

The five keys to Spain's Economic strength

The Spanish economy has demonstrated remarkable resilience in a challenging global environment. Despite the energy crisis, disruptions to global supply chains, the inflationary shock and the subsequent monetary tightening, Spain's GDP is well above pre-pandemic levels. According to the latest estimates from the National Statistics Institute, GDP in Q2 2024 was 5.7% higher than pre-pandemic levels, outpacing the euro area's modest growth of 3.9%.

The latest data reveal a strong economy. In Q2 2024, GDP beat expectations once again, registering quarterly growth of 0.8% and far exceeding the euro area's 0.2%. The outlook also remains promising, with ample room for further growth. The gap between Spain's GDP and the pre-pandemic trajectory is substantial, at approximately 6%. However, there are five factors that suggest that this gap will steadily close through growth remaining above the historical average of 2.0%.

Firstly, household finances are broadly healthy, with aggregate debt at 45% of GDP, compared to the 81% reached in 2012 or the euro area's current 52%. The high savings rate has also shored up households' balance sheets, standing at 13.4% of gross disposable income, well above the historical average of 8.6%. Finally, households' net financial wealth has reached 232% of gross disposable income. All this provides a strong foundation for consumption to continue to grow rapidly in the coming years. Indeed, the pace of consumption growth is likely to accelerate somewhat as inflation and interest rates normalise.

The second strength of Spain's economy is its diversified export base, which bolsters its economic resilience. In terms of both products and countries, our exports are more diversified now than they were in previous cycles, and more and more companies are exporting. In the last decade, the number of regular exporters has increased by almost 30%. All this has provided a major boost to Spain's exports, which now represent 38% of GDP, up from 26% in 2013. They have recorded particularly rapid growth in recent years and currently stand 10.9% above 2019 levels in real terms, driven by services exports, which are already 35.0% above pre-pandemic levels. All this has helped to maintain significant current account surpluses and reduce foreign debt, with the net international investment position (NIIP) standing at 47% of GDP, versus 86% in 2020.

Thirdly, but no less important, Spain's economy is highly diversified at the sector level, supported by the deployment of European NGEU funds. Tourism remains a significant driver of growth. CaixaBank Research estimates that tourism GDP will end 2024 11.5% above 2019 levels. However, other sectors also stand out: the GDP of the information and communications sector is 23.4% higher than in Q4 2019; in the case of real estate activities, it is 15.9% higher; professional activities, 15.6%; and the manufacturing industry, 10.2%. In the current international context, with a high degree of uncertainty and sector-specific shocks affecting various countries, sectoral diversification is an asset to be preserved. In fact, in the coming years and as interest rates normalise, business investment is likely to gather momentum, further bolstering the country's productive sectors.

Finally, there are two additional factors which have unexpectedly entered the scene during the current cycle and which are also playing a prominent role: population growth and the diversification of the energy mix. In the past two years, the population has increased by just over 1% annually, largely due to the arrival of one million people born abroad. This influx has increased and rejuvenated the labour force, and projections indicate that the population will continue to grow at a similar rate in the coming years. On the other hand, the diversification of the energy mix is a notable factor, as renewable energies take on an increasingly prominent role in Spain's electricity production. In 2023, renewables accounted for 50% of production, marking a 13-pp increase since 2019. This reduces the country's energy dependence, improves supply security and allows more energy-intensive sectors, such as manufacturing, to become more competitive.

In this context, at CaixaBank Research we have improved our growth forecasts for the Spanish economy. For 2024, expected GDP growth now stands at 2.8%, up 0.4 pps versus the previous forecast. Looking ahead to the next few years, the pace of progress is expected to remain dynamic, with growth exceeding 2.0%, driven by a greater role of domestic demand and, in particular, household consumption and investment.

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