BBVA Research

Spain Economic Outlook

December 2025

Situation and outlook for the Spanish economy

Summary

GDP growth is expected to reach 2.9% in 2025 (0.1 pp lower than forecast in October), while in 2026 and 2027 the expansion is expected to reach 2.4% (0.1 pp higher than in October) and 2.0%, respectively.[1]

The current context is one of relatively high growth, increasingly dependent on domestic demand and job creation, although with limited progress in productivity and real wages. GDP could increase by 0.7% quarter-on-quarter in Q4 2025, above the level observed in Q3 2025, with a more balanced composition of demand.

Looking ahead, exports of services still have room to grow above the rate of GDP. The labor force will continue to increase, partly due to immigration, which will allow for the creation of around 480,000 jobs on an annual average over the next two years. Fuel costs will remain low compared with levels observed a couple of years ago, and electricity costs will stay below those faced by other eurozone countries. The gradual improvement in households' disposable income will support the recovery of private consumption. Monetary policy will continue to be expansionary, particularly favoring the purchase of durable goods and investment. The accelerated disbursement of funds linked to the Recovery and Resilience Facility (RRF) and the increase in defense spending will support the growth of domestic demand.

The slowdown in activity will continue, driven by the waning contribution of foreign tourism to growth, ongoing difficulties faced by goods exports, and fiscal policy that will become contractionary from the second half of 2026, partly due to the depletion of RRF-associated funds.

In summary, the outlook is positive, largely thanks to the Spanish economy's job creation capacity, although significant structural challenges remain, such as the prolonged stagnation of goods exports; the need to increase investment in key sectors to ensure the provision of electricity and affordable housing; labor shortages and inefficient use of the workforce; high unemployment; the sustainability of migration flows; consolidating the recent increase in total factor productivity by leveraging artificial intelligence; and pursuing an ambitious fiscal path.

1: See BBVA Research (2025): "Spain Economic Outlook. October 2025".

In 2025, the Spanish economy has maintained high growth, increasingly dependent on domestic demand and job creation, despite limited progress in productivity and real wages

The average increase in GDP this year is expected to be 2.9%, significantly above the average of the last 30 years (2.1%) and the growth of the Eurozone (1.4%). 2025 also marks a return to negative contributions from external demand to growth, as non-resident consumption slows and imports respond to improvements in household consumption and investment. This occurs despite the strength of services exports and the moderate increase in government expenditure. Finally, the recovery has been intensive in job creation, which explains almost the entire increase in output and is consistent with the observed decline in labor productivity and the limited progress in real wages.

Growth in 4Q25 could reach around 0.7%, slightly above what was observed in 3Q25, with a more balanced composition of demand. The downward revision of average GDP growth for 2025 (-0.1 pp) is explained by a lower-than-expected increase in 3Q25 (0.6%, compared with a forecast of 0.7%). However, Social Security enrolment up to the publication's cut-off date points to stronger job creation in the final part of the year. Given that no major changes are expected in the trend of output per worker, this suggests that GDP growth rates between 2.5% and 3.0% could be recorded in annualized terms. The contribution of domestic demand to growth is expected to remain positive this quarter, although smaller than in 3Q25. The increases in consumption (both public and private) and investment last quarter appear unusually high and, based on the information available so far, a moderation is expected. Meanwhile, the contribution of external demand should be less negative, because of a softer contraction in goods exports and slower import growth compared to 3Q25.

In 2026 and 2027, the expansion is expected to continue, with GDP growth of 2.4% and 2.0%, respectively

Services exports have room to sustain relatively high growth in 2026 and 2027 (3.3% and 3.2%, respectively). In particular, those unrelated to tourism have increased by 46% since 2019 in real terms, and could continue to grow more than GDP (3.9% and 4.1%). Supply constraints affecting other sectors should be less binding in this case, as they rely more on the adoption of new technologies and the digitalization and automation of processes. Changes in working arrangements following the pandemic have become established, allowing greater flexibility in the location of service production centers. Even in a context of stagnating European demand, there is still potential to gain market share, given that the share of GDP represented by some of these services is low compared to other European countries and globalization is intensifying in this sector.

The labor force will continue to increase, partly due to immigration, which will allow for the creation of around 480,000 jobs on an annual average over the next two years.[2] The labor force is expected to increase by around 400,000 people in both 2026 and 2027, consistent with the trend observed in 2025. This is partly supported by the current cyclical increase in the participation rate of Spanish workers. However, a large part of the momentum is explained by the increase in the foreign-national population. Although a moderation in immigration flows has been observed—from over 640,000 in 2023 to an annual average of around 350,000 in 2024 and 2025—various factors indicate that the labor market will continue to absorb workers from abroad. On the one hand, the political and economic situation in some of the countries of origin will continue to encourage people to leave in search of opportunities. Added to this are the measures implemented in the United States, which limit their options. On the other hand, the shortage of labor in key sectors such as services and construction, together with the expected increase in activity, will result in a tight labor market that is attractive to immigrants."

Fuel and electricity costs will remain relatively low, contributing to corporate competitiveness and to the recovery of household purchasing power. Oil prices are expected to remain around 65 dollars per barrel throughout the entire forecast horizon. These levels are significantly lower than those observed during 2023 and 2024. Likewise, electricity prices in the wholesale market remain more than 20% below what companies pay in the rest of Europe. Investment expectations in the sector, particularly in renewable energy generation, explain why further declines are expected in the coming years. These trends are particularly favorable for energy-intensive and export-oriented sectors, which will be able to benefit in the coming years from new infrastructure that will ensure lower costs.

Inflation will continue its gradual decline (2.5 and 2.2 percent in 2026 and 2027, respectively), which will help restore the purchasing power of wages. In addition to the trends already mentioned regarding energy costs, various factors will put downward pressure on import prices. Furthermore, the appreciation of the euro against the dollar observed in the first half of the year is expected to continue over the next two years (averaging 1.18 and 1.21 USD/EUR for 2026 and 2027, respectively). In the Eurozone, industrial output remains far below its recent peak and together with moderating wage costs, will help contain pressures on the CPI. Although inflation in Spain has been higher than in the rest of the Eurozone in recent months, trend indicators, which exclude the most volatile components, are consistent with a medium-term reduction toward levels close to 2%.

The gradual improvement in households' disposable income (2.4 percent and 1.9 percent in real terms in 2026 and 2027, respectively) will support the recovery of private consumption (2.9 percent and 2.0 percent). This will be supported by the growth of labor incomes, driven mainly by the increase in job creation, but also as a result of the gradual recovery of wages. Compensation indicators suggest that, on average, workers' pay is rising slightly above 3%, so after accounting for inflation, a moderate real-term improvement is being observed, which is expected to continue in 2026 and 2027. Other determinants of household

2: Employment in the Labor Force Survey.

spending, such as financial and housing wealth, are performing in a way that would support future purchase intentions. Moreover, although the household savings rate remains at historically high, it is not expected to decline compared with current figures (12.2% and 12.1% of disposable income). Its potential decline to levels closer to those observed before the pandemic remains an upside risk for consumption.

Monetary policy will be expansionary, which, together with the healthy balance sheets of companies, households, and banks, will boost financing, particularly benefiting investment (6.4% and 4.9% in 2026 and 2027, respectively). It is assumed that the European Central Bank (ECB) will keep the deposit facility rate at 2.0% over the next 12 to 18 months. This is due to the combination of inflation in line with the target, low growth in the EMU, uncertainty regarding the demand-pressure effects of increased defense spending and the use of the infrastructure fund in Germany. As economic activity improves over the coming quarters, the ECB could consider reversing part of the stimulus implied by an interest rate so close to the inflation target and move back toward a more neutral policy stance. This could happen towards the middle of 2027, leaving the deposit rate at around 2.5%. The sharp decline in financing costs for households and businesses, coupled with the expectation that they will not be reduced further and the anticipated GDP growth in Spain, should stimulate increased borrowing and help support a cyclical recovery in spending on durable goods and investment, particularly in capital-intensive sectors. An example is car sales, which could exceed 1,200,000 units, a level similar to that observed in 2019. [3]Capital acquisition appears to be accelerating, as confirmed by indicators related to the purchase of transport equipment, capital goods imports, and investment in intangibles.

Investment in housing is expected to accelerate over the coming years (6.2% and 6.4% in 2026 and 2027), supported by tailwinds that will drive demand. In spite of this, home sales will remain virtually stable in 2025 and 2026, at around 725,000 units per year. [4]This trend does not reflect a weakening of demand, which continues to be supported by solid fundamentals, such as strong employment growth, household formation, immigration, the increase in compensation per employee, or stable interest rates, but rather by the lack of available supply and the consequent rise in housing prices. Prices will continue to rise sharply, exceeding 10% this year and around 9.0% next year, which will mean that part of potential demand will be excluded due to the inability to afford payment. The expected improvement in corporate margins will encourage the start of new housing, and building permits are expected to increase by between 10 and 12 percent in 2025 and 2026, reaching between 140 and 155 thousand units per year.

The faster execution of the funds linked to the Recovery and Resilience Facility and the increase in defense spending will support the expansion of domestic demand. As the summer of 2026 approaches, the sense of urgency to spend the NGEU funds will increase. Efforts by public administrations are expected to fully utilize available resources, either by redirecting unused funds to other projects or purposes, or by accelerating pending tenders and

3: See BBVA Research (2025): Consumption Situation, Second half of 2025.
4: See BBVA Research (2025)Real Estate Observatory. November 2025.

grants. Reaching the goal of spending all available funds within the established timeframe (before August 2026) would imply an increase of more than 60% over the execution observed in 2025. This could lead to a 6.7% rise in non-residential construction investment in 2026, which is almost double the increase expected this year. Furthermore, the commitments undertaken to improve European security have led to a wave of agreements in the Council of Ministers. Since April of this year, the approval has been granted to spend nearly 40 billion euros on defense. According to BBVA Research, the multiplier effects of this type of stimulus depend on the stage of the economic cycle and on the reliance on imports to meet the growing demand for goods and services for these reasons. In addition to all of the above, the benefits for Spanish companies resulting from efforts across Europe in this regard (in Germany in particular where infrastructure spending will also increase), should be taken into account.

The slowdown in activity will continue, driven by the waning contribution of foreign tourism to growth, the ongoing challenges faced by goods exports, and fiscal policy, which will become contractionary starting in the second half of 2026

Non-resident consumption in 2025 will stand at around 28% above the levels observed in 2019. However, a slowdown is already becoming apparent: While average growth was almost 16% in 2023 and 2024, it will be slightly above 5% in 2025 and moderate to around 2% in 2026 and 2027. Some indicators, such as the number of foreign tourists or their overnight stays in hotels, are already near stagnation. Spending is holding up better, and the sector may be transitioning toward a model more dependent on margin growth per tourist, focusing on higher value-added segments. However, the slowdown in visits also seems to reflect weakness in the economies of the countries of origin. Finally, there is a possibility that the post-pandemic shift, which has prioritized spending on services over goods consumption, may be reaching its limit.

The increase in tariffs, trade uncertainty, and the appreciation of the euro against the dollar could have a somewhat greater impact than anticipated. Although goods export growth continued in 2Q25 despite the decline observed in sales to the United States and Latin America, did not extend into 3Q25. While it is true that the data have shown excessive volatility in recent months, the loss of competitiveness resulting from higher export costs and the appreciation of the euro against the dollar could have more lasting effects than initially projected. It is estimated that this latter factor alone could reduce export growth by around two percentage points compared with a scenario in which the exchange rate had remained closer to parity. Meanwhile, tariffs have had significant consequences for exports to the United States, particularly for goods such as steel, perfumes, footwear, ceramics, and chemical products, where substantial declines have been observed.

Fiscal policy will change its tone over the coming months, becoming less and less expansionary. First, because the stimulus associated with the resources needed to support individuals and companies affected by the DANA (torrential rain and severe flooding in

Valencia) will gradually be exhausted. Reconstruction efforts will continue to have an effect on economic activity. However, in recent months, the amount of compensation and subsidies appears to be increasing only marginally, and their impact on demand will gradually fade. In particular, it is estimated that nearly €8 billion (0.5% of GDP) has been injected for this purpose, most of it during the first quarter of the year. Second, a 'cliff effect' may be observed as a result of the exhaustion of the funds linked to the Recovery and Resilience Facility. Although many of the projects will continue over the coming years, the need to make certain expenditures in the first half of 2026 to meet the committed deadlines may bring volatility in investment and a sharp decline during the second half of the following year. Finally, compliance with fiscal rules should intensify these trends.

In summary, the outlook is positive, largely thanks to the Spanish economy's capacity for job creation

The recent upward revision to the GDP series suggests that the economy has already reached the level of activity that would have been recorded had trend growth since 2019 continued. The latter appears consistent with gains of around 2%. Maintaining these levels will depend on the ability to sustain the drivers that have underpinned this growth so far. Around half of the increase in output is driven by a positive contribution from job-creation capacity. The reforms introduced in 2012 and 2022 have helped reduce employment volatility by lowering temporary employment, encouraging in-company agreements, and facilitating the use of employment regulation procedures as tools to prevent job losses. Nevertheless, the greatest boost to job creation capacity stems from the strong increase in the working-age population due to immigration.

Another notable positive phenomenon in growth over recent years is the rise in total factor productivity (TFP). In an environment of weak employment productivity growth and disappointing investment increases, what is occurring is an increase in capital productivity.[5] Greater efficiency in the use of infrastructure and machinery reflects, in part, changes in the production model associated with a higher share of services, new ways of working, and the increasing digitalization of processes. Airports, train lines and hotels could have operated below capacity. The de-seasonalization of tourism and changes in household preferences (prioritizing travel, leisure, dining, and entertainment) have generated sufficient demand to utilize this infrastructure without requiring additional investment. Similarly, the availability of non-residential buildings and fiber-optic infrastructure has allowed the tertiary sector to capitalize on globalization and attract companies that export services.

The ongoing increase in artificial intelligence investment presents an opportunity to reinforce this positive trend in TFP. Emerging evidence suggests that Generative AI (GenAI) reshapes task structures faster than it eliminates jobs. It affects cognitive and knowledge-intensive occupations, where exposure is higher but complementarity is stronger

5: See the Observatory of Productivity and Competitiveness in Spain (OPCE), by Fundación BBVA and the Valencian Institute of Economic Research (Ivie).

(augmentable tasks). Early evidence from the United States and the United Kingdom suggests that experienced professionals engaged with AI saw increased productivity and wages when AI amplifies human expertise, responsibility, and decision-making, in line with the “skill-bias” and “augmentation-led” hypotheses. Countries and companies with greater digital readiness are better positioned to capture these benefits. In this regard, the AI Readiness Index, compiled by the IMF, assigns a value of 0.64 to Spain compared with 0.48 for the average of the countries analyzed, although still far from the levels of leading economies such as the United States (0.85).

The economy continues to face structural challenges

Weak growth in the European economy (1.1% in 2026 and 1.3% in 2027) and the structural adjustment observed in certain sectors (such as the automotive sector) will limit the contribution of exports to growth going forward. **Electricity costs** represent a comparative advantage over competing companies in the rest of Europe, but since the blackout last April, a significant increase has been observed as a result of measures taken to stabilize the system. Maintaining this comparative advantage requires additional investment (particularly in distribution and network points), regulatory certainty, and broad consensus.

A growth model more focused on domestic demand, with high capacity utilization, a tight labor market, and potential increases in the tax burden, could result in a **persistently unfavorable inflation differential for Spain**. As in the years prior to the global financial crisis, price pressures from increases in private spending and public expenditure could lead to losses in competitiveness, stagnation of exports, and a rise in imports. This makes the introduction of structural reforms that reduce companies’ operating costs more urgent. These reforms could entail removing barriers to their creation, operation, and growth, or by lowering the cost of key inputs.

Home sales are moderating, not due to a lack of buyers, but because of limited supply and intensifying price increases. Under the scenario described in this publication, the imbalance between demand and supply will remain. Increasing investment in residential construction to 6% of GDP would imply that the gap between household formation and completed housing would exceed 700,000 units. Halving it by 2030 would require reaching 10% of GDP.

The sustainability of employment’s contribution to growth will require reforms that maintain the country’s attractiveness for immigration, ensure integration and complementarity with the resident workforce, and help reduce the structurally high unemployment rate. Labor shortages in certain occupations, regions, and companies require greater coordination of innovation policies (automation, digitalization), training, and immigration. Addressing the shortage of affordable housing quickly is key to attracting human capital and improving the well-being of the resident population, especially younger people. Despite a positive scenario, Spain continues to stand out from the rest of the Eurozone due to its high unemployment rate (which remains around 10%) and the increase observed in the number of employed people

who are not working (due to temporary incapacity, vacation, or other reasons). Reforms are needed to help reduce these indicators, allow greater job creation, and ensure a more efficient use of resources.

Public finances could achieve a balanced primary budget in 2025, marking an important step toward sustained debt reduction. However, part of the current improvement is due to cyclical causes. In addition, the possible slowdown in the economy and lower inflation work against this reduction. Without additional measures, fiscal consolidation and debt reduction are likely to proceed more slowly in the years ahead. Additionally, structural challenges that will put upward pressure on spending must be considered. These include increases in pensions, the provision of social and healthcare services for a growing elderly population, the need to invest in public housing, defense, and the infrastructure required to maintain the current growth momentum.

Momentum alone will not be enough to sustain growth in the medium term, so consensus is needed on measures that help remove some of the bottlenecks that the economy may face. The mere extension of the General State Budget in recent years limits the necessary adaptation of public spending to the new needs arising from social and economic changes. There are also no cross-party agreements on key issues such as the measures needed to boost housing construction, ensure the provision of electricity at affordable prices, promote immigration that complements the human capital of the resident population, or improve the functioning of the labor market to enhance worker well-being and increase business efficiency.

Tables

TABLE 1.1 GROSS DOMESTIC PRODUCT (ANNUAL AVERAGE, %)

	2021	2022	2023	2024	2025	2026	2027
United States	3.7	2.5	2.9	2.8	2.0	1.9	1.7
Eurozone	6.4	3.7	0.6	0.8	1.4	1.1	1.3
China	8.6	3.1	5.4	5.0	5.0	4.5	4.0
World	6.9	3.8	3.5	3.3	3.2	3.1	3.2

Forecast closing date: November 28, 2025.
Source: BBVA Research & IMF.

TABLE 1.2 INFLATION (ANNUAL AVERAGE. %)

	2021	2022	2023	2024	2025	2026	2027
United States	4.7	8.0	4.1	3.0	2.8	2.9	2.7
Eurozone	2.6	8.4	5.4	2.4	2.1	1.9	2.0
China	0.9	2.0	0.2	0.2	0.0	1.0	1.4
World	5.1	9.3	7.7	7.2	4.5	4.1	3.7

Forecast closing date: November 28, 2025.
Source: BBVA Research & IMF.

TABLE 1.3 INTEREST RATE ON TEN-YEAR PUBLIC DEBT (ANNUAL AVERAGE. %)

	2021	2022	2023	2024	2025	2026	2027
United States	1.44	2.95	3.96	4.21	4.30	4.12	4.06
Germany	-0.31	1.18	2.45	2.34	2.62	2.76	2.85

Forecast closing date: November 28, 2025.
Source: BBVA Research & IMF.

TABLE 1.4 EXCHANGE RATES (ANNUAL AVERAGE)

	2021	2022	2023	2024	2025	2026	2027
USD-EUR	0.84	0.95	0.92	0.92	0.89	0.85	0.83
EUR-USD	1.18	1.05	1.08	1.08	1.13	1.18	1.21

Forecast closing date: November 28, 2025.
Source: BBVA Research & IMF.

TABLE 1.5 OFFICIAL INTEREST RATES (END OF PERIOD. %)

	2021	2022	2023	2024	2025	2026	2027
United States	0.25	4.50	5.50	4.50	3.75	3.25	3.25
Eurozone	-0.50	2.00	4.00	3.00	2.00	2.00	2.50
China	3.80	3.65	3.45	3.10	3.00	2.50	2.50

Forecast closing date: November 28, 2025.
Source: BBVA Research & IMF.

TABLE 1.6. EMU: MACROECONOMIC FORECASTS (YoY) (ANNUAL AVERAGE. %)

	2021	2022	2023	2024	2025	2026	2027
GDP at constant prices	**6.4**	**3.7**	**0.6**	**0.8**	**1.4**	**1.1**	**1.3**
Private consumption	4.6	5.3	0.6	1.2	1.3	1.3	1.2
Public consumption	4.3	1.3	1.5	2.2	1.5	1.2	1.2
Gross fixed capital formation	3.7	2.2	2.7	-2.1	2.2	0.8	2.5
Inventories (*)	0.8	0.3	-0.9	-0.2	0.4	0.2	0.0
Domestic demand (*)	**4.9**	**3.8**	**0.3**	**0.5**	**1.9**	**1.3**	**1.4**
Exports (goods and services)	11.4	7.5	-1.0	0.5	1.6	0.6	1.1
Imports (goods and services)	8.9	8.5	-1.8	-0.1	2.9	1.1	1.5
External demand (*)	**1.4**	**-0.1**	**0.3**	**0.3**	**-0.5**	**-0.2**	**-0.2**
Prices and Costs							
CPI	2.6	8.4	5.4	2.4	2.1	1.9	2.0
CPI Core	1.5	3.9	4.9	2.8	2.4	2.2	2.1
Labour Market							
Employment	1.6	2.4	1.5	0.9	0.6	0.3	0.2
Unemployment rate (% of labour force)	7.8	6.8	6.6	6.4	6.4	6.4	6.4
Public sector							
Surplus (+) / Deficit (-) (% GDP)*	-5.1	-3.4	-3.5	-3.1	-3.0	-3.2	-3.3
Public debt (% GDP)*	93.8	89.3	87.0	87.1	88.0	89.0	89.2
External Sector							
Current Account Balance (% GDP)	2.7	-0.3	1.6	2.6	2.1	2.1	2.0

Annual rate change in %. unless expressly indicated.
Forecast closing date: November 28, 2025.
(*) Excluding financial aid for Spanish banks.
Source: BBVA Research.

TABLE 1.7. SPAIN: MACROECONOMIC FORECASTS
(ANNUAL RATES OF CHANGE IN %. UNLESS OTHERWISE INDICATED)

(Annual average. %)	2023	2024	2025	2026	2027
Activity					
Real GDP	**2.5**	**3.5**	**2.9**	**2.4**	**2.0**
Private Consumption	1.8	3.1	3.4	2.9	2.0
Public Consumption	4.5	2.9	1.7	2.0	1.7
Gross Fixed Capital Formation	5.9	3.6	5.6	6.4	5.1
Equipment and machinery	2.6	1.9	8.2	4.2	2.9
Construction	5.5	4.0	4.3	6.3	4.3
Housing	0.8	2.1	4.8	6.2	6.4
Domestic Demand (contribution to growth)	**1.6**	**3.3**	**3.4**	**3.4**	**2.5**
Exports	2.2	3.2	3.4	1.8	3.1
Imports	0.0	2.9	5.5	5.0	4.7
External Demand (contribution to growth)	**0.9**	**0.2**	**-0.5**	**-1.0**	**-0.5**
GDP at current prices	8.9	6.4	5.3	4.5	4.0
(Billions of Euros)	1497.8	1594.3	1679.6	1755.8	1826.5
Labour market					
Employment. Labour Force Survey	3.1	2.2	2.5	2.3	2.0
Unemployment rate (% Labour force)	12.2	11.3	10.6	10.0	9.6
Employment. full time equivalent	3.6	2.8	3.2	2.4	1.7
Productivity	-1.2	0.6	-0.3	0.0	0.4
Prices and Costs					
CPI (average)	3.5	2.8	2.6	2.5	2.2
CPI (end of period)	3.1	2.8	2.6	2.6	2.2
GDP deflator	6.4	3.0	2.4	2.1	2.0
Compensation per employee	4.6	4.0	3.1	2.4	2.5
Unit Labour Cost (ULC)	5.8	3.3	3.4	2.4	2.1
External sector (*)					
Current Account Balance (% GDP)	2.9	3.4	3.1	2.1	1.2
Public sector					
Debt (% GDP)	105.2	101.7	100.4	98.7	96.6
Deficit (% GDP) (*)	-3.4	-3.2	-2.4	-2.1	-1.7
Households					
Real disposable income	10.1	7.5	5.7	4.9	4.1
Savings rate (% nominal disposable income)	11.7	12.7	12.5	12.3	12.2

Annual rate change in %. unless expressly indicated.
Forecast closing date: November 28, 2025.
(*) Excluding financial aid for Spanish banks.
Source: BBVA Research.

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