

2024: a year to remember

The Spanish economy has closed a year to remember, with some extraordinary figures. Extraordinary, because they have far surpassed expectations. And extraordinary, because they have occurred in a context that has not been particularly favourable. In fact, the context has been quite adverse in several regards. But surely the most important thing is that, beyond the big macroeconomic figures, the strength of the Spanish economy, and of the labour market in particular, is helping to improve the situation of households, even though there are still many groups that find themselves in difficulties.

Forecasts for a year ahead rarely hit the mark to the decimal point. In the last 15 years, the average growth forecasts of the major research centres have only achieved it once. CaixaBank Research's forecasts have only hit the bullseye twice. Generally speaking, the world of economic prophets is populated by pessimistic or conservative people. It is preferable for things to go better than expected than for us to be caught off guard. Thus, 63% of the time, economic growth ends up being higher than predicted. However, in most cases, the deviations are relatively small, averaging 0.6 pps. They rarely exceed one percentage point. In contrast, in the last two years economic growth has been almost 2 pps higher than expected: 1.7 points in 2023 and 1.9 points in 2024. Normally, when there are positive surprises in Spain, they also occur in Europe with a similar magnitude. But that has not been the case this time. As expected, the economic situation in Europe has remained relatively weak, which makes the surprise of the Spanish economy all the more remarkable.

In part, the buoyancy of the Spanish economy has been the result of higher than expected population growth. This has boosted economic activity and job creation. Foreigners account for 43% of the increase in social security affiliates. This also boosted household consumption, which contributed around half of last year's GDP growth. Public consumption was also higher than expected. The higher growth of the economy and, with it, of government revenues allowed for greater public spending, without any significant deviation anticipated in the public deficit. Then again, this also means that the opportunity provided by the favourable economic situation to accelerate the cleansing of the public accounts has been missed. Finally, the other cornerstone of the growth was foreign demand, and service exports in particular. During the early part of the year, exports

of non-tourism services led the charge, consolidating their position as the primary component of service exports and accounting for 7.4% of GDP. Exports of tourism services, meanwhile, also remained surprisingly buoyant and they now account for 5.4% of GDP.

Beyond the main factors that drove the growth of the Spanish economy, there are two elements which were less prominent last year, but which may be key going forward. The first is the recovery of investment, which appears to have got underway in the closing stages of 2024. Prior to that, investment had remained relatively weak, held back by the rise in interest rates in recent years. In Q4, investment increased by a notable 3.4%, driven by investment in capital goods. The reduction in interest rates, which looks set to continue this year, coupled with the execution of NGEU funds should help the recovery of investment to be consolidated, making it one of the cornerstones of Spain's economic growth this year, although uncertainty could act as a hurdle.

The other element that stands out is the pace of productivity growth, which accelerated significantly in 2024. Specifically, GDP growth per hour worked reached 1.3% for the year as a whole, compared to 0.7% in 2023 and 0.6% on average in the last 10 years. If the Spanish economy is to maintain a dynamic and sustainable growth rate, without depending on demographic swings, and one which translates into improvements in the economic well-being of the population as a whole, it is key that productivity growth is consolidated at levels similar to last year. Moreover, in an international context that is becoming increasingly uncertain, this would also help to make the Spanish economy more resilient.

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