INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/121

SPAIN

June 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

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 2025 Article IV consultation with Spain, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis following discussions that ended on April 10, 2025, 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 16, 2025.
- An **Informational Annex** prepared by the IMF staff.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2025 Article IV Consultation with Spain

FOR IMMEDIATE RELEASE

- *The Spanish economy has been performing strongly, supported by services exports and labor force growth. Growth is expected to remain significantly above the euro area average in the near term, before slowing gradually as its recent drivers normalize and demographic aging intensifies. Most risks are to the downside, including from a further escalation of trade measures and domestic political fragmentation.*

- *The authorities should seize the growth momentum to more swiftly rebuild fiscal space and reduce sovereign debt risks through a clearer consolidation strategy grounded in well-identified tax increase and spending reduction priorities. Additional measures should also be taken to address fiscal pressures from rising future pension expenditures, and to improve the pension system's safeguard clause.*

- *Raising productivity is key to boosting income per capita gains, which have been modest since the pandemic. This should be achieved through a new wave of reforms to facilitate firms' scaling-up and strengthen innovation.*

Washington, DC – June 6, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Spain.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

With a growth rate of 3.2 percent in 2024, Spain has been one of the fastest-growing economies in the euro area. Growth has been fueled by robust services exports and labor force growth, including due to immigration. Because high GDP growth has been accompanied by high employment growth, GDP per capita gains have been more modest. Despite recent progress, Spain still has one of the lowest employment rates in Europe, and a persistent gap in (hourly labor) productivity vis-à-vis the euro area and—even more so—the US.

Growth is projected to reach 2.5 percent in 2025 before slowing to 1.8 percent in 2026 as export and working-age population gains normalize. Growth will be primarily supported by private domestic demand, including due to a decline in the household saving rate and a pickup

---

[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.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/en/Countries/ESP page.

in investment. Inflation is projected to decline further and return close to the ECB's target by end-2025.

Executive Board Assessment[3]

The Spanish economy has continued to outperform the euro area but per-capita income gains have been more modest. Two major drivers of Spain's strong growth have been, on the supply side, labor force growth, and on the demand side, services exports. Labor force growth has particularly benefitted from recent migration inflows, which have risen sharply above pre-pandemic levels. Services exports have been fueled by the strong post-COVID recovery in tourism, but also by improvements in the performance of Spanish exporters in non-tourism services. Amid strong exports and still subdued imports, the external position in 2024 is preliminarily assessed to be stronger than implied by medium-term fundamentals and desirable policies. Because high GDP growth has been accompanied by high employment growth, GDP per capita gains have been more modest. Still, Spain reduced its per-capita income gap vis-à-vis the highest-income euro area economies by over 3 percentage points during 2022-24, helped by an acceleration in productivity growth. Despite recent progress in reducing the unemployment rate, it remains the highest in the euro area at about 11 percent. Looking through recent volatility, disinflation has continued to proceed steadily.

Growth is projected to remain robust in the near term and to slow gradually thereafter as its recent drivers normalize, with risks predominantly to the downside. Growth should remain strong at 2.5 percent in 2025 before declining to about 1.8 percent next year, close to its medium-term potential. On the demand side, tourism is expected to expand at a slower rate, while a weaker global environment—including elevated trade policy uncertainty and US tariffs—will also weigh on external demand. This drag is expected to be partly offset by robust domestic demand, including a pick-up in investment. On the supply side, a gradual slowdown in net migration and demographic aging will slowly weigh on labor force gains. Key downside risks include an escalation of trade measures, particularly those involving the EU, and domestic political fragmentation, which could hamper the response of fiscal policy in the event Spain's deficit reduction fell short of its commitments or market concerns about sovereign risks were to emerge.

The authorities should seize upon the strong growth momentum to more swiftly rebuild fiscal space and reduce sovereign debt risks, in the context of an enhanced medium-term fiscal plan. Staff projects that, in the absence of further consolidation measures besides social security contribution increases from the 2021-2023 pension reforms and the non-indexation of PIT brackets (about 1 percent of GDP overall over 2025-29), the deficit would stabilize above 2 percent of GDP by 2030, while the debt-to-GDP ratio would remain above 90 percent before rising again in the longer term as fiscal pressures from aging intensify. Weighing fiscal risks on the one hand, and the economy's strong cyclical position on the other, staff recommends frontloading the authorities' planned 3 percent of GDP adjustment over 2025-2029 rather than 2025-2031. This effort, which would require about 2 percentage points of GDP in new measures, should be underpinned by an enhanced medium-term fiscal plan that lays out well-

[3] At the conclusion of the discussion, the Managing Director, as Chairman 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.

identified tax increase and spending reduction priorities. Harmonizing VAT and enhancing environmental taxation would deliver the recommended effort while reducing economic distortions. Given the widening projected gap between pension expenditures and social security contributions over the coming decades, pension reforms should also be undertaken, prioritizing employment-friendly options. Should downside risks materialize, fiscal policy should remain flexible, letting automatic stabilizers play out. Temporary discretionary support should be considered only in the event of a severe shock and provided sovereign funding costs remain low.

Systemic risks in the financial system remain low but ongoing efforts to further bolster its resilience should be maintained. Banks are well-capitalized, liquid, and profitable, though capital ratios are still somewhat below euro area peers. Household and corporate balance sheets are sound, supported by low debt and rising incomes. The rapid growth in house prices has eroded affordability and should be primarily addressed through measures that stimulate housing supply. While it does currently not raise financial stability risks, pre-emptive borrower-based measures should be considered if there were early signs of an easing in lending standards. Staff supports the ongoing phasing-in of the one-percent positive neutral CCyB and encourages continued implementation of other 2024 FSAP recommendations to further enhance resilience.

Fostering income-per-capita convergence toward higher-income advanced economies requires further raising the employment rate and boosting productivity. Despite recent progress, Spain still has one of the lowest employment rates in Europe, and its (hourly labor) productivity gap vis-à-vis the euro area—which has itself been falling behind the US—remains about as wide as it was 25 years ago. Enhancing activation policies and financial incentives for jobseekers is key to durably reducing unemployment to single digits. The planned reduction of the working week in the private sector should be carefully designed to mitigate adverse effects on output and workers' incomes, with a major role for collective bargaining including in setting the level and remuneration of overtime. Closing the productivity gap will require reforms that facilitate firms' scaling-up and innovation. These include 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 CMU complemented by domestic incentives, and promoting excellence in higher education—including through greater autonomy and performance-based funding of universities.

Spain: Selected Economic Indicators
(Annual percentage change, unless noted otherwise)

				Projections 1/		
	2022	2023	2024	2025	2026	2027
Demand and supply in constant prices						
Gross domestic product	6.2	2.7	3.2	2.5	1.8	1.7
Private consumption	4.8	1.8	2.9	2.1	2.0	1.9
Public consumption	0.6	5.2	4.1	3.5	1.7	1.9
Gross fixed investment	3.3	2.1	3.0	5.0	2.1	1.2
Total domestic demand	3.9	1.7	2.9	2.9	2.0	1.8
Net exports (contribution to growth)	2.5	1.2	0.4	-0.2	-0.1	0.0
Exports of goods and services	15.0	3.3	3.4	2.2	2.5	3.1
Imports of goods and services	7.8	0.4	2.6	3.0	3.2	3.4
Potential output	2.1	2.7	2.6	2.6	2.3	2.1
Output gap (percent of potential)	1.1	1.1	1.6	1.6	1.1	0.7
Prices						
GDP deflator	4.7	6.2	3.0	2.4	2.4	2.4
Headline Inflation (average)	8.3	3.4	2.9	2.2	2.0	2.1
Headline Inflation (end of period)	5.5	3.3	2.8	1.9	1.9	2.1
Core inflation (average)	5.2	5.8	3.0	1.9	2.0	2.0
Core inflation (end of period)	6.7	4.0	2.6	1.8	2.0	2.0
Employment and wages						
Unemployment rate (percent of total labor force)	13.0	12.2	11.3	11.1	11.0	11.0
Labor costs, private sector	2.6	5.6	4.7	3.5	3.4	3.4
Employment	3.6	3.1	2.2	1.3	0.9	0.7
Balance of payments (percent of GDP)						
Current account balance	0.4	2.7	3.0	2.5	2.4	2.2
Net international investment position	-57.7	-51.3	-44.0	-38.5	-33.5	-29.7
Public finance (percent of GDP)						
General government balance	-4.6	-3.5	-3.2	-2.8	-2.4	-2.3
Primary balance	-2.5	-1.7	-1.3	-0.6	0.1	0.1
Structural balance	-5.3	-4.1	-3.1	-3.2	-2.8	-2.7
General government debt	109.4	105.0	101.8	100.7	99.1	97.7

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

1/ The projections incorporate spending financed by the EU Recovery and Resilience Facility (including the grant and the loan component) amounting to about 0.7, 1.7, 1.3 and 0.3 percent of GDP from 2024 to 2027.

INTERNATIONAL MONETARY FUND

SPAIN

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

May 16, 2025

KEY ISSUES

- The Spanish economy has been performing strongly, propelled by services exports and labor force growth, including immigration. Growth is projected to reach 2.5 percent in 2025, before slowing as its recent drivers normalize. The disinflation process is expected to continue, with headline and core converging close to the ECB's target by end-2025. Most risks are to the downside, including from a further escalation of trade measures and domestic political fragmentation.
- The authorities should seize the growth momentum to more swiftly rebuild fiscal space and reduce sovereign debt risks. A cumulative adjustment of 3 percent of GDP over 2025-29 would achieve this goal. To preserve growth, it should hinge on reducing tax system distortions, including through VAT rate harmonization, complemented by spending efficiency improvements. Additional measures should also be taken to address fiscal pressures from rising future pension expenditures, and to improve the pension system's safeguard clause. The reform of the regional financing system should aim at harmonizing the national fiscal rule with the new EU fiscal framework and strengthening regions' incentives to comply.
- Systemic risks in the financial sector remain low, unchanged from the 2024 FSAP. Household and corporate balance sheets are sound, though a further acceleration of house price growth could create risks in the future and warrants close monitoring. The banking system is adequately capitalized, liquid, profitable and resilient, although capital ratios remain somewhat below those of euro area peers. To further strengthen the system's resilience, staff supports the ongoing phasing in of a (one percent) positive neutral countercyclical capital buffer.
- A renewed reform impetus is needed to raise both the overall employment rate and productivity toward the euro area's best performers. Further enhancing activation policies and financial incentives for jobseekers is key to durably reducing unemployment to single digits. The planned workweek reduction should be carefully designed to mitigate adverse effects on output and workers' incomes, with a major role for collective bargaining including on overtime. Productivity-enhancing reforms should facilitate firms' scaling-up and strengthen innovation—by completing both the Spanish and EU single markets, increasing access to venture capital, and promoting excellence through greater autonomy in higher education. Expanding housing supply, complemented with targeted demand-side measures tailored to local market circumstances, would improve affordability.

Approved By	
Kristina Kostial (EUR) **Geremia Palomba (SPR)**	Discussions were held in Madrid during March 31-April 10, 2025. The staff team comprised Romain Duval (Head), Nina Biljanovska, Ana Lariau, Carlo Pizzinelli, Ippei Shibata and Younghun Shim (all EUR). Xiana Mendez (Executive Director), Diego Moleres and Irune Solera Lopez (Advisors to the Executive Director) attended the meetings. Damien Capelle and German Villegas Bauer (both RES), Miguel De Asis and Yueshu Zhao (both EUR) supported the mission from headquarters. The mission met with Minister of Economy Carlos Cuerpo, 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.

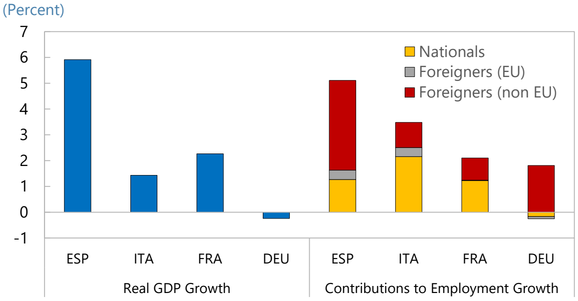
CONTENTS

ANNEXES

RECENT DEVELOPMENTS

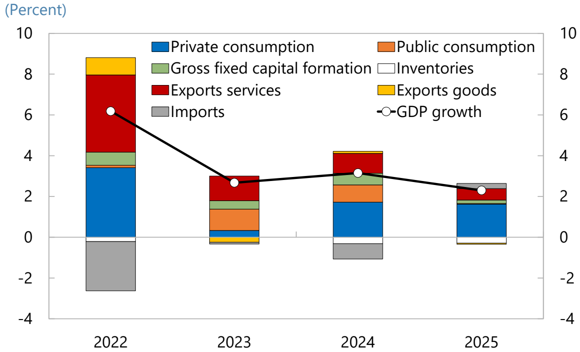
1. Spain's economy has continued to perform strongly, fueled by labor force growth. After slowing during the energy crisis, the economy has been growing steadily at an average annualized rate of over 3 percent since end-2023, repeatedly beating IMF and other analysts' forecasts. The DANA, a weather event at end-2024 that entailed catastrophic floods—particularly in the region of Valencia—and loss of human lives, had a small aggregate economic impact and did not derail the momentum. The April power outage also did not have a material impact on activity. On the supply side, immigration has been a key growth driver, contributing around 75 percent of the 5 percent increase in aggregate employment in 2024. The predominance of relatively highly-educated, Spanish-speaking immigrants from Latin America, coupled with new immigration-friendly policies,[1] has facilitated their labor market integration and supported an increase in the share of non-nationals in higher-skilled jobs (e.g., communications, manufacturing, retail, healthcare). On the demand side, growth has been supported by robust services exports and a continued recovery of domestic demand. Tourism revenues reached record highs last year due to a mix of temporary factors (residual pent-up demand from the pandemic and regional conflicts that diverted tourists to Spain) and more structural forces (increased off-season inflows and quality upgrading), while non-tourism services exports continued to benefit from non-price competitiveness gains (2024 Selected Issues). More recently, private consumption has accelerated, supported by real income gains on the back of steady disinflation, solid nominal wage increases amid a tight labor market, and continued employment growth. Public consumption growth also picked up significantly in the second half of 2024.

Real GDP Growth and Contributions to Employment Growth by Worker's Country of Birth
(Percent)



Sources: Eurostat and IMF staff calculations.
Note: The bars correspond to the cumulative growth of real GDP and employment between 2022 and 2024.

Contributions to Real GDP Growth
(Percent)



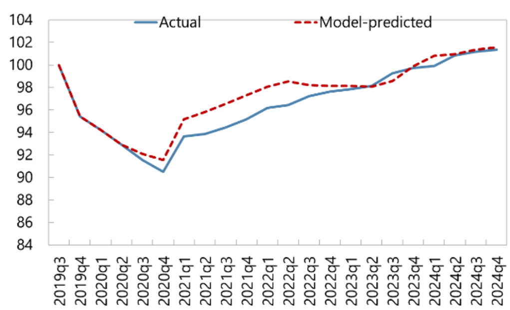
Sources: Haver Analytics and IMF staff calculations.
Note: Data for 2025 are based on the annualized growth rates of 2025Q1.

2. Per capita income gains have been modest, although they have picked up most recently. Spain reduced its per-capita income gap vis-à-vis the highest-income euro area

[1] In November 2024, Spain approved new immigration regulation—coming into force in mid-2025—aimed at facilitating legal migration channels and simplifying procedures to acquire residence and work permits.

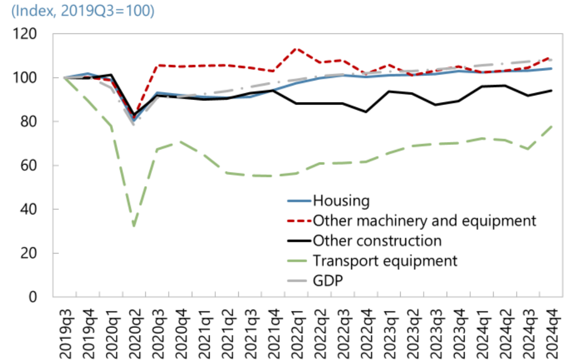
economies by over 3 percentage points during 2022-24.[2] However, at about 29 percent in 2024 (17 percent relative to the euro area overall), it remains over 3 percentage points wider compared to 20 years ago. This lack of convergence reflects continued weak labor productivity growth, which can be partly explained by persistently weak investment, as well as sluggish total factor productivity growth—though both started to pick up recently. The post-pandemic recovery in gross fixed capital formation (GFCF) has also been sluggish, with GFCF remaining below the level implied by fundamentals and only returning to pre-pandemic levels in 2024—implying a cumulative capital formation shortfall of over 15 percent since the pandemic. Moreover, investment in both non-housing construction and transport equipment still remain below pre-pandemic levels, partly due to elevated domestic policy uncertainty, which may account for at least a fifth of the cumulative post-COVID investment gap (2025 Selected Issues). While housing construction investment has been recovering, supply is failing to meet rising demand from large net migration flows and new household formation.

GFCF: Deviation from Fundamentals
(Index, 2019Q3=100)



Sources: Haver analytics and IMF staff calculations.
Note: Model estimates are based on an error correction model, including real gross fi

GFCF: Components
(Index, 2019Q3=100)



Sources: Haver analytics and IMF staff calculations.

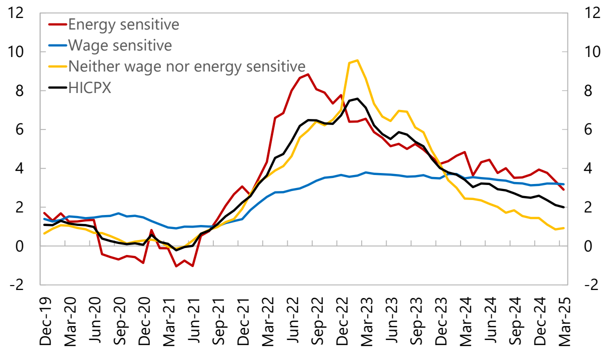
3. Disinflation has proceeded steadily. Headline inflation declined throughout 2024 before rebounding temporarily to close to 3 percent in early 2025 due to higher energy prices. Meanwhile, core inflation has been slowly declining, broadly in line with the historical relationship with its main drivers.[3] With slow wage moderation, the wage-sensitive components of core inflation—which are more prevalent in the services sectors—have been more persistent than others. Against the background of a persistently tight labor market, nominal wage growth per employee has remained close to 5 percent in 2024; this is significantly above the 3.7 percent growth rate featured in collective agreements signed in 2024 and exceeded the 3 percent increase agreed at the national

[2] The gap is computed as the difference of PPP-adjusted real GDP per capita between Spain and the average of Belgium, Austria, and Netherlands in 2024.

[3] A dynamic simulation of q/q core inflation over 2024Q1-2024Q4, based on a Phillips curve equation estimated on pre-COVID data, roughly matches the observed core inflation over this period.

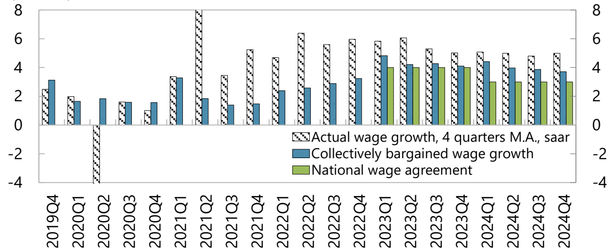
level.[4] However, there have been some recent signs of a slowdown in bargained wage growth (to 3.2 percent in collective agreements signed in the first quarter of 2025).

HICP Inflation Excl. Energy and Unprocessed Food (HICPX)
(Percent, y/y)



Sources: Eurostat, European Central Bank, and IMF staff calculations.

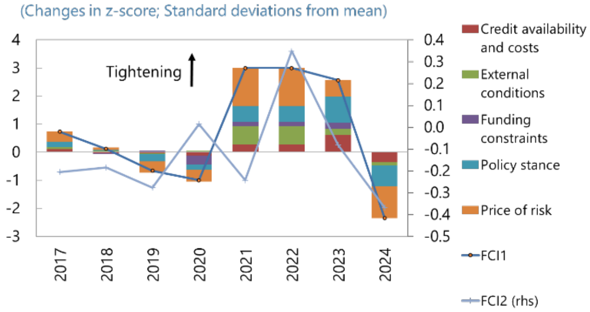
Nominal Wage Growth
(Percent)



Sources: Ministerio de Trabajo y Economia Social, Instituto Nacional de Estadistica, Haver Analytics and IMF staff calculations.
Note: Actual wage growth corresponds to the growth of wages and salaries per employee, using national accounts data. The collectively bargained wage growth corresponds to the average wage growth in the new collective agreements celebrated up to a given quarter in each year; for example, the bar for 2024Q2 corresponds to the average wage growth in the new collective agreements celebrated in 2024Q1 and 2024Q2.

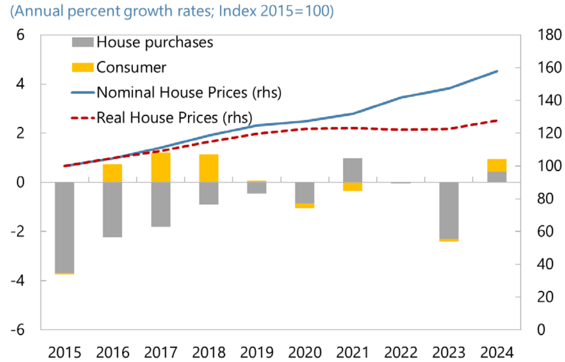
4. **Credit has been recovering and house price growth has been accelerating.** Financial conditions are close to their long-term average and easier than they were in 2022, reflecting lower interest rates, improved credit supply and reduced risk premia. This shift has supported a recovery in household credit growth from about 0 percent in 2022 to 1 percent in 2024, with both new house purchase and consumer loans rebounding strongly. Credit to corporates has recovered more slowly, still contracting by 0.2 percent in 2024. The combination of looser financial conditions and excess housing demand has sustained upward pressure on real estate values, though real price increases have been more muted.

Spain: Financial Conditions Indicators
(Changes in z-score; Standard deviations from mean)



Source: Borraccia et al. (2023), IMF Working Paper 23/209, and IMF GFSR (April 2017).
Note: FCI1 (Borraccia et al., 2023) measures the annualized contribution to the quarter-over-quarter first difference of financial conditions for non-financial corporations. FCI2 (IMF GFSR, 2018) is expressed in standard deviations from mean, 1996Q1–2023Q1.

Outstanding Credit to Households and House Prices
(Annual percent growth rates; Index 2015=100)



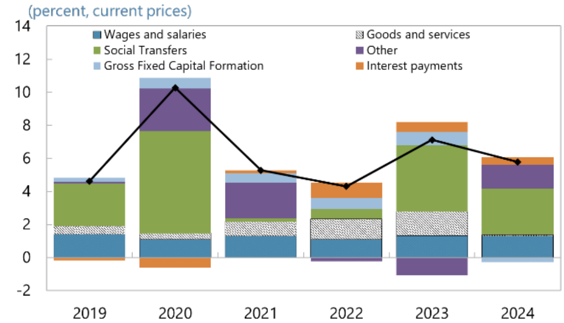
Sources: Bank of Spain, INE, IMF staff calculations.

5. **Public finances continued to improve in 2024, albeit at a slower pace than in 2023 due to high public spending growth, particularly on wages and social transfers.** The overall fiscal

[4] A national wage agreement struck in May 2023 between unions and business associations established a commitment to wage increases below 4 percent in 2023, 3 percent in 2024, and 3 percent in 2025.

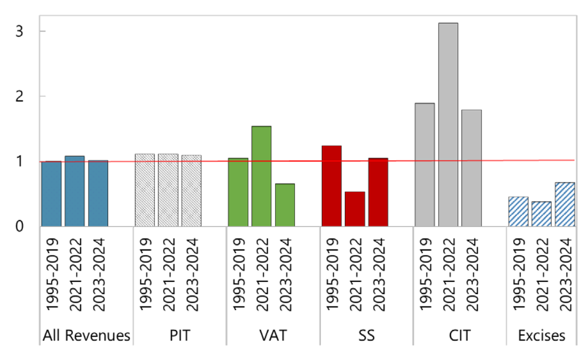
deficit declined by 0.3 percentage points to 3.2 percent of GDP in 2024, meeting the government's 3-percent deficit target when excluding the emergency response to the DANA floods amounting to 0.35 percent of GDP. Although most (e.g., CIT and VAT) tax buoyancies have declined from their pandemic recovery highs, revenues rose further as a share of GDP, supported by personal income taxes (PIT) and social security contributions, on the back of continued strong labor market performance, the non-indexation of PIT brackets, and the roll out of higher social security contribution rates following the 2021-23 pension reforms.[5] Growth in value added tax (VAT) revenues reflected the phasing-out of the reduced rates on electricity, gas and essential foods and the temporary levies on banks and energy companies collected 0.2 percent of GDP. Excluding the DANA package, primary spending grew by 5.1 percent, mainly due to rising wages and social transfers. The debt-to-GDP ratio declined to 101.8 percent from 105 percent in 2023.

Contributions to Public Spending Growth
(percent, current prices)



Sources: IGAE, and IMF staff calculations.
Note: Public spending financed by NGEU grants and one-offs related to the DANA are included. "Other" includes subsidies, capital transfers and investment aid.

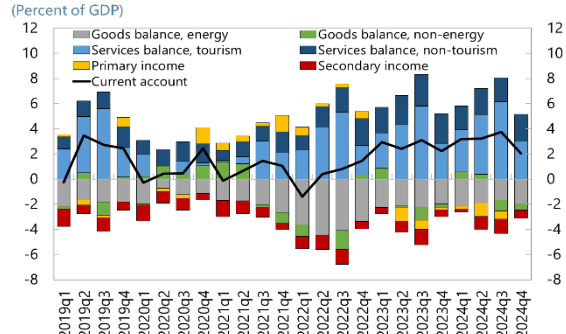
Yearly Revenue Elasticity
(percent change in revenue over percent change in nominal GDP)



Sources: AEAT, IGAE, IMF staff calculations.

6. **The current account surplus has risen further on continued dynamism of exports.** The trade balance reached a surplus of 4.3 percent of GDP in 2024, as a strong services balance—amounting to 6.3 percent of GDP, including due to record-high tourism revenues—partly offset a stable negative goods balance of 2 percent of GDP, mostly driven by energy imports. Factoring in a negative primary and secondary income balance of 1.3 percent of GDP, the current account showed a surplus of 3 percent of GDP. As a result, the net international investment position improved to -44.0 percent of GDP by end-2024. The external position in 2024 is preliminarily assessed to be stronger than the level implied by medium-term fundamentals and desirable policies, with the gap expected to decline over the medium term as tourism

Current Account Components
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

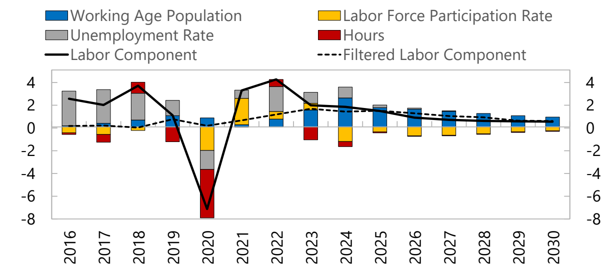
[5] The low VAT buoyancy in 2023-2024 is partly due to the temporary rate reductions on energy and essential foods.

inflows normalize and domestic demand strength stimulates imports (Annex I).[6]

OUTLOOK AND RISKS

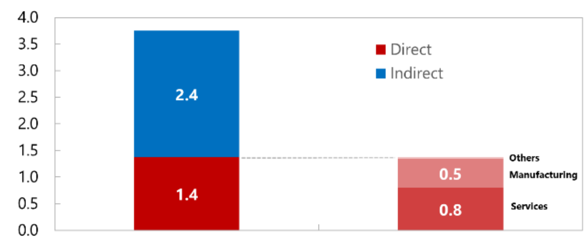
7. Growth is projected to slow gradually as its recent drivers normalize. In the past year, growth exceeded potential due to forces that are now expected to slow, such as the growth rates of tourism and public consumption. In addition, elevated trade policy uncertainty and the tariffs announced by the US administration in early April are projected to have an adverse impact on the economy, though it will be contained by Spain's limited direct and indirect (value-added) trade exposure to the US. Furthermore, potential growth itself is projected to decline gradually as a slowdown in net immigration and demographic ageing weigh on labor force gains. As a result, growth is projected to decline to 2.5 percent in 2025 before slowing further to 1.8 percent in 2026, while unemployment would stabilize at around 11 percent. Amid weaker support from external demand, growth will be sustained by private domestic demand. Consumption growth is expected to remain solid as continued real wage gains and a gradual decline in the household saving rate offset slower employment gains. Investment should also pick up on lower interest rates, progress with the disbursement and execution of Next Generation EU (NGEU) funds, and pent-up housing demand.[7]

Growth of the Labor Component of Output
(Percent)



Sources: Haver Analytics and IMF staff calculations.
Note: The labor component of output is the product of the working age population, the labor force participation rate, one minus the unemployment rate, and the average hours per worker. The filtered labor component is computed by multiplying the HP-filtered subcomponents (with the exception of the unemployment rate, wich is replaced by the natural rate of unemployment). Growth rates are computed as log-differences.

Exposure of Domestic Value-Added (DVA) Exports to a Potential Increase in U.S. Tariffs
(Percent of Total Value Added, 2020)



Sources: OECD TiVA 2023 Edition and IMF staff calculations.
Note: The direct exposure is computed as the product of (i) the share of DVA exports to the US in total DVA exports, and (ii) the share of total DVA exports in total value added. The indirect exposure is computed as the product of (i) the share of another country's gross exports to the US in total gross exports, (ii) the share of Spain's VA contribution to the country's total exports in total Spain's DVA exports, and (iii) the share of total DVA exports in total value added in Spain, and then the summation of these products is taken across all other countries.

8. Inflation is expected to return close to the ECB's target by end-2025. While the 2023 national wage agreement will provide a moderating anchor for collective agreements, workers' compensation growth is projected to decline only slowly amid a still tight labor market (as measured by the vacancy-to-unemployment ratio, which is at a record high), continued partial compensation

[6] The External Sector Assessment in Annex I is provisionally based on April 2025 estimates from the EBA model, and the final assessment will be published in the 2025 External Sector Report.

[7] Global assumptions embedded in the forecast include elevated trade policy uncertainty, weaker trading partners' growth prospects and US import tariffs as announced up to April 4, which underpin a trade balance deterioration starting from 2025. It is also assumed that the ECB's monetary policy rates will decline by 1.4 and 0.2 percentage points in 2025 and 2026. Staff assume that the NGEU grant component will be executed in full by the August-2026 deadline, and that 30 percent of the loan component will be executed over 2025-27 reflecting limited take-up of credit guarantees, with the same fiscal multipliers.

for inflation, and social security contribution increases. This should slow the fall in sticky services inflation, resulting in core and headline inflation returning close to 2 percent by year-end.

9. The current account surplus is expected to decline. The projected decline in 2025 by 0.5 percentage points to 2.5 percent of GDP reflects two forces. First, a deterioration of the international environment—including higher trade policy uncertainty, restrictive trade measures, and weaker trading partners' growth prospects—will weigh on exports. Second, the shift in the growth drivers toward domestic demand—particularly investment, which has a high import content—will stimulate imports. These forces, together with further normalization of tourism and non-tourism services exports over the medium term, are projected to result in a further gradual weakening of the current account surplus to 1.5 percent by 2030.

10. Most risks to the outlook are to the downside.

- A key global downside risk is an escalation of trade measures, particularly those involving the EU, although Spain's limited overall export exposure to the US would contain output losses. Simulations of models such as those featured in Box 1.2 of the April 2025 World Economic Outlook (WEO) suggest that each 10 percentage points rise in US tariffs on the EU could lower Spain's GDP by about 0.1 percent in the short and medium term, leaving aside potential non-linearities, any further spikes in uncertainty, and disruptions in global value chains that may lead to supply bottlenecks. Higher import prices resulting from an intensification of regional conflicts or heightened commodity price volatility would deteriorate terms of trade, lower real incomes, and raise inflation. Further repricing of still richly-valued financial assets could tighten global financial conditions and weaken growth.

- On the domestic front, political fragmentation—which contributed to two consecutive annual budget rollovers—could hamper a fiscal response if Spain's deficit reduction fell short of its commitments under the EU governance framework or market concerns about sovereign risks were to emerge. Further fiscal pressures could arise from a more persistent or larger-than-planned rise in defense spending that would not be fully offset by spending cuts or tax increases. Another risk relates to continued subdued investment, including from persistent supply bottlenecks in construction, prolonged domestic and global uncertainty, or slower-than-expected execution of NGEU funds.

- On the upside, immigration could remain high for longer or even rise again given Spain's continued attractiveness, lifting potential growth. In the short term, tourism momentum could remain stronger. There could also be a larger unwinding of household savings from COVID, which would boost consumption.

- On inflation, more-persistent-than-expected increases in unit labor costs from sustained wage pressures, or disappointing productivity growth, could slow the disinflationary process.

11. Given elevated uncertainty, the authorities should stand ready to adjust the recommended policy mix in response to shocks. For instance, in a global downside scenario such as in the 2025 April WEO,[8] potential output would contract and actual output would fall even more, opening up a negative output gap, increasing unemployment, pushing down inflation and deteriorating the fiscal position. Structural reforms would need to be accelerated to dampen the adverse impact on potential growth—with a focus on labor market policies (discussed further below) to facilitatate the reallocation of workers across sectors—and automatic stabilizers should be allowed to operate to stabilize the economy and mitigate the rise in unemployment. Given the already limited fiscal space, discretionary stimulus should be considered only in case of major and temporary negative shocks, and provided government funding costs remain low enough to allow for such support. Should the economic downturn be accompanied by a significant tightening of credit conditions, the ongoing phasing-in of the positive neutral countercyclical capital buffer (CCyB) could be paused.

Authorities' Views

12. The authorities broadly shared staff's views on the outlook and main risks. They emphasized Spain's robust economic performance and prospects despite the adverse international environment.While sharing the staff's assessment that the impact of the increase in tariffs is likely to be relatively contained in Spain, the government is concerned about the impact that trade policy uncertainty and restrictive trade measures may have on specific sectors (e.g., chemical products/pharmaceuticals, machinery and equipment, and agrifood). Over the medium term, the authorities see room for migration to continue supporting growth, complemented by an acceleration of investment—particularly in construction—and stronger productivity growth following its recent uptick. On the inflation front, they concurred with staff that the disinflation process—which they emphasized was also supported by reduced profit margins last year—will continue in the months ahead. The authorities also shared staff's view that most risks are to the downside, but highlighted that domestic political fragmentation was a longstanding issue that had not hindered Spain's strong performance so far. The Bank of Spain projects a higher medium-term current account surplus than staff, in part because it expects the household saving rate to stay higher.

POLICY AND DISCUSSIONS

The main policy priorities are to bolster resilience to potential shocks and boost per capita income convergence toward higher-income advanced economies. Ambitious discretionary fiscal consolidation backed by a clearer strategy within the medium-term fiscal framework would help rebuild buffers and reduce risks of sovereign debt distress. Completing the ongoing tightening of macroprudential policy and addressing housing market pressures will provide further insurance against systemic financial risks, which remain low overall. Boosting income convergence calls for labor market reforms to continue increasing the employment rate, as well as for product market and other reforms to put

[8] This scenario combines a set of shocks, including higher import tariffs, increased policy uncertainty, tighter financial conditions, and a further productivity growth slowdown in the euro area.

leading Spanish corporates at the global technological frontier and enable promising young firms to scale up.

A. Seizing upon Strong Growth to Decisively Strengthen Public Finances

13. In the authorities' Medium-Term Fiscal Structural Plan (MTFSP), the net primary spending growth target path implies a reduction in the fiscal deficit to 2.5 percent of GDP for 2025—excluding DANA-related one-offs of 0.3 percent of GDP—and a gradual decline to 0.8 percent by 2031. In the absence of a full budget law, a series of tax measures were approved by Congress in November 2024 to bolster revenues. These include the introduction of a minimum corporate income tax (CIT) rate of 15 percent for multinational firms, an increase in the top bracket on personal capital earnings, and a rise of excise taxes on tobacco and e-cigarettes. Additionally, the bank levy was extended for 3 years and converted into a tax with a revamped design, while the temporary energy company levy was not renewed. In April 2025, the authorities also announced a preemptive support package of approximately 0.9 percent of GDP of credit lines and loan guarantees for firms that may be most adversely affected by the US tariffs, partly financed through the repurposing of pre-existing instruments.[9] Under their MTFSP, which was endorsed by the European Commission, the authorities have committed to a 7-year fiscal adjustment backed by growth-enhancing reforms. The MTFSP entails a steady improvement in the structural primary balance of 0.4 percent of GDP per year on average over 2025-31 (3 percent overall), underpinned by average yearly growth in net primary expenditure of 3 percent. This path would be achieved through tax measures and improvements in spending efficiency following the recommendations from ongoing reviews by AIReF, the Spanish fiscal watchdog. The MTFSP, however, does not specify key revenue and spending areas that would underpin the consolidation and their quantitative impact.

14. Absent additional measures, staff forecast persistent deficits and elevated debt over the medium term. Under staff's own spending and tax projections, the overall deficit is forecast to stabilize at 2 percent of GDP, and the debt-to-GDP ratio to decline to about 93 percent, by 2030. This baseline takes into account future measures that the authorities have already approved or that do not require parliamentary approval to be implemented. In particular, some fiscal consolidation would come from higher social security contributions—introduced with the 2021-2023 pension reforms—and a "fiscal drag" effect that would raise PIT revenues by approximately 0.1 percent of GDP every year. [10] Interest payments are expected to increase gradually from 2.5 to 2.8 percent of GDP over the projection period, as a result of the rise in bond yields in early 2025. The increase in public defense spending to 2 percent of GDP for 2025 announced in April is assumed to add about

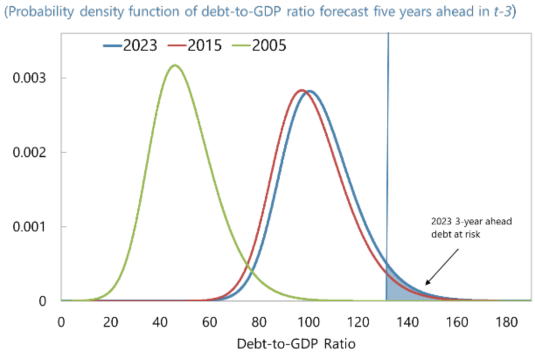
[9] All announced measures entail below-the-line operations with no direct budget effect. New initiatives amount to 0.5 percent of GDP while the remaining 0.4 percent are comprised of repurposed existing financing facilities. The measures include two new lines of credit guarantees and liquidity support of approximately €6 billion for affected exporting or importing firms to be managed by the Official Credit Institute, a €2 billion increase to an existing credit insurance program for exporters, and €0.7 billion of additional financing for the Fund for Firms' Internationalization to support firms aiming to expand in new foreign markets.

[10] This assumes that the income brackets relating to the central government's portion of the PIT will not be revised—in line with recent practice, while those relating to the regional governments' portion will be gradually updated by the individual autonomous communities over time.

0.2 percentage points to the deficit this year once offsetting measures are factored in. It is also assumed to be temporary given that a sustained effort will eventually require parliamentary approval.[11] Overall, under staff's baseline, the structural primary balance is expected to improve by approximately 1 percentage point over the medium term. Hence, staff estimate that, to meet the primary deficit path set out in the authorities' MTFSP, additional measures of about 1 percent of GDP by 2029, and 2 percent by 2031, will be needed.

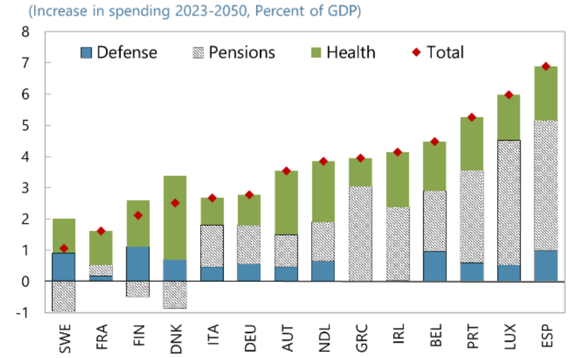
15. **While Spain's overall risk of sovereign stress is assessed as moderate (Annex III), the risk of an adverse debt scenario is higher than pre-COVID-19.** Medium-term debt risk is viewed as moderate as gross financing needs and debt are projected to remain slightly above 14 percent and 93 percent of GDP by 2030, respectively. The medium-term debt dynamics and rollover risk thus remain sensitive to adverse surprises, including lower growth, a rise in financing costs, and/or a weaker fiscal balance. This assessment is further corroborated by the debt-at-risk framework, following the methodology of the October 2024 Fiscal Monitor, which shows the upper tail of the distribution of debt levels 3 years ahead to be above that of the pre-COVID period and significantly above that of the early 2000s. Long-term debt risk is assessed as high in the absence of additional reforms to address fiscal pressures in health expenditures and pensions outlays related to aging demographics, which are among the highest across peer European countries. Additional pressures could come from developments which are not factored in the analysis of long-term risks, such as further increases in defense spending and public investments to support the green transition, including to enhance electricity grid capacity and storage. In this context, staff also assess fiscal space to be "at risk" under the baseline as well as under the reinstated EU economic governance framework.

Spain: Public Debt-at-Risk Three Years Ahead
(Probability density function of debt-to-GDP ratio forecast five years ahead in *t-3*)



Sources: Fiscal Monitor October 2024, and IMF staff calculations.
Note: The shaded area reports the 2023 "debt at risk", defined as the 95th percentile of the estimated 3-year ahed forecast error distribution of the debt-to-GDP ratio.

Long-Term Spending Pressures by 2050
(Increase in spending 2023-2050, Percent of GDP)

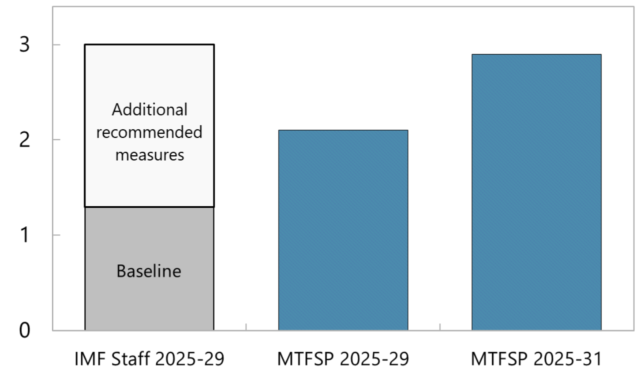


Sources: Budina et al. (2025) and IMF staff calculations.
Note: Defense spending pressures are computed as the gap between the countries' current defense spending and the NATO target of 2 percent of GDP or, if higher, the countries' own targets.

[11] Staff's baseline assumption would also be consistent with a sustained rise in defense spending beyond 2025 provided the latter is financed through cuts in other public expenditures.

16. The authorities could seize upon the strong growth momentum to more swiftly rebuild fiscal space and reduce sovereign debt risks. Excluding the DANA package, the 2024 fiscal balance was broadly in line with the authorities' 2023-2026 Stability Programme Update. This is because revenue surprises were mostly used to boost public spending rather than reduce the fiscal deficit. Looking ahead, while the cumulative consolidation of 3 percentage points of GDP implied by the authorities' net primary expenditure growth target under the MTFSP is viewed as appropriate, staff see scope for frontloading it. Specifically, considering the positive output gap, the fiscal support of approximately 1 percent of GDP per year from NGEU grants over 2025-2026, and the continued normalization of the ECB's monetary policy stance, staff recommend a reduction in the primary structural fiscal deficit of 0.6 percentage point of GDP each year, for a cumulative adjustment of 3 percentage points (about 2 percentage points more than under the baseline), over 2025-29. This adjustment would be in line with the path suggested by a buffer-stock model of fiscal policy (Fournier, 2019) used in the 2021, 2022, and 2024 Article IV Consultations, balancing the benefits of reducing the risks of any future debt distress against the short-term output loss from consolidation.[12] The recommended path effectively frontloads the MTFSP's implied adjustment of 0.4 per year over 2025-2031, reaching approximately the same cumulative consolidation over a shorter period. Considering the current cyclical position of the economy, historical estimates of fiscal multipliers for Spain of 0.6 (Hernández de Cos and Moral-Benito, 2016) suggest that the faster rebuilding of fiscal space and reduction of sovereign risk would come at only a small growth cost of around 0.1 percentage points per year.

Cumulative Fiscal Effort
(Change in structural primary balance in percent of GDP)



Sources: Ministry of Economy, Business, and Trade and IMF staff calculations.
Note: Fiscal effort is defined as the change in the structural primary balance. MTFSP refers to the planned structural primary balance reported in Table 13 of Spain's Medium-Term Fiscal Structural Plan, published in October 2024.

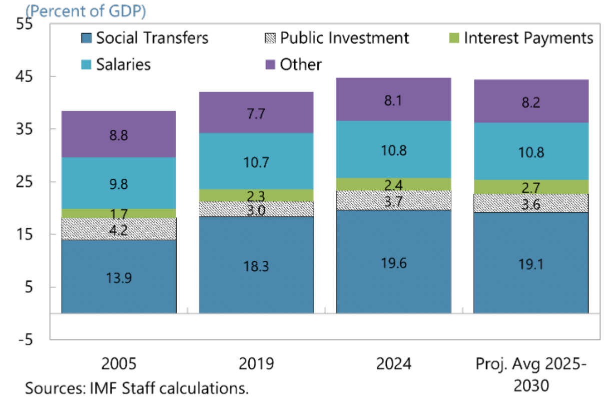
17. To alleviate adverse impacts on growth, the consolidation should be anchored in a strategy primarily aimed at reducing tax distortions. Staff assesses that VAT harmonization and enhanced environmental taxation could deliver the recommended consolidation measures of 2 percent of GDP with respect to the baseline. There is scope to raise revenues by 1.5 percent of GDP while enhancing economic efficiency by broadening the VAT base, limiting exemptions, and harmonizing rates across goods and services, while fully compensating lower-income households through targeted labor tax wedge cuts or transfers as needed. Moreover, the authorities should build on recent progress toward raising environmental taxation, by pressing ahead with the recent proposal to equalize diesel and gasoline excise duties. More broadly, staff analysis finds that further

[12] See Annex IV in the Staff Report of the 2021 Article IV Consultation for Spain for a description of the buffer-stock model and its application to Spain.

increasing the scope and level of carbon pricing would reduce the wide heterogeneity in emission intensity across firms by pushing laggards to upgrade their production practices, and help meet Spain's ambitious 2030 greenhouse gas emissions (GHG) target, which could not be achieved otherwise (2025 Selected Issues). Other measures already implemented, such as the minimum 15 percent CIT on multinational firms, and some still at the proposal stage, such as introducing the standard VAT rate for short-term vacation rental homes, would further contribute to reducing distortions. A consolidation strategy centered around such efficiency-enhancing tax reforms would be more growth-friendly than piecemeal measures such as the non-indexation of PIT brackets and the revamped banking sector tax. The latter addresses some of the deficiencies of the previous levy by eliminating the minimum turnover threshold and including deductions for low-profitability entities. However, its overall economic rationale remains unclear, and its design remains unduly complex and confounds bank size and excess profitability. As such, it should remain a temporary measure and be discontinued at the end of its 3-year duration. Finally, the announced below-the-line liquidity support for firms affected by the US tariffs should be well targeted, temporary in nature, and aimed at facilitating adjustment via reallocation of their exports to other markets, addressing externalities or market failures that might prevent effective market solutions.

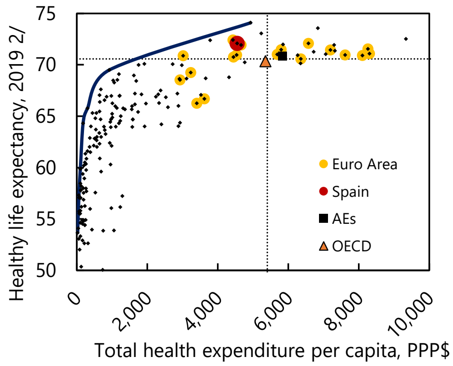
18. Prioritizing growth-enhancing expenditures and increasing spending efficiency would ease fiscal policy trade-offs. Primary spending as a share of GDP has grown by about 2.5 percentage points since COVID-19, about 1 percentage point more than in peer EU countries. Almost half of this rise reflects higher social transfers and salaries. There is therefore scope for rebalancing. This should be informed by assessments of key areas, such as health and education, with cross-country benchmarking, to then commission in-depth sector-specific studies such as those that have been carried out by AIReF. For instance, a data envelopment analysis suggests that, compared to the OECD average, Spain is further away from the efficiency frontier with respect to standardized secondary school tests, while it generally performs well with respect to health outcomes. To this end, the Spending Review Monitoring Unit within the Ministry of Finance could be expanded, besides following the implementation of AIReF's recommendations, to take up a more strategic role in identifying areas for review and assign quantified savings goals in line with the yearly budget process and medium-term fiscal targets. Meanwhile, AIReF's reviews could be enhanced by providing an assessment of its budgetary implications and political feasibility of the recommendations (see Annex VII).

Public Spending by Component
(Percent of GDP)



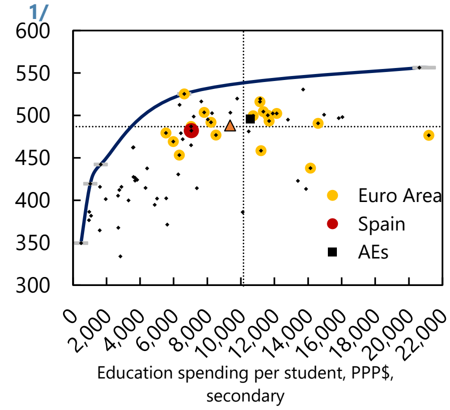
Sources: IMF Staff calculations.
Note: Public spending financed by NGEU grants is excluded.

Health Efficiency Frontier, Latest Value Available 1/



Source: IMF FAD Expenditure Assessment Tool (EAT), World Bank, World Health Organization.
1/ Dashes are the average of Eurozone.
2/ Healthy life expectancy (HALE) is a measure of health expectancy that applies disability weights to health states to compute the equivalent number of years of life expected to be lived in full health.

Government Education Spending and Outcome, Secondary, Latest Value Available 1/



Source: IMF FAD Expenditure Assessment Tool (EAT), World Bank.
1/ Dashlines are the average of Eurozone.

19. The authorities should strengthen the pension system, prioritizing employment-friendly options. While AIReF's recent review (Informe 2/25) did not trigger the system's safeguard clause, the agency's independent opinion (Opinión 2/25) highlighted a widening gap between pension expenditures and social security contributions over the coming decades, partly as a result of the 2021-2023 reforms. This is despite past increases in the standard pensionable age and recently revamped incentives for late retirement, which helped increase the participation rate of workers aged 55-69 by almost 2 percentage points since 2019. Additional increases in social security contributions would further raise the labor tax wedge, with adverse effects on overall employment (Staff Report of the 2024 Article IV Consultation for Spain). Therefore, a balanced set of reform options should be considered, including further lengthening the contributory period used in pension calculation—to better align it with workers' average career earnings as in most other advanced economies. Pension reform should be combined with actions on a broader set of fronts, including health, flexible work arrangements, and social benefits, to help older workers stay in the labor market (2025 Selected Issues). As for the safeguard clause—a useful instrument to regularly monitor the pension system and foster an active public debate—it should be amended to address its limitations. In particular, it should be more forward-looking and better focus on the prospective evolution under a no-policy-change scenario of the gap between pension expenditures and the system's revenues (Annex III). Absent such redesign, the rule should at least clearly define *ex ante* a narrow set of direct revenue measures that should enter the computation of net future spending ahead of AIReF's next review.

20. Improving the MTFSP and strengthening the role of AIReF would further strengthen the transparency and credibility of Spain's fiscal adjustment. To serve as a fully-fledged medium-term fiscal plan, the MTFSP would benefit from grounding the consolidation strategy in well-identified tax increase and spending reduction priorities. By anchoring firms' and households' expectations, reduced fiscal policy uncertainty would support investment and macroeconomic activity. The formulation of fiscal policy could also be strengthened by bolstering AIReF's role, following recommendations from the recent evaluation by the European Commission. In particular, there should be an official technical engagement between the authorities and AIReF when preparing MTFSP updates, and AIReF should be asked to opine on the MTFSP prior to submission.

21. The ongoing debate on the regional financing system should be accompanied by a reform of the national fiscal rule, linking it to the new EU governance framework and strengthening enforcement. To facilitate a gradual return to bond markets and minimize moral hazard risks, the proposed partial reduction of the regions' outstanding debt with the central government should be conditional on individual regions committing to credible consolidation plans and be accompanied by a strengthening of the national fiscal rule that fosters greater compliance. A comprehensive reform of the system should eventually strike a balance between citizens' preferences for geographic redistribution and autonomy. In the meantime, steps should be taken to ensure fiscal discipline by strengthening regional governments' currently limited incentives to comply with yearly targets, which led to repeated fiscal slippages in the past. First, the national fiscal rule should be more tightly linked to the EU governance framework—as part of the transposition of EU Directive 2024/1265—and feature an enhanced corrective arm. In particular, the yearly targets for the collective of autonomous communities should be reformulated in terms of the same fiscal variables as the MTFSP, with a focus on net primary spending growth. For the rule to create realistic targets, the yearly spending limits should be differentiated by community depending on their capacity to withstand adjustment given their macroeconomic situation and debt level. Second, the centralized *Fondo de Liquidez Autonómico* (FLA) [13] should be reformed to support the regions' return to public debt markets and eventually function only as a last-resort borrowing instrument. To incentivize fiscal soundness, its conditionality should be strengthened and paired with enforcement of the regions' consolidation plans.

Authorities' Views

22. The authorities reiterated their commitment to fiscal discipline, guided by their announced path for net primary expenditure growth. They underlined that Spain has overperformed its fiscal targets in the last years. In the current macroeconomic context, they saw the medium-term adjustment path set out in their MTFSP as striking the right balance between short-term growth and medium-term fiscal sustainability goals, thus not seeing the need for frontloading it as suggested by staff. They noted that even though political fragmentation had prevented reaching consensus on some revenue measures—such as equalizing diesel and gasoline excise duties, for example—several key initiatives—such as the redesigned bank tax and the minimum CIT on multinationals—had been successfully passed through congress. Thanks to the continued strong performance of revenues and the ongoing spending efficiency reviews, the authorities expect to achieve the medium-term fiscal targets without any additional revenue measures that staff deem necessary. However, should the need arise, they are prepared to take additional action to deliver on the targets. While future defense spending commitments beyond 2025 remains uncertain, the

---

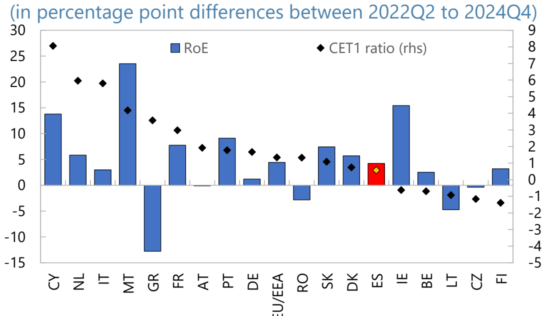
[13] The FLA, which was created in the aftermath of the Global Financial Crisis, reduced financing costs for regional governments by allowing them to borrow from the central government at more favorable rates than they could have commanded in public debt markets. However, the absence of strong conditionality regarding future fiscal policy has not fostered incentives for regional governments to reduce their debt in order to return to public markets.

authorities are confident that they would be able to accommodate them while complying with the EU fiscal rules. The outcome of AIReF's review of the pension system under the safeguard rule was viewed as a confirmation of the positive effects of the 2021-2023 reforms. Although the authorities agreed that the rule's specification may need revisions in the future, they saw it as subordinate to the EU governance framework, which oversees overall public debt sustainability and thereby already internalizes ageing-related fiscal pressures. The authorities stressed that, while the central government's absorption of part of the autonomous communities' debt will provide them with fiscal space, the spending growth limits under the national fiscal rule will ensure that potential spending increases remain contained.

B. Keeping Financial Sector Risks at Bay

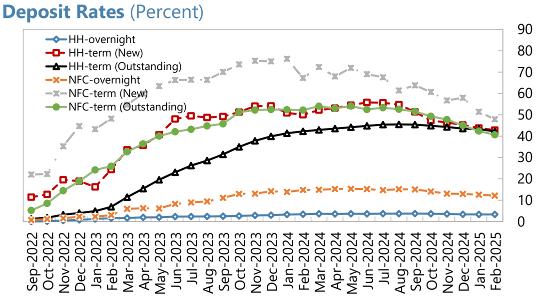
23. Spain's banking sector has remained healthy, and systemic risks remain low and unchanged from the 2024 FSAP and Article IV. Significant institutions (SIs) are resilient, with stable capital and liquidity buffers at comfortable levels, although CET1 ratios are below those of euro area peers. Profitability has been strong, supported by robust net interest margins, benefiting from still elevated interest rates and the incomplete passthrough of ECB policy rates to deposit rates; a recovery in credit growth; and sustained asset quality, upheld through prudent past loan loss provisioning and a stable ratio of non-performing loans. Systemic risks from nonbank financial institutions (NBFIs) also appear to be limited, reflecting the relatively small exposures of Spanish banks to both domestic and foreign NBFIs, as well as the limited role of NBFIs in the financial system. Under staff's baseline, banking sector profitability is expected to decline due to lower interest rates, but it will remain above pre-COVID levels owing to higher growth in new lending and the continued incomplete passthrough of rate increases to deposit rates. The adverse effects of the revised banking sector tax are projected to be small (revenues in 2024 amounted to just about 3 percent of 2024 bank pre-tax profits). The potential adverse implications of the BBVA-Sabadell merger for competition and financial stability should be carefully assessed; competition concerns could be mitigated through the behavioral and structural remedies proposed by the competition authority.

Changes in Return-on-equity and CET1 Ratios
(in percentage point differences between 2022Q2 to 2024Q4)



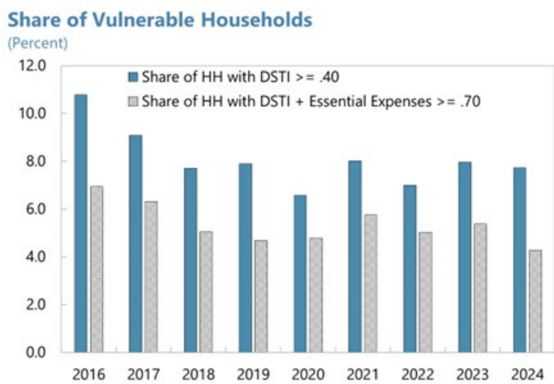
Sources: EBA Risk Dashboard and IMF staff calculations.
Note: This chart shows changes in fully loaded CET1 ratios.

Pass-through of Increases in 12-month Euribor to Deposit Rates (Percent)

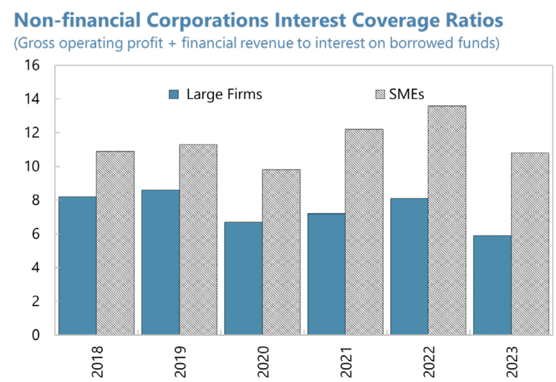


Sources: Bank of Spain, IMF staff calculations.
Note: Passthrough is calculated as the ratio of the cumulative change in deposit rates since July 2021 to the maximum variation in Euribor 12-month over the period considered.

24. Banking sector asset quality has been supported by continued deleveraging of, and declining pockets of vulnerability among, households and firms. Household balance sheets are healthy, with low and broadly stable outstanding debt levels and one of the lowest household debt-to GDP ratios across euro area peer economies. Vulnerabilities among low-income households have edged down as strong employment and gross disposable income gains more than offset rising debt servicing—only 7.7 percent of households have a debt service-to-income ratio exceeding 40 percent. Corporate debt levels declined more significantly in 2023 and remained broadly stable in 2024, with the debt ratio holding at around 48 percent, close to pre-COVID levels. Profitability growth slowed due to rising interest expenses, but interest coverage ratios remain comfortable for large and small firms alike. The share of firms with an interest coverage ratio below one continued to decline and stood at 13.2 percent in 2023, below its pre-COVID level.

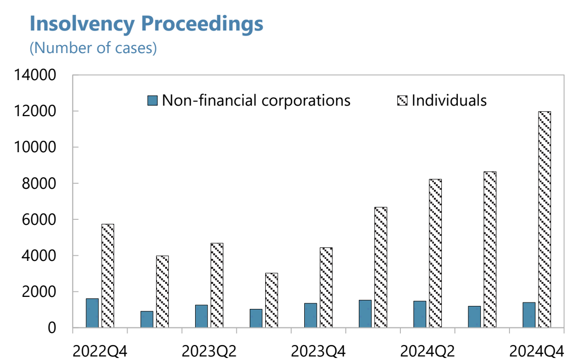


Sources: INE Business and Consumer Survey and IMF staff calculations.



Sources: Bank of Spain Central Balance Sheet Data Office and IMF staff calculations.

25. Rising insolvencies are not a concern, except for the need to continue increasing court resources. The recent rise in insolvency filings—which are now adequately captured by enhanced statistics—has been modest among firms, while the sharper increase among individuals reflects the new proceedings introduced by the insolvency law enacted in September 2022. Since higher filings could strain court resources, ongoing efforts to expand judicial capacity and improve the efficiency of procedures should continue. While preliminary evidence points to a decline in the duration of proceedings, more time is needed to assess the full impact of the reform.



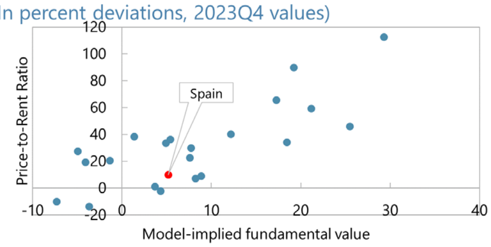
Sources: Association of Registrars and IMF staff calculations.
Note: Individuals refers to physical persons, with or without business activity.

26. A continued acceleration in housing prices could eventually entail risks to the financial system, thus warranting close monitoring. Housing transactions have grown steadily since mid-

2022, alongside a rise in new mortgage lending. House price growth has accelerated since early 2023, reaching double-digit growth year-on-year in 2024Q4. Commercial real estate prices have also rebounded, returning to positive growth in 2024 after a contraction in 2023. There are no signs of significant price overvaluation at this stage—average prices remain below 2007 levels in real terms, and they are only slightly above their fundamental value based on both price-to-rent ratios and house price equilibrium model estimates. While new mortgage lending growth has been strong, household leverage has only inched up, without any noticeable relaxation of lending standards. Further, unlike during the broad-based pre-GFC boom, the current price surge is more localized, and price-to-rent ratios have generally risen more in regions where they were initially lower. To ensure that systemic housing market-related risks stay low, authorities should monitor banks' mortgage credit growth and lending standards and, should signs of easing emerge, consider pre-emptive borrower-based measures, as these take time to affect lending behavior and are politically easier to adopt early on when they are not strongly binding.

House Price Misalignments Across Advanced Economies

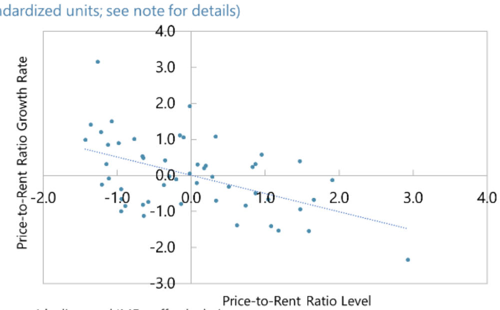
(In percent deviations, 2023Q4 values)



Sources: BIS, OECD, Countries statistical offices, and IMF staff calculations.
Note: X-axis values denote deviations of actual real house prices from model-predicted values, based on income and population growth, interest rates, stock prices, price-to-income ratio, and crisis dummies. Y-axis values denote deviation of the price-to-rent ratio in 2023Q4 from its long-term average.

Price-to-Rent Ratio Changes vs Levels Across Spanish Provinces

(Standardized units; see note for details)



Sources: Idealista and IMF staff calculations
Note: Data are standardized (mean = 0, standar deviation = 1). Shown in standardized 2015Q3 levels and standardized percent changes (2015Q3–2024Q3).

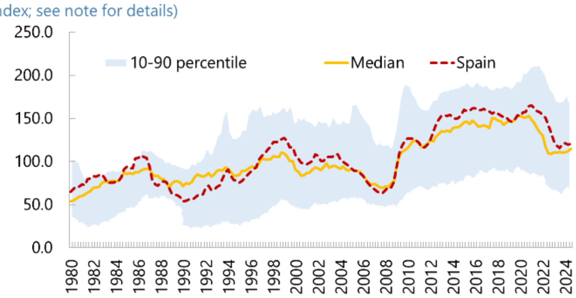
27. Housing affordability has worsened and, if left unchecked, could eventually entail financial stability implications. Rising prices and still elevated borrowing costs may push some households, particularly first-time buyers with limited downpayments, into riskier borrowing or higher debt burdens. In January 2025, the government proposed a package of supply- and demand-side measures to address housing affordability.[14] Priority should be on boosting housing supply, especially in areas constrained by land scarcity. Advancing the Land Law reform and simplifying construction permit procedures would streamline urban planning and expand developable land, while efforts to increase the social housing stock, including those contemplated in the Recovery and Resilience Plan, are a welcome complement. In areas where land scarcity is less acute and house price overvaluation is not a concern, such as in mid-sized or smaller inland cities, targeted demand-side measures can support access to homeownership for creditworthy but liquidity-constrained

[14] These include, among others, creating a state-owned housing company, incentivizing the conversion of vacant homes into affordable rental properties, strengthening regulation and enforcement of seasonal and tourist rentals, providing tax incentives to landlords who rent their properties at market prices, and doubling the tax rate on non-resident property purchases.

households. The new Official Credit Institute (ICO) guarantees program is a step in this direction, but it should retain stringent price caps on eligible housing units. 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.

Housing Affordability

(Index; see note for details)

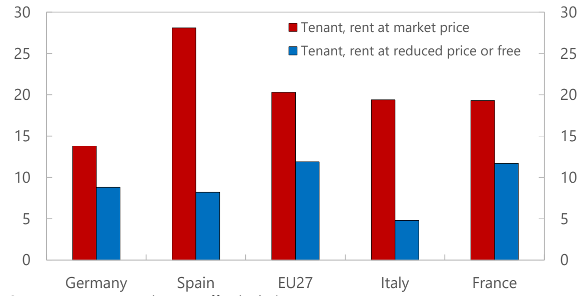


Sources: Biljanovska, Fu, Igan (2023).

Note: The housing affordability index is the ratio of household income to the household income needed to qualify for a typical mortgage for a typical house. A reading above 100 indicates that a household has more income than necessary for approval; readings below 100 signal less income than needed. The sample comprises of 29 European countries.

Total Housing Cost Overburden Rate by Tenure Status

(Percent; 2024 or latest available)



Sources: Eurostat and IMF staff calculations.

Note: The total housing cost overburden rate is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40 percent of disposable income ('net' of housing allowances).

28. The positive neutral CCyB is being phased in as planned, which should further strengthen banks' resilience to severe shocks. Bank of Spain (BdE) set the CCyB at 0.5 percent, effective October 1, 2025, with a planned increase to 1 percent from October 1, 2026. This two-step process ensures a gradual adjustment for banks and is in line with the 2024 FSAP recommendation. Any adverse impact on credit supply is expected to be small given that the full CCyB amounts to just over 15 percent of annual (2024) pre-tax profits. Moreover, since banks' capital ratios comfortably exceed regulatory requirements, their lending is unlikely to be constrained, as evidence suggests that CCyB adjustments primarily reduce lending by banks with limited capital headroom (e.g., Bedayo and Galán, 2024). Until the CCyB is phased-in, and particularly in an uncertain global environment, banks should be encouraged to maintain comfortable voluntary buffers above minimum requirements, including through prudent dividend distribution, to ensure adequate capital is available in the event of a large adverse shock.

29. The authorities are following up on 2024 FSAP recommendations, with some scope for further action (Annex V). To address staffing constraints, BdE and the National Securities Market Comission (CNMV) are hiring specialists (e.g., on cybersecurity). Moreover, progress has been made in enhancing the BdE's independence by advancing an amendment, currently under parliamentary discussion as part of another piece of legislation, to remove the Ministry of Economy's appeal powers against BdE's supervisory decisions and sanctions. Some FSAP recommendations still require action, including granting CNMV autonomy over its hiring processes, as well as integrating preventative and executive resolution functions for banks and improving the statutory resolution regime so as to strengthen the resolution powers of the Fund for Orderly Bank Restructuring (FROB). While the BdE has largely completed its national-level preparations for addressing liquidity needs in resolution for less significant institutions (LSIs), it is awaiting the implementation of a harmonized

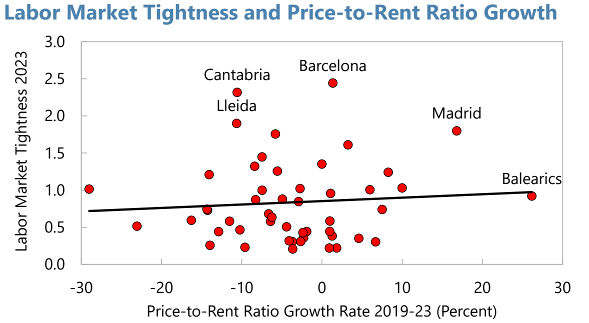
Eurosystem-wide framework for SIs. Varying degrees of responsiveness across different FSAP recommendations partly reflect that some measures involve only agency-level action while others depend on inter-agency coordination and yet others require legislative changes, which are bound to take time.

Authorities' Views

30. The authorities concurred with staff's assessment on key macro-financial issues. They broadly agreed with staff's view that cyclical systemic risks were contained, supported by strong macroeconomic performance and sound private sector balance sheets. The BdE assessed banks' provisioning, credit risk management, and liquidity and solvency buffers as adequate. Housing prices were seen as broadly in line with fundamentals and lending standards as prudent, though affordability remains a concern. The authorities remain committed to expanding the housing stock, including through renewed efforts to advance the Land Law. The BdE is considering the potential pre-emptive use of borrower-based measures. It intends to phase in the positive neutral CCyB as planned and does not expect adverse effects on credit supply. The authorities also reaffirmed their commitment to implement the other 2024 FSAP recommendations, highlighting progress in several key areas while noting that some measures may be more difficult to implement than others.

C. Lifting Employment

Labor Market Tightness and Price-to-Rent Ratio Growth



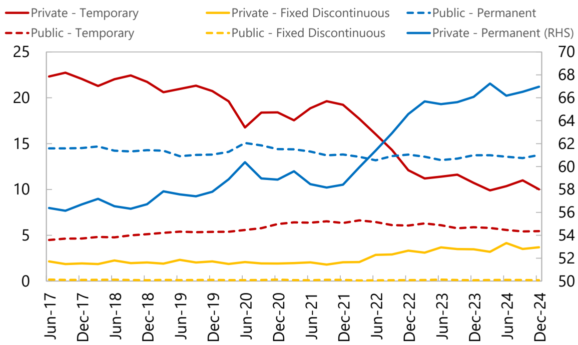
Sources: Authors own calculations based on data from Indeed and Idealista.
Note: The labor market tightness in a given province is defined as the ratio of the share of national postings on Indeed in that province to the share of that province in national unemployment.

31. Reforms are needed to further reduce structural unemployment and labor market dualism. The labor market is tight, as indicated by a high vacancies-to-unemployment ratio, while the unemployment rate has recently stabilized at around 11 percent—still the highest level across the EU. This, together with the broad stability of aggregate transitions between employment and unemployment/inactivity despite the 2021 labor market reform,[15] suggests that the remaining unemployment is mostly structural, and structural reforms will be needed to bring it further down. Further progress towards reducing dualism could also be achieved if the public sector curbed its close-to-30-percent share of temporary contracts. The share of fixed discontinuous (FD) contracts remained broadly stable through 2024 and the transition rate of FD employment into unemployment or inactivity has declined recently, but a definite assessment of the degree of job stability associated with this contract requires better high-frequency data on FD workers' inactivity periods (particularly in terms of duration and recall frequency). Limited access to affordable housing may also have hampered the functioning of the labor market and contributed to structural unemployment, as suggested by the

[15] The reform has successfully brought down the share of temporary contracts in private employment to about the EU average, but gains have likely been fully reaped by now, as suggested by an extension of IMF analysis carried out for the [2024 Article IV Consultation for Spain.]

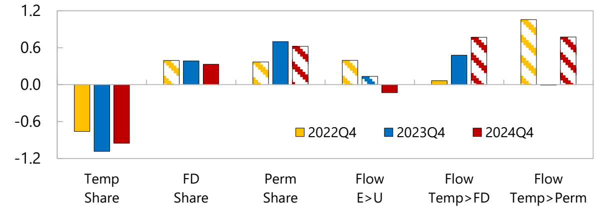
positive relationship across provinces between vacancies-to-unemployment ratios and price-to-rent ratio growth.

Salaried Workers by Type of Contract
(Percent of Total Salaried Workers)



Sources: Labor Force Survey (INE) and IMF staff calculations.

Estimated Impact of the 2021 Labor Reform on the Prevalence of Different Job Contract Types
(Difference between high- and low-turnover jobs, in percentage points)



Source: IMF staff estimates based on Labor Force Survey microdata (INE).
Note: The bars represent estimated coefficients of a regression of the change--between 2021Q4 and same period in 2022, 2023 and 2024--in the labor market outcome of interest in a given region-sector-occupation cell on the turnover rate in that cell, which is used as a proxy for exposure to the 2021 labor market reform. Solid bars correspond to statistically significant estimates at the 5% level, and shaded bars correspond to statistically insignificant estimates. LS = Low-skilled. FD = Fixed discontinuous.

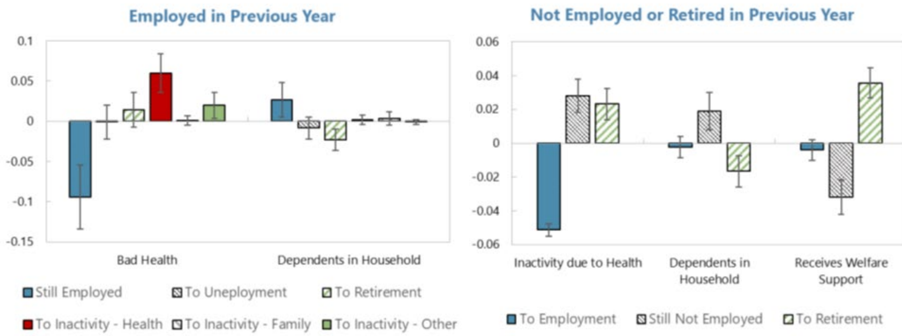
32. Planned labor market policy initiatives are not expected to make progress toward these objectives. A draft bill on the reduction of the workweek from 40 to 37.5 hours without loss of pay was approved by the Council of Ministers in early February and is ready to start its parliamentary process, though with uncertain political support. While the reform pursues broader societal goals, past experiences in other countries with workweek reductions point to an ambiguous effect on unemployment and adverse impacts on output and post-reform wage growth (Staff Report of the 2024 Article IV Consultation for Spain). In addition, the combined effect of a workweek reduction and the recent 4.4 percent increase in the minimum wage would effectively raise the minimum wage by over 10 percent in 2025 and put its cumulative increase since 2018 at over 70 percent, raising concerns regarding potential adverse impacts on disadvantaged groups. The reform should preserve the strong role of collective bargaining in accommodating cross-sectoral heterogeneity, including in distributing total hours throughout the year and setting the level and remuneration of overtime. The government also has been considering higher compensation for unfair dismissals tailored to individual circumstances. While still at its inception, such employment protection legislation (EPL) reform could potentially discourage firms from hiring disadvantaged groups of workers. To discourage excessive layoffs, a superior alternative to increasing firing costs would be to introduce higher unemployment insurance contributions for employers with higher turnover (so-called experience rating).

33. Further enhancing active labor market policies (ALMPs) and financial incentives for jobseekers is key to durably reducing unemployment to single digits. Recent efforts in this area include the adoption of the unemployment assistance (UA) reform in November 2024, which improved the scheme's generosity and beneficiaries' work incentives by reducing the benefit amount over time, making benefit receipt temporarily compatible with work, and establishing personalized activation itineraries. Going forward, the UA reform could be expanded, strengthening activation requirements for recipients, allowing them to combine work income with benefit receipt for a longer period, and eventually replacing non-employment benefits by an integrated in-work tax credit, which has proven successful in raising employment rates in peer countries. The Public Employment Service (PES) has recently strengthened the link between regional offices' funding and job placement performance, which could help improve their effectiveness. Giving greater weight to improvements in actual job placement when distributing funds to regional PES agencies would enhance the effectiveness of ALMPs. Conditional on this improvement, the ALMP budget, which remains significantly below successful European countries, could be increased to strengthen the intermediation role of regional PES agencies through increased staffing, digitalization, and collaboration with the private sector.

34. Such reforms would also support continued increases in the employment rate of older workers, especially if supplemented with broader actions to accommodate their workplace needs. Strengthening ALMPs and job-take-up incentives is key to further decreasing the gap between the average age at which older workers exit the labor market and that at which they collect a pension. This would complement incentives to delay retirement embedded in the pension system itself, which have recently been strengthened through the 2023 reform. These incentives are likely behind the falling share of early retirements with reduced benefits (from 27.8 percent to 20.2 percent) and the rising share of delayed retirements (from about 5 to almost 10 percent) among new pensioners between 2020 and 2024. Moreover, changes to the partial (early) retirement and "active" (delayed) retirement schemes introduced in 2024 could help older workers combine pension benefits with a reduced working schedule, thus allowing them to transition out of employment more gradually. Such flexibility could be further enhanced if the authorities loosened the cumbersome requirement for firms to make up for the loss of hours worked by hiring new employees on open-ended contracts. Encouraging longer careers, however, also requires acting on a broader set of issues beyond financial incentives (2025 Selected Issues). Addressing worsening health trends since COVID-19 would particularly support labor force participation of older workers. The recent proposal to allow a voluntary gradual return to employment for recipients of temporary disability benefits goes in this direction. Furthermore, facilitating telework or alternative schedules could provide older workers with work-life balance and flexibility in caring for dependent family members with healthcare needs or disabilities.

Older Workers' Characteristics Associated with Labor Market Transitions

(Estimated marginal effects on probability of transition from Multinomial Logit model)



Sources: Encuesta de Condiciones de Vida, and IMF staff calculations

Note: The figures report the estimated average marginal effects of each variable from two multinomial logit models. The first model (left panel) considers yearly transitions from employment to non-employment states. The second model (left panel) considers transitions from non-employment, excluding retirement, to other labor market states. The sample comprises workers aged 55-69 over 2010-2023. A positive (negative) value for a bar represents the increase (decrease) in the year-on-year probability of transitioning to a given labor market state from the initial state associated with a value of one for the categorical variable in the x-axis. For a given variable, the bars add up to zero. For example, in the left plot, being in bad health reduces the probability of a worker remaining employed across two years and increases the probabilities of moving to inactivity, either motivated by health factors or for other reasons. See 2025 Selected Issues for more details.

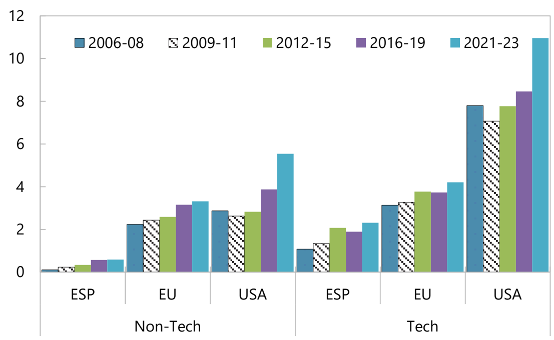
Authorities' Views

35. The authorities concurred with staff on the need to continue enhancing ALMPs, and reiterated their commitment to reducing the workweek and tailoring EPL to individual circumstances. They emphasized the positive impact of the 2021 labor reform, which brought down the incidence of temporary employment to average EU levels, and the 2023 Employment Law, which revamped the institutional framework for ALMPs. The authorities pointed out that its efforts are now focused on further enhancing ALMPs, including by digitalizing the regional PES agencies and professionalizing their staff, as well as refining the performance indicators used to distribute funds across regional PES agencies. The authorities are also evaluating ways in which the UA scheme could be further improved, and are considering the possibility of combining work income with benefit receipt for a longer period, as suggested by staff. The government is committed to reducing the legal workweek with unchanged wages. The Ministry of Labor noted that implementing such reform would be easier in Spain than in some other countries because the actual workweek is already fairly close to the proposed 37.5 hours, and some flexibility mechanisms are already in place that enable companies/sectors to adapt the distribution of hours throughout the year to their needs. Guided by the European Social Charter, the Ministry of Labor reiterated its intention to adjust severance pay for unfair dismissals according to individual worker circumstances. It argued that such reform, if implemented the right way, could reduce legal uncertainty surrounding severance pay. Therefore, the authorities were confident overall that their labor market initiatives will be implemented in ways that would not adversely affect the economy.

D. Boosting Productivity Growth

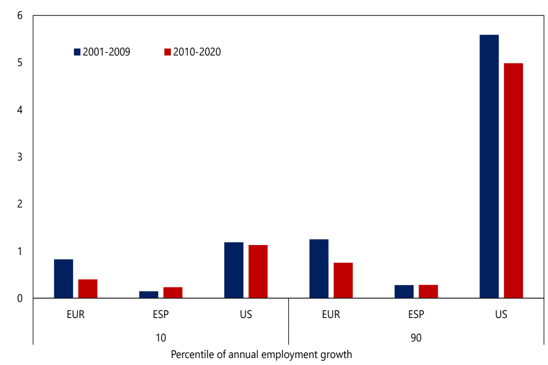
36. Spain's persistent productivity shortfall vis-à-vis higher-income economies is rooted in less innovation-oriented leading firms and a smaller footprint of young high-growth firms. Large Spanish firms have been particularly lagging behind in the tech sector, partly due to smaller investments in innovation—no Spanish firm is among the world's top 50 R&D spenders (2025 Selected Issues). Meanwhile, young high-growth firms are fewer than in European peers, and young firms rarely scale up. These features have resulted in a predominance of small, less productive firms.

R&D Intensity of listed firms
(Percent of sales)



Source: Compustat.

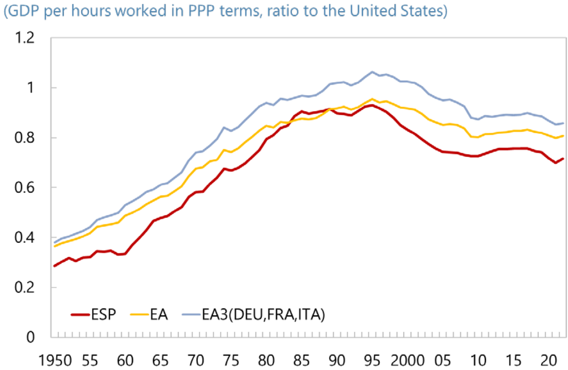
Employment Share of Young Firms: Low versus High-Growth Firms
(Percent, 2019)



Sources: CompNet.

37. Achieving a single market and promoting venture capital, both domestically and at the EU level, would facilitate firm scaling-up and boost innovation. The key factors behind young high-growth firms' small economic footprint and inability to scale up rapidly are insufficient effective market size and lack of access to equity financing. Thus, top policy priorities should be completing the Spanish single market for goods and services and promoting venture capital. These domestic initiatives can be complemented by supporting the recent EU Competitiveness Compass—advancing the EU Single Market to reduce remaining intra-EU cross-country barriers to trade in goods and services—and progress toward the EU Capital Markets Union (CMU). The government's "Regime 20" initiative—a common regulatory framework to cut administrative barriers to doing business across Spanish regions—is welcome, although it might take sustained effort and time to bear fruit. To enhance access to equity, consideration could be given to reducing the debt bias in the corporate tax system and to incentivizing institutional investors to invest into Spanish venture capital funds, such as through

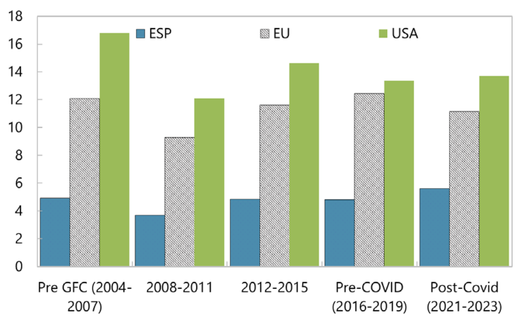
Labor Productivity Level
(GDP per hours worked in PPP terms, ratio to the United States)



Sources: Long-term Productivity Database, WEO and IMF staff calculations.

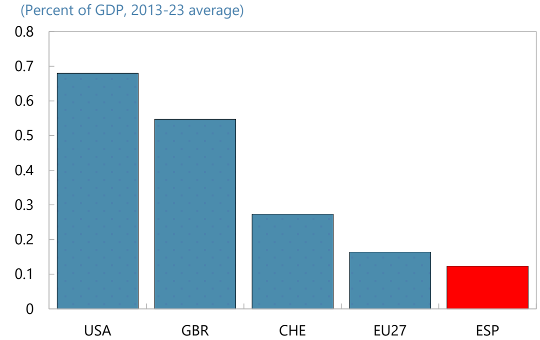
information provision or regulatory and tax incentives. Other priorities to facilitate scaling-up include streamlining size-dependent thresholds—with a focus on the more stringent labor regulation and stricter tax monitoring that kick in once firms have 50 or more employees and over 6 million euros in annual operating revenue, respectively—and, more broadly, ensuring that all tax, spending and regulatory policies support young high-growth firms rather than just small and medium-sized enterprises (SMEs). Finally, building upon the encouraging early results from the recent reform, continued improvements in insolvency proceedings could make the firm exit process more productivity-enhancing by ensuring that insolvent but viable firms—which typically enjoy higher productivity and growth prospects compared to their unviable counterparts—are restructured rather than liquidated.

Gross Equity Issuance of Listed Firms
(Share of total assets)



Source: Compustat

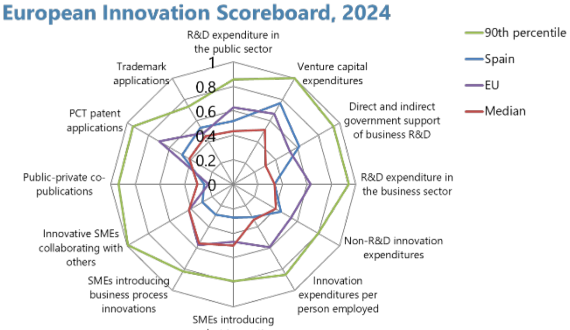
Venture Capital Investments
(Percent of GDP, 2013-23 average)



Source: Pitchbook.

38. Strengthening Spain's innovation ecosystem is key. Spain lags the global and and European technological frontiers on both R&D expenditure and innovation outcomes (e.g., patent applications). The set of laws passed to improve Spain's innovation ecosystem in 2022 were steps in the right direction (see [Staff Report of the 2022 Article IV Consultation for Spain]() and [2022 Selected Issues]()). Although both public and overall R&D expenditures have risen in recent years, at 0.53 and 1.41 percent of GDP (in 2022) they remain below EU averages (of 0.65 and 2.11 percent of GDP, respectively). Meeting the targets set forth by the 2022 Law on Science, Technology and Innovation (1.25 percent and 3 percent of GDP by 2030 for public and overall R&D expenditures, respectively) will require doubling the R&D spending share in GDP. Tertiary education reform will also be important to turn R&D efforts into innovations. At 52 percent in 2023, the share of people aged 25-34 having completed tertiary education exceeds the EU average of 43 percent, but mismatch between education and required

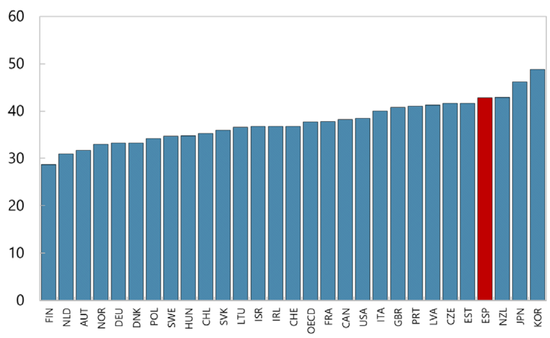
European Innovation Scoreboard, 2024



Source: European Commission European Innovation Scoreboard (EIS), and IMF staff calculations.
Note: Most underlying indicators are quantitative and not perception-based. The original scores are normalized and expressed as a share of the highest score in each category by IMF staff. For some countries, the values were imputed using the latest available data. Details for the underlying data are available in the EIS methodology report.

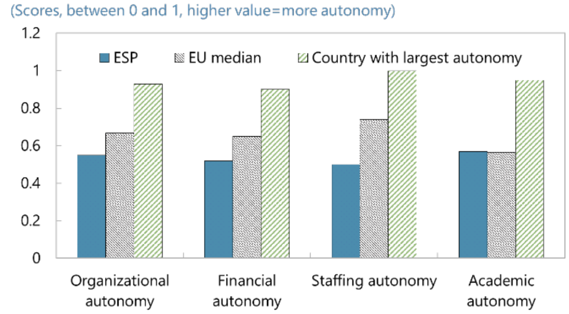
skills in the job market is elevated (e.g., the share of university graduates in STEM has been declining). The Spanish university education system has been lagging successful European peers on autonomy along several key dimensions—organizational, financial, and staffing. The 2023 Reform on University Education (Law 2/2023 on the University System - LOSU) moves forward on funding by setting a minimum public spending target of one percent of GDP. But, building on best European practice, further action is needed to promote innovation by strengthening university autonomy in the recruitment, promotion and renumeration of professors, making curricula more responsive to evolving labor market demands, strengthening research collaboration with businesses, and increasing the share of performance-based public funding.

Field of Study Mismatch
(Percent of Employed adults aged 25-65 who are not self-employed)



Source: OECD 2023 PIACC Survey.

University Autonomy Scores
(Scores, between 0 and 1, higher value=more autonomy)



Sources: European University Association Autonomy Scorecard 2023 and IMF staff calculations.
Note: Organizational autonomy covers academic and administrative structures, leadership and governance. Financial autonomy covers the ability to raise funds, own buildings, borrow money and set tuition fee. Staffing autonomy includes the ability to recruit independently, promote and develop academic and non-academic staff. Academic autonomy including study fields, student numbers, student selection as well as the structure and content of degrees. Spain's data does not reflect the 2023 University Law Reform.

39. **Spain is committed to addressing transnational aspects of corruption though further advancements are encouraged.**[16] While noting Spain's active engagement in international cooperation and adoption of legislative reforms, the OECD Phase 4 Evaluation Report (2022) highlighted the scope for stronger foreign bribery enforcement and enhanced use of anti-money laundering tools to tackle foreign proceeds of corruption (Annex VIII).

Authorities' Views

40. **The authorities reiterated their commitment to a productivity-enhancing agenda including both advancing ongoing domestic initiatives and supporting the EU Competitiveness Compass.** They highlighted that Spain's productivity had been growing faster than in other European countries in the past few years. The authorities also noted recent progress with the Regime 20 initiative, including on the identification of key areas for harmonization and simplification of the regions' regulatory frameworks. To reduce the informational barriers firms face when operating in different regions, the government is considering the creation of a single virtual platform that would list and summarize all local regulations currently in place. The authorities concurred with staff on the importance of venture capital and highlighted the role of ICO in supporting SMEs on this front under Spain's Recovery, Transformation and Resilience Plan. At the

[16] Spain volunteered to have its legal and institutional frameworks for addressing transnational aspects of corruption (supply and facilitation) assessed in the context of bilateral surveillance.

same time, they stressed the critical role of completing the CMU at the EU level in providing firms with the financing they need to scale up. The authorities stressed that the LOSU increased universities' funding and autonomy, and pointed out that it is being complemented with other programs to attract talent—including from abroad—and strengthen research collaboration with businesses.

STAFF APPRAISAL

41. The Spanish economy has continued to outperform the euro area but per-capita income gains have been more modest. Two major drivers of Spain's strong growth have been, on the supply side, labor force growth, and on the demand side, services exports. Labor force growth has particularly benefitted from recent migration inflows, which have risen sharply above pre-pandemic levels. Services exports have been fueled by the strong post-COVID recovery in tourism, but also by improvements in the performance of Spanish exporters in non-tourism services. Amid strong exports and still subdued imports, the external position in 2024 is preliminarily assessed to be stronger than implied by medium-term fundamentals and desirable policies. Because high GDP growth has been accompanied by high employment growth, GDP per capita gains have been more modest. Still, Spain reduced its per-capita income gap vis-à-vis the highest-income euro area economies by over 3 percentage points during 2022-24, helped by an acceleration in productivity growth. Despite recent progress in reducing the unemployment rate, it remains the highest in the euro area at about 11 percent. Looking through recent volatility, disinflation has continued to proceed steadily.

42. Growth is projected to remain robust in the near term and to slow gradually thereafter as its recent drivers normalize, with risks predominantly to the downside. Growth should remain strong at 2.5 percent in 2025 before declining to about 1.8 percent next year, close to its medium-term potential. On the demand side, tourism is expected to expand at a slower rate, while a weaker global environment—including elevated trade policy uncertainty and US tariffs—will also weigh on external demand. This drag is expected to be partly offset by robust domestic demand, including a pick-up in investment. On the supply side, a gradual slowdown in net migration and demographic aging will slowly weigh on labor force gains. Key downside risks include an escalation of trade measures, particularly those involving the EU, and domestic political fragmentation, which could hamper the response of fiscal policy in the event Spain's deficit reduction fell short of its commitments or market concerns about sovereign risks were to emerge.

43. The authorities should seize upon the strong growth momentum to more swiftly rebuild fiscal space and reduce sovereign debt risks, in the context of an enhanced medium-term fiscal plan. Staff projects that, in the absence of further consolidation measures besides social security contribution increases from the 2021-2023 pension reforms and the non-indexation of PIT brackets (about 1 percent of GDP overall over 2025-29), the deficit would stabilize above 2 percent of GDP by 2030, while the debt-to-GDP ratio would remain above 90 percent before rising again in the longer term as fiscal pressures from aging intensify. Weighing fiscal risks on the one hand, and the economy's strong cyclical position on the other, staff recommends frontloading the authorities' planned 3 percent of GDP adjustment over 2025-2029 rather than 2025-2031. This effort, which would require about 2 percentage points of GDP in new measures, should be underpinned by an enhanced medium-term fiscal plan that lays out well-identified tax increase and spending reduction priorities. Harmonizing VAT and enhancing environmental taxation would deliver the recommended effort while reducing economic distortions. Given the widening projected gap between pension expenditures and social security contributions over the coming decades, pension reforms should also be undertaken, prioritizing employment-friendly options. Should downside risks materialize, fiscal policy should remain flexible, letting automatic stabilizers play out. Temporary discretionary support should be considered only in the event of a severe shock and provided sovereign funding costs remain low.

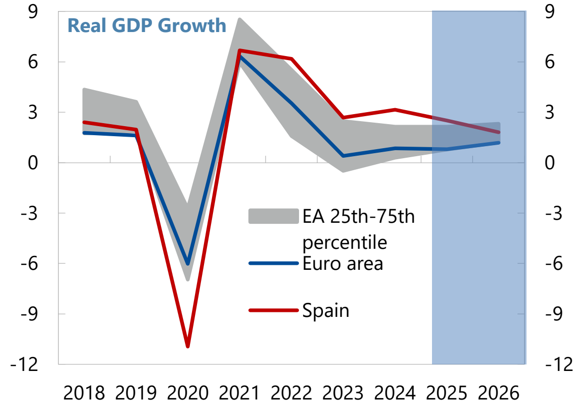
44. Systemic risks in the financial system remain low but ongoing efforts to further bolster its resilience should be maintained. Banks are well-capitalized, liquid, and profitable, though capital ratios are still somewhat below euro area peers. Household and corporate balance sheets are sound, supported by low debt and rising incomes. The rapid growth in house prices has eroded affordability and should be primarily addressed through measures that stimulate housing supply. While it does currently not raise financial stability risks, pre-emptive borrower-based measures should be considered if there were early signs of an easing in lending standards. Staff supports the ongoing phasing-in of the one-percent positive neutral CCyB and encourages continued implementation of other 2024 FSAP recommendations to further enhance resilience.

45. Fostering income-per-capita convergence toward higher-income advanced economies requires further raising the employment rate and boosting productivity. Despite recent progress, Spain still has one of the lowest employment rates in Europe, and its (hourly labor) productivity gap vis-à-vis the euro area—which has itself been falling behind the US—remains about as wide as it was 25 years ago. Enhancing activation policies and financial incentives for jobseekers is key to durably reducing unemployment to single digits. The planned reduction of the working week in the private sector should be carefully designed to mitigate adverse effects on output and workers' incomes, with a major role for collective bargaining including in setting the level and remuneration of overtime. Closing the productivity gap will require reforms that facilitate firms' scaling-up and innovation. These include 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 CMU complemented by domestic incentives, and promoting excellence in higher education—including through greater autonomy and performance-based funding of universities.

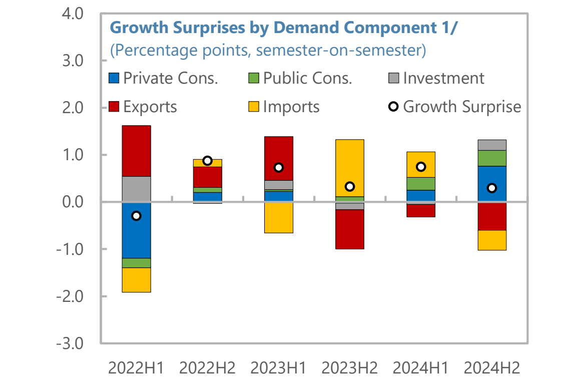
46. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Spain: Real Sector and Inflation

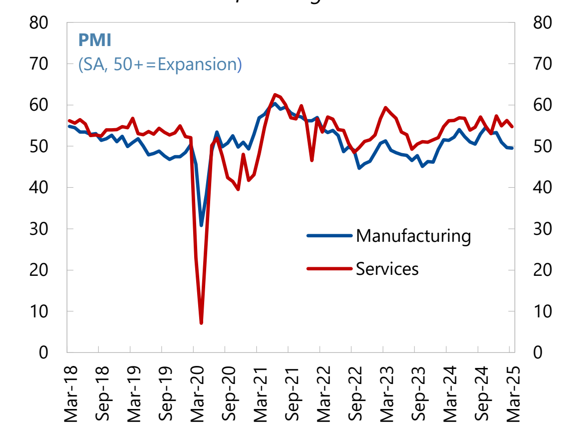
Spain's economy has outperformed euro area peers since 2022.



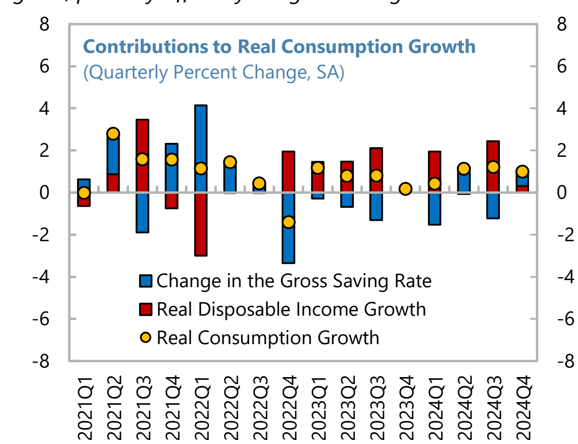
GDP growth repeatedly surprised on the upside, most recently due to the pick-up in domestic demand.



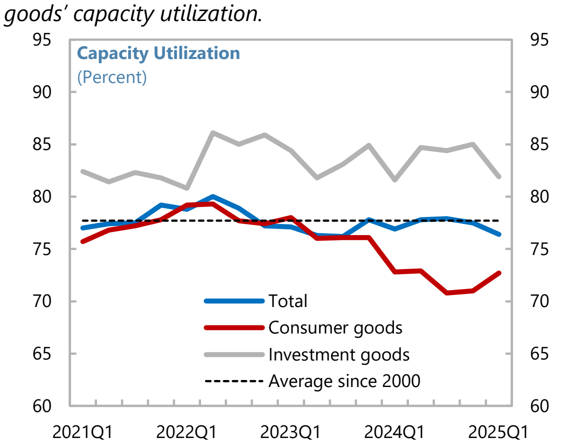
High-frequency activity indicators rebounded in 2024 in both services and manufacturing.



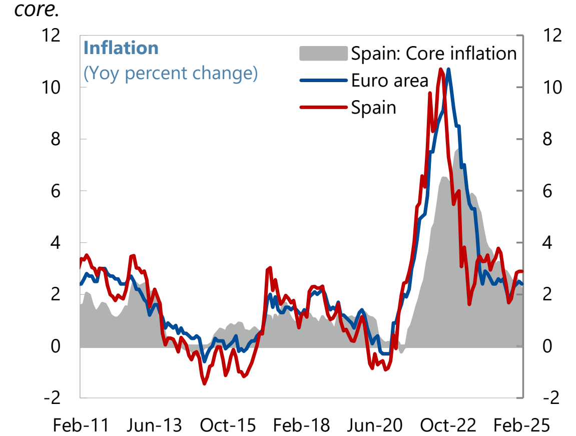
Consumption growth has been supported by real income gains, partially offset by a higher saving rate.



Capacity utilization has recently fallen slightly below its historical average due to a deterioration of investment goods' capacity utilization.



Despite an uptick toward the end of the year, the disinflation process has continued both for headline and core.

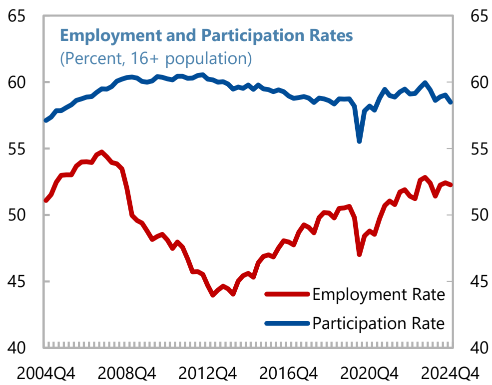


Sources: Bank of Spain, Eurostat, Haver Analytics, WEO, and IMF staff calculations.

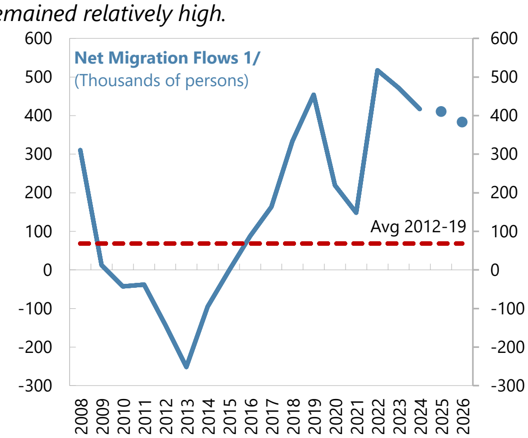
1/ A growth surprise in a given semester is defined as the difference between actual growth and the growth predicted for that semester in the last IMF WEO published prior to the release of the actual data.

Figure 2. Spain: Labor Market

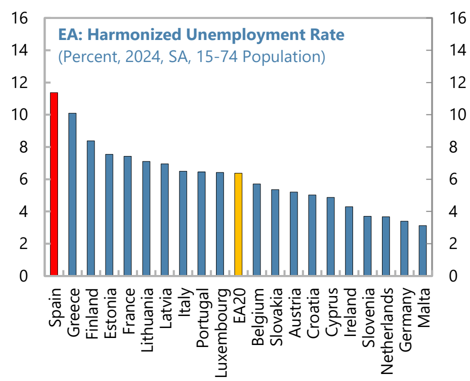
Employment and participation rates have broadly stabilized after their sharp post-COVID recovery…



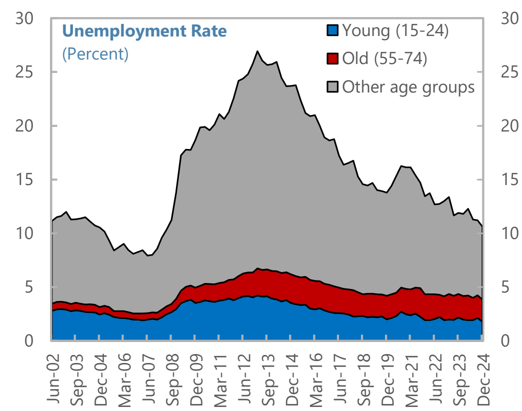
…while large net migration flows, which have been supporting working-age population growth, have remained relatively high.



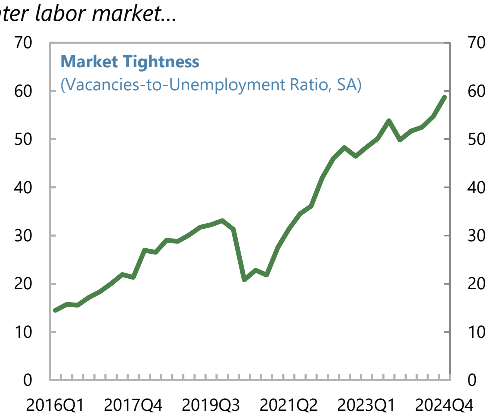
The unemployment rate has declined significantly since its COVID peak, extending its longer-run post-GFC fall, but remains the highest in the euro area…



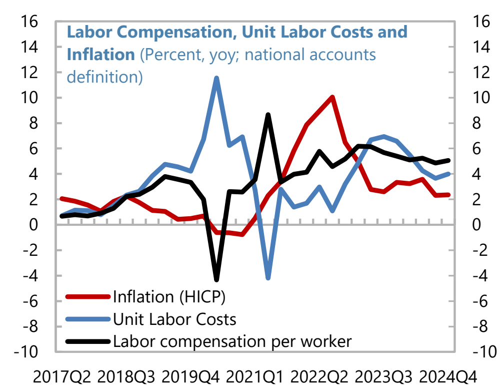
…with young and older workers accounting for nearly 40 percent of the pool of jobseekers.



High vacancy postings amid strong economic growth and declining unemployment have resulted in a significantly tighter labor market…



…which, together with elevated inflation until late 2023, has kept labor compensation and unit labor costs growth persistently high.

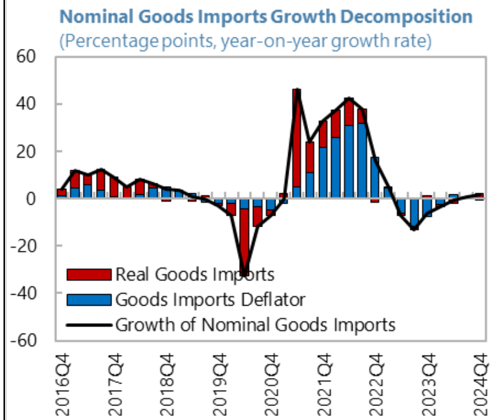


Sources: Ministry of Labor; Ministry of Inclusion, Social Security and Migration; Eurostat; Haver Analytics; and IMF staff calculations.

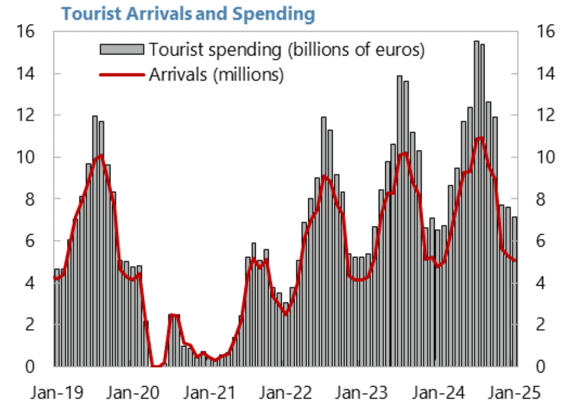
1/ Up to 2020, the data corresponds to the discontinued Migration Statistics. In 2021-22, the data corresponds to the new Statistics on Migration and Changes of Residence, which are published at annual frequency with a one-year lag. From 2023, the data corresponds to a high-frequency proxy from the Population Continuous Statistics. Projections for 2025-26 are based on the migration assumptions underlying the 2024-74 population projections published by the National Statistics Institute.

Figure 3. Spain: External Sector

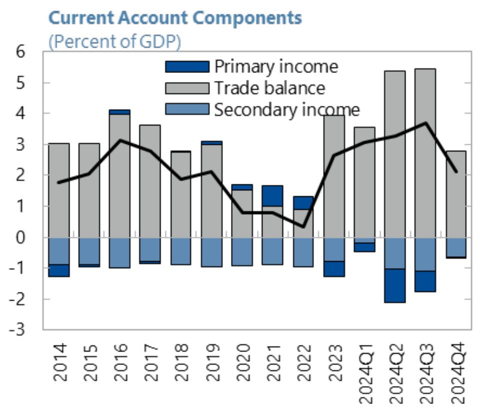
After falling in 2023, nominal goods imports broadly stabilized together with energy prices during 2024.



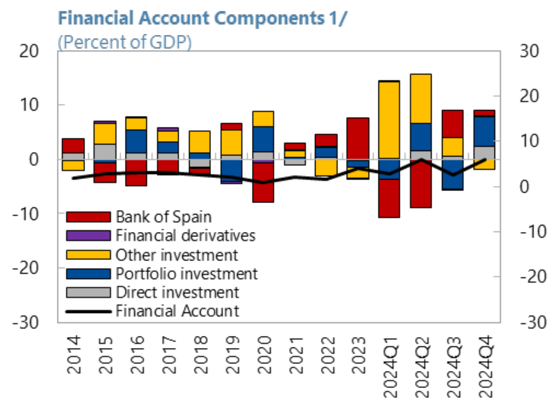
Strong momentum in services exports continued, with tourist arrivals and spending reaching record highs.



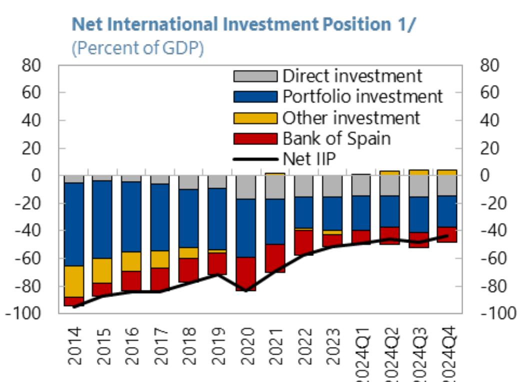
Stable imports and rising exports increased the current account surplus further despite deteriorating primary income.



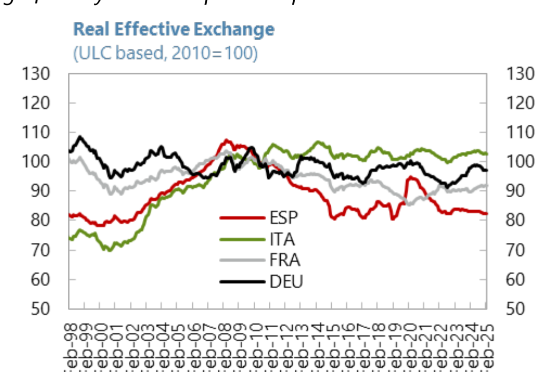
The financial account surplus was largely associated with net outflows of non-portfolio investments, partly offset by net inflows from the Bank of Spain's balance sheet.



The NIIP continues to gradually improve, albeit at a lower pace.



The ULC-based REER remained broadly stable in 2024, and significantly below its pre-GFC peak.

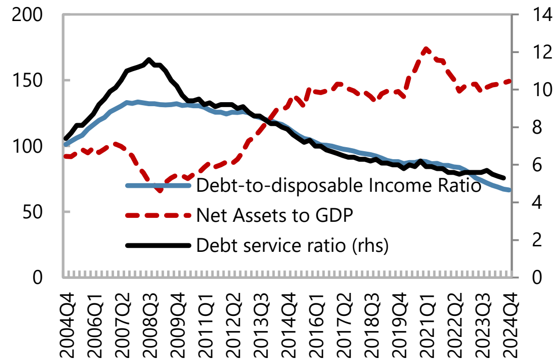


Sources: Bank of Spain, Eurostat, Haver Analytics, INE, WEO, and IMF staff calculations.
1/ Portfolio Investment and Other Investment exclude the Bank of Spain, which is shown separately.

Figure 4. Spain: Credit Developments and Financial Cycle

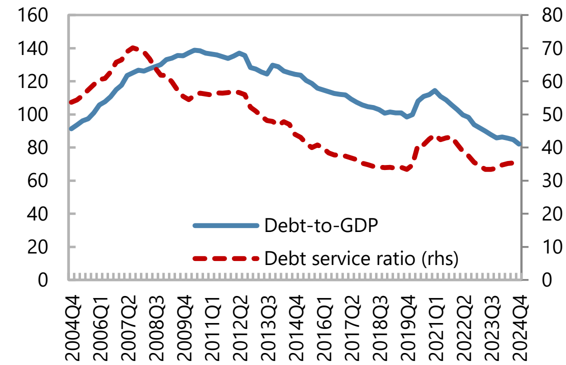
Households have continued to deleverage…

Households Balance Sheet
(in percent)



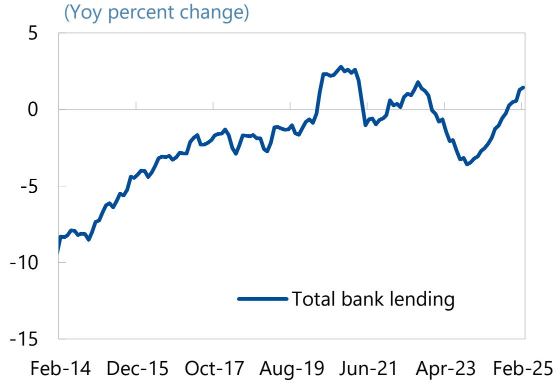
…and so have non-financial corporations.

Non-Financial Corporates Balance Sheet
(in percent)



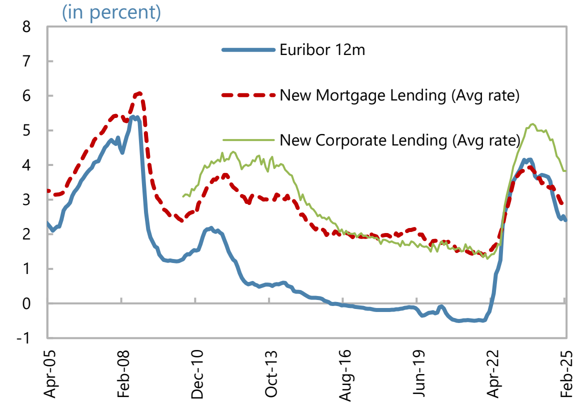
Bank lending to the private sector is recovering, with growth turning positive in the last quarter of 2024…

Bank Lending to Private Sector
(Yoy percent change)



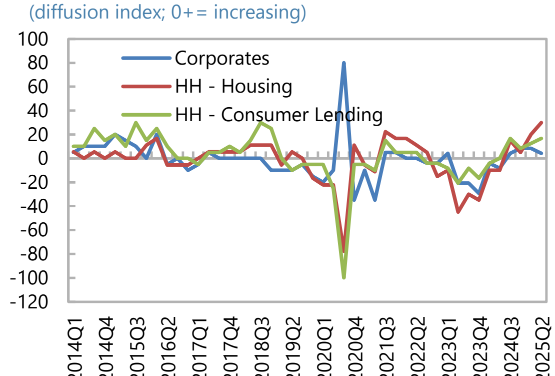
…as benchmark interest rates have declined.

Interest Rates
(in percent)



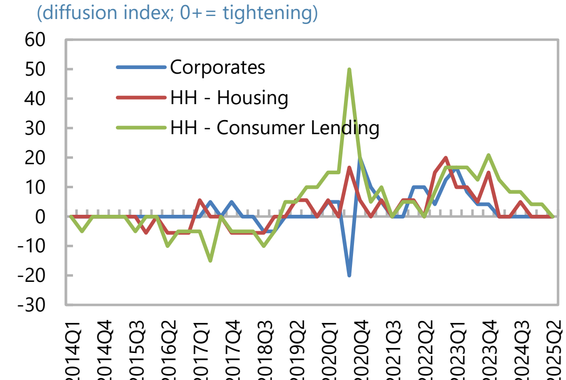
Credit demand has been recovering across the board…

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



…while lending standards have stopped tightening for corporates and households most recently.

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

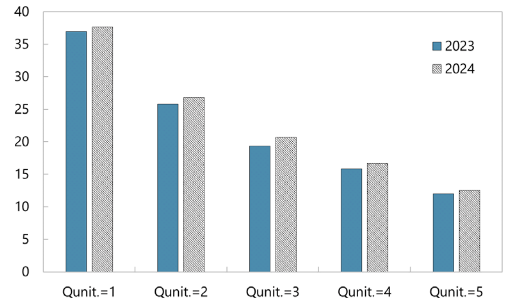


Sources: Bank of Spain, Haver Analytics, WEO, and IMF staff calculations.

Figure 5. Spain: Households and Non-Financial Corporations

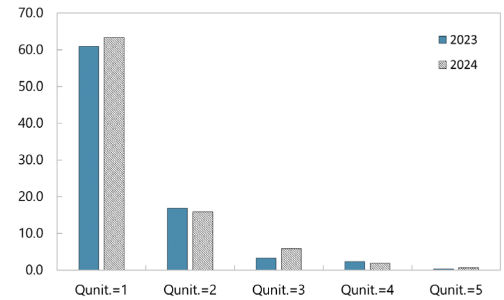
While deleveraging has continued, households' debt-service-to-income (DSTI) ratios edged up due to higher interest rates in 2024, particularly among lower-income households.

Households DSTI by Income Quintile 1/
(Percent of disposable income)



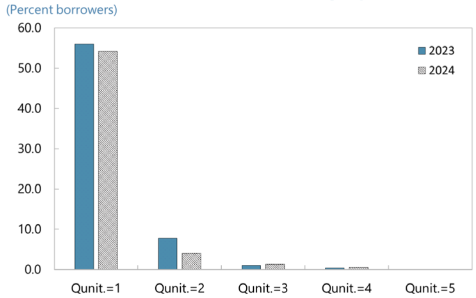
Households at risk (DSTI > 40) continue to be mainly concentrated in the lowest income quintile.

Share of Households at Risk (DSTI>=40)
(Percent borrowers)



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

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

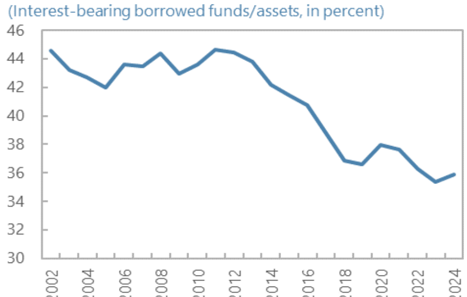


Corporate profitability has recovered since the pandemic, before stabilizing recently as a result of higher interest expenses.

Return on Assets
(Percent)

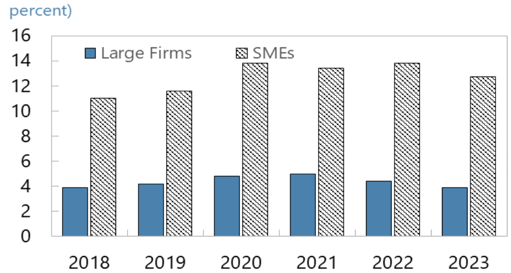
Corporates' total debt-to-asset ratio has declined steadily, although it edged up in 2024 as new borrowing resumed amid declining borrowing costs.

Debt-to-Asset Ratio
(Interest-bearing borrowed funds/assets, in percent)



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

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

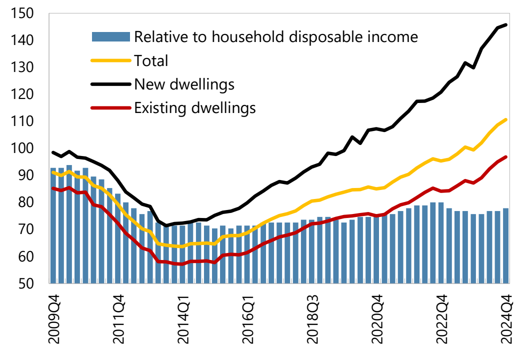


Sources: Bank of Spain Central Balance Sheet Data Office, Bank of Spain, Haver Analytics, WEO, and IMF staff calculations.
1/ Income quintiles range from the lowest income group to the highest.
2/ "DSTI + Housing Exp." Is the ratio of debt service and expenditures on community and utilities to disposable income.

Figure 6. Spain: Real Estate Developments

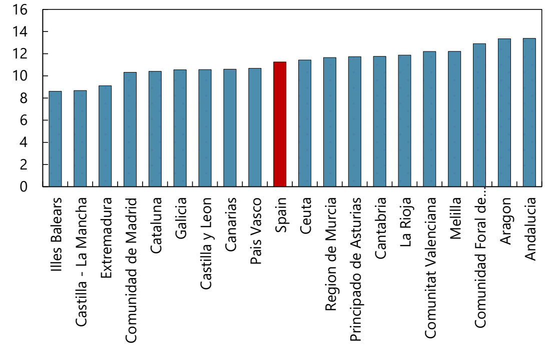
House prices have been rising steadily, with prices for new dwellings increasing at a faster pace.

House Prices, 2008-2023
(Index, 2007=100)



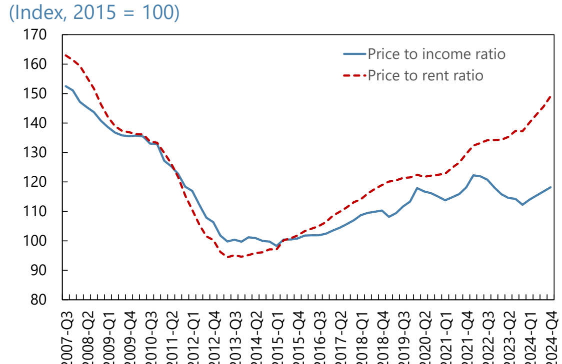
This appreciation has been broad-based, albeit with some variation across autonomous communities.

House Price Growth by Autonomous Communities
(y/y percent change, 2024Q4)



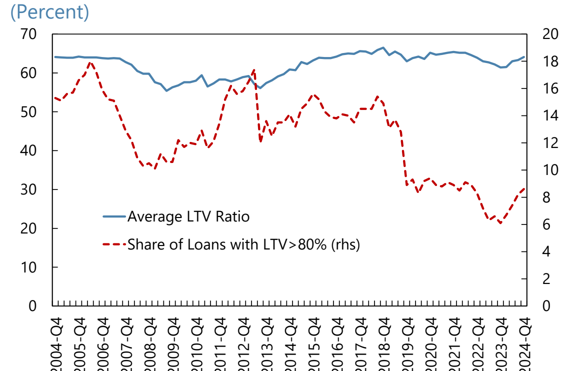
The price-to-rent and—to a lesser extent—price-to-income ratios have risen, but they remain below their pre-GFC peaks.

Price-to-income and Price-to-rent Ratios
(Index, 2015 = 100)



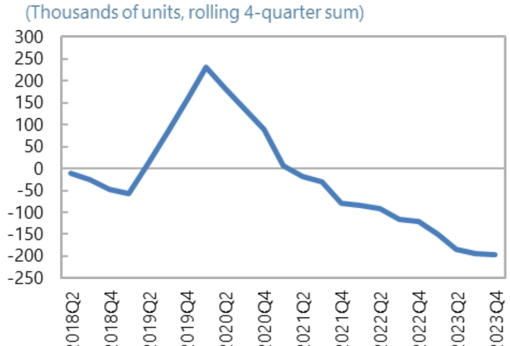
Loan-To-Value (LTV) ratios have remained stable, and the share of loans with LTV > 80 remains below its pre-COVID level.

Mortgage Loan-to-value (LTV) Ratios
(Percent)



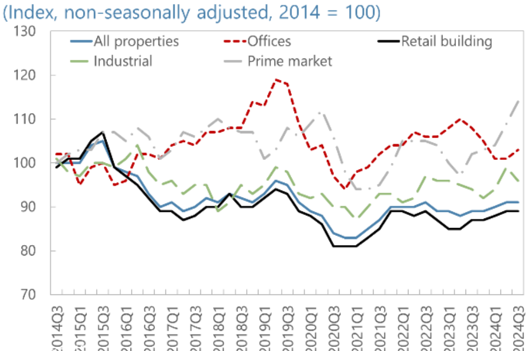
Housing supply shortages have been a key source of upward price pressure since COVID.

Supply Shortage 3/
(Thousands of units, rolling 4-quarter sum)



Commercial real estate prices have rebounded, with prime market prices surpassing pre-COVID levels.

Spain: Comercial Real Estate Prices
(Index, non-seasonally adjusted, 2014 = 100)

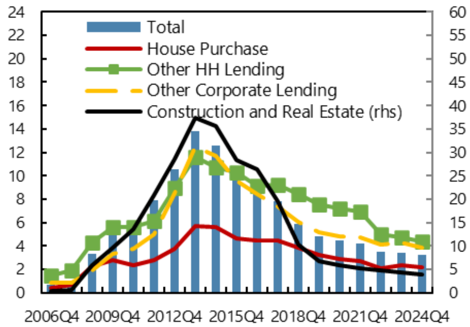


Sources: Bank of Spain, Haver Analytics, WEO, and IMF staff calculations.

Figure 7. Spain: Banking Sector Performance

Non-performing loans have remained stable following the monetary policy tightening.

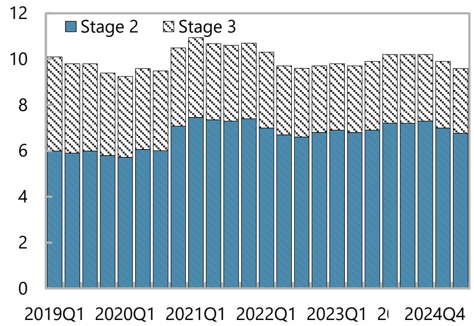
Spain - Non Performing Loans
(Percent of total assets)



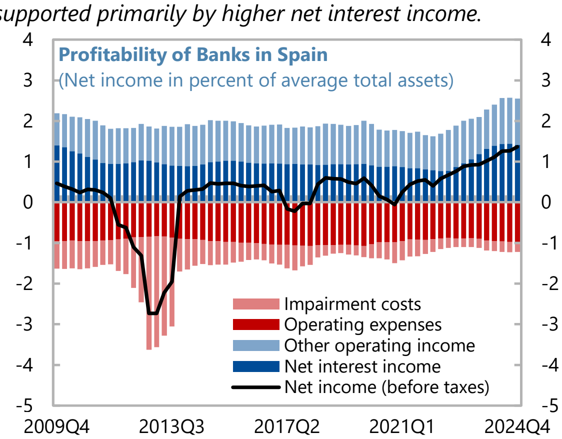
Sources: BdE; and IMF Staff calculation.

Stage 2 and 3 loans have been declining, moving toward pre-COVID levels.

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

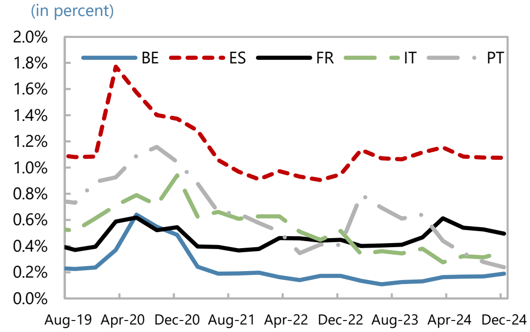


Banking sector profitability has continued to increase, supported primarily by higher net interest income.



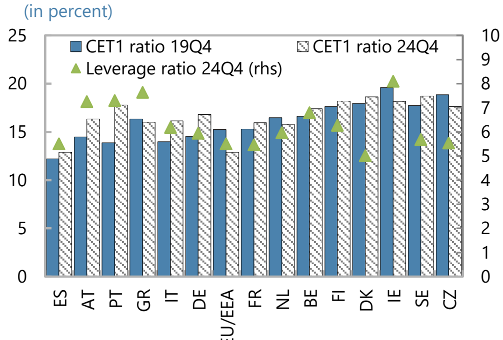
Bank provisioning has stabilized after peaking during the pandemic.

Cost of Risk
(in percent)



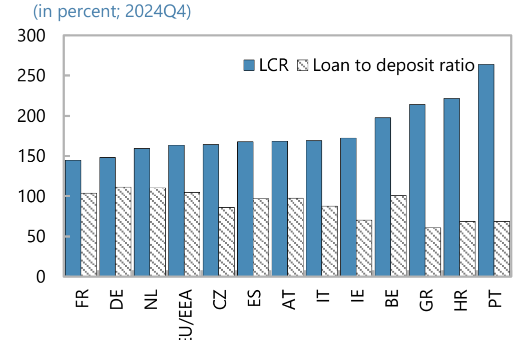
Bank capitalization remains below peers on a risk-weighted basis, but the leverage ratio is comparable.

Bank Capital
(in percent)



Spanish banks retain strong liquidity ratios despite their decline following the ECB's shift from quantitative easing to quantitative tightening.

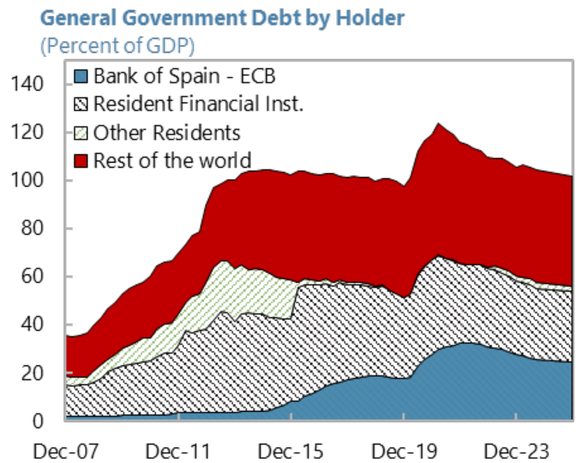
Bank Liquidity
(in percent; 2024Q4)



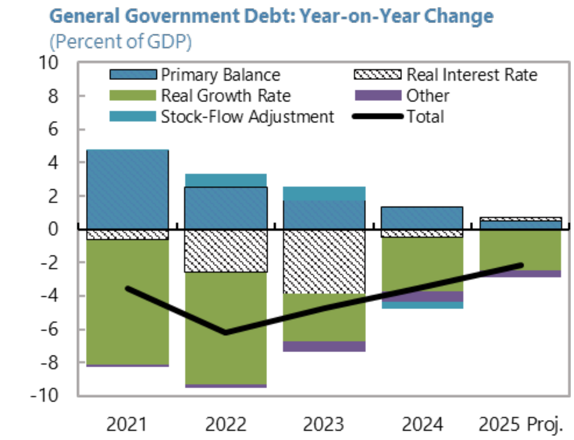
Sources: Bank of Spain, Haver Analytics, WEO, EBA, and IMF staff calculations.
1/ Cost of Risk (CoR) refers to the ratio of loan loss provisions to total gross loans and advances subject to impairment.

Figure 8. Spain: Public Finances

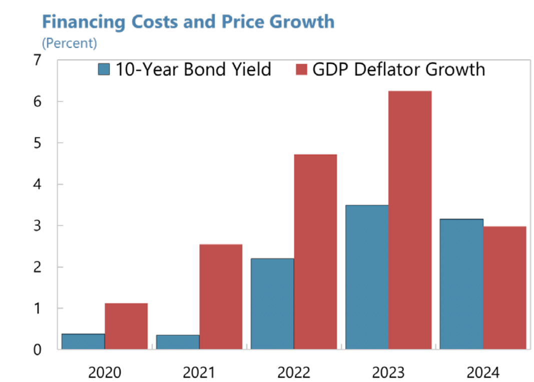
Public debt has been declining steadily, with both private and public (Bank of Spain-ECB) holdings shrinking.



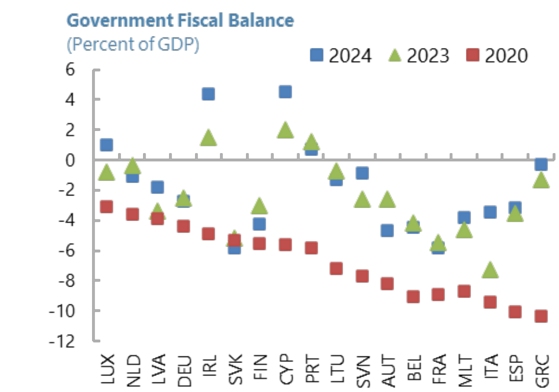
The contribution of real growth to debt reduction has remained sizable while that of real interest rates waned…



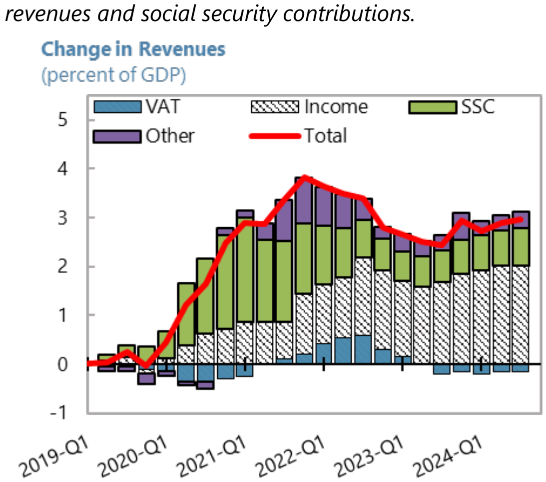
… as financing costs fell mildly but GDP deflator growth declined even more.



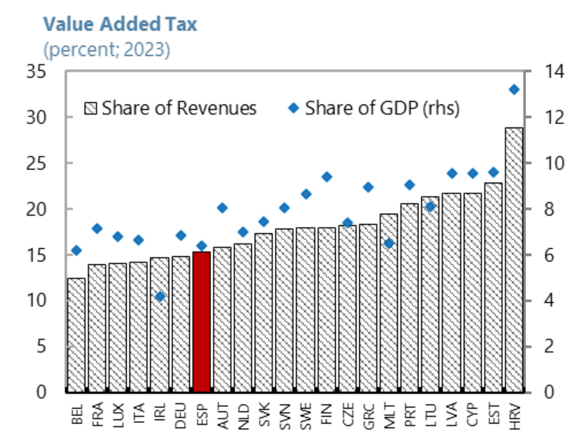
The fiscal balance has continued to improve since its pandemic low…



…driven by a persistent rise in personal income tax revenues and social security contributions.



But there is room to mobilize further VAT revenues.

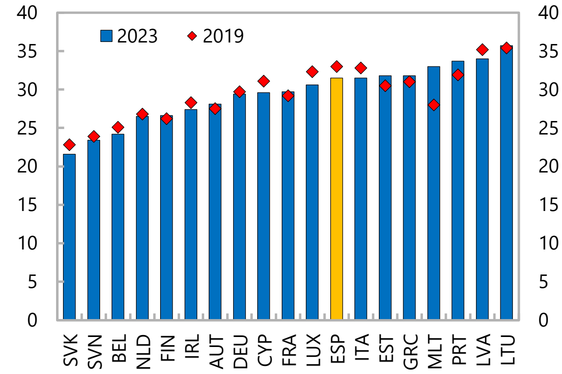


Sources: Eurostat, Haver Analytics, Bank of Spain, and IMF staff calculations.

Figure 9. Spain: Selected Social Indicators

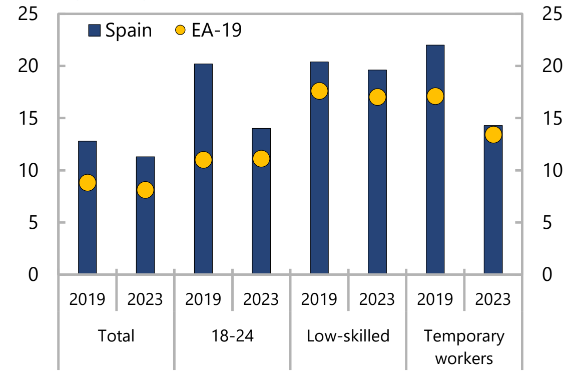
Income inequality has continued to decline and is now broadly in line with euro area peers.

Gini Index



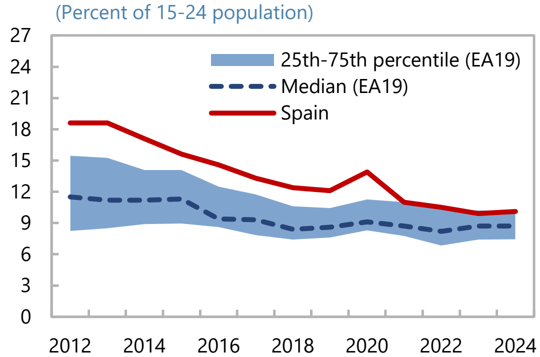
Despite recent improvements, particularly among the young and temporary workers, the share of workers at risk of poverty is still above the euro area average.

In-Work At-Risk-Of-Poverty Rate
(Percent)



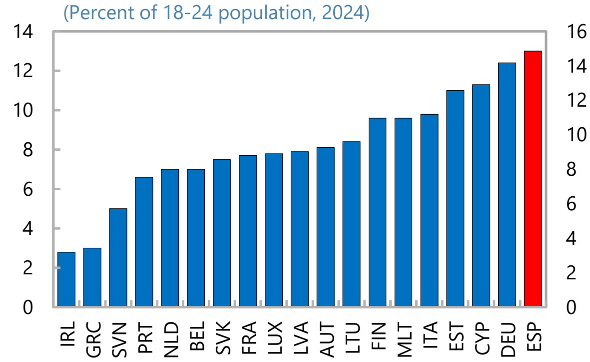
The share of young people who neither work nor study has declined to historical lows but is still among the highest in the euro area.

Young People neither in Employment nor in Education and Training
(Percent of 15-24 population)



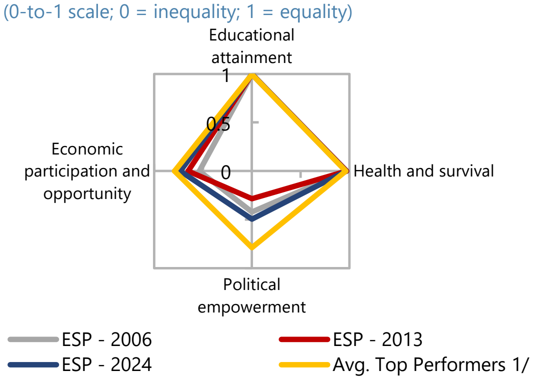
Spain also remains the euro area country with the highest share of early leavers from education and training.

Early Leavers from Education and Training
(Percent of 18-24 population, 2024)



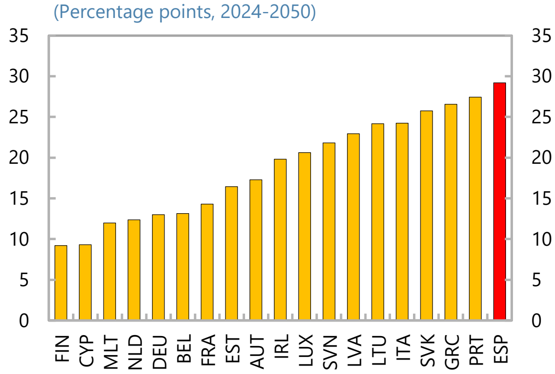
Gender gaps have declined in the past 15 years, but there remains scope for progress on political empowerment and to a lesser extent, economic participation and opportunity.

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



The population is projected to age more rapidly in Spain than in any other euro area country in the coming decades.

Projected Change in the Old-Age Dependency Ratio
(Percentage points, 2024-2050)



Sources: Eurostat, World Economic Forum, and IMF staff calculations.
1/ The top performers in 2023 were Iceland, Norway, and Finland.

Table 1. Spain: Main Economic Indicators

(Percent change, unless otherwise indicated)

					Projections 1/					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Demand and supply in constant prices										
Gross domestic product	6.7	6.2	2.7	3.2	2.5	1.8	1.7	1.6	1.6	1.6
Private consumption	7.1	4.8	1.8	2.9	2.1	2.0	1.9	1.9	1.9	1.9
Public consumption	3.6	0.6	5.2	4.1	3.5	1.7	1.9	1.5	1.6	1.6
Gross fixed investment	2.6	3.3	2.1	3.0	5.0	2.1	1.2	1.0	0.9	0.9
Total domestic demand	7.0	3.9	1.7	2.9	2.9	2.0	1.8	1.6	1.6	1.6
Net exports (contribution to growth)	-0.3	2.5	1.2	0.4	-0.2	-0.1	0.0	0.0	0.0	0.0
Exports of goods and services	13.4	15.0	3.3	3.4	2.2	2.5	3.1	3.3	3.3	3.3
Imports of goods and services	15.0	7.8	0.4	2.6	3.0	3.2	3.4	3.5	3.5	3.5
Real GDP per capita	6.5	4.9	1.5	2.2	1.2	0.6	0.7	0.7	0.9	1.0
Savings-Investment Balance (percent of GDP)										
Gross domestic investment	21.9	22.7	21.0	20.5	20.9	21.1	21.0	20.9	20.8	20.7
Private	19.2	19.9	18.1	17.8	17.7	17.8	17.8	17.7	17.5	17.4
Public	2.7	2.8	2.9	2.6	3.2	3.3	3.2	3.2	3.2	3.3
National savings	22.6	23.0	23.7	23.5	23.4	23.4	23.2	22.8	22.5	22.1
Private	26.6	24.9	24.3	24.0	23.1	22.5	22.3	21.8	21.3	20.8
Public	-4.0	-1.9	-0.6	-0.5	0.4	0.9	0.9	1.0	1.2	1.3
Foreign savings	-0.8	-0.4	-2.7	-3.0	-2.5	-2.4	-2.2	-1.9	-1.7	-1.5
Household saving rate (percent of gross disposable income)	14.3	9.0	12.0	13.6	13.5	13.0	12.5	11.7	11.0	10.3
Potential output	1.3	2.1	2.7	2.6	2.6	2.3	2.1	2.0	1.8	1.7
Output gap (percent of potential output)	-2.8	1.1	1.1	1.6	1.6	1.1	0.7	0.3	0.1	0.0
Prices										
GDP deflator	2.5	4.7	6.2	3.0	2.4	2.4	2.4	2.3	2.3	2.3
Headline inflation (average)	3.0	8.3	3.4	2.9	2.2	2.0	2.1	2.0	2.0	2.0
Headline inflation (end of period)	6.5	5.5	3.3	2.8	1.9	1.9	2.1	2.0	2.0	2.0
Core inflation (average)	0.7	5.2	5.8	3.0	1.9	2.0	2.0	2.0	2.0	2.0
Core inflation (end of period)	2.1	6.7	4.0	2.6	1.8	2.0	2.0	2.0	2.0	2.0
Employment and wages										
Unemployment rate (percent of total labor force)	14.9	13.0	12.2	11.3	11.1	11.0	11.0	11.0	11.0	11.0
Labor productivity 2/	-0.5	2.0	-0.5	0.7	1.1	0.9	1.0	1.0	1.1	1.1
Labor costs, private sector	0.0	2.6	5.6	4.7	3.5	3.4	3.4	3.3	3.3	3.3
Employment	3.3	3.6	3.1	2.2	1.3	0.9	0.7	0.6	0.5	0.5
Labor force	2.5	1.4	2.1	1.3	1.1	0.8	0.6	0.6	0.5	0.5
Balance of payments (percent of GDP)										
Trade balance (goods and services)	1.0	0.9	3.9	4.3	3.8	3.4	3.2	2.9	2.6	2.3
Current account balance	0.8	0.4	2.7	3.0	2.5	2.4	2.2	1.9	1.7	1.5
Net international investment position	-69.4	-57.7	-51.3	-44.0	-38.5	-33.5	-29.7	-26.5	-23.5	-21.0
Public finance (percent of GDP)										
General government balance	-6.7	-4.6	-3.5	-3.2	-2.8	-2.4	-2.3	-2.2	-2.1	-2.0
Primary balance	-4.7	-2.5	-1.7	-1.3	-0.6	0.1	0.1	0.3	0.5	0.5
Structural balance	-4.8	-5.3	-4.1	-3.1	-3.2	-2.8	-2.7	-2.3	-2.1	-2.0
Primary structural balance	-2.7	-3.0	-1.7	-0.7	-0.7	-0.1	0.0	0.4	0.7	0.8
General government debt	115.6	109.4	105.0	101.8	100.7	99.1	97.7	96.2	94.6	93.0
Memo item										
Credit to the private sector	0.6	-0.1	-3.2	0.6	2.4	2.0	1.9	1.8	1.8	1.8
Nominal GDP (Billions of euros)	1235.5	1373.6	1498.3	1591.6	1671.5	1742.1	1813.8	1884.9	1958.9	2035.6
Real GDP (Billions of 2015 euros)	1204.7	1279.1	1313.3	1354.7	1389.2	1414.0	1438.2	1461.3	1484.8	1508.6

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

1/ The projections incorporate spending financed by the EU Recovery and Resilience Facility (including the grant and the loan component) amounting to about 0.7, 1.7, 1.3 and 0.3 percent of GDP from 2024 to 2027.

2/ Output per full-time equivalent worker.

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

				Projections 2/					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	574.1	628.3	672.7	708.2	747.7	763.3	796.5	830.4	865.5
Taxes	330.7	354.6	380.7	397.1	414.8	433.1	450.9	470.6	490.9
Indirect taxes	160.7	165.5	177.1	182.4	189.4	197.8	204.6	212.6	220.9
o.w. VAT	94.2	96.0	102.6	105.3	109.7	114.4	117.9	122.5	127.3
o.w. Excise	42.3	42.1	47.1	48.8	50.5	52.9	55.0	57.1	59.3
Direct taxes	164.4	183.5	198.0	209.4	219.9	229.5	240.3	251.7	263.5
o.w. Private households	121.0	133.3	145.0	155.4	164.1	172.6	181.2	190.3	199.7
o.w. Corporate	40.4	53.3	55.5	55.2	57.0	58.1	60.4	62.8	65.2
Capital tax	5.6	5.5	5.6	5.4	5.6	5.8	6.0	6.3	6.5
Social contributions	180.2	197.0	210.2	224.9	239.4	252.2	264.5	275.6	287.1
Other revenue	63.2	76.7	81.7	86.1	93.5	78.0	81.1	84.2	87.5
Expenditure	637.8	681.0	722.8	755.5	789.1	805.6	837.6	870.7	906.2
Expense	637.1	680.9	723.2	755.0	788.9	805.5	837.5	870.5	906.0
Compensation of employees	154.9	163.4	172.4	181.3	188.4	196.2	203.2	211.1	219.4
Use of goods and services	79.1	85.8	88.8	97.0	101.5	102.0	106.3	110.4	114.8
Capital	53.3	57.3	67.8	67.7	71.8	64.8	67.6	71.3	75.0
o.w. Capital transfers and invesment aid	14.5	13.5	25.9	14.4	14.3	6.5	7.3	7.6	7.9
Interest	31.8	35.7	39.0	43.3	47.3	49.1	51.4	53.8	56.2
Social benefits	267.0	292.9	311.7	321.9	334.9	347.3	361.1	374.2	388.8
Other expense	36.5	45.8	43.6	43.8	45.1	46.1	47.9	49.7	51.7
Subsidies	27.0	20.7	18.5	19.0	19.6	20.4	21.2	22.0	22.9
Other	9.6	25.1	25.1	24.9	25.5	25.7	26.7	27.7	28.8
o.w. financial sector support	…	…	…	…	…	…	…	…	…
Net acquisition of nonfinancial assets	0.7	0.1	-0.3	0.4	0.2	0.1	0.1	0.2	0.2
Gross fixed capital investment	38.1	43.7	42.2	53.3	57.4	58.3	60.3	63.7	67.2
Consumption of fixed capital	37.4	43.6	42.5	52.9	57.2	58.2	60.2	63.5	67.0
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	-63.0	-52.6	-50.5	-46.9	-41.2	-42.2	-41.0	-40.2	-40.5
Net lending / borrowing	-63.7	-52.7	-50.2	-47.3	-41.4	-42.3	-41.1	-40.4	-40.6
Net lending / borrowing (excluding financial sector support)	-63.7	-52.7	-50.2	-47.3	-41.4	-42.3	-41.1	-40.4	-40.6
Memorandum items:									
Nominal GDP	1,373.6	1,498.32	1,591.6	1,671.5	1,742.1	1,813.8	1,884.9	1,958.9	2,035.6

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, 0.8 and 1.1 percent of GDP in grants from 2021 to 2026 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)

				Projections 2/					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	41.8	41.9	42.3	42.4	42.9	42.1	42.3	42.4	42.5
Taxes	24.1	23.7	23.9	23.8	23.8	23.9	23.9	24.0	24.1
Indirect taxes	11.7	11.0	11.1	10.9	10.9	10.9	10.9	10.9	10.9
o.w. VAT	6.9	6.4	6.4	6.3	6.3	6.3	6.3	6.3	6.3
o.w. Excise	3.1	2.8	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Direct taxes	12.0	12.2	12.4	12.5	12.6	12.7	12.8	12.8	12.9
o.w. Private households	8.8	8.9	9.1	9.3	9.4	9.5	9.6	9.7	9.8
o.w. Corporate	2.9	3.6	3.5	3.3	3.3	3.2	3.2	3.2	3.2
Capital tax	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Social contributions	13.1	13.2	13.2	13.5	13.7	13.9	14.0	14.1	14.1
Other revenue	4.6	5.1	5.1	5.2	5.4	4.3	4.3	4.3	4.3
Expenditure	46.4	45.4	45.4	45.2	45.3	44.4	44.4	44.5	44.5
Expense	46.4	45.4	45.4	45.2	45.3	44.4	44.4	44.4	44.5
Compensation of employees	11.3	10.9	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Use of goods and services	5.8	5.7	5.6	5.8	5.8	5.6	5.6	5.6	5.6
Capital	3.9	3.8	4.3	4.1	4.1	3.6	3.6	3.6	3.7
o.w. Capital transfers and investment aid	1.1	0.9	1.6	0.9	0.8	0.4	0.4	0.4	0.4
Interest	2.3	2.4	2.4	2.6	2.7	2.7	2.7	2.7	2.8
Social benefits	19.4	19.5	19.6	19.3	19.2	19.1	19.2	19.1	19.1
Other expense	2.7	3.1	2.7	2.6	2.6	2.5	2.5	2.5	2.5
Subsidies	2.0	1.4	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Other	0.7	1.7	1.6	1.5	1.5	1.4	1.4	1.4	1.4
o.w. financial sector support	...	...	...	...	...	...	...	...	...
o.w. other one-offs	...	...	...	...	...	...	...	...	...
Net acquisition of nonfinancial assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross fixed capital investment	2.8	2.9	2.6	3.2	3.3	3.2	3.2	3.3	3.3
Consumption of fixed capital	2.7	2.9	2.7	3.2	3.3	3.2	3.2	3.2	3.3
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	-4.6	-3.5	-3.2	-2.8	-2.4	-2.3	-2.2	-2.1	-2.0
Net lending / borrowing	-4.6	-3.5	-3.2	-2.8	-2.4	-2.3	-2.2	-2.1	-2.0
Net lending / borrowing (excluding financial sector suppor	-4.6	-3.5	-3.2	-2.8	-2.4	-2.3	-2.2	-2.1	-2.0
Memorandum items:									
Net lending/ borrowing (EDP targets)	...	...	...	...	...	...	...	...	...
Primary balance	-2.5	-1.7	-1.3	-0.6	0.1	0.1	0.3	0.5	0.5
Primary balance (excluding financial sector support) 3/	-2.3	-1.1	-0.7	-0.2	0.3	0.4	0.5	0.7	0.8
Cyclically adjusted balance	-5.3	-4.2	-4.1	-3.8	-3.0	-2.7	-2.4	-2.1	-2.0
Cyclically adjusted primary balance (excl. fin. sector supp	-3.0	-1.8	-1.7	-1.2	-0.3	0.0	0.4	0.6	0.8
Primary structural balance 3/	-3.0	-1.7	-0.7	-0.7	-0.1	0.0	0.4	0.6	0.8
Structural balance	-5.3	-4.1	-3.1	-3.2	-2.8	-2.7	-2.4	-2.1	-2.0
General government gross debt (Maastricht)	109.4	105.0	101.8	100.7	99.1	97.7	96.2	94.6	93.0
Net debt	98.6	93.5	91.2	89.7	88.4	87.2	86.1	84.9	83.7
Output gap	1.1	1.1	1.6	1.6	1.1	0.7	0.3	0.1	0.0
EU Recovery and Resilience Facility allocation	0.9	0.4	0.7	0.8	1.1	...	...	...	...

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, 0.8 and 1.1 percent of GDP in grants from 2021 to 2026 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/ Including interest income.

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

	2019	2020	2021	2022	2023	2024
Depository institutions						
Capital adequacy: Consolidated basis						
Regulatory capital to risk-weighted assets	15.9	17.0	17.4	16.7	17.1	17.5
Regulatory tier-1 capital to risk-weighted assets	14.0	14.9	15.2	14.6	14.8	14.9
Tier 1 Capital to total assets	6.1	5.9	5.8	5.5	5.7	5.6
Asset quality: Consolidated basis						
Nonperforming loans (in billions of euro)	84	74	88	80	82	81.0
Nonperforming loans to total loans	3.2	2.9	2.9	3.1	3.1	2.9
Specific provisions to nonperforming loans	64.8	72.9	63.6	43.2	43.3	43.8
Asset quality: Domestic operations						
Nonperforming loans (in billions of euro)	54	52	49	40	39	37
Nonperforming loans to total loans	4.8	4.4	4.2	3.5	3.4	3.2
Specific provisions to nonperforming loans	41.2	46.4	45.9	45.3	46.6	48.9
Exposure to businesses - Construction (in billions of euro)	112	108	107	99	93	94
o/w: Nonperforming (in percent)	6.7	6.0	5.1	4.9	4.3	3.8
Exposure to businesses - Other (in billions of euro)	401	446	443	443	422	424
o/w: Nonperforming (in percent)	5.2	4.8	4.7	4.1	4.1	3.9
Exposure to households - Home purchase (in billions of euro)	483	478	483	483	469	472
o/w: Nonperforming (in percent)	3.2	2.9	2.7	2.1	2.3	2.2
Exposure to households - Other (in billions of euro)	140	143	140	141	143	142
o/w: Nonperforming (in percent)	7.5	7.2	7.0	5.0	4.7	4.4
Earning and profitability: Consolidated basis						
Return on assets	0.7	0.0	0.9	0.9	1.1	1.3
Return on equity	6.7	-3.2	10.1	9.8	12.1	14.1
Earning and profitability: Domestic operations						
Return on assets	0.6	-0.1	0.6	0.8	1.0	1.4
Return on equity	6.9	-0.7	7.4	10.4	13.4	17.4
Funding						
Loans to deposits 1/	93.3	88.7	84.9	83.2	80.9	77.3
Corporate sector						
Debt (in percent of GDP)	135.6	152.4	146.2	132.9	121.3	116.6
Debt to total assets	37.9	38.6	39.7	39.1	37.4	36.4
Liquid assets to short-term liabilities	296.1	394.4	410.8	365.4	410.8	423.1
Household sector						
Debt (in percent of GDP)	60	66	62	56	50	48
Real estate market						
House price (percentage change, end-period)	3.6	1.5	6.4	5.5	4.2	11.3
Housing completion (2007=100)	12	14	15	14	14	16
Property sales (2007=100)	63	52	70	76	70	76

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections					
						(Billions of euro)					
Current account	8.9	9.5	4.8	39.8	48.1	42.3	41.3	40.2	36.4	33.4	30.0
Trade balance of goods and services	17.1	12.2	12.1	58.8	68.1	63.9	59.7	58.1	54.6	50.8	46.9
Exports of goods and services	344.2	417.1	546.1	570.3	593.6	615.0	640.4	674.7	710.7	748.8	789.0
Exports of goods	266.3	317.8	389.3	388.1	390.0	394.4	409.8	429.6	450.5	473.2	497.5
Exports of services	77.9	99.2	156.8	182.1	203.5	220.6	230.6	245.1	260.3	275.6	291.5
Trade of goods balance	-7.0	-21.3	-60.1	-34.6	-32.3	-43.0	-50.6	-59.4	-70.0	-80.6	-91.5
Imports of goods and services	327.1	404.8	534.0	511.4	525.4	551.1	580.7	616.6	656.1	697.9	742.2
Imports of goods	273.3	339.1	449.4	422.8	422.3	437.4	460.4	489.0	520.4	553.8	589.0
Imports of services	53.8	65.7	84.6	88.6	103.1	113.7	120.3	127.5	135.7	144.2	153.2
Services	24.1	33.5	72.2	93.5	100.4	106.9	110.3	117.5	124.6	131.4	138.4
Of which:											
Tourism	8.6	18.5	48.1	58.8	…	…	…	…	…	…	…
Exports	16.2	29.2	69.2	85.1	…	…	…	…	…	…	…
Imports	-7.6	-10.7	-21.1	-26.3	…	…	…	…	…	…	…
Primary income	2.1	8.2	6.0	-7.2	-8.1	-7.1	-3.4	0.2	1.7	3.2	4.7
Secondary income	-10.3	-10.9	-13.3	-11.8	-11.8	-14.5	-15.0	-18.0	-19.9	-20.7	-21.5
General government	-7.4	-7.4	-6.4	-4.2	-4.6	-6.5	-5.9	-11.1	-11.7	-12.4	-13.0
Other sectors	-2.9	-3.5	-6.9	-7.6	-7.2	-7.9	-9.1	-6.9	-8.2	-8.4	-8.5
Capital account	5.0	10.7	12.7	16.2	18.5	14.6	18.3	4.3	4.2	4.2	4.1
Financial account	10.6	25.8	21.9	59.8	69.8	56.9	59.7	44.6	40.6	37.5	34.1
Direct investment	16.5	-11.6	4.0	-2.9	18.5	18.8	19.4	20.0	20.8	21.6	22.4
Spanish investment abroad	49.3	42.5	66.0	36.7	48.4	50.2	52.1	54.1	56.2	58.3	60.5
Foreign investment in Spain	32.8	54.1	62.0	39.6	29.8	31.3	32.7	34.0	35.3	36.7	38.2
Portfolio investment	76.9	37.6	35.0	-16.7	2.9	32.6	34.1	35.0	36.3	37.1	37.3
Financial derivatives	-7.1	0.8	2.3	-4.1	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-75.3	-11.3	-23.8	77.5	51.2	5.5	6.2	-10.5	-16.5	-21.2	-25.6
Change in reserve assets	-0.3	10.3	4.4	6.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-3.3	5.6	4.4	3.8	3.2	0.0	0.0	0.0	0.0	0.0	0.0
						(Percent of GDP)					
Current account	0.8	0.8	0.4	2.7	3.0	2.5	2.4	2.2	1.9	1.7	1.5
Trade balance of goods and services	1.5	1.0	0.9	3.9	4.3	3.8	3.4	3.2	2.9	2.6	2.3
Exports of goods and services	30.5	33.8	39.8	38.1	37.3	36.8	36.8	37.2	37.7	38.2	38.8
Exports of goods	23.6	25.7	28.3	25.9	24.5	23.6	23.5	23.7	23.9	24.2	24.4
Exports of services	6.9	8.0	11.4	12.2	12.8	13.2	13.2	13.5	13.8	14.1	14.3
Imports of goods and services	29.0	32.8	38.9	34.1	33.0	33.0	33.3	34.0	34.8	35.6	36.5
Imports of goods	24.2	27.4	32.7	28.2	26.5	26.2	26.4	27.0	27.6	28.3	28.9
Imports of services	4.8	5.3	6.2	5.9	6.5	6.8	6.9	7.0	7.2	7.4	7.5
Primary income	0.2	0.7	0.4	-0.5	-0.5	-0.4	-0.2	0.0	0.1	0.2	0.2
Secondary income	-0.9	-0.9	-1.0	-0.8	-0.7	-0.9	-0.9	-1.0	-1.1	-1.1	-1.1
Capital account	0.4	0.9	0.9	1.1	1.2	0.9	1.1	0.2	0.2	0.2	0.2
Financial account	0.9	2.1	1.6	4.0	4.4	3.4	3.4	2.5	2.2	1.9	1.7
Direct investment	1.5	-0.9	0.3	-0.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Portfolio investment	6.8	3.0	2.5	-1.1	0.2	2.0	2.0	1.9	1.9	1.9	1.8
Financial derivatives	-0.6	0.1	0.2	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-6.7	-0.9	-1.7	5.2	3.2	0.3	0.4	-0.6	-0.9	-1.1	-1.3
Of which, BdE	-9.5	-2.3	1.3	7.2	-2.9	-3.4	-3.1	-2.9	-2.8	-2.7	-2.6
Change in reserve assets	0.0	0.8	0.3	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.3	0.5	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net international investment position	-83.7	-69.4	-57.7	-51.3	-44.0	-38.5	-33.5	-29.7	-26.5	-23.5	-21.0
Valuation changes	-4.8	5.0	3.1	-2.4	-0.1	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]

	2019	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3	2024Q4
				(Billions of euro)					
Gross External Debt	**2136.3**	**2265.2**	**2362.1**	**2372.4**	**2485.0**	**2498.2**	**2503.0**	**2597.8**	**2575.8**
Short-term	769.4	869.9	934.9	1015.6	978.4	960.4	955.3	964.6	964.8
Long-term	1367.0	1395.3	1427.2	1356.8	1506.6	1537.7	1547.8	1633.3	1611.0
General government	661.7	681.9	693.6	605.7	661.5	677.6	678.1	734.2	707.8
Bank of Spain	485.3	598.3	638.3	636.1	538.6	558.8	598.7	593.9	587.9
Other monetary financial institutions	457.9	432.9	453.3	548.6	687.0	661.1	619.8	639.9	659.0
Other resident sectors	278.6	281.0	287.9	268.4	275.5	273.1	281.3	296.3	302.9
Debt securities	901.5	918.5	929.5	815.3	922.4	948.1	948.5	1019.8	1008.8
Loans, trade credits and other liabilities	238.0	244.9	270.1	275.8	269.6	264.3	267.2	280.4	269.7
Deposits	740.6	827.3	858.7	952.5	955.9	943.7	947.6	949.5	964.2
Other	3.5	3.4	14.8	15.1	14.7	14.6	14.6	14.6	14.9
Direct investment debt liabilities	252.8	271.1	289.0	313.7	322.4	327.6	325.1	333.6	318.2
Net External Debt 2/	**941.6**	**984.0**	**949.8**	**835.7**	**789.8**	**780.6**	**759.0**	**789.2**	**754.1**
Short-term	334.7	424.7	434.5	454.7	388.1	345.3	343.3	299.7	307.5
Long-term	606.9	559.3	515.3	381.0	401.7	435.3	415.6	489.4	446.6
General government	610.0	628.0	637.7	548.9	604.3	628.2	627.7	688.4	658.7
Bank of Spain	205.2	286.9	270.5	267.2	148.0	174.3	214.0	195.7	191.7
Other monetary financial institutions	63.3	15.3	-7.2	11.4	68.6	13.0	-37.6	-53.6	-49.4
Other resident sectors	-19.7	-28.9	-32.5	-80.5	-109.4	-122.2	-121.9	-124.9	-116.9
Debt securities	483.1	452.2	432.7	289.7	324.2	343.3	331.3	382.3	365.4
Loans, trade credits and other liabilities	17.9	23.4	23.1	-2.4	-2.3	-5.5	0.3	4.0	-4.3
Deposits	358.4	426.2	413.5	460.8	391.3	357.2	352.2	321.2	325.1
Other	-0.7	-0.5	-0.8	-1.1	-1.6	-1.7	-1.8	-1.9	-2.0
Direct investment debt liabilities	82.9	82.8	81.3	88.7	78.2	87.3	76.8	83.6	70.0
				(Percent of GDP)					
Gross External Debt	**170.4**	**200.6**	**191.2**	**172.7**	**165.9**	**156.8**	**157.1**	**163.1**	**161.7**
Short-term	61.4	77.0	75.7	73.9	65.3	60.3	60.0	60.5	60.6
Long-term	109.0	123.6	115.5	98.8	100.6	96.5	97.2	102.5	101.1
General government	52.8	60.4	56.1	44.1	44.1	42.5	42.6	46.1	44.4
Bank of Spain	38.7	53.0	51.7	46.3	35.9	35.1	37.6	37.3	36.9
Other monetary financial institutions	36.5	38.3	36.7	39.9	45.9	41.5	38.9	40.2	41.4
Other resident sectors	22.2	24.9	23.3	19.5	18.4	17.1	17.7	18.6	19.0
Debt securities	71.9	81.3	75.2	59.4	61.6	59.5	59.5	64.0	63.3
Loans, trade credits and other liabilities	19.0	21.7	21.9	20.1	18.0	16.6	16.8	17.6	16.9
Deposits	59.1	73.3	69.5	69.3	63.8	59.2	59.5	59.6	60.5
Other	0.3	0.3	1.2	1.1	1.0	0.9	0.9	0.9	0.9
Direct investment debt liabilities	20.2	24.0	23.4	22.8	21.5	20.6	20.4	20.9	20.0
Net External Debt 2/	**75.1**	**87.1**	**76.9**	**60.8**	**52.7**	**49.0**	**47.6**	**49.5**	**47.3**
Short-term	26.7	37.6	35.2	33.1	25.9	21.7	21.6	18.8	19.3
Long-term	48.4	49.5	41.7	27.7	26.8	27.3	26.1	30.7	28.0
General government	48.7	55.6	51.6	40.0	40.3	39.4	39.4	43.2	41.3
Bank of Spain	16.4	25.4	21.9	19.5	9.9	10.9	13.4	12.3	12.0
Other monetary financial institutions	5.0	1.4	-0.6	0.8	4.6	0.8	-2.4	-3.4	-3.1
Other resident sectors	-1.6	-2.6	-2.6	-5.9	-7.3	-7.7	-7.7	-7.8	-7.3
Debt securities	38.5	40.0	35.0	21.1	21.6	21.5	20.8	24.0	22.9
Loans, trade credits and other liabilities	1.4	2.1	1.9	-0.2	-0.2	-0.3	0.0	0.3	-0.3
Deposits	28.6	37.7	33.5	33.5	26.1	22.4	22.1	20.2	20.4
Other	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Direct investment debt liabilities	6.6	7.3	6.6	6.5	5.2	5.5	4.8	5.2	4.4

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

<table>
<tr><td colspan="6">Overall Assessment: The external position in 2024 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies.[1] Even though the large negative NIIP continued to shrink in 2024, strengthening it further will require sustaining relatively high CA surpluses in coming years. While the CA balance will exceed the norm in the near term, this gap is projected to shrink in the medium term as tourism flows normalize, non-energy imports regain strength—supported by the shift in the economy's growth drivers toward domestic demand, particularly investment which has a high import content—and private saving slowly declines toward pre-COVID levels.

Potential Policy Responses: The projected CA surplus path will keep reducing the still sizeable negative NIIP as needed. Therefore, policies that would divert the CA from such path, including any that would weaken competitiveness and the CA, should be avoided. However, a similar CA path could be achieved with a better policy mix that keeps the savings-investment balance and thereby the projected CA path broadly unchanged, but better supports growth and fiscal sustainability. Specifically, sustained fiscal consolidation efforts would rebuild fiscal space and raise aggregate savings. To address the downside risks posed by increased trade restrictions, Spain should accelerate domestic structural reforms that boost productivity and facilitate the diversification of export products and destinations. These include further efforts to complete the single Spanish market, invest in innovation, enhance education outcomes and reduce energy dependence. Progress on these fronts should be complemented with policies that facilitate the reallocation of workers across sectors while providing an adequate social safety net. Any fiscal support to those firms and sectors most adversely affected by trade restrictions should remain temporary and narrowly targeted, addressing externalities or market failures that might prevent effective market solutions. A similar approach should apply to industrial policies, which should also be coordinated at the EU level and avoid favoring domestic producers over imports to minimize trade and investment distortions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="5">Background. The NIIP continued to improve in 2024 and reached -44.0 percent of GDP by end-2024. This trajectory reflects a larger increase in gross assets compared to that in liabilities (as a percentage of GDP, between 2023 and 2024). Gross liabilities—of which 67 percent corresponded to external debt—increased to 245.2 percent of GDP by end-2024. Most of the negative NIIP is attributed to the general government and the central bank, with TARGET2 liabilities amounting to 27.3 percent of GDP by December 2024.[2] The NIIP is projected to continue improving in the medium term, supported by sustained CA surpluses and the positive—though temporary—impact of Next Generation EU funds disbursements on the capital account.

Assessment. Despite its projected improvement, the still large negative NIIP comes with external vulnerabilities, including those from large gross financing needs and potential 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 (11.4 percent of total external debt).</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: −44.0</td><td>Gross Assets: 201.2</td><td>Debt Assets: 94.4</td><td>Gross Liab.: 245.2</td><td>Debt Liab.: 144.5</td></tr>
<tr><td>Current Account</td><td colspan="5">Background. The CA surplus continued to rise in 2024, although at a slower pace than in 2023, reaching 3.0 percent of GDP. The continued strength of services exports (both tourism and non-tourism) more than offset a modest increase in imports, whose weakness largely reflected broadly stable energy prices. Higher public saving and subdued private investment—including due to high uncertainty and tight financial conditions—more than offset a rise in public investment and a decline of private saving. In 2025, the CA surplus is forecast to shrink (by 0.5 percentage points of GDP) amid a deterioration of the international environment and a strong rebound of imports driven by a pickup in domestic demand. In the medium term, the CA surplus is projected to continue shrinking gradually as tourism inflows normalize and non-energy imports regain strength—with the negative impact of somewhat lower energy prices being offset by the shift in the economy's growth drivers toward domestic demand, particularly investment which has a high import content.</td></tr>
</table>

	Assessment. The 2024 cyclically-adjusted CA balance is 3.5 percent of GDP. IMF staff assess the CA norm to be between 0.6 and 2.4 percent of GDP, with a midpoint of 1.5 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 1.2 to 2.9 percent of GDP, with a midpoint of 2.0 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).					
2024 (% GDP)	CA: 3.0	Cycl. Adj. CA: 3.5	EBA Norm: 1.5	EBA Gap: 2.0	Staff Adj.: 0.0	Staff Gap: 2.0
Real Exchange Rate	**Background.** In 2024, Spain's CPI- and ULC-based REER remained broadly stable, with changes relative to the 2023 average of 0.6 and -0.5 percent, respectively. This followed a period of sustained REER depreciation since 2009, which almost fully reversed the large appreciation during 1999–2008. As of March 2025, the CPI and ULC-based REER were 1.1 percent above and 0.2 percent below the 2024 average, respectively. **Assessment.** The IMF staff CA gap implies a REER gap of –7.3 percent in 2024 (with an estimated elasticity of 0.28 applied). The EBA REER index and level models suggest instead an overvaluation for 2024 of 4.9 and 20.4 percent, respectively, mostly driven by large unexplained residuals. Consistent with the staff CA gap, staff assesses the REER to be moderately undervalued, with a midpoint of 7.3 percent and a range of uncertainty of ±3.1 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account surplus has remained high due to flows associated with Next Generation EU funds. The financial account balance increased slightly by 0.4 percent of GDP to 4.4 percent in 2024, following its more significant improvement of 2.4 percent of GDP in 2023. The increase in the financial account surplus is largely driven by 'Other Investment' flows, while the shrinking of the Bank of Spain's net liability position continued although it was smaller in 2024 compared to 2023. **Assessment.** Despite recent improvements, still large external financing needs leave Spain vulnerable to sustained market volatility and tighter global financial conditions.					
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Euro area economies typically hold low reserves relative to standard metrics, but the currency is free floating.					

[1] The assessment is preliminary. The final assessment will be published in the 2025 External Sector Report.

[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 Bank of Spain incurs a T2 liability. The Bank of Spain'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 Bank of Spain to purchase assets held by investors with bank accounts abroad.

Annex II. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Global Risks			
Trade policy and investment shocks	**High** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**Medium** Given Spain's openness and integration in global value chains, higher trade barriers negatively impact export growth, both directly through trade barriers imposed on Spain's main export products and indirectly through their adverse impact on key trading partners. This is mitigated by the large share of services in Spain's export basket, particularly tourism, which are less exposed to potential trade barriers.	• Accelerate structural reforms, including by leveraging EU funds, to boost productivity and competitiveness, and diversify export products and destinations. • Adopt policies to facilitate the reallocation of workers across sectors while providing an adequate social safety net.
Sovereign debt distress	**High** Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**High/Medium** Higher risk premia on Spanish sovereign bonds 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 is mitigated by Spanish public debt being denominated in euros.	• Bolster the national medium-term fiscal structural plan by adopting fiscal reforms that strengthen the pace and credibility of Spain's envisaged medium-term fiscal consolidation path.
Tighter financial conditions and systemic instability	**Medium** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium** Tighter financial conditions could trigger further deleveraging of the private sector, increase vulnerabilities, lower growth.	• Allow automatic stabilizers to play, and if the downturn is severe, consider targeted and temporary discretionary stimulus.
Commodity price volatility	**Medium** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic 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.	• Provide targeted support to vulnerable households and firms to mitigate the impact of higher energy import prices. • In the event of a persistent rise in inflation, greater fiscal policy tightening might be needed. • Further reallocate public investment to competitiveness-enhancing areas, and accelerate structural reforms that facilitate labor reallocation.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Regional conflicts	**Medium** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium** Spain has limited direct linkages to the conflict regions but is indirectly exposed via potentially higher import prices and lower trading partners' growth. On the upside, Spain might benefit from a reallocation of tourism flows away from conflict-hit regions.	• Same as above.
Deepening geoeconomic fragmentation	**High** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**Medium** External demand has been a key driver of Spain's GDP growth since the GFC. Increased geo-economic fragmentation 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 and the possibility for Spain to become more integrated into the European value chains after a reconfiguration of trade.	• In the event of a persistent rise in inflation, greater fiscal policy tightening might be needed. However, if large adverse confidence or broader demand effects dominated in the short term, opening a large output gap, automatic stabilizers could be allowed to operate. • 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.
Cyberthreats	**High** Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High/Medium** Spain has accelerated digital transformation in recent years, reaching one of the highest levels of digitalization among European peers. Widespread use of digital infrastructure makes the financial system as well as the real economy potentially more vulnerable to cyber-attacks.	• 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, Bank of Spain should provide emergency liquidity assistance.
Climate change	**Medium** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, 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 depends on the size of the shock and the extent of damages. Although water stress is on the rise in Spain, recent events had a relatively small aggregate impact.	• 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 away from the harder-hit ones in the event of recurring climate events.

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 wake of an adverse 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.	• Chart a politically acceptable path towards credible, sustained and growth-friendly fiscal consolidation. • Reform the regional financing framework to reduce fiscal risks.
Implementation of EU-funded projects	**Medium** The size, composition and implementation timing of 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 percent of GDP in 2025 and 2026.	• Redouble efforts to ensure efficient coordination (including with Spanish regions), implementation, and oversight of the Recovery, Transformation and Resilience Plan.
Continued acceleration in housing prices	**Low** A combination of accelerating house prices and loosening of lending standards could create financial stability risks by enabling higher household indebtedness and increasing the likelihood of defaults in the event of a market correction .	**Medium** 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.	• Boost housing supply to dampen house price growth. • If signs of an easing in lending standards emerge, introduce borrower-based measures, following a data-driven approach.

Annex III. Sovereign Risk Debt Sustainability Analysis

Public sector gross debt is high at 101.8 percent of GDP, and in a no-policy change scenario it declines to 93 percent over the forecast horizon. Additional fiscal consolidation will be needed to put the debt ratio on a firmer downward path and rebuild buffers over the medium term. The projected debt trajectory is susceptible to moderate risk in the medium term. Over the long run, mounting fiscal pressures related to population ageing would set debt on a sustained upward trajectory if not addressed early on.

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 120 percent from 98.2 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 support measures. A fiscal support package introduced in 2022 in response to the sharp rise in energy and food prices—which was gradually phased out in the following years—partially mitigated but did not halt the declining path over 2023-2024, as real GDP growth remained strong and inflation, while falling, stayed above its pre-COVID average.

3. Financing Conditions. Prior to the pandemic, Spain experienced a period of declining borrowing costs, driven accommodative monetary policy and fiscal consolidation. 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. On the back of the ECB's monetary tightening, yields grew steadily during 2021–23, and the 10-year bond yield peaked at 3.95 percent in October 2023. Since then, borrowing costs have remained broadly stable, with yields falling to around 3.1 percent during 2024, as the ECB started to undo its earlier monetary tightening and investors' confidence remained strong. The spread over the German bund declined from an average of 100bps in 2023 to about 70 bps by late 2024. In early 2025, the yield rose sharply by approximately 50bps, in line with the German Bund, while the spread remained broadly stable.

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 has fallen gradually but still remains high at 24.4 percent by late 2024.[1] This decline was mirrored by a rise in the share held by other residents (both domestic financial institutions and non-financial sector creditors), which grew from 29.3 to 31 percent, and by non-residents, whose share increased from 42.3 to 44 percent over the same period.

B. Baseline Scenario

5. Baseline. Debt is projected to fall to 100.6 percent of GDP in 2025, and subsequently continue declining to 93 percent of GDP by the end of the forecast horizon. This trajectory is driven by positive nominal growth, a mild improvement in the primary balance—from -1.3 to 0.4 percent of GDP over 2024-2030— which are only partly offset by a gradual rise in interest expenditures from 2.5 to 2.8 percent of GDP. Gross financing needs are projected to decline from 16.8 percent of GDP to a still high level of 14.2 percent by 2030.

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 0.5 percentage points of GDP over 2024-2030 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 and the disbursement of grants and loans from the EU Recovery and Resilience Fund. The grants, amounting to about 5.5 percent of GDP, are disbursed over 2021–26 and are fiscally neutral. Approximately €26 billion of loans (31 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 1.5 percentage points by 2028, which will subsequently shrink gradually as it is repaid. Interest expenditures are projected to grow gradually from 2.5 to 2.8 percent of GDP, reflecting the rise in the 10-year bond yield in early 2025.

C. Risk Assessment

7. Overall Assessment. Staff assess the overall risk of debt distress to be moderate. Despite a steady and significant debt reduction since 2020, over the medium term the still high levels of debt and gross financing needs relative to GDP imply a significant sensitivity of debt dynamics and rollover risk to a potential tightening of credit conditions, lower GDP growth, and a weakening of the fiscal position. In the long term, ageing-related expenditures will exert significant fiscal pressures, entailing high debt distress risk. Mitigating factors include the high share of debt held by the ECB and domestic investors, as well as the maturity profile tilted towards longer durations.

[1] The Bank of Spain's holdings of government debt include monetary policy operations on behalf of the ECB.

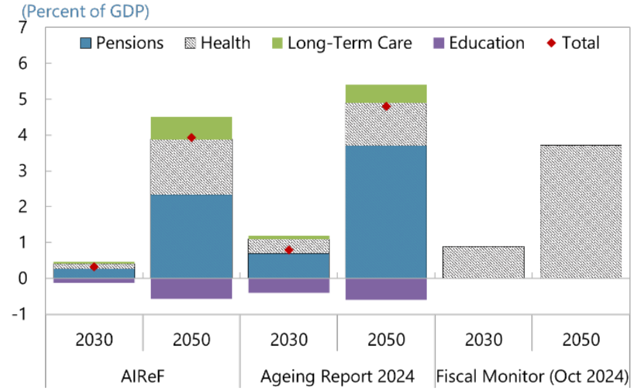
8. Realism of Baseline Assumptions. Past forecast errors for public debt, the interest rate-growth rate differential (r-g), and other macroeconomic variables do not show systematic bias in past projections. The projected 3-year reduction in debt and the improvement in the cyclically adjusted primary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

9. Medium-term Risk. The fan chart exercise points to high distress risk at the 2030 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 ageing are the main source of long-term risk of debt distress for Spain. Underpinned by falling fertility rates and increased life expectancy, 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, with only a minor offset from lower education spending. Although the precise magnitude of future ageing-related costs is very 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 2023 and 2050 range from 3.9 percentage points by AIReF to 5 percentage points by the Ageing Report 2024. Staff estimates that, if unaddressed, these pressures would lead to a rise in the debt-to-GDP ratio of about 45 percentage points in 2050 relative to a scenario in which they are fully offset by either additional revenues, lower spending in other areas, or policy changes.

11. The gap between pension expenditures and social security contributions is expected to rise by 2.4 percent of GDP by 2050 according to [AIReF](#)**.** The net impact of recent pension reforms on this gap remains uncertain and very sensitive to macroeconomic assumptions, but recent estimates point to an adverse effect in the long run. The increase in effective contribution rates constituted an important step in better aligning workers' prospective benefits with their average lifetime earnings and their total contributions to the system.

Ageing-Related Fiscal Pressures
(Percent of GDP)



Sources: AIReF, European Commission, Fiscal Monitor (October 2024), and IMF staff calculations.

The so-called Intergenerational Equity Mechanism also strengthened the commitment to long-term sustainability by destining part of the higher contributions to a reserve fund whose resources can only be used to finance pension spending after 2033 and with a yearly cap. However, other aspects of the reforms, chiefly the reinstatement of pension benefits' indexation to inflation, entail increased higher future expenditures. Moreover, while there is early evidence that recently introduced incentives are successfully increasing the share of workers postponing retirement beyond the standard age, their long-term impact on social security finances remains unclear since delaying retirement ultimately translates into higher pensions benefits. Overall, analysis by AIReF, conducted in the context of the pension review published in March 2025, estimates that the 2021-2023 reforms increased projected pension expenditures in 2050 by 2.7 percent of GDP, while increasing revenues by just 1 percent of GDP.

12. The safeguard clause introduced by the 2023 is a useful instrument to regularly monitor the pension system and foster an active public debate, but it should be amended to address its limitations. The clause establishes a tri-annual review to be conducted by AIReF. In case the average projected expenditures net of introduced revenue measures exceed 13.3 percent of GDP over 2022-20250, the review will instruct parliament to take corrective actions to either increase revenues or reduce outlays, with higher social security contributions as the default option. In March 2025, AIReF's first review concluded that projected expenditures net of revenue measures will average 13.2 percent of GDP over 2022-2050, thus not triggering the clause. The review also highlighted several limitations in the rule's specification, including its high sensitivity to underlying assumptions, the uncertainty in quantifying indirect revenue effects from reforms such as the 2021 labor market reform, and lack of clarity on which transfers from the central government to the social security administration should be taken into consideration. Moreover, AIReF noted that the review, with its narrow parametric focus, does not serve as a comprehensive assessment of the long-term impact of changes in net pension expenditures on the sustainability of public finances. For future reviews, some of the rule's limitations should thus be addressed to ensure the safeguard clause provides a forward-looking assessment of broad fiscal pressures originating from the pension system. Ideally, it should focus on the prospective evolution of the gap between expenditures and revenues of the pension system under a no-policy-change scenario. Absent such redesign, it should at least clearly define ex ante a narrow set of direct revenue measures that should enter the computation of net future spending. It could also be made more forward-looking, for instance by focusing on the next 25 years rather than the currently fixed 2022-2050 window.

13. The role of transfers from the central government to the social security administration should be given due visibility in order to preserve the nexus between the pension system and broader debt sustainability. The organic law of the social security administration lists central government transfers among its sources of revenues. Additionally, Royal Decree 100/2025 sets out that AIReF shall include in the computation of revenue measures for the safeguard rule all direct income sources defined in the General Law of the Social Security, including government transfers. While this classification may contribute to the sustainability of the pension system defined in a legal sense, it may not help the broader sustainability of public finances as a whole unless those transfers are explicitly financed by new sources of government revenues. AIReF's assessment notes that transfers already rose by 1.3 percent of GDP between 2020 and 2024, and absent additional measures to strengthen the pension system, they would be expected to grow further in order to fill the projected widening gap between pension expenditures and contributions. The new EU economic governance framework would be expected to address the resulting adverse impact on public finances, all the more so as it internalizes the long-term fiscal pressures from aging. However, failure to address fiscal pressures originating from pensions through the safeguard clause would imply offsetting, income-reducing increases in taxes or cuts in expenditures to keep meeting the EU fiscal rule. If transfers were nonetheless to remain in the pension rule's computation of revenues, one option to more tightly link the pension system to broader public debt sustainability within the scope of the EU framework would be to introduce a net spending growth target for the social security administration in the national fiscal rule—whose definition of net spending growth should, in turn, be aligned with the EU framework's.

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 above the high level of 90 percent of GDP in 2030. Debt dynamics are thus very sensitive to exogenous shocks, a rise in bond yields, or a worsening of the fiscal balance. These concerns are reflected in the high-risk signal from the fan chart exercise. The GFN exercise signals moderate risk, as the rise in gross financing needs from a shock to borrowing capacity would be high but lower than its 2020 level.
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 ageing. If not addressed, these pressures will decisively set debt on an upward path (see paragraph 15 of the main text).
Sustainability assessment 2/			Not required for surveillance countries.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Spain's overall risk of debt distress is assessed as moderate. The large share of debt held by domestic investors and by the European Central Bank, and the 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 above 90 percent, implying a high sensitivity of the debt trajectory to lower growth, tighter financial conditions, and a weakening of the fiscal poistion. 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

						Comments
1. Debt coverage in the DSA: 1/	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	
1 Budgetary central government					Yes	
2 Extra budgetary funds (EBFs)					No	Not applicable
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		

Subsector groupings: CG = rows 1–2; GG: expected = rows 1–5; NFPS = rows 1–6; CPS = rows 1–8.

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Chosen coverage (green): GG; Yes (1, 3, 4, 5); Currency & deposits; Loans; Debt securities; Non-cash basis 4/; Nominal value 5/; Consolidated. Missing from recommended coverage (red): No (2); Oth acct. payable 2/; IPSGSs 3/. Not applicable (grey): No (6, 7, 8).

Reporting on Intra-government Debt Holdings

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 Budget. central govt			9.536				399.29		408.826
2 Extra-budget. funds									0
3 Social security funds	126.17								126.17
4 State govt.	211.7								211.7
5 Local govt.	6.3								6.3
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	344.17	0	9.536	0	0	0	399.29	0	752.996

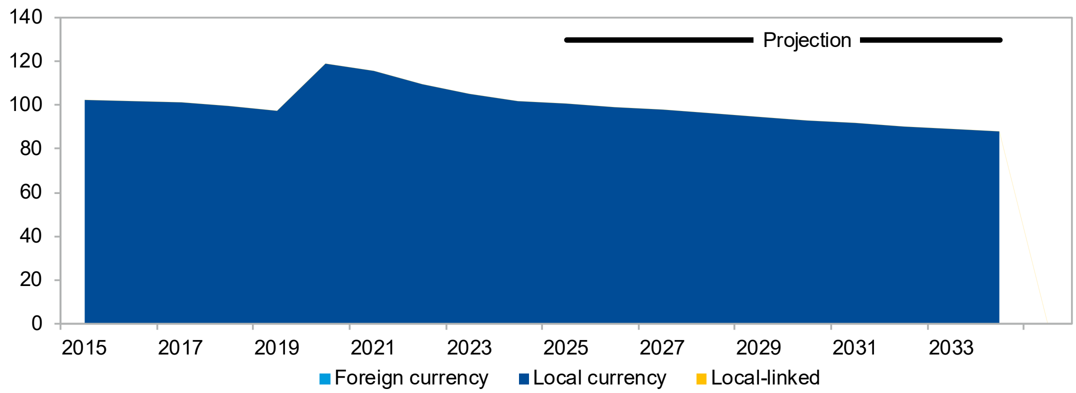
Issuer groupings: CG = rows 1–2; GG: expected = rows 1–5; NFPS = rows 1–6; CPS = rows 1–8.

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.

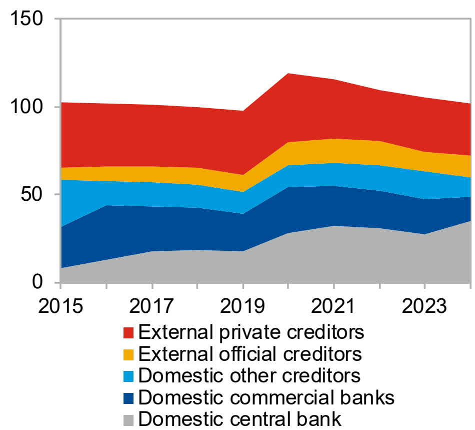
Annex III. Figure 3. Spain: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



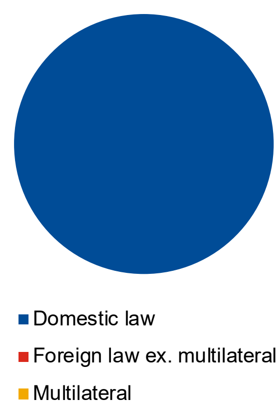
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



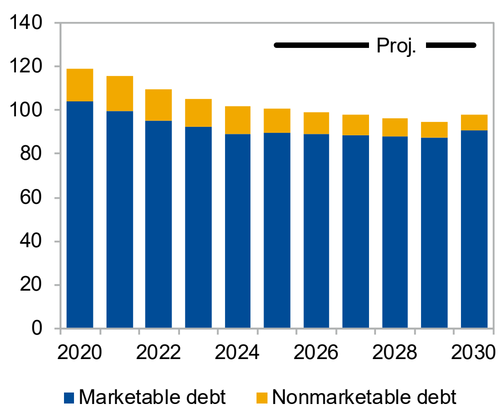
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



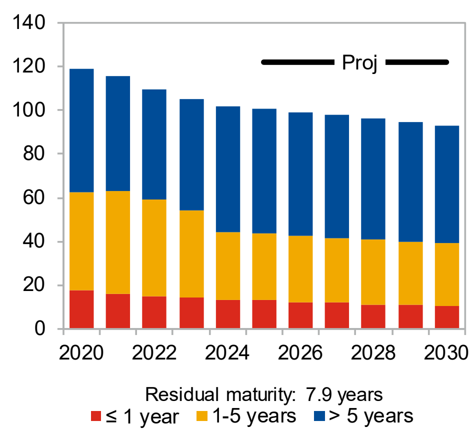
Note: The perimeter shown is general government.

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.

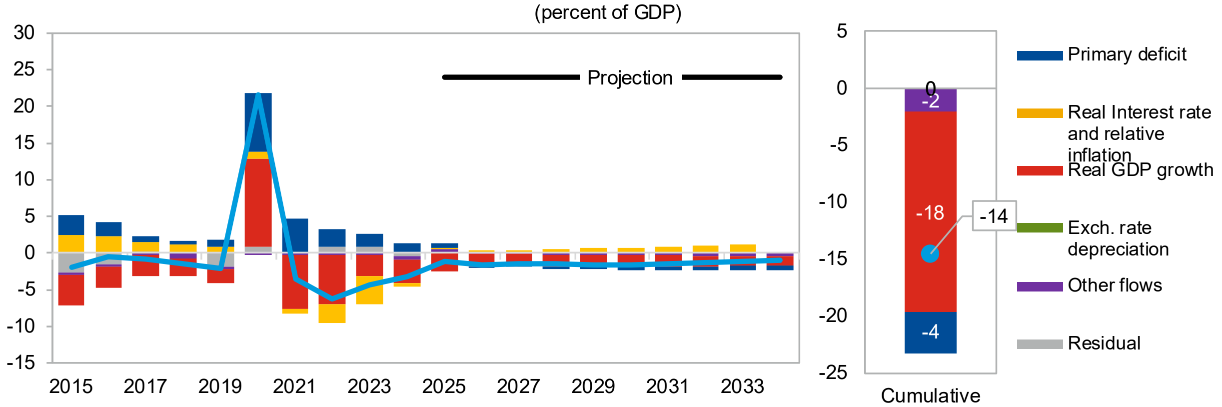
Annex III. Figure 4. Spain: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	101.8	100.7	99.1	97.7	96.2	94.6	93.0	91.6	90.3	89.2	88.2
Change in public debt	-3.2	-1.1	-1.6	-1.4	-1.5	-1.6	-1.6	-1.4	-1.3	-1.1	-1.0
Contribution of identified flows	-2.8	-1.1	-1.6	-1.4	-1.5	-1.6	-1.6	-1.4	-1.3	-1.1	n.a.
Primary deficit	1.3	0.6	-0.1	-0.1	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Noninterest revenues	41.6	42.0	42.7	41.8	42.0	42.2	42.3	42.3	42.3	42.3	42.3
Noninterest expenditures	43.0	42.6	42.6	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7
Automatic debt dynamics	-3.7	-2.3	-1.4	-1.2	-1.0	-0.9	-0.8	-0.6	-0.4	-0.3	n.a.
Real interest rate and relative inflation	-0.5	0.3	0.4	0.5	0.6	0.6	0.7	0.9	1.0	1.2	n.a.
Real interest rate	-0.5	0.3	0.4	0.5	0.6	0.6	0.7	0.9	1.0	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	-3.2	-2.5	-1.8	-1.7	-1.5	-1.5	-1.5 .	-1.5	-1.4	-1.4	-1.4
Real exchange rate	0.0	…	…	…	…	…	… .	…	…	…	…
Other identified flows	-0.4	0.5	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
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	-0.6	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other transactions	0.2	0.9	0.1	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Contribution of residual	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.
Gross financing needs	16.8	15.7	15.2	15.0	14.6	14.3	14.1	14.2	14.2	14.2	14.2
of which: debt service	16.1	15.4	15.5	15.3	15.2	15.0	14.8	14.9	14.9	14.9	14.9
Local currency	16.1	15.4	15.5	15.3	15.2	15.0	14.8	14.9	14.9	14.9	14.9
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)	3.1	2.5	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Inflation (GDP deflator; percent)	3.0	2.4	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.2	2.2
Nominal GDP growth (percent)	6.2	5.0	4.2	4.1	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Effective interest rate (percent)	2.5	2.7	2.8	2.8	2.9	3.0	3.0	3.2	3.4	3.6	3.7

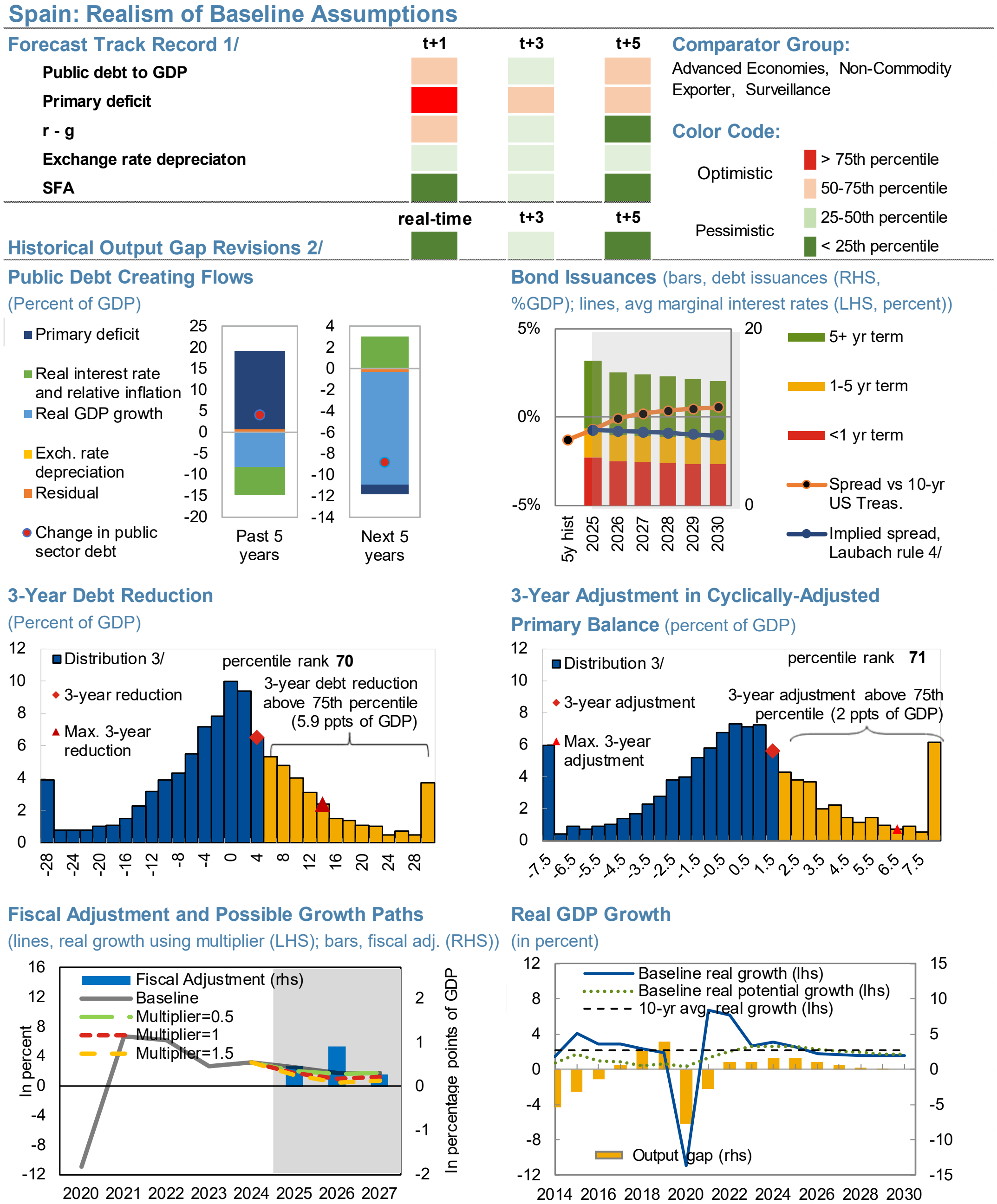
Contribution to Change in Public Debt

(percent of GDP)



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



Commentary: The realism analysis does not show systematic bias in past forecasts. In the last five years, a large primary deficit from the fiscal response to the pandemic and the energy crisis was the main driver of rising debt levels. Over the forecast horizon, a smaller but persistent deficit together higher interest expenditures are offset by positive real growth. The projected 3-year changes in debt and the cyclically-adjusted primary balance are not particularly high compared to historical experience.

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

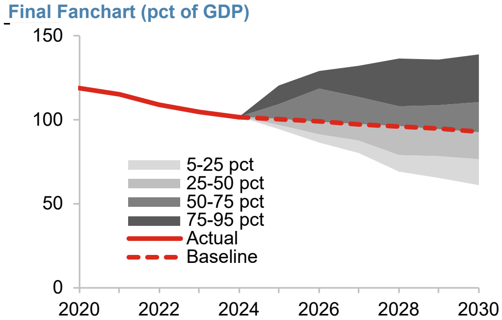
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

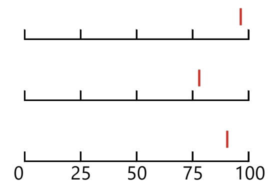
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

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

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	77.8	1.1	
Probability of debt non-stabilization *(percent)*	28.3	0.2	
Terminal debt-to-GDP x institutions index	37.6	0.8	
Debt fanchart index (DFI)		2.2	
Risk signal: 3/		High	

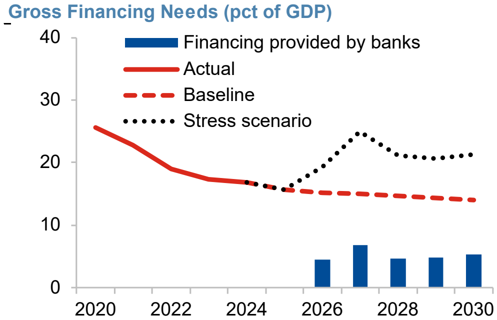
Final Fanchart (pct of GDP)

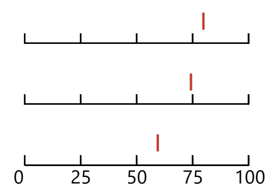




	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	14.8	5.1	
Initial Banks' claims on the gen. govt *(pct bank assets)*	9.7	3.1	
Chg. In banks' claims in stress *(pct banks' assets)*	4.8	1.6	
GFN financeability index (GFI)		9.8	
Risk signal: 4/		Moderate	

Gross Financing Needs (pct of GDP)

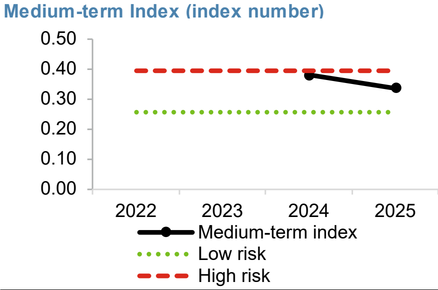




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (index number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	2.2	0.5	0.5	0.2
GFN financeability index	9.8	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 21.6 pct.

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 IV. Data Issues

Table 1. Spain: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

A

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		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
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.
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 *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
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.

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.

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.

Changes since the last Article IV consultation. N/A

Corrective actions and capacity development priorities. N/A

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. N/A

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.

Table 2. Spain: Data Standards Initiatives

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/).

Table 3. Spain: Table of Common Indicators Required for Surveillance

As of May 2, 2025

	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[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Spain[8]	Expected Timeliness[6,7]	Spain[8]
Exchange Rates	1-May-25	2-May-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar-25	Apr-25	M	M	M	M	1W	2W
Reserve/Base Money	Mar-25	Apr-25	M	M	M	M	2W	2W
Broad Money	Mar-25	Apr-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Mar-25	Apr-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Mar-25	Apr-25	M	M	M	M	1M	1M
Interest Rates[2]	Apr-25	May-25	M	M	D	...	...	...
Consumer Price Index	Mar-25	Apr-25	M	M	M	M	1M	NLT 2W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-24	Apr-25	Q	Q	A/Q	Q	2Q/12M	1Q
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Feb-25	Apr-25	M	M	M	M	1M	90D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Feb-25	Apr-25	M	M	Q	M	1Q	1M
External Current Account Balance	Dec-24	Mar-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Feb-25	Apr-25	M	M	M	M	8W	8W
GDP/GNP	Mar-25	Apr-25	Q	Q	Q	Q	1Q	60D
Gross External Debt	Dec-24	Mar-25	Q	Q	Q	Q	1Q	3M
International Investment Position	Dec-24	Mar-25	Q	Q	Q	Q	1Q	3M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

[6] 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.

[7] 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.

[8] 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 2024 AIV Policy Recommendations

Key Recommendations	Implementation Status
Increase fiscal consolidation efforts from 2024 onwards to set debt on a firm downward path.	The authorities maintained their commitment to the stated deficit target of 3 percent of GDP in 2024. Excluding the one-off fiscal impact of the DANA, the deficit was 2.8 percent of GDP. This was achieved through the gradual expiration of the anti-inflation measures throughout the year, the extension of the temporary levies on banks and energy companies, higher PIT revenues and social security contributions, as well as the repeated upward surprises to GDP growth—which allowed the 3 percent deficit to be achieved despite substantially higher-than-planned public spending growth. For the years ahead, the National Medium-Term Fiscal-Structural Plan envisions a cumulative increase in the structural primary balance of 3 percentage points of GDP over 2025-2031. This consolidation is of the same size as that recommended by staff over 2025-2029, but taking place on a longer time horizon.
Formulate credible medium-term fiscal consolidation plans (contingent on the state of the economy) to help build the necessary social consensus and anchor expectations.	As part of the new EU economic governance framework, the MTFSP includes aggregate fiscal targets until 2031. In its current form, the MTFSP does not constitute a fully-fledged medium-term fiscal framework, however. In particular, it does not provide detailed and quantified fiscal measures underpinning the fiscal path. Moreover, it does not break down the planned consolidation for different levels of government.
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 temporary levies on banks and energy companies expire or, if extended, redesign them to limit the potential distortions caused by their windfall nature.	The authorities have phased out the temporarily reduced VAT rates on energy and essential foods, which were introduced as part of the 2022 anti-inflationary package. However, they do not plan to undertake broader reforms of the VAT. A planned equalization of excise taxes for diesel and gasoline was tabled to Congress but did not secure parliamentary approval. The temporary levy on energy companies was not extended for 2025. The levy on banks was turned into a tax and extended until 2028 with a revamped design that addresses some, but not all, of staff's concerns regarding its structure.
Reform the Autonomous Communities financing system.	In February 2025, the authorities published a proposal for a partial write-off of Autonomous Communities' debt to the FLA, which was approved by the Communities' Council of Fiscal and Financial Policy but requires several steps of political approval before being implemented. However, the authorities have not published proposals to reform key aspects of the fiscal architecture, namely, the system of yearly financing of autonomous communities, the functioning of the FLA, and the national fiscal rule.

Key Recommendations	Implementation Status
Implement additional employment-friendly measures to offset the increase in future pension spending resulting from the 2021 pension reform.	The authorities have passed reforms to loosen the requirements to use combine working with pension benefits through the early "partial" retirement and the delayed "active" retirement schemes. Additionally, in light of the outcome of AIReF's review, the authorities are not required to implement additional measures to either increase revenues or decrease pension outlays, as the review did not trigger a corrective measure.
Continue monitoring closely the real estate market and the banking system on the evolution of financial systemic risks.	Bank of Spain 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.
Introduce as soon as feasible a positive neutral CCyB to further support banking system resilience and preserve credit extension in the event of adverse shocks.	On October 1, 2024, Bank of Spain approved a 1 percent countercyclical capital buffer (CCyB) to be introduced in two steps. The rate will first be set at 0.5 percent, effective from October 1, 2025. If cyclical systemic risk remains at a standard level, the buffer is then scheduled to increase to 1.0 percent in the fourth quarter of 2025, becoming effective on October 1, 2026.
Continue monitoring the implementation of the new insolvency law, ensure strong procedural safeguards for all parties of the insolvency processes, and build institutional capacity including through adequate court resources.	Bank of Spain is monitoring the evolution of insolvencies across different economic agents and its impact on financial stability. During the mission, the Ministry of Justice highlighted that courts' capacity and resources are sufficient for implementing the insolvency law, given ongoing plans to improve efficiency.
Provide additional incentives for employers to create regular permanent contracts, including by reducing uncertainty around dismissal costs, and discourage excessive shifts between activity and inactivity under fixed discontinuous contracts.	No reforms in this area have been introduced since 2021. The authorities are instead considering the possibility of adapting the compensation for unfair dismissals to individual circumstances up to labor court judges' discretion, which could introduce significant uncertainty in dismissal costs.
Enhance statistical information to adequately monitor fixed discontinuous contracts.	No changes to the statistical reporting on fixed discontinuous contracts have been introduced.

Key Recommendations	Implementation Status
Curbe 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 de-facto permanent positions into actual permanent contracts, was supposed to be completed by end-2024. However, 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 equirements, better integrating active and passive policies, increasing effectiveness of regional Public Employment Service agencies by tightening the link between central government transfers and their job placement performance, expanding the ALMP budget and increasing the share of resources spent on job placement.	The Public Employment Service (PES) has recently strengthened the link between regional offices' funding and job placement performance. No other reforms have been introduced in terms of strengthening activation requirements (and their enforcement) or better integrating 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 compatible with work and complement it with a well-designed in-work tax credit.	The UA 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 has yet to go through the required parliamentary process, which may introduce significant changes or block it altogether. However, the agreement struck between the authorities and workers' unions in December 2024 does not appear to give collective bargaining a strong role in the working time reduction to accommodate heterogeneity at the sector level and ensure wage moderation.
Carefully calibrate future minimum wage increases to avoid unintended effects, and grant more autonomy and institutional weight to the Minimum Wage Commission.	The minimum wage was increased by 4.4 percent in February 2025. As a result, the cumulative increase in 2018-25 surpassed 60 percent, raising concerns regarding potential adverse structural impacts on disadvantaged groups in the labor market, including youth—all the more so if a further rise resulted from the implementation of the working week reduction without loss of pay. The institutional arrangements of the Minimum Wage Commission have not been modified.
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.	All milestones and targets associated with the grant component of NGEU funds must be completed by August 2026. While accelerating execution will be needed to meet the deadline, ensuring an effective use of the funds should still be a priority. The release of the ELISA tool improved significantly data reporting on NGEU execution, but gaps remain—particularly in terms of establishing a link between awarded calls and investment in national accounts.

Key Recommendations	Implementation Status
Continue to address housing affordability by boosting supply (including via the planned streamlining of urban planning), and assess the impact of the rental caps currently in place to inform the future course of policy.	Despite being a step in the right direction, the amendments to the Land Law have not received enough parliamentary support. The authorities continued implementing the housing measures featured in the recovery plan, including those aimed at boosting affordable housing supply. In January 2025, the government announced a package of measures to address housing affordability, including creating a state-owned housing company that will have priority access to acquire homes and land for public housing development; incentivizing the conversion of vacant homes into affordable rental properties; introducing a 100-percent personal income tax exemption to landlords who rent their properties below a rental cap to be set by the government; implementing VAT and stricter regulations on tourist rentals in selected areas; doubling the tax rate on non-resident property purchases; combating fraud in seasonal rentals through stricter regulation and enforcement. However, implementation of some of these measures remains uncertain as they require parliamentary approval. Regarding rental caps, they have been extended to more municipalities in Catalonia, Navarre, and the Basque Country, and other regions are either considering this policy or have already submitted their applications (e.g., Madrid, Canary Islands, Asturias, Galicia).
Revive the structural reform agenda to boost productivity growth, and give a prominent role to the upcoming National Productivity Council.	Efforts to converge towards a Single Market are being made including through “Regime 20”, which aims to achieve some unification of business regulations across autonomous communities. The National Productivity Council has been formed and is in the process of preparing its first report, which is scheduled for presentation to Parliament once complete (expected in end-2025).

Annex VI. Implementation of 2024 FSAP Recommendations

	Recommendation	Addressee	Horizon	Status
	Systemic risk analysis and monitoring			
1	Enhance data collection and monitoring of foreign investments in the real estate market.	BdE, CNMV, DGSFP	NT	For now, addressing this recommendation is hampered by lack of access to data on investments made by investors domiciled out of Spain. Nonetheless, greater use is being made of the information from the ECB's Securities Holdings Statistics (information by financial sector and country of holdings of financial assets) and ANACREDIT (on credit to foreign investors with real estate collateral located in Spain). The use of the latter is not yet fully operational.
2	Create the infrastructure for a more granular cash-flow analysis (as designed by the FSAP) and report regular stress testing results.	BdE	NT	The Bank of Spain has established data infrastructure to support more granular cash-flow analysis and improve the monitoring of outflow rates. Significant progress has been made, and similar analyses to those conducted during the FSAP are being carried out. A summary of this work is to be included in a box in the Spring 2025 Financial Stability Report.
	Financial sector oversight			
3	Ensure alignment of resources of supervisory authorities to current and expected future workload.	Government, BdE, CNMV, DGSFP	I	With regard to banking supervision, in 2024, Bank of Spain expanded its IT risk staff for the Directorate General Banking Supervision, with additional hires planned for 2025 to support new workload arising from the implementation of the Digital Operational Resilience Act (DORA). An assessment will also be concluded to determine additional staffing needs related to tasks arising from the DORA Regulation. CNMV expects 80 new hires by 2025Q1, mainly for cybersecurity, operational resilience, and crypto assets, while continually assessing staffing needs. In June 2024, the DGSFP created the Technology and Digital Innovation Supervision Division to oversee technological risks in the insurance and pension fund sectors.
4	Grant full autonomy to CNMV over its recruitment and retention processes and streamline related procedures.	Government, CNMV	I	Beyond the planned hiring of 80 new specialists for 2025, no concrete action is currently planned by the authorities.

	Recommendation	Addressee	Horizon	Status
	Macroprudential policy			
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	I	On October 1, 2024, Bank of Spain approved a framework for setting the countercyclical capital buffer (CCyB) and set the rate at 0.5 percent, effective from October 1, 2025. If cyclical systemic risk remains at a standard level, the buffer is expected to increase to 1.0 percent in the fourth quarter of 2025, becoming effective on 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	I	No action.
7	Review the case for appointing two or three external members to AMCESFI to strengthen the diversity of perspectives and expertise.	MINECO, AMCESFI	I	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	NT	BdE is working closely with AMCESFI to address remaining data gaps, such as regarding cross-holdings between financial institutions and NBFIs. Coordination efforts are underway to initiate systemic sector-wide stress testing, in collaboration with both AMCESFI and the CNMV, with a focus on obtaining the necessary data to support these analyses. This work is also linked to efforts to enhance housing-related data. Cooperation with other relevant data providers is ongoing and progressing smoothly.
	Supervision and regulation of banking LSIs			
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	NT	An amendment to remove the Ministry of Economy's appeal powers againts Bank of Spain 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.

	Recommendation	Addressee	Horizon	Status
	Supervision and regulation of banking LSIs (Continued)			
10	Streamline the offsite monitoring system and apply proportionality in conducting SREPs while performing more frequent and targeted onsite inspections and thematic activities.	BdE	I	Progress has been made toward streamlining the offsite monitoring system and applying proportionality in the SREP process. Starting from 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 between 2025 and 2027 the three key risk areas according to the different types of business models of the Spanish LSIs (2025: 1st set of risks, 2026: 2nd set of risks, 2027: remaining risks and elements of the SREP). 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	I	BdE has enhanced its onsite inspections with targeted inspections on governance, climate, interest rate and liquidity risks in 2024. Also, these targeted inspections have been included in the 2025 supervisory plan. To support these activities, five new staff were hired in 2024 (including two in IT), and additional resources are under consideration for 2025.
	Regulation, Supervision and Oversight of FMIs			
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	MT	Work is underway at BME Clearing to design models for assessing the creditworthiness of its clearing members and counterparties in investments, including a Historical Value at Risk (HVaR) model and an internal model. Additionally, the authorities are considering further efforts to enhance international supervisory coordination arrangements in line with the recommendation.
13	Ensure timely implementation of CNMV's recommendations.	CNMV	NT	No action.

	Recommendation	Addressee	Horizon	Status
	Cyber Security Risk Supervision and Oversight			
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	NT	BdE recognizes the need to strengthen IT and onsite supervisory capacity, including in preparation for DORA implementation. One expert will be hired, and efforts are underway to expand the team. Coordination with the CNMV is ongoing, with a shared understanding of the need for additional resources, though these are still pending. Regarding thematic reviews with onsite visits for a sample of LSIs, the Directorate General Banking Supervision has already begun conducting these reviews including a sample of six LSIs in the periodic horizontal analysis carried out for Spanish SIs. Onsite visits at 10 SIs and 6 LSIs for the last analysis were carried out between October and December of 2024.
15	Involve the BdE and CNMV in critical infrastructure related matters, such as designation and compliance assessments.	Government	NT	No action.
	Fintech			
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	NT	A legislative proposal has been submitted under a broader legal package to make changes to the sandbox operation, streamline processes, and provide greater flexibility to supervisory authorities. The BdE is awaiting the outcome of the parliamentary debate.
	Financial integrity			
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	NT	No action.
	Crisis management and financial safety nets			
18	Integrate preventative resolution authority functions (i.e., BdE resolution planning department) and FROB's executive resolution functions for banks.	MINECO	I	No action.

	Recommendation	Addressee	Horizon	Status
	Crisis management and financial safety nets			
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	NT	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).
20	Establish and operationalize an approach to address liquidity needs in resolution.	BdE	I	For LSIs, 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, BdE is looking forward to the implementation of a common Eurosystem-wide approach. Discussions, to which 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.

Horizon: I = Immediate (within one year); NT = Near Term (within 1-3 years); MT = Medium Term (within 3-5 years)
Note: Shaded areas denote key, most macro-critical recommendations that should be prioritized.
AMCESFI = Autoridad Macroprudencial Consejo de Estabilidad Financiera (Spain's Macroprudential Authority Financial Stability Council), AML = Anti-money laundering, BdE = Bank of Spain, CNMV = The National Securities Market Commission, DGSFP = Directorate-General for Insurance and Pension Funds 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).

Annex VII. Spain's Public Spending Efficiency Review: Current Institutional Framework and Future Options

1. Starting with the the 2016 Stability Program Update, the Spanish authorities have been taking formal steps towards improving public expenditure efficiency through a structured spending review process. In 2017, the Cabinet of the Prime Minister commissioned AIReF to conduct a first set of reviews over 2018-2021, later followed by a second set over 2023-2026. AIReF's review function was also formally included in its mandate by a Royal Decree Law in 2021. A further commitment was made in 2020 through Component 29 of the National Recovery, Transformation, and Resilience Plan, which established a permanent Spending Review Monitoring Unit (SRMU) within the Ministry of Finance.

2. In 2022, AIReF's team completed its first set of reviews, conducted with the input of external experts. The areas of analysis included, among others, prescription drug procurement, hospital spending on equipment and medicines, ALMPs, and transport infrastructure. As stated by AIReF, the aim of the exercise, which generated 357 recommendations, was to improve spending quality rather than achieve savings. The ongoing 2023-2026 review will address state-owned financial vehicles, healthcare provision for public sector employees, and social safety net programs.

3. The SRMU within the Ministry of Finance assigns AIReF's recommendations to the appropriate government entities and tracks their implementation. The execution of the recommendations is aligned with the yearly budget cycle, as line ministries report on their progress during the budget proposal meetings through a "comply or explain" process. While there is no legal obligation to follow all recommendations, entities must provide detailed and verifiable information on actions taken to comply or a detailed explanation motivating the rejection of each recommendation. Every March, the SRMU publishes a report compiling all the explanations by the respective entities and tracking overall progress. As of March 2024, of AIReF's 357 recommendations, 203 have been fully implemented, 79 rejected, and 75 are still "in process."

4. The spending review process in Spain has a strong institutional framework. The review is conducted by a competent and independent entity—AIReF—and is enshrined in its legal mandate. The Cabinet's guidance on topics and the Ministry of Finance's monitoring lend political traction to the process. The SRMU's permanent staffing and regular reporting provide stability and continuity, while synchronization with the budget cycle aligns the process with broader fiscal policy conduct. Publication of both AIReF's recommendations and the government's report on implementation ensure transparency to citizens. Finally, line ministries have been highly collaborative with AIReF by providing data and information, and a very high share of recommendations has been followed.

5. Several aspects of the process, however, could be strengthened to deliver larger public spending efficiency gains:

- Including a quantitative assessment of the medium-term savings (for given outcomes) from implementing the recommendations is essential for the process to play a significant fiscal policy role, particularly in the context of Spain's committed adjustment under the MTFSP. The assessment could be done by AIReF itself—in which case this may need to become an explicit mandate of the review—or by the line ministries once the recommendations have been received.

- Although the review process is synchronized with the budget cycle, it is not clear whether and how the recommendations inform the setting of spending limits at the line ministry level. Implementing efficiency measures in some areas of a line ministry's mandate while leaving its spending limit unchanged might allow for inefficient spending to be shifted to other areas. Instead, upon quantification of the savings from the measures, a mechanism could be put in place to allow line ministries to retain some of the savings so as to incentivize to implement the measures that deliver the largest efficiency gains.

- While the reviews so far have covered targeted and precisely defined expenditure items, it would also be important to conduct more comprehensive overviews of some functional areas of spending (e.g., education, health, social protection), benchmarking Spain *vis à vis* peer countries. This approach would help prioritize and direct future spending reviews towards those areas where the potential fiscal savings from efficiency gains may *a priori* be largest.

- As many areas of spending are under the purview of the autonomous communities and local governments, compliance with some recommendations risks being segmented and partial. A coordination mechanism could ensure that all levels of government actively participate in the review and have equal incentives to consider and implement the recommendations. For instance, drawing on recent experience with the rise in performance-related central government transfers in the area of ALMPs, transfers to autonomous communities in specific areas could be linked to progress on the implementation of recommendations from the review in the area considered.

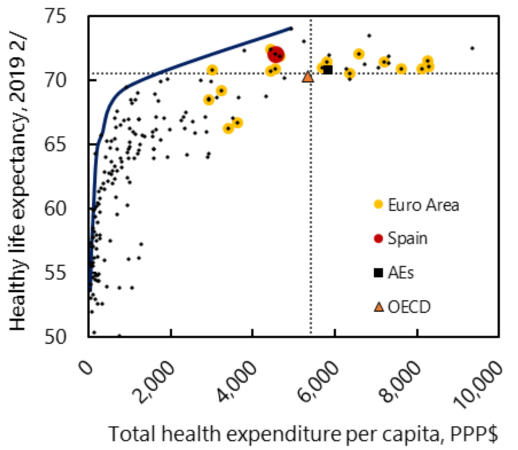
- Strategic and decision-making roles could be more clearly assigned. The SRMU serves an oversight role but does not have the function of prioritizing measures, setting savings targets, or the authority to compel line ministries to comply with the measures. Some of these roles may be fulfilled by Cabinet, which currently selects the topics for the multi-year review. However, these key functions could be more clearly spelled out (e.g., identified priority areas and savings targets could be included in the Annual Order of Elaboration of the Budget Law) and potentially assigned to a dedicated strategy unit—such as a SRMU with strengthened responsibilities and powers.

- AIReF's role could be further strengthened by following the recommendations made by the European Commission as part of its recent external evaluation. In particular, AIReF could publish a framework to provide transparency on how it priorizies the government's suggestions on topics to review.

6. Building on the solid institutional structure and human capital already present in the SRMU and at AIReF, the spending review process could therefore be strengthened through more strategic guidance and link with medium-term fiscal planning. For instance, the SRMU could acquire a more investigative role by conducting its own comprehensive reviews, collaborating with line ministries and guided by the government's spending priority areas. These reviews would identify the general scope for savings or output improvements in each spending area, resulting in a prioritization of the requests for more detailed supportive reviews by AIReF on individual areas. Providing quantified estimates of the budgetary impact of AIReF's individual recommendations would more tightly link the spending reviews to a fully-fledged medium-term fiscal framework. The implementation of the recommendations would then inform each area's projected multi-year expenditure path and the annual budget envelopes for individual ministries. As such, the reviews could play a significant role in creating fiscal space to meet the government's spending priorities while ensuring fiscal sustainability and reducing policy uncertainty.

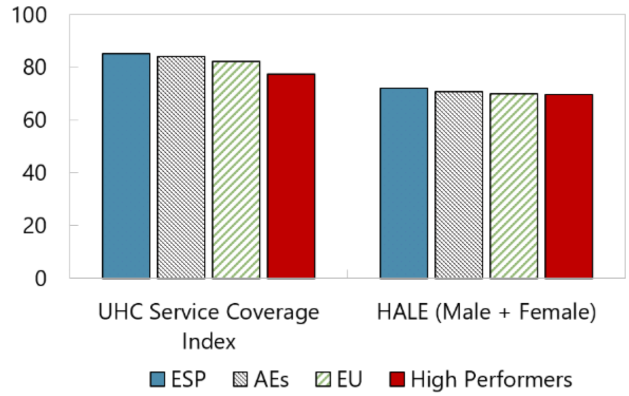
7. Given the rising ageing-related fiscal pressures, healthcare provision is one area where a comprehensive review would be beneficial. A data envelopment analysis shows that Spain scores better than most Euro Area countries and Advanced Economies in terms of healthy life expectancy given its total (public and private) health expenditure per capita. Moreover, Spain achieves a higher score than the EU average in the World Health Organization's universal health coverage score. Nevertheless, fiscal pressures over the next decades, driven by pronounced ageing trends, are some of the largest among peer countries, calling for further efficiency gains in health services and long-term care provision. AIReF's 2018-2022 review covered several selected items in the health sector: subsidies for prescription drugs and the procurement of medicines and medical equipment in hospitals. Together, these areas accounted for approximately €18 billion in 2017-2018. Key recommendations made by AIReF included centralizing the drug procurement processes to reduce heterogeneity in costs across regions and hospitals, revising the co-payment structure to ensure equity across households, and enhanced investment plans and management systems to ensure efficient use and maintenance of medical equipment. It could be helpful to widen the scope of AIReF's health spending reviews to identify broader efficiency gains in the future.

Health Efficiency Frontier, Latest Value Available 1/



Source: IMF FAD Expenditure Assessment Tool (EAT), World Bank, World Health Organization.
1/ Dashes are the average of Eurozone.
2/ Healthy life expectancy (HALE) is a measure of health expectancy that applies disability weights to health states to compute the equivalent number of years of life expected to be lived in full health.

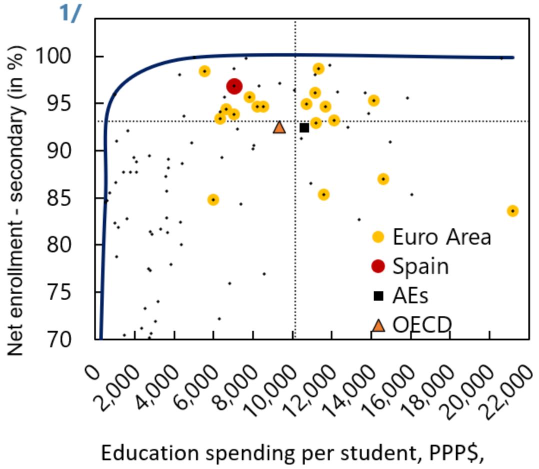
Universal Coverage Index and Health Adjusted Life Expectancy /1



Sources: WHO, GHO, and IMF staff calculations.
/1 UHC SDG 3.8.1 coverage of essential health services is defined as the average coverage of essential services among the general and the most disadvantaged population.

8. **Public education is another candidate area for comprehensive review, given the need to raise productivity and foster human capital apt for the changing nature of work.** A data envelopment analysis shows that, while Spain achieves a high enrollment rate in secondary schooling with relatively low spending per capita, its distance from the efficiency frontier with respect to standardized test scores is larger than that of many peer Euro Area and OECD countries. So far, AIReF's review has only covered selected items in university education, such as the provision of undergraduate, doctoral, and post-doctoral scholarships. However, other institutions, such as the OECD, have conducted comprehensive assessments of Spain's public education system and provided extensive recommendations on primary, secondary, and post-secondary education (OECD, 2023). Several of these recommendations require minimal to no additional budget and would therefore count as efficiency improvements. These include, among others, better focusing support programs on disadvantaged schools and students to more effectively tackle drop-out rates, reducing socio-economic segregation in schools, and increasing teachers' contractual stability and establishing a nationwide teacher appraisal system. On tertiary education, there appears to scope for quality-improving increases in university governance, accountability, autonomy and realignment of curricula and funding to better match labor market needs (2025 Selected Issues).

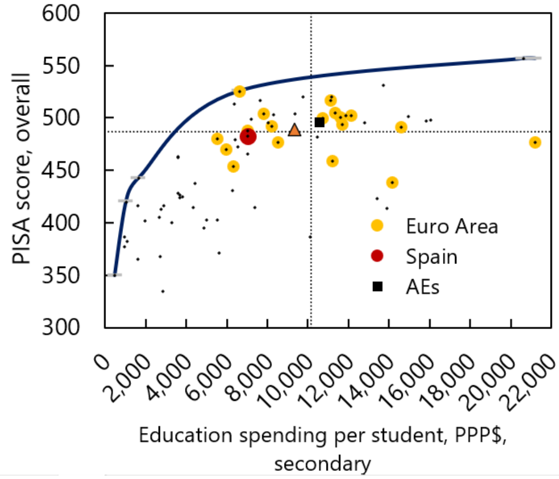
Government Education Spending and Outcome, Secondary, Latest Value Available 1/



Source: IMF FAD Expenditure Assessment Tool (EAT), World Bank.

1/ Dashlines are the average of Eur oArea.

Government Education Spending and Outcome, Secondary, Latest Value Available 1/



Source: IMF FAD Expenditure Assessment Tool (EAT), World Bank.

1/ Dashlines are the average of Euro Area.

Annex VIII. Transnational Aspects of Corruption

Supply-Side of Corruption[1]

1. **Spain has recently made progress in addressing foreign bribery.** With some multinational enterprises operating in high-risk sectors and regions and a moderate-sized outward foreign direct investment position including to international financial centers, the risk of Spanish businesses engaging in foreign bribery is assessed to be moderate.[2] The recent OECD Phase 4 Follow-up Report (March 2025) found that Spain has taken steps to enhance law enforcement by diversifying sources for detecting foreign bribery, raise awareness of foreign bribery among public officials, emphasize the role played by accountants and auditors in detecting foreign bribery, and promote international cooperation by timely following up on outgoing requests and establishing an electronic system for receiving incoming requests. Recent legislative actions include the Law 2/2023 on the protection of whistleblowers (entered into force in March 2023) and the Statute of the Independent Authority for the Protection of Whistleblowers (enacted in October 2024). Discussions also started on a new Criminal Procedure Code.

2. **Additional efforts are needed to further enhance enforcement against foreign bribery**. Two cases—including the first conviction against a legal person for foreign bribery—have been concluded since the publication of the 2022 Phase 4 report. However, the OECD also concluded that Spain's low level of foreign bribery enforcement persists, with several investigations being terminated and some allegations not triggering investigations. The authorities face challenges in ensuring that prosecutors allocate sufficient resources to foreign bribery cases in practice. The evidentiary threshold for opening a judicial investigation for a foreign bribery offense should allow for effective investigation and prosecution. The limitation period applicable to legal persons has not been increased. Spain should also strengthen the media monitoring for foreign bribery allegations, clarify ambiguities in the corporate liability provisions, and improve awareness-raising and engagement with both companies and business organizations. The authorities are encouraged to address these issues and implement other OECD WGB Phase 4 recommendations.

Facilitation

3. **Efforts should be sustained to minimize the risks associated with being a destination for foreign proceeds of corruption, which are mitigated by having in place a mature framework for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).** Spain updated its ML/FT national risk assessment (NRA) in 2024, identifying corruption among the financial crimes that pose the main threats to economic and financial stability, and categorizing

---

[1] Information relating to supply-side corruption in this annex draws on the OECD Working Group on Bribery (WGB)'s Phase 4 Follow-up Report on Spain (March 2025). The IMF staff and Spain have provided additional views and information whose accuracy have not been verified by the WGB or the OECD Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

[2] Out of the 500 largest multinational enterprises (MNEs) in the world, four are headquartered in Spain (OECD- UNSD Multinational Enterprise Information Platform).

Spain as a destination country for foreign proceeds of corruption. The Spanish 'golden visa' program raised concerns over the use of the real estate market to launder proceeds of foreign corruption, but it was terminated in April 2025. Spain's approach to beneficial ownership transparency is well regarded internationally, but there is scope to strengthen the centralized beneficial ownership registry (CBOR), including by ensuring that its input data from pre-existing registries remain accurate and up-to date in accordance with international standards. The risk-based approach to the AML/CFT supervisory framework helps mitigate risks of concealment of corruption proceeds, yet strict scrutiny over banks' accounts with foreign politically exposed persons and professional enablers (e.g., lawyers, accountants) should continue to be implemented. While efforts are being made to detect and seize foreign proceeds of crimes, more could be done to confiscate and recover them.

INTERNATIONAL MONETARY FUND

SPAIN

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 16, 2025

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of April 30, 2025)

Mission: March 31-April 10, 2025. The Concluding Statement of the mission, published on April 10, 2025, is available at https://www.imf.org/en/News/Articles/2025/04/10/mcs-041025-spain-staff-concluding-statement-of-the-2025-article-iv-mission

Staff team: Romain Duval (Head), Nina Biljanovska, Ana Lariau, Carlo Pizzinelli, Ippei Shibata and Younghun Shim (all EUR). Xiana Mendez (Executive Director), Diego Moleres and Irune Solera Lopez (Advisors to the Executive Director) attended the meetings. Damien Capelle and German Villegas Bauer (both RES), Miguel De Asis and Yueshu Zhao (both EUR) supported the mission from headquarters.

Country Interlocutors: The mission met with Minister of Economy Carlos Cuerpo, 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.

Fund relations: Spain is on a standard 12-month cycle. The previous Article IV consultation discussions took place during April 2024. The staff report was discussed by the Executive Board on June 5, 2024. The Executive Board's assessment and staff report are available at https://www.imf.org/en/Publications/CR/Issues/2024/06/06/Spain-2024-Article-IV-Consultation-Press-Release-and-Staff-Report-549921.

Membership Status: Joined September 15, 1958.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	9,535.50	100.00
Fund holdings of currency	7,186.02	75.36
Reserve position in Fund	2,350.16	24.65
Lending to the Fund		

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	11,966.91	100.00
Holdings	12,456.32	104.09

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				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.09	0.09	0.09	0.09	0.09
Total	**0.09**	**0.09**	**0.09**	**0.09**	**0.09**

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 19 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).