SPAIN

STRONG GROWTH

According to our forecasts, Spanish growth is set to remain stable at a healthy level (2.6% in 2026 and 2.2% in 2027), significantly higher than that of the euro area. Growth is being driven by consumption, investment and a labour market that is still buoyant. The industrial recovery is more pronounced than the European average due to advantages in terms of labour and energy (mix and cost). Nevertheless, in the absence of productivity gains, the labour market is approaching its structural limits, as reflected in particular by inflation that is higher than the European average. At the same time, the fiscal trajectory remains favourable, with a falling deficit and debt-to-GDP ratio, as well as a contained spread.

GROWTH: STABLE AT A HIGH LEVEL

Growth remained robust in H1 2026 (an average of +0.65% q/q), driven mainly by private consumption (contribution of +0.4pp) and investment (+0.1pp, mainly supported by investment in intellectual property [+0.7pp]). These two drivers are expected to continue over the coming months, with further improvement in the labour market and the ongoing disbursement of funds under the NGEU scheme, which will, however, come to an end in December 2026 (a quarter of the allocated amount, *i.e.* EUR 25 bn, remains to be disbursed).

According to our forecasts, Spanish growth is set to reach 2.6% in 2026 before slowing slightly to 2.2% in 2027, while remaining significantly higher than that of the euro area (1.1% and then 1.5%). After a downturn linked to the conflict in Iran, business sentiment—and in particular the services PMI—is once again showing strength (the index stabilised at around 58 over the summer, its highest level since early 2023). The manufacturing sector, on the other hand, remains more affected by geopolitical tensions, as evidenced by a manufacturing PMI that has been hovering around 50 since late 2025.

Growth and inflation

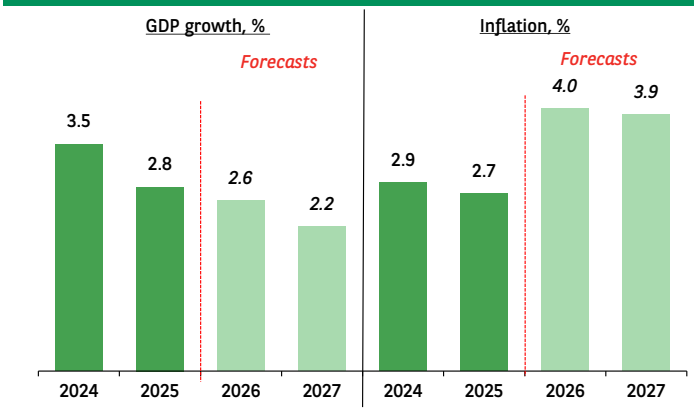


CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

A MORE COMPETITIVE INDUSTRY THANKS TO A SUSTAINABLE ENERGY ADVANTAGE

Although industry accounts for a smaller share of Spain's value added than in other countries (15%, compared with 23% in Germany, 19% in Italy and 14% in France), it has been performing significantly better since the end of 2019: industrial value added has increased by 10.9% (compared with +8.3% in France, +1.6% in Italy and -2.2% in Germany). Over the period 2019-2026, the sectors that have outperformed their European counterparts the most are IT (+45% in Spain compared with an average of +10% in Germany, France and Italy) and the pharmaceutical industry (+38% compared with +17%), while chemicals (+3% compared with -16%), paper (-2% compared with -13%) and car manufacturing (-11% compared with -26%) have fared better than elsewhere (*see Chart 2*).

The strength of Spanish industry can be attributed to a more favourable energy mix. Since 2022, Spain has seen its energy production costs increase more moderately than in the euro area (by 20 pp less), which has boosted the competitiveness of its industry compared with its European competitors. This advantage stems from a reduced reliance on gas and greater use of renewable energy[1]. According to a CaixaBank study, medium-sized industrial companies are benefiting the most, with electricity prices 29% lower than the euro area average since 2023. Large industrial consumers are also paying significantly less than in Italy or Germany, but more than in France, based on Eurostat data.

Spanish pharmaceutical and IT industries have significantly outperformed those of their European peers since 2019

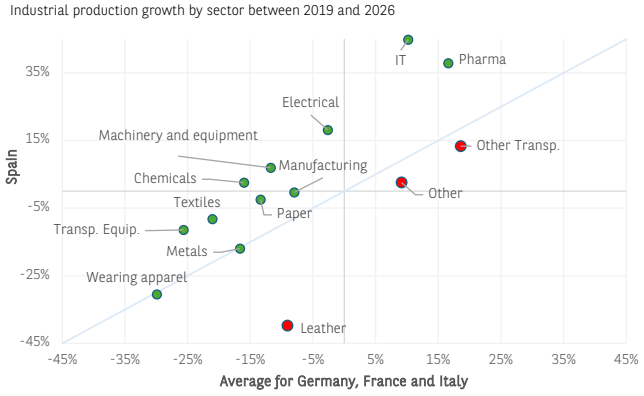


CHART 2 SOURCE: EUROSTAT, BNP PARIBAS

1 Gas accounts for around 21% of Spain's energy mix (compared with 39.8% in Italy, 27.5% in Germany and 12.1% in France), while renewable energy accounts for over 58% of electricity generation.

LABOUR MARKET: THE RECOVERY CONTINUES, BUT THE MARGINS ARE NARROWING

The labour market remains one of the main pillars of the Spanish economy. The unemployment rate has fallen below the symbolic 10% mark, reaching 9.9% in Q2 2026—its lowest level since Q1 2008—while job creation remains strong (+680,000 y/y, bringing the number of people in work to 22.4 million in August). The services sector continues to account for the bulk of this growth, with 76.7% of new jobs created. Immigration is also contributing to the increase in the available workforce: the proportion of foreign workers in the labour force stood at 18.4% in Q2 (+0.9pp y/y), while the announced regularisation of 500,000 people should facilitate recruitment in sectors facing labour shortages, such as construction and services.

There is likely still scope for a further fall in the unemployment rate, but this will require measures to tackle youth unemployment, which is significantly higher in Spain (22.9% in July) than the euro area average (14.9%).

However, as time goes by, the scope for improvement is narrowing. Job creation is expected to slow down and wage pressures are set to intensify. In the medium term, the labour market is expected to contribute less and less to Spanish growth, while fuelling inflationary pressures to a greater extent. Without a rise in productivity gains to take over[2], Spanish growth is therefore set to slow.

HIGHER INFLATION THAN ELSEWHERE IN THE EURO AREA

The energy shock is keeping Spanish inflation at a high level. Having risen from 3.4% y/y in March to 4.5% in August, it is now significantly higher than that of the euro area (3.3%). This acceleration is mainly due to the rise in energy prices (+17.3% in August compared with February), driven in particular by higher fuel and electricity prices. Core inflation also increased but to a lesser extent, rising from 3.2% in March to 3.5% in August (+0.3 pp). The rise in core inflation nevertheless remains higher than the euro area average (+0.1 pp) and, in particular, than that of Spain's close neighbours (+0.1 pp in Germany and France, -0.1 pp in Italy). The knock-on effect of the energy shock on the rest of the consumer price basket therefore warrants careful monitoring over the coming months.

Wage growth has picked up slightly, standing at +3% y/y in nominal terms since May (compared with an average of +2.9% since the beginning of the year and +3.4% in 2025), but this is not enough to offset the rise in consumer prices. Real wages therefore remain more than 2 pp below their Q4 2020 level. Real gross disposable income, buoyed by job creation, is showing a more positive trend, having risen by 16% since Q4 2020. The savings rate remains high by historical standards (11.3% of disposable income, compared with an average of 8.7% between 1999 and 2019). As a result, private consumption continues to underpin economic activity, albeit at a pace that is slowing over time.

Inflation is expected to average +4% in 2026, before slowing marginally to +3.9% in 2027 as the effects of the energy shock fade. However, this slowdown is expected to remain gradual and to keep the gains in purchasing power under pressure.

A FISCAL TRAJECTORY THAT REMAINS FAVOURABLE

Spain's fiscal trajectory remains on the right track, supported by strong nominal GDP growth and gradual fiscal consolidation, facilitated by the roll-over of the State budget since 2023. After falling to 2.4% of GDP in 2025, the public deficit is expected to fall slightly in 2026 (to 2.3%), then again in 2027 (to 2.1%), before stabilising until the end of the decade, according to our forecasts. Debt is expected to continue to fall, from 100.7% of GDP in 2025 to 99.1% in 2026 and 97.7% in 2027, and then to 95% in 2030. Nominal growth (+5.8% in 2026 and 3.9% on average until 2030), which is well above the apparent interest rate on debt (2.6% in 2026 and subject to moderate upward pressure between now and 2030), will continue to support this trend. This favourable trend is helping to keep the spread with the Bund in check, with the spread expected to stand at 48 bps by the end of 2026 (compared with 60 bps in 2025). Spain's public finances therefore have relatively considerable room for manoeuvre.

FOREIGN TRADE COULD BECOME A DRAG ON GROWTH

Spain's external accounts remain sound, but their contribution to growth is expected to gradually decline. As anticipated, the current account surplus narrowed to +2.3% of GDP on a 12-month moving average basis in Q2 (compared with +3.0% a year earlier), due to a decline in the surplus on trade in services, particularly non-tourism services. On the other hand, the surplus in tourism services remains particularly strong. This is underpinned by the sharp rise in tourist arrivals (+6.1% y/y in July and +4.5% y/y since the beginning of the year), and is benefiting in particular from the shift in international travel flows linked to tensions in the Middle East.

Meanwhile, the energy bill has risen. Indeed, the rise in oil and gas prices has further widened the trade deficit despite exports remaining high. Strong domestic demand is also expected to continue to drive imports. Foreign trade is therefore expected to make a smaller, or even negative, contribution to growth over the coming quarters.

Spain continues to attract foreign direct investment (FDI), particularly from China, in sectors linked to the energy transition. In 2025, it ranked 4th among EU recipient countries. These investment flows contribute to the development of the country's capacity to produce and export.

Article completed on 15 September 2026

Lucie Barette

lucie.barette@bnpparibas.com

2 Spain's productivity gap persists: according to the Conference Board, the gap stands at 30% compared with Germany.