



SPAIN

May 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SPAIN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Spain, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 20, 2026, consideration of the staff report that concluded the Article IV consultation with Spain.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 20, 2026, following discussions that ended on March 20, 2026, with the officials of Spain on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 4, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Spain

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2026 Article IV Consultation with Spain

FOR IMMEDIATE RELEASE

- *The Spanish economy has continued to outperform the euro area, with solid growth expected this year despite the adverse impact from the war in the Middle East. Growth should then gradually ease over the medium term as immigration slows and population aging intensifies. Risks to growth are mainly on the downside, and those to inflation on the upside.*
- *Given still strong growth under staff's baseline projection, the authorities should accelerate the pace of discretionary consolidation to rebuild fiscal buffers ahead of the looming sharp rise in aging-related spending pressures—starting with discontinuing recent energy support measures, except if a severe scenario materialized, in which case they should be narrowly targeted and not distort energy prices.*
- *Deteriorating housing affordability calls for more decisive action to boost housing supply, including faster urban development, reducing legal uncertainty, and streamlined construction permitting procedures. To pre-empt a buildup of housing-related financial risks amid rapid house price growth and early signs of easing lending standards, mortgage-related borrower-based measures should be introduced, at least in the form of supervisory guidance, in the coming year.*

Washington, DC – May 22, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Spain.¹ Spain's economy has remained robust, growing at 2.8 percent in 2025 as a pickup in domestic demand and investment offset subdued net exports. On the supply side, strong immigration has underpinned labor force gains, unemployment has further declined slightly, and productivity growth has been stronger than prior to COVID-19. Amid a strong economy and labor market, headline inflation has proven sticky, hovering around 2.5–3 percent before the war in the Middle East due to persistent core and services inflation. Strong economic growth has also supported tax revenue growth and thereby the improvement in public finances, with the deficit narrowing to 2.4 percent of GDP in 2025. Systemic financial risks remain low, with households, corporates, and banks in good financial health. However, if sustained, the continued rise in house prices and early signs of easier lending standards could eventually foster financial sector vulnerabilities. Despite recent progress, the employment rate remains one of the lowest in the euro area, the

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

productivity pickup is still recent, and the speed of demographic aging is one of the fastest among peers.

Notwithstanding a hit from the war, growth is projected to remain solid at 2.1 percent in 2026 owing to still strong domestic demand, before slowing gradually as demographic headwinds intensify. In the short term, consumption will be supported by continued strong immigration, a tight labor market and a normalization of the still high saving rate, while investment will benefit from the final year of NGEU funding and firms' intangible investment plans. In the medium term, growth would settle around its potential rate of around 1.7 percent as immigration slows and the employment rate remains stable. While the large share of renewables in the electricity mix is dampening the inflationary impact of higher gas prices, the overall energy shock is projected to keep inflation at 3 percent by end-2026, before a decline to 2.2 percent in 2027. Risks to growth are predominantly on the downside, including from a lengthy Middle East conflict—which could also make inflation stickier, other geopolitical and trade tensions, and domestic political fragmentation.

Executive Board Assessment²

Executive Directors commended Spain's strong economic performance, which has outpaced euro area peers despite a challenging external environment. Directors welcomed that near-term growth is projected to remain resilient before moderating in the context of demographic challenges. They nonetheless considered that risks to the outlook are tilted to the downside, particularly from a prolonged war in the Middle East, and emphasized the importance of rebuilding fiscal space and boosting structural reforms to ensure sustainable growth.

Directors broadly encouraged more rapid, growth-friendly discretionary fiscal consolidation to rebuild fiscal buffers, amidst rising aging-related expenditure. Key measures include phasing out recent energy support measures, consideration of further pension reform, and harmonizing VAT rates while protecting vulnerable households. In the event of prolonged high energy prices, narrowly-targeted, non-price distortionary support measures could be considered. Noting the importance of supporting credibility and discipline, Directors highlighted the need to implement a fully-fledged medium-term fiscal strategy, reinforce the role of the independent fiscal council, and align subnational fiscal rules with the EU fiscal framework.

Directors noted that overall systemic financial risks remain low, while highlighting the potential risks emanating from fast-rising house prices and early signs of easier bank lending standards. Accordingly, they saw merit in introducing mortgage-related borrower-based measures, potentially in the form of supervisory guidance, while continuing analysis on their design and calibration ahead of implementation. Noting the need to further bolster financial sector resilience, Directors encouraged continued progress on implementing the remaining FSAP recommendations.

Directors underscored the importance of further reforms to boost employment and enhance productivity. They recommended efforts to strengthen active labor market policies and further

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

facilitate firms' scaling-up and innovation. Important measures include redesigning the R&D tax credit, addressing skills mismatch, and reducing remaining barriers to trade across Spanish regions and EU countries. Noting the deterioration in housing affordability, Directors encouraged decisive actions to boost housing supply, including by accelerating urban development, simplifying permitting, and reducing legal uncertainty.

Spain: Selected Economic Indicators 2024-2028

(Percent change unless otherwise indicated)

	2024	2025	Projections		
			2026	2027	2028
Demand and supply in constant prices					
Gross domestic product	3.5	2.8	2.1	1.8	1.8
Private consumption	3.1	3.4	2.5	2.2	1.9
Public consumption	2.9	2.4	2.3	1.5	1.6
Gross fixed investment	3.6	5.8	4.1	1.7	1.6
Total domestic demand	3.4	3.7	2.8	1.9	1.8
Net exports (contribution to growth)	0.3	-0.6	-0.6	0.0	0.1
Exports of goods and services	3.2	3.6	2.0	2.5	2.7
Imports of goods and services	2.9	6.2	4.0	2.8	2.7
Potential output	3.2	2.3	2.5	2.2	2.1
Output gap (percent of potential output)	0.7	1.2	0.8	0.4	0.2
Prices					
GDP deflator	2.9	2.9	3.0	3.0	2.9
Headline inflation (average)	2.9	2.7	3.0	2.3	2.5
Headline inflation (end of period)	2.8	3.0	3.0	2.2	2.5
Core inflation (average)	3.0	2.4	2.5	2.3	2.0
Core inflation (end of period)	2.6	2.6	2.6	2.3	2.0
Employment and wages					
Unemployment rate (percent of total labor force)	11.3	10.5	9.8	9.8	9.9
Labor costs, private sector	4.7	3.7	3.6	4.3	4.0
Employment	2.2	2.6	1.5	0.6	0.5
Balance of payments (percent of GDP)					
Current account balance	3.2	2.9	2.2	1.9	1.8
Net international investment position	-41.0	-44.8	-39.1	-35.2	-31.6
Public finance (percent of GDP)					
General government balance	-3.2	-2.4	-2.3	-2.3	-2.2
Primary balance	-1.4	-0.5	-0.2	-0.1	0.1
Structural balance	-2.8	-2.5	-2.5	-2.4	-2.2
General government debt	101.6	100.7	98.6	96.6	94.6

Sources: IMF, World Economic Outlook; data provided by the authorities; and IMF staff estimates.



SPAIN

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

May 4, 2026

KEY ISSUES

Recent developments and outlook. The Spanish economy has continued to outperform euro area peers, as a pickup in domestic demand has offset subdued exports. Notwithstanding the impact from the war in the Middle East, growth is projected to remain robust in the near term before slowing further as labor force gains, which have fueled growth in recent years, taper. Risks are predominantly to downside.

Fiscal policy. The authorities should rebuild fiscal space at a faster pace than envisaged given still strong growth under staff's baseline projection, high debt and fast-growing aging-related spending pressures. Reducing value added tax distortions from multiple tax rates, paired with transfers to vulnerable households, could deliver much of the required consolidation in a growth-friendly and inclusive way. The pension system should be further strengthened given looming spending pressures. To bolster policy credibility and predictability, the medium-term fiscal structural plan (MTFSP) should be anchored in well-identified measures, and would benefit from a stronger role for the independent fiscal council. The subnational fiscal rule should be aligned with the EU fiscal framework, particularly on quantitative targets. The fiscal measures taken to mitigate the adverse impacts of the energy price shock should be discontinued upon their planned expiration at the end of June; an extension should be considered only in the event of a severe scenario, in which case they should be narrowly targeted and not distort energy prices.

Financial sector. Systemic financial risks remain low but housing-related risks should be monitored closely and pre-empted. Banks are well capitalized, liquid, and profitable, and household and corporate balance sheets are sound, supported by rising incomes. The activation of the countercyclical capital buffer at intermediate levels of cyclical systemic risk, which will further strengthen bank resilience, is being phased in as planned without a noticeable impact on credit supply so far. If untamed, the ongoing house price boom could eventually foster financial sector vulnerabilities. To preempt these risks while preserving access to credit, staff recommend introducing mortgage-related borrower-based measures, at least in the form of supervisory guidance, which should be turned into binding limits if lending standards were to loosen materially and house price growth failed to moderate significantly. Continued implementation of the [2024 Financial Sector Assessment Program \(FSAP\)](#) recommendations would also support financial stability.

Structural reforms. To further cut unemployment, improve job stability and turn the recent productivity pickup into higher trend growth, the reform agenda should be rekindled. On the employment side, the recent reforms of activation policies, social assistance and job protection should be expanded. On the productivity side, stronger efforts are needed to complete ongoing Spain- and EU-level product and capital market initiatives to facilitate the scaling-up of young high-growth firms, cut elevated skills mismatch through tertiary education reform, streamline size-dependent tax and regulatory thresholds, and redesign the R&D tax credit so it can foster greater innovation. Streamlining regulatory procedures that restrict housing supply has also become a growth priority.

Approved By
Kristina Kostial (EUR)
Geremia Palomba (SPR)

Discussions were held in Madrid in March 9-20, 2026. The staff team comprised Romain Duval (Head), Nina Biljanovska, Carlo Pizzinelli, Ippei Shibata and Younghun Shim (all EUR). Xiana Mendez (Executive Director), Diego Molerés and Irune Solera Lopez (Advisors to the Executive Director) attended the meetings. Ashwini Arulrajhan, Miguel De Asis (all EUR) and Ha Nguyen (ICD) supported the mission from headquarters. The mission met with Secretary of State Israel Arroyo Martínez, Banco de España Governor José Luis Escrivá, and other senior officials. The mission also met with representatives of the financial sector, labor organizations, think tanks, and political parties.

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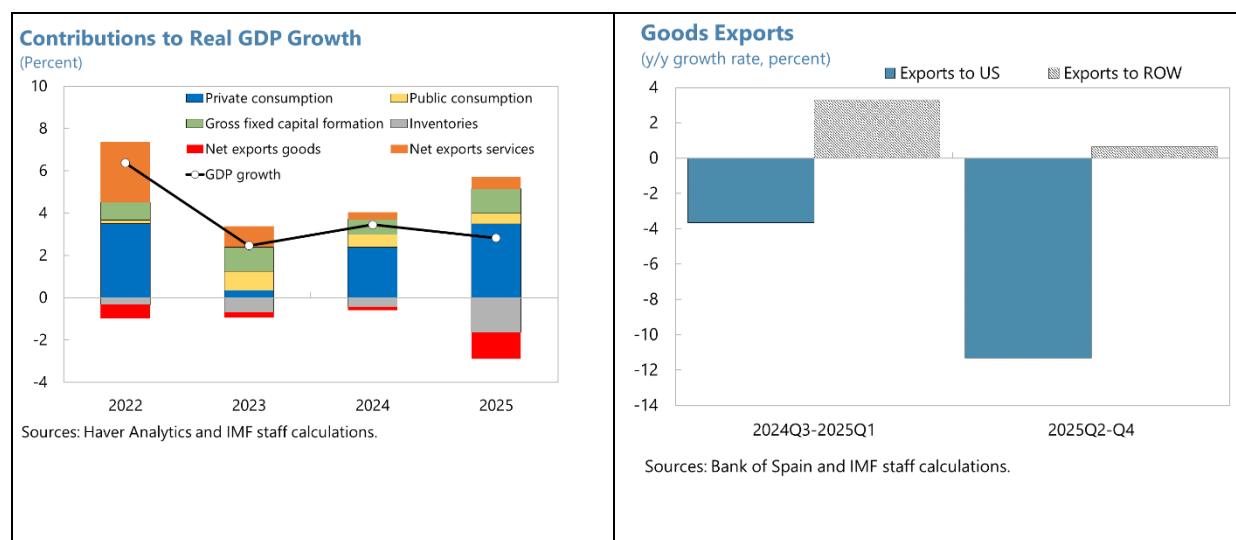
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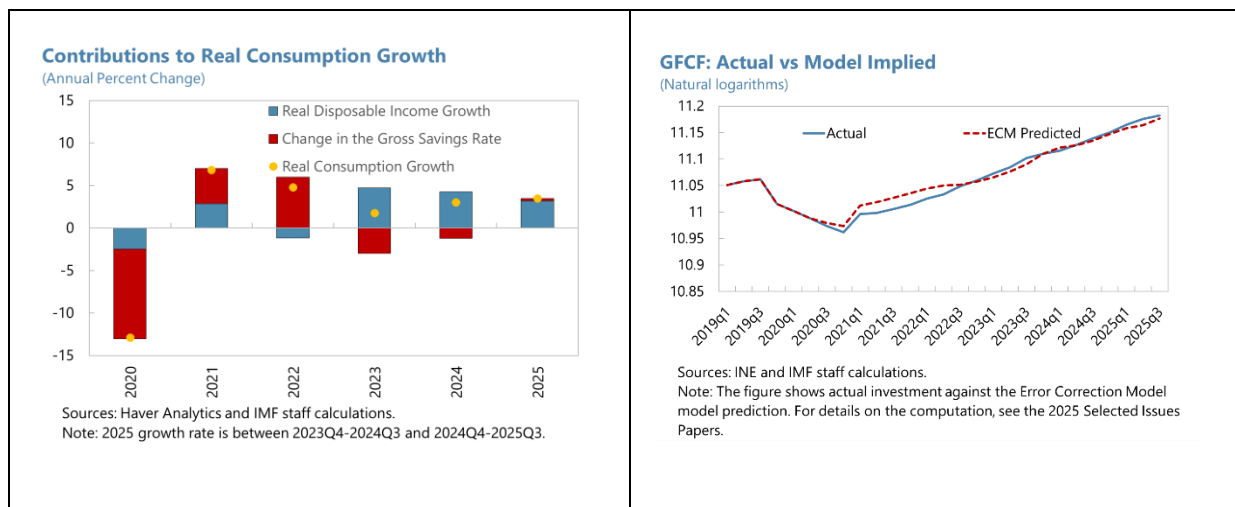
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RECENT DEVELOPMENTS

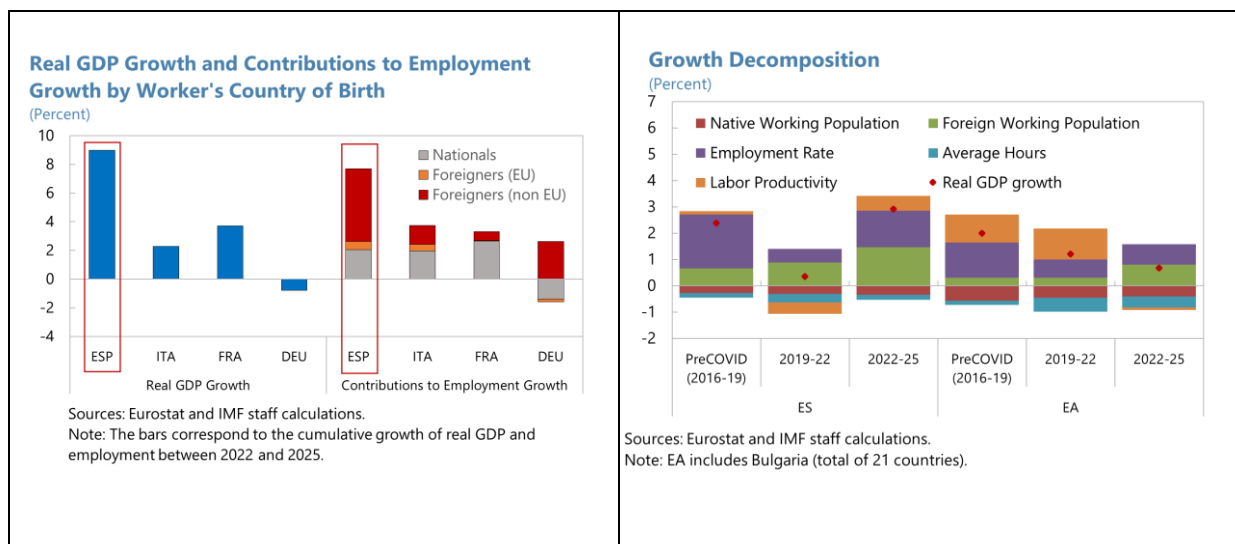
The Spanish economy has continued to grow strongly and outpace its euro area peers, with accelerating domestic demand offsetting subdued export growth before the war in the Middle East. Inflation spiked to well over 3 percent on higher energy prices following the war, while core inflation remained sticky. Despite limited discretionary consolidation, public finances have continued to improve reflecting strong growth. Notwithstanding double-digit increases in housing prices, financial sector risks have remained low, with banks well capitalized, liquid, and profitable, and household and corporate balance sheets continuing to strengthen amid rising incomes. The current account surplus has narrowed somewhat from weakening exports and strong import growth on the back of buoyant domestic demand.

1. Spain's economic expansion has remained strong as accelerating domestic demand has offset subdued exports. Growth slowed from 3.5 percent in 2024 to 2.8 percent in 2025, still significantly outpacing the rest of the euro area. The tourism boom has started to normalize—real tourism services export growth fell from 12.4 percent in 2024 to 4.4 percent in 2025—and other exports have remained subdued with lower goods shipments to the US following the tariff hikes, and a stronger euro. This weak external demand was offset by a pickup in investment, both in residential construction to respond to a rising housing shortfall, and in machinery and equipment where, after some weakness in the aftermath of COVID-19, investment is now broadly in line with its economic fundamentals. Furthermore, Next Generation EU (NGEU) funding is now showing up in higher public investment—which has risen by 51.3 percent since 2019 in real terms, vs 8.5 percent for private investment. Consumption also remained strong as solid employment and real wage gains kept fueling real incomes growth.



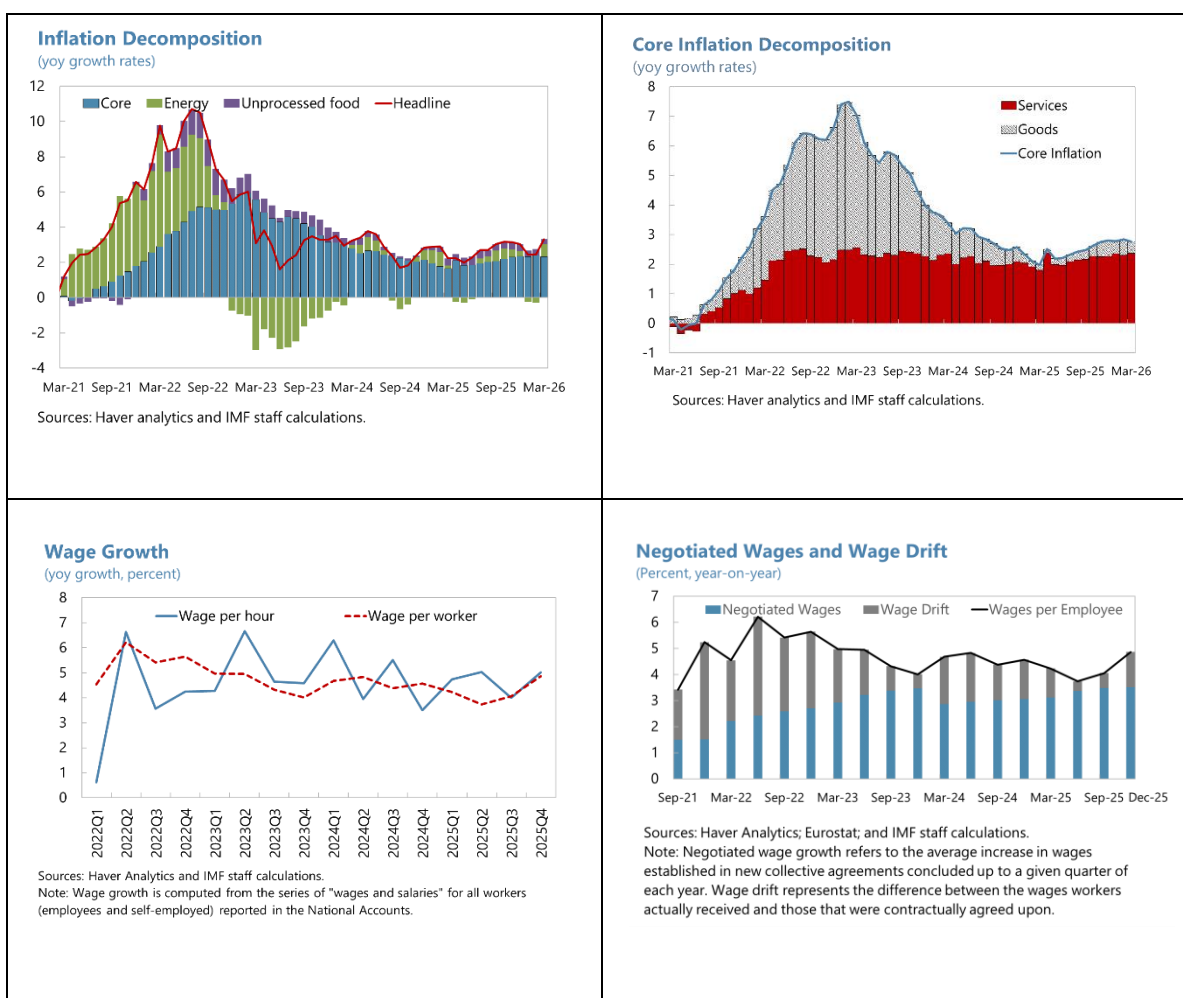


2. On the supply side, recent growth has been fueled by immigration-driven labor force gains, while some pickup in productivity growth has also taken place. While the native working-age population and average hours worked have fallen, as they did in other euro area countries, the resulting drag on employment has been more than offset by comparatively much stronger immigration in Spain. Notwithstanding some recent moderation, immigration contributed around $\frac{3}{4}$ of the cumulative employment gains between 2022 and 2025. Immigrants, almost $\frac{3}{4}$ of whom originated from the rest of Europe and Latin America, have remained attracted by Spain’s comparatively favorable economic situation, widely spoken language, and welcoming immigration policies vis-à-vis most other advanced economies. After falling significantly during the recovery from COVID-19, unemployment now appears to be gradually stabilizing at a structural level of around 10 percent. Another supportive supply-side development has been the recent pickup in hourly labor



productivity growth, although the extent to which it has been structural rather than cyclical remains unclear.¹

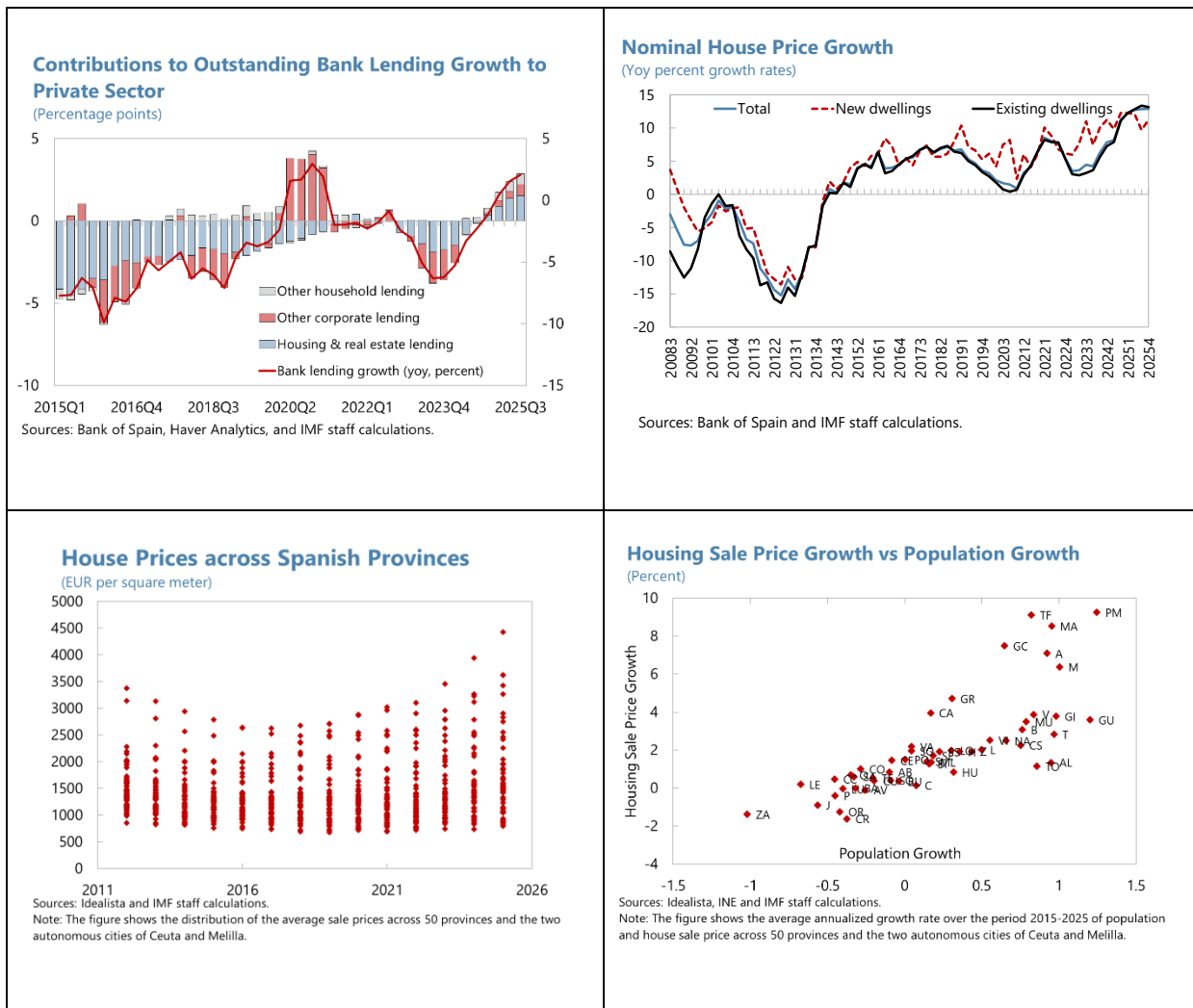
3. The war in the Middle East has derailed the “last mile” of the disinflation journey. After declining to 2.5 percent in February, year-on-year (Harmonized Index of Consumer Prices (HICP)) headline inflation rose sharply to 3.4 percent in March 2026, reflecting the surge in oil prices due to the war in the Middle East. Core inflation has remained broadly stable but sticky—at 2.9 percent in March—as services inflation, which is more sensitive to wages, has slightly picked up. Collectively bargained and actual nominal wage growth per employee have remained steady at around 3.5 and 4.9 percent by end-2025, respectively, amid a tight labor market (high vacancy-to-unemployment ratio and fraction of firms reporting shortages) and workers’ continued efforts to obtain compensation for past inflation.



¹ Spain’s labor productivity, which used to be pro-cyclical in the past, became counter-cyclical in the aftermath of COVID-19 as job retention schemes helped preserve employment while output was falling. This has made it harder to disentangle the cyclical and structural components of productivity. A further open question is whether the sharp fall in hours worked since COVID-19 might partly reflect measurement issues, over and above genuine, well-documented forces such as demographic aging or the rise in sickness leave (which may have contributed 1/4 of the decline). Recent productivity growth has been more subdued when computed on a per-worker rather than per-hour basis.

4. Credit growth has continued to recover, supported by buoyant housing demand that, amid rigid housing supply, has been contributing to double-digit increases in house prices.

Credit to households gained some momentum, driven mainly by strong mortgage lending alongside continued solid consumer credit growth. Mortgage lending has been supported by strong population growth underpinned by net immigration, as well as by lower interest rates. House prices accelerated further to about 13 percent year-on-year, with pressures becoming more broad-based, extending beyond core urban and coastal markets. Credit growth to corporates has also strengthened in construction and real estate-related activity sectors, but it remains moderate overall.

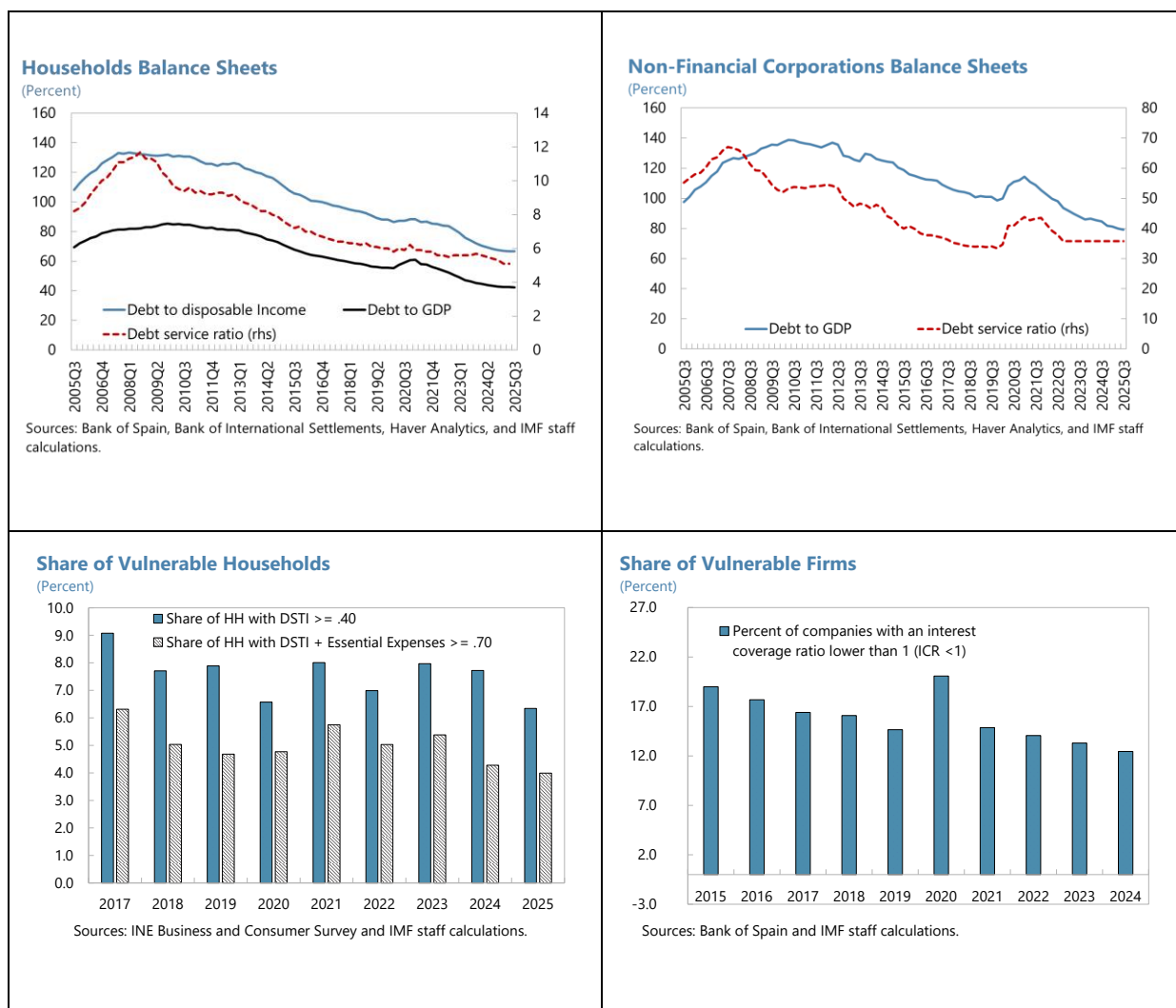


5. Household and corporate balance sheets have strengthened further as income growth and lower interest rates have more than offset the moderate increase in nominal private debt.

The household debt-to-GDP ratio edged down to 43 percent in 2025 and is low in international comparison. The debt-service ratio also declined marginally, as did vulnerabilities among low-

income households, supported by strong employment and income gains, lower interest rates, and the rising prevalence of fixed-rate mortgages. Corporate balance sheets also continued to improve in 2025; the debt-to-GDP ratio declined to 80 percent, debt service ratios were broadly unchanged, and the share of firms with an interest coverage ratio below one continued to decline.

6. The banking system has remained healthy. Profitability has been strong, supported by robust new lending to the private sector, stable net interest margins and sustained non-interest income—as ECB policy rates still exceed levels that prevailed prior to the 2022-23 tightening cycle. Asset quality remains sound, with non-performing loan ratios (NPLs) low and still slightly declining on the back of strengthened household and corporate balance sheets. Capital, leverage, and liquidity coverage ratios have remained comfortably above regulatory thresholds.



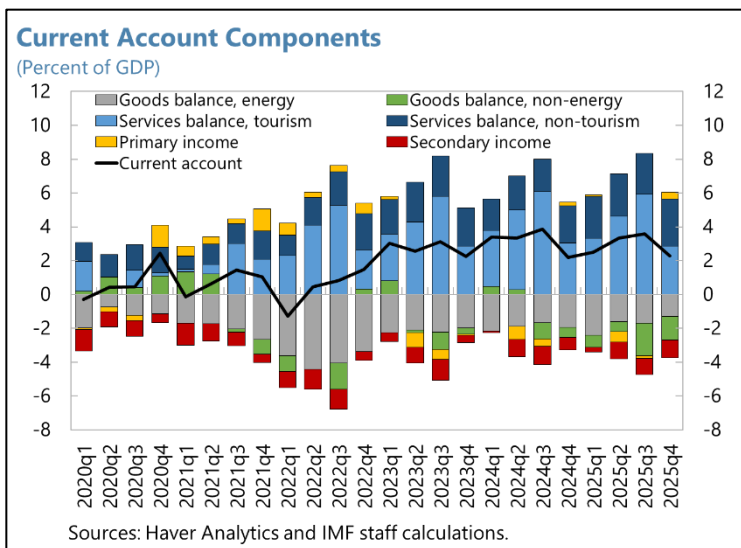
7. Despite limited discretionary consolidation amid a third consecutive budget rollover, public finances have continued to improve, supported by strong employment and economic growth. The overall balance improved to -2.4 percent of GDP from -3.2 in 2024, 0.1 percentage

points stronger than the authorities’ original target. The improvement was partly underpinned by the still strong growth momentum. As a result, the cyclically-adjusted primary balance (CAPB) is estimated to have improved by just about 0.2 percentage points. Excluding NGEU grants, revenues grew from 41.5 percent of GDP in 2024 to 42.1 in 2025, driven by about one-third by value added tax (VAT) revenues and by about two-thirds by direct taxes on firms and households. Besides the dynamic labor market, the non-indexation of tax brackets supported growth in personal income tax (PIT) revenues above that of GDP, by approximately 0.1 percentage points of GDP. In addition, the progressive phasing-in of higher contributions from the 2021-2023 pension reforms increased social security revenues by 0.1 percentage points of GDP. On the expenditure side, although primary spending growth remained elevated at 5.4 percent when excluding NGEU grants, one-offs from court rulings almost halved from their exceptionally high 2024 level to 0.3 percent of GDP in 2025. Expenditures related to the post-DANA reconstruction were also slightly lower at about 0.2 percent of GDP compared to 0.4 in 2024. Following Spain’s national defense plan announcement in April 2025, spending was raised from 1.4 to 2.1 percent of GDP under the NATO definition. However, the impact on the 2025 deficit in national account terms was minimal, as the increase was partly accommodated through reallocation across spending items and some of it involved off-balance-sheet items and capital expenditure projects that will only be implemented and recorded gradually. Thanks to favorable deficit and debt dynamics, Spain’s 10-year government bond yield vis-à-vis Germany fell to its lowest level since COVID-19, contributing to stable interest expenditure.

8. Subdued exports and accelerating imports had started reducing the sizeable current account surplus even before the energy import bill spiked following the war in the Middle East.

The trade balance improved sharply between 2022 and 2024 as energy import prices fell and Spain benefitted disproportionately from the post-COVID-19 shift in global demand towards

services, including tourism. In addition, Spain’s attractiveness for higher-skilled non-tourism services—such as business and ICT services—improved on the back of past cost and non-cost competitiveness gains (see [2024 Selected Issues](#)). Over the past year, external headwinds and a gradual normalization of tourism slowed export growth, while internal tailwinds—most importantly the acceleration of consumption and investment, both of which have a sizeable



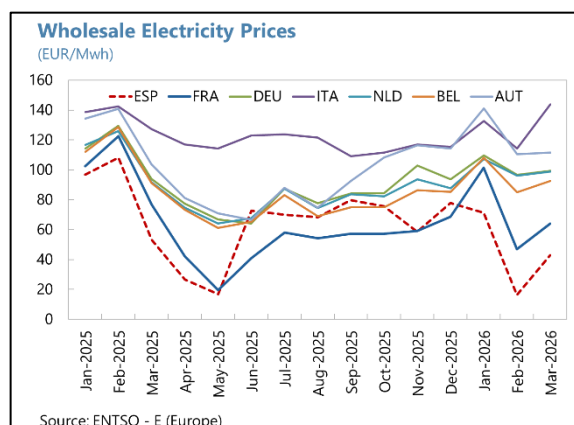
import content—boosted imports. As a result, the non-energy goods and services trade balance shrank from 6.1 to 5.6 percent of GDP between 2024 and 2025, contributing to a decline in the current account surplus from 3.2 to 2.9 percent of GDP. However, the net international investment position decreased from -41.0 percent in 2024 to -44.8 percent of GDP in 2025, as negative

valuation effects offset the current account surplus. The external position in 2025 is preliminarily assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies, with the gap expected to decline over the medium term (Annex I).²

OUTLOOK AND RISKS

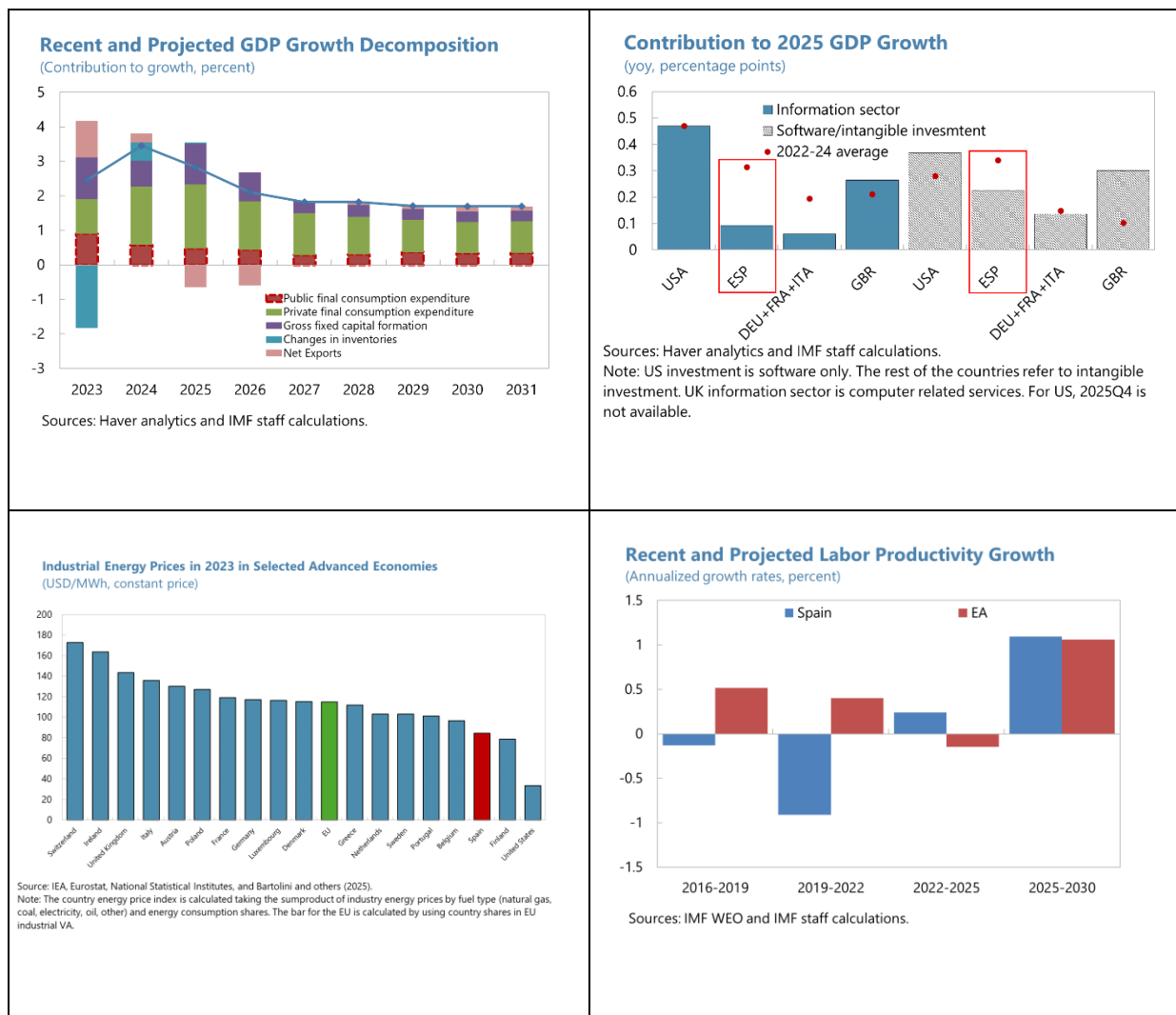
9. Notwithstanding the adverse impact from the war in the Middle East, growth is projected to remain solid in 2026 before slowing gradually as demographic headwinds intensify.

The war is projected to adversely affect the Spanish economy primarily through increased inflation and reduced domestic demand due to higher oil prices, and to a lesser extent through tighter financial conditions. Some mitigating factors should mute some of the other main transmission



channels—potential tourism diversion away from the Middle East and neighboring areas towards Spain, and the limited impact of higher gas prices on wholesale electricity prices due to the growing share of renewables in the electricity mix. Under staff's baseline assumption, underpinned by the spot and future energy prices of mid-March 2026, which imply a temporary shock, GDP growth is projected at about 2.1 percent in 2026 and 1.8 percent in 2027. However, any additional 10 percent increase in oil prices beyond staff's baseline, if sustained for a year, would dampen growth further by some 0.1 to 0.15 percentage points and raise inflation by around 0.3 percentage points. Domestic demand is expected to remain strong and partly offset subdued export growth in the short term. Immigration, a still strong labor market and a normalization of the still high saving rate will support private consumption. Investment will be supported by consumer demand and the final year of NGEU funding and intangible investment growth—which has benefitted from Spain's lower industrial energy prices compared to other large euro area economies. Looking beyond 2026, staff's baseline projection foresees a slowdown towards medium-term potential growth of around 1.7 percent, mostly reflecting a sharp slowdown in labor force growth including from a moderation of net migration (as projected by the National Statistical Institute), partly offset by a continued pickup in underlying productivity growth.

² The assessment is preliminary. The final assessment will be published in the 2026 External Sector Report.



10. The war in the Middle East also exerts inflationary pressures through higher energy prices, delaying the disinflation process. Higher energy prices due to the war will push year-on-year headline inflation to reach 3.0 percent by end-2026 before falling to 2.2 percent in 2027 under staff’s baseline. Though limited, second-round effects on wages from higher headline inflation, partly through collective bargaining, would keep core inflation relatively high at 2.6 percent by end-2026, also keeping high the so-called “wage drift”—the gap between actual and collectively bargained wage growth—amid the tight labor market, before gradually declining to 2.3 by end-2027.

11. The current account surplus is projected to narrow further as strong domestic demand growth continues to support imports, while exports remain subdued. Robust private consumption and investment growth (at 2.4 and 3.4 percent over 2026-27, respectively) are projected to keep fueling imports growth. In addition, higher oil prices following the war are expected to raise the value of oil imports by about 0.4 percentage points of GDP between 2025 and 2026. These forces, together with the continued normalization of tourism and other services exports

following their post-COVID-19 boom, are expected to reduce the current account surplus from 2.9 percent of GDP in 2025 to 1.9 percent in 2027 and 1.5 percent by 2031.

12. The balance of risks is predominantly on the downside (Annex II).

- A lengthy war in the Middle East is the main downside risk. Under the IMF April 2026 WEO's severe scenario, which assumes higher-for-longer oil and gas prices, stronger second-round effects to inflation, and much tighter financial conditions, Spain's GDP would fall by about 0.6 and 0.7 percent below baseline projections in 2026 and 2027, respectively, while the fiscal deficit would be about 0.3 percentage points of GDP larger in each year. Given Spain's high public debt and structural spending pressures, broad-based discretionary fiscal stimulus would not be warranted under such scenario. Instead, automatic stabilizers should be allowed to operate—around the structural tightening path proposed by staff—to cushion the downturn, and the current energy support package could be replaced by temporary non-price distortive support measures narrowly targeted to vulnerable households and firms. Other downside external risks include a sharp asset price correction, as well as an intensification of other geopolitical tensions and escalating trade barriers, which could disrupt global and European value chains and weigh on trade, investment, and growth.

Spain: Selected Economic Indicators under Severe Scenario				
	(Percent unless otherwise noted)		(Deviation from baseline in ppt)	
	2026	2027	2026	2027
Real GDP growth	1.5	1.1	-0.6	-0.7
Headline inflation	4.1	4.8	1.1	2.5
Overall fiscal balance (percent of GDP)	-2.5	-2.5	-0.3	-0.3
Government debt (percent of GDP)	99.5	98.1	0.9	1.6

Sources: IMF World Economic Outlook; and IMF staff calculations.

Note: The severe scenario is estimated using the IMF G20 model, following the methodology of the April 2026 World Economic Outlook.

- Domestic political fragmentation could undermine the authorities' ability to deliver on their fiscal consolidation commitments and amplify the impact of adverse external shocks. Fragmentation intensified over the past year, derailing the government's legislative plans in multiple areas—including tax reforms, the working week reduction, and measures to boost housing supply—and forcing a third consecutive budget rollover. This raises questions regarding the government's ability to deliver the sizeable cumulative discretionary consolidation embedded in its medium-term fiscal structural plan (MTFSP), and to implement decisive action to reassure markets in the event of financial stress—such as from heightened sovereign debt concerns in other euro area economies—that could spill over to Spain. A smaller, but partly related downside risk is that of a slower-than-expected rollout of NGEU projects.

- On the upside, while the baseline assumes a continued slowdown in tourism growth, greater diversification and reduced seasonality could keep the sector's growth higher for longer. Consumption could decelerate less than projected if households cut their saving rates more aggressively towards pre-COVID-19 levels. Likewise, while migration inflows have started to decline, Spain's pro-immigration policy compared to advanced economy peers could keep net inflows above the national statistical institute's medium-term projections that underpin staff's baseline; for example, if immigration stabilized around its estimated 2025 level, potential growth by 2030 could be about 0.1 percentage point higher than projected. Over the medium term, recent announcements of multiyear data hub projects by multiple companies could be the harbinger of further new investments. Accelerated adoption of artificial intelligence (AI) could also result in faster-than-projected labor productivity growth, possibly of some 0.1 to 0.2 percentage points per year based on recent IMF staff estimates.³

Authorities' Views

13. The authorities broadly agreed with staff's projections and characterization of risks, while also highlighting the presence of domestic upside risks. They shared staff's estimates of the qualitative impacts of higher oil prices and stressed the dampening impact of renewables on the passthrough from gas prices to electricity prices. Should the conflict persist, the Bank of Spain (BdE) sees risks of larger second-round effects on wages through collective bargaining. While agreeing on external downside risks, the authorities stressed that there are also some potential upsides to the macroeconomic scenario and noted that the domestic political situation is complicating the adoption of fiscal policy measures. They also stressed that immigration could remain significantly stronger than projected given the attractiveness of Spain's economy and integration policies. The BdE broadly concurred with staff's external sector assessment but noted that the current account norm may need to be reassessed given a structural shift in global demand towards services (e.g. tourism) that benefits Spain.

POLICY AND DISCUSSIONS

Policy priorities include pre-empting future risks and strengthening the sustainability of the ongoing expansion. Fiscal space should be rebuilt at a faster pace while addressing unfunded aging-related liabilities and potential moral hazard in regional financing. Further strengthening the macroprudential toolkit—including by introducing borrower-based measures (BBMs) for mortgage lending to households, at least in the form of supervisory guidance initially, and shifting to mandatory limits if lending standards ease materially and house prices fail to slow down—would keep burgeoning financial risks at bay. Boosting housing supply would not only address the root cause of Spain's affordability crisis but also sustain economic growth by facilitating internal labor mobility and continued immigration. Renewed efforts to activate the non-employed would extend the ongoing

³ See [Misch and others \(2025\)](#).

employment and output expansion. The key to a durable improvement in living standards lies in stronger productivity growth, including through enhancing the innovation ecosystem.

A. Reducing Fiscal Risks and Rebuilding Fiscal Space for the Next Downturn

14. The government’s projections, which pre-date the war in the Middle East, foresee a drop in the deficit to 2.1 percent of GDP this year, 1.8 percent in 2027, and 1.6 percent in 2028. These targets are in line with the fiscal balance path implied by the net primary spending growth targets set out in the 2024 MTFSP, which envisions a further reduction in the deficit to 0.8 percent of GDP by 2031 although it does not lay out a clear set of measures to achieve this adjustment.⁴ As a 2026 Budget Law was not presented to Congress and no increase in the central government spending limit was approved, the consolidation envisioned to achieve the 2026 target is expected to take place in the context of another rollover of the 2023 Budget Law and to be driven by continued strong revenue growth. Spain remains committed to maintaining defense spending at 2.1 percent of GDP under the NATO definition beyond 2025, although details have yet to be published on the long-term financing strategy for this target. In late March, the authorities also announced measures amounting to 0.3 percent of GDP to counter the rise in energy prices, currently planned to expire at the end of June. The package comprises reduced VAT and excise rates on fuels, electricity, and gas, a suspension of the electricity production tax, larger electricity bill support for low-income households, and direct support to energy-intensive industries.⁵

15. In staff’s baseline current-policies-only (“baseline”) projection, the deficit will decline significantly less than the authorities’ target in 2026 and beyond. The deficit is expected to fall to 2.3 percent of GDP for 2026 and 2027 and, absent additional measures, to stabilize at 2.1 percent by 2030. Revenues as a share of GDP are set to gradually rise thanks to higher effective PIT rates due to the non-indexation of income brackets (approximately 0.1 percent of GDP per year), higher social security contributions from the ongoing phasing-in of the 2021-2023 pension reforms (approximately 0.7 percent of GDP overall over 2025-2031), revenue gains from the planned large-scale regularization of undocumented migrants, and the temporary tax on banks (about 0.1 percent until 2027). VAT revenues are also projected to remain stable as a share of GDP, as staff estimate that the above-expectations 2025 revenue performance was largely structural—reflecting the impact of net migration inflows, in particular—and revenues will continue to be supported by the gradual decline in the household saving rate. In 2026 the temporary tax cuts to counter high energy prices will lower tax collection by approximately 0.2 percent of GDP. Staff’s projection also implies that net spending growth would remain above the authorities’ MTFSP commitments running until 2028. Public expenditure is expected to grow at approximately the same rate as nominal GDP in the

⁴Although Congress is yet to approve the government’s tri-annual fiscal path for 2026-2028, which was announced in November 2025, the prospective deficit targets for 2026 and 2027 are unchanged from those approved by Parliament in 2024 for the period 2025-2027, including their breakdown across levels of government.

⁵ While these tax reductions are subsidies that lower energy prices faced by end users, they do not affect end-year inflation and have a negligible impact on average-year inflation for 2026 due to their temporary nature.

medium term, driven by pensions' indexation to past inflation, defense investments, and a higher public debt service burden. Additionally, energy support measures will add 0.1 percent of GDP in subsidies and transfers in 2026, while a rise in public sector salaries of 4.5-5 percent—based on a multi-year wage contract—is expected to permanently add approximately 0.2 percent of GDP to expenditure from 2027 onwards. Spain's 2.1 percent of GDP defense spending commitment, up from its 2024 value of 1.4 percent, is expected to have a gradual and only partial impact on the deficit, as about half of the spending rise—primarily gross fixed capital formation—is expected to be offset by lower non-defense capital spending.⁶

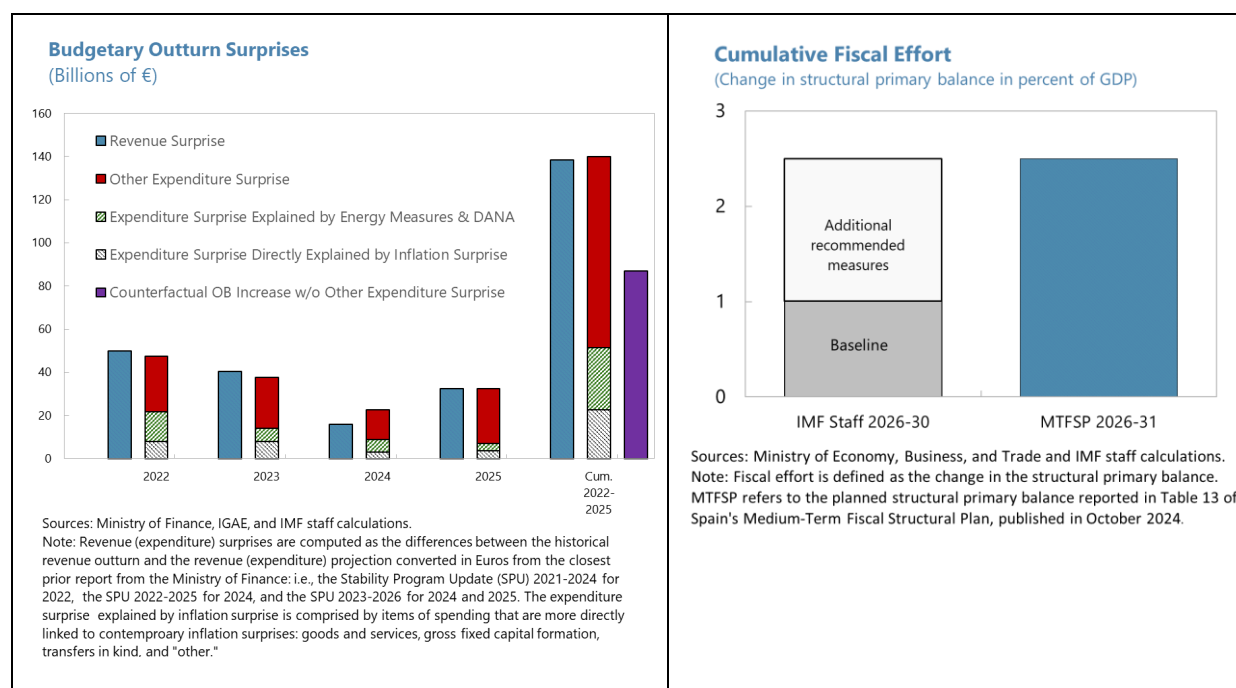
16. Although Spain's overall risk of sovereign stress is assessed as moderate (Annex III), the baseline debt trajectory is sensitive to shocks, with protractedly limited fiscal space and significant risks in the long run unless measures are taken. With a projected public debt-to-GDP ratio of 90.7 percent by 2031, debt dynamics and gross financing needs (13.8 percent of GDP by 2031) will remain uncomfortably sensitive to growth, financing, and fiscal surprises—a finding corroborated by both debt sustainability and debt-at-risk analyses (updating the estimates of the [October 2024 Fiscal Monitor](#)). Accordingly, staff also assess fiscal space to be limited and “at risk” under the baseline as well as under the EU economic governance framework, constraining the government's ability to respond to shocks. Starting from the early-2030s, Spain will then face one of the largest projected increases in public pensions, health, and long-term care spending among advanced EU economies, of 4.5 to 5.1 percent of GDP between 2025 and 2050 according to AIREF's latest projections and the 2024 EU Ageing Report, respectively.⁷ Reflecting these pressures, long-term debt risk is assessed to be high, and addressing this risk will require significantly larger additional fiscal adjustment in Spain compared to the average euro area country in the future.

17. Rebuilding Spain's limited fiscal space calls for more decisive and frontloaded discretionary consolidation and allocating any new positive revenue surprises to debt reduction. The MTFSP's net primary expenditure growth path implies a cumulative improvement in the CAPB of 2.5 percentage points of GDP by 2031 relative to its 2025 value. Staff view the overall size of this adjustment as appropriate, as it would create fiscal space to respond to future downturns and set debt on a steeper downward path than under the baseline ahead of the sharp build-up in aging-related spending pressures during the 2030s. Nevertheless, staff see scope for completing the consolidation by 2030 rather than 2031, implying a yearly adjustment of 0.5 percentage points in 2026-2030. This recommendation factors in the positive output gap—which reduces the adverse effect of consolidation on growth—and the expected impulse provided by outstanding NGEU-financed spending for at least one year after the official program deadline, as funding to final beneficiaries is channeled to investments. Such adjustment would also be in line with the

⁶ This is also due to differences in the timing and recording of expenditures between the NATO definition, under which the commitment of 2.1 percent of GDP is expressed, and the national accounts terms in which the fiscal deficit is reported.

⁷ Future defense and climate-related spending pressures are likely to be milder than those from aging. Staff's baseline projection already incorporates permanently higher defense spending. As for net public expenditures on green investments, recent [IMF work](#) suggests they could ultimately be small provided a material portion of future ETS1 and ETS2 revenues is devoted to fiscal consolidation.

prescription from a buffer-stock model of fiscal policy (Fournier, 2019), which trades the benefit of debt reduction against its near-term output cost. Because the CAPB is projected to rise by only 1 percentage point between 2025 and 2031 under staff's current-policies baseline, additional measures amounting to 1.5 percent of GDP are needed to achieve the recommended consolidation. Moreover, to accomplish such adjustment amid elevated political fragmentation, any future positive revenue surprises should be fully saved, unlike in recent years. Curbing expenditure surprises would also help Spain comply with its MTFSP's expenditure growth targets.⁸ Finally, most of the recently introduced measures to counter the energy crisis, though temporary, do not target vulnerable households and are distortive of price signals. As such, they should be discontinued upon their planned expiration date, barred a severe worsening of energy prices, in which case they could be extended with narrower targeting and without muting prices.⁹



⁸ In April 2026, the government announced its intention to request the activation of the EU's national defense escape clause to accommodate increased defense spending. An activation of the clause would not affect staff's projected spending growth, which is based on unchanged current policies, but it could help Spain comply with yearly and cumulative limits to its net primary spending growth path under the EU fiscal framework.

⁹ Extending the package until the end of 2026 would roughly triple its annual cost to around 1 percent of GDP.

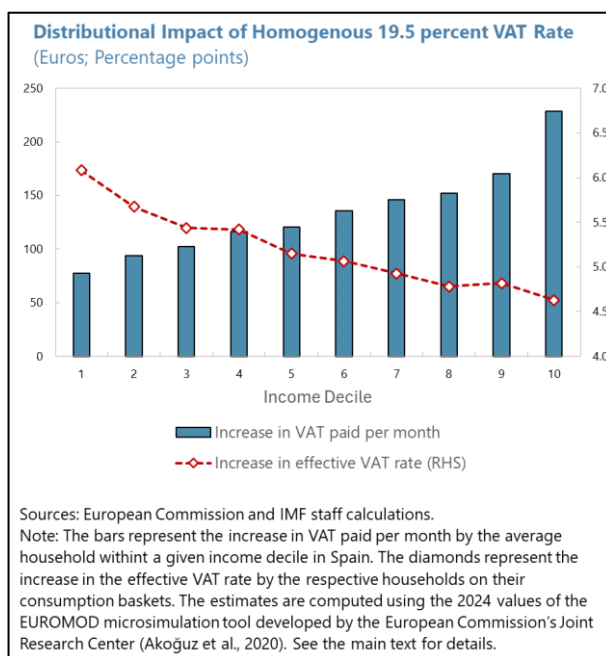
Spain: Fiscal Projections Under Baseline, Staff's Recommended Adjustment, and Authorities' MTFSP
(Percent of GDP)

		Projection							Change
		2025	2026	2027	2028	2029	2030	2031	2025-20231
Overall Balance	Staff Baseline	-2.4	-2.3	-2.3	-2.2	-2.2	-2.1	-2.1	0.3
	Recommended	-2.4	-2.0	-1.7	-1.4	-1.0	-0.6	-0.4	2.0
	MTFSP 2024	-2.5	-2.1	-1.8	-1.6	-1.5	-1.2	-0.8	1.7
Debt	Staff Baseline	100.7	98.6	96.6	94.6	93.4	92.1	90.7	-9.9
	Recommended	100.7	98.3	95.9	93.1	90.9	88.1	85.0	-15.7
	MTFSP 2024	101.4	100.1	98.4	96.6	94.8	92.8	90.6	-10.8

Sources: Ministry of Finance and IMF staff calculations.

18. Raising indirect taxes alongside direct support to lower-income households could jumpstart this effort without undermining economic growth.

As highlighted in the [2024](#) and [2025 IMF Article IV consultations](#), given Spain's relatively high tax burden on labor through the PIT and social security contributions, a growth-friendly consolidation strategy should focus on increasing the efficiency of indirect taxation.¹⁰ Moreover, reduced VAT rates do not constitute an efficient means of income redistribution. Removing the reduced rates from the normal VAT on a wide range of products (e.g. for hotels and restaurants, vacation rentals, health, and education and fuel taxation), together with equalizing the diesel excise tax to that of gasoline, could deliver about 2 percent of GDP in new revenues. Model simulations suggest that, spread over three years and combined with compensating transfers for lower-income households of 0.4 percent of GDP, such revenue-raising strategy could achieve staff's recommended overall consolidation path for 2026-28 while offsetting the regressive impact of higher indirect taxation on lower-income households. Given the positive output gap and the large positive multiplier from the transfers to low-income households, such

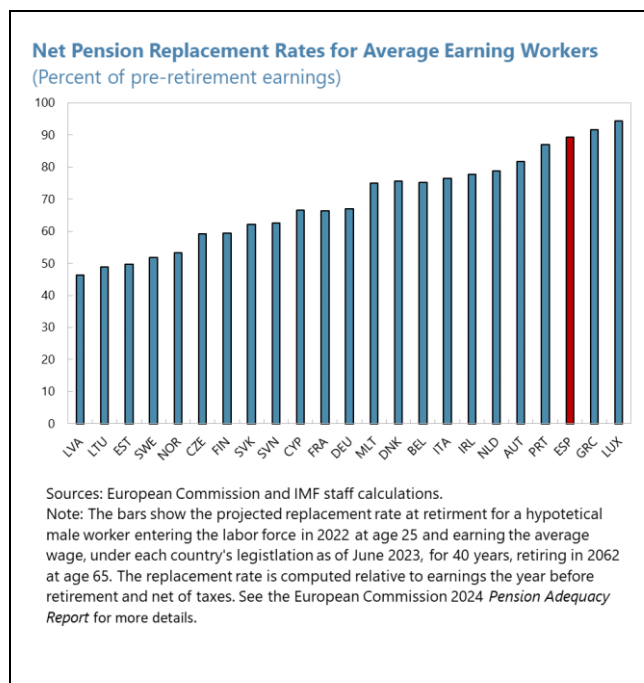


¹⁰ For reasons explained in the [2025 Article IV Consultation for Spain](#), raising specific distortive taxes on banks should also be avoided; the bank tax introduced in 2025 should remain a temporary measure and be discontinued after its 3-year duration.

consolidation strategy would entail a modest GDP growth cost of just about 0.1 percentage point for two years.¹¹

19. Gradual public expenditures moderation, including through pension reform and broader spending efficiency gains, will also be required.

Although the outcome of AIReF's forthcoming June 2026 review of the pension system's safeguard clause is yet to be known, new employment-friendly measures—including alternatives to raising social security contribution rates—will eventually be needed to address the sharp future rise in pension expenditures.¹² Given Spain's high net replacement rates in international comparison, a straightforward option would be to lengthen the number of years of workers' contributory history used in pension benefit calculation to better align it with their average career earnings, as in most other advanced economies. In any event, public debate is needed, informed by transparent communication including on



central government transfers to the social security administration, which have more than doubled since 2019, reaching approximately 3 percent of GDP in 2025.¹³ The safeguard clause itself should be rethought to facilitate this debate; rather than relying on an ultimately arbitrary net spending threshold and fostering discussions and disagreements on what constitutes revenues of the pension system, it should instead be based on a clear sustainability criterion rooted in the projected gap

¹¹ The model calibration of the revenue impact and the cost of compensating lower-income households were carried out using the online version of the EUROMOD microsimulation tool developed by the European Commission's Joint Research Center (see [Akoğuz and others, 2020](#), for details on the methodology). Simulations show that harmonizing VAT rates for all products at 19.5 percent—that is, 1.5 percentage points below the current statutory rate—and equalizing the diesel and gasoline excise tax would increase revenues by 2 percent of GDP in 2024 (assuming household's consumption shares of each product remain constant). Moreover, fully compensating the bottom three income deciles for the increase in spending incurred would cost less than 0.4 percent of GDP. These values are then used as inputs in the IMF's Global Integrated Monetary and Fiscal Model (GIMF) to simulate the dynamic response to the reform, phased in over three years. For Spain, the model calibrates the share of "hand-to-mouth" low-income households to 25 percent of the population.

¹² AIReF projects that spending pressures will result in a rise in the system's deficit of about 2.6 percent of GDP over 2025-2050. Specifically, in Box 2 of [Informe 2/25](#), AIReF estimates that "implicit transfers" from the central government or other funds of the social security system, not directed to specific contributory or non-contributory pension programs—which can be interpreted as the overall financing shortfall of the pension system—will rise from 0.5 percent of GDP in 2025 to 3.1 percent in 2050.

¹³ This sum also includes smaller transfers related to non-contributory elements of the pension system related to explicit decisions to expand social safety nets, such as the Minimum Vital Income, for example.

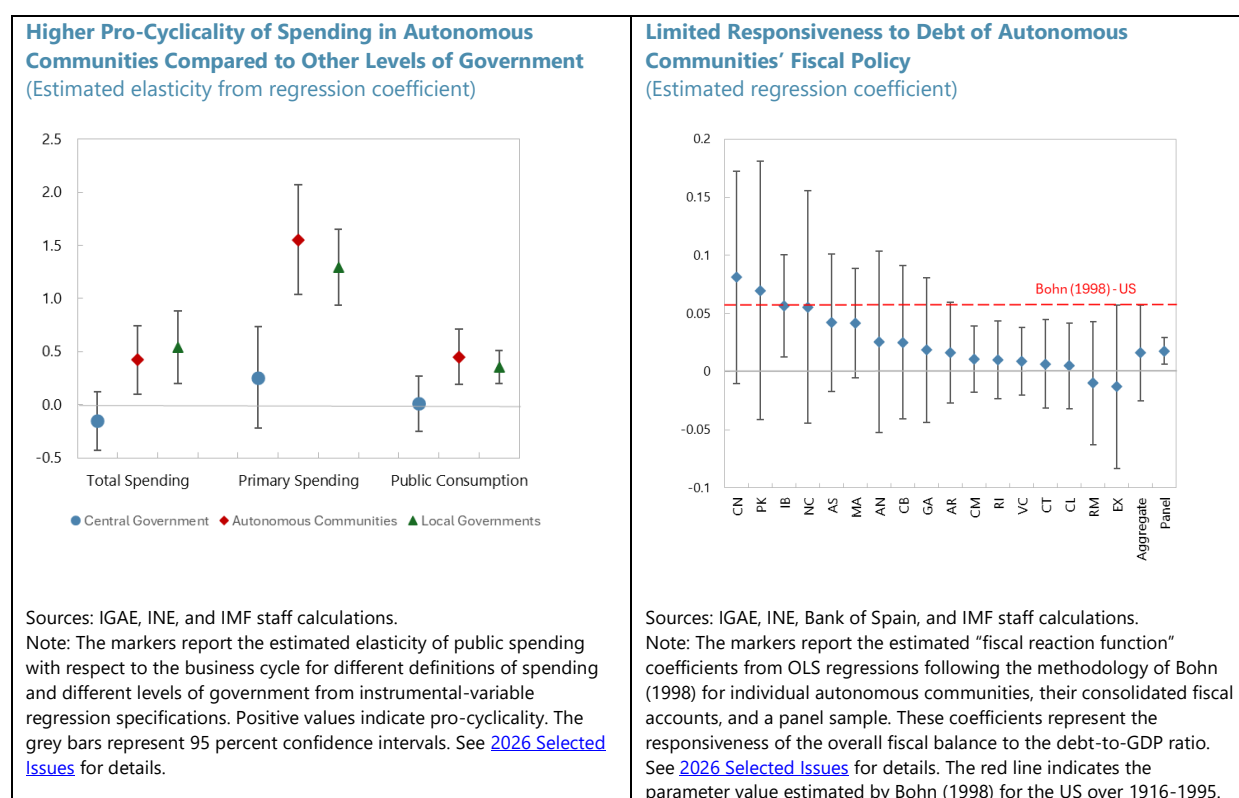
between the system's direct revenues and expenditures.¹⁴ With respect to public expenditure more broadly, there is scope to improve its efficiency—including social spending, which has grown by about 1.5 percentage points of GDP since COVID-19. As highlighted in the [2025 Article IV Consultation](#), the Ministry of Finance's Spending Review Monitoring Unit could play a more strategic role in identifying review areas aligned with the Government's policy priorities and set quantitative savings targets. Meanwhile, the reviews conducted by AReF—the independent fiscal council—could have a more comprehensive scope, and the entity could be granted greater autonomy in selecting the topics.

20. To underpin the consolidation strategy, the MTFSP should be expanded in scope and detail. To constitute a fully-fledged medium-term framework, the MTFSP and the Annual Progress Report (APR) should include five-year-ahead projections not just of the overall and primary balance but also of revenues and expenditures and their main components. Moreover, the envisaged consolidation strategy should be grounded in well-identified, even if broad, tax increase and spending reduction priorities. The formulation of fiscal policy could also be strengthened by bolstering AReF's role, following recommendations 1.1-1.3 of the 2024 external evaluation sponsored by the European Commission. Going beyond the minimum requirements of the EU directives and regulations governing the EU fiscal framework, AReF should play a more substantial role in the preparation of the MTFSP, through formal technical engagement and data sharing by the authorities when preparing Annual Progress Reports and future MTFSPs. Moreover, AReF should be asked to opine on the MTFSP *prior* to submission. Active involvement in key steps of the medium-term fiscal framework should be one of AReF's top priorities, taking precedence over other tasks such as commissioned studies on selected topics with more limited fiscal impact. Fulfilling these enhanced functions will require that AReF remain fully independent and well-resourced, in line with recommendations 4.1-4.4 of the European Commission evaluation.

21. Strengthening the medium-term orientation and credibility of fiscal policy also calls for overhauling the subnational fiscal rule to minimize moral hazard, especially with respect to autonomous communities. Although the authorities do not currently plan to revise the fiscal rule, the needed alignment with the new EU framework provides an opportunity to also strengthen the national framework. Rather than enhancing fiscal discipline and policy predictability, the multiplicity of autonomous communities' fiscal targets set out by Organic Law 2/2012—on the deficit, primary spending growth, and debt-to-GDP ratio—has created complexity and inconsistencies, weakening enforcement. Although compliance has improved in the last decade, over the long term the framework has not delivered on two key goals of subnational fiscal rules: stabilizing debt and avoiding pro-cyclical fiscal policy (see [2026 Selected Issues](#)). Consequently, the debt of autonomous communities has not declined significantly since its sharp rise after the Global Financial Crisis (GFC). At approximately 20 percent of GDP, of which more than half was issued through central government-sponsored lending instruments, it remains well above the official debt target of 13 percent. Enhancing the rule's consistency with the EU fiscal framework—starting with

¹⁴ The safeguard clause establishes that average projected pension expenditures net of additional revenue measures over 2022-2050 should not exceed 13.3 percent of GDP. Should the 2026 review trigger the safeguard clause, Congress would be mandated to implement corrective actions within a year.

aligning the national definition of net primary spending growth with that of the EU rule—could help address these shortcomings and facilitate the overall conduct of Spain’s fiscal policy and compliance with its MTFSP targets.¹⁵ A viable solution would be a rule centered on expenditure growth that ensures debt sustainability for individual regions, either through region-specific spending growth limits or through a common one with tighter adjustment requirements for high-debt regions whose debt is above a certain threshold—such as the 13 percent of GDP limit envisioned in the current debt rule. To further reduce risks of procyclical spending cuts by the regions, the central government should ensure that its transfers are not cut during downturns (see [2026 Selected Issues](#)). The rule should also entail a clear and applicable corrective arm in the event of non-compliance, enforced by the Ministry of Finance. Finally, beyond regional governments, a spending growth target for the Social Security Administration is needed to further ensure compatibility between domestic fiscal targets and the aggregate net expenditure growth path of the EU framework.



22. Returning to market-based debt issuance as the primary means of financing for autonomous communities would provide further incentives for fiscal discipline. Since 2012, central government-sponsored financing instruments have crucially supported communities whose access to debt markets was impaired after the GFC. However, this availability of financing at discounted interest rates has contributed to several communities not taking steps to reduce their

¹⁵ As noted by [AIReF \(2025\)](#), the differing definitions of spending growth and the criteria for setting their yearly limits in Organic Law 2/2012 and in the new EU economic governance framework could undermine policy predictability at both national and subnational levels, as the two rules may lead to substantially different spending growth rates.

total debt levels and return to public markets. The authorities' recent draft law proposes important steps in this direction, namely the preparation of multi-year debt strategies by regions receiving concessional financing in 2026—which would benefit from being made public—and a streamlining of central government-sponsored financing instruments. It will be important for the proposed discontinuation of the *Facilidad Financiera* and repurposing of the *Fondo de Liquidez Autonómico* to turn the latter into a true last-resort lender with stricter eligibility requirements, tight monitoring by the Ministry of Finance, and interest rates that strongly discourage borrowing outside of emergency situations. The draft law also contemplates a partial acquisition of regions' outstanding debt by the central government, which would increase their fiscal space by lowering interest expenditure. Taken as a one-off action, this measure could help restore access to markets provided that moral hazard is limited by making it conditional on participating regions committing to credible consolidation plans, ideally in the context of the revamped subnational fiscal rule sketched above.

23. The authorities' plan to revise the system of regional governments' revenues and transfers would provide helpful additional resources to autonomous communities, but the implied loss in central government fiscal space would have to be addressed. The proposed reform of the "common regime" through which most autonomous communities share revenues and receive transfers from the central government would expand their funding envelope by approximately 1.1 percent of GDP. These additional resources would assuage the underfunding of some communities and further equip all of them to tackle growing aging-related spending pressures in health and social care. At the same time, this funding increase would imply a commensurate reduction in the central government's resources, thus limiting its fiscal space. Therefore, such reform should be phased in only gradually to give the central government time to offset the revenue loss through increased taxes or expenditure cuts, and allow regions to spend the extra resources efficiently on high-priority areas.

24. Near-term fiscal policy should adjust as needed to an abrupt change in economic and financial conditions. Even if energy prices remained moderately higher than assumed in staff's baseline for a while, fiscal consolidation should stay the course, which requires offsetting the adverse impact on the 2026 deficit of the recent energy support measures. However, in the event of a major adverse shock, such as a larger and more persistent rise in energy prices combined with a sharp global financial market correction as contemplated in the April 2026 WEO's severe scenario, the government could introduce a revised support package to replace the current measures, provided it be narrowly targeted to vulnerable households and firms and let higher energy prices fully pass through to users. By contrast, should a reassessment of debt sustainability prospects for other euro area economies sharply raise long-term bond yields with spillovers to Spain, new consolidation measures should be put forward to assuage market concerns, prioritizing entitlement (e.g., pensions) reforms that would improve medium-term fiscal prospects without weighing on short-term aggregate demand.

Authorities' Views

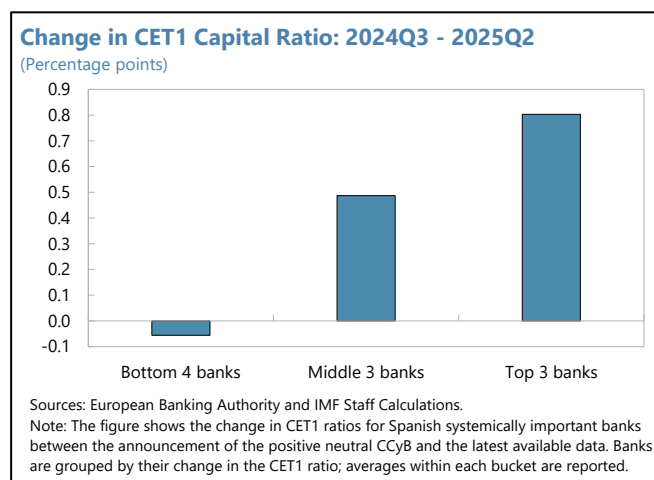
25. The authorities reiterated their strong commitment to the fiscal targets set out in the MTFSP. They view most of the rise in revenues as structural rather than cyclical. Consequently, they remain sanguine that Spain's NATO defense expenditure target, as well as the recent response to the energy crisis, can be accommodated while achieving the deficit path of the MTFSP. Notwithstanding the observed resilience of Spain's economy, the authorities did not see a need for faster fiscal adjustment in the current global economic context. They agreed that their response to the energy price shock should remain temporary and be re-reassessed as prices evolve—as spelled out in the March 2026 decrees. On pensions, the authorities expect AIREF's upcoming review to result in an even more favorable assessment than the March 2025 review given the improved long-term economic and demographic picture. Regarding autonomous communities, the authorities are confident that their proposed reforms would strengthen the overall framework. The authorities stated that revising the national fiscal rules is not strictly necessary for compatibility with EU rules and some flexibility and simplicity should be retained in distributing the fiscal effort between the central and regional governments.

B. Pre-Empting Financial Risks

26. Systemic risks remain low, broadly unchanged from the [2025 Article IV](#), and the phasing-in of the one-percent countercyclical capital buffer (CCyB) at intermediate levels of cyclical systemic risk is further strengthening the banking system's resilience. A

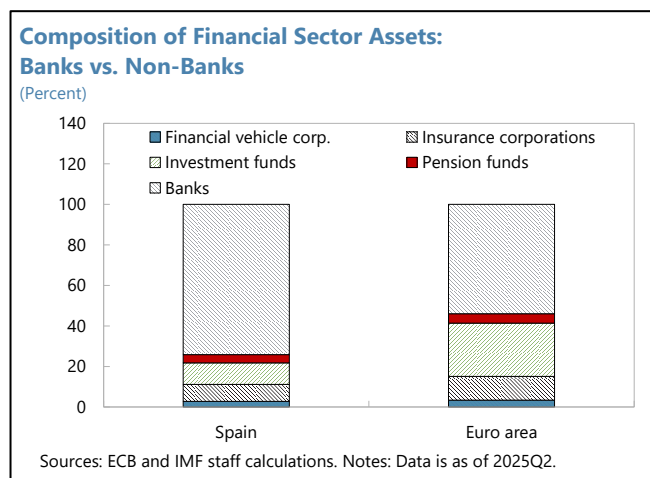
deterioration in the external environment—amid escalating or persisting geopolitical tensions—could tighten financial conditions and put upward pressure on sovereign yields, raising funding costs and weighing on bank balance sheets. Spain, however, enters such scenario from a position of

strength, with the 2025 EBA/ECB stress test confirming the resilience of Spanish banks, in line with the assessment of the [2024 FSAP](#). While it is too early for a full assessment, early evidence suggests that the phasing-in of the 1-percent CCyB requirement for an intermediate position of cyclical systemic risk (in two 0.5 steps in October 2025 and October 2026) is further strengthening banks' resilience and preserving their capacity to support credit in future downturns, without evidence of a material tightening in lending conditions at this stage. There is no indication so far of a drawdown of voluntary capital buffers—indeed CET1 ratios have increased for most systemically important banks, and new private lending has remained strong.



27. External financial risks warrant close monitoring, although they are dampened by the small size and limited interconnectedness of Spain’s non-bank financial institutions (NBFIs). A

sharp global equity or broader financial market correction—particularly one triggered by a US equity sell-off—could spill over to euro area markets, including through European investment funds’ sizable equity exposures ([October 2025 GFSR](#)). However, despite rapid growth driven by investment funds since 2015, Spain’s nonbank financial sector remains about half the size of the euro area’s, accounting for around 26 percent of total financial sector assets and about 88 percent of



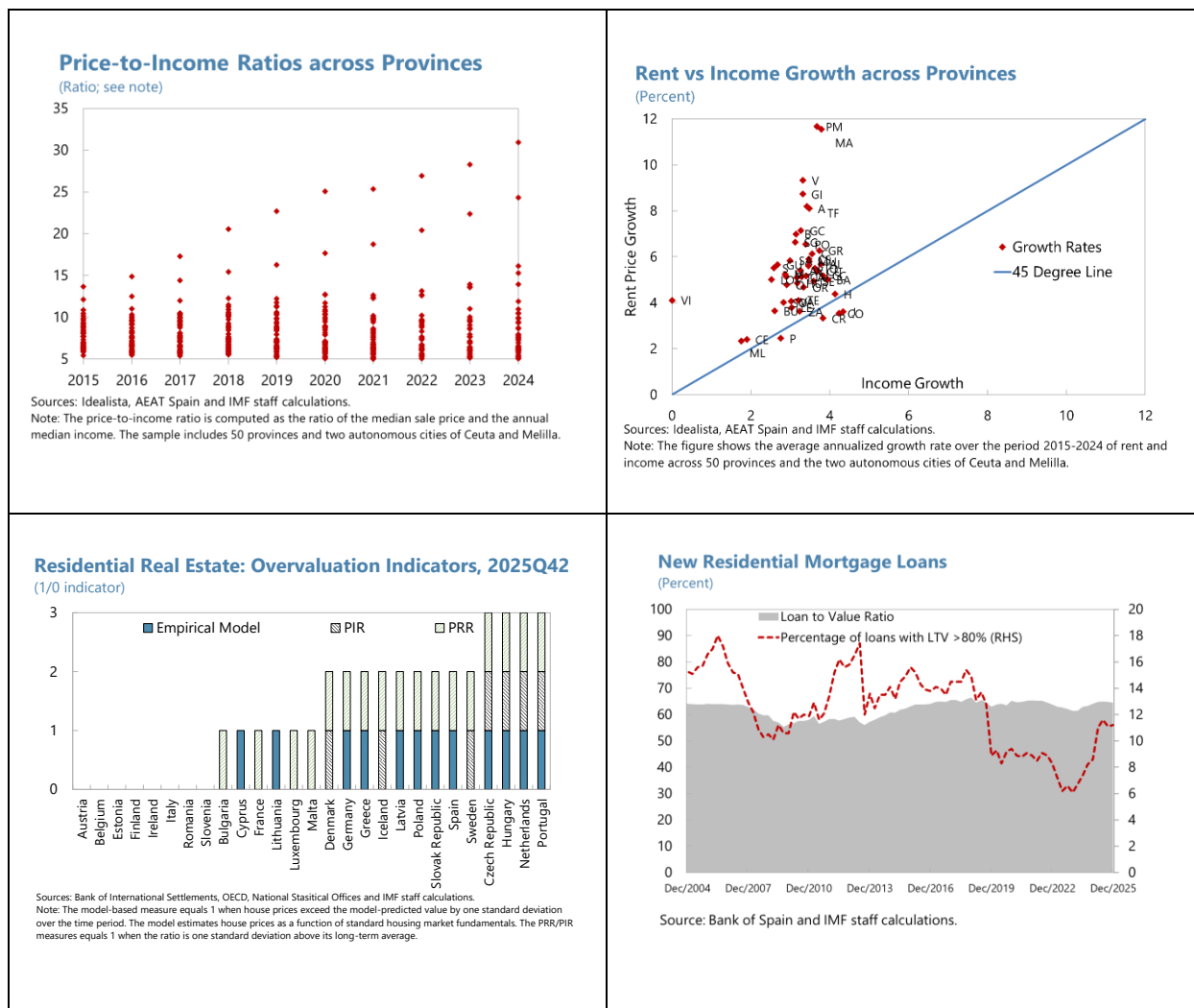
Spain’s GDP. Moreover, the sector is only moderately connected to banks and is generally unleveraged under UCITS rules.¹⁶ Spanish banks and corporates’ holdings of investment fund shares are also lower in comparison to the rest of the euro area. Although an asset-price correction could also propagate through wealth effects on households’ consumption, such impact would likely be limited since investment fund holdings—while on the rise as a share of financial assets—still account for just about 5 percent of households’ total assets. Another potential source of external risk stems from the growing role of price-sensitive investors, including foreign investment funds, and more broadly from the rising share (around 47 percent, compared to 42 in 2022) of non-residents in Spanish government debt holdings. Heightened geopolitical tensions, including an escalation of the war in the Middle East, could trigger a deterioration in global risk sentiment, prompting portfolio reallocations by these investors that would amplify increases in Spanish sovereign yields and valuation losses for the domestic financial sector—given its significant sovereign exposures. These risks are partly mitigated by strong bank profitability and capital generation, the ECB’s backstop framework (through the Transmission Protection Instrument), and currently contained sovereign risk premia in Spain.

28. Rapid house price growth is likely to persist for a while, with the potential to generate financial risks over time. Higher (mostly) immigration-driven demand will continue to meet a

supply that is expected to remain inelastic for some time, including in high-pressure areas. Being driven by these fundamental forces, the price boom has not so far led to major price misalignment, although a mild gap has opened up vis-à-vis various equilibrium price level metrics. The rapid and sustained rise in house prices has also deteriorated housing affordability, most strikingly in areas where house price and/or rent growth has far outpaced households’ income gains. Associated financial stability risks remain limited: household and bank balance sheets are healthy, lending standards remain prudent, and the share of fixed-rate mortgages has increased. Nonetheless,

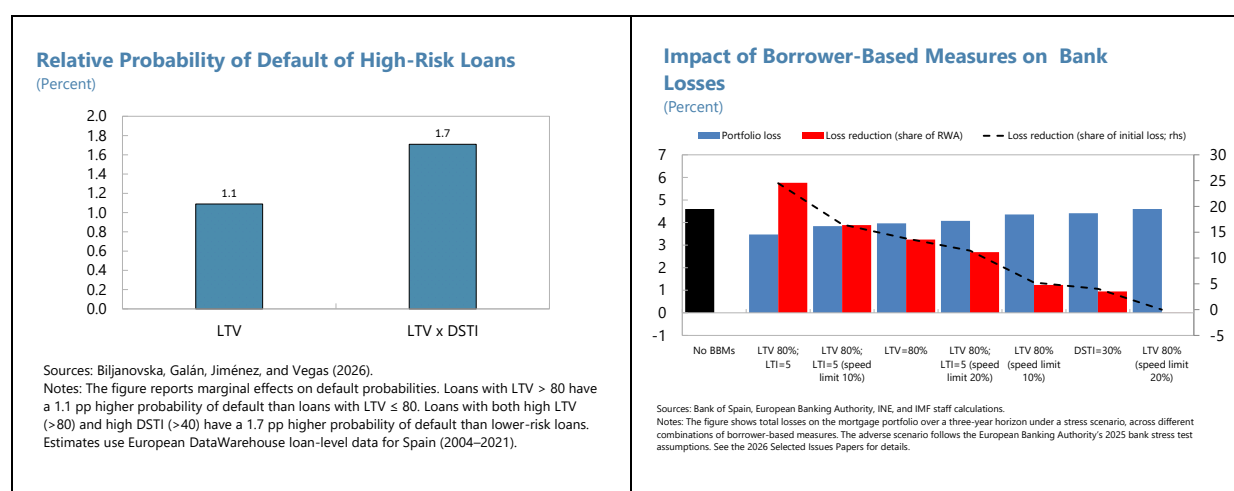
¹⁶ UCITS limits refer to the regulatory constraints applied to Undertakings for Collective Investment in Transferable Securities (UCITS) funds in the EU.

tentative signs that lending standards might begin to ease—such as the recent pickup in the share of new residential mortgages with high loan-to-value ratios—merit close monitoring.



29. Against this backdrop, implementing mortgage-related BBMs could help pre-empt a gradual build-up of housing-related systemic risks while preserving prudent credit growth and access to home-ownership. International experience indicates that BBMs such as loan-to-value (LTV) and debt-service-to-income (DSTI) limits can be effective in curbing riskier lending at origination, especially when introduced early in the credit cycle. Staff analysis using Spanish loan-level data finds that collateral-based measures such as LTV limits are most effective in reducing probabilities of default and can be reinforced by income-based measures such as DSTI (2026 [Selected Issues Paper](#)). Further, by operating *ex ante*, such tools complement capital-based measures, such as the CCyB, that absorb losses *ex post*. Therefore, to pre-empt mortgage-related financial sector risks, staff recommend implementing mortgage-related BBMs in the coming year in Spain—one of the few remaining euro area countries without active BBMs. This could be done through either mandatory limits or supervisory guidance, given that credit growth remains rather

modest, house price pressures are not credit-driven, and lending standards have not deteriorated broadly despite some increase in higher-LTV lending. BBMs could be centered on collateral-based limits (e.g. LTV or loan-to-price (LTP) ratios), with clear communication that they should be viewed as ceilings, and not as targets, to alleviate any risks of relaxation of lending standards. Should supervisory guidance be adopted, it should subsequently be turned into mandatory limits if lending standards were to ease materially—including through sustained increases in high-LTV or LTP lending—and house price growth failed to moderate significantly. Such measures would be most effective and have smaller effects on credit growth if implemented before risks build up. In a severe scenario—particularly one that would involve a significant tightening of financial conditions, activation should instead be postponed to avoid amplifying the slowdown. Likewise, a pause in the implementation of the CCyB would then be appropriate if lending conditions were to tighten materially, to avoid amplifying the contraction of credit supply.



30. Ongoing efforts to implement [2024 FSAP recommendations](#) are welcome and should be completed (Annex VI). To address staffing constraints, the BdE and the National Securities Market Commission (CNMV) are continuing to hire specialized staff (e.g., in cybersecurity). Progress is also underway in strengthening BdE's independence, with an amendment to remove the Ministry of Economy's appeal powers over BdE's supervisory decisions and sanctions. Implementation of other FSAP recommendations remains ongoing, including further integrating preventive and executive bank resolution functions, and enhancing the statutory resolution framework to strengthen the powers of the Fund for Orderly Bank Restructuring (FROB). However, no actions have been taken to grant CNMV greater autonomy over its hiring process. The BdE has largely completed its national-level preparations to address liquidity needs in resolution for less significant institutions, while progress for significant institutions has been limited. Until the Eurosystem agrees on a common approach, the BdE should establish an approach to addressing liquidity needs in resolution for all banks.

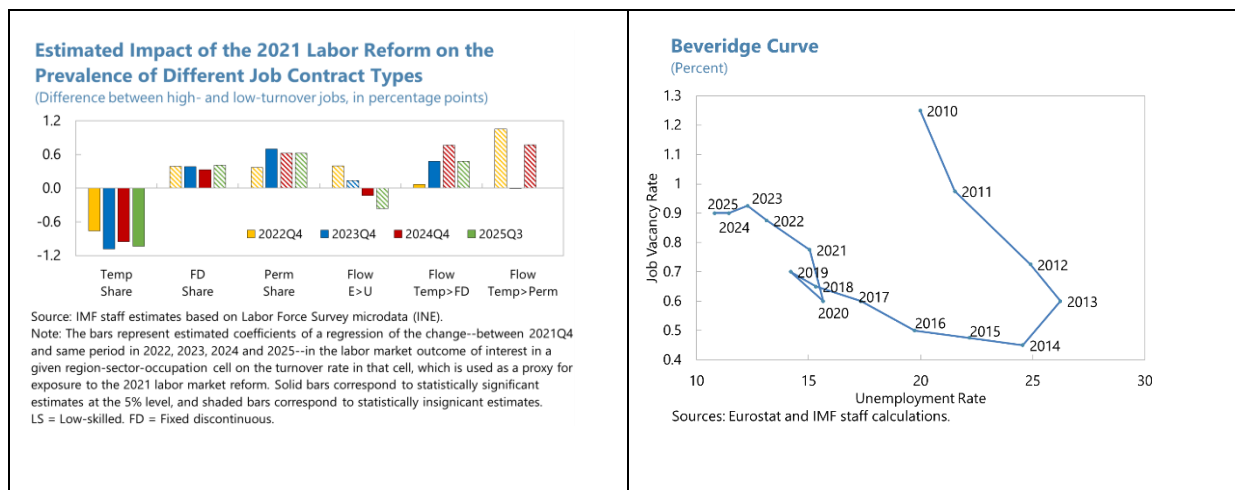
Authorities' Views

31. The authorities broadly agreed that systemic financial sector risks remain low, but they stressed the need to cautiously assess the potential impact of BBMs, especially with regards to their effects on lower-income households. The authorities concurred that household and corporate balance sheets were strong and that the banking sector remained healthy. The ongoing phasing-in of the CCyB was seen as progressing smoothly. The BdE indicated that monitoring of the rising share of foreign investors in Spanish government bond holdings was being strengthened, with particular focus on NBFIs' share of holdings. At the same time, it noted that Spanish banks' exposures to NBFIs remained relatively low compared to those of euro area counterparts. The BdE is also monitoring closely the rapid increase in house prices and the concomitant rise in the share of higher-LTV/LTP lending. While being broadly aligned with staff's views on BBMs, it stressed that more analysis was still needed to get the design and calibration right in case BBMs were eventually implemented. While not opposed to BBMs in principle, the Treasury thought there was no urgency to move forward given strong balance sheets and still modest credit growth, and expressed strong concern that BBMs could further weaken lower-income households' access to housing. The authorities agreed that continued implementation of FSAP recommendations will help further strengthen financial stability, although the BdE considers that liquidity support for banks in resolution should fall under European rather than national arrangements.

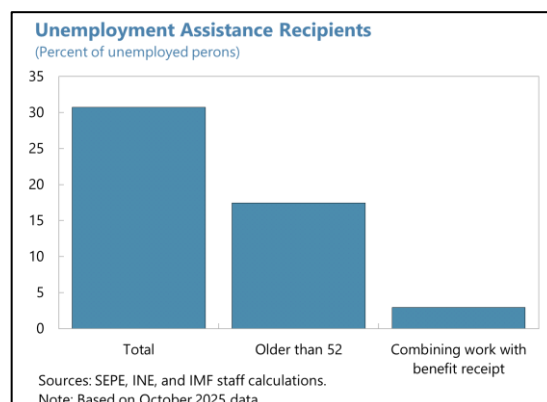
C. Reviving the Reform Agenda to Achieve Key Economic and Social Goals

32. Labor market dualism and structural unemployment have been reduced, but a new effort is needed to decisively improve overall job stability and bring unemployment down to low single digits. An updated staff assessment of the 2021 reform indicates that it durably reduced the temporary employment share and improved overall job stability, albeit modestly since the duration of permanent contracts fell and the employment share of fixed discontinuous contracts—while contained—rose. Structural unemployment likely fell in the past decade, as suggested by various indicators, including a leftward shift in the Beveridge curve and the absence of real wage acceleration despite a sharp continuous fall in unemployment. Even so, the coexistence of about 10 percent unemployment—still one of the highest in the euro area—and signs of labor market tightness casts doubt on whether a further material decline is possible without major new reforms, which are not under consideration. Recent policy focus has been on the working week reduction in the private sector, which failed to pass parliament in September 2025, adjusting severance pay to individual worker circumstances, which would not help create stable jobs for disadvantaged workers, implementing the 2023 Employment Law, which was a welcome first step but with significant room for further progress, and raising the minimum wage level to maintain its purchasing power.¹⁷

¹⁷ The government will still move forward with a reduction to 35 hours of the working week in the public sector.



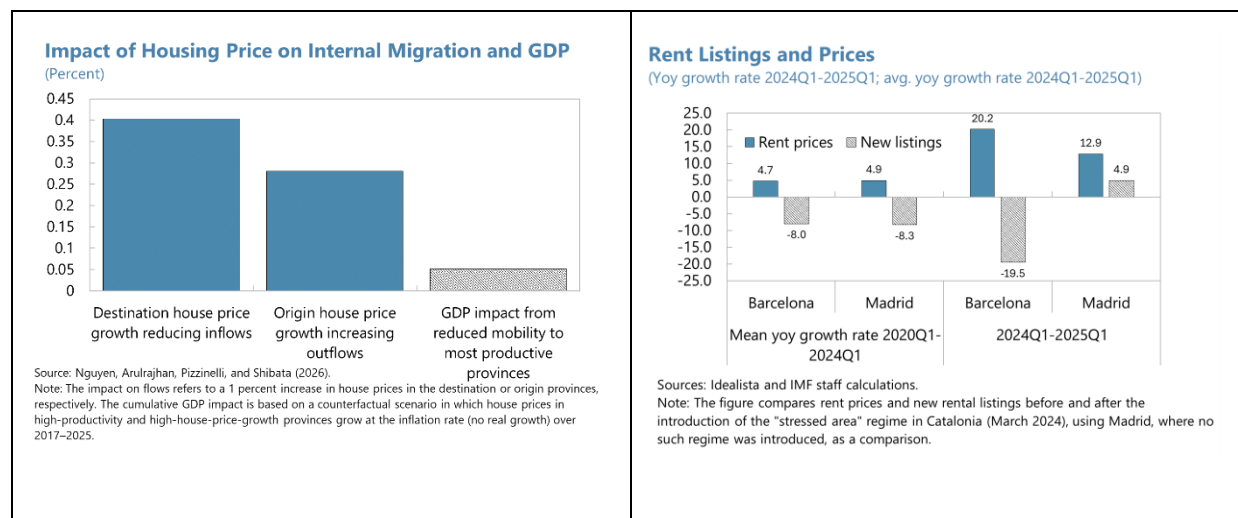
33. The key priorities are to expand recent reforms of employment protection legislation, active labor market policies and benefit systems, as well as to improve minimum wage setting. Raising social security contributions for employers who lay off and recruit workers more frequently (so-called experience rating) could further improve job stability by discouraging excessive layoffs. The implications of the rise in fixed discontinuous contracts in certain sectors such as contracting and sub-contracting should be rigorously evaluated, which requires more granular and timely data on time use during inactivity periods; if it appears that job stability has not improved in these sectors, the new, more stable construction sector contract could be extended to them. Activation of the unemployed should be strengthened by introducing output-based performance measures—rewarding (penalizing) those regional public employment services offices that manage (fail) to improve job placement. The 2024 social assistance (*subsidio por desempleo*) reform should be evaluated; if its impact on return to work among recipients is assessed as positive but modest, it should be amplified by expanding beyond 6 months the period over which labor earnings can be combined with continued benefit receipt and/or by considering progressive benefit tapering off for those aged 52 and above. Finally, given existing evidence that the large minimum wage hikes of recent years weakened the permanent job opportunities of lower-income workers, the minimum wage should not be raised above the government’s target of 60 percent of the net average wage.¹⁸ Moreover, to dampen potential low-skilled job losses in the event of an adverse shock, *de facto* indexation on consumer prices should be avoided. Instead, introducing an in-work tax credit should be prioritized, as it would be better targeted to low-income households and would support both purchasing power and employment. The advisory commission for the analysis of the minimum wage should be



¹⁸ See [Hijzen and others \(2025\)](#).

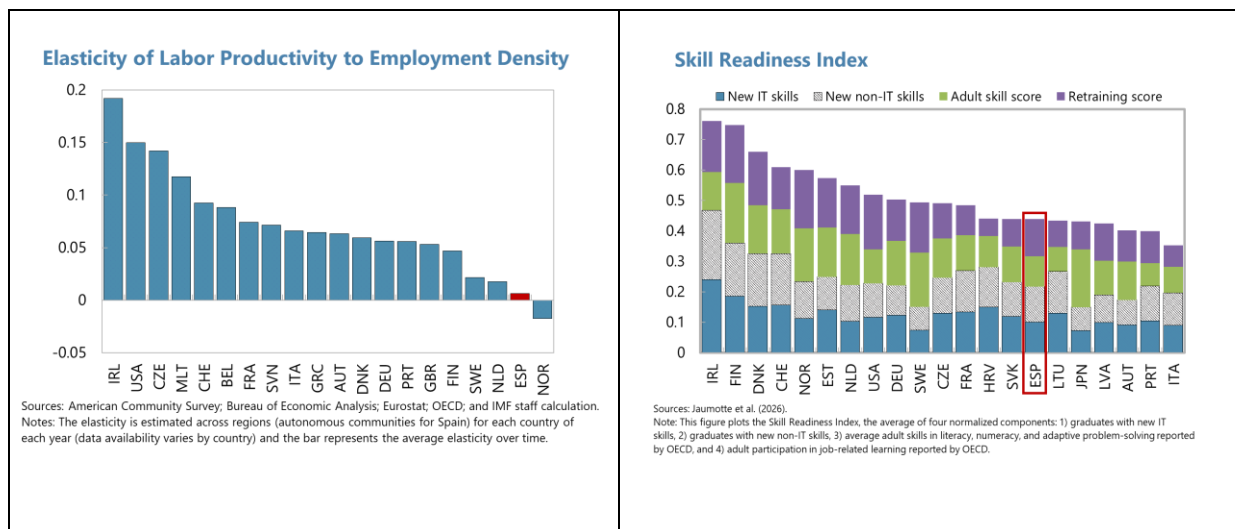
granted independence and more resources for evaluation, bring in high-profile academics, and consider equally employment and in-work poverty objectives in its recommendations—thereby emulating the best practices in other advanced economies.

34. Boosting housing supply has become a growth priority. Durable failure to keep up with demand would unduly extend the housing price boom, with adverse effects on labor mobility, immigration, and growth. Staff analysis finds that rapid house price growth during 2018–23 significantly reduced internal mobility with a small adverse impact on GDP.¹⁹ While many of the government’s recent initiatives to address the housing affordability crisis are welcome, their quantitative impact on supply is expected to be ultimately limited and slow to materialize (Annex VII). More decisive progress hinges on accelerating urban development plans, further simplifying and speeding up construction permitting procedures—including by disseminating the best practices from certain regions and municipalities, such as streamlined licensing and the use of AI—and reducing legal uncertainty around projects by reviving the Land Law reform. Efforts to expand social housing—through initiatives such as the creation of a new public housing company (*Casa 47*) and the involvement of *Instituto de Crédito Oficial* (ICO)—should be strengthened, with a focus on rental housing, in geographical areas where supply shortages are more acute. Early evidence from rent regulation in Catalonia hints at adverse impacts on rental supply, limited rent declines, and unintended composition effects, including the withdrawal of higher-end properties from the market. In 2025, “stressed areas” have been declared in other regions—including parts of the Basque Country, Galicia, and Navarra—paving the way for broader implementation of rent regulations. Unless a thorough evaluation disproves early evidence that rent controls have significantly reduced rental housing supply, they should be discontinued after their initial three-year term. The Housing Law governing the declaration of “stressed areas”, which allows to control rents, should also be amended to make it conditional on regions implementing concrete and measurable actions to boost supply, including freeing up new land.



¹⁹ See [Nguyen and others \(2026\)](#).

35. Closing the gap in income per capita with higher-income economies (see the [2025 Article IV consultation](#)) requires further reforms to enable Spain to better exploit agglomeration effects and boost productivity. Despite having major densely populated areas such as Madrid and Barcelona, Spain reaps smaller productivity gains from agglomeration compared to other major European countries and—even more so—the United States. Beyond housing availability, contributing factors include a fragmented domestic product market, under-funded young high-growth firms and insufficient supply of workers with adequate skills—including new IT and non-IT skills, which Spain’s education system has been under-providing.²⁰ On market size, the authorities should accelerate the rollout of the “Regime 20” initiative—a common regulatory framework to cut administrative barriers to doing business across regions. This approach could be complemented by the adoption of open-market laws by autonomous communities, which can yield immediate gains for participating regions while incentivizing others to join. These efforts should go hand in hand with joint efforts with European partners to deepen the EU single market. On financing, the government’s European Competitiveness Laboratory initiative launched in October 2025 is welcome, as it could attract non-participating countries and create momentum for further EU capital markets integration—which would benefit Spain disproportionately given that its firms have less access to venture capital, and are more credit-constrained in general, than their counterparts in Northern European countries. Finally, enhancing human capital is critical, prioritizing fundamental tertiary education reform to reduce elevated skills mismatch (see the [2025 Article IV](#)).

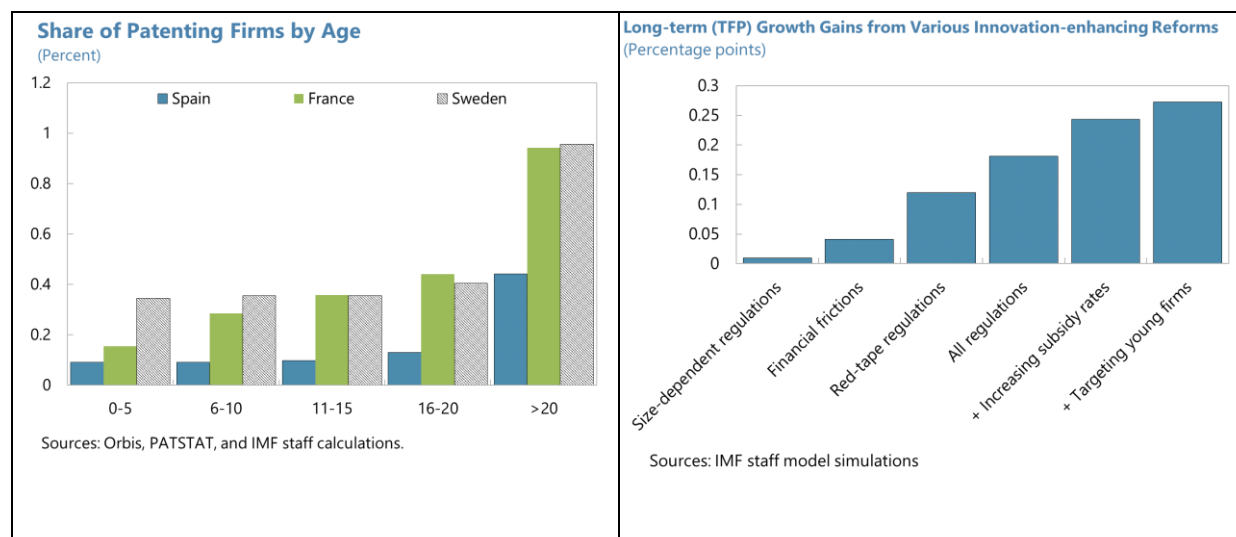


36. The looming end of NGEU provides an opportunity to rekindle Spain’s reform agenda and spur productivity growth. The authorities intend to obtain the full amount of NGEU grants—€ 80 billion, 69 percent of which had been disbursed by March 2026—but only a fraction of the loans. Out of the total € 83.2 billion in available loans, they plan to take up € 22.7 billion, 70 percent of which have already been disbursed, reflecting the limited financial attractiveness of loans at current

²⁰ See the [2025 Selected Issues](#) for broader analysis of the roles of market size, financing constraints and human capital in Spain’s persistent productivity shortfall.

market rates.²¹ The streamlining of milestones and targets—of which 54 percent had been fulfilled by March 2026—in Spain’s recently amended Recovery and Resilience Plan (RRP) will help secure full disbursement of grants, but implementation needs to be accelerated. This holds particularly true for milestones, some of which could be challenging to fulfill—including the long-awaited tax reform, which could contribute to growth-friendly fiscal consolidation if designed to reduce distortions as recommended by staff. Finally, to draw lessons from the RRP regarding Spain’s future growth strategy, a detailed assessment of the economic impacts of the funds is needed. To this end, more systematic information on beneficiaries—linkable to firm-level data, as is the case in several other recipient countries—would be welcome.

37. Redesigning public support to R&D could amplify the impact of other productivity-enhancing reforms on innovation and long-term growth. Spain’s R&D tax credit is generous but overly complex, contributing to low take-up. This contributes to Spain’s innovation activity lagging behind that of other advanced European countries, particularly among young firms. While minimizing risks of misclassification, the required *ex ante* certification and *ex post* verification of R&D expenditures should be streamlined, as it is burdensome and creates uncertainty among recipient firms. Cash refunds for loss-making startups should also be expedited. Staff analysis finds that size-dependent regulatory thresholds, financing constraints, and red tape from regional regulations significantly reduce both innovation and its impact on Spanish firms’ growth ([2026 Selected Issues](#)). Illustrative simulations of a stylized growth model suggest that addressing these constraints, doubling the take-up rate of the R&D tax credit and targeting it better to younger firms—which are much more likely to innovate than older SMEs—could lower Spain’s innovation gap vis-à-vis euro area peers and might raise the economy’s long-term total factor productivity (TFP) growth rate by a quarter of a percentage point.



²¹ The government plans to inject € 10.5 billion of loans and € 2.8 billion of grants to the ICO and to operate a fund aimed at raising productivity, developing capital markets, and increasing housing supply.

Authorities' Views

38. The authorities pointed to large employment and job stability gains from their labor market reforms and reiterated their commitment to productivity-enhancing domestic and EU-level initiatives. In addition to the large perceived gains from the 2021 labor reform, they noted that the 2023 Employment Law had strengthened ALMPs, including by improving the employability of the unemployed through enhanced support. In this sense, performance-based funding across regional public employment services has improved, although further progress is needed to establish a fully effective system of incentives. The authorities were open to further strengthening their 2024 social assistance reform should evaluation efforts, which are getting started, prove supportive. The Ministry of Labor highlighted that the minimum wage should not only be guided by the government's target of 60 percent of the net average wage but also be determined in accordance with the criteria set out in Article 27 of the Workers' Statute, namely: the consumer price index, national average productivity, the increase in labor's share of national income, and the overall economic situation. On sick leave, the authorities underscored the multiplicity of causes and policy responses, including reducing waiting times in the public health system. Regarding productivity growth, they pointed out the recent pick-up as also highlighted by the National Productivity Council. They agreed with the importance of boosting innovation and the scope for streamlining the R&D tax credit to enhance take-up. To support productive investments, the authorities project that all planned NGEU investments will be executed by August 2026, including through the creation of the fund *España Crece*—a new public fund financed by a share of the initial NGEU loan component and managed by the National Promotion Bank–ICO. They also reaffirmed their commitment to the Regime 20 initiative, noting that its scope had been broadened of a parallel and consistent initiative with Portugal with the aim of fostering single market integration for goods, professional services, and capital as well as strengthening energy connectivity with the EU. Finally, the authorities expressed strong support for all key EU-level reforms—including the EU 28th Regime, the Savings and Investment Union, and energy market integration—and indicated that they are seeking to build momentum through bottom-up approaches such as their Competitiveness Lab initiative.

39. The authorities highlighted ongoing initiatives to boost housing supply, while emphasizing institutional obstacles to faster progress. They noted that the creation of the public housing company *Casa 47* and the *España Crece* fund were key supply-side initiatives, while acknowledging that they could only cover a part of the estimated housing needs and that an acceleration of private construction was also needed. The authorities indicated plans to revive the Land Law reform, which has so far failed to pass Parliament. In their view, the designation of stressed areas has contributed to reducing rents while its adverse impact on supply remains highly uncertain. They also agreed with staff that the Housing Law could be strengthened by requiring autonomous communities to implement concrete and measurable supply-enhancing actions, including land release, when declaring themselves as stressed areas.

STAFF APPRAISAL

40. Spain's economy remains robust, still outperforming the euro area, as solid domestic demand has offset a weak external environment. Slowing tourism and subdued exports—due in part to U.S. tariffs and a stronger euro—have been counterbalanced by rising investment, supported by the housing shortfall and increased public investment from NGEU funds, alongside resilient consumption driven by steady employment and wage gains. On the supply side, growth has been largely fueled by strong immigration, which has offset declines in the native workforce, falling unemployment—which is now stabilizing at around 10 percent—and some pick-up in productivity. Amid a strong economy and labor market, headline inflation has proven sticky, hovering around 2.5–3 percent before the war in the Middle East due to persistent core and services inflation. The current account is preliminarily assessed to be moderately stronger than implied by medium-term fundamentals and desirable policies.

41. Notwithstanding headwinds and downside risks from the war in the Middle East, growth is projected to remain resilient in the near term, before slowing gradually towards a lower potential growth rate. Under staff's baseline projection, which assumes a temporary shock—as embedded in the spot and future oil and gas prices of mid-March 2026—from the war in the Middle East, real GDP is expected to expand by 2.1 percent in 2026 and 1.8 percent in 2027, supported by still-strong domestic demand, including consumption—driven by immigration, a tight labor market, and declining saving rates—and investment—underpinned by NGEU funds, and robust intangible capital formation. Beyond 2027, growth is projected to settle around its potential rate of about 1.7 percent, as immigration slows and the employment rate remains stable. The energy shock will keep inflation at 3 percent by end-2026 under staff's baseline, before a decline to 2.2 percent by end-2027. Risks to growth are predominantly on the downside and those to inflation on the upside, including from a prolonged conflict, tighter financial conditions, and trade disruptions, alongside domestic risks related to political fragmentation. On the upside, tourism, household dissaving, immigration, and AI-related investment and productivity gains could all be larger than envisaged by staff. In the event of a large adverse shock, such as higher-for-longer energy prices alongside tighter global financial conditions, automatic stabilizers should be allowed to operate if sovereign funding costs remain low, but broad-based discretionary fiscal stimulus should be avoided. Accordingly, the current energy support package should be discontinued and replaced by a narrower set of measures targeted to vulnerable households and firms, while letting higher energy prices fully pass through to users.

42. The authorities should rebuild fiscal space more quickly, seizing upon the still strong growth momentum before the looming sharp rise in aging-related expenditures. Under current policies, staff project more limited consolidation than the 2.5 percent of GDP in cumulative terms over 2025–2031 envisaged by the authorities, with the deficit stabilizing above 2 percent of GDP amid continued spending pressures from pensions, wages, defense, and debt service. Although sovereign risks remain moderate, fiscal space is limited, debt dynamics are vulnerable to shocks, and projected long-term aging-related pressures are among the most acute in the euro area. Therefore, staff recommend decisive additional consolidation—amounting to a further 1.5 percent of GDP—

centered on growth-friendly measures such as harmonizing VAT rates while protecting vulnerable households, alongside gradual expenditure restraint, pension reform and the discontinuation of energy support as planned. While the authorities remain confident in achieving their targets with smaller discretionary action, risks of under-delivering are elevated due to political fragmentation and reliance on continued strong revenue performance. Producing a fully-fledged medium-term fiscal strategy, reinforcing the role of the independent fiscal council, and reforming subnational fiscal rules and financing arrangements, would also be critical to support credibility and discipline.

43. Deteriorating housing affordability calls for more decisive action to boost housing supply, building on ongoing government initiatives. Persistent supply-demand imbalances risk prolonging house price increases and weighing on labor mobility, immigration, and growth. While recent government efforts to address affordability are welcome, their impact is expected to be limited and gradual. More decisive action is needed to stimulate private sector initiative including accelerating urban development, streamlining construction permitting procedures and reducing legal uncertainty. Rent controls should remain strictly temporary and conditional on measurable actions by municipalities and regional governments to boost supply, including freeing up new land.

44. Overall systemic financial risks remain low, but fast-rising house prices and early signs of easing bank lending standards warrant that mortgage-related BBMs be introduced, at least in the form of supervisory guidance. If house price growth fails to moderate materially and lending standards weaken further, BBMs should become binding. Early implementation would be more effective and minimize impacts on credit growth. Further progress on remaining FSAP recommendations, including strengthening resolution liquidity frameworks for SIs and enhancing the autonomy of the securities regulator, would also support financial system resilience. In a severe scenario, the introduction of BBMs should be postponed and the ongoing phasing-in of the CCyB be paused.

45. Looking over the medium term, increasing living standards at a faster pace requires a new wave of employment- and productivity-enhancing reforms. To bring unemployment down to low single digits, active labor market policies should be strengthened through job-placement rewards for regional public employment services, and further changes to social assistance should be introduced to boost job take-up among the unemployed aged 52 and above. To boost productivity, Spanish firms need to innovate and scale up. Priorities include cutting remaining barriers to trade across Spanish regions and EU countries, completing the EU Savings and Investment Union, reducing skills mismatch through tertiary education reform, streamlining size-dependent tax and labor regulations, and redesigning the R&D tax credit to boost young firms' innovation.

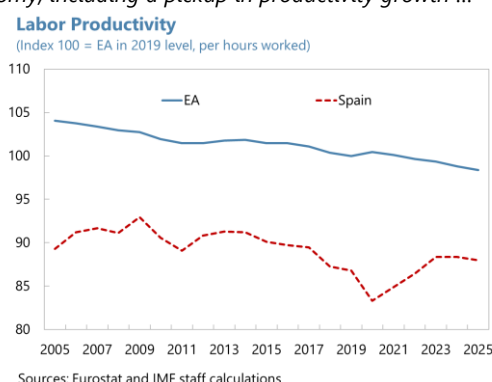
46. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Spain: Real Sector and Inflation

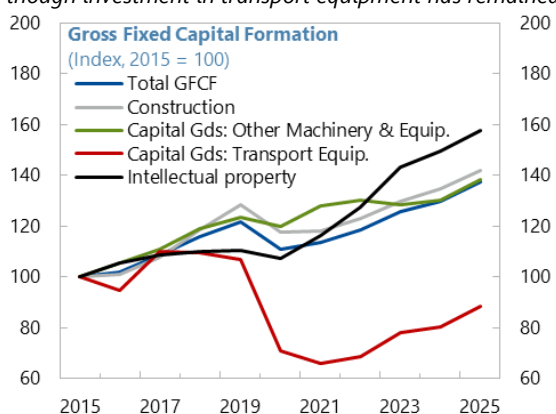
Spain's economy has outperformed euro area peers since 2022 and is projected to continue doing so in the near future...



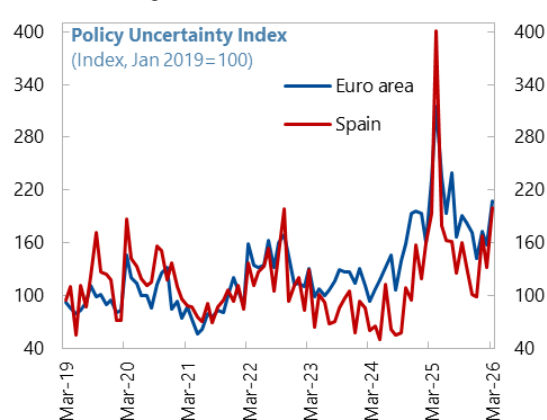
...with some improvement in the supply side of the economy, including a pickup in productivity growth ...



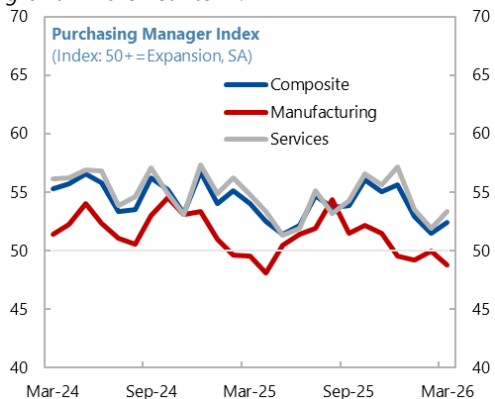
...and investment, particularly in intellectual property, even though investment in transport equipment has remained weak.



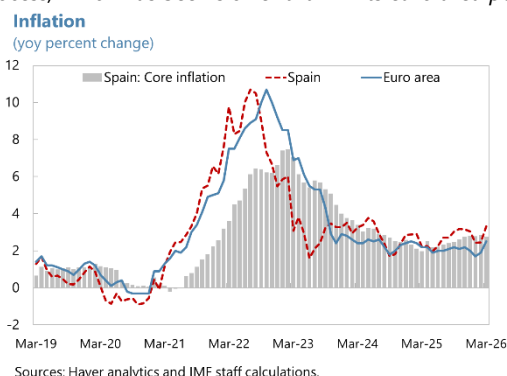
Policy uncertainty has increased again after the war in the Middle East began.



High-frequency activity indicators point to continued solid growth in the near term.



The war in the Middle East derailed Spain's disinflation process, which has been slower than in its euro area peers.

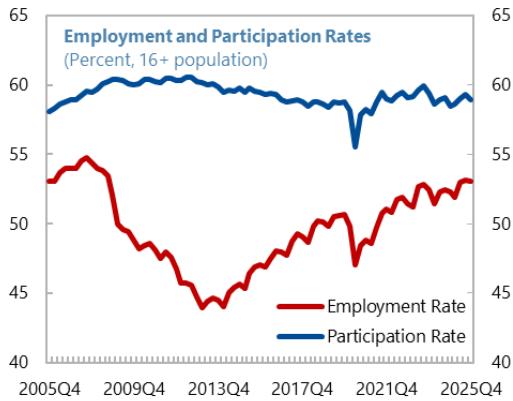


Sources: Bank of Spain, Eurostat, Haver Analytics, INE, WEO, 'Measuring Economic Policy Uncertainty' by Scott R. Baker, Nicholas Bloom and Steven J. Davis (2016) or policy uncertainty index from www.PolicyUncertainty.com, and IMF staff calculations.

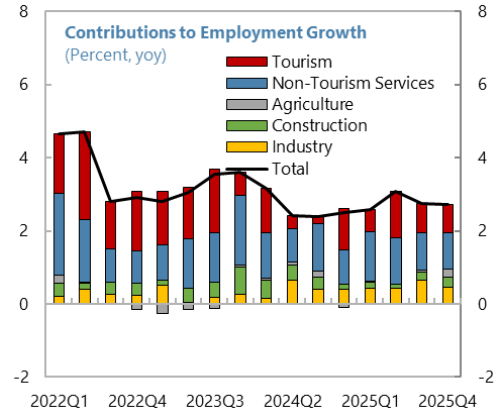
Note: The Policy uncertainty index for Spain is based on word counts from El Mundo and El Pais news articles related to uncertainty. It captures both domestic and external policy uncertainty.

Figure 2. Spain: Labor Market

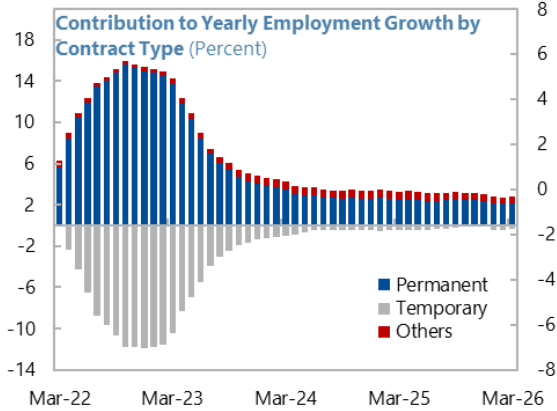
Spain's employment rate continues to increase while the overall participation rate remains stable.



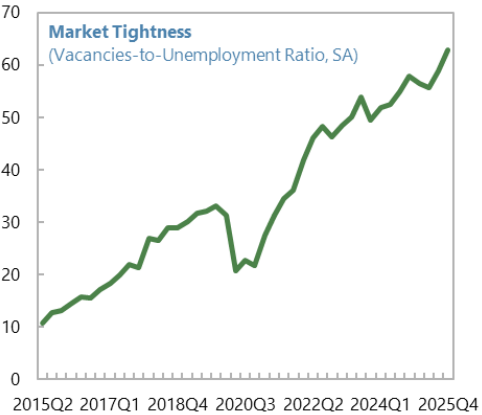
Employment growth has been broad-based across sectors...



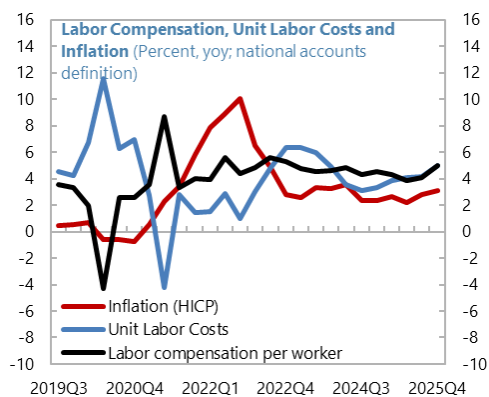
...and consisted predominantly of permanent contract creations...



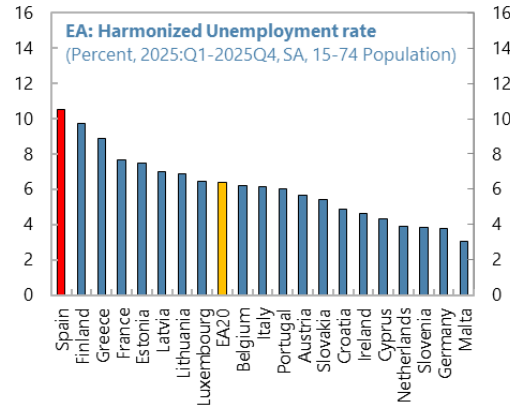
The sustained rise in employment has been associated with a tighter labor market...



...which has contributed to sustained labor compensation gains even after inflation fell from its energy crisis highs.



Despite continued progress, Spain's unemployment rate remains the highest in the euro area, calling for reforms.

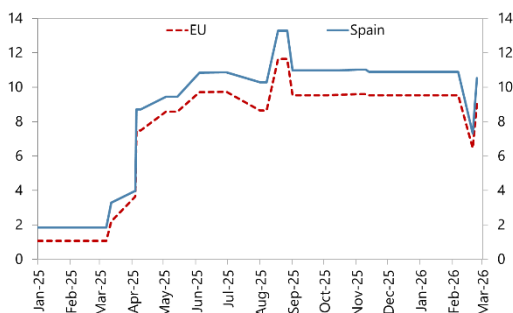


Sources: Bank of Spain, Eurostat, Haver Analytics, INE, WEO, and IMF staff calculations.

Figure 3. Spain: External Sector

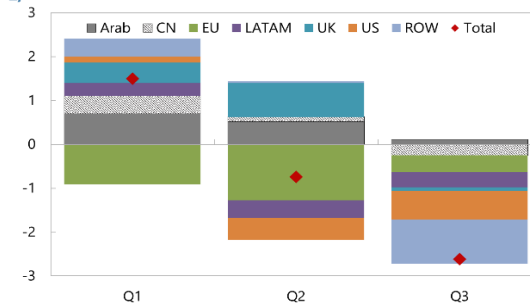
The average US import tariff rate has increased from 1.9% to 10.5%, slightly more than for the EU as a whole.

Effective US Import Tariff Rates (%) 1/



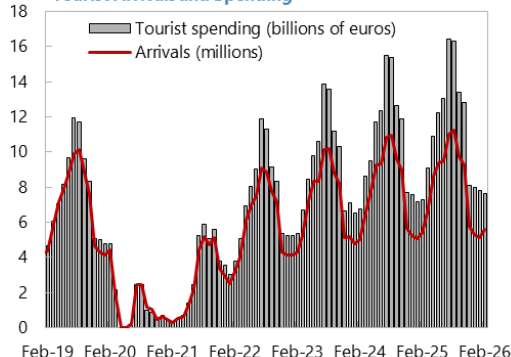
Goods exports fell after the US tariff hikes, although exports to the US and the EU both contributed.

Goods Exports y/y Growth Decomposition by Destination Country (%) 2/



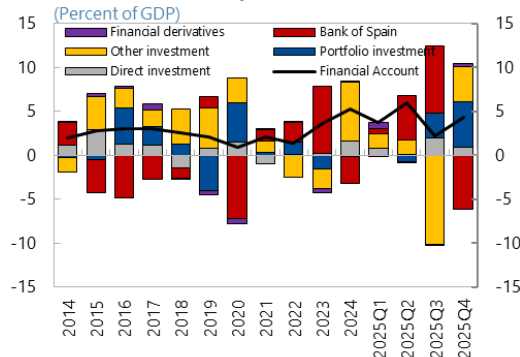
Tourist arrivals and spending have recently reached record highs, but their growth has declined.

Tourist Arrivals and Spending



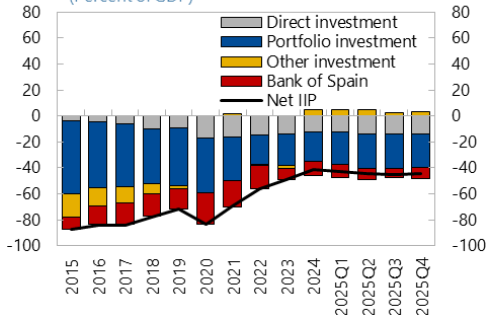
In 2025, the financial account surplus was largely driven by the Bank of Spain's balance sheet, partly offset by net non-portfolio flows.

Financial Account Components 3/



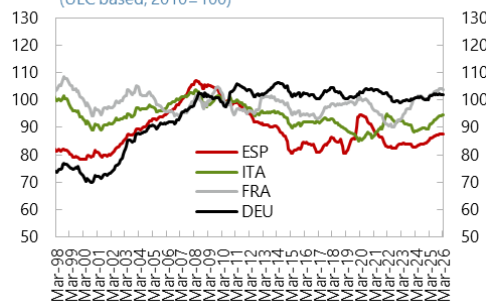
The NIIP deteriorated in 2025, as negative valuation effects offset the CA surplus.

Net International Investment Position 3/
(Percent of GDP)



The ULC-based REER has remained broadly stable in recent years, following its large post-GFC depreciation.

Real Effective Exchange
(ULC based, 2010=100)



Sources: Bank of Spain, Eurostat, Haver Analytics, INE, WEO, WTO-IMF tariff tracker, UN Comtrade data, and IMF staff calculations.

1/ Tariff rates are weighted by export values at the product level. We assume zero tariffs for service exports. EU is average tariff rates weighted by gross exports.

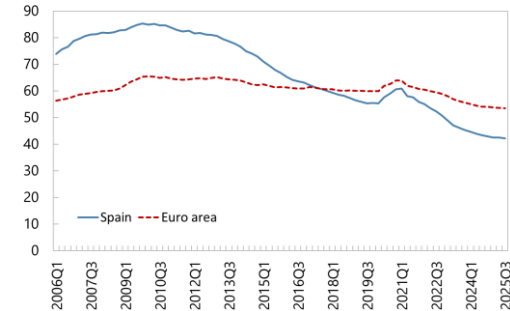
2/ Arab countries include Morocco, Algeria, Tunisia, Libya, Egypt, Sudan, Mauritania, Djibouti, Somalia, Comoros, Lebanon, Syria, Iraq, Jordan, Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Yemen.

3/ Portfolio Investment and Other Investment exclude the Bank of Spain, which is shown separately.

Figure 4. Spain: Credit Developments and Financial Cycle

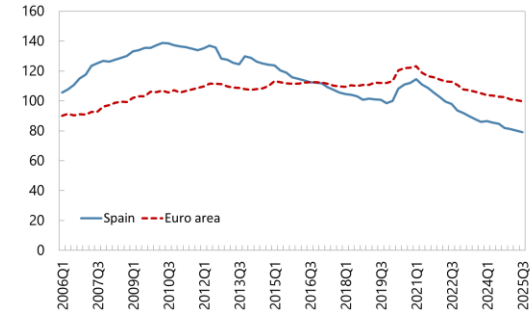
Households have continued to deleverage, with the debt-to-GDP ratio falling further below the euro area average...

Household Debt 1/
(Percent of GDP)



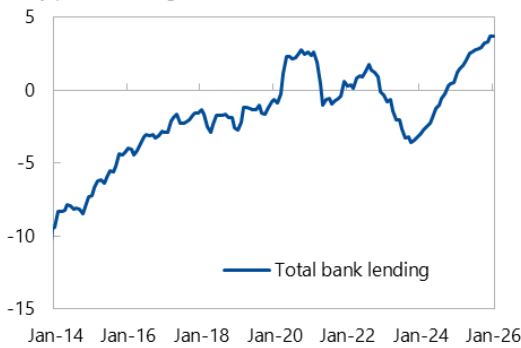
Likewise, non-financial corporations have deleveraged further, including compared to the euro area average.

Corporate Debt 2/
(Percent of GDP)



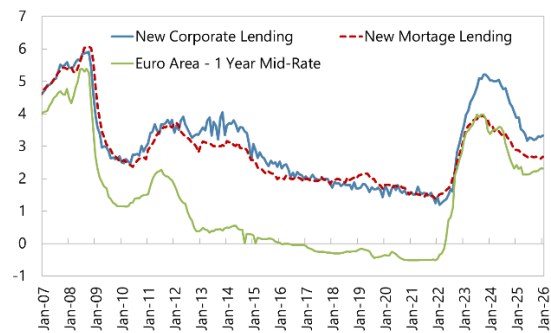
Bank lending to the private sector has rebounded strongly...

Bank Lending to Private Sector
(Yoy percent change)



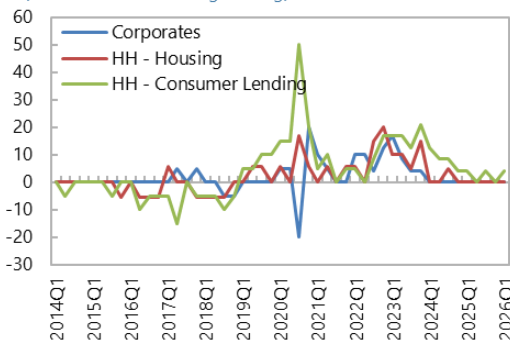
...as benchmark interest rates have declined following the ECB's monetary policy easing cycle.

Interest Rates
(Percent)



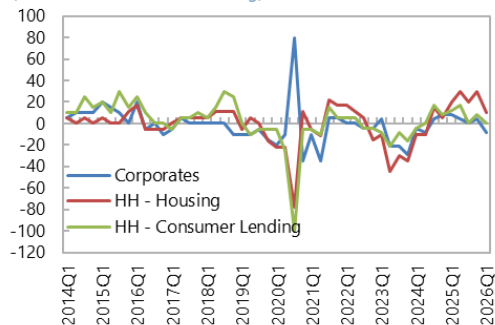
Lending standards have remained broadly unchanged...

Change in Lending Standards
(diffusion index; 0+ = tightening)



...with credit demand recovering across the board, but particularly so in housing.

Change in Credit Demand
(diffusion index; 0+ = increasing)



Sources: Bank of Spain, Haver Analytics, WEO, and IMF staff calculations.

1/ Household debt is based on total net borrowing;

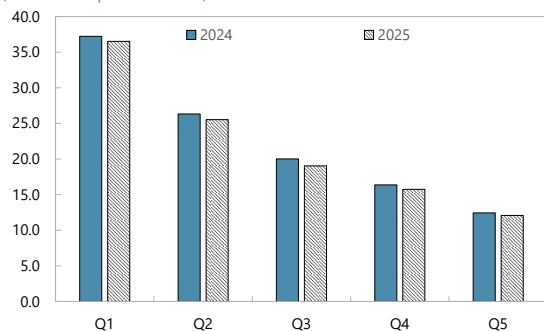
2/ Corporate debt is based on net accounts payable.

Figure 5. Spain: Households and Non-Financial Corporations

While deleveraging has continued, households' debt-service-to-income (DSTI) ratios edged down due to lower interest rates in 2025, including among lower-income households.

Household DSTI by Income Quintile 1/

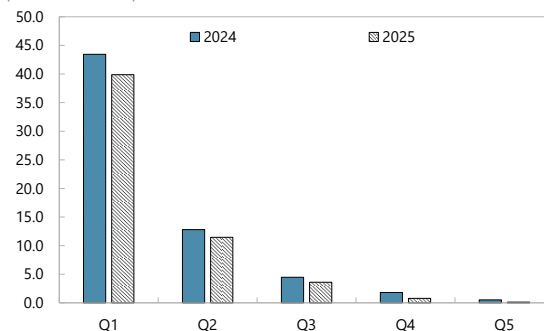
(Percent of disposable income)



Households at risk (DSTI > 40 percent) continue to be mainly concentrated in the lowest income quintile.

Share of Households at Risk (DSTI>40)

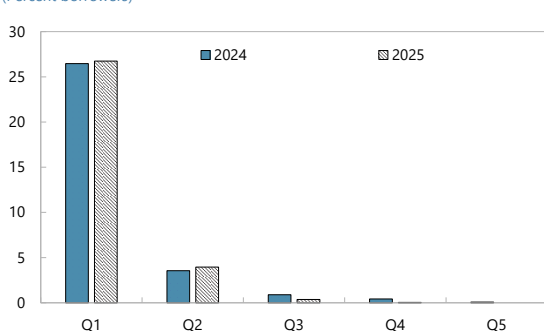
(Percent borrowers)



A broader indicator incorporating other basic living expenses confirms that risk is concentrated on households in the lowest income quintile.

Share of Households at Risk (DSTI+Housing Expenses>70) /2

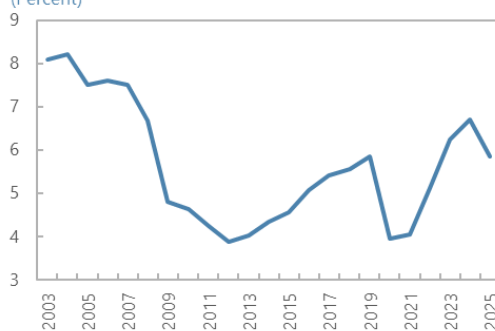
(Percent borrowers)



Corporate profitability has recovered strongly since the pandemic, although it has leveled off more recently.

Return on Assets

(Percent)



Corporate leverage has declined further to a historically low level in 2025, amid still moderate borrowing growth.

Debt-to-Asset Ratio

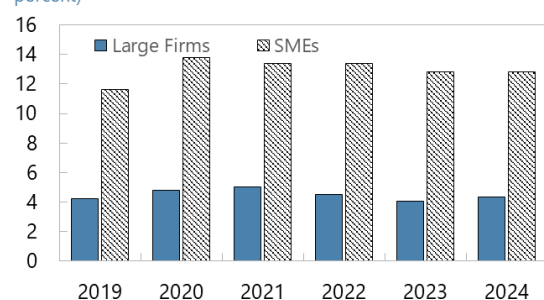
(Interest-bearing borrowed funds/assets, in percent)



Liquidity ratios have remained stable for both large and small corporates.

Liquidity Ratios

(Cash on hand and other equivalent liquid assets/total assets, in percent)



Sources: INE, Bank of Spain Central Balance Sheet Data Office, Bank of Spain, Haver Analytics, WEO, and IMF staff calculations.

1/ Income quintiles range from the lowest to the highest income group.

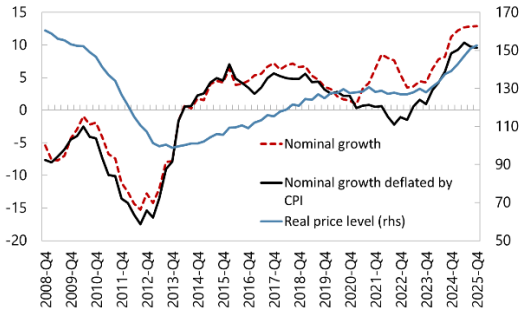
2/ "DSTI + Housing Exp." is the ratio of debt service and expenditures on community and utilities to disposable income.

Figure 6. Spain: Real Estate Developments

House prices have risen steadily but remain below pre-GFC levels in real terms.

Residential House Prices

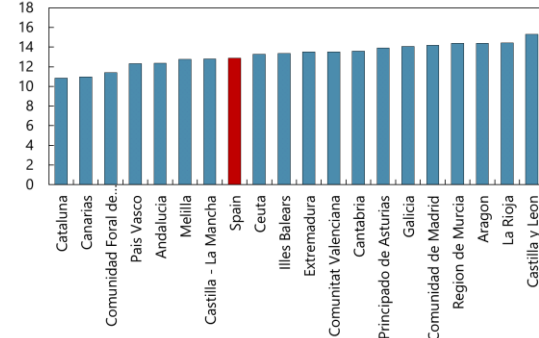
(y/y percent change; index 2013=100)



This appreciation has become more broad-based, albeit still with some variation across regions.

House Price Growth by Autonomous Communities

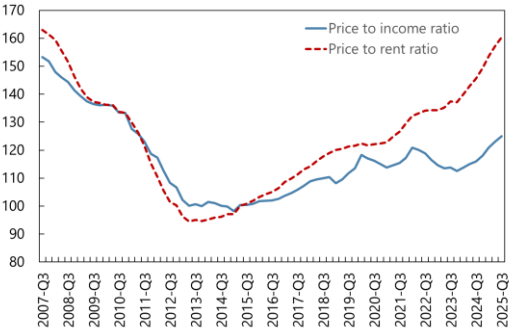
(y/y percent change, 2025Q4)



Price-to-rent ratios have risen close to, while price-to-income ratios remain well below, pre-GFC levels.

Price-to-income and Price-to-rent Ratios

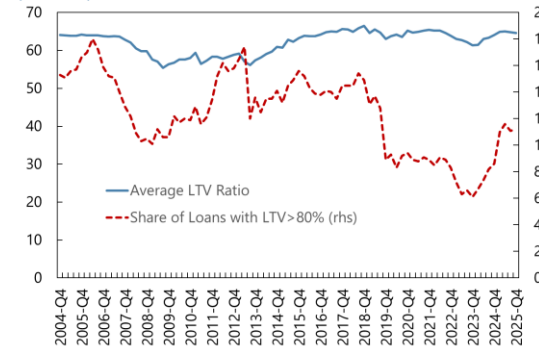
(Index, 2015 = 100)



Loan-to-value (LTV) ratios have remained stable, but the share of newly issued high-LTV loans has picked up.

Mortgage Loan-to-value (LTV) Ratios

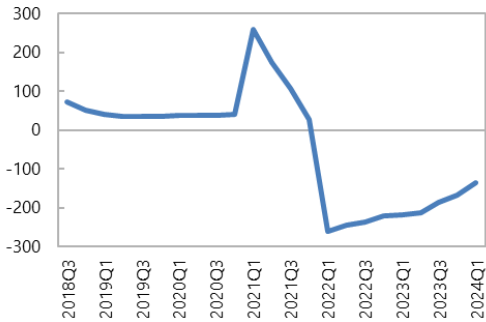
(Percent)



Supply shortages remain a key source of upward price pressure as the housing stock shortfall continues to widen, albeit at a slower pace.

Supply Shortage 1/

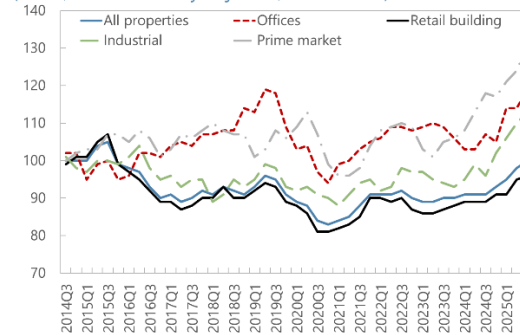
(Thousands of units, rolling 4-quarter sum)



Commercial real estate markets have continued to recover across property segments, with prices returning to pre-COVID-19 levels.

Spain: Commercial Real Estate Prices

(Index, non-seasonally adjusted, 2014 = 100)



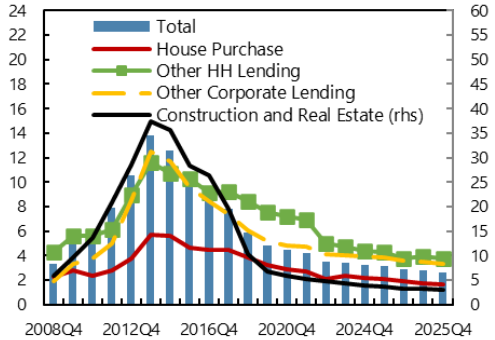
Sources: Bank of Spain, Haver Analytics, WEO, and IMF staff calculations.

1/ Supply Shortage: Four-quarter rolling sum of the difference between changes in interpolated housing stock and household numbers.

Figure 7. Spain: Banking Sector Performance

Asset quality has improved, with further declines in nonperforming loans...

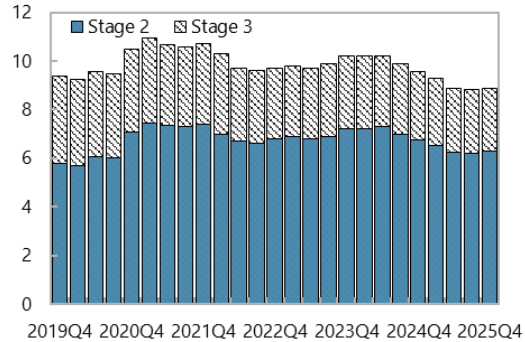
Spain - Non Performing Loans
(Percent of total assets)



Sources: BdE; and IMF Staff calculation.

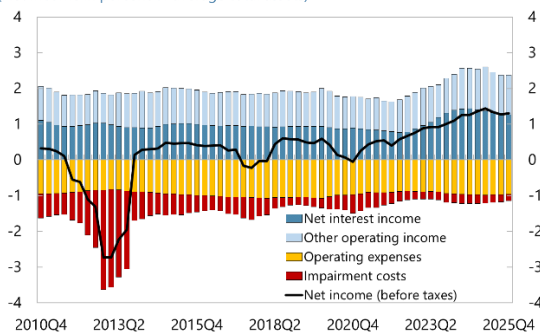
...as well as Stage 2 and Stage 3 loans.

Loans in Stage 2 and 3
(in percent of total loans)



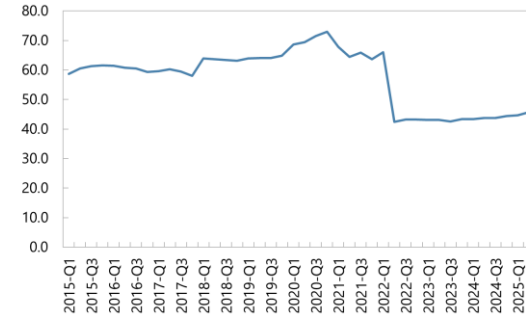
Banking sector profitability has remained solid, edging down only slightly as interest rates declined.

Profitability of Banks in Spain
(Net income in percent of average total assets)



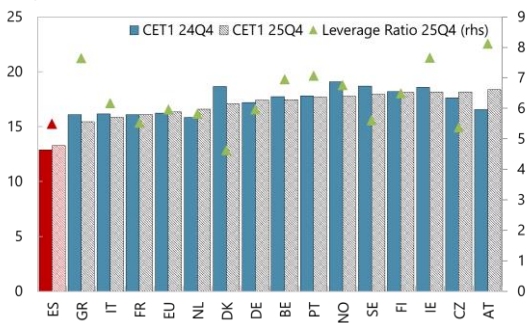
Following a drop in 2022, the NPL coverage ratio has been slightly increasing.

NPL Coverage Ratio
(Percent)



Bank capitalization remains below peers on a risk-weighted basis, but the leverage ratio is comparable.

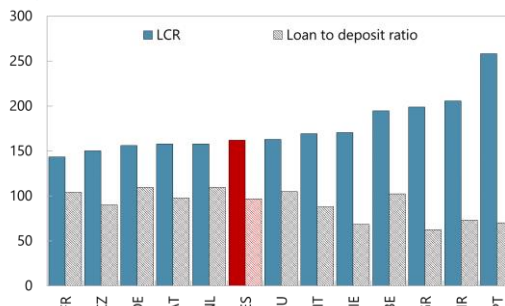
Bank Capital
(in percent)



Sources: EBA, and IMF staff calculations.

Spanish banks retain strong liquidity ratios, even though these have fallen since the end of ECB quantitative easing.

Bank Liquidity
(in percent, 2025Q4)



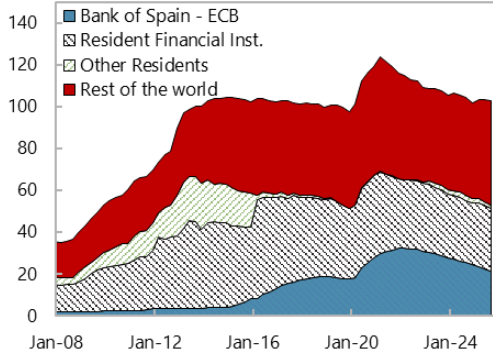
Sources: EBA, and IMF staff calculations.

Sources: Bank of Spain, Haver Analytics, WEO, EBA, and IMF staff calculations.

Figure 8. Spain: Public Finances

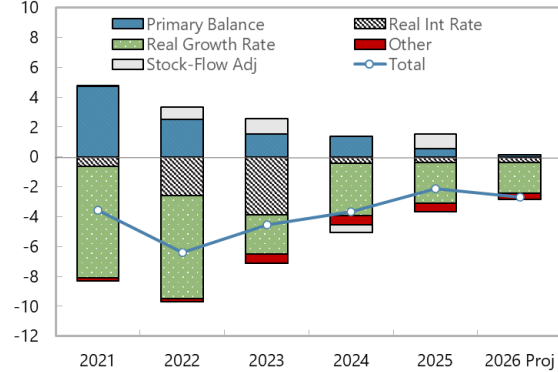
Public debt has been declining steadily as a share of GDP, with both private and public (Bank of Spain-ECB) holdings shrinking.

General Government Debt by Holder
(Percent of GDP)



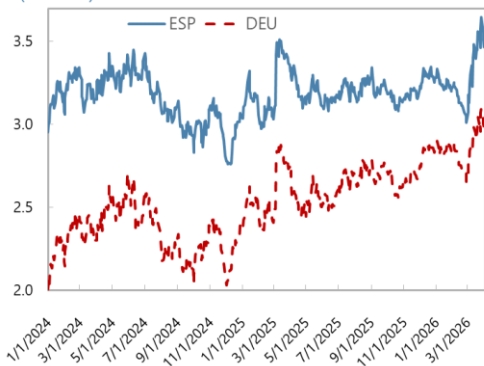
The contribution of real growth to debt reduction has remained sizable, while that of other factors has waned.

General Government Debt: Year-on-Year Change
(Percent of GDP)



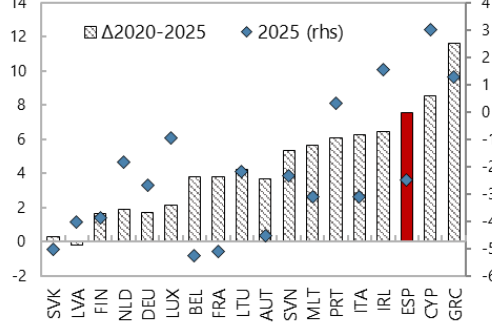
After remaining stable over 2024-2025, financing costs rose almost 50 basis points in March 2026, but the spread relative to the German Bund did not widen.

10-Year Bond Yield
(Percent)



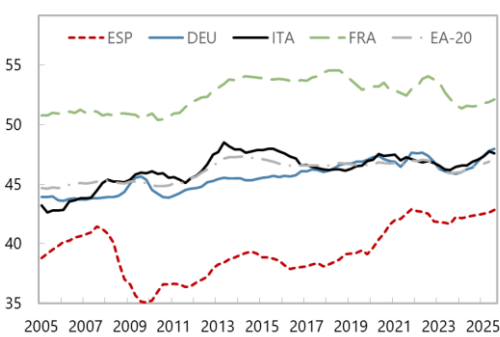
The cumulative improvement in the fiscal balance since the pandemic has been one of the largest in the euro area...

Government Fiscal Balance
(percent of GDP, percent of GDP)



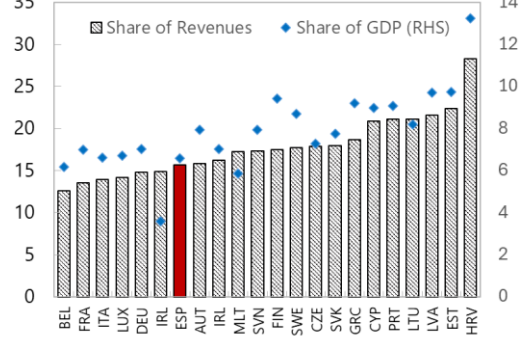
...driven by a persistent rise in revenues, particularly personal income taxes and social security contributions.

General Government: Total Revenue
(Percent of GDP)



There is room to mobilize further VAT revenues, which are comparatively low due to exemptions and reduced rates.

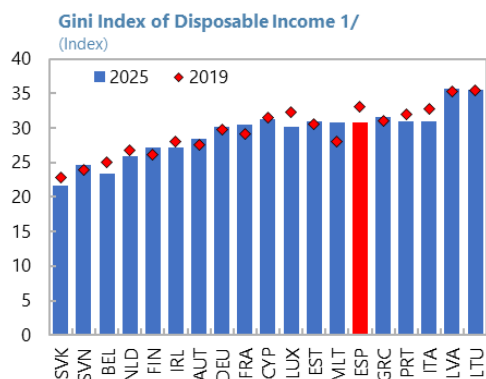
Value Added Tax
(Percent of GDP, 2024)



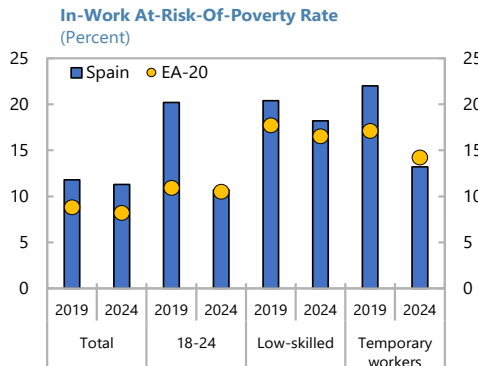
Sources: Eurostat, Haver Analytics, Bank of Spain, and IMF staff calculations.

Figure 9. Spain: Selected Social Indicators

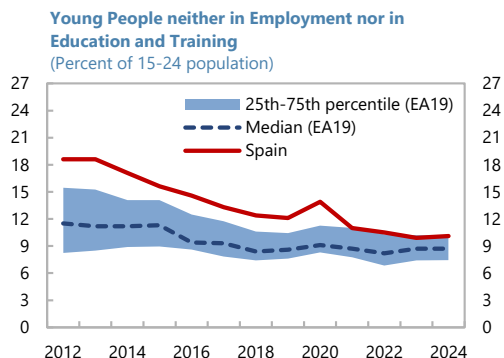
Income inequality has declined compared to pre-COVID-19 levels, broadly in line with euro area peers.



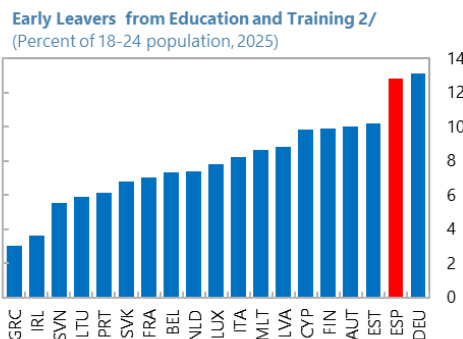
Risk of in-work poverty has fallen for young and temporary workers, but it remains above the euro area average.



The share of young people who neither work nor study has declined to historical lows but is still among the highest in the euro area.

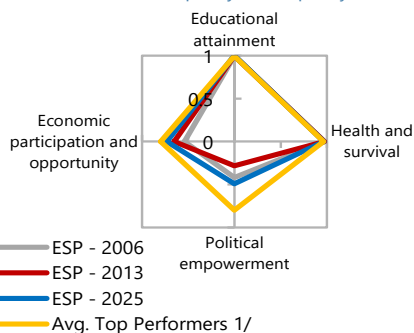


Spain continues to have the one of highest shares of early leavers from education and training.



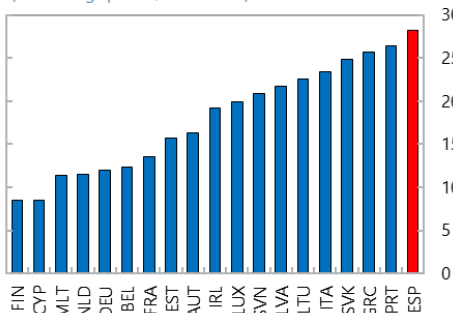
Gender gaps have declined further but remain material regarding political empowerment and economic participation and opportunity.

Gender Gap Scores by Dimension
(0-to-1 scale; 0 = inequality; 1 = equality)



Spain's projected rise in the old-age dependency ratio in the coming decades is the largest among euro area peers.

Projected Change in the Old-Age Dependency Ratio
(Percentage points, 2025-2050)



Sources: Eurostat, Haver Analytics, Bank of Spain, and IMF staff calculations.

1/ Data for Austria, Luxembourg, Malta, and Slovakia are for 2024.
2/ Data for Luxembourg are for 2024.

Table 1. Spain: Main Economic Indicators
(Percent change unless otherwise indicated)

	2023	2024	2025	Projections					
				2026	2027	2028	2029	2030	2031
Demand and supply in constant prices									
Gross domestic product	2.5	3.5	2.8	2.1	1.8	1.8	1.7	1.7	1.7
Private consumption	1.8	3.1	3.4	2.5	2.2	1.9	1.6	1.6	1.6
Public consumption	4.5	2.9	2.4	2.3	1.5	1.6	1.9	1.7	1.8
Gross fixed investment	5.9	3.6	5.8	4.1	1.7	1.6	1.5	1.5	1.5
Total domestic demand	1.6	3.4	3.7	2.8	1.9	1.8	1.7	1.6	1.6
Net exports (contribution to growth)	1.1	0.3	-0.6	-0.6	0.0	0.1	0.1	0.1	0.1
Exports of goods and services	2.2	3.2	3.6	2.0	2.5	2.7	2.5	2.5	2.4
Imports of goods and services	0.0	2.9	6.2	4.0	2.8	2.7	2.5	2.3	2.2
Real GDP per capita	1.3	2.5	1.5	0.9	0.8	0.9	0.9	1.1	1.2
Savings-Investment Balance (percent of GDP)									
Gross domestic investment	21.1	21.2	21.4	21.7	21.5	21.4	21.4	21.4	21.3
Private	18.2	18.5	18.5	18.4	17.8	18.0	17.9	17.9	17.8
Public	2.9	2.7	2.9	3.3	3.8	3.4	3.5	3.5	3.6
National savings	23.9	24.4	24.3	23.9	23.4	23.2	23.0	22.9	22.8
Private	24.2	24.9	23.8	22.8	21.9	22.0	21.7	21.5	21.3
Public	-0.4	-0.5	0.6	1.0	1.5	1.2	1.3	1.4	1.5
Foreign savings	-2.7	-3.2	-2.9	-2.2	-1.9	-1.8	-1.6	-1.5	-1.5
Household saving rate (percent of gross disposable income)	11.7	12.7	12.4	11.0	10.8	10.0	9.6	9.3	9.3
Potential output	2.8	3.2	2.3	2.5	2.2	2.1	1.8	1.7	1.7
Output gap (percent of potential output)	0.5	0.7	1.2	0.8	0.4	0.2	0.1	0.0	0.0
Prices									
GDP deflator	6.3	2.9	2.9	3.0	3.0	2.9	2.3	2.3	2.3
Headline inflation (average) 1/	3.4	2.9	2.7	3.0	2.3	2.5	2.0	2.0	2.0
Headline inflation (end of period) 1/	3.3	2.8	3.0	3.0	2.2	2.5	2.0	2.0	2.0
Core inflation (average)	5.8	3.0	2.4	2.5	2.3	2.0	2.0	2.0	2.0
Core inflation (end of period)	4.0	2.6	2.6	2.6	2.3	2.0	2.0	2.0	2.0
Employment and wages									
Unemployment rate (percent of total labor force)	12.2	11.3	10.5	9.8	9.8	9.9	9.9	10.0	10.0
Labor productivity 2/	-1.1	0.6	-0.3	0.5	1.2	1.3	1.2	1.2	1.2
Labor costs, private sector	5.7	4.7	3.7	3.6	4.3	4.0	4.0	4.0	4.0
Employment	3.1	2.2	2.6	1.5	0.6	0.5	0.5	0.5	0.5
Labor force	2.1	1.3	1.7	0.8	0.6	0.6	0.5	0.5	0.5
Balance of payments (percent of GDP)									
Trade balance (goods and services)	3.8	4.2	3.8	2.6	2.5	2.3	2.1	2.0	1.9
Current account balance	2.7	3.2	2.9	2.2	1.9	1.8	1.6	1.5	1.5
Net international investment position	-49.3	-41.0	-44.8	-39.1	-35.2	-31.6	-28.6	-25.8	-23.1
Public finance (percent of GDP)									
General government balance	-3.3	-3.2	-2.4	-2.3	-2.3	-2.2	-2.2	-2.1	-2.1
Primary balance 3/	-1.5	-1.4	-0.5	-0.2	-0.1	0.1	0.1	0.2	0.3
Structural balance	-3.5	-2.8	-2.5	-2.5	-2.4	-2.2	-2.2	-2.1	-2.0
Primary structural balance	-1.2	-0.3	-0.1	0.0	0.3	0.5	0.6	0.7	0.8
General government debt	105.1	101.6	100.7	98.6	96.6	94.6	93.4	92.1	90.7
Memo item									
Credit to the private sector	-3.2	0.6	3.8	2.2	2.1	2.0	1.9	1.9	1.9
Nominal GDP (Billions of euros)	1497.8	1594.3	1687.2	1774.3	1860.1	1949.1	2027.7	2110.6	2196.5
Real GDP (Billions of 2015 euros)	1313.0	1358.3	1396.7	1426.1	1452.1	1478.5	1503.7	1529.3	1555.3

Sources: IMF, World Economic Outlook; data provided by the authorities; and IMF staff estimates.

1/ Inflation rates are based on the Harmonized Index of Consumer Prices.

2/ Output per full-time equivalent worker.

3/ The primary balance is reported following the standards of the World Economic Outlook by excluding interest earnings from revenues.

Table 2a. Spain: General Government Operations 1/
(Billions of euros, unless otherwise indicated)

	2023	2024	2025	Projections 2/					
				2026	2027	2028	2029	2030	2031
Revenue	630.2	673.7	724.6	777.3	816.3	849.0	889.0	929.3	970.4
Taxes	354.9	380.7	416.2	441.7	465.6	489.2	513.7	537.9	562.4
Indirect taxes	165.9	176.9	191.5	201.2	211.0	221.1	232.1	242.0	252.4
o.w. VAT	96.0	102.5	114.4	120.9	126.7	133.7	139.2	145.4	151.8
o.w. Excise	42.2	46.9	52.1	54.5	57.4	59.6	62.7	65.3	68.0
Direct taxes	183.5	198.0	218.8	235.0	248.8	262.1	275.4	289.4	303.2
o.w. Private households	133.3	145.0	162.2	172.7	183.9	195.1	205.4	216.2	227.1
o.w. Corporate	53.3	55.5	58.2	63.5	65.6	67.7	70.7	73.9	76.9
Capital tax	5.6	5.7	6.0	5.5	5.7	6.0	6.3	6.5	6.8
Social contributions	197.0	210.3	223.6	240.1	256.3	271.2	283.2	295.4	308.2
Other revenue	78.3	82.7	84.7	95.5	94.4	88.6	92.2	95.9	99.8
Expenditure	680.2	725.0	764.9	817.7	858.6	891.5	933.5	974.6	1,015.6
Expense	680.1	725.3	765.9	817.9	859.0	891.9	933.9	974.6	1,015.5
Compensation of employees	163.9	172.7	181.5	189.3	202.4	211.9	221.3	230.3	239.7
Use of goods and services	85.6	89.5	96.0	103.7	107.6	111.2	115.7	120.4	126.1
Capital	57.3	69.2	67.8	78.2	82.3	79.4	84.5	88.8	92.5
o.w. Capital transfers and investment aid	13.0	26.2	19.2	19.4	11.8	13.4	13.9	14.5	14.1
Interest	35.6	38.8	40.3	45.1	48.6	52.3	55.4	59.1	61.6
Social benefits	292.5	311.3	331.2	351.8	366.9	383.6	401.7	418.8	436.1
Other expense	45.4	43.8	49.2	49.8	51.2	53.5	55.3	57.1	59.5
Subsidies	20.5	18.4	19.9	22.2	21.7	22.6	23.5	24.5	25.5
Other	24.9	25.4	29.3	27.6	29.5	30.9	31.8	32.7	34.0
Net acquisition of nonfinancial assets	0.2	-0.3	-1.0	-0.2	-0.3	-0.3	-0.3	0.0	0.0
Gross fixed capital investment	44.1	43.3	49.6	58.8	70.4	66.0	70.6	74.3	78.4
Consumption of fixed capital	44.0	43.6	50.7	59.0	70.8	66.4	70.9	74.3	78.4
Other non financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified measures (cumulative)									
Gross operating balance	-49.9	-51.6	-41.4	-40.6	-42.7	-42.9	-44.9	-45.3	-45.1
Net lending / borrowing	-50.0	-51.3	-40.3	-40.4	-42.3	-42.5	-44.5	-45.4	-45.2
<i>Memorandum items:</i>									
Nominal GDP	1,497.76	1,594.3	1,687.2	1,774.3	1,860.1	1,949.1	2,027.7	2,110.6	2,196.5

Sources: Ministry of Finance; Eurostat; and IMF staff estimates and projections.

1/ Compiled using accrual basis and ESA10 manual, consistent with Eurostat dataset.

2/ Projections incorporate allocation from the EU Recovery and Resilience Facility amounting to about 1.5, 0.9, 0.4, 0.7, 0.4, 0.8 and 0.5 percent of GDP in grants from 2021 to 2027 and approximately 0.4 percent of GDP financed by the loan component cumulatively over 2025-2027. Such funds are reflected as receipts in other revenue, and as expenditures in good and services and public investment.

Table 2b. Spain: General Government Operations 1/
(Percent of GDP, unless otherwise indicated)

	2023	2024	2025	Projections 2/					
				2026	2027	2028	2029	2030	2031
Revenue	42.1	42.3	42.9	43.8	43.9	43.6	43.8	44.0	44.2
Taxes	23.7	23.9	24.7	24.9	25.0	25.1	25.3	25.5	25.6
Indirect taxes	11.1	11.1	11.3	11.3	11.3	11.3	11.4	11.5	11.5
o.w. VAT	6.4	6.4	6.8	6.8	6.8	6.9	6.9	6.9	6.9
o.w. Excise	2.8	2.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Direct taxes	12.3	12.4	13.0	13.2	13.4	13.4	13.6	13.7	13.8
o.w. Private households	8.9	9.1	9.6	9.7	9.9	10.0	10.1	10.2	10.3
o.w. Corporate	3.6	3.5	3.4	3.6	3.5	3.5	3.5	3.5	3.5
Capital tax	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Social contributions	13.2	13.2	13.3	13.5	13.8	13.9	14.0	14.0	14.0
Other revenue	5.2	5.2	5.0	5.4	5.1	4.5	4.5	4.5	4.5
Expenditure	45.4	45.5	45.3	46.1	46.2	45.7	46.0	46.2	46.2
Expense	45.4	45.5	45.4	46.1	46.2	45.8	46.1	46.2	46.2
Compensation of employees	10.9	10.8	10.8	10.7	10.9	10.9	10.9	10.9	10.9
Use of goods and services	5.7	5.6	5.7	5.8	5.8	5.7	5.7	5.7	5.7
Capital	3.8	4.3	4.0	4.4	4.4	4.1	4.2	4.2	4.2
o.w. Capital transfers and investment aid	0.9	1.6	1.1	1.1	0.6	0.7	0.7	0.7	0.6
Interest	2.4	2.4	2.4	2.5	2.6	2.7	2.7	2.8	2.8
Social benefits	19.5	19.5	19.6	19.8	19.7	19.7	19.8	19.8	19.9
Other expense	3.0	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.7
Subsidies	1.4	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.2
Other	1.7	1.6	1.7	1.6	1.6	1.6	1.6	1.5	1.5
Net acquisition of nonfinancial assets	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross fixed capital investment	2.9	2.7	2.9	3.3	3.8	3.4	3.5	3.5	3.6
Consumption of fixed capital	2.9	2.7	3.0	3.3	3.8	3.4	3.5	3.5	3.6
Other non financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	-3.3	-3.2	-2.5	-2.3	-2.3	-2.2	-2.2	-2.1	-2.1
Net lending / borrowing	-3.3	-3.2	-2.4	-2.3	-2.3	-2.2	-2.2	-2.1	-2.1
<i>Memorandum items:</i>									
Primary balance	-1.5	-1.4	-0.5	-0.2	-0.1	0.1	0.1	0.2	0.3
Primary balance (excluding financial sector support) 3/	-1.0	-0.8	0.0	0.3	0.3	0.5	0.5	0.7	0.7
Primary structural balance 3/	-1.2	-0.3	-0.1	0.0	0.3	0.5	0.6	0.7	0.8
Structural balance	-3.5	-2.8	-2.5	-2.5	-2.4	-2.2	-2.2	-2.1	-2.0
General government gross debt (Maastricht)	105.1	101.6	100.7	98.6	96.6	94.6	93.4	92.1	90.7
Net debt	89.6	87.2	84.8	82.9	81.4	79.8	78.9	78.0	76.9
Central Government net lending	-2.0	-2.9	-2.0	-1.9	-1.9	-1.8	-1.8	-1.8	-1.7
Output gap	0.5	0.7	1.2	0.8	0.4	0.2	0.1	0.0	0.0
EU Recovery and Resilience Facility allocation	0.4	0.7	0.4	0.8	0.5	...	...	...	...

Sources: Ministry of Finance; Eurostat; and IMF staff estimates and projections.

1/ Compiled using accrual basis and ESA10 manual, consistent with Eurostat dataset.

2/ Projections incorporate allocation from the EU Recovery and Resilience Facility amounting to about 1.5, 0.9, 0.4, 0.7, 0.4, 0.8 and 0.5 percent of GDP in grants from 2021 to 2027 and approximately 0.4 percent of GDP financed by the loan component cumulatively over 2025-2027. Such funds are reflected as receipts in other revenue, and as expenditures in good and services and public investment.

3/ The primary balance is reported following the standards of the World Economic Outlook by excluding interest earnings from revenues.

Table 3. Spain: Selected Financial Soundness Indicators
(Percent, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
Depository institutions						
Capital adequacy: Consolidated basis						
Regulatory capital to risk-weighted assets	17.0	17.4	16.7	17.1	17.5	18.2
Regulatory tier-1 capital to risk-weighted assets	14.9	15.2	14.6	14.8	15.1	15.6
Tier 1 Capital to total assets	5.9	5.8	5.5	5.7	5.8	5.7
Asset quality: Consolidated basis						
Nonperforming loans (in billions of euro)	74	88	80	82	79	73
Nonperforming loans to total loans	2.9	2.9	3.1	3.1	2.9	2.6
Specific provisions to nonperforming loans	72.9	63.6	43.2	43.3	44.4	46.8
Asset quality: Domestic operations						
Nonperforming loans (in billions of euro)	52	49	40	39	36.6	31.0
Nonperforming loans to total loans	4.4	4.2	3.5	3.4	3.2	2.6
Specific provisions to nonperforming loans	46.4	45.9	45.3	46.6	48.9	53.0
Exposure to businesses - Construction (in billions of euro)	108	107	99	93	93.8	95.0
o/w: Nonperforming (in percent)	6.0	5.1	4.9	4.3	3.8	3.0
Exposure to businesses - Other (in billions of euro)	446	443	443	422	423.7	437.4
o/w: Nonperforming (in percent)	4.8	4.7	4.1	4.1	3.9	3.3
Exposure to households - Home purchase (in billions of euro)	478	483	483	469	472	490
o/w: Nonperforming (in percent)	2.9	2.7	2.1	2.3	2.2	1.6
Exposure to households - Other (in billions of euro)	143	140	141	143	142	151
o/w: Nonperforming (in percent)	7.2	7.0	5.0	4.7	4.4	3.8
Earning and profitability: Consolidated basis						
Return on assets	0.0	0.9	0.9	1.1	1.3	1.3
Return on equity	-3.2	10.1	9.8	12.1	13.9	14.1
Earning and profitability: Domestic operations						
Return on assets	-0.1	0.6	0.8	1.0	1.4	1.3
Return on equity	-0.7	7.4	10.4	13.4	17.2	16.5
Funding						
Loans to deposits 1/	88.7	84.9	83.2	80.9	77.3	78.5
Corporate sector						
Debt (in percent of GDP)	152.5	146.2	132.0	123.1	119.5	115.5
Debt to total assets	39.3	39.8	38.7	37.5	36.1	33.7
Liquid assets to short-term liabilities	394.4	410.7	372.0	411.7	431.7	415.4
Household sector						
Debt (in percent of GDP)	66	61	56	50	47.8	46.9
Real estate market						
House price (percentage change, end-period)	1.5	6.4	5.5	4.2	11.3	12.7
Housing completion (2007=100)	14	15	14	14	15.6	14.2
Property sales (2007=100)	52	70	76	70	75.5	84.1

Sources: Bank of Spain; Haver analytics; FSB, Global Shadow Banking Monitoring Report 2017; IMF, Financial Soundness Indicators database and World Economic Outlook database; and IMF staff estimates.

1/ Based on loans to and deposits from other resident sectors.

Table 4. Spain: Balance of Payments

	2023	2024	2025	Projections						
				2026	2027	2028	2029	2030	2031	
	(Billions of euro)									
Current account	40.9	50.7	49.4	39.0	35.6	34.5	32.8	32.6	32.0	
Trade balance of goods and services	57.5	66.3	64.5	46.6	45.8	45.2	42.6	42.2	41.0	
Exports of goods and services	566.4	590.8	618.1	647.8	676.5	709.4	741.5	775.0	809.0	
Exports of goods	386.5	387.7	392.8	406.0	420.8	438.3	455.1	471.5	487.4	
Exports of services	180.0	203.1	225.3	241.8	255.7	271.1	286.4	303.5	321.6	
Trade of goods balance	-35.1	-33.9	-49.0	-76.1	-83.2	-92.4	-103.5	-114.4	-127.2	
Imports of goods and services	509.0	524.4	553.6	601.2	630.7	664.2	698.8	732.8	768.0	
Imports of goods	421.5	421.5	441.8	482.0	504.1	530.7	558.7	585.9	614.6	
Imports of services	87.5	102.9	111.8	119.2	126.6	133.5	140.2	146.9	153.4	
Services	92.5	100.2	113.5	122.6	129.1	137.6	146.2	156.6	168.1	
Of which:										
Tourism	58.8	68.2	70.5	...	...	...	...	...	...
Exports	85.1	98.4	105.1	...	...	...	...	...	...
Imports	-26.3	-30.2	-34.7	...	...	...	...	...	...
Primary income	-4.9	-4.0	-1.1	4.5	6.4	5.8	7.0	7.0	7.5	
Secondary income	-11.6	-11.6	-14.0	-12.0	-16.6	-16.5	-16.9	-16.7	-16.5	
General government	-3.6	-4.5	-6.1	-6.0	-13.0	-13.9	-14.6	-15.4	-16.2	
Other sectors	-8.0	-7.2	-7.9	-5.1	-2.6	-1.5	-1.0	0.0	1.1	
Capital account	16.9	18.1	17.2	22.5	3.8	3.6	3.5	3.3	3.2	
Financial account	54.3	83.9	68.1	61.5	39.3	38.1	36.3	35.9	35.2	
Direct investment	3.5	26.7	16.0	16.4	16.8	17.3	17.9	18.5	18.0	
Spanish investment abroad	46.8	66.0	41.3	43.0	44.7	46.5	48.3	50.1	51.9	
Foreign investment in Spain	43.3	39.3	25.3	26.6	27.9	29.2	30.4	31.6	33.9	
Portfolio investment	-22.9	-5.9	21.9	32.8	18.9	15.8	13.8	12.6	10.4	
Financial derivatives	-6.5	1.2	3.4	0.0	0.0	0.0	0.0	0.0	0.0	
Other investment	74.2	60.6	25.9	12.4	3.6	5.1	4.6	4.8	6.7	
Change in reserve assets	6.0	1.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	
Errors and omissions	-3.5	15.2	1.5	0.0	0.0	0.0	0.0	0.0	0.0	
	(Percent of GDP)									
Current account	2.7	3.2	2.9	2.2	1.9	1.8	1.6	1.5	1.5	
Trade balance of goods and services	3.8	4.2	3.8	2.6	2.5	2.3	2.1	2.0	1.9	
Exports of goods and services	37.8	37.1	36.6	36.5	36.4	36.4	36.6	36.7	36.8	
Exports of goods	25.8	24.3	23.3	22.9	22.6	22.5	22.4	22.3	22.2	
Exports of services	12.0	12.7	13.4	13.6	13.7	13.9	14.1	14.4	14.6	
Imports of goods and services	34.0	32.9	32.8	33.9	33.9	34.1	34.5	34.7	35.0	
Imports of goods	28.1	26.4	26.2	27.2	27.1	27.2	27.6	27.8	28.0	
Imports of services	5.8	6.5	6.6	6.7	6.8	6.8	6.9	7.0	7.0	
Primary income	-0.3	-0.3	-0.1	0.3	0.3	0.3	0.3	0.3	0.3	
Secondary income	-0.8	-0.7	-0.8	-0.7	-0.9	-0.8	-0.8	-0.8	-0.8	
Capital account	1.1	1.1	1.0	1.3	0.2	0.2	0.2	0.2	0.1	
Financial account	3.6	5.3	4.0	3.5	2.1	2.0	1.8	1.7	1.6	
Direct investment	0.2	1.7	0.9	0.9	0.9	0.9	0.9	0.9	0.8	
Portfolio investment	-1.5	-0.4	1.3	1.8	1.0	0.8	0.7	0.6	0.5	
Financial derivatives	-0.4	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Other investment	5.0	3.8	1.5	0.7	0.2	0.3	0.2	0.2	0.3	
Of which, BdE	7.2	-2.9	2.2	-0.8	-1.8	-2.2	-2.3	-2.4	-2.3	
Change in reserve assets	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Errors and omissions	-0.2	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Net international investment position	-49.3	-41.0	-44.8	-39.1	-35.2	-31.6	-28.6	-25.8	-23.1	
Valuation changes	-1.2	0.1	-10.1	0.0	0.0	0.0	0.0	0.0	0.0	

Sources: Bank of Spain, Haver Analytics, and IMF staff calculations.

Notes: Based on the sixth edition of the IMF's Balance of Payments Manual. Projected grants under the EU Recovery and Resilience Facility (2021-26) are reflected in the Secondary Income and the Capital Account, while projected loans under the EU Recovery and Resilience Facility (2024-2028) are reflected in Other Investment in the Financial Account and the NIIP, and their corresponding interest payments in the Primary Income.

Table 5. Spain: External Debt 1/

	2020	2021	2022	2023	2024	2025Q1	2025Q2	2025Q3	2025Q4
	(Billions of euro)								
Gross External Debt	2265.2	2363.0	2370.4	2483.6	2574.3	2625.1	2696.7	2696.0	2768.2
Short-term	869.9	936.7	1015.6	978.4	963.4	979.4	978.8	964.2	1027.7
Long-term	1395.3	1426.3	1354.9	1505.2	1610.9	1645.6	1718.0	1731.8	1740.5
General government	681.9	693.7	605.0	661.8	707.4	741.0	792.3	811.9	808.4
Bank of Spain	598.3	638.3	636.1	538.6	587.9	592.2	580.5	540.3	569.7
Other monetary financial institutions	432.9	454.3	548.6	686.3	657.5	613.2	0.0	0.0	0.0
Other resident sectors	281.0	288.0	266.1	274.2	293.6	298.2	302.7	301.1	306.6
Debt securities	918.5	930.5	813.4	919.9	1004.1	1032.3	1091.5	1092.3	1107.7
Loans, trade credits and other liabilities	244.9	270.2	274.7	270.4	263.2	265.7	265.8	280.2	269.2
Deposits	827.3	858.7	952.5	955.9	964.2	983.2	986.4	974.1	1045.5
Other	3.4	14.8	15.1	14.7	14.9	14.7	14.3	14.0	14.0
Direct investment debt liabilities	271.1	288.8	314.7	322.7	328.0	329.2	338.8	335.4	331.8
Net External Debt 2/	984.0	949.8	829.2	790.5	744.6	732.0	746.5	740.2	735.6
Short-term	424.7	435.3	447.5	387.2	302.2	306.0	297.7	279.5	304.7
Long-term	559.3	514.6	381.7	403.2	442.4	426.0	448.7	460.7	430.9
General government	628.0	637.7	548.0	603.0	656.6	694.1	743.4	764.9	754.4
Bank of Spain	286.9	270.6	267.2	148.0	191.7	193.7	178.6	143.1	170.2
Other monetary financial institutions	15.3	-5.5	14.6	71.4	-46.4	-76.7	-90.1	-67.1	-81.0
Other resident sectors	-28.9	-34.2	-90.1	-109.8	-128.5	-143.2	-159.1	-172.6	-179.6
Debt securities	452.2	434.0	290.6	325.2	364.6	364.8	388.6	381.5	369.4
Loans, trade credits and other liabilities	23.4	22.2	-3.6	-3.1	-13.0	-14.5	-18.7	-4.4	-35.4
Deposits	426.2	413.3	453.7	392.1	323.7	319.9	305.2	291.7	330.6
Other	-0.5	-0.8	-1.1	-1.6	-2.0	-2.3	-2.2	-0.5	-0.7
Direct investment debt liabilities	82.8	81.2	89.5	77.9	71.2	64.1	73.6	71.8	71.6
	(Percent of GDP)								
Gross External Debt	200.6	191.3	172.3	165.8	161.5	155.6	159.8	159.8	164.1
Short-term	77.0	75.8	73.8	65.3	60.4	58.1	58.0	57.1	60.9
Long-term	123.6	115.4	98.5	100.5	101.0	97.5	101.8	102.6	103.2
General government	60.4	56.1	44.0	44.2	44.4	43.9	47.0	48.1	47.9
Bank of Spain	53.0	51.7	46.2	36.0	36.9	35.1	34.4	32.0	33.8
Other monetary financial institutions	38.3	36.8	39.9	45.8	41.2	36.3	0.0	0.0	0.0
Other resident sectors	24.9	23.3	19.3	18.3	18.4	17.7	17.9	17.8	18.2
Debt securities	81.3	75.3	59.1	61.4	63.0	61.2	64.7	64.7	65.7
Loans, trade credits and other liabilities	21.7	21.9	20.0	18.1	16.5	15.7	15.8	16.6	16.0
Deposits	73.3	69.5	69.2	63.8	60.5	58.3	58.5	57.7	62.0
Other	0.3	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Direct investment debt liabilities	24.0	23.4	22.9	21.5	20.6	19.5	20.1	19.9	19.7
Net External Debt 2/	87.1	76.9	60.3	52.8	46.7	43.4	44.2	43.9	43.6
Short-term	37.6	35.2	32.5	25.9	19.0	18.1	17.6	16.6	18.1
Long-term	49.5	41.6	27.7	26.9	27.7	25.3	26.6	27.3	25.5
General government	55.6	51.6	39.8	40.3	41.2	41.1	44.1	45.3	44.7
Bank of Spain	25.4	21.9	19.4	9.9	12.0	11.5	10.6	8.5	10.1
Other monetary financial institutions	1.4	-0.4	1.1	4.8	-2.9	-4.5	-5.3	-4.0	-4.8
Other resident sectors	-2.6	-2.8	-6.5	-7.3	-8.1	-8.5	-9.4	-10.2	-10.6
Debt securities	40.0	35.1	21.1	21.7	22.9	21.6	23.0	22.6	21.9
Loans, trade credits and other liabilities	2.1	1.8	-0.3	-0.2	-0.8	-0.9	-1.1	-0.3	-2.1
Deposits	37.7	33.5	33.0	26.2	20.3	19.0	18.1	17.3	19.6
Other	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Direct investment debt liabilities	7.3	6.6	6.5	5.2	4.5	3.8	4.4	4.3	4.2

Sources: World Bank Quarterly External Debt Statistics and IMF staff calculations.

1/ Data corresponds to Q4 of each year unless otherwise indicated.

2/ Net external debt is defined as gross external debt minus external assets in debt instruments.

Annex I. External Sector Assessment

<p>Overall Assessment: The external position in 2025 is assessed on a preliminary basis to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.¹ After shrinking for over a decade, the large negative NIIP deteriorated moderately in 2025 as negative valuation effects more than offset the CA surplus. Further improving the NIIP will require sustaining CA surpluses in the coming years, warranted by the large negative NIIP. While the CA balance will exceed the norm in the near term, this gap is projected to shrink in the medium term as tourism inflows continue to slow and a reduction in the household saving rate sustains consumption and non-energy imports.</p> <p>Potential Policy Responses: The projected CA surplus path will keep reducing remaining vulnerabilities associated with the negative NIIP. A similar CA path could be achieved with a better policy mix that keeps the saving-investment balance and thereby the projected CA path broadly unchanged, but better supports domestic growth and fiscal sustainability. Specifically, sustained fiscal consolidation efforts would rebuild fiscal space and raise public saving, thus increasing the CA and the NIIP. This could be offset by the negative CA impact of the growth-enhancing structural reforms recommended by staff, which would boost investment. Such reforms include further efforts to complete the single Spanish market (in addition to the single EU market) for goods and services, facilitate firms' access to financing through domestic initiatives to boost access to equity and progress towards the EU Savings and Investment Union, and support innovation by young firms by redesigning the R&D tax credit and streamlining red tape.</p>					
Foreign Asset and Liability Position and Trajectory	<p>Background. The NIIP decreased in 2025 to -44.8 percent of GDP from -41 percent in 2024. This trajectory reflects a larger increase in gross liabilities compared to that in assets (as a percentage of GDP). Gross liabilities—of which nearly 64 percent correspond to external debt—increased to 254.3 percent of GDP by the end-2025. Most of the negative NIIP is attributed to the general government and the central bank, with TARGET2 liabilities amounting to 24.5 percent of GDP by December 2025.² The NIIP is projected to improve in the medium term, supported by sustained CA surpluses and the positive—though temporary—impact of Next Generation EU (NGEU) funds disbursements on the capital account until 2026.</p> <p>Assessment. Despite its projected improvement, the still large negative NIIP comes with external vulnerabilities, including those from large gross financing needs and risks of adverse valuation effects, which could be affected by the evolution of global financial conditions and policy responses. Mitigating factors include the rather long maturity of outstanding sovereign debt (averaging almost eight years) and the limited share of debt denominated in foreign currency (11.0 percent of total external debt).</p>				
	2025 (% GDP)	NIIP: -44.8	Gross Assets: 209.5	Debt Assets: 99.7	Gross Liab.: 254.3	Debt Liab.: 64.3
Current Account	<p>Background. The CA surplus declined slightly from 3.2 percent of GDP in 2024 to 2.9 percent of GDP in 2025, as the acceleration of domestic consumption and investment weakened the saving-investment balance. Concomitantly, the trade surplus weakened on slowing exports and stronger imports. In the near term, higher energy prices will raise the energy import bill and contribute to further reduce the CA surplus. In the medium term, the CA surplus is projected to keep shrinking gradually as tourism inflows continue to slow while the growth of non-energy imports remains strong, supported by the shift in the economy's growth drivers toward domestic demand—particularly consumption, whose dynamism will lower household and aggregate saving.</p> <p>Assessment. The 2025 cyclically-adjusted CA balance is 3.4 percent of GDP. IMF staff assess the CA norm to be between 0.9 and 2.7 percent of GDP, with a midpoint of 1.8 percent of GDP, in line with the EBA CA model. The difference between the cyclically adjusted CA and the CA norm yields a CA gap in the range of 0.7 to 2.5 percent of GDP, with a midpoint of 1.6 percent of GDP. The overall estimated contribution of identified policy gaps is -0.4 percent of GDP, reflecting negative contributions from high health spending and credit growth relative to the rest of the world (-0.3 and -0.1 percent of GDP, respectively). The remaining positive residual may reflect elevated post-pandemic policy and broader political uncertainty weighing strongly on Spanish firms' investment</p>				

	(see 2025 Selected Issues), as well as a structural shift in global demand toward services that has particularly benefitted Spain's tourism and non-tourism services sectors, temporarily sustaining external surpluses while the real exchange rate adjusts.					
2025 (% GDP)	CA: 2.9	Cycl. Adj. CA: 3.4	EBA Norm: 1.8	EBA Gap: 1.6	Staff Adj.: 0.0	Staff Gap: 1.6
Real Exchange Rate	<p>Background. In 2025, Spain's CPI- and ULC-based REER appreciated, vis-à-vis their 2024 averages by 1.8 and 3.2 percent, respectively. This followed a period of sustained REER depreciation since 2009, which almost fully reversed the large appreciation during 1999–2008. As of February 2026, the CPI-based REER was 1.9 percent above the 2025 average.</p> <p>Assessment. The IMF staff CA gap implies a REER gap of –5.7 percent in 2025 (with an estimated elasticity of 0.28 applied). The EBA REER index and level models suggest instead an overvaluation of 6.3 percent and 20.2 percent for 2025, respectively, mostly driven by large unexplained residuals. Consistent with the staff CA gap, the staff assesses the REER to be moderately undervalued, with a midpoint of 5.9 percent and a range of uncertainty of ±3.6 percent.</p>					
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. The capital account surplus has remained high due to flows associated with NGEU funds. The financial account surplus declined to 4.0 percent of GDP in 2025, from 5.3 percent of GDP in 2024, largely driven by the BdE's balance sheet, partly offset by 'Other Investment' outflows.</p> <p>Assessment. Large external financing needs leave Spain vulnerable to sustained market volatility and tighter global financial conditions.</p>					
FX Intervention and Reserves Level	<p>Background. The euro has the status of a global reserve currency.</p> <p>Assessment. Euro area economies typically hold low reserves relative to standard metrics, but the currency is free floating.</p>					
<p>¹ The assessment is preliminary. The final assessment will be published in the 2026 External Sector Report.</p> <p>² TARGET2 (T2) is the settlement system run by the Eurosystem. It settles payments related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions. When banks in Spain send more euros through T2 than they receive overall, the BdE incurs a T2 liability. The BdE's T2 liabilities had increased until 2022 mostly as a result of the asset purchase program introduced by the European Central Bank in 2015, which technically led the BdE to purchase assets held by investors with bank accounts abroad.</p>						

Annex II. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Global Risks			
Conjunctural Risks			
Geopolitical Tensions and intensification of conflicts	<p style="text-align: center;">High</p> <p>Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.</p>	<p style="text-align: center;">Medium</p> <p>Spain has limited direct linkages to the conflict regions but faces indirect spillovers through higher energy and import prices, supply chain disruptions, elevated uncertainty, and tighter financial conditions, which could weigh on domestic and trading partners' demand. On the upside, Spain might benefit from a reallocation of tourism flows away from conflict-hit regions.</p>	<ul style="list-style-type: none"> • Provide targeted and temporary support to vulnerable households and firms to mitigate the impact of higher energy import prices. • Further reallocate public investment to competitiveness-enhancing areas, and accelerate structural reforms that facilitate labor reallocation. • In the event of a conflict escalation with severe adverse macroeconomic consequences, a pause in the implementation of the positive neutral CCyB would be appropriate to avoid pro-cyclical tightening of bank credit amid externally driven financial stress. Likewise, any introduction of housing-related BBMs should be postponed under such scenario.
Trade-Related Risks	<p style="text-align: center;">High</p> <p>Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.</p> <p style="text-align: center;">Low</p> <p>New Trade Agreements. Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.</p>	<p style="text-align: center;">Medium</p> <p>External demand has been a key driver of Spain's GDP growth since COVID-19, albeit less so over the past year. Escalating trade measures could impede global trade and capital flows and lower Spain's growth. Mitigating factors include the large weight of tourism—which is less exposed a priori—in exports, Spain's limited direct and indirect export exposures to the US, and the possibility for Spain to become more integrated in European value chains after a reconfiguration of trade.</p> <p style="text-align: center;">Medium</p> <p>External demand has been a key driver of Spain's GDP growth since COVID-19, albeit less so over the past year. New trade agreements, particularly the EU–Mercosur trade deal, could help promote trade flows, although Spain's current export exposure to these markets remains limited.</p>	<ul style="list-style-type: none"> • If adverse confidence or broader demand effects were to prevail in the short term, opening a large negative output gap, automatic stabilizers should be allowed to operate. In case of a severe adverse shock, discretionary fiscal support could be provided but should be targeted and temporary. • Further promote public investment and accelerate structural reforms in areas that could facilitate global trade, improve competitiveness and facilitate structural transformation, such as through digitalization and infrastructure, building on the progress achieved under NGEU.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Commodity Price Volatility	High Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	Medium Spain is a net energy importer, with imported products accounting for about 70 percent of total energy needs. The adverse terms-of-trade shock from a renewed spike in international energy prices would have a material impact on inflation, real national income, and the current account balance. Tighter financial conditions could trigger further deleveraging of the private sector, increase vulnerabilities, lower growth.	<ul style="list-style-type: none"> • Provide targeted and temporary support to vulnerable households and firms to mitigate the impact of higher energy import prices. • Further reallocate public investment to competitiveness-enhancing areas and accelerate structural reforms that facilitate labor reallocation.
Disorderly AI Correction	High An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	Medium Tighter financial conditions—including through wider risk premia—and weaker external demand would weigh on domestic demand—particularly investment—and exports, respectively. Mitigating factors include well-capitalized and liquid banks, healthy private sector balance sheets, and a relatively small—compared to euro area—NBFIs sector with limited links to banks.	<ul style="list-style-type: none"> • A pause in the implementation of the positive neutral CCyB would be appropriate to avoid pro-cyclical tightening of bank credit amid externally driven financial stress. Likewise, any introduction of housing-related BBMs should be postponed under such scenario. • Allow automatic stabilizers to play, and if the downturn is severe, consider targeted and temporary discretionary stimulus.
Fiscal Vulnerabilities and higher Interest Rates	High Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by the increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.	High/Medium Higher risk premia on Spanish sovereign bonds would increase the cost of financing the fiscal deficit, further reducing the already limited fiscal space and deteriorating the long-term sustainability of public finances. This would be mitigated by Spanish public debt's long maturity and denomination in euros.	<ul style="list-style-type: none"> • Bolster the national medium-term fiscal structural plan by adopting concrete discretionary fiscal measures and reforms that strengthen the pace and credibility of Spain's envisaged medium-term fiscal consolidation path.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Policy Uncertainty	High Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes.	Medium External demand has been a key driver of Spain’s GDP growth since the GFC, albeit less so over the past year. Escalating trade measures could impede global trade and capital flows and lower Spain’s growth. Mitigating factors include the large weight of tourism—which is less exposed a priori—in exports, Spain’s limited direct and indirect export exposures to the US, and the possibility for Spain to become more integrated into the European value chains after a reconfiguration of trade.	<ul style="list-style-type: none"> • If adverse confidence or broader demand effects were to prevail in the short term, opening a large negative output gap, automatic stabilizers should be allowed to operate. In case of severe adverse shock, discretionary fiscal support could be provided but should be targeted and temporary. • Further promote public investment and accelerate structural reforms in areas that could facilitate global trade, improve competitiveness and facilitate structural transformation, such as through digitalization and infrastructure, building on the progress achieved under NGEU.
Structural Risks			
Cyberthreats	High Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High/Medium Spain has accelerated digital transformation in recent years. Widespread use of digital infrastructure makes the financial system as well as the real economy potentially more vulnerable to cyber-attacks.	<ul style="list-style-type: none"> • Increase public sector resources devoted to cyberthreats. • Supervisors to conduct more onsite examinations and increase thematic reviews related to cyber risks. • In the event of a systemic event hitting the financial sector, the Bank of Spain should provide emergency liquidity assistance.
Climate Change	Medium Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium/Low The occurrence of climate-related events (e.g., floods, droughts, heatwaves, wildfires) disrupts economic activity and amplifies inflationary pressures. The overall impact would depend on the size of the shock and the extent of damage. Although water stress is on the rise in Spain and the 2025 wildfires were devastating, these and other recent climate events have had a relatively small impact on overall economic activity.	<ul style="list-style-type: none"> • Provide targeted fiscal policy support to households and firms affected by extreme events. • Promote public investment and accelerate structural reforms in areas that could improve efficiency, resilience of productive activities, and reallocation of resources away from activities that are structurally more vulnerable to damages from recurring climate events.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
AI Acceleration	Medium Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions.	Medium Recent announcements of multiyear data hub investment projects by multiple companies in Spain could be the harbinger of further new investments and larger gains from AI in the future. At the same time, an acceleration of AI deployment could disrupt the labor market by inducing fast shifts in skills demanded by employers and large labor reallocation needs. Given already high levels of labor market mismatch in Spain (including in workers' fields of study) and labor market institutions that do not facilitate workers' mobility (such as tight job protection for regular workers and still insufficiently effective active labor market policies), this could raise Spain's high structural unemployment.	<ul style="list-style-type: none"> For workers currently in the labor market, support transitions to growing sectors by scaling up and enhancing training programs to acquire new skills and improving the job placement performance of regional public employment services. Make educational curricula more attuned and responsive to evolving labor market demands. Promote excellence in higher education by strengthening university autonomy in the recruitment, promotion and remuneration of professors, bolstering research collaboration with businesses.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Prolonged political fragmentation	Medium Failure to overcome difficulties in building political majorities in a highly fragmented parliament undermines the credibility of the government's fiscal commitments, including in the event of an adverse external event (e.g., some of the global risks above) that would tighten financial conditions and warrant a contractionary fiscal response.	High Potential inaction, as well as uncertainty about medium-term fiscal commitments, could weaken confidence, investment, and employment, adversely impacting public debt dynamics and triggering adverse market reactions.	<ul style="list-style-type: none"> Chart a politically acceptable path towards credible, sustained and growth-friendly discretionary fiscal consolidation. Reform the regional financing framework to reduce fiscal risks. Align the national fiscal rule to the EU fiscal framework to increase fiscal policy predictability.
Implementation of EU-funded projects	Medium The size, composition and implementation timing of remaining EU-funded spending to support investments and structural reforms could end up resulting in less economic stimulus than projected.	High Investment under the EU-funded projects is an important driver of near-term economic growth, with expected disbursements of around 1.2 percent of GDP in 2026.	<ul style="list-style-type: none"> Redouble efforts to ensure efficient coordination (including with Spanish regions), implementation, and oversight of the amended Recovery, Transformation and Resilience Plan.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Continued house price boom	<p>Low</p> <p>A combination of accelerating house prices and loosening of lending standards could create financial stability risks by increasing household indebtedness and the likelihood of defaults in the event of a market correction.</p>	<p>Medium</p> <p>A sharp correction in house prices could trigger a rise in loan defaults, particularly among more vulnerable or highly-indebted households. The resulting losses on their loan portfolios could lead banks to tighten credit conditions. A mitigating factor, which would contain bank losses in the first place, is the household sector's currently moderate indebtedness.</p>	<ul style="list-style-type: none"> • Boost housing supply to dampen house price growth. • To mitigate the macro-financial risks from a continued house price boom introduce mortgage-related BBMs (e.g. LTV or LTP), at least in the form of supervisory guidance, turning them into binding limits if lending standards loosen further and house price growth fails to moderate significantly. Postpone this introduction in the event of a sharp downturn associated with a tightening of credit conditions.

Annex III. Sovereign Risk Debt Sustainability Analysis

Public sector gross debt is high at 100.7 percent of GDP, and in a no-policy change scenario it declines to 90.7 percent over the forecast horizon. Additional fiscal consolidation will be needed to rebuild buffers. The projected debt trajectory is susceptible to moderate risk in the medium term. In the long run, population aging will exert mounting fiscal pressures which, if not addressed early on, would set debt on a sustained upward trajectory.

A. Background

1. Definition and Coverage. Public debt comprises Excessive Deficit Procedure (EDP) debt in the hands of the General Government. The General Government includes the Central Government, Regional Governments, Local Governments, and Social Security Funds. It includes only those public enterprises that are defined as part of General Government under the European System of Accounts. EDP debt is a subset of General Government consolidated debt (i.e., it does not include trade credits and other accounts payable) and the stocks are recorded at their nominal value.

2. Public Debt Developments. Public debt was on a declining path prior to 2020, when the sizeable fiscal response to counter the COVID-19 pandemic led to a rise in the debt-to-GDP ratio to 119.3 percent from 97.7 percent in 2019. Over 2021-2022, the debt ratio decreased steadily, driven by the rebound in economic activity, inflation, buoyant tax revenues, and the progressive withdrawal of the COVID-19 support measures. Over 2023-2025, the debt ratio continued to decline, albeit at a slower pace due to the fiscal package to counter rising energy and food prices, which was introduced in 2022 and gradually phased out until end-2024. Real GDP growth remained strong and inflation, while falling, stayed above its pre-COVID-19 average, yielding favorable debt dynamics.

3. Financing Conditions. Prior to the pandemic, Spain experienced a period of declining borrowing costs, driven by highly accommodative monetary policy, fiscal consolidation and a trend decline in the (real) natural rate of interest. Interest payments on public debt fell to 2.3 percent of GDP in 2019, while the 10-year bond yield averaged 0.7 percent that same year. Over 2020-2021, financing conditions remained favorable, including due to quantitative easing by the ECB, and Spain's 10-year bond yield averaged 0.36 percent. As a consequence of higher inflation and ECB monetary policy tightening, yields grew steadily over 2021-23, with the 10-year bond peaking at 3.95 percent in October 2023. Since then, borrowing costs have partly fallen and stabilized slightly above 3 percent, with an average of 3.3 percent in late 2025. Following the war in the Middle East, they increased to 3.5 percent at the end of March 2026. The spread over the German bund declined from an average of 100bps in 2023 to less than 50 bps by the end of March 2026, reflecting Spain's favorable fiscal dynamics and Germany's ongoing fiscal expansion.

4. Other Factors. The amortization profile of public debt is tilted towards the long term, with an average residual maturity of 7.9 years. The low share of short-term debt mitigated the impact of rising borrowing costs on public finances during 2022-2024. After peaking at 28.5 percent in mid-

2022, the share of total debt held by the Bank of Spain (BdE) has fallen gradually but still remains high at 20.9 percent by late 2025.¹ This decline was mirrored by a rise in the share held by non-residents, from 41.6 to 48.6 percent over the same period, while the share held by other residents (both domestic financial institutions and non-financial sector creditors) remained stable at 30 percent.

B. Baseline Scenario

5. Baseline. Debt is projected to fall to 98.6 percent of GDP in 2026 and subsequently continue declining to 90.7 percent of GDP by 2031, the end of the forecast horizon. This trajectory is driven by solid nominal growth and a mild improvement in the primary balance—from 0.0 to 0.7 percent of GDP over 2025-2031—which are only partly offset by a gradual rise in interest expenditures from 2.4 to 2.8 percent of GDP. Gross financing needs are projected to decline from 15.1 percent of GDP to a still high level of 13.8 percent by 2031.

6. Assumptions. The baseline scenario relies on medium-term projections that assume no additional fiscal measures besides those that have already received parliamentary approval or have been clearly identified. The projection includes a gradual rise in PIT revenues of 0.6 percentage points of GDP over 2025-2031 due to the assumed non-indexation of the central government's PIT brackets and only gradual updating of some of the autonomous communities' brackets over time. The baseline also incorporates the phasing-in of higher social security contributions following the 2021-2023 reforms. On the expenditure side, the temporary measures introduced to counter the energy price shock will worsen the fiscal balance in 2026 by 0.3 percent of GDP. Additionally, the public sector wage bill is projected to grow permanently by 0.2 percent of GDP in 2027, following a 4.5-5 percent rise in the wages of civil servants, as planned under a multi-year sectoral agreement signed in February 2026. Spain's commitment to reach 2 percent of defense-related spending starting from 2025 implies a permanent increase in spending equal to 0.7 percent of GDP under the NATO definition. However, the corresponding fiscal impact in national account terms is expected to be milder and more gradual, and it is assumed to reach its full magnitude only towards the end of the forecast horizon. Further disbursement of grants and loans from the EU Recovery and Resilience Fund is also assumed. The grants, amounting to €80 billion or about 4.8 percent of 2025 GDP, are assumed to be disbursed in full over 2021-27 (including €25 billion over 2026-27) and are fiscally neutral. Approximately €22 billion of loans (26 percent of the total available amount) are assumed to be drawn over 2025-28, of which approximately €6 billion will be used for spending and the remaining sum will be dedicated to credit guarantee and lending programs. Unlike grants, the loan component entails an increase in the debt-to-GDP ratio of approximately 1.2 percentage points by 2028, which will subsequently shrink gradually as it is repaid. Interest expenditure is projected to grow gradually from 2.4 to 2.8 percent of GDP, reflecting higher bond yields compared to their pre-2022 levels. Over the period 2026-2031, contributions to the Social Security Reserve Fund are assumed to amount to € 4.6 billion per year.

¹ The BdE's holdings of government debt include monetary policy operations on behalf of the ECB.

C. Risk Assessment

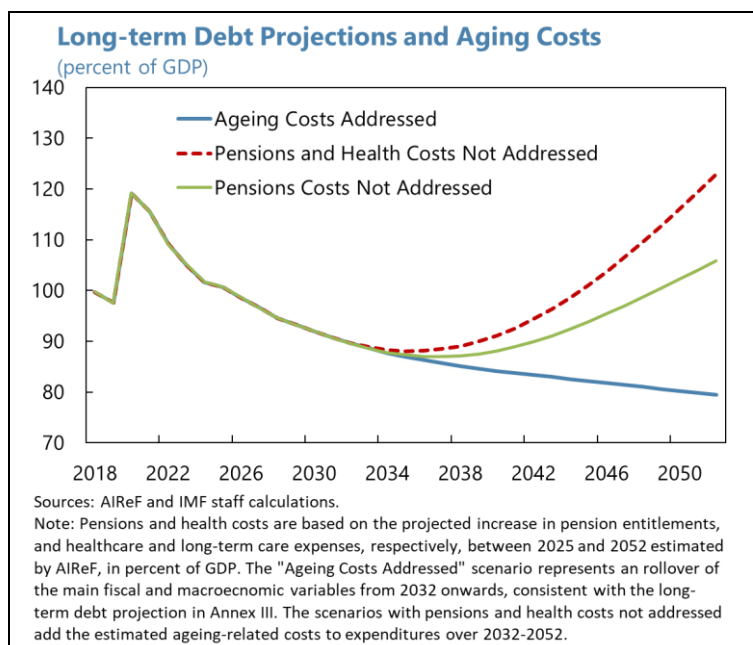
7. Overall Assessment. Staff assess the overall risk of debt distress as moderate, with higher risks in the medium-to-long term. Despite a steady and significant debt reduction since 2020, debt and gross financing needs remain high, making debt dynamics and rollover risk sensitive to a potential tightening of credit conditions, lower GDP growth, and/or a weakening of the fiscal position. In the long term, aging-related expenditures will exert major fiscal pressures, entailing high debt distress risk. Mitigating factors include the high share of debt held by the ECB—although decreasing—and domestic investors, as well as the maturity profile tilted towards longer durations.

8. Realism of Baseline Assumptions. Past forecast errors for public debt, the interest rate-growth rate differential ($r-g$), and other macroeconomic variables do not show systematic bias in past projections. The projected 3-year reduction in debt and the improvement in the cyclically adjusted primary balance are high but not unrealistic compared to historical experience, as they are at the 75th and 65th percentiles of the respective historical distributions among peer countries.

9. Medium-term Risk. The fan chart exercise points to high distress risk at the 2031 horizon, due to a still high debt level and a high probability of non-stabilization under the baseline fiscal path. The gross financing needs exercise signals only moderate medium-term risk, as under the stress scenario financing needs rise further from their already high projected baseline value but not to the levels experienced during the pandemic.

10. Long-term Risk. Fiscal pressures related to population aging are the main source of long-term risk of debt distress for Spain. Underpinned by a sharp rise in the old-age dependency ratio, in particular, outlays for pensions, healthcare, and long-term care are expected to rise as a share of GDP over the coming next decades, particularly between 2030 and 2050. Although the precise magnitude of future aging-related costs is sensitive to assumptions regarding immigration flows, fertility, productivity growth, labor force participation and unemployment,

several independent sources agree that these costs will be large. Under a no-policy change scenario, estimates of the rise in expenditures as a share of GDP between 2025 and 2050 range from 4.5 percentage points by AIReF to 5.1 percentage points by the European Commission's Ageing Report 2024. Accounting for a minor offset from mechanically lower education expenditures, the net



projected aging costs are 3.9 and 4.7 percentage points for AIReF and the Ageing Report 2024, respectively. Using AIReF's cost estimates, staff projects that unaddressed aging pressures would raise the debt-to-GDP ratio by 4 percentage points higher in 2040 and 22 percentage points higher in 2050, relative to a scenario in which they are fully addressed.

Annex III. Figure 1. Spain: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of debt distress is moderate, with low levels of vulnerability in the near term. Under the baseline fiscal policy path, however, medium-term risk is moderate. In the long term, age-related expenditure pressures pose high risks to debt dynamics.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate. Under the baseline, debt is projected to decline but remain high at 90 percent of GDP in 2031. Debt dynamics are thus very sensitive to exogenous shocks, a rise in bond yields, or a worsening of the fiscal balance. This is reflected in the high-risk signal from the fan chart exercise. The GFN exercise signals moderate risk, as the rise in GFN from a shock to borrowing capacity would be high but lower than during COVID-19.
Fanchart	High	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	High	Long-term risk is assessed as high due to the significant pressures on healthcare, long-term care, and pensions outlays driven by population aging. If not addressed, these pressures will decisively set debt on an upward path (see paragraph 19 of the main text).
Sustainability assessment 2/			
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Spain's overall risk of debt distress is assessed as moderate. The significant share of debt held by domestic investors and the European Central Bank—although the latter is decreasing—as well as its long average maturity are strong mitigating factors. In the medium term, the projected fiscal path leads to moderate debt reduction but the debt-to-GDP ratio remains high at 90 percent, implying a high sensitivity of the debt trajectory to lower growth, tighter financial conditions, and/or a weakening of the fiscal position. The fan chart exercise thus signals a high medium-term risk. Gross financing needs pose moderate medium-term risk. In the long-run, population ageing constitutes a high risk for debt dynamics. If unaddressed, increasing pensions and health costs will set debt on an upward trajectory starting in the mid-2030s. Further reforms will be needed to complement the 2021-2023 pension reforms, to either increase the revenues of the social security system or contain future outlays.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 2. Spain: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/						Comments				
CG	GG	NFPS	CPS	Other						
1a. If central government, are non-central government entities insignificant?						n.a.				
2. Subsectors included in the chosen coverage in (1) above:										
Subsectors captured in the baseline						Inclusion				
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	Not applicable			
				2	Extra budgetary funds (EBFs)	No				
				3	Social security funds (SSFs)	Yes				
				4	State governments	Yes				
				5	Local governments	Yes				
				6	Public nonfinancial corporations	No				
				7	Central bank	No				
				8	Other public financial corporations	No				
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth. acct. payable 2/	IPSGSs 3/
4. Accounting principles:						Basis of recording		Valuation of debt stock		
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:						Consolidated		Non-consolidated		

Color code: chosen coverage Missing from recommended coverage Not applicable

Reporting on Intra-government Debt Holdings

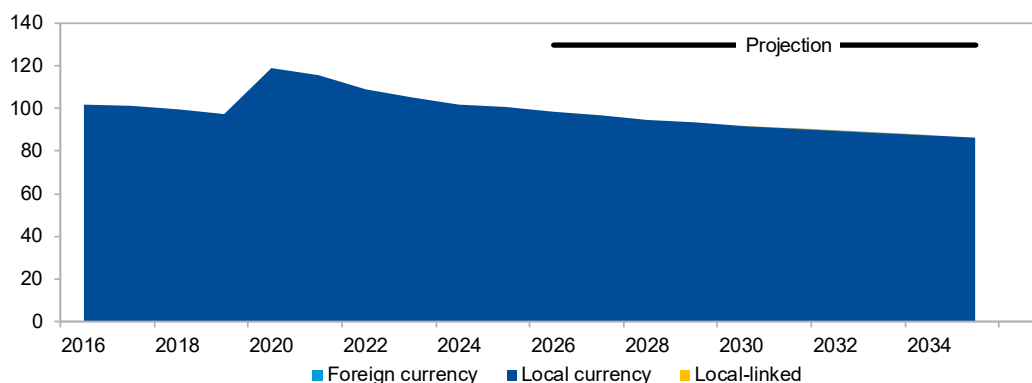
CPS	NFPS	GG: expected	CG	Issuer	Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
					1	2	3	4	5	6	7	8	Total	
				1	Budget. central govt			13.323				357.585		370.908
				2	Extra-budget. funds									0
				3	Social security funds	126.17								126.17
				4	State govt.	204.011								204.011
				5	Local govt.	6.24								6.24
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
				Total		336.421	0	13.323	0	0	0	357.585	0	707.329

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
 4/ Includes accrual recording, commitment basis, due for payment, etc.
 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Debt coverage is at the general government level. A large fraction of the debt of the governments of autonomous communities is held by the central government through the Fondo de Liquidez Autonómico and Facilidad Financiera. Data on intra-government debt holdings is from the February 2026 Statistical Bulletin of the Bank of Spain.

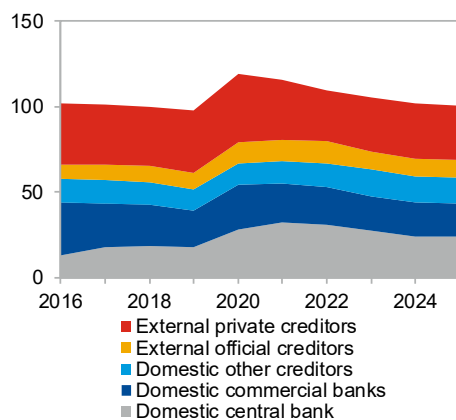
Annex III. Figure 3. Spain: Public Debt Coverage Structure Indicators

Debt by Currency (percent of GDP)



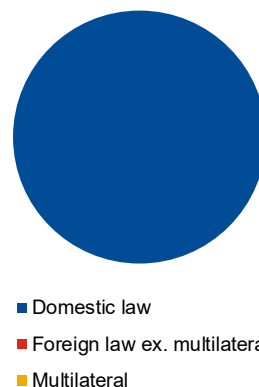
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



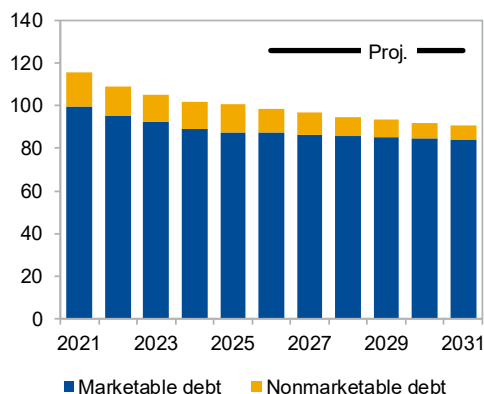
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (percent)



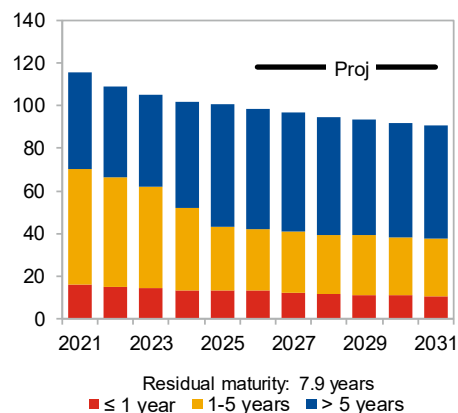
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

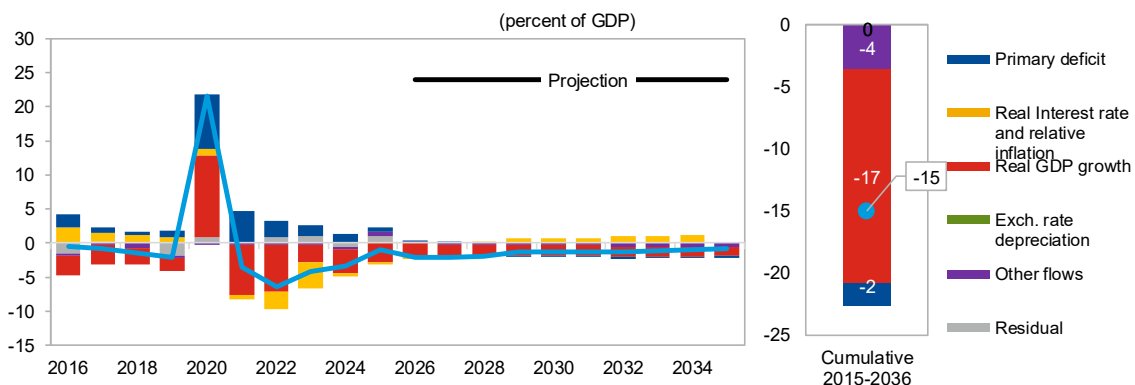
Commentary: Debt is predominantly issued in domestic currency, under domestic law, and is marketable. Domestic creditors and the central bank own more than half of all issued debt. The average residual maturity is close to 8 years.

Annex III. Figure 4. Spain: Baseline Scenario

(percent of GDP unless indicated otherwise)

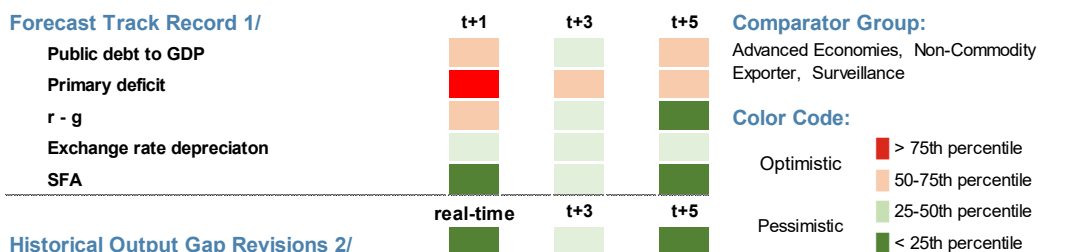
	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	100.7	98.6	96.6	94.6	93.4	92.1	90.7	89.5	88.4	87.3	86.5
Change in public debt	-1.0	-2.0	-2.0	-2.0	-1.2	-1.3	-1.3	-1.2	-1.1	-1.0	-0.9
Contribution of identified flows	-2.1	-2.0	-2.0	-2.0	-1.2	-1.3	-1.3	-1.2	-1.1	-1.0	n.a.
Primary deficit	0.5	0.2	0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Noninterest revenues	42.4	43.4	43.5	43.1	43.4	43.6	43.7	43.7	43.7	43.7	43.7
Noninterest expenditures	42.9	43.5	43.5	43.1	43.3	43.4	43.4	43.4	43.4	43.4	43.4
Automatic debt dynamics	-3.2	-2.4	-1.9	-1.7	-0.9	-0.9	-0.8	-0.4	-0.3	-0.2	n.a.
Real interest rate and relative inflation	-0.4	-0.3	-0.2	0.0	0.6	0.7	0.7	1.0	1.1	1.2	n.a.
Real interest rate	-0.4	-0.3	-0.2	0.0	0.6	0.7	0.7	1.0	1.1	1.2	1.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.
Real growth rate	-2.8	-2.1	-1.8	-1.7	-1.6	-1.6	-1.5	-1.4	-1.4	-1.4	-1.4
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.6	0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.5	-0.5	-0.5	-0.5
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.5	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Other transactions	1.1	0.6	0.2	0.2	0.2	0.2	0.2	-0.1	-0.1	-0.1	-0.1
Contribution of residual	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.
Gross financing needs	15.1	15.0	14.8	14.4	14.3	14.0	13.8	14.1	14.1	14.1	14.1
of which: debt service	15.1	15.2	15.1	14.9	14.8	14.7	14.5	14.8	14.8	14.8	14.8
Local currency	15.1	15.2	15.1	14.9	14.8	14.7	14.5	14.8	14.8	14.8	14.8
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.8	2.1	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.6
Inflation (GDP deflator; percent)	2.9	3.0	3.0	2.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Nominal GDP growth (percent)	5.8	5.2	4.8	4.8	4.0	4.1	4.1	3.9	3.9	3.9	3.9
Effective interest rate (percent)	2.5	2.7	2.8	2.9	3.0	3.1	3.2	3.5	3.6	3.7	3.9

Contribution to Change in Public Debt

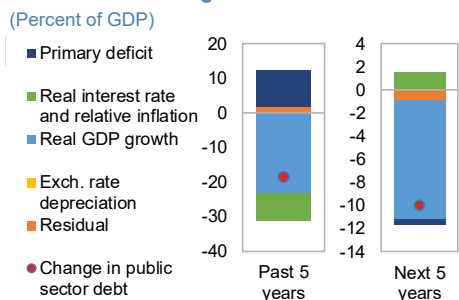


Commentary: Public debt is projected to stabilize over the forecast horizon as the downward contribution of real GDP growth is offset by negative primary balance and interest expenditures.

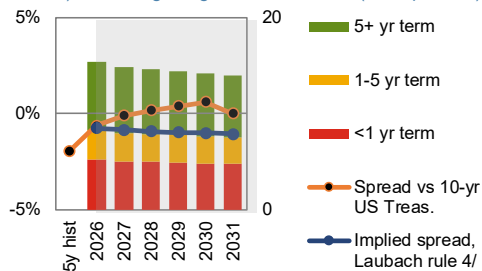
Annex III. Figure 5. Spain: Realism of Baseline Assumptions



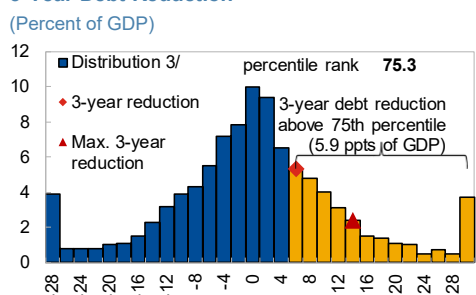
Public Debt Creating Flows



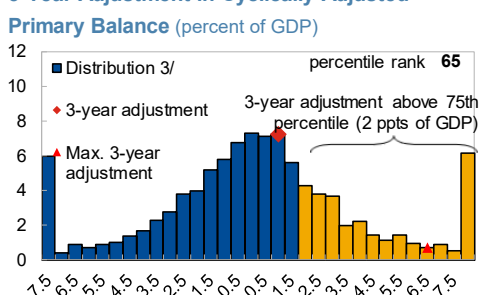
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



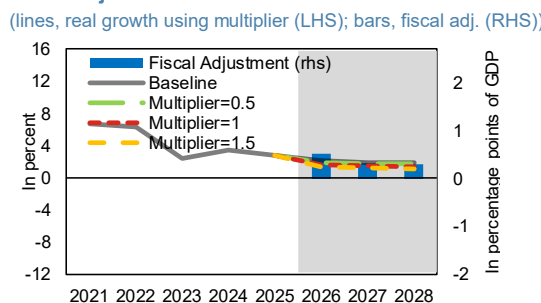
3-Year Debt Reduction



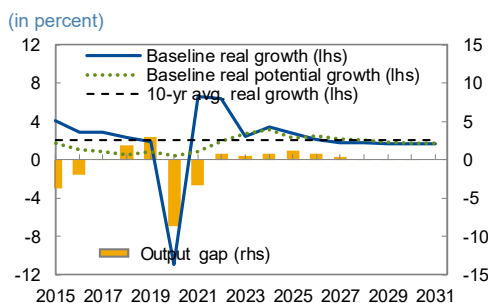
3-Year Adjustment in Cyclically-Adjusted



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: The realism analysis does not show systematic bias in past forecasts. In the last five years, large deficits from the responses to the pandemic and the energy crisis were the main upward driver of debt but will contribute to debt reduction over the forecast horizon. Real growth will continue to drive debt reduction in the medium term. The projected 3-year changes in debt and the cyclically-adjusted primary balance are high but not unrealistic in historical terms.

Source : IMF Staff.

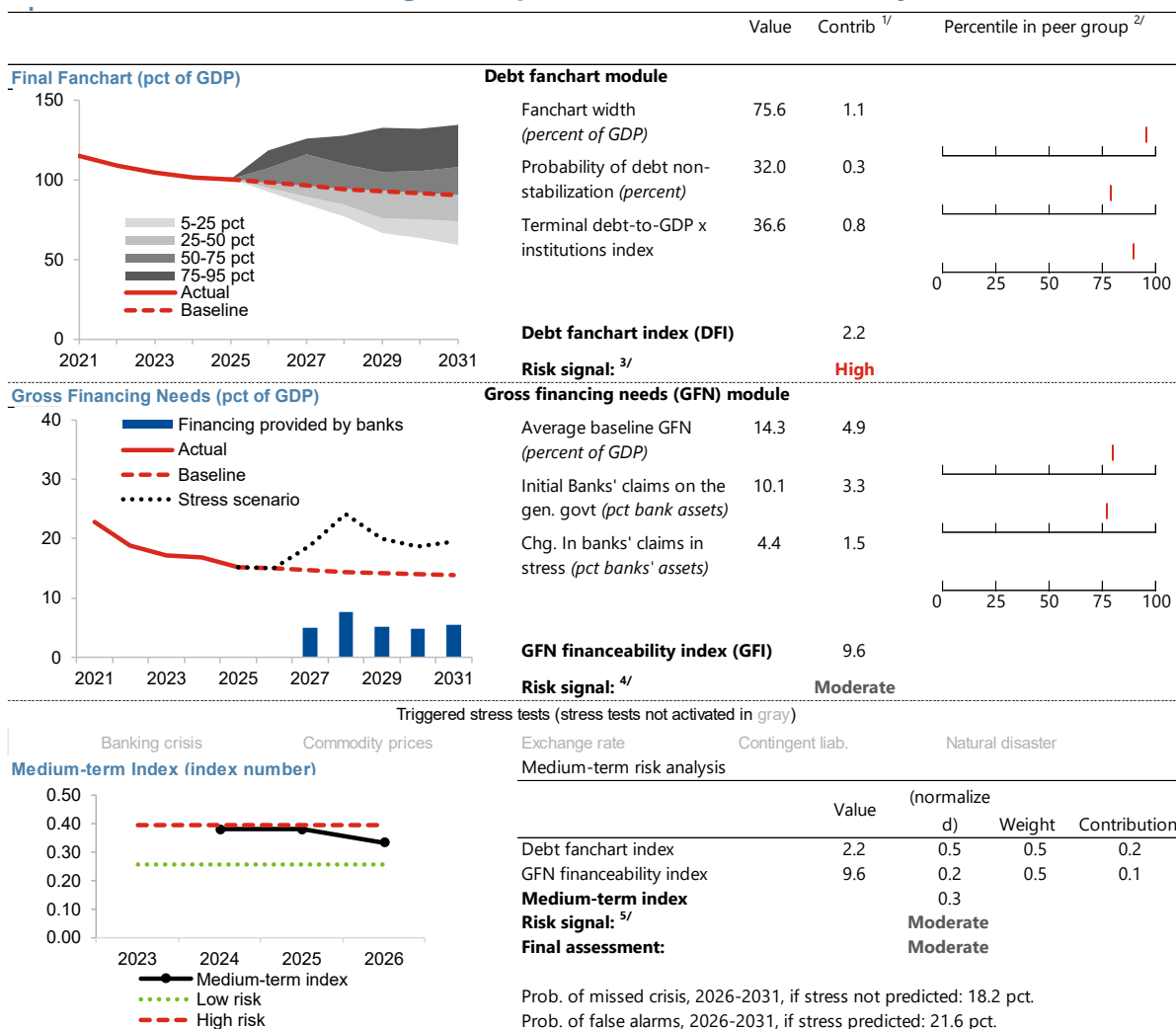
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 6. Spain: Medium-term Risk Analysis



Commentary: The Fanchart exercise points to high medium-term risk of debt distress, due to a high debt level, adjusted for institutional quality, and a high probability of non-stabilization relative to comparator countries. The GFN exercise signals moderate medium-term risk. However, even under the stress scenario GFN would not rise above levels experienced during the pandemic. No stress tests were triggered.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Figure 7. Spain: Long-term Risk Analysis

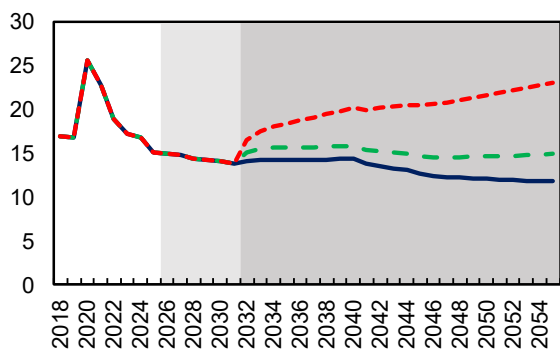
Triggered modules

Large amortizations **Pensions** Climate change: Adaptation Natural Resources
Health Climate change: Mitigation

Long-term Risk Assessment: Large Amortization

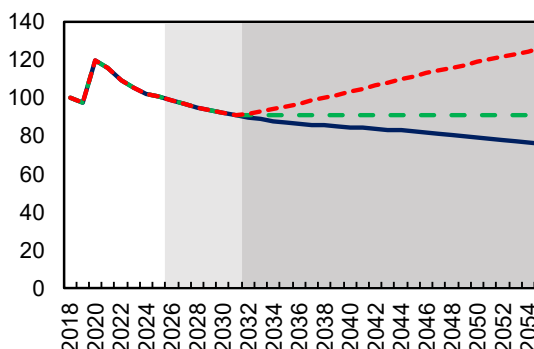
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Overall Risk Indication		Green

GFN-to-GDP Ratio



Long run projection
 Projection
 Baseline with t+5
 Baseline with t+5 and DSPB
 Historical 10-year average

Total Public Debt-to-GDP Ratio



Long run projection
 Projection
 Baseline with t+5
 Baseline with t+5 and DSPB
 Historical 10-year average

Commentary: The overall long-term amortization risk signal is not triggered. Medium-term extrapolations show a stabilization of GFN and debt around 10 percent and 60 percent of GDP, respectively. They only signal a high risk in terms of the amortization level, as sustained GDP deflator growth mechanically implies a rise in the nominal value of debt. However, amortization relative to GDP remains stable and the signal is not triggered. Extrapolation based on historical averages for key fiscal (e.g., primary balance, effective interest rates) and macroeconomic (e.g., real growth, inflation) variables implies a high amortization risk. However, this scenario is strongly influenced by the highly exceptional period of the COVID-19 pandemic and thus has limited informative content for the long-term horizon considered here.

Annex IV. Data Issues

Annex IV. Table 1. Spain: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
Please select your overall DAA rating from one of the circled buttons on the right.							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	A	A	A		
Granularity 3/	B		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Staff assess the overall data quality for Fund's surveillance to be adequate. Further improvements could include reducing the sizes of expenditure-based GDP components' revisions, improving GDP data granularity including by publishing separately private and public investment, and enhancing the consistency across different data sources (for example, trade data in the national accounts versus in BOP) at preliminary data releases.</p>							
<p>Changes since the last Article IV consultation. N/A</p>							
<p>Corrective actions and capacity development priorities. N/A</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. N/A</p>							
<p>Other data gaps. The data on execution of NGEU investments has improved significantly and is published on a timely basis, but reporting is not done in national accounts terms.</p>							

Annex IV. Table 2. Spain: Data Standards Initiative

Spain adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex IV. Table 3. Spain: Table of Common Indicators Required for Surveillance As of April 20, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁸	Frequency of Reporting ⁸	Expected Frequency ^{8,9}	Spain ¹⁰	Expected Timeliness ^{8,9}	Spain ¹⁰
Exchange Rates	21-Apr-26	20-Apr-26	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mar-26	Apr-26	M	M	M	M	1W	2W
Reserve/Base Money	Mar-26	Apr-26	M	M	M	M	2W	2W
Broad Money	Mar-26	Apr-26	M	M	M	M	1M	1M
Central Bank Balance Sheet	Mar-26	Apr-26	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Mar-26	Apr-26	M	M	M	M	1M	1M
Banks' Financial Soundness Indicators	Dec-25	Apr-26	Q	Q	Q	Q	1Q	1M
Residential Real Estate Prices ²	Dec-25	Mar-26	Q	Q	Q	Q	1Q	1Q
Total Assets of Other Depository Corporations ³	Mar-26	Apr-26	M	M	M	M	1M	1M
Total Credit from Other Depository Corporations ³	Mar-26	Apr-26	M	M	M	M	1M	1M
Sectoral Breakdown of Credit from Other Depository Corporations ³	Mar-26	Apr-26	M	M	M	M	1M	1M
Currency Breakdown (domestic vs. foreign currency) of Other Depository Corporations' Total Assets and Credit Indicators (total and sectoral breakdowns) ³	Mar-26	Apr-26	M	M	M	M	1M	1M
Interest Rates ⁴	Mar-26	Apr-26	M	M	D	...	...	...
Consumer Price Index	Mar-26	Apr-26	M	M	M	M	1M	NLT 2W
Revenue, Expenditure, Balance and Composition of Financing ⁵ -General Government ⁶	Dec-25	Mar-26	Q	Q	A/Q	A/Q	2Q/12M	2Q/1Q
Revenue, Expenditure, Balance and Composition of Financing ⁵ -Central Government	Jan-26	Mar-26	M	M	M	M	1M	90D
Stocks of Central Government and Central Government-Guaranteed Debt ⁷	Mar-26	Apr-26	M	M	Q	M	1Q	1M
Total Stock of General Government Debt ⁶	Dec-25	Apr-26	Q	Q	Q	Q	4M	3M
External Current Account Balance	Dec-25	Mar-26	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Jan-26	Mar-26	M	M	M	M	8W	8W
GDP/GNP	Dec-25	Mar-26	Q	Q	Q	Q	1Q	60D
Gross External Debt	Dec-25	Mar-26	Q	Q	Q	...	1Q	3M
International Investment Position	Dec-25	Mar-26	Q	Q	Q	Q	1Q	3M

¹ Includes net market value of derivative positions.

² Required only from Members with Systemically Important Financial Sectors.

³ Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

⁴ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁵ Foreign, domestic bank, and domestic nonbank financing.

⁶ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁷ Including currency and maturity composition.

⁸ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁹ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

¹⁰ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex V. Implementation of 2025 AIV Policy Recommendations

Key Recommendations	Implementation Status
<p>Increase fiscal consolidation efforts from 2025 onwards to set debt on a firm downward path.</p>	<p>The authorities overachieved on their overall deficit target of 2.5 percent of GDP for 2025 (down from 3.2 percent of GDP in 2024) stated in their Medium-Term Fiscal-Structural Plan (MTFSP). Excluding the one-off expenditures related to the DANA floods, the deficit was 2.2 percent of GDP. This was achieved thanks to strong revenue collection, supported by sustained economic growth, despite substantially higher-than-planned public spending growth. To deliver the cumulative increase in the structural primary balance of 3 percentage points of GDP envisioned in the authorities' MTFSP over 2025-2031, and even more so to frontload such adjustment over 2025-2030 as recommended by staff, the authorities will need to accelerate the pace of discretionary fiscal consolidation in the years ahead.</p>
<p>Formulate credible medium-term fiscal consolidation plans (contingent on the state of the economy) to help build the necessary social consensus and anchor expectations.</p>	<p>As part of the new EU economic governance framework, the MTFSP includes aggregate fiscal targets until 2031. However, in its current form, the MTFSP does not constitute a fully-fledged medium-term fiscal framework. In particular, while it includes a projection for the fiscal balance, it does not contain projections for total revenues and expenditures, nor their main components. It also does not provide detailed and quantified fiscal measures underpinning the fiscal path. Finally, it does not break down the planned consolidation for different levels of government. Some of the above information, in particular five-year-ahead projections of revenues and expenditures, was also absent from the Annual Progress Report published in April 2026. Further, Spain did not submit to the European Commission a Draft Budgetary Plan for 2026. In the past, even in the case of a rollover of the previous year's budget (such as in October 2023), such document was submitted in order to present short-term fiscal projections with up-to-date macroeconomic data and revised assumptions.</p>
<p>Implement a growth-friendly reform of the tax system aimed at broadening the base and reducing inefficiencies, in particular with respect to VAT and environmental taxes. Let the redesigned tax on banks remain temporary in nature.</p>	<p>The authorities have no plan for broad VAT reform. A planned alignment of excise taxes for diesel on gasoline was tabled to Congress in 2025 but did not secure parliamentary approval. The redesigned tax on banks still remains temporary, expiring at the end of 2026, with the corresponding revenue collected in 2027.</p>
<p>Prioritize growth-enhancing expenditures and increase spending efficiency. Enhance the effectiveness and medium-term nature of the spending review process.</p>	<p>The Ministry of Finance has continued to follow through on AIREF's recommendations from past spending reviews. However, topics for the upcoming reviews requested from AIREF remain narrow in scope rather than covering key functional areas (e.g., education, health, social protection). Neither AIREF nor the Spending Review Monitoring Unit in the Ministry of Finance serve a strategic role in the selection of topics. The spending review process remains self-standing and tightly linked to medium-term fiscal planning.</p>

Key Recommendations	Implementation Status
Reform the Autonomous Communities financing system, including conditionality in the debt reduction agreement.	The authorities' proposal for a partial absorption by the central government of autonomous communities' debt, has been included in an organic law proposal in September 2025. Under the proposal, access to subsidized central government financing in 2026 will be subject to presenting multi-annual debt plans for a transition towards market-based debt issuance. The proposed law also includes reforms to the autonomous financing instruments, eliminating the <i>Facilidad Financiera</i> and enforcing narrower eligibility to, and stricter conditionality in central funding from the <i>Fondo de Liquidez Autonómico</i> . In January 2026, the authorities also published a proposal for reforming key aspects of the financing system of autonomous communities, such as the taxes that are included in the scheme, the criteria for the repartition of funds across regions, and the envelope of additional transfers to them from the central government.
Implement additional employment-friendly measures to offset the increase in future pension spending resulting from the 2021 pension reform.	The authorities passed reforms to ease the requirements for the "flexible retirement" modality, allowing more retirees to re-enter the labor force. More substantial reforms to fundamentally mitigate the sharp projected increase in pension outlays over the next decades, or to increase revenues, are not under consideration.
Update the formulation of the safeguard clause for the tri-annual review of the sustainability of the pensions system, making it more forward-looking and better focused on the prospective evolution of the gap between pension expenditures and the system's revenues.	AIReF's next review of the pension system is scheduled for June 2026, as requested by the European Commission. It is expected to consider a narrower definition of revenues of the pension system, in particular with respect to transfers from the central government, as well as—should the clause be triggered—a narrow set of potential corrective measures. However, the upcoming review will continue to rely on the same future net spending threshold for the assessment, and an unchanged underlying definition of the sustainability of the pension system.
Strengthening the role of AIReF in the preparation of medium-term projections, its independence in the evaluation of spending efficiency and other selected topics of analysis.	There are currently no plans for greater involvement of AIReF in the preparatory phases of medium-term fiscal planning and macroeconomic projections, or to grant AIReF more autonomy in selecting topics of analysis in the context of its spending reviews.
Reform the national fiscal rule to enhance its alignment with the EU economic governance framework and increase fiscal policy predictability, especially with respect to autonomous communities.	There are currently no plans to reform Organic Law 2/2012, which sets out the foundation of the subnational fiscal rule.
Provide additional incentives for employers to create regular contracts (e.g., introducing higher unemployment insurance contributions for employers with higher turnover—so-called experience rating), including by reducing uncertainty around dismissal costs, and discourage excessive shifts between activity and inactivity under fixed discontinuous.	No reforms in this area have been introduced since 2021. The Supreme Court ruled against adjusting the compensation for unfair dismissals to individual circumstances in December 2025. However, the authorities are still contemplating potential legislative changes that would grant labor court judges such discretion. If eventually passed and implemented, this could introduce significant uncertainty in dismissal costs.

Key Recommendations	Implementation Status
Enhance statistical information to adequately monitor fixed discontinuous contracts, particularly their inactivity periods (e.g., duration and recall frequency).	No changes to the statistical reporting on fixed discontinuous contracts are under consideration.
Reduce the use of temporary contracts in the public sector.	The “Process for the Stabilization and Consolidation of Temporary Employment in the Public Sector”, aimed at converting temporary contracts that correspond to <i>de facto</i> permanent positions into actual permanent contracts, was not completed by end-2024 as initially planned. The incidence of temporary employment in the public sector has not declined significantly and remains high, at about 30 percent.
Boost ALMPs, including by: strengthening activation requirements, better integrating active and passive policies, increasing the effectiveness of regional Public Employment Service agencies by tightening the link between central government transfers and improvements in their job placement performance, expanding the ALMP budget and increasing the share of budget resources spent on job placement.	The Public Employment Service (PES) has recently strengthened the link between regional offices’ funding and job placement efforts (e.g., providing training), although leaving significant scope for greater focus on enhanced job placement <i>performance</i> . No other reforms have been introduced to strengthen activation requirements (and their enforcement) or better integrate active and passive policies. While the ALMP budget is higher than in the past, there is no evidence of a significant shift towards job placement activities.
Strengthen the rights and obligations of unemployment assistance (UA) recipients, make UA more compatible with work by lengthening the period over which benefit receipt can be combined with work, and complement it with a well-designed in-work tax credit.	The UA (<i>subsidio por desempleo</i>) reform, adopted in November 2024, improved the beneficiaries’ work incentives by reducing the benefit amount over time (while raising its initial level), making benefit receipt temporarily compatible with work, and establishing personalized activation itineraries. However, activation requirements associated with UA benefits—and their enforcement—have remained unchanged.
Carefully design the reduction of the working week in the private sector to mitigate its adverse impact on output and workers’ incomes in the long term.	The proposed reform was rejected by Parliament in September 2025.
Carefully calibrate future minimum wage increases to avoid unintended employment effects on disadvantaged labor market groups, and grant more independence and institutional weight to the Minimum Wage Commission.	The minimum wage will be increased by 3.1 percent in 2026, to maintain its purchasing power, going beyond the government’s goal of maintaining its level at around 60% of the average national salary. The institutional setup of the Minimum Wage Commission remains unchanged.
Facilitate firms’ scaling up and innovation, by completing both the Spanish and EU single markets for goods and services, streamlining firm size-related tax and regulatory thresholds, boosting venture capital through progress toward the EU Savings and Investment Union complemented by domestic incentives, and promoting excellence in higher education, including through greater autonomy and performance-based funding of universities.	ICO has launched <i>ICO Crecimiento</i> , a direct financing instrument targeted at SMEs with high growth potential. At the EU level, the Spanish government has led the <i>Competitiveness Lab</i> initiative, launched in October 2025, which serves as a pilot framework for the Savings and Investments Union (SIU). Its first project, the <i>Finance Europe Label</i> , aims to help savers identify investment products that support European companies. The “Regime 20” initiative to cut regulatory barriers between regions is proceeding gradually. Tax and regulatory thresholds remain unchanged. No further tertiary education reform is being contemplated.

Key Recommendations	Implementation Status
<p>Prioritize productivity-enhancing investment projects and ensure an effective use of NGEU funds, including by improving coordination across all government levels and further enhancing the collection and reporting of data (also in national accounting terms) on investment execution.</p>	<p>In December 2025, the European Commission approved an addendum that simplifies milestones and targets to accelerate the final phase of grant disbursement, There has been no major recent reprioritization of projects or improvement in data collection and reporting.</p>
<p>Continue monitoring closely the real estate market and the evolution of mortgage-related and broader systemic financial risks.</p>	<p>The BdE regularly publishes and monitors data on commercial and residential real estate market prices, along with banking system performance, and uses a variety of model-based indicators to assess real estate-related and broader systemic financial risks. Additionally, monitoring of foreign investment in the real estate market, which has risen sharply in recent years, has been improved with updates to quantitative reporting templates.</p>
<p>Continue phasing in the 1-percent positive neutral CCyB to further support banking system resilience and preserve credit extension in the event of adverse shocks.</p>	<p>On October 1, 2024, the BdE approved the activation of a 1 percent countercyclical capital buffer (CCyB), to be phased in through two steps: 0.5 percentage points effective October 1, 2025, and the full 1 percent effective October 1, 2026. This two-step activation is being implemented as planned.</p>
<p>Boost housing supply, especially in areas constrained by land scarcity, by advancing the Land Law reform, streamlining urban planning and construction permit procedures, expanding developable land, and increasing the social housing stock.</p>	<p>Progress on boosting housing supply has been uneven. The Land Law reform has so far failed to gather enough support in Parliament to be adopted. Measures to speed up permitting and planning procedures have therefore largely been pursued at the regional and municipal levels, where some authorities have introduced targeted fast-track instruments, simplified licensing regimes, and greater flexibility for land-use changes. However, these initiatives remain heterogeneous and have not materially reduced lengthy approval processes in high-demand areas. More tangible progress has been made on expanding affordable and social housing, notably through the mobilization of public land and housing assets—including the transfer of <i>SAREB</i> properties and land to the new public housing vehicle—alongside increased public funding, public-private partnerships, and the promotion of industrialized construction.</p>
<p>Rent caps should be further evaluated and discarded if found to reduce the quantity and/or quality of rental market supply and to undermine lower-income households' access to housing.</p>	<p>Rent caps have not been reconsidered and have instead been extended to municipalities in the Basque Country, Navarra, and Galicia. Other municipalities are either considering this policy or have already submitted their applications (e.g., municipalities in Madrid, Canary Islands, Asturias).</p>
<p>Follow up on the 2024 FSAP recommendations implementation.</p>	<p>Progress has been made, although implementation has varied across FSAP recommendations. This partly reflects the nature of the measures involved, as some could be implemented directly at the agency level, while other require inter-agency coordination or legislative changes. See Annex VII.</p>

Address risks of transnational aspects of corruption. ¹	Recent legislative reforms aim to accelerate the criminal proceedings and modernize criminal justice system (simplify and expediting proceedings), which may help tackle foreign bribery. The authorities also reported enhanced enforcement efforts. The updated brochure " Combating Corruption in International Business Transactions " has been widely distributed to raise awareness. ² In terms of facilitation, the authorities have continued to strengthen their beneficial ownership register and scrutiny of banks and professional enablers. Spain has also advanced efforts to reinforce asset recovery through draft legislation under the State Anti-Corruption Plan approved in 2025.
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¹ Under the 2018 Enhanced Framework on Governance, Spain volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption.

² IMF staff and Spain have provided views and information which do not prejudice the OECD Working Group on Bribery's monitoring of the implementation of the OECD Anti-Bribery Convention.

Annex VI. Implementation of 2024 FSAP Recommendations

	Fund Recommendation	Addressee	Update on Progress
	<i>Systemic risk analysis and monitoring</i>		
1	Enhance data collection and monitoring of foreign investments in the real estate market.	BdE, CNMV, DGSFP	The BdE has further strengthened its monitoring capacity by securing access to Real Capital Analytics transaction data, providing valuable information into foreign real estate investments. The DGSFP has enhanced data collection by amending the quantitative reporting templates. The package includes several changes, notably to the real estate investment template, which now requires reporting the asset's latitude and longitude. The amendment was proposed in 2024 and adopted in 2025Q1.
2	Create the infrastructure for a more granular cash-flow analysis (as designed by the FSAP) and report regular stress testing results.	BdE	The BdE has now published the previously conducted granular cashflow analysis—similar to that conducted during the FSAP—in the Spring 2025 Financial Stability Report (Box 3.2). The analysis will be updated on an annual basis.
	<i>Financial sector oversight</i>		
3	Ensure alignment of resources of supervisory authorities to current and expected future workload.	Government, BdE, CNMV, DGSFP	The CNMV successfully onboarded 80 specialists in 2025 as planned, focusing on IT, cybersecurity, operational resilience, and crypto assets. It plans to hire at least 30 additional staff in 2026, with expertise in IT, to support CNMV's digital transformation. In addition to hires made by the BdE in 2024-2025 to expand its IT risk staff for the Directorate General Banking Supervision—to support the workload arising from the implementation of the Digital Operational Resilience Act (DORA) and the Market in CryptoAssets Regulation (MiCAR)—the BdE is conducting continuous assessments to determine additional staffing needs. The DGSFP is also adapting the structure of its Technology and Digital Innovation Supervision Division, including through specialized hires (32 hires in 2025; 35 planned for 2026-27 under the government's public offer) and targeted outsourcing to address technical capacity gaps.
4	Grant full autonomy to CNMV over its recruitment and retention processes and streamline related procedures.	Government, CNMV	No action. The continued absence of recruitment autonomy has contributed to high staff turnover and increasing difficulty in retaining talent at CNMV.

	Fund Recommendation	Addressee	Update on Progress
	<i>Macroprudential policy</i>		
5	Deploy policies, including but not necessarily limited to, the introduction of a positive neutral countercyclical buffer, to ensure that banks raise capital buffers to be better positioned against downside tail risks.	BdE, AMCESFI	On October 1, 2024, the BdE approved a framework for setting the CCyB and set the initial rate at 0.5 percent, effective from October 1, 2025. Considering that cyclical systemic risk remained at standard levels in Spain, the buffer rate was subsequently increased to 1.0 percent in 2025Q4 (effective from October 1, 2026).
6	Increase the minimum frequency of AMCESFI Council meetings and raise the profile and transparency of AMCESFI by publishing meeting minutes / summaries and timely Annual Reports.	AMCESFI	Limited action. AMCESFI and its participating authorities made an effort in 2025 to bring forward the publication of their annual report and reduce the time lag that had existed in previous years. The 2024 annual report was published on July 17, 2025. No progress has been made to enhance the transparency and to increase the number of meetings.
7	Review the case for appointing two or three external members to AMCESFI to strengthen the diversity of perspectives and expertise.	MINECO, AMCESFI	No action.
8	Further develop and deepen the macroprudential framework by addressing remaining data and information gaps, as well as by strengthening reporting requirements.	BdE, CNMV, DGSFP, AMCESFI	The CNMV has been making progress towards addressing data gaps—for foreign funds marketed in Spain and for funds in which Spanish funds invest—through commercial databases. Data on portfolio holdings are currently being used to improve liquidity mismatch analysis, stress tests, and analysis of interconnectedness (within the sector and with other financial entities). The BdE has continued its efforts—working closely with CNMV and DGSFP—to address remaining data gaps. In the insurance sector, Act No. 5/2025 introduced preventive recovery plans by incorporating a new Article 66a into Act No. 20/2015, allowing the DGSFP to require certain insurers—based on their risk profile and systemic relevance—to prepare plans outlining measures to address significant financial deterioration. Moreover, the DGSFP is supervising the integration of sustainability risks into insurers' governance, working with AMCESFI and the Consorcio de Compensación de Seguros to assess and stress-test physical and transition risks, analyzing the insurance protection gap, and has developed a macroprudential IT tool to support risk monitoring.

	Fund Recommendation	Addressee	Update on Progress
	<i>Supervision and regulation of banking LSIs</i>		
9	Enhance BdE's independence by removing MINECO appeal powers against BDE supervisory decisions and sanctions and limiting the role of government's representatives in the BdE Governing Council.	MINECO	An amendment to remove the Ministry of Economy's appeal powers against BdE's supervisory decisions and sanctions is under parliamentary discussion as part of another piece of legislation on the Law for the Creation of the Independent Administrative Authority for Financial Consumer Protection. No progress has been made since then.
10	Streamline the offsite monitoring system and apply proportionality in conducting SREPs while performing more frequent and targeted onsite inspections and thematic activities.	BdE	Progress has been made towards streamlining offsite monitoring and applying proportionality to the SREP process. Starting in 2025 (and until 2027, as part of a 3-year cycle), a multi-year approach is being implemented to adjust the depth and frequency of the SREP to the impact and risk of the institutions. High-priority and high-risk LSIs will remain subject to annual full scope SREP. The focus will be on assessing key risk areas according to the different types of business models of the Spanish LSIs between 2025 and 2027. More intrusive analysis is planned to check the implementation of findings.
11	Strengthen BdE onsite inspection activities on LSIs' governance and risk management, particularly management of liquidity risk and interest rate risk in the banking book.	BdE	The BdE enhanced its onsite inspections with targeted inspections on governance, climate, and interest rate and liquidity risks in 2025. To support these activities, four new staff were hired and additional resources are being considered. The aim for subsequent years is to increase the number of targeted inspection activities focusing on relevant risks.
	<i>Regulation, Supervision and Oversight of FMIs</i>		
12	Ensure that international supervisory coordination arrangements with other supervisors reflect scope and degree of interconnectedness of BME Clearing, Iberclear and their foreign parent company.	CNMV	Since the entry into force of EMIR 3.0, CNMV has co-chaired with ESMA the College of Supervisors of BME Clearing. The CNMV maintains ongoing engagement with ESMA on supervisory and emerging issues. Coordination with FINMA has intensified in light of SIX Group's planned integration of BME Clearing and SIX x-clear, including frequent bilateral and trilateral meetings, FINMA's participation in supervisory colleges, and joint supervisory activities. Cooperation with the Eurosystem/BdE has strengthened, including work toward a potential Memorandum of Understanding.
13	Ensure timely implementation of CNMV's recommendations.	CNMV	The CNMV has supported implementation through regular (at least monthly) supervisory meetings with BME Clearing to monitor progress and discuss action plans, with tangible remedial measures undertaken by BME Clearing—such as enhanced capital monitoring, improvements in margin and risk management, SLAs for outsourcing, and multi-segment fire drills—and by Iberclear, including addressing risks from external links, outsourcing arrangements, and other identified issues ahead of annual reviews.

	Fund Recommendation	Addressee	Update on Progress
	<i>Cyber Security Risk Supervision and Oversight</i>		
14	Conduct onsite examinations as part of FMI supervision; Conduct more thematic reviews while maintaining short onsite visits to a sample of LSIs; Develop a lighter threat intelligence based red-teaming framework based on TIBER-ES principles.	CNMV, BdE, MINECO	The CNMV performed an onsite supervisory activity to observe a Business Continuity Plan test exercise at the BME Group level on October 28, 2025. Additional onsite supervisory activities are being scheduled for 2026, some in cooperation with FINMA. The BdE has hired one new expert in FMI and two new experts in IT to expand the team in charge of cybersecurity risk supervision and oversight of FMIs and gain deeper understanding of FMIs' cyber resilience. Collaboration with the CNMV will benefit from a memorandum of understanding, which is still under development. Regarding thematic reviews with onsite visits for a sample of LSIs, in 2024 the Directorate General Banking Supervision began to conduct these reviews, including a sample of six LSIs in the periodic horizontal analysis carried out for Spanish SIs, focusing on the level of digitalization of the institutions and their preparedness for DORA. A new horizontal analysis is already being planned for 2026 following this approach, including a sample of LSIs as well as all Spanish SIs.
15	Involve the BdE and CNMV in critical infrastructure related matters, such as designation and compliance assessments.	Government	No action.
	<i>Fintech</i>		
16	Delegate powers to the Coordination Commission and the regulators to make changes to sandbox operation, streamline administrative processes, and provide greater flexibility to supervisory authorities to use preferred mix of tools.	Government, BdE, CNMV, DGSFP	Efforts have continued to conclude the legislative proposal. Collaboration and coordination between the Ministry of Economy and financial supervisors (BdE, CNMV, and DGSFP) have been strengthened to refine the wording of both the draft law and the draft royal decree.
	<i>Financial integrity</i>		
17	Complement the National Risk Assessment, ensure accuracy of data stored in centralized beneficial ownership register, and extend AML-CFT risk-based supervisory activities to professional enablers and virtual asset providers.	SEPBLAC, Treasury, BdE, The Registrars' AML Centre, Ministry of Justice	The framework for virtual asset service providers has been aligned with EU MiCA and updated AML/CFT regulations, while a risk-based supervisory approach for professional enablers—led by SEPBLAC—was already in place; supervision has intensified through enhanced data collection, mandatory and risk-based inspections, and joint annual inspection plans, with VASPs and real estate-related enablers identified as higher-risk sectors and prioritized accordingly.

	Fund Recommendation	Addressee	Update on Progress
	<i>Crisis management and financial safety nets</i>		
18	Integrate preventative resolution authority functions (i.e., BdE resolution planning department) and FROB's executive resolution functions for banks.	MINECO	No action. Technical teams are analyzing the necessary measures to comply with this recommendation.
19	Improve the statutory resolution regime so FROB has resolution power to override shareholders rights, update the statutory insolvency creditor hierarchy, and enable liquidators to transfer deposit accounts.	MINECO	Amendments to the statutory resolution regime will be assessed as part of the upcoming transposition of the Crisis Management and Deposit Insurance (CMDI) package, which will require a thorough revision of the domestic resolution framework (Law 11/2015 and Royal Decree 1012/2015) and the legislation applicable to the Spanish Deposit Guarantee Scheme (FGD). No progress has been made since then.
20	Establish and operationalize an approach to address liquidity needs in resolution.	BdE	For LSIs, the BdE indicated that the current framework for addressing liquidity needs in resolution is in place. They have enhanced monitoring of liquidity needs and resource planning, including regular reviews (e.g., on Monday mornings), and have published their existing framework. At this stage, they do not see a need for further changes until additional guidance is issued at the Eurosystem level. For SIs, the BdE is awaiting a common Eurosystem-wide approach. Discussions, to which the BdE is actively contributing, are ongoing. In the meantime, efforts are being made to strengthen liquidity monitoring and ensure collateral availability during periods of stress, building on the existing Emergency Liquidity Assistance (ELA) framework. No further progress has been made toward establishing a framework to address liquidity needs in resolution for SIs.
<p>Note: Shaded areas denote key, most macro-critical recommendations that should be prioritized</p> <p>AMCESFI = Autoridad Macroprudencial Consejo de Estabilidad Financiera (Spain's Macroprudential Authority Financial Stability Council), AML = Anti-money laundering, BdE = Bank of Spain, BME Group = Bolsas y Mercados Españoles, CCP = Central Counterparty Clearing House, CNMV = The National Securities Market Commission, CSDR = Central Securities Depositories Regulation, DGSFP = Directorate-General for Insurance and Pension Funds, EMIR = European Market Infrastructure Regulation, ESMA = European Securities and Markets Authority, FINMA = Swiss Financial Market Supervisory Authority, FMI = Financial Market Infrastructures, IOSCO = International Organization of Securities Commissions, LSI = Less systemically important institutions, MiCA = Markets in Crypto-Assets Regulation, MINECO = Ministry of Economy, SEPBLAC = Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias (Commission for the Prevention of Money Laundering and Monetary Offenses), SI = Systemically important institutions, SIX = Switzerland's main financial market infrastructure provider, VASP = Virtual Asset Service Provider.</p>			

Annex VII. Recent Housing Policy Initiatives: Overview and Preliminary Lessons

Housing affordability has deteriorated since the pandemic, largely reflecting a combination of buoyant demand and inelastic housing supply. Since 2023, the authorities have pursued a broad housing policy agenda through successive waves of measures, with uneven progress in implementation. This annex takes stock of these initiatives and their current implementation status, and also zooms onto the effects of rent regulation.

1. **The authorities' housing policy response spans three broad categories:** supply-side measures to expand the housing stock, financing measures, and market measures including rental-market regulation (Table 1). Measures have been introduced successively, beginning with the adoption of the Housing Law in 2023, followed by a package of 12 measures announced in January 2025, and additional initiatives announced in January 2026. The policy response also includes tax-related measures, though most remain at the proposal stage pending legislative action, as well as initiatives—at both national (Land Law reform, which has failed to pass in Parliament) and regional levels—to accelerate permitting procedures.
2. **As argued in this and the previous Article IVs, the priority is to amplify** supply-side measures. These are key to addressing the root cause of the housing affordability crisis, which is an insufficient and excessively rigid housing supply. By contrast, financing measures should remain narrowly targeted to specific groups and areas in order not to put further upward pressure on demand and prices, and rent regulation should be considered only under exceptional circumstances and remain short-lived.
3. **On the supply side, the authorities have sought to both raise construction efficiency and expand the stock of affordable rental.** To reduce construction times and costs, the authorities have launched a strategic initiative (PERTE) to promote industrialized and modular construction methods that shift construction largely off-site, enabling production standardization and scale. To expand affordable rental supply, the government has mobilized existing public housing and land, incorporated housing assets held by state-owned asset management company *SAREB*, and announced programs to rehabilitate vacant dwellings for affordable rental use. In parallel, the authorities approved in April 2026 a new State Housing Plan for 2026–2030, endowed with EUR 7 billion—cofinanced between the state and autonomous communities—intended to consolidate and expand housing support policies—including affordable rental housing, rehabilitation, and targeted assistance—within a multi-year strategic and budgetary framework.
4. **Financing measures have focused on targeted support to facilitate both home purchase and access to rental housing.** The government has established a guarantee line managed by the official credit institute (ICO) that covers part of the mortgage downpayment, allowing eligible first home buyers—young households and families with minors—to obtain mortgages with higher loan-to-value ratios, subject to income and property-price caps. In parallel, the government has introduced a state-backed rental non-payment guarantee covering part of

landlords' default risk for eligible young and vulnerable households, subject to income and rent level criteria. These measures have advanced relatively quickly, as they rely on standardized guarantee frameworks, without requiring law changes or intergovernmental coordination.

5. The policy response has also relied on rental-market regulation, anchored in the 2023 Housing Law. Box 1 describes the policy framework and reviews evidence from Spain so far, including lessons from earlier, similar rent-regulation measures introduced in Catalonia.

Box 1. Rent Regulation under Spain's 2023 Housing Law: Framework and Evidence

Framework. The 2023 Housing Law embeds rent-price containment within a permanent legislative framework through two layers of regulation: (i) nationwide limits on annual rent updates for existing residential leases, and (ii) a framework for geographically targeted intervention in designated "stressed" housing markets.

Nationwide limits on rent growth. Annual rent updates for existing residential leases are capped by a benchmark index, which has evolved since the law entered into force. Since January 2025, rent updates have been capped by the growth rate of a rent-specific reference index (IRAV) calculated by the national statistics institute (INE).

Stressed housing-market area designation. The law allows the designation of "stressed" housing-market areas if either average housing costs exceed 30 percent of average household income, or house purchase or rental prices have increased by at least 3 percentage points more than regional CPI inflation in the previous five years. In designated areas, rent caps apply depending on the nature of the landlord, with different rules for small landlords and multi-property owners. Designation comes together with a requirement to devise a corrective plan setting out specific measures and an implementation timetable to address the root causes of unaffordable housing. Designation is granted for three years and may be renewed annually thereafter if conditions persist. Since the law's introduction, designations have expanded beyond Catalonia to a few other regions, including the Basque Country, Navarra, and Galicia in 2025.

Evidence from Spain from rent controls. Empirical studies of Catalonia's 2020 rent-control regime generally find moderate rent reductions of around 4–6 percent, alongside negative supply responses, including declines in new rental listings ranging from about 15 to 30 percent, depending on the study.¹ Consistent with the latter finding, recent listing data from *Idealista* point to a widening divergence between Barcelona and Madrid following Barcelona's designation as a stressed housing-market area: rents in Barcelona have continued to rise strongly while rental listings declined sharply, whereas rent growth and the decline in listings have been more moderate in Madrid. Although listing data are not transaction-based and composition effects may affect the average rents derived from such data, these patterns are consistent with supply reduction offsetting at least part of the intended dampening effect of rent controls on rents.

¹/For example, [Monras and García-Montalvo \(2025\)](#) and [Abel and others \(2024\)](#).

6. The authorities have also taken steps towards strengthening the oversight and regulation of short-term rentals.

Complementing the Housing Law, the authorities have taken steps to strengthen oversight of short-term rentals, notably through the creation of a single national registry and a digital one-stop shop for short-term rentals, which are now in place. In addition, initiatives announced in January 2026 envisage tightening the rules on seasonal leases, including stricter conditions to qualify as a temporary lease and sanctions for fraudulent use of short-term rental contracts. These latter measures aim to limit circumvention of rent regulation but remain at the proposal stage.

7. Other announced measures include fiscal initiatives to tilt supply away from tourist rentals towards affordable housing, and accelerating permitting procedures to free up supply.

Several measures announced as part of the January 2025 package—and reiterated in January 2026—remain at the proposal stage, pending legislative action. These are largely fiscal measures, including targeted personal income tax incentives to encourage affordable rentals, tax reform affecting tourist rentals, and the tax treatment of SOCIMIs (Spanish REITs whose main activity is direct or indirect investment in urban real estate). In parallel, the authorities have also sought to accelerate permitting procedures at both national and regional levels, although the effectiveness of these efforts remains to be seen.

8. Implementation challenges and effectiveness concerns remain. Progress has been most tangible where initiatives could be implemented through executive instruments or existing institutional frameworks (e.g. Royal Decrees, Ministerial Orders, Council of Ministers' Decisions), while measures requiring legislative action or complex coordination across levels of government have advanced more slowly or failed to pass Parliament altogether, such as the Land Law Reform. Moreover, while some of the measures taken in recent years may provide targeted or temporary relief, doubts remain regarding whether, and if so how quickly, supply-side initiatives can deliver the large required increase in housing units. House price pressures and housing affordability challenges may thus persist for a while.

Annex VII. Table 1. Spain: Main Housing Measures Proposed 2023-2026			
Measure	Description	Announcement	Status
Construction and supply-side measures			
PERTE Industrialización de la Vivienda	Strategic project aimed at promoting innovation and modernization of industrialized and modular construction to build houses quicker at lower cost. The first construction is planned in Valencia.	Apr-2025	Implementation is underway
Transfer of central-government-owned housing and residential land to the new public housing state company to expand the affordable rental housing pipeline	Transfer of more than 3,300 housing units and 2 million square meters of residential land from Administración General del Estado (AGE) to the new public housing state company (operationally SEPES/Casa 47).	Jan-2025	Implemented

Annex VII. Table 1. Spain: Main Housing Measures Proposed 2023-2026 (continued)			
Measure	Description	Announcement	Status
Transfer of <i>SAREB</i> properties to the public housing state company to expand the affordable rental housing pipeline	Transfer of 30,000 <i>SAREB</i> -owned properties to <i>SEPES/Casa 47</i> .	Jul-2025	Implemented
Program for the rehabilitation of vacant dwellings for affordable rental	Public program to refurbish empty (vacant) housing units and bring them to the affordable rental market.	Jan-2025	Awaiting implementation
Land Law reform (“Ley del Suelo”)	Reduce administrative frictions to freeing up land for housing development.	Mar-2024	Pending parliamentary approval (after being rejected once)
State Housing Plan (Plan Estatal de Vivienda) - 2026-2030	The plan is intended to consolidate and expand existing housing support programs over the period 2026–2030. It is expected to prioritize affordable rental housing, rehabilitation of the existing housing stock, and targeted support for vulnerable groups, while providing the strategic and budgetary framework under which implementing entities—including <i>SEPES/Casa 47</i> —would operate.	Jan-2026	Approved April 2026
Financing measures			
ICO first-home purchase guarantees (young/families)	State guarantee (via ICO) covering part of the mortgage downpayment for eligible first-home buyers, subject to debt-to-income and region-specific property-price caps; loans are originated by commercial banks.	May-2024	In force since May 2024
Rental non-payment coverage for rent to young and vulnerable households	State-backed rental non-payment guarantee covering part of landlords’ default risk for eligible youth and vulnerable households, subject to income and rent caps; implementation is carried out through public entities and participating financial institutions.	Jan-2025	In force since January 2025

Annex VII. Table 1. Spain: Main Housing Measures Proposed 2023-2026 (concluded)			
Market measures including rental regulation			
Housing Law framework (Ley 12/2023)	Sets a national framework establishing limits on annual rent updates for existing leases. At the regional level, enables the designation of “stressed” housing areas, where rent constraints apply to existing rental dwellings—depending on landlord type—while newly built and first-time rental properties remain exempt.	Mar-2023	In force
Registry for short-term rentals	Creates a single register and digital one-stop shop for short-term rentals.	Dec-2024	In force since Dec-2024
End of real-estate “Golden Visa” route	Removes residence authorization linked to real-estate investment.	Apr-2024	In force since Apr-2025
Regulation of short-term and seasonal rentals	Tightening the rules on seasonal leases, including stricter conditions to qualify as a temporary lease and sanctions for fraud in short-term rental contracts.	Jan-2026	Pending legislative action
Restriction on residential property purchases by non-resident non-EU buyers	Proposed 100 percent tax on the value of residential property purchases by non-EU, non-resident buyers, but has faced legal challenges regarding its compatibility with Spanish and EU law.	Jan-2025	The measure remains at the announcement stage
Fiscal measures			
Targeted tax incentive for affordable rentals	100 percent exemption of personal income tax on rental income for landlords who do not raise rents at contract renewal.	Jan-2025 (renewed Jan-2026)	Pending legislative action
Tax reform for tourist rentals (VAT)	Proposed tax reform to subject tourist rentals to VAT by treating them as an economic activity, aligned with the new EU VAT directive; pending legislative approval.	Jan-2025	Pending legislative action
Tax reform targeting institutional landlords	Limits access to existing tax advantages unless the SOCIMI (Spanish REITs) allocates housing to affordable rental.	Jan-2025	Pending legislative action
Notes: <i>SEPE</i> s is the legal public entity with a broad mandate over land development and management. <i>Casa 47</i> is the subset of <i>SEPE</i> s’ activities that relate to the mandate of expanding affordable and social housing. <i>SAREB</i> is the state-owned asset management company created during Spain’s banking sector restructuring to manage and dispose of real estate and financial assets acquired from distressed banks.			



SPAIN

May 4, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

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FUND RELATIONS	2
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FUND RELATIONS

(As of March 31, 2026)

Membership Status: Joined September 15, 1958.

General Resources Account:	SDR Million	Percent of Quota
Quota	9,535.50	100.00
Fund holdings of currency	7,113.48	74.60
Reserve position in Fund	2,422.65	25.41
Lending to the Fund		

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	11,966.91	100.00
Holdings	10,489.61	87.66

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):					
	Forthcoming				
	2026	2027	2028	2029	2030
Principal					
Charges/Interest	30.13	41.01	41.03	40.99	41.01
Total	30.13	41.01	41.03	40.99	41.01

Exchange Rate Arrangements

Spain's currency is the euro. The exchange rate arrangement of the euro area is free floating. Spain participates in a currency union (EMU) with 20 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

Spain has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange rate system free of multiple currency practices and restrictions on payments and transfers for current international transactions, except for restrictions maintained solely for the preservation of national or international security, which have been notified to the Fund for approval in accordance with the Executive Board Decision No. 144–(52/51).

**Statement by Ms. Mendez Bertolo, Executive Director for Spain, Mr. Moleres Ollivier,
Advisor to Executive Director, and Ms. Solera Lopez, Advisor to Executive Director
May 20, 2026**

On behalf of the Spanish authorities, we would like to warmly thank Mr. Duval and all his team for the insightful and frank discussions held during the 2026 Article IV consultations and for the balanced and thorough reports. Our authorities greatly valued this constructive engagement on key policy priorities, which represents a valuable contribution to domestic policy discussions. We broadly concur with staff's assessment, notably regarding the factors of resilience and dynamism of the Spanish economy amid an uncertain global economic outlook, the progress achieved on structural aspects such as labor-market performance, financial sector resilience, and supported by declining reliance on fossil fuels, as the ongoing green transition continues to raise the share of renewables in our energy mix.

Recent Economic Performance and Economic Outlook

As highlighted in the report, the Spanish economy has continued to demonstrate strong resilience despite recent shocks and heightened global uncertainty. Growth reached 2.8 percent in 2025, following an increase of 3.4 percent in 2024, leading amongst euro area peers. This performance was driven by robust private consumption, supported by strong employment growth, with a significant contribution of migration and real wage gains. Investment also strengthened, reflecting rising residential and equipment investment and the increasing execution of NGEU-financed projects. Credit conditions remain supportive of demand and do not currently signal systemic risk, reflecting the strength of the financial system, with mortgage lending strengthening and robust business and household financial positions.

The Spanish labor market has continued to account for a large share of net job creation in the EU in recent years, with employment gains increasingly concentrated in high value-added sectors, with greater stability, supported by net migration, while unemployment has declined at around 10 percent; employment has reached record levels, and more than 43 percent of contracts signed in April were permanent, underscoring the qualitative improvement in job creation. This structural shift toward greater job stability is already beginning to support productivity gains, as confirmed by the Productivity Council, and, going forward, is expected to underpin sustained real wage growth as skills and qualifications continue to adapt to labor market needs.

Spain continues to record a current account surplus, consistent with the gradual rebalancing of its still-negative net international investment position, reflecting a structural change in the external sector in the last decade, while the growing dynamism of non-tourism services, particularly in ICT and business services, confirms emerging comparative advantages that should help sustain this external position over time.

Headline inflation stood at 3.2 percent in April, following the war-related energy shock, but with expectations well anchored, inflation is expected to gradually decline toward around 2 percent over the medium term. Given that the shock has mainly raised fuel prices but has had a limited impact on electricity, inflation is expected to increase as higher energy costs feed into prices, with the average rate projected to rise to around 3.4 percent in 2026 from 2.7 percent in 2025. Government measures adopted under Royal Decree-law 7/2026 of March 20 have already helped mitigate the pass-through and account for approximately 1pp reduction in inflation with respect to the counterfactual. Importantly, the rapid expansion of renewables has reduced the role of gas in price setting and weakened the pass-through from gas prices to electricity prices that are currently among the lowest in the euro area and have actually fallen in April (as per the latest data published on May 14th).

Looking ahead, while the war in the Middle East is expected to moderate growth, activity should remain solid, underpinned by still-strong domestic demand, improved fiscal fundamentals, and greater energy resilience. According to the macroeconomic scenario, growth in Spain is expected to remain solid at around 2.2 percent in 2026, broadly in line with the November 2025 projections, before gradually moderating toward more sustainable rates, with the November baseline retained, given the high uncertainty surrounding the duration and intensity of the recent energy shock, which makes near-term updates highly volatile.

While a de-escalation of the conflict would support a stronger global outlook, our authorities remain vigilant to downside risks related to a protracted war, and stand ready to adjust and deploy further measures, as warranted, to protect vulnerable households and productive sectors, while preserving fiscal and financial stability. At the same time, longer-term challenges, particularly housing affordability, will continue to be addressed decisively.

Fiscal Policy

The Spanish authorities remain strongly committed to fiscal discipline, in line with the EU fiscal framework and the MTFSP expenditure path. Spain has, in 2025, overperformed against the deficit and debt targets set out in its Medium-Term Fiscal-Structural Plan, as shown in the latest Annual Progress Report, submitted last month to the European Commission. The deficit is projected to decline from 2.4 percent of GDP in 2025 to 2.1 percent in 2026 (2 percent and 1.6 percent, netting out one-off expenditures), and further to 0.8 percent by 2031, placing Spain among the countries that have reduced their deficits the most in recent years. This adjustment has been underpinned by a structural and broad-based revenue increase, particularly in personal income tax, social security contributions, and VAT. Importantly, these revenue gains have occurred alongside a rise in Spain's output potential, driven by stronger labor supply, partly supported by net migration, and higher

investment, including through NGEU-financed projects, as reflected in recent upward revisions to potential growth by the European Commission.

This has allowed Spain to reduce deficits, accommodate priority spending, and rebuild fiscal space without front-loading adjustments in an uncertain global environment. Sustained consolidation has reduced public debt to about 101 percent of GDP from pandemic peaks near 120 percent, with a decline to around 91 percent projected in 2031, while spreads have fallen to post-COVID lows.

The authorities have reaffirmed their commitment to maintaining defense spending at 2.1 percent of GDP within the MTFSP deficit path and have signaled their intention to avail themselves of the EU's national escape clause, subject to applicable procedures, to accommodate the increase. Temporary energy-price support measures were also introduced to cushion the shock and are expected to be reversed as conditions normalize, preserving fiscal discipline. On subnational finances, a draft law on the reform of central government financing instruments for Autonomous Communities was presented in 2026 and is currently under legislative discussion. The proposal would strengthen fiscal discipline by requiring multi-year regional debt strategies, streamlining extraordinary liquidity facilities, and refocusing them toward a true lender-of-last-resort function, while gradually encouraging a return to market-based financing. Taken together, these measures improve incentives for fiscal adjustment at the regional level and reinforce the credibility of Spain's overall fiscal framework.

Spain's recent fiscal reforms focus on raising structural revenues and improving tax efficiency through a combination of new taxes and base-broadening measures, notably including the 2024 tax package (Law 7/2024), which introduced a minimum corporate tax aligned with the OECD Pillar II, increased personal income tax rates on higher savings income, and created new excise duties (e.g., on e-cigarette products), alongside the restoration of limits on corporate deductions; these measures have been complemented by efforts to reduce tax exemptions and strengthen compliance (including anti-fraud measures and electronic invoicing, introduced in 2026), with the overall reform package expected to generate a permanent increase in revenues of around 0.4 percent of GDP by 2028, while making the tax system more progressive and efficient.

On pensions, the authorities stress that the pension reform has strengthened long-term sustainability (further supported by greater potential GDP and job creation) by reinforcing the contributory framework, diversifying financing sources, and improving automatic stabilizers, while preserving adequacy. They expect the forthcoming AIREF safeguard clause review to confirm the institution's sustainability assessment (already the case in the 2025 Report), reflecting stronger employment outcomes and improved economic and demographic prospects.

Financial Sector

Spain's financial system remains resilient and well-positioned to support economic activity. Banks are well capitalized, liquid, and profitable, with solvency and liquidity positions above regulatory requirements, and stress tests confirming a notable aggregate capacity to withstand adverse scenarios. At the same time, private sector balance sheets have strengthened further, with household and corporate debt at historically low levels. Credit quality strengthened among households, firms, and the self-employed in 2025, supported by solid economic activity and still favorable financing conditions that reduced borrowers' financial pressures. The volume of NPLs held by households, firms, and the self-employed fell by 15.5 percent year-on-year, bringing the NPL ratio down to 2.8 percent by December 2025. So far, no significant pockets of credit risk have emerged, though ongoing monitoring of loan portfolios remains essential, as conditions could shift given the high geopolitical and geoeconomic uncertainty. Finally, the ongoing phase-in of the one-percent countercyclical buffer (CCyB) for intermediate risk level, recently increased to 1 percent with full implementation effective from October 2026, is further enhancing resilience. More broadly, the financial position of the main sectors of the Spanish economy remains stable and, overall, favorable.

While systemic risks remain contained, authorities continue to closely monitor emerging vulnerabilities. In the housing market, strong demand and limited supply have supported continued house price growth. However, these developments are not associated with significant systemic vulnerabilities, as household indebtedness remains low, credit growth is contained, the share of fixed-rate mortgages has increased, and lending standards remain prudent. In this context, the BdE is advancing its analytical work on borrower-based measures, with a view to further strengthening the macroprudential framework. The authorities take note of staff's recommendations. At this stage, evidence does not point to a need to introduce measures. The focus remains on refining the methodological framework for the potential implementation of BBMs, including an adequate design, calibration, and assessment of distributional implications, covering all relevant cost and benefit dimensions.

Structural Reform Strategy

The Spanish authorities continue to advance an ambitious reform agenda under the 2021 Recovery and Resilience Plan (RRP), already delivering gains in labor markets, investment, the green transition, and productivity improvements. Building on this, they aim to deepen a pro-growth agenda to support a more sustainable and inclusive economy, with a focus on labor markets, education, productivity, firm growth, and housing.

In the labor market, reforms have yielded significant improvements, with unemployment falling to levels last seen in 2008, employment reaching record highs, and job stability strengthening as temporary employment declined markedly. The 2021 labor reform has played a central role in reducing duality and boosting permanent hiring, while wage dynamics have remained consistent with sustained real wage growth. Complementary efforts have focused on strengthening active labor market policies and improving employment services through the Employment Law (Law 3/2023, approved in February 2023). In parallel, the reform of unemployment assistance (2024 reform of the *subsidio por desempleo*)—including the introduction of employment-compatible benefits (*Complemento de Apoyo al Empleo*)—aims to enhance incentives to work and improve labor market transitions. Social inclusion measures such as the Minimum Vital Income (IMV), introduced in June 2020 and subsequently strengthened, have also helped reduce vulnerability and support labor participation.

Productivity is showing encouraging signs of improvement, reflecting the cumulative impact of reforms and favorable structural developments, including the 2022 “Crea y Crece” law, which reduces barriers to firm entry, promotes digitalization—particularly e-invoicing—and strengthens payment discipline, with expected gains in SME liquidity, productivity, and business dynamism as implementation progresses. Importantly, job creation and productivity gains go hand in hand, signaling a significant structural shift in the economy. Further progress is expected as measures to address market fragmentation are implemented, notably through the rollout of the “Regime 20” initiative, launched in September 2024 with a first action plan adopted in December 2024.

Access to financing is also critical to support firm creation and growth. Within the RRP, a range of initiatives have been deployed, including programs by the Instituto de Crédito Oficial (ICO) and COFIDES, which have been expanded since 2024 to channel funding to productive investment. In addition, the authorities have launched the “España Crece” fund in 2026, aimed at mobilizing public and private capital to support strategic sectors and high-growth firms. The fund aims to support the continued modernization of the Spanish economy beyond the Recovery Plan. At the European level, progress towards the Savings and Investment Union—currently under discussion since 2023–24—remains essential to improve access to equity financing and deepen capital markets. The European project has been pivotal to Spain’s economic success over the past decade, and Spain is actively supporting the deepening of the single market, Europe’s key asset, while advancing the Savings and Investment Union to unlock further gains in scale and competitiveness.

Housing has emerged as a key policy priority, both to improve living standards and to support economic performance by facilitating labor mobility and accommodating sustained immigration flows. The authorities have launched several initiatives to expand supply, including ICO financing lines for social and affordable housing (expanded under the RRP since 2023–2024) and the

creation of the public housing entity “Casa 47” in December 2025, based on the transfer of assets from Sareb to SEPES and its subsequent transformation. In 2026, the government also announced a multi-year €7 billion public housing plan aimed at expanding the stock of public and affordable housing, improving existing housing, and increasing support for the most vulnerable groups (in particular, the youth). In addition, the “España Crece” initiative seeks to scale up investment in affordable and social rental housing through a combination of long-term financing, equity instruments, and public-private co-investment mechanisms.

The Spanish authorities once again thank staff for their constructive engagement and the balanced analysis. The authorities underline that important measures taken in the past contribute to strengthening public finances, supporting productivity growth, and bolstering the Spanish economy’s resilience, inclusiveness, and sustainability. They reaffirm their commitment to continue advancing reforms already underway in a manner consistent with fiscal and financial stability.