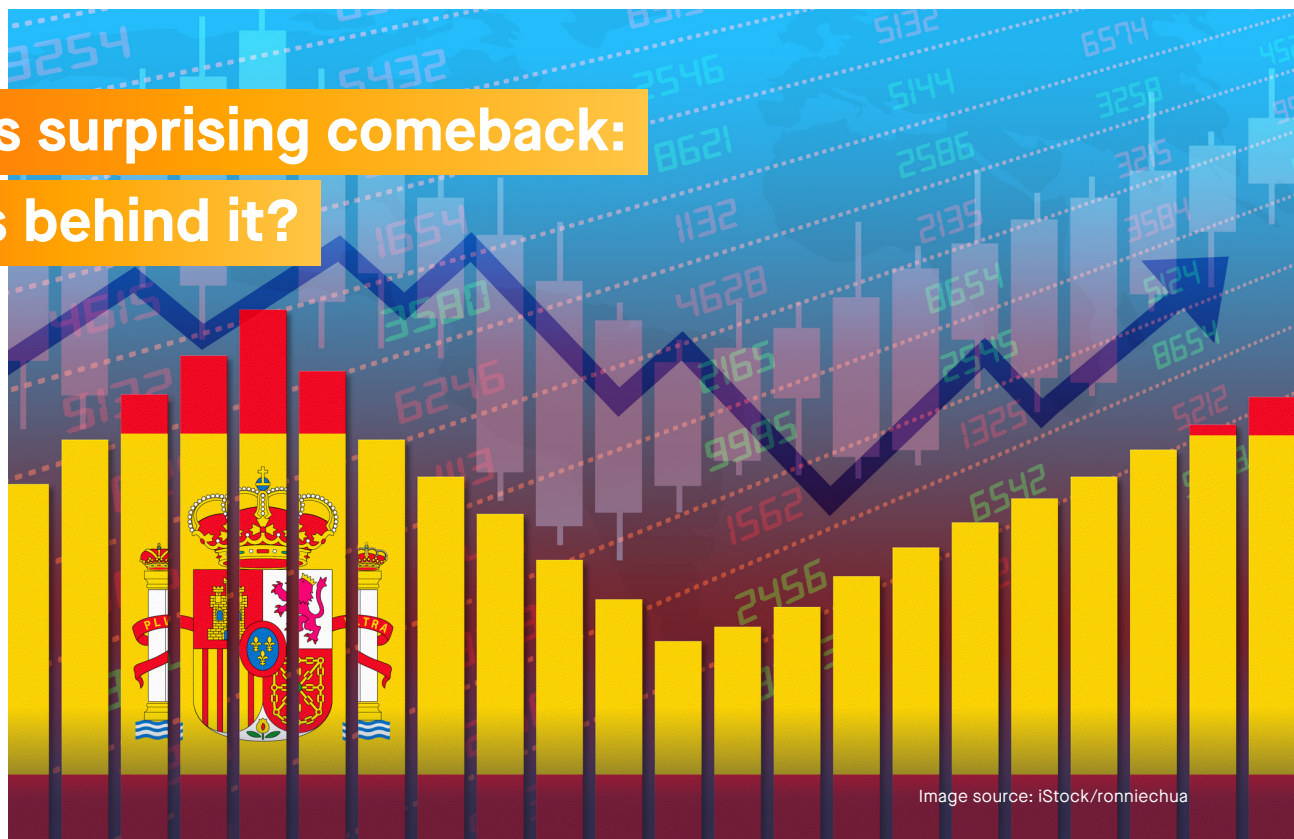


Spain's surprising comeback: what's behind it?



Introduction

Just a decade ago, Spain was grappling with the aftermath of a severe financial crisis, high unemployment, and sluggish growth. Fast forward to 2024, and the country has emerged as one of Europe's fastest-growing economies, outpacing major players like Germany and France.

Charles-Henry Monchau, CFA, CAIA, CMT

Chief Investment Officer

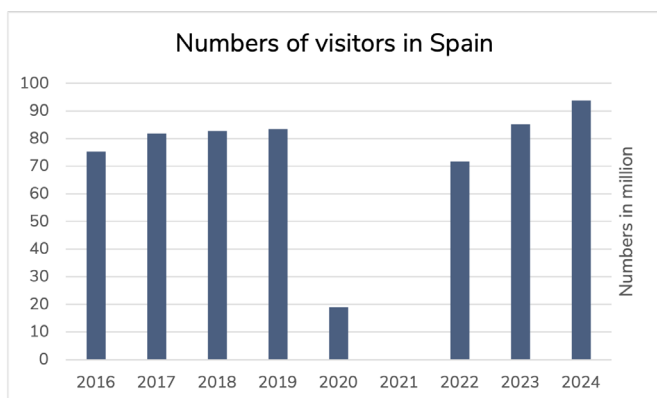
Hashim Almadani

Intern

With a 3.2% GDP increase, Spain's resurgence is fuelled by record-breaking tourism, a surge in foreign investment, and strategic economic reforms. While many European economies struggle with stagnation, Spain stands out as a success story in an increasingly uncertain global environment.

The tourism surge

Spain's tourism sector has solidified itself as a cornerstone of the nation's economy, contributing significantly to GDP growth and job creation. In 2024, the country welcomed a record-breaking 94 million international visitors, marking a 10% increase from the previous year and surpassing pre-pandemic levels. This influx generated approximately €126 billion in revenue, a 16% rise compared to 2023, demonstrating tourism's pivotal role in Spain's economic resurgence. The sector now accounts for 12.3% of Spain's GDP, contributing to nearly 70% of the growth that the country is experiencing, according to tourism group Exceltur.



Source: Spain national institute of statistics

Spain has successfully capitalised on tourism for economic growth, setting it apart from other major European destinations like France and Italy. Although France remains the world's top tourist destination, welcoming over 100 million visitors annually, its tourism revenue is comparatively lower in relation to its GDP. While France attracts more tourists overall, Spain earns significantly more per visitor (€126 billion against €68.6 billion for France), as a higher percentage of its tourism revenue comes from international travellers rather than domestic tourism.

This surge in tourism has put increasing pressure on Spain's infrastructure, prompting significant modernisation efforts to accommodate growing visitor numbers. Investments in high-speed rail networks, airport expansions, and digital transformation initiatives have enhanced visitor experiences, making Spain a welcoming destination for international travellers. Indeed, the Spanish government plans to allocate a record \$3.8 billion to improve tourism destinations and businesses across the country, representing the largest investment of this kind in the country so far.

Beyond infrastructure, Spain has successfully diversified its tourism model to distribute economic benefits more evenly across the country. While iconic destinations like Barcelona, the Balearic Islands, and Andalusia remain major draws,

regional initiatives have promoted lesser-known areas such as Galicia, Asturias, and the Basque Country, attracting new waves of visitors. Notably, Extremadura, once an overlooked region, has seen tourism grow by over 35% in recent years, outpacing traditionally popular destinations like the Canary Islands (25%). This regional expansion has stimulated local economies, reducing dependence on seasonal tourism and fostering more sustainable, year-round economic activity.

The tourism sector has also been a major driver of employment, with 2.7 million workers now engaged in tourism-related industries, representing 12.6% of Spain's active workforce. In 2023 alone, 100,000 new jobs were created, accounting for 17% of total employment growth. Perhaps most notably, the sector has witnessed a dramatic shift toward permanent contracts, with 90% of tourism jobs now stable positions, a significant improvement from 64% in 2019.

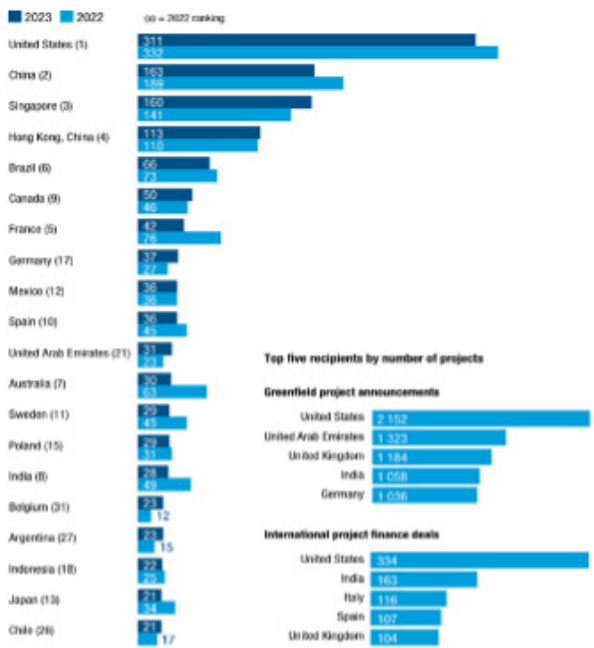
In addition to volume growth, Spain has positioned itself as a leader in high-value tourism, focusing on attracting affluent travellers who contribute more per visit. The rise of luxury travel, exclusive resorts, Michelin-starred dining, and cultural tourism in cities like Madrid and Seville has strengthened Spain's reputation as a premier destination. The luxury tourism market is projected to grow at a 16% CAGR through 2027, underscoring Spain's ability to pivot towards quality-driven tourism models that generate higher economic returns.

As tourism continues to be a driving force in Spain's economic expansion, the sector faces new challenges, including managing overtourism, ensuring environmental sustainability, and addressing rising housing costs in high-demand areas. However, Spain's adaptability, through technological advancements, infrastructure modernisation, and diversified tourism strategies, positions it well to maintain its leadership as Europe's most dynamic tourism economy, ensuring sustained prosperity in the years ahead.

Foreign investment boom: a long-term growth engine?

Spain's economic resurgence has been fuelled by a surge in Foreign Direct Investment (FDI), making it one of Europe's most attractive destinations for international capital. Unlike many European economies struggling with stagnant growth, Spain's combination of investor-friendly policies, strong economic fundamentals, and sectoral diversification has enabled it to stand out as a top-performing economy. The influx of FDI has been concentrated in energy, technology, and data infrastructure, reinforcing Spain's role as a strategic hub for innovation. Favourable tax incentives, a well-developed transport network, and government-backed initiatives to attract multinational corporations have further enhanced its appeal. Additionally, Spain's commitment to digitalisation and green energy transition has made it a preferred location for investors seeking long-term returns in sustainable industries.

Spain's recovery from the financial crisis and subsequent debt challenges has been marked by rising investor confidence and structural reforms that have increased competitiveness. According to UNCTAD's World Investment Report 2024, despite a 20% decline in FDI inflows in 2023, totalling USD 35.9 billion, Spain remains the 10th-largest recipient of FDI globally, outperforming several European counterparts.



One of the key areas attracting foreign capital is renewable energy, where investment is growing at over 25% annually. This shift aligns with Spain's strategic move away from traditional sectors like real estate and toward sustainable industries, reinforcing its position as a European leader in green energy. The country is now the fourth-largest global contributor to scientific production in the biotechnology sector, further strengthening its innovation ecosystem. Spain has become a powerhouse in green hydrogen production, with Iberdrola, Repsol, and Enagás spearheading large-scale hydrogen hubs in Andalusia, Aragón, and the Basque Country. At the same time, the country is rapidly expanding its solar and wind energy capacity, adding 5.8 GW of solar power and 4.3 GW of wind energy this year, making it the second-largest solar market and third-largest wind energy producer in Europe. These investments are not only reducing Spain's reliance on fossil fuels but also positioning it as a future energy exporter within Europe, particularly as demand for clean energy rises across the continent. Additionally, Volkswagen's €10 billion gigafactory in Valencia and Envision's €2.5 billion battery manufacturing plant in Navarre have positioned Spain as a key player in energy storage, which is essential for stabilising the growing renewable energy supply.

This strong renewable energy infrastructure has also contributed to the exponential growth of Spain's data centre industry. Between spring and autumn of 2024 alone, Spain attracted over €34.1 billion in data centre projects, reinforcing its position as a leading European destination for tech investment. Companies such as Amazon Web Services, Microsoft, Meta, and Oracle have fuelled this growth, drawn by Spain's land availability, abundant renewable energy, and optimal connectivity. Microsoft alone has announced that its AI and cloud infrastructure investments will contribute €10.7 billion to the national GDP and create nearly 77,000 jobs between 2024 and 2030. Meanwhile, Oracle is set to invest €920 million in a new cloud region in Madrid, whose data

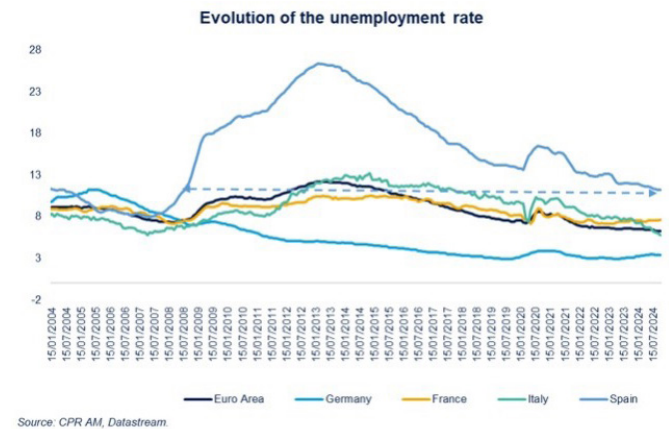
centre capacity is expected to increase nearly fivefold by 2030, reinforcing Spain's position as a crucial digital hub.

Over the past decade, foreign investment has shifted away from traditional areas like construction and real estate, which have declined in relative importance, and towards cutting-edge fields such as artificial intelligence, cloud computing, and green hydrogen. Investment in the information and communications sector, for example, rose from 5.6% in 2014-2018 to 13.5% in recent years, while manufacturing grew from 15.2% to over 19%.

To further consolidate its status as a prime investment destination, Spain has undertaken regulatory changes to streamline foreign investment processes. The government's approval of Royal Decree 571/2023 introduced updates to FDI screening mechanisms, reducing decision-making times from six to three months. This has given investors greater clarity while protecting strategic sectors like critical infrastructure, media, and food security—strengthening its competitive edge over other European countries with more bureaucratic investment frameworks.

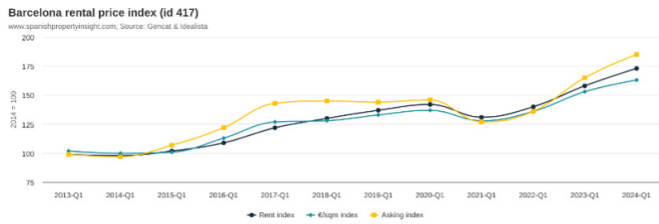
Immigration and public spending

Spain's economic expansion has been supported in part by a steady influx of immigrants, who have helped meet labour market demands and sustain population growth. In the third quarter of 2024, Spain's foreign-born workforce grew by 9.1% year-on-year, compared to just 0.6% for native workers. This increase has played a crucial role in reducing unemployment, which now sits at its lowest level since the 2008 financial crisis. Immigrants have become an essential component of Spain's workforce, filling critical roles in industries such as construction, healthcare, and technology. Their presence has mitigated labour shortages, particularly in sectors struggling to attract local workers. Moreover, the growing immigrant population has contributed to consumer demand, boosting retail, housing, and public services.



While immigration has played a crucial role in supporting Spain's labour market and economic growth, it has also heightened competition for housing and social services. This has exacerbated Spain's housing crisis, particularly in cities like Madrid and Barcelona, where rental prices have surged due to high demand and a shortage of affordable housing.

In response, the government has introduced rental caps in high-demand areas and allocated €4 billion for public housing projects, aiming to stabilise prices and improve accessibility. However, critics argue that these measures may not be sufficient to address long-term structural imbalances in the housing market.



Moreover, Spain's public spending has been instrumental in maintaining economic momentum. The country is set to receive €163 billion in EU Next Generation funding, with €48.3 billion already disbursed to support infrastructure, digital transformation, and green energy projects. Still, caution is warranted. Professor Evi Pappa of Universidad Carlos III Madrid emphasises that Spain's ability to maintain economic momentum will hinge on productivity-enhancing investments and regulatory improvements. Simply increasing spending

without addressing structural inefficiencies could limit long-term benefits, potentially fuelling fiscal vulnerabilities. If effectively managed, however, Spain's current growth trajectory could lead to a more robust and innovation-driven economy, solidifying its standing as a key player in the European economic landscape. Policymakers must ensure that these funds are allocated efficiently, targeting sectors that will yield long-term productivity gains rather than temporary economic stimulation.

Conclusion

Spain's recent economic success highlights its resilience and adaptability in the face of global challenges. With strong tourism, robust foreign investment, and strategic public spending, the country has positioned itself as a leader in Europe's economic recovery. However, significant challenges remain, including inflation, housing affordability, and the sustainability of its current growth model. Spain's ability to transition from short-term recovery to long-term stability will depend on policy measures that enhance productivity, encourage innovation, and ensure inclusive economic growth. If managed effectively, Spain could solidify its position as a powerhouse in the European economy for years to come.

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