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2026 Country Report - Spain

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

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

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European Commission

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Spain

2026 Country Report

ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

The Spanish economy has proven resilient in recent years, achieving robust growth rates amid domestic resilience and external headwinds. Following a gradual recovery from the pandemic, since 2023 Spain has shown solid economic performance featuring broad-based job creation and moderate real income gains supporting private consumption. Gross fixed capital formation returned to its pre-pandemic level in 2023 and has been supported by the implementation of the recovery and resilience plan (RRP). Over this period, the rise in intangible assets and non-residential constructions, coupled with a modest growth of equipment and machinery, have been the key drivers of investment growth. At the same time, housing construction has remained relatively subdued.

Spain's GDP growth has steadily outperformed other major euro area economies throughout the post-pandemic period but its per-capita income growth still lags behind. The limited growth of Spain's GDP per capita could be partially explained by the strong population growth experienced in recent years, fuelled by continuous migration flows. At the same time, it also reflects weak labour productivity growth, particularly in productivity per employee even though with significant disparities across regions (see Annex 18). Following the pandemic, productivity per hour picked up notably, increasing by 2.5% compared to 2019 levels. This is partly due to the continued decline in hours worked per employee. Conversely, productivity per employee and per full-time equivalent has broadly stagnated, also contributing to adversely affecting how wage dynamism evolved.

Internal and external debt ratios kept declining, with less reliance on foreign capital. Businesses continued to reduce their debt levels in recent years as the debt-to-GDP ratio of both households and non-financial corporations in 2025 stood over 25 percentage points (pps). below the level registered in 2019. Widened current account surpluses, mainly on the back of the robust growth of services exports, underscored the sustained improvement of the net international investment position. At the end of 2025, this position reached a positive 30 pps differential compared to its value in Q4-2019.

In 2025 the labour market momentum was mainly sustained by foreign migration. Job creation grew by 2.6% last year**.** The number of jobs added throughout the year filled by foreign-born workers account for 7.9% of the total. The unemployment rate fell below 10% in the last quarter of 2025 for the first time in more than a decade. Youth unemployment, at 23%, is at its lowest level since the global financial crisis but remains one of the highest across the EU.

Headline inflation edged down to 2.7% in 2025. Overall inflation – as measured by the harmonised index of consumer prices - slowed-down by 0.2 pps compared to 2024. This is mainly due to the moderation of food prices, notably processed food, and non-energy industrial goods, which offset

Box 1:

UN Sustainable Development Goals (SDGs)

Spain performs above the EU average and is further improving on most SDGs related to education and gender equality (SDGs 4 and 5) but needs to catch up with the EU average on reduced inequalities (SDG 10).

Challenges persist on poverty reduction, social exclusion, long-term and early school leaving. Despite decreasing, the percentage of Spaniards unable to keep their homes warm enough remains among the worst in the EU. The severe housing deprivation rate (SDG 1) also increased, which indicates poor living conditions. Out of the 17 indicators, targets for 7 SDGs remain below the EU average. These relate to poverty (SDG 1), environmental sustainability (SDGs 6 and 15) and economic growth and fairness (SDGs 8, 9, 10 and 16). For more on this, see Annex 17. Spain adopted in February 2026 a revised National Sustainable Development Strategy 2030.

the sharp year-on-year rise in energy inflation**.** Inflation excluding energy and food eased mildly, despite sustained price pressure from services, notably in the insurance and transport sector, and, to a minor extent, tourism. In a context of high labour demand, nominal wage growth exhibited a solid increase in recent quarters.

GDP growth expanded by 2.8% in 2025 and is projected to remain robust in the near term before moderating in the next years. This year the Spanish economy is forecast to grow by 2.4%, before decelerating to 1.9% in 2027 and gradually approaching its medium-term potential. Domestic demand is set to remain robust, upheld by private consumption and, to a lesser extent, the positive performance of investment. At the same time, the more fragile external environment is set to weigh on the contribution of external demand to GDP growth. Moreover, a progressive slowdown of migration flows and demographic ageing is set to reduce both labour force expansion and the dynamism of employment.

Structural challenges call for an economic shift

Addressing the persistent skills mismatches and promoting further upskilling of the workforce is essential to boost productivity ([1]). According to OECD data, around two thirds of Spanish SMEs report difficulties hiring labour force with the appropriate skills, while a large number of employers report hiring problems due to skill shortages. Despite progress, further boosting the attractiveness of medium-level vocational education and training (VET), including through the framework set out for the full implementation of the dual VET system by 2025/2026, and promoting adult learning, upskilling and reskilling programmes – both within firms, in particular SMEs, and through public schemes – would be key to improving labour market outcomes. These elements would contribute to a better match between the education system and the skills required in the labour market, with a

([1]) See OECD Economic Surveys: Spain, Volume 2025/22

focus on STEM as an important factor underpinning productivity growth most notably in the less developed regions (see Annex 18).

Weak business innovation paired with ineffective science-business mechanisms remains a key challenge. Low private investment in R&D together with an underdeveloped collaboration between science and industry, and a concentration in traditionally low-value sectors such as tourism and agriculture, hinders innovation performance in some regions of the country (see Annex 4).

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. Together, these factors continue to inhibit the reallocation of resources towards more productive activities. The IMF points at insufficient market size and lack of access to equity financing among the key factors underlying young firms' inability to scale up rapidly ([2]).

Promoting greater use of market-based financing and strengthening the connection between businesses and capital market participants, including by increasing the role of pension funds and incentivising retail investments, could expand access to financing for firms. Moreover, the lack of effective diversification of financing source might weigh on the dynamism of private investment. According to the OECD, many Spanish firms (particularly SMEs) report the lack of available financing as a considerable long-term barrier to investment in 2023. Additionally, the EIB Investment Survey ([3]) signals that around 20% of Spanish firms expressed concerns with the cost of external financing.

Weaknesses in the business environment continue to hamper firms' growth. Spain's business structure remains dominated by micro-enterprises with low capitalisation and a limited propensity to innovate. Additionally, regulatory barriers, such as retail restrictiveness, and domestic market fragmentation across regions weigh on business dynamism and ultimately on prosperity and workers incomes.

Increasing spending needs and limited fiscal space highlight the importance to focus on the quality of public finances

Despite short-term improvements, Spain faces major challenges in meeting its medium-term fiscal commitments amid rising spending pressures resulting from ageing and political fragmentation. Fiscal commitment by Spain in its medium-term fiscal structural plan (MTFSP) for 2025-2028, imply an improvement of the structural primary balance of 1.6 pps of GDP until 2028. As the measures detailed in the MTFSP only partially address these challenges, additional efforts would be required to meet its fiscal commitments in a context of political fragmentation (no budget has been approved by parliament since 2023), rising defence expenditure and continued expenditure pressures due to ageing and related policy choices.

([2]) See IMF, 2025

([3]) See EIB, 2025

Spain's debt and deficit have declined, including as a result of positive macroeconomic developments and structural adjustment of public finances. Since the pandemic, the general government deficit has decreased by around 7.5 pps and the debt by around 20 pps. Although strong nominal growth contributed significantly, improved fiscal outcomes were also driven by increased tax intake, supported by solid employment growth and sustained corporate earnings. Additionally, overall public expenditure has dropped by around 5 pps of GDP, mostly because current expenditure decreased in terms of GDP, whereas public investment grew slightly, supported by the RRP and investments in defence.

Positive revenues helped reduce the deficit to 2.4% in 2025, thanks to the phase-out of energy-related measures and the 2024 tax reform, with further improvements projected in 2026. In 2026, the government deficit is forecast to stabilise at 2.4 % of GDP as the positive revenue developments are set to compensate for the sets of measures to mitigate the effects of the conflict in the Middle East and the consequences of the floods in Andalusia and Extremadura. The debt-to-GDP ratio fell to 100.7% in 2025, and is expected to drop below 100% for the first time since 2019.

Defence and national security spending remain relatively low but is increasing gradually, including with EU support. Spain remains one of the EU countries with the lowest defence expenditure in national accounts terms (0.9% of GDP in 2024), but it is expected to gradually keep increasing towards 2029. In April 2025, the government approved the Industrial and Technological Plan for Security and Defence, aimed at increasing the level of defence and security investment. While Spain has reached the 2% NATO target, this is below the 5% committed by all NATO Member States. In April 2026, Spain requested fiscal flexibility for defence expenditure under the EU's national escape clause ([4]). In February, the Council approved Spain's request for EUR 1 billion in EU loans under SAFE (Security Action for Europe) to support defence investment.

There is scope to make the tax mix simpler and more growth-friendly, in line with the Commission's 2025 recommendation to review and simplify the tax system. Spain has a growing reliance on labour taxation, while revenues from consumption and environmental taxes remain comparatively low. Spain has the largest VAT policy gap in the EU (see Annex 3) and tax expenditures lead to an average annual revenue loss of around 4 pps of GDP, according to Spain's independent fiscal authority, AIReF.

Economic efficiency could be enhanced by broadening the VAT base, limiting the application of reduced rates, while compensating lower-income households through targeted cuts to the taxation of earnings from labour or transfers. Quality of public finances could also benefit from enhanced monitoring of tax expenditures, which is discontinued at central government level since 2022 despite the constitutional mandate. A consolidate reporting of tax expenditures including all territorial levels would support evidence-based economic policy.

Spain is projected to have the second-highest public pension spending in the

([4]) The activation of the national escape clause provides EU Member States with budgetary flexibility to increase defence expenditure, without an immediate need to finance such increase with spending cuts or revenue-raising measures. The flexibility thus gives Member States the necessary time to accommodate higher defence expenditure within national budgets.

EU by 2070. Gross public pension spending as a percentage of GDP is projected to grow by 2.5 pps by 2040, reaching around 16% of GDP. By 2070, pension spending is set to reach 17% of GDP, compared to an EU average of 12% Supplementary pension schemes could strengthen the resilience of the pension system by diversifying retirement income sources (see Annexes 2 and 6). Their role could be strengthened by introducing auto-enrolment in the second pillar, easing portfolio investment limits and setting up pension tracking to help future retirees estimate their pension rights.

Both public healthcare and long-term care expenditure are below the EU average, but their projected increases, in particular that of healthcare, could pose a significant fiscal risk beyond the MTFSP period. Public healthcare and long-term care expenditures are projected at 5.9% and 0.8% of GDP, respectively, in 2025 (below the EU average of 6.6% and 1.7%). They are expected to increase by 0.8 pps and 0.2 pps, respectively, by 2040 (against respective EU-average increases of 0.3 pps and 0.4 pps), requiring additional fiscal buffers. The wealth gap between younger and older populations continues to widen. It is therefore also necessary to rebalance public expenditure towards policies supporting young people such as education, access to housing, and employment.

There is scope for better coordination between the different levels of government in Spain to improve the business environment, the efficiency of public spending and ensure fiscal sustainability. AIReF has repeatedly called for better coordination across governments (central, regional and local) to better implement the recommendations of the spending reviews. While compatible with the new EU fiscal framework, there is also scope to better update Spain's law on budgetary stability and financial sustainability, facilitating the translation of spending commitments in the MTFSP to all levels of government.

Expanding social and affordable housing requires additional policy action

Spain's housing sector faces deep-rooted structural challenges. The Spanish housing market features a severe mismatch between supply and demand, together with a lack of a substantial stock of affordable and social housing, including social rental options. These vulnerabilities are particularly relevant in the main urban and metropolitan centres, islands and coastal areas. The shortage of dwellings dedicated to social purposes, representing just 1.5–1.7% of the total housing stock and far below the EU average of 6–7%, with high regional differences, exacerbates pressure on the rental market, contributing to price increases (see Annex 7). At the same time, the high fragmentation and low productivity of the Spanish construction sector, dominated by small and micro-firms with less than 10 employees, can be another factor limiting the supply.

The continuous increase of housing prices over the past decade exacerbates affordability issues. House prices have been rising steadily across Spain since 2014 and this rise has accelerated in last few years, on average,(see Annex 18). This is largely underpinned by a number of intertwined factors. These include Spain's robust economic and labour market performance and significant population increases due to inward migration contributing to increased demand for housing, as well as the influence of foreign

buyers in the market. Growing housing costs amplify existing affordability challenges and disproportionately affect low-income and vulnerable groups. Homelessness is on the rise and the Roma population keeps facing severe housing challenges. In this context, housing support in the framework of social protection remains limited. Moreover, the country's ageing housing stock (at an average 43.5 years old) exacerbates issues such as energy poverty (which despite decreasing remains 15.9% in 2025) and accessibility gaps, highlighting urgent renovation needs (see Annex 16).

Rising housing costs are a factor hampering labour mobility across the country. High housing costs and general affordability issues – notably in cities and regions offering good job opportunities – limit labour mobility within Spain. They make it more difficult for workers to move between regions and for young people to move out of their family home. This hampers efficient labour allocation and increases skills mismatches, representing a challenge for Spain's competitiveness.

A 2025 country-specific recommendation urged Spain to accelerate the implementation of a number of policy actions. Additional efforts are needed to comply with the recommendation and improve accessibility in new constructions and renovations. The Housing Law (12/2023), implemented under the RRP, for example, aims at boosting the provision of social housing and allowing the limitation of rents in stressed areas. Nonetheless, its implementation remains uneven across regions and could undermine the the achievement of its intended objectives. Moreover, limited progress has been achieved on the reform of the Land Law, which was proposed in 2024 and still pending adoption.

A number of other policy initiatives have been announced and some of them have been recently rolled out. These include the creation of the CASA47 state agency geared at expanding the affordable rental stock. In April 2026, the Spanish government also adopted a state housing plan 2026–2030 (totalling EUR 7 billion) to increase funding for social and affordable housing with an indefinite protection regime and to promote the rehabilitation of the existing housing stock. The effectiveness of the policy initiatives intended to increase housing supply, including social housing, will depend on the use of efficient business models to maintain the housing stock and on substantial investment over time (see Annex 16).

Tackling Spain's ongoing housing challenges calls for far-reaching measures to expand supply and increase the social housing stock. Facilitating land availability, streamlining permitting processes, and reducing administrative bottlenecks can help overcome some of the constraints that have slowed housing development. Making use of vacant houses and converting non-residential buildings into dwellings have the potential to further increase the available housing stock contributing to better addressing the growing demand. Expanding the social housing stock and, in the absence of additional supply of social housing, preserving the social housing purpose in case of ownership transfer is essential to help low- and middle-income households accessing housing, reducing regional disparities, while promoting social inclusion (see Annex 16). Lastly, using new business models for the promotion and maintenance of the social housing stock could help improve the financial sustainability of the social housing system.

Efforts are being made to address economic resilience challenges

Spain is making progress in strengthening its economic resilience but continues to face structural challenges. Industry has shown resilience despite slower growth in 2025, amid global uncertainty, higher energy costs and strong international competition. Through initiatives such as PERTE (Strategic Projects for Economic Recovery and Transformation), Spain is promoting strategic sectors, including renewable energy technologies, electric mobility, semiconductors and social and care economy, with strong support from EU funds. Continued investment in grids, storage and faster permitting remains important to ensure security of supply and support electrification of the industry, while strengthening energy sovereignty, thereby reinforcing economic resilience..

Spain relies on imports of many critical raw materials essential for the green and digital transitions. Spain shows strong capabilities to boost recycling, circular economy initiatives and diversifying supply (with 7 strategic projects selected by the European Commission aiming to improve Europe's critical minerals supply). These are key elements to reduce dependency on critical raw materials. Spain recently approved the Action Plan for the Sustainable Management of Mineral Raw Materials, with more than EUR 400 million allocated. Simplified permits on prospective mine sites could further boost the business case for smaller sites in the country, also because of the existing seven strategic projects allocated.

Regional disparities remain strong

Long-standing structural challenges remain in most Spanish regions. All Spanish regions but four (Madrid, Basque Country, Navarra and Catalonia) remain below the EU average GDP per capita (see Annex 18). In addition, the concentration of population growth in coastal zones and the capital area aggravates territorial imbalances in labour supply, public services, and development capabilities. This, in turn, leads to further depopulation in many regions.

Addressing regional disparities also requires considering the levels of regional exposure and vulnerability to climate change. Their impacts vary significantly between the wetter northern regions and the drier southern, inland and island areas. The outermost region of the Canary Islands remains strongly specialised in tourism, a sector that provides substantial employment and external income. Continued diversification and innovation across all economic sectors, with a particular emphasis on fostering innovation, climate change adaptation and mitigation in the tourism sector is needed, promoting further diversification through smart specialisation both within and beyond tourism.

Regional economies show strong sectoral differences. Industrial activity and innovation performance in Spain is concentrated in a few regions, and ICT and financial services are mainly located in Madrid and Barcelona. Some coastal and island regions are strongly specialised in tourism-related activities, which support regional employment and entrepreneurship, while also highlighting the importance of diversification and resilience policies. In parallel, there are former coal-dependent regions (such as

Asturias, and parts of Castile and Leon, Aragon and Andalusia) face transition-related employment and demographic challenges. This has an impact on a highly fragmentated labour market with unemployment rates varying between regions, from 28% in Melilla to 7.6% in Navarra (see Annex 11). This reality also impacts the regional social and employment services, including benefits provision, coverage, access and quality. Spain's reliance on traditional industries like coal mining in Asturias and Andalusia face significant socio-economic and environmental challenges affecting the ability of the areas on which those industries are located to remain attractive places to live and work.

Changes in population dynamics are an important risk factor for the competitiveness of several regions. While most regions recorded positive net migration of people aged 15–39, these inflows were largely concentrated in coastal regions and major cities. Cities and suburban areas expanded overall whereas rural areas lost 4.4% of their population and continued to face poorer access to essential services, particularly healthcare (see Section 4 on skills, quality jobs and social fairness). More coordination between social, education, labour and health services at both national and regional levels could also produce an improvement. This means that some regions face a key competitiveness risk: limited capacity to secure investment and attract talent, which constrains their ability to develop higher-productivity economic activities and undermines residents' right to stay.

Skills shortages and educational disparities constrain regional competitiveness. Some less-developed and 'just transition' regions (e.g. Asturias or Andalusia – see Annex 18) have early-school-leaving rates above the EU average and PISA performances below the EU average. This is also reflected in all levels and aspects of education: primary, higher education, vocational education and training, and adult learning (see Annexes 12 and 13). Best practices can be learnt from those regions that have better results in all levels of educational outcomes, even more if they are less developed regions (e.g. Castile and Leon). Inequalities in access to quality education risk further widening socio-economic disparities between regions.

EU funding instruments provide considerable resources to Spain. They support investments and structural reforms to increase competitiveness, environmental sustainability, skills, social fairness and security, while helping to address challenges identified in the CSRs. Key instruments include the Recovery and Resilience Facility (see Box 2) and Cohesion policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Spain with an EU contribution of EUR 31.5 billion under the CAP strategic plan for 2023-2027 ([5]), while EUR 1.1 billion are allocated under the Common Fisheries Policy (CFP). A further EUR 1.6 billion are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument (BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Spain, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

([5]) An overview of Spain 's formally approved strategy to implement the EU's common agricultural policy nationally can be found at https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/spain_en

Box 2:

Key achievements of the Recovery and Resilience Facility (RRF)

Spain's recovery and resilience plan (RRP) represents a total investment budget of **EUR 102 billion**, corresponding to **6.1% of GDP**, aimed at (i) supporting the green and digital transitions, (ii) strengthening economic resilience, and (iii) addressing long-standing structural challenges identified in the European Semester. As of March 2026, **EUR 71 billion** (around 70% of the total allocation) has been disbursed following the satisfactory fulfilment of **263** milestones and targets. Implementation has progressed steadily, with a growing number of reforms and investments already fulfilled and delivering tangible results on the ground.

Highlights and impact of the plan

- **Digital transformation.** Deployment of the Digital Toolkit Programme, aimed at digitising SMEs, micro-enterprises and the self-employed. In addition, as a result of a programme aimed at digitising the education system, 240 000 classrooms have been equipped with advanced digital tools, 700 000 educators have undergone specialised training, and 300 000 electronic devices have been distributed.
- **Green transition.** Entry into force of the Climate Change and Energy Transition Law, the consolidation of the Strategic Energy and Climate Framework, the National Climate Change Adaptation Plan and Spain's Climate Change Risks and Impacts Assessment, the National Strategies on Green Infrastructure, Connectivity and Ecological Restoration and on Energy Efficiency. In addition, investments have been implemented for the restoration of 200 km of riverbanks, 50 km of coastline aimed at increasing protection against flood risks and adapting to the effects of climate change and additional 6GW of cumulative renewable energy capacity has been installed in Spain during the period Q1 2020 to Q4 2023. RRP-related industrial initiatives, such as PERTEs, have significantly contributed to the structural transformation and decarbonisation of industrial ecosystems.
- **Sustainable mobility.** Entry into force of a regulation on low emission zones. An investment of EUR 400 million (strategic project for the economic recovery and transformation, PERTE) has been directed towards promoting electric vehicles. Additionally, the railway system has benefited from funding dedicated to upgrading more than 200 km of short-distance rail lines and enhancing over 420 train stations.
- **Labour market reform.** A comprehensive reform of the labour market has been implemented to restrict the use of temporary contracts to cases with valid justification and to encourage the adoption of permanent contracts. Consequently, the proportion of temporary employees in the private sector declined from 25.4% in the fourth quarter of 2021 to 15.6% in the third quarter of 2025.

Box 3: **Contribution of cohesion policy funds**

EU cohesion policy funding is supporting Spain's efforts to increase competitiveness, environmental sustainability, skills and social fairness. In the 2021-2027 programming period, EU cohesion policy funds ([6]) are providing EUR 35.5 billion (amounting to EUR 50.3 billion with national co-financing), or 2.5% of 2024 GDP, to Spain. This makes cohesion policy one of the main sources of public investment in the country. The value of selected projects corresponded to 59.2% of the total allocation as of March 2026, with additional calls for projects in the pipeline.

- **Innovation, business environment and productivity.** Nearly EUR 8.6 billion has been allocated for research and innovation, SMEs competitiveness and for the regions most affected by the transition away from carbon-intensive activities. Around 29 000 firms have already seen their projects approved.

- **Decarbonisation, energy affordability and sustainability.** EUR 9.6 billion has been dedicated to clean transition projects, including EUR 1.5 billion for drinking water and wastewater treatment, expected to improve services for more than six million people. An additional EUR 2.1 billion is supporting energy efficiency measures. Furthermore, over EUR 0.8 billion has been allocated to climate change adaptation, and for reconstruction in response to natural hazards.

- **Skills, quality jobs and social fairness:** With almost EUR 12 billion, ESF+ programming largely responds to the most pressing social challenges affecting both people and businesses. EUR 2.9 billion of those is for the adaptation of workers, their integration and skills development, while EUR 1.8 billion is dedicated to young people to strengthen vocational education and training. Over EUR 1.2 billion goes towards Child Guarantee measures aimed at assisting families with children facing poverty and social exclusion, while strengthening inclusive education for those with special needs. EUR 565 million is allocated to addressing material deprivation and improving overall social inclusion and well-being.

The mid-term review([7]) reinforced cohesion policy's contribution to emerging strategic priorities, reallocating nearly EUR 3.2 billion. More than half of reallocations support competitiveness, particularly supporting critical technologies. The mid-term review will also strengthen defence, will expand affordable housing, a faster deployment of charging infrastructure and a better water management. EUR 163 million of ESF+ funds were reallocated to support STEP, in particular training related to STEP technologies relevant for the country.

and emerging needs and keep them aligned with other EU policies.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Competitiveness is an ongoing challenge for the Spanish economy. In 2025, Spain received a country-specific recommendation (CSR) to (i) simplify regulation, (ii) improve regulatory tools, (iii) reduce the administrative burden and regulatory fragmentation across regions, (iv) increase judicial efficiency by streamlining judicial proceedings and by further digitalising the justice system in all regions, and (v) facilitate business creation, innovation and expansion, supporting R&I investments and stronger science-business linkages.

Limited progress has been made, with partial efforts to simplify regulation and strengthen the institutional framework to boost the business environment (see Annexes 5 and 7). Persistent structural deficits in human resources and digitalisation hamper both how the justice system performs and helps strengthen the business environment (see Annex 7). More progress is also needed on the Competitiveness Compass' directives for closing the innovation gap, simplifying the regulatory environment, and optimising the benefits of the single market. This includes: better alignment with single market rules (see Annex 5); further addressing regional regulatory fragmentation with "Regime 20" and facilitating the scale-up of seed stage start-ups through access to growth capital, including public-private venture capital and attracting international venture funds (see Annex 4).

Boosting productivity and competitiveness in Spain through innovation and further private investment

Spain faces chronically low and fragmented R&D investment. R&D expenditure remains low and private-sector investment lags behind significantly. Public R&D expenditure stood at just 0.65% of GDP in 2024, well below both the EU average (0.72%) and Spain's own target of 1.25%, while private-sector investment (0.84% GDP) remains significantly below the EU average of 1.49%, concentrated in a limited number of large firms and with significant disparities across regions (see Annexes 4 and 18).

Business innovation and science-business linkages in Spain remain weak, hindering productivity growth. Frail innovation outputs remain below the EU average in several indicators, including the declining number of SMEs active in R&D (17% drop from 2008 to 2024), low patent applications (1.2 patent application per billion of GDP in 2022, below the EU average of 2.8) and a high share of activity in sectors such as tourism and agriculture, partly explains lower aggregate productivity levels.. Universities and public research organisations face challenges in developing effective mechanisms to incite science-business collaboration at institutional level, while knowledge

intermediaries (including commercialisation and knowledge transfer offices) lack enough support. Giving universities and public research organisations greater operational autonomy in return for financial support and accountability on R&I outcomes could improve science-business links (see Annex 4).

Inefficient governance and bureaucratic challenges hamper innovation policies. A fragmented and misaligned R&D regulation framework results in inefficiencies in public support to business R&D and heavy bureaucratic hurdles for firms. Addressing this misalignment, streamlining the existing business innovation schemes and evaluating the impact of the policy mix would reduce inefficiencies (see Annex 4).

Productivity gains depend in part on closing the innovation-scaleup gap, helping regions currently lagging behind to catch up, and increasing the skills of the workforce. Regional disparities across the country constrain the overall innovation performance, with only five 'strong innovator' regions driving progress (Madrid, Catalonia, Navarra, the Basque Country and Valencia). The weak links between research, universities, technology transfer centres and industry cause the scale-up rate of innovative start-ups to be low compared to EU peers in high productivity sectors, while weaknesses across the digital innovation chain persist (see Annex 4). Moreover, skill mismatches, alongside skills shortages and persistent disparities in educational outcomes, are key constraints to long-term competitiveness (see Annex 18).

Spain's start-ups thrive at the seed stage but struggle to scale due to scarce growth capital. This gap could be closed by public-private venture funds paired with regulatory sandboxes and measures to incentivise SME growth. In this context, Spain's "España Crece" Fund, to be launched in 2026 and seeking to mobilise EUR 120 billion, could provide needed resources through combining public funding and private capital. Meanwhile, shortages of STEM and digital skills drag on efficiency. Integrating entrepreneurship and tech training into core education and incentivising STEM education would build a more adaptive labour force. Finally, strengthening global ties for hubs like Barcelona and Madrid – by attracting international venture funds and cross-border R&D partnerships – would favour long-term productivity growth by bringing more knowledge and capital into the economy (see Annexes 4, 5, 6 and 13).

Simplifying the regulatory environment and improving the institutional framework

Spain is working to simplify the regulatory environment. Most Spanish firms view business regulation as an obstacle to investment. 82% report this concern – higher than the EU average of 69% ([8]). Spain is implementing RRP measures designed to improve the business environment. These measures partly address its 2025 CSR on simplifying regulation and reducing administrative burden. Spain also enacted a Start-ups Act and Business Creation and Growth Act under the RRP in 2022 (see Annex 5). These laws aim to simplify procedures and foster conditions conducive to business growth. The average time to register a company has been reduced significantly from 30 to 10 days and most registrations are processed in just one day. To combat late payments,

([8]) European Investment Bank, 2025, EIB investment survey – Spain

the Spanish government has enforced e-invoicing since early 2026.

Nevertheless, further efforts should be made to improve the institutional framework. The Commission services will continue analysing the payment performance of the public authorities and maintain a constant dialogue with stakeholders to detect instances of unfair payment practices and deterioration of the payment performance, including also B2B transactions. Furthermore, preliminary evidence suggests that the 2022 reform of the Insolvency Act may facilitate the restructuring of businesses, thereby improving business dynamism and how economic resources are allocated, even though it still needs to be further implemented (see Annex 5).

Spain's 'Régimen 20' initiative aims to address regulatory market fragmentation across regions, but it is limited in tackling structural challenges. This initiative provides a framework for collaboration among the national, regional, and local levels of Spanish administration to identify and address barriers faced by businesses. Seven initial barriers were identified. Throughout 2025, efforts were made to reduce this fragmentation and address regional barriers in areas such as business opening licences, digital labelling, energy efficiency certificate technicians, setting up charging points and low-voltage installations.

Further coordination is essential for territorial cohesion. As administrative capacity challenges hit less-developed regions, further strengthening coordination between national, regional and local authorities through consistent consultative forums and clear mechanisms for co-planning, co-funding and decision-making is essential to strengthen territorial cohesion (see Annex 18). While the bottom-up approach of the 'Régimen 20' initiative can serve to coordinate reforms in areas of agreement, it has not proven able to tackle barriers at a large scale. Spain could benefit from a mechanism to identify such barriers and use the 'Régimen 20' initiative to implement more structural changes. Discussions are underway with Portugal to also set up a Portuguese-Spanish Strategic Forum to Boost Competitiveness.

Regulatory restrictiveness is low in services but is one of the highest in retail. Burdensome licensing and authorisation procedures for establishing businesses create additional obstacles for market entry and investment. Spain could benefit from further convergence of its differing regional retail regulations to improve the business environment and support competition, including in the retail sale of medicines.

Structural staffing shortages, uneven digitalisation and limited interoperability across regions continue to hamper judicial quality and efficiency. In 2025 the Commission recommended that Spain digitalise the justice system in all regions. An effective institutional framework is essential for competitiveness. Spain faces persistent structural shortages of judges, placing severe strain on courts and contributing to long-standing judicial delays that affect legal professionals, businesses and citizens. Disparities in regional digitalisation also persist and exacerbate limited interoperability between case management systems, further constraining the efficiency of the justice system (see Annexes 7 and 18).

Addressing barriers to and benefitting from the scale of the single market

Spain is falling short in leveraging the scale of the single market. Spain did not receive a CSR related to the single market in 2025. However, the Competitiveness Compass highlighted the need to make further progress in exploiting the scale of the single market (see Annex 5).

Spain faces significant challenges in aligning with EU single market rules. Spain ranks among the EU's worst performers in transposing single market directives. These issues can result in greater regulatory barriers, hampering productivity. For instance, national rules on packaging and waste management and mandatory sorting labels for packaging require firms to adapt their product labelling specifically for the Spanish market, creating additional compliance costs for companies operating across borders.

Differences in regional regulations across Spain increase compliance costs and create barriers for businesses operating between regions and from other EU countries. Examples of this include regional taxes on sugar-sweetened beverages, obligations to label products both in Spanish and in the relevant regional language. Easing administrative requirements in the implementation of the rules on the posting of workers could help reduce regulatory fragmentation within the single market, facilitate cross-border mobility, and foster competitiveness, without undermining workers' protections.

Spain is outside the unitary patent system, which increases costs and legal fragmentation. In Spain European patents can only be enforced through national courts, patent holders cannot benefit from centralised litigation offered by the Unified Patent Court. These challenges make Spain less attractive in terms of innovation support.

Spain has an open and diversified economy, but trade participation in the EU single market is low, leaving potential gains from deeper integration to be exploited. Spanish SMEs report several barriers to scaling up in other EU markets including barriers related to taxation and VAT, permitting and authorisation, as well as territorial supply constraints. Other factors explaining its low trade participation in the EU single market include the small size of Spanish firms, limited innovation and technological capital, skills shortages, as well as the substantial size of Spain's domestic market.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

The green transition in Spain has accelerated significantly with the expansion of renewable electricity generation and can be further advanced by addressing a number of long-standing challenges. In 2025, the Commission recommended that Spain improve water management and efficiency, expand infrastructure, strengthening coordination, scale up solutions for flood and drought risks, and invest in energy storage, electricity transmission and distribution and in cross-border electricity interconnections. Spain has implemented several measures to address these recommendations, but there is significant room for improvement in all relevant policy areas.

Spain's progress in improving water management and efficiency has been moderate. Despite efforts to improve governance, including the establishment of a national irrigation board, the lack of coordination between national, regional and local water policies, combined with the partial implementation of the Urban Wastewater Treatment Directive, hinders the adoption of an integrated approach to water management. Measures in the common agricultural policy strategic plan, the European Regional Development Fund, and the Spanish RRP have helped improve irrigation efficiency, the urban water cycle, and wastewater infrastructure, but Spain would benefit from a more sustainable water management framework - including consistent water pricing and incentives that adequately encourage water saving-practices.

Improving the resilience and flexibility of the electricity grid infrastructure in Spain is key. While the investment conditions have been improved with the adoption of the 2025-2030 transmission network plan, addressing these challenges requires coordinated action to modernise grid infrastructure, including interconnections with neighbouring countries, improving voltage control, accelerating capacity storage facilities and reducing bottlenecks in the network. This in turn will make the system more flexible and accelerate decarbonisation across all sectors.

Addressing the challenges of the expansion of renewable energy

Spain is rapidly expanding its renewable energy capacity, contributing to lower electricity prices than the EU-average. In 2025, renewables made up 54.9% of the electricity mix (see Annex 9). This growth, mainly due to the increase in solar and wind energy sources (see Graph 3.1) and further supported by the RRP, reflects ongoing policy efforts in energy transition, technological advancements and investment in clean energy infrastructure. Nevertheless, household electricity prices increased during the first half of 2025 and electricity remains much more expensive than gas for large businesses, partly due to higher taxes and levies.

Ensuring the resilience and flexibility of the grid is key for the green transition.

Spain has taken measures to strengthen the resilience of the energy system following the electricity blackout of 28 April 2025. In addition, Spain should carefully assess the recommendations of the final report from the expert panel set up by the European Network of Transmission System Operators for Electricity. Spain would benefit from taking further steps to enable its transmission system operator to move away from the current increased use of gas power plants to maintain voltage stability ('reinforced operation mode').

Expansion is outpacing grid and storage capacity. The rapid expansion of renewable capacity has given rise to challenges linked to the grid's ability to absorb the new capacity and the need for additional storage capacity. (see Annex 9). In this regard, Spain sets a target of 22.5 GW of energy storage capacity by 2030 and is progressing towards it, installed capacity as of February 2026 stands at 8.15 GW, below its target.

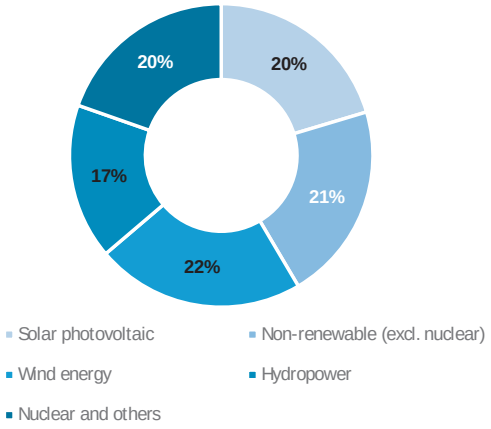
Simplifying permitting and improving investment conditions would further improve the deployment of renewable energy infrastructure. Challenges remain in accessing the grid, with a large queue for grid connection requests, and in translating access into operation, slowing down the clean energy transition. In relation to measures addressing the Commission's 2025 recommendations, the national regulatory authority's (CNMC) requirement for a fairer distribution of grid costs for the integration of renewable energy has resulted in modest improvements of the grid investment conditions. Granting permits for the approval of construction of renewable projects currently takes an average of 18-24 months. Further simplifying and standardising permitting would tackle the significant disparities between regions. The 'Régimen 20' initiative could help balance territorial development between regions and increase the approval and deployment of more renewable projects.

Cross-border electricity interconnection capacity is key to improving the Iberian Peninsula's market integration. Spain's interconnection capacity with neighbouring countries is set to expand in the coming years. The Spain–Portugal interconnection project can increase capacity to 3.2 GW and the commissioning of the Bay of Biscay interconnection between Spain and France could create a total exchange capacity to 5 GW. Further efforts in this direction would contribute to improving grid flexibility and stability.

Decarbonising the economy

Continuous efforts are needed to drive the decarbonisation of the economy and support the electrification of industry and transport. Spain's manufacturing industry has high greenhouse gas emissions and needs support to decarbonise faster. Spain also needs to ramp up electrification of industrial processes and transport, particularly in view of the increased fuel prices in the increasingly uncertain geopolitical environment. Spain has implemented and announced initiatives aimed at decarbonising both its industrial base and the transport sector, with PERTEs under RRF. Tailored solutions for Spain could include support to (i) develop new net-zero technologies; (ii) scale-up existing solutions; (iii) promote sustainable supply chains and circular economy strategies, including boosting national capabilities to reduce the import dependency of critical raw materials; and (iv) renovate its industrial building stock (see Section 1 and Annex 5).

Graph 3.1:**Spain's electricity generation mix by source of energy, 2025**



Source: Eurostat

Boosting energy efficiency for increased emission reductions and power affordability

Energy efficiency continues to be a challenge in Spain for public buildings and, especially, private dwellings. There have been significant investments under the RRP and other EU funds to improve energy efficiency in public and private buildings. Spain's national energy efficiency targets included in its national energy and climate plan amount to 43% in 2030 (compared to 1990 levels) and to reach that target, a total of EUR 52 billion in additional investment would be needed. Existing EU funding contributes to address this challenge, including for the just transition with its specific socio-economic challenges.

Additional support measures for private dwellings would be needed to further enhance the individual energy efficiency renovations. The current stock of households in Spain amounts to 23 million. Further direct support and tax deductions for energy efficiency renovations could help reduce energy bills and increase the energy performance of dwellings, particularly for vulnerable households facing energy poverty and limited capacity to finance renovations (see Section 4 and Annex 12).

Supporting sustainable growth by mitigating vulnerabilities in water, biodiversity, land use and waste management

While some steps have been taken, improving Spain's water management system remains a priority. Spain's water resources remain under significant pressure due to long-term declines in rainfall and snowpack, rising temperatures, and increasing soil aridity. This pressure is further compounded by strong water demand from agriculture, tourism, and the energy sector. The country also faces intensifying water quality pressures, with 23% of groundwater monitoring stations exceeding EU thresholds for nitrate concentrations, and pesticide contamination affecting water bodies (see Annex 10 and 18).

A more sustainable approach on water management is needed. It should include (i) water-pricing incentives for efficient water use aligned with the Water Framework Directive; (ii) effective coordination and application of water policies at all levels of the administration, including streamlining decision-making procedures, empowering Water Councils and supporting small municipalities; (iii) implementation of the Urban Wastewater Treatment Directive; (iv) scaling up water reuse; and (v) investing in further infrastructure of the water management system (see Annex 19).

Further action to protect and restore biodiversity would be beneficial for

Spain. Spain's rich biodiversity is under threat, with only 8.9% of habitats and 18.9% of species having a good status, significantly lower than the EU averages (see Annex 10). This degradation has severe implications for Spain's climate resilience and poses significant economic and competitiveness risks, as Spain has the highest degree of supply chain dependency on ecosystem services in the EU. Specifically, 32% of Spain's gross value added is highly dependent on ecosystem services, compared to the EU average of 20%. Addressing Spain's current investment gap for its natural capital is estimated at around EUR 5 billion per year (see Annex 10).

For Spain to meet its 2030 target for land use, land-use change, and forestry (LULUCF), an increase of its carbon removals is needed. Spain has one of the highest LULUCF emission gaps in the EU, with large emissions in recent years primarily caused by wildfires. The projected gap to meet its 2030 target is estimated to be around 12 million tonnes of CO_2 equivalent (see Annex 10). Despite taking steps to improve carbon sequestration, such as promoting enhanced carbon sequestration in agricultural soils, further strengthening of sustainable land use and forest management by improving wildfire prevention, restoring forests, and protecting carbon-rich ecosystems is needed.

Spain is making progress in waste management and the circular economy. Specifically, the government has taken two important steps: in December 2025, it approved the new national waste management plan (PEMAR 2025-2035), and in January 2026, it approved the second circular economy action plan. The plan sets out 105 measures and allocates approximately EUR 1.9 billion in investments to support the transition towards a circular economy.

However, significant challenges remain. Key indicators, such as the circular use of materials and the recycling rates lag behind EU averages (see Annex 8). For example, Spain's reliance on landfill is twice the EU average. To address these challenges, Spain needs to effectively implement (i) its national circular economy action plans; (ii) its new national and regional waste management plans; and (iii) the measures outlined in its RRP. Spain would also benefit from building on its existing strengths (high recycling rate of packaging waste and the extended producer responsibility schemes).

Strengthening insurance coverage and adapting critical infrastructure to climate change

Spain remains one of the EU countries most vulnerable to climate change, resulting in substantial human, economic and environmental losses. Spain incurred EUR 119.6 billion in losses due to weather and climate-related extreme events between 1980 and 2024 (see Annex 10). This calls for effective risk management and climate insurance coverage. While the national Extraordinary Risk Insurance scheme, managed by the Consorcio de Compensación de Seguros, reduces the protection gap, its long-term financial sustainability should be ensured. To address remaining vulnerabilities, further development of Spain's disaster financing framework is essential. In addition, the varied governance models across regions hinder effective responses to growing risks from natural hazards such as flooding and wildfires (see Annex 19).

While Spain is leveraging EU funds to support its climate adaptation efforts,

additional measures are necessary to protect its critical infrastructure. The cost of adapting Spain's transport infrastructure to climate change is substantial, with estimated needs for the Trans-European Transport Network (TEN-T) network totalling around EUR 10.2 billion by 2050, including EUR 4.9 billion for rail upgrades, including high-speed lines (see Annex 10). Spain is investing in improving climate adaptation under the RRP (EUR 1 billion), the European Regional Development Fund (EUR 1.23 billion) and other EU funds. However, tackling climate change challenges calls for: (i) climate risk screenings for all major assets (e.g. energy and transport infrastructure); (ii) high-impact upgrade measures through structural (e.g. use of flood-resistant designs and materials) and non-structural measures (e.g. climate-resilient urban planning); and (iii) nature-based solutions, like restoring ecosystems to reduce pressure on built infrastructure.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Further efforts are needed to address the challenges identified in the 2025 country-specific recommendations (CSRs) about social fairness, employment and skills policies. In 2025, Spain received a CSR on the need to address child poverty while improving the efficiency, coverage and adequacy of social transfers and social assistance, and another CSR to reduce skills shortages and mismatches by strengthening dual vocational education and training, and by increasing lifelong learning, in particular for the low skilled and improve basic skills and address early school leaving, taking into account regional differences.

Spain faces a wide variety of social, skills and labour market challenges. Poverty, in particular among children, remains the biggest social issue, alongside income inequalities, low impact of social transfers and gaps in the social protection system. Early school leaving, declining basic skills and skills mismatches point to shortcomings in the effectiveness and inclusiveness of the education and training system. While labour market gains have not benefited all population groups equally, recent job creation has become more broad-based, including in some higher-productivity activities, although lower productivity services remain predominant.

Wide regional gaps in service provision and outcomes exist in all areas (social, labour market, health and skills). Territories with lower accessibility to healthcare, education and social infrastructure, as well as those facing persistent depopulation, struggle to retain and attract working-age populations. This is putting at risk the future labour supply and economic dynamism of these regions, as well as preventing its residents from exercising their rights effectively.

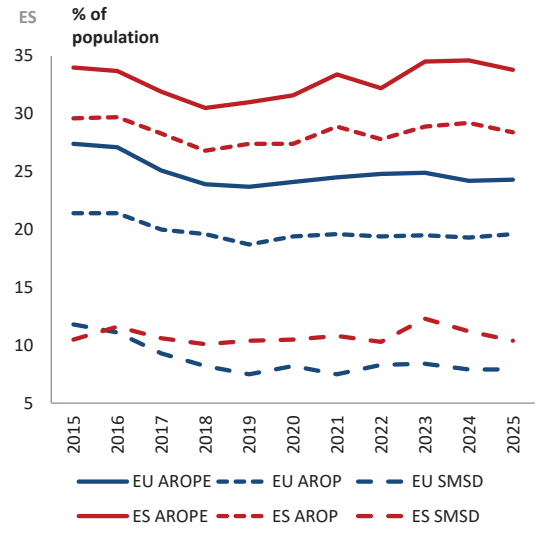
Addressing poverty risks and social vulnerabilities

Child poverty limits prospects and opportunities in education, skills development, social inclusion and future labour market participation. In 2025, more than one in three children were at risk of poverty or social exclusion, representing one of the EU's highest rates, despite a minor reduction compared to the prior year. Spain announced the introduction of a universal child benefit as a key measure to reduce child poverty, which remains to be approved and implemented. Participation in early childhood education and care (for ages 0-3) has expanded, but large inequalities persist. There is a large gap in participation between children at risk of poverty or social exclusion, despite the key role of early childhood education and care in being a crucial tool to prevent inequalities from persisting later in life. Spain received a CSR in 2025 on reducing child poverty, but progress so far has been limited by persistent issues in the implementation of key policy instruments and policy choices in the distribution of public expenditures.

Overall poverty risks also remain high, with marked regional and socio-economic disparities. Despite decreasing

slightly in both 2024 and 2025 (reaching a record low), more than a quarter of the population was still at risk of poverty and social exclusion, well above the EU average. Spain also has high levels of material and social deprivation and one of the EU's largest poverty gaps. Persistent regional disparities continue to shape poverty risks. Some vulnerable groups are more exposed in Spain than in other EU countries (single-parent households, large families, third country nationals (TCNs), people with disabilities, Roma and young people). Consequently, children in single-parent, large or low-educated households were also especially exposed. Finally, more than a quarter of households at risk of poverty could not afford to keep their homes adequately warm – more than double the rate of other households.

Graph 4.1:**At-risk-of-poverty or social exclusion rate for children (AROPE) and its components (AROP, SMSD)**



At-risk-of-poverty or social exclusion rate (% of total population aged less than 18 years old) (AROPE). People who are at-risk-of-poverty (AROP) and/or suffering from severe material and social deprivation (SMSD)

Source: Eurostat

The poverty-reducing impact of social transfers is limited, highlighting gaps in the social protection system and persistent income inequalities. The effectiveness of social transfers in reducing poverty is among the lowest in the EU, with significant regional disparities. Social security and general budget expenditures insufficiently target children and young adults. Insufficient attention is paid to how available public resources are allocated and distributed across different age groups and create economic and social challenges, including from the perspective of inter-generational fairness. Income inequality is decreasing but remains one of the highest in the EU and the tax-benefit system has a limited capacity to narrow income gaps. Coverage and adequacy levels also appear insufficient to lift beneficiaries out of poverty. Moreover, there are disparities in access, quality and eligibility across the territory. Limited coordination between social, health, education and employment services hampers integrated, person-centred support. This means benefits are often not linked to targeted social assistance and inclusion services. Insufficient interoperability of databases and automatic enrolment mechanisms further reduce benefit takeup and delay access.

Structural challenges affecting the main poverty alleviation benefits limit their effectiveness. Both the minimum income scheme (*IMV*) and the child supplement (*CAPI*) have coverage issues, with high non-takeup rates, inefficiency and inadequacy, which reduces their impact on poverty. Moreover, beneficiaries find the IMV inflexible and unpredictable. This is due to a variety of factors, including administrative burden, complex eligibility checks, and low awareness. The reform of the employment incentive of the IMV in 2026 aims to tackle some of these inefficiencies.

Long-term care (LTC) also presents structural issues. Public social protection spending (as % of GDP) for LTC is around

half of the EU average. Care is provided via a combination of public, private (for-profit and non-profit) and third-sector providers. Spain has relatively limited public providers of home care and cash benefits. Public funding is more strongly oriented towards residential care, which partly explains its greater use, although it remains unaffordable for many households. Despite recent reforms aiming at deinstitutionalisation, the transition to community-based solutions should be accelerated.

The long-term care system could also benefit from a more efficient allocation of expenses. Differences between regions in terms of resources, coverage and service lead to inequalities in access, availability and quality. Poor working conditions and high turnover continue to undermine job quality and attractiveness. At the same time, informality persists in the sector, particularly among female careers and non-EU nationals. Workforce pressures may heighten because of the expected surge in demand for LTC from an ageing population.

Gaps in access to healthcare persist, affecting the population's health, social fairness and productivity. Waiting lists have increased and unmet needs for mental care have doubled since the pandemic. Gaps in access to dental care affect low-income groups in particular. Furthermore, service availability is affected by staff shortages. Spain is working to improve quality and access to primary care, but regional disparities, exacerbated by staff shortages, remain a significant challenge. The nurse-to-population ratio remains low, and an ageing general practitioner (GP) workforce combined with insufficient replacement rates is likely to further exacerbate these shortages in the coming years. Projections also point to a shortfall in health specialist workforce. Rural areas continue to suffer from lower access to healthcare facilities.

Addressing these challenges requires a long-term approach. It should be focused on strengthening training pipelines, expanding multidisciplinary primary care, improving attractiveness of GP careers and better integrating advanced practice nurses and allied professionals. At the same time, rising financial pressures call for a more efficient allocation of health spending. Rebalancing financing from hospitals toward outpatient and co-ordinated community-based services, supported by interoperable digital health systems and telemedicine would help create a more accessible, efficient and sustainable health system. Greater emphasis on prevention and accelerating the use of generics and biosimilars would further reduce long-term costs. The impact of existing policies on regional disparities and their effectiveness should be monitored and systematically evaluated ensuring that resources are directed toward measures that demonstrably improve access and service delivery.

Ensuring quality, inclusive and labour market-oriented education and training

Declining basic skills and still significant early school leaving limit human capital development, affecting Spain's long-term competitiveness. Echoing trends across the EU, the OECD PISA 2022 results highlighted a worsening of basic skills among Spanish 15-year-olds, particularly regarding top performance in mathematics and science, reducing the pool of talent for highly skilled professions. Early school leaving fell to its lowest level but remained among the highest in the EU, with a

detrimental impact on young people's employment and social prospects. In line with the 2025 CSR, Spain continued implementing a holistic support programme targeted at vulnerable schools, supported by the ESF+ and included in the Spanish RRP, as well as territorial cooperation programmes on basic skills (see Annex 13). Nevertheless, there is scope to further strengthen coordination between the central government and the Autonomous Communities, improve teachers' initial and continuing education and working conditions, and refine monitoring and evaluation, including through the effective use of data from recently introduced standardised assessments.

Educational inequalities hamper skills development and undermine social and territorial cohesion. Socio-economic disadvantage, gender, migrant background and disability continue to strongly shape educational trajectories, with long-lasting implications for social and territorial cohesion, labour market outcomes and productivity. Foreign-born young people are nearly three times more likely to leave education early than those born in Spain, and about a third of young people with disabilities exit the system with no more than lower secondary education. Access to quality education in rural and sparsely populated areas of Spain, in this so-called 'Empty Spain', still poses a challenge for many students, while transport and meal grants seek to reduce inequalities. Coupled with various regional disparities (e.g. regarding early school leaving), this highlights the potential for further refining education funding mechanisms with a needs-based approach (see Annex 18). Another priority should be expanding the coverage of preventive and remedial support programmes for the most disadvantaged learners, supported by early warning systems, while improving coordination among local education, healthcare, and social services.

Aligning higher education with labour market needs, especially in STEM fields, and incentivising participation in medium-level vocational education and training (VET), remains essential to bridge skills gaps. While tertiary educational attainment is well above the EU average, Spain faces persistent skills mismatches and high overqualification rates, especially among foreign-born individuals. At the same time, shortages remain evident in specific high-demand fields, notably STEM and ICT, where labour demand seems to outpace the supply of graduates. This leads to an underutilisation of human capital, as the university offer fails to effectively adjust to evolving market needs with detrimental effects on students' employability.

Qualifications are highly polarised, with many highly-educated and low-qualified adults, but few with intermediate skills. This pattern is also reflected in medium-level VET. While current legislation envisages the generalisation of dual VET by 2025/26, implementation varies considerably across regions. Regulatory updates concerning the development of the elements and governance instruments of the VET system, alongside the expansion of competence standards further strengthen transparency and ensure closer alignment of VET provision with labour market needs.

Some progress has been made, but effects are only likely to emerge over time. Spain has notably continued to roll out the integrated VET system under the RRP, including support for vocational excellence and teacher training in the green and digital transition. However, further investing in STEM and dual VET, enhancing industry-university links, intensifying the

use of skills intelligence to adapt educational offer, and taking measures to increase the participation of SMEs in the VET offer (see Annex 13) would be important, also to boost Spain's competitiveness.

Adult learning participation also remains limited and uneven across the country, constraining opportunities for reskilling and upskilling. According to the Adult Education Survey, 34.1% of adults participated in learning activities in the previous 12 months in 2022, below the EU average of 39.5% and far from the national target of 60% by 2030. Participation is particularly low among low-qualified adults and those aged over 55. While more recent Labour Force Survey data indicate a moderate improvement between 2022 and 2024, participation levels remain insufficient to meet evolving labour market demands, particularly in the context of the green and digital transitions. Under the RRP, Spain introduced a permanent and free system to validate competences acquired through work or informal learning, and the roll-out of micro-credentials is improving the offer of flexible and labour-market relevant training. Prioritising outreach and targeted programmes to older or low-skilled adults, such as through individual learning accounts, would further help bridge existing skills gaps and empower a broader segment of the population, ensuring Spain's workforce is better equipped to meet evolving market demands.

Addressing structural challenges and disparities in the labour market

Despite ongoing improvements, important gaps, relative to the EU average, persist in the labour market. Despite further convergence with the EU, unemployment remains among the highest in the EU and labour market outcomes continue to vary markedly across population groups and regions. These disparities reflect persistent structural differences in regional labour markets, including sectoral specialisation linked to the concentration of the most productive activities in a limited number of regions and uneven access to more productive job opportunities (see Annex 18).

Furthermore, structural barriers limit labour market access for specific groups. There has been a significant reduction in the share of young people not in employment, education or training. Although declining, youth unemployment remains among the highest in the EU. Older workers also face high unemployment, especially long-term unemployment. The gender employment gap fell below the EU average in 2025, but part-time work is over three times as high for women than men, reflecting the disproportionate impact of care on women's labour market participation. Non-EU nationals account for 11.2% of the workforce (EU average: 6.3%), yet they face higher precariousness and irregularity. Their unemployment rate is well above that of native workers, and they are more likely to hold temporary and part-time contracts.

Spain is strengthening its active labour market policies (ALMPs), but challenges remain. Despite the RRP investments (e.g. in digitalising public employment services), ALMPs in Spain are currently underperforming due to structural factors. Understaffing of public employment services continues to significantly hinder ALMP performance in Spain. ALMPs need to increase active employment policies vis-à-vis passive policies, improve the use of data, and collaborate more with the private sector. The ALMP modernisation efforts seem promising but require scaling up and evaluation to ensure that resources are

used efficiently and the positive impact is evenly distributed across regions.

Despite improvements, job quality remains a persistent challenge, amidst very weak productivity growth. In-work poverty is stagnating at relatively high rates, in the context of subdued real wage and productivity developments that limit the potential for sustainable wage increases. Low real wage growth, combined with strong minimum wage growth, has compressed the overall wage distribution around the minimum wage; without having a noticeable impact on in-work poverty. Many employees experience atypical working hours and job security remains low despite improvements. While temporary employment has decreased, partly as a result of the labour market reform which has been supported by RRP, precariousness persists in various sectors, with a high share of temporary and part-time work being involuntary (76.4% in Spain vs 49.9% in the EU and 45.7% in Spain vs 17.8% in the EU, respectively), high shares of atypical working hours and low job security.

A significant rise in sick leave over the past few years has had a sizeable impact on the economy. The percentage of employed people on temporary sick leaves rose, reaching 4.4% in 2024, a trend seen across age groups and regions, with an economic cost of over EUR 15 bn in 2023 - 1% of GDP (see Annex 15). Better preventing risks of sick leave, by improving workplace health and safety, well-being, and overall job quality, and support for older workers, could curb this trend. Additionally, stronger primary care with multidisciplinary teams could help address both physical and mental health needs. Integrating mental health services, early identification of health issues, and connections with occupational health could support timely return to work, while digital tools and flexible consultations may improve responsiveness and continuity of care.

Job creation remains concentrated in several lower-productivity service activities, raising concerns about the competitiveness of the Spanish economy. Employment growth has been characterised by a strong concentration of new jobs in low-productivity sectors. Despite the positive signal of job creation in more productive sectors (e.g. scientific and administrative activities and industry), low-productivity sectors account for more than the 82% of new jobs created (see Annex 11). Low productivity limits the potential for sustainable wage increases.

These findings are consistent with the second-stage analysis in line with the EU's social convergence framework. The analysis points to challenges in the labour market, skills and social dimension, but does not point to overall social convergence challenges for Spain, also in light of the measures implemented or planned ([9]).

([9]) European Commission, SWD(2026) 122. The analysis relies on all the available quantitative and qualitative evidence and the policy response undertaken and planned.

KEY FINDINGS

In areas **covered by existing country-specific recommendations**, Spain would benefit from:

- **speeding up coordinated efforts at all levels of the administration to reduce bureaucratic hurdles**, in particular for SMEs and the retail sector;
- **reducing regulatory fragmentation across regions** that create barriers to the EU single market;
- **increasing R&D intensity and strengthening industry-academia collaboration to raise private R&D investment;**
- **raising public R&D investment to 1.25% of GDP by 2030** with well-designed tax incentives and streamlined grants to boost high-value sectors and increase private co-funding;
- **reforming incentives and governance in universities and public research to prioritise innovation and research-business collaboration, and supporting knowledge intermediaries;**
- **developing sectoral hubs (e.g. on AI, biotech) to accelerate market uptake of research breakthroughs and applying systemic policy evaluation;**
- **promoting upward social convergence through job quality and addressing in-work poverty.** Further progress depends on modernising active labour market policies, enhancing labour productivity and creating jobs in high-productivity sectors, and addressing disparities through targeted and coordinated policy actions at regional level;
- **promoting human capital development by raising the labour-market relevance of skills to reduce skills mismatches** by aligning adult learning, higher education, and vocational education and training (including dual VET) with labour market needs, particularly in STEM;
- **reducing educational inequalities and improving access across regions;**
- **addressing persistent gaps in basic skills and early school leaving, as well as territorial and socio-economic disparities, to strengthen social cohesion and competitiveness;**
- **expanding the housing stock – especially affordable and social housing in high-demand areas, such as major cities and tourism-intensive areas.** To do this, Spain could: remove administrative bottlenecks, ease land availability and streamline permitting to accelerate development; repurpose existing building stock while boosting construction productivity; expand social housing for purchase and rental, preserve its social purpose upon ownership transfer, and improve its financial sustainability through business models less reliant on public funding;
- **reducing poverty - especially child poverty -** including by rebalancing social expenditures across generations, and improving the design of social

transfers, in relation to coverage, take up, efficiency and adequacy, particularly for families with children;

- **simplifying and improving the tax system efficiency, and implementing spending reviews, to maintain fiscal sustainability while preserving growth;**

- **better monitoring tax expenditures, limiting reduced VAT rates while adopting compensatory measures to protect low-income households and gradually raising environmental taxes to support the green transition;**

- **Increasing defence expenditure and taking more decisive action in implementing past spending reviews' recommendations,** including in areas such as pharmaceuticals prescriptions, hospital expenditure or waste management;

- **improving the resilience and flexibility of electricity grids**, including interconnections, while addressing storage and renewable energy bottlenecks;

- **stepping up climate adaptation and mitigation policies, improving water management, and adapting critical infrastructure;**

- **strengthening risk management,** particularly through further developing the disaster financing framework;

- **improving governance and regional coordination to better address growing natural hazard risks;**

- **improving the justice system performance** by ensuring adequate staffing, harmonised digitalisation across regions and full interoperability of case management systems to boost efficiency, quality and the business environment.

In **other areas**, Spain would benefit from:

- **boosting energy efficiency in public and especially private dwellings** to address energy poverty and affordability;

- **supporting industry decarbonisation**, transport electrification, and strategic projects, to extract, process and recycle critical raw materials;

- **improving access to finance** – especially venture capital - including by strengthening supplementary pension schemes and incentivising indirect retail investment;

- **expanding long-term and primary care capacity and reducing waiting times** through improved efficiency and tackling workforce shortages and regional disparities;

- **addressing rapid depopulation in some areas** by fostering more diversified economic activities, promoting up-skilling and re-skilling and investing in social infrastructure and services.

ANNEXES

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ANNEX 1: CSR IMPLEMENTATION

Table A1.1: **CSR implementation and Commission assessment**

Spain faces challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs). Spain was recommended, among other things, to review and simplify the tax system, simplify regulation, increase judicial efficiency, improve water management and energy storage, increase housing supply and improve basic skills and address early school leaving.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Spain to date*. To do so, the Commission has taken into account the information provided by Spain in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Spain for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	• Total general government defence expenditure in 2026 is projected at 1.2% of GDP, corresponding to an increase of 0.3 ppt. compared to 2024. • Spain has been implementing the Industrial and Technological Plan for Security and Defence, focused on the modernization of armed force equipment and the development of new technologies.	• Total general government defence expenditure in 2027 is projected at 1.4% of GDP, corresponding to an increase of 0.5 ppt. compared to 2024. • Spain is expected to keep on implementing the Industrial and Technological Plan for Security and Defence.	Substantial progress
1.2 Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025.	On 13 April 2026, Spain has requested the activation of the National Escape Clause (NEC). Cumulated deviation in 2025 amounted to 0.1% of GDP but is fully explained by the NEC flexibility (0.1 pps of GDP). Cumulated deviation in 2026 projected at 0.7% of GDP and is only partially explained by the NEC flexibility (0.3 pps. of GDP).		Substantial progress
1.3 Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025.	See table A.2.4 in Annex 2 of the Country Report.		Substantial progress
1.4. Further strengthening fiscal sustainability by reviewing and simplifying the tax system	Since the issuance of the 2025 CSR no additional measure has been taken since December 2024 or credibly announced to review or simplify the tax system.		Limited Progress

(Continued on the next page)

Table (continued)

1.5 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	Since the issuance of the CSR, no measure has been taken to shift part of the tax burden from labour towards environmental, consumption and immovable property taxation.		No Progress
3.1. Simplify regulation, improve regulatory tools, and reduce administrative burden as well as regulatory fragmentation across regions	"Régimen 20" provides a framework for collaboration among the national, regional, and local levels of Spanish administration to identify and address barriers faced by businesses. At the latest Sectoral Conference (December 2024) seven initial barriers were chosen, and efforts were made to address these in 2025. Its consensus-based, bottom-up approach requiring agreement among all parties, may limit its ability to target the most consequential barriers. Previous top-down streamlining efforts were deemed unconstitutional.		Limited Progress
3.2. Increase judicial efficiency by streamlining judicial proceedings	Under the RRF, Spain has reformed, organisational, and procedural aspects of the justice system. However, structural deficits in human resources prevent these reforms from achieving their intended results.		Some Progress
3.3. and further digitalizing the justice system in all regions	Under the RRF, Spain has reformed digital aspects of the justice system, notably through Royal Decree-Law 6/2023 of 19 December 2023. In addition to this, the Judicial Interoperability Hub was established, the central government signed agreements with various regions in 2025, and IT tools have improved the efficiency of the work of the Council of Transparency and Good Governance. However, continued interoperability of regional digital justice systems is needed.		Limited Progress
3.4. Facilitate business creation, innovation and expansion	Laws, which aim to address simplifying regulation and reducing administrative burden for businesses are being implemented as part of the Spanish recovery and resilience plan. This includes the Start-ups Law, Law on Business Creation and Growth, and the reform of the Insolvency Law, which were enacted in 2022.		Limited Progress
3.5. Support R&I investments	The Science, Technology and Innovation Act, informal networks such as the Red IDI, Plan for Evaluation of the Ministry of Science, Innovation and Universities, the set-up of structures for evidence-based policy making and science advice mechanisms (e.g. ONAC, Oficina C).	Complementary Plans, PERTES, all topic-related investments in the RRP	Limited Progress
3.6. Stronger science-business linkages	The Science Law and the University law are currently being implemented by Spain. However, secondary legislation is still pending to be adopted.		Limited Progress
4.1 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	Spain created a water observatory to monitor but does not have governance rights.		Some Progress

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Table (continued)

4.2 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	Some measures financed with national funds. Some with EU funds such as: • C3.I1 and C3.I12 in ES RRP (approx. EUR 1.2bn). Investments in irrigation are also done with national funds. • C5.I1 – 208 water and wastewater infrastructures • C5.I2 – restoration of riverbanks and protection against flood risks. • C5.I4 – restoration of coastal ecosystems • Similar investments are also done with national funds i.e. wastewater infrastructure that could not fit the RRF timeframe	There are some measures on flood and drought management being implemented. Wastewater infrastructure projects that could not fit the RRF timeframe.	Some Progress
4.3 Invest in energy storage, electricity transmission and distribution and in cross-border electricity interconnections.	• New interconnection project with PT is now being finalised (Ponte de Lima, 2026). • New law adopted allowing more investments into the grid by raising investment caps for DSO and TSO (RDL 7/2026). • RRP implementation (PERTE EHRA, PERTE and reforms and investments under measures C8.R3 and C31.I1 to C31.I6) • Update of the grid transmission plan and adoption of urgent measures (RD 997/2025) for electricity system.	New storage capacities awarded (FEDER). Development plan of the electricity transmission network in preparation.	Limited Progress
5.1 Increase the housing supply by completing the reform of the land law, reducing permitting processing times, eliminating administrative bottlenecks	• Creation of Casa 47, a new state-owned housing company set to replace SEPES • Transfer of SAREB Assets to the Public Housing Stock • Launch of New Housing PERTE	• National Building Renovation Plan • Approval of the State Housing Plan 2026–2030	Limited Progress
5.2. and preventing labour shortages in the construction sector	• Fast-track training initiatives by the Construction Labour Foundation		Limited Progress
5.3 Strengthen the provision of social and affordable housing	• 2025 Extension of the public housing company CASA47 (SEPES); • 2025 Tax incentives for stabilizing prices in the rental market (limited measures)	Some measures announced but not implemented: i.e. higher taxes for (i) big tenants (ii) tourist apartments (iii) purchase of non-EU citizens not residing in Spain Draft State Housing Plan 2026–2030 (pending, EUR 7.000 million)	Limited Progress
6.1 Address child poverty and improving efficiency, coverage and adequacy of social transfers and social assistance	• Adopted legislation to extend birth and care leave; • Adopted legislation amending the compatibility of the IMV with income from employment and self-employment; • Adopted legislation on nutrition in schools; • Approved sustainable development strategy.		Limited Progress

(Continued on the next page)

Table (continued)

6.2 Reduce skills shortages and mismatches by strengthening dual VET and by increasing lifelong learning	Continued rollout of the dual VET reform (including in the MTFSP), and RRP-supported VET modernisation (modular qualifications, updated occupational standards, reskilling/upskilling training activities, also in digitalisation (C20.I1) and conversion to bilingual VET offers (C20.I3)) Lifelong learning measures under the RRP: permanent system for validation/accreditation of skills acquired through work and informal learning (C20.I1)	• Skills Intelligence Strategy for Higher Education is being developed with Technical Support Instrument • Skills forecasting mechanism developed in 2025 but no details on implementation yet. • Protocol with the Chamber of Commerce to train company tutors in mentoring, to support firm participation in dual VET. • Roll out of a strengthened career-guidance strategy (incl. ~100 VET guidance units) to reduce VET drop-out and improve education-to-job matching.	Limited Progress
6.3 Improve basic skills and address early school leaving, taking into account regional disparities	Continued implementation of the programme for guidance, advancement and educational enrichment "PROA+" (part of the RRP and renewed with ESF+ funds until 2028)	• "Strategic Plan for Inclusive Education" announced to promote a coherent approach to equity challenges (release expected in 2026) • Draft bill to limit teaching hours and class sizes.	Limited Progress

Source: Spain's reporting and Commission assessment

ANNEX 2: FISCAL DEVELOPMENTS AND DEBT SUSTAINABILITY

This annex discusses selected topics in public finance and developments on fiscal-structural CSRs addressed to Spain in July 2025. These include a call to reinforce overall defence and security spending and readiness, while implementing a fiscal strategy in line with the Council Recommendation of 21 January 2025. Spain was also recommended to ensure further strengthen fiscal sustainability through a review of the tax system (see Annex 3) in line with the European Council conclusions of 6 March 2025.

On 21 July 2025, the Council adopted the Recommendation endorsing Spain's medium term fiscal structural plan ([10]). The plan includes an extended fiscal adjustment over seven years, underpinned by a set of reforms and investment ([11]).

Developments in government deficit, debt and public expenditure([12])

Spain's government deficit amounted to 2.4% of GDP and the government debt-to-GDP ratio amounted to 100.7% at the end of 2025. Based on the Commission Spring 2026 Forecast, Spain's government deficit is projected to level off at 2.4% of GDP in 2026, due to energy-related measures, and fall to 2.0% of GDP in 2027. The 2025 deficit decreased due to strong revenues, particularly from direct taxation, the phase-out of the energy-related measures and the lower impact of the one-off flood-related measures, although partly offset by an increase in interest payments and defence expenditure. The improvement of the general government balance is set to be supported by higher revenues from direct taxation and social security contributions, despite expenditure pressures, with expenditure expected to increase over the forecast horizon from 45.3% of GDP in 2025 to 45.5% of GDP in 2027, yet still remaining below the EU average**.** The debt-to-GDP ratio narrowed to 100.7% in 2025, thanks to nominal GDP growth outpacing the cost of debt servicing. Driven by the deficit reduction, the ratio is set to keep decreasing in 2026 and move below 100% for the first time since 2019.

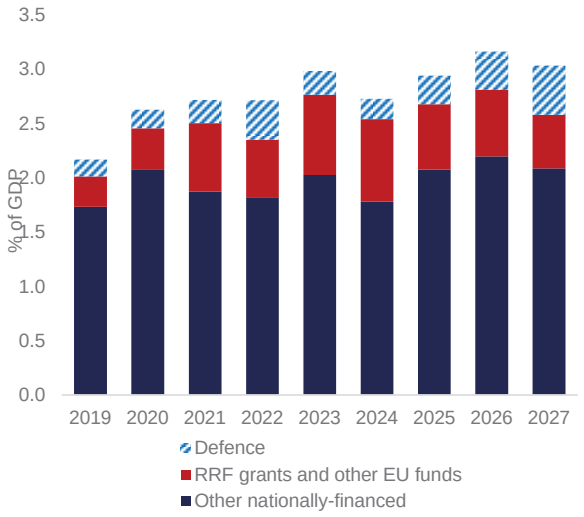
Rising public investment is improving the quality of expenditure in Spain. Contrary to previous shocks that led to significant cuts in public investment, public investment was preserved during the pandemic and is expected to reach 3.2% of GDP in 2026, up from 2.1% in 2019 (see Graph A2.1). Public investment, which accounts for 10.7% of total investment, benefits from the boost provided by the Next Generation funds and grew by 14.1% in 2025 also helped by the growth in gross fixed capital formation in defence, accumulating an increase of up to 125.4% compared with investment in 2019. Since the pandemic, and helped by the RRF, public investment has focused on boosting the green and digital transitions. Public investment is set to slightly decline in 2027 due to the lower support from the RRF. However, Spain is projected to spend more on nationally financed investment than it did prior to the COVID-19 pandemic.

([10]) https://economy-finance.ec.europa.eu/document/download/cfdec323-foc2-4e2d-adb3-e2f847aceba4_en?filename=MTFSP_2025_ES.pdf&prefLang=it

([11]) Compliance by Spain with the maximum growth rates of net expenditure recommended by the Council is assessed in COM(2026)200.

([12]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables (SWD(2026)200) providing background data relevant for the assessment of the budgetary policies of the Member States.

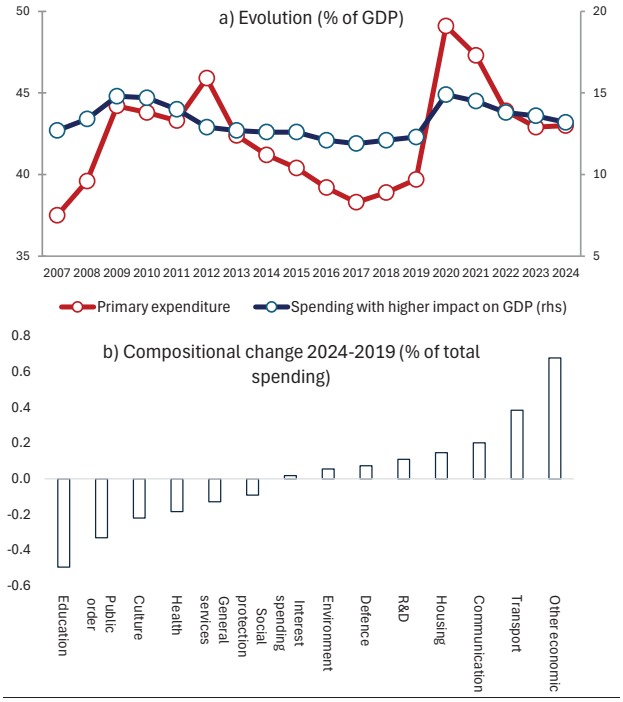
Graph A2.1: **Public investment evolution and breakdown (%of GDP)**



Source: European Commission 2026 Spring Forecast

While expenditure with a higher impact on GDP had remained broadly stable over three decades, it has slightly increased since 2019. This may be related to the impact of the RRF, facilitating a more quality-based fiscal strategy. Zooming in on the composition of spending, social protection accounts for the largest share of total expenditure (above 40%), followed by health, general public services and economic affair, each accounting for at or above 10% of total spending. Since 2019, other economic spending has increased below 1 pp of total spending (See Graph A2.2). Spending on transport, communication, housing, defence, R&D and environment has risen more modestly, with the rise in defence spending reflecting recent security developments. By contrast, spending on education and health has declined. This trend deserves attention, as this category is generally considered growth-friendly spending category.

Graph A2.2: **Primary spending evolution and compositional change**



Source: Eurostat

Note: Based on economic literature, the categories considered to have higher growth impact include education, R&D, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al (2018), Cepparulo and Mourre (2020) and OECD (2025)).

Spain has tax revenues as a share of GDP that are below the EU average, which includes low revenues from consumption and environmental taxes. In 2024 Spain's total tax revenues as a percentage of GDP (including compulsory social security contributions) amounted to 36.8%, clearly below the EU average of 39.5%. Total tax revenues are projected to increase to 37.8% of GDP in 2025 and then to 38.2% of GDP in 2026 according to the Spring 2026 Forecast ([13]). While there is growing reliance on labour taxation, revenues from consumption and environmental taxes remain low. Notably, Spain makes wide use of reduced rates and exemptions for VAT (see Annex 3).

Cost of ageing

Total age-related spending in Spain is projected to rise by around 3 pps. of GDP by 2040, to around 27% of GDP, and by 4.5 pps. by 2070 (see Table A2.1). The overall increase is mainly the result of a projected rise in pension spending, with smaller contributions from healthcare and long-term care. As a result, Spain would be among the Member States with the highest spending on age-related items in 2070.

Gross public pension spending as a share of GDP is projected to grow by 2.5 pps by 2040. By 2070, public pension outlays would rise by 3 pps. of GDP, to almost 17% of GDP, the second highest of all Member States and compared to an EU average of 12%.

Supplementary pension schemes can enhance the resilience of the pension system by diversifying retirement income sources. In Spain, however, uptake remains moderate: private pension assets remain comparatively underdeveloped (see Annex 6), while participation covered around 30% of the working-age population.([14]) This coincides with rising medium-term public pension spending pressures and a projected decrease in the replacement rate by 5.2 pps. between 2025 and 2040 (Table A2.1 and A2.2).([15])

Expected increases in public healthcare expenditure, including long-term care, contribute to fiscal risks. Public healthcare expenditure is projected at 5.9% of GDP in 2025 (below the EU average of 6.6%) and is expected to increase by 0.8 pps by 2040 and by a further 0.4 pps by 2070. Public expenditure on long-term care is projected to be 0.8% of GDP in 2025 (below the EU average of 1.7%) and is expected to increase by 0.2 pps of GDP by 2040 and by a further 0.6 pps of GDP by 2070.

National fiscal frameworks

In its first decade of existence, the Independent Authority for Fiscal Responsibility (AIReF) has quickly established itself as a recognised independent fiscal institution with a broad mandate. It is well staffed, reflecting its resource-intensive tasks stemming partly from the decentralised structure of Spain. However, restricting recruitment mainly to civil servants narrows its talent pool and independence. It has also experienced some difficulties regarding access to information, partly due to the absence of a Memorandum of Understanding with the Ministries of Finance and Economy. Furthermore, dialogue with the government and the parliament could be improved. Recently, AIReF has increased its external communication efforts. Based on its

([13]) Data from the AMECO database (https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/ameco-database_en)

([14]) Source: OECD Pension Market in Focus 2025. The highest participation rate in at least one supplementary pension plan is reported.

([15]) The (gross) replacement rate refers, depending on data availability, to both public and private pensions. It is based on projections from the 2024 Ageing Report.

own initiative, AIReF has been subject to independent external reviews.

Spending reviews are among the most institutionally sophisticated and AIReF holds a central role. AIReF was mandated to review all levels of government including regions and municipalities and past comprehensive or sectoral spending reviews have produced quantified recommendations. There is scope for further action in the implementation of these recommendations, particularly in the areas of prescription pharmaceuticals and hospital expenditure and municipal waste management. More recently, a dedicated unit was created in the Ministry of Finance to monitor the implementation of the recommendations of the spending reviews. The main challenge to ensure that the government translates AIReF's findings into actual budget decisions is further complicated by fiscal decentralisation. A review of resources and capacities needed to manage risks posed by climate change was done by the Climate Change Office in a 2025 TSI project.

There are areas of improvement in the management of public investment across the full investment cycle. Strategic planning of investments takes place mostly at sectoral and sub-sectoral level. In transportation, detailed investment planning is carried out by each means of transportation (roads, railways, etc.), while an integrated planning across at least several means of transportation is more efficient. Neither standardised procedures for appraisal nor external quality assurances are in place to ensure similar assessment and selection criteria across sectors, while pre-appraisal is in place only in selected sectors. ([16]) Capital budgeting is done mainly on an annual basis and on a general basis there are no longer-term capital expenditure ceilings to ensure capital availability beyond the budget year. The Sustainable Mobility and Transport Financing Act, under Component 1 of the recovery and resilience plan, aims at improving planning, appraisal, prioritisation and budgeting of public investment. ([17])

The treatment of disaster-related costs remains under further development despite improvements in integrating climate objectives in the fiscal framework. The Ministry of Finance applies green budget tagging to budgetary programmes, while AIReF has advanced analysis of climate-related fiscal risks. Its 2025 long-term sustainability opinion finds that physical climate risks would weaken growth, revenues and the fiscal balance while raising debt, whereas an orderly transition could improve long-term fiscal outcomes despite short-term costs. Its 2025 Opinion on Fiscal Risks also provides a first structured estimate of environmental fiscal costs at EUR 47.2bn over 2005-2023, including EUR 11.4 billion from climatological, hydrological, meteorological and geophysical events. However, the treatment of disaster-related fiscal costs and liabilities remains under further development, despite Spain's exposure to climate- related shocks, as illustrated by the autumn 2024 DANA and its significant budgetary impact.

([16]) OECD (2020), Supporting Better Decision-Making in Transport Infrastructure in Spain: Infrastructure Governance Review, OECD Publishing, Paris, https://doi.org/10.1787/310e365e-en

([17]) Many of the new features of the new law address AIReF's recommendations in the context of their Spending Review of Transport Infrastructure of 2019/2020.

Table A2.1: **Projected change in ageing-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	change in 2025-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
ES	24.4	2.5	0.8	0.2	-0.7	**2.8**	27.3	ES
EU	24.3	0.5	0.3	0.4	-0.3	**0.9**	25.2	EU

	ageing-related expenditure	change in 2025-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
ES	24.4	3.0	1.2	0.9	-0.5	**4.5**	29.0	ES
EU	24.3	0.2	0.6	0.8	-0.3	**1.3**	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

Implementation of the reforms and investment underpinning the extension of the adjustment period

The CSRs for Spain also call for implementing the reforms and investment underpinning the extension of the adjustment period. This set is composed of commitments from the RRP, commitments extending previously existing RRP measures, as well as some additional commitments of reforms and investment.

Based on the information provided by Spain in its latest 2026 Annual Progress Report and reflected in Table A2.4 following the Commission's assessment, progress in implementing most key steps due by Q1 2026 have been duly implemented.

In the area of taxation, the tax reform linked

Table A2.2: **Fiscal governance database indicators and public accounting maturity**

2024	Spain	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	17,27	14,81
Medium-Term Budgetary Framework Index (MTBFI)	0,95	0,72
2025 Public accounting maturity of general government	81%	65%

(1) "The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at country level based on i) the legal basis, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) level of detail. A higher score is associated with higher rule and MTBF strength.
The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396)"
Source: Fiscal Governance Database, European Commission

Table A2.3: **Supplementary pension schemes - Scope for expansion**

	Assets in 2024 (% GDP)	Gross replacement rate at retirement: (pps change 2025-2040)	Participation in 2024 (% working-age population)	
ES	10.8	-5.2	29.5	ES
EU	32.4	-2.8	55.9	EU

Source: European Commission.

to the RRP milestone 388 is still being assessed. The additional tax reform step aimed at delivering a further permanent increase in revenues by Q4 2025 is deemed completed, taking into account the continuation of the unchanged personal income tax structure over the relevant period. By contrast, the implementation of the tax benefits reform related to RRP milestone 386 has been postponed.

In several other areas, the key steps due in 2025 have been completed and two steps related to the digital transformation of education have been postponed. The remaining steps will be assessed by the Commission in future Annual Progress Reports. At the same time, reforms previously assessed as completed remain in place.

Table A2.4: **Implementation of reforms and investment underpinning the extension**

Measure	Key steps	Recommended implementation date	COM assessment 2026
Tax Reform	Delivery of milestone 388 of Spain's RRP, permanently increasing government revenues by 0.3 % of GDP.	Q3 2023	Ongoing assessment**
	Delivery of an additional permanent increase of 0.1% of GDP of revenues by Q4 2028, totalling a cumulative 0.4% of GDP by Q4 2028.	Q4 2025	Completed ***
Tax Benefits Reform	Delivery of milestone 386, permanently increasing government revenues by at least 0.1 % of GDP.	Q4 2025	Will be assessed under the last RRF payment**
Spending Reviews	Approval by the Council of Ministers of the new cycle of spending reviews (2022- 2026) to be commissioned to AIReF.	Q4 2021	Completed *
	Adoption of a new cycle by the Ministry of Finance which envisages an intervention for each spending area over the time frame of the Plan.	Q4 2026	
Law against Tax Evasion and Fraud	Entry into force of a law against tax evasion and fraud ('Ley de medidas de prevención y lucha contra el fraude fiscal' which: - Enlarges the perimeter of transactions where e-payments are compulsory (firms & professionals) and set legal thresholds for cash payments - Updates the list of tax havens according to transparency, no taxation and harmful tax regimes criteria. - Implements changes to the rules for listing people with tax arrears. - Implements a ban on "double-use software". - Introduces a reference value for the tax base in property taxation.	Q2 2022	Completed *
Better regulation and business climate	Entry into force of the reform of the 'Insolvency Law'.	Q2 2022	Completed *
	Entry into force of the new 'Law on Business Creation and Growth' to simplify procedures for setting up a business and to promote diversified sources of finance for business growth.	Q4 2022	Completed *
Regulatory framework for the promotion of renewable generation	• Entry into force of Royal Decree Law 23/2020 (energy measures) • Entry into force of Royal Decree 960/2020 (economic regime for renewable energy) • Entry into force of Royal Decree 1183/2020 (connection of renewables to the electricity grid)	Q4 2020	Completed *
	Entry into force of Law on Climate Change and Energy Transition.	Q2 2021	Completed *
	Additional production capacity for renewable energy (at least 6000 MW) cumulative additional renewable energy capacity installed in Spain (at least 6 000 MW).	Q4 2023	Completed *
Digital Transformation of Education	Approval of a programme to equip public and publicly subsidised schools with digital tools.	Q4 2021	Completed *
	Completion of actions for the digital transformation of education, including the preparation or revisions of digital strategies in at least 22 000 schools and the digital training of 70 000 teachers	Q4 2025	Will be assessed under the last RRF payment**
	Provision of connected digital devices in public and publicly subsidised schools to bridge the digital divide, and equip a minimum of 240 000 classrooms	Q4 2025	Will be assessed under the last RRF payment**
Deployment of Scheme 20	Approval in (multi)sectoral conference(s) of a sectoral impact assessment (in cooperation with Autonomous Communities and City Councils), which defines priority areas needing standardisation and simplification of procedures across regions and local authorities.	Q4 2025	Completed
	Publication of a Strategic plan for the sectoral conferences approved by (multi)sectoral conference(s). specifying annual measures, responsible actors and monitoring indicators, to be fully implemented by 2027	Q2 2026	Completed
Electronic Invoice	Entry into force of a royal decree establishing the technical and information requirements of the system.	Q4 2026	
Measures to improve the management of temporary disability	Signature and entry into force of partnership agreements between the Ministries of Health of the Autonomous Communities, mutual societies and Social Security.	Q4 2025	Agreements with the National Social Security Institute were signed by all Autonomous Communities, except the foral regions for competence-related reasons, for 2025–2028. Agreements with mutual societies have also been signed in the Balearic Islands, Asturias, Catalonia, Ceuta and Melilla, while others are pending.
Simplification of the system for the homologation of diplomas	Entry into force of legislation detailing streamlined processes for the recognition of qualifications of foreign-born population.	Q4 2025	A Ministerial Order (date of effect: 23 October 2024) has been adopted and put in place, setting instructions for the management of homologation and equivalence procedures for foreign university qualifications.
Reform of the work and job search visa system	Entry into force of a royal decree regulating work and job seeking visas for migrants.	Q4 2024	Completed
Project Vienna	Launch of tenders to provide public land to private promoters for the construction of affordable housing units.	Q4 2025	Completed
	Assessment monitoring the implementation of the reform. The report should describe the evolution and impact of the project and include key indicators as planned houses to be developed, and total units of public land transferred to private promoters.	Q2 2026	
Entry into force of the amendment of Law 14/2011 on Science, Technology and Innovation	Entry into force of the modification of the Law on Science, Technology and Innovation improving the coordination among different levels of government of science, research and innovation policies, enhancing the governance and coordination of the Spanish Science Technology and Innovation system, introducing a new scientific career and improving knowledge transfer.	Q2 2022	Completed *

Notes: The progress of each backward-looking key step (i.e., those scheduled for completion by 30 April 2026) is either classified as 'completed' or factual information is provided. The status of forward-looking key steps in 2026 not yet completed remains blank and those due after December 2026 do not appear in the table, as these will be assessed by the Commission in future Country Reports.

* These key steps correspond to milestones 400, 376, 190, 191, 102, 103, 104, 105, 289 and 254, and targets 106 and 107 of Spain's RRP, which have been assessed as fulfilled as part of a payment request under the RRF.

** These key steps correspond to milestones 386, 388 and 290, and target 291 of Spain's RRP, whose assessment is still pending in the context of a payment request under the RRF and the table does not prejudge its assessment.

***This key step is assessed on the basis of the Annual Progress Report by the Ministry of Finance. At this stage, and taking into account the continuation of the unchanged PIT structure over the relevant period, it is deemed completed.

Source: Spain's 2026 Annual Progress Report and the Commission's assessment.

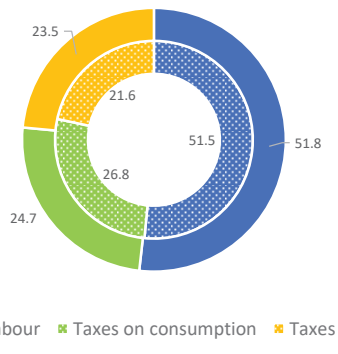
This annex provides an indicator-based overview of Spain's tax system. It includes information on the tax mix, on competitiveness and fairness aspects of the tax system, and on tax collection and compliance. In the area of taxation, the 2025 CSRs for Spain highlighted the need to strengthen fiscal sustainability by reviewing and simplifying the tax system. This includes shifting part of the tax burden from labour towards environmental, consumption and immovable property taxation. The CSRs also recommend implementing the set of reforms and investments underpinning the extended adjustment period for Spain's medium-term fiscal-structural plan (MTFSP), which in the area of taxation are focused on increasing government revenues.

Spain maintains its traditional low tax revenue ratio as compared to EU averages. Table A3.1 shows that Spain's tax revenues as a percentage of GDP were, at 36.8% in 2024, 2.6 percentage points (pps) below the EU average. The gap with the EU average decreased significantly between 2011 (7.2 pps) and 2021 (2.7 pps) but has stalled recently. Labour taxes accounted for a slightly lower share of Spanish GDP than the EU average in 2024, although their weight in the tax mix was slightly above the EU average (51.8% vs 51.5%) (Graph A3.1). Likewise, the weight of capital taxes in Spain's tax mix (23.5%) is also above the EU average (21.6%), helped by Spain's unique wealth taxation.

Reliance on labour taxation is growing. The average share of labour taxes in total Spanish tax revenues increased from 48.7% in the 2015-2019 period to 51.8% in the 2020-2024 period. The main driver behind this trend has been the gradual increase in the implicit tax rate of labour (from 33.3% in 2015-2019 to 35.8% in 2020-2024), propelled by continued rises in social-security rates and the non-indexation of personal-income-tax brackets since 2021. A strong labour market has also played a remarkable role. Social security contributions show a growing trend, from 12.2% of GDP in 2019 to 12.7% in 2024.

Revenues from consumption and environmental taxes remain low in Spain. Taxation of consumption in Spain is below EU levels, both in terms of GDP (9.1% in Spain in 2024 vs 10.6% in the EU on average) and in terms of total taxation (24.7% in Spain and 26.8% in the EU on average). Spain has one of the highest actionable VAT gaps in the EU, resulting in the lowest implicit tax rate on consumption (13.6% in 2024, 2.9 pps below the EU average). Revenues from environmental taxes increased slightly in 2024 to reach 1.6% of GDP, although remain below the EU average of 2.1%. Looking in detail, Spain is below the EU average in transport (excluding fuel) and energy taxes (1.3% and 0.2% of GDP, compared to 1.6% and 0.4% in the EU), and is above the EU average in pollution and resource taxes (0.14% of GDP vs 0.08%). Revenues from property taxes in Spain are relatively high as a percentage of both GDP and total tax revenues. However, these property taxes are less efficiently structured vis-à-vis the EU, where recurrent taxes on property play a greater role. The declining trend in revenues as share of GDP does not reflect the fast growth of housing prices, pointing at outdated cadastral values.

Graph A3.1: **Tax revenue by economic function in 2024, ES (outer ring) and EU-27 (inner ring)**



Source: Taxation Trends Data, DG TAXUD

The 2025 CSRs for Spain and the recovery and resilience plan (RRP) focus on strengthening its fiscal sustainability. The difficulties of the Spanish Parliament to adopt new legislation since 2023 has impeded Spain deliver substantial reforms of its tax mix in line

with the requirements of recent CSRs ([18]). Moreover, the incomplete implementation of a reform package (including increasing diesel taxes), which was due to permanently increase tax revenues by at least 0.3% of GDP by Q3-2023, led to suspension of a EUR 475 million payment from the RRP ([19]). As part of the commitments included in the adjustment period of the 2025 MTFSP that feed into the 2025 CSRs, this reform is due to be complemented by further measures that permanently increase tax revenues by an additional 0.1% of GDP by Q4-2028 ([20]).

Despite a high effective corporate tax rate, Spain's tax system provides several instruments to support business investments. The effective average tax rate for large non-financial corporations amounted to 25.7%, 6.4 pps over the EU average and the second highest in the EU in 2024. There are specific regimes to foster investment, such as a business angels' regime, with a 50% tax liability reduction for investments in holdings of new enterprises, and advantages for emerging enterprises, which are taxed at a reduced rate of 15% during the first four tax years. There is also a – recently enhanced - capitalisation reserve to address the debt bias through the reduction of the corporate tax base in an amount equal to 15% of the increase of own funds in the tax year. The Spanish corporate income tax (CIT) also includes a generous R&D regime and a patent box based on tax reductions linked to research activities.

However, spending in R&D activities is comparatively low, particularly from private operators (see Annex 4). The Spanish CIT also offers a special capital risk regime: exemption of 95% of the dividends regardless of the shareholding level and, exclusive for regulated venture capital entities, an exemption of 99% of the capital gains from the transfer of shares after the second and up to the fifteenth years of maintenance of the holding. To support the green transition, Spain also allows accelerated depreciation (up to full expensing) for energy facilities using renewable energy, as well as for electric vehicles and their associated infrastructure.

Personal income taxation (PIT) also includes elements to support competitiveness. The non-taxation of the employee's remuneration used for the update, training or retraining may contribute to upskilling of workers, while the non-taxation of statutory minimum wage may reduce labour costs in labour-intensive sectors.

([18]) However, the phasing-out of temporary reductions in the VAT rate for certain goods and services (including electricity, basic food, seed oils and pasta) and the recent implementation of the waste levy in townhalls with population over 5 000 residents (resulting from Law 7/2022 in transposition of EU Directive 2018/51), should lead to some increases in revenues from consumption and environmental taxes in the short-term.

([19]) See Commission Implementing Decision of 31 July 2025.

([20]) See Council Recommendation of 21 January 2025.

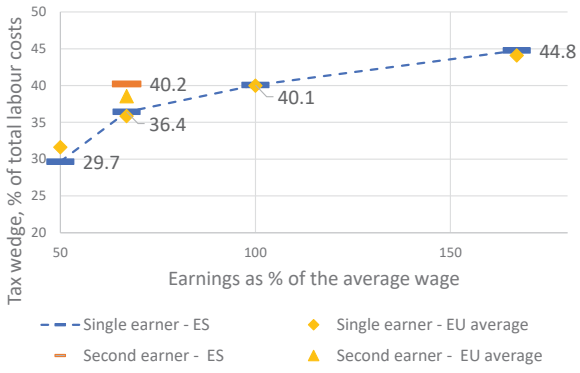
Table A3.1: **Taxation Indicators**

		Spain					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	34.5	36.8	36.5	36.8		39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	17.4	18.7	18.9	19.0		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	12.2	12.5	12.6	12.7		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	9.3	9.5	9.0	9.1		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	6.5	6.8	6.4	6.4		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	7.8	8.7	8.6	8.6		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	7.9	9.0	9.0	9.1		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	2.1	2.7	2.9	3.0		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	2.6	2.7	2.5	2.4		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	1.1	1.1	1.0	0.9		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	1.8	1.5	1.5	1.6		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	71.1	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	27.9	28.3	27.9	28.8	29.7	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	38.1	39.1	39.4	39.8	40.1	40.1	39.7	39.9	39.9	40.0
	Corporate income tax - effective average tax rates (1) (*)	25.7	25.7	25.7	25.7		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	7.2	7.6	6.8	6.9		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	8.3	7.5	7.1	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	7.8	4.1	7.6	9.7		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISORA.

Income inequality in Spain remains high, and the tax-benefit system shows limited redistributive capacity. The tax-and-benefit system reduced the Gini coefficient by 6.9 pps in 2024, below the EU average of 7.8 pps ([21]). One factor adding to this situation are non-refundable PIT credits which benefit medium- to high-income households the most. Overall, Spain presents high income inequalities and levels of poverty, including child poverty rates (see Annex 14). Families with children, particularly single-parent families, are particularly exposed to poverty.

Graph A3.2: **Tax wedge for single and second earners as a % of total labour costs, 2025**



Note: The second earner tax wedge shows a household's tax wedge resulting from the wage that a second earner taking up a job at 67% of the average wage receives. It does not show the total tax wedge of the household. The household is assumed to have a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD (2024), Taxing Wages 2024.
Source: European Commission

Spain's labour tax burden is more progressive than the EU average. Graph A3.2

([21]) The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income.

shows that the labour-tax wedge ([22]) for Spain in 2025 was lower than the EU average for single people at 50% of the average wage and close to the EU average at higher wage levels. Second earners at a wage level of 67% of the average wage, whose spouses earn the average wage, faced a higher tax wedge in Spain than single earners at the same wage level. While this difference is comparable to the EU average, it should be kept in mind that both the tax wedge for second earners and the tax wedge for single persons at 67% of the average wage were higher for Spain than for the EU average.

Monitoring of tax expenditures (TEs) is fragmented and has been discontinued at central government level since 2022 ([23]). Until 2022 Spain used to provide an annual projection on TEs as part of its annual draft budget, in compliance with a constitutional mandate. Regional administrations still prepare their own monitoring reports, but the aggregate number of TEs at country level is unknown. The latest TE report from the central government estimated tax expenditures for 2023 at EUR 45.3 bn, or 23.9% of the budgeted tax revenues without tax expenditures. TEs in the area of VAT amounted to EUR 25.7 bn in 2023, i.e., 56.7% of the total TE. VAT exemptions were estimated at EUR 10.3 bn and reduced VAT rates at EUR 15.4 bn. TEs in the area of PIT were estimated at EUR 11.2 bn (24.7% of the total), and TEs in the area of CIT at EUR 5.7 bn (12.6%). The remaining TEs amounted to EUR 2.7 bn (5.6%), including excise duties, non-resident taxes, tax on insurance's premium, etc.

In 2023, Spain had the largest VAT policy gap in the EU. It amounted to 59.1% of notional ideal revenue, compared to an EU median of 46.4%. As shown in Graph A3.3, it was explained by one of the highest VAT rate gaps (at 16.5% of notional ideal revenue, 5.9 pps above the EU median) and the highest national policy-driven VAT exemption gap (at 18.7% of notional ideal revenue, almost double the EU median). This is influenced by the application of indirect taxes other than VAT in Canary Islands, Ceuta and Melilla, which partially compensate for the forgone VAT revenue in these territories. Among categories where preferential VAT rates apply, restaurants and accommodation services stand out for their large budgetary impact amid very limited redistributive effect ([24]). Contrary to many Member States, Spain also applies preferential VAT rates to admission to sport and cultural events. According to the International Monetary Fund ([25]), there is scope to raise revenues by 1.5% of GDP while enhancing economic efficiency by broadening the VAT base, limiting exemptions, and harmonising rates across goods and services.

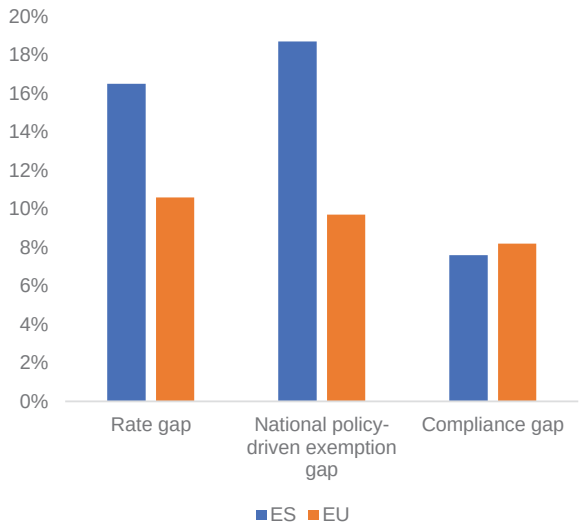
([22]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is defined as the sum of personal income taxes, employee and employer social-security contributions and other mandatory contributions, expressed as a percentage of total labour costs (composed of the net wage, personal income tax, social security contributions, and other mandatory contributions). Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, while in the past country reports they were based on the OECD tax and benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

([23]) See Spain – Country Fiche, in European Commission (2025), *Mind the Gap Report*.

([24]) European Commission (2026), *Fiscal Costs and Redistributive Effects of Reduced VAT Rates: A Detailed Analysis by Product and Population Groups*.

([25]) International Monetary Fund (2025), Staff Report of the 2025 Article IV Consultation on Spain.

Graph A3.3: **VAT gap indicators**



The rate gap and the national policy-driven exemption gap are two dimensions of the actionable VAT policy gap; they are measured as percentage of notional ideal revenues. Compliance gap is measured as a percentage of VAT total tax liability. EU refers to median values.
Source: European Commission, Directorate-General for Taxation and Customs Union, *VAT gap in the EU - 2025 report.*

Despite some recent evaluations, there is no systematic approach to assess the effectiveness of TEs in Spain. As part of a cycle of spending reviews, in July 2020, AIReF (Spain's independent authority for fiscal responsibility) published a report reviewing and evaluating a set of TEs. It analysed the suitability of EUR 34.2 billion of TEs, representing around 57% of total TEs estimated in the year of reference (2018). Some of its recommendations following this evaluation are still relevant ([26]). Spain's ongoing TEs reform under the RRP is also part of the commitments included in the adjustment period of the 2025 MTFSP that fed into the 2025 CSRs, aiming to permanently increase government revenues by at least 0.1% of GDP.

([26]) Such recommendations include: gradually abolishing the joint taxation regime in the PIT; harmonising and coordinating all existing PIT incentives to support labour supply; gradually revising the reduced VAT rates to improve the distributive efficiency of the tax for those goods currently taxed at reduced rates that are mainly consumed by high-income earners; and equalising the taxation of diesel with the taxation of gasoline.

Despite recent increases, Spain's VAT compliance gap remains below the EU median. It increased to 7.6% of VAT total tax liability in 2023, still 0.6 pps below the EU median. Preliminary estimates of 2024 for Spain point to a further increase to almost 10%. Spain has traditionally performed well in this indicator on the back of the efforts of the tax administration to combat fraud, facilitate compliance and digitalise its tools and procedures. Spain's workstream on monitoring of compliance gaps has so far focused on the area of VAT and, to a lesser extent, PIT. For PIT it follows a top-down approach, though estimates are not publicly disclosed. Spain does not currently produce gap estimates on CIT.

The Spanish tax administration is devoting digital tools to ease tax compliance and reduce associated costs. In particular, the *BUC Project* (Single Tax Knowledge Base) disseminates administrative case law and interpretations to help taxpayers meet their tax obligations. The 2024-2027 strategic plan prioritised the deployment of artificial intelligence to assist taxpayers; and the Virtual VAT Assistant helps taxpayers obtain the relevant tax information to meet their VAT obligations.

Spain's tax administration shows good results in digitalisation. Advanced IT tools used by the tax administration help manage compliance, prevent fraud and assist taxpayers efficiently. Digitalisation helps increase transparency, streamline compliance and better control tax collection. It also allows the tax administration to generate pre-filled tax returns, crosscheck declarations, detect fraud, and provide taxpayers with guidance, personalised information and assistance programmes aimed at simplifying compliance, such as free online filing tools, pre-filled tax returns or in person assistance. At 7.1%, outstanding tax arrears were well below the EU average at the end of 2023 (30.7%).

Spain's research and science ecosystem, shows progress, but still faces significant challenges to successfully boost its innovation performance. Over the past decade, Spain's R&D intensity has steadily increased, reaching 1.50% of GDP in 2024 ([27]). However, it remains well below the EU average of 2.24% and the national target of 2.12% ([28]). According to the European Innovation Scoreboard ([29]), Spain remains a 'moderate innovator' at 92.7% of the EU average, with significant regional disparities in innovation performance. Innovation potential is hindered by stagnating private R&D investments, low public R&D investment and inefficiencies in public support for business innovation, and by the country's inability to strengthen science-business linkages and translate its scientific excellence into innovation. Spain has remained in this position for over a decade, highlighting the need for targeted improvement to boost its productivity and competitiveness through innovation and a long-term strategy to increase R&D investments and improve its science and innovation ecosystem. Spain continues to make progress in the adoption of digital technologies by SMEs and the uptake of advanced technologies. However, achieving stronger digital uptake will rely on further efforts in this field.

Excellent science

The Spanish science system is progressing, but reaching national targets will depend on further efforts in this field. Public R&D expenditure has slowly improved to 0.66% of GDP in 2024 but still lags behind the EU average (0.72%) and is far from the national target of 1.25% ([30]). Moreover, regional disparities persist. Five regions are classified as 'strong innovators', with Madrid, Catalonia, Navarre and the Basque Country joined for the first time by Valencia ([31]), while most regions are 'moderate innovators', led by Galicia and Aragon. The regions with low R&D investment continue to exhibit low innovation performance, emphasising the regional gaps (see Annex 19). Scientific publications within the top 10% most-cited scientific publications worldwide have remained stable at around 8.5%, and international co-publications have reached 51.9% of total publications. Both figures are below the EU average (see Table A4.1). European funding programmes such as the recovery and resilience plan (RRP) and the European Regional Development Fund (ERDF) have provided significant support for Spanish research and innovation (R&I). RRP support has represented over 50% of the funds for R&I ([32]), with further investment and reforms needed to boost its scientific performance. Spain could go beyond the consolidation of its science and research ecosystem and boost its performance

([27]) 2025 Eurostat. R&D intensity is defined as gross domestic expenditure on R&D as a percentage of GDP (see Table A4.1)

([28]) The Spanish science, technology and innovation strategy for 2021-2027 (EECTI 2021-27) sets the target for total R&D intensity for 2027.

([29]) European Commission, *2025 European Innovation Scoreboard, country profile* Spain. The scoreboard provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems and for Spanish regions in the Regional Innovation Scoreboard 2025.

([30]) Spain sets a target for R&D public expenditure to reach 1.25% of GDP in 2030 (Law on Science, Technology and Innovation (Reform Act 17/2022 sept 2022). This reform was included to underpin the extension of the fiscal adjustment period (Council Recommendation endorsing the national medium-term fiscal-structural plan of Spain (14Jan2025).

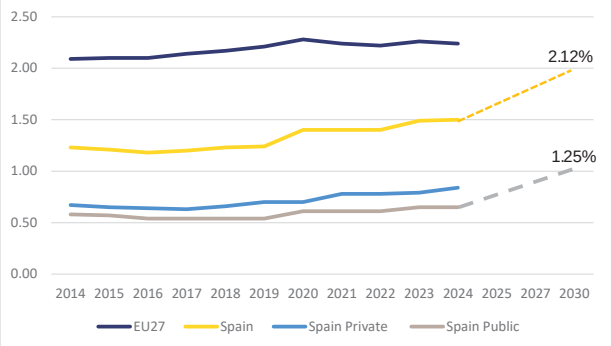
([31]) Regional Innovation Scoreboard 2025: profiles of innovation performance of regions in Spain.

([32]) NextGen Monitor (Cotec 2026) and *Análisis de la financiación pública de la I+D+I: Presupuestos Generales del Estado* PGE (COSCE 2026).

in this area through stable measures that mobilise, coordinate and steer increased public support and investment for R&D and that endure over a long time, especially after 2026, post-RRP.

Spain's research and innovation governance shows potential for improving its effectiveness and efficiency. The Spanish R&I governance system has shared responsibility between central government and regional authorities. It is characterised by a vast network of public research institutions and funding programmes at both national and regional levels ([33]). However, the fragmentation and overlap of R&I initiatives have persisted over time, resulting in misalignment, lack of coordination and slow decision-making ([34]). Complex administrative and reporting requirements overburden recipients of funding schemes and slow down the implementation of R&I activities, especially for innovative firms seeking public support for R&I ([35]). Positive steps forward in this respect have come from the Science, Technology and Innovation Act, the Red IDI informal network, and the evaluation plan of the Ministry of Science, Innovation and Universities ([36]). In addition, Spain has established structures for evidence-based policymaking and science advice mechanisms (e.g. ONAC, Oficina C) ([37]). However, all these initiatives would be better accompanied by a stronger science ecosystem that is more efficient and effective, with increased investment (81.8% of respondents to a national survey demand more public investment in science and technology) ([38]). R&I stakeholders (researchers, SMEs, etc.) claim that the current frameworks related to coordination and administrative complexity have not fully tackled the ongoing fragmentation and lack of efficiency ([39]). The successful linkage between reforms and investments has been clearly demonstrated, with the implementation of R&I policies contributing to more effective investments ([40]) and the evaluation of measures playing an important role in improving efficiency and effectiveness. In order for Spain's R&I ecosystem to boost innovation and competitiveness, it would benefit from a long-term strategy with coordinated R&I governance, including both targeted reforms and increased investments (see Graph A4.1 on developments in R&D intensity, which includes the projections needed to reach Spain's national targets).

Graph A4.1: **Evolution of R&D intensity (2014-2024) (1)**



(1) Includes national targets
Source: DG R&I based on Eurostat

([33]) EECTI (2021-27): Analysis of the Spanish system of science, technology and innovation and of its environment.

([34]) Informe Fundación CYD, 2024 and 2025, Cruz-Castro and Sanz-Menéndez, 2022, in Europeanisation of Public Policies in Spain.

([35]) Foro de Empresas Innovadoras (FEI) and Industria e Innovación (IND+I) , April 2023, Propuestas para políticas de innovación en España 2023-2027,.

([36]) Law on Science, Technology and Innovation (Reform Act 17/2022 sept 2022); R&D&I Policy Network (Red IDI); and Evaluation Plan of the Ministry of Science, Innovation and Universities (2021-2027).

([37]) ONAC is responsible for strengthening the role of scientific knowledge in the decision-making of the government and ministries. Office C offers scientific evidence to Parliament and stimulates dialogue between the scientific community and parliamentary officials.

([38]) FECYT 2025, Public Perception of Science and Technology in Spain presentation of results in June 2025.

([39]) OECD, 2025, Economic Survey Spain; Cotec, 2024, Balance y propuestas de mejora al PRTR; FEI and IND+I, 2023, Propuestas para políticas de innovación en España 2023-2027.

([40]) European Commission, 2025, Study on the R&I Measures in the Recovery and Resilience Facility.

Business innovation

Business innovation remains weak and is characterised by low private investment in R&D, which is relatively concentrated in a smaller number of innovative firms. Private R&D investment, although making progress, reached a modest level of 0.84% of GDP in 2024, still well below the EU average of 1.49%. The number of firms carrying out R&D activities has been decreasing in recent years, pointing to a stronger concentration of R&I activities in fewer companies ([41]). Innovation outputs are weak in Spain: in 2022, patent applications filed under the Patent Cooperation Treaty per billion of GDP (in purchasing power standards/PPS EUR) stood at 1.2%, well below the EU average of 2.8% (Table A4.1). Spain would benefit from participating in the unitary patent system as it offers key advantages in promoting innovation and boosting competitiveness ([42]). Although Spanish companies increased their spending on innovative activities by 13% between 2022 and 2024, innovation intensity represents 0.93% of companies' total revenue and has been witnessing a downward trend since in 2020 ([43]).

Spain's weak innovation capacity stems from a business structure that focuses on low technology sectors. Spain's business structure is highly fragmented, consisting mainly of small and medium-sized enterprises in low technology sectors such as services (tourism, retail, financial) and agri-food. The country has experienced low productivity growth for several decades ([44]) (see Annex 5). In the global innovation index (GII), Spain ranks 18th in Europe (and 29th in the world) ([45]). The GII shows that Spain's main weakness was in the institutional dimension. This includes aspects such as operational stability for businesses, government effectiveness, regulatory environment, policy stability and entrepreneurship policies. In contrast, Spain shows strengths in aspects related to infrastructure. These include information and communication technology access and ICT use, as well as government online services and general infrastructure. Business expenditure on R&D in the ICT sector as a percentage of total R&D expenditure is 17.99% (EU average: 17.94%) ([46]). According to the 2025 EU Industrial R&D Scoreboard ([47]), in the EU-800 ranking there are 26 Spanish companies investing EUR 6.7 billion altogether, which is 2.7% of the total EU-800. The three top Spanish R&D investors, accounting for over 60% total investments, are services-oriented and are from the banking sector (EUR 2.1 billion), software services (EUR 1.3 billion) and telecommunications (EUR 646 million).

Spain's public support to business R&D has increased, although bureaucratic hurdles remain. Direct and indirect support mechanisms have witnessed some growth since 2017 (see Table A4.1). However, studies show a lack of use due to difficulties caused by heavy bureaucracy for firms ([48]). Assessing these issues could ensure simplification and better take-up of these schemes. Spain would also benefit by improving its policy mix to support innovation, especially among SMEs. This would include reforms, but also increased direct investments and indirect measures to leverage private R&D.

([41]) Evolución de la I+D (Cotec 2025).

([42]) Spain has not signed the Unitary Patent Court Agreement or the enhanced cooperation framework.

([43]) Encuesta sobre innovación en las empresas (Cotec 2025) based on data from INE (2025). Innovation intensity is measured by the ratio of total R&D (internal and external) costs plus other innovation costs compared to a firm's total revenue.

([44]) OECD, 2025, Economic Survey Spain, and OECD, 2024. Reviving Broadly Shared Productivity Growth in Spain.

([45]) Global Innovation Index 2025.

([46]) Eurostat. Latest data 2023; EU average is an estimation.

([47]) European Commission: Joint Research Centre, 2025, The 2025 EU Industrial R&D Investment Scoreboard.

([48]) OECD, 2025, Economic Survey Spain; FEI and IND+I (April 2023) and Informe Cotec, October 2024.

Uptake of digital technologies by firms is steadily increasing, and Spain is making strong efforts to advance its digital technologies and infrastructure. The country performs above the EU average for its level of basic digital intensity for SMEs, reaching 75.4% in 2025. The uptake of AI by enterprises remains in line with the EU average, standing at 20%. Cloud adoption by enterprises lags behind the EU average (38% vs 47%), although the use of data analytics stands considerably above the EU average (47% vs 40%). To support the further adoption and development of digital technologies, Spain is introducing new measures and adapting existing ones. Spain has developed reforms and investments under its RRP, including the Digital Spain Agenda. Further boosts to innovation could come from continuing efforts on the digitalisation of firms in particular, encouraging the adoption of advanced technologies.

Science-business linkages need further improvement. Science-business collaboration, measured by scientific public-private co-publications, reached 7.2% of the total number of publications in 2024, below the EU average of 7.6%. This public-private co-publication collaboration, however, remains concentrated in a small number of universities, highlighting significant institutional and regional imbalances. Public expenditure on R&D financed by business enterprises (national) as a percentage of total public expenditure on R&D stands at 5.7% (EU average: 7.5%) ([49]). Studies have shown that Spain has significant structural, regulatory and framework weaknesses that are unfavourable for stimulating business-academic collaboration ([50]). The recommendations made by an in-depth OECD study ([51]) have not been fully addressed. These include improving the level of professionalisation of technology transfer and knowledge valorisation intermediaries, introducing measures to better support private R&D investment, and improving the governance of public research organisations to make them more performance-based. In recent years Spain has developed some measures in this field, including the complementary plan for technology transfer ([52]). However, no further measure has been announced following the 2025 CSR on *supporting and strengthening science-business linkages*.

Entrepreneurial dynamism

Spain has a dynamic start-up scene but struggles to convert early-stage strength into sustainable scale-up growth due to structural financing, governance issues and regulation. Spain has been successful in building a modern start-up ecosystem, with over 6 200 start-ups. That figure grew by 29.7% in the past year, reaching 14th place in the Global Startup Ecosystem Index 2025 ([53]). Spain has a strong seed-stage ecosystem but a severe lack of growth capital. This makes it difficult for start-ups to transition into scale-ups, with only ~15–20% of investors focusing on scaling ventures, contributing to a gap in late-stage financing ([54]). According to a recent report by the OECD, the Spanish entrepreneurship and start-up ecosystem performs well in terms of markets and leadership, but shows weakness in networks, talent and knowledge. Measures highlighted as

([49]) See Eurostat.

([50]) Informe Fundacion CYD 2025. Chapter 3 and OECD STI Policy Papers. Improving knowledge Transfer and collaboration between science and business in Spain.

([51]) OECD, 2021. Improving knowledge Transfer and collaboration between science and business in Spain. OECD Science, Technology and Industry Policy Papers.

([52]) Others include the knowledge transfer and collaboration plan, approved in December 2022, and the pending update Minister Morant announced. The plan for talent attraction and the strategic projects for economic recovery and transformation (PERTE) include partial measures.

([53]) Startupblink, 2025, Global Startup Ecosystem Index. See Spain fiche.

([54]) Tech Scaleup Spain 2025 Report - Mind the Bridge.

necessary in the report were the need to improve start-ups' knowledge transfer capabilities, networks, cooperation and conversion of research into commercial innovation ([55]). In addition, the volume and complexity of regulations in Spain are reported to have increased in recent years, particularly affecting smaller and newer businesses. Spanish firms highlighted business regulations as a major obstacle to investment compared with the EU average (55% vs 34%), while for labour market regulations the figure was 49% (EU average: 27%) ([56]). Innovation support is also dispersed across ministries and autonomous communities, often leading to overlaps, inconsistent regulatory frameworks, and coordination challenges across programmes. The introduction of the Start-up Law in 2022 was an important milestone in pushing the start-up agenda further and aligning the efforts of public institutions and private stakeholders to catch up with stronger European start-up hubs. However, Spain's major hubs, such as Madrid and Barcelona, face challenges in achieving global scale and critical mass limiting local scale-ups from becoming internationally competitive. Additional improvements could strengthen certain aspects of the entrepreneurial ecosystem, for example by reducing regulatory differences between regions, improving insolvency frameworks, and optimising fiscal policies, in line with the CSR2025 on *facilitating business creation, innovation and expansion*.

Difficulties in accessing financial support for R&I, in particular for SMEs, continue to hamper innovation in Spain. Venture capital as a percentage of GDP slightly decreased to 0.06 in 2024, down from the year before, and start-up stage funding stands at only 0.03. Both figures are the same as the EU average (see Table A4.1) (see Annex 6). There are schemes for access to venture capital as well as direct and indirect support for business R&D through grants and tax incentives, but their complexity makes it difficult for SMEs to access them ([57]). Studies claim that the current support measures (e.g. tax incentives) need to improve and include other actions such as training in tools and methodology, together with advice and management of R&D projects to help develop R&D capabilities beyond the execution of R&D projects ([58]). In addition, firms demand better coordination of the EU, national and regional support frameworks to increase the effectiveness of public-private collaboration ([59]).

A suitable talent pool and skills for the innovation ecosystem remain a challenge for Spain. Graduates in the field of computing were 6.8 per thousand of the population aged 25-34, which is above the EU average of 3.8. New graduates in science and engineering reached 16.9 per thousand of the population aged 25-34 in 2024, also just above the EU average of 16.8. (see Table A4.1) (see Annex 13). However, businesses cite the lack of skilled staff as a significant obstacle to investment (58% Spain, vs 52% EU average) ([60]) and researchers' employed by business reached 3.1 (per thousand active population) below EU average of 5.9 in 2024. This suggests gaps in specific segments of the talent pool, particularly in certain technical fields. In response, RRP includes measures to tackle skills shortages for digital and ICT, alongside other policies targeting skills development, digitalisation and vocational training. The success of these measures will need to be assessed over time.

([55]) OECD, 2026, Entrepreneurial Ecosystem Diagnostics of Spain, *OECD Studies on SMEs and Entrepreneurship*.

([56]) European Investment Bank, 2025, EIB Investment Survey 2025: Spain overview.

([57]) Cotec, 2024, Plan de Recuperación, Transformación y Resiliencia: Balance y propuestas de mejora.

([58]) FEI and IND+I (April 2023) and Cotec (September 2024).

([59]) EY Insights. 2024.

([60]) European Investment Banks 2025, EIB Investment Survey 2025: Spain overview.

In Spain, entrepreneurship education is embedded across education levels and promoted in several strategies, although systematic monitoring is lacking. Entrepreneurial skills are developed across the primary and secondary curricula, including in vocational education and training, as part of Spain's skills-based education framework. At lower and upper secondary levels, entrepreneurship can also be delivered through specific subjects or modules, depending on curricular decisions taken by the autonomous communities. Although there is no single national strategy on entrepreneurship education, the broader 2030 'Entrepreneurial Nation' strategy (*España Nación Emprendedora*) underscores that education is one of its central pillars, putting forward goals such as greater focus on STEAM (science, technology, engineering, arts and mathematics), practice-based learning and the introduction of entrepreneurship and business creation as a mandatory university subject. However, progress on the strategy's implementation, including education measures, is unclear, as no reporting or action plan has been made available. Spain's 2023–2027 national strategy for social economy also frames entrepreneurship education within the objectives of innovation, sustainability and social cohesion, encouraging cooperation between education and the economic sector. Some regional initiatives – such as *Aprendiendo a emprender: Crea tu propia cooperativa* in the Madrid Community and EMPRÉN in the Valencian Community – provide structured experiences connecting schools with businesses. Under these schemes, students create and run enterprises and receive mentoring, supported by teacher training. In general, however, practical entrepreneurial experiences are still mostly extracurricular. Entrepreneurship is not defined as a standalone professional competence for teachers or as a compulsory component of initial teacher training, but continuous training opportunities are provided in some autonomous communities.

Table A4.1: **Key Innovation Indicators**

Spain	2010	2015	2020	2022	2023	2024	2025	EU average (1)	US
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	1.35	1.21	1.40	1.40	1.49	1.50	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.65	0.57	0.61	0.61	0.65	0.66	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	9.45	9.03	8.86	8.52	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	3.90	3.40	4.00	4.10	4.40	4.50	:	4.30	:
International co-publications as % of total number of publications	39.80	47.24	49.31	49.49	50.85	51.92	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.70	0.64	0.78	0.79	0.84	0.84	:	1.49	2.69
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.35	0.29	0.36	0.33	0.35	:	:	0.47	0.30
Researchers employed by business per thousand active population	2.00	2.00	2.50	2.80	3.00	3.10	:	5.9	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	1.76	1.65	1.66	1.23	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	0.85	0.65*	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	60.53	:	75.35	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	38.01	40.94	47.07	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	27.25	33.10	37.92	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	9.18	11.31	20.27	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	5.28	6.02	6.29	6.84	6.88	7.21	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.05	0.03	0.04	0.04	0.04	:	:	0.06	0.02
Public support for business innovation									
Total public-sector support for BERD as % of GDP	:		0.23	0.25	0.25	:	:	0.21	:
R&D tax incentives: foregone revenues as % of GDP	:		0.13	0.14	0.14	:	:	0.10	0.16
BERD financed by the public sector (national and abroad) as % of GDP	0.13	0.08	0.10	0.11	0.11		:	0.11	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0.02	0.03	0.05	0.08	0.07	0.06	:	0.06	:
Seed stage funding share (% of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	:	0.01	:
Start-up stage funding share (% of GDP)	0.01	0.02	0.03	0.03	0.03	0.03	:	0.03	:
Later stage funding share (as % of GDP)	0.01	0.01	0.02	0.04	0.04	0.02	:	0.03	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	9.86	15.82	15.45	16.30	16.29	16.93	:	16.82	:
Graduates in the field of computing per thousand population aged 25-34	2.08	2.92	3.64	5.30	5.94	6.81	:	3.84	:

(1) EU average for the last available year or the year with the highest number of country data.

* break in series

Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

Building on Spain's current economic growth scenario to further introduce and complete the necessary structural reforms and investment is key for untapping its competitiveness potential. Spain's 2025 country-specific recommendations highlighted the need to simplify regulation, improve regulatory tools and reduce administrative burden as well as regulatory fragmentation across regions. They also pointed at facilitating business creation, innovation and expansion, supporting R&I investments and stronger science-business linkages (CSR.2025.3). In recent years, Spain has taken some steps to reduce administrative burdens, address regulatory regional market fragmentation, and to improve its business environment, notably through reforms and investment linked to the recovery and resilience plan (RRP) and commitments within the medium-term fiscal-structural plan (MTFSP) ([61]). This includes the adoption of the Start-ups Law and the Law on Business Creation and Growth, as well as efforts to address regulatory fragmentation across regions in the context of the 20th Regime.

Yet, Spanish firms continue to face several challenges that hinder their competitiveness. These obstacles include issues related to business regulation and administrative burdens (including permitting), regulatory regional market fragmentation, limited access to non-banking finance (see Annex 6), as well as barriers on entrepreneurship, scaling-up and innovation (see Annex 4). Moreover, Spain faces significant challenges in aligning with EU single market directives, has a high level of regulatory restrictiveness in the retail sector, and does not participate in the unitary patent system. Spain's net-zero industry would benefit from improving coordination, facilitating the permitting process and reducing its dependencies to support scaling up. Ensuring access to the electricity grid, together with low and stable energy prices, is key for the development of net-zero projects and the decarbonisation of energy-intensive industries, as well as transport. Spain's energy-intensive industries need to have monitoring for their levels of exposure, distress and coping ability in response to sudden declines in activity. Finally, the Law on Industry and Strategic Autonomy is pending approval.

Business dynamics

The Spanish economy is characterised by a large share of SMEs, which are less productive than large firms. SMEs contributed to 60.9% of Spain's gross value added (GVA) and 67.1% of employment ([62]) in 2024. However, their productivity is significantly lower compared to large firms. Large firms, which make up only 0.16% of businesses in Spain, are twice as productive as micro firms ([63]). However, medium-sized companies are experiencing significant increases in productivity and profitability, and since COVID-19 there is a general increase in productivity of small companies across all sectors. Moreover, there are signs that the average company size is increasing.

Low business dynamism in Spain is a symptom of existing barriers to business growth. Spain's business birth rate was 9.11% in 2023, which together with a death rate of 7.61%, gives a total business churn rate of 16.91%, with some differences across regions. Illes Baleares, Canarias and Comunidad Valenciana present the highest rates, while Galicia, Castilla y León and Rioja the lowest ([64]). This places Spain's business dynamism below the EU average churn rate of 18.97% (EU birth

([61]) Medium-term fiscal-structural plan. Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Spain

([62]) EC, 2025 SME country fact sheet – Spain.

([63]) OECD, OECD Economic Surveys: Spain 2025 | OECD.

([64]) INE, Demografía armonizada de empresas 2023.

rate 10.46%; EU death rate 8.51%) ([65]). The 2022 reform of the Insolvency or Bankruptcy Law, included in the Spanish RRP and MTFSP, is being implemented to ease bankruptcy filing and improve business dynamism. Moreover, post-entry growth is significantly lower than in peer countries, particularly in non-financial services, reflecting challenges in scaling up, and at the same time the share of start-ups has fallen behind peer countries in recent years ([66]).

Structural barriers prevent small firms from scaling up. These include administrative burdens, limited access to non-banking finance, lower adoption of advanced technologies, weaker innovation capacity (including its regulatory environment) and skills shortages, including managerial skills. Furthermore, limited networks and collaboration across firms hamper knowledge diffusion and market integration. Altogether, these factors, alongside a relatively risk-averse business culture, are important bottlenecks to generate productive start-ups and scale-ups in Spain ([67]) ([68]) (CSR 2025.3 and CSR 2025.6). The implementation of the 2022 Law on Start-ups and Law on Business Creation and Growth, as part of the Spanish RRP, aim to address parts of these structural barriers. Through the Technical Support Instrument, Spain is receiving support to assess the impact of the Start-ups Law. The project will support the development of a tailored framework for evaluating public policies aimed at supporting innovative entrepreneurship.

Labour productivity and total factor productivity have largely stagnated. In 2024, the labour productivity level in Spain reached 96.4% of the EU average, marking its peak since 2020. However, projections show that it may start losing ground relative to the EU average in the coming years, reaching 94.8% in 2027. There is no one major factor to single out as the root cause for Spain's productivity stagnation, as firm productivity tendencies vary across firm size and sector. Spain's sluggish productivity growth is also partly attributed to weak total factor productivity (TFP) performance ([69]). In July 2024, Spain established the Spanish Productivity Council ([70]) under the Ministry of Economy, Trade and Enterprise (MINECO). Its mission is to provide diagnosis and analysis on the evolution of productivity and competitiveness and their distributive implications in Spain, within the framework of the euro area and the European Union, as well as public policies with an impact on these dimensions.

Increasing and allocating private investment more efficiently could help Spain leverage current economic growth and increase productivity. Private investment in Spain has remained stagnant for the last three years at 13.1% of GDP, although this figure is still above EU average (12.6%) ([71]). The Spanish economy could benefit from channelling private investment into highly productive and innovative sectors and areas such as intangible assets, especially patents, or the digital sector, to consolidate the ongoing economic growth. Overall, investment in research and innovation remain very low (CSR 2025.3) (See also Annex 4 Innovation to business). Furthermore, public investment represented 2.7% of the GDP in 2024, coming down 0.3 percentage points from 2023. This places Spain one percentage point below the EU average of 3.9% ([72]).

Spain continues to attract foreign direct investment (FDI), although it remains behind Europe's leading FDI destinations.

([65]) Eurostat, [bd_size] Business demography by size class and NACE Rev. 2 activity.

([66]) OECD, OECD Economic Surveys: Spain 2025 | OECD.

([67]) OECD, OECD Economic Surveys: Spain 2025 | OECD.

([68]) European Commission Startups, scaleups and entrepreneurship - July 2025 - - Eurobarometer survey.

([69]) European Commission.

([70]) Spanish Productivity Council - Consejo de la Productividad de España.

([71]) Eurostat.

([72]) Eurostat.

FDI in Spain increased by 15% in 2024, contrasting a 5% annual decrease in Europe, which reached its lowest FDI levels in nine years. This increase in Spain corresponds to 351 projects, placing Spain 4th in Europe. Factors contributing to this rise in FDI include solid economic performance, affordable energy prices and competitive labour costs. Meanwhile, geopolitical tensions, economic instability and commercial tariff increases have disincentivised investment across Europe. Nevertheless, despite experiencing significant annual decreases, France (-14%, 1025 projects), the United Kingdom (-13%, 853) and Germany (-17%, 608) remained the top FDI destinations in Europe in 2024 ([73]).

Uncertainty about the future, business regulation (including permitting) and labour market regulation are considered the main investment obstacles. According to the 2025 European Investment Bank (EIB) Investment Survey, the main long-term obstacles to investment as reported by Spanish firms are: (1) uncertainty about the future (ES 84% vs EU 83%), (2) business regulation (ES 82% vs 69%), (3) availability of staff with the right skills (ES 82% vs EU 79%), and (4) labour market regulations (ES 79% vs EU 64%) ([74]). As regards labour market regulation, 49% of Spanish firms deemed it to be a major obstacle, well above the EU average of 27%. A higher percentage of SMEs perceive regulations to be an obstacle than do large firms.

Business environment

Spanish firms could benefit from improvements to the regulatory and administrative framework. According to the 2025 EIB Investment Survey ([75]), a majority of firms stated that business regulations represented an obstacle to investment (82% vs 69% in the EU). Looking closer, 55% of Spanish businesses report it as a major obstacle to investment, compared to the EU average of 34%. A slightly higher share of SMEs report business regulation obstacles compared to large firms (CSR 2025.3).

Access to alternative financing is key to enhance entrepreneurship and innovation. In Spain, 52% of firms considered constrained access to finance as an obstacle to investment. Among SMEs, 55% considered it an obstacle versus 49% of large companies ([76]). The main obstacles faced by SMEs to access financing are (1) financing price (interest rates and other costs), (2) lack of requested guarantees and (3) lack of knowledge by financial institutions about the business ([77]). These obstacles are particularly prominent for financing entrepreneurship and innovation due to higher risk profiles that banks struggle to properly assess. Although Spanish companies of all sizes benefit from lower interest rates on bank loans than the Eurozone average, they would benefit from further promotion and development of access to alternative financing, notably for financing entrepreneurship and innovation (See CSR 2025.3) (See Annex 6).

Late payments remain a challenge for Spanish SMEs in B2B transactions. In 2025, business-to-business (B2B) payment delays in Spain averaged 17.88 days, and government-to-business (G2B) delays averaged 14.72 days, both slightly above the EU averages of 17.44 days for B2B and 13.63 days for G2B. Despite this, the share of SMEs experiencing late payments is lower than the EU average, with 34.21% affected in B2B transactions, and 12.26% in G2B transactions ([78]). Nevertheless, 60% of Spanish SMEs flag late payments as a

([73]) EY Attractiveness Survey – Spain, 2025.

([74]) European Investment Bank, 2025, EIB investment survey – Spain.

([75]) European Investment Bank, 2025, EIB investment survey – Spain.

([76]) European Investment Bank, 2025, EIB investment survey – Spain.

([77]) OECD, OECD Economic Surveys: Spain 2025 | OECD.

([78]) Intrum, 2025, European Payment Report 2025 | Intrum.

major problem ([79]). Liquidity issues among customers, driven by economic uncertainties, as well as delays in payment processes and disputes over invoices are the main causes of late payments in Spain ([80]). In G2B transactions however, the Spanish authorities are now paying within 30 days (below the deadline laid down in EU law) at all levels of the administration, except for a few municipalities, according to official data. Since early 2026, the Spanish government has enforced e-invoicing as part of the Law on Business Creation and Growth, included in the Spanish RRP and the MTFSP, which should help monitor and combat late payments. Moreover, the Spanish Ministry of Industry and Tourism established the State Observatory of Private Late Payments in 2025. The Observatory's core activities include tracking late payment practices, drafting an annual report, promoting best practices and disclosing non-compliant companies that exceed payment deadlines ([81]).

Spain is at the forefront regarding connectivity infrastructure. In 2025, Spain's coverage of Very High-Capacity Networks (VHCN) and fibre to the premises (FTTP) reached 95.9%, marking a sustained growth and bringing the country to the level of the best connectivity performers in the EU. Overall 5G coverage stood at 99% and 89.9% in the 3.4-3.8 GHz band, considered strategic for advanced 5G performance. This progress in the deployment of gigabit networks has been supported for a good extent by the implementation of the RRP through the UNICO programmes, which have accelerated the deployment of gigabit networks and the development of stand-alone 5G services.

By international standards, Spain has a very well-developed transport infrastructure, for maritime, road and rail transport. It is ranked 13th, together with France, Japan and Taiwan, out of the 139 countries covered by the World Bank Logistic Performance Index ([82]). According to the 2025 EIB investment survey ([83]), 51% of Spanish businesses considered the state of transport infrastructure an obstacle to investment (vs 45% in the EU). Maintenance and overall sustainability of infrastructure is a key aspect to attract further investments and ensure safe and efficient passenger travel and goods transport.

Single Market and barriers

Spain has an open and diversified economy. Spain had an exports-to-GDP ratio of about 24.1% in 2024, and 63% of Spanish firms are engaged in international trade ([84]). In 2024, the three most important export sectors of Spain were equipment goods (19.4% of total exports), food, drinks and tobacco (18.7%) and chemical products (16.3%). The automotive sector also stands out as the fourth most exporting sector with 13.8% of total exports. France was Spain's largest trading partner (10.8% of Spain's total trade), followed by Germany (10.2%), China (8.9%), Italy (7.6%) and the US (5.8%). Overall, the EU is the main trading partner of Spain (52.9% of Spain's total trade) ([85]).

Spain's trade participation in the EU's single market remains notably low. In 2025, its intra-EU trade was 14% in goods and 5.5% in services (as a ratio of trade volumes to GDP). This is significantly lower than the EU averages

([79]) European Commission Startups, scaleups and entrepreneurship - July 2025 - - Eurobarometer survey.

([80]) EU Payment Observatory: Annual Report 2025, Observatory Analysis - Internal Market, Industry, Entrepreneurship and SMEs

([81]) EU Payment Observatory: Annual Report 2025, Observatory Analysis - Internal Market, Industry, Entrepreneurship and SMEs

([82]) World Bank Logistic Performance Index 2023 | Logistics Performance Index (LPI)

([83]) European Investment Bank, 2025, EIB investment survey – Spain.

([84]) European Investment Bank, 2025, EIB investment survey.

([85]) MINECO, Diciembre 2024, Informe Mensual de Comercio Exterior

of 18.2% for goods and 7.6% for services ([86]). This indicates an opportunity for Spanish businesses to increase their participation in the EU's single market and boost economic growth, competitiveness and prosperity. Several factors can explain this low integration rate, including low productivity growth, the small size of Spanish companies, skills shortages, the minor role of innovation and technological capital, trust in institutions, and the large size of the Spanish domestic market ([87]). However, EU trade integration offers Spanish businesses opportunities for growth, particularly SMEs, as Spanish firms benefit from lower barriers to entry and expansion trade than the OECD average, facilitating international trade and economic exchange ([88]).

Spain continues to face barriers linked to regulatory fragmentation and administrative burdens especially across the autonomous communities. Differences in regulations, permits and administrative procedures across autonomous communities can increase compliance costs and create obstacles for companies operating across regions or entering the Spanish market from other Member States. One example of this practice is the Catalan regional tax (Act 5/2017) on sugar sweetened beverages that introduces an excise type levy on some drinks sold in Catalonia. Other refer to obligations to label products in the relevant regional language in addition to Spanish or diverging reporting requirements in the Posted Workers Directive ([89]).

Sector-specific regulatory requirements also affect the free movement of goods and services. Businesses report that national rules on packaging and waste management, including mandatory sorting labels for packaging under Spain's packaging legislation, require firms to adapt product labelling specifically for the Spanish market, creating additional compliance costs for companies operating across borders ([90]).

Spanish SMEs face several Single Market barriers when wishing to scale up in other EU countries ([91]). Compared to the EU average, the three main barriers are: (1) taxation and VAT (ES 41% vs EU 30%), (2) permitting and authorisations (ES 29% vs EU 28%), and (3) territorial supply constraints (ES 29% vs EU 16%). Another barrier that stands out in Spain is "market access for goods, such as mutual recognition" (ES 26% vs EU 15%) ([92]).

Spain faces significant challenges in aligning with EU Single Market directives ([93]). It ranks last among the EU27 in transposing directives into national law, with 2.6% of all directives not being transposed on time, compared with both the 1% target set by the EU Council and the EU average of 1.1%. It also ranks above the EU average on the percentage of all directives being transposed incorrectly (ES 1.4% vs EU 1.1%). Spain ranks among the lowest in terms of average delay in transposing directives of 16.1 months (vs EU 9.7 months); as well as in the average duration of infringement proceedings (ES 55.8 months vs EU 44.5 months). It ranks last in the number of pending infringements (ES 48 vs EU 25). In 2025, Spain resolved 93.9% of the SOLVIT cases it handled as lead centre, which is above the EU average of 84.6% ([94]). Moreover, it is important to single

([86]) Eurostat

([87]) OECD, Spain_PMR country note.pdf

([88]) OECD, Spain_PMR country note.pdf

([89]) Eurocommerce, Single Market Barriers Overview, 17.05.2024

([90]) European Round Table for Industry (ERT), *Single Market Compendium of Obstacles*, 21 May 2025, Single Market Compendium of Obstacles.

([91]) Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

([92]) European Commission Startups, scaleups and entrepreneurship - July 2025 - - Eurobarometer survey.

([93]) Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

([94]) European Commission, 2025, Single Market and Competitiveness Scoreboard, Country data: Spain | Single Market and Competitiveness Scoreboard

out that new legislation should follow the simplification principle at all times to avoid creating a much larger amount of administrative burden than the one that is being reduced.

Compliance of products circulating in the Single Market ([95]) is key to ensuring a level-playing field for law-abiding companies and the safety of consumers. In Spain, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 33.6 investigations per one million inhabitants, which is lower than the EU median of 136.2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system. The upcoming revision of the Market Surveillance Regulation will upgrade ICSMS to a fully interoperable EU digital platform.

Spain's competitiveness may be undermined by the country's repeated non-compliance with the legal obligations under the Single Market Transparency Directive, resulting in new unjustified regulatory barriers to the free movement of goods and services in the Single Market. Regulatory fragmentation within the Single Market results in a less predictable environment for businesses, investors and consumers alike, with adverse effects on productivity. Increased attention by Spain to fostering better compliance with Single Market rules will reduce the risk for competitiveness for businesses in Spain and the Single Market as a whole.

For Spain, reinforcing investment in standardisation is key to building a robust and future-proof system. As technological transformation gathers pace, the performance of the European Standardisation System increasingly depends on the ability of National Standardisation Bodies to mobilise a wide and diverse network of experts – in traditional sectors as well as new, critical ones, such as AI and quantum. Spain would therefore benefit from strengthening its support for the Spanish Association for Standardization (UNE) to sustain the continued participation of a critical mass of stakeholders and technical specialists in standardisation activities.

Regulatory restrictiveness remains low in services, but is one of the highest in retail ([96]). Services trade restrictiveness in Spain remains low (0.042 in 2025) and well below the EU average (0.050) The index has remained unchanged compared to 2024 ([97]). However, the retail restrictiveness indicator (RRI) score ([98]) was 2.92 in 2022, exceeded the EU median of 1.70. Restrictions were particularly high as regards the establishment of shops, where Spain scored 3.13 (significantly higher than the EU median of 1.82), due to complex and burdensome authorisation procedures as well as the time taken to publish decisions. As regards operational restrictions, Spain scored 2.60 (also significantly above the EU median of 1.20), partially due to limited flexibility in shops' opening hours and the existence of retail-specific taxes. This is confirmed by the OECD's Product Market Regulation (PMR) indicator ([99]) which highlights Spain's retail market as highly restrictive.

This administrative complexity affects business establishment and service provision in some sectors. Licensing and authorisation procedures — namely in retail but also in construction — can be lengthy and burdensome, creating additional obstacles for

([95]) *Part of the barriers highlighted in the Single market strategy ('Terrible Ten') and the 2026 Annual Single Market and Competitiveness Report*.

([96]) Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

([97]) OECD, 2026, Services Trade Restrictiveness Index: Spain

([98]) European Commission, Retail Restrictiveness Indicator – Spain, Microsoft Power BI

([99]) OECD, Spain_PMR country note.pdf

market entry and investment ([100]). Streamlining administrative procedures and ensuring consistent implementation of Single Market rules would help improve the business environment and support competition. Further convergence of retail regulations – through sectoral conferences – would help to reduce restrictions and provide simplification of the retail regulatory frameworks of the Autonomous Communities and support the competitiveness of retail in Spain. Also, restriction to retail sales of medicines could be reduced to increase competition and benefit consumers. Moreover, incorrect transposition of EU directives, regulatory fragmentation across regions and the labelling and packaging regulations, among other regulations, hinder the Spanish retail sector's competitiveness, especially for SMEs.

Spain is more competition-friendly than the OECD average in terms of regulating professions. However, the notary profession could benefit from reduced barriers to competition, as it ranks 25 out of the 43 countries according to the OECD ([101]). Similarly, civil engineers and tourist guides have to overcome higher barriers than the EU average. Barriers for civil engineers concern requirements to obtain authorisation from the professional association for certain projects. Barriers for tourist guides result from differences in regional regulations ([102]).

Spain has introduced the '20th Regime' to address regulatory regional market fragmentation across Autonomous Communities (CCAA) ([103]), which is a major Single Market barrier in Spain (CSR 2025.3). To ensure this measure is aligned with Spain's constitutional decentralisation, it will consist of sectoral conferences between the national government, CCAA and local authorities, where they will identify, discuss and agree on how to tackle market fragmentation barriers. Currently, 7 barriers have been identified. This is a measure included in the MTFSP. Also, there are ongoing conversations with Portugal to establish a "Portuguese-Spanish Strategic Forum to Boost Competitiveness". However, there is the risk of partial progress in the measure's objective, in that most likely only non-politically sensitive barriers for CCAA will be tackled. Essentially, barriers related to lack of coordination will be tackled, while those related to regional preference will not. Thus, the success of this new instrument relies on political willingness for cooperation among the different administration levels.

Recent RRP reforms are expected to help Spain improve its public procurement environment. In Spain, 34% of total public tenders were based on single bids (EU median 27%), and 10% were based direct awards (EU median 7%) in 2025. Under the RRP, further interconnection and data exchange between all national public procurement platforms at both central and regional levels has been recently introduced, enabling the retrieval of both open and aggregated data fields. This should improve transparency, data quality and traceability across contracting authorities, but there is room for further efforts to complete and standardise the information published across regional platforms so that key indicators (such as competition, time-to-award and contract modifications) can be monitored more reliably.

Public procurement can be key for scaling-up SMEs. In 2025, 59.7% of public procurement contracts were awarded to SMEs, which represented 23.26% of the total amount

([100]) Eurocommerce, Single Market Barriers Overview, 17.05.2024

([101]) OECD, Spain_PMR country note.pdf

([102]) European Commission Restrictiveness Indicator (EURI): Regulated Professions Database. EC, Communication on updating the reform recommendations for regulation in professional services, COM(2021) 385. 9/7/2021;

([103]) "Comunidades Autónomas" (CCAA) (autonomous communities or regions) are the NUTS 3 administrative division of Spain.

([104]). It is difficult for SMEs to deal with required timings, volume and technical complexity. Small local administrations face difficulties in applying social and environmental criteria. Stronger professional support and clear guidance would help smaller authorities apply social and environmental considerations, while safeguarding competition and legal certainty.

Businesses' views on corruption risks in public procurement are above the EU average (see also Annex 7 Effective Institutional Framework). In Spain, 77% of companies (EU average: 58%) consider tailor-made specifications for particular companies in public procurement procedures, and 75% (EU average: 53%) conflicts of interest in the evaluation of bids, "very" or "fairly widespread" practice. Among companies that have experience in and participated in a public procurement procedure, 40% think that corruption has prevented them from winning a public tender or a public procurement contract in practice (EU average: 25%) ([105]). 61% of businesses perceive the level of independence of the public procurement review body (Central Administrative Court of Contract Appeals) as "very" or "fairly good" when it is reviewing public procurement cases ([106]). Public procurement, political party financing, infrastructure projects and public service contracts are key sectors at high-risk of corruption ([107]). An annual report on supervision of public procurement notes alleged irregularities in the award of the contract, alleged corrupt practices, complaints related to the execution of the contract and issues regarding use of sub-contracting as the main causes of complaints in public procurement ([108]).

Spain's fragmented eProcurement landscape and data quality issues highlight the need for interoperable systems, common standards, and stronger data governance. Given Spain's decentralised eProcurement landscape, with twelve to twenty separate procurement services in operation ([109]), economic operators must use several systems to access all public procurement procedures, creating complexity and barriers to participation. This fragmentation underscores the need to introduce interoperability and common standards. The once-only principle is only partially implemented at national level (see Annex 7), and buyers across the EU still lack digital access to relevant evidence. In addition to the existing data monitoring, Spanish national authorities are establishing a public procurement data strategy on the objectives and management of public procurement processes. Integrating a dedicated public procurement data collection and analysis service within the government would support data-driven oversight of the procurement lifecycle ([110]).

Spain remains outside the Unitary Patent (UP) system. Unlike 25 other Member States, Spain does not participate in enhanced cooperation on unitary patent protection. Joining this would be the first step towards possible integration into the unitary patent system. This non-participation has two consequences: firstly, Spanish and non-Spanish companies remain burdened by the significant administrative costs of national validation and maintenance fees to obtain patent protection

([104]) Portal de la Transparencia de la Administración General del Estado – Estadísticas de contratos de PYMEs

([105]) Flash Eurobarometer 557, p.133.

([106]) Justice Scoreboard (2025), p. 53; Flash Eurobarometer 555, p. 39.

([107]) Rule of Law Report- Country Chapter Spain (2025), p. 13.

([108]) Rule of Law Report- Country Chapter Spain (2025), p. 13.

([109]) As reported in the eProcurement matrix.

([110]) European Court of Auditors, Special Report 28/2023: *Public Procurement in the EU. Less competition for contracts awarded for works, goods and services in the 10 years up to 2021*, 2023, Special report 28/2023: Public procurement in the EU

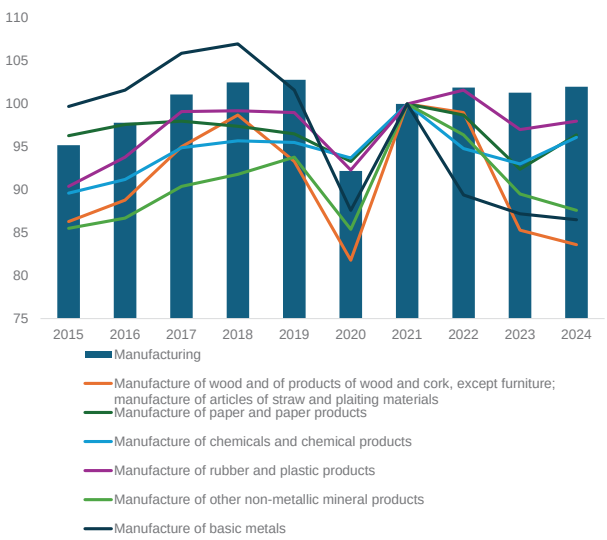
in Spain. Secondly, enforcing European patents in Spain can only take place before national courts, without benefiting from the advantages offered by the UPC as regards centralised litigation. For all these reasons, by refraining from joining the unitary patent system Spain may be less attractive, in terms of innovation support, than the Member States already participating in the system. Finally, the fact that several Member States do not participate in the unitary patent system weakens the single market, making the EU less attractive for inventors and innovative entities.

Industry and economic security

Energy-intensive industries have been struggling to recover from the pandemic crisis. As of 2024, manufacturing production in energy-intensive industries in Spain has only increased by 2% since 2021 and is still slightly below pre-COVID-19 levels. By industry, the manufacturing of basic metals is the sector that suffered the most in the pandemic and has not been able to recover, accumulating a loss of 19.2% since its peak in 2018 (-13.5% since 2021) (see graph A2.2). However, manufacturing of wood is the sector which has made the biggest losses since the end of the pandemic in 2021 (-16.4%) ([111]). Moreover, the Spanish regions of Cantabria, Navarra, Basque Country and Asturias have been identified as exposed, in distress and having low ability to cope with the decline of the basic metals industry ([112]). No other observed energy-intensive industry has been able to fully recover since 2021. This persistent weakness points to broader structural challenges, including pressures on industrial competitiveness, risks of regional divergence, and potential implications for Spain's growth outlook and strategic position in key value chains. As regards the share of energy from renewable sources, it increased from 21.2% in 2020 to 25.4% in 2024, just above the EU average of 25.2%.

Low and stable energy prices are key for the development of energy-intensive industry and its decarbonisation. Electricity prices in Spain have increased by 9.1% in the last year and remain at EUR/kWh 0.1394 by the end of the first half of 2025; still below the EU average of EUR/kWh 0.1547, which increased only by 0.3% ([113]) (See annex 9). High energy costs compared to non-EU countries, weak demand and global competition put pressure on energy-intensive industries. Despite these prices being significantly lower than the ones experienced in the 2022-2023 energy crisis, industry still regards current prices as too high and volatile, which hampers investment planning and production output.

Graph A5.1: **Manufacturing industry production: total and selected sector, index (2021=100), 2015-2024**



Source: Eurostat

Spain's net-zero industry would benefit from optimising its competitive advantages.

([111]) Eurostat. [sts_inpr_a] Production in industry - annual data

([112]) European Commission, 2025, Mapping the impact of industrial decline on European regions - Internal Market, Industry, Entrepreneurship and SMEs

([113]) Eurostat. [nrg_pc_205] Electricity prices for non-household consumers - bi-annual data (from 2007 onwards)

Spain's three largest industrial net-zero sectors by value are wind power, with a production amounting to EUR 8.4 billion (9% of total EU production), EUR 2.5 billion (3% of EU production) for grid technologies, and EUR 1.8 billion (2% of EU production) for solar PV and thermal. Spain excels in exporting offshore wind components, such as gears and gearing, with a high growth rate and a revealed comparative index (RCA) surpassing China and the USA. Spain is also competitive in exporting grid technology components, with an RCA index indicating greater competitiveness than China and the USA ([114]).

Net-zero manufacturing requires better coordination and reducing its dependencies to scale-up. The net-zero manufacturing ecosystem in Spain is fragmented, with limited collaboration between startups, research institutions, corporates, and government bodies. Additionally, the weak transfer of knowledge and research from universities and public research centres to the private sector limits innovation. A stronger, more coordinated approach is needed to integrate different stakeholders and enhance the cleantech value chain. Improved coordination could facilitate innovation, investment and scaling of clean tech manufacturing capabilities (CSR 2025.3). This also entails better cooperation among the numerous existing clusters and cluster organisations in Spain, which are unevenly distributed throughout the country (most are in Catalonia) ([115]). Moreover, supply chain risks are a potential bottleneck since Spanish industry is highly dependent on imports, with 39.8% of materials used being imported (almost double the EU average of 22.4%) ([116]). Specifically for net-zero technologies, data shows a high extra-EU import dependency for batteries (77%), wind power (55%), solar power (42%) and grid technologies (40%). Import dependencies for rare earth metals like manganese and electronics particularly affect net-zero technologies and could be an additional cost and barrier to scaling up Spanish manufacturing ([117]). Moreover, higher materials circularity would further reduce dependencies (ES 7.4% vs EU 12.2%) ([118]).

Guaranteed access to the electricity grid is essential for net-zero projects development. A major challenge for industry in developing projects and transitioning towards net zero is the inability of the electricity grid to supply the existing demand. Thus, many projects are disregarded, especially many energy-intensive industry projects. Spain is currently undergoing a full revision of its regulation on electricity grids to solve the existing bottleneck, meet demand and reduce energy prices. Given the impossibility of decoupling energy from industry, energy policy should be developed taking into consideration industrial policy. (See Annex 9).

Permitting is one of the biggest bottlenecks, especially for advancing in decarbonisation. It pushes back a significant number of industrial projects, together with the insufficient access to the grid. Allowing for parallel permitting procedures, instead of consecutive; as well as to prevent duplicity among administrations (due to market fragmentation) and better coordination between ministries, especially on industrial matters, would help reduce this bottleneck, where waiting costs frequently become larger than incentives. This challenge is particularly prominent in alternative energy sources, i.e. hydrogen and biomethane; without efficient permitting procedures it will be hard to ensure sufficient demand for these projects. Also,

([114]) European Commission and ECORYS, 2025, The net-zero manufacturing industry landscape across the Member States. Annex 2, Country fiches - Publications Office of the EU.

([115]) European Cluster Collaboration Platform, ECCP, *Country Factsheet Spain*, ECCP Factsheet Spain

([116]) Eurostat, [cei_gsr030] Material import dependency.

([117]) European Commission and ECORYS, 2025, The net-zero manufacturing industry landscape across the Member States. Annex 2, Country fiches - Publications Office of the EU.

([118]) Eurostat, Circular material use rate[cei_srm030].

there are no existing or planned regulatory sandboxes for NZIA projects.

Spain is working on a forthcoming Royal Decree to implement the Critical Raw Materials Act (CRMA) and the Net-Zero Industry Act (NZIA). It should help strengthen the collaboration framework between different levels of administration in implementing industrial policy and net-zero projects. The decree will establish single contact points in each CCAA for projects located on their territory, responsible for coordinating and facilitating the permitting process; a national coordination role for the ministry of industry when projects fall under central government competence or span more than one region; and the creation of two Coordination Commissions (for critical raw materials and for net-zero technologies), composed of representatives from the central government, the CCAA and local authorities, to monitor implementation and share best practices. These mechanisms intend to provide a harmonised governance model for industrial and decarbonisation projects across Spain. The framework could be further improved by using these commissions as permanent platforms to identify administrative bottlenecks, exchange data, and propose procedural simplifications. So far, at least 14 strategic projects have been identified and 4 CCAA have shown interest in establishing net-zero acceleration valleys, most notably Navarra.

With these reforms, Spain is making sound progress in implementing the Net-Zero Industry Act. It has successfully designated a single point of contact in each CCAA and created a dedicated website, which is crucial for streamlining communication and coordination among stakeholders. Furthermore, Spain has established a national contact point to administer applications, facilitating the advancement of Net-Zero Strategic Projects. So far, Spain has no confirmed Net-Zero Strategic Projects. Nevertheless, there is the possibility to submit applications, reflecting its proactive approach to advancing initiatives that align with net-zero goals. Although there has been no specific indication of a designated Net-Zero Acceleration Valley, the country's interest in promoting net-zero activities is evident, with already four different potential areas that could be designated, which can help attract further strategic projects.

Critical raw materials are essential for the green and digital transitions. Spain shows strong capabilities to boost recycling, circular economy initiatives, and diversifying supply. These are key elements to reduce dependency on critical raw materials in line with CRMA. Simplified permits on prospective mine sites could further boost the business case for smaller sites in the country, aligned with the RESourceEU plan. This is also in view of the existing strategic projects selected by the Commission in March 2025 ([119]). The Spanish territory includes 7 strategic projects: 4 for extraction, 2 for extraction and processing and 1 for recycling and they are mostly located in the southern provinces (i.e. Badajoz, Huelva, Sevilla, Cáceres, Ciudad Real) and Orense. The critical raw materials include tungsten, lithium, cobalt, copper, platinum group metals and nickel (battery grade).

Spain's industrial ecosystem would highly benefit from the approval of the Law on Industry and Strategic Autonomy. Given the impossibility to approve it in parliament before August 31st, 2026, this reform has been removed from the RRP. The current law is from 1992 and it has become outdated.

([119]) Commission Decision C (2025) 1904 final, published on 25 March 2025

Table A5.1: **Single Market and Industry**

Spain								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		92.6	94.3	96.4	96.4	95.9	100.0
	Business investment (share of GDP)[1]		13.3	13.1	13.1	13.1	-	12.6
	Public investment (share of GDP)[1]		2.7	2.7	3.0	2.7	-	3.9
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		64.1	53.0	47.8	60.4	55.0	34.0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0.85	0.81	0.58	0.69	-	0.43
	EIF Access to Finance for SMEs index - equity[3]		0.16	0.13	0.13	0.66	-	0.19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		12.5	16.3	15.2	17.6	17.9	17.4
	Payment gap - public sector, difference in days between offered and actual payment[4]		11.2	22.0	16.9	15.7	14.7	13.6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	41.5	34.2	47.1
		from public entities in the previous or current quarter	-	-	-	14.4	12.3	15.9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		18.8	21.2	20.1	19.5	19.6	40.7
	EEA Services Trade Restrictiveness index[6]		0.042	0.042	0.042	0.042	0.042	0.050
Public procurement	Single bids, % of total contractors[7*]		27	27	32	33	34	27
	Direct awards, % of negotiated procedures[7*]		12	10	9	8	10	6
Compliance	Transposition deficit, % of all directives not transposed[8]		2.2	2.5	1.3	1.8	2.6	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1	1.3	1.3	1.2	1.4	1.1
	SOLVIT, resolution rate per country, %[8]		79.49	85.4	88	86.4	93.9	84.6
	Number of pending infringement proceedings[8]		49	46	44	42	48	25
Industry and economic security								
Energy-intensive industries	Electricity prices for non-household consumers[1]		0.1237	0.2211	0.1581	0.1353	0.1394	0.1462
	Electrification (electricity as a share of total energy consumption in industry)[1]		31.3	32.5	31.3	-	-	32.7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]		20.6	21.8	25.0	25.4	-	25.2
Critical raw materials	Material import dependency, %[1]		39.5	42.3	42.0	39.8	-	22.4
	Circular material use rate[1]		9.1	9.6	8.2	7.4	-	12.2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW		0.563 (m)		- Electrolyzer, GW		0.700	
	- Heat pump assembly		0.22		- Battery, GW		-	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investments Union summary diagnostic**

Topic	*Main features*	*Relative EU positioning*
Asset-backed pension schemes	Assets at 11.3% of GDP (32.3% in the EU) 10-year real return of 0.6 (1.4% in the EU)	The moderate pension assets yield a low real return.
Households' financial assets	EUR 61 925 per capita (EUR 85 090 in the EU) o/w 6.2% in listed shares and bonds (7.6% in the EU) o/w 17.1% in investment funds (11.0% in the EU) o/w 5.8% in life insurance (13.4% in the EU) o/w 6.5% in pension claims (13.6% in the EU)	A comparatively high share of households' financial assets is invested in investment funds, with relatively limited exposure to listed shares and bonds, pension schemes and life insurance.
Venture capital (VC) **Private equity (PE)**	VC at 0.057% of GDP (0.064% in the EU) PE at 0.489% of GDP (0.487% in the EU)	Relatively high venture capital and private equity investments.
Capital taxation	Capital gains taxed at progressive rates between 19% and 30%, corporate income tax of 25%. UCITS funds have a beneficial tax regime of the unrealised gains for transfers between funds, which does not apply to ETFs and ELTIFs.	No preferential tax treatment for equity investments, asymmetric tax treatment of unrealised gains across fund categories.
1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	

Source: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.

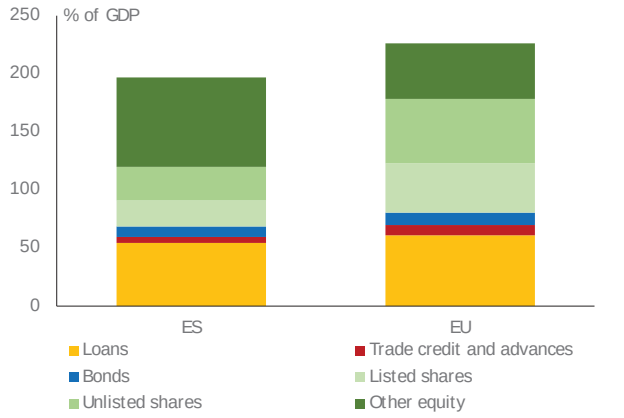
Spain could benefit from further progress on the policy goals of the Savings and Investment Union (see Table A6.1). The funding model for Spanish non-financial corporations (NFCs) is mainly bank-oriented and less capital market-intensive than EU peers. Household savings in Spain are held mainly in deposits and real estate, fuelled by the sharp increase in housing prices in recent years. The introduction of the Savings and Investments Accounts in Spain could incentivise the reallocation of household savings by reducing the tax burden and increasing transparency and ease of use for households. Capital markets remain comparatively small in terms of capitalisation and volumes traded. Spanish households' savings are invested conservatively, as financial instruments form only a small part of their wealth. On a positive note, Spanish households allocate a greater share of their wealth to investment funds than the EU average. The investment portfolio of domestic institutional investors is focused on debt securities and investment-fund shares. Spain's venture-capital and growth-capital markets are not yet developed enough to meet all the financing needs of innovative firms, especially of companies seeking to scale up. Spain's recovery and resilience plan (RRP) includes measures to support start-up financing and capital market development.

Business landscape and company funding

After the financial crisis, and over the past 15 years, Spanish companies have gradually moved towards a more balanced financing structure. Compared with the EU average, micro enterprises play a stronger role in the structure of the Spanish economy, at the expense of small, medium and large companies ([120]). In 2008, aggregate corporate funding was composed of 63% debt and 37% equity. By 2024, the split had become nearly even – 53% debt and 47% equity – largely driven by the 'other equity' category comprising equity such as limited liability shares (see Graph A6.1).

([120]) See Annex 5 for more details.

Graph A6.1: **Composition of non-financial companies' funding**



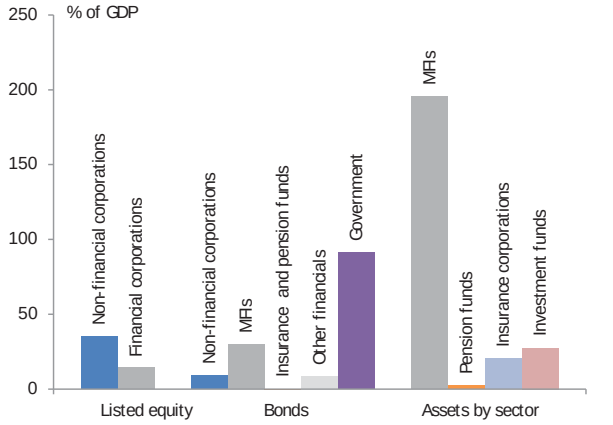
Source: Eurostat. End-2024.

Despite a slowdown in revenue growth in 2024, Spanish firms continued to improve their financial and balance sheet positions. As of 2024, NFCs relied slightly less on loans (57.9% of total liabilities) than the EU average (62.7%) and significantly less on market-based instruments such as listed shares (22.0% vs 43.9%) and bonds (8.2% vs 10.8%). Trade credit also accounted for a smaller share in Spain (4.9% vs. 8.7%). Spanish firms made greater use of other equity (76.4% vs. 47.8%). This points to a more bank-oriented and less capital market-intensive funding model for NFCs than their EU peers.

Size and structure of the financial sector

The Spanish economy stands out as one of the capital markets in the EU with potential for further growth. The market capitalisation of listed equity in Spain was equivalent to 49% of GDP at the end of 2024 (see Graph A6.2), which is well below the EU average. At the same time, NFCs accounted for 71% of that capitalisation, which implies that the stock market in Spain is largely geared towards funding the non-financial segment of the real economy. The outstanding volume of debt securities was equivalent to 138% of GDP at end-2024, which is in line with the EU average. Bonds issued by the government and monetary financial institutions (MFIs) accounted for almost 66% and 21% of the total.

Graph A6.2: **Capital markets and financial intermediaries**



Source: Source: ECB, EIOPA, AMECO. End-2024.

Although the financial sector in Spain remains dominated by credit institutions, non-bank financial intermediaries also play an important role. Starting from 256% of GDP in 2020, the size of the banking sector steadily declined to 195% of GDP in 2024, which remains below the EU average of 253%. The insurance and pension fund sectors (with total assets of almost 21% of GDP and 11% of GDP respectively at end-2024) play a lesser role in non-bank intermediation (see Graph A6.2). Investment funds also play a role, even though their total assets dropped by around 2 percentage points to almost 28% of GDP between 2021 and 2024.

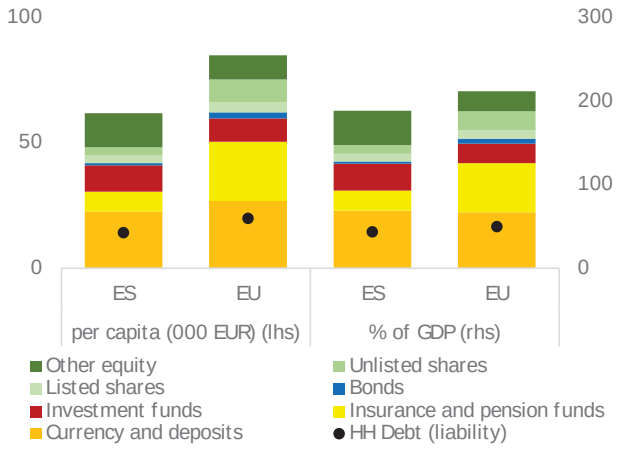
In 2025, the capital market financing of Spanish firms increased further, with several new listings on the Spanish stock exchange (BME). Three new companies listed on the BME Main Market in 2025 (HBX Group, Izertis, and Cirsa), and 14 new companies joined the growth markets, BME Growth and BME Scaleup. Currently, companies listed on the BME Growth Market that surpass a EUR 1billion market capitalisation for a period of six months are obliged to transfer to a regulated market, which may lead to additional costs and administrative burden. The market capitalisation of Spanish stock exchanges

increased by 64.5% in 2025, to just above EUR 1 500 billion, driven by strong economic fundamentals, robust corporate earnings, and good performance in banking and defence. Capital market financing by companies increased again in 2025 to EUR 10.9 billion, marking a four-year high. The supervisory authorities have been working on initiatives together with the private sector to promote capital market development, such as the new BME Easy Access procedure that gives issuers 18 months to meet free-float requirements.

Households' participation in capital markets

In 2024, the financial asset portfolio of Spanish households remained quite different from the EU average, reflecting both structural and institutional factors. Spanish households hold a large share of their wealth in housing. In 2023, real-estate assets represented about 64% of net household wealth, significantly more than in several EU peer countries. Spanish households had significantly lower exposure to insurance and pension funds than the EU average (EUR 7 900 vs an EU average of EUR 23 700 per capita, or 24.1% of GDP vs an EU average of 59% of GDP), underscoring the relatively modest development of long-term savings instruments in Spain (see Graph A6.3). Spanish households allocated a greater share of their wealth to investment funds than the EU average, both per capita (EUR 10 600 vs EUR 9 400) and as a share of GDP (32.3% vs 23.4%). They also had higher holdings of 'other equity' (often stakes in SMEs or family-owned businesses) at 41.2% of GDP, well above the EU average of 24.2%.

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

There is space to further increase the level of direct and indirect retail investment in Spain. The Spanish authorities are working on the introduction of a Savings and Investments Account in Spain and the 'Finance Europe' label. The account is expected to constitute an improvement on the current regime, under which savings and investment income is taxed at progressive income tax rates ranging between 19% and 30%. Developing a simple, standardised Savings and Investments Account ([121]) could add value by streamlining the tax treatment of retail investments and increasing transparency and ease of use for households. The changes in rules for Spain's pillar 3 pensions, in particular the sharp reduction in tax relief for individual pension plans (from EUR 8 000 in 2020 to EUR 2 000 in 2021 and then to EUR 1 500 per year since 2022), have had a limiting effect on the capital market and on retail investors' confidence. Despite recent measures to boost occupational (pillar 2) plans, this pillar remains underdeveloped.

Financial literacy levels are comparatively low in Spain. Recent surveys ([122]) show that only 19% of respondents in Spain display a

([121]) In line with EU Recommendation 2025/2029 on increasing the availability of savings and investment accounts with simplified and advantageous tax treatment.

([122]) Monitoring the level of financial literacy in the EU, 2023.

high level of financial literacy, 54% a medium level, and the remaining 27% a low level, compared with an EU average of 26% for high literacy, 50% for medium, and 24% for low. Spain also scores below the EU average for the use of digital financial services and trust in the investment advice received. According to the latest Survey of Financial Competences (ECF) among adults by the Bank of Spain ([123]), only 19% of the respondents answered all questions correctly, with significant regional variations in performance. As for children in school age, the PISA 2022 results show that 15-year-olds in Spain perform at levels lower but close to the OEDC average**.** Spain shows no significant gender gap, while the main challenge is the regional gap. In 2008 a financial education strategy was launched to improve the financial knowledge of the public.

The banking sector: resilience and financing of the economy

The Spanish banking sector is well-capitalised and shows good resilience to risks and is thus not constrained in its role of funding the economy. Banking sector capital levels only slightly improved in 2025, despite very strong profits (see Table A6.2). The system-wide capital ratio stood at 17.9% in Q3 2025, significantly below the EU average (at 20.2%). In the same period, Spanish banks reported a consolidated common equity tier 1 (CET1) ratio of 13.8%, the lowest in the EU. The minimum requirement for own funds and eligible liabilities (MREL) and the combined buffer requirement in addition to MREL, are above all regulatory requirements ([124]). According to the 2025 EU-wide stress tests conducted by the EBA and the ECB ([125]), the participating Spanish institutions fared better than the EU aggregate, as they experienced a comparatively smaller negative impact under the adverse scenario. The aggregate non-performing loan (NPL) ratio declined to 2.4% in Q3 2025 (slightly above the EU average of 1.9%). Despite the high level of bankruptcies over the past three years, the corporate NPL ratio has been on a steady downward path and reached 3.2% in Q3 2025, below the EU average. The banks' asset quality outlook is subject to increased uncertainty due to the current geopolitical conflicts and the impact on energy prices and economic growth.

Bank lending to Spanish NFCs has increased further, in a context of lower interest rates and favourable economic developments. Annual corporate credit growth reached 3.9% in December 2025, up from 0.8% at the end of 2024. Business registrations have also been on the rise. For households, the annual growth in bank credit increased from 1.4% in 2024 to 4.6% at the end of 2025. The Bank of Spain is applying a phased increase in the countercyclical capital buffer (CCyB) to 1% from October 2026, following a revised macroprudential framework that sets a positive CCyB rate when cyclical systemic risk is considered neutral.

Role of non-bank financial intermediaries

Institutional investors in Spain have the necessary funds to channel savings into investment and support capital market development. Given the country's strong growth in GDP and incomes after the pandemic, the financial industry has the potential to increase its assets under management. However, the role of domestic institutional investors in deepening the capital market has so far remained limited. This is due to Spain's regulatory framework, which is characterised by very weak tax incentives for saving in pension plans and restrictive fee caps

([123]) Survey of Financial Competences, Bank of Spain.

([124]) See the European Banking Authority's MREL Dashboard – Q2 2025 and the Executive Resolution Authority's Bail-in mechanics.

([125]) See the results of the 2025 EU-wide stress test exercise, August 2025.

imposed on Spanish management companies of pension funds. A recent study ([126]) showed that Spanish pension funds accounted on average for only 7% of PE and VC funds raised annually over the timeframe 2007-2023, a figure that falls substantially short of the 19% for the Baltic states or over 20% shares for Nordic Member States.

The insurance sector in Spain is relatively small compared with other European countries. As of Q3 2025, total insurance-sector assets stood at 20.1% of GDP, which is lower than the EU average of 53.9%. As of Q3 2025, Spanish insurers' solvency ratio of almost 239%, although robust and above statutory requirements, was slightly below the EU average. Gross written premiums in 2024 amounted to EUR 75.1 billion, just 1.6% lower than a year earlier, reflecting the overall stability maintained throughout 2024. Approximately 38% of the premiums are obtained in the life insurance sector, while around 62% correspond to the non-life branch. The life insurance sector experienced a year-on-year decline in premium volume amounting to -13.7% at the end of 2024, far from the annual growth of 36% during 2023. This trend is explained by the fall in interest rates, as the Spanish life insurance market is dominated by annuities and traditional savings products with investment guarantees, which are more attractive to customers when interest rates are high.

The insurance sector in Spain is characterised by a conservative asset allocation model. The insurance sector is focused on non-life business, the liability structure of which overall disfavours asset allocation into equity and other long-term and high-yield assets. Insurance companies in Spain have government and corporate bonds as their main assets (at 64.7% of total assets as of Q3 2025, compared with 36.2% for the euro area as a whole) ([127]). Investment funds account for only a small portion of their portfolio (12%), contrasting notably with the broader euro area trend. Only 7.5% of assets are held in equity. This conservative approach ensures low risk and relatively subdued, but predictable and stable returns. Interestingly, insurance corporations primarily invest in government bonds issued in Spain, but they tend to hold more listed shares issued abroad than issued domestically.

The insurance protection gap in Spain for damages caused by natural hazards is not significant. The Consorcio de Compensación de Seguros, a public entity, assumes these risks from insured parties through direct cover and compensates them for damages caused by catastrophic events. According to EIOPA's 2025 Insurance Protection Gap Dashboard, Spain's protection gap against losses from natural hazards is relatively low compared with most EU Member States. Historically, wildfires and floods have posed the highest risk in Spain. The relative risk of these hazards is expected to increase, amidst rising global temperatures.

The net assets of Spanish investment funds grew 14% year-on-year to EUR 457 billion in Q3 2025. This growth was driven by both the appreciation of fund portfolios and net subscriptions from investors. For the fifth consecutive year, the fund category with the largest increase in assets in 2025 was fixed-income funds. The surge in fixed-income funds likely reflected attractive interest rates and an increased perception of equity risk due to ongoing geopolitical tensions and high valuations in certain segments of the stock market. Certain UCITS funds have a beneficial tax regime in Spain, which allows transfers between funds without having to pay taxes on the gains, which are only taxed once they are realised. This beneficial regime does not apply to exchange traded funds (ETFs) nor to

([126]) Closing the gaping hole in the capital market for EU start-ups – the role of pension funds – CEPS.

([127]) Source: Assets and liabilities of insurances | ECB Data Portal.

European Long-Term Investment Funds (ELTIFs), which puts these types of funds at a tax disadvantage compared with traditional collective investment vehicles (UCITS) ([128]).

Supplementary pensions in Spain remain small and fail to deliver a significant long-term average real return. Spain's pension system remains largely pay-as-you-go, leaving it vulnerable to demographic shifts and disadvantaged by limited contributions to equity investment and the development of capital markets ([129]). Total pension assets were equivalent to only 11.3% of GDP in 2024 (vs 32.3% in the EU and 162.0% in the US). Spain's public pension reserve fund, the Fondo de Reserva de la Seguridad Social, was created in 2000 to build surpluses for future pension shortfalls, but has seen significant depletion in these surpluses since its inception. However, this trend is now being reversed through the Intergenerational Equity Mechanism (MEI), which has resumed the replenishment of the fund's assets. This sovereign fund invests primarily in Spanish and some EU Member States' government bonds to support the pay-as-you-go system, but it faces challenges from demographic shifts. Overall, participation in both occupational and private pensions in Spain is low. The domestic private pension fund industry invests predominantly in bills and bonds, which account for around 48% of pension funds' total assets. Equities are the second largest investment asset of pension funds, at 31%. Over the past 10 years, the average real return generated by Spanish pension funds has been comparatively low (0.6% vs 1.4% in the EU) largely because of low levels of equity exposure and high bond holdings.

In recent years, Spain has substantially reshaped the incentives for long-term pension savings. Law 12/2022 explicitly aimed to boost occupational (pillar 2) pension plans, especially for people working in SMEs and the self-employed. However, the size of the pillar 2 pension system remains very small. The second pilar currently does not foresee auto-enrolment ([130]). In parallel, there has been a sharp reduction in tax relief for individual (pillar 3) pension plans, with the annual tax-deductible limit for individual contributions reduced from EUR 8 000 (in 2020) to EUR 1 500 per year since 2022. Since 2020, private pension plans have recorded cumulative net outflows of over EUR 3.5 billion, with benefits and redemptions exceeding new contributions every year. Since the beginning of 2025, participants can redeem vested rights corresponding to contributions made at least 10 years earlier, without needing to prove a contingency.

Venture capital ecosystem

The local venture-capital and growth-capital markets in Spain are not yet sufficiently developed to meet all the financing needs of innovative firms. In recent years, Spain's private-equity and venture-capital industry has continued to grow, with many new vehicles being launched. The average value of annual private-equity investment relative to nominal GDP declined after 2022, to 0.4% in 2024, slightly below the equivalent EU average (0.5%). Venture-capital investments in Spain were equivalent to 0.06% of GDP in 2024 ([131]), fully in line with the average for EU peers. Private-equity and venture-capital activity in Spain continued to expand in 2024 ([132]). Funding is more readily available to start-ups at very early funding stages, including from

([128]) See the 2024 OECD Capital Market Review of Spain.

([129]) See the Country profiles by the OECD and the country fiches of the latest Ageing report by the European Commission.

([130]) In line with EU Recommendation 2025/2384 on pension tracking systems, pension dashboards and auto-enrolment.

([131]) See also Annex 4, which uses InvestEurope data. Annex 6 uses CMU Dashboard data.

([132]) See the SPAINCAP Activity Report.

Table A6.2: **Financial sector indicators**

		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	218,2	213,5	256,2	243,1	216,1	201,3	195,4	191,7	246,1
	Common equity Tier 1 ratio	12,2	12,5	13,2	13,3	13,0	13,2	13,5	13,8	16,8
	Total capital adequacy ratio	15,4	15,7	16,8	17,3	16,5	17,0	17,5	17,9	20,2
	Overall NPL ratio, % of all loans	3,7	3,1	2,8	2,9	2,7	2,7	2,5	2,4	1,9
	NPL ratio, loans to NFCs	5,9	4,7	4,6	4,8	4,0	3,8	3,4	3,2	3,5
	NPL ratio, loans to HHs	4,0	3,6	3,4	3,8	3,4	3,7	3,6	3,5	2,1
	Return on equity ratio[1]	8,2	6,7	-3,5	10,2	9,9	11,8	13,7	14,1	9,6
	Loans to NFCs, % of GDP	40,0	37,8	44,9	41,0	34,2	30,0	28,3	27,3	29,3
	Loans to HHs, % of GDP	58,2	56,2	61,7	56,6	50,6	45,3	42,9	41,7	43,6
	NFC credit growth rate, %	-2,0	-0,8	8,4	0,8	0,3	-3,7	0,8	3,1	2,5
	HH credit growth rate, %	0,3	0,2	-0,6	0,7	0,5	-2,0	1,4	3,9	2,6
Non-banking sector	Stock market capitalisation, % of GDP	50,3	55,0	54,5	54,9	45,5	47,0	49,3	59,6	69,9
	Initial public offerings, % of GDP	0,04	0,06	0,07	0,12	0,13	0,00	0,18	-	0,06
	Market funding ratio	41,8	43,6	42,5	43,5	42,5	41,3	42,0	-	49,7
	Private equity, % of GDP	0,421	0,541	0,582	0,610	0,591	0,553	0,489	-	0,487
	Venture capital, % of GDP	0,043	0,045	0,051	0,075	0,082	0,077	0,057	-	0,064
	Financial literacy, composite index	-	-	-	-	-	39,5	-	-	45,5
	Bonds, % of HHs' financial assets	0,7	0,5	0,6	0,5	0,6	1,4	1,3	-	2,8
	Listed shares, % of HHs' financial assets	4,8	4,8	4,1	4,3	4,2	4,6	4,9	-	4,8
	Investment funds, % of HHs' financial assets	14,0	14,4	14,4	15,8	14,6	15,6	17,1	-	11,0
	Insurance/pension funds, % of HHs' financial assets	15,9	16,0	15,6	14,7	12,7	12,9	12,8	-	27,8
	Total assets of insurers, % of GDP	25,4	27,0	30,9	27,6	21,6	21,1	20,5	20,1	53,9
	Pension assets, bn EUR	-	-	-	173,9	158,6	168,7	180,9	-	5813,8
	Pension assets, % of GDP	-	-	-	14,1	11,5	11,3	11,3	-	32,3
	10y real return average of pension assets, %	-	-	-	-	-	0,8	0,6	-	1,4
	Pension funds assets, ECB (% of GDP)	-	11,9	13,4	13,2	10,9	10,8	10,8	10,6	23,0
	1-3 / 4-10 / 11-17 / 18-24 / 25-27	Colours indicate performance ranking among the 27 EU Member States.								

(1) Annualised data. EU data for credit growth and pension funds refer to the EA average.

Source: ECB, Eurostat, European Insurance and Occupational Pensions Authority, DG FISMA CMU dashboard, AMECO.

business angels. The main obstacles for Spanish start-ups relate to the transition from seed funding to Series A and B funding and to executing mid-market transactions. Assets under management in the Spanish private-equity industry grew markedly, rising by 20.8% in 2024 to around EUR 46 billion. Despite this strong expansion in assets, investment activity slowed noticeably over the course of the year. The sector closed 2024 with total new investment of EUR 6.5 billion (a decline of 2.6% year-on-year), distributed across 725 transactions.

Venture-capital financing could be further boosted by the greater participation of institutional investors, including pension funds. Recent decisions have channelled venture capital funding to innovative enterprises. For example, in 2024, the new strategy of the public entity CDTI deployed EUR 1.5 billion to venture-capital firms and vehicles, a substantial increase from 2023. A 2024 paper showed that pension funds in Spain accounted on average for only 7% of private-equity and venture-capital funds raised annually over the period 2007-2023, substantially below the EU average (of 15%), as well as the shares in the Baltic states (19%) or the shares above 20% in Sweden, Finland and Denmark ([133]).

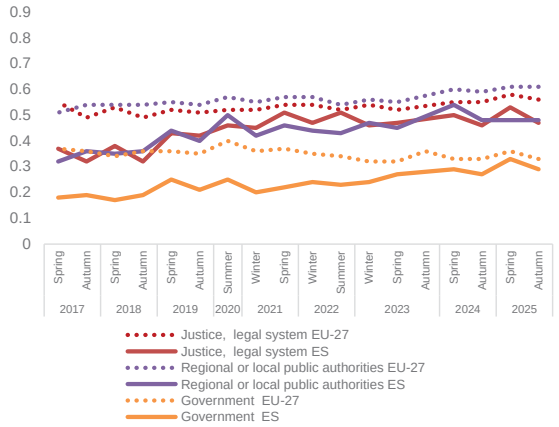
Spain's RRP includes measures to support the financing of start-ups. Measures included improving access to finance for SMEs by providing support in the form of financial, commercial, and technical guarantees. The Spanish authorities have designed three new dedicated lines of funding that will give companies access to long-term financing and working capital for investment in the areas of digitalisation, sustainability, growth, and recovery. Any 'reflows' (i.e. interest on the loan, return on equity, or principal repaid, minus associated costs) linked to the financial instrument must be reinvested for the same policy objectives, including beyond 2026. The Spanish RRP also includes sizeable financial instruments to improve access to finance and develop capital markets, in particular equity, quasi-equity, loan, and guarantee instruments.

([133]) Closing the gaping hole in the capital market for EU start-ups – the role of pension funds – CEPS.

An effective institutional framework is essential for competitiveness. This requires public trust built on integrity, high-quality legislation, regulatory simplification and efficient services for people and businesses. For Spain, the 2025 country specific recommendations highlighted challenges in further streamlining judicial proceedings, digitalising the judicial system in all regions, simplifying regulation and improving regulatory tools.

Public trust

Graph A7.1: **Trust in the justice system, regional / local authorities and in government**



(1) EU-27 since 2019; EU-28 before
Source: European Commission, Standard Eurobarometer surveys

Trust in Spain's government institutions is still below the EU average (Graph A7.1)**.** The lowest level is trust in the central government. On the other hand, businesses and citizens show strong confidence in the ability of government institutions to handle their data securely and responsibly, well above the EU average ([134]).

Quality of lawmaking and implementation

Spain is moving towards making public-policy evaluation more institutionalised, visible and better resourced. Following the law on the institutionalisation of public-policy evaluation in the Administración General del Estado (General State Administration) ([135]) (milestone 146 of Spain's recovery and resilience plan (RRP)). Spain adopted the statute of Agencia Estatal de Evaluación de Políticas Públicas (the state agency for the evaluation of public policies) ([136]) (milestone 149 of the RRP), which is expected to play a central role in *ex ante* evaluation.

The independent authority for fiscal responsibility (AIReF) has set criteria to prioritise public expenditure evaluation studies ([137]). This will focus on the evaluations with the greatest potential to improve public spending and those linked to European commitments, such as the Spanish RRP and the medium-term structural fiscal plan. At regional level, Andalucia has been at the forefront of the creation of a new Spanish network for public-policy evaluation (Redeval), bringing together multiple regions and central government to share good practices, build capacity and promote a systematic evaluation framework. A new biannual journal of policy evaluation (JPEVAL) has also been created to support knowledge production and dissemination.

Businesses in Spain face major obstacles in terms of the volume and complexity of

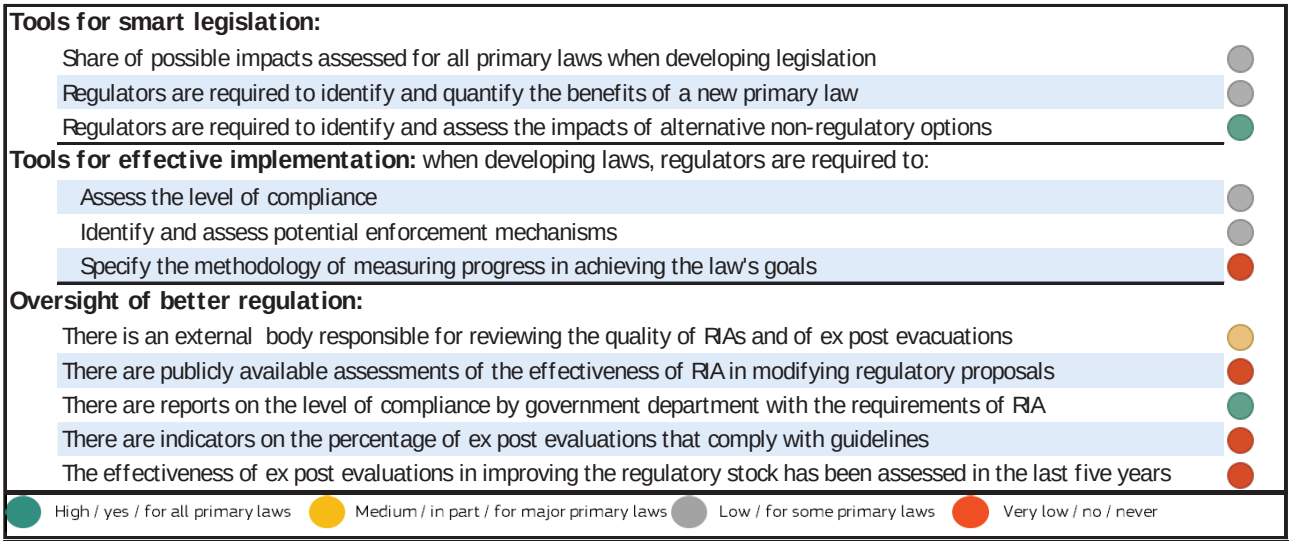
([134])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([135])Ley 27/2022, de 20 de diciembre, de institucionalización de la evaluación de políticas públicas en la Administración General del Estado. (BOE-A-2022-21677, of 22 December 2022).

([136])Real Decreto 65/2026, de 3 de febrero, por el que se aprueba el Estatuto de la Agencia Estatal de Evaluación de Políticas Públicas (BOE-A-2026-2553, of 4 February 2026).

([137])Resolución 1/2026, de 12 de febrero de 2026, por la que se establecen los criterios de priorización de los estudios de evaluación del gasto público

Table A7.1: **Spain. Selected indicators on better regulation practices for primary legislation**



Source: OECD, 2025, Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025.

regulations and regulatory fragmentation. The government is working with key stakeholder organisations to identify and reduce unnecessary burdens. Ministries review simplification proposals annually and provide detailed responses. For example, the Spanish Chamber of Commerce has generated over 900 simplification proposals, of which approximately 23% were implemented within two years ([138]). Nonetheless, there is scope to strengthen regulatory simplification mechanisms (see Annexes 5 and 18).

Public service delivery and digitalisation

Spain has made mixed progress with the digitalisation and user friendliness of its public services. 49% of people and 50% of business are satisfied with administrative services, compared to EU averages of 45% and 42% respectively ([139]). The most time-consuming aspect for people is the time spent waiting for response. Preparing documents is challenging for individuals and companies alike (Graph A7.2). People perceive public services to be slow and complex, with significant disparities between autonomous communities. 74% of companies find that digital services save time and effort (EU 67%), a view shared by 54% of people (the lowest in the EU) ([140]).

Spain has availability of digital public services for citizens and electronic health records. In the case of business, there is a shortfall. (see Table A7.2). As part of its RRP, Spain is implementing major projects (Investments 1, 2 and 3 of Component 11) to further digitalise public services and make them more user-friendly for people and for businesses. Spain is pressing ahead with initiatives to strengthen the cybersecurity of its public services and companies (including Investment 6 of Component 11). The country is also working to strengthen digital skills and ICT talent through its national digital skills plan (milestone 285 of the Spanish RRP) and the ICT talent attraction and retention programme.

([138])OECD, 2025, Better Regulation Practices across the European Union 2025, https://doi.org/10.1787/6f007516-en.

([139])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

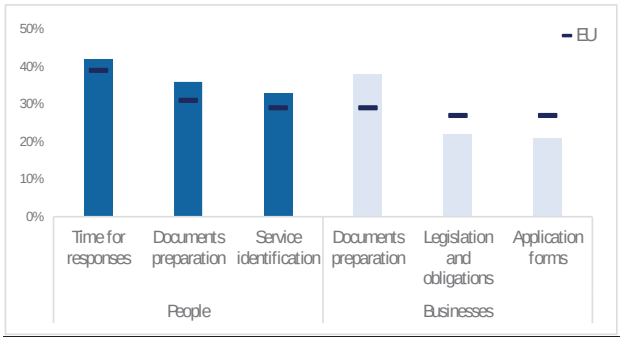
([140]) Ibid.

Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Spain			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	86	84	89	82
Digital public services for businesses (0 to 100)	91	91	85	86
Access to electronic health records (0 to 100)	83	85	88	83

(1) Digital Decade target by 2030: 100. (2) Publishing year, data was collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Spain is technically ready to enable cross-border exchange of data and documents between authorities through the EU once-only technical system([141]). When services([142]) become accessible, citizens and businesses will no longer have to search for their data, download and upload documents manually across eGovernment portals in different Member States. Spain still needs to identify the types of document and data they need to exchange through the system and explore ways to shift from the exchange of unstructured to structured data formats.

Spain's permitting system is complex, **with processes spread across the 17 autonomous communities and 8 131 municipalities.** Besides this structural fragmentation, there is no common digital platform for construction, energy or environmental permits, and this varies considerably by local authority area. Each municipality has its own construction process and digital infrastructure. Spain implements substantial reforms in 2025-2026 to unify digital portals, such as Madrid's *licencia básica*, Andalusia's accelerating units and the national programme, the *España Crece* fund. Under the Technical Support Instrument, Spain has designed a unified framework for managing digital public services across local and regional administrations. To improve efficiency and reduce duplication, the country has produced two operating tools: a value calculator for service prioritisation and a service template for documentation. Services are provided on demand.

Civil service

The Spanish civil service continues to face major challenges, including an ageing workforce and temporary contracts. The proportion of civil servants over 50 is 49.8 %, above the EU average (40.2.%) ([143]). In recent years, Spain has increased the recruitment of new civil servants but temporary employment in the public sector remains a challenge (26.8% in Q4 2025, according to the Labour Force Survey (EPA)). The Spanish government has agreed to raise the salaries of 3.5 million public

([141])European Commission, *Once-Only Technical System Acceleratormeter*, Ec.europa.eu.

([142]) Procedure types under Annex II of the SDGR (2018/1724/EU) and Directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

([143])European Commission, Eurostat, 2026, European Union Labour Force Survey, Employed persons by economic activity (NACE Rev. 2) (2008-2026).

employees by 11% between 2025 and 2028, having ratified a 2.5% increase at the end of 2025 ([144]).

Spain continues efforts to professionalise and upskill its civil service. The proportion of civil servants taking in adult learning has gone up slightly (22.9%) and is above the EU average for all age groups. Participation in adult learning declines with age: 34.5% of civil servants aged 20–34, compared with 15% among those aged 55–74 ([145]). The national institute of public administration (INAP) has developed an ecosystem that outlines the skills and capabilities required for different roles in the Spanish civil service ([146]).

Although women form an overall majority in the civil service, equality policies remain a work in progress. The percentage of women (51%) and men (49%) is almost at the same level as the EU ([147]). Gender balance in senior civil-service positions is gradually improving. At the same time, a disproportionate number of women are on temporary and part-time contracts in the civil service (114 500 women (66.3%) vs 70 300 men on temporary contracts, i.e. for less than a year ([148]).

Integrity

Corruption is still seen as an obstacle to doing business in Spain, and reported experience of corruption also exceeds the EU average. A large proportion (87%) of companies consider that corruption is widespread (EU: 63%) and the same proportion (87%) believe that overly close links between business and politics lead to corruption (EU: 76%). With 53% of businesses seeing corruption as a problem (EU: 35%), this is a significant barrier to companies compared to the EU average ([149]). Sectors particularly vulnerable to corruption in Spain are public procurement, infrastructure projects and public-service contracts ([150]) (see Annex 5). At the same time, 14% of companies say they have been asked or expected to offer a gift, a favour or extra money for permits, services or procurement (EU: 10%). In Spain only 12% (EU: 33%) have confidence that high-level bribery is effectively sanctioned, which suggests that there is low trust in enforcement ([151]).

Spain has launched new integrity and transparency reforms, but the initiative to regulate lobbying has stalled. The draft organic law on public integrity ([152]) aims to strengthen the fight against corruption, by setting up an independent public-integrity agency. It is also intended to enhance transparency and oversight in public procurement, by publishing a list of companies prohibited from working with public authorities. An omnibus law on open administration ([153]) has also been put forward, including measures to strengthen the prevention of conflicts of interest and to improve access to public information. Meanwhile, the draft law regulating lobbying

([144]) El País, 2025, The Government approves the salary increase for civil servants of 2.5% this year and 1.5% in 2026 | Economy | EL PAÍS.

([145]) European Commission, Eurostat, 2026, European Union Labour Force Survey, Participation rate of employees in education and training (last 4 weeks) by NACE Rev. 2 activity (2008-2026).

([146]) European Commission, 2024, EUPACK 2024 Country fiche on competency frameworks: Spain.

([147]) European Institute for Gender Equality, 2025, Gender Statistics Database.

([148]) Labour Force Survey (EPA), fourth quarter 2025 (*Encuesta de Población Activa (EPA), Cuarto trimestre 2025*).

([149]) European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([150]) European Commission, 2025, Rule of Law Report.

([151]) European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([152]) Gobierno de España, 2026, Anteproyecto de la Ley Orgánica de Integridad Pública.

([153]) Ministerio Para la Transformación Digital y de la Función Pública, 2025, Anteproyecto de Ley de Administración Abierta.

activities, which is part of component 11 of Spain's RRP (milestone 432), has been pending adoption in Parliament since early 2025 ([154]). Whistleblower protection has been further institutionalised with the independent whistleblower protection authority (AIPI) finally began its work on 1 September 2025 ([155]).

Measures to improve the investigation and prosecution of high-level corruption cases are awaiting approval. The reform of the criminal procedure code ([156]), which seeks to modernise the criminal procedure, was tabled in Parliament in autumn 2025. The draft organic law on public integrity proposes to amend the criminal code to extend the statute of limitations for corruption offences from five to seven years, allowing more time for complex investigations.

Justice

There is room to improve the performance of the justice system, with a view to improving the business environment. According to the 2026 EU Justice Scoreboard, the time taken to reach a decision in litigious civil and commercial cases in first-instance courts decreased from 444 days in 2023 to 423 days in 2024. The estimated time to resolve administrative cases in first-instance courts also decreased over the same period from 414 to 386 days. At higher instances, efficiency problems persist, with disposition times for civil and commercial cases at the Supreme Court remaining very high, at 750 days in 2024. The backlog of pending civil, commercial, administrative and other cases continued to rise, reaching 5.9 cases per 100 inhabitants in 2024, which indicates mounting pressure on the system. In response, the Organic Law 1/2025 on the Efficiency of Public Justice Service introduced structural reforms aimed at streamlining judicial proceedings and further advancing digitalisation in the field of justice. However, national data for 2025 point to shorter disposition times and fewer incoming cases at first instance, while the situation at Supreme Court level remains challenging.

Uneven digitalisation and limited interoperability across regions continue to hamper judicial quality and efficiency. Spain performs very well in digital solutions to initiate and follow proceedings in civil/commercial and administrative cases and in online access to published judgments and machine-readable judicial decision. However, digitalisation levels still vary across regions. This disparity exacerbates the limited interoperability between case management systems and hinder further efficiency gains. Spain has adopted a national strategy under Justicia 2030, agreed with the regions. Some steps have been taken with interoperability nodes that enable the exchange of electronic case files throughout the territory.

Structural staffing challenges in the justice sector persist, with a low number of judges per head of the population, caused by increasing early retirements, expected high retirement rates and rising litigation. According to the latest officially published information, Spain has 11.91 judges per 100 000 inhabitants, compared to the EU average of 22.62 per 100 000 ([157]). This shortfall places a major strain on serving judges and contributes to persistent judicial delays, which in turn has a detrimental effect on legal professionals, businesses and the general public alike. The strategic plan for 2026–2035 on human resources in the Judicial Career estimates an annual recruitment of 367 posts

([154]) Draft law on transparency and integrity of the activities of interest groups (121/000046): Proyectos de ley - Congreso de los Diputados.

([155]) Normativa aplicable - proteccioninformante.es

([156]) Draft Organic Law on Criminal Procedure (121/000074): Búsqueda de iniciativas - Congreso de los Diputados

([157]) For a more detailed analysis of the performance of the justice system in Spain, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report.

per year from 2026 to 2035 ([158]). In addition, the Organic Law 1/2025 of 2 January on measures to enhance the efficiency of the Public Justice Service, and the draft law on the judicial and prosecutorial careers, aim to reduce fixed-term employment in the judiciary and increase staffing levels.

([158])Agreement of the Council for the Judiciary of 16 December 2025, pp. 17-18.

ANNEX 8: INDUSTRY DECARBONISATION, CIRCULARITY AND CLIMATE MITIGATION

Spain has advanced on decarbonising its industry and it is projected to overachieve its efforts sharing target for 2030, but faces challenges in deploying low-carbon solutions, on the circular economy, and on waste management. Spain is promoting the shift to electrification in both industry and transport (public transport in particular) and it is building the infrastructure needed for the clean industry transition. However, financing gaps and regulatory challenges persist in both sectors.

Industry decarbonisation

Greenhouse gas emissions from industry

Spain's manufacturing sector has a somewhat higher greenhouse gas emission intensity than the EU average, with most emissions generated by energy use rather than industrial processes([159]). In 2024, industry generated 18% of Spain's total emissions, but its emissions per euro of gross value added (GVA) juist slightly higher than the EU average, 17% ([160]). Spain has continued to reduce emission intensity since 2018. Spain's energy-intensive industries have contracted, despite moderate energy prices. Energy-intensive industries generated 15.2% of Spain's total manufacturing GVA in 2024. Iron and steel, cement and chemicals are the biggest GHG emitters, with manufacturing of metals being particularly GHG emission-intensive, compared with the EU average ([161]).

Policies to promote industry decarbonisation

Spain complements the carbon price incentive of the EU emissions trading system with targeted support for industry decarbonisation, largely channelled through its recovery and resilience plan (RRP) and national programmes. Spain's Law on Climate Change and Energy Transition (Law 7/2021) and the 2024 updated energy and climate plan set binding economy-wide targets and indicative sectoral trajectories consistent with a net greenhouse gas emission reduction of at least 32% by 2030 compared to 1990 levels. The energy and climate plan anticipates a significant contribution from industry, notably through electrification, fuel switching, energy efficiency improvements and the deployment of renewable hydrogen ([162]). Although industrial emissions have fallen since 2007, Spain's industrial emissions will not reach the path set out in the energy and climate plan unless the process of industrial decarbonisation picks up pace ([163]). However, Spain has implemented and announced initiatives aimed at decarbonising both its industrial base—such

([159]) This Annex discusses the transition of Spain's manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Spain's manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), 2025 Country Report - Spain, Commission staff working document, SWD (2025) 205 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation.

([160]) Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. Also see further indicators on industry decarbonisation, as well as the annotation for further information, in table A8.1 at the end of this Annex.

([161]) For a regional perspective regarding Spain's transition to climate neutrality and energy-intensive industries in particular, see Annex 19.

([162]) Spain's final updated national energy and climate plan 2021-2030, 2024.

([163]) European Commission (2025), Climate Action Progress Report 2025, Spain country profile.

as the PERTE for Industrial Decarbonisation and the PERTE for Electric and Connected Vehicles.

Spain's main public funding instruments for industrial climate mitigation are embedded in its recovery and resilience plan. Notable examples are the 'PERTE' strategic projects for economic recovery and transformation on industrial decarbonisation and renewable energy, renewable hydrogen and storage respectively. Measures to support the decarbonisation of manufacturing include large-scale support for renewable energy and low-carbon hydrogen value chains, grants for industrial electrification and energy efficiency, and targeted aid for industrial decarbonisation projects ([164]). These measures target both large companies and small and medium-sized enterprises.

Calls for funding under national programmes and EU-level instruments (such as the EU Innovation Fund) have focused on energy-intensive sectors such as steel, cement, ceramics, chemicals and refining ([165]). Spain participates actively in the EU Innovation Fund, with selected projects such as hydrogen production, industrial use of heat pumps and the substitution of petroleum coke in the cement industry. ([166]) These projects contribute to a first-of-a-kind deployment and to reducing technological and investment risks in hard-to-abate sectors.

Spain's recovery and resilience plan provides broad support for the clean industry transition. Industry decarbonisation measures including hydrogen valleys, Innovation Fund projects and PERTE-supported investments are a central component of the plan. It also includes measures to invest in skills development, reskilling and upskilling, particularly in regions affected by industrial restructuring and the coal phase-out ([167]), notably through training in renewable energy, environmental restoration and energy-efficient building renovation (C10.I1) ([168]). In parallel, Spain has implemented measures to mitigate high electricity costs for high-use consumers, including indirect cost compensation. The updated energy and climate plan projects industrial decarbonisation investments to raise GDP and net job creation to reach 560 000 people per year by 2030 ([169]).

Spain is also acting on net-zero industry infrastructure and to stimulate demand for clean products. Its energy and climate plan provides for the development of renewable hydrogen infrastructure, including hydrogen valleys, electrolysers and transport infrastructure ([170]). It promotes demand for climate-friendly products through green public procurement and circular economy policies, including the use of environmental criteria in public tenders ([171]).

Despite Spain's expanded policy toolkit for the clean industrial transition, challenges remain. Key constraints include grid congestion and delays in grid connections, limited uptake of renewable hydrogen, financing gaps for first-of-a-kind projects and administrative complexity related to permitting ([172]). However, steps have been taken by the government with the approval of the Royal Decree 997/2025 and Royal Decreee

([164]) See Spain's recovery and resilience plan.

([165]) See Spain's recovery and resilience plan.

([166]) See INNOVFUND Spain.

([167]) See Spain's recovery and resilience plan, and From phasing-out to phasing-in: lessons from Spain's just transition governance framework.

([168]) These measures are also supported by the European Social Fund+ and Just Transition Fund programmes.

([169]) Spain's final updated national energy and climate plan 2021-2030, 2024.

([170]) Ibid.; European Commission, assessment of the final updated national energy and climate plan of Spain.

([171]) Spain's final updated national energy and climate plan 2021-2030, 2024.

([172]) See European Commission, 2025 Country Report - Spain, ibid., and European Commission (2025), Climate Action Progress Report 2025, Spain country profile.

Law 7/2026 with measures for permitting, grids, electrointensive industries, among other important measures. Uncertainty regarding long-term electricity prices, hydrogen supply and future demand for low-carbon products continue to somewhat curb the appetite to invest in net-zero industry, although investments in decarbonisation and net-zero industries continue to grow at high rates despite all of the aforementioned constrains. Concerns remain about international competitiveness and carbon leakage risks in energy-intensive sectors, particularly in the absence of long-term demand-side measures. Many industrial decarbonisation measures remain at an early stage of deployment, requiring faster implementation in the second half of the decade to meet the targets set in the energy and climate plan ([173]).

A particular challenge for investment in low-carbon technologies concerns permitting and regulatory clarity for integrated and hybrid projects. Although permitting procedures for renewable electricity generation have been streamlined, they could still be tweaked to better accommodate projects combining renewable generation with hydrogen production, storage or direct industrial use ([174]). The issue of competences and procedures overlapping between national, regional and local authorities, as well as evolving regulatory requirements can lead to delays and increased administrative burden. Further action to standardise and clarify permitting procedures would help reduce uncertainty and support the swift roll-out of industrial decarbonisation investments.

([173]) European Commission (2025), ibid.

([174]) See European Commission, 2025 Country Report – and Spain, ibid., European Commission, 2025, assessment of the final updated national energy and climate plan of Spain.

Reduction of effort sharing emissions

Compliance with effort sharing limits with domestic measures

For 2030, Spain is projected to overachieve its effort sharing target ([175]). In 2024, greenhouse gas emissions from Spain's effort sharing sectors are expected to have been 22.3% below 2005 levels. By 2030, with current and planned policies and measures, these emissions are expected to decrease by 45.3%, resulting in a surplus of 7.6 percentage points relative to the 2030 target reduction of 37.7%. Spain is projected to exceed its effort sharing emissions limits temporarily in the 2021-2030 period but could cover the gap with unused annual emission allocations from other years to achieve compliance with the Effort Sharing Regulation.

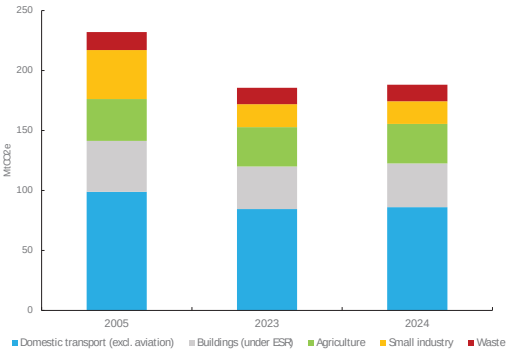
In 2024, greenhouse gas emissions from Spain's effort sharing sectors increased, the key challenges being emissions from road transport and buildings. In 2024, the emissions generated by the effort sharing sectors increased year-on-year by 1.4%, driven by transport (+1.9%) and buildings (+2.6%). Transport generated around 46% of all effort sharing emissions in Spain in 2024 and buildings generated a further 19% ([176]). Emissions have remained persistently high in

([175]) The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be calculated in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Spain's 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). Also see European Commission (2025), Climate Action Progress Report 2025 – Technical Information, Commission staff working document, Brussels, Chapter 9 (pp. 111ff.), and in particular Tables 25 and 26.

([176]) *See Graph A8.1, and Table A8.1 at the end of this Annex.*

these sectors, reflecting structural challenges to the process of decarbonisation.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024**



Source: European Environment Agency.

Sustainable transport

In addition to the shift to electric buses and rail, a swift roll-out of electric vehicles and charging infrastructure is needed to make sustained reductions in road transport emissions. In 2023, 92.1% of Spain's freight transport on land (in tonne-kilometres) was carried by road and 4.1% by rail ([177]), reflecting structural factors such as dispersed freight demand, strong road infrastructure or capacity constraints. While the roll-out of electric vehicles for both passengers and goods increased by 22.6% in 2024, overall they still account for a low share of the vehicle fleet ([178]). Zero-emission passenger cars accounted for only 9.1%([179]) of new registrations in 2025 (EU: 17.4 %), slowing the pace of greenhouse gas emission reductions from road transport. The slow rate of renewal of the passenger car fleet ([180]) is another barrier to progress on the shift to electric transport to yield emission reductions. Nevertheless, the Spanish Government has announced the Auto+ Program, which seeks to address this structural challenge by promoting fleet turnover through targeted financial incentives and thereby contribute to emissions reductions in the transport sector. Furthermore, zero-emission goods vehicles are not exonerated from concession tolls.

Spain built more charging infrastructure in 2025, reaching 53 000 operational public charging points ([181]). However, administrative and grid connection delays mean that a significant share of installed chargers is not yet operational, and the relatively low share of fast and ultra-fast chargers may constrain uptake. This might become a significant constraint to the ability of truck manufacturers to meet their legally binding sales target. As a result, it is essential to accelerate the modal shift, in particular to shift freight traffic from road to rail.

The shift to electric transport has progressed in public transport, with zero-emission buses and coaches accounting for 15.3% of new registrations, close to the EU average (17.8%), indicating the potential for further emission reductions if scaled up. Spain has 49 urban nodes as defined under the TEN-T Regulation. These must include at least one multimodal passenger hub per node by 2030 to be equipped with charging infrastructure for buses and coaches ([182]) Overall, this points to the need to accelerate the shift to electric transport, including multimodal connection and passenger services, to translate progress into sustained emission reductions.

Decarbonisation of fisheries

The Spanish fishing fleet is the highest-emitting fleet in the EU in terms of total CO2eq, amounting to an average of 1,539 thousand tonnes CO_2-equivalent between

([177]) *EU transport in figures – Statistical pocketbook 2025.*

([178]) Growth rate of the alternative fuels for M1&N1, Spain | European Alternative Fuels Observatory.

([179]) Eurostat, road_eqr_zev.

([180]) Eurostat, road_eqr_carmot and road_eqs_carmot.

([181]) Data from the European Alternative Fuels Observatory.

([182]) Eurostat, road_eqr_zev

2018 and 2022 ([183]), and 453.6 million litres of marine fuel consumed in 2023. In view of climate change mitigation, both the fisheries and aquaculture sectors face the dual challenge of moving away from fossil fuels and increasing energy efficiency to enhance sector resilience. This requires a comprehensive energy transition strategy that incorporates renewable energy sources, technological innovation, balance effort (e.g additional space for new technologies) with available resources, adequate infrastructure and access to energy sources, and improved energy practices across the sector's operations.

Sustainable industry

Circular economy industry

Despite the progress made in recent years, improving waste management and developing the potential of the circular economy remains a significant challenge. Spain approved in 2020 a comprehensive national circular economy strategy titled '*España Circular 2030*', which sets out the long-term vision for the country's transition to a circular economy. The strategy's objectives will be achieved with the approval of three-year action plans. The first circular economy action plan has already been implemented. The government approved the second circular economy action plan on 27 January 2026. It includes 105 measures and an investment of around EUR 1.9 billion. Many autonomous communities have also adopted regional strategies on the circular economy.

In 2022, Spain adopted Law 7/2022 on waste and contaminated soils for a circular economy, followed by a series of implementing regulations. The government approved the new national waste management plan (PEMAR 2025-2035) on 16 December 2025 in line with the new EU requirements in the waste sector. Regional waste management plans for the 17 autonomous communities and the two autonomous cities need to be updated, with a few plans still pending.

Spain is below the EU average on some of the relevant circular economy and waste management indicators. Spain's indicator tracking the circular use of materials has decreased in recent years to 7.4% in 2024, below the EU average of 12.2% ([184]). However, resource productivity is above the EU average at EUR 3.5 per kg of material consumed (against the EU average of EUR 3 per kg) ([185]). According to the latest available data, in 2024, Spain generated 456 kg per capita of municipal waste, below the EU average of 517 kg per capita and continuing a downward trend (463 kg in 2023 and 482 kg in 2022 and 2021) ([186]). Spain is one of the countries that missed the EU target of recycling 50% of municipal waste by 2020 and is at high risk of missing the new EU target of 55% for 2025 ([187]). Spain's recycling rate was 42.5% in 2024, below the EU average of 48.1% ([188]). However, the situation varies by region ([189]).

Spain is also at risk of not meeting the EU 2035 target to have a maximum of 10% of municipal waste landfilled. Spain is still very dependent on landfilling for waste management, ranking eighth on this aspect. The landfilling rate was 47.3% in 2024, well above the EU average of 21.3% and a slow

([183]) Study on greenhouse gas emission (GHG) reduction costs, scenarios and pathways for EU fisheries to achieve net zero by 2050 - Publications Office of the EU.

([184]) Eurostat, circular material use rate, Link.

([185]) Eurostat, resource productivity, Link.

([186]) Eurostat, generation of municipal waste per capita, Link.

([187]) European Commission, 2023 Waste early warning report, Link.

([188]) The last available data are from 2023. Eurostat, recycling rate of municipal waste, Link.

([189]) Ministry for the Environment, 2023 Annual Report on waste generation and management in Spain, Link.

decrease from 62% in 2010 ([190]). Construction and demolition waste accounts for almost 40% of all waste generated in the EU. A recent study ([191]) shows that environmentally, it is preferable to prepare waste for reuse and recycling operations over incineration and landfilling for most individual fractions of construction and demolition waste. The rate of preparing mineral construction and demolition waste for reuse and recycling in Spain in 2022 was 70.5%, against the EU average of 79.7%. Therefore, it is essential to implement the new legislation and the new plans, including additional measures and investments, several of which are included in Spain's recovery and resilience plan (RRP) under Component 12.

On the positive side, Spain's recycling rate of packaging waste in 2023 was 70.5%, which already meet the EU targets both of 65% for 2025 and 70% for 2030 ([192]). Spain's plastic recycling rate was 46.2% in 2023, above the EU average of 42.1% ([193]). On innovation, in 2021 Spain filed 22 patents related to recycling and secondary raw materials. This exceeds the EU average but remains far below the leading countries on this front ([194]). Spain recorded a 16% increase in the number of people employed in the circular economy sector since 2014. However, the sector accounts for around 2% of overall employment, as in the last 10 years ([195]). Over the past five years, per capita material consumption has plateaued, unlike the overall trend in the EU which indicates that material consumption is decreasing ([196]).

On environmental taxation, some progress can be observed. As part of the reforms under Spain's RRP, new national taxes have been introduced in recent years on non-reusable plastic packaging and on waste management (landfill, incineration and co-incineration).

Extended producer responsibility schemes are well developed in Spain. There are 15 schemes in operation for oils, packaging, paper, textiles, batteries, electronic waste, construction, pharma, gardening and homeware supplies, sports equipment, toys, plastic fishing gear, chemical products and furniture, and single-use plastics ([197]).

The current level of investment in the transition to a circular economy is insufficient, despite the provision of EU funding, for example under the European Regional Development Fund and the Recovery and Resilience Facility. Spain is estimated to need additional investment of EUR 2.3 billion a year to fund the circular economy transition, including investment in waste management, which represents 0.17% of Spain's GDP ([198]).

Bioeconomy industry

In Spain, value added in the bioeconomy sector has grown slightly faster than domestic GDP in recent years. This has been driven notably by the wood products and furniture and bio-based chemicals and plastics sectors, with the former registering the highest value added growth among the sub-sectors at 7.1% on average between 2018 and 2023

([190]) European Environment Agency (EEA), Municipal waste landfill rates in Europe by country (2010 and 2023), Link.

([191]) European Commission: Joint Research Centre, Techno-economic and environmental assessment of construction and demolition waste management in the EU, 2024, Link.

([192]) Eurostat: Recycling rates for packaging waste, Link.

([193]) Eurostat, Plastic packaging recycling rate, Link.

([194]) Eurostat, Patents related to recycling and secondary raw materials, Link.

([195]) Eurostat, Persons employed in circular economy sectors, Link.

([196]) Eurostat, Material footprints, Link.

([197]) LIFE4EPR mapping tool, Link.

([198]) European Commission, Environmental Implementation Review (EIR) 2025, Country Report Spain. Estimates expressed in 2022 prices, Link.

([199])([200]). Employment trends are similarly positive across key segments: food and beverages, wood products and furniture, and bio-based chemicals and plastics all recorded growth. Bio-based chemicals and plastics grew the fastest at 3.4%, reflecting the sector's expanding industrial footprint. Labour productivity was 90.6% of the national average, up from 82.9% in 2018 ([201]). The one area of relative underperformance is research and development (R&D), where business expenditure from bioeconomy sub-sectors grew by an average 5.3% between 2018 and 2023 — somewhat below the national R&D average of 6.9% — suggesting that innovation investment has not yet fully kept pace with the sector's output and employment momentum ([202]).

Structurally, Spain's bioeconomy is anchored by a dominant food and beverage industry. This is built on large-scale value creation from agri-food residues from olive oil and wine production, complemented by an emerging bio-based chemicals and plastics segment and a resilient wood and furniture sector that is increasingly geared toward engineered timber and sustainable forest management. These developments are embedded in the Spanish National Bioeconomy Strategy (*Horizonte 2030*) ([203]), which provides the overarching policy framework for scaling up bio-based value chains across the country.

([199]) Bioeconomy subsectors: food and beverages; bio-based textiles; wood products and furniture; bio-based chemicals and plastics.

([200]) Joint Research Centre, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU, Link.

([201]) Ibid.

([202]) Joint Research Centre, Business expenditure in Research and Development (R&D) in the EU bioeconomy, Link,.

([203]) Estrategia Española de Bioeconomía, Horizonte 2030, Link.

Zero-pollution industry

Spain has made considerable progress in reducing air pollution, which is now decoupled from GDP growth. However, Spain's progress on air pollution is mixed. While emissions of several air pollutants have fallen in recent decades, air quality in Spain remains a cause for concern, mainly as regards nitrogen dioxide. In particular, private transport exacerbates seasonal air quality problems and traffic congestion in the major metropolitan areas, namely Madrid and Barcelona, leading to health and economic costs. In this context, Low Emission Zones (LEZs) have been introduced as a key policy instrument. To improve air quality and reduce emissions. Under Spain's Climate Change Law, their implementation is mandatory in cities with more than 50,000 inhabitants.

Spain's industry continues to release large volumes of air and water pollutants. In Spain, around 7 000 industrial installations are required under the Industrial Emissions Directive to have a permit. Most of these installations are in the sectors of intensive poultry and pig farming (56%), followed by the food and drink sector. Spain has a relatively high rate of damage to health and the environment (the fifth highest damage in the EU). The main industrial sources of emissions to air are the energy sector (including refineries, gasification, etc.), the mineral sector and the metal sector. Regarding industrial emissions of heavy metals to water, considering the human toxicity of each metal, as well as the emission intensity, based on its ratio with industrial activity (expressed in GVA), Spain has the fifth highest level of emissions of heavy metals to water and is in ninth on emission intensity ([204]). Water pollution by Spanish industry imposes direct and indirect costs of EUR 36 million a

([204]) European Commission, Environmental Implementation Review (EIR) 2025, Country Report Spain. Estimates expressed in 2022 prices, Link.

year, not yet sufficiently borne by the polluters ([205]).

Air pollution continues to have a significant impact on human health. The latest available annual estimates (for 2023) by the European Environment Agency for Spain attribute 13 317 deaths each year (or 140 261 years of life lost (YLL)) to fine particulate matter ($PM_{2.5}$); 4 135 deaths each year (or 43 553 YLL) to nitrogen dioxide (NO_2) and 6 527 deaths each year (or 69 006 YLL) to ozone pollution ([206]).

The costs of pollution remain far higher than the costs of investing in pollution prevention and control. To meet its environmental objectives on pollution prevention and control (towards zero pollution), Spain would need additional investment of EUR 1.7 billion a year (0.13% of GDP), mostly for measures on clean air and noise ([207]). Implementing the national climate and energy plan, which provides for investments in sustainable energy and transport, would largely deliver this.

([205]) European Commission, Directorate-General for Environment, IEEP, Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay, 2021, p.35, table 5, Link.

([206]) EEA 2025, Harm to human health from air pollution in Europe: burden of disease status, Link.

([207]) European Commission, Environmental Implementation Review (EIR) 2025, Country Report Spain. Estimates expressed in 2022 prices, Link.

Table A8.1: **Key clean industry and climate mitigation indicators: Spain**

Climate mitigation	Spain							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ (1)	497	478	497	477	391	354	-	↘	330	-
Share of energy-related emissions in industrial GHG emissions (2)	63.7	65.0	64.6	65.5	62.6	63.7	-	↘	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	334.7	330.6	340.2	328.1	259.8	236.9	-	↘	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	41.1	40.4	40.0	41.6	44.8	45.4	44.7	↗	42.8	43.9
Energy intensity of manufacturing, GWh/€ (5)	1.61	1.59	1.72	1.60	1.38	1.36	1.35	↘	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA (6)	18.68	18.63	18.95	20.70	18.98	18.25	-	↘	-	-
GHG emissions intensity of production in sector [..], g/€ (5)										
- paper and paper products (NACE C17)	1 234	1 319	1 116	1 207	1 102	849	-	↘	722	619
- chemicals and chemical products (NACE C20)	1 665	1 490	1 364	1 415	1 500	1 148	-	↘	-	-
- other non-metallic mineral products (NACE C23)	3 948	3 394	3 517	3 158	2 896	3 225	-	↘	2 495	2 352
- basic metals (NACE C24)	2 795	2 723	2 528	5 075	5 766	4 321	-	↗	2 842	3 099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				-19.5	-19.7	-22.8	-22.3			
- domestic road transport	-11.7	-10.7	-26.8	-15.7	-11.6	-14.6	-12.9	↗	-1.4	-5.6
- buildings	-5.8	-10.2	-11.1	-8.9	-14.9	-16.5	-14.3	↘	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	242.0			194.7	194.2	186.9	188.1	-37.7%	-35.4%	-45.3%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**		**2018**	**2021**
New zero-emission vehicles, electricity motor, % (7)	0.43	0.76	1.96	2.66	3.73	5.63	5.57		↗	1.03	8.96
Number of publicly accessible AC/DC charging points (8)	-	-	5741	8591	22090	30372	45213	46902	↗	446956	n/a
Share of electrified railways, % of total (9)	63.69	64.05	64.57	64.05	64.79	66.50	65.60		↗	55.47	56.49

Sustainable industry	Spain							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	10.9	10.1	10.1	10.4	10.0	9.3	10.2	↗	14.8	13.7
Circular material use rate, %	9.0	9.0	9.4	9.1	9.6	8.2	7.4	↘	11.6	12.2
Resource productivity, €/kg	2.7	2.9	2.7	2.8	3.2	3.6	3.5	↗	2.1	3.0
Employees in circular economy	2.2	2.3	2.3	2.3	1.9	2.0	-		2.1	2.0
Patents in circular economy	17.8	15.3	29.5	22.3					12.3	12.0
Recycling rate	34.8	38.0	40.4	43.7	43.1	43.3	42.5		46.40	48.1
Plastic recyling	51%	52%	41%	44%	41%	46%	-		41%	42%
Construction and demolition waste (CDW) recovery	75	-	73						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	67 985	68 572	67 844	75 687	74 486	86 840	-	4.2%	642 438	863 436
Employment, total number of people employed	1 488 912	1 497 081	1 457 158	1 513 892	1 522 430	1 508 722	-	0.2%	17 649 040	17 085 642
Productivity										
Valued added per worker, thousand EUR	45.7	45.8	46.6	50.0	48.9	57.6	-	3.9%	36.4	50.5
Valued added per worker, % of national average	82.9	82.4	88.4	89.7	81.2	90.6	-	-	62.2	70.7
R&D business expenditure										
Total bioeconomy (biomass producing and converting sectors)	1 266	1 344	1 380	1 579	1 588	1 726		5.3%	15 672	23 335
Total R&D business expenditure	8 445	8 741	8 767	9 696	10 902	12 616	-	6.9%	196 587	259 525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2021**
Damage cost for industrial pollution	36.4	26.0	23.4	21.3	-	-	-		414.9	352.7
Water industrial pollutants releases	Cd, Hg, N, Pb		nitrogen		TOC		Phosporus			
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)		
	11 555	-62%	49 519 400	24%	-	-6%	4 128 000	-1%		
Water chemical status		Good	4 915	Good (%)	0.9		Poor	386.0	Poor (%)	7%

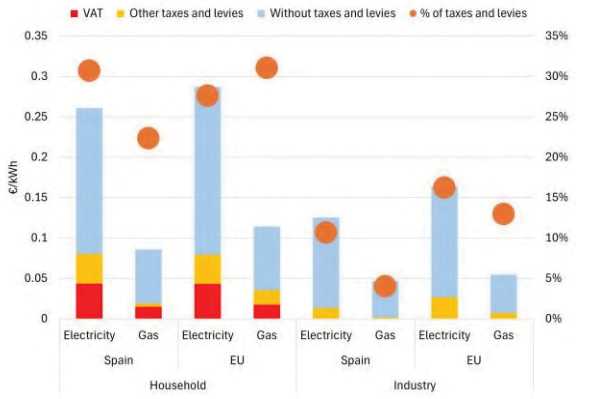
Sources and notes: **Industry decarbonisation:** All data are from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. **Reduction of effort sharing emissions:** Data source: European Environment Agency, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. **Sustainable road transport:** (7) Source: Eurostat; (8) Source: European Alternative Fuels Observatory; (9) Source: Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). **Sustainable industry**: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

This annex outlines the progress made and the ongoing challenges faced in increasing energy competitiveness and affordability, while advancing the transition to net zero. Spain's 2025 country-specific recommendations highlighted the need to invest in energy storage, in electricity transmission and distribution, and in cross-border electricity interconnections. Spain has taken measures to achieve a balanced energy transition, including measures to address the findings of the ENTSO-E expert panel's analysis of the electricity blackout of 28 April 2025. However, Spain would benefit from taking further steps to enable its transmission system operator, REE, to take the electricity grid out of 'reinforced operation mode'.

Energy prices and costs

With the exception of household gas prices, retail energy prices for industrial and household consumers increased in Spain in 2025 compared to 2024, but remain below the EU average.

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

Household electricity prices in Spain increased during the first half of 2025, but remained below the EU average at EUR 0.2608/kWh. Household gas prices also remained below the EU average at EUR 0.0859/kWh. Non-household consumer prices for electricity and gas were up on 2024 but remained below the EU average. For large businesses, electricity was 2.7 times more expensive than gas during the first half of 2025. Taxes and levies (excluding VAT) accounted for 11% of electricity bills and 4% of gas bills. Excluding taxes and levies, the electricity-to-gas price ratio would have decreased to 2.5, indicating that Spain's fiscal measures have an uneven impact. For household consumers, taxes and levies also had an impact on the electricity-to-gas price ratio, which would have decreased from 3 to 2.7 if taxes and levies are excluded.

The high share of clean energy (54.9%) in Spain's electricity mix meant that Spain had the fourth lowest average wholesale

electricity prices in the EU in 2025, at EUR 66/MWh, below the EU average of EUR 85/MWh. In 2025, Spain had the highest number of hours with negative power prices in the EU.

Further aligning demand to renewable energy supply is key to containing prices in Spain. Daytime prices have fallen in recent years owing to the deployment of solar power. However, thermal plants, which are costlier to run, are needed to make up for lower solar output in the evening and early morning, and for limited demand flexibility. As a result, intraday price spreads between peak and off-peak periods averaged EUR 93/MWh in 2025, up 31% compared to 2024. Overall, average day-ahead electricity prices in Spain and the broader region increased by 7% in 2025 due to rising natural gas costs.

Spain has so far been unable to use its allocation under the Social Climate Fund to support vulnerable consumers, as other Member States. Energy poverty is relatively higher in Spain than in other Member States and is somewhat acute among households at risk of poverty ([208]). Spain has already tackled these problems with both temporary and long-term structural policies to take care of the most vulnerable households. Spain has so far not transposed the Emissions Trading System 2 Directive due to parliamentary constrains, being so far unable to tap into the Social Climate Fund to offer support to vulnerable groups, like other Member States. The government has instead resorted to temporary measures to address high energy prices ([209]).

([208]) See Annex 12.
([209]) Real Decreto-ley 7/2026.

Graph A9.2: **Low-carbon electricity generation vs. electricity wholesale prices, 2025**

Unavailable data for Cyprus and Malta. Wholesale price is given as average of day-ahead electricity prices over 2025. EU-27 average is calculated as consumption-weighted. EU low-carbon share is calculated out of total EU electricity generation. Low-carbon share by country is calculated out of total public electricity generation. Low-carbon includes renewables and nuclear.
Source: Eurostat

Flexibility and electricity grids

Spain has made progress towards achieving the 2025 recommendation to invest in energy storage, electricity transmission and distribution. However, further work is needed, given the challenges exposed by the blackout on 28 April 2025.

Prior to the blackout on 28 April 2025, Spain had already been taking significant remedial actions to control grid voltage. In 2024, Spain had the highest number of remedial actions activated as a percentage of electricity demand after Denmark. Moreover, it was the only Member State where almost half of all remedial actions were to address voltage security limit violations.

Spain is advised to continue taking the necessary steps to take its grid out of '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.

A more strategic approach to the permit-granting process is being put in place. The significant volume of grid connection applications (around 60GW for wind, 150GW for solar PV and 100GW for battery storage) also reflects strong investor interest in renewable deployment in Spain. In this context, the authorities have adopted measures to address potential permit hoarding and ensure that grid access is allocated to the most mature and robust projects, thereby improving the efficiency of the connection process. Additionally, as with REPowerEU, the Recovery and Resilience Facility has a specific chapter dedicated to supporting electricity grid infrastructure, flexibility and storage.

The discrepancy between the number of grid access requests and the number of projects actually entering operation is far from trivial. As this Annex and the Annex on industry decarbonisation ([210]) show, there are challenges in accessing the grid but also in translating access into operation. For instance, the final version of Spain's updated NECP sets a target of 22.5GW of energy storage capacity by 2030. However, additional projects in the pipeline to supplement the 7.65GW currently in operation, including measures under Spain's recovery and resilience plan, are only set to bring the total up to 14.2GW.

By adapting its grid remuneration framework Spain could support the large investments needed to reach its NECP targets. The authorities have set the financial remuneration rate for grid investments at 6.58%, i.e. 1 percentage point higher than in the period 2021-2026. In addition, they have allowed, under exceptional circumstances, the funding limit subject to this rate to be increased beyond 0.13% of GDP for transport and 0.065% for distribution, by up to EUR 13.3bn.

In relation to cross-border electricity trading, Spain has been taking significant costly remedial actions to manage congestion at the border with France. Limitations to additional cross-zonal trade are a constant problem at the France-Spain border, as well as at certain other borders in the EU (e.g. the border between the Continental Europe and Nordic synchronous areas, and the Italy North border).

As of 2026, Spain's interconnection level is 3.11%, compared with 3.62% in 2025. This decrease is linked to a temporary reduction in available alternating current due to planned maintenance as well as rapid solar capacity expansion which has impacted the denominator. Nevertheless, Spain is still a long way off the 2030 interconnectivity target of 15% which highlights the need for cross-border and internal grid reinforcements.

Progress has been made on several electricity interconnection projects. The interconnection with Portugal, between Beariz, Fontefría and Ponte de Lima, expected to be commissioned in Q1 2026, will improve system flexibility in the Iberian Peninsula. The Bay of Biscay electricity interconnection between Spain and France, which is due to be commissioned in 2028, will double interconnection capacity to 5 GW. The second list of Projects of Common Interest and Projects of Mutual Interest also included the Pyrenean Crossing interconnectors with France and a number of electricity storage projects. These projects respond to the need identified in the ten-year network development plan to establish additional cross-border capacity and flexibility to support solar expansion.

Spain is promoting consumer empowerment through demand response, energy communities, dynamic pricing and smart grids. Dynamic price contracts are available for household and non-household customers. 99% of final household consumers already have a smart meter. Around 2% of Spanish household consumers can be considered 'prosumers'. Furthermore, the number of energy communities is steadily increasing, with over

([210]) See Annex 8.

365 identified. Spain's recovery and resilience plan offers support for energy communities and self-consumption under the strategic project for economic recovery and transformation - renewable energy, renewable hydrogen and storage (PERTE ERHA).

In 2024, electricity accounted for 24.8% of Spain's final energy consumption (FEC) (slightly above the EU average of 23.4%), a share which has remained largely unchanged over the last decade ([211]), partly due to an unfavourable electricity-to-gas price ratio that disincentivises electrification and cost-effective decarbonisation. Electricity accounts for 46.6% and 30.7% of household and industrial FEC respectively (see Annex 8). In the transport sector, the share of FEC accounted for by electricity remained negligible (1.2%). Further progress would help to decarbonise the economy and bring the benefits of affordable renewables to consumers.

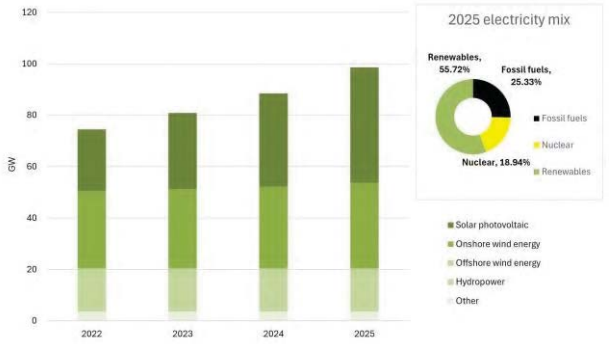
Renewables and long-term contracts

Following a record year for renewable electricity generation in 2024, a decline by 1.4 percentage points was observed in 2025. In Spain, renewables account for a significant share of the electricity mix (54.9% vs an overall EU share of 44.8%), despite the 28 April blackout causing this to fall. The second largest share is accounted for by nuclear (18.6%). Fossil fuels represented less than a quarter of electricity generation ([212]).

Installed capacity for renewables represented 98 614 MW in 2025 ([213]). **Installed wind and solar capacity in Spain grew by 12% in 2025 to reach 97 530 MW** (see graph below). The highest growth was in solar energy, with installed capacity increasing by 7 800 MW to reach 48 130 MW, i.e. an 18% increase. Total installed capacity for wind increased by 1 050 MW to reach 33 100 MW, a 3.1% increase. Curtailment of renewable energy reached 1% in 2025.

Spain is reforming its permit-granting processes. In 2025, Spain took steps to accelerate and simplify permit-granting processes for repowering renewable energy installations, as well as storage and hybrid installations. The current permitting framework for renewables includes measures on knowledge-sharing, on publishing the grid capacity of system operators and developing regulatory sandboxes for innovative projects.

Graph A9.3: **Spain's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

Spain's national energy and climate plan sets a target for the share of renewables in final energy consumption (FEC) of 48% by 2030, which is above the EU-level target of 42.5%. Spain also aims for renewables to account for 81% of electricity generation by 2030 and to reach 160 GW of installed

([211])The CAGR (compound annual growth rate) was -0.54% between 2015 and 2024 and minimum/maximum share of 24.5% and 26.0%, respectively. Source: Final energy balances, (Source: Eurostat).

([212]) Energy charts based on ENTSO-E Transparency Platform.

([213])International Renewable Energy Agency (IRENA) - Renewable Capacity Statistics 2026.

renewables capacity by 2030 (including 76 GW of solar and 62 GW of wind). However, no new schedule on the expected allocation of support for renewables was released in 2024 in the Union Renewables Development Platform.

Spain remains the EU's largest and most dynamic market for power purchase agreements (PPAs). Around 11 GW of renewables capacity is covered by private contracts, with solar accounting for the majority. Following a record year for PPAs in 2024 with the negotiation of 6 GW of new capacity, 2025 saw a slow-down as the market adjusted to lower growth in electricity generated from renewables.

Spain is taking steps to support biogas and biomethane production. For instance, in January 2026, the Spanish independent competition regulator (CNMC) provided clarification on precedence of claims, capacity allocation, cost sharing between operators and management of reverse flows ([214]). However, in 2024 Spain reached 1.6% of its 2030 target for biogas/biomethane production as set in its national energy and climate plan (i.e. 319 GWh vs 20 TWh). The 1.6% figure refers specifically to biomethane injection into the grid. According to MITECO's PNIEC 2023-2030 monitoring (February 2026), total biogas production reached 4.36 TWh in 2024, equivalent to a 21.8% compliance rate against the PNIEC 2030 target of 20 TWh for total biogas. RDL 7/2026 further introduces mandatory biomethane targets in sectors other than transport and a dedicated sustainability label, with a public consultation open until 15 May 2026

Energy efficiency

Further efforts are needed for Spain to achieve its 2030 energy efficiency targets. Final energy consumption in the residential sector decreased between 2019 and 2024 but remains a long way off the objective set in the 2020 long-term renovation strategy([215]). While final energy consumption has decreased substantially in industry (-11.2% since 2019), and is on a downward trend in the residential sector (-4.6%), it has increased in services (+3.4%) and transport (+0.7%). In 2024, Spain's final energy consumption was 83.5 Mtoe and therefore not in line with the trajectory for meeting its expected contribution by 2030.

Spain has submitted its draft national building renovation plan. The aim of this plan is to create a predictable pathway towards achieving an energy efficient and decarbonised building stock which, at present, is responsible for 28.5% of total final energy consumption. In this plan, Spain estimates to EUR 233 billion the needs to reach a high-efficient and decarbonised building stock between 2026 and 2050. The plan also acknowledges the importance of the sector for improving energy efficiency ([216]). Alongside measures under Spain's recovery and resilience plan, the Social Climate Fund can help respond to the significant investments needs associated with renovating the housing stock, particularly taking into account vulnerable groups.

Renewables account for a limited share (22%) of total energy used in heating and cooling across all sectors. Around 200 000 heat pumps were sold in 2025, a decrease of 6% compared to 2024, taking Spain's stock of heat pumps to around 1 700 000. The sector as a whole generated 230 000 direct and indirect

([214]) Acuerdo del Consejo https://www.cnmc.es/expedientes/cnsde96525

([215]) Annex 12 presents the state of energy poverty in Spain.

([216]) Annex 7 presents evidence on energy efficiency of the Spanish housing stock.

jobs. Spain has at least 13 facilities producing heat pumps.

The cost of electricity used for heating was three times more expensive than gas during the first half of 2025 in Spain. This means that unless heat pumps are three times more efficient than gas boilers, there is limited incentive to switch to a heat pump.

Security of supply and diversification

Spain aims to reduce its dependency on energy imports from 73% in 2019 to 50% by 2030. To achieve this, Spain intends to increase domestic production of renewables, while decreasing fossil fuel imports and primary energy consumption. Over 25 emergency measures were taken in 2021 to strengthen the energy supply. An additional 73 measures were introduced in 2022, focusing on energy savings, efficiency and renewables. The gas sector is relatively resilient as imports come from 16 different sources. The government is promoting renewable gas and minimum emergency stocks. Natural gas traders and direct consumers are required to hold 27.5 days' worth of firm sales or consumption in emergency stocks. Russian LNG imports fell by 41% in 2025.

Despite making progress in deploying renewables, Spain's overall energy mix in 2024 remained heavily based on fossil fuels. Oil and natural gas accounted for 45.6% and 20.0% of gross inland consumption respectively, with Spain no longer relying on coal. Renewables (including biofuels) accounted for 19.9%. Spain's continued reliance on fossil fuels underscores the importance of its ongoing efforts to diversify energy sources and strengthen energy security ([217]).

On 28 April 2025, Spain, Portugal and parts of France experienced an unprecedented power outage. As required by EU law, ENTSO-E is leading an in-depth investigation into the causes of this blackout. A factual report describing the sequence of events leading up to and following the blackout was published in October 2025. A final report by the ENTSO-E expert panel explaining the root causes of the blackout was published on March 2026. Spain and Portugal have submitted their *ex post* evaluation report. At the request of the Spanish Government, Spain's independent competition regulator (CNMC) and its transmission system operator (REE) are reviewing operating procedures ([218]) for renewables, storage and demand response to better manage voltage and congestion in a holistic way, with a clear timeline. Redispatch costs, plus costs from operating in reinforced mode resulted from the reduced share of renewables-based electricity generation (as well as curtailment). owever, after CNMC has approved the updated Operating Procedure 7.4 opening up voltage control to all technologies, including renewable energy, there are now more than 4GW of renewables providing dynamic voltage control.

Spain's nuclear fleet, composed of seven reactors generating approximately 20% of electricity, operates under the 2019 phase-out agreement establishing a gradual schedule through 2035. In November 2025, the license holder of the Almaraz nuclear power plant submitted an application to the Ministry for the Ecological Transition and the Demographic Challenge (Miteco) for the renewal of the exploitation licence of its two reactors. Any such application is subject to the independent technical assessment of the CSN,

([217]) Electricity and heat are excluded in order to avoid double-counting, as the focus is on primary energy sources (gross inland consumption (Eurostat).

([218]) For example *Procedimiento Operativo 7 - DCOOR/DE/005/24*.

in accordance with national legislation and international safety standards. Spain is actively involved in fusion energy research, in particular with the Fusion for Energy (F4E) Joint Undertaking located in Barcelona (F4E is in charge of EU in-kind contributions to ITER), and also with the international IFMIF-DONES programme, initiated by Spain and Croatia, and aiming at building a materials test facility in Granada.

In response to the regional crisis in the Middle East, Spain has allocated €5 billion to mitigate impacts, including VAT reductions from 21% to 10% on gas, electricity, petrol, and biomass, and tax cuts on fossil fuels to EU minimum levels. Spain has also introduced €0.20/litre subsidies for farmers and transport companies, direct aid for electro-intensive industries, and structural reforms such as Renewable Acceleration Areas (RAAs) with fast-track permitting.

Fossil fuel subsidies

In 2024, environmentally harmful([219]) fossil fuel subsidies without a planned phase-out before 2030 represented 0.22%([220]) of Spain's GDP ([221]). However, Spain's 2023 Effective Carbon Rate([222]) averaged EUR 71.10 per tonne of CO_2, below the EU weighted mean of EUR 84.80([223]).

([219]) Explicit fossil fuel subsidies (e.g. direct transfers) and implicit fossil fuel subsidies (i.e. tax expenditures linked to forgone tax revenues that have an identifiable fiscal impact for the central budget) that support fossil fuel energy production, transmission and/or consumption.

([220]) European Commission calculation based on underlying data from the *Study on energy subsidies and other government interventions in the EU – 2025 edition*, Enerdata.

([221]) 2024 Gross Domestic Product at market prices, Eurostat.

([222]) The Effective Carbon Rates is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([223]) OECD (2024), Pricing Greenhouse Gas Emissions 2024.

Spain remains one of the most climate-vulnerable Member States, despite progress in strengthening its adaptation framework. Spain faces increasing exposure to climate risks (notably heatwaves, droughts, floods, wildfires and coastal erosion) and growing human, economic and environmental costs across sectors such as agriculture, water, energy and transport. Implementation gaps persist (particularly in addressing droughts, floods and forest fires) and are more pronounced at the regional and local levels (see Annex 18). Spain received a 2025 CSR on water management and climate adaptation. Climate-proofing of infrastructure and uptake of nature-based solutions remain limited.

Declining net carbon removals in the LULUCF sector, which are exacerbated by forest fires, put Spain at risk of missing its 2030 climate mitigation target. Sustainable water management remains a major environmental challenge. The state of nature and ecosystems continues to degrade, presenting significant economic and competitiveness risks. There are also significant investment gaps in these fields.

Climate adaptation and preparedness

Spain is very exposed to climate change impacts that will require significant investment across different sectors. Southern Europe is one of the hotspot regions identified as having the greatest climate risks ([224]). Spain is particularly exposed to heatwaves, droughts, floods ([225]), wildfires, desertification and coastal and soil erosion. These are increasingly affecting agriculture and water management in particular, but also land use and the forestry, energy and tourism sectors ([226]). In 2024, Spain suffered 140 heat-related deaths per million citizens, the eighth highest proportionally in the EU ([227]). Spain has allocated EUR 1.5 billion to implementing the 2021-2025 work programme that underpins its national adaptation plan ([228]). A recent study commissioned by DG CLIMA estimates that Spain will need to invest almost EUR 7 billion per year up to 2050 ([229]) (0.4% of annual GDP) in ecosystem restorations (42% of the total), followed by infrastructure retrofitting and reinforcement (25%) and resilience in agriculture (22%).

Spain has a comprehensive and a legally binding policy framework, but implementation to address key challenges remains an issue. In 2025, Spain finalised its new national assessment of climate change impacts and risks (ERICC-2025), identifying 17 risks with low or no reversibility (potentially causing permanent losses). Key risks identified include increased heat-related morbidity, transmission of infectious diseases, extreme prolonged droughts, flood damage, increased desertification and soil erosion, sea-level rise, and impacts on electricity transmission networks ([230]). In recent years, Spain has continued to strengthen its adaptation and disaster risk management policy framework at the national, regional and local levels through its 2021-2030 climate adaptation plan, the 2022-2027 flood risk management plan and some adaptation points in the updated

([224])EEA, 2024, European Climate Risk Assessment.

([225])Spain's flood risk management plan for 2022-2027 identifies several challenges related to climate change (e.g. sea-level rise and increased frequency of floods).

([226])EC, 2025, Commission Staff Working Document, 2025 Country report – Spain, COM(2025) 325 final.

([227])Janoš, et al., 2025, Heat-related mortality in Europe during 2024 and health emergency forecasting to reduce preventable deaths.

([228])1 500 millones de euros para poner en marcha el Plan Nacional de Adaptación - Aclima.

([229])European Commission, 2026, *Assessment of adaptation investment needs*, Table 25, Link.

([230])Spanish Climate Change Office (OECC), Ministry for the Ecological Transition and Demographic Challenge, MITECO, 2025, *Spain's Climate Change Risks and Impacts Assessment* (ERICC-2025).

national energy and climate plan (NECP) ([231]) (see the country report for Spain for 2025).

At the regional level, the RRF-funded Law on Climate Change and Energy Transition (Law 7/2021) ([232]) provides the legal basis for Spain to reach the Paris Agreement goals and guide regional climate action, because the 17 autonomous communities have competences in climate mitigation and adaptation. Many Spanish cities are active in climate initiatives. 7 cities participate in the Horizon Europe Mission for Climate-neutral and Smart Cities. 1 945 local communities participate in the EU Covenant of Mayors for Climate and Energy initiative.

Climate risks have a direct and significant effect on Spain's economy, but insurance coverage remains low. Between 1980 and 2024, Spain recorded EUR 119.6 billion in economic losses ([233]) caused by weather and climate-related extreme events. It has one of the highest ratios of natural catastrophes damages to GDP in the EU ([234]). Recent studies show that extreme weather events such as heatwaves, floods and drought are likely to have a prolonged and intensifying impact on economic activity in Spain, and that Spain has some of the most vulnerable regions in the EU. Total regional losses in Spain were estimated at EUR 12.2 billion in 2025, and this is expected to increase to EUR 34.8 billion by 2029 (equivalent to 0.8% and 2.4% of Spanish 2024 gross value added (GVA)) ([235]). Spain's disaster-financing through the *Consorcio de Compensación de Seguros* is considered a solid and well-functioning model that has also been modernising itself to better prepare for future climatic disasters and catastrophes. ([236]). Spain has received nearly EUR 1.6 billion from the EU Solidarity Fund and the RESTORE mechanism to support recovery from the DANA storm ([237]).

Climate-proofing has not been systematically applied across sectors and key infrastructure so far, but aspects of climate-proofing in planning are integrated into, for example, Spain's NECP. Climate-proofing guidelines are also applied in EU-funded projects. For the energy sector, Spain has identified a high level of vulnerability and assessed the consequences of future water availability and risks (e.g. insufficient or disrupted water supply for hydropower generation, additional cooling needs and flood damage) ([238]). Similarly, the transport vulnerability index of the TEN-T network to climate change indicates Spain's challenging geographical position (impacting both rail and road transport), highlighting the need for significant adaptation measures in these sectors to effectively respond to climate-related disruptions ([239]). Spain's transport infrastructure was particularly exposed to floods in the past, but extreme temperatures are likely to play an important role in the future. The highest costs are expected for adaptation to coastal floods and heatwaves. It is estimated that a total of EUR 10.2 billion will need to be invested in TEN-T until mid-century. This is the highest amount for any EU Member

([231])European Commission, 2025, Commission Staff Working Document 2025 Country report – Spain, COM(2025) 209 final.

([232])Entry into force of Law on Climate Change and Energy Transition – Reforms and Investments.

([233])EEA, 2024, Economic losses from weather- and climate-related extremes in Europe, Link.

([234])ECB and EIOPA, 2024, Towards a European system for natural catastrophe risk management, Chart 2. This figure includes earthquakes that happened in 2020-2023.

([235])Usman, Parker and Vallat, 2025, Dry-roasted NUTS: early estimates of the regional impact of 2025 extreme weather.

([236])OECD Economic Surveys: Spain 2025 (EN) and EIOPA, 2024, Towards a European system for natural catastrophe risk management.

([237])Inforegio – Almost EUR 1.6 billion of EU funds will help Spain recover from Valencia's devastating floods.

([238])Staff working document accompanying the EU-wide assessment of the final updated national energy and climate plans, *Delivering the Union's 2030 energy and climate objectives, NECP assessment*, COM(2025) 274 final.

([239])Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network. Publications Office of the European Union, 2024.

State. Most of this is needed for railways (EUR 4.9 billion) and roads (EUR 2.5 billion).

There is scope to tap into nature-based solutions (NbS) more widely and systematically. Nature-based solutions and prevention play a key role in increasing resilience. In 2025, Spain recorded 393 000 ha of burned areas – the highest number since the collection of European Forest Fire Information System (EFFIS) data collection began ([240]). It is increasingly evident that wildfires are no longer confined to summer months but extend well into the rest of the year. Spain has taken some steps to promote the use of NbS to adapt to climate change. For example, the Law on Climate Change and Energy Transition promotes ecosystem-based approaches, green infrastructure and NbS. The national climate change adaptation plan (PNACC) 2021-2030 identifies risk and response options (including NbS). Spain has a national strategy for green infrastructure and ecosystem restoration. It has also implemented several projects under the EU's LIFE programme that focus on ecosystem restoration and NbS (e.g. the LIFE RedBosques_Clima project and LIFE Soria Forestadapt). However, further action is still needed to promote the adoption of NbS (particularly in sectors such as agriculture and forestry).

Water resilience

Water resilience is very important for Spain. Some progress has been made in recent years, but many challenges remain in terms of water management (especially in the areas of water governance, water body rehabilitation and water efficiency). Further infrastructure investment is needed, including in wastewater collection and treatment; reducing leaks in the networks and general water supply; improving monitoring (quality and quantity); natured based solutions and river restoration. Spain would also benefit from taking further advantage of the potential of water reuse. For this reason, under the 2024 and 2025 European Semester, Spain received a CSR on water management and adaptation to climate change that includes these elements.

Large areas of Spain are subject to water stress (particularly due to demand from agriculture, tourism and energy). These sectors are heavily dependent on water supply and irrigation is crucial in many rural areas and for the Spanish agrifood sector. Spain's water productivity is considerably lower than that of other Member States (being EUR 38 per m^3 of abstracted water in 2022 – below the EU-27 average of EUR 151 per m^3) ([241]). The water exploitation index plus (WEI+) shows that, especially in summer months, Spain's total water consumption exceeds its renewable freshwater resources. Agriculture is the largest consumer of water. Water abstraction in the agricultural sector accounted for 63% of total consumption in 2023, at 20 796.5 million m^3 (an 8% increase on 19 254 million m^3 in 2018) ([242]). Spain is implementing measures to reduce water consumption in the agricultural sector (e.g. improving irrigation efficiency, using non-conventional water resources and promoting the use of drought-resistant crops). The challenges remain significant, particularly in regions that suffer from water scarcity and during droughts (as the very severe drought of 2021-2024 showed).

Water quality in Spain has only marginally improved and concerns remain for surface and groundwater bodies. It follows from the assessment of the third river basin

([240])European Forest Fire Information System (EFFIS), Annual Statistics for Spain, Link.

([241]) Water productivity is a metric that is calculated by dividing GDP (in chain-linked volume) by total water abstraction. It indicates the average economic value (GDP) a Member State creates for each unit of water it takes from nature.

([242]) European Environment Agency, *Water abstraction by economic sector, 2000-2023*, Link.

management plans (RBMPs) (for 2022-2027) under the Water Framework Directive that the ecological status/potential of surface waterbodies has only slightly improved since the second RBMPs, 58% of surface waterbodies have good status/potential. Furthermore, the chemical status has also slightly improved (90% of surface waterbodies have good chemical status). Groundwater bodies' quantitative status has slightly deteriorated (75% have good quantitative status) and their chemical status has slightly improved (at least 67% now have good chemical status). However, 43% are at risk of failing to achieve good chemical status by 2027. The 2025 Environmental Implementation Review provides a series of priority actions to deal with these issues ([243]).

The quality of drinking water (supplied by large water suppliers) in Spain is very compliant with the Drinking Water Directive. However, the implementation of the recast Drinking Water Directive, which is now applicable, raises new challenges for Spain in this field.

Spain's wastewater treatment is a persistent cause for concern. Compliance has improved over the years (the use of EU funding has been fundamental in this respect), but Spain has experienced significant difficulties in properly implementing the Urban Wastewater Treatment Directive (UWWTD). This partial implementation has forced the Commission to take legal actions that have led to rulings of the Court of Justice of the EU. Spain's overall compliance rate was 86% in 2020, but around 450 agglomerations did not comply with all the Directive's requirements. It would therefore be very beneficial if Spain were to take adequate measures and implement necessary projects without delay in order to fully comply with the requirements of the UWWTD, taking advantage of the available EU funding (i.e. the European Regional Development Fund (ERDF) and the Recovery and Resilience Facility (RRF) (see Annex 18)).

Nature restoration

The state of nature and ecosystems continues to deteriorate in Spain, reducing its climate resilience. Spain is one of the most biologically diverse countries in the EU. It is home to 117 habitat types and 426 species covered by the Habitats Directive ([244]). However, the latest available data indicate that only 8.9% of Spain's habitats have a good status (below the EU average of 14.7%). The conservation status of species is similarly concerning (18.9% have good status – below the EU average of 27%). Data show a deteriorating trend compared with the previous reporting period. This situation has severe implications for Spain's climate resilience, because the loss of biodiversity impairs ecosystems' ability to provide services that help mitigate the effects of climate change (e.g. regulating water cycles, maintaining soil health and sequestering carbon). Spain's RRP includes ambitious measures (reforms and investments) to improve this situation.

Spain contributes the largest terrestrial surface to the EU Natura 2000 network in absolute terms. This covers 27.3% of its territory (Spain is the sixth Member State by percentage, the EU average is 18.6%). Some designations are still needed in the marine element. The main challenges are the adoption of site-specific conservation objectives and measures, and the allocation of sufficient resources to manage the Natura 2000 network. Spain could also further exploit its very valuable natural capital to promote green growth and job creation. Taking both Natura 2000 and other nationally designated protected areas into consideration, Spain was

([243]) European Commission, Environmental Implementation Review (EIR) 2025, country report Spain, Link.

([244]) European Environment Agency, 2019, *Number of habitats and species per Member State*, Link.

legally protecting 28.1% of its terrestrial areas (EU-27 coverage: 26.4%) and 18.4% of its marine areas in 2023 (EU-27 coverage: 13.7%) ([245]). Spain is therefore on track to achieve its political commitment under the EU Biodiversity Strategy for 2030 to protect 30% of land and sea in 2030. This is outlined in its Strategic Plan for the Natural Heritage and Biodiversity for 2030 and the Master Plan for the Spanish Marine Protected Areas Network, which were both approved in December 2022 ([246]).

Nature degradation presents significant economic and competitiveness risks because Spain has one of the greatest dependencies on ecosystem services in the EU. Spain has the highest degree of supply-chain dependency on ecosystem services in the EU (32% of its gross value added is highly dependent, compared with the EU-27 average of 22%). Its 50% overall direct dependency on ecosystem services is also above the EU average of 44%. This shows that Spain is particularly prone to be economically affected by biodiversity loss ([247]) (see the country report for 2025 for more detail).

Nature degradation is further amplified by invasive alien species (IAS). Spain recorded 57 IAS in 2024 ([248]). It has suffered the greatest damage of any EU Member State (estimated at EUR 13.47 billion between 1960-2020) ([249]).

Targeted action on nature protection and restoration is necessary in order to meet Spain's nature restoration targets. Spain needs to restore up to 113 410 km^2 of habitats listed in Annex I to the Habitats Directive (corresponding to up to 22.4% of its land) ([250]).

Spain requires EUR 8.1 billion of investment per year to effectively protect and restore its natural capital, mitigate the impacts of climate change and preserve Spain's rich biodiversity. The current level of financing for biodiversity and ecosystem conservation in Spain is around EUR 3.1 billion per year. The investment gap is therefore estimated at around EUR 5 billion per year (0.37% of its GDP) ([251]). This shortfall undermines Spain's commitment to global biodiversity agreements and its long-term economic and social development.

Sustainable agriculture and land use

Spain's carbon removals fall short of the level of ambition needed to meet its 2030 target for land use, land-use change and forestry (LULUCF). In Spain, net carbon removals in the LULUCF sector have been declining in recent years. To meet its 2030 LULUCF target, additional carbon removals of 5.3 million tonnes of CO_2 equivalent ($MtCO_2$-eq) are needed ([252]). The latest available projections show a gap to target of 12 $MtCO_2$-eq for 2030 ([253]). Additional measures are therefore needed in the land sector in order to reach the 2030 target. In addition to increasing LULUCF net removals, further investment in healthy forests and soils is key to building resilient, biobased product value chains and

([245]) Eurostat, Protected areas, Link.

([246]) Adopted by Royal Decrees 1056/2022 (Link) and 1057/2022 (Link) of 22 December 2022.

([247]) Commission / JRC, 2025, *The EU economy's dependency on nature*, Link.

([248]) European Commission, *Environmental Implementation Review (EIR) 2025, country report Spain*, Link.

([249]) NeoBiota, 2021, *Economic Cost of invasive alien species across Europe*, Link. European Commission: EMRC, Logika Group and RPA Europe, 2025, *Update of the costs of not implementing EU environmental law*, Link.

([250]) European Commission, 2022, *Impact assessment accompanying the proposal for a regulation on nature restoration*, Link.

([251]) European Commission, 2025, *Environmental Implementation Review (EIR) 2025, country report Spain*. Estimated at 2022 prices. Link.

([252]) National LULUCF targets of the Member States in line with Regulation (EU) 2023/839, Link.

([253]) Climate action progress report 2025, Link.

enabling a growing, competitive EU bioeconomy. Continued improvements in the system for monitoring net removal data and projections would greatly support timely and effective action in the sector.

In 2025 Spain took further steps to improve its carbon sequestration capacities. In March 2025, it adopted a royal decree that strengthened and enhanced the national carbon footprint, compensation and CO_2 absorption projects register. A project was launched to promote enhanced carbon sequestration in agricultural soils through improved land management practices ([254]). However, key challenges such as increased emissions from forest fires remain. Spain has taken some measures to strengthen forest prevention and management policies, including through investments in restoration and preventive silviculture, in line with the 2022–2032 Spanish Forest Plan and the 2050 Spanish Forest Strategy. LULUCF emissions were identified as a key challenge in the Commission's 2025 assessment of Spain's updated NECP ([255]).

Spain's functional urban area has considerably expanded in recent years. Net land taken between 2018 and 2021 accounted for 607 parts per million per year of Spain's total urban surface. Most land has been taken from arable land. This ongoing 'land take' and the associated soil-sealing makes ecosystems less resilient, decreases carbon sequestration and impairs flood protection ([256]). Nevertheless, these trends are being increasingly addressed through existing policy frameworks such as the Spanish Urban Agenda and the Recovery and Resilience Plan, which include measures for urban regeneration, building rehabilitation, densification of existing urban areas and the promotion of nature-based solutions (e.g., green infrastructure and sustainable urban drainage systems).

Water quality pressures are intensifying. Under the Nitrates Directive, 42% of Spain's groundwater monitoring stations recorded average nitrate concentrations in excess of 25 mg/l (and 23% above 50 mg/l, the EU threshold for safe drinking water) between 2016 and 2019 ([257]). This trend underscores systemic agricultural pressures, despite Spain's relatively low livestock density (0.7 livestock units per hectare in 2020 ([258]), compared with the EU average of 0.75). A 15% reduction in agricultural ammonia emissions between 2018 and 2023 ([259]) underscores improvement in emission control. Spain is on track ([260]) to meet its 2030 reduction commitments. However, the persistent problem of nitrate pollution highlights gaps in nutrient management strategies. In response, policies have been introduced to tackle agricultural diffuse pollution at source, including Royal Decree 47/2022 of 18 January, which strengthens protection for water against nitrate pollution from agricultural sources.

Pesticide contamination remains an issue. 36%, 23% and 26% of rivers, lakes and groundwater bodies exceeded regulatory thresholds for pesticide residues between 2018 and 2023 ([261]). These figures are above the EU's respective totals of 23%, 18% and 12%. Pesticides not only threaten aquatic ecosystems but also pose long-term risks to human health through contaminated drinking water and food chains. Soil contamination over

([254])El proyecto AgriCapture busca reducir las emisiones de carbono a través del suelo agrario | Red PAC.

([255])Commission Assessment of the Final Updated National Energy and Climate Plan of Spain - European Commission.

([256]) EEA, 2022, *Land take and land degradation in functional urban areas*, Link.

([257])EEA, 2025, *Nitrate in groundwater in Europe*, Link.

([258]) Eurostat, Livestock density index, Link.

([259]) EEA, *Air pollutant emissions data viewer (Gothenburg Protocol, Air Convention) 1990-2023*, Link.

([260]) EEA, 2025, Magnitude of emission reductions (percentage) required by EU Member States to meet their emission reduction commitments for 2030 onwards, based on 2023 data, Link.

([261]) EEA, 2025, *Pesticides in rivers, lakes, and groundwater in Europe*, Link.

0.05 mg/kg has been found in 45% of the soil samples examined in Spain ([262]).

Spain is transitioning to a sustainable food system by implementing policies to reduce the environmental impact of agriculture. In 2022, 5.3% of its agricultural land had landscape features such as woods and non-productive grasslands (below the EU average of 5.6%). Organic farming practices reduce the use of synthetic fertilisers and pesticides and are highly beneficial to biodiversity. They made up around 12% of Spain's agricultural land in 2024 (a 40% increase since 2014). Spain aims to have 20% of Utilized Agricultural Area being farmed organically by 2030. It will be able to achieve this if the current growth trend in organic farming surface is maintained. To mitigate the environmental impact of agriculture, the Spanish government has implemented measures to promote water resilience under the common agricultural policy strategic plan ([263]) and the Recovery and Resilience Plan. The plan also supports the increase in the share of organic farming and the use of soil cover; promotes crop rotation and diversification; helps to reduce nutrient losses; and supports other sustainable agriculture practices. These measures can have a crucial impact on the long-term competitiveness of Spain's agri-food system and its bioeconomy, which both play a significant economic role.

([262]) Vieira et al. (JRC), 2023, *Pesticides residues in European agricultural soils – Results from LUCAS 2018 soil module*, Publications Office of the European Union, Link.

([263]) Annex to Spain's CAP strategic plan 'Contribución del PEPAC 23-27 a la mejora de la gestión del agua en la agricultura'.

Table A10.1: **Key Adaptation Indicators**

Climate adaptation and preparedness:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	5.93	0.03	0.74	11.33	6.84	-	2.76
Forest fires burned area (1) *[burned area in ha. per year]*	63 853	61 099	84 827	306 555	91 220	42 615	354 510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	5 279	2 513	3 024	11 574	7 346	18 220	40 452
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	1	1	1	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	35	44	48	50	58	59	34

Water resilience:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Water Exploitation Index Plus, WEI+ (3) *[total water consumption as % of renewable freshwater resources]*	7.77	6.39	6.52	8.78	7.12	-	4.53
Water productivity *[EUR per m^3]*	41	36	-	38	-	-	151
Water abstraction							
Water abstraction by source (% from surface water)	80.18%	80.21%	-	-	-		-
Water abstraction by sector	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Constru-ction	
	63.58%	17.74%	1.81%	16.87%	0.00%	0.00%	
Status of water bodies (4) *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	58%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	75%	93%

Nature restoration:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	50%	-	-	44%
Protected area *[% of terrestrial protected areas]*	28.1	28.1	28.1	28.1	28.1		26.4
Invasive alien species (IAS) *[number of IAS of Union concern]*	-	-	-	-	-	57	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	13.47		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				328	328		295

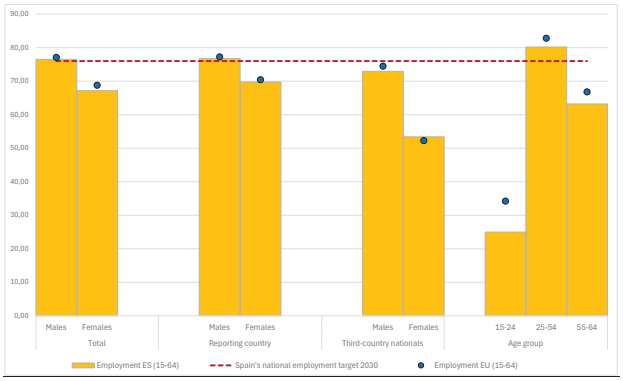
Sustainable agriculture and land use:							EU-27
			2012-2018		2018-2021		latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*			182		607		670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*							
Arable land					53%		
Complex and mixed cultivation					0%		
Forests					3%		
Herbaceous vegetation associations					22%		
Open spaces with little or no vegetation					0%		
Pastures					12%		
Permanent crops					9%		
Water					1%		
Wetlands					0%		
	2019	2020	2021	2022	2023	2024	latest data
Nitrates in groundwater (5) *[mgNO_3/l]*	33.9	33.5	32.9	32.3	31.7		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		0.7			:		0.75
Ammonia emissions *[% of total utilised agricultural area]*	98%	98%	98%	98%	98%	-	94%
Pesticide contamination on rivers and lakes water bodies				rivers	36%		27%
[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]				lakes	23%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg -1]*					45%		57%
Net greenhouse gas removals from LULUCF (6) *[ktCO_2-eq]*	-51944.1	-51083.8	-51775.5	-50620.8	-51032.8	-	-198 421

(1) EFFIS (European Forest Fire Information System), Link.
(2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods, wildfires and windstorms, and on the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes.
(3) This measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal or greater than 40% indicate severe water scarcity.
(4) European Commission, 2024, *Seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans)*.
(5) Indicator refers to concentrations of nitrate (NO_3) in groundwater, measured as milligrams per litre (mgNO_3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard is limited to 50 mgNO_3/L to avoid threats to human health.
(6) Net removals are expressed in negative figures and net emissions are expressed in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. The 2030 value of net greenhouse gas removals is taken from Regulation (EU) 2023/839 – Annex IIa.

Sources: Eurostat and EEA and JRC.

Spain's labour market remains resilient, with record employment, but persistent structural challenges continue to weigh on productivity and labour market inclusion. Job creation has been concentrated in lower-productivity sectors, limiting real wage progression and productivity gains. Comparatively high unemployment and low productivity remain key constraints, with young people, older workers, persons with disabilities, women and third-country nationals facing the greatest barriers. Active labour market policies have significant potential to support Spain's competitiveness, but shortcomings in their design and targeting limit their effectiveness, especially in terms of skills development. As Spain moves towards its 2030 employment target, unlocking untapped labour capacity and improving job quality and labour market policies would help support a more competitive and inclusive labour market.

Graph A11.1:**Employment rate by age, nationality and gender**



Source: Eurostat [lfsq_ergan, lfsq_egan]

Employment growth remains robust, though structural and regional challenges persist. Spain's employment rate reached an historical high of 72.4% in 2025, with total employment up 10.4% since 2019. This was partly driven by strong GDP growth and job creation, including in knowledge-intensive sectors, such as professional services, reflecting a gradual shift towards more qualified and higher-value jobs ([264]). However, the largest share of new jobs was created in lower-productivity activities, limiting aggregate productivity gains and sustainable wage growth. This pattern is also reflected in the comparatively high employment rate among low-skilled workers (62.7% vs 58.2% in the EU; see Annex 13). Third-country nationals and dual citizens (see Graph A11.1) have been central to meeting labour demand and sustaining recent employment growth. Regional disparities persist despite some convergence, with employment rates ranging from 65.8% in Andalusia to 77.9% in Madrid. While the national employment rate remains below the EU average of 76.1%, Spain is broadly on track to achieve its 2030 employment target of 76%. The activity rate (15-64) remains close to the EU average (74.9% vs 75.7%), indicating that Spain's employment gap primarily reflects high unemployment rather than low participation.

Labour market gains have been uneven, with several groups continuing to face barriers to accessing the labour market. Employment rates among young people remain low (41.2%), compared with the EU average (49.1%) and older cohorts (see Graph A11.1), and medium-skilled workers face weaker employment prospects due to skills mismatches and overqualification (see Annex 13). Employment rates among older women are also significantly lower, especially among third-country nationals, reflecting the combined effects of career interruptions and limited access to stable employment. National statistics indicate stable employment rates for persons with disabilities ([265]).

Despite a steady decline, unemployment remains high, with pronounced regional

([264]) Comité Económico y Social, Memoria Sobre la Situación Socioeconómica y Laboral 2024.

([265]) Instituto Nacional de Estadistica (INE).

disparities. The unemployment rate fell to 10.5% in 2025 (vs 6.0% in the EU), while long-term unemployment stood at 3.4% – both are among the highest in the EU. Young people, older people and third-country nationals are still disproportionately affected. High labour market slack (18.2% vs 11.7% in the EU) points to substantial underemployment, with Spain among the EU countries with the greatest potential to expand labour supply if underemployed workers were able to work their desired hours. Underemployment is concentrated in sectors with a high proportion of female workers, such as hospitality and cleaning, which tend to rely on part-time work and are characterised by weaker bargaining power ([266]). Regional divides remain pronounced. In 2024, unemployment rates varied from 15.2% in Andalucia to 7.3% in Cantabria and Pais Vasco. Although gaps have narrowed since 2019, they remain wider than in comparable Member States, such as Italy, France and Germany ([267]), reflecting persistent structural regional differences in sectoral specialisation (see Annex 18).

Low productivity growth remains an important factor in constraining sustainable wage increases. Despite recent improvements, Spain's productivity in certain sectors remains weak and below the EU average (both per hour and per worker). High self-employment, persistent skills mismatches (see Annex 13) and reliance on labour-intensive, lower-productivity services limit productivity gains and wage progression (see Graph A11.2). Looking at sectors, despite the growth in some skill-intensive and productive sectors, such as scientific and administrative and industry, most new jobs are created in low-productivity sectors. Between 2010 and 2022, real compensation fell by an annualised 4% despite productivity growth of 4.7% ([268]), leading to a marked fall in the labour share. Since 2023, real wages have partly recovered (annualised growth of 1.6% over 2023-2025), outpacing labour productivity growth (+0.6%) and supporting a partial recovery in the labour share.

Minimum wage growth, in real terms, remains low. The contribution to wage recovery in past years has been partly supported by a 61% increase in the minimum wage since 2018 (reaching EUR 1 184 in 2025). However, in real terms, minimum wage growth since 2020 has been among the weakest in the EU (1.2%), and real wage growth is projected to remain subdued in 2026-2027 (0.6% and 0.1%), placing Spain among the lowest in the EU. Minimum wage increases have compressed wages at the bottom of the distribution, but they have not substantially altered the overall wage structure ([269]). The gender pay gap remains below the EU average (7.3% vs 11.1%) but widens with age and tenure ([270]) and is larger in some female-dominated sectors such as health and care services.

([266]) European Commission, 2025 Employment and Social Developments in Europe (ESDE) Report.

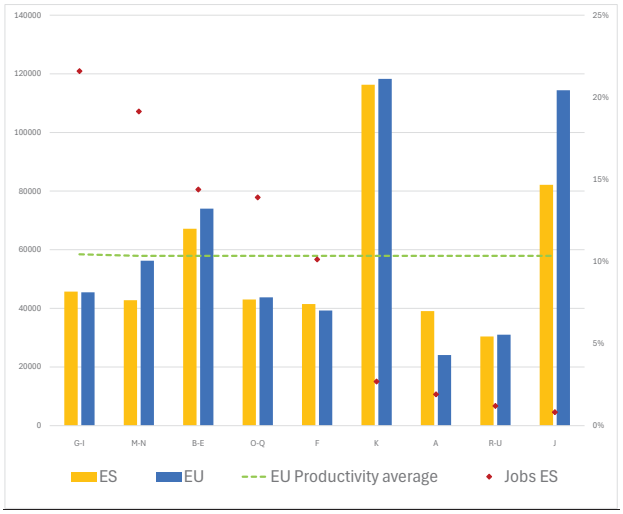
([267])Banco de España, Informe Anual 2024.

([268]) Labour productivity per employee, European Commission, 2025 LMWD Report.

([269]) AIReF, Análisis microeconómico del impacto del salario mínimo interprofesional en el empleo 2025.

([270])Fedea, Observatorio Trimestral del Mercado de Trabajo, May 2025.

Graph A11.2:**Productivity in Spain and the EU (GVA/Employment) and proportion of jobs created (%) by NACE groups**



* NACE category L (Real estate activities) has been excluded for presentation reasons (outlier).
Source: Eurostat [nama_10_a10_e, nama_10_a10]

The continued use of fixed-term employment contracts in the public sector and low work intensity arrangements weigh on the quality of jobs. Fixed-term employment has fallen significantly in the private sector in recent years, following the 2021 Labour Market reform under the recovery and resilience plan. However, it remains very high in the public sector, particularly in health and education, where women are overrepresented (see 2025 country report). In addition, a large share of temporary employment is involuntary (76.4% vs 49.9% in the EU). Spain also has one of the highest in-work poverty rates (11.2% vs 8.3% in the EU) and shares of atypical working hours (38.5% vs 32.3% in the EU). These conditions weaken access social protection and its financing.

Young people and older workers face persistent barriers amid demographic shifts, with implications for labour supply and job quality. Although the situation of young people and older workers has improved, they still face obstacles amid ongoing demographic shifts. While the unemployment rate of young people has declined sharply. However, the employment rate of young people (15-29) remains well below the EU average (41.2% vs 49.1% in 2025), and most new jobs are concentrated in low-skilled services ([271]), which could limit upward social mobility. The share of young people neither in employment nor in education and training (NEETs) (11.5%) also slightly exceeds the EU average (11.0%) Intergenerational income gaps have widened ([272]): while, on average, older working-age people earned less than younger cohorts three decades ago. Recent regulatory changes to training contracts aim to improve quality and safeguards – particularly by capping the share of apprentices and limiting their number per tutor – which could strengthen school-to-work transitions if effectively implemented. Labour market outcomes also differ across age groups: young workers are more likely to become unemployed due to the end of temporary contracts, while older workers are typically affected by collective or objective dismissals. Among older workers (55-64), employment has increased but unemployment (10.1% in 2025) and long-term joblessness remain high, partially reflecting the need to continue strengthening efforts in reskilling and retention. The share of older workers in the labour force is rising faster than in the EU, especially in the north-western regions, exacerbating ageing-related labour shortages in sectors such as public administration.

Third-country nationals are playing a growing role in the labour market but often face precariousness and informal employment. Third-country nationals account for 11.2% of the workforce (EU: 6.3%). They are most represented in hospitality, care, agriculture and construction, which helps ease labour shortages in these sectors ([273]). However, their unemployment rate (17%) is well above that of native workers (9.6%) and the EU average (12.6%). Third-country national

([271]) Observatorio de las Ocupaciones, 2025 Informe del Mercado de Trabajo de los Jóvenes, datos 2024

([272]) Mid-Term Evaluation of Spain's Youth Guarantee Plus Plan 2021-2027 | OECD).

([273]) Banco de España, Informe Anual 2024.

women face the biggest disadvantages, reflecting their concentration in domestic and care services, sectors in which they constitute more than half of total employment. Third-country nationals are also more likely to hold temporary (23.6%) or part-time (19.7%) contracts and face widespread skills mismatches (see Annex 13). Detections of undeclared work increased by 41% in 2023, more than three times higher than in 2018, mainly in hospitality, commerce, construction and agriculture ([274]). Against this backdrop, the 2025-2027 Labour and Social Security Inspectorate Strategy seeks to strengthen enforcement through additional staffing and advanced digital anti-fraud tools.

The gender employment gap has narrowed, but disparities remain, especially among older workers and workers with lower levels of education. The gender employment gap fell to 9.5 pps in 2025, slightly below the EU average, yet structural barriers limit women's employment prospects and career progression. Women continue to face much higher rates of part-time employment (21.3% vs 6.7% for men) and temporary employment (17.3% vs 12.7%), often involuntarily. They remain concentrated in health, education and domestic work, while their participation in sectors of strategic importance for productivity has increased only marginally and has stagnated in ICT ([275]). In parallel, progress has been made in recent years to support work-life balance, including the equalisation of maternity and paternity leave at 19 weeks, which is expected to contribute to a more balanced distribution of care responsibilities and improved labour market outcomes. Employment gaps are widest among older workers (55-64) and workers with lower levels of education, where the employment rate of women is more than 12 pps below that of men. Educational attainment is strongly correlated with labour market outcomes: unemployment among women with less than lower secondary education (19.62.%) is almost 7 pps higher than among men. Despite these measures, childbirth continues to trigger lasting employment declines for women ([276]), largely due to an uneven distribution of care responsibilities among parents, which remains a key structural barrier to equal participation (see Annex 12).

Labour shortages are below the EU average overall but remain high in specific sectors. Spain's job vacancy rate stood at 0.9% in Q4-2025, well below the EU average (2.1%) and close to its pre-pandemic level. However, shortages remain high in public administration and defence (3.7%) and in ICT (1.0%) in Q4 2025. In the ICT sector, Spain has caught up the EU average, with ICT specialists accounting for 4.8% of the number of people in total employment in Q4 2025. The percentage of female ICT specialists (19.5%) is also in line with the EU average. However, the country's broader population performs quite well in digital skills, with 66.5% of individuals aged 16–74 having at least basic digital skills in 2025, standing 6 pps above the EU average. Shortages of health professionals are a persistent challenge (see Annex 15). Survey evidence confirms lower labour shortage pressures than the EU average: fewer firms in industry (8.1% vs 17.5% in the EU) and construction (21.9% vs 27.5%) reported shortages in 2025, although levels are still above those observed in 2019. Shortages are most acute among plant and machine operators, heavy truck and bus drivers, and administrative and specialised secretaries.

Active labour market policies (ALMPs) are a critical tool to help tackle Spain's structural labour market weaknesses. The effectiveness of ALMPs is constrained by limited intensity of support, weak targeting and structural capacity bottlenecks. Despite one of the highest shares of GDP devoted to ALMPs in the EU, their

([274])Ministerio de Trabajo y Seguridad Social, Informe anual de la Inspección de Trabajo y Seguridad Social 2023.

([275])Fedea, Observatorio Trimestral del Mercado de Trabajo, May 2025.

([276]) European Commission, 2025 ESDE Report.

impact remains limited: high unemployment dilutes resources, resulting in per-participant spending below the EU average, and active measures continue to lag behind passive policies. Underinvestment in training and guidance hinders upskilling workers and helping them adapt to new roles amid persistent skills mismatches and demographic pressures, while resources remain skewed towards short-term hiring incentives. Structural bottlenecks include weak coordination between employment and social services, high caseloads in public employment services and limited employer engagement. These bottlenecks further reduce the capacity of ALMPs to support sustainable labour market integration.

Spain is taking steps to modernise its ALMP system, with a stronger focus on coordination, targeting and service quality. The new Active Support to Employment Strategy (AESS 2025-2028) strengthens profiling, skills-needs assessment and data-sharing to better connect jobseekers with vacancies. This is complemented by tailored programmes for groups facing persistent barriers – Roma, older people and people in long-term unemployment. Building on the 2023 Employment Law, the 2025 Annual Plan for Decent Employment sets quantitative objectives for key groups (e.g. women, young people, low-skilled workers, persons with disabilities) and relies on upgraded digital tools and AI-supported profiling. Ensuring the consistent uptake of these reforms across Spain's regions and their evaluation will be essential to delivering tangible improvements ([277]).

Despite high collective bargaining coverage, social dialogue faces structural weaknesses. Although collective bargaining coverage is high (92.1% in 2024), the density of trade unions and employer organisations remains very low, standing at 12.5% and 40.1%, respectively ([278]). This points to a structural imbalance, where the very high level of collective bargaining coverage is not matched by correspondingly high membership rates in trade unions and employer organisations. Low membership in employer organisations particularly hinders the participation of SMEs in collective bargaining, undermining the inclusiveness of social partner structures, as affiliation rates remain particularly low among smaller firms (15.0% for companies with 5-9 workers), compared with larger companies (20.4% overall) ([279]). Coverage of collective agreements remains very low in some sectors ([280]), which face persistent low-quality employment conditions. There are also regional variations in the effectiveness and representativeness of social dialogue structures in Spain, reflecting differences in institutional arrangements and social partner presence in different autonomous communities.

([277]) Full Report: Improving Active Labour Market Policies in Spain | OECD.

([278]) OECD/AIAS ICTWSS v2.0.

([279]) Ministerio de Trabajo y Economia Social, Encuesta anual laboral 2024.

([280]) Ministerio de Trabajo y Economia Social, Estadística de Convenios Colectivos de Trabajo, 2024

Spain faces significant social challenges, especially in terms of poverty and child poverty. The 2025 country-specific recommendations urge Spain to address child poverty and improve the effectiveness, coverage and adequacy of its social assistance system. Despite slights improvement, this remains the most pressing challenge, with persistent inefficiencies in the social protection system and deep regional disparities that hinder poverty reduction efforts. Spain does not appear to be on track to reach its national 2030 poverty reduction target, including the specific sub-target for children. Social benefits have a limited capacity to reduce poverty and inequality, adding to growing housing-related challenges (see Annex 16) and persistent gaps in the long-term care (LTC) sector. Addressing these structural challenges would help to ensure Spain's competitiveness as well as sustainable and inclusive growth.

Child poverty remains high and keeps worsening. In 2025, 33.8% of children were at risk of poverty or social exclusion (AROPE), down from 34.6% in 2024. However, this represented one of the highest rates in the EU. Severe material and social deprivation and persistent poverty of children also showed some improvement in 2025, affecting respectively 10.4% (EU: 7.9%) compared to 11.2% in 2024, and 18.5% (EU: 11.3%) compared to 20.6% in 2024. The economic cost of child poverty is estimated at a substantial 4% to 5.1% of GDP ([281]). Spain is implementing the European Child Guarantee to mitigate these impacts. There has been progress in access to quality education, but gaps remain in guaranteeing that children in need have access to key services and goods, such as housing. Spain announced a State Pact against Child Poverty and the introduction of a universal child benefit which, whether or not combined with the child support supplement (*complemento de ayuda para la infancia*, or CAPI), could reduce child poverty and the poverty gap, albeit at a relatively high fiscal cost ([282]). Spain also published the Revised Sustainable Development Strategy 2030, aiming, among other, at reducing child poverty. Nonetheless, the measure has not been implemented yet. There remains scope for further policy actions to address the country-specific recommendation on child poverty.

Early Childhood and Care (ECEC) has expanded, but inequalities persist. Enrolment for children aged 3 to 6 is almost universal (around 98% in 2024). Participation for children aged 0-3 stands at 56.8% (16 pps above the EU average), but it is still costly for users. As universal free ECEC is not guaranteed nationally, access is uneven across regions and heavily reliant on private provision despite recent public expansion. A key concern is the participation gap between children who are at risk of poverty and social exclusion and those who are not. Despite progress, families are experiencing affordability issues and shortages with long waiting lists, limited opening hours and long travel distances to childcare centres. Access to free school meals is also limited (see Annex 13). The first progress report on the European Child Guarantee confirms that only the País Vasco guarantees a free and healthy daily school meal for all children in need. To support shared care responsibilities, the Spanish government has, under the recovery and resilience plan (RRP), passed legislation extending birth and care leave from 16 to 19 weeks for each parent.

Overall poverty in Spain remains high, with significant regional disparities. In 2025, 25.7% of the population was at risk of poverty or social exclusion, the rate showed some improvement compared to 2024, but remains well above the EU average of 20.8%. Despite decreasing slightly, the depth of poverty

([281]) Alto Comisionado contra la Pobreza Infantil, Fundación «la Caixa», El coste de la pobreza infantil en España, 2023; OECD, The economic costs of childhood socio-economic disadvantage, 2022.

([282]) The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+

remained high, with the poverty gap rising to 26.9% (EU: 22.5%) and resulting in some of the highest levels of severe material and social deprivation (8.1%) in the EU. Persistent poverty also decreased, but remained high, with 12.5% of the population remaining at risk for more than two years (EU: 9.8%), signalling structural barriers to escaping poverty and social exclusion. Regional disparities are stark, with AROPE rates ranging from 34.7% in Andalucía to 14.7% in the País Vasco. This reflects uneven social protection coverage, labour market conditions and access to services across territories particularly as concerns rural areas (see Annex 19). In total, 12.5 million people were at risk of poverty or social exclusion in 2025, including 2.6 million children — 331 000 more overall and 77 000 more children than in 2019, highlighting the lack of progress towards Spain's 2030 targets. Spain has earmarked more than 33% of its European Social Fund Plus resources for social inclusion. This allocation is further bolstered by an additional 11% dedicated to the European Child Guarantee and 5% to addressing material deprivation. A comprehensive approach, as set out in the EU anti-poverty strategy, could help address the multiple dimensions of poverty and achieve the national anti-poverty target.

Some groups face higher risks of poverty. In 2025, around half of single-parent households (50.6%), large families (47.1%) and third-country nationals (53.1%) were at risk of poverty or social exclusion. This reflects a combination of low income, unstable jobs and increasingly high housing costs in some areas (see Annexes 11 and 16). In this context, children in single-parent households, large households, or households where parents have a low level of education are particularly affected. The Roma population is extremely vulnerable, with 94% at risk of poverty (AROP) in 2025, rising to 96% for Roma children ([283]). Among persons with disabilities, 32.2% were at risk of poverty or social exclusion in 2025 (EU: 28.8%), and 13.5% faced severe material and social deprivation (EU: 10.5%). Young people (15-29) also have higher poverty risks (27.6% vs 24.2% in the EU). Energy poverty in Spain is decreasing (15.9% in 2025) while remaining among the worst in the EU. This is particularly acute among households at risk of poverty: in 2024, 28.3% could not afford adequate heating, compared with 12.9% among non-AROP households. While car affordability does not appear to be a significant issue for the population at large, it represents a problem for vulnerable people of whom 12.1% could not afford a car in 2024. The regions of Castilla-La Mancha and Extremadura, where approximately 27% of the population is at risk of poverty, are particularly poorly served by public transport ([284]). Spain's 2024–2030 poverty strategy provides a roadmap for reducing poverty. Other targeted initiatives are also in place, including the 2021-2030 national strategy for Roma equality, inclusion and participation and the draft 2026–2030 national strategy to combat energy poverty.

In-work poverty and low work intensity are key drivers of overall poverty. Since 2023, real wages have partly recovered, but despite a rise in the nominal minimum wage, real minimum wage growth has remained among the weakest in the EU (see Annex 11). Thus, despite a slight decrease, in 2025, 11.2% of employed people were at risk of poverty (EU: 8.3%). While employment reduces poverty risks, in some cases it fails to lift households out of poverty, particularly for fixed-term workers, single parents and young adults. 60.6% of households with low work intensity were at risk of poverty and this number rose to 82.4% for children, showing that the employment situation of the household heavily impacts poverty among children. The self-employed (such as farmers) face especially high vulnerability due to low and unstable earnings, with in-work poverty and income insecurity persisting. While it increased in 2025, the real

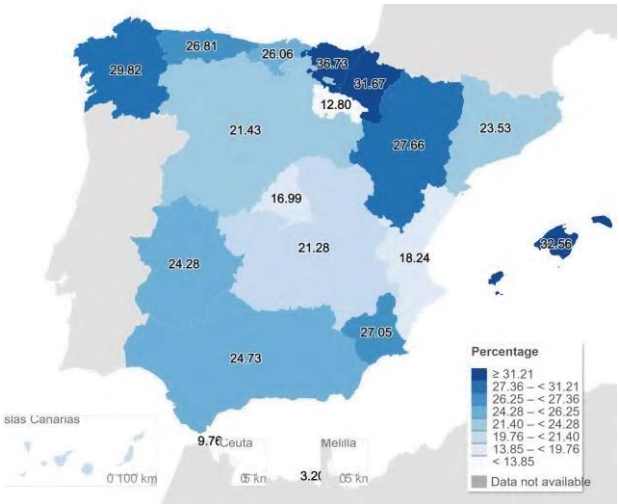
([283]) EUFRA, Roma Survey - Country Data - Spain, 2025.

([284]) Data from the Commission's Transport Poverty Hub.

gross disposable household income per capita surpassed its 2008 level only in 2023 and remains way below the EU average.

The impact of social transfers on reducing poverty is low and income inequality remains due to persistent gaps in coverage and adequacy. In 2025, social transfers reduced poverty risks by only 23.3% (EU: 33.2%) and child poverty by just 18.7% (EU: 40.1%), placing their effectiveness among the lowest in the EU, with significant regional disparities. This is partly related to a relatively low benefit recipient rate: only 68% of adults (18–64) who were both at risk of poverty and living in (quasi-)jobless households received benefits (EU: 82.3%) and just 49.7%% of people in poverty did so (EU: 72.4%). Benefit levels also appear insufficient to lift beneficiaries above the poverty line, which limits both their poverty-reducing effect and their role as an effective social safety net. These gaps contribute to Spain's persistently high levels of income inequality: the top 20% earn 5.24 times more than the bottom 20% (EU: 4.62) and the lowest decile captures only 2.5% of total income (EU: 3.1%), with wide regional gaps. Taxes and social benefits reduced inequality (measured by S80/S20) by only 37.9% (EU: 48.7%) in 2025.

Graph A12.1:**Impact of social benefits transfers (excluding pensions) on poverty reduction by NUTS2 region in 2025**



Source: Eurostat [tespm050_r]

Governance and coordination shortcomings continue to hinder the effectiveness of the social protection system. There are inconsistencies in access, quality and eligibility across the territory. Cash transfers coexist with in-kind support and tax relief in Spain at various administrative levels, creating a dispersed system ([285]). Non-refundable tax credits (e.g. for dependent children) tend to exclude low-income families, while refundable tax credits apply to mothers who work or receive unemployment benefits (contributory or not), large families and dependants with disabilities. Limited coordination between social, health, education and employment services hampers integrated, person-centred support. This translates into benefits often not being linked to targeted social assistance and inclusion services. Insufficient interoperability of databases and the absence of automatic enrolment mechanisms further reduce benefit take-up and delay access. Spain is seeking to improve take-up through initiatives such as the as the Social Security online portal (*Sede Electrónica de la Seguridad Social*) and mobile application (*App Seguridad Social*). However, challenges persist in the implementation of measures, notably related to governance and coordination.

Family support remains limited. In 2024, social protection spending was concentrated on old-age (42%, EU: 41.5%) and healthcare (29.26%, EU: 29.7%), while family and child support remained low (5.42% vs EU: 8.74%), alongside comparatively less resources for social inclusion (2.0% vs EU: 2.21%), disability (6% vs EU: 7.2%) and housing (0.44% vs EU: 1.35%). In 2023, per capita spending on family and child benefits (adjusted for purchasing power) stood at only EUR 484, around half the EU average of EUR 891, and remained relatively stable in 2024. Specific investment in early intervention and disability support for children also remained low.

([285]) Missoc database.

The implementation of the minimum income scheme (IMV) and child support supplement (CAPI) faces challenges. Since its creation in 2020, the minimum income scheme has reached more than 3.5 million people in Spain. The last data available shows 829 399 households received the benefit (in which 2 532 284 people live) in March 2026. The average amount of the benefit is EUR 543.1 per month per household([286]). Nonetheless, the take-up rates for both schemes remain low (see 2025 country report). Only 55% of eligible individuals receive the minimum income benefit and 72% the child support supplement, due to the administrative burden, complex eligibility checks and low awareness ([287]). These barriers result in lower coverage among some of the most vulnerable groups, such as non-EU nationals and Roma ([288]). With higher take-up, the minimum income benefit could better help reduce poverty – particularly child poverty – and lower the poverty gap. Greater adequacy of benefits would also maximise their impact ([289]). The minimum income scheme has also been found to be inflexible and unpredictable for beneficiaries, as it relies on the previous year's income and it lacks mechanisms to rapidly adjust support in response to sudden changes in household income or employment status, which could discourage employment. Moreover, while recent adjustments have aimed at reforming the work incentive component, their effectiveness remains to be seen. In fact, recipients tend to receive benefits over a long period of time: 90% of households receive benefits for more than one year, 75% for over two years and 60% for more than three years ([290]).The government has taken steps to address these shortcomings, including a new elephone line, and a dedicated accessibility plan is intended to improve outreach and support. Within the framework of the RRP, Spain also piloted social inclusion pathways accompanying the minimum income benefit. A specific proposal for the development of inclusion pathways was also developed with support from the Technical Support Instrument ([291]). Making such pathways a standard feature of the scheme, by systematically combining income support with tailored social services, would strengthen the social inclusion of vulnerable groups ([292]).

The adequacy of social protection for long-term care remains limited. Public expenditure on long-term care (LTC) amounts to only 0.8% of GDP, well below the EU average of 1.7%, despite relatively high LTC needs (28.8% in Spain compared with 26.6% in the EU) ([293]). As a result, older people face high out-of-pocket costs across all levels of care needs, and poverty risks linked to LTC remain well above the EU average for people with both moderate and severe needs ([294]). This means that a relatively low proportion of the population

([286]) Ministerio de Inclusión, Seguridad Social y Migraciones

([287])AIReF, 4.ª Opinión sobre el Ingreso Mínimo Vital, 2025.

([288]) Iseak and Fundacion Secretariado Gitano, Study on the impact of the Minimum Vital Income on the poverty situation of the Spanish Roma people, 2023; Friedrich Ebert Stiftung, Spain's Minimum Income Scheme, Political Impetus to Protect the Most Vulnerable, 2024.

([289]) The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+

([290]) AIReF, 4.ª Opinión sobre el Ingreso Mínimo Vital, 2025; OECD, OECD Economic Surveys Spain, 2023; OXFAM, El impacto del Ingreso Mínimo Vital y su articulación con las Rentas Mínimas autonómicas: una estimación, 2024; Ministerio de Inclusion, Seguridad social y Migraciones, Informes, 2024; Platafroma Infancia, El impacto del Ingreso Mínimo Vital y del Complemento de Ayuda a la Infancia sobre la pobreza infantil: limitaciones y vías de reforma, 2024; European Commission, Investing in Children: The Impact of EU Tax and Benefit Systems on Child Poverty and Inequality, 2024.

([291]) A specific proposal for the development of inclusion pathways was developed with support from the Technical Support Instrument.

([292]) Laboratorio de Politicas de inclusion, 2025, and Secretaría de Estado de la Seguridad Social y Pensiones, Más de 70.000 personas se han beneficiado de los itinerarios de inclusión vinculados al Ingreso Mínimo Vital, 2023.

([293]) EHIS, 2019.

([294]) OECD, Adequacy of social protection for long-term care: Spain, 2025.

aged 65 and over receives public home care (3.9%, EU: 5.5%) or cash benefits (2.6%, EU: 6.2%). The percentage of people in need of LTC but not using (more) professional home-care services primarily due to financial reasons was above the EU average at 13.4% (EU: 10.6%) and 9.3% had great difficulty in affording professional home-care service (EU: 8.2%) ([295]). The percentage of people aged 65 and over potentially in need of LTC who receive residential care is higher than the EU average (20.3% compared with 17.7% in the EU), as public funding is skewed towards this form of care (66.1% vs 46.2% in the EU), yet it remains unaffordable for many older people, while spending on home care is still well below the EU average (20.5% vs 28.8% in the EU) ([296]).

The LTC system also faces structural challenges. The State sets out the common framework and co-funds the system, while the regional authorities are responsible for service delivery. Differences between regions in terms of resources, coverage and service lead to inequalities in access, availability and quality. Care is provided via a combination of public, private (for-profit and non-profit) and third-sector providers. Low wages, fixed-term employment, informal employment, precarious working conditions and high turnover continue to undermine job quality and job attractiveness. At the same time, the system relies heavily on informal carers, mainly women, and third country nationals. Beneficiaries receive either cash or in-kind benefits (home care, tele-assistance or residential services) but waiting lists are long due to funding constraints. At the same time, a recent study shows that the number of older people (aged 65+) in residential care has increased by 50% over the last decade ([297]). Recent reforms and investments, including the 2024-2030 national deinstitutionalisation strategy and, under the RRP, the agreements of the territorial council of social services on a common minimum set of social services and the renovation of residential and day-care centres, aims to foster independent living and inclusion in the community, but further scope for action remains. Through the Technical Support Instrument, Spain is benefiting from support for the development of a framework for integrated and coordinated care as well as for the development of a national strategy for workforce planning and professional recognition, with mechanisms to support informal caregivers.

([295]) https://webgate.ec.europa.eu/circabc-ewpp/ui/group/bab664d7-1188-47b2-9fa6-86990232oba2/library/2ac9aa59-5c4a-45c9-b710-f73a14246666/detailsMonitoEU-SILC2024.

([296]) European Commission, Ageing Report, 2024.

([297]) Eurofound (2024), Paths towards independent living and social inclusion in Europe, Publications Office of the European Union, Luxembourg.

Spain is taking steps to improve its education and training systems, while unequal education outcomes and skills gaps and mismatches remain barriers to competitiveness. Reinforced efforts have led to visible improvements in early childhood education and care (ECEC) and tertiary education attainment. However, gaps persist across regions and population groups with regard to basic skills and early leaving from education and training. Socio-economic disadvantage, gender, migrant background and disability continue to influence educational trajectories, with long-lasting implications for labour-market outcomes and productivity. At the same time, skills mismatches remain present, reflecting a polarised skills distribution, although recent reforms in vocational education and training (VET), together with a notable increase in enrolment in recent years, are contributing to improving medium-level pathways. There is also scope to further enhance the responsiveness of tertiary education to labour market needs, including in fields related to science, technology, engineering and mathematics (STEM) that are critical to the green and digital transitions. These challenges are also influenced by still uneven participation in adult learning, although recent policy developments have reinforced the focus on lifelong learning and are expected to support broader access to reskilling opportunities across the working-age population.

Against this background, the 2025 country-specific recommendations (CSRs) addressed to Spain focused also on education and skills. In particular, the CSR focused on reducing skills shortages and mismatches through stronger dual VET, enhancing lifelong learning, in particular for low-skilled people, improving basic skills, and tackling early school leaving while accounting for regional differences. Enhancing the inclusiveness, quality and labour-market relevance of education and training would support productivity growth, reduce skills shortages, and help ensure that economic transformation translates into better and more equal opportunities for all.

Participation in ECEC remains high overall but uneven across the country. In Spain, participation in ECEC is nearly universal for children aged three and over (97.8% in 2024; EU average: 95.0%). For children under three, enrolment in formal childcare or education stood at 56.8% in 2025, markedly above the EU average (40.5%). It increased from 39.7% in 2015, due to sustained investments in the expansion of capacities and targeted support to vulnerable groups, co-financed by cohesion policy funds and the Recovery and Resilience Facility (RRF). Despite progress, enrolment rates differ widely across regions from 64.3% in Galicia to 29.9% in Ceuta. Moreover, participation among children at risk of poverty or social exclusion is substantially lower than among those not at risk (45.8% vs 62.4% in 2025), although this gap is in line with the EU average. Evidence from recent national analysis highlights financial costs, complex administrative procedures, limited availability of clear information for families and insufficient flexibility as key factors constraining participation ([298]). Against a background of persistently high child poverty rates (see Annex 12), ECEC participation plays a key role in preventing long-term educational gaps and socio-economic inequalities.

Declining basic skills proficiency, paired with low shares of top performers, constrains efforts towards human capital development. Around a quarter of Spanish 15-year-olds do not reach basic proficiency levels in mathematics (27.3%) and reading (24.4%), and about a fifth in science (21.3%) ([299]), although slightly better than the respective EU averages (29.5%, 26.2% and 24.2%, respectively). Echoing broader EU trends, underachievement in basic skills has gradually increased since 2012, albeit

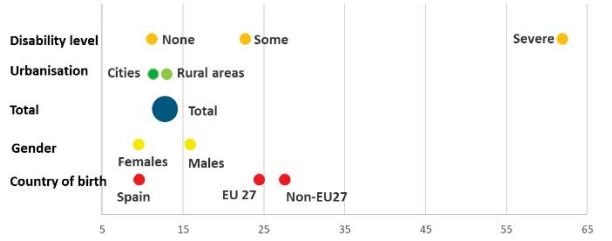
([298]) Educo, Niñas y niños invisibles en el primer ciclo de Educación Infantil, 2024.

([299]) OECD, 2022 PISA.

less than at EU level, widening the gap in relation to the EU target of having less than 15% low-achievers in reading, maths and science by 2030. Moreover, the share of top performers is well below the EU average, at 5.9% in mathematics (EU average: 7.9%) and 4.9% in science (EU average: 6.9%), reducing the pool of talent for highly skilled professions, such as in STEM, and hampering innovation capacity (see Annex 4). Regional differences in basic skills are considerable, with Andalusia, the Canary Islands recording consistently lower scores than the national average (see Annex 18). Underachievement in digital skills, i.e. the share of students not reaching basic proficiency levels in the 2023 International Computer and Information Literacy Study, is slightly higher than the EU average (44.4% vs 42.5%) and nearly triple the EU target (i.e. having less than 15%).

Early leaving from education and training has continued to improve in recent years, although remains a critical challenge for some regions and population groups. The rate of early leavers from education and training (ELET) slightly decreased to 12.8% in 2025 (down from 13.0% in 2024), it is still above both the EU average (9.1%) and the EU 2030 target (9%). Having a migrant background is a key determinant of ELET: foreign-born young people are nearly three times more likely to leave education early than native-born peers. Disability-related gaps are also significant, with around 1 in 3 young people with some or severe activity limitations leaving education early, compared with just 11% of those without limitations, in 2024. Regional disparities are pronounced, with ELET rates ranging from 3.6% in the Basque Country to 20.6% in Murcia. Gender gaps persist as well (15.9% for men and 9.5% for women), although they have narrowed in recent years. Lastly, structural and socio-economic exclusion further compounds these disparities, particularly for Roma students, as only 36% of 20–24-year-olds had completed upper-secondary education in 2024, highlighting persistent barriers to inclusion ([300]). Early disadvantages tend to carry over into adulthood, contributing to structural imbalances in skills and labour-market outcomes ([301]).

Graph A13.1:**Early leavers from education and training**



Source: Eurostat

Policies to improve educational outcomes are being progressively rolled out. The Ministry of Education and the regional governments are reinforcing territorial cooperation programmes that aim to improve basic skills, tackle early school leaving and address regional disparities. These include the RRF-funded programme for guidance, advancement and educational enrichment 'PROA+', which supports schools of particular educational complexity and has recently been renewed until 2028 with support from the European Social Fund Plus (ESF+). Moreover, new programmes to strengthen basic skills in reading and mathematics have been implemented since 2024. In parallel, the reform of the Education Law (LOMLOE) has introduced new diagnostic and system-level evaluations, which have the potential to strengthen evidence-based policymaking and inform targeted interventions. Starting in 2026, Spain will join the Erasmus+ DigiCLASS project to adapt and trial a tool for assessing, developing and certifying digital skills in primary and secondary schools, aiming to reduce underachievement in basic digital skills. The upcoming 'Strategic Plan for Inclusive

([300]) Fundamental Rights Agency, 2025. Rights of Roma travellers in 13 European Countries.

([301])Funcas, Informe sobre el abandono educativo temprano en España. Datos de 2025 y análisis comparado, 2026.

Education', anchored in a new vulnerability index, seeks to promote a more coherent, system-wide approach to equity challenges, reinforcing schools' capacity to address diversity and educational inequalities. These efforts could thus support Spain in addressing the 2025 CSR on improving basic skills and reducing early school leaving, taking into account regional differences.

Efforts to reduce disparities in education are hindered by gaps in monitoring and evaluation, as well as insufficient support to the most vulnerable. In its 2024 report ([302]), Spain's State School Council highlights the need to reinforce coordination across levels of governance and to strengthen monitoring and evaluation mechanisms to better assess the impact of territorial cooperation and targeted investments. The report also points to the relevance of continued public debate on structural issues such as the possible extension of compulsory education to age 18, in light of ongoing challenges related to early school leaving. Further evidence highlights that the structural provision of individualised remedial education and language support remains limited, impacting the system's capacity to address learning gaps and affecting students with a migrant background and special education needs the most ([303]).

Pressures on the teaching profession undermine the provision of consistent quality teaching. Spain's teaching workforce is ageing, with 39.1% of lower-secondary teachers aged 50 or over in 2023, while only 6.7% were under 30. Results from the OECD's TALIS 2024 survey show that, although Spanish teachers report high career satisfaction and low attrition, the profession's attractiveness is hampered by the high prevalence of short-term contracts (30.8%; EU average: 17.7%) and dissatisfaction with administrative workload ([304]). Meanwhile, student cohorts are increasingly diverse, requiring greater individualised support. For example, the share of students requiring specific educational support – due to socio-economic vulnerability or special educational needs – rose from 8% in 2017/2018 to 14% in 2023/2024 ([305]), while a lack of specialised staff is reported ([306]), adding further demands on teachers. To inform future reforms, a broad study process was initiated in 2025, with four working groups examining needs and potential measures regarding professional competences, systems of entry into and selection for the profession, initial and continuous education, and working conditions. Moreover, a draft bill put forward by the government in November 2025 proposes limits to teaching hours and reduced class sizes, with implementation planned for the 2026/2027 school year.

Spain shows a highly polarised skills distribution that contributes to persistent skills mismatches. In 2025, 42.4% of adults (25-64) held tertiary qualifications (EU average: 36.9%), while 34.6% had low-level qualifications (EU average: 18.8%). By contrast, only 23.0% had intermediate qualifications, representing one of the lowest shares in the EU (EU average: 44.3%). This imbalance translates into a significant misalignment between education outputs and labour-market needs, with macro-level mismatches at 22.1%, compared to an EU average of 19.2% ([307]). Employer surveys show that the main obstacles to filling vacancies

([302]) Consejo Escolar del Estado, Informe 2024 sobre el estado del sistema educativo.

([303]) EsadeEcPol Policy Brief #49, El estado de la profesión docente en España, 2025.

([304]) OECD, 2025, TALIS.

([305]) Ministerio de Educación, Formación Profesional y Deportes, Alumnado con necesidad específica de apoyo educativo. Curso 2023-2024.

([306]) Defensor Del Pueblo, Personas con discapacidad en el informe anual 2024.

([307]) The macroeconomic skills mismatch indicator measures the dispersion of employment rates across skill groups (proxied by qualification levels, ISCED 0-2 low; 3-4 medium and 5-7 high).

include insufficient technical skills and a lack of experience ([308]) (see Annex 11).

High tertiary attainment in Spain coexists with widespread overqualification, pointing to difficulties in adapting the university offer to labour- market needs. Tertiary attainment (25-34) reached 52.5% in 2025, well above the EU average of 44.8% and the EU-level target of 45% by 2030. The employment rate of recent tertiary graduates has steadily increased since the pandemic (from 75.9% in 2020 to 86.2% in 2025), stressing the economy's growing demand for highly skilled workers: since 2020, 47% of newly created jobs are highly qualified ([309]). However, many graduates still end up working below their qualification level (34.0% in 2025; EU average: 21.4%), highlighting mismatches between their education and the needs of the labour market. Overqualification disproportionately affects foreign-born workers (52.3% vs 32.7% among native-born workers). Differences in labour-market outcomes by field of study are also pronounced: based on social security affiliation rates, full-time employment rates exceed 90% among graduates in engineering and health sciences, and are near universal among information and communications technology (ICT) graduates (95.6% of graduates work full time and 93.8% hold permanent contracts), while arts and humanities graduates show the lowest affiliation rates (63.5%) ([310]). Despite these disparities, fields with more moderate labour-market outcomes, such as business, administration and law, account for 19.3% of graduates, compared to engineering, which accounts for only 11.0% of graduates, or ICT, which accounts for 6.3% of graduates (2024). The distribution of publicly funded university places is only weakly responsive to both labour-market outcomes and student demand, as rising overall demand has not been accompanied by a systematic reallocation of capacity towards high-employability fields, reflecting rigid capacity planning ([311]). In 2025, a new Skills Intelligence Strategy for Higher Education has been developed with Technical Support Instrument support ([312]), but it is yet to be systematically integrated into evidence-based policymaking.

Low participation in medium-level VET and constraints in dual VET provision are reflected in persistent skills mismatches. Participation in medium-level VET remains well below the EU average (40.2% vs 52.9% in 2024) and only 10.1% of adults hold an intermediate VET qualification in 2025 (EU average: 34.6%). This limited output of medium-level VET contributes to structural shortages of medium-skilled workers. Still, the employment rate of people who have recently completed VET is fairly low (see below) which hints at mismatches between supply and demand. At the same time, VET is increasingly valued for its practical orientation and employability outcomes, although its potential is not yet fully reflected in participation levels. Further strengthening pathways between different VET levels and expanding provision could help consolidate these trends. While current legislation envisages the generalisation of dual VET by 2025/2026, in line with the 2025 CSR on strengthening dual VET, implementation varies considerably across regions. This is largely due to the limited availability of companies, particularly small to medium-sized enterprises, willing or able to offer training places, reflecting the costs and administrative burden involved ([313]). Although enrolment in public institutions has increased by 31% over the past decade, VET provision has expanded unevenly:

([308]) SEPE, Informe de prospección y detección de necesidades formativas, 2025.

([309]) Fundación BBVA-Ivie, U-Ranking 2025 report.

([310]) CyD Foundation, La empleabilidad de los jóvenes en España, 2025.

([311]) Funcas, Desafíos y oportunidades para el futuro de la educación superior, 2024.

([312]) Proposal for a new Skills Intelligence Strategy for Higher Education, including specific support with micro-credential design - Reform Support.

([313]) Fundación Bertelsmann. Retos y desafíos de la prospección en la FP Dual, 2025.

private non-subsidised providers have grown almost sixfold, largely driven by the expansion of distance learning, where enrolment is around thirty times higher ([314]). This risks widening socio-economic inequalities, as access increasingly depends on income. At the same time, salary data show substantial variation in labour-market returns across VET programmes, with many students concentrated in fields associated with weaker employment outcomes ([315]). Capacity is further constrained by workforce challenges: despite a 48.1% increase in teaching staff since 2013, acute ageing and high levels of part-time employment, particularly in private centres, where it reaches up to 46%, contribute to a generational renewal need of nearly 37 000 young teachers ([316]).

Disparities in VET labour-market outcomes reflect structural imbalances across pathways, regions and fields. People who have recently completed medium-level VET have lower employment rates (69.2% in 2025; EU average: 80.2%), while tertiary graduates achieve employment rates close to the EU average (86.2% vs 87%). Regional wage disparities among people who have recently completed upper-secondary VET are wide, ranging from 14 % below the national average in Extremadura to 17 % above it in the Basque Country, alongside a 7% gender pay gap. ([317]). STEM fields offer the best employment and wage outcomes but account for less than 25% of graduates. The share of VET students enrolled in STEM fields was significantly below the EU average in 2024 (29.0% vs 36.6%) and most of them were male (12.0% female in 2024; EU average: 15.9%). Supported by its recovery and resilience plan (RRP), Spain is implementing a VET modernisation agenda including modular qualifications, digital registries and skills accreditations, such as the National Plan for Digital Skills or the Generation D Portal.

Shortages of STEM and ICT professionals could limit progress in the green and digital transitions. STEM participation in higher education improved slightly (from 24.7% in 2023 to 25.3% in 2024) but remains below the EU average (26.6%) and the EU 2030 target (32%). Women are significantly under-represented, accounting for 29.0% of STEM students (EU average: 32.4%) and 16.7% of ICT students (EU average: 20.6%). At the same time, high dropout rates in engineering programmes (12.4% for men and 8.6% for women) further undermine the future availability of STEM skills ([318]). These constraints coexist with strong labour shortages in green and digital fields, where vacancies per worker exceed the average by 52% and 212%, respectively ([319]). At the same time, Spain attracts very few highly skilled foreign workers, representing only around 1% of employment-related inflows ([320]). Although recent migratory reforms have improved labour-market access for international graduates, administrative and credential-recognition barriers persist, risking undermining productivity and progress on the green and digital transitions as demand for specialised skills grows (see Annex 11).

Adult learning participation remains low and uneven, limiting reskilling opportunities and perpetuating early disadvantages. In 2022, only 34.1% of adults had participated in learning over the previous 12 months (EU average: 39.5%), far below Spain's 2030 target of 60%. Participation rates are particularly low among low-qualified adults (15.4%) and those

([314]) Observatorio de la Formación Profesional (FP Análisis nº 34), 2024.

([315]) Observatorio de la Formación Profesional (FP Análisis nº 33), 2024.

([316]) Observatorio de la Formación Profesional (FP Análisis nº 41), 2025.

([317]) Observatorio de la Formación Profesional (FP Análisis nº 33), 2024.

([318]) CyD Foundation, Informe CyD, 2024.

([319]) OECD Job Creation and Local Economic Development 2024 – Country Notes: Spain.

([320]) OECD Economic Survey, Spain 2025.

over 55 (23.4%). Although more recent data from the labour force survey show a modest increase between 2022 and 2024, progress remains insufficient to meet labour-market needs linked to the green and digital transitions. Based on the OECD's survey of adult skills (PIAAC), Spain performs below the EU average in literacy, numeracy and adaptive problem solving. In Spain, the proportion of adults with at least basic digital skills exceeds the EU average (66.5% vs 60.4%), but progress towards the 2030 target of 80% stagnated between 2023 and 2025. Spain also has a larger participation gap in education and training between prime-age and older workers than the EU average . Employers report persistent shortages of job-ready skills in high-turnover sectors such as construction and hospitality ([321]), while limited employer training for older workers and fragmented public provision constrain reskilling opportunities for employed mid- and late-career workers. Related to the 2025 CSR on increasing lifelong learning, the Spanish Qualifications Framework for Lifelong Learning was formally referenced to the European Qualifications Framework (EQF) in 2024, completing the EQF referencing process and strengthening transparency and cross-border recognition of Spanish qualifications. However, the national qualifications database of Spain is not connected to Europass yet. Under the RRP, Spain has introduced a permanent, free system to validate basic competences acquired through work or informal learning, potentially covering over 10 million people, alongside a micro-credentials action plan. The RRP also envisages support for the provision of micro-credentials by universities. These initiatives could help widen access to lifelong learning, including through individual learning accounts targeting older workers, especially those in low-paid or vulnerable sectors ([322]).

Skills intelligence in Spain is gradually expanding beyond traditional labour-market forecasting. While the national labour force survey has long tracked employment and training trends, newer initiatives combine administrative records, graduate follow-up surveys and expert opinion polls, with increasing attention to VET. Key contributors include the National Institute of Professional Skills (INCUAL), the public employment service, FUNDAE and the CaixaBank Dualiza Observatory, alongside regional initiatives such as the Catalan VET agency.

([321])SEPE, Informe de prospección y detección de necesidades formativas, 2025.

([322]) OECD Economic Survey, Spain 2025

Table A14.1: **Social Scoreboard for Spain**

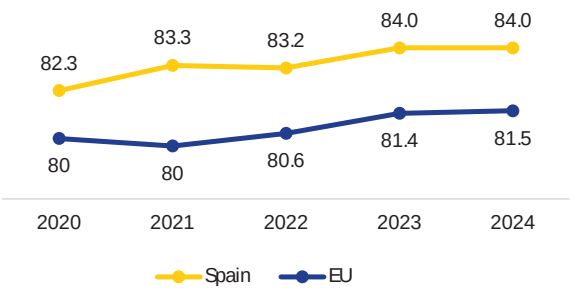
Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	34.1
	Early leavers from education and training (% of the population aged 18-24, 2025)	12.8
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	66.5
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	11.5
	Gender employment gap (percentage points, population aged 20-64, 2025)	9.5
	Income quintile ratio (S80/S20, 2025)	5.24
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	72.4
	Unemployment rate (% of the active population aged 15-74, 2025)	10.5
	Long term unemployment (% of the active population aged 15-74, 2025)	3.4
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	103.9
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	25.7
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	33.8
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	23.2
	Disability employment gap (percentage points, population aged 20-64, 2025)	22.6
	Housing cost overburden (% of the total population, 2025)	7.2
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	56.8
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	1.6

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).
Source: Eurostat

Spain's health system faces some challenges, that negatively affect the health of its population, social fairness, and productivity. Problems in access to healthcare persist, driven by regional disparities, health workforce shortages and investment gaps. The Spanish health system has some untapped potential to make it more efficient.

Graph A15.1:**Life expectancy at birth, years**



Source: Eurostat (indicator: demo_mlexpec)

Spain achieves relatively good health outcomes. Life expectancy at birth was among the highest in the EU in 2024. In 2023, the leading causes of death in Spain were cardiovascular diseases (CVDs) and cancer, which together accounted for 53% of all deaths. Preventable mortality is one of the lowest in the EU. Treatable mortality is also one of the lowest in the EU, suggesting that the health system is effective.

Smoking, alcohol consumption and growing obesity are the main risk factors in Spain. The share of Spanish adults who smoke daily remained higher than the EU average in 2020. Smoking among 15-year-olds is slightly below the EU average (17%), but vaping among Spanish teens has gained some traction, with 13% reporting e-cigarette use in the past month in 2022. Alcohol consumption has risen since 2010, reaching 11.1 litres per adult in 2023 and is above the EU average and one of the highest in the EU. Alcohol consumption among 15-year-olds fell from 34% in 2010 to 24 % in 2022, close to the EU average. In 2022, 15% of adults in Spain were obese, close to the EU average. Among 15-year-olds, 19% were either overweight or obese, below the EU average but higher than in 2018. Low physical activity contributes to obesity. The share of employed people on temporary sick leave rose from about 2.7% in 2019 to 4.4% in 2024, a trend seen across age groups and regions. This significant rise in temporary sick leave has a sizeable economic cost of over EUR 15 billion in 2023 (1% of GDP) ([323]).

Spain has recently strengthened its public health policies. The 2022 Public Health Strategy, included in Spain's recovery and resilience plan (RRP), set a new direction for public health measures. Linked to it, a stronger surveillance system for public health was established in 2025, including a national public health surveillance network and the State Public Health Agency. They ensure extensive public health monitoring, surveillance and health impact evaluation across five domains (i) communicable diseases; (ii) non-communicable diseases; (iii) occupational health; (iv) environmental health; and (v) early warning systems. Furthermore, multiannual agreements between the Ministry of Health and the Spanish Federation of Municipalities and Provinces promote local initiatives to improve lifestyles and prevent chronic conditions.

Some policies to address the main risk factors have been developed. The 2024-27 tobacco Control Plan contains measures such as treating new tobacco products in the same way as traditional tobacco regarding production, advertising, plain packaging, expanding smoke-free areas and increasing tobacco excise taxes to fund cessation programmes. A draft law approved in March 2025 extends the existing ban on alcohol sales to those under 18, further restricting advertising near schools. The 2022–2030 National Strategic Plan for the Reduction of Child Obesity aims to reduce child obesity by 25%, and the 2025 School Meals Reform Law strengthens nutrition standards in schools. New

([323])Informe Annual, Banco de Espana, 2025.

Table A15.1: **Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	214.5	213.3	212.9	210.0	n.a.	0.90	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	217.8	213.0	213.9	200.2	n.a.	0.82	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	2 599	2 826	2 978	3 137	n.a.	1.48	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	72.1	72.6	72.9	73.2	n.a.	1.06	80.6 (2023)
Spending on prevention, % of current health expenditure	3.6	4.2	4.4	3.4	n.a.	1.21	3.7 (2023)
Available hospital beds per 100 000 population***	261	260	258	253	n.a.	0.98	440 (2023)
Doctors per 1 000 population*	4.6	4.5	4.3	4.4	n.a.	1.17	4.3 (2023)*
Nurses per 1 000 population*	6.1	6.3	6.1	5.9	n.a.	1.15	7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	12.6	13.5	13.0	13.2	12.9	0.96	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	19.7	20.0	23.2	24.1	24.2	n.a.	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.

** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.

***'Available hospital beds' covers somatic care, not psychiatric care.

Source: Eurostat

policies include also an excise tax on sugar-sweetened beverages and the nutri-score food labelling system, as well as planned initiatives on public procurement and measures addressing processed food advertising and the protection of minors from energy drinks.

Unmet needs for mental healthcare have more than doubled since 2021. In 2024, 7.9% of respondents in Spain reported forgoing mental healthcare. The 2025-27 Suicide Prevention Plan and the 2025-27 Mental Health Action Plan, address the social determinants of mental ill health and gaps in access to mental health services.

Spain's health system delivers generally strong health outcomes at relatively low cost, but national averages hide important regional differences (see Annex 18). The share of total public spending on healthcare and health spending per capita stood below the EU average in 2023. Healthcare costs are projected to increase significantly over the next decades as demographic changes place increasing pressure on public finances. Autonomous communities manage 91% of public spending on health and the share of health spending was well above 30% of their annual budgets. There were some variations across regions in 2024, ranging from EUR 1 423 to EUR 2 301 per capita ([324]). The number of hospital beds per capita is among the lowest in the EU, with substantial regional disparities. The share of expenditure on prevention is slightly below the EU average. Spain's health sector has been supported by significant EU funding. Under the RRP, Spain allocated EUR 2.4 billion with investments in renewal and expansion of high-tech equipment, strengthening of preventive care, training of health professionals, and health data space. Complementary funds from the 2021-27 EU Cohesion Policy allocate EUR 1.6 billion to support infrastructure, digital health services and health equipment with a marked variation across regions.

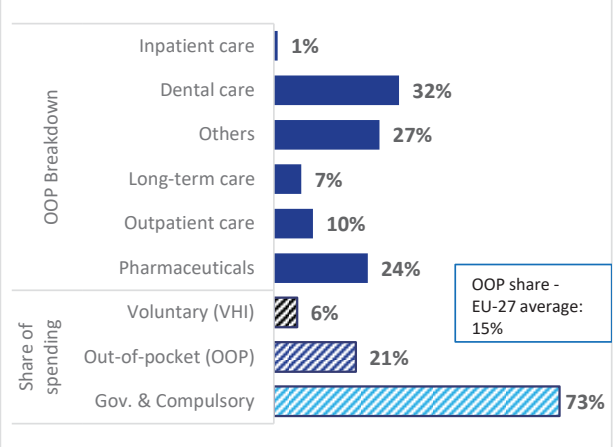
The reform of primary care and its impact across regions require further assessment. Rates of avoidable hospital admissions in Spain are among the lowest in the EU, particularly for congestive heart failure and diabetes. This is partly due to the country's robust primary care system. Spain is working to improve quality and access to primary care, but regional

([324]) OECD/European Observatory on Health Systems and Policies (2025), *Country Health Profile 2025: Spain. State of Health in the EU*.

disparities, mainly caused by staff shortages, remain a significant challenge. The 2025–27 Primary and Community Care Action Plan adopted by the Interterritorial Council of the SNS, aims to expand primary care capacity, support retention of health professionals and multidisciplinary work, reinforce continuity and coordination of care, widen the benefits package with dental care services, and reduce unnecessary referrals to specialised and hospital care. It is implemented through regional plans and an Evaluation Manual approved by the Interterritorial Council of the SNS, but the effectiveness of these measures has yet to be evaluated. Progress in care integration varies across regions with front-runners including the Basque Country, Andalusia and Aragon.

There are sustained improvements in acute care. In 2023, Spain's 30-day mortality rates after hospital admission stood below the EU average for acute myocardial infarction and ischaemic stroke and these rates have dropped since 2000. Recent initiatives include the 2022 Cardiovascular Health Strategy, focused on promotion of healthy lifestyles, early detection, management, treatment and rehabilitation. Spain also updated in 2024 its National Stroke Strategy, in response to the increase in stroke cases especially among young people. It aims to reduce stroke cases by 10%, expand treatment in stroke units, and strengthen continuity of care by 2030.

Graph A15.2:**Out-of-pocket payments: share in healthcare spending and categories, 2023**



Household out-of-pocket payment: direct payment for healthcare goods and services from the household primary income or savings, where the payment is made by the user at the time of the purchase of goods or the use of the services (Eurostat). VHI: voluntary health insurance. (1) Others: eyeglasses, hearing aids, lab tests...
Source: Eurostat and Country Health Profiles - Dashboard

Although healthcare coverage is broad, gaps remain in access to dental services, alongside territorial disparities in service availability. Coverage of dental care remains limited. According to the EU-SILC survey, the rate of self-reported unmet needs for dental care among those who reported having medical care needs was above the EU average (7.9% versus the EU average of 6.3%) and much higher than EU average for people at risk of poverty. In June 2024, EUR 68 million was allocated to improve dental health, targeting some vulnerable groups. Spain's share of out-of-pocket payments in health spending was above the EU average in 2023 and patients pay directly mainly for dental care (see Graph A15.2). There are significant differences in waiting time across regions. According to the 2023 Health Barometer ([325]) 33.9% of respondents said that waiting times had worsened in the previous 12 months, 38.2% had experienced more than a three-month wait between referral from the primary care physician and specialist consultation, and 69.8% reported that it took more than 24 hours

([325])Barómetro Sanitario 2023, Ministerio de Sanidad.

to obtain an appointment with a family general practitioner (GP), with an average waiting time of nine days. Waiting times for hip or knee replacements and cataract procedures increased during the COVID-19 pandemic and remained above pre-pandemic levels. A Working Group on Waiting Lists established in 2024 aims to bring together management and data across autonomous communities, with its outputs submitted to the Interterritorial Council for approval. In addition, in 2025, a first-ever multisectoral state agreement was adopted to improve early intervention and reduce waiting times for children under six with developmental disorders.

Spain faces significant health workforce challenges. They include the age structure, unequal distribution of health professionals, and forecasted shortfalls of GPs, and other specialists. The number of doctors per 1 000 population in 2023 was slightly above the EU average. However, the density of nurses, stood below the EU average. There are significant disparities in density of health professionals across autonomous communities. In 2022, the number of primary care physicians ranged from 0.6 to 1.1 per 1 000 population, and primary care nurses from 0.5 to 0.9 per 1 000. For specialists, the figures ranged from 1.6 to 2.7 per 1 000 for doctors and 3.3 to 6.9 per 1 000 for nurses ([326]). Compounding challenges posed by an ageing workforce (60% of GPs are aged 50 or over). Spain has one of the lowest numbers of doctor and nurse graduates per 100 000 population in the EU. Government projections indicate a 9% increase in long-term physician needs by 2035, with potential shortfalls in family medicine, anaesthesiology, geriatrics, psychiatry, and radiology. Working conditions remain challenging, with temporary contracts accounting for 41.9% of health workers in 2020, up from 28.5% in 2012. To address these imbalances, a 2023 technical document ([327]) defined 13 criteria for identifying hard-to-fill positions. If a primary care post meets at least five of these criteria, it qualifies for incentives such as financial bonuses, housing support, career development opportunities and better work-life balance measures. Building on these efforts, the 2025-27 Primary and Community Care Action Plan aims to increase the primary care workforce with new professionals and roles, boosting multidisciplinary teams, and reducing unnecessary referrals to specialists. Spain benefits from the EU4Health Joint Action on health workforce planning and the Technical Support Instrument supporting health workforce reforms.

The uptake of digital health tools in Spain has been higher than the EU average. There has been substantial progress between 2020 and 2024, particularly in making appointments online and accessing health records. Spain's 2021-26 Digital Health Strategy focuses on (i) empowering individuals, healthcare professionals and service providers through digital transformation; and (ii) improving interoperability and collection of data. The Ministry of Health put in place a system to monitor the implementation of the strategy and assess the impact on improving access to healthcare across regions (taking into account data on status of health, demographics, health system resources). The strategy is implemented through action plans. The Digital Health services plan focuses on improving access to healthcare, including preventive care and support to professional reintegration. It prioritises vulnerable groups and underserved areas. It will develop the interoperable virtual basket of health services. The Sustainability Plan focuses on the interoperable electronic health record, the State Registry of Healthcare Professionals, the interoperable electronic prescription system. In addition, projects are underway for pharmaceutical

([326]) *Country Health Profile 2025: Spain* - see Footnote 2.

([327]) Technical guidance, Comisión de Recursos Humanos del Sistema Nacional de Salud (2025).

services, data analytics, expanding the digital capabilities of healthcare facilities, and the integrated management and analysis of medical images. The Digital Transformation Plan for Primary and Community Care promotes smart healthcare centres, facilitating processes and developing the Primary Care Clinical Database, which collects coded and standardised clinical information on care. The plan also includes measures to develop the service portfolio of health centres focused on patient groups requiring personalised, continuous, and systematic care. The Health Data Space Plan will facilitate the implementation of the EHDS.

More rational use of medicines is a potential source of efficiency gains. Use of generic medicines has remained stagnant in the past decade. In 2024, generic medicines constituted 47% of all pharmaceutical units dispensed through community pharmacies ([328]). Spain has room to improve biosimilar adoption rates across some therapeutic categories. While retail pharmaceutical expenditure per capita as a share of total pharmaceutical spending has fallen - from 77% in 2020 to 72% in 2023 - spending on medicines dispensed in hospitals has risen, reaching 28% in 2023 ([329]). Addressing disparities in pharmaceutical spending and unjustified regional differences in the costs of medical procedures and prescriptions can create opportunities to improve efficiency. The use of antibiotics remains a challenge. Spain's antibiotic consumption has increased since 2021 and was well above the EU average in 2024, despite the national target to reduce total consumption by 18.2% between 2019 and 2030 ([330]). This is linked to underlying prescribing behaviours, which have not yet changed fundamentally. Spain's latest National Plan for Antibiotic Resistance was published in 2025, establishing a One Health strategy. A draft Law on Medicines and Health Products, pending approval by the Council of Ministers, aims to modernise Spain's pharmaceutical legislation, enhance fair access, rational use, promote prescription by active ingredient, environmental sustainability, public oversight and alignment with EU regulations.

Spain's pharmaceutical sector shows clear economic significance. Employment in pharmaceutical manufacturing was above the EU average. The country is a significant hub for clinical research. In 2024, Spain reported a high number (23.9) of clinical trials per million population, above the EU average of 18.3. Regarding trade and commercialisation, the industry maintains a modest but fairly stable share of extra-EU exports (7.2% in 2025 vs 13.9% for the EU average). To boost innovation, the government launched the 2024-28 Pharmaceutical Industry Strategy, which aims to improve access, foster innovation, strengthen biomedical R&D investment and reduce foreign dependence, while promoting growth, employment and the sector's role as a key economic driver. The RRP also supports investments in innovative medicines.

([328]) *Country Health Profile 2025: Spain* - see Footnote 2.

([329]) *Country Health Profile 2025: Spain* - see Footnote 2.

([330]) Council Recommendation on stepping up EU actions to combat antimicrobial resistance in a One Health approach, 2023/C 220/01

Housing challenges in Spain remain significant, notably due to the persistent mismatch between demand and supply, the lack of a substantial stock of both affordable and social housing, a lack of accessibility, as well as tensions on the rental market driving up prices. These issues are particularly acute in some geographical areas, including the main urban centres, the island territories and coastal areas (see also Annex 19). A country-specific recommendation was addressed to Spain in 2025 to 'increase the housing supply by completing the reform of the land law, reducing permitting processing times, eliminating administrative bottlenecks, addressing labour shortages in the construction sector'. The recommendation also called on Spain to 'strengthen(ing) the provision of social and affordable housing'.

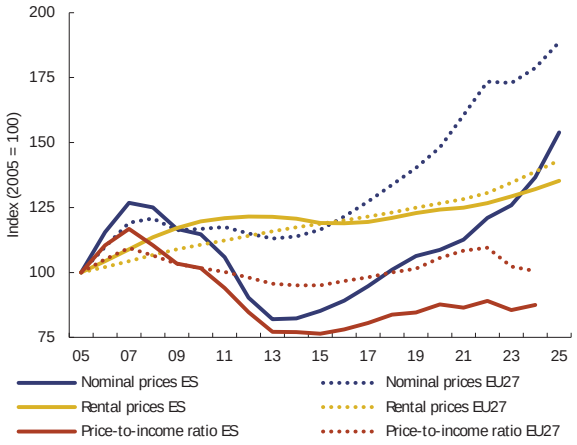
A number of initiatives undertaken or announced at national level over the past year are expected to contribute to addressing the challenges set out in the country-specific recommendation. These include the approval of the state housing plan 2026–2030, the setting up of a public housing company (Casa47) facilitating access to affordable rental housing contracts, the PERTE (strategic project for economic recovery and transformation) instrument for industrialised construction, the new 'España Crece' fund and tax measures aimed at stabilising prices in the rental market. At regional level, several regions have reprogrammed Cohesion Funds to increase spending on social and affordable housing. Yet, additional efforts are needed to fully comply with the recommendation, specifically regarding the provision of ready-to-build land, and to maximise the impact of some of the measures already adopted, like those concerning the strengthening of social housing Housing market developments.

Spain's housing price growth is accelerating, driven by robust property demand. The nationwide house price index showed strong nominal growth of 12.7% year on year in 2025. This data marks the sharpest annual increase since 2007. House prices have risen consistently over the past decade since the record low point reached in 2014, picking up gradually in 2021-2023 from the slight fall registered during the pandemic period. The cumulative growth for the period 2023-2024 alone amounted to 12.7%. By contrast, annual growth for the period 2015-2019 showed a moderate average increase of about 2.5% (see Graph A16..1). In 2025, house prices show sign of overvaluation of around 18% (based on the standard European Commission methodology). The upward trend recorded from 2023 countrywide, marked by some significant regional heterogeneity, reflects the overall revived demand for housing, which is underpinned by demographic pressures, as well as the solid economic performance of the country. The decade-long increase of the price-to-income ratio came to a halt in 2022 and has since stabilised. In terms of evolution of rent prices, they increased by 2.3% year on year in December 2025, after seven consecutive months growing over 2%.

Housing transactions have shown a robust trend in recent years, fuelled by sales of existing houses. Throughout 2024, house sales in Spain rose by 9.7% to 640 401 units compared with one year earlier. Data until November 2025 show a strong increase in house sales, by 11.8% year on year, to 659 953 units, according to INE data, with existing homes accounting for most of housing transactions ([331]) (see Graph A16.2).

([331]) INE

Graph A16.1:**House prices, rents and price-to-income evolution in ES and EU27 since 2005**



Source: Eurostat

The increased demand is grounded in the demographic change and the increase in the number of households, together with increased demand from foreign homebuyers. Spain's population increased significantly in 2024 (0.9%) and has a cumulated increase of 2.7 million inhabitants since 2016, with a bigger concentration in urban areas([332]). On 1 January 2026, Spain's population exceeded 49.5 million inhabitants([333]) for the first time. Between January 2025 and January 2026 alone, the number of households in Spain increased by more than 200 000([334]). Over the past 15 years, house purchases in Spain by foreigners have been soaring steadily and have further accelerated recently. In 2024, the share of houses acquired by foreigners represented 14.6% of all sales, compared with an historical average of 10.5% in the period 2006-2024. Housing sales to foreigners tend to concentrate in some geographical areas while the share has been growing continuously in most regions. In particular, in 2024, foreign buyers accounted for a large share of property transactions in the Balearic Islands (32.6%), the Community (28.9%), and the Canary Islands (27.2%), led by British, German and Moroccan nationals.

The total housing stock in Spain reached 27 million units in 2024 ([335]), up by 0.4% from 2023 and 4.8% higher than a decade ago, with social housing remaining limited and only gradually expanding. Andalusia accounted for the biggest share of the total housing stock in 2024, at 17.6%, followed by Catalonia (14.7%), the Valencian Community (12.3%), and the Community of Madrid (11.2%). Social housing stock, on the other hand, has been on a steady declining trend in the last 15 years. There are over 318 000 publicly owned rental dwellings, covering only 1.5-1.7% of households. Of these, around 197 000 dwellings are owned by the autonomous communities and their dependent entities, while a further 121 000 dwellings are owned by municipalities and their dependent entities. Broader estimates that include all protected or regulated housing (rental and sale) ([336]) raise the share to around 2.5-3.4% of the total social housing stock. This remains well below the EU average of 6-7%. This is partly due to the relatively short protection periods (from 10 to 15 years on average) during which social housing is bound by affordability conditions. Once these conditions expire, the social housing units, which were sold at subsidised prices, enter the private market. Moreover, the distribution of the existing stock of social housing is highly uneven across the country, with the vast majority concentrated in Andalusia, the Community of Madrid, the Basque Country, Catalonia, the Canary Islands, Extremadura and the Valencian Community. Some positive signals were observed in 2024 (e.g. the number of social and

([332])Banco de España, Annual Report 2024.

([333])INE, Continuous Population Statistics, 2026.

([334])INE, National Institute of Statistics.

([335])https://apps.fomento.gob.es/BoletinOnline2/?nivel=2&orden=33000000

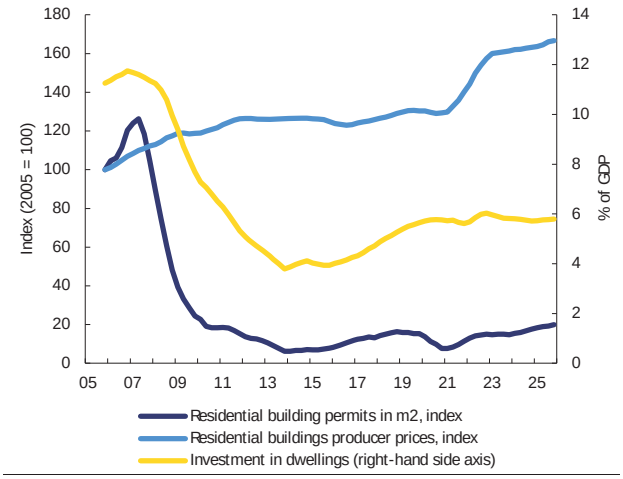
([336])Article 3 of Law 12/2023 defines the social housing stock as all publicly owned dwellings that are made available through rental, use agreements or other temporary tenure arrangements, subject to limits on rent or sale prices, and intended for individuals or households who have difficulties accessing housing on the open market.

affordable houses qualified as such indefinitely increased by 5 500 in 2024, totalling some 14 500([337]). Accessibility, however, remains a major barrier, as nearly 70% of housing is not adapted and only 0.6 % is fully accessible, restricting independent living([338]).

The supply of housing has picked up in recent quarters, but is struggling to catch up with housing needs. Building permits in 2024 totalled over 127 500 ([339]), accounting for the highest number since 2008, while investment in dwellings (as a percentage of GDP) exhibited a surge from 2023, building on the upward trend initiated in 2017 and interrupted only by a stark decline in 2021-2023. On the basis of the data available for the first half of 2025, building permits last year are projected to edge up towards the number reached in 2024. While the year-on-year increase was 16.7% in 2024 and is expected to be similar in 2025, its level remains relatively low compared to current overall housing needs. Looking ahead, housing investment needs will remain substantial, including for accessibility, with the Commission estimating the additional housing investment need for 2025-2035 to be about 750 000 dwellings in Madrid ([340]).

The mismatch between supply and demand is particularly acute in urban centres offering more job opportunities, thus affecting labour mobility. Increasing rent costs are also impacting labour mobility, especially in the most stressed areas. The Community of Madrid and Catalonia alone account for almost 40% of job vacancies in Spain ([341]). At the same time, in the 12 months up to September 2025, the total number of new construction permits in Madrid and Barcelona was only around 17 000 and 11 000 respectively, while the growth in the number of households in the two cities surged by considerably more, by around 43 000 and 18 000, respectively([342]). All in all, Spain is one of the EU Member States with the highest increase in permits between the first quarter of 2021 and the third quarter of 2025.

Graph A16.2:**House supply indicators in ES since 2005**



Source: ECB and Eurostat

The construction sector faces some challenges which may further slow down the response of the supply. Employment in the Spanish construction sector has grown, reaching 1.66 million workers in 2025. Nonetheless, productivity has been stagnating, remaining at one of the lowest levels of the Spanish economy([343]), and labour shortages and recruitment difficulties persist, due to a lack of candidates with sufficient experience and skills. Labour market tensions are especially acute among small firms, with 82.1% of vacancies concentrated in companies with 1 to 25 employees, and more than half (56.7%) in micro-enterprises with fewer than five workers ([344]). Skills forecasts indicate that the

([337]) Banco de España. Annual Report, 2024.

([338]) Accessible and sustainable housing for persons with disabilities: Spain, Cristina Jenaro and Miguel Ángel Verdugo, European Disability Experts, to be published.

([339]) Banco de España. Annual Report 2024.

([340]) See also Balouktsi et al. (2026) Housing investment needs in the EU. JRC Technical Report 144419.

([341]) INE, Number of job vacancies by Autonomous Community

([342]) See Caixabank analysis

([343]) Own calculation based on Eurostat data [nama_10_a10_e, nama_10_a10].

([344]) Observatorio Fundación Laboral de la Construcción, Informe sobre el sector de la construcción, 2024.

sector will account for around 5.2% of all job opportunities expected to arise between 2023 and 2035.

Structural policies

Housing is a shared competence of Spanish governments and regions. The central level provides the general legal framework (Housing Law), is competent to set certain tax regimes (like VAT or the taxation of incomes stemming from rents), and sets the national housing plans to financially support housing access and the construction of social and affordable housing. The Spanish regions are responsible for the development and implementation of this framework. Historically, the central level has strongly contributed to the financing of social and affordable housing.

As regards land-use and permitting regulation, in 2024 the Spanish government introduced a proposal to revise the Land Law, which has since remained blocked in the Parliament. The reform of the Land Law was proposed to accelerate the productionof developable land and boost new housing development by reducing processing times, litigation with regard to urban planning and unnecessary administrative bottlenecks, but remains on hold. The lack of progress in adopting this legal text restricts supply and puts at risk the achievement of broader housing policy objectives. In parallel, some regions are also revising their own land laws. In view of the state Land Law revision, it will be important to simplify and mainstream regulations while maintaining the level of environmental protection and social housing ambition.

A positive step towards modernising the construction sector and addressing its labour challenges was taken when the Spanish government adopted the PERTE (strategic project for economic recovery and transformation) instrument for industrialised construction. This initiative aims to provide affordable, quality and energy-efficient housing units each year. The total investment is expected to reach EUR 1.3 billion over 10 years and is set to mobilise 1.4 euro of private investment for every 1 euro of public investment. The PERTE instrument also includes actions on training and upskilling, as well as on encouraging greater participation of young people and women in the sector. Further upskilling and modernisation efforts will be needed to address the significant labour gap and low productivity.

Spain has adopted ambitious policies to expand the public housing stock, focusing particularly on the rental market. The affordable rental housing plan (PVAA), launched in 2022 and expanded in 2023, focuses on developing around 15 000 affordable homes per year across Spain on land belonging to the public housing company SEPES (replaced in 2025 by CASA 47), especially in areas with high rental pressure or experiencing population growth. The plan brings together funds from several programmes, including the recovery and resilience plan. CASA 47 aims to offer long-term rental contracts (renewable up to 75 years) and set rents at ~30% of tenants' income, far below market prices. In April 2026, the Spanish government also approved a state housing plan 2026–2030 (totalling EUR 7 billion) to increase funding for social and affordable housing with an indefinite protection regime and to promote the rehabilitation of the existing housing stock. These measures at state level complement the initiatives undertaken by the regions. For instance, European Regional Development Fund programmes have increased their allocation to housing investments by EUR 117 million in the context of the cohesion policy mid-term review.

Challenges remain regarding the effective implementation of these plans for the public housing stock and their future financial sustainability. The effectiveness of the

recently adopted State Housing Plan 2026–2030 will depend on adequate co-financing (it relies on 40% co-financing by the regions), and strong inter-administrative coordination. The plan does not provide for any mechanism to ensure financing for the renovation and expansion of the public housing stock beyond 2030. Spain would benefit from a long-term strategy on social and affordable inclusive housing. In terms of beneficiaries, the plan addresses access to housing for young people and vulnerable households, but does not include poverty reduction objectives, in particular child poverty. Moreover, persistent gaps and barriers to equal access to housing for persons with disabilities remain, notably a structural inaccessibility of the existing housing stock and limited availability of suitable housing options.

While Spain has introduced measures aimed at stabilising the rental market and regulating rents in stressed areas, their effective implementation is uneven across the Spanish regions. For this reason, the Housing Law (12/2023), adopted under the recovery and resilience plan and intended to expand social and affordable housing and regulate rents in stressed areas, is not applied by some regions, thus potentially creating distortions in the housing market and undermining its effectiveness.

Vulnerable groups

Housing costs exacerbate poverty significantly, with strong heterogeneity across tenure status, regions and income groups. Evidence by the Commission's Joint Research Centre shows that accounting for housing costs would increase incidence and markedly deepen poverty, particularly in regions and among vulnerable population groups exposed to tight housing markets. The impact is systematically stronger for children and for persons with disabilities ([345]), reinforcing existing social inequalities. The analysis highlights a clear divide between tenants and owners: tenants, especially those paying market rents, experience the largest increases in poverty and poverty depth, while owners are comparatively more insulated. Geographically, housing costs have the strongest poverty impact in regions characterised by high housing pressure, notably the Balearic Islands, Madrid, Catalonia, the Canary Islands and Melilla, while the effects are more limited in regions with lower housing cost burdens. Urban areas consistently show stronger housing-cost-induced poverty effects than rural areas. From a distributional perspective, housing costs substantially deepen poverty among the lowest income deciles and push a non-negligible share of households in the lower-middle part of the income distribution into poverty, particularly families with children([346]).

The housing cost overburden and arrears disproportionally affect households in a situation of vulnerability, as do housing deprivation and energy poverty. The housing cost overburden rate and was 29.9% for households at risk of poverty, compared to just 2.4% for those not at risk. In 2025, the national housing cost overburden rate stood at 7.2% (EU: 7.7%), but with notable disparities: 3.9% in rural areas and 8.2% in cities ([347]) . Moreover, Spain has one of the highest rate of arrears on mortgage or rent payments than the EU (5.2% vs 3.0% in the EU in 2024), which affects in particular individuals at risk of poverty or social exclusion (11.5% vs 3.7% of individuals not at risk) and single parents with dependent

([345])Accessible and sustainable housing for persons with disabilities: Spain, Cristina Jenaro and Miguel Ángel Verdugo, European Disability Experts, to be published.

([346]) The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.

([347])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

Graph A16.3:**Housing supply selected indicators**

		EU27				ES							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	96.9	99.2		YoY%	-3.9	2.3	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	86.9	83.7	82.2	YoY%	-5.7	-3.6	-1.8
Overburden rate, total	%	9.9	8.8	8.2		9.4	8.2	7.8	7.2	PPS/y	-1.0	-0.4	-0.6
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		39.3	30.6	28.1	26.8	PPS/y	-8.8	-2.5	-1.3
Overvaluation gap	%					5.0	4.4	8.5	17.7				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	97.2	104.0	102.3	101.8	YoY%	-1.0	-1.7	-0.5
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	637.6	310.2	335.7	322.4	YoY%	-3.7	8.2	-3.9
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	7.0	5.8	5.7	5.8	YoY%	-3.3	-1.7	1.8
Share of ownership	%	70.0	69.1	68.4		77.4	75.3	73.7	73.6	PPS/y	-0.9	-2.1	-0.1
Share of people living in overcrowded homes	%	17.7	16.8	16.9		6.6	7.6	9.1	9.5	PPS/y	1.0	1.5	0.4

Source: Eurostat and European Commission calculations. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

children at risk of poverty or social exclusion (16.6%). Housing deprivation is notably high (23% in 2023), with the country having the third highest rate in the EU, above the EU average (15.6%). Spain's housing stock is, on average, relatively old ([348]) and requires energy efficiency upgrades and accessibility improvements needing significant investment ([349]). Spain also has the among the highest energy poverty rate in the EU (15.9% in 2025) with 28.3% of households at risk of poverty or social exclusion unable to afford adequate heating (compared to 12.9% of households not at risk) (see Annex 12).

Housing support as part of social protection remains limited. Expenditure on housing benefits in Spain is low: at 0.11% of GDP compared with 0.37% in the EU, and they represent only 0.44% of social protection spending compared to 1.37% in the EU. Housing support coverage is very limited, reaching only 2.2% of the population and 4.4% of people in poverty in 2024 ([350]). Only 3.3% of the bottom quintile receives housing benefits, against 26.7% in the EU ([351]).

Homelessness is on the rise. In 2024, 34 145 people aged 18 and over were accommodated daily in centres providing care for people experiencing homelessness (57.5% more than in 2022). Centres offering catering services provided an average of 71 121 services per day (38.4% more than in 2022) ([352]). The relevant support services remain regionally fragmented and unevenly developed, with limited coordination across regions and between emergency, transitional and long-term support structures ([353]). The absence of detailed and regular national statistics makes it difficult to assess the full scale of the problem or design effective responses. To address these challenges, in 2024, Spain published the national strategy for the fight against homelessness 2024-2030 ([354]).

Roma people in Spain continue to face significant housing challenges, despite some gradual improvements. Around 30% of Roma people live in housing deprivation, broadly unchanged since 2016. Overcrowding affects 71% of Roma households compared with just 9.1% of the overall population. Although perceived housing discrimination has declined, nearly one in three Roma still report discriminatory treatment in housing. Progress has been made in reducing shantytowns and

([348]) Royal Decree 853/2021, of 5 October, regulating the aid programmes for residential rehabilitation and social housing of the Recovery, Transformation and Resilience Plan.

([349]) Ministry of Housing and Urban Agenda (MIVAU), Real Decreto 853/2021, de 5 de octubre, 2021

([350])EAPN, El Estado de la pobreza, 2025

([351])OECD Affordable Housing Database, Recipients and payments rates of housing allowances, 2025

([352])INE, 2025

([353])OECD Affordable Housing Database, Population experiencing homelessness, 2025

([354])Government of Spain, Strategy_PSH20232030.pdf 2023

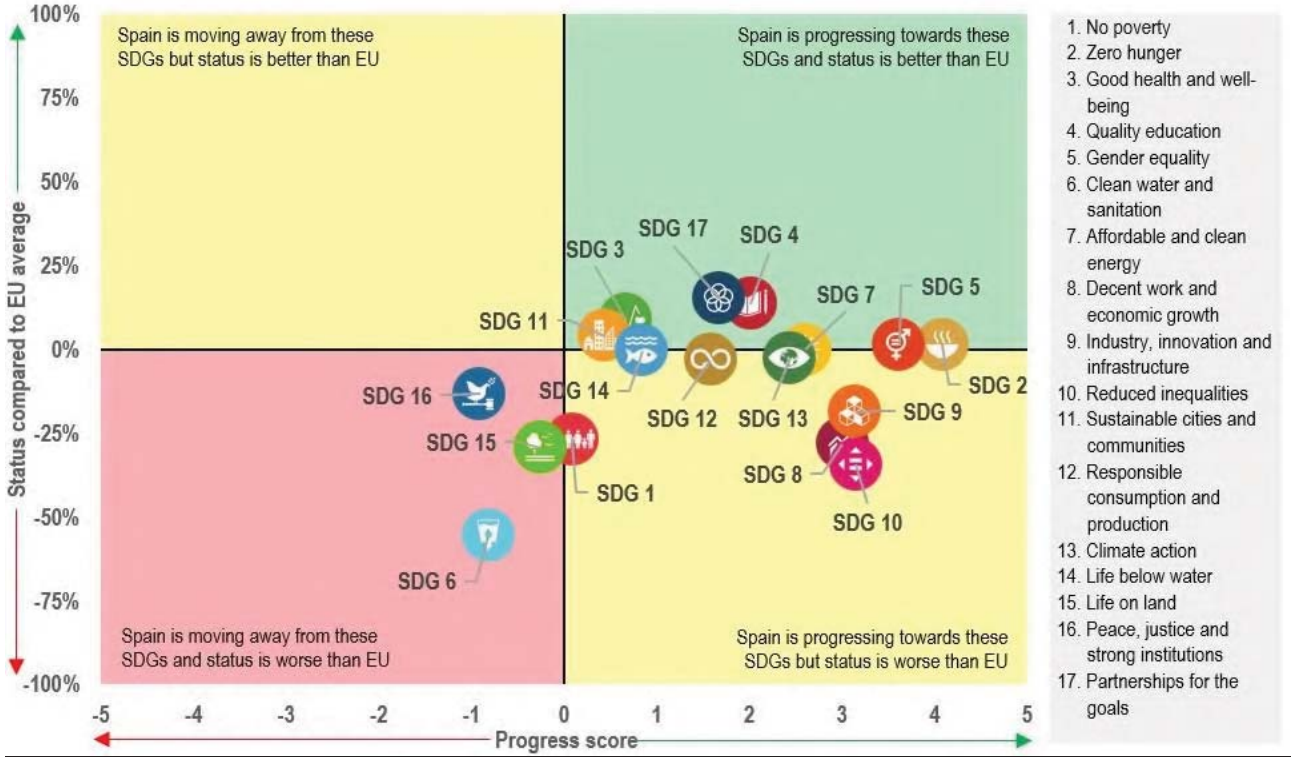
substandard housing and in improving access to basic amenities and neighbourhood infrastructure. However, these forms of inadequate housing persist and remain a structural issue for many Roma families ([355]).

([355])FRA, Roma survey country data: Spain, 2025 and Government of Spain, National Strategy for Roma Equality, Inclusion and Participation 2021-2030, 2021

This annex assesses Spain's progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Spain is improving on all SDGs on *competitiveness* (SDGs 4, 8, 9) but still needs to catch up with the EU average in some of them (SDGs 8 and 9). It has a high percentage of households with a high-speed internet connection (SDG 9; 95% of households in 2024; EU average: 82.5%). In addition, the percentage of adults with at least basic digital skills (SDG 4; 66.5% in 2025) is above the EU average of 60.4%. Despite some improvements in the productivity indicators, Spain ranks below the EU average on most of them. On SDG 8 (Decent work and economic growth), the percentage of young people not in employment, education or training aged 15-29 remains high (12% in 2024) and is above the EU average (11.1% in 2024). In addition, the Spanish research and innovation system suffers from underinvestment, as shown by gross

Graph A17.1:**Progress towards the SDGs in Spain**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.
Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

domestic expenditure on R&D (SDG 9; 1.5% of GDP in 2024 against an EU average of 2.24%) and R&D personnel (1.22% of the active population in 2024; EU average: 1.59%, see Annexes 8 and 11). The Spanish recovery and resilience plan (RRP) includes significant reforms and investments to boost innovation and digital skills; these are complemented by Cohesion Fund investments (see Annex 10).

While Spain is improving on several SDG indicators related to *sustainability* (SDGs 2, 7, 9, 11, 12, 13, 14), it is moving away on others (SDGs 6, 15) and needs to catch up with the EU average on many of these (SDGs 2, 6, 7, 9, 12, 13, 14, 15). Spain has made some progress on energy indicators, including the share of renewable energy in gross final energy consumption (SDG 7; from 17% in 2018 to 25.4% in 2024, slightly above the EU average of 25.2%). On SDG 6 (Clean water and sanitation), Spain is moving away from the goal. It would be beneficial for Spain to catch up with the EU average, by significantly reducing nitrates in groundwater, phosphate in rivers and improving excellency in inland bathing waters. Water stress and scarcity are part of why Spain is moving away from the targets for SDG 15 (Life on land) too. The drought impact on ecosystems is 36% higher than the EU average (5.8% in 2024 in Spain against 3.7% at EU level) and the share of the area at risk of severe soil erosion by water is 40% larger than the EU average. Spain's RRP includes measures to address some of the water-related challenges, such as hydrological planning, complemented by Cohesion Funds improving water supply.

Spain performs well in some SDGs related to *social fairness* (SDGs 3, 4, 5) and is improving on some SDGs (SDGs 1, 7, 8, 10), but is still below the EU average on some of them (SDGs 1, 7, 8, 10). Spain has improved on several fairness-related indicators such as people at risk of poverty or social exclusion (SDG 1; 25.8% in 2024 vs 26.2% in 2019), the in-work at-risk-of-poverty rate (SDG 1; 8% in 2024 vs 10.9% in 2019), the long-term unemployment rate (SDG 8; 3.8% in 2024 vs 5.3% in 2019), and early leavers from education and training (SDG 4; 13 % in 2024, vs 17.3 % in 2019). However, it is still performing worse than the EU average on all these indicators, and challenges persist on poverty reduction, social exclusion, long-term unemployment and early school leaving (see Annexes 8, 9 and 10). The Spanish RRP and Cohesion Funds include measures to address challenges in all these areas.

On the negative side, the percentage of the Spanish population unable to keep their homes adequately warm is almost double the EU average of 9.2% (SDG 7). It increased from 7.5% in 2019 to 17.5% in 2024. The severe housing deprivation rate (SDG 1) increased, from 1.5% in 2015 to 2.9% in 2023, which indicates poorer living conditions. This adds to more acute housing affordability challenges for the most vulnerable, including young people, low-income households and families with children. The Spanish RRP contains investments and reforms to increase social and affordable energy-efficient housing; these are complemented by Cohesion Fund investments.

While Spain is improving on SDG indicators related to *macroeconomic stability* (SDGs 8) and performs well on SDG 17, it is still below the EU average and is moving away from its targets on SDG 16. Spain's real GDP per capita has been recovering after the pandemic (SDG 8). It increased from EUR 26 930 in 2019 to EUR 27 800 in 2024, but remains below the EU average of EUR 33 650. Spain has a lower investment share of GDP (SDG 8) than the EU average (20.3% of GDP vs 21.7% for the EU in 2024). Spain faces challenges on the sustainability of public finances. The Spanish RRP includes several measures on taxation and the effectiveness of public spending. These are expected to improve the sustainability of public finances and support substantial additional investments, which will increase the investment share of GDP. On SDG 16, in 2025, 39% of the Spanish population perceived the

independence of the justice system as ‘very good’ and ‘fairly good’, compared to an EU average of 54% in 2025.

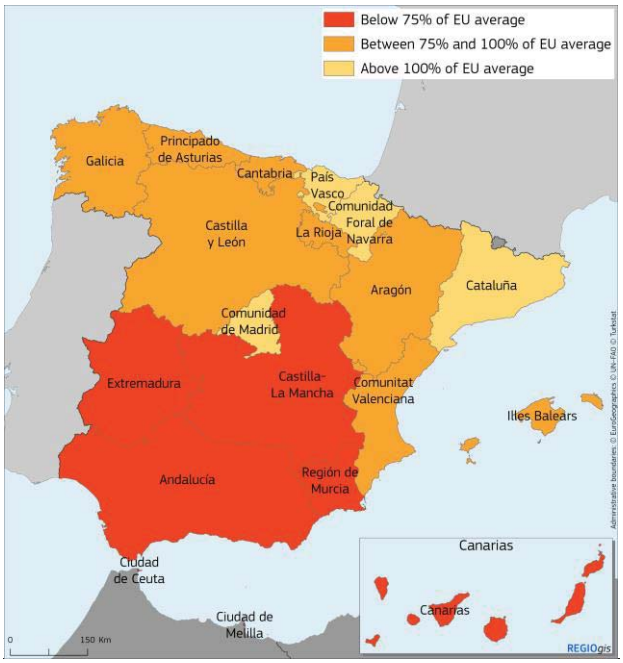
As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

Over the past two decades, GDP per head in most regions has generally remained below the EU average, reflecting long-standing structural constraints despite convergence phases. Labour productivity remains a challenge. It remains below the EU level in almost all regions and has grown more slowly than the EU average. Depopulation affects much of the country, with population growth concentrated mainly in coastal areas and in and around the capital region, reinforcing territorial imbalances in labour supply, service provision and growth potential.

Between 2004 and 2024, most Spanish regions showed a slight trend towards convergence, though their trajectories varied significantly. This period can be broken-down into two parts: the first between 2004 and 2014, in which the country diverges significantly from the EU average because of the dramatic impact of the 2008 financial crisis. While it impacted all regions, the Mediterranean regions and the Canarias were most hit. Since 2014 and until 2024 Spain's economy was on a path towards recovery but the COVID-19 pandemic stopped that trajectory. In 2024, Spain was at similar levels of GDP per head compared with 2014. Yet, the regions in the North and Centre of the country displayed better convergence trends than the Mediterranean and island regions. As a result, Canarias and Murcia have lagged behind the EU average as the average GDP per head in 2021-2023 was less than 75% of EU average. Andalucía, Extremadura, Castilla-La-Mancha, Ceuta and Melilla were already less than 75% of the EU average before the COVID-19 pandemic. In relation to GPD, only four regions (Madrid, País Vasco, Navarra and Cataluña) had a GDP per head above EU average (Map 18.1). Overall, this suggests that recent convergence gains remain fragile, structural gaps persist and may intensify for regions facing slower growth.

Map A18.1: **GDP per head compared with the EU average**



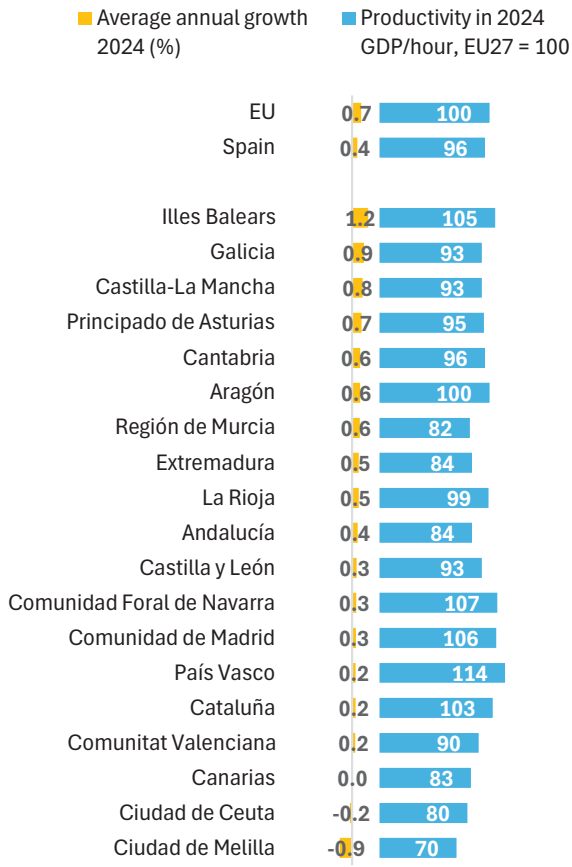
2021 - 2023 average GDP per head in purchasing power standard compared to the EU average.
Source: Commission calculations based on Eurostat 16 July 2025 data

Regional gaps in GDP per head remain closely linked to regional labour productivity gaps. In 2024, national labour productivity (GDP in PPS per hour worked) stood at 96% of the EU average, but only three regions exceeded it: País Vasco (114%), Navarra (107%) and the capital region of Madrid (106%). Other regions remained below the EU average, reflecting persistent structural gaps in productive capacity (Graph A18.1). While some of the least productive regions have shown signs of gradual catch-up, the overall pattern continues to point to marked internal gaps, with Murcia, Canarias, Ceuta and Melilla recording a decline in productivity in 2015-2024 and ranking among the bottom 20% of EU regions in terms of productivity growth performance. Additionally, regional gaps persist despite some convergence, with extremely low employment rates in Melilla (55%) and Ceuta (58.3%). In 2025, employment rates (20-64) in all other regions range from 65.8% in Andalucía to 77.9% in Madrid. Differences in total unemployment rates across regions are also substantial. In 2025,

unemployment rates varied from 24.9% in Melilla to 7.3% in Cantabria and Pais Vasco. In 2025, youth unemployment also remained a key driver of regional gaps, with particularly acute challenges in less developed regions. This situation reflects persistent difficulties in integrating young people into the labour market, with implications for their future prospects and the long-term development of these regions, in turn amplifying gaps between the regions (see Annex 11).

Sectoral specialisation varies greatly across regions. Industrial employment above the EU average is confined to a small number of regions (La Rioja, País Vasco, Navarra and Aragon), while above-average employment in ICT and financial services is limited to Madrid and Cataluña. The automotive sector, an important pillar in a handful of regions (Castilla y León, Aragón, Navarra and Galicia), increased their exposure to sector-specific and transition shocks. Tourism-related activities (accommodation and food services) accounted for around 28% of employment in industry and services nationally in 2023, rising to 42% in Canarias and 51% in Illes Baleares ([356]). While tourism has supported employment growth across most regions since 2016, the reliance on tourism-driven employment, particularly in coastal and island regions, increases exposure to external shocks and constrains long-term productivity growth. The national Tourism Strategy 2030 seeks to strengthen the resilience of tourism destinations and to accelerate the dispersion of visitors flows in a way that yields economic and social benefits at regional level (i.e. to tackle depopulation).

Graph A18.1:**Labour productivity growth (2015 - 2024) and labour productivity (2024), Spain (NUTS 2 regions)**



Source: Commission calculations based on JRC data

([356])DG REGIO elaboration, based on Eurostat Structural Business Statistics (Accommodation and food service activities, sector I).

Table A18.1: **Main development trends, challenges and the concentration of resources.**

	Main development trends
Less developed regions (population 15.8 million)	These regions (i) score persistently lower in productivity levels; (ii) tend to have a limited innovation capacity; and (iii) weak private R&D investment. This is mainly due to their economic structures concentrated in low-value-added activities (with slow uptake of digital and green infrastructures, in contrast with sufficient endowment of transport infrastructure). Most of these regions suffer from a demographic decline in their working-age population (except some coastal areas of Andalucía), which jeopardises the added value of human capital. Canarias and Murcia have lagged behind the EU average, as their average GDP per head in 2021-2023 has fallen below 75% of EU average. Increasing climate pressures, including drought, water stress or floods, affect agricultural and tourism-dependent economies.
Transition regions (population 14.9 million)	Productivity growth in these regions remains subdued, with uneven uptake of digital tools and innovation among SMEs. High economic dependence on tourism in island regions exposes them to external shocks and seasonal volatility. Skills shortages in high-tech, digital, and green sectors limit the capacity for economic diversification. Ageing populations and sustained depopulation in inland and rural territories (notably, Asturias and Castillla y León) weaken the labour force.
More developed regions (17.9 million)	Despite strong economic performance, competitiveness gaps remain across sectors due to uneven innovation diffusion. Innovation systems are well-developed but constrained by fragmentation and barriers to knowledge transfer. Housing affordability constraints in major urban areas (Madrid, Barcelona) affect labour mobility and social inclusion. Persistent labour market mismatches and shortages in STEM, health and green skills limit the potential for growth.
Specific territories	Outermost regions (Canarias) experience structural vulnerabilities linked to insularity, higher transport costs, dependence on tourism and heightened exposure to climate risks. The support for the Canarias needs to be sufficient to continue to take account of the structural social and economic situation in this region, compounded by its remoteness, insularity, small size, difficult topography and climate, and economic dependence on a few products. Sparsely populated areas (interior Castilla y León, Aragón, Castilla-La Mancha) experience severe demographic decline, ageing populations and limited access to essential services increase territorial imbalance. Coastal areas and islands are susceptible to environmental degradation, water stress and intensive land use undermine sustainable development in areas with high population density and tourism pressure. Just transition regions experience cumulative socio-economic impacts from coal mine and power-plant closures. This includes job losses, demographic decline and the need to restructure local economies, requiring sustained support to translate the transition into durable development outcomes. As for Ceuta and Melilla, their small territorial scale, location on the north African coast, constrained economic structure, not belonging to the EU single market, connectivity challenges and persistent social vulnerabilities - taken together - result in the two Spanish autonomous cities systematically diverging from national performance averages.

Source: European Commission based on Eurostat data; categories of regions based on Map A18.1

Key challenges for regional competitiveness

Most regions rank below the EU average in terms of competitiveness. Only Madrid, País Vasco and Cataluña achieve above-average performance according to the 2022 Regional Competitiveness Index 2.0. There is also a link between innovation capacity and economic development levels. Based on the Regional Innovation Scoreboard 2025([357]) all four more developed regions and one transition region (Comunidad Valenciana) are classed as strong innovators (see Annex 4), while the remaining regions are all considered moderate innovators, except for the autonomous cities of Ceuta and Melilla, which are emerging innovators.

([357]) Source: European innovation scoreboard 2025 - Research and innovation

Investment in R&D remains low in many regions, harming Spain's innovation performance. R&D intensity stood at 1.5% of GDP, standing well below the EU average of 2.2%, although it has reached an all-time high (see Annex 4). Only País Vasco surpassed the EU average, with R&D intensity reaching 2.4% of GDP and business R&D representing 1.8% (Table A18.2). According to the latest regional trends in R&D investment observed between 2022 and 2024, the Spanish regions that have experienced the strongest growth in investment (between +14% and +38%), include Madrid and Navarra, as well as Melilla and Ceuta.

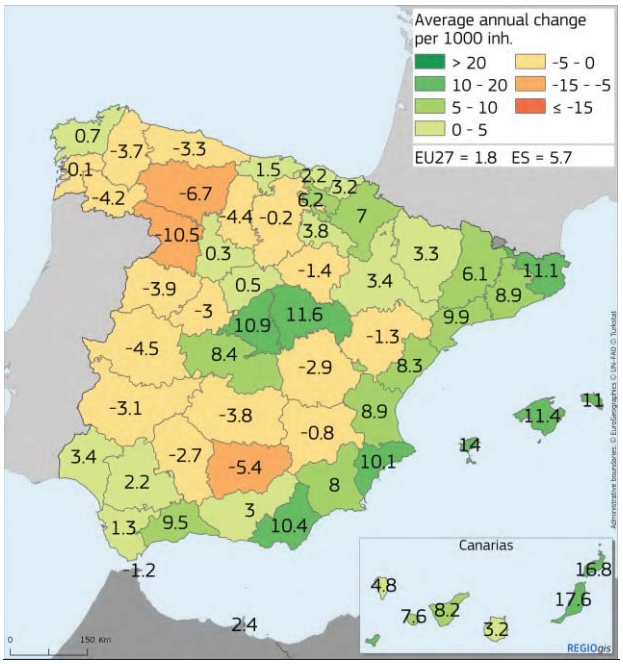
Other regions have experienced weak growth or even stagnation (between −1.1% and −6.6%), such as Canarias, Castilla-La Mancha, and Illes Balears ([358]). By contrast, Castilla-La Mancha, Ceuta and Melilla are among the bottom 20% of EU regions in total R&D expenditure, and Extremadura, Illes Baleares and Melilla fall into the bottom quintile for both total and business R&D. This trend correlates with the low number of patents per inhabitant in these regions, while Navarra, Madrid and Comunidad Valenciana record the highest figures. Possible drivers are the specialisation of some regional economies in low value-added sectors such as construction or tourism. Increasing the productivity of those sectors remains a major challenge in which R&D and innovation may have a role to play. This uneven expansion of innovation points to a territorially imbalanced concentration of R&D and innovation that, if sustained, may further increase gaps in regional competitiveness in the years ahead. Such an increase would be a major challenge for the less developed and transition regions in the country.

Demographic change is a major risk factor for the competitiveness of some territories and the capacity of rural areas to secure residents' "right to stay". In 2015–2024, most regions experienced positive net migration of people aged 15–39, but inflows have been concentrated in coastal regions and major cities, while regions such as Ceuta and Extremadura saw declines in this key age group. Census data (2011–2021) confirm this polarisation: cities (+2.1%) and towns and suburbs (+3.6%) continued to grow, whereas rural areas underwent a steep population decline of 4.4% - twice the rate observed in EU rural areas. Rural areas continue to suffer from lower access to basic services, especially healthcare facilities (see Annex 15). In Spanish rural areas, only 12.3% of the population live within a 10-minute drive from the nearest hospital (scoring well below the EU average in rural areas - 30%), while in urban areas nearly all inhabitants (97.3%) can access a hospital within a 10-minute drive. These patterns put at risk both the "right to stay" of young people and the ability of rural and peripheral territories to harness their future workforce and point to weaknesses in promoting entrepreneurship as well as in investing social infrastructure and services in those areas. In addition, the just transition is particularly pressing where mine closures and coal plant phase-outs have intensified demographic decline and employment vulnerability in former coal and carbon-intensive areas of Asturias, Castilla y León, Aragón and Andalucia, although it has been recognised as good practice by international organisations including the International Energy Agency. On the positive side, (i) high-speed broadband coverage in rural areas is among the highest in the EU; (ii) public higher education institutions exist in all regions, providing local training opportunities; (iii) targeted programmes for youth entrepreneurship and business incubation help stimulate local employment; and (iv) the combination of strong community networks, cultural heritage, and natural environments can contribute to retaining young people and strengthening rural communities. Socio-economic vulnerabilities further exacerbate territorial imbalances in Spain, particularly for

([358])Source: Informe Fundación Cotec "Evolución de la I+D 2024".

people at risk of poverty and social exclusion, where marked gaps persist across regions. These differences are particularly pronounced in the case of child poverty (see Annex 12).

Map A18.2: **Average annual population change at NUTS 3 level (2015 - 2024)**



Source: Eurostat and JRC

Both Mediterranean and Atlantic coastal regions play a growing economic role but deal with specific economic, social and environmental challenges. Atlantic regions such as Galicia, Cantabria and Asturias experience marine ecosystem degradation, coastal erosion and ageing sanitation and port infrastructures. On the Mediterranean, Catalonia, Valencia and Murcia face challenges in scaling blue biotechnology, and addressing rising dependence on energy-intensive desalination. Desalination also poses a major challenge in the Canarias, where it accounts for 10 to 15% of primary energy consumption.([359])

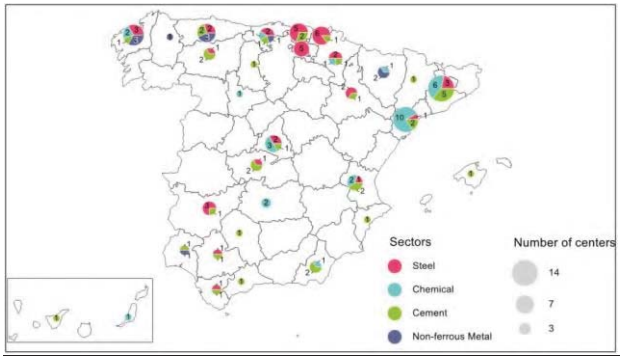
Access to housing is problematic in some regions and may increase Spain's territorial and socio-economic gaps ([360]). This challenge was already highlighted in last year's CSR 5. In 2025, the housing cost overburden rate stood at 7.2% nationally, but remains particularly high in Melilla (13.8%), Madrid (9.9%) and Valencia (8.5%), with Cataluna also above the national average ([361]). Housing affordability gaps are stark. In parts of the Canarias, Illes Baleares and in the city of Málaga, households can afford less than 40 m² to buy or rent with one third of their income, compared with over 100 m² in inland areas such as Ciudad Real, La Rioja or Teruel. Overall, housing pressures are most acute in major cities, around which the economic activity is concentrated, and tourism-intensive coastal areas, posing broader challenges for growth sustainability in regions where housing demand is highest and being a significant constraint to labour mobility within the country. In addition, limited access to social housing is a key source of social vulnerability. Its provision is highly uneven among regions, exacerbating territorial gaps, housing insecurity, and constraints on labour mobility (see Annex 16). Key drivers of housing affordability are lack of coordination at various administrative levels, poor building stock, weak policies in terms of controlling short-term rentals and shortages in access to social housing (see Annex 16).

([359]) Source: Gobierno de Canarias. OCEA - PS7. Desalación

([360]) Eurostat Data_ Housing cost overburden - EU-SILC (Survery on Income and Living Conditions).

([361])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

Map A18.3: **Energy-intensive industries 2021: Country Study Spain**



Source: Syndex based on data from AEGE, UNESID, FEIQUE, FICEMEN, AEA, MITECO

Many less developed and remote regions are vulnerable to floods, forest fires and water shortages ([362])([363]). While regions such as Cataluña and País Vasco benefit from dedicated water agencies (like the ACA and URA) and more autonomous management models, regions like Castilla y León and Extremadura show greater dependence on the central government, which limits their operational capacity and long-term planning ([364]). In many less developed and predominantly rural regions, these governance constraints lead to discontinuous investment pipelines, delayed infrastructure upgrades and non-compliance with EU water and wastewater standards. In less developed regions, poor compliance with EU wastewater regulations, an excessive number of operators, insufficient investment continuity and stability and a lack of coordination in investment planning are the main drivers behind this challenge.

Skills shortages and persistent gaps in educational outcomes are major barriers to the long-term competitiveness of Spain's least developed and transition regions. This is covered in CSR.2025.6 subparts 2 and 3. In Spain, the rate of early leavers from education and training varies highly among regions and is highest in Murcia (Table A18.2, see also Annex 13). All less developed regions yield PISA scores below the national average for mathematics and reading. While immigrant students generally score lower than their non-immigrant peers, País Vasco, Murcia, Aragón, la Rioja, Illes Baleares and Galicia show the highest gaps between these two categories. Skills and educational achievements are key factors to strengthen human capital in those regions and thus those weaknesses remain a significant challenge for their long-term growth and productivity. Policies on education and skills provisions fall mostly under the powers of the regions.

Many Spanish cities face challenges in terms of deadlines to deliver building or occupancy permits and to comply with payments deadlines. The World Bank's Subnational Business Ready Report (2026) highlights differences in business environments across cities. Median processing times for occupancy permits reflect both legally defined deadlines and local practices. In cities such as Barcelona, Madrid, Sevilla, and Valladolid, a Declaration of Responsibility allows immediate occupancy, whereas in others, formal occupancy licenses require a full administrative review, resulting in deadlines of up to 135 days (Bilbao) or more than 300 days (Pamplona, Vigo, Santander, Las Palmas, Murcia, Valencia). Similarly, obtaining a building permit ranges from around four months in Gijón to over a year in Palma de Mallorca, reflecting variations in administrative capacity, staffing, inter-agency coordination, and the availability of digital tools. The average time required to pay suppliers exceeds 30 days (in Murcia, Comunidad Valenciana, and slightly longer in Asturias and Baleares ([365]). These gaps reflect regional differences in the key drivers of

([362]) Source: JRC, see 9th Report on economic, social and territorial cohesion, Map 4.5.

([363]) Source: CSR 2025.4, and Annex on Climate.

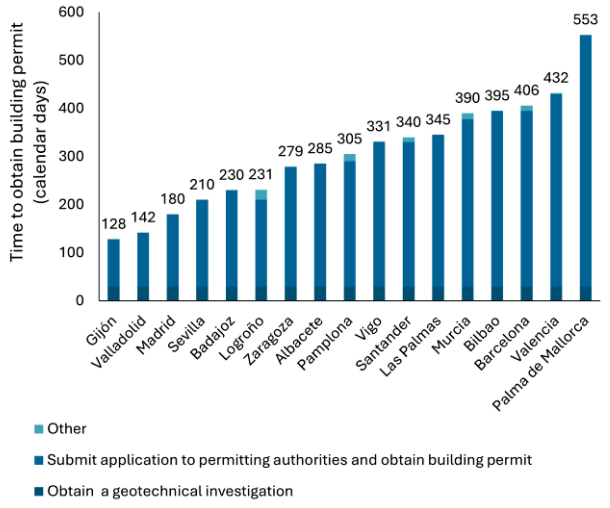
([364]) Source: AMI Report Red2Red "Evaluation of Cohesion Policy-Supported Investments in Spain during 2014-2020: Challenges and Bottlenecks", page 11.

([365])https://www.hacienda.gob.es/es-ES/Prensa/Noticias/Paginas/2025/20250722-NP-PMP-MAYO-2025.aspx

administrative efficiency, such as regulatory clarity, simplification of administrative tasks, process design, and digitalisation or in the use of simplified procedures including the use of Declarations of Responsibility. Here, the Regime 20th framework could offer guidance and practical solutions to simplify procedures, improve compliance, and promote efficiency by reducing regulatory fragmentation between autonomous communities and municipalities.

Administrative capacity challenges hit less developed regions further. Regional gaps are made worse by weaknesses in multi-level governance: limited vertical coordination between national, regional and local authorities and uneven horizontal cooperation across regions increase coordination costs and slow down policy implementation ([366]). Such shortcomings have become more visible during recent crisis management episodes, including recent extreme weather events, highlighting the need for more consistent coordination mechanisms to ensure effective policy delivery across the territory.

Map A18.4: **Differences in time for obtaining building permits by Spanish city**



Source: World Bank subnational b-ready report for Spain (2026)

Administrative simplification, digitalisation and capacity also show uneven progress. While many regions have burden-reduction frameworks in place are and expanding e-procurement and e-invoicing systems, preliminary evaluations, systematic monitoring and full end-to-end digital processing remain inconsistent ([367]). There are challenges in regional procurement offices to fill competency gaps, moving toward a single-window business registration system and completing digital back-offices with a single citizen folder and enhanced cross-border functionality to improve user services. It is mainly the less developed and transition regions, alongside a select few developed regions that face these specific governance and digitalisation challenges. Administrative frictions also lengthen project cycles, reduce the effectiveness of public investment and risk widening regional gaps in innovation, digitalisation and productivity.

([366]) Alda-Fernández & Ramos, 2024, pp. 56–57, 69, 72

([367]) Ministerio para la Transformación Digital y de la Función Pública (MAETD) / Secretaría General de Administración Digital (SGAD), 2024, pp. 18–19; 22–24.

Table A18.2: **Key regional indicators (at NUTS 2 level) for Spain**

	GDP per head (PPS, index)	Real GDP per head growth	Employment in high-technology sectors	Employment in knowledge-intensive services	Youth unemployment rate	Early leavers from education and training	At-risk-of-poverty or social exclusion rate (AROPE)	Employment in industry	R&D expenditure	R&D expenditure in business enterprise sector (BERD)
	EU27=100	Average annual % change	% of total employment	% of total employment	% of labour force aged 15-24	% of population aged 18-24	% of population	% of total employment	% of GDP	% of GDP
	2024	2014-2024	2025	2025	2025	2025	2025	2024	2023	2023
EU	100	1.4	5.1	41.7	15.2	9.1	21.0	15.3	2.24	1.51
Spain	91	1.6	4.6	38.0	24.9	12.8	25.7	11.4	1.50	0.84
Galicia	84	2.0	3.4	35.8	24.7	10.4	22.1	13.8	1.24	0.60
Principado de Asturias	83	2.0	3.5	39.0	27.9	10.6	22.4	13.1	0.98	0.55
Cantabria	84	1.5	3.3	37.8	19.8	8.9	19.2	15.2	0.96	0.35
País Vasco	115	1.3	4.7	42.3	18.6	3.6	14.7	19.4	2.38	1.79
Comunidad Foral de Navarra	109	1.3	3.0	35.9	20.9	7.8	16.5	24.4	1.79	1.20
La Rioja	95	1.1	2.2	31.1	25.5	15.5	22.8	19.0	0.93	0.37
Aragón	103	1.8	3.6	36.3	24.1	12.3	19.1	16.7	1.16	0.69
Comunidad de Madrid	125	1.6	8.5	45.7	19.3	9.6	19.4	6.2	2.04	1.18
Castilla y León	86	1.8	3.3	38.2	24.7	10.2	24.1	14.7	1.38	0.83
Castilla-La Mancha	73	1.9	3.7	34.1	27.6	15.7	34.0	14.8	0.63	0.35
Extremadura	70	2.4	2.2	42.2	37.4	15.0	30.4	8.4	0.71	0.19
Cataluña	105	1.3	6.6	38.0	19.1	13.5	21.3	13.7	1.89	1.22
Comunitat Valenciana	77	1.2	3.3	33.4	30.5	14.4	30.7	13.7	1.23	0.57
Illes Balears	101	1.7	2.6	34.6	17.1	15.2	15.2	5.1	0.48	0.20
Andalucía	69	1.7	3.0	36.4	32.7	14.5	34.7	8.1	1.15	0.39
Región de Murcia	75	1.6	2.3	32.1	25.4	20.6	32.5	13.0	1.07	0.51
Ciudad de Ceuta	64	0.7		61.7	57.5	14.6	40.8	3.1	0.23	
Ciudad de Melilla	59	0.6		57.9	60.2	14.2	43.7	1.5	0.36	
Canarias	72	1.3	2.1	34.8	29.5	15.9	31.2	4.7	0.57	0.16

Dark green - the indicator is 120% or more of the EU average.
Light Green - the indicator is 100% or more, but less than 120% of the EU average.
Yellow - the indicator is 90% or more, but less than 100% of the EU average.
Light red – the indicator is 75% or more, but less than 90% of the EU average.
Dark red – the indicator is below 75% of the EU average.
This colour scale applies to 'positive' indicators, where higher values are favourable.

For 'negative' indicators (where higher values are unfavourable), the colours are reversed.

Source: Eurostat and JRC

This Transport Annex presents the state of play, and the challenges Spain faces with the implementation of the trans-European transport network (TEN-T), the European railway traffic management system (ERTMS), the roll-out of sustainable aviation fuels (SAF) and road safety.

Two European transport corridors cross Spain (Atlantic, Mediterranean). The TEN-T in Spain comprises 14 672 km of rail (9 878 of which are on the core network) and 12 162 km of road (5 770 of which on the core network). Spain has 92 km of inland waterways, 39 TEN-T airports (including 10 core airports), 42 ports (including 15 core ports) and 49 urban nodes ([368]).

Spain is well advanced in its TEN-T high-speed rail projects, with an annual average rail investment of EUR 1.1 billion between 2018 and 2024, reaching EUR 3 billion in 2025. Spain also has also been modernising its conventional network which is built with a different track gauge, and migration towards EU nominal standard track gauge is a significant challenge. The migration of the entire high-speed rail network to standard gauge, including the lines to Portugal is an important part of completing the TEN-T.

The ERTMS is essential to digitalising the railways and to modernising and harmonising railway operations across Europe. The ERTMS ensures the safety of rail networks by providing a unified signalling system that significantly reduces the risk of accidents. It also provides interoperability between national rail systems, improving cross-border train movements. It is important that existing crossborder operational agreements on border stations (especially with France) are complete and clearly defined, ensuring predictable and transparent conditions for railway undertakings. The completion of missing links in neighbouring countries, in particular France and Portugal, is a critical element for enhancing the attractiveness of international rail services for railway undertakings and for incentivising the provision of cross-border passenger transport.

The ERTMS was in operation on 20% of Spain's TEN-T rail network by the end of 2024 ([369]). To meet its national plan's ERTMS roll-out target by 2035, Spain aims to deploy the ERTMS on an additional length of 2 131 km, for an estimated cost of EUR 511 million. A plan for decommissioning of the legacy signalling system is lacking.

In northern Spain, the priority is to complete the Atlantic European transport corridor, including the cross-border connections with Portugal and France, and connect it to the Mediterranean corridor in European track gauge. The full development of the high-speed rail network in northern Spain and southern France will enable a modal shift in the area and stimulate regional growth.

On the Mediterranean coast, the completion of the high-speed Almería-Murcia-Cartagena and Valencia-Castellón lines, together with the completion of the new cross-border high-speed Montpellier-Perpignan line in France, will create a continuous high-speed rail axis along the entire Franco-Spanish Mediterranean coastline. This will serve tourism, passenger mobility, and freight transport by significantly enhancing cross-border connectivity and capacity. In southern Spain, the modernisation of the Algeciras-Bobadilla line will include electrification, ERTMS deployment, enabling 740-metre-long trains, and a greater loading gauge.

([368])TENtec Information System, according to Reg. 2024/1679.

([369]) Based on ERTMS – Third work plan of the European coordinator Matthias Ruete.

Spain does not yet have a roadmap for the transition to the European railway standard gauge which gives priority to cross-border segments and foresees measures to support the open access to operators in adapting their rolling stock and facilities. Additionally, during the migration of infrastructure – which implies temeporary line closures and alternative transport plans – compensating additional track access charges could be considered to ensure a fair adaptation process and maintain service continuity.

Table A19.1: **ERTMS deployment in Spain.**

ERTMS in Spain				
TEN-T rail network	ERTMS (trackside) in operation			Min. estimated cost of additional deployment until 2035
	year	length	% of total TEN-T	
14 672 km	end 2024	3 011 km	20 %	
	by 2035	5 142 km	35 %	EUR 511 million

Source: Based on ERTMS – Third work plan of the European Coordinator Matthias Ruete.

As the rail network (including high-speed rail) continues to age, efficient monitoring and maintenance, including the purchase of maintenance vehicles for inspections under real conditions to ensure performance and safety, are essential. Harmonising technical and operational rules with the minimisation of national rules in line with the EU directives on rail interoperability and safety remains critical to ensure seamless cross-border rail transport.

Spain has a strong industrial base for the production and deployment of sustainable aviation fuels (SAF) both of biological origin (bioSAF) and from green hydrogen and captured CO2 (eSAF) due to the lower cost of energy, thanks to its large renewable energy capacity and the abundance of raw materials for feedstocks.. Five facilities have demonstrated the viability of co-processing renewable feedstocks to produce SAF and half of them are currently producing bio-SAF via HEFA pathway. Solar and wind energy availability and a large pipeline of green hydrogen projects (pre and post FID) are are leading to a pipeline of eSAF projects under development and with commercial operation dates starting from 2030-2032. However, some plans to expand biofuels production have been paused and several synthetic aviation fuel projects currently under development (ranging from 60kt to 150 kt per year of output per facility) failed to yet reach Final Investment Decision ([370]). Furthermore, due to high dependency of Spain of maritime transport there is also a need to develop and scale up e-fuels (ammonia and methanol) for the maritime sector which could initially focused on green corridors). Targeted investments to enable SAF commercialisation can be made through pilot investment structures (such as double-sided auctions). Making use of existing EU revenue opportunities related to aviation's energy transition (e.g. EU ETS), and penalty revenue generated by ReFuelEU Aviation and FUELEU maritime are important intruments to deriske SAF and maritme e-fuels projects.

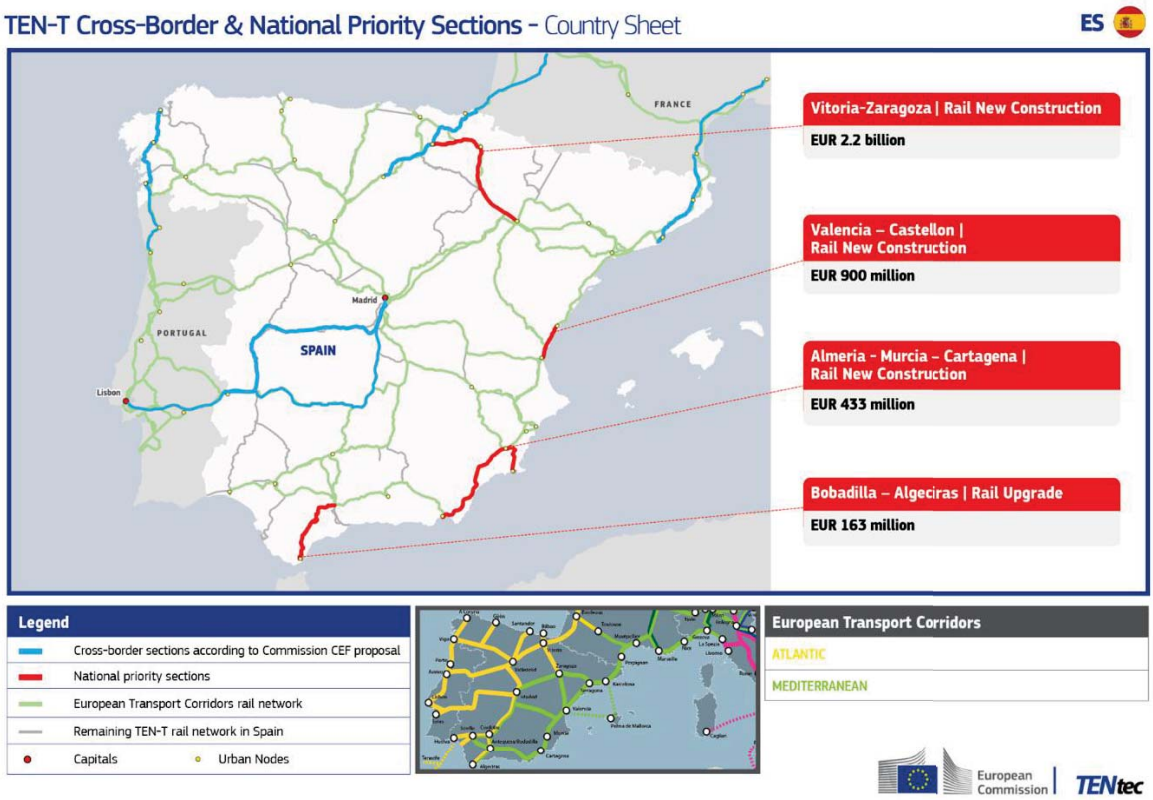
Road crashes impose an enormous social, economic and health burden on the EU economy. The external socio-economic costs of fatal, serious and minor injuries have remained persistently high despite the progress made in reducing crash frequency and severity. These resources could otherwise fuel innovation, education, healthcare and other crucial public investments ([371]).

([370]) EASA ReFuelEU Aviation Technical Report (2025).

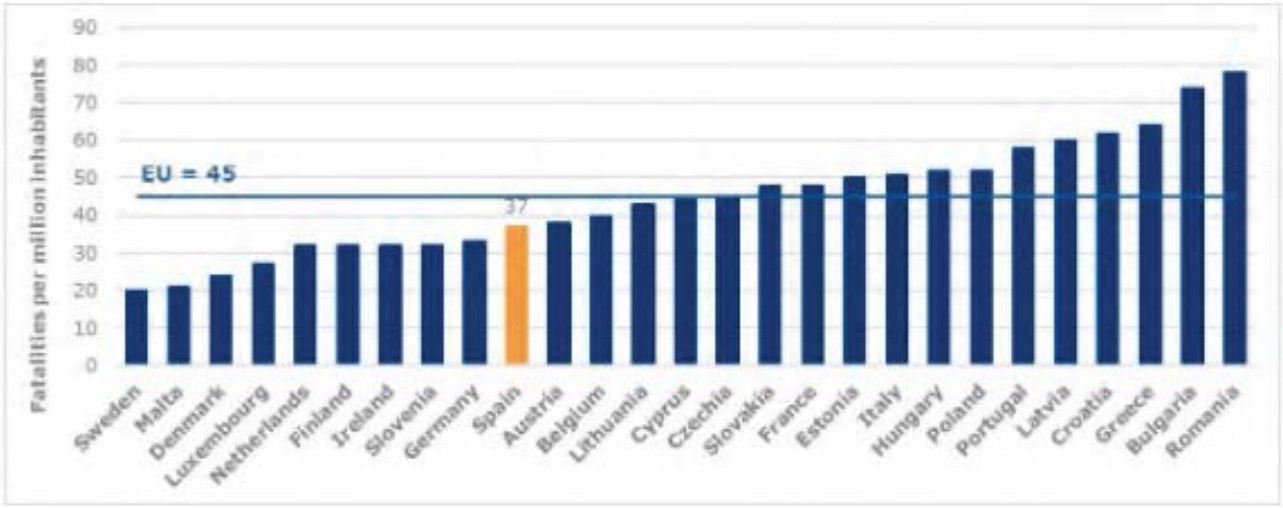
([371]) Report on the implementation of the EU Road Safety Policy framework at the Mid-Point, COM(2026) 77 final.

In 2024, Spain performed better than the EU average (45), with 37 fatalities per million inhabitants. An increase of 2% in road fatalities compared was observed. In 2023, 9 265 people were seriously injured in road crashes, which is 8% higher than the respective figure in 2019. Compared to the EU average, Spain shows a relatively high proportion of powered two-wheeler fatalities (27%) and fatalities on motorways (19%). In 2019, vulnerable road users (pedestrians, cyclists and motorcyclists) exceeded 50% of total fatalities for the first time ever. The most frequent causes of crashes were driver distraction and driving under the influence of alcohol or drugs.

Map A19.1: **TEN-T Cross-Border & National Priority Sections in Spain**



Graph A19.1: **Spain's road fatalities per million, 2024**

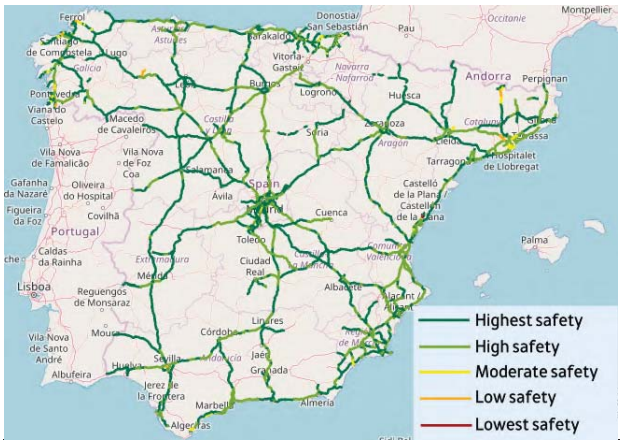


Source: Report at the Mid-Point - Spain, SWD(2026) 58 final.

Based on the latest available data, Spain is currently not on trajectory to meet the 2030 targets. A possible way to address this could be to review the extent to which actions in the road safety strategy have been implemented so far and and consider

reinforcing the measures accordingly. ([372]) The map below presents the roads where the safety of the infrastructure is poor and thus where urgent action is required.

Map A19.1: **Spain's road safety map**



Source: TENtec Information System and TEN-T map library - European Commission

([372])More details in Report on the implementation of the EU Road Safety Policy framework at the Mid-Point – Spain, SWD(2026) 58 final.