

MARCH 2026

Spain Economic Outlook

Main messages. Global

Global growth soft-landed in 2025, despite slowdown fears linked to geopolitical tensions, policy uncertainty, and US tariffs. The global economy proved resilient, supported by falling inflation and interest rates, fiscal stimulus, AI adoption, and low energy prices.



The outbreak of war in Iran adds a new headwind for the global economy. A short-lived conflict with limited macro impact remains the baseline, but uncertainty has risen. A more prolonged war that keeps energy prices and financial tensions elevated would lift inflation while also weakening growth.



Global growth could remain relatively dynamic, around 3.2% in 2026-27, driven by economic policies and AI-related spending, provided the war in Iran is brief. While inflation has lately eased, several factors could keep it more persistent than expected, particularly in the US.



Despite larger uncertainty, the Fed is still likely to cut rates after pausing in 1H26, favoring a weaker US dollar. The ECB is not expected to deliver further cuts. Still, if the Middle-East turmoil persists, central banks would again face the reinforced trade-off between higher inflation and weaker demand.



Key points. Spain

In Spain, geopolitical uncertainty is offsetting the positive surprises in recent economic data.

The increase in oil and gas prices is estimated to subtract around 0.2 pp from GDP in 2026 and increase average inflation by 0.3 pp. Growth in the fourth quarter of 2025 (0.8% quarterly) was higher than expected and growth in the first quarter of 2026 (0.7%) could once again exceed expectations.



In 2026 and 2027, the expansion is expected to continue with GDP growth of 2.4% and 2.4% (0 pp and 0.3 pp more, respectively, than in December).

Consumption by the non-domestic sector could benefit from geopolitical tensions. Exports of non-tourism services have room to grow above GDP. The labor force will continue to increase thanks to immigration and the increase in the participation rate. The legalization of foreign workers could extend to about 550,000 people.



Domestic demand will continue to be supported by public policies.

Relatively low interest rates will boost consumption and investment. The inertia of spending and the lack of budgets suggest that fiscal policy will have a more expansionary tone than expected in the face of the possibility of non-compliance with fiscal rules. The conflict in Iran may provide an additional fiscal stimulus.



In a context of greater uncertainty and significant challenges, sustaining economic momentum will require measures

that encourage investment—particularly in housing and energy—support job creation by boosting labor force participation and reducing structural unemployment, promote an appropriate migration policy, and enhance productivity.



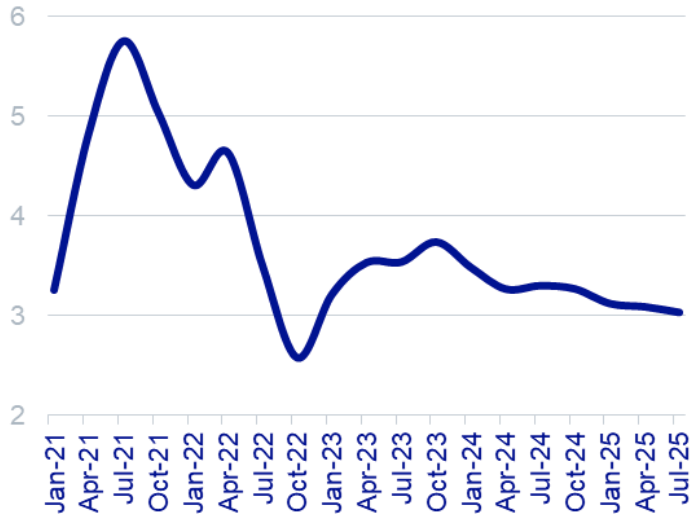
1. March 2026

Global Economic Outlook

The global economy has showed resilience, backed by policy tailwinds and the AI boom

GLOBAL GDP GROWTH:

(Y/Y %, SEASONALLY ADJUSTED, CONSTANT PRICES)



Source: BBVA Research based on data from the IMF

Global growth soft-landed in 2025, underpinned by several factors:

- limited impact of geopolitical tensions, protectionism and policy uncertainty.
- low energy prices.
- fall in inflation and interest rates.
- weak US dollar.
- fiscal stimuli.
- AI spending, which carries over into other investment components and into other countries.

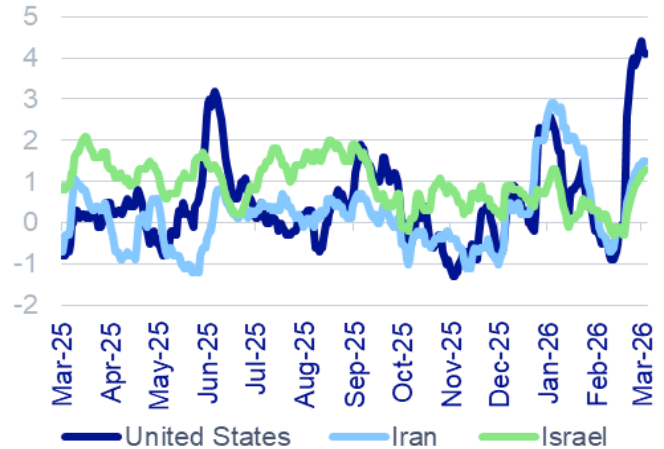
Macro data at the end of 2025 surprised on the upside, and early-2026 data has been broadly positive, but the war in Iran has increased uncertainty going forward.

Other supporting factors: broad-based growth, security spending, and strong private-sector balance sheets.

The conflict in Iran has lifted energy prices, reinforcing global uncertainty and risks

GEOPOLITICAL RISK INDEX

(HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT PRICES

(USD PER BRENT BARREL)

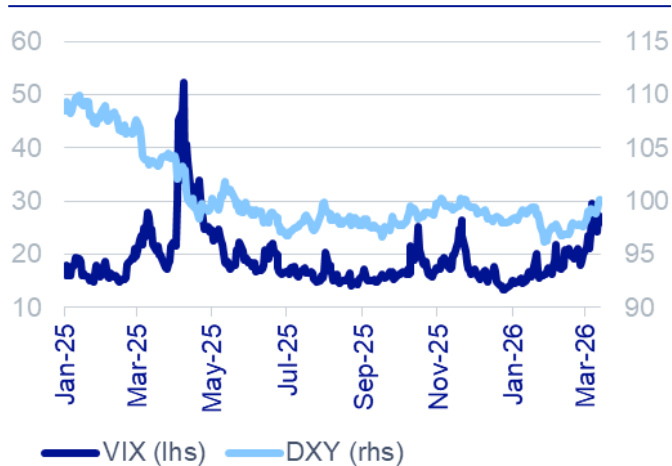


Source: BBVA Research based on data from Haver

US-Israel attacks on Iran, and the ensuing escalation of the conflict reignited geopolitical tensions in the Middle East; energy prices have jumped amid production and transportation disruptions across the region

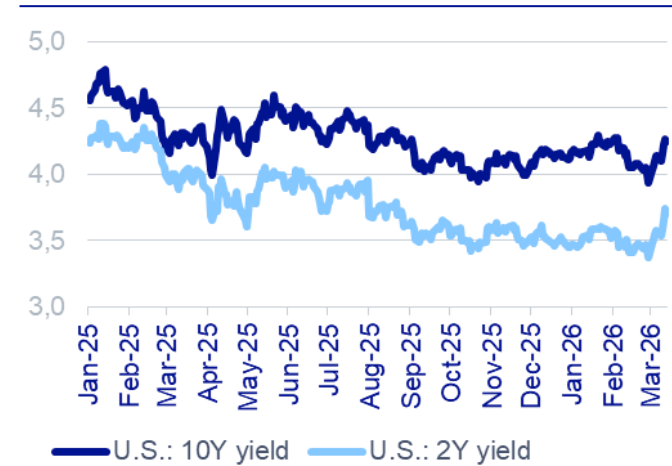
Market impact from Middle East tensions has been strong but contained, consistent with a short-lived war view

VOLATILITY (VIX); US DOLLAR (DXY)
(INDEXES)



Source: BBVA Research based on data from Haver

US SOVEREIGN YIELDS
(%)

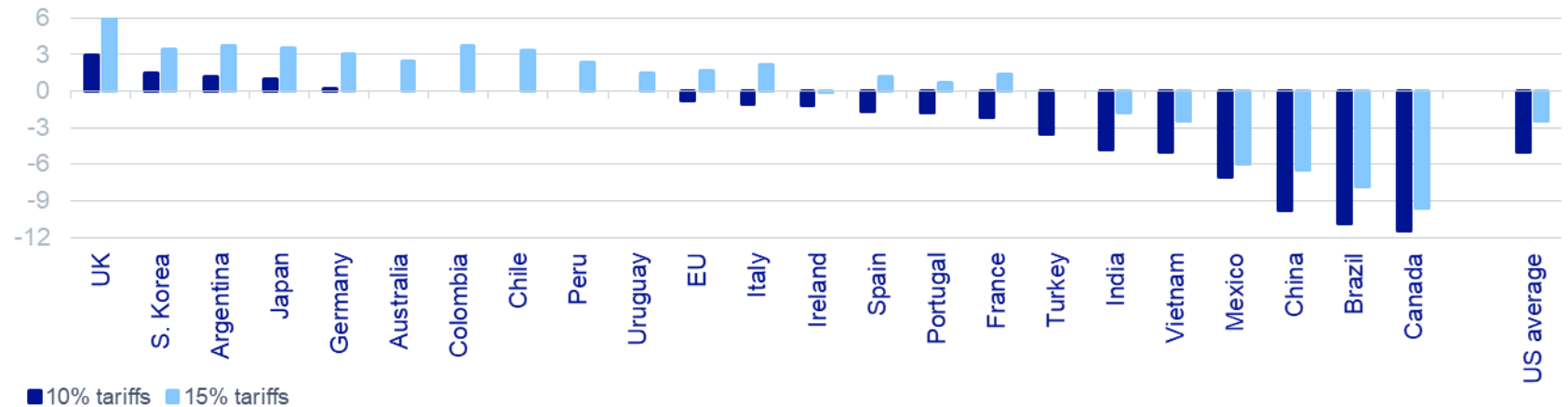


Source: BBVA Research based on data from Haver

Following initial attacks on Iran, volatility has increased, the USD has appreciated, and US yields rose as inflation fears outweigh safe haven demand; markets are now pricing in fewer US rate cuts this year and higher odds of an ECB rate hike

US tariffs continue at historically high levels despite the decline following the IEEPA-tariffs overruling

US STATUTORY TARIFFS (NOMINAL): CHANGE DUE TO THE SHIFT FROM IEEPA TO SECTION 122 (*) (PP)

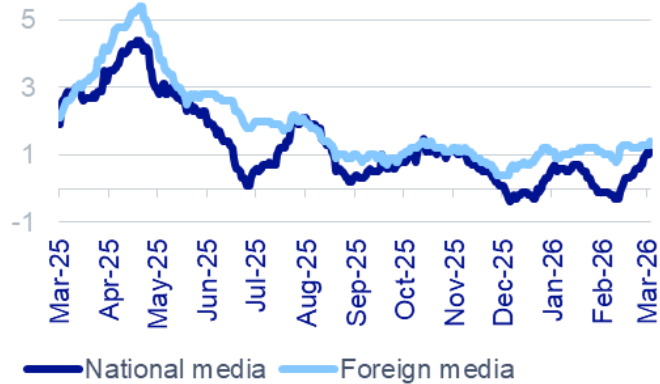


(*) These estimations are based on 2024 trade flows. They assume that previously announced trade deals do not remain in place.
Source: BBVA Research

Statutory US tariffs fell somewhat, from an overall level around 15%, following the announcement of new import duties, based on Section 122 of the Trade Act of 1974, to replace overruled reciprocal and fentanyl tariffs; these temporary duties could be eventually replaced by more permanent ones

Tariff-related uncertainty persists but appears to be diminishing; global trade remains solid

**ECONOMIC POLICY UNCERTAINTY INDEX:
US** (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

EXPORTS OF GOODS (VOLUME): WORLD
(4Q19=100; THREE-MONTH MOVING AVERAGE)



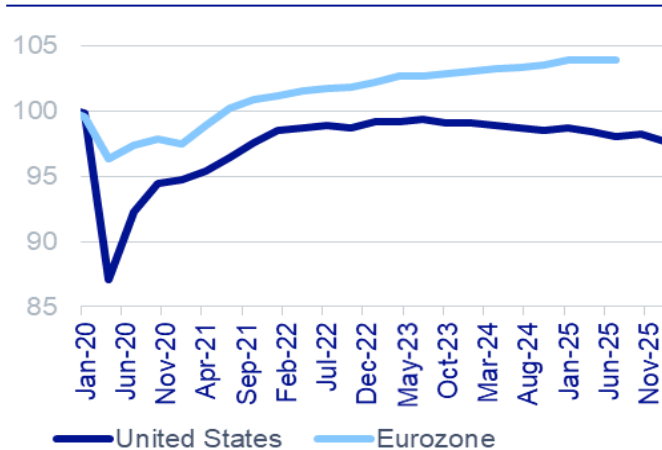
Source: BBVA Research based on data from Haver

Global trade remains resilient, particularly in China, but also in the US; the incipient impact of higher tariffs is being offset by factors such as import frontloading effects, effective tariffs below statutory levels, and the boom in AI-related imports

Lower immigration could be contributing to lower employment in the US; however, wages continue to ease

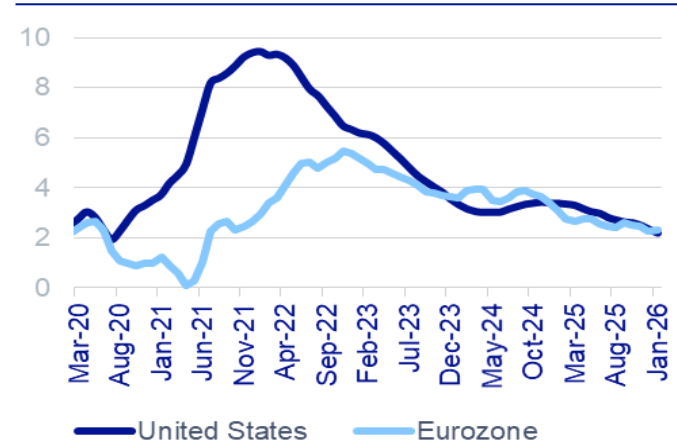
EMPLOYMENT-POPULATION RATIO (*)

(INDEX: 2019 AVERAGE = 100)



NOMINAL WAGES

(Y/Y %, 3-MONTH MOVING AVERAGE)



(*) US: 16 years and over; EZ: from 15 to 74 years.

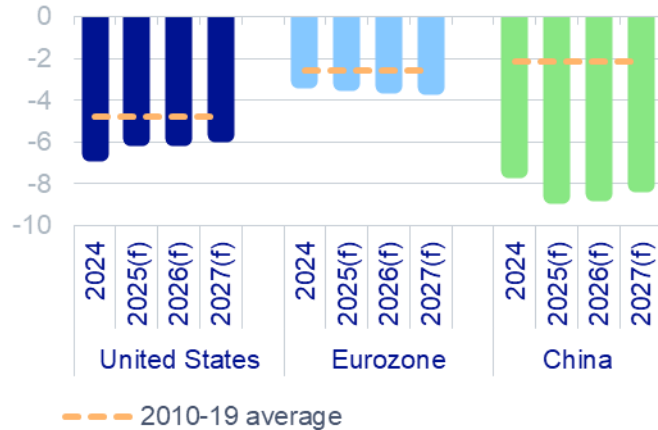
Source: BBVA Research based on data from Fred and Eurostat

Source: BBVA Research based on data from Indeed

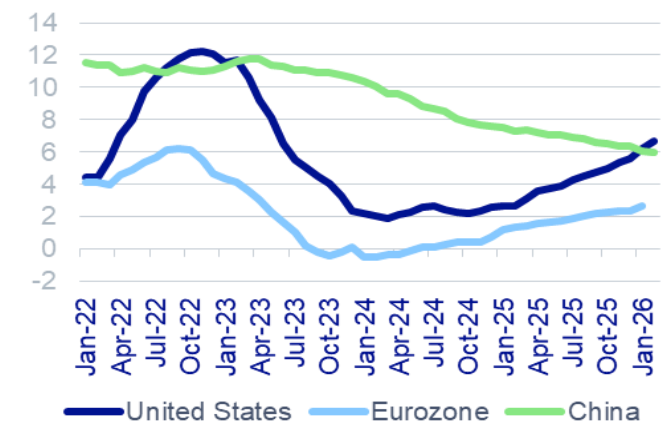
The US unemployment rate has fallen more recently (4.4% in Feb/26) easing labor deceleration concerns; in the Eurozone, it continues at low levels (6.2% in Dec/25) and real wages are growing at a positive rate

Economic policies are providing a significant cyclical support to economic activity

FISCAL BALANCE (*)
(% OF GDP)



BANKING CREDIT: STOCK
(Y/Y %)



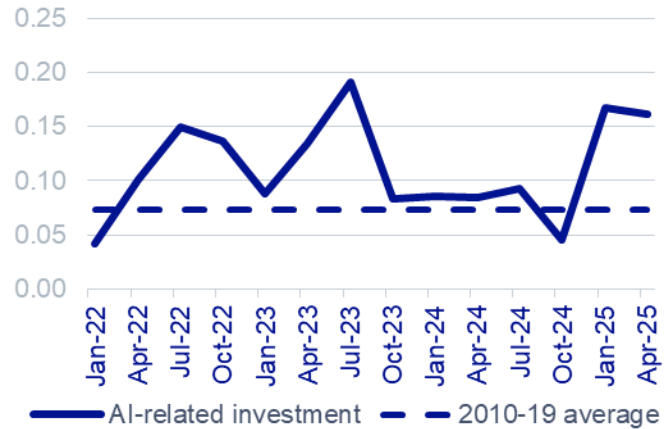
(f): forecast
 (*) Forecasts by BBVA Research for the Eurozone, by the CBO for the US and by the IMF for China.
 Source: BBVA Research based on data from the IMF

Source: BBVA Research based on data from FRED and Eurostat

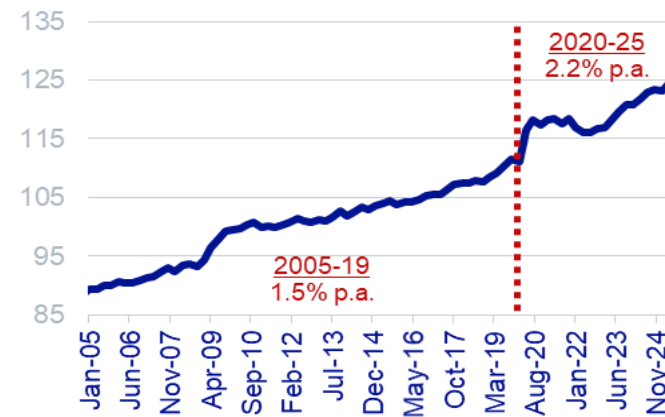
Supportive fiscal policies remain in place, led by defense spending in the Eurozone and tax cuts in the US; policy rates have fallen by 175 bps in the US and 200 bps in the Eurozone since mid-2024, contributing to growth resilience

AI spending has been one of the main drivers of US growth

US: AI-RELATED INVESTMENT (*)
(CONTRIBUTION TO GDP GROWTH; 12-MONTHS MOVING AVERAGE: PP)



US: LABOR PRODUCTIVITY PER HOUR
(INDEX: 2005-2019 AVERAGE = 100)



(*) AI-related investment defined as investment in information processing and investment in software.
Source: BBVA Research based on data from FRED and US Census Bureau

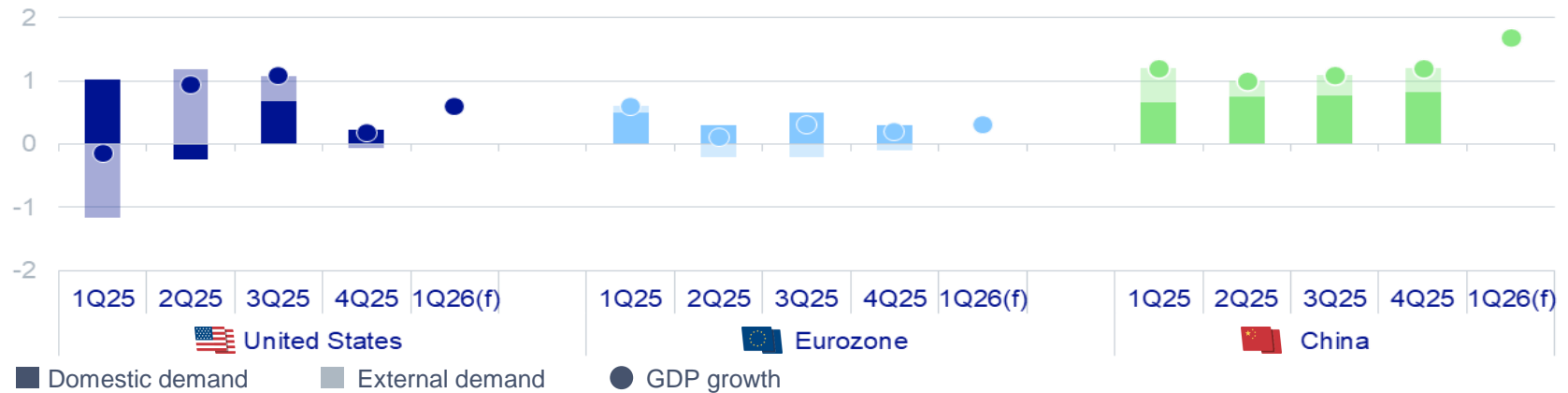
Source: BBVA Research based on data from FRED

AI-adoption has been contributing to investment and private consumption (due to wealth effects from AI-equity gains); AI-related imports are also increasing

2025 growth was higher than expected; preliminary data suggest that dynamism persisted at the start of 2026

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH (*)

(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)

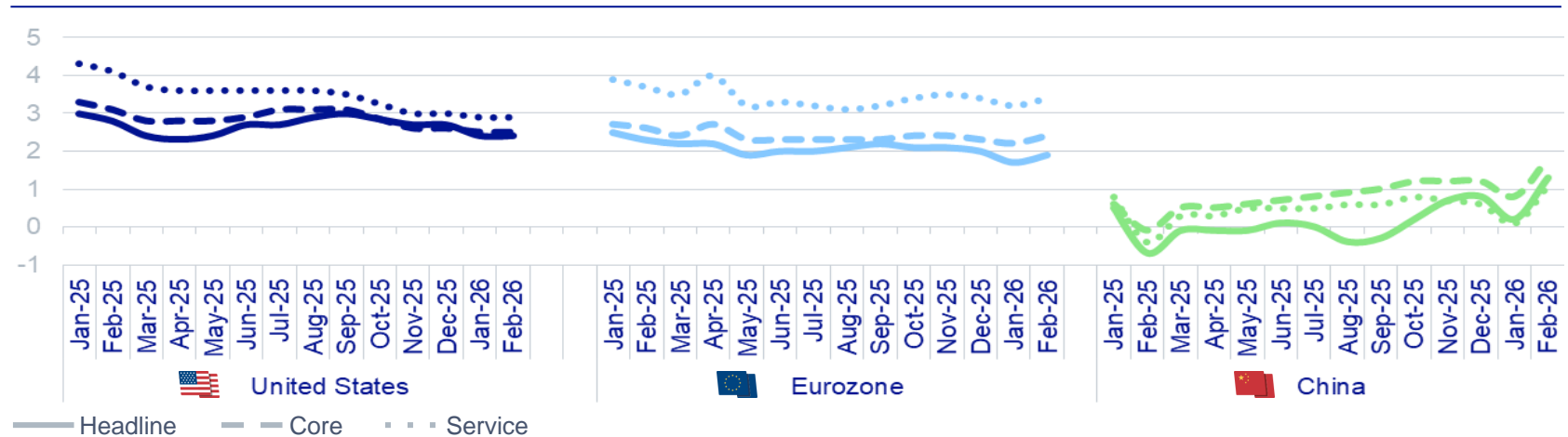


(*) 1Q26: BBVA Research forecasts
Source: BBVA Research based on data from Haver and China's NBS

Growth has been backed mostly by domestic demand and the service sector in the US and the Eurozone; external demand has been key to keep growth relatively stable in China

Inflation has in general moderated more than expected ahead of the recent surge in energy prices

CPI INFLATION: HEADLINE, CORE AND SERVICE (Y/Y %)

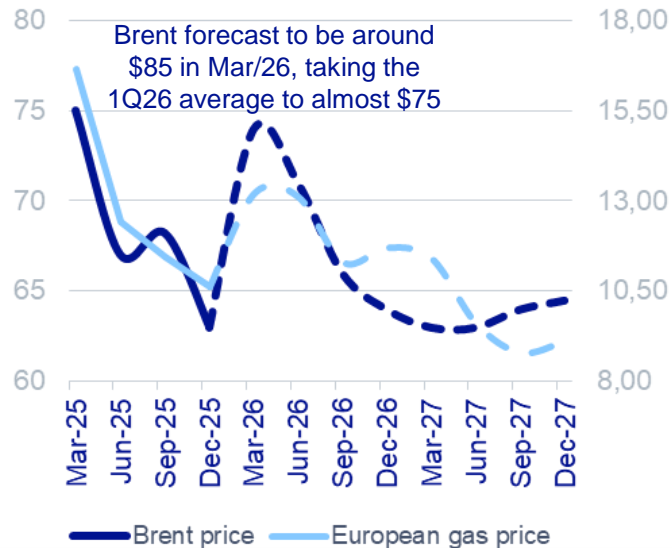


Source: BBVA Research based on data from Haver

Inflation moderation was driven by low energy prices ahead of the conflict in Iran, smaller pressure from service (mainly housing) prices in the US, and controlled goods inflation in the Eurozone

Middle-East tensions: a temporary conflict, with limited macro impact, is likely, despite large uncertainty

ENERGY PRICES: BBVA RESEARCH FORECASTS (BRENT: USD/BARREL, GAS: USD/MMBtu; QUARTERLY AVERAGES)



Source: BBVA Research based on data from Haver

The war in Iran can affect the global economy through different channels: i) higher energy prices, ii) supply disruptions, iii) financial risk-off, and iv) weaker confidence.

Measures to reduce the transmission of global energy prices to domestic markets and support economic activity are likely.

A short war would allow energy prices, financial conditions and confidence to normalize soon, limiting negative effects on inflation and growth.

A prolonged conflict would have a greater impact on the global economy, especially for energy importers, and the amplifying effect through confidence and financial markets would increase.

Beyond the evolution of the conflict in Iran, many other factors will shape the global economy moving ahead

Main drivers of macroeconomic dynamics

United States



- continued **fiscal stimulus**.
- potentially lower **Fed** rates.
- **AI** support to demand and eventually to productivity.
- structurally weaker **dollar**.
- robust **consumption**, led by top earners (wealth effects).
- **tariffs** to remain in place.
- large **uncertainty** on domestic policy-making.

Eurozone



- **fiscal impulse**, mainly through **defense spending**.
- stable **interest rates**.
- large exposure to higher **energy prices**.
- stronger **euro**.
- gradual **AI** adoption.
- challenging adaptation to **new global order**.

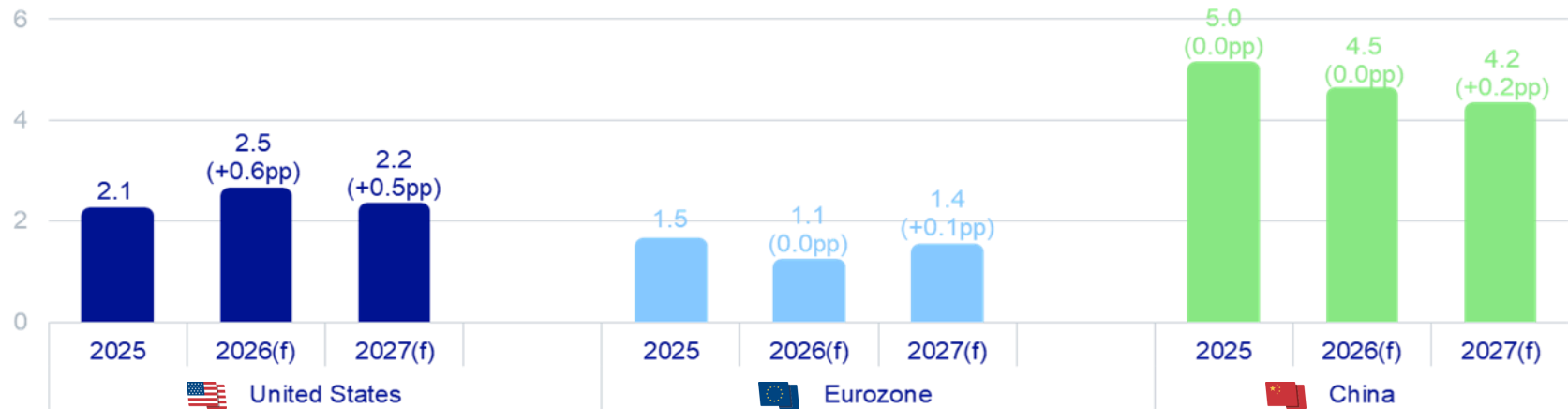
China



- **supply-demand imbalance**.
- strong **exports**, but likely to decelerate.
- still weak **yuan**.
- production **overcapacity**.
- “**anti-involution**” campaign.
- measured **policy stimulus**.
- subdued **confidence**.
- **housing market** correction.

Global growth is likely to remain dynamic, driven by policy tailwinds and AI, if the Iran war proves short-lived

GDP GROWTH (*) (% , CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(*) Global GDP is forecast to grow 3.2% in 2025, 3.2% in 2026 and 3.3% in 2027, respectively 0.0pp, 0.1pp and 0.1 higher than the previous forecasts.

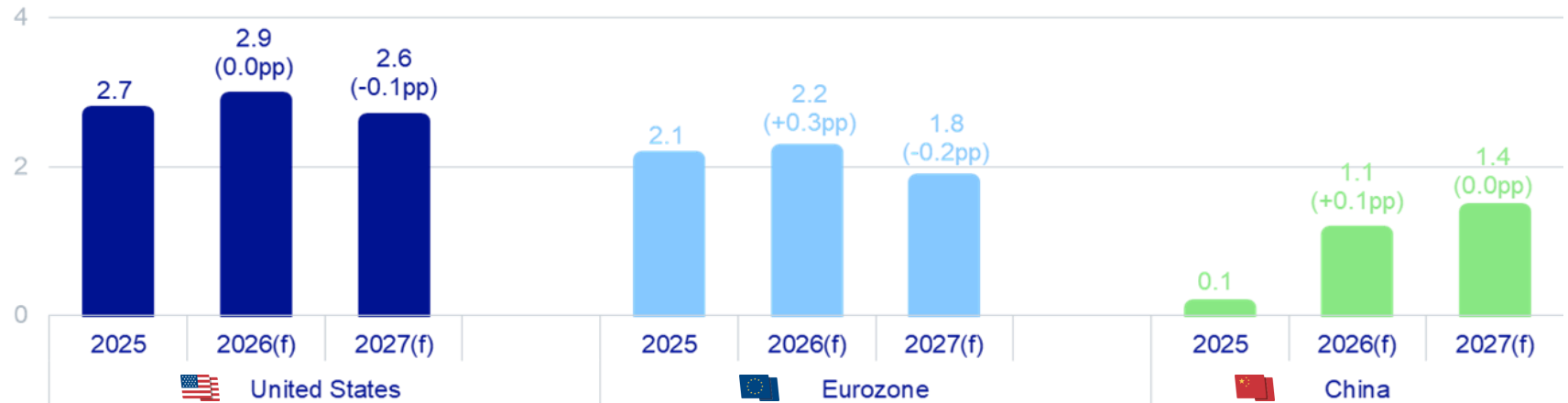
(f): forecast.

Source: BBVA Research

Incoming data and expectations of a larger AI-driven contribution support growth prospects, especially in the US, and offset the negative effects of a temporary rise in energy prices, which weighs more on the Eurozone than on the US or China

Inflation will remain relatively high in the US, close to 2% in the Eurozone and to edge up in China

HEADLINE CPI INFLATION (Y/Y %, PERIOD AVERAGE, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

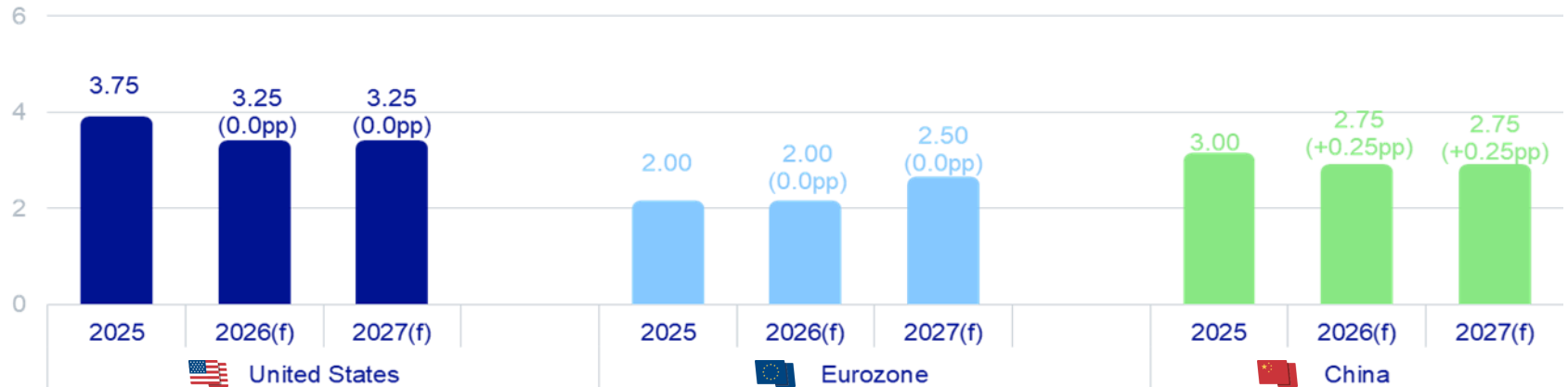


(f): forecast.
Source: BBVA Research

Energy prices, resilient demand, US tariff pass-through, sticky euro-area services inflation, and China's "anti-involution" drive, among other factors, are likely to keep global inflation under pressure

Higher energy prices could reduce the room for monetary easing, especially if they prove persistent

POLICY INTEREST RATES (*) (% , END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)







(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research

A more prolonged war in Iran would lift inflation and weaken demand, posing a dilemma for central banks, which would nonetheless be more likely to turn hawkish, especially the Fed, given greater inflation concerns in the US

Risks are mostly tilted to the downside, with disruptive elements linked to the new U.S. policy framework

Main risks	Main potential impacts
 Geopolitical tensions	<ul style="list-style-type: none">— Iran: prolonged high energy prices, supply disruptions, financial tensions, emigration flows.— Ukraine war, US-China rivalry, China-Japan, Venezuela.
 AI	<ul style="list-style-type: none">— higher demand, GDP growth and inflation due to AI spending (short-term).— higher productivity and potential GDP (medium-term).— wealth effects on private consumption driven by AI equities.
 US policies and institutions	<ul style="list-style-type: none">— monetary policy miscalibration: inflation persistence vs. recession risks.— erosion of Fed independence: lower policy rates, higher inflation, weaker USD, financial volatility.— impairment of checks and balances.
 Debt and credit markets	<ul style="list-style-type: none">— large public debt: sovereign crises, fiscal dominance leading to higher inflation.— credit markets: commercial real estate, shadow banking, leveraged credit, Middle-East exposure.
 Protectionism	<ul style="list-style-type: none">— higher costs and lower trade volumes: weaker global growth.— fragmentation, supply-chain re-routing: relative price shocks, productivity drag.
 Labor supply	<ul style="list-style-type: none">— tighter labor supply on migration curbs and ageing: wage/inflation persistence.
 China's slowdown	<ul style="list-style-type: none">— structural growth deceleration, housing market crisis, deflation.
 Climate change	<ul style="list-style-type: none">— extreme events: price spikes, output disruptions.— transition investment, adjustment costs.

2. March 2026

Spain

Favorable prospects, with structural challenges still to be resolved in an uncertain international context

GDP GROWTH (PERCENTAGE)



3.5%



2024

2.8%



2025

▼ -0.1pp

2.4%



2026 (f)



2.4%



2027 (f)

▲ +0.4 pp



Outlook revised upward



Outlook unchanged



Outlook revised downward

(f): forecast.

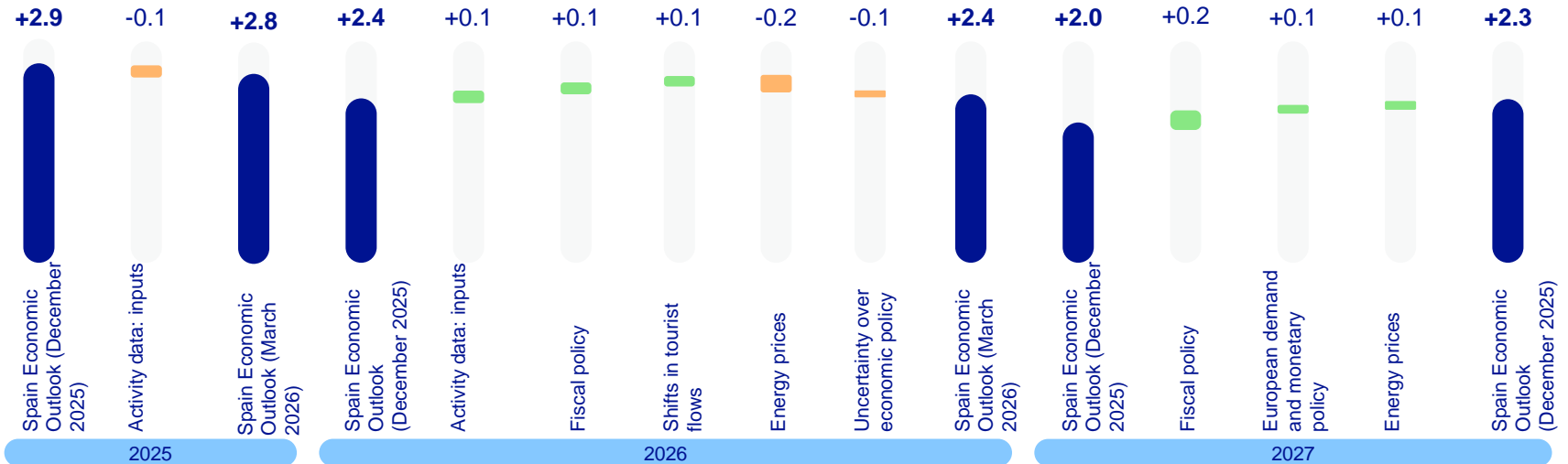
Note: Revisions to the Spain Economic Outlook scenario. December 2025.

Source: BBVA Research, with data from INE



Favorable prospects, with structural challenges still to be resolved in an uncertain international context

CHANGE IN GDP GROWTH FORECASTS AND FACTOR CONTRIBUTIONS (PERCENTAGE POINTS AND PERCENTAGE)



Source: BBVA Research, with data from INE

Better-than-expected economic performance and a fiscal policy that may be more expansionary than anticipated are, for now, offsetting rising energy costs and increased uncertainty

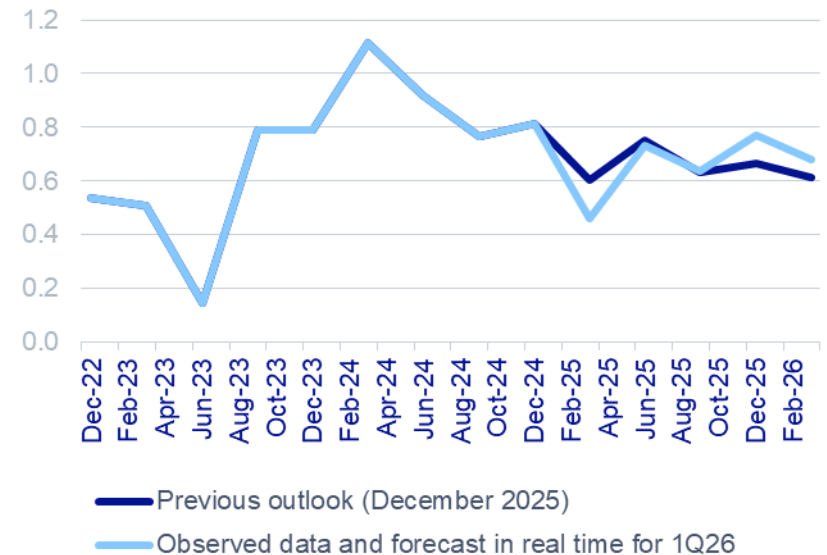
A context of still-high growth

GDP could increase by 0.6%–0.7% q/q in 1Q26, more than what was expected three months ago

- **Activity and employment surprised to the upside in 4Q25:** GDP rose by 0.8% q/q, bringing 2025 growth to 2.8%.
- **Growth continues to be supported by domestic demand.** Exports gained some traction in 4Q25 but were offset by the strong rebound in imports.
- **The most recent data points to a slowdown in activity and employment in 1Q26.** All in all, our real-time forecast (0.7% q/q) is still higher than the one published in the December 2025 outlook, although the bias is to the downside.

GDP

(QUARTERLY CHANGE IN PERCENTAGE)



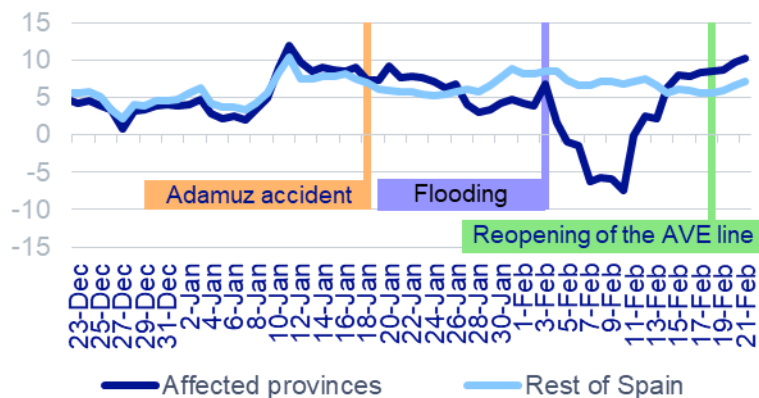
Source: BBVA Research, with data from INE

A context of still-high growth

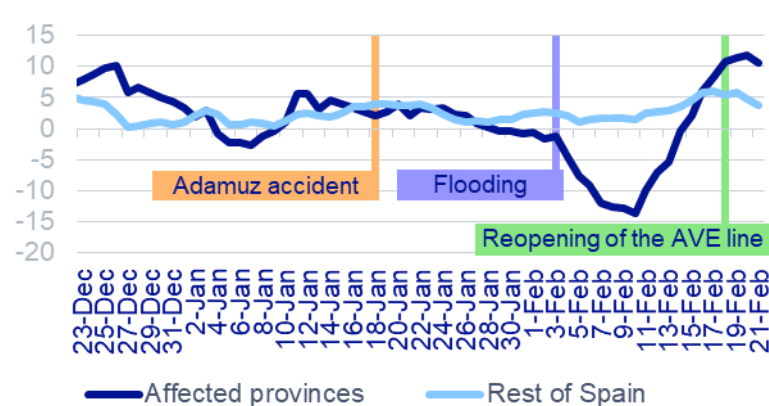
Floods introduce a temporary downward bias on growth in 1Q26

IN-STORE CARD SPENDING (FROM SPANISH AND FOREIGN BANKS) IN THE AFFECTED PROVINCES AND IN THE REST OF SPAIN* (7-DAY MOVING AVERAGE, YEAR-ON-YEAR CHANGE)

WITH BBVA CARDS AND CARDS FROM SPANISH BANKS



WITH CARDS FROM FOREIGN ISSUERS



*Provinces affected: Cadiz, Cordoba, Granada, Huelva, Malaga and Seville.
Source: BBVA Research using BBVA data

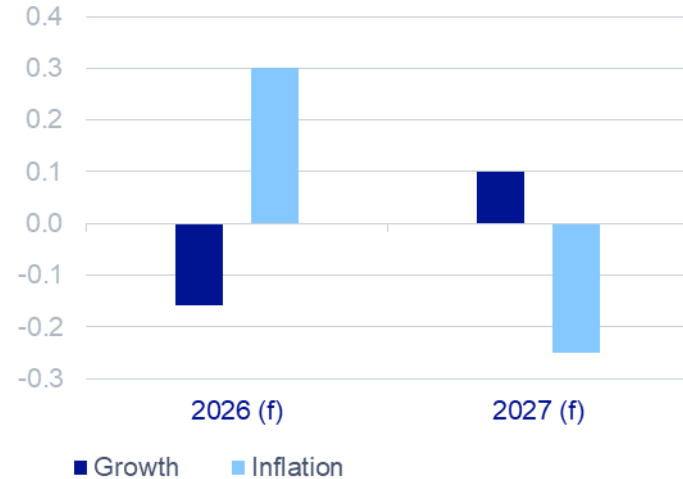
Purchases made with cards, both Spanish and foreign, fell significantly in the Andalusian provinces affected by heavy rains and floods. The impact was temporary and spending rebounded in the following days

Geopolitical tensions could potentially reduce growth

The negative impact on activity and inflation in 2026 will reverse in 2027

- The **conflict in the Middle East** will impact primarily through **higher oil and gas prices**, with a greater effect on inflation than on growth.
- Approximately 30% of global crude oil and 20% of its natural gas pass through the conflict zone (the Strait of Hormuz). These disruptions **drive up transportation costs, risk premiums, and add financial volatility**.
- **The impact will be conditioned by the duration of the conflict**. If short-lived, the shock will be temporary; if it drags on, it will affect not only energy prices but also supply chains, confidence and global financial conditions.
- **In Spain, the impact will be contained**: It is expected to subtract 0.2 pp from GDP in 2026 and add 0.3 pp to inflation; the effect would be greater in an adverse scenario.

IMPACT OF THE INCREASE IN ENERGY PRICES AFTER THE CONFLICT BETWEEN THE U.S., ISRAEL AND IRAN (PP OF ANNUAL RATE OF CHANGE)



(f): forecast.

Note: Results obtained from a BSVAR model identified with zeros and signs that includes the oil, gas and electricity market.

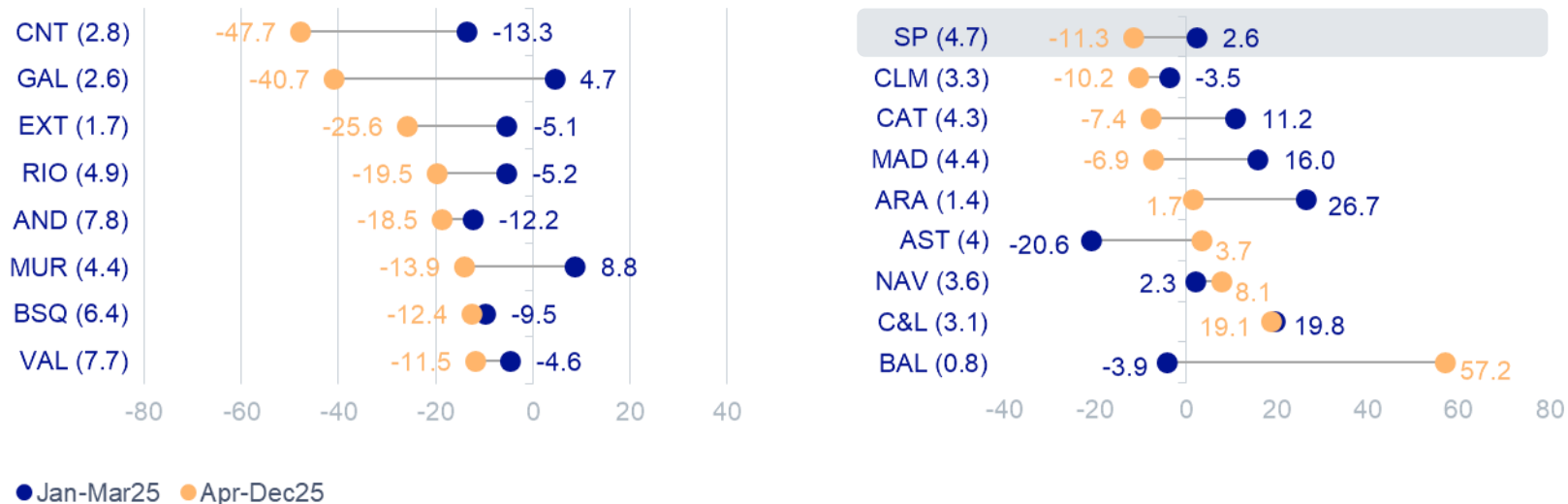
Source: BBVA Research, based on INE data.

Geopolitical tensions could reduce growth

The increase in tariffs, the appreciation of the euro and the lack of dynamism in the EU weigh on the growth of exports of goods

EXPORTS TO THE U.S.

(CURRENT PRICES, YEAR-ON-YEAR CHANGE, ORDERED FROM HIGHEST TO LOWEST FALL IN APRIL-DEC)



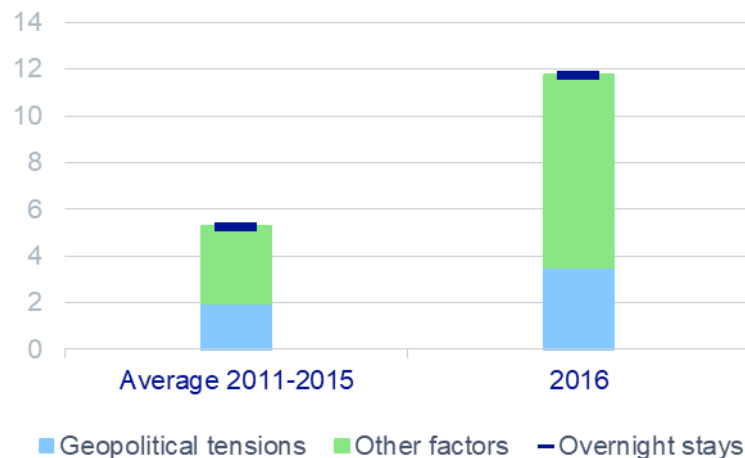
In parentheses, U.S. stake in 2024 exports (%).
Source: BBVA Research based on Datacomex

In 2026 and 2027 the expansion will continue

Non-domestic sector consumption is showing resilience and could be boosted by geopolitical tensions

- **Recent trends in spending by foreign visitors in Spain have been better** than expected, despite adverse weather conditions and transportation problems.
- **The tourism sector continues to show capacity to absorb travelers**, partly as a result of increased investment in the sector, improved productivity (driven by seasonal adjustment) and immigration.
- Added to this is **the current military conflict in the Middle East, which could discourage travel to the affected** countries, but also to nearby tourist areas, such as those located in the eastern Mediterranean.
- In the past, episodes such as the Arab Spring or terrorist attacks have led to **a shift in travel patterns that has benefited Spain.**¹

CONTRIBUTIONS TO THE GROWTH OF OVERNIGHT STAYS BY FOREIGNERS IN SPAIN (ANNUAL CHANGE IN PERCENTAGE)



1: See BBVA Research (2016): [Do geopolitical tensions in competing markets affect Spanish tourism?](#) BBVA.

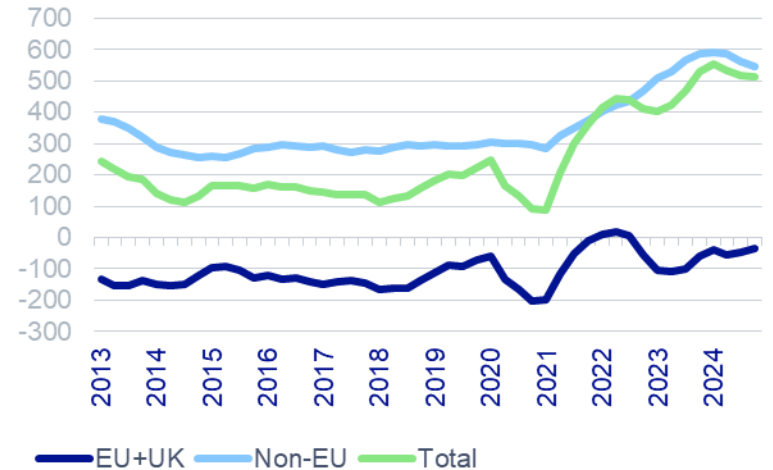
Source: BBVA Research (2016)

In 2026 and 2027 the expansion will continue

The regularization program could affect 550,000 employed non-EU nationals

- **The non-EU working population with irregular status**, estimated as the difference between employed foreign nationals in the Labor Force Survey and those employed but not enrolled in Social Security, **has doubled since 2021** to surpass 500 000 people in 2024.
- **This irregular employment is concentrated among the working population from Central and South America**, and it is higher among **women** and in **sectors that rely heavily on non-EU labor**, such as domestic work, hospitality, manufacturing and construction.
- Catalonia and the Community of Madrid have seen an increase in their share of the total population of undocumented workers, accounting for half of the total by 2024.

DIFFERENCE BETWEEN LABOR FORCE SURVEY EMPLOYMENT AND THE POPULATION ENROLLED IN SOCIAL SECURITY BY NATIONALITY*
(MOVING AVERAGES LAST 4 QTRS., THOUSANDS OF PEOPLE)



*Monthly averages of daily enrollment (business days).

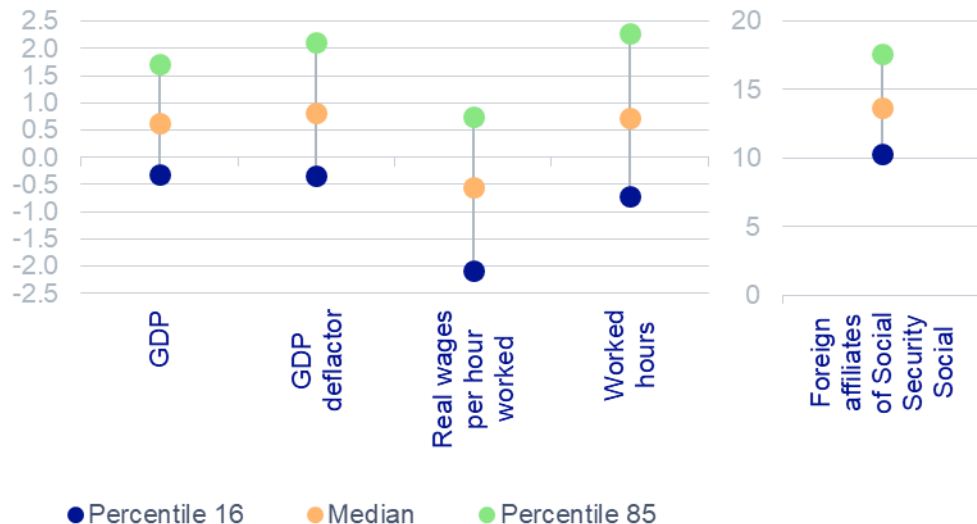
Source: BBVA Research and Fedea. See [Quarterly labor market observatory \(2026\)](#)

In 2026 and 2027 the expansion will continue

The special regularization program could affect 550,000 employed non-EU nationals

- **The special regularization program will increase the social security affiliation** of the foreign population and could have positive effects on total hours worked, prices and GDP, although an almost-zero impact cannot be ruled out.
- **The impact on wages is somewhat more uncertain** and will depend both on the productivity of the employment created and on the degree of compatibility between the new workforce entering the market and those already in regular employment.

ESTIMATED IMPACT OF REGULARIZATION IN ONE YEAR (
DEVIATIONS FROM LEVELS IN THE ABSENCE OF THE SHOCK IN PP)

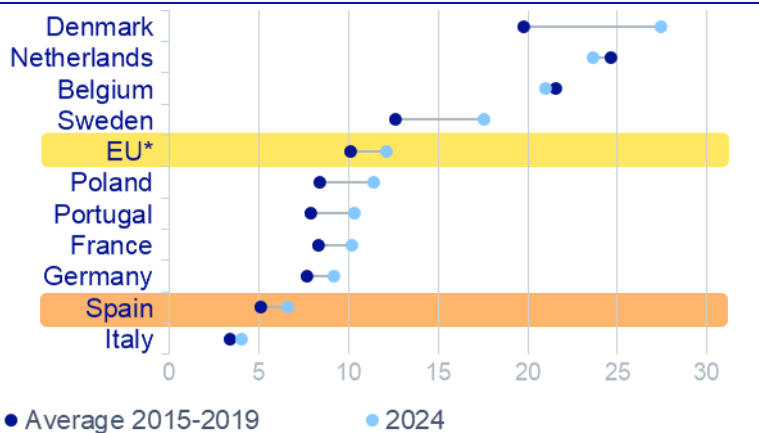


Note: Estimates obtained by BBVA Research based on a BSVAR identified using narrative, sign and elasticity restrictions, estimated over the 2000-2019 period.
Source: BBVA Research

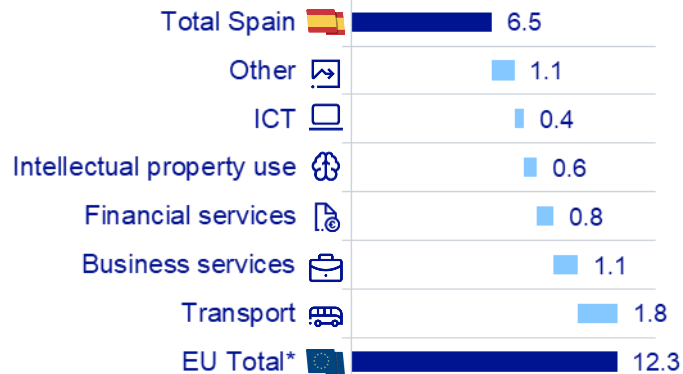
In 2026 and 2027 the expansion will continue

Exports of non-tourism services have room to sustain high growth

EXPORTS OF NON-TOURISM SERVICES BY COUNTRY
(% OF GDP, CURRENT PRICES)



GAP BETWEEN SPAIN AND THE EU27* IN EXPORTS OF NON-TOURISM SERVICES BY TYPE OF SERVICE
(PERCENTAGE POINTS OF GDP, CURRENT PRICES, 2024)



* The EU total excludes Ireland.

Source: BBVA Research based on Eurostat

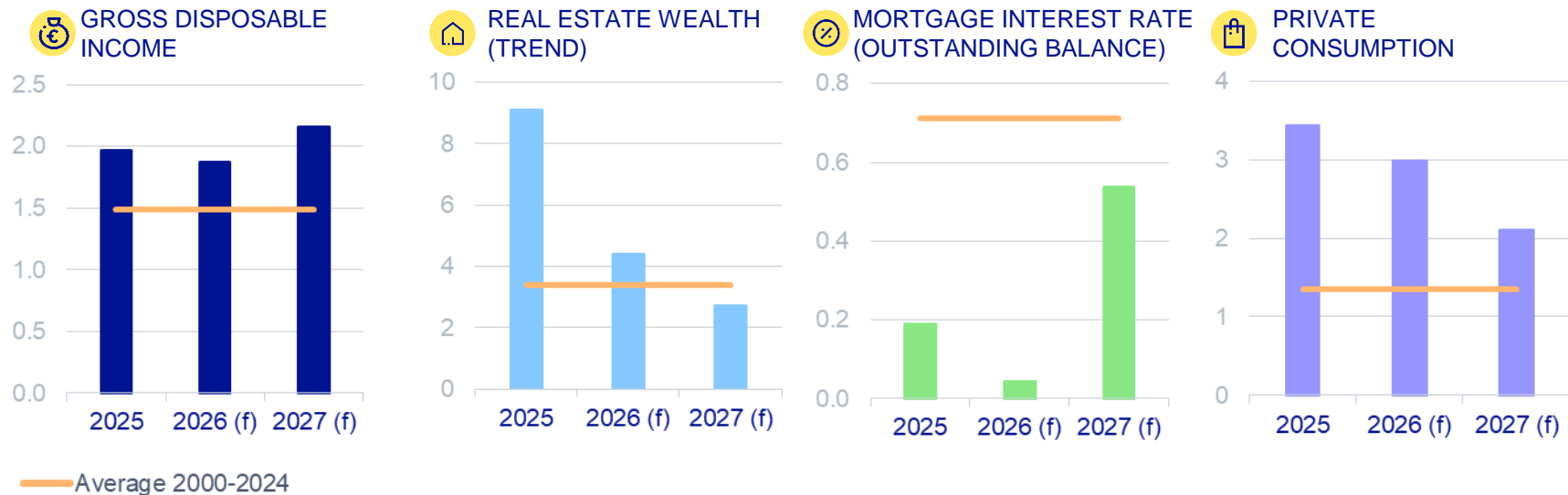
Exports of non-tourism services are consolidating their position as the most dynamic component of the foreign sector in Spain, although their weight in GDP is still 6 points below the EU average, reflecting a margin for convergence. The expected increase in 2026-2027 will continue to be supported by digital and knowledge services

In 2026 and 2027 the expansion will continue

Improved incomes and an expansionary monetary policy will support the growth of household consumption

SELECTED DETERMINANTS OF PRIVATE CONSUMPTION AND FORECASTS

(PERCENTAGES, IN REAL TERMS, AVERAGE ANNUAL VARIATION, EXCEPT MORTGAGE INTEREST RATE)



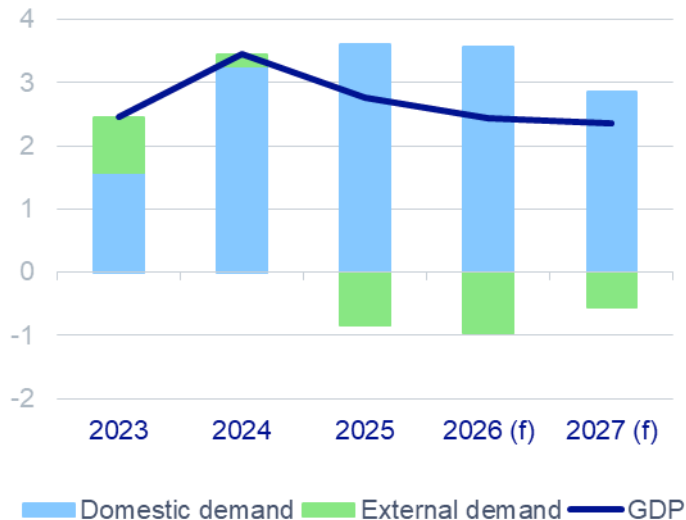
(f): forecast.
Source: BBVA Research based on INE and Bank of Spain

In 2026 and 2027 the expansion will continue

Growth will increasingly depend on domestic demand

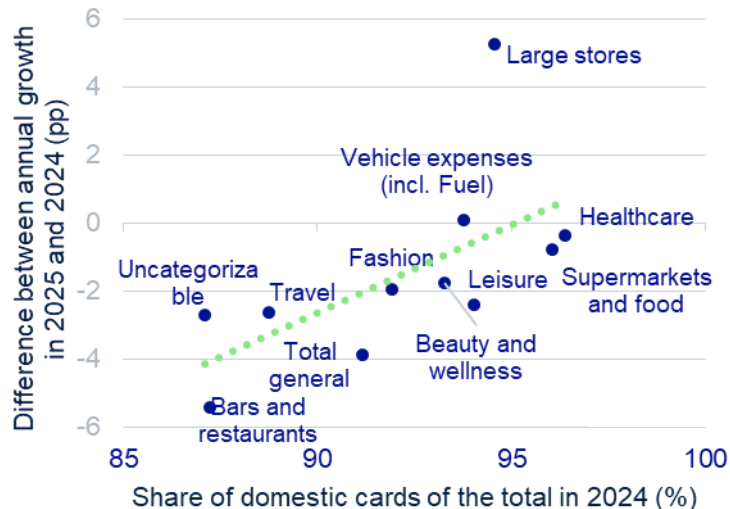
GDP, DOMESTIC AND EXTERNAL DEMAND

(Y/Y CHANGE IN PERCENTAGE AND CONTRIBUTIONS IN PP)



TOTAL IN-STORE CARD SPENDING (FROM SPANISH AND FOREIGN ISSUERS)

(PERCENTAGE AND PP)



(f): forecast.
Source: BBVA Research, with data from INE

Source: BBVA Research with BBVA data

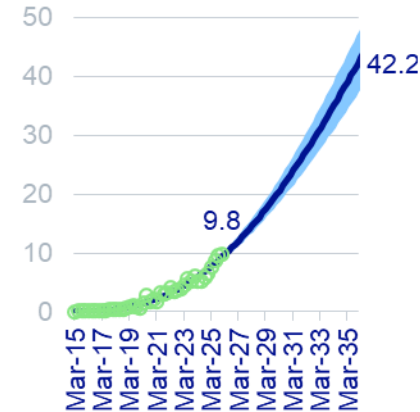
In 2026 and 2027 the expansion will continue

Improved disposable income, increased financing and decarbonization policies will boost consumption, especially of durable goods

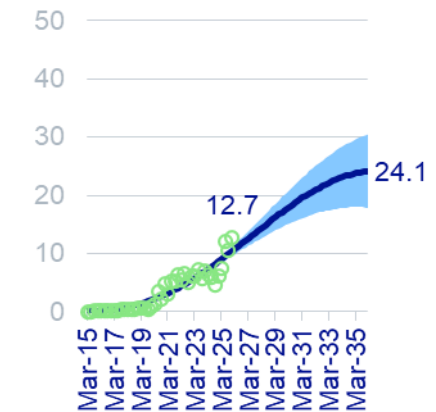
- **The Auto 2030 Plan**, presented at the end of 2025, aims to **boost the added value of the automotive sector and accelerate the electrification** of the fleet.
- Unlike previous programs, it has a **comprehensive vision** (supply, demand, charging infrastructure and innovation), a **medium-term horizon and ambitious public-private investment figures** (€7 billion per year until 2030).
- The subsidy program for the purchase of electric vehicles (Auto+) is based on centralized management, which **will reduce regional inequalities and delays in the disbursement of aid**.
- Dependence on imports, the risk of the subsidy being captured by the manufacturer or distributor, deadweight loss, and inequalities in access, among other factors, could limit the plan's impact.

MARKET SHARE OF ELECTRIC PASSENGER CARS (PERCENTAGE OF REGISTRATIONS OF PASSENGER CARS)

ELECTRIC VEHICLE



PLUG-IN HYBRID VEHICLE



*Estimation of a system of three non-linear equations representing the performance of the market share of pure electric passenger cars, plug-in hybrids and others between 1Q2015 and 4Q2025. 95% CI.
Source: BBVA Research from ACEA and Ideauto

In 2026 and 2027 the expansion will continue

Investment in housing will accelerate over the next few years, supported by tailwinds that will boost demand

Sovereign wealth fund España Crece



Objective: to mobilize **€23 billion** for affordable housing (public and private resources).



Goal: initial 15,000 homes per year (public-private investment).



Impact Estimate

Its success will depend on how significant the lack of financing and capital is for residential construction, the design of the instrument and its ability to attract private capital.

Limitations



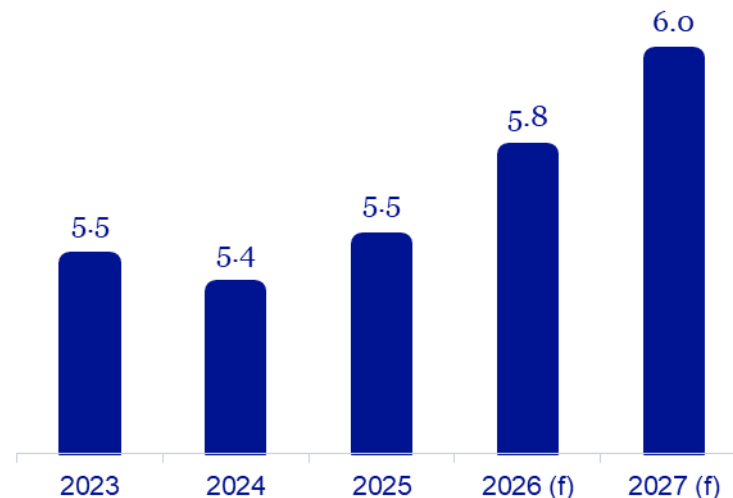
A lack of shovel-ready land, long development timelines, and labor shortages could undermine the measure's effectiveness. Moreover, the construction cycle can take 7 years, and the problem is urgent.

In 2026 and 2027 the expansion will continue

Investment in housing will accelerate over the next few years, supported by tailwinds that will boost demand

- **Investment in housing will continue to gain weight in GDP**, driven by the need to reduce the large accumulated deficit and by favorable demand fundamentals.
- **The imbalance between household formation and new housing supply could exceed 700,000 units by 2027**, continuing to place structural pressure on the market.
- **Housing prices will continue to rise sharply** (10.2% in 2026 and 6.8% in 2027) as a reflection of this imbalance between supply and demand.
- **The rising costs will stimulate output, although structural** bottlenecks remain, such as the shortage of buildable land, limited labor and slow progress in productivity.

INVESTMENT IN HOUSING (PERCENTAGE OF REAL GDP)



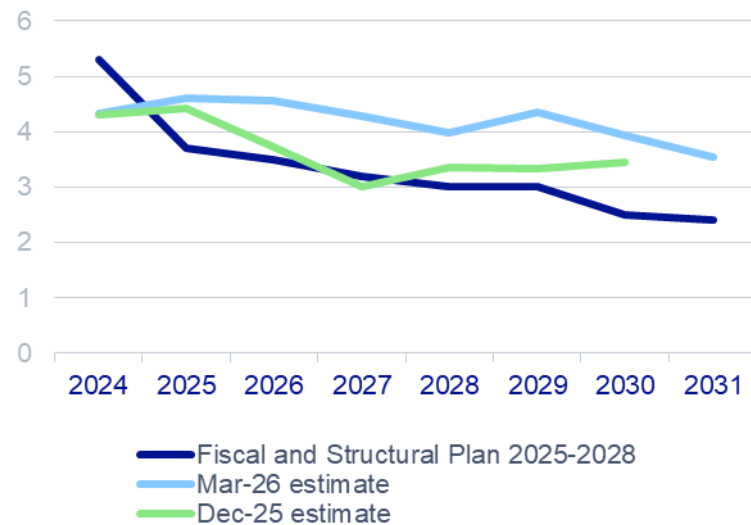
(f): forecast.
Source: BBVA Research, with data from INE

In 2026 and 2027 the expansion will continue

Fiscal policy will support domestic demand growth

- **The new scenario incorporates a more expansive fiscal policy than expected** by abandoning the assumption of strict compliance with European fiscal rules. The absence of budgets in 2026, both in the central government and in a large part of the autonomous communities, increases the risk of deviation.
- In this context, **average annual net primary expenditure is projected to grow by 4.6% during the 2025–2031 period**, compared with the 3.0% projected in the adjustment plan.
- **The public deficit is expected to stand at 2.3% of GDP in 2026 and 2.4% in 2027**, worsening by 0.2 pp and 0.6 pp, respectively, compared to the forecasts from three months ago.
- **All other things being equal, strict adherence to fiscal rules would require an additional spending cut of nearly 8.8 billion annually**, equivalent to an average structural adjustment of 0.6 pp of GDP each year.

PRIMARY EXPENDITURE NET OF INCOME MEASURES (ANNUAL CHANGE IN PERCENTAGE)

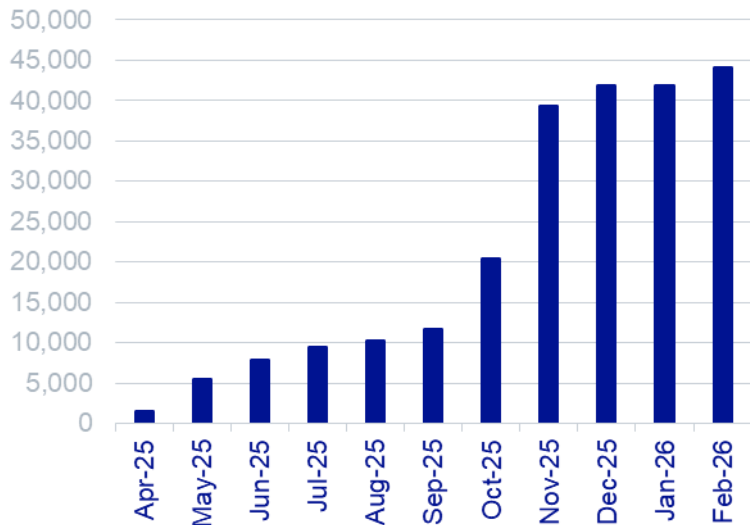


Source: BBVA Research based on Ministry of the Treasury data

In 2026 and 2027 the expansion will continue

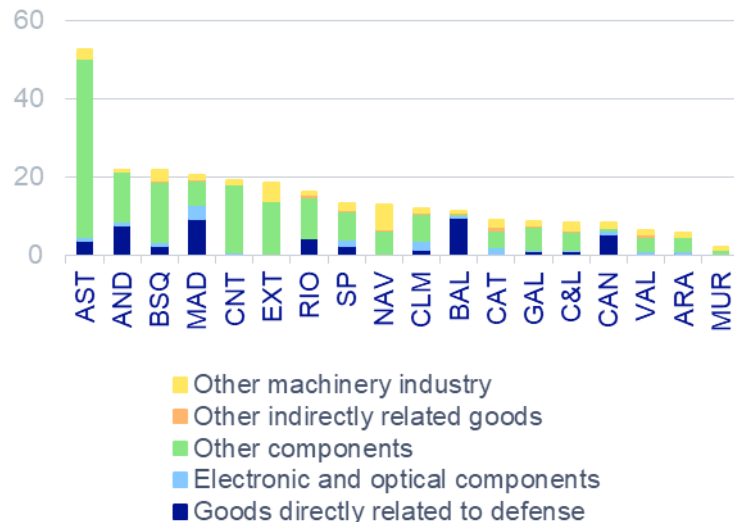
The multiplier effects of increased defense spending depend on the stage of the economic cycle and the import content of the goods and services demanded

AGREEMENTS OF THE COUNCIL OF MINISTERS ON DEFENSE EXPENDITURE (ACCORDING TO THE PLANNED BUDGET, ACCUMULATED IN MILLIONS OF EUROS)



Source: BBVA Research based on references from the Council of Ministers

EXPORTS OF DEFENSE-RELATED GOODS (PERCENTAGE OF TOTAL REGIONAL EXPORTS, 2014-2024)



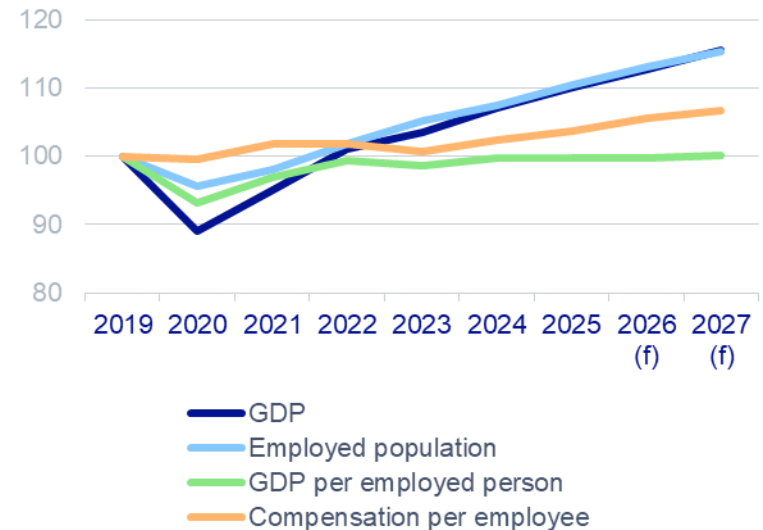
Source: BBVA Research based on Datacomex

Positive outlook, but with structural challenges

The upward revisions in the GDP and investment series show a greater capacity for economic growth

- **The expansion of GDP and employment continues, but productivity stagnates.** The economy is growing thanks to the capacity for job creation, driven by immigration.
- Forecasts indicate that both GDP and the number of employed individuals could be around 15% higher in 2027 than in 2019.
- This parallel advance implies that **the output per employee has not increased in the last 7 years**, which is reflected in a remuneration per employee that has barely risen.
- **This growth pattern replicates dynamics observed in previous recoveries**, both in the years leading up to the 2008 global financial crisis and in the aftermath of the sovereign debt crisis of 2012 and 2013.

GDP, EMPLOYMENT, PRODUCTIVITY AND COMPENSATION (2019 = 100)



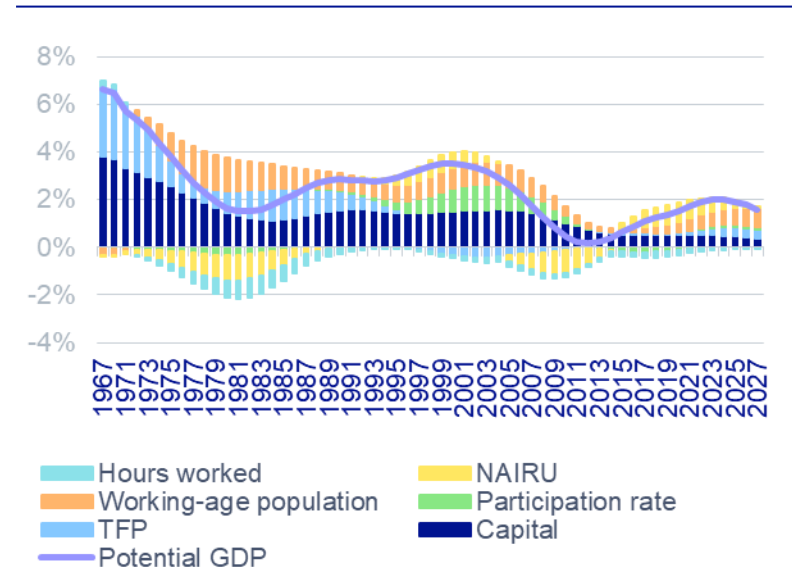
(f): forecast.
Source: BBVA Research, with data from INE

Positive outlook, but with structural challenges

The upward revisions in the GDP and investment series show a greater capacity for economic growth

- The economy would have already reached the level of activity that would have occurred if trend growth had been maintained since 2019. The latter seems consistent with gains of around 2%.
- About half of the increase in output is attributable to a **positive contribution from job creation**, driven by the sharp rise in the working-age population resulting from **immigration**.
- Maintaining these levels will depend on the **ability to sustain the drivers that have underpinned this growth so far**.

BREAKDOWN OF POTENTIAL GDP CHANGE (%)



Source: BBVA Research, with data from INE

Positive outlook, but with structural challenges

To maintain growth going forward, it is necessary to foster a favorable environment for investment in key sectors

- 88% of the nodes in the electricity distribution network are operating at capacity.
- **Electricity shortages could pose an additional bottleneck for construction**, on top of existing constraints.
- There are provinces where the number of homes that can be built with the available electricity capacity is insufficient to meet the existing housing shortage.
- **Investments are needed to ensure that energy supply is no longer an obstacle** to both the construction sector and economic progress overall.

HOUSING SHORTAGE IN SPAIN AND POTENTIAL HOUSING SUPPLY GIVEN CURRENT ELECTRICITY CAPACITY
(NUMBER OF HOMES)



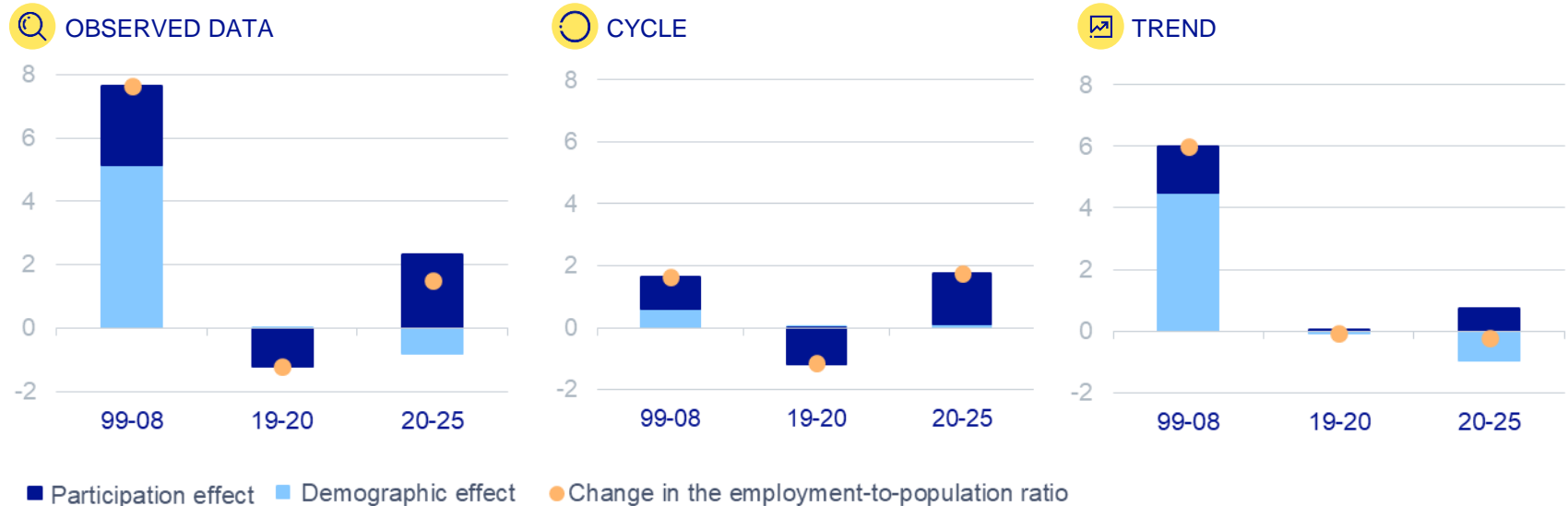
* The number of homes that could be built considering households account for 31.5% of total electricity consumption in Spain (according to Eurostat) and each household is connected to a 5 kW supply.
Source: BBVA Research based on data from MIVAU, MITMA, INE and demand maps of electricity distributors

Positive outlook, but with structural challenges

The recent increase in labor force participation, driven by immigration, is cyclical

CONTRIBUTIONS TO THE CHANGE IN THE EMPLOYMENT RATIO

(CUMULATIVE CHANGE IN PERCENTAGE AND PERCENTAGE POINTS, CVEC DATA)

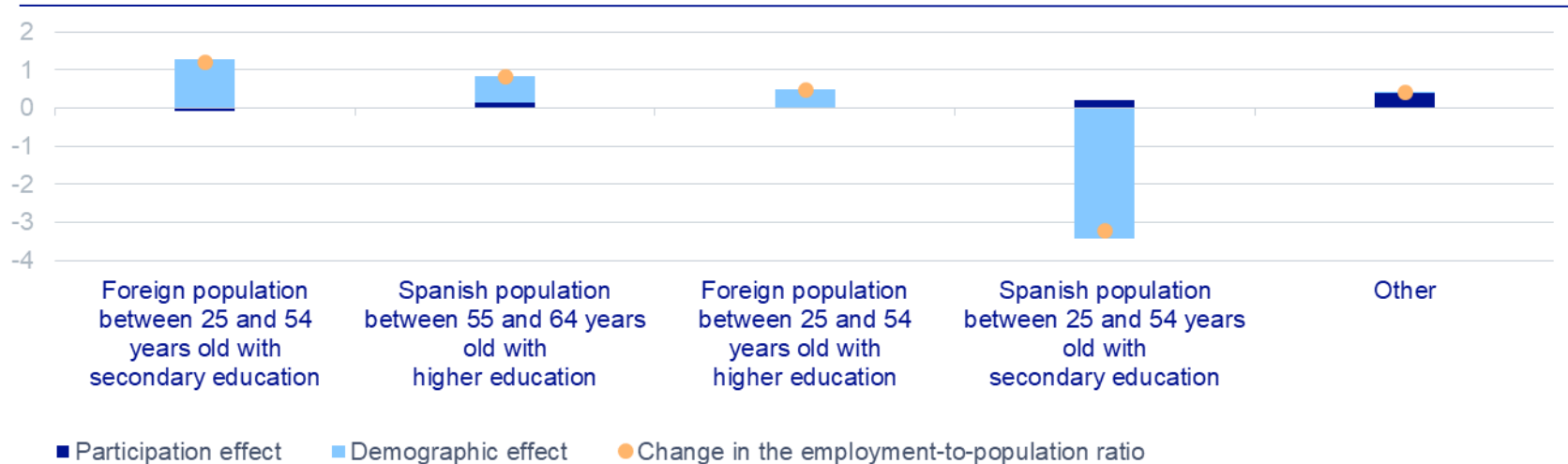


Participation effect: change in the employment-to-population ratio (TA) due to shifts in labor force participation among different population groups, while keeping their share of the working-age population constant.
Demographic effect: change in TA due to changes in the weight of each group within the working-age population, assuming that their TAs remain constant.
Source: BBVA Research, based on data from INE

Positive outlook, but with structural challenges

The aging of the Spanish population accounts for the decline in the structural component of the employment-to-population ratio, partially offset by immigration and the increase in education level

FACTORS INFLUENCING THE SHIFT IN THE EMPLOYMENT-TO-POPULATION RATIO BETWEEN 2020 AND 2025 (CUMULATIVE CHANGE IN PERCENTAGE AND PERCENTAGE POINTS, CVEC DATA)

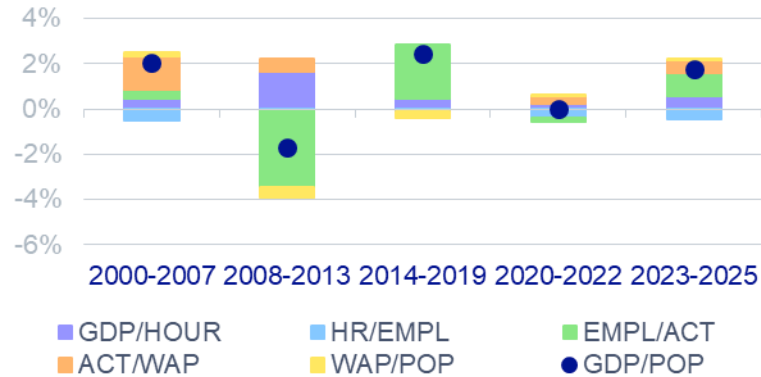


Participation effect: change in the employment-to-population ratio (TA) due to shifts in labor force participation among different population groups, while keeping their share of the working-age population constant.
Demographic effect: change in TA due to changes in the weight of each group within the working-age population, assuming that their TAs remain constant.
Source: BBVA Research, based on data from INE

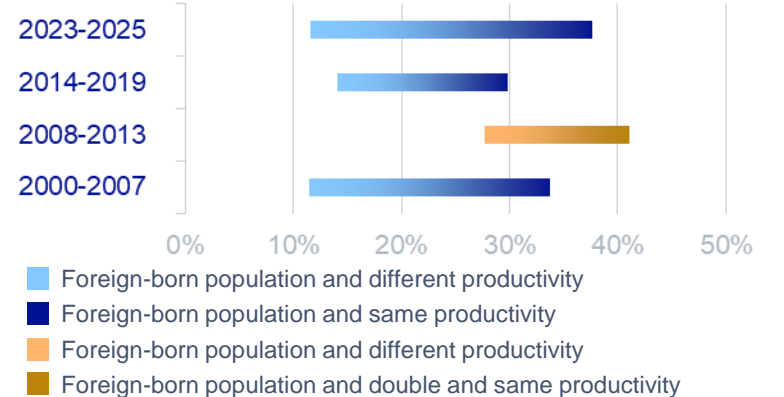
Positive outlook, but with structural challenges

Immigration, key to increasing GDP per capita

COMPONENTS OF THE AVERAGE ANNUAL CHANGE IN GDP per capita* (% AND PP)



CONTRIBUTION OF THE FOREIGN POPULATION TO THE ANNUAL CHANGE IN GDP per capita (%)**



* HOUR: hours worked. EMPL: employed population. ACT: active population (labor force) WAP: working-age population. POP: population.

** The ranges depend on the definition of foreign population and working-age population and the estimation of the hourly productivity differential between the Spanish and foreign populations.

Source: BBVA Research, with data from INE

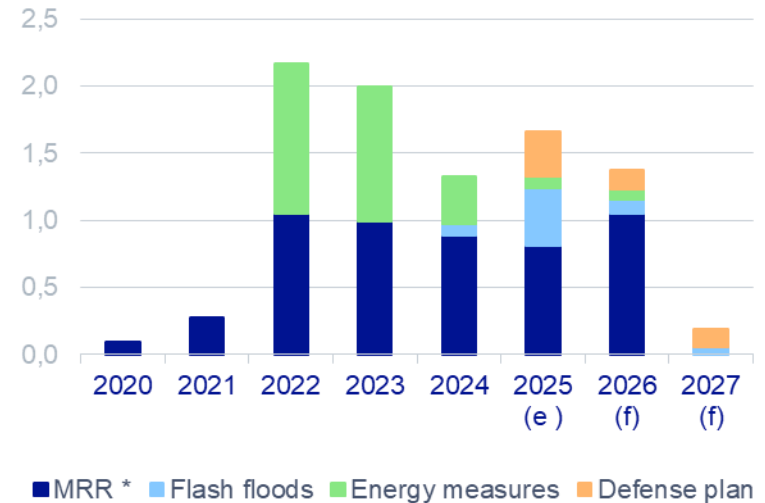
GDP per capita has grown by 1.8% annually since 2023, driven by job creation and the increase in the participation rate and productivity. The foreign population accounts for between 12% and 38% of the increase

Positive outlook, but with structural challenges

Fiscal policy will change its tone over the coming months, becoming less and less expansionary

- **The depletion of funds from the Recovery and Resilience Facility (MRR) could generate volatility in investment**, with a risk of a setback in the second half of 2026 due to the "cliff effect".
- **The boost from the DANA flooding stimulus package** (estimated to have reached around 8.8 billion, or 0.5% of GDP through December 2025) **will gradually fade**, having been concentrated mainly in the first quarter of last year.
- The **need to comply with fiscal rules will reinforce this moderation of the fiscal stimulus**, limiting the margin for additional support for activity, despite the expected increase in defense spending.
- Depending on how the conflict in Iran plays out, the additional fiscal stimulus could be affected by the fiscal measures that are approved to mitigate its effects.

DISCRETIONARY FISCAL STIMULUS (% OF GDP)



Note: It is assumed that all investments financed with MRR transfers will be completed by August 2026. (e): estimate. (f): forecast.

Source: BBVA Research, with data from the Ministry of Finance, PLACSP, CCS and BDNS

Positive outlook, but with structural challenges

The proposed reform of the SFA* improves the starting point and reduces imbalances, but it maintains uncertainty about the sustainability and fairness of the system in the long term

MODEL ENHANCEMENTS



This is a **general model** for all the autonomous communities of the common system (deviating from a single funding model).

Improvement in the simplicity, transparency **and equity of the system**.

Improved calculation of the adjusted population as a variable to estimate expense needs.

Increased **tax capacity** and reduced dependence on equalization.

LIMITATIONS



Maintaining the **status quo** limits its transformative capacity.

Increase in **fiscal transfers**, but not in regulatory capacity.

The adjusted population continues to measure potential needs, not actual costs.

Involves a **structural transfer of resources** from the central government.

FUTURE DIRECTION



Reduction of ad hoc adjustment mechanisms that distort the fairness of the system.

Improved calculation of normative tax revenues.

Opt for partial but high-level standardization that respects the ordinal nature of the data.

Seek broad **political consensus**.

PENDING MATTERS



How the Spanish government will **compensate** for the loss of resources.

Restructuring and partial absorption of regional debt.

Reform or progressive elimination of the Autonomous Community Liquidity Fund.

Institutional improvement and rules for future review.

Increased tax co-responsibility.

(*): Regional financing system

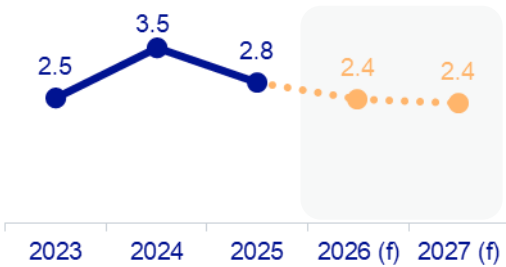
3. December 2025

Forecasts

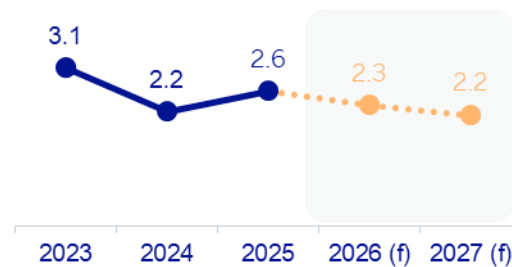
Forecasts

GDP GROWTH

(%)

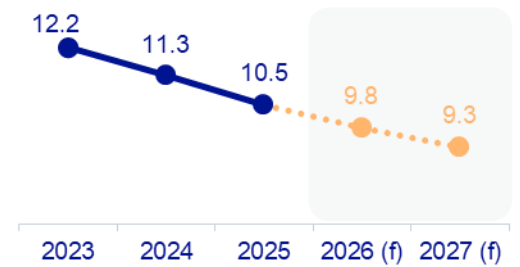


EMPLOYMENT GROWTH — EPA (LABOR FORCE SURVEY) (%)



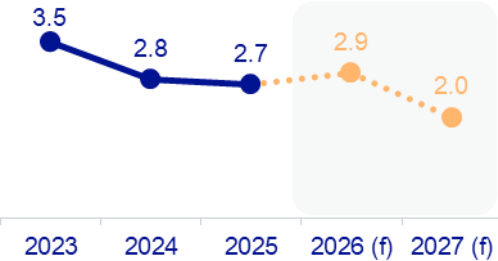
UNEMPLOYMENT RATE

(%)



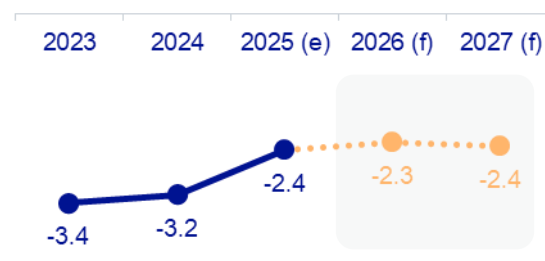
AVERAGE ANNUAL INFLATION

(ANNUAL AVERAGE, %)



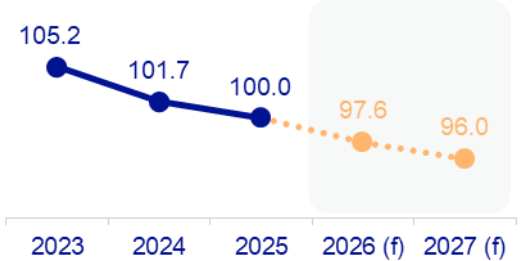
PUBLIC DEFICIT

(% OF GDP)



PUBLIC DEBT

(% OF GDP)



(f): Forecast.
Source: BBVA Research based on INE and Bank of Spain data

Forecasts

% YoY	2023	2024	2025 (f)	2026 (f)	2027 (f)
National final consumption expenditure	2.5	3.0	3.0	2.7	2.3
Private consumption	1.8	3.1	3.4	2.8	2.2
Government expenditure	4.5	2.9	1.8	2.4	2.7
Gross fixed capital formation	5.9	3.6	6.3	6.1	5.8
Equipment and machinery	2.6	1.9	9.0	4.0	3.7
Construction	5.5	4.0	5.2	6.8	5.0
Housing	0.8	2.1	5.1	6.2	6.9
Domestic demand*	1.6	3.3	3.6	3.3	2.9
Exports	2.2	3.2	3.4	2.0	3.6
Exports of goods	-1.5	0.1	0.7	0.4	3.6
Exports of services	11.3	9.8	8.3	4.7	3.6
Non-tourist services	6.6	8.1	10.9	4.9	4.4
Final consumption among non-residents in Spain	19.1	12.4	4.6	4.5	2.5
Imports	0.0	2.9	6.3	4.8	5.7
External demand*	0.9	0.2	-0.8	-0.8	-0.6
Real GDP at market prices (mp)	2.5	3.5	2.8	2.4	2.4

*: Contribution to GDP growth.

(f): Forecast.

Source: BBVA Research, based on INE and Bank of Spain data

Forecasts

% YoY	2023	2024	2025 (f)	2026 (f)	2027 (f)
Employment (full-time equivalent)	3.6	2.8	3.1	2.0	1.8
Employment, Labor Force Survey (EPA)	3.1	2.2	2.6	2.3	2.2
Unemployment rate (% of the labor force)	12.2	11.3	10.5	9.8	9.3
CPI (annual average)	3.5	2.8	2.7	2.9	2.0
GDP deflator	6.4	3.0	3.0	3.1	2.0
Public deficit (% of GDP)	-3.4	-3.2	-2.4	-2.3	-2.4
Public debt (% of GDP)	105.2	101.6	100.8	97.6	96.0

(f): Forecast.

Source: BBVA Research, based on INE and Bank of Spain data

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