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Macroeconomic projections and quarterly report on the Spanish economy. December 2025

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EDITORIAL

Editorial

The high levels of uncertainty around the global political situation, trade and economic policies, which have characterised the international environment the entire year, have continued to abate in recent months, partially alleviating concerns about the future trajectory of global activity. First, the China-US trade agreement, signed in early November, along with other steps taken by the US Administration, allows the most severe scenarios of escalating tariff tensions and the imposition of additional restrictions on international trade to be ruled out, at least in the short term. Second, diplomatic initiatives aimed at conflict resolution – such as the peace plan for Gaza and the negotiations to end the invasion of Ukraine, both sponsored by the United States – open a window of opportunity to alleviate some of the geopolitical tensions that have shaped international relations in recent years. They also offer the potential to reduce the risk of future tensions if these negotiations prove satisfactory to the parties involved.

However, developments in the trade and geopolitical context involve many unknowns, meaning that the level of economic uncertainty will likely remain high in the coming months. The trade agreement between the world's two largest economies is temporary and, given the significant unpredictability surrounding economic policies, the imposition of new tariffs or the erection of other non-tariff barriers cannot be ruled out, as highlighted by the recent episode of Chinese restrictions on rare earth exports, which evinced the fragility of global value chains.

The upward trend in stock market prices on global financial markets has persisted in recent quarters, although there have been (limited and temporary) episodes of volatility. Indeed, the main stock indices have enjoyed widespread increases in 2025 Q4 so far, reaching new all-time highs despite occasional corrections in the prices of certain assets. These adjustments are linked to concerns about the market valuation of technology firms, particularly those with artificial intelligence-related operations. Additionally, there has been a decline in sovereign spreads in the euro area against a backdrop of improved credit ratings for Spain and Italy and a more benign political environment in France following the suspension of the pension system reform. In foreign exchange markets, the euro/US dollar exchange rate has barely changed in Q4 so far, although it has appreciated substantially when viewed over the year as a whole.

In this context, global economic activity held relatively firm in 2025 Q3, underpinned by positive macroeconomic data from the United States and China. Specifically, US GDP appears to have maintained the momentum observed in the previous quarter – 0.9% growth quarter-on-quarter – from July to September. Meanwhile, China's grew by 1.1% in Q3 on the back of the notable resilience of its exports. Overall, forecasts for the global economy in 2025 and 2026 have been revised upwards, although projected growth remains moderate. In line with the latest Eurosystem projections, it is estimated that global GDP will increase by 3.2% in 2025 and 3.1% in

2026, 0.3 pp and 0.1 pp higher, respectively, than envisaged in July. US GDP is projected to grow by 2% both this year and next, while China is expected to see an expansion of 4.9% in 2025 and 4.5% in 2026. The figures for the United States and China represent upward revisions of between 0.3 pp and 0.5 pp vis-à-vis previous estimates.

Global inflation has continued to decelerate, although the pace of price moderation is easing somewhat. In September, the global inflation rate stood at 2.8%, the same level as in July, but significantly lower than the 3.6% rate observed at the start of the year. In the United States, consumer price inflation eased to 2.7% in November, although it still stood 0.4 pp above its rate in April. In China, the overall inflation rate returned to positive territory, reaching 0.7% in November. However, the weakness in domestic demand makes it unlikely that this rate will be sustained. Turning to commodity markets, oil prices have fallen in recent months and are trading below the levels anticipated three months ago. In contrast, the prices of metals and agricultural commodities have rebounded sharply.

In the euro area, economic activity gained momentum in Q3, increasing by 0.3% over Q2. Spain and France demonstrated notable dynamism, whereas activity in Germany and Italy was sluggish. The latest Eurosystem projections envisage euro area GDP growth of 1.4% in 2025, 1.2% in 2026 and 1.4% in 2027. This represents an upward revision of 0.2 pp for 2025 and 2026, and 0.1 pp for 2027 vis-à-vis the September forecasts. These changes reflect improved recent activity data, lower energy prices and somewhat stronger external demand, buttressed by reduced trade uncertainty.

In November, headline inflation in the euro area held at 2.1%, with a notable increase in services inflation and stable non-energy industrial goods inflation, resulting in core inflation standing unchanged at 2.4%. The December Eurosystem projection exercise envisages average inflation rates of 2.1%, 1.9%, and 1.8% for 2025, 2026, and 2027, respectively. The new projection leaves the 2025 inflation rate unchanged vis-à-vis the September projection, revises the 2026 rate upwards by 0.2 pp, owing to recent inflationary and wage trends, and reduces the 2027 rate by 0.1 pp. This latter change reflects the delay in implementing a new emissions trading system (ETS2), following an agreement by the Council of the European Union in November, which will affect industries including construction and road transport.

In the realm of monetary policy, the US Federal Reserve System has resumed its cycle of monetary easing, while the ECB has kept its policy interest rates unchanged. In the context of a weak US labour market, the country's monetary authority decided at its September, October and December meetings to cut the target range for its official interest rate, ending the pause that had persisted throughout the year. Furthermore, in October, it announced the end of its balance sheet reduction and, in December, the commencement of Treasury bond purchases. The ECB, in turn, has held the deposit facility rate steady at 2% since June, in an environment in which inflation is close to the medium-term target, the labour market is robust and the European economy continues to grow despite the complexity of the international scenario. Looking ahead, financial markets anticipate that this divergence in the trajectories of official rates in the United States and the euro area will continue in the coming months.

The Spanish economy, driven by the marked momentum of domestic demand, grew by 0.6% in Q3 relative to the previous quarter. Growth in the period from July to September was slightly lower than the Q2 rate of 0.8% and was in line with the forecasts of the Banco de España. Domestic demand was a significant driver of GDP growth, adding 1.2 pp, although this was partly offset by the weak performance of external demand, which subtracted 0.6 pp. The most recent economic indicators suggest that the economy will continue to grow healthily in Q4, at an estimated rate of between 0.6% and 0.7%.

The current projection exercise includes a significant upward revision of the growth rate over the projection horizon vis-à-vis the previous one. Specifically, the new baseline scenario envisages expansion of Spanish GDP by 2.9% in 2025, 2.2% in 2026 and 1.9% in 2027. These figures are 0.3 pp, 0.4 pp and 0.2 pp above the September projections. This revision stems, first, from the publication of the latest National Accounts data, which boosted the estimated vigour of activity in recent quarters, and second, from the strength of private consumption, which has exceeded expectations, as well as a more positive assessment of the external sector, supported by the significant strength of non-travel services exports.

Headline inflation rose to 3.2% in November, 0.4 pp higher than in August and above the path envisaged in the September projection exercise, owing to a recovery in energy prices and a moderate pick-up in core inflation. Core inflation stood at 3.0% in October, 0.3 pp above its rate in August, owing to a rebound in the services component and, to a lesser extent, an acceleration in non-energy industrial goods prices.

In the light of this new information, and in line with the upward revision to the activity outlook, inflation rates for 2025 are revised upwards. The current projection exercise anticipates an average inflation rate of 2.7% in 2025, easing to 2.1% in 2026 and 1.9% in 2027. Meanwhile, core inflation is projected to stand at 2.6% in 2025, 2.4% in 2026 and 2.1% in 2027. In comparison with three months ago, headline inflation rates are revised upwards by 0.2 pp in 2025 and by 0.4 pp in 2026 (the same as the changes made to the core component), owing to incorporation into the baseline scenario of recent inflationary dynamics (higher than expected in September), collective bargaining developments and the new macroeconomic scenario. For 2027, the headline inflation rate is revised down by 0.5 pp, owing to the lower expected energy prices resulting from the delay in the entry into force of the new EU emissions trading system.

A joint analysis of the different approaches used to assess the uncertainty surrounding the baseline scenario suggests that the risks to activity remain balanced in the short term and slightly tilted to the downside in the medium term, while the risks associated with inflation are tilted to the upside over the whole projection horizon. In particular, the uncertainty linked to wage developments and profit margins may give rise to an alternative scenario characterised by higher inflation and lower GDP growth. At the same time, a strong response by housing supply to the buoyant demand would lead to higher GDP growth and inflation, while if net exports prove to be less favourable (particularly exports of non-travel services), activity may be weaker (see Box 3 of this report for further details of the scenarios considered). Turning to external sources of uncertainty, the latest trade agreements have curtailed the probability of more adverse scenarios involving an intensification of the trade war. However, recent episodes of financial volatility (associated with technology firms) show the risk of a sharp correction to risky asset valuations.

Figure 1

	2025	2026	2027
GDP	2.9% ↑ 0.3 pp	2.2% ↑ 0.4 pp	1.9% ↑ 0.2 pp
Inflation	2.7% ↑ 0.2 pp	2.1% ↑ 0.4 pp	1.9% ↓ 0.5 pp

SOURCE: Banco de España.

REPORT

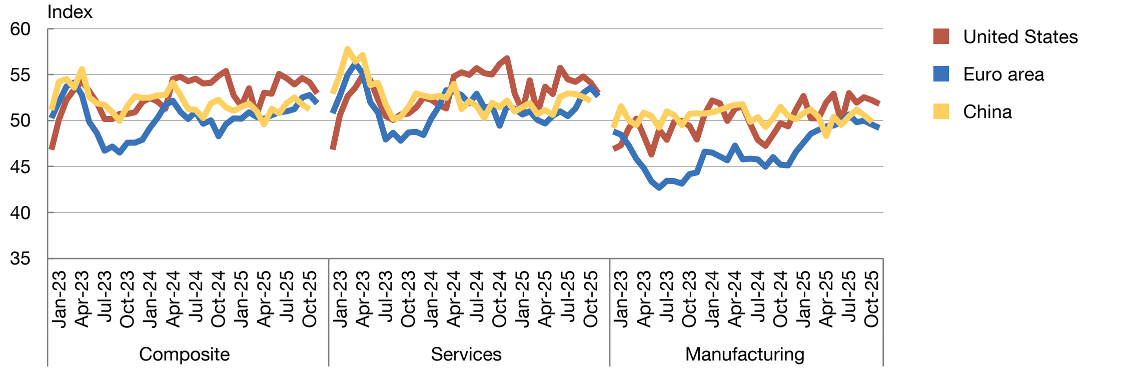
1 The global economy has proven resilient amid receding trade uncertainty

— Growth in global economic activity has remained relatively steady in 2025 H2, underpinned by positive economic data from the United States and China. In the United States, the indicators available point to robust GDP growth in Q3 (in line with the 0.9% posted in Q2), owing to strong domestic demand. In China, GDP growth held at 1.1%, supported by the sound performance of exports. In the euro area, GDP growth quickened by 0.2 pp in Q3, rising to 0.3%. Looking ahead to Q4, the available indicators suggest that activity will continue to be buoyant, especially in the services sector and in the United States (Chart 1.a).

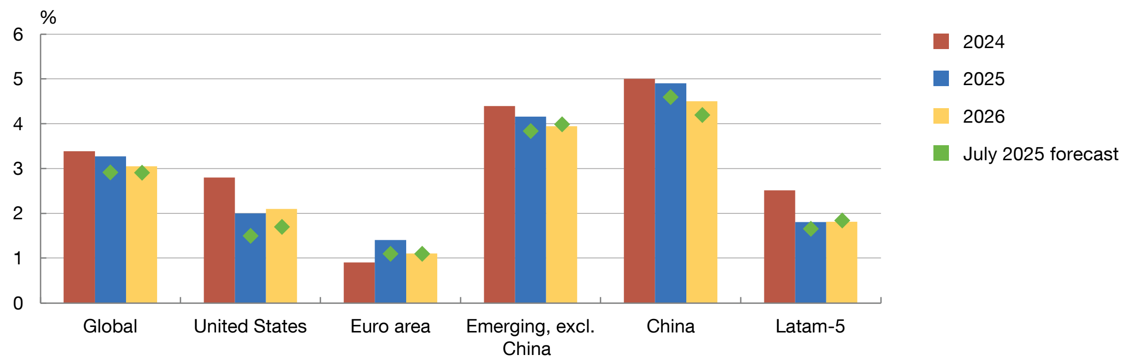
— The better than expected performance of global economic activity in the year to date, along with a slight easing of trade uncertainty associated with the agreements signed between the United States and some of its partners, has led to a small upward revision to the global growth outlook for 2025 and 2026, although it remains muted (Chart 1.b).

Chart 1

1.a PMIs (a)



1.b Consensus growth forecasts (b)



SOURCES: S&P Global and Consensus Economics.

a Latest December figures are PMI Flash data.
a The December 2025 forecasts (bars) are compared with the July 2025 forecasts (diamonds). "Latam-5" includes Mexico, Colombia, Peru, Chile and Brazil. "Emerging, excl. China" includes "Latam-5", Argentina, India, Indonesia, Malaysia, Phillipines, 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".

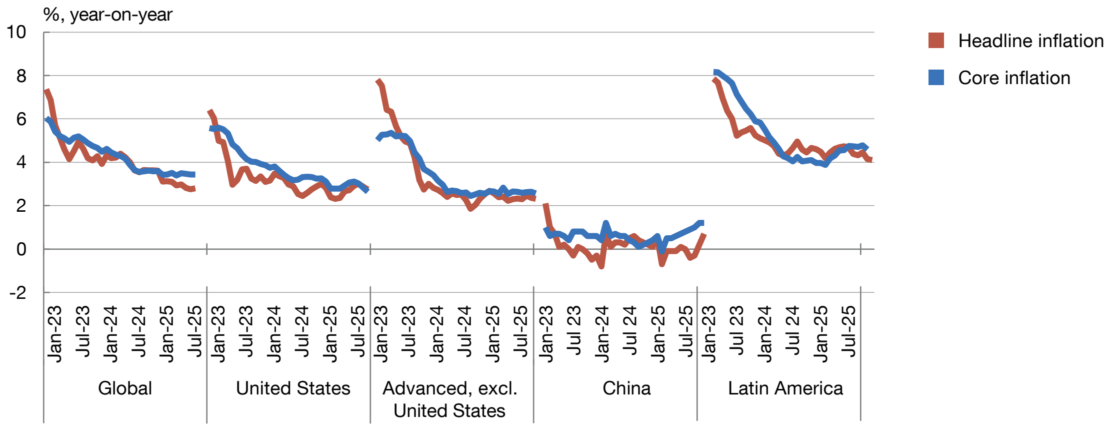
2 The global disinflation process is expected to continue

— The global trend of easing inflation has continued in the last few months (Chart 2.a). Headline inflation in the United States slowed to 2.7% in November, down 0.3 pp from its September level, while the core rate decreased by 0.4 pp, to stand at 2.6%. In the euro area, the headline rate held at 2.1% in November, and core inflation also stabilised, at 2.4%. In China, both headline and core inflation stood at low levels of around 1% in November. Looking ahead, the process of global disinflation is set to continue, underpinned by a moderation in oil prices and a smaller expected hike in tariffs.

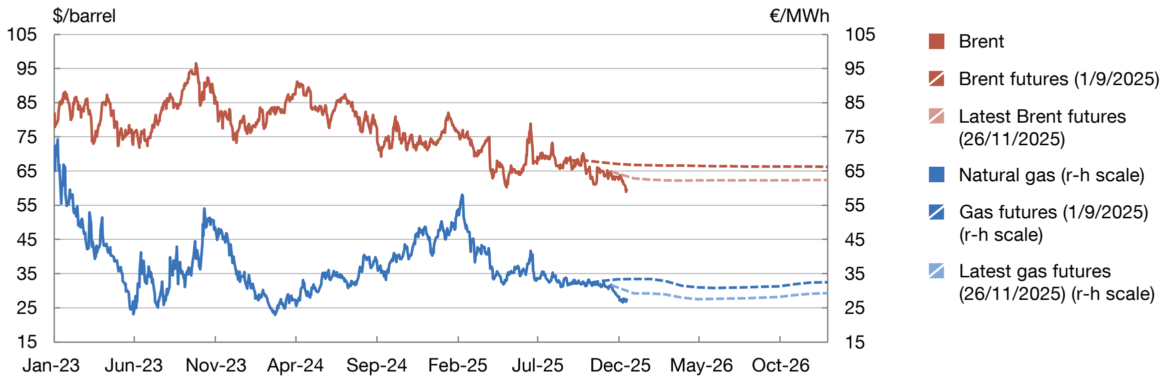
— Brent oil prices have fallen in recent months, to \$60-\$65 per barrel, and futures prices are slightly lower than they were three months ago (Chart 2.b), reflecting an oversupply in the market linked to OPEC+ output remaining unchanged and other production rising. By contrast, the prices of metals (especially copper) and of agricultural commodities have climbed sharply in the last few months, owing, at least in part, to the prospect of a US-China trade deal pushing up demand for these goods.

Chart 2

2.a Inflation



2.b Oil and gas prices and futures



SOURCES: National statistics and LSEG.

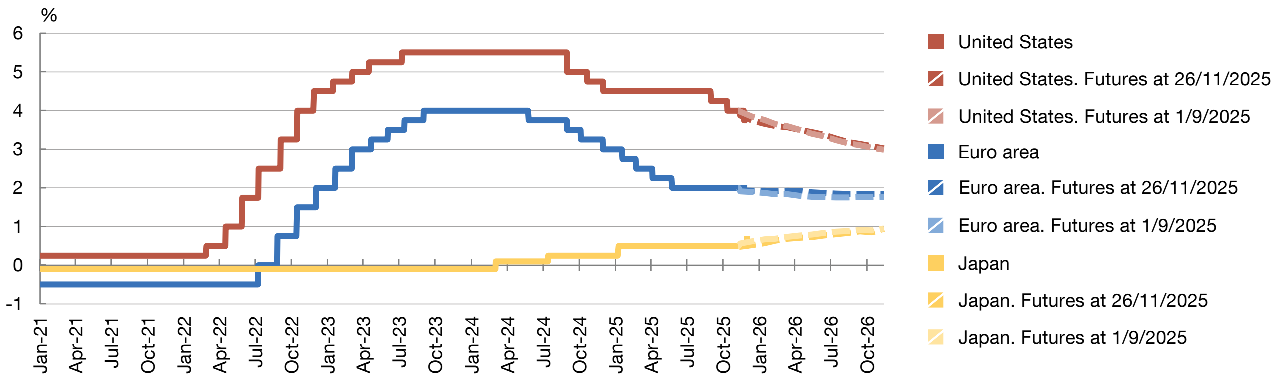
3 The global monetary policy outlook is mixed

— Some central banks opted to maintain their current policy rates unchanged at their latest monetary policy meetings. Thus, the ECB has left its policy rate unchanged at 2% since June. For its part, the Bank of Japan raised its key interest rate by 25 bp, to 0.75%, at its December meeting (Chart 3.a). Meanwhile, interest rate cuts continued in the United States, United Kingdom, Canada and New Zealand. In the United States, the Federal Reserve at its October and December meetings lowered the target range for the federal funds rate by 25 bp, to stand at 3.5%-3.75%, on account of weakening employment data.

— Turning to the emerging market economies, in Latin America the central bank of Colombia held its rate unchanged and Brazil's central bank paused its rate hikes, while the central banks of Mexico and Chile cut interest rates once again. Meanwhile, 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 and Japanese overnight index futures).

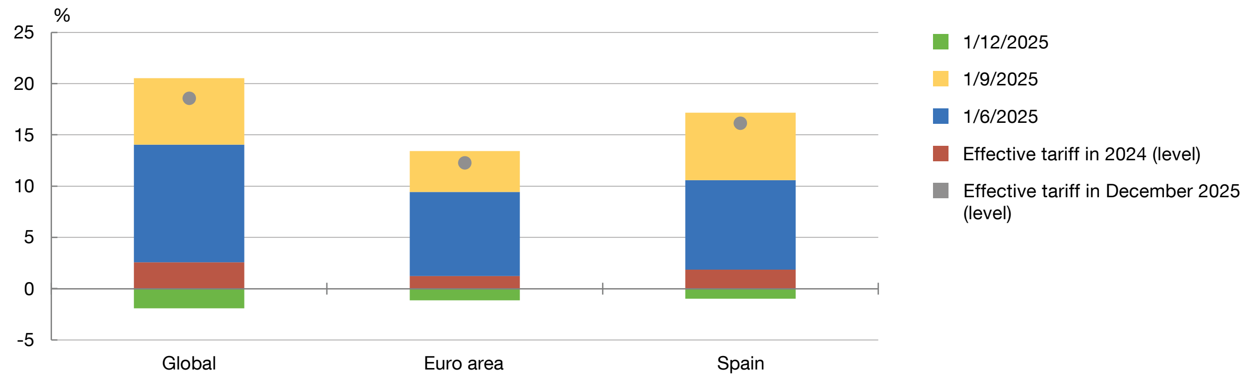
4 The trade agreements signed by the United States have lowered tariffs slightly, with European exporters in a better position compared to their competitors

— Although still at elevated levels, global trade policy uncertainty has eased in 2025 H2, in the context of the United States signing agreements with several key partners that have led to a slight decrease in tariffs (Chart 4.a).[1] The United States has also unilaterally reduced or removed tariffs on some food products.

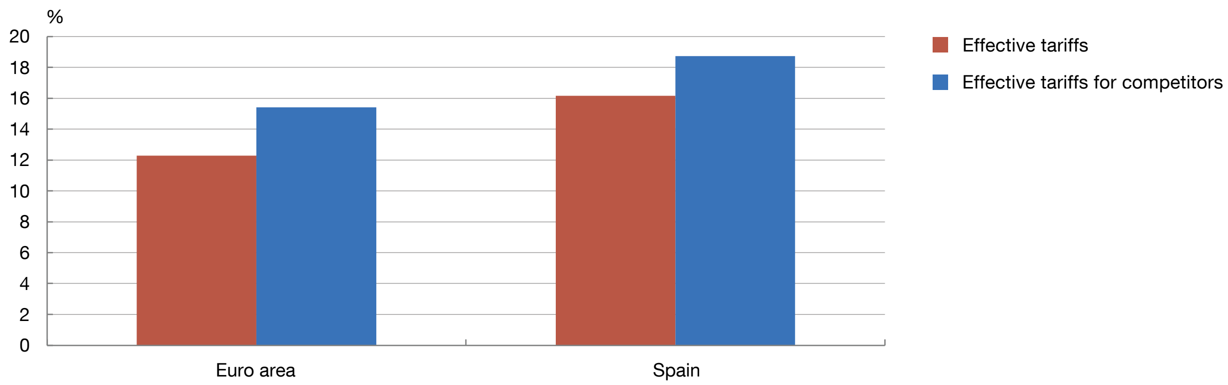
— In the light of this, once differences in export structures have been taken into account, the average effective tariff faced by the euro area (12.3%) and Spain (16.2%) on their exports to the United States is lower than those borne by their competitors (Chart 4.b). This notwithstanding, trade policy risks continue to exist regarding aspects such as the uncertainty surrounding the legality of some of the tariffs approved in 2025 by the United States[2] and the outcome of the country's ongoing negotiations with some of its trade partners.

Chart 4

4.a Changes in effective tariffs applied by the United States on goods imports



4.b Effective tariffs imposed on the euro area and Spain compared with competitors



SOURCES: US Trade Census, IMF-WTO Tariff Tracker and Banco de España.
NOTE: For each date, all the measures announced are included, but some have yet to come into force or be confirmed by the two parties.

1 Specifically, the reduction in effective tariffs stemmed from the exemptions and reductions agreed with the EU in late July (which affect various goods, including cars), an agreement reached with China in November and agreements signed with other partners in Europe (Switzerland and Liechtenstein) and Asia (Malaysia and Cambodia).

2 The US Supreme Court is to rule on the legality of some of the tariffs imposed under the International Emergency Economic Powers Act. However, even if they had to be rolled back, some could be reinstated at their current rates via other legal channels for applying temporary tariffs or longer-lasting alternatives.

5 Stock market indices have risen and sovereign spreads have narrowed in the euro area, while the euro's exchange rate against the dollar has barely changed

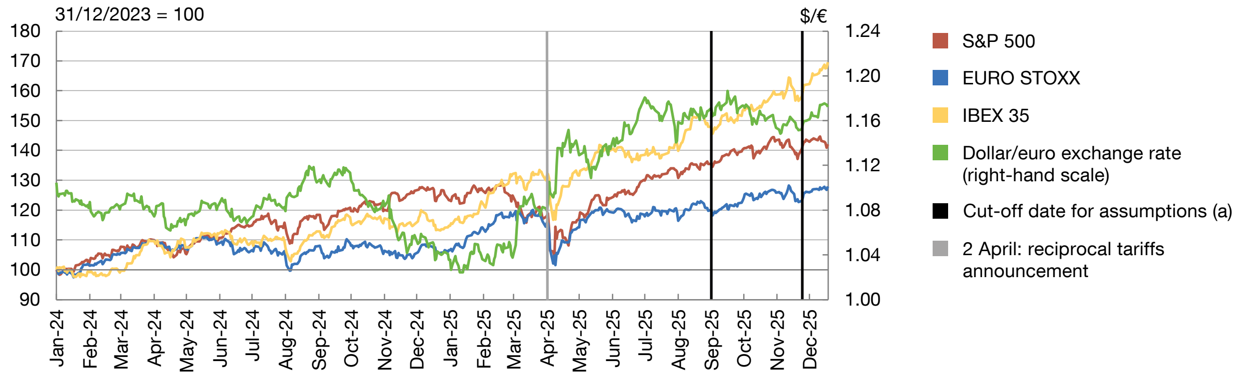
— Stock market indices in the advanced economies have risen in 2025 Q4 to date (Chart 5.a). The S&P 500 has climbed by 1.3%, the EURO STOXX has posted gains of 4% and the IBEX 35 has performed even more strongly (10.7%). Recent weeks, however, have seen increased market volatility, linked to concerns about valuations of AI firms and to US monetary policy uncertainty, among other factors.

— US Treasury 10-year bond yields have barely moved (-3 bp), whereas the yield on the German Bund has risen by nearly 14 bp, driven in part by the recent upward revision to the path of policy rates priced in by the markets in the euro area. For their part, euro area sovereign spreads against the German benchmark have narrowed (Chart 5.b), against a backdrop of upgraded credit ratings for Spain and Italy and an improved political climate in France following the suspension of its pension system reform.

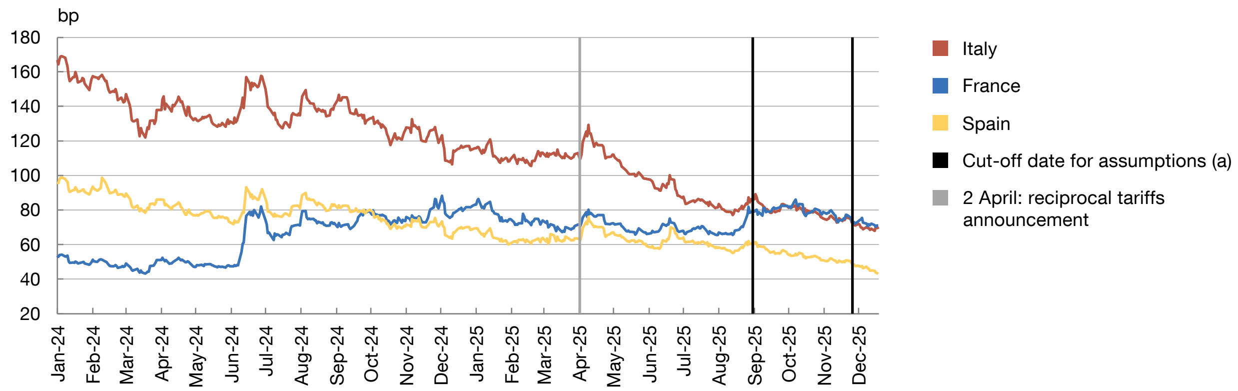
— On the foreign exchange markets, the euro is at a similar level against the dollar as at end-Q3 (around USD 1.17/EUR), although this is still well above that observed before the tariffs were announced on 2 April. In the year as a whole, the euro has appreciated 13% against the dollar (Chart 5.a).

Chart 5

5.a Stock market indices and exchange rate



5.b 10-year sovereign spreads against Germany



SOURCES: LSEG Datastream and Bloomberg Data License. Latest observation: 18 December 2025.

a 1 September and 26 November refer to the September and December Banco de España projection exercises, respectively.

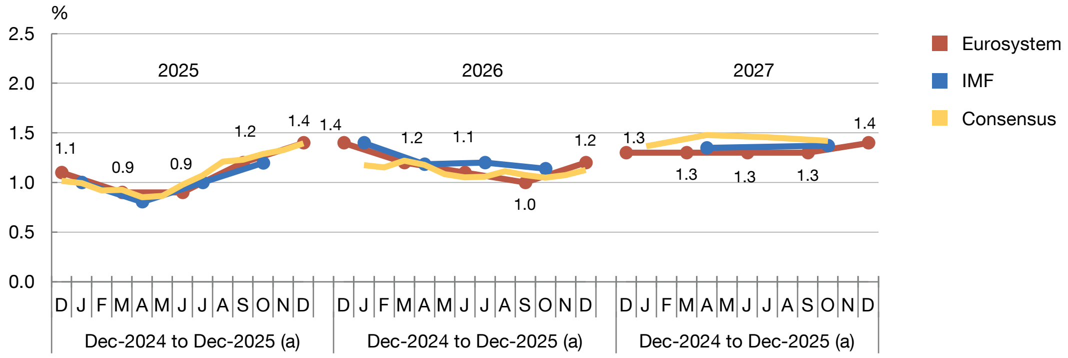
6 In the euro area, growth in economic activity accelerated slightly in Q3 ...

— Euro area GDP rose by 0.3% in Q3, more than expected, after growing by 0.1% in Q2. By country, GDP stalled in Germany and Italy, while activity was particularly buoyant in France and Spain. Confidence indicators, such as the PMIs, point to a gradual quickening throughout the euro area in Q4.

— The December Eurosystem projection exercise envisages that euro area GDP growth will be 1.4%, 1.2% and 1.4% in 2025, 2026 and 2027, respectively (Chart 6.a). Compared with the September exercise, the projections for 2025 and 2026 have been revised up by 0.2 pp, primarily owing to the effect of incoming data in recent months. These growth rates are in line with the euro area's potential growth, with GDP growth expected to be 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 remained almost unchanged in recent months

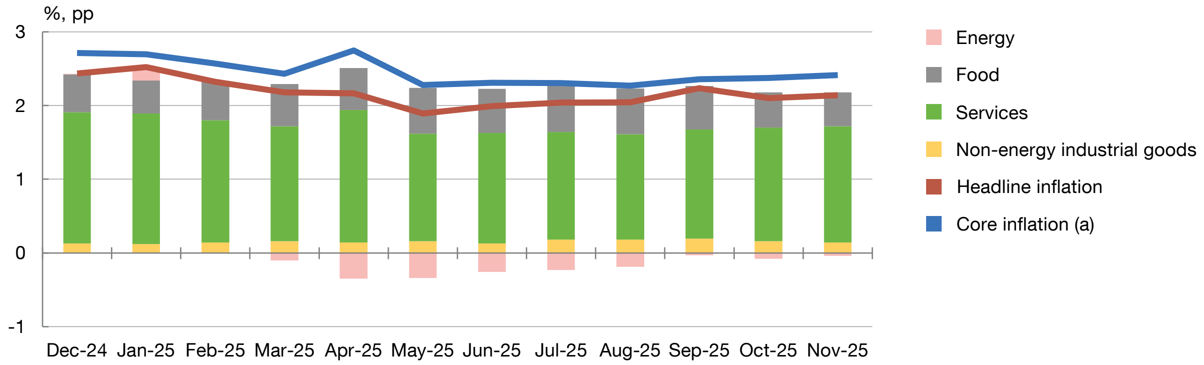
— The year-on-year rate of change of euro area HICP held at 2.1% in November (Chart 7.a), as in October and 0.1 pp more than projected by the ECB in September, as a result of a sharper than forecast increase in energy and services prices.

— Core inflation remained at 2.4%, 0.1 pp above September's projections. By component, services inflation was 3.5%, while the rate for non-energy industrial goods stood at 0.5%.

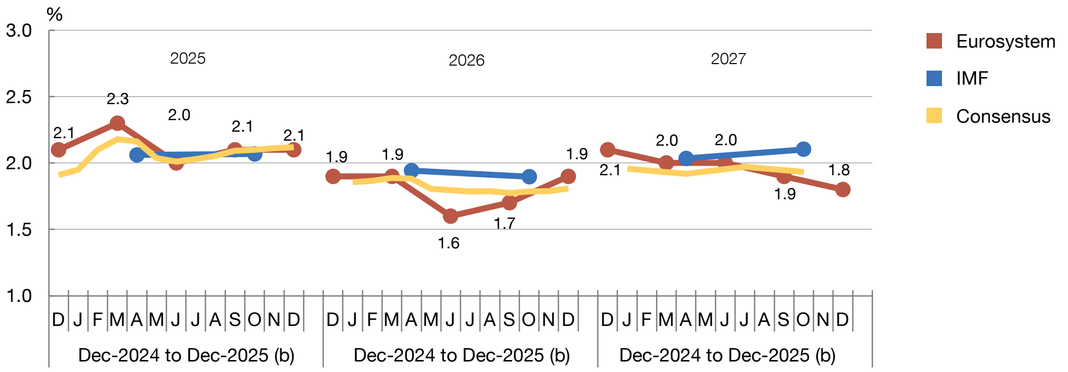
— The headline inflation forecast for 2025 remains at 2.1% in the December Eurosystem projection exercise. For 2026 it is revised upwards by 0.2 pp to 1.9%, while the forecast for 2027 is adjusted downwards by 0.1 pp to 1.8% (Chart 7.b). Core inflation is expected to ease from 2.4% in 2025 to 2.2% in 2026 (0.3 pp higher than earlier forecasts) and to 1.9% in 2027. The upward revisions are the result of upside surprises in recent months – particularly in energy, services and non-energy industrial goods – and higher wage growth, especially in Germany.

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 left its policy rates unchanged at 2%

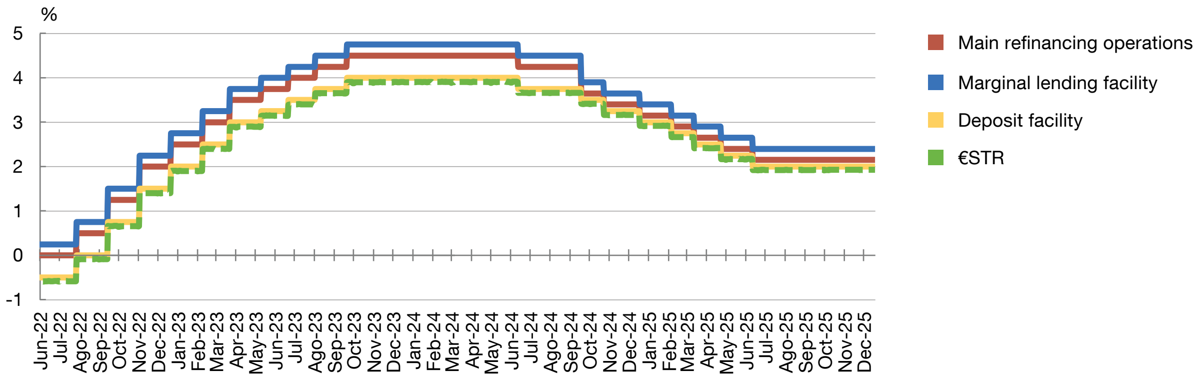
— At its December meeting, the ECB Governing Council held the deposit facility rate unchanged at 2%, the same level since June. This marks the fourth consecutive meeting without any change (Chart 8.a). Its updated assessment of inflation outlook, as well as the dynamics of underlying inflation and the strength of monetary policy transmission, reconfirms that euro area inflation should stabilise at the 2% target in the medium term.

— The new Eurosystem staff projections indicate that headline inflation will remain around the 2% target throughout the projection horizon. Core inflation is projected to gradually moderate, also converging towards 2%. Also, economic growth is expected to be stronger than anticipated in the September projections, driven especially by domestic demand.

— In upcoming meetings, the Governing Council will remain determined to ensuring that inflation stabilises at its 2% medium-term target. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance, and will not pre-commit to a particular rate path.

Chart 8

8.a Key ECB rates and €STR



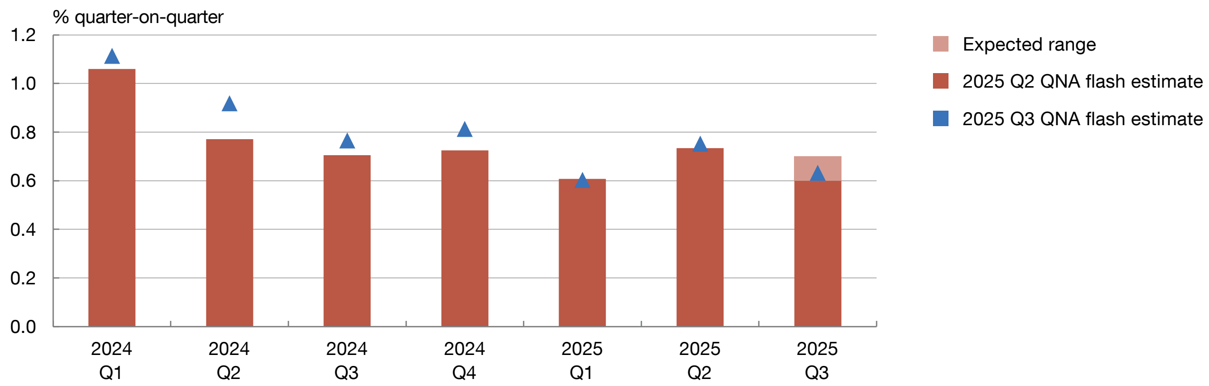
SOURCES: Banco de España and Refinitiv Datastream. Latest observation: 18 December 2025.

9 The pace of Spanish economic growth in 2025 Q3 stood at 0.6%, in line with projections

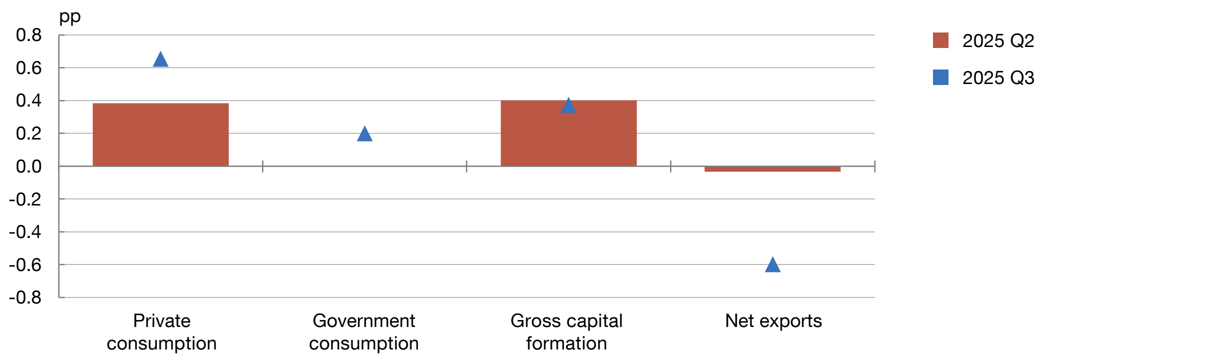
- Spain's GDP rose by 0.6% in 2025 Q3, slightly below the Q2 increase and within the range envisaged in the Banco de España's September projection exercise (Chart 9.a). Following the INE's revision of the QNA figures in late September (Box 1), this increase means that cumulative GDP growth since end-2019 stands at 10%.
- This slight slowdown in activity reflected the negative contribution of net exports (-0.6 pp) owing to the pronounced fall in goods exports, in spite of the smaller rise in imports vis-à-vis the previous quarter. By contrast, the contribution of domestic demand to GDP growth increased to 1.2 pp, mostly owing to the greater dynamism of private consumption (Chart 9.b).
- On the supply side, the main sectors of activity remained buoyant in Q3, with notable growth in market services (0.9%) and construction (0.8%) and a somewhat smaller rise in manufacturing (0.6%), while the primary sector continued to decline.

Chart 9

9.a GDP growth in Spain



9.b Contributions to GDP growth in Spain



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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 Q4

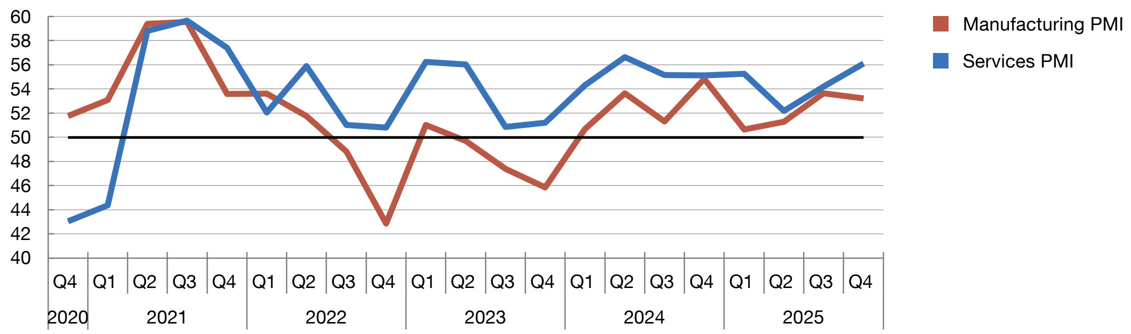
— An overall analysis of the various indicators (including employment, consumption and confidence indicators) that provide partial, and as yet incomplete, information on the performance of economic activity in Q4 suggests that Spanish GDP could grow in this period by between 0.6% and 0.7% quarter-on-quarter, in line with what was seen in Q3.[3] There is still, however, considerable uncertainty surrounding this estimate.

— Indicators of economic sentiment are notable among those suggesting a prolongation of a robust growth rate. Thus, on data to November, the services PMI shows renewed acceleration in Q4, while the manufacturing PMI (although still in expansionary territory) points to a slight moderation in the sector's growth (Chart 10.a).

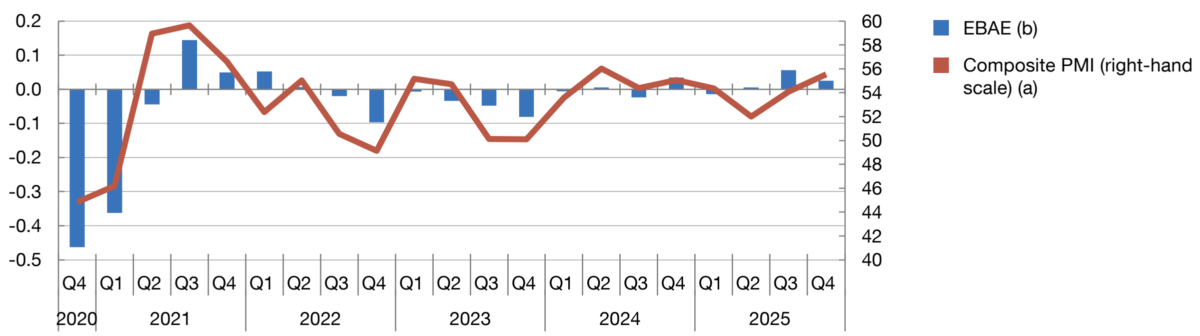
— The results of the EBAE (Box 2) point in the same direction and suggest that Spanish firms' turnover increased again between October and December (Chart 10.b).

Chart 10

10.a PMIs (a)



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



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

a The PMI figure for 2025 Q4 is the average for October and November.
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.

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3 For more details, see the projections in this document.

11 Job creation appears to have maintained strong momentum in Q4 against the backdrop of sustained labour force growth

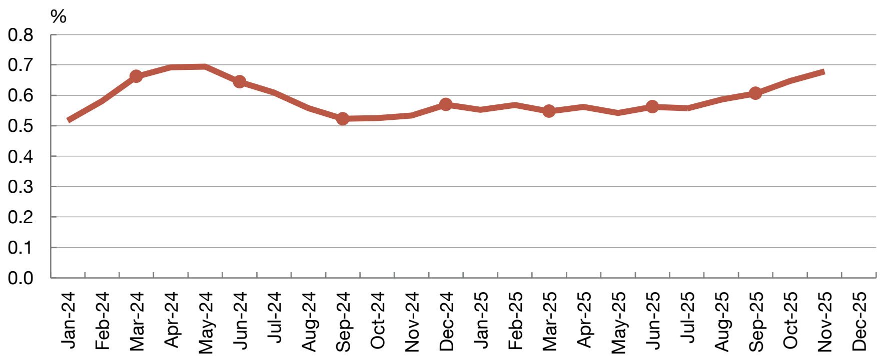
— Social security registrations rose by 0.2% in November in seasonally adjusted monthly terms, a similar rate to that seen in previous months. These data suggest that quarter-on-quarter job growth may pick up slightly in 2025 Q4 (Chart 11.a).

— By sector, construction and non-market services stand out, with their year-on-year rises quickening by 1.9 pp (to 4.1%) and 0.5 pp (to 3.4%), respectively, since the beginning of the year. Transportation, meanwhile, continues to enjoy significant momentum, with a 6% increase. Other sectors saw growth in line with past quarters, except for agriculture, where decline steepened.

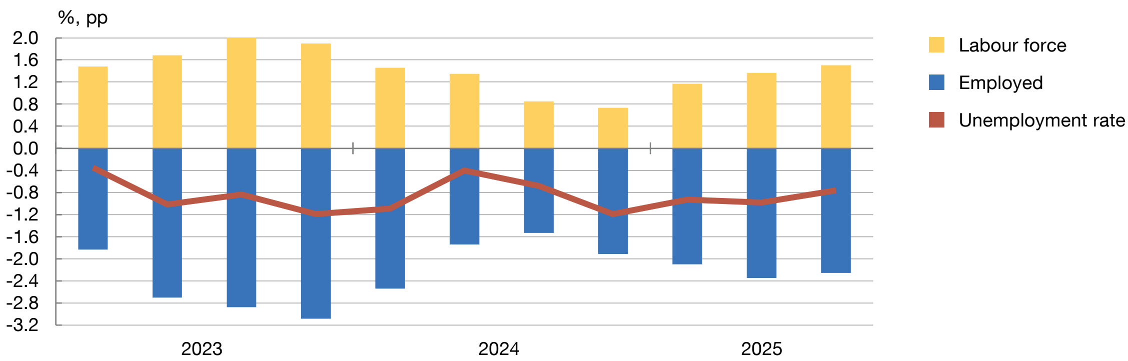
— The momentum in employment was offset by a rise in the labour force in Q3, such that the unemployment rate stood at 10.5% on a seasonally adjusted basis, 0.2 pp above its Q2 level, but 0.7 pp lower than a year ago (Chart 11.b).

Chart 11

11.a Total registrations. Quarterly rates of the seasonally adjusted series (a)



11.b Year-on-year unemployment rate: change and contributions



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

a Rate of change between the average of the three-month period ending on the reference date (e.g. January to March) and the average of the previous threemonth period (i.e. October to December). The point shows the quarterly rate in each calendar quarter.

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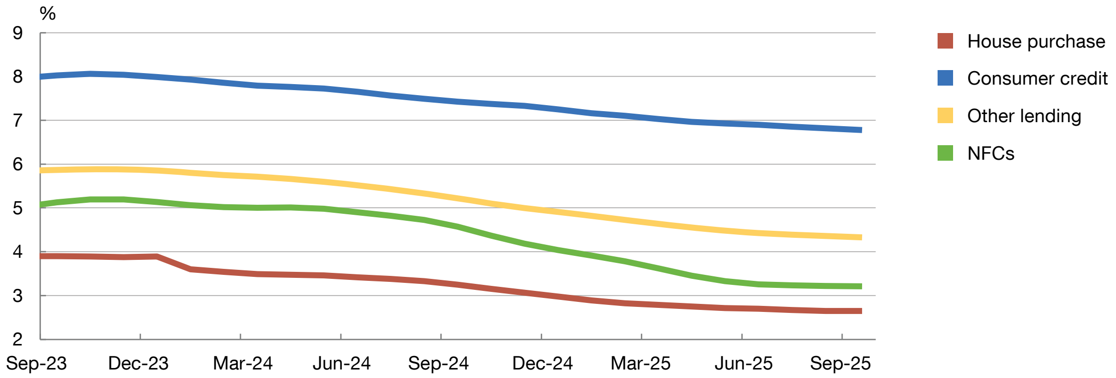
12 The cost of new loans has stabilised in recent months in most segments

— Interest rates on new loans have barely moved since July. Slight drops were only seen in consumer credit and other lending, which dropped by 11 bp and 8 bp to 6.7% and 4.3%, respectively, in October. Conversely, the cost of new lending to firms and to households for house purchase remained practically unchanged, at 3.2% and 2.6%, respectively (Chart 12.a).

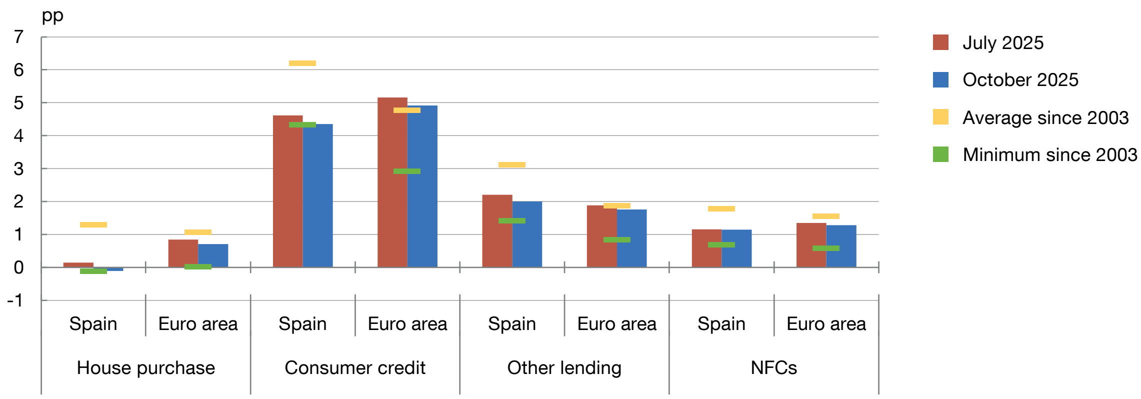
— The lending spreads on new loans have narrowed somewhat in recent months across most segments. They now stand below the historical averages since 2003 in all instances and are at record lows in Spain for both housing and consumer credit (Chart 12.b). Only in other lending are the spreads above the euro area level.

Chart 12

12.a Cost of new loans to households and firms (a)



12.b Spreads between the cost of new loans and interbank rates (a) (b)



SOURCES: Refinitiv Datastream and Banco de España.

a NDER (excluding fees and commissions and related charges), adjusted seasonally and for the irregular component.
b For each loan type, the spread is calculated for each available loan term (as published in Chapter 19 of the *Statistical Bulletin*) with respect to the corresponding interbank rate and is aggregated by means of an average weighted by the volume of new lending. Each data point is the three-month average spread.

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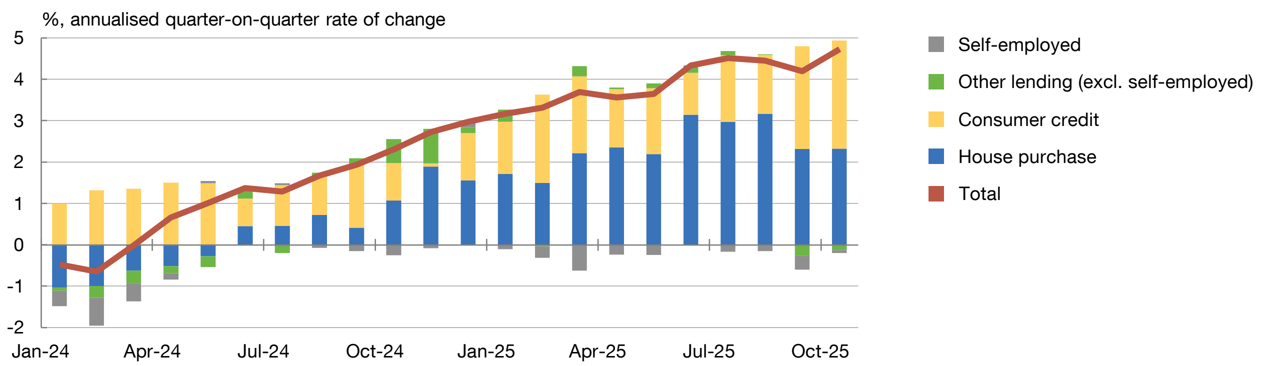
13 Loans to households gained momentum in recent months, led by growth in consumer lending …

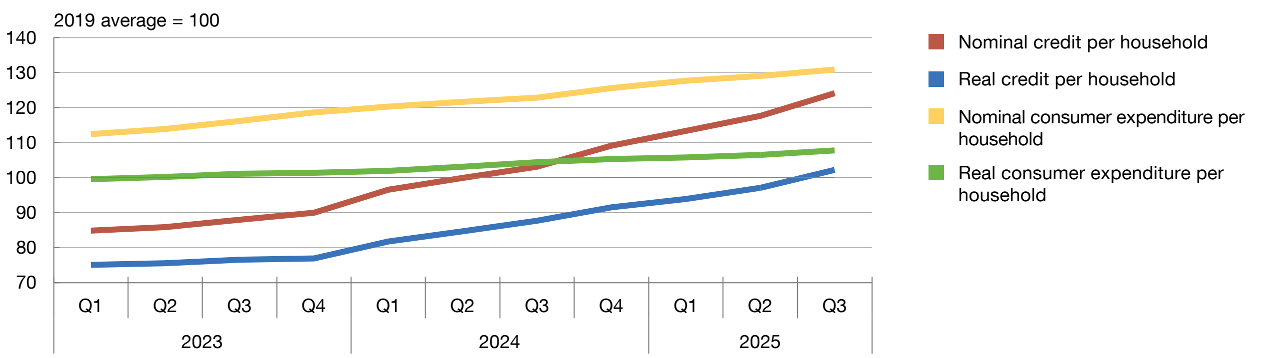
- According to the Bank Lending Survey, credit standards for loans to households were unchanged in Q3 while demand surprised on the upside. Banks expect credit supply to remain stable in Q4 and demand to rise further.
- In October outstanding loans to households grew at a slightly faster pace than in previous months (4.7% in annualised quarter-on-quarter terms), primarily driven by robust consumer lending (Chart 13.a). Conversely, the growth in loans for house purchase slowed, while lending for other purposes and to the self-employed continued to decline.
- The pick-up in consumer lending came as the volume of new lending per household grew at a faster pace than private consumer expenditure (Chart 13.b). In real terms, in Q3 credit exceeded 2019 levels by 2%, compared with 8% for private consumer expenditure.

Chart 13

13.a Lending to households (a)



13.b Volume of new consumer loans and private consumer expenditure (b)



SOURCES: INE and Banco de España.

a Seasonally adjusted series. Includes securitised loans and excludes loans to non-residents.
b Seasonally adjusted series. In the per household calculations, the total number of households is considered (both with and without loans). For the real-term series, the private consumption deflator is used.

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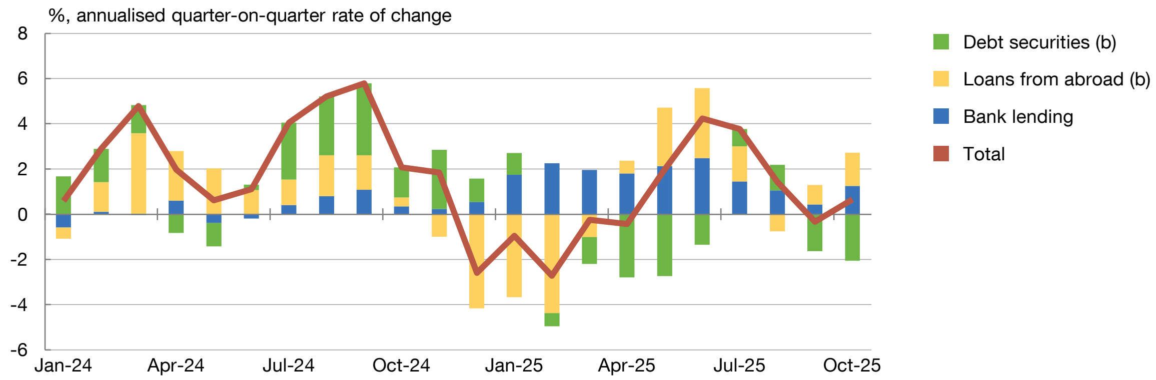
14 ... while lending to firms remained somewhat sluggish

— On data from the Bank Lending Survey, credit standards for loans to firms held stable in Q3, while demand rose slightly in the SME segment. Banks expect supply to tighten slightly in Q4 and demand to remain unchanged. Meanwhile, according to the Survey on the Access to Finance of Enterprises, firms perceived a more moderate improvement in access to financing than in previous quarters and stable bank financing needs.

— Total lending to firms partially recovered in October, after slowing since July and even contracting in September. In any event, the quarter-on-quarter growth was very subdued (0.7% in annualised terms), led by stronger growth in bank lending and loans from abroad, which more than offset the drop in debt securities issuance (Chart 14.a).

Chart 14

14.a Lending to NFCs (a)



SOURCE: Banco de España.

a Seasonally adjusted data. Bank lending includes securitisation.
b Securities issued abroad are excluded from loans from abroad and included in debt securities.

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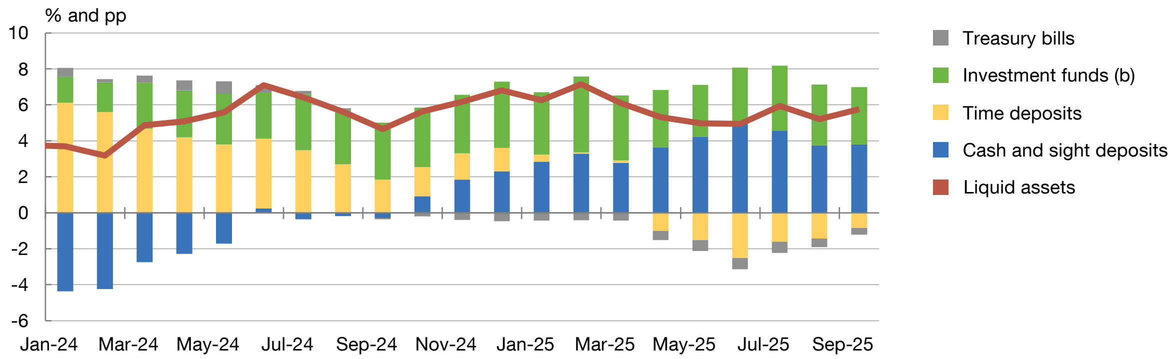
15 Households and firms channelled part of their savings into liquid assets, with continued portfolio rebalancing

— Amid a sustained increase in disposable income and a historically high saving rate, households continued to build up liquid assets in September at an annualised quarter-on-quarter pace of close to 6%, with further portfolio rebalancing against a backdrop of lower interest rates (Chart 15.a). The shift from time deposits – whose remuneration dropped to 1.6% (100 bp below the June 2024 peak) – towards cash and sight deposits persisted, while holdings of Treasury bills (2% yield in September) decreased and investment fund holdings rose.

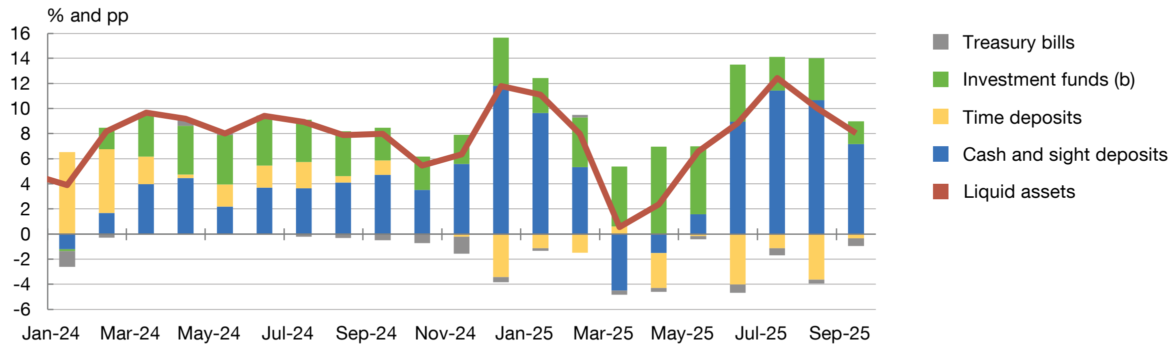
— In the case of firms, the growth in liquid asset holdings slowed in recent months to an annualised quarter-on-quarter rate of 8% (Chart 15.b). Like households, firms continued their portfolio rebalancing, with a shift from time deposits – whose remuneration in September stood at 1.9%, down 170 bp from the January 2024 peak – towards cash and sight deposits. They also reduced their Treasury bill positions while increasing investment fund subscriptions.

Chart 15

15.a Liquid assets of households. Annualised quarter-on-quarter rate of change and contributions (a)



15.b Liquid assets of firms. Annualised quarter-on-quarter rate of change and contributions (a)



SOURCE: Banco de España.

a Seasonally adjusted data. Quarter-on-quarter rate of change calculated as net flows divided by the amount outstanding.
b Net subscriptions (excluding valuation effects).

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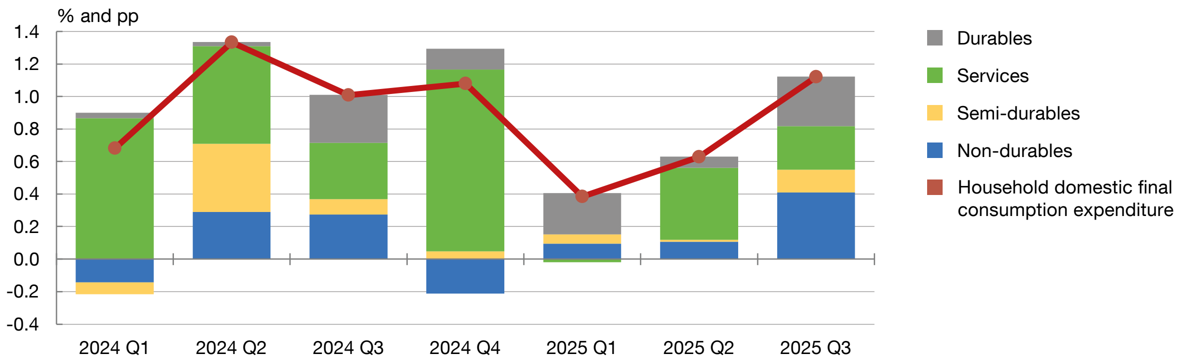
16 Household consumption remains robust amid favourable financial conditions

— Private consumption accelerated in Q3, reaching quarter-on-quarter growth of 1.2%, up from 0.7% and 0.5% in the previous two quarters. Durable goods purchases contributed significantly to this growth (Chart 16.a), despite accounting for a small share of total consumption (around 6%). This buoyant consumption likely reflects improved financial conditions for consumer loans and higher consumer confidence amid strong employment and rising household wealth,[4] which could sustain this trend in the coming quarters.

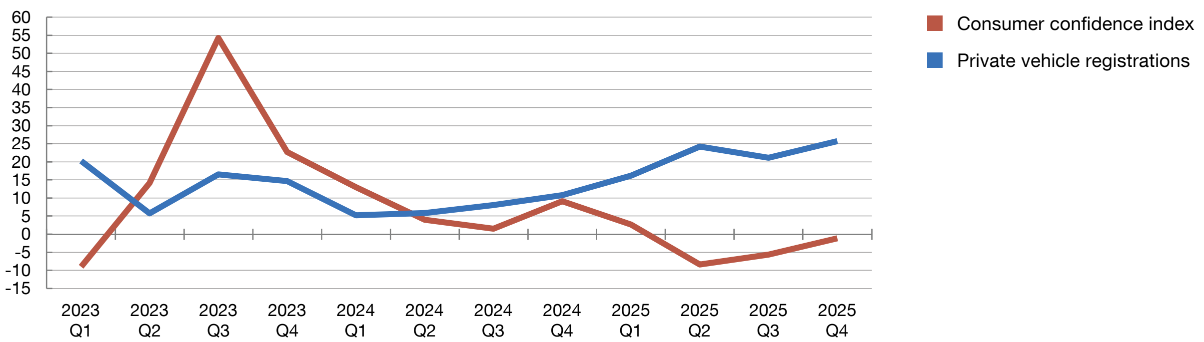
— The indicators available for Q4 look positive, suggesting that consumption will remain robust in the final stretch of the year (Chart 16.b). Data to November show sustained buoyancy in private vehicle registrations, in line with previous quarters. Meanwhile, the October consumer confidence indicator extended its path of progressive improvement into early Q4.

Chart 16

16.a Quarter-on-quarter growth in household domestic final consumption expenditure and contributions (a)



16.b Consumption indicators. Year-on-year growth rate (b)



SOURCES: INE (QNA), Centro de Investigaciones Sociológicas and Asociación Española de Fabricantes de Automóviles y Camiones.

a Each component's contribution to total consumption is calculated using the quarter-on-quarter rate of change in the chained volume indices, adjusted for seasonal and calendar effects. Each component's share in total consumption is obtained from data on household domestic final consumption expenditure and its components at current prices, adjusted for seasonal and calendar effects.

b The growth rates for vehicle registrations are calculated using the cumulative flow of registrations over the three months of each quarter. The vehicle registration data are seasonally adjusted. The growth rates for the consumer confidence indicator are calculated using the average for the indices over the three months of each quarter. For 2025 Q4, the latest data available are for October and November for vehicle registrations and October for the consumer confidence indicator.

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4 Real household wealth increased by 8.3% year-on-year in 2025 Q2, driven mainly by property value appreciation.

17 The growth in productive and housing investment is expected to slow in 2025 Q4

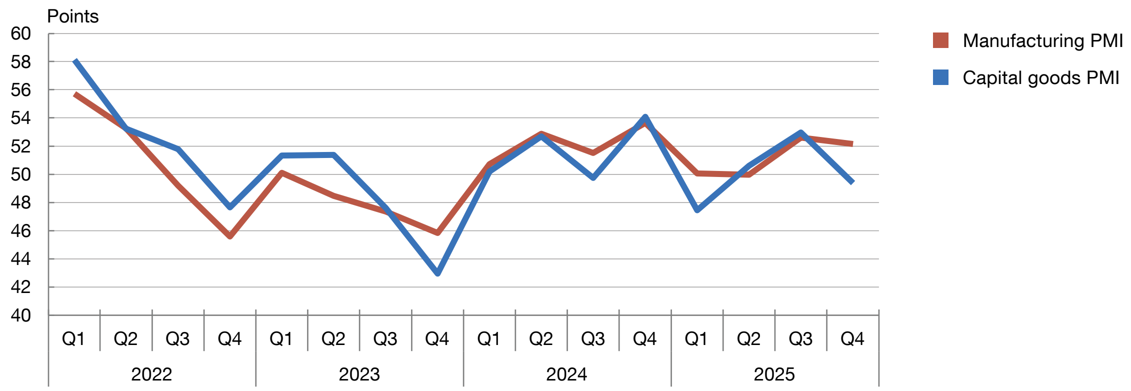
— Productive investment accelerated in Q3 compared with H1, driven by strong investment in intangible assets, machinery and other construction.[5] Investment in transport equipment, which remains well below pre-pandemic levels, held stable during this period, albeit maintaining pronounced year-on-year growth.

— The information available for Q4 suggests continued positive dynamics in productive investment, although its growth could slow compared with the most recent quarters. This outlook is supported by the moderation of the capital goods and manufacturing PMIs – though the latter remains in expansionary territory (Chart 17.a) – and by the persistent weakness in external financing for NFCs.

— The recent slowdown in the construction execution indicator points to a slowdown in residential investment in Q4, although the number of social security registrations for construction workers suggest sustained momentum. Meanwhile, house prices continue to grow rapidly amid supply rigidity and strong demand. Specifically, house prices climbed by 12.8% year-on-year in 2025 Q3.

Chart 17

17.a Qualitative investment indicators (a)



SOURCE: S&P Global.

a The 2025 Q4 PMI data are averages for October and November.

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5 The INE's investment data for the period 2022-24 were revised up significantly (Box 1), particularly investment in intangible assets and, to a lesser extent, in non-housing construction, which now reflect far higher growth rates than previously estimated. The stronger momentum in other construction investment may owe, at least in part, to the stimulus associated with NGEU funds, with public investment accelerating in Q1 and accumulating very considerable growth in recent years.

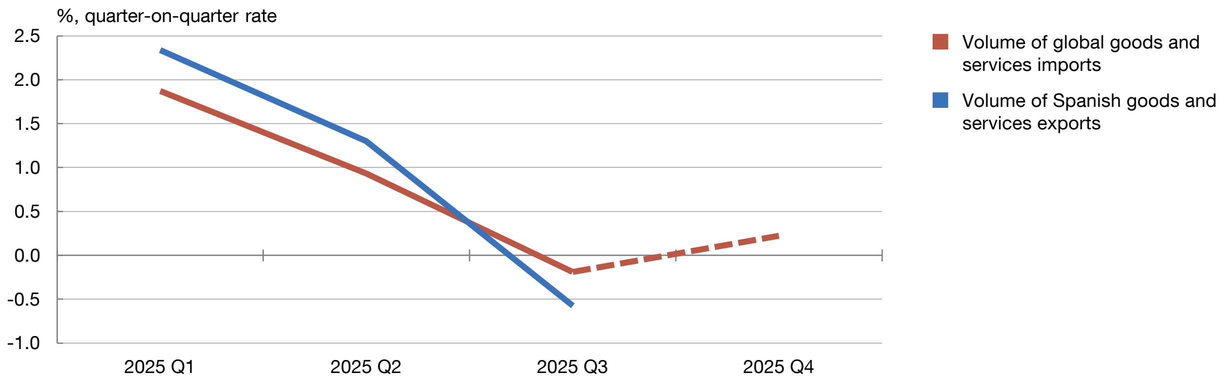
18 As trade uncertainty eases, exports are expected to pick up somewhat ...

— Net external demand contributed negatively to growth in Q3, primarily due to the decline in goods exports, while imports and services exports maintained some momentum. According to customs data, the decline in goods exports owed largely to car exports to the euro area and energy product exports to various destinations.

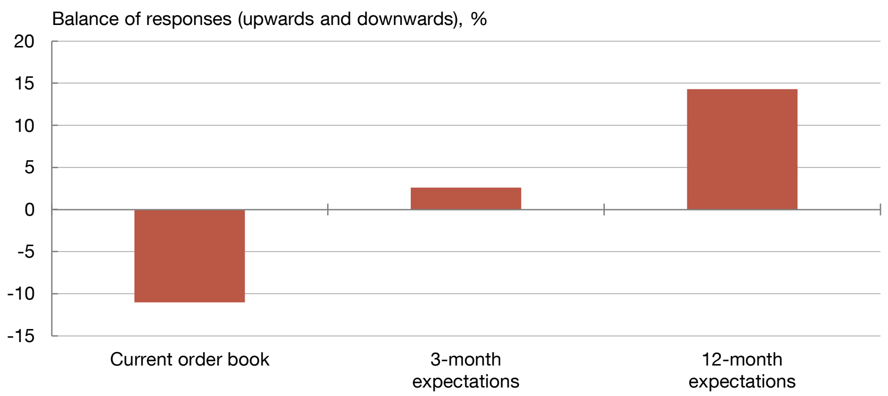
— Looking ahead to Q4, the anticipated improvement in global markets should drive something of a recovery in Spanish exports (Chart 18.a). This view is supported by the new export orders PMI and the latest survey of exporters (Chart 18.b), which are consistent with a recovery in exports of goods and non-travel services. Meanwhile, the gradual normalisation of travel exports is expected to continue, in line with the increase in hotel overnight stays by international tourists in October.

Chart 18

18.a Global trade



18.b Quarterly survey of exporters. 2025 Q3



SOURCES: ECB, INE and Ministerio de Economía, Comercio y Empresa.

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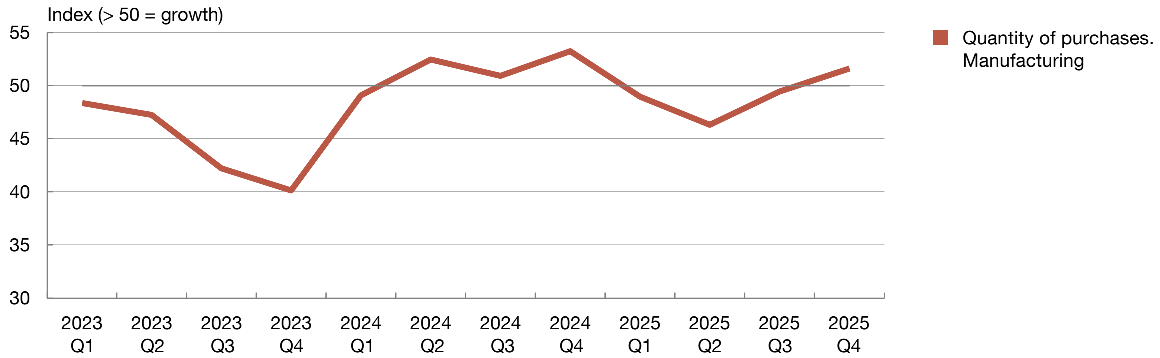
19 ... while imports will likely remain buoyant in 2025 Q4

— Imports posted high growth in Q3, driven by both goods and services. As regards goods, imports of consumer durables (such as cars) rallied, as did imports of chemicals and machinery, the latter thanks to the pick-up in investment in capital goods, one of the final demand components with the highest import content. In services, the increase in Spanish tourists travelling abroad, which boosted travel services imports, stood out.

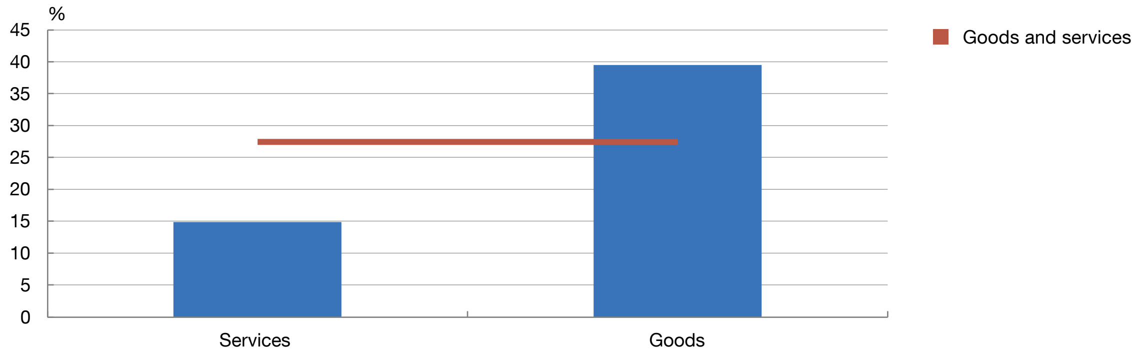
— Turning to the indicators available for Q4, the PMIs for manufacturing purchase volumes continued their recovery and entered expansionary territory (Chart 19.a), pointing to an improvement in goods imports. However, the slight decrease expected in investment in capital goods, together with the greater momentum in services exports, particularly in non-travel services that have a lower import content (Chart 19.b), would dampen growth in total imports.

Chart 19

19.a PMI (a)



19.b Import content of exports (b)



SOURCES: S&P Global and INE.

a The 2025 Q4 PMI figure is the average for October and November.
b Direct and indirect imports (via intermediary inputs) used in the production of exports. Information for 2023 drawn from the INE's International Trade in Value Added (TiVA) Dashboard.

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20 Developments in government revenue and expenditure up to September appear consistent with the Government meeting its deficit target for 2025

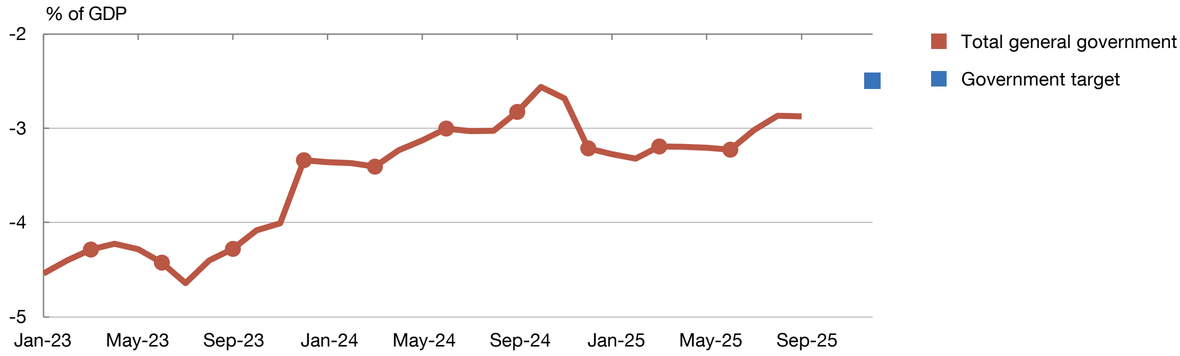
— The general government deficit to September (cumulative 12-month terms) stood at 2.9% of GDP, 0.3 pp less than at end-2024. These developments would be consistent with the Government meeting its deficit target of 2.5% at end-2025, given the significant extraordinary spending accumulated in the latter months of 2024 (0.7 pp of GDP, linked to the Valencia flash floods and certain court rulings),[6] which is not expected to arise to the same extent in the final months of 2025 (Chart 20.a).

— Public revenue remained buoyant in the first nine months of the year (+7% year-on-year) owing to the increase in tax revenue (+8%), particularly personal income tax (+10.8%) and VAT (9.8%) revenue. This growth is associated with robust activity and with various measures relating to the full reversal of temporary tax reductions introduced in response to the energy crisis and to the reinstatement of limits on corporate income tax deductions.[7]

— Spending grew notably up to September (+6%), although less than revenue. This increase was particularly marked in capital expenditure (11.6%) both due to government investment and to investment grants and other capital transfers. Government consumption grew more moderately (3.4%) although these figures do not yet include the recently approved 2.5% increase in public sector wages for 2025.[8] Social benefits and interest paid grew significantly (by 6.4% and 6%, respectively).

Chart 20

20.a General government budget balance (a)



SOURCES: Banco de España, IGAE and Government stability target proposal (November 2025).

a The dots correspond to data for general government as a whole, which IGAE only publishes quarterly and with a greater delay. The remaining monthly data are estimated based on the aggregate data excluding local government.

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6 Section 3.6.1 of the *Annual Report 2024*.

7 Law 7/2024 of 20 December 2024 reintroduced the limits on tax loss carryforwards, introduced by Royal Decree-Law 3/2016 and declared null and void in 2024 due to a procedural defect. It also extended to 2024 and 2025 the temporary 50% limit on group subsidiaries' tax loss carryforwards that was introduced in 2023. Law 7/2024 also increased tax rates on tobacco-related products and, in personal income tax, raised the tax brackets for capital income. Lastly, in 2025 social security contributions also rose with the entry into force of the solidarity quota, higher contributions through the Intergenerational Equity Mechanism and the rise in the maximum contribution base.

8 With retroactive effect from January 2025 (Royal Decree-Law 14/2025). The details of the multi-year wage agreement are described in page [número de página de la ficha 30].

21 Headline inflation has increased since August and the differential with the euro area has widened to 1.1 pp

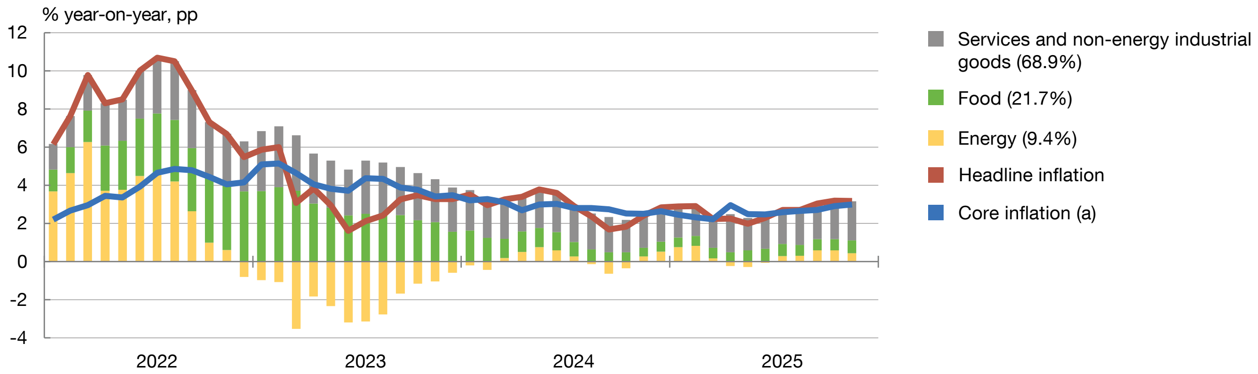
- In Spain, headline inflation, as measured by the HICP, rose from 2.7% in August to 3.2% in November. This reflected the uptick in energy prices, along with rising core inflation (HICP excluding energy and food) and the rate of food price growth (Chart 21.a).

- Year-on-year energy price inflation rose from 3.2% in August to 4.6% in November, owing to higher liquid fuel and motor fuel prices, while electricity prices continue to grow rapidly. Food inflation, which had remained relatively stable up to October, rose in November to 3.1%. In the last three months the prices of beef, eggs and fresh fruit accelerated. This was offset by a slowdown in the prices of vegetables, while olive oil prices moderated their sharp year-on-year decline.

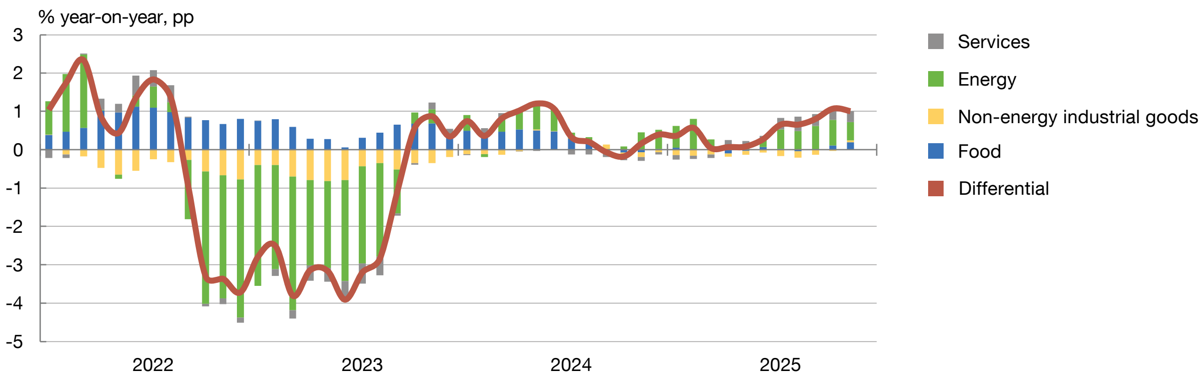
- The recent acceleration in inflation in Spain stands in contrast to the greater stability recorded in the euro area, with the inflation differential between the two regions rising to 1.1 pp in November. This is explained by the greater differential in food inflation, which now contributes positively, and in core inflation, while in terms of energy the differential has remained stable (Chart 21.b).

Chart 21

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



21.b Spain vs euro area inflation differential: changes and contribution of components (b)



SOURCES: Eurostat, INE and Banco de España.

a Headline inflation excluding energy and food. The weight of each group in headline inflation is shown within brackets.
b Calculated as the difference between the contributions of each special group to the year-on-year rate of inflation in Spain and in the euro area.

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22 Core inflation has picked up in recent months, reflecting stickier than expected services inflation

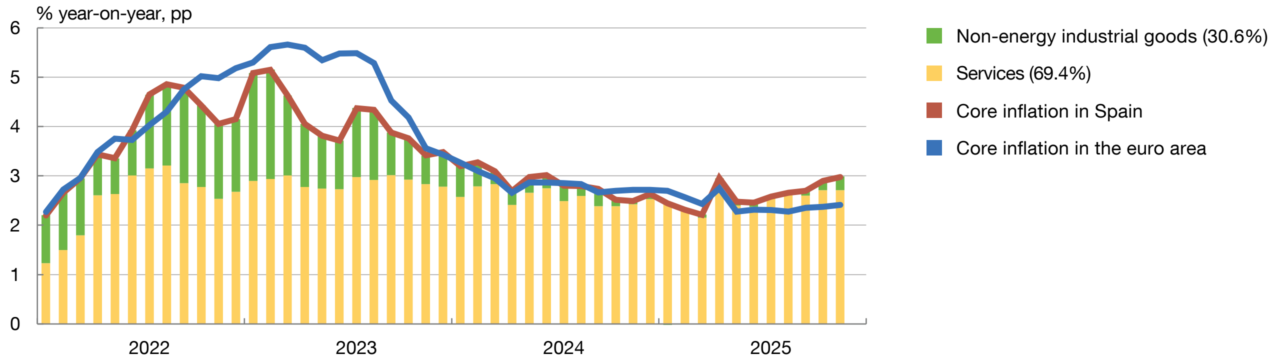
— Core inflation (HICP excluding energy and food) has increased by 0.3 pp since August, to 3% in November, due to the behaviour of both services and non-energy industrial goods. This contrasts with the more contained increase in the euro area (0.1 pp), causing the core inflation differential to widen further, reaching 0.6 pp in November (Chart 22.a).

— In Spain, the growth in services prices rose to 3.9% in November (3.7% in August). The high persistence seen in services prices relating to hospitality and tourism, whose year-on-year growth rate reached 4.4% in November (compared with 4% in the euro area), has been joined by the higher prices for some services subject to price control, such as waste collection, and certain transport services, such as passenger transport by rail and road (Chart 22.b).

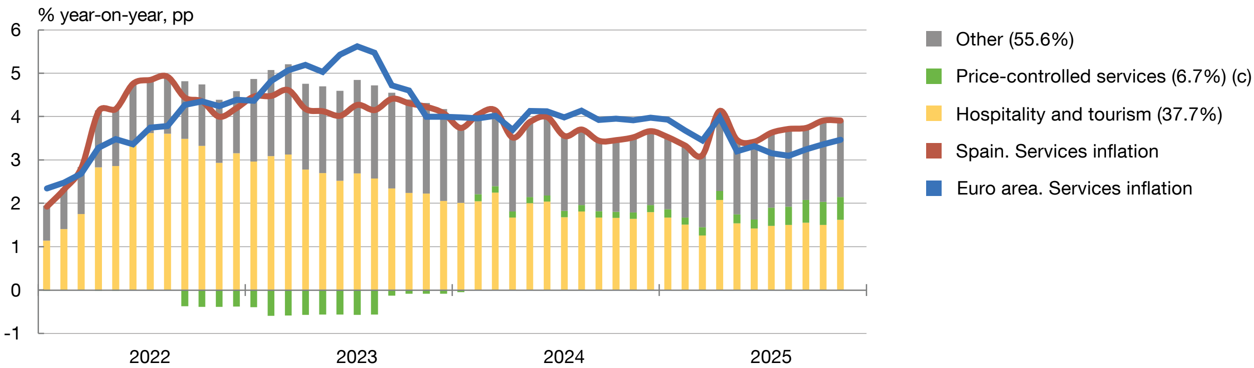
— Meanwhile, the year-on-year growth in non-energy industrial prices accelerated in recent months (0.9% in November, 0.7 pp above the figure for August), although growth rates remain modest, lower than those of domestic producer prices.

Chart 22

22.a Core inflation in Spain: changes and contribution of components (a)



22.b Services inflation in Spain: changes and contribution of components (b)



SOURCES: Eurostat and Banco de España.

a Headline inflation excluding energy and food. The weight of each group in core inflation is shown within brackets.
b The weight of each group in services inflation is shown within brackets.
c Includes refuse collecion and sewerage; toll facilities and parking meters; passenger transport by underground, tram, bus and taxi; combined passenger transport; tertiary education; canteens; administrative fees and legal services and accountancy.

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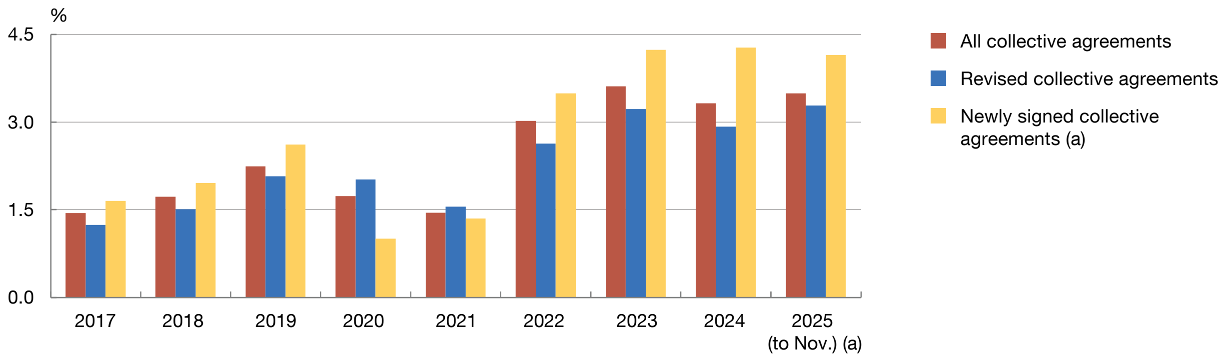
23 Wage increases negotiated up to October 2025 held at 3.5%, above the 3% established in the Fifth Employment and Collective Bargaining Agreement

— On data to November, wage settlements agreed for 2025 stand at 3.5%, above both the figure for 2024 (3.3%) and that agreed in the Fifth Employment and Collective Bargaining Agreement, which established a benchmark increase of 3% for 2025. Most wage agreements covering 2025 were signed in earlier years and include an average wage increase of 3.3%. The new agreements entered into in 2025 include an average wage increase of 4.2% (Chart 23.a).

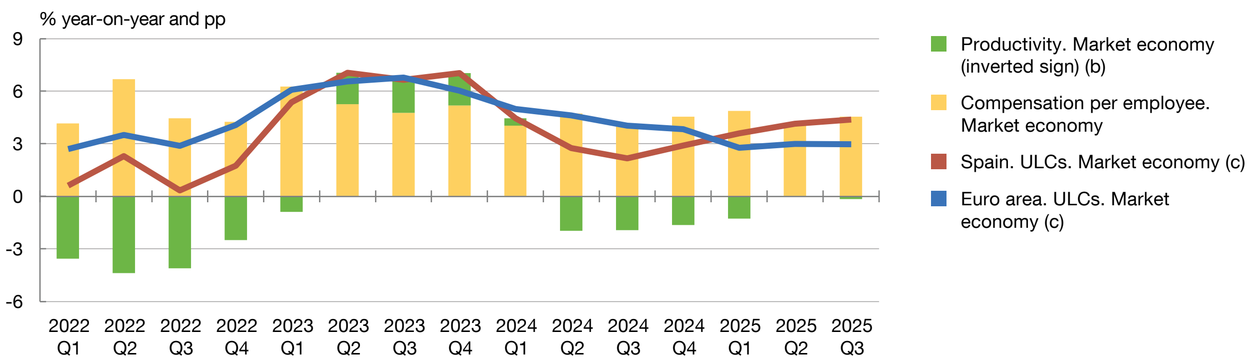
— The growth rate of compensation per employee in the market economy remained high in Q3 (4.5%), driving the increase in ULCs to 4.4%, higher than in the euro area over the last three quarters, in a context of stagnant productivity (Chart 23.b).

Chart 23

23.a Wage settlements



23.b ULCs. Market economy. Change and contributions



SOURCES: Ministerio de Trabajo y Economía Social and INE.

a Newly signed collective agreements up to November 2025 relate to 2,285,000 workers (24% 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.

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24 The moderation of firms' unit profits is helping to contain domestic inflationary pressures

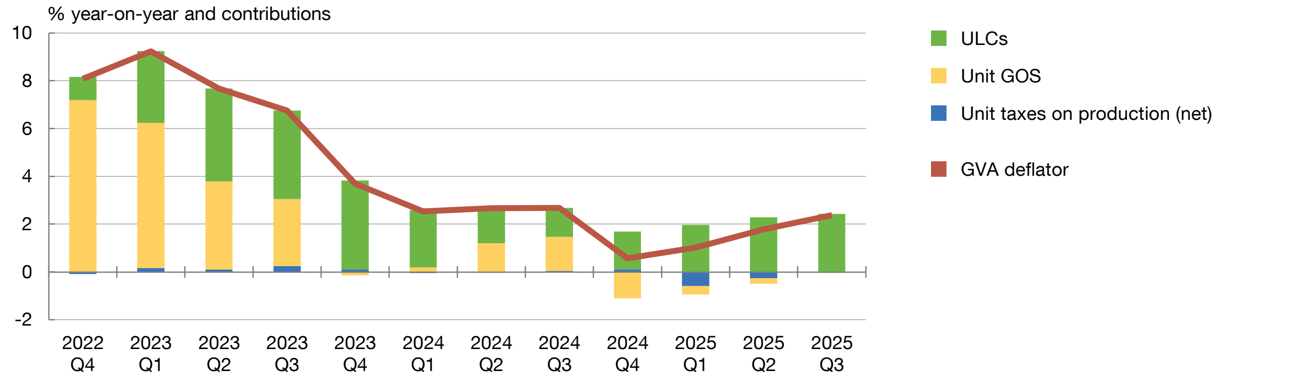
- The market economy GVA deflator rose by 0.6 pp in 2025 Q3 to 2.4%. The main contributing factor was the acceleration of ULCs, in a setting in which both the unit GOS and unit taxes on production made virtually no contribution (Chart 24.a).

- Profit margins – proxied using the ratio of GOS to market economy GVA – remained on a slightly decelerating path (Chart 24.b), according to QNA data. This slowdown reflects the developments in most sectors' ratios.

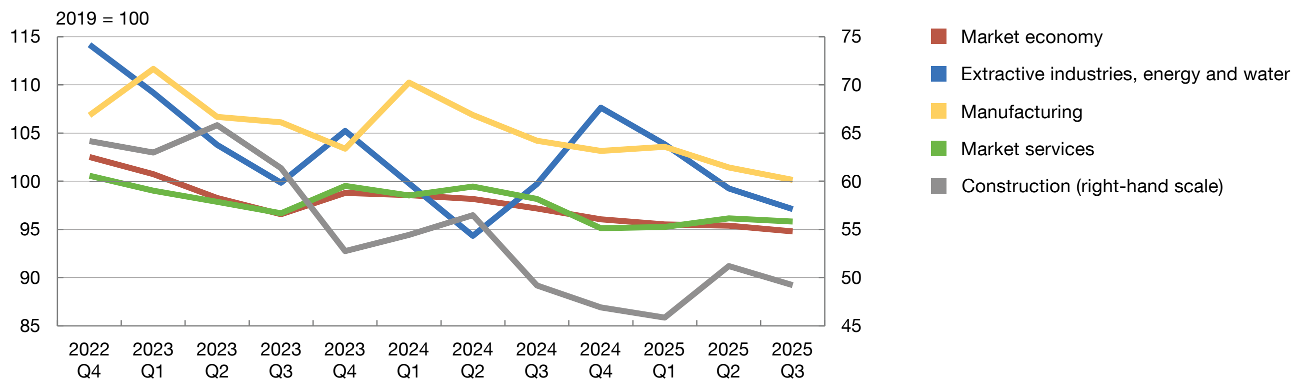
- On data to 2025 Q3, the gross operating margin[9] declined compared to 2024 levels, interrupting the growing trend initiated in 2023. Nevertheless, it remained above its pre-pandemic level.

Chart 24

24.a GVA deflator. Market economy



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



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SOURCES: Banco de España and INE.

9 Defined as the ratio of gross operating profit to turnover, drawing on Spanish Tax Agency information. For further details on the interpretation and recent performance of alternative measures for profit margins, see the Observatorio de Márgenes Empresariales website.

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (2025-2027)

25 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.[10] Compared with the September projections, the new assumptions entail no significant change in the scenario envisaged for 2026 and are slightly more favourable for 2027, given the new trajectory expected for energy prices and interest rates. Specifically:

- Spanish export market growth in 2025 is revised up, by 0.7 pp, to 3.6%. Estimated growth in Q2 and Q3 has been revised up, as has growth momentum for Q4, against a backdrop of improved global trade, as trade uncertainty has declined and trade tariffs are slightly lower than was expected in the September exercise. These changes translate into higher projected export market growth in 2026, up to 2.2%, 0.3 pp more than was envisaged three months ago. For 2027, export market growth is set to accelerate to 2.8%, the same rate of expansion as projected in September (Table 1).

- The futures markets now suggest that oil prices in euro will be lower throughout the projection horizon than was envisaged three months ago (Chart 25); indeed, in recent weeks, they have been lower than was expected in September. Up to mid-2026, wholesale electricity prices are also set to be lower than projected in September; they started the quarter higher but dropped below that level in November.

- The nominal euro exchange rate is now slightly higher than in the previous projection exercise, both against the US dollar and in nominal effective exchange rate terms (Table 1).

- Financial markets expect short-term interest rates to gradually decline over 2025 and 2026 – albeit at a somewhat slower pace than envisaged in September – and to then increase in 2027. Long-term rates are set to rise slightly over the projection horizon, although to a lesser extent than anticipated three months ago (Table 1).

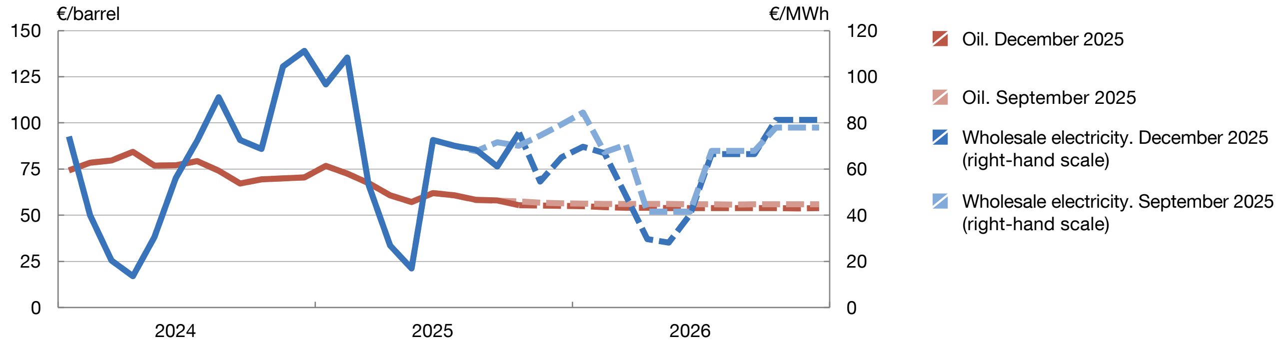
— Moreover, updated Spanish GDP data for recent quarters mean that the starting point used to project the future paths of activity and prices is now different from that used in the previous exercise. Specifically, in the absence of other changes, the QNA flash estimates for 2025 Q3 and the revised GDP growth rates (Box 1) automatically entail a higher starting point for output for these projections and a higher GDP growth rate for 2025.[11]

10 This exercise incorporates the new information that has become available since the publication of the previous projections on 16 September. In particular, it includes the QNA flash estimates for 2025 Q3, the QNFAIS for 2025 Q2 and the 2024 ANA statistical revision. The cut-off date for the assumptions is 26 November (except for those for the export markets which is 1 December); the cut-off date for the projections is 3 December.

11 Specifically, the INE has revised up the quarterly GDP growth rates for 2024 Q2, Q3 and Q4 by 0.15, 0.06 and 0.09 pp, respectively.

Chart 25

25.a Energy prices



SOURCES: OMIE and Reuters.

Table 1

International environment and monetary and financial conditions (a)

Annual rate of change (%), unless otherwise indicated

		December 2025 projections			Difference between the current projections and the September 2025 projections (b)		
	2024	2025	2026	2027	2025	2026	2027
Spain's export markets (c)	1.4	3.6	2.2	2.8	0.7	0.3	0.0
Oil price in dollars/barrel (level)	81.2	69.2	62.5	62.6	-0.8	-3.5	-3.3
Wholesale electricity price in €/MWh (level)	62.9	64.1	60.5	59.2	-0.9	-1.5	0.8
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.08	1.13	1.16	1.16	0.00	-0.01	-0.01
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	116.0	119.5	122.7	122.7	0.1	0.2	0.2
Short-term interest rate (3-month EURIBOR; level) (e)	3.6	2.2	2.0	2.1	0.0	0.1	0.0
Long-term interest rate (10-year Spanish government bond yield; level) (e)	3.2	3.2	3.3	3.5	-0.1	-0.3	-0.3

SOURCES: Banco de España and ECB.

a Cut-off date for assumptions: 26 November, except for export markets (1 December). 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 December 2025 Eurosystem 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.

26 GDP growth is expected to decelerate in the coming quarters

— GDP grew by 0.6% in quarterly terms in 2025 Q3, less than in Q2 (0.8%) but in line with the pace of growth envisaged in the Banco de España's September projection exercise (0.6%-0.7%). This growth was underpinned by buoyant domestic demand, and particularly by strong private consumption and investment. By contrast, net exports made a negative contribution to output growth.

— The latest short-term indicators suggest that the Spanish economy will maintain a sound rate of growth – estimated at between 0.6% and 0.7% – in Q4, consistent with GDP growth of 2.9% in 2025.

— For the following years, the baseline scenario envisages a gradual deceleration in the pace of GDP growth, towards rates closer to the potential growth of the Spanish economy, estimated at around 2% by the end of the projection horizon. Specifically, real GDP growth is expected to edge down from the 3.5% recorded in 2024, to 2.9% in 2025, 2.2% in 2026 and 1.9% in 2027 (Table 2).

Table 2
Projections for the main macroeconomic aggregates of the Spanish economy (a)

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

		December 2025 projections			September 2025 projections		
	2024	2025	2026	2027	2025	2026	2027
GDP	3.5	2.9	2.2	1.9	2.6	1.8	1.7
Private consumption	3.1	3.4	2.8	1.8	3.1	2.0	1.6
Government consumption	2.9	1.8	1.8	1.9	1.9	1.7	1.6
Gross capital formation	4.7	6.0	3.6	2.2	5.0	2.5	2.0
Exports of goods and services	3.2	3.5	2.0	2.8	3.1	2.3	2.8
Imports of goods and services	2.9	5.8	3.6	2.8	5.0	3.1	2.9
Domestic demand (contribution to growth)	3.3	3.5	2.7	1.8	3.1	2.0	1.6
Net exports (contribution to growth)	0.2	-0.6	-0.5	0.1	-0.5	-0.2	0.1
Nominal GDP	6.4	5.5	4.4	4.4	5.3	3.7	3.7
GDP deflator	2.9	2.6	2.2	2.5	2.6	1.9	2.0
HICP	2.9	2.7	2.1	1.9	2.5	1.7	2.4
HICP excluding energy and food	2.8	2.6	2.5	2.1	2.4	2.1	1.9
Employment (persons)	2.3	2.7	2.0	1.4	2.6	1.3	1.0
Employment (hours)	2.2	1.8	1.8	1.2	1.2	1.4	1.0
Unemployment rate (% of labour force). Annual average	11.3	10.6	10.0	9.6	10.5	10.2	9.7
Net lending (+) / net borrowing (-) of the nation (% of GDP)	4.3	3.8	3.3	3.3	3.6	3.5	3.2
General government net lending (+) / net borrowing (-) (% of GDP)	-3.2	-2.5	-2.1	-2.5	-2.5	-2.3	-2.3
General government debt (% of GDP)	101.6	100.6	99.1	98.3	100.7	100.4	100.0

SOURCES: Banco de España and INE.

a Projections cut-off date: 3 December 2025. Latest QNA figure published: 2025 Q3 flash estimate.

27 Compared with the September projections, the rate of growth of GDP is revised up, by 0.3 pp for 2025 (to 2.9%), by 0.4 pp for 2026 (to 2.2%) and by 0.2 pp for 2027 (to 1.9%)

— The change in the GDP growth rate projected for 2025 essentially stems from the latest QNA flash estimates and the ANA revision which have pushed up growth estimates compared with three months ago, especially with regard to momentum in 2024.

— For 2026, the higher growth now expected compared with the September exercise stems from the combination of several factors (Chart 27):

- First, the QNA flash estimates – which reflect stronger activity in recent quarters than was initially estimated – and the new GDP growth forecast for 2025 Q4 automatically entail an increase of 0.2 pp in the year-on-year rate of growth of GDP in 2026.

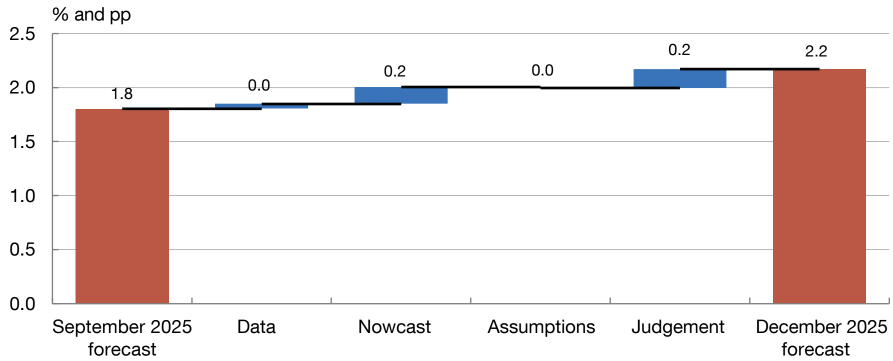
- Second, the minimal revision of the technical assumptions in this exercise means that there is little impact on the GDP growth rate projected for 2026.

- Third, the automatic impact of the updated data and assumptions on the projections model, together with the change in the experts' judgement compared with the September exercise, add 0.2 pp to the pace of growth of activity in 2026. Three factors underpin this more favourable assessment: (i) stronger private consumption, stemming from the increased dynamism expected both of labour income – as a result of employment and wages – and consumer credit; (ii) sound non-travel services exports, which have outperformed expectations, reaching all-time highs in recent months; and (iii) lower elasticity of imports to final demand, owing to the lower import content of services exports.

— For 2027, the increase of 0.2 pp in the GDP growth rate projected is explained by the above-mentioned more favourable view of the external sector incorporated in 2026, which is expected to continue through to 2027, and by the lower energy prices assumed in this projection exercise.

Chart 27

27.a Changes in the GDP growth forecast for 2026



SOURCE: Banco de España.

28 Consumption and investment will be the mainstays of growth over the projection horizon

— Under these projections, output growth in the period 2025-27 will be underpinned by domestic demand, whose rate of growth is, however, expected to slow (Chart 28). Specifically:

- Private consumption is set to make the largest contribution to growth, driven by household disposable income, employment and migration flows. However, it is expected to gradually lose momentum over the projection horizon, in step with the deceleration envisaged for the three factors mentioned and in a setting in which the saving rate, despite being expected to decline in the coming years, is set to remain above its historical average.

- It is anticipated that gross capital formation will continue to see robust growth in the coming quarters, driven by the roll-out of NGEU funds, favourable financing conditions, a strong construction sector and investment in intangible assets. In any event, its contribution to growth is expected to slow over the projection horizon, as activity decelerates.

- Government consumption's contribution to growth is set to remain roughly constant in the coming years, in line with the assumption of trend growth in public expenditure in the absence of new measures.

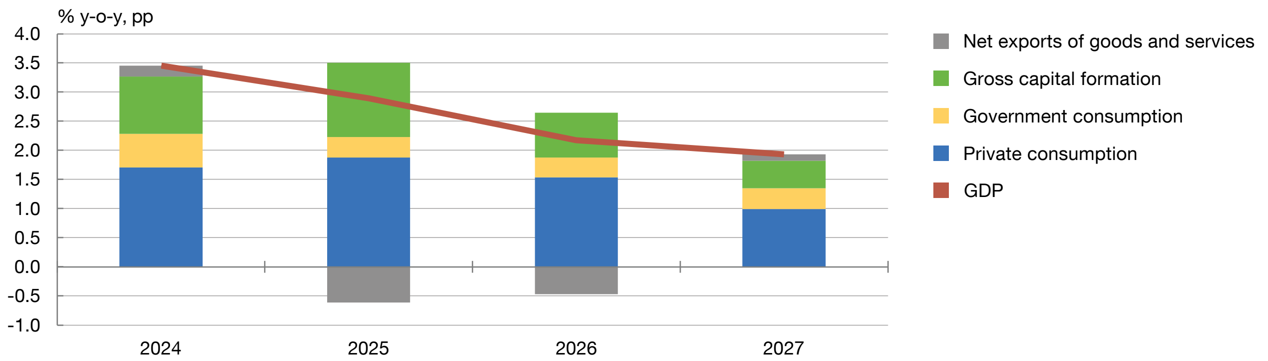
— Net exports are expected to make a negative contribution to GDP growth both in 2025 and 2026, followed by a slightly positive contribution in 2027 (Chart 28). Specifically:

- In the case of exports, a gradual slowdown in international tourist arrivals and non-travel services exports is envisaged, in line with recent trends and the expectation that these items' growth rates will return to normal following the post-pandemic boom. In the wake of low growth anticipated in 2025, goods exports are set to recover thereafter, consistent with expected external market developments.

- Imports of goods and services are projected to be buoyant in 2025, driven by the strong momentum observed in recent quarters. In 2026 and 2027 they are expected to slow, in line with the trajectory foreseen for investment and goods exports and as a result of some moderation in their response to the growth in final demand, stemming from the greater weight of services exports whose import content, compared with that of other demand components, is lower.

Chart 28

28.a GDP growth and contributions of main components



SOURCES: Banco de España and INE.

29 In a setting of slowing economic activity, the pace of job creation and decline in the unemployment rate will lose momentum over the projection horizon

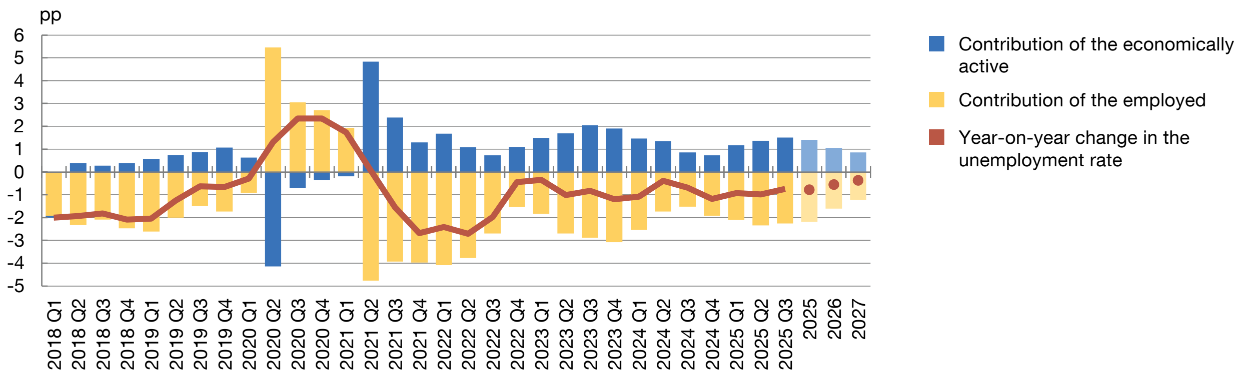
— Job creation will slow in the coming quarters. Accordingly, although employment – measured in terms of people employed –is expected to grow by 2.7% in 2025 as a whole, it will slow in 2026 and 2027 to 2% and 1.4%, respectively. This outlook points to more buoyant job creation over the projection horizon than in the previous projection exercise (Table 2).

— These developments in employment, with growth rates slightly below GDP, are consistent with the somewhat sluggish growth in productivity per person employed. In particular, the sharp slowdown in this variable in recent quarters is projected to continue in early 2026, and to pick up thereafter, stabilising at around 0.5% in 2027, in line with its historical average. A small uptick is expected in productivity per hour worked, against a backdrop of a slight decline in hours worked per person employed, as usually occurs during economic upturns.

— The pace of decline in the unemployment rate is expected to moderate over the projection horizon compared with recent years, by 0.8 pp, 0.6 pp and 0.4 pp in 2025, 2026 and 2027, respectively, and thus stand at 9.6% in 2027 (Chart 29). This is due both to the projected slowdown in job creation and to growth in the labour force, driven by the higher labour market participation of older workers and the significant demographic growth resulting from immigrant inflows. The latter, however, is expected to slow over the coming years.

Chart 29

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



SOURCES: Banco de España and INE.

30 The government deficit forecast has been revised upward for 2027, mainly owing to the wage increases negotiated for public sector employees

— The changes to the public finance assumptions over the projection horizon are minor compared with the previous exercise. The most significant development is the recent multi-year wage settlement negotiated by the Government and some public-sector employee trade unions, which includes an increase of 2.5% in 2025, 1.5% in 2026 (with an additional 0.5% contingent on inflation in 2026 standing at 1.5% or more), 4.5% in 2027 and 2% in 2028.[12] With respect to the previous projection exercise, which envisaged a “no-policy-change” rise of 2% in all years, the new settlement entails an increase in expenditure of 0.05 pp of GDP in 2025, 0 pp in 2026 and 0.37 pp in 2027.

— The fiscal projections are based solely on the measures that have been approved or announced in sufficient detail and are very likely to be adopted, such as the wage increases agreed for 2025-27. Moreover, it is assumed that the more discretionary variables will evolve in line with nominal potential growth, and that the performance of all other variables (government revenue, pension expenditure, interest payments, etc.) will be shaped by their usual determinants. Accordingly, for 2025-27, government revenue (excluding NGEU funds[13]) as a percentage of GDP is expected to continue to gain weight, owing chiefly to personal income tax not being adjusted for inflation and the measures adopted to increase social security contributions. However, this would be fully offset by the higher pension expenditure, compensation of employees, interest payments and public investment, including defence spending.

— In terms of net primary expenditure,[14] the current projections entail the following:

- In 2025 and 2026, growth in net expenditure could exceed the limit set in the Medium-Term Fiscal-Structural Plan. However, in cumulative terms since 2023, in both 2025 and 2026 such growth may still fall within the scope for flexibility provided by the new European rules.

- Nonetheless, from 2027, the impact of the cumulative wage increase in the public sector that year, combined with other items that push up expenditure and the exhaustion of the leeway for deviation provided by the new European rules, would lead to a deviation from the agreed path.[15]

— Overall, the government deficit trajectory is barely expected to change in 2025 and 2026 vis-à-vis the previous projections (2.5% and 2.1%, respectively), but is revised up significantly from 2027, to 2.5% of GDP.[16]

— Lastly, the projections for the debt-to-GDP ratio are revised down, owing to higher nominal GDP growth. Standing at around 100.6% at end-2025 (one percentage point lower than in the previous year), this ratio is expected to decline further, to approximately 98.3% in 2027.

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12 According to the Banco de España's inflation forecast for 2026, the precondition for an additional wage rise of 0.5% in that year will be met, bringing the total cumulative increase to 11 pp. However, this additional increase would not be paid until early 2027, with effect from 1 January 2026. This means that the 4.5% increase, the added 0.5% and the additional compensation for the whole of 2026 would be paid in 2027. Overall, public-sector wages in 2027 are expected to be 5.5% higher than in the previous year.

13 As in the previous exercise, the projections continue to assume revenue linked to the NGEU programme of close to 1% of GDP in 2025 and 2026, which would gradually moderate in subsequent years.

14 The concept of net primary expenditure referred to in the new European fiscal rules excludes not only interest expenditure but also expenditure financed or co-financed with European funds, cyclical unemployment expenditure and extraordinary expenditure. Any increase in revenue obtained as a result of discretionary measures is deducted from the growth in spending.

15 This assessment matches that of the AIReF in its *Report on the draft budgets and main budgetary lines of the general government for 2026*, and entails the need for additional adjustments in order to comply with the new European fiscal rules.

16 These projections are also affected by the spending related to the October 2024 flash floods (equivalent to 0.2 % of GDP in 2025 and 0.1% in 2026) and the revisions of economic performance in this exercise.

31 Headline inflation is revised up for 2025 and 2026 (by 0.2 pp and 0.4 pp, to 2.7% and 2.1%, respectively) and revised down for 2027 (by 0.5 pp, to 1.9%).

— Compared with the September projection exercise, higher headline inflation is expected in 2025 as a result of the recent developments in prices, which are higher than forecast.

— Inflation in 2026 is revised up by 0.4 pp, from 1.7% to 2.1% (Chart 31), as a result of the following:

- First, the new incoming data since the September projection exercise, and the new inflation forecast for 2025 Q4, automatically entail an average increase in inflation of 0.3 pp in 2026.

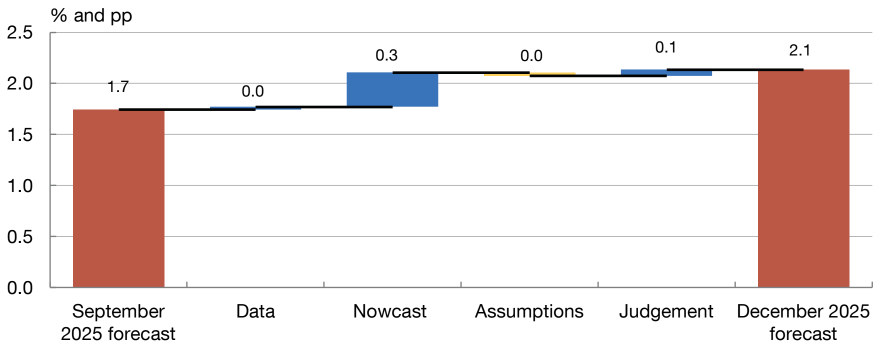
- Second, the net effect on inflation next year of including the new technical assumptions is not significant. In particular, although the expected path of energy prices in the coming months, based on futures markets, will push down the inflation rate, there are other elements, such as interest rates somewhat lower than expected in September, that will exert upward pressure on inflation and offset this downward effect.

- Third, the inclusion in the forecasting model of the new assumptions and recent macroeconomic developments, characterised by strong private consumption and wage growth, combined with experts' judgement, would, overall, push average inflation up by 0.1 pp in 2026. It should be noted that the experts' judgement included in the projection exercise reflects, in line with developments observed in recent quarters, the partial pass-through of the increase in unit labour costs to core inflation, in part mitigated by the assumed containment of profit margins.

— Headline inflation is projected to fall to 1.9% in 2027, 0.5 pp lower than projected three months ago. This downward revision is primarily due to the one-year delay (foreseeably until 2028) in the implementation of the new emissions trading system (ETS2), initially scheduled for 2027, following the agreement reached by the European Council.

Chart 31

31.a Changes in the inflation forecast for 2026



SOURCE: Banco de España.

32 Headline inflation is expected to begin easing towards rates close to 2%

— Following the pick-up in headline inflation observed between August and November, average annual inflation is expected to stand at 2.7% in 2025, 0.2 pp lower than in 2024. In the next two years, inflation is expected to continue to slow gradually, to 2.1% on average in 2026 and to 1.9% in 2027 (Chart 32).

— The behaviour of the main inflation components will vary over the projection horizon. In particular (Chart 32):

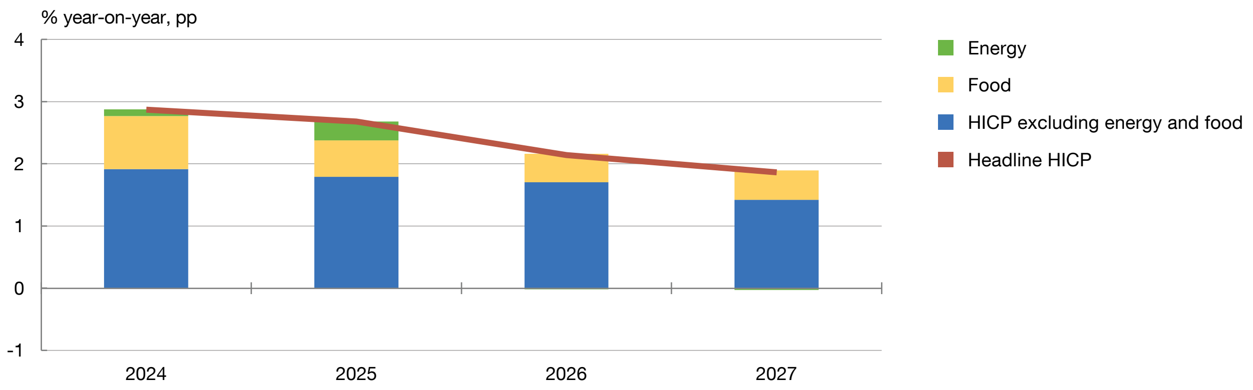
- A higher contribution of energy prices to headline inflation is expected in 2025, owing to the rise in electricity and gas prices observed this year, partly offset by the drop in vehicle fuel prices. Overall, the rate of change of the energy component is expected to accelerate from 0.9% in 2024 to 3.2% in 2025, subsequently slowing to near-zero rates in 2026 and 2027, reflecting the dynamics of energy commodity prices projected by the futures markets.

- The annual average growth rate of food prices will foreseeably decline by 0.9 pp between 2024 and 2025 to 2.7%. However, the slowdown observed this year is expected to moderate in the coming quarters, with food inflation converging towards rates slightly above 2% in 2026 and 2027. These projections are in line with the dynamics observed in food producer and import prices, and with those projected by the futures markets for food commodity prices.

- In 2025, core inflation is expected to make a smaller contribution to headline inflation than in 2024 and to continue to slow over the projection horizon. This declining path will be underpinned by the expected slowdown in the services component, and by the contained pace of growth in non-energy industrial goods prices, as analysed in greater detail below.

Chart 32

32.a Contributions to HICP growth, by component



SOURCES: Banco de España and INE.

33 Core inflation is projected to ease over the course of 2026 to around 2%

— After rising from August to November, core inflation – HICP excluding energy and food – is projected to hold steady through the end of 2025, before edging up in early 2026 as a result of the elimination of the remaining public transport discounts.

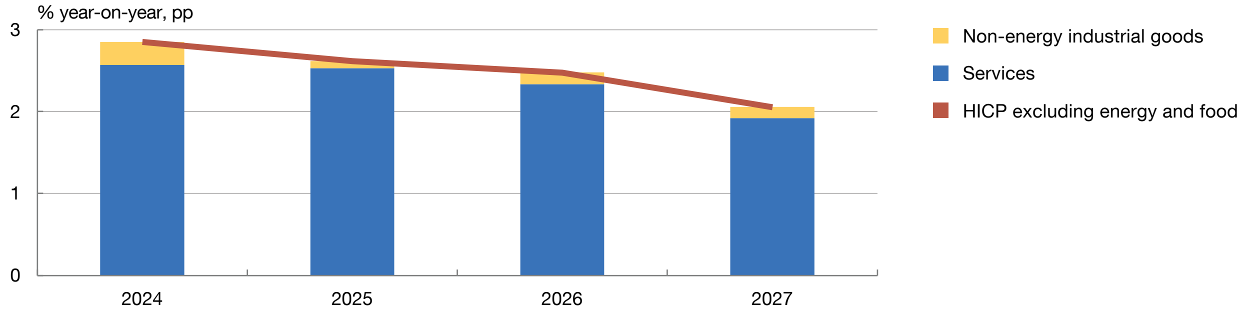
— Hence, average core inflation is expected to decline by 0.2 pp between 2024 and 2025 to 2.6%, and by a further 0.1 pp in 2026. A sharper decline is expected, to about 2%, in 2027 against a backdrop of economic downturn and diminished wage pressure (Chart 33). In terms of components:

- Services inflation is expected to remain stubborn in the first months of 2026 before gradually losing pace, bringing the annual average increase in services prices to 3.3% in 2026, 0.3 pp lower than in 2025. The expected subsequent decline would lead services inflation to stabilise at below 3% in 2027.

- Prices of non-energy industrial goods, which in recent months have been in line with projections, are expected to continue to rise at a very moderate pace – just above 0% – in coming quarters. This is consistent with projected price increases for domestic and imported goods of this type.

Chart 33

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



SOURCES: Banco de España and INE.

34 The wage increases set out in multiannual collective bargaining agreements point to higher growth in compensation per employee than forecast in the previous projection exercise, although consistent with the expected easing

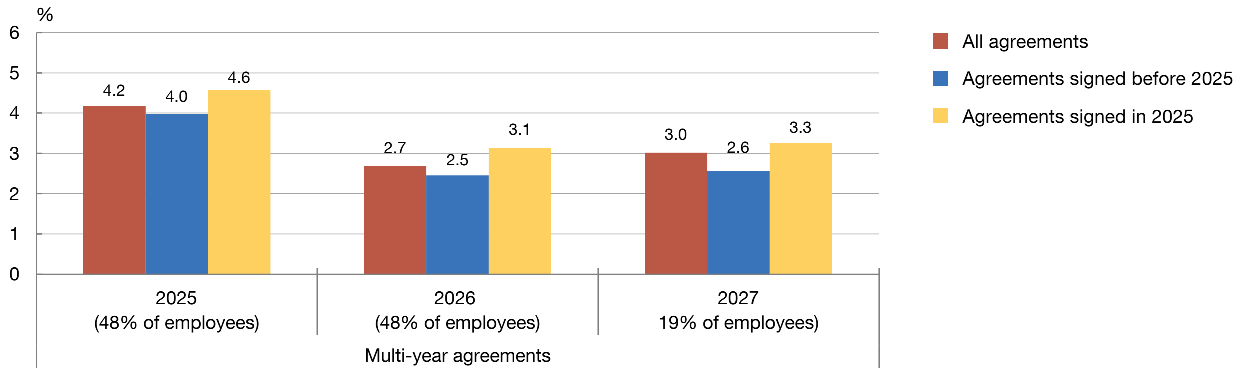
— According to the multi-year agreements – affecting 48% of all employees covered by collective bargaining agreements – the agreed wage increase is 4.2% for 2025 – consistent with the newly signed agreements – and 2.7% for 2026.[17] As for new collective bargaining agreements signed in 2025, wage increases are expected to be slightly above 4.6% for 2025 and 3.1% for 2026. For 2027, based on information covering only 19% of employees, the agreed wage increase would be 3% on average, 2.6% in agreements signed before 2025 and 3.3% in those signed in that year (Chart 34).

— Given this collective bargaining outcome, new agreements negotiated in 2026 and 2027 could set somewhat higher wage increases for these two years than those envisaged in the agreements already signed. This is especially the case in a setting in which the recently agreed public sector pay increases – which are particularly significant in 2027 – could have something of a knock-on effect on private sector wages.

— Consequently, and still assuming a certain degree of easing in wage drift in line with the trend seen in recent quarters, compensation per employee is projected to outstrip the September projection exercise forecasts. Nonetheless, it is still expected to ease, from the 4.6% increase seen in 2024 to around 3% at the end of the projection horizon.

Chart 34

34.a Agreed wage increase



SOURCES: Ministerio de Trabajo y Economía Social and Banco de España.

17 The data on wages agreed in the multi-year agreements were obtained by using web scraping techniques to read the 150 most important agreements posted on the Ministry of Labour and Social Economy's webpage. These processed data were not available for the September projection exercise.

35 These projections are fraught with uncertainty, which is assessed through various complementary approaches

— By their very nature, projection exercises relative to future trends in economic activity are beset by a high degree of uncertainty. This is because of the unpredictable nature, magnitude and impact of any shocks that may affect economic performance and macroeconomic developments in response to such shocks. Therefore, the projections presented in this report – constructed around what is considered the most likely baseline scenario – should be complemented with an exhaustive analysis of the degree of uncertainty regarding that scenario. This exercise includes some reflections on the factors that could lead to an economic outcome other than the one projected under the baseline scenario.

— So as to ensure that such exercises are transparent and robust, this analysis of the uncertainty of the baseline scenario draws on various complementary approaches.

- First, a statistical approach for gauging uncertainty, consisting in constructing the distribution of the possible trajectories of GDP and inflation around the baseline scenario. This distribution of possible rates of growth of GDP and prices is based on historically observed forecasting errors that are intuitively understood to proxy exogenous factors or past shocks and are used as potential benchmarks of future shocks that would give rise to deviations from the baseline scenario.

- Second, given that uncertainty is characterised as qualitative, a risk assessment survey is conducted among the Banco de España economists participating in the projection exercise on the risks associated with the baseline scenario. Consequently, under this approach a – qualitative – analysis and description of the main external and domestic factors of the Spanish economy that these economists believe could determine its future performance in relation to the baseline scenario is presented.

- Third, bearing in mind the factors that constitute the main sources of uncertainty, "alternative scenarios" to the baseline scenario – that is, possible, albeit not probable, scenarios – are drawn up. Accordingly, these scenarios are based on paths and assumptions other than those foreseen in the baseline scenario and emphasise changes in economic variables whose future performance is less certain. These scenarios are constructed tentatively and as a guideline. They are intended to serve as an additional element reflecting the contingent nature of any economic forecasting exercise.

— Box 3 offers a detailed discussion of the various approaches considered to assess the uncertainty that surrounds this projection exercise. It presents three alternative scenarios that complement the baseline scenario presented in this report.

— Overall consideration of the outcomes of the various approaches suggests that the risks to the baseline scenario of these projections remain balanced in the short term but tilted slightly to the downside in the medium term. By contrast, in the case of inflation, the risks appear to be on the upside over the entire projection horizon.

Box 1
NATIONAL ACCOUNTS REVISIONS

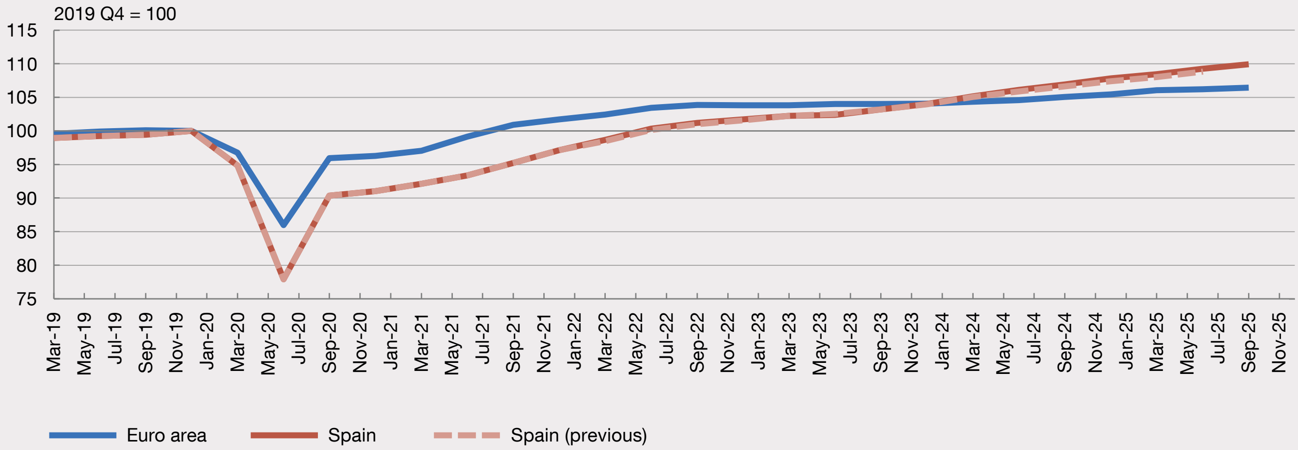
On 19 September, the National Statistics Institute (INE) published the revisions to the Annual National Accounts (ANA) series for the period 2022-24. Subsequently, data up to 2025 Q2, consistent with the new ANA series, were released for the Quarterly National Accounts (QNA) on 26 September and for the Quarterly Non-Financial Accounts for the Institutional Sectors on 30 September. This information was released after the date of publication of the last projection exercise and therefore could not be taken into account in that exercise. The purpose of this box is to provide an overview of the main revisions and to assess their implications for the current projection exercise.[1]

First, the revised data entail slightly higher GDP growth from 2019 onwards than previously estimated (Chart 1). Specifically, cumulative GDP growth between 2019 and 2025 Q2 is 9.3%, as against the previous estimate of 8.8%. This revision is mainly due to higher growth in 2022 and 2024 (+0.2 percentage points (pp) and +0.3 pp, respectively), while growth in 2023 is revised down slightly (-0.2 pp). On the revised data, economic growth in Spain in this period was higher than the euro area average (6.2%).[2]

Second, notable on the demand side is the upward revision to business investment and intangible investment (Table 1). The growth of gross fixed capital formation (GFCF), between 2019 and 2025 Q2, rises from 6.8% to 11.5%, mainly as a result of the upward revision to intangible investment (from 17% to 37.5%) and other construction (from -0.5% to 9.9%).[3] Growth of real government consumption in that period is revised slightly downwards, from 18.4% to 16.9%, primarily due to the upward revision to the government consumption deflator. Finally, the contribution of private consumption has been revised upwards, while that of net exports has been revised downwards, although to a very minor extent in each case.

Third, on the supply side, the downward revision to the growth of gross value added (GVA) in manufacturing is notable (Table 2). Between 2019 and 2025 Q2, manufacturing GVA growth is reduced from 12.2% to 9.4%. This downward revision is more than offset, however, by the upward revision to construction GVA (from -0.7% to 1.5%) and in market services-related sectors. Specifically, GVA growth in information and communication services is revised up from 26.9% to 29.7%, while in professional, scientific, technical,

Chart 1
GDP. Levels



SOURCES: Eurostat and INE.

1 The starting point of the current projection exercise is also affected by the publication of the QNA for 2025 Q3, which is analysed on page 18 of the Report.

2 In per capita terms, cumulative growth was 4.8% in Spain and 4.3% in the euro area.

3 From the viewpoint of the institutional sectors, public investment remains the most dynamic component over the period, with growth of 47.3%, as against 5.8% in the case of housing and 8.2% in that of private productive investment (Table 1).

Box 1
NATIONAL ACCOUNTS REVISIONS (cont'd)

administrative and support services it rises from 22.9% to 24.4%, and in wholesale and retail trade, hospitality and transportation from 10.6% to 12.8%. Thus, the National Accounts revisions appear to have strengthened the role of the services-related sectors as the main drivers of Spanish economic growth.

Table 1
GDP and demand components

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

	2022			2023			2024			Cumulative 2019 Q4-2025 Q2			Cumulative 2019 Q4-2025 Q2 (Contributions to growth)		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
GDP	6.4	6.2	0.2	2.5	2.7	-0.2	3.5	3.2	0.3	9.3	8.8	0.4	9.3	8.8	0.4
Private consumption	4.9	4.8	0.1	1.8	1.8	0.0	3.1	2.9	0.2	5.1	5.0	0.1	2.9	2.8	0.1
Government consumption	0.8	0.6	0.2	4.5	5.2	-0.7	2.9	4.1	-1.2	16.9	18.4	-1.5	3.1	3.4	-0.3
Gross capital formation	5.4	4.8	0.7	-1.4	-1.6	0.2	4.7	1.9	2.8	12.3	8.4	3.9	2.6	1.7	0.8
GFCF	4.2	3.3	1.0	5.9	2.1	3.8	3.6	3.0	0.6	11.5	6.8	4.7	2.4	1.4	1.0
Equipment, machinery and cultivated assets	1.6	2.4	-0.8	2.4	1.3	1.1	2.1	2.9	-0.9	4.1	6.6	-2.5	0.3	0.4	-0.1
Construction	4.0	2.2	1.8	5.5	3.0	2.5	4.0	3.5	0.5	7.7	3.6	4.1	0.9	0.4	0.4
Housing	9.0	8.4	0.6	0.8	2.1	-1.4	2.1	1.7	0.4	5.8	6.9	-1.2	0.4	0.4	-0.1
Other construction	-1.9	-5.1	3.2	11.7	4.2	7.5	6.2	5.8	0.4	9.9	-0.5	10.3	0.5	0.0	0.5
Intangible fixed assets	9.4	7.7	1.7	12.3	1.0	11.3	4.6	1.5	3.1	37.5	17.0	20.5	1.3	0.6	0.7
Changes in inventories (a)	0.3	0.4	-0.1	-1.5	-0.8	-0.7	0.3	-0.2	0.5	0.0	0.3	-0.4	0.2	0.3	-0.1
Exports	14.2	14.3	-0.1	2.2	2.8	-0.6	3.2	3.1	0.1	15.0	14.8	0.2	5.3	5.3	0.1
Goods	3.5	3.5	0.0	-1.5	-1.0	-0.5	0.1	0.4	-0.4	3.6	3.4	0.2	0.8	0.7	0.1
Services	48.5	48.9	-0.4	11.3	12.2	-0.9	9.8	8.7	1.1	45.1	44.9	0.2	4.6	4.6	0.0
Other services	25.7	26.1	-0.5	6.6	7.6	-0.9	8.1	6.7	1.4	45.9	45.5	0.4	2.8	2.8	0.0
Travel	115.6	115.6	0.0	19.1	20.1	-1.0	12.4	11.8	0.6	43.4	43.5	-0.1	1.7	1.7	0.0
Imports	7.7	7.7	0.0	0.0	0.3	-0.3	2.9	2.4	0.5	15.3	14.5	0.8	4.7	4.4	0.2
Goods	5.8	5.8	0.0	-0.5	-0.2	-0.3	0.7	0.3	0.4	14.4	13.6	0.8	3.4	3.2	0.2
Services	17.6	17.9	-0.3	2.3	3.0	-0.6	13.8	12.8	1.1	19.3	18.6	0.7	1.2	1.2	0.0
Other services	9.1	9.5	-0.4	-0.6	-0.1	-0.5	13.5	12.6	0.9	21.9	20.7	1.2	1.0	1.0	0.1
Travel	71.4	71.2	0.2	14.0	15.4	-1.4	15.0	13.2	1.8	13.8	14.9	-1.1	0.2	0.2	0.0
Contribution to GDP growth															
Domestic demand (a)	4.1	3.9	0.2	1.6	1.7	-0.1	3.3	2.8	0.5	8.6	8.0	0.6	8.6	8.0	0.6
Net exports (a)	2.3	2.3	0.0	0.9	1.0	-0.1	0.2	0.3	-0.2	0.6	0.8	-0.2	0.6	0.8	-0.2
Memorandum items															
GFCF	4.2	3.3	1.0	5.9	2.1	3.8	3.6	3.0	0.6	11.5	6.8	4.7	2.4	1.4	1.0
Public investment (b)	5.0	5.6	-0.6	15.5	16.0	-0.4	-6.1	-7.2	1.1	47.3	38.8	8.4	1.0	0.8	0.2
Housing (b)	9.0	8.4	0.6	0.8	2.1	-1.4	2.1	1.7	0.4	5.8	6.9	-1.2	0.4	0.4	-0.1
Private productive investment (b)	1.8	0.3	1.5	6.3	-1.1	7.4	6.8	6.5	0.3	8.2	1.2	6.9	1.0	0.1	0.9

SOURCES: Banco de España and INE.

a Contributions to GDP growth.
b Includes the estimate of the sector accounts for 2025 Q2 before the revision.

Box 1
NATIONAL ACCOUNTS REVISIONS (cont'd)

Fourth, on the nominal side, compensation per employee and labour productivity are revised downwards (Table 3). In particular, growth in compensation per employee is reduced from 26.4% to 24.2%, between 2019 and 2025 Q2, while productivity per worker remains at -0.1% and productivity per hour worked is revised down from 3.6% to 2.5%. Accordingly, growth of unit labour costs (ULCs) is revised slightly downwards, from 26.5% to 24.4%. Meanwhile, growth of the unit gross operating surplus is 14.4% (12.2% according to the previous series). Thus, the contribution of ULCs to the increase in the GDP deflator over this period (13.3 pp) remains clearly higher than the contribution of the unit surplus (5.1 pp).

In short, in comparison with the previous series, the new National Accounts series have three main implications for the current projection exercise. First, automatically higher average growth in 2025. Second, a larger contribution to growth from intangible investment and from information and technology and professional services, which reinforces the idea that non-travel services exports are robust. Third, lower growth in labour productivity per hour, which casts doubt on the vigour attributed to this variable in the coming quarters.

Table 2
GDP and supply-side components

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

	2022			2023			2024			Cumulative 2019 Q4-2025 Q2			Cumulative 2019 Q4-2025 Q2 (Contributions to growth)		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
GDP at market prices	6.4	6.2	0.2	2.5	2.7	-0.2	3.5	3.2	0.3	9.3	8.8	0.4	9.3	8.8	0.4
Agriculture, forestry and fishing	-16.9	-20.3	3.4	3.4	6.5	-3.0	10.8	8.3	2.5	-0.3	-5.5	5.3	0.0	-0.1	0.1
Industry	3.5	2.5	1.0	-1.8	0.7	-2.5	1.9	2.7	-0.8	0.1	2.4	-2.3	0.1	0.4	-0.4
of which: manufacturing	6.5	6.3	0.2	0.6	2.1	-1.4	2.6	3.5	-0.9	9.4	12.2	-2.8	1.1	1.4	-0.3
Construction	8.9	9.2	-0.2	1.1	2.1	-1.1	4.8	2.1	2.7	1.5	-0.7	2.2	0.1	0.0	0.1
Services	8.5	8.5	-0.1	3.8	3.3	0.4	4.0	3.7	0.3	13.9	13.0	0.9	9.2	8.6	0.6
Market services	10.8	11.0	-0.2	3.9	3.4	0.5	4.1	3.8	0.3	15.5	14.7	0.7	7.8	7.4	0.4
Wholesale and retail trade, transportation and hospitality	13.8	14.4	-0.5	4.8	4.4	0.4	4.7	3.4	1.3	12.8	10.6	2.2	2.8	2.4	0.5
Information and communication	14.6	12.4	2.2	7.2	5.0	2.3	3.1	3.7	-0.6	29.7	26.9	2.7	1.0	0.9	0.1
Financial and insurance activities	3.3	3.0	0.3	-1.2	-0.5	-0.7	3.3	1.7	1.6	13.7	11.3	2.4	0.5	0.4	0.1
Real estate activities	4.2	5.3	-1.2	4.0	3.3	0.7	3.8	5.9	-2.1	15.0	19.6	-4.6	1.5	2.0	-0.4
Professional, scientific, technical and other activities	12.3	12.3	0.1	2.6	1.2	1.4	4.3	4.2	0.1	24.4	22.9	1.5	1.9	1.8	0.1
Arts, recreation and other service activities	15.3	13.4	1.8	3.5	6.3	-2.7	3.2	2.5	0.7	1.8	1.1	0.7	0.0	0.0	0.0
Non-market services (a)	1.5	1.3	0.2	3.3	3.0	0.3	3.7	3.2	0.5	8.9	7.5	1.4	1.4	1.2	0.2
Taxes less subsidies on products	1.2	1.2	0.0	0.7	0.5	0.2	-1.3	-1.0	-0.3	-1.0	-0.9	-0.1	-0.1	-0.1	0.0
GVA: total economy	6.9	6.7	0.2	2.6	2.9	-0.3	3.9	3.5	0.4	10.3	9.8	0.5	9.4	8.9	0.5
GVA: market economy	8.2	7.9	0.2	2.5	2.9	-0.4	4.0	3.6	0.3	10.6	10.3	0.3	8.0	7.7	0.3

SOURCES: Banco de España and INE.

a Public administration, education, health and social work

Box 1

NATIONAL ACCOUNTS REVISIONS (cont'd)

Table 3
Nominal GDP and its components

Annual rate of change (%) and as % of GDP

	2022			2023			2024			Cumulative 2019 Q4-2025 Q2			Cumulative 2019 Q4-2025 Q2 (Contributions to nominal GDP growth and deflator)		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Nominal GDP	11.4	11.2	0.2	8.9	9.1	-0.2	6.4	6.2	0.2	31.3	31.2	0.2	31.3	31.2	0.2
Compensation of employees	8.6	8.6	0.1	8.5	9.1	-0.7	7.3	7.7	-0.4	35.7	37.6	-1.9	16.7	17.6	-1.9
Gross operating surplus / Gross mixed income	16.4	16.1	0.4	9.3	9.2	0.1	5.2	4.1	1.1	27.2	24.9	2.3	11.7	10.7	2.3
Net taxes on production and imports	4.3	4.3	0.0	8.9	8.4	0.4	7.9	8.4	-0.5	28.7	27.8	0.9	2.9	2.8	0.9
GDP deflator	4.7	4.7	0.0	6.2	6.2	0.0	2.9	3.0	-0.1	20.2	20.5	-0.3	20.2	20.5	-0.3
ULCs (a)	2.1	2.3	-0.1	5.9	6.2	-0.3	3.4	4.1	-0.7	24.4	26.5	-2.2	13.3	14.5	-1.2
Unit surplus (a)	11.3	11.1	0.2	6.9	6.5	0.4	1.7	0.7	1.0	14.4	12.2	2.2	5.1	4.3	0.8
Unit net taxes (a)	5.2	6.3	-1.1	6.3	6.5	-0.2	2.8	2.7	0.2	17.8	17.4	0.3	1.8	1.7	0.0
Memorandum items															
Compensation per employee	4.7	4.9	-0.2	5.0	5.8	-0.8	4.6	5.0	-0.4	24.2	26.4	-2.2	–	–	–
Productivity per person	2.5	2.6	-0.1	-0.8	-0.3	-0.4	1.1	0.9	0.2	-0.1	-0.1	0.0	–	–	–
Productivity per hour	1.2	1.4	-0.1	-0.2	0.6	-0.8	1.2	1.2	0.0	2.5	3.6	-1.1	–	–	–

SOURCES: Banco de España and INE.

a To maintain the accounting identities that enable the contributions to the rate of change of the GDP deflator to be calculated it is necessary to calculate a measure of compensation that includes all persons employed, not only employees. This is done by assigning the same compensation as received by employees to the self-employed. The total amount assigned is deducted from the gross operating surplus.

Box 2

BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2025 Q4

Introduction

This box presents the results of the latest edition of the Banco de España Business Activity Survey (EBAE), corresponding to 2025 Q4. Drawing on a sample of Spanish non-financial corporations, the EBAE assesses how business activity has fared in the current quarter and the outlook for the short term.[1] In particular, the survey compiles qualitative information on respondent firms' turnover, employment, business investment and costs and prices. The fieldwork for Q4 was conducted between 17 November and 1 December. The online survey was sent to a sample of almost 15,000 firms, more than 30% of which regularly respond to Central Balance Sheet Data Office surveys. As in previous quarters, participation in this edition was very satisfactory, with just over 6,800 valid surveys completed (a response rate of 46%).

Turnover, employment and investment

The survey results point to an increase, in gross series terms, in Spanish firms' *turnover*[2] in Q4, after the slight contraction of Q3 (Chart 1.a). On a seasonally adjusted basis, turnover is estimated to have grown slightly for the third quarter running,[3] a trend similar to that of other confidence indicators, such as the PMI. By sector, there is a notable increase in the information and communication, professional activities and administrative activities sectors. Conversely, hospitality is performing particularly poorly, much like during the same quarter last year (Chart 1.b). By size, turnover is growing among larger firms (more than 250 employees) but stabilising among SMEs (fewer than 250 employees).

As regards *employment,* respondent firms report some growth relative to the previous quarter (Chart 1.c), which is confirmed by the seasonally adjusted series.[4] In line with the sectoral pattern for turnover, employment in professional activities and administrative activities continues to improve, in contrast to the downward trend in hospitality. Lastly, employment appears to be growing at large firms, albeit at a much slower pace than a year ago, while at SMEs it is expected to decline slightly in Q4.

In terms of *investment decisions,* the results show positive aggregate developments in investment activity for the seventh consecutive quarter. By sector, investment activity has recovered across the board. Moreover, firms' expectations for 2026 Q1 point to continued growth in investment (Chart 2.a). In line with turnover and employment, investment appears to be growing at large firms but contracting at SMEs.

Costs and prices

Turning to the *cost of inputs,* the survey results point to a slight increase in inflationary pressures relative to Q3, particularly in hospitality and agriculture. However, this increase in input costs does not appear to have passed through to *sales prices,* whose variation remains similar to last quarter's (Chart 2.b).

Looking ahead to the first quarter of 2026, the companies surveyed expect inflationary pressures to increase somewhat. Regarding the *outlook one year ahead,* firms expect price hikes – a departure from the expectations of price moderation they reported in the first three quarters. The results point to increased expectations of higher input prices, sales prices and labour costs.

Factors limiting business activity

Regarding the factors shaping economic activity in 2025 Q4, the results point to a certain stability in terms of the proportion of firms affected. Nevertheless, there was a new uptick in difficulties linked to *labour shortages* (Chart 2.c). Specifically, 48% of firms perceive labour shortages, a 2.4 pp increase compared with three months ago. By economic sector, problems remain particularly pronounced in construction, hospitality and agriculture, with 63%, 57% and 54% of firms, respectively, reporting difficulties.

1 The results presented in this box were calculated using weights that allowed us to replicate the distribution of firms by sector (15 sectors) and size (four size intervals) in the Statistics for Social Security-registered Firms (Estadística de Empresas Inscritas en la Seguridad Social).

2 Firms' responses are summarised in an index that weights their qualitative assessments based on the following five-point scale: significant decrease = -2, slight decrease = -1, unchanged = 0, slight increase = 1, significant increase = 2.

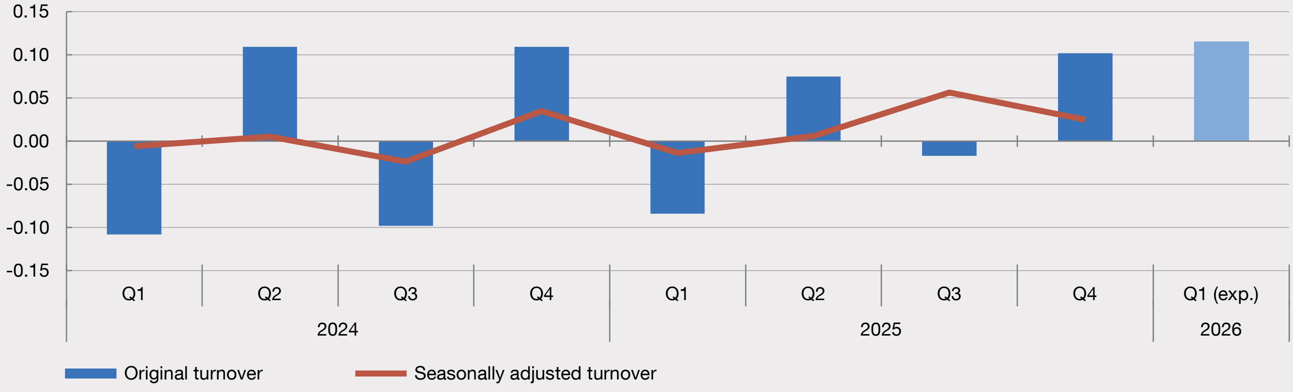
3 Given that the available EBAE time series are still too short to apply the standard seasonal adjustment techniques, we estimated the seasonal component by constructing a provisional seasonally adjusted time series based on an estimation of the historical relationship between the EBAE turnover indicator and the tax authorities' original quarterly series of turnover at large firms and small and medium-sized enterprises. This should be interpreted as an initial preliminary estimate to be revised in the future.

4 As with turnover, to estimate the seasonal component we constructed a provisional seasonally adjusted time series based on an estimation of the historical relationship between the EBAE employment indicator and the Spanish Labour Force Survey's quarterly employment series. This should be interpreted as an initial preliminary estimate to be revised in the future.

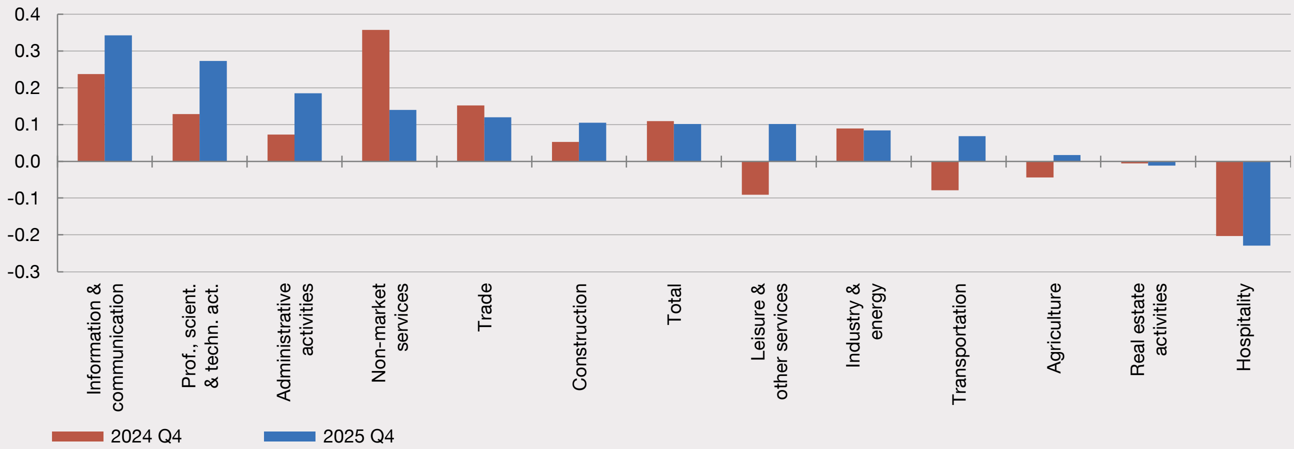
Box 2
BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2025 Q4 (cont'd)

Chart 1
Turnover and employment: change and outlook

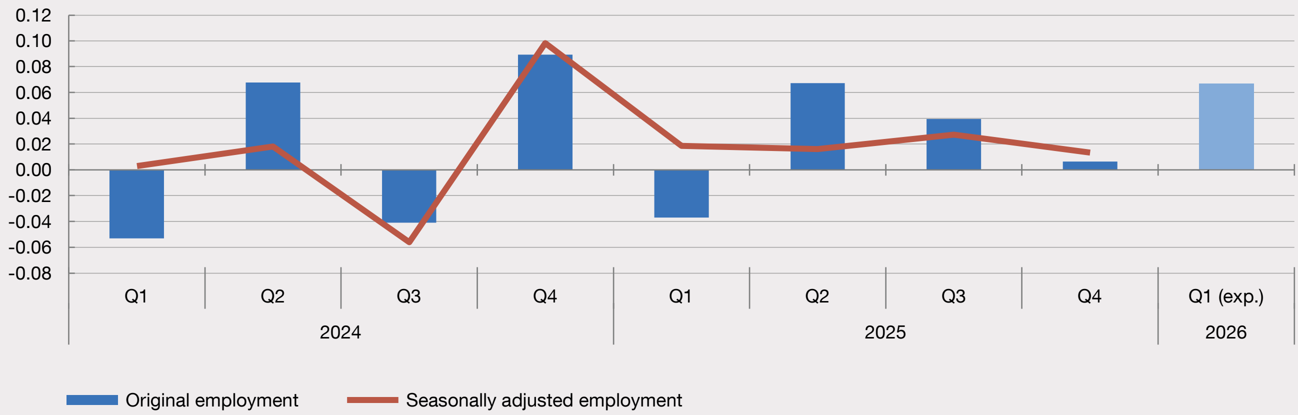
1.a Quarterly change in turnover (a)



1.b Quarterly change in turnover, by sector (a)



1.c Quarterly change in employment (a)



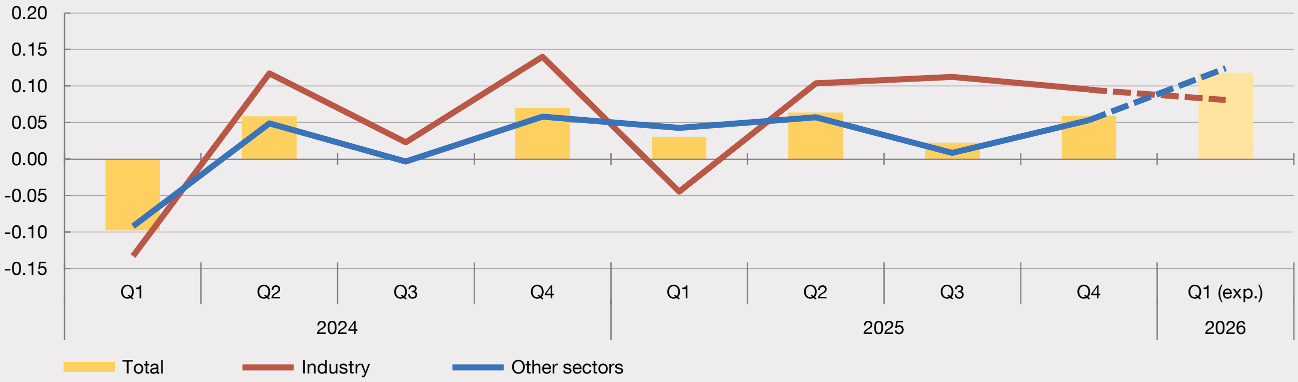
SOURCE: Banco de España Business Activity Survey (EBAE).

a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.

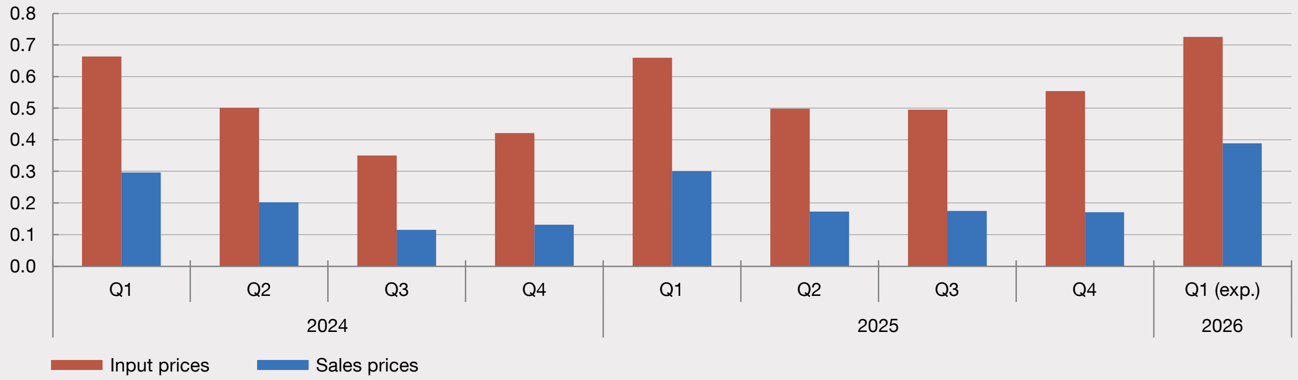
Box 2
BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2025 Q4 (cont'd)

Chart 2
Investment, prices and constraints on economic activity

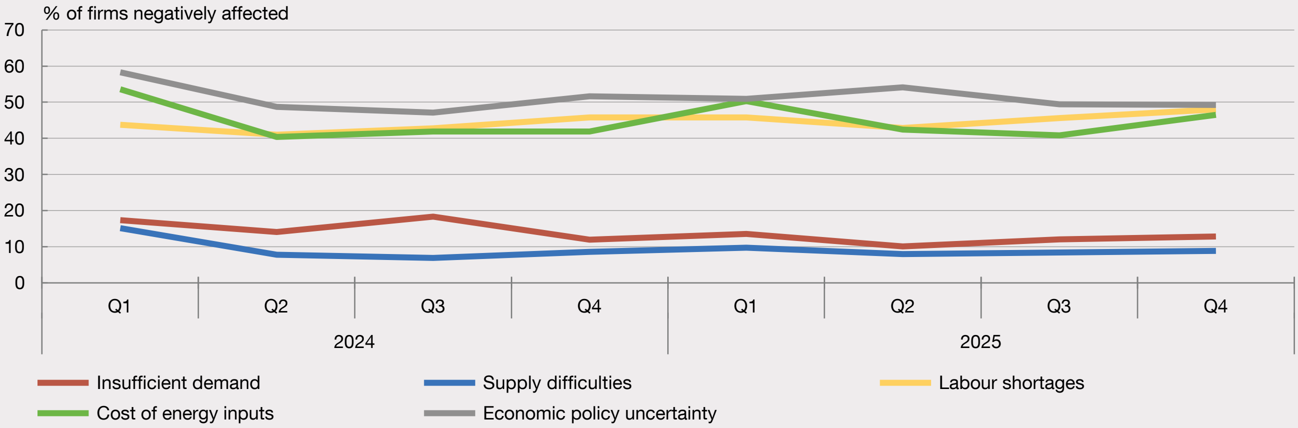
2.a Change in business investment (a)



2.b Quarterly change in input and sales prices (a)



2.c Constraints on business activity (b)



SOURCE: Banco de España Business Activity Survey (EBAE).

a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.
b Firms reporting a negative or very negative impact of each of these factors on their activity.

Box 2
BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2025 Q4 (cont'd)

As for other supply-side factors, the proportion of firms reporting energy cost-related difficulties increased this quarter, to 46.5%. By productive sector, this factor had a particularly adverse effect on hospitality, agriculture and transportation.

In addition, the prevalence of *economic policy uncertainty* as a limiting factor has stabilised somewhat. Given that 49.3% of firms were adversely affected by this factor, it remains the main constraint on economic activity. This factor was more prevalent in the transportation and industry sectors than in other services sectors.

Lastly, a small group of firms – and a somewhat higher proportion of SMEs – continue to view financial factors as a constraint. Hence, *access to finance* is perceived as a difficulty by 13% of firms (15.4% of SMEs and 9.7% of large firms), in line with the figures for recent quarters. Moreover, 17.7% of firms (20% of SMEs and 13.8% of large firms) are hard-pressed to cover *interest payments on their debts,* although the percentage has fallen steadily since later 2023.

Medium-term outlook for activity

For this edition, firms were asked about *expected turnover one year ahead.* Most firms (55%) – especially those in the professional activities and administrative activities sectors – expect higher turnover next year, while 34% expect it to remain stable and 11% (particularly in the agriculture sector) report that they see a possible downturn in turnover.

Most respondent firms report low to moderate uncertainty that the level of expected turnover will in fact be realised, suggesting confidence in their projections, while 29.4% expressed a high degree of uncertainty on their outlook for business activity

Box 3

ASSESSMENT OF THE UNCERTAINTY SURROUNDING THE BASELINE SCENARIO FOR THE SPANISH ECONOMY AND DEVELOPMENT OF ALTERNATIVE SCENARIOS

The macroeconomic projections are prepared around a baseline scenario, which is inevitably subject to considerable uncertainty due to the difficulty of anticipating potential shocks to the economy or the overall performance of the different variables in the absence of fresh economic or financial shocks. To assess this uncertainty, various approaches – ranging from analyses based on historical prediction errors to subjective assessments of the main sources of risk – are combined to identify potential deviations and design alternative scenarios to the baseline case, thereby providing a balance of risks to the baseline scenario.

In order to estimate the uncertainty surrounding the baseline scenario based on past prediction errors, an analysis is conducted using a statistical model that captures possible future paths of economic performance based on the pattern, variance and asymmetry of the errors or deviations of the model relative to actual past data. These discrepancies are used to simulate potential future shocks not envisaged in the baseline scenario.[1] The results of this analysis show that the uncertainty range surrounding the GDP growth projections widens as the forecasting horizon increases, while, for inflation, the uncertainty bands widen sharply in the first two quarters of the projection and hold relatively stable thereafter. It is also worth noting that the probability distribution of potential future GDP growth values exhibits asymmetric upside risk in the short term, whereas this asymmetry is not observed for inflation (Charts 1 and 2).

The uncertainty surrounding the projections can also be illustrated by looking at the heterogeneity across the various analysts' baseline scenarios. The distribution of expected GDP growth and inflation rates for 2026 – compiled by Consensus Economics™ from a broad set of forecasters – shows significant dispersion, with the baseline scenario of the current projections standing close to the average for both GDP and inflation. Compared with last quarter's forecasts, both distributions have shifted to the right, signalling stronger economic activity and higher inflation, in line with the revision included in the current Banco de España projections (Charts 3 and 4).

Meanwhile, a survey of Banco de España economists on the risks to economic developments in Spain suggests that, relative to the baseline scenario, the risks are tilted to the downside for GDP and to the upside for inflation. Specifically, 53% of respondents consider that the risks to economic activity are mainly to the downside, 28% of them believe they will remain stable and just 16% deem them to be mainly to the upside. For inflation, 57% of respondents view risks as mainly tilted to the upside, with 15% even rating them as clearly to the upside, while a

Chart 1
Uncertainty around the GDP growth forecast

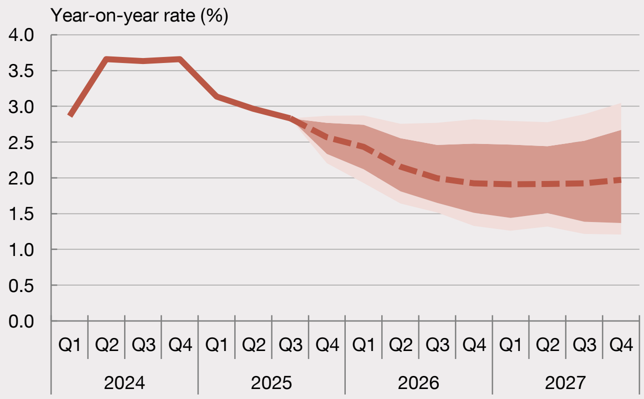
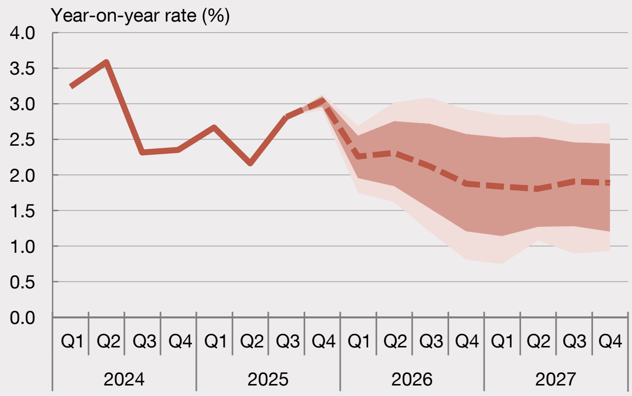


Chart 2
Uncertainty around the inflation forecast



SOURCES: INE and Banco de España.

1 For more details, see Davide Delle Monache, Andrea De Polis and Ivan Petrella. (2024). "Modeling and Forecasting Macroeconomic Downside Risk". *Journal of Business & Economic Statistics,* 42(3), pp. 1010-1025. https://www.tandfonline.com/doi/full/10.1080/07350015.2023.2277171

Box 3

ASSESSMENT OF THE UNCERTAINTY SURROUNDING THE BASELINE SCENARIO FOR THE SPANISH ECONOMY AND DEVELOPMENT OF ALTERNATIVE SCENARIOS (cont'd)

marginal 3% feel they are mainly to the downside (Charts 5 and 6).

The survey also provides information on the main sources of risks identified by Banco de España economists and how they have changed over time. According to the responses, the main sources of uncertainty in the international environment are geopolitical and trade tensions (although these are less relevant than in the previous projection exercise) and international financial markets (whose significance as an element of uncertainty has increased this quarter). Domestically, the key sources of uncertainty are future inflationary pressures linked to wages and profit margins and the housing market. These factors are now much more prominent than in the previous projection exercise (Charts 7 and 8).

The international trade environment remains an important external source of risk for the Spanish economy, although the recent trade agreements – particularly that reached by the United States and China in early November – alongside other trade measures adopted by the US Administration have reduced the likelihood of a tariff war, leading to a decline in uncertainty indices worldwide. However, these indices remain high and, given the provisional nature of the China-US agreement, the possibility of the trade

Chart 3
Distribution of the Consensus forecasts for GDP growth in 2026

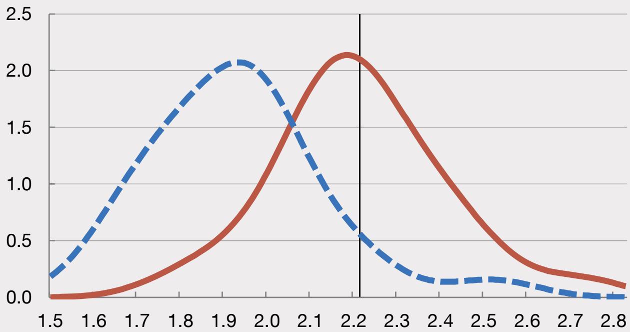
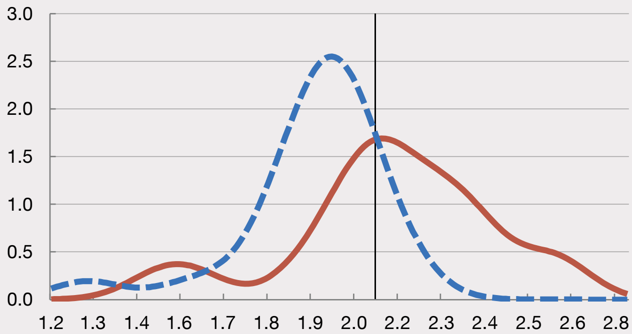


Chart 4
Distribution of the Consensus forecasts for inflation in 2026



December 2025 Banco de España forecast   December 2025 Consensus forecasts   September 2025 Consensus forecasts

SOURCES: Consensus Economics and Banco de España.
NOTE: The distributions include forecasts from 30 national and international institutions.

Chart 5
Risks to GDP

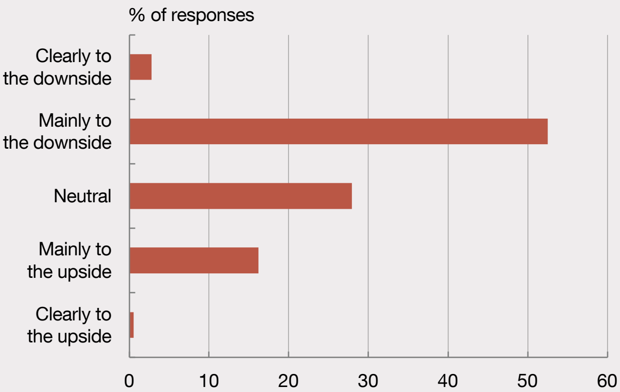
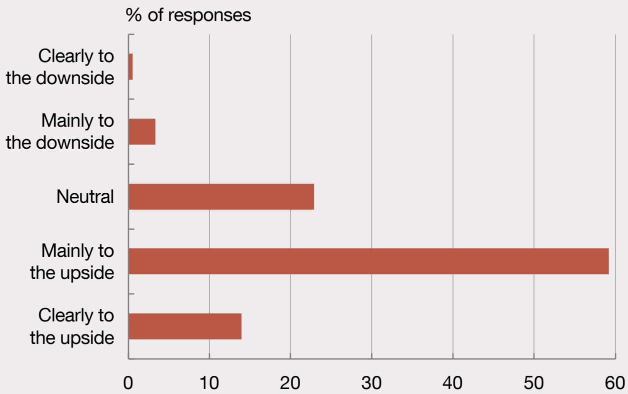


Chart 6
Risks to inflation



SOURCE: Banco de España.

Box 3
ASSESSMENT OF THE UNCERTAINTY SURROUNDING THE BASELINE SCENARIO FOR THE SPANISH ECONOMY AND DEVELOPMENT OF ALTERNATIVE SCENARIOS (cont'd)

conflict resurfacing or of new non-tariff barriers being introduced – such as China's rare earth export restrictions –[2] cannot be ruled out. This could weaken international trade and weigh on global economic activity and, therefore, the expected performance of Spanish imports and exports over the coming quarters.

Meanwhile, the volatility observed in financial markets during the early weeks of December – although limited and temporary – coupled with doubts about tech firm valuations and the profitability of investments in artificial intelligence – including new data storage and processing centres – highlights the risk of a potentially abrupt and significant correction in tech firm share prices. This risk is amplified by the fact that stock markets remain at record high levels in several regions, amid persistent uncertainty regarding the future stance of US economic policy. An unexpected correction in financial asset valuations would lead to a global tightening of financial conditions and, consequently, negatively impact economic activity and financial stability.

The survey results highlight three key domestic sources of uncertainty surrounding the baseline scenario, which form the basis for three alternative scenarios presented below:

Chart 7
Assessment of each source of risk

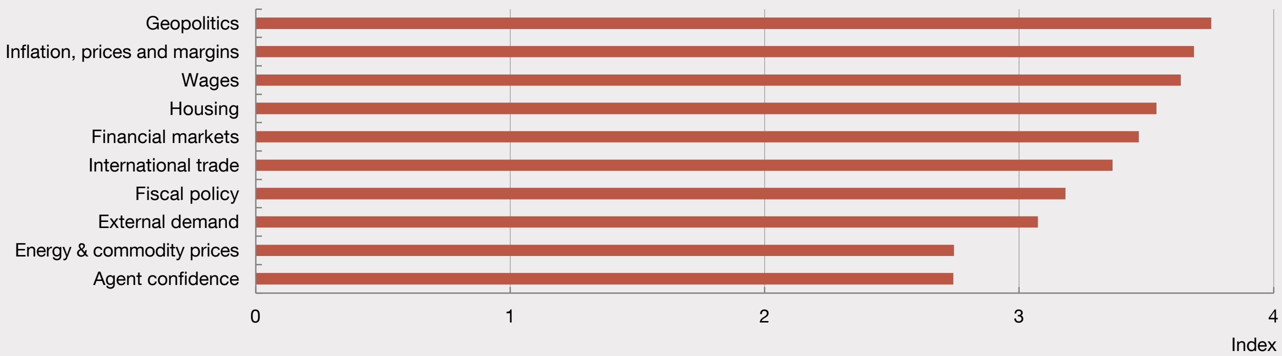
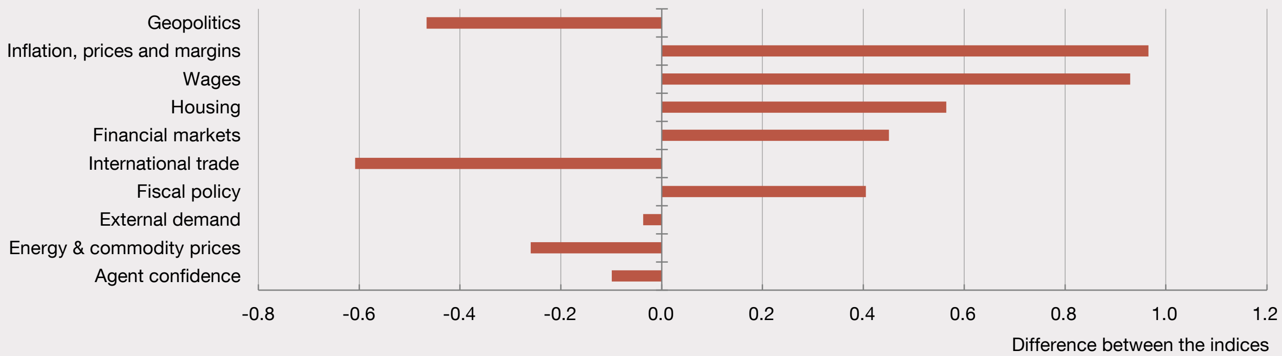


Chart 8
Change in the assessment of each risk with respect to September



SOURCE: Banco de España.

2 In October, the Chinese authorities announced new controls on exports of rare earths, critical minerals and related technology, expanding the range of products subject to restrictions since April and pressing ahead with the policy of limiting strategic material exports that China has pursued since mid-2023. In November, following bilateral negotiations with the United States, the Chinese Government decided to temporarily suspend some of those restrictions.

Box 3

ASSESSMENT OF THE UNCERTAINTY SURROUNDING THE BASELINE SCENARIO FOR THE SPANISH ECONOMY AND DEVELOPMENT OF ALTERNATIVE SCENARIOS (cont'd)

Scenario 1: stronger wage pressures and reduced profit margin restraint amid sluggish productivity growth

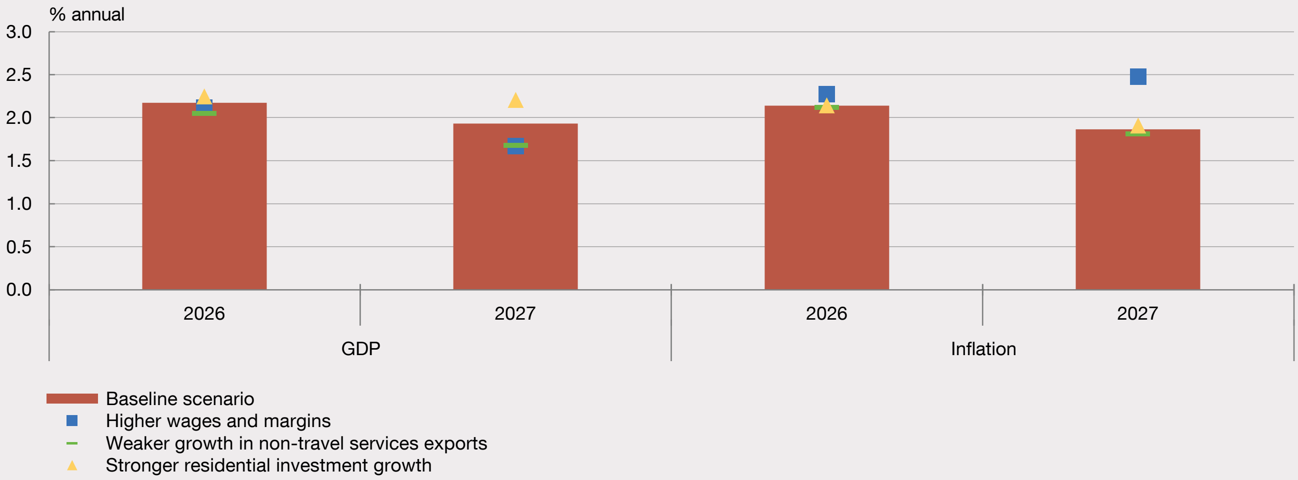
The current projection exercise includes an upward revision of the future wage path, partially incorporating this risk into the baseline scenario, although it still envisages a gradual moderation of labour costs. Profit margins are also expected to narrow, partly absorbing the increase in wages, in line with developments in recent quarters. As a result, the baseline scenario anticipates contained domestic inflationary pressures throughout the projection horizon. However, this inflation forecast faces upside risks arising from the future path of compensation per employee and profit margin restraint. These risks are compounded by the recent agreement to raise public sector remuneration, which could have carry-over effects on private sector wages. Stronger wage dynamics or higher profit margins that are unable to absorb the effect of the wage increases not offset through productivity gains could jeopardise the slowdown in inflation projected in the baseline scenario. In this alternative scenario, the dynamics described would erode the Spanish economy's competitiveness and, ultimately, weigh on economic activity and employment.

In particular, this scenario rests on two deviations from the baseline scenario. First, it assumes a more marked effect of public sector wage dynamics on private sector compensation, pushing up wage settlements in the market economy to above the baseline path. Second, it assumes a greater increase in profit margins than expected in the baseline scenario, thus weakening their effect as a buffer for employment and their ability to absorb domestic inflationary pressures arising from higher labour costs. Under this scenario, GDP growth would be similar to that envisaged under the baseline scenario in 2026 but up to 0.3 percentage points (pp) lower than the baseline figure in 2027. Inflation would be higher by around 0.1 pp in 2026 and 0.6 pp in 2027 (Chart 9). This more pronounced impact in 2027 reflects the higher wage growth that year and the lagged effect of wage increases on price setting and, ultimately, economic activity.

Scenario 2: weaker growth in non-travel services exports

The current projection exercise includes an upward revision to the future path of non-travel services export growth. This heading has shown considerable momentum since the pandemic and has exceeded expectations in recent quarters. The recent strength of non-travel services exports, combined with the significant rise in intangible investment (after the recent data revision by the National Statistics Institute (INE)), and the fact that its share in GDP remains lower than in other major European economies, suggests there is ample scope for this trend to continue going forward. This assumption would also be consistent with some moderation in the projected trajectory of the elasticity of imports to final demand, given the lower

Chart 9
GDP and inflation scenarios



SOURCES: Banco de España.

Box 3

ASSESSMENT OF THE UNCERTAINTY SURROUNDING THE BASELINE SCENARIO FOR THE SPANISH ECONOMY AND DEVELOPMENT OF ALTERNATIVE SCENARIOS (cont'd)

import content of such exports compared with other demand components, such as investment or exports of goods.

Nevertheless, under a potential scenario of flagging world trade amid persistently high global trade uncertainty, there is the risk of services export growth falling short of expectations or imports growing faster than envisaged in the baseline scenario, which would dampen GDP growth.

To factor in these considerations, a scenario is simulated where non-travel services exports grow at a slower pace than in the baseline scenario. As a result, services exports cease to grow as a share of GDP and net exports contribute less favourably. Aggregate demand would be adversely impacted under this scenario, leading to a reduction in both GDP growth and inflation over the projection horizon. Specifically, GDP growth would be around 0.1 pp lower in 2026 and 0.3 pp lower in 2027, while inflation would be down by roughly 0.1 pp in 2027 (Chart 9).

Scenario 3: stronger residential investment growth

In this projection exercise there is considerable uncertainty surrounding developments in residential investment. The latest data indicate something of a slowdown in the issuance of residential building permits. Amid administrative and regulatory frictions affecting both the production of land for development and construction, this suggests that residential investment may slacken in the coming years compared with 2025. However, the marked increase in housing demand, driven by migratory flows and net household formation, indicates that residential construction could gather steam in the years ahead.

Against this background, a scenario is simulated where residential investment progressively accelerates as building permit issuance picks up. This scenario would entail stronger GDP growth than envisaged in the baseline scenario, especially in 2027 given the execution schedule for these investments. Specifically, GDP growth could be around 0.1 pp and 0.3 pp higher in 2026 and 2027, respectively, while inflation would be similar in 2026 and approximately 0.1 pp higher in 2027 (Chart 9).

Conclusion

Taken together, the various approaches to quantifying uncertainty, as well as the three alternative scenarios, suggest that the risks to the baseline scenario for economic activity remain balanced in the near term, but tilt slightly to the downside in the medium term. For their part, the risks associated with the projected path of inflation in the baseline scenario are to the upside throughout the projection horizon.

ACRONYMS AND ABBREVIATIONS

AI	Artificial intelligence
AIReF	Independent Authority for Fiscal Responsibility
ANA	Annual National Accounts
EBAE	Banco de España Business Activity Survey
ECB	European Central Bank
€STR	Euro short-term rate
ETS2	Emissions Trading System for buildings, road transport and small industry
EU	European Union
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
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
SMEs	Small and medium-sized enterprises
ULCs	Unit labour costs
VAT	Value added tax
WTO	World Trade Organization

bn	Billion
bp	Basis points
pp	Percentage points
H	Half
Q	Quarter