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SPAIN

Spain's economy ends 2025 with a bang

Spain closed 2025 on a strong note, with quarterly growth accelerating to 0.8% QoQ in 4Q. While this lifts our annual growth forecast for 2026 slightly, the underlying drivers point to a continuation of current trends rather than a new growth impulse. A shift to more sustainable, structural growth will require a clear improvement in productivity



Tourists enjoying Spain as the sector settles back into a more sustainable pace of growth

A strong finish to 2025

The Spanish economy grew by 0.8% quarter-on-quarter in the final months of 2025, an acceleration from the 0.6% QoQ growth in the third quarter, and beating the consensus by 0.2 percentage points.

The figure was hot enough to briefly overwhelm the servers of the Spanish statistical office this morning. Jokes aside, a small downward revision to first-quarter figures nudged full-year growth to 2.6%, slightly below previous forecasts. But the key message remains: Spain entered 2026 with solid momentum.

Growth drivers point to trend continuation

In terms of growth drivers, the established pattern continued. Household consumption rose by a solid 1.0% QoQ for the third consecutive quarter, while investment increased by 1.7%,

supported once again by a strong surge in intellectual property investment (+2.7% QoQ). Government consumption was broadly flat, and net exports remained a drag on growth amid a challenging global environment.

From a production perspective, all major sectors posted positive growth, albeit with diverging trends. Manufacturing output slowed for the second consecutive quarter, expanding by just 0.1% QoQ. According to the S&P Global PMIs, declining output and shrinking order books under competitive pressure explain this weakness.

The evolution also contrasts with the improvement seen in yesterday's economic sentiment indicators, which seem to understate the pronounced decline in reported export orders. Services, by contrast, continued to grow robustly, even as signs of a tourism slowdown became more apparent. After several years of exceptional performance, we expect growth in the tourism sector to normalise.

Growth normalisation remains the base case for 2026

The same forces that shaped the end of 2025 will continue to determine Spain's growth outlook in 2026. Government consumption is expected to make only a limited contribution in the absence of a new budget. Private consumption is expected to gradually normalise after several strong quarters, and net exports are likely to remain subdued, partly because of the stronger euro. The real effective exchange rate (REER) of the euro has risen 6.1% since January 2025, which appears to be weighing on external demand.

Against this backdrop, investment will be the key variable in Spain in 2026. As noted earlier, much of Spain's recent growth has been quantitative, driven by substantial migration inflows that expanded the labour force. The government's recent regularisation plan that expects to grant legal status to around 500,000 people, equivalent to roughly 2% of the current legal labour force, suggests a continuation of this strategy. However, while regularisation may yield important social and labour market benefits, its macroeconomic impact is likely to be more limited than previous immigration-led expansions of labour supply.

Meanwhile, productivity per hour worked declined again in Q4 2025, underscoring the need for productivity-enhancing investments if Spain is to shift toward more structural and sustainable growth. A significant source of upside on this front comes from the EU Recovery and Resilience Facility (RRF). Spain still has about €20bn in RRF grants to disburse by the end of 2026, equivalent to roughly 6% of annual investment spending. With capacity utilisation rising to 79.8% in Q4 2025, conditions for private investment are also favourable. Although the productivity effects of these investments may not be immediate, they could mark a gradual transition toward higher quality, more productive growth, helping Spain maintain its outperformance relative to other eurozone economies in 2026 and beyond.

Overall, we have revised our 2026 growth forecast upward to 2.4%, though the upgrade is

driven primarily by the strong carry-over from Q4 2025. We do not foresee meaningful changes in the underlying quarterly growth profile.

Inflation to follow the normalisation trend

Meanwhile, January's inflation data came in slightly hotter than expected at 2.5% year-on-year, though still 0.5 percentage points lower than December 2025 thanks to a 0.7% month-on-month decline in prices. The drop was driven mainly by a more moderate increase in electricity prices compared with last year. As such, the data point to a continued normalisation of Spain's inflation profile, in line with the broader normalisation of the economy.

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