

# REPORT ON THE INITIAL BUDGETS OF THE GENERAL GOVERNMENT FOR 2025

REPORT 3/25

April 10<sup>th</sup>, 2025



Independent Authority  
*for* Fiscal Responsibility



Independent Authority  
for Fiscal Responsibility

The mission of the Independent Authority for Fiscal Responsibility, AAI (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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## EXECUTIVE SUMMARY

The Independent Authority for Fiscal Responsibility (AIReF) has a legal mandate to evaluate the initial budgets of the General Government (GG) from the perspective of compliance with fiscal targets, focusing its evaluation on the main changes with respect to the draft budgets and main budgetary lines previously reported on November 5<sup>th</sup>, 2024. To date, the Government has not presented the draft General State Budget for 2025. At the regional level, ten Autonomous Regions (ARs) have approved their budgets and seven have extended them, although one has just presented its draft budget. Furthermore, the budgetary stability and debt targets for 2025 have not been approved either, although the reference rate of the national expenditure rule has been set at 3.2%. In this report, AIReF updates its macroeconomic and fiscal forecasts for 2025, incorporating the impact of the measures approved since the last report, including those aimed at mitigating the effects of the Isolated High Altitude Depression (DANA), as well as recently published information on year-end 2024.

In this context, AIReF presents a new macroeconomic scenario that maintains the real gross domestic product (GDP) growth forecast for 2025 at 2.5%, while nominal GDP growth, which is particularly relevant for fiscal forecasts, stands at 4.8%.

According to AIReF's estimates, primary expenditure net of revenue measures will grow by 4.6% in 2025, 0.9 points above the expenditure commitment of the Medium-Term Structural-Fiscal Plan (MTP). Furthermore, AIReF maintains the forecast for the GG deficit at 2.7%, as predicted in the previous report, which did not yet incorporate the impact of the DANA. If the fiscal impact of the DANA is excluded, the deficit for 2025 would be 2.4% of GDP, 0.3 points below the forecast in the previous report. In addition to the increase due to the measures adopted to mitigate the effects of the DANA, estimated at 0.3 points of GDP, the deficit forecast also incorporates the impact of the measures adopted by the GG sub-sectors since the previous report, with a slightly positive net impact of deficit reduction. In addition, the incorporation of new information, such as the year-end 2024 figure of 2.8% of GDP excluding the impact of the DANA, explains a reduction in the deficit by 0.1 points of GDP. Lastly, the revision of the macroeconomic scenario also implies a reduction in the deficit forecast by an additional 0.1 points.

### Review of the macroeconomic scenario for 2025

AIReF maintains its forecast for real GDP growth for 2025 at 2.5%, in contrast to other institutions that have recently revised their estimates upwards. The absence of revisions is based on the strength of domestic demand and, in particular, private consumption projected for 2025, underpinned by growth in job creation, the high rates of savings achieved - not seen since the outbreak of the global financial crisis - and the improvement in financing conditions. The scenario also incorporates a recovery in business investment which, in the current context of uncertainty, is subject to downside risks. Furthermore, this scenario does not yet incorporate the impact of the trade war unleashed by the United States, the outcome of which is difficult to predict at present. Nor does it incorporate the negative effects associated with the extraordinary increase in uncertainty about trade policy, which AIReF estimates could subtract up to 0.5 percentage points (pp) from the growth of the Spanish economy as early as 2025 if not corrected quickly.

The downside risks surrounding this growth scenario are high. The uncertainty is reflected in a fall in the stock markets that could slow the recovery of investment. The increase in tariffs fuels expectations of a recession in the United States. Tariff escalation, the end result of which is unknown at the time of writing this report, may lead to a fragmentation of trade relations with the consequent loss of efficiency at a global level and a redesign of global value chains. Increased defence expenditure or a shift in German fiscal policy could offset this scenario, but its effects are not expected until 2026.

In terms of prices, the GDP deflator is expected to slow to 2.2%, reflecting the moderation of energy prices and the absence of wage pressures in a context of increased labour supply associated with immigration. The imposition of tariffs by the United States may pose an upside risk to inflation if China diverts its production to European markets. Nominal GDP would grow by 4.8% in 2025, compared with 6.2% the previous year.

### Budgetary scenario for the General Government

AIRcF estimates that by 2025 the growth in GG primary expenditure net of revenue measures will be 4.6%, 0.9 points above the commitment contained in the MTP. This deviation would be 0.3 points of GDP and thus stand at the limit of the annual deviation allowed by European regulations. After closing 2024 with growth of 3.5% in net expenditure, 1.8 points below the MTP forecast, the cumulative growth of net expenditure from 2025 would stand at 8.3%, 0.9 points below the MTP. Unlike in the case of the fiscal balance, the figure for net expenditure in 2024 has not yet been published, so in both cases this is an AIRcF forecast subject to a certain degree of uncertainty as no official methodology has been published at either the national or European level.

AIRcF's forecast for the GG deficit for 2025 stands at 2.7% of GDP, although excluding the impact of the DANA it would be 2.4% of GDP. This represents a reduction in the deficit forecast excluding the impact of the DANA of almost 0.3 points of GDP compared with the November report.

Taking into account AIRcF's revenue forecast, meeting the MTP commitment regarding the growth of primary expenditure net of revenue measures - 3.7% in 2025 - would imply an additional reduction in the deficit of 0.3 points of GDP to 2.4% of GDP in 2025, 2.1% excluding the impact of the DANA. Furthermore, compliance with the national expenditure rule of 3.2% by the Central Government (CG), the Autonomous Regions (ARs) and the Local Governments (LGs) would lead to a deficit of 2.3% of GDP and growth in primary expenditure net of revenue measures of 3.5%, in line with the commitment contained in the MTP.

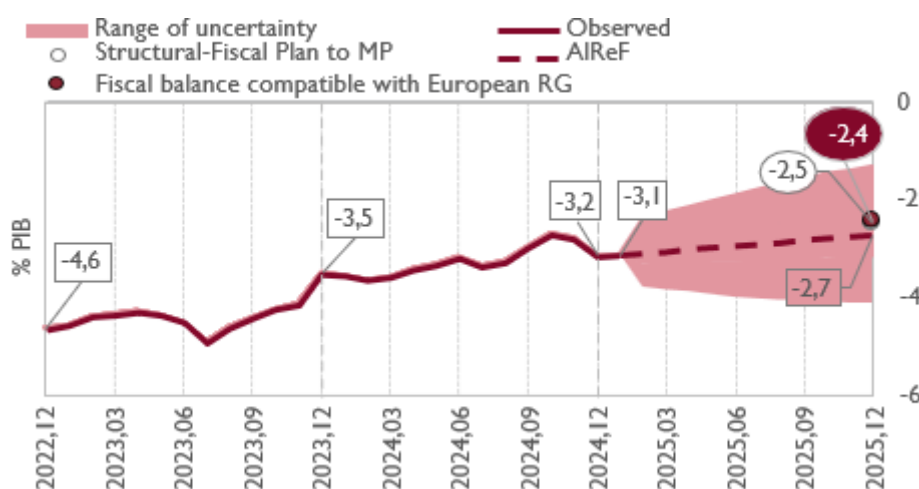
The estimated cost of the measures to mitigate the effects of the DANA in 2025 is 0.3 points of GDP. Together with the 0.4-point impact in 2024, this amounts to a total cost of almost 0.7 points of GDP for the GG Sector. In addition to these measures, the Government has adopted others, including the tax measures approved at the end of 2024, which incorporate changes to Corporate Income Tax (CIT), the approval of the Complementary Tax to

guarantee a minimum global level of taxation, the Tax on the Margin of Interest and Commissions that replaces the Tax on Credit Institutions and the repeal of the Tax on Energy Companies. Measures to increase spending have also been adopted, such as a pay rise for military personnel and the extension of public transport subsidies. In net terms, the new measures not associated with the DANA imply a reduction in the deficit of just under 0.1 points in 2025.

In addition, changes in the macroeconomic scenario reduce the deficit by 0.1 points due to improved tax collection. The improvement in the growth forecast for compensation of employees for 2025 raises collection from Personal Income Tax (PIT) and social contributions, which is partially offset by the reduction in the gross operating surplus (GOS) which implies a lower forecast for CIT collection.

Finally, the incorporation of the latest information available leads to a reduction in the deficit of 0.1 points of GDP compared with November. In 2024, the GG closed with a deficit, excluding the impact of the DANA, of 2.8% of GDP, 0.2 points better than estimated by AIRcF in November. Although part of the improvement is explained by higher than expected income from European funds that does not carry over to 2025, another part is due to factors that do carry over to 2025, such as higher income tax collection and lower expenditure, for example, the unexpected fall in gross capital formation of the LGs.

As a consequence of the above, AIRcF estimates that the deficit in 2025 will fall by 0.5 points of GDP compared with 2024. On the one hand, the gradual withdrawal of measures to alleviate the effects of the price and energy crisis contributes to a reduction of 0.3 points of GDP in the deficit in 2025, while other revenue measures adopted represent an additional reduction of 0.1 points of GDP. The expected reduction in one-off operations associated with court rulings will also reduce the deficit by another 0.2 points of GDP. In contrast, the evolution of other revenue and expenditure will imply an increase in the deficit of 0.2 points.

**FIGURE 1. EVOLUTION OF GG BALANCE**


Source: AIRcF and IGAE

AIRcF forecasts that revenue without the RTRP will grow by 5.1% in 2025, reaching 41.6% of GDP, or 42.4% including RTRP revenue. The level of revenue without the RTRP would be 0.1 points higher than forecast in the previous report, mainly due to the impact of the new measures adopted. In this case, the improvement in tax collection due to changes in the macroeconomic scenario is offset by the denominator effect as a result of the higher forecast of the nominal GDP level. In 2025, both taxes and social contributions are expected to grow by around 6%, with income taxes, PIT and CIT growing by around 8%. In contrast, AIRcF expects a 2.9% reduction in other revenue.

Expenditure in 2025, excluding the RTRP, will stand at 44.3% of GDP, with growth of 4.1% according to AIRcF's estimates. This level would be 0.1 points higher than forecast in the previous report due to the impact of the measures adopted to mitigate the impact of the DANA, which are partially offset by the incorporation of new information and the denominator effect of the new estimate of nominal GDP. The components of public consumption (compensation of employees, intermediate consumption and transfers in kind) will grow by more than 4%, while social transfers in cash and interest will grow by more than 5.5%. AIRcF also expects a recovery in gross capital formation. Conversely, other expenditure will fall due to the gradual withdrawal of measures to alleviate the effects of the price crisis and the lower expected impact of one-off operations, especially court rulings.

### Central Government

The CG's eligible expenditure for the purposes of the national expenditure rule will grow by 5.2% in 2025 excluding expenditure to mitigate the effects of the DANA, 2 points above the reference rate of 3.2%. AIRcF also estimates that the

contribution of the CG to the European expenditure rule would result in an increase in primary expenditure net of revenue measures of 3.5% with respect to 2024, slightly below the MTP reference rate.

AIReF estimates a CG deficit of 2.2% of GDP in 2025, which represents an increase of 0.2 points on the previous forecast. This deterioration in the balance is explained by the measures to mitigate the effects of the DANA, mainly the transfers to LGs, as well as other measures such as the extension of support for public transport and pay rises for military personnel. The changes in the macroeconomic scenario are offset by the increase in PIT collection vs. the decrease in CIT. Excluding the impact of the DANA, the CG deficit would stand at 2% of GDP. Under AIReF's current revenue scenario, compliance with the expenditure rule in 2025 would improve the deficit by 0.2 points to 2% of GDP.

### Social Security Funds

AIReF increases the deficit estimate of the SSFs by 0.1 points to 0.3% of GDP. The increase in the expenditure forecast due to the incorporation of the most recent information is partially offset by the improvement in the forecast for tax collection from social contributions due to the increase in the forecast for the growth of compensation of employees. For its part, primary expenditure net of revenue measures for the purposes of the European expenditure rule would grow by 4.8% in 2025.

### Autonomous Regions

According to AIReF's estimates, the eligible expenditure of the ARs for the purposes of the national expenditure rule will grow by 5.3% in 2025, 2.1 pp above the 3.2% limit. Primary expenditure net of revenue measures, calculated in accordance with the European fiscal framework methodology, will also grow by 5.4%.

The deficit of the ARs will increase in 2025 to 0.5% of GDP, 0.4% excluding the impact of the DANA. This represents an improvement of 0.1 points on the previous report, mainly due to the better-than-expected year-end 2024 figures, partially carried over to 2025. The worsening of the deficit in 2025 is mainly explained by the fall in revenue from the settlement of the regional financing system which, after the extraordinary increase in 2024, returns to its usual levels. This means that, although instalment payments will grow by 9.5%, revenue from the regional financing system will only grow by 2.5%. Excluding the RTRP, expenditure will grow by 4.8%. Under AIReF's current revenue scenario, compliance with the expenditure rule in 2025 would improve the deficit by 0.3 points to 0.2% of GDP, or 0.1% without the DANA measures.

## Local Governments

For the LGs, AIRcF forecasts growth in eligible expenditure for the purposes of the national expenditure rule of 2.6%, excluding the effects of the DANA, below the reference rate set at 3.2%. For the purposes of the European expenditure rule, primary expenditure net of revenue measures for the LGs will grow by 3.8%, slightly above the MTP reference rate.

The LGs will close 2025 with a surplus of 0.3% of GDP, an improvement on the forecast of the previous report by 0.3 points. The LG sub-sector registered a surplus of 0.4% of GDP in 2024, 0.3 points higher than forecast by AIRcF in its previous report. This improvement in the surplus is mainly explained by lower expenditure, principally gross capital formation, which reduces the starting level for 2024 and transfers the improvement in the surplus to the forecasts.

## Challenges that can be appreciated from the point of view of the sustainability of public finances

The updated macro-fiscal forecasts produced by AIRcF project a 1% decrease in the debt-to-GDP ratio this year, bringing it to 100.8%. Although the public deficit will continue to contribute to the increase in debt, its impact will be more moderate than in previous years. At the same time, the contribution of economic growth to the reduction of the debt ratio will be lower this year, in addition to a foreseeable increase in the stock-flow adjustment stemming from European loans. All this will result in a slowdown in the pace of debt reduction, from a fall of 3.3 points to just 1 point.

This reduction is consistent with the projections presented by the Government in the MTP, as well as by the European Commission and the IMF, which estimate decreases of 1.1 points, 1 point and 1.6 points respectively.

AIRcF predicts, under the assumptions of a regulatory scenario, that the ARs will reduce their level of indebtedness by 1.3 points in 2025 to 19.8% of GDP. This forecast is conditioned by the estimate of the excess financing from previous years pending application and by the assumption of strict compliance with the regulations, which would imply that in 2025 the unspent surpluses, regardless of the real cash flows, and the excess financing pending from previous years should be used to reduce net borrowing. These positive factors are only partially offset by the deficit forecast for 2025 (0.5% of GDP), of which more than 0.1 points correspond to spending resulting from the DANA. The regulatory scenario considered does not consider the effect of the announced write-off of regional debt, on the understanding that, in any case, it would have no impact in 2025. As far as the LGs are concerned, AIRcF

forecasts an improvement in their net position in 2025 due to an increase in deposits and a decrease in debt.

### Recommendations

According to AIRcF's current forecasts, the growth in primary expenditure net of revenue measures for 2025 for the purposes of the European expenditure rule is above the commitment made in the MTP but within the limit of the annual deviation permitted by European regulations. However, it should be acknowledged that, in addition to the usual uncertainty of an exercise in fiscal forecasts is the fact that the net expenditure figures for 2024 have not yet been published and that doubts persist about the calculation of this net expenditure.

Furthermore, the European Commission has recently announced the possibility for Member States to request the activation of the national escape clause, so that the increase in defence expenditure of up to 1.5% of GDP compared with the level registered in 2021 is not considered for the purposes of the European expenditure rule.

Furthermore, AIRcF also identifies a risk of non-compliance with the national expenditure rule for 2025 for the CG, the ARs and four LGs. In addition, according to AIRcF's current forecasts, compliance with the national expenditure rule in 2025 would lead to compliance with the European expenditure rule.

Consequently, AIRcF recommends that the Ministry of Finance monitor budgetary execution and establish the coordination mechanisms necessary to guarantee compliance with the national and European expenditure rules by the GG Sector. It also recommends that the Ministry of Finance publish monthly figures for primary expenditure net of revenue measures for the purposes of the European expenditure rule and resume the monthly publication of eligible expenditure for the national expenditure rule. Along the same lines, it recommends that the ARs and five LGs monitor budgetary execution and periodically update the growth estimates for eligible expenditure. Finally, AIRcF recommends signing an agreement with the Ministry of Finance for the provision of the information necessary for the preparation of its reports.

# 1. INTRODUCTION

**AIReF has the legal mandate to report on the initial budgets of the General Government (GG).** The Organic Law on Budgetary Stability and Financial Sustainability establishes that this report must be prepared by April 1<sup>st</sup>, from the perspective of compliance with the expenditure rule and the budgetary stability and public debt targets. However, as has become usual, AIReF has had to delay the issue of this report in order to incorporate the year-end figures for the previous year, which were published on March 31<sup>st</sup> and which provide essential information for the analysis.

**As regards national fiscal rules, the Government presented a proposal for stability and debt targets for 2025.** On July 16<sup>th</sup>, 2024, the Government approved a Council of Ministers Agreement to establish the stability and debt targets for the General Government Sector and its sub-sectors for the three-year period 2025-2027. For 2025, a deficit target of 2.5% of GDP was set for the GG Sector, with the following distribution by sub-sector: a deficit of 2.2% for the Central Government (CG), 0.1% of GDP for the Autonomous Regions (ARs), 0.2% of GDP for the Social Security Funds (SSFs) and zero for the Local Governments (LGs). With regard to debt, a target of 103.6% of GDP was set for the GG Sector. Of this, 81.5% would correspond to the CG and SSFs, 20.8% to the ARs and 1.3% to the LGs.

**However, it was not approved by Parliament as required by law.** The targets were rejected by the Congress of Deputies on July 23<sup>th</sup>, preventing their approval by Parliament, as established in Article 15(6) of the LOEPSF. In view of this situation, on September 10<sup>th</sup>, a new Agreement was adopted by the Council of Ministers with the same targets, which was submitted to Congress on September 20<sup>th</sup>. However, on September 24<sup>th</sup>, the Government agreed through the Council of Ministers to withdraw it from its passage through Parliament, in order to allow more time for negotiation. Since then, no new stability and debt targets have been presented for 2025.

**In contrast, the reference rate of the national expenditure rule, which does not require parliamentary approval, has been set at 3.2% for 2025.** The publication of the Report on the Situation of the Spanish Economy on July 12<sup>th</sup>, 2024 states that the reference rate of the expenditure rule is set at 3.2% for 2025, which is mandatory for the CG, the ARs and the LGs, without requiring parliamentary approval, unlike the stability and debt targets.

**At the European level, Spain must comply with the expenditure rule committed to in the Medium-Term Structural-Fiscal Plan (MTP).** In accordance with the new framework of European fiscal rules, Spain has committed to ensuring that the growth in primary expenditure net of discretionary measures for the GG Sector does not exceed 3.7% in 2025. The European expenditure rule is calculated differently from the national expenditure rule (see Box 1 Differences between the European expenditure rule and the national expenditure rule).

**This report focuses on the changes that have occurred with respect to the draft budgets and main budgetary lines previously reported on November 5<sup>th</sup>, 2024.** AIReF expressed a view on the main budgetary lines of the GG Sector<sup>1</sup> and on those of the ARs<sup>2</sup> and the LGs<sup>3</sup> on November 5<sup>th</sup>. Since then, most of the ARs and LGs have approved their budgets for 2025. At the regional level, all the ARs have approved their budgets, with the exception of Aragon, the Balearic Islands, Castile and Leon, Catalonia, Extremadura, Murcia and Valencia, which have been extended. In particular, for the AR of Valencia, the draft budget has been approved and is currently in its passage through the Regional Parliament. In the case of the LGs, most of those analysed individually by AIReF have also approved their budgets. In contrast, for the CG and the SSFs, the Central Government finally decided not to present the draft General

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<sup>1</sup> Reports-on-the-Draft-Budget-and-Main-Budgetary-Lines-for-2025

<sup>2</sup> Reports-on-the-Draft-Budget-and-Main-Budgetary-Lines-of-the-ARs-for-2025

<sup>3</sup> Reports-on-the-Draft-Budget-and-Main-Budgetary-Lines-of-the-LGs-for-2025

State Budget (GSB) for 2025, which means the GSB for 2023 will be extended for the second year running.

**This report updates AIReF's macroeconomic and fiscal forecasts for 2025 with the aim of evaluating the initial budgets of the GG.** Since the publication of the previous report, AIReF has presented a new macroeconomic and fiscal scenario. The new estimates incorporate the latest data from the quarterly accounts, from year-end 2024 and the accounts of the institutional sectors, as well as the impact of the measures adopted by the GG authorities since the publication of the previous report. These include measures adopted in response to the damage caused by the Isolated High Altitude Depression (DANA) at the end of 2024 and transport support.

**AIReF's view covers the situation of the GG Sector and each of its sub-sectors.**

AIReF updates the forecasts for 2025 for the GG Sector and for each of its sub-sectors. At the regional and local level, this update is complemented by the publication of individual reports for the ARs, as well as the individual analysis of the 22 large LGs and the three Provincial Councils of the Basque Country.

**Lastly, as regards the organisation of the report, it is divided into seven sections.** Following this introduction, Section 2 describes the content and scope of the report. Section 3 examines the evolution of the macroeconomic scenario and the reasons for its revision, concluding with an evaluation of macroeconomic risks. Section 4 then analyses the evolution of the budgetary scenario, highlighting the impact of the measures and looking in more detail at the evolution of revenue and expenditure for the GG Sector, and Section 5 looks in more detail at each of its sub-sectors. This section is completed with an analysis of contingent liabilities and the fiscal risks envisaged for 2025. Section 6 evaluates the challenges to the sustainability of public finances stemming from updating the macroeconomic and budgetary scenarios. Finally, Section 7 presents the recommendations stemming from the analysis.



## 2. PURPOSE AND SCOPE

**AIReF's Statute specifies that the purpose of this report is to assess the initial budgets on the basis of the changes that have taken place with regard to the draft budgets and main budgetary lines previously reported on.** AIReF focuses its assessment on the main changes with respect to the draft budgets and main budgetary lines previously reported on November 5<sup>th</sup>, 2024. To do so, it analyses the measures adopted since that date, the budgets finally approved by the ARs and LGs and the rest of the information available, in particular including the year-end data for 2024. On the basis of this information, it updates its forecasts for the GG Sector, for each of the sub-sectors and for those LGs subject to individual assessment, comparing them with the estimates included in the report on the main budgetary lines published in November.

**The scope of the report has been conditioned by the particular uncertainty stemming from the current geopolitical context, as well as by the lack of relevant information on certain items of expenditure.** In particular, the following limitations stand out:

- **Uncertainty over the fiscal impact of potential Government measures in response to rising tariffs.** The Government has recently announced the possible approval of support aimed at protecting the most vulnerable economic sectors from a potential tariff war. However, the scope and

amount of these measures is unknown, which introduces an additional source of fiscal uncertainty.

- **Uncertainty surrounding the increase in defence expenditure planned for 2025.** The Government's commitment to increase this item raises doubts regarding the final amount to be executed, both in budgetary and in national accounting terms, the latter directly affecting the public deficit. Moreover, no information is available on the military deliveries planned for the current year, even though they could have a significant impact due to the volume of investment they represent.
- **Lack of detailed information on the implementation of the Recovery, Transformation and Resilience Plan (RTRP) in national accounting terms.** The lack of data disaggregated by national accounting headings and by GG sub-sector makes it difficult to accurately estimate the impact of the RTRP on the revenue and expenditure projected by AIReF for 2025.
- **Lack of complete and up-to-date information on fiscal risks with a potential impact on the deficit.** Although it cannot strictly be considered as a limitation on the scope, greater transparency on liabilities that could stem from contingent liabilities is desirable. In the current context of numerous ongoing legal proceedings - an unfavourable court ruling could have a significant impact on the deficit - and clear and up-to-date information is considered essential.

# 3. MACROECONOMIC SCENARIO FOR 2025

## 3.1. Introduction

**The Spanish economy has continued to post high growth in 2024 and at the start of 2025.** Real GDP growth stood at 3.2% in 2024, according to the most recent estimates by the National Statistics Institute (INE). This was higher than the previous year (2.7%) and exceeded both AIReF and Government forecasts. This evolution was underpinned by the performance of the main demand aggregates and, in particular, the rise in private consumption, driven by the increase in population and employment, and public consumption - whose contribution to growth exceeded 0.8 points. Added to this was the expansion of non-residential investment and investment in transport equipment which, with some volatility, overcame the sluggishness of recent years, as well as the dynamism of exports of services.

**Nevertheless, AIReF maintains its growth forecast at 2.5% for 2025, in contrast to the upward revisions made by some institutions recently.** The absence of revisions in the GDP growth estimate reflects the occurrence of opposing factors whose impact is difficult to quantify at this point in time.

**The disruptions in the international economic order caused by Donald Trump's new administration put the global growth and trade scenario at risk.** The United States has always been one of the founding and driving forces behind the multilateral system of rules that was created after the Second World War and which has brought so many benefits in terms of global efficiency gains, the spread of innovation and consumer access to a diversity of products. In fact, until now, its tariffs have been comparatively low, with a weighted average tariff against the rest of the world of 2.2%, somewhat higher for agricultural products and 2.1% for non-agricultural products. In this regard, the intensity of the tariffs adopted, with a minimum non-negotiable 10% increase for all countries and almost all products, is, in the first instance, a threat to US growth and inflation. The imposition of across-the-board tariffs is a quantum leap from the bilateral tensions experienced in 2018-2019 between the US and China and could escalate into a tariff escalation or trade war if countries retaliate, with very adverse consequences for global growth. Trade policy uncertainty and financial market volatility affect investment decisions and consumer confidence and will lead to a redesign of global trade relations.

**Most of the organisations and institutions that make forecasts have not yet incorporated the potential impact on global growth and trade of this tariff escalation in their scenarios, the outcome of which is difficult to anticipate at this stage.** Nevertheless, the uncertainty indicators have reached levels not seen since the pandemic and, according to AIReF's estimates, their impact on investment and exports could be high, subtracting 0.5 percentage points (pp) from GDP growth this year.

**Conversely, the fiscal stimulus linked to defence expenditure and Germany's fiscal policy shift could help underpin aggregate demand in the euro area and the Spanish economy.** Three years after Russia's invasion of Ukraine, the Trump Administration's geopolitical decisions and announcements have led to a recalibration of the strategic priorities of the European Union, which has approved a defence expenditure programme for the coming years. The expenditure commitments of most countries and, in particular, of the Spanish economy, are still unknown, so it is not possible to gauge their macroeconomic impact. In the case of Germany, there has been a historic shift in its fiscal policy, with a relaxation of its debt rule and an investment programme for the next ten years which, according to some estimates, will have a significant impact on the economy's growth as from 2026.

**On the price front, the slowdown is expected to be marked by lower energy prices and subdued aggregate demand.** In particular, the GDP deflator is projected to slow to 2.2%, down from 3% a year earlier. The moderation of unit labour costs, in a context of slower wage growth and moderate productivity

gains, the recent fall in energy prices and the slowdown in global demand all contribute to the moderation of inflation. Nominal GDP growth is projected to be 4.8% in 2025, down from 6.2% the previous year.

## 3.2. Evolution of the international economic environment

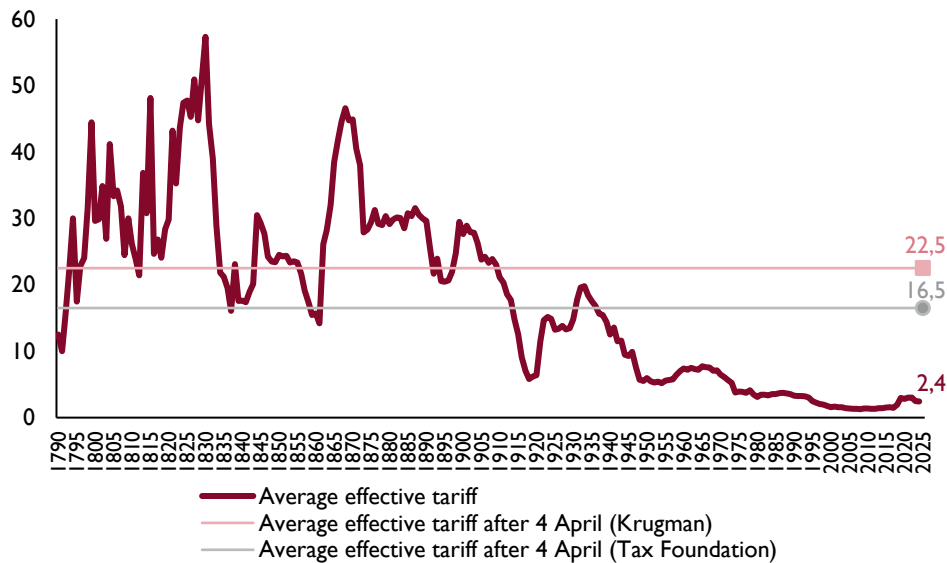
**The Trump Administration's policy is a disruption to the global economic order and the system of rules established after the Second World War, with negative implications for trade and global growth.** On the economic front, the intensity of the tariff measures adopted by the United States has exceeded the most negative expectations. Initially, several protectionist measures were approved against countries like Canada and Mexico and an additional 20% tariff on products originating in China or countries importing Venezuelan oil. In addition, specific tariffs of 25% were established on steel, aluminium and vehicles and components. Subsequently, on April 2<sup>nd</sup>, the US moved to apply an additional, in principle non-negotiable, universal tariff of 10% on almost all imports (with the exception of copper, semiconductors, wood, pharmaceuticals, critical commodities and energy and energy products), maintaining the 25% tariff for automobiles and components, steel and aluminium. In addition, so-called reciprocal tariffs were established, including the application of an additional tariff of 34% on Chinese products (which, on top of the increases of recent years, would face a tariff of 70% on sales to the United States) and a tariff of 20% on EU imports. The average effective tariff on US imports would rise from 2.4% to between 16.5% and 22.5%, peaks not seen since the Great Recession in 1930<sup>4</sup>. The Trump Administration has left open the possibility of renegotiating these tariff hikes, but has also announced new measures for countries that retaliate. So far China, Canada and the European Union have announced tariff increases on imports from the United States<sup>5</sup>.

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<sup>4</sup> Paul Krugman (2025). Will Malignant Stupidity Kill the World Economy?

<sup>5</sup> China initially announced a 34% tariff on all imports from the United States, and a series of measures aimed at controlling trade in dual-use and military equipment, as well as rare earths. Subsequently, following US retaliation, it announced a further increase to 84%. Canada will apply a 25% tariff on all vehicles imported from the United States. For its part, the European Union (EU) has reacted with a two-phase package of countermeasures: the first, which would come into force on April 14<sup>th</sup>, would seek to reinstate tariffs already in place in 2018 and 2020, with some exceptions. The second phase considers tariffs to be applied in stages over 2025 for a set of goods, subject to negotiation with the US. If negotiations fail, the EU could, for the first time, use the Anti-Coercion Instrument, adopted at the end of 2023, which allows for tariff and non-tariff measures that could be extended to services and financial flows, where dependence on the US is high.

**FIGURE 2. AVERAGE EFFECTIVE TARIFF APPLIED BY THE US (TARIFF REVENUE ON IMPORTS OF GOODS, %)**



Sources: Yale University, Tax Foundation and Krugman (2025).

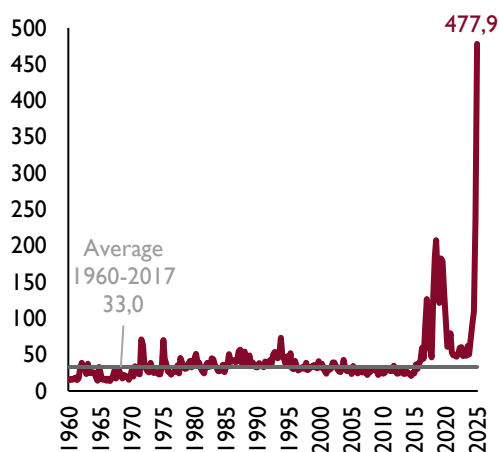
**The shift in trade policy has negative repercussions beyond those associated with the increase in trade costs resulting from tariffs.** The increase in tariffs leads to a scenario of lower growth at a global level due to their direct impact on exports which, in principle, for a specific country, depends both on the importance of exports to the United States and on the inputs incorporated in exports from third countries to this economy. The magnitude of the impact will also depend on trade deviation effects, which on this occasion may be significant: during the trade tensions of 2018-2019, China was able to channel its sales to the United States through other Asian countries. This time, as many of these countries have been hit by high tariffs, China could look for new markets to place its products, and the EU is a potential candidate given the similarity between EU demand and Chinese exports. It could also increase competition for Chinese and European products in third markets. Furthermore, it will be necessary to assess the reconfiguration of global value chains, which could become fragmented with the consequent loss of efficiency, and the evolution of non-tariff barriers (quantitative export restrictions, subsidies, etc.), which in recent years have seen a significant increase according to the Global Trade Alert Database. Up to March 2025 alone, more than 400 measures hindering free trade were recorded, including, in addition to tariffs, export restrictions on minerals, among other products, and import licences and subsidies.

**Beyond its direct impact, the indirect effects on economic agents' confidence and macro-financial conditions must also be considered.** Uncertainty over trade policy has risen to abnormally high levels, exceeding by far those

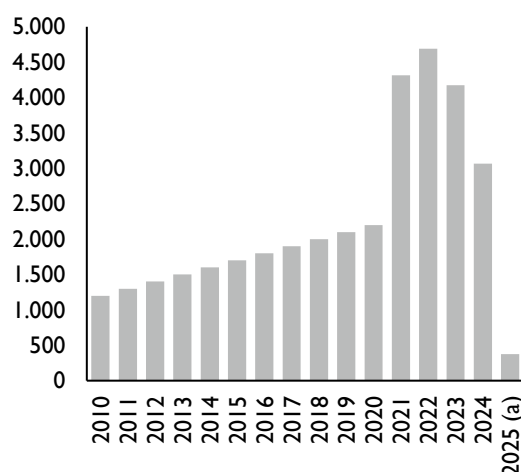
observed in 2018-2019 during the first Trump Administration, creating a context that is not conducive to business investment. Market concerns have caused stock markets to close significantly lower in recent weeks. The prices of energy commodities such as oil have fallen sharply amid fears of a recession in some economies, especially in the United States, where there has been a major contraction in business and consumer confidence and an increase in inflation expectations, given the high dependence on imported intermediate inputs.

**FIGURE 3. TRADE POLICY UNCERTAINTY AND TRADE-DAMAGING MEASURES FROM THE GLOBAL TRADE ALERT DATABASE**

**FIGURE 3.A. INDICATOR OF TRADE POLICY UNCERTAINTY**



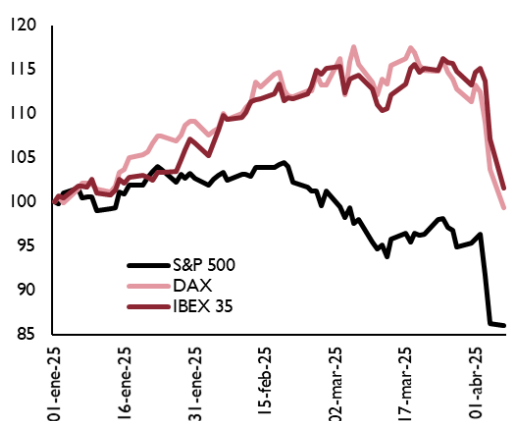
**FIGURE 3. B. NUMBER OF HARMFUL INTERVENTIONS IN WORLD TRADE**



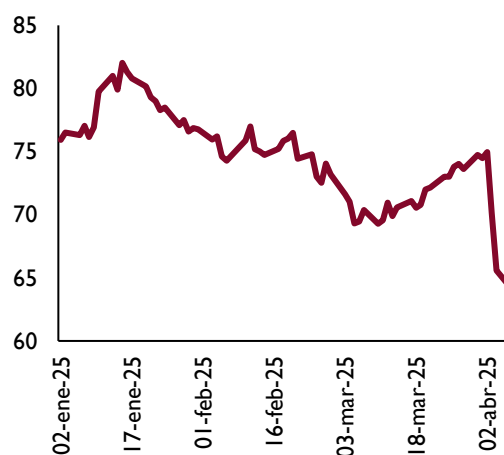
Sources: Caldara *et al.* (2020) and Global Trade Alert Database  
(a) Until March 2025

**FIGURE 4. STOCK MARKET AND OIL PRICE REACTION**

**FIGURE 4.A. STOCK MARKET INDEXES (1 JANUARY 2025=100)**



**FIGURE 4.B. OIL PRICE (\$/BARREL)**

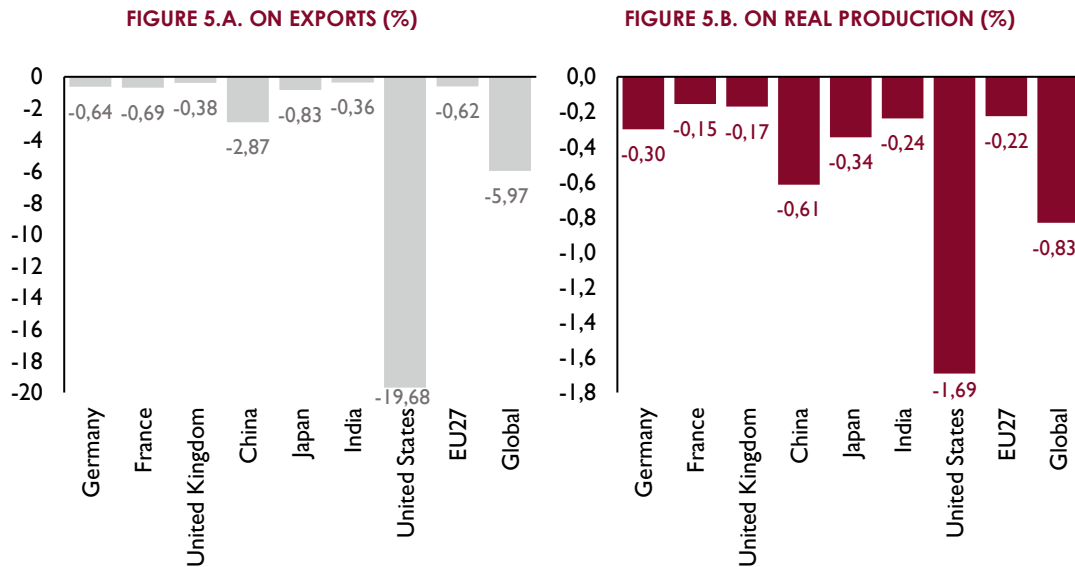


Source: LSEG

**In the medium and long term, tariffs pose a significant challenge to the framework of multilateral rules and institutions within which international economic relations have developed since the Second World War.** Trade has enabled global efficiency gains to be achieved by allowing the exploitation of comparative advantages and economies of scale, while at the same time it has been a driver for the development of emerging economies and a very powerful channel for the diffusion of technology. Its effects on the potential growth of economies may therefore be significant.

**The global growth and world trade forecasts to date do not incorporate the impact of the trade war that has broken out, the outcome of which is difficult to anticipate at the time of writing this report.** Some institutions had already begun to incorporate a negative impact associated with uncertainty over trade policies in their macroeconomic outlook. For example, the March forecasts of the European Central Bank (ECB) incorporated the impact of increased trade uncertainty, estimating a negative effect of 0.1 pp on cumulative global growth in 2025 and 2026. In the euro area, the impact would be somewhat greater (-0.2 pp in the cumulative period 2025-2026) due to its high degree of openness and export specialisation in consumer durables, the demand for which is more sensitive to changes in uncertainty. Other institutions projected scenarios of tariff increases that have been surpassed by the intensity of the measures adopted. Among the most recent analyses incorporating the tariffs announced on April 2<sup>nd</sup>, the Kiel Institute for the World Economy (IfW) estimates that as a result of the tariff measures adopted up to April 4<sup>th</sup>, real GDP in the EU, in the absence of EU retaliation, would contract by 0.2% in the first year, and in the US by 1.7%. Box 1 shows the estimates available for the Spanish economy and the estimates made by AIReF on the impact of trade uncertainty.

FIGURE 5. SHORT-TERM IMPACT OF TARIFFS



Source: IfW (April 4<sup>th</sup>, 2025)

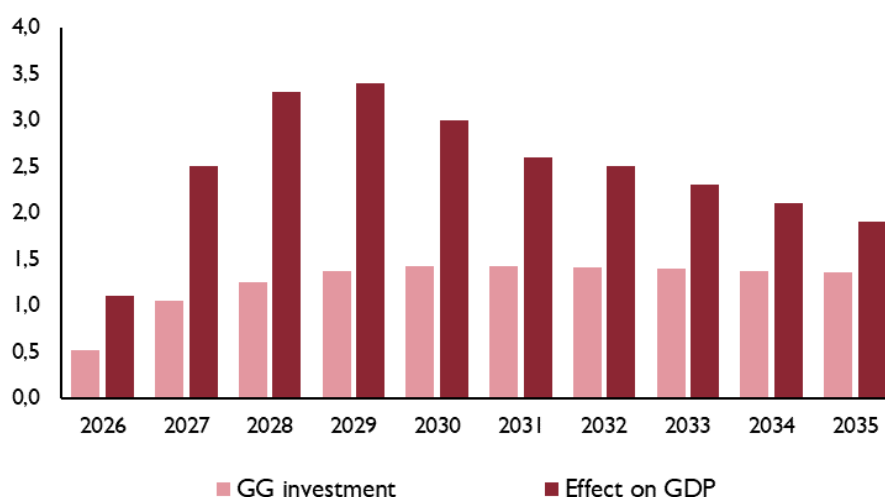
**In European economies, two factors could cushion the negative impact of the trade war, although its effects may be postponed until 2026: the increase in defence expenditure, whose impact is difficult to gauge at the time of writing, and Germany's expansionary fiscal policy.**

**At a geopolitical level, the new US Administration's announcements and decisions have led the EU to prioritise expenditure on defence and security through the *ReArm Europe Plan/Readiness 2030* programme.** In response to the deteriorating geopolitical environment and the need to reinforce the EU's strategic autonomy, the European Commission presented the *ReArm Europe Plan/Readiness 2030* programme in March 2025, which aims to mobilise up to €800bn in defence expenditure and investment over the next decade. This plan considers a combination of financial instruments (loans of up to €150bn), the voluntary reallocation of structural funds for defence purposes and financing through the European Investment Bank. In parallel, to allow for the rapid implementation of these measures without compromising the achievement of national fiscal targets, the Commission has activated the national escape clause provided for in the Stability and Growth Pact. This clause allows Member States to temporarily deviate from their committed net primary expenditure paths, provided that the increase in expenditure is linked to defence, subject to a limit of 1.5 pp per annum. These initiatives represent a coordinated fiscal boost at a European level, the impact of which on growth can be evaluated when countries define their national strategies to be followed. The activation of the escape clause would allow this increased expenditure to be accommodated without compromising compliance with

the first MTP, but the increased expenditure will put pressure on public finances and require stricter fiscal correction in the future.

**In Germany, there has been an historic shift in fiscal policy reflected in an ambitious investment programme accompanied by an easing of the brake on debt.** Germany has launched a comprehensive fiscal stimuli package that will take effect immediately after being ratified by the *Bundesrat*. The plan considers the creation of a €500bn infrastructure investment vehicle over ten years, focused on strategic sectors such as transport, energy, digitalisation and education. This programme is combined with a relaxation of the fiscal discipline framework by amending the constitutional debt brake ("*Schuldenbremse*"). This mechanism, which was introduced in 2009, limited the structural deficit of the German Federal Government to 0.35% of GDP, except in exceptional situations. The reform adopted in 2025 makes it possible to exclude defence expenditure exceeding 1% of GDP from the calculation of the deficit, and gives more flexibility to extra-budgetary funds for the green and digital transformation. According to the German Institute for Economic Research (DIW), these investments, under the assumption of additionality and a multiplier close to 2, could raise GDP growth by 1 pp in 2026, 1.5 pp in 2027 and 0.7 pp in 2028 compared with a scenario without measures (DIW<sup>6</sup>, 2025).

**FIGURE 6. IMPACT OF THE INFRASTRUCTURE INVESTMENT VEHICLE ON GERMANY'S GDP (DEVIATION OF GDP FROM A SCENARIO WITHOUT MEASURES, %)**



Source: DIW

<sup>6</sup> Further information can be found in the report and technical document on the government's investment multiplier in Germany.

**Regarding financial conditions, the European Central Bank continued its gradual monetary easing despite inflation stabilising, while the Federal Reserve maintained its interest rates.** Headline and core inflation have remained relatively stable since the end of 2024 due to the downward resistance of services and a certain rebound in energy and food prices. Even so, the ECB expects price increases to converge to 2% by early 2026 against a backdrop of weak economic activity in some Member States, which has allowed it to make further progress in the process of monetary normalisation. Specifically, the ECB has cut interest rates on six consecutive occasions since June 2024, bringing the deposit facility down to 2.5% in March 2025 from a peak of 4%. In the United States, the Federal Reserve decided to maintain its rates at recent meetings in an environment of growing economic uncertainty, influenced by the US Administration's implementation of tariffs and their possible effects on inflation.

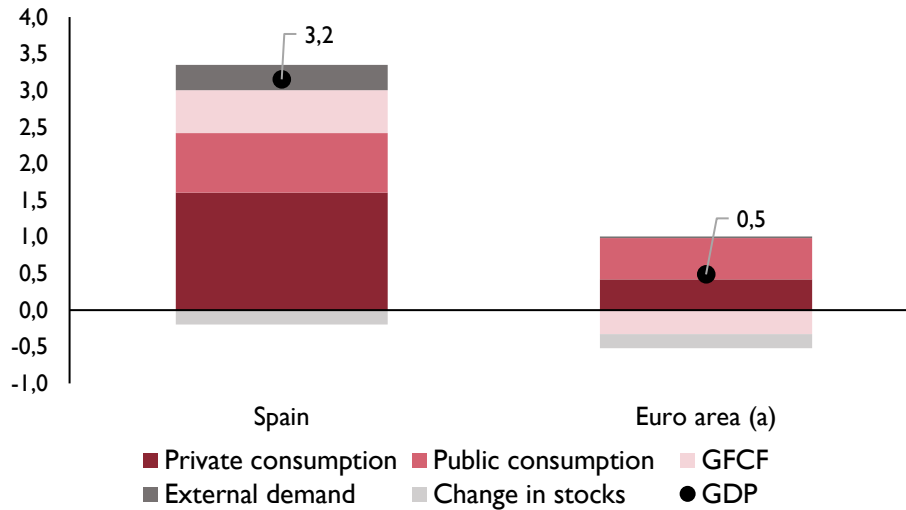
### 3.3. Recent evolution of the Spanish economy

**GDP growth in 2024 stood at 3.2%, 0.5 points higher than in the previous year and above the euro area average, excluding Spain and Ireland, which stood at 0.5% (0.9% if both countries are included).** Domestic demand contributed 2.8 pp to this growth, while the contribution of foreign demand was only 0.35 pp. GG final consumption expenditure increased by 4.1% in 2024, a slight deceleration compared with the 5.2% increase in 2023 and a contribution to product growth of 26%. Furthermore, private consumption maintained remarkable strength (2.9%), driven, among other things, by net immigration and buoyant employment performance. Investment in equipment and cultivated assets (2.9%) and in construction and intellectual property (3%) accelerated after the previous year's weakness.

**Foreign demand contributed positively to GDP growth in 2024, although at a lower rate than in 2023.** Exports increased by 3.1%, with a further increase in exports of tourism services. The tourism sector registered a new record in foreign visitors and revenue and the contribution of tourism to the GDP of the Spanish economy now stands at 13.1%, a new all-time high. Geopolitical instability in competing destination markets and the diversification by country of origin and destination region of tourists, together with a lower seasonality effect, may have contributed to this growth in tourism. Equally high was the increase in the export of non-tourism services, which grew at an annual rate of 6.7%. In contrast, exports of goods grew moderately, with a slight improvement of 0.4% compared with 2023. Imports grew after the weakness of the previous year, mainly driven by a strong recovery in imports of services, while imports of goods remained weak, with growth of only 0.3%.

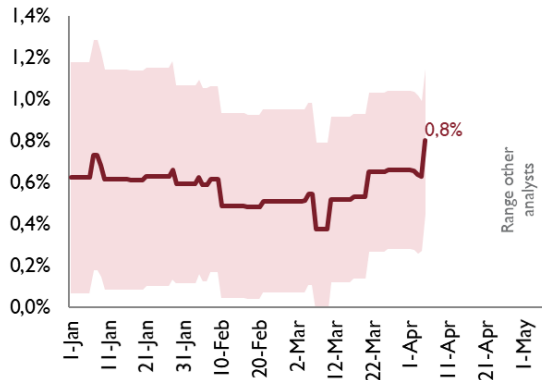
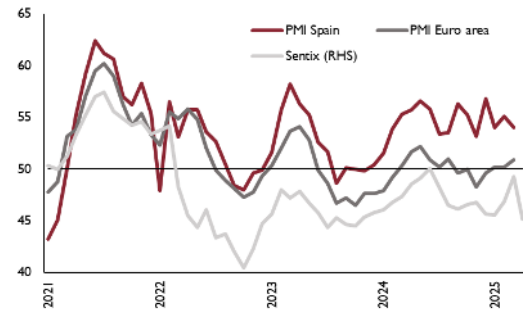
**Compared with the euro area, this higher growth can be explained by private consumption and, to a lesser extent, investment and net exports.** The contribution of public consumption to growth was high and of a similar magnitude in both cases.

**FIGURE 7. BREAKDOWN OF CONTRIBUTIONS TO GDP GROWTH IN VOLUME TERMS FOR EURO AREA AND SPAIN IN 2024 (%)**



Sources: INE and Eurostat  
 (a) Euro area excluding Ireland and Spain

**The indicators available for the first quarter of 2025 maintain significant strength without the effects of trade uncertainty having been passed on yet.** The MIPred model developed by AIReF, which summarises the evolution of indicators that are closely related to economic activity, points to GDP growth of 0.8% in the first quarter of 2025, similar to the 0.8% observed in the fourth quarter of 2024. The services PMI maintained similar levels to those of the last quarter of 2024, while the manufacturing PMI registered a clear slowdown. Consumer confidence remained stable and housing investment indicators, such as the indicators of construction work in progress and home sales and purchases, remained steady.

**FIGURE 8. EVOLUTION OF ESTIMATED REAL GDP CHANGE IN REAL TIME AND OPINION INDICATORS**
**FIGURE 8.A. REAL TIME GDP ESTIMATE FOR FIRST QUARTER OF 2025. (QUARTER-ON-QUARTER RATE)**

**FIGURE 8.B. SENTIX EURO AREA SENTIX INDICATOR AND COMPOSITE PMIS**


Source: AIReF (as at April 9<sup>th</sup>, 2025) and S&P

### **Employment growth remained dynamic in the early months of 2025 and temporary employment continued to decline.**

The average number of affiliates in March amounted to 21,358 thousand workers, with year-on-year growth of 2.2%, down from 2.6% a year earlier. The data available on foreign affiliates - up to February 2025 - show that, compared with February 2024, 41.1% of the increase in total affiliates was made up of foreign workers, who accounted for 13.6% of affiliates, compared with 12.9% in February 2024. The temporary employment rate of affiliates has fallen sharply since the entry into force of the labour reform, to below 12%, compared with 27.9% in December 2021. With somewhat more lagged data, the Labour Force Survey (LFS) for Q4 reflected some strength in job creation, with the year-on-year growth rate accelerating to 2.2% compared with 1.8% in Q3 2024 and the increase in hours outpacing the rise in the number of employees. The unemployment rate declined to 10.8% in seasonally-adjusted terms in the fourth quarter, clearly below the long-term average (2002-2019), despite the increase in the labour force associated with immigration.

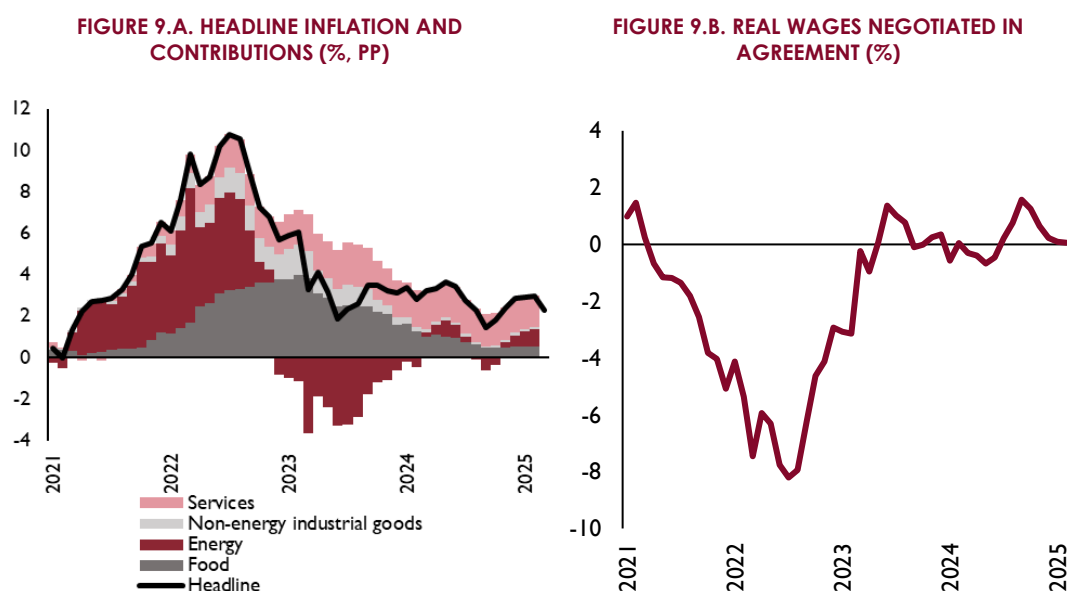
### **After a year of lower growth than price rises, wage increases negotiated in collective bargaining agreements recorded rates of change above inflation.**

Wages under collective bargaining moderated in 2024, with agreed wage growth up to December of 3.07%, which increased to 3.35% due to the subsequent application of wage revision clauses. This wage growth remained broadly in line with inflation. In 2025, the wage increase agreed for all bargaining agreements remained stable at 3.03% in February, although the wage increase for newly-signed agreements was somewhat higher, at 3.44% in February, above the 3% set for 2025 in the 5th Agreement for Employment and Collective Bargaining (AENC) signed in May 2023 by trade unions and

employers' organisations, and above inflation. However, the number of workers affected by newly-signed agreements is small.

**Inflation, in year-on-year terms, stood at 2.3% in March 2025, 0.7 points lower than in the previous month, and core inflation fell by 0.2 points to 2%.** The downward resistance of inflation recorded since late 2024 as a result of rising energy prices seems to have come to an end and lower commodity prices on futures markets could contribute to a moderation in inflation in the coming months. Specifically, headline inflation fell to 2.3% in March due to lower electricity and fuel prices. For its part, core inflation maintains a slight downward trend, with a deceleration in services prices. However, significant uncertainty persists associated with the trade war.

**FIGURE 9. PRICES AND WAGES. YEAR-ON-YEAR GROWTH**

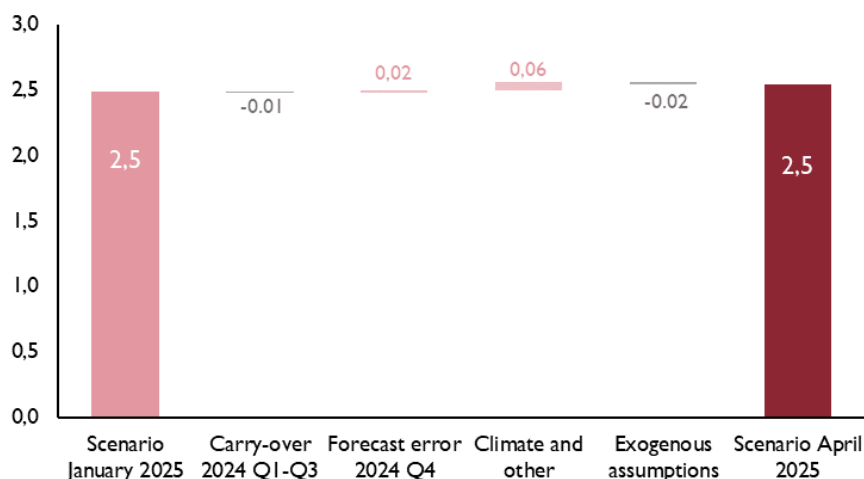


Sources: INE and Ministry of Labour and Social Economy

### 3.4. Macroeconomic outlook for 2025

**AIReF maintains the real GDP growth forecast for 2025 at 2.5%, in contrast to the upward revisions made by other institutions.** The lack of revisions reflects a certain positive carry-over effect associated with a better than expected fourth quarter of 2024 and the strength of economic activity at the start of the year, which is offset by the revision of the external assumptions, which has a negative impact on GDP growth despite the fact that they do not yet incorporate the impact of the trade war. Nominal GDP growth would be 4.8% in 2025, compared with 6.2% the previous year.

**FIGURE 10. DECOMPOSITION OF THE REVISION SOURCES FOR THE GDP GROWTH RATE IN VOLUME TERMS WITH RESPECT TO THE MACROECONOMIC SCENARIO OF JANUARY 2025 (%)**



Source: INE and AIReF

**TABLE 1. EXOGENOUS ASSUMPTIONS IN AIREF'S MACROECONOMIC OUTLOOK TABLE.**

	2024	2025
<b>Euribor 3 months (%)</b>	3,6	2,3
<b>Interest Rate 10-year State Debt (%)</b>	3,2	3,2
<b>Broad NEER</b>	124,1	122,6
<b>Exchange rates \$/€</b>	1,08	1,05
<b>Oil (US \$/barrel)</b>	82,0	71,7
<b>TTF gas (€/Mwh)</b>	34,6	43,9
<b>MIBGAS (€/Mwh)</b>	34,9	43,1
<b>Export merc. (annual %)</b>	1,2	2,5
<b>World Trade, Excl. Euro area (% annual)</b>	4,4	3,5

Source: IMF, ECB and LSEG

**The exogenous assumptions do not yet incorporate the effects of the trade war.** Global trade in 2024 was boosted by some companies bringing forward imports in anticipation of possible trade disruptions, especially in the United States. Growth estimates for 2025 do not yet incorporate the impact of the measures implemented by the Trump Administration on April 2<sup>nd</sup>, 2025 or retaliatory measures by the Chinese Government. Nevertheless, they already anticipated a slowdown in world trade excluding the euro area of up to 3.5% in 2025, from 4.4% the previous year. In the case of euro area growth, the ECB's latest March forecast revised the expected growth of the euro area in 2025 down by 0.2 pp to 0.9%, with exports and investment expected to be weaker

due to uncertainty over trade policy and persistent weaknesses in the area's external competitiveness.

**For their part, falling energy prices in 2025 could continue to help keep inflation in check.** In 2024, oil prices hovered around USD 80 per barrel. In 2025 to date, a downward trend is discernible, which became more pronounced in early 2025 amid fears of a recession in the United States. Tariff announcements by the Trump Administration led to sharp falls in crude oil prices on international markets, such that an average price of less than USD 72 per barrel is expected in 2025, compared with USD 82 per barrel the previous year. Finally, financing conditions are improving compared with 2024.

**TABLE 2. MACROECONOMIC OUTLOOK FOR 2025**

	2024	AIReF			Government
		2025	2025	2025	Jan 2025
<b>Year-on-Year Rates of Change</b>		Apr 2025	Jan 2025	Oct 2024	2025
Private Domestic Final Consumption Expenditure	2,9	2,9	2,7	2,3	2,8
General Government Final Consumption Expenditure	4,1	2,3	1,9	2,1	2,6
Gross Fixed Capital Formation	3,0	3,5	2,9	2,4	4,5
<i>GFCF Equipment and Cultivated Assets</i>	2,9	4,2	1,7	1,8	-
<i>GFCF Construction and Intellectual Property</i>	3,0	3,3	3,4	2,6	-
<b>Domestic Demand*</b>	<b>2,8</b>	<b>2,8</b>	<b>2,5</b>	<b>2,2</b>	<b>3,0</b>
Exports of Goods and Services	3,1	2,7	2,7	3,4	2,3
Imports of Goods and Services	2,4	3,7	2,9	3,5	3,5
<b>External Balance*</b>	<b>0,3</b>	<b>-0,2</b>	<b>0,0</b>	<b>0,1</b>	<b>-0,3</b>
<b>Gross Domestic Product</b>	<b>3,2</b>	<b>2,5</b>	<b>2,5</b>	<b>2,3</b>	<b>2,6</b>
<b>Nominal Gross Domestic Product</b>	<b>6,2</b>	<b>4,8</b>	<b>5,0</b>	<b>4,8</b>	<b>5,4</b>
<b>Gross Domestic Product Deflator</b>	<b>3,0</b>	<b>2,2</b>	<b>2,4</b>	<b>2,4</b>	<b>2,6</b>
<b>CPI</b>	<b>2,8</b>	<b>2,5</b>	<b>2,1</b>	<b>2,1</b>	<b>-</b>
Full-Time Equivalent Employment	2,4	2,3	2,1	2,2	2,5
Hours Actually Worked	1,9	2,0	1,9	-	2,1
Unit Labour Cost**	4,0	3,1	2,7	2,5	-
Productivity per Full-Time Employee **	0,7	0,2	0,4	0,1	0,1
Compensation per Employee**	4,7	3,3	3,1	2,6	3,7
Unemployment Rate (% of Labour Force)	11,3	10,4	10,8	10,9	10,4
Household and NPISH Saving Rate (% Gross Disposable Income)	13,6	11,9	12,0	11,8	-

\* Contribution to GDP growth

\*\* AIReF, expressed in terms of full-time equivalent employment and Government, in terms of people

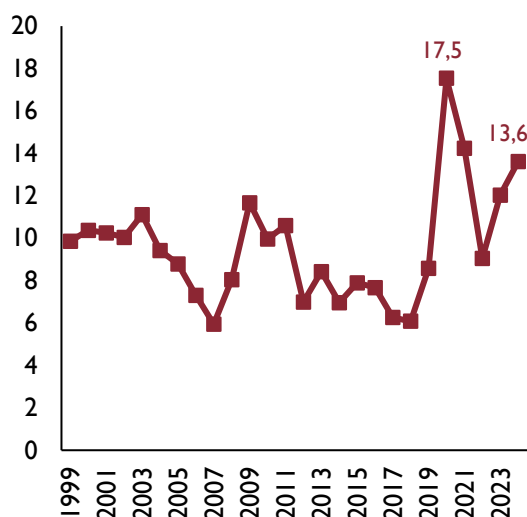
Source: INE, Ministry of Economy, Trade and Enterprise and AIReF

**The composition of growth forecast by AIReF reflects robust domestic demand, driven by private consumption and investment, and a negative contribution from the foreign sector.** In particular, private consumption is expected to grow at the same rate as in 2024 (2.9%), which will make it the main driver of growth. The rise in private consumption is sustained by the increase in real disposable income associated with the buoyant performance of employment - underpinned by immigration - and by the high saving rates accumulated by Spanish households (see Figure 21. Saving rate and composition of gross

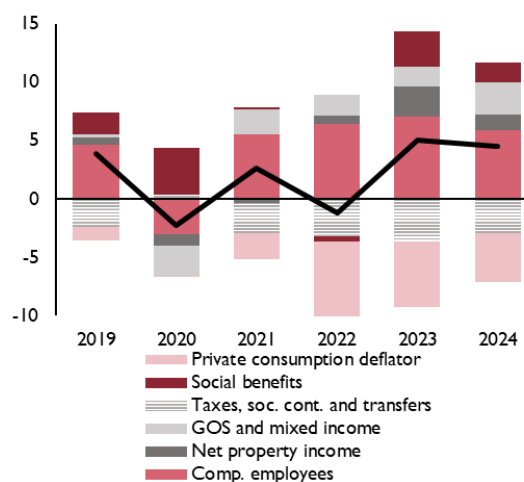
household disposable income). Moreover, the cost of credit has fallen in recent months, boosting household demand for financing.

**FIGURE 11. SAVINGS RATE AND COMPOSITION OF HOUSEHOLDS' GROSS DISPOSABLE INCOME**

**FIGURE 11.A. HOUSEHOLD SAVINGS RATE AND NPISH (% OF GROSS DISPOSABLE INCOME)**



**FIGURE 11.B. DECOMPOSITION OF REAL GROSS DISPOSABLE INCOME GROWTH OF HOUSEHOLDS AND NPISHS (%)**



Source: INE

**The outlook for investment growth is revised upwards, in particular investment in equipment and cultivated assets.** The upward revision to business investment is due to the carry-over effect associated with the strong momentum of this spending component in the last quarter of 2024. However, its growth could be weighed down in the coming months by economic and trade policy uncertainty, the impact of which has not been passed through to the macroeconomic outlook as the outcome is unknown. Construction investment, in turn, is expected to grow robustly in a context of unsatisfied demand due to the creation of new households. The increase in household demand for financing reflects a growing contribution from residential mortgages. However, high house prices and weak supply-side dynamism implied by new housing permits and the synthetic construction indicator in recent months, following the 2024 increase, pose downside risks in regard to this projection.

FIGURE 12. HOUSING MARKET INDICATORS

FIGURE 12.A. DECOMPOSITION OF GROSS FIXED CAPITAL FORMATION (INDEX 2019T4=100)

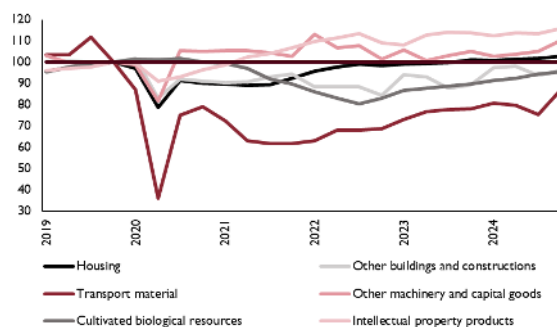
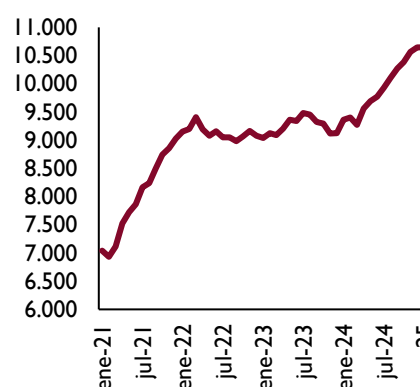


FIGURE 12.B. NEW HOUSING APPROVALS (12-MONTH MOVING AVERAGE)



Sources: INE and Ministry of Housing and Urban Agenda.

**The contribution of the foreign sector to growth in 2025 would be slightly negative in contrast to recent years.** On the one hand, export growth in 2025 is expected to be lower than in 2024, weighed down by the weakness of goods exports since the end of 2024, which could be accentuated in the context of uncertainty over trade policy. In contrast, services exports would remain strong. On the other hand, imports would grow at a higher rate, driven by growth in the economy's domestic demand and, in particular, investment in equipment.

**The pace of employment growth has been revised slightly upwards in terms of both full-time jobs and actual hours worked.** This higher employment forecast, together with the stronger-than-expected reduction in the unemployment rate at the end of 2024, leads to a downward revision of the unemployment rate in 2025 to 10.4%. In addition, a slight productivity gain is expected in 2025.

**In terms of prices, the GDP deflator is projected to slow to 2.2%, from 3% a year earlier.** The moderation of unit labour costs, in a context of slower wage growth and moderate productivity gains, contribute to the slowdown of prices. On the external side, the recent fall in energy prices will also help to contain costs for companies. However, there is considerable uncertainty regarding the impact of tariffs on inflation.

### 3.5. Risks to the macroeconomic scenario

**The tariff measures announced by Washington on April 2<sup>nd</sup> open a period of great uncertainty for the world economy, the outcome of which is difficult to anticipate.**

- **The outcome of this tariff escalation is currently unknown, but the risk of the fragmentation of trade relations is high.** On the one hand, the United States has left open the possibility of negotiating reciprocal tariffs. On the other, the increase in tariffs has been so intense and widespread that the risk of a trade war is high. For the time being, China has raised tariffs on American goods and the EU has expressed its readiness to respond firmly to further trade measures by the United States. One of the tools available is the so-called “Anti-Coercion Instrument”, adopted at the end of 2023, which gives the EU the legal capacity to respond proportionately to acts of trade pressure, including tariffs and restrictions on investment or public procurement. Its activation will depend on a formal evaluation by the European Commission and approval by the Council. At the same time, some governments are announcing support schemes to mitigate the effects on those companies most exposed to the new tariffs.
- **There is also uncertainty about the impact of tariffs.** On this occasion, the trade deviation effects may be significant. In the previous protectionist wave of 2018-2019, China managed to channel some of its trade with the US through third countries in Southeast Asia, containing the fall of its sales in the US market. This time around, the imposition of a universal 10% tariff and the high tariffs generally applied to Asia mean that China is expected to divert its trade to EU countries. European countries could also take up the space left by American products in Southeast Asia. Against this backdrop, the impact of US tariffs on Europe and Asia could be smaller than that resulting from direct and indirect exposure.

**Yet uncertainty has risen to such high levels that it poses downside risks to global growth.** The likelihood of a recession in the United States is rising and the tariff increase has been so high that inflation expectations have risen sharply in the US economy. The expulsion of immigrants puts further strain on the US labour market due to labour shortages, which could lead to wage increases. Elsewhere, increased uncertainty is hampering investment and exports. In this context, institutions are revising global growth downwards.

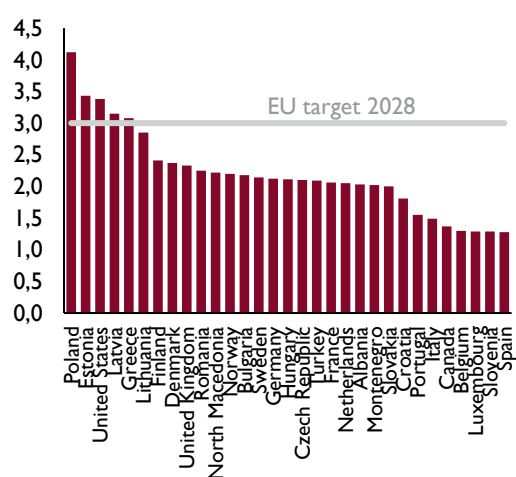
**Risks to price evolution associated with tariffs are mostly on the downside.** The increase in tariffs by the United States does not, in principle, have a direct impact on consumer prices in Spain or other European countries. If anything, lower global growth and the need for the most affected Southeast Asian countries to seek new markets could have a deflationary impact. However, if retaliatory measures are taken by the EU, this negative impact could be

mitigated. Lastly, a potential disruption of value chains may have hard-to-predict effects on business costs.

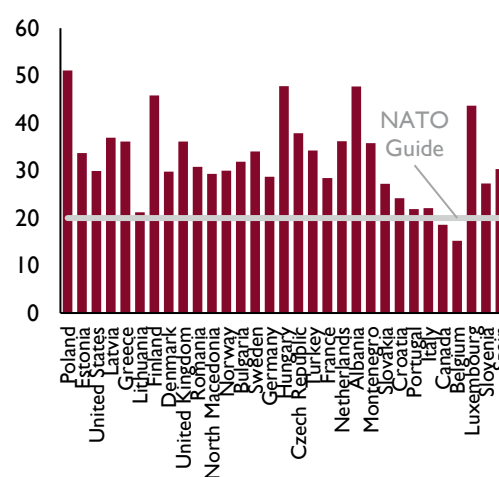
**Furthermore, the fiscal expansion looming throughout Europe, especially linked to defence expenditure, may help to partially mitigate the effects of the trade war, although its effects will probably not be felt until 2026.** In Spain, defence expenditure would have remained at around 1.3% of GDP in 2024, according to NATO estimates of June 12<sup>th</sup>, 2024, with the Government maintaining its commitment to reach 2% in the coming years. Some European economies also expect a sharp increase in the light of the security threat posed by the current geopolitical context. Empirical literature suggests that the multiplier for this type of expenditure is within the range of 0.6-1.2% for the United States<sup>7</sup>. But the macroeconomic impact of this increased expenditure will depend on its composition (investment in equipment, spending on personnel, etc.), on whether or not imports are needed for it to materialise, and on how it is financed. In short, increased expenditure on defence and industrial policy puts more pressure on debt in countries with more limited fiscal space. In Germany, too, the projected fiscal boost could push its deficit above 3% of GDP. All this may pose challenges for the new framework of rules that came into force in 2024.

**FIGURE 13. DEFENCE EXPENDITURE. NATO CALCULATION**

**FIGURE 13.A. DEFENCE EXPENDITURE IN 2024 (% OF GDP AT 2015 PRICES AND EXCHANGE RATES)**



**FIGURE 13.B. SHARE OF CAPITAL EQUIPMENT SPENDING IN DEFENCE EXPENDITURE**



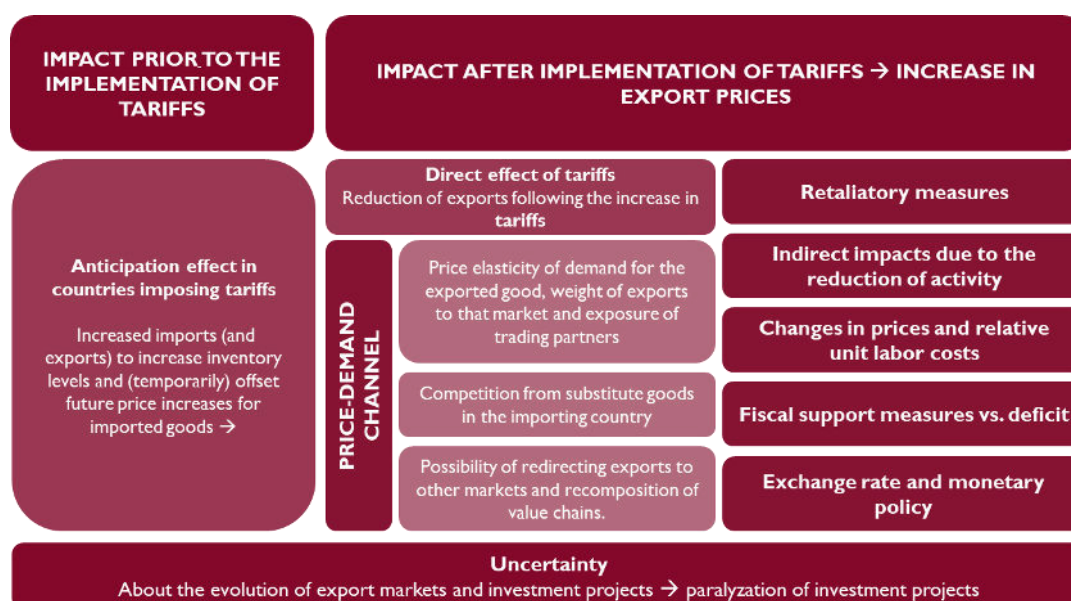
Source: NATO

<sup>7</sup> Ramey, V. A. (2011). Identifying government spending shocks: It's all in the timing. The quarterly journal of economics, 126(1), 1-50.

**BOX 1. THE IMPACT OF TRUMP'S TARIFFS**

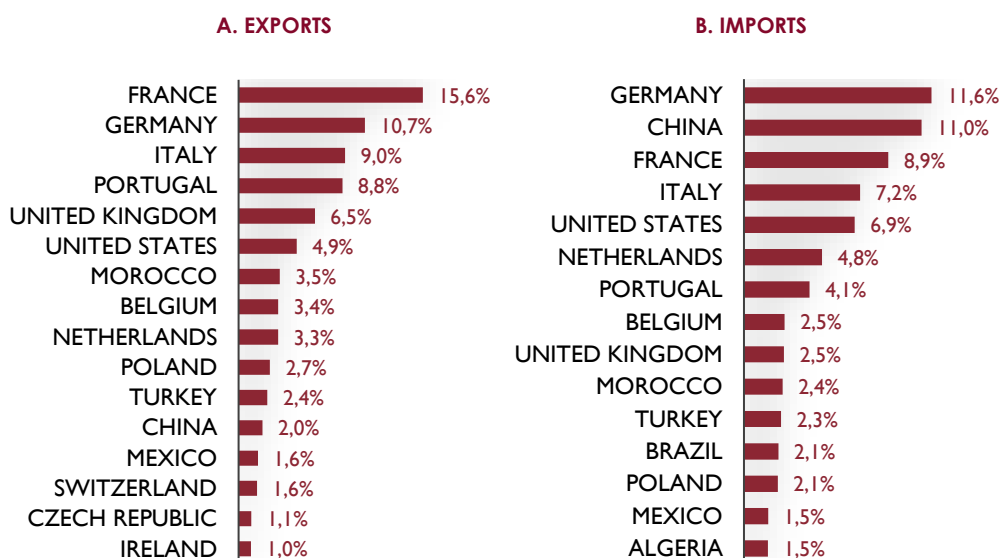
Foreign trade is a key driver for the growth of the Spanish economy, an economy with a high and growing degree of openness. The weight of real exports in GDP has risen from 26% in 2008 to 34.9% in 2024. The impact of a trade war could therefore be particularly intense.

There are many channels through which tariffs and trade policy uncertainty could affect the Spanish economy. The main ones are summarised in the table below. The announcement of tariff increases of a universal nature, such as the one implemented by the Trump Administration, may lead the affected country to increase its imports to anticipate future price rises. But more importantly, it is a supply shock for the country imposing the tariffs, with negative effects on growth and an increase in inflation. For the country facing new tariffs, there is a decline in exports, the amount of which will depend on the price increase associated with the new tariffs, the elasticity of demand for the products affected with respect to the price increase, the importance of exports to that country out of total exports. The final impact on this economy will depend on its ability to diversify its sales to new markets. In a context where a large part of trade is undertaken by large multinational companies that have delocalised the different stages of production of goods according to the comparative advantages of each country, the reshaping of value chains is hard to anticipate. The reaction of monetary and fiscal policy is also a relevant factor. On the other hand, the Trump Administration's actions have taken uncertainty over trade policy to unprecedented levels, creating an unsuitable breeding ground for new investment projects in the most exposed companies.

**CUADRO RE\_1.1. CHANNELS OF TRANSMISSION OF TARIFF SHOCK**


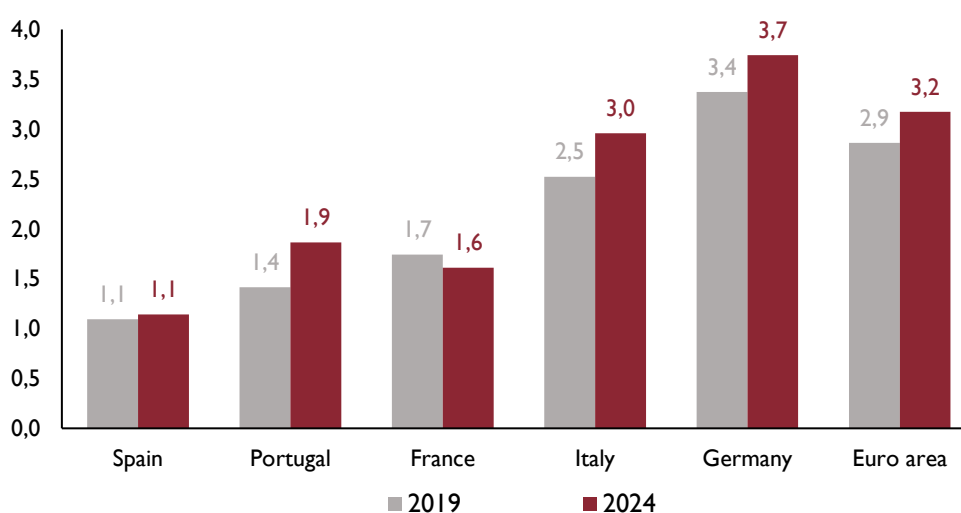
In the case of Spain, direct and indirect exposure to the US market is relatively small. Direct exposure is measured by the weight of each sector in exports and the change in the effective tariff. Indirect exposure is measured by the exposure of trading partners to the United States, which depends both on the proportion of Spanish inputs that incorporate the exports of their trading partners to the United States, and through the potential effects on growth associated with tariffs.

Spanish trade is heavily concentrated in Europe, with moderate direct exposure to the United States. In nominal terms, more than 50% of Spanish goods exports are destined for European countries (France, Germany, Italy and Portugal) or neighbouring countries such as Morocco. The United States is in sixth place (with a weight of close to 5% of Spanish goods exports). Furthermore, Spain's traditionally scant presence in emerging and non-EU markets such as Turkey, Mexico and China, which in general have a relatively low weight (exports to China account for around 2% of total exports), is noteworthy.

**FIGURE B\_1.2. MAIN DESTINATIONS OF SPANISH EXPORTS AND ORIGINS OF SPANISH IMPORTS 2024. (WEIGHT IN TOTAL)**


Source: DataComex

Indirect exposure through key trading partners such as Germany and France is significant. The United States is Germany's largest trading partner and France's third largest. Exports of goods to the United States account for only 1.1% of Spain's GDP, but 3.7% of Germany's and 3% of Italy's.

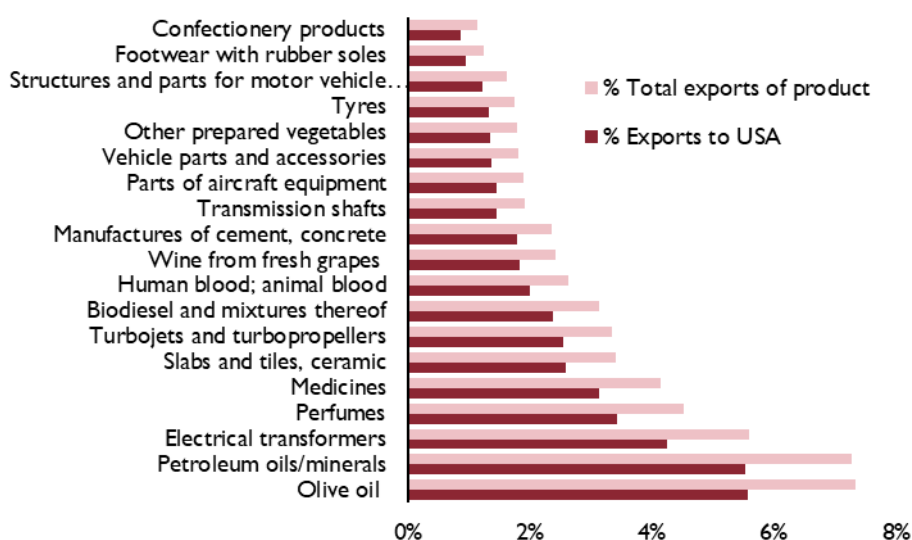
**FIGURE B\_1.3. EXPORTS OF GOODS TO THE UNITED STATES (% OF GDP)**


Source: Eurostat

At the sectoral level, the impact may be heterogeneous. In 2024, among the main export products by chapter (2-digit TARIC), specialisation in industrial sectors stands out, specifically in mechanical equipment (13%), fuels and mineral oils (12%) and electrical equipment and apparatus (7%). The

breakdown to a 4-digit TARIC provides specifics of the type of products with the greatest exposure to the US market: these include petroleum oils and biodiesel, medicines, some agri-food products such as olive oil, wine and vegetables, electrical transformers and passenger vehicles and their components, as well as tiles and ceramics. There is a persistent trade deficit in the goods account between Spain and the United States, although the balance of agri-food and fishery goods has been positive since 2020.

**FIGURE B\_1.4. PRODUCTS EXPORTED TO THE UNITED STATES TARIC 4 DIGITS (WEIGHT IN EXPORTS)**



Source: DataComex

As regards the macroeconomic impact, various institutions have recently analysed the economic consequences of a tariff increase.

1. For example, BBVA Research has simulated the impact of a 10% increase in US tariffs on all its imports of goods (with no increase in uncertainty), using both multi-regional input-output and dynamic macroeconomic models. Overall, it is estimated that such an increase would have a negative impact on global GDP of about 0.3 pp. In the case of the euro area, the effect would be a decrease of 0.4 pp, while in Spain the impact would be approximately half, given the lower exposure of its exports of goods to the US economy. However, if the risk of a trade war materialises and all countries simultaneously raise tariffs by 10%, global GDP would fall by 4 pp.

2. CaixaBank Research<sup>8</sup> estimates an initial potential impact of the tariff measures approved on April 2<sup>nd</sup>, 2025 of 0.4% of GDP for the EU. This impact would be higher for Germany and Italy, and lower for France and Spain (0.2%)
3. FUNCAS<sup>9</sup> estimates that the imposition of an average tariff of 20% would directly subtract between 0.2 and 0.3 points of Spain's GDP, considering both the effects of the direct exposure of Spanish exports to the US and the negative impact derived from the weakening of European markets caused by the tariff escalation.

The final impact on the Spanish economy will depend on its capacity to diversify markets and redirect exports towards other alternative markets. The traditionally weak presence of Spanish companies in Asian and emerging markets may represent an initial obstacle, although there is significant room for improvement.

Furthermore, beyond the impact associated with tariffs, the increase in uncertainty has been extraordinary, which could lead companies to postpone investment or production decisions. The ECB's March forecasts incorporated the impact of the increase in trade uncertainty, estimating a negative effect of 0.1 pp on cumulative global growth in 2025 and 2026. In the euro area, the impact would be somewhat greater (-0.2 pp in the cumulative period 2025-2026) due to its high degree of openness and export specialisation in consumer durables whose demand is more sensitive to changes in uncertainty.

In the case of the Spanish economy, the impact of trade uncertainty may be significant according to AIReF estimates. To estimate the impact of uncertainty on trade policy, based on the articles by Arigoni & Lenarčič (2020) and Huan Yan *et al.* (2022)<sup>10</sup>, several Bayesian vector autoregressive regression (BVAR) models are formulated. In this model, the endogenous variables are the main Spanish macroeconomic aggregates in real terms - GDP, private consumption, gross fixed capital formation, and exports of goods and services. As exogenous variables, we use both US real GDP, euro

<sup>8</sup> See Assessment of the announcement of reciprocal tariffs in the United States.

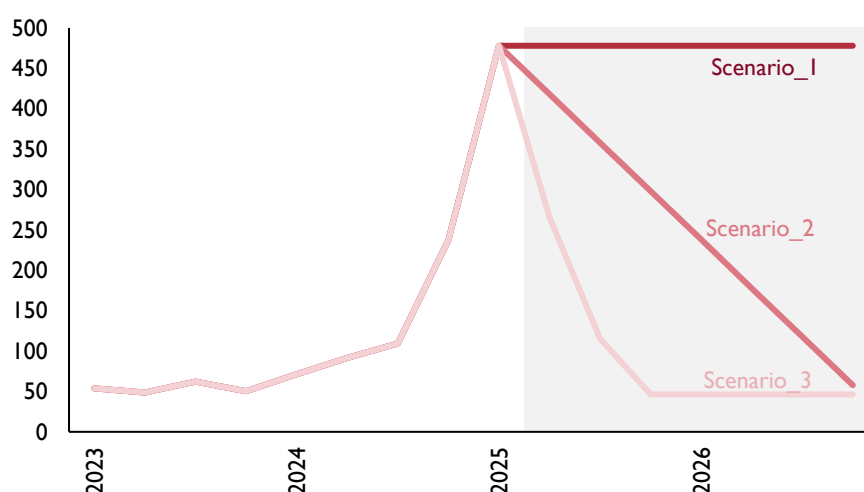
<sup>9</sup> See the [report](#) published by this institution.

<sup>10</sup> See Arigoni, Filippo & Lenarčič, Črt (2020). The impact of trade policy uncertainty shocks on the Euro Area. MPRA Paper No. 102701 and Huan Yan, Weiguo Xiao, Qi Deng, Sisi Xiong (2022). Analysis of the Impact of U.S. Trade Policy Uncertainty on China Based on Bayesian VAR Model. Hindawi Journal of Mathematics. Volume 2022, Article ID 7124997

area real GDP excluding Spain and Ireland, a COVID outlier and the trade policy uncertainty variable developed by Caldara *et al.* (2020)<sup>11</sup>.

From this model, forecasts are obtained conditional on various forecasting paths of the trade policy uncertainty variable. Specifically, we establish: i) a scenario of maintaining trade policy uncertainty at current levels (Scenario\_1); ii) a second scenario of linear reversion of the uncertainty indicator (Scenario\_2) until recovering the average levels observed between 1995 and 2023 in the last quarter of 2026. Finally, iii) a faster reversion scenario towards the average values observed between 1995 and 2023 as early as the first quarter of 2026 (Scenario\_3).

**FIGURE B\_1.5. SCENARIOS OF TRADE POLICY UNCERTAINTY**



Source: AIReF

**According to the results obtained, GDP growth could fall by around 0.5 pp in 2025, compared with a scenario without uncertainty, in all the scenarios considered.** In 2026, the impact varies depending on the scenario considered, with even a positive impact if uncertainty is quickly reversed.

**TABLE B\_1.2. IMPACT ON GDP GROWTH OF SCENARIOS OF TRADE POLICY UNCERTAINTY**

	Scenario 1	Scenario 2	Scenario 3
2025	-0.5%	-0.5%	-0.5%
2026	-0.5%	-0.3%	0.3%

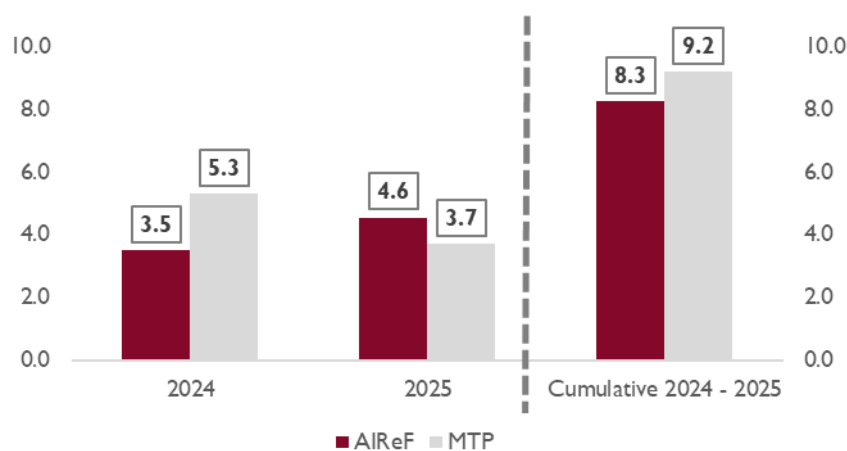
Source: AIReF

<sup>11</sup> Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino & Andrea Raffo (2020), "The Economic Effects of Trade Policy Uncertainty", *Journal of Monetary Economics*, 109, pp. 38-59.

# 4.

## ANALYSIS OF 2025 BUDGETARY SCENARIO

**AIReF estimates growth in primary expenditure net of revenue measures for the GG Sector of 4.6% for 2025, 0.9 points higher than the commitment set out in the MTP.** This deviation would be 0.3 points of GDP and would therefore be within the annual deviation permitted under Article 2.2 of Regulation (EC) 2024/1264, amending Regulation (EC) 1467/97, on speeding up and clarifying the implementation of the excessive deficit procedure. After closing 2024 with 3.5% growth in net expenditure, 1.8 points below the MTP forecast, cumulative growth since 2023 in net expenditure would stand at 8.3%, 0.9 pp below the MTP. Unlike in the case of the fiscal balance, the figure for net expenditure in 2024 has not been published yet, so in both cases this is an AIReF forecast subject to a certain degree of uncertainty as no official methodology has been published at either a national or European level.

**FIGURE 14. PRIMARY EXPENDITURE NET OF REVENUE MEASURES GG (% CHANGE)**


Source: AIReF

**AIReF estimates a GG deficit of 2.7% of GDP in 2025. This is in line with the forecast in the previous report which has not yet included the impact of the Isolated High Altitude Depression (DANA).** Excluding the impact of the DANA, the deficit would be 2.4% of GDP. This update of the deficit forecasts puts AIReF's central scenario 0.2 points higher than the Government's estimate in the MTP and 0.1 points lower excluding the impact of the DANA. This change is due to several factors with opposing effects on AIReF's central scenario. First, since the last report in November, the Government approved a raft of measures in Royal Decree-Law 6/2024, Royal Decree-Law 7/2024 and Royal Decree-Law 8/2024 to mitigate the effects of the DANA that occurred last October. Second, the evolution of the macroeconomic variables and the new information received alter the macroeconomic scenario. Lastly, AIReF's analysis incorporates all the new information published and provided by the various GG sub-sectors since the previous report. This new information includes the figures for year-end 2024 with a deficit of 3.1% of GDP, 2.8% if the cost of the DANA is excluded, for the GG Sector. Excluding the DANA, the year-end stands at 0.2 points of GDP below the 3% estimated in both the forecasts published in the MTP and in the latest AIReF report.

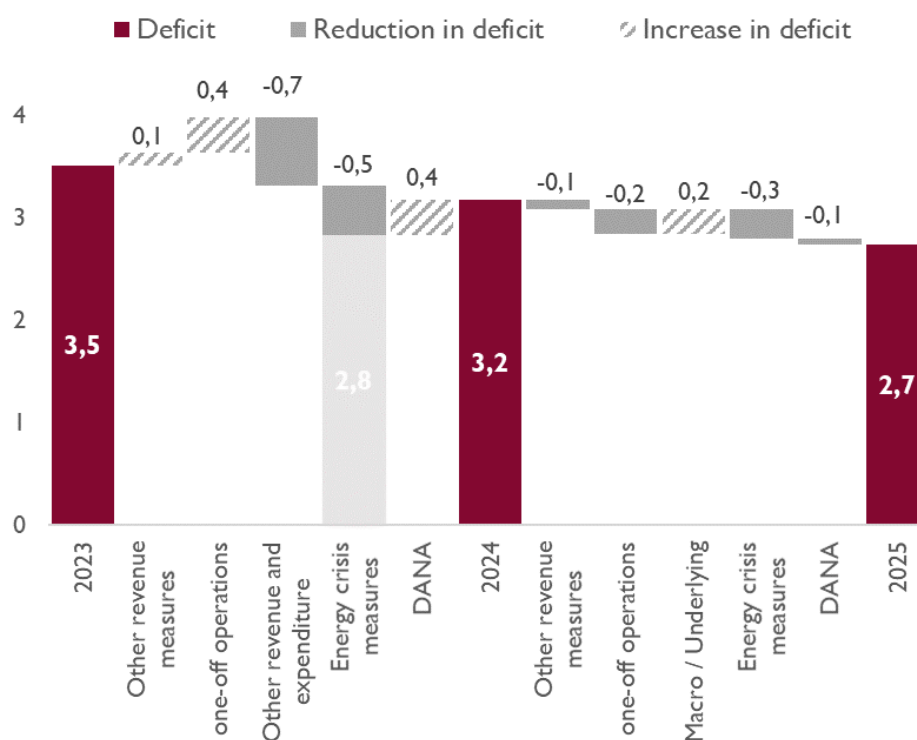
**The new measures approved, and the updated assessment of some of those already in place, raise the 2025 deficit by 0.2 points of GDP.** Measures to mitigate the effects of the DANA are estimated at 0.3 points of GDP and are mainly structured around expenditure. Also included in the estimate are the increase in military salaries and, on the revenue side, the limitation to 50% of the offsetting of tax bases approved for Corporate Income Tax (CIT), which reduces the deficit by 0.1 points.

**The revision of the macroeconomic scenario assumes an improvement in the deficit of 0.1 points of GDP.** AIReF's central macroeconomic scenario implies

higher growth in the compensation of employees accompanied by a lower gross operating surplus in 2025. These changes push up both social contributions and Personal Income Tax (PIT), while reducing CIT tax collection, with the overall effect being an impact of a 0.1-point improvement in the deficit.

**The new information, mainly on year-end 2024, implies higher revenue and lower expenditure than AIReF forecast in its last report.** The deficit of the GG Sector in 2024, excluding the DANA, was 0.2 points lower than forecast by AIReF in its last report. The main reason for this is a somewhat higher evolution for revenue and lower than expected for certain items of expenditure. On the revenue side, tax collection from income taxes ended the year 0.1 points higher than expected. On the expenditure side, the new information reduces spending by almost 0.2 points, mainly due to expenditure on investments.

**FIGURE 15. EVOLUTION OF DEFICIT BY COMPONENT, AIREF (% GDP)**

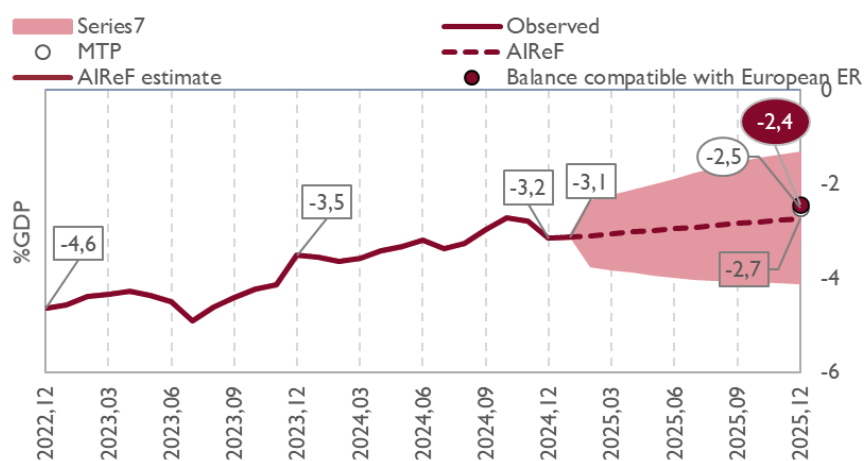


Source: AIReF and IGAE

**The withdrawal of measures due to the energy and price crisis and the reduction in the expected cost of one-off operations are the main drivers of a lower deficit in 2025 with an impact of 0.5 points of GDP.** In 2023, the deficit as a weight of GDP reached 3.5%. In 2024, it was reduced by 0.3 points. Despite an increase in the deficit due to one-off operations and the cost of the DANA measures 0.4 points each and an additional 0.1 points for other revenue

measures, the evolution of other revenue and expenditure and the withdrawal of the measures to alleviate the price and energy crisis pushed the deficit down by 1.2 points, ending the year at 3.2% of GDP. In 2025, the deficit is expected to be reduced by 0.5 points. This year, the entry into force of various revenue measures<sup>12</sup>, the reduction in the cost of one-off operations, the almost complete withdrawal of measures due to the energy and price crisis and a slight reduction in the cost of measures to mitigate the effects of the DANA will push the deficit down by 0.7 points. Conversely, the evolution of other revenue and expenditure will increase the deficit by 0.2 points, ending the year with a deficit of 2.7%.

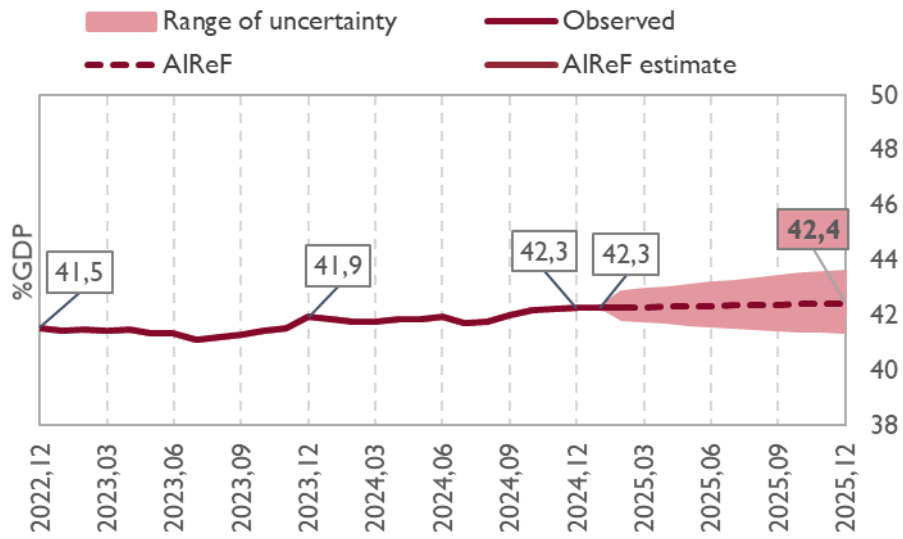
**FIGURE 16. FINANCING CAPACITY/NET BORROWING OF TOTAL GENERAL GOVT.% OF GDP)**



Source: AIReF and IGAE

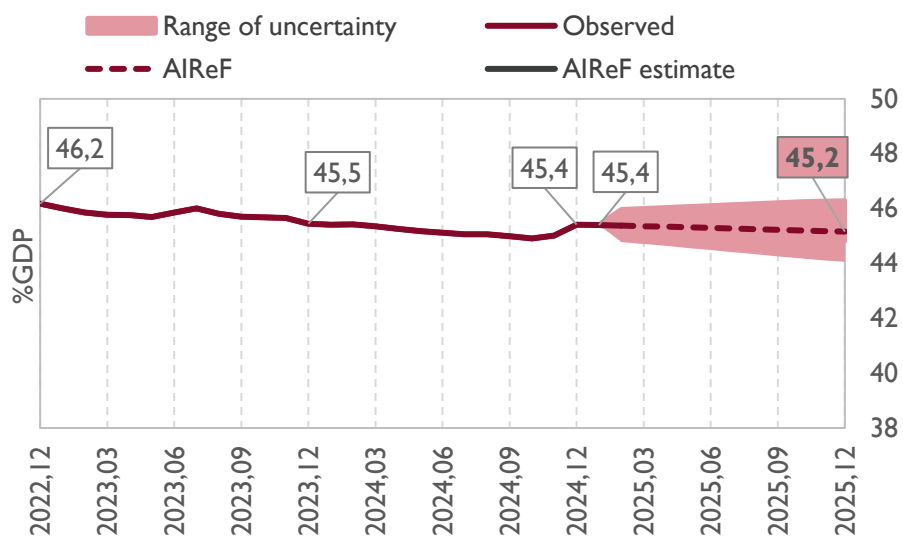
<sup>12</sup> These include the limitation of offsetting losses for CIT purposes, the increase in the MEI rate and the entry into force of the solidarity contribution.

**FIGURE 17. RESOURCES OF THE TOTAL AA. RTRP (% OF GDP)**



Source: AIReF and IGAE

**FIGURE 18. EMPLOYMENT OF TOTAL AA. RTRP (% GDP) CON RTRP (% GDP)**



Source: AIReF and IGAE

## **BOX 2. DIFFERENCES BETWEEN THE EUROPEAN EXPENDITURE RULE AND THE NATIONAL EXPENDITURE RULE**

Apart from the specific expenditure rule for pension spending, the Spanish GG is subject to both a European expenditure rule and a national expenditure rule.

The European rule is regulated in Regulation (EU) 2024/1263 of April 29<sup>th</sup>, 2024, which provides details of the elements used for its calculation. At the national level, the expenditure rule is established in Article 12 of the Organic Law on Financial Stability and Sustainability (LOEPSF) of April 27<sup>th</sup>, 2012 as a limit on expenditure growth which, together with the deficit and debt limits, constitutes one of the three Spanish fiscal rules.

The expenditure rule mechanism operates in a similar way in both cases and is implemented in five steps:

1. Determination of the subjective scope of application: the GG sub-sectors that will be subject to the rule are identified.
2. Definition of eligible expenditure: this establishes which expenditure items are to be included in the calculation of the rule.
3. Net eligible expenditure: eligible expenditure is adjusted for the impact of planned revenue measures in the year.
4. Comparison with the reference rate: this eligible expenditure net of revenue is compared with an annual rate of change that acts as a growth limit.
5. Compliance verification: an analysis of whether the observed change exceeds the reference rate.

However, the way the expenditure rule is calculated at the European level differs from the national level and the differences are to be found in the five steps outlined above: the subjective scope of application, the definition of eligible expenditure, its correction by revenue measures, the reference rate and the way compliance is measured.

### **Subjective scope of application:**

The European expenditure rule applies to the Spanish GG Sector, while the national expenditure rule applies to the Central Government sub-sector and to the Autonomous Regions and Local Governments individually (the 17 ARs and all the LGs).

This difference is particularly significant from a quantitative perspective, since, at the national level, the Social Security Funds are excluded from the rule, which implies the exclusion of 35% of the total expenditure of the GG Sector.

It also highlights the different approach of the two rules. The European rule adopts a more global approach by considering the total expenditure of all GG sub-sectors, allowing for the offsetting of changes in expenditure between sub-sectors. In contrast, the national rule takes a more granular approach, going down to the level of the individual GG sub-sector, whereby each one has to account for its own change in expenditure.

**Eligible expenditure:**

The European rule excludes national expenditure corresponding to projects co-financed by European funds, as well as one-off and other temporary operations, *inter alia*, from eligible expenditure.

However, the national rule does not allow for the exclusion of these two categories of expenditure. Despite the fact that this is not contained in Article 12 of the LOEPSF, due to its similarity to the European rule, in practice the exclusion of certain exceptional circumstances and natural disasters such as spending on financial support for the 2008 crisis and the Lorca earthquake in 2011 is permitted. This same treatment will be applied to expenditure stemming from the 2024DANA, as announced by the Minister for Finance when presenting the year-end 2024 accounts<sup>13</sup>.

This difference is particularly important at the CG level, where expenditure on one-off operations and others of a temporary nature in a given year, such as those stemming from court rulings, reversal of concessions and other similar operations, may have a significant influence on the change in expenditure.

In addition, the European Commission has recently communicated to Member States the possibility of requesting the activation of the national escape clause, in order to not consider the increase in defence expenditure of up to 1.5% of GDP with respect to the level recorded in 2021 for the purposes of the European expenditure rule. This clause, if activated, would

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<sup>13</sup> In this case, some of the characteristics of this special treatment have been regulated by law. First, Royal Decree-Law 6/2024 authorised the exclusion from the expenditure rule of financially sustainable investments by the LGs to repair the damage caused by the Isolated High Altitude Depression (DANA). Second, Royal Decree-Law 7/2024 approved the consideration of the expenditure of the AR of Valencia to alleviate the effect of the DANA for the purposes of compliance with its expenditure rule.

further accentuate the differences between the European and national rules.

### **Adjustment of eligible expenditure due to revenue measures:**

The European expenditure rule adjusts the calculation of eligible expenditure for both the impact of permanent and temporary revenue measures. In contrast, in the practical application<sup>14</sup> of the national expenditure rule, only revenue from permanent measures is considered.

This difference may have a significant impact on the calculation, especially in the context of tax reforms involving tax cuts or the adoption of temporary taxes (e.g. the tax on banking). By not considering the impact of temporary measures, the national expenditure rule is less restrictive than the European rule if there is a temporary tax cut, allowing expenditure not to be reduced in line with the cut. Conversely, it is more restrictive in the event of temporary tax increases, not allowing expenditure to increase in line with these rises.

### **Reference rate:**

The reference rate, which determines the annual change allowed in eligible expenditure, is calculated for the European rule on the basis of each country's debt sustainability analysis and is fixed in the MTP for a period of four years. In contrast, in the case of the national rule, its calculation is based on nominal GDP over the medium term.

As a result, the reference rates of the national and European expenditure rules do not necessarily coincide. In particular, for 2025, the reference rate of the European expenditure rule is 3.7% while the rate of the national expenditure rule is 3.2%.

### **Measuring compliance:**

The European expenditure rule adopts a multi-year perspective, as annual deviations from the expenditure rule are recorded in a control account, the balance of which may not exceed 0.3% of GDP per annum or 0.6% cumulatively. This implies that annual deviations do not automatically constitute non-compliance, as long as they do not exceed 0.3% of GDP annually and can be offset in subsequent years without exceeding 0.6% of GDP cumulatively.

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<sup>14</sup>Although Article 12 of the LOEPSF establishes that eligible expenditure must be corrected both for increases and decreases in revenue derived from permanent measures and for decreases in revenue from temporary measures, in practice the IGAE, when verifying compliance with the rule, only takes into account revenue from permanent measures.

In contrast, compliance with the national expenditure rule is measured on an annual basis and any excess over the reference rate automatically implies non-compliance.

**TABLE B\_2.1. SUMMARY OF DIFFERENCES BETWEEN THE EUROPEAN AND NATIONAL EXPENDITURE RULES**

	European expenditure rule	National expenditure rule
Personal scope of application	General Government	CG sub-sector, all ARs and all LGs
Definition of eligible expenditure	Does not include: - national expenditure on projects co-financed by European funds - expenditure on <i>ad hoc</i> and other temporary measures	Includes: - national expenditure on projects co-financed by European funds - expenditure on <i>ad hoc</i> and other temporary measures, subject to exceptions (financial assistance, Lorca earthquake and DANA 2024)
Adjustment of eligible expenditure by revenue measures	Permanent and temporary revenue measures	Permanent revenue measures
Reference rate	Based on debt sustainability analysis	Based on medium-term potential GDP
Compliance measurement	Multi-year perspective (4 years). Annual deviations allowed up to 0.3% of GDP and cumulative deviations up to 0.6% of GDP	Annual perspective. No deviation allowed.

Source: AIReF

## 4.1. Evolution of General Government revenue

**AIReF forecasts that revenue, excluding the RTRP, will stand at 41.6% of GDP in 2025, 0.1 points higher than forecast in the last report in November.** This revision is explained by several contrasting factors. On the positive side are 0.2 points: 0.1 due to the effect on tax collection of the changes in the macroeconomic scenario, and 0.1 due to the regulatory measures that increase revenue, the most relevant under CIT, due to the limitation of the offsetting of tax losses in consolidated groups and the reestablishment of the limits of Royal Decree-Law 3/2016 that had been declared partially unconstitutional. On the negative side, the denominator effect subtracts 0.1 points of weight due to the increase in the nominal GDP forecast and, to a lesser extent, the incorporation of new information reduces the estimate, although it does not reach 0.1 points.

**TABLE 3. BREAKDOWN OF THE CHANGE IN REVENUE BETWEEN AIREF ESTIMATES IN THE REPORT ON THE MAIN LINES OF THE 2025 BUDGET AND THE CURRENT FIGURE**

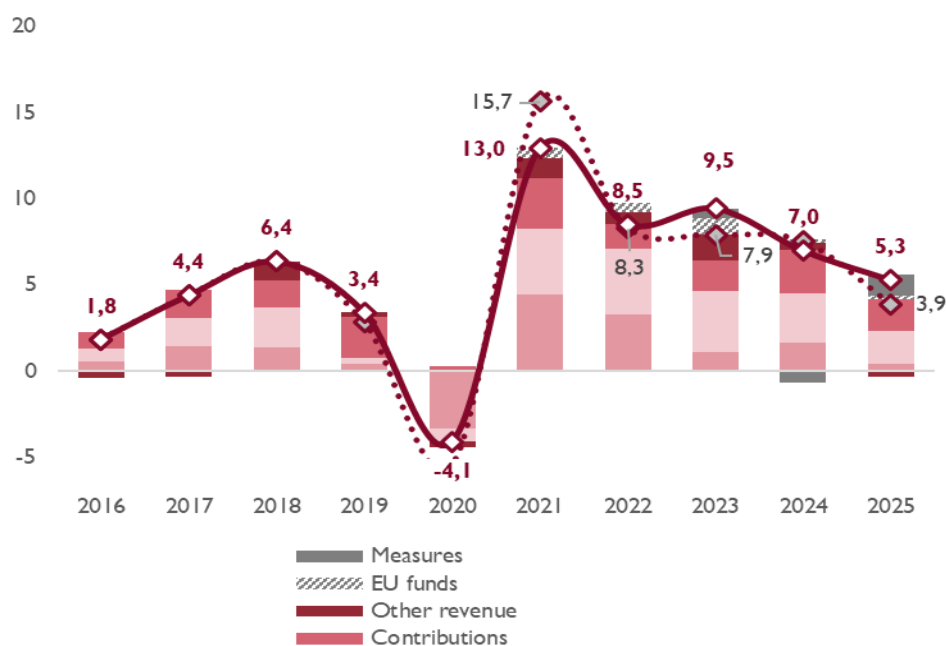
	2025 Main Lines	Breakdown of change in % GDP				2025 Current	Difference Current - Initial Budgets
		Denominator effect	Effect of measures	New information effect	Macro effect		
<b>REVENUE</b>	<b>41.5</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>41.6</b>	<b>0.1</b>
<b>TAXES</b>	24.1	-0.1	0.1	0.1	0.0	24.2	0.1
<i>On production</i>	11.1	0.0	0.0	0.0	0.0	11.1	-0.1
<i>On income</i>	12.6	0.0	0.1	0.2	0.0	12.8	0.2
<i>Capital</i>	0.4	0.0	0.0	0.0	0.0	0.3	0.0
<b>CONTRIBUTIONS:</b>	13.4	0.0	0.0	-0.1	0.1	13.4	0.0
<b>Other revenue</b>	4.0	0.0	0.0	0.0	0.0	4.0	0.0

Source: AIReF

**By heading, the increase in the forecast of the weight of revenue over GDP is concentrated in income taxes, partially offset by a reduction in indirect taxation and a stabilisation of the rest of the headings.** AIReF estimates that tax revenue will reach 24.2% of GDP, 0.1 points more than in its previous forecast. Income taxes are the aggregates that push the weight of revenue upwards, increasing their weight by 0.2 points, shared equally between PIT and CIT. The former grows more than estimated in November, mainly due to an upward revision in the compensation of employees. The latter benefited from the new information incorporated, as well as from the reinstatement of the limit on the offsetting of intra-group tax losses, despite the downward revision of the gross operating surplus. Furthermore, Social Security contributions and other revenue remain unchanged. Lastly, the forecast for indirect taxes is revised down by 0.1 points for other taxes on production, as a result of the repeal of the Tax on Energy Companies.

**AIReF estimates revenue growth of 5.1% in 2025, without taking into account the effect of the RTRP.** Excluding the RTRP, revenue will grow by 5.1% in 2025, increasing that rate to 5.3% when included. The total calculation of the regulatory measures adopted will have a slightly positive contribution to revenue in 2025, due to the reinstatement of the limit on the offsetting of intra-group tax losses and the measures to increase social contributions<sup>15</sup>. Isolating the effect of the measures and the RTRP, revenue will increase by 3.9% in 2025, with an expected contribution to tax growth of 2.5 points and 1.9 points from social contributions, while other revenue will fall by 0.3 points.

<sup>15</sup> In 2025, the MEI rate is increased by 0.1 points, the maximum contribution bases are raised by 4% and the solidarity contribution comes into force.

**FIGURE 19. CONTRIBUTIONS TO CHANGE IN REVENUES (% VAR)**


Source: IGAE and AIReF

**TABLE 4. RATE OF CHANGE (%) IN MAJOR TAXES AND SOCIAL CONTRIBUTIONS IN TERMS OF NATIONAL ACCOUNTING <sup>16</sup>**

	AIReF 2023 Budgetary Plan	AIReF Current 2023	Difference Current - Budgetary Plan
	% Change	% Change	% Change
Taxes on prod. & import.	4.6	4.2	-0.3
Household income tax	6.9	8.3	1.4
Corporate Income Tax	3.7	8.6	4.8
Social contributions	5.7	6.0	0.3

Source: AIReF

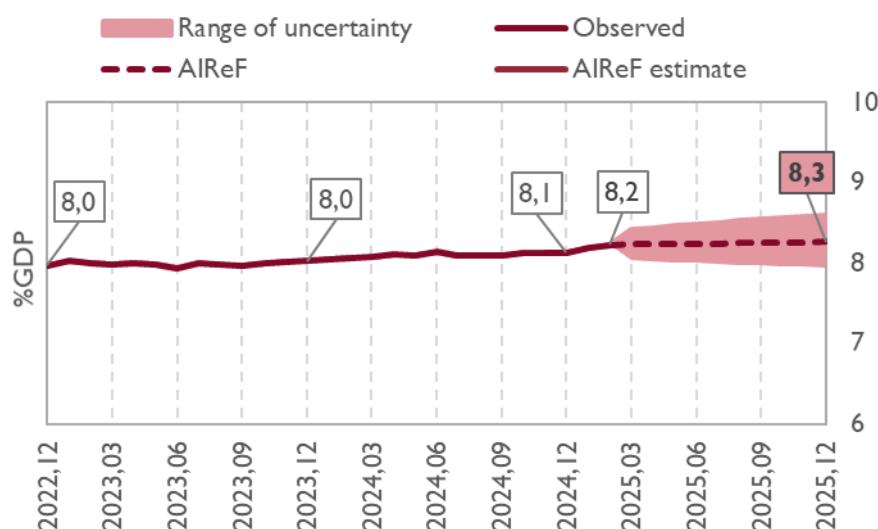
#### 4.1.1. Personal Income Tax

**AIReF reduces the weight of Personal Income Tax (PIT) collection in 2025 by almost 0.2 points compared with the previous report to 8.3% of GDP.** Although both the year-end forecast and the upward revision of macroeconomic variables, which raises the compensation of employees and employment, would push the PIT forecast upwards, the refunds to mutual insurance

<sup>16</sup> The headings of Household Income Tax and Corporate Income Tax respectively include Non-Resident Income Tax of natural and legal persons.

members as a result of the Supreme Court ruling reduce the PIT estimate compared with the last report.

**FIGURE 20. EVOLUTION OF CASH INCOME PER PIT<sup>17</sup> (% GDP)**



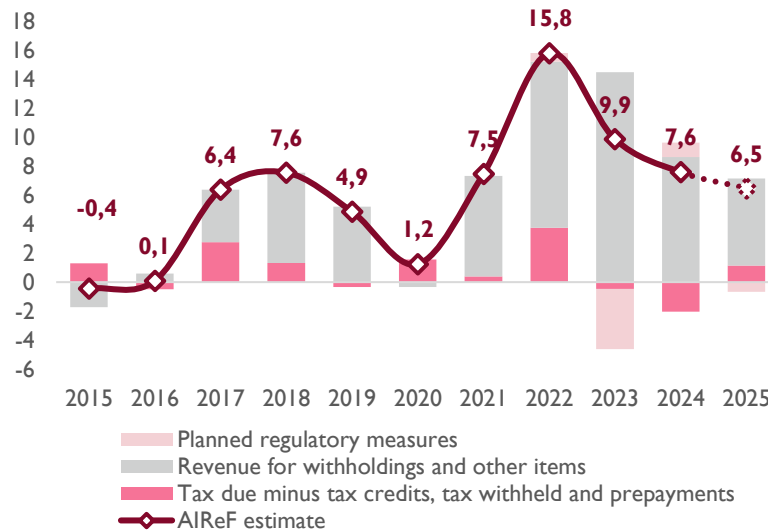
Source: AIReF and AEAT

**For 2025, year-on-year growth in cash PIT revenue is expected to be 6.5%, 3.2 pp lower than in the previous report.** The PIT components increase their contribution to 6 points of growth, while the regulatory measures, which undergo a significant change of assessment with respect to the previous report<sup>18</sup>, due to the recent announcements of the Ministry of Finance, subtract 0.7 points. These measures include, as already mentioned, the refund to mutual insurance members, which represents a loss of tax collection of €3.6bn, and the collection of €302m for the deferral in the payment of PIT for those affected by the DANA. The increase in the estimate mainly affects withholdings from work and economic activities, which account for 6 points of growth. In addition, a positive contribution of 1.1 additional points is expected from the differential quota resulting from the 2024 settlement, which will be paid in 2025 and reflects the strong growth in the previous year of income not subject to withholding linked to movable capital, leased real estate and investment funds (45.4%, 7% and 17% respectively).

<sup>17</sup> AIReF's range of uncertainty is estimated on the basis of a VAR model with two lags that includes the seasonally-adjusted series of the variable to be explained and its corresponding explanatory variables. Monte Carlo simulations are performed on the basis of this model. The result of these simulations is ordered in percentiles and the range of uncertainty is obtained.

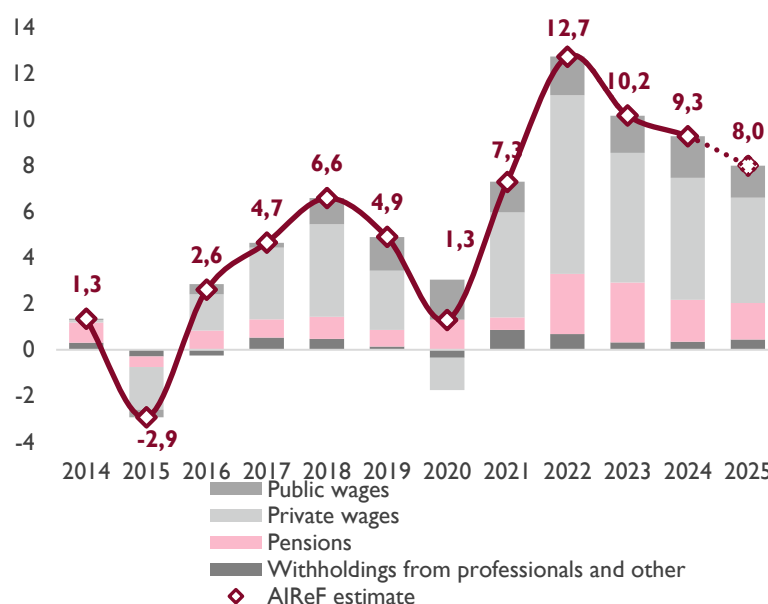
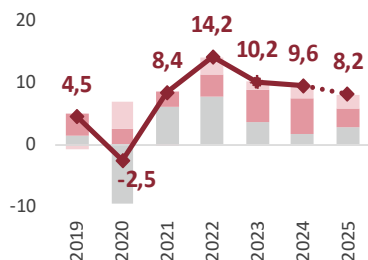
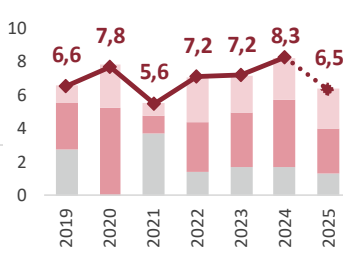
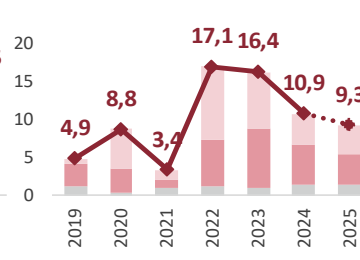
<sup>18</sup> See Section 4.3 Impact of measures on General Government accounts.

FIGURE 21. CONTRIBUTION BY COMPONENT TO THE GROWTH IN PIT CASH TAX COLLECTION (% VAR.)



Source: AIReF and AEAT

**Withholdings from work, the main component of which is wages, will grow by 8% in 2025.** In terms of composition, all components are projected to contribute less to growth than in 2024. The strongest growth will be in pensions, which are estimated to increase by 9.3%, although private sector wages will be the largest contributor to growth, with a higher dynamism than public sector wages, 8.2% compared with 6.5%. In 2024, the boost in private employment has been the main contributor to the growth in withholdings on wages, with an increase in pensions, average public wages and their associated effective rates. By 2025, an acceleration in the number of private wage earners is estimated to be offset by a slowdown in private and public employee compensation and pensions, which in turn translates into a slowdown in the increase in their associated effective rates. This justifies a deceleration of withholdings by 1.3 pp compared with 2024.

**FIGURE 22. EVOLUTION OF WITHHOLDINGS DEDUCTED FROM CASH IN HAND (%VAR)**

**FIGURE 23. WITHHOLDINGS ACCRUED FROM WAGES AND PENSIONS (% CHANGE)**
**FIGURE 23.A. WITHHOLDINGS FROM PRIVATE WAGES (% CHANGE)**

**FIGURE 23.B. WITHHOLDINGS FROM PUBLIC WAGES (% CHANGE).**

**FIGURE 23.C. WITHHOLDINGS FROM PENSIONS (% CHANGE).**


■ Effective rates  
■ Average remuneration  
■ Earners  
◆ Accrual

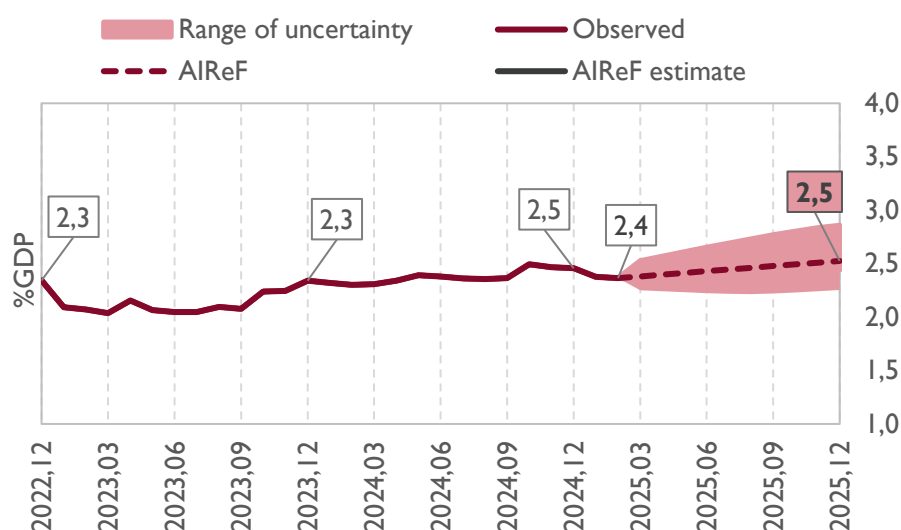
Source: AIReF and AEAT

**PIT will grow by 8.4% in 2025 in national accounting terms, higher than the cash estimate of 6.5%.** This difference is due to changes in national accounting affecting the court rulings on mutual insurance members. In national accounting terms, the refund to mutual insurance members in 2024 is allocated as higher spending on other capital transfers, while in cash terms it is accounted for by the single payment of the refund announced in 2025.

## 4.1.2. Corporate Income Tax

**AIReF's forecasts put the weight of the Corporate Income Tax (CIT) in the cash flow for 2025 at 2.5 points of GDP, 0.1 points higher than in the last report in November.** The new forecast incorporates the year-end forecast for 2024, which coincides with the November estimate, and an update of the regulatory measures that affect the tax, which add almost 0.2 points to its weight. This re-evaluation of the measures is justified by the reinstatement of the limit on the offsetting of intra-group tax losses in Law 7/2024 of December, which means higher tax revenue in June 2025. For its part, the macroeconomic scenario, in which the gross operating surplus is revised downwards, in line with that observed in the final data of the Quarterly National Accounts for the last quarter of 2024, subtracts almost 0.1 points of tax collection with compared with the November estimate.

**FIGURE 24. EVOLUTION OF CASH INCOME FROM CORPORATE INCOME TAX PAID (% GDP)**

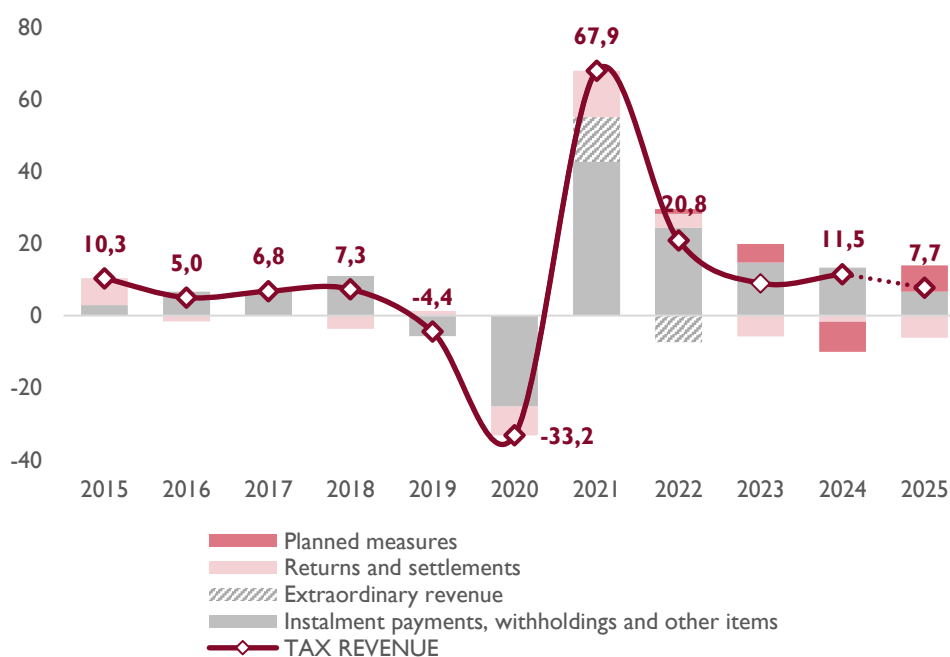


Source: AIReF and AEAT

**AIReF forecasts growth in CIT collection in 2025 of 7.7%, down on the 11.5% recorded in 2024.** Instalment payments and withholdings will contribute 6.6 points of the growth, compared with the 13.2 points they contributed in 2024. Returns and settlements subtract 6.1 points of growth as refunds are expected to increase more than payments. Refunds experience a significant increase due to the high minimum payment in 2024, the excess of which would translate into an increase in refunds in 2025. Finally, the remaining 7.3 points of growth will be due to the incorporation of regulatory changes, mainly due to the impact of the reinstatement of the measure limiting the offsetting of intra-group tax losses, which was not in force in 2024. Thus, this measure will affect the three instalment payments for 2024 and the result of the tax return filed in

July, estimating additional tax collection of €2.187bn. Furthermore, the reinstatement of the 25% and 50% limits for the offsetting of previous years' tax losses, initially introduced in Royal Decree-Law 3/2016, would generate additional tax collection of €650m in 2025.

**FIGURE 25. CONTRIBUTION BY COMPONENT TO THE GROWTH OF CORPORATE INCOME TAX COLLECTIONS ON CASH (% VAR.)**



Source: AIReF and AEAT

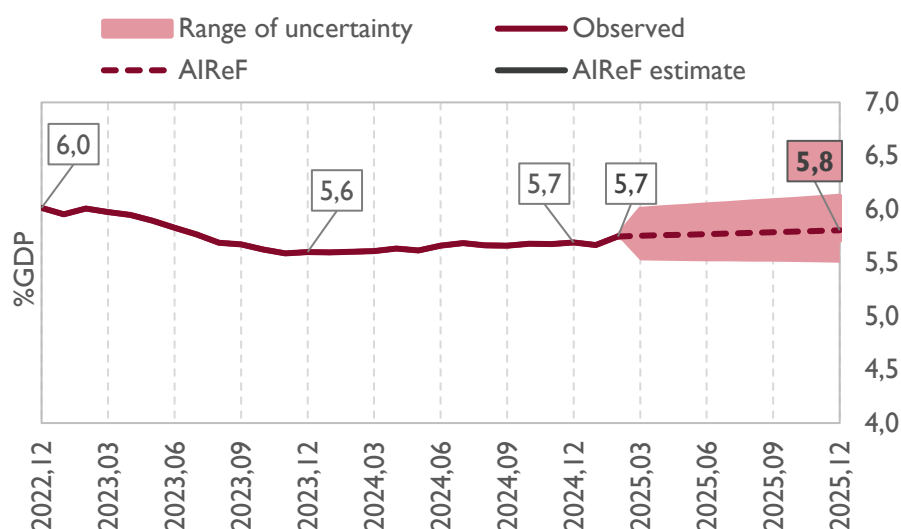
**In national accounting terms in 2025, CIT slows by 0.4 points to 8.1% year-on-year as a result of discounting the effect of the extraordinary refunds linked to the declaration of unconstitutionality of Royal Decree-Law 3/2016.** The unconstitutionality of this Royal Decree-Law has given rise to an estimated amount of refunds in excess of €3bn, which in cash terms take place in both 2024 and 2025, but which in national accounting terms are allocated in full to 2024.

#### 4.1.3. Value Added Tax

**AIReF forecasts that in 2025 Value Added Tax (VAT), in cash terms, will increase its weight by 0.1 points to 5.8% of GDP, with the forecast remaining unchanged with respect to the November report.** On the one hand, the new information available slightly improves the estimate, but this is offset by the denominator effect linked to the carry-over effect due to higher nominal GDP obtained in 2024 compared with the November estimate and by the new macroeconomic outlook, which presents a slight downward revision of the

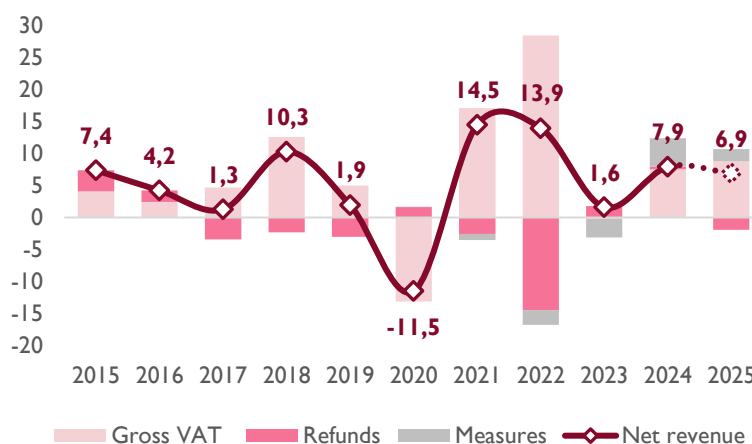
national demand deflator. The measures, in a context of full restoration of interest rates, have a lower impact on the estimate than in previous years.

**FIGURE 26. EVOLUTION OF VAT CASH REVENUE (% GDP)**



Source: AIReF and AEAT

**VAT collection will grow by 6.9% in 2025, 0.7 pp higher than in the November report.** The revision is mainly due to new information incorporated into the forecasting models. Excluding the measures linked to the gradual restoration of rates in 2024, growth would be forecast at 5.1%, rising from 3.3% in 2024. The 2024 tax base update has revealed a significantly more dynamic evolution of final VAT spending in the last three quarters of 2024 than expected, resulting in a stronger carry-over effect for the current year. In the last few months of 2024, the pace of execution of VAT refunds accelerated, in line with what was observed in 2022 and 2023, slightly exceeding the November estimate. Nevertheless, gross revenue has closed the year at a slightly higher figure than estimated in the last report, offsetting the previous effect.

**FIGURE 27. CONTRIBUTION BY COMPONENT TO THE GROWTH IN CASH VAT COLLECTION (% VAR.)**


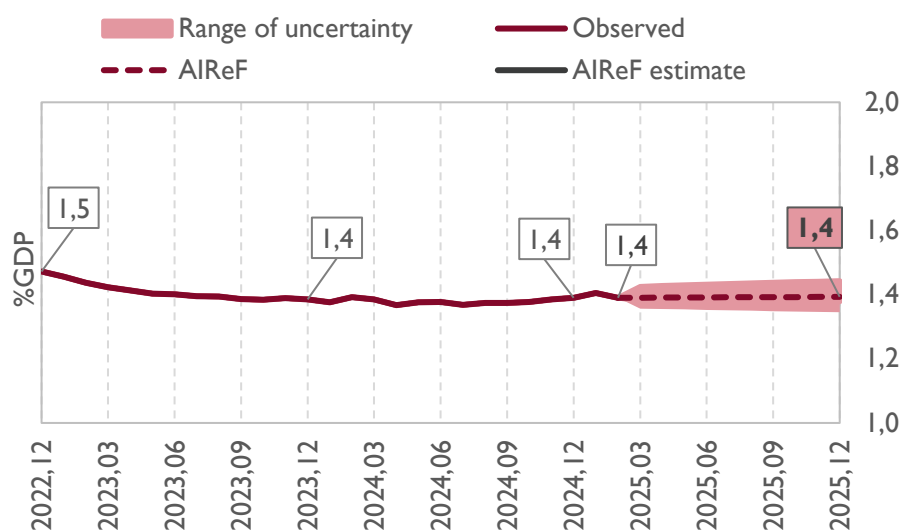
Source: AIReF and AEAT

**In national accounting terms, the expected weight for 2025 increases to 5.9% of GDP.** The amounts recorded in national accounting terms shift revenue to its month of accrual and refunds to the year in which they are claimed. This fact cushions the lower dynamism recorded in revenue due to the increase in the rate of execution of refunds.

#### 4.1.4. Special Taxes

**Special Taxes in cash terms maintain their weight of GDP in 2025 at 1.4%, in line with last November's estimate.** After updating the latest information available, growth in 2025 is expected to be 5%, 0.7 points higher than the previous forecast. By tax, the Tax on Electricity is the main contributor to growth, given the full restoration of its rate, followed by the Tax on Hydrocarbons and the Tax on Tobacco Products.

FIGURE 28. EVOLUTION OF CASH REVENUE PER IIEE (% GDP)



Source: AIReF and AEAT

**In national accounting terms, Special Taxes maintain their weight of GDP at 1.4%.** AIReF considers that Special Taxes will grow at a rate of 5% in 2025, 0.7 points higher than estimated in the previous report, the same increase as in cash terms.

#### 4.1.5. Other tax revenue

**According to AIReF's forecasts, in cash terms, other tax revenue will maintain its weight at 0.9% of GDP during 2025, 0.1 points above that recorded in 2024, in line with its November forecast.** The main changes are due to the update of the new information available and of the macroeconomic forecasts. In national accounting terms, the estimate is revised down by 0.1 points of GDP to 1.1%, as a result of the repeal of the Tax on Energy Companies in Spain. Although the Government approved a Royal Decree-Law to extend the tax to the end of 2024, it was not ratified by the Congress of Deputies.

#### 4.1.6. Social contributions

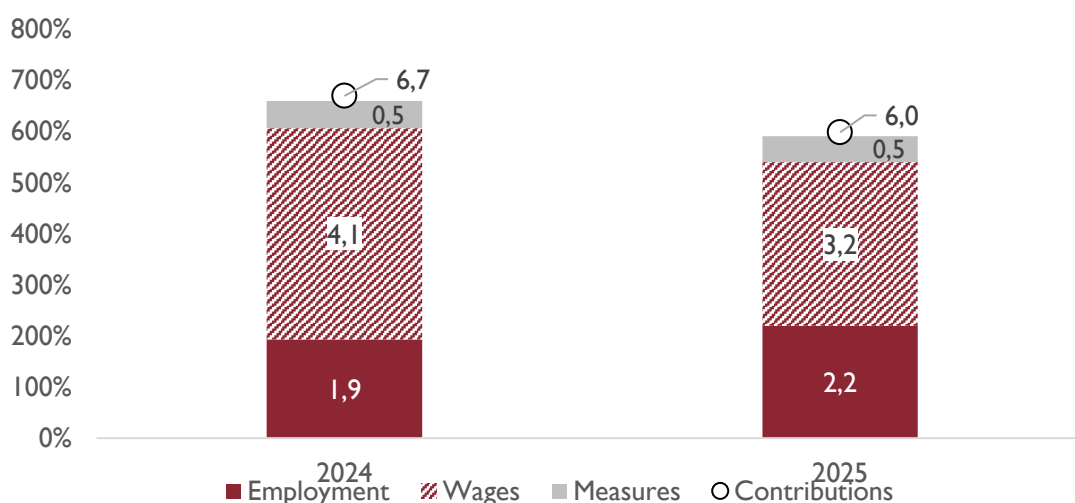
**AIReF maintains its estimate of the weight of social contributions as a percentage of GDP in 2025 at 13.4% in national accounting terms.** The downward revision of 0.1 points due to the new information received, specifically lower revenue from social contributions at the end of 2024 than forecast in the last report, is offset by a positive macroeconomic effect of 0.1 points due to the increase in the forecast for compensation of employees.

**This weight of 13.4% is 0.2 points higher than in 2024.** The projected increase of 6.3% in SSF contributions is reduced to 6% due to the evolution of allocated contributions that remains virtually unchanged between 2024 and 2025. The growth rate of contributions in 2025 compared with 2024 is moderated slightly, partly because of the expected slowdown in compensation per employee.

**In 2025, wages and employment are expected to make a positive contribution to the growth of social contributions, with rates of 3.2% and 2.2%, respectively.**

The measures taken, such as the increase in social contributions under the Intergenerational Equity Mechanism (MEI), the increase in the maximum contribution bases, the solidarity contribution and the DANA exemption for Temporary Redundancy Programme (ERTE) contributions, contribute an additional 0.5 pp to this growth. This forecast slightly reduces the contribution of wages and increases that of employment compared with the previous year.

**FIGURE 29. BREAKDOWN OF GROWTH IN SOCIAL CONTRIBUTIONS**



Source: AIReF, IGAE and Ministry of Inclusion, Social Security and Migration.

#### 4.1.7. Other revenue

**The weight of Other revenue is almost 0.05 points lower than AIReF's previous estimate, accounting for 4% of GDP excluding the RTRP.** The reason for the reduction in the weight of this type of revenue is due to the effect of new information. This heading includes the RTRP, which AIReF estimates at 0.8 points in 2025. Compared with 2024, the weight of Other revenue is down by 0.3 points, mainly due to the lower revenue expected from European funds.

## 4.2. Evolution of General Government expenditure

According to AIReF's estimates, GG expenditure, excluding the RTRP, will stand at 44.3% of GDP in 2025. Excluding the RTRP, it will stand at 44.3% of GDP in 2025, 0.1 points higher than forecast in the previous report. The increase is explained, firstly, by the impact of the measures adopted since the publication of the previous report, which have led to an increase in expenditure equivalent to 0.3 points of GDP. However, this effect has been partially offset by two factors. First, by 0.1 points of GDP due to the denominator effect from the upward revision of nominal GDP. Second, by a further 0.1 points as a result of the incorporation of new information, mainly the year-end 2024 data, which has led to a downward revision of some items for 2025 in view of the fact that the expenditure finally executed was lower than AIReF's forecast. Lastly, there has been no change attributable to the impact of the macroeconomic effect.

**TABLE 5. FACTORS EXPLAINING THE DIFFERENCES IN EXPENDITURE ESTIMATES BETWEEN THE BASELINE AND INITIAL BUDGETS REPORTS (WITHOUT RTRP IN% GDP)**

	2025 Rep. Main Lines	Breakdown of change in % GDP				2025 Current
		Denominator effect	Effect of measures	New information effect	Macro effect	
<b>EXPENDITURE</b>	<b>44.2</b>	<b>-0.1</b>	<b>0.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>44.3</b>
Compensation of employees	10.7	0.0	0.0	0.0	0.0	10.7
Intermediate consumption	5.5	0.0	0.0	-0.1	0.0	5.5
Social transfers in kind via market	2.6	0.0	0.0	0.0	0.0	2.7
Social benefits in cash	16.8	-0.1	0.0	0.2	0.0	17.0
Interest	2.5	0.0	0.0	0.0	0.0	2.5
Gross capital formation	2.6	0.0	0.1	-0.2	0.0	2.5
Subsidies and other expenditure	3.3	0.0	0.2	-0.1	0.0	3.4

Source: AIReF

### 4.2.1. Main components of public consumption expenditure

AIReF maintains its forecast for the main components of public consumption for 2025 at 18.9% of GDP, without the RTRP. There have been no major changes in the weight of GDP of this aggregate since the last report. However, there have been slight changes in its composition. In particular, an increase of 0.1 points of GDP in social transfers in kind, which is partially offset by a reduction in intermediate consumption, which is estimated to decrease by less than 0.1 points of GDP.

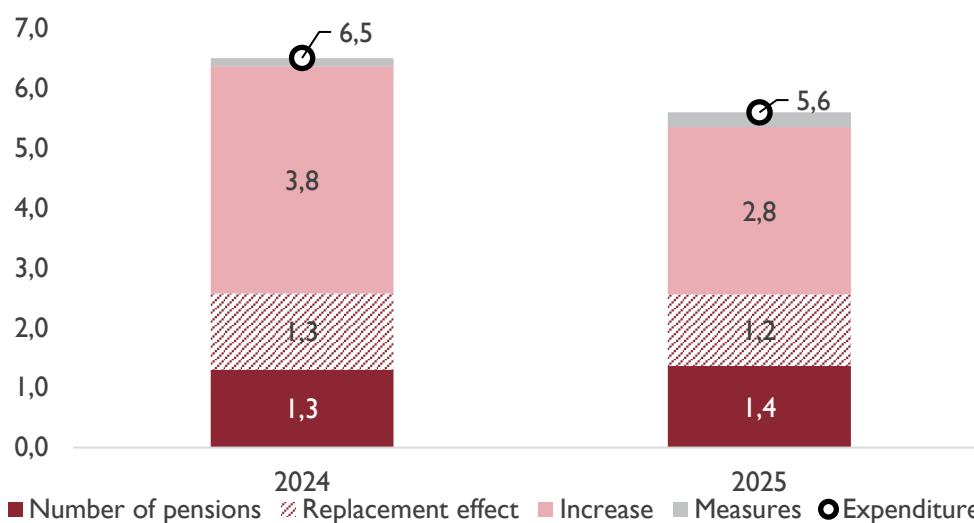
**The forecast for the compensation of employees is maintained at 10.7% of GDP for 2025, in line with the previous report.**

This forecast already considered the additional wage increase of 0.5% for 2024, linked to compliance with the condition that the cumulative change in the Harmonised Index of Consumer Prices (HICP) between 2022 and 2024 should exceed 8%. As AIReF forecast, that condition was confirmed on January 15<sup>th</sup>, 2025, when a cumulative increase of 14.6% was recorded. In addition, the increase in CG expenditure as a result of the salary increase for the Armed Forces is offset by lower growth in personnel spending in the ARs due to the non-implementation of the pay measures initially planned by some ARs.

**With respect to the last report, AIReF forecasts that expenditure on intermediate consumption will remain at 5.5% of GDP, while social transfers in kind will increase by almost 0.1 points to 2.7% of GDP.** In the case of intermediate consumption, it estimates a slight reduction, less than 0.1 points of GDP, as a result of the downward revision of CG expenditure due to lower execution in 2024 than initially planned. Conversely, social transfers in kind are revised upwards in this same sub-sector due to higher than estimated execution in 2024. In addition to this increase by the CG is the increase in this item by the ARs and LGs due to the transport support measures financed by the State.

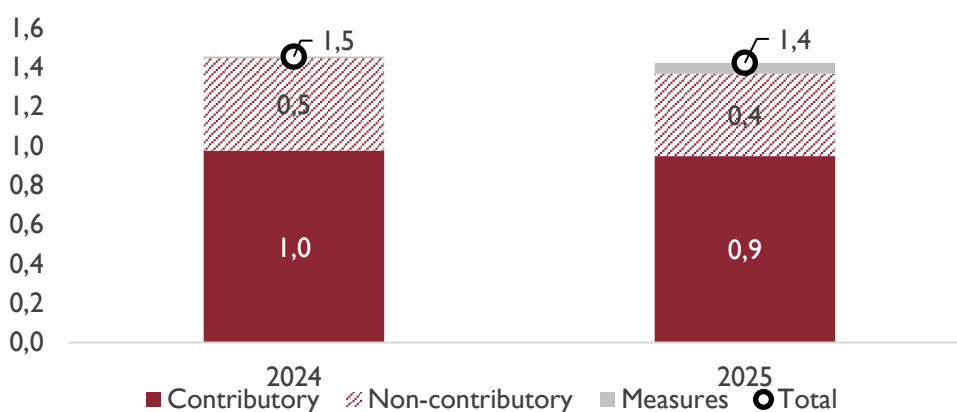
#### 4.2.2. Social benefits in cash

**Expenditure on cash benefits will increase its weight of GDP to 17% in 2025, an increase of 0.2 points from the estimate in the previous report and 0.1 points from year-end 2024.** This upward revision is mainly due to the effect of new information, given that the year-end 2024 data have exceeded the initial forecasts. While the forecast for civil servants remains unchanged, AIReF is making an upward adjustment to its estimate of growth in Social Security spending on pensions for 2025, from the 4.9% forecast in the previous report to the current 5.6%. This adjustment is based on the revision of the impact of the replacement effect, which increases to 1.2%, 0.4 points above the 0.8% previously estimated, in line with the update of the latest available data. Lastly, the revaluation of pensions in 2025 has been set at 2.8%, compared with the 2.5% estimated in the November report, when the definitive year-on-year inflation data for the period from December 2023 to November 2024 were not yet available.

**FIGURE 30. GROWTH IN PENSION EXPENDITURE. AIREF PROJECTIONS (% VAR)**


Source: AIReF and Ministry of Inclusion, Social Security and Migration

**AIReF estimates that the weight of unemployment benefits as a percentage of GDP will stand at 1.4% in 2025, 0.1 points higher than the forecast made in the previous report.** With regard to 2024, a reduction of 0.1 points is forecast as a result of the expected dynamism of the labour market, which offsets the increase in expenditure due to the reform of unemployment benefits and the ERTes associated with the DANA.

**FIGURE 31. EVOLUTION OF UNEMPLOYMENT EXPENDITURE (% GDP). AIREF PROJECTIONS**


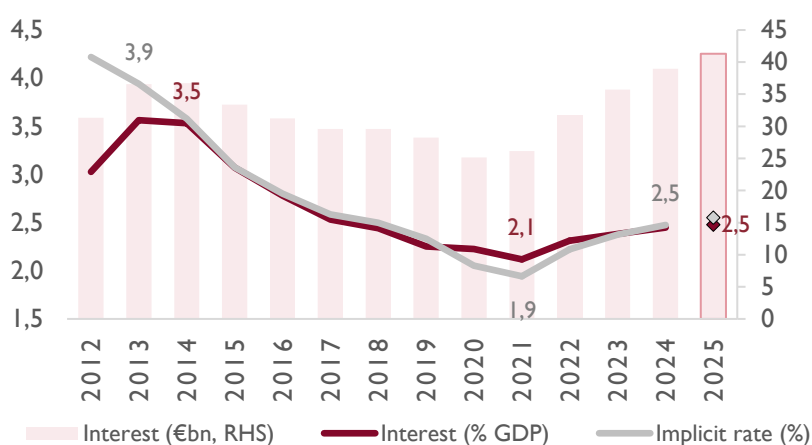
Source: AIReF and SEPE

**Other benefits increase their weight of GDP by 0.1 points with respect to the previous report.** New information received, in particular, the year-end 2024 data, which show higher spending on MIS and Temporary Disability with annual rates of 14% and 16% respectively, have led to an upward revision of our projections for 2025.

### 4.2.3. Interest

**AIReF maintains its interest spending forecast for 2025 at 2.5% of GDP.** There have been no significant changes in the financing conditions that would alter the forecast for this spending for 2025. Interest spending by the GG Sector increased in 2024 by €3.279bn to a total of €38.986bn, which represents 2.4% of GDP. In nominal terms, this increase consolidates the change in trend that began in 2021, after seven consecutive years of reductions. Despite this increase in absolute terms, strong economic growth has allowed the financial burden measured as a percentage of GDP to remain stable in 2024 compared with the previous year.

**FIGURE 32. FINANCIAL BURDEN AND IMPLICIT DEBT RATE**



Source: Treasury, IGAE, AIReF

### 4.2.4. Gross capital formation

**The estimate of spending on gross capital formation, excluding the RTRP, is 2.5% of GDP, 0.1 points lower than in the previous report.** The new estimate is the result of conflicting effects in the revision of the different sub-sectors which, taken together, have led to a reduction in their weight of GDP. On the one hand, the budgetary execution data for 2024 have led to an upward revision of CG investment, coupled with an increase in military spending estimated for 2025. However, this increase has been largely offset by a downward revision of investment by the ARs and LGs, as a result of the year-end 2024 data. However, in the case of these sub-sectors, the reduction has been partially mitigated by the investments planned for 2025 associated with the DANA, particularly in the AR of Valencia and in the affected LGs.

#### 4.2.5. Subsidies and other expenditure

**All other expenditure items increase their forecast by less than 0.1 points of GDP to 3.4% of GDP in 2025 compared with the previous report.** Spending on subsidies decreases due to a downward spending review of planned spending by the CG, due to the lower estimate of the collection of the Tax on the Value of Electricity Production which, although it has a neutral effect on the deficit, is part of the subsidies to the National Markets and Competition Commission (CNMC) to finance the costs of the electricity system. This reduction, however, is partially mitigated by the increase in spending on subsidies for those affected by the DANA. Furthermore, the increase in other expenditure is mainly due to the upward revision of the item for other current transfers in the AR sub-sector, based on 2024 execution, although this increase is also slightly offset by its reduction by the LGs in line with the year-end data. There is also an increase in the items for investment support and other capital transfers in relation to DANA-related support.

### 4.3. Impact of the measures on General Government accounts

**Tax and spending measures approved since the Report on the Main Lines increase the deficit by 0.3 points of GDP in 2025.** The changes are mainly a result of the approval of a raft of measures to mitigate the effects of the DANA, valued at 0.3 points of GDP in 2025. In addition, the limitation on the offsetting of tax losses by consolidated groups and the reinstatement of the limits of RDL 3/2016 increase CIT collection by 0.1 points.

#### 4.3.1. Measures in response to the Isolated High Altitude Depression

**The measures approved to mitigate the effects of the Isolated High Altitude Depression (DANA) will have an impact in national accounting terms of 0.7% of GDP in the GG Sector. This will mainly be distributed between 2024 and 2025.** The GG approved a raft of measures to mitigate the effects of the DANA between October 28<sup>th</sup> and November 4<sup>th</sup> 2024. The Government approved measures for an amount of €20.379bn, initially announced through three Royal Decree-Laws: Royal Decree-Law 6/2024, of November 5<sup>th</sup>; Royal Decree-Law 7/2024, of November 11<sup>th</sup>; and Royal Decree-Law 8/2024, of November 28<sup>th</sup>. For its part, the AR of Valencia has included expenditure measures amounting to €2.353bn in its draft budget for 2025, in addition to the €287m executed in 2024, and has approved revenue measures with a residual impact. The LGs affected have also adopted additional measures that are mostly financed by the State and, to a lesser extent, by the AR of Valencia. Overall, the measures

to mitigate the effects of the DANA have had an impact in 2024 of 0.4% of GDP and AIReF estimates an impact of 0.3% of GDP in 2025.

**TABLE 6. IMPACT OF THE APPROVED ISOLATED HIGH ALTITUDE DEPRESSION MITIGATION MEASURES**

Fiscal impact of measures to mitigate the effects of the DANA	National Accounting Impact **		2024		2025	
	€ million	% GDP	€ million	% GDP	€ million	% GDP
<b>CG</b>	<b>8,488</b>	<b>0.5</b>	<b>5,186</b>	<b>0.3</b>	<b>3,238</b>	<b>0.2</b>
<b>Expenditure measures</b>	<b>8,488</b>	<b>0.5</b>	<b>5,186</b>	<b>0.3</b>	<b>3,238</b>	<b>0.2</b>
Support for households	<b>4,712</b>	<b>0.3</b>	<b>4,712</b>	<b>0.3</b>	<b>0</b>	<b>0.0</b>
<i>Insurance Compensation Consortium</i>	4,712	0.3	4,712	0.3	0	0.0
Support for companies	<b>422</b>	<b>0.0</b>	<b>272</b>	<b>0.0</b>	<b>135</b>	<b>0.0</b>
<i>ICO guarantee line</i>	2	0.0	2	0.0	5	0.0
<i>Direct support to companies and professionals</i>	420	0.0	270	0.0	130	0.0
Other	<b>572</b>	<b>0.0</b>	<b>176</b>	<b>0.0</b>	<b>396</b>	<b>0.0</b>
<b>Transfers made to Local Governments*</b>	<b>2,743</b>	<b>0.2</b>	<b>0</b>	<b>0.0</b>	<b>2,694</b>	<b>0.2</b>
<b>Transfers made to the Social Security Funds</b>	<b>39</b>	<b>0.0</b>	<b>26</b>	<b>0.0</b>	<b>13</b>	<b>0.0</b>
<b>Revenue measures</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
Deferral of second PIT payment						
Payment deferral for SMEs and the self-employed						
<b>SSFs</b>	<b>117</b>	<b>0.0</b>	<b>57</b>	<b>0.0</b>	<b>60</b>	<b>0.0</b>
Exemption from contributions for ERTes	35	0.0	17	0.0	18	0.0
ERTE benefit due to <i>force majeure</i>	82	0.0	40	0.0	42	0.0
Benefit for cessation of activity	15	0.0	5	0.0	10	0.0
Temporary disability as a work accident	16	0.0	16	0.0	0	0.0
Other measures	8	0.0	6	0.0	3	0.0
<b>Transfers received from Central Government</b>	<b>-39</b>	<b>0.0</b>	<b>-26</b>	<b>0.0</b>	<b>-13</b>	<b>0.0</b>
<b>ARs (Valencia)</b>	<b>2,346</b>	<b>0.1</b>	<b>301</b>	<b>0.0</b>	<b>2,063</b>	<b>0.1</b>
Investment and Infrastructure	457	0.0	61	0.0	397	0.0
Supplies, environment, cleaning and others	453	0.0	80	0.0	391	0.0
Support for households	930	0.1	92	0.0	838	0.1
Support for companies and the self-employed	414	0.0	50	0.0	364	0.0
<b>Transfers made to Local Governments</b>	<b>66</b>	<b>0.0</b>	<b>5</b>	<b>0.0</b>	<b>61</b>	<b>0.0</b>
<b>Revenue measures</b>	<b>26</b>	<b>0.0</b>	<b>14</b>	<b>0.0</b>	<b>12</b>	<b>0.0</b>
PIT deductions, rebates for Inheritance & Gift Tax, Tax on Asset Transfers and Documented Legal Acts, gambling taxes and sewerage levy	26	0.0	14	0.0	12	0.0
<b>LGs</b>	<b>341</b>	<b>0.0</b>	<b>60</b>	<b>0.0</b>	<b>-591</b>	<b>0.0</b>
Infrastructure	1,745	0.1	0	0.0	1,413	0.1
Property Tax exemption & reduction in Tax on Economic Activities 2024	93	0.0	0	0.0	93	0.0
Other measures financed by CSA	905	0.1	0	0.0	312	0.0
Other LG measures	407	0.0	64	0.0	345	0.0
<b>Transfers received from AR of Valencia</b>	<b>-66</b>	<b>0.0</b>	<b>-5</b>	<b>0.0</b>	<b>-61</b>	<b>0.0</b>
<b>Transfers received from Central Government</b>	<b>-2,743</b>	<b>-0.2</b>	<b>0</b>	<b>0.0</b>	<b>-2,694</b>	<b>-0.2</b>
<b>Total GG</b>	<b>11,292</b>	<b>0.7</b>	<b>5,604</b>	<b>0.4</b>	<b>4,769</b>	<b>0.3</b>

Source: AIReF. Notes:

\* Given that the realisation of transfers to CC. LL in 2025 will be used for multi-year spending, there is a temporary surplus in this year.

\*\* The impact on national accounting extends beyond 2025.

**The fiscal impact of these measures is mostly borne by the Central Government, €5.186bn in 2024 and more than €3.2bn in 2025.** Although some

tax measures are included, such as tax deferrals, most are expenditure measures. In 2024, the support for households stands out, due to the compensation managed by the Insurance Compensation Consortium, which amounted to €4.712bn in 2024. As for companies, of note is the ICO guarantee line for €5bn, of which the first two tranches totalling €1.24bn have already been made available, with a marginal impact on national accounting. Direct support for companies and professionals is also included, the impact of which was €270m in 2024 and will be approximately half that amount this year. A third group of miscellaneous measures is included with an impact of €176m in 2024 and will be almost €400m this year. This last group of measures includes, among others, an ICO credit line aimed at the agricultural sector and the so-called Plan Reinicia AUTO+, which, managed by TRAGSATEC, is aimed at the acquisition of vehicles by families, companies and the self-employed. Lastly, it is worth highlighting the measures channelled through transfers to the ARs and LGs, which will amount to almost €2.7bn in 2025, mainly to LGs to cover a wide range of different measures.

**For their part, the Social Security Funds assume the expenditure derived from the ERTes, including the exemption from contributions.** In addition, transfers from the CG to the SSFs finance benefits paid by the State, such as the Minimum Income Scheme (MIS) and child benefits, but also specific Social Security spending, such as the Temporary Disability benefit treated as an accident at work and the self-employed cessation of activity benefit.

**In its draft budget for 2025, the AR of Valencia includes specific actions for €1.753bn aimed at individuals and companies and at the restoration of infrastructure, cleaning and environmental management, as well as loans to attend to other emergency actions for €600m.** For households, it has budgeted close to €500m in direct support for the acquisition of basic household necessities, rental housing, the replacement of damaged vehicles, support for workers affected by an ERTE and various types of support for non-profit associations and groups. €600m is budgeted for transfers to individuals for emergency spending, not earmarked for specific actions, of which AIReF includes only a part in its estimate for 2025 as it understands that the actions and support already defined will be applied as a priority. At a business level, the AR of Valencia has recorded direct support for the self-employed and companies of different scope and content to which it allocates close to €450m. In addition, more than €450m have been earmarked for infrastructure restoration and repair work, and around €470m for spending on clean-up, environmental management, supplies, emergency contracts and other expenditure. In addition, it has approved direct support for the affected municipalities for €66m and, finally, the AR of Valencia has adopted a series of fiscal measures in various taxes with a limited overall impact which, in the

case of PIT, will take place from 2026.

**The transfers from the CG to the LGs are mainly intended to finance the reconstruction of infrastructure and to offset the Property Tax exemption and the 2024 Tax on Economic Activities reduction in the affected areas.** In addition, the remaining measures include transfers to cover spending related to emergency situations (evacuation, housing and feeding of those affected, cleaning of public roads, including the removal of sludge and unusable goods), measures to support the cultural sector, and support for entities managing sanitation services (Action Plan against Sludge), among others. For their part, the LGs include other measures estimated by AIReF at approximately €350m, which include emergency spending and support for those affected, financed in part with contributions from the private sector and the AR of Valencia.

#### 4.3.2. Measures to combat the price and energy crisis

**AIReF estimates the total impact of the measures in the National Response Plan to the economic and social consequences of the conflict in Ukraine at 0.1% of GDP in 2025.** The impact of the measures to combat the price and energy crisis stemming from the Russian war has been 0.4% in 2024, most of them having expired at the end of 2023 and only some having been extended. A much more limited budgetary impact is projected for 2025, as very few measures are still in place today.

**In terms of expenditure, the impact of the measures adopted in response to the price and energy crisis for 2025 is around €1.4bn.** This impact was just over €17bn in 2022, €6.5bn in 2023, and just over €2.3bn in 2024. For this year, only those relating to public transport discounts remain in force, which were extended under Royal Decree-Law 1/2025, of January 28<sup>th</sup>, approving urgent measures in economic, transport and Social Security matters, and to deal with situations of vulnerability. This aid is made up, on the one hand, of the support channelled through the ARs and LGs for the reduction of transport season tickets, with an impact of some €700m for this year, and on the other, the support transferred to RENFE (already included in the GSB) and for the reduction in the price of regular road passenger transport, with an impact of some €500m. Lastly, the same regulation approved support for ARs and LGs for the extension and improvement of collective land transport services, and additional support for the latter to encourage the loan of bicycles, and support for companies and individuals to promote decarbonisation with pedal-assisted cycles. The impact of this last set of support is just over €125m for 2025.

**Furthermore, in terms of revenue, the impact on tax collection in 2025 is residual, subtracting only €450m.** The measures taken to lower VAT rates on electricity and foodstuffs resulted in a loss of tax collection of €1.8bn in 2022 and €4.4bn in 2023. In 2024, despite the gradual reinstatement of rates, €3.6bn was still lost. For 2025, the expected impact is residual, at around €450m, due to a transfer to national accounting of the cuts in 2024, and two measures adopted by the Government that are structural in nature: olive oil and fermented milk are moved to the super-reduced VAT group of 4%, generating an approximate annual loss of tax collection of €200m. For its part, the reduction in the Special Tax on Electricity had a negative impact on public accounts of €2bn in 2022 and a similar amount in 2023. In 2024, €1.1bn were still lost despite the gradual reinstatement of rates and in 2025, given the return to normality in the rate, its impact will be zero.

**The extension of the suspension of the Tax on the Value of Electricity Production reduced tax collection by €800m in 2024 but it has been fully reinstated in 2025.** Following the same process as the other taxes, its suspension resulted in a revenue loss of €4.4bn in 2022 and €2.6bn in 2023. Its last extension in 2023 affected the first quarter tax collection in 2024, generating a loss of €777m. However, from then on, it has been fully reinstated and its impact will be zero in 2025.

**TABLE 7. IMPACT OF THE A. CG MEASURES ADOPTED IN RESPONSE TO THE ECONOMIC AND SOCIAL CONSEQUENCES OF THE UKRAINE WAR**

Impact in national accounting terms		2024	2025
<b>Revenue Measures</b>	(€million )	<b>-4,015</b>	<b>-188</b>
	(% GDP)	<b>-0.3</b>	<b>0.0</b>
<b>VAT</b>		<b>-2,935</b>	<b>-188</b>
<b>VAT on Electricity</b>		-907	0
<b>VAT on gas, briquettes and pellets</b>		-125	0
<b>VAT on basic foodstuffs</b>		-1,566	0
From <b>4% to 0%</b> until 30/09/2024			
From <b>4% to 2%</b> from 01/10/2024 to 31/12/2024			
<b>VAT on olive oil</b>		-141	0
From <b>10% to 5%</b> until 30/06/2024			
From <b>10% to 0%</b> from 01/07/2024 to 30/09/2024			
From <b>10% to 2%</b> from 01/10/2024 to 31/12/2024			
<b>VAT on seed oils and pasta</b>		-196	0
From <b>10% to 5%</b> until 30/09/2024			
From <b>10% to 7.5%</b> from 01/10/2024 to 31/12/2024			
<b>VAT on olive oil and fermented milk as a staple food (4%)</b>			-188
<b>STs</b>		<b>-1,080</b>	<b>0</b>
<b>ST on Electricity</b>		-1,080	0
<b>Expenditure Measures</b>	(€million )	<b>2,307</b>	<b>1,394</b>
	(% GDP)	<b>0.1</b>	<b>0.1</b>
<b>Fuel allowance</b>		344	0
<b>Sectoral support</b>		50	5
<b>Electricity tariff deficit</b>			
<b>Direct support for individuals</b>			
<b>Other support for individuals</b>		1,913	1,389
<b>Total Measures</b>		<b>-6,322</b>	<b>-1,582</b>
		<b>-0.4</b>	<b>-0.1</b>
<b>Other</b>			
<b>Tax on the Value of Electricity Production: Suspension</b>		-777	0

Source: AIREF.

Notes:

**VAT on electricity:** Reduction to 10% electricity rate (RDL 12, 17 and 29 /2021 and 6/2022); Reduction to 5% from July 2022 (RDL 11/2022); Extension until 31-12-2023 (RDL 20/2022); From 01/01/2024 to 21% except for prices >45€ kw/h.

**VAT gas, briquettes and pellets:** Reduction to 5% gas rate (RDL 17/2022); Extension until 31-12-2023 (RDL 20/2022)

**VAT on foodstuffs:** RDL 20/2022 until 30-6-2023, RDL 5/2023 until 31/12/2023.

**VAT on olive oil and fermented milk:** their rate is permanently set at 4% by Royal Decree-Law 4/2024 and Law 7/2024, respectively.

**IE Electricity:** Electricity rate reduction (RDL 17, 29/2021 and 6, 11/2022); Extension until 31-12-2023 (RDL 20/2022)

**IVPEE:** Suspension (RDL 12, 17, 29/2021 and 6/2022); Extension until 31-12-2023 (RDL 20/2022)

### 4.3.3. Other revenue measures

**In tax matters, AIReF estimates that the structural tax measures adopted will reduce revenue by just under 0.1 points of GDP in both 2024 and 2025.** The positive impact of the PIT changes on the taxation of capital income and the collection of the Tax on Single-Use Plastics has generated additional tax collection of around €270m. However, the increase in the reduction of earnings from work and of the minimum tax rate and the deduction for maternity in PIT and the reduction in the rate for small companies in CIT, measures adopted in the 2023 Budget and in RD 142/2023, have had a combined negative impact of around €1.7bn. The net effect thus amounts to a loss of 0.1 points of GDP revenue over the entire revenue forecast horizon.

**The temporary regulatory measures have had a negative impact of 0.2 points of GDP in 2024, while in 2025 the impact will be neutral on tax collection.** In 2024, the limits set for CIT by Royal Decree-Law 3/2016 have not been in force due to Constitutional Court Ruling 11/2024. This has meant a loss of tax revenue of €2.8bn. However, its reinstatement by Law 7/2024, of December 20<sup>th</sup>, will result in an estimated partial recovery over a period of two years, with tax collection of €650m in 2025. In addition, given that the measure limiting the offsetting of tax losses for consolidated groups has not been in force throughout 2024, its impact on instalment payments has been lost, and its reinstatement by Law 7/2024 will generate tax collection of €1.089bn in 2025, as it will affect both instalment payments in 2025 and the tax return to be filed in July. Furthermore, no specific information is available on the estimated tax collection for the new tax on interest margins and fees for financial institutions, also established in Law 7/2024, and it is thus assumed that tax collection will be similar to that obtained with the temporary Tax on Financial Institutions, in force in 2023 and 2024. Finally, the repeal from 2025 of the temporary Tax on Energy Companies will result in a loss of revenue of €1.164bn.

**TABLE 8. REVENUE MEASURES: IREF ESTIMATE IN NATIONAL ACCOUNTING TERMS (€M COMPARED WITH 2023 LEVEL)**

Central Government Revenue Measures	Source	2024	2025
<b>Structural measures</b>	(million)	-1,438	-1,496
	(% GDP)	-0.1	-0.1
<b>PIT</b>		<b>-1,195</b>	<b>-1,253</b>
Increase in taxation on capital income	GSB23	222	222
Increase in reduction of work income and minimum taxation	GSB23 and RD 142/2024	-1,445	-1,503
Extension of the maternity tax credit	Bud. Plan 23	28	28
<b>Corporate Income Tax</b>		<b>-291</b>	<b>-291</b>
Reduction in the rate for small businesses	GSB23	-291	-291
<b>OTHER</b>		<b>48</b>	<b>48</b>
Tax on Single-Use Plastics:	Law 7/2022	48	48
<b>Temporary measures</b>	(million)	-3,637	1,739
	(% GDP)	-0.2	0.1
<b>CIT</b>		<b>-3,637</b>	<b>1,739</b>
Limitation on offsetting losses in consolidated groups	Law 7/2024	-852	1,089
Resetting limits of RDL 3/2016	Law 7/2024	-2,785	650
<b>OTHER</b>		<b>0</b>	<b>0</b>
Tax on financial institutions / Tax on net interest income and commissions	Law 7/2024	0	0
<b>Total Measures</b>	(million)	<b>-5,075</b>	<b>242</b>
	(% GDP)	<b>-0.3</b>	<b>0.0</b>

Source: AIReF

#### 4.3.4. Measures in the new geopolitical context

**The Government approved financial measures in response to the tariff crisis for a total amount of €7.22bn, as part of the Trade Response and Relaunch Plan, which is expected to reach €14.1bn.** Royal Decree-Law 4/2025, of April 8<sup>th</sup>, establishes measures based on three pillars: promoting productive investment, providing liquidity for companies and boosting export activity. To this end, a new line of guarantees worth €5bn is established to guarantee the financing of affected companies. The Fund for the Internationalisation of Companies (FIEM) is also reinforced, with an increase in its budget of €200m to €700m, and an additional €20m are included to finance non-reimbursable operations. In addition, €2bn are allocated from CESCE, Compañía Española de Seguros de

Crédito a la Exportación, to cover international projects affected by the new tariffs. Lastly, the Reciprocal Interest Rate Adjustment Agreement (CARI) was reformed to maintain protection against interest rate volatility and facilitate access to bank financing. All of these are financial measures and, except for the estimated impact of defaults on the guarantee line, they would have no impact on the deficit.

**The Government also approved an increase in military spending of €2.084bn.**

In the Council of Ministers meeting of April 8<sup>th</sup>, 2025, the Government approved a credit transfer to the Ministry of Defence in the amount of €2.084bn, aimed at meeting military spending needs. This transfer is earmarked for the Special Modernisation Programmes (PEM), the modernisation of the Armed Forces and logistical support, as well as other programmes in its budget. Most of these increases are concentrated in military investment spending, so the impact on the deficit will occur as military material is delivered, in accordance with national accounting rules.

#### 4.4. Contingent liabilities and tax risks

**The possible adoption of new measures by the Government in response to the current geopolitical context could raise the deficit forecast by AIReF for 2025.**

Recent events on the international scene are generating uncertainty as to the fiscal impact they could generate, both from the Government's commitment to increase defence expenditure and from the possible implementation of measures to support the economic sectors most affected by new tariff policies, in addition to those already approved.

**There is particular uncertainty regarding the increase in defence expenditure planned for 2025, specifically with regard to the amount associated with special modernisation programmes, for which no information is provided.**

In the current geopolitical context, military spending is of growing strategic importance. In this regard, the Government announced in the Congress of Deputies on March 26<sup>th</sup> the launch, before the summer, of a *National Plan for the Development and Promotion of Spanish Security and Defence Technology and Industry*. The Government's recent commitment to increase the defence budget, already firmed up in the recent agreement of the Council of Ministers, introduces significant uncertainty about its fiscal impact in 2025. One of the main components of this increase corresponds to the special programmes for modernising military capabilities, whose investment volume is expected to have a growing effect on public accounts. Despite their quantitative importance, no information is available on planned military

deliveries for the current year until the publication of the year-end 2025 data the following year<sup>19</sup>.

**Furthermore, the fiscal risks associated with the enforcement of court rulings that are unfavourable to the State continue to persist.** In recent years, there has been an accumulation of court rulings unfavourable to the interests of the State, as has been pointed out in AIReF's reports in recent years and recently in the Opinion on Fiscal Risks published on March 13<sup>th</sup>. In particular, the impact on the 2024 deficit due to court rulings amounted to €11.263bn, 0.9% of GDP, of which the majority fell on the CG for an amount of €9.263bn, but also affected the SSF sub-sector for €1.108bn and the LGs for €898m. However, the effect of some court rulings has yet to be allocated, the amount of which could be higher in 2025 than AIReF's forecast.

**TABLE 9. SPENDING ON COURT RULINGS RECORDED IN THE GENERAL GOVERNMENT DEFICIT. 2024 DEFICIT. BREAKDOWN BY COURT RULINGS AND BY SUB-SECTOR (IN MILLIONS OF EUROS)**

Court rulings	Central Government	Social Security Funds	ARs and LGss (*)	Total
Workers covered by mutual insurance scheme	5,038		898	<b>5,936</b>
Corporate Income Tax Reform (RDL 3/2016)	3,048			<b>3,048</b>
NRIT of collective investment undertakings	244			<b>244</b>
PIT for pensioners of occupational mutual insurance schemes	485			<b>485</b>
Tax on Economic Activities of mobile telephony operators	448			<b>448</b>
Parent Retirement Pension Supplement		1,108		<b>1,108</b>
<b>Total</b>	<b>9,263</b>	<b>1,108</b>	<b>898</b>	<b>11,269</b>

Note (\*): Navarre and the chartered Provincial Councils

**The final impact of the court rulings recorded in 2024 was much higher than the Government forecast in the Central State Administration Accounts for 2023.** Among the most significant cases was the court ruling on the PIT of pensioners who paid contributions to employment mutual insurance companies, the impact of which amounted to €5.936bn, of which €5.038bn corresponded to the CG, whereas the Government's estimate had been €1.7bn. The court rulings relating to the reform of CIT by Royal Decree-Law 3/2016, which generated expenditure of €3.048bn, compared with the €1.200bn provisioned

<sup>19</sup> However, for the purposes of compliance with the European expenditure rule, the European Commission allows Member States to request the activation of the national escape clause in order not to consider increasing defence expenditure from the 2021 level, up to a maximum of 1.5% of GDP, for a maximum period of four years (2025-2028).

by the Government. In other cases, the difference was smaller, such as in the court rulings on the financing of the electricity social voucher and on the right of fathers to the maternity supplement in the retirement pension, where the impact was €448m<sup>20</sup> and €1.108bn, respectively, compared with the €276m and €994m provisioned. As a result of these four court rulings, the impact on the deficit was some €6bn more than the Government provisioned for in the CSA Accounts for the previous year. In addition, spending continued on court rulings whose effects on the deficit had already begun in previous years, such as the ruling on Collective Investment Institutions (CIIs) from third countries to obtain a refund of withholdings made in Spain on Non-Residents' Income Tax for €244m, in addition to at least €585m allocated in previous years, and the ruling in favour of mobile telephone operators for €485m, in addition to the €137m in 2023. For the latter, the Government expected a total impact of €1.479bn, so it is expected that more spending will continue in 2025 and beyond.

**The effect of several court rulings that have already been handed down has yet to be allocated in national accounting terms, the impact of which could be greater in 2025 than AIReF forecasts.** Although AIReF's deficit forecasts for 2025 include an estimate of spending to cover the risks stemming from court rulings that have already been handed down, uncertainty persists as to the exact amount of compensation and interest and the year in which they will be recorded in the National Accounts. Among these court rulings, the following stand out:

- **Tax on Economic Activities (TEA) for mobile phone operators:** In July 2022, the Supreme Court declared the Tax on Economic Activities (TEA) for mobile phone operators to be in breach of European law. In the 2023 CSA Accounts, the Government made a provision of €1.479bn for mobile phone operators, of which €622m have been allocated to date.
- **Special Tax on Hydrocarbons:** In September 2024, the Supreme Court declared the regional tranche of the Tax on Hydrocarbons corresponding to the period from 2013 to 2018 to be illegal, aligning itself with the ruling of the Court of Justice of the European Union, issued last May, on the preliminary ruling question raised by the Supreme Court itself. As a result, taxpayers to whom the tax was passed on are entitled to a refund of the amounts paid, unless they have passed the tax on to the end consumer through prices, although it is not the taxpayer's responsibility to prove that the tax was not passed on. Furthermore, end consumers affected may

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<sup>20</sup> In previous years, €366m had already been allocated for the financing of the electricity social voucher.

claim against the State for the Administration's Asset Liability derived from the application of a law in breach of European Union Law. In the 2023 CSA Accounts, in the section on contingent liabilities, the Government had estimated an effect of up to €6.5bn as a result of this ruling.

**In addition to these risks that have already materialised, other risks are pending, mostly related to legal cases.** These are identified by the Government in the 2023 CSA Accounts, the last one published. The following particularly stand out:

- **International arbitration:**

- (i) **On energy:** the renewable energy litigation is still open and, although the international arbitration cases are being appealed, the amount of the court rulings against Spain is stands at some €1.241bn. The estimated costs and interest could amount to some €170m. Moreover, compensation for the awards still pending could amount to an additional €330m if the evolution of the awards handed down to date is taken into account.

However, on March 24<sup>th</sup>, the European Commission concluded, following its first investigation into the cuts in support for renewable energy that are subject to international litigation, that the modification of a support measure for renewable electricity constitutes unlawful State support. Consequently, the Commission ordered Spain not to make any payments and reminds national judges of their obligation to assist Spain in complying with this decision. The Ministry for the Ecological Transition and Demographic Challenge announced that this decision will be invoked by Spain in the various foreign jurisdictions where the country, in compliance with EU law, is judicially opposing the recognition and enforcement of intra-European arbitration awards.

- (ii) **In other areas:** the Prestige case and the TP Ferro case stand out, the former for an undetermined amount and the latter for some €750m.

- **Transport:**

- (i) **Various types of contentious-administrative appeals** before the *Audiencia Nacional* (National High Court) for a total of some €279m;

- (ii) **Motorway concessionaires:** several proceedings remain open:

- The contentious-administrative appeals against the Resolutions of the Council of Ministers approving rulings on the settlement of the toll motorway concession contracts and determining the Administration's Asset Liability, the amount of which is not quantified; the CSA Accounts for 2023 make a provision of €515m in this regard.
- Participating loans granted to motorway concessionaires in a delicate financial situation, amounting to €148m.

- **Appeal brought by ORACLE EMEA. LTD**, against the court ruling of the National High Court of December 23<sup>rd</sup>, 2022, which partially upheld its claim in relation to Non-Residents' Income Tax, amounting to some €34m.
- **Refusal of subsidies or reimbursement of support**: contentious-administrative appeals regarding the Ministry of Industry, Trade and Tourism for some €138m.

**In addition, there are other risks stemming from legal proceedings not included in the preceding list.** In September 2023, the General Court of the European Union (EGC) revoked the European Commission's decision declaring the tax relief for companies carrying out indirect purchases of foreign firms to be illegal. This ruling has been appealed by the European Commission and is pending before the Court of Justice of the European Union (CJEU). Conversely, the Spanish Ministry of Finance challenged the favourable ruling of the Central Economic-Administrative Court (TEAC) in favour of Banco Santander before the National High Court to try to reimburse the deferred tax credits (DTAs) that Banco Santander took for the losses assumed in the takeover of Banco Popular. In the latter case, a ruling in favour of the State would have the effect of reducing the deficit.

**The risk associated with the guarantees granted by the ICO, initially during the pandemic, subsequently due to the war in Ukraine, and more recently in response to the effects of the DANA, is also maintained.** Royal Decree-Law 6/2024 approved a new line of guarantees for a maximum amount of €5bn, intended to cover, on behalf of the State, the financing granted by financial institutions to households, companies and the self-employed affected by the damage caused by the DANA. These guarantees, as in the case of the guarantees granted for the pandemic and the war in Ukraine, have been classified as standardised guarantees. The impact on the State deficit of these guarantees is €4.2bn in 2021, €628m in 2022, €318m in 2023 and €155m in 2024. Accordingly, this fiscal risk remains, which will generate additional spending in 2025 and subsequent years as the guarantee lines become available and, in the case of defaults, exceed the amount already recorded as standardised guarantees.

**Moreover, uncertainty about the macroeconomic scenario implies risks to the materialisation of the projected fiscal scenario.** Geopolitical conflicts, trade tensions aggravated by a possible tariff war and the slower pace of implementation of the RTRP are some of the risks that could have a negative impact on economic growth. These elements continue to be key in the evolution of certain variables such as employment, wages, private consumption and gross operating surplus, which will affect the final forecast

of tax revenue and contributions, with an impact on the projected scenario deficit.

### BOX 3. QUANTIFICATION OF DEFENCE EXPENDITURE

There are three different ways of accounting for defence expenditure: from a budgetary accounting perspective, in national accounting terms and from a NATO perspective.

Each of these approaches has its own criteria for recording military spending. Due to differences in the recording criteria and components considered, the quantification of defence expenditure varies according to the perspective used to calculate it.

#### Budgetary accounting

From the budgetary point of view, defence expenditure is recorded in the GSB under Defence expenditure policy. This policy is made up of several spending programmes, including: Modernisation of the Armed Forces, Special Modernisation Programmes, Operating Expenses of the Armed Forces and Logistical Support. In addition, since 2021, some programmes funded under the Recovery, Transformation and Resilience Programme (RTRP) have been added.

The credits initially allocated in the GSB to cover the expenses of these programmes are recurrently insufficient compared with the spending actually executed at year-end. This difference is due to the fact that spending on peacekeeping operations is usually budgeted at a much lower amount than that the amount finally executed, increasing during the year with a charge to the Contingency Fund.

**TABLE B\_3.1. INITIAL (IC) AND IMPLEMENTED (ORN) SPENDING APPROPRIATIONS, BROKEN DOWN BY MAIN BUDGETARY SPENDING PROGRAMMES. PERIOD 2019-2024**

GSB DEFENCE POLICY		2019		2020		2021		2022		2023		2024	
HEADING	EXPENDITURE PROGRAMME	IA	NRO	IA	NRO	IA	NRO	IA	NRO	IA	NRO	IA	NRO
121M, 121N, 121O, 12KB and 12SC	<b>GENERAL DEFENCE ADMINISTRATION</b> (€m)	2.127	2.296	2.127	2.466	2.547	3.193	3.282	3.473	3.622	3.776	3.622	4.141
122A	Modernisation of the Armed Forces	78	114	78	222	264	393	327	1.526	341	1.120	341	1.501
122B	Special modernisation programmes	2.164	2.164	2.164	1.869	2.342	2.352	2.848	2.421	4.902	3.589	4.902	3.242
122M	AFs operating expenditure	2.629	3.240	2.629	3.226	2.697	3.101	2.255	3.495	2.306	3.783	2.306	3.793
122N	Logistical support	1.190	1.118	1.190	1.095	994	1.123	865	1.626	892	1.362	892	1.300
	<b>ARMED FORCES</b> (€ m)	6.062	6.635	6.062	6.412	6.296	6.970	6.295	9.069	8.440	9.854	8.440	9.836
	<b>TOTAL</b> (in % GDP)	<b>8.189</b> 0,7	<b>8.932</b> 0,7	<b>8.189</b> 0,7	<b>8.879</b> 0,8	<b>8.843</b> 0,7	<b>10.162</b> 0,8	<b>9.577</b> 0,7	<b>12.542</b> 0,9	<b>12.062</b> 0,8	<b>13.630</b> 0,9	<b>12.062</b> 0,8	<b>13.977</b> 0,9

Source: IGAE

According to the data executed of the GSB Defence policy, the amount has increased from 0.7% of GDP in 2019 to 0.9% in 2024, which is the latest year published.

### National accounting

From a national accounting perspective, this expenditure is recorded in the Defence function according to the Functional Classification of General Government Expenditure (COFOG). This function is broken down into several sub-functions, mainly Military Defence, Foreign Military Aid and Defence-related R&D.

Since budgetary and national accounting are governed by different criteria, a number of adjustments are made to bring budgetary spending into line with the National Accounts, most notably including in relation to military deliveries. In this case, national accounting rules establish that annual spending on military armaments and support systems should be recorded at the time the goods and services are made available to the Ministry of Defence, irrespective of their budgetary recording and the financing system used.

**TABLE B\_3.2. DEFENCE EXPENDITURE BY COFOG, BROKEN DOWN BY MAIN SUB-FUNCTIONS. PERIOD 2019-2023. MILL AND% GDP**

COFOG		2019	2020	2021	2022	2023
02.1	Military defence	9.128	9.129	10.102	13.375	11.461
02.2	Civil defence	0	0	0	0	0
02.3	Foreign military aid	1.171	1.163	1.374	1.541	2.148
02.4	Defence-related R&D	238	257	240	431	378
02.5	Defence not classified elsewhere	0	0	0	0	0
TOTAL	In € m	<b>10.537</b>	<b>10.549</b>	<b>11.716</b>	<b>15.347</b>	<b>13.987</b>
	As % GDP	0,8	0,9	0,9	1,1	0,9

Source: IGAE

According to COFOG Defence data, the amount has increased from 0.8% of GDP in 2019 to 0.9% in 2023, the latest year published. COFOG data for 2024 will be published at the end of 2025. However, the year-end data have shown a further fall in investment due to military deliveries linked to defence modernisation programmes in national accounting terms compared with 2023. Defence expenditure as a percentage of GDP is therefore estimated to be slightly lower in 2024 than in 2023 in national accounting terms.

**TABLE B\_3.3. EVOLUTION OF DEFENCE EXPENDITURE IN THE NC ACCORDING TO COFOG, BROKEN DOWN BY SPENDING CATEGORY. PERIOD 2019-2023. MILLION AND% GDP.**

DEFENCE EXPENDITURE NA	2019	2020	2021	2022	2023
Compensation of employees	6.322	6.309	6.595	6.846	6.941
Intermediate consumption	1.994	2.013	2.224	3.154	3.599
Gross capital formation	1.969	1.953	2.642	4.952	3.269
Other	252	274	255	395	178
<b>TOTAL</b>	<b>10.537</b>	<b>10.549</b>	<b>11.716</b>	<b>15.347</b>	<b>13.987</b>
% GDP	0,8	0,9	0,9	1,1	0,9

Source: IGAE

### According to NATO

NATO calculates defence expenditure according to its own methodology. To this end, the Ministry of Defence of each allied country reports to NATO on executed and estimated future defence expenditure according to an agreed definition. The expenditure represents payments by a national government, which have been or will be made during the course of the fiscal year to meet the needs of its Armed Forces, those of the Allies or of NATO.

A major component of NATO's definition of defence expenditure is the payments made to the Armed Forces within the Ministry of Defence budget. In calculating this expenditure, unlike other methodologies, pensions paid to military retirees and even civilians employed in military departments are included in personnel spending. Spending of a military nature for mixed civilian-military activities is also included when the military component can be specifically accounted for or estimated. In addition, the cost of national police forces can be included, but only in proportion to forces that are trained in military tactics, are equipped as a military force, can operate under direct military authority and can realistically be deployed outside national territory in support of a military force.

**TABLE B\_3.4. DEFENCE DATA PUBLISHED BY NATO. PERIOD 2019-2024.**

DEFENCE EXPENDITURE ACCORDING TO NATO	2019	2020	2021	2022	2023e	2024e
<i>In € m</i>	<b>11.281</b>	<b>11.240</b>	<b>12.546</b>	<b>15.610</b>	<b>17.451</b>	<b>19.723</b>
<i>As % GDP</i>	0,9	1,0	1,0	1,2	1,3	1,3

 Source: [Defence Expenditure of NATO Countries \(2014-2024\)](#)

Note: Amounts in million euros published by NATO, of which 2023 and 2024 are estimates and GDP data published by INE.



# 5. SUB-SECTOR ANALYSIS

**AIReF maintains its estimate of the deficit for 2025 with respect to the last report at 2.7%, despite changes in the distribution by sub-sector.** AIReF worsens its estimate of the deficit for the CG and the SSFs by 0.1 points each. Conversely, the year-end 2024 data have pushed the estimate for the LGs up by 0.3 points to a surplus of 0.3% of GDP. Finally, the deficit forecast for the ARs is maintained.

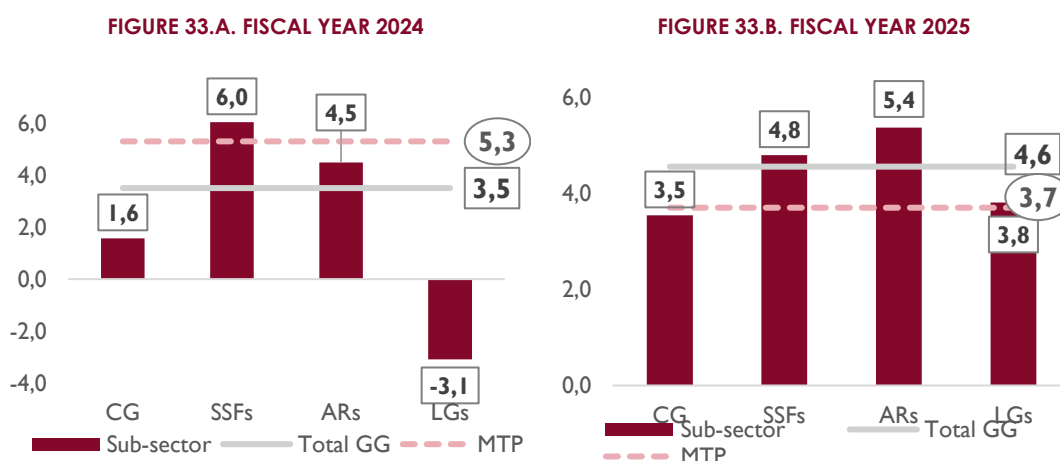
**TABLE 10. GENERAL GOVERNMENT BALANCE (% GDP)**

	2025		Difference
	Rep. Main Lines	Current	
<b>GG</b>	<b>-2.7</b>	<b>-2.7</b>	<b>0.0</b>
<b>CG</b>	-2.0	-2.2	-0.2
<b>SSFs</b>	-0.2	-0.3	-0.1
<b>ARs</b>	-0.5	-0.5	0.0
<b>LGs</b>	0.0	0.3	0.3

Source: AIReF and IGAE

**Both the ARs and the SSFs show net expenditure growth rates in 2025 clearly above the MTP reference, while the LGs and the CG are in the region of 3.7%.** AIReF estimates the growth in expenditure net of revenue measures by sub-sector to identify the deviation risks. In 2024, only the SSFs showed growth rates

above the MTP forecast of 5.3%. This upward deviation would have been offset by the other sub-sectors, with the LGs showing a fall in net expenditure. By 2025, only the forecast for the CG is below the reference rate of 3.7% and the LGs very slightly above, at 3.8%. Both the ARs and the SSFs will record higher growth, 5.4% and 4.8% respectively.

**FIGURE 33. PRIMARY SPENDING NET OF REVENUE MEASURES BY SUB-SECTOR**


Source: AIReF

## 5.1. Central Government

**AIReF estimates a deficit of 2.2% of GDP for 2025, 0.2 points higher than forecast in the previous report, which would be reduced to 2% if the cost of the DANA measures is excluded.** The main factor behind this increase in the deficit is the adoption of new measures for a net value of 0.1 points of GDP. The impact of the DANA measures pushes the deficit up by 0.2 points, while the measures approved for CIT reduce the net impact to a deficit increase of just over 0.1 points.

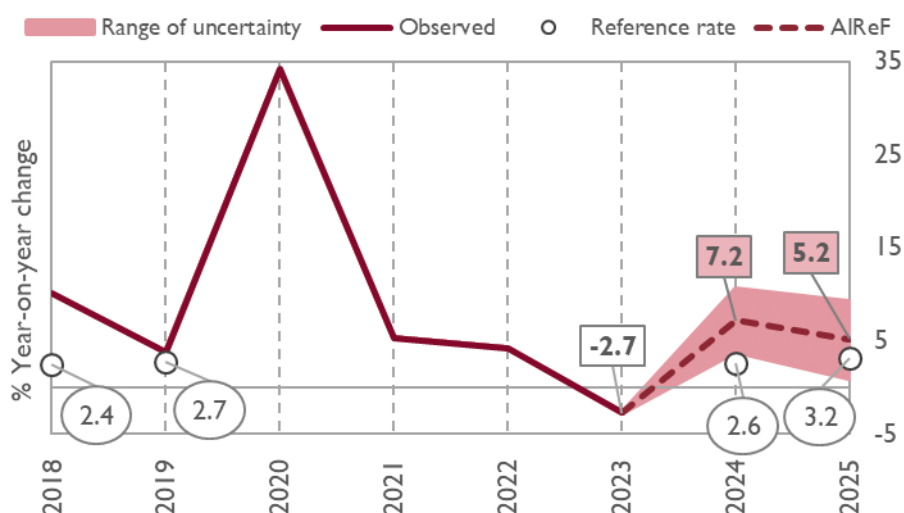
**The reduction in the deficit with respect to the end of 2024 is 0.7 points due to the convergence of several factors on both the expenditure and revenue sides.** Firstly, the settlement of the regional financing system returns to normal levels after recording an extraordinarily high settlement in 2024, which has an impact on both a reduction in transfers to the ARs and LGs on the expenditure side and higher PIT collection on the revenue side. Furthermore, the lower expenditure stemming from the DANA financed by the CG also contributes to the reduction of the deficit. Lower expenditure on one-off operations associated with court rulings is also expected.

**With regard to the national expenditure rule, AIReF forecasts an increase in eligible expenditure of 5.2% in 2025 with respect to 2024, excluding DANA-related expenditure, thus failing to comply with the reference rate of 3.2%. In**

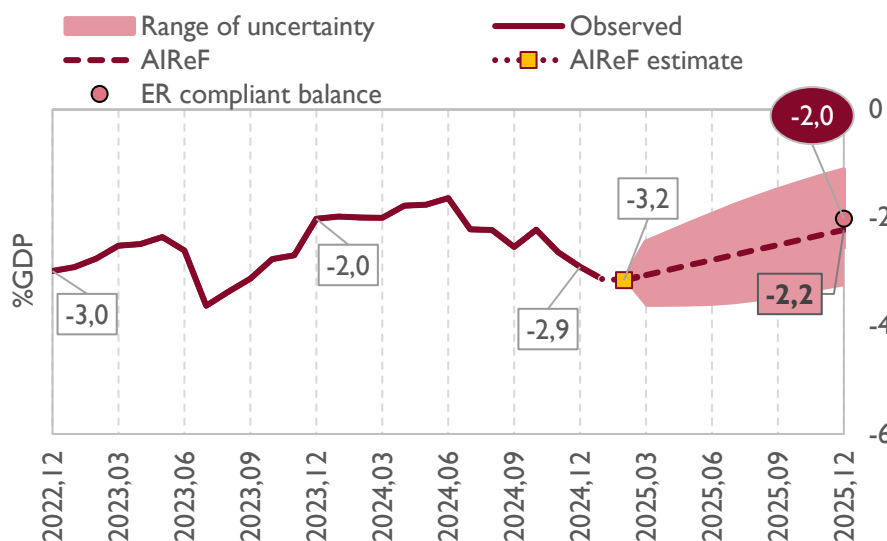
the previous report, AIReF estimated growth in eligible expenditure of 5.6%. However, the new forecast reflects lower growth in eligible expenditure for 2025 due to two main factors: the higher expenditure base in 2024 (the eligible expenditure for 2024, with the extraordinary impact of the unfavourable court rulings, has been higher than initially forecast) and the lower negative impact from revenue measures in 2025 (the estimate of lower revenue from measures in 2025 is reduced, which attenuates the growth in net eligible expenditure). These factors offset the increase in expenditure stemming from new measures and other available information. As a result, AIReF continues to estimate that growth in eligible expenditure will exceed the reference rate of 3.2% in 2025, in breach of the rule. Under AIReF's revenue forecast, compliance with the national expenditure rule would bring the deficit of the CG to 2% of GDP.

**AIReF also estimates that the CG's contribution to the European expenditure rule would be an increase in expenditure of 3.5% with respect to 2024, slightly below the 3.7% reference value.** Unlike the national expenditure rule, the increase is mainly lower due to the impact of temporary revenue measures and those resulting from not correcting revenue for inflation, which are not considered in the national expenditure rule. Thanks to this positive effect, AIReF estimates an increase in expenditure of 3.5% with respect to 2024, which would leave a slight margin for other sub-sectors to achieve compliance with the 3.7% for the GG Sector. However, this CG result is without taking into account the possibility that, through the activation of the national escape clause, an increase in defence expenditure of up to 1.5% of GDP compared with the level of expenditure in 2021 will not be considered for the purposes of the rule. In that case, the CG could widen the margin available for other sub-sectors with respect to the 3.7% limit.

**FIGURE 34. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE. CG (% OF GDP)**



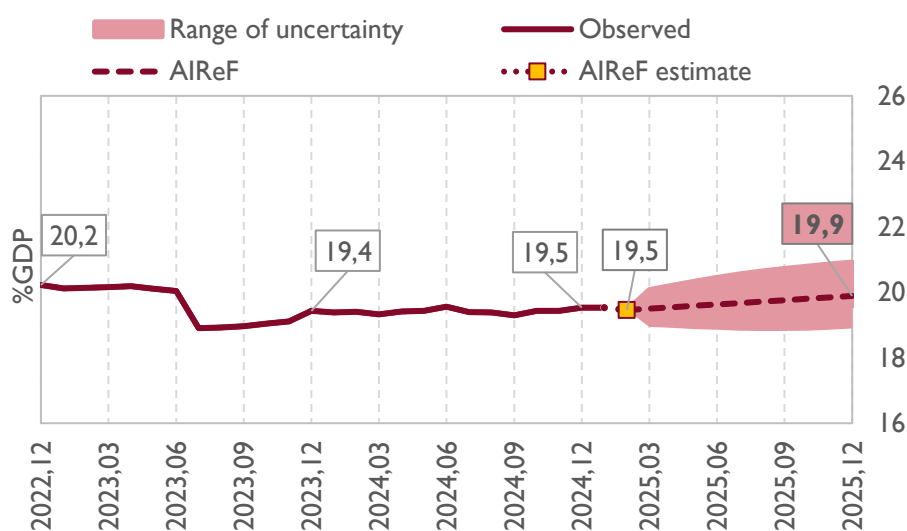
Source: AIReF and IGAE

**FIGURE 35. FINANCING CAPACITY/NET BORROWING CENTRAL GOVERNMENT (% GDP)**


Source: AIReF and IGAE

### 5.1.1. Central Government revenue

**AIReF forecasts that CG revenue, excluding RTRP funds, will reach 19% of GDP in 2025, 0.1 points above the figure contained in the last report.** The approval of the measures to avoid the offsetting of intra-group losses, as well as the reinstatement of the limits of RDL 3/2016, increases taxes by 0.1 points. This impact is reinforced by more positive than expected year-end figures for income taxes. Taxes on production and imports now account for 7.9% of GDP and income taxes for 7.3%. This represents a slight reduction in the former and an increase of 0.2 points in the latter. For income taxes, the incorporation of new information and CIT measures increase their weight.

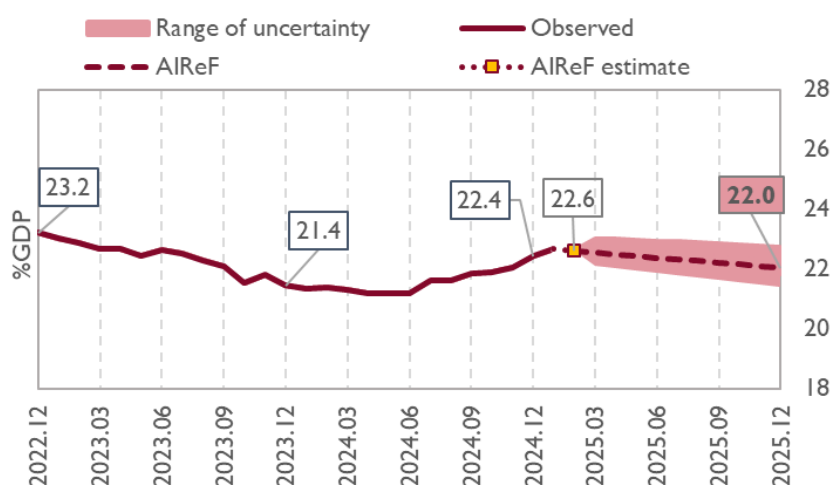
**FIGURE 36. CENTRAL GOVERNMENT RESOURCES WITH RTRP (% GDP)**


Source: AIReF and IGAE

### 5.1.2. Central Government expenditure

AIReF raises by its expenditure forecast for the CG for 2025 by 0.3 points, excluding the RTRP, bringing it up to 21.2% of GDP compared with the previous report. However, if the estimated expenditure associated with the DANA is excluded, the increase is reduced by 0.2 points to 21% of GDP. If the RTRP-related expenditure is included, the total projected expenditure of the CG for 2025 would be 22% of GDP. Furthermore, the expenditure forecast is reduced by 0.1 points of GDP due to the denominator effect, as a result of the upward revision of nominal GDP. According to the new estimate, expenditure growth, excluding the RTRP, is expected to stand at 2.7% in 2025 in respect of 2024, compared with 3.5% projected in the previous report.

**FIGURE 37. CENTRAL GOVERNMENT EXPENDITURES WITH RTRP (% GDP)**



Source: AIReF and IGAE

The effect of the new information available, basically derived from the publication of the budgetary execution data for expenditure in 2024, implies an upward revision of the expenditure forecast for 2025 of 0.1 points of GDP. Specifically, the year-end forecast for 2024 has given rise, on the one hand, to an increase in the forecast for 2025 for gross capital formation, current international cooperation and social transfers in kind because their execution in 2024 was higher than AIReF's estimate. On the other hand, the estimate for expenditure on intermediate consumption and net acquisitions of non-financial non-produced assets has been revised downwards as a result of lower than expected execution. In addition, the publication of the year-end data significantly reduced the initial uncertainty surrounding the quantification and time allocation of numerous court rulings unfavourable to the State. Given that most of these court rulings, totalling €6.582bn, have

already been recorded in the 2024 deficit, they are not expected to generate additional expenditure in 2025, so the forecast for this item for that year is not increased. In addition, as a result of other new information, AIReF has incorporated into its forecasts the estimated increase in the State's contribution to the Administrative Mutual Insurance Schemes as a result of the renewal of the agreement for the period 2025-2027. It has also revised collection from the Tax on the Production of Electricity downwards which, although it is neutral from the point of view of the deficit, entails a reduction in expenditure on subsidies to the CNMC to finance the electricity system.

**The incorporation of the measures adopted since the previous report into the expenditure forecasts of the CG implies an additional increase of 0.2 points of GDP.** The new measures include those aimed at mitigating the effects of the DANA, with an estimated impact of 0.2 points of GDP on the 2025 deficit, after 0.3 points had already been recorded in the 2024 deficit. In addition, the Government has approved other measures whose fiscal impact AIReF estimates is less than 0.1 points of GDP. These include: (i) the extension, until June 30<sup>th</sup>, 2025, of the transport support measures approved in 2024, together with a new support system for the second half of the year, (ii) the creation of a specific fund to compensate the ARs and Autonomous Cities for the costs associated with overcrowding and/or transfer of unaccompanied minors and (iii) the approval, more recently, of a pay increase for Armed Forces personnel.

**The measures adopted entail an increase in both current and capital expenditure for the CG.** In terms of current expenditure, the increase in the compensation of employees, derived from the wage increase approved for Armed Forces personnel, stands out. There was also an increase in current transfers between GG sub-sectors, due to: (1) transfers to ARs and LGs to finance transport subsidies, (2) compensation to the ARs for the costs stemming from the care of unaccompanied foreign minors (MENAS) and (3) transfers to LGs linked to the effects of the DANA. As regards capital expenditure, the most significant increase is precisely associated with the measures adopted to address the damage caused by the DANA. Of note in this respect are capital transfers to the LGs and investment support and other capital transfers linked to the repair and recovery of infrastructure and assets affected by the DANA.

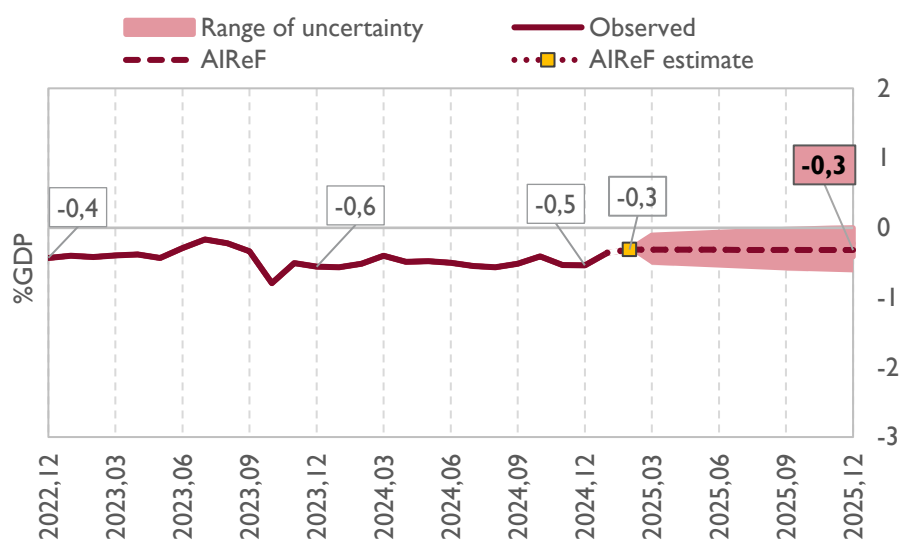
## 5.2. Social Security Funds

**The Social security funds (SSFs) will reduce their deficit from 0.5% of GDP in 2024 to 0.3% in 2025, 0.1 points higher than the 0.2% forecast in the previous report.** The 2024 year-end figure was finally 0.1 points less favourable than forecast in

the previous report due to the STS 977/2023 court ruling<sup>21</sup>, which increases expenditure by 0.1 points. The downward revision for 2025 is due to the fact that, despite the upward revision of revenue, the increase in expenditure has been higher.

**Primary expenditure net of revenue measures will grow by 4.8% in 2025.** This rate is above the applicable limit for the GG Sector of 3.7% for 2025 in the MTP. This estimate includes revenue measures linked to the pension reform that moderate the growth of primary expenditure. After closing 2024 with growth of 6%, AIReF revises the forecast for growth in primary expenditure net of revenue measures upwards.

**FIGURE 38. EVOLUTION OF THE BALANCE OF SOCIAL SECURITY FUNDS (% GDP)**

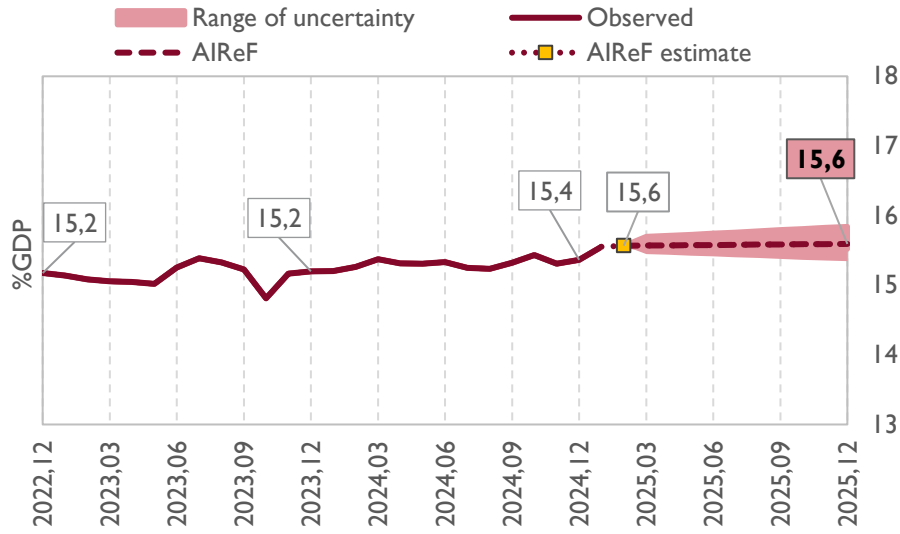


Source: AIReF and IGAE

**Revenue increases its weight in GDP by 0.1 points with respect to the previous forecast to 15.6% of GDP in 2025, 0.2 points higher than at year-end 2024.** A growth rate of over 6% is estimated for 2025, both in social contributions and in social transfers between GG sub-sectors. This explains the increase of 0.2 points in 2025 with respect to 2024. With regard to the previous report, the upward revision of 0.1 points in 2025 stems from both the dynamism of the labour market, which translates into higher growth in contributions, and from the year-end 2024 figure for transfers between GG sub-sectors, which is transferred to the following year.

<sup>21</sup> Ruling recognising fathers' right to receive the maternity supplement, fully recognised in Article 60 of the General Social Security Law and whose impact has been valued by the IGAE at around €1bn, recorded in its data under the heading of *Other capital transfers*.

**FIGURE 39. EVOLUTION OF THE REVENUES OF THE SOCIAL SECURITY FUNDS WITH RTRP (% GDP)**

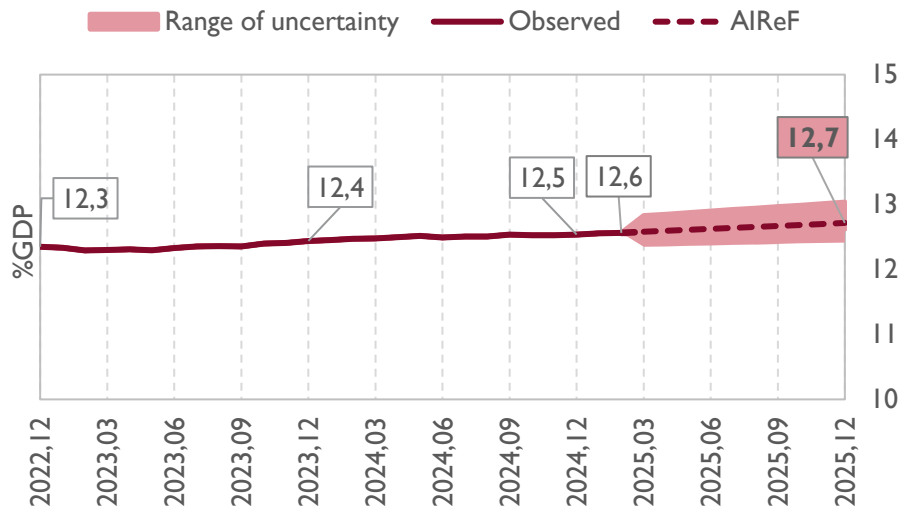


Source: AIReF and IGAE

**The weight of social contributions in terms of GDP is maintained with respect to the last report, increasing by 0.2 points on 2024 to reach 12.7% of GDP.** This growth forecast for 2025 is both due to the expected dynamism of the labour market and to the measures approved. The positive contribution of wages and expenditure is boosted by the increase in the rate of the Intergenerational Equity Mechanism from 0.7% to 0.8%, by the increase in the maximum contribution bases<sup>22</sup> of 4%, and by the entry into force of the additional solidarity contribution.

<sup>22</sup> The maximum contribution bases have increased by 4% this year in accordance with Order PJC/178/2025 of February 25<sup>th</sup>. This increase is in line with current legislation and is made up of 2.8 CPI points plus a fixed 1.2 points to be added annually to the CPI.

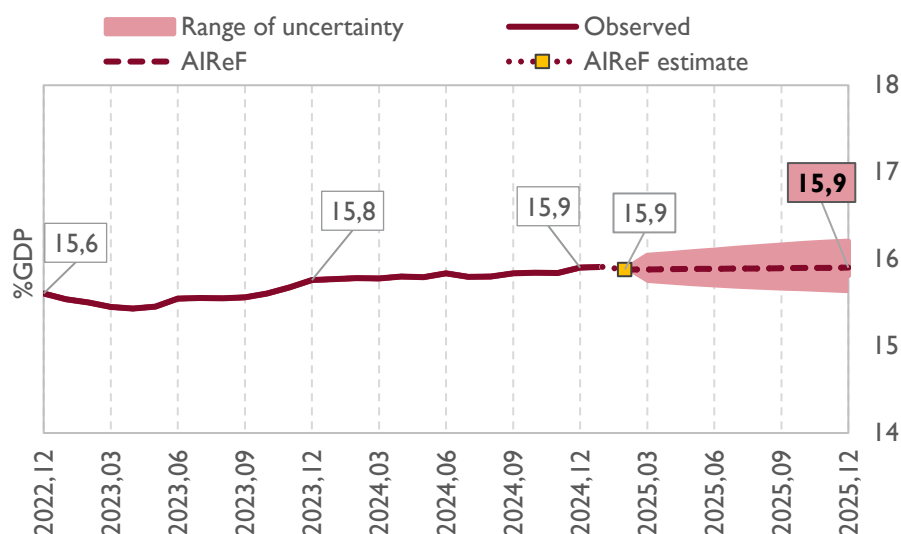
**FIGURE 40. EVOLUTION OF SOCIAL SECURITY FUNDS CONTRIBUTIONS (% GDP)**



Source: AIReF and IGAE

**The weight of expenditure in GDP is revised upwards by 0.2 points compared with the previous report to 15.9% of GDP in 2025, the same level as in 2024.** This 0.2-point increase stems from new information received, in particular the evolution of cash benefits in recent months. Pension spending is revised upwards by almost 0.1 points of GDP, driven by a higher-than-expected replacement effect due to the observed growth in the average registration pension since the middle of last year<sup>23</sup>. Spending on unemployment and temporary disability is also revised upwards by almost 0.1 points due to the dynamism shown in the most recent data. To a lesser extent, the increase in ERTes following the DANA has also had an upward impact on unemployment spending.

<sup>23</sup> For the calculation of the regulatory base, all contributions are updated with the CPI of the year in question, except for the last two years, so that the effect of the inflationary period of 2022 has begun to have its effect on the average registration pension, and therefore on the replacement effect, from mid-2024.

**FIGURE 41. EVOLUTION OF THE EXPENDITURES OF SOCIAL SECURITY FUNDS WITH RTRP (% GDP)**


Source: AIReF and IGAE

**AIReF revises the deficit of the Social Security Funds up by 0.1 points on its previous estimate due to the greater increase in expenditure than in revenue.**

Despite the increase in the deficit compared with the last report, it still estimates a reduction of 0.2 points between 2024 and 2025 due to a greater increase in revenue than the increase expected for expenditure.

**TABLE 11. EVOLUTION OF RESOURCES, EMPLOYMENTS AND SSFS BALANCE (% GDP)**

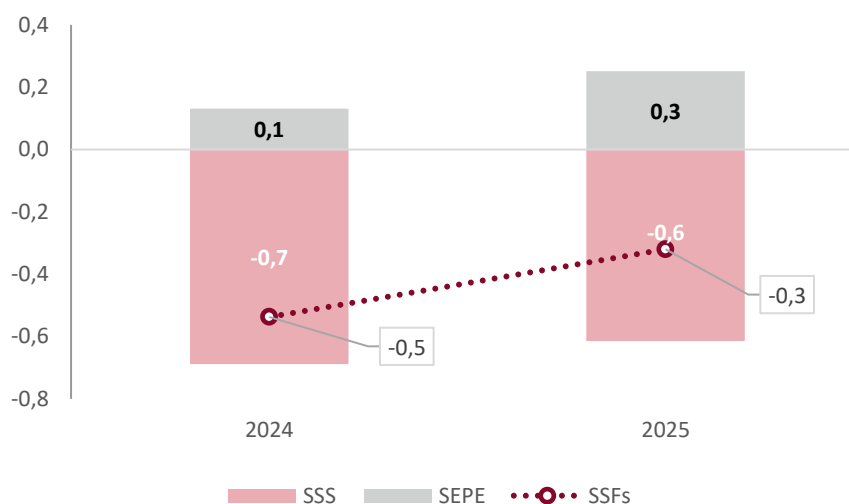
	2024	2025		Difference
		Rep. Main Lines	Current	
<b>REVENUE</b>	15.4	15.5	15.6	0.1
<b>EXPENDITURE</b>	15.9	15.7	15.9	0.2
<b>BALANCE</b>	-0.5	-0.2	-0.3	-0.1

Source: IGAE and AIReF

**The improvement in the deficit between 2024 and 2025 is due to both an increase in the surplus of the SEPE and a decrease in the deficit of the Social Security System (SSS).** The improvement of 0.2 points between 2024 and 2025 is due to an improvement in contributions of both the SEPE and the SSS. In the case of the SEPE, the improvement in revenue offsets the increase in spending on unemployment benefits, mainly due to the entry into force of the unemployment benefit reform and, to a lesser extent, to the increase in ERTES in response to the economic effects of the DANA. For the SSS, the improvement is directly linked to the impact of the dynamic labour market on contributions, which is partially offset by an increase in spending on pensions,

in a context of annual revaluation in line with the previous year's CPI and an increase in the replacement effect.

**FIGURE 42. FISCAL BALANCE OF SOCIAL SECURITY FUNDS BY AGENTS (% GDP)**



Source: AIReF, Social Security, SEPE and IGAE.

Note: FOGASA has a budget balance in this period.

### 5.3. Autonomous Regions

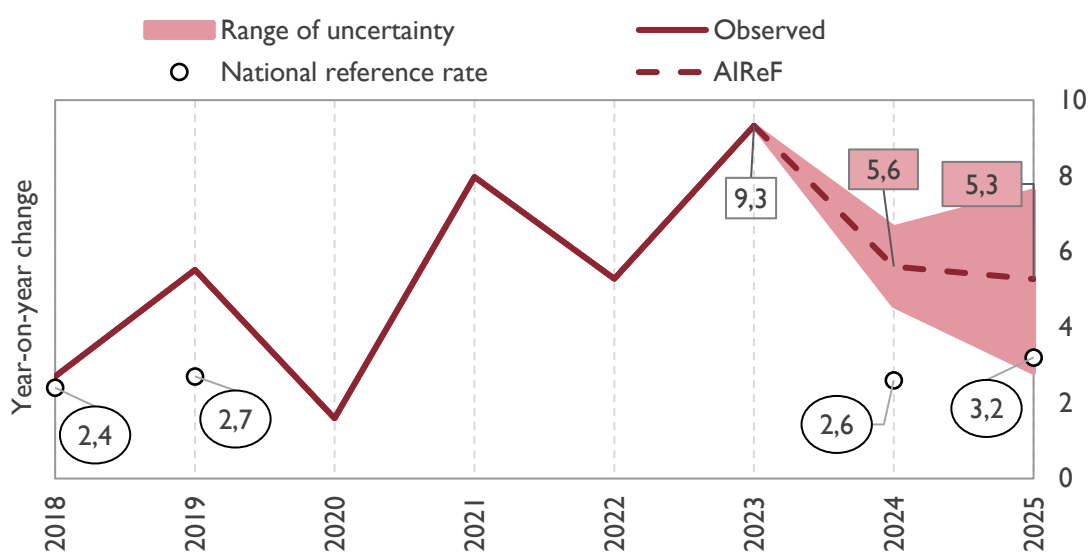
**Without considering the impact of the DANA, AIReF forecasts a deficit in 2025 for the sub-sector of 0.4% of GDP, 0.1 points better than the estimate in the previous report.** Including the impact of the DANA, the deficit will be 0.5% of GDP. Compared with the previous report, AIReF has lowered its 2025 deficit forecast for the AR sub-sector by 0.1 points, as part of the improvement recorded at year-end 2024 has been carried over. The sub-sector closed 2024 with a deficit of 0.1% of GDP, 0.2 points lower than AIReF's estimate in the previous report: there was higher revenue from European Funds other than the RTRP and the Tax on Asset Transfers and Documented Legal Acts (TATDLA), and lower capital expenditure. The improvement in the TATDLA and the level of expenditure is transferred to the 2025 forecasts, but not the improvement in European funds, which is largely of a one-off nature due to the closure of the 2014-2020 Operational Programmes. Adding the measures approved in the AR of Valencia to address the consequences of the DANA, the deficit in 2025 would reach 0.5 points of GDP.

**Furthermore, the deviation in the expenditure rule for 2025 is accentuated, with projected growth in eligible expenditure of 5.3%.** Under the current forecasts, eligible expenditure for the purposes of the national expenditure rule will grow

by 5.3% in 2025, and the rule calculated in accordance with the European fiscal framework methodology will grow by 5.4%. The higher level of European funds recorded in 2024 compared with the November forecast implies a more favourable variation in the exclusions considered in the calculation of the expenditure rule this year and a more unfavourable calculation in 2025. Thus, AIReF's estimates for the expenditure rule for 2024 are better but the outlook for 2025 is worse. The expenditure incurred to address the DANA is excluded from the rule and therefore has no impact on its calculation.

**Under AIReF's current revenue scenario, compliance with the expenditure rule in 2025 would improve the deficit by 0.3 points.** Growth in eligible expenditure of 3.2% would mean, under AIReF's forecasts, a 3% increase in net expenditure not associated with the RTRP. Under this level of expenditure and AIReF's estimates on the level of non-RTRP revenue, a deficit of 0.2% of GDP would be recorded in the sub-sector, 0.1 points less without considering the DANA measures.

**FIGURE 43. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE. AUTONOMOUS REGIONS (% OF GDP)**



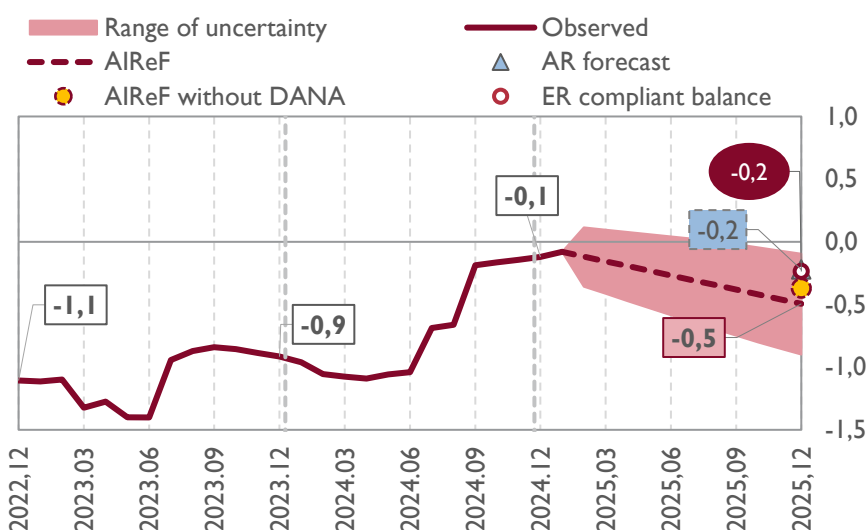
Source: IGAE and AIReF forecasts

**TABLE 12. AIRF FORECASTS OF THE VARIATION IN EXPENDITURE AND ELIGIBLE EXPENDITURE FOR THE EXPENDITURE RULE NATIONAL AND EUROPEAN. TOTAL AUTONOMOUS REGIONS (% CHANGE) AA. (% CHANGE)**

ARs	AIReF forecast	AIReF forecast	AIReF forecast	AIReF forecast
	Rep. Lines 25 % change 24/23	Rep. Lines 25 % change 25/24	Rep. Bud. 25 % change 24/23	Rep. Bud. 25 % change 25/24
<b>Expenditure (without RTRP)</b>	<b>5,2%</b>	<b>4,7%</b>	<b>4,9</b>	<b>4,7</b>
<b>Eligible expenditure national expenditure rule</b>	<b>6,7%</b>	<b>4,5%</b>	<b>5,6</b>	<b>5,3</b>
<b>Eligible expenditure CSR2024/ ER 2025 MTP</b>	<b>6,1%</b>	<b>3,6%</b>	<b>4,5</b>	<b>5,4</b>

Source: AIReF

**FIGURE 44. NET BORROWING/NET LENDING OF THE CC. (% OF GDP)**



Source: AIReF, IGAE and ARs Medium-Term Budgetary Plans.

The ARs' scenarios for 2025 included in the medium-term budgetary plans presented assume a sub-sector deficit of 0.2% of GDP without considering the DANA measures, with compliance, in general, with the expenditure rule. To date, only ten Autonomous Regions have approved their budgets. In general, the regional budgets have not included significant changes with respect to the draft budgets in November, although some regions have incorporated additional measures while measures have been announced subsequently in other regions. Furthermore, the draft budget of the AR of Valencia is currently in its passage through the Regional Parliament. The documents approved provide for compliance with the expenditure rule. In the ARs of Aragon, the Balearic Islands, Castile and Leon, Catalonia, Extremadura, Murcia and

Valencia, until the budget is approved, the previous year's budgets have been extended in accordance with respective extension decrees. However, the medium-term budgetary plans drawn up by the ARs include an updated scenario of forecasts for 2025 which revise the figures of the budgets and budgetary extensions. Accordingly, four ARs expect to achieve a slight surplus, two a balanced budget, seven a deficit of 0.1% and four higher deficits ranging from 0.3% to 1.6% of GDP. The aggregate figure gives a fiscal balance for the ARs of -0.2% of GDP. Although not all the ARs have provided updated forecasts on eligible expenditure for the purposes of the expenditure rule in 2025, those submitted consider variations below or equal to the 3.2% set, except four ARs.

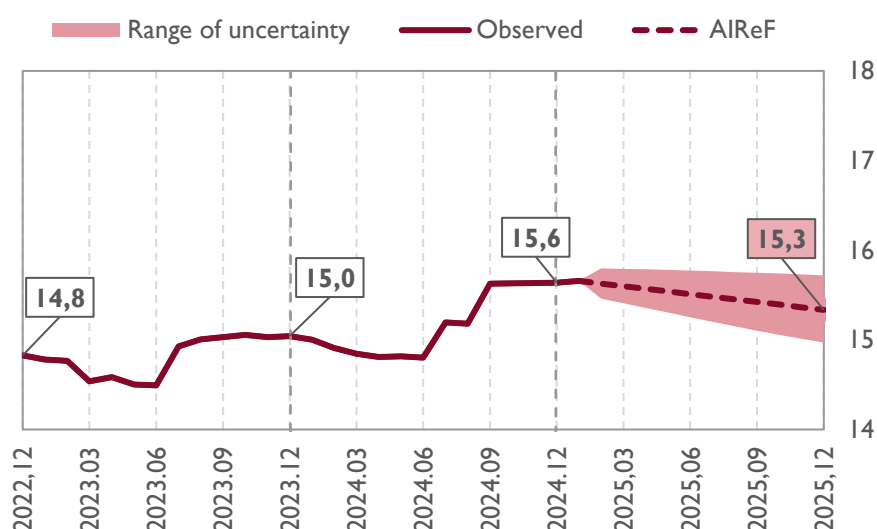
### 5.3.1. Revenue of the Autonomous Regions

**AIReF forecasts that the revenue of the ARs in 2025, without considering the RTRP revenue, will increase by 2% over the previous year, reaching 15% of GDP.** AIReF continues to incorporate in its central scenario the update of instalment payments at some point in 2025 in accordance with the figures communicated to the ARs by the Ministry of Finance in July 2024. Compared with the November estimates, AIReF has revised the tax collection due to the year-end 2024 data upwards and the new measures adopted or announced. It also incorporates the new transfers from the State stemming from the recent royal decree-laws passed and slightly raises the revenue forecast for European funds other than the RTRP due to the new information available. As a result, revenue will grow in 2025 by 2% over the previous year, under a moderate evolution of the revenue of the system - 3-5% growth in tax revenue as a whole and maintaining the level of the rest of the revenue, affected by the reduction in European funds. Adding the expected revenue from the RTRP, revenue will reach 15.3% of GDP in 2025.

**TABLE 13. REVENUE FROM ARS WITHOUT RTRP COMPARISON WITH LINE REPORT (% GDP)**

ARs	AIReF Forecast 2024 Rep. Lines % GDP	AIReF Forecast 2025 Rep. Lines % GDP	Rep. Lines 25/24 % change	Year-end 2024 % GDP	AIReF Forecast 2025 Rep. Bud. % GDP	Rep. Bud. 25/24 % change
<b>Net revenue without RTRP</b>	<b>15.3</b>	<b>14.9</b>	<b>2</b>	<b>15.4</b>	<b>15.0</b>	<b>2</b>
Net RFS	9.8	9.6	3	9.8	9.6	3
<i>Net IPs</i>	8.5	8.9	9	8.5	8.9	9
<i>Net Settlement</i>	1.3	0.7	-43	1.3	0.7	-43
Tax on Asset Transfers and Docum	0.7	0.7	4	0.8	0.8	7
Inheritance and Gift Tax	0.2	0.2	0	0.2	0.2	-5
Other non-RFS tax	0.9	0.9	6	0.9	0.9	5
Other revenue	3.7	3.5	0	3.8	3.6	0

Source: AIReF

**FIGURE 45. REVENUES OF THE ACS WITH PRTR. RTRP (% OF GDP)**


Source: AIReF and IGAE

Since the Report on the Main Lines, new revenue measures have been approved or announced that, on the whole, will not have a significant impact in 2025. Since the November report, several ARs have implemented regulatory measures aimed at increasing tax collection. This is the case of Andalusia, which has raised the rates of the Tax on Water Infrastructure Improvement and eliminated the voluntary nature of the incentive for Wealth Tax for estates subject to the solidarity contribution. Catalonia has approved tax measures of different types that will have a net positive impact on revenue in 2025: on the

one hand, it regulates the increase in rates and a special rate for large landowners in the TATDLA, new rates in the Tax on Waste Disposal and the update of the rate of the Tax on Stays in Tourist Accommodation; on the other hand, it recognises new tax benefits in the TATDLA, PIT, the Tax on Carbon Dioxide Emissions from Motor Vehicles, the Water Tax and Inheritance and Gift Tax. Other ARs continue to approve or announce tax reductions: in Madrid, an increase in the incentive for 2nd degree relatives in Inheritance and Donations Tax has been announced; Extremadura extends the suspension of the Sewerage Tax and certain tax allowances, increases the incentives for certain family ties in the Inheritance and Donations Tax and approves reduced rates in the TATDLA for the acquisition of housing by young people; and Rioja approves a similar measure in the TATDLA.

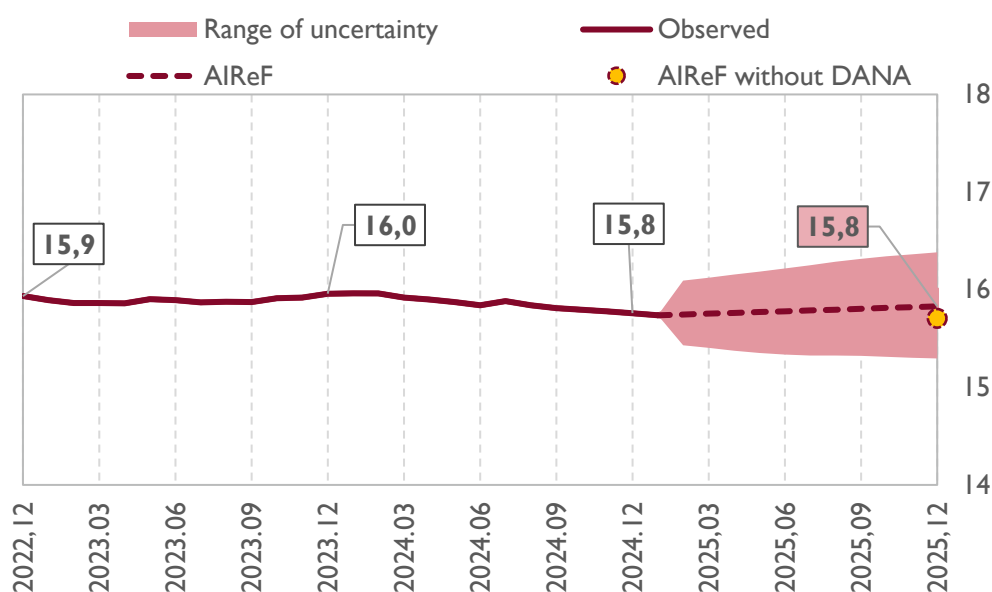
### 5.3.2. Expenditure of the Autonomous Regions

**AIReF estimates that the expenditure of the ARs not associated with the RTRP will grow by 5% to 15.5% of GDP.** Compared with the previous report, AIReF has revised its 2025 expenditure estimates by incorporating the year-end 2024 data, the new measures adopted by the ARs, including those aimed at mitigating the consequences of the DANA, and the revision of the impact of those adopted or planned previously, as well as the expenditure derived from the new State transfers approved by the latest royal decree-laws. Although with the exception of the DANA measures there is no significant change in the level of expenditure estimated by AIReF in the previous report, year-on-year growth does increase in current expenditure due to the expenditure co-financed by the latest royal decree-laws and in capital expenditure because the lower investment shown at the close of 2024 compared with that estimated in November is not transferred in full to the estimates for 2025, as a recovery is expected in the expenditure associated with European funds. When adding the expenditure estimated to be executed by the RTRP, expenditure would reach 15.8% of GDP, 0.1 points less excluding the measures planned by the AR of Valencia to address the consequences of the DANA.

**TABLE 14. EXPENDITURE IN ARS WITHOUT RTRP COMPARISON WITH LINE REPORT (% GDP).**

ARs	AIReF Forecast 2024 Rep. Lines % GDP	AIReF Forecast 2025 Rep. Lines % GDP	Rep. Lines 25/24 % chang e	Year-end 2024 % GDP	AIReF Forecast 2025 Rep. Bud. % GDP	Rep. Budgets 25/24 % change
<b>Net expenditure without</b>	<b>15.6</b>	<b>15.4</b>	<b>3</b>	<b>15.5</b>	<b>15.5</b>	<b>5</b>
Intermediate consumption	2.6	2.6	3	2.6	2.6	5
Compensation of employees	6.8	6.7	4	6.7	6.7	4
Social transfers in kind	2.4	2.4	5	2.4	2.4	4
Interest	0.5	0.5	9	0.5	0.5	6
Other current expenditure	1.8	1.7	13	1.8	1.8	7
Capital expenditure	1.6	1.5	-24	1.5	1.5	4

Source: AIReF and IGAE

**FIGURE 46. EXPENDITURES OF THE ACS WITH PRTR. RTRP (% OF GDP)**


Source: AIReF and IGAE

**The ARs have adopted new spending measures of small amounts and revised the impact of those already adopted.** Some ARs have reported new personnel measures and the adoption of new transport subsidies for certain groups, in application of the funding received from the State and additional measures; at any event, these are of little weight overall. The main measures that will increase expenditure in 2025 continue to be staff-related measures, as already indicated in the November report, although their impact has been revised

downwards since then. They are considered to result in increased expenditure of more than €500m in 2025.

### 5.3.3. Individual analysis

**With respect to the Report on the Main Lines, the outlook for compliance with the 2025 expenditure rule worsens in most ARs.** Under current estimates, only in three ARs will the growth in eligible expenditure for the purposes of the national expenditure rule be less than 4%. In the rest, the estimated change in eligible expenditure ranges between 4.2% and 9.1%, conditioned by the evolution of expenditure financed with European funds and transfers from other GG sub-sectors, the impact of the regulatory measures adopted and the growth in expenditure. The year-end data point to an overall improvement in the 2024 expenditure rule over the November forecast, largely thanks to the higher-than-expected registration of European funds. This circumstance could lead to compliance with the 2024 expenditure rule by the ARs where this effect has been greater, but conditions the change in eligible expenditure in 2025 in the opposite direction.

**TABLE 15. AIReF FORECASTS BY AUTONOMOUS REGIONS AUTONOMOUS REGIONS. VARIATION IN ELIGIBLE EXPENDITURE 2024 (% VARIATION)**

AR	AIReF Forecast ER 2024	AIReF Forecast ER 2024
	Rep. Lines % change	Rep. Bud. % change
ANDALUSIA	4,7	-0,7
ARAGON	6,6	7,4
ASTURIAS	11,1	9,5
BALEARIC ISLANDS	13,1	15,2
CANARY ISLANDS	9,5	3,3
CANTABRIA	10,5	8,8
CASTILE AND LEON	6,4	6,2
CASTILE-LA MANCHA	5,7	2,6
CATALONIA	6,8	8,2
EXTREMADURA	7,8	-0,1
GALICIA	10,2	8,4
MADRID	4,5	5,2
MURCIA	9,0	5,3
NAVARRRE	9,5	9,7
BASQUE COUNTRY	5,8	5,7
RIOJA	9,3	13,8
VALENCIA	6,6	5,9
<b>TOTAL ARs</b>	<b>6,7</b>	<b>5,6</b>

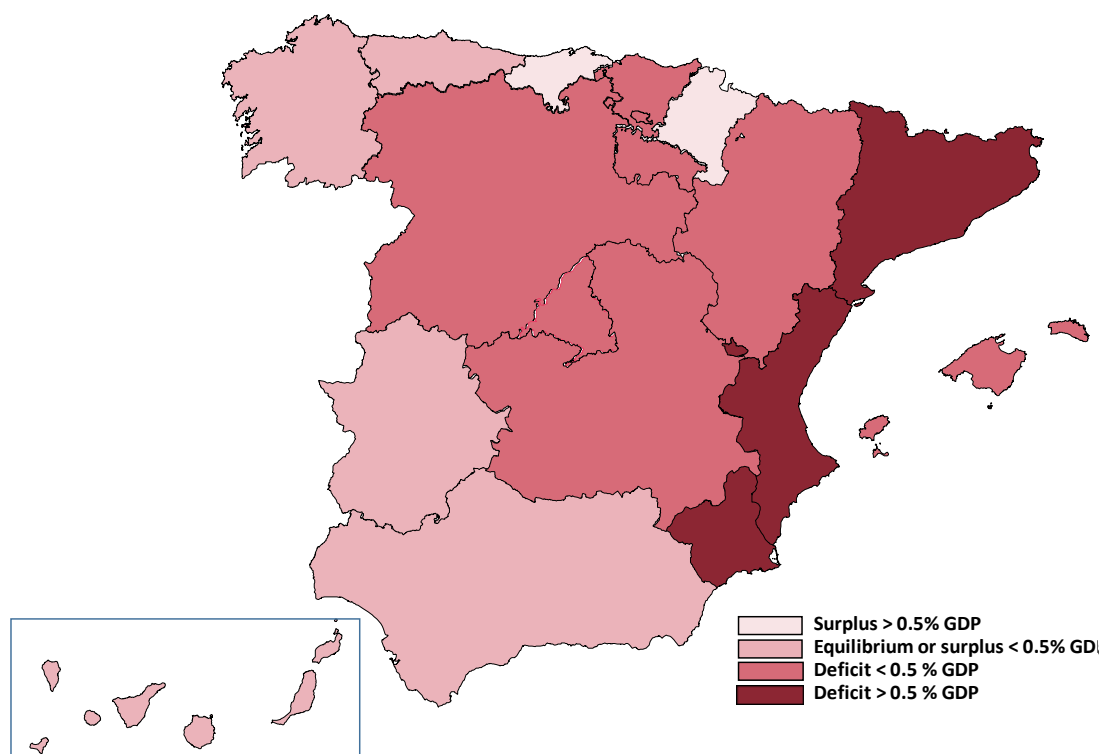
**TABLE 16. AIReF FORECASTS BY AUTONOMOUS REGIONS AUTONOMOUS REGIONS. CHANGE IN ELIGIBLE EXPENDITURE 2025 (% CHANGE)**

AR	AIReF Forecast ER 2025	AIReF Forecast ER 2025
	Rep. Lines % change	Rep. Bud. % change
ANDALUSIA	5,8	7,4
ARAGON	3,4	4,3
ASTURIAS	4,1	4,9
BALEARIC ISLANDS	7,0	6,6
CANARY ISLANDS	3,9	7,9
CANTABRIA	6,4	7,4
CASTILE AND LEON	4,0	3,5
CASTILE-LA MANCHA	3,4	3,9
CATALONIA	4,5	4,1
EXTREMADURA	5,8	8,6
GALICIA	3,6	4,4
MADRID	4,9	5,8
MURCIA	4,4	6,4
NAVARRRE	4,1	5,8
BASQUE COUNTRY	4,3	5,5
RIOJA	4,1	3,1
VALENCIA	3,8	4,5
<b>TOTAL ARs</b>	<b>4,5</b>	<b>5,3</b>

**However, compared with the previous report, the fiscal balance forecasts for most of the ARs have improved.** AIReF estimates that 11 ARs will close the year

with surpluses, balances or deficits close to balance. Although the improvement in the year-end forecast for 2024 over what was expected in November is not passed on in its entirety, the higher level of tax revenue and the lower level of expenditure on an item-by-item basis are generally incorporated in the individual forecasts for 2025. Compared with the previous year, however, as already pointed out in the previous report, a deterioration in the fiscal balance is expected in all the ARs under the general regime, conditioned by a trend in expenditure accompanied by moderate growth in revenue from the financing system and from European funds, excluding the RTRP. In Navarre, the positive effect derived from the withdrawal of the temporary measures adopted to mitigate the effects of the crisis will be accentuated by the non-repetition of the refunds to mutual insurance members recorded in 2024, although both impacts are offset by the regulatory measures adopted by the region. Similarly, a positive evolution of the fiscal balance is expected in the Basque Country due to the one-off recording in 2024 of the impact of the court ruling on PIT income of the Provincial Councils for mutual insurance members.

**FIGURE 47. MAP OF AUTONOMOUS COMMUNITIES AA. NET BORROWING/NET LENDING 2025 (% GDP)**



Source: AIReF

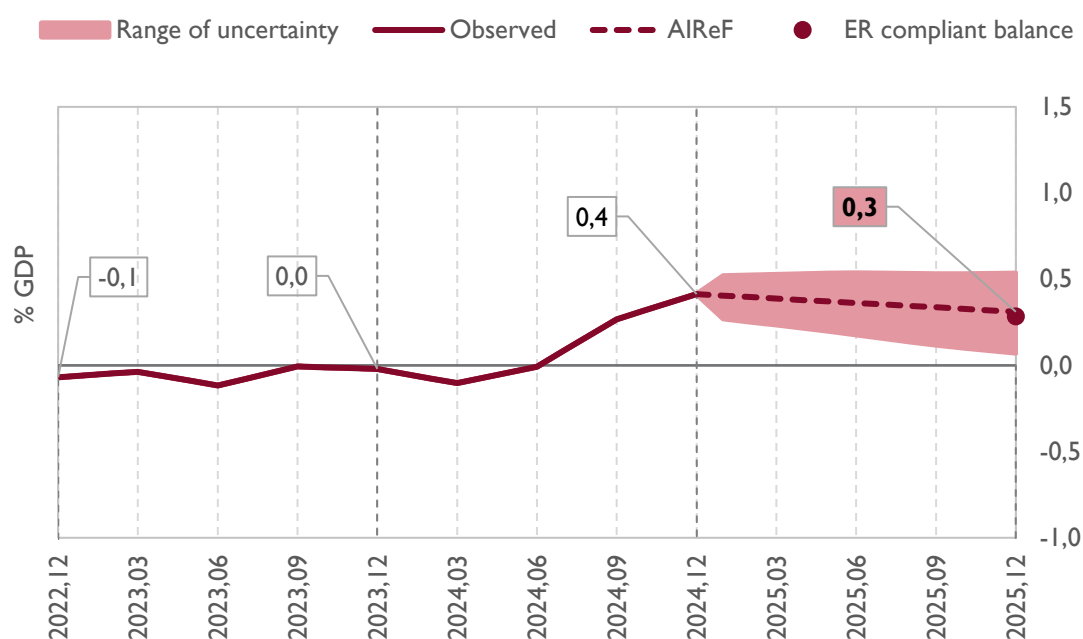
**The detailed individual analysis is included in the corresponding reports, which are published jointly.** The individual reports contain detailed information on the updated projections for each of the ARs for 2025.

## 5.4. Local Governments

**AIReF forecasts that the Local Government sub-sector for 2025 will record a surplus of 0.3% of GDP, an improvement of 0.3 points with respect to the Report on the Main Lines.** This report considers the latest information published on the year-end 2024 for the GG sub-sectors, the updated financial information on public debt and deposits at the end of 2024 published by the Bank of Spain, and the information communicated by the Central Information Office of the Ministry of Finance (MINHAC) on the approved or extended budgets of the LGs and the data provided by the large LGs subject to individual analysis. Specifically, the publication of the year-end data for 2024 indicates that the LG sub-sector achieved a surplus of over 0.4% of GDP, 0.3 points higher than AIReF's forecast, mainly as a result of the fall in gross fixed capital formation and other current transfers on the expenditure side. At the same time, revenue improved substantially as a result of investment support (European funds) and taxes, mainly PIT.

**The improvement in the surplus at year-end 2024 is reflected in AIReF's estimates for 2025.** The lower execution in 2024, both in investment expenditure and other current expenditure, with a decrease of close to €3bn compared with AIReF's November estimate, foreseeably due to the reactivation of the expenditure rule, is also considered to be reflected in 2025, which has led AIReF to improve the surplus forecast for this year. This 2025 result is the consequence of expected year-on-year growth in non-financial revenue of close to 4% while non-financial expenditure will grow at a rate of over 5% (excluding the RTRP in both cases).

**The 2025 sub-sector result is barely impacted by the economic effect of the DANA, given that most of the expenditure incurred by the LGs is financed by the State.** The 2025 growth in both revenue and expenditure is impacted by the measures adopted to mitigate the consequences of the DANA by the LGs affected and by Valencia Provincial Council, which are mostly financed by the CG and, to a much lesser extent, by the AR of Valencia. Given that a significant part of the expenditure is for the reconstruction or repair of infrastructure, it is possible that the impact of the expenditure will be spread over several years, although a large part of the revenue will be allocated to 2025 (around 0.2 points of GDP). The reflection of the DANA impact on expenditure in 2025 offsets the projected reduction in current and capital expenditure as a result of the year-end 2024 data.

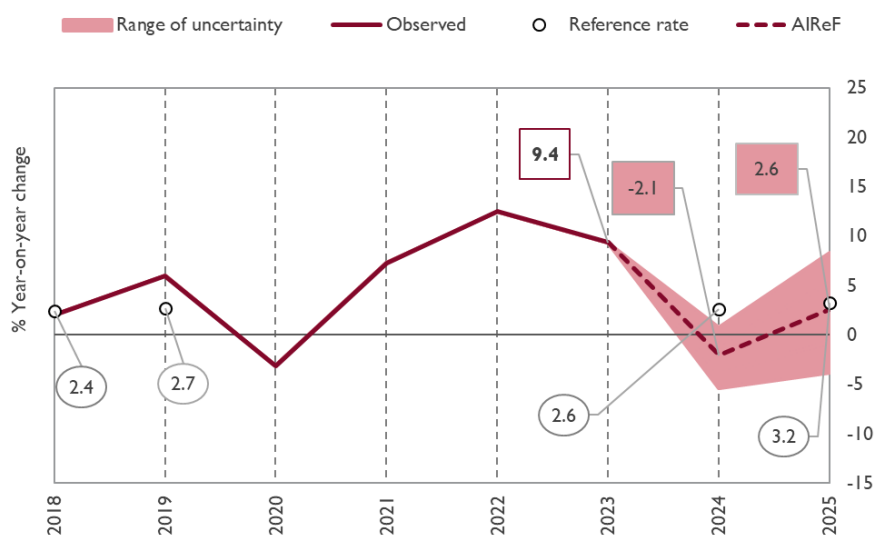
**FIGURE 48. EVOLUTION OF THE FISCAL BALANCE OF THE SUB-SECTOR CC. LL. SUBSECTOR BALANCE (% GDP)**


Source: AIReF and IGAE

**AIReF estimates that the eligible expenditure of the LG sub-sector will increase by 2.6% in 2025, below the reference rate established at 3.2%.** After a decrease in eligible expenditure estimated by AIReF of approximately 2%, basically due to the fall in investment, the sub-sector is also expected to comply with the expenditure rule in 2025, with growth in its eligible expenditure standing at close to the reference rate, without taking into account the effects of the DANA. With AIReF's current revenue forecasts, this growth in expenditure is compatible with AIReF's forecast surplus of 0.3% of GDP.

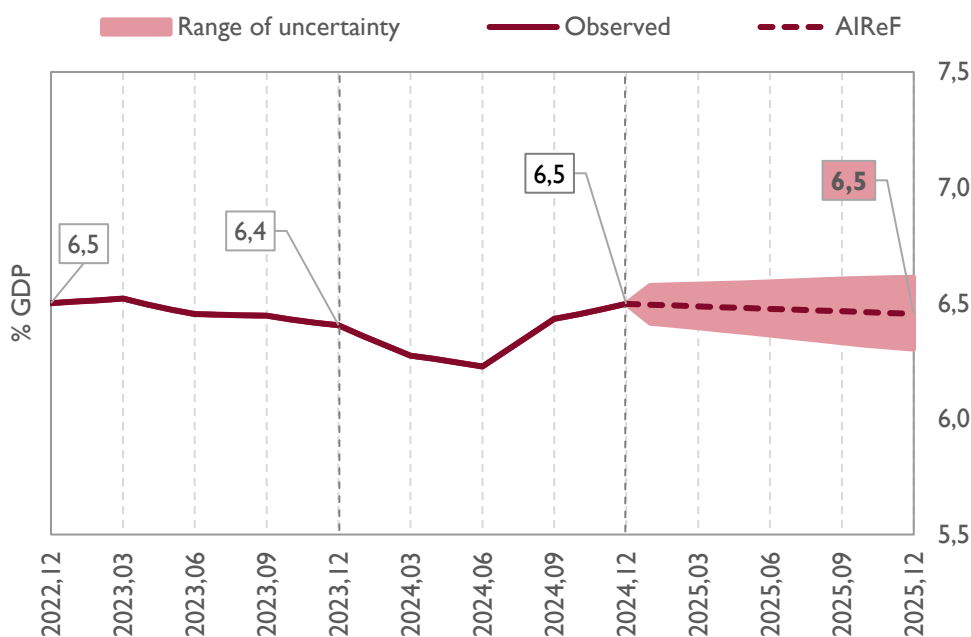
**For the purposes of the European expenditure rule, primary expenditure net of revenue measures in the LG sub-sector will grow by 3.8%, slightly above the 3.7% committed to in the MTP presented in October.** Although this limit does not apply individually to each LG, the growth forecast for the LG sub-sector raises - albeit slightly due to the weight of the LG sub-sector and the small deviation - the risk of non-compliance with the commitment of the GG Sector set at 3.7% in the MTP for 2025.

**FIGURE 49. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE 2025. CC. LL. (% VAR)**



Source: AIReF and IGAE

**FIGURE 50. EVOLUTION OF THE RESOURCES OF THE SUB-SECTOR CC. LL. WITH RTRP (% OF GDP)**



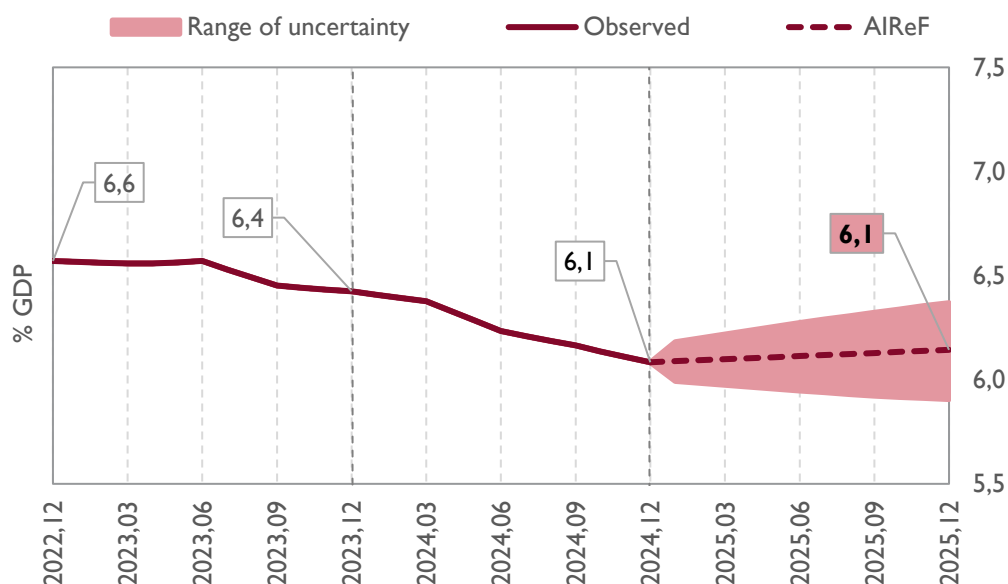
Source: AIReF and IGAE

**In 2025, LG revenue without the RTRP will grow by around 4%, mainly due to the improvement in tax revenue and the extraordinary revenue from DANA transfers, maintaining its weight of GDP.** Although the revenue under the

Financing System only varies slightly from one year to the next, given that the fall in the settlement to be collected in 2025 over the extraordinarily high settlement collected in 2024 will be offset by the substantial improvement in the instalment payments in 2025, the estimated strong growth of taxes linked to economic activity as well as those levied on income in the provincial councils, leads the sub-sector's revenue to grow by 4% without including revenue from the RTRP funds. Also contributing to this growth are the extraordinary transfers from the State and the AR of Valencia associated with the DANA, offset by a decrease in the traditional European Union funds. All this means that revenue maintains its weight of GDP at 6.4%. If revenue from the RTRP funds is included, the year-on-year growth of LG revenue in 2025 would be over 4% and its weight of GDP would be maintained at 6.5%.

**For its part, LG expenditure will grow by around 5% in 2025, not including expenditure financed by the RTRP, standing at 6.1% of GDP.** Current expenditure will increase by more than 5%, with increases of around 4% in the items of compensation of employees and intermediate consumption, as well as growth in social transfers in kind (9%), including the transport subsidies extended by Royal Decree-Law 1/2025 and transfers between GG sub-sectors, which will grow by around 10%. This is a consequence of the increase in the contribution made by the provincial councils to the AR of the Basque Country, which grew by almost 10%. For its part, capital expenditure will increase by more than 7%, as investment spending will grow by more than 14%, as a result of the extraordinary spending stemming from the DANA. Excluding this effect, investment spending would maintain a similar weight in GDP to the previous year. For capital expenditure, it is also necessary to highlight the fall in capital transfers as a result of the court ruling on PIT for mutual insurance members, given that the refunds corresponding to years prior to 2023 that the provincial councils have paid in 2024 are not carried over to 2025. If the spending financed by RTRP funds were included, LG expenditure would grow by around 6%, maintaining its weight of GDP at 6.1%.

**FIGURE 51. EVOLUTION OF EXPENDITURE IN THE SUB-SECTOR CC. LL. WITH RTRP (% GDP)**



Source: AIReF and IGAE

**AIReF's forecasts for 2025 for the group of large LGs show that they will achieve a surplus of close to 5% of their non-financial revenue.** This result is very similar to that forecast in the main budgetary lines although with some variations within the individual composition. AIReF projects that all the large LGs analysed in this report will close 2025 with a surplus, with the exception of Vitoria City Council.

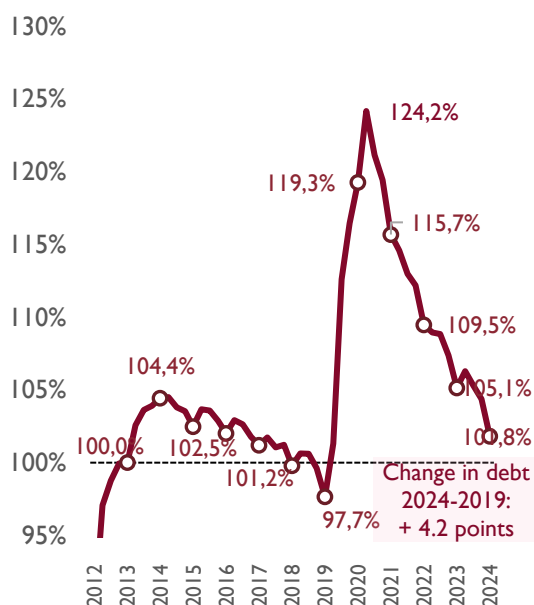
**With regard to the expenditure rule, AIReF estimates growth in eligible expenditure of close to 1% for 2025 for the group of large LGs, below the rate approved for the year of 3.2%.** After growth in eligible expenditure for 2024 estimated by AIReF at 2%, thus complying with the target of the expenditure rule, growth of close to 1% is forecast for the group of large LGs for 2025, thus also complying with the year's reference rate of 3.2%. At the individual level, for most of the LGs in this group, negative or positive rates of less than 3.2% are expected, except the City Councils of Murcia, Palma, Las Palmas de Gran Canaria and Valencia Provincial Council, where a risk of non-compliance is detected due to rates of over 6%.

# 6. EVOLUTION AND SUSTAINABILITY OF PUBLIC DEBT

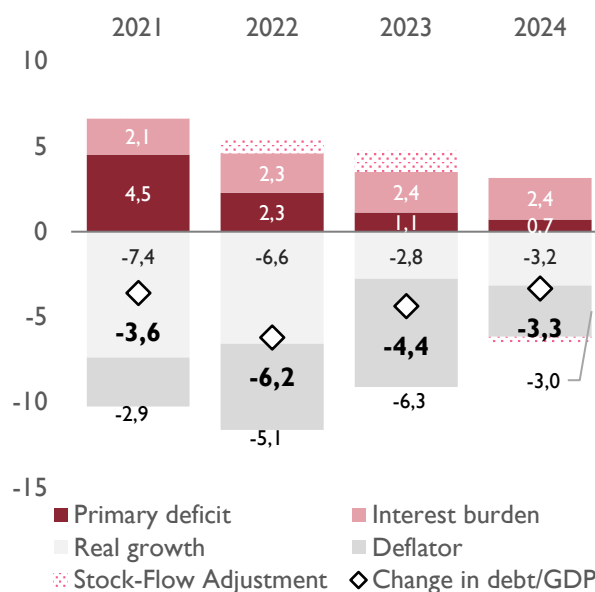
## 6.1. Recent evolution and short-term projections

**The Spanish debt-to-GDP ratio stood at 101.8% at the end of 2024, an annual reduction of 3.3 points, and an increase from the pre-pandemic level of 4.2 points.** The cumulative reduction since the ceiling reached in the first quarter of 2021 (124.2%) is 22.4 points. Public debt has increased by €45.224bn to €1.62 trillion in 2024, a year-on-year growth rate of 2.9%. This rate of growth has been significantly lower than the 6.2% growth of nominal GDP, the denominator of the ratio.

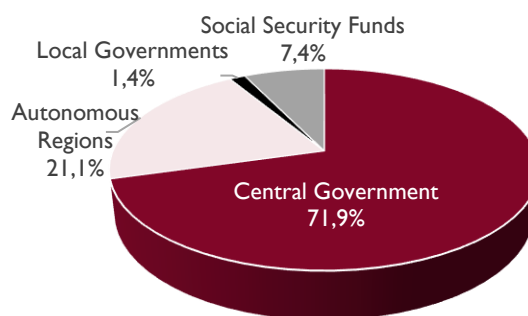
**The pace of the decline in the ratio has been slowing in line with more moderate nominal GDP evolution.** Economic growth has been the main driver of the decline in the ratio after the initial increase during the pandemic. Over the period 2020-2024, the contribution of growth to the reduction in the debt ratio has been 37 pp of GDP. A public deficit on a downward path, despite a slight rebound in the debt burden, has helped consolidate this reduction.

**FIGURE 52. EVOLUTION OF DEBT (% GDP)**


Source: Bank of Spain, INE and AIReF

**FIGURE 53. CONTRIBUTIONS TO THE CHANGE IN DEBT (GDP PTS)**


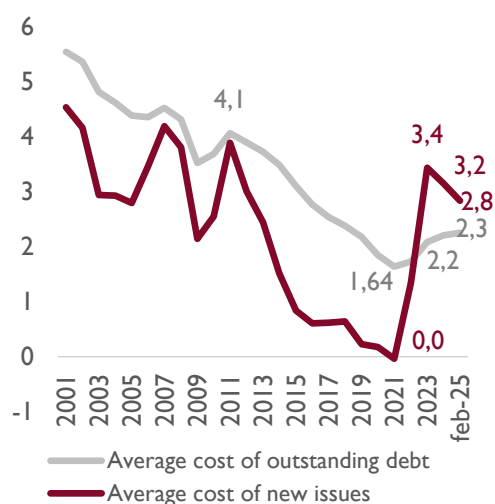
The CG and SSFs have assumed the entire increase in debt in recent years, contributing in part to the reduction in the debt of the ARs. Between 2020 and 2024, total debt increased by 4.2 pp, but this increase was mainly absorbed by the CG and SSFs, whose debt ratio grew by 7 pp. In contrast, the debt ratio of the ARs declined by 2.4 pp and that of LGs by 0.4 pp.

**FIGURE 54. DEBT (% GDP) BY SUB-SECTOR**


Source: Bank of Spain

As for State financing, the average cost of new Treasury issuances marked a turning point in 2024, falling by 28 basis points. In 2024, the average cost per year of new Treasury issuances stood at 3.16%, 28 basis points below the 3.44% of 2023 and 80 basis points below the peak (3.96%) reached in October 2023, a reduction in line with the ECB's cumulative rate cut. Lower issuance rates, but the higher than average cost of the portfolio, will mean that the average cost will continue to rise for some time to come. Furthermore, the average

maturity of the portfolio remains stabilised at the highs of around 8 years reached in 2021, having closed 2024 at 7.9 years. This long average maturity has cushioned the impact of the rise in interest rates in recent years, so that the average cost of outstanding debt has only risen by 57 basis points since its historical low in 2021, compared with a cumulative rise of 350 basis points in official rates over the same period.

**FIGURE 55. AVERAGE COST OF GOVERNMENT DEBT (%)**

**FIGURE 56. AVERAGE MATURITY OF GOVERNMENT DEBT (YEARS)**


Source: Treasury

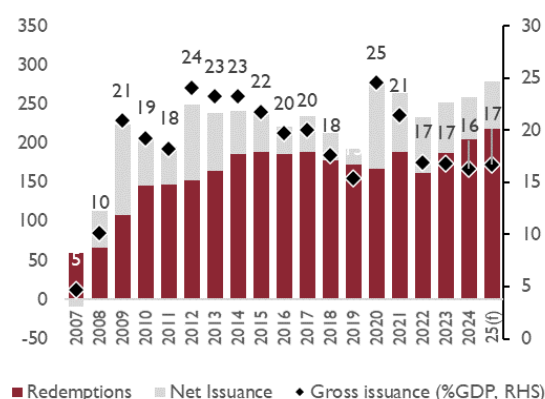
**For 2025, the Treasury is proposing a slightly higher financing programme than last year, increasing net issuance by €5bn to €60bn.** Gross issuance will rise to €278.448bn, 7.4% higher than in 2024, due to the higher volume of redemptions and the slight increase in net issuance, although net issuance as a percentage of GDP remains at 17%, a relatively low ratio in historical terms, which represents a reduced refinancing risk. Most of these net issues will be hedged with medium and long-term instruments, with €55bn, contributing to the goal of maintaining the average maturity of the portfolio. The remaining €5bn will be covered by net issuances of Treasury bills, to continue providing liquidity to these instruments in a context of high retail demand.

**In addition, the Government expects significant amounts of European loans from the Next Generation EU programme to be received for the first time in 2025.** These loans are intended to finance the financial instruments considered in the addendum to the Recovery Plan, channelling European funds to the Spanish business fabric. In December 2024, the Treasury requested the disbursement of €16bn in loans under the Recovery Plan. Spain will continue to receive parallel transfers under the Next Generation EU and REPowerEU programmes.

**FIGURE 57. TREASURY FINANCING IN 2024 AND 2025 (€ BILLION)**

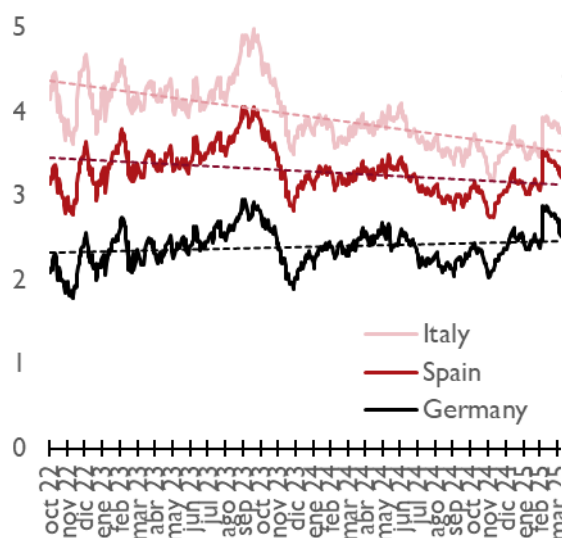
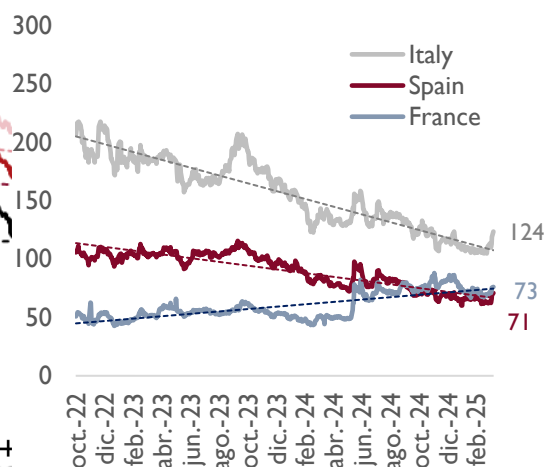
(billion euros)	Initial forecast 2024	Executed 2024	Forecast 2025
Net Issuance	55,0	55,0	60,0
Gross Issuance	257,6	259,4	278,4
<b>Medium and long-term</b>			
Gross Issuance	173,1	169,9	176,5
Redemptions	118,1	118,1	121,5
Net Issuance	55,0	51,8	55,0
<b>Treasury bills</b>			
Gross Issuance	84,5	89,5	101,9
Redemptions	84,5	86,2	96,9
Net Issuance	0,0	3,3	5,0

Source: Treasury and AIReF

**FIGURE 58. TREASURY NET BORROWING (€ BILLION AND % GDP)**


Over the last year, the main central banks have made progress in reducing their balance sheets through a process of "quantitative adjustments", seeking to normalise monetary conditions after years of expansionary policies. This process, which accompanies the fall in interest rates, has been carried out in a passive manner, allowing assets to mature without being renewed. The decline in asset purchases has eliminated a key player in secondary bond markets, but strong demand from private investors has effectively offset this reduction. This trend is expected to continue in 2025, despite the significant volume of purchases that the Fed and ECB will stop making. To date, markets have absorbed the adjustment in an orderly fashion, without affecting monetary easing driven by interest rate cuts.

Long-term sovereign debt yields have shown relatively stable evolution over the last two years, following the sharp and rapid rise triggered by the inflationary episode. Yield curves have moved sideways across maturities and countries, reflecting market stabilisation. However, this trend has been marked by bouts of volatility, influenced by the evolution of inflation, economic activity and the reactions of monetary authorities. In recent days, uncertainty over trade policy and security, which has led to a boost in defence expenditure, has led to widespread back and forth movements in long rates. Geopolitical and trade tensions may contribute to "flight-to-quality" episodes, with flows into assets considered safe, such as German or US debt, differentially affecting high-debt versus low-debt countries. The average of the last two years for the 10-year bond has been 3.4% for Spain, 3.9% for Italy and 2.3% for Germany.

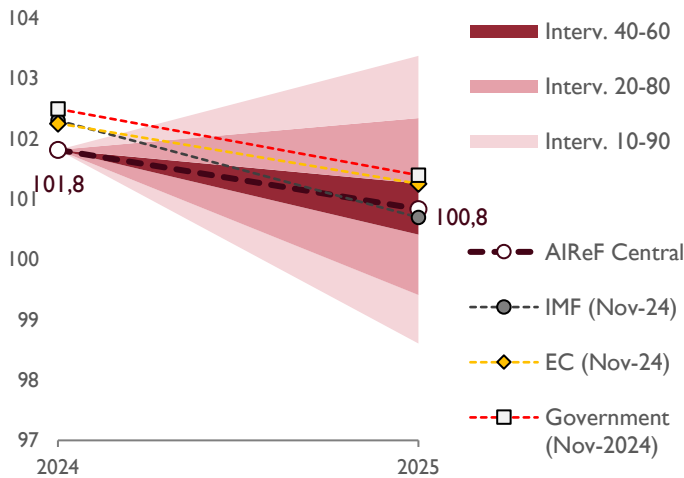
**FIGURE 59. 10-YEAR DEBT YIELD (%)**

**FIGURE 60. SPREAD WITH GERMANY (RISK PREMIUM)**


Source: Refinitiv

For this year, AIReF's macro-fiscal forecasts anticipate a decrease in the debt-to-GDP ratio of 1 point with respect to the level recorded in 2024, bringing it down to 100.8% by the end of 2025. This reduction is consistent with the projections presented by the Government in the MTP, as well as by the European Commission and the IMF, which estimate decreases of 1.1 points, 1 point and 1.6 points respectively.

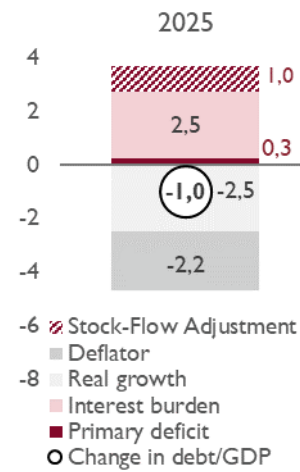
**Although the public deficit will continue to contribute to the increase in debt, its impact will be more moderate than in previous years.** At the same time, the contribution of economic growth to the reduction in the debt ratio will be lower this year, together with a foreseeable increase in the infrastructure stock-flow adjustment from European loans. This will result in a slowdown in the pace of debt reduction, from a fall of 3.3 points to just 1 point.

FIGURE 61. DEBT PROJECTIONS FOR 2025



Source: Ministry of Economy, IMF, EC and AIReF.

FIGURE 62. CHANGE IN DEBT (GDP POINTS)

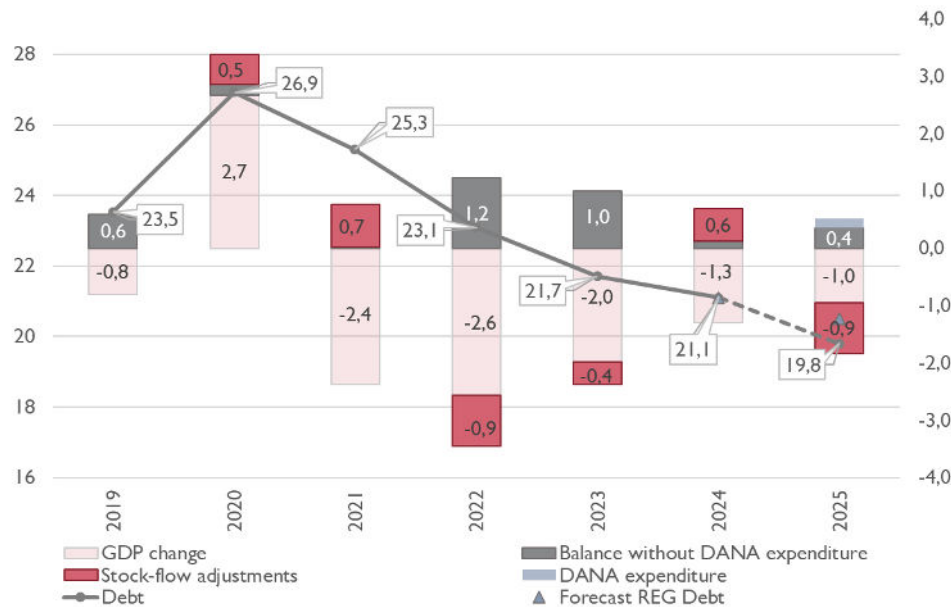


## 6.2. Autonomous Regions and Local Governments

**AIReF forecasts, under the assumptions of a regulatory scenario, that the ARs will reduce their level of indebtedness by 1.3 pp in 2025, reaching 19.8% of GDP.** With the year-end 2024 data and the new fiscal balance forecast for this year, the debt-to-GDP ratio of the AR sub-sector would improve in 2025 by 1.3 points to 19.8%, despite the fact that the debt figure as of December 2024 was finally 0.1 points of GDP worse than expected. The improvement in the forecast for this year is due to the generation in 2024, in several ARs, of surpluses and excess financing above the forecast in the previous report. This forecast is conditioned by the estimate of the excess financing from previous years pending application and by the assumption of strict compliance with the regulations, which would mean that in 2025 the surpluses not applied and the excess financing pending from previous years should be used to reduce net borrowing, and does not consider any effect from the write-off of regional debt that has been announced. These positive factors are only slightly offset by the projected deficit in 2025 (0.4% of GDP) and by the effect on debt of financing DANA spending in 2024 and 2025 of up to just over 0.1 points of GDP.

**The ARs as a whole expect to reach a higher level of debt in 2025 than AIReF's forecast.** The ARs as a whole expect to reach an aggregate level of debt in 2025 that is higher than AIReF's forecast because many of them do not plan to apply all the outstanding surpluses and excess financing from previous fiscal years.

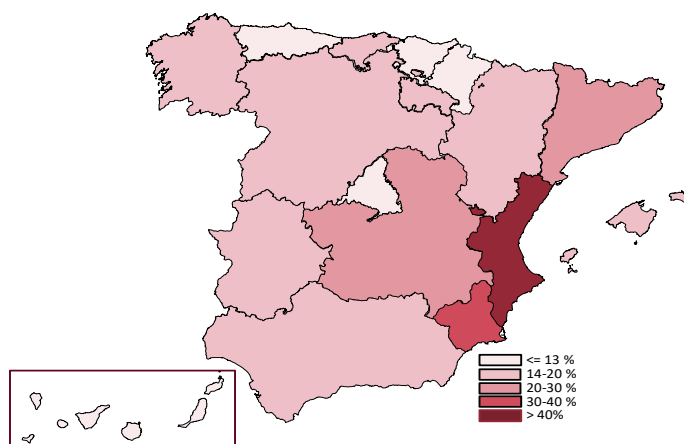
**FIGURE 63. PROJECTED EVOLUTION OF CC. INDEBTEDNESS (% OF GDP) (% OF GDP)**



Source: Banco de España and AIReF

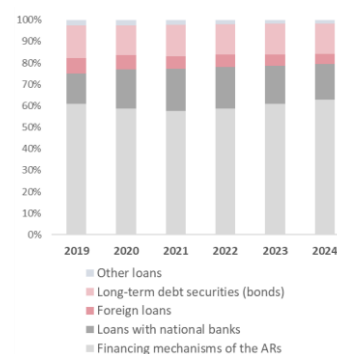
**Five regions would have a debt-to-GDP ratio below 13% in 2025, while two would still be above 30%.** As forecast in the previous report, in five regions (Navarre, Canary Islands, Basque Country, Madrid and Asturias), debt would be below 13% of GDP, always under the assumptions of the application of surpluses and excess financing from previous years. Two other regions (Valencia and Murcia), in contrast, would maintain a debt ratio above 30%. Compared with the previous report, Catalonia and Castile-La Mancha would drop out of this group, as their debt would be slightly below 30% of their regional GDP.

**FIGURE 64. RATIO OF DEBT TO REGIONAL GDP FORECAST 2025 (% GDP)**



Source: AIReF

**FIGURE 65. DEBT EVOLUTION BY INSTRUMENTS (% GDP)**



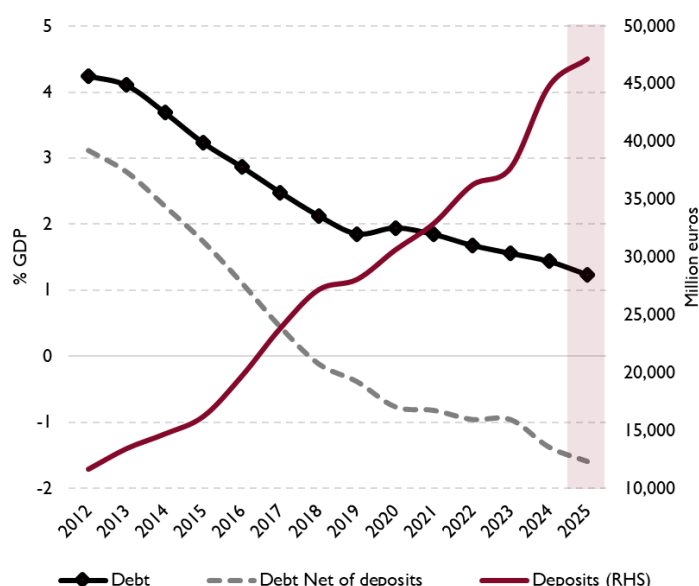
Source: Banco de España

**The financing mechanisms increase their weight in the composition of the debt of the ARs as a whole.** According to data as at December 2024 from the Bank of Spain, State financing mechanisms would continue to be the main source of financing for the ARs as a whole, although three ARs (Navarre, the Basque Country and Madrid) would not have any debt from this source. The financing mechanisms would account for 63% of the ARs' debt, which represents an increase of 2 pp with respect to 2023. In five ARs (Murcia, Cantabria, Valencia, Catalonia and Castile-La Mancha), the mechanisms account for more than 80% of the total debt of the ARs.

**As regards the LGs, AIReF forecasts an improvement in their net position by 2025 due to the increase in deposits and a decrease in debt.** The data published by the Bank of Spain on the Excessive Deficit Procedure (EDP) debt and deposits that the LGs recorded at the end of 2024 reflect a decrease in debt of 0.2 points of GDP, together with an increase in deposits held at credit institutions of 0.3 points of GDP. As a result, the net position between the two flows has improved by 0.4 points of GDP to 1.4%. This is the result of the buoyant performance by the sub-sector at the end of 2024 (surplus of 0.4% of GDP).

**AIReF's forecasts for 2025 for the fiscal balance of the sub-sector with a surplus close to that of 2024 also show an improvement in its financial results.** They are expected to continue to reduce their debt to 1.2% of GDP and increase deposits by 5.3% (maintaining their weight at 2.8% of GDP). This will improve the net position of the LGs by 0.2 points of GDP.

**FIGURE 66. EVOLUTION OF DEBT AND DEPOSITS OF LOCAL GOVERNMENTS**

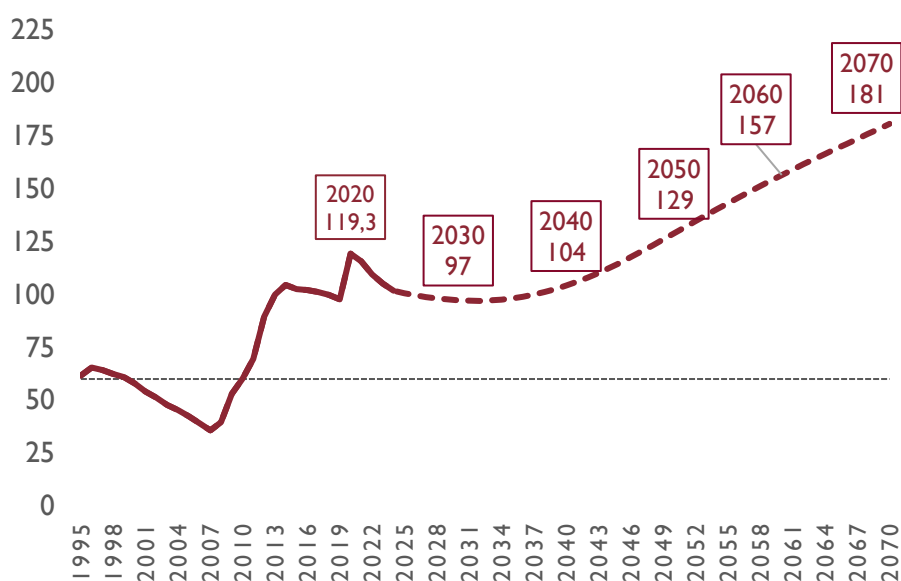


Source: Bank of Spain and AIReF

### 6.3. Medium and long-term risks

**AIReF projects an unfavourable evolution of the debt-to-GDP ratio in the medium and long term.** On the basis of the growth projections, fiscal variables and interest rates published recently in the "*Opinion on the Long-Term Sustainability of the GG: demographics and climate change*", AIReF projects a rising debt-to-GDP ratio after an initial period of some stabilisation, reaching 181% of GDP by 2070. The foreseeable increase in spending on pensions, healthcare and long-term care as a result of population ageing is one of the main challenges for the sustainability of public finances in the medium and long term. Higher structural spending that is not covered by additional revenue will entail a very significant increase in debt from historically very high levels. The high debt infrastructure stock will generate a financial burden that will accelerate even considering contained financing rates.

FIGURE 67. DEBT (% GDP)



Source: AIReF, *Opinion on the Long-Term Sustainability of GG*

**The 2030s will mark a turning point in debt evolution, with a return to a gradually intensifying upward path.** From 2030 onwards, the deterioration in the primary balance, driven by the impact of population ageing, together with stabilised nominal growth at 3.2% and an increase in the average interest rate on debt, will lead to a rapid increase in the debt ratio, the acceleration of which will continue over the following two decades. In this context, the differential between the interest rate and economic growth (the so-called "snowball effect") will turn positive in 2032, further exacerbating debt dynamics and generating the need to achieve a primary surplus to contain debt growth.



# 7. RECOMMENDATIONS

## 7.1. New recommendations

According to AReF's current forecasts, growth in primary expenditure net of revenue measures for 2025 for the purposes of the European expenditure rule stands at 4.5%, 0.8 points above the commitment of 3.7% contained in the MTP. This deviation is equivalent to 0.3 points of GDP and would therefore be at the limit of the annual deviation allowed by EU rules.

However, in addition to the usual uncertainty of an exercise in fiscal forecasts is the fact that the net expenditure figures for 2024 have not yet been published and doubts persist about the calculation of this net expenditure. Moreover, the European Commission has recently introduced an additional element of flexibility by announcing the possibility for Member States to request the activation of the national escape clause, so that an increase in defence expenditure of up to 1.5% of GDP over the 2021 level will not be considered for the purposes of the European expenditure rule during the period 2025-2028.

Furthermore, at the domestic level, AReF also identifies a risk of non-compliance with the national expenditure rule by the CG and the ARs in 2025.

Moreover, according to AIReF's current forecasts, in 2025, compliance with the national expenditure rule would lead to compliance with the European expenditure rule.

Accordingly, the coexistence of two expenditure rules, the European and the national rule, with different calculation methodologies, underlines the need to establish coordination mechanisms to ensure their consistency. It is also essential to carry out monitoring of the execution of the net eligible expenditure of measures from the perspective of both the European and national rules, as well as to ensure the regular publication of this information.

It should be recalled that, before the pandemic, the IGAE published the evolution of the eligible expenditure for the purposes of the national expenditure rule of the CG and the ARs as a whole on a monthly basis, including an individual breakdown by region. In addition, the evolution of this expenditure of the LG sub-sector was published quarterly. However, with the suspension of the fiscal rules as a result of the pandemic, this information ceased to be published.

In last July's report on budgetary execution for 2024, AIReF already recommended resuming publication of this information. However, the Ministry departed from this recommendation, claiming that it publishes the data required by current regulations.

However, AIReF considers that, beyond the current legal requirements, the resumption of these publications on the national rule and their extension to the European expenditure rule would be very useful. On the one hand, it would make it possible to strengthen the monitoring of compliance with the European expenditure rule, a central element of the new fiscal supervision framework, as well as the national expenditure rule. On the other hand, it would facilitate the coordination of both rules, given that the national expenditure rule should serve as an instrument to ensure compliance with the European rule. Finally, it would enhance transparency through the regular and disaggregated publication of this information.

**AIReF therefore makes a recommendation to the Ministry of Finance:**

- 
- 1. To monitor budgetary execution and establish the necessary coordination mechanisms to ensure compliance with the national and European expenditure rules by the GG Sector.***
  - 2. To publish monthly figures on primary expenditure net of revenue measures for the purposes of the European expenditure rule and to***

***recover the monthly publication of eligible expenditure for the national expenditure rule.***

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Furthermore, the scope of the report has been conditioned by the particular uncertainty stemming from the current geopolitical context, as well as by the absence of relevant information on certain spending items.

In particular, there is uncertainty over the increase in defence expenditure planned for 2025. The Government's commitment to increase this item considers doubts regarding the final amount that will be executed, both in budgetary and in national accounting terms, whereby the latter directly affects the public deficit. Moreover, no information is available on the military deliveries planned for the current year, even though they could have a significant impact due to the volume of investment they represent.

In addition, there is a lack of detailed information on the implementation of the Recovery, Transformation and Resilience Plan (RTRP) in national accounting terms. The absence of data disaggregated by national accounting headings and by GG sub-sectors makes it difficult to accurately estimate the impact of the RTRP on the revenue and expenditure projected by AIReF for 2025.

Moreover, there is no complete and up-to-date information on fiscal risks with a potential impact on the deficit. In the current context of numerous ongoing court cases, an unfavourable ruling could have a significant impact on the deficit, so clear and up-to-date information is considered essential.

These shortcomings in information repeatedly highlight the need for an agreement or Memorandum of Understanding (MoU) to guarantee the regular and systematic provision of information stemming from these operations, the impact of which may be very significant on compliance with fiscal rules.

**AIReF therefore recommends that the Ministry of Finance, in coordination with the Ministry of Economy, Trade and Enterprise and the Ministry of Defence:**

- 
- 3. Formalise an agreement or MoU with AIReF for the regular provision of information, with a previously agreed level of detail, including information in national accounting terms on military deliveries, court rulings and other contingent liabilities, as well as on the implementation of the Recovery, Transformation and Resilience Plan.**
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President of AIReF

A handwritten signature in blue ink, appearing to be 'C.H.S.', enclosed within a blue oval shape.

**Cristina Herrero Sánchez**