



Independent Authority
for Fiscal Responsibility

Report on the Medium-Term Fiscal-Structural Plan 2025-2028

Report on the Main Lines of the GG Budget 2025

Reports on the Medium-Term Fiscal-Structural Plan 2025-2028 and on the Main Lines of the GG Budget 2025

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1

Introduction

Context marked by the definition of essential elements for public finances in the coming years and in which the 2025 Budget will be framed

European level

New fiscal governance framework adopted on April 30th: requires stable multi-annual spending commitments for at least 4 years.

Member States submitting their first Medium-Term Fiscal-Structural Plans (MTPs)

Commission will assess compliance with MTP commitments with debt reduction requirements

ECOFIN recommendation: with fiscal, investment and reform commitments

Reform of the on National Fiscal Frameworks Directive: transposition by December 2025

National level: many tasks ahead

On October 15th, the Government of Spain presented its first Medium-Term Fiscal-Structural Plan 2025-2028: pending assessment by the Commission.

No multi-annual national fiscal targets. national expenditure rule is the sole benchmark

No Budgetary Plan anchoring the 2025 expenditure commitment of the sub-sectors and measures to achieve it

With a heterogeneous budgetary situation: no draft General State Budget (GSB), ARs and LGs presenting their draft budgets or main budgetary lines

Pending reform of the national framework: to adapt both rules and the medium-term budgetary framework to European reform

AIReF is presenting two reports today, which are adapted to this context and to the limited information available

SCOPE OF THE REPORTS

Report on the Medium-Term Fiscal-Structural Plan 2025-2028

Report on the Main Lines of the GG Budget 2025

- AIReF has the legal mandate to report on the MTP which replaces the Stability Programme Update in the new European fiscal governance framework and becomes the Government's main medium-term fiscal document
- On September 24th, AIReF endorsed the macroeconomic forecasts up to 2026 that underpin the MTP

- The medium-term macroeconomic and fiscal scenario up to 2029 for the GG sector and the ARs is updated: scenario at constant policies due to lack of information
- Reports on the main budgetary lines and draft budgets of the ARs and LGs: a large number of the LGs and 9 ARs have approved their draft budgets for 2025, the rest of the Regions have submitted their main budgetary lines
- Only the national expenditure rule (3.2% for 2025) is assessed

When the draft General State Budget for 2025 is submitted, AIReF will issue a report on it and will update the assessment of the main budgetary lines of the GG sector

2

Report on the Medium-Term Fiscal- Structural Plan 2025-2028

The reform of the European fiscal framework that entered into force on April 30th sought to overcome the limitations of the previous model

LIMITATIONS OF THE PREVIOUS FRAMEWORK

Lack of national ownership



Complexity: multiplicity of rules and unobservable variables



Pro-cyclicality of fiscal policy: investment as an adjustment variable



REFORM

- The 2013 reform creates IFIs to boost national ownership. This reform goes one step further
- Initiative for countries to shape their own medium-term fiscal strategy: at least 4-year fiscal commitments, reforms and investments
- Prompting debate in Parliament and dialogue with key stakeholders (regional authorities, social partners, civil society)

- Simplification and greater transparency of fiscal supervision: pivots on a single observable variable, primary expenditure net of discretionary revenue measures
- Complex *ex ante* determination: Commission uses common methodology with 17-year scenarios. Use of simplifying assumptions such as sustaining a constant structural primary balance

- Commitment to reconciling sustainability and growth
- Counter-cyclical fiscal policy: fiscal commitments in terms of primary expenditure net of revenue measures allow margins to be generated in expansionary phases (naturalising surpluses): exclusion of expenditure on cyclical unemployment, EU co-financed investments, etc.
- Reforms and investments allow adjustment period to be extended from 4 to 7 years

The MTPs are crucial for achieving these targets: their design, content and ambition are therefore key to the success of the reform

Spain submitted its Fiscal-Structural Plan to the EU institutions on October 15th

FISCAL COMMITMENT 2025-2031. PRIMARY EXPENDITURE NET OF DISCRETIONARY REVENUE MEASURES (ANNUAL RATES OF CHANGE)

	2024	Average 2025-2031	2025	2026	2027	2028	2029	2030	2031
Spanish MTP proposal	5.3	3.0	3.7	3.5	3.2	3.0	3.0	2.5	2.4
The Commission's reference trajectory	3.8	2.8	3.2	2.8	2.7	2.7	2.7	2.6	2.5

Source: MTP

Four-year plan. 2025-2028, with a request for extension to 7 years, up to 2031: RTRP and other additional reforms and investments

Year-end 2024 forecast different from Commission's

Path differs from the Commission's trajectory: 0.2-point difference on average (use of more up-to-date population projections and impact of pension reform on revenue) and different time profile

Higher spending constraints are postponed to the end, coinciding with lower GDP growth.

- Published at the time it was sent to Brussels and without being debated in Parliament or having been subject to a consultation process with civil society, social stakeholders and regional authorities
- Only the full macroeconomic scenario for 2025 and 2026 is provided (endorsed by AIReF, the only participant in the process)
- Budgetary projections only for 2024: 2025-2031 spending path with no breakdown by sub-sector, nor breakdown of measures to achieve this forecast

Due to the lack of available information, AIReF presents a scenario with at constant policies: its analysis shows that measures will be necessary from 2026...

AIReF's analysis limited due to lack of information

AIReF presents and updates a scenario at constant policies

In the absence of information, AIReF analyses what happens when the expenditure path presented by the Government is applied to its scenario

Given AIReF's scenario and the MTP's expenditure path, AIReF identifies...

That in 2025 no measures will be needed

That measures will be necessary from 2026 onwards given AIReF's growth rate (3.6% on average versus 3%)

Debt pressures: in AIReF's scenario, the expenditure path committed to in the MTP is not sufficient to cope with the impact of ageing on public accounts and to allow the debt to follow a downward path

...and that the MTP is more a political commitment of aggregate fiscal targets than a genuine medium-term fiscal strategy

This is partly the responsibility of the European framework itself

The Regulation requires only mandatory minimums:

- Not demanding in content: less demanding than SPU
- Not demanding in institutional anchoring: no dialogue with stakeholders or Parliament required in this first round

Use of common methodologies leading to less counter-cyclical policies and postponing further adjustments to the end of the commitment period:

- The potential of the IFIs has not been used to design a forecast that is more closely tailored to national realities

There is still uncertainty about its implementation:

- Treatment of 2024
- Issues under negotiation, definition and treatment of discretionary revenue measures, operation of the control account
- Implementation at the national level

But it is also a national responsibility

The MTP has stuck to the minimum requirements and formal aspects, missing the opportunity to develop a comprehensive and consensual medium-term strategy

What remains to be done is to develop the content of the Plan and its implementation in the national situation

Specifying the definition of targets across the GG

Preparing comprehensive macro and budgetary scenarios

Identifying, on an annual basis, the measures that will enable the committed expenditure path to be met

Adapting the national framework to the new European framework to make them coherent and consistent

AIReF makes recommendations in this regard

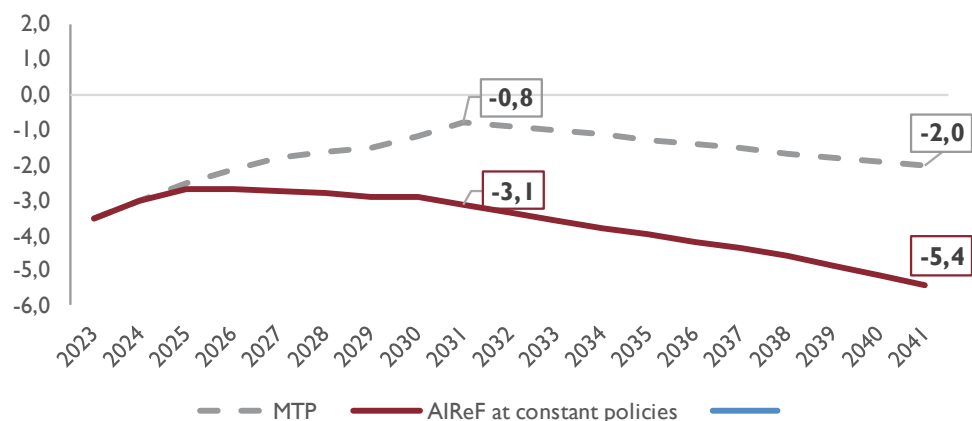
In its scenario at constant policies, AIReF estimates average net expenditure growth between 2025 and 2031 of 3.6% compared with 3% in the MTP, with differences in the time profile

**NET EXPENDITURE GROWTH RATE 2024-2031. MTP VS AIReF
(% CHANGE AND BILLIONS OF EUROS)**

Growth rate of eligible expenditure		2024	2025	2026	2027	2028	2029	2030	2031
<i>Government MTP</i>									
Annual		5,3	3,7	3,5	3,2	3,0	3,0	2,5	2,4
Cumulative			3,7	7,3	10,8	14,1	17,5	20,4	23,3
<i>AIReF at constant policies</i>									
Annual		4,1	3,7	4,0	3,7	3,4	3,8	3,4	3,3
Cumulative			3,7	7,9	11,9	15,7	20,1	24,3	28,5
Net primary expenditure (€bn)		650,3	681,5	707,5	735,7	763,4	794,9	824,6	854,9
Discretionary revenue measures (€bn)		6,5	7,4	-1,6	2,3	2,8	2,8	2,8	2,8
Primary expenditure net of revenue measures (€bn)		643,8	674,2	709,1	733,5	760,7	792,1	821,8	852,1

Source: MTP and AIReF

EVOLUTION OF THE FISCAL BALANCE. MTP VS. AIReF (% GDP)



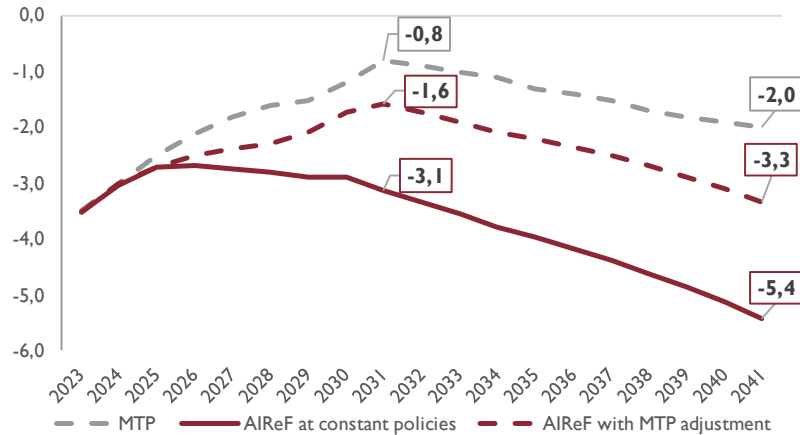
AIReF's scenario at constant policies includes revenue measures already adopted

Discretionary revenue measures	2024	2025	2026	2027	2028	2029	2030	2031
Withdrawal anti-crisis measures	3.0	4.3	-1.2	-0.4	0.0	0.0	0.0	0.0
Withdrawal temporary taxes			-2.9					
Pension reform	0.7	1.1	0.8	0.9	0.9	1.0	1.0	1.0
Non-indexing of PIT	3.4	1.8	1.7	1.8	1.8	1.8	1.8	1.8
Other	-0.5	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Total	6.5	7.4	-1.6	2.3	2.8	2.8	2.8	2.8

- AIReF estimates a higher average growth rate between 2025 and 2031 than the MTP. However, in 2025 no additional adjustment is necessary to comply with the reference rate of the Plan
- From then onwards, AIReF considers that the growth in net expenditure is maintained at around 3.5%, whereas the MTP forecasts a continued 3 reduction in the growth rate
- This evolution in expenditure gives rise to a more negative deficit path in AIReF's case from 2026 onwards

As AIReF does not have a complete Government scenario, AIReF performs two exercises: What happens when applying the MTP's expenditure forecast to AIReF's scenario at constant policies? What must happen for the Government's deficit path to be met?

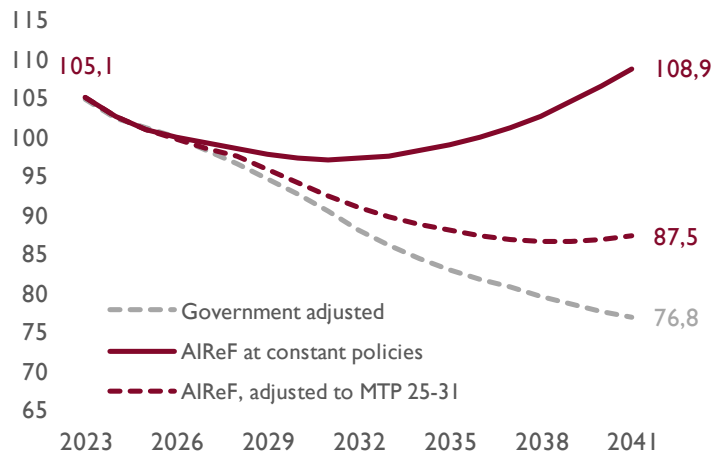
FISCAL BALANCE EVOLUTION. MTP VS AIReF (% GDP)



1

- By applying the rates of growth of eligible expenditure to AIReF's assumptions, the fiscal balance in 2031 would be 1.6% compared with the 0.8% estimated in the MTP
- These differences widen up to 2041, with a deficit in the MTP of 2% of GDP compared with 3.3% in AIReF's adjustment scenario
- Debt would stand at 87.5% of GDP in 2041 compared with the 76.8% forecast in the MTP

PUBLIC DEBT EVOLUTION. MTP VS AIReF (% GDP)



2

To achieve the 0.8% balance of the MTP, primary expenditure net of measures, according to AIReF's scenario, would have to grow by 2.8%, compared with the 3% estimated by the MTP

Source: MTP and AIReF

AIReF also considers two relevant elements to be taken into account

The implementation of the national fiscal framework would allow the MTP deficit path to be met

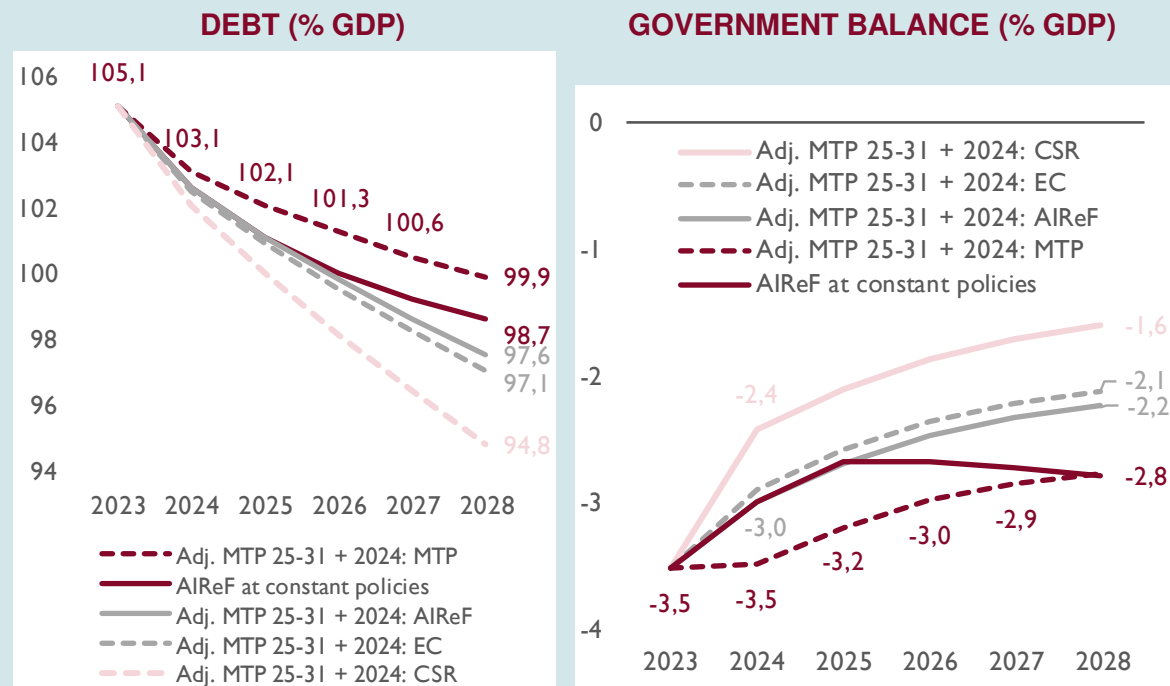
The reference rate of the national expenditure rule is more demanding than the European rule

REFERENCE RATES OF NATIONAL EXPENDITURE RULE AND MTP (% CHANGE)

	2024	2025	2026	2027	2028	2029
National expenditure rule	2,6	3,2	3,3	3,4	3,0	3,0
MTP	5,3	3,7	3,5	3,2	3,0	3,0

The national definition of eligible expenditure is more demanding than the European one (it does not allow the exclusion of co-financed projects, nor one-offs).

The level of net primary expenditure finally recorded in 2024 will have a significant impact on the evolution of the fiscal path and the debt ratio in the following years



Source: Government and AIReF

Recommendations set out in the Report on the MTP

Approximation of the national expenditure rule to the European one

The Ministry of Finance should promote the amendment of Article 12 of the Organic Law on Budgetary Stability and Financial Sustainability so that the definition of eligible expenditure of the national expenditure rule matches the European expenditure rule

The IGAE (General State Comptroller) should approximate, as far as possible, the criteria for the practical application of the national expenditure rule to those of the European expenditure rule, respecting the limits established by the Organic Law on Budgetary Stability and Financial Sustainability. To this end, the IGAE should draw up a new unified guide to the expenditure rule for all GG authorities, setting out the breakdown of the specific aspects for each of the different sub-sectors. This guide would replace the current calculation guides applicable to the Autonomous Regions and Local Governments

Transposition of the Directive

The Ministry of Finance should take advantage of the transposition of the National Fiscal Frameworks Directive to draw up a credible and effective medium-term budgetary framework, thus ensuring the coherence, consistency and effectiveness of the national fiscal framework

3

Report on the Main Lines of the GG Budget for 2025

3.a

**Macroeconomic scenario 2024-
2029**

AIReF updates its macroeconomic outlook for the period 2024-2029...

Endorsement context: in the midst of INE's statistical review process and total absence of information on the Government's fiscal scenario

Formulation of a baseline macroeconomic outlook: it does not incorporate the impact of any fiscal-structural adjustment, which depends on the nature of the measures implemented, which have not yet been specified at this stage

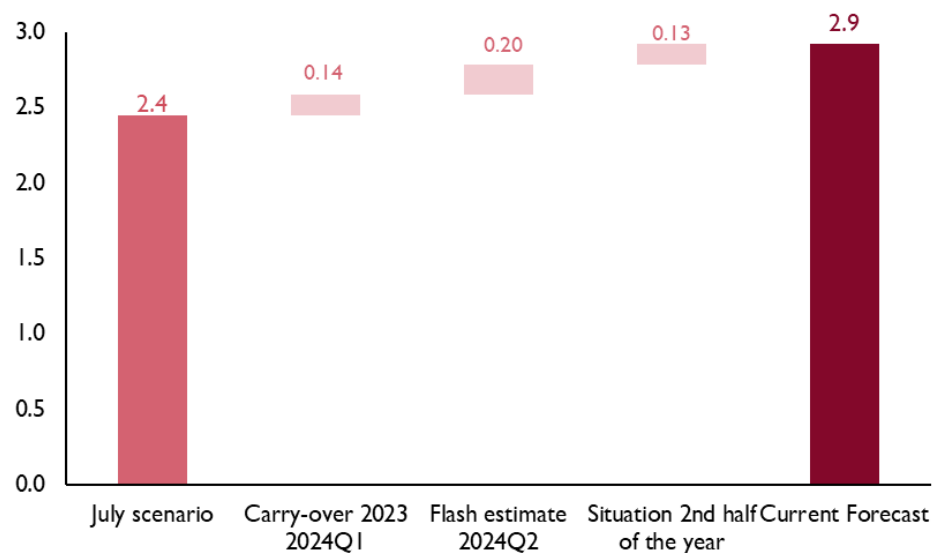
Year-on-Year Rates of Change	2023	AIReF Oct 2024					
		2024	2025	2026	2027	2028	2029
Private Domestic Final Consumption Expenditure	1,8	2,4	2,3	2,1	1,9	1,7	1,6
General Government Final Consumption Expenditure	5,2	3,1	2,1	1,9	1,9	1,8	1,9
Gross Fixed Capital Formation	2,1	2,2	2,4	2,0	1,5	1,4	1,3
<i>GFCF Equipment and Cultivated Assets</i>	1,3	1,6	1,8	1,5	1,4	1,3	1,4
<i>GFCF Construction and Intellectual Property</i>	2,5	2,4	2,6	2,2	1,6	1,5	1,3
Domestic Demand*	1,7	2,4	2,2	1,9	1,7	1,6	1,5
Exports of Goods and Services	2,8	3,4	3,4	3,1	2,9	2,8	2,7
Imports of Goods and Services	0,3	2,2	3,5	3,3	3,1	3,1	3,0
External Balance*	1,0	0,6	0,1	0,0	0,0	0,0	0,0
Gross Domestic Product	2,7	2,9	2,3	2,0	1,7	1,6	1,5
Nominal Gross Domestic Product	9,1	5,9	4,8	4,1	3,9	3,7	3,7
Gross Domestic Product Deflator	6,2	2,9	2,4	2,1	2,1	2,1	2,1
CPI	3,5	2,9	2,1	1,8	1,9	1,9	2,0
Full-Time Equivalent Employment	3,2	2,1	2,2	1,8	1,6	1,4	1,3
Unit Labour Cost	6,1	4,0	2,5	1,8	1,7	1,8	1,8
Productivity per Full-Time Employee	-0,5	0,8	0,1	0,1	0,1	0,1	0,2
Compensation per Employee	5,6	4,9	2,6	1,9	1,9	1,9	2,0
Unemployment Rate (% of Active Population)	12,2	11,5	10,9	10,5	10,3	10,1	10,0
Household and NPISH Savings Rate (% of GDI)	12,0	12,8	11,8	11,3	10,8	10,4	9,9

Sources: INE and AIReF

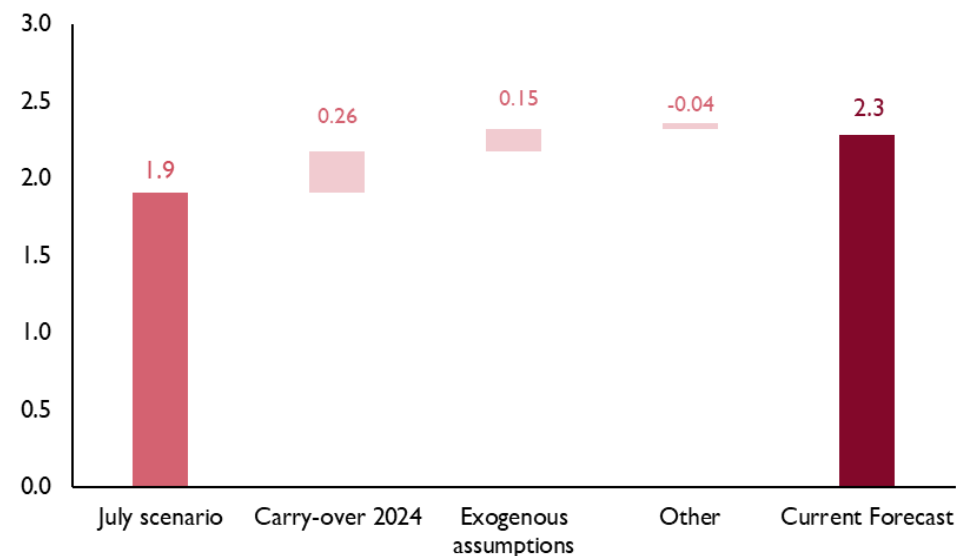
* Contributions to GDP growth

... and raises its GDP growth forecast for 2024 and 2025

FACTORS EXPLAINING THE REVISION OF THE FORECAST FOR 2024 WITH RESPECT TO THE JULY MACROECONOMIC SCENARIO



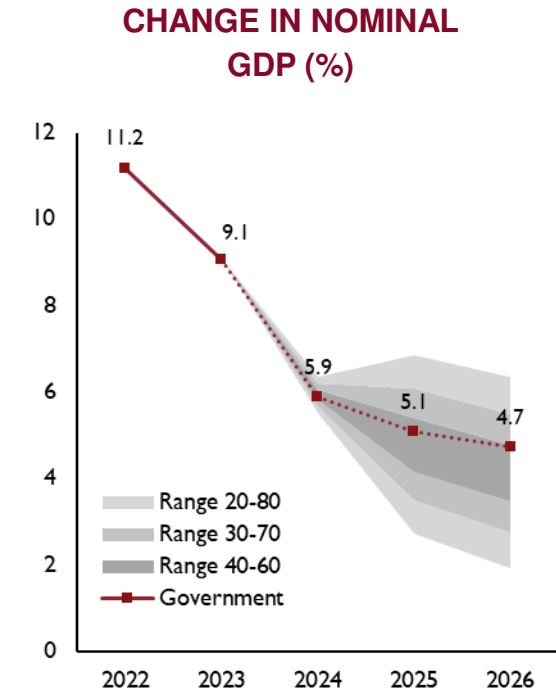
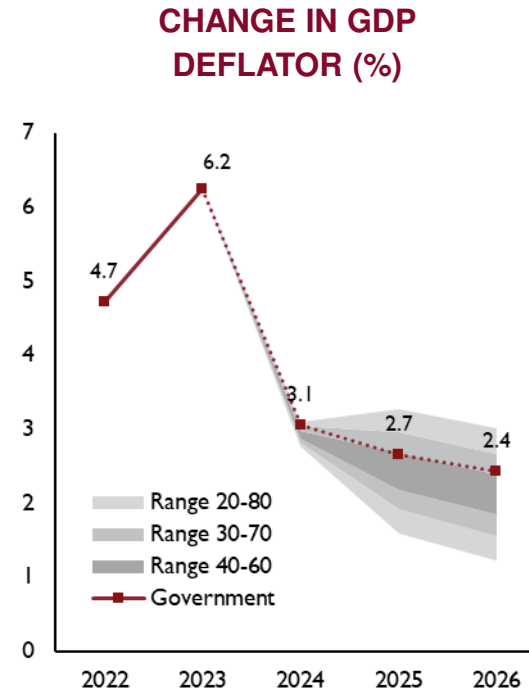
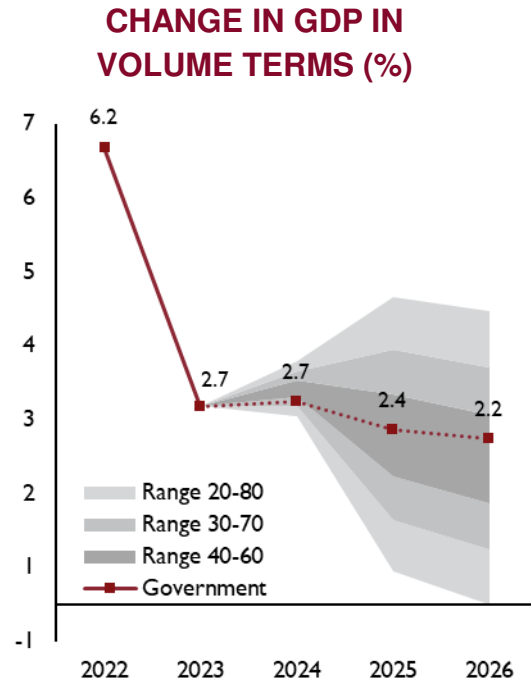
FACTORS EXPLAINING THE REVISION OF THE FORECAST FOR 2025 WITH RESPECT TO THE JULY MACROECONOMIC SCENARIO



Sources: INE and AIReF

Positive surprises in expected economic growth in the second half of 2024 represent a positive carry-over effect on the forecast for GDP growth in 2025. This is in addition to the improvement in baseline exogenous assumptions and lower commodity prices and interest rates

The MTP scenario is more favourable than the AIReF scenario



Sources: INE, Ministry of Economy, Trade and Enterprise and AIReF.

The largest discrepancies are in the forecasts of the implicit GDP deflator

The long-term scenarios of the Government and AIReF are similar

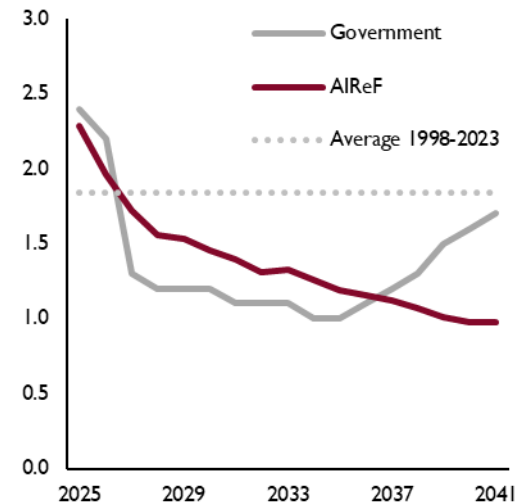
Both scenarios are in line with the European Commission's previous guidance of June 2024 and both scenarios assume a slowdown in economic activity in the long term due to the ageing population

COMPARISON OF LONG-TERM SCENARIOS

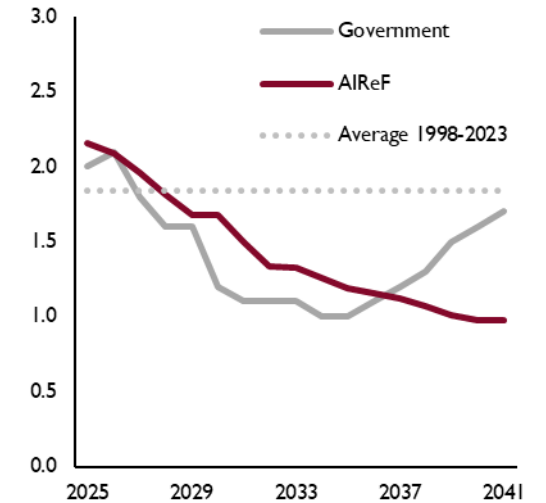
	Average 2025-2041			
	Government	EC	AIReF	Average 1998-2023
Change in real GDP (%)	1,4	1,3	1,4	1,8
Change in real potential GDP (%)	1,4	1,4	1,4	1,8
Change in the GDP deflator (%)	2,3	2,4	2,1	2,3
Implicit nominal interest rate (%)	3,2	3,3	3,5	3,8

Sources: European Commission, Ministry of Economy, Trade and Enterprise and AIReF

CHANGE IN REAL GDP (%)



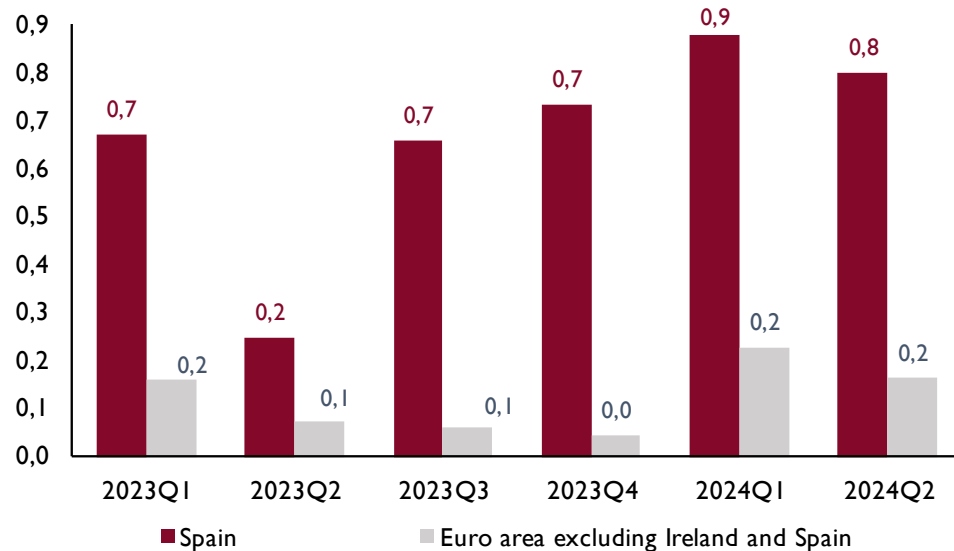
CHANGE IN REAL POTENTIAL GDP (%)



Despite the similarities of the two scenarios, the profiles of the variables differ due to the different methodologies incorporated in the Government's scenario. This results in notable differences in the evolution profiles of the macroeconomic assumptions

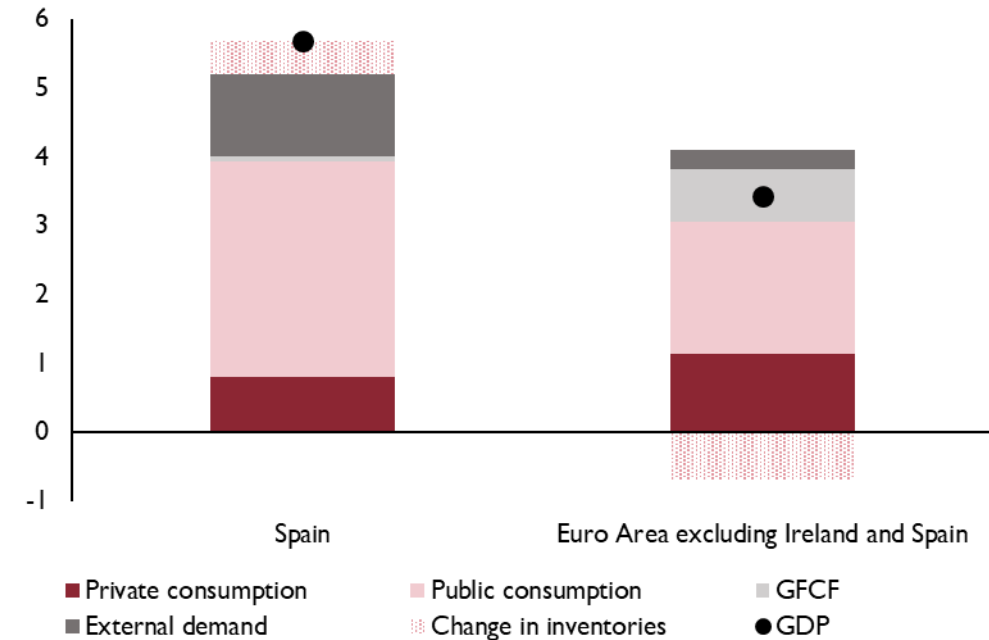
In the short term, the economy continues to show remarkable strength, in contrast to the weakness of the euro area

EVOLUTION OF QUARTER-ON-QUARTER GDP GROWTH FOR SPAIN AND THE REST OF EMU



Sources: Eurostat and AIReF

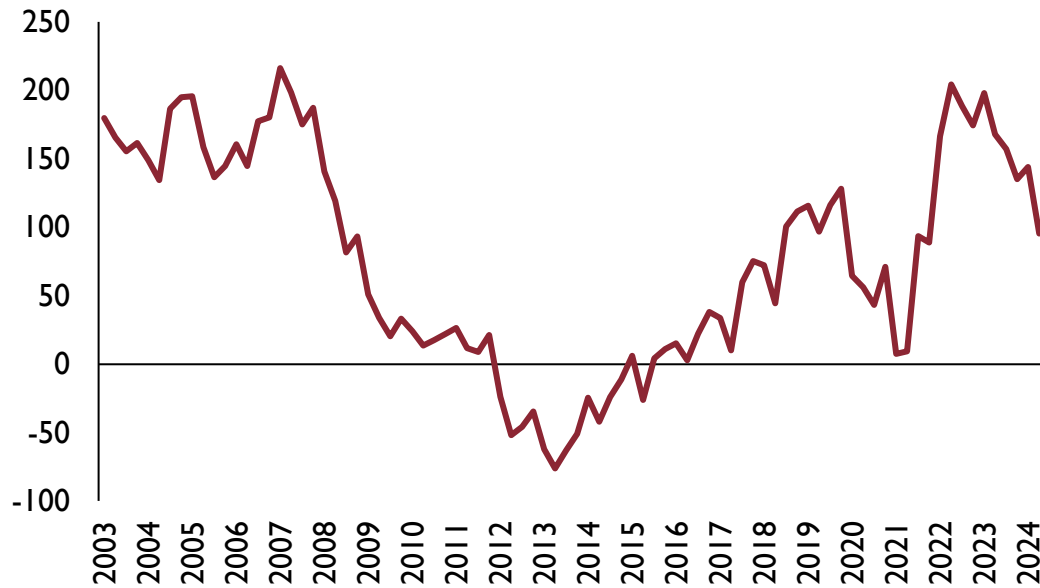
CONTRIBUTIONS TO CUMULATIVE GDP GROWTH 2019Q4-2024Q2 (% AND PP)



Public consumption is a determining factor in the growth of the Spanish economy, contributing almost one third of cumulative growth since the fourth quarter of 2019

Immigration is another key driver of economic growth in Spain

NET FOREIGN MIGRATION (THOUSANDS OF PEOPLE)



Source: INE

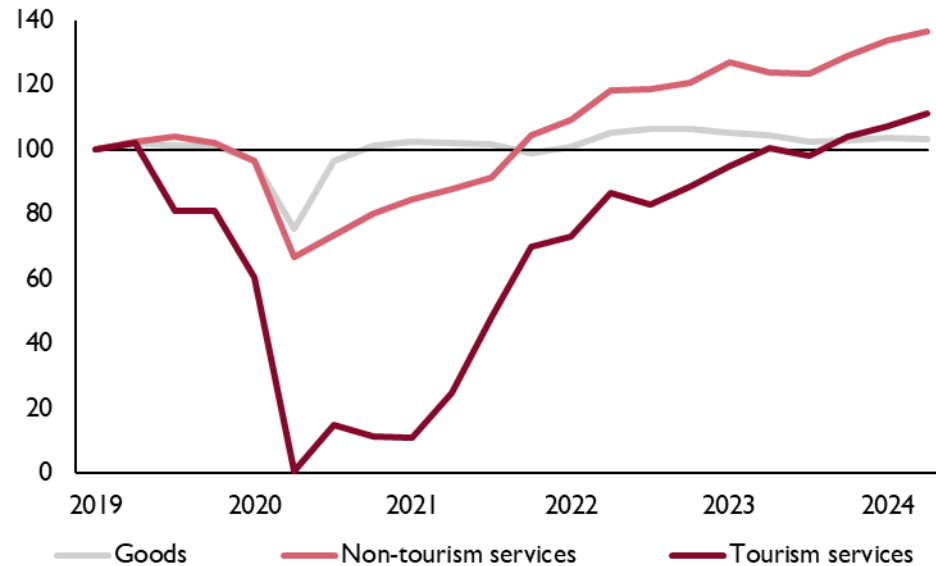
LABOUR FORCE (THOUSANDS OF PEOPLE)



Immigration supports the growth in private consumption through the creation of new households. The increase in the labour force, which stands at record highs, has made it possible to sustain high rates of job creation, with no signs of labour shortages or wage pressures as seen in other economies

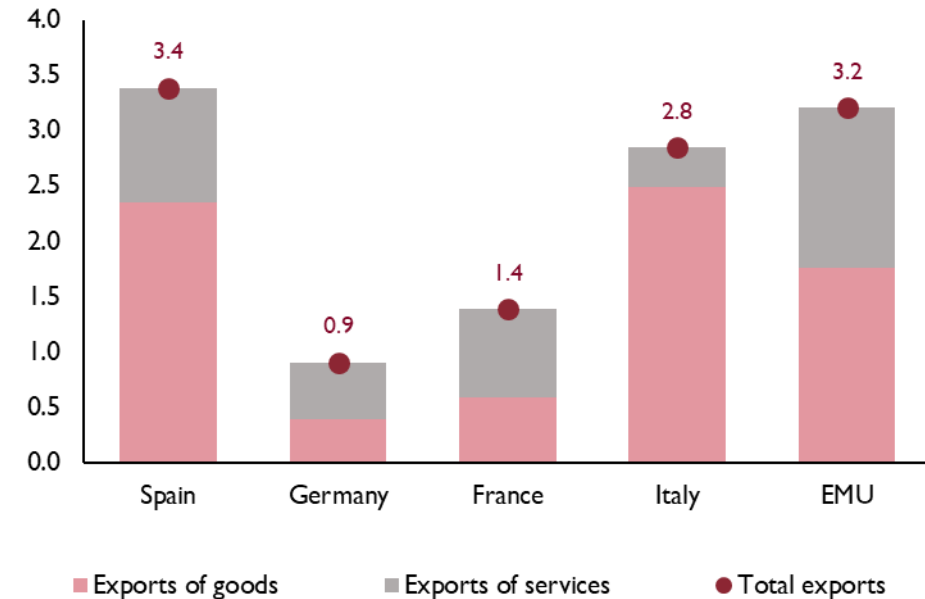
Another element that explains Spain's differential growth compared with the rest of the EMU has been the positive contribution of exports

EXPORTS OF GOODS AND SERVICES.
VOLUME (2019Q1=100)



Source: INE and Eurostat

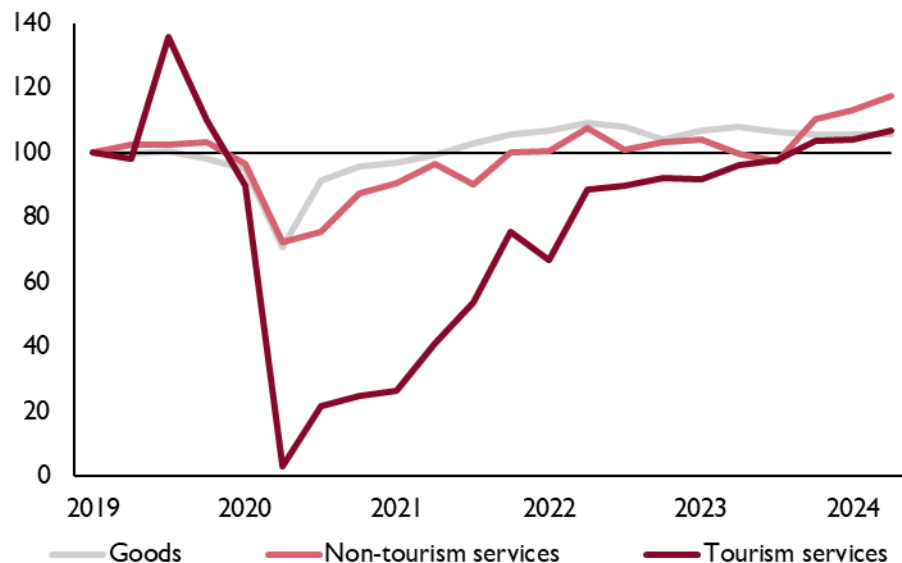
CHANGE IN THE WEIGHT OF EXPORTS OVER GDP
BETWEEN 2019 AND 2023 (PP)



In addition to the normalisation of the tourism sector, there has been a notable expansion in non-tourism services. In contrast, exports of goods continue to show modest growth, in line with weak demand from European countries

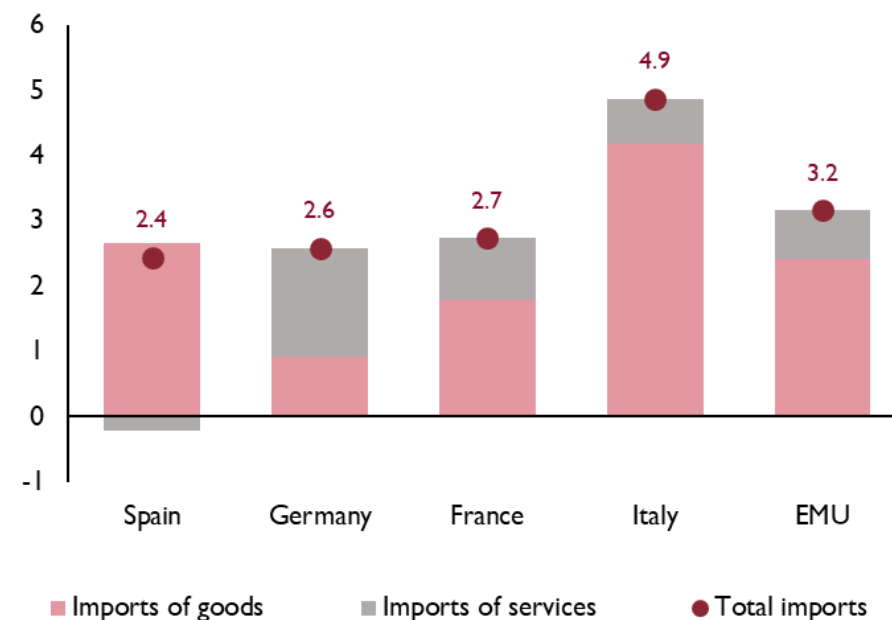
... and more restrained import behaviour

IMPORTS OF GOODS AND SERVICES.
VOLUME (2019 Q1=100)



Source: INE and Eurostat

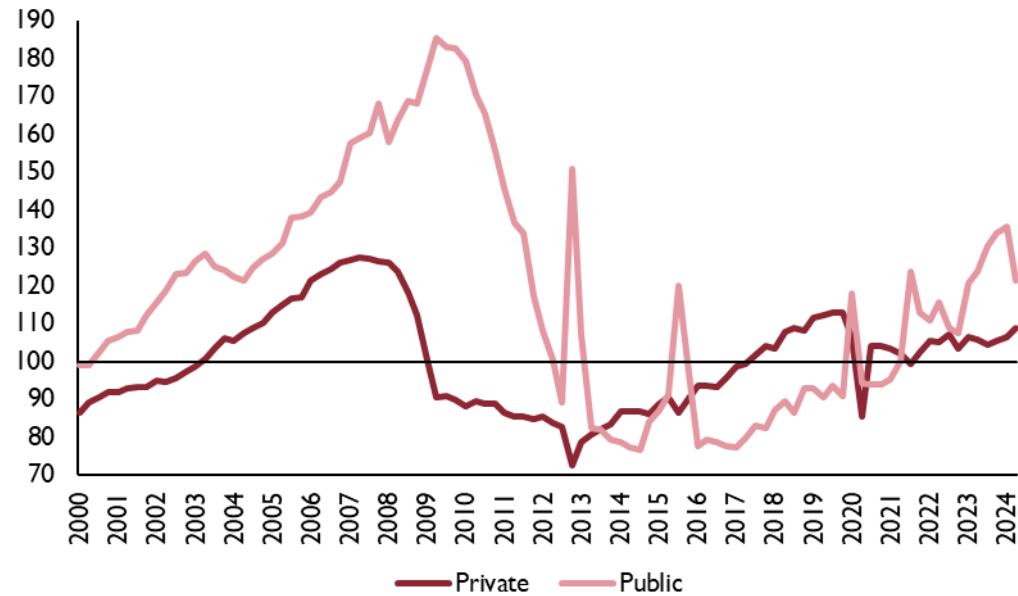
CHANGE IN WEIGHT OF IMPORTS OVER GDP BETWEEN
2019 AND 2023 (PP)



Imports have been relatively subdued: the elasticity of imports to final demand growth has been below unity since 2023. The high share of less trade-intensive components in economic growth (such as government consumption) has driven this evolution

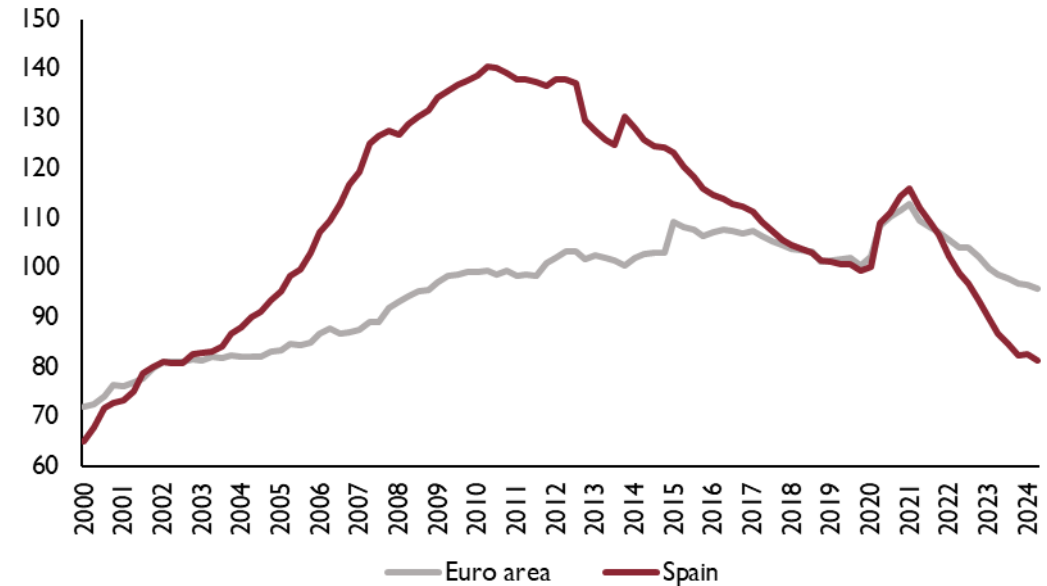
Investment sustains very moderate growth rates

PUBLIC AND PRIVATE INVESTMENT. VOLUME (2020=100)



Sources: INE and AIReF

NON-CONSOLIDATED DEBT OF NON-FINANCIAL CORPORATIONS (% GDP)

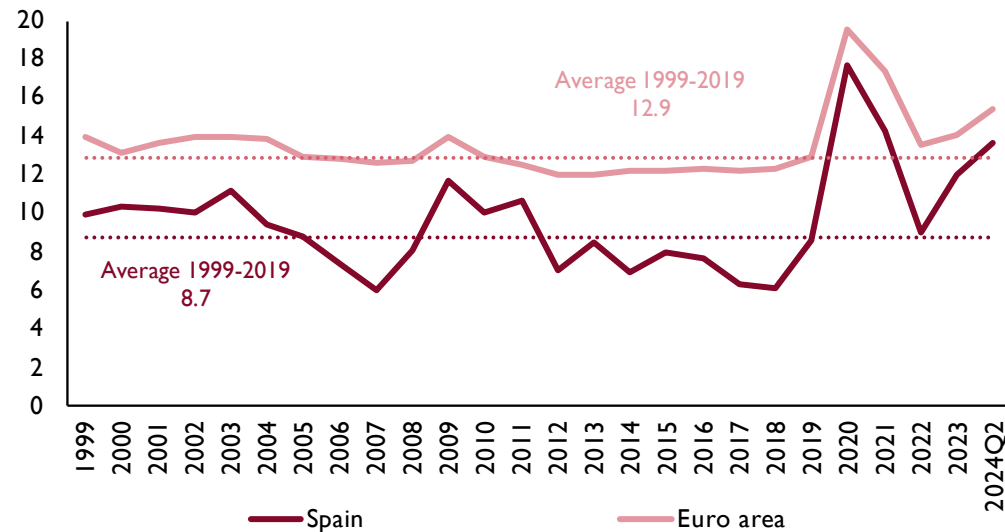


Source: Eurostat

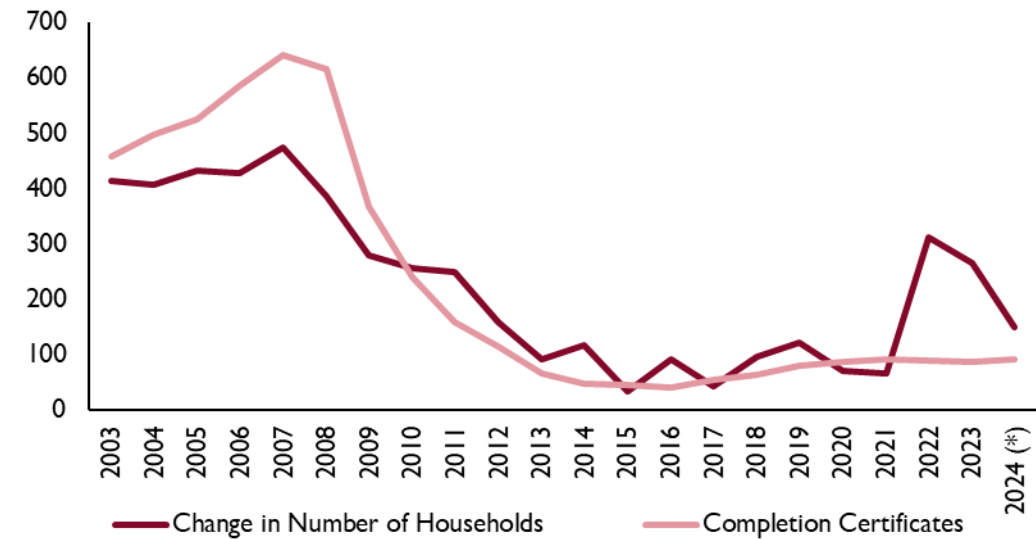
The RTRP has boosted the dynamism of public investment, but has not been enough to offset the weakness of private investment. Uncertainty, low returns on capital invested in 2023 and 2024 and the rising cost of capital continue to weigh on investment by non-financial firms, which have taken the opportunity to reduce their debt levels

Another salient feature of Spanish economic growth continues to be the relative weakness of household spending

**HOUSEHOLD SAVING RATE
(% OF GROSS DISPOSABLE INCOME)**



HOUSING COMPLETION CERTIFICATES AND CHANGE IN THE NUMBER OF HOUSEHOLDS (THOUSANDS)



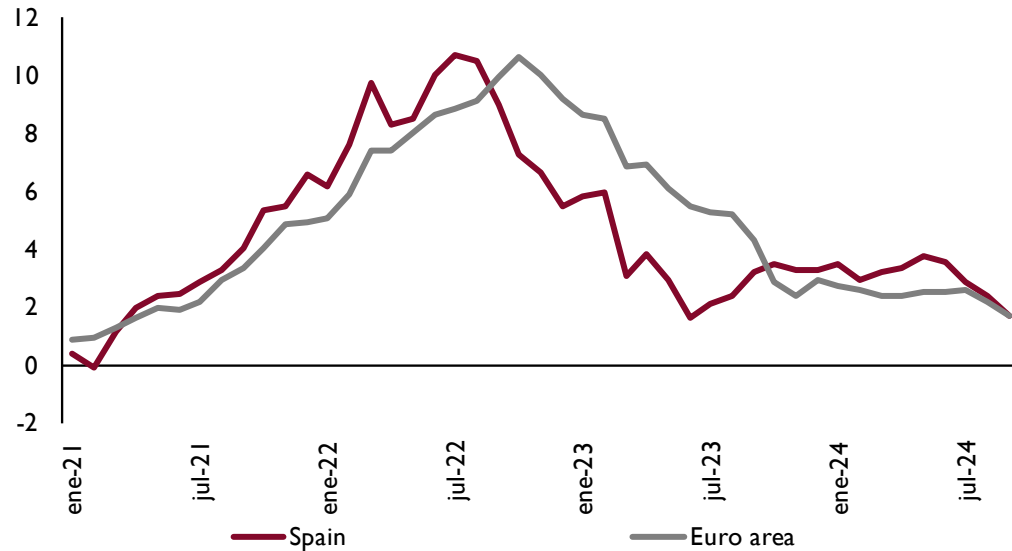
Sources: INE, AIReF and Ministry of Transport and Sustainable Mobility.

2024*: Rolling sum from the third quarter of 2023 to the second quarter of 2024

Private consumption is contributing less to growth than in other European economies, despite a faster pace of household creation and a recovery in real income after the fall observed in 2022

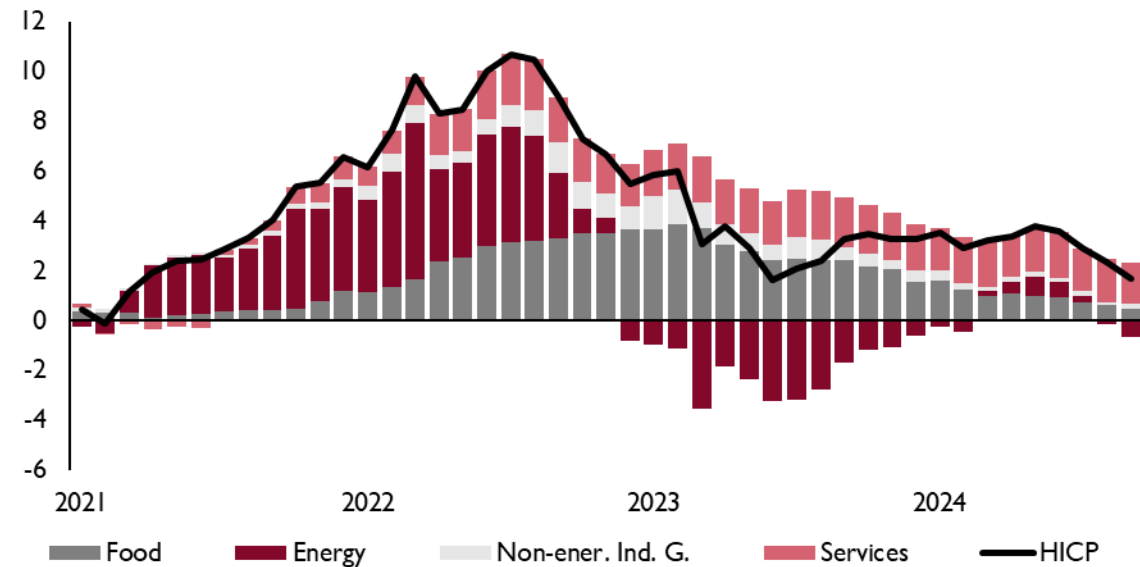
Inflation has surprised on the downside...

HARMONISED INFLATION IN SPAIN AND THE EURO AREA (%)



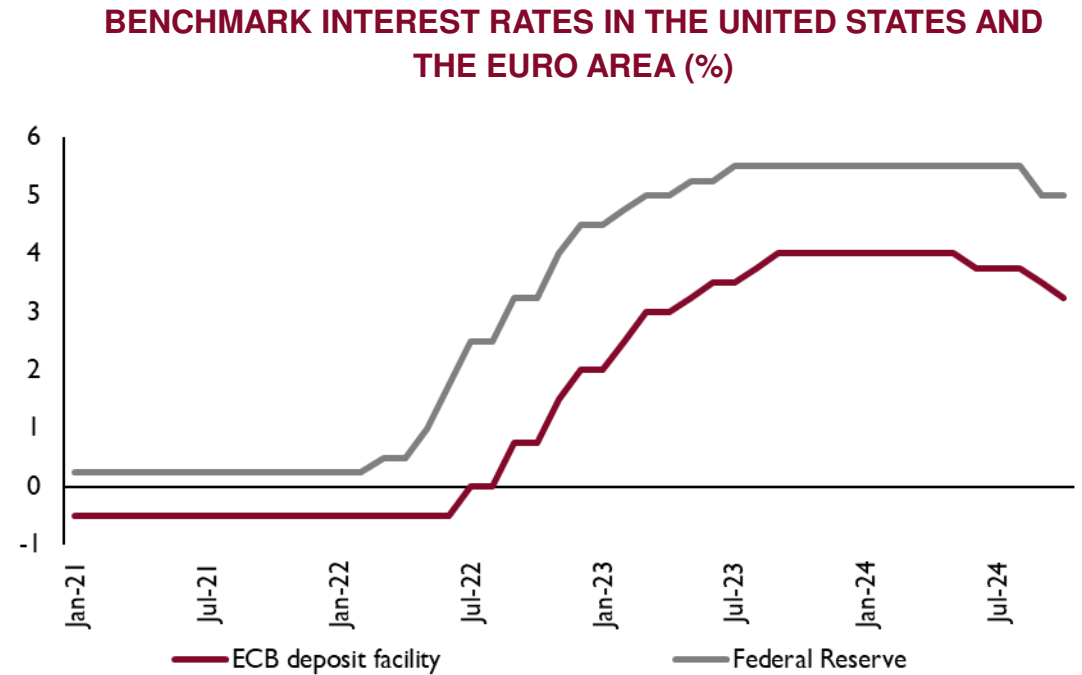
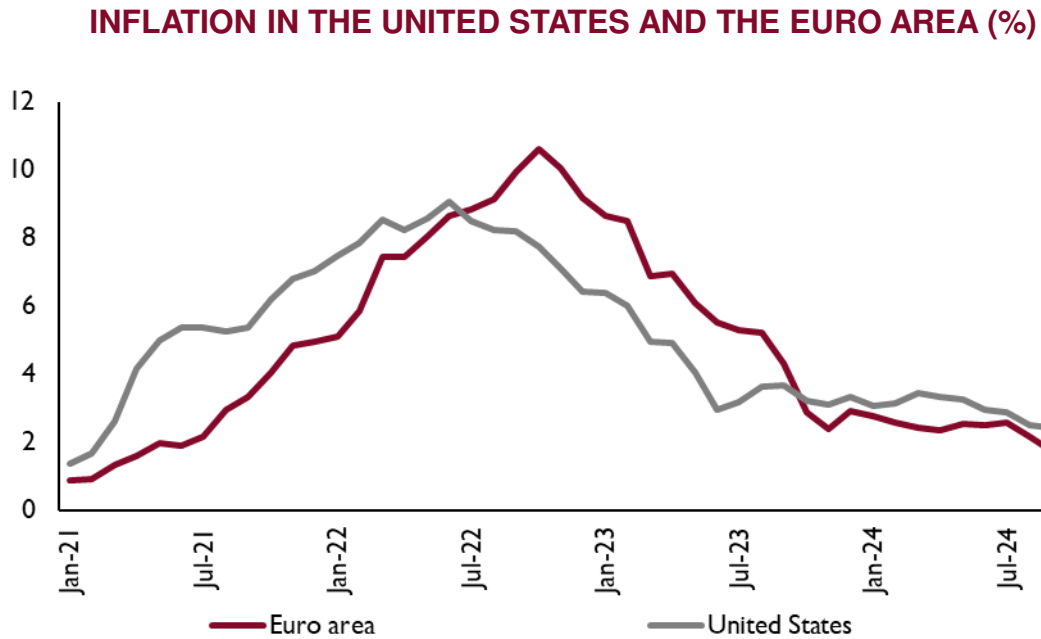
Sources: INE and Eurostat

HARMONISED INFLATION IN SPAIN AND CONTRIBUTION OF THE MAIN COMPONENTS (% AND PP)



Non-energy industrial goods inflation is at low rates of less than 1%, which contrasts with the downward resilience of services prices, which continue to rise by more than 3%

... which has allowed for an easing of interest rates in both the US and the euro area

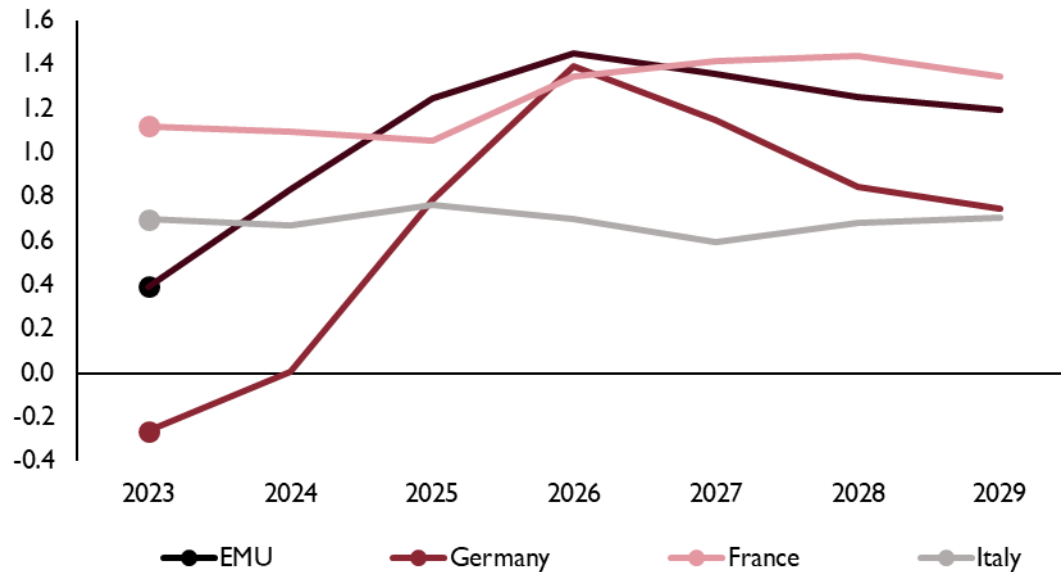


Sources: Eurostat, Refinitiv and Haver

The rapid decline in inflation has led to falls in interest rates at all maturities and markets expect the easing to continue in the coming quarters

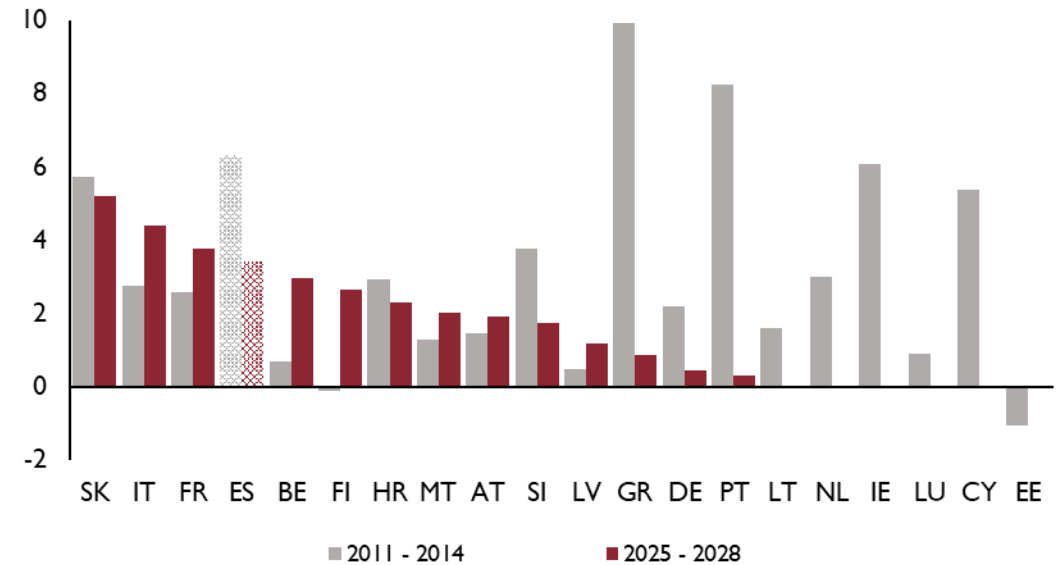
Geopolitical risks (military conflicts and trade wars) prevail. Structural weaknesses in the euro area and the need for fiscal consolidation weigh on its growth prospects.

FORECAST REAL GDP GROWTH IN THE EURO AREA (%)



Source: IMF

ADJUSTMENT OF THE CUMULATIVE STRUCTURAL PRIMARY DEFICIT BETWEEN 2025 AND 2028 OF THE EUROPEAN COMMISSION REFERENCE TRAJECTORIES (% OF GDP)

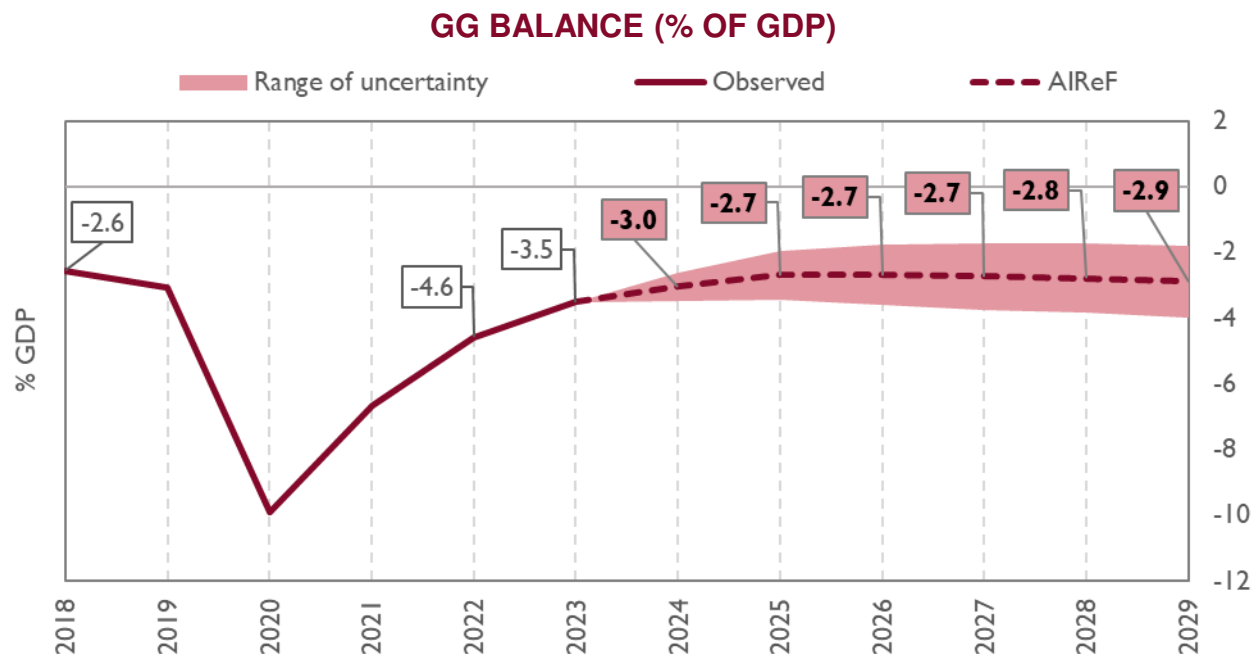


Sources: Fiscal-structural Plans, Darvas *et al.* (2024) and AMECO (Autumn 2024).

European economies face many structural challenges: low levels of physical and technological capitalisation of the economy, moderate productivity growth, ageing, labour shortages, and the fiscal consolidation process

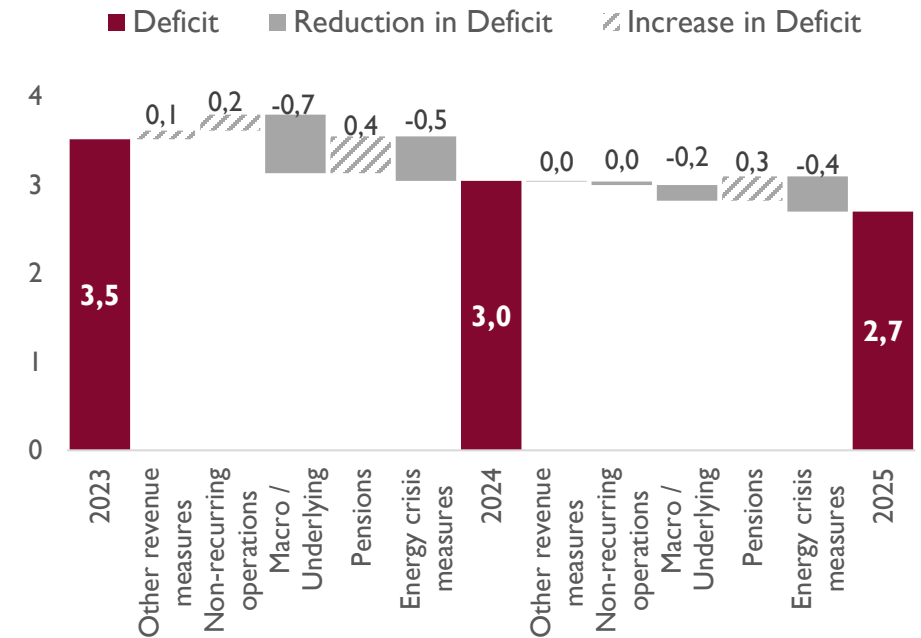
3.b Budget scenario 2024-2029

AIReF believes that the balance will close at 3% of GDP in 2024 and will improve by 0.3 points in 2025 and then begin a upward path to 2.9% in 2028



Source: IGAE and AIReF

CONTRIBUTION TO THE EVOLUTION OF THE BALANCE (% GDP)

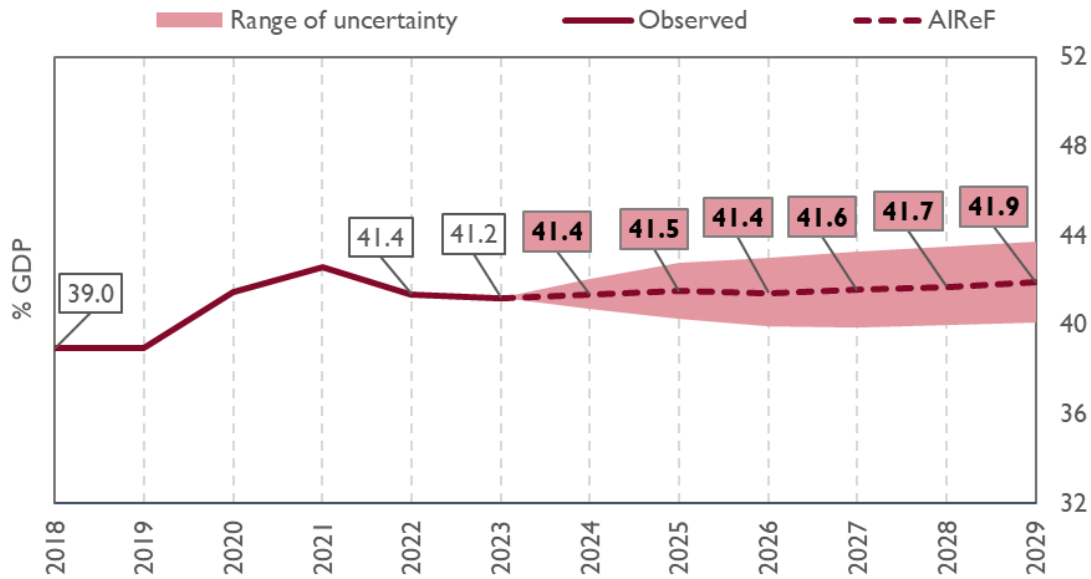


Source: IGAE and AIReF

- AIReF considers that the deficit will improve in 2024 and 2025 due to the withdrawal of the energy measures and the buoyant performance of the economy, with these effects being partially offset by the increase in non-recurring operations and pensions
- The deficit will stabilise at 2.7% of GDP between 2025 and 2027
- From 2028 onwards, the deficit starts a slight upward path, ending the period at 2.9% of GDP

AIReF estimates gradual growth in revenue driven by taxes on income, with the exception of 2026 - the year in which temporary taxes are withdrawn

EVOLUTION OF GG REVENUE (% GDP)



Source: IGAE and AIReF

MAIN REVENUE COMPONENTS (% GDP)

	AIReF						
	2023	2024	2025	2026	2027	2028	2029
REVENUE	41.2	41.4	41.5	41.4	41.6	41.7	41.9
TAXES	23.6	23.9	24.1	24.0	24.2	24.3	24.6
On production and imports	11.0	11.1	11.1	11.0	11.0	10.9	10.9
Value-added taxes VAT	6.4	6.5	6.6	6.6	6.6	6.6	6.6
Taxes on products (STs, ...)	2.8	2.9	3.0	2.9	2.9	2.8	2.8
Other taxes on production (Property Tax, ...)	1.8	1.7	1.6	1.5	1.5	1.5	1.5
On income	12.2	12.4	12.6	12.7	12.9	13.1	13.3
PIT (including NRIT natural persons)	9.0	9.1	9.4	9.5	9.6	9.8	10.0
Corp. Inc. Tax (including NRIT legal persons)	2.8	2.8	2.8	2.8	2.9	2.9	3.0
Other current taxes	0.5	0.5	0.4	0.3	0.3	0.3	0.3
Capital	0.4	0.4	0.4	0.3	0.3	0.3	0.3
CONTRIBUTIONS:	13.2	13.3	13.4	13.3	13.3	13.3	13.3
OTHER REVENUE	4.4	4.2	4.0	4.1	4.1	4.1	4.1

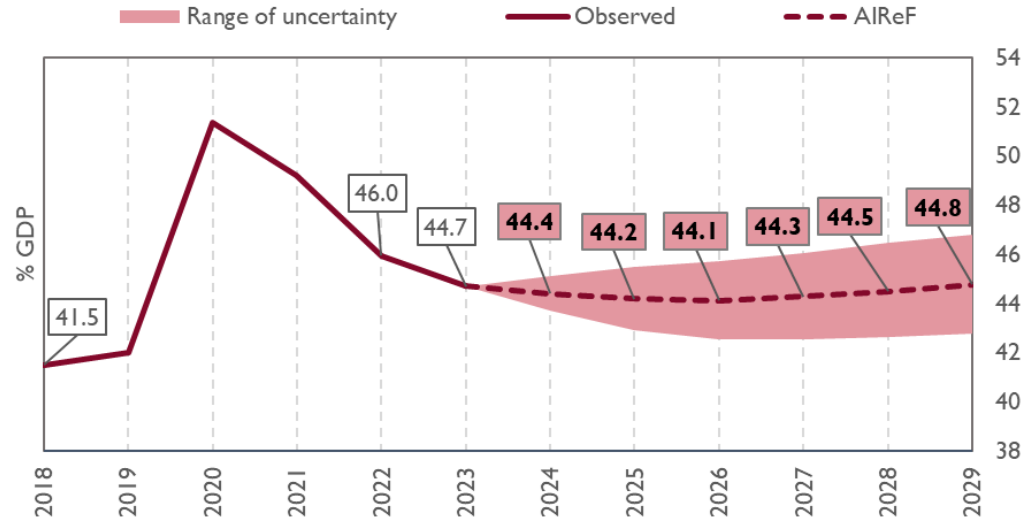
Source: IGAE and AIReF

- In 2024 and 2025, AIReF expects an increase in revenue, due both to the withdrawal of energy measures and to the boost from taxes on income and the increase in contribution rates approved with the IEM and the solidarity contribution, only partially offset by the reduction in the weight of other revenue
- From 2026, taxes on production fall, driven by special taxes, while taxes on income continue their upward trend and contributions stabilise their weight of GDP

AIReF estimates a reduction in expenditure until 2026, the year in which it will start to rise, driven by investment and interest rates

EVOLUTION OF GG EXPENDITURE (% GDP)

MAIN COMPONENTS OF EXPENDITURE (% GDP)



Source: IGAE and AIReF

EXPENDITURE	AIReF						
	2023	2024	2025	2026	2027	2028	2029
EXPENDITURE	44.7	44.4	44.2	44.1	44.3	44.5	44.8
Compensation of employees	10.9	10.8	10.7	10.6	10.5	10.4	10.4
Intermediate consumption	5.7	5.6	5.5	5.6	5.6	5.6	5.7
Social transfers in kind via market	2.7	2.7	2.6	2.6	2.7	2.7	2.7
Social benefits in cash	16.8	16.8	16.8	16.9	16.9	16.9	17.0
Interest	2.4	2.5	2.5	2.6	2.7	2.8	2.9
Gross capital formation	2.7	2.6	2.6	2.7	2.8	2.9	3.0
Subsidies and other expenditure	3.6	3.5	3.3	3.2	3.2	3.2	3.1

Source: IGAE and AIReF

- Up to 2026, AIReF estimates a reduction in expenditure driven by compensation of employees and the withdrawal of measures to reduce subsidies and other expenditure
- From then on, growth in interest and gross capital formation and, to a lesser extent, cash benefits, will increase the expenditure path by around 0.2 points per year until 2029

The evolution of the deficit is not homogeneous by sub-sector, but the bulk of the deficit is concentrated in the CG over the whole period

BALANCE BY SUB-SECTOR (% OF GDP)

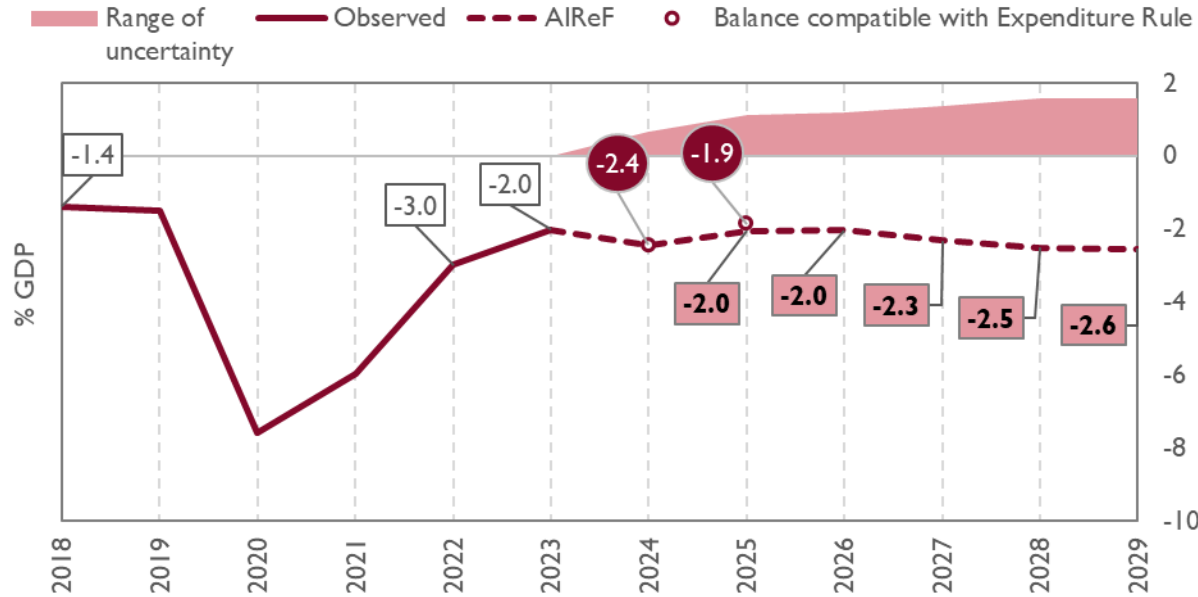
	AIReF current						
	2023	2024	2025	2026	2027	2028	2029
GG	-3.5	-3.0	-2.7	-2.7	-2.7	-2.8	-2.9
CG	-2.0	-2.4	-2.0	-2.0	-2.3	-2.5	-2.5
SSFs	-0.6	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2
ARs	-0.9	-0.3	-0.5	-0.5	-0.4	-0.3	-0.3
LGs	0.0	0.1	0.0	0.0	0.1	0.1	0.1

Source: IGAE and AIReF

- In 2024 all sub-sectors improve their balance, with the exception of the CG, due to the very high settlement of the financing system in that year. This worsening of the CG balance is reflected in the improvement of the balance of the ARs and LGs
- The improvement in the balance in 2025, however, is led by the CG and the SSFs
- From 2026, the worsening of the balance is due to the CG, which is only partially offset by an improvement in the balance of the ARs

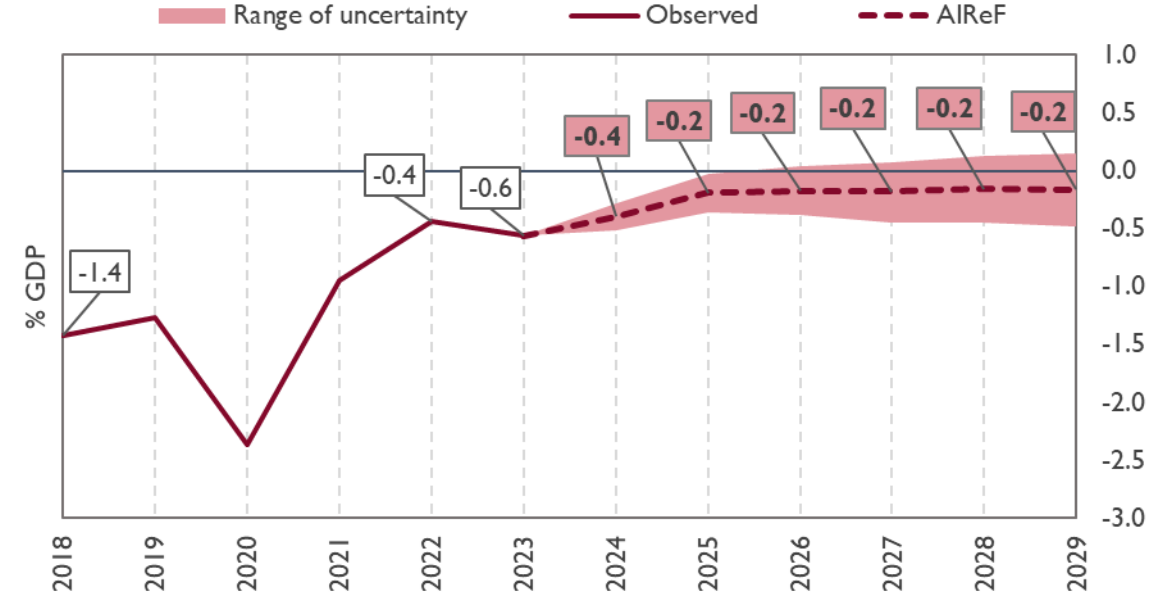
The path of the CG balance is determined by the settlement of the financing system and the increase in expenditure on interest and gross capital formation, while the SSFs stabilise at 0.2% in the medium term

EVOLUTION OF THE CG BALANCE (% GDP)



Source: IGAE and AIReF

EVOLUTION OF THE SSF BALANCE (% GDP)

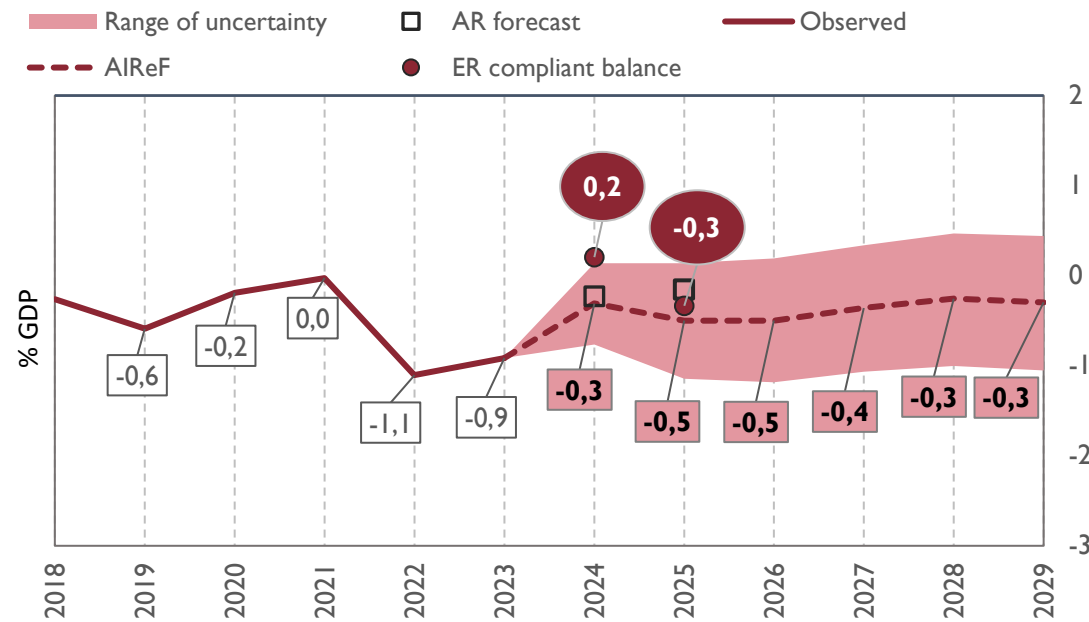


Source: IGAE and AIReF

- In 2024 and 2025, the CG balance is determined by the settlement of the financing system. From then on, it will be the increase in expenditure, especially gross capital formation and interest, that pushes the path upwards
- In 2024 and 2025, the SSFs' balance improves due to both an increase in contributions as a result of the measures approved, and an increase in transfers to cover "improper" expenditure. The balance will then stabilise despite the increase in the weight of pensions, as this increase is offset by an improvement in unemployment

In the medium term, AIReF expects the ARs to reach a deficit of 0.3%

EVOLUTION OF THE BALANCE OF THE ARS (% GDP)



Source: IGAE and AIReF

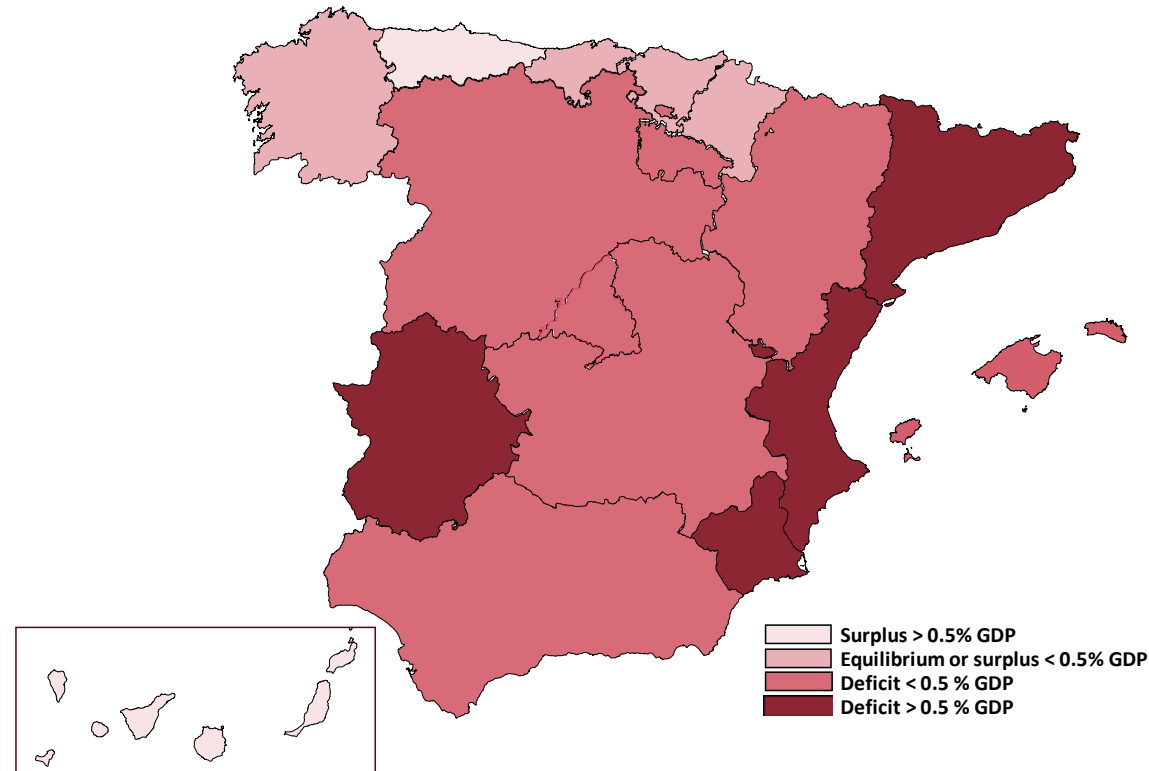
FORECAST OF REVENUE AND EXPENDITURE OF THE ARS (% GDP)

Total ARs	AIReF	AIReF	AIReF	AIReF	AIReF	AIReF
	Forecast	forecast	Forecast	forecast	Forecast	Forecast
	2024	2025	2026	2027	2028	2029
	%GDP	%GDP	%GDP	%GDP	%GDP	%GDP
Net revenue without RTRP	15,3	14,9	14,8	14,9	15,1	15,1
Net RFS	9,8	9,6	9,5	9,7	9,9	9,9
Net IPs	8,5	8,9	8,9	9,0	9,0	9,1
Net Settlement	1,3	0,7	0,7	0,7	0,8	0,8
Tax on Prop. Transf. & Stamp Duty	0,7	0,7	0,7	0,7	0,7	0,7
Inheritance and Gift Tax	0,2	0,2	0,2	0,2	0,2	0,2
Other non-RFS tax	0,9	0,9	0,9	0,9	0,9	0,9
Other revenue	3,7	3,5	3,5	3,5	3,5	3,5
Net expenditure without RTRP	15,6	15,4	15,3	15,3	15,3	15,4
Intermediate consumption	2,6	2,6	2,6	2,6	2,7	2,7
Compensation of employees	6,8	6,7	6,6	6,6	6,6	6,5
Social transfers in kind	2,4	2,4	2,4	2,4	2,5	2,5
Interest	0,5	0,5	0,5	0,5	0,5	0,5
Other current expenditure	1,8	1,7	1,7	1,7	1,6	1,6
Capital expenditure	1,6	1,5	1,5	1,5	1,5	1,5
Net lending/borrowing	-0,3	-0,5	-0,5	-0,4	-0,3	-0,3

Source: IGAE and AIReF

- The normalisation of the revenue of the financing system of the ARs under the general regime, still affected by the tax cuts adopted to date in 2025 and 2026, will lead to a deficit of 0,5 points, which will improve from 2027 onwards
- Revenue will stabilise at 15.1% of GDP, with a growing weight of the system's revenue and a constant weight of other revenue (maintenance of transfers from the State and growing evolution of tax revenue and EU funds)
- Expenditure will reach 15.4%, conditioned by the easing of inflationary pressures, the evolution of expenditure associated with the ageing population and the return of fiscal rules

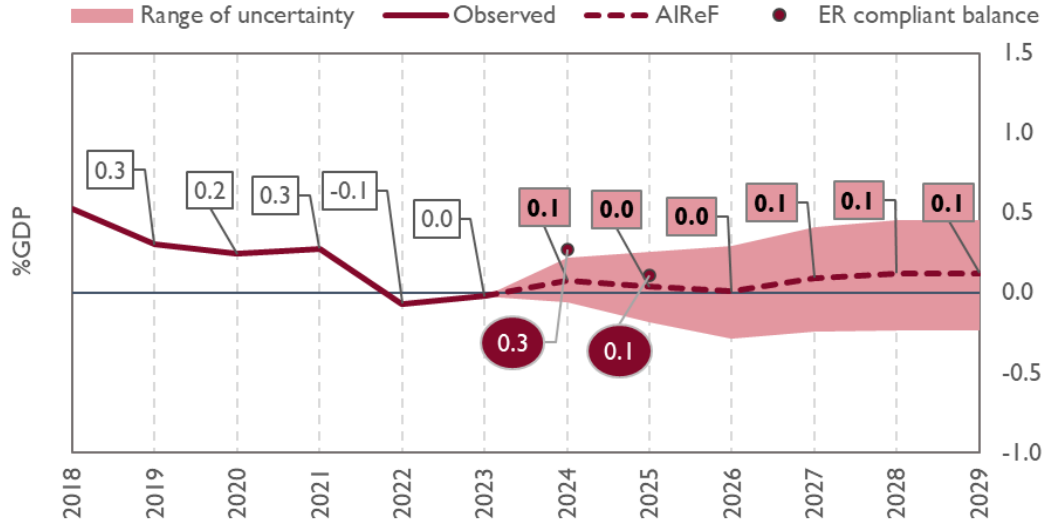
In 2025, most ARs will close with a deficit, while six will maintain surpluses or fiscal balances close to equilibrium



- A deterioration in the balance with respect to 2024 is expected in almost all the ARs under the general regime, conditioned by the evolution of the revenue of the financing system, and an improvement in those under the chartered regime, affected by the recording of PIT rebates to mutual society members in 2024
- Seven ARs will close with a deficit of less than 0.5%, while AIReF forecasts higher deficits in four of them

The fiscal balance of the LGs remains stable at a surplus of around 0.1%, with a larger reduction in expenditure than expected in revenue

EVOLUTION OF THE FISCAL BALANCE OF THE LGS (% GDP)



Source: IGAE and AIReF

PROJECTED REVENUE AND EXPENDITURE OF THE LGS (% GDP)

	AIReF					
	2024	2025	2026	2027	2028	2029
REVENUE	6.3	6.2	6.1	6.2	6.2	6.2
EXPENDITURE	6.2	6.2	6.1	6.1	6.0	6.0
BALANCE	0.1	0.0	0.0	0.1	0.1	0.1

Source: IGAE and AIReF

- The projected surplus in 2024 is due to the very high settlement in 2024 of the financing system for 2022. Without this, the sub-sector would be in deficit
- The fiscal balance stabilises from 2027 onwards at a surplus of 0.1% as a result of the weight of revenue and expenditure remaining stable, after reaching equilibrium in 2025 and 2026

In 2025, all the large LGs analysed are expected to have surpluses, after three of them posted deficits in 2024, albeit not very significant. Nine fail to comply with the expenditure rule in 2024

LOCAL GOVERNMENTS	EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023)					AIReF Forecasts 2024 - 2025			
	Budgetary stability				Eligible expenditure Average annual growth 2020-2023	2024		2025	
	2020	2021	2022	2023		Stability	Eligible expenditure	Stability	Debt ratio
MADRID	+	+	-	+	2.3%	+	2.4%	+	33%
BARCELONA	-	-	-	+	9.6%	+	-2.2%	+	31%
VALENCIA	+	+	+	+	8.6%	+	6.0%	+	13%
SEVILLE	-	+	+	+	3.9%	+	1.8%	+	19%
ZARAGOZA	-	+	+	+	7.5%	+	-1.2%	+	60%
MÁLAGA	+	+	+	+	7.4%	+	-1.8%	+	33%
MURCIA	+	+	-	-	6.6%	-	1.6%	+	44%
PALMA	+	+	+	+	6.8%	-	13.6%	+	33%
LAS PALMAS DE GRAN CANARIA	+	+	-	+	5.0%	+	1.6%	+	0%
ALICANTE/ ALACANT	+	+	+	+	9.1%	+	-2.7%	+	1%
BILBAO	-	+	+	-	3.4%	+	4.1%	+	4%
CÓRDOBA	+	-	+	-	12.4%	+	1.1%	+	37%

LOCAL GOVERNMENTS	EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023)					AIReF Forecasts 2024 - 2025			
	Budgetary stability				Eligible expenditure Average annual growth 2020-2023	2024		2025	
	2020	2021	2022	2023		Stability	Eligible expenditure	Stability	Debt ratio
VALLADOLID	-	+	-	-	8.8%	+	-7.9%	+	46%
VIGO	+	+	+	+	5.4%	+	2.1%	+	0%
L'HOSPITALET DE LLOBREGAT	-	+	+	+	2.7%	+	4.0%	+	19%
GIJÓN / XIXÓN	-	-	-	+	5.2%	+	1.0%	+	25%
VITORIA-GASTEIZ	-	+	+	-	n.a.	-	5.9%	+	20%
PC BARCELONA	+	+	+	+	6.8%	+	13.8%	+	0%
PC VALENCIA	+	+	+	+	13.7%	+	0.2%	+	4%
PC SEVILLE	+	-	-	+	18.7%	+	49.6%	+	1%
ISLAND GOV. OF TENERIFE	+	+	-	+	27.8%	+	8.2%	+	13%
ISLAND GOV. OF MALLORCA	+	+	+	+	17.9%	+	2.5%	+	0%
PROV. COUNC. OF ARABA/ÁLAVA	-	+	-	-	6.1%	+	2.5%	n.a.	n.a.
PROVINCIAL COUNCIL OF GIPUZKOA	-	+	+	+	9.7%	+	5.7%	+	21%
PROVINCIAL COUNCIL OF BISCAY	-	+	+	-	10.8%	+	-14.6%	+	66%

Recommendations set out in the Report on the Main Budgetary Lines

Distribution of debt targets

The Council of Ministers should approve public debt targets by sub-sector for the period 2025-2027 in compliance with Article 15 of the Organic Law on Budgetary Stability and Financial Sustainability

Monitoring of budgetary execution 2024

The City Councils of Bilbao and L'Hospitalet de Llobregat should monitor the execution of their budgets, adopting the measures they deem appropriate to correct the growth in eligible expenditure for the purposes of the expenditure rule and thus avoid the structural deterioration of their accounts in the medium and long term



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