



Independent Authority
for Fiscal Responsibility

Report on the Draft Budgets and Main Budgetary Lines of the General Government for 2026

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Introduction

AIReF presents its Report on the Draft Budgets and Main Budgetary Lines of the GG for 2026: limited scope

Article 17(1) of the Organic Law on Budgetary Stability and Financial Sustainability establishes the obligation for AIReF to assess the draft budgets and main budgetary lines of the General Government (GG) from the perspective of their compliance with stability and debt targets and the expenditure rule

LIMITED SCOPE

Due to delay in the fiscal policy coordination provided for in the LOEPSF

- No budgetary stability and debt targets set for 2026-2028. Legal approval expected in the first half of the year (Article 15 of the LOEPSF)
- No reference rate for the expenditure rule 2026-2028. Legal determination together with the Report on the Cyclical Position accompanying the proposed targets (Article 15 of the LOEPSF)

Due to failure to submit the draft General State Budget (GSB) and delay in obtaining information from some Autonomous Regions (ARs)

- Failure to comply with the deadline established in the Law on the General Budget: September 30th
- Heterogeneity of information from ARs

Due to failure to submit the Budgetary Plan for 2026 to the EU institutions

- Failure to meet the deadline provided for in Regulation 473: October 15th

For 2026, AIReF takes the 3.3% rate for the expenditure rule established in the 2024 report for the three years 2025-2027

The reports from the Central Government (CG) and Social Security Funds (SSFs) and their impact on the GG: postponed until their presentation
Publication of individual reports of ARs: next few days

Second consecutive year

The delays in the budgetary cycle affect AIReF's fiscal supervision, the possibility of planning by other GG sub-sectors and institutional quality

The GSB is the main economic policy instrument...

The GSB provides the budgetary appropriations for...: CG and SSFs competence policies, as well as for transfers from the CG to other GG sub-sectors to exercise their competences (i.e. ARs - Health)

Its revenue forecasts are the basis for determining the annual financing of the ARs and Local Governments (LGs)

Its content allows decisions on expenditure and revenue (updating of pensions, contribution bases, remuneration, etc.)

...and guarantor of institutional quality

Its presentation and debate in Parliament make it possible to incorporate the sensitivity of all parliamentary groups and government control by Parliament
Submission of draft GSB: a constitutional obligation

Its publicity makes it possible to know the expenditure and revenue intentions of all sub-sectors necessary for informed decision-making by all agents

They are the basis for accountability and control

Without stability targets

- GG: lacks references for the preparation of their budgets and medium-term planning
- AIReF: can only assess the alignment of the budgetary plans with the expenditure rule

Despite the information limitations, AIReF's report on 2026 is part of a medium-term forecasting exercise up to 2030

Since 2022, AIReF has been carrying out two annual medium-term forecasting exercises, in which it frames its reports on the annual budgetary cycle: spring and autumn. This report updates the May 2025 forecasts

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

- **AIReF updates its medium-term scenarios until 2030 under the assumption of no-policy change:**
 - Update of the macroeconomic scenario
 - Update of the fiscal scenario: forecasts up to 2030 of the fiscal balance, revenue, expenditure and debt of the GG Sector, its sub-sectors, and it will also update that of the 17 ARs
- **Reports on the main budgetary lines and draft budgets of the ARs and LGs:**
 - Individual reports of 17 ARs and 25 LGs. Seven ARs have presented draft budgets, and the rest have presented their main budgetary lines. The majority of the LGs analysed have submitted their draft budgets.
 - At the level of national fiscal rules: only the expenditure rule is assessed
- **Monitoring of the Medium-Term Fiscal-Structural Plan 2025-2028:**
 - Assessment of the commitments undertaken: European expenditure rule
 - Fit with the national fiscal framework

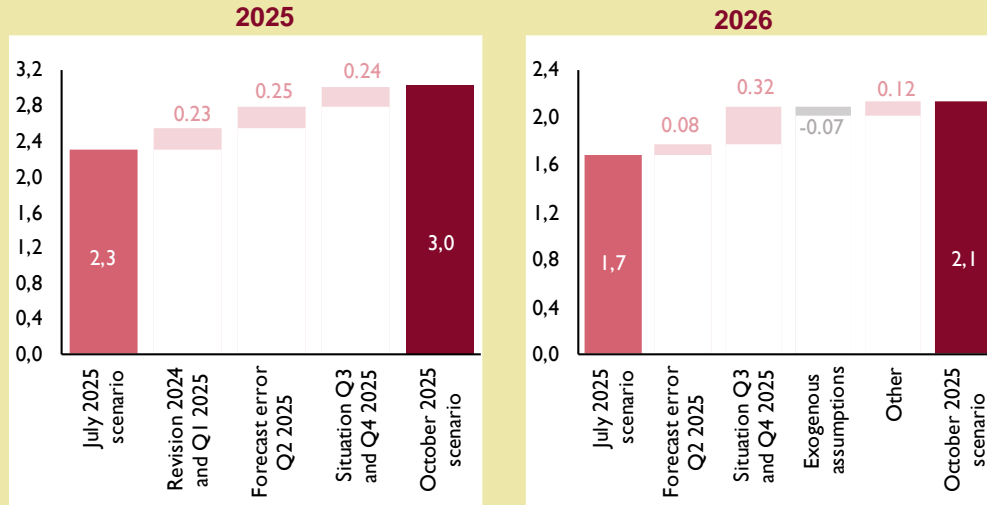
Uncertainty persists:

- uncertainty about the impact on National Accounts of the increase in defence expenditure,
- lack of information on eligible expenditure for the purposes of national and European expenditure rules,
- lack of breakdown of the RTRP in the National Accounts,
- limited information on fiscal risks with significant potential impact (litigation)

AIReF revises its growth forecast upwards for 2025 and 2026, although a slowdown is projected in the medium term

Spanish economic growth forecast expected to reach 3% in 2025 and 2.1% in 2026

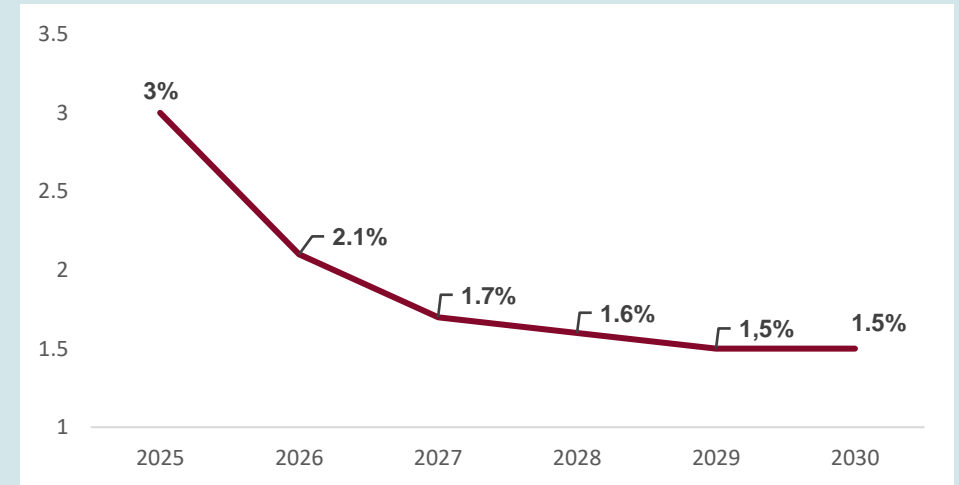
Breakdown of the sources for revising the real GDP growth rate with respect to the July 2025 macroeconomic scenario



- Revised upwards by 0.7 points in 2025 and 0.4 points in 2026 compared with four months ago
- Factors: better than expected performance of growth and world trade, the effect of the INE revisions and the strength of domestic demand

In the medium term, growth slows gradually to 1.5% in 2030

Evolution of GDP 2025-2030. AIReF's macroeconomic outlook table



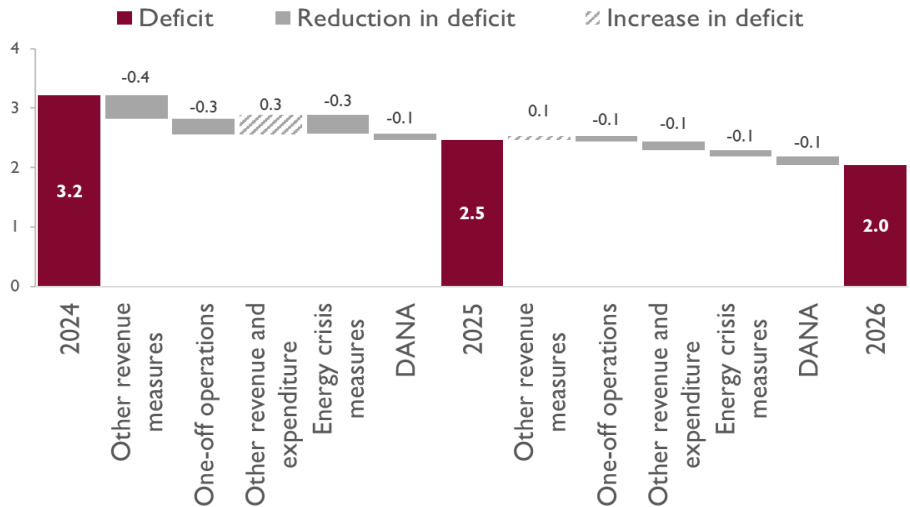
Source: AIReF

In line with most international organisations that are forecasting a slowdown in global growth, the end of the boost from tourism and the RTRP funds. AIReF also forecasts a gradual slowdown in net foreign immigration

AIReF cuts its deficit and debt forecast for the General Government Sector for the coming years

Improvements in the short short-term public deficit forecasts

DEFICIT EVOLUTION BY COMPONENT (% GDP)

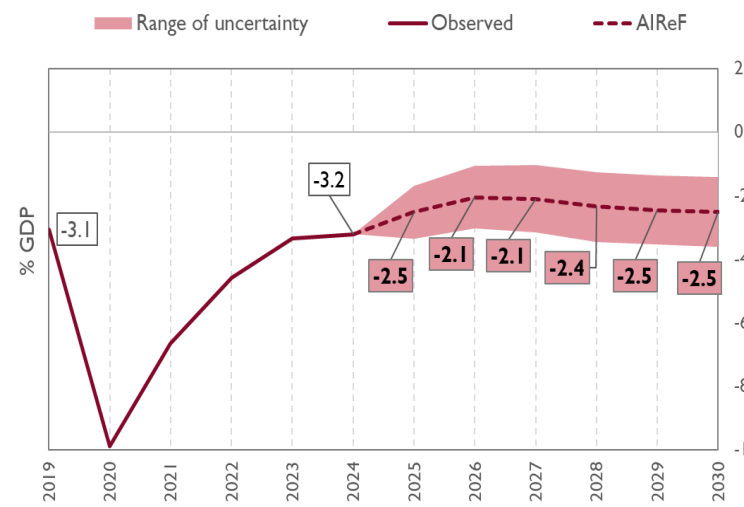


Source: AIReF

- **2025: reduction to 2.5% of GDP due to the withdrawal of crisis mitigation measures, revenue measures and the lower impact of one-off operations**
- **This improvement is carried over to 2026 in addition to lower spending associated with the Isolated High-Altitude Depression (DANA)**

While spending pressures would widen the deficit as of 2027

EVOLUTION OF GG BALANCE (% GDP)

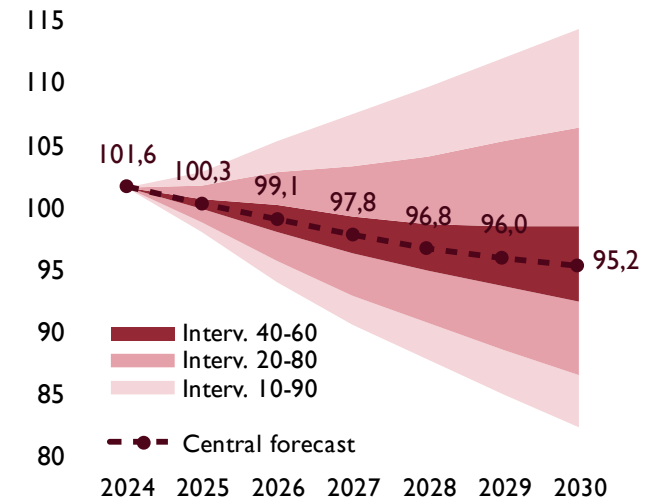


Source: IGAE and AIReF

In a no-policy-change scenario, as of 2027, the pressure of spending associated with ageing, debt interest and defence would break the downward deficit path

Debt reduction over the whole period

DEBT PROJECTIONS (% GDP)



Source: AIReF

- **To around 95% of GDP in 2030**
- **Albeit at a decelerating pace and mainly explained by nominal GDP growth**

However, AReF forecasts non-compliance with the national expenditure rule in the short term and with the European rule at the end of the MTP period

NATIONAL EXPENDITURE RULE: continued warnings of risk of non-compliance with the reference rate by the CG and most ARs

ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE NATIONAL EXPENDITURE RULE (% CHANGE)

	2025	2026	2027
Reference rate	3,2	3,3	3,4
CG	7,1	3,4	5,4
ARs	5,5	4,2	4,7
LGs	3,7	3,8	3,1

- The CG and the ARs would be non-compliant in 2025, 2026 and 2027
- The LGs would be non-compliant in 2025 and 2026, but are expected to be compliant in 2027

Compliance with the national expenditure rule **would require additional adjustments in 2025 and 2026 of €12bn and €2.6bn, respectively**

EUROPEAN EXPENDITURE RULE: annual rate is estimated to be above the European rate throughout the period and outside the limits of the control account as of 2027

PRIMARY EXPENDITURE GROWTH RATE NET OF DISCRETIONARY REVENUE MEASURES (% CHANGE)

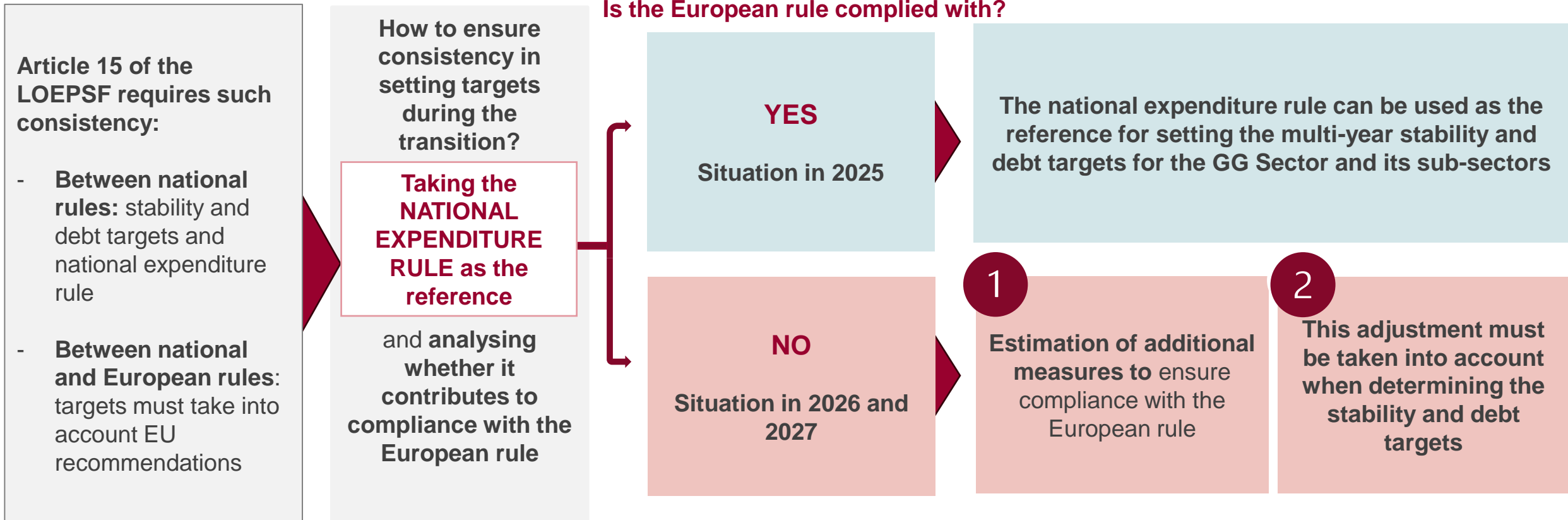
Growth rate of eligible expenditure	2024	2025	2026	2027	2028
Government MTP					
Annual	5,3	3,7	3,5	3,2	3,0
Cumulative		9,2	13,0	16,6	20,1
Government Progress Report					
Annual	4,1	4,1			
Cumulative		8,4			
Annual					
Annual	4,3	4,6	4,6	4,3	4,0
Cumulative		9,1	14,2	19,2	24,1

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 ✗

Compliance with the national expenditure rule in 2025 would be sufficient to comply with the reference rate contained in the MTP, but not in 2026 and 2027

AIReF makes a recommendation to the Ministry of Finance to ensure the consistency of the stability targets with the two rules and to ensure compliance with them

The national framework has not been adapted to the reform of the European framework and there are important divergences between the national expenditure rule and the European expenditure rule. Until these differences are overcome, the proposed budgetary stability and debt targets must be consistent with both rules and ensure compliance with them



2

Macroeconomic scenario

AIReF revises the growth forecast for the Spanish economy for 2025 and 2026 up to 3% and 2.1%

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

* Contribution to GDP growth

Source: INE and AIReF

Upward revision of 0.7 pp in 2025 and 0.4 pp in 2026 in just four months

Private consumption is revised upwards and remains the main driver of growth

The pattern of investment growth changes markedly following the revisions of the National Accounts. The weakness of investment in equipment continues to stand out

In the foreign sector, exports are revised upwards and the negative contribution to growth is reduced

Prices decelerate by less than initially expected in 2025 due to energy

Employment remains in line with GDP growth, with productivity per employee stagnating, in line with the recent evolution

The saving rate remains above its historical average

The revisions can be explained by an improved foreign sector, the revision of the National Accounts and the buoyant economic situation

Factors explaining the upward revision of growth in 2025

Foreign sector

Upward revision in the growth of world trade and Spain's export markets

Revisions of National Accounts

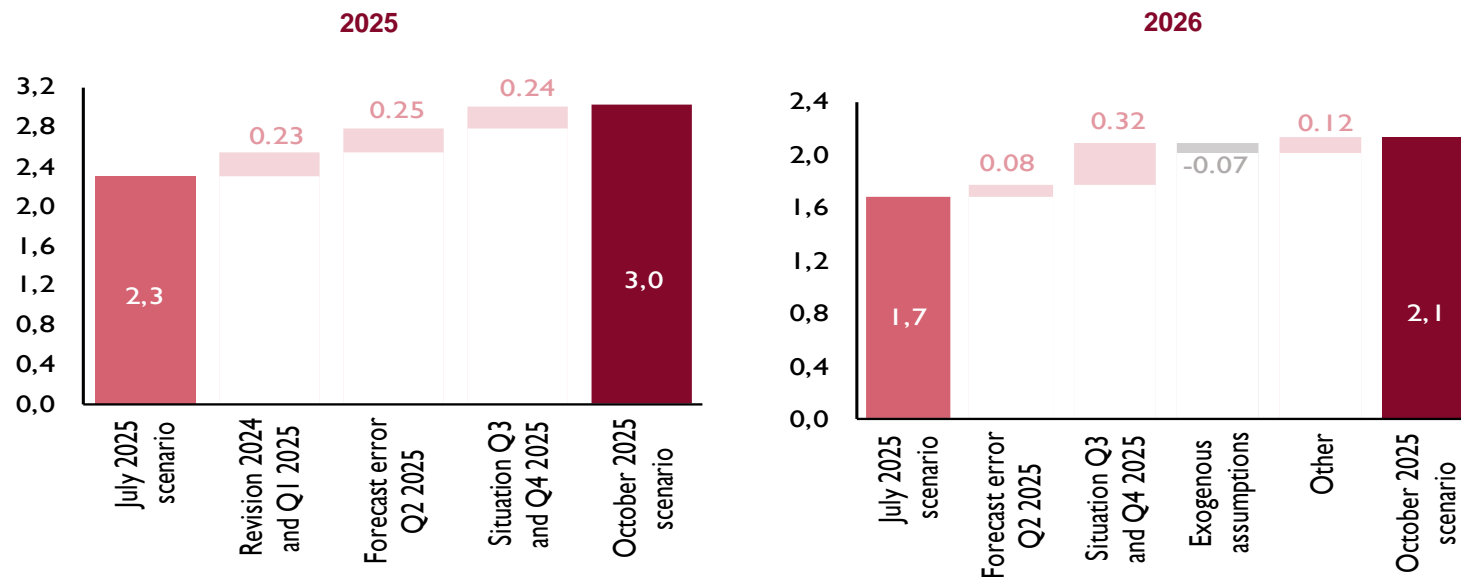
They affect both the historical reading and the situation diagnosis of the Spanish economy

Upward revision of investment in intangibles and other construction, more consistent with the RTRP

Strong domestic demand

Migratory flows underpin consumption growth increasingly linked to services

BREAKDOWN OF THE SOURCES OF REVISIONS TO THE GDP GROWTH RATE IN TERMS OF VOLUME WITH RESPECT TO THE JULY 2025 MACROECONOMIC SCENARIO

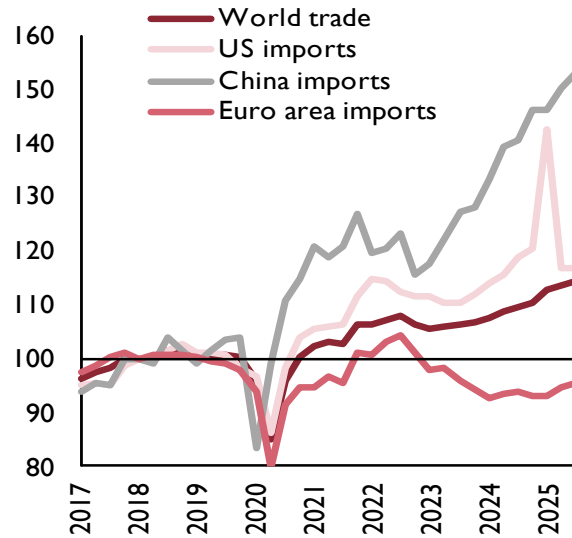


Source: INE and AIReF

The better forecast at the end of 2025 entails a carry-over effect on 2026 which explains a large part of the revision. This forecast is also influenced by a higher population increase than initially projected

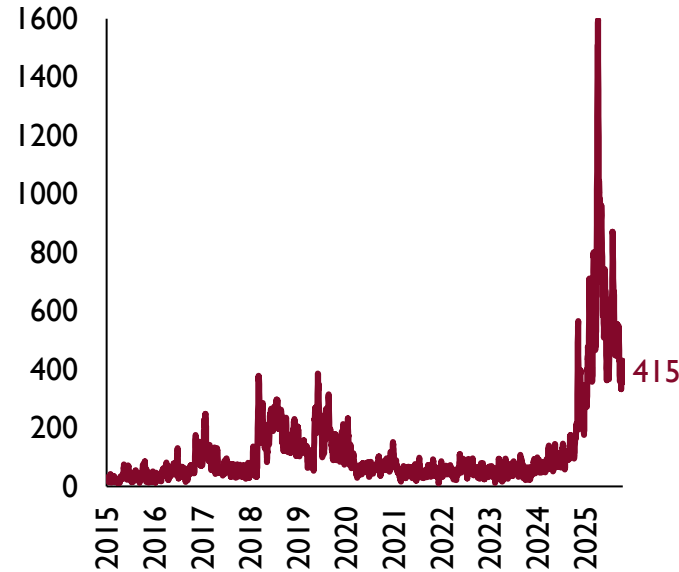
Positive surprises in short-term growth are associated with better-than-expected trade and global activity

GLOBAL TRADE
YEAR-ON-YEAR GROWTH (%)



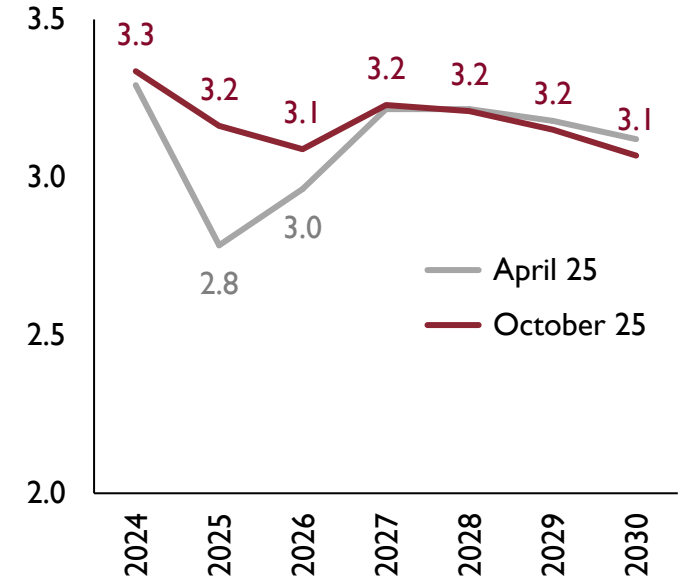
Source: CPB. Volume and seasonally-adjusted data

TRADE POLICY UNCERTAINTY INDEX (7-DAY
MOVING AVERAGE)



Source: Caldara et al (2020)

IMF GLOBAL GDP GROWTH FORECAST (%)

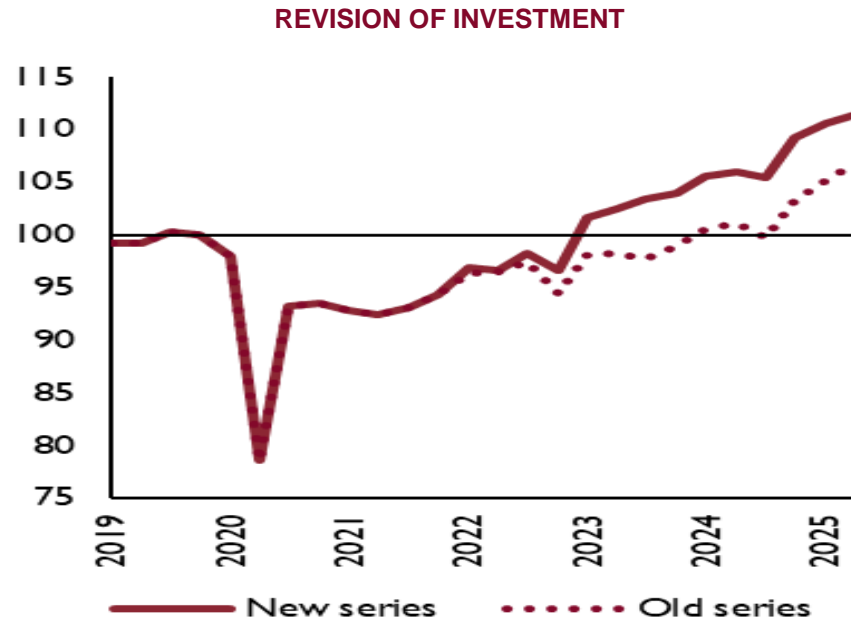


Source: IMF

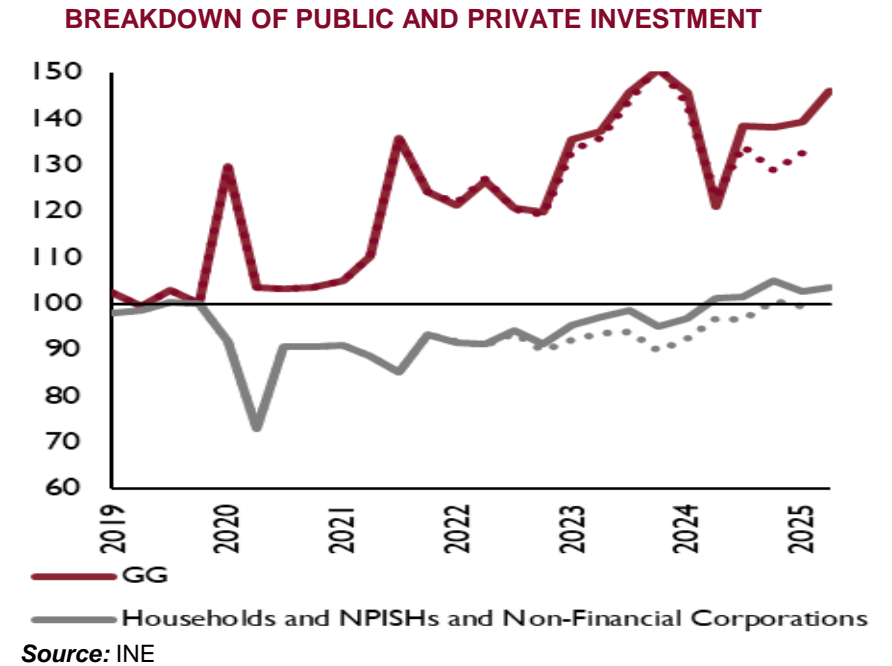
- Trade policy uncertainty recedes, but remains at very high levels
- Most agencies revise the expected growth for this year upwards. Much of the revision is due to the surprise in the first quarter of the year

The regular Statistical Revision of the National Accounts affects both the historical reading and the current situation diagnosis of the Spanish economy

GROSS FIXED CAPITAL FORMATION (INDEX 2019Q4=100)

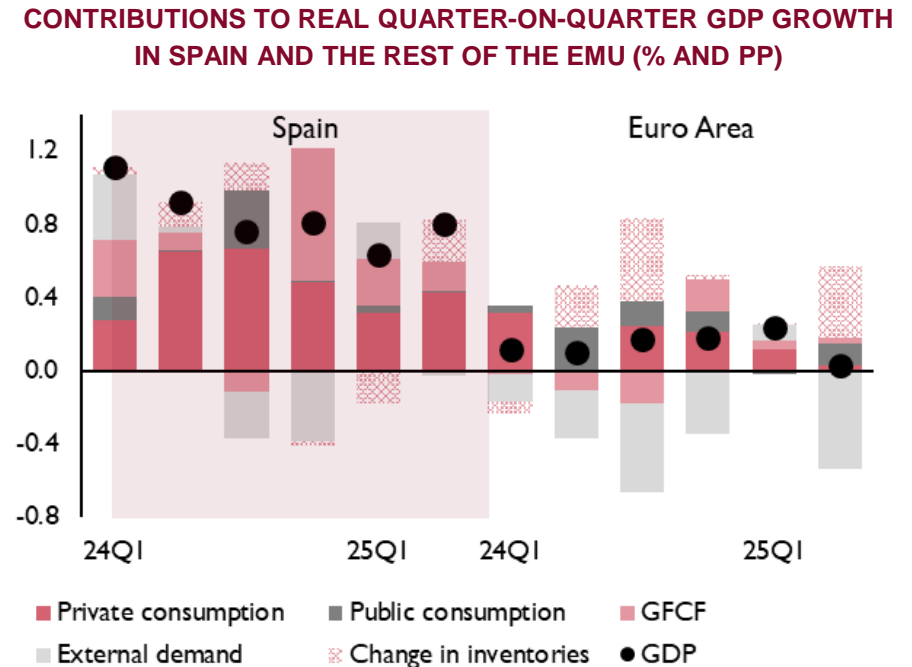
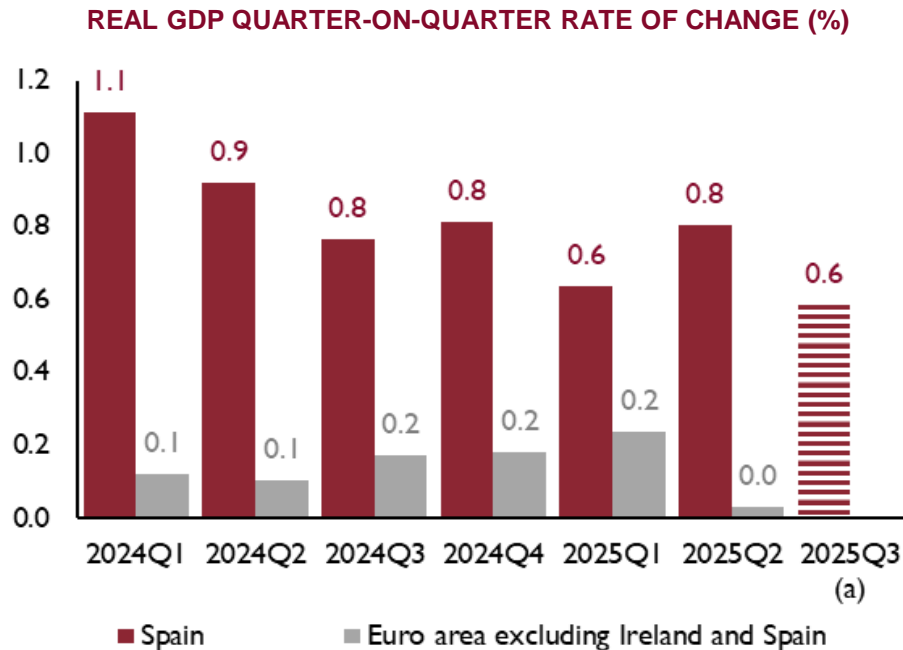


Source: INE and AIReF



- Investment in intangibles, intellectual property assets and other construction is revised upwards, which is now more consistent with the materialisation of investment spending associated with the Recovery, Transformation and Resilience Plan (RTRP)
- Weakness in private investment is maintained

The Spanish economy maintains its leadership in growth within the euro area, leading to an upward revision of growth forecasts for 2025

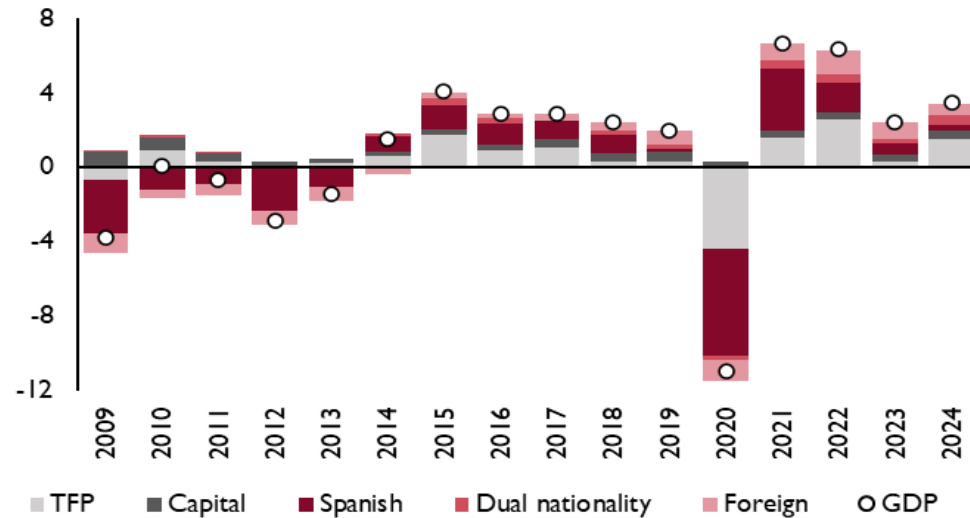


Source: INE, Eurostat and AIReF

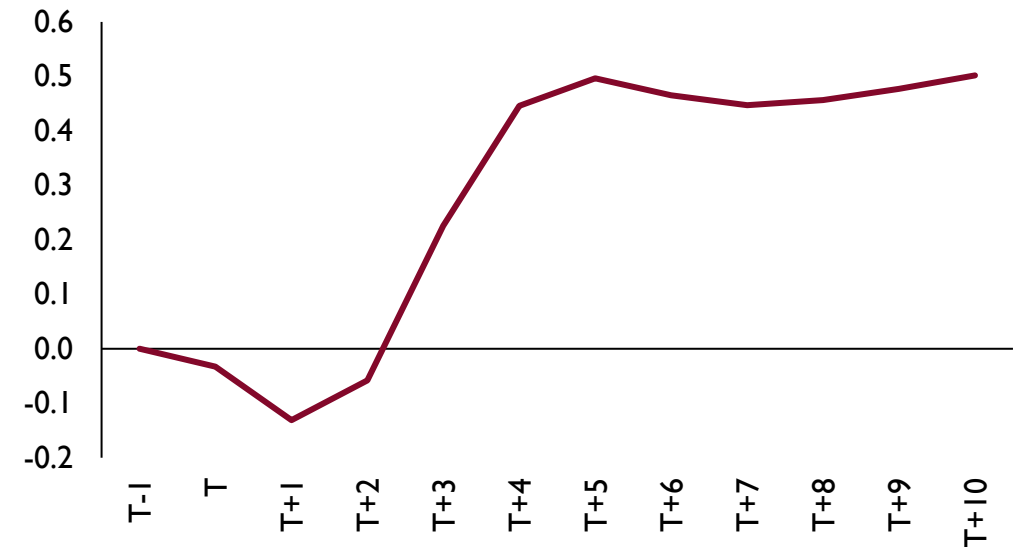
- Upward revisions to National Accounts strengthen the role of private consumption and investment
- In the absence of revisions to the observed data, the carry-over effect and forecasts for the rest of the year would bring Spain's GDP growth for 2025 to around 3%

Reasons for the strength of the Spanish economy (1): immigration

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



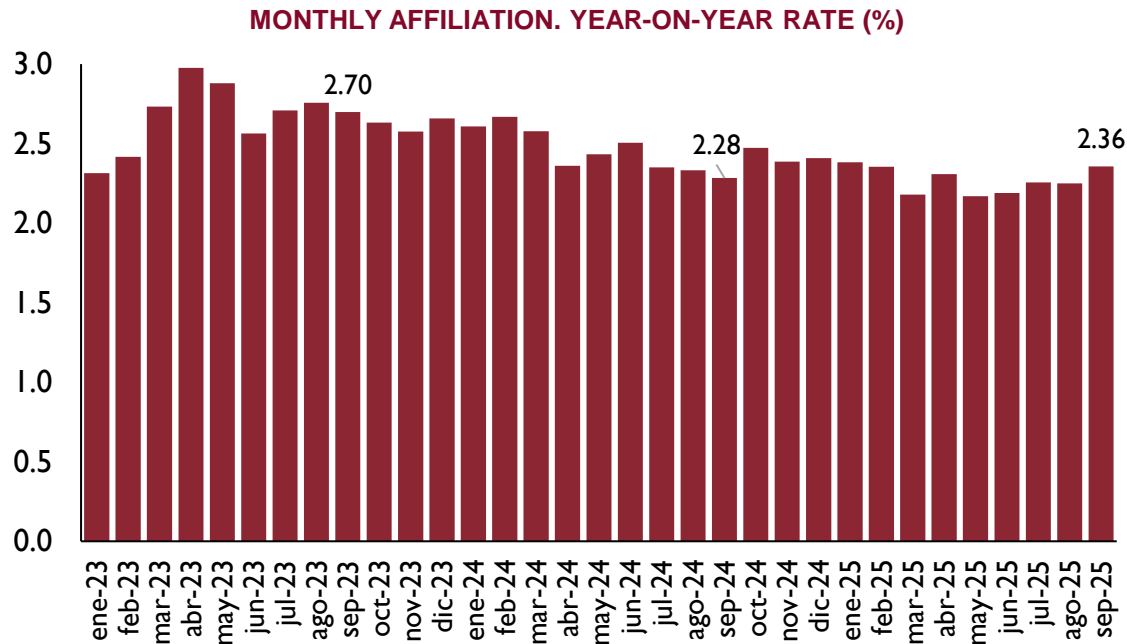
IMPACT ON GDP OF A NET IMMIGRATION SHOCK (DEVIATION IN LEVEL FROM THE BASELINE SCENARIO, %)



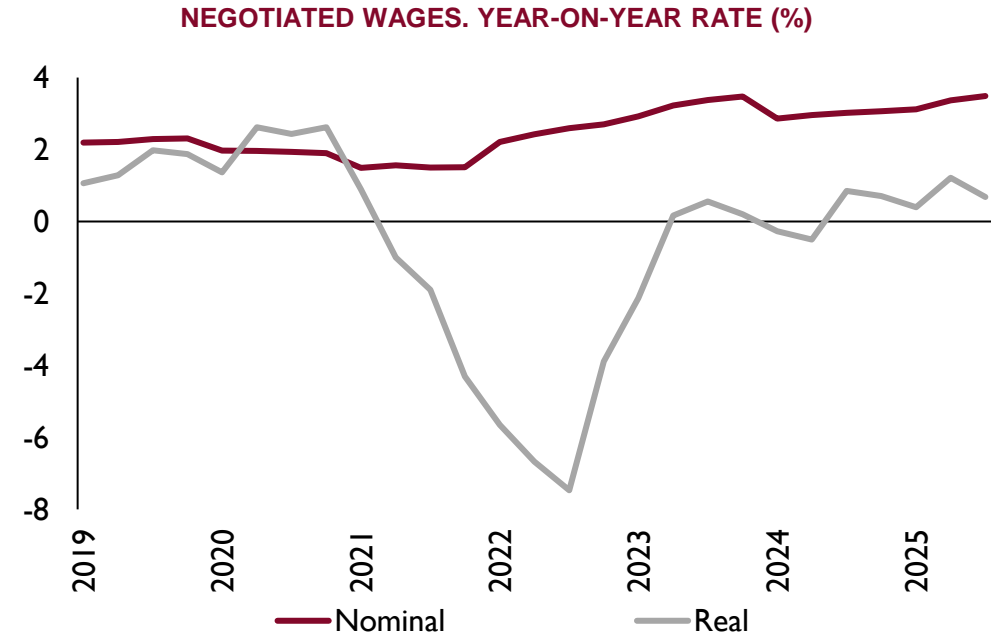
Source: INE, European Commission and AIReF

- Immigration continues to surprise on the upside: a net inflow of 400,000 people was expected this year but is likely to hover around 600,000 people, according to the latest information from the INE
- The mechanical breakdown of GDP growth from the supply side reveals that of the 6-point growth recorded between 2022 and 2024, 2.4 pp would be explained by the contribution of the foreign and dual nationality population (more than one third)

Immigration allows high employment growth to be maintained without strong wage pressures



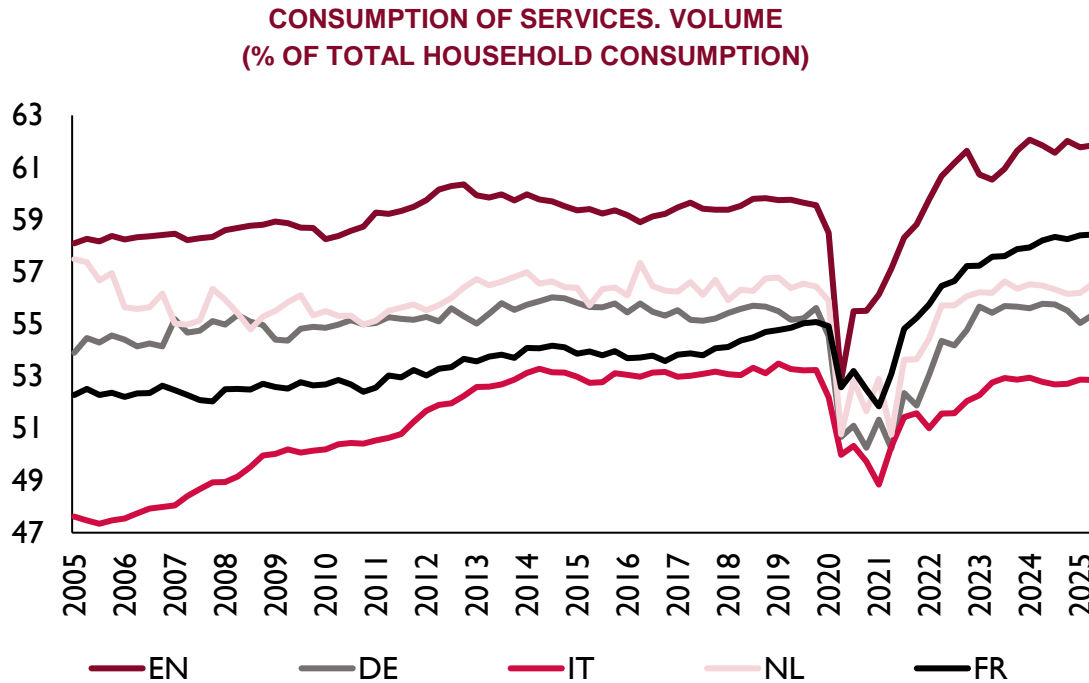
Source: INE and Haver



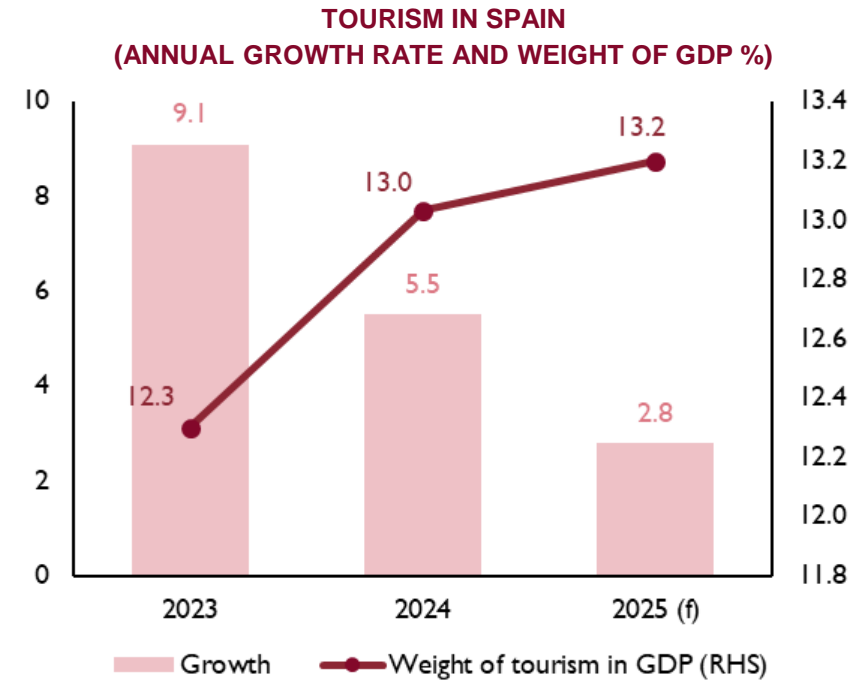
Source: Haver (INE and Ministry of Employment and Social Security)

- The increase in labour supply has allowed economic growth and the reduction in unemployment to be compatible with the absence of wage pressures and with a lower labour shortage in most sectors, compared with other economies
- Employment growth remains high. Social Security affiliation in September performed favourably
- Real wages are rising, but at a moderate pace

Causes of the strength of the Spanish economy (2): change in consumption patterns after the pandemic, with a greater weight of services, has benefitted economies with a greater weight of tourism and exports of other services



Source: Eurostat



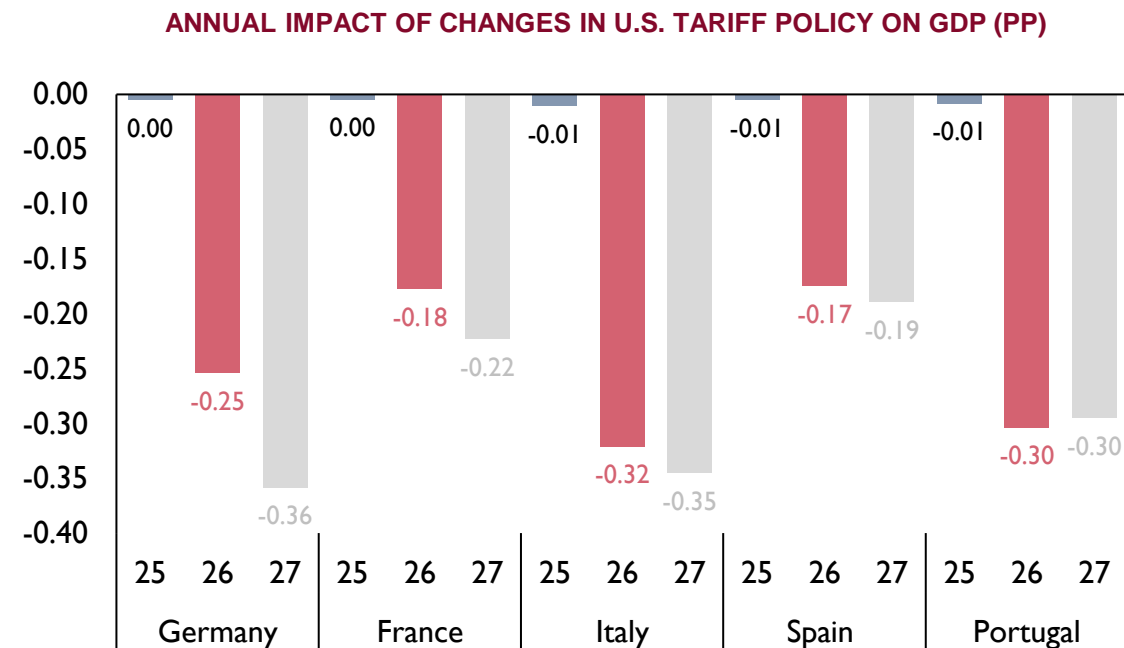
Source: INE and Exceltur

- There are changes in consumption patterns with a greater orientation towards services in some economies, which favours the development of tourism and exports of services
- In Spain, tourism has been another of the mainstays of GDP growth. On the supply side, tourism accounts for 45% of GDP growth since 2022, although its dynamism is moderating and will contribute less to future growth. Tourism GDP amounts to 13.2% of GDP

Reasons for the strength of the Spanish economy (3): Lower impact of the tariff war than in other EU countries



Source: Eurostat

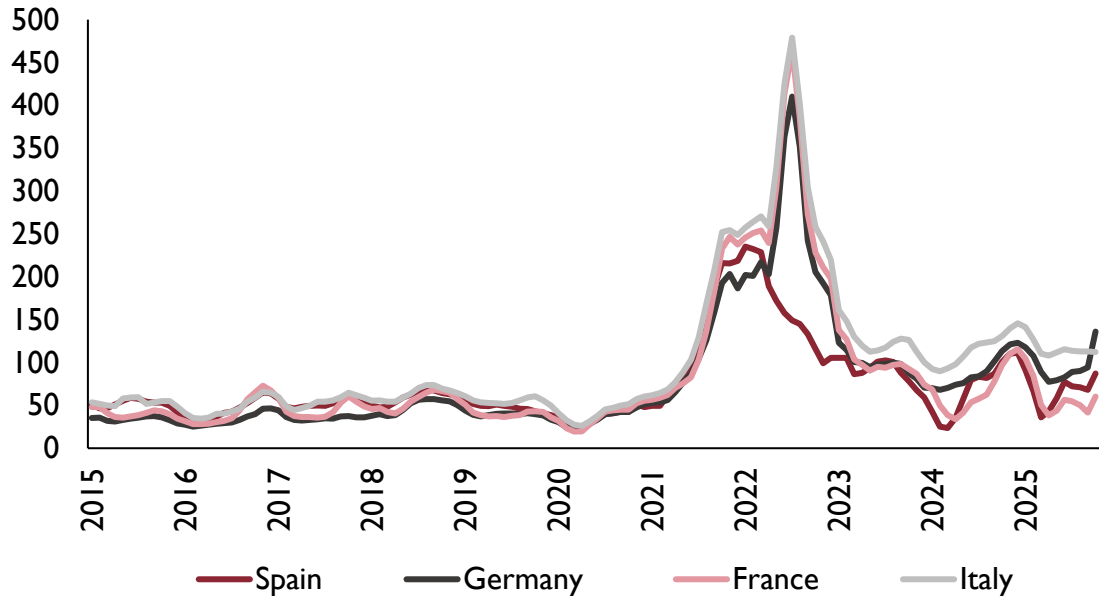


Source: Oxford Economics

- The impact of tariffs affects the growth forecasts of the main European economies
- However, Spain's low exposure makes it the country with the lowest impact on growth

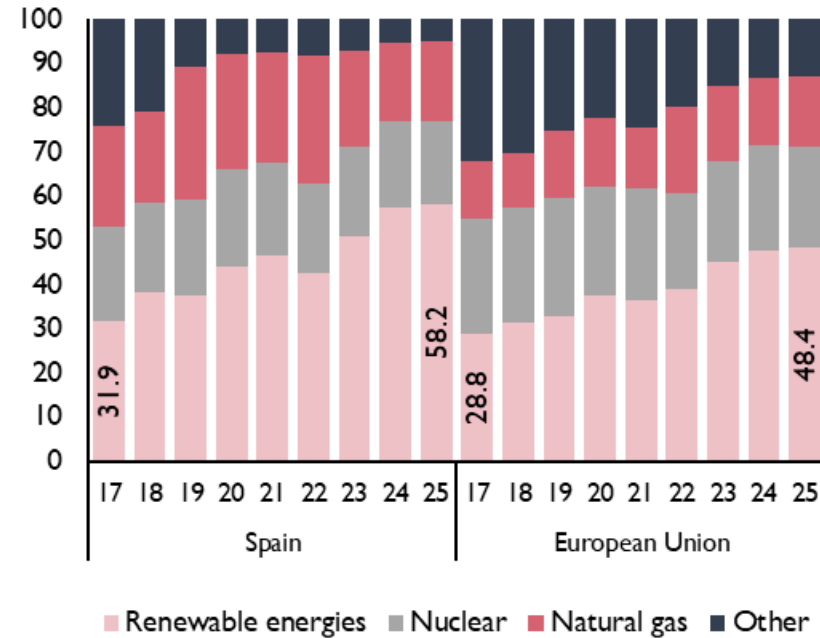
Reasons for the strength of the Spanish economy (4): the cost of electricity has grown comparatively less and the weight of renewables in the energy mix is increasing

ELECTRICITY PRICES (MONTHLY AVERAGE, €/KW)



Source: LSEG

ELECTRICITY GENERATION MIX IN SPAIN AND THE EUROPEAN UNION



Source: Eurostat

- Industry, and the Spanish economy in general, has been less affected by the increase in the cost of energy than other economies such as Germany, due to the lower dependence on Russian gas and the greater weight of renewable energies in the energy mix

Balance of risks

Trade tensions persist

- China announces export restrictions on minerals, rare earths and semiconductors that would come into force in November and could affect European production chains
- The United States maintains the possibility of sectoral tariffs (pharmaceuticals, chemicals, etc.).

Financial markets

- Political crisis in France
- Concerns about growth in Germany and the direction of fiscal policy in the US and the UK
- Appreciation of the euro exchange rate against the dollar
- Valuation of financial assets

Insufficient reactivation of the housing market

- Household creation is significantly outpacing the number of housing starts
- Rising house prices: impact on labour market and immigration flows

Productivity challenges

- Recent gains in productivity per hour are noticeable, but remain stable per employee
- Hourly productivity growth is concentrated in service sectors, particularly in tourism, and in hotels and restaurants

3

Fiscal scenario

In its no-policy-change scenario, AIReF estimates average net expenditure growth between 2025 and 2028 of 4.4% compared with 3.4% in the MTP

NET EXPENDITURE GROWTH RATE 2024-2031. MTP VS AIReF (% CHANGE)

Growth rate of eligible expenditure	2024	2025	2026	2027	2028	2029	2030	2031
Government 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						
Annual								
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 and AIReF.

CONTROL ACCOUNT (% 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 ✗

AIReF's no-policy-change scenario includes revenue measures already adopted

REVENUE MEASURES. Difference compared with the previous year (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

- For 2025, AIReF forecasts growth within the limit of 0.3% of GDP allowed by the annual control account
- In 2026, the annual control account limit would be exceeded by approximately €1.2bn, but within the limits allowed by the cumulative control account of 0.6% of GDP
- In 2027 and 2028, growth above the MTP commitments and exceeding the annual control account threshold is expected. In addition, the cumulative control account thresholds would already be exceeded, and additional adjustments would be necessary to comply with the European fiscal framework

Compliance with the national expenditure rule leads to compliance with the European expenditure rule in 2025, but not in 2026 and 2027

	REFERENCE RATES	SCOPE	METHODOLOGY	CONTROL						
National expenditure rule	<table border="1"> <thead> <tr> <th>2025</th> <th>2026</th> <th>2027</th> </tr> </thead> <tbody> <tr> <td>3,2</td> <td>3,3</td> <td>3,4</td> </tr> </tbody> </table>	2025	2026	2027	3,2	3,3	3,4	Individual application to each sub-sector, except Social Security Funds	Does not include temporary revenue measures, nor the non-deflation of PIT	Annual outlook with no room for deviation
2025	2026	2027								
3,2	3,3	3,4								
European expenditure rule	<table border="1"> <thead> <tr> <th>2025</th> <th>2026</th> <th>2027</th> </tr> </thead> <tbody> <tr> <td>3,7</td> <td>3,5</td> <td>3,2</td> </tr> </tbody> </table>	2025	2026	2027	3,7	3,5	3,2	Applicable to GG Sector. Allows for offsetting between sub-sectors	Excludes national co-financing of European projects and one-offs	Medium-term outlook. Annual and cumulative control account
2025	2026	2027								
3,7	3,5	3,2								

EUROPEAN EXPENDITURE RULE BY SUB-SECTOR IN NO-POLICY-CHANGE SCENARIO (% CHANGE)

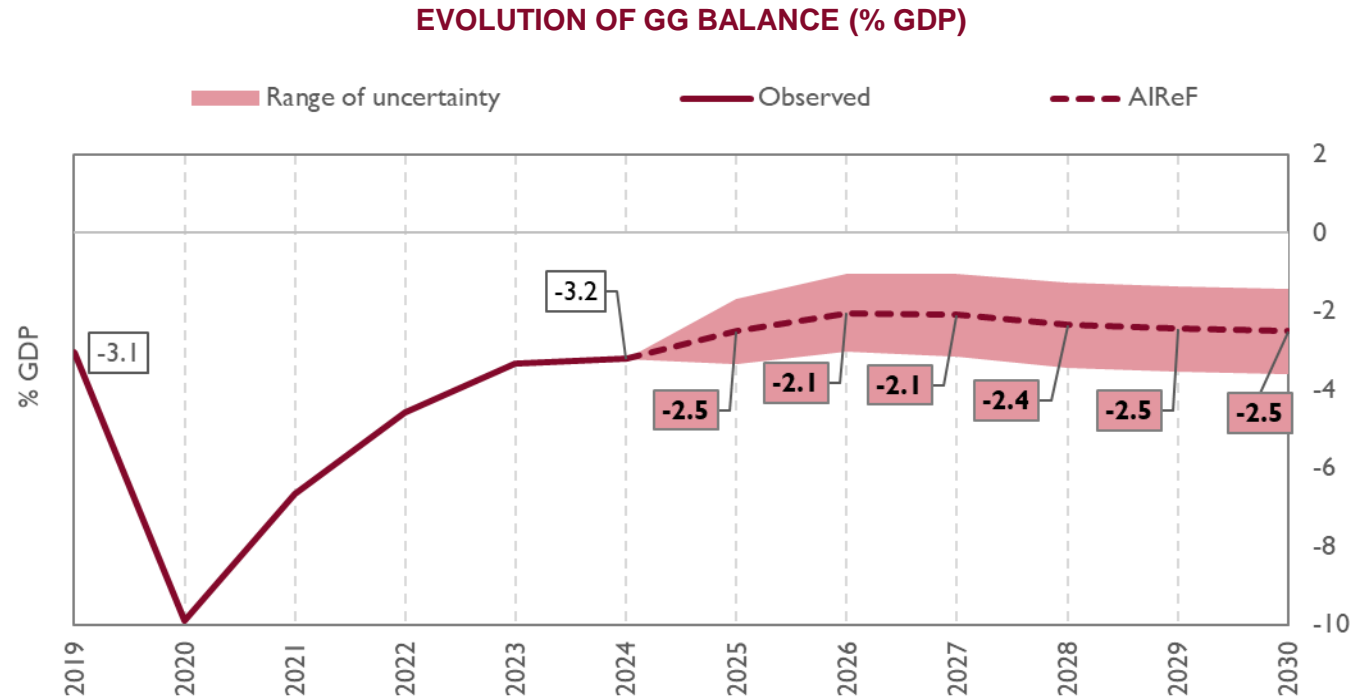
	2024	2025	2026	2027	2028	2029	2030
GG	4,3	4,6	4,6	4,3	4,0	4,4	3,9
CG	2,3	2,8	7,1	5,3	4,1	4,8	3,5
SSFs	5,6	6,3	4,1	3,4	3,7	3,9	4,0
ARs	7,3	4,8	2,8	4,7	4,3	4,7	4,2
LGs	-2,6	3,5	5,1	3,1	3,4	3,6	3,8

EUROPEAN EXPENDITURE RULE BY SUB-SECTOR IF THE NATIONAL EXPENDITURE RULE IS COMPLIED WITH UNTIL 2027 (% 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

AIReF estimates the European expenditure rule by sub-sector in the no-policy-change scenario and subsequently assumes that the national expenditure rule is complied with by the CG, ARs and LGs and that SSFs do not change from baseline rate

AIReF considers that the GG will close 2025 with a deficit of 2.5% of GDP, improve by 0.5 points in 2026 and then start to climb to 2.5% by 2030

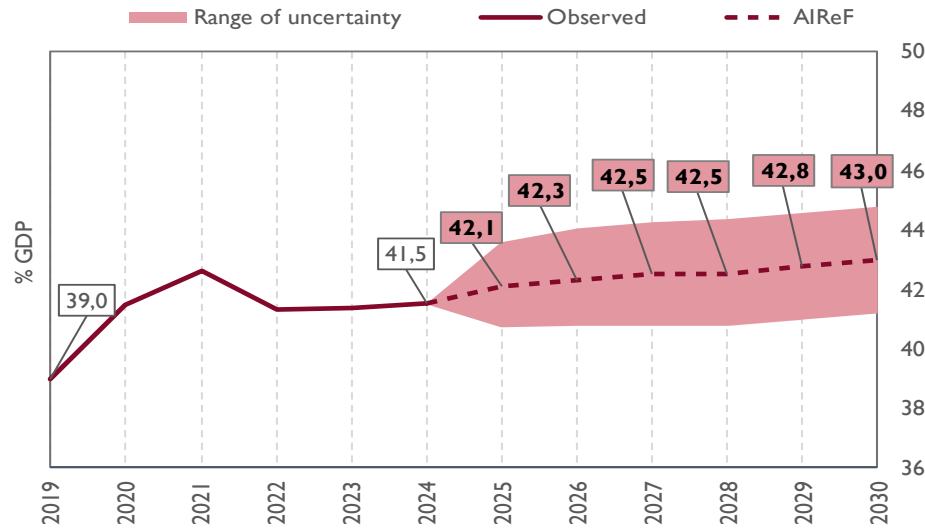


Source: IGAE and AIReF

- In 2025, the deficit excluding the DANA would be 2.2%, 0.3 points below the forecasts in the Progress Report
- AIReF considers that the deficit will improve in 2025 and 2026 due to the withdrawal of the energy measures and the DANA, as well as the reduction in one-off operations and the dynamism of the economy
- As of 2026, the deficit will increase due to the boost from spending on interest, gross capital formation and cash benefits

Revenue will close at 42.1% of GDP in 2025, and continue on an upward path to 42.3% in 2026 and 43% in 2030

EVOLUTION OF GG REVENUE WITHOUT RTRP (% GDP)



Source: IGAE and AIReF

MAIN COMPONENTS OF REVENUE EXCLUDING RTRP (% GDP)

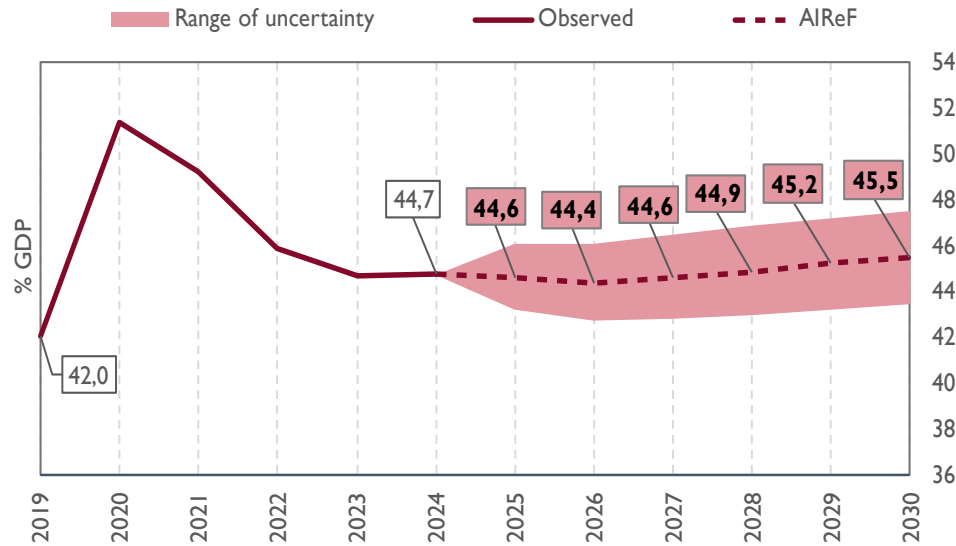
	AIReF						
	2024	2025	2026	2027	2028	2029	2030
Revenue	41,5	42,1	42,3	42,5	42,5	42,8	43,0
TAX REVENUE	23,9	24,6	24,9	25,0	25,1	25,3	25,5
On production and imports	11,1	11,2	11,1	11,1	11,0	11,0	10,9
Value-added taxes (VAT)	6,4	6,7	6,7	6,7	6,7	6,7	6,7
Taxes on products (STs, TATDLA...)	2,9	3,1	3,0	3,0	3,0	2,9	2,9
Other taxes on production (Property Tax...)	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
PIT (including NRIT natural persons)	9,1	9,6	9,8	10,0	10,2	10,4	10,7
Corporate Inc. Tax (including NRIT legal persons)	2,9	3,0	3,1	3,1	3,1	3,2	3,2
Other current taxes	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

- In 2025, AIReF expects an increase in revenue of 0.6 points, mainly due to the withdrawal of the measures to mitigate the energy crisis and the dynamism of income taxes and social contributions
- In the rest of the forecast, taxes on production are primarily reduced by special taxes, but the dynamism of income taxes offsets this and pushes the forecast up by 0.1 or 0.2 points per annum
- Social contributions will stabilise at around 13.4% of GDP, driven by the dynamism of the labour market and the measures associated with the pension reform
- Other revenue is set to decline until 2027 and stabilise thereafter

AIReF estimates a reduction in expenditure until 2026, which will then begin an upward path, ending almost 0.8 points of GDP higher than in 2024 by 2030

EVOLUTION OF GG EXPENDITURE WITHOUT RTRP (% GDP)



Source: IGAE and AIReF

MAIN COMPONENTS OF EXPENDITURE EXCLUDING RTRP (% GDP)

EXPENDITURE	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
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

- In 2025 and 2026, the withdrawal of measures to mitigate the energy crisis, DANA-related spending and the reduction in the expected cost of court rulings reduce expenditure, as reflected in the evolution of subsidies and other expenditure
- Thereafter, increased spending on military investment, interest and cash benefits, mainly pensions, push the forecast upwards
- Compensation of employees assumes the CPI increase in public salaries

AIReF estimates an increase in the CG deficit in the medium term, while it forecasts a reduction compared with 2025 in the deficit of the ARs and SSFs

BALANCE BY SUB-SECTOR (% GDP)

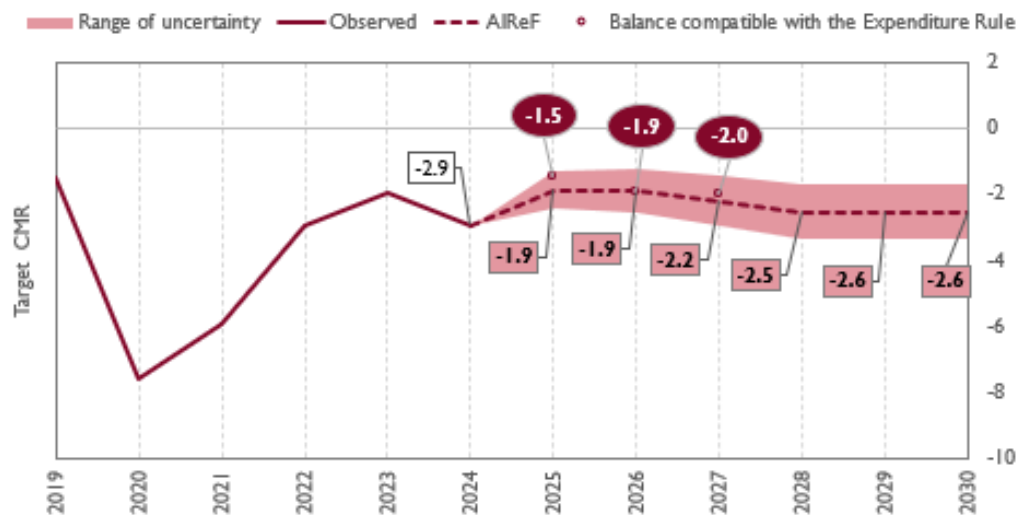
	AIReF current						
	2024	2025	2026	2027	2028	2029	2030
GG	-3,2	-2,5	-2,0	-2,1	-2,3	-2,4	-2,5
CG	-2,9	-1,9	-1,9	-2,2	-2,5	-2,6	-2,6
SSFs	-0,5	-0,5	-0,3	-0,2	-0,2	-0,2	-0,2
ARs	-0,2	-0,4	0,0	0,0	0,1	0,0	-0,1
LGs	0,4	0,3	0,2	0,3	0,3	0,3	0,3

Source: IGAE and AIReF

- In 2025, the reduction in the deficit is led by the CG, due to the elimination of the energy measures and DANA-related spending, the reduction in the cost of court rulings and the settlement of the financing system for that year. Part of this improvement by the CG is reflected in the deterioration of the ARs and LGs
- In 2026, the ARs are expected to improve their balance due to the expected evolution of the regional financing system, while the lower cost of the court rulings on the gender gap supplement explains the improvement of the SSFs
- In the medium term, it is the deterioration of the CG balance that pushes the deficit upwards due to interest and defence expenditure

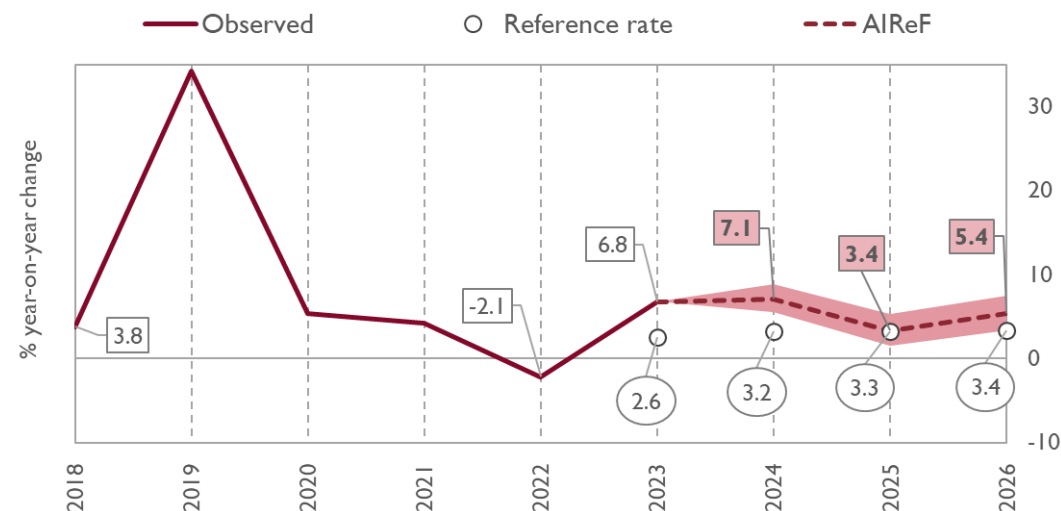
The CG, despite the improvement in the deficit in 2025, is at risk of non-compliance with the expenditure rule between 2025 and 2027

EVOLUTION OF CG BALANCE (% GDP)



Source: IGAE and AIReF

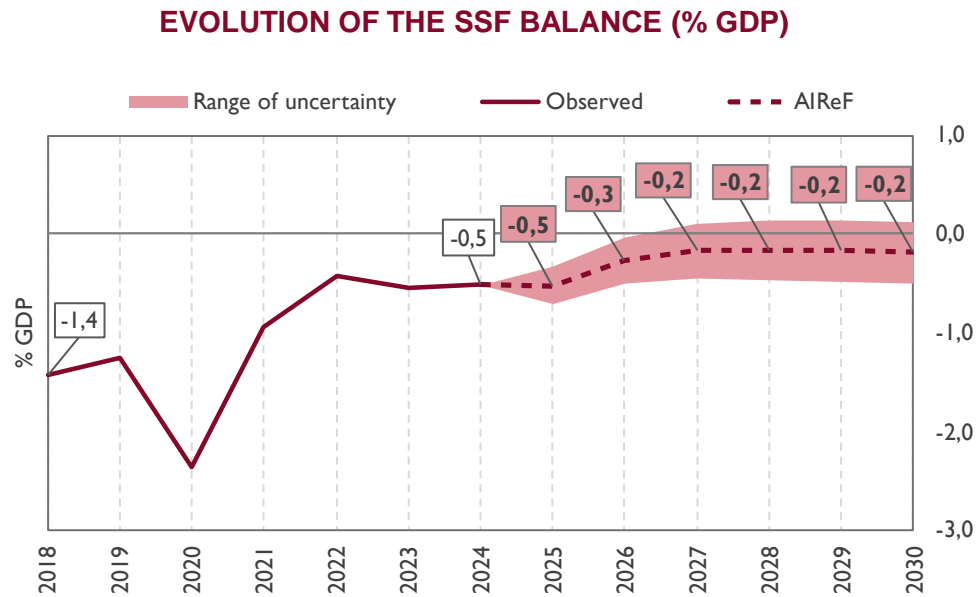
NATIONAL EXPENDITURE RULE (% CHANGE)



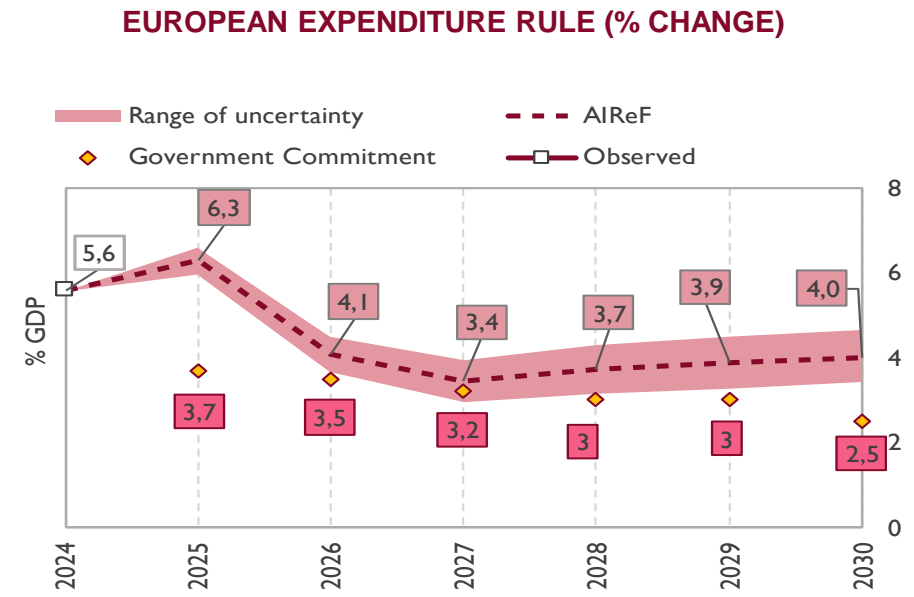
Source: IGAE and AIReF

- Eligible expenditure for the purposes of the national expenditure rule will grow by an average of 5.3% between 2025 and 2027, with all years above the reference rate
- Primary expenditure net of revenue measures will grow by 4.6% on average per annum between 2025 and 2030 for the purposes of the European expenditure rule
- After the withdrawal of measures, the CG will reduce its deficit by 0.1 points in 2025. Thereafter, it will start to decline, ending with a deficit of 2.6% in 2030

The SSFs will reduce their deficit by 0.3 points over the forecast horizon, stabilising at 0.2% of GDP in 2027



Source: IGAE and AIReF

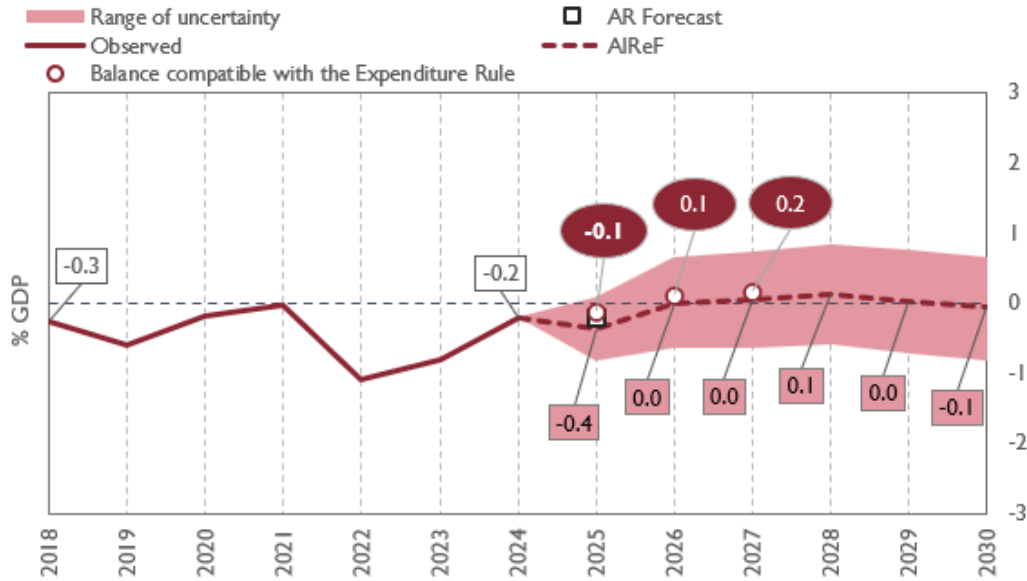


Source: IGAE and AIReF

- Primary expenditure net of revenue measures will grow by 4.2% on average per annum between 2025 and 2030 for the purposes of the European expenditure rule
- The growth in spending on pensions will be partially offset by the reduction in unemployment spending due to the dynamism of the economy
- Contributions will stabilise their weight of GDP in the last years of the horizon, in line with wage and employment moderation and driven by measures linked to the pension reform

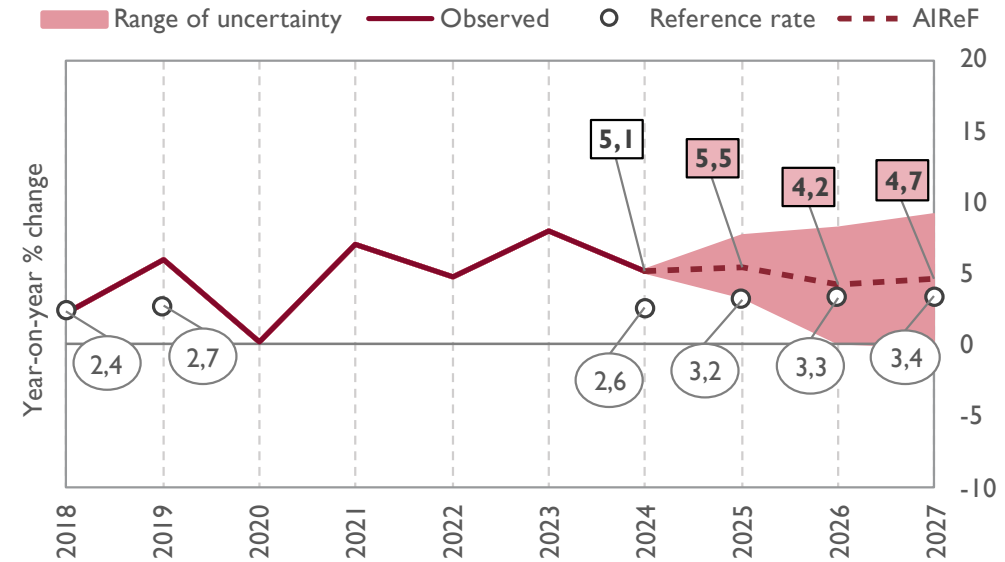
After declining in 2025, AIReF expects the balance of the ARs to stabilise around equilibrium in the medium term

EVOLUTION OF BALANCE OF ARS (% GDP)



Source: IGAE and AIReF

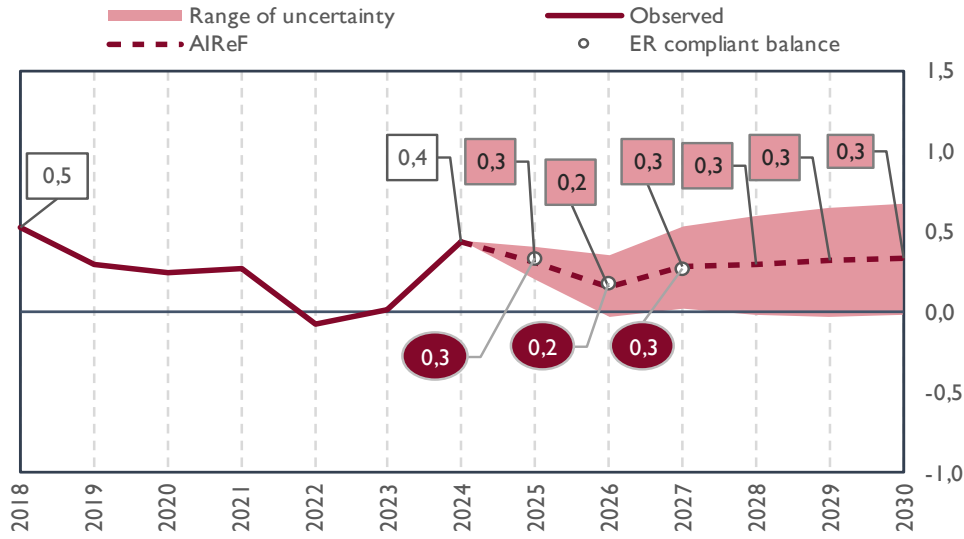
NATIONAL EXPENDITURE RULE (% CHANGE)



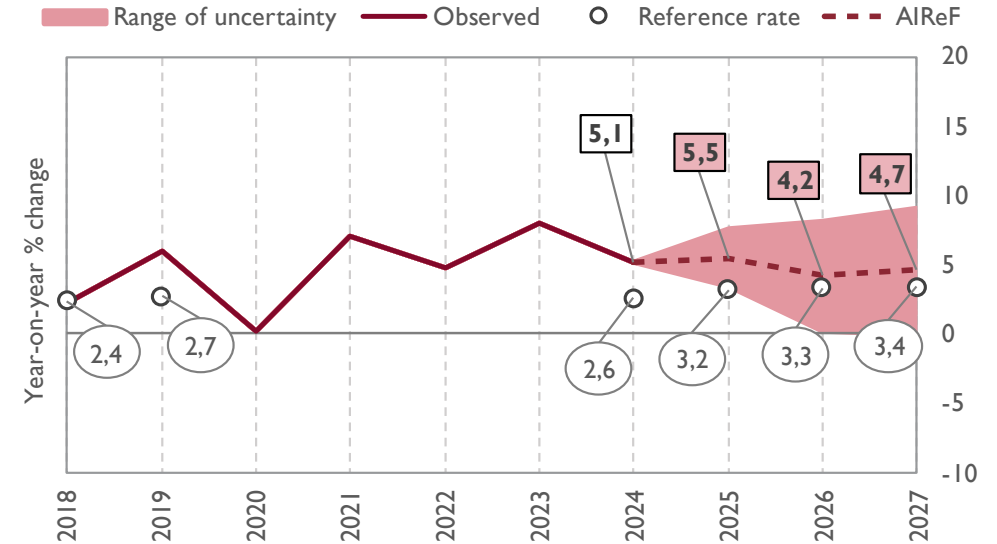
- In 2025, the balance is expected to decline as the extraordinary settlement of the financing system in 2024 will not be replicated
- As of 2026, the ARs will maintain a balance close to equilibrium
- However, the growth in eligible expenditure for the purposes of the national expenditure rule will exceed the current reference rate every year
- Primary expenditure net of revenue measures will grow by an average of 4.2% per annum between 2025 and 2030 for the purposes of the European expenditure rule

After a decline in 2025, AIReF expects the LG surplus to stabilise at 0.3 points of GDP in the medium term

EVOLUTION OF LG BALANCE (% GDP)



NATIONAL EXPENDITURE RULE (% CHANGE)

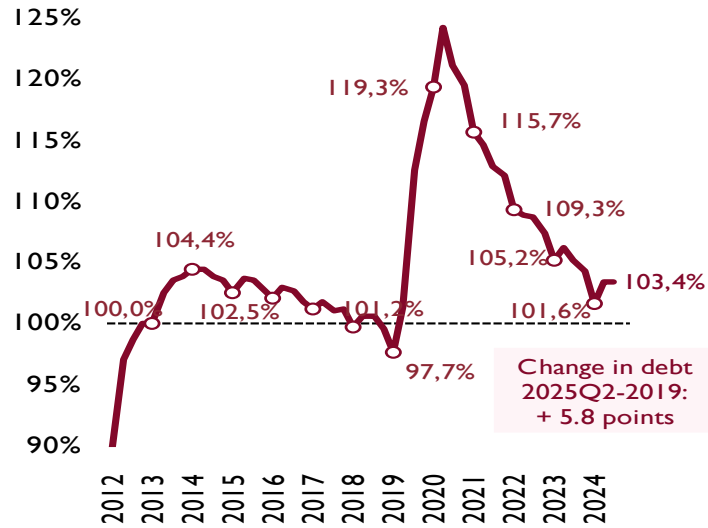


Source: IGAE and AIReF

- In 2025, the forecast of reaching a LG surplus of 0.3% is maintained
- In the following years, this positive balance of 0.3% will be maintained, with the exception of 2026, when it will be 0,1 points lower
- There is a risk of non-compliance by the sub-sector with the national expenditure rule in both 2025 and 2026
- Primary expenditure net of revenue measures will grow by 3.8% on average per annum between 2025 and 2030 for the purposes of the European expenditure rule

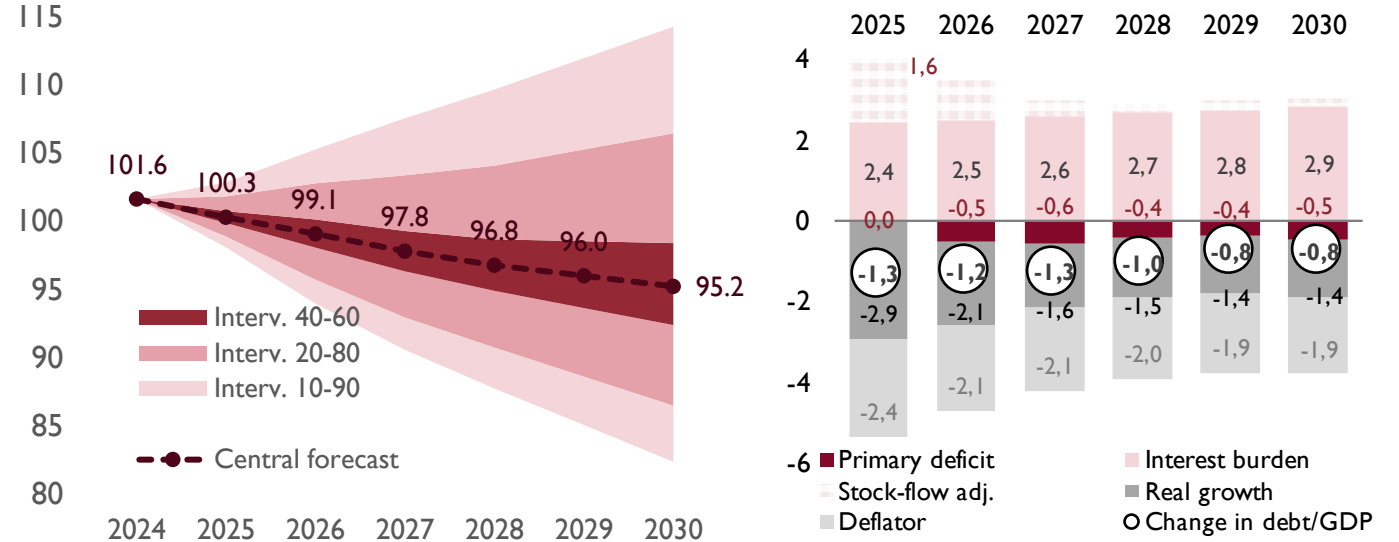
AIReF's macro-fiscal forecasts project a decrease in the debt-to-GDP ratio of 6.4 GDP to 95.2% in 2030

EVOLUTION OF DEBT (% GDP)



Source: Bank of Spain, INE and AIReF

PROJECTED DEBT (% GDP) AND CONTRIBUTIONS TO THE CHANGE (POINTS OF GDP)

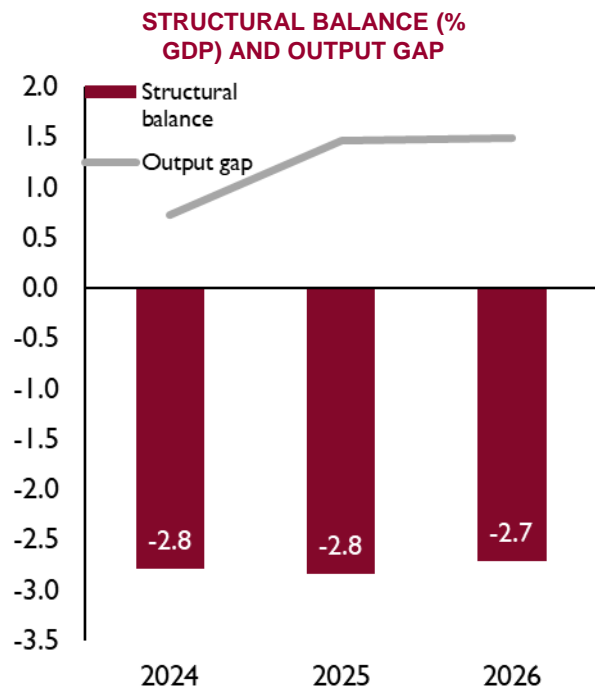


Source: AIReF

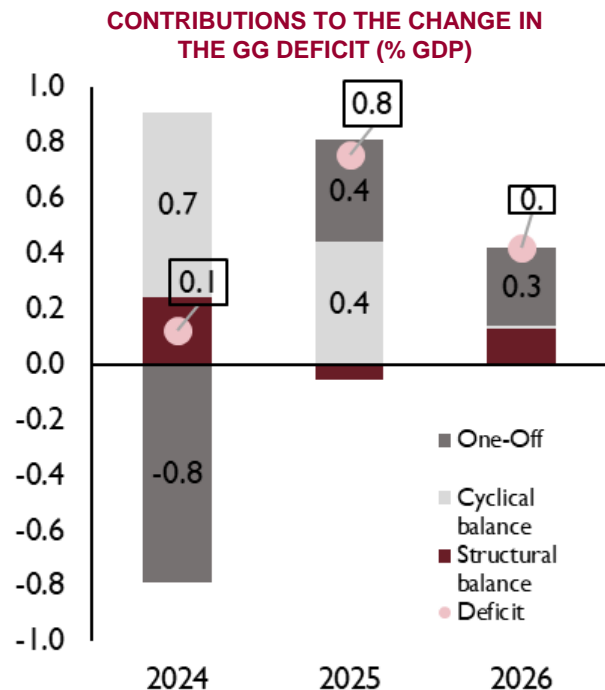
Source: AIReF

- The Spanish debt-to-GDP ratio **stood at 103.4%** in the **second quarter of 2025**, down 1.8 points in the last year, and 5.8 points higher than the pre-pandemic level
- AIReF's macro-fiscal forecasts point to a **reduction in the debt-to-GDP ratio of 6.4 points between 2024 and 2030**, to around **95.2%** at the end of the horizon. This trajectory would imply an **average annual decline of 1.1 percentage points**, with a slight moderation in the pace of adjustment in the final years of the forecast horizon
- The evolution is driven by stable **nominal growth** of around **3.5%**, combined with a **primary surplus** of close to **0.5%** of GDP and **interest** payments of around **2.7%**. The **favourable difference between growth and interest rates** would thus allow a gradual reduction in public debt

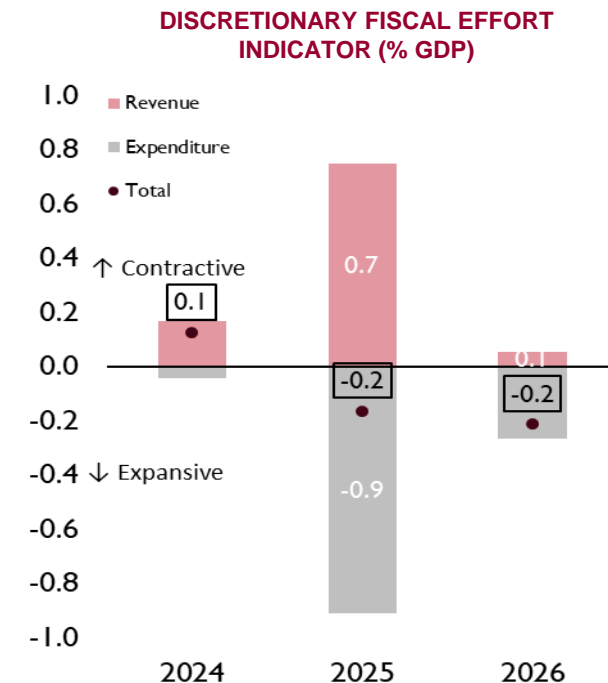
From a structural perspective, the misalignment between revenue and expenditure remains high and still far from equilibrium



Source: AIReF



Source: AIReF



Source: AIReF

- According to AIReF's estimates, the **structural fiscal balance remains at around 2.8% of GDP in 2024 and 2025**
- The cyclical improvement in 2024 tends to **slow in 2025** and practically **disappear in 2026**
- The fiscal policy stance would be **mildly contractionary in 2024** and, conversely, **mildly expansionary in 2025 and 2026**
- The expansionary stance in 2025 would be the result of **contractionary discretionary revenue measures** counterbalanced by **expansive expenditure**, growing above the potential baseline



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