Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Spain

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2025) 209 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Spain

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Spain added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

[4] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(4) On 30 April 2021, Spain submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 13 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Spain[5], which was amended under Article 18(2) on 17 October 2023 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Spain has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025, the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Spain[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over seven years.

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[5] Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Spain (ST 10150/21; ST 10150/21 ADD 1 REV 1).

[6] Council Implementing Decision of 17 October 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Spain (ST 13695/23 REV 1; ST 13695/23 ADD 1 REV 1).

[7] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Spain, OJ C/2025/643, 10.2.2025.

(6) On 26 November 2024, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify Spain as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

[8] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Spain. It assessed Spain's progress in addressing the relevant country-specific recommendations and took stock of Spain's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Spain is facing. It also assessed Spain's progress in implementing the European Pillar of Social Rights and in achieving the Union's 2030 headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

<u>Assessment of the Annual Progress Report</u>

(11) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Spain: 3.7% in 2025, 3.5% in 2026, 3.2% in 2027, and 3.0% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 9.2% in 2025, 13.0% in 2026, 16.6% in 2027, and 20.1% in 2028. On 30 April 2025 Spain submitted its Annual Progress Report[9], on adherence to the recommended maximum growth rates of net expenditure, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Spain's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025.

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9 The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

(13) Based on data validated by Eurostat[10], Spain's general government deficit decreased from 3.5% of GDP in 2023 to 3.2% in 2024, while the general government debt fell from 105.1% of GDP at the end of 2023 to 101.8% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 3.5% in 2024. In the Annual Progress Report, Spain estimates the net expenditure growth in 2024 at 4.1%. The Commission estimates that the net expenditure growth was lower than in the Annual Progress Report. The difference between the Commission's calculations and the estimates of national authorities is due to a different estimate of the change (from 2023) in national co-financing of EU programmes. The Commission uses figures reported by IGAE to, and validated by, Eurostat whereas Spain uses the Ministry of Finance's own estimates. Based on the Commission's estimates, the fiscal stance[11], which includes both nationally and EU financed expenditure, was contractionary, by 0.3% of GDP, in 2024. On 4 June 2025, the Commission adopted a report under Article 126(3) of the TFEU[12]. That report assessed the budgetary situation of Spain, as its general government deficit in 2024 exceeded the reference value of 3% of GDP. The report concluded that, taking into account all the relevant factors as appropriate, the deficit criterion is assessed as being fulfilled. In the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission does not at this stage intend to propose in June to open an excessive deficit procedure.

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10 Eurostat-Euro Indicators, 22.4.2025.

11 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

12 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 4.6.2025, COM(2025) 615 final.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Spain expects real GDP growth at 2.6% in 2025 and 2.2% in 2026. The Annual Progress Report includes macroeconomic projections until 2028. The Annual Progress Report does not include HICP projections[13]. The Commission Spring 2025 Forecast projects real GDP to grow by 2.6% in 2025 and 2.0% in 2026, and HICP inflation to stand at 2.3% in 2025 and 1.9% in 2026.

(15) In the Annual Progress Report, the general government deficit is expected to decrease to 2.8% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 101.7% by the end of 2025. These developments correspond to net expenditure growth of 4.1% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 2.8% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects the complete phase-out of energy support measures and the impact of newly adopted tax reforms. According to the Commission's calculations, these developments correspond to net expenditure growth of 4.2% in 2025. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 0.3% of GDP, in 2025. The general government debt-to-GDP ratio is set to decrease to 100.9% by the end of 2025. The decrease of the debt-to-GDP ratio in 2025 mainly reflects nominal GDP growth outpacing the cost of servicing debt.

[13] In the Annual Progress Report, the Spanish authorities include only figures for the deflator of private consumption, which is projected at 2.7% in 2025 and 2.4% in 2026.

(16) General government expenditure amounting to 1.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.8% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Spain.

(17) General government defence expenditure in Spain amounted to 1.0% of GDP in 2021, 1.1% of GDP in 2022 and 0.9% of GDP in 2023[14]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.0% of GDP in 2024 and 1.3% of GDP in 2025. This corresponds to an increase of 0.3 percentage points of GDP compared to 2021.

(18) According to the Commission Spring 2025 Forecast, net expenditure in Spain is projected to grow by 4.2% in 2025 and 7.9% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Spain in 2025 is projected to be above the recommended maximum growth rate, corresponding to a deviation[15] of 0.2% of GDP in annual terms. The projected deviation does not exceed the 0.3% of GDP threshold for the annual deviation. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is projected to be below the recommended maximum growth rate.

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[14] Eurostat, government expenditure by classification of functions of government (COFOG). Due to methodological differences between the COFOG and NATO definitions, expenditure based on the COFOG definition may differ from the expenditure based on the NATO definition.

[15] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

(19) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 2.5% of GDP in 2026. The decrease of the deficit in 2026 mainly reflects the expected expiry of the flood-related emergency measures. These developments correspond to net expenditure growth of 3.9% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2026. The general government debt-to-GDP ratio is projected by the Commission to decrease to 100.8% by the end of 2026.

(20) The recommendation endorsing the medium-term plan of Spain specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the recovery and resilience plan, such as reforms in the area of taxation and fight against tax fraud, reforms to improve the quality of public expenditure, and investments in the areas of digital transformation, green transition and productivity, as well as additional reforms and investments such as deployment of a common business regulation framework, the introduction of mandatory electronic invoice, and investments in human capital, physical capital. Taking into account the information provided by Spain in its Annual Progress Report, the Commission finds that the implementation of the set of reforms and investments underpinning an extension of the adjustment period that were due by the 30 April 2025 have been implemented with the exception of certain elements of Spain's Recovery and Resilience Plan's measure C28.R3 and the related milestone on the entry into force of tax reforms derived from the expert group recommendations or other analyses by the Ministry of Finance.

Key policy challenges

(21) Demographic developments are expected to lead to a significant increase in public expenditure related to healthcare, long-term care and pensions. The overall fiscal consolidation needs call for further reforms to modernise and adapt the tax system in areas such as consumption taxes, personal income taxation and environmental taxation in accordance with the tax reforms under the RRP and MTP. The main source of tax revenues in Spain in 2022 were labour taxes (50.5% of tax revenues in 2022). The labour tax revenue amounted 19.1% of the GDP in 2022 (EU average 17.3% and euro-area average 17.7%). Spain is one of the EU countries with the lowest revenue from consumption taxes (9.7% of GDP vs. 10.9% in the EU in 2022). Environmental taxes are also below the EU average: 1.52% of GDP vs. 2.02% of GDP in the EU in 2022. The Spanish tax system does not internalize sufficiently environmental costs associated with the use of water and diesel. The reforms aimed at increasing the role of indirect taxes (consumption and environmental) would secure fiscal revenues, support job creation and economic activity going forward while reducing economic distortions caused by the large weight of labour taxes. The rationalisation of tax benefits would be a tool to simplify the consumption taxation and reduce the VAT policy gap. The tax and benefit system reduced the Gini coefficient in 2022 by 7.6 pps, which was close to the EU average of 7.9 pps. Still, Spain ranks 18th in the GINI index for the distribution of income before social transfers and ranks 21st in the distribution of total disposable income. Social cohesion would be further improved by additional adjustments to the progressivity of personal income taxation and wealth taxes.

(22) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Spain's long-term competitiveness through the green and digital transitions, while ensuring social fairness. The Commission Communication NextGenerationEU – The road to 2026, adopted on 4 June 2025, clarifies the applicable timeline for the end of the Facility and provides guidance to Member States to maximise implementation by 31 August 2026, including on how to further streamline their RRPs, lays out key options to consider when revising them, and stresses the importance of careful joint planning ahead for the submission of the last payment requests in 2026. Spain has already made progress in implementing the reforms and investments in its Recovery and Resilience Plan. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Spain to accelerate the implementation of reforms and investments by addressing relevant challenges. The size and complexity of the plan call for specific targeted action to ensure timely completion of reforms and investments. Particular attention is needed to address challenges related to absorption capacity, especially given the concentration of investments towards the end of the implementation period. These challenges are further compounded by the sizeable volume of funds channelled through financial instruments under the amended recovery and resilience plan. Fostering a stronger coordination among different levels of administration, along with streamlining procedures, would help accelerate fund absorption and ensure that support reaches the final beneficiaries promptly. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(23) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+), has accelerated in Spain. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Spain is already taking action under its cohesion policy programmes to boost competitiveness and growth while enhancing social cohesion. At the same time, Spain continues to face challenges, including those relating to enhancing innovation and competitiveness in the context of industrial transition, upskilling of workers and fostering STEM inin education and training, as well as improving access to affordable housing in major cities and tourism intensive areas, and increasing water resilience, especially in Mediterranean regions and on the Canary Islands. It is also key to ensure the effective implementation of the Child Guarantee. In accordance with Article 18 of Regulation (EU) 2021/1060, Spain is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[16] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. They also provide flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition, and to investments in skills in priority sectors while maintaining the focus on persons in most vulnerable situations in ESF+ programmes.

[16] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review − COM(2025) 123 final.

(24) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Spain could make optimal use of these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Spain should effectively address the remaining challenges related to the business environment, judicial efficiency, cross-border energy infrastructure, water management and water resilience, scarcity of housing supply, availability of social housing, social fairness (particularly regarding child poverty), skill shortages and mismatches and early school leaving.

(26) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Spain also needs to take action. 71% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Spain[17]. There is scope for Spain to simplify regulation and reduce administrative burden on business. The volume of regulations in Spain has increased in recent years, with a sizeable rise due to the impact of COVID-19. In 2022 only, the Spanish administration adopted 11 775 new norms. A significant majority of firms in Spain see regulation as a major obstacle to investment. Spain needs to improve the business environment by enhancing coordination between territories and government levels, by removing regulatory barriers at all levels, and by easing the administrative burden on day-to-day business. Spain's '20th regime' proposal has the potential to improve the business environment for companies.

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17 'Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024).

(27) Spain has taken important steps to improve efficiency in the justice system but challenges persist. Although the reforms planned in Spain's RRP contribute to enhancing judicial efficiency, it still takes a long time to resolve cases in civil and commercial courts. This can result in numerous economic inefficiencies, such as less functional real estate markets, less entrepreneurship and lower credit availability, among others. It would be beneficial to improve the efficiency of the justice system, for example by increasing human and material resources and achieving an even level of digitalisation between territories.

(28) To boost the competitiveness of businesses in Spain, it is key to tackle the barriers that hinder business growth and operations, especially for smaller and newer businesses. Beyond reforms adopted by Spain in the context of the RRP, such as the Law on Business Creation and Growth and the Law on Start-ups, further action is required to reduce financial and administrative barriers to business growth. There is significant potential to improve inter-administrative cooperation, particularly on regulatory and administrative procedures that have a direct impact on business operations. In particular, regulatory differences between territories discourage companies from expanding across regions simultaneously, limiting the scope for innovation, growth, specialisation and efficiency gains. Although Spain performs well in terms of scientific excellence and has a research system that attracts both domestic and foreign talent, the country continues to perform below the EU average on overall innovation. Spain also continues to underperform on science-business linkages. Specifically, R&D spending, especially private R&D investment, remains well below the EU average and unevenly spread across regions. Recent public support schemes to support private R&D investment have a limited uptake due to their complexity and the excessive administrative burden they put on potential beneficiaries.

(29) Large areas of the country are water-stressed, with water demand in particular from agriculture, tourism and energy exceeding the water resources available under sustainable conditions. Beyond the investments and reforms addressed by the RRP and other EU funds in Spain, improving water management remains a major issue in Spain, particularly in terms of water governance, water body rehabilitation and water efficiency. In addition, mechanisms to improve coordination among the different levels of government, including measures to aid effective implementation and enforcement, would help the existing measures reach their full potential.

(30) Climate risks directly affect Spain's economy and society, with a high number of fatalities and economic losses resulting from weather and climate-related extreme events. Further investment in infrastructure is needed to make the water system more resilient. Anticipating and adapting to the adverse effects of climate change such as floods, coastal and soil erosion, desertification, droughts, heat waves and forest fires remains a core challenge in Spain. Doubling down on this work would also improve the country's water resilience.

(31) Nature degradation presents significant risks to Spain's economy and competitiveness. Spain has the highest level of supply chain dependency on ecosystem services in the EU, with several sectors such as agriculture, fisheries, construction and water utilities fully dependent on ecosystem services. Failure to maintain the capacity of ecosystems to deliver services could entail significant costs or even halt production in these sectors. Protecting and restoring key ecosystems would ensure the long-term competitiveness of these economic sectors. Specifically, the agri-food system continues to have significant climate and environmental impacts, warranting additional action to support the uptake of sustainable agriculture practices.

(32) Spain is making progress on the roll-out of renewables and has one of the highest installed capacity of wind and solar power in the EU. Spain's cross-border electricity interconnection level in 2025 (at less than 5%) is still significantly below the interconnection targets for 2030 (15%). Continuing the development of networks and storage solutions would help supporting the integration of renewables in the Spanish energy mix.

(33) The scarcity of housing and its effect on house prices impacts the disposable income of households and represents a challenge, especially for low-income families and young people. Data from the Bank of Spain shows that nearly 40% of Spanish tenants spend 40% of their income on rent and utilities, against the EU average of 27%, and the Spanish economy has a housing deficit of approximately 600 000 units. The land law reform is pending and would facilitate new housing development by reducing processing times, promoting regulatory stability and eliminating unnecessary administrative bottlenecks. Further promoting innovative construction methods could help to increase productivity and support housing supply. Preventing labour shortages in the construction sector is fundamental, as − according to the Bank of Spain − over 50% of employers in the sector report difficulties in finding workers.

(34) There is short supply of affordable and social housing, significantly below the EU average. It is essential to reverse the factors that constrain supply to boost residential construction and expand the rental market. The focus should be on the swift provision of affordable housing, especially for young people and low-income households. According to the Bank of Spain, the stock of social rental housing is only 1.5% of the total housing stock, well below the EU average of 9%. Freeing up public land, expanding the stock of social rental housing and increasing financing for affordable and social housing would boost the availability of housing.

(35) In a context of high poverty and social exclusion risks, child poverty is a significant structural challenge to social fairness and future competitiveness. More than one in three children are at risk of poverty or social exclusion. The most affected are children from migrant and Roma backgrounds, children in single-parent households, children whose parents have a low or medium level of education and children from low work-intensity households. Severe material and social deprivation is also high and above the EU average. There is potential to improve child welfare by ensuring more even access to, as well as more efficient and targeted provision of, social support and income protection measures. Strengthening and accelerating the implementation of the Child Guarantee, as well as ensuring access to basic services such as school meals and housing, could help mitigate the impact of child poverty and prevent the intergenerational transmission of disadvantages. The minimum income scheme (Ingreso Mínimo Vital – IMV) and the child support supplement (Complemento de Ayuda para la Infancia – CAPI) are crucial tools to reduce poverty and continued efforts have been undertaken in the last years to strengthen their implementation. Nonetheless, improving awareness and reducing administrative barriers could increase still low take-up rates and address inefficiencies. The impact of social transfers (excluding pensions) on poverty reduction, including on child poverty, is among the lowest in the EU. Despite some improvements, income inequality remains high and above the EU average, and the redistributive effect of taxes and benefits is also limited. Refining the design of current child-related tax deductions offers an opportunity to strengthen support for the most vulnerable. Increasing targeted support for families and children, and decreasing persisting regional differences, could help improve social outcomes. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis based on the Social Convergence Framework[18].

[18] SWD(2025)95 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2025.

(36) Persistent obstacles affect the transition from education to work in both vocational and educational training (VET), particularly at the medium level, and university education. Low levels of basic skills and high rates of students leaving school early remain pressing issues. A significant share of 15-year-olds underperform in mathematics, reading and science. Few students achieve top performance, jeopardising future productivity and competitiveness. Despite rising VET enrolment, enrolment in upper-secondary and dual programmes remains limited. The low employment rates of medium-skilled VET graduates and the low share of adults with intermediate qualifications point to underlying skills mismatches. Enrolment in VET declines with higher age and lower educational attainment, exacerbating inequalities, particularly for older adults, men and people with low levels of skills. The low take-up of adult learning reduces opportunities to adapt to changing job market needs, thereby also undermining productivity and competitiveness.

(37) The rate of children enrolled in early childhood education and care continues to increase, but regional differences persist. Regional differences in achieving basic skills are also significant. Students leaving school early also remains a challenge, with persistent differences at regional level and between genders.

(38) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Spain, recommendations (2), (3), (4) and (6) help implement the first euro-area recommendation on competitiveness, while recommendations (4), (5) and (6) help implement the second euro-area recommendation on resilience, and recommendation (1) helps implement the third euro-area recommendation on macroeconomic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that Spain take action in 2025 and 2026 to:

1. Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025. Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025. Further strengthen fiscal sustainability by reviewing and simplifying the tax system, including by shifting part of the tax burden from labour towards environmental, consumption and immovable property taxation, to support economic growth and employment, cohesion and the green and digital transition.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU programme and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Simplify regulation, improve regulatory tools and reduce administrative burden as well as regulatory fragmentation across regions. Increase judicial efficiency by streamlining judicial proceedings and by further digitalising the justice system in all regions. Facilitate business creation, innovation and expansion, supporting R&I investments and stronger science-business linkages.

4. Improve water management to better manage adaptation to current and future effects of climate change by strengthening coordination across all levels of government and administrative bodies and by scaling up solutions for drought and flood risk reduction and sustainable water management in agriculture, by increasing water efficiency and expanding infrastructure investments, and by supporting the application of nature-based solutions. Invest in energy storage, electricity transmission and distribution and in cross-border electricity interconnections.

5. Increase the housing supply by completing the reform of the land law, reducing permitting processing times, eliminating administrative bottlenecks, and preventing labour shortages in the construction sector. Strengthen the provision of social and affordable housing.

6. Address child poverty, while also improving the efficiency, coverage and adequacy of social transfers and social assistance. Reduce skills shortages and mismatches by strengthening dual vocational education and training, and by increasing lifelong learning, in particular for the low-skilled. Improve basic skills and address early school leaving, taking into account regional differences.

Done at Brussels,

For the Council
The President