

Q3 2026

SPAIN

Spain and its regions: Key Macro, Fiscal and Political Watchpoints

Macro perspectives for Spain and
the finances of its regional governments

Executive Summary

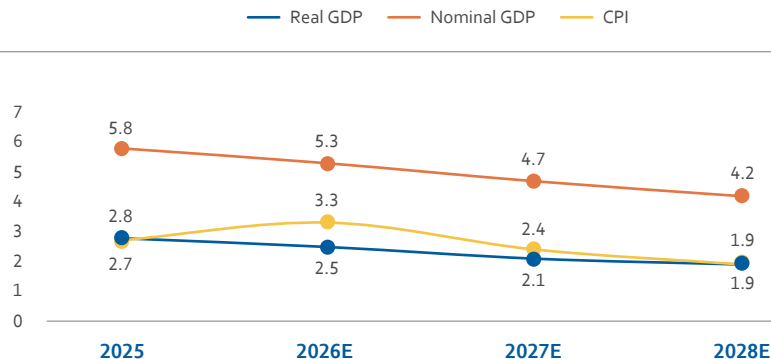
Spain Macro Outlook: Domestic Demand Keeps Spain Ahead

Spain enters the second half of 2026 with exceptional relative macroeconomic strength. Real GDP rose 0.7% q/q and 2.7% y/y in Q2, and our central forecast is 2.5% for 2026, 2.1% for 2027 and 1.9% for 2028. The growth mix is still domestically driven: household consumption, employment, immigration and investment are offsetting weak goods demand from Europe.

Domestic demand is the core engine. Private consumption is expected to grow 2.8% in 2026 and 2.2% in 2027, while fixed investment rises 4.3% this year before moderating to 2.7% next year as the Recovery Plan impulse fades. Services exports remain a structural strength, allowing Spain to maintain a healthy external balance despite a negative contribution from net trade.

The risk balance has changed more materially on inflation than on activity. The 2026 CPI baseline has risen to 3.3% from 2.1% in the June report, and the 4.3% August flash reading adds upside risk. Productivity per FTE is essentially flat in 2026, while unit labour costs rise 3.1% this year and 3.3% in 2027; housing shortages and persistent services inflation therefore matter increasingly for medium-term competitiveness.

Figure 1: SPAIN: UPDATED MACRO SCENARIO 2026-2028 (SEPTEMBER'26)



Source: BFF

Regional growth is also rotating. Valencia (3.0%), Madrid (2.7%), Andalusia and the Balearics (2.6%) lead in 2026, while northern industrial regions lag. In 2027, growth becomes more balanced as temporary reconstruction and tourism tailwinds fade and goods exports recover: the Basque Country and Navarre rise to around 2.4%, while Valencia and Murcia slow to around 1.9%.

Global Backdrop and Spain Sovereign Fiscal Outlook

Global macro: resilient, but more stagflationary

The global economy has avoided recession, but the policy mix is less benign: weaker European growth, higher energy prices and tighter monetary conditions.

The Strait of Hormuz is the key tail risk because a physical supply interruption would hit inflation, real incomes, industrial margins and global value chains simultaneously.

The September ECB staff projections point to euro-area GDP growth of **0.9% in 2026, 1.4% in 2027 and 1.5% in 2028**, with inflation at **3.0%, 2.5% and 2.1%**, respectively. Growth has proved more resilient than expected, but inflation risks remain skewed to the upside: under the severe energy scenario, 2027 growth falls to **0.4%** while inflation rises to **5.4%**.

The ECB raised the deposit facility rate by another 25bp in September to **2.50%**, with the MRO and marginal lending rates at **2.65% and 2.90%**. The policy debate has therefore shifted from easing to how much further tightening may be needed, keeping refinancing costs elevated for households, corporates and public-sector issuers.

Spain is less exposed than several European peers because of its service mix, LNG infrastructure and renewable capacity, but weak Germany/France demand still weighs on goods exports.

Spain fiscal: debt falls, but consolidation is incomplete

The 2025 general-government deficit closed at 2.4% of GDP. Our 2026 forecast is now 2.6%, versus 2.0% in the previous report: a 0.6pp deterioration despite resilient revenue growth.

The slippage is heavily influenced by temporary DANA, storm and energy/Middle East measures. Excluding these items, the 2026 deficit would be around 1.8% of GDP.

The main warning signal is expenditure. Net primary expenditure is projected to grow 6.4% in 2026 versus the 3.5% path in the Medium-Term Fiscal and Structural Plan. Escape-clause flexibility helps in 2026 but pushes adjustment into 2027-28.

Public debt should decline to around 99.3% of GDP at end-2026, mainly because nominal GDP growth is strong. Higher refinancing costs work in the opposite direction: interest expenditure rises to around 2.5% of GDP.

The Government's 2027 deficit target of 1.8% and debt objective of 97.6% were rejected by Congress. Our working 2027 view is therefore more conservative: a deficit around 2.2%-2.3% and debt around 98%.

Sovereign credit implications

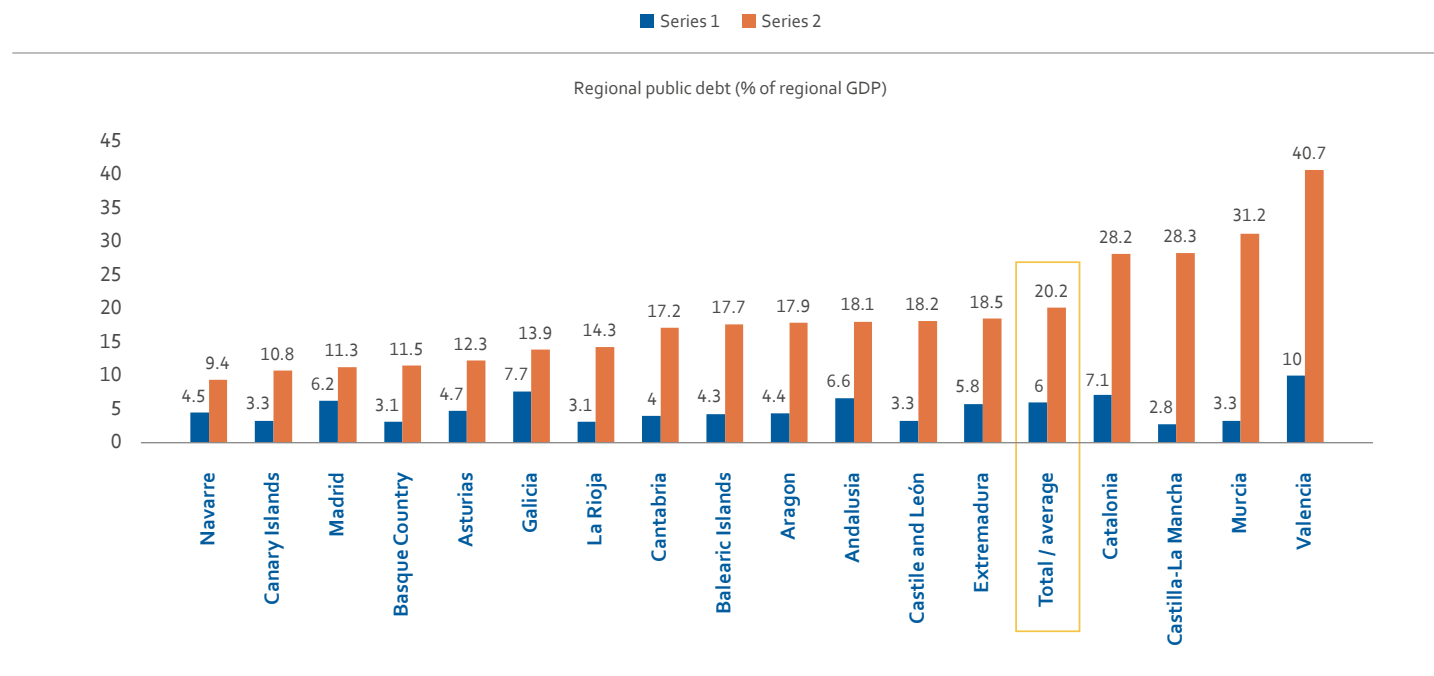
- Growth outperformance, the current-account surplus and resilient private-sector balance sheets remain clear credit strengths.
- Debt/GDP is improving, but the decline is still heavily denominator-driven; durable rating upside requires structural fiscal consolidation.
- Political fragmentation and ageing-related spending are the main medium-term constraints; the next rating catalyst is fiscal delivery rather than another GDP surprise.

Autonomous Communities: Improving Aggregate Credit, Persistent Dispersion

The regional story is stronger than the 2025 headline cash deficit suggests. The observed deficit was 0.4% of GDP, but after normalising unusually large financing-system settlements and other atypical items, the underlying balance improved to a small surplus of about 0.14% of GDP. The structural balance also improved, but remained negative at roughly 0.6% of GDP versus 1.0% in 2024.

For 2026, the subsector should reach headline balance, supported by regional resources growing around 7%. The expenditure rule remains the weak point: computable regional expenditure is expected to rise about 4.2%, above the 3.5% national reference. This means a region can deliver a balanced headline budget and still breach the spending rule.

Figure 2: REGIONAL DEBT DISPERSION IS EXCEPTIONALLY WIDE



Source: Banco de España

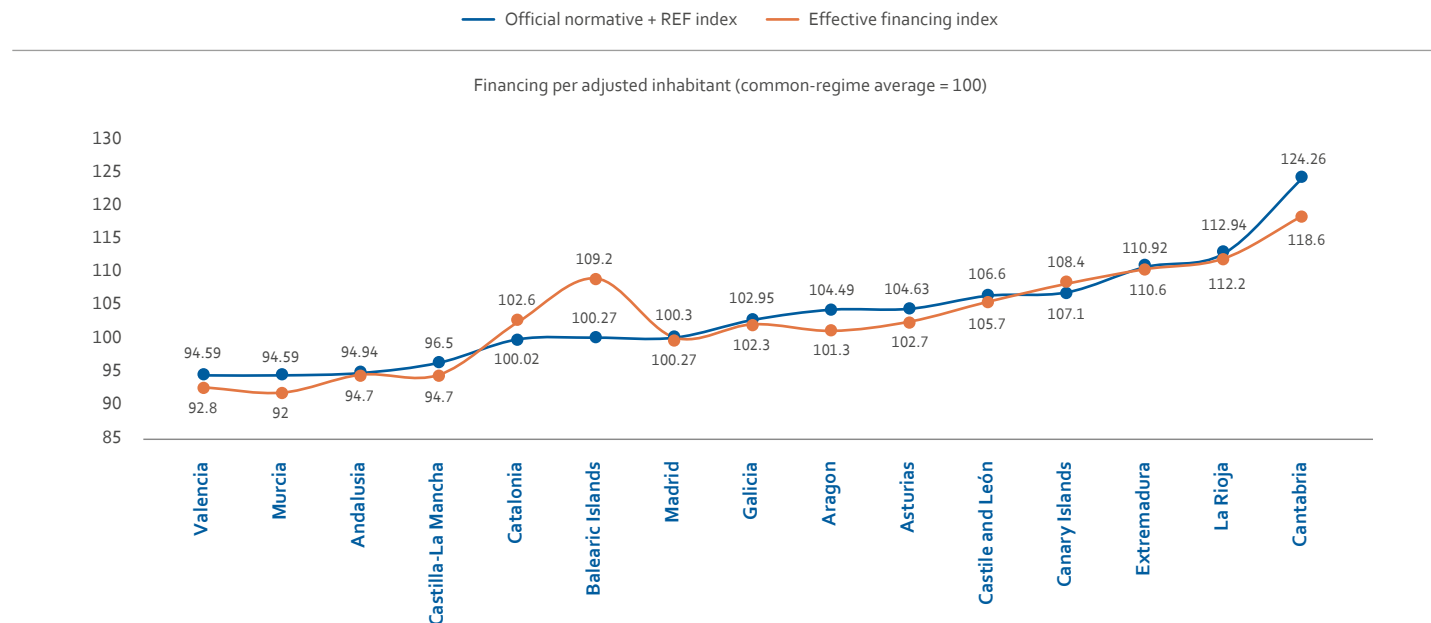
Regional debt falls from about 20.2% of national GDP in 2025 to 19.6% in 2026, 18.7% in 2027 and 17.1% by 2029 under the constant-policy scenario. The cross-section remains extreme: Valencia is around 40% of regional GDP, Murcia above 30%, and Catalonia and Castilla-La Mancha in the high-20s, while the foral regions, the Canary Islands and Madrid are materially stronger.

The new risk is the refinancing cost. Regional interest expenditure rises from roughly EUR7.5bn in 2025 to EUR11.5bn in 2029 in the constant-policy exercise, while the average effective rate increases from 2.2% to 3.3%. Falling debt/GDP therefore does not automatically create fiscal space. Supplier-payment data are healthier in aggregate - 24.17 days in May - but the Balearics, Castile and Leon and Valencia remain above the 30-day reference.

Regional Financing Reform, Debt Assumption and Market Normalisation

The financing-system debate matters because the current architecture redistributes heavily but still leaves large differences in effective resources per adjusted inhabitant. The 2024 settlement increased effective common-regime financing by roughly EUR14.4bn, or 9.45%, yet the index of effective financing still ranges from about 92 in Murcia and 92.8 in Valencia to 118.6 in Cantabria.

Figure 3: EFFECTIVE FINANCING PER ADJUSTED INHABITANT REMAINS HIGHLY DISPERSED



Source: FEDEA

Financing reform

Current-system cash resources already rise from EUR155.2bn in 2024 to EUR185.6bn in 2027.

The Government proposal would add about EUR20.975bn of resources in 2027, raise the regional IRPF share from 50% to 55% and VAT from 50% to 56.5%, increase vertical equalisation and accelerate settlements.

The reform is potentially credit-positive, but the legislative route remains uncertain and January 2027 implementation is ambitious.

Debt assumption and funding mix

The proposed State assumption covers roughly EUR83.3bn of common-regime regional debt. It would lower participating regions' debt and interest burden but does not reduce consolidated Spanish public debt.

The 2026 FFCCAA allocation had reached EUR22.47bn by mid-June, concentrated in Catalonia and Valencia. State financing therefore remains quantitatively central.

Market access is broadening, but normalisation comes with higher refinancing costs. Sustainable market re-entry requires lower structural deficits, longer maturities and stronger liquidity management.

What comes next

- › Spain remains one of the strongest large euro-area economies, but the near-term risk has shifted from growth to inflation.
- › At sovereign level, debt ratios are improving more quickly than the underlying fiscal position; spending control is the key test.
- › At regional level, the largest credit transformation could come from the combination of stronger recurrent financing and lower inherited leverage - but neither substitutes for expenditure discipline.
- › The immediate watchpoints are the legislative follow-through to the 4 September CPFF agreement, parliamentary passage of the regional debt-assumption bill, and the 2027 budget cycle.

BFF Banking Group

Paseo de la Castellana 81 - 9a planta
28046 Madrid - España

Communication & Institutional Relations

+34 912 102 151
newsroom@bff.com

Author: Cristina Nogaledo
September 2026



bff.com