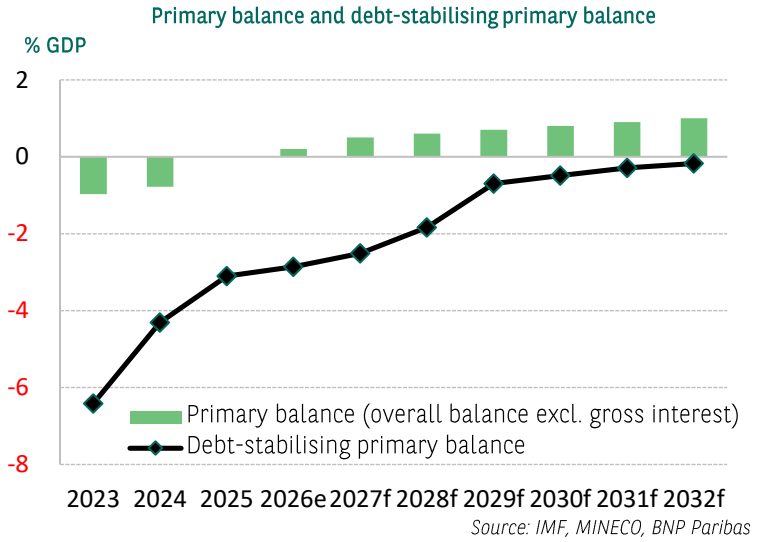
Spain: Debt reduction supported by growth (1/2)

The primary surplus is driving down the public debt ratio

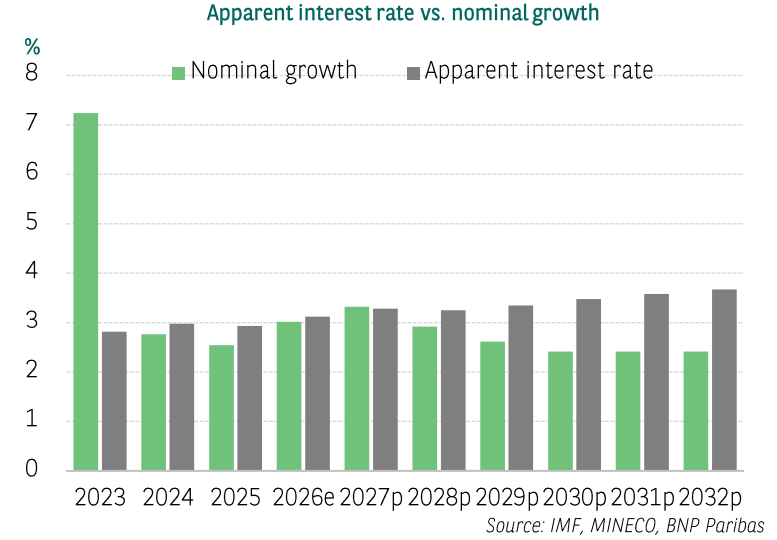


Source: IMF, MINECO, BNP Paribas

Primary surpluses are expected to rise steadily until 2032 (reaching +1% of GDP by then). Beyond the temporary impact of the 2026 energy support measures, fiscal discipline would enable this surplus to be maintained.

This primary balance should stay above the stabilising balance, ensuring a continuous reduction in the public debt ratio. From 2029 onwards, the gap between the two will narrow, which would result in a slowdown in debt reduction over the medium term.

Interest rates are expected to keep pace with growth without exceeding it

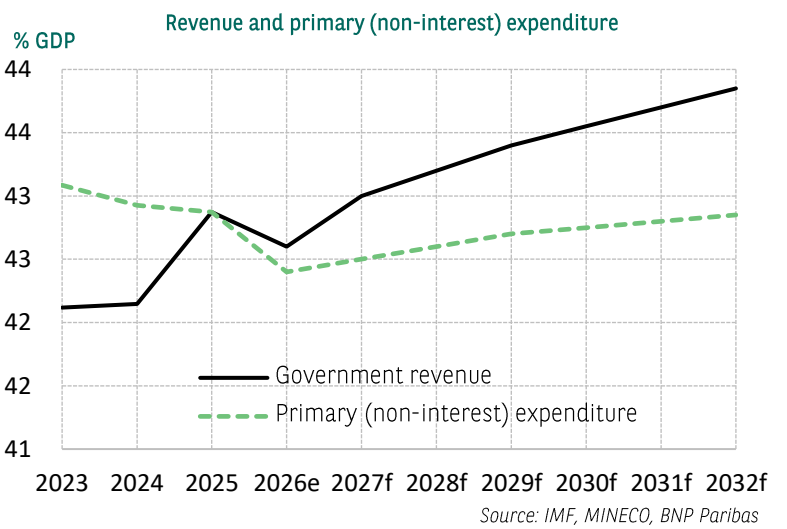


Source: IMF, MINECO, BNP Paribas

Nominal growth is expected to remain above the apparent interest rate on public debt throughout the forecast horizon. Despite its gradual slowdown, from 5.7% in 2026 to 3.6% in 2032, it would continue to benefit from robust real growth (1.9% on average) and inflation above 2%. At the same time, the apparent interest rate is expected to rise gradually as a result of debt refinancing at higher rates.

Maintaining a positive spread between nominal growth and the apparent interest rate will help to reduce the public debt ratio, although this effect will diminish over time.

Growth underpins public revenue



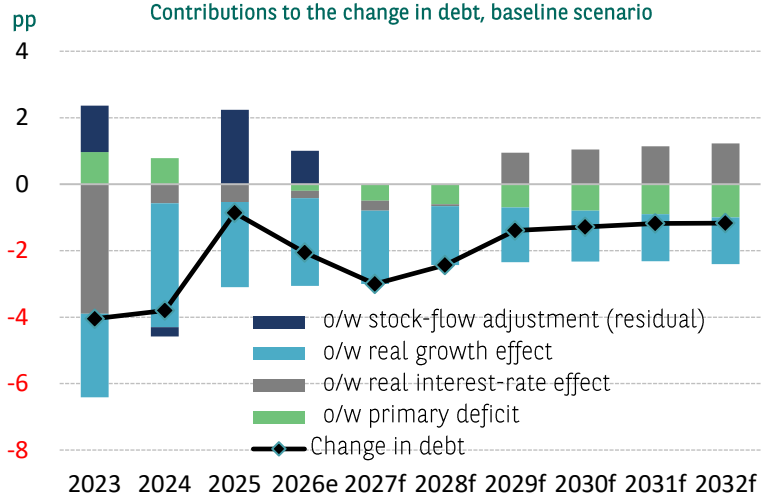
Source: IMF, MINECO, BNP Paribas

Public expenditure excluding interest payments is set to rise slightly to around 42.9% of GDP through to 2032. At the same time, revenue is expected to grow, supported by a strong labour market, resilient consumption and effective tax collection.

The lack of a parliamentary majority has restricted room for manoeuvre on the spending front. The 2023 budget has been deferred to the 2024–2026 period, leading to a reduction in discretionary spending. The rise in defence spending remains contained as Spain has secured an exemption from NATO's 5% target; it is maintained at 2.1% of GDP, a level reached in 2025. However, these constraints will be eased if the higher spending ceiling, provided for in the 2027 budget, is implemented.

Spain: Debt reduction supported by growth (2/2)

Debt reduction driven by growth

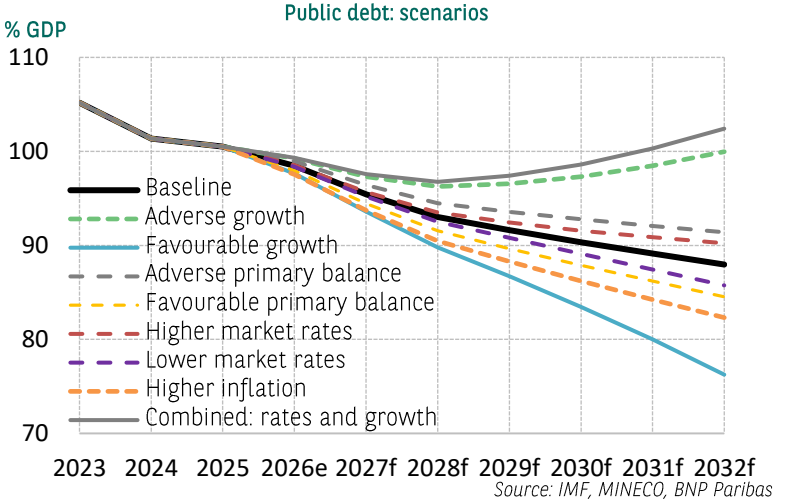


Source: IMF, MINECO, BNP Paribas

Strong growth, combined with a favourable trend in the primary balance, is facilitating a continuous reduction in public debt throughout the forecast period. However, this decline is expected to slow from 2027 onwards.

From 2029 onwards, real interest rates are expected to become a drag. Despite higher financing costs, the primary balance will remain positive and continue to support debt reduction.

Debt will fall unless there is a very negative surprise regarding growth



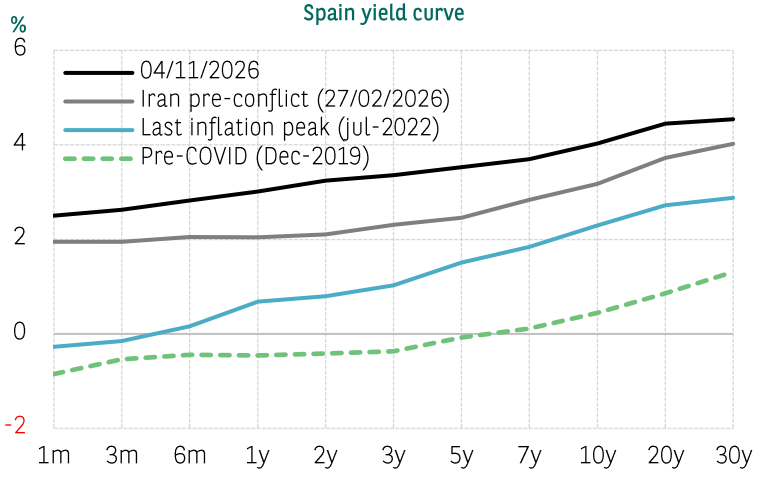
Source: IMF, MINECO, BNP Paribas

Note: the 'growth' and 'primary balance' scenarios incorporate, respectively, a negative shock to growth and to the deficit of 0.5 percentage points of GDP per year compared with the baseline scenario; the 'interest rate' scenario incorporates a 1 percentage point rise in the apparent interest rate.

According to our central scenario, public debt will fall below 90% of GDP as early as 2030 , after reaching 100.5% in 2025, to stand at 88% in 2032. This trend confirms the persistence of a downward trajectory, even as macroeconomic conditions evolve.

Growth momentum remains the key factor : both the main risk and a source of opportunity for the debt trajectory. In the majority of scenarios, debt reduction would continue, whilst the most adverse scenario – combining a rise in market rates and unfavourable growth – is the only case in which public debt would once again exceed 100% of GDP from 2031 onwards.

A rise in market rates



Source: IMF, MINECO, BNP Paribas

The yield curve has shifted upwards since the start of the conflict in Iran, with the sharpest rise in the 2–5-year segment.

Financing costs are coming under gradual pressure, with the rise in rates slowly but surely feeding through to the interest burden. The average cost of debt is expected to continue rising as maturing debt is rolled over at higher interest rates.