BOX 1. NATIONAL ESCAPE CLAUSE FOR DEFENCE SPENDING

On 13 April 2026, Spain requested activation of the Stability and Growth Pact's National Escape Clause (NEC) for defence spending, joining the group of 17 European Union Member States that have already activated it. Activation of this clause has material implications for assessing compliance with the MTP net expenditure path, making it important to consider its nature, scope and effects.

Nature and approval procedure

Alongside the general escape clause provided for in Article 25, which would be activated in the event of a severe economic downturn in the euro area or the Union as a whole, the reformed European fiscal framework provides for a national escape clause in Article 26 of Regulation (EU) 2024/1263. This national clause allows a Member State to deviate from the net expenditure path set by the Council without the deviation being considered a breach of the fiscal rules, provided that exceptional circumstances outside its control have a major impact on public finances and that the deviation does not jeopardise medium-term fiscal sustainability. In this case, the exceptional circumstance invoked is the war in Ukraine and the resulting need to strengthen national and European defence capabilities, as recognised by the European Commission in its Communication of 19 March 2025, which invites Member States to apply the clause in a coordinated manner.

The NEC is activated at the request of the Member State concerned, followed by a recommendation from the European Commission and subsequently a recommendation from the Council of the EU authorising the deviation and establishing its duration. Unlike the domestic national escape clause provided for in Article 11.3 of the Organic Law on Budgetary Stability and Financial Sustainability, the NEC does not require prior parliamentary approval before the government submits an activation request.

Scope of the flexibility

The flexibility provided by the clause is limited to a maximum annual deviation of 1.5% of GDP from the established net expenditure path, without taking account of the debt sustainability and deficit resilience safeguards. The deviation is assessed on the basis of the increase in total defence expenditure—both investment and current expenditure—classified as COFOG 02 (Defence) in the national accounts system, and includes expenditure financed through the SAFE instrument. The flexibility provided by the NEC for defence spending is available over the period 2025-2028 and takes as its

reference the level of defence expenditure as a percentage of GDP in 2021, or in 2024 if it declined between 2021 and 2024. Under the national accounts system, expenditure is recorded when equipment is delivered, rather than when payment is made. To prevent the time lag between signing a contract and delivery of the equipment—the point at which it is recognised under the ESA—from restricting use of the clause, expenditure on contracts signed during 2025-2028 but delivered subsequently may also benefit from the flexibility provided by the NEC.

Given the information constraints, AIReF prepares its defence expenditure forecasts to 2030, estimating that expenditure in COFOG terms will rise from 0.9% of GDP in 2024 to 1.5% of GDP in 2028.

BOX B_1.1 DEFENCE EXPENDITURE TREND ACCORDING TO COFOG. PUBLISHED DATA (2021-2024) AND AIREF FORECASTS (2025-2030) (% OF GDP)

NA DEFENCE SPENDING (% GDP)	2021	2022	2023	2024	2025 (P)	2026 (P)	2027 (P)	2028 (P)	2029 (P)	2030 (P)
Compensation of employees	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Intermediate consumption	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.7
Gross capital formation	0.2	0.4	0.3	0.2	0.3	0.5	0.7	0.9	1.2	1.4
Rest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total (% GDP)	**0.9**	**1.1**	**0.9**	**0.9**	**1.1**	**1.2**	**1.4**	**1.5**	**1.6**	**1.8**

Source: IGAE and AIReF

Offsetting temporary flexibility through subsequent adjustment

Application of the NEC allows additional defence spending to be accommodated when assessing compliance with the first MTP (2025-2028). However, this increase in public spending will weaken the future fiscal position by leading to a higher deficit and debt. Consequently, when the current MTP ends in 2028, Member States that make use of the NEC will start from a worse fiscal position than in the initial scenario. Additional adjustments will therefore be required in subsequent plans to offset the impact of this increase in expenditure. Preliminary European Commission estimates for EU countries calculated that an additional annual adjustment in the structural primary balance of 0.4 pp would be needed in the following MTP (2029-2032), or 0.25 pp in seven-year MTPs; in some cases, the annual adjustment could exceed 1%. For Spain, AIReF's own estimates put the annual adjustment at 0.13 pp in the following MTP (2029-2032) for each 0.5-percentage-point-of-GDP increase in defence spending, with no significant additional adjustments required in subsequent MTPs.

Effects on assessment under the preventive arm of the SGP: the "augmented" control account

The Commission Communication of 19 March 2025 merely stated that deviations due to higher defence spending would be taken into account when assessing compliance with the established net expenditure path. The clause's subsequent practical implementation has clarified how this flexibility is incorporated into annual monitoring. Accordingly, for Member States that activate the NEC, the "ordinary" control account, which records both annual and cumulative deviations from the net expenditure path, is replaced by an "augmented" control account, which records only cumulative deviations not covered by the clause.

The most significant consequence of this methodological change is that the annual threshold of 0.3% of GDP no longer applies: only cumulative compliance is assessed, for which a maximum deviation of 0.6% of GDP is permitted. This allows annual expenditure deviations without immediate consequences for compliance, provided that the cumulative balance remains within the permitted margins.

Activation of the NEC therefore does not merely accommodate higher defence spending: it also changes the system for assessing compliance with the expenditure rule, granting an additional degree of annual flexibility unavailable to Member States that have not activated it.

Effects on the corrective arm of the SGP: opening a debt-based EDP.

Under the corrective arm of the SGP, the NEC operates not only through a regulated quantitative mechanism equivalent to that of the control account, but also in qualitative terms. In particular, the clause may be taken into account as a "relevant factor" in the report under Article 126(3) TFEU that the Commission prepares when deciding whether to propose that the Council open an Excessive Deficit Procedure (EDP) and, where applicable, when setting the corrective path.

Secondly, the NEC may also be invoked as grounds for assessing compliance with the corrective path in an EDP that has already been opened, although only to avoid escalation of the procedure—by keeping it suspended or in abeyance—and never as a means of closing an EDP opened under the deficit criterion, which in all cases requires the general government deficit to fall below 3% of GDP.

Of particular relevance to Spain is the connection between the NEC and the possible opening of a debt-based EDP. This procedure may be activated when public debt exceeds 60% of GDP and is not declining at a satisfactory pace, and when deviations recorded in the control account exceed the thresholds of 0.3% of GDP annually or 0.6% of GDP cumulatively. Activation of the NEC significantly changes this assessment: once the "augmented" control account applies, only the cumulative deviation, rather than the annual deviation, is considered, which may facilitate compliance with the expenditure rule and, by extension, with the debt criterion for the purposes of opening an EDP.

In short, the National Escape Clause for defence spending provides flexibility limited in both scale (1.5% of GDP) and duration (2025-2028), but has substantive effects both on the assessment of compliance with the expenditure rule under the preventive arm—by replacing annual assessment with an exclusively cumulative assessment—and on the decision whether to open a debt-based EDP. However, this additional margin is temporary and will have to be offset in subsequent MTPs through a greater adjustment effort to preserve medium-term fiscal sustainability.

Net primary expenditure before taking revenue measures into account will grow strongly in 2026 and 2027, by more than 5%, and will moderate in 2028, although remaining above 4%. AIReF's scenario is based on the medium-term fiscal and macroeconomic forecasts detailed in this report, supplemented by forecasts for 2030 and 2031 following the methodology of the Opinion on the long-term sustainability of GG. By component, the profile of EU-related expenditure, encompassing both EU and national co-financing, is shaped by implementation of the RTRP and by the increasing execution of the structural funds' 2021-2027 operational programmes. Meanwhile, cyclical unemployment expenditure broadly stabilises, while non-recurring expenditure (one-offs) will fall after rising again in 2026.