

AIReF ANALYSES RECENT PUBLIC DEBT TRENDS AND THE LATEST DEBT MONITOR PUBLISHED BY THE EUROPEAN COMMISSION

- **Public debt stood at 100.8% of GDP in 2025, a year-on-year reduction of 0.9 points. Since the 2021 peak, debt has accumulated a reduction of 23.4 points.**
- **The main debt forecasts for 2025 were slightly below the ratio ultimately observed, with the exception of those of the Government.**
- **Euro area inflation has moderated to 2%, in line with the ECB's target, although significant cross-country heterogeneity persists.**
- **The easing of monetary policy in 2025 has helped stabilise short-term sovereign yields, while ten-year rates have risen in several European economies.**
- **In February 2026, the European Commission published its Debt Sustainability Monitor (DSM), a key fiscal surveillance report assessing risks to debt sustainability over the short, medium and long term.**
- **The DSM highlights that, although EU debt has fallen from its post-pandemic peak, it remains at elevated levels, with marked divergences across Member States. Moreover, risks to sustainability persist, particularly over the medium and long term.**
- **The DSM notes that Spain faces contained risks in the short term, but elevated risk over the medium term in the absence of further fiscal measures. In the long term, fiscal sustainability will be shaped primarily by rising ageing-related expenditure, especially on pensions, healthcare and long-term care.**

The Independent Authority for Fiscal Responsibility (AIReF) today published the latest edition of its Debt Observatory, examining recent trends in Spanish public debt, which stood at 100.8% of GDP in 2025, a year-on-year reduction of 0.9 points. Since the 2021 peak, debt has fallen by a cumulative 23.4 points. On this occasion, AIReF also analyses the Debt Sustainability Monitor (DSM) published by the European Commission in February 2026, a key fiscal surveillance report assessing risks to debt sustainability over the short, medium and long term.

In nominal terms, the stock of public debt reached €1.7 trillion, having grown by 4.8% year-on-year, reflecting the combined effect of economic growth and public sector financing needs.

Forecasts

The main debt forecasts for 2025 were slightly below the ratio ultimately observed. Specifically, AIReF estimated a ratio of 100.3% of GDP, the European Commission

100%, the IMF 100.4% and the OECD 99.4%, implying moderate deviations from the final figure. By contrast, the Government's forecasts placed debt at somewhat higher levels, with estimates of 101.4% of GDP in the Medium-Term Fiscal-Structural Plan (MTP) of October 2024, subsequently revised to 101.7% in the 2025 Annual Progress Report.

In AIReF's case, the deviation from the observed figure reflects a more adverse contribution from stock-flow adjustments than anticipated, partially offset by stronger-than-expected economic growth.

Inflation and monetary policy

The Observatory also analyses recent inflation developments in the euro area. After peaking in 2022, inflation moderated significantly, reaching 2% in December 2025, in line with the European Central Bank (ECB) target. However, notable cross-country heterogeneity persists, with economies such as France and Italy below the target and others, including Spain and Slovakia, clearly above it.

This context enabled an easing of monetary policy. In 2025, the ECB cut interest rates on four occasions, bringing the deposit facility rate to 2%, while at its most recent meeting it opted to hold rates unchanged. In the United States, the Federal Reserve cut rates three times, to a range of 3.5%–3.75%.

Financial markets and sovereign debt

The easing of monetary policy was reflected in sovereign debt markets. Short-term yields followed a downward path during 2024 and early 2025, subsequently stabilising at around 2% in the main euro area economies.

By contrast, ten-year yields rose broadly across the EU in 2025, driven largely by the announcement of the German fiscal plan. Year on year, they increased in Germany (+27 basis points) and France (+11 basis points), remained stable in Spain and fell in Italy (–18 basis points). The rise in German bond yields relative to other European economies led to a widespread narrowing of risk premiums. However, the French spread remains above 2024 levels and is on an upward trajectory, reflecting political uncertainty and doubts over the credibility of the fiscal adjustment.

Debt sustainability assessment

The Observatory also incorporates an analysis of the Debt Sustainability Monitor (DSM) published by the European Commission in February 2026, a key fiscal surveillance report assessing risks to public debt sustainability in the European Union.

The report notes that, although EU public debt has fallen from its post-pandemic peak, it remains at elevated levels—around 82.8% of GDP in 2025—with significant divergences across Member States. Moreover, material risks persist, linked to a less favourable macrofinancial environment, population ageing and growing spending needs associated with the climate transition and the geopolitical context.

As regards short-term risks, the DSM highlights four countries—Belgium, Italy, France and Finland—with high financing needs. Over the medium term, the DSM notes that, in the absence of further fiscal measures, EU debt would remain on a downward trajectory but could approach 100% of GDP by 2036, with 12 Member States at high risk, 10 at medium risk and 5 at low risk. Over the long term, it classifies 6 Member States as high risk, 14 as medium risk and 7 as low risk. The report also analyses a scenario based on full compliance with the medium-term fiscal-structural plans submitted by Member States

and concludes that, if all countries meet their assumed expenditure targets, debt would fall by more than 20 points relative to the baseline scenario.

Spain

For Spain, the DSM considers short-term risks to be contained, with financing needs of around 15% of GDP in 2026–2027 and favourable market perception, underpinned by recent credit rating upgrades. Over the medium term, however, the report identifies elevated risks. Under a no-policy-change scenario, public debt would decline slightly until 2028 but would subsequently rise again to around 108% of GDP by 2036, in a context of persistent deficits and rising ageing-related expenditure.

Over the long term, the analysis concludes that risks to fiscal sustainability are at a medium level, though they will require a significant fiscal effort. Specifically, the analysis estimates that the structural primary balance would need to improve by 5.3 points of GDP to stabilise debt over the long term, driven primarily by increased spending on pensions, healthcare and long-term care. An adjustment of 4.8 points of GDP would also be needed to bring debt down to 60% of GDP by 2070.

The Observatory concludes that, although the recent debt trajectory has been favourable, maintaining sustainability over the medium and long term will require additional fiscal efforts, in a context shaped by demographic change, emerging spending needs and a more uncertain macrofinancial environment.