

REPORT ON THE DRAFT BUDGETS AND MAIN BUDGETARY LINES OF THE GENERAL GOVERNMENT FOR 2026

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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) must report on the draft budgets and main budgetary lines of the General Government (GG). However, the draft General State Budget for 2026 and the Budgetary Plan have not yet been presented, exceeding the legally established deadlines. Furthermore, although it seems imminent, the presentation of the proposed budgetary stability and debt targets, accompanied by the Report on the Situation of the Spanish Economy, which includes the reference rates for the national expenditure rule, has not yet materialised. Nor has any progress been made in adapting the national fiscal framework to the reality of the new European framework. In this regard, AIReF plans to publish its Opinion on the Reform of the National Fiscal Framework in the coming weeks. In short, the various GG authorities are at very different stages of the budgetary process against a backdrop of significant institutional uncertainty.

With the limited information available to date, AIReF updates its macroeconomic and fiscal forecasts in a no-policy-change scenario up to 2029 and analyses the main lines of the budgets of the Autonomous Regions (ARs) and Local Governments (LGs). This report will be supplemented by individual reports on the ARs, which, once again this year, also include a medium-term fiscal outlook based on a no-policy change scenario, as well as the Report on Local Governments (LGs) subject to individual monitoring.

In its macroeconomic scenario, AIReF has improved its growth forecasts to 3% and 2.1% for 2025 and 2026, respectively, and estimates convergence towards long-term values of 1.7% in 2027, reaching 1.5% in 2030.

Furthermore, AIReF also updates its forecasts for growth in primary expenditure net of revenue measures - the main variable for monitoring the European fiscal framework. Based on the latest available data, net expenditure growth is projected to be 4.3% in 2024, up from the previous figure of 3.5%. For 2025, AIReF forecasts growth of 4.6%, which is above the 3.7% committed to in the MTP but within the 0.3% of GDP limit allowed by the annual control account. In the following year, the situation would be similar, with expected growth of 4.6% compared with the 3.5% committed to in the MTP, although the annual control account limit would be exceeded by approximately €1.2bn. In cumulative terms since 2023, net expenditure growth is projected to be 9.1% in 2025, below the 9.2% in the MTP. In 2026, the positive margin obtained in 2024 would be exhausted, and cumulative growth would stand at 14.2%, compared with 13% in the MTP. However, this deviation would fall within the limits allowed by the cumulative control account of 0.6% of GDP. In short, no additional adjustments would be necessary in 2025 to comply with the limits of the European fiscal framework, while in 2026, the annual limit would be exceeded by a small margin, but not the cumulative limit.

In the medium term, AIReF continues to forecast annual growth of around 4% in 2027 and 2028, both of which are above the commitments made in the MTP and the annual control account. In addition, the limits of the cumulative control account would be exceeded, requiring further adjustments to comply with the European fiscal framework.

Regarding the national fiscal framework, AIReF continues to identify a risk of non-compliance with the national expenditure rule by the Central Government (CG) and most of the ARs in both 2025 and 2026. To comply with the national expenditure rule, additional adjustments of €12bn in 2025 and €2.6bn in 2026 would be necessary. However, the reference rate for 2026 could be modified by the publication of the Report on the Situation of the Spanish Economy that must accompany the proposed budgetary stability and debt targets.

AIReF has revised its 2025 deficit forecast to 2.5% of GDP, or 2.2% excluding the impact of the Isolated High Altitude Depression (DANA). This improvement is reflected across the forecast horizon, with a 2% of GDP deficit in 2026 and a subsequent upward path to 2.5% in 2030.

The sustainability analysis indicates that debt is expected to continue falling to 95% of GDP by 2030, albeit at a significantly slower pace than in recent years, due to the slowdown in nominal economic growth.

Although the fiscal and economic situation has improved compared with previous reports, uncertainty persists due to the lack of clarity in the national fiscal framework.

Given that the national and European expenditure rules differ in several respects, AIReF emphasises the implications that the application of the current national framework has on the European fiscal framework. In the current context, compliance with the national expenditure rule leads to compliance with the European expenditure rule in 2025 and, as noted above, in fact requires additional adjustments. However, this situation is reversed in 2026, when compliance with the rate committed to in the MTP would require greater adjustments than those needed for the national expenditure rule.

To avoid situations such as the one described, until such time as the LOEPSF is adapted to the new European framework and the national expenditure rule is brought into line with the European rule, AIReF recommends that the proposed budgetary stability and debt targets for each GG authority should be consistent with the evolution of eligible expenditure determined by the reference rates of the national expenditure rule and with the commitments to growth in primary expenditure net of revenue measures included in the MTP.

The medium-term macroeconomic scenario

AIReF has revised its growth forecast for the Spanish economy upwards for 2025 and 2026, to 3% and 2.1%, respectively. These estimates represent a significant increase of 0.7 percentage points in 2025 and 0.4 percentage points in 2026 compared with the estimates made in July 2025, when estimated growth was 2.3% and 1.7%, respectively.

This improvement is due to global growth and trade performance, which has been better than expected a few months ago, and to the knock-on effect of revisions to the annual and quarterly National Accounts figures by the National Statistics Institute (INE), which show a more balanced growth pattern with a greater role for investment in the recovery than previously estimated. In addition, several factors contribute to explaining the dynamism of the Spanish economy. First, the increase in the immigrant population is driving demand and explains the strong performance of employment without any significant wage pressures. Added to this are the robust performance of tourism revenue, the lower exposure of Spanish exports to the US market, the relatively contained evolution of energy prices compared with other European countries, and the rollout of European funds associated with the Recovery, Transformation and Resilience Plan (RTRP).

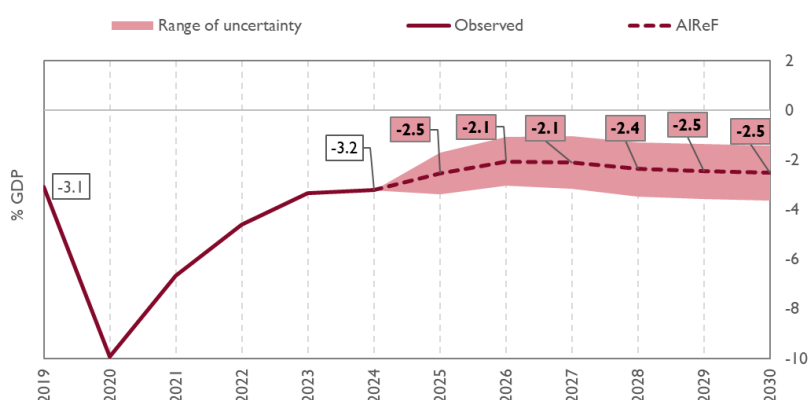
As of 2026, growth is projected to slow gradually to 1.5% in 2030, as the momentum associated with the RTRP disappears and migration flows moderate. The slower growth in world trade projected by most international institutions also contributes to this profile.

On the price front, the GDP deflator is projected to rise by 2.5% in 2025, then fall to 2.2% in 2026, and subsequently align with the 2% monetary policy reference. As a result, nominal GDP growth would rise to 5.6% in 2025 and 4.4% in 2026, subsequently falling below 4%.

Budgetary scenario

AIReF estimates a reduction in the deficit for the GG Sector to 2.5% of GDP in 2025 and 2% of GDP in 2026, followed by an upward path to 2.5% of GDP in 2030. The reduction in the deficit in 2025 is primarily attributed to the gradual phasing out of measures aimed at mitigating the effects of the price and energy crisis, the impact of revenue measures, and the lower incidence of one-off operations resulting from court rulings. In 2026, in addition to the reduced impact of the above factors, lower expenditure associated with the Isolated High Altitude Depression (DANA) and the expected evolution of other revenue and expenditure will also help reduce the deficit. After stabilising in 2027, the deficit will begin to rise, driven mainly by expenditure associated with the ageing population, the interest burden and defence expenditure.

FIGURE 1. EVOLUTION OF THE NET LENDING/BORROWING OF THE GG



Source: AIReF and IGAE

Revenue, excluding the RTRP, is expected to close at 42.1% of GDP in 2025 and continue to rise to 42.3% in 2026 and 43% in 2030. Revenue is expected to grow above or close to 5% in both 2025 and 2026. For the remainder of the period, growth is expected to moderate to rates of around 4% on average. Tax revenue will increase its weight of GDP, driven mainly by Personal Income

Tax (PIT). In contrast, taxes on production will lose some weight due to the evolution of special taxes and the end of the three-year term of the Tax on Bank Margins, while VAT will remain stable as a weight of GDP once the measures adopted in previous years are phased out. Social contributions will stabilise at around 13.4% of GDP, driven by labour market dynamism and measures associated with the pension reform. Lastly, other revenue is expected to decline until 2027 and then stabilise.

AIRcF forecasts that expenditure, excluding the RTRP, will continue to decrease its weight in GDP, reaching 44.6% in 2025 and 44.4% in 2026. Thereafter, expenditure is expected to rise, reaching 45.5% of GDP by 2030. The main factors driving expenditure upward over the forecast horizon are the ageing population, defence policy commitments and interest payments. The progressive ageing of the population has a particular impact on social transfers through pension expenditure. For their part, defence commitments will increase intermediate consumption and, in particular, gross capital formation, although the schedule of military investment deliveries will condition the pace. The weight of interest spending will also increase, while the compensation of employees and other expenditure will decrease.

Central Government

AIRcF forecasts that the CG will not comply with the national expenditure rule in 2025 and 2027, while in 2026, the forecast is expected to be very close to the reference rate. Furthermore, primary expenditure net of revenue measures is expected to grow by an average of 4.8% per annum between 2025 and 2028 for the purposes of the European expenditure rule.

AIRcF estimates that the CG deficit, after an initial improvement in 2025 and 2026, will gradually deteriorate again to 2.6% of GDP in 2029 and 2030.

Social Security Funds

AIRcF estimates growth in SSF primary expenditure net of revenue measures of 6.3% in 2025 and 4.4% on average in the period 2025-2028. The SSFs are excluded from the national expenditure rule.

After posting 0.5% in 2025, the SSF deficit will stabilise at 0.2% of GDP as of 2027. The growth in pension spending reflects the progressive ageing of the population, while the weight of unemployment spending as a percentage of GDP is expected to fall. On the revenue side, contributions are expected to moderate their growth in the coming years, in line with the evolution of employment and wages, while also incorporating the impact of the introduction of the Intergenerational Equity Mechanism and the additional Solidarity Contribution.

Autonomous Regions

AIRcF forecasts that the ARs will achieve a balance close to equilibrium in 2026, but with growth in eligible expenditure for the purposes of the national expenditure rule exceeding the current limit of 3.3%. However, primary expenditure net of revenue measures for the purposes of the European expenditure rule will grow by 2.8%.

In the medium term, according to AIRcF forecasts, eligible expenditure under the national expenditure rule is expected to grow by an average of 4.8% between 2025 and 2027, exceeding the reference rate in all years. Regarding the European expenditure rule, the ARs are expected to show average annual growth of 4.1% in primary expenditure net of revenue measures over the period 2025-2028.

After closing 2025 with a deficit of 0.4% of GDP, the balance is expected to remain close to equilibrium in subsequent years, although it will end the period with a deficit of 0.1% of GDP in 2030. The functioning of the financing system will mark the evolution of revenue and will involve some irregularities in the evolution of the balance. On the expenditure side, growth is expected to moderate as inflationary pressures ease and fiscal rules return.

Local Governments

Eligible expenditure for the purposes of the national expenditure rule is expected to increase by around 4% in 2025 and 2026, exceeding the reference rate for those years, but will be met in the following year. Regarding the European expenditure rule, average growth of 3.8% in primary expenditure net of revenue measures is estimated for the period 2025-2028. AIRcF estimates that the LGs will stabilise in the medium term at a surplus of 0.3%.

Fiscal policy stance

Given the structural situation of public finances, the imbalance between revenue and expenditure remains high, far from the structural equilibrium that acts as an anchor for fiscal policy within the national fiscal framework. Breaking down the change in the public deficit observed in 2024 and forecast for 2025 and 2026 into its cyclical and structural components, it can be seen that the cyclical improvement is slowing. Finally, the tone of fiscal policy would be slightly contractionary in 2024, and conversely, slightly expansionary in 2025 and 2026.

Debt sustainability

Spain's debt-to-GDP ratio stood at 103.4% in the second quarter of 2025, down 1.8 points from the same period last year and 20.8 points from the peak of 124.2% recorded in the first quarter of 2021. However, it is still 5.8 points above the pre-pandemic level.

In the medium term, AIReF forecasts, in its baseline projection, a reduction in the public debt-to-GDP ratio of 6.4 points between 2024 and 2030, to around 95.2% at the end of the period. This downward path is based on stable nominal growth of around 3.5%, an average primary surplus of 0.5% of GDP and interest payments of around 2.7%, thus maintaining a favourable difference between growth and interest rates that underpins the gradual reduction of debt.

Compared with the previous AIReF projection, the debt ratio for 2029 is revised downwards by 3.2 points, due to a greater contribution from nominal growth (0.8 pp), a more favourable primary balance (1.7 pp), better evolution of the interest burden (0.4 pp) and a statistical revision of GDP (0.2 pp).

Sovereign debt financing conditions have improved in recent months, driven by moderating inflation and the gradual easing of the ECB's monetary policy. This evolution has had an immediate impact on the short end of the curve, where yields have fallen sharply. In contrast, long-term maturities have shown an upward trend since 2024, especially in Germany and France, whereas Spain and Italy have shown greater stability. This behaviour reflects a greater perception of risk and an increase in structural financing needs arising from demographic ageing, higher defence expenditure and the costs of adapting to climate change, factors that are reinforced by political uncertainty and budgetary tensions in several European countries.

The average cost of new Treasury issues continues its downward trend, in line with monetary easing, although current rates remain above the average cost of the outstanding portfolio, suggesting the average cost of debt will continue to rise gradually in the coming quarters. In this context, the leading rating agencies - Fitch (A), Moody's (A3) and S&P (A+) - have upgraded Spain's sovereign rating, in line with the reduction in the risk premium.

1. INTRODUCTION

Legislation dictates that the Independent Authority for Fiscal Responsibility, AAI (AIReF) must report on the draft budgets and main budgetary lines of the General Government (GG). This is established in Article 17(1) of the Organic Law on Budgetary Stability and Financial Sustainability and Article 20 of Organic Law 6/2013 on the Creation of AIReF. At the date of issue of this report, the Government has not approved the draft General State Budget (GSB) for 2026, nor has it submitted the Budgetary Plan for 2026 to the European Commission, even though the legally established deadlines for doing so expire on September 30th and October 15th, 2025, respectively. Consequently, at the CG level, the fiscal strategy for next year has yet to be defined. At the regional level, the Autonomous Regions (ARs) of Rioja, Castile-La Mancha, Castile and Leon, Galicia, Andalusia, the Basque Country and Navarre have approved their draft budgets for 2026, while the rest of the ARs have submitted the main lines of their budgets for that year. At the local level, most of the Local Governments (LGs) analysed have already submitted their draft budgets for 2026.

When the draft General State Budget (GSB) for 2026 is approved, AIReF will issue the mandatory report and, at the same time, update its assessment of the main Lines of the GG Sector. In that report, AIReF will focus its analysis on the Central Government (CG) and Social Security Fund (SSF) sub-sectors.

However, given the implications of the GSB for the rest of the sub-sectors, AIReF will also update its assessment of the GG Sector at the same time.

The purpose of the report is to assess whether the main budgetary lines of the GG for 2026 are in line with the fiscal rules. Article 17(1) of the Organic Law on Budgetary Stability and Financial Sustainability establishes the obligation for AIReF to assess the draft budgets and the main budgetary lines of the General Government with respect to their compliance with the stability and debt target and the expenditure rule.

At the date of issue of this report, the budgetary stability and debt targets for 2026 have not yet been approved or submitted, nor is the reference rate of the expenditure rule known. According to the procedure established in Article 15 of the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF), the path of the stability and debt targets, as well as the expenditure rule, should have been approved during the first half of the year. However, the Council of Ministers has not yet approved the corresponding proposal for the three-year period 2026-2028. With regard to the expenditure rule, the aforesaid Article 15 establishes that the Report on the Situation of the Spanish Economy, which accompanies the proposed path of the targets, should include the calculation of the reference rate of the expenditure rule for the following three years. In 2025, this report has not yet been presented, as the proposed targets have not yet been formulated.

However, until the Report on the Situation of the Spanish Economy in 2025, provided for in Article 15 of the LOEPSF, is issued, a reference rate of 3.3% and 3.4% will be adopted for the expenditure rule in 2026 and 2027. This rate appears in the Report on the Situation of the Spanish Economy in 2024, which established it for that year within the three-year period 2025-2027. In contrast, it is not possible to use the targets set for 2026 in previous years, since, following the reactivation of the fiscal rules in 2024, no new paths have been approved for the three-year periods 2024-2026 or 2025-2027.

The content of the report analyses the macroeconomic and fiscal forecasts of the draft budgets and main budgetary lines of the GG for 2026 and incorporates AIReF's forecasts up to 2030. AIReF provides, on the one hand, an updated analysis of the macroeconomic forecasts and, on the other, a fiscal assessment of the GG Sector and the sub-sectors. This report focuses, in particular, on the analysis of the main budgetary lines for 2026 for the regional and local sub-sectors, which will be complemented by an individualised analysis for each AR, the 22 large LGs, and the three Chartered Councils of the Basque Country. To complete its express view and frame the analysis of

the GG for 2026 in a multi-year perspective, AIReF extends its forecast to a medium-term scenario until 2030.

The following lack of information has conditioned the scope of this report:

- 1. Lack of presentation of the draft General State Budget (GSB) for 2026 and, in the absence of this, of the Budgetary Plan for 2026.** This implies a lack of information on the revenue and expenditure measures to be adopted by the Government in 2026, which mainly affects the CG and the SSFs. Given the impact of the information contained in the GSB, it also indirectly affects the rest of the GG authorities.
- 2. Uncertainty about the national fiscal rules for 2026 and the applicable medium-term framework.** As noted above, new budgetary stability and debt targets have not yet been approved for 2026, nor have those for the time horizon up to 2028. This lack of definition has a direct impact on the preparation of the draft budgets of the GG for next year and on the multi-year planning in which they should be framed, given that the amount of these targets constitutes essential information for setting the ceiling on expenditure which acts as the financial envelope of the budgets and the guide for the coming years. Furthermore, uncertainty persists regarding the national fiscal rules that will be applied in the medium term, once the Government adapts the LOEPSF to the new European fiscal framework, for which it has until the end of 2025.
- 3. Uncertainty over the recording in the Spanish National Accounts of the increase in defence expenditure expected in the medium term.** The Government has approved the Security and Defence Plan, which estimates a budgetary impact of €10.47bn in 2025. However, uncertainty persists regarding its impact in national accounting terms, which is recorded in the public deficit. This uncertainty stems from the type of spending included in the Plan, which is mainly composed of investment, the implementation of which tends to be delayed over time. Moreover, military investment is recorded in the Spanish National Accounts at the time of delivery of the military asset, regardless of its budgetary accounting. Added to this is the lack of information on the planning of medium-term military deliveries, which could have a significant impact on the deficit, given the magnitude of the investments committed. At the macroeconomic level, the impact of defence expenditure is also uncertain, as it depends not only on when it materialises, but also on its composition and the extent to which military investment filters through to imports.

4. **Lack of breakdown of the implementation of the Recovery, Transformation and Resilience Plan (RTRP) in the monthly national accounts data published by the IGAE.** The lack of breakdown, both by national accounting headings and by General Government sub-sectors, of the amount corresponding to the implementation of the RTRP makes it difficult to accurately estimate its impact on the revenue and expenditure projected by AIRcF.
5. **Lack of monthly publication of the evolution of eligible expenditure for the purposes of the national and European expenditure rule.** The IGAE publishes monthly figures on the evolution of the CG, SSFs and ARs in national accounting terms, and quarterly on the LGs. However, these publications do not contain any information on the expenditure rule - as they did until 2019 - nor do they include an estimate of the contribution of each sub-sector to compliance with the net expenditure path for the GG Sector committed to in the Medium-Term Fiscal-Structural Plan (MTP) 2024-2028.
6. **Lack of complete and updated information on fiscal risks with a potential impact on the deficit.** While this cannot strictly be considered a limitation of scope, greater transparency on contingent liabilities, and in particular on ongoing litigation, is desirable, given the significant impact of these liabilities in 2024 and the high number of open legal proceedings, some of which have already materialised.

The evaluation presented in this report is organised into six sections. Following this introduction, Section 2 is devoted to monitoring compliance with the expenditure path net of revenue committed to in the MTP 2025-2028. Section 3 analyses the macroeconomic scenario, highlighting the main macroeconomic risks. Section 4 then analyses the fiscal scenario, including the evolution of revenue and expenditure of the GG Sector, the breakdown of the main revenue and expenditure measures, as well as a reference to contingent liabilities and fiscal risks. This analysis is completed with the evaluation by sub-sector, paying special attention to the regional and local sub-sectors. Subsequently, Section 5 examines the fiscal policy stance and Section 6 the evolution of debt. Finally, Section 7 contains the recommendations arising from the analysis.

2. MONITORING OF THE MEDIUM-TERM FISCAL-STRUCTURAL PLAN 2025-2028

2.1. Monitoring of the MTP path

Under a no-policy-change scenario, AIReF estimates average annual growth in net expenditure of 4.4% between 2025 and 2028 compared with 3.4% in the MTP. In cumulative terms, AIReF forecasts net expenditure growth of 24.1% between 2023 and 2028, compared with 20.1% in the MTP. If we extend the analysis to 2031, the end of the adjustment period considered in the MTP, AIReF forecasts cumulative growth of 39.8% compared with the 29.9% in the MTP. For all years since 2025, AIReF forecasts annual growth rates higher than those contained in the MTP. The positive margin accumulated after year-end 2024 would be exhausted in 2026, and the cumulative growth forecast would exceed that of the MTP.

AIReF considers that, as of 2026, additional measures would be necessary to meet the commitments contained in the MTP. In 2026, the growth rate in AIReF's no-policy-change scenario is 4.6%, compared with the 3.5% commitment in the MTP. This deviation exceeds the 0.3% of GDP limit in the annual control account, amounting to €1.2bn. However, the deviation in cumulative terms in

2026, 14.2% projected against the 13% commitment in the MTP, would still be below the 0.6% of GDP limit. In both 2027 and 2028, net expenditure grows in AIReF's scenario above the MTP, by 4.3% and 4% respectively, compared with the 3.2% and 3% commitments. In addition, the cumulative control account would exceed the limit of 0.6% of GDP in both years. This indicates that an annual adjustment of 0.4% of GDP between 2026 and 2028 would be necessary to achieve the cumulative growth of the MTP by 2028, i.e. without accounting for the control account's deviation margin. Taking into account the annual and cumulative control account margin, the annual adjustment would be around 0.2 points of GDP, or 0.6 points of GDP in cumulative terms. Again, it is important to note that this adjustment can occur on both the expenditure side and through revenue-increasing measures.

TABLE 1. GROWTH IN PRIMARY EXPENDITURE NET OF REVENUE MEASURES UNTIL 2031. MTP VS AIReF (% GDP)

Growth rate of eligible expenditure	2024	2025	2026	2027	2028	2029	2030	2031
Government Commitment in MTP								
Annual	5.3	3.7	3.5	3.2	3.0	3.0	2.5	2.4
Cumulative		9.2	13.0	16.6	20.1	23.7	26.8	29.9
Government Progress Report								
Annual	4.1	4.1						
Cumulative		8.4						
AIReF Forecast								
Annual	4.3	4.6	4.6	4.3	4.0	4.4	3.9	3.5
Cumulative		9.1	14.2	19.2	24.1	29.6	34.9	39.8

Source: MTP, Annual Progress Report 2025 and AIReF

TABLE 2. ANNUAL AND CUMULATIVE CONTROL ACCOUNT 2004-2008 (% GDP)

Control account	2024	2025	2026	2027	2028
Annual	0,4 ✓	-0,3 ✓	-0,4 ✗	-0,4 ✗	-0,4 ✗
Cumulative	0,4 ✓	0,0 ✓	-0,4 ✓	-0,8 ✗	-1,2 ✗

The limit for the annual control account is 0.3% of GDP and for the cumulative account 0.6% of GDP.

A positive sign indicates a positive margin for a lower level of expenditure than the commitment in the MTP and a negative sign indicates a negative deviation for a higher level of expenditure than committed.

Source: AIReF

After higher growth in 2025, primary expenditure net of revenue measures evolves on average by around 4.3% per annum. The calculation of the growth

in primary expenditure net of revenue measures in AIReF's scenario is based on the medium-term fiscal and macroeconomic forecasts detailed in this report. For 2030 and 2031, they are supplemented with AIReF's long-term forecasts following the methodology of the Opinion on the Long-term Sustainability of the GG. In addition to the evolution of primary expenditure and discretionary revenue measures, it is important to know the forecasts for expenditure that is exempt from their calculation. By component, the profile of EU-related spending, both in EU and national co-financing, is conditioned by the implementation of the RTRP and the increasing implementation of the 2021-2027 operational programmes of the structural funds. In addition, spending on cyclical unemployment continues to decrease throughout the period. Finally, one-off spending operations reach high values in 2024 and 2025 and decrease in 2026 and 2027 to stabilise in the medium term.

TABLE 3. CALCULATION OF PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2024-2031 (€BN)

Net expenditure growth rate (€m)	2023	2024	2025	2026	2027	2028	2029	2030	2031
GG expenditure	680	725	765	796	823	854	889	923	962
Net expenditure growth rate	35,6	38,8	41,1	44,0	47,1	51,1	53,9	59,2	63,5
EU funds	23,6	23,8	26,4	24,8	18,2	14,1	11,9	8,0	8,3
Cyclical unemployment	0,1	-0,8	-1,8	-2,1	-2,4	-3,0	-4,2	-5,6	-4,5
One-offs	1,3	13,9	7,6	4,8	3,2	3,1	2,8	2,8	2,8
Net primary expenditure	620	649	692	724	757	789	824	859	892
Discretionary expenditure measures		2,7	12,6	0,9	1,5	2,3	0,8	2,2	2,2
Primary expenditure net of revenue measures		647	679	723	755	787	823	857	889
% change in primary expenditure net of measures		4,3	4,6	4,6	4,3	4,0	4,4	3,9	3,5

Source: AIReF

The time profile of discretionary revenue measures modulates the profile of net expenditure growth. Discretionary revenue measures come primarily from the CG in 2025, but have a negative impact for the rest of the period. The annual contribution of the SSFs from pension reform measures is stable over the entire period, as is the impact of the non-deflation of the PIT rate. In 2026, there is a positive AR measure that is offset by a negative CG measure due to the pass-through of the tax collection on bank margins, which initially runs for three years and will therefore cease to be received by the AR in 2029.

TABLE 4. BREAKDOWN OF REVENUE MEASURES 2024-2031 (€BN)

Discretionary revenue measures	2024	2025	2026	2027	2028	2029	2030	2031
CG	-1,9	9,2	-3,0	-1,0	-0,5	-0,5	0,0	0,0
SSFs	2,2	1,1	0,9	0,9	0,9	1,0	0,4	0,4
ARs	0,3	0,0	1,4	-0,1	0,0	-1,5	0,0	0,0
LGs	0,2	0,5	0,0	0,0	0,0	0,0	0,0	0,0
Non-indexation of PIT	1,9	1,8	1,7	1,8	1,8	1,8	1,8	1,8
Total	2,7	12,6	0,9	1,5	2,3	0,8	2,2	2,2

Source: AIReF

2.2. Fit with the national fiscal framework

AIReF makes a preliminary estimate of the growth in primary expenditure net of revenue measures by sub-sector up to 2030. The CG shows the highest average increase in net expenditure between 2025 and 2030, with 4.6%, heavily influenced by the impact of revenue measures, which also explains the irregular profile. The SSFs show contained rates of growth in expenditure due to the effect of revenue measures, resulting in an annual average of 4.2%. The ARs show average rates of 4.2% and the LGs of 3.8%.

TABLE 5. PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2025-2029 (% CHANGE)

	2024	2025	2026	2027	2028	2029	2030
GG	4,3	4,6	4,6	4,3	4,0	4,4	3,9
CG	2,3	2,8	7,1	5,3	4,1	4,8	3,5
SSFs	5,6	6,3	4,1	3,4	3,7	3,9	4,0
ARs	7,3	4,8	2,8	4,7	4,3	4,7	4,2
LGs	-2,6	3,5	5,1	3,1	3,4	3,6	3,8

Source: AIReF

Compliance with the national expenditure rule in 2025 would be sufficient to comply with the path committed to in the MTP, but not in 2026 and 2027. The national expenditure rule is applied individually to each sub-sector with the exception of the SSFs, it has different reference rates from the MTP and a different methodology for calculating net expenditure. Currently, the reference rate of the national expenditure rule is below that of the MTP in 2025 and 2026 and above it in 2027, 3.4% for the national expenditure rule compared with 3.2% in the MTP. Under AIReF's revenue forecast, it is assumed that the CG, the ARs, and the LGs comply with the national expenditure rule in each year of the period, while maintaining the rate of the SSFs constant. This would mean that each year the GG Sector would comply with the

annual growth rates of the MTP in 2025. However, in 2026 and 2027 compliance with the national expenditure rule would reduce net expenditure growth to 4.3% and 3.4%, still above the MTP commitment.

TABLE 6. CALCULATION OF PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2024-2030 UNDER THE ASSUMPTION OF COMPLIANCE WITH THE NATIONAL EXPENDITURE RULE (% CHANGE)

	2024	2025	2026	2027
GG	4,3	2,7	4,3	3,4
CG	2,3	-1,4	7,3	3,4
SSFs	5,6	6,3	4,1	3,4
ARs	7,3	2,5	1,9	3,4
LGs	-2,6	2,6	4,7	3,2

Source: AIReF

3. MACROECONOMIC SCENARIO

3.1. AIReF's macroeconomic scenario

3.1.1. Macroeconomic forecasts for 2025 and 2026

AIReF has revised its growth forecasts for the Spanish economy in 2025 and 2026 upwards to 3% and 2.1%, respectively. These estimates represent a significant revision (of 0.7 percentage points in 2025 and 0.4 percentage points in 2026) compared with those published just four months ago, in July 2025, when the growth estimates were 2.3% and 1.7%, respectively. The better-than-expected performance of growth and world trade a few months ago, the tractor effect of INE's revisions to the annual and quarterly national accounting figures and the stronger-than-expected strength of domestic demand a few months ago justify these revisions.

TABLE 7. AIReF's 2025-2026 MACROECONOMIC OUTLOOK

Year-on-Year Rates of Change	2024	AIReF jul-25		AIReF oct-25		Differences (Oct-25 - Jul-25)	
		2025	2026	2025	2026	2025	2026
Private Domestic Final Consumption Expenditure	3.1	3.0	2.0	3.1	2.2	0.2	0.3
General Government Final Consumption Expenditure	2.9	2.7	1.5	2.3	2.0	-0.4	0.6
Gross Fixed Capital Formation	3.6	4.1	2.5	4.5	2.7	0.5	0.2
<i>GFCF Equipment and Cultivated Assets</i>	2.1	6.7	2.7	6.3	2.6	-0.3	-0.1
<i>GFCF Construction and Intellectual Property</i>	4.2	3.0	2.5	3.9	2.8	0.8	0.3
Domestic Demand*	3.3	2.8	1.9	3.1	2.2	0.3	0.3
Exports of Goods and Services	3.2	2.3	2.1	3.8	2.3	1.5	0.2
Imports of Goods and Services	2.9	4.2	2.9	4.5	2.8	0.3	-0.1
External Balance*	0.2	-0.5	-0.2	-0.1	-0.1	0.5	0.1
Gross Domestic Product	3.5	2.3	1.7	3.0	2.1	0.7	0.4
Nominal Gross Domestic Product	6.4	4.8	4.0	5.6	4.4	0.8	0.4
Gross Domestic Product Deflator	2.9	2.4	2.3	2.5	2.2	0.1	-0.1
CPI	2.8	2.3	2.0	2.6	1.9	0.2	-0.1
Full-Time Equivalent Employment	2.8	2.3	1.6	3.1	2.2	0.8	0.5
Hours Actually Worked	2.2	1.2	1.7	1.5	2.2	0.3	0.6
Unit Labour Cost	3.3	3.3	2.2	3.7	2.8	0.4	0.6
<i>Productivity per Full-Time Employee</i>	0.6	0.0	0.0	-0.1	0.0	-0.1	-0.1
<i>Compensation per Employee</i>	4.0	3.1	2.0	3.6	2.7	0.5	0.7
Unemployment Rate (% of Labour Force)	11.3	10.7	10.3	10.5	10.2	-0.1	0.0
Household and NPISH Saving Rate (% of GDI)	12.8	11.3	10.1	11.9	11.0	0.6	0.9

Source: INE and AIReF

* Contribution to GDP growth

TABLE 8. EXOGENOUS ASSUMPTIONS OF AIREF'S MACROECONOMIC SCENARIO

	2025	2026	Rev 2025	Rev 2026
Euribor 3 months (%)	2,2	2,0	▲ 0,1	▲ 0,2
Interest Rate 10-year Government Debt (%)	3,2	3,2	■ 0,0	▼ -0,3
Broad NEER	127,9	130,7	▲ 0,9	▲ 2,0
Exchange rates \$/€	1,13	1,18	■ 0,0	■ 0,0
Oil (US \$/barrel)	70,6	66,2	▼ -1,2	▼ -2,3
TTF Gas (€/MWh)	37,1	32,2	▼ -3,3	▼ -4,4
MIBGAS (€/Mwh)	35,7	31,3	▼ -3,4	▼ -4,4
Export mark. (annual %)	2,9	2,0	▲ 1,1	▼ -0,2

Source: IMF, LSEG and MIBGAS

According to the new estimates, growth in 2025 and 2026 is underpinned by domestic demand, while the foreign sector's contribution to growth would be slightly negative in both years. Private consumption remains the main driver of growth, expected to grow by 3.1% and 2.2% in 2025 and 2026, respectively, somewhat stronger than projected in July 2025. Investment, meanwhile, is revised upwards more sharply, especially the intellectual property and

construction component; within the latter, the other buildings and construction component, which includes infrastructure and projects associated with the Recovery, Transformation and Resilience Plan (RTRP), is revised upwards. In contrast, the growth forecast for investment in capital goods decreases in both years. Public consumption is revised downwards in 2025 in the most recent National Accounts and upwards in 2026 to reflect the foreseeable increase in spending associated with military purchases, in line with the Government's commitments. In 2026, the growth revision is also influenced by the assumption of a higher population increase than previous estimates (as reflected in the contribution under "Other" in Figure 2).

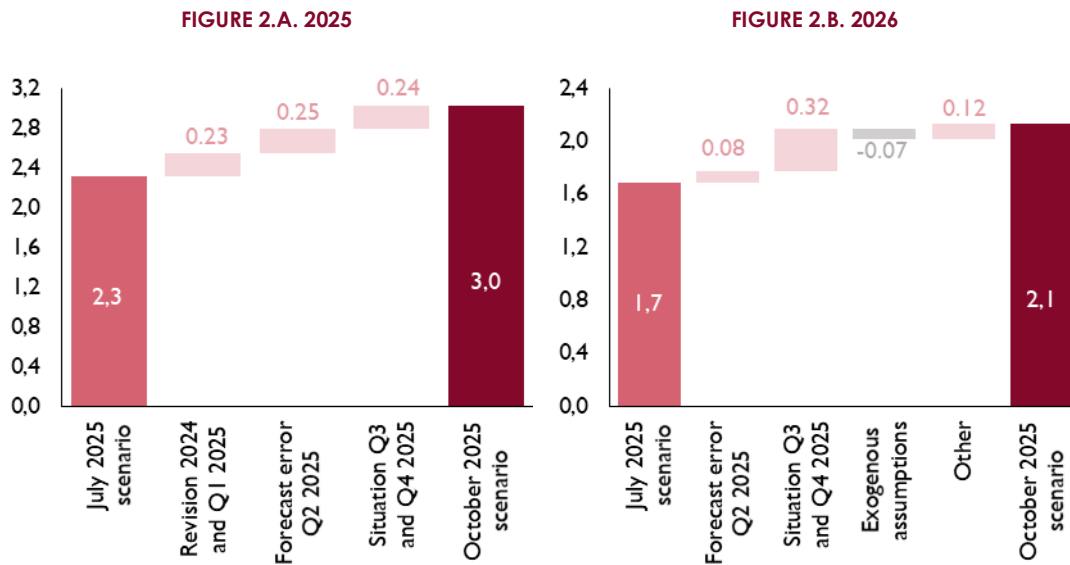
The foreign sector will detract 0.1 percentage points from growth in both 2025 and 2026, compared with the previous estimate of a negative contribution of 0.5 pp and 0.2 pp, respectively. The upward revision of world trade growth and of Spain's export markets, derived from the most recent forecast scenarios published by institutions such as the European Central Bank, the International Monetary Fund and the OECD, justifies this improvement in the contribution of the foreign sector to growth. To this should be added the reduction in the uncertainty surrounding US trade policy that resulted from the signing of the trade agreement with the European Union in July 2025, although there are still pockets of tension in certain products, such as pharmaceuticals.

Expected employment growth remains in line with real GDP growth, with stagnating productivity per employee, consistent with recent developments. The dynamism of employment keeps the unemployment rate at 10.3% in 2026, more than 1 pp lower than in 2024, despite a growing labour force.

On the price front, the GDP deflator is projected to increase by 2.5% in 2025, falling to 2.2% in 2026, and thereafter to be in line with the 2% monetary policy benchmark. Price increases would remain at around 2.5% in 2025 due to the rise in food and services prices. However, the appreciation of the euro, together with the moderation in energy prices incorporated in the external assumptions, will help inflation to return to rates close to 2% in the coming years. Real wages are also projected to rise slightly in 2025 and 2026, in line with the decline in the unemployment rate, but by no means recover the loss of purchasing power recorded in 2022.

Given the magnitude of the revisions made in so few months and the change in the growth pattern in 2025 and 2026, the following section devotes more attention to analysing the factors underlying these changes.

FIGURE 2. BREAKDOWN OF THE SOURCES OF REVISION OF THE GROWTH RATE OF GDP IN TERMS OF VOLUME WITH RESPECT TO THE MACROECONOMIC SCENARIO OF JULY 2025



Source: AIReF

Box 1 shows AIReF's medium-term forecast scenario.

3.2. Factors justifying the revision of the forecasts in 2025 and 2026

3.2.1. Foreign trade environment

One of the factors helping to explain the upward revision in the growth of the Spanish economy, especially in 2025 (+0.2 pp), is the global context, which has been less adverse than expected at the start of the year. The announcements of increased tariffs by the US Administration led to the projection of persistent trade tensions and uncertainty that did not fully materialise, thereby mitigating their impact on international economic activity. As the various countries have reached agreements with the USA, trade policy uncertainty has declined from the April highs, although it remains high by historical standards.

FIGURE 3. RECENT EVOLUTION OF THE UNCERTAINTY OF TRADE POLICY AND WORLD TRADE

FIGURE 3.A. TRADE POLICY UNCERTAINTY INDEX (7-DAY MOVING AVERAGE)

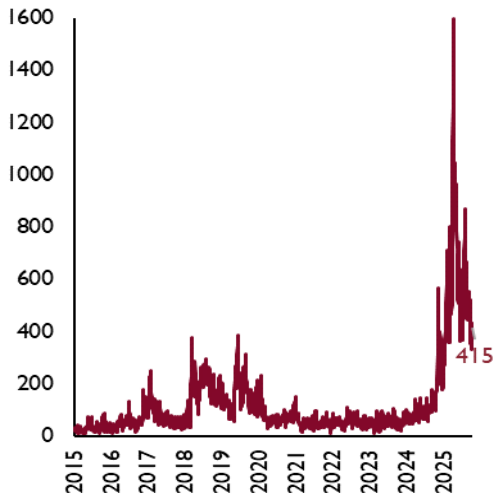
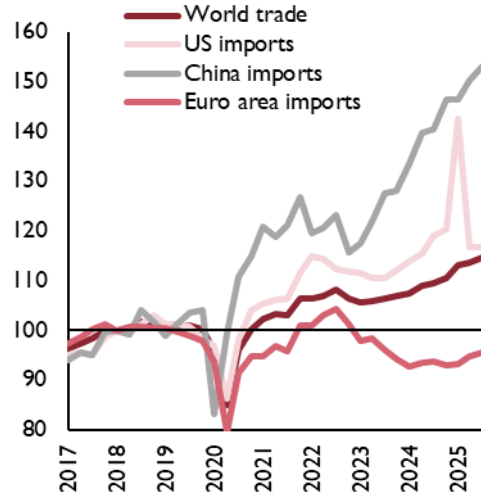


FIGURE 3.B. WORLD TRADE (INDEX 100 = 2017 Q1)



Source: CPB and Caldara *et al.* (2020)

In this context, most institutions have revised their expected global and world trade growth for 2025 and 2026 upwards. Leading international agencies and forecasters are raising their growth expectations for 2025 and 2026 by ruling out the most adverse scenarios of intense and persistent trade tensions.

FIGURE 4. IMF GLOBAL GROWTH FORECASTS (%)

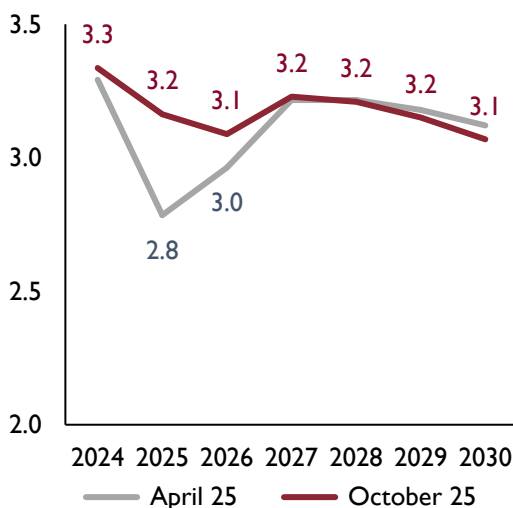
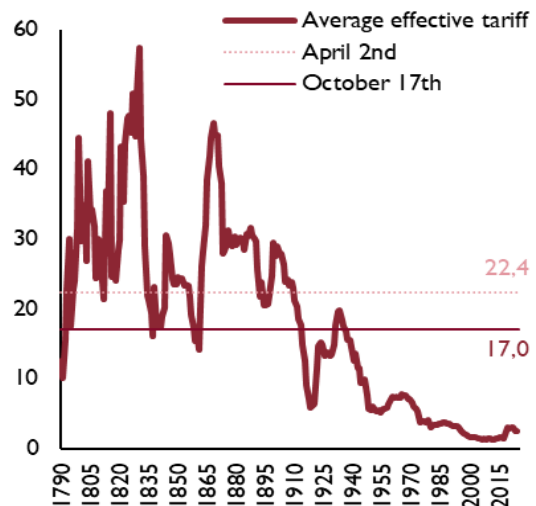


FIGURE 5. AVERAGE EFFECTIVE TARIFF APPLIED BY THE US (TARIFF REVENUE ON IMPORTS OF GOODS, %)



Source: International Monetary Fund and Yale University

Despite the upward revision of global activity and trade in 2025 and 2026, the medium-term outlook is worse. On the one hand, institutions such as the IMF

point out that the factors that have boosted growth in the first half of the year could be temporary, as the United States and other economies have anticipated import increases due to tariff increases. Indeed, the IMF projects a gradual slowdown in growth in the second half of 2025 and until 2030 due to fragmented trade relations, ageing populations and moderate productivity gains in advanced economies.

Recent developments point to slower global trade growth in the coming years.

According to the latest announcements by the Trump Administration, the average effective tariff rate on US imports would hover around 16.4%, compared with an average rate of 2.4% in 2024. This calculation would have fluctuated since the first announcements in early April 2024, but overall, it represents a significant increase in the US effective tariff rate vis-à-vis the rest of the world. In addition, China has announced export restrictions on critical minerals and rare earths, which are essential for industrial development, that could come into effect in November. It has also introduced export restrictions on technology products, affecting European value chains, especially the automotive industry.

Most of the bilateral trade agreements signed by the United States are highly asymmetric, and there is significant uncertainty surrounding the negotiations with China. This is the case with the agreement reached last July between the European Union and the US Administration. Under this agreement, the EU agrees to eliminate tariffs on most US industrial goods and provide greater access for its agricultural products to the European market. In return, the USA imposes a 15% tariff on most European goods, with exemptions for pharmaceuticals, aircraft and aircraft components, cork, and other electronic components. The EU also commits to making certain investments and energy purchases from the US. Furthermore, trade tensions between the USA and China have recently escalated again, with the USA announcing 100% tariffs on goods from China if China does not eliminate quantitative restrictions on the export of rare earths.

3.2.2. Revisions to the National and Quarterly Accounts figures

Another factor that has contributed to improving the growth forecast for the Spanish economy is the regular statistical revision of the National Accounts published in September, which affects both the historical reading and the diagnosis of the Spanish economy (+0.2 pp in 2025). The new National Accounts figures published by the INE entail an upward revision of estimated growth for 2024, with a change in the growth pattern in which the upward revision of investment stands out. This revision attenuates the previous perception of an economy growing on the back of notable contributions from

private consumption and public spending, with a somewhat more balanced growth pattern on the demand side.

The upward revision of investment in intangible and intellectual property assets and other constructions is now more consistent with the materialisation of investment spending associated with the Recovery, Transformation and Resilience Plan (RTRP). These assumptions have amounted to around €8bn in 2023 and around €9.3bn in 2024, according to Eurostat figures. Overall, the weakness of private investment stands out, particularly in capital goods, which may have been affected by the uncertainty of recent years.

FIGURE 6. EVOLUTION OF GROSS FIXED CAPITAL FORMATION

FIGURE 6.A. VOLUME INDEX (INDEX 2019Q4=100)

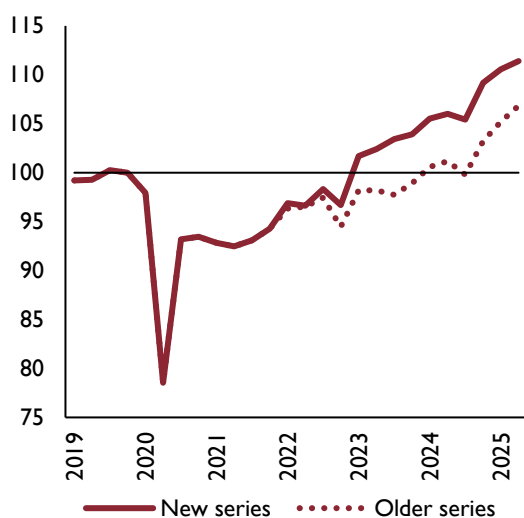
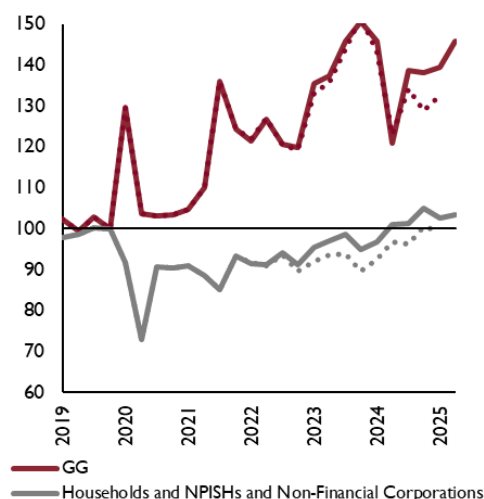


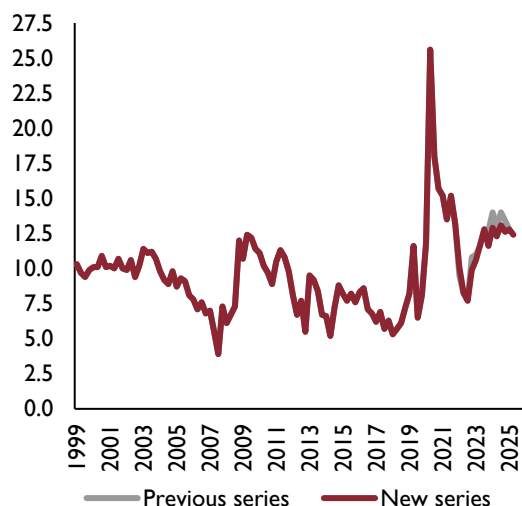
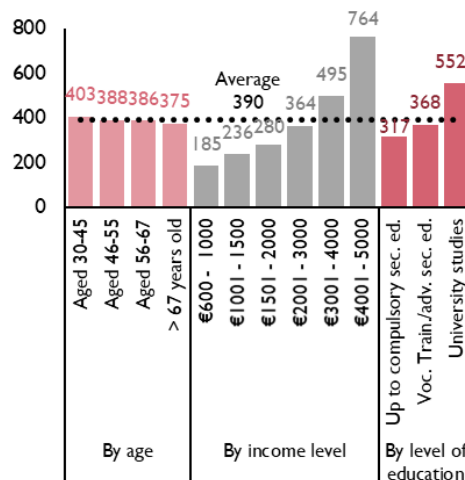
FIGURE 6.B. BREAKDOWN BY INSTITUTIONAL SECTOR. INDEX 2019Q4=100*.



Source: INE

* Deflated by the implicit deflator of gross fixed capital formation

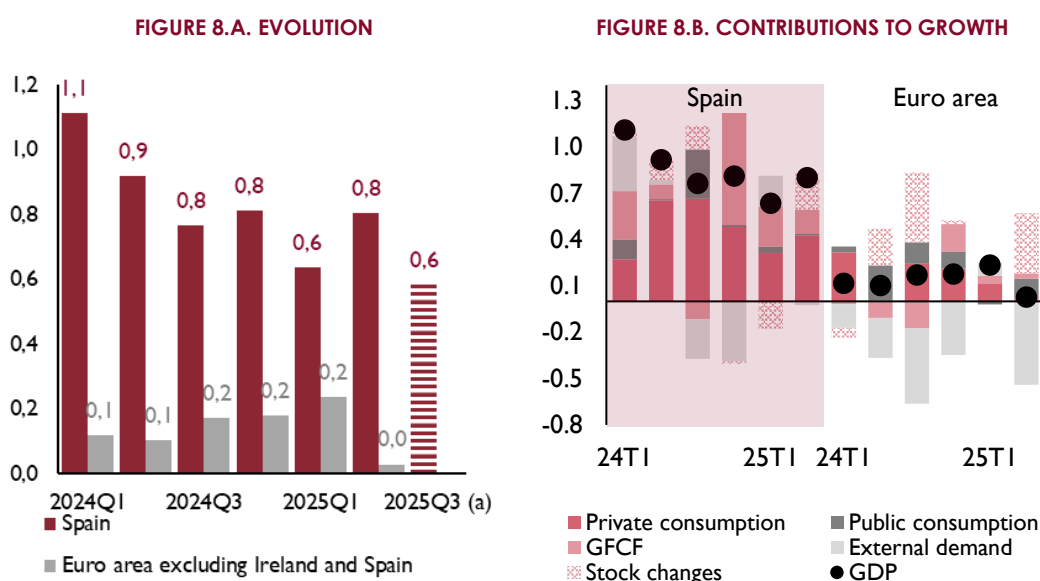
Private consumption, for its part, remains the main driver of growth following the revisions to the annual and quarterly national accounts. The increase in household disposable income, in a context of high job creation, has enabled sustained consumption growth while maintaining historically high savings rates. Since 2023, the household savings rate has been around 13% of disposable income, well above the average of 8.6% recorded between 2000 and 2019. These high savings rates are distributed heterogeneously across individuals by income level, with a marked concentration among the highest-income groups.

FIGURE 7. EVOLUTION OF HOUSEHOLD SAVING
FIGURE 7.A. HOUSEHOLD AND NPISH SAVING RATE (% GROSS DISPOSABLE INCOME)

FIGURE 7.B. AVERAGE MONTHLY HOUSEHOLD SAVINGS BASED ON VARIOUS CHARACTERISTICS


Source: INE and FUNCAS

3.2.3. The strength of the Spanish economy and the factors underlying its differential growth vis-à-vis the euro area

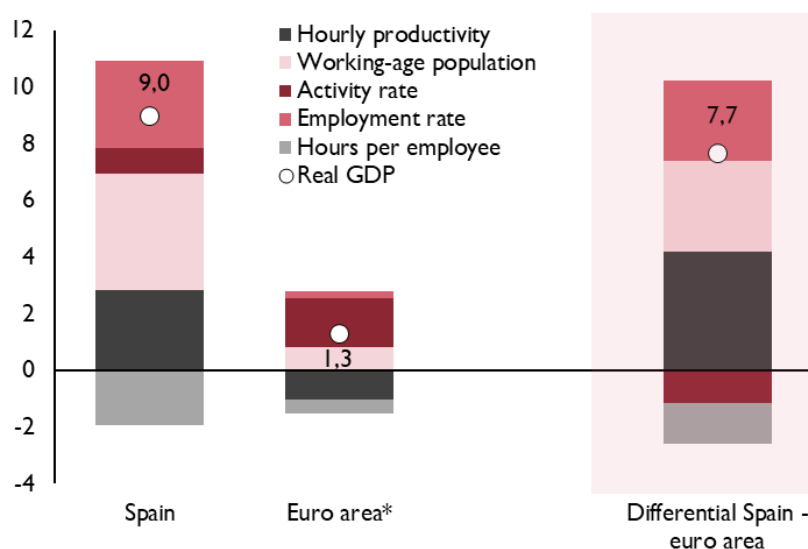
In recent years, the Spanish economy has shown remarkable resilience in the face of shocks, with GDP growth in recent quarters more than triple that of the euro area. From the perspective of the demand components, compared with the euro area, this higher growth is mainly explained by the contribution of private consumption and, to a lesser extent, investment, while the contribution of public consumption after revisions to the National Accounts is not very different from that seen in the euro area. There are various internal and external factors behind this improved performance of the Spanish economy.

FIGURE 8. GDP GROWTH OF SPAIN AND THE REST OF EMU (QUARTER-ON-QUARTER RATE, %)


Source: Eurostat and AIReF

(a) Forecast of the MIPred model

The first element is the demographic boost Spain is experiencing due to immigration and changes in the activity rate. When comparing the real GDP growth observed in Spain between 2022 and 2025, it can be seen that, relative to the EMU, of the 7.7 percentage points of differential growth in Spain, 4.9 pp are explained by the increase in the population aged between 15 and 74 and the increase in employment - both of which are closely linked. The remaining 2.8 pp can be explained by the increase in productivity per hour, given that hours have evolved in a very contained manner relative to the number of people employed.

FIGURE 9. DETERMINANTS OF REAL GDP GROWTH. SUPPLY COMPONENTS (% CHANGE 2022Q2-2025Q2 AND PERCENTAGE POINTS)


Source: Eurostat and AIReF

* Excluding Ireland and Spain

Net immigration flows - close to 600,000 people per annum - provide a notable boost to domestic demand, which is felt both in private consumption - one of the main drivers of growth - and in the performance of the labour market. In the case of consumption, the creation of new households associated with immigration - some 190,000 in the last rolling year, from the third quarter of 2024 to the second quarter of 2025 - puts upward pressure on household spending. However, in per capita terms, private consumption has barely recovered to pre-pandemic levels.

FIGURE 10. IMMIGRATION UNDERPINS PRIVATE CONSUMPTION

FIGURE 10.A. NET FOREIGN IMMIGRATION (THOUSANDS OF PEOPLE)

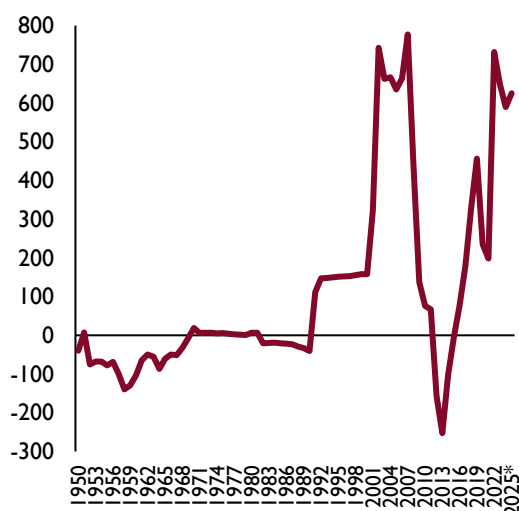
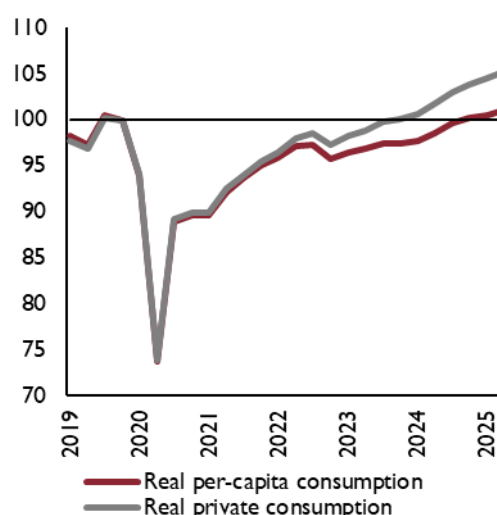


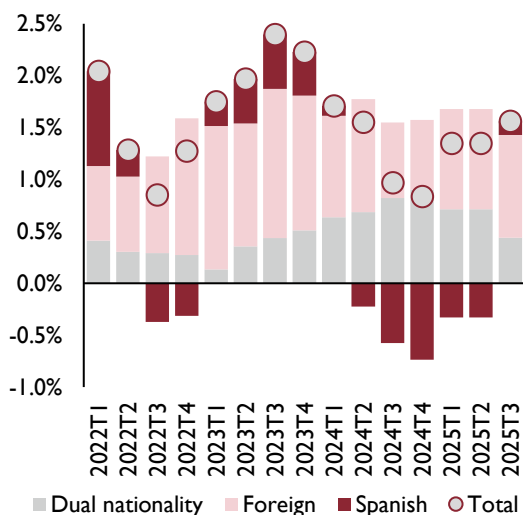
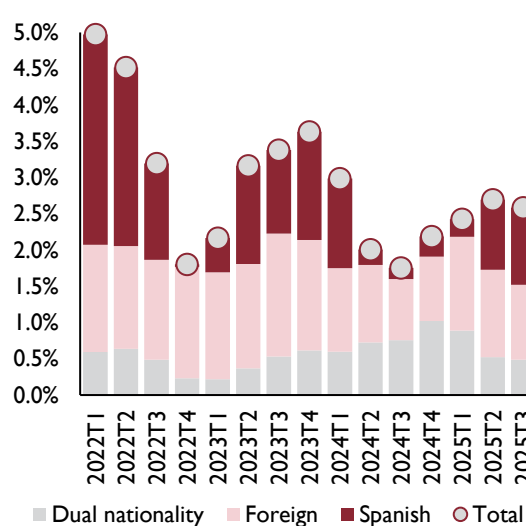
FIGURE 10.B. REAL PRIVATE CONSUMPTION AND REAL CONSUMPTION PER CAPITA (INDEX 2019Q4=100)



Source: INE

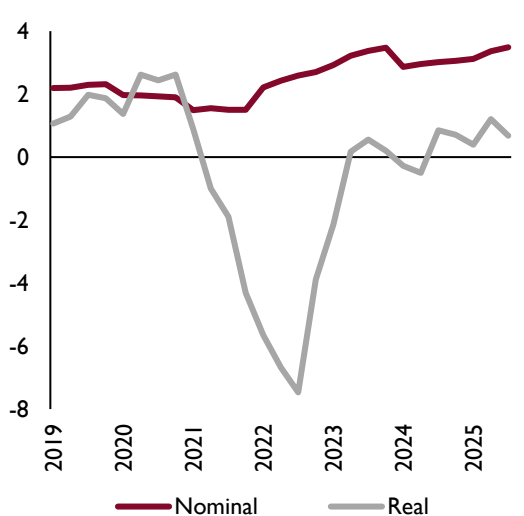
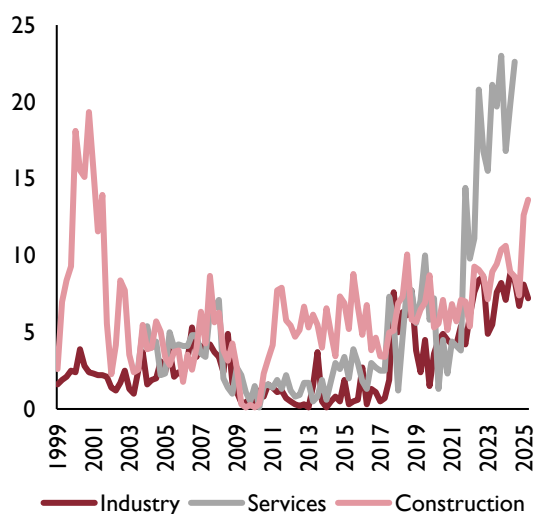
* AIReF forecast

Employment growth is crucially underpinned by immigration. Since 2022, the contribution to labour force growth has been concentrated among dual nationals (+0.5 points on average between 2022 and the first three quarters of 2025) and foreign workers (+1 percentage point on average), with a more moderate contribution from Spanish workers (+0.1 points on average). Similarly, the contributions of dual nationals and foreign workers account for the largest share of total employment growth.

FIGURE 11. EVOLUTION OF THE LABOUR MARKET BY NATIONALITY
FIGURE 11.A. CONTRIBUTIONS TO GROWTH IN LABOUR FORCE BY NATIONALITY (YEAR-ON-YEAR RATE, %)

FIGURE 11.B. CONTRIBUTIONS TO GROWTH IN EMPLOYMENT BY NATIONALITY (YEAR-ON-YEAR RATE, %)


Source: INE

The increase in labour supply has enabled economic growth and reduced unemployment (with the unemployment rate at 10.4% in the third quarter) to coexist with the absence of wage tensions and lower labour shortages in most sectors, compared with other economies. However, in some service sectors and construction, a growing number of companies report difficulties finding workers.

FIGURE 12. CHANGES IN PRICES AND WAGES
FIGURE 12.A. NEGOTIATED WAGES. YEAR-ON-YEAR GROWTH (%)

FIGURE 12.B. LABOUR SHORTAGE AS A FACTOR LIMITING PRODUCTION (%)


Source: INE and European Commission

The increase in the foreign population, together with the recent recovery in total factor productivity, almost entirely explains recent growth. The mechanical decomposition of GDP growth from the supply side reveals that of the 6 percentage points of real GDP growth recorded between 2022 and 2024, 2.3 pp would be explained by the contribution of the foreign and dual nationality population, while the contribution of Spanish workers would be 0.8 pp. Total factor productivity and physical capital accumulation contribute 1.8 pp and 0.8 pp, respectively, in the same period. In other words, the contribution of the foreign and dual nationality population explains more than one third of the growth observed in recent years¹. This mechanical decomposition does not account for the fact that the impact of immigration may flow through different channels, such as productivity. In addition, according to AIReF's quarterly model, a migration shock involving the permanent entry of 500,000 people over ten quarters has a deferred impact on economic activity, reaching a maximum impact of 0.5 pp on the level of GDP in the medium term. This result, together with the observation that net migration flows in 2025 could again be close to 600,000 people, also leads to a revision of the expected growth in 2026.

¹ Using a mechanical decomposition of GDP per capita on the supply side, the Bank of Spain estimated that up to a quarter of the growth observed between 2022 and 2024, i.e. between 0.4 and 0.7 percentage points, could be associated with immigration, without considering possible indirect effects on productivity (see P. Cuadrado & A.V. Regill, 2025). An estimate of the contribution of the foreign population in Spain to GDP per capita growth in the period 2022-2024. Economic Bulletin 2025/T2. Article 10.

FIGURE 13. EFFECT OF POPULATION ON GDP GROWTH

FIGURE 13.A. CONTRIBUTION TO GDP GROWTH OF EMPLOYMENT IN HOURS BY NATIONALITY, CAPITAL AND TFP (% AND PP)

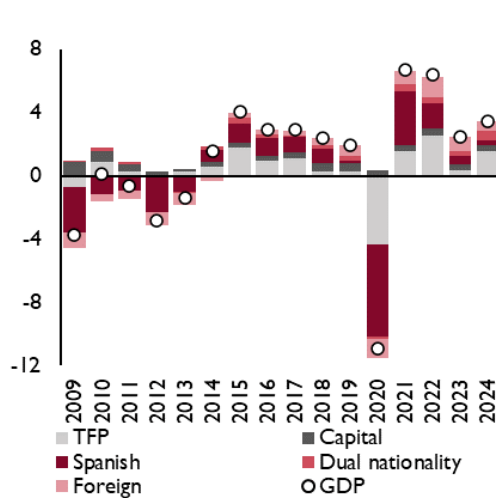
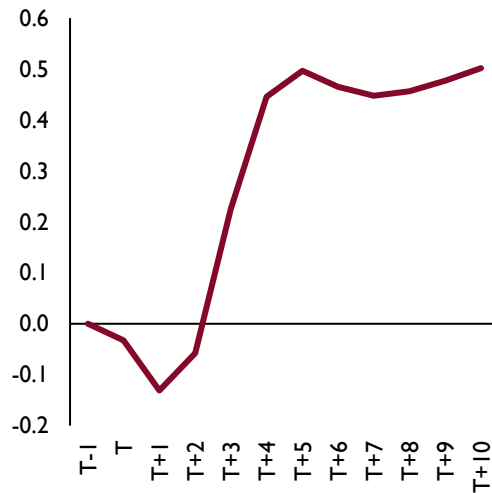


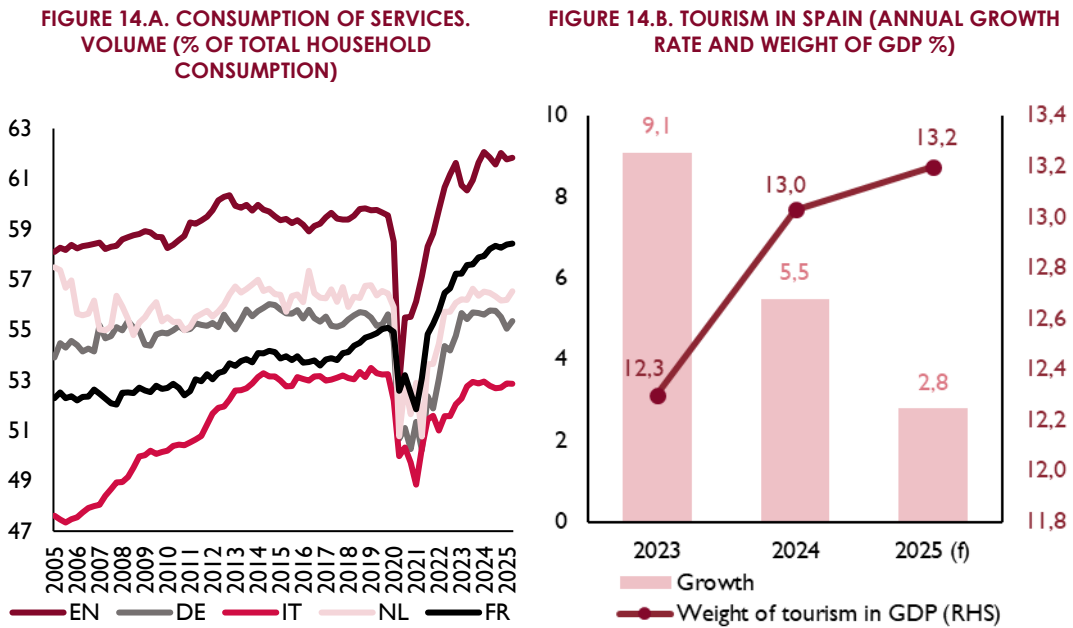
FIGURE 13.B. IMPACT ON GDP OF A NET IMMIGRATION SHOCK (DEVIATION IN LEVEL WITH RESPECT TO THE BASELINE SCENARIO, %)



Source: AIReF, European Commission and INE

The second element that helps explain the differential growth of the Spanish economy is the boost in demand for services, especially tourism, although its dynamism is moderating. In the wake of the pandemic, global spending patterns have shifted towards services at the global level and, in particular, there has been a notable increase in tourist travel, with the United States, China and Germany as the main emitting markets towards safer destinations, away from the conflicts in the Middle East, including Spain. Thus, in Spain, tourism has experienced strong dynamism between 2022 and 2024, with a moderation in 2025: according to Exceltur, tourism growth will slow to 2.8% from 5.5% in 2024. Tourism GDP (considering its direct and indirect effects on activity) currently stands at around 13% of GDP. The cumulative contribution of tourism to growth between 2022 and 2025 would have exceeded 7.3 percentage points (45% of the total).

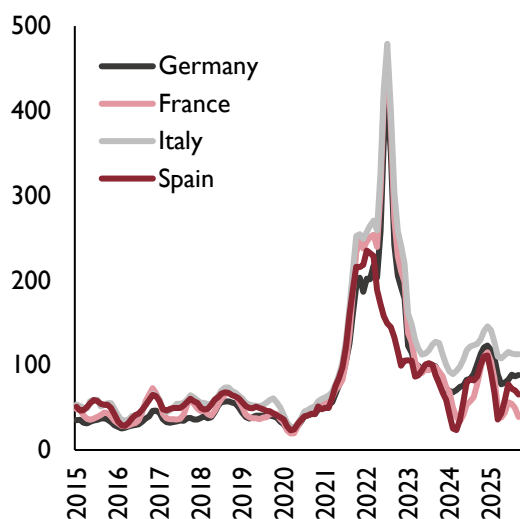
FIGURE 14. EVOLUTION OF THE CONSUMPTION OF SERVICES AND TOURISM IN SPAIN



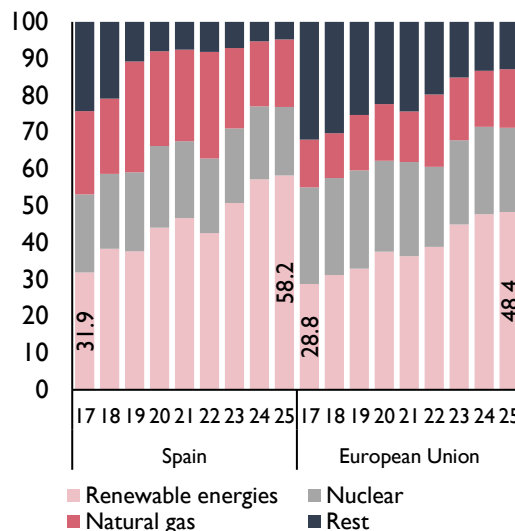
Source: Eurostat, INE and Exceltur

The third element is the lower impact of Russia's war against Ukraine on electricity prices. Historically, Spain had relatively high energy costs and a high dependence on imported hydrocarbons, but less exposure to Russian gas than other European economies, such as Germany. Moreover, Spain's industrial fabric is more geared towards light manufacturing, with sectors such as agri-food, textiles and automotive assembly dominating, and less towards more energy-intensive sectors such as chemicals and heavy metallurgy, as is the case in Germany. In Spain, the most energy-intensive sectors (cement, ceramics, paper) are highly localised in specific regions (Valencia, Aragon, the Basque Country, Asturias) and have a relatively small share of total value added. This results in less exposure to energy costs arising from the Russian war and greater relative competitiveness vis-à-vis other countries that have been more affected by the energy crisis.

The strong increase in renewable generation in Spain, which now exceeds 50% of total generation, has enabled reductions in dependence on gas, lower energy costs, and stronger security of supply. Furthermore, the increase in renewable energy generation capacity has improved relative energy costs compared with countries such as Germany, France and Italy. In Spain, the share of renewable energy has increased steadily, exceeding 50% of total energy by 2024, while natural gas use has decreased. In contrast, the European Union relies more on gas and nuclear energy. This greater development towards renewable generation in Spain has helped to contain relative energy costs and improve security of supply.

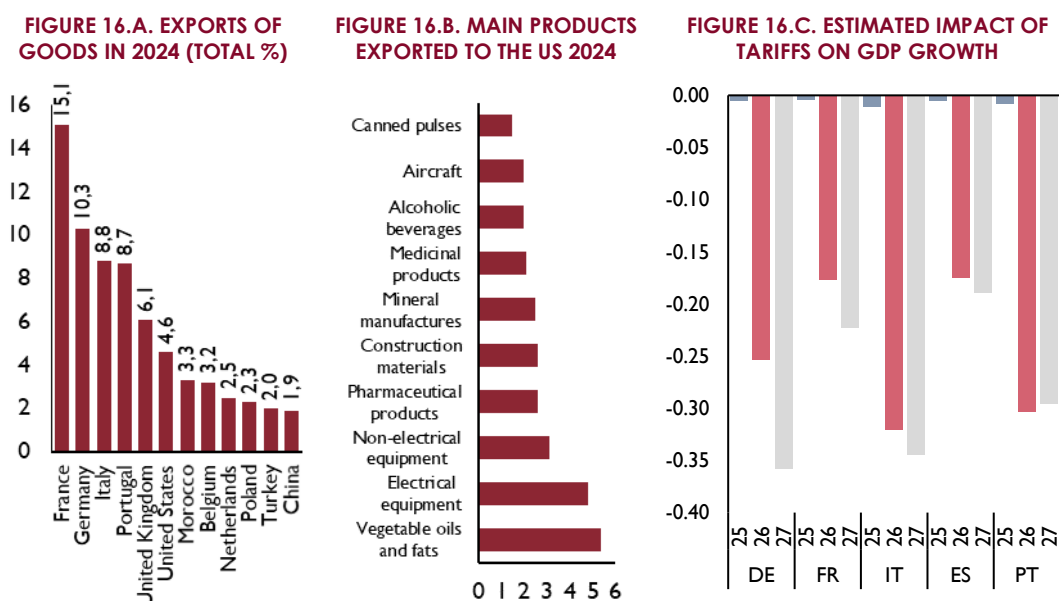
FIGURE 15. ELECTRICITY PRICE AND ENERGY MIX
FIGURE 15.A. ELECTRICITY PRICE (€/KWH)


Source: LSEG

FIGURE 15.B. ELECTRICITY GENERATION MIX IN SPAIN AND THE EUROPEAN UNION (%)


Source: Eurostat

Spain also has a lower export presence in markets affected by tariff hikes and trade tensions. Traditionally, the lower capacity of Spanish exporting firms to expand their sales in distant markets, such as the United States or China, has been highlighted as a structural weakness. However, today, the lower export exposure to the United States also helps explain the differential growth of the Spanish economy. In particular, exports to the USA account for less than 5% of Spain's total exports, whereas they account for 9% of the euro area's total exports; hence the impact on GDP estimated after the trade agreement is lower for the Spanish economy. The main products exported by Spain to the USA are olive oil, electrical appliances and medical and pharmaceutical products.

FIGURE 16. SPAIN'S MAIN FOREIGN MARKETS. GOODS


Source: Eurostat and Oxford Economics

Lastly, the impact of European funds should be considered. Following revisions of the National Accounts, it seems that European funds have been reflected in a certain dynamism of investment in other construction and intangible assets. However, according to the information provided by Eurostat, the implementation of the European funds associated with the Recovery and Resilience Facility (RRF) appears to be significantly delayed until 2024 (in national accounting terms, the estimated impact would amount to some €31.8bn, compared with the €163bn initially planned for Spain) and almost 25% of the resources have been allocated to current spending.

TABLE 9. EVOLUTION OF THE RECOVERY AND RESILIENCE FACILITY (RRF) (MILLION EUROS)

	Total A=B+C+D	Capital expenditure B	Gross capital formation BI	Capital transfers B2	Other capital expenditure B3	Current expenditure C	Other D
2020	50	32	23	9	0	18	0
2021	2.744	2.225	299	1.913	13	519	0
2022	5.774	4.002	1.436	2.557	9	1.767	5
2023	11.131	8.060	3.633	4.401	26	2.969	102
2024	12.122	9.336	4.401	4.887	48	2.604	182
Total	31.821	23.655	9.792	13.767	96	7.877	289
%	19,5*	74,3	41,4	140,6	0,7	24,8	0,9
Total Plan	163.010						

Memorandum item: main recipients % GDP	% of execution over plan	% current expenditure
Croatia	22,2%	19,5%
Greece	21,5%	7,4%
Italy	33,1%	11,5%
Romania	19,0%	11,8%
Portugal	24,6%	24,3%
Poland	6,7%	53,5%

Source: Eurostat

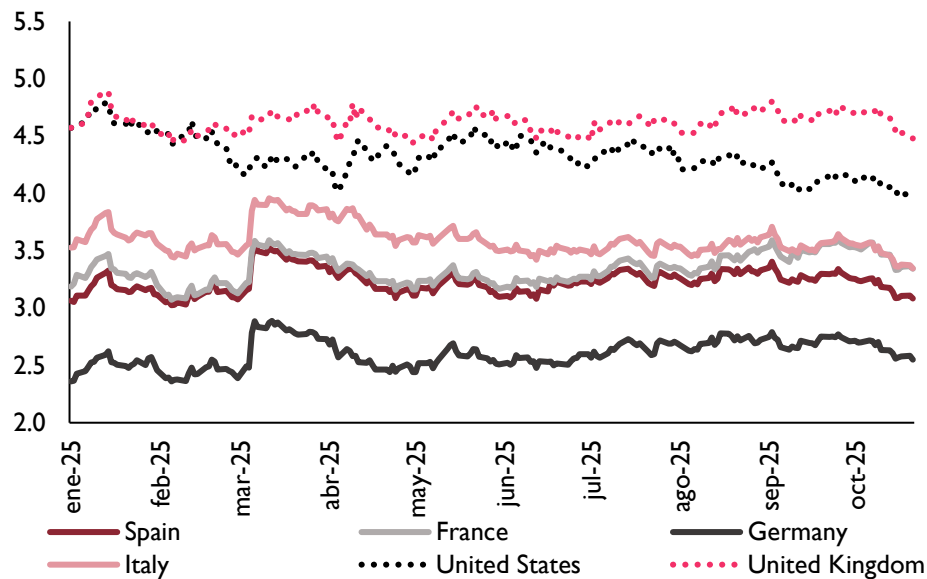
3.2.4. Risk balance

The main source of uncertainty and downside risks remains US economic policy. The recent announcement of tariffs of up to 100% on goods from China and the latter's export restrictions on critical minerals, technology products and rare earths rekindles the risk of a trade war between the two countries, which may affect European supply chains that are highly dependent on these products.

The financial environment also presents risks associated with high financial asset valuations. Prolonged low real interest rates and improving global growth expectations have driven asset prices sharply higher, with stock markets and corporate bonds at historically high levels, especially in the technology segments. Furthermore, gold continues to set new highs as some investors seek safe havens.

In Europe, sovereign debt markets show no signs of stress, despite political instability in France. Legislative paralysis and parliamentary fragmentation in France make it difficult to pass the budget and meet fiscal consolidation commitments. The cost of financing French debt is already equal to that of Italy and both are higher than that of the Spanish economy. Long-term sovereign debt yields show an upward trend since 2024, especially in Germany and France, compared with greater stability in Spain and Italy, although in all cases there has been some moderation in October.

FIGURE 17. 10-YEAR INTEREST RATE (%)



Source: LSEG

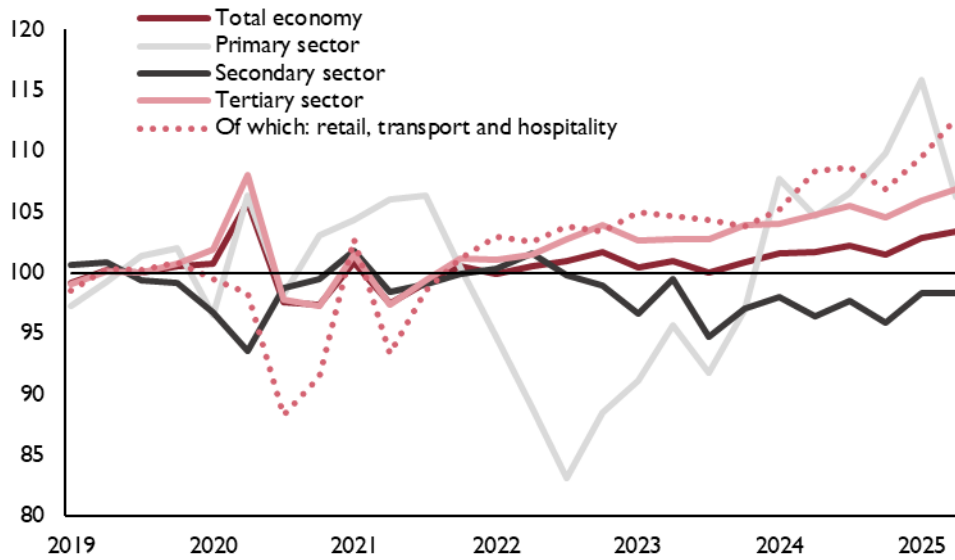
In the case of Spain, the main upside risk is associated with the evolution of the population which, in a context of cyclical expansion and low unemployment rates, could be higher than expected. As mentioned above, AIReF's most recent estimates based on INE statistics suggest that this year net immigration could hover around 600,000 people, while an average net flow of around 290,000 people is considered for the following years. The strong cyclical momentum of the Spanish economy and the labour market's performance could attract a larger number of immigrants than expected. However, the increase in property and rental prices in the cities where immigration is concentrated (Madrid, Barcelona, Valencia) could put a brake on this.

In addition, house prices are rising strongly, driven by a supply shortage and resilient demand. Supply is advancing, but at a pace that remains insufficient: building permits have been reactivated and are expected to drive greater activity, although construction has very long lead times; for its part, subsidised housing is showing year-on-year rises. All in all, the supply shortage relative to demand means that housing prices in nominal terms have already surpassed historic highs, although in real terms they are still at levels similar to those of 2004. In this context, housing affordability is becoming increasingly complex, and households are having to allocate a larger share of their income to house purchases, which could put the brakes on other types of spending.

In the medium term, one of the main downside risks is the evolution of productivity. Productivity gains in recent quarters - measured in terms of GVA per hour - have been relatively modest and highly concentrated in the primary

sectors and within services, in trade, transport and hotels and catering. In contrast, productivity in the industrial sectors remains stagnant.

FIGURE 18. EVOLUTION OF GVA PER HOUR



Source: INE

BOX 1. MEDIUM-TERM MACROECONOMIC OUTLOOK TABLE

In the medium term, growth is projected to decelerate in line with the slowdown in global growth estimated by most international organisations and the exhaustion of the boost from tourism and of the funds associated with the RTRP. In particular, the most recent IMF forecasts anticipate a gradual slowdown in growth and world trade, amid trade fragmentation driven by increased tariffs and export restrictions on critical minerals, rare earths and other products essential for industrial development. Added to this factor is the ageing population and the stagnation of productivity in advanced economies.

AIReF's forecasts also assume a slowdown in immigration over the coming years, in line with the most recent demographic projections. Specifically, these estimates envisage a reduction in net foreign immigration from over 650,000 people per annum in the three years 2022-2024 to more moderate levels of around 580,000 people in 2025 and 300,000 on average between 2026 and 2030 (see Opinion 2/25), and lead to a more moderate rate of growth in private consumption in those years. The high savings rates observed today could underpin consumption growth in the coming years, but it should be borne in mind that the increase in savings has been concentrated among higher-income individuals with a lower propensity to consume. Furthermore, gross capital formation will moderate following the end of the RTRP, although housing investment is projected to remain somewhat more dynamic.

Employment growth will remain in line with real GDP growth, with productivity per employee stagnating in line with recent developments. The expected lower labour force growth will allow the unemployment rate to fall further to 8.6% by 2030.

On the price front, following the increase in the GDP deflator to 2.5% in 2025, inflation is expected to decline to be in line with the 2% monetary policy reference rate. The appreciation of the euro, together with the moderation of energy prices embedded in the external assumptions, will help inflation return to rates close to 2% in the coming years. Moreover, following the rise in real wages in 2025 and 2026, in line with the decline in the unemployment rate, real wages are expected to remain broadly stable in the following years.

From a cyclical perspective, an open and positive output gap of 1.5% of potential GDP in 2025 is estimated to be in line with most institutions. According to the revised National Accounts, the Spanish economy would have resumed the pre-COVID forecast faster than initially projected, leading to a higher potential growth estimate. As of 2026, potential GDP is projected to grow

above observed GDP, helping close the gap. At the end of the period, by 2030, potential GDP is expected to reach around 1.5% growth with a balanced contribution from labour, capital and factor productivity.

TABLE RE_1.1. AIREF'S 2025-2030 MACROECONOMIC OUTLOOK

Year-on-Year Rates of Change	AIReF Jul 2025						
	2024	2025	2026	2027	2028	2029	2030
Private Domestic Final Consumption Expenditure	3,1	3,1	2,2	1,9	1,7	1,6	1,6
General Government Final Consumption Expenditure	2,9	2,3	2,0	1,9	1,9	1,9	1,9
Gross Fixed Capital Formation	3,6	4,5	2,7	1,5	1,3	1,3	1,3
<i>GFCF Equipment and Cultivated Assets</i>	2,1	6,3	2,6	1,6	1,5	1,3	1,2
<i>GFCF Construction and Intellectual Property</i>	4,2	3,9	2,8	1,4	1,2	1,3	1,3
Domestic Demand*	3,3	3,1	2,2	1,7	1,6	1,5	1,5
Exports of Goods and Services	3,2	3,8	2,3	2,4	2,4	2,2	2,2
Imports of Goods and Services	2,9	4,5	2,8	2,8	2,6	2,3	2,4
External Balance*	0,2	-0,1	-0,1	0,0	0,0	0,0	0,0
Gross Domestic Product	3,5	3,0	2,1	1,7	1,6	1,5	1,5
Nominal Gross Domestic Product	6,4	5,6	4,4	3,9	3,7	3,6	3,6
Gross Domestic Product Deflator	2,9	2,5	2,2	2,2	2,1	2,1	2,0
CPI	2,8	2,6	1,9	2,0	2,0	2,0	2,0
Full-Time Equivalent Employment	2,8	3,1	2,2	1,7	1,5	1,5	1,5
Hours Actually Worked	2,2	1,5	2,2	1,7	1,5	1,5	1,5
Unit Labour Cost**	3,3	3,7	2,8	2,2	2,1	2,0	2,0
<i>Productivity per Full-Time Employee **</i>	0,6	-0,1	0,0	0,0	0,0	0,0	0,0
<i>Compensation per Employee**</i>	4,0	3,6	2,7	2,2	2,1	2,0	2,0
Unemployment Rate (% of Labour Force)	11,3	10,5	10,2	10,0	9,6	9,1	8,6
Household and NPISH Saving Rate (% of GDI)	12,8	11,9	11,0	10,8	10,6	10,3	10,1

Source: AIReF

* Contribution to GDP growth

** In terms of full-time equivalent employment

On the basis of the projections for the Spanish economy as a whole, the following table presents medium-term estimates for the growth of the ARs.

TABLE RE_1.2. MACROECONOMIC SCENARIO 2025-2030 FOR THE AUTONOMOUS REGIONS

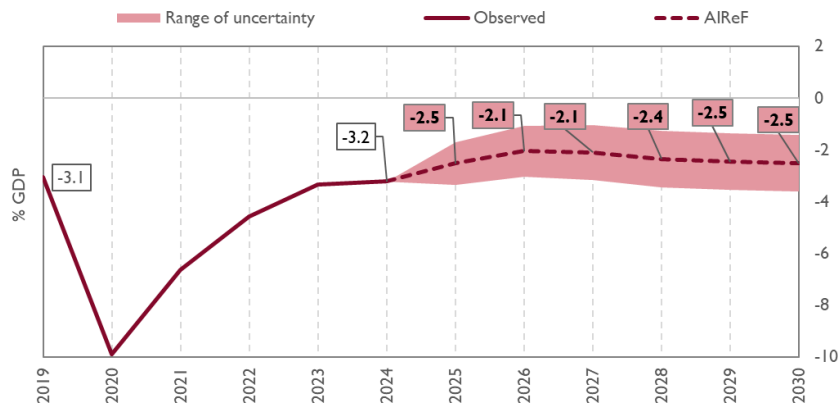
	Regional Accounts			Macroeconomic Scenario 2025-2030					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Andalusia	5.2	2.2	3.4	3.1	2.2	1.7	1.6	1.6	1.6
Aragon	3.6	1.2	3.3	2.8	2.0	1.5	1.4	1.4	1.4
Asturias	4.8	1.5	3.1	2.7	1.8	1.3	1.1	1.2	1.1
Balearic Islands	16.1	3.6	4.2	3.5	2.4	1.7	1.7	1.7	1.7
Canary Islands	12.6	3.6	4.4	3.4	2.3	1.7	1.6	1.6	1.6
Cantabria	4.7	1.6	2.3	2.7	1.9	1.4	1.2	1.2	1.2
Castile and Leon	4.0	1.2	3.1	2.8	2.0	1.5	1.4	1.4	1.3
Castile-La Mancha	3.2	0.6	3.7	3.0	2.0	1.6	1.5	1.5	1.5
Catalonia	6.4	3.0	3.6	3.1	2.2	1.7	1.6	1.5	1.6
Valencia	5.5	2.5	3.4	3.1	2.2	1.7	1.5	1.5	1.5
Extremadura	2.2	1.9	3.0	2.6	1.8	1.4	1.4	1.4	1.4
Galicia	5.4	2.3	3.0	2.6	1.9	1.5	1.5	1.4	1.4
Madrid	8.2	3.5	3.6	3.1	2.3	1.8	1.7	1.7	1.6
Murcia	4.1	0.6	4.5	3.2	2.2	1.8	1.6	1.6	1.6
Navarre	5.4	1.1	3.3	2.8	2.0	1.6	1.6	1.6	1.6
Basque Country	6.5	1.4	2.8	2.7	1.9	1.4	1.3	1.3	1.3
Rioja	5.6	2.5	3.1	3.1	2.2	1.8	1.7	1.6	1.6
Spain	6.4	2.5	3.5	3.0	2.1	1.7	1.6	1.5	1.5

Source: AIReF

4. ANALYSIS OF THE BUDGETARY SCENARIO 2025-2030

AIReF estimates a reduction in the deficit to 2% of GDP by 2026 for the General Government Sector and an upward path thereafter to reach 2.5% of GDP in 2030. This implies an improvement in the GG deficit in 2025 of 0.7 points to 2.5% of GDP and a further reduction of almost 0.5 points in 2026. Thereafter, the fiscal balance starts an upward path to end at 2.5% in 2030. Excluding DANA-related measures, the deficit is reduced to 2.2% in 2025. AIReF's forecasts incorporate the end of the measures to combat the energy crisis and price rises and the measures approved to mitigate the impact of the DANA, as well as all the measures approved to date and the information available on possible one-off spending in the period.

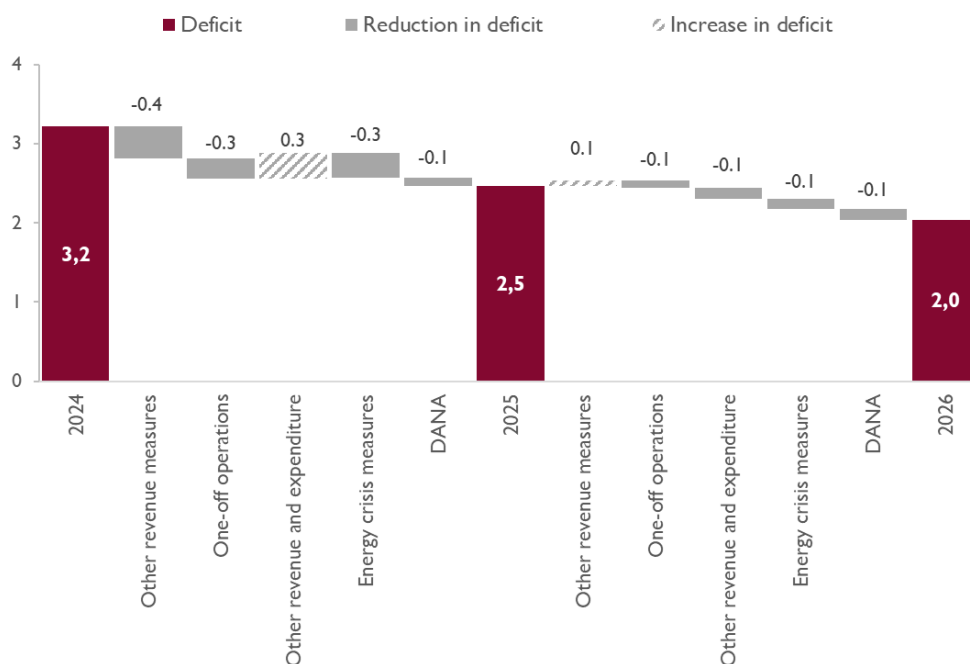
FIGURE 19. EVOLUTION OF THE NET LENDING/BORROWING OF THE GG (% GDP)



Source: IGAE and AIReF

The reduction in the deficit in 2025 and 2026 is mainly based on the lower cost of the measures and expected one-off spending. Between 2024 and 2025, the revenue measures, the reduction in the cost of one-off operations and the withdrawal of the measures to alleviate the energy crisis each reduce the deficit by between 0.3 and 0.4 points. In the same vein, the reduction in the cost of the measures to mitigate the effects of the DANA will improve the deficit by an additional 0.1 points. Conversely, the evolution of other expenditure and revenue worsens the deficit by about 0.3 points. In 2026, the decrease in the cost of one-off operations, the complete withdrawal of the measures to mitigate the energy crisis and the reduction in DANA-related spending will reduce the deficit by 0.3 points, an effect partially offset by the decrease in other revenue measures. The rest of the improvement is due to the evolution of other expenditure and revenue.

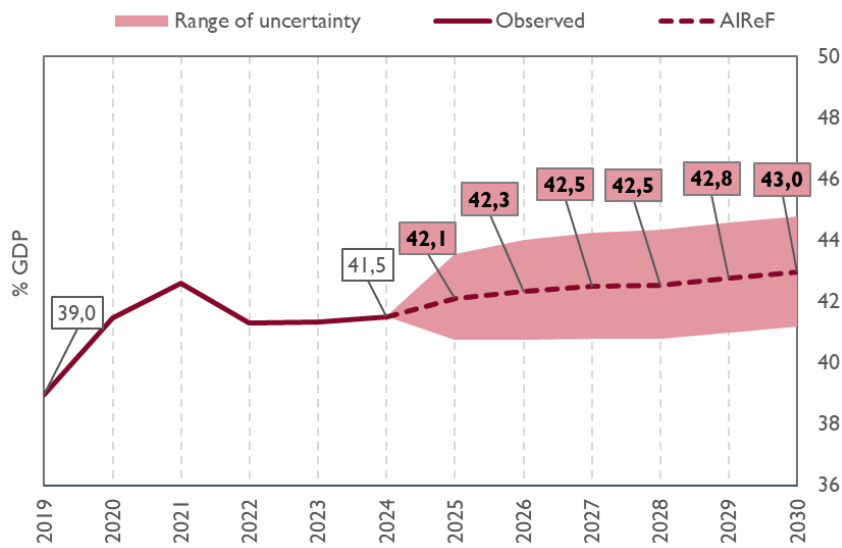
FIGURE 20. EVOLUTION OF DEFICIT BY COMPONENT (% GDP)



Source: IGAE and AIReF

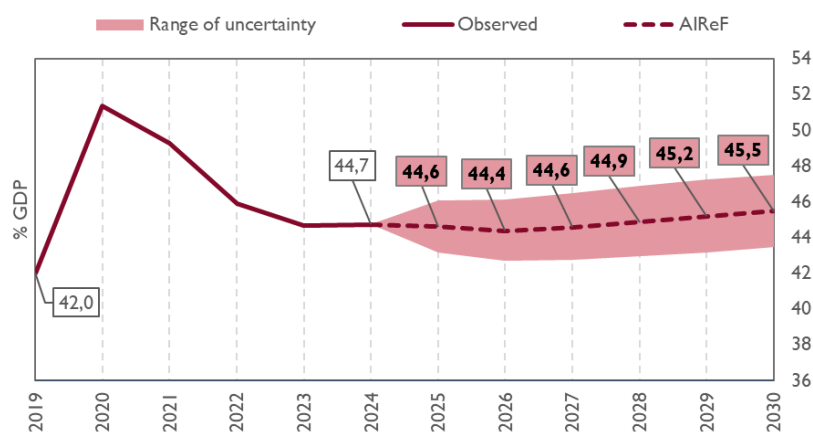
AIReF forecasts that the revenue-to-GDP ratio, excluding the RTRP, will increase by 1.5 points, from 41.5% in 2024 to 43% in 2030. AIReF considers that in 2025, revenue will increase by 0.6 points. There are several reasons for this increase. First, the dynamism of the labour market is reflected in the collection of income taxes and social contributions. Second, the withdrawal of measures to alleviate the energy crisis is causing indirect tax collection to return to previous levels. Since then, a growth rate of between 0.1 and 0.2 points per annum has been maintained, mainly due to the dynamism of income taxes.

FIGURE 21. EVOLUTION OF REVENUE WITHOUT RTRP GG (% GDP)



Source: IGAE and AIReF

AIReF forecasts that the weight of expenditure over GDP, excluding the RTRP, will fall in 2025 and 2026 by almost 0.2 points each year and then rise again to 45.5% by 2030, almost 0.8 points above the 2024 level. AIReF considers that, between 2024 and 2026, the weight of expenditure will fall by nearly 0.2 points each year, mainly driven by the phasing out of the measures to mitigate the effects of the DANA and by the reduction in the expected cost of court rulings. However, as of 2027, the high level of public debt, the progressive ageing of the population and defence policy commitments put upward pressure, respectively, on spending on interest, cash social transfers and gross capital formation. These factors push up the weight of expenditure by almost 0.9 points to 45.5% of GDP by 2030.

FIGURE 22. EVOLUTION OF EXPENDITURE WITHOUT RTRP GG (% GDP)


Source: IGAE, Budgetary Plan and AIReF estimate

TABLE 10. EVOLUTION OF REVENUE AND EXPENDITURE WITHOUT RTRP (% GDP)

	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
REVENUE	41.5	42.1	42.3	42.5	42.5	42.8	43.0
EXPENDITURE	44.7	44.6	44.4	44.6	44.9	45.2	45.5
BALANCE	-3.2	-2.5	-2.0	-2.1	-2.3	-2.4	-2.5

Source: IGAE and AIReF

TABLE 11. EVOLUTION OF REVENUE AND EXPENDITURE WITH RTRP (% GDP)

	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
REVENUE	42.3	43.0	43.2	43.0	42.8	42.9	43.0
EXPENDITURE	45.5	45.5	45.3	45.1	45.1	45.3	45.5
BALANCE	-3.2	-2.5	-2.0	-2.1	-2.3	-2.4	-2.5

Source: IGAE and AIReF

4.1. Evolution of General Government revenue

AIReF projects an increase in the weight of revenue as a percentage of GDP of 0.6 points in 2025 and an increase of almost an additional 1 point in the rest of the period up to 2030, reaching 43% of GDP. AIReF's forecasts assume a baseline scenario without incorporating new revenue measures. The strong boost forecast for 2025 comes from high tax collection from direct taxation, especially PIT, and from social contributions, as well as from the withdrawal of measures affecting indirect taxes. AIReF forecasts an upward path for revenue over the rest of the period, with a slight stagnation in 2028 due to the

withdrawal of the tax on the interest margin and commissions of certain financial institutions. From then on, a growth rate similar to that of the initial period is resumed, thanks once again to the dynamism of direct taxation. While income taxes and social contributions will continue to increase their weight of GDP until 2030, taxes on products and other revenue will reduce their weight.

TABLE 12. EVOLUTION OF GG REVENUE WITHOUT RTRP (% GDP)

	AIReF						
	2024	2025	2026	2027	2028	2029	2030
Revenue	41.5	42.1	42.3	42.5	42.5	42.8	43.0
TAX REVENUE	23.9	24.6	24.9	25.0	25.1	25.3	25.5
On production and imports	11.1	11.2	11.1	11.1	11.0	11.0	10.9
<i>Value-added taxes (VAT)</i>	6.4	6.7	6.7	6.7	6.7	6.7	6.7
<i>Taxes on products (STs, TATDLA...)</i>	2.9	3.1	3.0	3.0	3.0	2.9	2.9
<i>Other taxes on production (Property Tax...)</i>	1.7	1.5	1.4	1.4	1.4	1.4	1.4
On income	12.5	13.0	13.4	13.6	13.7	14.0	14.3
<i>PIT (including NRIT natural persons)</i>	9.1	9.6	9.8	10.0	10.2	10.4	10.7
<i>Corporate Inc. Tax (including NRIT legal persons)</i>	2.9	3.0	3.1	3.1	3.1	3.2	3.2
<i>Other current taxes</i>	0.4	0.4	0.5	0.5	0.4	0.4	0.4
Capital	0.4	0.3	0.3	0.3	0.3	0.3	0.3
CONTRIBUTIONS:	13.2	13.3	13.4	13.4	13.4	13.4	13.4
OTHER REVENUE	4.4	4.2	4.1	4.0	4.0	4.0	4.0

Source: IGAE and AIReF

4.1.1. Taxes on production and imports

AIReF forecasts that indirect taxation will reduce its weight of GDP by 0.2 points between 2024 and 2030. In 2025, VAT collection will increase by 0.3 points of GDP, linked to the full restoration of rates, after three years of tax cuts to alleviate the effects of the energy crisis and price rises. Furthermore, the Special Tax on Electricity and the Tax on the Value of Electricity Production (IVPEE) are fully restored, which translates into 0.2 points more tax collection in the tax on products heading. However, these gains are almost entirely offset by the contraction in other taxes on production, due to the withdrawal of the temporary energy tax. In the remainder of the forecast horizon, indirect taxation loses 0.3 points of GDP to 10.9%, due to the secular decline in the weight of GDP of special taxes and taxes on pollution and public rates and prices. For its part, VAT maintains its weight at 6.7% as private consumption evolves in line with nominal GDP.

4.1.2. Taxes on income and wealth

AIReF forecasts that the weight of income taxes as a percentage of GDP will grow significantly in 2025, up by 0.5 points of GDP, to reach 13% and then

continue rising to close 2030 at 14.3%. The substantial increase in 2025 is explained by PIT, which gains 0.5 points in GDP weight thanks to buoyant data from the 2024 income campaign and the dynamism of withholdings on labour and capital. To a lesser extent, it is also due to Corporate Income Tax (CIT), which increases by 0.1 points thanks to the reestablishment of both the limits on offsetting tax losses and those established by RDL 3/2016. As of 2025, PIT grows steadily over the forecast horizon, while CIT stagnates somewhat between 2026 and 2028, coinciding with the entry into force of the reduction in rates for micro-companies and small companies, a measure adopted in Law 7/2024 (see section on measures). The heading for other current taxes experiences a 0.1-point loss in 2028 due to the withdrawal of the tax on margins and interest applied to financial institutions.

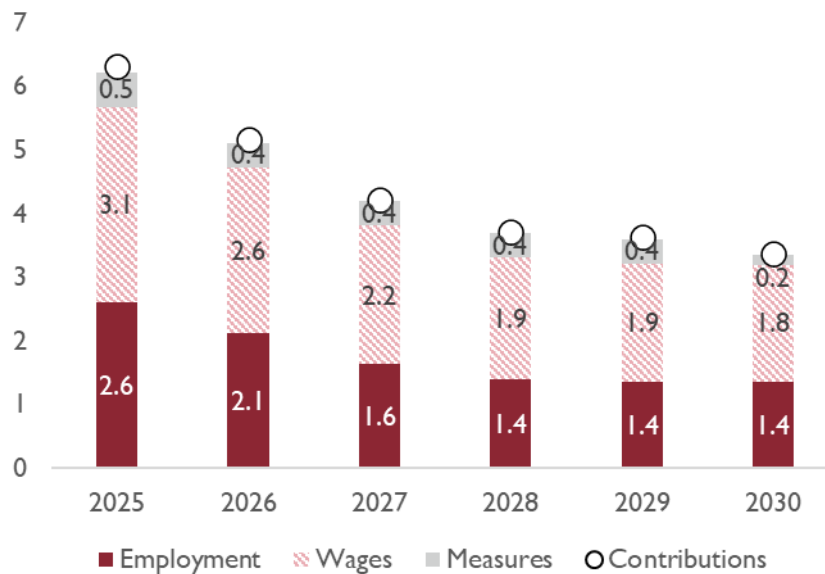
4.1.3. Capital taxes

AIReF's forecasts project a loss of almost 0.1 points of GDP from capital taxes between 2024 and 2030, ending the period at 0.3%. This heading - which includes Inheritance and Gift Tax and Wealth Tax - shows stable evolution, but with lower growth than nominal GDP; hence, it will lose weight in terms of GDP at the end of the forecast horizon, explained in part by the measures adopted by the ARs.

4.1.4. Social contributions

AIReF forecasts that GG social contributions will increase their weight of GDP by 0.1 points in 2025 and by a further 0.1 points in 2026, stabilising thereafter at 13.4% of GDP. This increase is due to the evolution of social contributions, which increase their weight of GDP by 0.2 points in 2025 - from 12.5% to 12.7% - by 0.1 points in 2026 - to 12.8% - and by 0.1 points in 2027, after which they remain at 12.9% of GDP. The increase in weight is mainly explained by the dynamism of the labour market and the revenue measures associated with the pension reform. Conversely, imputed social contributions of the Central Government decline in their weight of GDP over the entire forecast horizon - and even fall in nominal terms - as a result of the progressive phasing out of the State civil servants' pension scheme. In nominal terms, GG social contributions are projected to increase by 6.3% in 2025, after which the growth rate gradually moderates to 3.4% by 2030.

The evolution of wages, and to a lesser extent, of employment, explains the growth in social contributions. In addition, the gradual rollout of the Intergenerational Equity Mechanism and the additional Solidarity Contribution add around 0.4 percentage points to growth each year.

FIGURE 23. BREAKDOWN OF GROWTH IN SOCIAL CONTRIBUTIONS (% CHANGE)


Source: AIReF

4.1.5. Other revenue

AIReF estimates that other revenue, excluding the RTRP, will reduce its weight of GDP by 0.4 points in the medium term, ending 2030 at 4%. In the current year, the heading is expected to shrink by 0.2 points of GDP, mainly due to lower revenue from traditional European funds. Between 2026 and 2027, this heading, which includes interest, CIT, current international cooperation and investment aid, among others, loses an additional 0.2 points, and remains unchanged until 2030 at 4% of GDP.

4.2. Evolution of General Government expenditure

AIReF estimates that GG expenditure excluding the RTRP will follow a downward path in terms of its weight of GDP until 2026, before growing at a higher rate than GDP until 2030. Until 2026, public consumption, subsidies and other expenditure are expected to fall as a proportion of GDP. This initial reduction would offset the estimated increase in other items, such as interest spending, gross capital formation and cash benefits. As of 2027, the stabilisation of public consumption and subsidies would limit the offsetting effect, while upward-trending items, especially pensions, interest and defence investment, would continue to grow. As a result, total expenditure is expected to pick up gradually in the second part of the period.

TABLE 13. EVOLUTION OF GG EXPENDITURE WITHOUT RTRP (% GDP)

EXPENDITURE	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
	44.7	44.6	44.4	44.6	44.9	45.2	45.5
Compensation of employees	10.8	10.7	10.6	10.5	10.5	10.5	10.5
Intermediate consumption	5.5	5.6	5.5	5.6	5.6	5.7	5.7
Social transfers in kind via market	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Social benefits in cash	16.9	17.0	17.1	17.2	17.3	17.3	17.4
Interest	2.4	2.4	2.5	2.6	2.7	2.8	2.9
Gross capital formation	2.4	2.5	2.7	2.8	2.9	3.0	3.1
Subsidies and other expenditure	4.0	3.7	3.4	3.3	3.3	3.3	3.2

Source: IGAE and AIReF

4.2.1. Main components of public consumption

AIReF forecasts that the main components of public consumption will begin to decline slightly between 2024 and 2026, subsequently remaining stable at around 18.7% of GDP and rising slightly to 18.8% as of 2029. Specifically, after a decline of 0.3 points of GDP between 2024 and 2026, public consumption is projected to remain stable at 18.7% until 2028 and to increase by 0.1 points in 2029, a level that will be maintained until the end of the period. From the perspective of its main components, this initial reduction would be explained by a lower contribution of spending on compensation of employees, offset towards the end of the period by a greater weight of intermediate consumption, while social transfers in kind will remain stable throughout the period.

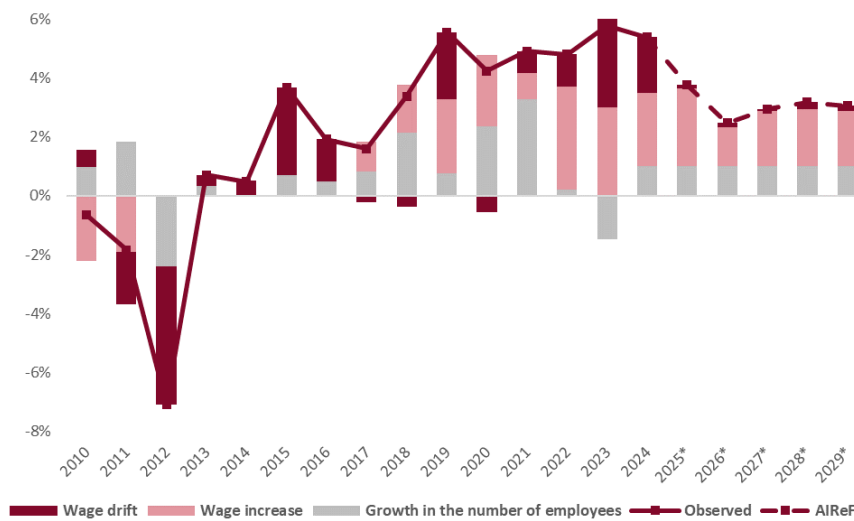
4.2.1.1 Compensation of employees

AIReF forecasts that the compensation of employees will fall by 0.3 points between 2024 and 2027, remaining at that level until 2030. The trend will be downward in the first three years with growth below the projections for nominal GDP, falling from 10.8% of GDP in 2024 to 10.5% of GDP in 2027 and then sustaining its stable weight of GDP in the last three years of the period.

AIReF considers in its forecasts that the revaluation of public sector wages will take place in line with the CPI throughout the entire period, including 2025. After the finalisation of the salary increase agreed in 2022 by the Civil Service General Negotiating Committee for the period 2022-2024, the last effect of that pay rise is recorded in 2025, due to the cumulative change in the Harmonised Index of Consumer Prices (HICP) between 2022 and 2024, compliance with which was confirmed on January 15th, 2025. Furthermore, in 2025, a salary increase is incorporated in line with the CPI and the increase in

spending associated with the Security and Defence Plan, the implementation of which will be extended to the following years. For the rest of the period, and in the absence of specific pay agreements, the rate of CPI increase estimated by AIReF at around 2% on average as of 2026 is taken as a reference. Furthermore, a 1% increase is estimated to result from increased staff numbers and a positive wage drift.

FIGURE 24. BREAKDOWN OF THE GROWTH IN COMPENSATION OF PUBLIC EMPLOYEES (% CHANGE)



Source: INE, IGAE and AIReF

4.2.1.2 Intermediate consumption and social benefits in kind

AIReF estimates that intermediate consumption will show small fluctuations of around 5.6% of GDP, reaching 5.7% at the end of the period, while social benefits in kind will remain constant at 2.6% of GDP in the medium term. According to AIReF's estimate, spending on intermediate consumption will show small fluctuations of around 5.6% of GDP such that, after a slight decline in 2026, it is expected to gradually recover to 5.7% in the last two years of the period. This increase would be mainly concentrated in the CG, linked to higher defence expenditure and, in 2027, to higher spending associated with the regular electoral calendar. Social transfers in kind will grow in line with GDP, maintaining a stable weight of 2.6% over the entire period.

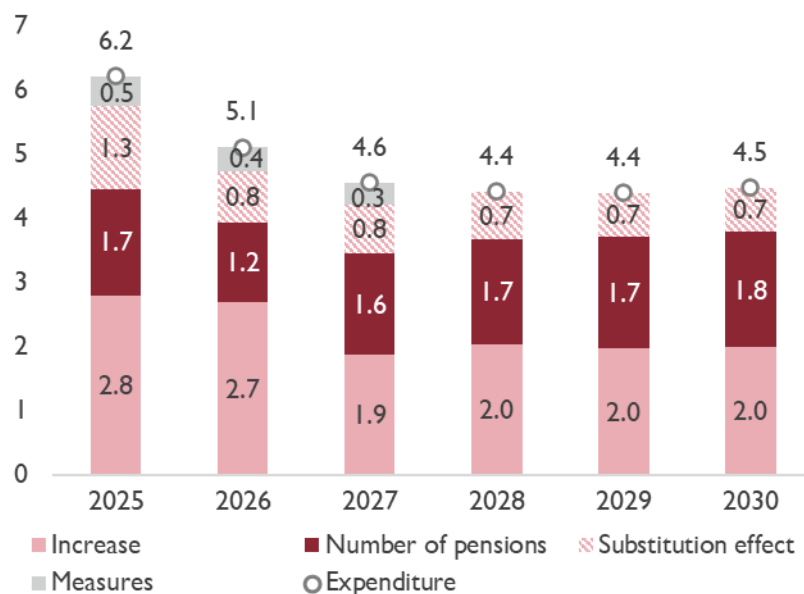
4.2.2. Social benefits in cash

AIReF forecasts that social benefits in cash will gradually increase their weight of GDP from 16.9% in 2024 to 17.4% in 2030. The increase forecast for 2025 - 0.2 points of GDP - is due to the greater weight of the main items, with an increase

led by spending on temporary disability benefits and pensions, followed by maternity, paternity and risk during pregnancy benefits, the Minimum Income Scheme and unemployment benefits. As of 2025, the weight of cash social transfers continues to increase more moderately but steadily until the end of the forecast horizon. This evolution is mainly due to the increase in spending on pensions and, to a lesser extent, the rise in spending on temporary disability benefits, partially offset by some moderation in the weight of spending on unemployment benefits.

AIReF estimates that Social Security spending on pensions will moderate its growth from 6.2% in 2025 to 4.5% in 2030. The evolution of spending on pensions is explained by the annual revaluation, the increase in the number of pensions, the replacement effect and the measures approved. AIReF estimates the increase in the number of pensions and the substitution effect under the projection model for spending on pensions and considers that the increase will be in line with the CPI of the previous year, as provided for in Law 21/2021. In addition, the increase in pensions with a minimum supplement and non-contributory pensions provided for in RDL 2/2023 between 2024 and 2027 to reach the poverty line is included as a measure. It also incorporates the increase in the average pension due to men's access to the paternity supplement, as well as the gender gap. The slowdown in pension spending growth is explained by lower inflationary pressures and the estimated reduction in the substitution effect, which are partially offset by the projected increase in the number of pensioners.

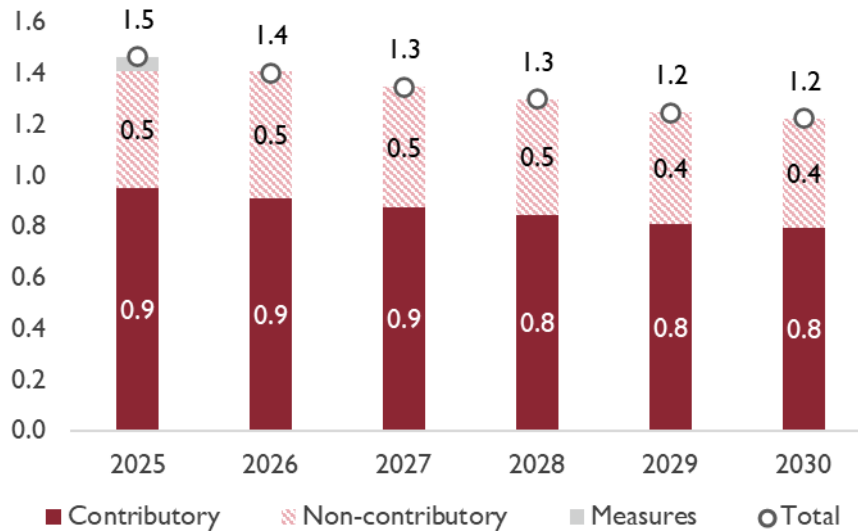
FIGURE 25. GROWTH IN SOCIAL SECURITY PENSION EXPENDITURE (% CHANGE)



Source: AIReF

The weight of unemployment benefits in GDP moderates from 1.5% in 2025 to 1.2% in 2030. The item's weight is reduced over the entire forecast horizon due to expected moderation in the unemployment rate and the overall dynamism of the labour market. The measures include the reform of the welfare level of unemployment benefits contained in Royal Decree-Law 2/2024.

FIGURE 26. EVOLUTION OF UNEMPLOYMENT EXPENDITURE (% GDP)



Source: AIReF

The rest of the benefits included in cash social transfers increase their weight of GDP from 3.9% in 2024 to 4.2% in 2030. This increase is mainly due to higher spending on temporary disability benefits and, to a lesser extent, to a moderate increase in spending on pensions for State civil servants.

4.2.3. Interest

AIReF forecasts a progressive increase in interest spending of around 0.1 points of GDP over the whole period, reaching 2.9% of GDP by 2030. Although the forecasts for primary balances and economic growth over the forecast period allow the reduction to continue, the weight of debt as a percentage of GDP will remain high and interest spending will continue to be maintained. Furthermore, the expected evolution of interest rates implies a progressive increase in the average cost of debt. However, the moderation of inflationary pressures has allowed interest rates to fall, resulting in a lowering of interest spending forecasts.

4.2.4. Gross capital formation

AIReF forecasts that gross capital formation excluding the RTRP will show sustained growth in the medium term, rising from 2.4% of GDP in 2024 to 3.1% in 2030. AIReF estimates that this increase will take place progressively, with annual increases of 0.1 or 0.2 points of GDP until it reaches 3.1% at the end of the period. This evolution reflects the upward trend in CG investment, driven by the increase in defence expenditure associated with the budgetary increases of previous years and the Industrial and Technological Plan for Security and Defence, especially due to rising military payments over the period. To this must be added the territorial investments planned for 2025 associated with the DANA, particularly in Valencia and the affected LGs.

4.2.5. Subsidies and other expenditure

AIReF expects subsidies and other expenditure to follow a slight downward trend in the first part of the period, falling from 4% of GDP in 2024 to 3.3% in 2027, and thereafter to remain stable at around that level, dropping by a further 0.1 points in 2030. In 2025, expenditure is reduced mainly due to the lower impact of court rulings, following the exceptionally high level in 2024, and the end of anti-crisis measures implemented to mitigate price increases. However, this decrease is partially offset by several factors of the opposite sign: (i) the increase in subsidies, investment aid and capital transfers to those affected by the DANA ; (ii) the increase in spending on CG subsidies stemming from the recovery of the Tax on the Value of Electricity Production (IVPEE), which, although neutral for the deficit, is channelled as a subsidy to the CNMC to finance the costs of the electricity system; and (iii) the impact of the court ruling on the SSF supplement for men, which temporarily raises capital transfers in this sub-sector. In 2026, spending on subsidies and other transfers falls again, driven by the phasing out of the effect of the SSF court ruling and the reduction in DANA-related support. As of 2027, and for the remainder of the period, spending is projected to grow moderately, in line with GDP.

BOX 2. PROJECTED EXPENDITURE IN 2025-2030

The Government approved the Industrial and Technological Plan for Security and Defence by resolution of the Council of Ministers on April 22nd, 2025, which provides for an additional investment of €10.47bn in 2025, with the aim of reaching 2% of GDP in defence expenditure in the medium term, in compliance with the commitments assumed with NATO.

Since its approval, the Government has been making progress in implementing the Plan. According to the information published, credit transfers have been made to the Ministry of Industry for the pre-financing of the Special Modernisation Programmes (PEM) included in the Plan, including most notably the €2.82bn approved by the Council of Ministers on April 22nd. Furthermore, by successive resolutions of the Council of Ministers on May 13th, June 10th, and July 1st, the multi-year spending limits have been modified to include the PEMs in the Plan in the budgets of subsequent years.

For its part, the Council of Ministers of July 15th approved the modification of the multi-year spending limits of the Ministry of Industry to finance different programmes of the Industrial and Technological Plan for Security and Defence for the period 2026-2031. The Ministry of Industry participates in 31 of these programmes, the financing of which is structured through the corresponding Royal Decrees for the direct granting of multi-year loans to the entities responsible for implementing each action.

Within this framework, Royal Decrees 768/2025, of September 2nd; 813/2025, of September 16th; 847/2025 and 848/2025, both of September 23rd; and 914/2025 and 915/2025, of October 14th, authorised the granting of loans for a total amount of €13.34bn, of which €4bn correspond to 2025. The annual loan amounts for each programme are set in accordance with the Ministry of Defence's planning.

Throughout the year, the budgetary execution data reflect the increase in initial appropriations and net recognised obligations, in order to progressively incorporate the increase in spending provided for in the Plan.

TABLE RE_2.1. DEFENCE EXPENDITURE IN BUDGETARY TERMS. 2024 AND 2025. MILLION EUROS

DEFENCE GSB		2024				2025		
HEADING	EXPENDITURE PROGRAMME	IA	FA	NRO (August)	NRO (DEC)	IA	FA	NRO (August)
121M, 121N, 121O, 12KB and 12SC	GENERAL DEFENCE ADMINISTRATION (€m)	3.622	4.202	1.335	4.141	3.622	9	1.517
122A	Modernisation of the Armed Forces	341	1.530	260	1.501	341	0	0
122B	Special modernisation programmes	4.902	3.246	1.139	3.242	4.902	0	0
122M	AF operating expenditure	2.306	3.859	1.679	3.793	2.306	1	0
122N	Logistical support	892	1.316	563	1.300	892	1	0
	ARMED FORCES (€m)	8.440	9.951	3.641	9.836	8.440	2	1
	TOTAL	12.062	14.153	4.977	13.977	12.062	11	1.518
	(in % GDP)	0,8	0,9	0,3	0,9	0,7	0,0	0,1

Source: IGAE

At present, the Ministry of Defence's budget data already show an increase in initial appropriations of €3.2bn more than the increase recorded for the whole of the previous year. This momentum will be transferred to the execution of the expenditure which, according to the latest data published for the month of August, shows an amount €1bn more than the amount executed in the same period of 2024.

At the same time, the appropriations allocated to the Ministry of Industry to finance the PEMs, 31 of which are included in the Plan, have increased by more than €3.5bn up to August compared with the total figure for final appropriations recorded in 2024, gradually being passed on in execution, which in August was €628m compared with €381m at the same date last year.

TABLE RE_2.2. EVOLUTION OF THE BUDGET APPROPRIATIONS OF THE MINISTRY OF INDUSTRY. PERIOD 2020-2025. MILLION EUROS

	Initial appropriations	Final appropriations	Net recognised obligations
2020	468	443	378
2021	677	677	646
2022	708	1.082	1.030
2023	1.601	1.601	1.471
2024	1.601	1.601	1.413
2025 (*)	1.601	5.148	628

Source: IGAE

Note: Data for 2025 are cumulative to August

However, despite the quantitative importance of defence expenditure and its impact on the public deficit, the monitoring of the Plan's implementation has significant limitations.

From a budgetary perspective, it is difficult to identify which part of the increases in initial appropriations and expenditure execution corresponds specifically to the Defence Plan, in the absence of disaggregated information. This difficulty is because the origin of the appropriation increases may be due to several factors: (i) the particular gap in initial appropriations after two consecutive years of budgetary extensions, (ii) the recurrent underfunding of the Ministry of Defence's appropriations, and (iii) the increases directly linked to the Plan. Moreover, in the case of the PEMs, it is essential to have additional information to distinguish whether the expenditure corresponds to annual investment commitments or to financial spending derived from the pre-financing granted by the Ministry of Industry.

In national accounting terms, the Plan's impact is even less traceable. In order to be able to forecast when spending will be allocated to the public deficit, it is necessary to know the total amount of each PEM (not just the annual amount for a given year) and the delivery time of the military asset. Without this information, it is not possible to make a proper estimate of the fiscal impact.

Currently, this information is only published on an ad hoc basis in some references of the Council of Ministers regarding the implementation of the Plan. One example is the Resolution of the Council of Ministers of May 13th, 2025 on the PEM for the Supply Vessel (BAC II), which provides a breakdown of the total amount of the investment, the pre-financing, its distribution per annum and the expected year of delivery, around 2030, which makes it possible to estimate its allocation in national accounting terms. However, the information published on the PEMs included in the Plan is generally aggregated and lacks the level of detail needed to project its distribution per annum and the impact on the public deficit.

In view of these limitations in monitoring the impact of the Plan in the National Accounts and, broadly speaking, of defence expenditure, AIReF makes its own forecasts. To estimate the investment spending associated with the PEMs, it takes into account the pre-financing appropriations granted in previous years by the Ministry of Industry and the commitments made by the Government within the framework of NATO for the coming years.

TABLE RE_2.3. DEFENCE EXPENDITURE IN NATIONAL ACCOUNTING. AIREF FORECASTS FOR 2024-2030 AND EUROPEAN COMMISSION FORECASTS FOR 2024 AND 2025. AS % OF GDP

DEFENCE EXPENDITURE NA	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)	2030 (F)
Compensation of employees	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
Intermediate consumption	0,2	0,2	0,3	0,3	0,4	0,4	0,4	0,4
Gross capital formation	0,2	0,1	0,2	0,4	0,5	0,7	0,8	0,9
Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL AIREF	0,9	0,8	1,0	1,2	1,4	1,5	1,7	1,8
TOTAL EUROPEAN COMMISSION		0,9	1,3					

Source: IGAE, AIReF and European Commission

According to these forecasts, both AIReF and the European Commission expect a significant increase in defence expenditure in the National Accounts in 2025, estimated at 0.2 and 0.4 points of GDP, respectively. However, this estimate is subject to significant uncertainty, as it depends heavily on the final amount of military payments.

4.3. Impact of measures on General Government accounts

In its forecasts, AIReF includes the measures approved or announced and estimates the impact during their legal term. Compared with the last report, the estimated cost for 2025 remains largely unchanged. However, the cost of the measures approved to mitigate the effects of the DANA in the coming years is revised upwards. The cost evolution path for the medium term is also revised based on new information received.

4.3.1. Isolated High Altitude Depression measures

The measures approved to mitigate the effects of the Isolated High Altitude Depression (DANA) will have an impact on the National Accounts of 0.3 points in 2025 and 0.1 points in 2026. The GG has approved a set of measures to respond to the damage caused by the DANA that occurred between October 28th and November 4th, 2024. The estimated impact in national accounting terms for 2025 has been revised upwards by about €100m. For the medium term, the estimate is revised upwards by around €500m due to the new information received from the ARs, estimating spending in 2026 at 0.1% of GDP, while total expenditure for the rest of the years is estimated at slightly less than 0.5 points of GDP.

AIReF's forecast includes the disbursement received from the Solidarity Fund amounting to €946m to help finance the expenditure. This revenue has been

fully allocated in 2025 to the sub-sectors concerned in proportion to the expenditure specified in the application for support.

TABLE 14. IMPACT OF THE MEASURES APPROVED TO MITIGATE THE EFFECTS OF THE DANA

Fiscal impact of measures to mitigate the effects of the DANA	Impact in national accounting terms		2024		2025		2026		2027-2030	
	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP
CG	8,537	0.5	5,225	0.3	3,262	0.2	23	0.0	27	0.0
Support for households	4,712	0.3	4,712	0.3	0	0.0	0	0.0	0	0.0
<i>Insurance Compensation Consortium</i>	4,712	0.3	4,712	0.3	0	0.0	0	0.0	0	0.0
Support for companies	427	0.0	272	0.0	155	0.0	0	0.0	0	0.0
<i>ICO guarantee line</i>	7	0.0	2	0.0	5	0.0	0	0.0	0	0.0
<i>Direct support to companies and professionals</i>	420	0.0	270	0.0	150	0.0	0	0.0	0	0.0
Other	965	0.1	176	0.0	789	0.0	0	0.0	0	0.0
Transfers made to LGs	2,394	0.2	39	0.0	2,306	0.1	23	0.0	27	0.0
Transfers made to the SSFs	39	0.0	26	0.0	13	0.0	0	0.0	0	0.0
SSFs	117	0.0	57	0.0	60	0.0				
Exemption from contributions for ERTEs	35	0.0	17	0.0	18	0.0				
ERTE benefit due to force majeure	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				
Transfers received from CG	-39	0.0	-26	0.0	-13	0.0				
ARs (Valencia)	3,436	0.2	307	0.0	1,502	0.1	1,002	0.1	626	0.0
Investment and infrastructure	617	0.0	27	0.0	201	0.0	259	0.0	130	0.0
Supplies, environment, cleaning and others	464	0.0	56	0.0	313	0.0	94	0.0	0	0.0
Support for households	573	0.0	105	0.0	397	0.0	71	0.0	0	0.0
Support for companies and the self-employed	1,668	0.1	100	0.0	479	0.0	588	0.0	501	0.0
Transfers made to LGs	115	0.0	5	0.0	110	0.0	0	0.0	0	0.0
PIT deductions, rebates for Inheritance & Gift Tax, TATDLA, gambling taxes and sewerage levy	0	0.0	-14	0.0	-1	0.0	10	0.0	5	0.0
LGs	373	0.0	16	0.0	-572	0.0	928	0.1	0	0.0
Infrastructure	1,947	0.1	0	0.0	969	0.1	951	0.1	27	0.0
Property Tax exemption & reduction in Tax on Economic Activities 2024	93	0.0	0	0.0	93	0.0	0	0.0	0	0.0
Other measures financed by CSA	354	0.0	39	0.0	315	0.0	0	0.0	0	0.0
Other LG measures	487	0.0	21	0.0	467	0.0	0	0.0	0	0.0
Transfers received from AR of Valencia	-115	0.0	-5	0.0	-110	0.0	0	0.0	0	0.0
Transfers received from CG	-2,394	-0.2	-39	0.0	-2,306	-0.1	-23	0.0	-27	0.0
Total GG	12,462	0.8	5,605	0.4	4,252	0.3	1,953	0.1	652	0.0

Source: AIReF

The estimate of the total cost is increased by almost 0.1 points of GDP due to the new information received from the ARs. The AR of Valencia has provided updated information on the measures implemented in 2025 and those planned for 2026, some of which AIReF estimates will be partly shifted to the following years.

4.3.2. Measures in response to the energy crisis and price rises

AIReF maintains its July estimate of the 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 for 2025. The impact considered by AIReF of the measures to combat the energy crisis stemming from the war in Ukraine includes measures contained in the Royal Decrees passed to date to that end since RDL 6/2022 of March 29th.

On the expenditure side, the impact of the measures approved by 2025 is estimated at 0.1 points of GDP. This estimate is maintained with respect to AIReF's last estimate in July as there have been no additional measures.

With regard to revenue, the impact in 2025 is practically zero given the restoration of VAT rates and the Special Tax on Electricity. The measures adopted to alleviate the energy crisis and price rises still had a significant negative impact in 2024, estimated by AIReF at €4.02bn (0.3 points of GDP). However, given the full restoration of rates in 2025, the budgetary impact is residual, with the only two measures that become permanent standing out: the reduction of the VAT rate on olive oil (from 10% to 4%) and fermented milk (also from 10% to 4%), with a joint reduction of €188m. The reduction in VAT rates, effective in 2024, has a residual negative impact in 2025 in national accounting terms of €85m.

Furthermore, the Tax on the Value of Electricity Production, fully restored in 2025, resulted in €777m less in tax collection in 2024. The suspension of the Tax on the Value of Electricity Production was in force between the third quarter of 2021 and December 31st 2023, extending its effect until 2024, given that the last quarter of each year is paid in the first quarter of the following year. However, this loss of revenue had no impact on the deficit as the transfer to the electricity sector is reduced by the same amount.

TABLE 15. IMPACT OF MEASURES IN RESPONSE TO THE ENERGY CRISIS IN NATIONAL ACCOUNTING TERMS: AIREF ESTIMATE

Impact in National Accounting terms	2024	2025
Revenue measures (€m)	-4,015	-273
(% GDP)	-0.3	0.0
VAT	-2,935	-273
VAT on Electricity	-907	0
VAT on gas, briquettes and pellets	-125	0
VAT on basic foods	-1,566	-70
From 4% to 0% until 30/09/2024		
From 4% to 2% from 01/10/2024 to 31/12/2024		
VAT on olive oil	-141	0
From 10% to 5% until 30/06/2024		
From 10% to 0% from 01/07/2024 to 30/09/2024		
From 10% to 2% from 01/10/2024 to 31/12/2024		
VAT on seed oils and pasta	-196	-15
From 10% to 5% until 30/09/2024		
From 10% to 7.5% from 01/10/2024 to 31/12/2024		
VAT on olive oil and fermented milk as a staple food (4%)		-188
STs	-1,080	0
ST on Electricity	-1,080	0
Expenditure measures (€m)	2,409	1,147
(% GDP)	0.2	0.1
Fuel allowance	344	0
Sectoral support	50	255
Electricity tariff deficit		
Direct support for individuals		
Other support for individuals	2,015	892
Total Measures (€m)	-6,424	-1,420
(% GDP)	-0.4	-0.1
Other		
Tax on the Value of Electricity Production: Suspension	-777	0

Notes:

VAT on electricity: Reduction to 10% electricity rate (RDL 12, 17 & 29/2021 & 6/2022);

Reduction to 5% since July 2022 (RDL 11/2022);

Extension until 31-12-2023 (RDL 20/2022);

From 01/01/2024 to 21% unless price >45€ kw/h

VAT on gas, briquettes and pellets: Reduction to 5% gas rate (RDL 17/2022);

Extension to 31-12-2023 (RDL 20/2022)

VAT on food: RDL 20/2022 to 30/6/2023, RDL 5/2023 to 31/12/2023

VAT on olive oil and fermented milk:

4% rate on a permanent basis (RDL 4/2024 and Law 7/2024)

ST Electricity: Electricity rate reduction (RDL 17, 29/2021 & 6, 11/2022);

Extension until 31-12-2023 (RDL 20/2022)

Tax on the Value of Electricity Production: Suspension (RDL 12, 17, 29/2021 & 6/2022);

Extension to 31-12-2023 (RDL

Source: Government and AIReF estimate

Source: Government and AIReF estimates

4.3.3. Other Central Government revenue measures

Leaving aside the measures adopted in response to the DANA and the energy crisis, AIReF estimates that the rest of the CG regulatory measures will have a positive revenue impact of 0.3 points of GDP in 2025, 0.1 points in 2026 and

neutral thereafter. This evolution is mainly due to the impact of the measures affecting Corporate Income Tax.

The temporary regulatory measures will have a neutral impact in 2025 and a negative impact of 0.2 points over the rest of the forecast horizon. In 2025, the limitation on offsetting tax losses in consolidated groups, established in the Nineteenth Additional Provision of Law 7/2023, adds €2.23bn compared with 2024. This measure affects the three instalment payments for the current and previous years, as well as the result of the 2024 tax return, increasing tax collection by €2.23bn. In contrast, the new Tax on Interest Margins and Commissions collects €257m less than the temporary Tax on Financial Institutions, in force until 2025, and the withdrawal of the Tax on the Energy Sector results in a €1.23bn reduction. As of 2025, the impact of the limitation on offsetting tax losses, which is only in force until 2025, is negative and lower in 2026, as it still has a positive impact on the annual quota for 2025. Furthermore, the Tax on Interest Margins and Commissions generates a drop in tax collection of €1.79bn compared with 2024, first in 2026 and 2027 due to its transfer to the ARs, and then from 2028 due to its elimination.

The impact of the structural tax measures is positive throughout the forecast horizon, although it is conditional on the entry into force and effectiveness of the Supplementary Minimum Corporate Income Tax, which would raise an additional 0.1% of GDP as of 2026. In 2025, the reestablishment of limits similar to those under RDL 3/2016, after the Constitutional Court declared it unconstitutional, stands out, generating extra tax collection of €3.39bn. Thus, it is estimated that €1.7bn are collected from the mere reinstatement of the limits and an additional €1.7bn from the increase in accounting profit from companies, as a result of the exhaustion in 2024 of the losses allocated by the elimination of the limits. As of 2026, it is assumed that the 15% Supplementary Minimum Corporate Income Tax, which is estimated to have a revenue impact of €2.2bn per annum, will be successfully implemented as of 2026. However, it will be gradually offset by the reduction in rates for small and micro-enterprises. In the case of PIT, the increase in the rate from 28% to 30% in the savings base for capital income above €300,000 and the increases in the reduction of earnings from work and minimum taxation would bring in €722m per annum. This second measure has a positive impact compared with 2024, despite generating a €1.08bn drop in tax collection that year, due to a higher tax return result for people affected by this measure, who had been under-withheld. Lastly, the new Tax on Electronic Cigarettes and the increase in the rate levied on tobacco products will bring in around €600m per annum.

TABLE 16. REVENUE MEASURES: AIREF ESTIMATE IN CASH TERMS (€M)

Central Government revenue measures	Source	2025	2026	2027	2028	2029	2030
Structural measures (€m)	(€m)	4,410	4,716	4,216	3,716	3,216	3,216
Structural measures (% GDP)	(% GDP)	0.3	0.3	0.2	0.2	0.2	0.2
PIT		522	722	722	722	722	722
Increase in taxation on capital income	Law 7/24	0	200	200	200	200	200
Increase in reduction of work income and minimum taxation	RD 142/2024	522	522	522	522	522	522
Corporate Income Tax		3,392	1,196	696	196	-304	-304
Rate cut for small companies and micro-enterprises	Law 7/24		-500	-1,000	-1,500	-2,000	-2,000
Reinstatement of limits of RDL 3/2016	Law 7/24	3,392	1,696	1,696	1,696	1,696	1,696
Special taxes (*)		496	598	598	598	598	598
Tax on e-cigarettes	Law 7/24	62	124	124	124	124	124
Rate increase on tobacco products	Law 7/24	434	474	474	474	474	474
OTHER		0	2,200	2,200	2,200	2,200	2,200
Minimum supplementary tax for companies	Law 7/24		2,200	2,200	2,200	2,200	2,200
Temporary measures (€m)		740	-3,110	-3,643	-3,643	-3,643	-3,641
Temporary measures (% GDP)		0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Corporate Income Tax:		2,231	-158	-691	-691	-691	-691
Limitation on offsetting losses in consolidated groups	Law 7/24	2,231	-158	-691	-691	-691	-691
OTHER		-1,491	-2,952	-2,952	-2,952	-2,952	-2,950
Tax on financial institutions / Tax on net interest income and commissions	Law 7/24	-257	-1,787	-1,787	-1,787	-1,787	-1,785
Energy sector levy	Law 38/2022	-1,234	-1,165	-1,165	-1,165	-1,165	-1,165
Total measures	(€m)	5,150	1,606	573	73	-427	-425
	(% GDP)	0.3	0.1	0.0	0.0	0.0	0.0

Source: Government and AIReF estimates

4.3.4. Social Security Fund measures

AIReF forecasts that the cumulative impact of the SSF revenue measures will increase from 0.1 points of GDP in 2025 to 0.3 points in 2030. The measures currently being phased in are the introduction of the Intergenerational Equity Mechanism, the additional Solidarity Contribution and the increase in the maximum contribution bases. The Intergenerational Equity Mechanism is a targeted increase in social contributions that came into effect in 2023 and progressively increases the social contribution rate from 0.6 points in 2023 to 1.2 points in 2029, after which it will remain at that level. Its cumulative budgetary impact is estimated at around 0.2 points of GDP between 2025 and 2030. The 2023 reform introduces an upward path in the maximum base that

combines the CPI update with an additional fixed amount of 1.2 points per annum, resulting in an expected increase in revenue of around 0.1 points of GDP per annum. Lastly, the additional Solidarity Contribution - a new contribution on earnings from work above the maximum contribution base - comes into force in 2025 and will gradually increase until 2045. Its cumulative budgetary impact is estimated at around €890m in 2030.

TABLE 17. SOCIAL SECURITY REVENUE MEASURES. IMPACT WITH RESPECT TO THE REVENUE LEVEL OF 2024

Measure	2025		2026		2027		2028		2029		2030	
	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP
Inter-generational Equity Mechanism	764	0.0	1,531	0.09	2,328	0.1	3,166	0.2	4,053	0.21	4,327	0.2
Evolution of maximum contribution bases	144	0.0	451	0.03	570	0.0	733	0.0	871	0.04	999	0.0
Additional Solidarity Contribution	372	0.0	468	0.02	562	0.0	661	0.0	765	0.04	890	0.0
TOTAL	1,280	0.0	2,450	0.1	3,461	0.2	4,560	0.2	5,689	0.3	6,216	0.3

Source: AIReF

The SSF expenditure measures have a cumulative impact by 2030 of 0.2 points of GDP. First, Royal Decree-Law 2/2023 establishes increases in non-contributory pensions - and therefore the MIS - and minimum pensions between 2024 and 2027 to ensure certain poverty thresholds²³ are exceeded. The impact of these increases in the MIS, non-contributory pensions and minimum pensions amounts to €2.28bn - 0.1 points of GDP - in 2030. Second, Royal Decree-Law 2/2024 reforms the level of unemployment benefits, with an impact on expenditure of around 0.5 points of GDP over the forecast horizon. Lastly, the three-week extension of parental leave contained in Royal Decree-Law 9/2025 is estimated to have a cumulative impact of almost €900m by 2030.

² The poverty threshold for a two-adult household in the case of the contributory retirement pension for over-65s with a dependent spouse, the contributory permanent disability pension with a dependent spouse or widow's/widower's pension for over-65s with family responsibilities, half the above increase for all other contributory pensions, and 75% of the poverty threshold for a one-person household for non-contributory pensions.

³ The remaining measures on the expenditure side of the pension system approved between 2021 and 2023 have longer-term effects due to the establishment of transitional periods in the regulation.

TABLE 18. SOCIAL SECURITY REVENUE MEASURES. INCREMENTAL IMPACT WITH RESPECT TO 2024

Measures	2025		2026		2027		2028		2029		2030	
	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP	€m	% GDP
Increase in MIS, non-contributory pensions and minimum pensions	585	0.0	1,458	0.0	2,275	0.1	2,275	0.1	2,275	0.1	2,275	0.1
Unemployment benefit reform	926	0.1	849	0.0	849	0.0	849	0.0	849	0.0	849	0.0
Increase in parental leave	261	0.0	661	0.0	694	0.0	727	0.0	400	0.0	400	0.0
TOTAL	1,773	0.1	2,967	0.2	3,817	0.2	3,851	0.2	3,886	0.2	3,919	0.2

Source: AIReF

4.3.5. Measures adopted by Autonomous Regions

The ARs have adopted revenue measures that will result in lower tax collection of €350m in 2026. The main tax cuts have been adopted in PIT and Inheritance and Gift Tax and, to a more residual extent, in Wealth Tax and Tax on Asset Transfers and Documented Legal Acts. In the latter, the measures to increase revenue by some ARs offset the tax cuts adopted by others. Measures have also been adopted in other taxes and rates, with a positive impact, mainly of an environmental nature. These impacts, which in overall net terms represent a fall in revenue of around €350m, will be offset by the new Tax on Interest Margins and Commissions that the ARs will receive as a transfer from the State.

In the period 2025-2030, the permanent measures adopted by the ARs will result in a loss of tax collection of around €1.2bn. The tax with the largest negative impact is PIT, particularly in 2025 and 2026. As a result of the way the financing system works, this loss of tax collection will be reflected in the regional accounts in the following years to which the measure refers and may be greater than the pure tax collection effect in those years in which both the drop in instalment payments for the year and the lower settlement for year n-2 (when the measure affected the income for that year and could not be considered in the calculation of the instalment payment for that year) are recorded. Also noteworthy, albeit to a lesser extent, are the tax reductions in Inheritance and Gift Tax with effect mainly in 2026 in the AR of Madrid. In the Tax on Asset Transfers and Documented Legal Acts, the negative impact of the tax cuts adopted in several regions, especially in Valencia, is almost completely cancelled out by the increases approved in Catalonia. In addition, higher revenue will be generated, mainly through environmental taxes in several ARs and the tax on tourist stays in Catalonia.

In 2026, the main expenditure measures of the ARs will remain concentrated in personnel, leading to an increase in spending of close to €400m. Although salary rises, staff increases and recognition of allowances from previous years are being moderated, some ARs still envisage significant measures in the area

of personnel, mainly affecting education and health. Together with these, the main budgetary lines of the ARs include some savings measures, mainly in healthcare and pharmaceuticals, the impact of which, according to AIReF's estimates, would initially be moderate.

In the period 2025-2030, the main permanent expenditure measures adopted or planned by the ARs are in the area of personnel and will involve expenditure of over €1.1bn. As noted in previous reports, the ARs have primarily seen increases in remuneration and staffing levels in recent years, in some cases due to court rulings or agreements with trade unions. These measures will generate an increase in expenditure of more than €1bn in total in 2025 and 2026. In 2027 and 2028, the amounts are residual and zero in the last two years of the period. In addition to these personnel measures, there are other savings measures with a more moderate effect that partly offset them.

4.4. Contingent liabilities and fiscal risks

Uncertainty remains as to the impact that various court rulings unfavourable to the GG could have in 2025 and in the coming years, the cost of which could be higher than AIReF forecasts. AIReF's deficit and eligible expenditure growth forecasts for those years include estimates of spending to cover the risks arising from court rulings issued to date. However, uncertainty persists regarding both the exact amounts of compensation and interest and when they will be recorded in national accounting terms. These court rulings include the following:

- **Special Tax on Hydrocarbons:** In September 2024, the Constitutional Court declared the regional component of the Hydrocarbons Tax for the period 2013-2018 illegal, in line with the previous ruling of the Court of Justice of the European Union (CJEU). This decision recognises the right of taxpayers to a refund of amounts paid, unless this had been passed on in prices, and opens the way for end consumers to claim against the State for financial liability. The Government estimates a potential impact of up to €6.5bn in the 2024 Central State Administration Account as a result of this ruling.
- **Tax relief for indirect purchases of foreign companies:** On June 26th, 2025, the Court of Justice of the European Union (CJEU) confirmed the legality of the Spanish tax regime allowing the deduction of financial goodwill arising from the acquisition of significant shareholdings in non-resident companies, thus ratifying the previous ruling of the General Court of the European Union (GC of the EU) of September 2023. There is no information on this litigation in the Central State Administration Account. Several

Spanish companies could request the refund of the support resulting from the application of this scheme that they had repaid.

- **Those court rulings already had an impact on the 2024 deficit and previous years and will continue to do so in subsequent years:** The impact on the 2024 deficit of court rulings amounted to €11.27bn, 0.9% of GDP⁴. The cost of some of these court rulings will continue to have an impact this year and/or in subsequent years:
 - **Paternity supplement:** the Court of Justice of the European Union ruled on May 15th, 2024 that the gender gap supplement remains discriminatory, which will generate a significant impact on the 2025 deficit. The impact estimated by the Government in the Progress Report on the Medium-Term Fiscal-Structural Plan (MTP) 2025 is 0.12% of GDP this year.
 - **Tax on Economic Activities (IAE) of mobile phone operators:** on July 14th, 2022, the Supreme Court declared the AIE for **mobile phone** operators contrary to European law. In the 2024 Central State Administration Account, the Government continues to provision, as in the previous year, an amount of €1.48bn for mobile phone operators, despite having allocated a cost of €485m in 2024, in addition to the €137m recorded in 2023. In the year to date, a further €55m have already been recorded in the deficit as a result of this court ruling.

In addition to these risks that have already materialised, other risks remain, primarily related to court cases. These were also identified by the Government in the 2024 Central State Administration Account, published in August 2025. The following stand out:

- **International arbitration:**
 - (i) **Energy sector:** litigation related to renewable energy remains open. Although the unfavourable awards have been appealed, the court ruling amounts to €1.48bn, plus €231m in costs and interest and up to €341m in pending awards.

However, on March 24th, 2025, the European Commission declared the modification of the renewable energy subsidies illegal and ordered Spain not to make payments, reinforcing the Government's strategy to oppose the enforcement of intra-European awards.

⁴ See [AIRcF Report on the Initial Budgets of the GG for 2025](#)

- (ii) **In other areas:** seven non-energy proceedings are still pending, including the Nurhima, Berkeley and TP Ferro cases.
- **Transport:**
 - (i) **Various types of judicial review appeals** before the National High Court for a total of some €346m;
 - (ii) **Motorway concession companies:** several proceedings remain open:
 - The judicial review appeals against the Resolutions of the Council of Ministers that approved the resolutions for the settlement of the toll motorway concession contracts, with a provision of €517m in the CSA's 2024 Account.
 - Equity loans granted to motorway concessionaires in a delicate financial situation, amounting to €150m.

In addition, there are other risks stemming from ongoing legal proceedings not included in the above list. Among the most relevant are the following:

- **Tax on the reservation of the public radio-electric domain:** litigation by the main mobile telephone operators against the Government to demand a reduction in this rate, which has led to the suspension of its payment in 2025.
- **Integration of Iberia and British Airways:** proceedings between IAG and the Ministry of Finance over the tax burden associated with the integration of these two companies in 2011, according to reports published in the media.
- **Radioactive waste management fees:** lawsuit by Iberdrola and Endesa against the State for the increase in the corresponding rates, according to reports published in the media.
- **Sale of shares with losses:** the National High Court has lodged an appeal before the Constitutional Court regarding the possible unconstitutionality of the rule approved by Royal Decree-Law 3/2016 that prevents companies from tax deductions for losses derived from the sale of subsidiaries ("tax on losses").
- **Banco Santander deferred tax credits:** pending resolution of the litigation with the Ministry of Finance on the deferred tax credits (DTAs) generated after the takeover of Banco Popular in 2017. A ruling in favour of the State would yield extraordinary revenue, with a positive impact on deficit reduction.

Furthermore, the risk associated with the guarantees granted by the ICO increases, as the lines of guarantees granted by the State increase. In addition to the existing ICO guarantee lines, initially granted during the pandemic and subsequently due to the war in Ukraine, the effects of the DANA and for the purchase of new housing, a new line of €5bn has been added to that provided for in Royal Decree-Law 4/2025, aimed at supporting Spanish companies affected by the US tariff policy. The first tranche, amounting to €1bn, was activated on April 15th. As a result, the associated fiscal risk remains, which will continue to generate additional expenditure in 2025 and beyond, as the guarantee lines become available and, especially, in the event that defaults exceed the amount already recorded as standardised guarantees.

The geopolitical environment constitutes an additional factor of uncertainty for the headline deficit in 2025 and in the medium term. This uncertainty primarily relates to the impact on the deficit of changes in US tariff policy and the need to increase defence expenditure. The Government has approved a series of measures⁵ to address these new challenges. However, uncertainty remains about the evolution of the tariff regime and trade relations amid heightened international tensions. There is also uncertainty as to when the increase in defence expenditure will be recorded in the National Accounts. This stems from the type of spending included in the Plan, which is largely composed of investments whose implementation tends to be delayed over time. Moreover, in national accounting terms, military investment is recorded at the time of delivery of the military asset, irrespective of its budgetary accounting. This is compounded by the recurrent lack of information on the planning of planned military payments, which could have a significant impact on the deficit, given the magnitude of the investment commitments.

Finally, risks to the materialisation of the projected fiscal scenario persist, stemming from uncertainty about the macroeconomic scenario. Geopolitical conflicts and trade tensions aggravated by the US Administration's current tariff policy remain, as some risks 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 path of tax revenue and contributions, with an impact on the deficit in the projected scenario.

⁵ Business Response and Relaunch Plan, with around €7bn by 2025, within which the volume could exceed €14bn. And the Industrial and Technological Plan for Security and Defence, which includes actions totalling €10.4bn in 2025.

4.5. Analysis by sub-sector

The deficit shows an improvement in the first years of the forecast horizon, before starting an upward path, due to different contributions from the sub-sectors. In 2025, the deficit reduction is mainly due to a 1-point improvement in the CG balance, combined with sustained SSF balance and worsening AR and LG balances. In 2026, the improvement is due to the positive evolution of both the ARs and the SSFs. Thereafter, the upward path is due to deterioration in the CG balance from increased spending on interest and gross capital formation, combined with some decline in the last year of the ARs balance.

TABLE 19. DEFICIT BY SUB-SECTOR (% GDP). AIREF MEDIUM-TERM PATH

	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
GG	-3,2	-2,5	-2,0	-2,1	-2,3	-2,4	-2,5
CG	-2,9	-1,9	-1,9	-2,2	-2,5	-2,6	-2,6
SSFs	-0,5	-0,5	-0,3	-0,2	-0,2	-0,2	-0,2
ARs	-0,2	-0,4	0,0	0,0	0,1	0,0	-0,1
LGs	0,4	0,3	0,2	0,3	0,3	0,3	0,3

Source: AIReF

4.5.1. Central Government

AIReF expects the CG to breach the national expenditure rule in 2025 and 2027, while in 2026 the forecast is very close to the reference rate. Overall, it estimates an average increase of 5.3% between 2025 and 2027, compared with an average reference rate of 3.3%. In particular, in 2025, it projects growth in eligible expenditure net of revenue measures to be around 7.1%, higher than the reference rate of 3.2% for that year. In contrast, in 2026, the estimated growth in net eligible expenditure would be significantly lower, at around 3.4%, almost in line with the 3.3% reference rate. Lastly, in 2027, the forecast is for a 5.4% increase, again above the 3.4% rate for that year.

The evolution of net eligible expenditure over the period 2025-2027 reflects both the increase in eligible expenditure and the effect of revenue measures.

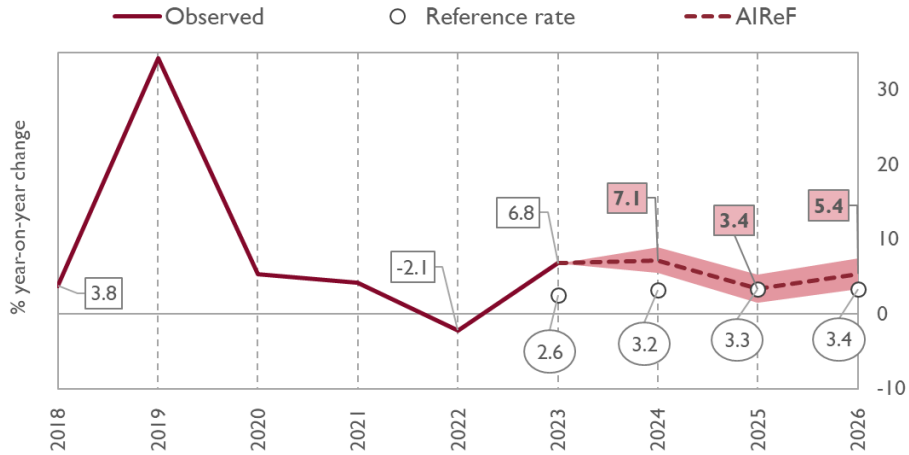
Among the determining factors is the incorporation of the increase derived from the Security and Defence Plan, which is particularly significant in 2025, due to the one-off boost in military spending. In 2026 and 2027, its impact will be more moderate as it is a progressive increase. Furthermore, in 2025, the spending transferred to other GG authorities includes that related to the DANA (estimated at some €2.3bn, compared with €764m the previous year), the amounts earmarked for the MOVES III programme and spending aimed at strengthening the dependency system (Royal Decree-Law 11/2025). However,

the increase in eligible expenditure is slightly offset by the positive effect of revenue measures, bringing the rate of change to 7.1%. Of note in 2026 is the end of the transitional period of the gradual increase in transfers to cover improper Social Security spending, together with a positive effect (around 0.1 points of GDP) derived from the supplementary tax on large companies, mitigated by other measures, especially the reduction in the Corporate Income Tax (CIT) rate for SMEs and micro-companies. All this reduces the rate of change to 3.4%. In 2027, a further increase in eligible expenditure is expected due to the electoral spending associated with the ordinary calendar and the negative effect of the aforementioned CIT reduction, raising the rate of change to 5.4%. However, over the whole period, the forecast could change depending on possible additional revenue measures.

The calculation of the CG expenditure rule excludes only part of the DANA-related spending. According to the Ministry's criteria⁶, the rule does not exclude all of the extraordinary spending assumed by this sub-sector to address the DANA of October 2024. As a result, spending of €764m was not excluded in 2024, and in 2025 the non-excluded spending is estimated to amount to around €2.3bn. As a result, DANA-related spending is not neutral for the CG in terms of compliance with the expenditure rule. If no DANA-related spending were excluded, the CG would have recorded a rate of change of 10.1% versus 6.8% in 2024, and 4.3% versus 7.1% projected in 2025. Conversely, if such spending were eliminated entirely, the change in 2024 would have been 6.4%, and the forecast for 2025 would be 6.3%. At any event, the expenditure rule would be breached in all cases.

⁶ [Report on the Degree of Compliance with the 2024 Stability and Debt Targets and Expenditure Rule](#)

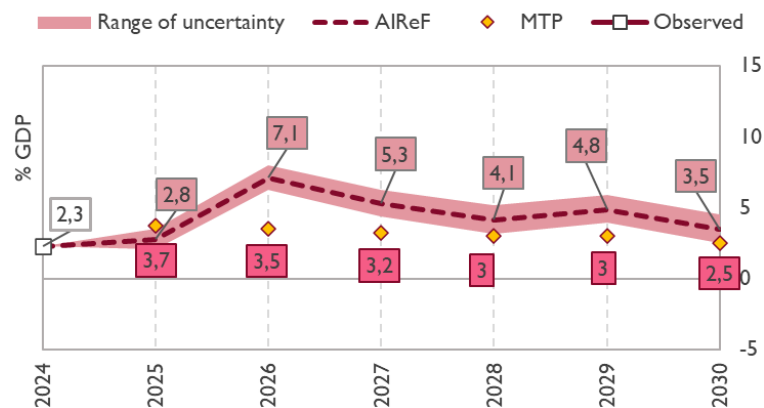
FIGURE 27. MEDIUM TERM ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE NATIONAL EXPENDITURE RULE CG (% CHANGE)



Source: MINHAC and AIReF

As for the European expenditure rule, AIReF estimates a positive contribution of the CG to compliance with the rate commitment for the GG Sector in the MTP in 2025, but a negative contribution for the rest of the period. On average, AIReF forecasts that the expenditure net of CG measures will increase by 4.8% compared with the 3.4% commitment for the GG Sector in the MTP over the period 2025-2028. Specifically, for 2025, AIReF estimates increased expenditure of 2.8%, lower than the 3.7% reference rate. Conversely, for the subsequent years, the forecast points to an uneven evolution in expenditure net of measures, with significant fluctuations: it would rise to 7.1% in 2026, fall in 2027 and 2028 to 5.3% and 4.1% respectively, rise again to 4.8% in 2029 and finally fall to 3.5% in 2030.

FIGURE 28. CHANGE IN ELIGIBLE EXPENDITURE ACCORDING TO THE EUROPEAN RULE FOR THE CG (% CHANGE)



Source: AIReF

Differences in the calculations between the European and national expenditure rules explain the divergent estimated rates of change. Unlike the national expenditure rule, the European rule considers in its calculation both one-off spending, which has a very significant weight for the CG, and the revenue that comes from temporary measures and that derived from not correcting revenue for inflation. Given that the expected net expenditure at the start of the period is lower than the overall reference rate, the CG would leave room for other sub-sectors to meet the forecast for the GG Sector. This trend would be reversed in the rest of the period, where it would reduce the room for other sub-sectors to manoeuvre.

TABLE 20. COMPARISON OF MEDIUM-TERM EXPENDITURE WITHOUT RTRP, ELIGIBLE EXPENDITURE UNDER THE NATIONAL AND EUROPEAN EXPENDITURE RULE OF THE CG 2024-2030 (% CHANGE)

Central Government	AIReF forecast						
	2024	2025	2026	2027	2028	2029	2030
Expenditure (without RTRP)	11,3	4,0	5,0	3,4	3,6	3,8	4,0
Eligible expenditure national expenditure rule	6,8	7,1	3,4	5,4			
Eligible expenditure European expenditure rule	2,3	2,8	7,1	5,3	4,1	4,8	3,5

Source: MINHAC and AIReF

However, the forecast path for net CG expenditure does not exclude increases in defence expenditure to 1.5% of GDP in the period 2025-2028. The recording in the National Accounts of the increase in defence expenditure resulting from the current geopolitical context will have a significant impact on both the national and European expenditure rules. However, at the European level, Member States can request the activation of the national escape clause, which allows measures to increase military spending between 2025 and 2028 up to a maximum of 1.5% of GDP relative to the 2021 level, not to be included in net expenditure. To date, Spain, unlike most European countries, has not made use of this possibility, which is why AIReF has not discounted defence expenditure from the calculations of the change in net expenditure. However, if Spain finally decides to activate this clause, the change in expenditure would be lower, making compliance easier.

AIReF estimates that the CG deficit, after an initial improvement in 2025 and 2026, will gradually deteriorate again to 2.5% of GDP in 2028, worsening by a further 0.1 points by the end of the period. Revenue is projected to increase by almost 0.7 points of GDP in 2025, followed by a phase of stability with slight fluctuations and a rebound at the end of the period, reaching 19.7% of GDP in 2030. Expenditure is expected to fall by 0.4 points of GDP in 2025, due to the phasing out of temporary measures and the decrease in spending associated with court rulings, and will then start a moderate upward path, with annual

increases of around 0.2 points of GDP to reach 22.2% in 2030. As a result of this evolution, AIReF projects an initial improvement in the deficit in 2025 and 2026, followed by a progressive deterioration of 0.3 points in 2027 and another 0.3 points in 2028, stabilising at around 2.5% of GDP until 2030, a reduction of 0.4 points with respect to 2024. In 2025, the balance would be around 1.7% of GDP, excluding the impact of the DANA.

The revenue forecast estimates a significant increase of almost 0.7 points of GDP in the current year to 19.4%, stabilising until 2028, followed by a slight expansion in subsequent years, ending 2030 at a weight on GDP of 19.7%. The 0.7-point increase in 2025 is almost entirely explained by the restoration of VAT rates and the dynamism of income taxes. In 2026, the dynamism of income taxes is offset by the reduction in the weight of the rest of the headings. Thereafter, the evolution of income taxes will determine the evolution of revenue.

TABLE 21. EVOLUTION OF CENTRAL GOVERNMENT REVENUE WITHOUT RTRP (% GDP)

	AIReF						
	2024	2025	2026	2027	2028	2029	2030
REVENUE	18.7	19.4	19.4	19.4	19.3	19.5	19.7
TAXES	14.9	15.5	15.8	15.9	15.8	16.0	16.2
<i>On production</i>	7.9	8.0	7.9	7.9	7.8	7.8	7.8
<i>On income</i>	7.0	7.5	7.8	8.0	7.9	8.1	8.3
<i>Capital</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CONTRIBUTIONS	0.6	0.6	0.5	0.5	0.5	0.5	0.4
<i>Transfers between GG authorities</i>	1.3	1.3	1.2	1.2	1.2	1.2	1.2
<i>Other revenue</i>	1.9	2.0	1.9	1.9	1.9	1.9	1.9

Source: IGAE and AIReF

AIReF forecasts that CG expenditure will fall to 21.3% of GDP in 2025, then rise to 22.2% of GDP in 2030. In 2025, AIReF estimates a reduction in expenditure of 0.4 points of GDP, from 21.7% in 2024 to 21.3%. This fall is mainly explained by the reduction in the cost of court rulings, which had a particularly significant impact in 2024, as well as by the lower impact of DANA-related spending and the phasing out of measures to combat the price crisis. This reduction occurs despite the projected increase in defence expenditure in 2025, driven by the impact of the Security and Defence Plan, given that the bulk of the Plan comprises military investments, which will be recorded in the National Accounts gradually as payments are made. Except in 2026, when its relative weight of GDP will remain stable due to the effect of the practical disappearance of DANA-related spending, AIReF forecasts a sustained increase for the rest of the period, driven by the gross capital formation linked to military investment and the increase in interest spending, both of which will

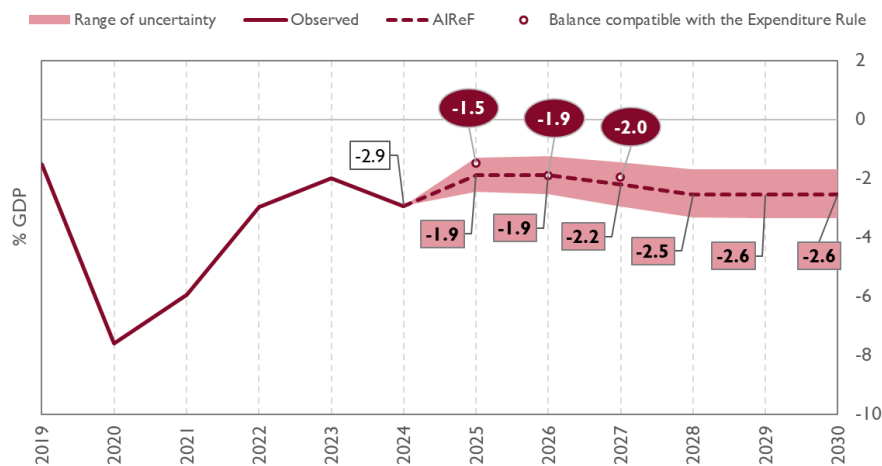
grow faster than GDP in the medium term. The upward evolution of cash social benefits will also contribute.

TABLE 22. EVOLUTION OF CENTRAL GOVERNMENT EXPENDITURE WITHOUT RTRP (% GDP)

EXPENDITURE	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
Compensation of employees	1.9	2.0	1.9	1.9	1.9	1.9	1.9
Intermediate consumption	0.9	0.9	1.0	1.0	1.0	1.1	1.0
Social transfers in kind via market	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Social benefits in cash	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Interest	2.1	2.2	2.2	2.3	2.5	2.5	2.7
Transfers between GG authorities	11.8	11.6	11.5	11.6	11.6	11.5	11.5
Gross capital formation	0.6	0.7	0.9	1.1	1.2	1.3	1.4
Subsidies and other expenditure	2.5	2.0	1.9	1.9	1.8	1.8	1.8

Source: IGAE and AIReF

FIGURE 29. NET LENDING/BORROWING OF THE CENTRAL GOVERNMENT (% GDP)



Source: MINHAC and AIReF.

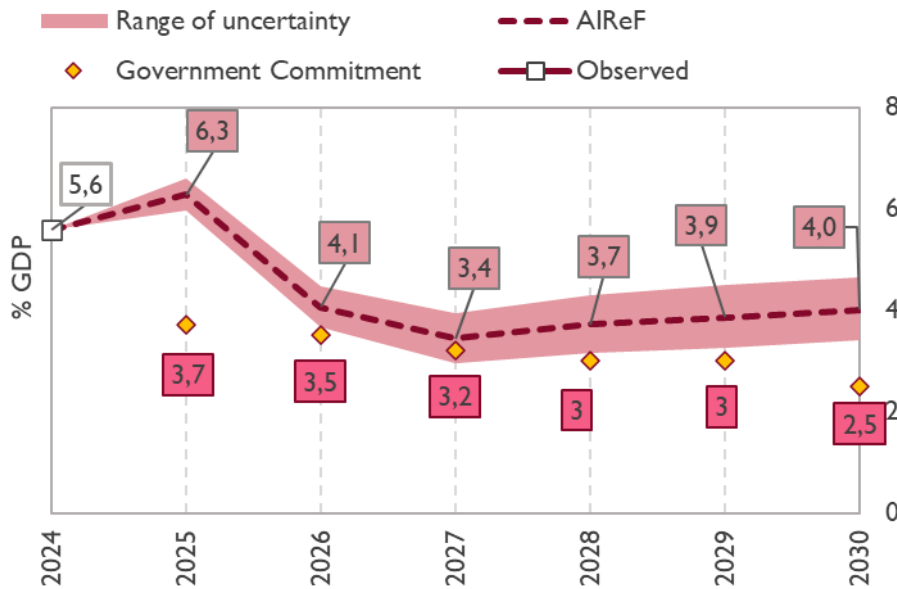
Compliance with the national expenditure rule in the period 2025-2027 would mean an improvement in the forecast deficit in 2025 and 2027. According to AIReF's revenue forecasts, compliance with that rule by the CG would reduce the deficit by 0.4 and 0.2 points of GDP, respectively, in those years. In 2026, however, there would be no improvement, given that a rate of change in expenditure of 3.4% is forecast, very close to the 3.3% limit set by the rule.

4.5.2. Social Security Funds

AIReF estimates growth in SSF primary expenditure net of revenue measures of 6.3% in 2025 and 4.4% on average over the period 2025-2028. Unlike the

national rule, the European expenditure rule includes the SSFs, although the commitment is formulated for the whole GG Sector. AIReF estimates that the eligible expenditure of the SSFs will grow by 6.3% in 2025, above the annual target of 3.7%, which will take away room for other sub-sectors.

FIGURE 30. CHANGE IN ELIGIBLE EXPENDITURE ACCORDING TO THE EUROPEAN RULE FOR SSFS (% CHANGE)



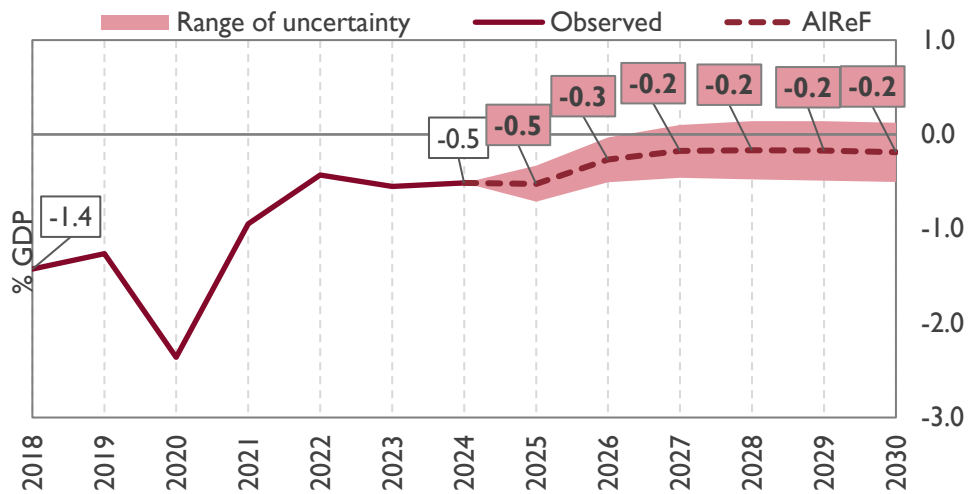
Source: AIReF

TABLE 23. COMPARISON OF EXPENDITURE WITHOUT RTRP AND ELIGIBLE EXPENDITURE OF THE EUROPEAN EXPENDITURE RULE OF THE SSFS 2024-2029 (% CHANGE)

Social Security Funds	AIReF forecast						
	2024	2025	2026	2027	2028	2029	2030
Expenditure (without RTRP)	7,1	7,3	3,8	4,0	3,8	3,8	3,7
Eligible expenditure European expenditure rule	5,6	6,3	4,1	3,4	3,7	3,9	4,0

Source: AIReF

AIReF forecasts that the SSF deficit will stand at 0.5% of GDP in 2025 and gradually fall to 0.2% by 2027, a level that will remain stable until 2030. The improvement in the fiscal balance between 2025 and 2027 is mainly explained by the increase in the weight of SSF revenue, stemming from both higher social contributions and higher CG transfers to offset the divergence between revenue and expenditure. In addition, the weight of expenditure shows a slower upward trend in 2026, following the 2025 peak driven by the impact of court rulings on the paternity supplement and the gender gap.

FIGURE 31. NET LENDING/BORROWING OF SOCIAL SECURITY FUNDS (% GDP)


Source: IGAE and AIReF

AIReF estimates that SSF revenue will grow by 0.6 points of GDP between 2024 and 2027, to 15.9% of GDP, and will remain at this level over the rest of the forecast horizon. This evolution is explained by the increase in the weight of social contributions in GDP, mainly due to the dynamism of the labour market and, to a lesser extent, to the gradual increase in the rates of the Intergenerational Equity Mechanism and the additional Solidarity Contribution. In the initial years, there is also an increase in the weight of GDP of transfers from the CG, resulting from the Toledo Pact agreements.

TABLE 24. EVOLUTION OF SSF REVENUE WITHOUT RTRP (% GDP)

	AIReF						
	2024	2025	2026	2027	2028	2029	2030
REVENUE	15,3	15,6	15,8	15,9	15,9	15,9	15,9
Contributions	12,5	12,7	12,8	12,9	12,9	12,9	12,9
Transfers between GG authorities	2,7	2,8	2,9	2,9	2,9	2,9	2,9
Other revenue	0,1	0,1	0,1	0,1	0,1	0,1	0,1

Source: IGAE and AIReF

AIReF estimates that expenditure will increase by 0.3 points in 2025 to 16.1% of GDP, a level it will remain at until 2030. The exceptional increase in 2025 is due, on the one hand, to the impact of the court rulings on the gender gap supplement and, on the other, to the increase in spending on pensions in terms of GDP, which in turn stems from an increase in the average pension affected by the incorporation of the new supplements. Thereafter, stability is explained by the evolution of spending on pensions and unemployment benefits in the opposite direction. The increase in spending on pensions is mainly due to the

reevaluation in line with the CPI, while spending on unemployment benefits reduces its weight of GDP thanks to the dynamism of the labour market.

TABLE 25. EVOLUTION OF SSF EXPENDITURE WITHOUT RTRP (% GDP)

EXPENDITURE	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
	15,8	16,1	16,0	16,0	16,1	16,1	16,1
Social benefits in cash	14,7	14,9	15,0	15,0	15,1	15,1	15,1
Pensions	11,5	11,6	11,7	11,8	11,8	11,9	12,0
Unemployment benefits	1,5	1,5	1,4	1,3	1,3	1,2	1,2
Other	1,7	1,8	1,9	1,9	1,9	1,9	1,9
Transfers between GG authorities	0,5	0,5	0,5	0,5	0,5	0,5	0,4
Other expenditure	0,6	0,7	0,5	0,5	0,5	0,5	0,5

Source: IGAE and AIReF

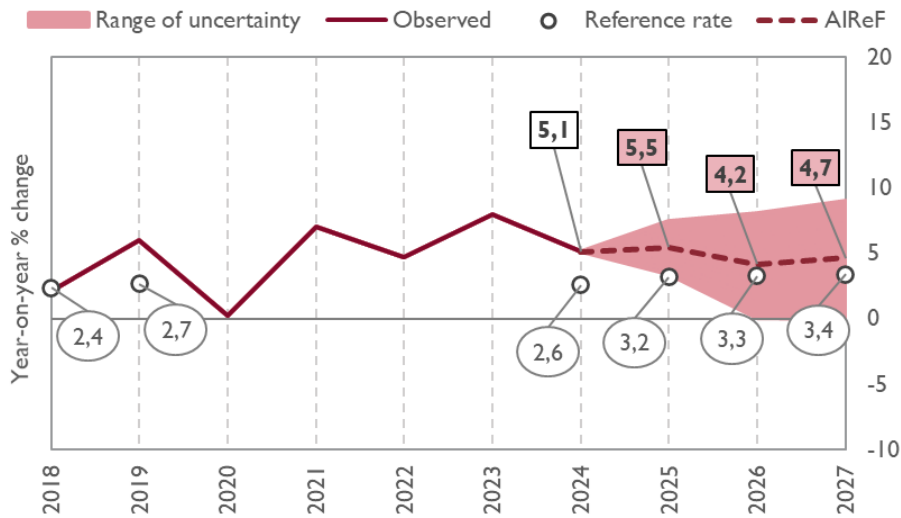
4.5.3. Autonomous Regions

AIReF estimates that the sub-sector will reach a balance close to equilibrium in 2026, with eligible expenditure for the purposes of the national expenditure rule at 4.2%, higher than the current limit of 3.3%. The fiscal balance of the sub-sector will improve by 0.4 points relative to the expected balance in 2025, driven by the evolution of revenue from the financing system, the new Tax on Interest Margins and Commissions, and some moderation in spending growth. Eligible expenditure for the purposes of the expenditure rule will grow by 4.2% and when calculated in accordance with the methodology of the European fiscal framework, by 2.8%.

In the medium term, AIReF forecasts that eligible expenditure by the ARs for the purposes of the national expenditure rule will grow above the current reference rates between 2025 and 2027. In 2025, the eligible expenditure of the ARs for the purposes of the national expenditure rule will grow by around 5.5%, exceeding the reference rate of 3.2%. In 2026, growth of 4.2% is expected, closer to the 3.3% limit, while in 2027, eligible expenditure would grow by 4.7%, above the current rate of 3.4%.

Over the period 2025-2030, primary expenditure net of revenue measures by the ARs will grow by an average of 4.2%. In 2025, the highest growth in eligible expenditure measured according to the EU framework specifications will be around 4.8%. In contrast, the increase moderates to 2.8% in 2026, benefited, among other factors, by the registration of the new Tax on Interest Margins and Commissions of certain financial institutions. Between 2027 and 2030, average growth of 4.5% is expected, affected by the elimination of the temporary tax.

FIGURE 32. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE. ARS (% CHANGE)



Source: IGAE and AIReF

TABLE 26. AIReF FORECASTS OF THE CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE FOR NATIONAL AND EUROPEAN EXPENDITURE RULE. TOTAL ARS 2025-20230 (% VARIATION)

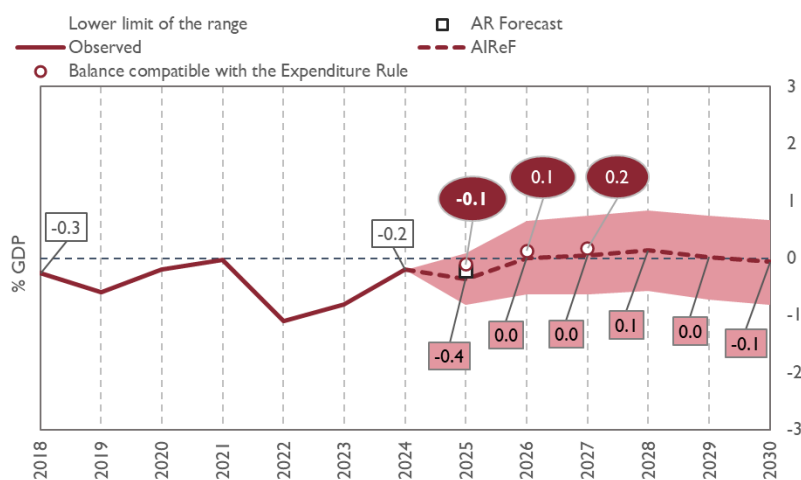
Autonomous Regions	Year-end 2024 % change 24/23	AIReF forecast	AIReF forecast	AIReF forecast	AIReF forecast	AIReF forecast	AIReF forecast
		% change 25/24	% change 26/25	% change 27/26	% change 28/27	% change 29/28	% change 30/29
Expenditure (without RTRP)	5,2	5,2	3,1	3,9	4,3	4,1	3,7
Eligible expenditure national expenditure rule	5,1	5,5	4,2	4,7			
Eligible expenditure European expenditure rule	7,3	4,8	2,8	4,7	4,3	4,7	4,2

Source: MINHAC and AIReF

AIReF forecasts that the ARs will record a deficit of 0.1% in 2030, under a no-policy-change scenario. In 2025, the fiscal balance will deteriorate compared with 2024 due to several factors: on the one hand, revenue from the financing system and European funds recorded exceptional levels in 2024, which will not be replicated in the future. On the other hand, the 2025 scenario records most of the impact of the measures adopted by the AR of Valencia to mitigate the effects of the DANA, partly offset by the estimated amount that will be received from the European Union Solidarity Fund (EUSF). The situation improves as of 2026 due to the positive evolution expected in the system's revenue, the registration of the new Tax on Interest Margins and Commissions of certain financial institutions (as a transfer from the CG), the non-reiteration of part of the DANA measures, the moderation in the growth of other expenditure due to the return to fiscal rules and the finalisation of the

agreement with trade unions at a national level. Between 2026 and 2030, fiscal balances are expected to be close to equilibrium, albeit with slight variations in 2027 with a surplus of 0.1% of GDP and in 2030 with a deficit of 0.1% of GDP, as EU revenue is expected to moderate and investment not associated with EU funds is expected to recover. Without the impact of DANA-related measures, the deficit would improve by 0.1 points of GDP in 2025 and by 0.05 points in 2026.

FIGURE 33. EVOLUTION OF THE BALANCE IN THE ARS UP TO 2030 (% GDP)



Source: IGAE and AIReF

TABLE 27. REVENUE, EXPENDITURE AND FISCAL BALANCE OF THE ARS EXCLUDING THE RTRP UP TO 2030 (% GDP)

Autonomous Regions	Year-end 2024 % GDP	AIReF	AIReF	AIReF	AIReF	AIReF	AIReF
		Forecast 2025 % GDP	Forecast 2026 % GDP	Forecast 2027 % GDP	Forecast 2028 % GDP	Forecast 2029 % GDP	Forecast 2030 % GDP
Net revenue without RTRP	15.4	15.1	15.3	15.3	15.5	15.4	15.4
Net RFS	9.8	9.5	9.7	9.8	10.0	10.1	10.2
<i>Net IPs</i>	8.5	8.8	9.0	9.0	9.2	9.2	9.4
<i>Net Settlement</i>	1.3	0.7	0.8	0.8	0.9	0.9	0.8
Tax on Asset Transf. & Doc. Legal Acts	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Inheritance and Gift Tax	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Other non-RFS taxes	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other revenue	3.8	3.8	3.7	3.6	3.6	3.5	3.4
Net expenditure without RTRP	15.6	15.5	15.3	15.3	15.4	15.5	15.5
Intermediate consumption	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Compensation of employees	6.7	6.6	6.6	6.6	6.6	6.6	6.6
Social transfers in kind	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Interest	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other current expenditure	1.8	1.9	1.9	1.8	1.8	1.8	1.8
Capital expenditure	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Net lending/borrowing	-0.2	-0.4	0.0	0.0	0.1	0.0	-0.1
GDP	1,594,330	1,683,014	1,756,746	1,824,433	1,892,266	1,960,713	2,031,094

Source: AIReF

4.5.3.1 Revenue of the Autonomous Regions

AIReF estimates that the revenue of the ARs in 2026, excluding the RTRP, will increase by 6% over the previous year, gaining 0.2 points in the weight of GDP. In 2026, revenue from the financing system is expected to increase by 7%, while tax revenue and production-related revenue are expected to grow by 4% overall. These increases will be offset by the expected fall in revenue from European funds outside the RTRP. State transfers will maintain a similar level, as the phasing out of certain temporary measures is offset by the new temporary Tax on Interest Margins and Commissions.

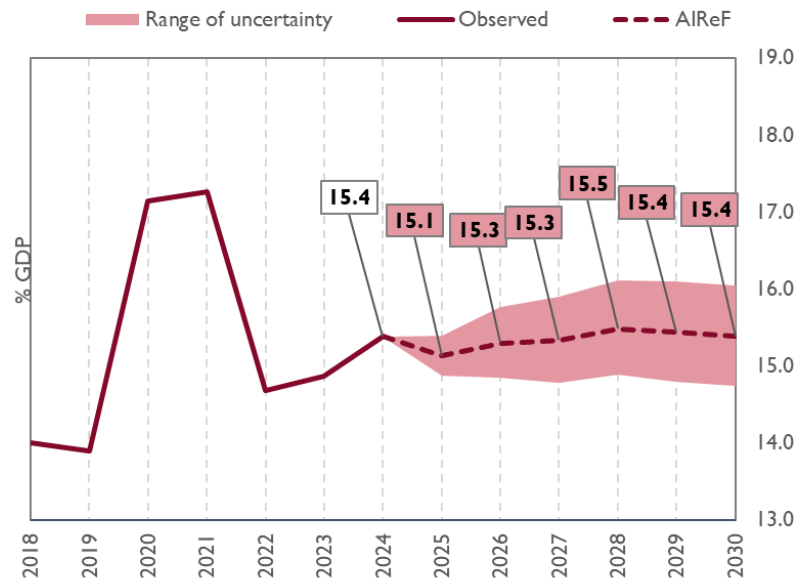
In the medium term, revenue forecasts for the ARs are based on overall GG Sector estimates. The update of the macroeconomic scenario considered by AIReF for the period 2025-2030 determines the global revenue forecast for the GG Sector and, by application of the regional financing systems, the estimates of the main revenue of the ARs in the period. In 2025, AIReF includes in its central scenario the update of instalment payments in accordance with Royal Decree-Law 6/2025 of June 17th, as well as the 2023 settlement, which has already been received. In 2026, it includes the instalment payments and year-

end forecast that the Ministry of Finance has communicated globally to each AR. AIReF has estimated the breakdown of the instalment payments by mechanism, as this is not included in the ministry's communication.

AIReF estimates that the revenue of the ARs will stabilise at around 15.4% of GDP by the end of the period. In 2025, the weight of revenue will be reduced, basically due to the evolution of the revenue from the financing system, which recorded an exceptional settlement in 2024. Thereafter, AIReF forecasts a gradual increase in the weight of revenue, which, by the end of the period under consideration, will reach a level similar to that of 2024, thanks to the positive evolution expected in instalment payments and the sustained growth of other revenue.

Revenue from the regional financing system will grow by an average of 4.8% in the period 2025-2030, reaching 10.2% of GDP in 2030. Revenue from the regional financing system accounted for 63.5% of total revenue at year-end 2024 and will account for 66.1% in 2030. The settlements of the financing system of the ARs under the general regime recover their usual weight of GDP as of 2025, 0.8% in 2030 compared with 1.3% in 2024, affected by the tax reduction measures adopted under PIT, which will still have an impact on revenue in 2026 and 2027. For their part, instalment payments will grow by 5.9% on average over the period, rising from 8.5% of GDP in 2024 to 9.4% in 2030.

Other revenue will reduce its weight of GDP as of 2027 to 5.2% of GDP in 2030. Tax and production-related revenue will maintain their weight of GDP until 2027, with a gradual decline as of 2028 in Inheritance and Gift Tax and a smaller decline in the Tax on Asset Transfers and Documented Legal Acts. State transfers not associated with the financing system include the new Tax on Interest Margins and Commissions from 2026 to 2028, which in 2026 offsets the phasing out of some temporary subsidies, such as those derived from transport. As of 2029, with the phasing out of the temporary tax, these transfers from the State will lose weight. A positive evolution in the contributions of the Chartered Councils to the AR of the Basque Country is estimated, associated with the expected growth in revenue. Lastly, AIReF forecasts the recording of European funds 2021-2027 in accordance with the growing execution of the expenditure financed therefrom, adjusted to the financial programming and compliance with the n+3/n+2 rule. This revenue would represent until 2029 around 0.3% of GDP, losing weight in 2030 due to the end of the 2021-2027 framework and the implementation of the new 2028-2034 framework.

FIGURE 34. NET REVENUE WITHOUT RTRP OF THE ARS (% GDP)


Source: IGAE and AIReF

4.5.3.2 Expenditure of the Autonomous Regions

AIReF forecasts that AR expenditure will grow by 3% in 2026, excluding spending associated with the RTRP. AIReF assumes that the compensation of public employees is updated in line with the CPI and incorporates the specific measures adopted by the ARs. This leads to an increase of more than 3% in the compensation of employees. In addition, increases of around 3% or less are expected in operating, pharmacy and administrative agreement-related spending and 6% in interest spending, while non-RTRP capital spending is expected to grow more moderately.

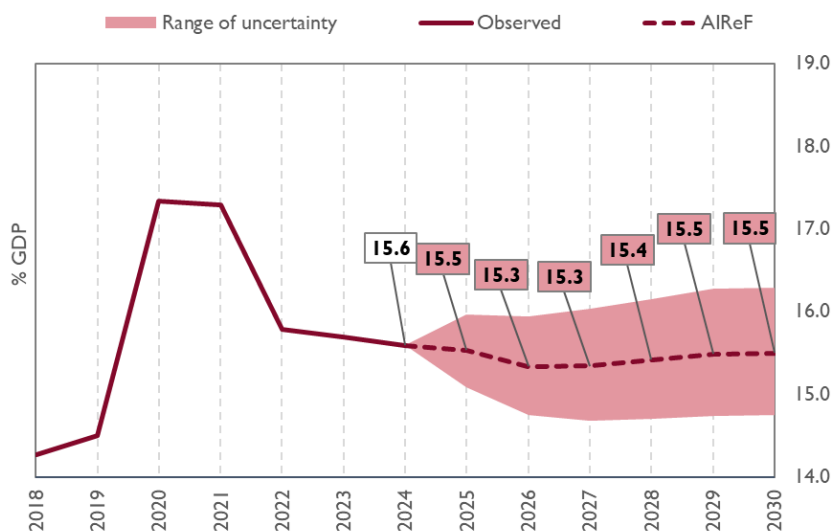
Expenditure of the ARs in the medium term will stabilise at 15.5% of GDP with average growth of 4% over the period 2025-2030. The highest year-on-year growth over the period will generally be recorded under the headings associated with spending on health and education, as well as interest. In general, all items of spending, both current and capital, will maintain their weight of GDP as of 2026, albeit with different evolutions in each case, except for current expenditure associated with subsidies or support financed or co-financed by the State, conditioned by the phasing out of temporary measures.

The main items of public consumption are affected by the evolution of age-related spending. Once the implementation of the agreement reached at a national level with the trade unions has been finalised, AIReF assumes an

increase in public wages in line with the estimated evolution of the CPI, to which can be added the effect of the staffing measures planned by the ARs. Other public consumption - mainly healthcare and education - is projected in line with AIReF's medium- and long-term models, which include the impact of ageing and average growth in spending unrelated to demographic factors.

Temporary spending measures, the execution of European funds and the return of the fiscal rules determine the evolution of other expenditure. AIReF estimates that the measures planned to mitigate the effects of the DANA will have the most significant impact in 2025. However, the AR of Valencia is also planning significant actions in 2026, which AIReF estimates could be partly shifted to the following years. In 2026, the lower impact of DANA-related measures and the end of the spending financed with temporary conditional transfers from the Central State Administration - transport subsidies, unaccompanied minors, moderate the growth of a large part of the expenditure items and reduce the weight of GDP of expenditure excluding the RTRP. As of 2027, the growth in this spending will generally pick up again. AIReF assumes that the volume of transfers to other GG authorities not associated with financing systems will be maintained. Lastly, it is estimated that the weight of GDP of interest spending will be maintained, without considering the impact of the possible debt write-off envisaged in the draft bill that is currently at the public consultation stage, until it is approved by Parliament and accepted by the ARs in bilateral committee.

FIGURE 35. NET EXPENDITURE WITHOUT RTRP OF THE ARS (% GDP)



Source: IGAE and AIReF

4.5.3.3 Individual forecasts of the Autonomous Regions

AIReF forecasts that eligible expenditure for the purposes of the national expenditure rule in most ARs will grow above the current references between 2025 and 2027. In 2025, according to AIReF's forecasts, there is only a low risk of non-compliance with the rule in seven ARs. The outlook worsens for 2026, where only growth in eligible expenditure for only three ARs would be less than 4%. In 2027, practically all ARs would exceed 4%.

FIGURE 36. AIREF FORECAST OF THE CHANGE IN ELIGIBLE EXPENDITURE OF THE NATIONAL EXPENDITURE RULE BY AR 2025 (% CHANGE)

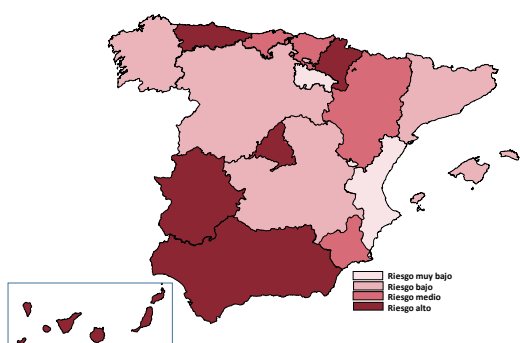
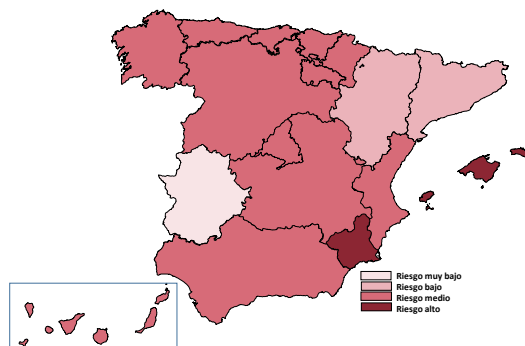


FIGURE 37. AIREF FORECAST OF THE CHANGE IN ELIGIBLE EXPENDITURE OF THE NATIONAL EXPENDITURE RULE BY AR 2026 (% CHANGE)



Source: AIReF

Most ARs will close 2025 and 2026 with a balance or surplus. In 2025, AIReF estimates that nine ARs will be in balance or have a surplus, while four ARs will have a deficit of more than 0.5 points of regional GDP. In 2026, the balance would improve for most ARs, and only two would still have a deficit of more than 1 point of GDP.

FIGURE 38. AIREF FORECAST OF THE BALANCE BY AR 2025(% GDP)

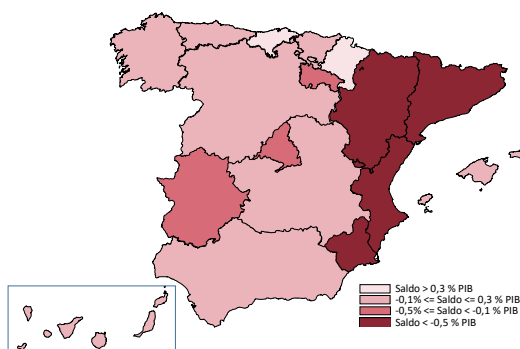
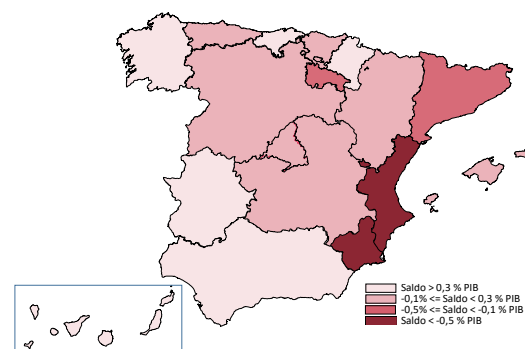


FIGURE 39. AIREF FORECAST OF THE BALANCE BY AR 2026(% GDP)



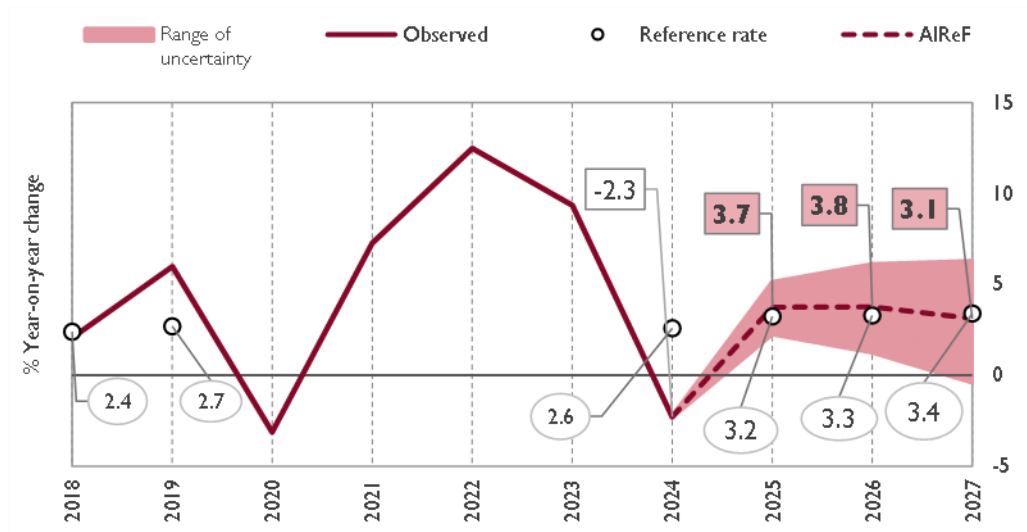
Source: AIReF

The detailed individual analysis will be included in the corresponding reports to be published shortly. The individual reports containing detailed information on the medium-term forecasts for each AR will be published shortly.

4.5.4. Local Governments

Eligible expenditure for the purposes of the national expenditure rule will rise by less than 4% in 2025 and 2026, but above the reference rates currently established for these years, while the rate for 2027 would be met. After a change in eligible expenditure in 2024 that decreases by around 2% as a result of contained spending and the extraordinary exclusions associated with the European Union funds, AIReF forecasts that eligible expenditure could increase at a rate of close to 4% in 2025 and 2026, moderating in the following years. As a result, the sub-sector would be in breach of this fiscal rule in 2025 by exceeding the 3.2% limit.

FIGURE 40. EVOLUTION OF ELIGIBLE EXPENDITURE LGS (% GDP)

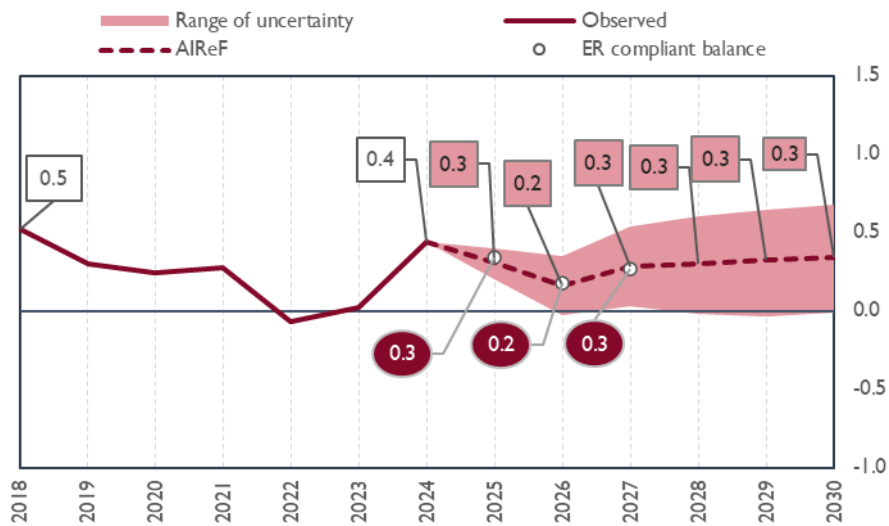


Source: IGAE and AIReF estimate

In the European framework, average growth of 3.8% in primary expenditure net of measures is estimated for the period 2025-2030. AIReF has estimated the primary expenditure net of revenue measures in each of these years, applying the current specifications of the European framework. According to these calculations, for the LG sub-sector as a whole, this expenditure in the absence of additional measures will grow at an average rate of 3.8% over the period. After a decline of 2.6% in 2024, there will be a rebound to over 5% in 2026, thereby making a negative contribution to compliance with the European expenditure rule for the GG Sector.

AIReF estimates that the LG sub-sector will consolidate a surplus of 0.3% of GDP by 2030. For 2025, AIReF maintains a 0.1-point decrease in the fiscal balance relative to the forecast for 2024. This result will be consolidated until 2030, except for a 0.1-point decrease in 2026, due to lower revenue growth that year, primarily from the decline in capital transfers to be received from the rest of the GG. In 2025, this heading includes extraordinary revenue linked to mitigating the effects of last year's DANA of close to €2bn, which will not be repeated in 2026. The consolidation of the sub-sector's surplus at around 0.3 points of GDP over this period comes from forecast average annual growth in revenue of just over 3%, while non-financial expenditure, after a one-off 5% upturn in 2025, is estimated to evolve on average in line with revenue, at around 3%, growth factored out of the effect of RTRP revenue and expenditure.

FIGURE 41. EVOLUTION OF THE NET LENDING/BORROWING OF THE LGS (% GDP)



Source: IGAE and AIReF estimates

TABLE 28. REVENUE, EXPENDITURE AND BALANCE OF LGS WITHOUT RTRP (% GDP)

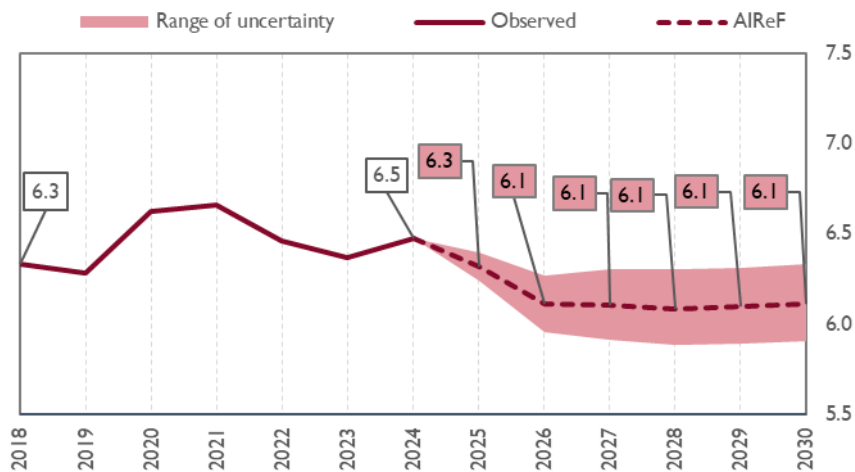
	AIReF						
	2024	2025	2026	2027	2028	2029	2030
REVENUE	6,5	6,3	6,1	6,1	6,1	6,1	6,1
EXPENDITURE	6,0	6,0	5,9	5,8	5,8	5,8	5,8
BALANCE	0,4	0,3	0,2	0,3	0,3	0,3	0,3

Source: MINHAC. and AIReF estimate

AIReF estimates that LG revenue will stabilise at 6.1% of GDP over the entire period, 0.2 points lower than in 2025, excluding the effect of the RTRP. By

component, in terms of current revenue, the weight of GDP represented by transfers received from other GG sub-sectors decreases by 0.2 points in the period considered. Furthermore, a slow decline is observed in the weight of other taxes on production, which includes, among others, the tax collection from some of the main taxes levied by LGs (IBI, IVTM and IAE), which is offset by the moderate increase in the weight of the Chartered Councils' income taxes (mainly PIT). On the capital side, as indicated above, 2025 includes extraordinary revenue associated with the DANA that is not repeated in subsequent years, estimated at around 0.2 points of GDP. As of 2026, the weight of the capital revenue of LGs remains stable in the period considered.

FIGURE 42. EVOLUTION OF REVENUE WITHOUT RTRP LGS (% GDP)



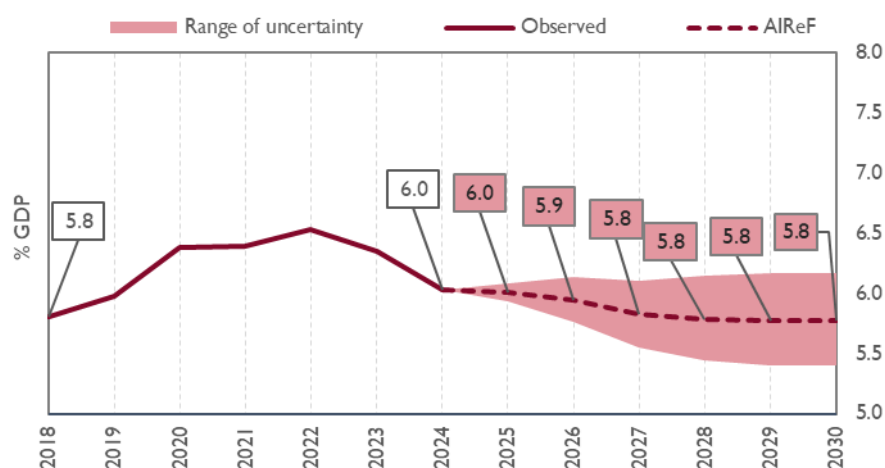
Source: IGAE and AIReF estimate

The evolution of the main components of LG revenue is not homogeneous. On the one hand, the VAT of the Chartered Councils, taxes on capital and those associated with public rates and prices will grow by close to 4%. The revenue of the financing system, after growth of close to 5% in 2026, will increase during the period considered at an average of 6%. On the other hand, revenue associated with traditional EU funds, as well as capital transfers between GG sub-sectors and Corporate Income Tax, are expected to stagnate.

TABLE 29. REVENUE OF LGS WITHOUT RTRP (% GDP)

Local Governments	2024	2025	2026	2027	2028	2029	2030
Net revenue without RTRP	6,9	6,3	6,1	6,1	6,1	6,1	6,1
RFS	1,8	1,6	1,7	1,7	1,7	1,7	1,8
<i>IPs</i>	1,5	1,5	1,6	1,6	1,6	1,6	1,7
<i>Net Settlement</i>	0,3	0,1	0,1	0,1	0,1	0,1	0,1
OTHER TAXES ON PRODUCTION (Property Tax, Tax on Economic Activities, fees...)	1,2	1,1	1,1	1,1	1,1	1,1	1,1
VAT	0,5	0,5	0,5	0,5	0,5	0,5	0,5
PIT, CIT	0,6	0,6	0,6	0,6	0,6	0,6	0,6
Taxes on products, excluding VAT	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Other current taxes	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Taxes on capital	0,1	0,1	0,2	0,2	0,2	0,2	0,2
OTHER TAXES	0,6	0,6	0,6	0,6	0,6	0,6	0,6
SALES	0,6	0,6	0,6	0,6	0,6	0,6	0,6
OTHER REVENUE	1,5	1,3	1,2	1,1	1,1	1,1	1,0

FIGURE 43. EVOLUTION OF EXPENDITURE WITHOUT RTRP LGS (% GDP)



Source: IGAE and AIReF estimate

AIReF forecasts a gradual decline in the weight of expenditure as a percentage of GDP to 5.8% in 2030, 0.2 points less than in 2025, once the impact of the RTRP has been excluded. LG expenditure in 2025 will grow by more than 5%, driven in part by spending by DANA-affected LGs. In subsequent years, all non-financial expenditure is expected to grow by an average of 3% per annum, with the weight of GDP remaining at 5.8% as of 2027. The weight of most of the headings making up the expenditure of this sub-sector is also expected to be maintained, except for interest and gross fixed capital formation, the GDP weight of which falls by 0.1 points in each of these components over this period, as a result, in the first case, of the

continued decline in the volume of LG debt and, in the second, of the end of the investments to mitigate the negative effects of the DANA.

Analysing the composition of the main items of expenditure in the LG sub-sector, the evolution of current expenditure is higher than that expected for capital expenditure, excluding the RTRP. Compensation of employees and intermediate consumption are expected to grow at an average annual rate of 3-4%, while GG transfers are expected to grow at an average annual rate of 6% as a result of the evolution of the PRTR. Public transfers will grow at an average annual rate of 6% as a result of the evolution of the contribution made by Chartered Councils to the AR of the Basque Country in order to share in the positive evolution of the tax collection. Capital expenditure will grow at a lower rate than current expenditure. In particular, gross capital formation, as a consequence of the spending on infrastructures derived from the DANA, which has already been mentioned above, will pick up in 2025, while in the rest of the years of the period, very moderate growth is expected, recovering in part at the end of the period.

TABLE 30. EXPENDITURE OF LGS WITHOUT RTRP (% GDP)

Local Governments	2024	2025	2026	2027	2028	2029	2030
Net expenditure without RTRP	6,0	6,0	5,9	5,8	5,8	5,8	5,8
Intermediate consumption	2,0	1,9	1,9	1,9	1,9	1,9	1,9
Compensation of employees	1,9	1,9	1,9	1,9	1,9	1,9	1,9
Contributions from PCs to Basque Country	0,8	0,8	0,8	0,8	0,9	0,9	0,9
Other current expenditure (transf. without RTRP and cont. PCs; miscellaneous transf. etc.)	0,6	0,6	0,6	0,6	0,6	0,6	0,5
Capital expenditure	0,7	0,7	0,7	0,7	0,7	0,6	0,6

Source: AIReF

TABLE 31. AIREF FORECASTS OF CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE FOR NATIONAL AND EUROPEAN EXPENDITURE RULES. LGS (% CHANGE)

Local Governments	AIReF forecast						
	% change						
	2024	2025	2026	2027	2028	2029	2030
Expenditure (without RTRP)	1.2	5.2	3.3	1.7	3.0	3.3	3.4
Eligible expenditure national expenditure rule	-2.3	3.7	3.8	3.1			
Eligible expenditure European expenditure rule	-2.6	3.5	5.1	3.1	3.4	3.6	3.8

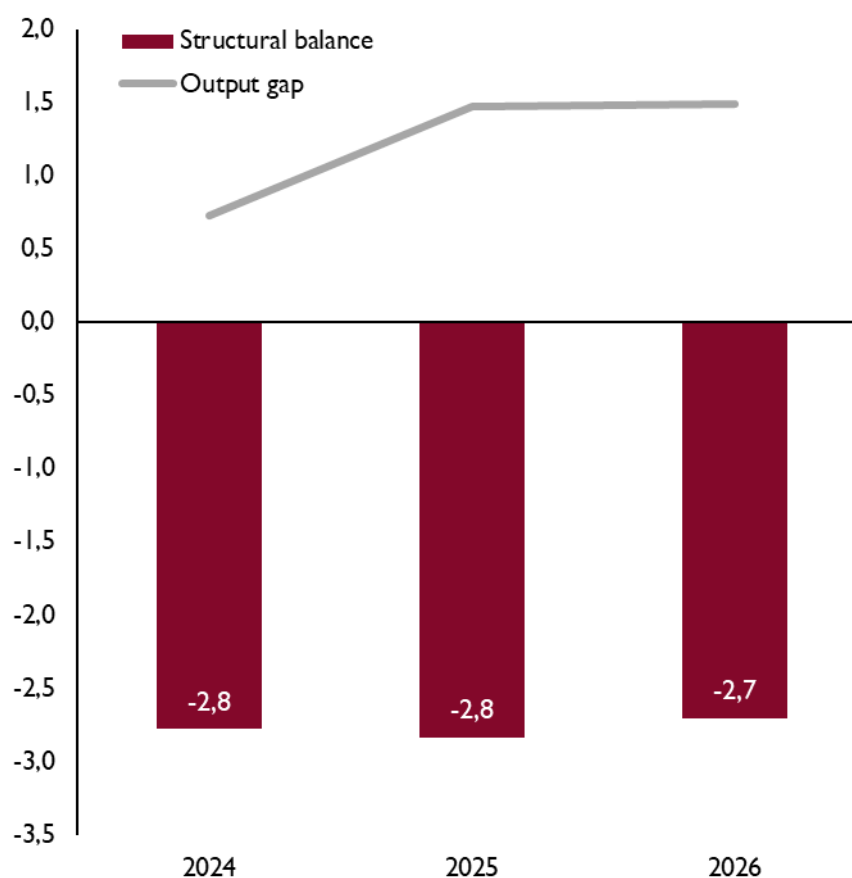
Source: AIReF

AIReF's analysis of the LGs subject to individual monitoring will be contained in the corresponding report to be published shortly. As with the ARs, the analysis of the LGs for which AIReF conducts individual monitoring will be published shortly. In both 2025 and 2026, the 25 large LGs are expected to record a surplus, although three of them risk breaching the 2025 expenditure rule.

5. FISCAL POLICY STANCE

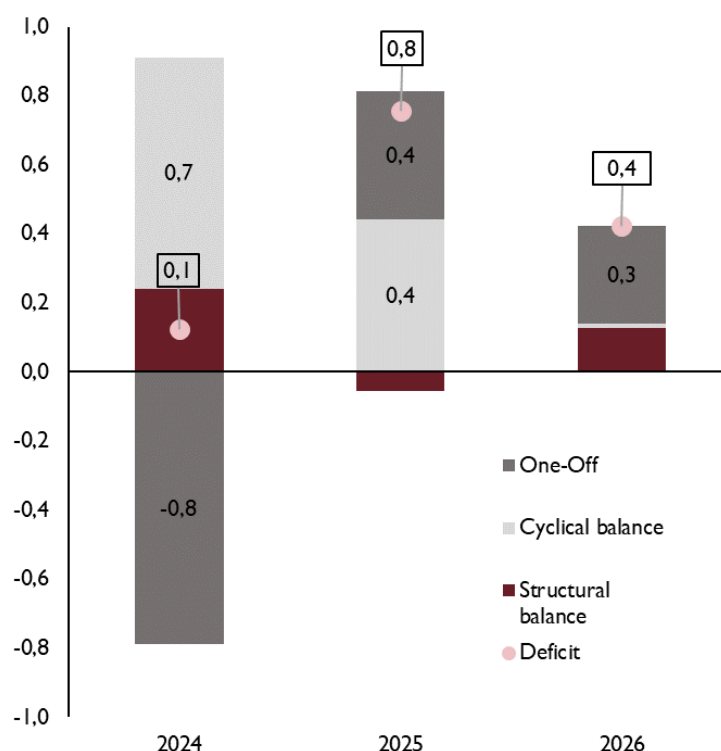
Looking at the structural position of public finances, the divergence between revenue and expenditure remains high, far from structural balance. According to AIReF's estimates, the structural fiscal balance will remain at around 2.8% of GDP in 2025, a similar figure to 2024. In 2026, a slight improvement of 0.1 points is estimated, to stand at 2.7%.

FIGURE 44. STRUCTURAL BALANCE (% GDP) AND OUTPUT GAP



Source: AIReF

If we break down the change in the public deficit observed in 2024 and the forecast for 2025 and 2026 into its cyclical and structural components, we can see that the cyclical improvement is slowing. In 2024, it is estimated that much of the deficit improvement can be explained by a cyclical component, which was partially offset by one-off measures mainly associated with the DANA. For 2025, the improvement in the cyclical deficit is reduced to 0.4 pp, although, unlike in 2024, the one-off measures will contribute to containing the budget deficit, according to AIReF's estimates. The lack of correction of the structural imbalance means the contribution of this component to deficit reduction is practically nil. In 2026, there is a slight improvement in the structural component (0.1 points of GDP) and in the one-off measures (0.4 points of GDP).

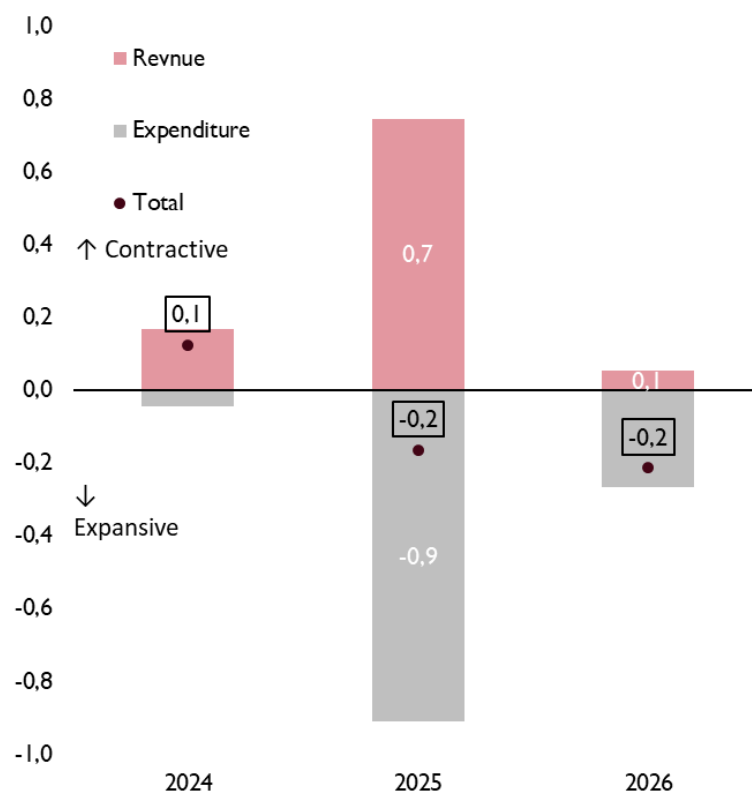
FIGURE 45. CONTRIBUTIONS TO THE CHANGE IN THE GG DEFICIT IN 2024 AND 2025 (% GDP)


Source: AIReF

Lastly, the fiscal policy stance would be slightly contractionary in 2024 and, conversely, slightly expansionary in 2025 and 2026. The discretionary fiscal effort indicator (DFE⁷) indicates that the aggregate fiscal policy stance would have been slightly contractionary in 2024. In contrast, the tone would be slightly expansionary in 2025. This is very similar to the fiscal boost, as measured by the change in the structural primary balance. The expansionary tone in 2025 would be the result of two opposing elements: on the one hand, public revenue would have a contractionary tone, explained by discretionary revenue measures. On the other hand, expenditure is theoretically expansionary in fiscal policy, since its growth exceeds the reference growth rate, which is the average growth rate of nominal potential GDP. In 2026, the tone is also slightly expansionary.

⁷ For more details on the methodology for calculating the discretionary fiscal effort, see Carnot, N. & F. de Castro (2015). 'The Discretionary Fiscal Effort: an Assessment of Fiscal Policy and its Output Effect'. European Commission. Economic Papers 543 (February 2015).

FIGURE 46. DISCRETIONARY FISCAL EFFORT (DFE) INDICATOR (% GDP)



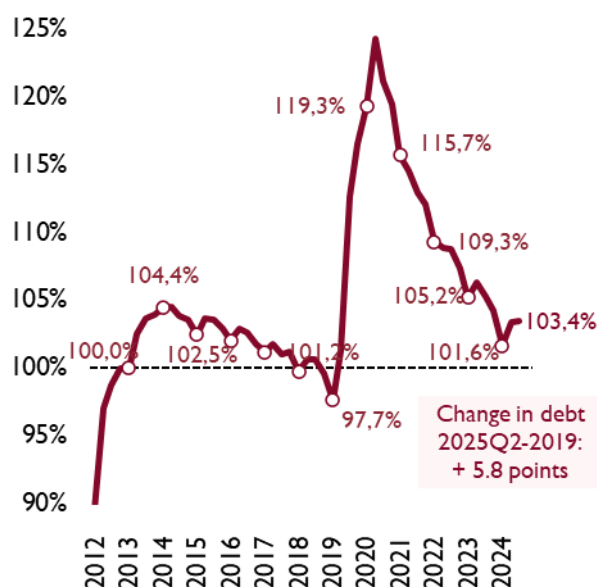
6. PUBLIC DEBT

6.1. General Government total

6.1.1. Recent evolution

The Spanish debt-to-GDP ratio stood at 103.4% in the second quarter of 2025, down 1.8 points from the same quarter of the previous year and up 5.8 points from the pre-pandemic level. The ratio remains constant compared with the first quarter of 2025 and shows a rebound of 1.8 points compared with the last quarter of 2024, partly explained by the positive seasonality of the first part of the year, when public issuers take advantage of strong debt demand. The cumulative reduction since the ceiling reached in the first quarter of 2021 (124.2%) is 20.8 points.

FIGURE 47. DEBT (% GDP), QUARTERLY EVOLUTION UNTIL 2025 Q-II



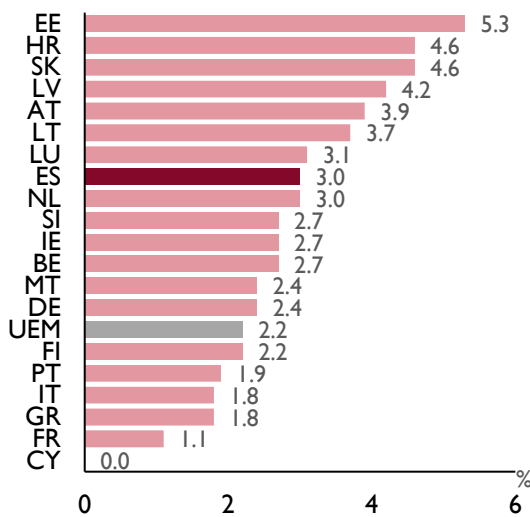
Source: Bank of Spain, INE and AIReF

6.1.2. Financing conditions

Inflation is close to the target established by central banks. The inflation rate in the euro area has been falling, standing at 2.2% in September. However, beneath this aggregate convergence, there is still considerable heterogeneity across countries.

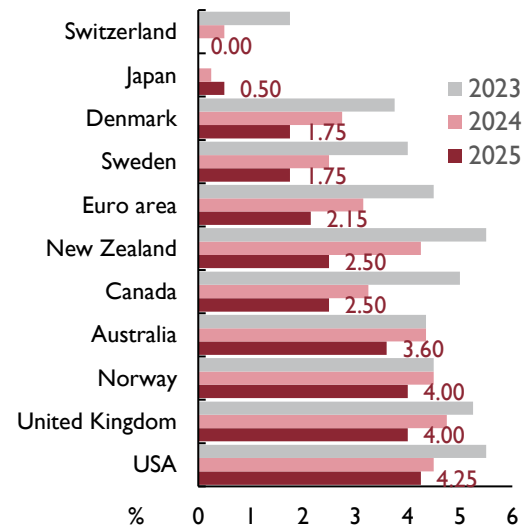
The moderation of inflation has led to the start of a process of monetary policy easing in the euro area. Since 2024, the ECB has applied several cuts to its reference interest rate, totalling four in 2025. However, at its last meeting on September 11th, the central bank decided to keep policy rates unchanged, following an evaluation of recent developments in inflation and economic conditions.

FIGURE 48. EURO AREA HARMONISED INFLATION. YEAR-ON-YEAR RATE. SEPTEMBER 2025



Source: Eurostat

FIGURE 49. CENTRAL BANK INTEREST RATES (%)



Source: Refinitiv

The easing of monetary policy has affected short-term sovereign debt markets. Throughout 2024 and early 2025, one-year bond yields have been on a downward path across major European economies, with a 52-basis-point decline in Spain compared with the previous year. This evolution contrasts with that observed in longer-term debt, which reflects the higher risk perception and growing structural financing needs of European economies (population ageing, rising public and defence expenditure, and the costs of adapting to climate change), intensified by political uncertainty and budgetary tensions in several countries.

FIGURE 50. YIELD ON SOVEREIGN DEBT, 1-YEAR BOND

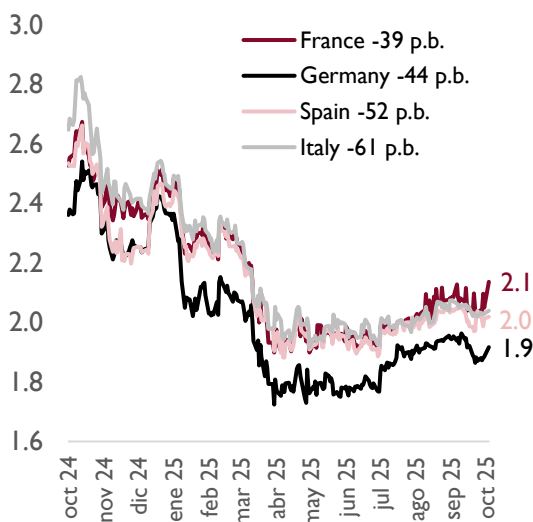
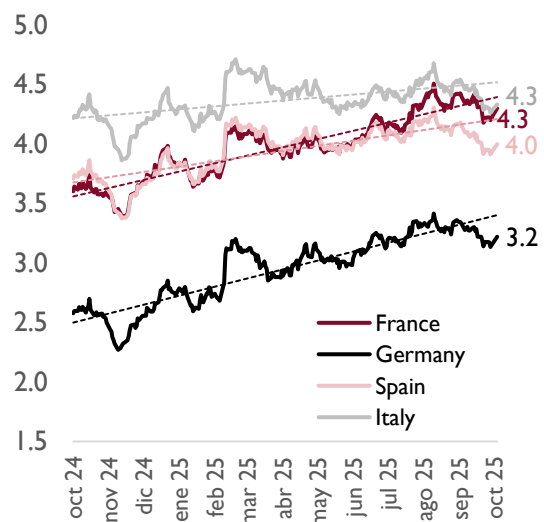


FIGURE 51. YIELD ON SOVEREIGN DEBT, 30-YEAR BOND



Source: Refinitiv

Sovereign debt yields show divergent trends across countries, with upward trends in Germany and France, while Spain and Italy show greater stability, with 10-year yields remaining more contained. Over the last year, the 10-year risk premium has declined in Italy and Spain, helped by the rise in German yields. In France, political uncertainty and the need for a credible fiscal cutback have pushed up the yield on the 10-year bond, which has been trading above the Spanish yield since October 2024, pushing its risk premium above Italy's and reflecting increased market pressure on its sovereign debt.

FIGURE 52. YIELD ON SOVEREIGN DEBT, 10-YEAR BOND

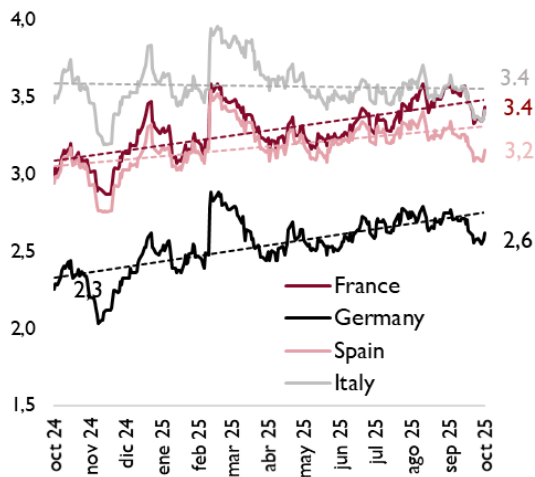
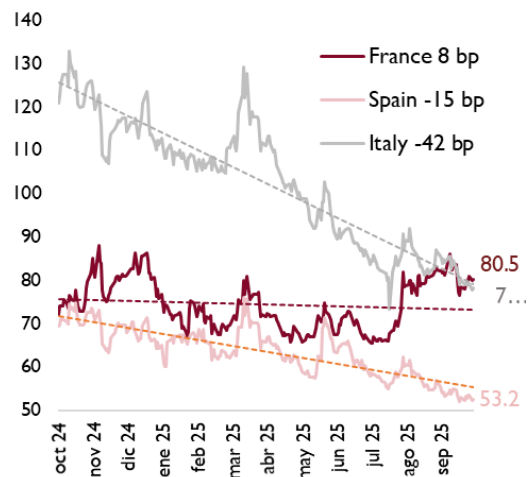


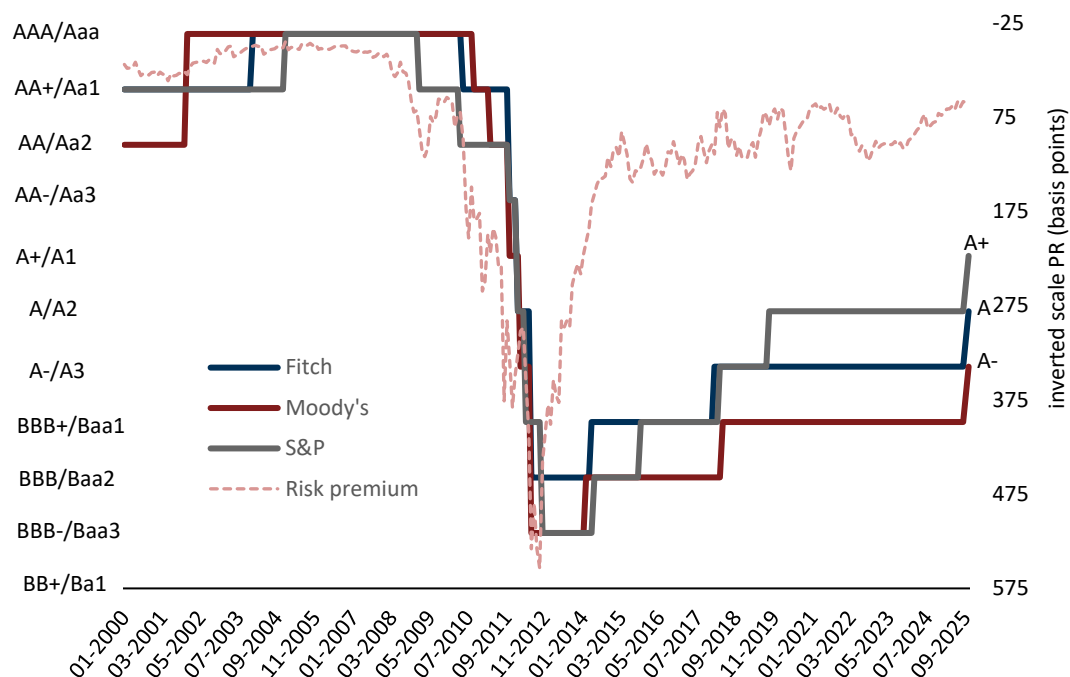
FIGURE 53. 10-YEAR RISK PREMIUM VERSUS GERMANY



Source: Refinitiv

The leading rating agencies have recently raised Spain's sovereign rating. Specifically, on September 26th, Fitch upgraded Spain's rating by one notch, from A- to A. On the same day, Moody's also upgraded its rating from Baa1 to A3. Previously, on September 12th, S&P had raised Spain's rating to A+. All three agencies maintain a stable outlook. Among the factors justifying the improved rating, common to all three agencies, are: the comparatively solid performance of the Spanish economy, with growth above the euro area average, a robust labour market and a strong foreign sector.

FIGURE 54. HISTORICAL EVOLUTION OF SPAIN'S RATING AND RISK PREMIUM (10 YEARS VS GERMANY, BP)



Source: Bank of Spain, INE and AIReF

As for the cost of Treasury financing, the average cost of new issues continues the downward trend that began in 2024, in line with the reduction in the official ECB rate. In September 2025, the average cost of new issues stood at 2.5%, 90 basis points lower than in 2023 (3.4%). Although current issuance rates are lower than two years ago, they are still higher than the average cost of the outstanding portfolio, so the average cost of debt will continue to rise in the coming quarters.

FIGURE 55. AVERAGE COST OF STATE DEBT (%)

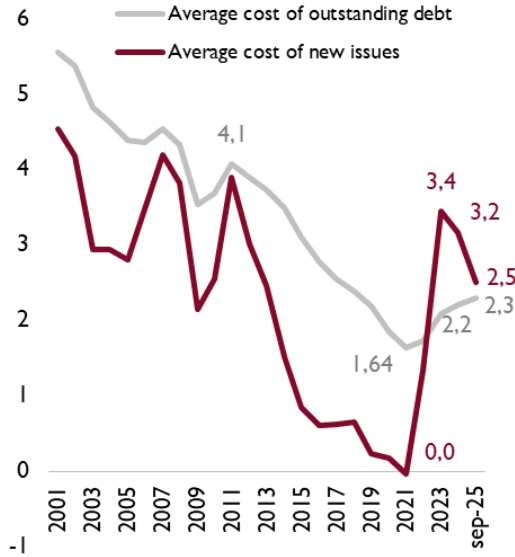
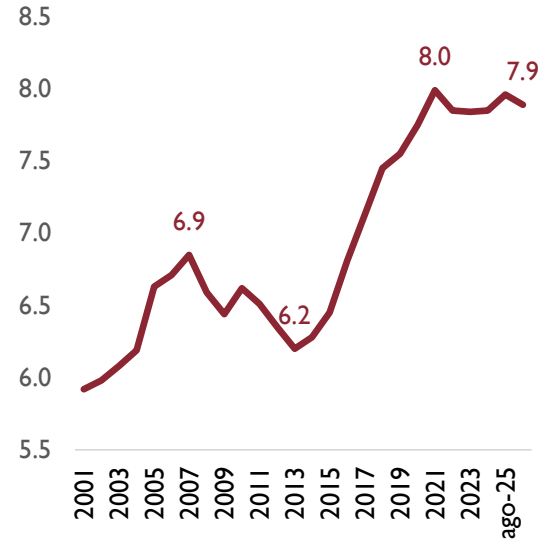


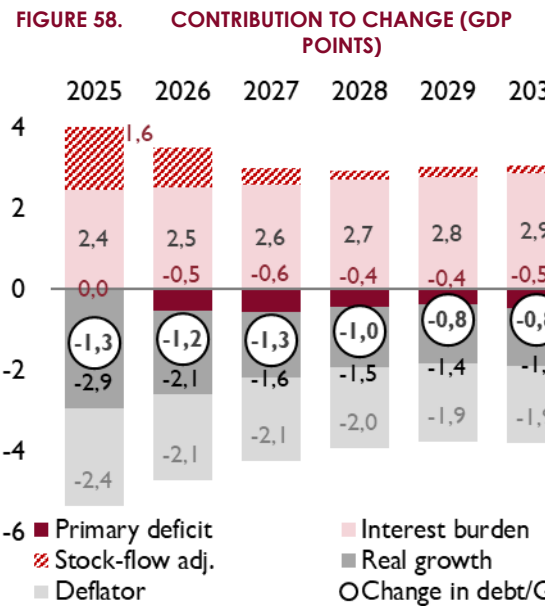
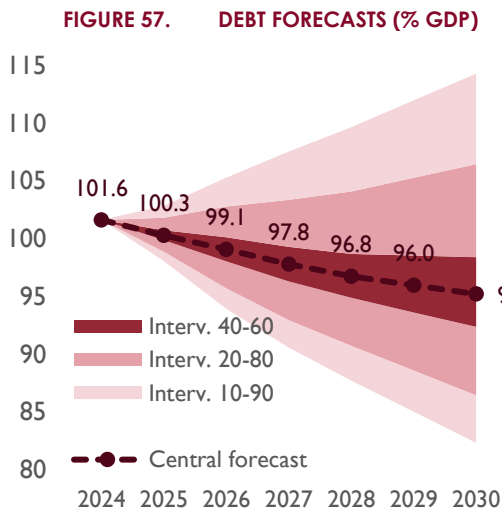
FIGURE 56. AVERAGE MATURITY OF GOVERNMENT DEBT (YEARS)



Source: Public Treasury

6.1.3. Medium-term forecast horizons

In its medium-term baseline projection, AIReF estimates a reduction in the public debt-to-GDP ratio of 6.4 percentage points between 2024 and 2030, which would hover around 95.2% at the end of the period. This downward path is mainly underpinned by the momentum of nominal GDP growth, whose cumulative contribution would reach 23.5 points, with the GDP deflator accounting for 12.5 points of the reduction. In parallel, the primary balance is projected to gradually improve, reaching a surplus as of 2026, contributing 2.4 points to the decline in the debt ratio. In contrast, the interest burden is projected to add 15.8 points of GDP, partially moderating the projected reduction.



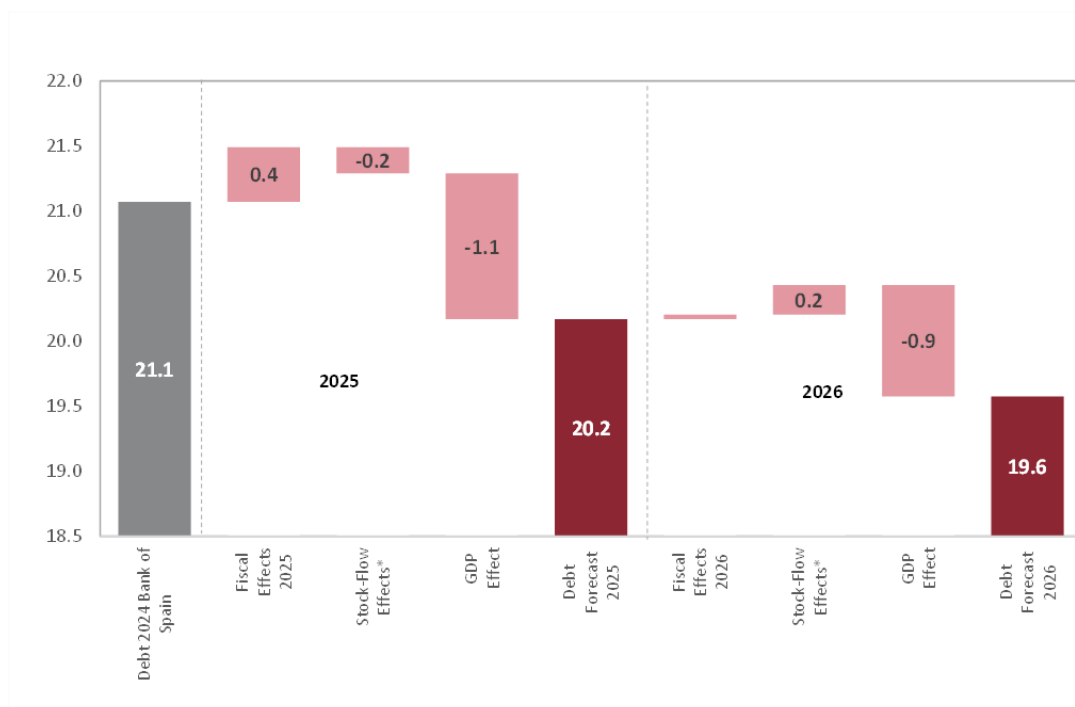
Source: AIReF

The forecasts point to an average annual reduction in the debt ratio of 1.1 pp, with a slight slowdown towards the end of the period. This evolution is explained by the stability of nominal growth projections, at around 3.5%, together with a primary surplus of close to 0.5% of GDP and interest payments of around 2.7%. The favourable growth/interest rate differential would thus help sustain a downward debt path.

6.2. Autonomous Regions and Local Governments

AIReF forecasts that ARs will reduce their indebtedness by 1.5 points from 2024, reaching 19.6% of GDP in 2026. Starting from 21.1% in 2024, the ratio would improve in 2025 and 2026 due to the expected growth in GDP, partly offset by deficits forecast for the sub-sector as a whole. These forecasts are made under a regulatory scenario and do not consider the possible effect of the debt write-off announced for the ARs. At year-end 2024, the largest creditor is the Regional Financing Fund, accounting for 63% of total regional debt, followed by loans from national financial institutions (17%) and bonds (14%).

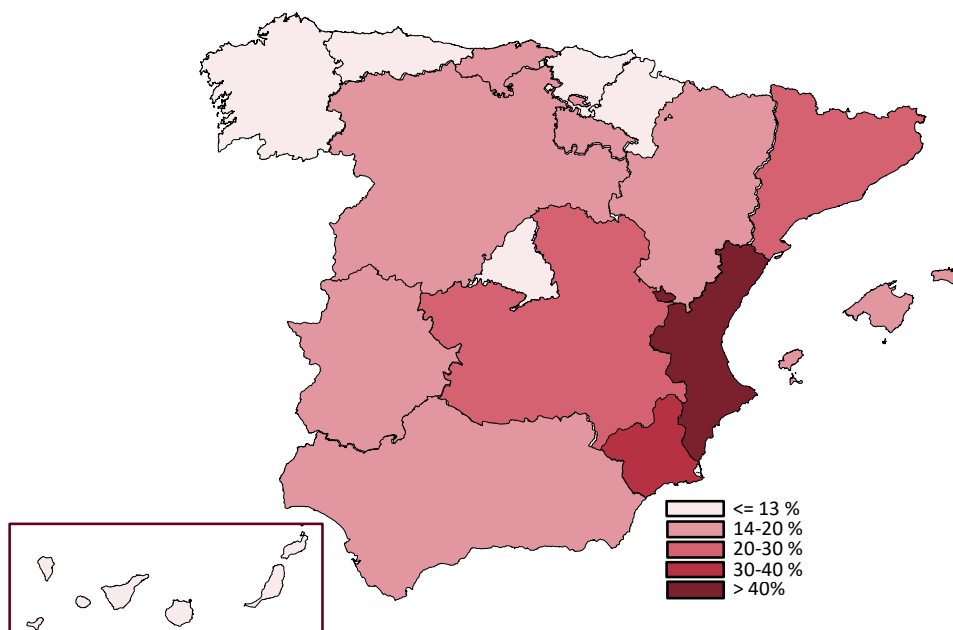
FIGURE 59. FORECAST EVOLUTION OF AR DEBT (% GDP)



*Stock-flow effects: application of fiscal balances from/to other fiscal years, over-financing, reclassifications, deferral of negative RFS 2008-2009 and other effects

Source: Bank of Spain and AIReF

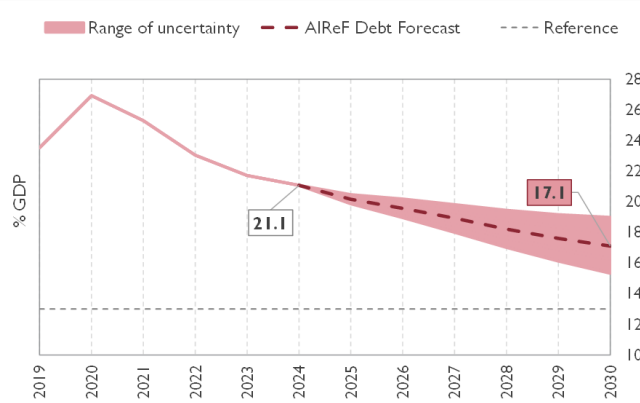
Under the above estimates, four ARs could have a debt ratio above 20% in 2026, while six could be below the 13% set in the LOEPSF. Valencia would still have a debt level above 40% of regional GDP in 2026, while Murcia would remain above 30%, and Castile-La Mancha and Catalonia above 20%. In contrast, Galicia would join the group of ARs with a debt ratio within the 13% of GDP reference rate in 2026, which Navarre, the Canary Islands, the Basque Country, Madrid and Asturias already complied with.

FIGURE 60. REGIONAL DEBT-TO-GDP RATIO FORECASTS 2026 (% GDP)


Source: AIReF

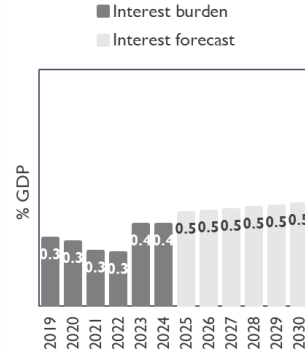
AIReF estimates that the regional sub-sector's debt-to-GDP ratio will fall in the medium term, but will remain well below 13% in 2030. The expected evolution of GDP means that the debt ratio will tend to fall in the medium term, always under the assumptions of a regulatory scenario in which surpluses are used to reduce debt in the year in which they occur and excess deficits are offset in the following year, and of constant policies, without considering additional measures. However, the pace of reduction would be very moderate, with the ratio not falling below 17% by 2030. This evolution, together with expectations about financial markets, will mean that the interest burden will maintain its weight of GDP throughout the period 2025-2030.

FIGURE 61. FORECASTS OF DEBT OF THE ARS IN THE MEDIUM TERM (% GDP)



Source: Bank of Spain and AIReF

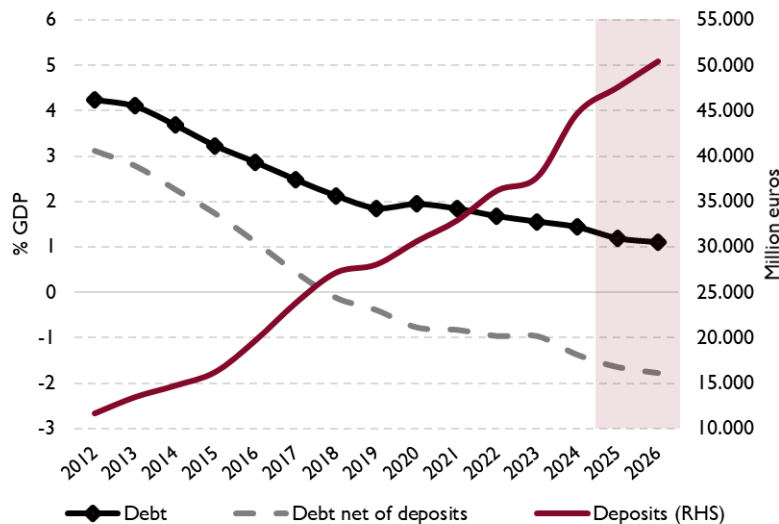
FIGURE 62. INTEREST BURDEN (% GDP)



Source: IGAE and AIReF

For the LGs, AIReF forecasts an improvement in their net positions at year-end 2026, both in absolute terms and as a share of GDP. The latest data published by the Bank of Spain for June 30th, 2025 on LG debt and deposits show an improvement in the net fiscal balance compared with the same quarter of the previous year as a result of a moderate decline in debt and a notable increase in deposits. This corroborates AIReF's forecasts on the results to be achieved in 2025 and 2026. In terms of GDP, the debt ratio is expected to fall to 1.1% by year-end 2026, and deposits are expected to rise to 2.9% of GDP, whereas in 2024, debt stood at 1.4% and deposits at 2.8%.

FIGURE 63. EVOLUTION OF DEBT AND DEPOSITS OF LOCAL GOVERNMENTS



Source: Bank of Spain and AIReF

7. RECOMMENDATIONS

7.1. New recommendations

Setting targets consistent with the national and European expenditure rules

In the context of the new European fiscal framework, the Medium-Term Fiscal-Structural Plan (MTP) 2025-2028, submitted by Spain to the European Union on October 15th, 2024, contains the fiscal commitments assumed by Spain before the European Union for that period, as well as the investments and reforms that justify the extension of the adjustment period from four to seven years.

The adaptation of the LOEPSF to the new European framework has not yet been carried out, with Member States having until December 31st, 2025 to do so. Currently, the configuration of the national expenditure rule does not guarantee compliance with the European expenditure path. In turn, practice shows that target-setting is inconsistent with the national expenditure rule.

Insofar as the national and European expenditure rules differ in several respects, AIReF stresses the implications of applying the current national framework to the European fiscal framework. In this regard, compliance with the national expenditure rule leads to compliance with the European expenditure rule in 2025 and 2026. However, this situation is reversed in 2027 when compliance with European commitments would require additional adjustments.

At the date of issue of this report, the stability and debt targets have not yet been set. The expenditure rule for 2026 is provisional and corresponds to the rule established for that year in the 2024 Report on the Situation of the Spanish

Economy for the three years 2025-2027. For this reason, AIReF recommends to the Ministry of Finance that, until the LOEPSF is adapted to the new framework, the targets should be set in a manner that is consistent with both the national and European expenditure rules, ensuring compliance with the commitments made in the MTP.

In this context, **AIReF makes the following recommendation to the Ministry of Finance:**

Until the Organic Law on Budgetary Stability and Financial Sustainability is adapted to the new European framework, the proposed budgetary stability and debt targets for each GG authority should be consistent with the evolution of eligible expenditure determined by the reference rates of the national expenditure rule and with the commitments to growth in primary expenditure net of revenue measures contained in the MTP.

The President of AIReF



Cristina Herrero Sánchez

ANNEX I. EX-POST ANALYSIS OF THE GOVERNMENT'S FORECASTS

In this section, the *ex post* analysis of the Government's macroeconomic forecasts is carried out in accordance with European regulations. Article 14 of Organic Law 6/2013 on the Creation of the Independent Authority for Fiscal Responsibility states that the report on the Government's macroeconomic forecasts shall include an evaluation of the existence of significant biases in the Government's forecasts over a period of four consecutive years, in accordance with Article 4(6) of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

This section analyses the presence of systematic errors and significant biases, and compares different institutions using the methodology⁸ adopted since the Stability Programme Update Report 2022-2025, adding estimates for 2024. Following the criterion adopted in the last report, the one-year forward estimates for 2020 are not included, to avoid distortions in the results, given the impossibility of predicting the outbreak of COVID-19 in April 2019.

On this occasion, the analysis is extended by adding tests to assess the quality of the predictions. In addition to the hypothesis tests used, complementary tests similar to those used in the evaluation of AIReF's forecasts have been added.

By way of summary, the main results of this evaluation are as follows:

- **Significant biases that have been systematically repeated over the last four years in the forecasts made by the Government continue to be unobserved, both in those made for the current year and for one-year-ahead.** The current year estimates show a reduction in the number of large errors - from eight in the 2024 evaluation to four this time⁹, although a significant error is detected in the autumn forecasts for exports of goods and services. In the forecasts for one-year-ahead, the number of significant errors is reduced - from seven in the 2024 evaluation to four this time. However, the number of large errors increases - from two in the 2024 evaluation to four this time. Of particular note is the improvement in the quality of the gross fixed capital

⁸ https://www.airef.es/wp-content/uploads/2022/WEB/AP%C3%88/Infome-APE-2022-2025_20220704.pdf (Section 2.4).

⁹ An error is rated as "large" when it falls outside the interquartile range of the panel of institutions and as "significant" when the error is large and overestimates the change in a macroeconomic aggregate by more than the median of the panel of institutions.

formation (GFCF) forecasts, where the Government has been making significant errors for the past three years (see Tables 2 and 3).

- **The Government continues to make no significant biases in forecasting the gross domestic product (GDP).** The Government underestimated GDP growth in its forecast for 2024, with the average error in the current year's estimates in negative territory¹⁰. The average error in the Government's estimates for the current year is not statistically significant and is in line with that made by AIReF, but it differs statistically from the bias of the rest of the institutions in that it underestimates growth to a greater extent. In contrast, for one-year-ahead, the average error committed by the Government is positive and represents a greater overestimation of the evolution of GDP compared with the other institutions, although it is not statistically significant and does not differ from theirs (see Table 1 in Annex II).
- **Government forecasts for the current year continue to underestimate public consumption.** The Government's forecasts for the current year for the demand components do not show statistically significant biases, except for public consumption, where growth is still forecast to be lower than that observed. However, the Government's average forecasting error for public consumption is similar to that of the other agencies, except for AIReF, whose average error is not statistically different from zero.
- **The Government's forecasts for one-year-ahead are optimistic for some demand components.** Statistically significant and positive mean errors continue to be observed in the estimates for public consumption, GFCF and imports at one year in the Government forecasts. There is also a tendency to overestimate private consumption, but this is not statistically significant. Nevertheless, the average errors made by the Government are similar, with some occasional exceptions, to those of the other agencies.
- **The accuracy of the Government forecasts improves or is maintained, except for public consumption and current year GDP.** In the GDP forecasts for the current year, a mean square error - corrected for standard deviation - is observed, which rises in the spring 2025 forecasts, continuing with the loss of precision observed since COVID-19 was introduced. In the public consumption forecasts, both for the current year and one-year-ahead, there is also a slight reduction in accuracy.

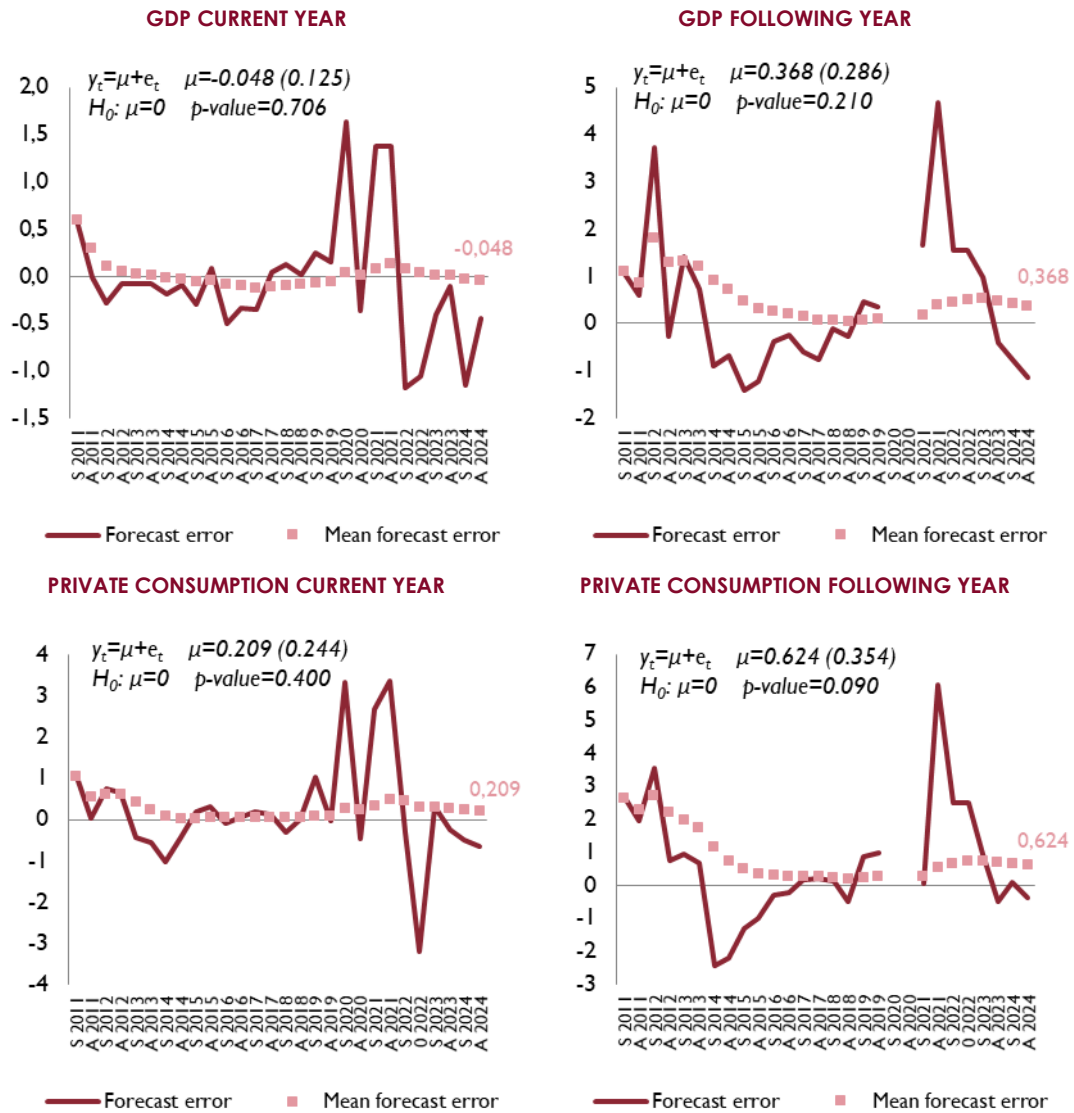
¹⁰ A negative mean error is associated with an underestimation, while a positive mean error is linked to a tendency to overestimate growth.

Meanwhile, for the rest of the demand components and for GDP for one-year-ahead, the volatility-corrected mean square error continues to fall or remains stable. In any case, the accuracy of the Government forecasts is similar to that of the other agencies' forecasts.

- **Estimates of both GDP and all other demand aggregates except GFCF and public consumption for one-year-ahead improve the accuracy of a naïve estimate.** To assess the predictive ability of the forecasts against a naïve estimate (defined as the last observed value), two quality measures are used, Theil's U statistic (TU) and the Diebold-Mariano test (DM). For one-year-ahead forecasts of public consumption and GFCF, a loss of precision relative to the naïve estimate is observed. However, this loss of predictive ability relative to a naïve estimate is common across all agencies.
- **The Government forecasts for GDP and private consumption for the current year, as well as for the foreign sector for one year ahead, are jointly unbiased and efficient.** The joint test of linear restrictions on the parameters of the Mincer-Zarnowitz regression is used to assess the unbiasedness and efficiency of the forecasts. For the current year, the hypothesis that the forecasts have the same mean and variance as the first INE estimate for GDP and private consumption is not rejected, but it is rejected for the rest of the demand components. For one year ahead, for all the aggregates analysed, except exports and imports, the null hypothesis of the test is rejected. Similar results are observed when testing the forecasts of the rest of the agencies.
- **Persistent errors are observed in the Government forecasts for one year ahead, except for exports.** The Government forecasts for GDP and other components for the current year show no autocorrelation, as do the AIReF estimates, unlike those of other agencies. However, in the simple autocorrelation functions of the one-year-ahead forecast errors, values significantly different from zero are observed at the first lag, indicating that past errors help explain future errors. This persistence affects all demand aggregates, except exports, and is also evident in the forecasts of other agencies, such as the Bank of Spain and the Funcas Panel, and, to a lesser extent, in those of AIReF and the European Commission.

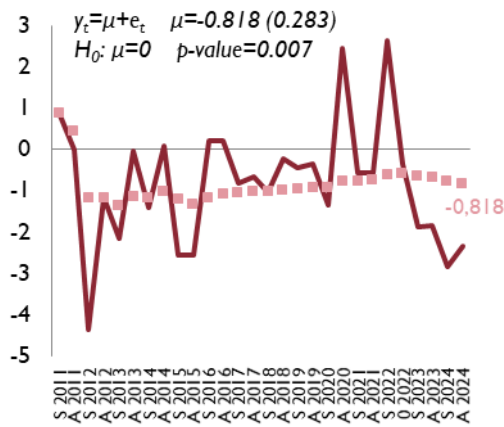
ANNEX II. KEY METRICS OF THE EX POST ANALYSIS

ANNEX II. FIGURE 1. FORECASTING ERRORS AND AVERAGE ERROR IN GOVERNMENT ESTIMATES OF GDP AND DEMAND COMPONENTS.

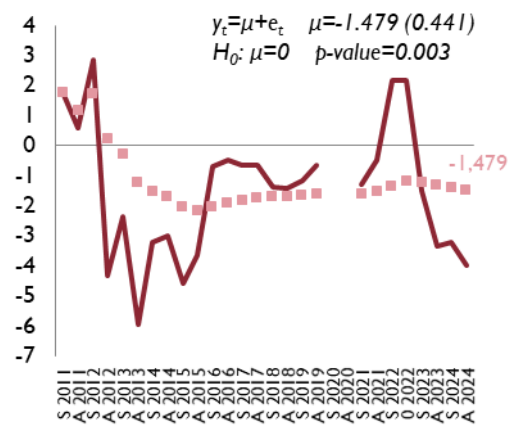




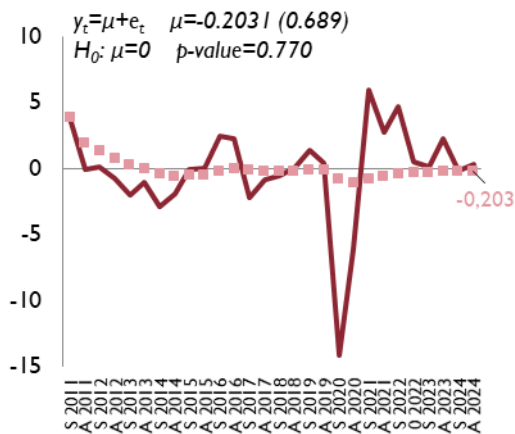
PRIVATE CONSUMPTION CURRENT YEAR



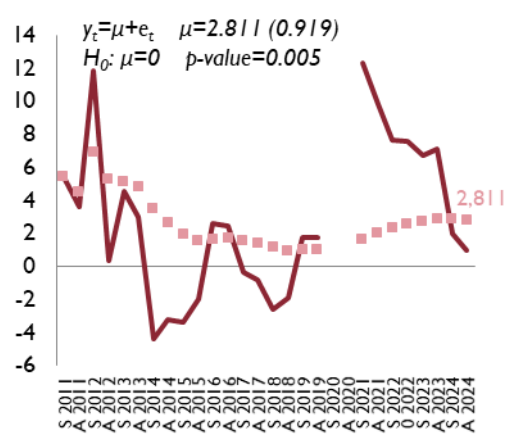
PUBLIC CONSUMPTION FOLLOWING YEAR



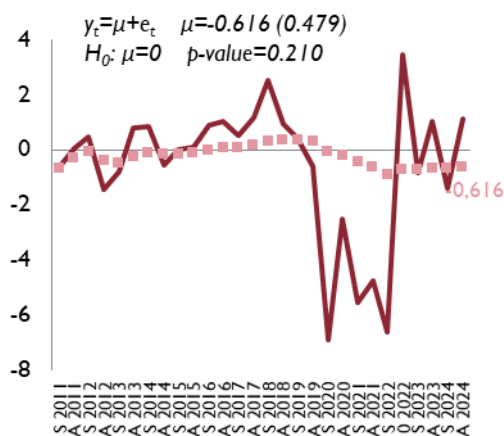
GFCF CURRENT YEAR



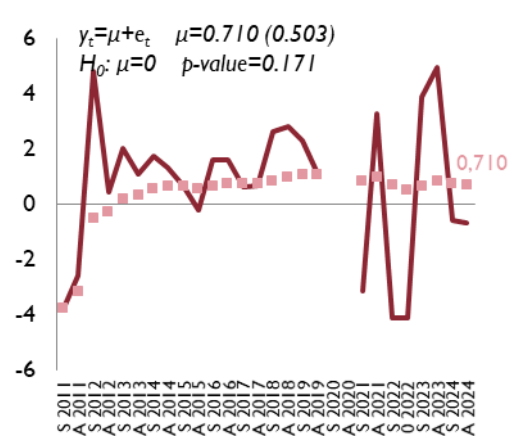
GFCF FOLLOWING YEAR

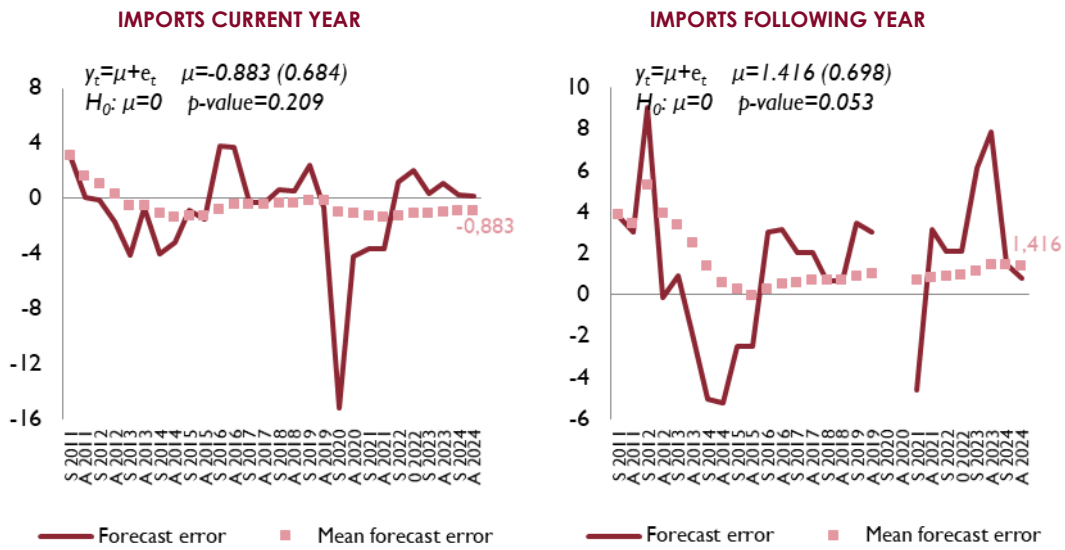


EXPORTS CURRENT YEAR

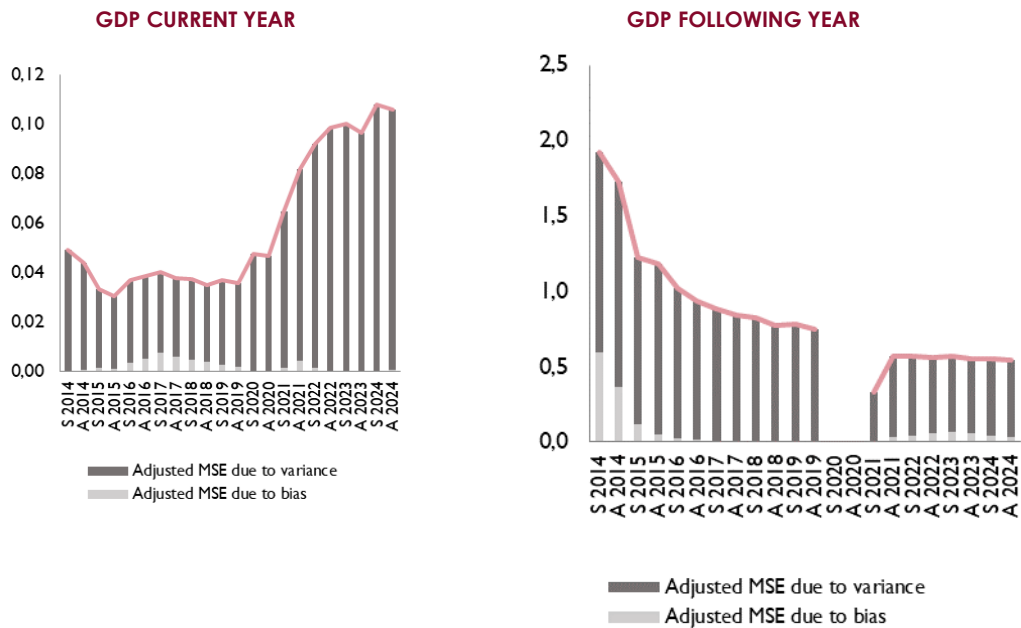


EXPORTS FOLLOWING YEAR



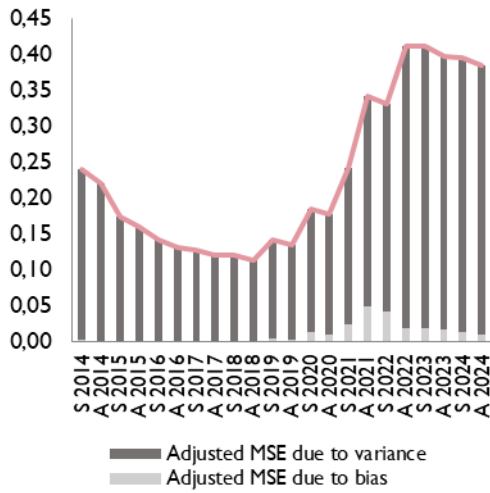


ANNEX II. FIGURE 2. EVOLUTION OF THE ROOT MEAN SQUARE ERROR OF FORECASTS ADJUSTED FOR THE STANDARD DEVIATION OF GDP AND THE DEMAND-SIDE COMPONENTS IN VOLUME

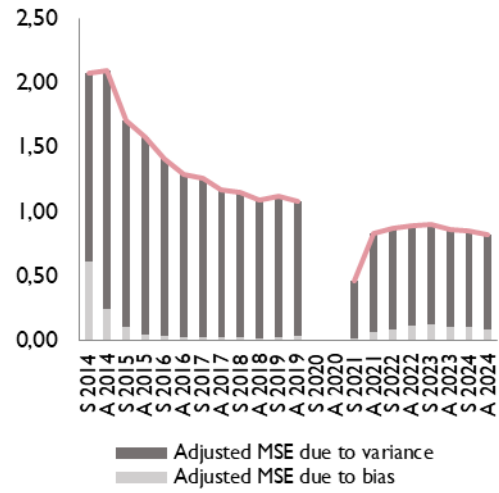


PRIVATE CONSUMPTION CURRENT YEAR

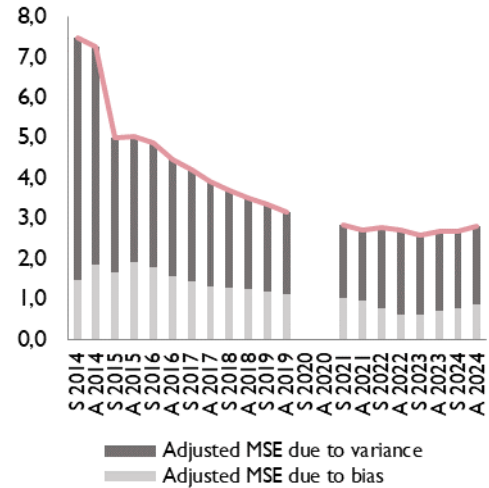
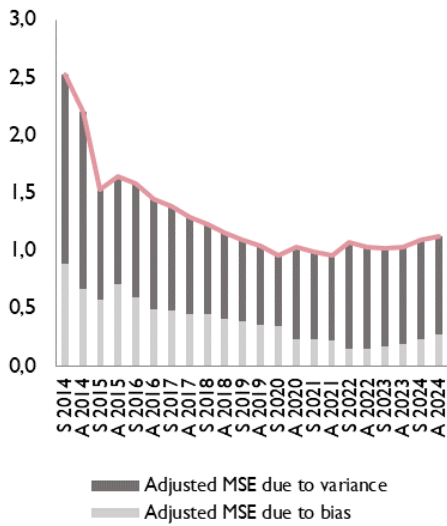
PRIVATE CONSUMPTION FOLLOWING YEAR



PRIVATE CONSUMPTION CURRENT YEAR

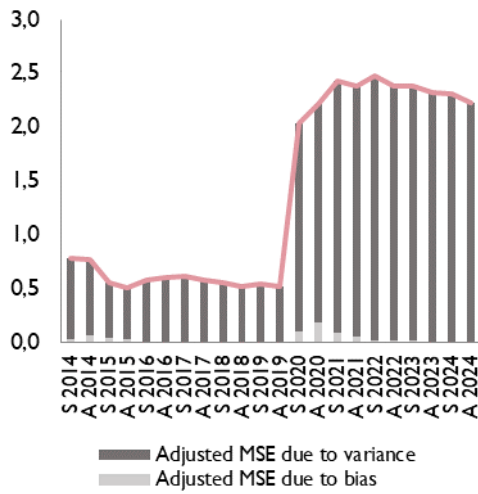


PUBLIC CONSUMPTION FOLLOWING YEAR

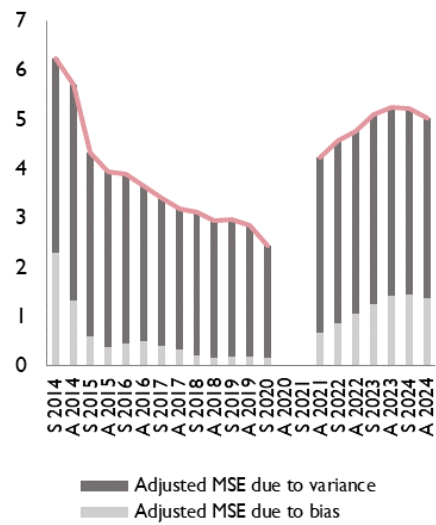




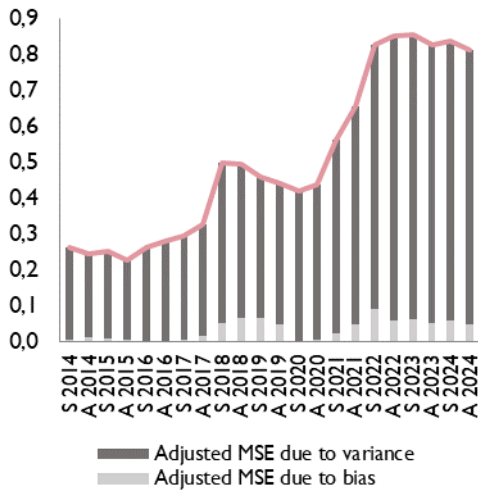
GFCF CURRENT YEAR



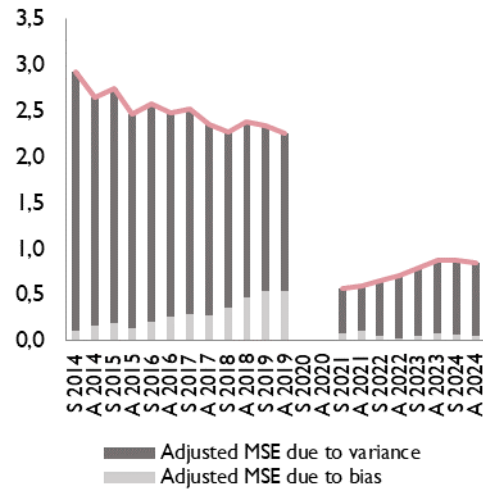
GFCF FOLLOWING YEAR



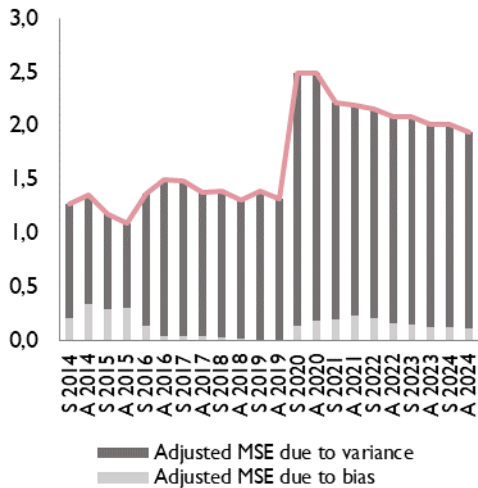
EXPORTS CURRENT YEAR



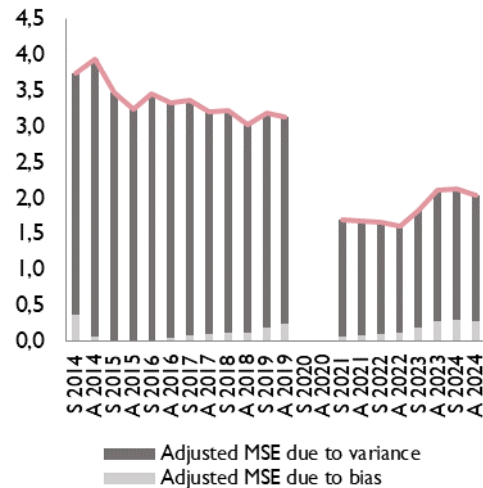
EXPORTS FOLLOWING YEAR



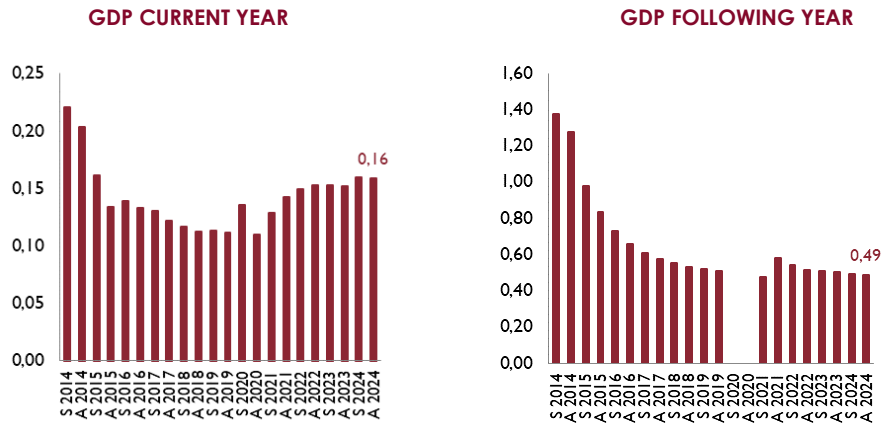
IMPORTS CURRENT YEAR



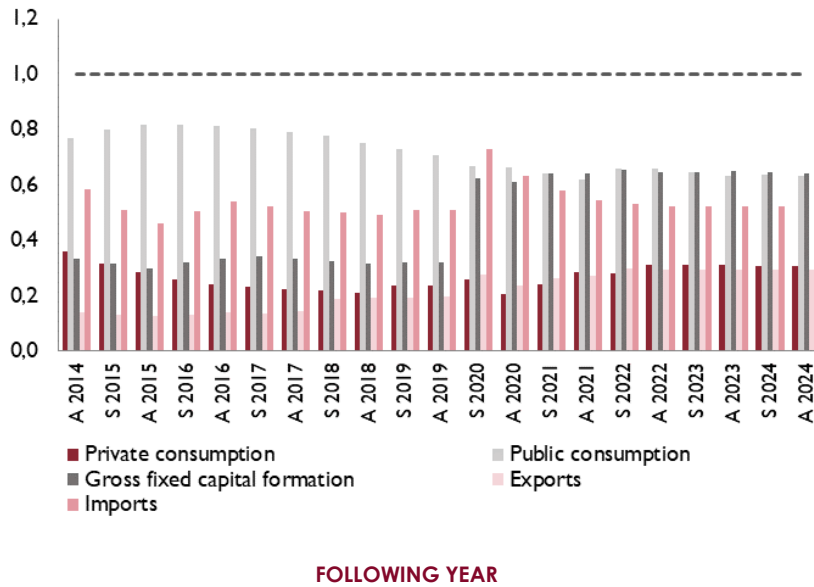
IMPORTS FOLLOWING YEAR

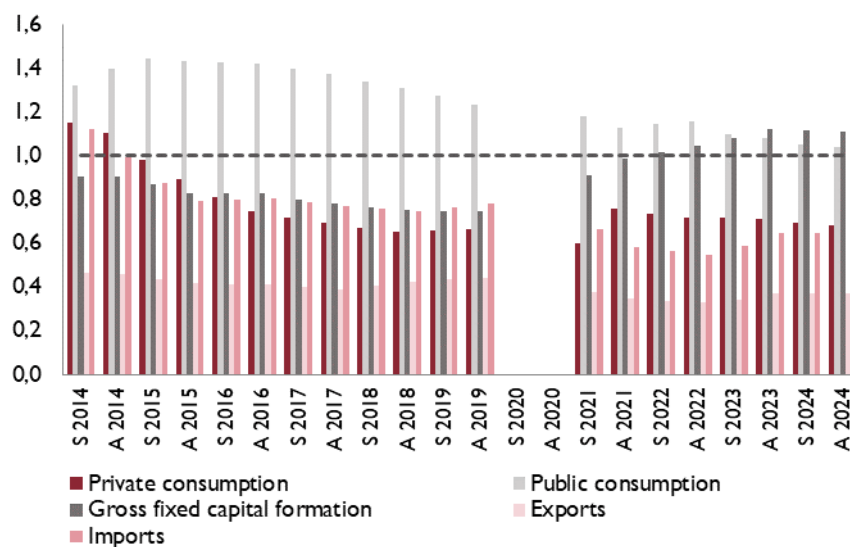


APPENDIX II. FIGURE 3. EVOLUTION OF THE THEIL U STATISTIC FOR GDP FORECASTS AND DEMAND-SIDE COMPONENTS IN VOLUME

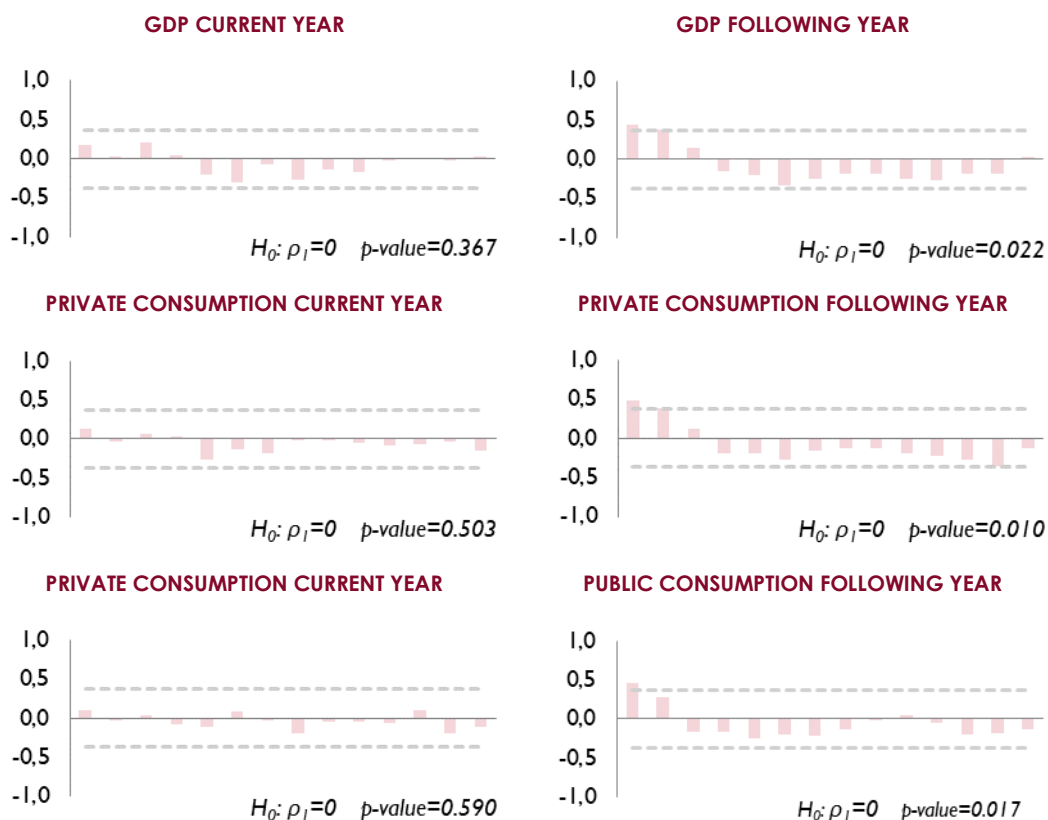


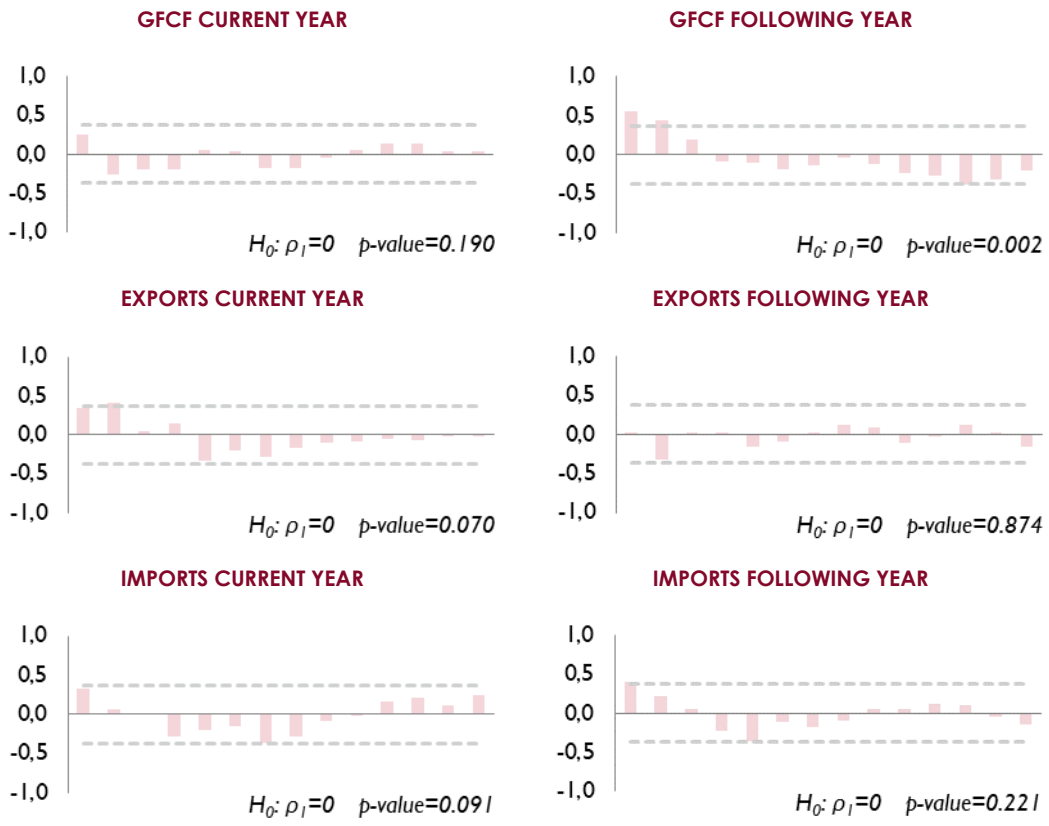
ANNEX II. FIGURE 4. EVOLUTION OF THE THEIL U STATISTIC FOR FORECASTS OF DEMAND COMPONENTS IN VOLUME CURRENT YEAR





ANNEX II. FIGURE 5. SIMPLE AUTOCORRELATION FUNCTION OF GDP FORECAST ERRORS AND DEMAND COMPONENTS IN TERMS OF VOLUME





ANNEX II. TABLE 1. QUALITY MEASURES AND TESTS

		Current year												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM					p-value ($\alpha=0, \beta=1$)		
							[p-value]	TU	γ [Q p-value]	T [p-value]	α [p-value]		β [p-value]	
Gross Domestic Product	Government	28	-0.05 [0.71]	0.45	0.65		1.47 [0.15]	0.16	0.17 [0.37]		0.02 [0.86]	1.02 [0.00]	0.81	
	AIRcF	20	-0.09 [0.52]	0.43	0.6	Do Not Reject	1.45 [0.16]	0.13	0.29 [0.19]	0.41 [0.69]	0.09 [0.58]	1.00 [0.00]	0.81	
	Bank of Spain	28	-0.14 [0.22]	0.42	0.58	1.27 [0.22]	Do Not Reject	1.47 [0.15]	0.14	0.11 [0.56]	2.16 [0.04]	0.13 [0.27]	1.01 [0.00]	0.47
	European Commission	28	-0.21 [0.09]	0.47	0.65	0.08 [0.94]	Do Not Reject	1.46 [0.16]	0.16	-0.18 [0.34]	2.75 [0.01]	0.22 [0.09]	0.99 [0.00]	0.22
	FUNCAS Panel	28	-0.21 [0.10]	0.5	0.67	-0.25 [0.80]	Do Not Reject	1.46 [0.16]	0.16	0.09 [0.62]	3.37 [0.00]	0.21 [0.12]	1.00 [0.00]	0.27
Private Consumption	Government	28	0.21 [0.40]	0.8	1.28		1.42 [0.17]	0.31	0.13 [0.50]		-0.18 [0.49]	0.97 [0.00]	0.64	
	AIRcF	20	0.15 [0.59]	0.83	1.23		1.38 [0.18]	0.25	0.14 [0.53]	0.96 [0.35]	-0.02 [0.93]	0.92 [0.00]	0.29	
	Bank of Spain	28	0.23 [0.44]	0.97	1.53	-1.03 [0.31]	Do Not Reject	1.37 [0.18]	0.36	0.43 [0.02]	-0.15 [0.88]	-0.12 [0.69]	0.90 [0.00]	0.22
	European Commission	27	-0.29 [0.26]	0.94	1.3	-0.04 [0.97]	Do Not Reject	1.37 [0.18]	0.3	0.15 [0.44]	2.63 [0.01]	0.34 [0.17]	0.91 [0.00]	0.15
	FUNCAS Panel	28	-0.07 [0.75]	0.84	1.1	0.93 [0.36]	Do Not Reject	1.42 [0.17]	0.26	0.24 [0.20]	2.17 [0.04]	0.13 [0.55]	0.92 [0.00]	0.25
Public Consumption	Government	28	-0.82 [0.01]	1.28	1.68		-0.74 [0.47]	0.63	0.10 [0.59]		0.89 [0.00]	0.75 [0.00]	0.00	
	AIRcF	20	-0.28 [0.39]	1.08	1.4		0.37 [0.72]	0.51	0.41 [0.07]	-1.78 [0.09]	1.27 [0.01]	0.52 [0.00]	0.02	
	Bank of Spain	28	-1.04 [0.00]	1.42	1.7	-0.08 [0.93]	Do Not Reject	-0.94 [0.35]	0.64	0.44 [0.02]	1.20 [0.24]	1.06 [0.00]	0.77 [0.00]	0.00
	European Commission	27	-0.72 [0.01]	1.23	1.52	0.96 [0.35]	Do Not Reject	-0.20 [0.84]	0.57	0.56 [0.00]	-0.73 [0.47]	0.88 [0.00]	0.70 [0.00]	0.00
	FUNCAS Panel	28	-0.62 [0.03]	1.22	1.52	1.17 [0.25]	Do Not Reject	-0.27 [0.79]	0.57	0.25 [0.18]	-1.25 [0.22]	0.74 [0.01]	0.76 [0.00]	0.00

	Gross Fixed Capital Formation												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM [p-value]	TU	Q [p-value]	T [p-value]	α [p-value]	β [p-value]	p-value (α=0, β=1)
<i>Government</i>	28	-0.20 [0.77]	2,14	3,58			1.12 [0.27]	0,64	0.25 [0.19]		0.33 [0.43]	0.64 [0.00]	0.00
<i>AIReF</i>	20	-0.12 [0.92]	2,52	4,81		Do Not Reject	0.12 [0.90]	0,89	0.14 [0.54]	0.20 [0.85]	1.25 [0.01]	0.50 [0.00]	0.00
<i>Bank of Spain</i>	28	-0.96 [0.13]	2,01	3,33	0.59 [0.56]	Do Not Reject	1.09 [0.28]	0,6	0.34 [0.07]	2.70 [0.01]	0.83 [0.04]	0.67 [0.00]	0.00
<i>European Commission</i>	27	-0.41 [0.51]	2,27	3,17	0.61 [0.55]	Do Not Reject	1.28 [0.21]	0,57	0.44 [0.02]	0.19 [0.85]	0.52 [0.24]	0.69 [0.00]	0.00
<i>FUNCAS Panel</i>	28	-0.43 [0.38]	1,84	2,53	1.33 [0.19]	Do Not Reject	1.52 [0.14]	0,45	0.38 [0.05]	0.70 [0.49]	0.46 [0.20]	0.75 [0.00]	0.00
	Exports												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM [p-value]	TU	Q [p-value]	T [p-value]	α [p-value]	β [p-value]	p-value (α=0, β=1)
<i>Government</i>	28	-0.62 [0.21]	1,71	2,56			1.38 [0.18]	0,29	0.34 [0.07]		1.03 [0.04]	0.88 [0.00]	0.04
<i>AIReF</i>	20	-0.56 [0.53]	2,42	3,83		Do Not Reject	1.29 [0.21]	0,4	0.17 [0.45]	-0.55 [0.59]	1.11 [0.17]	0.80 [0.00]	0.04
<i>Bank of Spain</i>	28	-0.17 [0.64]	1,34	1,86	1.38 [0.18]	Do Not Reject	1.41 [0.17]	0,21	0.46 [0.01]	-1.27 [0.21]	0.22 [0.59]	0.99 [0.00]	0.86
<i>European Commission</i>	27	-0.02 [0.95]	1,25	1,71	1.63 [0.12]	Do Not Reject	1.43 [0.16]	0,2	0.49 [0.01]	-1.55 [0.13]	0.08 [0.84]	0.99 [0.00]	0.94
<i>FUNCAS Panel</i>	28	-0.39 [0.22]	1,21	1,67	1.88 [0.07]	Do Not Reject	1.44 [0.16]	0,19	0.58 [0.00]	-0.62 [0.54]	0.23 [0.51]	1.04 [0.00]	0.28
	Imports												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM [p-value]	TU	Q [p-value]	T [p-value]	α [p-value]	β [p-value]	p-value (α=0, β=1)
<i>Government</i>	28	-0.88 [0.21]	2,27	3,67			1.17 [0.25]	0,52	0.32 [0.09]		1.27 [0.02]	0.71 [0.00]	0.00
<i>AIReF</i>	20	-0.41 [0.75]	2,55	5,56		Do Not Reject	0.71 [0.49]	0,71	0.09 [0.67]	-0.52 [0.61]	1.41 [0.07]	0.59 [0.00]	0.00
<i>Bank of Spain</i>	28	-0.56 [0.24]	1,9	2,46	0.93 [0.36]	Do Not Reject	1.35 [0.19]	0,35	0.60 [0.00]	-0.64 [0.53]	0.79 [0.08]	0.86 [0.00]	0.04
<i>European Commission</i>	27	-0.68 [0.15]	1,91	2,44	1.00 [0.32]	Do Not Reject	1.36 [0.19]	0,34	0.56 [0.00]	-0.81 [0.43]	0.91 [0.04]	0.86 [0.00]	0.02
<i>FUNCAS Panel</i>	28	-0.61 [0.18]	1,86	2,38	1.11 [0.28]	Do Not Reject	1.39 [0.18]	0,34	0.47 [0.01]	-0.71 [0.48]	0.82 [0.06]	0.87 [0.00]	0.04

Following year

	Naïve DM												p-value ($\alpha=0, \beta=1$)	
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	[p-value]	TU	ρ [Q p-value]	T [p-value]	α [p-value]	β [p-value]		
Gross Domestic Product	Government	26	0.37 [0.21]	1,07	1,48		0.88 [0.39]	0,5	0.43 [0.02]		0.55 [0.13]	0.66 [0.00]	0.00	
	AIRcF	16	0.14 [0.62]	0,81	1,09	Do Not Rej€	0.96 [0.35]	0,3	0.47 [0.04]	1.73 [0.10]	1.53 [0.00]	0.53 [0.00]	0.00	
	Bank of Spain	26	0.13 [0.62]	0,96	1,29	0.52 [0.61]	Do Not Rej€	0.96 [0.34]	0,4	0.55 [0.00]	1.02 [0.32]	0.32 [0.45]	0.82 [0.00]	0.35
	European Commis	23	0.06 [0.81]	0,92	1,11	0.55 [0.59]	Do Not Rej€	0.98 [0.34]	0,4	0.47 [0.02]	0.49 [0.63]	0.50 [0.19]	0.79 [0.00]	0.19
	FUNCAS Panel	26	0.07 [0.76]	0,87	1,11	1.30 [0.21]	Do Not Rej€	0.97 [0.34]	0,4	0.61 [0.00]	1.80 [0.08]	0.29 [0.40]	0.85 [0.00]	0.39
Private Consumption	Government	26	0.62 [0.09]	1,3	1,88		0.81 [0.43]	0,7	0.48 [0.01]		0.39 [0.34]	0.59 [0.00]	0.00	
	AIRcF	16	0.67 [0.07]	1	1,47	Do Not Rej€	0.91 [0.38]	0,5	0.36 [0.11]	0.81 [0.43]	1.21 [0.01]	0.46 [0.00]	0.00	
	Bank of Spain	26	0.39 [0.30]	1,44	1,9	-0.06 [0.95]	Do Not Rej€	0.88 [0.39]	0,7	0.57 [0.00]	0.73 [0.47]	0.55 [0.23]	0.58 [0.00]	0.01
	European Commis	23	0.15 [0.67]	1,22	1,61	0.19 [0.85]	Do Not Rej€	0.96 [0.35]	0,6	0.37 [0.11]	0.55 [0.58]	0.76 [0.08]	0.61 [0.00]	0.02
	FUNCAS Panel	26	0.36 [0.25]	1,21	1,55	0.91 [0.37]	Do Not Rej€	0.92 [0.37]	0,6	0.74 [0.00]	1.23 [0.23]	0.25 [0.54]	0.72 [0.00]	0.07
Public Consumption	AIRcF	26	-1.48 [0.00]	2,21	2,65		-2.49 [0.02]	1	0.45 [0.02]		1.22 [0.00]	0.55 [0.00]	0.00	
	Government	16	-1.36 [0.01]	1,74	2,32	Do Not Rej€	-1.14 [0.27]	0,9	0.36 [0.10]	0.83 [0.42]	2.10 [0.00]	0.05 [0.88]	0.00	
	Bank of Spain	26	-1.31 [0.01]	2,13	2,54	0.31 [0.76]	Do Not Rej€	-2.47 [0.02]	1	0.57 [0.00]	-0.39 [0.70]	1.22 [0.01]	0.78 [0.03]	0.02
	European Commis	23	-1.03 [0.03]	1,91	2,27	1.30 [0.21]	Do Not Rej€	-2.34 [0.03]	0,9	0.28 [0.16]	-2.06 [0.05]	1.17 [0.01]	0.58 [0.05]	0.03
	FUNCAS Panel	26	-0.85 [0.06]	2	2,29	1.71 [0.10]	Do Not Rej€	-2.31 [0.03]	0,9	0.51 [0.01]	-2.37 [0.03]	0.87 [0.04]	0.63 [0.00]	0.03

	Gross Fixed Capital Formation												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM					p-value ($\alpha=0, \beta=1$)	
							[p-value]	TU	ρ [Q p-value]	T [p-value]	α [p-value]		β [p-value]
<i>Government</i>	26	2.81 [0.01]	4,24	5,39			-1.53 [0.14]	1,1	0.56 [0.00]		-0.69 [0.49]	0.51 [0.00]	0.00
<i>AIRcF</i>	16	3.44 [0.02]	4,1	6,06		Do Not Rej€	-0.93 [0.37]	1,6	0.67 [0.00]	0.23 [0.82]	3.07 [0.00]	0.07 [0.30]	0.00
<i>Bank of Spain</i>	26	1.85 [0.03]	3,02	4,4	1.01 [0.32]	Do Not Rej€	-0.30 [0.77]	0,9	0.51 [0.01]	1.21 [0.24]	-0.88 [0.42]	0.71 [0.00]	0.04
<i>European Commis</i>	23	1.48 [0.08]	3,05	4,12	0.90 [0.38]	Do Not Rej€	-0.02 [0.99]	0,9	0.39 [0.05]	1.02 [0.32]	0.56 [0.59]	0.49 [0.01]	0.01
<i>FUNCAS Panel</i>	26	1.56 [0.05]	3,22	4,03	1.78 [0.09]	Do Not Rej€	0.00 [1.00]	0,8	0.71 [0.00]	2.20 [0.04]	-0.87 [0.37]	0.77 [0.00]	0.08
	Exports												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM					p-value ($\alpha=0, \beta=1$)	
							[p-value]	TU	ρ [Q p-value]	T [p-value]	α [p-value]		β [p-value]
<i>Government</i>	26	0.71 [0.17]	2,19	2,62			1.03 [0.31]	0,4	0.02 [0.87]		-1.01 [0.40]	1.05 [0.00]	0.38
<i>AIRcF</i>	16	0.24 [0.65]	1,6	2,03		Do Not Rej€	1.07 [0.30]	0,3	0.19 [0.40]	0.85 [0.41]	-1.59 [0.11]	1.21 [0.00]	0.25
<i>Bank of Spain</i>	26	0.26 [0.64]	2,17	2,74	-0.37 [0.72]	Do Not Rej€	1.03 [0.31]	0,4	0.34 [0.11]	0.85 [0.40]	0.17 [0.88]	0.93 [0.00]	0.82
<i>European Commis</i>	23	0.67 [0.04]	1,32	1,6	2.23 [0.04]	Do Not Rej€	1.09 [0.29]	0,2	0.28 [0.12]	0.55 [0.59]	-2.34 [0.00]	1.27 [0.00]	0.00
<i>FUNCAS Panel</i>	26	0.16 [0.70]	1,72	2,12	1.85 [0.08]	Do Not Rej€	1.09 [0.29]	0,3	0.26 [0.10]	2.03 [0.05]	-2.07 [0.03]	1.32 [0.00]	0.09
	Imports												
	N	Bias [p-value]	MAE	RMSE	DM ¹ [p-value]	DM ²	Naïve DM					p-value ($\alpha=0, \beta=1$)	
							[p-value]	TU	ρ [Q p-value]	T [p-value]	α [p-value]		β [p-value]
<i>Government</i>	26	1.42 [0.05]	3,1	3,76			0.87 [0.39]	0,6	0.40 [0.02]		-0.31 [0.78]	0.78 [0.00]	0.07
<i>AIRcF</i>	16	2.04 [0.00]	2,1	2,64		Do Not Rej€	1.02 [0.33]	0,4	0.23 [0.22]	0.55 [0.59]	-1.95 [0.05]	0.99 [0.00]	0.00
<i>Bank of Spain</i>	26	0.91 [0.25]	2,89	3,95	-0.29 [0.77]	Do Not Rej€	0.79 [0.44]	0,7	0.45 [0.02]	0.70 [0.49]	-0.15 [0.91]	0.83 [0.00]	0.42
<i>European Commis</i>	23	0.83 [0.26]	2,88	3,49	-0.17 [0.87]	Do Not Rej€	0.91 [0.37]	0,6	0.34 [0.08]	0.12 [0.91]	0.07 [0.96]	0.82 [0.00]	0.39
<i>FUNCAS Panel</i>	26	0.94 [0.20]	2,97	3,67	0.25 [0.80]	Do Not Rej€	0.89 [0.38]	0,6	0.58 [0.00]	1.26 [0.22]	-0.60 [0.64]	0.92 [0.00]	0.42

Bias = Mean forecast error. Forecast error is defined as the difference between the predicted value and the observed value, so positive bias values indicate a tendency to overestimate and negative values indicate a tendency to underestimate. The null hypothesis associated with the p-value is that the bias is zero.

MAE = Mean Absolute Error.

RECM = Root of Mean Square Error.

DM¹=Diebold-Mariano test for evaluation of the equality of the loss functions of the forecast errors of two organisms. Positive values indicate greater predictive capacity of the first organism and vice versa. The null hypothesis of the contrast is equal predictive capacity.

DM²=Diebold-Mariano test similar to DM¹ but reducing the effect of heteroscedasticity and autocorrelation in small samples.

Naive DM=Diebold-Mariano test as in DM¹ but for evaluation of the different predictive capacity of an agency compared with the naive estimate.

TU=Theil's U statistic. Coefficient values less than one indicate that the organism's forecasts are more accurate than a naive estimate.

ρ =first-order autocorrelation coefficient. The p-value is associated with the Ljung-Box contrast, whose null hypothesis is the absence of autocorrelation in the first lag.

T=Test for equality of means. The null hypothesis of the test is the equality of the mean error of two organisations.

α =Unbiasedness coefficient of Mincer-Zarnowitz regressions. Positive values mean that the mean of the predictions is greater than that of the observations, i.e. there is a tendency to overestimate, and conversely, negative values mean a tendency to underestimate. The p-value is associated with the null hypothesis that the coefficient is zero.

β =Efficiency coefficient of Mincer-Zarnowitz regressions. Values above unity indicate that the observations have greater variability than the predictions, and conversely, values below unity. The null hypothesis associated with the p-value is that the coefficient is zero.

$p\text{-value}(\alpha=0, \beta=1)$ =p-value associated with the joint constraint test whose null hypothesis is unbiasedness and joint efficiency, in the sense that the forecasts have the same mean and variance as the observations.

Source: AIRcF, Ministry of Economy, Trade and Enterprise, European Commission.

ANNEX II. TABLE 2. DETERMINATION OF LARGE, SIGNIFICANT AND SYSTEMATIC ERRORS

		Current year										Following year									
		2020		2021		2022		2023		2024		2020		2021		2022		2023		2024	
		Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn
Gross Domestic Product	OBSERVED	-10,8	-10,8	5,1	5,1	5,5	5,5	2,5	2,5	3,2	3,2	-10,8	5,1	5,1	5,5	5,5	2,5	2,5	3,2	3,2	
	FORECAST																				
	Government	-9,2	-11,2	6,5	6,5	4,3	4,4	2,1	2,4	2,0	2,7		6,8	9,8	7,0	7,0	3,5	2,1	2,4	2,0	
	Panel [average]	-9,5	-12,0	5,9	6,2	4,3	4,2	1,5	2,2	1,9	2,6		6,2	7,3	5,8	6,2	3,1	1,8	2,1	1,8	
	Panel [Quartile 1]	-10,3	-12,7	5,6	6,0	4,1	4,1	1,3	2,2	1,8	2,5		5,6	6,0	5,2	5,8	2,8	1,4	1,9	1,6	
	Panel [Quartile 3]	-8,5	-11,5	6,3	6,4	4,4	4,3	1,8	2,3	2,0	2,7		6,9	8,1	6,6	6,6	3,5	2,0	2,3	1,9	
	FORECAST ERROR																				
	Government	1,64	-0,36	1,37	1,37	-1,18	-1,05	-0,40	-0,10	-1,15	-0,45		1,67	4,67	1,55	1,55	0,96	-0,40	-0,75	-1,15	
	Panel [average]	1,31	-1,13	0,81	1,07	-1,19	-1,24	-0,97	-0,27	-1,25	-0,54		1,11	2,16	0,34	0,75	0,58	-0,71	-1,04	-1,37	
	Panel [Quartile 1]	0,56	-1,84	0,47	0,86	-1,32	-1,39	-1,20	-0,34	-1,35	-0,66		0,47	0,87	-0,25	0,34	0,29	-1,08	-1,21	-1,53	
Panel [Quartile 3]	2,34	-0,66	1,19	1,32	-1,07	-1,11	-0,67	-0,20	-1,10	-0,45		1,82	2,93	1,10	1,10	0,95	-0,48	-0,85	-1,25		
Private Consumption	OBSERVED	-12,1	-12,1	4,6	4,6	4,4	4,4	1,8	1,8	2,9	2,9	-12,1	4,6	4,6	4,4	4,4	1,8	1,8	2,9	2,9	
	FORECAST																				
	Government	-8,8	-12,6	7,3	8,0	4,1	1,2	2,1	1,5	2,4	2,2		4,7	10,7	6,9	6,9	2,7	1,3	3,0	2,5	
	Panel [average]	-10,9	-13,7	6,8	7,7	3,0	2,2	1,1	0,7	2,0	2,2		7,0	7,7	5,4	5,5	2,9	1,9	2,1	1,9	
	Panel [Quartile 1]	-11,3	-14,9	6,2	6,6	2,4	1,6	0,9	0,5	1,7	2,0		5,4	6,3	4,5	4,6	2,4	1,4	1,7	1,7	
	Panel [Quartile 3]	-9,0	-12,6	7,5	8,9	3,8	2,9	1,4	0,9	2,2	2,3		8,1	8,9	6,4	6,4	3,5	2,2	2,4	2,2	
	FORECAST ERROR																				
	Government	3,34	-0,46	2,67	3,37	-0,31	-3,20	0,32	-0,26	-0,49	-0,65		0,07	6,07	2,50	2,50	0,94	-0,48	0,11	-0,38	
	Panel [average]	1,22	-1,60	2,20	3,04	-1,39	-2,20	-0,71	-1,09	-0,93	-0,74		2,34	3,06	0,98	1,10	1,16	0,11	-0,79	-1,03	
	Panel [Quartile 1]	0,84	-2,80	1,59	1,95	-1,98	-2,80	-0,88	-1,25	-1,17	-0,89		0,77	1,67	0,06	0,19	0,65	-0,40	-1,16	-1,19	
Panel [Quartile 3]	3,14	-0,46	2,82	4,28	-0,61	-1,55	-0,40	-0,88	-0,70	-0,59		3,51	4,29	2,03	1,95	1,72	0,42	-0,52	-0,69		
Public Consumption	OBSERVED	3,8	3,8	3,1	3,1	-0,7	-0,7	3,8	3,8	4,1	4,1	3,8	3,1	3,1	-0,7	-0,7	3,8	3,8	4,1	4,1	
	FORECAST																				
	Government	2,5	6,3	2,5	2,5	2,0	-1,0	1,9	1,9	1,3	1,8		1,8	2,6	1,5	1,5	2,2	0,4	0,9	0,2	
	Panel [average]	4,9	4,7	3,7	2,8	1,2	-0,1	1,4	1,6	2,0	2,0		1,0	1,3	2,0	2,1	1,3	0,9	1,1	1,2	
	Panel [Quartile 1]	4,3	4,0	3,0	2,4	0,7	-1,0	0,8	1,3	1,2	1,6		-0,6	0,3	1,1	1,4	0,8	0,2	0,6	0,8	
	Panel [Quartile 3]	6,0	5,8	4,4	3,0	1,9	0,5	1,9	2,0	2,8	2,0		3,5	2,2	2,6	3,0	1,9	1,4	1,4	1,6	
	FORECAST ERROR																				
	Government	-1,34	2,46	-0,57	-0,57	2,64	-0,34	-1,86	-1,84	-2,83	-2,33		-1,27	-0,47	2,16	2,16	-1,52	-3,36	-3,23	-3,97	
	Panel [average]	1,04	0,91	0,66	-0,24	1,89	0,53	-2,40	-2,14	-2,10	-2,15		-2,03	-1,80	2,62	2,72	-2,41	-2,87	-3,03	-2,88	
	Panel [Quartile 1]	0,42	0,16	-0,08	-0,69	1,35	-0,30	-2,97	-2,46	-2,93	-2,51		-3,69	-2,81	1,72	2,01	-3,00	-3,53	-3,50	-3,33	
Panel [Quartile 3]	2,16	1,94	1,33	-0,07	2,57	1,20	-1,87	-1,80	-1,35	-2,13		0,40	-0,87	3,21	3,66	-1,91	-2,32	-2,75	-2,57		

Report on the Draft Budgets and Main Budgetary Lines of the GG 2026

GFCF	FORECAST	OBSERVED	-11,4	-11,4	4,3	4,3	4,6	4,6	0,8	0,8	3,0	3,0	-11,4	4,3	4,3	4,6	4,6	0,8	0,8	3,0	3,0
		Government	-25,5	-17,5	10,3	7,1	9,3	5,1	0,9	3,0	2,8	3,3	16,7	14,2	12,3	12,2	7,5	7,9	5,0	4,0	
		Panel [average]	-20,6	-17,8	7,1	6,7	6,2	7,0	1,6	2,6	2,1	2,6	8,1	10,2	9,1	9,7	5,6	4,0	3,5	3,4	
		Panel [Quartile 1]	-25,5	-20,3	5,2	5,6	4,9	5,5	1,1	2,0	1,3	2,1	5,1	6,5	7,3	7,9	4,7	2,5	2,4	2,5	
		Panel [Quartile 3]	-17,5	-15,4	8,4	7,4	7,3	8,4	2,7	3,3	2,6	2,9	10,8	12,7	10,4	10,8	6,2	4,8	4,2	4,2	
	ERROR	Government	-14,13	-6,13	5,96	2,76	4,66	0,46	0,12	2,24	-0,18	0,32	12,36	9,86	7,66	7,56	6,72	7,12	2,02	1,01	
		Panel [average]	-9,21	-6,46	2,78	2,32	1,59	2,34	0,85	1,81	-0,92	-0,42	3,80	5,82	4,47	5,06	4,82	3,27	0,54	0,44	
		Panel [Quartile 1]	-14,13	-8,98	0,81	1,26	0,26	0,87	0,29	1,22	-1,64	-0,85	0,78	2,14	2,66	3,23	3,90	1,75	-0,55	-0,48	
		Panel [Quartile 3]	-6,10	-4,04	4,03	3,02	2,67	3,76	1,94	2,47	-0,35	-0,07	6,42	8,31	5,76	6,14	5,37	3,97	1,17	1,22	
		Exports	FORECAST	OBSERVED	-20,2	-20,2	14,7	14,7	14,4	14,4	2,3	2,3	3,1	3,1	-20,2	14,7	14,7	14,4	14,4	2,3	2,3
Government	-27,1			-22,7	9,2	10,0	7,8	17,9	1,5	3,4	1,7	4,2	11,6	18,0	10,3	10,3	6,2	7,3	2,5	2,4	
Panel [average]	-21,0			-21,6	10,2	10,9	10,6	13,2	3,3	4,5	2,0	3,5	11,4	13,8	11,0	12,3	5,3	3,5	3,6	2,6	
Panel [Quartile 1]	-25,6			-24,0	8,1	8,9	9,3	11,7	2,3	3,4	1,5	3,0	9,3	11,1	9,0	10,5	4,0	2,4	2,6	2,0	
Panel [Quartile 3]	-16,5			-19,8	11,5	12,2	11,8	13,6	4,1	6,2	2,3	4,0	14,0	15,6	12,8	13,6	6,4	4,7	4,1	3,4	
ERROR	Government		-6,90	-2,50	-5,54	-4,74	-6,63	3,47	-0,82	1,03	-1,39	1,11	-3,14	3,26	-4,13	-4,13	3,88	4,98	-0,59	-0,70	
	Panel [average]		-0,78	-1,41	-4,57	-3,86	-3,83	-1,22	0,94	2,22	-1,06	0,39	-3,30	-0,97	-3,46	-2,15	2,97	1,17	0,52	-0,50	
	Panel [Quartile 1]		-5,40	-3,78	-6,64	-5,84	-5,09	-2,72	-0,05	1,03	-1,56	-0,08	-5,44	-3,63	-5,40	-3,93	1,69	0,03	-0,49	-1,11	
	Panel [Quartile 3]		3,67	0,36	-3,28	-2,56	-2,59	-0,83	1,73	3,88	-0,75	0,96	-0,74	0,88	-1,68	-0,88	4,05	2,38	1,01	0,31	
	Imports		FORECAST	OBSERVED	-15,8	-15,8	13,9	13,9	7,9	7,9	0,3	0,3	2,4	2,4	-15,8	13,9	13,9	7,9	7,9	0,3	0,3
Government		-31,0		-20,0	10,3	10,3	9,1	9,9	0,7	1,4	2,7	2,6	9,3	17,1	10,0	10,0	6,5	8,2	3,9	3,3	
Panel [average]		-22,7		-18,9	10,5	11,4	7,8	8,5	2,6	2,0	2,2	2,2	9,6	12,5	9,4	10,2	5,3	4,1	3,8	3,1	
Panel [Quartile 1]		-28,1		-21,5	8,7	10,3	6,7	7,5	1,2	1,2	1,2	1,9	7,0	9,0	7,5	7,6	3,5	2,8	3,0	2,4	
Panel [Quartile 3]		-17,9		-17,7	12,5	12,4	9,0	9,6	3,8	3,2	2,9	2,6	12,4	14,9	11,4	11,7	6,4	5,5	3,8	4,1	
ERROR		Government	-15,22	-4,22	-3,64	-3,64	1,20	2,00	0,37	1,07	0,27	0,17	-4,64	3,16	2,10	2,10	6,17	7,87	1,47	0,83	
		Panel [average]	-6,93	-3,16	-3,48	-2,58	-0,12	0,59	2,24	1,70	-0,22	-0,23	-4,30	-1,39	1,47	2,31	5,01	3,80	1,33	0,70	
		Panel [Quartile 1]	-12,32	-5,76	-5,27	-3,61	-1,19	-0,42	0,87	0,85	-1,20	-0,53	-6,94	-4,93	-0,45	-0,27	3,16	2,49	0,57	-0,03	
		Panel [Quartile 3]	-2,11	-1,89	-1,49	-1,54	1,05	1,68	3,51	2,87	0,50	0,16	-1,54	0,94	3,47	3,80	6,05	5,15	1,37	1,63	

Bold type indicates that the error is large, i.e. when it falls outside the interquartile range of the panel of institutions, and shading indicates that it is also unjustified (significant), i.e. when the forecast does not provide a better approximation of the variable's performance than the forecasts of the panel of institutions and is not covered by the principle of prudence.

Source: AIRcF, Ministry of Economy, Trade and Business.

ANNEX II. TABLE 3. LARGE AND SIGNIFICANT ERRORS

		2015		2016		2017		2018		2019		2020		2021		2022		2023		2024	
		Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn	Spring	Autumn
Current year	Gross Domestic Product	L	I	-	I	-	-	-	-	-	-	-	L	I	I	-	L	L	L	-	-
	Private Consumption	-	-	L	-	-	-	I	-	-	L	L	-	-	-	L	I	L	L	L	-
	Public Consumption	-	I	-	-	-	-	I	-	-	L	I	I	L	-	I	L	L	-	-	-
	GFCF	L	L	I	I	I	-	L	L	-	-	-	-	I	-	I	L	L	-	L	L
	Exports	-	-	-	-	I	-	-	-	-	-	L	-	-	-	I	I	L	-	-	I
	Imports	-	-	I	I	-	-	-	I	-	I	L	-	-	I	I	I	L	-	-	L
Following year	Gross Domestic Product	-	-	L	L	-	-	L	I	-	-	-	-	I	I	I	I	L	L	L	-
	Private Consumption	L	L	L	-	-	-	L	I	-	-	-	L	I	I	I	-	I	L	L	-
	Public Consumption	L	L	I	I	I	-	I	I	-	-	-	L	-	-	L	-	-	-	I	-
	GFCF	-	L	I	-	-	-	I	I	I	-	-	I	I	I	I	I	I	I	I	-
	Exports	-	-	-	I	I	I	I	I	-	-	-	I	-	-	I	-	I	I	I	-
	Imports	-	-	-	-	I	I	-	-	-	-	-	-	I	-	-	I	I	I	I	-

I = Important Errors, L = Large Errors

Source: AIReF