

Annual Report: Digest

Chapter 1

Overview

The international environment

In 2025 the global economy proved more resilient than expected in the face of geopolitical and trade tensions.

- Global growth remained robust, in line with 2024, underpinned by investment in new technologies and still favourable financial conditions.
- The gradual disinflation process continued, albeit more slowly in core inflation and with marked heterogeneity across geographical areas.

The global trade environment remains strained and volatile.

- Tariff tensions eased from mid-2025, but effective tariffs remain high and the US legal and political framework has introduced new sources of uncertainty.
- Amid this heightened instability in the transatlantic relationship, the European Union (EU) has stepped up its strategy of openness and diversification, working towards far-reaching trade agreements with different partners.

The new Middle East energy shock has shifted the balance of risks.

- The conflict in the Middle East has caused energy prices to surge, bringing back clear risks to global inflation and economic growth.
- Beyond the energy channel, the closure of the Strait of Hormuz is also disrupting global supply chains in the agricultural, chemical and technology sectors.

The euro area is in a relatively strong position, albeit with cross-country heterogeneity.

- Growth recovered in 2025, driven by domestic demand and marked by substantial disparity across countries.
- Inflation declined over the course of the year, albeit unevenly across components and with persistent services inflation.
- The Middle East conflict has significantly altered the euro area macroeconomic landscape, prompting the European Central Bank (ECB) to revise down its short-term growth projection and revise up its inflation forecast.

Financial markets are reflecting the interplay between resilient activity and heightened geopolitical and trade uncertainty.

- In 2025 long-term interest rates moved unevenly across regions, the euro appreciated in effective terms and risky asset prices generally trended upwards, with only brief interruptions during the April trade tensions.
- Equity markets' reaction to the outbreak of the Iran war was muted, with the most pronounced movements, by comparison with previous shocks, coming in long-term yields.

ECB monetary policy has moved into a more complex phase.

- ECB monetary policy began to ease in 2025, but the energy shock poses a dilemma: responding to inflationary pressures without excessively penalising growth.
- The recent strategic review reinforces the data-dependent approach and places greater emphasis on risk analysis.

European policies have been refocused towards competitiveness, integration and resilience.

- Despite recent progress, the European economy remains constrained by regulatory fragmentation, underdeveloped capital markets and limited capacity to scale up innovative firms.
- In response to these structural frictions and the new geopolitical environment, the EU has advanced a more ambitious economic agenda, centred on strengthening competitiveness, deepening the Single Market and driving financial integration to better channel savings towards investment.

The Spanish economy

The Spanish economy proved notably buoyant in 2025, significantly outperforming the euro area, with an absence of significant macro-financial imbalances.

- GDP grew by 2.8% in 2025, faster than the 1.4% for the euro area overall and the growth recorded in its main economies.
- Private domestic demand was the main driver of growth: private consumption grew by 3.4%, fuelled by spending on durable goods, while productive investment rose by 5.8%, with capital goods standing out.
- Improved financial conditions and strong job creation underpinned the buoyancy of domestic demand, with the unemployment rate at end-2025 falling below 10% for the first time since 2008.
- The expansionary cycle was again marked by considerable immigrant inflows, with the immigrant population estimated to account for around half of GDP growth and more than two-thirds of employment gains in recent years.

Vulnerabilities nevertheless remain.

- The external sector made a negative contribution to growth in 2025 (-0.7 percentage points). This reflects the deterioration in the international environment – marked by tariff and geopolitical uncertainty – together with the imports growth associated with strong domestic demand.
- The goods trade deficit worsened to -3% of GDP, but was offset by a strong performance in both travel and non-travel services exports, resulting in a trade surplus of 3.8% of GDP.
- Following the outbreak of the war in Iran inflation rose to 3.6% in May, reflecting higher energy prices, while services inflation has remained highly persistent.
- The challenge for fiscal policy remains one of addressing the structural deficit amid fresh pressures on expenditure. The general government budget deficit declined to 2.4% of GDP in 2025, although this improvement is largely attributable to temporary factors, with the structural deficit estimated to hold around 3% of GDP.
- The deficit reduction was compatible with net expenditure growth exceeding the 3.7% established under the Medium-Term Fiscal Structural Plan, at a time when fiscal policy must absorb rising expenditure requirements associated with defence, the green transition, demographic ageing and the digitalisation of the economy.

The economic outlook is significantly influenced by global uncertainty and the new energy shock.

- In early 2026 activity continued to show resilience, despite the heightened uncertainty, although projections point to a gradual easing in the pace of growth.
- In the baseline scenario, GDP growth would stand at 2.3% in 2026 and 1.7% in 2027, while the energy shock is expected to raise inflation to 3.6% in 2026, before falling to 2.6% in 2027.

Chapter 2

Housing market challenges: affordability problems and supply-side constraints

The housing market is undergoing an upswing in Spain against a backdrop of economic and demographic growth, with significant price rises, especially in large urban areas.

- The market's current dynamism comes amid a favourable macroeconomic environment and easing financing conditions, which are driving a marked increase in housing demand.
- The upturn is evident in the growth in house purchases, more mortgage lending and higher real purchase prices and rents.
- The cumulative increase in prices has been sustained by the weak supply response to demand that has been bolstered by strong population growth.
- Despite this dynamism, the indicators of financial stability risks and vulnerabilities do not point to the accumulation of macro-financial imbalances of the kind seen in earlier expansionary cycles. The current upswing also has certain distinctive features, such as the rental market expansion and greater regional heterogeneity.

Housing affordability problems are concentrated in large urban areas and among lower-income groups, particularly young people and those born abroad.

- The home ownership rate has fallen since the global financial crisis, while the share of renter households has increased.
- The sharpest rise in rental demand has been among new foreign-born residents and among younger people, who are leaving the family home at a lower rate and whose share of house purchases has fallen.
- These affordability problems have been aggravated by the fact that house prices have risen faster than household income, increasing the cost burden of buying a home and tightening the conditions for doing so in Spain to a greater extent than in the major European economies.
- The housing cost burden, whether to purchase or rent, is particularly high in large cities and among young people and new residents, and shows marked regional dispersion.
- Housing affordability problems are concentrated most in the rental market, especially in new contracts, where rents have risen sharply.

Supply-side constraints are limiting the production of new housing, with growth persistently lagging behind demand.

- There is little capacity in the existing housing stock to increase the supply of residential housing in the urban areas where economic activity is concentrated.
- New housing supply has reacted sluggishly to rising prices; new construction is not increasing at the pace needed to match household formation and non-residential demand.
- Purchases by non-residents and tourism-related uses of housing reduce the stock available for residential use along parts of the Mediterranean coast, on the Balearics and Canaries and in the city centres popular with tourists.

- A shortage of build-ready land, slow urban planning execution and management, and lower density construction hamper housing production capacity.
- The decline in production is also attributable to sector-specific factors, including declining productivity, small firm size, labour shortages and the modest profitability in construction and residential development.

Dysfunctions in the housing market can have significant macroeconomic and social effects.

- Housing affordability problems are transmitted to the wider economy through channels that affect macroeconomic conditions and the distribution of household income and wealth.
- The divergence between rising house prices and household income growth influences access to mortgage credit, consumption decisions and the capacity to save among households facing a higher housing cost burden.
- Persistently high housing cost burdens increase the number of households in situations of social vulnerability and affect the intergenerational distribution of wealth.
- Labour mobility and the efficient allocation of factors of production are constrained, which may lead to losses in aggregate productivity.
- These problems may also weigh on potential growth through their effects on demographics, human capital accumulation and the household saving rate.

The current affordability problems and supply-side constraints point to the need for coordinated structural policies across the tiers of government with responsibilities in this matter to increase the housing stock.

- The analysis highlights that the rigidity of housing supply in Spain is a structural issue, with persistent factors that constrain its ability to respond to demand.
- Policies aimed at improving access to housing should prioritise measures that make more new homes available.
- The division of responsibility for housing policy across different tiers of government requires a high degree of coordination to ensure that measures are effective, especially in land policy and urban planning, where the slow pace of execution hampers housing production.
- The various levels of government are adopting measures that are gradually increasing housing supply, although their scale remains modest relative to existing needs. Taken together, local government is well placed, in budgetary and asset terms, to help finance an expansion of the public housing stock.
- Policies designed to curb demand may, in the short term, contain the growth of non-residential demand and temporarily ease situations of household overburdening and vulnerability. Their design must, however, take account of the possible emergence of unintended effects that could limit any increase in supply, which makes it advisable to monitor and evaluate these measures so that such effects can be identified.

Chapter 3

The productivity challenge and business growth: the role of financing

The trend in Spanish productivity has changed since the financial crisis and the euro area sovereign debt crisis.

- Total factor productivity in Spain has shifted from negative growth rates prior to 2013 to outpacing the euro area as a whole.
- This change is mainly attributable to improvements in the allocation of capital and labour across firms, while the reallocation across sectors has played a more limited role, despite the notable growth in digital sectors and professional services.

There have been some favourable developments in the Spanish business sector, but constraints related to firm size persist.

- Since 2013, the weight of microenterprises has declined, while that of large firms has increased, although the former still represent a relatively high proportion compared with other European countries.
- Productivity levels in Spanish firms are below those in the rest of the euro area across all firm sizes, and the small number of highly productive large firms limits the Spanish productive system's capacity to boost aggregate productivity.

Deleveraging has strengthened Spanish firms' financial position, while the improvement in credit allocation has underpinned productivity gains.

- Spanish firms – particularly SMEs and higher-risk firms – have notably reduced their indebtedness levels and increased the relative weight of own funds since the financial crisis.
- Although access to bank credit is not significantly restricted at present, difficulties persist for firms that are young or innovative or have no credit history.
- Credit has been channelled to a greater extent towards more productive firms since the financial crisis, with the change proving particularly significant in the microenterprise segment.

Alternative financing sources have become increasingly relevant, but they remain underdeveloped.

- Alternative financing (which includes the capital markets and private credit) has seen considerable growth in recent years, helping firms to diversify their funding sources, but it still represents a small share and its use is concentrated among larger or more mature firms.
- Venture capital-backed firms have higher rates of growth, investment and innovation, which underscores their potential for driving productivity. Venture capital plays a particularly key role in financing young and innovative firms.

Despite the progress made, the productivity gap relative to the rest of the euro area is still substantial.

- The negative gap vis-à-vis the rest of the euro area has narrowed from 12% in 2013 to 8% in 2025, underlining the scale of the challenge ahead.
- The slight uptick in productivity growth may not prove sustainable in the absence of further advances in its structural determinants.

Significant inefficiencies in the regulatory environment persist.

- Regulatory complexity and fragmentation across different tiers of government entail high compliance costs, hamper firms' geographical expansion and are associated with significant regional heterogeneity in allocative efficiency metrics.
- Institutional quality is a driver of efficiency in resource allocation and productivity at regional level.

Adopting advanced digital technologies, such as artificial intelligence (AI), offers the opportunity to boost productivity, but it also presents challenges.

- Spanish firms have increased their use of AI significantly in recent years, reaching levels comparable to the euro area average.
- Firms adopting these technologies are, on average, larger and more productive and have more capital and skilled staff.
- The evidence suggests that AI could generate considerable productivity gains, but its overall impact may be hampered by the entry barriers faced by SMEs and the need for complementary investment in training and business reorganisation, with possible effects on employment, especially for more skilled and younger workers.

The evidence points to the importance of public policy design and continuity.

- The public policies implemented in the wake of the global financial crisis (including the restructuring of the financial system, the labour market reforms and the advances in some regulated sectors) appear to have helped improve the allocation of resources and productivity growth, in a more stable and predictable environment for firms.
- However, the considerable regulatory complexity and fragmentation and insufficient R&D&I investment continue to weigh on and may limit firms' ability to fully harness AI.
- Looking ahead, consolidating the progress made and addressing the remaining frictions will be key to sustaining productivity growth and further converging with the euro area.