A good 2023. But what about 2024?

All the indicators suggested that 2023 was going to be a difficult year for the Spanish economy. At the start of the year, CaixaBank Research was forecasting growth of 1.0% and emphasising the downside risks surrounding the scenario. The consensus was somewhat more pessimistic and expected economic growth to be lower. Finally, the Spanish economy closed 2023 with growth of 2.5%, far exceeding expectations.

The positive surprises kept coming throughout the year. Not only did the economy manage to avoid a recession, but it maintained a significant growth rate throughout and, far from losing traction, even ended the year with a slight acceleration. In the final quarter, growth climbed to 0.6% quarter-on-quarter, compared to 0.5% on average in the previous five quarters.

When we compare these figures with those recorded in most developed countries, and especially in Europe, the message becomes even more encouraging. In a context marked by the energy crisis, high inflation and rising interest rates, the growth of the euro area finally stood at 0.5% and some countries, such as Germany, noted a slight drop in economic activity. Unlike Spain, the European economy followed the anticipated script more closely.

Will the Spanish economy be able to maintain this pace of progress in 2024? The assessment of the various factors that drove economic activity last year should provide us with some clues. GDP growth in 2023 was driven almost equally by household consumption, public consumption and the external sector. Specifically, they contributed 1 pp, 0.8 pps and 0.9 pps to growth, respectively. To reach the 2.5% at which the economy as a whole grew, we must take into account the fall in investment, which deducted 0.1 pp from GDP growth. Also, the second decimal places sometimes do not help the totals to add up when rounding the figures to a single decimal place.

With regard to the external sector, this was one of the main drivers of the economy at the beginning of the year. Exports of goods and services grew by almost 10% in Q1 2023, but they slowed as our main trading partners weakened, closing the year up 1.2% year-on-year. The weak international context does not invite optimism, with the sluggishness of European countries being a particular source of concern. In 2024 they are expected to experience an acceleration, but for the year as a whole they will probably maintain a similar growth rate to that of 2023. Thus, exports are unlikely to regain the buoyancy they showed at the beginning of last year.

Public consumption will probably not be able to continue growing so dynamically either. The new European fiscal rules, although more flexible than the previous ones, recall the importance of keeping the national accounts in order when part of a monetary union, and the government has already set a target to reach a budget deficit of 3.0% of GDP this year. The details of the new budget are not yet known and neither is the final deficit for 2023. However, it should be noted that in Q3 2023 the general government budget deficit (four-quarter cumulative balance) was still in excess of 4%. Therefore, the reduction required this year in order to meet the target is significant.

All this could be partially offset by more dynamic household consumption. The strength of the labour market, together with significant wage growth, allowed household income to grow in excess of 10% in Q3 2023 and the savings rate to rebound. Thus, the state of household finances as a whole, now less stressed than expected, together with the fact that inflation and interest rates are likely to fall somewhat faster than expected, should allow consumption to continue to record strong growth this year. Moreover, it is reasonable to assume that investment will stop falling as interest rates gradually come down and as more NGEU funds are deployed.

CaixaBank Research forecasts growth of 1.4% for 2024, but this year we are pointing out the risks to the upside. The good growth data for Q4 2023 and the improvement in the outlook for household consumption will lead us to revise our growth forecast and place it close to 2.0%. However, in order to improve on a strong 2023, the improvement in investment will need to be substantial. Such an outcome would be great news, and not just for the good performance of the economy in the short term. Expanding and modernising the stock of capital is key to improving productivity and ensuring that growth remains sustainable in the medium and long term.

Oriol Aspachs
February 2024