

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

EXECUTIVE SUMMARY

October 29th, 2025



Independent Authority
for Fiscal Responsibility



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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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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 great 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, 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 DANA. This improvement is reflected across the forecast horizon, with a deficit of 2% of GDP 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).

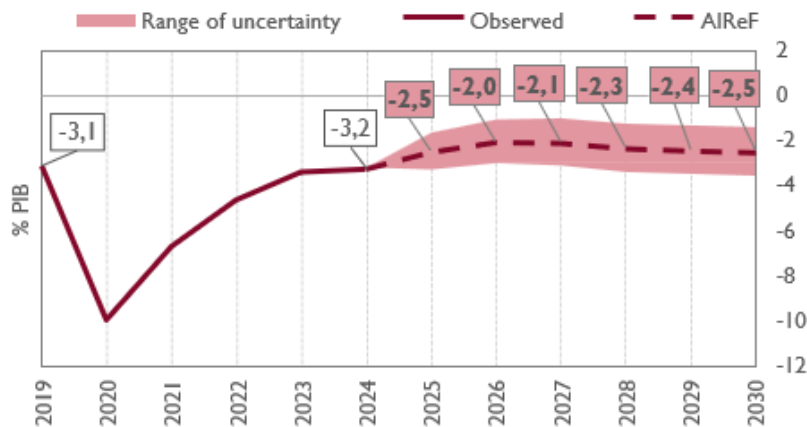
As of 2026, growth is projected to slow gradually to 1.5% in 2030, as the momentum associated with the RTRP disappears and migration flows moderate. The slower growth in world trade projected by most international institutions also contributes to this profile.

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 contribute to reducing 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 on an upward path 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 the dynamism of the labour market 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 especially gross capital formation, although the pace will be conditioned by the schedule of military investment deliveries. 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 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 expenditure calculated 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, representing a 1.8-point decrease from the same period last year and a cumulative decline of 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, compared with greater stability in Spain and Italy. 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 maintains its downward trend, in line with monetary easing, although current rates remain above the average cost of the outstanding portfolio, meaning that 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.