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**SPAIN**

# Spain and Its Regions: Resilience Today, Challenges Ahead

Macro perspectives for Spain and  
the finances of its regional governments

Executive Summary

## The domestic and international macro context

Spain is facing the new geopolitical shock from a position of relative resilience, though not without vulnerabilities, as the conflict in the Middle East and tensions in the Strait of Hormuz have pushed up energy prices, transport costs and the global risk premium. Although Spain's direct trade exposure to the region is limited, the rise in hydrocarbon prices is transmitted through international markets. The country benefits from less dependence on the Gulf and greater LNG import capacity from the United States and Algeria, but remains exposed to rising global energy prices. In this context, we estimate real GDP growth of 2.2% in 2026, equivalent to 4.8% in nominal terms, with a GDP deflator of 2.5%. This represents a downward revision of two tenths compared to the March scenario and an upward revision of average inflation to 3.2%.

Figure 1: BASE MACRO SCENARIO IN 2026 VS GOVERNMENT OF SPAIN FORECAST

Year-on-Year Rate of Change	2025 2026		Government 2026
	Private National Final Consumption Expenditure	3,4	2,8
Final Consumption Expenditure of Public Administrations	2,4	2,0	1,8
Gross Fixed Capital Formation	5,8	4,2	5,1
National Demand*	3,6	2,8	2,8
Export of Goods and Services	3,6	1,3	1,9
Import of Goods and Services	6,2	3,1	3,9
External Balance*	-0,7	-0,5	-0,6
<b>Gross Domestic Product</b>	<b>2,8</b>	<b>2,2</b>	<b>2,2</b>
Nominal Gross Domestic Product	5,8	4,8	5,3
Gross Domestic Product Deflator	2,9	2,5	3,1
CPI	2,7	3,2	-
Private Consumption Deflator	2,8	3,0	3,3
Deflator Consumption of Public Administrations	2,8	1,8	3,1
Gross Fixed Capital Formation Deflator	1,6	2,8	2,8
Export deflator	1,0	4,2	-0,1
Import deflator	-0,6	5,1	-0,2
Full-Time Equivalent Employment**	3,1	2,3	2,1
Hours actually worked	2,1	1,6	-
Unit Labor Cost	4,1	3,1	-
Productivity per Full-Time Employee**	-0,3	0,0	0,1
Remuneration per Employee**	3,8	3,1	2,7
Unemployment Rate (% of the Labour Force)	10,5	10,2	9,9
Household Savings Rate and NPISHs (% GDI)	12,0	10,4	-

Source: Ministry of Finance, AIReF

\* Contribution to GDP Growth

\*\* Domestic employment in the case of the Government's forecasts

Spanish growth will continue to be supported by domestic demand and the strength of the labour market, though the margin of complacency will shrink. Job creation, labour force expansion and high migration flows will continue to support private consumption, while the services sector will remain at the centre, thanks to the resilience of tourism and the dynamism of non-tourism services exports. At the same time, investment will lose traction in an environment marked by greater geopolitical uncertainty, higher energy costs and the progressive erosion of the momentum associated with the Recovery and Resilience Mechanism. On the external side, the contribution of external demand will be negative, around 0.5 percentage points, as a result of greater protectionism, the weakness of some European partners and the appreciation of the euro.

The data for the start of 2026 confirm that Spain maintains a positive growth differential relative to the euro area. GDP grew by 0.6% quarter-on-quarter and 2.7% year-on-year in the first quarter, mainly supported by domestic demand, with firm household consumption and investment still recording high rates following the boost in previous quarters. The labour market also remained favourable, with employment growth, an increase in affiliation, and a seasonally adjusted unemployment rate close to 9.9%. High-frequency indicators suggest that the second quarter could register growth between 0.6% and 0.7%, provided that the external shock does not intensify. However, the acceleration of energy prices and the moderation of real wages point to a slight loss of purchasing power in 2026.

The medium-term scenario combines a still-robust expansion with a gradual slowdown in growth. After the expected 2.2% growth in 2026, we expect real GDP to moderate progressively to 1.7% in 2030, as some of the extraordinary factors that have boosted activity in recent years are exhausted, especially European funds and the strong initial dynamism of domestic demand. Private consumption will remain the main driver, though its contribution will decline and the savings rate will fall from 10.4% of disposable income in 2026 to 9.6% in 2030. Gross fixed capital formation will grow from 4.2% in 2026 to 1.9% in 2030. At the same time, full-time equivalent employment will grow by 2.3% in 2026 and slow to 1.5% in 2030, with the unemployment rate

gradually falling from 10.2% to 9.6%. Inflation, after standing at 3.2% in 2026, will converge towards rates close to 2% from 2028.

**Spain's main challenge will be to transform the current cyclical resilience into a structural improvement in productivity and real convergence.** Potential growth has improved, driven by a greater contribution from the labour factor, with net immigration remaining close to 600,000 people until 2028 and then moderating towards 400,000 in 2030. However, productivity per employee will continue to contribute little to GDP growth.

At the regional level, Madrid, the Valencian Community, Murcia and the Balearic Islands would lead growth in 2026, while Asturias, Aragon, Extremadura, Navarre and the Basque Country would show more moderate growth. At the same time, the reform of the regional financing system marks a step towards greater simplification, transparency and equity, although it retains redistributive limitations and leaves key questions open regarding state compensation, fiscal co-responsibility and regional debt. Overall, Spain retains a relatively favourable position in Europe, but the sustainability of its growth will depend on raising productivity, strengthening investment, improving human capital and increasing institutional quality.

**The international environment has deteriorated significantly due to the geopolitical shock in the Middle East, which has raised energy prices and reactivated the risk of disruption to global supply chains.** The joint US-Israeli attack on Iran and the spread of the conflict to other countries in the region have pushed oil to a range of \$90-120 per barrel, up from \$60 before the conflict, while gas has also rebounded, albeit less sharply than after Russia's invasion of Ukraine. In this context, the Strait of Hormuz is increasingly recognised as the main point of vulnerability, since a substantial share of the world's oil, around 20% of global LNG trade, and a significant share of key inputs such as urea and sulphur pass through this corridor. The combination of energy tension, higher logistics costs and commodity volatility complicates macroeconomic forecasting and raises inflationary risks on a global scale. In addition, the Middle East's role as a supplier of critical minerals and as an international air transport node expands the scope of the shock beyond the energy market.

Deteriorating global conditions are translating into lower growth, more persistent inflation, and growing trade fragmentation. In the EMU, the ECB's March 2026 forecasts point to 0.9% GDP growth in 2026, three tenths below the December estimate, while inflation is revised upwards to 2.6%, reflecting the impact of higher energy prices. Although trade tensions have been temporarily put on the back burner by the war in Iran, U.S. tariff policy remains a source of uncertainty, especially following the introduction of a temporary 10% tariff and doubts about the implementation of the U.S.-European Union trade deal. At the same time, the EU is seeking to strengthen its resilience through new trade agreements with Mercosur, India, Indonesia and Australia, with the aim of diversifying its markets and ensuring access to strategic raw materials. Taken together, the war in Iran, the blockade of Hormuz, protectionism and tighter financial conditions point to a slowdown in global trade in 2026 and an environment of greater market volatility.

## Risk analysis of the macroeconomic scenario

**The macroeconomic outlook shows clearly biased downside risks to growth and upside risks to inflation.** The prolongation of the war in Iran and the persistent closure of the Strait of Hormuz are the main channels through which forecasts for 2026 and 2027 are deteriorating, generating energy supply problems and new price pressures. While markets do not yet seem to be pricing in an extreme scenario, further damage to the region's energy infrastructure could intensify the shock and push energy costs even higher. The IMF contemplates adverse scenarios in which global growth would be revised down by between 0.8 and 1.3 percentage points in 2026, up to 2.5% and 2.0% respectively, while Oxford Economics suggests that oil persistently above \$150 per barrel could lead to an episode of global stagflation. In this context, the core risk is not just a temporary slowdown, but a more complex combination of lower activity, persistent inflation, and tighter financial conditions.

**The energy shock could be transmitted to the real economy through supply chains, sectoral costs and tourism.** A prolonged disruption of shipping traffic through Hormuz would strain not only the hydrocarbons market but also segments such as fertilisers, basic chemicals and industrial components, amplifying the initial impact by pushing up the price of intermediate inputs. Energy-intensive industries, such as metallurgy, chemicals and building materials, would be particularly vulnerable, while the agricultural sector would pass on higher fertiliser, fuel and transport costs to food prices. Air transport would also face risks from rising kerosene prices and possible availability restrictions, with direct implications for connectivity and tourism activity. Although Spain could partially benefit from a diversion of tourist flows from destinations in the Eastern Mediterranean and North Africa, a fall in long-distance tourism, especially from Asia, would affect segments with higher average expenditure.

**Structural risks remain the main constraint on Spain's convergence in the medium term.** Housing is a growing bottleneck, as an insufficient residential supply limits labour mobility, makes it harder to attract immigration and talent to the most dynamic regions, and puts upward pressure on costs for households and businesses. Although the National Housing Plan 2026-2030 seeks to address this challenge, its budgetary scope is limited, and its effects will depend on reforms that improve legal certainty, land availability and execution capacity. Added to this is the historic weakness in productivity, with productivity per employee practically stagnant since 2019 and a persistent gap compared to the most advanced European economies. Therefore, the challenge is to translate the dynamism of employment, services, digitalisation and the energy transition into greater gains in productivity, investment, innovation and well-being.

## Budget and Debt analysis of the Central Government and the Autonomous Communities

**The budgetary scenario combines an incomplete structural improvement with a transitory deterioration in 2026.** After reducing the deficit to 2.4% of GDP in 2025, we expect it to rise to 2.6% in 2026 due to the measures approved in response to the conflict in the Middle East and the actions associated with the natural disasters in Andalusia and Extremadura. Once these temporary measures are withdrawn, the deficit would fall to 2.2% of GDP in 2027, although it would subsequently resume a slightly upward path to 2.4% in 2030. This development would remain consistent with keeping the deficit below the 3% threshold throughout the projection period. However, increased interest spending, defence investment and age-related benefits will limit the scope for fiscal consolidation.

**The autonomous communities improve their balance but maintain higher spending pressure than the fiscal references.** Under a scenario of constant policies, regional eligible expenditure would grow above the national expenditure rule over the next few years, with estimated increases of 4.7% in 2026, 6.6% in 2027 and 4.9% in 2028. Despite this, the regions would close 2026 with a reduced aggregate deficit of 0.1% of GDP, which would be practically equivalent to equilibrium if extraordinary expenses due to natural disasters were excluded. The improvement in income, the withdrawal of temporary measures and the moderation of some items would allow the regional subsector to converge towards balance in 2030. For their part, local entities would consolidate a financing capacity of 0.3% of GDP at the end of the period, supported by recurring surpluses despite the time lag between income and expenditure linked to extraordinary investments.

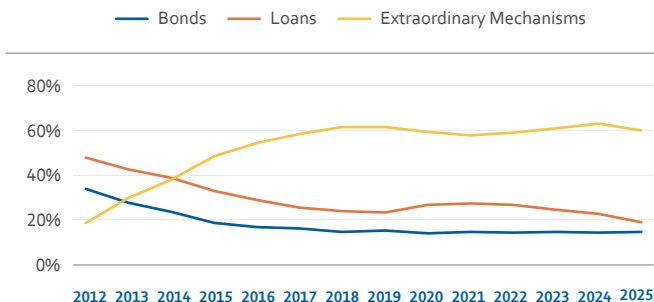
**Public debt will continue to fall, albeit at a gradually moderating pace.** The debt-to-GDP ratio closed 2025 at 100.7%, after a significant cumulative reduction from the 2021 peak of 124.2%, but it still remains above the pre-pandemic level. In 2026, our baseline scenario forecasts a further decline to 99.9% of GDP, driven by nominal growth, though less pronounced than in previous years and with a somewhat higher public deficit. In the medium term, the ratio is expected to fall to 95.1% by 2030, mainly thanks to nominal GDP growth and a gradual improvement in the primary balance. However, slowing nominal growth, rising interest costs, and a stabilising primary balance point to a progressive loss of traction in debt reduction over the next decade.

**The regional debt shows a turning point towards greater financial autonomy.** Regional debt exceeded 341,000 million euros at the end of 2025, equivalent to 20.2% of GDP. The ratio fell year on year, and most communities improved or maintained their relative position. By 2026, we expect regional debt to fall to 19.6% of GDP, with six communities below the 13% threshold and two, the Valencian Community and the Region of Murcia, still above 30%. The composition of the debt also reflects a significant change, as the weight of the State's financing mechanisms fell to 60%, although these continue to be the main source of financing for the autonomous communities. At the same time, the use of domestic bank loans and capital market issuances increased, confirming a gradual improvement in regional financial autonomy, although this remains highly conditioned by the high dependence on extraordinary liquidity mechanisms.

Figure 2: DEBT/GDP RATIO OF THE AUTONOMOUS COMMUNITIES BY TYPE OF FINANCIAL DEBT AS OF 4Q25 (EURBN, % GDP)

	Debt to GDP Ratio (rhs)	Total Debt (EUR bn)	Debt Securities	Loans by Resident Banks	Loans by the FLA/FF	PPPs	Loans by Non-Residents
<b>Total Regions</b>	<b>20.4</b>	<b>338.804</b>	<b>50.1</b>	<b>64.1</b>	<b>203.1</b>	<b>6.2</b>	<b>15.3</b>
Catalonia	28.2	90.1	2.3	5.2	76.7	3.3	2.6
Valencia	40.7	63.9	0.4	7.0	54.9	0.1	1.5
Andalusia	18.1	40.7	8.4	6.9	22.2	0.4	2.8
Madrid	11.3	37.8	20.3	13.1	0.0	1.4	3.1
Castile-La Mancha	28.3	16.6	0.4	1.8	14.3	0.0	0.2
Castile-Leon	18.2	14.3	3.4	7.6	1.4	0.2	1.7
Galicia	13.9	12.0	3.2	5.9	1.6	0.0	1.3
Murcia	31.2	14.0	0.0	0.8	13.0	0.0	0.2
Basque Country	11.5	11.1	8.0	2.6	0.0	0.0	0.6
Aragon	17.9	9.4	0.6	0.9	7.6	0.0	0.2
Balearic Islands	17.7	8.4	0.6	1.3	6.3	0.1	0.0
Canary Islands	10.8	6.6	1.1	4.4	1.1	0.0	0.0
Extremadura	18.5	5.2	0.1	2.8	2.2	0.0	0.1
Asturias	12.3	3.9	0.1	2.9	0.4	0.1	0.3
Cantabria	17.2	3.2	0.0	0.4	2.6	0.1	0.1
Navarre	9.4	2.6	1.0	1.3	0.0	0.3	0.1
La Rioja	14.3	1.7	0.0	0.3	1.3	0.0	0.1

Figure 3: RELATIVE SHARE OF REGIONAL DEBT BY INSTRUMENT IN 2012-2025 (%)



Source: Bank of Spain

Finally, **the short-term liquidity of the autonomous communities remains under control and within legal limits.** In March 2026, the Average Supplier Payment Period (PMP) stood at 26.32 days, below the regulatory threshold of 30 days and up by 1.26 days compared with the previous month. This evolution reflects a significant reduction in unpaid transactions, whose ratio fell to 27.24 days, offsetting a slight increase in the ratio of paid transactions, which fell to 25.8 days. At the same time, regional commercial debt fell to 4.2 billion euros, equivalent to 0.24% of national GDP, representing a monthly decline of more than 11%. In addition, commercial payments reached 7.6 billion euros in March, with strong year-on-year growth driven by health spending, confirming that payment management remains fluid despite the subsector's high operating volume.

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