

Euro Challenge 2025

Spain

**Boosting Growth,
Competitiveness,
and Prosperity**

Team T7

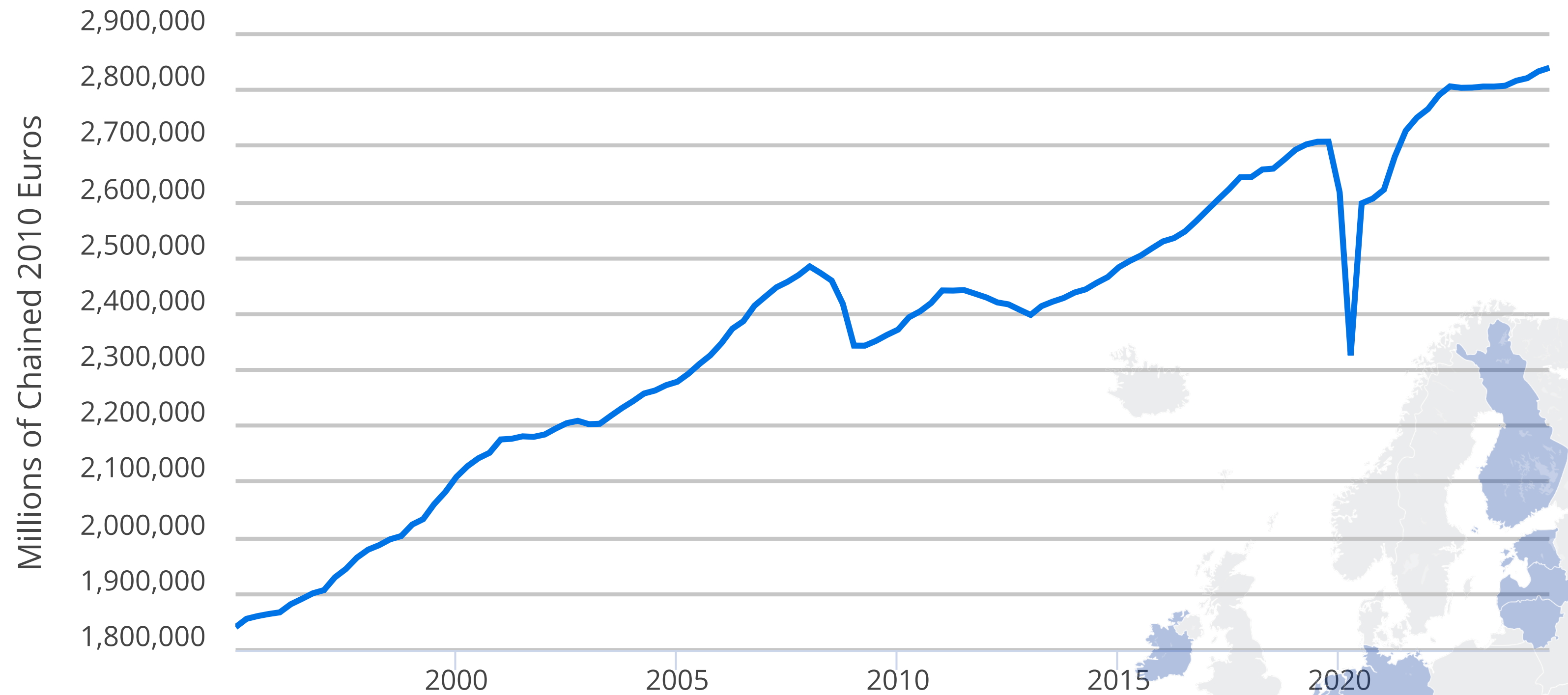


Euro Area: Gross Domestic Product

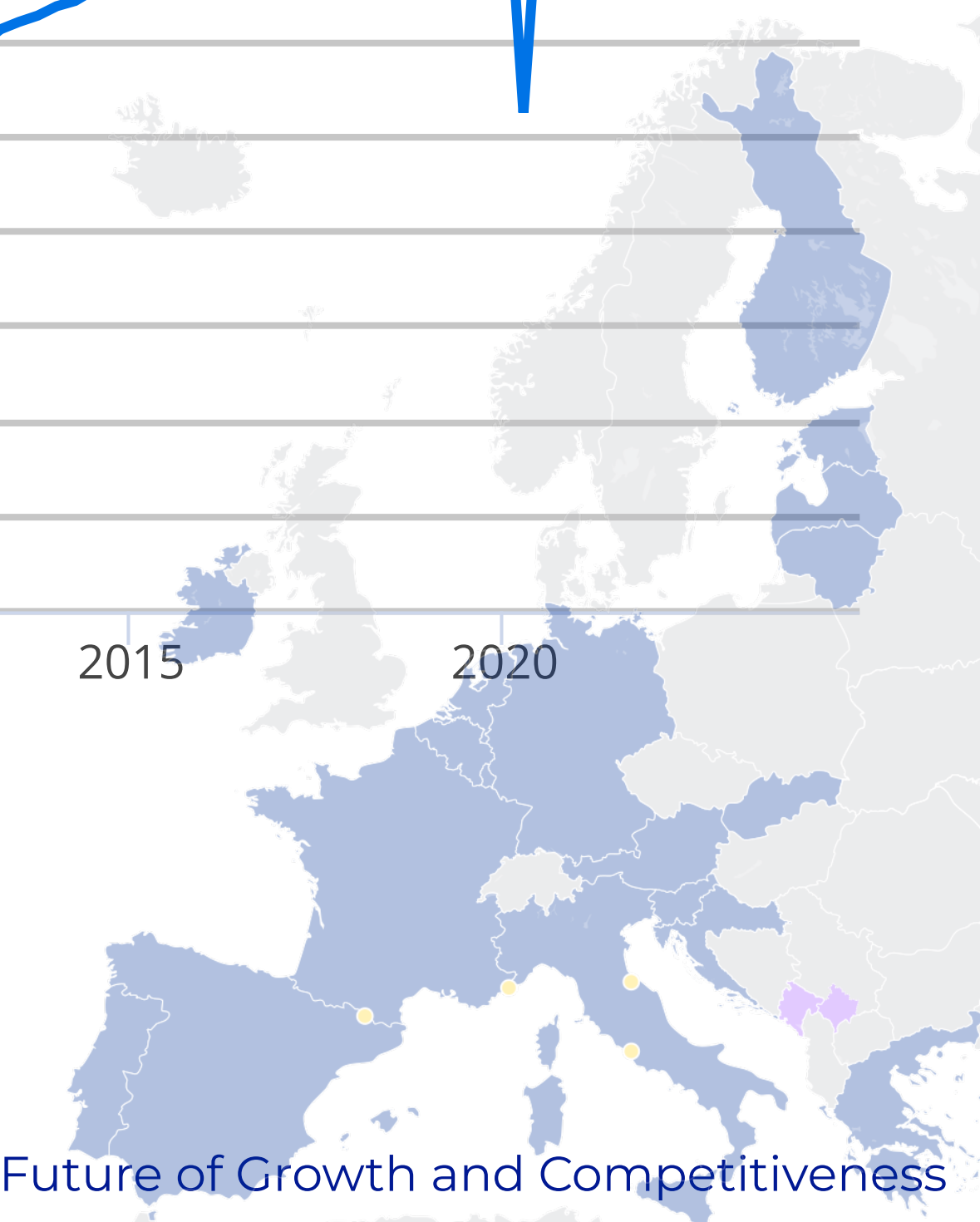


Real GDP growth (annualized)
2024 q4: 1.2%

Real Gross Domestic Product for Euro Area (GDP Adjusted for Inflation)



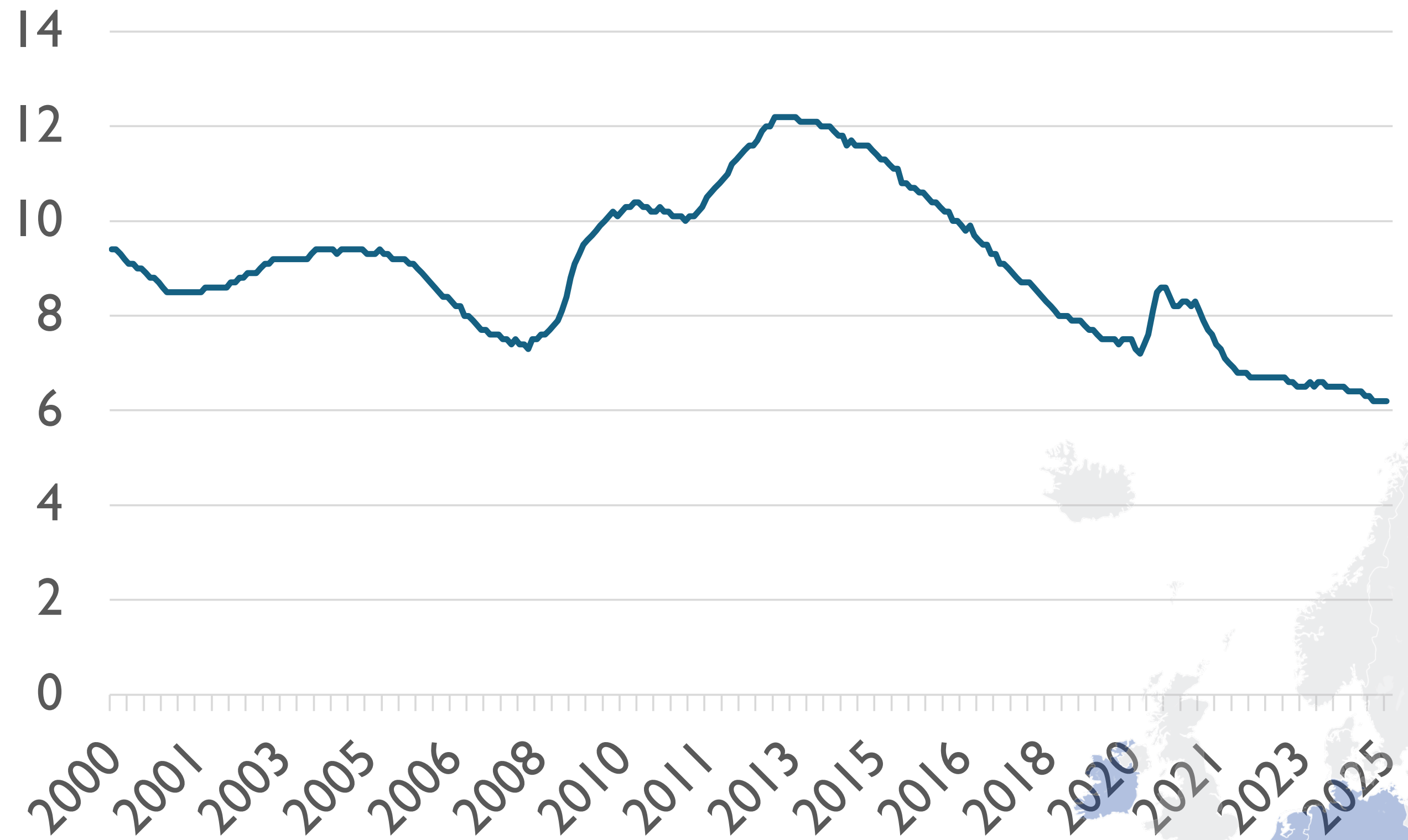
Source: Eurostat via [FRED](#)



Euro Area: Unemployment

Unemployment rate
2025 Jan.: 6.2%

Unemployment Rate, Euro Area



Source: [Eurostat](#)

Euro Area: Inflation

Inflation rate (year on year)
2025 Feb.: 2.4%

Inflation Rate, Euro Area (Year on Year)



Source: [Eurostat](#)

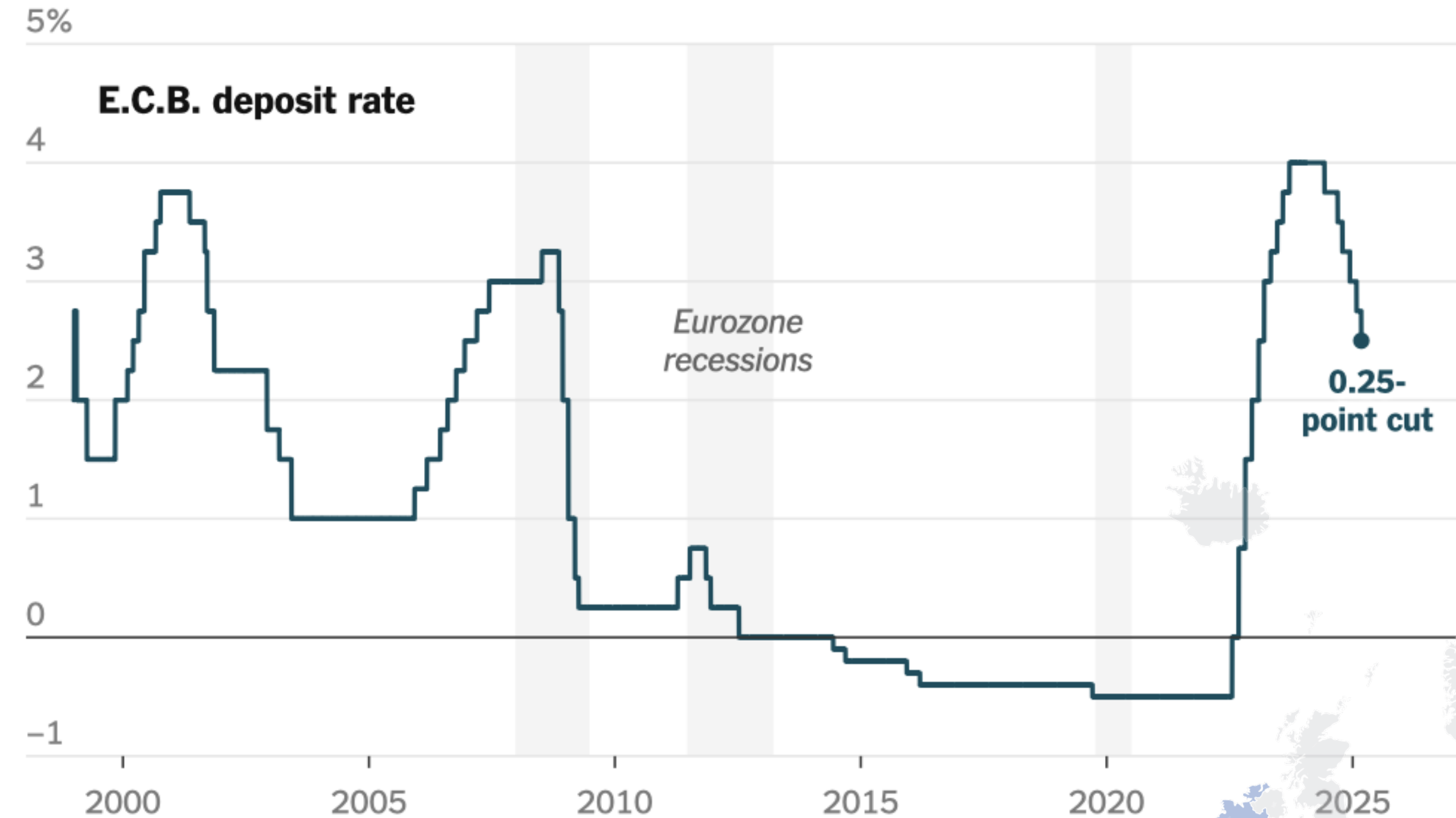
Euro Area: Monetary Policy

E.C.B deposit rate

2025 March: 2.5%

Decreased by ECB by 0.25%

ECB Deposit Rate



Source: European Central Bank via [The New York Times](#)



The logo for the Financial Times, consisting of the words 'FINANCIAL TIMES' in a black, serif font.

Spanish growth soars as Eurozone stumbles

The logo for BBC, consisting of the letters 'B B C' in a bold, black, sans-serif font, each letter inside its own black square.

How Spain's economy became the envy of Europe

The logo for Reuters, featuring a circular icon of dots to the left of the word 'Reuters' in a bold, black, sans-serif font.

Spain's economy outperforms euro zone in 2024

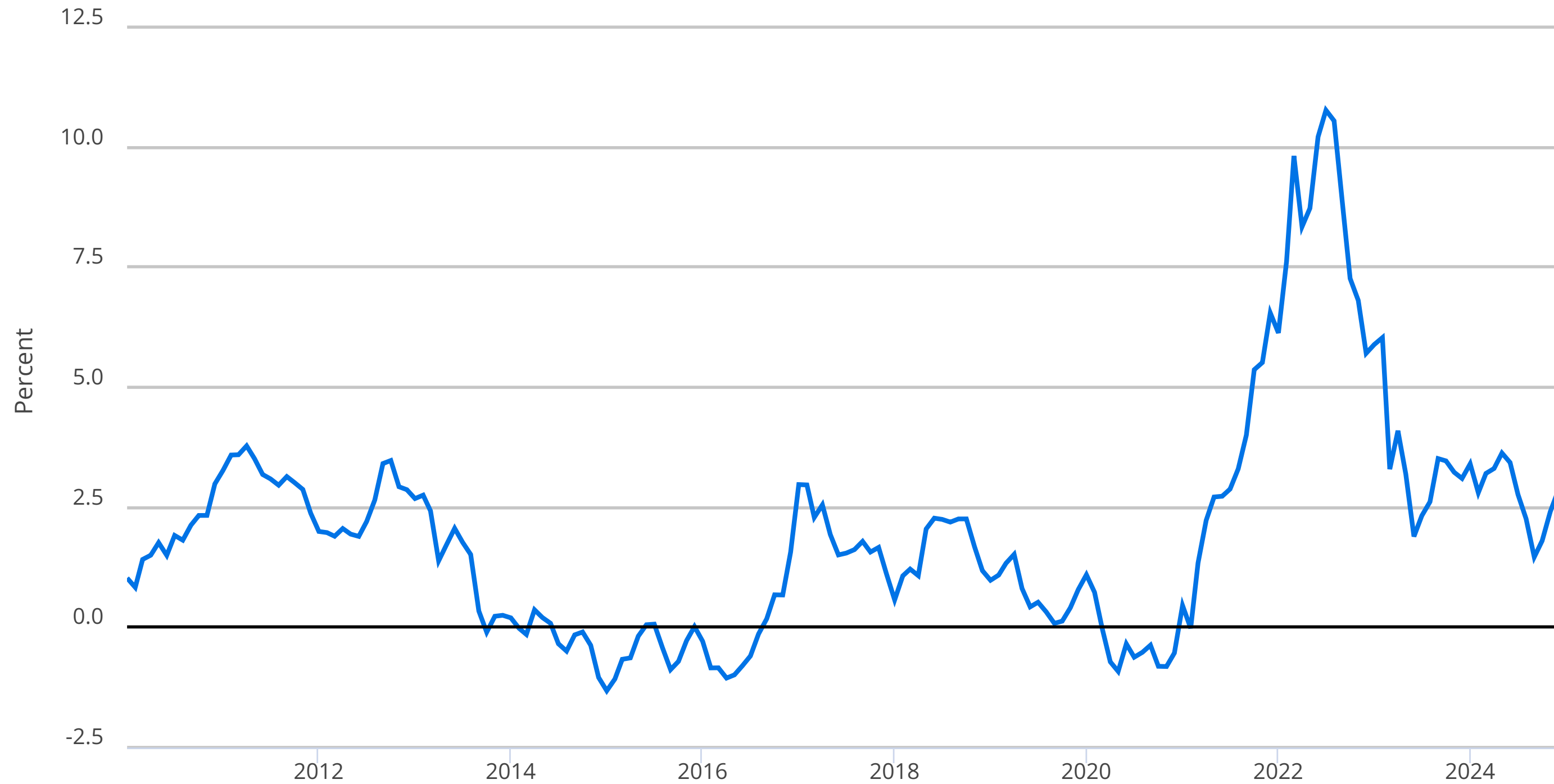
The logo for The Wall Street Journal, consisting of the words 'THE WALL STREET JOURNAL.' in a black, serif font.

Spanish Unemployment Declines Further as Economy Shines



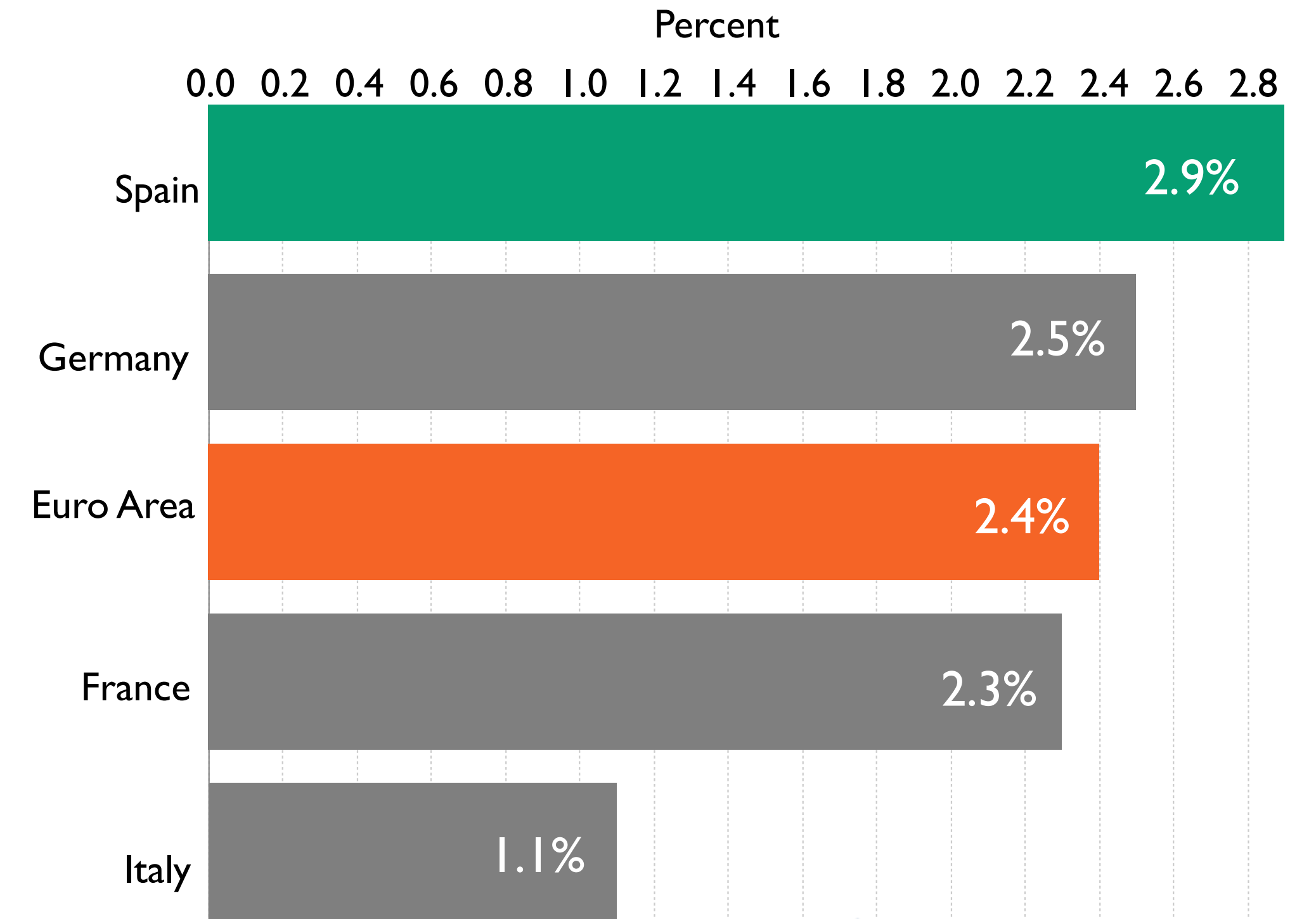
Spain: Inflation

HICP Inflation Rate for Spain



Source: OECD via [FRED](#)

HICP Inflation Rate in EU, Jan. 2025



Source: [Eurostat](#)

Inflation rate (year on year)

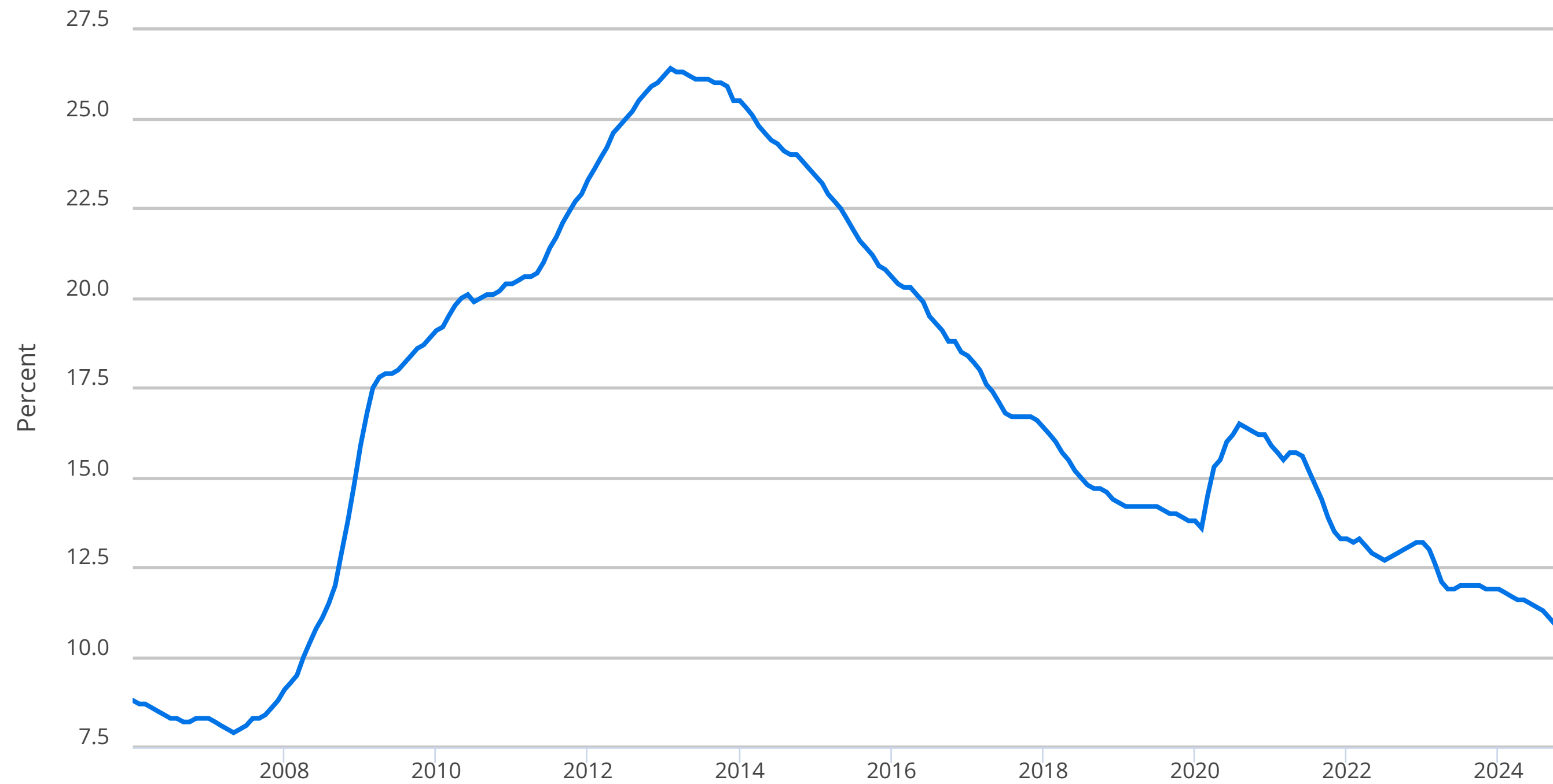
2025 Jan: 2.9%

Slightly Higher than most of EU



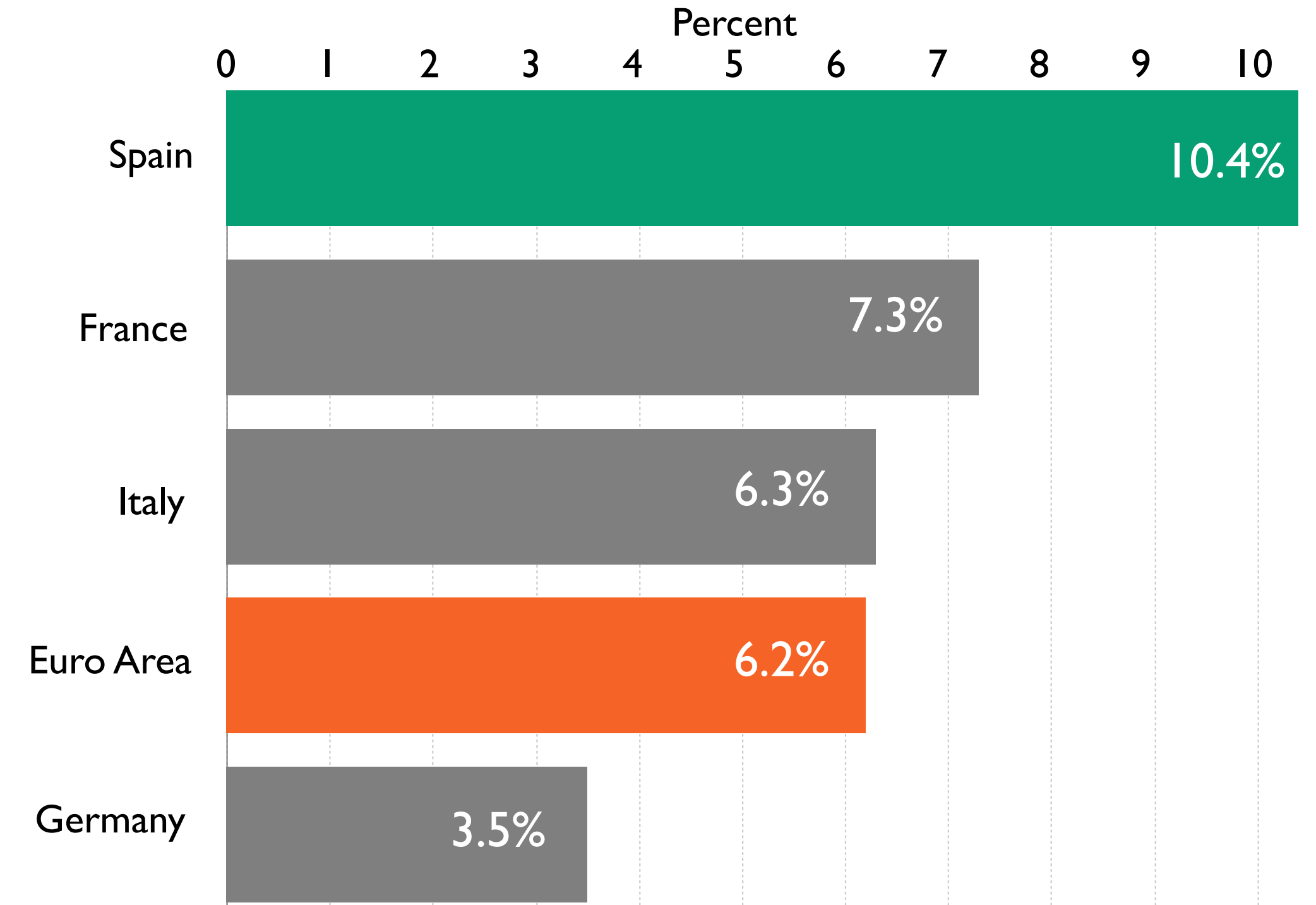
Spain: Unemployment

Unemployment Rate for Spain



Source: OECD via [FRED](#)

Unemployment Rate in EU, Jan 2025



Source: [Eurostat](#)

Unemployment rate

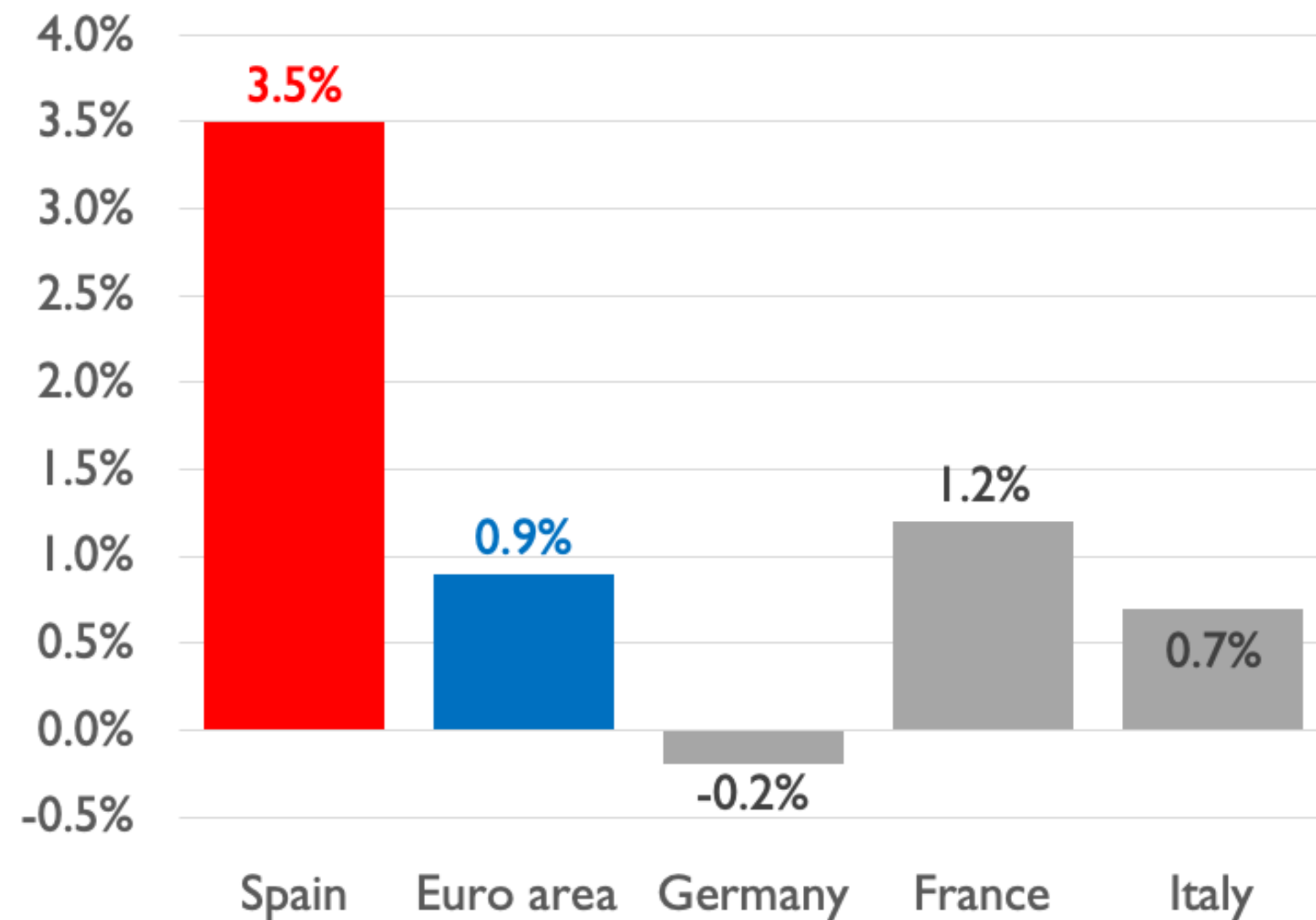
2025 Jan: 10.4%

Higher than most of EU



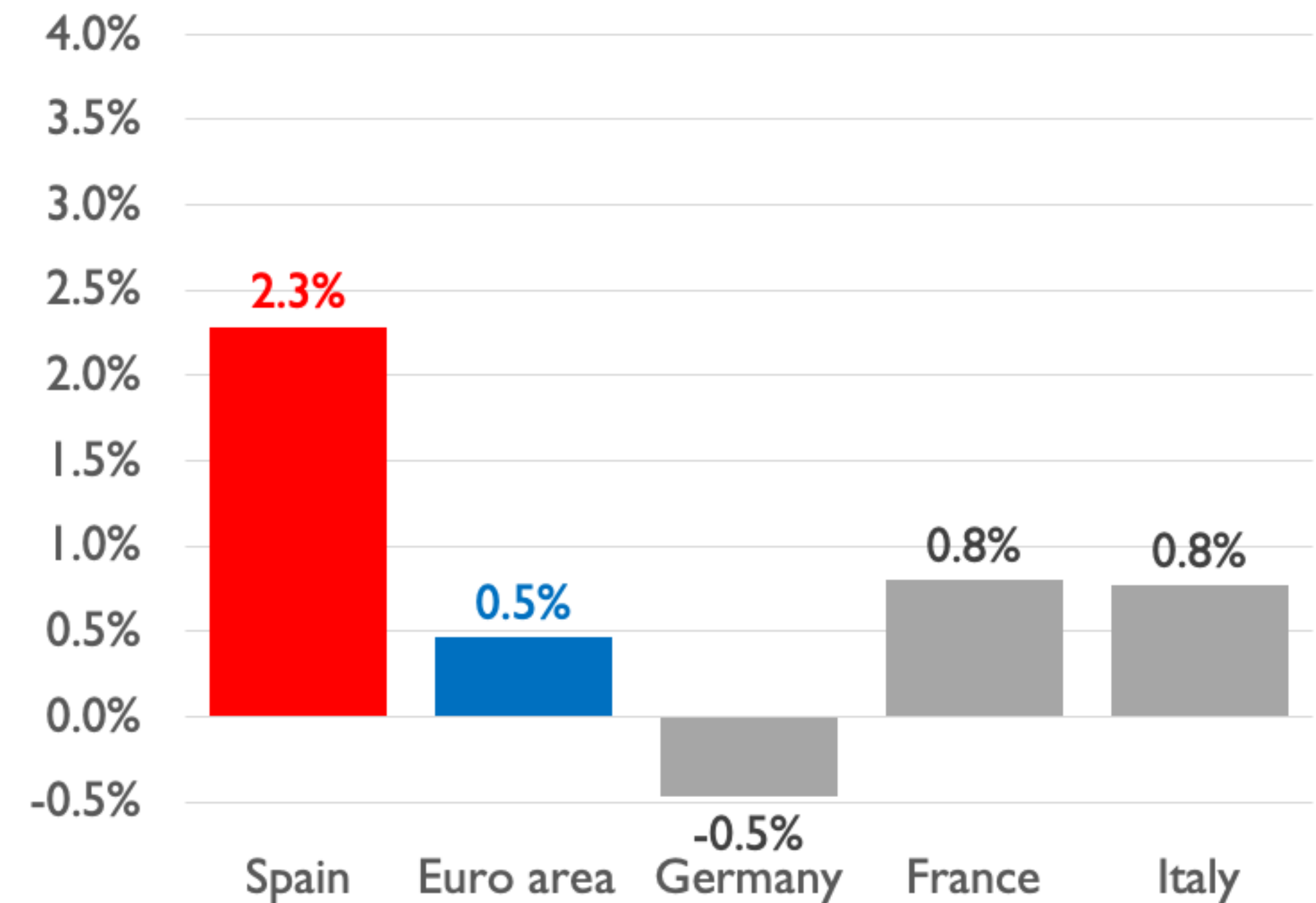
Spain: Real GDP and GDP per Capita Growth

Aggregate Real GDP Growth in EU, 2024



Source: [Eurostat](#)

Per Capita Real GDP Growth in EU, 2024



Source: [Eurostat](#)

Aggregate Real GDP growth for Spain:

2024: 3.5%

Higher than most of EU

Per capita real GDP growth:

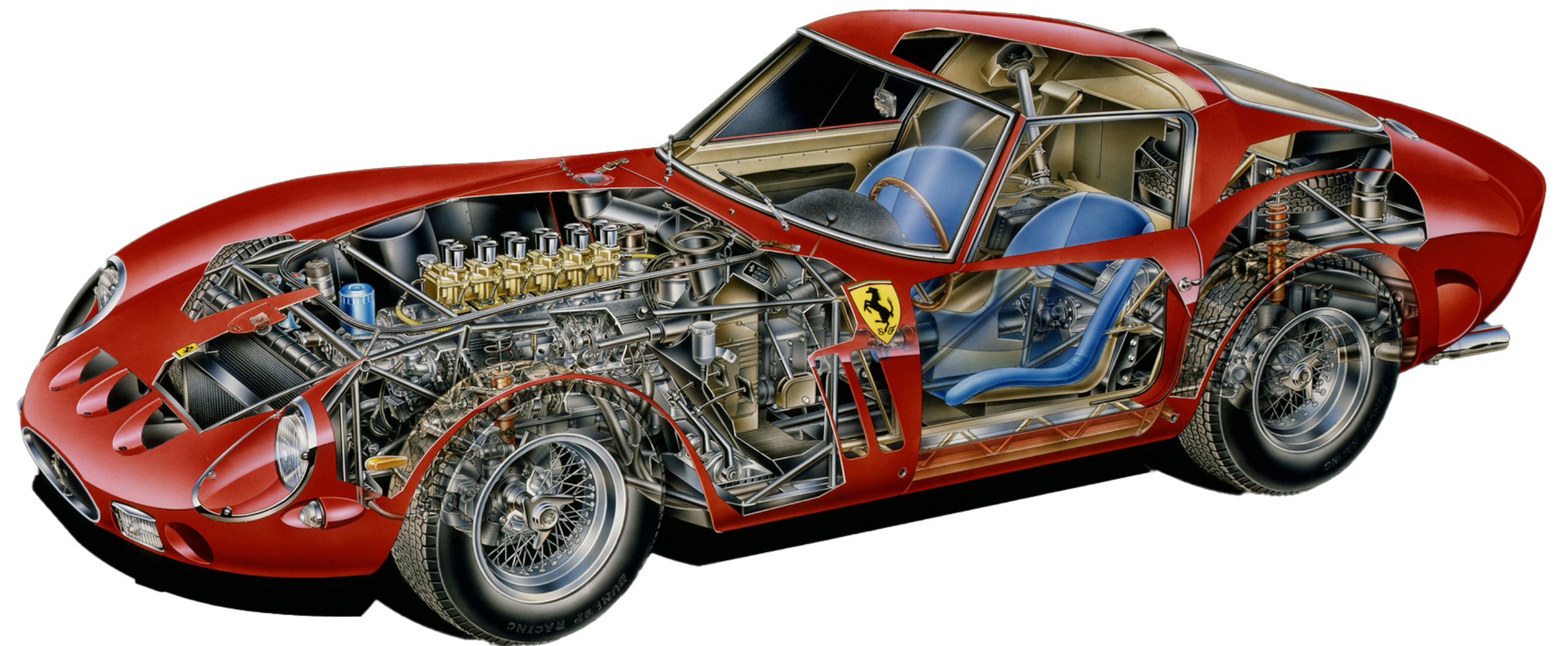
2024: 2.3%





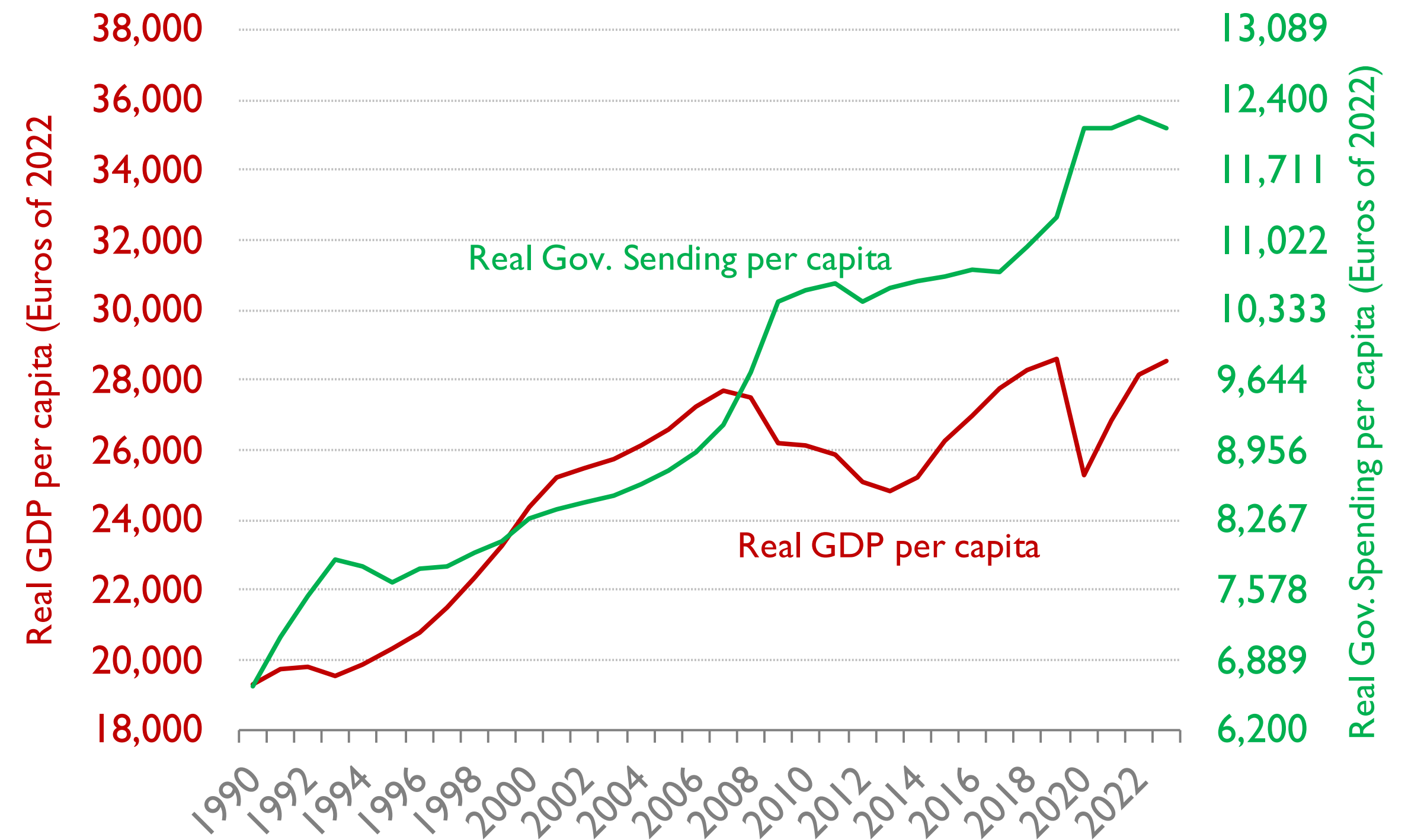
Current Spanish growth is shiny like a new sports car.

But what is driving that growth under the hood?



Spain: Rise in Government Spending per Capita

Real GDP per capita and Gov. Spending per capita, Spain (Euros of 2022)



Source: Eurostat

High government spending in Spain used to maintain GDP per capita growth

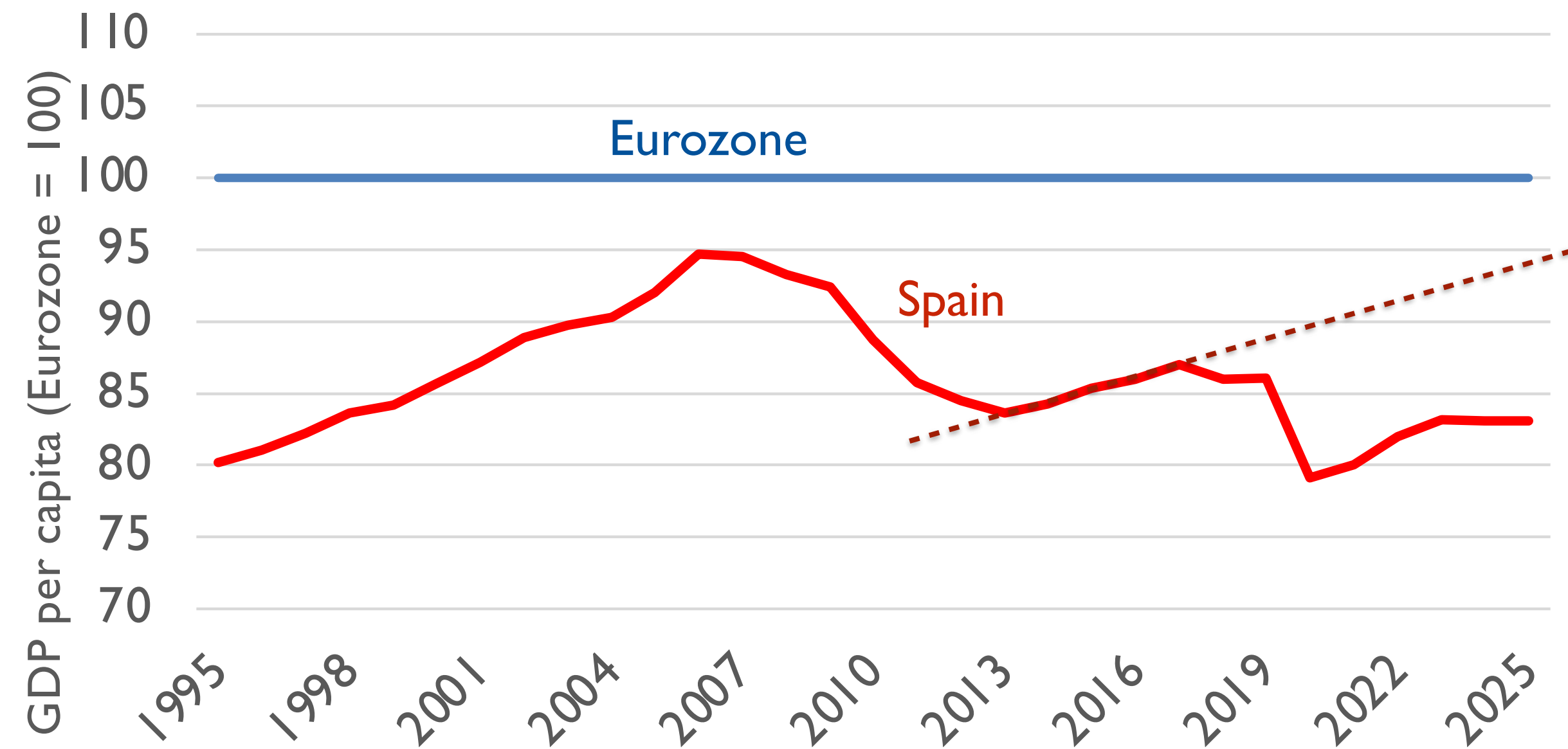
Not sustainable for long-term growth.

GDP per Capita in Spain Relative to Eurozone

Spain almost converged to Eurozone GDP per capita level prior to Global Financial Crisis, but diverged after.

Spain is not yet back to pre-pandemic level of Real GDP per capita despite high growth.

Real GDP per capita for Spain (Eurozone GDP per capita=100)



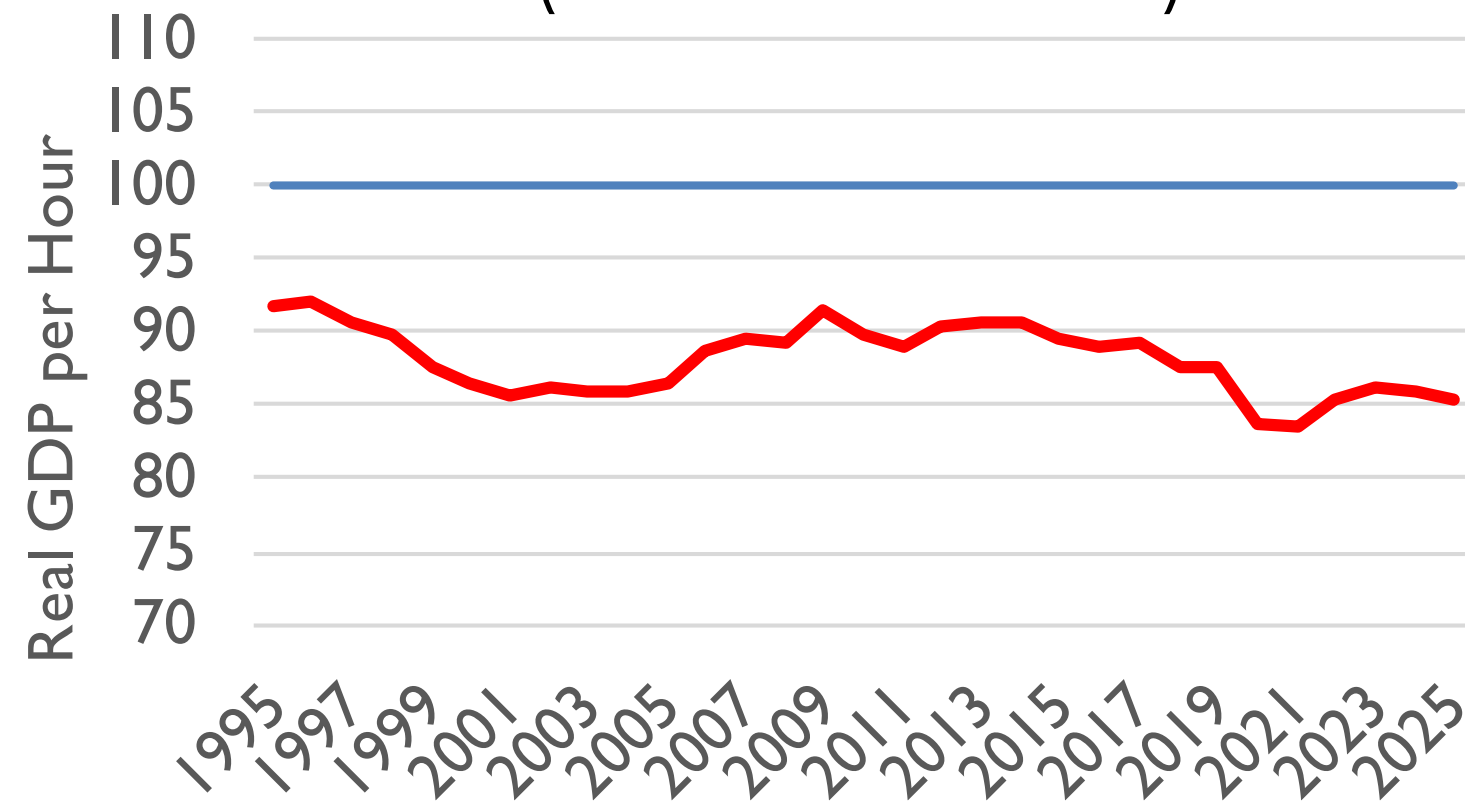
Source: Eurostat

Decomposing GDP per Capita

$$\frac{\text{GDP}}{\text{Population}} = \frac{\text{GDP}}{\text{Hours Worked}} \times \frac{\text{Hours Worked}}{\text{Employment}} \times \frac{\text{Employment}}{\text{Population}}$$

GDP per Capita = Productivity × Hours per worker × Employment rate

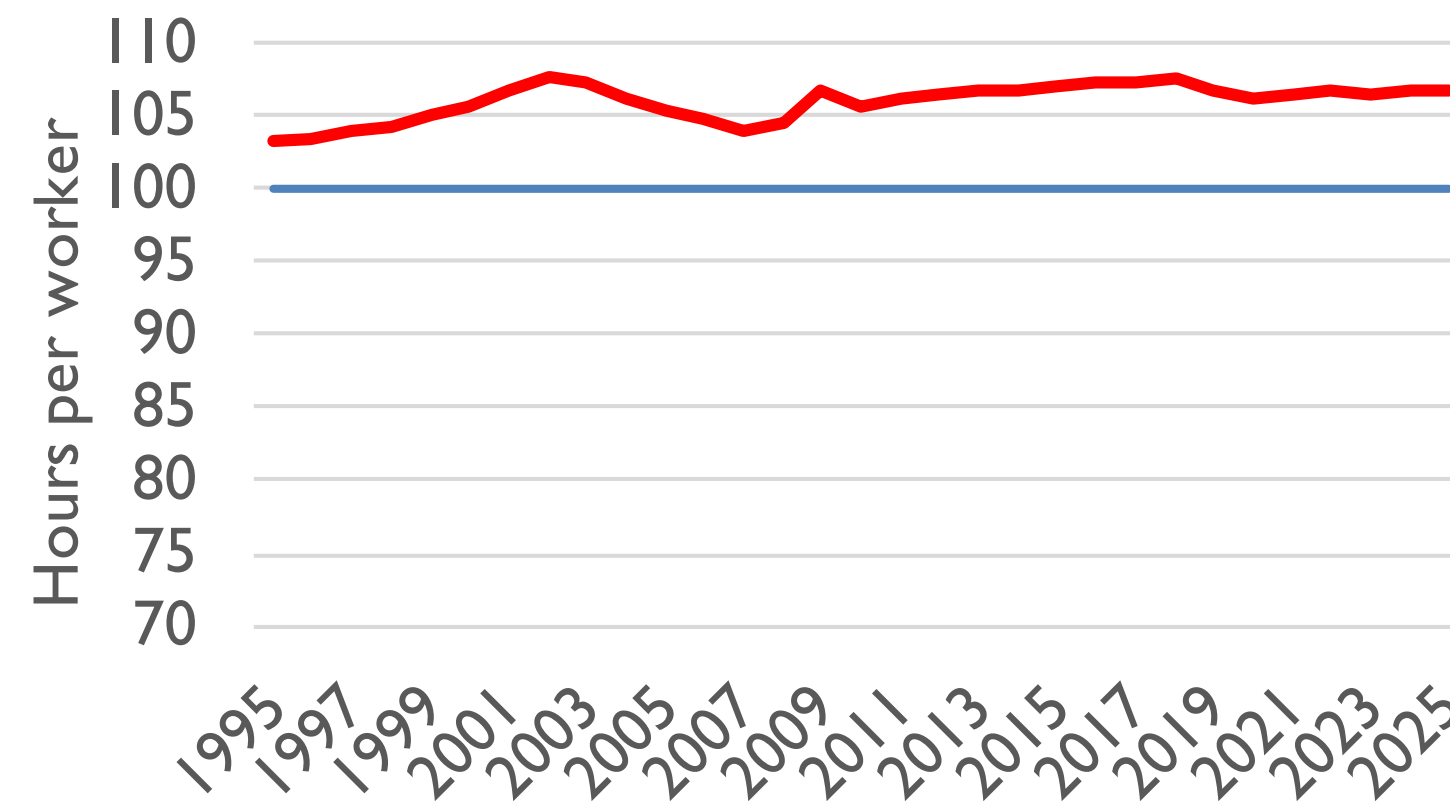
Real GDP per Hour
(Eurozone = 100)



Source: Eurostat

Lower Productivity

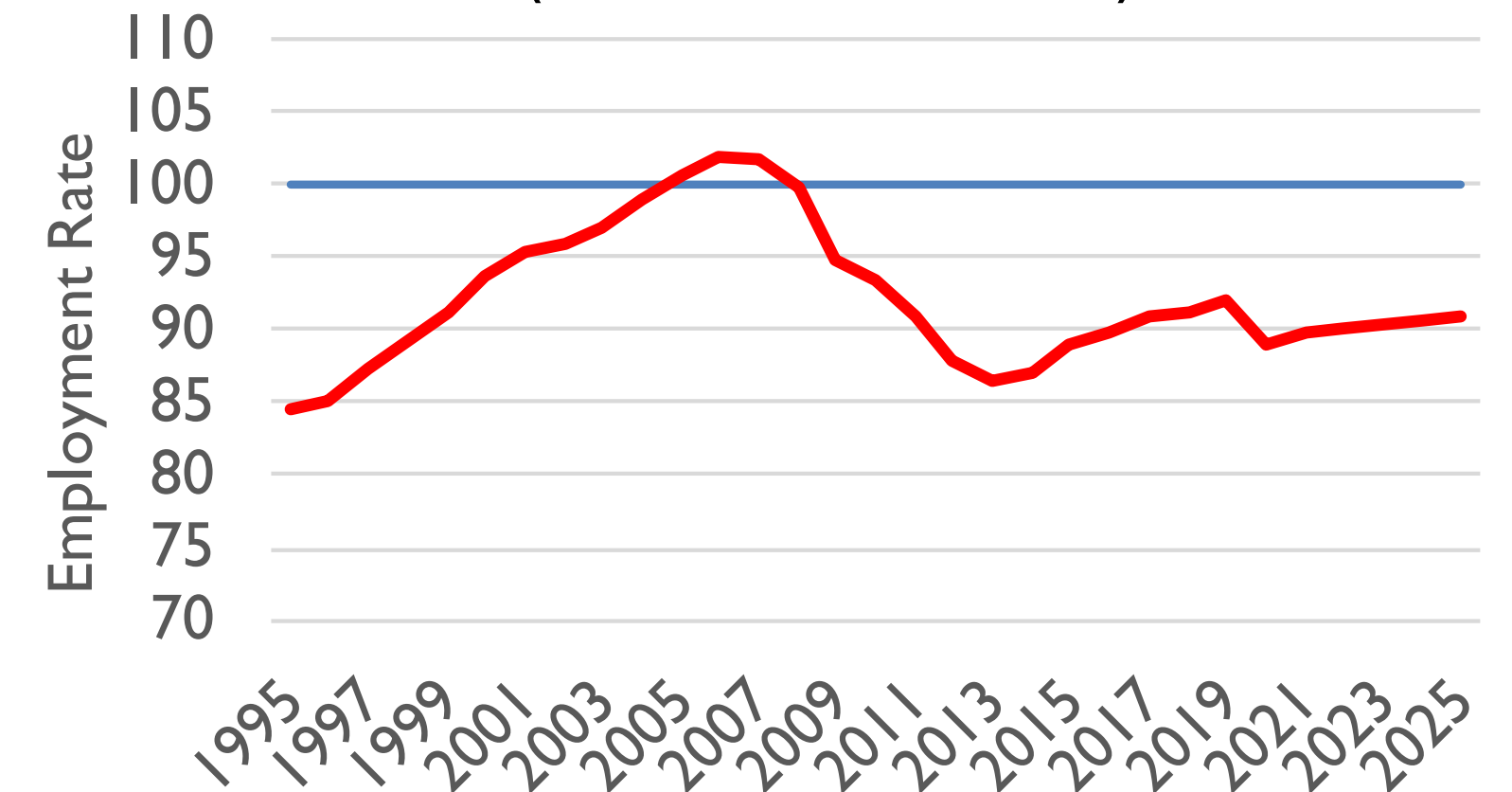
Hours per Worker
(Eurozone = 100)



Spain relative to Eurozone

Higher hours worked

Employment Rate
(Eurozone = 100)

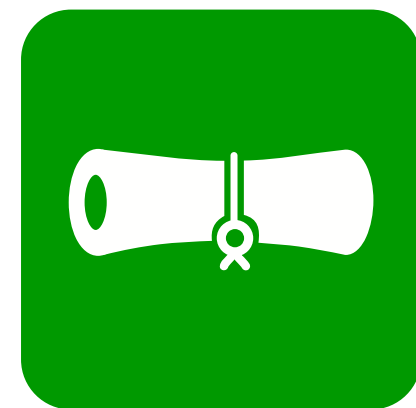


Lower employment rate

Focal Areas for Growth in Spain



Labor Market



Education



Innovation



Business Environment

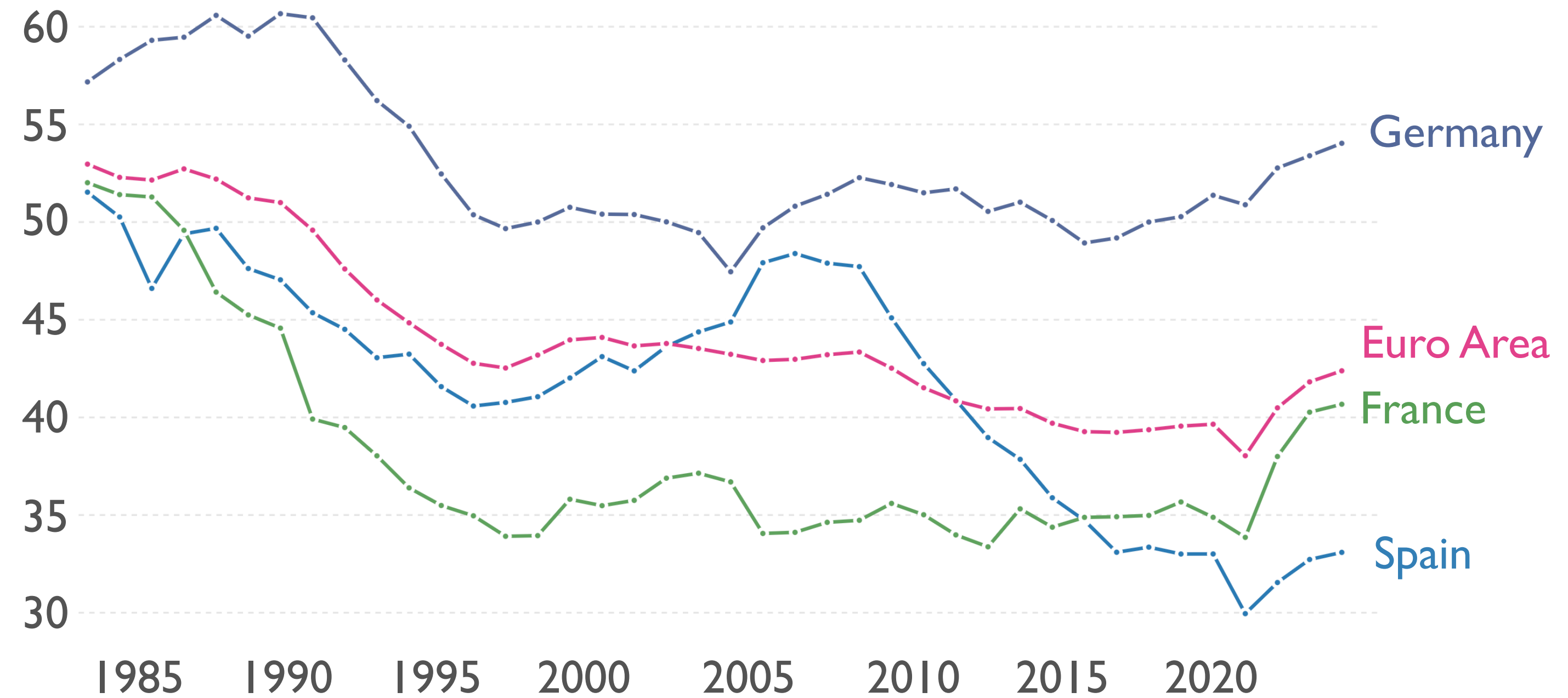


Labor Market

Youth Participation

Low and declining rate in youth participation.

Youth Participation Rate (15-24 years old)



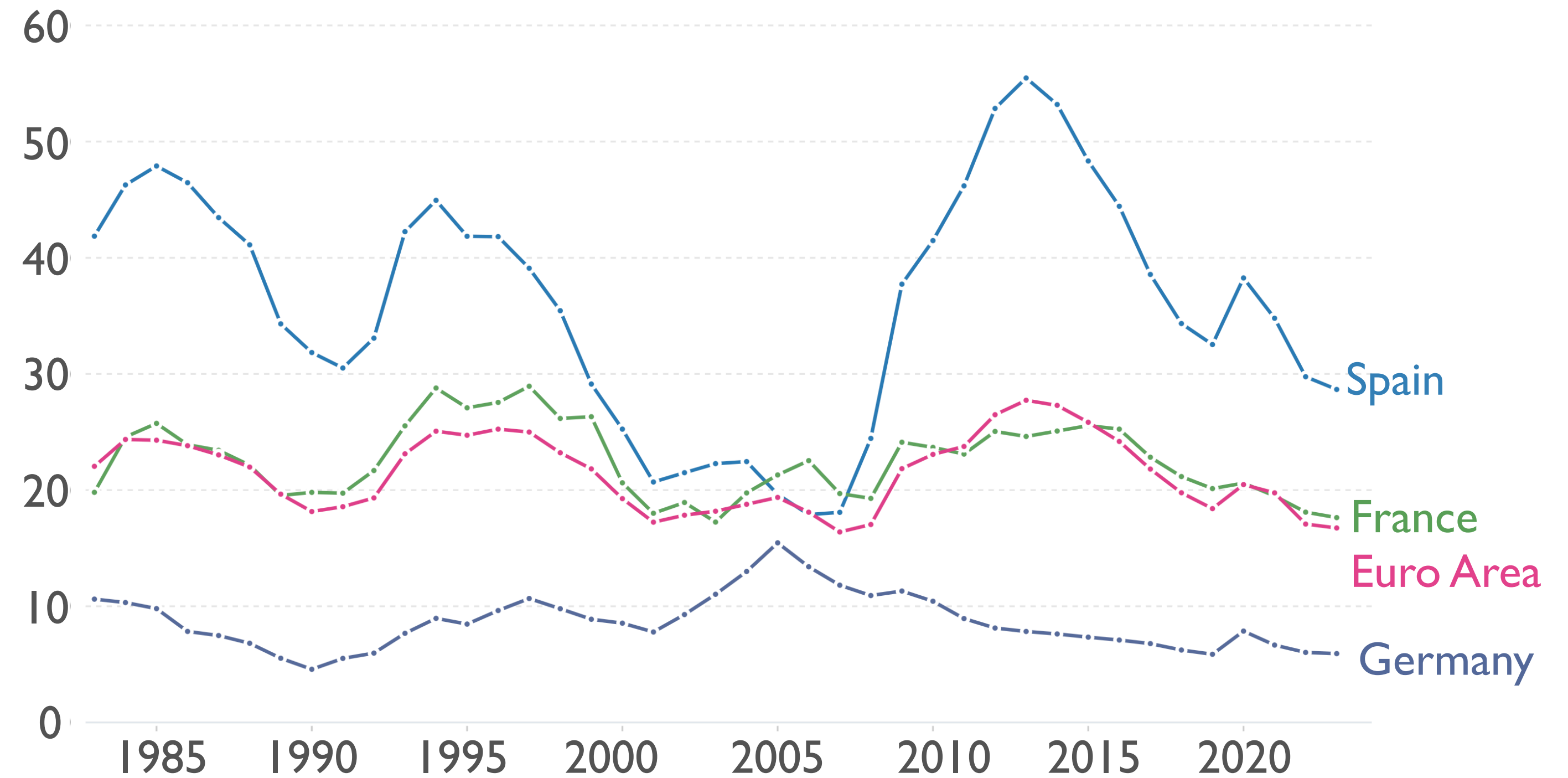
Source: [World Bank](#)

Youth Unemployment

Very high youth unemployment rates, but has recently declined.



Youth Unemployment Rate (15-24 years old)

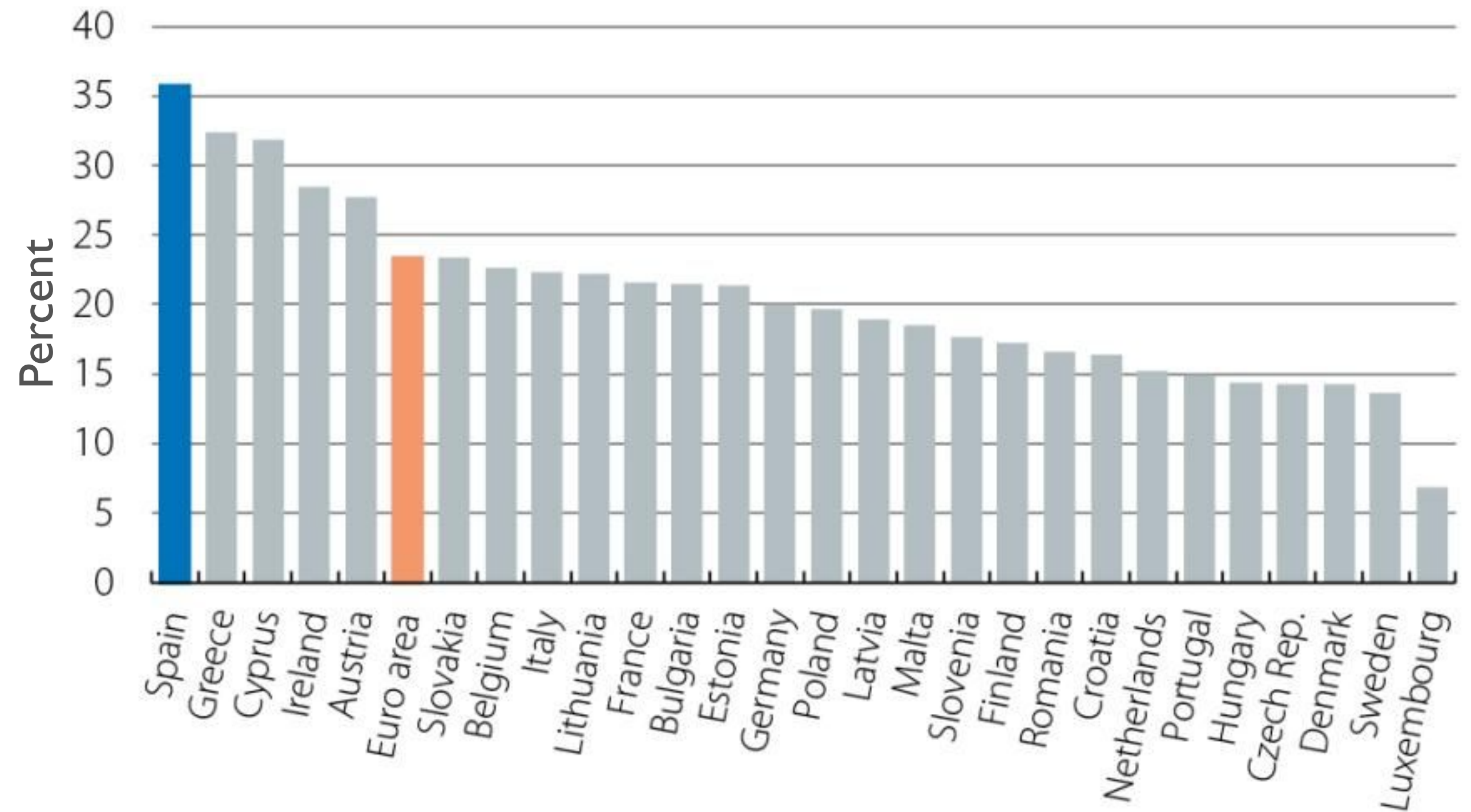


Source: [World Bank](#)

Overqualification

High overqualification rates compared to EU.

Overqualification Rate in EU Countries, 2022



Notes: Data for 2022. Employed workers aged 20 to 64 years with higher (tertiary) education who do not work in occupations associated a priori with this qualification level (executives, scientists, intellectuals and technicians).

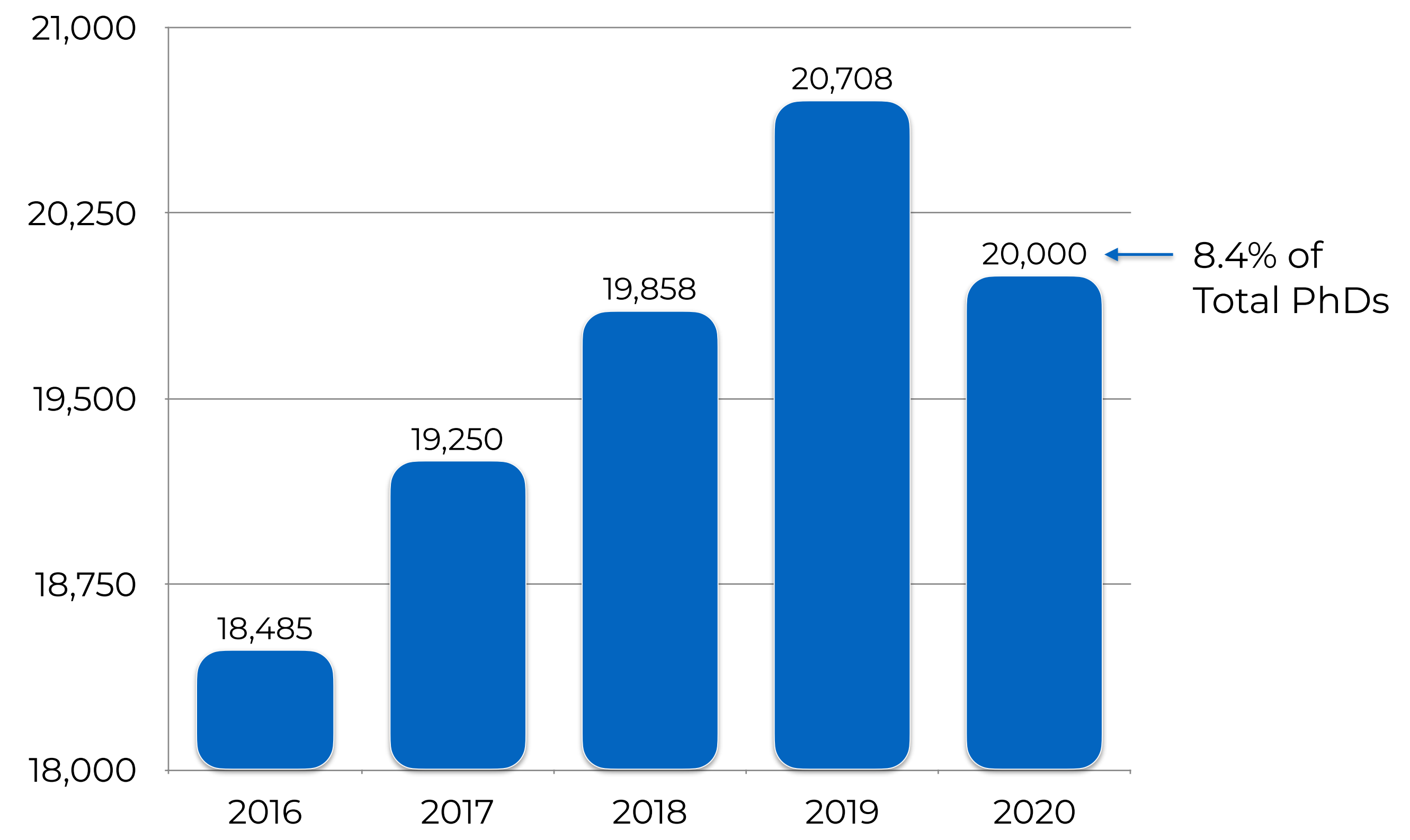
Source: [Caixa Bank Research](#) based on data from Eurostat

Brain Drain

In recent years around 10% of doctorates were living outside of Spain.



Doctorates from Spain living abroad

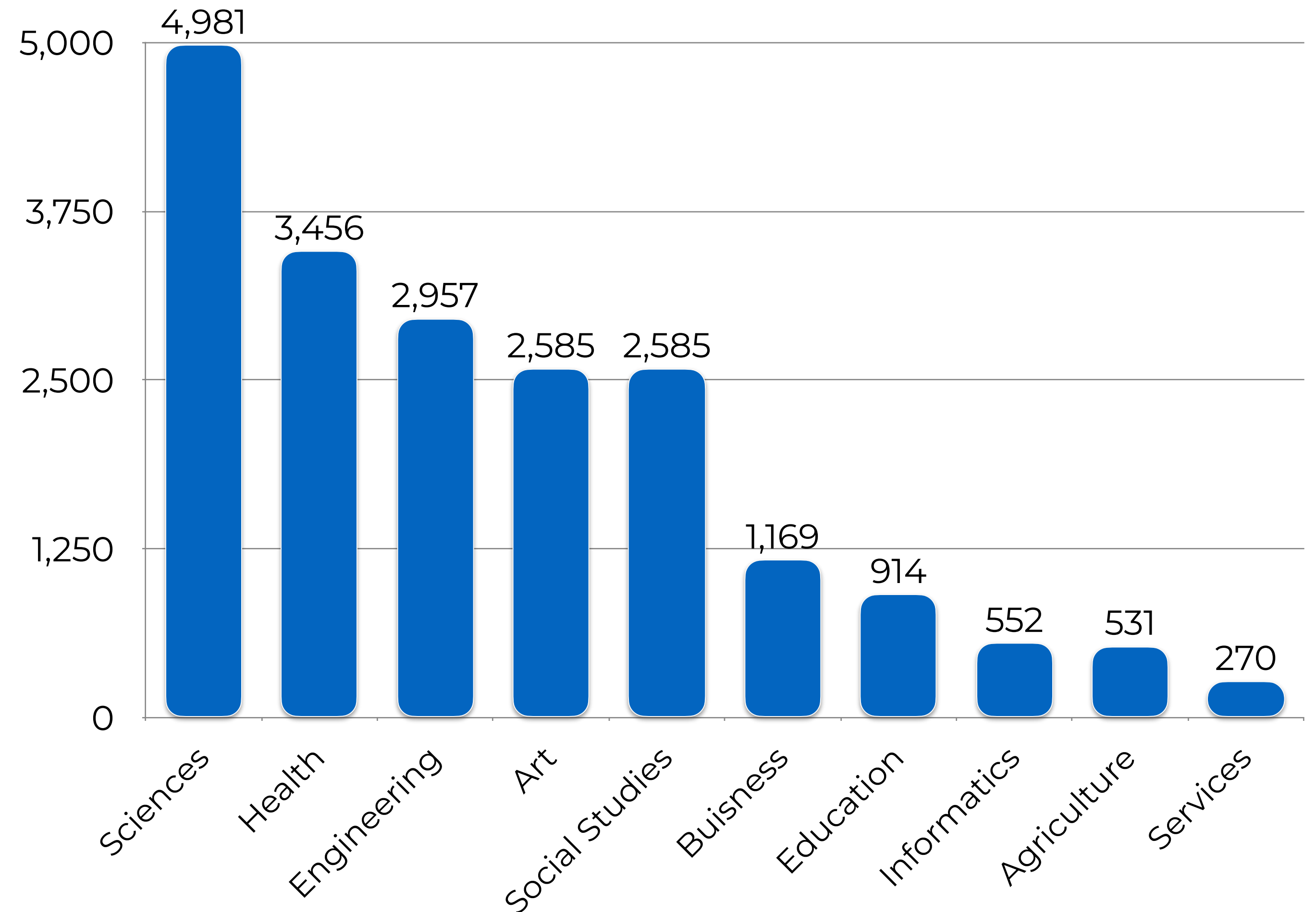


Source: [Xartec Salut](#) with data from OECD, Eurostat

Brain Drain by Discipline

Spanish PhD researchers living abroad per branch of studies (2020)

Over 50% of the Spanish PhDs living abroad are in fields crucial for innovation: Sciences, health, and engineering.



Source: [Xartec Salut](#) with data from Ministerio de Universidades

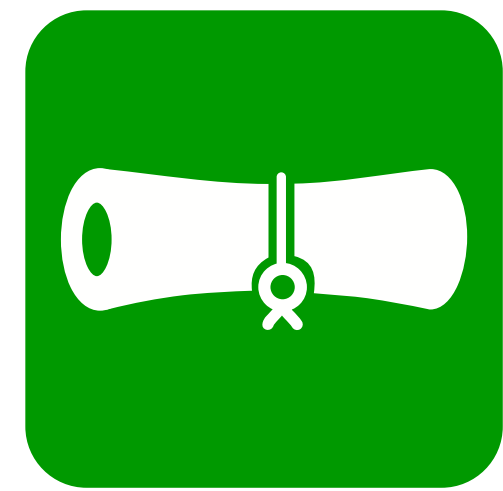
Labor Market Mismatch

High demand in Spain for workers in IT, Operations, and Front Office.
Problem solving and Teamwork ability highly demanded soft skills.



Source: [Man Power Group](#)

High levels of unemployment, overqualification and brain drain in Spain are a consequence of mismatch between demand and supply in the labor market.



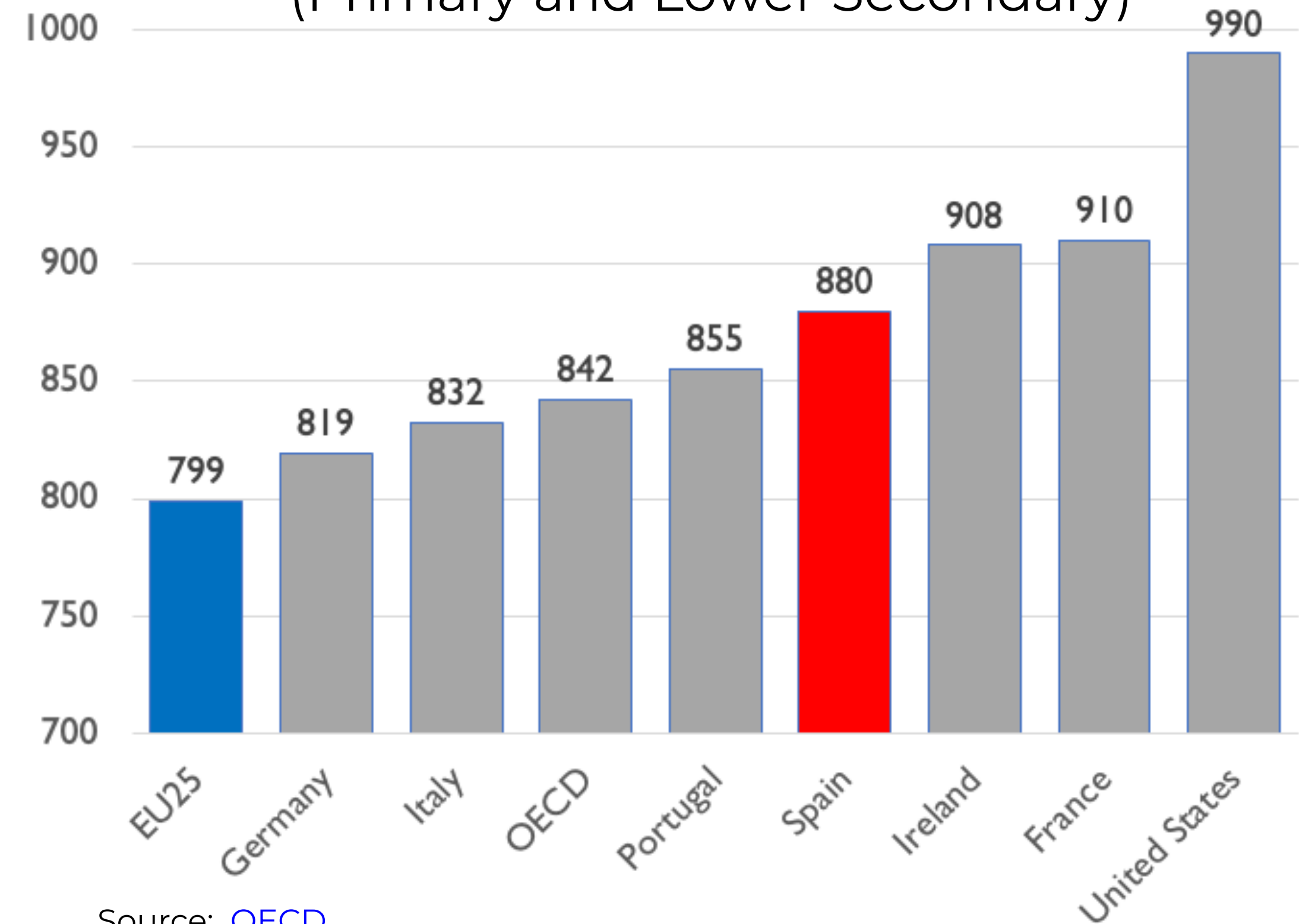
Education

Hours of Schooling

Spanish students spent many more hours in school than many of their EU counterparts



Hours per Year of Compulsory Education in Public Schools (2022) (Primary and Lower Secondary)

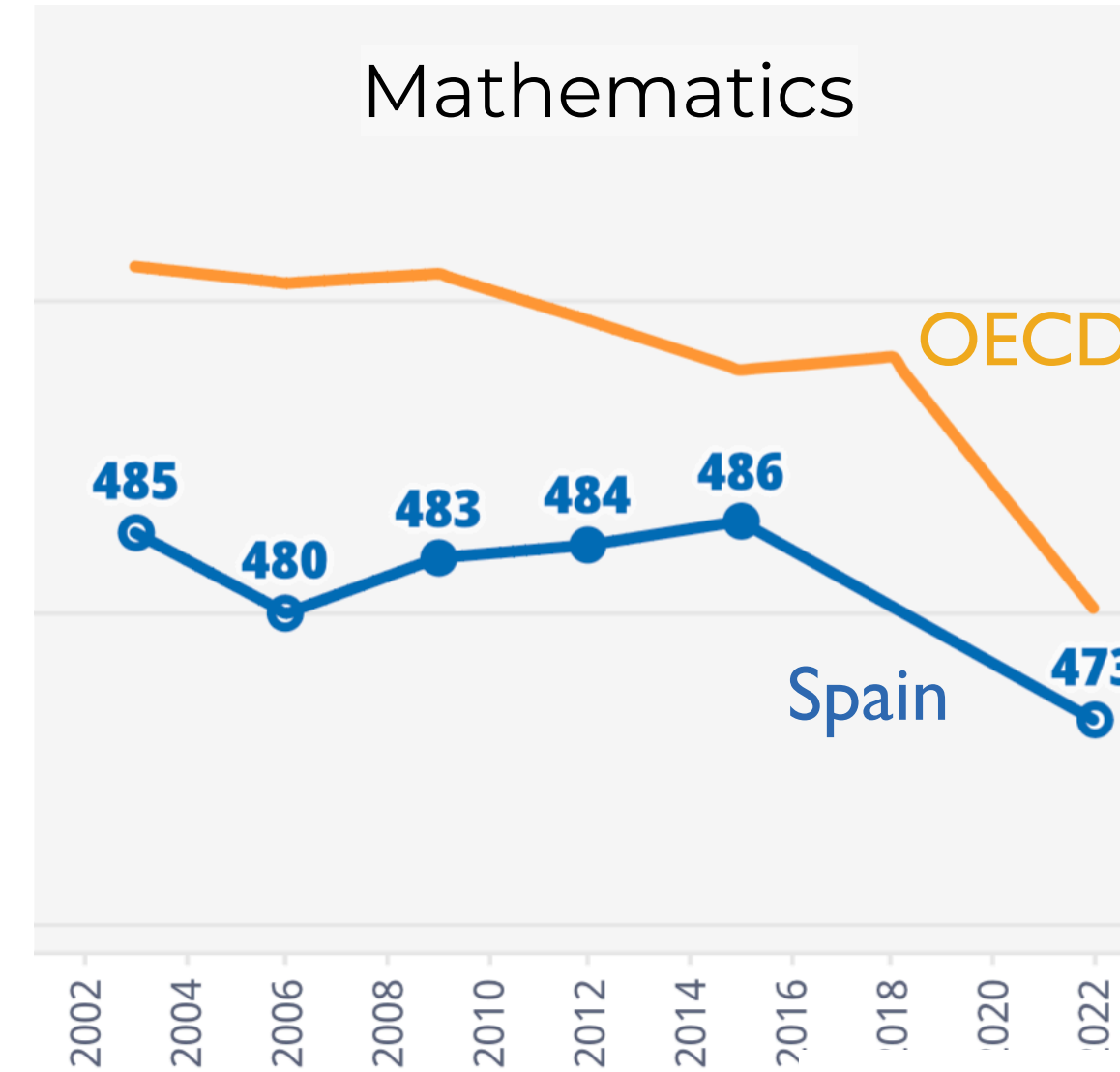
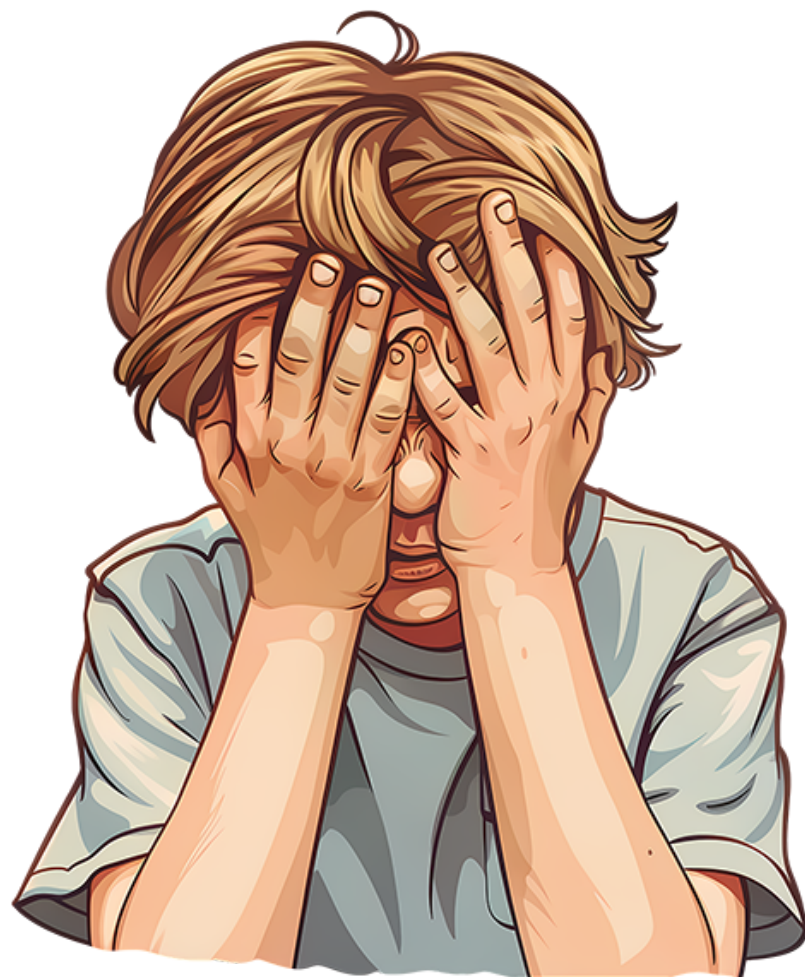


Source: [OECD](#)

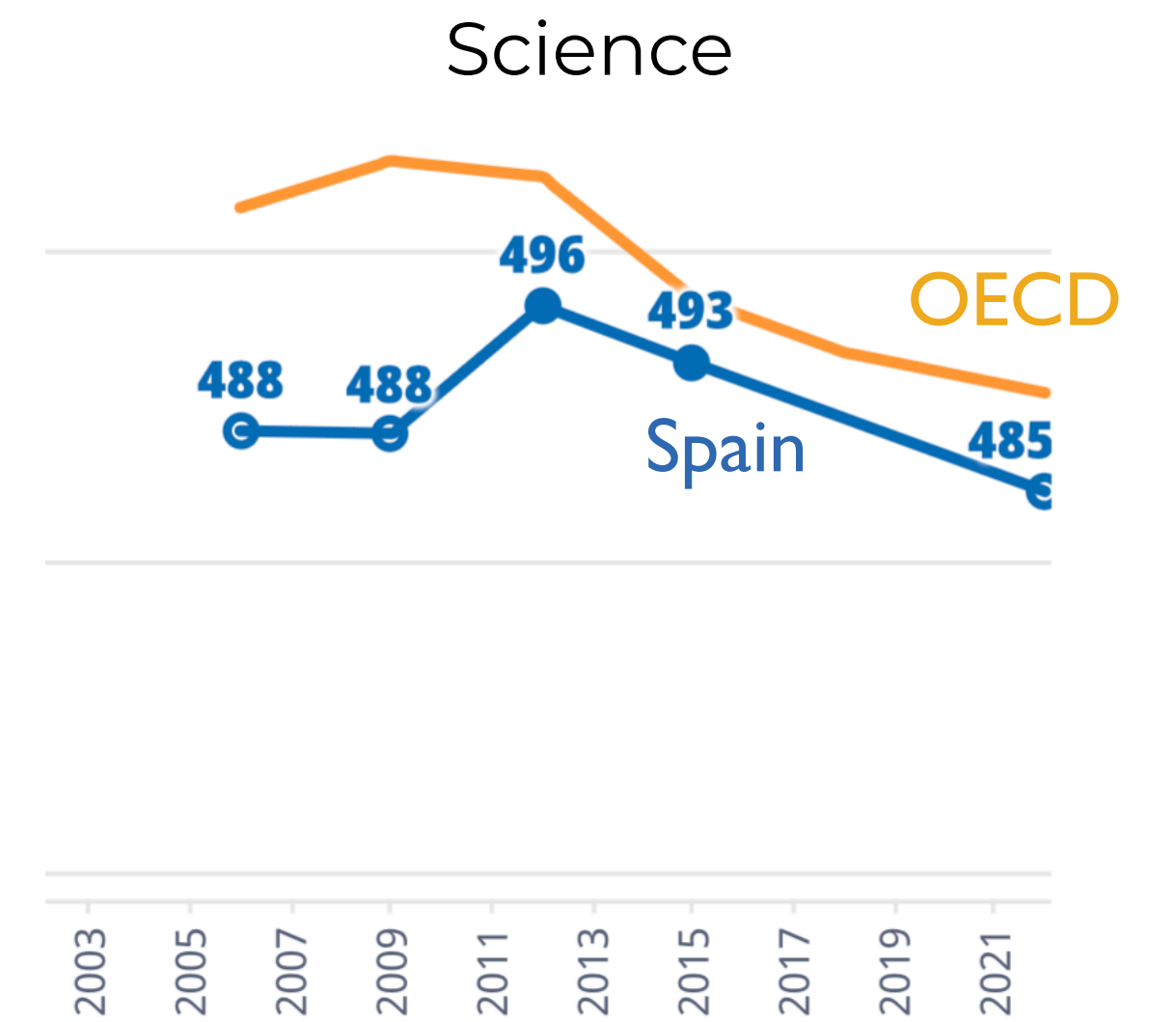
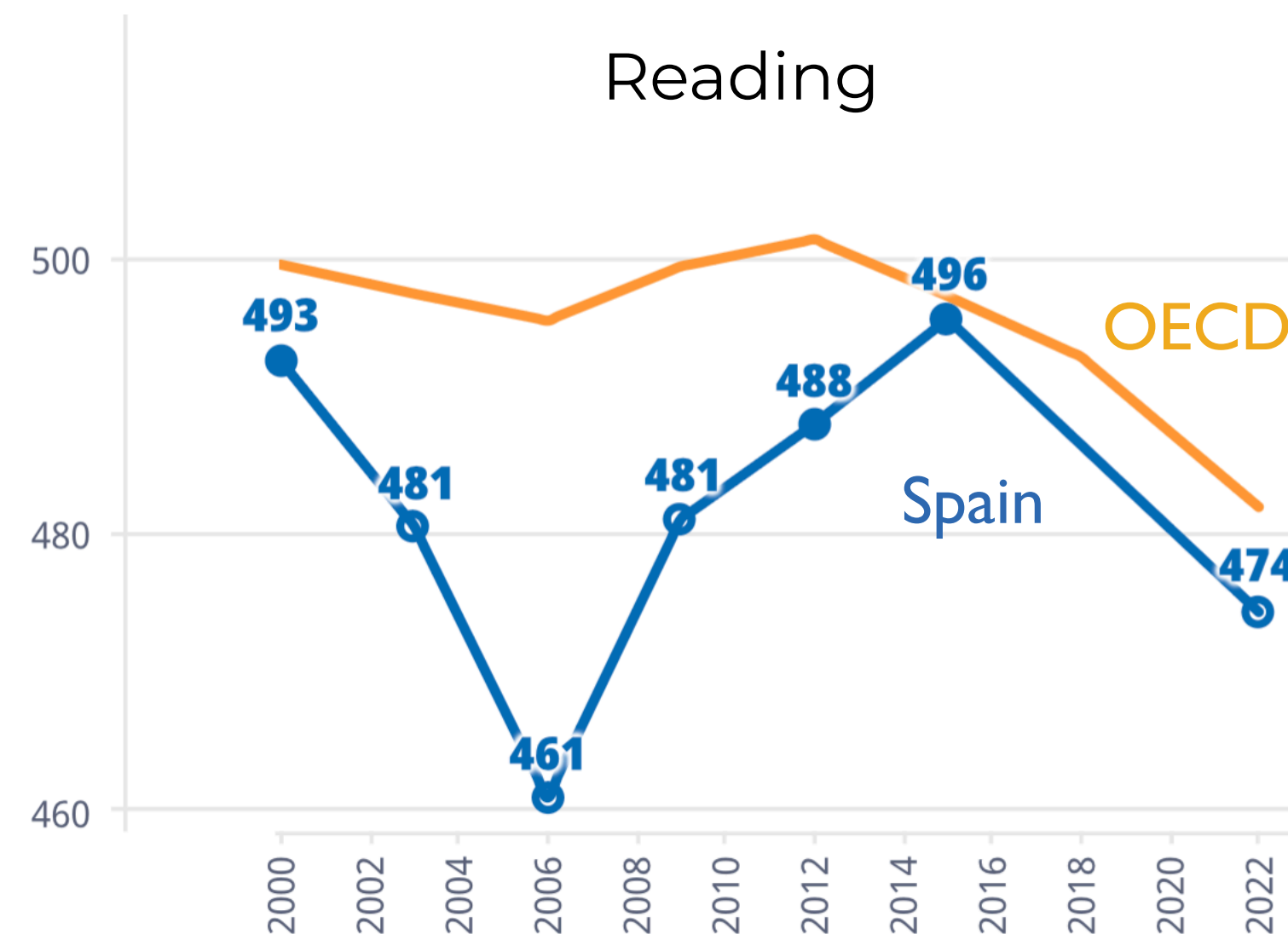
Test Scores

PISA Test Results

Spain does worse than the OECD average in Reading, Math and Science PISA scores



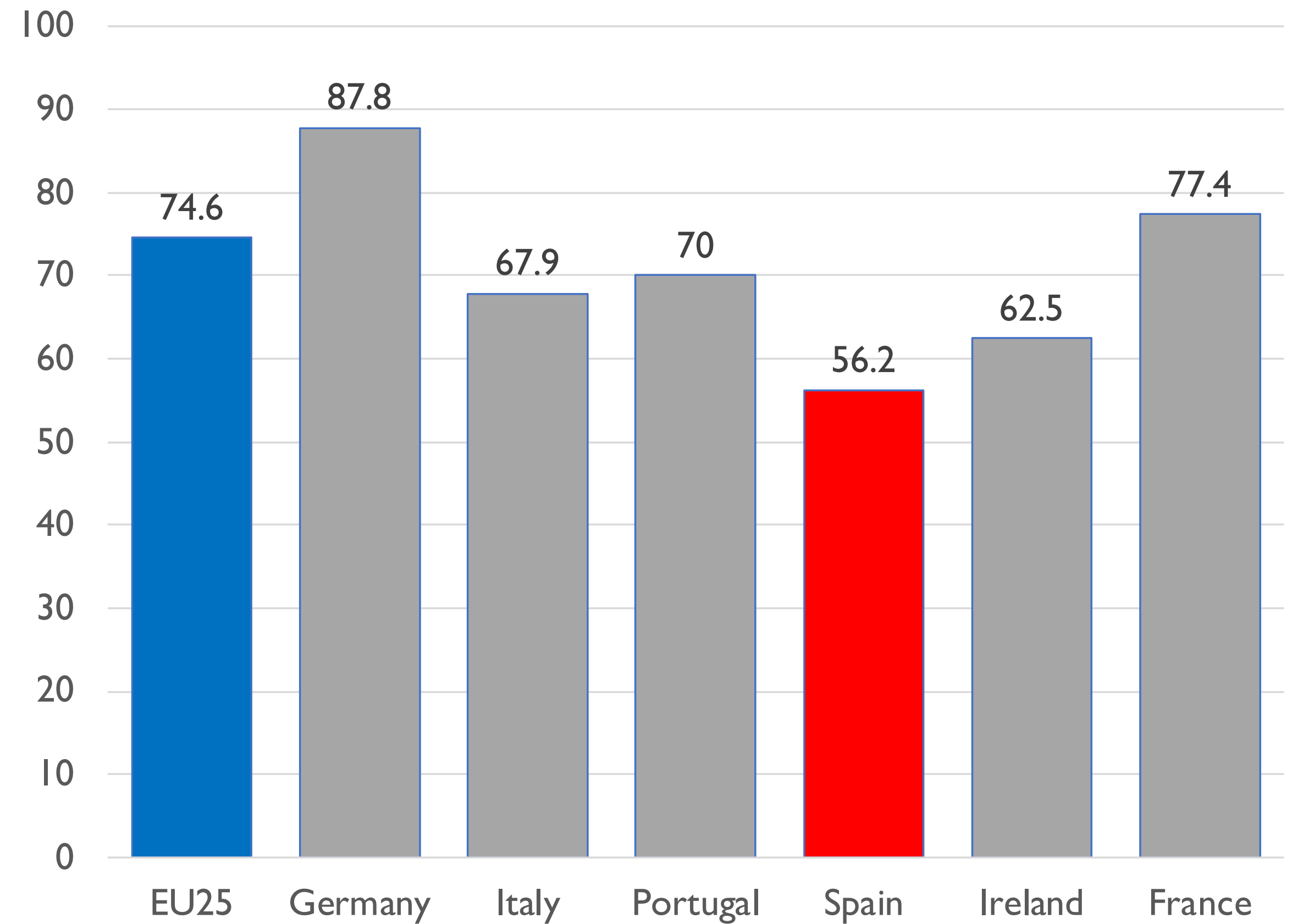
Source: [OECD](#)



Foreign Language Skills

In Spain only 56% of people report knowing one or more foreign languages.

People aged 25-64 years reporting they knew one or more foreign languages (2022)

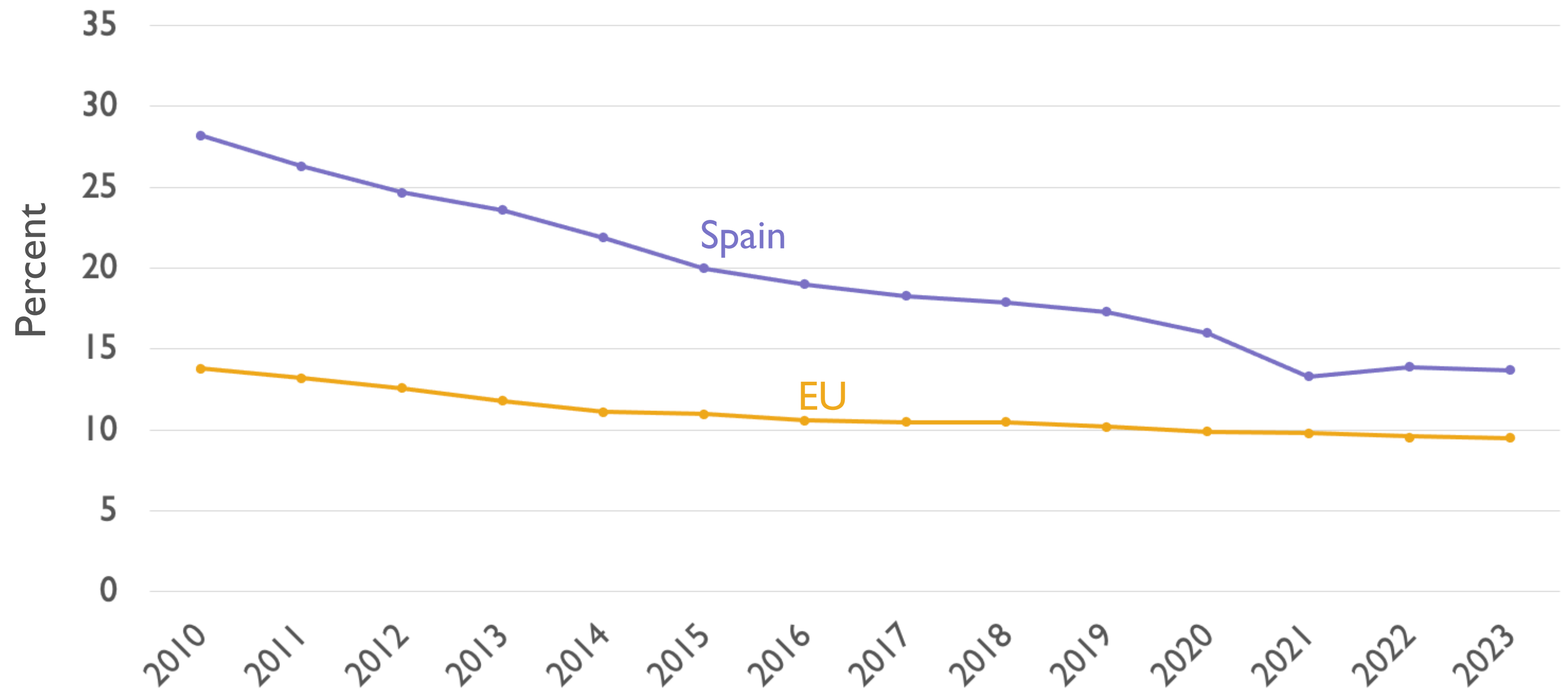


Source: [Eurostat](#)

Drop-Out Rates

High fraction of students dropping out of school than in the EU, although the gap is decreasing.

Share of early leavers from education and training (18-24 year-olds)



Source: [European Commission](#) from data by Eurostat



Innovation

The Future of Growth and Prosperity in Europe

Mario Draghi on Competitiveness and Growth:

“The innovation gap is at the root of Europe’s slowing productivity growth relative to the US. So, we must bring innovation back to Europe – and the report proposes to do so through reforming the whole innovation ecosystem.”

“EU companies spent around EUR 270 billion less on R&D than their US counterparts in 2021, largely because we have a static industrial structure dominated by the same companies and technologies as decades ago.”

Source: The future of European Competitiveness 2024

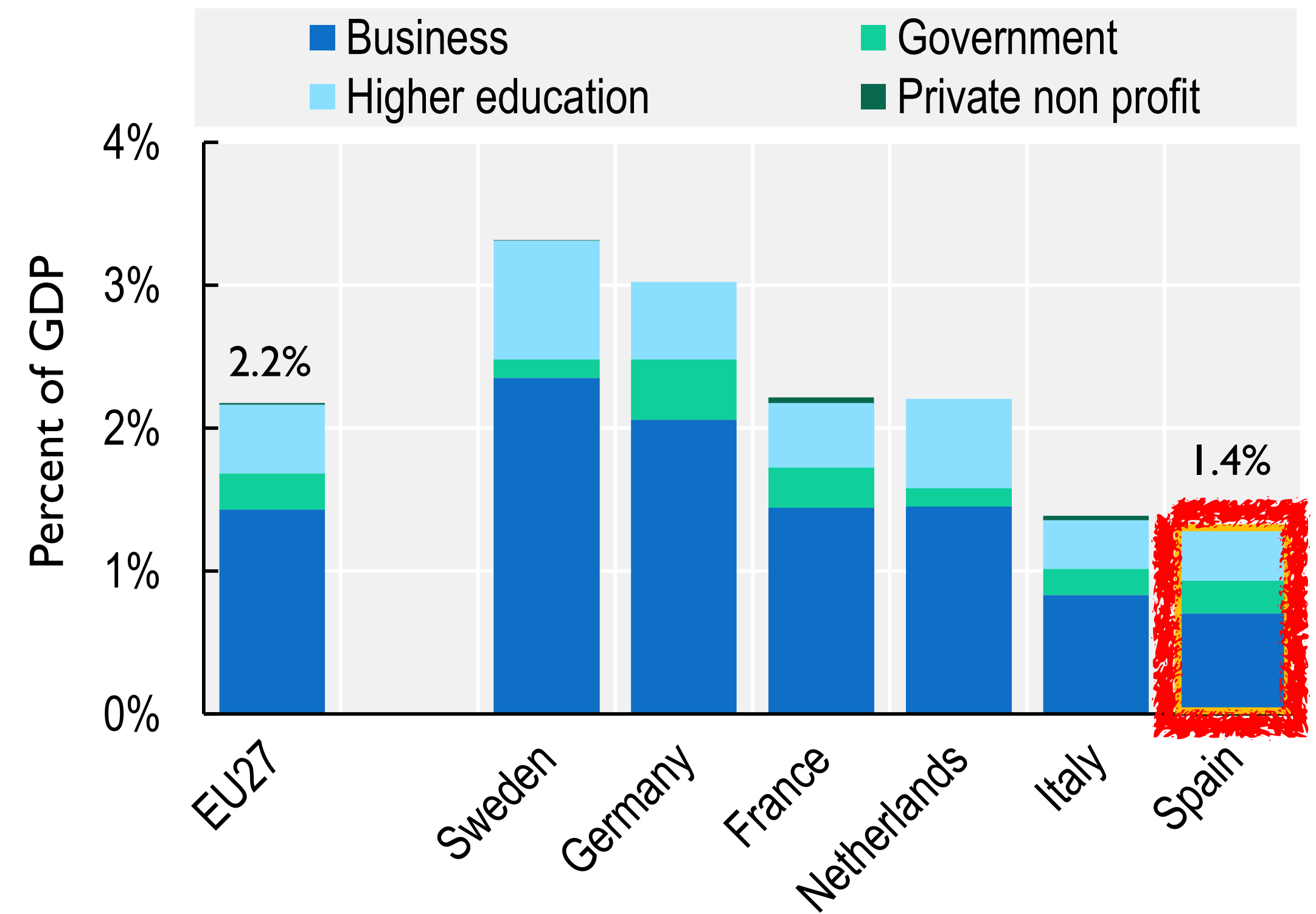


Research and Development Expenditures

Lower investment in R&D in Spain than the EU average and many EU countries.



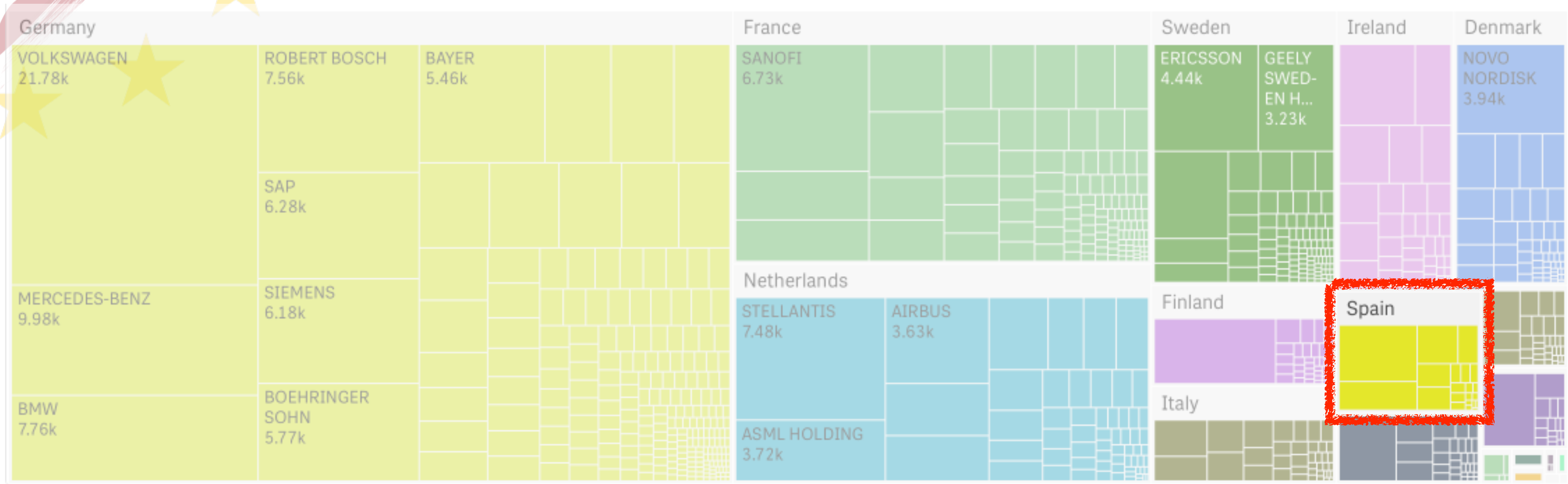
R&D contributions by sector (Average 2013-2024)



Source: [OECD](#) from data by Eurostat, World Bank.

R&D by Private Firms

EU Top 800 Investors (2023)



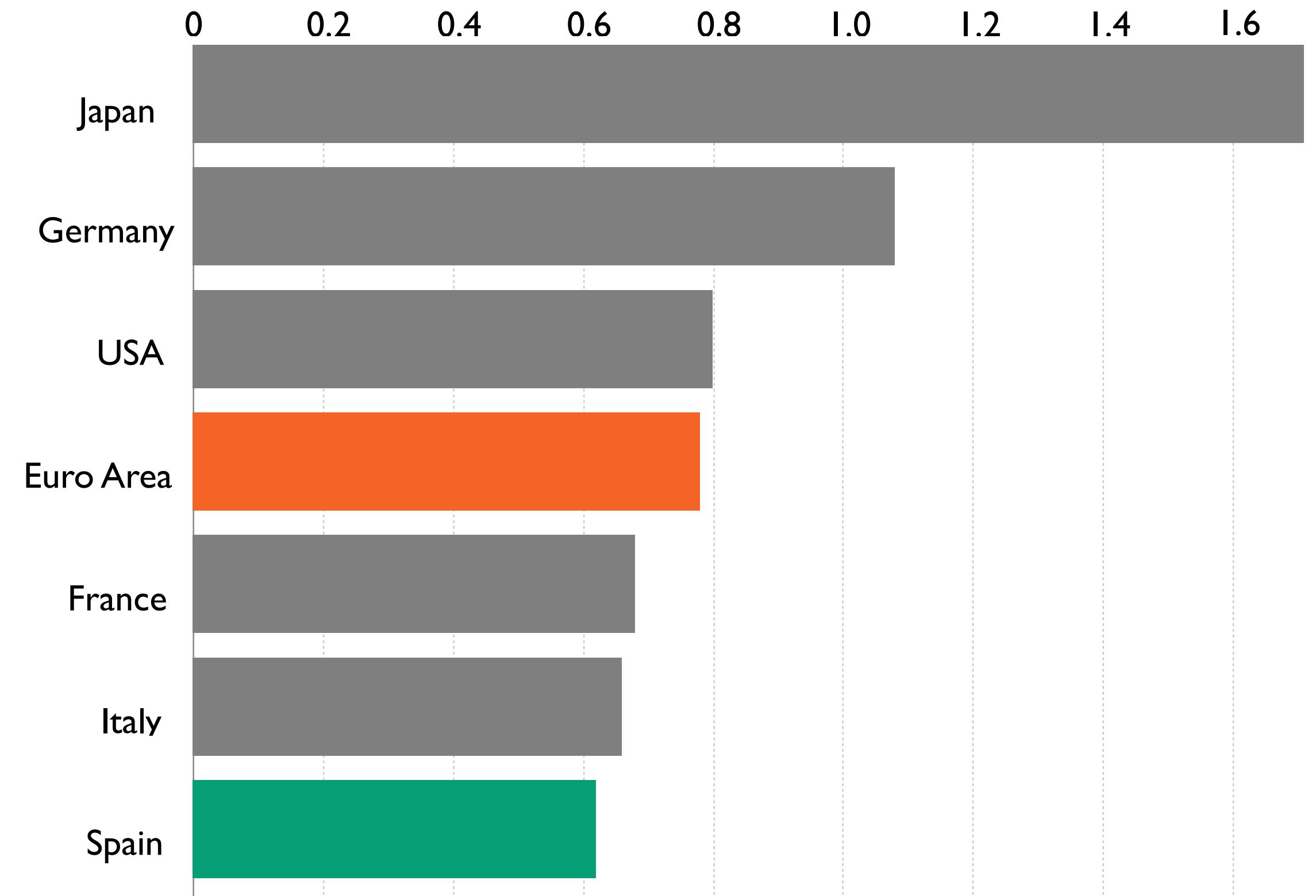
Source: [European Commission](#)

Private firms in Spain do not spend on R&D as much as their European counterparts.

R&D Expenditure by Government

Spain's government spends less in R&D than EU and many similar countries.

Government budget allocations for R&D (2020, Percent of GDP)



Source: [Eurostat](#); Organisation for Economic Cooperation and Development (OECD)



Business

Environment

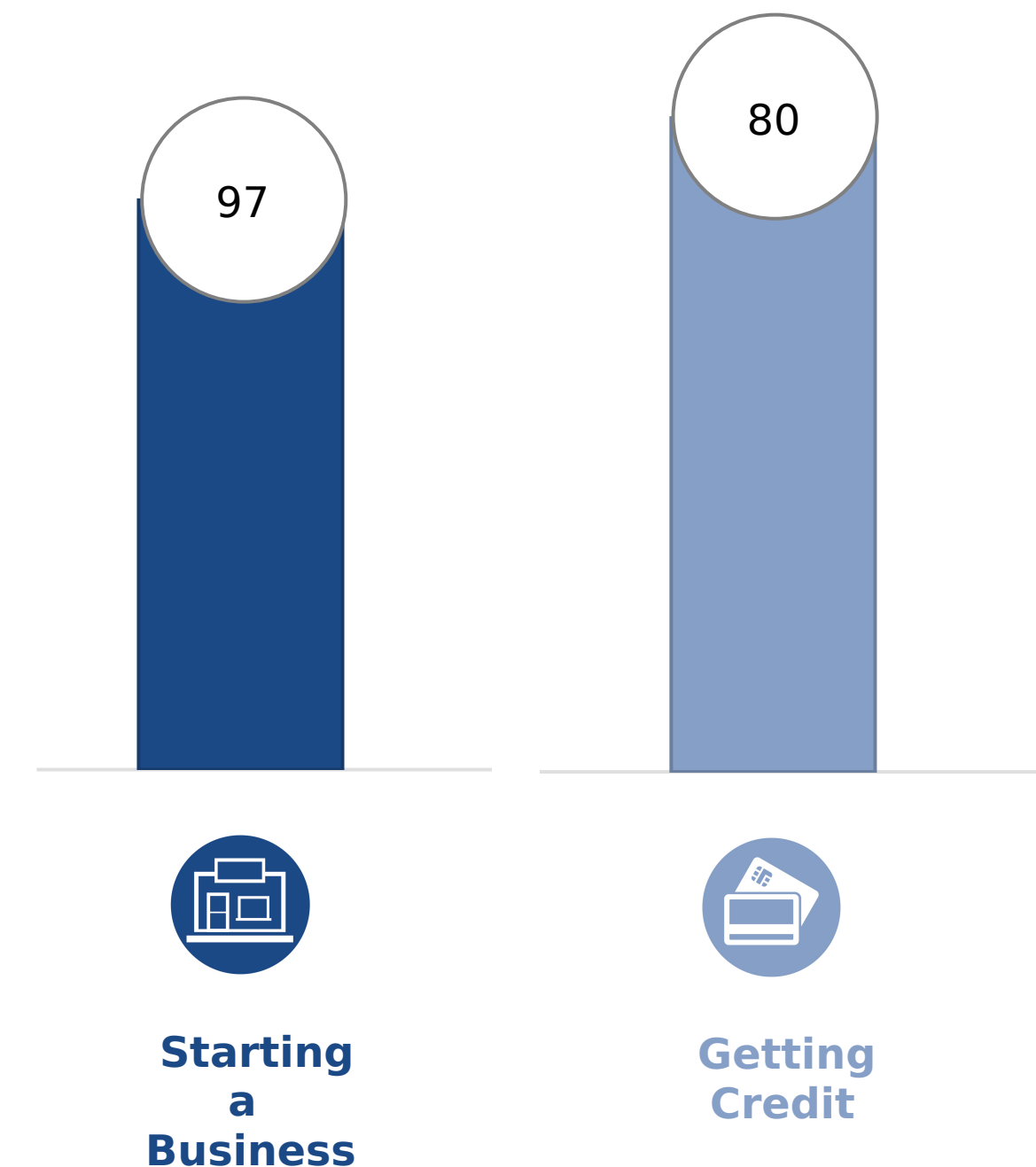
Ease of Doing Business

Firms have a hard time opening, operating and growing businesses in Spain.

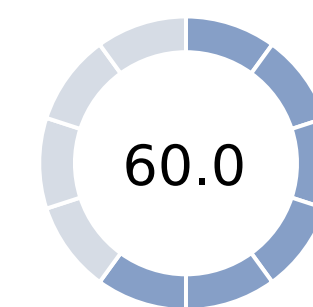
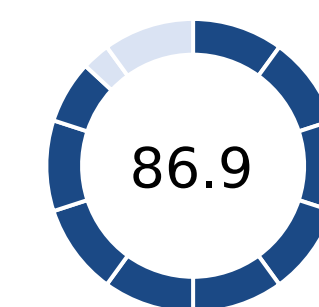
World Bank ranks Spain 30th in the world 97th on difficulty to opening business, 80th for access to credit.



Rankings on Doing Business Spain, 2020



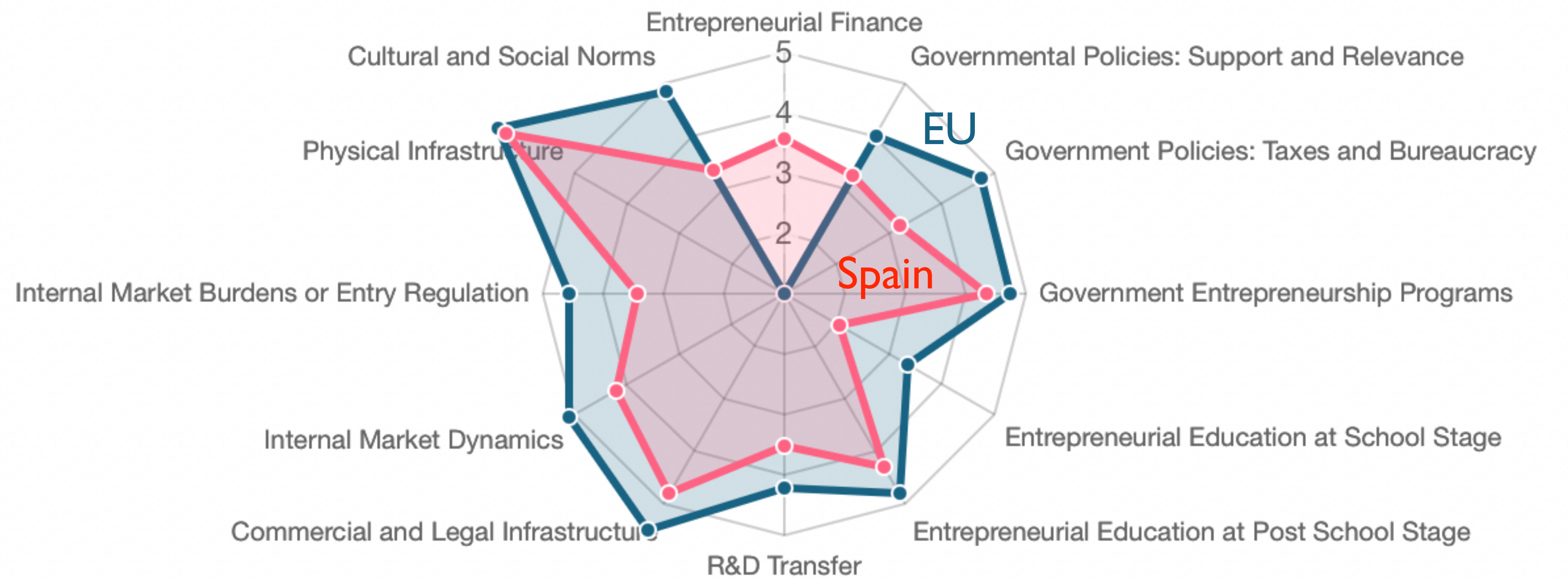
Topic Scores



Source: [World Bank](#)

Conditions for successful entrepreneurship in Spain are not as good as in the EU.

Entrepreneurial Framework Conditions - Spain, 2023



Source: [Global Entrepreneurship Monitor](#)

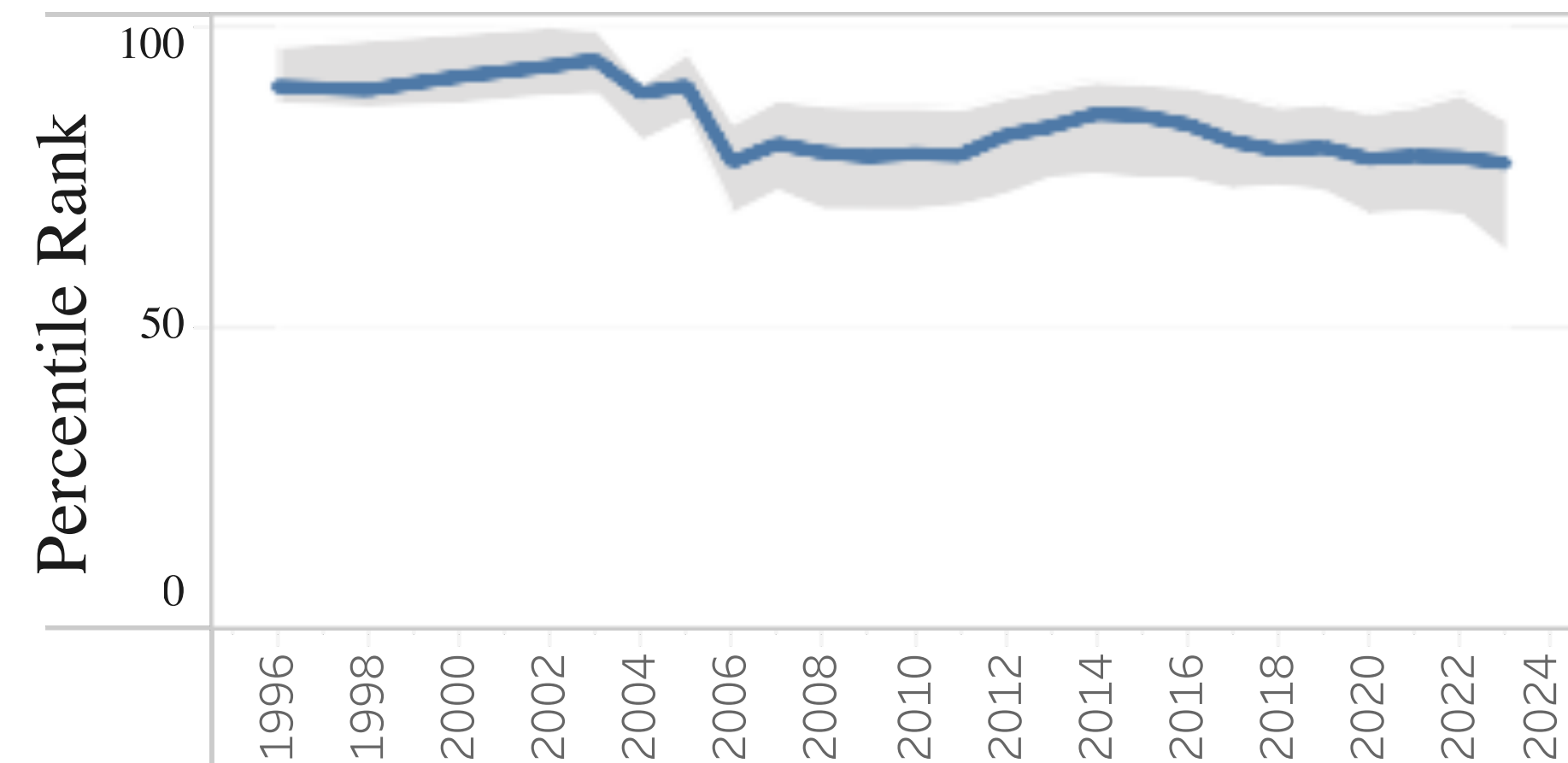
Government Effectiveness and Regulatory Quality



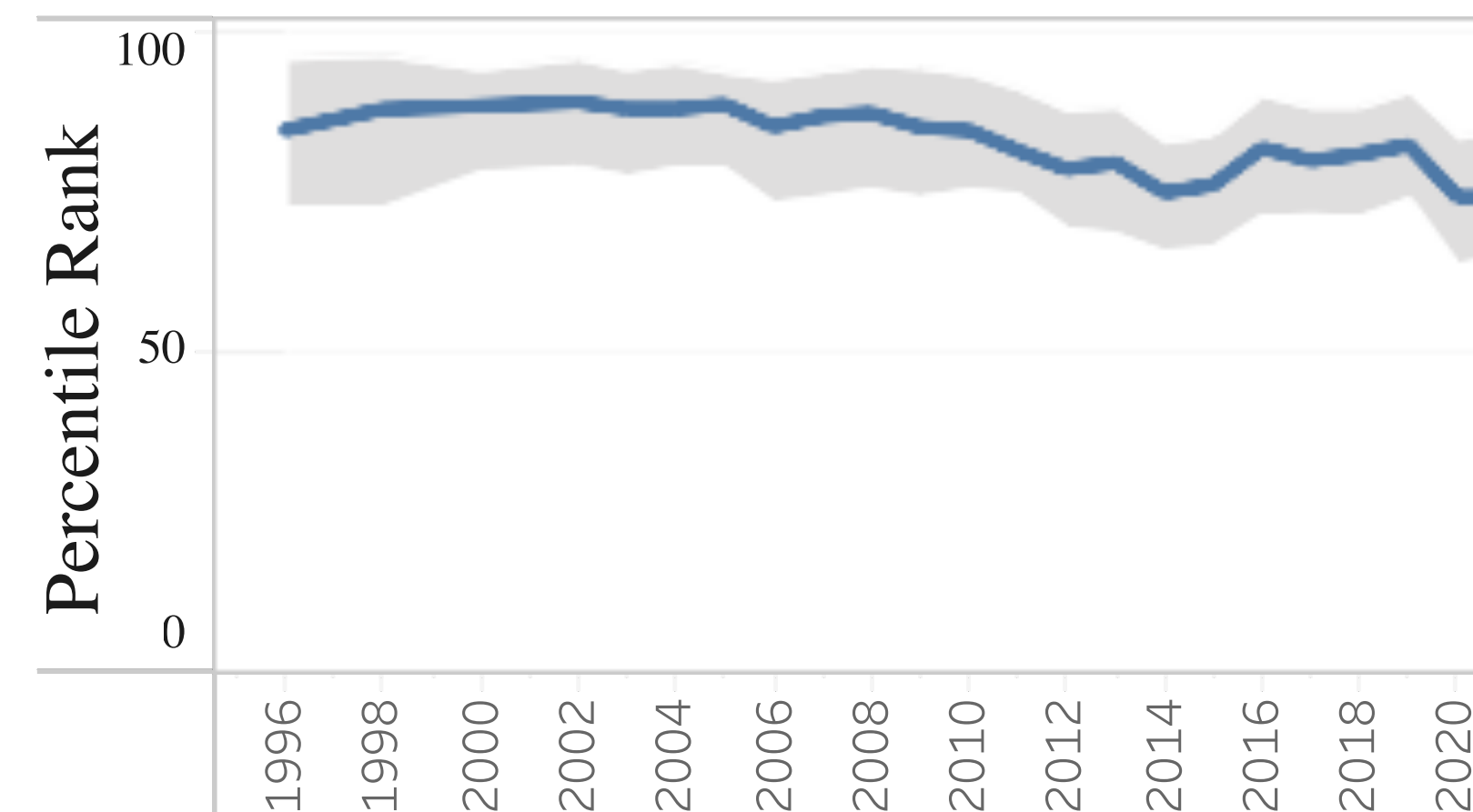
Low and declining government effectiveness and regulatory quality in Spain.

World Governance Indicators - Spain

Government Effectiveness



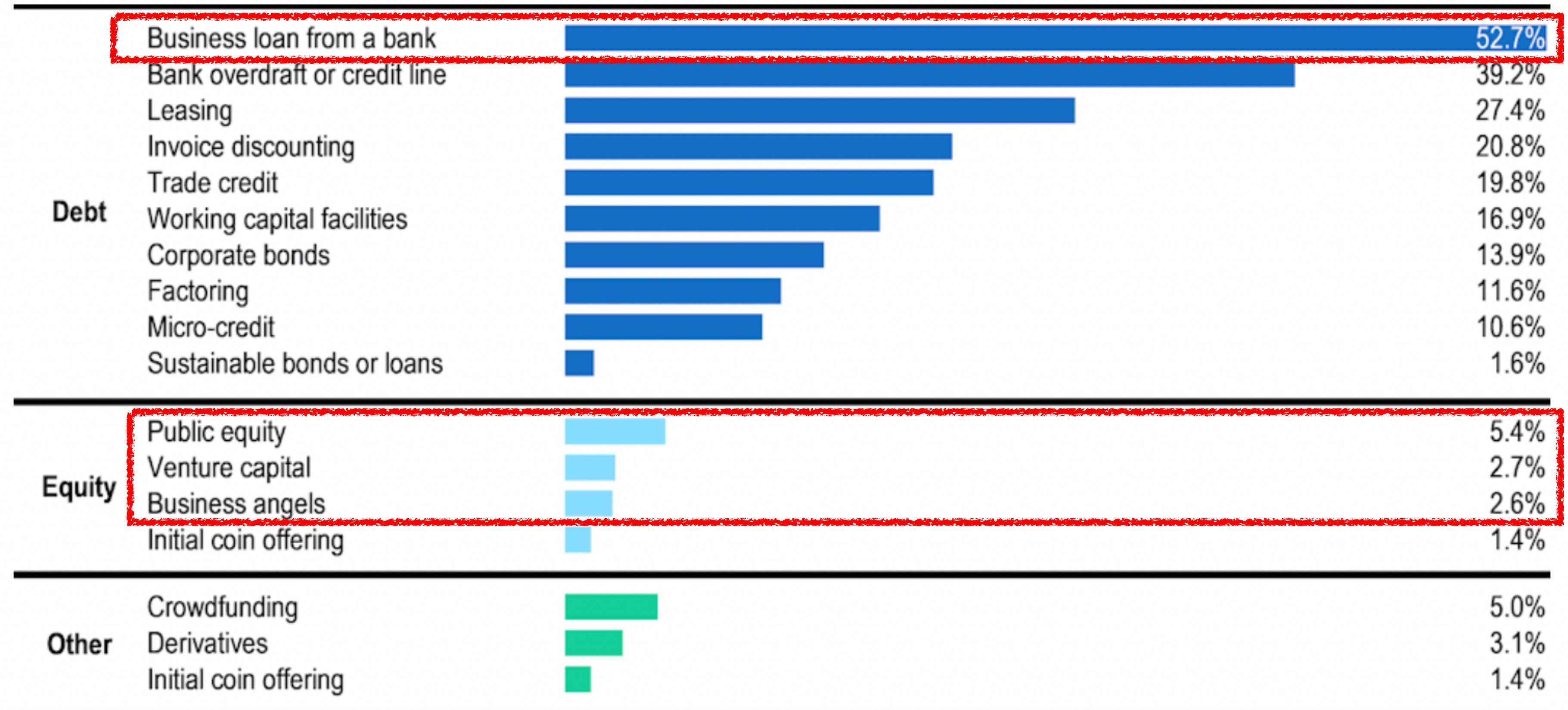
Regulatory Quality



Source: [World Governance Indicators](#)

Financing for Small Firms

Use of Financial Instruments by Small and Micro-sized Enterprises in Spain (2021)



50% of small businesses use credit from banks.

Very few firms use equity for financing.

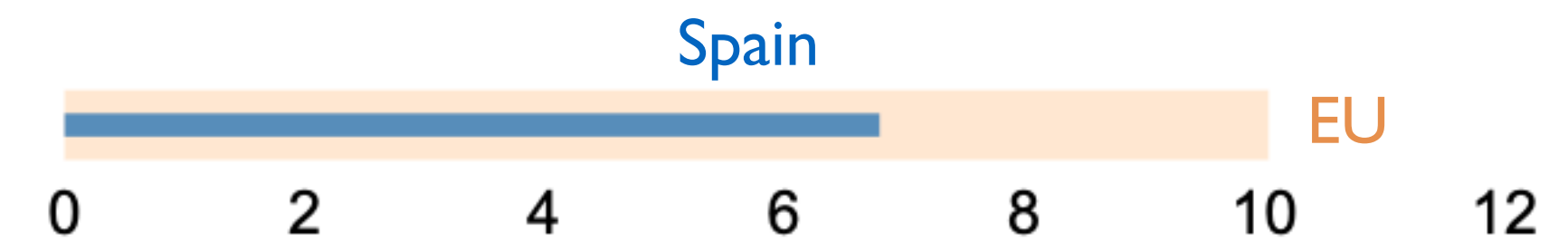
Source: [OECD](#) from data from Bank of Spain; "OECD Capital Market Review of Spain 2024"

Low Entrepreneurial Activity

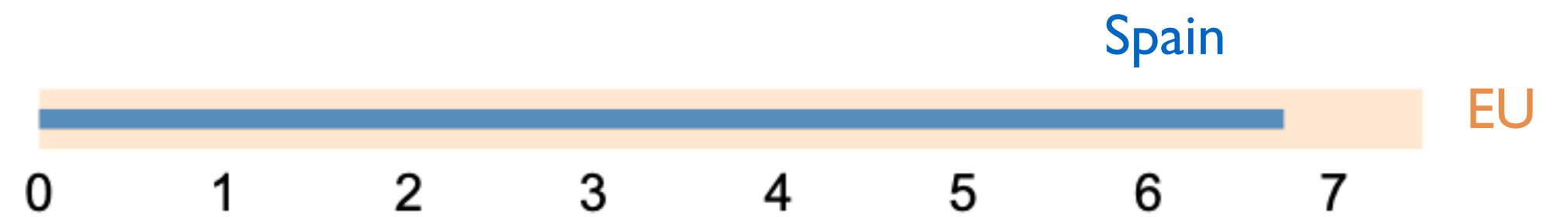
Compared to UE, Spain has
lower total early-stage
entrepreneurial activity,
lower established business
ownership rate.

Entrepreneurship - Spain, 2023

Total early-stage Entrepreneurial Activity (TEA)



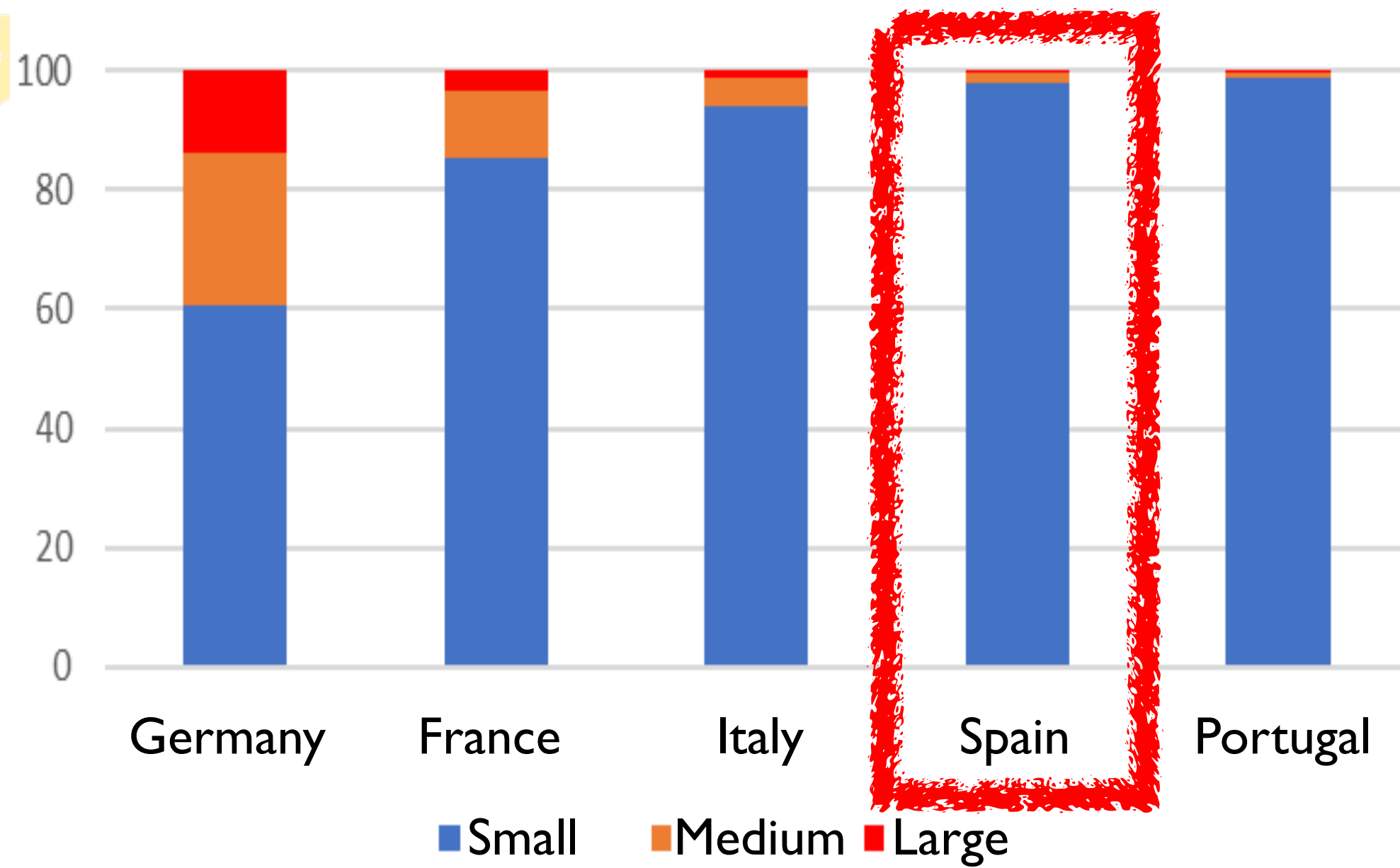
Established Business Ownership Rate



Source: [Global Entrepreneurship Monitor](#)

Size of Firms

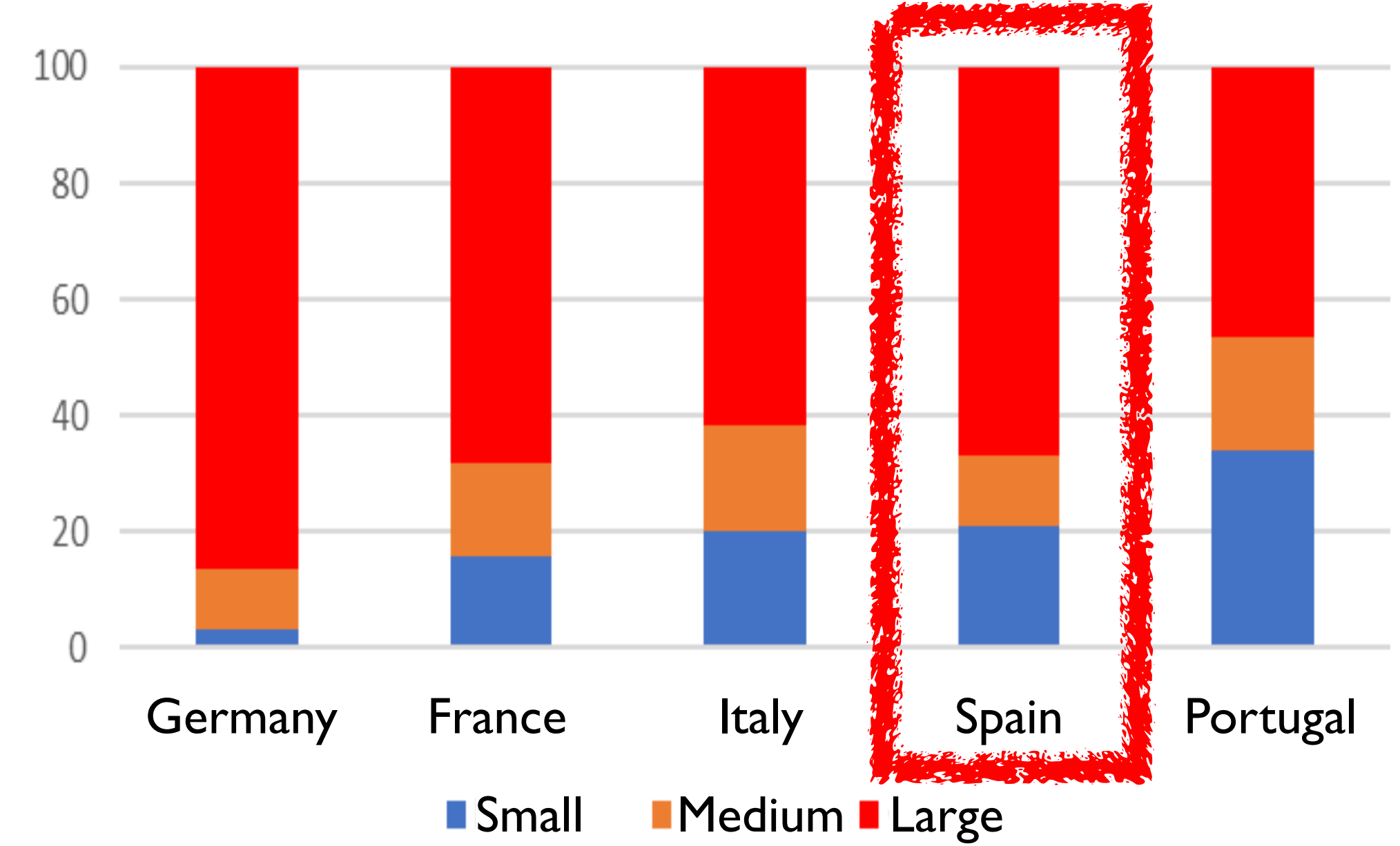
Fraction of Firms by Size



Source: [Bank of Spain](#)

Higher fraction of small firms in Spain than Germany or France.

Fraction of Revenues by Firm Size



Source: [Bank of Spain](#)

Large firms account for most of total revenues in Spain and the EU.

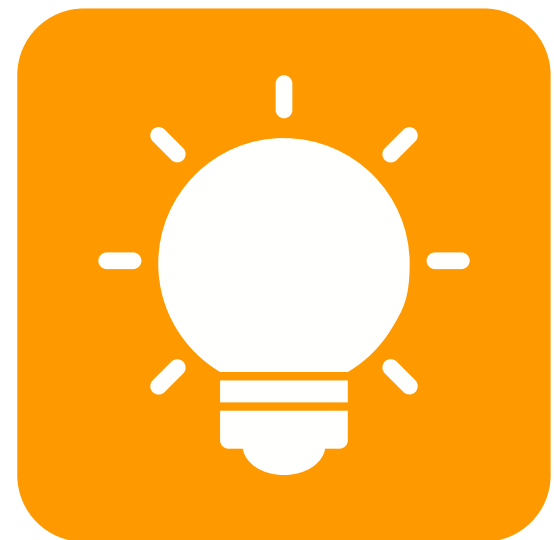
The background features a circle of twelve yellow stars, similar to the European Union flag, with a diagonal brushstroke in shades of red and yellow crossing through the center.

Proposals

Reforms to Raise Efficiency in Gov. and Economy



Reform curriculum at all levels to be more engaging and problem-solving oriented:
Collaboration between firm's experts and education experts to create case studies for each field to be pooled and selected by teachers in classrooms.



Reform R&D funding process for higher efficiency and focus on strategic tech.:
Prioritize strategic technologies (AI and green tech.) and make selection process for R&D funding and grants more efficient and transparent.



Reform regulations to reduce red-tape and hurdles to grow firms:
Implement national level regulations to govern firms operations and equity raising, rather than at the current provincial level.



Labor market will get big boost with above changes