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Recommendation for a

COUNCIL RECOMMENDATION

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

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Recommendation for a

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 Articles 121(2) and 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,

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as 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 Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations.

(2) On 16 July 2025, the Commission adopted its proposal for a regulation establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 ([2]). The proposal

[1] 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 (OJ L, 2024/1263, 30 April 2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Proposal for a Regulation of the European Parliament and of the Council establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime,

aims to increase the effectiveness of Union funding by reducing the fragmentation of the financial architecture and to support Member States in the coordination of their economic policy in line with Article 175 TFEU.

(3) On 25 November 2025, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 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, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 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 ([3]) on 21 April 2026 and the Joint Employment Report and the Recommendation on human capital on 9 March 2026.

(4) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. The European Semester is aligned with the Competitiveness Compass, 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.

(5) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation ([4]). Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(6) On 3 June 2026, the Commission published the 2026 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 RRP. On the basis of that 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 headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 - COM(2025) 565 final. The proposed Regulation is currently the subject of negotiations with the co-legislators.

[3] OJ C, C/2026/2434, 28 April 2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj .

[4] 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 February 2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(7) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Spain ([5]). The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over seven years. The Council recommended the following maximum growth rates of net expenditure: 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 the base year of 2023 of 9.2% in 2025, 13.0% in 2026, 16.6% in 2027 and 20.1% in 2028.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of 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 ([6]) and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Spain, on [date] the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Spain to deviate from the recommended maximum growth rates of net expenditure ([7]). The period when the national escape clause is activated (2025-2028) allows Spain to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(9) On 30 April 2026, Spain submitted its 2026 Annual Progress Report ([8]) 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 implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(10) Real GDP growth in 2025 was 2.8% and HICP inflation stood at 2.7%. The Commission Spring 2026 Forecast projects real GDP to grow by 2.4% in 2026 and 1.9% in 2027, and HICP inflation to stand at 3.0% in 2026 and 2.5% in 2027.

(11) Based on data provided by Eurostat ([9]), Spain's general government deficit decreased from 3.2% of GDP in 2024 to 2.4% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects the strong revenue performance and phase-out of energy-related measures. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 2.4% of GDP in 2026 and 2.0% of GDP in 2027. The stabilisation in 2026 mainly reflects the positive revenue developments compensating the different sets of measures to ease the consequences of

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5 Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Spain (OJ C, C/2025/643, 10 February 2025, ELI: http://data.europa.eu/eli/C/2025/643/oj).

6 Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.3.2025, C(2025) 2000 final.

7 Council Recommendation of [date] allowing Spain to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ [OJ: please insert relevant OJ references]).

8 The 2026 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

9 Eurostat-Euro Indicators, 22 April 2026.

the floods in some regions and the crisis in the Middle East. The decrease of the deficit in 2027 mainly reflects the lower cost of the flood-related emergency measures and the expiry of the energy-related measures.

(12) Based on the Commission's estimates, the fiscal stance ([10]), which includes both nationally and EU financed expenditure, was broadly neutral in 2025. It is projected to be expansionary, by 0.3% of GDP, in 2026, and contractionary, by 0.5% of GDP, in 2027.

(13) Based on data provided by Eurostat ([11]), Spain's general government debt decreased from 101.6% of GDP at the end of 2024 to 100.7% of GDP at the end of 2025. The decrease in the debt ratio in 2025 mainly reflects the strong nominal GDP growth and the deficit reduction. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to decrease to 99.6% by the end of 2026 and to further decrease to 98.9% by the end of 2027. The decrease in 2026 mainly reflects the nominal GDP growth outpacing the cost of debt servicing. The decrease in the debt ratio in 2027 mainly reflects the nominal output growth and the deficit reduction.

(14) Based on the Commission's Spring 2026 Forecast, total general government defence expenditure in Spain amounted to 1.0% of GDP in 2025, corresponding to an increase of 0.1 percentage points of GDP compared to the reference year 2024. According to the Commission Spring 2026 Forecast, it is projected at 1.2% of GDP in 2026, corresponding to an increase of 0.3 percentage points of GDP compared to 2024.

(15) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Spain adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms[12]. These include untargeted reductions in VAT rates on fuels, electricity and natural gas, as well as untargeted reductions in excise duties on electricity and fuels. In addition, the authorities introduced targeted support measures, such as subsidies for professional transport operators and farmers, direct aid to electro-intensive industries, reductions in electricity network charges, and support for thermal social bonus schemes and underground fuel storage. Most of these measures are expected to expire by 30 June 2026, although some are set to remain in place until early 2027. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to approximately 0.3% of GDP in 2026. According to Commission estimates, if all these measures were to remain in force until end-2026, their fiscal cost would amount to 0.6% of GDP in 2026.

(16) Based on the Commission's calculations, net expenditure in Spain grew by 4.8% in 2025, and 9.3% cumulatively over 2024 and 2025. The net expenditure growth in 2025

[10] 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.

[11] Eurostat-Euro Indicators, 22 April 2026.

[12] This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

is above the recommended maximum growth rate, corresponding to a deviation of 0.4% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0.1% of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current estimates for defence spending.

(17) Based on the Commission's calculations, net expenditure in Spain is projected to grow by 5.1% in 2026, and 14.9% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0.6% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0.7% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2024, 2025 and 2026 together, the projected cumulative deviation of net expenditure amounts to 0.4% of GDP.

(18) 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. Taking into account the information provided by Spain in its Annual Progress Report, the Commission finds that the implementation of the key steps of these reforms and investments that were due by 30 April 2026 seems to be broadly on track. The tax reform is still being assessed and the tax benefits reform, along with two steps related to the digital transformation of education will be assessed under the last payment of the RRP. As regards the measures to improve the management of temporary disability, partnership agreements with the National Social Security Institute were signed by most regions whereas the agreements with mutual societies have only been signed by three regions and the two autonomous cities. Regarding the homologation of diplomas, a ministerial order has been adopted and put in place, setting instructions as regards the homologation and equivalence procedures for foreign university qualifications. The Commission considers that, overall, Spain has complied with its commitments in a satisfactory manner ([13]).

(19) The average share of labour taxes in Spain's total tax revenue increased from 48.7% on average in the 2015-2019 subperiod to 51.8% in the 2020-2024 subperiod, while the EU average remained unchanged at 51.4% over the same timeframe. Higher revenues from labour taxes explains 90% of the increase in Spain's tax burden over the last decade, reflecting a growing reliance on labour taxation. Non-indexation of personal income tax (PIT) brackets and rises in social security rates have accelerated Spain's shift towards labour taxation. Labour tax revenues as a share of GDP (19.0% in 2024) remain, however, below the EU average (20.3%). By contrast, revenues from consumption and environmental taxes are below the EU average, both as a share of GDP and as a share of total tax revenues. Environmental tax revenues amounted to 1.6% of GDP in Spain, compared with 2.1% in the EU. Spain has the largest VAT policy gaps in the EU, resulting from one of the highest VAT rate gaps and the highest national policy-driven VAT exemption gap. Among categories where preferential VAT rates apply, restaurants and accommodation services stand out for their large

[13] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026)200 final.

budgetary impact amid very limited redistributive effect. A more limited use of preferential VAT rates would contribute to simplifying the tax system. Despite some recent evaluations (notably, from the Independent Fiscal Institution, AIReF), there is no systematic approach to assessing the effectiveness of tax expenditures. Quality of public finances could benefit from an enhanced consolidated reporting and systematic assessment of all tax expenditures at all territorial levels.

(20) The systematic, meaningful and timely 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 Union's funding instruments, as well as in the context of the European Semester

(21) 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+) in Spain, remains below EU average, both in terms of project selection and payments. It is important to step up and accelerate efforts to ensure the swift delivery of investments, while maximising their impact on the ground. Spain is already acting under its cohesion policy programmes to boost competitiveness and growth. At the same time, Spain continues to face challenges in effectively implementing cohesion policy in the areas of research and innovation (R&I), skills mismatches, social inclusion, climate change risk management and prevention, and support to a just transition. It is essential to ensure that the new investments identified by Spain in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation ([14]), are deployed rapidly and effectively.

(22) Spain faces several challenges related to fiscal sustainability, productivity, effective and sustained investment in innovation, regulatory and administrative burden, performance of the justice system, science-business linkages, access to finance, climate adaptation and resilience of infrastructure, water management, the electricity network, supply of social and affordable housing, child poverty, skills mismatches and the efficiency of the healthcare system.

(23) Spain has initiated a collaboration framework to identify and address regulatory bottlenecks, and reduce regulatory fragmentation across regions; however efforts need to increase and accelerate. "Regime 20" enables collaboration among the national, regional, and local levels of Spanish administration. Throughout 2025, progress was made in areas such as business opening licenses, digital labelling, the installation of charging points, energy efficiency certificates, low-voltage installations, and the reduction of regulatory dispersion. This approach serves to coordinate reforms in areas of agreement; however, additional efforts are needed to tackle barriers at a larger scale. Spain would benefit from a mechanism to identify these barriers and use "Regime 20" to implement more structural changes. Moreover, regulatory restrictiveness is particularly high in retail. This administrative complexity affects business establishment due to burdensome licensing and authorisation procedures, creating additional obstacles for market entry and investment, and leading to consumer detriment. Spain would benefit from further convergence of retail regulations to improve the business environment and support competition, especially in the retail sale

[14] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 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.

of medicines. Barriers to intra-EEA trade in goods persist, such as for packaging and labelling. Differences in regulations across Spanish regions further increase compliance costs and create barriers for businesses operating between regions and from other EU countries, reducing choice and increasing prices for consumers.

(24) Spain has introduced a series of legal reforms to enhance the organisational, digital, and procedural efficiency of its justice system; however, their effective implementation depends on the provision of adequate and sustained investment and its equitable allocation across regions. The justice sector faces staffing shortages, with relatively few judges compared to the size of the population, alongside increasing early retirements and rising litigation. This places a significant burden on serving judges and contributes to persistent judicial delays that adversely affect legal professionals, businesses and citizens. In addition, disparities in the level of digitalisation across regions, together with limited interoperability between case management systems, continue to hamper the overall quality and efficiency of judicial processes. Improving the performance of the justice system by ensuring adequate staffing, while maintaining recruitment standards, and harmonised digitalisation across regions and full interoperability of case management systems is therefore essential to strengthen the institutional framework and boost the business environment.

(25) Low private R&D investment remains a major constraint. Business development and innovation is hampered by a fragmented business structure dominated by low value micro-enterprises. Spain has introduced pertinent reforms as part of the RRP, such as the Law on Business Creation and Growth and the Law on Start-ups. Yet, further action is required to remove the financial and administrative hurdles that impede business innovation and to reduce the productivity gap.

(26) Spain’s limited and unevenly distributed R&D spending is heavily concentrated in some regions, and as a result, it is insufficient to stimulate overall business R&D expenditure across the whole country. There is scope to increase public R&D spending (with a view to reach 1.25% of GDP by 2030) and reduce its dependence on EU funds while ensuring a more balanced territorial distribution. Combining an increased public investment with targeted tax incentives and streamlined grants would help crowd in private investment and support high-value sectors. Regular ex-post policy evaluation of the innovation policy mix in the national territory would help translate research into commercial outcomes and leverage private R&D investment while ensuring efforts are focused to achieve the overall policy goals.

(27) Weak collaboration between academia and industry limits business innovation and productivity gains, despite the amended Science, Technology and Innovation Act and University Act. Moreover, public schemes established to incentivise private R&D investment have had a muted impact, largely due to their complex nature and the lack of incentives for business and academia. Reinforcing knowledge intermediaries, adjusting incentives in universities and public research organisations toward applied innovation, and improving the performance-based funding would encourage specialized, collaborative research and innovation outputs in universities and research institutions.

(28) Access to growth financing remains an important constraint to firms’ expansion. Venture and equity capital markets are still underdeveloped, as Spanish firms financing still heavily rely on bank loans. At the same time, the allocation of private savings does not sufficiently support innovative business expansion. Equity and venture capital investments via supplementary pension schemes could be further

encouraged by introducing auto-enrolment and easing portfolio investment limits. Additionally, there is need to improve startups' knowledge transfer capabilities, networks, cooperation and conversion of research into commercial innovation. Together, these factors continue to inhibit the reallocation of resources towards more productive activities. The IMF[15] points at insufficient market size and lack of access to equity financing among the key factors underlying young firms' inability to scale up rapidly. Promoting a greater use of market-based financing and enhancing the connection between businesses and capital market participants can expand access to financing for firms. Moreover, the lack of effective diversification of financing sources weighs on the dynamism of private investment. According to the OECD ([16]), the lack of available financing is reported by a large share of Spanish firms, notably SMEs, as a considerable long-term barrier to investment in 2023.

(29) Spain's multi-level governance presents challenges for delivering a coherent response to rising climate risks. Insufficient coordination across national, regional and local authorities reduces the effectiveness of measures to address natural hazards, including floods and wildfires. Strengthening both vertical coordination (between national and regional authorities) and horizontal coordination (across regions) is essential. This should include further clarifying responsibilities and reducing overlaps across the phases of prevention, preparedness, response and recovery, as well as strengthening monitoring and evaluation mechanisms.

(30) Spain's water resources remain under increasing pressure from long-term declines in rainfall and snowpack, rising temperatures and growing soil aridity. Large areas of the country – especially drier southern, inland and island areas – experience water stress, with demand – particularly from industry, agriculture, tourism and energy production – exceeding sustainably available resources. Further efforts towards a more sustainable approach to water management are still needed. This should include stronger pricing incentives to promote a more efficient water use, improved coordination and implementation of water policies across all levels of the administration and streamlined decision-making procedures. It should also involve effective implementation of the Urban Wastewater Treatment Directive, scaling up water reuse and investing in infrastructure to enhance the performance and resilience of the water management system. For this purpose, it is also key to support the development of nature-based solutions, including river restoration and water body rehabilitation.

(31) While Spain has leveraged substantial support for its climate adaptation and mitigation efforts, including through EU Funds, additional measures and investments are needed to safeguard critical infrastructure, particularly railways and roads. Addressing climate risks requires systematic screening of major assets, alongside the implementation of high-impact upgrade measures. Beyond infrastructure improvements, investing in nature-based solutions, including sustainable, climate resilient forests and soils, is essential. This would also enhance carbon sequestration through wildfire prevention, restoration of degraded forests, and protection of carbon-rich ecosystems. Nature-based solutions should strengthen resilience to climate extremes through measures

[15] International Monetary Fund (2025), *Spain: 2025 Article IV Consultation—Press Release; and Staff Report*, IMF Staff Country Reports, No. 2025/121. Available at: https://doi.org/10.5089/9798229012782.002.

[16] Organisation for Economic Co-operation and Development. (2025). *OECD Economic Surveys: Spain 2025* (Vol. 2025/22, November). Paris: OECD Publishing. https://doi.org/10.1787/eco_surveys-esp-2025-en.

such as wetland restoration for flood control and soil management to reduce drought impacts.

(32) Climate-related hazards pose significant risks to Spain's economy and society. Between 1980 and 2024, extreme weather events resulted in substantial human and economic losses, amounting to EUR 119.6 billion. Despite these increasing risks, climate insurance coverage remains relatively low in this area, leaving gaps in financial protection. To strengthen resilience, Spain should reinforce its disaster risk financing framework to ensure long-term financial sustainability, while also expanding the use and uptake of climate insurance mechanisms.

(33) While Spain is making progress on the roll-out of renewables and has one of the highest installed capacities of wind and solar power in the EU, further development of networks and storage solutions is needed to support the integration of renewables in the Spanish energy mix. Challenges remain in accessing the grid but also in translating access into operation, slowing down the clean energy transition. For instance, additional projects currently in the pipeline are foreseen to bring the total storage capacity up from 7.7GW to 14.2GW, below the 2030 target of 22.5 GW. Spain needs to take the necessary steps to improve the resilience and flexibility of its electricity grids, also to exit its 'reinforced operation mode'. To ensure grid stability, the transmission system operator is actively using gas power plants to maintain voltage stability pending further reforms and investments being implemented to reinforce voltage control. The country also requires further investments to increase cross-border electricity interconnection, which currently at 3.11% remains far lower than the 2030 target of 15%. Complex permitting processes for industrial facilities and the need for additional demand-side measures can hinder investments in decarbonising manufacturing production in the country. Persistently high greenhouse gas emissions from road transport remain a key challenge, accounting for almost half of Spain's effort-sharing emissions. Further efforts are also needed for Spain to achieve its 2030 energy efficiency targets. Notably, additional investments would be needed to improve the energy efficiency ratio in public and private buildings, while addressing at the same time the energy poverty challenge, affecting 15.9% of the total population, among the highest in the EU, and notably more acute on households at risk of poverty. Emissions from buildings increased by 2.6% in 2024 and accounted for around 19% of total emissions in the effort sharing sectors. This reflects persistent challenges in the energy performance of the building stock and underscores the need to reduce the reliance on fossil fuel-based heating and cooling.

(34) The Spanish housing market remains under severe pressure due to persistent supply bottlenecks, particularly in high-demand areas. Combined with rising housing demand, this is driving upward pressure on prices. Housing shortages are most pronounced in urban and metropolitan areas, as well as in tourism-intensive coastal areas. The urgently needed development of new housing is currently constrained by a number of supply-side factors including limited availability of buildable land, slow administrative procedures and permitting processing. Addressing these obstacles to development, while safeguarding environmental goals can help overcome some of the constraints that have slowed down housing development. Moreover, homelessness is on the rise.

(35) Spain has one of the lowest stocks of social housing across the EU, representing less than 2% of the total housing supply compared to an EU average of roughly 7%. This exacerbates pressure on the rental market and contributes to housing price increases. Moreover, the existing stock of social housing is distributed unevenly across the country and does not reflect territorial needs where demand is more pronounced.

Depopulation affects much of the country, with population growth concentrated mainly in coastal areas and in around the capital region. Addressing the sizeable social housing deficit by expanding the number of social housing units, notably in areas more affected by affordability constraints, is pivotal to promoting social welfare policy and affordable housing provision. At the same time, promoting social rental housing is important to provide tenure flexibility across the life cycle and accommodating changing household needs. Moreover, it provides direct and timely access to affordable dwellings without requiring long term commitment, additional entry costs and eligibility constraints compared to social housing purchasing schemes. Finally, the social housing system still relies heavily on government financing. Ensuring its long-term sustainability also requires setting up predictable financing mechanisms, such as through the reinvestment of returns or through revolving funds schemes, contributing to reduce its dependence from the national budget.

(36) Child poverty in Spain remains a significant challenge, in a context of overall high poverty levels and persistently high-income inequalities. In 2024, more than one in four children in Spain were at risk of poverty or social exclusion – placing the country among the weakest performers in the EU. Certain groups are particularly vulnerable, notably children in single-parent or large households, those whose parents have low levels of education, as well as Roma children and those with migrant backgrounds. Although recent measures have contributed to some improvements, the situation reflects broader weaknesses in the social protection and benefits systems, including in terms of the distribution of social expenditures across generations amidst limited fiscal resources. Social transfers have only a limited capacity to reduce poverty, particularly among children. Regional differences in poverty rates and in the impact of social transfers persist, pointing to uneven coverage and access to benefits and services across territories, particularly in rural areas, despite some progress in recent years. Coordination between national and regional social, health and employment services and benefits continue to be constrained by fragmented competences, heterogeneous eligibility criteria and overlapping instruments. Further coordination could ensure more comprehensive and continuous support. The take-up of the national minimum income scheme (Ingreso Mínimo Vital - IMV) and its related child support supplement (Complemento de Ayuda para la Infancia - CAPI), has increased but remains below potential, with a significant share of eligible households still not receiving support due to administrative burdens, complex eligibility procedures and limited awareness. Further increasing take-up and adequacy, as well as related activation policies and improving the adaptability of the IMV to changes in household circumstances would strengthen the impact of the benefit. While recent adjustments have aimed to enhance work incentives, their effectiveness remains to be seen. Moreover, strengthening social inclusion pathways by more systematically combining income support with tailored social services would further improve outcomes for vulnerable groups, including children at risk of poverty or social exclusion. It is also necessary to rebalance public expenditure towards policies supporting children and young people such as education, access to housing, and employment. Addressing all these challenges requires further improving the efficiency, adequacy and coverage of social assistance, while ensuring greater coherence between cash transfers, in-kind support, activation support and tax benefits, which would contribute to supporting upward social convergence, in line

with the Commission services' second-stage country analysis based on the Social Convergence Framework. ([17]).

(37) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills and education, which hamper competitiveness. The 2026 country-specific recommendations addressed to Spain can contribute to the implementation of the Council Recommendation on human capital in the Union.

(38) While the vocational education and training (VET) system continues to develop and VET enrolment has improved across all levels, persistent skills mismatches stemming from structural misalignments between both VET and higher education and the needs of the labour market remain. A lack of intermediary qualifications due to low enrolment in medium-level VET, particularly in STEM fields, coexists with acute skills shortages in certain technical sectors, such as construction and manufacturing. VET enrolment is also highly uneven across regions. Despite all VET formally being dual since the recent system reform, full deployment of dual VET did not yet take place. In higher education, Spain exhibits high levels of tertiary educational attainment, yet shortages in high-demand fields such as ICT, engineering and healthcare persist. While graduates from STEM-related VET and higher education programmes display strong employment outcomes – indicating high demand for these specialisations – low participation rates, gender imbalances and dropouts from STEM programmes risk constraining Spain's capacity to foster innovation and deliver on the green and digital transitions. Moreover, adult learning participation remains low and uneven, limiting reskilling opportunities and perpetuating early disadvantages.

(39) Spain has made notable progress in reducing early leaving from education and training (ELET), but the rate remains high. Although it has declined in recent years, it is still well above both the EU average and the EU 2030 target. Regional differences persist and early leaving is particularly concentrated among vulnerable groups. Foreign-born youth are nearly three times more likely to leave education early than their native-born peers, Roma youth have significantly lower levels of upper-secondary attainment than the general population, and young people with disabilities are disproportionally affected. Gender gaps persist as well with higher rates among men than women. Underachievement in basic skills has gradually increased since 2012, widening the gap between Spain's performance and the EU target of reducing the share of low achievers in reading, mathematics and science to below 15% by 2030. Regional differences in basic skills also remain significant, with some regions consistently recording lower scores than the national average.

(40) Despite achieving relatively good health outcomes, challenges in the access to healthcare and long-term care (LTC) services persist in Spain, negatively affecting the health of its population, social fairness, and productivity. Increasing the capacities of primary care and LTC is essential to improve access and ensure adequacy as an ageing population increases the demand for these services. While the 2025–27 Primary and Community Care Action Plan aims to expand primary care capacity, and despite recent reforms aiming at the deinstitutionalisation of LTC, further efforts are still needed to

[17] SWD(2026)122 5 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2026.

reduce workforce shortages, regional differences, and waiting times, and to address persistent investment gaps.

(41) Spain faces significant healthcare and LTC workforce challenges. They include the age structure, unequal distribution of professionals, and forecasted shortfalls of General Practitioners (GPs), nurses and other specialists. Working conditions also remain challenging, undermining job quality and attractiveness. To address these imbalances, Spain could adopt measures to improve the recruitment and retention of talent and improve working conditions, including through rebalanced training, the expansion of new professional roles, including for nurses, increased flexibility, digitalisation, gender balancing, a reduction of informality in care professions, and by reviewing the shifts system. Regional differences in access and the quality of services, exacerbated by staff shortages, also remain a significant challenge. The reform of primary care and its regional impact require further assessment, with care integration progressing differently across regions. Spain should adopt best practices models, establish appropriate monitoring and use regional indicators. Services would also benefit from improved national-regional and cross-service coordination (among health, social, employment and education). Access to services is further hindered by increasing waiting times. Spain set up a Working Group on Waiting Lists in 2024 to bring together management and data across Autonomous Communities, however further action is required to address these shortfalls through targeted staffing, digital triage, and the harmonisation of waiting list management.

(42) While Spain's health system delivers generally strong health outcomes at a relatively low cost, healthcare expenditures are projected to increase significantly over the next decades as demographic changes place increasing pressures on public finances. To ensure sustainability while preserving the adequacy of services, measures could be directed at maximising existing resources through efficiency gains. These could be achieved in LTC services through a better allocation of resources, through an improved triage of the dependence grade and the associated care of recipients. In addition, efforts could be directed towards further deinstitutionalisation and community care. An increased coordination of LTC with healthcare services would also contribute to more efficient systems. As regards primary care, investments in interoperable digitalisation, telemedicine and prevention would result in a more efficient delivery. Within the scope of its Spending Review 2018-2020, AIReF has proposed actions to strengthen efficiency in the pharmaceutical and hospital spending areas, resulting in concrete saving opportunities. Spain has room to improve generic medicines and biosimilar adoption rates across some therapeutic categories. Addressing disparities and improving evaluation in pharmaceutical spending and unjustified regional differences in the costs of medical procedures and prescriptions can also improve efficiency. In this regard, Spain would benefit from implementing AIReF's recommendations to increase spending efficiency through enhanced monitoring of tax expenditures to create the necessary fiscal space to address increasing healthcare spending pressures.

(43) 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 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Spain, the recommendation (1) helps implement the first, the second and the third recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3)

helps implement the seventh, the eighth and the ninth recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area, the recommendation (5) helps implement the fifth recommendation on the euro area, and the recommendations (6) helps implement the second and the fifth recommendations of the euro area.

HEREBY RECOMMENDS that Spain take action in 2026 and 2027 to:

1. In view of the deviation projected for 2026 by the Commission vis-à-vis the recommended net expenditure path, ensure that net expenditure respects the maximum growth rates recommended by the Council on 21 January 2025, while making use of the flexibility under the national escape clause for higher defence expenditure. Reinforce defence spending and readiness while ensuring spending efficiency and gradually adapting the budget to sustain structurally higher defence spending. Ensure that any measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings while ensuring that their fiscal cost is compatible with the commitments under the EU fiscal framework. Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025. Strengthen fiscal sustainability in particular by limiting tax expenditures, while protecting growth and supporting low-income households. Increase spending efficiency through enhanced monitoring of tax expenditures and implementing spending reviews at national and regional level.
2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Accelerate efforts to implement cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities in the mid-term review of the cohesion policy framework.
3. Foster productivity and innovation by reducing administrative burden and regulatory fragmentation among regions, including removing barriers to retail and free movement of goods. Improve the performance of the justice system by ensuring adequate staffing, harmonised digitalisation and full interoperability across regions. Facilitate business innovation, expansion and scale up targeting high value sectors, including by supporting stable R&I investments, implementing stronger industry-academia collaboration and improving access to finance, especially to venture capital.
4. Step up coordination on climate resilience across national, regional, and local levels. Improve water management and governance, and scale up urban wastewater recycling. Adapt critical infrastructure to climate change, including railways and roads, and promote nature-based solutions to mitigate related risks. Further develop the disaster financing framework. Invest in energy storage, electricity transmission and distribution and cross-border electricity interconnections. Foster the decarbonisation of industry and the electrification of transport.
5. Expand the housing stock, including by reviewing the regulatory framework, streamlining permitting processes, facilitating land availability and repurposing the underutilised building stock. Increase the provision of affordable and social housing, favouring rental options, better aligned with territorial and regional needs and based on sustainable financing systems that are less dependent on government financing.

6. Address child poverty, including by rebalancing social expenditures across generations and improving the coverage and adequacy of social transfers and social assistance and their link to activation, further reducing income inequalities. Reduce skills mismatches by further strengthening dual VET, the labour market relevance of higher education and adult learning with a focus on STEM. Improve basic skills and address early school leaving. Improve access to healthcare by increasing the capacities of primary care and long-term care, addressing workforce shortages and reducing waiting times. Address regional disparities in access to opportunities and services, especially in areas facing rapid depopulation, while increasing efficiencies that create fiscal space to address increasing spending pressures.

Done at Brussels,

For the Council
The President