BANCO DE ESPAÑA
Eurosistema

Presentation of the Annual Report 2025*

* English translation from the original in Spanish

José Luis Escrivá
Governor
09 July 2026

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Overview and outlook

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The productivity challenge and business growth: the role of financing

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Housing market challenges: affordability problems and supply-side constraints

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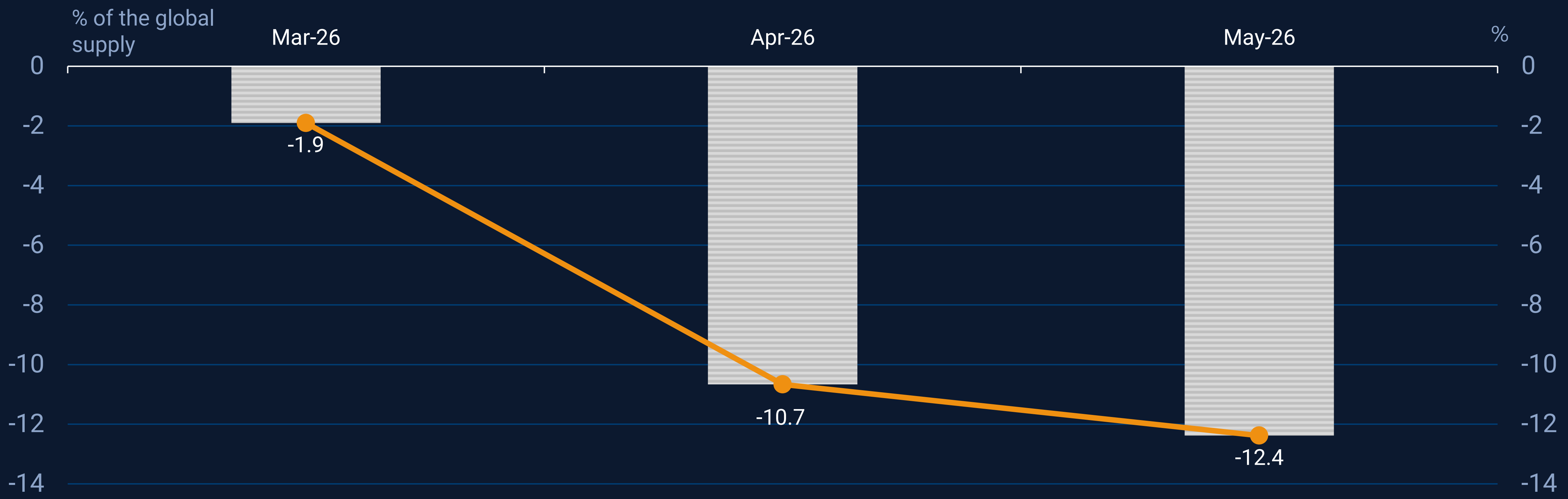
The conflict in the Middle East has caused an unprecedented drop in oil production ...

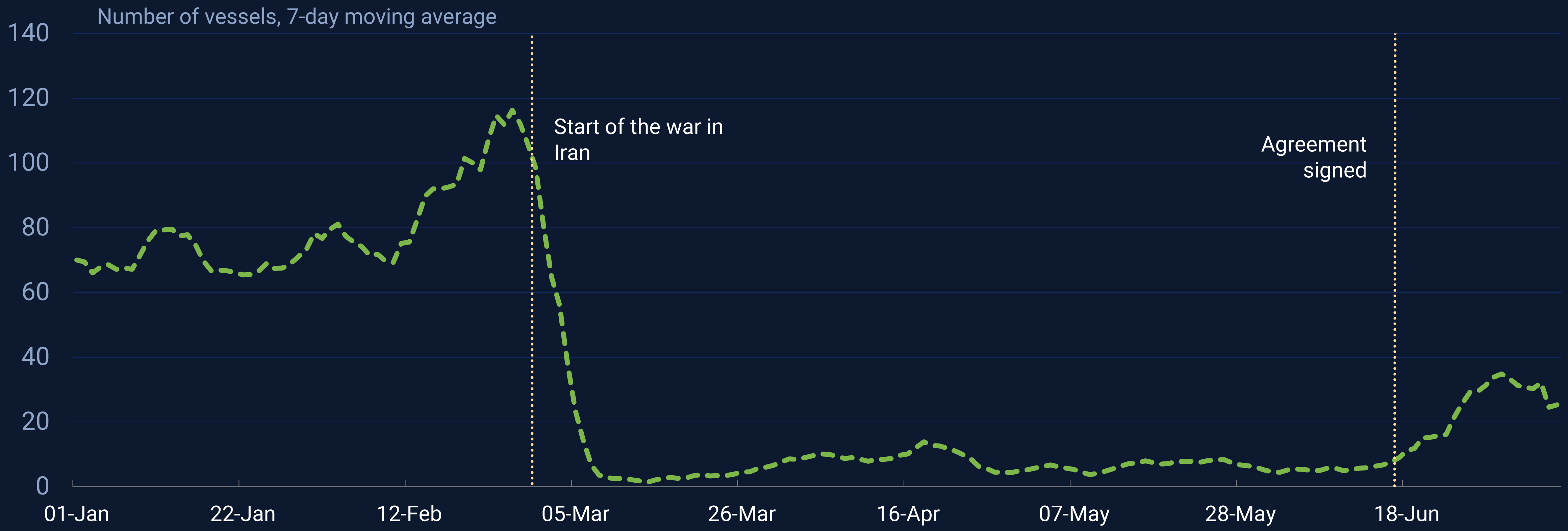
DECLINE IN GLOBAL OIL PRODUCTION IN 2026 FOLLOWING THE CLOSURE OF THE STRAIT OF HORMUZ



SOURCE: IEA.

Transit has recovered after the agreement but is still far from the pre-war level

VESSEL TRANSITS THROUGH THE STRAIT OF HORMUZ



SOURCE: Banco de España, drawing on data from IMF PortWatch (up to 5 July) and ShipFinder (up to 7 July). Latest observation: 7 July.

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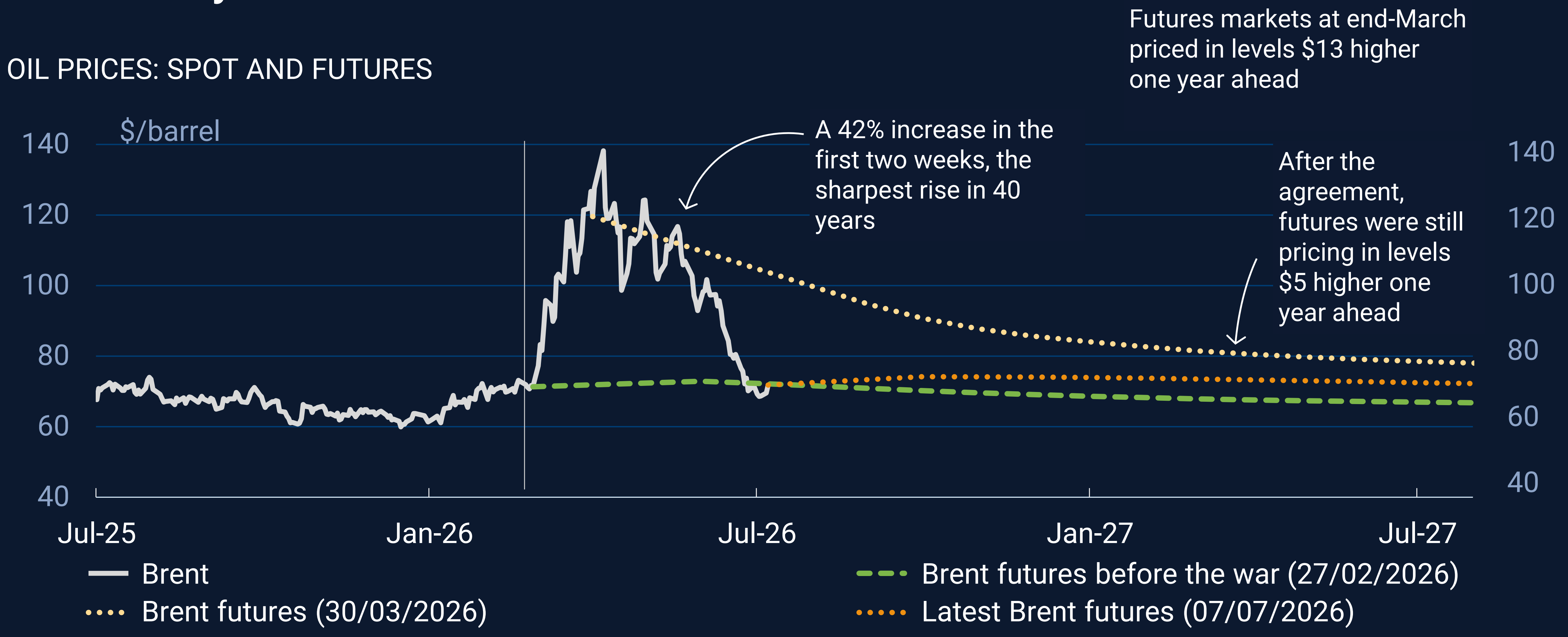
Oil prices have returned to their pre-conflict levels, although considerable uncertainty remains

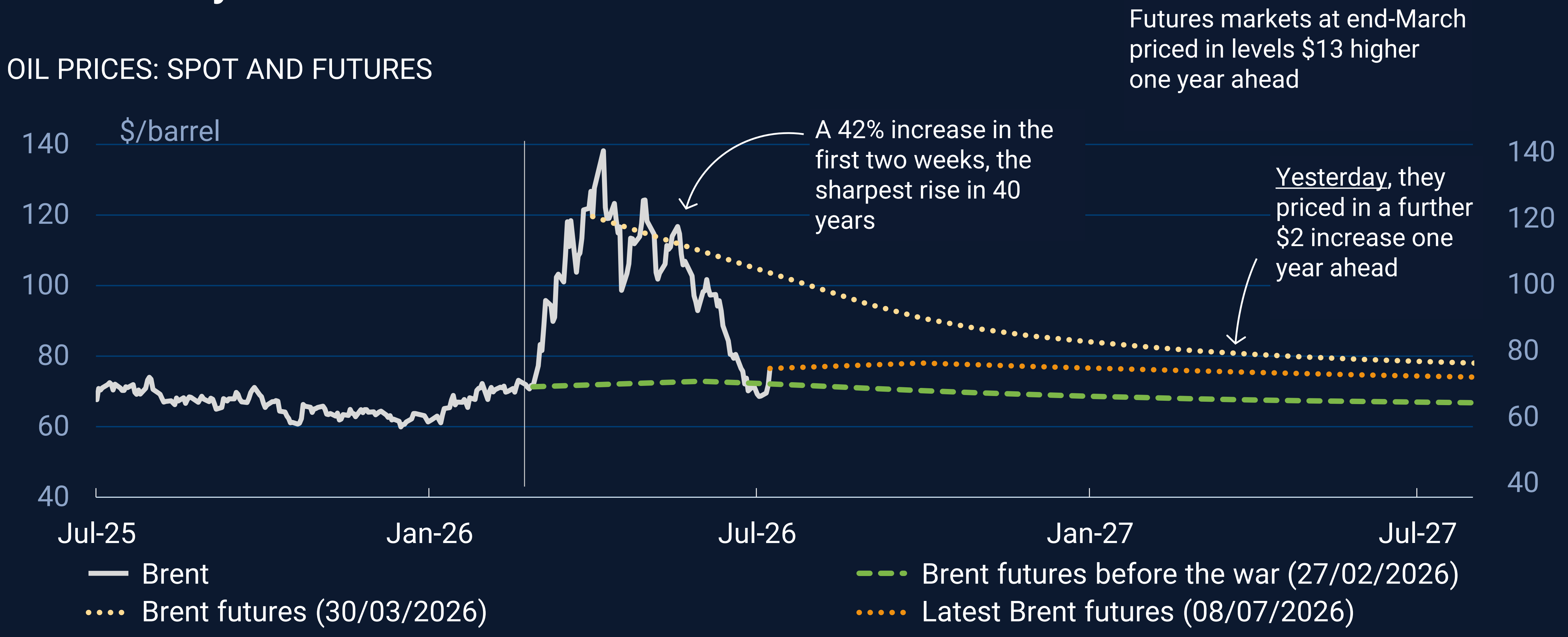
OIL PRICES: SPOT AND FUTURES



SOURCE: LSEG.

Oil prices have returned to their pre-conflict levels, although considerable uncertainty remains

OIL PRICES: SPOT AND FUTURES



SOURCE: LSEG.

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Spanish economy: key features of growth in 2025

- GDP **grew by 2.8% in 2025**, 0.7 pp less than in 2024, **outpacing the euro area as a whole** (1.4%), Germany (0.2%), France (0.8%) and Italy (0.5%). **GDP per capita grew by 1.8%,** likewise more than in the euro area (1.1%)

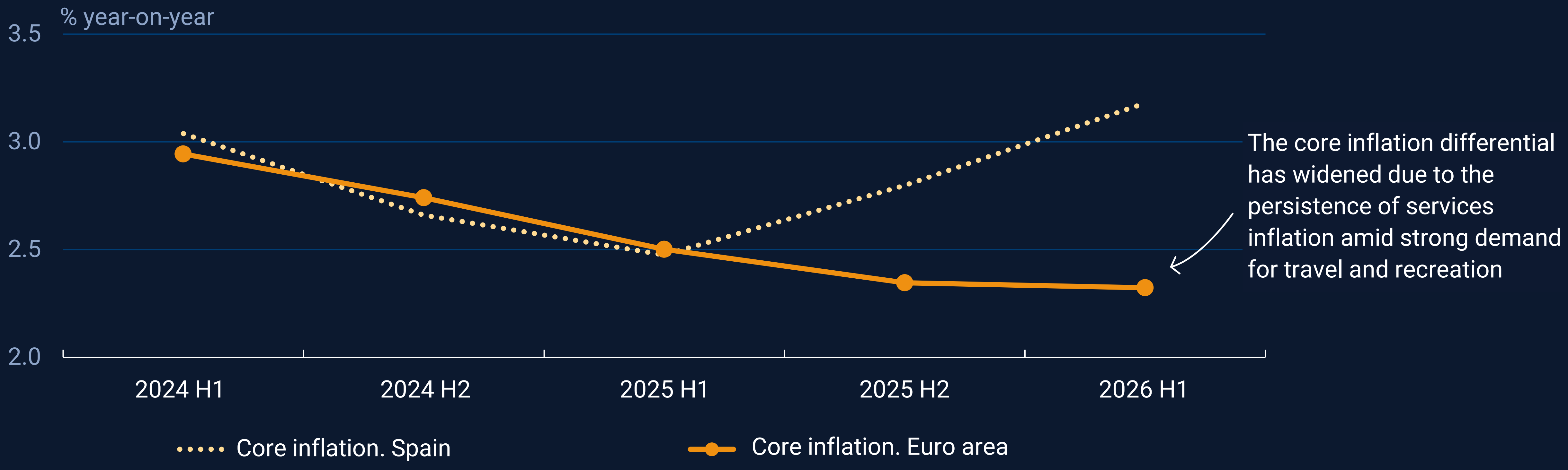
- Growth was based on the **momentum of domestic demand**, particularly durable consumption and **investment**, driven by **capital goods, housing and intangibles, supported by the improvement in financial conditions**

- The **contribution of external demand was negative** (-0.7 pp), weighed down by trade in goods despite the strong performance of non-travel services

- Prior to the conflict, **supply-side factors** continued to drive growth: **lower energy prices than in other European economies, utilisation of the stock of tourism capital and robust labour supply**

However, the core inflation differential with the euro area has widened

CORE INFLATION



SOURCES: Eurostat and INE.

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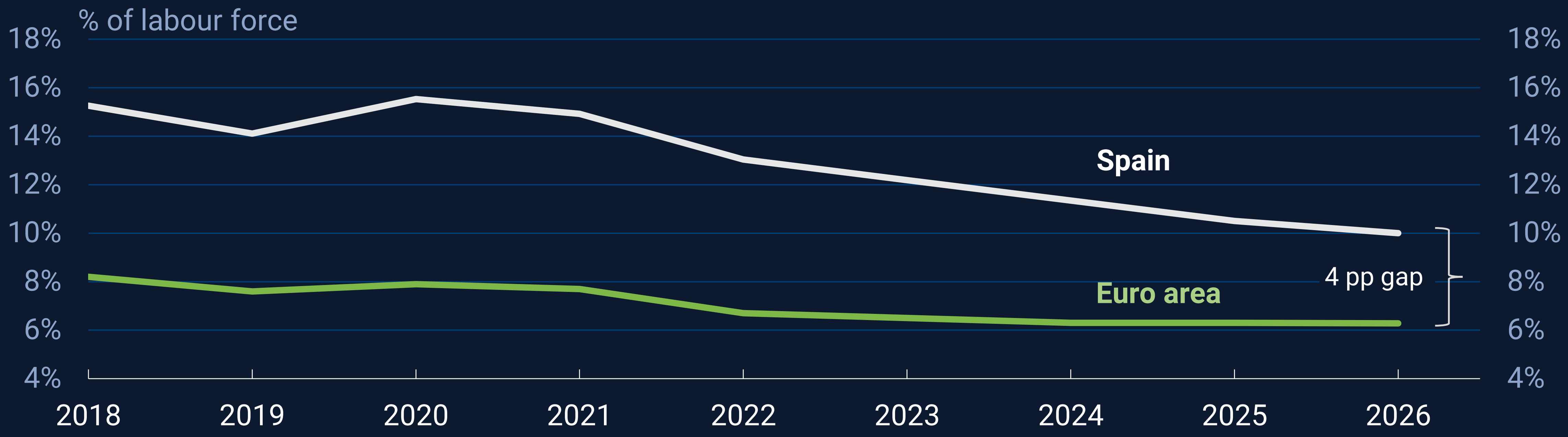
The labour market remains robust, although significant challenges persist

Strong job creation has continued, but the decline in the unemployment rate has been more limited, reflecting persistent shortcomings in active labour market policies and in incentives to bring the unemployed back into work

UNEMPLOYMENT RATE



SOURCES: Eurostat, INE and Banco de España.

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Total factor productivity is the main source of long-term growth

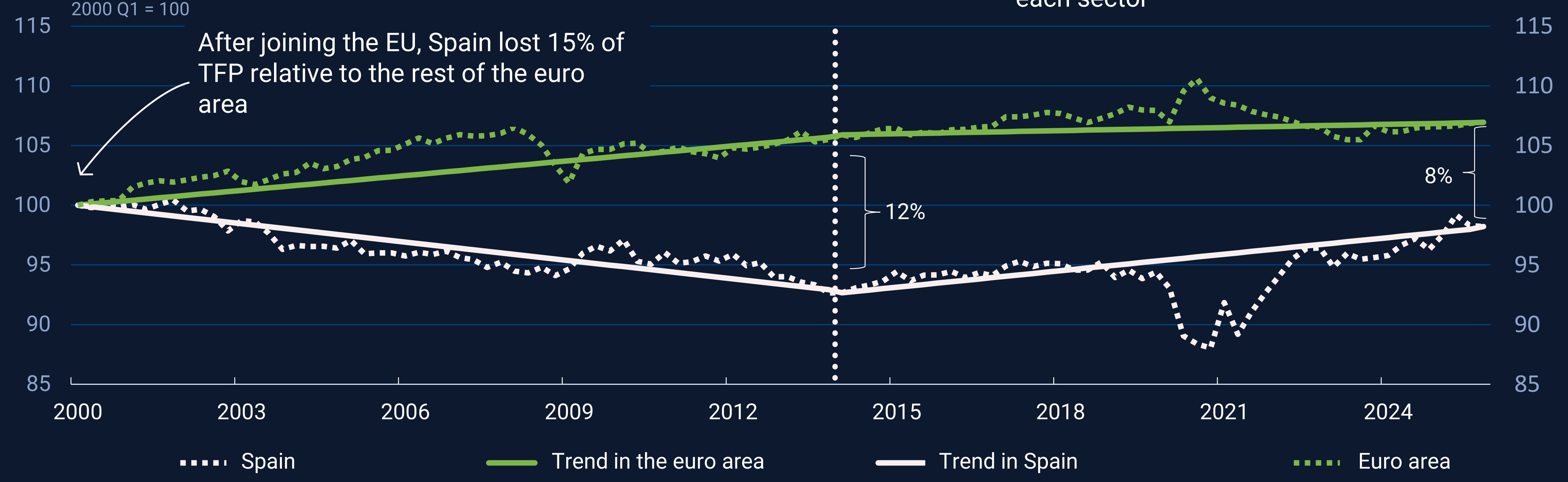
GDP growth	=	Contribution from labour	+	Contribution from capital	+	Contribution from **total factor productivity (TFP)**
		↓		↓		↓
		More and better workers		More and better investment		Better use of resources, innovation, institutions, competition, technology

Analytical contribution: new quarterly TFP measurement for Spain and major European countries, which corrects for volatility and cyclical behaviour by factoring in the use of plant capacity and corporate profits

Following a period of divergence from the euro area, productivity in Spain has improved since 2013

TOTAL FACTOR PRODUCTIVITY

Nearly half of the aggregate productivity gains are attributable to the increase in share of the most productive firms within each sector



SOURCES: Banco de España calculations drawing on Eurostat, Ivie, LFS, ESS, European Commission and EUROPROD, based on the methodology of Comin, Quintana, Schmitz and Trigari (2025). The rest of the euro area includes Germany, France, Italy and the Netherlands. The results refer to the market economy, and thus the following sectors are excluded: Agriculture (A), Real estate activities (L), Public Administration (O), Education (P) and Health (Q).

The relationship between business productivity and investment has strengthened since 2013: more productive firms invest more

SOURCES: Banco de España (CBI) and Orbis. The dependent variable is investment growth and the variable of interest is lagged TFP interacted with a period indicator (up to 2013 and from 2014). Fixed effects for firm size and sector-year are included.

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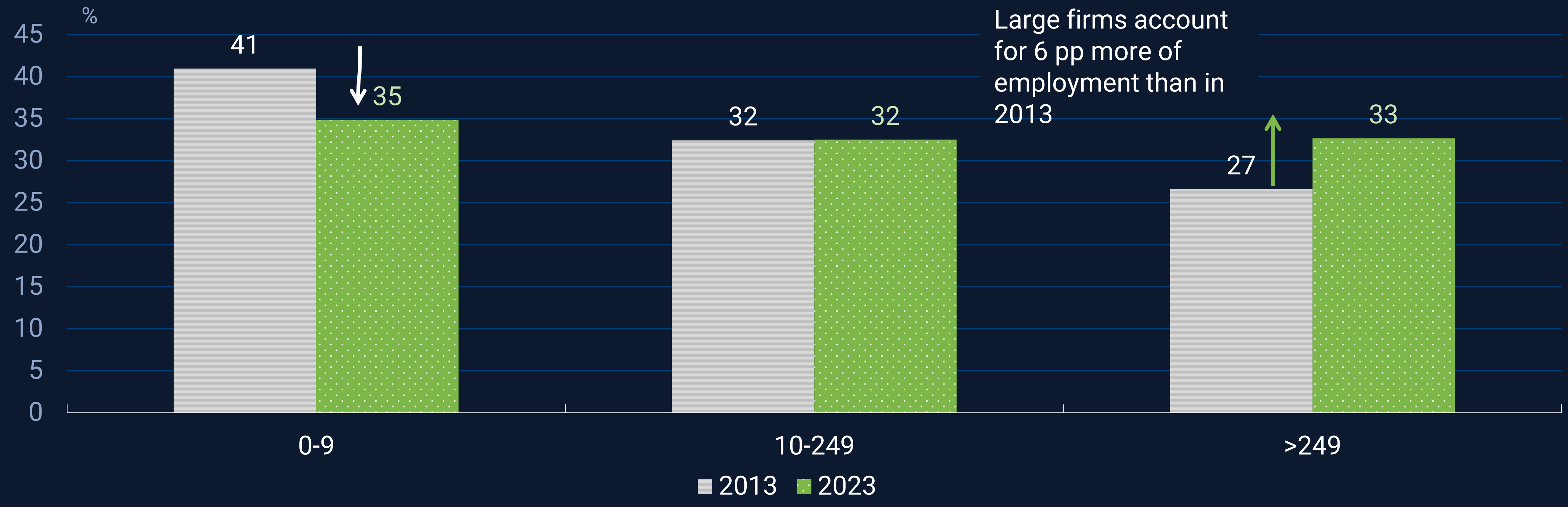
Firm size has increased…

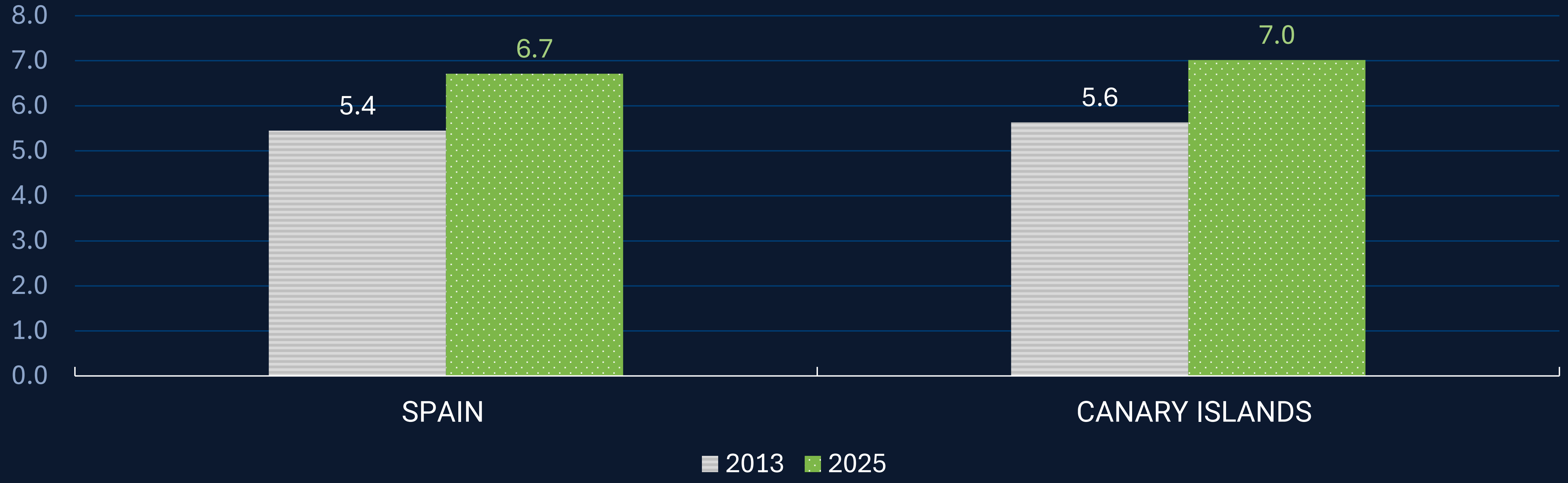
SHARE IN EMPLOYMENT BY FIRM SIZE



SOURCE: European Commission.

… with average firm size also increasing in the Canary Islands…

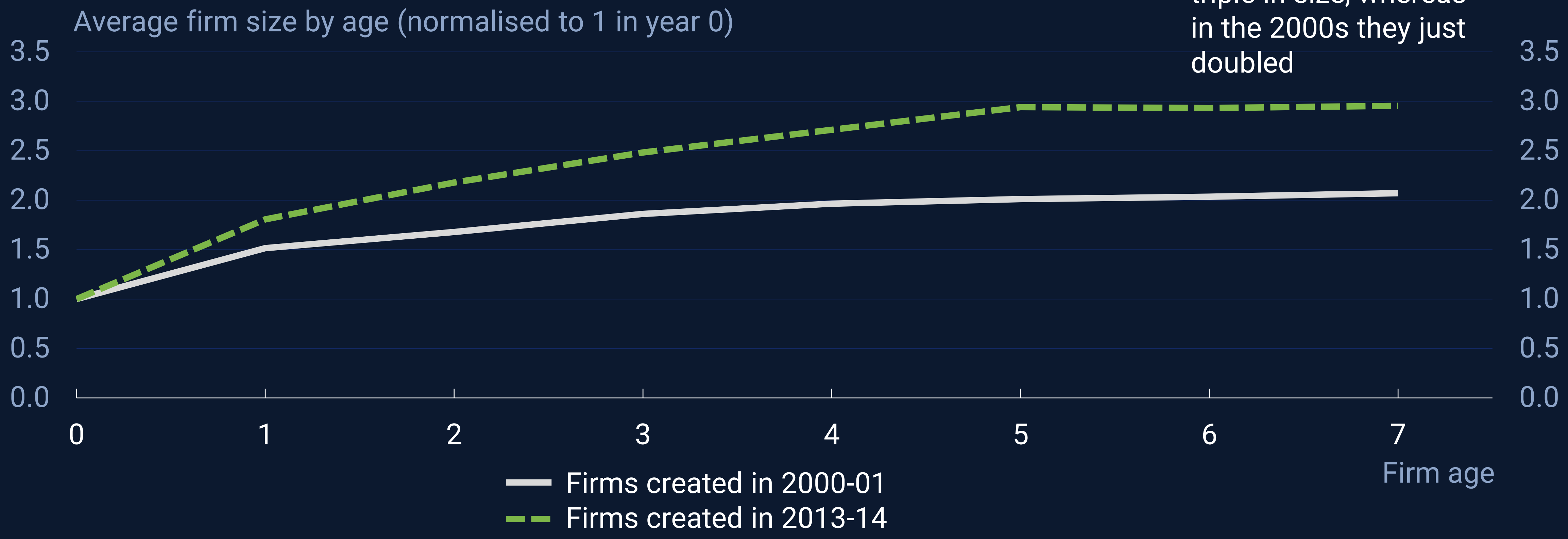
NUMBER OF EMPLOYEES PER FIRM



SOURCE: INE.

… and young firms are growing faster now than they did in the 2000s

By their fifth year, firms triple in size, whereas in the 2000s they just doubled



SOURCES: Banco de España (CBI) and Eurostat. Median employment by firm age is calculated at the two-digit sector level and aggregated using value added weights.

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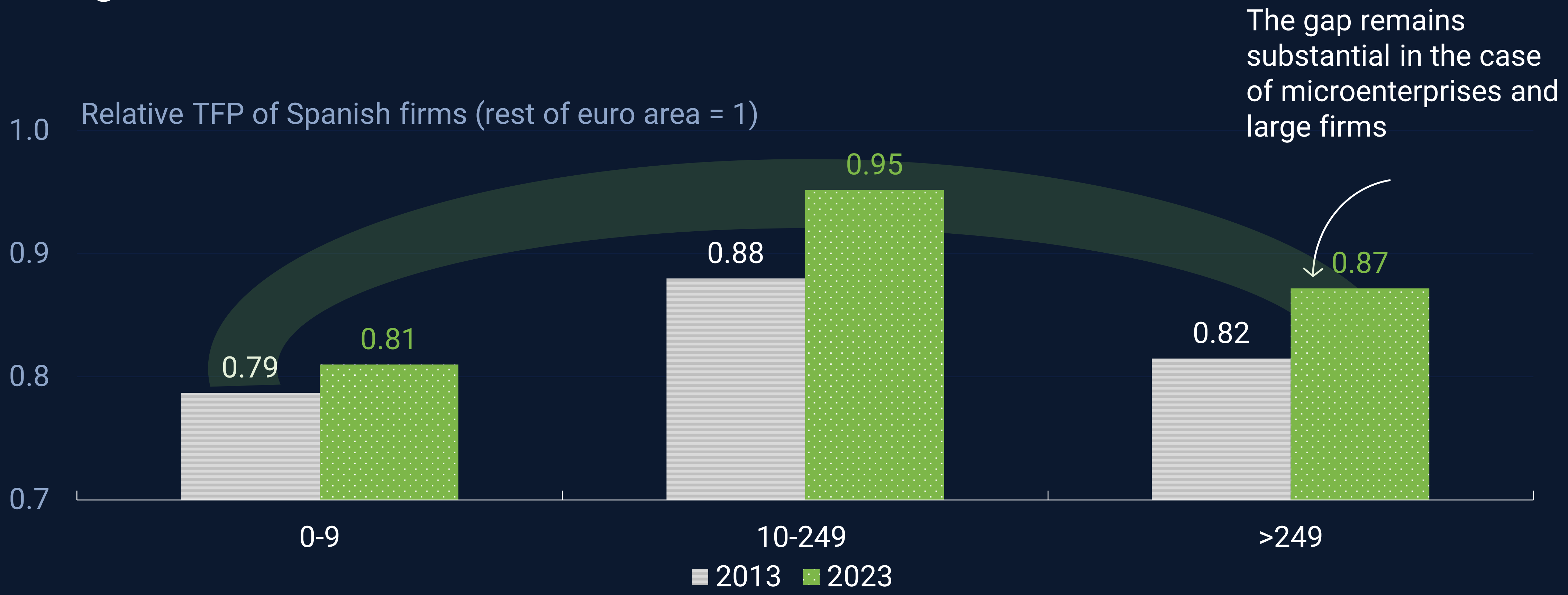
Spanish firms' productivity gap relative to the rest of the euro area has narrowed for large and medium-sized firms



SOURCES: Banco de España (CBI) and Orbis. Estimated firm-level TFP at Spanish firms relative to firms in Germany, France, Italy and the Netherlands. Estimates are obtained from year- and firm size-specific regressions in which the dependent variable is TFP and country indicators are included. The results are expressed relative to the omitted category – that of the rest of the euro area –, normalised to 1. The bars denote the estimated coefficients for 2013 and 2023.

Firms’ financing has played a key role

Deleveraging has strengthened Spanish firms’ financial position

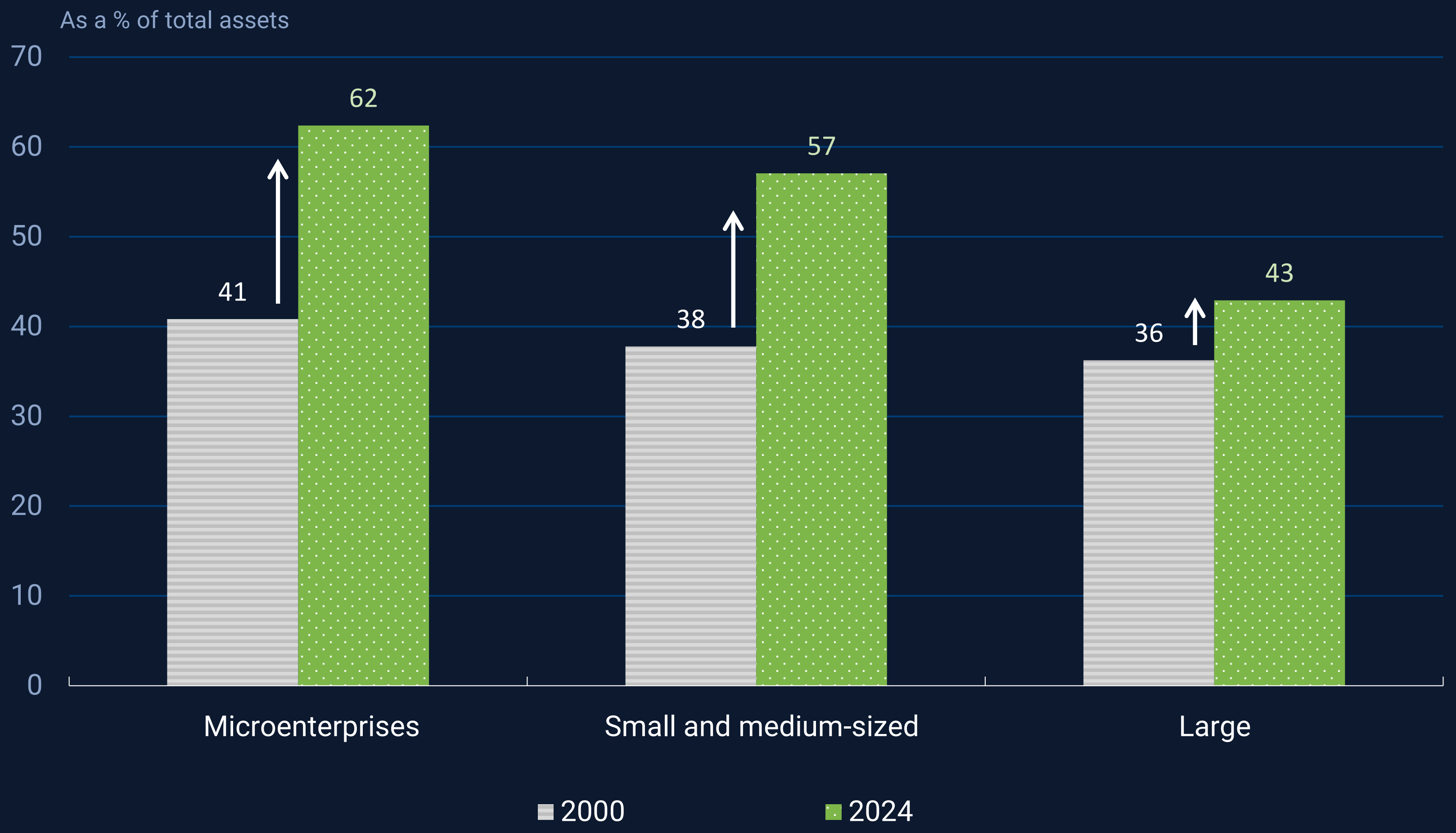
Although bank credit now accounts for a smaller proportion of corporate balance sheets, its allocation towards more productive firms has improved notably

Alternative financing sources such as venture capital have helped boost funding for more productive firms

Firms have strengthened their financial position by increasing their own funds

This deleveraging also appears to be largely driven by firms' decisions to strengthen capital and reinvest earnings

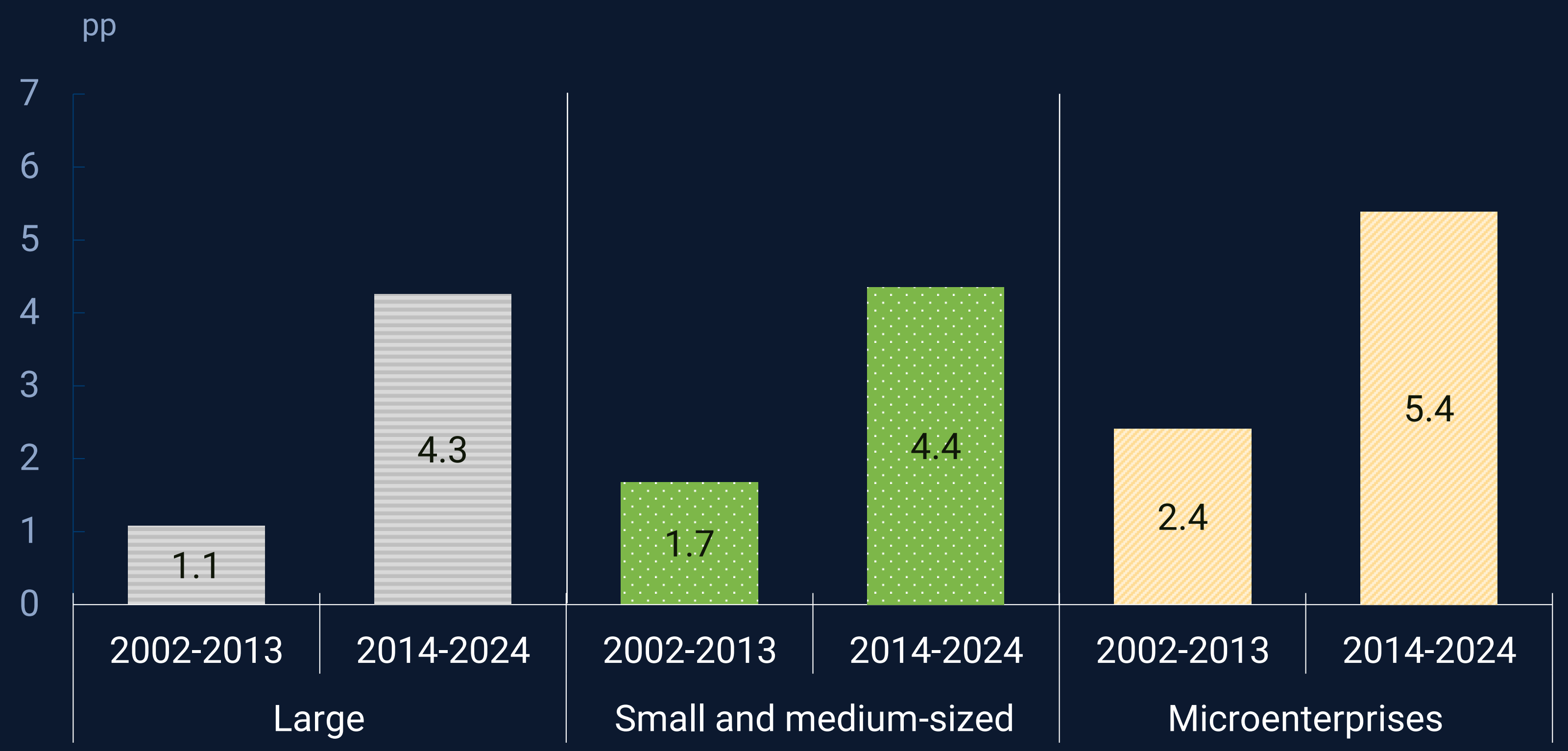
INTERNAL FINANCING OF SPANISH FIRMS, BY SIZE



SOURCE: Banco de España.

Return on capital is a key factor in investment decisions and in the recovery following the global financial crisis

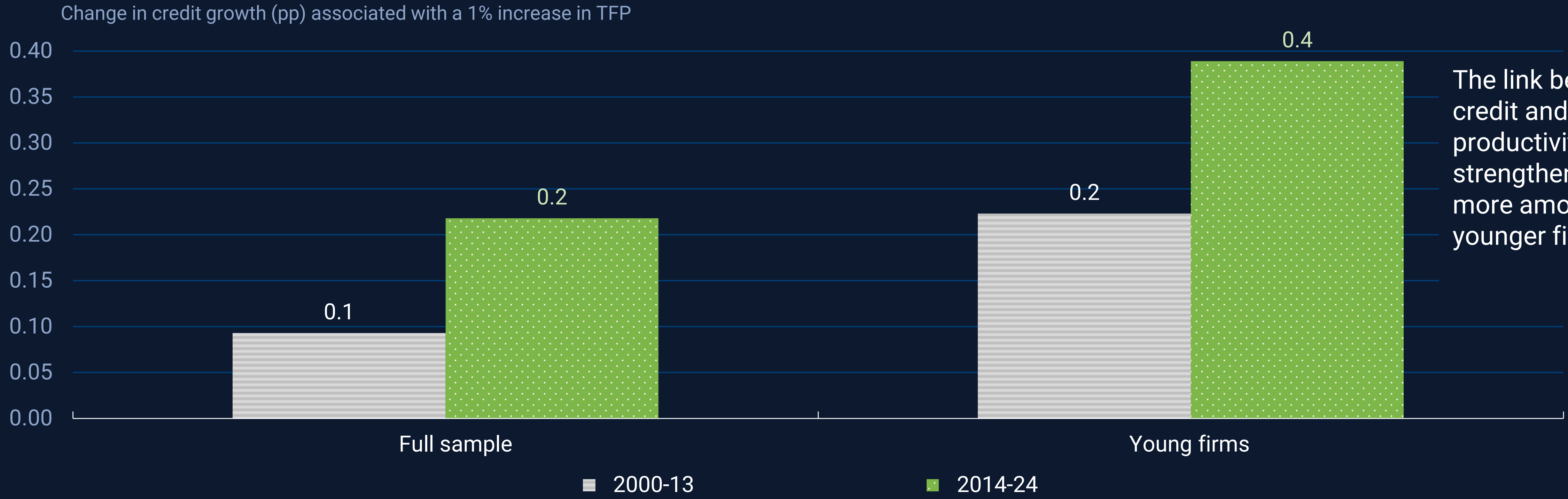
RELATIONSHIP BETWEEN ONE-YEAR PROFITABILITY AND THE PROBABILITY OF POSITIVE NET INVESTMENT IN THE FOLLOWING YEAR



SOURCE: Banco de España. Marginal impacts from a linear probability model with fixed effects for 2002-24 (excluding 2020) using CBI data with robust standard errors clustered at firm level. The estimates control for sector, year and firm size. The coefficients represent the change in the probability of investing (in pp) and are significant at 5%, except in the case of large and medium-sized firms in 2002-13.

Bank credit allocation has improved and become more closely linked to each firm's productivity

LINK BETWEEN CREDIT GROWTH AND BUSINESS PRODUCTIVITY

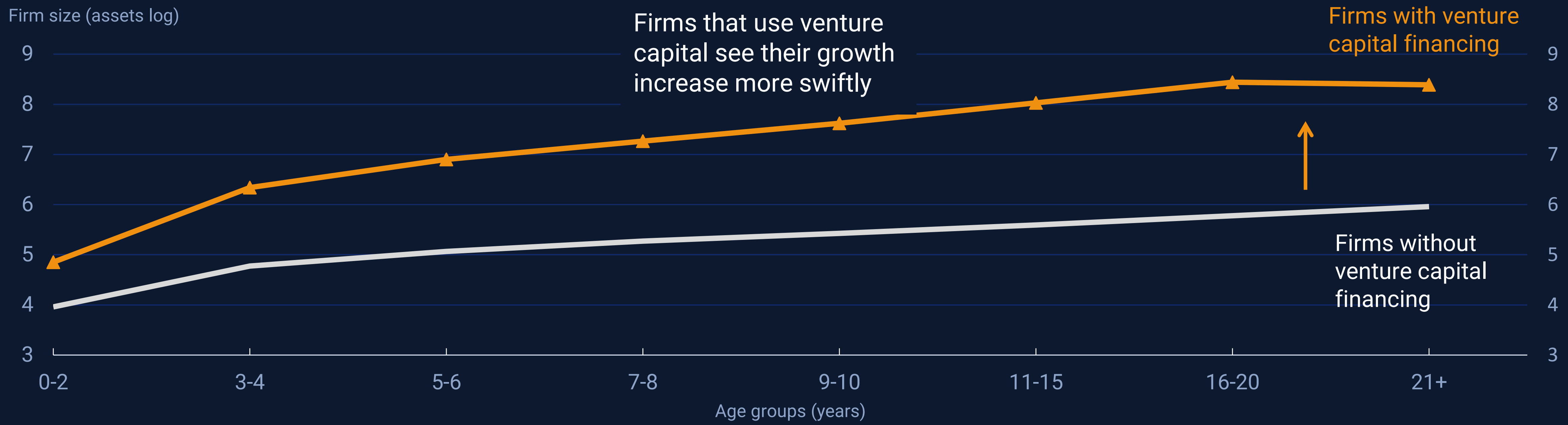


The link between credit and productivity has strengthened more among younger firms

SOURCE: Banco de España. Results from estimating a regression of credit growth on the logarithm of productivity, controlling for other firm characteristics (probability of default, age, size, number of banking relationships, existence of previous troubled loans, affiliation to a business group). All independent variables are lagged by one year. Firm fixed effects and size-industry-province-year fixed effects are also included. Young firms are those created within the last five years, with all others being classified as mature firms. The sample period is 2004-24. All the effects reported are statistically significant.

Venture capital is associated with growth, innovation and productivity

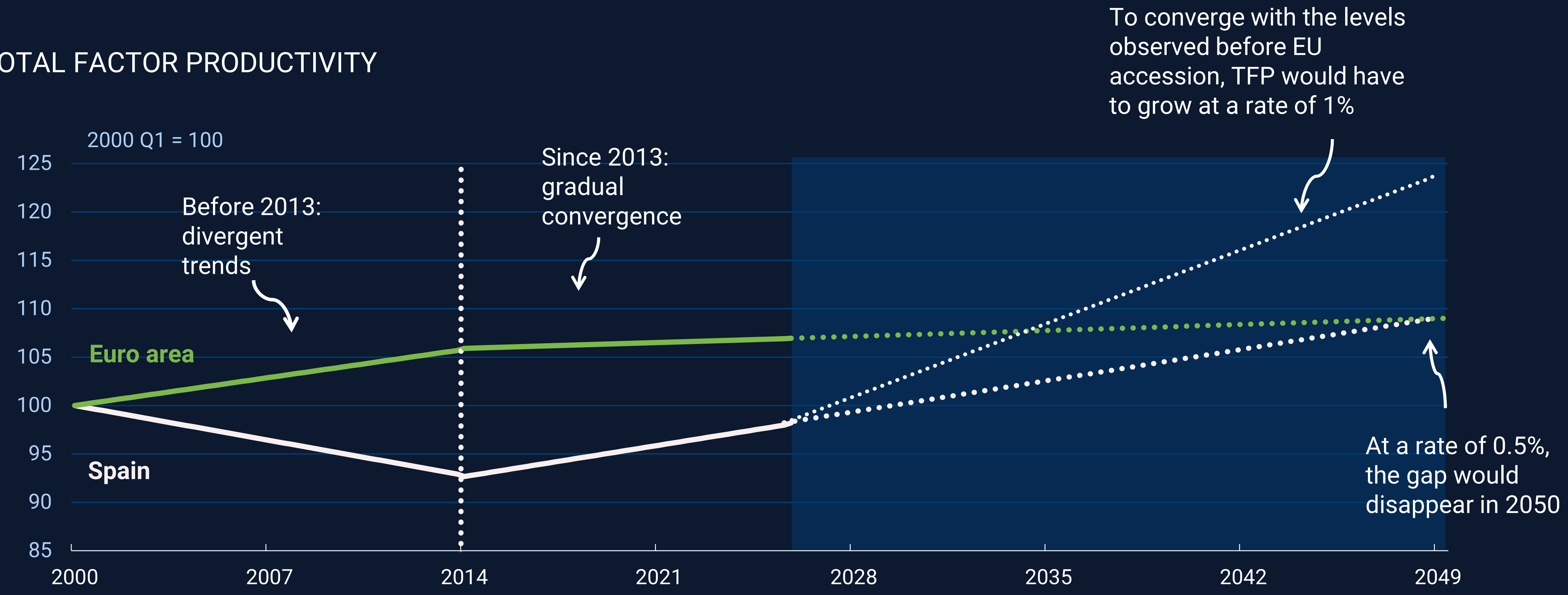
LIFE CYCLE OF SPANISH FIRMS, BASED ON THEIR USE OF VENTURE CAPITAL



SOURCE: Banco de España (CBI), Orbis and PitchBook. The dependent variable in the regression model is firm size, defined as the logarithm of total assets. The explanatory variables of interest are: (i) binary variables that take the value 1 when the firm's age, in years, is within a given interval (0-2, 3-4, 5-6, 7-8, 9-10, 11-15, 16-20, and 21 or more); (ii) a binary variable indicating whether the firm received venture capital at any point during the sample period; and (iii) interactions between this latter variable and the age categorical variable. Sector fixed effects (at the two-digit CNAE level) and firm cohort fixed effects are included. The estimation period is 2011-24. Standard errors are clustered at firm level.

What are the main challenges to closing the productivity gap?

TOTAL FACTOR PRODUCTIVITY



SOURCES: Banco de España calculations drawing on Eurostat, Ivie, LFS, ESS, European Commission and EUROPROD, based on the methodology of Comin, Quintana, Schmitz and Trigari (2025). The rest of the euro area includes Germany, France, Italy and the Netherlands. The results refer to the market economy, and thus the following sectors are excluded: Agriculture (A), Real estate activities (L), Public Administration (O), Education (P) and Health (Q).

Two challenges shape convergence: (i) the regulatory framework and administrative coordination and (ii) technology transfer

REGULATORY FRAMEWORK AND ADMINISTRATIVE COORDINATION	TECHNOLOGY TRANSFER AND ARTIFICIAL INTELLIGENCE
• Regulatory density and fragmentation • Regional heterogeneity • Obstacle to SMEs’ growth • Less efficient resource allocation	• Skills mismatch between education and firms’ needs • Importance of technology transfer, increased relevance with the spread of AI • Key if AI is to lead to widespread productivity gains

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Affordability problems and constraints on supply growth are the main challenges facing the housing market

RECOVERY OF DEMAND

- Demographic growth
- Economic growth: employment and household income
- Easing of financial conditions
- Other sources of demand: tourist dwellings, non-residents

SUPPLY CONSTRAINTS

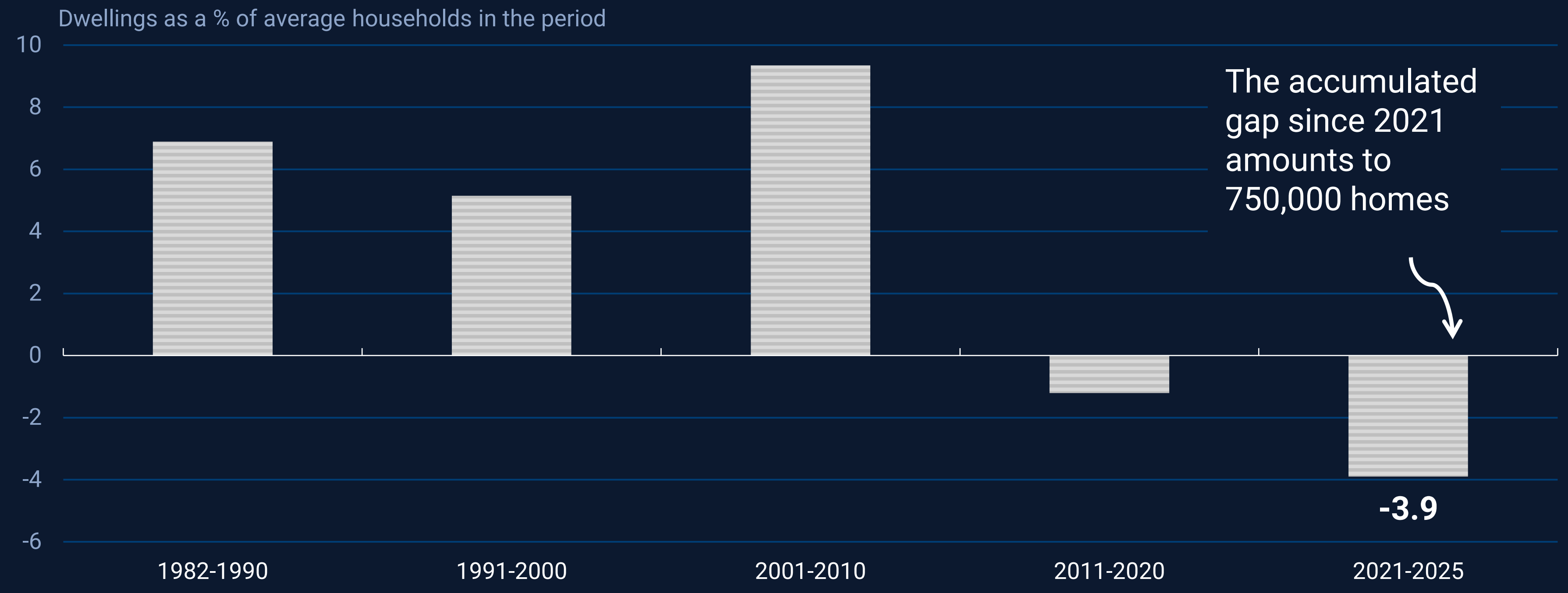
- Land and urban planning
- Productivity, profitability and firm size
- Labour availability

OUTCOME: AFFORDABILITY PROBLEMS

- House purchase **prices** and **rents** are, on average, **growing faster** than household **income**

Household formation is outpacing new housing supply, worsening the housing shortfall since 2021

ACCUMULATED SHORTFALL BETWEEN NEW HOUSING CONSTRUCTION AND NET HOUSEHOLD FORMATION



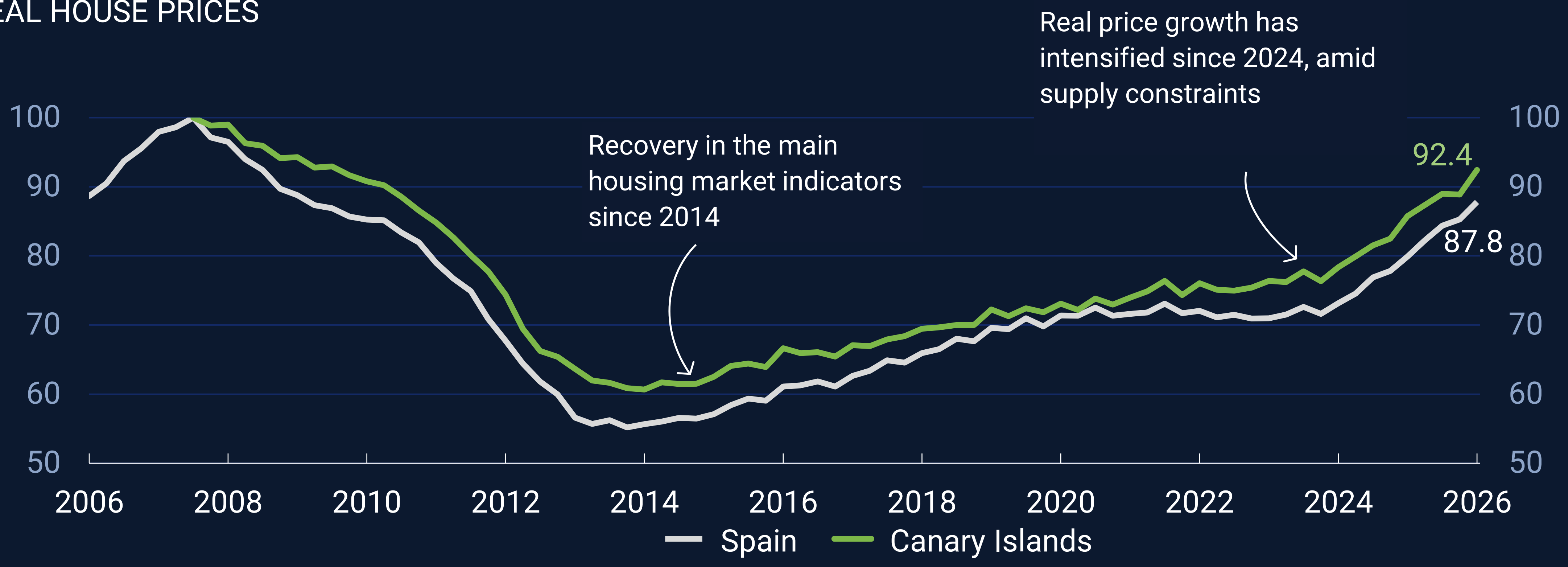
Accumulated shortfall 2021-25, as a % of average number of households

Portugal: -7%
Netherlands: -4.7%
Italy: -1.5%
France: 0%
Germany: 0.5% (more housing starts than new households)

SOURCE: Banco de España, drawing on data from Eurostat, INE and Ministerio de Transportes and Movilidad Sostenible. The shortfall is calculated, for each period considered, as the difference between the number of residential units completed and the change in the number of resident households. For the euro area, Germany, France, Italy and Portugal, the housing shortfall is calculated as the sum of the difference, in each year between 2021 and 2025, between residential units approved two years earlier (to account for estimated construction time) and net household creation. For Spain, the housing shortfall is calculated as the sum of the difference, in each year between 2021 and 2025, between residential units completed and net household creation.

Real house prices have been recovering since 2014, driven by higher real household income, and have been accelerating since 2024…

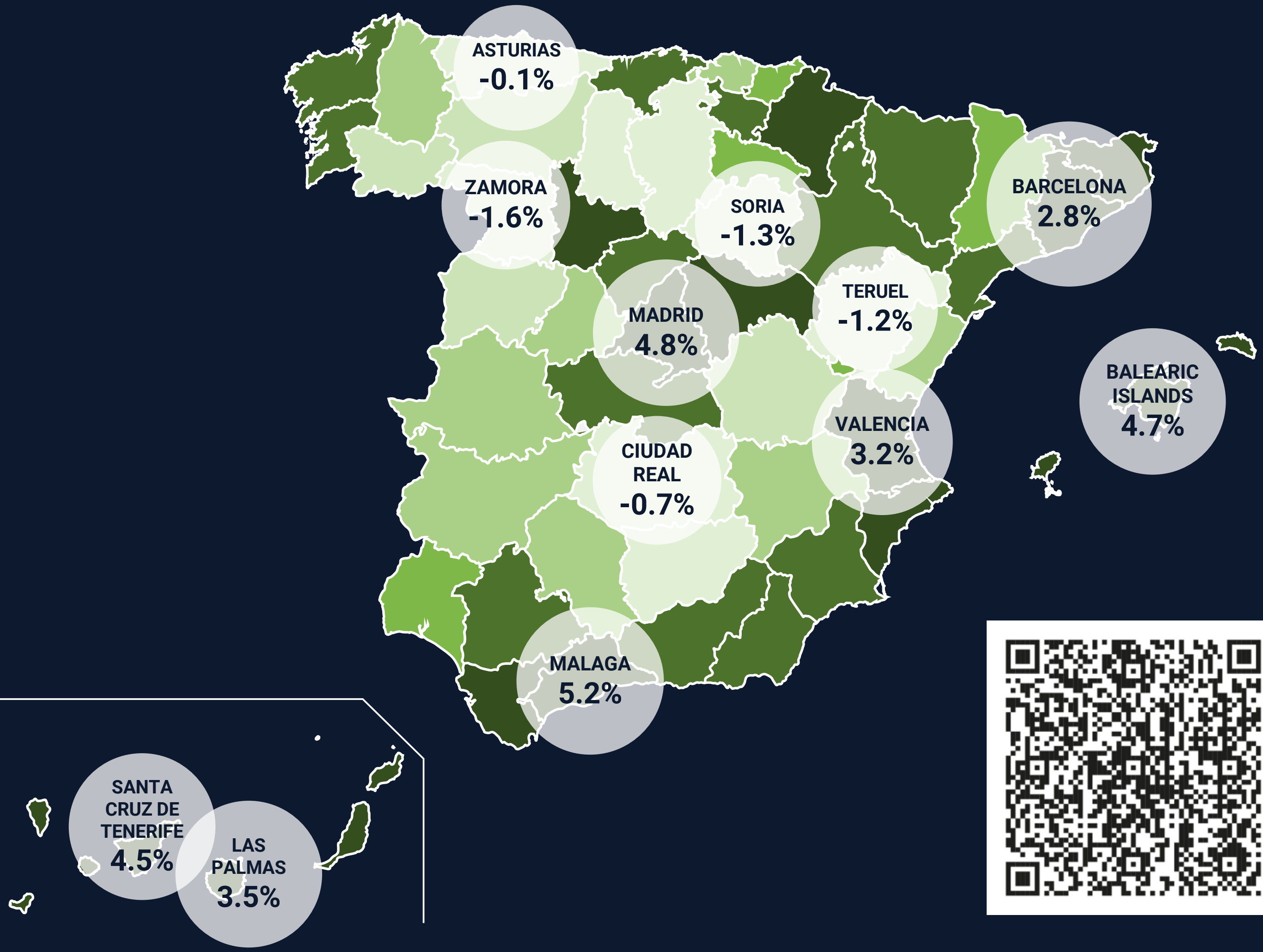
REAL HOUSE PRICES



SOURCE: Banco de España, drawing on data from INE and BIS.

… albeit with high territorial dispersion, with growth concentrated in provinces where demand is highest…

AVERAGE ANNUAL INCREASE IN REAL HOUSE PRICES (2014-25) (provinces)



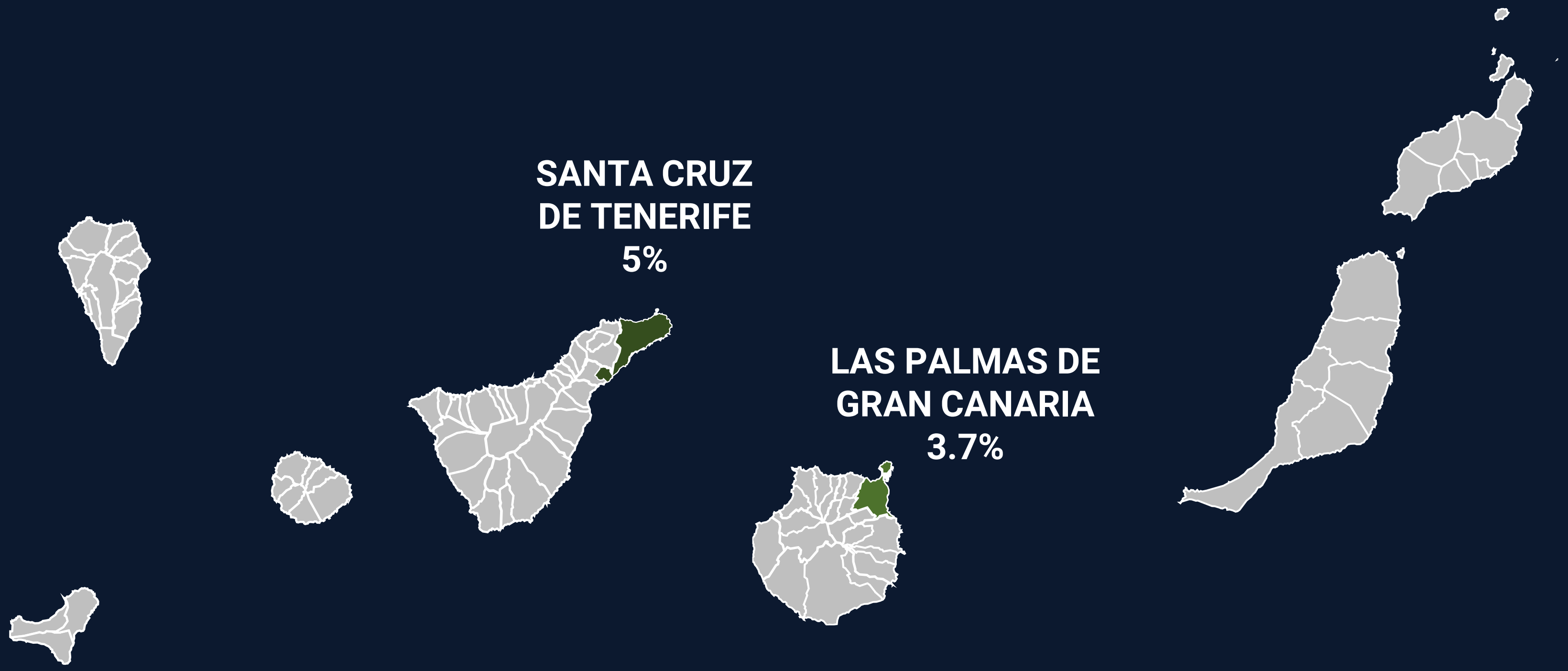
Average annual increase in real house prices (2014-25):

- Less than -0.75%
- Greater than -0.75% and less than or equal to 0.10%
- Greater than 0.10% and less than or equal to 0.80%
- Greater than 0.80% and less than or equal to 1.20%
- Greater than 1.20% and less than or equal to 2.20%
- Greater than 2.20%

SOURCE: Banco de España, drawing on data from the General Council of Notaries and INE.

… and in the urban areas where economic activity and tourism are concentrated

AVERAGE ANNUAL INCREASE IN REAL HOUSE PRICES IN URBAN AREAS (2014-25)



SOURCE: Banco de España, drawing on data from the General Council of Notaries and INE.

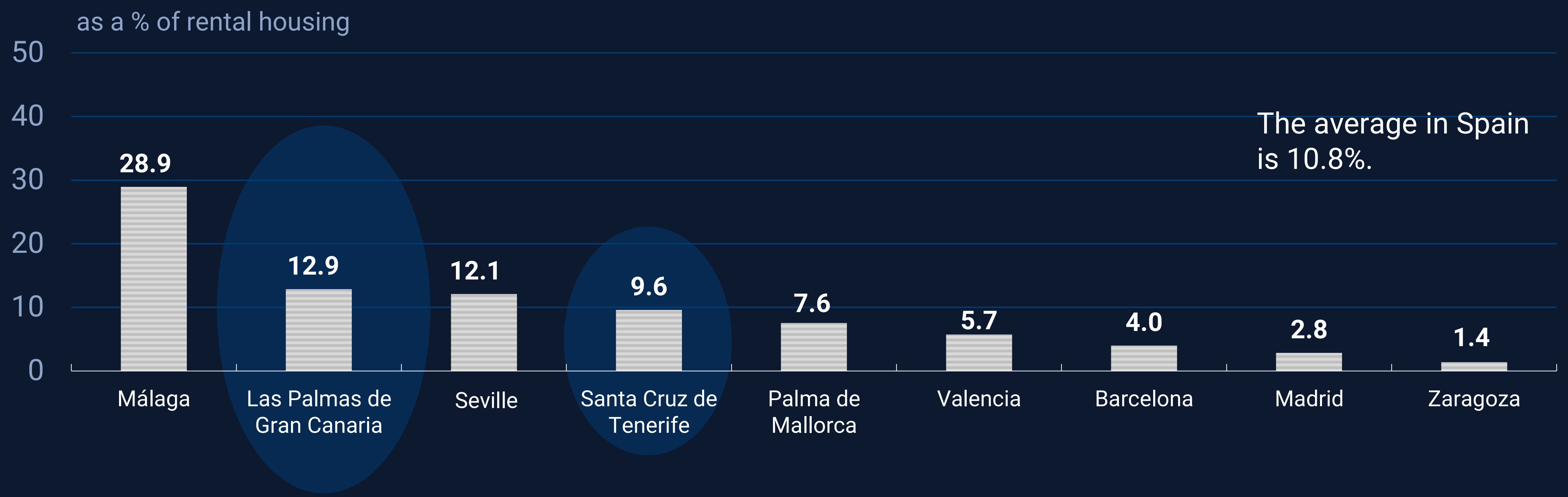
The growth in house prices can also be seen in rising rents for new contracts

ANNUAL AVERAGE RENT RISE BETWEEN 2019 AND 2024

SOURCES: Banco de España, drawing on data from AEAT and INE. "Rental market average" refers to the average rent per m^2 of all rented dwellings. "Rent revisions" refers to contracts that remain in place for two consecutive years. "New contracts" refers to newly signed contracts.

Tourist dwellings play a significant role in the Balearics and Canaries, along the Mediterranean coast and in the centres of large cities popular with tourists

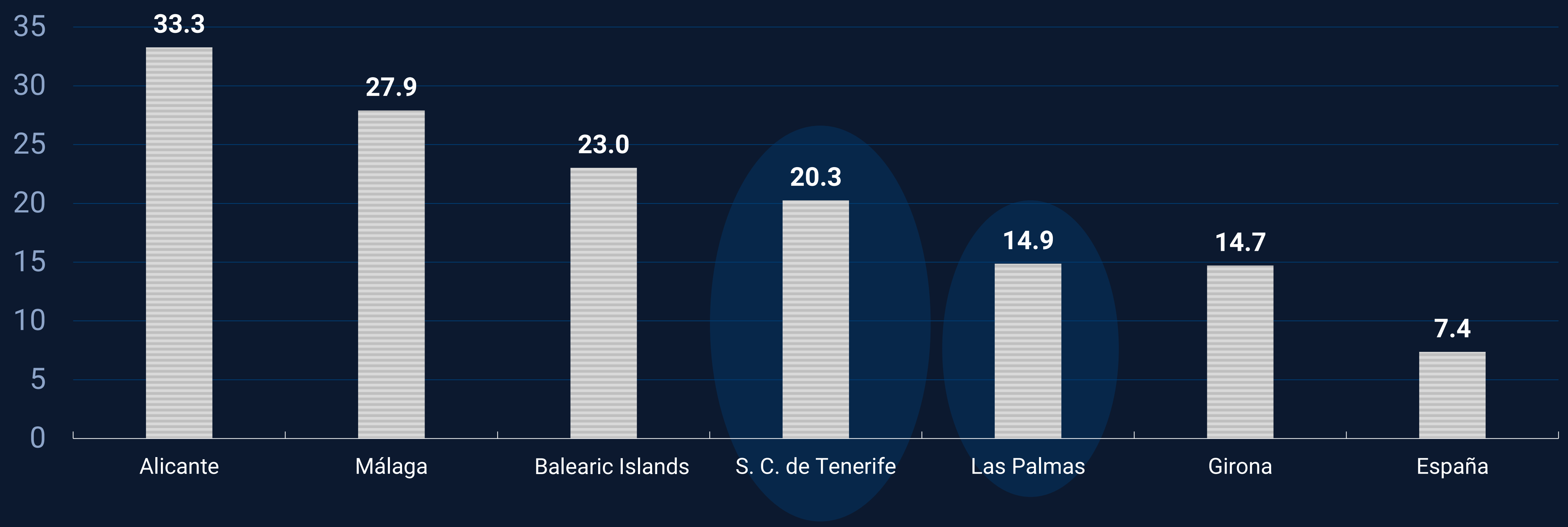
SHARE OF TOURIST DWELLINGS IN URBAN AREAS' RENTAL MARKET IN 2025 (%)



SOURCE: Banco de España, drawing on data from INE and AEAT. In this analysis, rental housing includes residential rentals owned by individuals and tourist rentals, but no information is available to include other relevant categories, such as seasonal or room rentals and residential rentals owned by corporations.

Purchases by non-residents are gaining ground in the Spanish housing market, particularly in island provinces and along the Mediterranean coast

MARKET SHARE OF PURCHASES BY NON-RESIDENTS RELATIVE TO TOTAL PURCHASES (pp)



SOURCE: Banco de España, drawing on data from Ministerio de Transportes y Movilidad Sostenible. The chart includes those provinces where the increase in the market share of house purchases by non-residents between 2007 and 2025 exceeded that recorded for Spain as a whole.

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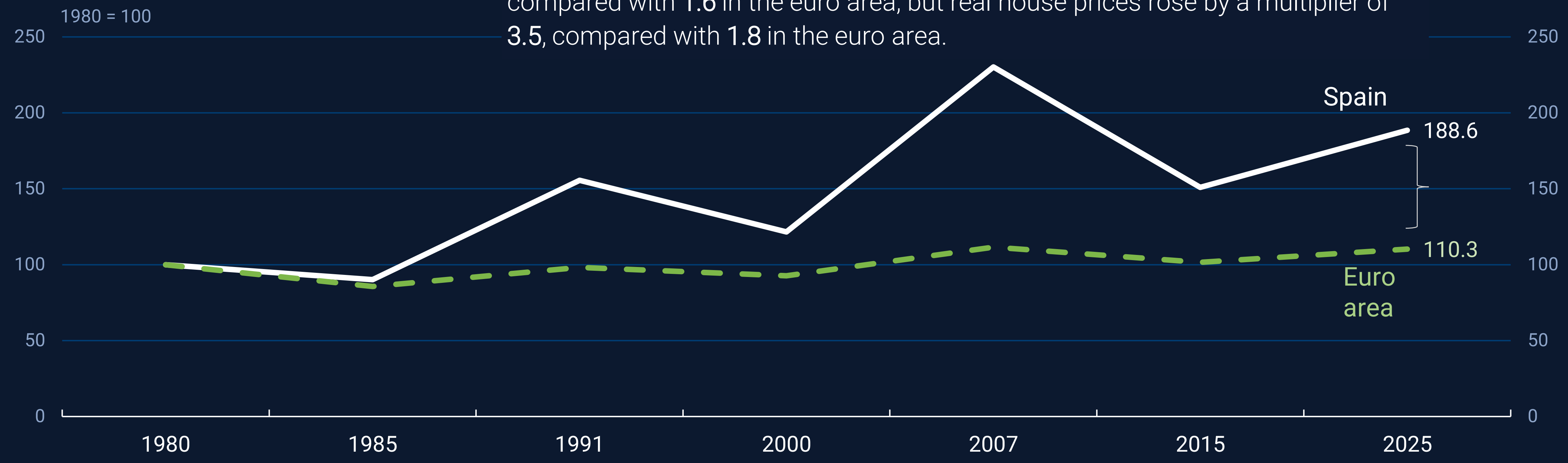
The cost burden of purchasing a home is rising faster than household income...

POTENTIAL COST BURDEN ON HOUSEHOLDS OF PURCHASING A HOUSE

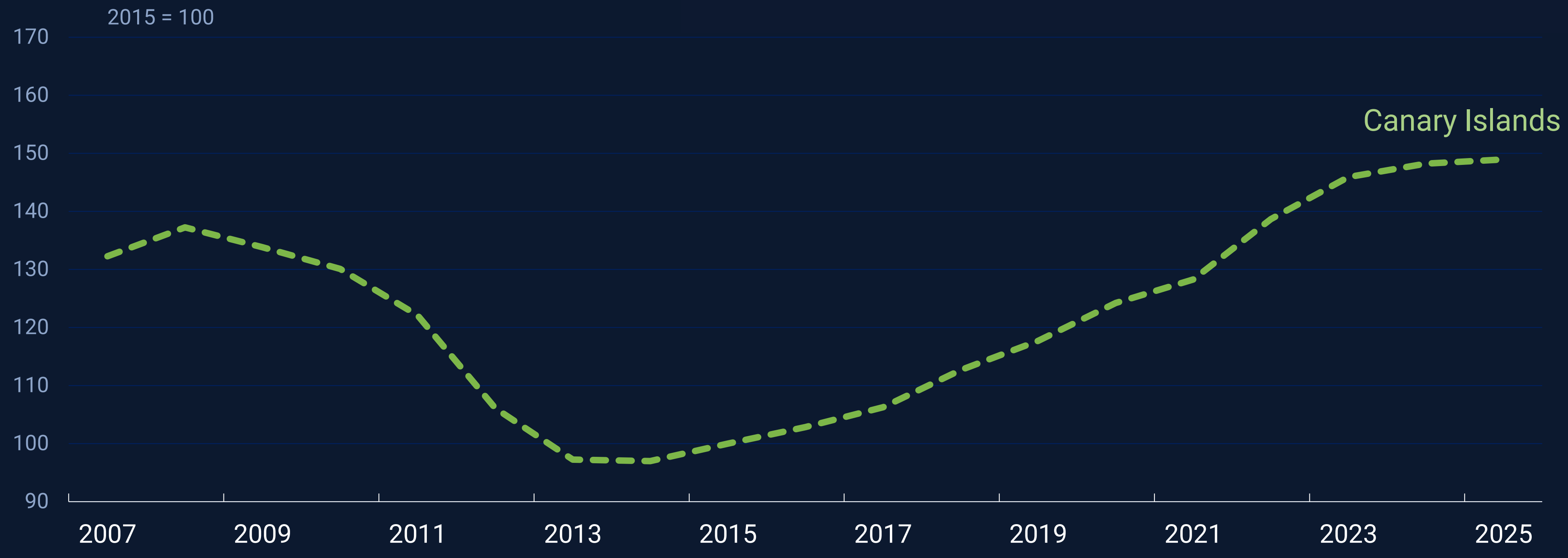
Real disposable income of households in Spain rose by a multiplier of **1.8**, compared with **1.6** in the euro area, but real house prices rose by a multiplier of **3.5**, compared with **1.8** in the euro area.



SOURCE: OECD, Analytical House Price Indicators (OECD 2026). The indicator is calculated as the ratio of the residential house price index to household net disposable income per capita according to National Accounts data. An increase in this ratio indicates a higher potential cost burden for households wishing to purchase a home.

… with the burden rising markedly in the Canary Islands after 2021

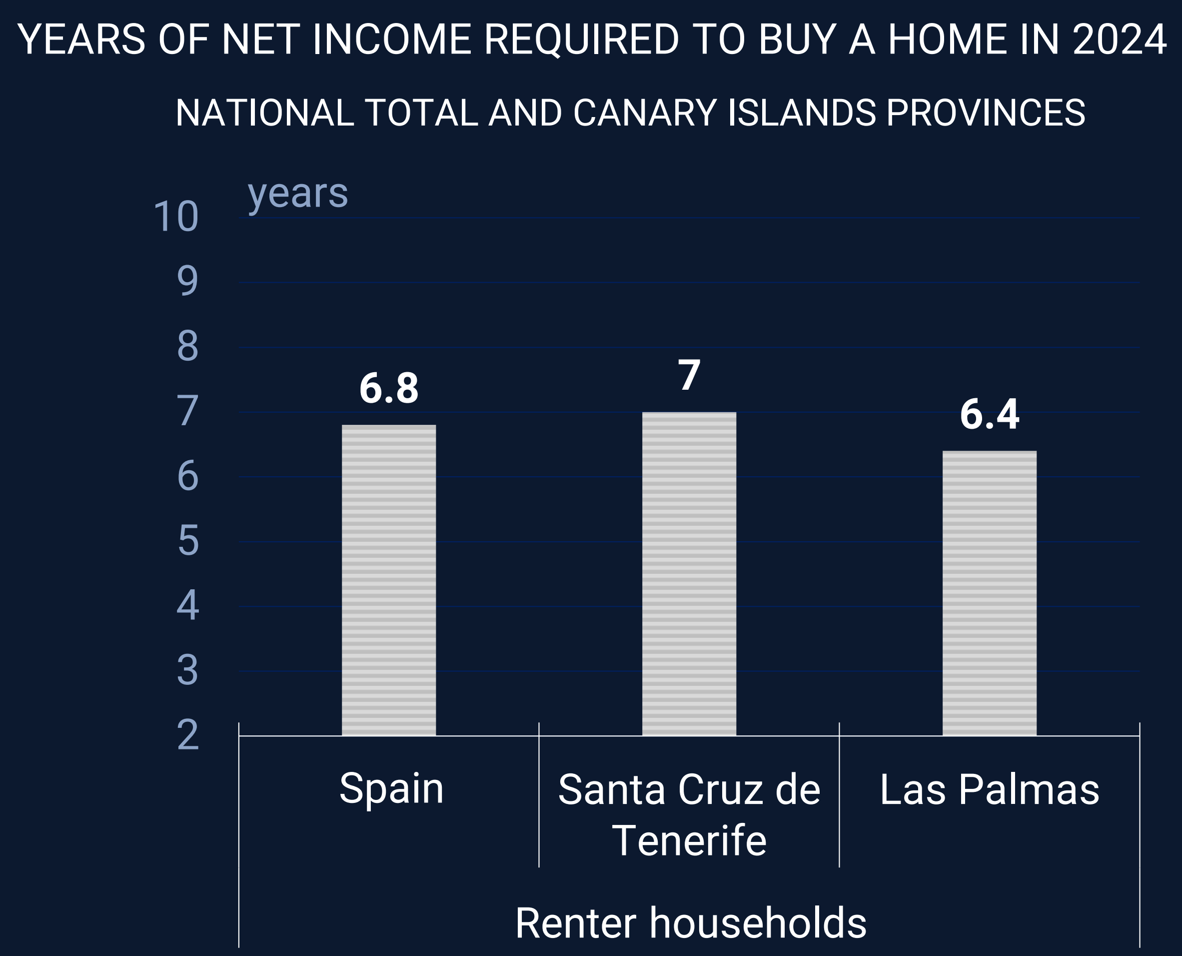
POTENTIAL COST BURDEN ON HOUSEHOLDS OF PURCHASING A HOUSE



The potential burden of purchasing a home in the Canary Islands has been rising since 2015 due to the increase in real house prices (37.5%) and the estimated decline in household disposable income in real terms (-7.5%)

SOURCE: OECD, Analytical House Price Indicators (OECD 2026) and Banco de España, drawing on INE data. The indicator is calculated as the ratio of the residential house price index to household net disposable income per capita according to National Accounts data. An increase in this ratio indicates a higher potential cost burden for households wishing to purchase a home.

The burden is particularly high for renter households



SOURCE: Banco de España, drawing on data from the Household Panel (AEAT, INE and Fiscal Studies Institute) and the General Council of Notaries.

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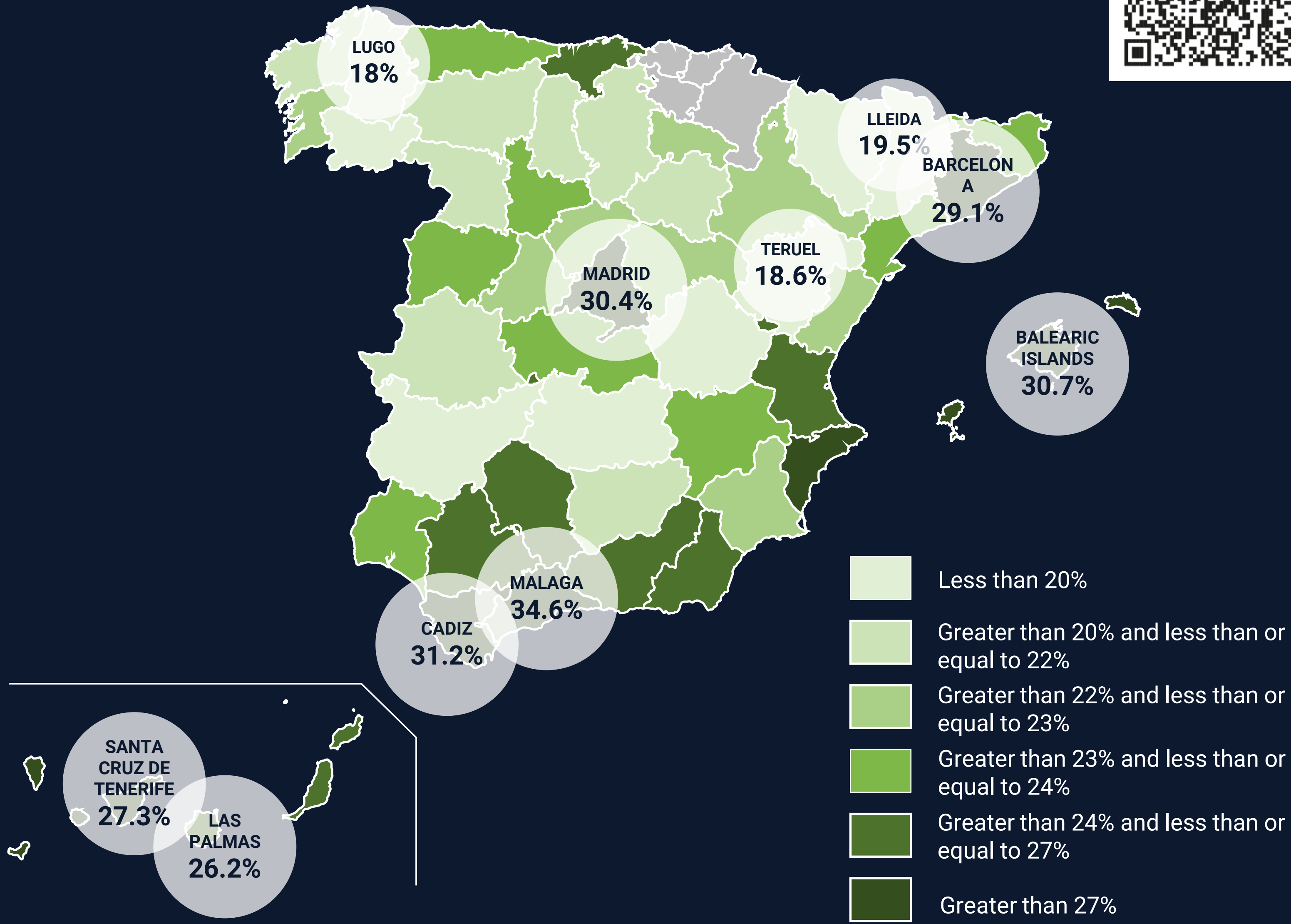
The difficulty of buying a house shifts demand to the residential rental market ...

... raising rents and the rental burden, which stands at 30% of net household income in the areas with the highest demand

AVERAGE RENT AS A % OF NET INCOME (provinces)



SOURCE: Banco de España, drawing on data from the Household Panel (AEAT, INE and IEF) and AEAT.

The supply of new housing collapsed after 2008 and has not recovered owing to a wide range of interlinked factors…

GENERAL GOVERNMENT

The **large-scale production of land and housing in the 2000s** gave rise to a surfeit of supply…

… stymying new land development, compounded by **new problems in local urban land planning and management...**

… which are exacerbated by the **lack of coordination and investment**, for example, making it difficult to **connect new developments to the electrical grid**

CONSTRUCTION AND DEVELOPMENT SECTOR

The post-2008 collapse, along with a structural drop in productivity of >20% since 1995

- Low adoption of technology and industrialised construction

Lower productivity linked to small firm size

- Firms with >250 workers: 10%-15% of employment and 25%-30% of gross value added (GVA)

Small firm size and the productivity shortfall **constrain profitability and resident investment capacity**

LABOUR MARKET

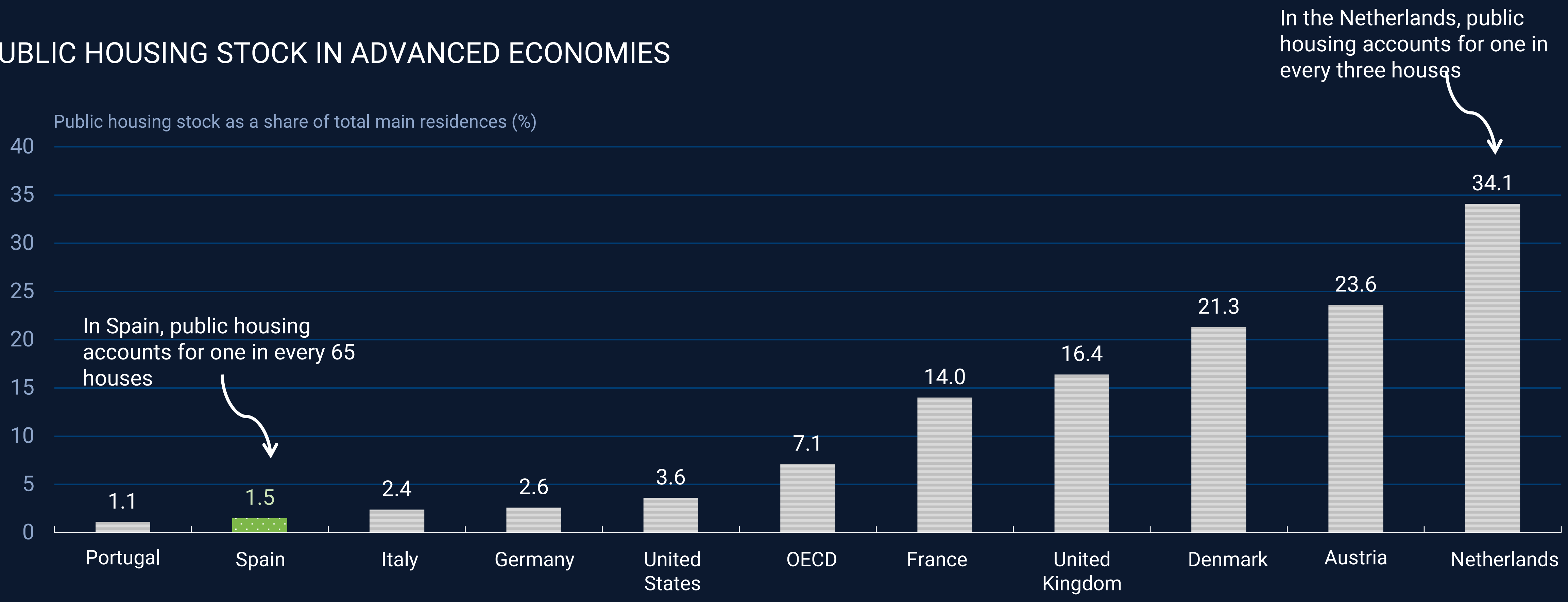
In spite of the recent increase, employment in this sector accounts for around 7% of all social security registrations, 4 pp less than in 1999

Productivity per hour worked has fallen and GVA per employee is 25% lower than the average in the Spanish economy

Firms point to constraints on their activity owing to **labour shortages**: 63% in 2025 Q4

… and the public housing stock, which is small by international standards, has no capacity to ease affordability problems

PUBLIC HOUSING STOCK IN ADVANCED ECONOMIES



SOURCE: Banco de España, drawing on data from INE and Ministerio de Transportes y Movilidad Sostenible, and, for advanced economies, from the OECD for 2022.

Thank you

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