

2025 BANCO DE ESPAÑA-CEMFI-UIMP CONFERENCE ON THE SPANISH ECONOMY

# CHALLENGES FACING THE SPANISH ECONOMY: THE ROLE OF MIGRATION AND INDUSTRIAL POLICIES

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GOVERNOR OF THE BANCO DE ESPAÑA

3 JULY 2025

BANCO DE **ESPAÑA**  
Eurosistema





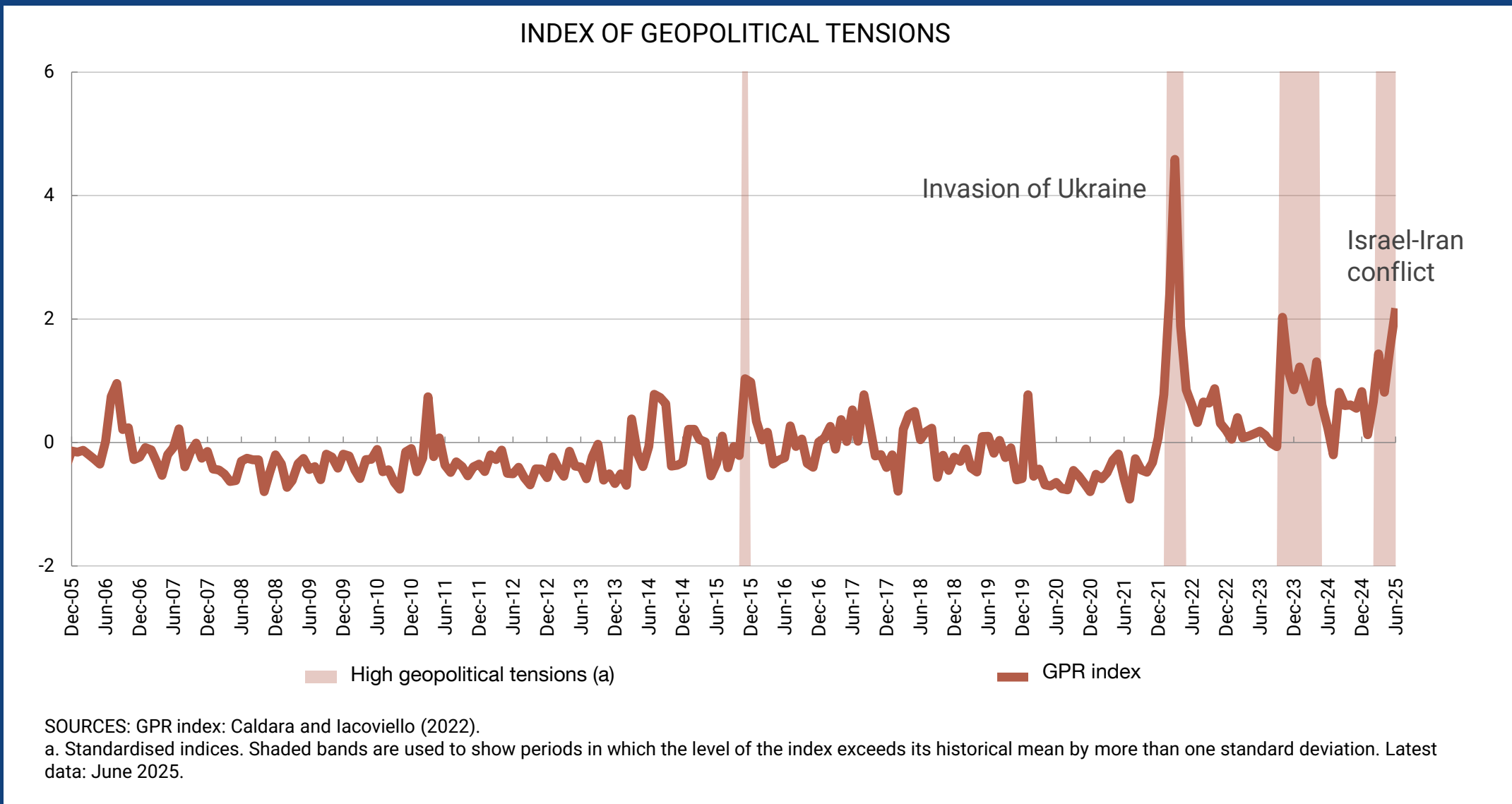
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2. THE ROLE OF IMMIGRATION
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4. THE IMPORTANCE OF INSTITUTIONAL QUALITY

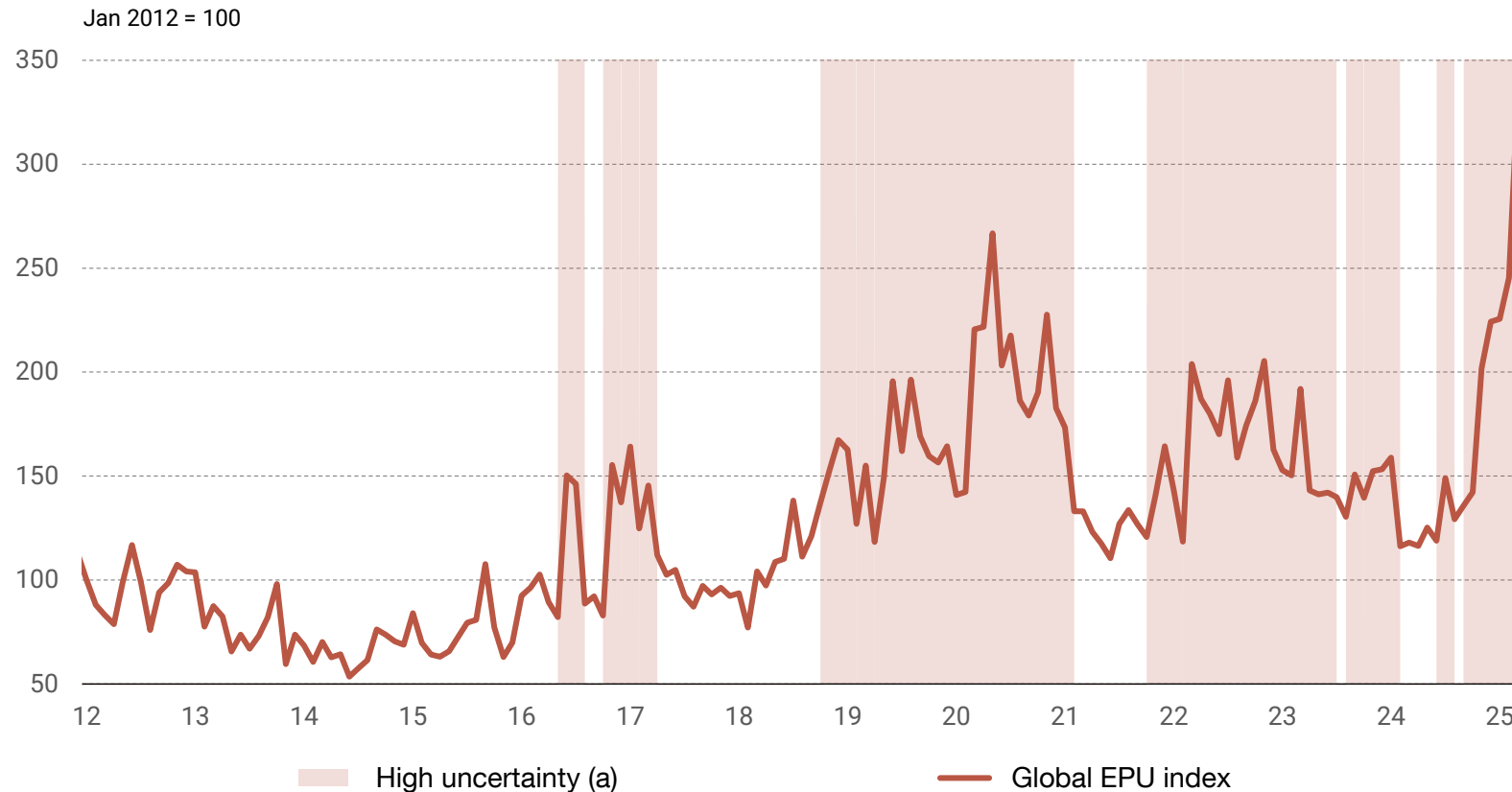
# A SUCCESSION OF GEOPOLITICAL SHOCKS CONTINUE TO IMPACT THE WORLD ECONOMY ...

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## ... LEADING TO EXCEPTIONALLY HIGH LEVELS OF UNCERTAINTY IN RECENT YEARS

### GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX



Source: EPU Index: <https://www.policyuncertainty.com/index.html>.

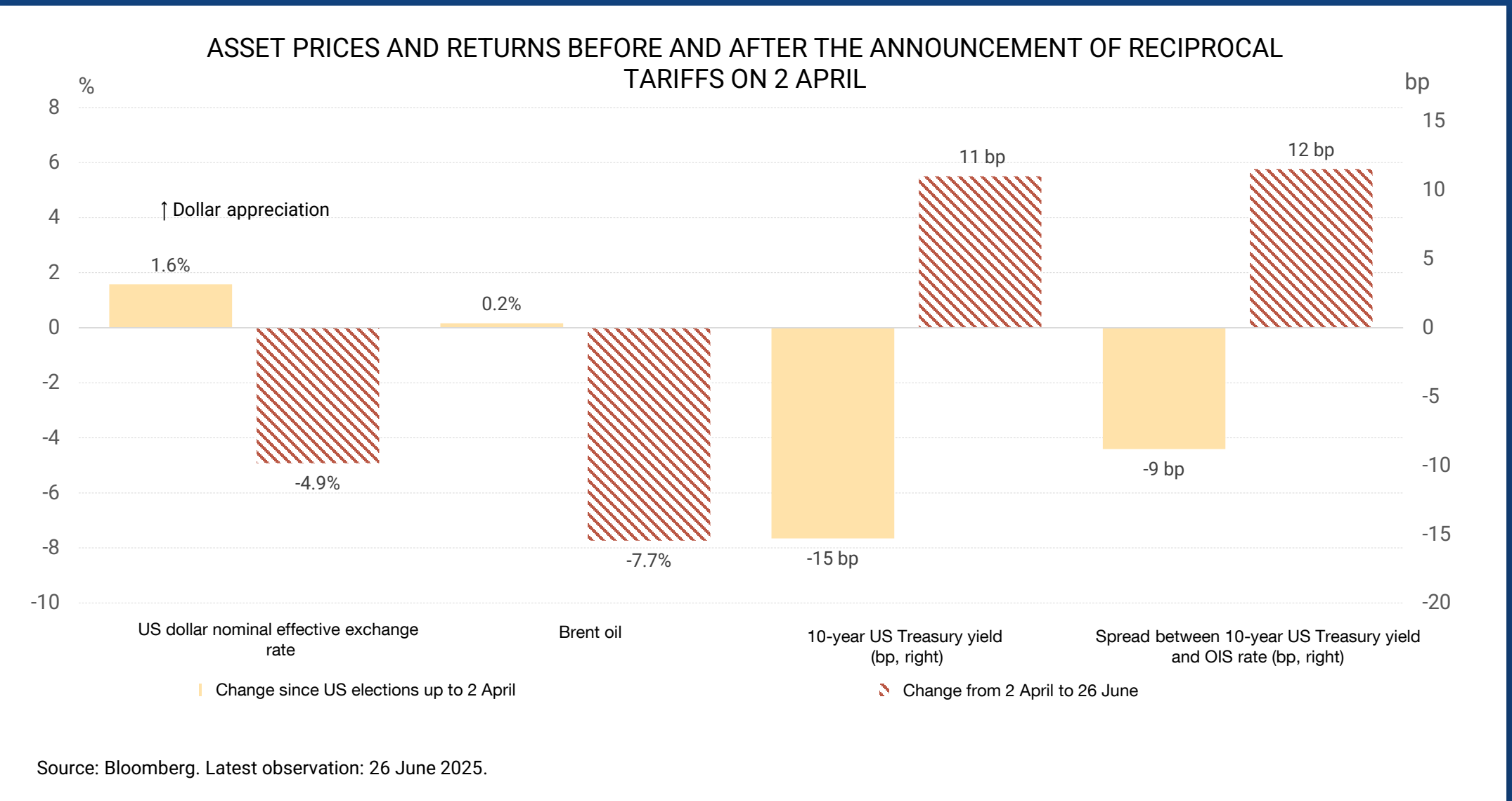
(a) Bands are used to show periods in which the level of the index exceeds its historical mean by more than one standard deviation.

Latest data: April 2025.

The extraordinary levels of uncertainty in the United States affect all levels of economic policy: monetary, fiscal, regulatory and trade

# DESPITE THE HIGH VOLATILITY, ASSET PRICES ARE CURRENTLY AT LEVELS SIMILAR TO THOSE OBSERVED BEFORE THE US ELECTIONS

- 1. THE SPANISH ECONOMY IN AN UNCERTAIN GLOBAL ENVIRONMENT
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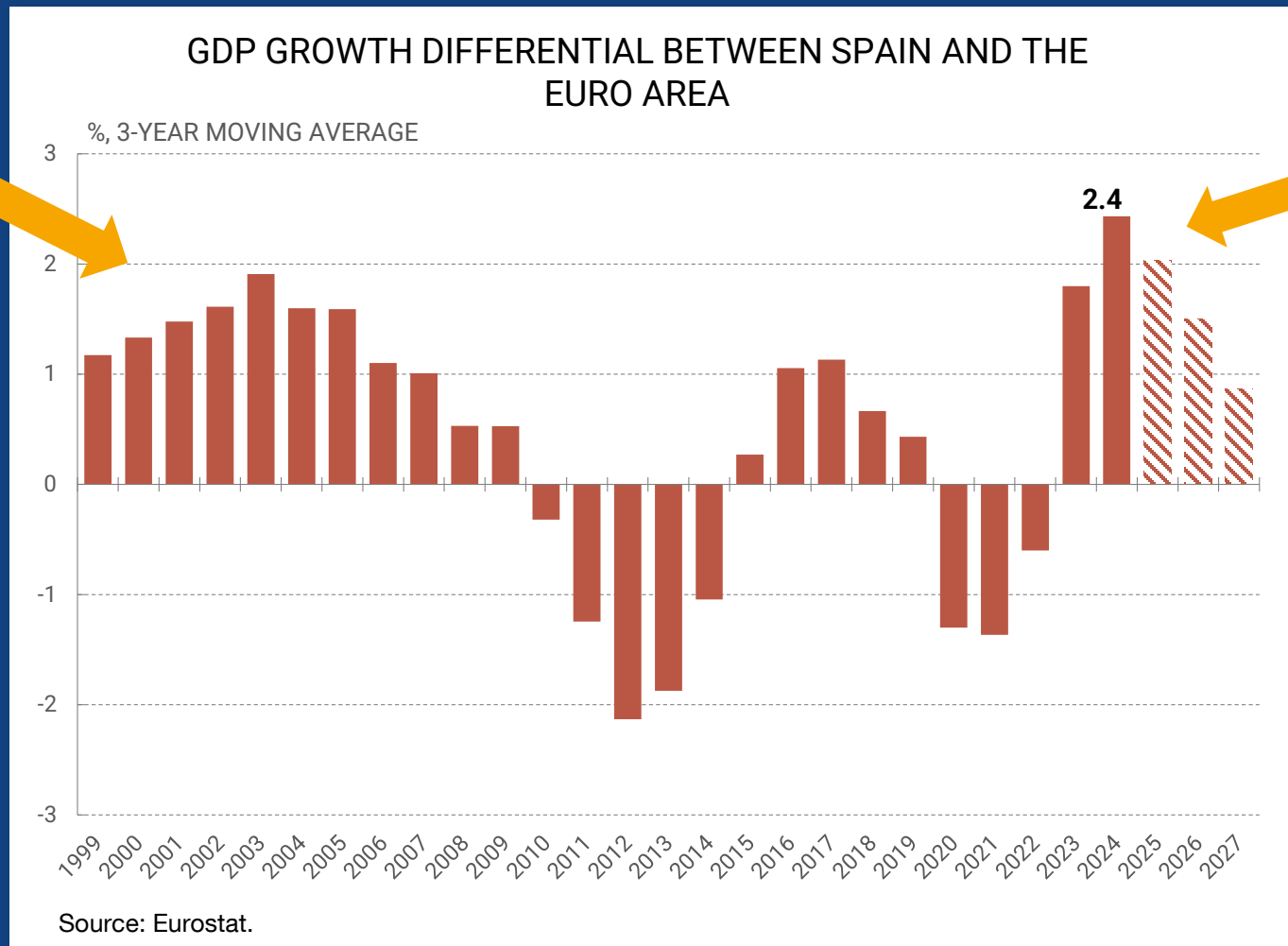


# AGAINST THIS BACKDROP, SPAIN'S GROWTH HAS OUTPACED THAT OF OTHER EURO AREA COUNTRIES, WITH NO BUILD-UP OF MACROECONOMIC IMBALANCES

1. THE SPANISH ECONOMY IN AN UNCERTAIN GLOBAL ENVIRONMENT
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## Overspending and loss of competitiveness:

- Average gap in inflation between Spain and the euro area 1999-2007: 1.1 pp
- Average current account balance 1999-2007: deficit 6% of GDP

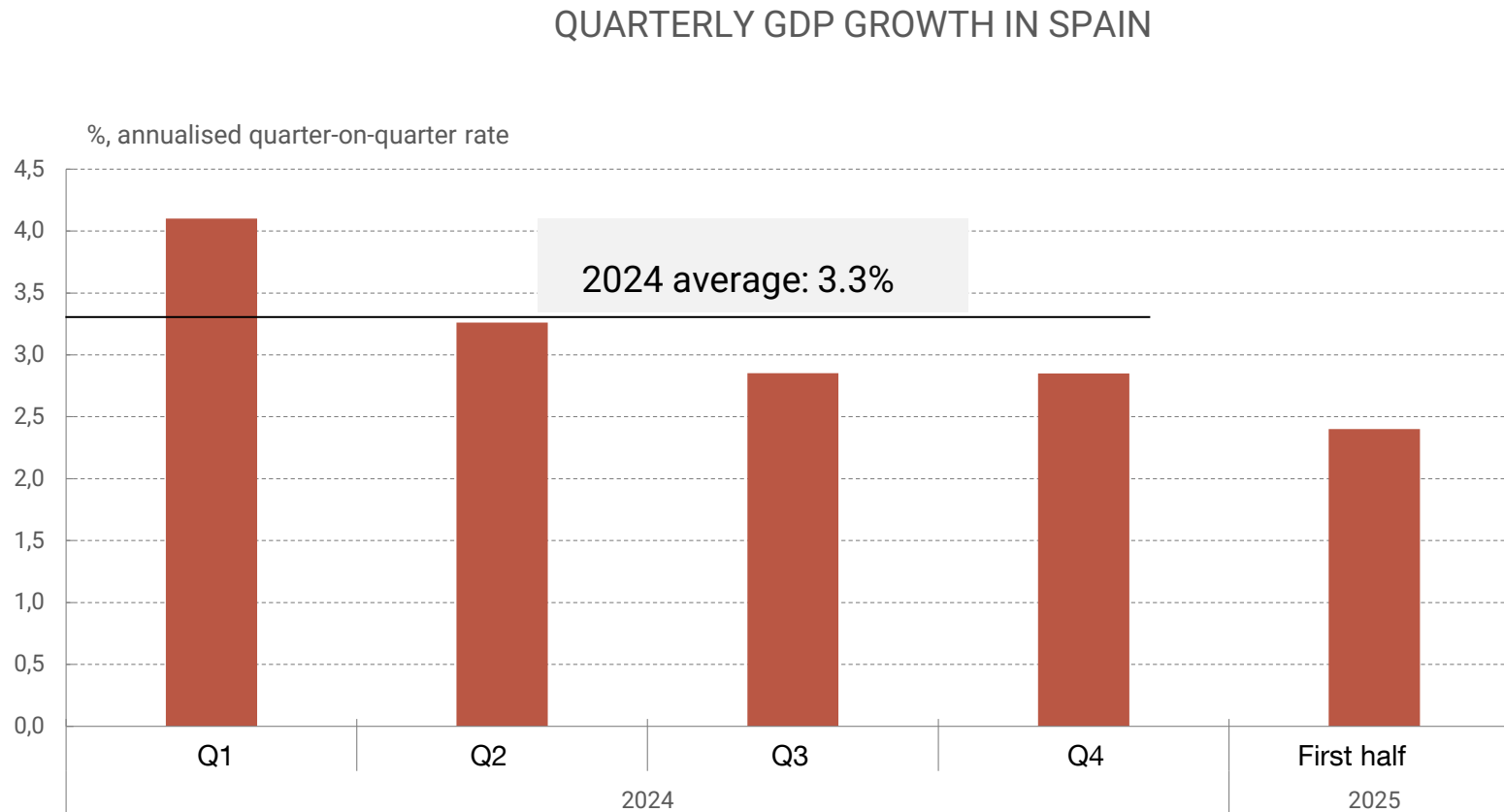


## Correction of macroeconomic imbalances:

- Average gap in inflation between Spain and the euro area 2019-24: -0.4 pp
- Current account balance 2023-24: surplus of 2-3% of GDP

# ECONOMIC GROWTH IS SLOWING IN SPAIN, FROM RATES ABOVE 3% TO AROUND 2.5% IN 2025 H1

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Source: INE.

The external sector's smaller contribution is the main factor behind this slowdown.

# UNDER THE BASELINE SCENARIO, THERE ARE FEW CHANGES IN THE MACROECONOMIC PROJECTIONS AND GDP IS REVISED DOWN SLIGHTLY ...

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Annual rate of change (%), unless otherwise indicated

	2024
<b>Gross domestic product (GDP)</b>	3.2
<b>Unemployment rate (% of labour force). Annual average</b>	11.3
<b>Headline inflation (HICP)</b>	2.9
<b>Core inflation (HICP excluding energy and food)</b>	2.8
<b>Budget balance (% of GDP)</b>	-3.2
<b>General government debt (% of GDP)</b>	101.8

JUNE 2025 PROJECTIONS		DIFFERENCES vs MARCH PROJECTIONS	
2025	2026	2025	2026
2.4	1.8	-0.3	-0.1
10.5	10.2	0.0	0.2
2.4	1.7	-0.1	0.0
2.6	2.1	0.4	0.1
-2.8	-2.6	0.0	0.0
101.4	101.4	0.1	-0.2

Source: Banco de España. Quarterly Report.

## ... BUT IN THIS CLIMATE OF UNCERTAINTY, THE BASELINE SCENARIO IS LESS RELIABLE AND IT IS HELPFUL TO CONSIDER ALTERNATIVE SCENARIOS AND HIGH-FREQUENCY DATA

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Impact of tariffs and possible retaliation measures

GDP↓ Inflation?

Disruptions in global value chains

GDP↓ Inflation↑

Extent of impact of uncertainty and financial turmoil

GDP↓ Inflation↓

Impact on energy prices of escalation in Middle East conflict

GDP↓ Inflation↑

# FOR SPAIN'S GROWTH RATES TO REMAIN HIGH GOING FORWARD, FAVOURABLE SHORT-TERM ECONOMIC DEVELOPMENTS SHOULD BECOME STRUCTURAL

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## 4. THE IMPORTANCE OF INSTITUTIONAL QUALITY

A shift in spending towards leisure

Awareness that services are easier to provide across borders following the pandemic

Lower energy prices, partly owing to more renewable generation capacity

Fewer bottlenecks in the labour market

In the new geopolitical context in Europe, there is a favourable swing towards the southern and western regions

# THE TWO CENTRAL THEMES OF THIS CONFERENCE, INDUSTRIAL POLICY AND IMMIGRATION, HAVE A CLOSE BEARING ON THE MAIN CHALLENGES FACING THE SPANISH ECONOMY

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Fiscal sustainability

Housing shortages

Worker-firm matching efficiency in the labour market

The Spanish economy's sectoral positioning vis-à-vis new geopolitical shocks, and convergence in productivity



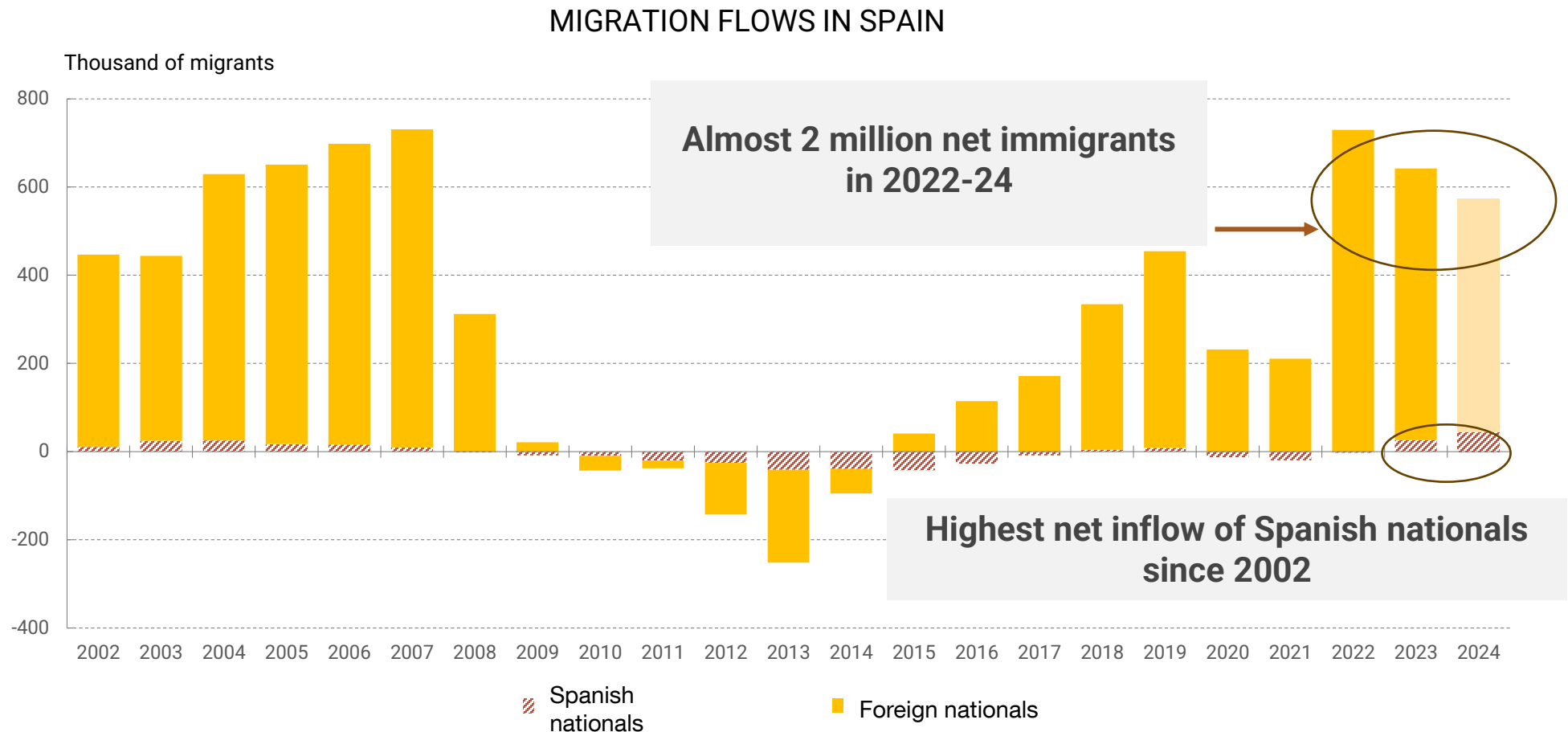
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# THE RECENT SURGE IN MIGRANT INFLOWS IS SIMILAR TO THAT EXPERIENCED IN THE 2000S ...

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Migration flows have helped **contain the rise in the dependency ratio in Spain, which was 3.2 points below the European average in 2024 (2.2 points in 2019)**

Source: INE.

# MAIN CHARACTERISTICS OF RECENT MIGRATION FLOWS

## 1. THE SPANISH ECONOMY IN AN UNCERTAIN GLOBAL ENVIRONMENT

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## 3. INDUSTRIAL POLICY IN THE LIGHT OF NEW GLOBAL CHALLENGES

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A) High participation rate and greater weight of skilled immigrant workers

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B) Jobs have been concentrated in sectors most affected by bottlenecks

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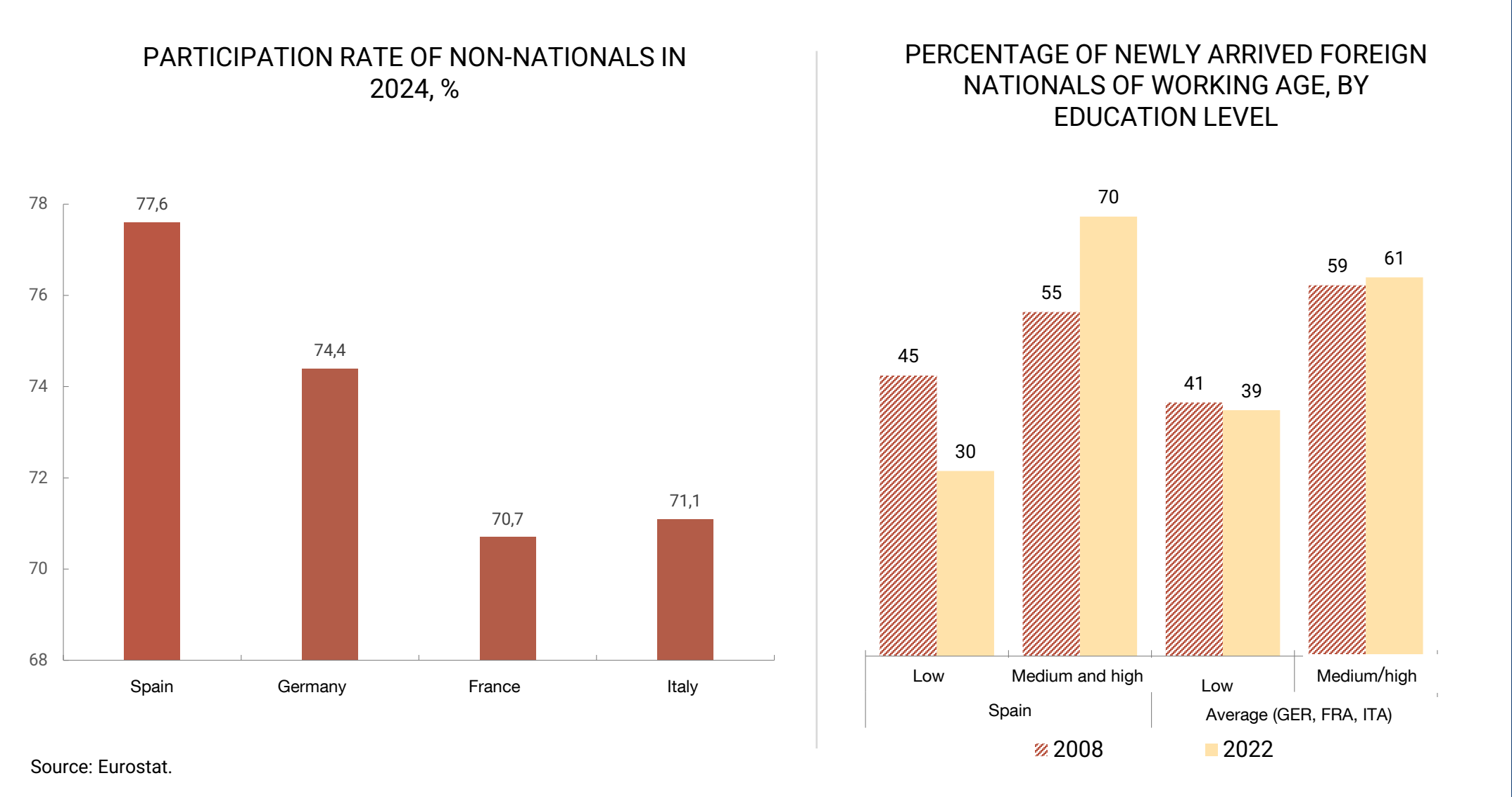
C) Immigration is influenced by the economic cycle, with a lag of around two years and a more marked cyclical pattern than in other European countries

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D) Migration policy is also a key factor in explaining immigration flows and their composition

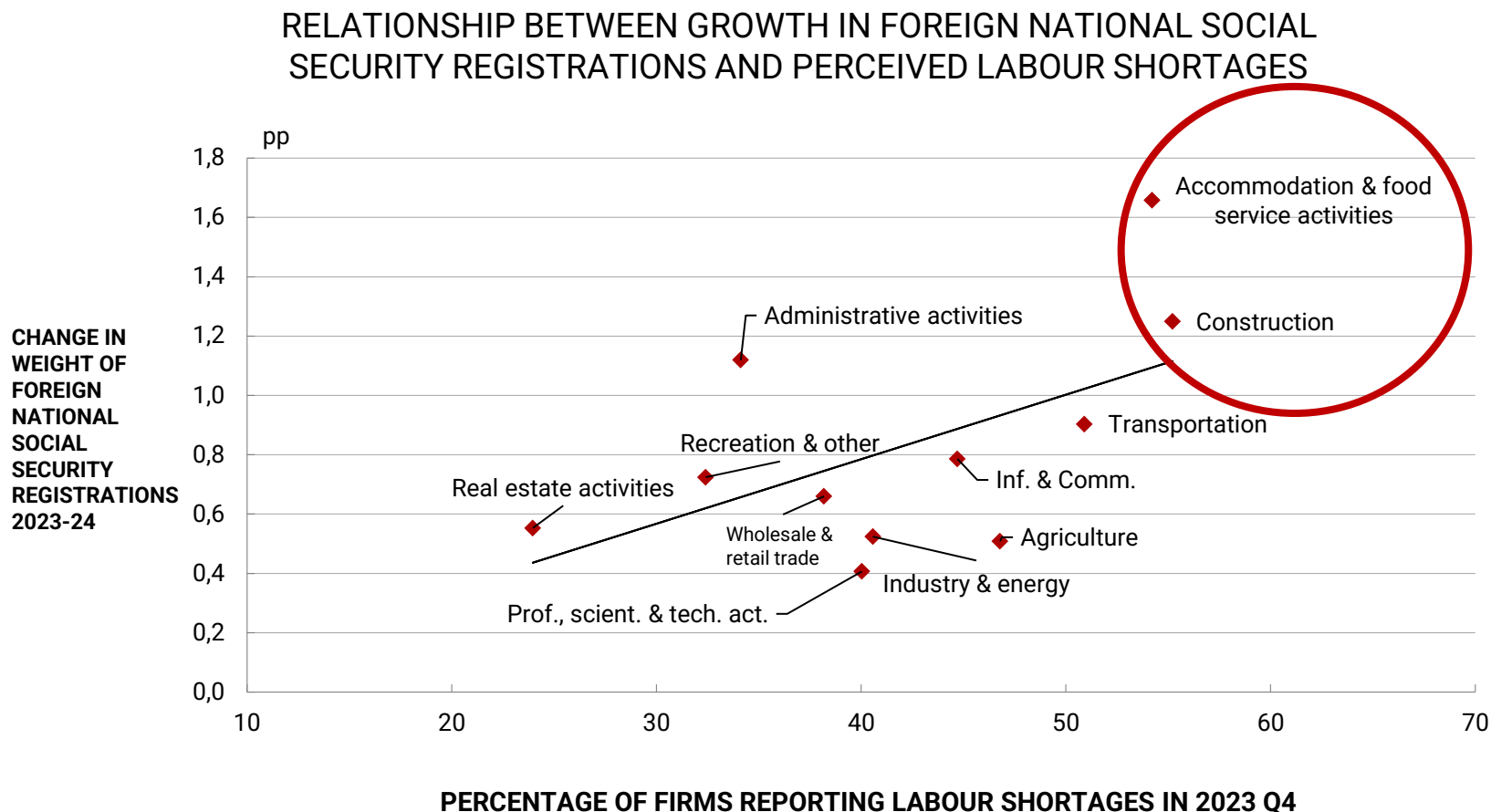
# A) HIGH PARTICIPATION RATE AND GREATER WEIGHT OF SKILLED IMMIGRANT WORKERS

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## B) JOBS ARE CONCENTRATED IN THE SECTORS MOST AFFECTED BY THE BOTTLENECKS

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Growth in the foreign population has helped alleviate labour market tightness.

Foreign national social security registrations have risen the most in accommodation and food service activities and construction, the two sectors most constrained by labour shortages

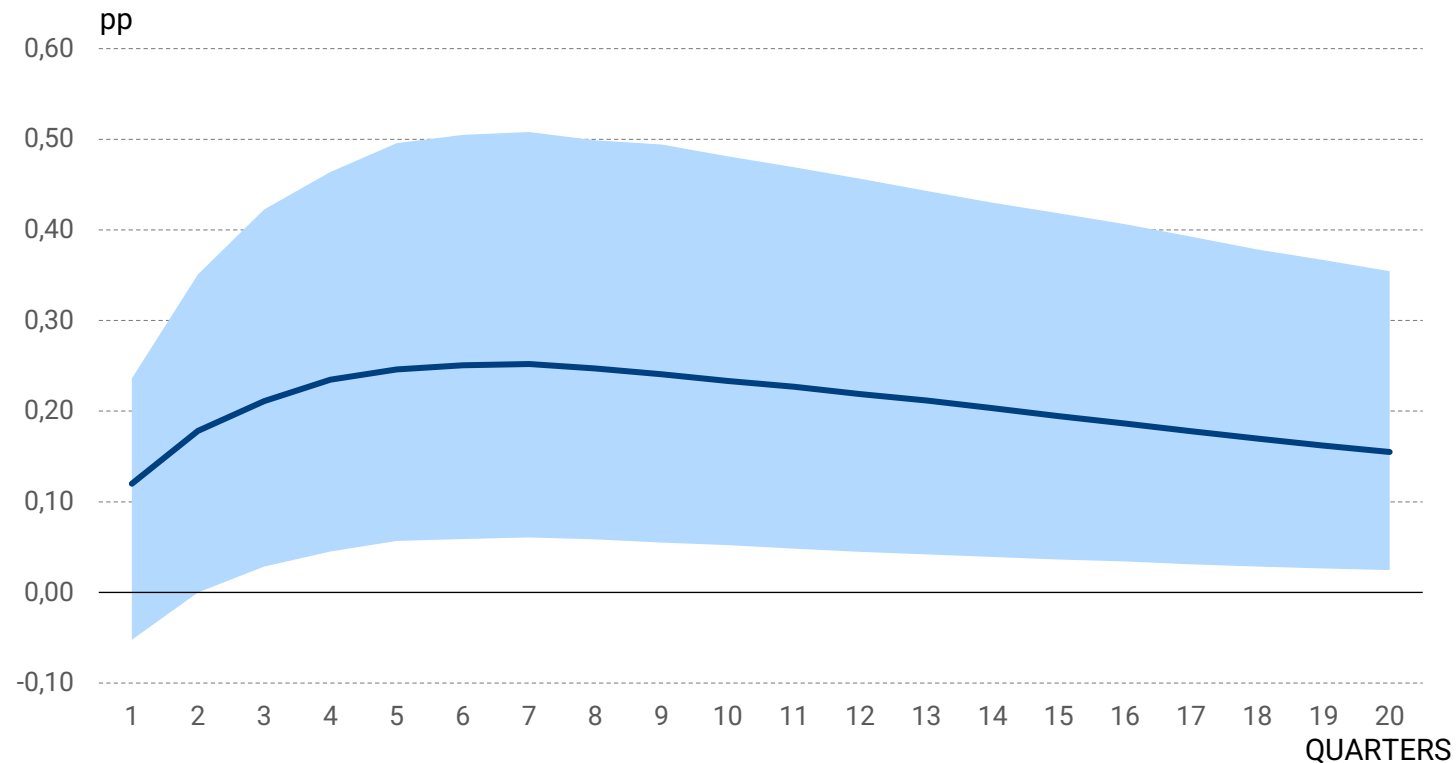
76% of the jobs created in Spain since 2019 have been filled by foreign-born individuals

Sources: Banco de España and Ministerio de Inclusión, Seguridad Social y Migraciones.

## C) IMMIGRATION IS INFLUENCED BY THE ECONOMIC CYCLE ...

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THE RESPONSE OF THE IMMIGRATION RATE TO A POSITIVE DEMAND SHOCK IN THE SPANISH ECONOMY

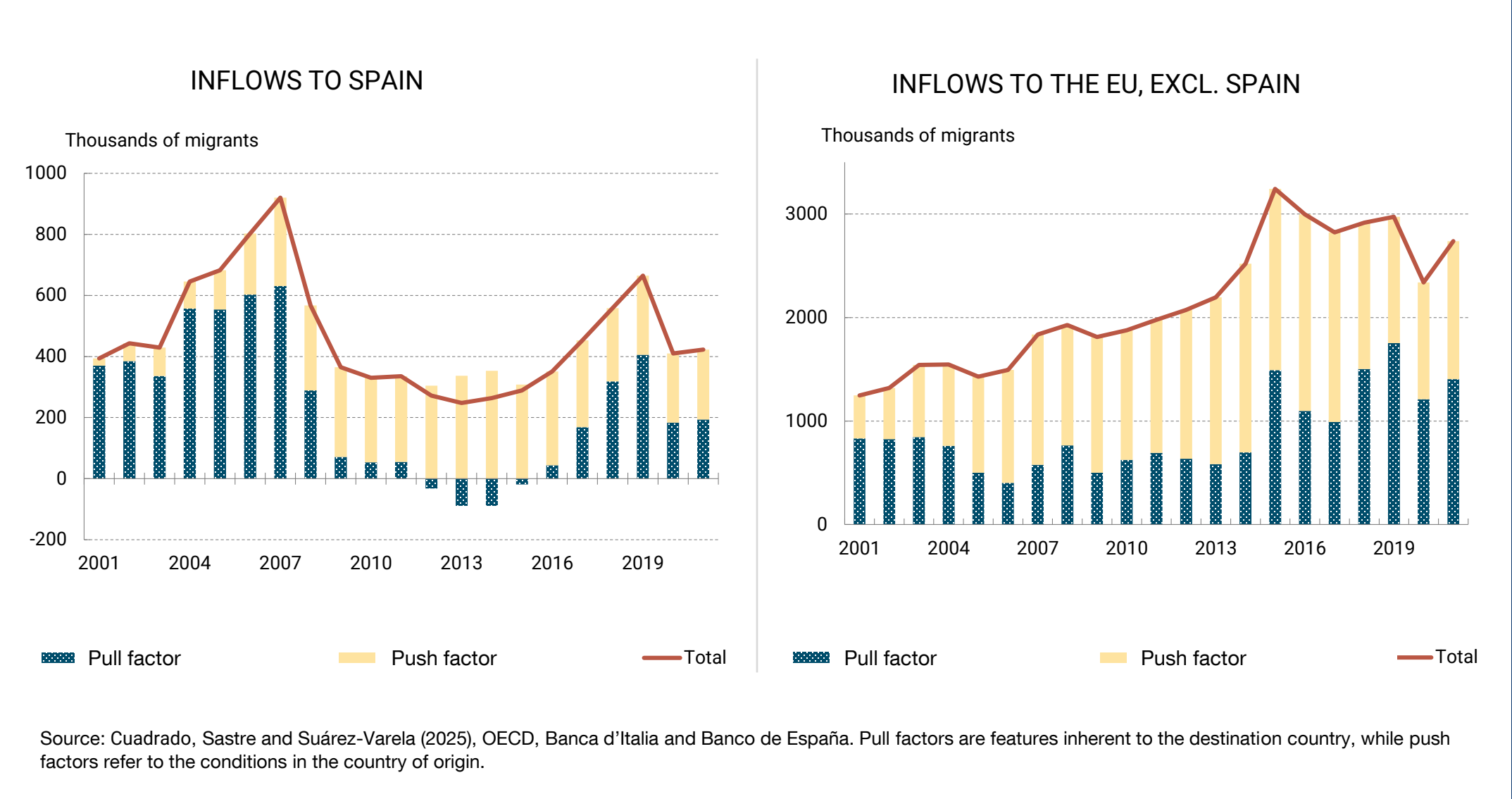


Immigrant inflows tend to increase when the cycle improves, with a time lag of between one and two years

Source: Cuadrado and Kataryniuk, forthcoming. A sign-restricted structural VAR model is used to estimate the response of the net immigration rate to a positive demand shock. 68% credibility bands are shown.

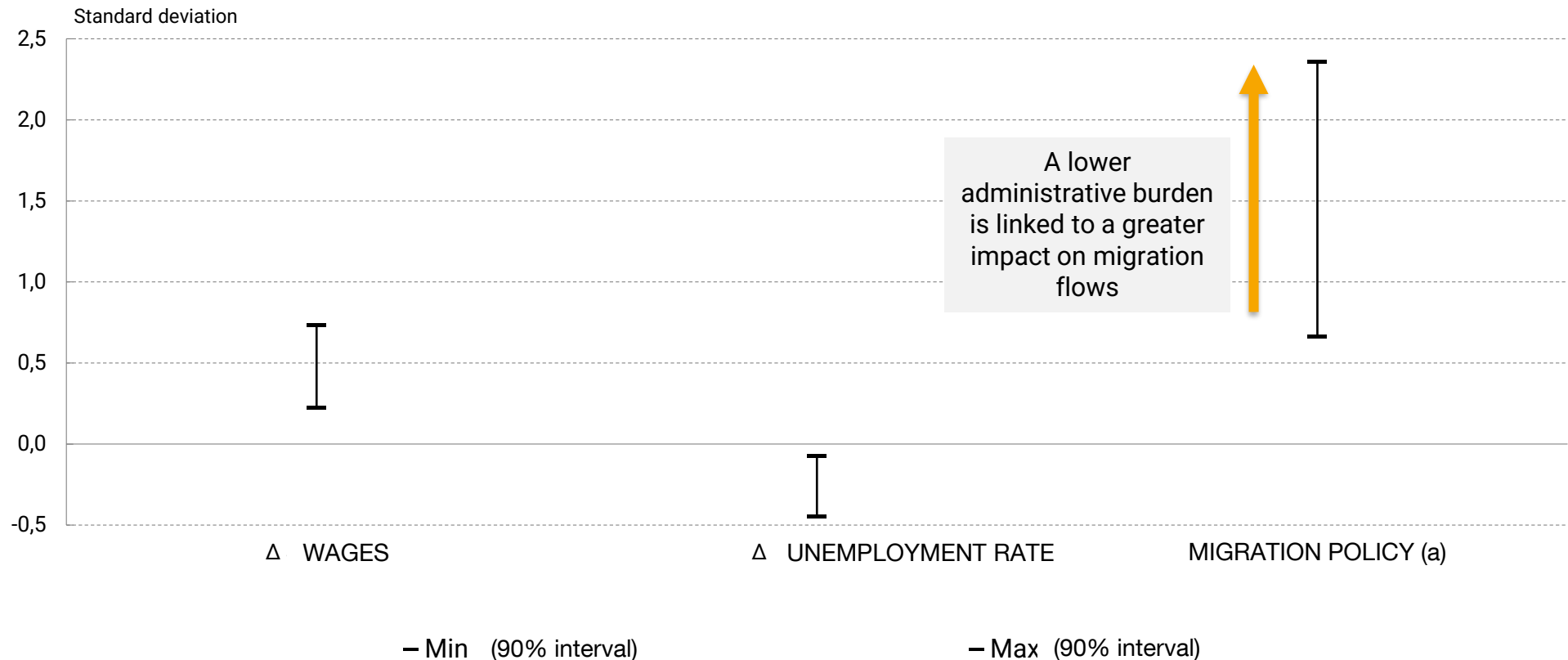
# C)... AND HAS A MORE MARKED CYCLICAL PATTERN IN SPAIN THAN IN OTHER EUROPEAN COUNTRIES

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## D) MIGRATION POLICY IS ALSO A SIGNIFICANT FACTOR IN EXPLAINING IMMIGRATION FLOWS AND THEIR COMPOSITION

IMPACT OF WAGES, THE UNEMPLOYMENT RATE AND MIGRATION POLICIES ON MIGRANT INFLOWS



Sources: Migrant Integration Policy Index (MIPEX), OECD, Banca d'Italia and Banco de España.

a) The migration policy indicator is the aggregate of the components relating to access to residence and nationality and the potential for family reunification. Higher values in this indicator point to policies more favourable to immigration.

# RECENT POLICIES MUST BE ANALYSED AND PROPER GOVERNANCE ENCOURAGED TO IMPROVE MIGRANTS' INTEGRATION AND LABOUR MARKET MATCHING

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## Streamlining of bureaucratic processes

- Cutting the timeframe for applying for residence in Spain (new Foreign Nationals' Register)
- Increasing the time foreign students can work (new Foreign Nationals' Register)
- To do: cut waiting times for nationality applications

## Encouraging and maintaining a migration strategy tailored to new ways of working

- Entrepreneurs' Law, Start-ups Law and visa for digital nomads
- Adaptation of the EU Blue Card initiative
- Residence permit tied to work-oriented training (new Foreign Nationals' Register)
- Circular migration

## Collaboration between levels of government

- Coordination across general government to recognise qualifications
- Government-wide collaboration on pilot pathways to attract migrants



Needed: policy assessment and follow-up



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# INDUSTRIAL POLICY IS BACK ON THE EUROPEAN AND GLOBAL ECONOMIC AGENDA

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## 4. THE IMPORTANCE OF INSTITUTIONAL QUALITY

### **Response to a more complex geopolitical environment**

- Efficiency ranked below strategic considerations

### **New goals:** security (strategic autonomy) and the green transition

- More than just addressing market failings or bolstering certain sectors/regions

### **New tools:** restrictions on open public procurement, selective promotion of exports, FDI screening, green policies, etc.

- More than just the established subsidies and tariffs

The great variety of objectives and tools complicates their design and ex post assessment

# THERE ARE DIFFICULT DILEMMAS TIED TO INDUSTRIAL POLICY

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## Competition vs business scale

Encourage competition – lower prices in the short term and avoids dominant players

VS

Larger scale firms in the medium term, financing for big investments and a critical mass in R&D

## Aggregate efficiency vs social cohesion

Efficiency gains

VS

Protecting employment in strategic sectors and vulnerable regions

## Autonomy vs diversification

Trade diversification, access to cutting-edge technologies and global financing

VS

Lower exposure to external shocks, greater autonomy and security

# MANY OF THESE DILEMMAS CAN BE MITIGATED VIA APPROPRIATE INSTITUTIONAL AND TECHNICAL DESIGN

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## Ex ante assessment

rigorous analysis prior to policy launch

- Spain has made progress with the Recovery, Transformation and Resilience Plan, but this practice must be implemented across all industrial policy

## Ex post assessment

using robust and comparative methodologies based on granular evidence

- Impact assessments must enable the redesign or removal of policies if they are not working

## Transparency

make clear the priorities and associated costs of each policy decision explicit

- Allow a more informed public debate, boosting legitimacy and promoting accountability

# WHICH CONDITIONS ARE NECESSARY FOR INDUSTRIAL POLICIES TO FUNCTION IN THE LONG TERM?

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**Sufficient business scale** to generate learning and compete globally (learning by doing)

**Access to stable financing,** especially for R&D-intensive sectors or those with high entry costs

**Public-private coordination**

**Predictable and stable regulatory environments** that limit uncertainty and favour long-term investment

**Effective administrative capacity** to design, execute and assess complex measures

# CONTINUITY IS ALSO A KEY ELEMENT FOR INDUSTRIAL POLICY'S EFFECTIVENESS

1. THE SPANISH  
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UNCERTAIN  
GLOBAL  
ENVIRONMENT

2. THE ROLE OF  
IMMIGRATION

3. INDUSTRIAL  
POLICY IN THE  
LIGHT OF NEW  
GLOBAL  
CHALLENGES

4. THE IMPORTANCE  
OF  
INSTITUTIONAL  
QUALITY

Many policies fail not because of their design, but rather because they are discontinued prematurely

Spain can offer examples where policy continuity has led to lasting results

- **Renewable energy:** regulatory frameworks with long-term horizons and country-wide goals have underpinned a growing technological specialisation

- **Digitalisation:** the Digital Spain strategy has had overarching themes since 2013, fostering the roll-out of infrastructures and services

- **Migration policy**
- **Highly qualified workers:** Entrepreneurs Law (2013), Start-ups Law (2022), transposition of the EU Blue Card Directive (2023)
- **Circular migration:** partnership programmes with countries of origin that have developed over time, incorporating incentives and lessons learned (for example, vis-à-vis temporary employees in agriculture)



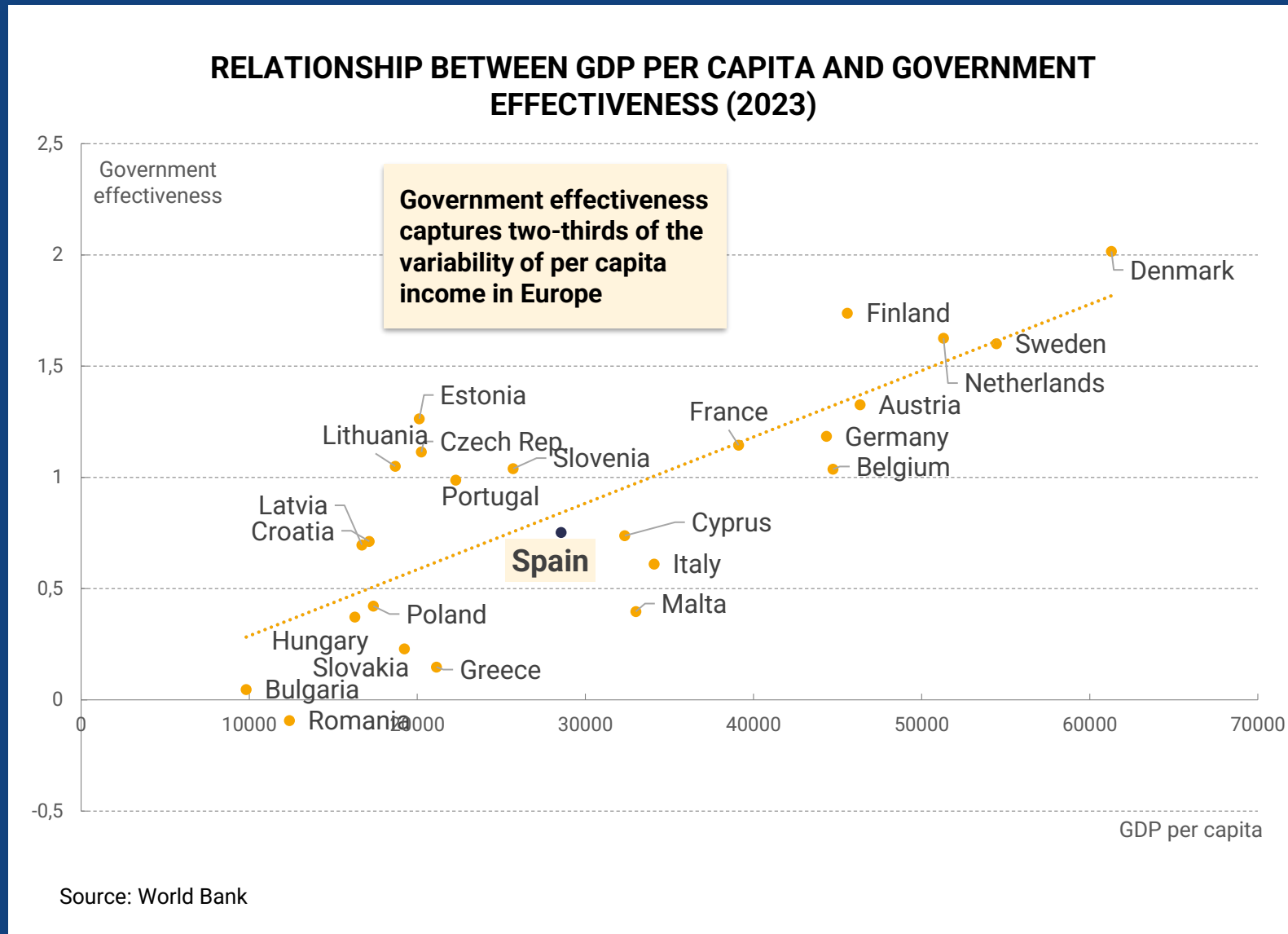
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# THERE IS A STRONG POSITIVE RELATIONSHIP BETWEEN GOVERNMENT EFFECTIVENESS AND PRODUCTIVITY

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Government effectiveness is a multifaceted concept that comprises, among others:

1. **The governance framework of the different tiers of government**
2. **Quality of the regulatory framework:** Banco de España studies indicate that 12,000 rules a year are produced across the three tiers of government
3. **Capacity of agencies and institutions to function with the desirable independence and flexibility**

# ULTIMATELY, INSTITUTIONAL QUALITY IS KEY TO BUILDING EFFECTIVE PUBLIC POLICIES IN DEMOCRACIES

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- Democracies tend to suffer from short-term bias as a result of the electoral cycle

- Overcoming that bias requires **strong institutions and independent technical structures:**
  - **Restricted legal mandates**
  - **Specialised technical capacity**
  - **Accountability procedures that boost the legitimacy of medium-term decisions**

- The experience of monetary policy offers a useful benchmark
  - We should question whether policies that have a structural impact could benefit from more autonomous governance

THANK YOU

# THE BASELINE SCENARIO ENVISAGES MODERATE TARIFF HIKES AND A FISCAL IMPULSE IN DEFENCE IN LINE WITH ANNOUNCEMENTS TO DATE

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### KEY ASSUMPTIONS IN THE BASELINE SCENARIO

#### Tariffs prior to 2 April:

United States → EU: 10%.  
Without EU retaliation

United States → China: 20%  
with symmetric retaliatory  
measures

United States → Rest of the  
world: 10%

**Uncertainty levels decline gradually** from their current highs to their 2018 levels (Trump's first term of office) at the end of the projection horizon

**Fiscal impulse related to defence and infrastructure spending in Germany: 0.2% of GDP in Spain in 2025**  
0.7% of euro area GDP in 2025-27 – mainly Germany

THE ADVERSE SCENARIO ASSUMES THAT THERE WILL BE RETALIATORY TARIFFS AND PROTRACTED TRADE UNCERTAINTY

Tariffs on:	Baseline	Adverse
EU	10%	20% with retaliatory measures
China	20% with retaliatory measures	Trade war (tariffs and retaliatory measures of up to 145%)
Rest of the world	10%	Higher tariffs, with retaliatory measures
Uncertainty	Gradual reduction of economic uncertainty	Protracted economic uncertainty
Finance	Stable prices on financial markets according to technical assumptions	Amplification of financial market turmoil

1-A MORE UNCERTAIN, FRAGMENTED AND VOLATILE INTERNATIONAL ENVIRONMENT

2-THE SPANISH ECONOMY: DEVELOPMENTS AND OUTLOOK

2.a DEVELOPMENTS IN 2024

2.b BASELINE SCENARIO AND RISKS

2.c FINANCIAL POSITION OF HOUSEHOLDS, FIRMS AND BANKS

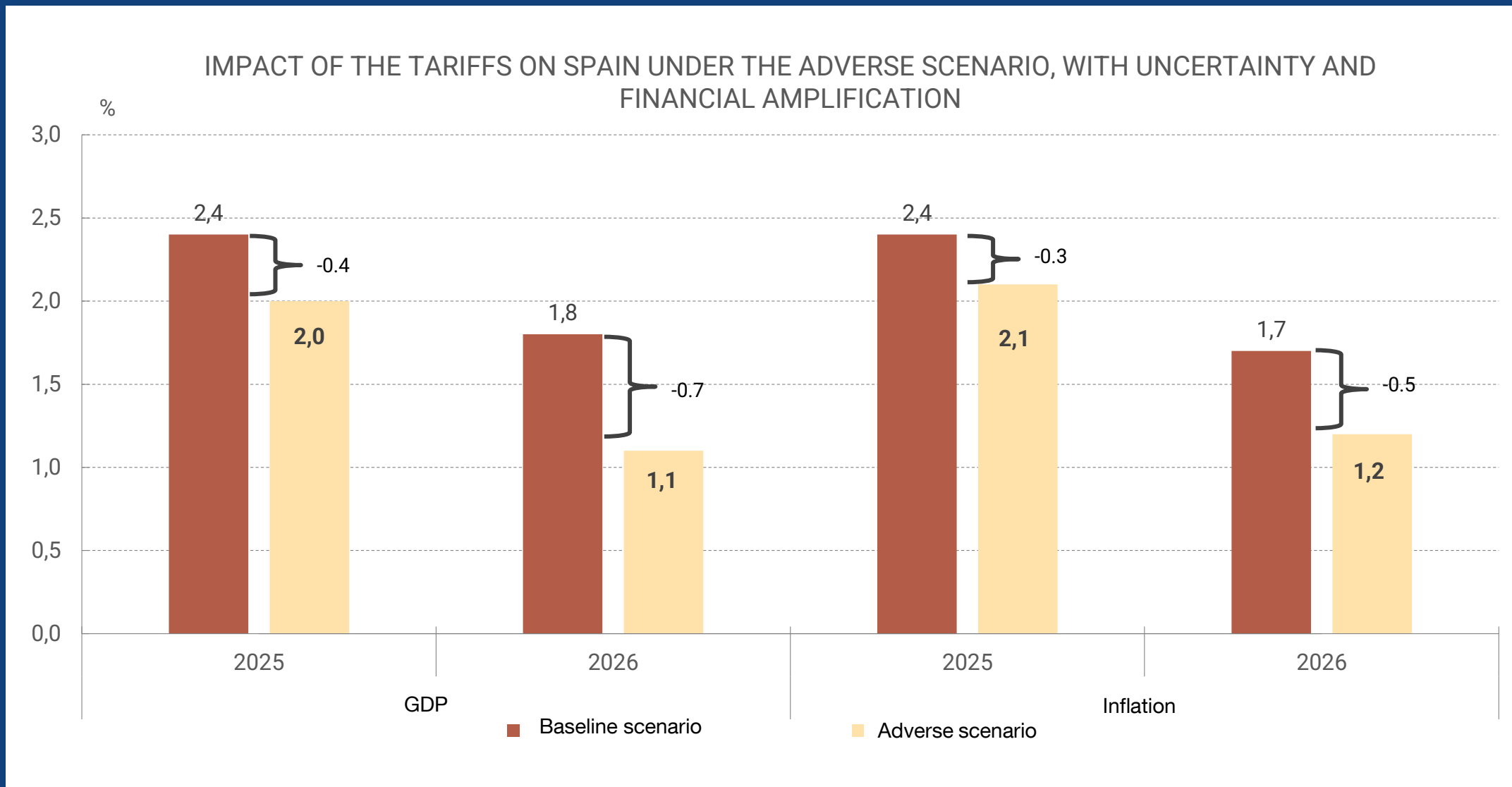
2.d MEDIUM-TERM STRUCTURAL CHALLENGES

3-THE ROLE OF EUROPEAN POLICIES

4-THE BANCO DE ESPAÑA'S RESPONSE

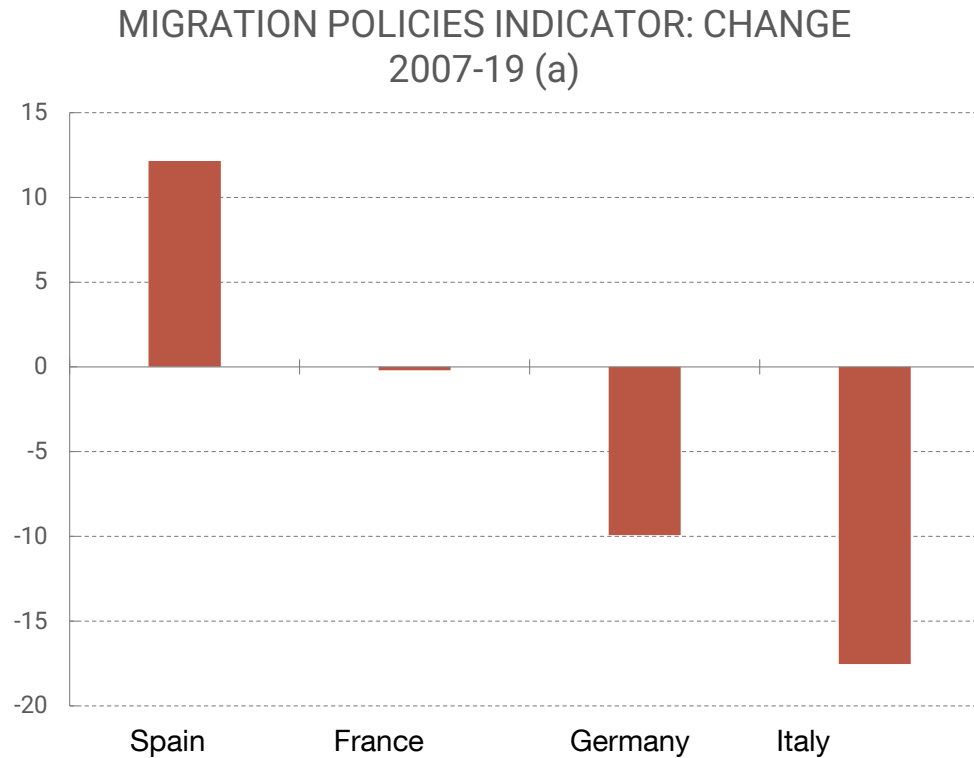
# PROTRACTED TARIFF ESCALATION WOULD HAVE A SIGNIFICANT NEGATIVE IMPACT ON THE SPANISH ECONOMY

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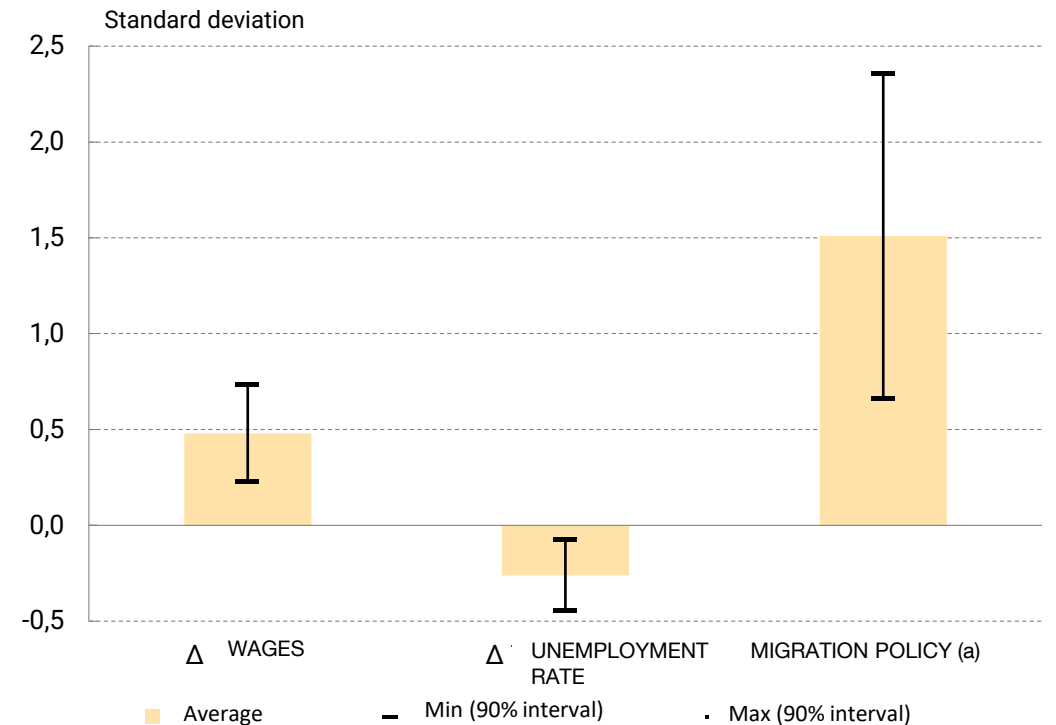


# HOWEVER, IMMIGRATION ALSO RESPONDS TO MORE STRUCTURAL FACTORS, SUCH AS MIGRATION POLICY

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## IMPACT OF PULL FACTORS ON THE MIGRANT INFLOW RATE



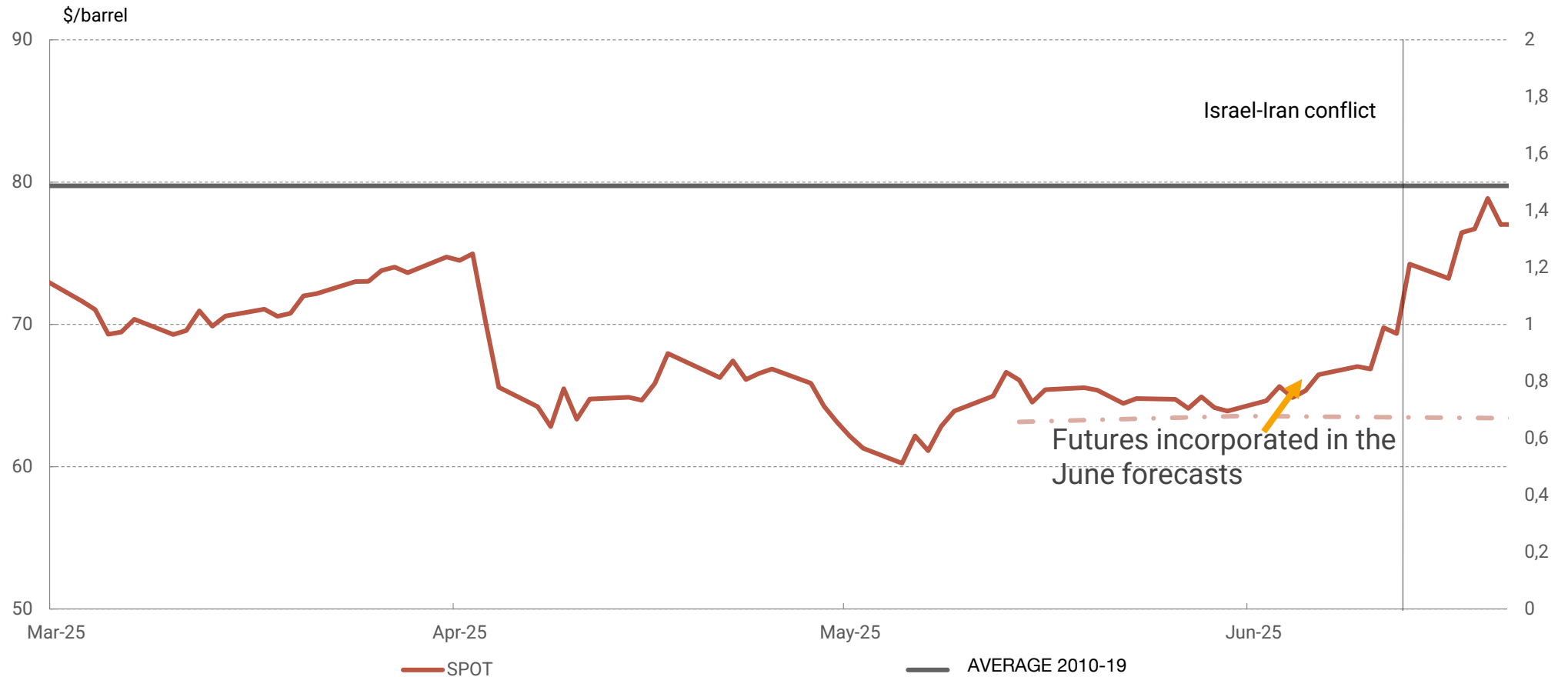
Sources: MIPEX, OECD, Banca d'Italia and Banco de España.

(a) The migration policy indicator is the aggregate of the components relating to access to residence and nationality and the potential for family reunification in the MIPEX database. Higher values in this indicator point to policies more favourable to immigration.

# ... AND HAVE EVEN WORSENERED IN RECENT WEEKS, SIGNIFICANTLY AFFECTING ENERGY MARKETS

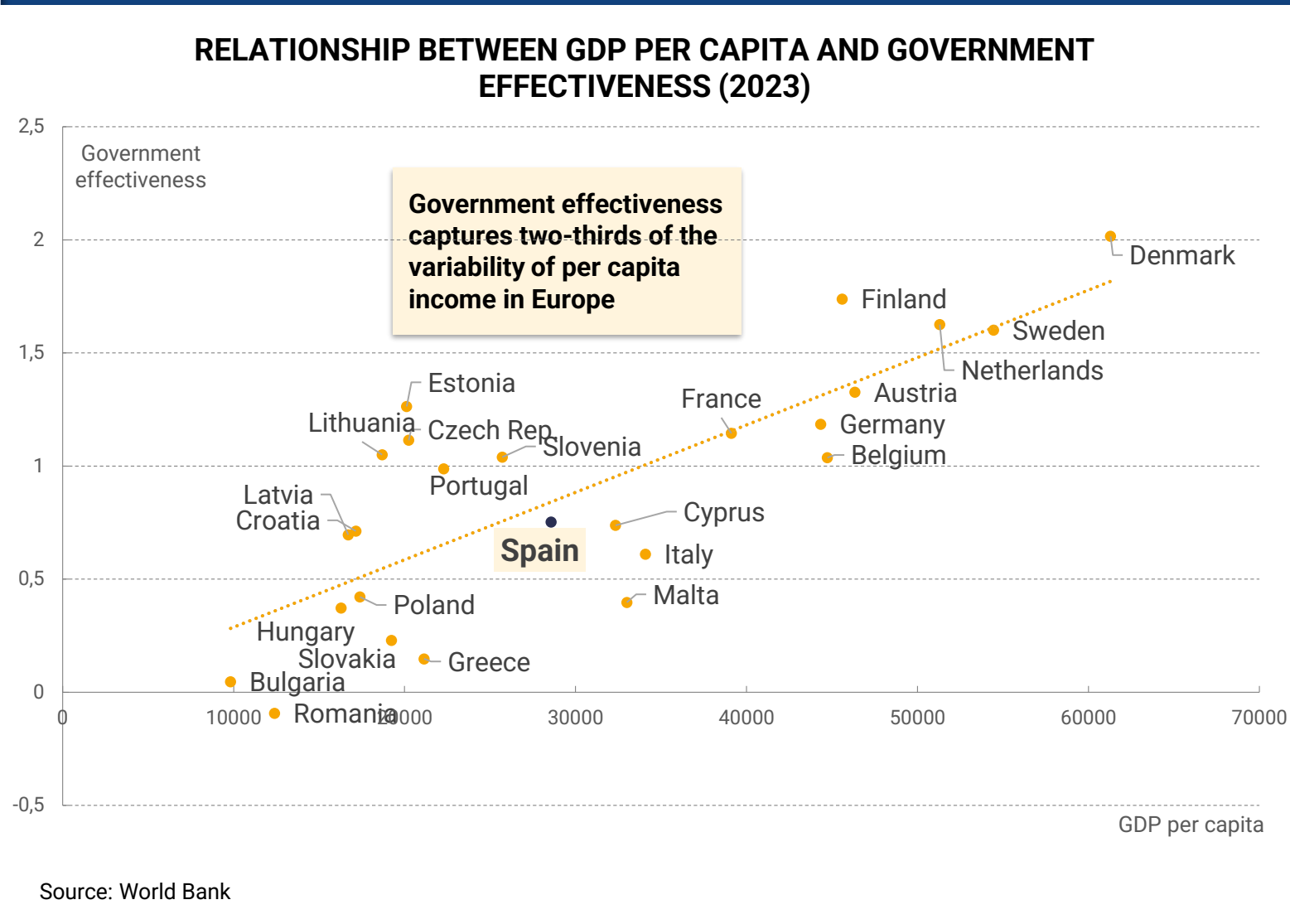
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## OIL: PRICES AND FUTURES



Source:

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