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Macroeconomic projections and quarterly report on the Spanish economy

BANCO DE ESPAÑA
Eurosistema

MACROECONOMIC PROJECTIONS AND QUARTERLY REPORT ON THE SPANISH ECONOMY
MARCH 2026

This publication presents the analyses of and projections for the Spanish economy prepared by the Directorate General Economics and is published quarterly. The March and September reports analyse recent developments in the Spanish economy, within the global and euro area context, and include the Banco de España's projections for the current year and the next two years. The June and December reports only update the macroeconomic projections.

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EDITORIAL

Editorial

The first months of 2026 were marked by the outbreak of the war in the Middle East in late February. These events are unfolding in a geopolitical setting that was already characterised by rising uncertainty fuelled by various foreign policy decisions taken by the United States in the early weeks of the year. This uncertainty heightened significantly following the recent US-Israeli attack on Iran, which triggered major disruptions in the energy markets and worsened the international economic environment.

In this context, the conflict in the Middle East has led to a bout of instability in financial markets. Following the onset of the bombings of Iran, major stock market indices have experienced corrections and increased volatility, putting an end to the rising trend of recent quarters. As a result, so far this year both the S&P 500 and the EURO STOXX have remained at levels below those recorded at end-2025. The attacks on Iran have also pushed up long-term sovereign bond yields in the euro area, largely reversing the declines accumulated earlier in the quarter. Meanwhile, the dollar has appreciated by 1.2% against the euro in the year to date, driven by the United States' position as a net energy producer, once again acting as a safe-haven asset during periods of heightened economic uncertainty, a role it did not play last year.

The Middle East crisis has also disrupted the production and transport of energy commodities, sharply increasing their prices. In the first weeks of the conflict, crude oil and natural gas prices increased by around 30% and 60%, respectively, due to the impact on key infrastructure in the region and to the de facto closure of the Strait of Hormuz, a vital route for the global transport of energy commodities. The escalation of the conflict, together with the considerable uncertainty surrounding its duration, casts serious doubt on whether the production and transport of energy commodities in the region will return to normal any time soon.

As for trade, uncertainty has also risen sharply as a result of the US Supreme Court's ruling invalidating the legal framework underpinning many of the tariffs introduced in April 2025. This court ruling, along with the US Administration's subsequent response – the introduction of a 10% global tariff – raises doubts as to the implementation of the trade agreement concluded by the United States and the European Union (EU) in July and significantly alters the relative tariff structure faced by the various countries in the US market. Meanwhile, the EU has recently concluded important trade agreements with Mercosur and India that could help reshape, at least partially, the bloc's trade flows over the coming years.

Despite the complex and highly uncertain geopolitical setting, the baseline scenario for global economic activity outside the euro area has so far remained largely unchanged from that at end-2025, although downside risks have increased significantly. In the United States, GDP grew by 2.2% in 2025, down from 2.8% in 2024, after a quarter-on-quarter increase of just 0.3% in Q4, largely due to the longest ever federal government shutdown. In China, economic growth reached

5% in 2025, similar to the rate recorded in 2024. According to the European Central Bank's (ECB) latest projections, global economic activity excluding the euro area will grow by 3.3% in 2026 – the same rate projected three months earlier – as the negative impact of the war in the Middle East is offset by the stronger economic momentum at end-2025. However, this growth rate would be slightly lower than the 3.6% recorded in 2025. That said, a protracted war in the Middle East or more severe disruptions in energy markets could significantly worsen this outlook.

The attack on Iran could also push global inflation off its moderating trend. Global inflation stood at 2.7% in January – the same rate as in December but 1.1 percentage points (pp) and 0.2 pp below the figures for early and mid-2025, respectively. In the United States, consumer prices increased by 2.4% in both January and February, down from 2.7% in December. In China, inflation declined more sharply in January (by 0.6 pp, to 0.2%) but rebounded significantly in February (to 1.3%) owing largely to the Lunar New Year holiday. Against this background, the continuation of the global disinflation process will depend not just on tariff developments but also on the scale and persistence of the energy shock triggered by the Middle East conflict and the risk of further disruptions to global value chains.

The current environment, marked by this conflict, has led to a downward revision of the euro area's economic outlook for 2026 and 2027. Euro area GDP grew by 0.2% in 2025 Q4, down slightly on the 0.3% recorded in Q3 and broadly in line with expectations. In 2025 as a whole, the euro area economy expanded by 1.5%, compared with 0.9% in 2024. According to the latest ECB projections, economic activity is expected to grow by 0.9% in 2026 and 1.3% in 2027 – downward revisions of 0.3 pp and 0.1 pp, respectively, relative to the December forecast. These forecasts are subject to downside risks, against a backdrop marked by the escalation of the conflict in the Middle East and the significant volatility in energy markets. In this regard, the ECB has prepared alternative scenarios based on a more prolonged and intense armed conflict which, in the most severe case, would put GDP growth in the euro area at 0.4% in 2026 and 0.9% in 2027.

Meanwhile, euro area inflation forecasts are revised upwards for 2026 and 2027 owing to the pick-up in energy prices. In February, headline and underlying inflation in the euro area stood at 1.9% and 2.4%, respectively, in line with expectations and 0.2 pp above January's levels. Euro area inflation was 2.1% for 2025 as a whole, 0.3 pp below the 2024 average. According to the latest ECB projections, average inflation is expected to reach 2.6% in 2026 and 2.0% in 2027 – upward revisions of 0.7 pp and 0.1 pp, respectively, compared with the December forecasting exercise. It should be noted, however, that these projections are subject to a very high degree of uncertainty – possibly greater than that surrounding activity forecasts – largely owing to the unpredictability associated with the energy shock. In particular, alternative ECB scenarios assuming a more persistent shock place the inflation rate at 4.4% in 2026 and 4.8% in 2027.

Turning to monetary policy, during the first few months of 2026 the central banks of the main advanced economies have left policy interest rates unchanged, although expectations regarding their future path have been revised upwards following the outbreak of the conflict in the Middle East. After cuts amounting to 75 bp between September and December, the US Federal Reserve System kept the federal funds rate unchanged at its January and March meetings, at 3.5%-3.75%.

The ECB likewise made no changes in February and March, maintaining its policy rate at 2.0%, where it has stood since June last year. Financial market expectations – which have recently displayed heightened volatility as a result of rising energy prices that could alter the projected paths of inflation and growth – are pricing in around two further hikes in the euro area, but are not anticipating changes in the US monetary policy stance.

Economic growth in Spain was robust and above expectations in both 2025 Q4 and the first few months of 2026, which, under the scenario envisaged prior to the outbreak of the war, would have led to an upward revision to GDP growth in 2026. GDP growth stood at 0.8% in 2025 Q4, 0.2 pp more than in Q3 and above the Banco de España's projections, which had envisaged growth of between 0.6% and 0.7%. Domestic demand and, in particular, private consumption and investment, once again showed notable vigour. While government consumption made no contribution to growth, the external sector made a negative contribution to output growth, despite the recovery in exports. The most recent short-term economic indicators suggest that the pace of activity will moderate in 2026 Q1 towards a growth rate of between 0.5% and 0.6%. In line with these developments in activity in 2025 Q4 and 2026 Q1, GDP growth under the pre-war scenario would have been revised upwards to 2.4% in 2026, compared with the 2.2% envisaged in the December projection exercise.

The current forecasting exercise, which is subject to particularly high uncertainty stemming from the course of the Middle East conflict, incorporates a 0.1 pp cut to the projected GDP growth rate for 2026, to 2.3%, compared with the scenario prior to the attack on Iran. This revision reflects the inclusion of more unfavourable technical assumptions regarding energy prices and developments in overseas markets compared with those available before the war and those of three months earlier. Their effect is somewhat offset by the fiscal support measures adopted to mitigate the impact of the crisis in the Middle East. For 2027, the baseline scenario projects growth of 1.7%, 0.3 pp below that under the scenario prior to the attack on Iran and 0.2 pp below the December projection, owing to the deterioration in the international environment and the reversal of the fiscal impulse. It should be emphasised that these projections are based on the assumption that the energy markets will return to normal relatively rapidly, as anticipated by futures markets at the cut-off date for the technical assumptions, 11 March. Scenarios characterised by more persistent energy price rises and more severe disruptions to global value chains could bear down on economic performance, with GDP growth rates in 2026 and 2027 lowering to 1.9% and 1.1%, respectively, under the most adverse scenario.

Headline inflation has slowed in recent months, easing from 3.2% in November 2025 to 2.5% in February 2026, while underlying inflation has remained stable at 3.0%. The moderation in headline inflation is mainly owing to the sharp fall in energy prices, which has been partially offset by a pick-up in processed food price growth. By contrast, the stability of underlying inflation reflects the strong persistence of services price rises, alongside a slight upturn in non-energy industrial goods prices in February compared with January.

Relative to the December projection exercise, the average headline inflation rate forecast for 2026 under the baseline scenario has been revised upwards by 0.9 pp to 3.0%. Underlying inflation is expected to stand at 2.7%, 0.2 pp above its December projection. This higher projected price growth for 2026 mainly reflects the recent path of inflation along with the global jump in energy prices, which will both be partially offset by the energy tax reductions approved in March. In 2027, headline and underlying inflation rates are projected to reach 2.5% and 2.7%, respectively, 0.6 pp higher than expected three months ago, owing to developments in energy commodity prices, the withdrawal of public transport subsidies at the beginning of the year and the projected increase in energy taxation in spring 2027 compared with the same period in 2026. It should be noted that scenarios characterised by more prolonged disruptions in energy markets could push inflation rates in 2026 and 2027 up to 5.9% and 3.2% respectively.

The risks to the baseline scenario in these projections are tilted to the downside for activity and to the upside for inflation. As noted above, the baseline scenario assumes that oil and gas markets, which have been severely disrupted since the outbreak of the conflict in the Middle East, will return to normal relatively rapidly. However, a more intense and prolonged conflict lasting several months (a possibility that appears increasingly likely in the light of the latest developments), would see energy commodity prices remain high and increase the likelihood of second-round effects on wages and prices along the length of the production chain. This dynamic could dampen economic growth and result in higher inflation rates than those currently projected under the baseline scenario, as reflected under the alternative scenarios considered in this report.

REPORT

1 The conflict in the Middle East has pushed up energy commodity prices amid considerable uncertainty about how long it will last and the ultimate scale of its economic fallout

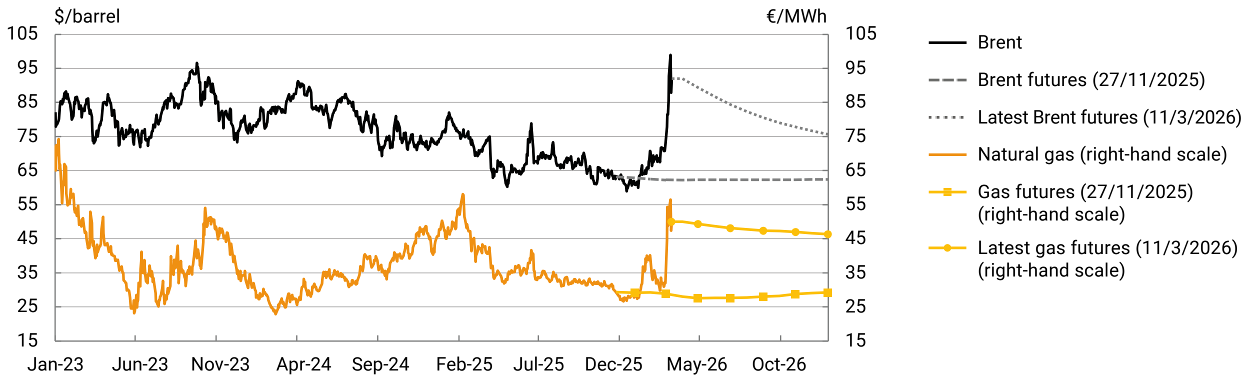
— The attacks on Iran by the United States and Israel on 28 February triggered sharp energy commodity price rises around the world. Although Iran accounts for a relatively small share of global oil production (4.4%), the near-total closure of the Strait of Hormuz in the wake of the outbreak of the conflict has major implications for global energy markets, since around 20% of the global trade in crude oil and liquefied natural gas (LNG) passed through this route before it was shut down.

— Thus, on data to 11 March and in the context of extreme market volatility, oil and LNG prices have risen by around 30% and 60%, respectively, since the end of February. However, oil futures for end-2026 point to a more moderate increase, of around 11% (Chart 1.a).

— The economic implications of the conflict will depend on its duration and intensity, how long the Strait of Hormuz remains closed and how quickly transport and energy production in the region return to normal thereafter, which generates very high uncertainty surrounding the global economic outlook.[1]

Chart 1

1.a Oil and gas prices and futures



SOURCE: LSEG.

1 Depending on how the conflict unfolds, another source of risk stems from the potential damage caused by further attacks on the energy facilities of other producing countries in the region, which together account for almost 30% of global oil production and 20% of global LNG production.

2 A second source of uncertainty, albeit less significant than that associated with the conflict, stems from global trade developments: the US Supreme Court ruling implies a reduction in tariffs, although doubts persist regarding its future enforcement

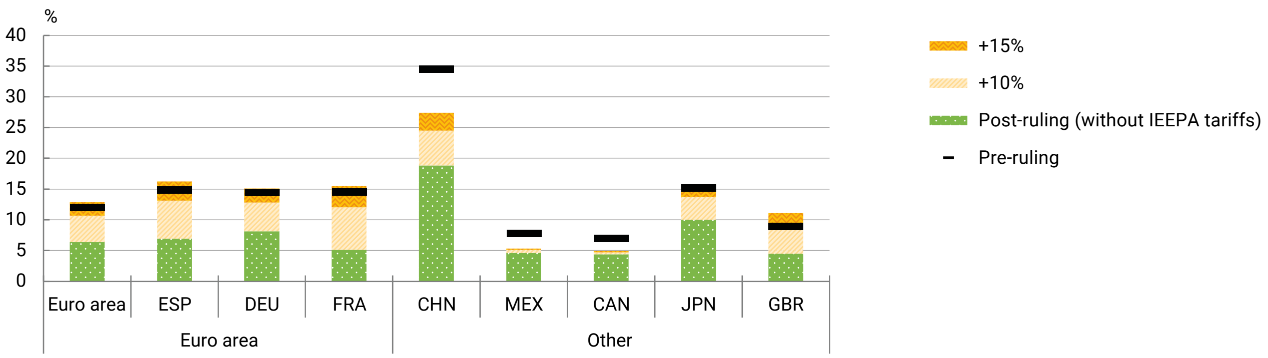
— In February, the US Supreme Court (SCOTUS) ruled that the International Emergency Economic Powers Act (IEEPA) does not give the executive branch of the US Government authority to impose tariffs without congressional approval, which renders part of the tariff framework introduced since April 2025 legally invalid. In response, the Trump Administration has imposed a temporary 10% tariff for a maximum of 150 days, and is considering raising it to 15% under legislation allowing tariffs to be applied owing to problems in the balance of payments.[2]

— Overall, US tariffs have fallen, albeit unevenly across countries. Some, like China, Canada and Mexico have experienced larger reductions (of up to 10 pp in China's case) whereas in the euro area the decline in the effective tariff appears to be very small – around 1 pp, or even non-existent if it is ultimately raised to 15% (Chart 2.a). There is also considerable heterogeneity across products: almost 60% of euro area and Spanish exports to the United States are subject to a reduction in tariffs, compared with a third that face slight increases.[3]

— Looking ahead, once the initial 150-day period of the new temporary tariffs expires, any extension should draw on legislation that, in most cases, only allows permanent tariffs to be set for specific sectors, which would result in product-specific tariffs. In consequence, uncertainty surrounding US trade policy is now even higher, particularly in the medium term.

Chart 2

2.a Effective US tariffs: Scenarios after the SCOTUS ruling (a)



SOURCES: Global Trade Alerts and Banco de España.

a Four scenarios are compared: (1) the scenario prior to the SCOTUS ruling; (2) the scenario after the ruling; (3) temporary global tariffs from 24 February: +10% (currently in place); and (4) temporary global tariffs from 24 February: +15% (maximum tariff envisaged on the current legal basis). The tariffs are set to be temporary (they expire after 150 days) unless extended by legislation. 10% and 15% tariffs are not applied evenly across countries, since the effective impact depends on the relative share of exempt exports. Among the main exemptions are goods falling under Section 232 of the Trade Expansion Act of 1962 (such as steel and aluminium), which are subject to other duties; goods that comply with USMCA rules of origin, for Canada and Mexico; and certain goods listed in Annex 2 of the US Government Executive Order.

2 Tariffs justified on national security grounds or on the basis of unfair trading practices, such as those applied to steel and aluminium imports, also remain in force.

3 Against this backdrop, progress on the US-EU trade agreement agreed last July has been suspended.

3 Policy interest rates remained stable in early 2026, although expectations of rate increases have risen following the outbreak of the conflict

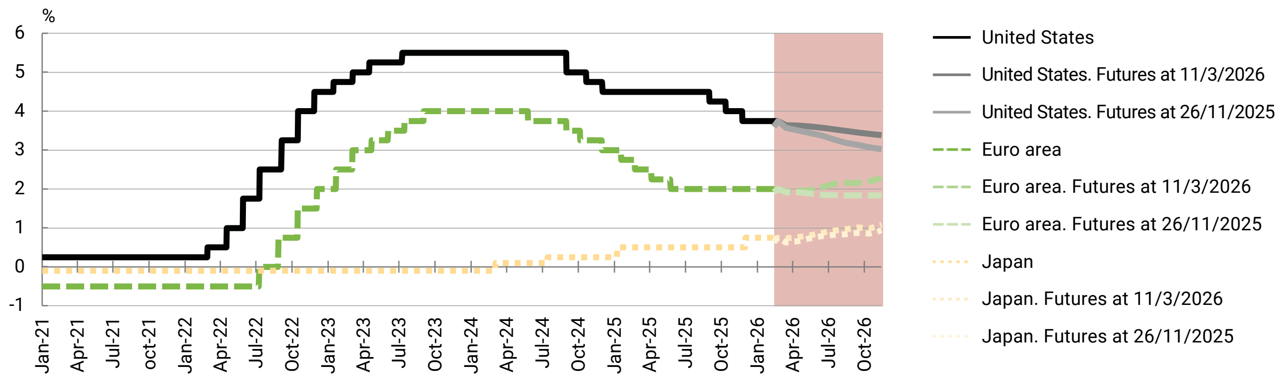
— In the early months of the year, the central banks of the main advanced economies left their official interest rates unchanged (Chart 3.a). The ECB, the Bank of England and the United States Federal Reserve System kept their policy rates unchanged in March.[4]

— Looking ahead, markets expect a more restrictive path for interest rates than had been anticipated at end-2025, in line with the likely inflationary pressures arising from higher energy commodity prices following the outbreak of the conflict in the Middle East. In the United States, further rate cuts are still expected this year, although with less confidence than three months ago, while in the euro area market expectations now point to a slight increase in rates, in contrast with the relative stability projected three months earlier. In Japan, market expectations remained largely unchanged, continuing to signal future hikes in the policy interest rate.

— In emerging economies, stability predominated in the first few months of the year, although market expectations also point to a somewhat more restrictive path for policy interest rates, linked to both the potential inflationary effects of the conflict and the moves made by the Federal Reserve System. Against a backdrop of very low inflation, China's monetary authority is continuing its gradual easing policy as part of its package of economic stimulus measures.

Chart 3

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



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

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

4 By contrast, the Reserve Bank of Australia raised its policy rate at its March meeting after the start of the conflict.

4 The conflict in the Middle East has unsettled financial markets, triggering stock market drops and increases in long-term interest rates

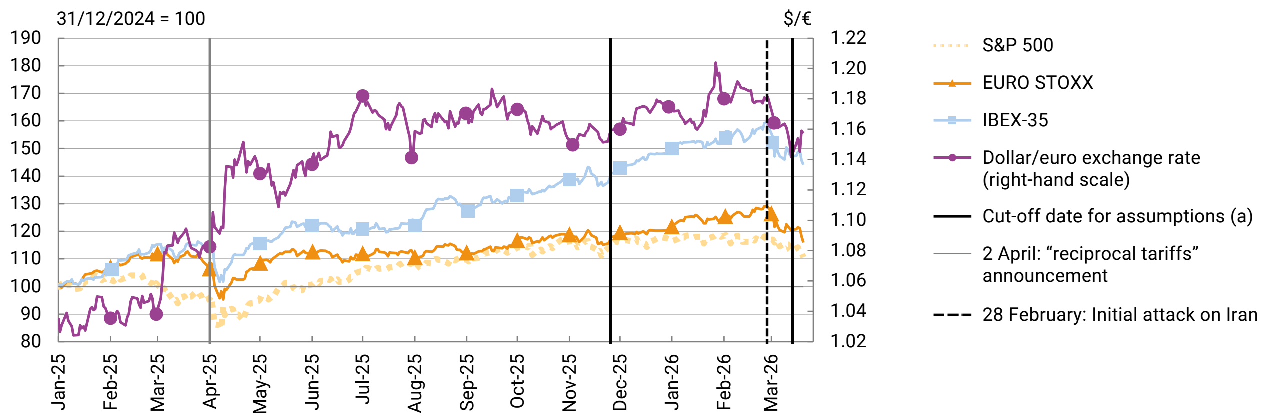
— The major stock market indices have experienced corrections and greater volatility since the US-Israeli attacks on Iran, which led to a sharp increase in oil and natural gas prices and stoked fears of higher inflationary pressures and lower economic growth. Since the start of 2026 Q1, the S&P 500 and the EURO STOXX have fallen by 3.5% and 2.4% respectively. The IBEX-35, meanwhile, has fallen by 2.3%. The Nasdaq index recorded a sharper decline (-5.0%) amid concerns over high valuations in the technology sector.

— The attacks on Iran also pushed up long-term sovereign bond yields in both the United States and the euro area, reflecting the upward revision to the expected path of policy interest rates associated with the inflationary effects of this shock.

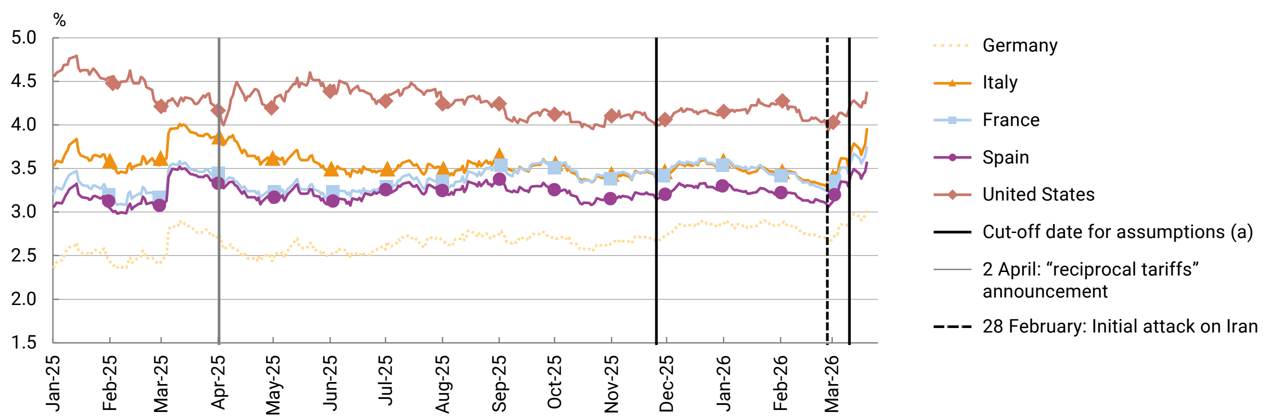
— In foreign exchange markets, the US dollar appreciated significantly against major currencies following the military escalation, benefiting from the status of the United States as an energy producer and from possible safe-haven flows. So far in 2026 Q1, it has gained 1.35% against the euro, reversing the depreciation observed in January.

Chart 4

4.a Stock market indices and exchange rates



4.b Ten-year sovereign debt yields



SOURCES: LSEG Datastream and Bloomberg Data License. Latest observation: 19 March 2026.

a 26 November and 11 March refer to the December 2025 and March 2026 Banco de España projection exercises, respectively.

5 Euro area economic activity showed some resilience in late 2025, but the ECB's projections include a downward revision on account of the impact of the energy shock

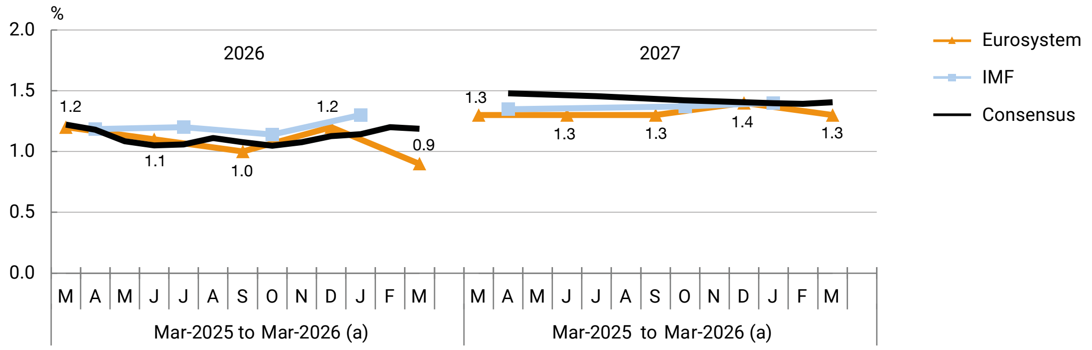
— Euro area GDP grew by 0.2% in 2025 Q4, down slightly on the 0.3% recorded in Q3. Broadly speaking, GDP growth was in line with the December Eurosystem projection exercise, although growth surprised on the upside in Germany, France, Spain and Italy.[5]

— Nevertheless, the surge in energy commodity prices since the outbreak of the Iran conflict worsens the economic outlook for the global economy and, in particular, for the euro area. In the March ECB staff macroeconomic projection exercise, growth expectations for the euro area are revised down considerably, with real GDP growth forecast for 2026 and 2027 at 0.9% and 1.3%, respectively, 0.3 pp and 0.1 pp lower than in the December projections (Chart 5.a).[6]

— Given the extraordinary uncertainty surrounding the course of the conflict and its economic impact over the projection horizon, the ECB has presented two alternative scenarios that incorporate a stronger and more persistent rise in energy commodity prices. These scenarios envisage a sharper deterioration in the international environment, as well as a stronger propagation of the energy shock via indirect and second-round effects.

Chart 5

5.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.

5 Despite these positive surprises in the main euro area economies, the aggregate was in line with the projections, due above all to the sharp contraction in Ireland's GDP (-3.8%).

6 These forecasts are based on the expected paths of futures prices for energy commodities up to 11 March, the cut-off date for the ECB staff projection exercise.

6 Inflation remained close to the 2% target up to February, in line with the projections, but it is expected to rise from March onwards due to the impact of the energy shock

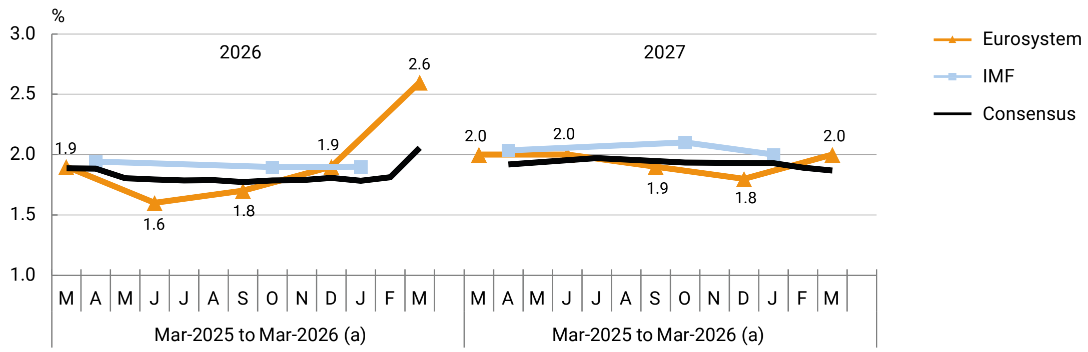
— HICP inflation in the euro area increased to 1.9% year-on-year in February, in line with the December projections, owing to inflation being higher than forecast in energy and services, which was offset by a small downside surprise in both non-energy industrial goods and food. Core inflation rose to 2.4%, in line with the projections.

— The March ECB staff projection exercise incorporates a significant, albeit temporary, spike in euro area inflation in 2026 Q2, attributable to the new scenario of energy prices. Specifically, the inflation forecast for 2026 as a whole is revised up by 0.7 pp to 2.6%, and the impact of the energy shock is expected to have a large transitory component, leading inflation to fall back to 2% in 2027, 0.2 pp higher than in the December forecast (Chart 6.a). Under the baseline scenario, the pass-through of higher energy prices to other components is expected to be limited, such that core inflation should stand at 2.3% and 2.2% in 2026 and 2027, respectively (0.1 pp and 0.3 pp higher than in the previous projections).

— As in the case of activity, these projections are subject to the very high uncertainty associated with the future course of the conflict, whose impact on inflation is shown in the alternative scenarios published by the ECB.

Chart 6

6.a Euro area inflation forecasts



SOURCES: IMF, Consensus Economics, Eurosystem and Eurostat.

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

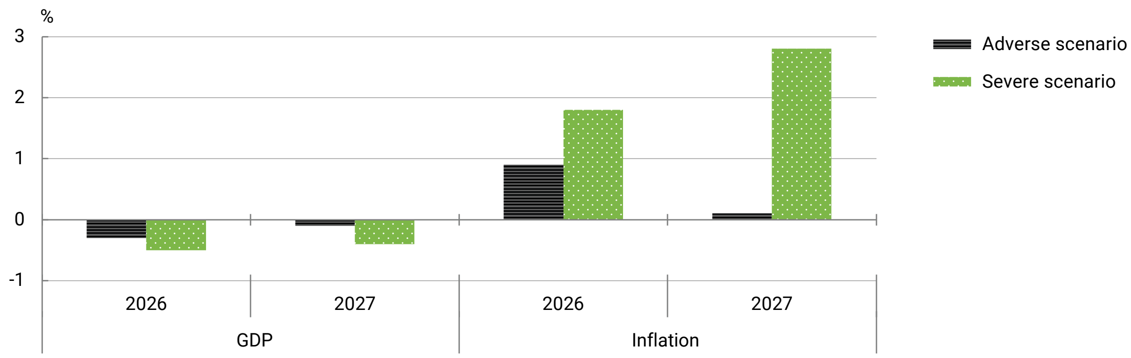
7 Given the high level of uncertainty, the March ECB staff projection exercise includes two alternative scenarios quantifying the impact on activity and inflation of a longer and more intense conflict

— The adverse scenario assumes a sharper increase in energy prices (relative to the paths of futures markets at 11 March), a significant rise in uncertainty and a greater downturn in global activity. Specifically, oil and gas prices are assumed to peak at $119 per barrel and €87 per MWh, respectively, in 2026 Q2, before converging to the baseline assumptions by 2027 Q3. In addition, the adverse scenario incorporates stronger indirect and second-round effects than the baseline, with a view to capturing possible non-linearities in the propagation of the energy shock to other prices across the economy. Under this adverse scenario,[7] euro area inflation could reach 3.5% in 2026, before easing to 2.1% in 2027 (0.9 pp and 0.1 pp, respectively, higher than in the baseline scenario) (Chart 7.a). Meanwhile, relative to the baseline scenario, GDP growth would be 0.3 pp and 0.1 pp lower in 2026 and 2027, respectively, standing at 0.6% and 1.2%.

— Compared with the adverse scenario, the severe scenario assumes a stronger and more persistent energy price increase, greater uncertainty and even stronger indirect and second-round effects. Specifically, oil prices are assumed to peak at $145 per barrel and gas prices at €106 per MWh in 2026 Q2 and to remain at high levels over the projection horizon. This scenario envisages a greater and more persistent impact on headline inflation, which would stand at 4.4% in 2026 and 4.8% in 2027, reflecting the significant second-round effects that would be triggered if the surge in energy prices proved longer-lasting. Meanwhile, euro area GDP growth would moderate to 0.4% in 2026 and 0.9% in 2027.

Chart 7

7.a Euro area GDP growth and inflation forecasts. Deviations from the baseline scenario



SOURCE: ECB.

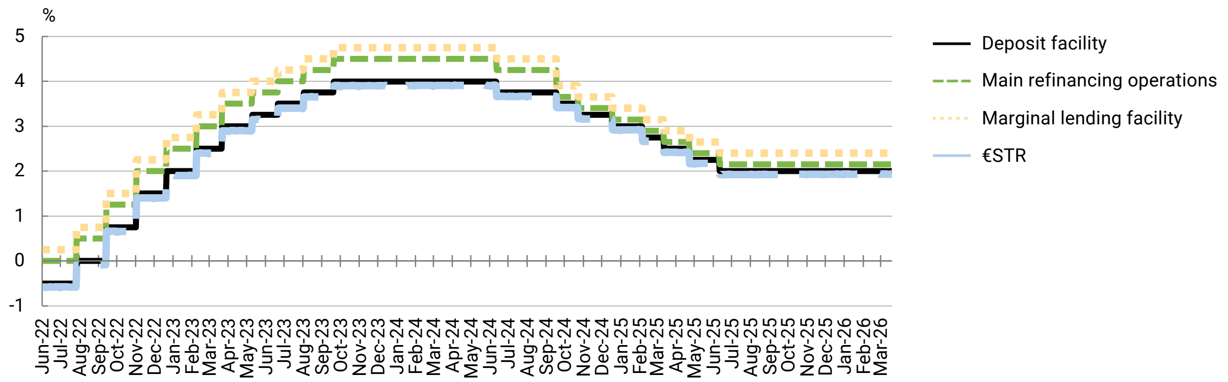
7 The forecasts made under these possible scenarios regarding the course of the armed conflict and its impact on energy commodity prices do not include any additional monetary or fiscal policy responses to the energy shock.

8 The ECB has left its key interest rates unchanged

- At its March meeting, the Governing Council decided to keep the three key ECB interest rates unchanged, maintaining the rate on the deposit facility at 2% (Chart 8.a).
- The war in the Middle East has made the outlook highly uncertain, creating upside risks for inflation and downside risks for economic growth. Its medium-term implications will depend both on the intensity and duration of the conflict and on the propagation of the shock, i.e. how energy prices affect consumer prices and the economy.
- The Governing Council considers it is well positioned to navigate this uncertainty, as inflation has been at around the 2% target, longer-term inflation expectations are anchored and the economy has shown resilience over recent quarters. Under these circumstances, the Governing Council will closely monitor the situation.
- The Governing Council will continue to follow a data-dependent approach to determining the appropriate monetary policy stance, and remains determined to ensure that inflation stabilises at the 2% target in the medium term. In particular, its interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.
- The Governing Council also emphasised that it stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises at its medium-term target on a sustained basis and to preserve the smooth functioning of monetary policy transmission.

Chart 8

8.a Key ECB rates and €STR



SOURCES: Banco de España and Refinitiv Datastream. Latest observation: 19 March 2026.

9 The Spanish economic growth rate rose to 0.8% in Q4, outperforming expectations

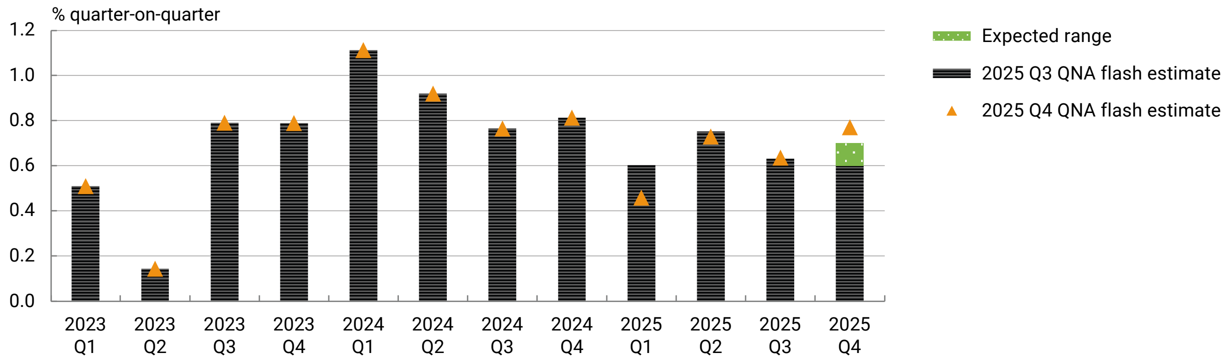
— Spain's GDP grew by 0.8% in 2025 Q4, up from 0.6% in Q3 and surpassing the range envisaged in the Banco de España's December projection exercise (0.6%-0.7%) (Chart 9.a).

— This acceleration in economic activity was indicative of a less negative contribution from net exports, despite the greater increase in imports, reflecting the recovery in exports following the fall recorded in Q3. Conversely, although still high, the contribution of domestic demand to GDP growth moderated, while investment and private consumption remained the key drivers of growth in 2025 Q4 (Chart 9.b).

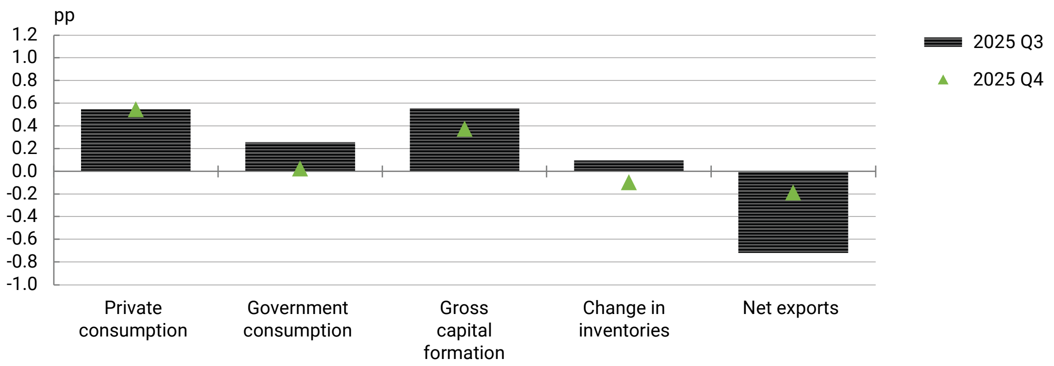
— On the supply side, some sectors of activity, such as construction and market services, remained buoyant in Q4, while the pace of growth in manufacturing and non-market services was negligible.

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 GDP growth should remain high in 2026 Q1, although with signs of a slight slowdown, based on indicators that, save for employment, have yet to be updated since the Iran conflict began

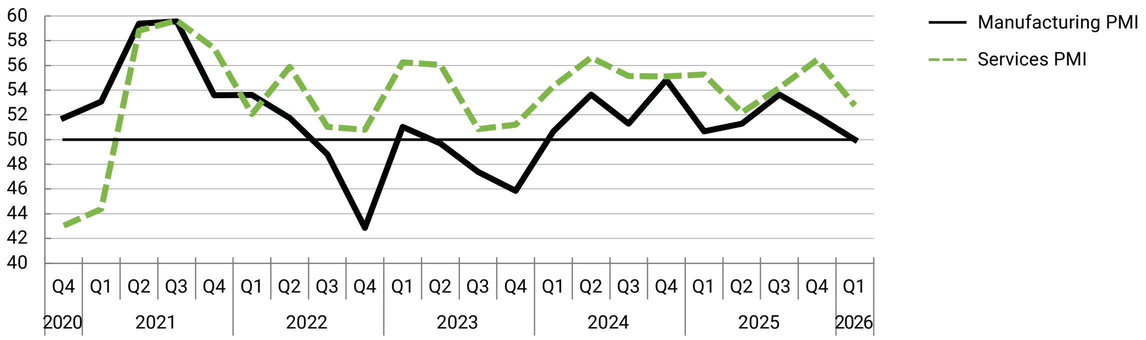
— An overall analysis of the various indicators of employment, consumption and confidence that provide information about the performance of economic activity suggests that GDP growth could stand between 0.4% and 0.6% quarter-on-quarter, a slight slowdown compared with 2025 Q4.[8]

— This is supported by the most recent confidence indicators for February, which show signs of moderation. Specifically, both services and manufacturing PMIs point to slowing growth in Q1, but remain, in the case of services, at high levels consistent with the ongoing economic expansion (Chart 10.a). In addition, the results of the EBAE suggest that Spanish firms' turnover has decreased slightly in Q1 (Chart 10.b).[9]

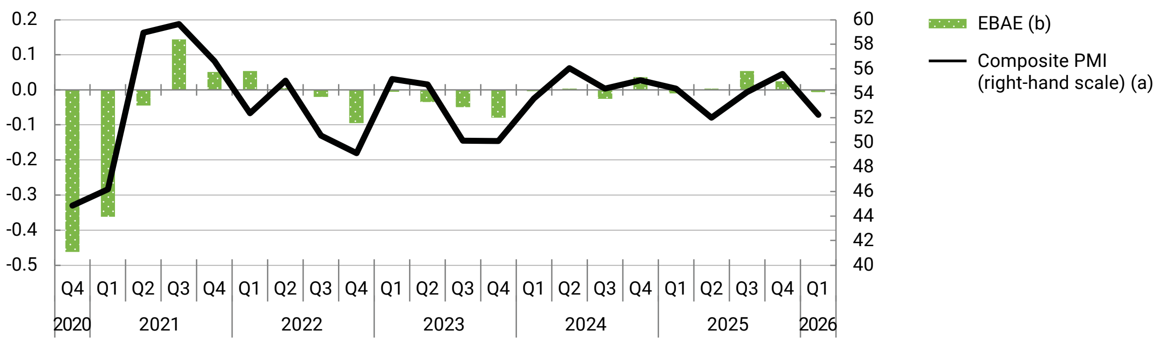
— In any event, it should be borne in mind that these indicators provide partial and incomplete information on economic performance in Q1. In particular, they only incorporate data since the Iran conflict began in the case of employment, with the changes in social security registrations in the first half of March .

Chart 10

10.a PMIs (a)



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



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

a The PMI figure for 2026 Q1 is the average for January and February.
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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8 For more details, see the projections section in this report.

9 The survey was conducted between 9 and 23 February. See the box in this report detailing the results of this survey.

11 In employment, the slowdown seen since November will continue in Q1 as a whole, although the data for the first half of March do not show a negative impact of the armed conflict

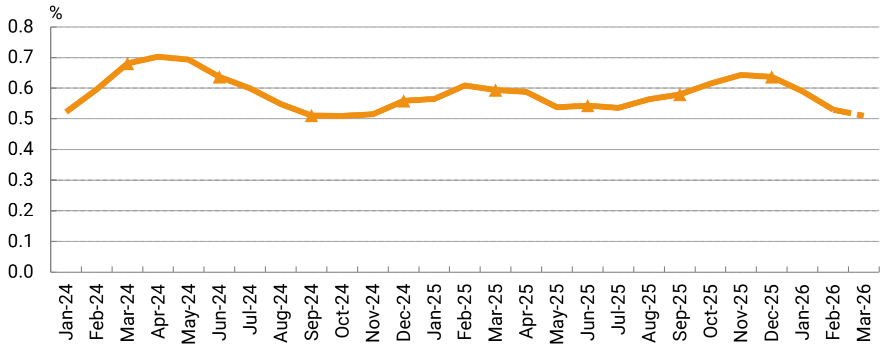
— The monthly data on social security registrations have shown a slight deceleration since November 2025. Thus, in seasonally adjusted quarter-on-quarter terms, registrations increased by 0.64% in November, slowing to 0.53% in February (Chart 11.a). The information available to 13 March points to an increase in job creation during the month, with no negative impact being observed to date since the Iran conflict began.

— On data to February the slowdown in social security registrations affects most activities, but it is proving more intense in construction, transportation and real estate activities. The slowdown is also widespread across regions, although it is somewhat more pronounced in Extremadura, Asturias, Aragon and Catalonia.

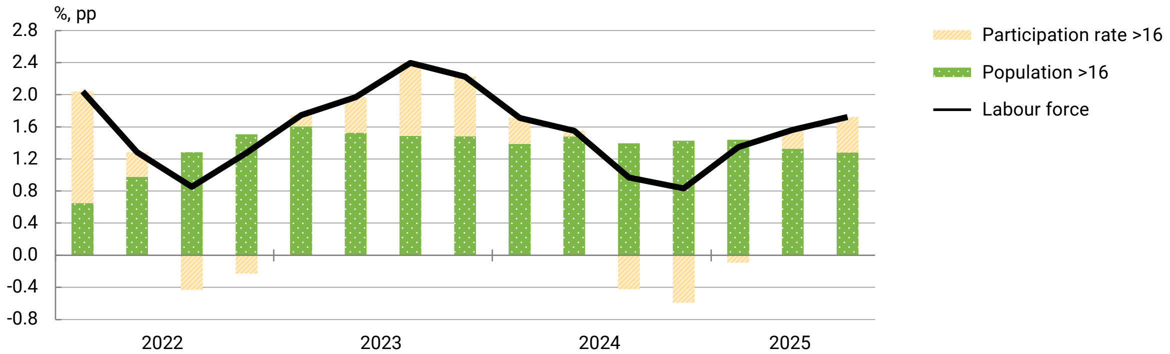
— Against this background, the unemployment rate continued to decline in 2025 Q4 (to 10.2% in seasonally adjusted terms) and labour supply once again grew thanks to the increase in labour-market participation (Chart 11.b). This increase has continued, driven mainly by immigration and the stronger momentum in participation among nationals aged over 45. In the most recent quarters, there has also been a notable rise in the participation rate of nationals aged between 25 and 44.

Chart 11

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



11.b Contributions to the year-on-year change in the labour force



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 and the average of the previous three-month period of the seasonally adjusted series. The point shows the quarterly rate in each calendar quarter. For March 2026 the data up to 13 March and forecasts for the rest of the month are included.

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12 The cost of new loans recorded little change, with a slight uptick in some segments

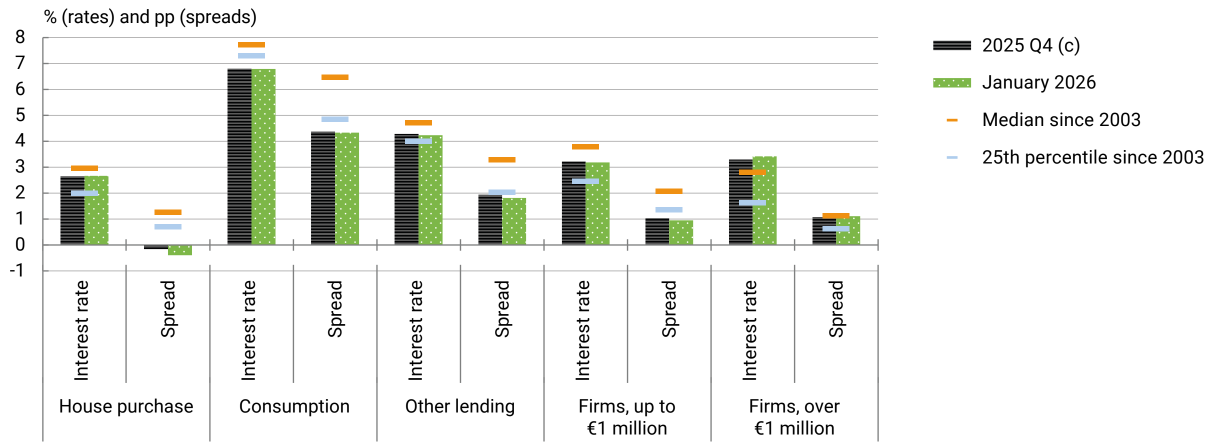
— Interest rates on new loans barely changed in January compared with the average for 2025 Q4 (Chart 12.a), when the transmission of the ECB's monetary policy easing had already virtually run its course. However, in some segments, a slight increase has begun to be observed, which could continue at a moderate pace or spread to other segments in the coming months in light of policy interest rate expectations. In particular, the cost of loans to firms of more than €1 million rose by 12 bp in January compared with 2025 Q4, to stand at 3.4%.

— Lending rates stood, overall, below the median of the time series since 2003, except in the case of loans to firms in excess of €1 million. Consumer credit interest rates are relatively lower, as they stand below the 25th percentile of the available series.

— The spreads over benchmark interbank rates also remained at record-low levels (below the 25th percentile) in all cases, except for loans to firms over €1 million, where they stood around the median.

Chart 12

12.a Cost of new loans and spreads relative to 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 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.
c 2025 Q4 is the average of October, November and December.

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13 Loans to households grew, driven by consumer lending and the acceleration of loans for house purchase ...

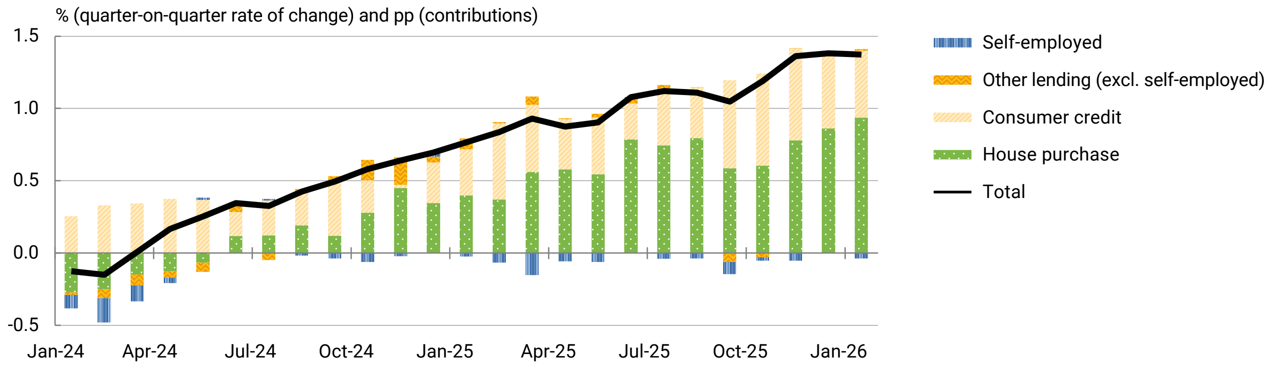
— On data from the Bank Lending Survey, credit standards for house purchase were unchanged in 2025 Q4, while those for consumer lending and other purposes tightened slightly. Demand increased only in the housing segment, although less than expected, following seven consecutive quarters of increases. Banks expect stability for 2026 Q1, with the exception of a slight tightening of supply in mortgages.

— Outstanding loans to households grew faster in late 2025, reaching a quarter-on-quarter rate of 1.4% in January, compared with 1.2% three months earlier (Chart 13.a). This acceleration was driven by the greater momentum in loans for house purchase, which increased by 1.3% quarterly in January, in a setting in which house prices continued to rise and house purchases stabilised at high levels not seen since 2007.

— Consumer credit remained buoyant, although quarter-on-quarter growth fell to 2.9% in January, 1.2 pp less than three months earlier. This slowdown was driven by the smaller rise in loans for durable goods purchases, in line with the moderation observed in this component of consumption.

Chart 13

13.a Lending to households (a)



SOURCE: Banco de España.

a Data adjusted for seasonality and securitisation. Quarter-on-quarter rate of change calculated as the three-month cumulative net flow divided by the previous month's balance.

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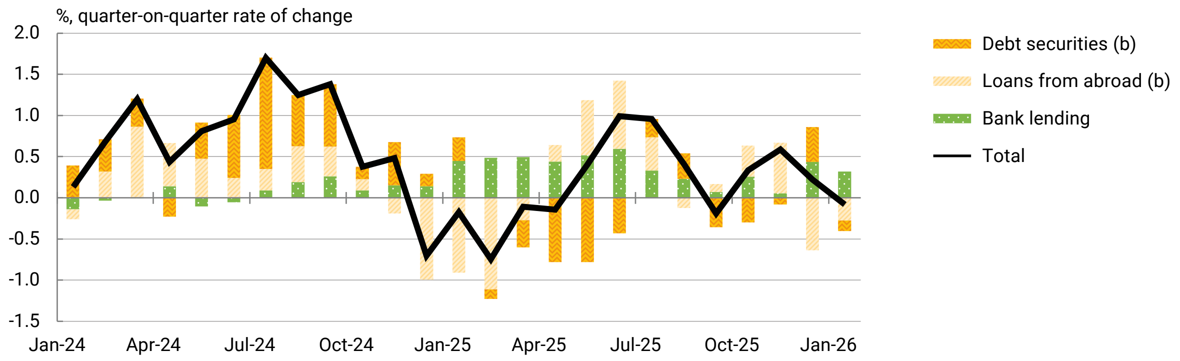
14 ... while lending to firms remained somewhat sluggish

— According to the Bank Lending Survey, the supply of credit to firms remained unchanged in 2025 Q4, while demand declined, especially in the large firms segment. Banks do not expect changes in 2026 Q1, except for a slight drop in demand by SMEs. Meanwhile, according to the Survey on the Access to Finance of Enterprises, firms perceived an improvement in access to financing, albeit one that was more moderate than in previous quarters, and expect this improvement to continue in 2026 Q1.

— The outstanding balance of loans to firms continued to grow moderately at end-2025 and contracted slightly in January, at a quarter-on-quarter rate of 0.1% (Chart 14.a). This was mainly the result of the reduction in loans from abroad and, to a lesser extent, debt security issuances, both of which are traditionally the most volatile corporate financing components. In January, these aggregates recorded a cumulative year-on-year increase of 2.4% and a fall of 3.7%, respectively. Meanwhile, bank loans remained somewhat sluggish, with year-on-year growth of 2.9% over the last 12 months.

Chart 14

14.a Lending to NFCs (a)



SOURCE: Banco de España.

a Seasonally adjusted data. Bank lending includes securitisation. Quarter-on-quarter rate of change calculated as the three-month cumulative net flow.
b Securities issued abroad are excluded from loans from abroad and included in debt securities.

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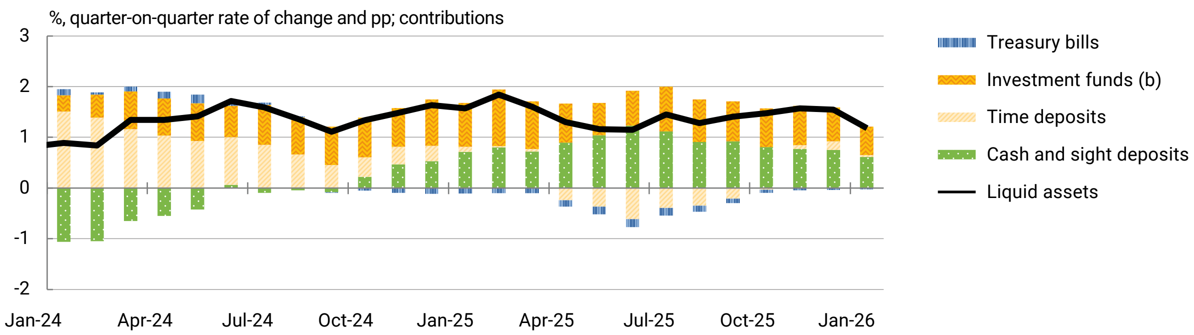
15 Households and firms continued to accumulate liquid assets, with a recovery in time deposits

— The pace of growth of households' liquid asset holdings held steady in 2025 Q4, but slowed in January (Chart 15.a). This deceleration was widespread across components, except for time deposits, whose remuneration ceased to decrease and stood at around 1.7%. However, the share of investment funds in the portfolio of liquid assets has continued to grow in recent months, driven by their increase in value. In 2025 Q3 liquid assets accounted for just over half of total household financial wealth, a level slightly above the historical average.

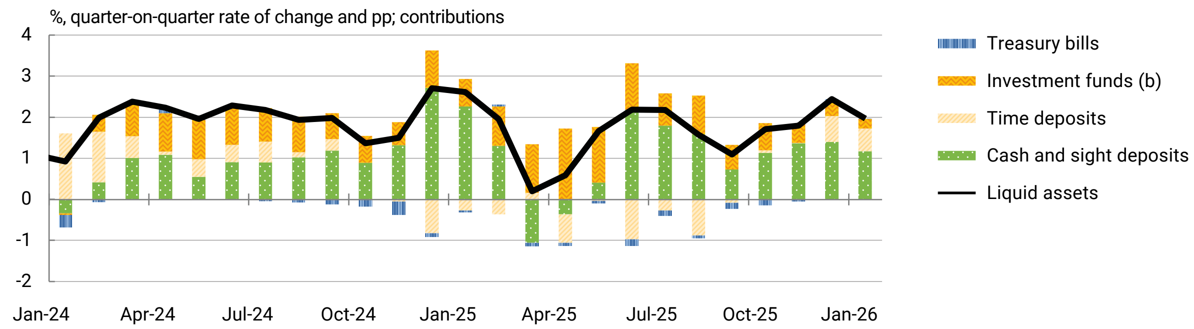
— Meanwhile, the accumulation of liquid assets by firms accelerated at end-2025, with the quarterly rate remaining high in January (Chart 15.b). Like households, firms' investment shifted back towards time deposits, whose remuneration has increased by 8 bp since October to 1.9%. The increased appeal of these deposits, together with investment fund revaluation, drove up the share in these instruments. All this reflects a comfortable liquidity position for firms: in 2025 Q3 liquid assets accounted for more than 13% of firms' total financial assets, a historically high level, above the 90th percentile since 1999.

Chart 15

15.a Liquid assets of households (a)



15.b Liquid assets of firms (a)



SOURCE: Banco de España.

a Seasonally adjusted data. Quarter-on-quarter rate of change calculated as the three-month cumulative net flow.
b Net subscriptions (excluding valuation effects).

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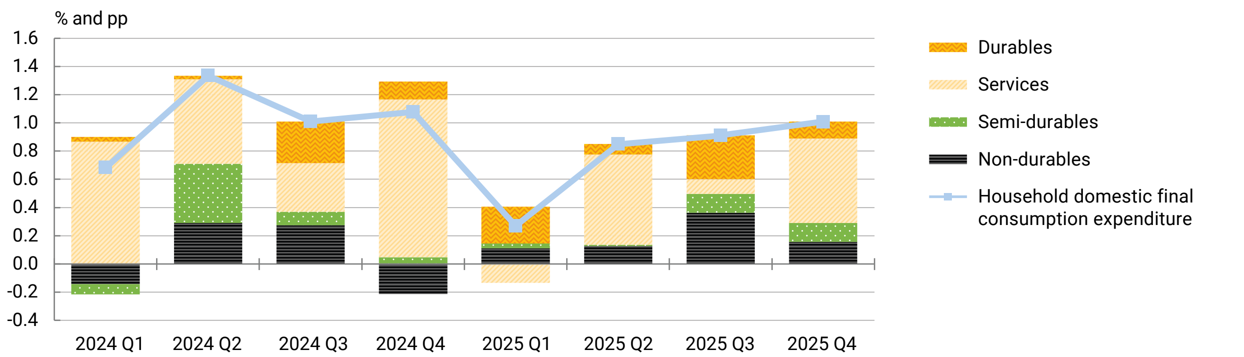
16 Consumption has continued to grow robustly in the early months of the year, although it may lose some momentum compared with the final stretch of 2025

— In 2025 Q4 private consumption grew notably, at a similar pace to the previous two quarters, driven mainly by the consumption of services (Chart 16.a). While the pace of growth of durable consumption remained high, its contribution to overall consumption growth slowed, in line with a slight easing in consumer credit in this period.

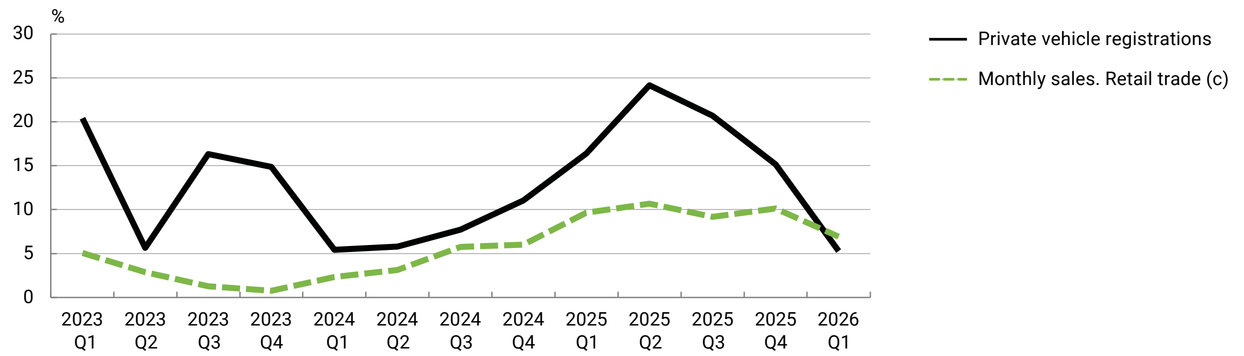
— The consumption indicators available for 2026 Q1 point to the growth in household consumption easing slightly (Chart 16.b). First, durable consumption is showing further signs of slowing, as evidenced, in particular, by the loss of momentum in vehicle registrations in February, whose year-on-year growth decelerated to 5.3% (15.2% in December 2025). Second, retail sales reported to the AEAT, to February, are also indicative of a slight slowdown, with the year-on-year rate of growth decreasing from 10% in December 2025 to 7% in February 2026.

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), Asociación Española de Fabricantes de Automóviles y Camiones and AEAT.

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 using the weights of each component at current prices.
b Vehicle registrations are seasonally adjusted. Monthly sales are deflated and adjusted for seasonal and calendar effects. For 2026 Q1, the latest available information is for February.
c Monthly sales is an index provided by the AEAT drawing on daily domestic sales. The chart depicts the sales in the retail trade sector, except motor vehicles and motorcycles.

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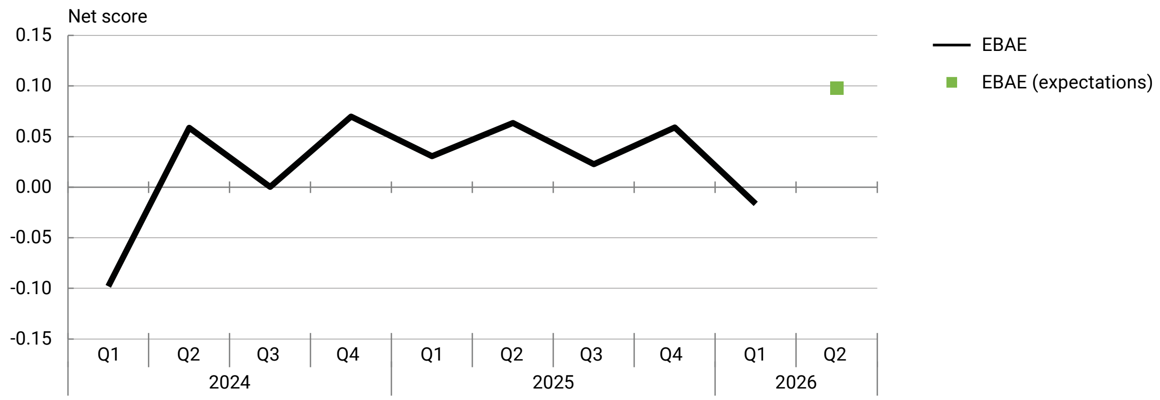
17 After strong growth in 2025 H2, productive investment is expected to moderate in 2026 Q1

— Productive investment recorded high growth once again in 2025 Q4. By component, this momentum was underpinned by investment in transport equipment, although investment in intangible assets and other construction also grew at a high pace. By contrast, investment in other machinery declined slightly in 2025 Q4.

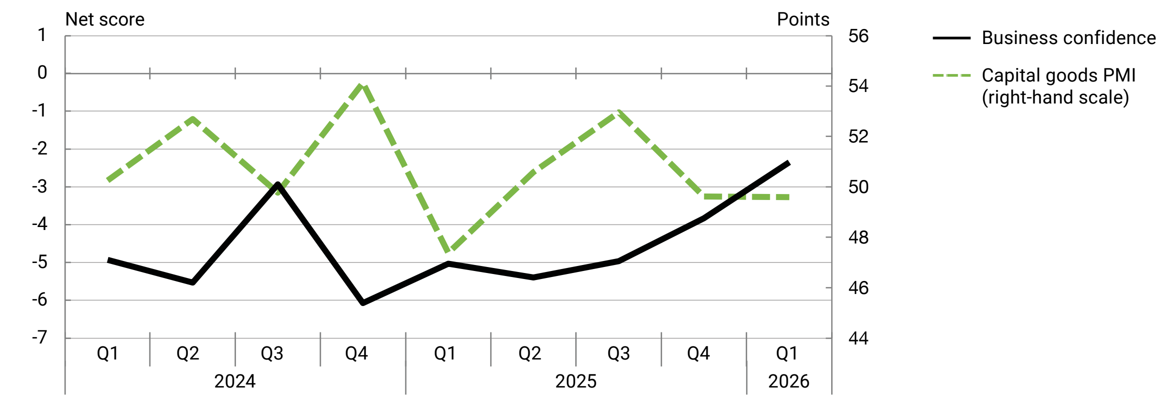
— The indicators available for the first months of 2026 point to the pace of growth of productive investment easing compared with previous quarters. In particular, the qualitative information from the EBAE suggests that business investment will decline slightly in Q1 (Chart 17.a). Meanwhile, on a slightly more positive note, industrial confidence has continued to improve in the first few months of the year and the manufacturing PMI and, in particular, the capital goods PMI have remained virtually unchanged from 2025 Q4 (Chart 17.b).

Chart 17

17.a Quarterly change in investment according to the EBAE (a)



17.b Qualitative investment indicators (b)



SOURCES: Banco de España, S&P Global and European Commission.

a Latest data available for the EBAE: 2026 Q1, expectations for 2026 Q2.
b Latest data available for the PMI and business confidence: February 2026.

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18 Housing indicators are slowing, amid a combination of tight supply and high demand that continues to push up prices

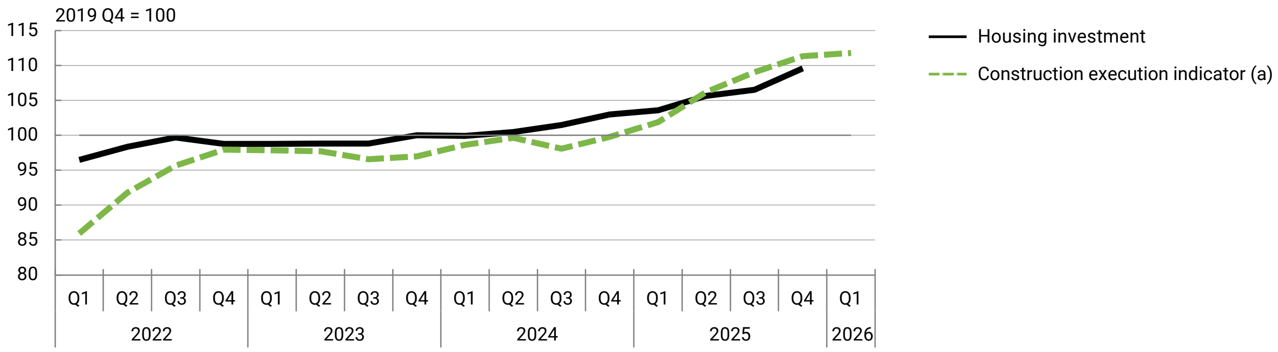
— After accelerating considerably in 2025 Q4, residential investment is expected to slow down slightly in early 2026, based on the deceleration in the construction execution indicator (Chart 18.a) and the downward movement of construction inputs, such as cement consumption and employment in this sector.

— This moderation reflects the number of housing starts stabilising at a level of close to 140,000 units per year, despite the recent pick-up in residential building permits. In addition, in 2025 housing completions stood below housing starts two years earlier. Overall, these developments suggest that the frictions in the sector limiting growth in the supply of new dwellings persist.

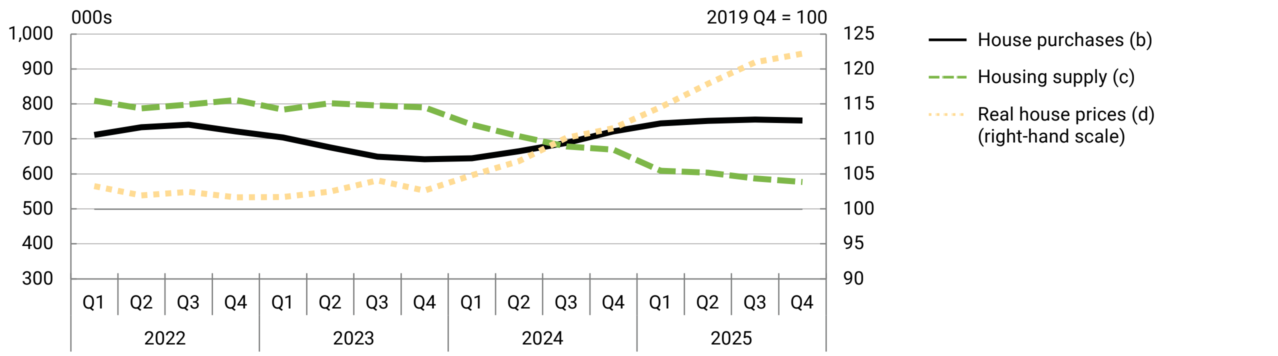
— The mismatch between strong demand and tight supply continues to drive steady growth in real house prices (9.6% in Q4 and 9.7% in 2025 overall, compared with the 5.5% observed in 2024) (Chart 18.b).[10]

Chart 18

18.a Housing investment and construction execution indicator



18.b Indicators of housing supply and demand and real house prices



SOURCES: Banco de España, Centro de Información Estadistica del Notariado, INE, Ministerio de Transportes and Movilidad Sostenible and Tinsa.

a The time frame considered is three months from issuance of the building permit to the construction start date and 18 months for the construction work.
b 12-month cumulative house purchases executed before a notary.
c Housing supply is calculated as the sum of the number of advertisements published on the main real estate platforms (supply of second-hand housing) and the number of housing completion certificates in the last 12 months (supply of new housing).
d Deflated by the CPI.

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10 Meanwhile, house purchases stabilised at high levels in 2025 H2 (just over 750,000 transactions in 2025, the highest number since 2008).

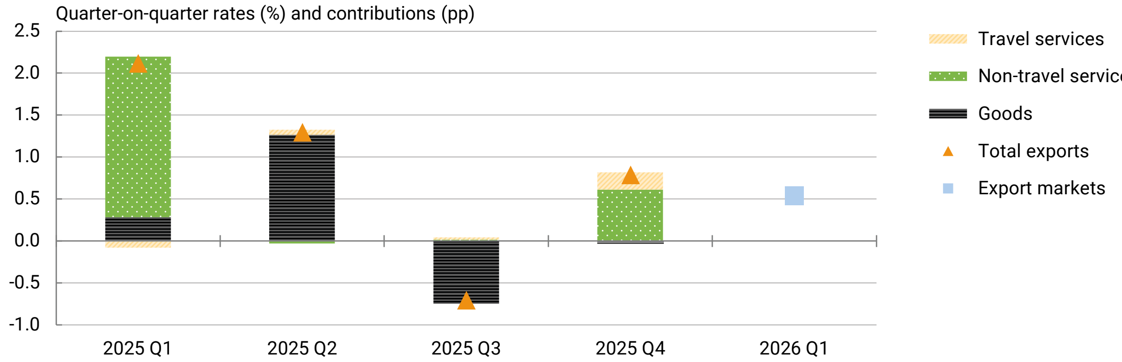
19 Following the weakness in 2025 H2, exports are expected to be driven in 2026 Q1 by the improvement in export markets and non-travel services growth ...

— Against a background of net exports detracting from GDP growth in the last quarters of 2025, weak export performance was concentrated in goods. In particular, according to customs data, goods exports barely rose by 0.9% in 2025, weighed down by the sluggishness of car exports to the major euro area countries and of energy product exports, mainly to the United States (Chart 19.a). According to the latest quarterly survey of exporters, export companies report a brighter outlook for 2026 Q1 (following the decline in their export order books in 2025 H2), in line with the expected improvement in export markets.

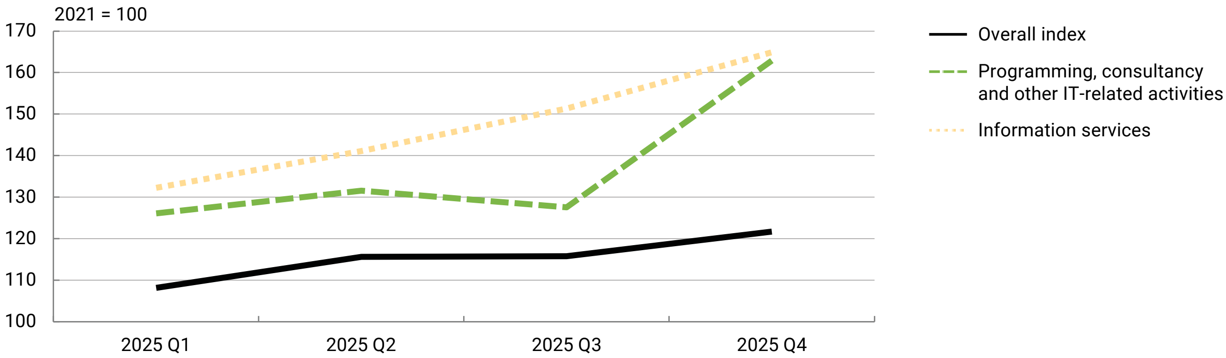
— Turning to services, in 2025 tourism exports returned to normal, their growth slowing after the highs recorded in prior years. This is expected to continue in 2026 Q1, as reflected by the data to February 2026 on overnight stays at hotels by foreigners and passenger arrivals on international flights. Meanwhile, non-travel services exports are expected to continue growing robustly (driven by technical and consultancy services), in line with the growth in information services, according to the INE's services sector production index (Chart 19.b) and the services PMI, which remained in expansionary territory in the first two months of the year.

Chart 19

19.a Growth in real exports and export markets



19.b Services sector production index



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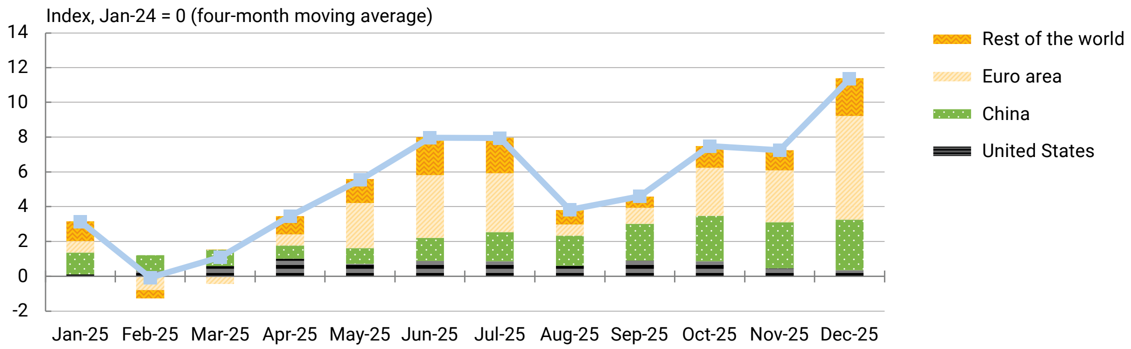
SOURCES: INE and ECB.

20 ... while imports will slow slightly, amid some easing of domestic demand

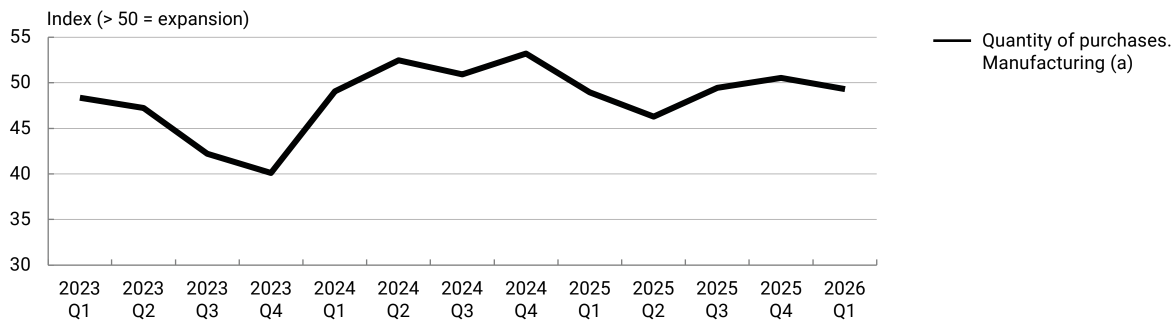
- In 2025 Q4 imports remained as buoyant as they had been in previous quarters, reflecting the strong performance of goods and services imports. This strength was driven by the momentum of domestic demand, in both investment in capital goods and private consumption. By product, this growth mainly reflected the pick-up in purchases abroad of chemicals and chemical products, such as medications, and consumer durables, such as vehicles. Meanwhile, services imports continued to rise, ending 2025 with growth of 7.5%.
- By geographical area, imports from euro area countries picked up, while those from China continued to grow (Chart 20.a), with their share in total Spanish imports rising to 11.3% (10.6% in 2024). This growth could reflect the depreciation of the Chinese renminbi against the euro and some redirection of Chinese exports away from the United States.
- In the first two months of the year, the PMIs for manufacturing purchase volumes suggest a deceleration in goods imports in Q1 (Chart 20.b), in line with the projections for the demand components with the highest import content.

Chart 20

20.a Real goods imports, by origin



20.b PMI (a)



SOURCES: Ministerio de Economía, Comercio y Empresa, INE and S&P Global.

a The figure for Q1 is the average for January and February.

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21 Government revenue and expenditure remained buoyant in the final stretch of 2025

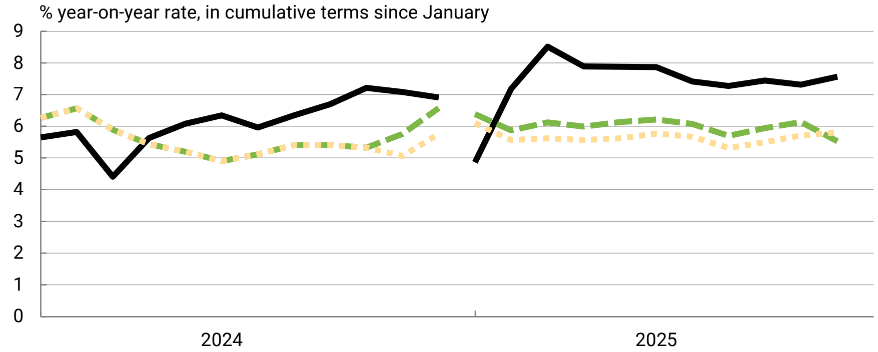
— On data to November, the pace of government revenue growth[11] accelerated to 7.6%, 0.2 pp more than in September, due to the increase in tax revenue and social security contributions (Chart 21.a). Even after deducting the estimated impact of the discretionary measures adopted,[12] growth remained high (6.7%), as a result of stronger tax bases and the fiscal drag effect on personal income tax.

— Growth in spending – excluding the outlays related to the October 2024 flash floods in Valencia – also quickened somewhat, from August 2025, to 5.8% year-on-year up to November 2025, in line with the pattern observed in 2024. This momentum was driven by higher growth in public consumption, which rose further still in December, following approval of the 2025 increase in public sector wages.

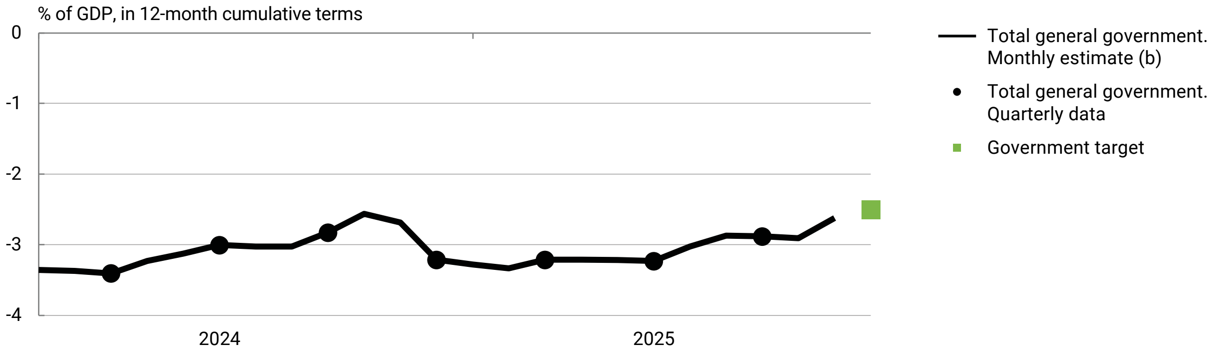
— The general government deficit in cumulative 12-month terms to November stood at -2.6% of GDP, an improvement of 0.6 pp compared with December 2024 (Chart 21.b). The Government approved an extension of the transport subsidies in December, financial aid for flood damage in February and, more recently, a raft of measures to mitigate the consequences of the conflict in the Middle East, which, overall, would amount to spending of around 0.5 pp of GDP in 2026.

Chart 21

21.a Government revenue and expenditure



21.b General government balance



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

a Corrected for irregular monthly developments resulting from the measures adopted and the tax calendar.
b Estimated based on aggregate data for general government, excluding local government. The IGAE only publishes quarterly data for general government as a whole.

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11 Adjusted for irregular developments.

12 For further details of these measures, see page 29 of the December 2025 *Macroeconomic projections and quarterly report on the Spanish economy*.

22 Headline inflation has eased since November due to the slowdown in energy prices up to February (before the outbreak of the Iran conflict), despite the rise in food prices …

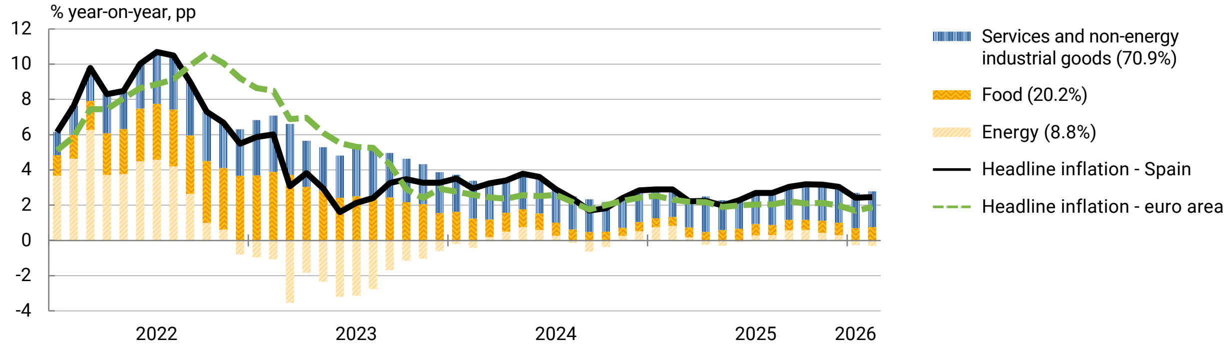
— In Spain, headline inflation, as measured by the HICP, fell from 3.2% in November to 2.5% in February,[13] largely reflecting the fall in energy prices, while food prices rose and core inflation remained stable (Chart 22.a).

— Since November, energy prices have slowed markedly, to -3.2% year-on-year in February, in line with decelerating electricity prices[14] and an even steeper decline in fuel prices. However, food prices accelerated to 3.5% in February, driven by processed foods and, in particular, by the smaller declines in vegetable oil prices, alongside the rise in unprocessed food prices observed in February.

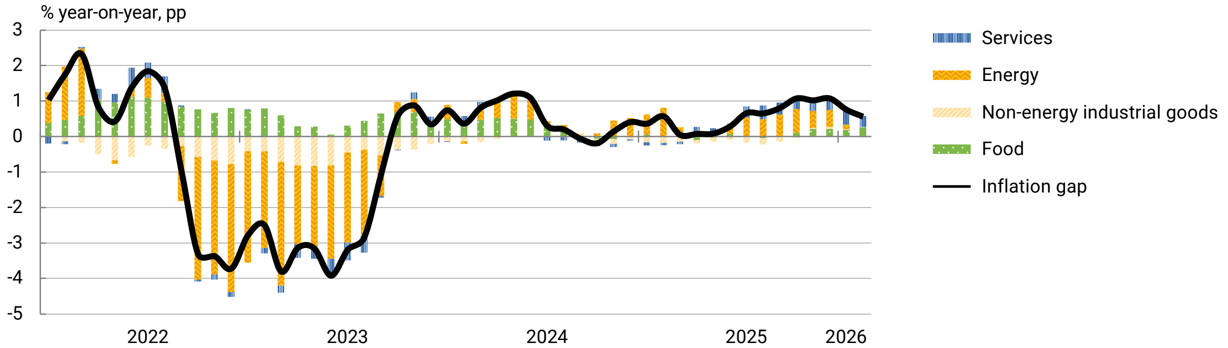
— The recent decline in inflation in Spain has been more pronounced than in the euro area, reducing the inflation gap between the two regions from 1.1 pp in November to 0.6 pp in February, mainly due to the stronger slowdown in Spain's energy prices (Chart 22.b).[15]

Chart 22

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



22.b Spain vs euro area inflation gap: changes and contribution of components (b)



SOURCES: Eurostat, INE and Banco de España.

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

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13 Data refer to the new 2025 HICP reference period. The most noteworthy development in this rebasing is that the index is compiled according to a new product classification (ECOICOP v2). In addition, as occurs when the index is rebased, the composition of the consumption basket is reviewed and the weights are updated.

14 This deceleration was sharper owing to the base effect associated with VAT rates returning to normal in early 2025.

15 Mainly electricity and fuels.

23 … while core inflation remained stable at around 3% between November and February

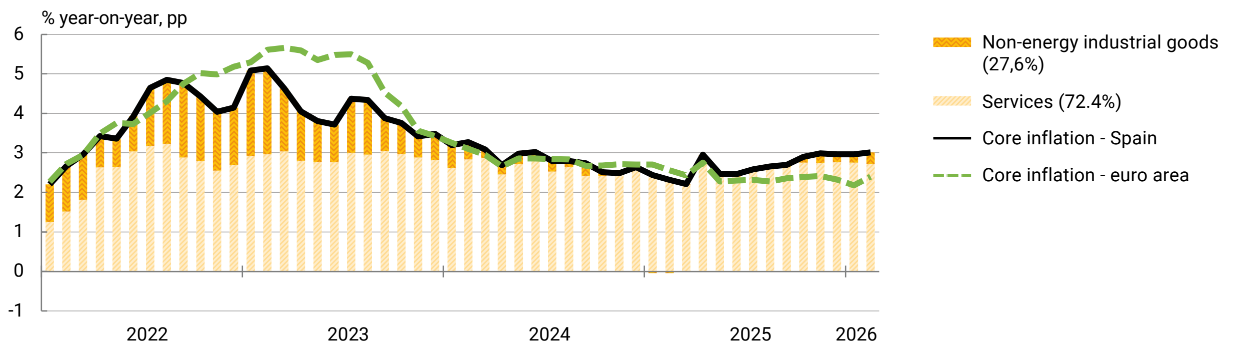
— Core inflation remained stable at around 3% owing to the notable upward stickiness of services prices, which contrasted with the modest growth observed in non-energy industrial goods prices. Core inflation in the euro area was likewise stable, with the inflation gap unchanged at 0.6 pp in February (Chart 23.a).

— In Spain, services prices have continued to grow steadily at close to 4%, a rate broadly similar – with some fluctuations – to that observed in recent years. This is being driven by strong price growth in the hospitality and tourism sectors (4.8%). In addition, price increases have also been observed in some transport services, such as rail passenger transport and in certain items with typically infrequent adjustments, such as sewerage services (Chart 23.b). In the euro area, services prices have also followed a similar path to that of the preceding months, leaving the inflation gap unchanged at 0.4 pp in February.

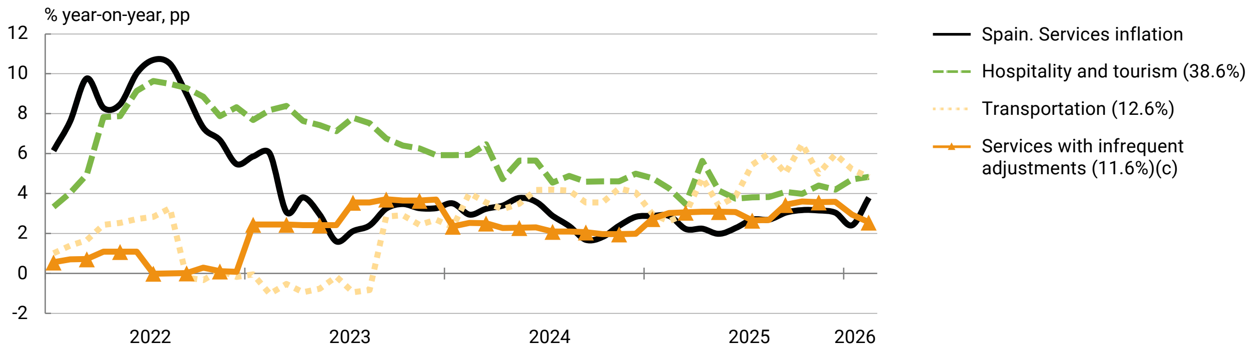
— Non-energy industrial goods prices rose again in February (0.9%), after moderating somewhat in December and January, reflecting developments in clothing and footwear prices. In the euro area, these prices also increased slightly, with the inflation gap standing at 0.2 pp in February.

Chart 23

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



23.b Services inflation in Spain: total and selected aggregates (b)



SOURCES: Eurostat, INE and Banco de España.

a HICP excluding energy and food. The weight of each group in core inflation is shown in brackets.
b The weight of each group in services inflation is shown in brackets.
c Includes: refuse collection, sewerage collection, telephone and telefax services, television and radio licence fees and subscriptions, education (excluding education not definable by level), insurance, charges by banks and post offices, and other services not elsewhere classified (excluding funeral services).

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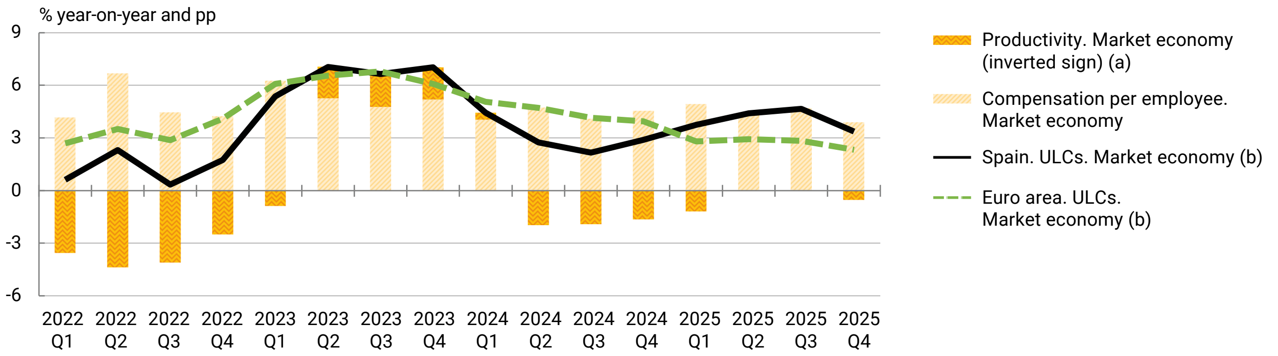
24 Wage settlements for 2026 stand at 2.9%, below the 3.5% negotiated for 2025.

— Compensation per employee in the market economy slowed in 2025 Q4, moderating growth in ULCs, which, nevertheless, remained higher than in the euro area, at 3.4% (Chart 24.a).

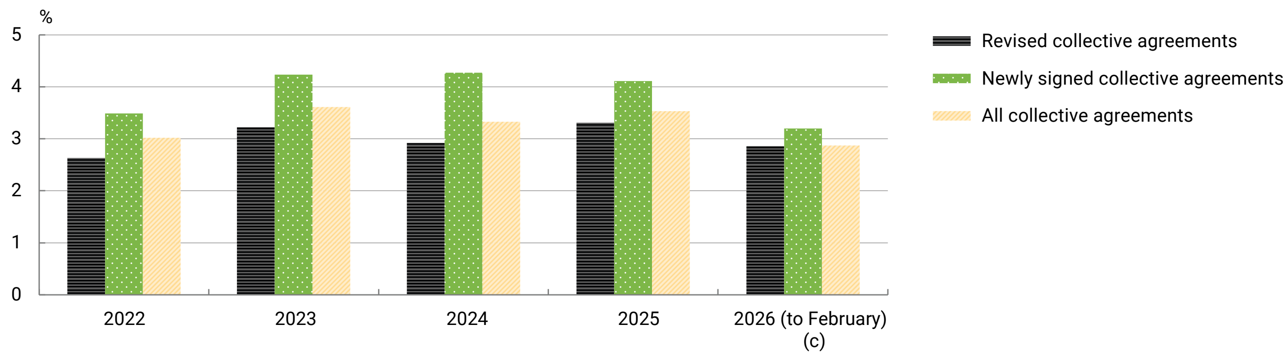
— On data to February, the wage increase agreed for 2026 stands at 2.9%, below the 2025 figure (3.5%). This decrease is underpinned by the agreements reached for 2026 (but signed in earlier years), which include an average wage rise of 2.9%, compared with 3.4% for 2025. However, the available indicators of labour market tightness have remained relatively high in 2026 Q1,[16] potentially leading to sustained upward pressures on wages in future collective bargaining agreements. With just 28 new agreements signed so far in 2026, the average wage increase of 3.2% that they contain offers as yet little insight into wage bargaining developments in 2026 (Chart 24.b).

Chart 24

24.a ULCs. Market economy. Change and contributions



24.b Wage settlements



SOURCES: Ministerio de Trabajo y Economía Social, INE and Eurostat.

a Productivity is defined as GVA divided by the total number of employees.
b 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 is interpreted as the effect of a decline in productivity.
c Newly signed collective agreements up to February 2026 affect 73,606 workers.

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16 Based on updated information to February, the job vacancy rate remains high, similar to that recorded at end-2025.

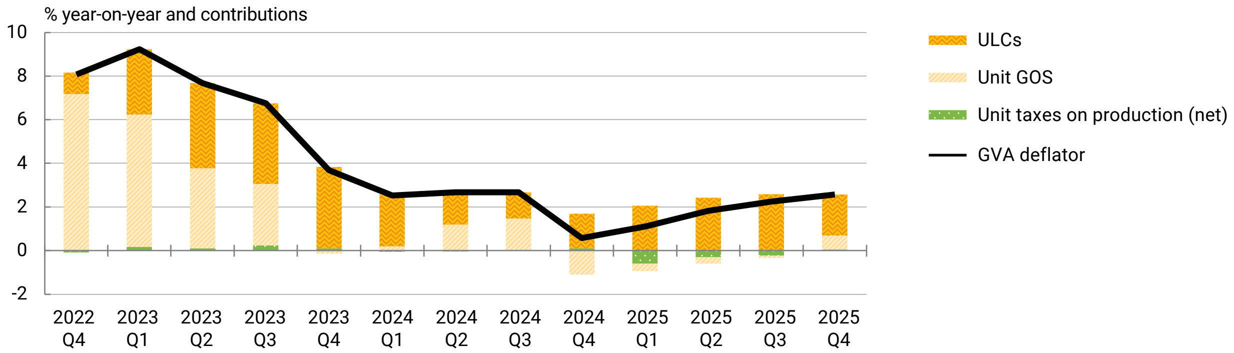
25 Domestic inflationary pressures remained moderate, despite the slight increase in firms' unit profits

— The market economy GVA deflator rose slightly in 2025 Q4 due to the relative acceleration of unit GOS, in a setting in which ULCs made a weaker contribution to domestic inflation, while remaining its main driver (Chart 25.a).

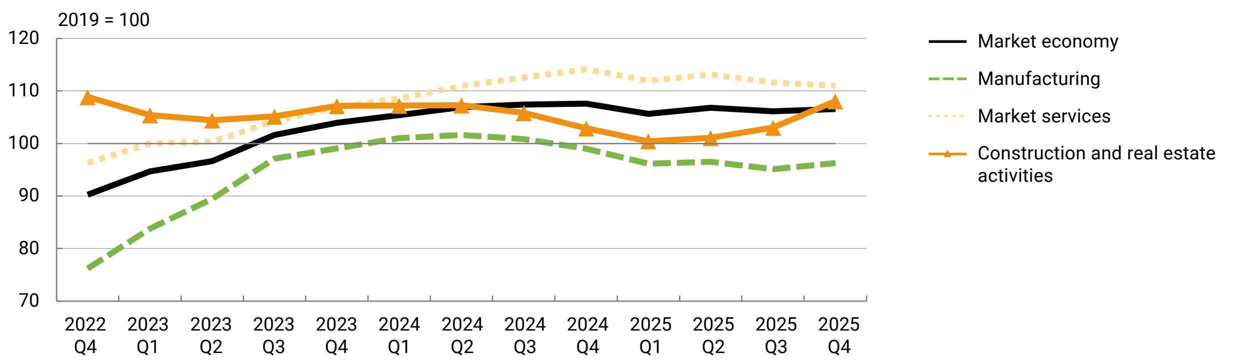
— On data to 2025 Q4, operating margins[17] tended to decline compared with 2024 levels, interrupting the growth trend that began in 2023, except in the construction and real estate sectors, where they increased (Chart 25.b). Nevertheless, at end-2025, operating margins remained above pre-pandemic levels in some sectors, such as construction, real estate, wholesale and retail trade and hospitality.

Chart 25

25.a GVA deflator. Market economy



25.b Changes in operating margins (a). Breakdown by sector (b)



SOURCES: Banco de España, INE and AEAT.

a Operating margins are proxied using the ratio of gross operating profit to turnover. Four-quarter moving averages, current population.
b "Market economy" does not include the manufacture of refined petroleum products, wholesale of fuels, gas and electricity, financial and insurance activities and recreational activities and other services. Manufacturing excludes refined petroleum products. Market services are consistent with the definition of market economy.

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17 Drawing on AEAT 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 (2026-2027)

26 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.[18] Compared with the December projections, the new assumptions entail a more unfavourable scenario for both 2026 and 2027. This is mainly due to the impact of the increase in energy prices following the outbreak of the conflict in the Middle East, an impact that would be mitigated by the measures adopted in Royal Decree-Law 7/2026 in response to the crisis (Box 3). Specifically:

- Spanish export market growth in 2026 is expected to stand at 1.9%, a notable slowdown compared with the previous year (3.9%). The growth rate for 2027 is projected to rise to 2.7%. Compared with the December projection exercise, the growth rate for 2026 is revised down by 0.3 pp and remains unchanged for 2027 (Table 1).

- According to futures markets data, oil prices in euro and wholesale electricity prices will stand, throughout the projection horizon, at significantly higher levels than those envisaged three months ago (Chart 26). Energy commodity futures markets have been highly volatile in the past few weeks. Accordingly, price rises above those forecast in the baseline scenario cannot be ruled out. This possibility is analysed in the alternative scenarios described in this report (Box 4).

- The nominal exchange rate of the euro against the dollar is currently similar to the level envisaged in the December projection exercise. The nominal effective euro exchange rate is slightly lower than forecast three months ago (Table 1).

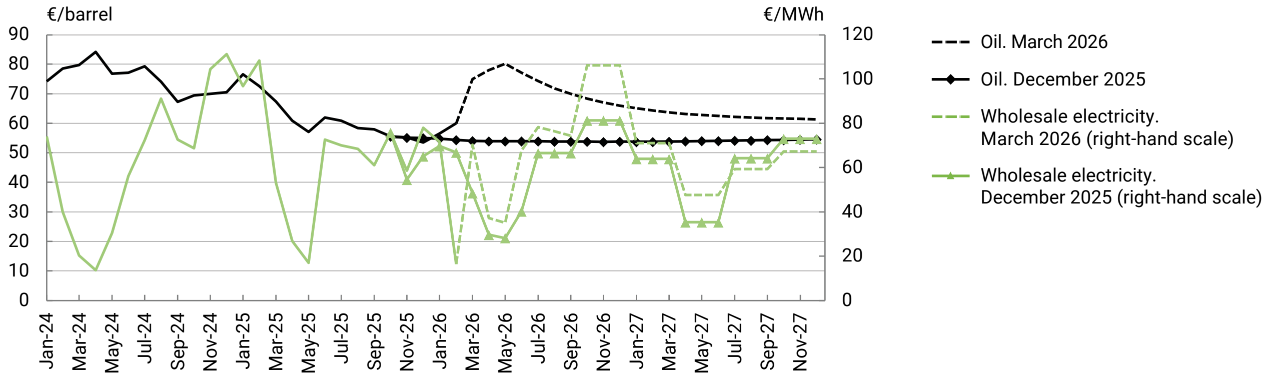
- Financial markets expect short-term and long-term interest rates to gradually increase over 2026 and 2027, placing their projected paths above those anticipated in the December projection exercise. This would give rise to more restrictive financing conditions for households and businesses than expected 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. In particular, in the absence of other changes, the QNA flash estimate for 2025 Q4 automatically entails a higher starting point for output for the current projection exercise and a higher GDP growth rate for 2026.

18 These projections incorporate the new information that has become available since the publication of the latest projections on 23 December. In particular, it includes the QNA flash estimate for 2025 Q4 and the QNFAIS flash estimate for 2025 Q3. The cut-off date for the assumptions is 11 March and the cut-off date for the projections is 21 March.

Chart 26

26.a Energy price assumptions



SOURCES: OMIE and Reuters.

Table 1

International environment and monetary and financial conditions (a)

Annual rate of change (%), unless otherwise indicated

		March 2026 projections		Difference between the current projections and the December 2025 projections (b)	
	2025	2026	2027	2026	2027
Spain's export markets (c)	3.9	1.9	2.7	-0.3	0.0
Oil price in dollars/barrel (level)	69.1	81.3	72.1	18.8	9.5
Wholesale electricity price in €/MWh (level)	65.5	70.5	61.3	9.9	2.2
Monetary and financial conditions					
Dollar/euro exchange rate (level)	1.1	1.2	1.2	0.0	0.0
Nominal effective exchange rate against non-euro area countries (d) (2000 = 100)	119.6	122.7	122.4	0.0	-0.3
Short-term interest rate (3-month EURIBOR; level) (e)	2.2	2.3	2.5	0.3	0.4
Long-term interest rate (10-year Spanish government bond yield; level) (e)	3.2	3.4	3.7	0.1	0.1

SOURCES: Banco de España and ECB.

a Cut-off date for assumptions: 11 March. 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 ECB staff macroeconomic projections.
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.

27 GDP growth is expected to decelerate in the coming quarters

— In quarter-on-quarter terms, GDP grew by 0.8% in 2025 Q4, 0.2 pp more than in Q3 and above that expected in the Banco de España's December projection exercise (between 0.6% and 0.7%). Activity growth was underpinned by buoyant domestic demand, particularly by private consumption and investment, while government consumption did not contribute to output growth and exports contributed negatively.

— The most recent short-term indicators point to slower growth in 2026 Q1, with an estimated quarter-on-quarter rate of between 0.5% and 0.6%.

— For the following quarters, the baseline scenario envisages a significant deceleration of the pace of growth of activity, which has been shaped by the Middle East conflict. Under this scenario, the higher oil and gas prices entail an impoverishment of the Spanish economy as a whole and are tantamount to a negative supply shock. Consequently, output growth, which stood at 2.8% in 2025, is expected to decline to 2.3% in 2026 and 1.7% 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

		March 2026 projections		December 2025 projections	
	2025	2026	2027	2026	2027
GDP	2.8	2.3	1.7	2.2	1.9
Private consumption	3.4	2.7	1.5	2.8	1.8
Government consumption	1.8	1.8	1.9	1.8	1.9
Gross capital formation	6.4	5.5	2.1	3.6	2.2
Exports of goods and services	3.4	2.4	2.6	2.0	2.8
Imports of goods and services	6.3	4.9	2.9	3.6	2.8
Domestic demand (contribution to growth)	3.6	3.0	1.7	2.7	1.8
Net exports (contribution to growth)	-0.8	-0.7	0.0	-0.5	0.1
Nominal GDP	5.7	4.6	4.4	4.4	4.4
GDP deflator	2.9	2.3	2.7	2.2	2.5
HICP	2.7	3.0	2.5	2.1	1.9
HICP excluding energy and food	2.6	2.7	2.7	2.5	2.1
Employment (persons)	2.7	2.2	1.3	2.0	1.4
Employment (hours)	2.1	2.2	1.2	1.8	1.2
Unemployment rate (% of labour force). Annual average	10.5	9.9	9.6	10.0	9.6
Net lending (+) / net borrowing (-) of the nation (% of GDP)	4.0	3.2	2.9	3.3	3.3
General government net lending (+) / net borrowing (-) (% of GDP)	-2.5	-2.3	-2.3	-2.1	-2.5
General government debt (% of GDP)	100.8	99.2	98.1	99.1	98.3

SOURCES: INE and Banco de España.

a Projections cut-off date: 21 March 2026. Latest QNA figure published: 2025 Q4 flash estimate. The figures in the table do not, therefore, include the QNA data relating to 2025 Q4 published by the INE on 26 March 2026.

28 Compared with the scenario prior to the attack on Iran, the GDP growth forecast for 2026 is revised down 0.1 pp

— The lower GDP growth rate projected for 2026 compared with the December projection exercise stems from the following factors (Chart 28):

- QNA flash estimates for 2025 Q4 show quarter-on-quarter GDP growth of 0.8%, higher than forecast by the Banco de España in December (between 0.6% and 0.7%). This positive surprise in activity, together with the updated growth estimate for 2026 Q1, automatically entails a 0.2 pp increase in the annual GDP growth rate for 2026.

- The revision of the technical assumptions and, especially, the upward path of energy prices deriving from the Middle East war, as reflected by futures markets, reduce the GDP growth rate forecast for 2026 by 0.4 pp. However, a more prolonged Middle East conflict than that discounted by futures markets at the cut-off date for technical assumptions (11 March) would entail a slower pace of economic growth than envisaged under the baseline scenario. This is analysed in the alternative scenarios discussed in these projections (Box 4).

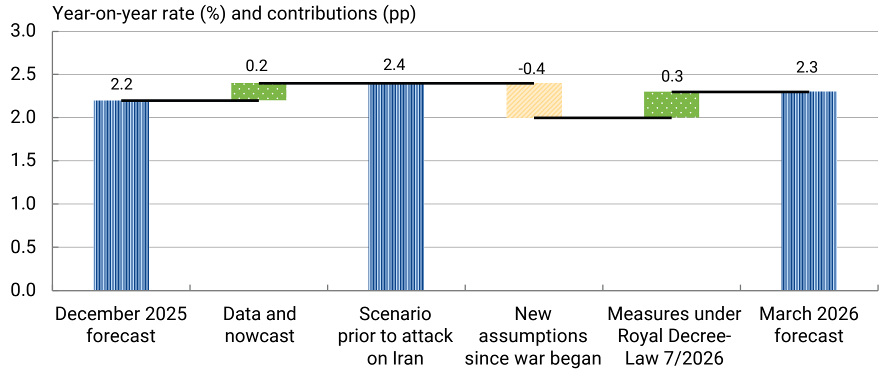
- Lastly, the tax cuts adopted on 20 March to mitigate the fallout from the Middle East crisis are expected to add 0.3 pp to the growth rate projected for 2026 (Box 3).

— Thus, compared with the scenario prior to the attack on Iran – which included the impact of the positive activity surprise in 2025 Q4 and the updated growth estimate for 2026 Q1 – the 2026 GDP growth rate has been revised down by 0.1 pp. This reflects the adverse impact associated with the technical assumptions deriving from the armed conflict (-0.4 pp), whose effect would largely, albeit not fully, be offset by the fiscal impulse adopted (+0.3 pp).

— As regards 2027, the 0.2 pp downward revision to output growth with respect to the December exercise mainly owes to the inclusion of new technical assumptions, the adverse effects on activity dynamics linked to the inflationary shock recorded in 2026 – which would partially carry over to the next year – and the reversal of the fiscal impulse (Box 3).

Chart 28

28.a Changes in the GDP growth forecast for 2026



SOURCE: Banco de España.

29 Job creation and the decline in the unemployment rate will slow over the projection horizon

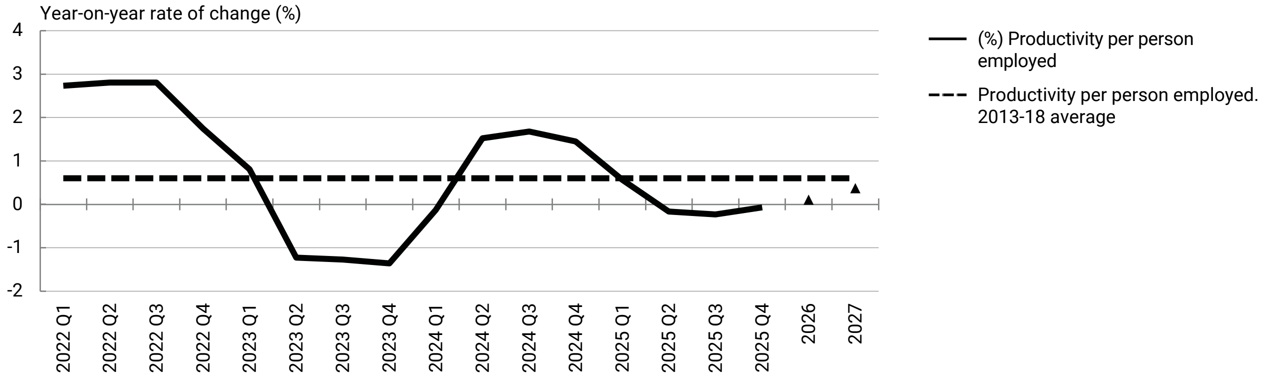
— Job creation will decelerate over the coming quarters. While employment – measured in terms of people employed – in 2025 overall grew by 2.7%, it is expected to slow to 2.2% in 2026 and 1.3% in 2027.

— Productivity per person employed will remain weak in 2026 and rise in 2027. Its performance in 2026 will reflect the lower level of job creation expected. Meanwhile, the dynamics forecast for growth in employment and GDP in 2027 point to productivity growing by around 0.4%, close to its historical average (Chart 29.a).

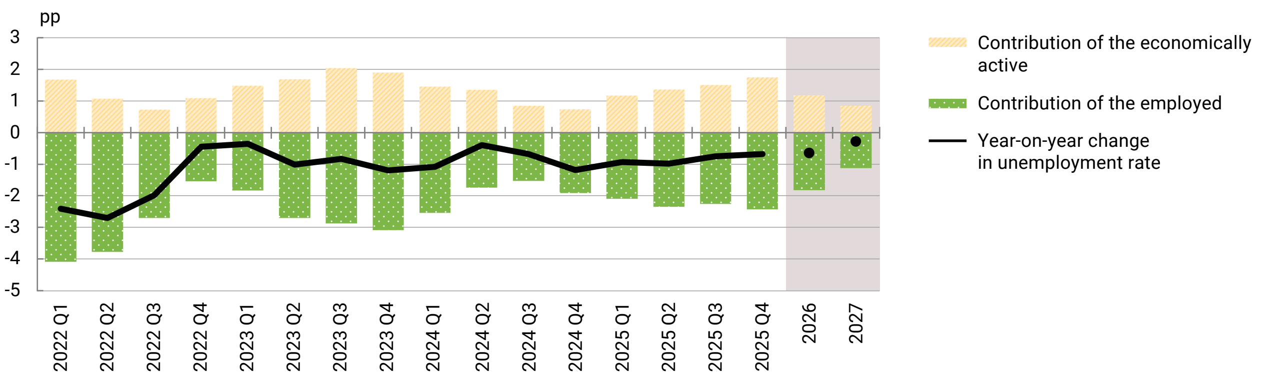
— The unemployment rate is expected to improve at a slower pace over the projection horizon than in prior years, declining by 0.6 pp in 2026 and by 0.3 pp in 2027 (to 9.6%). This reflects a sharper deceleration expected in employment than in the labour force (Chart 29.b).

Chart 29

29.a Productivity per person employed (a)



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



SOURCES: INE and Banco de España.

a Seasonally adjusted series.
b Gross series.

30 The general government deficit is forecast to remain above 2% over the projection horizon

— The key change with respect to the December exercise[19] is the package of measures approved on 20 March to mitigate the impact on households and firms of the surge in energy prices as a result of the conflict in the Middle East (Royal Decree-Law 7/2026), which is described in Box 3. Other noteworthy measures considered include the extension throughout 2026 (with some modifications) of the passenger transport subsidies (Royal Decree-Law 17/2025) and those set out in Royal Decree-Law 5/2026, on urgent measures in response to the damage caused by the recent adverse weather. Overall, these measures are estimated to drive up the general government deficit for 2026 by around 0.5% of GDP.

— Meanwhile, the expected course of public investment will continue to be determined by the gradual increase in defence spending, by the ad hoc measures to repair the damage caused by the 2024 flash floods and the recent heavy rainfall in the south of the country and by the impact of the RRF funds.[20] As a result, public investment as a proportion of GDP could slightly exceed 3% in 2026 and decrease moderately in subsequent years.

— Overall, the general government deficit is expected to stand at 2.5% of GDP in 2025, 2.3% in 2026 and 2.3% in 2027. Vis-à-vis the December projection exercise, the deficit forecast remains unchanged for 2025[21] and is revised up by 0.2 pp of GDP for 2026 and revised down by 0.2 pp for 2027. The increased momentum in nominal terms of the macroeconomic variables – which drive government revenue growth – envisaged in the current projection exercise should result in a lower budget deficit as a whole. However, in 2026 this effect is more than offset by the cost of the new temporary measures under Royal Decree-Law 7/2026, and in 2027 the improvement is dampened by the higher pension revaluation resulting from the upward revision to the inflation forecast for 2026.

— As regards the European fiscal rules, it is estimated that there is a risk of net primary expenditure growing – in annual terms in 2025, 2026 and 2027 – above the maximum upper limit permitted in accordance with the MTP, taking into account the margin of flexibility provided by European regulations. However, in cumulative terms since 2023, the increase projected is estimated to still be within the margin of flexibility allowed in 2025,[22] whereas in 2026 there is a risk of an upward deviation, which would increase in 2027, as a result of the envisaged growth in the items that push up expenditure and the exhaustion of the cumulative deviation margin permitted by the new European rules.

— Lastly, compared with the December exercise, the projections for the debt-to-GDP ratio in 2026 and 2027 are revised down slightly, owing mainly to higher nominal GDP growth. After reaching 100.8% of GDP at end-2025 (0.9 pp less than in 2024) according to the provisional estimate published by the Banco de España on 17 February, this ratio is expected to continue declining, to stand around 98% in 2027.

19 With respect to December, the new fiscal projections incorporate the latest budget outturn data available (corresponding to November 2025) and the measures that have been approved or announced in sufficient detail and are very likely to be adopted at the cut-off date for the exercise (21 March), as well as the standard assumptions about the behaviour of the main fiscal determinants. Specifically, it is assumed that the more discretionary variables will evolve in line with the nominal potential growth of the economy, and that the performance of all other variables (government revenue, pension expenditure, unemployment benefits, interest payments, etc.) will be shaped by their usual determinants.

20 As regards the RRF, the projections include the modifications in the latest addendum to the RTRP, together with the latest information available about fund absorption. Although this does not entail any significant changes in the expected time profile for public investment, it does for the capital transfers received, which should be somewhat higher in 2026, owing to the new grant allocated to the ICO in the latest addendum. As a whole, total RRF-linked revenue should amount to nearly 1% of GDP in 2025 and 2026, before progressively declining in subsequent years.

21 The data on the general government budget balance for 2025 will be released by the IGAE on 31 March.

22 See Council Regulation (EC) No 1467/97 and Regulation (EU) 2024/1263 of the European Parliament and of the Council.

31 With respect to the December projection exercise, the headline inflation rates are revised up for 2026 (by 0.9 pp, to 3%) and 2027 (by 0.6 pp, to 2.5%)

— The upward revision to the average inflation rate for 2026 is attributable to the following factors (Chart 31):

- First, the path of prices since the December exercise (i.e., actual inflation between November 2025 and February 2026) has been higher than expected, with notable upward surprises in food and stickiness in services, despite the extension of the public transport subsidies (which was not included in the previous projection exercise). This upward surprise in actual inflation and the upward revision to the March forecast add 0.6 pp to the revised inflation rate for 2026.

- Second, the surge in the price of energy commodities (oil and gas) since the Middle East conflict began has been reflected in a significant upward revision of the technical assumptions about electricity and oil prices, as per futures markets data. The impact of this factor adds a further 0.5 pp to the headline inflation rate for this year.

- Third, the expected path of food prices over the coming months is revised up, owing to their recent trajectory and the higher cost of energy and other relevant inputs, such as fertilisers. This revision contributes 0.1 pp to headline inflation.

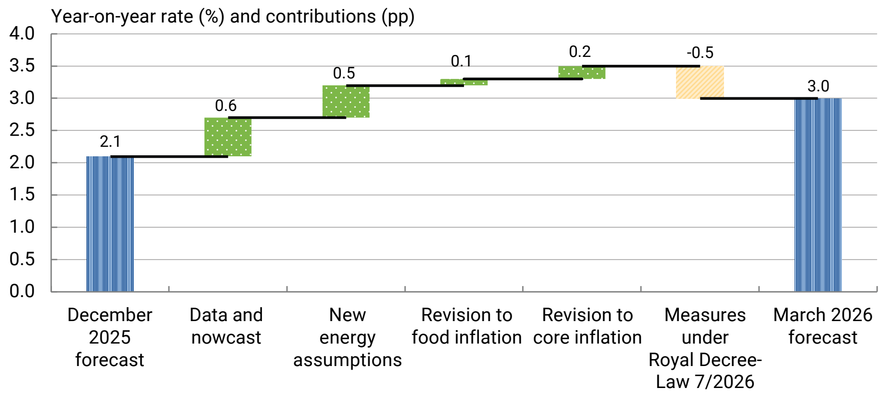
- Fourth, the rise in production costs on account of higher energy prices could partially spill over to the consumer prices of other goods and services, driving up core inflation. This factor, combined with the recent persistence observed in services, would add a further 0.2 pp to the inflation rate for 2026.

- Lastly, the impact of the lower energy taxes approved in Royal Decree-Law 7/2026 is quantified at a 0.5 pp reduction in the average inflation rate for 2026 (Box 3).

— As regards 2027, the upward revision of 0.6 pp, to 2.5%, is mainly attributable to the inclusion of new technical assumptions about energy commodity prices, the expected effect of withdrawing the public transport subsidies at the start of the year and the base effect associated with the higher energy taxes in the spring of 2027 compared with the same period in 2026.

Chart 31

31.a Changes in the inflation rate forecast for 2026



SOURCE: Banco de España.

32 Inflation is expected to rise in 2026 H2 as a result of the energy shock, to end the year at just over 3%

— The energy shock is projected to drive up the inflation rate in 2026 H2, once the energy tax reductions envisaged in Royal Decree-Law 7/2026 (Box 3) are reversed, seeing inflation end the year at around 3.3%. Against this background, average annual inflation in 2026 would stand at 3%, up 0.3 pp on 2025. As for 2027, inflation is projected to start the year broadly in line with end-2026 levels, before easing significantly in the second half, bringing the annual average rate of headline inflation down to 2.5%.

— Developments in the main inflation components are expected to vary over the projection horizon. In particular (Chart 32):

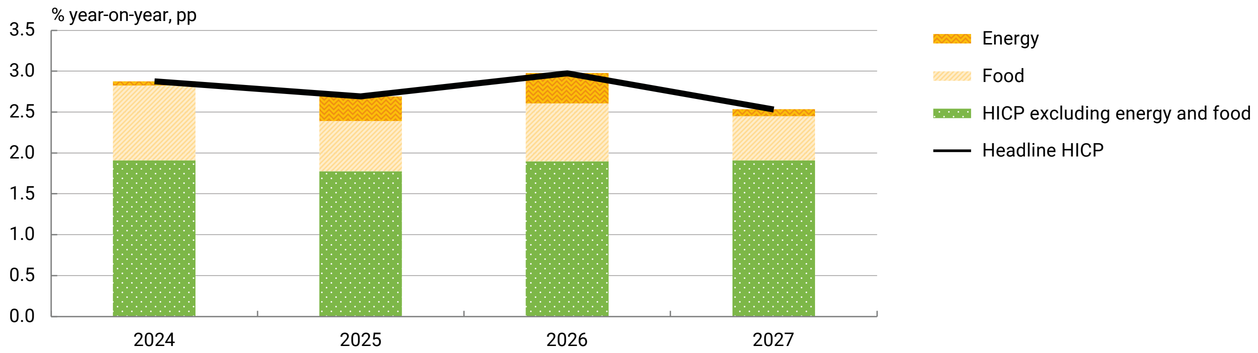
- Higher energy commodity prices in international markets are projected to push up the HICP energy component in the second half of this year, when energy taxes are expected to return to their pre-reduction levels (Box 3). Overall, the rate of change of the energy component would accelerate from 3.1% in 2025 to 4.2% in 2026, before easing to 0.7% in 2027.

- Annual average food inflation is expected to rise to 3.4% in 2026 (up 0.7 pp from 2025), against a backdrop marked by higher energy costs and the recent acceleration in processed food prices, in line with the increase in domestic production costs seen prior to the conflict in the Middle East. In this context, food inflation is expected to remain notably persistent over much of 2026, before beginning to ease from 2026 Q4 and into 2027, when it would converge towards rates of around 2.7%.

- Core inflation, meanwhile, is projected to rise to 2.7% in 2026 and 2027, slightly higher than in 2025 (2.6%). Services inflation is expected to remain sticky in the coming months, with a slight increase in early 2027 due to the withdrawal of the public transport subsidies. At the same time, non-energy industrial goods prices are forecast to rise somewhat, in line with the expected path of import prices for these goods and domestic producer prices.

Chart 32

32.a Contributions to HICP growth, by component



SOURCES: INE and Banco de España.

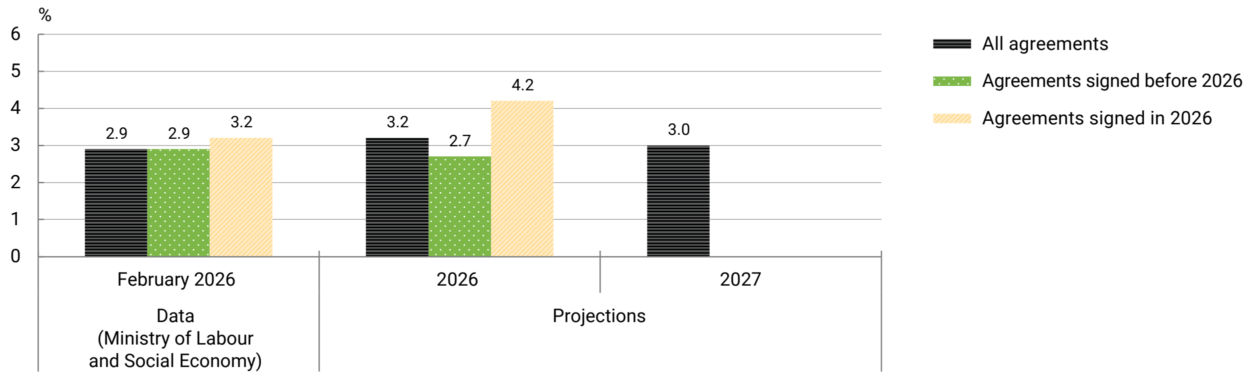
33 The persistence of some labour market tightness and higher inflation point to faster growth in compensation per employee than envisaged in the previous projection exercise, although it is still expected to ease

— According to the collective bargaining agreements registered to February 2026 (affecting some 7.2 million workers), the negotiated wage increase for this year stands at 2.9%, down by 0.6 pp on that agreed for 2025. The wage increase is entirely attributable to agreements signed in previous years and is consistent with the estimate based on information from multi-year agreements, which provide for a 2.7% increase in 2026. The information available for new collective agreements is limited to just 28 settlements, meaning the negotiated wage increase for 2026 (3.2% compared with an expected 4.2%) remains largely unrepresentative of collective bargaining developments for the year as a whole (Chart 33). The new agreements that are negotiated in 2026 could include somewhat higher wage increases than those signed in previous years, against a backdrop marked by the recently agreed public sector pay increases – particularly significant in 2027 – which could have something of a knock-on effect on private sector wages.

— The continued degree of labour market tightness observed during 2026 Q1 – evidenced by the persistently high ratio of job vacancies to jobseekers – together with the energy shock could place upward pressure on compensation per employee in the coming quarters. In view of this, compensation per employee in the market economy is expected to grow faster than envisaged in the December projection exercise, although it would remain on a slowing trajectory. Specifically, such compensation is forecast to grow by 4.1% in 2026 and by 3.9% in 2027 (0.3 pp and 0.5 pp, respectively, more than projected in December), compared with 4.4% in 2025.

Chart 33

33.a Agreed wage increase



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

34 These projections are subject to especially high uncertainty, mainly linked to the severity, duration and propagation of the energy shock associated with the conflict in the Middle East

— The attack by the United States and Israel on Iran on 28 February, together with Iran's response – including military actions against other states in the region and the de facto closure of the Strait of Hormuz, a transit route for around 20% of global oil and liquefied natural gas flows – has triggered a surge in the prices of energy commodities and other key inputs for certain productive sectors, such as aluminium and fertilisers, as well as generating significant financial market turmoil. As a result of this deteriorating global environment, some of the external risks identified in recent projection exercises have materialised – most notably a heightening of geopolitical tensions, a financial market correction and stronger domestic inflationary pressures – adversely affecting economic activity and exerting upward pressure on inflation.

— While the immediate effects of the conflict in the Middle East have been incorporated into the baseline scenario of the projections, the significant unpredictability surrounding the energy shock's severity, duration and potential propagation to the real economy has placed the global economy – and the Spanish economy in particular – in a more uncertain environment than envisaged three months earlier. This substantially increases the risks surrounding the baseline scenario and could give rise to scenarios more adverse than the one currently viewed as the most likely.

— In particular, the baseline scenario rests on an energy price path derived from futures markets at the cut-off date for technical assumptions (11 March) and assumes developments in external markets consistent with that path. At 11 March futures markets anticipated a gradual easing of oil price tensions from May 2026 onwards, with prices declining in the subsequent months and ending 2027 around 12% higher than envisaged in the December projection exercise, having peaked at close to 50% above that level in May 2026. The baseline scenario already includes the heightened financial market volatility observed in the days immediately after the attack on Iran.

— However, given the pronounced volatility in energy commodity prices, largely associated with the uncertainty over the future course of the conflict, different alternative scenarios have been considered. These scenarios are built on varying assumptions about the persistence and severity of the energy market disruptions, future financial market volatility and the transmission of the energy shock along the Spanish economy's production chain.

— Box 4 discusses these scenarios in greater detail. Relative to the baseline scenario, the results suggest that these scenarios would entail a more pronounced slowdown in GDP and a sharper rise in inflation. In particular, under an adverse scenario characterised by a steeper increase in oil and electricity prices than in the baseline scenario, GDP growth would stand at 2.2% in 2026 and 1.5% in 2027, with inflation running at 3.9% and 2%, respectively. Meanwhile, under a severe scenario involving a longer-lasting and more severe conflict, GDP growth would fall to 1.9% in 2026 and 1.1% in 2027, while inflation would rise to 5.9% and 3.2%, respectively.

Box 1
SEASONAL ADJUSTMENT OF THE QUARTERLY NATIONAL ACCOUNTS AND GDP GROWTH FIGURES IN 2025

Economic activity fluctuates throughout the year mainly due to two types of factors. First, there are seasonal and calendar effects associated with the regular repetition of patterns of economic behaviour at specific times of the year or with the different economic structure of each month. Examples include the concentration of tourist flows in the summer, movable feasts such as Easter and the varying number of working days in each month. At the same time, economic activity is subject to genuine variations stemming from changes in trend, the phase of the economic cycle (for example, a cyclical downturn) or the impact of irregular shocks, such as extreme weather events.

In most cases, the primary objective of short-term analysis is to accurately characterise economic activity developments in isolation from seasonal and calendar effects. This clean signal provides better insight into the underlying dynamics of the economy and is therefore a crucial input for economic policy decision-making.

Adjusting for seasonal and calendar effects is essential when analysing economic developments by comparing two consecutive quarters using quarter-on-quarter growth rates. This indicator provides a timelier signal of economic momentum than the annual rate of growth (comparing one quarter against the same quarter a year earlier), which is based on a more distant reference period and therefore offers a more lagged signal of the underlying dynamism of economic activity.[1]

For these reasons, once the National Statistics Institute (INE) has estimated the values of the quarterly aggregates of the Quarterly National Accounts (QNA) – gross and original series – it applies signal-extraction procedures to also provide the same series adjusted for seasonal and calendar effects.[2]

However, this seasonal and calendar adjustment poses several methodological challenges.[3] When it comes to extracting signals relating to economic developments from QNA data, there are two main issues. First, to obtain the best possible estimate of the economic situation at each point in time, the seasonally adjusted historical series are revised with each new quarterly observation. These revisions come on top of those made to the national accounts themselves as more complete information becomes available. Second, gross and seasonally adjusted annual figures need to be consistent so that the annual totals of the seasonally adjusted series match those of the original series, thereby preserving the internal consistency of the national accounts system.

As regards the first aspect, the seasonal adjustment procedure applied by the INE to the QNA is based on a parametric approach with autoregressive integrated moving average (ARIMA) errors.[4] The ARIMA model specification is determined annually, while its parameters are re-estimated each time a new observation is added. As a result, whenever new QNA data are released, the data for previous quarters are revised. This is in addition to the standard revision of statistical National Accounts data as more information becomes available, which can also alter the historical series. Therefore, the initial estimate of the economic signal can change over time.

For illustration purposes, Chart 1.a shows how the seasonally adjusted annualised quarter-on-quarter GDP growth rates for 2025 have changed across the different QNA releases. Revisions to the 2025 Q1 growth estimate are particularly noteworthy. While the April 2025 flash estimate placed that rate at 2.3%, the current estimate, based on the most recent information (for January 2026), puts growth at 1.8%.

Meanwhile, Chart 1.b shows how the gross series' year-on-year growth rates have changed over that same period. These rates have provided a more stable – albeit more lagged – signal of economic developments throughout the year. In particular, the flash estimate for 2025 Q1 put growth at 2.6%, very close to the latest available estimate (2.7%). Another noteworthy aspect of the year-on-year GDP growth rates calculated using the gross series is the stability in the first three quarters of 2025, with rates consistently around 2.7% across the different QNA releases.

1 In this regard, year-on-year rates – whether seasonally and calendar-adjusted or not – generally identify turning points in economic series later than quarter-on-quarter rates. A numerical example is provided in Annex 1.1 of International Monetary Fund (2017). *Quarterly National Accounts Manual*. 2017 Edition. https://www.imf.org/external/pubs/ft/qna/pdf/2017/QNAManual2017text.pdf

2 INE (2025). *Quarterly National Accounts of Spain: main aggregates. Inventory of sources and methods*. Mimeo. https://www.ine.es/en/daco/daco42/daco4214/inventario_fuentes_metodos_en.pdf

3 INE (2024). *INE standard for the correction of seasonal and calendar effects in short-term series*. Mimeo. https://www.ine.es/en/clasifi/estandar_efectos_estacionales_en.pdf

4 This approach follows the recommendations in Eurostat's handbook on quarterly national accounts and the International Monetary Fund's quarterly national accounts manual, as well as Eurostat's ESS guidelines on seasonal adjustment.

Box 1

SEASONAL ADJUSTMENT OF THE QUARTERLY NATIONAL ACCOUNTS AND GDP GROWTH FIGURES IN 2025 (cont'd)

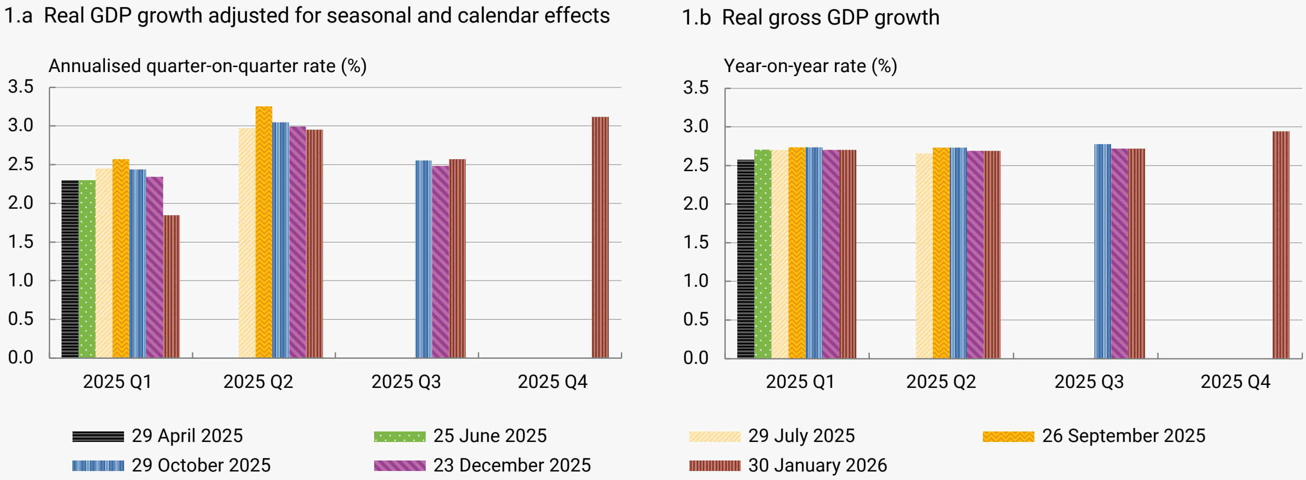
As for the second methodological challenge associated with the seasonal adjustment procedure, it is particularly important to force consistency between the annual aggregates of the gross and seasonally adjusted QNA series in Q4, when an estimate of those aggregates is already available for the four quarters of the year and, therefore, the growth signal for the year as a whole must be the same in both series. This could, again, make it more difficult to interpret short-term signals on the dynamism of economic activity as the year progresses.

The GDP flash estimates for 2025 Q4 illustrate this phenomenon. Prior to the release of those flash estimates, the short-term models used by the Banco de España in its December 2025 projection exercise indicated that seasonally adjusted quarter-on-quarter GDP growth for 2025 Q4 would likely stand between 0.6% and 0.7%.[5] This range put the overall growth rate for 2025 as a whole at 2.9%, and therefore implied a 0.5 pp acceleration in the year-on-year GDP growth rate in gross terms, from 2.8% in 2025 Q3 to 3.3% in 2025 Q4. Such a sharp rise in activity measured using the year-on-year rates of the gross series raised additional doubts about whether the projected annual growth for the year would ultimately materialise.

However, according to the flash estimate, quarter-on-quarter growth between October and December 2025 was 0.8% (0.1 pp-0.2 pp higher than projected by the Banco de España). By contrast, growth for 2025 as a whole stood at 2.8%, 0.1 pp lower than expected. This apparent contradiction is explained by the downward revision to the 2025 Q1 growth rate (from 0.6% to 0.5%). In year-on-year terms, based on the gross GDP series, economic growth increased between Q3 and Q4 by 0.2 pp (from 2.7% to 2.9%), a smaller acceleration than envisaged by the Banco de España in December.[6]

In conclusion, seasonally adjusted data make it possible to extract a more accurate signal of the underlying economic activity in terms of its economic momentum. However, the statistical procedure used to obtain them, along with the constraint of ensuring consistency with the gross series, give rise to revisions of that signal over time, in addition to the usual National Accounts revisions that are made as new information becomes available. Understanding this is important in both interpreting forecasting errors and properly assessing the uncertainty surrounding the baseline scenario in projection exercises.

Chart 1
Estimates of economic activity over time



SOURCE: INE.

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

6 It should be noted that the publication of the 2025 Q4 flash estimates led to a slight downward revision to the year-on-year growth rate for Q3, from the previous estimate of 2.8% to 2.7%.

Box 2

BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2026 Q1

Introduction

This box presents the results of the latest edition of the Banco de España Business Activity Survey (EBAE), corresponding to 2026 Q1. Drawing on a sample of Spanish non-financial corporations, the EBAE assesses every three months 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. In addition, this edition of the survey included a specific module on firms' use of artificial intelligence, the results of which will be analysed in the near future. The fieldwork was conducted between 9 and 23 February. 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 7,000 valid surveys completed (a response rate of 46%). This box details the main findings drawn from the responses received.

Turnover, employment and investment

The survey results suggest that *turnover*[2] declined in 2026 Q1, in line with the seasonal pattern typically observed in the first quarter (Chart 1.a). However, turnover fell slightly even after adjusting for seasonal effects, following several consecutive quarters of growth.[3] This is consistent with PMI readings, which point to a moderate slowdown in activity in the first few months of 2026. By sector, the performance is broadly negative, with most sectors posting somewhat sharper declines than those observed in the same period of previous years (Chart 1.b).

The respondent firms reported a drop in *employment* relative to the previous quarter, again shaped by seasonal effects (Chart 1.c). However, in seasonally adjusted terms employment grew slightly in 2026 Q1.[4] In line with the sectoral pattern for turnover, employment was down in the majority of sectors.

In terms of *investment decisions*, the results show a slight decline in investment after seven consecutive quarters of growth. This decrease was somewhat more pronounced in industry than in other sectors, although a certain seasonal pattern can be observed and may have influenced these results. Moreover, firms' expectations for 2026 Q2 suggest a potential recovery (Chart 2.a).

This sluggish investment coincided with a slight increase in the percentage of firms reporting spare productive capacity in the quarter. While this group of firms able to accommodate higher demand remains small, it has risen to almost 8.2% of the total from 6.7% in 2025 Q4. However, around 88% of the firms consider their current capacity adequate to satisfy existing levels of demand.

Medium-term outlook for activity and wages

Most firms expect turnover to increase over the next 12 months, in line with the expectations reported in 2025 Q4. Specifically, 54% anticipate higher turnover, especially in sectors such as information and communication services and transportation. Around 32% of firms expect turnover to remain stable, while 14% envisage a potential reduction, mainly concentrated in the agricultural sector where this percentage stands at 21.6%.

As regards uncertainty, most firms are fairly confident that their turnover expectations will materialise, i.e. they report a low or normal degree of uncertainty (71.2% in 2026 Q1, in line with 2025 Q4).

Costs and prices

Turning to the *cost of inputs*, the survey results point to a slight increase in inflationary pressures relative to 2025 Q4, particularly in the hospitality and construction sectors. These higher input costs appear to have been passed through to *selling prices*, which were significantly higher than in 2025 Q4, especially in the transportation and information and communication sectors (Chart 2.b).

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.

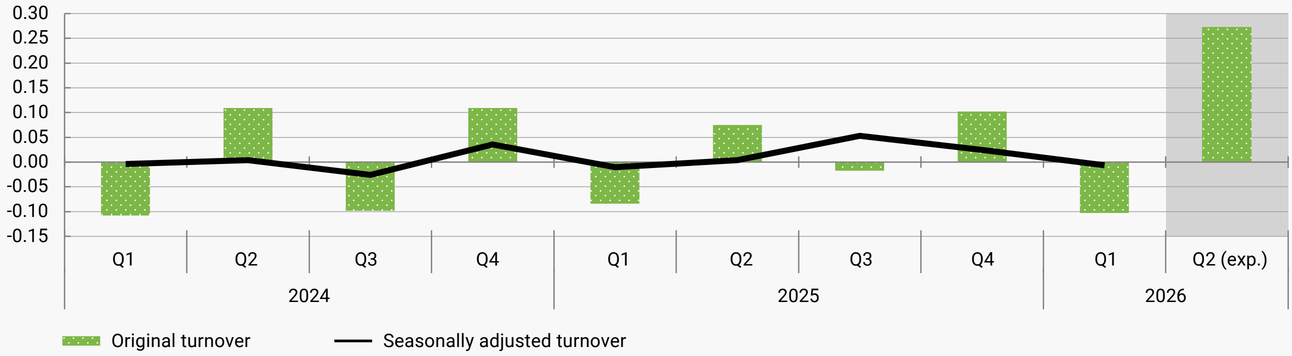
3 Given that the available EBAE time series are still too short to apply the standard seasonal adjustment techniques, we estimated the seasonal component by constructing a provisional seasonally adjusted time series based on an estimation of the historical relationship between the EBAE turnover indicator 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.

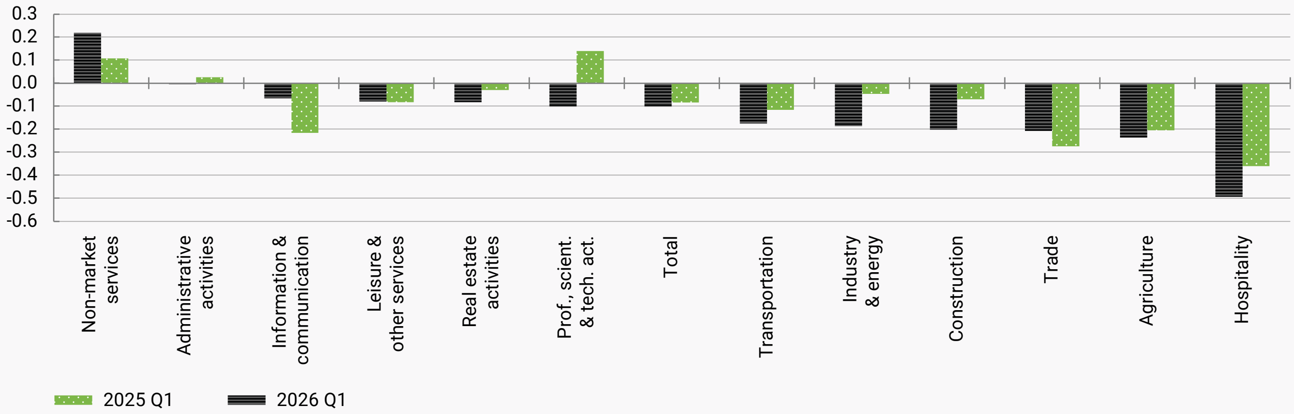
Box 2
BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2026 Q1 (cont'd)

Chart 1
Turnover and employment: change and outlook

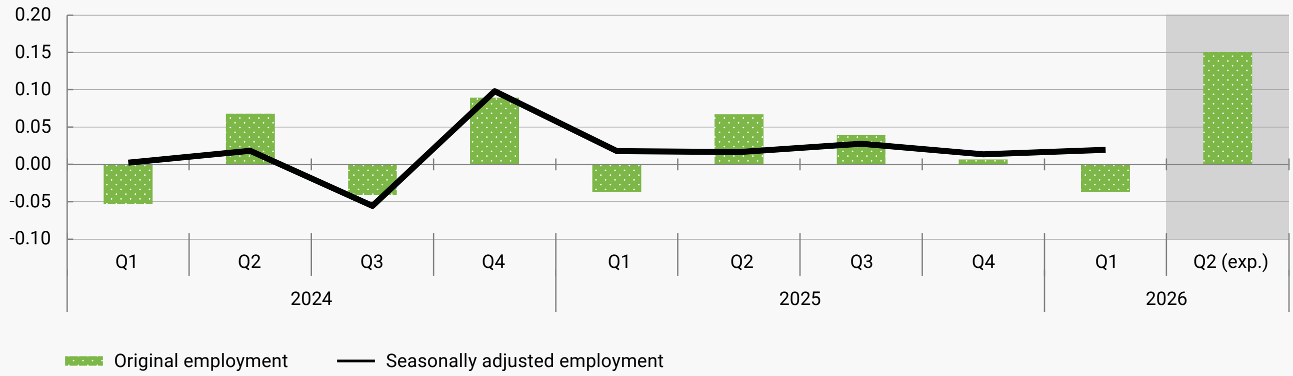
1.a Quarterly change in turnover (a)



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



1.c Quarterly change in employment (a)



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

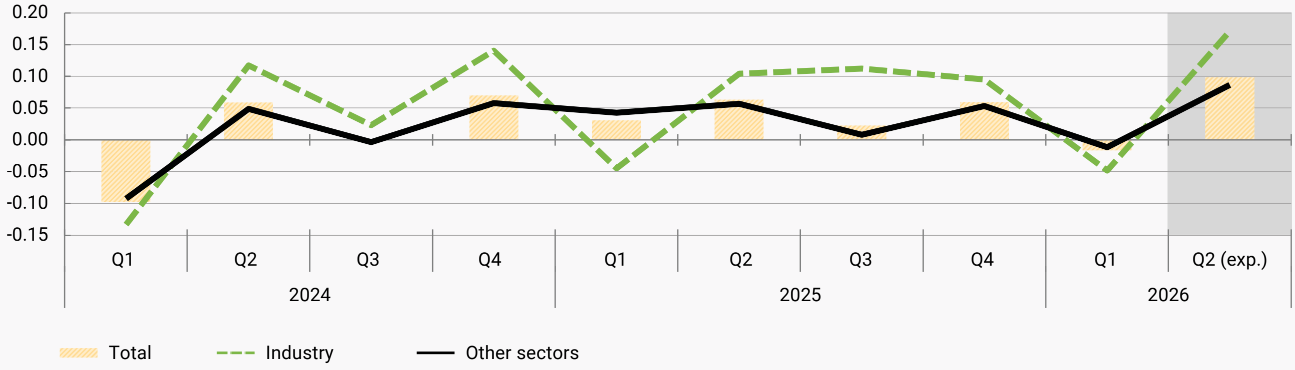
a Index constructed by assigning the following values to firms' qualitative responses: significant increase = 2, slight increase = 1, unchanged = 0, slight decrease = -1, significant decrease = -2.

Box 2

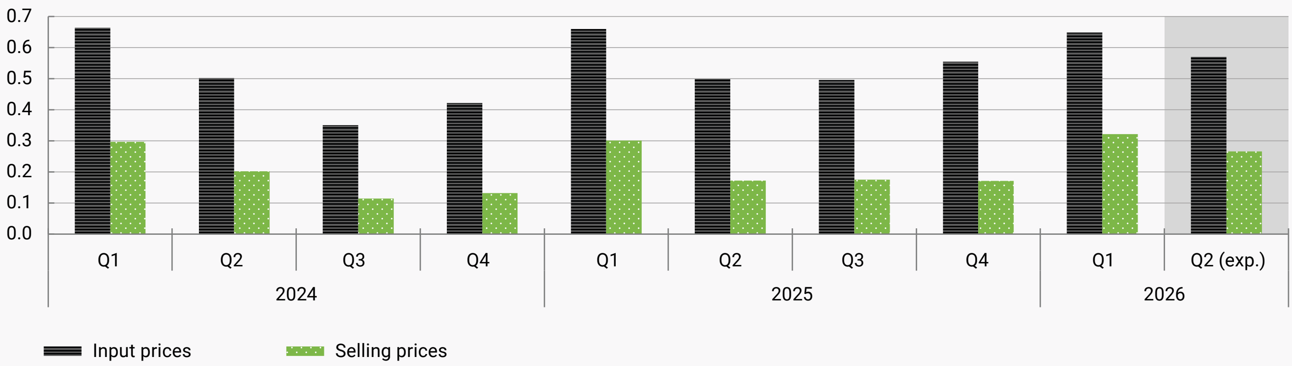
BANCO DE ESPAÑA BUSINESS ACTIVITY SURVEY: 2026 Q1 (cont'd)

Chart 2
Investment, prices and constraints on economic activity

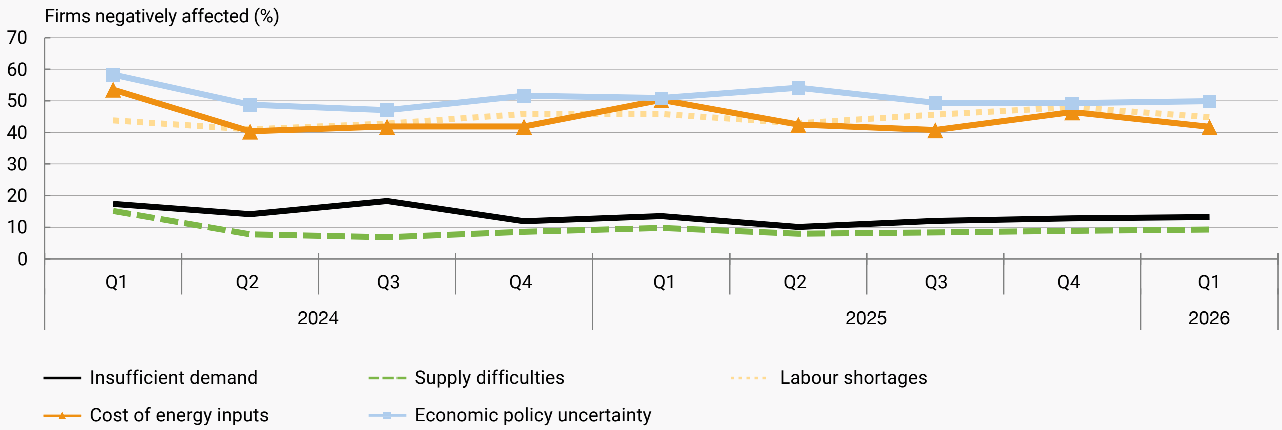
2.a Change in business investment (a)



2.b Quarterly change in input and selling 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: 2026 Q1 (cont'd)

Looking ahead to 2026 Q2, the firms surveyed expect a gradual easing of inflationary pressures. In a similar vein, *one-year ahead expectations* remain relatively stable compared with the previous quarter, although the results suggest that firms expect a slightly more moderate increase in input and labour costs.

As in previous years, close to 46% of firms expect wages to move in line with projected inflation for 2026, while 25% anticipate only a partial correlation. Meanwhile, 12.7% of the firms say they expect no link between wages and CPI, with the rest expecting wage developments to be shaped by past inflation. The link between wages and past inflation has gradually weakened compared with previous years. Specifically, following the surge in inflation in 2022, almost 35% of firms reported basing their wage-setting on past inflation in 2023, compared with 17% in 2026.

Factors limiting business activity

According to the survey results for 2026 Q1, the impact of the various constraints on firms' business activity remained relatively stable. Economic policy uncertainty was again the main limiting factor, affecting 50% of firms and having a particularly broad impact in the transportation (63.5%), trade (61%) and industry and energy (59.7%) sectors.

Meanwhile, there was a slight reduction in difficulties associated with both *labour shortages* and *energy costs* (Chart 2.c). Specifically, labour shortages were reported by 45% of firms, a decline of 3 pp compared with 2025 Q4. By sector, this constraint remains especially pronounced in construction, hospitality and transportation, where 58%, 55% and 52% of firms, respectively, reported such difficulties.

Similarly, energy input costs affected close to 42% of firms, down by 4.7 pp on the previous quarter. Nevertheless, their impact remains significant in sectors such as hospitality, transportation and agriculture.

Lastly, financial factors have a relatively minor impact on the firms' activity. Difficulties in access to finance affected close to 13% of the surveyed firms, while debt servicing costs rose slightly in the quarter, although just 19% of the firms considered this a relevant constraint on their activity.

Box 3

FISCAL MEASURES TO MITIGATE THE IMPACT OF THE ENERGY SHOCK AND THEIR EFFECTS ON THE MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY

The main fiscal policy-related change relative to the December projection exercise (besides the fiscal assumptions being brought up to date) is Royal Decree-Law 7/2026, which was approved by the Government on 20 March and is aimed at mitigating the impact on households and firms of energy price rises caused by the war in the Middle East. This new legislation includes a range of measures aimed at containing the impact of increasing energy costs on households and firms, with the Government estimating the package's total cost to general government at €5 billion.[1] These are short-term measures that are broadly effective to June, and so only affect the forecast for the general government budget balance this year. Nevertheless, the measures could be maintained if energy markets continue to come under pressure, adding a significant source of uncertainty for the current projections.

This box outlines the fiscal measures set out in the Royal Decree-Law, together with their budgetary and macroeconomic impact on the current projection exercise. In particular, the measures rest on two pillars: a substantial reduction in energy taxation and a set of direct aid and other measures aimed at the most affected sectors and the most vulnerable households.

First, the Royal Decree-Law contains a package of measures intended to broadly cut taxes on energy, with an estimated budgetary impact of around 0.15% of GDP (Table 1). These measures include cutting the VAT rate on fuel, electricity, gas and firewood from 21% to 10%. They also include reductions in the excise duties on hydrocarbons (IEH) and electricity (IEE), along with the suspension of the tax on electricity generation (IVPEE).[2] Under the Royal Decree-Law, these tax measures will mostly remain in force until 30 June 2026.[3]

Second, the Royal Decree-Law includes a set of subsidies, direct aid and other support measures with an estimated budgetary impact of around 0.14% of GDP (Table 1). Noteworthy among these measures is the additional tax rebate of €0.20 per litre of diesel for the transport, agricultural and livestock sectors, which will remain in force until 30 June 2026. It also includes specific aid for the industrial and energy sectors in force until 31 December 2026, including an 80% reduction in network charges for electricity-intensive industries, a zero levy on underground gas storage until March 2027 and supplementary appropriations for the compensation for indirect CO_2 emission costs. Transfers to the primary sector and maritime transport are also set out, including subsidies to offset rising fertiliser costs, support for the fishing fleet, subsidies for maritime transport services and several agricultural and fisheries financing facilities, which will all remain in place until 31 December 2026 Lastly, the Royal Decree-Law includes measures to protect energy consumers, such as exceptionally allowing greater flexibility in electricity and natural gas contracts (in force until 30 June 2026) and extending the heating cost discount scheme for vulnerable households and the personal income tax deductions for the purchase of electric vehicles included in the Auto+ Programme, which will now last until 31 December 2026.

The macroeconomic impact of these measures mainly arises through two channels. On the inflation side, by immediately lowering energy bills for households and firms, these measures reduce the final prices of electricity and other utilities, dampening inflation both directly (via the energy component) and indirectly (by alleviating production costs and subduing second-round pressures). On the GDP growth side, lowering energy costs increases households' disposable income and reduces cost pressures on firms, thereby boosting consumption and investment and mitigating the loss of competitiveness that an adverse energy shock would otherwise trigger. In any event, rolling back these measures may generate effects of opposite sign on inflation and activity. For example, the entry into force of the energy tax cuts automatically lowers inflation (by directly lowering the final prices affected by such measures), but, symmetrically, their eventual reversal will generate an equally automatic increase in the inflation rate, by reinstating the prior tax rates. Therefore, over the projection horizon, the net cumulative impact on inflation

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1 Royal Decree-Law 7/2026 also includes measures with no direct budgetary impact or of an exclusively regulatory nature (such as extending the electricity cost discount scheme for vulnerable households, the guarantee of basic utilities for vulnerable customers, financial instruments and support measures funded by the Recovery and Resilience Facility).

2 While the IVPEE's revenue take has no impact on the general government budget (being wholly allocated to the electricity system), the Royal Decree-Law introduces a one-off subsidy to compensate the energy sector for the loss in revenue resulting from the tax's elimination.

3 It should be noted that the Royal Decree-Law stipulates that the reductions in terms of VAT, IEH and IEE may cease to apply on 31 May, depending on developments in April in the CPI of the energy components relevant to each tax.

Box 3

FISCAL MEASURES TO MITIGATE THE IMPACT OF THE ENERGY SHOCK AND THEIR EFFECTS ON THE MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (cont'd)

of applying and subsequently withdrawing these measures tends to be virtually zero.

Below is an estimate of the macroeconomic impact of these measures, comparing the macroeconomic projections for the Spanish economy under the baseline scenario in this report – which incorporates the effect of this tax package – and a counterfactual scenario that excludes the measures (Table 2).

In the case of inflation, under the counterfactual scenario the average pace of price growth in 2026 is 0.5 pp higher than under the baseline scenario, while it is 0.5 pp lower in 2027. In other words, the impact of the measures in the tax package included in the baseline scenario will lower inflation by 0.5 pp in 2026, and their subsequent withdrawal will increase it by 0.5 pp in 2027. Thus, the adoption of these tax measures will help to significantly reduce the volatility of inflation over the next two years. Specifically, under the counterfactual scenario without the tax package, inflation rises considerably in 2026 (to 3.5%, from 2.7% in 2025) and then decelerates sharply in 2027 (to 2.0%). By contrast, under the projections' baseline scenario (which incorporates the tax measures) the path of inflation is steadier, with a more moderate rise in 2026 (to 3.0%) and a less pronounced deceleration in 2027 (to 2.5%). Meanwhile, under the counterfactual scenario, underlying inflation is 0.2 pp higher in 2026 and 0.3 pp lower in 2027.

Turning to activity, when incorporating the measures under Royal Decree-Law 7/2026, GDP growth in 2026 is 0.3 pp higher than under the counterfactual scenario, while in 2027 growth is 0.1 pp lower. This pattern is attributable to the tax package significantly boosting domestic demand in 2026, by bolstering household consumption thanks to higher disposable income and encouraging certain investment decisions. In 2027 the withdrawal of the stimulus and the petering out of the base effect associated with this frontloading will prompt a slight slowdown in

Table 1
Fiscal support measures in Royal Decree-Law 7/2026 (a)

	Amount (% of GDP)	Expiry date
Reduction in energy taxes (b)	0.15	
Cut in VAT rate on fuel (from 21% to 10%)		30 June 2026
Cut in VAT rate on electricity, gas and firewood (from 21% to 10%)		30 June 2026
Reduction in IEH		30 June 2026
Reduction in IEE (from 5.11% to 0.5%)		30 June 2026
Suspension of IVPEE (c)		30 June 2026
Subsidies, direct aid and other meaures	0.14	
Additional tax rebate of €0.20 per litre of diesel for the transport, agricultural and livestock sectors		30 June 2026
Grants for the industrial and energy sectors		31 December 2026 (d)
Transfers to the primary sector and maritime transport		31 December 2026 (e)
Measures to protect energy consumers		31 December 2026 (f)
Personal income tax deductions for the purchase of electric vehicles: Auto+ Programme		31 December 2026
TOTAL	0.3	

SOURCE: Banco de España.

a The measures shown in this table were set forth in Royal Decree-Law 7/2026, which also includes others with no budgetary impact (such as those funded by the Recovery and Resilience Facility). Royal Decree-Law 8/2026 includes other measures to restrict rental price increases. Neither Royal Decree-Law has yet received parliamentary validation.
b The cuts to VAT, IEH and IEE may be withdrawn in June, depending on developments in the CPI in April.
c The suspension of the IVPEE is accompanied by a compensatory subsidy for electricity sector firms.
d This item also includes the zero levy on undergound gas storage in force until March 2027.
e This item also includes grants to maritime transport services in force until June 2026.
f This item also includes the measures allowing greater flexibility in electricity and natural gas contracts in force until June 2026.

Box 3

FISCAL MEASURES TO MITIGATE THE IMPACT OF THE ENERGY SHOCK AND THEIR EFFECTS ON THE MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY (cont'd)

demand, giving rise to a smaller contribution by domestic demand and a less expansionary path for GDP.

In conclusion, this box shows that the fiscal measures under Royal Decree-Law 7/2026 have a positive macroeconomic impact in the short term by attenuating the fluctuations in inflation associated with the surge in energy prices and, therefore, mitigating the impact on economic activity. In addition, their temporary nature ensures that the tax cuts are confined to the most severe period of the energy shock. However, given that they are not designed to aim at the most vulnerable households, their redistributive effectiveness is limited.[4] In this regard, more targeted and selective alternatives would provide a similar degree of protection and reduce distortions in relative price signals.

Table 2
Comparison of the projections' baseline scenario with a counterfactual scenario without the fiscal support measures under Royal Decree-Law 7/2026

%

	Baseline scenario	Counterfactual scenario	Difference (pp)
GDP			
2026	2.3	2.0	0.3
2027	1.7	1.8	-0.1
Inflation			
2026	3.0	3.5	-0.5
2027	2.5	2.0	0.5
Underlying inflation			
2026	2.7	2.9	-0.2
2027	2.7	2.4	0.3

SOURCE: Banco de España.

4 These limitations are similar to those observed in the case of the measures rolled out in response to the energy crisis triggered in the wake of Russia's invasion of Ukraine. In particular, a significant portion of the measures adopted in the period 2022-23 were not targeted, meaning that they benefited high-income households proportionately more, thus reducing their redistributive effectiveness and raising their budgetary cost. For a detailed analysis, see Esteban García-Miralles. 2023. "Support measures in the face of the energy crisis and the rise in inflation: an analysis of the cost and distributional effects of some of the measures rolled out based on their degree of targeting". *Economic Bulletin – Banco de España,* 2023/Q1, 15. https://doi.org/10.53479/29769

Box 4

ALTERNATIVE SCENARIOS FOR THE SPANISH ECONOMY BASED ON THE INTENSITY AND DURATION OF THE ENERGY SHOCK FROM THE WAR IN THE MIDDLE EAST

As a result of the war in the Middle East energy commodity prices have spiked and financial market volatility has heightened notably. The extraordinarily changeable current setting, together with the highly uncertain future course of the war and, by extension, of the ensuing energy shock, make it advisable to consider different assumptions about the trajectory of a set of key economic variables. On this basis, several plausible alternative macroeconomic scenarios for the coming months were constructed which complement the baseline scenario of these projections and calibrate more accurately the risks to which it is exposed. This box describes in detail the assumptions used for these alternative scenarios and their main outcomes.

Two alternative scenarios called "adverse" and "severe" were prepared, based on assumptions about future energy commodity prices and the external markets underpinning them. Thus, these scenarios include increasingly higher trajectories for oil and electricity prices over the coming months (Chart 1) and a progressively sharper deterioration of external markets.[1]

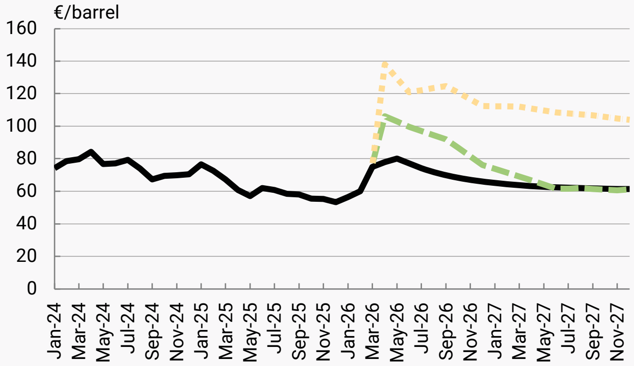
Under the alternative scenarios considered GDP growth rates will be significantly lower and inflation will rebound more sharply over the next few quarters compared with the path in the baseline scenario (Table 1).[2] Specifically, the rise in the energy component, particularly in fuel, gas and electricity prices, will push inflation rates higher. Given the scale of this price increase, it will also likely be passed through along the production chain, putting upward pressure on costs and, consequently, on the consumer prices of other components such as food, as well as on core inflation. This scenario of higher inflation erodes household real income, dampening economic activity.[3] In the different scenarios, the fiscal and monetary policy response is not modified to ensure that they are comparable on a uniform basis.

Adverse scenario

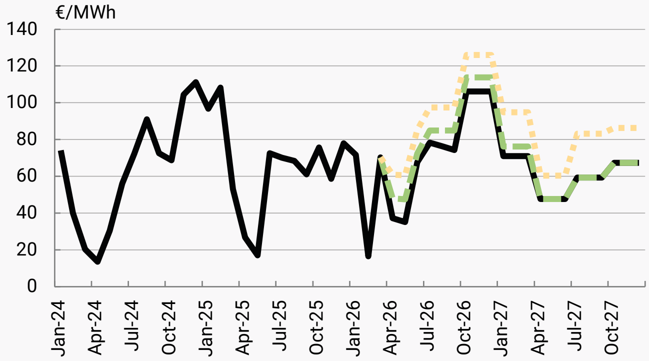
The adverse scenario envisages a higher increase in crude oil and electricity prices over the coming weeks than the baseline scenario (Chart 1).[4] However, it assumes that the disruption to energy markets will be temporary, insofar as

Chart 1
Assumptions about energy prices under different scenarios

1.a Oil price



1.b Electricity price on wholesale markets



Baseline scenario Adverse scenario Severe scenario

SOURCE: Banco de España.

1 The paths of energy prices and external markets take into account the adverse and severe scenarios of the March 2026 ECB staff macroeconomic projections for the euro area.

2 The impacts of these scenarios for the euro area in terms of GDP and inflation are presented on page 17 of this report.

3 In any event, one assumption underlying the projections in both scenarios is a moderate response of wage growth to inflation, which avoids a feedback loop between wage increases and end prices and the resulting exacerbation of the inflationary process, with more adverse effects on external competitiveness and economic activity and employment.

4 Electricity prices reflect the changes in gas prices and, therefore, the alternative scenarios considered are consistent with higher levels of gas prices.

Box 4

ALTERNATIVE SCENARIOS FOR THE SPANISH ECONOMY BASED ON THE INTENSITY AND DURATION OF THE ENERGY SHOCK FROM THE WAR IN THE MIDDLE EAST (cont'd)

the physical infrastructure of oil and gas production and loading in the Middle East would not be damaged significantly by the current conflict. In this setting, as from 2026 H2 energy commodity flows would begin to return to normal and converge around the levels envisaged in the baseline scenario in 2027 Q1. Under this scenario, the growth rate of Spain's export markets in 2026 (1.3%) would be 0.6 pp lower than in the baseline scenario, whereas in 2027 it would rebound slightly more sharply, by a further 0.3 pp, to 3%.

Under this adverse scenario, the growth rate of GDP would fall by 0.1 pp to 2.2% in 2026 and by 0.2 pp to 1.5% in 2027, compared with the baseline scenario. Simultaneously, the inflation rate would rise by almost 1 pp in 2026 to 3.9% and, based on the assumption that energy markets would rapidly return to normal, it would drop by 0.5 pp in 2027 to 2%. Core inflation would stand at 3% in 2026 and 2.6% in 2027, 0.3 pp higher and 0.1 pp lower, respectively, than in the baseline scenario.

Severe scenario

The severe scenario assumes a more intense and protracted war, extending the disruption to energy commodity flows until the end of this year. As a result, shipping volumes would only start to return to normal as from early 2027, and even then, only gradually due to the extensive destruction of energy infrastructure in the Middle East. This would lead to considerably higher crude oil and electricity prices throughout the entire projection horizon. Under this scenario, the growth rates of Spain's export markets would be markedly weaker in 2026 and 2027 than under the baseline scenario, dropping by 1 pp and 0.9 pp, respectively, to 0.9% and 1.8%.

This severe scenario would have more adverse effects on economic activity and price developments. GDP growth rates in 2026 and 2027 would be 0.4 pp and 0.6 pp lower than under the baseline scenario, standing at 1.9% and 1.1%, respectively. Meanwhile, the headline inflation rate would increase by 2.9 pp in 2026 (to 5.9%) and by 0.7 pp in 2027 (to 3.2%). Core inflation would also exceed that under the baseline scenario, by 1 pp in 2026 and 0.3 pp in 2027, reaching 3.7% and 3% in those years.

It should be noted that this scenario-construction exercise is purely illustrative. Its purpose is to reflect the high level of uncertainty affecting the baseline scenario and to provide an indication of possible future paths for activity and inflation in alternative settings that are considered plausible. Nevertheless, these scenarios are subject to a number of limitations that should be borne in mind.

First, the marked volatility in energy markets – driven by the highly uncertain future course of the war, the various

Table 1
Comparison of the macroeconomic projections for Spain under different scenarios

%

	March 2026 projections			Deviations from the baseline scenario (pp)	
	Baseline scenario	Adverse scenario	Severe scenario	Adverse scenario	Severe scenario
GDP					
2025	2.8	2.8	2.8	0.0	0.0
2026	2.3	2.2	1.9	-0.1	-0.4
2027	1.7	1.5	1.1	-0.2	-0.6
Inflation					
2025	2.7	2.7	2.7	0.0	0.0
2026	3.0	3.9	5.9	0.9	2.9
2027	2.5	2.0	3.2	-0.5	0.7
Core inflation					
2025	2.6	2.6	2.6	0.0	0.0
2026	2.7	3.0	3.7	0.3	1.0
2027	2.7	2.6	3.0	-0.1	0.3

SOURCES: BCE and Banco de España.

Box 4

ALTERNATIVE SCENARIOS FOR THE SPANISH ECONOMY BASED ON THE INTENSITY AND DURATION OF THE ENERGY SHOCK FROM THE WAR IN THE MIDDLE EAST (cont'd)

countries' strategic decisions and broader geopolitical developments – makes it difficult to accurately define possible paths for energy prices and other key variables, such as uncertainty levels, the exchange rate and financial market developments. In an environment subject to frequent changes, more extreme commodity price paths than those considered under the baseline scenario cannot be ruled out, which could potentially drive up inflation rates. This would amplify the pass-through of the inflationary shock along the Spanish economy's production chain, increasing the risk of second-round effects on wages, and could ultimately result in higher and more persistent inflation.

Second, the fiscal support measures adopted to cushion the impact of the energy shock depend on how the shock itself unfolds. In this context, the impact of the most severe scenarios could, in practice, be mitigated if the Spanish government were to expand or extend these fiscal measures beyond the provisions currently in place.

Finally, in line with the alternative scenarios presented in this box, the survey of Banco de España economists on the assessment of risks to Spain's economic outlook suggests that, relative to the baseline scenario, the risks are tilted predominantly to the downside for GDP and to the upside for inflation (Charts 2 and 3). The economists also highlight an increase in geopolitical and energy-related external risks, as well as risks linked to inflation and external demand developments (Charts 4 and 5). Against this backdrop, an additional question was included about the probabilities they assign to the different scenarios. The results point to high probabilities for both the adverse and the severe scenarios. In particular, the

Chart 2
Risks to GDP

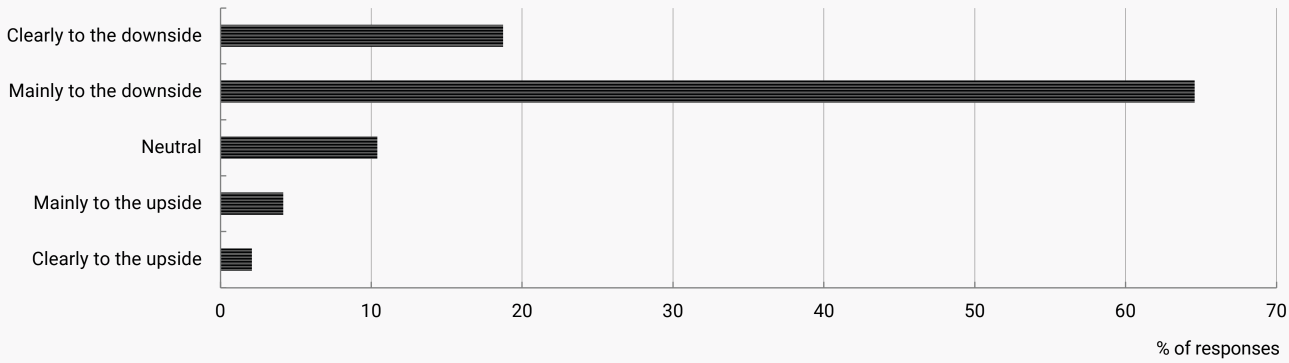
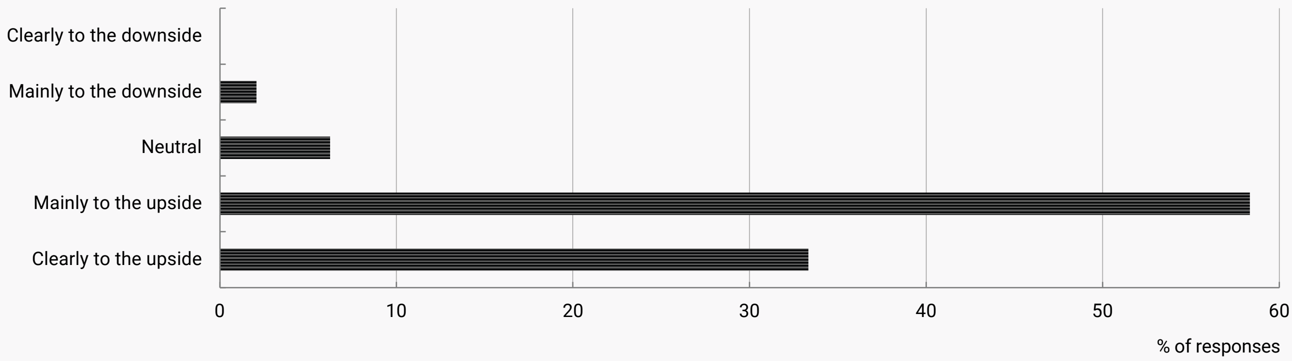


Chart 3
Risks to inflation



SOURCE: Banco de España.

Box 4
ALTERNATIVE SCENARIOS FOR THE SPANISH ECONOMY BASED ON THE INTENSITY AND DURATION OF THE ENERGY SHOCK FROM THE WAR IN THE MIDDLE EAST (cont'd)

Banco de España economists assign similar probabilities to the three scenarios (baseline, adverse and severe), which are broadly in line with the probabilities that, according to Polymarket[5] and on the date the survey was conducted (20 March), were assigned by markets as to whether the conflict would be resolved before May 2026, between May and December 2026 or after 2026.

Box 4
Assessment of each source of risk

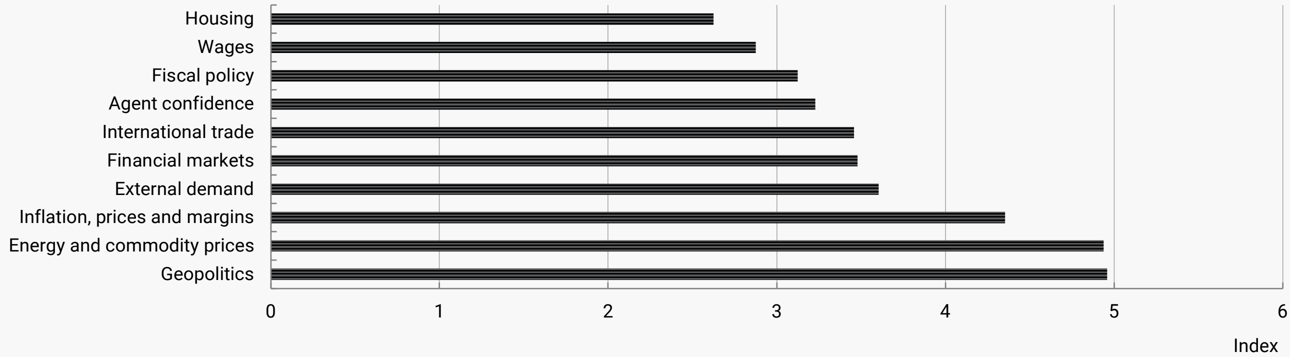
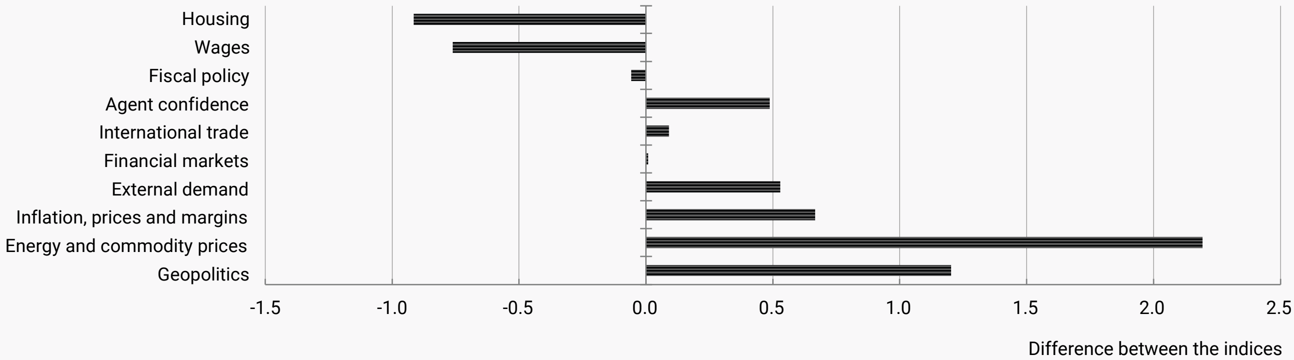


Chart 5
Change in the assessment of each risk with respect to September



SOURCE: Banco de España.

5 Polymarket is a decentralised prediction market on the outcome of actual events, such as the resolution of the current conflict in the Middle East.

ACRONYMS AND ABBREVIATIONS

AEAT	Spanish tax agency
CPI	Consumer Price Index
EBAE	Banco de España Business Activity Survey
ECB	European Central Bank
€STR	euro short-term rate
EU	European Union
GDP	gross domestic product
GOS	gross operating surplus
GVA	gross value added
HICP	Harmonised Index of Consumer Prices
ICO	Official Credit Institute
IGAE	National Audit Office
IMF	International Monetary Fund
INE	National Statistics Institute
LNG	liquefied natural gas
MTP	Medium-term fiscal-structural plan
MWh	megawatt hour
NDER	narrowly defined effective rate
NFCs	non-financial corporations
PMI	Purchasing Managers’ Index
QNA	Quarterly National Accounts
QNFAIS	Quarterly Non-Financial Accounts of the Institutional Sectors
RRF	Recovery and Resilience Facility
RTRP	Recovery, Transformation and Resilience Plan
SCOTUS	Supreme Court of the United States
SMEs	small and medium-sized enterprises
ULCs	unit labour costs
USMCA	United States-Mexico-Canada Agreement
VAT	value added tax

bn	billion
bp	basis points
pp	percentage points
H	half
Q	quarter