

Surprise, surprise...

The Spanish economy is once again outperforming expectations. In its annual revision of the national accounts series, the National Statistics Institute (INE) has reestimated upwards the growth of recent years. This means that GDP in Q2 2025 was 0.5 pps higher than initially estimated. In addition, it grew by 3.1% year-on-year, 0.3 pps higher than in the initial estimate. This information, combined with the buoyancy we have continued to observe in Q3, has led CaixaBank Research to revise the growth forecast for 2025 from 2.4% to 2.9%. With only three months remaining until the end of the year, it seems unlikely that growth will stray significantly from 3%.

If this forecast is met, then Spain's economy will have grown at an average rate of 3% since it recovered pre-pandemic levels in 2022. The prediction among analysts, in contrast, was not so optimistic. The forecasts made at the beginning of each year indicated an average growth of 1.5%. The forecasting error was particularly pronounced in 2024. At the beginning of that year, growth was expected to be 1.3%, but it ended up reaching 3.5%. In January this year, the analyst consensus anticipated a growth rate of 2.3%, and all the indicators now suggest that this is another clear underestimate.

This contrasts with the pattern in the euro area as a whole and in the other major European economies. Generally speaking, they have behaved in line with expectations. The forecast error one year ahead has been 0.3 pps on average, a similar figure to the error made by analysts in the years prior to the pandemic.

Beyond the complex and uncertain international context, these surprises are no doubt occurring because the growth is being driven by factors that are difficult to predict. The first of these factors is demographics. The population has now grown at 1.0% annually for three consecutive years. For context, between 2015 and 2019 the growth rate was 0.3% on average. This population growth is primarily due to the increase in the foreign population and those with dual nationality. In the last three years, the Spanish population has fallen by an average of 100,000 people a year. However, this has been more than offset by migration flows, resulting in an average population growth of around 500,000 people per year. More people means more consumption, more activity and also more capacity to generate employment. Since 2023, around 40% of the increase in employment has been among foreign residents. The other side of the coin can be found in the real estate sector. The sharp increase in the population has not been accompanied by a sufficient increase in the housing supply, and this is exerting upward pressure on prices.

Another surprising factor in recent years has been the increase in productivity. The growth of GDP per hour worked has been 1.0% annually since the pre-pandemic level of activity was recovered; this is twice the growth rate recorded between 2015 and 2019. However, it should be noted that the growth of GDP per person employed has been more limited. Much of the increase in GDP per hour worked is the result of the reduction in the number of hours worked per worker. In order for productivity growth to be sustainable in the medium and long term, it is important that productivity per person employed also improves.

Finally, investment is also showing significant strength. Indeed, this is one of the items that has received the greatest upward revision in the National Statistics Institute's recent update of the national accounts. In the previous series, investment was estimated to be 6.8% above pre-pandemic levels, whereas in the new series it is 11.4% higher. Moreover, it has a dynamic growth rate, at 5.1% year-on-year in Q2 2025. The resilience of investment in today's uncertain international context is particularly noteworthy. This is undoubtedly one of the key elements that could allow the Spanish economy to continue to enjoy dynamic and balanced growth in the coming years. If the population continues to grow, labour productivity does not waiver and the investment cycle is consolidated, then Spain's economy will continue to outperform expectations and next year we will be able to write another editorial like this one.

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