2

FINANCIAL SITUATION OF HOUSEHOLDS, NON-FINANCIAL CORPORATIONS AND GENERAL GOVERNMENT

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Figure 2.1
Financial situation of households, firms and general government (a)

HOUSEHOLDS	Sound performance of income, employment and wealth Historically low debt and debt burden levels
FIRMS	Sound performance of profit, albeit uneven across sectors Historically low debt and debt burden levels
PUBLIC SECTOR	High debt level, although deficit is decreasing Upside risks to government spending (defence, demographics, etc.) Lack of specificity in fiscal consolidation plans Fiscal vulnerabilities in global systemically important economies

SOURCE: Banco de España.

a The green shields with a tick (red shields with a cross) denote the circumstances of the financial position of each sector that constitute strengths (vulnerabilities) should risks materialise. The strengths (vulnerabilities) reduce (increase) the likelihood of occurrence and/or the impact of the risks to financial stability.

2.1 Households

Household income continued to increase in 2025 H2, albeit at a slightly slower pace. Household income grew in nominal terms in 2025 H2 at an average year-on-year rate of 4.8%, down 0.8 percentage points (pp) on H1 (Chart 2.1). The improvement in purchasing power also eased: adjusted for inflation and population growth, income grew year-on-year at 0.6 %, 1.4 pp less than in 2025 H1.

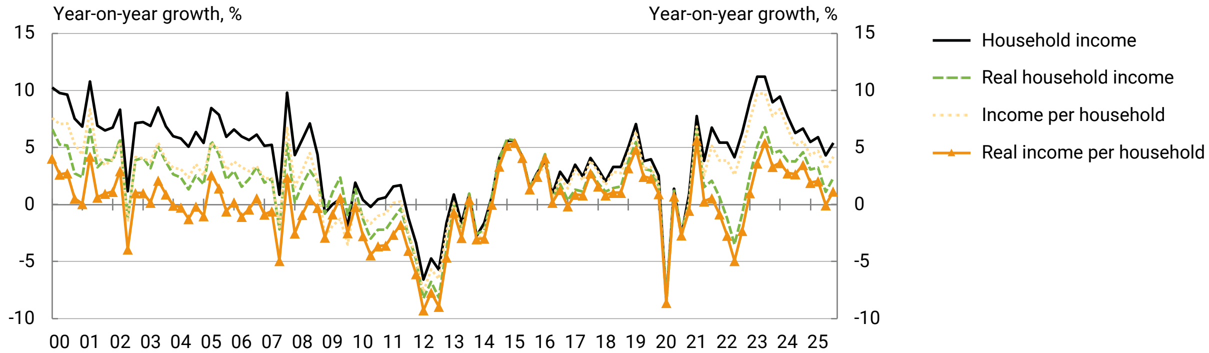
Gross real household wealth grew by 8.6% year-on-year at end-2025. This growth was mainly driven by real estate and (to a lesser extent) financial asset revaluation (Chart A2.2.1.1 in Annex 2) and is similar to the 2025 H1 figure (8.5%).

Private consumption continued to perform robustly in 2025 H2 thanks to favourable employment developments and the increase in wealth. In real terms, it grew at an average year-on-year rate of 3.1%, down slightly on 2025 H1[1] (3.6%). Growth in consumer credit (see

1 See the National Statistics Institute's Quarterly National Accounts for 2025 Q4.

Chart 2.1
Growth in household income moderated in 2025

2.1.a Spanish household income (a)



SOURCES: INE and Banco de España. Latest observation: 2025 Q4.

a Household income is measured using GDI in the national accounts. This aggregate includes compensation of employees, gross operating surplus, gross mixed income, property income and net taxes paid (which are subtracted). Real income is adjusted for inflation using the consumption deflator.

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Section 3.1.4 of Chapter 3) was another supporting factor. Meanwhile, the saving rate held steady at 12% in 2025 H2 (Chart A2.2.1.2 in Annex 2), a level that remains historically high (around the 85th percentile of the distribution since 1999).

The household debt-to-income ratio stood at 68.1% in 2025 Q4 and is expected to remain close to this level in the coming years. The ratio remains near the lows observed since 2000 and below that recorded in the euro area as a whole (82.3% of income in 2025 Q4) (Chart 2.2). The increase in the stock of debt observed since mid-2024 has been more than offset by income growth. Under the different scenarios in the Banco de España's March 2026 macroeconomic projection exercise, this ratio will remain around its current level. Depending on the scale and persistence of the impacts associated with the crisis in the Middle East, at end-2028 it will sit within a range of 65.5% of gross disposable income (GDI) (severe scenario) to 68.5% (baseline scenario). The lower level under the severe scenario is due to the sharp deceleration in credit, despite higher interest rates and lower income.[2]

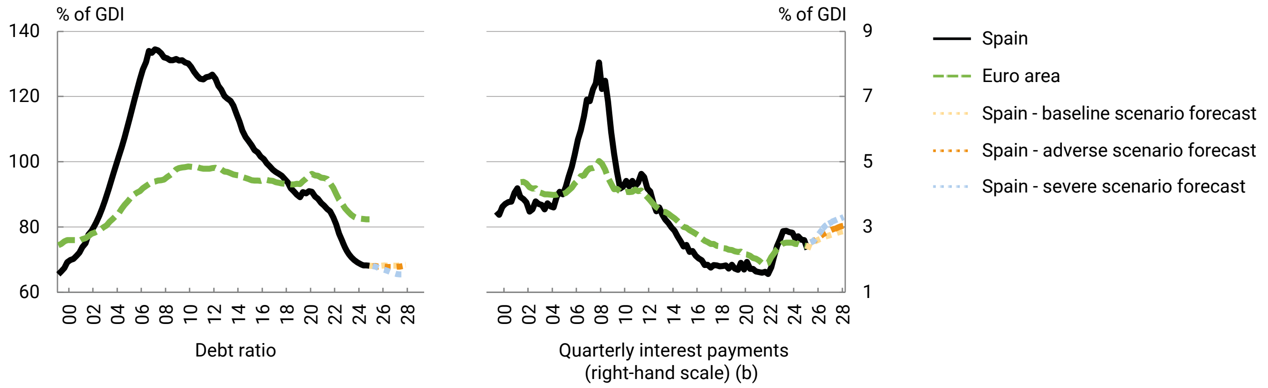
The deleveraging initiated after the global financial crisis has been more pronounced in lower net wealth households.[3] In 2025 Q3 households' debt-to-gross wealth ratio stood at 7.1% in Spain (13.2% in 2014). This ratio has also decreased in the euro area (by 2.4 pp since 2014), although it currently stands at 10.4%, higher than in Spain (Table 2.1). While this decline has been widespread, it has been particularly pronounced among lower net wealth households.

2 The future paths of the ratios for Spain are estimated based on the projected GDI, interest rates and lending volumes included in the Banco de España's 2026 Q1 macroeconomic projections.

3 The information is drawn from the distributional wealth accounts for households, which combine survey micro data and macroeconomic data from the national accounts to analyse how wealth and debt are distributed across different population groups, based on their net wealth level.

Chart 2.2
The decline in Spanish households' debt ratio will stabilise over the coming years at moderate levels, while the interest burden could rise slightly

2.2.a Households' debt ratio and interest burden as a percentage of GDI (a)



SOURCES: ECB, Eurostat, INE and Banco de España. Latest observation: 2025 Q4.

a Seasonally adjusted data. The future paths of the ratios for Spain are estimated based on the projected GDI, interest rates and lending volumes included in the Banco de España's 2026 Q1 macroeconomic projections. This exercise included two alternative scenarios (adverse and severe) that (with respect to the baseline scenario) are characterised by more persistent higher energy prices and more severe disruptions to global value chains.
b Quarterly flow of interest effectively paid by households (i.e. the value of financial services implicitly received by households when they take out loans is not excluded) as a percentage of quarterly GDI.

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This pattern is observed in Spain and in the euro area, although the adjustment has been greater in Spain.[4]

Households with lower levels of wealth have turned to liquid assets, such as deposits, reducing the share of residential property in their asset holdings.[5] Since the end of the global financial crisis, households with lower net wealth in Spain and the euro area have significantly reduced the share of residential property in their total assets, increasing their holdings of deposits (Chart A2.2.1.3 in Annex 2). By contrast, Spanish households in the top net wealth quintile (which account for nearly 70% of total household net wealth) have increased the share of residential real estate assets in their total wealth, while in the euro area it has held steady for this quintile. These developments highlight home-ownership affordability issues, which are relevant from different economic policy perspectives (see Chapter 4).

The interest burden declined slightly to 2.3% of income in 2025 Q4, but it would increase moderately were monetary policy to be tightened. The interest payment burden ratio is 0.1 pp lower than in the euro area and 1.2 pp below its historical average (3.5%). The interest burden is expected to increase to a range of 2.9% of income under the baseline scenario of the

4 The latest data published in the Spanish Survey of Household Finances show that, in 2024, 18% of households had a debt-to-gross wealth ratio of more than 75%. This measure of financial vulnerability was higher among low-income households of young adults whose reference person is economically inactive or unemployed and households in the bottom wealth quartile (zero for the upper half of the distribution).

5 See footnote 3.

Table 2.1

The deleveraging initiated after the global financial crisis has been more pronounced in lower net wealth households

2.1.a Household leverage ratio, by net wealth quintile. Spain and euro area (a)

% debt (d)/gross wealth

	Spain (b)		Euro area (c)	
	2014	2025	2014	2025
Total households	13.2	7.1	12.8	10.4
Distribution, by net wealth quintiles				
Q1 (least wealth)	112.8	69.8	128.7	110.8
Q2	40.3	23.1	49.8	36.9
Q3	22.4	13.6	28.8	22.5
Q4	10.2	8.5	12.3	12.7
Q5 (most wealth)	8.5	3.7	6.5	6.1

SOURCES: ECB and Banco de España. Latest observation: 2025 Q3.

a, b, c, d Note A2.2.1.6 in Annex 2.

Table 2.2

The share of households with high debt-burdens relative to income is higher among indebted households (a)

2.2.a Households with an essential expenditure-to-gross income ratio above 70%. Breakdown by debt status and income quintile. 2024 (a)

As a % of households in their group

		Distribution of gross household income in 2024				
Households	Total	First quintile Lowest income	Second quintile	Third quintile	Fourth quintile	Fifth quintile Highest income
Indebted	18.9	65.5	34.2	13.4	3.3	1.2
Debt-free	10.3	32.3	4.6	1.7	0.2	0.4

SOURCE: Banco de España (Spanish Survey of Household Finances). Latest observation: 2024.

a Essential expenses include debt servicing, food and utility bills and rental of the main residence. According to this survey, 54% of households are indebted. By income bracket, this proportion was 36% for the lowest-income quintile (first quintile), 49% for the second lowest, 58% for the third, 63% for the fourth and 64% for the highest-income quintile (fifth quintile).

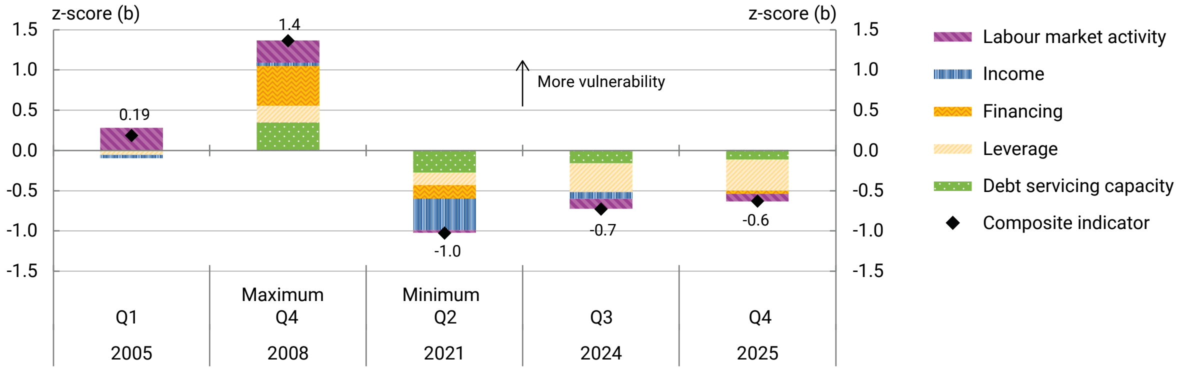
projection exercise and 3.3% under the severe scenario at end-2028 (Chart 2.2), in the latter case mainly attributable to the rise in borrowing costs.

The percentage of households facing difficulties to cover essential expenses is higher among indebted households, while debt-free households make a greater contribution to the sector's resilience. One in five indebted households had trouble paying essential expenses in 2024. On data for that year, the latest available with the granularity required, this proportion falls to one in ten among debt-free households. These differences are particularly pronounced among low-income households (Table 2.2). Compared with the average for 2014-24, the share of households facing difficulties to cover essential expenses in 2024 fell more among debt-free households (2.9 pp) than among their indebted counterparts (1.4 pp) (Chart A2.2.1.4 in Annex 2). These findings point to certain limits to low-income households' ability to support a higher cost of leverage than at present.

Chart 2.3

Aggregate household financial vulnerability is at a historically low level

2.3.a Composite indicator of household vulnerability (a)



SOURCES: European Commission, INE and Banco de España.

a Positive (negative) values indicate higher (lower) financial vulnerability than the average for the reference period (2005-2025 Q4). The sub-components of the index are: i) labour market activity: calculated based on the labour force participation rate and unemployment expectations; ii) income: calculated based on households' real income growth and the income-to-GDP ratio; iii) financing: calculated based on the interest rate on households' outstanding stock of bank loans and the credit impulse, measured as the annual change in net credit flows as a share of GDP. The credit impulse captures the positive impact that financing flows to the non-financial private sector have on economic activity, meaning a positive value helps to reduce vulnerability; iv) leverage: calculated based on households' gross debt-to-income and gross debt-to-total assets ratios; and v) debt servicing capacity: calculated based on the gross interest payments-to-income ratio, the saving rate and households' expectations regarding their personal financial situation over the next 12 months. For more details on the composition of the indicator, see Box 2 of the Report on the financial situation of households and firms. Second half of 2024.

b At each date, the z-score shows the number of standard deviations (above or below) between the indicator and the mean for the period 2005-2025 Q4 in full.

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In addition, a composite indicator constructed using aggregate data suggests a relatively low level of financial vulnerability. According to this composite vulnerability indicator (Chart 2.3) (available since 2005 and constructed as the arithmetic mean of debt servicing capability, leverage, financing, income and labour market activity (Chart A2.2.1.5 in Annex 2), households were most vulnerable in 2008, against the backdrop of the global financial crisis. Vulnerability then decreased steadily until it reached an all-time low in 2021, when the indicator stood one standard deviation below the average, as a result of the widespread improvement in all its components, particularly leverage and debt service capability. In 2025 Q4 this indicator stood 0.6 standard deviations below its historical average, a very similar level to that observed one year earlier.

2.2 Non-financial corporations

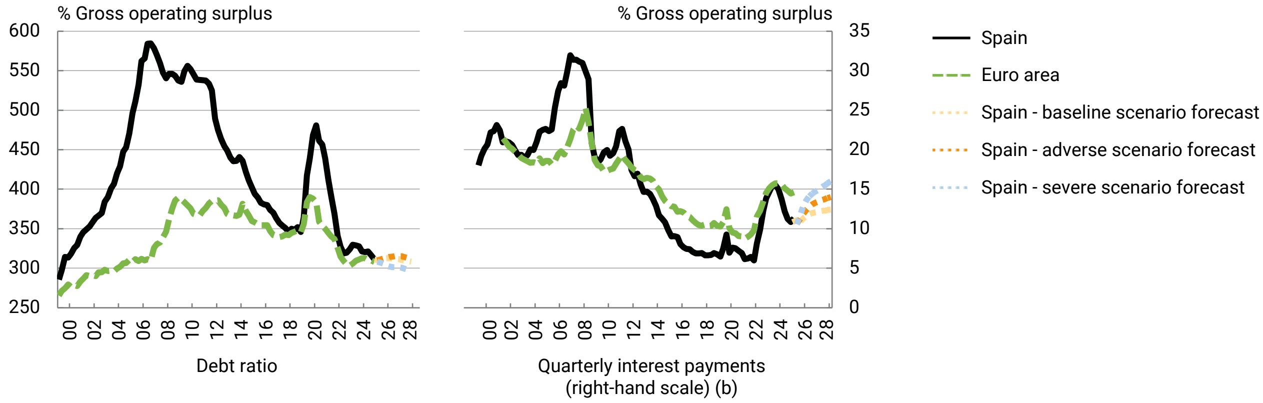
Corporate earnings grew in 2025 H2, with uneven growth rates across sectors. The nominal gross operating profit (GOP)[6] of firms[7] increased by 3.8% year-on-year. This growth was broad-

6 GOP (which is similar to gross operating surplus (GOS), used in the national accounts) is profit obtained from firms' ordinary business activity, after payments to suppliers and other operating expenses and remuneration of labour. If positive, it can be used to pay tax, fund investments or remunerate shareholders and financial creditors. GOP data are obtained from combined data of the Spanish tax authorities (AEAT) and the Central Balance Sheet Data Office Quarterly Survey (CBQ).

7 According to combined AEAT and CBQ data.

Chart 2.4
Firms' debt ratio is expected to remain stable in the coming years, while the interest burden ratio is expected to rise somewhat

2.4.a Debt ratio and interest burden of firms as a percentage of gross operating surplus (a)



SOURCES: ECB, Eurostat, INE and Banco de España. Latest observation: 2025 Q4.

a Seasonally adjusted data. The future paths of the ratios for Spain are estimated based on the projected gross operating surplus, interest rates and lending volumes included in the Banco de España's 2026 Q1 macroeconomic projections. This exercise included two alternative scenarios (adverse and severe) that are characterised by (relative to the baseline scenario) more persistent higher energy prices and more severe disruptions to global value chains.
b Quarterly flow of interest effectively paid by firms (i.e. the value of financial services implicitly received by firms when they take out loans is not excluded) as a percentage of quarterly gross operating surplus.

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based across sectors, but was particularly strong in construction and real estate activities (19.8%), compared with more moderate growth in wholesale and retail trade and hospitality (0.3%). For the rest of services[8] GOP rose by 3.7%. Within this sector, consultancy and programming firms stood out with growth of nearly 15%, driven by the expansion of technology and artificial intelligence-related activities.

Against the backdrop of the war in the Middle East, business sentiment in Spain's manufacturing sector indicates a greater degree of pessimism, contrasting with greater resilience in the services sector. In particular, the manufacturing Purchasing Managers' Indices declined considerably in March, especially in the production and export orders components, to stand in contractionary territory. This is consistent with deteriorating business expectations for economic activity. By contrast, sentiment in the services sector improved in March.

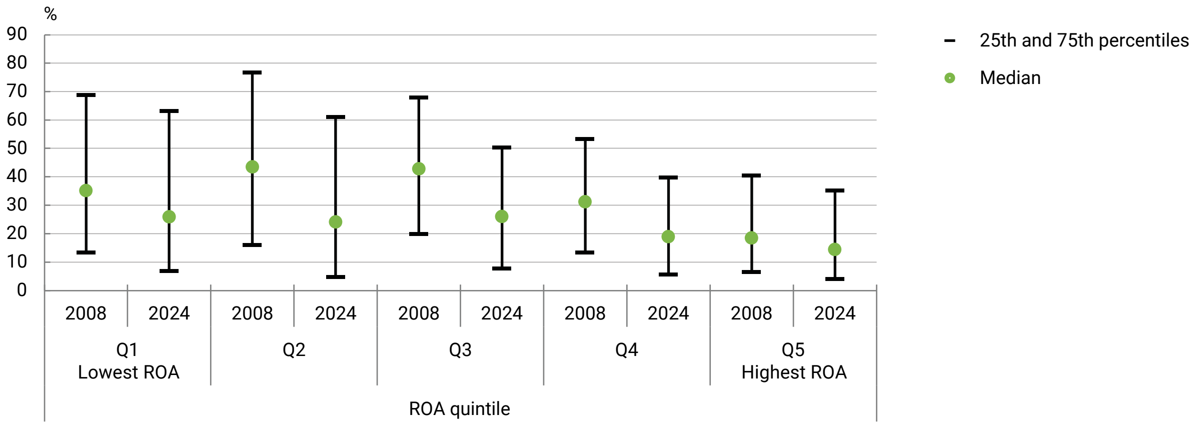
The stock of firms' debt declined in 2025 Q4, which, coupled with stronger profits, drove a further moderate reduction in the debt ratio. The debt-to-GOS[9] ratio was down by 5.1 pp in 2025 Q4, to stand at 311% (Chart 2.4). This is similar to the euro area level (308%) and remains low for Spain by historical standards, below the average since 2000 (428%). Meanwhile, Spanish

8 Includes transportation and storage, information and communication, professional, scientific and technical activities and administrative and support service activities.

9 In the national accounts, GOS (similar to GOP) is a corporate profit measure defined as value added (the difference between the value of the goods and services produced and the value of the goods and services consumed) at factor cost, less personnel costs. It is the balance available to firms to reward their shareholders and financial creditors, to pay taxes and, potentially, to finance all or part of their investment. GOS is used to construct the ratios in this section owing to its greater historical depth.

Chart 2.5
Since the global financial crisis, deleveraging has been strongest among firms with medium or low profitability

2.5.a Leverage ratio distribution by ROA quintile (a) (b)



SOURCE: Banco de España.

a ROA is defined as the ratio of GOP less net amortisation to net operating assets, calculated as total assets excluding financial investments and short-term interest-bearing debt. Leverage is defined as the ratio of total interest-bearing borrowing to total assets.
b The ROA quintiles are constructed from the 20th, 40th, 60th and 80th percentiles of the ROA distribution in each year. In 2008 the values for the cut-off points for these percentiles were -6.51%, 2.41%, 7.83% and 19.52%, respectively. In 2024 the values were -2.13%, 3.26%, 10.47% and 27.37%, respectively.

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firms' debt-to-GDP ratio amounted to 62.6% in December 2025, below the level for the euro area (65.8%). According to the latest projections, this ratio could continue to decline over the coming years, ending 2028 in a range of between 296% of GOS (in the severe scenario) and 308% (in the baseline scenario). This range partially reflects the uncertainty associated with the scale and persistence of the effects stemming from the crisis in the Middle East, as captured in the Banco de España's latest projections. Under the severe scenario, the lower projected level of indebtedness would largely reflect a marked slowdown in the flow of new lending.[10]

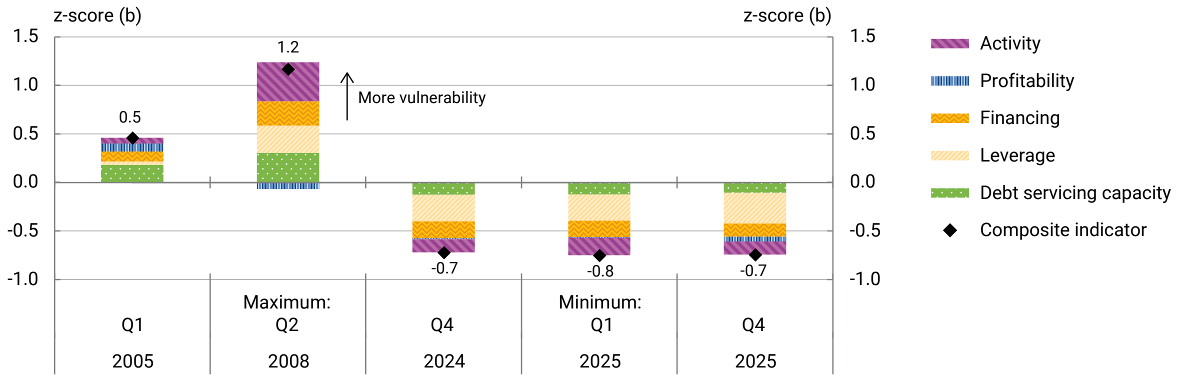
Since the 2008 peak, deleveraging has been most pronounced among firms with low or medium levels of profitability. There has been broad-based corporate deleveraging since the highs of 2008, with reductions across the distribution of firms by leverage level and profitability. The deleveraging has been particularly pronounced among firms with low or medium profitability levels (in the second and third quintiles), with return on assets (ROA) of between -6.5% and 7.8% in 2008, and between -2.1% and 10.5% in 2024 (Chart 2.5). This pattern is relatively favourable from a financial stability perspective, given that those firms with limited profit-generation capacity have reduced their debt more significantly.

The ratio of interest payments to GOS, which stands at low levels, rose slightly in 2025 Q4, and could continue to rise moderately in the coming years. Interest payments grew slightly,

10 The future path of the ratios for Spain is estimated based on the forecasts for GOS, interest rates and credit volumes included in the Banco de España's 2026 Q1 macroeconomic projections.

Chart 2.6
Firms' aggregate financial vulnerability has held stable and at low levels recently

2.6.a Composite indicator of firms' financial vulnerability (a)



SOURCES: European Commission, INE and Banco de España.

a Positive (negative) values indicate higher (lower) financial vulnerability than the average for the reference period (2005-2025 Q4). The sub-components of the index are: i) business activity: calculated based on sales growth, the trade creditors ratio and change in accounts receivable turnover; ii) profitability: calculated based on ROA, profit margin and the market-to-book value ratio; iii) financing: calculated based on the short-term debt to long-term debt ratio, the quick ratio, overall cost of debt financing and credit impulse, calculated as the annual change in the ratio of net credit flow to GDP. The credit impulse captures the positive effect of financing flows to the non-financial private sector on economic activity, with a positive value contributing to lower vulnerability; iv) leverage: calculated based on the debt-to-equity ratio, the net debt-to-earnings before interest, taxes and depreciation ratio, and the gross debt-to-income ratio; and v) debt service capacity: calculated based on the interest coverage ratio, corporate savings and revenue generation. For more details on the composition of the indicator, see Sándor Gardó, Benjamin Klaus, Mika Tujula and Jonas Wendelborned. (2020). "Box 1. Assessing corporate vulnerabilities in the euro area". In European Central Bank. *Financial Stability Review*.

b The z-score shows at each date the number of standard deviations (up or down) between the indicator and the mean for the period 2005-2025 Q4 in full.

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after five consecutive quarters in decline. In 2025 Q4 the ratio of interest payments to GOS stood at 11.4%, an increase of 0.4 pp on Q3, but still clearly below the peak of the last decade recorded in June 2024 (15.5%) (Chart 2.4). The interest burden remained below that of both the euro area (14.6%) and the historical average since 2000 (16.4%), albeit still above its 2021 level of around 6%, prior to the monetary tightening cycle. Under the scenarios envisaged in the macroeconomic projections, the interest burden will rise slightly in the coming years. Specifically, at end-2026 the ratio of interest payments to GOS will stand in a range between 11.6% in the baseline scenario and 13.6% in the severe scenario, before gradually rising to between 12.5% and 16% at end-2028. This slight increase in the debt burden is mainly attributable to higher interest expenses.

At the aggregate level, corporate financial vulnerability remained stable at low levels in 2025 Q4. At end-2025 this indicator – calculated as the arithmetic mean of five sub-indicators relating to activity, profitability, financing, leverage and debt servicing capacity – stood 0.7 standard deviations below its average since 2005. This is very similar to the levels recorded in previous quarters, meaning it remains at historically low levels (Chart 2.6). All components of the indicator appear to have contributed to the lower level of vulnerability relative to the 2008 peak, although the decline in leverage was the main factor (Chart A2.2.2.1 in Annex 2). To gain deeper insight into business vulnerability from a more granular perspective, and in light of the considerable sectoral heterogeneity (which implies significant differences in firms' ability to absorb adverse shocks), a sensitivity analysis has been conducted considering a combined shock of weaker earnings and higher borrowing costs.[11] This corporate vulnerability analysis indicates marked sensitivity to such shocks, particularly in terms of profitability. Moreover, the shocks are particularly significant for sectors such as construction and real estate activities (Box 2.1).

2.3 General government

In 2025 Spain's general government deficit performed more favourably than that of the euro area as a whole. The Spanish general government deficit fell by 0.8 pp of GDP (to 2.4%), with the primary balance reaching equilibrium for the first time since 2008.[12] This compares with a drop of just 0.1 pp in the euro area, to 2.9%. Spain's better performance is partly explained by the lower volume of extraordinary expenditure in 2025 compared with the previous year. The marked increase in government revenue also played a role, against a backdrop of strong economic activity, with Spanish GDP growth of 2.8% in 2025, twice that of the euro area (1.4%).

The government deficit improved despite higher net expenditure[13] growth than expected. According to Government estimates,[14] in 2025 net expenditure grew by 4.8%, exceeding both the April 2025 forecast of 4.1% and the growth ceiling of 3.7% established in Spain's medium-term fiscal structural plan (MTP). Meanwhile, the Government has confirmed that it has requested that Brussels activate the national escape clause, which would allow net expenditure to increase beyond that envisaged in the MTP during the period 2025-28.[15]

Overall, in recent years public finances have returned to a position broadly comparable to that before the COVID-19 pandemic. In 2025 the budget deficit stood at 2.4%, down by 0.7 pp on 2019 (Chart 2.7.a). However, relative to 2018 (a year with a similar cyclical position to 2025) the improvement has been marginal (just 0.2 pp).

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11 Based on 2024 data from the Integrated Central Balance Sheet Database, the exercise involves applying to each sector a decline in GOP equivalent to one standard deviation of its historical average (2000-24, excluding 2020), followed by 100 simulations in which each firm is subject to an idiosyncratic shock consistent with the distribution of GOP above the sectoral average and by size, in a year with a fall similar to the common sectoral shock. The figures for firms under high financial pressure correspond to the average of these simulations.

12 The deficit would be 2.2% excluding the measures implemented to mitigate the impact of the deadly flooding of October 2024 and 2.0% also excluding other one-offs.

13 Net expenditure is the variable used to establish requirements under the new European fiscal rules and excludes interest payments, cyclical unemployment expenditure, one-off expenditure and expenditure financed or co-financed by the European Union. In addition, the rate of change is calculated net of additional revenues from discretionary measures.

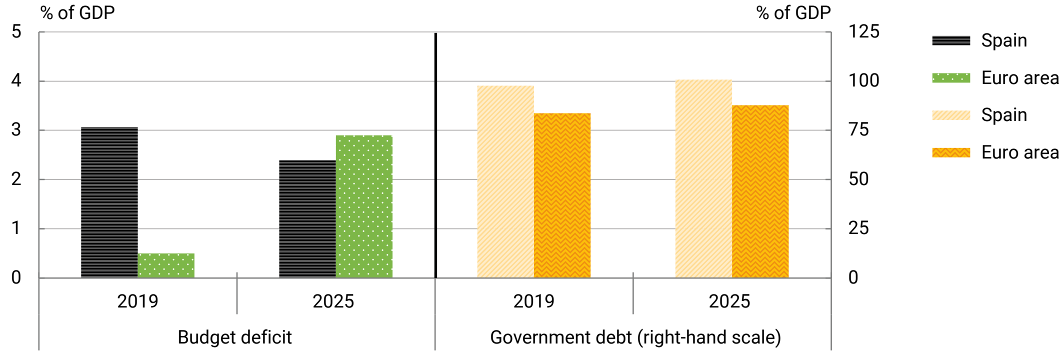
14 Annual Progress Report 2026 (in Spanish only).

15 The escape clause allows net expenditure to grow above the level envisaged in the MTP by an amount equivalent to the increase in defence spending relative to 2024, up to a maximum of 1.5% of GDP. Thus, in 2025, excluding the increase in Spain's defence spending, net expenditure would have grown by 4.5%, within the margin of flexibility allowed by the European fiscal rules.

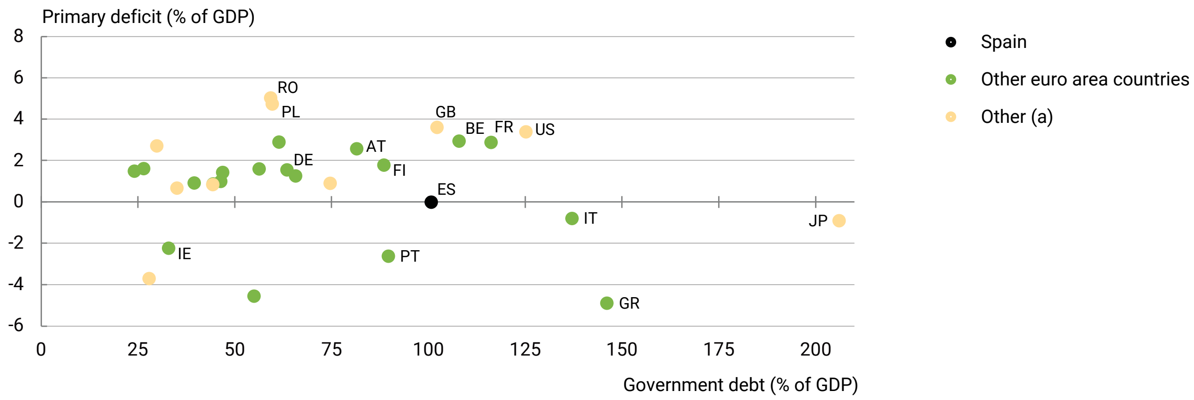
Chart 2.7

Spain's public finances have improved recently thanks to the favourable economic cycle, but the high level of public debt remains a significant vulnerability

2.7.a General government. Financial position



2.7.b International comparison (2025)



SOURCES: Datastream, Eurostat, IMF and Banco de España.

a Includes the United Kingdom, the United States, Japan and the EU countries outside the euro area (Bulgaria, Czech Republic, Denmark, Hungary, Poland, Romania and Sweden).

However, high government debt remains a vulnerability for the Spanish economy, exacerbated by the lack of detail regarding the measures envisaged to correct it.[16] In 2025 government debt stood at 100.7% of GDP, more than 10 pp higher than the euro area debt-to-GDP ratio and facing upward pressure. First, the general government deficit remains relatively high, particularly given the current phase of the Spanish economic cycle. Second, expenditure demands are expected to increase in the coming years as a result of defence commitments, population ageing and investment requirements related to the green and digital transitions. This risk is exacerbated by the lack of detail regarding the measures envisaged to meet the MTP targets, as well as by the absence of political consensus on fiscal matters.

16 See, for example, the Independent Authority for Fiscal Responsibility's (AIReF) Second Opinion on the Long-term Sustainability of the General Government.

This vulnerability is all the more significant in a context of fiscal fragility in several countries of systemic importance for the global economy (Chart 2.7.b). The United States,[17] Japan[18] and France stand out among the countries with less favourable fiscal positions, not only because of their high deficits and public debt, but also because of their importance for trade and economic activity in the euro area and globally. Potential adverse shocks could trigger a shift in financial market sentiment and force fiscal adjustments in some of these countries, with negative implications for global economic activity. This could have significant adverse repercussions for Spain through trade and financial channels.

Government borrowing costs have remained contained amid relatively favourable financial conditions, but could face pressure were public spending to increase going forward. In 2025 Spain's public debt burden amounted to 2.4% of GDP, unchanged from 2024 and in line with the average since 2007. The Banco de España's March projections envisaged only a moderate increase to 2.5% in 2027. These projections reflected a context in which the average cost of Treasury financing had fallen to 2.7% in 2025, down by 0.5 pp on 2024, together with expectations of only modest increases in market interest rates in the coming years. Nevertheless, even under these benign financial market assumptions, debt costs could not remain low were the general government deficit – and therefore debt – to increase as a result of higher expenditure without compensatory measures.

The conflict in the Middle East has added a further source of risk. Since the beginning of the US and Israeli attack on Iran, Spanish 10-year bond yields have risen moderately (by around 40 bp), against a broader backdrop of moderate financial market adjustment (Chapter 4). Moreover, the Spanish economy starts from a more favourable position than it did going into the 2022 energy shock triggered by the war in Ukraine. However, depending on the duration and intensity of the conflict, the impact on both the global and Spanish economy could be significant,[19] exerting pressure on fiscal vulnerabilities through both weaker economic activity and financial market corrections. The latter could be larger in scale in Europe, given the increase in recent years in the share of investors with more elastic demand and greater sensitivity to sovereign yields (see Box 4.2).

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17 Estimates by the Congressional Budget Office (CBO), factoring in the 2025 fiscal and tariff reforms, point to a federal deficit of 5.8% of GDP in 2026 (broadly unchanged from 2025), rising to 6.7% in 2036. Federal government debt is projected to increase from 99% of GDP in 2025 to 120% in 2036. Moreover, the CBO estimates that the repeal of International Emergency Economic Powers Act tariffs could increase the deficit by approximately 0.5 pp of GDP, due to the reimbursement of the amounts paid in the approximately one year the measures were in force and of the same amount in each future year in loss of income. However, the future impact is subject to considerable uncertainty since the US Administration could adopt offsetting measures. In addition, the war in the Middle East represents another potential source of upward deviation in the deficit. However, its final impact on public finances remains highly uncertain, as it will depend on the duration and intensity of the conflict, as well as on any compensatory fiscal and spending measures that may be adopted. The Federal Government's proposal for fiscal year 2027, still under discussion, points to an increase in defence spending of around 1.9% of GDP relative to the CBO's February 2026 estimate.

18 The IMF projects a government deficit for Japan of 2% in 2026 and public debt of 204% of GDP, the highest among advanced economies. While Japan has sustained elevated levels of public debt for years, the current environment of higher inflation, higher interest rates, uncertainty over global trade (on which the economy is highly reliant) and uncertain geopolitical relations, together with ongoing population ageing, is raising the cost of maintaining this fiscal stance.

19 See Box 4 on the alternative scenarios for the Spanish economy based on the intensity and duration of the energy shock from the war in the Middle East, in the Banco de España's latest Macroeconomic projections and quarterly report on the Spanish economy.