Flash Economics

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Euro zone growth driven by Spain, but for how long?

Spain's growth is clearly stronger than that of the euro zone as a whole: in 2023, 2.5% in Spain compared with 0.4% in the euro zone; in the first half of 2024, 3.2% at an annual rate in Spain compared with 1.2% in the euro zone.

But is Spain's performance sustainable? There is cause for concern due to:

- The decline in labour productivity ;

- The low efficiency of the education system and the low skills levels of the working population;

- The weakness of R&D spending;

- Low-end production specialisation.

Generally speaking, these characteristics are not conducive to continued strong growth.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus

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Spain's growth is higher than that of other euro zone countries since 2014

Charts 1A/B compare Spain's GDP growth with that of the euro zone.

Chart 1A
Real GDP (2010.Q1 = 100)

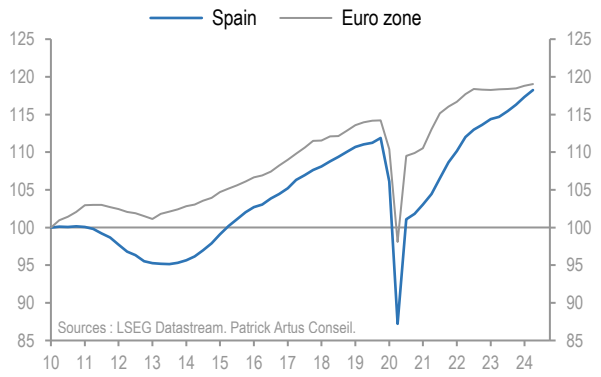
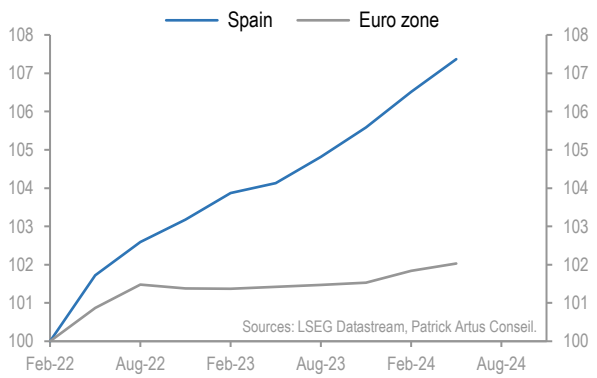


Chart 1B
Real GDP (2010.Q1 = 100)



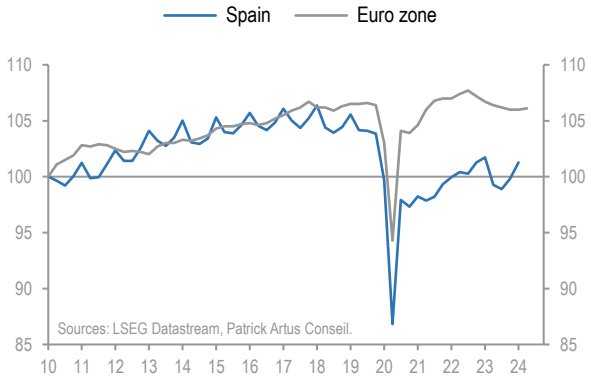
This significant gap between Spain's growth and that of the euro zone continues in the first half of 2024, with Spain's annualised growth for the first six months of the year at 3.2% and that of the euro zone as a whole at 1.2%.

But Spain's structural handicaps are likely to penalise its growth

There are doubts as to whether Spain's strong growth will be sustainable, due to the large number of structural handicaps it is suffering from.

1- **Labour productivity has been falling in Spain since 2017**, much more sharply than in the euro zone as a whole (**Chart 2**), which is not conducive to growth.

Chart 2
Productivity per head (100: 2010.Q1)



2- **The education system in Spain is not very effective**, as shown by the PISA surveys (**Table 1**), and the **skills of the working population are low (Table 2)**, which is consistent with the decline in productivity in Spain.

Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2009	2012	2015	2018	2022
Finland	543	529	523	516	495
United Kingdom	500	502	500	503	494
Austria	487	500	492	491	486
Belgium	509	509	503	500	486
Germany	510	515	508	500	482
Netherlands	519	519	508	502	480
France	497	500	496	494	478
Portugal	490	488	497	492	478
Spain	484	490	491	482	477

Source : OECD

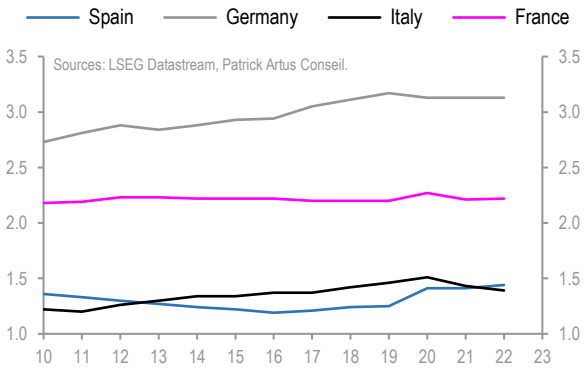
Table 2: Results of the OECD PIAAC survey in numeracy and literacy (2016, by decreasing score)

Country	Score
Finland	285
Netherlands	282
Flanders (Belgium)	278
Austria	272
Germany	271
United Kingdom (England and Northern Ireland)	267
France	258
Italy	249
Spain	249

Source : OECD

3- R&D spending is very low in Spain (Chart 3).

Chart 3
Total R&D spending (as % of nominal GDP)



4- Spain's production specialisation is based on unsophisticated industries

Chart 4 shows that, within industry, since 2017, the production of consumer goods has not increased, while automotive production and the production of intermediate goods have declined.

Chart 4
Spain: Manufacturing production (01.01.2010 = 100)

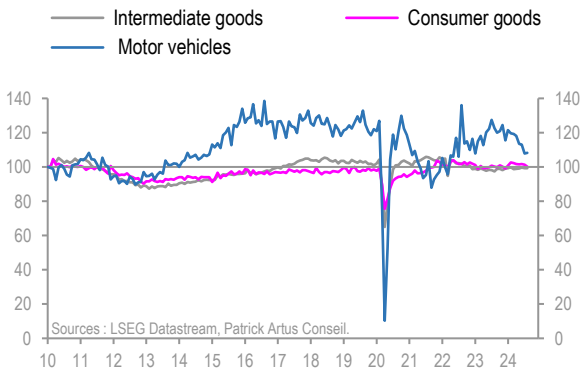
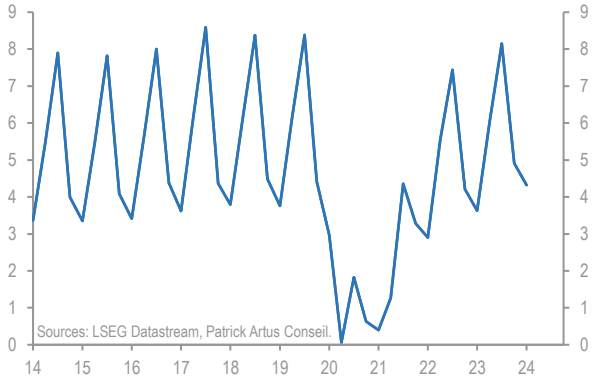


Chart 5 shows the significant growth in tourism.

Chart 5
Spain: Travel trade balance (as % of nominal GDP)



It is therefore these fairly low-end sectors of activity that are contributing to Spain's strong growth.

Summary: a growth model that is not normally sustainable

Spain's strong growth, compared with the other countries in the euro zone, can be seen despite:

- Falling productivity ;

- The low efficiency of the education system ;

- The low level of skills among the working population;

- Low levels of R&D spending;

- Low-end production specialisation.

This raises doubts about the sustainability of this growth, which is based above all on an increase in relatively low-skilled jobs (Charts 6A/B) and is not supported by an upmarket economy.

Chart 6A
Spain: Employment (Y/Y as %)

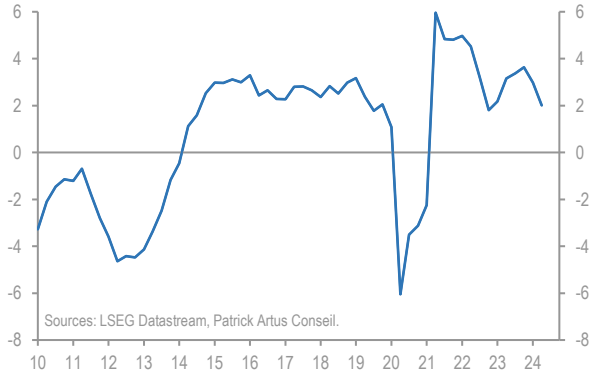
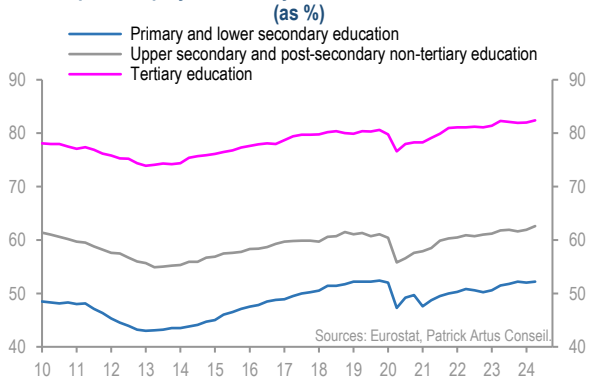


Chart 6B
Spain: Employment rate by educational attainment level (as %)



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