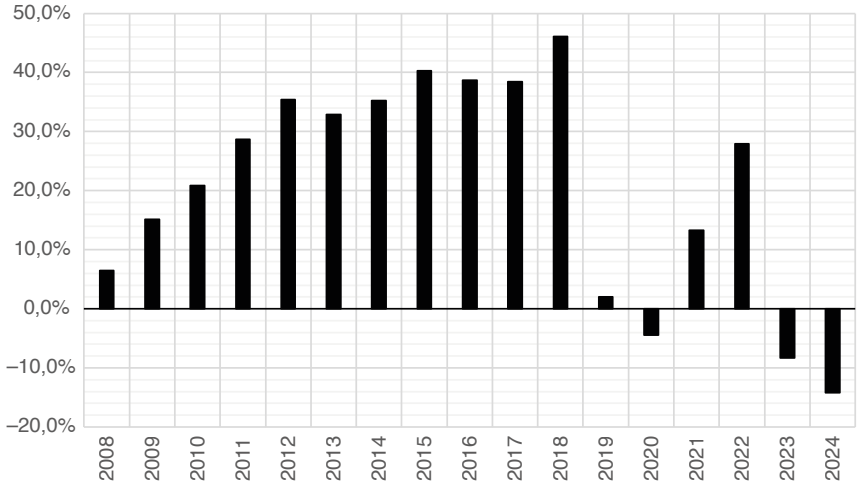
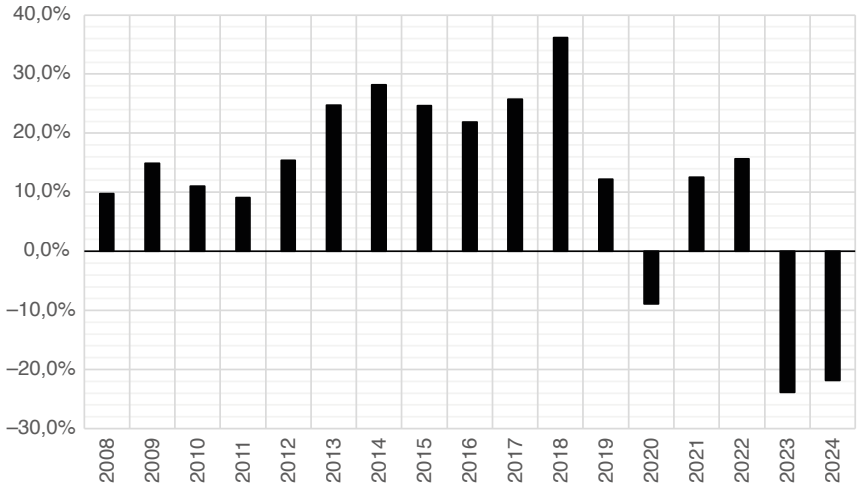


Figure 9: Industrial electricity price (Spain vs EU)



Excluding taxes and levies.
Source: Eurostat

3.4 The strengthening of the welfare state

The austerity policies implemented in the previous decade affected not only public investment but also the heart of public services: freezing the number of civil servants and worsening their working conditions, underfunding education, health

and care for dependent persons, and, as a significant example, reforming the public pension system.

Following recommendations from EU institutions, the pension reforms of 2011 and 2013 increased the statutory retirement age and extended the period of contributions required to be eligible for a pension. They also introduced a new "revaluation index" (which limited pension increases to a maximum of 0.25% per year if the pension system registered a deficit) and a "sustainability factor" (which reduced pensions as life expectancy increased). The combined effect of these reforms entailed a drop in retirement pensions of up to 30%. The purpose of these reforms was clear: to reduce pension spending per person to address population ageing.

When the progressive coalition government took office in 2020, it explicitly announced that reversing these cuts to pensions and public services would be one of its defining features. To a large extent, the pandemic accelerated this process, as one of the first decisions taken was the construction of a "social shield" made up of a good number of public policy measures to protect the population, and especially the most vulnerable groups: the reinforcement of social services, the prohibition of evictions and the guarantee of supplies, a shocking plan to strengthen dependency care systems and the reform of long-term care, among other measures. A notable example of this reaction was the approval of a national income guarantee system – until then non-existent in Spain – called Ingreso Mínimo Vital (Minimum Living Income). Although initially planned for deployment throughout the legislature period, its implementation was brought forward to May 2020. The philosophy behind this idea of the social shield was later maintained during the inflationary crisis, with the addition of other measures to protect those households most affected by rising energy and food prices (direct transfers, limits on rent increases, subsidies for transport and gas prices, among others).

Regarding the pension system, the new government carried out a reform that represents a sharp shift in perspective compared to the previous decade. In 2021, this reform focused on ensuring that pensions were sufficient for retirees to maintain an adequate standard of living. The "sustainability factor" was abolished, and the revaluation index was replaced by a law that ensures pensions are updated in line with price rises, thereby maintaining pensioners' purchasing power. Furthermore, a growth path was established for minimum and non-contributory pensions, which were too low, and measures to reduce the gender gap in pensions, associated with women's more irregular and lower-paid working careers, were adopted. Later, in 2023, a new reform introduced measures to increase the public funds allocated to finance the pension system: a rise in social security contributions for the highest wages (known as the "solidarity quota"); an "intergenerational equity mechanism", which also results in transitional increases in contributions while the system adjusts to the retirement of the baby boomers; the financing of social security

expenditure other than pensions from tax revenues; and incentives to delay retirement without changing the statutory retirement age.

Clearly, the last reforms mentioned above involve a different approach to addressing the social security deficit. The backbone of the pension reforms of 2011 and 2013 was to seek ways to reduce future pension spending, adapting it to a given level of resources. By contrast, the reforms of 2021 and 2023 assumed that pension expenditure will grow due to population ageing, and their main objective has been to act on the revenue side.

The updating of pensions, in an inflationary context such as that seen since 2021, has had a significant impact on household disposable income, especially compared to maintaining the previous revaluation index, and this must have been one of the main drivers of the dynamism of private consumption expenditure that we observed above. Between 2022 and 2025, ordinary contributory pensions have been revalued by a cumulative 18.7%, compared to 1% if the 2021 reform had not been approved. Moreover, minimum and non-contributory pensions have increased at an even higher rate. In Spain, nearly ten million people receive some form of pension, and for 32% of households, it is their main source of income.[6]

3.5 "Unconventional" fiscal and regulatory policies to cope with inflation

The fifth characteristic of the economic policy implemented by the Spanish government during this period that we want to underline is the package of measures adopted after the inflationary shock recorded in 2021 and, especially, 2022, when the annual average inflation rate reached 8.3%. The interannual rate peaked at 10.7% in July of that year, then began to fall, stabilizing at around 3% in 2023–2025.

During this period, an intense academic and policy debate emerged regarding the nature of this inflation (Dao et al. 2024; Weber/Wasner 2023). In the case of Europe, there is a notable consensus regarding the supply-driven nature of this inflation, with the energy shock identified as the main driver of rising prices and more than half of the inflation in the eurozone in 2022 attributed to changes in energy prices (ECB 2022).

Spain is a good case study for evaluating the effectiveness of different economic policies in addressing this kind of supply-side inflation, as two strategies have coexisted. On the one hand, the government implemented many fiscal and regulatory

6 See Febrero and Bermejo (2024) for a comprehensive analysis of the macroeconomic impact of pension spending in Spain using the supermultiplier model.

measures between 2021 and 2023. On the other hand, the ECB simultaneously began to implement a rapid, intensely restrictive policy.

Of course, lower gas and oil prices in international markets since late 2022 have played a key role in reducing inflation. However, the effectiveness of the broad set of measures progressively deployed by the Spanish government has also been significant. They have aimed to curb price increases and mitigate their consequences on the most affected productive sectors, households and vulnerable groups. We can order them into five categories: 1) lower indirect taxes on consumers' electricity and natural gas bills; 2) reform of the way the wholesale electricity market functions, capping its prices; 3) measures aimed explicitly at curbing other prices, such as fuel, public transport, housing rents or selected food products; 4) support for those households and economic sectors most affected by the effects of inflation; 5) transitory taxes to increase the contribution of high-income households, wealth owners and high-profit companies in the energy and financial sectors.

The majority of these measures has focused on energy markets, with the reform of the wholesale electricity market, known as the "gas cap" or "Iberian Exception", as the most notable. The objective of this mechanism, which came into force in Spain and Portugal in June 2022, was to reduce the price consumers pay for electricity, establishing a limit on the prices charged in the wholesale market by "infra-marginal" technologies (solar, wind, hydroelectric, nuclear). This cap decouples wholesale electricity market prices from the rise in international gas prices, thereby modifying the market's marginalist operation. The IMF (2022) estimates that electricity prices were 16% lower compared to an alternative scenario without the gas cap. Given that electricity accounts for 4% of total HICP, this would imply a reduction of around 0.6 pp in the inflation rate. Considering the joint effect of all measures against inflation, the Bank of Spain (2023) estimated that inflation in 2022 would have been 2.3 points higher without them.

The Spanish government opted for 'surgical' fiscal and regulatory measures focused on specific sectors. At the same time, the ECB sought to cool household consumption and business investment to reduce demand and, thus, inflation, although its last trigger came from the supply side.

The effect of these measures has also been different. The Bank of Spain (2023) estimates that the contribution of the government's fiscal measures to the reduction in inflation in 2022 was ten times greater than that of monetary policy. In addition, the government's fiscal measures contributed 1.1 percentage points to GDP growth, while monetary policy reduced it by 0.6 points.

Thus, non-monetary measures would have been more effective at reducing inflation than the ECB's sharp rate hike, while also stimulating growth and redistributing income to lower-income households.

Nevertheless, although some of the fiscal policies implemented by the Spanish Government in 2021–2023 aimed at ensuring a certain income redistribution to lower-income households,[7] the inflation crisis of 2022 led to a temporary decline in purchasing power and had significant distributional effects in Spain, as companies passed their higher input costs on to consumers in order to protect their profits, with an increase in aggregate markups (Uxó et al. 2025). We will analyse this impact in more depth in section 5.

4. The key role of immigrants

The expansion of employment and GDP in Spain cannot be fully understood without considering migration, undoubtedly one of the most prominent phenomena experienced by the country in recent years.

From 2019 to 2025, the foreign-born population rose from 6.5 to 9.5 million individuals (reaching 19.3% of the population), while foreign nationals numbered 7 million in 2025 (14.2% of the population), reflecting both new inflows and naturalization processes. Meanwhile, the native-born population declined by approximately 600,000 individuals during this period. As a result, immigration has become the sole source of resident population growth in Spain in recent years as can be seen in Figure 10.

Over this period, Spain's labour force increased from 23 million to 24.8 million individuals. While the native population aged and grew by only 0.5%, the immigrant population expanded by 45%. Similarly, total employment rose strongly during this period, even more rapidly than labour force participation. As can be seen in Figure 11, between 2019 and 2025, Spain created 2.9 million jobs, of which 1 million (35%) corresponded to native-born Spaniards and 1.9 million to foreign-born individuals (45% foreign nationals and 20% dual nationals). Consequently, the share of workers not born in Spain increased markedly (from 15.1% of total employment in 2019 to 21.3% by the end of 2025).

Importantly, this increase in foreign-origin employment did not prevent a substantial reduction in unemployment. Between early 2019 and late 2025, unemployment

7 For example, subsidies to public transport, two one-off payments of €200 to vulnerable households, increased discounts on vulnerable households' electricity bills, the creation of a Minimum Vital Supply for electricity, a limitation of the housing rent update, and increases in the income guarantee scheme.

declined by 800,000 individuals, with the entire reduction concentrated among the native-born population (unemployment rose slightly among the foreign-born).

Figure 10: Resident population, by country of birth (1 January)

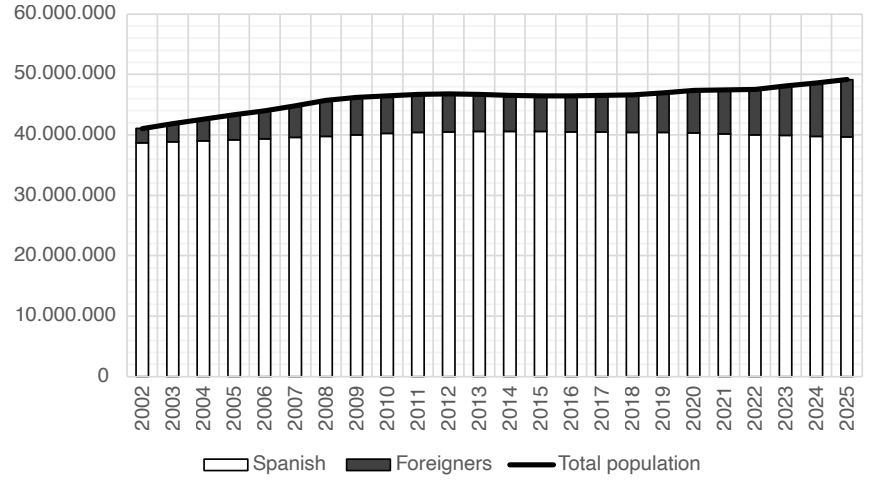
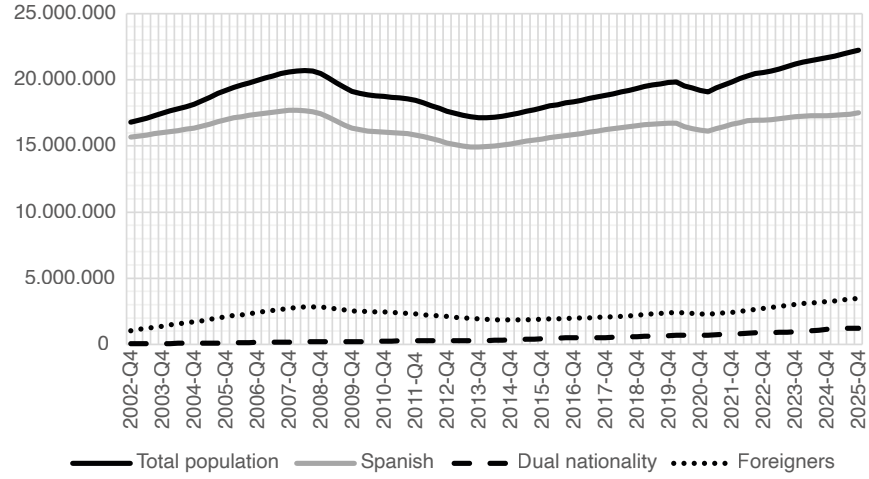


Figure 11: Employed population, by nationality (average four quarters)

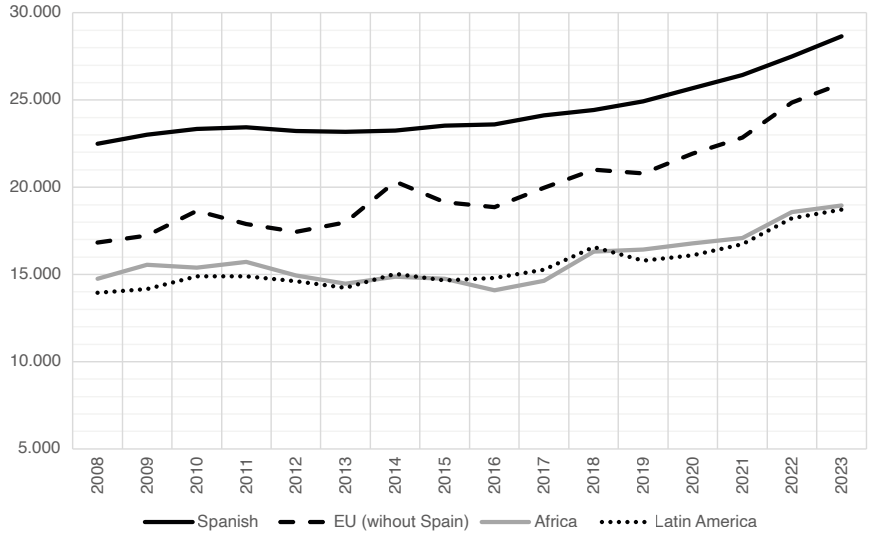


Source: National Statistics Institute (INE)

Empirical evidence indicates that foreign workers earn lower average wages than native workers. The Annual Salary Structure Survey (Figure 12) shows that Spanish nationals earned slightly over €28,600 per annum on average in 2023. Workers from other EU countries earned approximately €26,000 (91% of the Spanish

average), while workers from the Americas and Africa earned roughly 65% of the average wage of Spanish nationals.

Figure 12: Average annual salary per worker, by nationality (euros, nominal)



Source: Annual Salary Structure Survey

Immigrant employees in Spain earn approximately 35% less than native workers, representing one of the largest wage gaps among advanced economies (Hermansen et al. 2025). This gap arises from two main factors: unequal pay when doing the same work for the same employer, and labour market mechanisms that channel immigrants into lower-paying occupations. According to Hermansen et al. (2025), the segregation of immigrant workers into lower-paying jobs accounts for about 80% of the overall immigrant–native earnings difference. Although within-job pay inequality remains notable for immigrants, explaining the other 20% of earnings differences, unequal access to higher-paying jobs is the primary driver of the immigrant–native pay gap in Spain.

Even though immigration may exert downward pressure on wages and employment opportunities for groups that compete most directly with immigrants – particularly low-skilled workers – the average impact in Spain appears to have been limited in recent years (Gálvez 2025). Moreover, when immigrants and natives specialize in different tasks and occupations, immigration can generate positive effects through complementarities that enhance overall labour market productivity.

Empirical evidence for Spain (Fernández/Torres 2026) shows that the recent surge in foreign labour supply has not occurred in a zero-sum context. Rather than

substitution, the current expansion has been characterized by complementarity. Thus, between 2019 and 2025, native-born workers primarily increased their presence in high-skilled occupations – managers, professionals and technicians – and in sectors such as public administration, education, health, and information and communications (Hidalgo 2025). Meanwhile, and as can be seen in Figure 13, foreign workers have been concentrated in tourism, hospitality and retail, agriculture, domestic services, construction, low value-added administrative services, transportation and storage, as well as long-term care. This pattern reflects strong occupational segmentation and sectoral specialization, depending on whether the labour force is native or foreign.

This segmentation and complementarity have helped offset a lack of young native workers in certain sectors. While native workers have moved up the occupational ladder, immigrants have filled vacancies in sectors facing labour shortages (Fernández/Torres 2026; Hidalgo 2025). Whereas employment growth among Spaniards has been concentrated in higher-paying occupations, immigrant employment has been clustered in occupations with average or below-average pay (see Figure 14).

Migration has not only affected the size and composition of the labour market but has also influenced broader macroeconomic dynamics. We can see clear evidence of this with a simple mechanical breakdown of the evolution of GDP per capita growth: a decomposition of per capita GDP growth conducted by Cuadrado and Regil (2025) reveals that, between 2022 and 2024, immigration accounted for between 14% and 24% of per capita GDP growth during that period. Without immigration, per capita growth would have been significantly lower in the context of demographic decline and population ageing.

Several mechanisms can be identified through which the immigrant population – drawn to Spain by an expanding labour market – has contributed to economic growth. Firstly, the strong influx of foreign workers has led to a notable increase in the country's productive potential, boosting growth through increased aggregate demand and private consumption. This component of demand contributed to 54% of GDP growth between 2021 and 2025, making it the main driver of the Spanish economy during this period.

Furthermore, the arrival of this contingent of the population has enabled growth without bottlenecks, facilitating the expansion of activities that, without this contribution, would have faced a significant labour shortage (Bank of Spain 2025b).

Finally, the arrival of foreign labour has played a key role in the Spanish economy, containing price increases in sectors that have been crucial to the expansion of aggregate demand and private consumption – retail, construction and hospitality. Fernández and Torres (2026) estimate that during the period 2019–2024, the

aggregate deflator for sectors associated with tourism (retail, hospitality, catering and transportation), which are very labour-intensive, increased by 17.9%, compared to 21.3% for the eurozone average.

Figure 13: Main sectors employing foreign workers (% of total foreign social security affiliates)

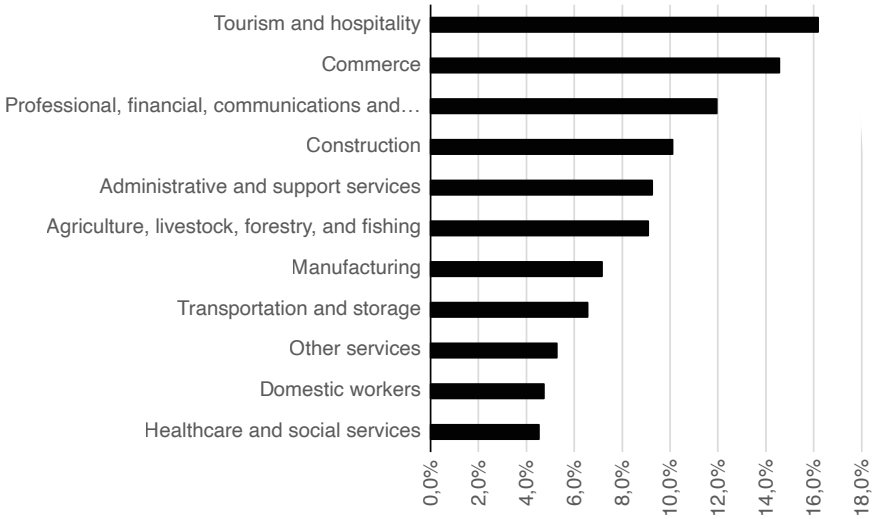
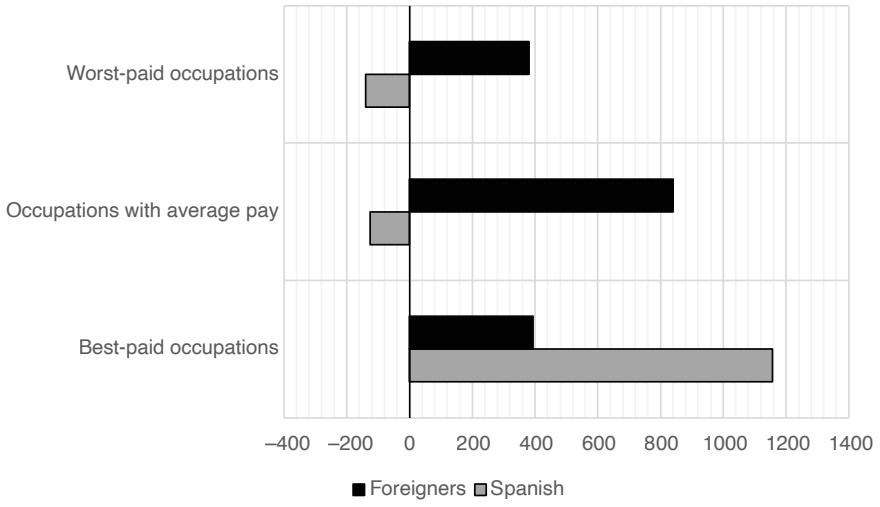


Figure 14: Employment growth between 2019 and 2024, by nationality



"Foreigners" include foreign nationals and dual nationals. The best-paid occupations are managerial and professional (categories 1 to 3 of the LFS classification); those paid around the average correspond to employees, skilled workers, and operators (categories 4 to 8); and the lowest-paid occupations are "elementary" (category 9).

Source: Ministry of Inclusion, Social Security and Migration and Fernández and Torres (2026).

5. Households' incomes, real wages and affordability

Spain has recorded high GDP growth rates in recent years, both in absolute and per capita terms. Despite this, there has recently been a social debate in the country on three interrelated issues, which we would like to review in this section:

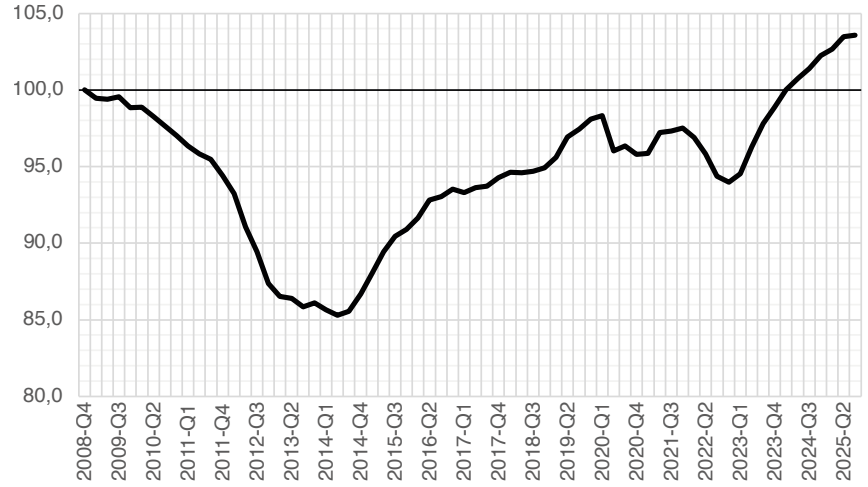
- To what extent has this growth translated into an improvement in household income and purchasing power in an inflationary context?
- To what extent is this rise in household income due exclusively to increased employment, or is there also an improvement in real wages?
- To what extent is this rise in real income enough to offset higher housing prices and ensure a real improvement in households' living conditions?

To better understand the context of these debates and the behaviour of the Spanish economy, we will take 2008 as a reference point to answer these three questions. Thus, we will include the effects of the two major recessions that have occurred during this century.

Figure 15 shows the evolution of households' real disposable income per capita. It can be seen that, after the sharp decline following the double-dip recession of 2009 and 2011–2013, by the end of 2019, the pre-financial crisis level had not yet been recovered; this is why those years are called "a lost decade". Since then, the pandemic and, above all, the inflationary process of 2021–2022 have again led to a decline in real disposable household income per capita. At the end of 2022, this income was 4.2% below the pre-pandemic level. However, over the last three years, it has grown by a cumulative 10%, standing 5.6% above 2019 levels and thus offsetting the effects of both the Covid-related recession and the inflationary shock derived from the energy crisis.

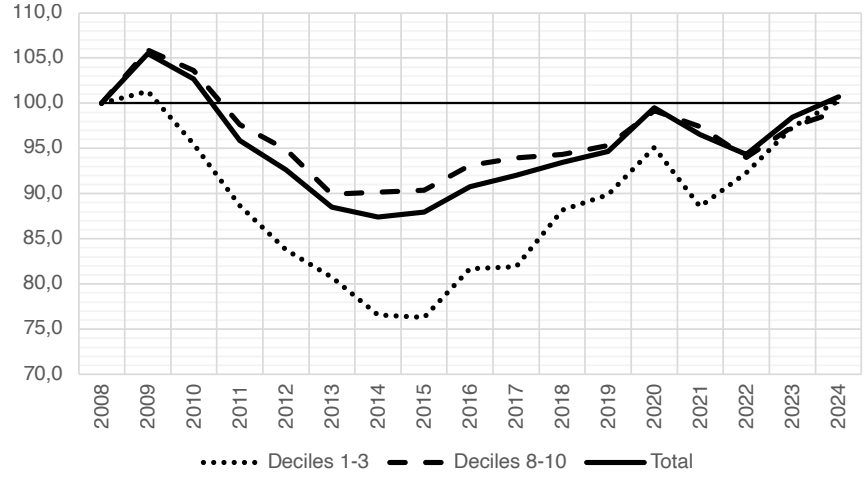
It is also interesting to see how this evolution has affected households with different income levels. As shown in Figure 16, the financial crisis mainly affected households in the first three deciles, whose real income in 2014 was 23% lower than in 2008. In contrast, the Great Recession had a much smaller impact on households in the top three deciles (whose income fell by only 10%). Since then, the situation has reversed, and almost all the growth in real household income has concentrated among the lowest-income households. By 2024, this group had already recovered all the ground lost since 2008 and was 12% higher than before the pandemic. Consequently, income distribution indicators have also improved substantially in this latest period: according to the Living Conditions Survey, the Gini coefficient, which had peaked at 0.347 in 2014, had fallen to 0.330 in 2019 and reached the lowest level in the entire available series in 2025, at 0.308. Similarly, although the AROPE and at-risk-of-poverty rates remain higher in Spain than the European average, they have also fallen in recent years.

Figure 15: Households' real disposable income per capita (average four quarters)



Source: National accounts

Figure 16: Average real income per decile

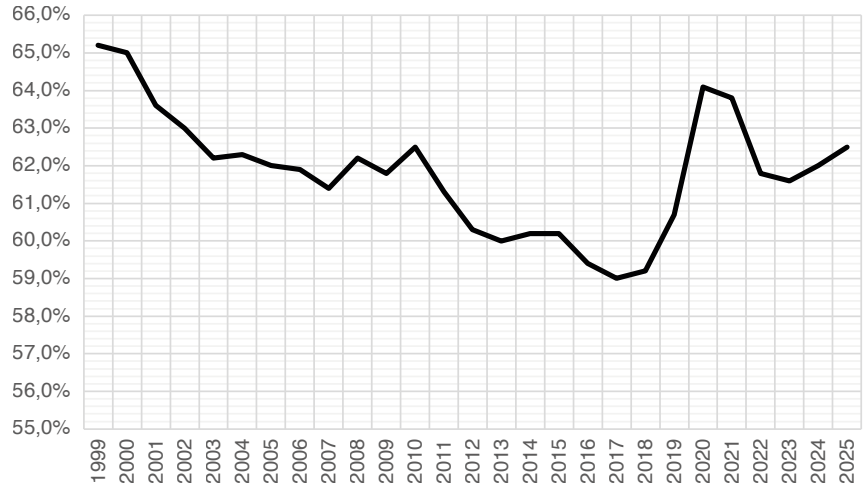


Source: Living Conditions Survey

Wages are the main component of household income and can grow through increases in labour intensity (more household members working or working more hours throughout the year) or in real wages per employee. In this sense, the stagnation of real wages over the past two decades is a source of significant social unrest in Spain.

Figure 17: Real wage in Spain (2000=100)

Figure 18: Adjusted wage share (% GDP at factor cost)



Source: own elaboration with data from Eurostat (real wage) and AMECO (wage share)

Figure 17 shows real wages, deflated using the consumer price index, since 2000. As can be seen, in 2019 wages per person were practically the same in real terms as two decades earlier, and hourly wages were only 5% higher (the difference corresponds to the reduction in the average number of hours worked per employee). In fact, aside from the composition effect that raised average wages due to the sharp employment adjustment in 2019, real wages per employee in those years were, for the most part, below the 2000 level.

The pandemic led to a temporary increase in average real wages, which then fell again during the inflationary period, when nominal wages grew well below the rate of inflation. However, real wages have been rising again since 2023 and, if measured per employee, were 1.7% higher in 2025 than in 2021 and 4.7% higher than in 2019. Hourly wages, meanwhile, were 1.1% and 5.6% higher in 2025 than in 2021 and 2019, respectively.

Therefore, the recent period of growth has indeed been accompanied by an increase in real wages. However, the overall wage compensation for all employees has grown faster than real wages per employee in recent years, thanks to job creation. Returning to the comparison with 2019, they have increased by almost 15%, three times the increase in real wages per person. In sum: of all the real growth in household wage income since the pandemic, approximately two thirds can be explained by job creation and one third by wage growth.

The low growth rate of real wages in Spain is often associated with the productivity slowdown since the 1990s. However, this only a partial explanation: in addition, this lower productivity growth has not been fully reflected in wage income, which has lost ground in total income. Figure 18 uses AMECO data to illustrate this distributive change in the last 25 years, which continues the trend observed across developed countries since the mid-1980s. There is a clear downward trend in the wage share both during the expansionary period associated with the economic bubble (2000–2007) and, more clearly, during the period of wage devaluation and austerity policies (2010–2013). The wage share, which was 65.2% in 2000, reached its lowest value in 2017, at 59%.

This declining trend in the wage share seems to have changed after 2018. Although this could initially be associated with the pandemic itself (employment fell less than production), it is noteworthy that, even after the negative distributive impact on real wages generated by the inflationary period, the wage share appears to be stabilizing at a value (62.5%) higher than in 2017, although it is still almost 3 percentage points lower than in 2000.

Once again, the labour policies implemented in recent years may have decisively influenced this change, particularly the increase in the minimum wage and the reduction in temporary employment.

Regarding this, the OECD (2024b, 11) stated that "weak real wage growth [in Spain] is therefore not just a sign of lagging productivity growth but also reflects additional factors, related to for example changes in wage-setting due to a decline in the bargaining power of workers or composition effects due to the growing concentration of productivity gains in capital-intensive firms." Moreover, it pointed out that "labour market policies also have an important role to play in reviving broadly shared

productivity growth," underlying that, in the last years, "wage-setting institutions [...] have significantly been strengthened to promote a broader sharing of productivity gains" (OECD 2024b, 15).

Surely, one of the measures with the greatest influence on labour income in recent years is the increase in the minimum wage, which has therefore also had a positive effect on the labour share. The 2019 minimum wage increase affected at least 7% of wage earners, more than one million people. Half of them will have experienced wage increases of more than 10%.

Along with this increase in the minimum wage, we have already pointed out above that the second most important measure in the new labour policy is the 2021 reform and its effect on the temporary employment rate, which has fallen by more than 10 percentage points.

Academic literature has highlighted how labour regulations affect wages (Blanchard/Giavazzi 2003; Ciminelli et al. 2022). Particularly regarding the increased flexibility in the use of temporary contracts, Amendola et al. (2024) find a negative effect of temporary contracts on wage bargaining power and, therefore, on the wage share.

In Spain, LFS data show that in 2021, when the last labour reform was introduced, wages received by employees with permanent contracts were, on average, 30% higher than those received by employees with temporary contracts. De la Rica (2010) calls this difference the "penalty of temporary employment" and points out that the excessive use of temporary contracts is an important factor in explaining wage inequalities in Spain. Specifically, she estimates that, even after accounting for differences in the characteristics of people in permanent and temporary jobs, the hourly wage of employees on temporary contracts was still 15% lower.

This difference is consistent with other research for the EU (Dias da Silva/Turrini 2015), and more recent work has also found that the flexibilization of temporary contracts in Spain led to a permanent wage loss for people entering the labour market at that time (García-Pérez et al. 2019).

This evidence suggests that people working on temporary contracts suffer a wage penalty due to a loss of bargaining power. Consequently, the significant reduction in the incidence of this type of contract, as observed since 2022, is likely to have had a positive effect on average wages, on inequality[8], and, ultimately, on the wage share.

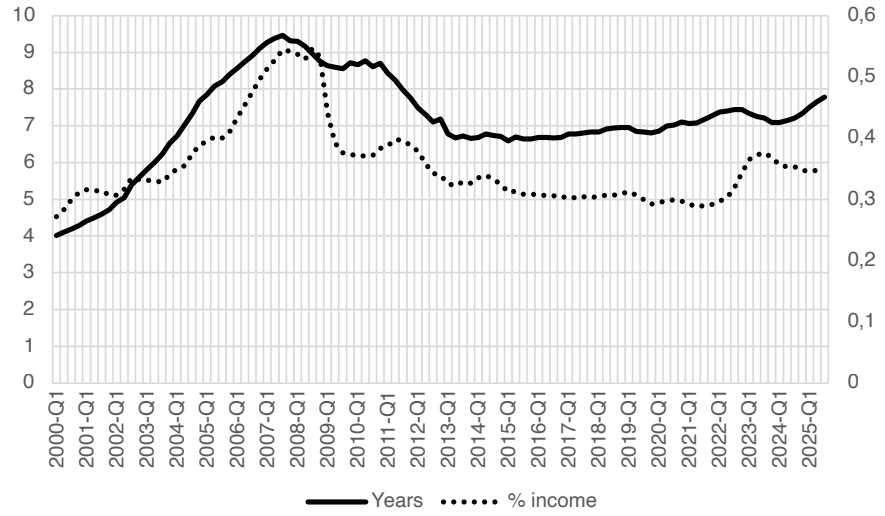
8 Hidalgo (2026) analyses the causes of the recent drop in the Gini coefficient and finds that the increase in minimum wages and the transformation of temporary jobs into permanent contracts are its main drivers.

Therefore, the evidence we have gathered shows that the recent period of growth in the Spanish economy has also led to an increase in real per capita household income, especially among households in the lowest deciles. Most of the increase in household income comes from higher employment, but unlike in the previous two decades, real wages have also risen. In fact, in recent years, wages have recovered some – though not all – of the weight they had lost in total income, arguably as a result of labour policies.

This being the case, why is there a widespread perception in Spain of an "affordability crisis" that particularly affects middle-class households? Although there may be other explanations, one reason that undoubtedly helps to explain this is the rise in housing prices. This point may be important because, although consumer price indices include rental prices, most alternative indicators suggest that this measure underestimates rent growth in recent years. Furthermore, it does not include house purchase prices or the impact of mortgage payments on households' disposable income for the acquisition of other necessary goods and services.

Figure 19 shows the evolution of two indicators that measure the average effort households make to buy a home: the number of years of income a family must devote to pay for it, and the percentage of income devoted to mortgage payments in the first year after purchase.

Figure 19: Housing affordability indicators



"Years" refers to the number of years of the median household's disposable income devoted to the buying of a house, and "% income" is the percentage of this income used to pay for the mortgage in the first year.

Source: Bank of Spain

As can be seen, both show a deterioration in housing affordability from 2019 onwards. In 2025, an average household would need all the income earned in 7.6 years to purchase a home and would have to devote 34.7% of its annual disposable income to mortgage payments.

Although these levels of accessibility are still better than those recorded at the end of the property bubble at the beginning of the century, several important nuances arguably explain the current social unrest over housing in Spain. In the first decade of this century, the increase in housing prices coincided with much easier access to mortgage loans and home purchases. Today, a significant number of households with low disposable income have no way to afford this purchase, even with debt, and their demand for housing has shifted to rentals, the cost of which has also risen sharply. Moreover, both home prices and rents are growing very unevenly across regions and cities, with the increases concentrated in areas where population or tourist activity has grown the most. This means that, for these households and areas, access to housing, whether purchased or rented, has become much more difficult (as reflected, for example, in the delay in the age of residential independence). Finally, the public housing stock in Spain is very limited (whether for sale or rent), and insufficient measures are being taken to increase it.

The percentage of households living in a rented home at market prices has grown significantly, rising from 10% to 15% over the last 20 years. On the other hand, according to the Bank of Spain, while the percentage of households that make an extra effort to pay for their own homes is relatively low (around 3%), it rises to 40% for rentals.[9] Data from the National Institute of Statistics also shows that the average rent already exceeds the minimum wage in at least 18 Spanish provincial capitals (out of 50). Housing has become one of the main determinants of poverty and material deprivation in Spain (these circumstances are much more common among households living in rented accommodation) and a clear source of inequality: alongside the difficulty for lower-income households to access their first home for residential purposes, higher-income households (and investment funds) are monopolizing the purchase of homes for investment purposes, obtaining much higher returns than any other alternative asset (16% in 2025).

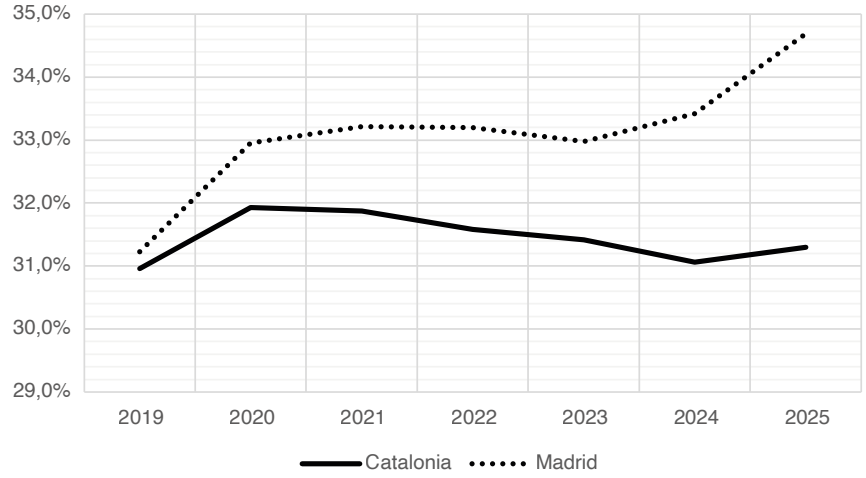
How to address this housing crisis is bound to be a central element of economic policy discussions in the coming years. An important issue to note, however, is that legal jurisdiction over housing in Spain lies mainly with the autonomous communities, rather than with the central government, which requires a high degree of coordination between administrations. An example of the implications of this is the Law on the Right to Housing passed by the Spanish parliament in 2023. Among

9 Households that make an "extra effort" are defined as those for whom mortgage or rent, together with household supplies, account for more than 40% of their gross income.

other measures, this law included the possibility for autonomous communities to declare "stressed areas" where rental prices were increasing rapidly according to objective criteria, and to establish exceptional measures to control rents in such areas. However, few communities have taken advantage of this opportunity.

One of them is Catalonia, which began introducing rental controls even before the national law was passed. Figure 20 compares the evolution of the effort required to rent a home (percentage of income spent on rent) in this autonomous community and in Madrid, which has not applied the housing law. The comparison clearly shows that this measure is effective at containing prices. However, other data indicate a shift from homes offered for residential rental (subject to regulation) to tourist or seasonal rentals (with much looser price regulation).

Figure 20: Rent effort



Rent effort is the percentage of a household's monthly income that it must allocate for rent.
Source: Caixabank Research Real Time Economic Indicators

An in-depth analysis of the housing crisis in Spain, its causes, and the policies that should be implemented to address it is beyond the scope of this article. However, the data we have presented can help readers to understand this situation of social discontent in relation to the evolution of purchasing power, despite Spain having excellent records in terms of income and employment growth at the same time, and its quality in terms of employment, and better in terms of real wages.

6. Conclusions

The performance of the Spanish economy between 2022 and 2025 has been remarkable from a comparative European perspective. After experiencing one of the deepest contractions during the Covid-19 pandemic, Spain not only recovered its pre-crisis GDP level quickly but also subsequently recorded growth rates above the eurozone average. This expansion has occurred alongside rising per capita GDP, robust job creation, declining unemployment, improved job quality, and a slight increase in real wages in recent years. At the same time, the current account has remained in surplus, and the public debt-to-GDP ratio has fallen back to its pre-pandemic level. In addition, in a context of demographic ageing, immigration has become a key pillar of growth, with migrants expanding the labour force and contributing to per capita GDP growth. All these developments contrast sharply with the prolonged stagnation that followed the 2008 financial crisis and suggest the emergence of a new macroeconomic phase.

Spain's improved performance cannot be explained solely by cyclical dynamics or favourable external conditions. Rather, it reflects a significant shift in economic policy since 2020. The New Economic Policy implemented in Spain differs substantially from the austerity-oriented strategy adopted after the global financial crisis. Diverse elements have been central to this shift: a reorientation of labour market policy towards employment stability and stronger wage-setting institutions; an expansionary fiscal stance; the strategic deployment of Next Generation EU funds through public investment and selective industrial policy; the reinforcement of the welfare state; and targeted fiscal and regulatory measures to mitigate the inflationary shock.

Labour market reforms have played a particularly important role. The 2021 labour reform contributed to a sharp reduction in temporary employment, strengthened collective bargaining, and marked a clear departure from the strategy of internal devaluation. This measure, together with sustained increases in the minimum wage, improved job stability and supported a modest recovery in real wages and the wage share. Unlike previous expansions, employment and productivity have grown simultaneously, breaking with Spain's traditional countercyclical productivity pattern. This combination has supported household income growth – especially among lower-income groups – and contributed to a reduction in inequality.

Fiscal policy has also been decisive. In contrast to the procyclical consolidation of 2010–2013, public spending after 2020 acted as an expansionary stabilizer. The suspension of European fiscal rules, the issuance of European bonds, and the accommodative stance of the ECB created a supportive macroeconomic environment. Spain's strategy of partially balanced fiscal expansion – combining higher

expenditure with selective revenue measures – suggests that fiscal sustainability can be achieved through growth rather than austerity.

At the structural level, the use of Next Generation EU funds to promote an emerging industrial policy – particularly linked to the energy transition – may prove one of the most consequential developments of this period. Spain's comparative advantage in renewable energy has already translated into relatively lower electricity prices, enhancing industrial competitiveness and attracting investment. Although the long-term impact of these initiatives remains uncertain, the combination of green investment, digitalization, and public–private coordination represents a clear departure from decades of narrow industrial policy.

In fact, this recent evolution in Spanish economic policy aligns well with the literature that has lately examined the hysteresis phenomena associated with economic recessions (Cerra et al. 2023). According to this literature, many recessions are not merely temporary fluctuations, but rather cause permanent losses in GDP: they destroy physical capital, reduce investment and erode human capital, thereby lowering the economy's future growth trajectory. Thus, following major recessions, GDP may remain permanently below its previous trend, and the economy may not automatically return to its potential growth path. For this reason, as we have seen in Spain, economic policy can be key to avoiding these hysteresis effects. Expansionary fiscal responses can reduce these hysteresis effects and avert permanent damage to the economy.

Despite these positive developments, significant tensions and challenges persist in the Spanish economy. The recovery of household income has been driven mainly by employment growth, while improvements in purchasing power have been very slow and have coincided with a severe deterioration in housing affordability. Rising house prices and rents, particularly in dynamic urban areas, risk undermining the social legitimacy of economic recovery.

Overall, Spain's recent experience suggests that an alternative macroeconomic policy mix – combining labour stabilization, expansionary fiscal policy, social protection, selective industrial policy and targeted anti-inflation measures – can generate robust growth alongside improved social outcomes. Whether this will prove a durable transformation will depend on the government's ability to address the remaining structural challenges, particularly in productivity, housing and social cohesion.

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