Spain: Staff Concluding Statement of the 2026 Article IV Mission

March 20, 2026

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under Article IV (https://www.imf.org/external/pubs/ft/aa/index.htm) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

- The Spanish economy has continued to perform strongly, expanding significantly faster than euro area peers. Notwithstanding the adverse effect and heightened uncertainty from the conflict in the Middle East, growth is expected to stay solid this year, before slowing gradually as immigration inflows moderate and demographic aging intensifies. Risks are on the downside, including from a lengthy Middle East conflict, an escalation of other geopolitical tensions and trade measures, and domestic political fragmentation.

- Given the favorable cyclical position and still strong and resilient growth under staff's baseline projection, the authorities should speed up the pace of discretionary consolidation to rebuild fiscal space more rapidly ahead of the looming sharp rise in aging-related spending pressures. Should any fiscal measures be taken to mitigate the adverse impacts of the energy price shock on households and firms, they should not distort energy prices, be well targeted, and remain temporary.
- To ensure that autonomous communities contribute to this effort, the contemplated reduction of their debt and increase in transfers from the central government should come hand in hand with credible consolidation plans and a reform of the subnational fiscal rule centered around strictly enforced expenditure growth limits, in line with the EU fiscal framework. It will also require offsetting tax increases and/or spending cuts from the central government.
- Deteriorating housing affordability calls for more forceful action to boost housing supply, building on ongoing government initiatives. Priorities include accelerating urban development plans, releasing more land for construction, and streamlining permitting procedures.
- To pre-empt the buildup of housing-related financial vulnerabilities amid fast-rising house prices and early signs of easing bank lending standards, mortgage-related borrower-based measures (BBMs) should be introduced in the coming year, at least in the form of supervisory guidance.
- To increase living standards at a faster pace, a renewed reform strategy would benefit from focusing on further raising the employment rate and solidifying the pickup in productivity growth. Stronger financial rewards for regional public employment services that improve job placement and for social benefit recipients who take up jobs would speed up return to employment. Intensifying product and capital market reforms at the Spanish and EU levels, together with simplifying cumbersome R&D tax incentives, could reduce Spain's sizeable innovation gap vis-à-vis its peers.

Washington, DC:

Recent Economic Developments and Outlook

Spain's economy has maintained solid growth as strong domestic demand offset subdued exports. Growth declined from 3.5 percent in 2024 to 2.8 percent during 2025, still significantly outpacing the rest of the euro area. Private consumption accelerated due to solid employment underpinned by continued net migration inflows, steady real wage gains, and some decline in the still high household saving rate. Investment also picked up, supported by more favorable financial conditions and Next Generation EU (NGEU) funds. A slowdown in tourism growth was largely offset by stronger growth in non-tourism service exports—such as business and ICT services—while goods exports remained subdued, and those to the United States fell following US tariff hikes. Headline inflation has hovered between 2.5 and 3.0 percent since mid-2025 as wage growth and core inflation remained sticky.

Notwithstanding a hit from the conflict in the Middle East, growth is projected to remain robust in the near term before slowing gradually. The conflict is projected to adversely affect the Spanish economy primarily through higher oil prices, while the impact of higher gas prices should be muted by several factors, including Spain's large share of renewables in the electricity mix. Staff's baseline assumes oil and gas prices that are broadly consistent with future prices by mid-March 2026. Under these assumptions, GDP growth would be about 2.1 percent in 2026 and 1.8 percent in 2027, while year-on-year headline inflation would reach about 3.0 percent by end-2026 before falling to 2.2 percent by end-2027. Domestic demand is expected to remain the main source of growth, partly offsetting the moderation of the supply-side (labor force gains) and demand-side (tourism) drivers of recent years. Private consumption should remain supported by continued wage gains amid a still dynamic labor market, and a continued decline in the saving rate that will enable households

to smooth the impact of the energy shock. Investment will benefit from the final year of NGEU funding and a continued pickup in housing construction. Looking beyond 2027, annual GDP growth is projected to stabilize around its medium-term potential of about 1.7 percent.

While there are some domestic upside risks, overall risks to the outlook are predominantly on the downside. A lengthy conflict in the Middle East could result in higher-for-longer energy prices, tighter financial conditions, and deeper uncertainty, weighing on investment, consumption and growth. It could also induce larger second-round effects on wages and core inflation, keeping headline inflation above 3 percent for a while. An escalation of other geopolitical tensions and trade measures is another key external risk for Spain and the global economy. On the domestic front, political fragmentation raises questions regarding the government's ability to deliver the sizeable fiscal consolidation measures that staff estimate will be needed to meet its medium-term fiscal structural plan (MTFSP) commitments, and to implement decisive action to reassure markets in the event of financial stress. On the upside, tourism growth could remain more resilient than projected due to increased diversification across regions, reduced seasonality, and diversion of tourists towards Spain following the Middle East conflict. Spain's pro-immigration policy could keep net migration inflows above staff baseline projection—which is underpinned by the national statistical institute's medium-term forecasts. Finally, consumption could grow more than projected if households reduced their saving rate towards its pre-COVID level faster than expected.

Fiscal Policies

Public finances continued to improve over the past year, with the general government deficit expected to fall to 2.5 percent of GDP in 2025 from 3.1 percent in 2024. Excluding the reconstruction costs related to the 2024 DANA floods, this improvement exceeds the authorities' projection under the MTFSP. In the context of a further

rollover of the 2023 budget, revenue growth was supported by strong economic growth, the non-indexation of personal income tax (PIT) brackets and higher social security contributions from the phasing in of the 2021-2023 pension reforms. Higher revenues more than offset a large increase in public expenditure that exceeded the authorities' MTFSP target.

Looking ahead, staff project that annual net expenditure growth will keep exceeding the authorities' targets and the deficit will fall only modestly, requiring additional consolidation efforts. Under staff's current-policies baseline, which assumes no additional measures beyond those already implemented or approved, the deficit is projected to stabilize above 2 percent of GDP by 2031, compared to 0.8 percent envisaged in the MTFSP. This implies that measures of almost 1.5 percent of GDP have to be implemented to achieve the authorities' MTSFP deficit path. Staff's projection also implies that net spending growth would remain above the authorities' MTFSP commitments running until 2028. While debt is projected to decline further over the next five years, its trajectory will remain vulnerable to shocks to growth and financing costs. Furthermore, it would rise sharply starting from the early 2030s as Spain faces one of the largest projected increases in public pension, health and long-term care spending among advanced EU economies—of about 4 percent of GDP between 2030 and 2050, according to AIReF, the fiscal watchdog.

Under staff's baseline projection, the still strong growth momentum provides an opportunity for the authorities to rebuild fiscal space more swiftly. The cumulative improvement in the cyclically-adjusted primary balance (CAPB) of 2.5 percentage points of GDP during 2025-2031 envisaged in the MTFSP is appropriate. Staff see scope for delivering it already by 2030, implying a yearly adjustment of 0.5 percentage points in 2026-2030, to create fiscal space and more quickly reduce debt ahead of the looming aging-related spending pressures. This recommendation factors in the economy's strong cyclical position and the continued investment

impulse from NGEU funds, which reduce the growth costs of tighter fiscal policy. Moreover, to accomplish such adjustment, any future revenue surprises should be saved rather than spent. If downside risks materialize, automatic stabilizers should be allowed to play out. Temporary and targeted discretionary support should be considered, provided sovereign funding costs remain low, only in the event of a severe shock—for instance if an escalation of the conflict in the Middle East were to raise spot and future energy prices significantly further, exacerbate uncertainty and trigger an asset price correction, with knock-on effects on Spain's external and internal demand. Any fiscal measures to mitigate the impact of the energy price shock should also avoid dampening price signals. Finally, the formulation of fiscal policy could be strengthened by bolstering the role of a fully independent and well-resourced AIReF in the preparation of future MTFSP and Annual Progress Reports (APRs).

A well-identified mix of revenue and expenditure measures should underpin a clear medium-term adjustment strategy. To constitute a fully-fledged medium-term framework, the MTFSP and the APR should include projections not just of the overall and primary balance but also of the main components of revenues and expenditures, along with the government's tax increase and spending reduction priorities. Given Spain's relatively low employment rate and high tax burden on labor, a growth-friendly consolidation strategy should primarily address the low efficiency of indirect taxation, which has been recurrently used for income distribution objectives that are best met with other tools. Staff estimate that harmonizing value added tax (VAT) rates by removing reduced rates on a wide range of products, combined with compensating transfers to lower-income households, could deliver much of the remaining consolidation envisaged by the MTFSP at a small GDP growth cost. With respect to pensions, although the outcome of AIReF's upcoming review is not yet known, employment-friendly measures—including alternatives to raising social security contribution rates, such as lengthening the period over which benefits

are computed—will eventually be needed to address the sharp future rise in pension expenditures.

Such medium-term strategy also requires overhauling the subnational fiscal rule. The current system under Organic Law 2/2012 relies on multiple fiscal targets for regional governments, creating complexity and inconsistencies. Although compliance has improved in the last decade, over the long term the framework has not delivered on two key goals of subnational fiscal rules: reducing regional debt and avoiding pro-cyclical spending. Enhancing the rule's consistency with the EU fiscal framework—starting with aligning the national definition of net primary spending growth with that of the EU rule—could help address these shortcomings, facilitating the overall conduct of Spain's fiscal policy and compliance with its MTFSP targets. A viable solution would be a rule centered on expenditure growth that ensures debt sustainability for individual regions, either through region-specific spending growth limits or through a common one with tighter adjustment requirements for high-debt regions. The rule should also entail a clear and applicable corrective arm in the event of non-compliance, enforced by the Ministry of Finance.

The government's plans to reduce the debt of autonomous communities and increase their share of overall tax revenues could provide them with helpful additional resources, but risks of moral hazard and fiscal slippage need to be addressed. The central government's one-off partial acquisition of the communities' debt could help restore their access to markets, but it should be made conditional on credible consolidation plans—ideally in the context of a revamped subnational fiscal rule centered on strict enforcement of spending growth limits. The planned increase in central government transfers to autonomous communities as part of the proposed reform of the "common regime" could also help them better cope with growing aging-related spending pressures, but it would imply a commensurate reduction in the central government's resources, thus further limiting its fiscal space. Therefore, such reform should be

phased in only gradually to give the central government time to offset the revenue loss through increased taxes or expenditure cuts, and allow regions to spend the extra resources efficiently on high-priority areas. The requirement for regions to present multi-year debt strategies—which would benefit from being made public—to access government-sponsored concessional borrowing schemes in 2026 can help autonomous communities return to market-based issuance as the primary means of financing. The streamlining of the financing facilities, namely the elimination of the *Facilidad Financiera* and reform of the *Fondo de Liquidez Autonómico (FLA),* is also welcome. The FLA should operate as a true lender of last resort, with interest rates that strongly discourage borrowing outside of emergency situations.

Housing and Financial Policies

Spain's financial sector remains sound. Household and corporate balance sheets have strengthened further, as income growth and lower interest rates have more than offset the moderate increase in nominal debt. Household indebtedness has continued to decline and remains low in international comparison. Corporate leverage has also fallen, with fewer firms exhibiting weak debt-servicing capacity. Banks remain resilient, supported by strong profitability, historically low non-performing loans, and capital, leverage, and liquidity ratios comfortably above regulatory requirements. Although the non-bank financial sector has expanded since 2015, driven largely by investment funds, risks are contained; the sector remains relatively small (about half that of the euro area), is only moderately connected to banks, and is largely unleveraged.

Rapid house price growth, which is eroding affordability and reducing worker mobility, needs to be addressed, building on the government's initiatives to boost housing supply. Strong demand, supported by population growth, net immigration, and declining interest rates, coupled with rigid housing supply, has pushed annual house price growth into double digits. Pressures from buoyant urban

and coastal markets are increasingly spilling over to surrounding areas. Most of the recent government initiatives are welcome, including measures to boost affordable rental housing through the creation of a new public housing company (*Casa 47*) and a new public fund (*España Crece*). Nonetheless, housing supply needs to rise at a much faster pace to address the large existing shortfall—particularly in high-demand areas. This requires accelerating urban development plans, releasing more land for construction, further simplifying and speeding up permitting procedures—including by disseminating the best practices from certain regions and municipalities such as streamlined licensing and the use of AI—and reducing legal uncertainty around projects by reviving the Land Law reform. Unless a thorough evaluation disproves early evidence that rent controls have significantly reduced rental housing supply, they should be discontinued after their initial three-year term. The Housing Law governing the declaration of "stressed areas", which allows to control rents, should also be amended to make it conditional on regions implementing concrete and measurable actions to boost supply, including freeing up new land.

To bolster financial stability, mortgage-related BBMs should be introduced in the coming year, at least in the form of supervisory guidance. While lending standards remain broadly prudent, they have started to ease somewhat, as indicated by the recent increase in the share of newly originated mortgages with high loan-to-value ratios. Introducing collateral-based BBMs—such as loan-to-price or loan-to-value ratios—would help pre-empt a buildup of housing-related financial sector risks. This could be done through either supervisory guidance or mandatory limits. Under the former option, if house price growth subsequently kept rising rapidly and eased materially, Bank of Spain should turn supervisory guidance into mandatory limits. Staff analysis and cross-country experience indicate that introducing collateral-based BBMs could help strengthen financial stability. Moreover, BBMs would be most effective and have smaller effects on credit growth if implemented before risks build up. They would complement the ongoing phasing in of the positive neutral

countercyclical capital buffer, which will reach 1 percent by October 2026 and is also helping strengthen banks' resilience. Completing the remaining 2024 Financial Sector Assessment Program (https://www.imf.org/en/publications/cr/issues/2024/06/06/spain-financial-system-stability-assessment-549927) (FSAP) recommendations would further reinforce the financial stability framework, particularly by establishing a comprehensive approach to addressing liquidity needs in resolution for all banks and advancing reforms to grant the *Comisión Nacional del Mercado de Valores* (CNMV) greater autonomy over hiring.

Structural Policies

A new wave of labor market reforms is needed to further raise the employment rate. Active labor market policies should be enhanced by relying on outcome-based indicators—such as observed improvements in the rate and quality of job placements—to guide the allocation of bonuses to better-performing regional public employment services. The 2024 reform of unemployment assistance, if evaluated to be positive, could be strengthened by extending the period during which recipients aged 52 and above can combine labor earnings and benefit receipt, with some benefit phasing out over time. To minimize potential adverse employment effects on low-income earners, minimum wage increases should remain guided by the government's target of 60 percent of the net average wage—using the same definition for the minimum and average wages—and avoid de facto inflation indexation. The minimum wage advisory committee could be granted independence, more resources for evaluation, and consider equally employment and in-work poverty objectives in its recommendations. An in-work tax credit could be introduced to further support low-income households while safeguarding employment, integrating existing benefits. Finally, a recent sharp increase in the incidence and duration of temporary disability increased related fiscal expenditure to over 1 percentage point of GDP and reduced total hours worked by over 1.5 percent between 2019 and 2024. This could be addressed by implementing AIReF's recent recommendations,

including early monitoring and support during the first year of the temporary disability spell.

Labor market reforms could also further enhance job stability, and thereby workers' human capital accumulation and productivity. Staff analysis finds that the 2021 labor reform drastically reduced temporary employment in the private sector and had a more modest positive impact on overall job stability. These gains could be amplified by introducing experience rating—higher social security contributions for firms that lay off more frequently—and, after evaluation, considering extending the permanent construction sector contract to other sectors where the rise in fixed-discontinuous contracts may have failed to improve job stability.

Boosting productivity growth—the key to larger gains in living standards—requires addressing obstacles that keep Spanish firms both smaller and less innovative than peers in other high-income countries. These obstacles include insufficient human capital, financial constraints, red tape—such as administrative burdens to cross-regional trade and size-dependent regulations—as well as an overly complex R&D tax credit system. On financing, the government should build on its welcome Competitiveness Lab initiative to advance EU capital markets integration, from which Spain could greatly benefit given its firms' more limited access to venture capital, and finance more broadly, compared to peers in other euro area countries. On red tape, Spain should accelerate the implementation of the Regime 20 initiative—which aims to harmonize regulations and reduce administrative barriers across regions, including by setting clear milestones and deliverables. These efforts should go hand in hand with continued work with European partners to deepen the EU's single market for goods and services. Spain's R&D tax credit is generous, but its excessive complexity has resulted in low take-up. Streamlining the scheme and better targeting it toward young and innovative firms would support innovation and amplify the impacts of other productivity-enhancing reforms. Staff analysis suggests that reforms to

address firms' financing constraints, cut administrative burdens on firms, streamline size-dependent thresholds, and enhance the R&D tax credit could together raise Spain's trend annual productivity growth by about a quarter of a percentage point. This would solidify the pickup in productivity gains since the recovery from COVID highlighted by the recent report of the National Productivity Council.

The mission team thanks the authorities and all our other counterparts for their warm hospitality, frank and open discussions, and collaboration.

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