

SPAIN

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JOB-RICH GROWTH MOMENTUM CONTINUES

Spanish growth should continue to outpace Eurozone growth. It is underpinned by a dynamic labour market, which is generating gains in purchasing power and bolstering consumption. Investment, meanwhile, is benefiting from lower interest rates and European funding. This strong GDP growth will enable the country to generate primary surpluses and continue to reduce its public debt ratio. However, Spanish activity should come up against the constraint of full employment at the end of the decade, in the absence of significant productivity gains.

DOMESTIC DEMAND, THE DRIVING FORCE BEHIND SPANISH GROWTH

Spanish real GDP growth is relatively stable, at a good level (+0.6% q/q in both Q3 and Q4, according to our forecasts) and should reach 2.9% in 2025 on an annual average basis.

The economy remains buoyant (composite PMI at 56.0 in October, compared with 52.4 in the Eurozone), and growth is set to persist in 2026–2027 (2.4% and 2.3%, respectively). It would remain higher than in the Eurozone (1.5% in 2026 and 1.6% in 2027), continuing to be fuelled by the availability of labour. However, this favourable effect will moderate over the forecast horizon, against a backdrop of falling unemployment and an increase in the number of sectors experiencing labour shortages.

Household consumption is likely to remain the main contributor to growth, benefiting from strong job creation and further gains in purchasing power (see below). Household confidence reflects this favourable climate (49.5 in October, compared with an average of 42.7 over 2015–2019, according to the Ipsos survey).

In 2026, investment should also be supported by the continued use of funds from the EU Recovery and Resilience Plan, and by lower interest rates for non-financial companies (from 5.1% in October 2023 to 3.3% in October 2025). 2027 should see a slowdown with the gradual phasing out of these European funds.

Activity should also benefit from an acceleration in exports, due to the rise in German demand and improved growth in Spain's main trading partners.

LABOUR MARKET: MOVING TOWARDS FULL EMPLOYMENT?

Spanish household consumption remains buoyed by job creation and wage growth supported by falling unemployment. Immigration is playing a key role, as it has enabled the working population to continue to grow despite a negative natural balance between births and deaths. Therefore, the share of the foreign working population rose from 16.9% of the total working population in Q3 2024 to 17.7% in Q3 2025. The dynamism of the labour market should continue in the coming quarters. Although it remains one of the highest in the Eurozone, the unemployment rate is falling (10.5% in September; -0.9 pp y/y), while employment (measured by the number of people registered with the social security system) continues to set historic records (21.8 million in October, +500,000 over one year).

Nevertheless, labour shortages are increasingly limiting production in construction and services, according to the European Commission's ESI survey. These factors suggest that Spain is approaching full employment. The structural level of unemployment is historically high - around 7–8% - and projections indicate that this threshold will be reached by the end of the decade (9.6% in 2027, according to the European Commission). Against this backdrop, the contribution of job creation to growth is likely to diminish, accompanied by rising wage pressures and structurally higher inflation.

¹ Caused by the government's minority in Parliament, which prevents it from passing the budget.

GROWTH AND INFLATION (YEARLY AVERAGE)

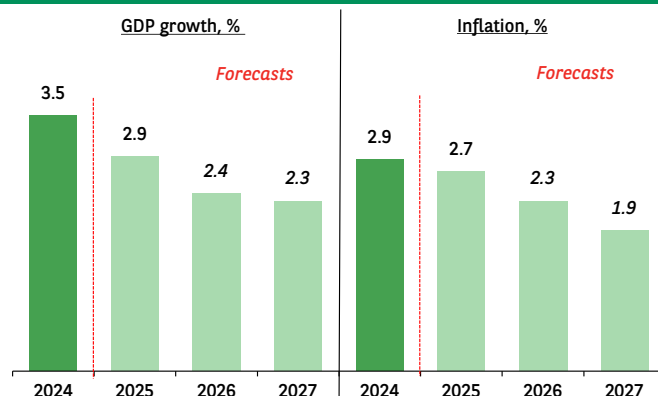


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

SLOWER INFLATION WILL BOOST PURCHASING POWER

The outperformance of Spanish growth relative to the Eurozone average is also accompanied by higher inflation. Spanish inflation (headline and core) (3.2% y/y and 2.9% y/y in October) remains higher than in the Eurozone (2.1% and 2.4%, respectively). According to our forecasts, they will remain higher in 2026, despite a slowdown (2.3%, compared with 1.9% for the Eurozone for headline inflation) linked to the moderation in food and energy prices.

Nominal wage growth (3.5% in October, a stable rate since July) is expected to moderate. Nevertheless, it should remain higher than inflation in 2026, allowing real wages to make up some of the ground lost during the inflationary crisis (they remain nearly 7 points below their Q1 2020 level, compared with -9.1 points at their worst in Q3 2022). Meanwhile, the trend in real gross disposable income is more favourable (see Graph 2). It has increased by 15 points compared to its pre-COVID level, and this growth is set to continue. The increase in household purchasing power should continue to support private consumption as a result.

NOMINAL GROWTH WILL REDUCE PUBLIC DEBT

The rollover of the State budget from 2023¹, along with the removal of support measures put in place in response to the pandemic, have helped to reduce the primary deficit from 2.3% of GDP in 2022 to 0.1% in 2025 (according to our estimate). In 2026–2027, Spain should even achieve a surplus (+0.4% in 2026 and +0.7% in 2027) for the first time since 2007, thanks, in part, to strong nominal growth (4.3% on average over the period).



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At the same time, public spending should remain relatively stable, due to the almost certain renewal of the 2023 budget for the third consecutive year in 2026 and the government's intention not to increase defence spending above 2.1% of GDP. Revenues are expected to continue to grow, underpinned by the rise in domestic consumption (which will have a favourable effect on VAT revenue) and by the dual effect of job creation and wage increases on social-security-contribution revenue.

In addition, the apparent interest rate on debt (2.6% in 2026, according to our forecasts) would remain well below nominal growth. As a result, the public debt-to-GDP ratio would fall below 100% as early as 2026, reaching 95.3% in 2027 (compared with 100.4% in 2025), according to our forecasts². On the other hand, the Spain-Germany spread remains on a downward trend at 47.2 bp in December 2025 (compared with 66.7 a year earlier).

↔ FOREIGN TRADE: SPAIN'S ATTRACTIVENESS WILL LIMIT THE DRIFT IN THE EXTERNAL BALANCE

Spain's external accounts are solid: the current account surplus has widened since 2023 (EUR 13.2 bn in Q3 2025); however, it should narrow with the likely reduction in the surplus on services. Tourism receipts have already stabilised at high levels (growth in tourist arrivals has slowed significantly, from +10.9% in September 2024 to +1.0% y/y in September 2025).

At the same time, the goods deficit should continue to widen in 2026. Exports are likely to slow as a result of the direct and indirect impacts of the rise in US tariffs. Imports, meanwhile, are set to rise due to strong domestic demand. In 2027, however, exports will be buoyed by improved growth prospects in the Eurozone.

In 2024, Spain will remain the second largest recipient of foreign direct investments (FDI), after France³. These FDI's support the country's capacity to export: a factor that should boost growth potential and limit the trade deficit.

↻ LOW PRODUCTIVITY: A THREAT TO SPANISH OUTPERFORMANCE

The gap in GDP per capita between Spain and the three largest economies in the eurozone (Germany, France and Italy) is primarily due to much lower productivity⁴. Spain's productive fabric is still dominated by less productive sectors (particularly tourism-related activities). This weakness is also due to the small size of companies, their struggles to grow and lower spending on research and development (1.5% of GDP in 2023 in Spain, compared with 2.2% in France). GDP growth is mainly underpinned by labour input, but the productivity deficit could become more constraining as this effect recedes. In addition, a possible drop in net immigration, combined with the rapid ageing of the population, could have a negative impact on the available workforce, which is one of the country's main assets.

CHANGE IN SPANISH HOUSEHOLDS' PURCHASING POWER SINCE Q4 2020

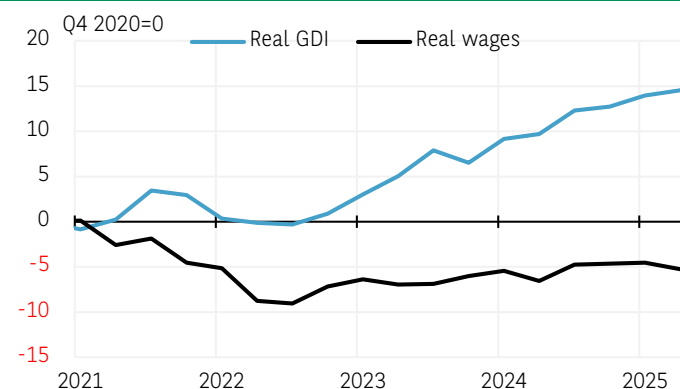


CHART 2

SOURCE: EUROSTAT BNP PARIBAS

FISCAL RATIOS (AS A % OF GDP)

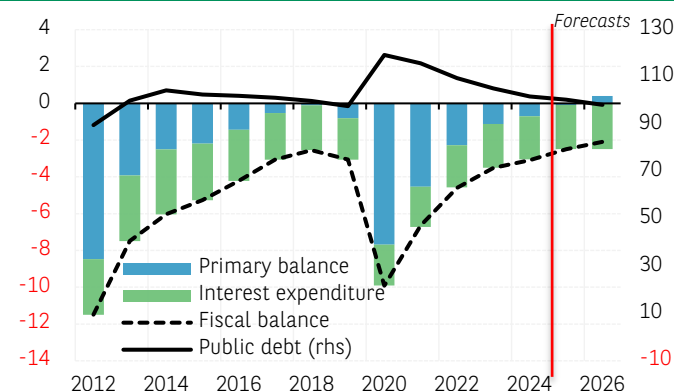


CHART 3

SOURCE: DG ECFIN AMECO, EUROSTAT, BNP PARIBAS

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² See our Eco Charts Public finances 2025 - Spain: [Moving towards a reduction in public debt amid strong growth](#).
³ World Investment Report 2025 "World Investment Report 2025: International investment in the digital economy", UNCTAD.
⁴ June 2025 Note "Spain's Productivity Gap Vis-a-Vis Europe and the United States: Diagnosis and Remedies", IMF.



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