

## **Macroeconomic projections and quarterly report on the Spanish economy. September 2025**

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**EDITORIAL**

## Editorial

**The tariff war and heightened uncertainty have shown signs of a gradual easing in recent months.** The agreements reached by the United States with some of its main trading partners, and in particular the deal announced with the European Union (EU) in July, have helped dispel some of the uncertainty surrounding future trade arrangements. This has ruled out, for the near term, the more extreme scenarios of tariff hikes and trade reprisals.

**However, significant doubts persist regarding how the trade war will unfold, the outcome of the various trade talks under way and how the current geopolitical tensions will evolve, suggesting uncertainty will remain at high levels over the coming months.** First, the US-EU agreement, along with the higher tariffs on some metals, has led to an increase in the tariffs faced by European firms in the US market. Uncertainty also remains about the tariffs that will be applied to certain European products under assessment (such as pharmaceuticals and semiconductors) and the implementation of non-tariff measures and other trade restrictions. Nor is it yet known whether the tariff de-escalation between the United States and China (provisionally agreed up to November) will hold. Lastly, considerable uncertainty continues to surround how the new trade relations will affect global value chains and, therefore, economic activity across different geographical regions.

**Despite a complex global setting, the international financial markets have continued to perform well, as reflected in low levels of price volatility.** Since the financial turmoil in April, stock market indices have broadly continued to rise, underpinned by sound corporate earnings, with some (such as the S&P 500) reaching record highs. In the United States, sovereign bond yields have declined in response to expectations of a more accommodative monetary policy, despite the doubts surrounding the future direction of fiscal policy. By contrast, government bond yields in the euro area have climbed slightly, most notably in France, influenced by the political instability in this country. For its part, the euro exchange rate against the dollar has stabilised in recent weeks, but it has appreciated significantly since the start of the year and since the cut-off date for the June projection exercise.

**On balance, global economic activity picked up in Q2, driven by the US economic recovery and China's ongoing growth.** Specifically, US GDP grew by 0.8% between April and June. Meanwhile, China posted growth of 1.1% in Q2, down just 0.1 percentage points (pp) on the pace observed at the start of the year. As a result, the global growth outlook for 2025 as a whole has been revised up, to 3%. Growth is forecast at 1.6% in the United States and 4.8% in China, in both cases around 0.5 pp higher than expected three months ago.

**Turning to prices, the global disinflation process slowed in the summer months, with inflation notably picking up in the United States, which may be partially attributable to the tariff increases.** In the United States, core inflation climbed to 3.1% in August (0.3 pp above the figure for May), driven by certain non-energy industrial goods and by services prices. By contrast,

inflationary pressures in China remain very subdued. For their part, oil prices on the international markets surged in June, as a result of the Israel-Iran conflict, and have since moderated.

**In the euro area, although growth in H1 was higher than initially expected, economic activity has lost momentum over the year, after the effect of the frontloading of European exports faded.** The most recent data suggest that euro area GDP grew by 0.6% in Q1, 0.3 pp more than initially estimated, before slowing to 0.1% in Q2. In its September projection exercise, the European Central Bank (ECB) forecasts growth of 1.2% in 2025, 1% in 2026 and 1.3% in 2027. The forecast for 2025 has been revised up by 0.3 pp as compared with the June exercise, reflecting the strong performance at the start of the year. However, economic activity over the coming quarters will be markedly sluggish, which has led to a small downward revision, of 0.1 pp, to GDP for 2026.

**In the last few months headline and core inflation rates in the euro area have performed as forecast, holding close to the 2% target.** In August headline inflation picked up slightly, to 2.1%, mainly on account of higher energy and food prices. Meanwhile, core inflation remained stable at 2.3%. According to the ECB's latest projection exercise, the outlook for the medium term remains virtually unchanged. Inflation is expected to stand at 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027. These figures entail a slight upward revision, of 0.1 pp, to the forecasts for 2025 and 2026, and a downward revision, again of 0.1 pp, to the forecast for 2027.

**On the monetary policy front, the weakness observed in the US labour market in Q3 could support the resumption of this country's monetary easing cycle. Meanwhile, in the euro area the ECB has kept the policy rate unchanged since June.** US job creation data over the summer, alongside public statements made by the Federal Reserve Chair in August, have helped strengthen market expectations of future policy interest rate cuts, following a pause earlier in the year. By contrast, the likelihood of further rate cuts in the euro area (where policy rates have stood at 2% since June) is perceived as more limited, based on current market expectations.

**The Spanish economy remains remarkably resilient in the current international context. In Q2 it outperformed expectations, driven by the buoyancy of domestic demand, particularly in terms of private consumption and investment.** GDP grew at a quarter-on-quarter rate of 0.7% in 2025 Q2, exceeding both its pace in Q1 (0.6%) and the rate forecast in the Banco de España's June projection exercise (between 0.5% and 0.6%). This strong performance in Q2 was underpinned, among other factors, by favourable financing conditions, characterised by a lower cost of credit and increased flows of financing to households and firms. As regards Q3, the most recent economic indicators suggest that the economy will continue to grow robustly, at an estimated rate of between 0.6% and 0.7%.

**Consequently, the Spanish economy's growth outlook for 2025 has been revised up by 0.2 pp to 2.6%.** This revision is the result of two opposing factors. On the one hand, the sound performance of economic activity in recent months and the strength observed in the latest economic indicators entail an upward revision of 0.3 pp to the GDP growth rate for the year. On the other hand, the incorporation of new assumptions (particularly regarding energy prices and the exchange rate) has led to a slightly more adverse scenario than in June, subtracting 0.1 pp

from 2025 growth. The growth rates projected for 2026 and 2027 remain unchanged at 1.8% and 1.7%, respectively. However, the absence of changes in the 2026 forecast masks a small upward revision due to the carry-over effect of the higher growth projected for 2025, offset by a downward adjustment linked to a deterioration in the global economic environment, as reflected in the technical assumptions (in particular those relating to energy prices, the exchange rate and world markets).

**As regards prices, the expected average inflation rate for 2025 is now 2.5%, 0.1 pp above that projected in June.** This slight revision reflects the rise in energy prices and, to a lesser extent, food prices, which was offset in part by the increase in services prices proving somewhat more moderate than anticipated, partly attributable to the introduction of a new public transport fare system in July. Looking ahead to the rest of the projection horizon, and in line with the June forecast, the inflation rate is expected to ease to 1.7% in 2026 before rising to 2.4% in 2027, driven primarily by the introduction of the new **EU Emissions Trading System**.

**The risks to the baseline scenario in these projections are tilted to the downside for activity and balanced for inflation.** While the Spanish economy has so far been able to successfully navigate the complex international environment and high levels of economic policy uncertainty, the possibility of the external environment deteriorating or of this uncertainty having a more adverse impact than it has had so far cannot be ruled out. In this challenging international setting, the prices of risk-bearing financial assets (particularly US equities, especially within the tech sector) remain elevated in international markets. A sudden correction in these prices could tighten financial conditions and weigh on global activity, thereby dampening Spanish economic growth. Domestically, the recent uptick in unit labour costs could hinder the ongoing disinflation process and affect the Spanish economy's competitiveness. In this regard, close monitoring is needed of both productivity, which is showing signs of weakening in 2025, and compensation per employee, in a context of rising wage settlements and increased uncertainty about their future trajectory, given the current lack of agreement between the social partners for the coming years.

Figure 1

	2025	2026	2027
GDP	<b>2.6%</b> ↑ 0.2 pp	<b>1.8%</b> =	<b>1.7%</b> =
Inflation	<b>2.5%</b> ↑ 0.1 pp	<b>1.7%</b> =	<b>2.4%</b> ↓ 0.1 pp

SOURCE: Banco de España.

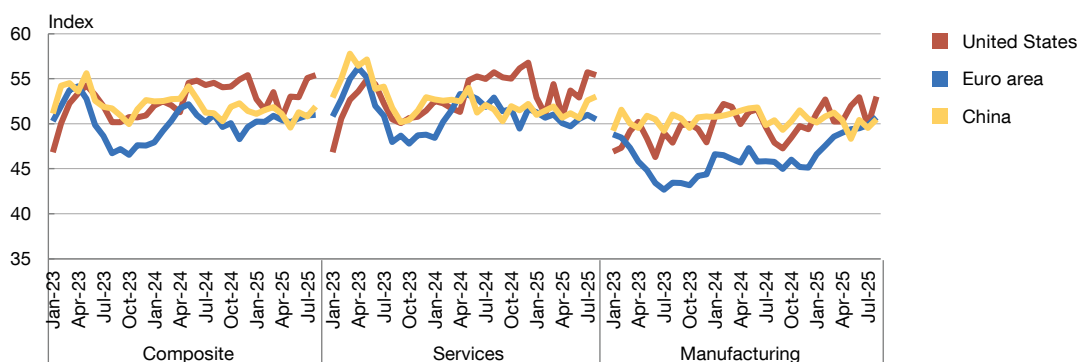
**REPORT**

## 1 Global economic activity picked up in Q2, driven by the United States, although there was some deceleration in the euro area and China

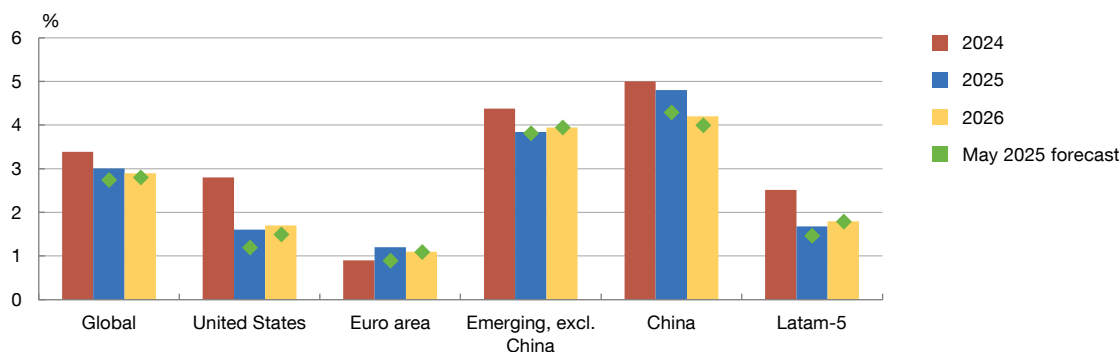
- The growth of global economic activity surprised on the upside in 2025 Q2, mainly due to high GDP growth in the United States (0.8% quarter-on-quarter), following the slight decline recorded in Q1. This owed to greater momentum in the services sector, as shown by the PMI indicators (Chart 1.a), and a fall in imports following their extraordinary increase in Q1 in anticipation of the tariff hikes. By contrast, GDP growth in the **euro area** slowed (from 0.6% in Q1 to 0.1% in Q2) after the surge in exports to the United States at the start of the year ahead of the higher tariffs. In China, GDP growth continued to be underpinned by various stimulus measures and stood at 1.1% quarter-on-quarter, 0.1 pp less than in Q1.
- The combination of better than expected economic activity in H1 and the different tariff agreements reached has led analysts to revise slightly upwards the global growth outlook for 2025, mainly in the United States, the euro area and China (Chart 1.b).

Chart 1

### 1.a PMIs



### 1.b Consensus growth forecasts (a)



SOURCES: S&P Global and Consensus Economics.

a The July 2025 forecasts (bars) are compared with the May 2025 forecasts (diamonds). "Latam-5" includes Mexico, Colombia, Peru, Chile and Brazil. "Emerging, excl. China" includes "Latam-5", Argentina, India, Indonesia, Malaysia, Philippines, Thailand, Bulgaria, Hungary, Poland, Romania, Russia, Türkiye and Ukraine. Lastly, "Global" includes all the foregoing plus China, United States, Canada, Japan, Norway, Sweden, Switzerland, United Kingdom and "Euro area". The forecasts for the United States, the euro area and China are from August 2025.

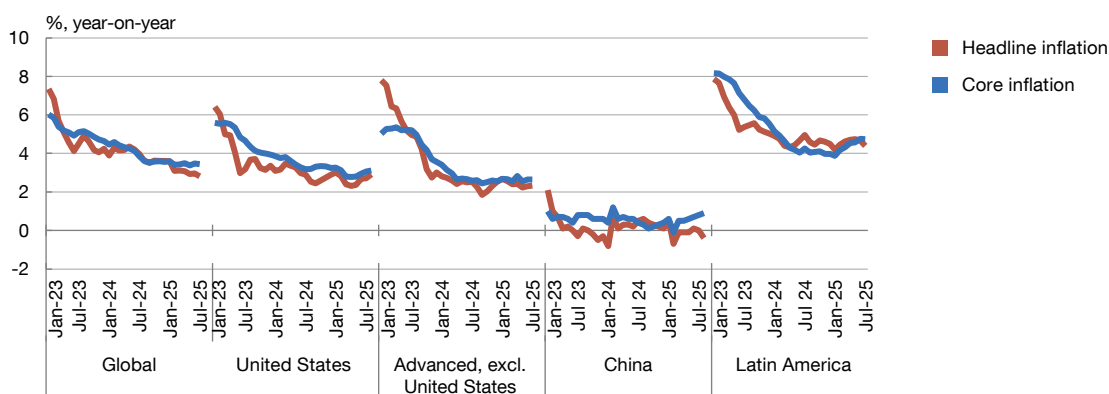


## 2 The global disinflation process slowed in the summer months

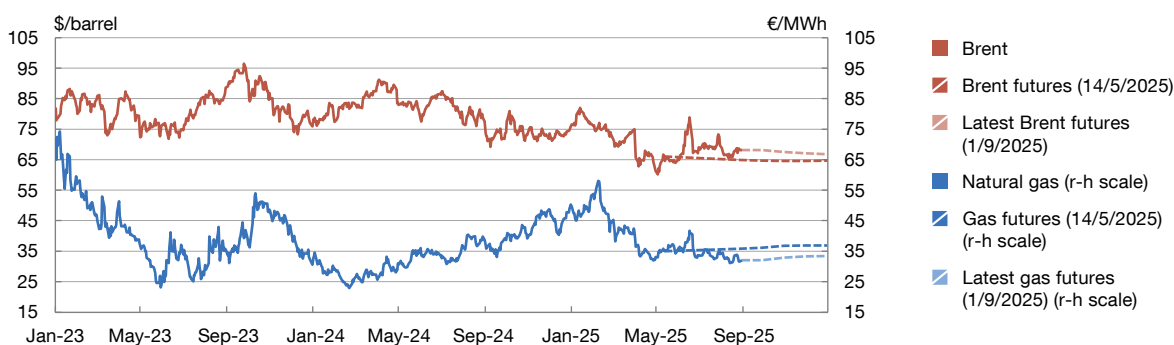
- The global disinflationary path was interrupted in recent months, particularly among certain advanced economies (Chart 2.a). In the United States, headline inflation rose to 2.9% in August (0.5 pp above the figure for May), while core inflation posted a 0.3 pp increase, rising to 3.1%. This reflected the higher prices of some non-energy industrial goods (such as second-hand cars). In the United Kingdom, the inflation rate rose from 3.4% in May to 3.8% in July. The increase was more moderate in the euro area (from 1.9% in May to 2.1% in August) and was mainly attributable to the rise in food and energy prices, while core inflation remained stable at 2.3%. In China, there continued to be an absence of inflationary pressure, with the inflation rate standing at 0% in July.
- Brent oil prices, which rose in June to close to \$80 per barrel as a result of the Iran-Israel conflict, eased in later weeks and currently stand at around \$66 per barrel. However, futures contracts prices remain slightly above the values observed three months ago (Chart 2.b).

Chart 2

### 2.a Inflation



### 2.b Oil and gas prices and futures



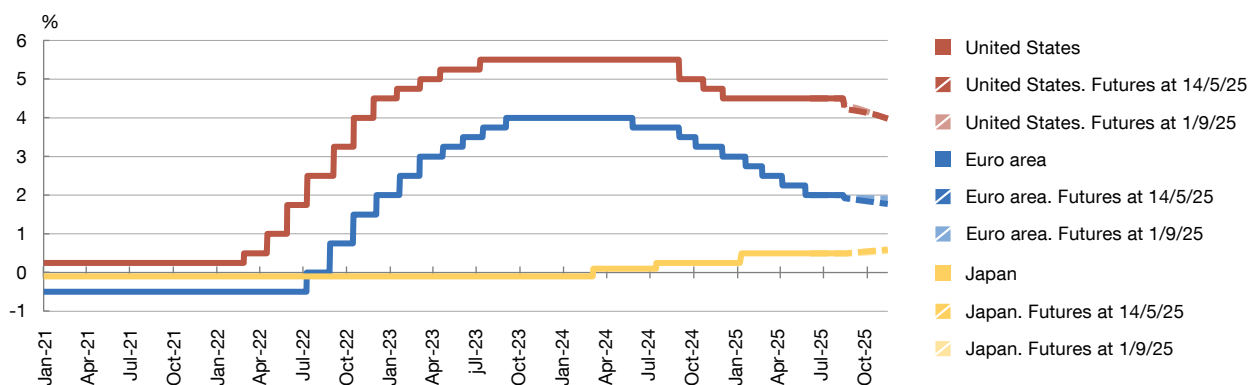
SOURCES: National statistics and LSEG.

### 3 Policy rate cuts have continued in most advanced and emerging market economies

- Policy interest rates continued to decrease in the advanced economies. In the euro area, the ECB lowered the deposit facility rate by 25 bp in June, to 2%, in line with the cuts decided that month by the Swedish, Norwegian and Swiss central banks. In August, the Bank of England decided to lower its bank rate by 25 bp, to 4%, in line with the decisions taken by the Australian and New Zealand central banks. As regards the Federal Reserve, which has maintained its policy rates unchanged in recent months, the markets expect that it will resume rate cutting at its September meeting (Chart 3.a), in a setting in which, foreseeably, the risks to inflation will be tilted to the upside while the risks to employment will be on the downside. Likewise, the Bank of Japan has not changed its key interest rate from 0.5% since January 2025.
- As regards the emerging market economies, specifically in Latin America, the central banks of Chile and Mexico have cut their policy interest rates, while only Brazil's central bank has raised it. The People's Bank of China continues with a relatively expansionary monetary policy as part of its economic stimulus measures.

Chart 3

3.a Policy interest rates observed and futures (a)



SOURCES: Refinitiv Datastream, Banco de España and Federal Reserve.

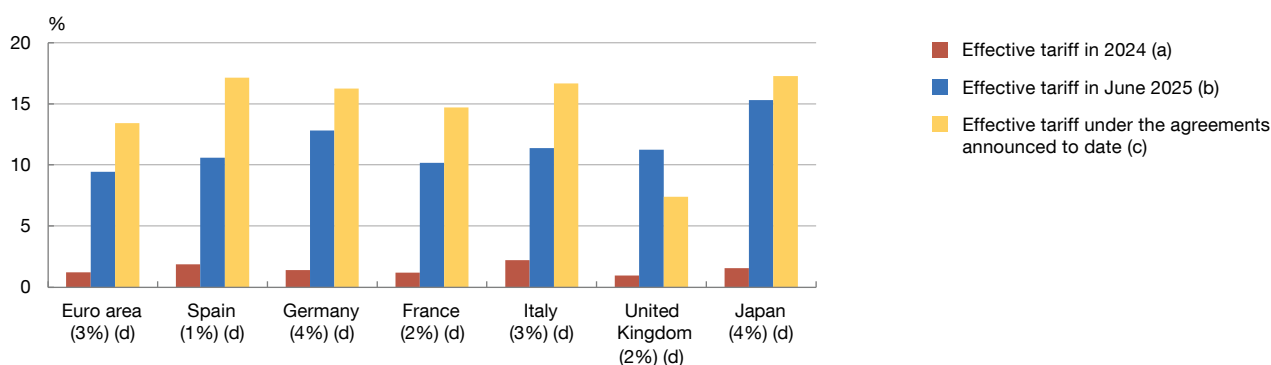
a Interest rates priced in by the respective futures markets (30-day Federal Funds futures, euro area overnight index futures, Japanese overnight index futures).

#### 4 Tariffs have increased under the EU-US tariff agreement and, despite easing somewhat, uncertainty remains high

- The tariff agreement reached on 27 July sets a minimum 15% tariff on European exports to the United States, although tariffs on some products remain at their 2024 levels.<sup>1</sup> The United States has committed not to impose tariffs of more than 15% on pharmaceuticals, semiconductors and lumber, and to apply a 15% tariff on automobiles and automobile parts, once the EU has implemented the tariff reductions agreed.<sup>2</sup> The EU has also undertaken to increase procurement of energy and military equipment from the United States, to invest and to reduce non-tariff barriers.
- Overall, it is estimated that the effective tariffs on US imports from the EU have increased by 12 pp from the 2024 levels and by 4 pp compared with the baseline scenario in the [June Eurosystem staff macroeconomic projections](#) (Chart 4.a). By contrast, EU tariffs on US products will remain unchanged and will even be eliminated for some products.<sup>3</sup> Following the trade agreements reached between the United States and some of its main trade partners (the United Kingdom, Japan<sup>4</sup> and the EU), the economic and, specifically, trade policy uncertainty indicators, have declined considerably. However, they remain at historically high levels due to the risk of new measures being announced and to uncertainties about the practical implementation of the agreements.

Chart 4

##### 4.a Effective tariffs applied by the United States on goods



**SOURCES:** US Trade Census, Banco de España and [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com) drawing on data from Scott R. Baker, Nicholas Bloom and Steven J. Davis. (2016). "Measuring Economic". *The Quarterly Journal of Economics*, 131(4), pp. 1593-1636.

**a** Effective tariff level in force in 2024.

**b** Effective tariff level in force at 1 June 2025.

**c** Effective tariff level under the trade agreements announced up to 1 September 2025. All the measures announced are included, but some have yet to come into force or be confirmed by the two parties concerned.

**d** The percentage is the share of exports to the United States in each country's GDP.

1 Including, for instance, civil aircraft and aircraft parts, generic pharmaceuticals and their ingredients and chemical precursors, and some natural resources, such as cork.

2 The EU is set to eliminate tariffs on industrial goods from the United States and to provide preferential market access for a wide range of agricultural goods.

3 The two parties have agreed to continue negotiations to exempt other sectors and products that are important for their economies and value chains from the general 15% tariff.

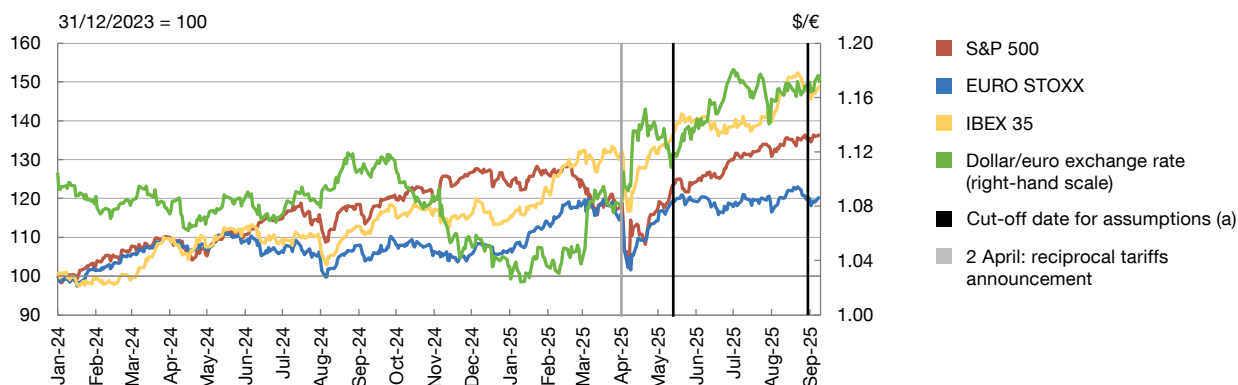
4 Under the agreements with the United Kingdom and Japan, baseline tariffs have been increased by 10 pp and 15 pp, respectively, from their 2024 levels. Both increases include the automotive sector.

## 5 Stock market indices have risen, long-term interest rates have changed slightly in the euro area and the euro's exchange rate against the dollar has stabilised

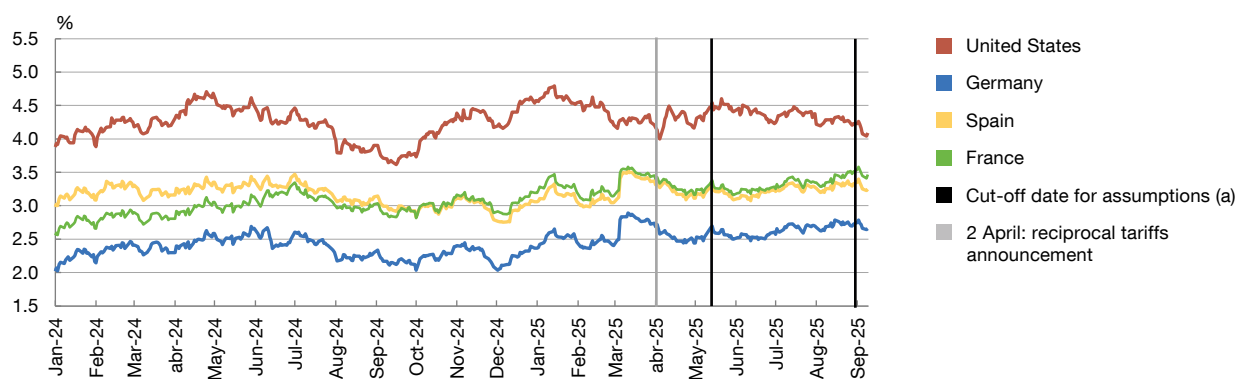
- Global stock market indices have been driven in Q3 by sound corporate earnings, particularly in the United States. The S&P 500 has returned to record highs (Chart 5.a) and maintains relatively high valuation metrics. The IBEX 35 has recorded gains of 9.5% in Q3 to date, underpinned by the banking sector.
- Meanwhile, in the euro area long-term sovereign bond yields have changed slightly, with the yield on Spanish ten-year bonds decreasing and that on German and French bonds increasing (Chart 5.b). However, the yield on US debt has decreased in response to expectations of a more accommodative monetary policy. European sovereign risk premia have declined slightly, except in France, where high political uncertainty has pushed the risk premium up by 11 bp.
- On the foreign exchange markets, the euro is at similar levels against the dollar to those observed at the end of Q2 (around USD 1.17/EUR), having appreciated by around 13% so far this year.

Chart 5

### 5.a Stock market indices and exchange rate



### 5.b 10-year sovereign bond yields



SOURCES: LSEG Datastream and Bloomberg Data License. Latest observation: 9 September 2025.

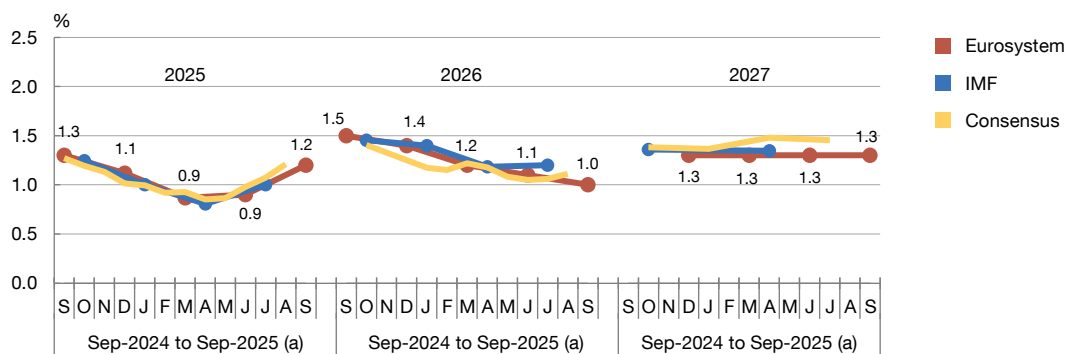
a 14 May and 1 September for the June and September Banco de España projection exercises, respectively.

## 6 In the euro area, economic activity slowed in Q2 ...

- Euro area GDP grew by 0.1% in Q2, 0.1 pp less than projected, after growing by 0.6% in Q1, as the frontloading of exports ahead of the tariff hike in the United States faded. By country, in Germany and Italy GDP contracted due to the weak external sector, while in France and **Spain** activity picked up. Confidence indicators, especially the manufacturing PMI, are improving. GDP is expected to grow at moderate rates in Q3 and recover thereafter, due, at least partly, to **lower uncertainty** in view of the more favourable tariff scenarios.
- The ECB's September projection exercise raises euro area GDP growth for 2025 by 0.3 pp, to 1.2%, mainly because of the upward revision to Q1. GDP is expected to grow by 1.0% (-0.1 pp compared with the June projection exercise) and 1.3% (unchanged) in 2026 and 2027, respectively, due to the effect of the tariffs (Chart 6.a). These growth rates are in line with the euro area's potential growth, with GDP growth over the projection horizon mainly underpinned by private consumption and investment and the fiscal impulse linked to government spending on defence and infrastructure.

Chart 6

6.a Euro area GDP growth forecasts



SOURCES: IMF, Consensus Economics and Eurosystem.

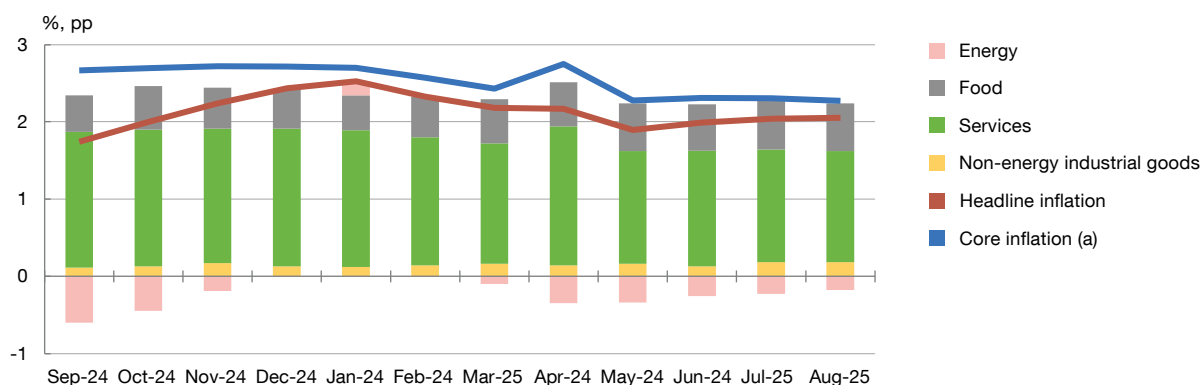
a The letters refer to the month in which the corresponding forecast was published.

## 7 ... while headline inflation has held at around 2%

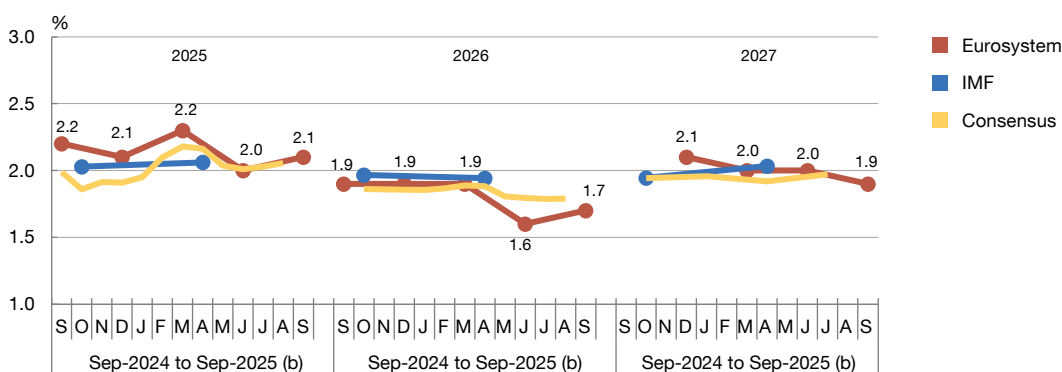
- The year-on-year rate of change of euro area HICP stood at 2.1% in August (Chart 7.a), up 0.1 pp from July and 0.3 pp more than expected in the June projection exercise, amid stable core inflation and a sharper than expected increase in energy and food prices.
- Core inflation held at 2.3%, with services inflation declining slightly (by 0.1 pp to 3.1%), while non-energy industrial goods inflation remained at low levels (0.8%).
- The ECB's September projection exercise revises up slightly – by 0.1 pp – the headline inflation forecast for 2025 and 2026, to 2.1% and 1.7%, respectively. This change from the June projection exercise reflects the upward revision to the expected path of energy prices, which is only partially offset by the effect of the appreciation of the euro. In 2027 inflation is expected to increase to 1.9%, 0.1 pp less than expected in June (Chart 7.b).

Chart 7

### 7.a Euro area inflation and contribution of components



### 7.b Euro area inflation forecasts



SOURCES: IMF, Consensus Economics, Eurosystem and Eurostat.

a Headline HICP excluding energy and food.

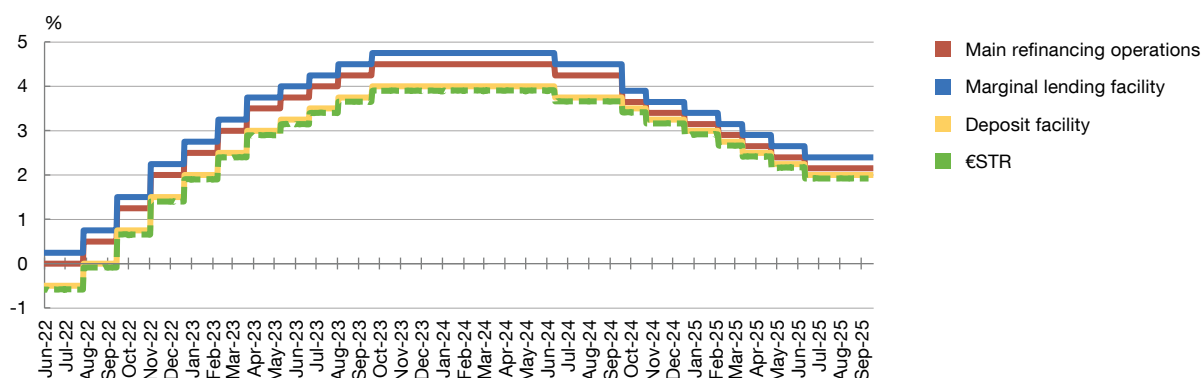
b The letters refer to the month in which the corresponding forecast was published.

## 8 The ECB has kept its key interest rates unchanged in September

- The deposit facility rate, the rate through which the ECB Governing Council steers its monetary policy stance, has stood at 2% since June (Chart 8.a). This decision was based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.
- At its September meeting, the Governing Council highlighted that euro area inflation has stood at around its 2% medium-term target, and that the underlying inflation indicators have remained consistent with that target. In addition, the **ECB staff's new inflation forecasts** have barely changed and also continue to be in line with the 2% medium-term target. However, the outlook for inflation remains more uncertain than usual, as a result of the still volatile global trade policy environment.
- As regards monetary policy transmission, past interest rate cuts continued to lower corporate borrowing costs in the euro area, to 3.5% on new loans to firms in July. In the case of new mortgages, interest rates were unchanged at 3.3%.
- The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. It will not pre-commit to a particular rate path.

Chart 8

8.a Key ECB rates and €STR



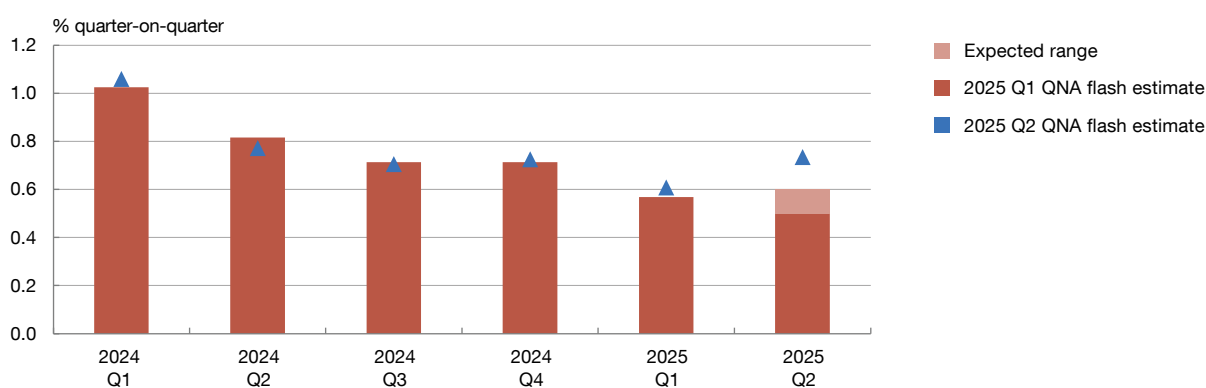
SOURCES: Banco de España and Refinitiv Datastream. Latest observation: 11 September 2025.

## 9 The Spanish economy's growth rate edged up to 0.7% in the second quarter

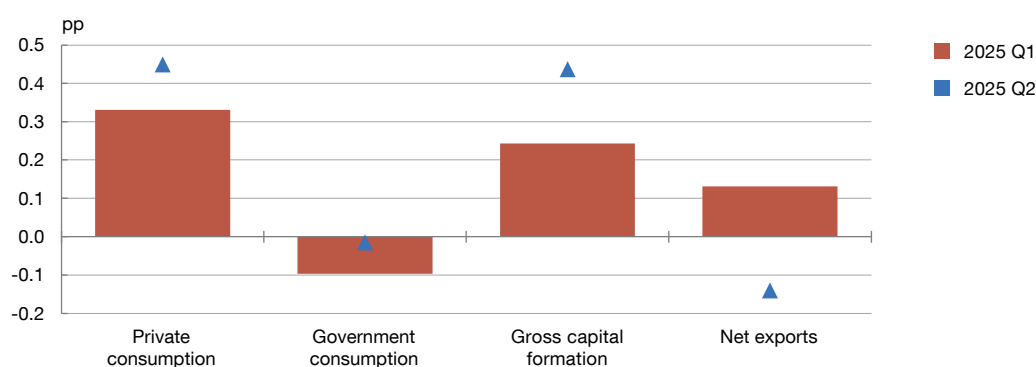
- Spain's GDP grew by 0.7% in 2025 Q2, up from 0.6% in Q1 and surpassing the growth range envisaged in the Banco de España's June projection exercise (0.5%-0.6%) (Chart 9.a).
- Economic growth was underpinned by the significant momentum in domestic demand, particularly in private consumption and gross capital formation, which together contributed 0.9 pp to output growth (Chart 9.b). By contrast, net exports trimmed just over 0.1 pp from GDP growth, as a result of lower export growth – especially in non-travel services – and the slight pick-up in imports, particularly of travel goods and services.
- On the supply side, the primary sector contracted notably in 2025 Q2, by 9.5%, after performing robustly in Q1, while activity growth accelerated to 1.1% in manufacturing, 1.5% in construction and 1.7% in market services. Non-market services declined for the second consecutive quarter.

Chart 9

### 9.a GDP growth in Spain



### 9.b Contributions to GDP growth in Spain



SOURCES: INE and Banco de España.



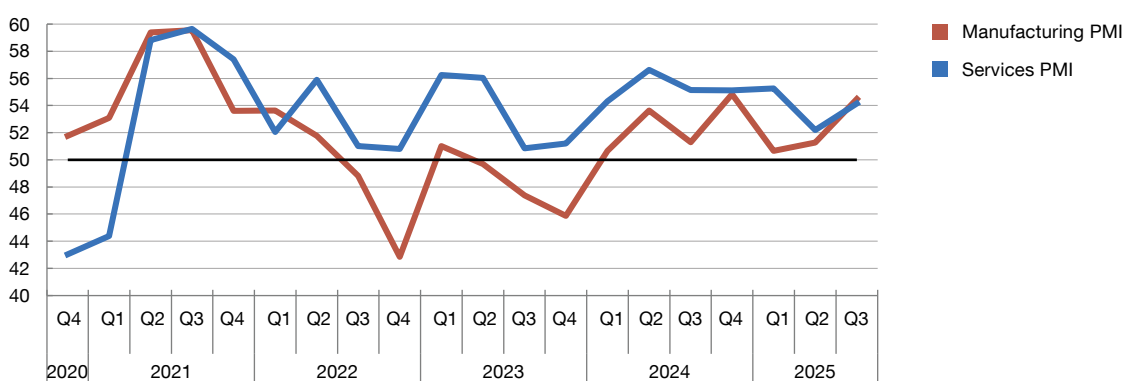


## 10 The latest short-term data suggest that the Spanish economy will continue to grow at a robust pace in the third quarter

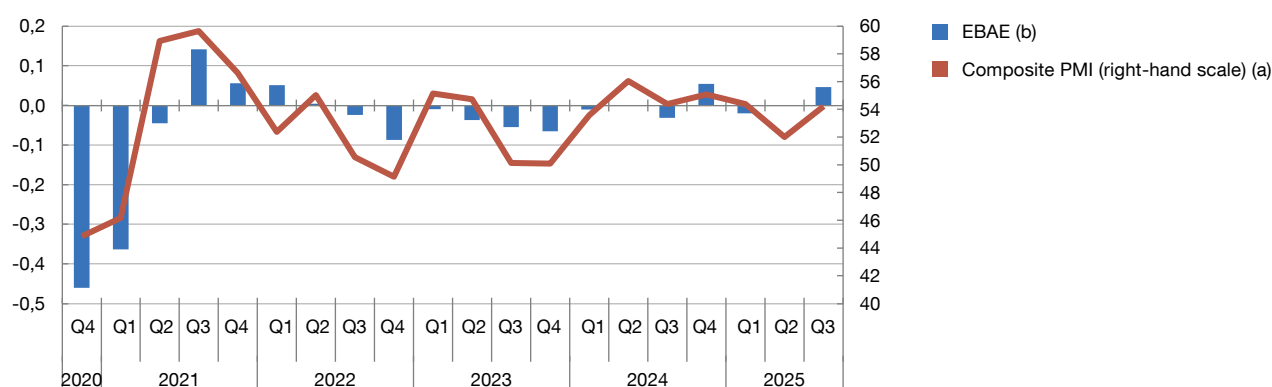
- An overall analysis of the various indicators, which provide partial, and as yet incomplete, information on the performance of economic activity in Q3, suggests that Spanish GDP could grow in this period by 0.6%-0.7% quarter-on-quarter, in line with the growth observed in the previous quarter.<sup>5</sup>
- The indicators consistent with activity continuing to grow at a similar rate to that of the previous quarter notably include the **employment** and confidence indicators. Regarding the latter, on data to August, both the manufacturing and services PMIs have risen in recent months (Chart 10.a), following the decline observed in Q2.
- The results of the EBAE also point in this direction, suggesting that Spanish firms' turnover has increased slightly between July and September (Chart 10.b).<sup>6</sup>

Chart 10

10.a PMIs (a)



10.b Quarterly change in turnover according to the EBAE, and in the composite PMI



SOURCES: S&P Global and EBAE (Banco de España).

a The PMI figure for 2025 Q3 is the average for July and August.

b The qualitative responses from the EBAE are converted into a numerical scale as follows: significant decrease = -2; slight decrease = -1; unchanged = 0; slight increase = 1; significant increase = 2. Seasonally adjusted series.



<sup>5</sup> For more details, see the projections in this publication.

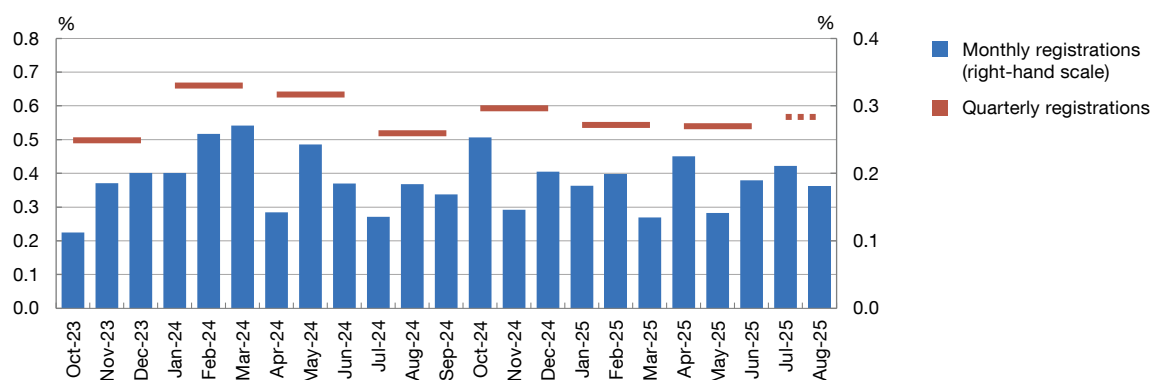
<sup>6</sup> Fernández Cerezo, Izquierdo and Posada (2025).

## 11 Job creation has continued to grow in the third quarter at a pace similar to that observed in the first half of the year

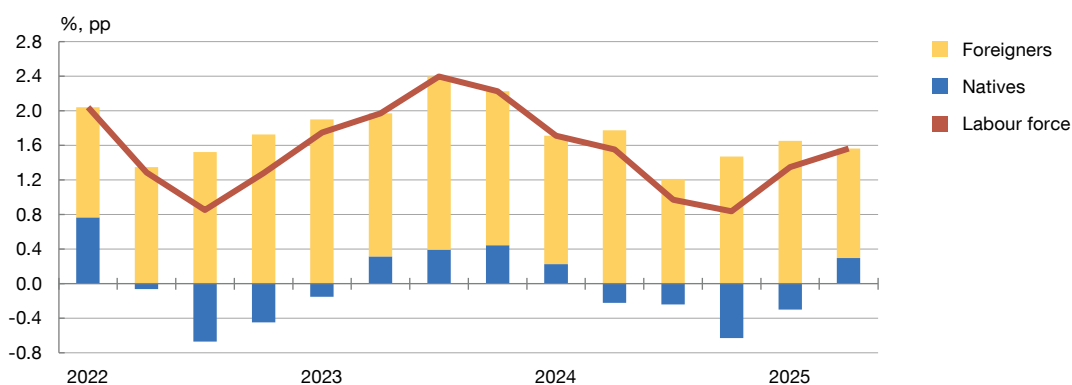
- Social security registrations rose by 0.2% in August in seasonally adjusted monthly terms, a similar rate to that seen in July. These growth rates are in line with those observed in the first half of the year (Chart 11.a) and suggest that the momentum in job creation will be maintained throughout Q3.
- Employment has grown across sectors (except agriculture), most notably in transportation and construction. Growth in social security registrations in other services and in the industrial sector has remained stable.
- Employment growth brought the unemployment rate down to 10.3% in Q2 (0.3 pp lower than in Q1 in seasonally adjusted terms), in line with the Banco de España's June projection exercise, against a backdrop in which Spain's labour force continued to grow, driven by the steady rise in its foreign population (Chart 11.b).

Chart 11

11.a Total social security registrations. Monthly and quarterly rates (a)



11.b Year-on-year rate of change in the labour force and contribution by country of birth



SOURCES: Banco de España, Ministerio de Inclusión, Seguridad Social y Migraciones and Eurostat.

a Seasonally adjusted monthly and quarterly rates. Data for 2025 Q3 are forecasts.

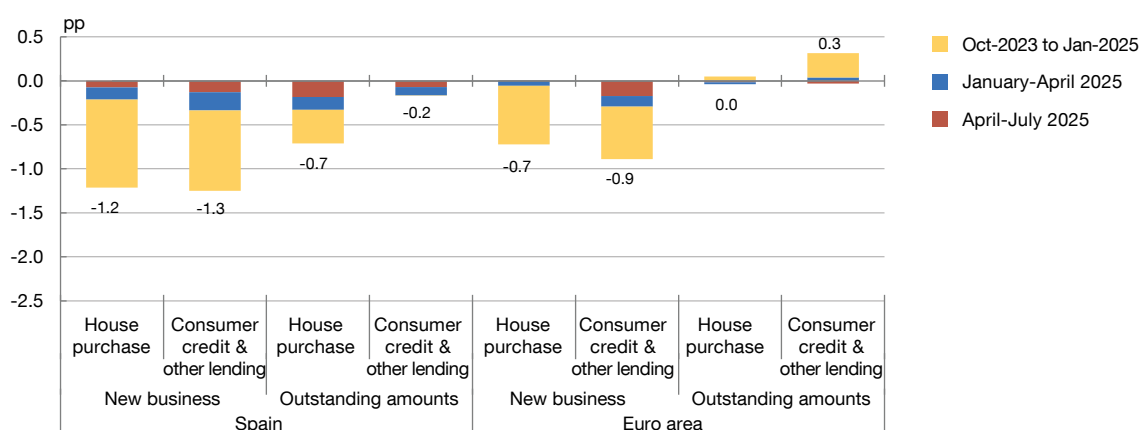


## 12 The cost of new lending has continued to decline in recent months, albeit more moderately than earlier in the year

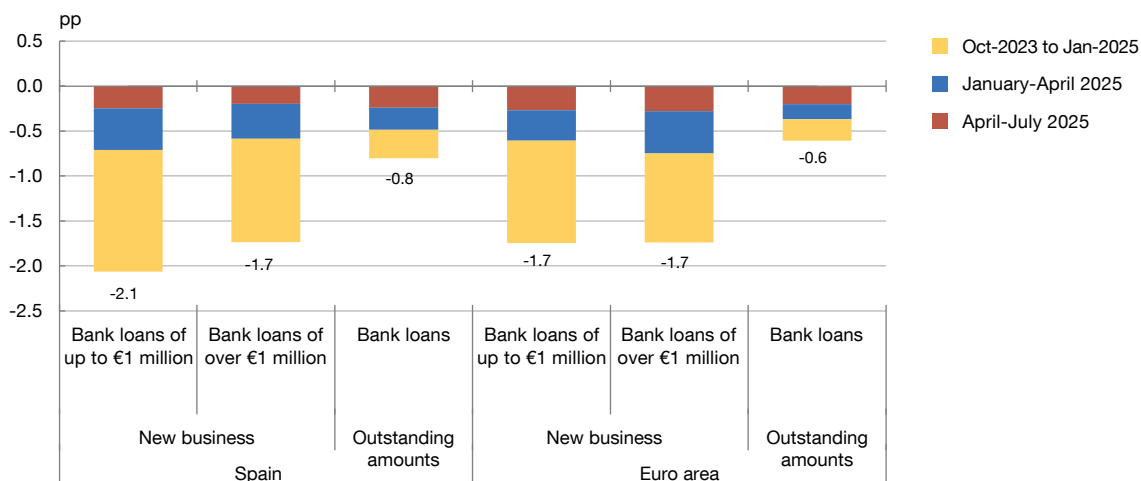
- Between April and July the cost of lending to households fell slightly, to 2.7% for loans for house purchase and 5.8% for consumer credit and other lending (Chart 12.a). The average cost of outstanding loans also continued to decline, in contrast to developments in the euro area.<sup>7</sup>
- Over the same period, the cost of new lending to firms fell by around 25 bp to 3.2% for loans of up to €1 million and to 3.3% for larger amounts (Chart 12.b). The decrease in the cost of outstanding bank debt, which was also observed in the euro area overall, continued to reflect this decline in the cost of new business and in variable rate loans.

Chart 12

12.a Change in the cost of credit to households during the monetary policy normalisation phase (a)



12.b Change in the cost of credit to non-financial corporations during the monetary policy normalisation phase (a)



SOURCE: Banco de España.

a NDER adjusted seasonally and for the irregular component. The data labels refer to the cumulative change since October 2023.



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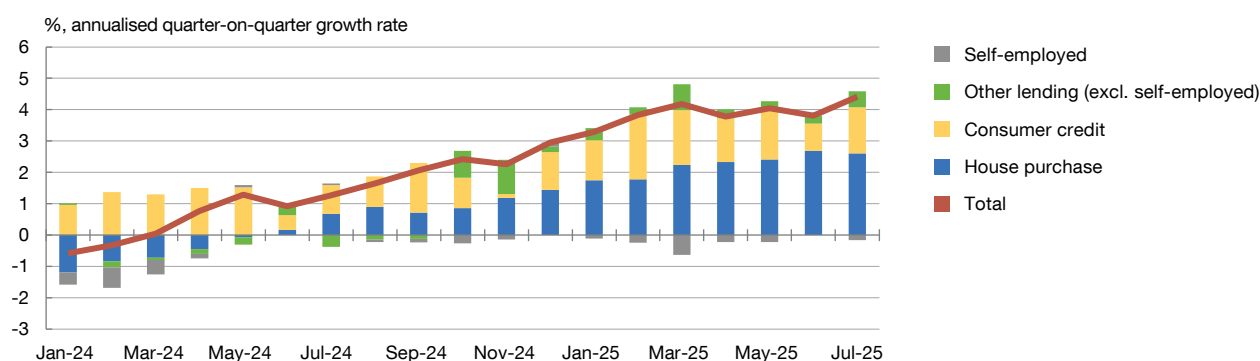
<sup>7</sup> The cumulative increase in the cost of outstanding loans for consumer credit and other lending is due to the maturity of loans that were granted at lower interest rates. In 2019 the cost of new credit was 3.9%, compared with 6.3% in the monetary easing period. In Spain this difference is much smaller (5.4% versus 6.4%).

### 13 Loans to households grew at a pace in line with previous months, while financing to firms rose

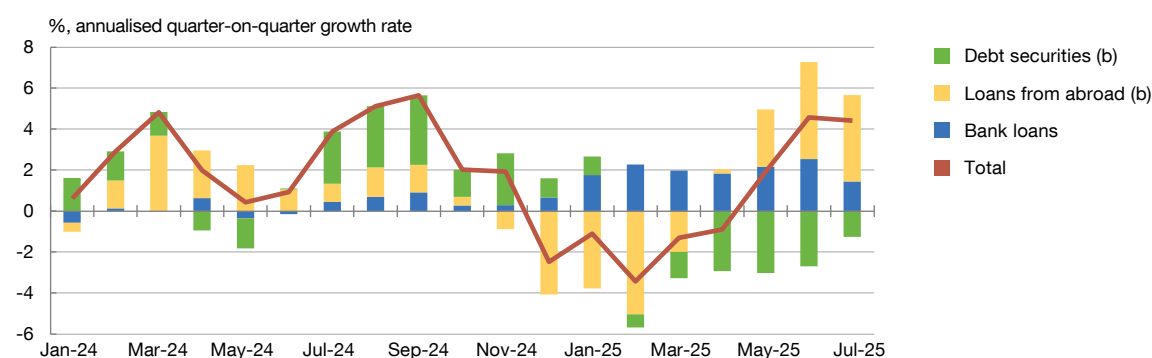
- According to the [Bank Lending Survey](#), credit standards were broadly unchanged in Q2, while demand stabilised or slowed after four consecutive months of growth. Meanwhile, as per the [Survey on the Access to Finance of Enterprises](#), firms continued to report an improvement in access to bank finance.
- Against this background, outstanding loans to households maintained a similar pace of growth to previous months (4.4% in July in annualised quarter-on-quarter terms), underpinned by the strength of consumer credit and lending for house purchase (Chart 13.a). In the corporate segment, growth in bank credit and loans from abroad more than offset the decline in debt securities issuance, leading to a rise in total financing, with an annualised quarter-on-quarter growth rate of 4.4% in July (Chart 13.b).

Chart 13

#### 13.a Lending to households (a)



#### 13.b Lending to non-financial corporations (a)



SOURCE: Banco de España.

- a Data adjusted seasonally and for the irregular component in interest rates. Bank financing balances include securitisation.  
 b Securities issued abroad are excluded from loans from abroad and are included in debt securities.

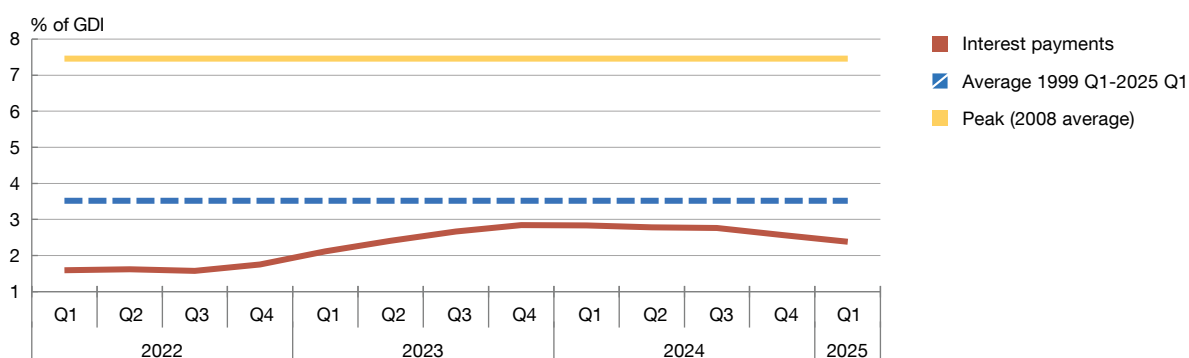


## 14 Declining interest payments lowered the debt burden ratio for households and firms in the first few months of the year

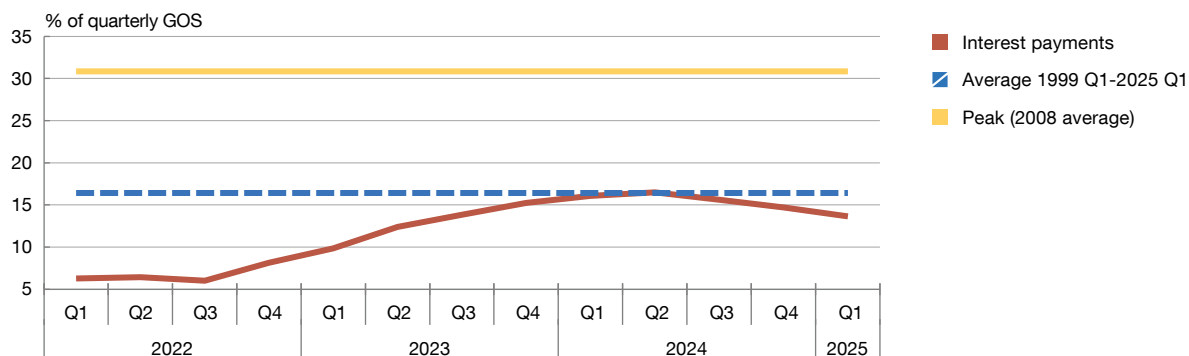
- In Q1, lower household debt interest payments, coupled with nominal income growth, led to a slight additional decrease in the household debt burden ratio, to 2.4% of gross disposable income (GDI), down by 0.2 pp on the previous quarter (Chart 14.a). In the case of firms, the decline in debt interest payments likewise reduced their interest burden, which fell to 13.6% of gross operating surplus (GOS), 1.1 pp lower than in 2024 Q4 (Chart 14.b).
- Positive developments in the economic and financial situation of households and firms have also been mirrored in credit quality improvements during Q2, indicating that financing conditions will remain favourable.

Chart 14

14.a Debt burden. Households (a)



14.b Net debt burden. NFCs (a)



SOURCES: INE and Banco de España.

a Seasonally adjusted data. Interest payments are quarterly cash flows (not adjusted for FISIM) and the ratios are calculated relative to quarterly GDI or quarterly GOS.

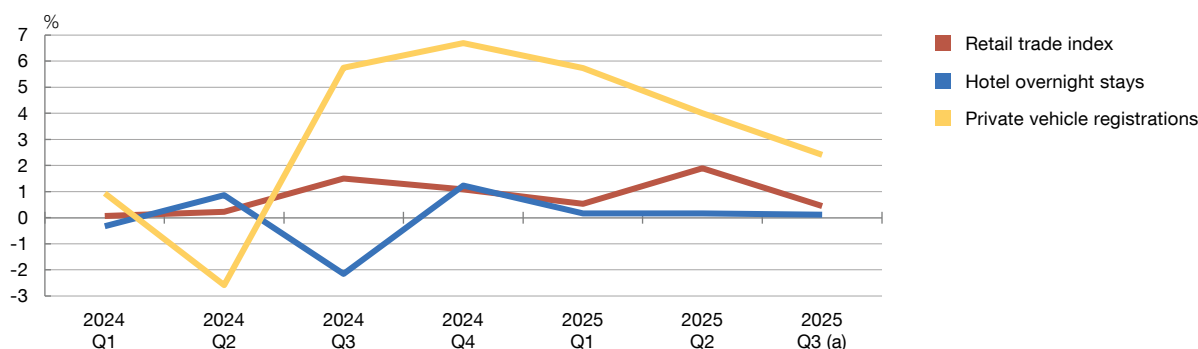


## 15 Household consumption continues to grow at a strong pace, albeit somewhat slower than in the second quarter

- Despite the high level of uncertainty and the deterioration in household confidence, private consumption surprised on the upside in Q2, with quarterly growth of 0.8%, up from 0.6% in Q1 and in line with the growth observed over the course of 2024.
- The data available indicate that consumption growth has moderated in Q3 to date (Chart 15.a). That said, it remains robust, driven by the improvement in household confidence in July and – particularly in the case of durable goods – by the **improvement in financial conditions**. The continued momentum in private vehicle registrations<sup>8</sup> points in this direction, although their growth slowed somewhat compared with previous quarters. In addition, the rise in the retail trade index moderated in July.
- Developments in hotel overnight stays suggest a slowdown in household tourism expenditure. This moderation is largely concentrated in overnight stays within Spain, whereas tourism expenditure abroad remains on the recovery trajectory of previous years.

Chart 15

15.a Quarter-on-quarter rate of growth in the commonly used indicators of consumption



**SOURCES:** Asociación Española de Fabricantes de Automóviles y Camiones and INE.

**a** Growth rates for 2025 Q3 calculated based on actual July data for hotel overnight stays and the retail trade index, and the July-August average for vehicle registrations.



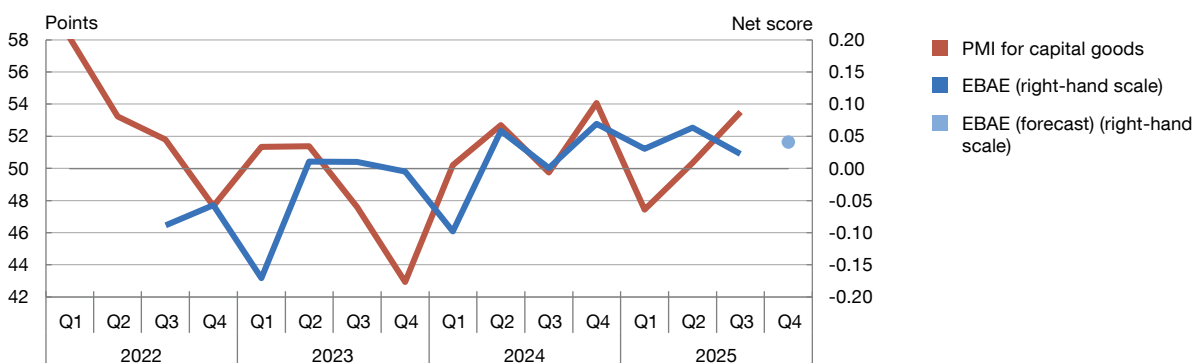
<sup>8</sup> Driven by the replacement of vehicles damaged in the deadly floods of October 2024 (with government support provided) and the incentives programme for electric vehicle purchases.

## 16 Recent momentum in productive investment is expected to continue, while residential investment is set to slow down in the coming months

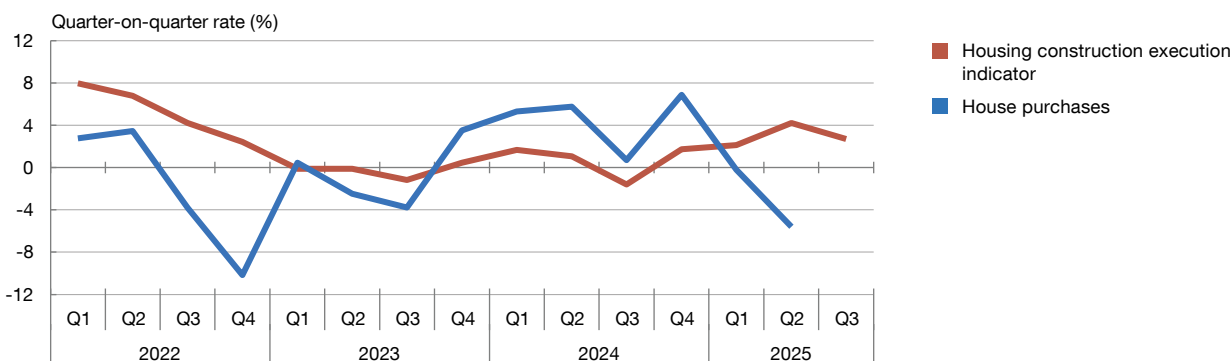
- Productive investment continued to grow in the first two quarters of 2025, although at a much slower pace than during the end-2024 surge. The composition of investment has shifted from other construction towards capital goods, which saw a year-on-year increase of 11% in Q2. As for transport, it remains well below 2019 levels (-13.5%), although the renewal of Spain's ageing commercial vehicle fleet is expected to boost this component over the coming years.
- Looking ahead to the second half of the year, the positive trend in qualitative indicators, such as the EBAE and the capital goods PMI (Chart 16.a), suggests that investment in capital goods will continue to grow, albeit at a somewhat more moderate pace.
- Regarding residential investment, after growing strongly during the first half of the year it is expected to slow down in Q3, based on the recent performance of the construction execution indicator and notarial home sales (Chart 16.b). House prices continued to accelerate in Q2 to a year-on-year growth rate of 12.7%, above the average rise in 2024 (8.4%).

Chart 16

16.a Qualitative investment indicators (a)



16.b Main housing investment indicators (b)



**SOURCES:** S&P Global, Banco de España, Centro de Información Estadística del Notariado, INE and Ministerio de Transportes y Movilidad Sostenible.

**a** Latest PMI data available: May 2025. Latest EBAE data available: 2025 Q3, forecast for 2025 Q4.

**b** Latest data available: May 2025 for building permits and June for house purchases. For the housing construction execution indicator, the time frame considered is three months from issuance of the building permit to the construction start date and 18 months for the construction work. Seasonally adjusted series for house purchases.

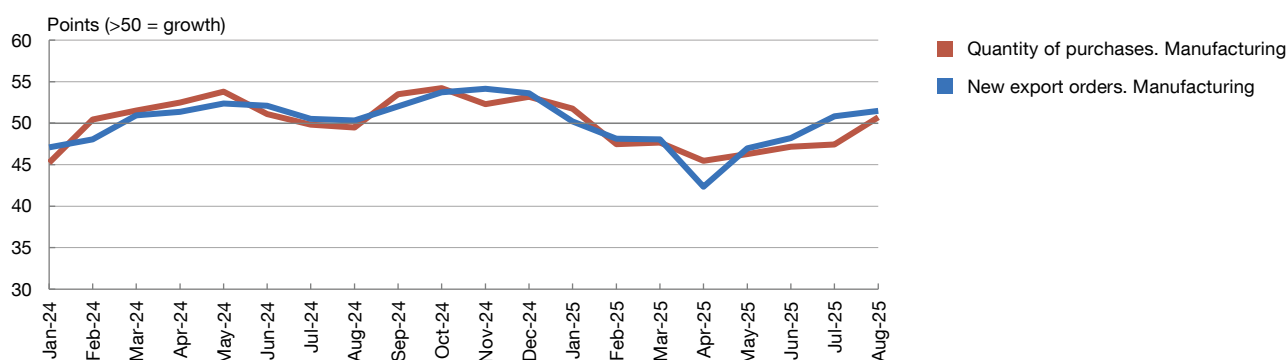


## 17 The external sector may continue to weigh negatively on GDP growth in Q3 due to the rise in imports

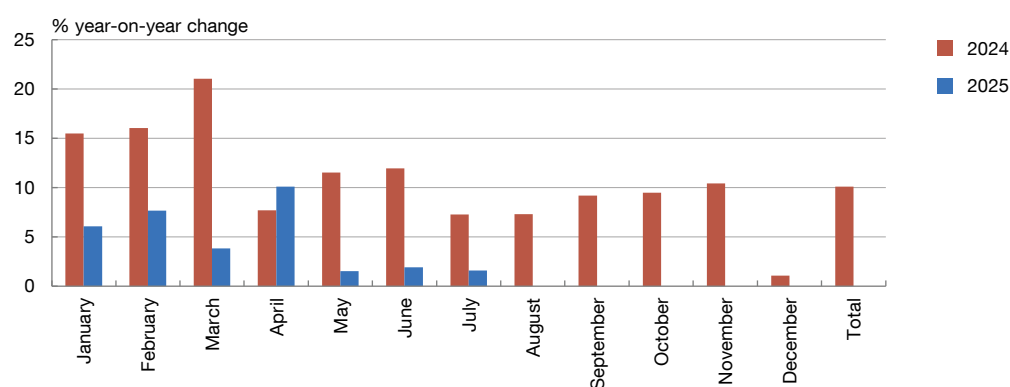
- The contribution to growth of net exports was slightly negative (-0.1 pp) in Q2, mainly owing to the dynamism of services imports – particularly travel services (+4.5%) – and, to a lesser extent, of goods imports (+1.5%). However, goods exports returned to a positive trend (+1.5%).
- In Q3 the PMI indicators for new export orders and purchase volumes in the manufacturing sector continued their recovery and entered expansionary territory (Chart 17.a), pointing to a better performance of goods exports in this quarter. Meanwhile, goods imports are expected to benefit from the strength of domestic demand, particularly investment.
- As for services exports, the gradual moderation observed in the first half of the year is expected to continue, especially in travel services. Specifically, foreign tourist arrivals grew by 1.6% year-on-year in July, with growth rates below those of last year (Chart 17.b).

Chart 17

17.a PMIs (a)



17.a Foreign tourist arrivals by month



SOURCES: S&P Global and INE.

a Latest observation: August 2025.



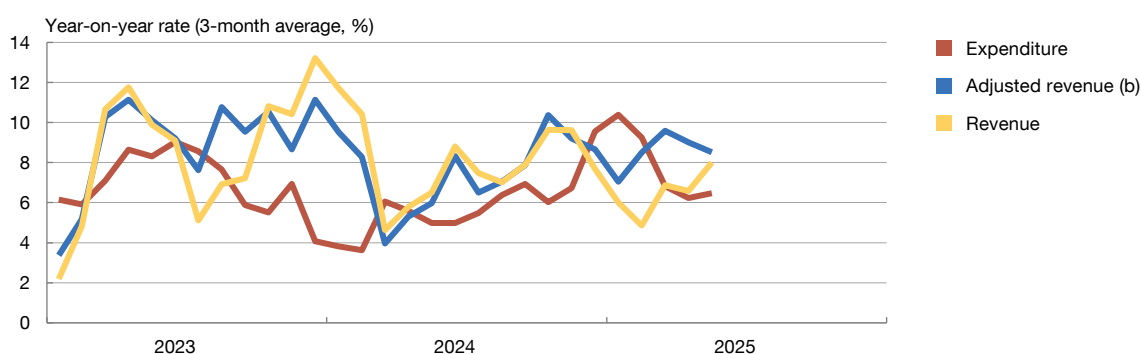


## 18 Strong government revenue growth is improving the general government balance despite rising expenditure

- Government revenue continues to perform very favourably. On data to May, it is estimated to have grown year-on-year by 6.6%,<sup>9</sup> which, once adjusted for irregular intra-annual developments,<sup>10</sup> would place the growth rate in homogeneous terms above 8% (Chart 18.a). This momentum is supported by the notable rise in taxes and social contributions, driven by higher household and corporate income and by the policy measures implemented.<sup>11</sup>
- Meanwhile, government spending – although less buoyant than revenue – is also growing at a significant pace (5.7%), with a 5.6% increase in current primary expenditure that could raise the primary expenditure growth path, net of discretionary revenue measures and other items, above that established in the Medium-Term Fiscal-Structural Plan.
- Overall, the strong growth in revenue appears to have led to an improvement in the general government balance to May, which would be consistent with a reduction in the budget deficit for 2025 overall to slightly below the Government's target of 2.8% of GDP.

Chart 18

18.a General government revenue and expenditure in Spain (a)



FUENTE: Banco de España and IGAE. Latest figure: May 2025.

a Not including local government.

b Rates adjusted for atypical monthly developments due to measures adopted.



<sup>9</sup> Estimate based on data for general government excluding local government to May and local government data for Q1.

<sup>10</sup> In the period January-May, contributions to the Deposit Guarantee Scheme were suspended and the first payments of the windfall taxes on financial institutions and energy utilities were eliminated. Additionally, only a small portion of the expected annual impact of the measures to increase corporate income tax revenue materialised in those months.

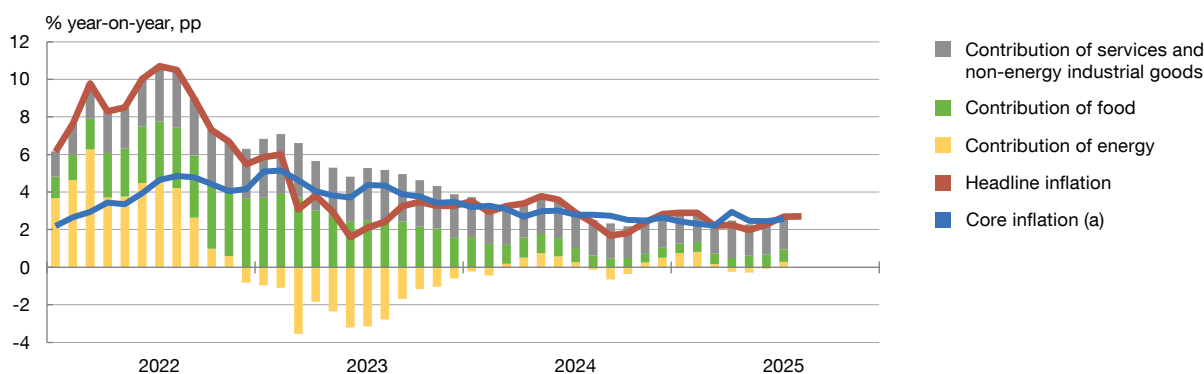
<sup>11</sup> The reinstatement of the standard rates for VAT on food and energy, as well as for other taxes on energy; in corporate income tax, the reinstatement of limits on the use of tax-loss carryforwards and temporary limits on the deduction of losses of subsidiaries; and, in social security contributions, the increase of the Intergenerational Equity Mechanism, the rise in maximum contribution bases and the introduction of the solidarity quota.

## 19 The rise in energy prices has pushed up headline inflation since May, while core inflation has remained stable

- Headline inflation, as measured by the HICP, held steady at 2.7% in August after increasing in the previous two months from the 2% recorded in May. On disaggregated data to July, these developments reflect the uptick in energy prices linked to higher oil and electricity prices<sup>12</sup> and a slight acceleration in food prices (Chart 19.a).
- Meanwhile, core inflation – HICP excluding energy and food – has remained stable at around 2.5% since May, although it picked up slightly in July to 2.6%. In particular, services prices accelerated slightly in July, albeit less than expected due to the only partial reversal of the public transport discounts in place since September 2022,<sup>13</sup> while inflation in catering and tourism-related services remains persistent. Non-energy industrial goods prices continued to show very modest year-on-year growth, lower than the rise in domestic producer prices for such goods.

Chart 19

19.a Inflation in Spain: changes and contribution of components



SOURCES: Eurostat and Banco de España.

a Headline inflation excluding energy and food.



12 The year-on-year rise in electricity prices in July was partly due to the base effect from VAT, which rose from 10% in July 2024 to 21% in the same month of 2025.

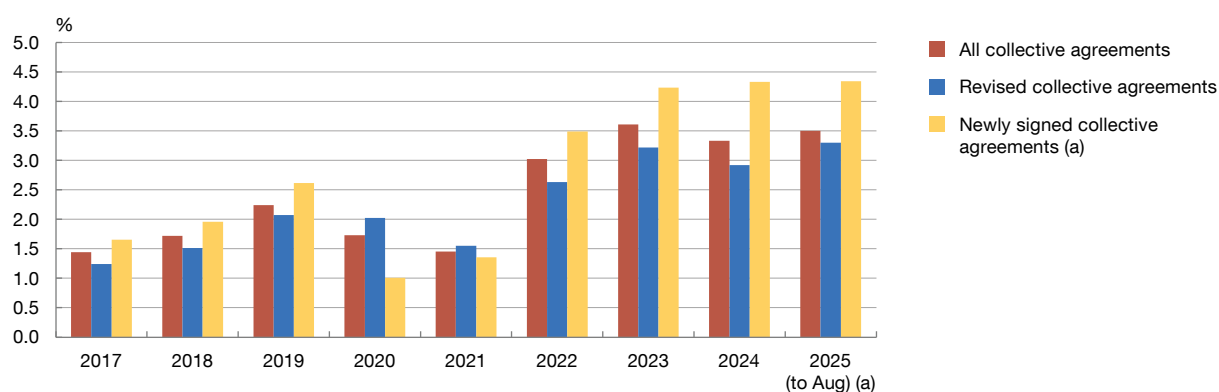
13 A new public transport fare system came into effect in July, resulting in a partial reduction of the discounts introduced in September 2022, which are set to end in December 2025. The June Banco de España projection exercise envisaged the full discontinuation of the discounts from July, based on the measures approved at the projection cut-off date.

## 20 Unit labour costs continued to accelerate in 2025 Q2

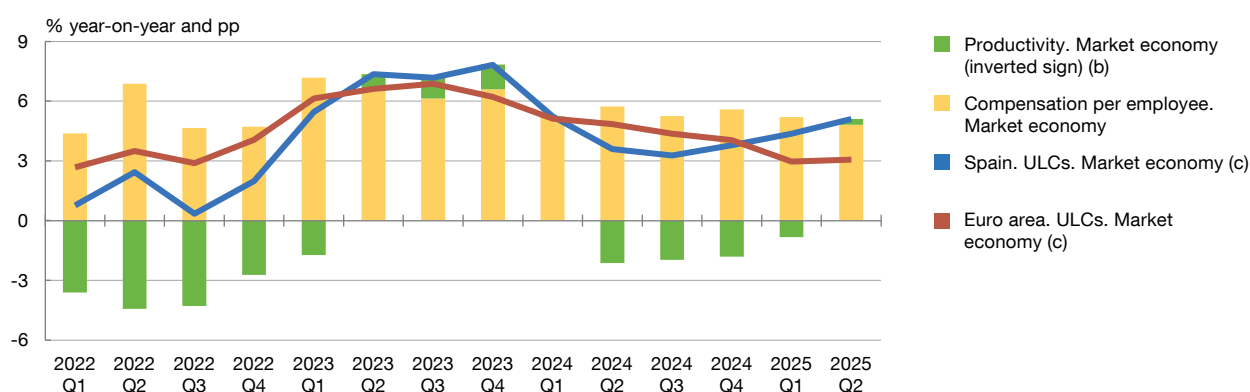
- On data to August, wage settlements agreed for 2025 stand at 3.5%, above both the 2024 figure and the benchmark increase of 3% agreed for 2025 in the fifth Employment and Collective Bargaining Agreement (AENC). Most wage-earners with wage settlements for 2025 are subject to agreements signed in previous years, which envisage an average wage increase of 3.3%. By contrast, new wage agreements signed in 2025 provide for a higher average increase of 4.3% (Chart 20.a).
- Compensation per employee in the market economy continued on the smooth deceleration path that began in early 2025, although the growth rate remains high (4.8% in Q2). In this setting, unit labour costs (ULCs) accelerated in the quarter, rising by 5.1% in the market economy, reflecting the steady growth in compensation and the decline in productivity per employee, which fell by 0.3% year-on-year in Q2 (Chart 20.b).

Chart 20

### 20.a Wage settlements



### 20.b ULCs. Market economy. Change and contributions



SOURCES: Ministerio de Trabajo y Economía Social and INE.

a Newly signed agreements up to August 2025 relate to 1,728,000 workers (close to 20% of all workers with wage settlements for 2025).

b Productivity is defined as GVA divided by the total number of employees in a given sector.

c The change in ULCs can be proxied as the sum of the change in compensation per employee and the change in productivity (with an inverted sign). Therefore, a positive contribution of productivity in the chart is interpreted as the effect of a decline in productivity.

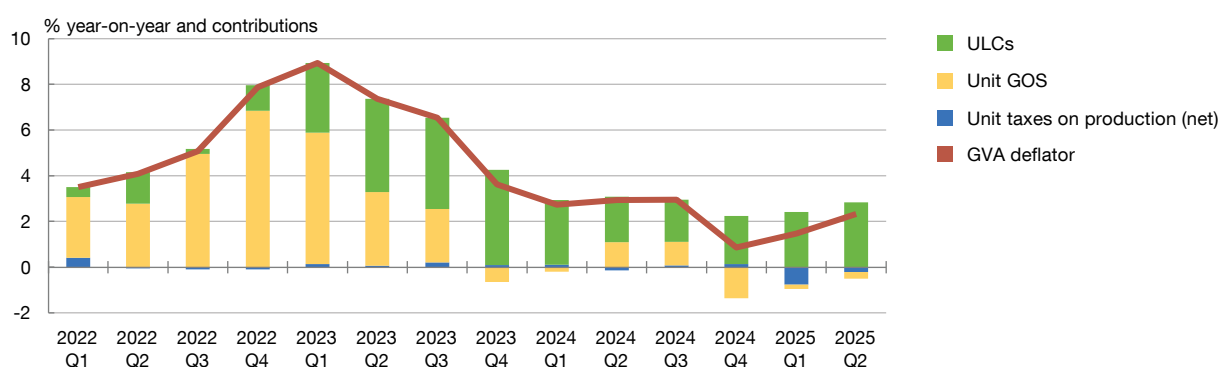


## 21 Domestic inflationary pressures remain relatively moderate, partly on account of lower unit profit margins

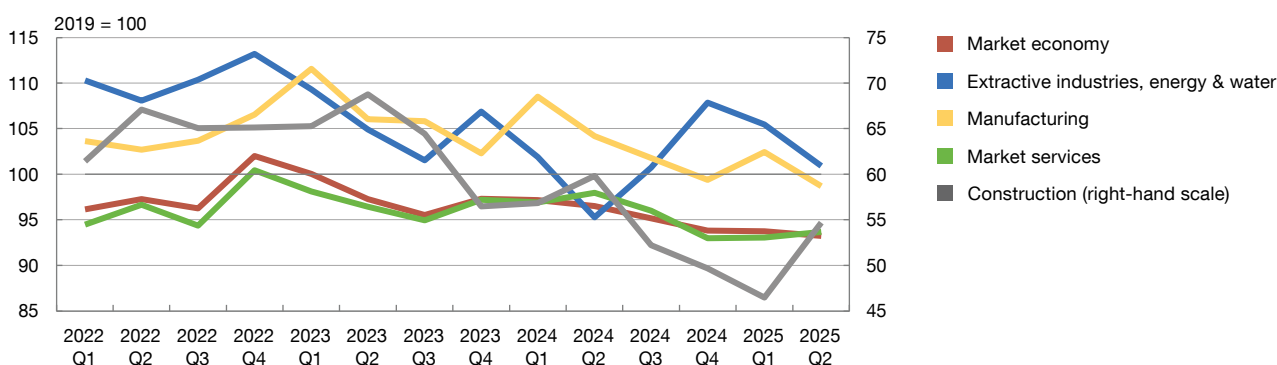
- The market economy GVA deflator rose by 0.8 pp in 2025 Q2 to 2.3%. The main contributing factors were the acceleration in ULCs, as both unit GOS and unit taxes on production made a negative contribution (Chart 21.a).
- Indeed, on QNA data,<sup>14</sup> profit margins – measured as the ratio of GOS to market economy GVA – continued to decelerate somewhat (Chart 21.b) across almost all sectors, except in construction where they rose in Q2 after reaching recent-year lows at the start of the year.

Chart 21

21.a GVA deflator. Market economy



21.b Changes in profit margins (GOS/GVA) on QNA data. Breakdown by sector



SOURCES: Banco de España and INE.



14 For further details on the interpretation and recent performance of various alternative measures that seek to proxy profit margins, see the [Observatorio de Márgenes Empresariales website](#), a joint initiative of the Ministry of Economy, Trade and Business, the Tax Agency (AEAT) and the Banco de España.

**MACROECONOMIC PROJECTIONS FOR THE SPANISH  
ECONOMY (2025-2027)**

## 22 Main assumptions and considerations underlying the projections

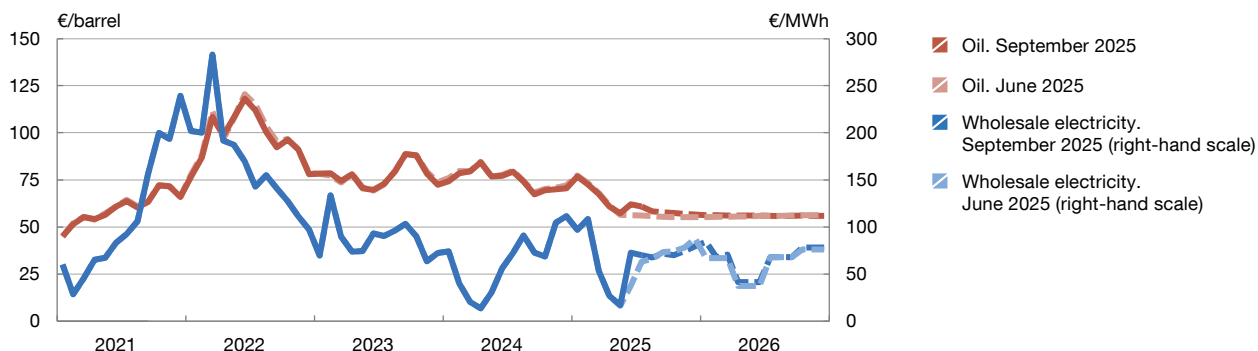
- These projections are based on a series of technical assumptions regarding the future path of certain macroeconomic, financial and **fiscal** variables.<sup>14</sup> Overall, these assumptions depict a rather more adverse scenario for economic activity over the coming quarters than they did three months ago, especially in respect of exchange rate appreciation, energy price rises and export market performance in 2026. Specifically:
  - Spanish export market growth in 2025 is revised up, by 0.4 pp to 2.8%, based on Q2 data that were better than initially expected and the upward revision of the growth rates in the previous quarters. However, this increased dynamism is offset by somewhat less favourable developments in the second part of the year. Export market growth is expected to slow significantly in 2026 – to 1.9% – which is a downward revision of 0.1 pp to the growth rate in the June projections, against a backdrop of higher tariff barriers and continuing intense global economic policy uncertainty. Growth is expected to pick up again in 2027, back to 2.8% as in June (Table 1).
  - Based on the futures markets, in the first part of 2026 oil prices in euro and electricity prices are expected to be higher than projected three months ago (Chart 22). In recent months, both crude and electricity prices have been above those anticipated in June.
  - The nominal euro exchange rate is now higher than in the previous projection exercise, both against the US dollar and in nominal effective exchange rate terms (Table 1).
  - As regards interest rates, financial market expectations remain at levels similar to those of the June projection exercise. Short-term interest rates are expected to gradually decline over 2025 and 2026 and then increase in 2027, albeit somewhat more moderately than anticipated three months ago, while long-term rates are expected to increase slightly over the projection horizon (Table 1).
- Moreover, updated Spanish GDP data for past quarters mean that the starting point used to project the future paths of activity and prices is now different from that used in the previous exercise. Specifically, in the absence of other changes, the **QNA flash estimates** for 2025 Q2 automatically entail a higher starting point for these projections and a higher GDP growth rate for 2025.<sup>15</sup>

<sup>14</sup> This exercise incorporates the new information that has become available since the publication of the **previous projections on 10 June**. In particular, it includes the QNA flash estimates for 2025 Q2 and the QNFAIS flash estimates for 2025 Q1. The cut-off date for the assumptions is 1 September; the cut-off date for the projections is 4 September.

<sup>15</sup> In addition, the INE made a very small upward revision (0.04 pp) to the growth rate for 2025 Q1.

Chart 22

## 22.a Energy prices



SOURCES: OMIE and Reuters.

Table 1

## International environment and monetary and financial conditions (a)

Annual rate of change (%), unless otherwise indicated

	2024	September 2025 projections			Difference between the current projections and the June 2025 projections (b)		
		2025	2026	2027	2025	2026	2027
Spain's export markets (c)	1.4	2.8	1.9	2.8	0.4	-0.1	0.0
Oil price in dollars/barrel (level)	81.2	70.0	66.0	66.0	3.3	3.2	1.7
Wholesale electricity price in €/MWh (level)	62.9	67.3	65.4	54.8	2.2	3.3	-3.5
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.08	1.13	1.17	1.17	0.02	0.04	0.04
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	116.0	119.4	122.5	122.5	2.1	3.8	3.8
Short-term interest rate (3-month EURIBOR; level) (e)	3.6	2.2	1.9	2.1	0.0	0.0	-0.1
Long-term interest rate (10-year Spanish government bond yield; level) (e)	3.2	3.3	3.6	3.9	0.0	0.0	0.0

SOURCES: Banco de España and ECB.

- a Cut-off date for assumptions: 1 September, except for export markets (28 August). Figures expressed as levels are annual averages, figures expressed as rates are calculated on the basis of the related annual averages.
- b Differences in rates for export markets, in levels for oil prices, the dollar/euro exchange rate and the nominal effective exchange rate, and in percentage points for interest rates.
- c The assumptions regarding the behaviour of Spain's export markets presented in the table are obtained from the September 2025 ECB staff macroeconomic projections for the euro area.
- d A positive percentage change in the nominal effective exchange rate denotes an appreciation of the euro.
- e For the projection period, the figures in the table are technical assumptions, prepared following the Eurosystem's methodology. These assumptions are based on futures market prices or on proxies thereof and should not be interpreted as a Eurosystem prediction as to the path of these variables.

## 23 GDP growth is expected to decelerate over the coming quarters

- Spanish GDP grew by 0.7% in 2025 Q2, more than in Q1 (0.6%) and more than envisaged in the Banco de España's June projection exercise (between 0.5% and 0.6%). In the growth breakdown, the strength of both private consumption and investment stood out, offsetting the downward surprise in government consumption and the contribution of exports. Indeed, Spanish GDP in the quarter was 8.8% higher than in the pre-pandemic period; this is a 2.8 pp wider gap than in the euro area.
- The latest short-term economic indicators suggest that Spanish economic growth will remain robust in Q3, with an estimated growth rate between 0.6% and 0.7%.
- For the coming quarters, the baseline scenario envisages a gradual deceleration in output growth, towards levels compatible with the potential growth of the Spanish economy, which is expected to stand at just under 2% at the end of the projection horizon. Specifically, real GDP growth is expected to edge down from 3.2% in 2024 to 2.6% in 2025, 1.8% in 2026 and 1.7% in 2027 (Table 2).<sup>16</sup>

Table 2

### Projections for the main macroeconomic aggregates of the Spanish economy (a)

Annual rate of change in volume terms (%) and % of GDP

	2024	September 2025 projections				June 2025 projections		
		2025	2026	2027		2025	2026	2027
GDP	3.2	2.6	1.8	1.7		2.4	1.8	1.7
Private consumption	2.9	3.1	2.0	1.6		2.7	1.8	1.5
Government consumption	4.1	1.9	1.7	1.6		2.5	1.8	1.7
Gross capital formation	1.9	5.0	2.5	2.0		3.6	2.3	2.1
Exports of goods and services	3.1	3.1	2.3	2.8		1.9	2.3	2.7
Imports of goods and services	2.4	5.0	3.1	2.9		3.0	2.8	2.7
Domestic demand (contribution to growth)	2.9	3.1	2.0	1.6		2.7	1.9	1.6
Net exports (contribution to growth)	0.3	-0.5	-0.2	0.1		-0.3	-0.1	0.1
Nominal GDP	6.2	5.3	3.7	3.7		4.8	3.6	3.8
GDP deflator	3.0	2.6	1.9	2.0		2.3	1.8	2.0
HICP	2.9	2.5	1.7	2.4		2.4	1.7	2.5
HICP excluding energy and food	2.8	2.4	2.1	1.9		2.6	2.1	1.9
Employment (people)	2.2	2.6	1.3	1.0		2.2	1.0	1.0
Employment (hours)	1.9	1.2	1.4	1.0		1.0	1.0	1.0
Unemployment rate (% of labour force). Annual average	11.3	10.5	10.2	9.7		10.5	10.2	9.7
Net lending (+) / net borrowing (-) of the nation (% of GDP)	4.2	3.6	3.5	3.2		3.7	3.7	3.5
General government net lending (+) / net borrowing (-) (% of GDP)	-3.2	-2.5	-2.3	-2.3		-2.8	-2.6	-2.6
General government debt (% of GDP)	101.8	100.7	100.4	100.0		101.4	101.4	101.3

SOURCES: Banco de España and INE.

a Projections cut-off date: 4 September 2025. Latest QNA figure published: 2025 Q2 flash estimate.

<sup>16</sup> Under this scenario, the difference between real and potential GDP (the output gap) is positive throughout the projection horizon, although from 2026 it will gradually start to narrow.

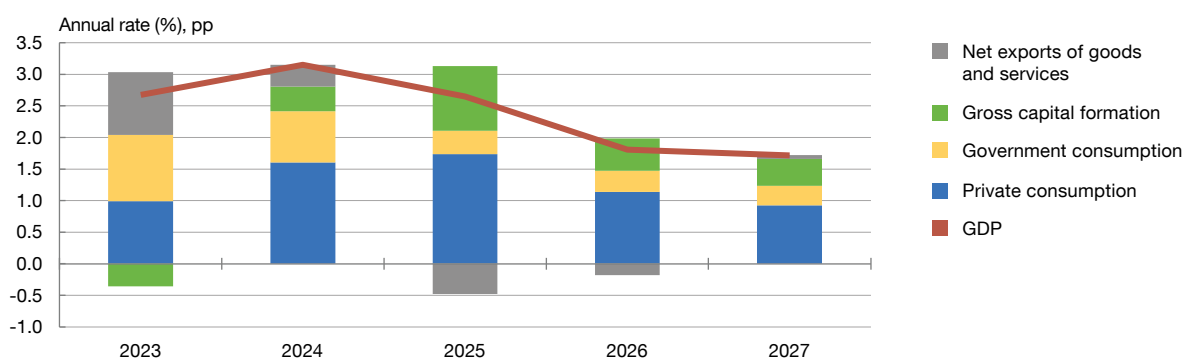


## 24 In the years ahead economic growth will be underpinned by the buoyancy of domestic demand

- According to these projections, GDP growth in the period 2025-27 will be driven by strong domestic demand (Chart 24), with the following particularities.
  - Private consumption is set to make the largest contribution to economic growth owing to the projected developments in disposable income, employment and migration flows. However, its momentum is expected to slow down gradually over the projection horizon, following the **high levels seen in recent quarters**, in step with the expected deceleration of the aforementioned factors and owing to an environment of **acute uncertainty** and a saving rate that, despite being set to decline, will remain above its historical average.
  - Gross capital formation, which has shown **remarkable buoyancy since 2024 Q4**, is expected to contribute more to GDP growth in 2025 than in 2024. It is projected to continue to grow at relatively strong rates in 2026 and 2027, driven in part by the roll-out of NGEU funds, favourable financing conditions and robust residential investment.
  - Government consumption – which rose sharply in 2023 and 2024 – fell for the second consecutive quarter in quarter-on-quarter terms and its contribution to growth is set to moderate in the coming years, in line with the assumption of trend growth in government spending in the absence of new measures, although it will likely be bolstered somewhat by the **expected rise in defence spending**.
- By contrast, net exports will drag on GDP growth in 2025 and 2026 and have virtually no impact in 2027 (Chart 24).
  - A gradual slowdown in exports is expected, in line with recent developments in international tourist arrivals and non-travel services exports, which have both enjoyed a boom in the wake of the pandemic. Goods exports, meanwhile, appear to have stalled in 2025, mirroring the **global trade environment** and the euro area's lacklustre growth, but look set to recover thereafter, reflecting **developments expected in overseas markets** and a gradual decline in uncertainty over the projection horizon.
  - Goods and services imports appear to be performing strongly in 2025, driven by their **especially strong performance in H1**, but will likely slow in 2026 and 2027 in line with the forecast path of investment and goods exports, which have a larger import content.

Chart 24

24.a GDP growth and contributions of main components



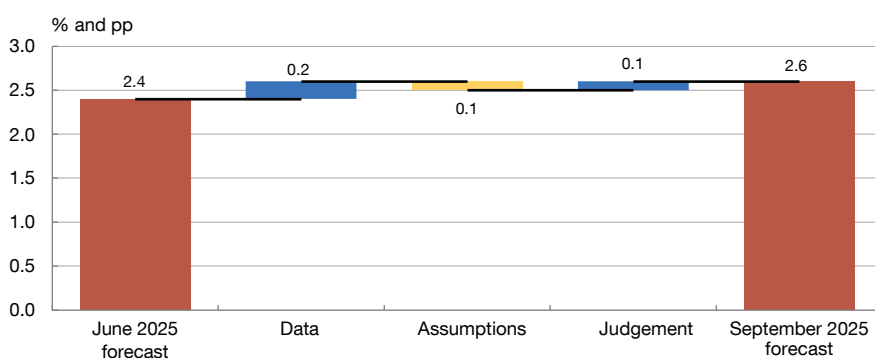
SOURCES: Banco de España and INE.

## 25 GDP growth in 2025 is revised up by 0.2 pp from the June projection exercise

- The projected growth rate in activity in 2025 – 2.6% – is 0.2 pp higher than in the June projections owing to the confluence of several factors (Chart 25).
  - First, the **GDP growth flash estimate for 2025 Q2** and the INE's revision of past growth rates (in particular, that of 2025 Q1) automatically entail an increase of 0.2 pp in the annual growth rate of GDP in 2025.
  - Second, the **technical assumptions** in this projection exercise envisage a higher exchange rate and higher electricity prices than in the June forecast. The combination of these factors is expected to cut growth by 0.1 pp in 2025.
  - Lastly, with regard to judgement, **data available for 2025 Q3** (on labour market developments, Purchasing Managers' Indices and a range of high frequency indicators, among others) point to more robust activity than had been initially expected, adding an additional 0.1 pp to the estimated growth rate for 2025 as a whole.
- The GDP growth projections for 2026 and 2027 are unmoved, standing at 1.8% and 1.7%, respectively. The lack of changes in the 2026 estimation masks the influence of two factors that counterbalance each other: greater dynamism in activity in 2025 is set to drive an increase of 0.1 pp in the 2026 growth rate, while the new **technical assumptions** and, in particular, the projected paths of energy prices, exchange rates and global markets, will cut that growth rate by 0.1 pp.

Chart 25

25.a Changes in the GDP growth forecast for 2025



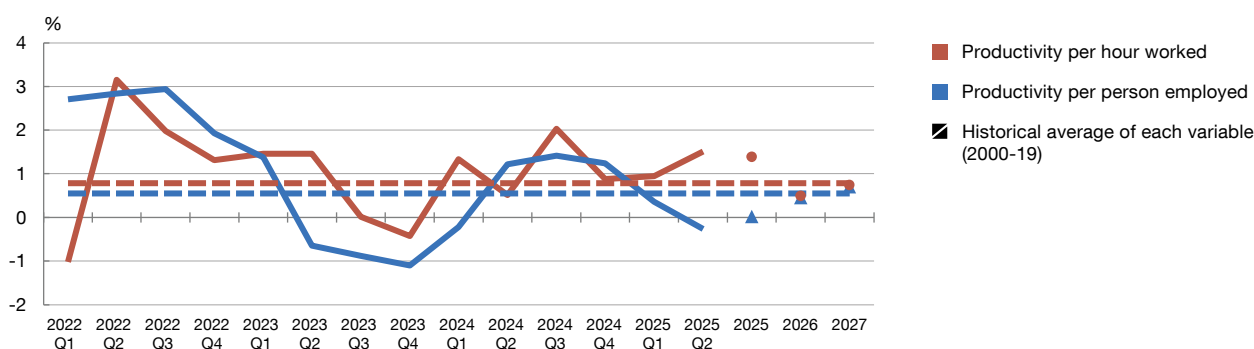
SOURCE: Banco de España.

## 26 Job creation will slow over the projection horizon, in line with the deceleration in activity, albeit with a slight uptick in productivity per person employed

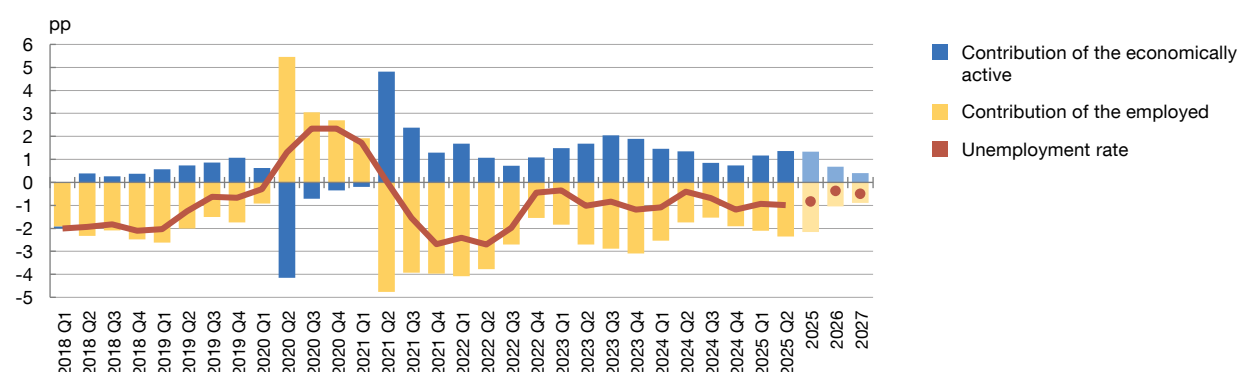
- Job creation will continue to increase in the period 2025-27, although its growth rate will fall in the coming quarters. Accordingly, although employment growth – measured in terms of people employed – is expected to increase to 2.6% in 2025, above the 2.2% seen in 2024, it is set to slow in 2026 and 2027 to 1.3% and 1.0%, respectively (Table 2).
- In 2025 no growth is envisaged in productivity per person employed, which having risen by 0.9% in 2024 slowed markedly in 2025 H1 (Chart 26.a). However, in 2026 and 2027 it is expected to pick up, moving gradually towards growth rates close to its historical average. Productivity per hour worked is set to rise by 1.4% in 2025, a rate that is slightly above that of 2024 (1.2%). The latter figure is projected to stabilise in 2026-27.
- The decline in the unemployment rate is expected to slow in 2025-27, in line with the loss of momentum forecast for job creation. Likewise, growth in the labour force (a variable that is heavily influenced by the expected trends in migration flows) is expected to slow somewhat, following the significant growth projected for 2025 (1.5%). Overall, the unemployment rate is set to fall from 11.3% to 9.7% in the period 2024-27 (Chart 26.b).

Chart 26

26.a Productivity (year-on-year rate of change) (a)



26.b Unemployment rate (year-on-year change and contribution of the employed and economically active)



SOURCES: Banco de España and INE.

a Seasonally adjusted series.

## 27 The government deficit trajectory is expected to improve slightly over the 2025-27 horizon in comparison with the June projections

- Barely any developments have been announced in terms of new fiscal measures since June, with the single exception of the approval, in late July, of the three weeks added to maternity/paternity and parental leave, which has a moderate budgetary impact.<sup>17</sup>
- The government deficit forecast for 2025 is revised down by 0.3 pp, to 2.5% of GDP, as a consequence of favourable developments in government receipts that are partly linked to more robust growth in economic activity and come in spite of the fact that spending has risen slightly ahead of expectations. As a result, the government deficit in 2025 is set to stand below the Government's target of 2.8% of GDP. This improvement will carry over to 2026 and 2027, when the general government deficit is expected to stand at 2.3% of GDP.
- This projection includes an estimation of the expenditure in the wake of the flash floods in October 2024, amounting to 0.2 pp of GDP in 2025 and a further 0.1 pp in 2026. Together, spending associated with this natural disaster will amount to 0.6 pp of GDP in 2024-26.
- In the absence of a new State budget and any specific measures stemming from the MTP, the projections continue to be based on a no-policy-change scenario that is blind to the effect of meeting MTP spending commitments. As a result, on the basis of the typical assumptions and taking into account the data available for the current year, net primary expenditure is expected to grow by between 4.4% and 5.1% in 2025.<sup>18</sup> This is above the MTP's upper bound for growth – 3.7% – for 2025. In the following years, net primary expenditure is set to grow by around 4%, again exceeding the upper bounds envisaged in the MTP (3.5% for 2026 and 3.2% for 2027).
- In this setting, the government debt-to-GDP ratio is expected to fall slightly, from 101.8% in 2024 to 100.7% at end-2025 and to 100.0% in 2027.

<sup>17</sup> Royal Decree-Law 9/2025.

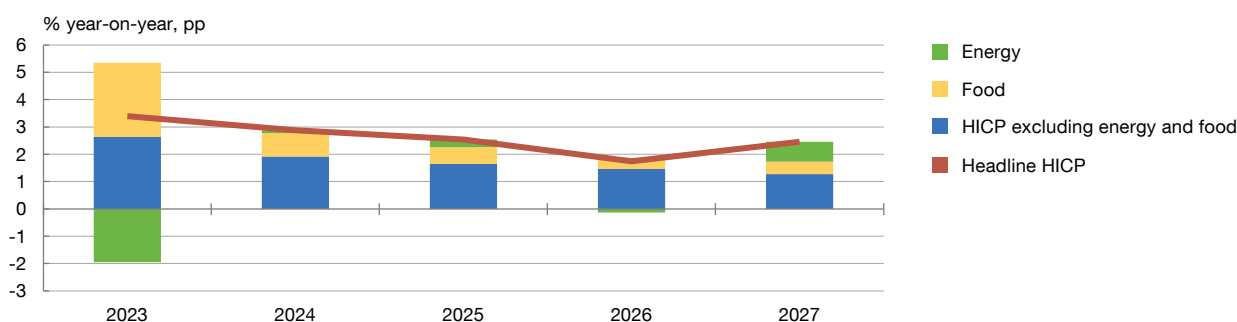
<sup>18</sup> The increase in net primary expenditure is the instrumental variable in the new European fiscal rules and is used to define MTP targets. It is defined as the increase in spending of the whole general government, excluding interest payments, cyclical spending on unemployment, one-off costs and expenses financed or co-financed by the EU. The resulting rise in spending is adjusted down (up) by amounts linked to new measures that raise (lower) revenue. It should be noted that the calculation of net primary expenditure is complicated by uncertainty clouding the estimation of some of its components, particularly one-off costs, expenses financed or co-financed by the EU and the amount resulting from measures that raise or lower revenue.

## 28 Headline inflation is expected to begin easing towards rates close to 2% from October onwards

- Headline inflation has picked up in recent months, rising to 2.7% in August, slightly more than forecast in the June projection exercise. Meanwhile, core inflation (HICP excluding energy and food) has remained stable at around 2.5% since May, with growth rates lower than envisaged, particularly in services.
- In the final quarter of 2025, headline inflation is set to ease slightly, to close to 2.3%. Under this scenario, average annual HICP growth will stand at 2.5% in 2025, 0.4 pp less than in 2024. Inflation is expected to continue to slow gradually in 2026, down to 1.7% on average for the year, and to climb to 2.4% in 2027 (Chart 28).
- The factors expected to have most impact on inflation will vary over the projection horizon:
  - The decrease in headline inflation in 2025 is mainly explained by the moderation in the core component and a lower contribution from food prices, which are expected to grow by 2.7% in 2025 (compared with 3.6% in 2024) and to stabilise around 2% in 2026 and 2027, in line with observed food producer prices and with futures market projections for food commodity prices.
  - In 2026, the decline in headline inflation is attributable to a lower contribution from all its components. Specifically, the contribution from the energy component will turn slightly negative, while the slowdown in services prices will reduce the contribution from core inflation (Chart 28).
  - Lastly, the pick-up in inflation anticipated in 2027 is essentially due to the planned introduction of a new European emissions trading system (EU ETS2). Indeed, if the impact of the new system is not included, the inflation forecast for 2027 would stand at 1.7%. However, the estimation of this impact is subject to a high degree of uncertainty.<sup>19</sup>

Chart 28

### 28.a Contributions to HICP growth, by component



SOURCES: Banco de España and INE.

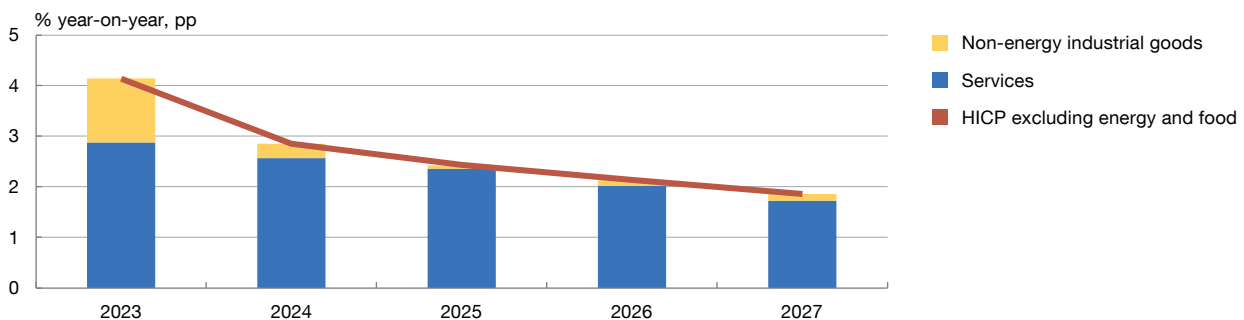
19 The size of this uptick is highly uncertain and will depend on several factors that are difficult to predict at present, including the price of the new emission allowances and the degree and speed of the pass-through of increased production costs to retail prices. An additional source of uncertainty regarding the impact of this new system on the HICP in 2027 relates to its entry into force (which requires transposing a European directive into national legislation) potentially being delayed to 2028 if, as the directive allows, gas or oil prices are exceptionally high in 2026.

## 29 Core inflation will edge down in the final months of 2025, before picking up slightly in 2026 Q1

- Having held steady at 2.5% since May, core inflation (HICP excluding food and energy) **climbed slightly to 2.6% in July**, as a result of the partial discontinuation of public transport discounts that month.<sup>20</sup> The impact of this measure (0.1 pp on the year-on-year rate) is 0.3 pp lower than that envisaged in the June projections, which assumed, based on the measures approved at the time, that these discounts would be discontinued in full in July.
- The stability in core inflation observed since May has been associated mainly with services prices, whose growth rates have been high but lower than expected. This has prolonged the persistence observed in previous months, both in tourism-related items and in items whose prices change less frequently.
- Looking to the coming months, core inflation is expected to cool slightly, to just above 2% at year-end, before picking up moderately in early 2026 owing to the planned discontinuation of the public transport discounts still in force. Thus, core inflation is expected to average 2.4% in 2025, a modest decline from the 2.8% recorded in 2024. In 2026-27, however, it is expected to decelerate more sharply, to around 2%, amid a slowdown in activity, lower wage pressures and moderating tourist flows (Chart 29). In terms of components:
  - Services inflation will remain persistent at rates of around 3.5% until September, before gradually cooling. Thus, the annual average increase in services prices will ease slightly, to 3.4% in 2025 (from 3.7% in 2024). This downward path will continue in 2026-27, with rates declining below 3%.
  - The pace of growth in non-energy industrial goods prices, which have performed as expected in recent months, will remain very contained over the coming quarters (just above 0%), in keeping with the expected path of domestic producer prices and import prices for such goods.

Chart 29

29.a Contributions to growth in HICP excluding energy and food



SOURCES: Banco de España and INE.

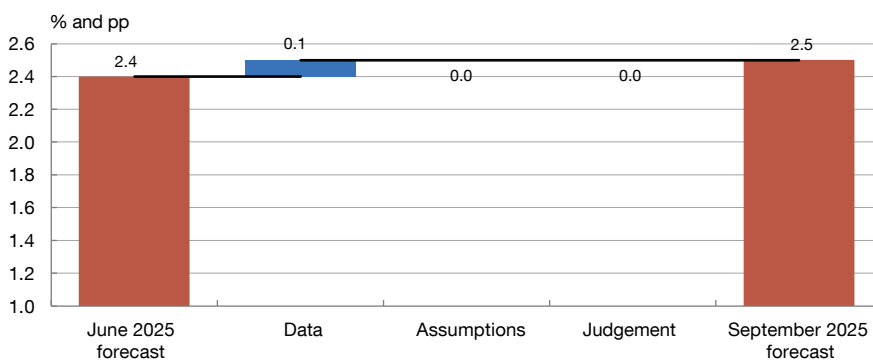
<sup>20</sup> The new public transport fares, which were approved in June, came into force in July as part of the implementation of **Royal Decree-Law 1/2025** and entail a partial reduction in the public transport discounts in force since September 2022.

### 30 The current projections entail a slight upward revision to the headline rate of inflation for 2025, while those forecast for 2026 and 2027 remain largely unchanged

- Compared with the June projection exercise, the expected headline inflation rate for 2025 is revised up by 0.1 pp, from 2.4% to 2.5% (Chart 30), driven by the following factors:
  - On the one hand, the incorporation of the recent increase in energy prices into the baseline scenario pushes up the average inflation rate for 2025 by 0.2 pp. On the other hand, developments in services prices, which have been slightly lower than forecast in the June exercise, reduce average inflation by 0.1 pp. Consequently, when considered together, these new data entail a 0.1 pp upward revision to the inflation forecast for 2025. The downside surprise in services inflation is attributable to two factors: first, a sharper than expected slowdown in May (following the pick-up associated with Easter in April) and, second, the aforementioned partial discontinuation of public transport discounts in July, rather than their full withdrawal, as was envisaged in the June projection exercise.
  - As regards the technical assumptions, the revision of the expected path of energy prices for the coming months, as reflected in the futures markets, leads to a slight upward revision to the average inflation rate for 2025. This impact, however, is estimated at less than 0.1 pp.
- As regards the rest of the projection horizon, headline inflation remains unchanged for 2026 and is revised down slightly (by 0.1 pp) for 2027. The absence of changes in 2026 masks a small downward correction in food inflation, offset by an upward revision to the energy component.

Chart 30

30.a Changes in the inflation forecast for 2025



SOURCE: Banco de España.

### 31 The risks to the baseline scenario in these projections are tilted to the downside for activity and balanced for inflation

- Trade tensions, along with high levels of global economic policy uncertainty, continue to represent one of the main sources of external risk to the Spanish economy. Drawing on the **activity data for Q2**, Spain's economic performance has not been significantly affected by the heightened uncertainty. In this setting, the **trade agreement between the United States and the European Union** has helped clarify the trade arrangements between the two economies, thus partially dispelling the uncertainty. However, significant concerns remain about how the trade war will unfold, specifically as regards the US-China negotiations (the outcome of which could indirectly affect the European economy) and the implementation of any non-tariff measures and other trade restrictions. As a result, the uncertainty could potentially exert a more marked impact on the Spanish economy than has so far been observed.
- The risk of a significant correction in the international financial markets also persists, against a backdrop in which the **price of some risk-bearing assets** remains high by historical standards and US monetary and fiscal policy uncertainty has increased even further. Although the geopolitical shocks have so far had only a temporary impact on the price of these assets, scenarios of further financial turmoil or a more abrupt portfolio rebalancing by agents cannot be ruled out. In this respect, there is still a risk that the political instability and fiscal sustainability concerns in France could trigger bouts of financial volatility that spill over to the whole euro area, which would weigh on activity.
- One notable internal source of risk is the **rise in unit labour costs** observed since end-2024. This increase is explained by two factors: (i) recent developments in apparent labour productivity (calculated drawing on the number of persons employed), which, after showing some buoyancy in 2024, has shown signs of deterioration so far in 2025; and (ii) the moderate slowdown in compensation per employee. Should the increase in unit labour costs persist, it could have an adverse effect on the international competitiveness of the Spanish economy and hamper the disinflation process, particularly in the services sector, where inflation has shown considerable **downward stickiness** in recent quarters.
- In this setting, collective bargaining in recent months has led to negotiated wage increases exceeding the benchmark established in the fifth Employment and Collective Bargaining Agreement, which expires this year. Thus, although the baseline scenario of these projections envisages a slowdown in labour costs (attributable both to productivity growth returning towards its historical average and to wage moderation and a restrained wage drift), there is a risk of more adverse scenarios materialising that could undermine the Spanish economy's competitiveness and, consequently, its growth capacity. This risk is also exacerbated by signs of labour market tightness (particularly as regards labour shortages), the **strength of domestic demand** and the containment observed in **profit margins** so far this year.
- Lastly, in line with previous projections, considerable uncertainty still surrounds the magnitude and macroeconomic effect of the NGEU funds and the **defence spending** to be absorbed over the coming years. The baseline scenario continues to assume that all the NGEU grants allocated to Spain will be absorbed. However, this will require accelerating somewhat the pace of roll-out of these funds this year and next, compared with 2024.



## ACRONYMS AND ABBREVIATIONS

AEAT	Spanish tax agency
BLS	Bank Lending Survey
EBAE	Banco de España Business Activity Survey
ECB	European Central Bank
€STR	Euro short-term rate
ETS1	Emissions Trading System
ETS2	Emissions Trading System for buildings, road transport and small industry
EU	European Union
FISIM	Financial intermediation services indirectly measured
GDI	Gross disposable income
GDP	Gross domestic product
GOS	Gross operating surplus
GVA	Gross value added
HICP	Harmonised Index of Consumer Prices
IGAE	National Audit Office
IMF	International Monetary Fund
INE	National Statistics Institute
Latam	Latin America
MTP	Medium-term fiscal-structural plan
NDER	Narrowly defined effective rate
NFCs	Non-financial corporations
NGEU	NextGenerationEU
PMI	Purchasing Managers' Index
QNA	Quarterly National Accounts
QNFAIS	Quarterly Non-Financial Accounts of the Institutional Sectors
ULCs	Unit labour costs
VAT	Value added tax
bn	Billion
bp	Basis points
H	Half
pp	Percentage points
Q	Quarter