

## The levers of the Spanish economy

The recent growth of the Spanish economy has rested, mainly, on the foreign sector and, in particular, on tourism. In 2023, the foreign sector accounted for one third of GDP growth. In Q1 of this year, the contribution increased to two thirds: of the 0.8 pps of GDP growth recorded, 0.5 pps came from the foreign sector. The buoyancy of tourism service exports, with 17.4% growth in the quarter, was key.

The figures related to the tourism sector have not stopped producing surprises during Q2. From January to May, the cumulative number of foreign tourists has reached 33.2 million, 4 million more than in the same period last year. If this trend is maintained, this year the 90-million barrier will be far exceeded. For reference, in 2023, 85.2 million foreign tourists arrived, which was an all-time record. The data on spending with foreign cards recorded on CaixaBank POS terminals also continue to paint a picture of a sector in the midst of a boom. As you can see for yourself on the [CaixaBank Research Real-Time Economics portal](#), in June spending by foreigners grew by 12.9% and during Q2 as a whole it grew by 13.0% on average, a pace similar to that of Q1.

The tourism sector is reaching high levels of utilisation of its productive capacity, so we can expect the pace of growth to gradually moderate. But it also has some levers to grow sustainably. Last year, much of the increase in activity was concentrated outside the peak season. In this dimension, there is ample margin for growth. The sector can also expand the range of destinations it offers: Spain is full of beautiful corners waiting to be discovered. Finally, it can also continue to improve the quality of its tourism services, a sphere in which the sector has concentrated much of its efforts in recent years. Since 2019, the number of hotel rooms has not increased, but the number of smaller hotels has reduced and the number of four and five-star establishments has increased.

If one of the main drivers of the Spanish economy slows down, can economic activity continue to enjoy rapid growth? Probably, yes. Spain's economy has other levers at its disposal. Domestic demand and, in particular, investment and household consumption could take over. In fact, there is reason to believe that this is precisely what will happen. Household consumption has recorded moderate growth over the last few quarters. In Q1 2024, it registered an increase of 6.5% year-on-year in nominal terms (2.5% in real terms). This figure contrasts with the buoyancy of household gross disposable income, which

grew by 9.1% at the aggregate level. In other words, on aggregate, over the past few quarters households have increased their savings considerably, especially amid a relatively high interest rate environment.

A portion of household savings went towards mortgage repayments last year, which increased by more than 20 billion euros compared to what was observed, on average, in the period 2014-2019. On the other hand, holdings of financial assets also increased. In 2023, the net acquisition of financial assets by households reached almost 40 billion euros. In contrast, in the period 2014-2019 it stood at around 18 billion euros, on average. Over the coming quarters, it is expected that household income will enjoy rapid growth and that purchasing power will steadily recover. This, combined with the lowering of interest rates being carried out by the ECB, should reduce the incentives to save and encourage more dynamic consumption.

As for investment, it has significant margin for growth, since it has not yet recovered pre-pandemic levels. Specifically, it is 3.0% below the peak reached in 2019. The gradual lowering of interest rates expected to be carried out by the ECB, coupled with the injection of the European NGEU funds, should support the recovery of investment in capital goods and machinery. On the other hand, it is also important that investment in construction, particularly in housing, begins to gain traction. This is especially the case if the new demographic forecasts recently published by the National Statistics Institute, which indicate that the number of households will grow by more than 300,000 per year on average between 2025 and 2029, are confirmed. This is a figure that contrasts with the number of planning permits granted for new builds, which in the 12 months to April stood at 115,000 homes.

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