



Council of the  
European Union

Brussels, 19 April 2024  
(OR. en)

9100/24

ECOFIN 472  
UEM 109  
SOC 300  
EMPL 172  
COMPET 447  
ENV 434  
EDUC 136  
RECH 174  
ENER 189  
JAI 667  
GENDER 76  
ANTIDISCRIM 66  
JEUN 84  
SAN 231

#### COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	4 March 2024
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2024) 80 final
Subject:	COMMISSION STAFF WORKING DOCUMENT In-depth review for Spain Prepared under Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances

Delegations will find attached document SWD(2024) 80 final.

Encl.: SWD(2024) 80 final



EUROPEAN  
COMMISSION

Brussels, 4.3.2024  
SWD(2024) 80 final

**COMMISSION STAFF WORKING DOCUMENT**

**In-depth review for Spain**

**Prepared under Regulation 1176/2011 on the prevention and correction of  
macroeconomic imbalances**

Spain

## In-Depth Review 2024



This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Spain for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2024 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in Spain. That Communication will be published in June 2024.

## Contents

1. Introduction .....	1
2. Assessment of macroeconomic vulnerabilities .....	2
Assessment of gravity, evolution and prospects of macroeconomic vulnerabilities .....	2
Assessment of MIP relevant policies.....	9
Conclusion .....	13

## 1. INTRODUCTION

**This In-Depth Review (IDR) analyses the evolution of Spain’s vulnerabilities related to high private, government and external debt, which have cross-border relevance, and possibly newly emerging risks.** This year’s IDR, which follows the 2024 Alert Mechanism Report (AMR) published in November 2023, assesses the persistence or unwinding of the vulnerabilities identified last year, potentially newly emerging risks, and relevant policy progress and policy options that could be considered going forward. <sup>(1)</sup> Given the size of the Spanish economy and its interlinkages with the other EU Member States, these vulnerabilities carry cross-border relevance.

**The Spanish economy is estimated to have expanded by 2.5% in 2023 and it is projected to continue to grow in 2024, albeit at a slower pace than last year.** <sup>(2)</sup> The strong growth outturn posted in 2023 was underpinned by the very positive labour market developments and the pick-up of wages sustaining private consumption and the positive contribution from net exports and public consumption. Real GDP growth is forecast to moderate in 2024 to 1.7%, according to the Commission’s Winter 2024 interim Forecast, owing to the weaker economic situation in Spain’s main trading partners and to the lagged impact of recent years’ interest rate hikes on aggregate demand. Consumption and investment, driven respectively by further real purchasing power gains for households, and the continued implementation of the Recovery and Resilience Plan (RRP), are set to be the key drivers upholding economic expansion. GDP growth is expected to accelerate again in 2025, to 2.0%. Headline inflation decelerated to 3.4% in 2023, largely favoured by the continued drop in energy prices throughout the year. Underlying price pressures eased more gradually in 2023, to 5.8% on average, as the pass-through of high energy prices to other items, especially food and services, showed signs of fading only from the last quarter of last year. HICP inflation is set to decline further this year reaching 3.2% on average (underlying inflation projected at 3.3%) despite the upward pressure exerted by the expected phasing out of most government measures implemented to mitigate the impact of high energy prices.

**High integration with other major European and non-EU partners, makes Spain prone to spillovers resulting from economic developments in these economies** <sup>(3)</sup>. The Spanish economy is highly dependent on imports of German and French goods and services, <sup>(4)</sup> while France and Germany are major destinations for Spain’s exports. When it comes to external demand, the largest shares of total value added in the Spanish economy are generated to satisfy domestic demand in France, Germany and US while Spanish domestic demand is mostly satisfied by value added generated in China and

---

<sup>(1)</sup> European Commission (2023), Alert Mechanism Report 2024, COM(2023) 902 final; and European Commission (2023), Alert Mechanism Report 2024, SWD(2023) 901 final.

<sup>(2)</sup> Forecast figures for GDP growth and inflation come from the Commission Winter 2024 interim Forecast (European Economy, Institutional Paper 268). All other forecast data used in the IDR come from the Commission Autumn 2023 Forecast (European Economy, Institutional Paper 258), unless stated otherwise, and all calculations are done using these data to ensure the coherence of their various components. The cut-off date for the data for the preparation of this IDR was 20 February 2024. Actual outturn data that have become available after the Autumn and Winter interim Forecasts, and before the cut-off date for the IDR, are used and supersede figures from those forecasts.

<sup>(3)</sup> In the context of the multiple disrupting shocks that affected the world economy and the EU in the past few years, Commission Services have run an exercise to estimate the spillovers and the degree of exposures of Member States’ economies to various partners and industries, in terms of nominal trade, value-added trade, inflation and financial assets. See European Commission Institutional Paper 2024 (forthcoming) – Economic spillovers and exposures in the EU.

<sup>(4)</sup> Germany and France account for 12.6% and 12% of Spain’s imports, while France and Germany account for 15.2% and 10.6% of Spanish exports, respectively.

Germany. Locational banking statistics show that sizeable shares of claims of Spanish financial institutions are located in France, Italy and UK. As Spain's exposures, directly or indirectly, to non-EU partners are high, geopolitical and trade tensions appear to pose a non-negligible risk to its economy.

## 2. ASSESSMENT OF MACROECONOMIC VULNERABILITIES

**In recent years, Spain has been marked by high, albeit declining, private, government and external debt.** The decline in debt to GDP ratios has reduced the vulnerability towards economic shocks. The government debt-to-GDP ratio has declined despite persistent fiscal deficits, but risks to fiscal sustainability are assessed to be high overall in the medium-term. Pressures on household balance sheets have increased, particularly those with lower incomes. On the other hand, the share of financially vulnerable firms has continued to decline. The banking sector has remained resilient.

### Assessment of gravity, evolution and prospects of macroeconomic vulnerabilities

#### *External balances*

**Spain's net international investment position (NIIP) continued its long-standing declining trend in 2023, supported by strong nominal GDP growth (Graph 2.3).** The NIIP-to GDP ratio improved to -54% in the third quarter of 2023, more than 30 p.p. below the last quarter of 2020 and down from -90% registered between 2013 and 2017. Its current level stands above the prudential (-61%), although still below fundamental benchmarks (-17%). The NIIP is forecast to remain on an improving path in 2024 and 2025, increasing to -48% and -44%, respectively. Furthermore, the NIIP excluding non-defaultable instruments (NENDI), stood at -23% of GDP in 2023, compared with -52% reached in 2020, as its adjustment has been faster than that of the NIIP.

**The NIIP is projected to further improve in the medium term.** Under the baseline scenario, the negative NIIP is projected to continue shrinking in the following years supported by persistent current account surpluses in the medium-term, and, over the forecast horizon, by substantial capital transfers associated with the RRF funds (see Box 2). The main risks in the short-term correspond to tighter financing conditions increasing debt service and to the economic slowdown of main trading partners. Additional disruptions in global value chains prompted by the uncertain unfolding of geo-political events may exert upwards pressure on the evolution of energy prices and import prices of certain commodities, resulting in deterioration of the trade balance and of the terms of trade. On the other hand, the composition of Spain's external liabilities, including a higher share of non-defaultable instruments, Foreign Direct Investment (FDI) in particular, helps to mitigate some of these vulnerabilities. In the medium-term, a credible fiscal consolidation strategy and economic policies securing competitiveness gains would contribute to further improvements in the external position.

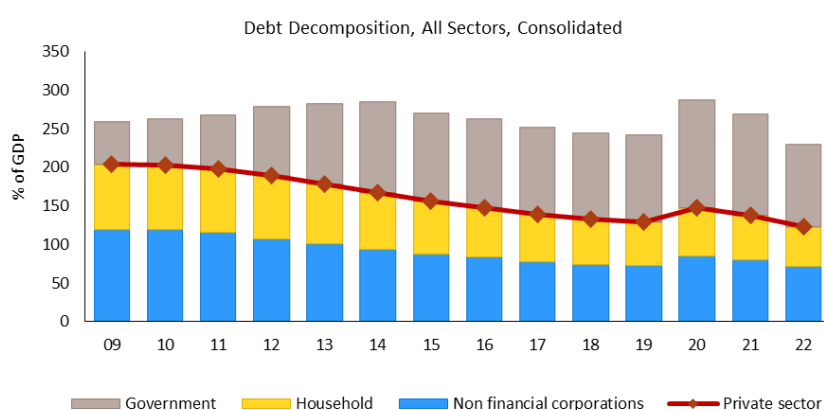
**The current account balance has remained positive in the last decade and its surplus is set to increase in the upcoming years.** The current account balance declined slightly, to 0.8% and 0.6%, in 2021 and 2022, respectively, due to the impact of the pandemic on the economy (Graph 2.3). It is estimated to have picked up to around 2.5% in 2023, exceeding the benchmarks required to stabilise

the NIIP above 35% of GDP (-1.0%) and that required to attain the specific NIIP target (1.1%). Last year, the evolution of the current account balance benefitted from the sharp decline of energy prices and the significant surplus attained by both tourism and non-tourism service exports. From the lending-borrowing perspective, the negative position displayed by the public sector is more than offset since 2012 by the markedly positive contribution from financial and non-financial corporations, as well as, to a minor extent, also households. The current account balance is expected to remain in surplus over the forecast period, contributing to further reductions of the negative NIIP ratio.

### Private sector debt

**Private sector balance sheets continued to strengthen in 2023 on the back of high nominal output growth and contained new borrowing in a context of higher interest rates.** Private debt declined to 138% of GDP in 2021 and 112% in 2023, over 65 p.p. below its level a decade ago but still above its prudential and fundamental benchmark, of 87% and 91%, respectively (Graph 2.1)

Graph 2.1: Debt decomposition



Source: Eurostat

**The household debt-to-GDP ratio has been steadily declining, reaching 52% in 2022, down from 65% in the period 2013-2020, and 47% in 2023 (See Graph 2.3 and Box 2).** It nevertheless remains slightly above its fundamentals-based (44%) and prudential (35%) benchmarks (Table 2.2). Credit flows turned negative in 2023, triggered by a marked increase in interest rates, contributing to the deleveraging process. For many debt-holding households, interest payments have increased over the last two years (see Box 1). Interest rates for new loans for house purchase increased from around 1.5% early 2022 to 3.8% by November 2023. Interest rates for outstanding loans for house purchase grew from around 1.1% early 2022 to 3.7% by November 2023. The strong co-movement of interest rates on existing loans with market conditions is attributed to the prevalence of variable-rate loans in the mortgage market. While the percentage of new loans with a fixation period of less than one year has markedly decreased, dropping from around 90% in 2008 to 16% by November 2023, there has overall been a pronounced transition to predominantly fixed-rate mortgages in recent years. If credit flows continue to follow the same pattern of the recent years, household debt can be expected to maintain its downward trajectory (see Box 2).



**The non-financial corporations (NFCs) debt-to-GDP ratio continued decreasing, down from 150% in the period 2013-2020 to 71% in 2022 and 64% in 2023 (Graph 2.3).** The NFC debt-to-GDP ratio remains, however, above its fundamental benchmark (91%) and prudential threshold (87%) (Table 2.2). The financial situation of firms has continued to display favourable developments over the past year, although with some degree of heterogeneity across market segments. Moreover, profitability of the corporate sector, and especially for large companies, is above pre-pandemic levels across most sectors of the economy (see Box 1). Credit flows turned negative in 2023 – particularly for loans above 1mn – triggered by a marked increase in interest rates and tighter credit standards since mid-2022, contributing to the deleveraging process. Interest rates on new loans for NFCs increased from less than 2% early 2022 (and around 1% for loans above EUR 1mn) to around 5% by November 2023, with short-term and variable-rate loans registering even higher rates. The overall average interest rate for outstanding loans for NFCs grew from less than 2% early 2022 to 4.3% by November 2023.

### *Banking sector*

**The banking sector has remained resilient amidst the geopolitical tensions and uncertainty, higher inflation and tightening financing conditions for borrowers.** <sup>(5)</sup> Asset quality has remained relatively robust over the last year. The NPL ratio at system level went down to 2.7% at the end of 2022 (from 2.9% a year earlier) and remained broadly unchanged in the first half of 2023 (but above the EU average of 1.8%) (Graph 2.3). The share of Stage 2 loans as a percentage of total loans and advances in turn stood at 6.9% at the end of September 2023, well below the EU average of 9.2%. Liquidity and profitability continue to be favourable. The capital ratios of Spanish banks, while in line or higher than the required standards, continue to be lower than EU peers. In Q2-2023, banks in Spain recorded the lowest common equity tier 1 ratio in the EU and thus warrant close monitoring, as credit quality may come under pressure over the forecast horizon. Nonetheless, the latest EBA stress tests published in July 2023 found that Spanish banking institutions would remain resilient under an adverse scenario. As the impact of the past interest rate hikes is fully transmitted to the economy, risks related to private borrowers' repayment capacity are expected to rise, with low-income households and SMEs particularly vulnerable (see Box 1).

### *Government debt*

**Government debt extended its decline in 2023, driven by robust nominal GDP growth, but improvements are expected to be more limited in the future as deficits remain relatively high.** The debt-to-GDP ratio is estimated to have decreased to 107.5% in 2023, down from 115.9% in 2022; and it is forecast to stabilise at around 106.5% from 2024 onwards. The slowdown in its reduction would be attributable, on the one hand, to the fading positive differential between nominal GDP growth and the cost of debt observed in 2022-2023. The snowball effect is expected to lower its deficit-reduction contribution in the next few years (see also Box 2). <sup>(6)</sup> On the other hand, the fiscal deficits projected for the future will keep adding to debt stock. According to the 2023 Commission Autumn Forecast, the fiscal deficit is set to improve to 3.2% of GDP this year (based on a no-policy change scenario), from

---

<sup>(5)</sup> See [Autumn 2023 Post-Programme Surveillance report](#).

<sup>(6)</sup> The results presented here are based on the debt sustainability analysis published in the Post-Programme Surveillance Report of December 2023 (European Commission, Institutional Paper 264), which follows the multi-dimensional approach of the European Commission's 2022 Debt Sustainability Monitor, updated based on the Commission 2023 autumn forecast.

4.1% in 2023, mainly on account of the phasing out of energy-related measures implemented in the past years. However, the expiration of some temporary revenue-increasing measures at the end of 2024, such as the levy on financial institutions and the solidarity wealth tax, is forecast to weigh negatively on the government deficit in 2025, which is set to slightly increase to 3.4% of GDP.

**Risks to fiscal sustainability are low overall in the short term, high in the medium term, and medium in the long-term according to the Commission's Debt Sustainability Analysis (DSA).** <sup>(7)</sup> Government gross financing needs are expected to remain large at close to 20% of GDP in both 2024 and 2025. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies. Under the baseline scenario, the government debt-to-GDP ratio is projected to remain at a high level over the medium term (see Box 2 for more on the medium-term risks to fiscal sustainability). Over the long term, the risk mostly stems from Spain's unfavourable initial budgetary position and high debt level and despite the projected decline in ageing-related costs. At the same time, several additional risk factors need to be considered. On the one hand, risks may be further amplified by the adverse impact of the tighter financial conditions on households' and firms' financial position. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources featuring a well-diversified and large investor base. In addition, the structural reforms commitments under the Recovery and Resilience Plan (RRP), if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help mitigate debt sustainability risks.

#### *Labour market*

**The labour market extended its robust performance in 2023, underpinned by sustained job creation despite a weaker economy in the second half of the year.** Employment growth accelerated considerably in the first quarters of 2023 (1.2% q-o-q on average in seasonally adjusted terms), before moderating to 0.65% q-o-q on average in the second half of the year. In annual terms, employment expanded by 3.8% in the last quarter of 2023. The bulk of job creation throughout 2023 has been concentrated in the private sector. The unemployment rate declined to 11.8% in 2023-Q4 and it is set to drop to 12.1% overall in 2023. It is forecast to continue improving over the next years, to 11.6% in 2024 and 11.1% in 2025, according to the Commission's Autumn forecast, reaching its minimum level since 2007 and more than halving compared to the peak levels recorded in 2013 (26.1%). It remains however well above the EU average, with structural pockets of vulnerability, such as the still very high long-term and youth unemployment rates. Nominal wage growth in 2023 remained broadly in line or slightly above the threshold set out in the multi-year agreement signed last May, to around 4% - 4.5%, which contributed to contain the rise of unit labour costs (ULCs), preserved cost-competitiveness of the economy.

---

<sup>(7)</sup> The results presented here are based on the debt sustainability analysis published in the Post-Programme Surveillance Report published in December 2023 (European Commission, Institutional Paper 264), which follows the multi-dimensional approach of the European Commission's 2022 Debt Sustainability Monitor, updated based on the Commission 2023 autumn forecast. See also Box 2 below.

### Box 1: Spain – Financial situation of households and non-financial corporations (NFCs)

**Over the past months, the financing costs of households and firms have continued to rise steadily, as a consequence of the process of monetary policy tightening initiated by the ECB in July 2022.** Together with a reduced supply of funds and more restrictive conditions applying to loans to the private sector, this has translated into a significant decline in new financing raised by both households and firms. Total credit to households is estimated to have declined by 1.0% y-o-y in 2023, whilst those of non-financial corporations (NFCs) is estimated to have increased by 2.0% over the same period. For firms, the contraction is focused on larger loans and debt securities issuance, notably affecting larger businesses. The drop in new financing flows has contributed to spur the deleveraging process across both segments, leading to a substantial improvement in households' and non-financial corporation's balance sheets. At the same time, the ratio of non-performing loans to the resident private sector declined y-o-y by 6.5% in November 2023, reaching 3.6% on aggregate.

**The Covid-19 pandemic and the high inflation triggered by, inter alia, Russia's war of aggression against Ukraine, have put pressure on household balance sheets.** Gross disposable income of households in Spain ticked down in 2020 as a result of abrupt disruptions in economic activity, and took a further hit in 2022, due to the wide-spread impact of the inflationary shock throughout the year, in a context of stagnant wage growth. In 2023, the strong recovery of economic activity, the very positive performance of the labour market together with the pick-up of nominal wages and moderating price dynamics have sustained the recovery of purchasing power, almost reaching the pre-pandemic level in 2023.

**Household savings evolved dynamically in the last years and remain above pre-pandemic levels.** Household savings declined sharply between the peak of the pandemic period (25% in 2020-Q2) and the trough in 2022-Q3 (4%), before rising again to 9% in 2023-Q3, still above the pre-pandemic level (7.7% in 2019-Q4). The increase observed in the past quarters was largely driven by the simultaneous deceleration of private consumption and the pick-up in nominal wage growth, as well as the accumulation of liquid assets. Overall, households have strengthened their financial situation since the end of the pandemic period, while a note of caution is warranted as the aggregate hides substantial variation across categories of household as explained below.

**For many debt-holding households, interest payments have increased over the last two years.** Interest payments by households rose from 1.5% of gross disposable income in 2022-Q2 to 2.9% by 2023-Q3. <sup>(8)</sup> On average, this was more than compensated by the simultaneous increase in interest receipts by households; however, interest payments and receipts are likely to accrue to different household types, typically with an age gradient: young households are more likely to see their mortgage costs increase, while older households are more likely to benefit from the increased returns on their savings. Lower income households are less likely to hold debt, but when they hold debt, their debt-service-to-income ratio tends to be higher, making them more vulnerable to interest rate shocks <sup>(8)</sup>. This is attributable to the more pronounced impact of higher price levels on their disposable income and the relative rigidity of their consumption pattern, resulting in a lower saving capacity, and in turn difficulties to service their debt and sustain other expenditures.

**The financial situation of firms has continued to display favourable developments over the past year, although with some degree of heterogeneity across market segments.** Corporates' gross operating surplus (GOS) increased in the first half of 2023, driven by the positive momentum in economic activity and, in some sectors, boosted by a rise in profit margins. GOS posted on average an annual growth rate of 32.8% in 2023-Q1, up from 20.4% a year earlier. The sectoral breakdown reveals that GOS increased sharply notably in the energy sector (103%) and in the information and communication sector (20.3%) over the same period. Conversely, GOS fell the most in the industrial sector (15.6%) and to a lesser extent also in the trade and hospitality sector, by 1.7%. The rise in the GOS recorded by energy firms is primarily attributable to the positive evolution of sales margins, reversing the sharp fall in margins observed in 2022 amidst the peak of the increase in energy cost.

**The profitability of the corporate sector, and especially for large companies, is above pre-pandemic levels across most sectors of the economy.** On the other hand, the increase in the average cost of debt is weighing on the debt-to-corporate-income ratio. The average cost of financial debt showed a stark increase in 2023-Q1 compared to the same period a year earlier, from 0.8% up to 2.3%.

**Within this context, the share of financially vulnerable firms continued to decline and little or no signs of a significant deterioration in the credit quality of firms going forward is detected.** The financing cost for NFCs on aggregate in 2023-Q3 rose to 2.8%, up from 1.7% in the third quarter of 2022. From a sectoral perspective, the industry sector showed the highest rate in 2023-Q3, standing at 4%. According to the Bank of Spain, the percentage of companies with high

<sup>(8)</sup> Source: ECB Quarterly Sector Accounts: D41G: Interests received by households, before FISIM allocation.

indebtedness, defined as those with a net-debt-to-surplus ratio higher than 10 (or which have deficits), also declined slightly in the first quarter of 2023 to 23.9%, a tenth less than during the same period in 2022. Similarly, the credit quality of companies has been widely preserved in the past year, as well as the relative stability in the credit ratings of bonds issued by Spanish companies. In 2023-Q1, the credit rating for the outstanding bonds issued by NFCs, both resident and non-resident, remained virtually unchanged compared to a year earlier. The majority of these outstanding debt instruments have a credit rating of BBB or BBB-, above the high-yield category (BB+ or lower). The ratio of non-performing loans for corporates in March 2023 declined by 0.7 p.p., to 4.5%, compared to the same period in 2022, whilst stage 2 loans registered a larger decline, by 1.9 p.p. to 9.7%.

## Box 2: Spain – Medium-term external, private, and government debt projections

**This box summarises external and internal debt to GDP projections for Spain over the next decade, based on scenario analysis.** It covers scenarios to take into account different underlying assumptions for external, corporate and household debt stocks, as well as the outcomes of the latest government debt sustainability analysis (DSA) conducted by the Commission

**Spain's net international investment position is projected to continue improving at a sound pace under all three scenarios.**

Under the baseline projections, which take the 2025 forecasts as a starting point, the NIIP increases to around -25% of GDP in 2033, comfortably above the prudential threshold but still below the fundamental benchmark (Graph 2.2, panel a). The NIIP is set to improve under a range of assumptions. The assumptions of an upside scenario (Scenario 1) imply a stronger pace of improvement with the NIIP below -10% of GDP at the end of the projection horizon. The NIIP also slightly improves in a downside scenario (Scenario 2), in which economic growth and the trade balance lag behind the baseline assumptions whereas the interest spread between liabilities and assets increases. Risks to the country's external position are further mitigated by the favourable NIIP structure, as non-defaultable instruments, foreign direct investments and equity, account for around 50% of net liabilities.

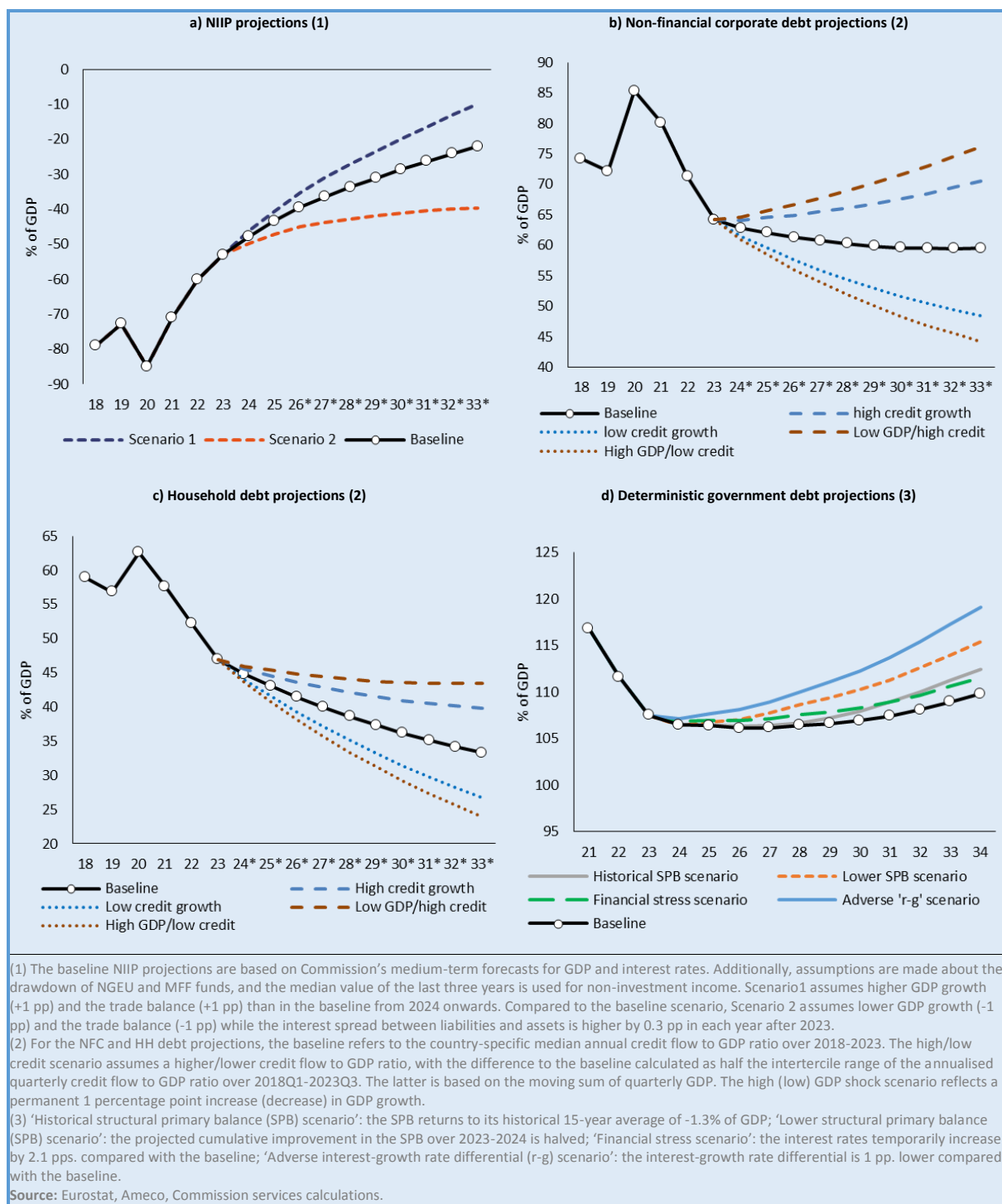
**The corporate debt to GDP ratio is projected to decrease under the baseline scenario by 5 percentage points until 2033, to 59%.** The baseline scenario takes the 2023 forecasts as a starting point and foresees an average real GDP growth of 1.3%, in line with Commission projections, and credit flows of 1.7% of GDP until 2032 (Graph 2.2, panel b). In this scenario, credit flows would be below the credit to GDP ratio that would stabilise NFC debt over the projection horizon, at 2.4%. Under an adverse scenario of credit flows being 1.3% of GDP higher – corresponding to half the intertercile range of the annualised quarterly credit flow to GDP ratio over 2018-2023 – the NFC debt to GDP ratio would be 11 percentage points higher. A permanent negative 1% GDP growth shock would increase the NFC debt to GDP ratio by another 6 percentage points.

**The household debt to GDP ratio is projected to almost halve over the next decade under the baseline scenario.** The baseline scenario takes the 2023 forecast of 47% as a starting point and assumes as determining parameters an average real GDP growth of 1.3% and credit flows of 0.1% of GDP for the period 2024-2033.<sup>[1]</sup> It projects the household debt ratio will steadily decline to 33% by 2033 (Graph 2.2, panel c). In this scenario, annual credit flows remain significantly below the credit to GDP ratio that would stabilise household debt over the projection horizon (1.7%). Depending on how interest rates and other economic conditions evolve, credit flows could also behave differently. Graph 2.2 panel c considers alternative scenarios on credit flows, that account for observed country-specific variability in credit flows since 2018, and permanent GDP shocks 1 ppt above or below the baseline scenario. Under the most adverse scenario considered (high credit flows and low GDP growth), the debt ratio would still decline, but more slowly, to reach 43% by 2033.

**In Spain, medium-term risks to fiscal sustainability are high overall.** The DSA for Spain shows that, under the baseline, the government debt-to-GDP ratio is projected to remain at a high level in the medium term, declining to 106% by 2026 before approaching again 110% in 2034 (Graph 2.2, panel d). That projection assumes a structural primary deficit of 1% of GDP, which appears plausible compared with past performance. At the same time, the projections benefit until 2031 from a still favourable (although declining) snowball effect of around -0.6% of GDP annually on average over 2025-2031, while growth is also supported by the impact of Next Generation EU (NGEU). Overall, annual real GDP growth will average at around 1.3% over 2025-2034. Government gross financing needs are expected to remain large over the projection period, slightly exceeding 20% of GDP in 2034. The baseline projections are stress-tested against four alternative scenarios to assess the impact of changes in key assumptions. For Spain, all those four alternative scenarios would lead to a more rapid increase in debt compared with the baseline and confirm the high-risk assessment. <sup>(9)</sup>

Graph 2.2: External, private, and government debt projections, based on scenario analysis for Spain

<sup>(9)</sup> The results presented here are based on the debt sustainability analysis published in the Post-Programme Surveillance Report of December 2023 (European Commission, Institutional Paper 264), which follows the multi-dimensional approach of the European Commission's 2022 Debt Sustainability Monitor, updated based on the Commission 2023 autumn forecast. See notes to Graph 2.2 for more details on the four scenarios used.



## Assessment of MIP relevant policies

**Policy progress over the past year to tackle the identified vulnerabilities was underpinned by the broadening implementation of the Recovery and Resilience Plan (RRP).** Recently implemented, ongoing and planned measures in the areas of public and private finances, business productivity, strengthening of supply chains and labour market are particularly relevant. The measures enacted as part of the RRP complement or adjust other important reforms previously adopted since 2010, such as the consolidation of the banking sector, the introduction of higher flexibility in the labour market, the establishment of an independent fiscal institution and the progressive extension of the legal

retirement age, which have supported the continued unwinding of the identified vulnerabilities over the past decade.

**External debt sustainability benefits from the adoption of reforms and investments that favour the wide-spread use and production of renewable energy, together with investments in energy efficiency.** The implementation of this set of measures is expected to decrease the import dependence for energy, leading to the improvement in external debt sustainability. Specifically, the modified RRP approved at the end of 2023 reinforces strategic investments (PERTEs), provides financing for the REPowerEU chapter and includes the set-up of financial instruments targeting private investment, particularly for the green and digital transitions. Furthermore, measures fostering business creation and growth, including innovative start-ups, the development of reforms of the educational and vocational training systems approved in recent years, as well as investments in skills, strategic sectors and the digitalisation of SMEs are set to strengthen the competitiveness of firms.

**Spain recently introduced a new insolvency framework, which supports the unwinding of non-financial corporate debt vulnerabilities.** A law establishing a new insolvency framework entered into force in 2022, intended to facilitate preventive debt restructuring and debt relief for natural persons. By preventing insolvency situations and facilitating resource reallocation, the application of the new law has contributed to a substantial increase in the filings for insolvency in 2023. <sup>(10)</sup> According to data from the Official Business Registry, <sup>(11)</sup> filings for insolvency by individual debtors increased by 161.3% on annual terms in the year up to 2023-Q2, following the entry into force of the new framework and by 17.5% on quarterly terms, with respect to 2023-Q1. It should be noted, however, that these figures reflect the very low starting level of insolvency filings prior to the application of the Law and possibly the adverse effect of economic factors such as higher inflation, increased funding costs and supply chain disruptions. SMEs are benefitting from improved access to finance in form of guarantees, granted to SMEs until end-2023, via the '*Compañía Española de Reafianzamiento*' (CERSA). CERSA allows access to long-term financing and working capital helping to reduce debt overhang on businesses.

**The new housing law aims to increase the supply of affordable and social housing, which would contain its financial burden for vulnerable households.** The sustained growth in purchase and rental prices, together with the income shocks following the Covid-19 pandemic and high inflation, have aggravated housing affordability problems, particularly for vulnerable households in urban areas. Supply remains constrained under the very limited provision of affordable and social housing, which is significantly lower than the EU average. Overall, the housing law contained in the RRP encourages the increase in the supply of affordable housing, including by providing higher tax incentives and increasing the minimum share of protected housing in new developments, as well as the rehabilitation of the existing housing stock and the renovation of the residential environments in which those houses are located. The law also contains measures to limit rental price growth in stressed areas. These measures will be also supported by the investments planned under Cohesion policy programmes.

**Boosting productivity and competitiveness remains pivotal for small and medium enterprises, and to further deleveraging of private, public, and external debt.** Additional steps in this area, beyond those currently envisaged under the RRP, would be highly beneficial to improve public support for R&D and the quality of innovation output, strengthening of science-business linkages and knowledge

---

<sup>(10)</sup> The new law created an incentive for individual debtors to file for bankruptcy in order to obtain a debt discharge (the so-called "fresh start"). It should be noted, however, the very low starting level of insolvency filings prior to the application of the Law

<sup>(11)</sup> <https://www.registradores.org/actualidad/porta-estadistico-registral/estadisticas-concursales>

transfer, as well as to improve the business environment by streamlining size-dependent regulation which hampers business growth. Spain still stands as one of the EU countries with the lowest investment in R&D in percentage of GDP, with business R&D particularly low compared with the EU average (0.8% GDP vs 1.5% in the EU). These include, for instance, information and communications technology (ICT) specialists, as well as engineering and mathematics (STEM) graduates. Such challenges are particularly acute for small and medium sized enterprises, which results in lower capacity to attract talent and thereby the competitiveness of Spanish firms. Also, some gaps remain in the provision of the necessary skills to contribute to the green and digital transition.

**Some policy progress has been achieved in improving the legislative quality and judicial efficiency, although there is scope for further improvements.** Reforms completed last year included the set-up of the new National Evaluation public body, tasked with developing an effective framework for ex-ante public policy evaluation, and the modernisation of the justice system, by enabling judicial bodies with the necessary infrastructure to carry out telematic judicial actions in the different jurisdictional bodies with full legal certainty. To address market fragmentation, other tools have been introduced to foster better coordination across public administrations, such as the establishment of an observatory of good regulation practices and the sectoral conference for improving the business environment. Additional policy action reducing the time to resolve civil and commercial cases would further reduce existing economic distortions, particularly hampering business creation and growth, as well as entrepreneurship, investment rates and productivity.

**Policy action steering a decisive reduction of the high level of public debt and structural deficit has been limited in the recent past and additional consolidation effort is needed to achieve a sound budgetary position.** To ensure a debt reduction in the medium and long term it will be necessary to clearly reduce the structural deficit while addressing future budgetary pressures stemming on the expenditure side from population ageing as well as health and long-term care. The implementation of a credible consolidation strategy could build upon and complement the set of reforms foreseen under the RRP targeting both the expenditure and revenue side, which is expected to contribute to reduce the overall fiscal vulnerability in the medium term.

**On the expenditure side, Spain started to implement the recommendations outlined in the spending reviews carried out by the independent fiscal authority (AIReF).** These recommendations are geared at improving the efficiency of public spending. A new set of spending review studies with recommendations for improvements are expected to be published annually until 2026 by AIReF, while implementation of the over 150 recommendations outstanding from the previous reviews is now being closely monitored by the authorities. The national strategy designed to make public procurement more efficient and sustainable was adopted at the end of 2022. In contrast, the relinking of pensions to inflation poses additional risks to fiscal sustainability going forward, though targeted actions are envisaged in the legislation to offset the impact of potential higher expenditures.

**On the revenue side, some already adopted measures are contributing to the increase of government revenues, helping to reduce the gap with the EU average.** A number of factors, including active policies implemented by the government, the resilience shown by the economy and the high inflation have contributed to the recent rise in government revenues. These include the robust performance of the labour market, coupled with the widespread digitalisation of the economy, the adoption of the law against tax evasion and fraud and the delivery of enhanced assistance to taxpayers. Furthermore, a solidarity tax for wealthy individuals and a temporary levy on energy companies and financial institutions were introduced in 2023 – albeit this was partially offset by some VAT cuts in response to the high inflation environment. According to the Commission 2023 Autumn Forecast, the EU's average tax revenue-to-GDP ratio was estimated at 41.2% against 38.3% of GDP for



Spain. This difference of about 3 pps indicates some improvement since 2019 when the difference in the revenue ratios was 5.6 pps. Against this backdrop, there would be scope to be more ambitious as regards additional policy actions, particularly given the recent increase in tax revenues being mostly of temporary nature. Possible further revenue-increasing action could include the simplification of the VAT system and other adjustments of tax benefits or certain indirect taxes, including environmental taxation, while protecting vulnerable individuals with targeted compensatory measures. An ambitious implementation of those measures would help ensure sustainable government revenues while contributing to fiscal consolidation going forward and achieving the level of ambition set out in the RRP.

**The labour market reform approved in December 2021 has decisively contributed to the reduction of the share of temporary employment in the private sector, even if further measures are needed to address the persistent high share of temporary employees in the public sector.** New contracts signed during 2023 point to a widespread reduction in the share of fixed-term contracts, falling overall to less than 60% from 90% in 2019. As for temporary employees in the private sector, their share fell to 13.2% in 2023-Q4, down from 23.9% two years before. The share of fixed-term contracts in the public sector remains however very high, at 29.6% in 2023-Q4. Moreover, building on the successful experience of short-time work schemes during the pandemic, a permanent mechanism was also set up supporting firms and workers in transition to adjust to cyclical and structural shocks (*Mecanismo RED*). Further labour market reforms under the RRP were adopted in 2023, such as the new Employment Law, the review of hiring incentives, and the modernisation of Public Employment Services (PES), which have the potential to improve job-matching efficiency and address skill mismatches. These are likely to contribute to reducing the still high unemployment rates, relative to the EU, increasing social cohesion and reducing at-risk-of-poverty rates. However, the persistent high share of temporary employees in the public sector calls for further action, besides the measures included in the RRP, to address such vulnerability. <sup>(12)</sup>

**The implementation of existing commitments in the RRP, and where possible additional steps could further improve external sustainability and private deleveraging, whilst a medium-term fiscal strategy would strengthen public debt sustainability.** Measures in the RRP as well as under the European Regional Development Fund programmes to enhance competitiveness via investment in R&D and innovation, as well as further improvements in the business environment could contribute improving long-term external sustainability and support corporate sector deleveraging. Improved external indebtedness would also benefit from the continued effort, including in the RRP in reducing the reliance on fossil fuels and accelerating the green transition, thereby decreasing the import dependency from abroad on some energy products. A medium-term fiscal strategy entailing a gradual and sustainable consolidation could address the unfavourable budgetary starting position and mitigate the impact on public finances of emerging fiscal costs related to population ageing and health care. Possible measures to further improve the taxation system, implementing the envisaged actions in the RRP, could also support fiscal consolidation. On the labour market side, additional policies could favour improvements in the remaining skills gaps and the reduction of the sizeable share of temporary employees in the public sector.

---

<sup>(12)</sup> Action should take account the recent ruling by the European Court of Justice on joined cases C-59/22, C-110/22 and C-159/22 regarding the measures to prevent and penalise the abusive use of fixed-term relationships in the Spanish public administration.

Table 2.1: MIP relevant policies progress in Spain:

Vulnerability	Policies enacted since 01.2023	Policies in progress since 01.2023
<b>External sustainability</b>	<p>Review of the National Energy and Climate Plan until 2030.</p> <p>Continued investments developing PERTEs, SMEs digitalisation and innovation, strengthening R&amp;D&amp;I system and supporting sustainable tourism.</p>	<p>Implementation of the modified RRP reinforcing strategic investments (PERTEs) and including the REPowerEU chapter.</p>
<b>Household debt</b>	<p>Entry into force of the new Housing Law, including actions encouraging an increase in the supply of affordable and social housing.</p> <p>Implementation of the second chance procedure for natural persons under the new insolvency framework.</p>	
<b>Non-financial corporate debt</b>	<p>Financial guarantees offered by CERSA to provide support to small businesses.</p>	<p>Implementation of the modified RRP including financial instruments targeting private investment: green and entrepreneur ICO lines, Next Tech startups fund and the Regional Resilience Fund managed by the EIB.</p>
<b>Public debt</b>	<p>Approval of measures for the modernisation and digitalisation of the public administration.</p> <p>Adoption of measures to ensure the financial sustainability of the pension system while preserving the adequacy of pensions.</p> <p>Publication of the reports of the third phase of the spending review by AIReF.</p>	<p>Phase-out of the emergency energy support measures adopted since 2021.</p>
<b>Unemployment</b>	<p>Entry into force of the new Employment Law and the review of hiring incentives with the aim of improving employability and reducing unemployment.</p> <p>Approval of the new Organic Law on the university system including the aim of enhancing the labour market relevance of higher education.</p> <p>Creation of new places for Vocational Education and Training (VET).</p>	<p>Action plan for the development of university micro-credentials as part of the modified RRP.</p>

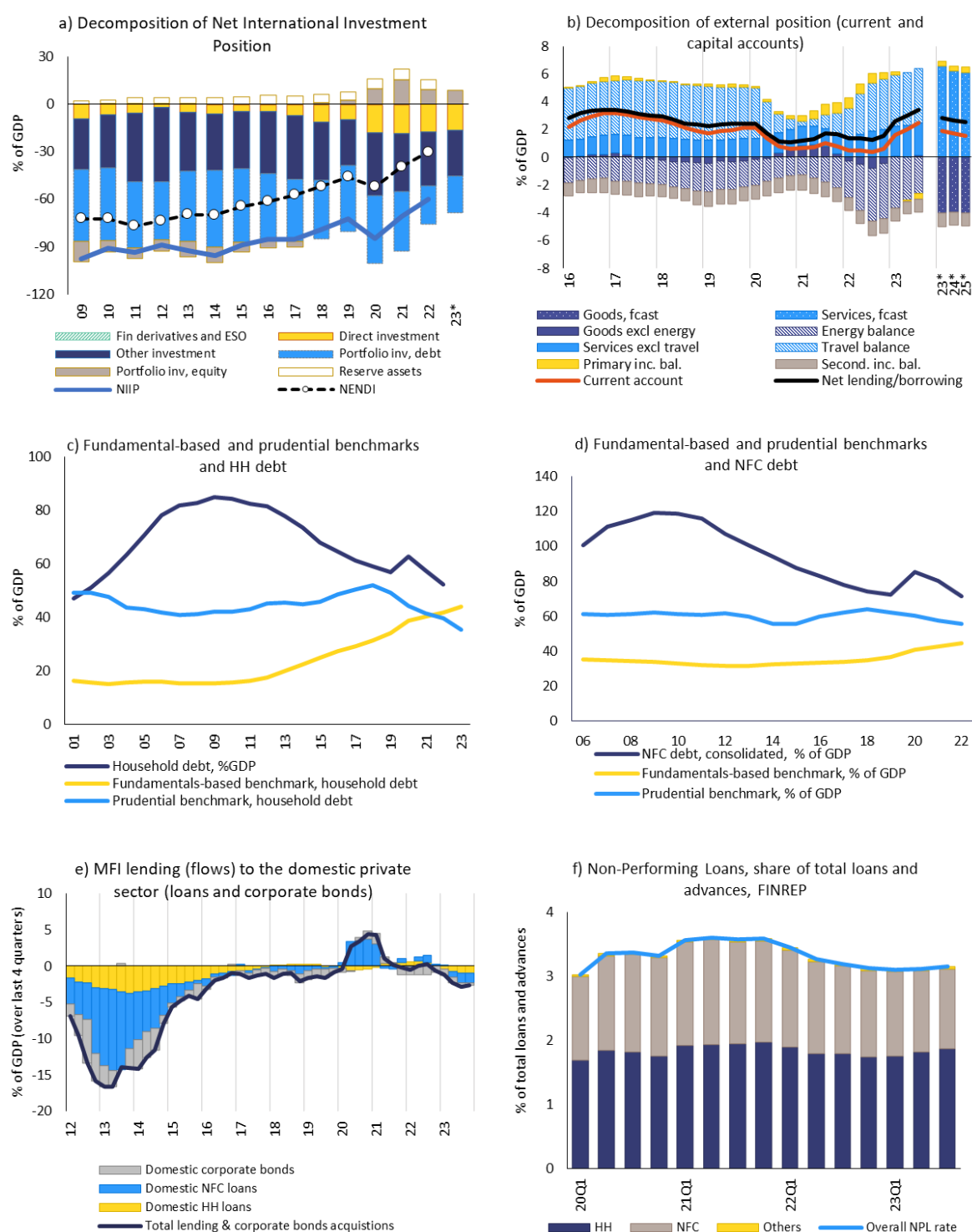
## Conclusion

**Strong reductions in the vulnerabilities associated with high private and external debt stocks of Spain are continuing, with public debt also having receded in recent years.** External and internal debt ratios resumed their steady decline initiated since 2013, after a reversal in 2020 caused by the pandemic-induced shock on the economy. Their adjustment is expected to continue in the upcoming years, albeit more gradually than what experienced in the recent past, as nominal GDP growth is expected to be less supportive. On the external side, the negative NIIP has been on a decade-long

improving trend, only interrupted in 2020 by the pandemic. The NIIP is expected to improve further in the near future, underpinned by continued current account surpluses thanks to the growing positive contribution from tourism and exports of non-tourism services, and net capital transfer. Private debt-to-GDP ratio declined steadily throughout the 2010s' until the outbreak of the pandemic and again after 2022, and its dynamics appear favourable going forward. The government debt-to-GDP ratio improved from 120% in 2020 to 110% in 2023-Q3, and is projected to keep reducing, although very gradually, in the next years even if the deficit is expected to hover slightly above 3% of GDP. The evolution of the public debt to-GDP ratio in the longer term, however, is subject to more risks, given its elevated starting level and the still high structural deficits posted in the recent years. The unemployment rate decreased sharply over the last decade, from 23.7% at the end of 2014 to 11.8% in the fourth quarter of 2023, and it is set to remain on a downward trend in the next years.

**Substantial policy progress has been achieved over the past decade, but more effort is needed especially to reduce high public debt.** The set of measures implemented so far under the RRP and those planned until end-2024 include actions improving access to finance for SMEs and facilitating preventive debt restructuring for companies. The focus on policies steering the reduction of energy dependency from abroad and increasing the competitiveness of the business sector, once implemented, would support a further unwinding of external vulnerabilities. Some RRP measures addressing the expenditure and revenue sides of the government's budget also contribute to accelerating the downward trajectory of public debt to GDP and to reducing fiscal vulnerabilities. The past and ongoing set of actions related to the labour market are proving effective at reducing the share of temporary employees and labour market duality. They also have the potential to boost labour productivity. Additional policy steps would be needed in response to the identified vulnerabilities. This includes additional consolidation efforts needed to achieve a sound budgetary position and improve overall fiscal sustainability, addressing skill mismatches and shortages, as well as tackling the low share of investment in R&D by firms. Moreover, boosting the competitiveness of the goods segment, in light of the high import intensity of domestic demand, particularly durable consumption and investment, could help improve the net international investment position.

Graph 2.3: Selected graphs, Spain



Source: Eurostat, Ameco, ECB and European Commission services calculations

Table 2.2: Selected economic and financial indicators (Part 1), Spain

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	2023	forecast	
								2024	2025
Real GDP	3.5	-1.3	2.6	-11.2	6.4	5.8	2.5	1.7	2.0
p.m.: Real GDP (Winter 2024 interim Forecast)							2.5	1.7	2.0
Contribution to GDP growth:									
Domestic demand	4.7	-3.0	2.4	-8.2	5.3	3.1	1.9	1.9	2.1
Inventories	0.0	-0.2	0.2	-0.8	1.4	-0.2	-0.2	0.0	0.0
Net exports	-1.2	1.8	0.0	-2.2	-0.2	2.9	0.8	-0.2	0.0
Output gap (2)	2.9	-4.7	-2.2	-9.3	-4.3	0.0	0.7	0.6	0.6
Unemployment rate	9.7	19.1	18.8	15.5	14.8	12.9	12.1	11.6	11.1
Harmonised index of consumer prices (HICP)	3.2	2.3	0.6	-0.3	3.0	8.3	3.4	3.4	2.1
p.m.: HICP (Winter 2024 interim Forecast)								3.2	2.1
HICP excluding energy and unprocessed food (y-o-y)	2.8	1.6	0.7	0.6	0.7	5.2	5.8	3.2	2.0
GDP deflator	3.9	0.5	0.8	1.1	2.7	4.1	5.9	3.4	2.0
<b>External position</b>									
Current account balance (% of GDP), balance of payments	-7.0	-3.9	2.3	0.6	0.8	0.6	1.9	1.7	1.5
Trade balance (% of GDP), balance of payments	-4.4	-0.9	3.2	1.4	1.0	1.2	.	.	.
Primary income balance (% of GDP)	-1.5	-1.7	0.0	0.3	0.8	0.5	.	.	.
Secondary income balance (% of GDP)	-1.1	-1.3	-1.0	-1.1	-1.0	-1.1	.	.	.
Current account explained by fundamentals (CA norm, % of GDP) (3)	-2.1	-1.0	0.6	0.9	0.8	0.9	1.2	1.3	1.4
Required current account to stabilise NIIP above -35% of GDP over 20Y (% of GDP) (4)	-0.3	1.4	-0.7	-1.5	-1.3	-1.1	-1.0	-0.9	0.0
Capital account balance (% of GDP)	0.6	0.4	0.4	0.5	0.9	0.9	.	.	.
Net international investment position (% of GDP)	-66.5	-91.3	-84.6	-84.9	-71.0	-60.2	.	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)	-35.6	-71.8	-58.7	-52.2	-39.6	-30.2	.	.	.
Net FDI flows (% of GDP)	3.3	0.1	0.9	1.4	-1.4	-0.1	.	.	.
<b>Competitiveness</b>									
Unit labour costs (ULC, whole economy)	3.1	0.4	0.0	9.2	0.4	1.0	6.1	3.5	1.8
Nominal compensation per employee	2.9	2.0	1.1	1.2	4.5	4.1	5.4	3.9	2.5
Labour productivity (real, hours worked)	0.5	1.7	0.5	-0.2	-0.8	1.8	0.3	0.1	0.4
Real effective exchange rate (ULC)	1.8	-1.6	-1.7	4.0	0.9	-2.8	-0.5	-0.4	-0.8
Real effective exchange rate (HICP)	2.2	-0.1	-0.1	0.1	0.7	-1.2	.	.	.
Export performance vs. advanced countries (% change over 5 years)	.	-4.1	0.4	-7.1	-8.4	-4.3	.	.	.
<b>Private sector debt</b>									
Private sector debt, consolidated (% of GDP)	158.6	198.3	145.3	147.9	137.7	123.5	111.1	.	.
Household debt, consolidated (% of GDP)	70.1	83.2	63.8	62.6	57.6	52.3	46.9	.	.
Household debt, fundamental benchmark (% of GDP) (6)	15.6	16.1	28.2	38.7	40.2	41.9	43.8	.	.
Household debt, prudential threshold (% of GDP) (6)	43.4	42.9	48.4	44.4	41.4	39.5	35.4	.	.
Non-financial corporate debt, consolidated (% of GDP)	88.5	115.1	81.6	85.3	80.1	71.2	64.2	.	.
Corporate debt, fundamental benchmark (% of GDP) (6)	35.1	33.0	34.0	40.9	42.6	44.4	47.1	.	.
Corporate debt, prudential threshold (% of GDP) (6)	62.5	61.4	59.9	60.2	57.4	55.9	51.5	.	.
Private credit flow, consolidated (% of GDP)	25.3	-0.7	-1.2	4.8	3.0	0.3	1.0e	.	.
Household credit flow, consolidated (% of credit stock)	15.4	-0.5	-1.4	-0.6	1.0	0.5	.	.	.
Non-financial corporate credit flow, consolidated (% of credit stock)	93.6	-2.0	-1.8	13.3	6.1	0.1	.	.	.
Net savings rate of households (% of net disposable income)	3.9	4.6	2.6	13.7	9.7	2.9	.	.	.

(e) estimate based on ECB quarterly data

(1) Potential output is the highest level of production that an economy can reach without generating inflationary pressures. The methodology to compute the potential output is based on K. Havik, K. Mc Morrow, F. Orlandi, C. Planas, R. Raciborski, W. Roeger, A. Rossi, A. Thum-Thysen, V. Vandermeulen, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, COM, European Economy, Economic Papers 535, November 2014.

(2) Deviation of actual output from potential output as % of potential GDP.

(3) Current accounts in line with fundamentals ("current account norms") are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), "Methodologies for the assessment of current account benchmarks", European Economy, Discussion Paper 86/2018, for details.

(4) This benchmark is defined as the average current account required to reach and stabilise the NIIP at -35% of GDP over the next 20 years. Calculations make use of Commission's T+10 projections.

(5) NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default.

(6) Fundamental benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds identify a threshold above which banking crises become more likely. The fundamentals-based and the prudential benchmarks are calculated following Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), "Is Private Debt Excessive?", Open Economies Review, 1- 42.

**Source:** Eurostat and ECB as of 2024-02-20, where available; European Commission for forecast figures (Autumn forecast 2023)

Table 2.2: Selected economic and financial indicators (Part 2), Spain

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	2023	forecast	
								2024	2025
<b>Housing market</b>									
House price index, nominal	14.2	-6.6	4.4	2.2	3.7	7.4	.	.	.
House price index, deflated	10.4	-8.2	3.7	2.1	1.4	0.8	.	.	.
Overvaluation gap (%) (7)	20.5	14.6	-5.2	4.6	6.2	11.2	9.1	.	.
Price-to-income overvaluation gap (%) (8)	18.3	17.8	-4.7	5.8	4.9	8.9	7.4	.	.
Residential investment (% of GDP)	11.1	6.9	4.8	5.9	5.8	5.7	5.7	.	.
<b>Government debt</b>									
General government balance (% of GDP)	1.0	-9.3	-4.1	-10.1	-6.7	-4.7	-4.1	-3.2	-3.4
General government gross debt (% of GDP)	42.1	62.7	101.9	120.3	116.8	111.6	107.5	106.5	106.5
<b>Banking sector</b>									
Return on equity (%)	.	1.1	6.6	-3.6	10.5	10.1	.	.	.
Common Equity Tier 1 ratio	.	9.4	13.0	14.7	15.0	14.4	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (9)	.	4.4	4.4	2.5	2.6	2.3	.	.	.
Gross non-performing loans (% of gross loans) (9)	.	.	5.2	2.8	2.9	2.7	2.7	.	.
Cost of borrowing for corporations (%)	4.1	3.6	2.0	1.5	1.3	3.3	5.0	.	.
Cost of borrowing for households for house purchase (%)	4.0	3.4	2.0	1.5	1.4	2.9	3.8	.	.

(7) Unweighted average of price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables; total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure, based on Philipponnet, N., Turrini, A. (2017), "Assessing House Price Developments in the EU", European Economy - Discussion Papers 2015 - 048, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Price-to-income and price-to-rent gaps are measured as the deviation to the long term average (from 1995 to the latest available year).

(8) Price-to-income overvaluation gap measured as the deviation to the long term average (from 1995 to the latest available year).

(9) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

**Source:** Eurostat and ECB as of 2024-02-20, where available; European Commission for forecast figures (Autumn forecast 2023)