Foreword by the Governor

José Luis Escrivá

2025 and the first half of 2026 have been characterised by an exceptional environment marked by geopolitical and trade tensions, along with a weakening of the multilateral framework. Against this backdrop, the Banco de España's *Annual Report* provides an in-depth analysis of the key developments in international economic activity and, in particular, in the Spanish economy, while also examining some of the main structural challenges.

Following the successive US tariff policy announcements, the Middle East conflict, which erupted in late February 2026, constitutes a materialisation of a new risk in an already strained international landscape. The world economy has proven more resilient than expected in the face of these challenges.

Against this backdrop, although monetary policy easing continued across most developed and emerging market economies, price increases stemming from the Middle East conflict point to a potential shift in policy stance. Moreover, prices of risky assets followed an upward trajectory over 2025, with financial markets exhibiting a broadly muted response since the conflict began.

Four years on from the energy shock triggered by Russia's invasion of Ukraine, the euro area faces this second energy disruption from a position of relative strength, albeit with cross-country disparity. In this context, and following the monetary policy easing of 2025, the new energy shock demands that the response to inflationary pressures be carefully weighed against the risks to economic activity. Amid heightened uncertainty, with the potential for more severe and persistent energy shocks, the systematic use of scenario analysis is essential to assess the risks to growth and inflation, and to appropriately calibrate the economic policy response

Despite this highly uncertain international environment, the Spanish economy has shown considerable resilience during this period. The current expansionary cycle is characterised by strong employment and migratory flows, coupled with an absence of macro-financial imbalances.

However, this sound performance cannot mask significant vulnerabilities. Prices, particularly in the services sector, have continued to rise at a faster pace than the European average in 2025 and 2026. Moreover, the external sector contributed negatively to growth in 2025, against a background of considerable tariff and geopolitical uncertainty and strong momentum in domestic demand.

Turning to public finances, despite Spain recording a primary surplus in 2025, debt levels remain high. This limits the headroom to meet growing government spending needs associated with population ageing, the digitalisation of the economy, the green transition and new defence spending commitments. It is therefore particularly important to define a medium-term plan that is consistent with correcting imbalances while maintaining growth and social cohesion.

Alongside the overview of the current situation, the report examines two structural challenges facing the Spanish economy: the housing market and productivity as a driver of business growth.

First, recent developments in the housing market are characterised by booming housing demand and price growth, although financial stability risks and vulnerabilities remain muted. Geographically disaggregated data show that the current buoyancy is concentrated in large urban areas and popular tourist areas. The report presents new evidence on housing affordability, whether for purchase or rent, pointing to considerable regional heterogeneity and an especially high cost burden for young people and certain groups, particularly in large cities.

The current situation reflects a significant imbalance between very strong demand and rigid supply, with the analysis focusing on the constraints limiting housing supply growth. Effective housing policy requires close coordination among the relevant public authorities to reduce regulatory and administrative bottlenecks in urban planning and land policy, and to accelerate and improve the use of the public funds already available. Complementing these, demand-side policies could help mitigate the most vulnerable situations in the short term, but must be carefully designed and evaluated to avoid adverse effects on housing supply over the medium term.

The report further examines the productivity challenge and the financing of business growth as drivers of welfare convergence with the euro area. Drawing on granular firm-level data, the analysis identifies a trend shift in Spanish productivity following the global financial crisis, when the economy began to record positive growth rates exceeding the euro area average, supported by a more efficient allocation of capital and labour across firms. As a result, the share of the most productive firms in each sector has increased, while the proportion of microfirms has declined.

Corporate financing has played an important role in this development. Against a backdrop of deleveraging that has strengthened firms' solvency and liquidity, bank credit allocation has improved, shifting towards the most productive firms in each sector, especially in the microfirms segment, although constraints on access to finance persist for certain groups, such as firms without a credit history and more innovative companies. At the same time, alternative sources of financing have gained ground, although these remain underdeveloped by international standards.

In any event, the productivity gains observed since 2014 remain modest, and the unfavourable productivity gap that has built up relative to the euro area remains very wide. Addressing the persistent regulatory inefficiencies – particularly those related to regulatory fragmentation and complexity, which hinder market unity and the growth of more productive firms – will be essential to cement and build on these gains. At the same time, fully harnessing the adoption of advanced digital technologies – including artificial intelligence – will be key to improving resource allocation and driving business momentum.

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Foreword to the Annual Report 2025.

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