# Flash Economics

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# Spain and Italy have not resolved their structural problems

The structural problems of Spain and Italy are fairly similar:

- Ageing population;
- Stagnation, or even decline, in productivity and a low employment rate;
- Weak skills among the population and poor quality of the education system;
- High youth unemployment;
- Low level of robotisation;
- Stagnation (Spain), or decline (Italy), in employees' purchasing power.

Spain does however boast advantages over Italy:

- A growing technology sector;
- A strong share of renewable energy in electricity generation, resulting in low electricity prices;
- A rather high level of business investment.

The significance of these structural problems may be underestimated by investors, who have focused on the improvement in the budgetary situation of both countries and, in Spain's case, on the high rate of economic growth.

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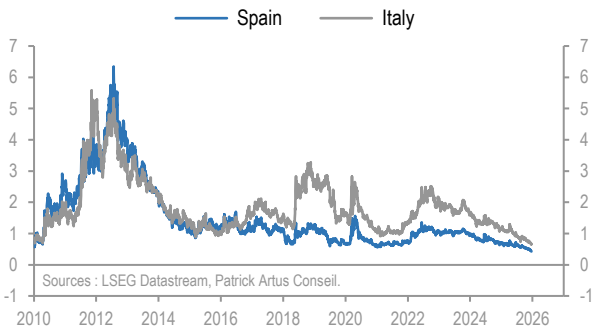
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## Financial market optimism regarding the situations of Spain and Italy

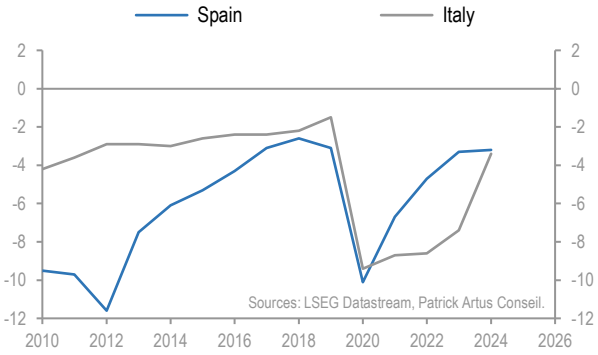
When looking at **the long-term interest rate spreads vis-à-vis Germany** (**Chart 1**), it is clear that **financial markets have become much more optimistic about the economic**, financial and fiscal situation of Spain and Italy.

**Chart 1**
**Yield spread on country's 10-year government bonds against Germany (as % point)**



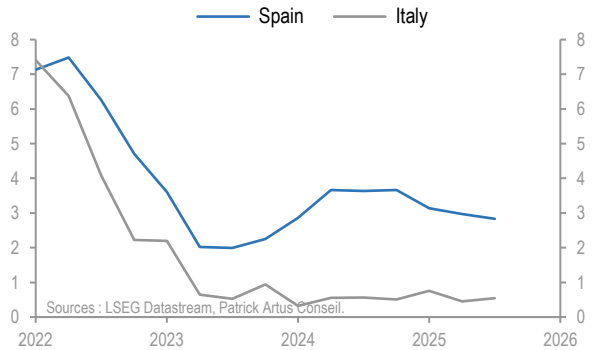

There has indeed been **a clear improvement in the budgetary situation, since 2023 in Spain and since 2024 in Italy** (**Chart 2**).

**Chart 2**
**Fiscal surplus or deficit (as % of nominal GDP)**




Furthermore, **Spain consistently exhibits strong growth,** which is not the case for Italy (**Chart 3**).

**Chart 3**
**France : Real GDP (Y/Y as %)**




However, this improvement in the budgetary situation, and in Spain's case the rather strong growth, should **not obscure the fact that Spain and Italy suffer from numerous structural problems**.

## Structural problems hampering both Spain and Italy

### 1- Population ageing

Spain and Italy are experiencing **significant population ageing** (**Charts 4A/B**), which is only partially offset by immigration, now at a substantial level (Spain has received 2 million immigrants over three years; Italy granted 450,000 work permits between 2023 and 2025 and plans to issue 500,000 more between 2026 and 2028).

**Chart 4A**
**Fertility rate (births per woman)**

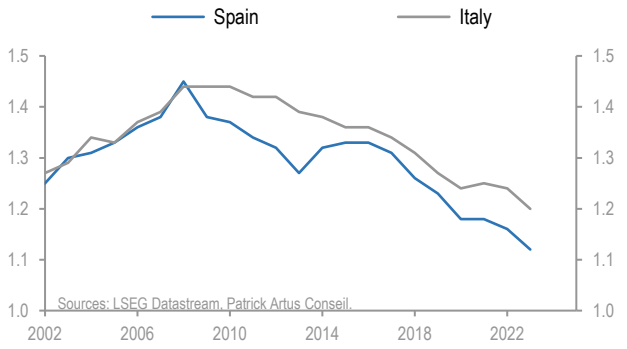
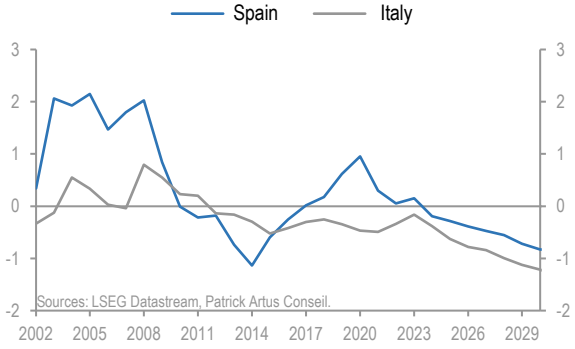


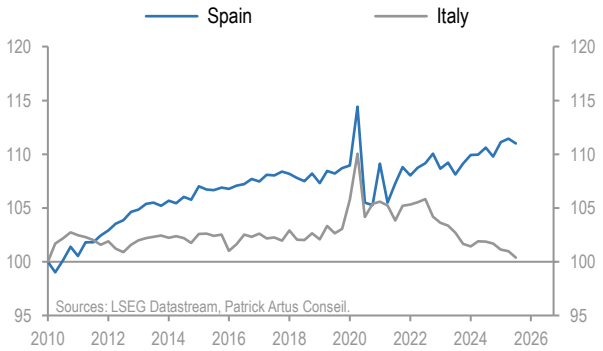

**Chart 4B**
**Population aged 15 to 64 (Y/Y as %)**




### 2- Stagnation of productivity

**Labour productivity** has been growing very slowly in Spain since 2018 and has declined in Italy since 2022 (**Chart 5**).

**Chart 5**
**Real labour productivity per hour worked (2010.Q1 = 100)**




Growth is therefore not driven by improvements in productivity.

### 3- Weak skills of the workforce, low employment rate, and poor quality of the education system

**Table 1** shows **the scores from the OECD PIAAC survey**, which measures the skills of the workforce, while **Table 2** presents **the scores from the OECD PISA** survey, which assesses the quality of the education system.

**Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)**

| Country | 2016 | 2023 |
|---|---|---|
| **Finland** | 285 | 289 |
| **Japan** | 292 | 285 |
| **Canada** | 269 | 267 |
| **Germany** | 271 | 267 |
| **England (UK)** | 267 | 266 |
| **France** | 258 | 253 |
| **United States** | 261 | 251 |
| **Spain** | 249 | 246 |
| **Italy** | 249 | 240 |

* In 2016, average score in numeracy and literacy
Source: OECD

Table 2: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

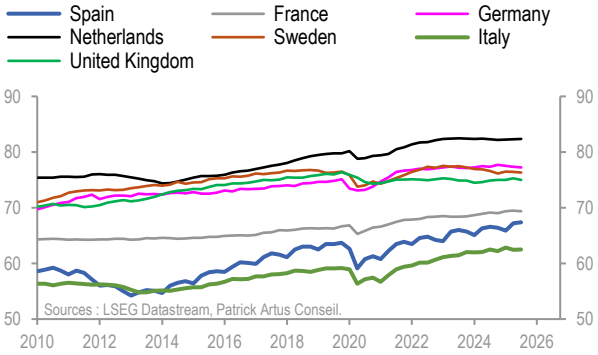
| Country | 2018 | 2022 |
|---|---|---|
| Japan | 520 | 533 |
| Canada | 517 | 506 |
| Finland | 516 | 495 |
| United Kingdom | 503 | 494 |
| United States | 495 | 489 |
| Germany | 500 | 482 |
| France | 494 | 478 |
| Spain | 482 | 477 |
| Italy | 477 | 477 |

Source : OECD

The **very low level of skills and quality of the education system in Spain and Italy is clearly visible**. It is therefore not surprising:

- **That productivity is stagnating or declining** (see Chart 5 above);
- **That the employment rate is low** (**Chart 6**).

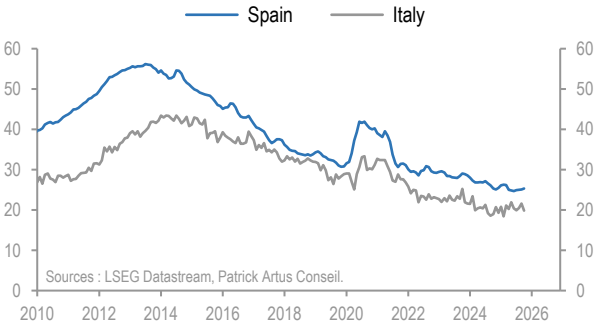
**Chart 6**
**Employment rate of population aged 15 to 64 (as %)**




### 4- High youth unemployment

**The youth unemployment rate** (for 15- to 24-year-olds, calculated as the proportion of the non-student population seeking employment) has indeed fallen significantly since the early 2010s, **but it remains abnormally high in Spain as in Italy** (**Chart 7**).

**Chart 7**
**Unemployment rate of population aged 15 to 24 (as %)**



### 5- Low level of robotisation

Table 3 shows the number of industrial robots per 10,000 manufacturing employees in various countries.

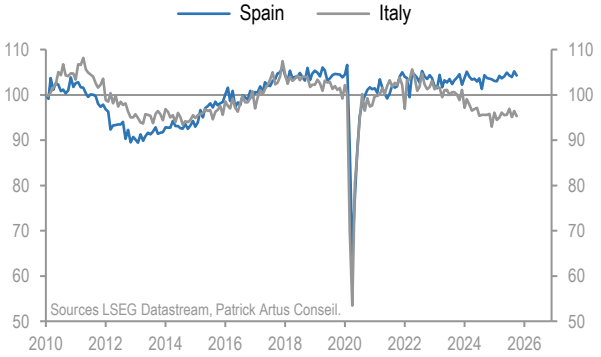
**Table 3: Robots in use per 10,000 employees in manufacturing (2023)**

| Country | Robots in use per 10,000 employees |
|---|---|
| South Korea | 1012 |
| China | 470 |
| Germany | 429 |
| Japan | 419 |
| United States | 295 |
| Italy | 228 |
| France | 186 |
| Spain | 174 |

Source : World Robotics 2024

The **low level of robotisation in Spain and Italy** results in a competitive disadvantage for industrial firms, which may explain **the stagnation of manufacturing output in Spain and its decline in Italy** (Chart 8).

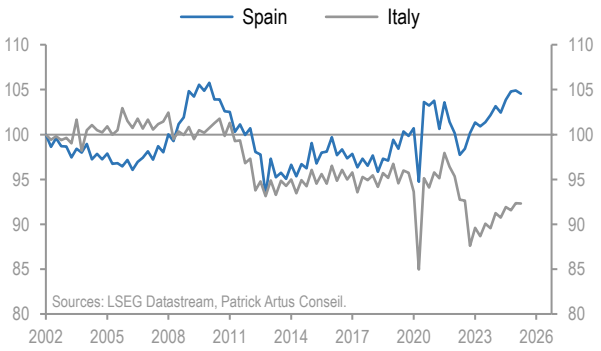
**Chart 8**
**Manufacturing production (2010.M1 = 100)**




### 6- Decline in employees' purchasing power

Chart 9 shows the real wage per capita, calculated using the overall consumer price level, in Spain and Italy.

**Chart 9**
**Real compensation per employee* (2002.Q1 = 100)**




* Deflated by the HICP

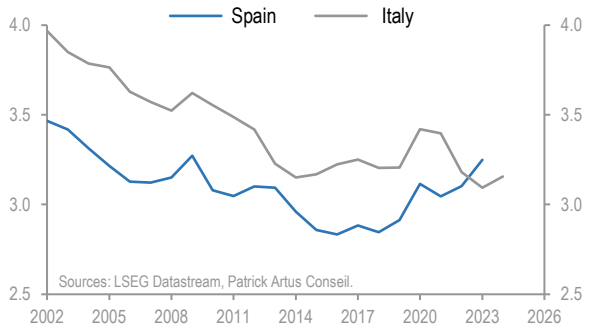
It shows that **real wages per capita** have stagnated in Spain since 2009 and have fallen by 7% in Italy since 2011. Consumers in both countries have therefore become significantly poorer.

## Several advantages of Spain over Italy are apparent

### 1. Development of the technology sector

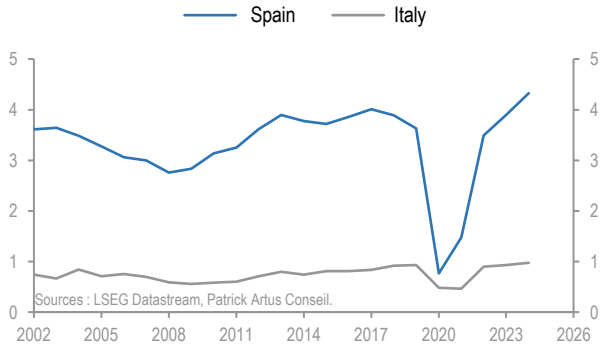
**The information and communication technology and pharmaceutical sectors** are growing rapidly in Spain, particularly due to substantial foreign investment (inward investment reached €35 billion in Spain in 2024, compared with €29 billion in France, €19 billion in Germany, and €15 billion in Italy; **Chart 10**).

**Chart 10**
**Gross value added of the ICT sector**
**(as % of nominal GDP)**




**The Spanish economy is therefore not supported solely by low-end sectors** such as notably tourism(**Chart 11**).

**Chart 11**
**Travel trade balance (as % of nominal GDP)**




### 2. Significant electricity production from renewable energy

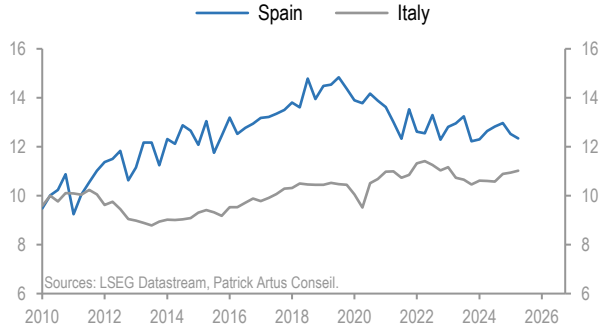
**In Spain**, 56% of electricity and 25% of total energy comes from renewable sources, whereas in Italy it is only 43% of electricity and 19% of total energy (figures for 2024).

This gives Spain a comparative advantage, with **electricity prices** lower than in Germany and Italy (€82 per MWh in Spain, €103 per MWh in Germany, €115 per MWh in Italy), though still higher than in France (€56 per MWh).

### 3. Higher investment rate

The corporate investment rate is noticeably higher in Spain than in Italy (**Chart 12**).

**Chart 12**
**Investment of corporations**
**(in value terms, as % of nominal GDP)**



## Summary: Do not overestimate the progress made in Spain and Italy

Spain and Italy do suffer from **multiple structural weaknesses**: population ageing, stagnation or decline in productivity and employees' purchasing power, weak skills and low employment rates, poor quality of the education system and high youth unemployment, and low levels of robotisation.

Moreover, when looking at growth figures (Spain: 2.9% in 2023, 3.2% in 2024, likely 2.8% in 2025; Italy: 0.7% in 2023 and 2024, likely 0.4% in 2025), it is important to take into account the contribution of the Next Generation EU plan to growth (Spain received €72 billion from this plan out of a possible total of €163 billion in loans and grants; Italy received €140 billion out of a possible €194 billion).

It shows that beyond improvements in the budgetary situation, **one should not overestimate the structural progress achieved by Italy and Spain.**

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