2026 MONITORING REPORT ON THE 2025-2028 MEDIUM-TERM FISCAL-STRUCTURAL PLAN

REPORT 24/26

14 May 2026

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

AIReF contact details:

C/José Abascal, 2, 2nd floor. 28003 Madrid, Tel. +34 910 100 599

Email: Info@airef.es

Website: www.airef.es

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Publication date: 14 May 2026

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EXECUTIVE SUMMARY

The Independent Authority for Fiscal Responsibility, AAI (AIReF), is required to issue an opinion on the Annual Progress Report for the Medium-Term Plan (MTP), which replaces the Stability Programme Update under the new European fiscal governance framework. To provide a medium-term perspective for monitoring the MTP, AIReF updates its macroeconomic and fiscal forecasts to 2030 in this report. This report is accompanied by individual reports on the Autonomous Regions, which also include an unchanged-policy medium-term fiscal scenario.

The Annual Progress Report is the document through which Member States inform the European Commission of the extent to which they are meeting their fiscal, macroeconomic and structural commitments under the EU's new economic governance framework. This report assesses compliance with the path for net primary expenditure excluding revenue measures, which serves as the sole operational reference for fiscal surveillance under the new framework. The Annual Progress Report does not alter the commitments made under the MTP, which remain in force for the 2025-2028 horizon. It must include information on the economic and fiscal position, the sustainability of the public finances and the implementation of the reforms and investments committed to by Member States.

The European Commission requires Annual Progress Reports to include macroeconomic and budget implementation data for completed years, together with updated forecasts for the current year, 2026. Thus, although Spain formally complies with the obligation to include forward-looking

information in the Annual Progress Report, its decision to update only part of the macroeconomic scenario may limit the internal consistency of the macroeconomic and fiscal estimates presented for 2026.

Similarly, while the absence of macroeconomic and fiscal forecasts for the entire Plan horizon complies with European Commission requirements, it makes it more difficult to identify in advance the risks of deviation from the commitments and forecasts set out in the MTP. Moreover, the Government's report merely sets out the reforms implemented that justified the extension of the adjustment period, without assessing their macroeconomic impact.

Following the finalisation of the 2025 data, AIReF's analysis in this report focuses on identifying medium-term risks of deviation from the commitments entered into under both the European and national frameworks. AIReF's assessment is based on a complete macroeconomic and fiscal scenario for 2026-2030.

In its macroeconomic scenario, AIReF marginally lowers its forecast for real GDP growth in 2026 to 2.2% (from the 2.3% estimated in April), identical to the Government's estimate in November 2025. By contrast, the Government estimates nominal GDP growth of 5.3% in 2026, clearly above AIReF's forecast of 4.8%. This discrepancy results in a larger denominator effect in the debt and deficit ratios.

In its medium-term scenario, AIReF revises real GDP growth upwards to 2% in 2027 and 1.9% in 2028, due to higher expected migration flows. Real GDP growth would subsequently slow to 1.7% in 2030. In nominal terms, GDP growth would gradually moderate to below 4% in that final year. This scenario is subject to considerable downside risks, primarily related to ongoing armed conflicts.

Based on this scenario, AIReF forecasts that net primary expenditure excluding revenue measures will grow by an annual average of 5% in 2025-2028, compared with the 3.4% committed under the MTP in the absence of additional measures. Following growth of 4.8% in 2025, AIReF forecasts unchanged-policy net expenditure growth rates more than two percentage points above the annual MTP commitments in 2026 and 2027, and more than one point above in 2028. As a result, the cumulative control account limit would be exceeded from 2026 onwards, reaching 2.1% of GDP in 2028.

Activation of the National Escape Clause (NEC) to accommodate higher defence spending reduces these deviations. In 2026, following its application, the cumulative control account stands exactly at the limit of 0.6% of GDP. Nevertheless, in 2027 and 2028, the cumulative control account would breach the limits, reaching 1.5% of GDP in 2028.

Therefore, even after applying the NEC for defence spending and the flexibility allowed under the European fiscal framework, AIReF considers that further measures equivalent to 0.6% of GDP in 2027 and 0.3% of GDP in 2028 would be needed to bring the cumulative control account within the limit of 0.6% of GDP.

Following the increase in the deficit to 2.6% of GDP in 2026 as a result of the temporary measures adopted, AIReF expects it to fall to 2.2% of GDP in 2027. Thereafter, the deficit would edge upwards as spending pressures from ageing, defence and interest increase, reaching 2.4% of GDP in 2030. Measures to bring the cumulative control account within the permitted limits would reduce the deficit to 1.4% of GDP in 2030.

In the national fiscal framework, budgetary stability and debt targets have still not been approved, leaving the expenditure rule as the only operational rule. AIReF identifies a risk of non-compliance with the national expenditure rule in Central Government (CG) and in almost all the Autonomous Regions in 2026, 2027 and 2028. Compliance with this rule across all subsectors would require measures equivalent to 0.5% of GDP as early as 2026, a further 0.6% in 2027 and another 0.3% in 2028. In terms of the European expenditure rule, these adjustments would reduce the cumulative control account to 0.1% of GDP in 2028 after application of the NEC. The measures would also bring the deficit to 1.1% of GDP in 2030.

In short, compliance with both the national and European fiscal frameworks requires measures that would improve sustainability, although the scale and timing of those measures differ. Whereas national legislation requires measures to be applied as early as 2026, the European framework would allow them to be delayed until 2027. Moreover, unlike the national framework, the European fiscal framework does not allocate responsibility for implementing these measures among the subsectors.

Against this backdrop, AIReF recommends that the Ministry of Finance establish a realistic and credible medium-term fiscal strategy that ensures coordinated compliance with the national and European fiscal frameworks across all levels of GG, including the approval of budgetary stability and debt targets before the 2027 budget processes begin. AIReF also reiterates its recommendation to broaden the content of the Annual Progress Report to include a complete medium-term macroeconomic and fiscal scenario that allows the risks to compliance with the commitments in the MTP to be properly identified.

Macroeconomic scenario in the Annual Progress Report

Although the high degree of geopolitical uncertainty associated with the energy crisis and trade protectionism is common to all Annual Progress Reports, Member States have taken markedly different methodological approaches. Most have chosen to update their macroeconomic forecasts or supplement their analysis with alternative scenarios. Spain, by contrast, leaves the real variables in its macroeconomic scenario unchanged and updates only certain nominal components, and then only partially. In other countries, those scenarios have been independently assessed by the independent fiscal institution (IFI); in Spain, however, the Government has not asked AIReF to assess or endorse the macroeconomic scenario.

Specifically, the 2026 Annual Progress Report does not update the external assumptions for 2026 or their macroeconomic implications. Against the backdrop of an energy crisis, this decision limits the scenario's ability to adequately capture the shock's impact on growth, inflation and public finances.

Nor is the expected rate or composition of real GDP growth in 2026 revised, on the grounds that the projections prepared in November 2025 lie within the central range of analysts' consensus estimates. However, the deflators are updated to incorporate Quarterly National Accounts (QNA) information available up to the fourth quarter of 2025. This creates an inconsistency with the current energy crisis context: specifically, the Annual Progress Report projects high GDP deflator growth for 2026, influenced by carry-over effects from public employee pay revisions in the final quarters of 2025, a temporary factor whose full effect should not be carried over into 2026. The report also projects a decline in import prices and a slight improvement in the terms of trade in 2026. This appears unlikely in the current context, characterised by a significant increase in imported energy prices, particularly given that Spain is a net energy importer.

Finally, the scenario incorporates, on the fiscal side, the measures implemented in response to the war in Iran, but does not reflect their impact on macroeconomic variables or prices.

Together, these decisions create tensions in the internal consistency of the scenario. AIReF considers that a partial update of nominal variables without a comprehensive revision of the macroeconomic scenario undermines its internal consistency and hampers early assessment of the risks to compliance with the MTP commitments in 2026 on the basis of the Government's forecasts.

Even so, the real GDP growth forecast for 2026 and its composition are broadly in line with AIReF's estimates and those of other analysts. GDP deflator growth, by contrast, is relatively high compared with other estimates, including AIReF's own. This discrepancy carries through to nominal GDP growth in 2026, which the Government expects to be 5.3%, compared with AIReF's 4.8%, and therefore to the debt and deficit ratios.

Budget scenario

Revenue is expected to reach 43.3% of GDP in 2030, after ending 2025 at 42.1%, excluding the Recovery, Transformation and Resilience Plan (RTRP). Revenue will continue to grow by more than 5.5% in 2026 and 2027. For the remainder of the period, growth will moderate to rates above 4%. Income taxes, particularly Personal Income Tax (PIT), will continue to drive the increase in revenue as a share of GDP. Following the withdrawal of the measures, indirect taxes will gradually decline as a share of GDP due to excise duties. Social contributions will stabilise at around 13.6% of GDP, supported by a buoyant labour market and pension reform measures. Lastly, other revenue will decline as a share of GDP over the period.

AIReF expects expenditure, excluding the RTRP, to continue to rise as a share of GDP, reaching 45.7% in 2030. In 2026, the increase in expenditure is due to the measures taken to alleviate the effects of natural disasters and the Middle East crisis. Then, in 2027, compensation of employees will grow sharply as the agreement with the trade unions is implemented, while pension expenditure will increase as pensions are uprated in line with the 2026 CPI. Consequently, social transfers will continue to increase as a share of GDP throughout the period, reflecting the growing impact of ageing on the public finances. Gross capital formation is also expected to rise progressively as a share of GDP, driven by defence spending. Interest expenditure will also increase as a share of GDP, while the shares of compensation of employees and other expenditure will begin to fall again after 2027.

Most of the GG deficit will be concentrated in Central Government over the forecast horizon. The Social Security Funds (SSF) will stabilise their deficit at 0.1% of GDP, before it edges up to a projected 0.2% of GDP in 2030. The Autonomous Regions will be close to balance as a subsector, although individual positions will vary widely. Lastly, the Local Governments will maintain a surplus of around 0.3% of GDP.

TABLE 1. NET LENDING/NET BORROWING BY GENERAL GOVERNMENT SUBSECTOR (% GDP)

	AIReF					
	2025	2026	2027	2028	2029	2030
GG	**-2.4**	**-2.6**	**-2.2**	**-2.3**	**-2.3**	**-2.4**
CG	-2.0	-2.4	-2.3	-2.5	-2.5	-2.5
SSFs	-0.3	-0.2	-0.1	-0.1	-0.1	-0.2
ARs	-0.4	-0.1	0.0	0.1	0.1	0.0
LGs	0.3	0.2	0.2	0.3	0.3	0.3

Source: AIReF

Debt sustainability

The public debt-to-GDP ratio has followed a favourable path in recent years, as a result of strong nominal economic growth and the improvement in the public balance. AIReF's projections indicate that this trend will continue over the medium term, albeit at a more moderate pace: specifically, the debt ratio is projected to decline by just over 5 percentage points in the next five years, to around 95% of GDP in 2030. Over that period, the diminishing contribution from economic growth will be partially offset by the generation of primary surpluses.

In the long term, however, pressures resulting from higher ageing-related expenditure will cause the ratio to resume an upward path in the middle of the next decade under an unchanged-policy scenario, returning to around 100% of GDP in 2041.

Compared with the forecasts included in the previous MTP monitoring report, the debt-ratio trajectory is somewhat more favourable, owing to recent developments in the public balance and improved medium-term growth prospects, placing the debt ratio some 7 pp below the previous forecast.

That said, this improvement in the estimates is conditional on relatively high migration flows being maintained and on a resolution to the war in Iran.

Furthermore, more favourable developments in the variables used to calibrate the expenditure path should not be interpreted as grounds for increasing spending capacity. Indeed, the countercyclical nature of the new fiscal rules means that positive deviations from the initial assumptions translate into greater fiscal headroom for the future. This is particularly necessary given the starting point of historically high debt levels, limited fiscal space and successive shocks of varying kinds.

AIReF's simulations show that, in a scenario in which expenditure develops in line with the MTP targets, the debt path would remain favourable and even improve on the forecast originally set out in the Plan. By contrast, were the Government to make full use of the headroom provided by the augmented control account under the NEC for defence spending, the debt trajectory would be significantly less favourable than under strict compliance with the initial targets.

1. INTRODUCTION

AIReF assesses the second Annual Progress Report on the 2025-2028 MTP. By 30 April each year, Member States must submit a report to the European Union monitoring the fiscal and economic policy commitments set out in their MTP, which is drawn up every four years. Specifically, this report analyses compliance in 2025 and expected compliance in 2026 with the net expenditure path established in the 2025-2028 MTP. It also includes deficit and debt forecasts consistent with the growth path for primary expenditure net of revenue measures, together with the macroeconomic scenario estimates underpinning those forecasts. In addition, the Annual Progress Report must set out progress on the reform and investment commitments that justified extending Spain's adjustment period from four to seven years.

This assessment focuses on compliance with the European expenditure rule in 2025 and 2026, while also adding a medium-term perspective. For this purpose, AIReF uses the latest available information, including updated national accounts and budget outturn data for GG and its various subsectors, as well as the medium-term planning prepared by the Autonomous Regions. However, relevant information remains unavailable, as AIReF has already noted in previous reports. This includes eligible expenditure for 2025 under the national expenditure rule, the planned delivery of military equipment, national-accounts outturn data for the Recovery, Transformation and Resilience Plan (RTRP), and complete and up-to-date data on the main short-

and medium-term fiscal risks. To provide a medium-term perspective on the monitoring of the MTP, AIReF updates its macroeconomic and fiscal forecasts to 2030 in this report.

The report is structured in seven sections. Following this introduction, Section 2 analyses the short- and medium-term macroeconomic scenario, paying particular attention to the main risks. Section 3 examines compliance with the fiscal commitments in the 2025-2028 MTP. Section 4 considers the short- and medium-term fiscal scenario, including revenue and expenditure developments for GG as a whole, a breakdown of the main revenue and expenditure measures and a discussion of contingent liabilities and fiscal risks. Section 5 then expands the analysis by subsector, complemented by the publication of individual analyses for the Autonomous Regions. Section 6 focuses on public debt developments, while Section 7 sets out the recommendations arising from the analysis.

2. 2026 MONITORING OF THE 2025-2028 MEDIUM-TERM FISCAL-STRUCTURAL PLAN

2.1. Monitoring of the MTP path

AIReF forecasts average growth in primary expenditure net of revenue measures of 5 % between 2025 and 2028, compared with the 3.4% commitment in the MTP, in the absence of additional measures. After ending 2024 with growth below that envisaged in the MTP (4.1%, compared with 5.3%), net expenditure grew by 4.8% in 2025, compared with the 3.7% commitment, according to the data in the 2026 Annual Progress Report. For the remaining years covered by the MTP, from 2026 to 2028, AIReF forecasts unchanged-policy net expenditure growth rates that exceed the annual MTP commitments by more than two percentage points in 2026 and 2027 and by more than one point in 2028. This results in negative annual control account deviations in every year, exceeding the three-tenths-of-GDP limit set by European legislation. In cumulative terms, AIReF forecasts net expenditure growth of 27.1% between 2024 and 2028, compared with the 20.1% agreed in the MTP.

AIReF's forecasts entail breaching the cumulative control account limit from 2026 onwards, with cumulative deviations reaching 2.1% of GDP in 2028. The net expenditure growth forecast for 2026 implies an annual deviation of nine-tenths of GDP, well above the three-tenths-of-GDP deviation permitted in the

annual control account. As the cumulative control account stood at zero after the 2025 outturn, the annual deviation in 2026 is also the cumulative deviation for that year and exceeds the six-tenths-of-GDP limit. In the following years, the negative annual control account deviations would accumulate to reach the above-mentioned 2.1% of GDP in 2028.

The National Escape Clause for increased defence spending brings the deviation to the cumulative control account limit in 2026, but would be insufficient in 2027 and 2028. According to the Annual Progress Report, Spain requested activation of the clause on 13 April. This would provide additional flexibility by excluding from the cumulative control account the increase in defence spending as a percentage of GDP relative to the 2024 level. According to AIReF's forecasts, defence spending in 2026 will reach 1.2% of GDP in national accounts terms, in line with the government's forecast, representing an increase of three-tenths of GDP relative to 2024. This amount would reduce the cumulative control account deviation to 0.6% of GDP in 2026. However, in subsequent years, even after application of the escape clause, the cumulative control account deviation would clearly exceed the limit, reaching 1.5% of GDP in 2028.

TABLE 2. ANNUAL AND CUMULATIVE CONTROL ACCOUNT (% OF GDP)

Control account	2024		2025		2026		2027		2028	
Yearly	0.5	✓	-0.4	✗	-0.9	✗	-0.8	✗	-0.5	✗
Accumulated	0.5	✓	0.0	✓	-0.9	✗	-1.7	✗	-2.1	✗
Accumulated after defence escape clause			0.2	✓	-0.6	✓	-1.2	✗	-1.5	✗

Source: Annual Progress Report and AIReF

TABLE 3. GROWTH IN PRIMARY EXPENDITURE NET OF REVENUE MEASURES (% OF GDP)

Eligible expenditure growth rate	2024	2025	2026	2027	2028	2029	2030	2031
Government MTP								
Yearly	5.3	3.7	3.5	3.2	3.0	3.0	2.5	2.4
Accumulated	0.0	9.2	13.0	16.6	20.1	23.7	26.8	29.9
Government Progress Report								
Yearly	4.1	4.8	4.7					
AIReF unchanged policies								
Yearly	4.1	4.8	5.8	5.2	4.2	4.0	3.9	3.8
Accumulated	0.0	9.2	15.7	21.9	27.1	32.3	37.6	43.0

Source: MTP, 2025 Annual Progress Report and AIReF

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.

TABLE 4. CALCULATION OF PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2024-2031. (€ BILLIONS)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
GG expenditure	**680.2**	**725.0**	**764.9**	**818.1**	**842.0**	**876.0**	**912.5**	**951.3**	**992.0**
- Interest expenditure	35.6	38.8	40.3	43.6	47.0	51.2	54.2	59.7	63.9
- EU Funds	23.6	23.8	23.5	31.3	15.0	12.6	11.5	9.2	9.5
- Cyclical unemployment	-1.6	-2.0	-2.9	-2.8	-2.7	-2.6	-2.5	-2.4	-2.3
- One off expenditure	0.8	14.0	7.5	10.5	5.0	3.4	2.9	2.9	2.9
Net primary expenditure	**622.0**	**650.4**	**696.4**	**735.4**	**777.7**	**811.4**	**846.4**	**881.9**	**918.0**
- Discretionary revenue measures		2.6	14.5	-1.5	4.1	0.8	2.9	2.7	2.7
Primary expenditure net of revenue measures		**647.7**	**681.9**	**736.9**	**773.5**	**810.6**	**843.6**	**879.2**	**915.3**
% change in primary expenditure net of revenue measures		**4.1**	**4.8**	**5.8**	**5.2**	**4.2**	**4.0**	**3.9**	**3.8**

Source: AIReF

The timing of discretionary revenue measures shapes the profile of net expenditure growth. In 2026, these measures have a negative impact due to the end of the temporary restriction on loss offsetting for Corporate Income Tax and the measures adopted to mitigate the effects of the crisis in the Middle East. In 2027, the expiry of the measures adopted in response to the Middle East crisis is included. Lastly, in 2028 the value of the measures falls again following the withdrawal of the tax on net interest and fee income. Meanwhile, the annual contribution made by the SSF as a result of pension reform measures remains stable throughout the period, as does the impact of not deflating the PIT schedule.

TABLE 5. BREAKDOWN OF REVENUE MEASURES, 2024-2031. (€ BILLIONS)

Discretionary revenue measures	2024	2025	2026	2027	2028	2029	2030	2031
CG	-2.2	7.7	-4.7	1.3	-1.9	-0.4	0.0	0.0
SsSFs	2.2	2.4	1.2	1.0	1.1	1.1	0.5	0.5
Ars	-0.3	-0.2	-0.3	-0.1	-0.5	0.0	0.0	0.0
LGs	0.2	2.3	0.1	0.0	0.0	0.0	0.0	0.0
No PIT deflation	2.6	2.3	2.2	1.9	2.1	2.1	2.2	2.2
Total	**2.6**	**14.5**	**-1.5**	**4.1**	**0.8**	**2.9**	**2.7**	**2.7**

Source: AIReF

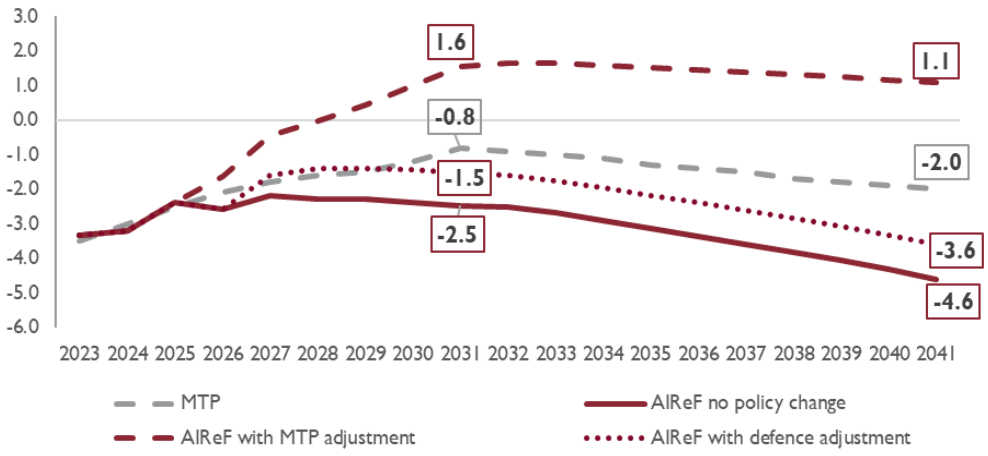
AIReF estimates a deficit of 2.5% of GDP in 2031, compared with the 0.8% included in the MTP at the end of the adjustment period. Beyond the differences in net expenditure developments described above, the lack of detail in the MTP and the Annual Progress Report makes it impossible to analyse the reasons underlying the discrepancies between the two scenarios. Using AIReF's long-term forecasts, the deficit would continue on an upward path in the absence of additional measures, reaching 4.6% of GDP in 2041,

compared with 2% in the MTP. In both cases, population ageing is the main explanatory factor.

After applying the NEC for defence spending and the flexibility allowed under the European fiscal framework, AIReF considers that additional measures would still be required to comply with the MTP, particularly in 2027 and 2028. In 2026, application of the NEC for defence spending would make it possible to remain within the limits set by European legislation without additional measures. However, net expenditure continues to grow above the MTP path in the following two years. Additional measures amounting to 0.6% of GDP in 2027 and a further 0.3% of GDP in 2028 would therefore be required to keep the cumulative control account—after application of the NEC for defence spending—within the 0.6%-of-GDP limit. Once again, it is important to stress that this adjustment may take the form of either expenditure measures or revenue-increasing measures.

Applying these measures would reduce the deficit to 1.5% of GDP in 2031, although it would still remain above the level projected in the MTP. Over the longer term, the deficit would stand at 3.6% of GDP in 2041, compared with the 2% forecast in the MTP. By contrast, if primary expenditure net of revenue measures strictly followed the path set in the MTP to 2031, a surplus of 1.6% of GDP would be reached in 2031, falling to 1.1% of GDP in 2041. This scenario takes into account neither application of the NEC nor the flexibility associated with the cumulative control account. On average, the adjustment required to achieve this path would amount to seven-tenths of GDP per year from 2026 to 2031 relative to AIReF's no policy change scenario.

FIGURE 1. GENERAL GOVERNMENT BALANCE: AIREF VS COMPLIANCE SCENARIOS VS MTP (% GDP)



Source: MTP and AIReF

In an unchanged-policy scenario, AIReF estimates that the decline in public debt observed in recent years will continue over the medium term, albeit at a more moderate pace, before returning to an upward path. The favourable trend in recent years is attributable to robust economic growth and the improvement in the general government balance. However, pressures arising from population ageing mean that, under unchanged policies, debt will return to an upward path in the middle of the next decade, once again approaching 100% of GDP in 2041.

Measures to comply with the European fiscal framework would improve the debt trajectory. Specifically, strict compliance with the MTP targets would result in a more favourable debt path than originally projected by the government in the Plan. A scenario limited to strict compliance with the limit of the control account augmented by the escape clause, however, would yield less positive results.

The fact that debt performs more favourably than initially projected in the Plan should not be interpreted as grounds for expanding spending capacity. Indeed, the countercyclical nature of the new fiscal rules means that favourable deviations should translate into greater fiscal room for manoeuvre in the future, which is particularly necessary against a backdrop of historically high debt levels, limited fiscal space and successive shocks.

FIGURE 2. DEBT (% GDP)

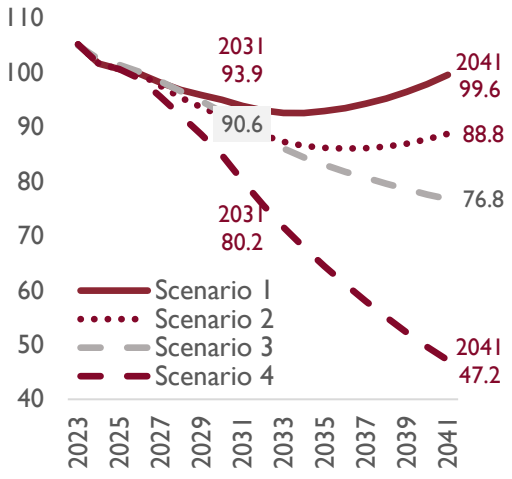
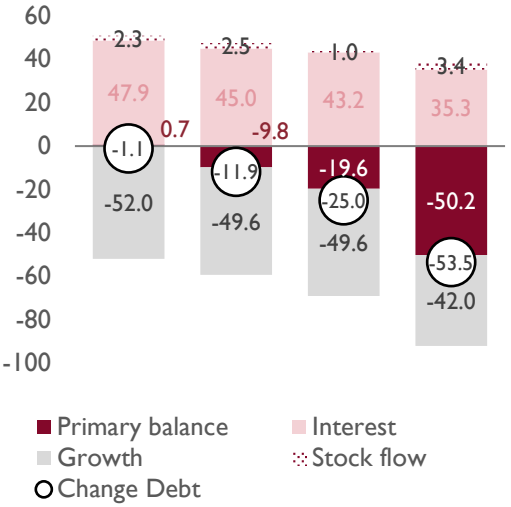


FIGURE 3. CUMULATIVE CONTRIBUTIONS TO THE CHANGE IN THE DEBT-TO-GDP RATIO OVER THE PERIOD 2026-2041



Scenario 1: AIReF unchanged policies
Scenario 2: AIReF adjusted to the 2026-2028 MTP, with strict compliance with the limit of the control account augmented by the escape clause
Scenario 3: Government MTP
Scenario 4: AIReF adjusted to the 2026-2031 MTP: exact target

Source: Government and AIReF

2.2. Fit with the national fiscal framework

All subsectors record net expenditure growth rates above the MTP commitments. Central Government records the largest average increase between 2025 and 2028, at 5.9%, with the profile shaped by measures to mitigate the impact of the Middle East crisis. The SSF, meanwhile, record average annual growth of 4.6%, driven by the higher inflation forecast and tempered by the effect of revenue measures. Territorial administrations record average growth rates of 5% in the Autonomous Regions and 4.2% in Local Governments.

TABLE 6. PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2025-2030. (% CHANGE)

	2025	2026	2027	2028
GG	**4.8**	**5.8**	**5.2**	**4.2**
CG	5.9	8.9	4.0	4.8
SSFs	4.7	5.0	4.7	3.9
ARs	4.9	4.2	6.4	4.5
LGs	2.4	5.3	5.9	3.2

Source: AIReF

Compliance with the national expenditure rule would nevertheless result in a net expenditure path within the MTP limits. The national expenditure rule is applied individually to each government authority, with the exception of the SSF, whose reference rates and methodology for calculating net expenditure differ from those under the MTP. Based on AIReF's revenue forecast, it is assumed that Central Government and the Autonomous Regions and Local Governments comply with the national expenditure rule in each year of the period, while the SSF unchanged-policy growth rate is maintained. Under this scenario, GG as a whole would comply with European rules in each year, as it would remain within the flexibility provided by the cumulative control account and application of the National Escape Clause. Nevertheless, cumulative net expenditure growth in 2028 would remain above the MTP commitment, reaching 22.8%, compared with 20.1% under the MTP. In deficit terms, compliance with the national expenditure rule would reduce the deficit to 0.9% of GDP in 2028, compared with the 2.3% estimated in the unchanged-policy scenario.

TABLE 7. CALCULATION OF PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2025-2028 ASSUMING COMPLIANCE WITH THE NATIONAL EXPENDITURE RULE (% CHANGE)

	2025	2026	2027	2028
GG	**4.8**	**4.5**	**3.7**	**3.5**
CG	5.9	5.1	2.4	4.1
SSFs	4.7	5.0	4.7	3.9
ARs	4.9	3.0	3.1	2.7
LGs	2.4	5.3	5.9	3.2

Source: AIReF

TABLE 8. CONTROL ACCOUNT UNDER COMPLIANCE WITH THE NATIONAL EXPENDITURE RULE (% OF GDP)

Control account	2024		2025		2026		2027		2028	
Yearly	0.5	✓	-0.4	✗	-0.4	✗	-0.2	✓	-0.2	✓
Accumulated	0.5	✓	0.0	✓	-0.4	✓	-0.6	✓	-0.7	✗
Accumulated after defence escape clause			0.2	✓	-0.1	✓	-0.1	✓	-0.1	✓

Source: AIReF

2.3. Analysis of the 2026 Annual Progress Report

AIReF projects growth in primary expenditure net of revenue measures of 5.8% in 2026, above the 4.7% forecast in the Annual Progress Report. Both AIReF's forecast and the Annual Progress Report forecast exceed the 3.5% commitment in the MTP. For 2024 and 2025, AIReF uses the Annual Progress Report net expenditure figures of 4.1% and 4.8%, respectively. In cumulative terms, AIReF projects net expenditure growth of 15.7% by 2026, compared with the 13.3% commitment in the MTP. The Annual Progress Report contains fiscal forecasts for 2026 only.

Differences between the two scenarios are concentrated in nationally funded GG primary expenditure and discretionary revenue measures. Total GG expenditure is higher in AIReF's scenario because it includes the RTRP, whereas the Annual Progress Report excludes it. However, AIReF's higher forecast of expenditure financed through European funds—which also includes the RTRP—narrows the difference to 0.5 points of GDP. Nor are there significant differences in estimated one-offs excluded from net expenditure, which in 2026 continue to relate to natural disasters and court rulings.

TABLE 9. CALCULATION OF PRIMARY EXPENDITURE NET OF REVENUE MEASURES FOR 2025. MTP VS AIREF (% OF GDP)

	2025	2026 AIReF	2026 Progress Report
GG expenditure	**45.3**	**46.3**	**44.7**
- Interest expenditure	2.4	2.5	2.5
- EU Funds	1.4	1.8	0.5
- Cyclical unemployment	-0.1	-0.2	-0.1
- One off expenditure	0.4	0.6	0.6
Net primary expenditure	**41.2**	**41.6**	**41.1**
- Discretionary revenue measures	0.9	-0.1	0.2
Primary expenditure net of revenue measures	**40.3**	**41.7**	**40.9**
% change in primary expenditure net of revenue measures	**4.8**	**5.8**	**4.7**

Source: 2025 Annual Progress Report and AIReF

The discrepancy in primary expenditure net of revenue measures is amplified by AIReF's lower estimate of the impact of revenue measures. Its assessment of these measures is 0.3 points of GDP lower than in the Annual Progress Report, largely due to the estimate of measures relating to Corporate Income Tax (CIT).

TABLE 10.DISCRETIONARY REVENUE MEASURES (% OF GDP)

Discretionary revenue measures	2025	2026 AIReF	2026 Progress Report
CG	**0.8**	**-0.1**	**0.1**
Personal income tax	0.1	0.1	0.1
No rate deflation	*0.1*	*0.1*	*0.1*
Corporate income tax	0.3	-0.1	
VAT	0.2	-0.1	
Excise duties	0.1	-0.1	-0.1
Other taxes and levies		-0.0	
Social contributions	0.1	0.1	0.1
Autonomous Regions	**0.1**	**0.0**	**0.1**
Personal income tax	0.1	0.1	0.1
No rate deflation	*0.1*	*0.1*	*0.1*
Local Governments	**0.1**	**0.0**	**0.1**
TOTAL	**0.9**	**-0.1**	**0.2**

Source: 2026 Annual Progress Report and AIReF

TABLE 11.ONE-OFF ITEMS EXCLUDED FROM PRIMARY EXPENDITURE NET OF REVENUE MEASURES (% OF GDP)

Non-recurring elements (one offs)	2025	2026 AIReF	2026 Progress Report
DANA	0.2	0.1	0.1
Storms		0.4	0.4
Rulings	0.3	0.0	0.0
Mutualist judgement			
Unconstitutionality ruling	0.1		
Parent Pension Judgment	0.1		
Goodwill judgement	0.1		
Other one-offs	0.0	*0.1*	*0.1*
TOTAL	**0.4**	**0.6**	**0.6**

Source: 2025 Annual Progress Report and AIReF

The Annual Progress Report projects a deficit of 2.1% of GDP in 2026, falling to 1.6% when the impact of the DANA floods and storms is excluded, 0.5 points below AIReF's estimate. In its fiscal scenario, AIReF projects revenue 0.1 points lower and expenditure almost 0.4 points higher, excluding the RTRP. The biggest differences are in the estimate of taxes, on the resource side, and in other expenses, on the expenditure side.

AIReF considers that revenue will be 0.1 points lower than reported in the Annual Progress Report, although the differences are larger for individual components. In particular, AIReF estimates that taxes on products and taxes on income will each be almost 0.2 points lower; these differences are partly offset by a higher forecast for other revenue.

TABLE 12.MAIN REVENUE COMPONENTS EXCLUDING THE RTRP. MTP VS AIREF (% OF GDP)

	2026		Difference AIReF - Progress Report
	Progress Report	Current AIReF	
REVENUE	**42.6**	**42.5**	**-0.1**
TAXES	25.3	25.0	-0.3
On production	*11.3*	*11.1*	*-0.2*
Tax on income type	*13.7*	*13.5*	*-0.2*
Capital	*0.3*	*0.3*	*0.0*
SOCIAL SECURITY CONTRIBUTIONS	13.4	13.4	-0.0
Other revenue	3.9	4.1	0.2

Source: 2026 Annual Progress Report and AIReF

AIReF's expenditure forecast is 0.3 points higher than in the Annual Progress Report, with the difference concentrated in other expenditure. Although estimates for most components are in line with the Annual Progress Report, AIReF projects compensation of employees 0.1 points higher and other expenditure some 0.3 points higher.

TABLE 13.MAIN EXPENDITURE COMPONENTS EXCLUDING THE RTRP. MTP VS AIREF (% OF GDP)

	2026		Difference AIReF - Progress Report
	Progress Report	Current AIReF	
EXPENDITURE	**44.7**	**45.0**	**0.3**
Remuneration of employees	10.5	10.6	0.1
Intermediate consumption	5.6	5.6	0.0
Social transfers in kind via market	2.6	2.6	0.0
Cash social benefits	17.1	17.1	0.0
Interest	2.5	2.5	0.0
Gross capital formation	2.9	2.9	0.0
Subsidies	1.3	1.3	0.0
Investment aid and other capital transfers	0.7	0.7	0.0
Other expenditure	1.5	1.8	0.3
NET LENDING/BORROWING	**-2.1**	**-2.6**	**-0.5**

Source: 2025 Annual Progress Report and AIReF

AIReF's macro-fiscal forecasts point to a 0.8-point reduction in the debt-to-GDP ratio in 2026 from its 2025 level, bringing it to 99.9% by year-end. This decrease is similar to that recorded in 2025, although in 2026 economic growth will make a smaller contribution and the government deficit will be slightly higher. Both effects will be offset by a smaller stock-flow adjustment, due in particular to lower disbursements of European loans—which increase debt without affecting the deficit—estimated at around EUR 9.5 billion less in 2026. Stochastic simulations put the probability that the ratio will fall in 2026 at 60%.

This reduction is consistent with the Government's projections in the Annual Progress Report, which put the debt-to-GDP ratio at 99.3% in 2026. The difference from AIReF's forecast is explained by stronger nominal GDP growth, driven by a higher deflator, and a positive contribution from the primary balance to debt reduction, which offset a higher stock-flow adjustment in the Government's scenario.

FIGURE 4. *DEBT FORECASTS FOR 2026*

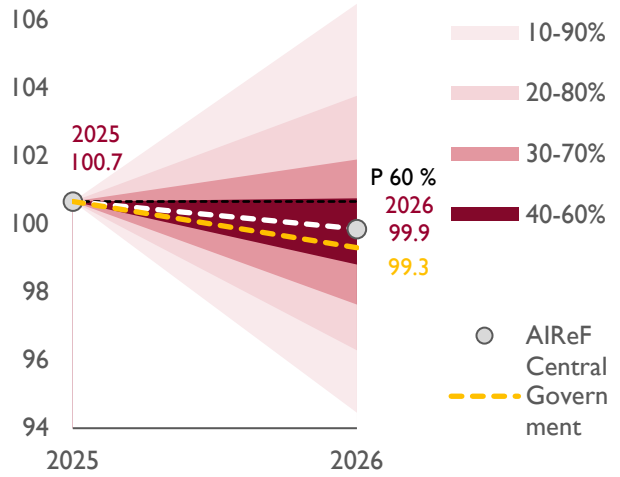
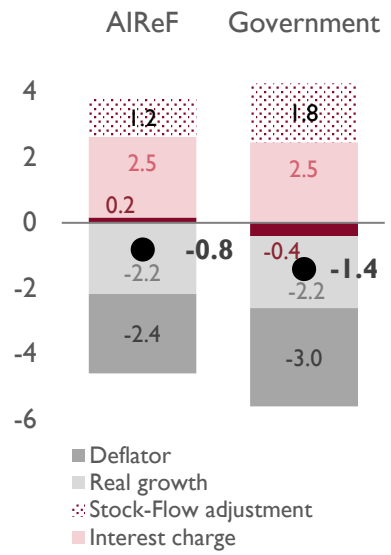


FIGURE 5. *CHANGE IN DEBT IN 2026 (POINTS OF GDP)*



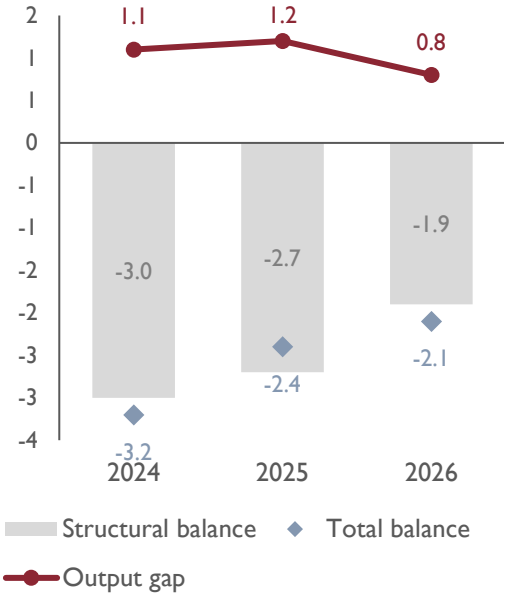
Source: Ministry of Economy and AIReF

The Government attributes the correction in the government deficit to structural factors, whereas AIReF's estimates point to a larger cyclical contribution. Specifically, AIReF estimates a slightly higher structural deficit than in its previous forecast, revised upwards by around 0.3 points to close to 3% of GDP. This revision partly reflects a larger cyclical contribution to the reduction in the government deficit, associated with an estimated larger output gap. Specifically, AIReF estimates a gradual improvement in the structural balance, from a deficit of 3.2% of GDP in 2024 to around 0.3 points lower in 2025 and just a further 0.1-point improvement in 2026. It therefore remains at 3% in 2026, reflecting relatively moderate consolidation. The Government, meanwhile, starts from a more favourable estimate of the structural deficit in 2024—approximately 0.4 points below AIReF's—and projects a similar reduction in 2025. For 2026, however, it envisages a much sharper improvement in the structural balance, of close to 0.8 points, thus setting out a more ambitious fiscal correction path than AIReF's.

FIGURE 6. COMPARISON OF AIREF AND GOVERNMENT FORECASTS. STRUCTURAL BALANCE

FIGURE 6.A. AIREF FORECAST

FIGURE 6.B. GOVERNMENT FORECAST



Source: Ministry of Economy, Trade and Enterprise and AIReF

3. MACROECONOMIC SCENARIO

3.1. The macroeconomic scenario in the Annual Progress Report

This section assesses the Government's macroeconomic scenario for 2026 accompanying the Annual Progress Report. The Government did not ask AIReF to endorse the macroeconomic scenario accompanying this report[1].

The Government justifies the partial revision of its macroeconomic scenario for 2026 on the grounds of the high degree of uncertainty surrounding the current situation. In particular, the 2026 Annual Progress Report does not update the external assumptions for 2026 or their macroeconomic implications. Against a backdrop of energy crisis, this limits the scenario's ability to adequately capture the impact of the shock on growth, inflation and public finances. Nor does it revise expected real GDP growth in 2026 or its composition, on the grounds that the projections made in November 2025 fall within the central range of analysts' consensus forecasts. However, the deflators are updated to

[1] Other countries, such as Portugal and Ireland, did ask their independent fiscal institutions to assess and endorse their macroeconomic scenarios.

incorporate the Quarterly National Accounts (QNA) data available up to the fourth quarter of 2025.[2]. Moreover, the Government's macroeconomic scenario does not incorporate the impact on growth and inflation of the measures adopted in response to the war in Iran, despite reflecting them in its fiscal forecasts. This reduces consistency between the two sets of projections. Lastly, the Government's report merely describes the implementation of the reform measures that led to the extension of the adjustment period, without assessing their macroeconomic impact. This limits both its usefulness and its explanatory power.

AIReF considers that partially updating the nominal variables without carrying out a comprehensive review of the macroeconomic scenario and its underlying assumptions may undermine its internal consistency and hamper a proper assessment of price dynamics and their macroeconomic and fiscal implications. High geopolitical uncertainty—associated with the energy crisis and rising trade tensions—is a common feature of the progress reports submitted by all Member States. However, while most countries have chosen to update their macroeconomic forecasts or supplement their analysis with alternative scenarios, Spain is unusual in using uncertainty as grounds for not revising its central scenario. Moreover, uncertainty has been a persistent feature of forecasting exercises since 2020 and is likely to remain so in the future, given the continuing armed conflicts, the erratic course of U.S. trade policy and the possibility that new flashpoints may emerge, including Cuba and Greenland. In this context, updated macroeconomic scenarios, accompanied by an appropriate assessment of risks, are useful for decision-making and, in particular, for designing suitable economic policy measures.

The real GDP growth forecast for 2026 contained in the report, and its composition, are broadly in line with the forecasts of AIReF and other analysts. The Government's real GDP growth forecast for 2026, at 2.2%, is identical to AIReF's current forecast. There are, however, differences in the composition of growth: AIReF expects more robust private consumption, supported by strong migration flows and solid employment growth, and weaker investment, affected by uncertainty over the duration of the war in Iran and the direction of U.S. trade policy, as well as rising production costs due to higher energy commodity prices. Both the Government and AIReF project a negative contribution from the external sector to growth, against a backdrop of increasing protectionism, weakness in some European partners that are more

[2] The annex to the Annual Progress Report published on 30 April explicitly states that the cut-off date for the macroeconomic scenario tables remains November 2025, with the exception of the final 2025 data and the deflator forecasts for 2026, which appear to have been mechanically updated to reflect the year-end 2025 figures.

exposed to the energy crisis, and the appreciation of the euro against the U.S. dollar.

As regards prices, there are certain inconsistencies with the current energy-crisis environment:

1. Specifically, the Government revises GDP deflator growth upwards to 3.1%, from the 2.1% projected in November 2025, as a result of carry-over effects from the positive deflator surprise recorded in the final quarter of 2025. To a large extent, this surprise reflects the public-sector pay increase in the final quarters of 2025, a temporary factor whose effects should not carry over in full to 2026[3]. Indeed, the most recent Quarterly National Accounts data point to a significant moderation in the GDP deflator in the first quarter of 2026, with a quarterly decline and a slowdown in year-on-year terms.
2. Similarly, following the increase recorded at the end of 2025, the government consumption deflator—which reflects developments in public-sector pay, among other factors—fell by 2.3% quarter-on-quarter in the first quarter of 2026, according to the figures published by the National Statistics Institute (INE), reflecting the reversal of the effects associated with retroactive pay awards in December 2025. Despite this, the Government projects high growth in the deflator for this component, at 3.1%, compared with AIReF's 1.8%.
3. Furthermore, the Government's report projects a slight fall in import prices in 2026, of 0.2%, and a slight improvement in the terms of trade. This appears unlikely in the current environment of sharply higher imported energy prices, particularly for a net energy importer such as Spain.
4. Growth in the private consumption deflator in the Government's scenario is virtually identical to that of the GDP deflator, suggesting that the imported component makes only a limited contribution to price developments. This is difficult to reconcile with the energy shock caused by the war in Iran and the observed rise in the cost of imported energy. The report itself describes, in section 3.2, a sizeable external energy

[3]Specifically, the upside surprise in the GDP deflator in the fourth quarter of 2025 reflects not only the pay increase for GG employees, but also the inclusion in the December payroll of arrears for the whole of 2025. The 2.5% increase, backdated to January, was paid in a single instalment in December, which included the amounts relating to the previous eleven months. This concentration of arrears in a single period means that the surprise observed in the government consumption deflator and GDP deflator cannot be carried over in full to the 2026 forecast. The same applies to the 0.5% increase in public-sector employees' pay, backdated to 1 January 2024 and linked to the change in the HICP in 2024, which was approved in July 2025.

price shock—the closure of the Strait of Hormuz, supply disruptions, and higher fuel prices due to the combined effect of crude oil prices and refining margins—that is not reflected in its scenario.

5. Lastly, the Government's failure to revise wage growth for 2026 results in a projected fall in real wages that is greater than AIReF's forecast.

Overall, the Government projects nominal GDP growth of 5.3% in 2026, compared with AIReF's estimate of 4.8%. The differences identified in the deflators feed through to the nominal aggregate. The Government projects nominal GDP growth of 5.3% in 2026—consistent with real GDP growth of 2.2% and a deflator of 3.1%—compared with AIReF's estimate of 4.8%, which incorporates the same real growth rate but a lower deflator, of around 2.5%. This gap of around half a point in the GDP deflator results in lower deficit and debt ratios in the Government's forecast through the denominator effect.

TABLE 14.GOVERNMENT AND AIREF MACROECONOMIC SCENARIOS FOR 2026 (% AND PERCENTAGE POINTS)

		AIReF	Government
Year-on-year variation rates	**2025**	**2026**	**2026**
Private National Final Consumption Expenditure	3.4	2.8	2.4
Final Consumption of GG expenditure	2.4	2.0	1.8
Gross Fixed Capital Formation	5.8	4.2	5.1
National Demand *	*3.6*	2.8	2.8
Export of Goods and Services	3.6	1.3	1.9
Import of Goods and Services	6.2	3.1	3.9
External Balance*	*-0.7*	-0.5	-0.6
Gross Domestic Product	**2.8**	**2.2**	**2.2**
Nominal Gross Domestic Product	*5.8*	4.8	5.3
Gross Domestic Product Deflator	*2.9*	2.5	3.1
CPI	2.7	3.2	-
Private Consumption Deflator	2.8	3.0	3.3
GG consumption deflator	2.8	1.8	3.1
Deflator of Gross Fixed Capital Formation	1.6	2.8	2.8
Export deflator	1.0	4.2	-0.1
Import deflator	-0.6	5.1	-0.2
Full-Time Equivalent Employment**	3.1	2.3	2.1
Hours Actually Worked	2.1	1.6	-
Unit Labour Cost	4.1	3.1	-
*Productivity per Full-Time Employee***	*-0.3*	0.0	0.1
*Remuneration per Employee***	*3.8*	3.1	2.7
Unemployment Rate (% of Active Population)	10.5	10.2	9.9
Household Savings Rate and NPISH (% GDI)	12.0	10.4	-

Source: INE, Ministry of Economy, Trade and Enterprise and AIReF
* Contribution to GDP growth
** Domestic employment in the Government's scenario

3.2. AIReF's macroeconomic scenario for 2026-2030

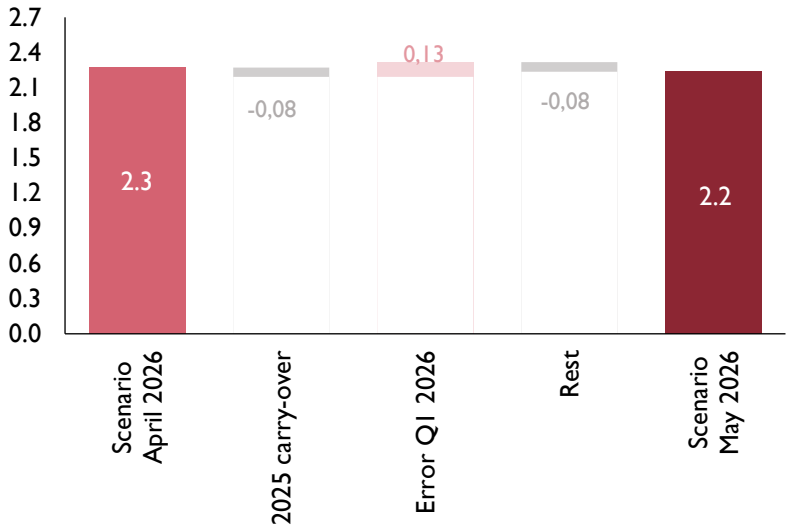
To assess the Government's macroeconomic scenario and seek to anticipate possible risks to compliance with the commitments set out in the MTP, AIReF produces its own macroeconomic forecasts. These estimates comprise a complete and detailed macroeconomic scenario for the main demand, employment and inflation aggregates over the period 2026-2030[4]. They incorporate the most recent QNA data published by INE, up to the first quarter of 2026, and the latest available indicators, together with updated external assumptions and AIReF's revision of its population projections. They also incorporate the impact of the fiscal measures approved by the report's cut-off date and, in particular, the Comprehensive Response Plan for the Middle East Crisis. According to the estimates published in the Initial Budgets Report in April, the shock would reduce growth by around 0.2 percentage points in 2026 and increase inflation by around 1 percentage point. The measures in the Plan, meanwhile, would add just over 0.1 percentage points to growth in the opposite direction, while their impact on average inflation for the year would be virtually nil.

3.2.1. The Spanish economy in 2026

Compared with the projections published in the Initial Budgets Report, AIReF revises expected real GDP growth for 2026 downwards by 0.1 percentage points, to 2.2%. On the one hand, the carry-over effect of INE's downward revision of estimated real GDP growth in the second half of 2025 is offset by stronger-than-expected performance in the first quarter of this year. On the other hand, as regards the external assumptions, both oil prices and the growth forecasts for Spain's export markets—based on the latest IMF estimates—remain virtually unchanged from those previously considered. Lastly, although it is still too early to assess the impact of the war involving the United States and Israel against Iran, the downward revision of growth in Spain's main European partners most exposed to the energy crisis leads AIReF to revise its expected growth for 2026 downwards by 0.1 percentage points.

[4] The data cut-off date for the preparation of AIReF's scenario is 6 May 2026.

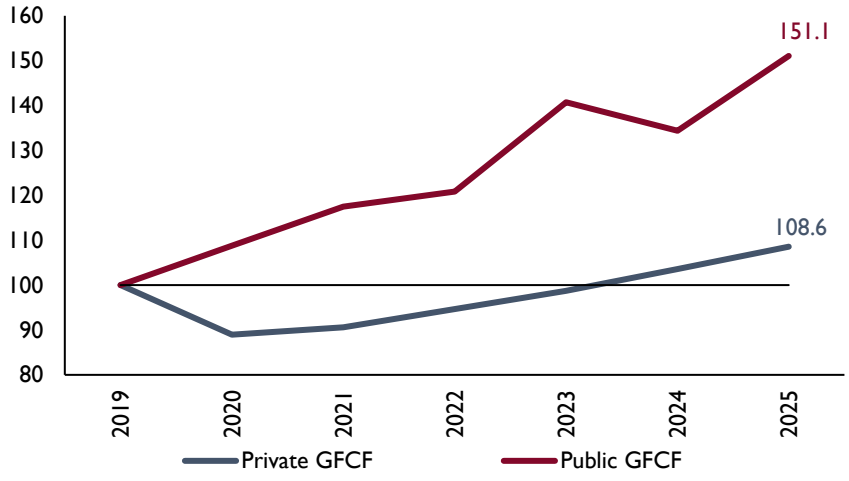
FIGURE 7. SOURCES OF REVISION TO THE GDP GROWTH RATE IN VOLUME TERMS RELATIVE TO THE APRIL 2026 MACROECONOMIC SCENARIO (% AND PERCENTAGE POINTS)



Source: INE and AIReF

Growth in 2026 would be supported by domestic demand, while external demand would make a negative contribution. Private consumption would be the main driver of growth, buoyed by population growth and high saving rates, although rising energy prices in 2026 would cause a slight deterioration in household purchasing power. Investment, meanwhile, would slow in a complex geopolitical environment that is beginning to be reflected in weaker business confidence. The waning boost provided by the Recovery and Resilience Facility (RRF) to public investment will weigh on this aggregate, following the significant momentum it has provided over the past six years.

FIGURE 8. PUBLIC AND PRIVATE INVESTMENT. VOLUME INDEX, 2019=100



Source: INE

External demand, meanwhile, would continue to make a negative contribution to GDP growth of 0.5 percentage points, somewhat smaller than in the previous year. Export growth would be very subdued, reflecting stagnant goods exports in a context of weak demand in Spain's main export markets and an appreciating euro. Tourist flows are also expected to slow as a result of higher air transport costs, whereas exports of other services would remain notably buoyant. Imports of goods, for their part, would slow in 2026 against a backdrop of weaker investment growth.

The data available for 2026 are consistent with this scenario. Specifically, at the beginning of 2026 the Spanish economy continued to grow strongly, outperforming the euro area, despite the outbreak of war in Iran. INE's quarterly accounts recorded real GDP growth of 0.6% in the first quarter of the year, compared with an estimated 0.1% for the euro area. This gap is mainly explained by inflows of foreign nationals, which once again exceeded AIReF's estimates in 2025 and are helping to sustain employment growth and reduce the unemployment rate without creating wage pressures. Furthermore, Spain is less dependent on energy from the Persian Gulf countries than its European partners. Spain has also increased its renewable energy generation capacity by more than the EU average in recent years and has shown greater resilience to natural gas price shocks.

The information available for the period following the outbreak of the conflict in the Middle East is limited and mixed. While employment performed strongly in April, business and household confidence indicators show a marked deterioration. As regards exports, data are still only available for the first two months of the year, before the outbreak of the conflict, when exports were already declining against a backdrop of weak demand from Spain's trading partners. The MIPred model, based on information that is still highly incomplete, points to growth of 0.7% in the second quarter of 2026.

FIGURE 9. FORECAST QUARTERLY GROWTH RATE FOR Q2 2026. MIPRED MODEL

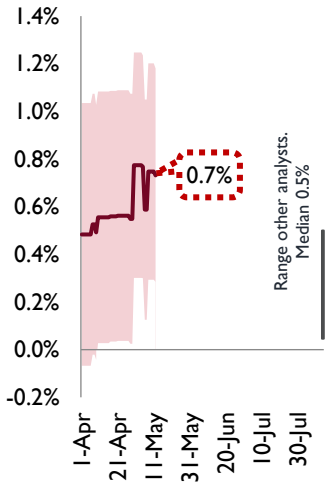


FIGURE 10. COMPOSITE PMI INDEX (<50 CONTRACTION | >50 EXPANSION)

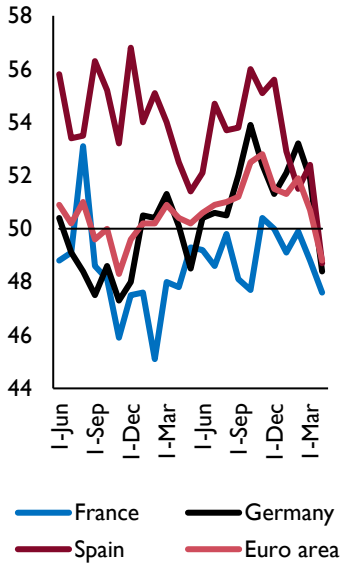
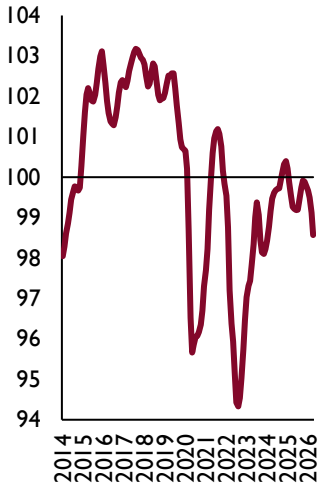


FIGURE 11. CONSUMER CONFIDENCE INDEX



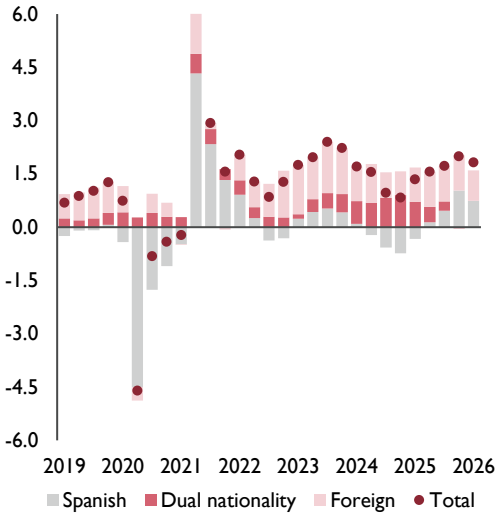
Source: AIReF (12 May 2026), S&P Global and OECD

Even so, employment growth remained strong at the start of the second quarter, again supported by inflows of foreign nationals, underpinning growth in household spending in AIReF's scenario. In the first quarter of 2026, employment growth remained robust and consistent with GDP growth, although it moderated slightly, converging towards year-on-year rates of around 2.3% both in terms of the Labour Force Survey (LFS) and Social Security registrations (Figure 12). Social Security registrations performed very strongly in April, with year-on-year growth of 2.4%, following the seasonal pattern observed since the 2022 labour market reform entered into force.

The unemployment rate, meanwhile, continues to fall despite the sustained expansion of the labour force. In gross terms, the unemployment rate rose to 10.8% in the first quarter of 2026, mainly reflecting the seasonal pattern. However, INE's seasonally adjusted figures maintained the downward trend seen in previous quarters, with the rate standing very close to equilibrium unemployment (see Box 3). Labour force growth remains slightly below 2% year-on-year, meaning that strong employment creation over the past year has not translated into a sharper reduction in the unemployment rate. This labour force growth is concentrated among foreign-national workers, whose contribution accounts for half of the annual change in the total labour force over the past year (Figure 13).

FIGURE 12. EMPLOYMENT ACCORDING TO THE LFS AND SOCIAL SECURITY REGISTRATIONS. YEAR-ON-YEAR RATE (%)

FIGURE 13. LABOUR FORCE TREND. CONTRIBUTION TO THE YEAR-ON-YEAR RATE (%)



Source: INE and Social Security

Strong labour market performance has been accompanied by moderate improvements in productivity per hour and stagnant productivity per person employed. Since 2021, the increase in persons employed has been more pronounced—standing 13% above fourth-quarter 2019 levels in the first quarter of 2026—than the increase in hours worked, which rose by 8% over the same period (Figure 14). These differences are reflected in a decline in average hours worked, which are currently 7% below their level in the fourth quarter of 2019. According to the LFS data, the decline in hours is due both to an increase in absences from work, primarily as a result of holidays and illness, and to a reduction in the average hours worked by employees who were not absent. The causes are not clearly identified and may reflect: (i) changing preferences regarding working hours, perhaps associated with teleworking; (ii) a deterioration in health following the COVID-19 pandemic, compounded by population ageing; (iii) institutional factors, such as mandatory time recording and the extension of paternity leave; or (iv) problems in measuring hours worked. As a result, there is also a gap between apparent productivity per hour, which stands slightly above pre-COVID-19 pandemic levels and is on an upward trend, and productivity per person employed, which has remained stagnant (Figure 15). Accurately identifying the factors underlying these differences is crucial to assessing the Spanish economy's growth pattern and its sustainability.

FIGURE 14. EMPLOYMENT TREND IN TERMS OF PERSONS EMPLOYED AND HOURS WORKED (Q4 2019=100)

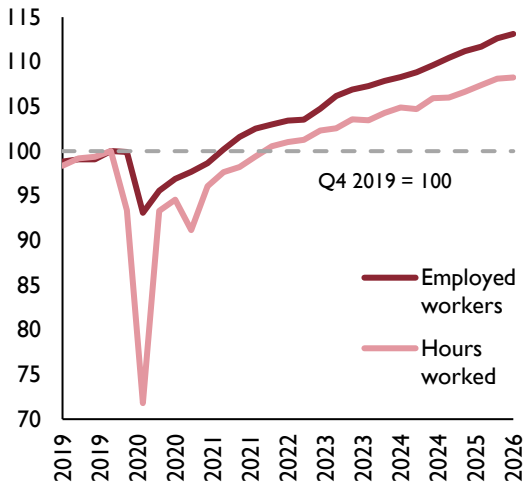
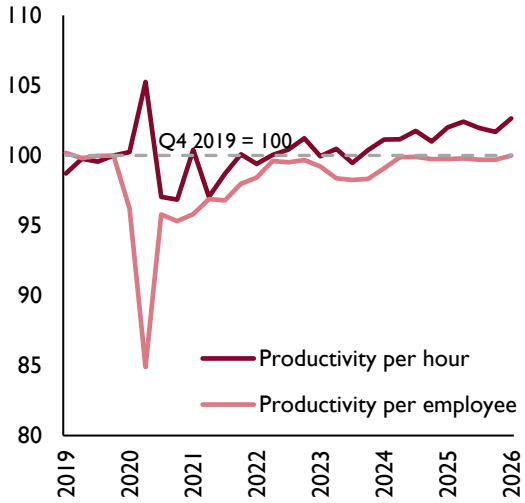


FIGURE 15. APPARENT PRODUCTIVITY PER PERSON EMPLOYED (Q4 2019=100)



Source: INE

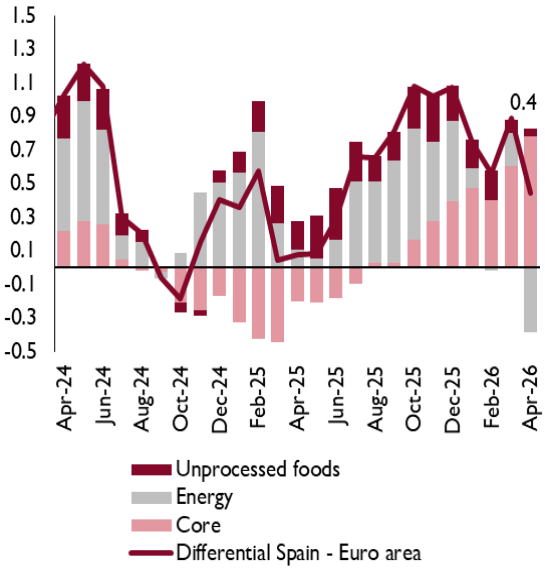
Alongside productivity developments, recent months have also seen a loss of competitiveness relative to Spain's trading partners. Spain's inflation differential with the euro area has remained positive throughout the past year, due to higher underlying inflation and, particularly, services inflation, most notably in the restaurants and catering component[5]. This is despite the energy inflation differential turning negative in April, standing at 4 percentage points as a result of the tax cuts that entered into force on 22 March in response to the conflict in Iran. These cuts are helping to contain developments in electricity prices, which had been rising year-on-year throughout 2025, in contrast to the falls observed in the euro area. They also mitigate the effect of higher diesel inflation in Spain, which reflects both the greater relative weight of this product in the Spanish CPI and its higher sensitivity to changes in international energy prices[6]. Even so, inflation is expected to rise to 3.2% in 2026, from 2.7% in 2025.

[5] Also notable is the higher inflation in Spain for land transport, which is linked to unfavourable base effects following the end of public transport subsidies from July 2025.

[6] Demand for diesel is less price-elastic because it is the main fuel used by freight transport companies' vehicles.

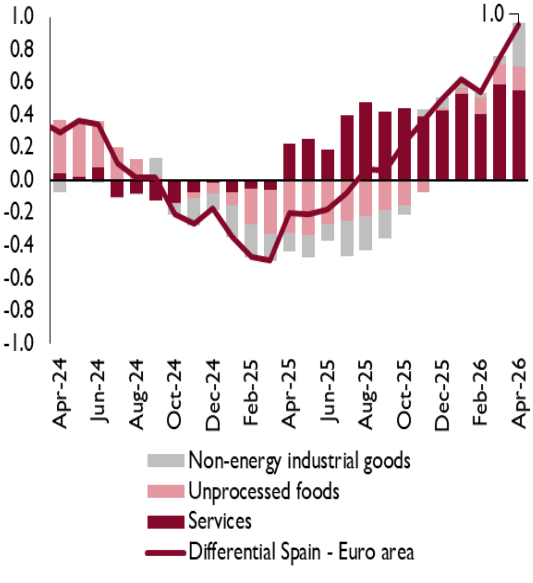
FIGURE 16. SPAIN-EURO AREA HICP DIFFERENTIAL (CONTRIBUTION TO THE DIFFERENTIAL, PP)

FIGURE 16.A. HEADLINE HICP



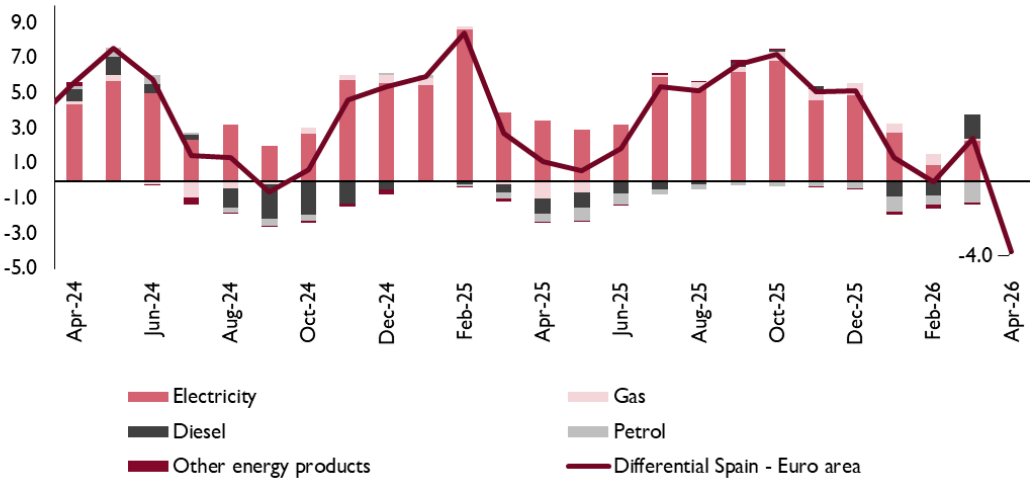
Source: Eurostat

FIGURE 16.B. CORE HICP



Source: Eurostat

FIGURE 16.C. ENERGY HICP DIFFERENTIAL WITH THE EURO AREA (PP)



Source: Eurostat
* Data by energy subcomponent are not yet available in the April 2026 flash estimate

Against a backdrop of rising labour supply and higher inflation, AIReF projects a moderate decline in real wages in 2026. In 2025, growth in compensation per employee exceeded the inflation rate, which stood at 2.8% in December. In contrast, real wages are expected to fall slightly in 2026 due to the energy crisis. Up to March, collectively agreed wage increases across all agreements stood at 2.9%, close to inflation, rising to 3.3% in newly signed agreements.

3.2.2. Medium-term macroeconomic scenario

Over the medium term, AIReF revises its real GDP growth path upwards for the coming years, in line with higher expected migration flows. Recent net immigration flows stood at around 584,000 people in 2025[7], exceeding AIReF's previous estimates of 399,000. Thus, according to the latest Continuous Population Statistics available at the cut-off date for this report, the resident population stood at 49.590 million on 1 January 2026, compared with the 49.371 million projected by AIReF at the beginning of 2025. AIReF expects high inflows of foreign nationals to continue in the coming years: net immigration is expected to remain close to 600,000 people until 2028, before moderating to 400,000 in 2030. This outlook is conditional on Spain maintaining a comparatively favourable migration policy. According to the most recent estimates, the resident population would stand at around 51.400 million in 2030, an upward revision of 1.275 million residents compared with the previous projections. The working-age population (15–74 years) is also revised upwards, by 1.113 million people, with a significant impact on AIReF's medium-term forecasts.

FIGURE 17. REVISION OF AIREF 'S POPULATION PROJECTIONS, 2026-2030

FIGURE 17.A. RESIDENT POPULATION PROJECTIONS (PEOPLE, THOUSANDS)

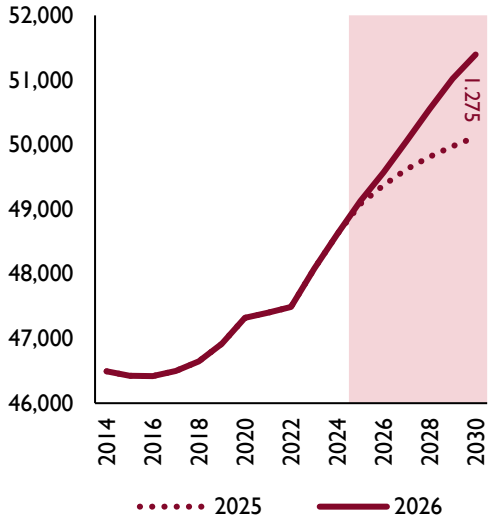
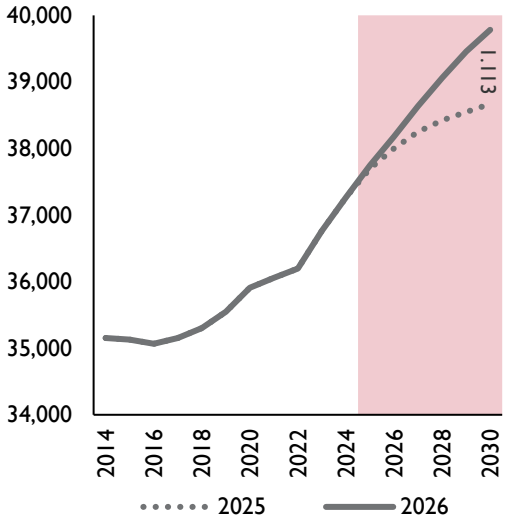


FIGURE 17.B. RESIDENT POPULATION PROJECTIONS FOR AGES 15-74 (PEOPLE, THOUSANDS)



Source: INE and AIReF

[7] Derived value based on the provisional Continuous Population Statistics data and the birth and death statistics available as of 7 May 2026.

The external assumptions point to a relatively rapid normalisation of the energy crisis. The assumptions concerning energy commodity prices are consistent with a relatively rapid resolution of the war in Iran, involving the reopening of the Strait of Hormuz without significant damage to the region's infrastructure beyond that already observed, thereby avoiding shortages of either energy products or other goods exported by the Persian Gulf countries[8]. The risks surrounding this assumption are high. The remaining external assumptions underpinning the macroeconomic scenario point to slightly tighter financing conditions for the economy and accelerating growth in export markets up to 2028, in line with the IMF's latest forecasts, followed by slower growth in 2029 and 2030. The world import growth forecasts underlying export market growth, based on IMF projections, are also conditional on a rapid resolution of the war and on tariff levels remaining as they were before the U.S. Court of International Trade invalidated the 10% global tariff in force since the end of February 2026.

TABLE 15.EXOGENOUS ASSUMPTIONS OF AIREF'S MACROECONOMIC FRAMEWORK

	2026	2027	2028	2029	2030
3-month Euribor (%)	2.3	2.6	2.6	2.7	2.9
10-year State Debt Interest Rate (%)	3.2	3.2	3.2	3.3	3.3
Broad NEER	130.4	130.4	130.4	130.4	130.4
Exchange rate $/€	1.17	1.18	1.18	1.18	1.18
Oil ($/Barrel)	88.9	76.9	74.0	72.4	71.0
TTF gas (€/MWh)	42.2	35.2	27.0	23.9	22.7
MIBGAS (€/MWh)	42.6	35.2	26.7	...	...
Export markets (% per year)	2.3	2.8	3.0	1.4	2.7

Source: IMF, OECD, ECB, LSEG and MIBGAS

[8] Primarily nitrogen fertilisers, sulphur, aluminium, helium and cement.

TABLE 16. AIREF MACROECONOMIC SCENARIO FOR 2026-2030

		AIReF Apr-26	AIReF May-26				
Year-on-year variation rates	**2025**	**2026**	**2026**	**2027**	**2028**	**2029**	**2030**
Private National Final Consumption Expenditure	3.4	2.7	2.8	2.2	1.9	1.7	1.7
Final Consumption of GG expenditure	2.4	2.1	2.0	2.0	1.9	1.9	1.9
Gross Fixed Capital Formation	5.8	4.7	4.2	2.6	2.7	2.4	1.9
GFCF Capital goods and Cultivated Assets	7.4	5.4	4.7	2.1	2.0	2.1	1.9
GFCF Construction and Intellectual Property	5.2	4.4	4.0	2.7	3.0	2.5	1.9
National Demand *	3.6	2.9	2.8	2.1	2.0	1.8	1.7
Export of Goods and Services	3.6	2.5	1.3	3.4	3.0	2.3	2.5
Import of Goods and Services	6.2	4.7	3.1	4.2	3.5	2.7	2.7
External Balance*	-0.7	-0.6	-0.5	-0.2	-0.1	-0.1	0.0
Gross Domestic Product	**2.8**	**2.3**	**2.2**	**2.0**	**1.9**	**1.8**	**1.7**
Nominal Gross Domestic Product	5.8	4.5	4.8	4.6	4.2	3.9	3.8
Gross Domestic Product Deflator	2.9	2.2	2.5	2.6	2.3	2.1	2.0
CPI	2.7	3.2	3.2	2.3	1.9	2.1	2.0
Full-Time Equivalent Employment	3.1	2.3	2.3	1.9	1.8	1.6	1.5
Hours Actually Worked	2.1	3.1	1.6	1.9	1.8	1.6	1.5
Unit Labour Cost	4.1	3.1	3.1	3.2	2.0	1.9	1.8
Productivity per Full-Time Employee	-0.3	0.0	0.0	0.0	0.1	0.2	0.2
Remuneration per Employee	3.8	3.0	3.1	3.2	2.0	2.1	2.0
Unemployment Rate (% of Active Population)	10.5	9.9	10.2	10.1	9.8	9.7	9.6
Household Savings Rate and NPISH (% GDI)	12.0	10.6	10.4	10.2	10.1	9.9	9.6

Source: INE and AIReF
* Contribution to GDP growth

The medium-term macroeconomic scenario envisages robust, albeit gradually moderating, growth. Following projected real GDP growth of 2.2% in 2026, the Spanish economy is expected to slow gradually, reaching a rate of 1.7% in 2030. This path mainly reflects the gradual waning of some of the exceptional factors that have driven growth in recent years, particularly support from European funds, and the normalisation of domestic demand as migration flows, despite their upward revision, increase more slowly towards the end of the projection horizon. This is compounded by a limited contribution from productivity, which constrains GDP growth despite the support provided by the expected increase in population associated with high migration flows.

Private consumption will remain the main driver of growth throughout the projection horizon, although its contribution will diminish. In the early years, it will continue to grow faster than GDP, but will subsequently lose momentum as employment growth slows and real wages stagnate. As a result, growth in private consumption will be accompanied by a decline in the household saving rate, from 10.4% of gross disposable income in 2026 to 9.6% in 2030.

Following the strong momentum of recent years, investment growth will moderate, reflecting the completion of the Recovery, Transformation and Resilience Plan (RTRP). Gross fixed capital formation will continue to grow strongly in 2026, at 4.2%, before moderating to 1.9% in 2030. This slowdown will be shaped by the end of European funding, which has provided a significant boost to public investment and investment in intangible assets, such as digitalisation, in recent years. Investment in machinery and equipment and cultivated assets is also expected to remain subdued, growing at rates of around 2% from 2027 onwards in a setting dominated by geopolitical instability and moderating domestic and global activity, which reduces firms' incentives to expand productive capacity. By contrast, investment in construction and intellectual property products is expected to prove somewhat more resilient in the middle of the horizon, supported by an improvement in residential investment, which is expected to respond to some extent to the strength of demand associated with population pressure. Nevertheless, AIReF considers that this activity will remain constrained by structural factors, such as supply restrictions and rising financing costs.

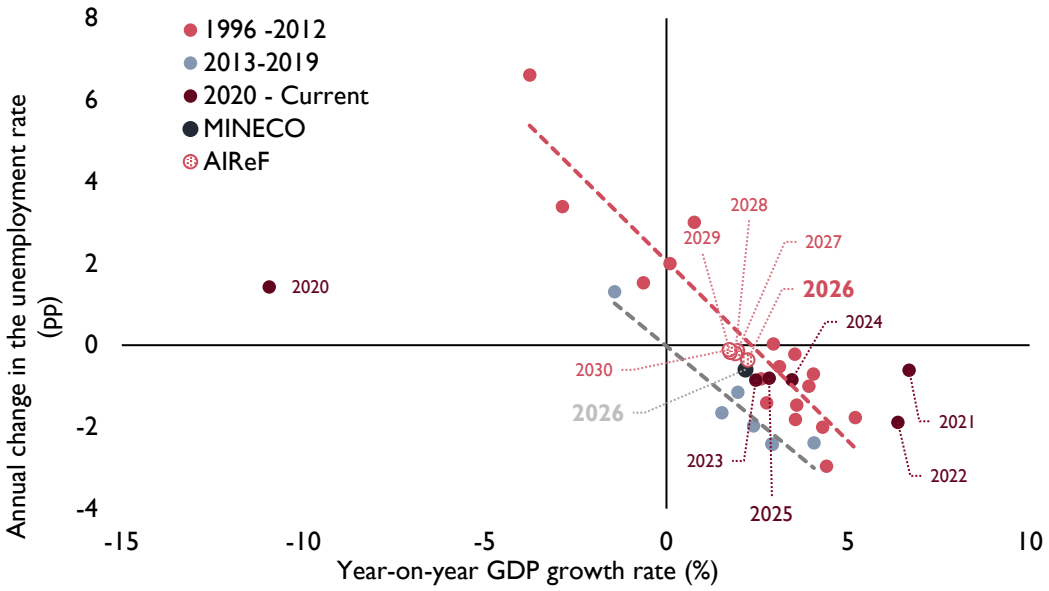
The external sector will make a slightly negative contribution to growth during most of the period, although this contribution will diminish and be virtually neutral by 2030. Exports of goods and services are expected to regain some momentum after the weak growth projected for 2026, although their expansion will be constrained by the expected weakness of world trade and Spain's main export markets. For tourism services, the scenario incorporates gradual normalisation following the strong growth recorded in recent years. Imports, meanwhile, would grow faster than exports in the early part of the horizon, driven by robust domestic demand and, in particular, by the import content of investment and private consumption. However, import growth would also moderate gradually, reaching 2.7% in 2030, in line with the projected slowdown in final demand.

The labour market will continue to perform favourably over the projection horizon. Full-time equivalent employment would grow by 2.3% in 2026, before moderating gradually to 1.5% in 2030, in line with the normalisation of activity and the projected increase in the working-age population. The unemployment rate would continue to decline, albeit very gradually, from 10.2% in 2026 to 9.6% in 2030. Productivity per person employed would contribute very little to growth, with zero or minimal increases throughout most of the period, confirming the persistence of this structural weakness.

The medium-term projections are consistent with the observed structural relationship between the unemployment rate and GDP growth. Analysis based on Okun's law, which relates changes in the unemployment rate to GDP

growth, suggests that the labour market has not undergone any pronounced structural change in recent years (Figure 18). Following the 2013-2019 period, when there appears to have been a moderation in the real growth threshold required to reduce the unemployment rate, there has been a degree of upward shift in this relationship, bringing it back closer to the historical relationship estimated for 1995-2012. Accordingly, both AIReF's projections and those of the Ministry of Economy, Trade and Enterprise suggest that in 2026 the relationship between GDP growth and the reduction in the unemployment rate will remain in line with its historical values for 1995-2012. Similarly, in the long term, AIReF's projections indicate that the economy would continue to move closer to the Okun's law relationship observed over the period 1995-2012.

FIGURE 18. OKUN'S LAW, 1996-2026



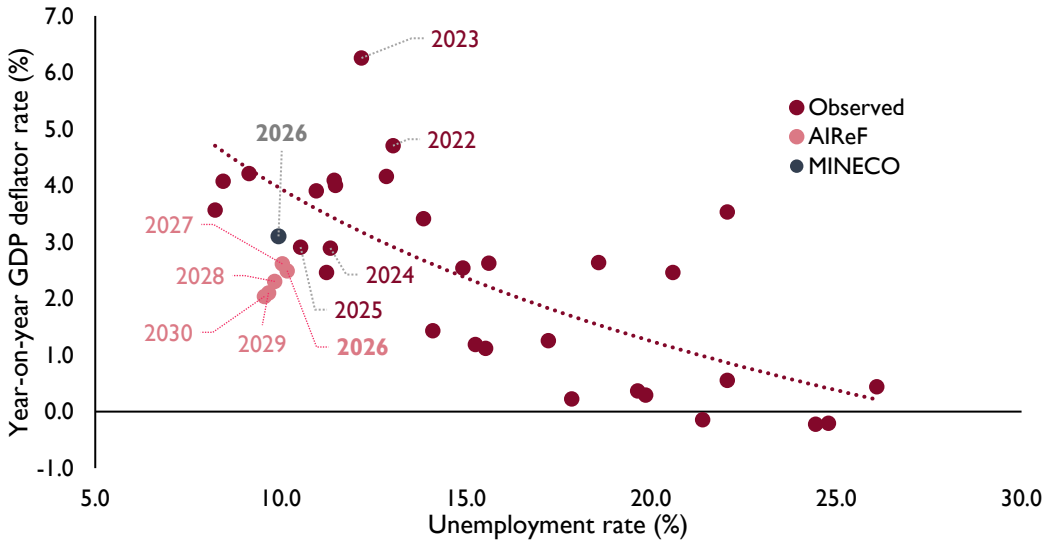
Source: Haver, Ministry of Economy, Trade and Enterprise and AIReF

As regards prices and costs, the scenario envisages a gradual easing of inflation after the expected upturn in 2026. The CPI would stand at 3.2% in 2026 and converge towards rates close to 2% from 2028 onwards. The GDP deflator would follow a similar path, although slowing somewhat more gradually. Unit labour costs, meanwhile, would still grow by more than 3% in 2026 and 2027, before moderating to below 2% at the end of the horizon. These developments are consistent with growth in compensation per employee and the limited improvement in productivity, and represent a risk to the competitiveness of the Spanish economy.

The relationship between wage growth and the unemployment rate, illustrated by the Phillips curve, points to an absence of structural changes in wage

dynamics. The Phillips curve approximates the relationship between unemployment levels and wage growth in an economy. In Spain, this relationship has remained stable in recent years despite the various factors—operating in different directions—that might have affected it. These include: (i) institutional factors, such as the reintroduction, under the 2021 labour reform, of the precedence of sector-level collective agreements in pay matters; and (ii) demographic factors, with growth in the resident population and, in particular, the labour force. This relationship would persist over the medium term, although at the end of the horizon the GDP deflator would stand below the observed historical relationship, based on the assumption that inflation converges to a rate compatible with the ECB's target.

FIGURE 19. PHILLIPS CURVE, 2012-2026



Source: Haver, MINECO and AIReF

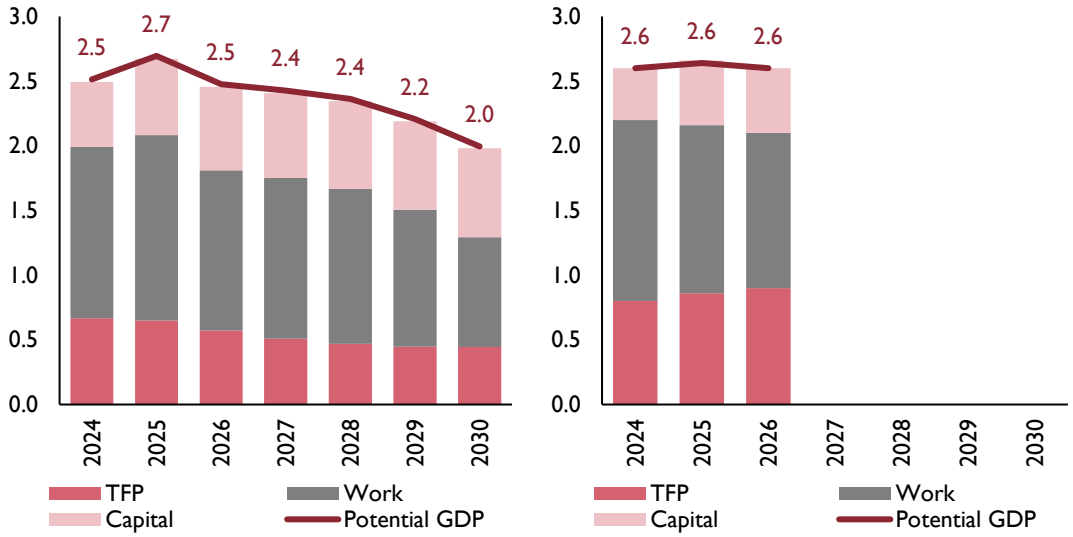
AIReF's latest estimates point to an upward revision of the Spanish economy's medium-term potential growth, increasing by around half a percentage point relative to previous forecasts. This improvement is mainly explained by a greater contribution from labour, rather than productivity gains. The Spanish economy is displaying greater structural growth capacity than previously estimated, thanks to strong employment growth and an expanding labour force, driven to a large extent by migration flows.

Starting from a higher level of potential growth than in previous years, AIReF continues to project a similar medium-term profile for the Spanish economy, characterised by a gradual moderation in the potential GDP growth rate over the projection horizon. Thus, after reaching rates close to 2.7% in 2025, potential growth would begin to slow, standing at around 2.0% at the end of

the period analysed. This path reflects the fact that, despite the upward revision—mainly due to a greater contribution from labour—AIReF continues to anticipate a gradual slowdown in the Spanish economy's structural growth as employment growth and migration flows moderate.

FIGURE 20. COMPARISON OF AIREF AND GOVERNMENT FORECASTS COMPOSITION OF POTENTIAL GDP

FIGURE 20.A. AIREF FORECAST (%) **FIGURE 20.B. GOVERNMENT FORECAST (%)**



Source: AIReF and Ministry of Economy, Trade and Enterprise

AIReF's estimates show a very similar profile to that envisaged by the Government, both in terms of the level of potential growth and its composition by factors. In both cases, potential growth stands at around 2.5%-2.7% in the first years of the projection horizon, supported mainly by the contribution from labour, while contributions from capital and total factor productivity are smaller and relatively stable. The contribution from TFP is somewhat higher in the Government's scenario than in AIReF's.

As a result of the differing trends in real and potential GDP, the positive output gap estimated for the early years of the horizon would gradually narrow until it is virtually closed at the end of the period. AIReF's upward revision of potential growth implies a higher starting output gap than previously estimated. Specifically, after reaching values close to 2% in 2025, the output gap would follow a continuous downward path, reaching around zero in 2030. These developments suggest that the Spanish economy will gradually converge towards a growth path more closely aligned with its structural capacity.

FIGURE 21. COMPARISON OF AIREF AND GOVERNMENT FORECASTS: OUTPUT GAP

FIGURE 21.A. AIREF FORECAST

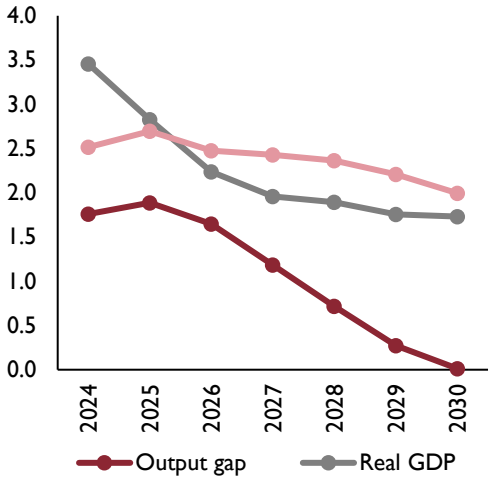
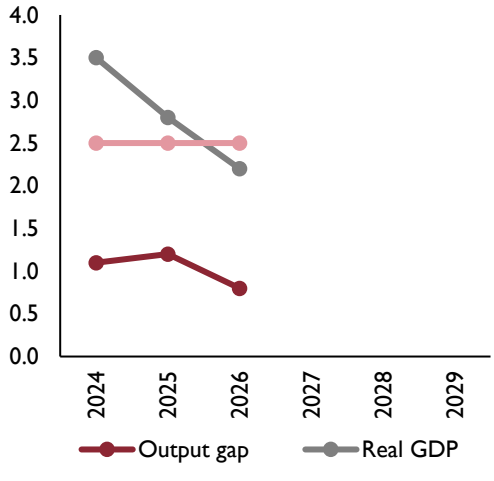


FIGURE 21.B. GOVERNMENT FORECAST



Source: AIReF and Ministry of Economy, Trade and Enterprise

Compared with the Government's estimates, AIReF projects a larger output gap in the early years of the projection horizon. The Government puts the output gap at slightly above 1% in 2024 and 2025, declining to around 0.8% in 2026, while AIReF estimates an output gap of close to 2% in 2025 before a gradual correction begins. This difference reflects the fact that, under AIReF's forecasts, the economy is at a somewhat more expansionary stage of the economic cycle in the short term, although both sets of projections anticipate a gradual reduction in the cyclical component.

3.3. Analysis of risks surrounding the macroeconomic scenario

A prolonged war in Iran and continued closure of the Strait of Hormuz constitute the main downside risk to the forecast for 2026 and 2027. This could lead to energy supply difficulties and the resulting rise in prices. For now, judging by the expected path of Brent prices in futures markets, this does not appear to be the scenario anticipated by the markets. However, greater damage to the region's energy infrastructure, combined with continued disruption to maritime traffic through the Strait, could cause supply difficulties and a sharper increase in energy prices.

The effects would not be confined to the energy sector alone. A lasting disruption to maritime traffic through the Strait of Hormuz would place strain on global value chains in other areas—fertilisers, basic chemicals and certain industrial components—amplifying the initial shock through higher

intermediate input costs. This mechanism, already observed during the episodes of 2021–2022, operates with a certain lag and tends to be most clearly reflected in manufacturing. After two months of conflict, indicators such as the Global Supply Chain Pressure Index are at relatively high levels by historical standards—around 1.8 standard deviations.

FIGURE 22. DEVELOPMENTS IN THE BRENT FUTURES CURVE (U.S. DOLLARS/BARREL)

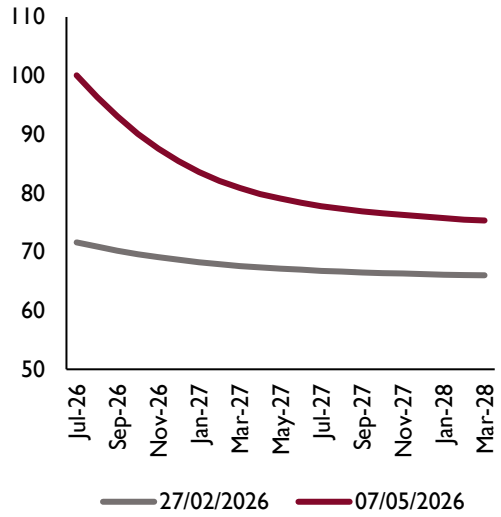
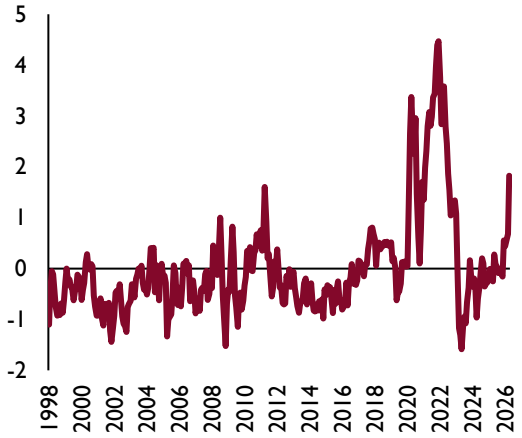


FIGURE 23. GLOBAL SUPPLY CHAIN PRESSURE INDEX (STANDARDISED)



Source: LSEG and New York FED

At sector level, the risks are uneven. A prolonged energy crisis would push up production costs in energy-intensive industries, including metals, chemicals and construction materials. The agricultural sector, which depends on nitrogen fertilisers and fuel for machinery and transport, would pass higher costs through to food prices, with the resulting second-round effects on the CPI. Air transport would also be affected, both through the price of kerosene and through possible constraints on the availability of aviation fuel, with direct implications for connectivity and related tourism activity. In this regard, airlines in some countries, including the United Kingdom—the main source market for tourists travelling to Spain—have already announced restrictions on air traffic if the Strait of Hormuz remains closed. There is also a high risk of a fall in tourist arrivals from more distant origins, particularly Asian markets. Although these tourists account for a smaller share of total arrivals, their average expenditure per person is comparatively high. This risk factor could, however, be partly offset by a diversion to Spain of tourist flows originally bound for competing destinations in the eastern Mediterranean and North Africa, which are closer to the conflict.

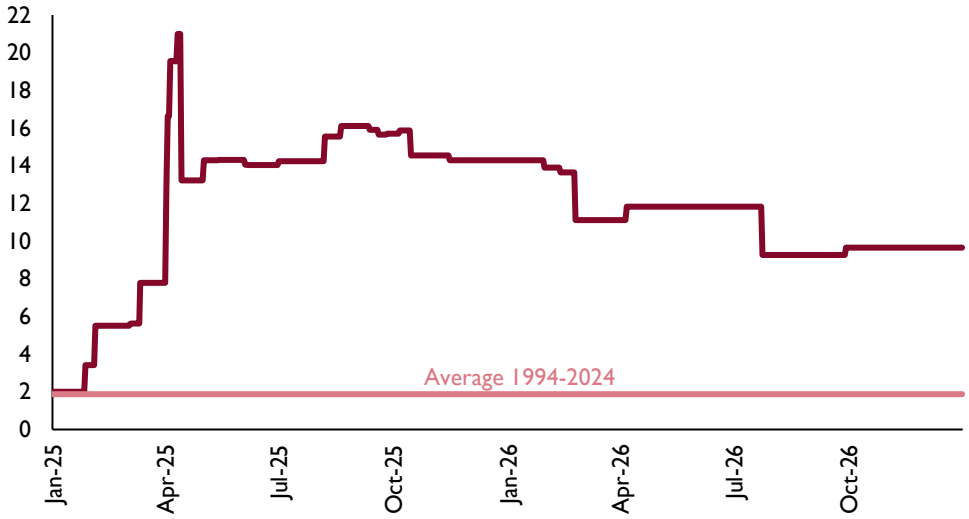
Shock mitigation mechanisms, such as strategic reserves of energy products, may help in the short term, but would clearly be insufficient if the conflict were to persist. Strategic petroleum-product reserves, together with geographically diversified natural gas supplies and the flexibility of a generation mix with a high renewable-energy share, help cushion the initial impact of a contraction in supply. However, these mechanisms may not have sufficient capacity to absorb the shock if the situation persists. As shown in AIReF's report on the initial budgets of GG[9], even under a scenario involving a partial blockade of imports of crude oil, natural gas and refined products from the Middle East, GDP could fall appreciably.

Even if a diplomatic solution were reached quickly, the time required to repair infrastructure and rebuild logistics chains could cause the effects to extend over several quarters. Moreover, even assuming that the conflict ends in the short term, damage to infrastructure in the Persian Gulf countries—including extraction fields, LNG terminals, oil pipelines, liquefaction plants and port facilities—and potential disruptions to the supply of specific inputs such as helium, which is essential for semiconductor production, would have repercussions extending beyond the immediate horizon of the conflict and would shape the recovery path of the global economy.

There is also considerable uncertainty regarding the course of trade policy and tariffs under the Trump Administration. U.S. tariff policy remains as volatile as it was in 2025, in a context marked by several legal setbacks to some of its principal measures. The Trump Administration has recently pushed for implementation of the political agreement reached with the EU in 2025, using the threat of higher tariffs on European cars as leverage in the negotiations. Against this backdrop, the U.S. has set 4 July as the deadline for the EU to make progress in implementing the agreement, before it considers a further tariff escalation. Separately, the U.S. Court of International Trade has invalidated the 10% global tariff in force since the end of February 2026. These tariffs had replaced the "reciprocal" tariffs imposed in 2025 after they were overturned by the Supreme Court. The U.S. Administration's response was not yet known at the cut-off date for this report.

[9] See AIReF Report 5/26.

FIGURE 24. AVERAGE EFFECTIVE U.S. TARIFF (%)

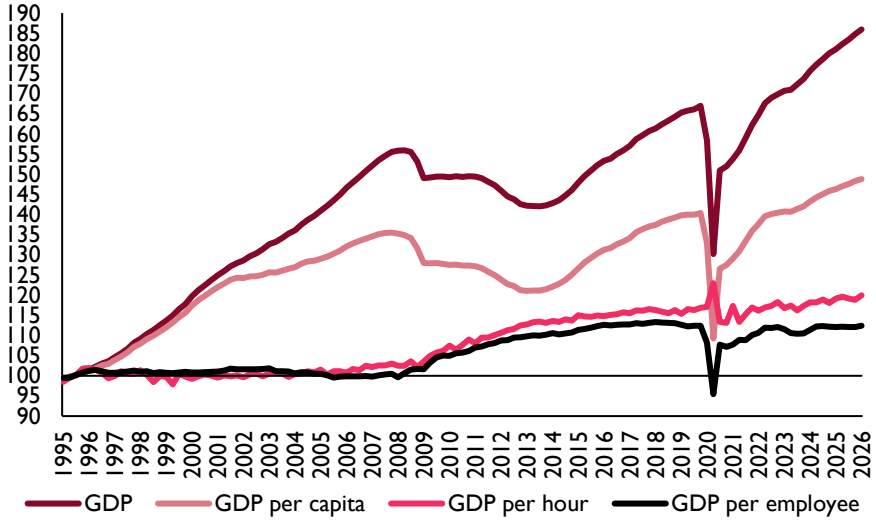


Source: Yale University

The medium-term scenario is underpinned by population projections based on high migration flows. However, these estimates are highly dependent on the assumption that Spain will maintain a much more open migration policy than neighbouring countries, where policies have become more restrictive. A change in migration policy could result in an outcome that differs from the projection. Similarly, the strength of migration flows could be constrained by the chronic shortage of housing supply.

Over the medium term, productivity developments are one of the main structural risks. Productivity gains in the Spanish economy have historically been limited, and real GDP growth has consequently been driven mainly by the expansion of labour input and population growth. This pattern has become more pronounced since the pandemic, with productivity per person employed remaining virtually stagnant since 2019.

FIGURE 25. GDP, GDP PER CAPITA AND PRODUCTIVITY MEASURES (INDEX, 1995=100)



Source: INE and Eurostat

Overall, the risks surrounding the macroeconomic scenario are tilted to the downside for growth and to the upside for inflation. Persistent energy, trade or supply tensions could result in weaker activity and higher inflation than forecast.

BOX 2. MEDIUM-TERM SCENARIO FOR THE AUTONOMOUS REGIONS.

Based on the projections for the Spanish economy as a whole, the following table presents medium-term growth estimates for the Autonomous Regions.

According to AIReF's estimates, the Autonomous Regions expected to record the strongest GDP growth in 2026 are Madrid, Valencia, Murcia and the Balearic Islands. By contrast, Asturias, Aragon, Extremadura, Navarre and the Basque Country are expected to record more moderate GDP growth.

Over the medium term, Asturias and Castile and Leon are the least dynamic Autonomous Regions, while Madrid, Andalusia, Catalonia, Castile-La Mancha, Valencia and Murcia are expected to grow at above-average rates.

BOX B_2.1 MACROECONOMIC SCENARIO FOR THE AUTONOMOUS REGIONS. CHANGE IN GDP IN VOLUME TERMS (%)

	Regional Accounts			Macroeconomic Scenario 2025-2030					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Andalusia	5.4	1.9	3.7	3.0	2.2	2.0	1.9	1.8	1.8
Aragon	3.6	1.3	3.1	2.5	1.9	1.9	1.9	1.7	1.7
Asturias	4.8	1.7	3.0	2.4	1.8	1.7	1.5	1.4	1.4
Balearic Islands	16.1	3.8	4.2	3.3	2.3	1.8	1.7	1.6	1.6
Canary Islands	12.7	4.1	4.4	3.3	2.2	1.9	1.8	1.6	1.6
Cantabria	4.7	1.9	2.5	2.4	2.0	1.8	1.7	1.6	1.5
Castile and Leon	4.0	1.4	2.9	2.6	2.0	1.9	1.7	1.5	1.4
Castile - La Mancha	3.2	0.2	3.5	2.8	2.2	1.9	1.9	1.8	1.8
Catalonia	6.4	2.9	3.7	2.8	2.2	2.0	1.9	1.8	1.8
Valencian Community	5.5	2.5	3.3	2.9	2.3	2.0	1.9	1.8	1.8
Extremadura	2.2	2.1	2.7	2.4	1.9	1.7	1.7	1.5	1.5
Galicia	5.4	2.7	2.9	2.6	2.1	2.0	1.9	1.7	1.7
Community of Madrid	8.1	3.4	3.6	2.9	2.5	2.1	2.0	1.9	1.9
Region of Murcia	4.0	1.1	4.4	2.8	2.3	1.9	1.8	1.8	1.8
Chartered Community of Navarra	5.3	1.3	3.3	2.3	1.9	1.9	1.9	1.8	1.7
Basque Country	6.4	1.8	2.6	2.3	1.9	1.8	1.7	1.6	1.6
La Rioja	5.6	2.5	3.2	2.8	2.1	2.0	1.9	1.7	1.7
Spain	**6.4**	**2.5**	**3.5**	**2.8**	**2.2**	**2.0**	**1.9**	**1.8**	**1.7**

Source: INE and AIReF

BOX 3. LONG-TERM LABOUR MARKET EQUILIBRIUM

The labour market continued to perform favourably throughout 2025, with sustained employment growth leading to a gradual decline in the unemployment rate. According to the latest Labour Force Survey (LFS) data, Spain's seasonally adjusted unemployment rate stood at 10.2% in the first quarter of 2026, down 0.4 percentage points from the first quarter of 2025. A key issue in this context is the extent to which the unemployment rate has moved closer to levels consistent with labour market equilibrium.

An initial approach to estimating the equilibrium unemployment rate is to analyse the steady-state unemployment rate, calculated using LFS transition probabilities following the methodology proposed by Barnichon and Nekarda (2012). The steady-state unemployment rate in a given quarter is defined as the rate the economy would reach if flows into and out of employment remained constant—that is, if no individual had an incentive to move between states—and assuming that the working-age population remained unchanged. These authors therefore propose that the steady-state unemployment rate has a close and leading relationship with the observed unemployment rate. In particular, when the steady-state unemployment rate is below the observed rate, the observed unemployment rate tends to fall.

In Spain, Figure B_3.1 shows that the gap between the two rates has narrowed gradually over the last two years, although the observed unemployment rate remains slightly above the estimated equilibrium rate. This suggests that there is still some scope for a further reduction in unemployment, insofar as it should converge towards its steady-state equilibrium level. Nevertheless, the two rates are now very close, reflecting the stabilisation of the equilibrium unemployment rate, whose pace of decline appears to have moderated in the first quarter of 2026. In this context, the reduction in the observed unemployment rate could be expected to slow, as the scope for improvement narrows when the two rates converge.

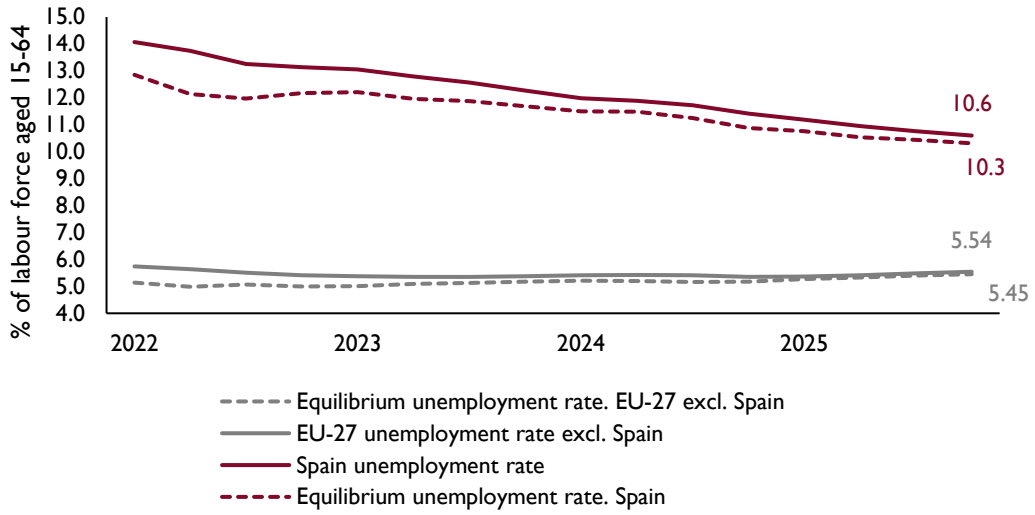
FIGURE B_3.1. OBSERVED AND EQUILIBRIUM UNEMPLOYMENT RATES. % OF LABOUR FORCE. SEASONALLY ADJUSTED

Source: INE and AIReF estimates

That said, a comparison with the equilibrium unemployment rate for the EU-27 excluding Spain, calculated using the same methodology, shows that, despite the significant reduction in recent years, the equilibrium unemployment rate in the Spanish economy remains almost double that of the EU as a whole. This difference is explained by a lower probability of being employed and a higher probability of being unemployed in Spain, whereas the probability of inactivity is very similar in the two economies.

Moreover, while both the observed and equilibrium unemployment rates are falling progressively in Spain, the opposite trend can be seen in the EU as a whole. Although the differences between observed and equilibrium rates are small in both cases, according to the latest available data the gap in the EU is virtually zero, whereas in Spain it remains slightly positive. This may indicate that, since the Spanish economy is relatively further from its steady state, there is still some scope for a further reduction in the unemployment rate. In the EU, by contrast, there is less scope for improvement, as the gap between the two rates has virtually closed.

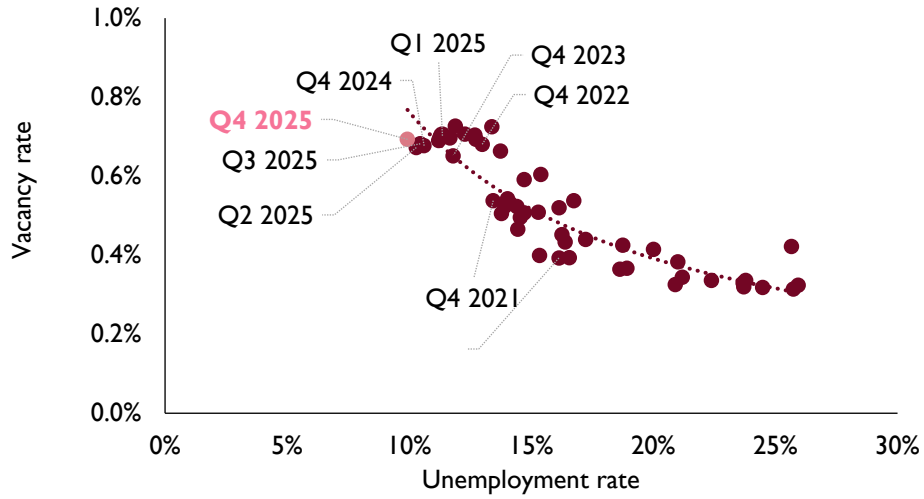
FIGURE B_3.2. OBSERVED AND EQUILIBRIUM UNEMPLOYMENT RATES. % OF LABOUR FORCE AGED 15-64. FOUR-QUARTER MOVING AVERAGE



Source: Eurostat and AIReF estimates
*Eurostat data on flows for the EU-27 as a whole, the euro area and Germany begin in Q2 2021. The latest available data relate to Q4 2025.

The Beveridge curve, meanwhile, relates the unemployment rate to the vacancy rate, defined as the ratio of vacancies to employed persons. This curve shows that the fall in the unemployment rate since 2013 has been accompanied by a gradual increase in the vacancy rate. Following the COVID-19 pandemic, the vacancy rate rose sharply in 2022, at a faster pace than the decline in the unemployment rate. In recent quarters, the vacancy rate has remained virtually stable, while the unemployment rate has gradually fallen. These developments in the Beveridge curve suggest that the relationship between vacancies and unemployment remains stable, while the economy is moving closer to its equilibrium unemployment rate, with a relatively high vacancy rate coexisting with a large pool of unemployed workers.

FIGURE B_3.3. BEVERIDGE CURVE, Q4 2013-Q4 2025



Source: INE

Overall, the analysis suggests that the scope for reducing the unemployment rate may be approaching its limit. Even so, the increase in labour supply linked to strong immigration flows could give rise to structural changes that are not yet captured in the relationships analysed.

BOX 4. DYNAMISM OF GLOBAL MERCHANDISE TRADE

Global trade was more dynamic than expected in 2025. Indeed, one year after the Trump Administration announced its tariffs, global trade continues to grow and has proved more resilient than initially expected by most international organisations.

According to IMF data, both global exports and imports of goods at constant prices accelerated in 2025 compared with the previous year, growing by 5.7% and 5.2%, respectively. This performance reflects, on the one hand, effective tariff levels which, following successive decisions by the U.S. courts, are much lower than initially announced. On the other hand, 2025 saw temporary factors such as companies bringing forward trade in anticipation of new restrictions. Above all, however, it illustrates the strong adaptability of global trade: amid heightened trade tensions, flows have been redirected between partners and regions, cushioning the aggregate impact of the new barriers.

A notable example is the performance of Chinese exports, which, according to the IMF, grew by 9.2% in real terms in 2025, despite a steep fall in exports to the United States. Indeed, the U.S. market's share of China's total exports fell from 14.7% in 2024 to 13.2% in 2025, with a marked decline since April of last year. This fall appears to have been offset by increased exports to emerging economies in South-East Asia, continuing a trend already observed since the pandemic, and, to a lesser extent, to Latin America. Exports to the EU, meanwhile, do not appear to have accelerated following the tariff announcement, as they have continued the upward trend in place since 2021 throughout 2025.

Although U.S. imports slowed over the course of 2025, they nevertheless grew by 2.5% in real terms. Looking at its main trading partners, imports from China fell sharply, declining from 13.6% of total U.S. imports in 2024 to 11.4% in 2025. Imports from Canada also lost share. Nevertheless, U.S. imports appear to have been redirected towards other markets, particularly Vietnam, whose share increased by more than one percentage point over the last year. Mexico also appears to have increased its market share over the last year.

FIGURE B_4.1. CHINESE EXPORTS. CURRENT PRICES. 12-MONTH MOVING AVERAGE

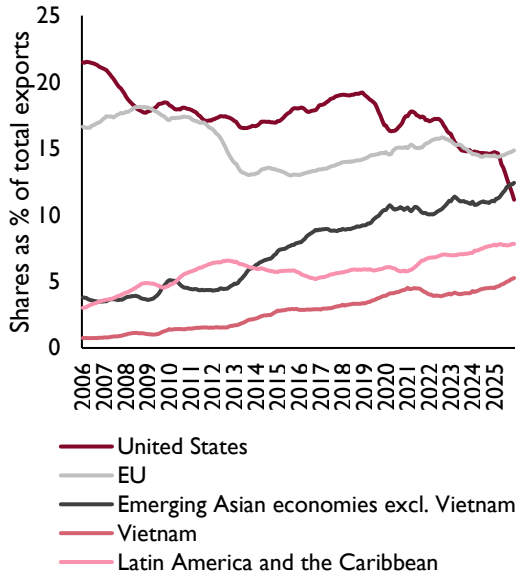
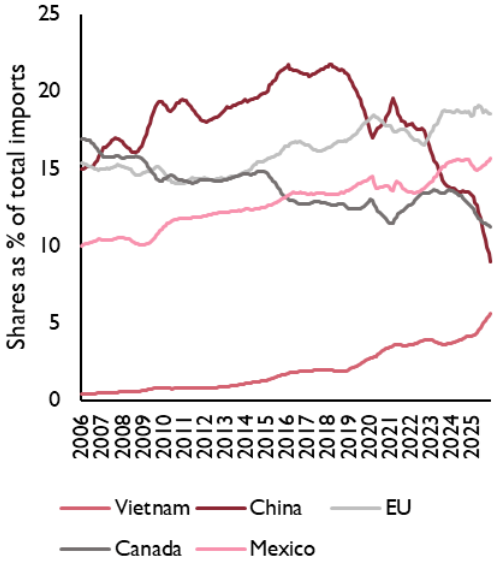


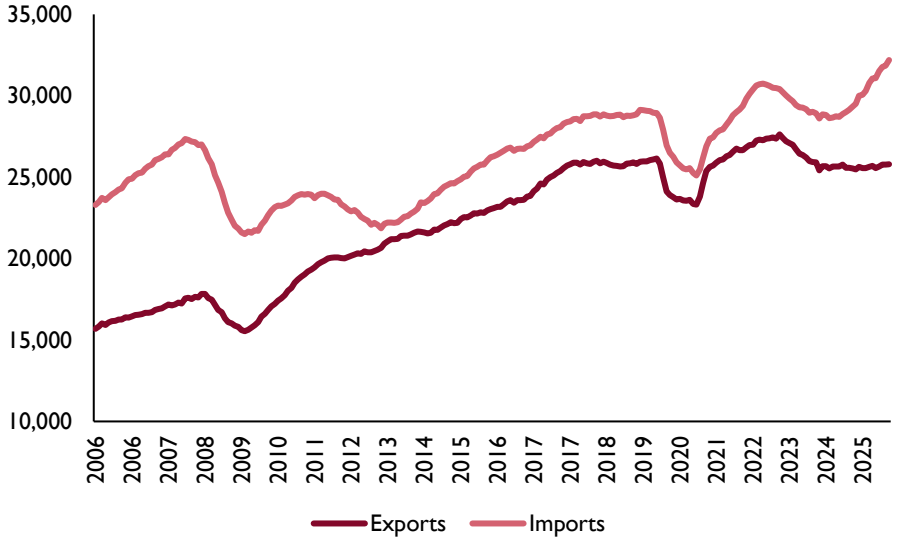
FIGURE B_4.2. U.S. IMPORTS CURRENT PRICES. 12-MONTH MOVING AVERAGE



Source: IMF

In Spain, exports were relatively stable throughout 2025, despite rising international trade tensions. Imports, by contrast, were more dynamic, reflecting a stronger recovery in domestic demand.

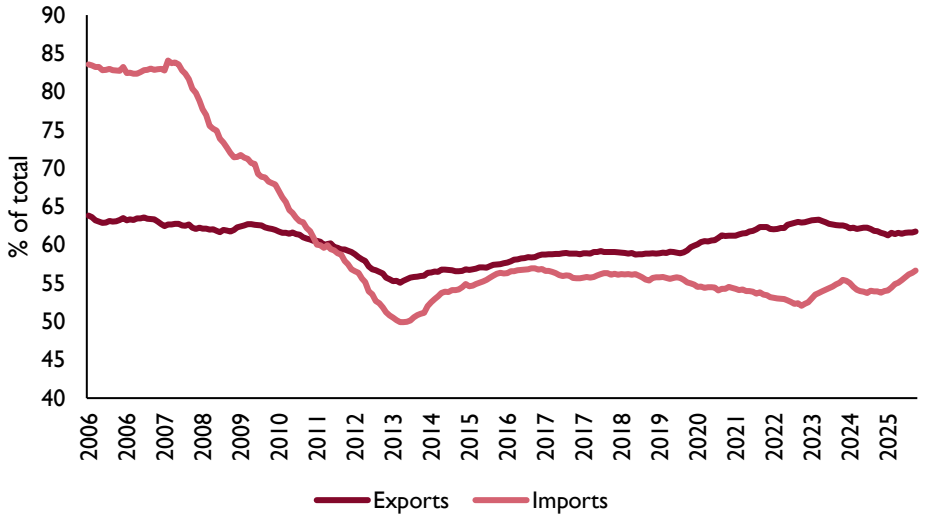
FIGURE B_4.3. SPAIN 'S EXTERNAL TRADE IN GOODS (EUR MILLIONS AT CONSTANT PRICES. 12-MONTH MOVING AVERAGE)



Source: Ministry of Economy, Trade and Business

From a geographical perspective, the European Union continues to consolidate its position as Spain's main trading partner. Over the last year, the EU's share of total imports has also increased, while its share of exports has remained more stable.

FIGURE B_4.4. SPAIN-EU EXTERNAL TRADE. (EU SHARE OF SPAIN 'S TRADE, % OF TOTAL EXPORTS AND IMPORTS, 12-MONTH MOVING AVERAGE)



Source: AEAT

Although exports to the United States have declined, Spain's export structure appears to have moved towards greater diversification of destinations. This partly reflects the recovery in trade with the United Kingdom following the adverse effects of Brexit, as well as Turkey's increasing importance as an export market over the last year. Market penetration in China, however, remains limited, reflecting the persistent difficulty of consolidating the presence of Spanish exports in Asian markets.

As regards imports, China is Spain's second largest supplier after the EU as a whole, having increased its relative share by almost three percentage points over the past ten years. The United States has also strengthened its position as one of Spain's main energy suppliers, consolidating its role as a strategic trading partner.

FIGURE B_4.5. SPANISH EXPORTS. CURRENT PRICES. 12-MONTH MOVING AVERAGE

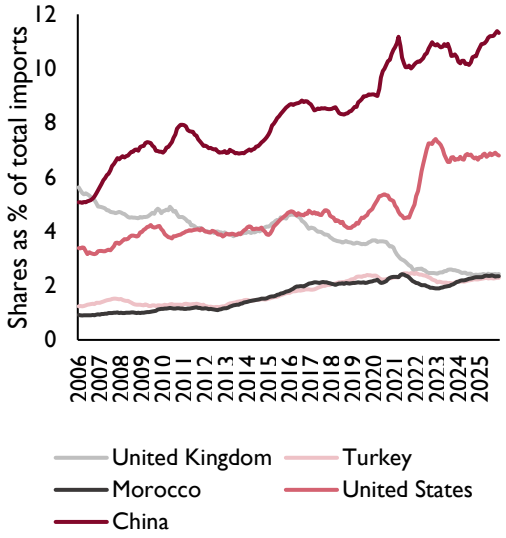
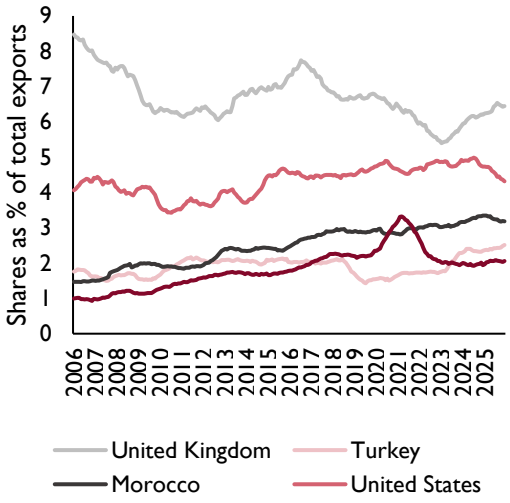


FIGURE B_4.6. SPANISH IMPORTS. CURRENT PRICES. 12-MONTH MOVING AVERAGE



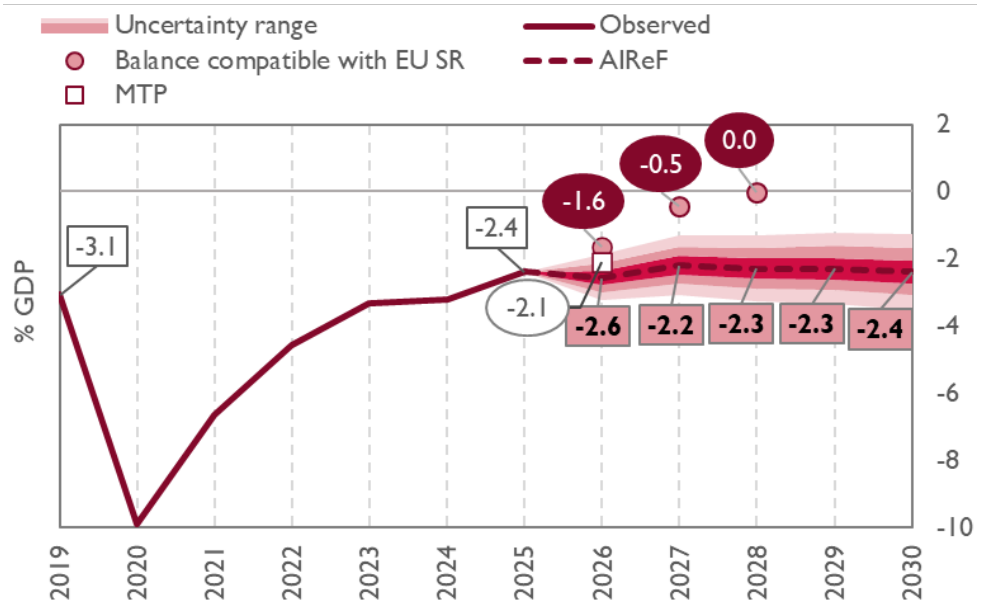
Source: AEAT

Nevertheless, geopolitical uncertainty is increasingly leading countries to prioritise economic security, strategic autonomy and productive resilience, fostering regionalisation processes and the formation of trade blocs. Taken together, these developments point to a more fragmented and multipolar international economic order, increasingly shaped by political and strategic considerations.

4. BUDGETARY SCENARIO 2026-2030

AIReF expects the deficit to fall to 2.2% of GDP in 2027 as temporary measures are withdrawn, before entering an upward path and reaching 2.4% in 2030. The widening of the deficit to 2.6% of GDP in 2026 reflects the impact of the measures adopted in response to the conflict in the Middle East and the storms, despite the reduction in the expected cost of the measures introduced to mitigate the effects of the DANA floods. Once the impact of all these measures has ceased, the deficit will fall to 2.2% of GDP in 2027. Thereafter, in the absence of additional measures and despite buoyant revenue growth, the deficit will resume an upward path, reaching 2.4% in 2030, although it will remain below the 3% ceiling throughout the projection period. This upward trend is mainly driven by higher interest expenditure, gross capital formation associated with defence spending and cash social benefits arising from population ageing. The forecasts also incorporate the remaining approved measures and all information available as of the cut-off date.

FIGURE 26. TREND IN GENERAL GOVERNMENT NET LENDING/ BORROWING



Source: IGAE and AIReF

TABLE 17.REVENUE AND EXPENDITURE AS % OF GDP (EXCLUDING THE RTRP). AIREF MEDIUM-TERM PATH

	AIReF					
	2025	2026	2027	2028	2029	2030
REVENUE	42.1	42.5	43.0	42.9	43.2	43.3
EXPENDITURE	44.5	45.0	45.2	45.2	45.5	45.7
BALANCE	-2.4	-2.6	-2.2	-2.3	-2.3	-2.4

Source: IGAE and AIReF

TABLE 18.REVENUE AND EXPENDITURE AS % OF GDP (INCLUDING THE RTRP). AIREF MEDIUM-TERM PATH

	AIReF					
	2025	2026	2027	2028	2029	2030
REVENUE	42.9	43.7	43.3	43.1	43.3	43.3
EXPENDITURE	45.3	46.3	45.5	45.4	45.6	45.7
BALANCE	-2.4	-2.6	-2.2	-2.3	-2.3	-2.4

Source: IGAE and AIReF

4.1. Trend in General Government revenue

AIReF projects an increase of 1.2 points in the revenue-to-GDP ratio between 2025 and 2030, bringing it to 43.3% at the end of the period. These forecasts are based on an unchanged-policy scenario and do not incorporate any new revenue measures. AIReF expects revenue to follow an upward path over the

period, with a slight decline in 2028 due to the withdrawal that year of the Tax on Net Interest and Fee Income and to indirect taxation, which grows slightly more slowly than nominal GDP. From 2029 onwards, the growth rate of the earlier years is partially regained, thanks to buoyant direct taxation.

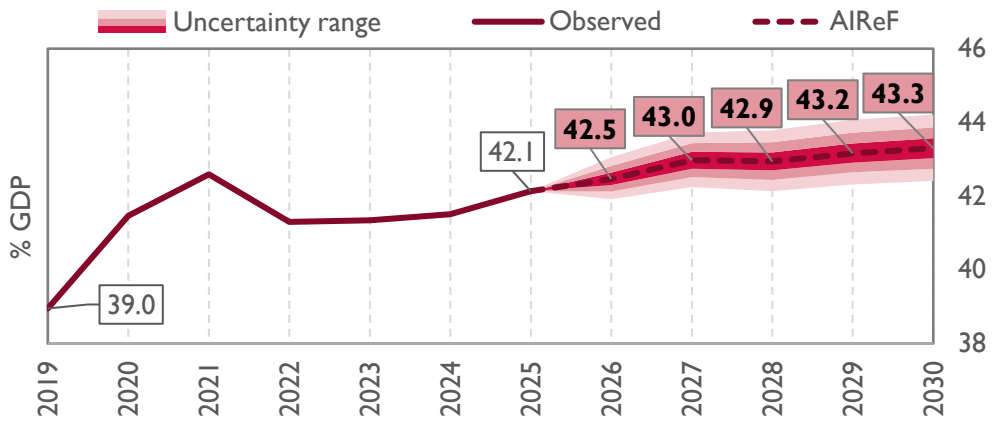
Most of the increase is concentrated in taxes on income, whose share of GDP rises by 1.4 points between 2025 and 2030. AIReF estimates that direct taxes will increase from 13.1% of GDP in 2025 to 14.5% in 2030, driven mainly by Personal Income Tax (PIT) revenue and, to a lesser extent, Corporate Income Tax (CIT). Social contributions will also perform favourably, increasing by three-tenths of a point. By contrast, indirect taxation is expected to fall by three-tenths of a point to 11% of GDP, reflecting the structural decline in excise duties and other taxes on production. Lastly, other revenue falls by two-tenths of a point as a share of GDP.

TABLE 19.REVENUE EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

	AIReF					
	2025	2026	2027	2028	2029	2030
REVENUE	**42.1**	**42.5**	**43.0**	**42.9**	**43.2**	**43.3**
TAX REVENUES	**24.8**	**25.0**	**25.4**	**25.4**	**25.6**	**25.8**
On production and imports	**11.3**	**11.1**	**11.2**	**11.1**	**11.1**	**11.0**
VAT value added type taxes	6.8	6.8	6.9	6.8	6.8	6.8
Taxes on products (IIEE, ITPAJD…)	3.1	2.9	3.0	2.9	2.9	2.9
Other taxes on production (IBI...)	1.5	1.4	1.4	1.4	1.3	1.3
Tax on income type	**13.1**	**13.5**	**13.9**	**14.0**	**14.2**	**14.5**
Personal Income Tax (including IRNR for natural persons)	9.6	9.9	10.2	10.4	10.6	10.8
Corp. Income Tax (including IRNR for legal entities)	3.1	3.2	3.2	3.2	3.3	3.3
Other current taxes	0.4	0.5	0.4	0.4	0.4	0.4
Capital	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
SOCIAL SECURITY CONTRIBUTIONS	**13.3**	**13.4**	**13.6**	**13.6**	**13.6**	**13.6**
OTHER REVENUE	**4.1**	**4.1**	**4.0**	**4.0**	**4.0**	**3.9**

Source: IGAE and AIReF

FIGURE 27. TOTAL GENERAL GOVERNMENT REVENUE (% GDP)



Source: IGAE and AIReF

4.1.1. Taxes on production and imports

AIReF expects the share of indirect taxes in GDP to contract progressively over the medium term, reaching 11.0% in 2030, three-tenths of a point below its 2025 level. In 2026, AIReF expects VAT to remain at 6.8% of GDP despite the rate cuts on hydrocarbons, electricity and natural gas introduced in response to the conflict in the Middle East and the cuts to excise duties, which form part of the VAT tax base. Taken together, these measures would reduce revenue by EUR 1.358 billion. The withdrawal of these measures in 2027 would allow the ratio to recover by one-tenth of a point of GDP. From 2028 onwards, however, the tax would return to 6.8% of GDP, as private consumption grows more slowly than nominal GDP. Excise duty revenue would fall by two-tenths of a point of GDP, as a result of stagnant consumption and the measures adopted in response to the crisis in the Middle East. Specifically, the tax cuts in force until 30 June, affecting excise duties on hydrocarbons and electricity, together with the suspension of the Tax on the Value of Electricity Production, are estimated to reduce revenue by EUR 1.370 billion. This effect would disappear in 2027 once the measures are withdrawn, allowing the item to recover almost all of its initial share before stabilising at 2.9% of GDP thereafter. Lastly, other taxes on production, consisting primarily of the Property Tax (IBI) and the Tax on Business Activities (IAE), would lose one-tenth of a point of GDP in 2026 and a further tenth by 2030.

4.1.2. Taxes on income and wealth

AIReF expects taxes on income to rise steadily as a share of GDP over the period 2026-2030, reaching 14.5% in 2030, 1.4 points above the level recorded at the end of 2025. In 2026, PIT increases by three-tenths of a point as a share

of GDP, reflecting strong growth in withholding tax on labour income and the result of the 2025 tax return campaign, boosted by robust growth in capital gains not subject to withholding as a result of high house prices. Over the remainder of the horizon to 2030, the tax continues to rise, in line with projected developments in employment and compensation of employees, as well as fiscal drag. CIT, meanwhile, increases by one-tenth of a point as a share of GDP in 2026, driven by both instalment payments and the outcome of the annual tax return. These positive factors offset the year-on-year revenue loss of EUR 2.863 billion resulting from the withdrawal of the measure limiting the offsetting of losses in consolidated groups to 50%, reinstated under Law 7/2024. In 2026, this measure no longer affects instalment payments, although it continues to affect the annual tax return for 2025. The reduced rate for microenterprises and small companies also enters into force this year, entailing an annual revenue loss of EUR 500 million up to 2029, in line with the progressive reduction in the rate established in that Law. Between 2027 and 2030, cit would follow a more subdued profile, remaining broadly stable in 2027 and 2028 as the impact of the limits on loss offsetting comes to an end and the projected gross operating surplus slows in 2027. In the final two years of the period, the tax would rise by a further one-tenth of a point, ending the period at 3.3% of GDP. Lastly, other current taxes increase by one-tenth of a point to 0.5% of GDP in 2026, coinciding with the entry into force of the Top-up Tax for multinational groups and large domestic groups, provided for under OECD Pillar Two and expected to generate revenue of around EUR 1 billion. In 2027, this item returns to its previous share of 0.4% as the Tax on Net Interest and Fee Income is no longer in force, and it then remains stable until 2030.

4.1.3. Taxes on capital

AIReF's forecasts place taxes on capital one-tenth of a point lower, at 0.3% of GDP in 2026, and keep them stable throughout the remainder of the projection period. This item—which includes Inheritance and Gift Tax and Wealth Tax—remains stable, but grows more slowly than nominal GDP, thereby declining as a share of GDP by the end of the forecast horizon.

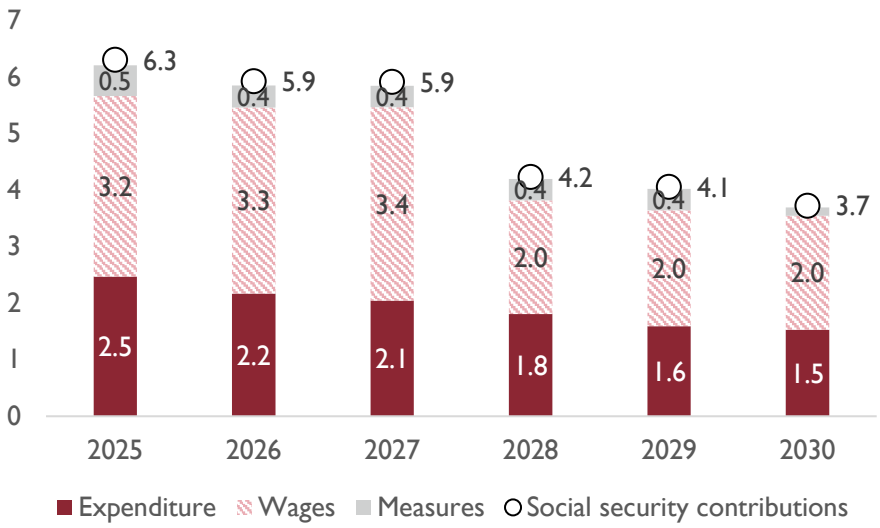
4.1.4. Social contributions

AIReF expects social contributions to increase by three-tenths of a point as a share of GDP between 2025 and 2027, before stabilising at 13.6%. Specifically, an increase of one-tenth of a point to 13.4% is projected for 2026, in line with the forecast contained in the Government's 2026 Annual Progress Report. A further increase of two-tenths of a point is projected in 2027, driven by buoyant

labour market performance and the revenue measures associated with the pension reform. From 2027 onwards, the ratio stabilises.

Wage developments and, to a lesser extent, employment explain the growth in social contributions. This contribution moderates gradually over the projection horizon. In addition, the progressive rollout of the Intergenerational Equity Mechanism and the additional solidarity contribution adds 0.4 percentage points to annual growth, an effect that diminishes in 2030, resulting in a slowdown in the aggregate.

FIGURE 28. BREAKDOWN OF GROWTH IN SOCIAL CONTRIBUTIONS (% CHANGE)



Source: AIReF and SEPE

4.1.5. Other revenue

AIReF estimates that other revenue will decline as a share of GDP over the period, to 3.9% in 2030, a cumulative fall of two-tenths of a point compared with 2025. This reduction is mainly due to a contraction in European funds not originating from the RTRP and in interest revenue.

4.2. Trend in General Government expenditure

AIReF expects the expenditure-to-GDP ratio, excluding the RTRP, to increase by 1.2 points between 2025 and 2030, reaching 45.7% of GDP in 2030. In 2026, this increase would be driven mainly by a higher share of subsidies, gross capital formation and other expenditure and, to a lesser extent, by growth in cash social benefits and interest expenditure. In 2027, the reduction in the relative share of subsidies and other expenditure would be offset by increases in compensation of employees, gross capital formation and cash social

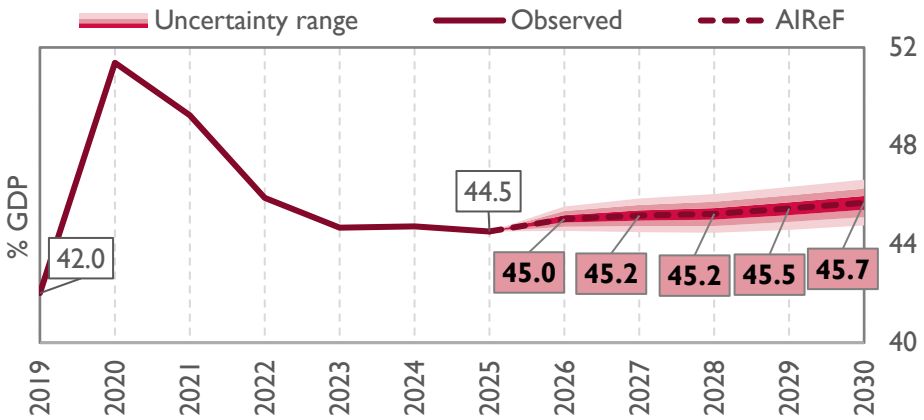
benefits. Over the remainder of the period, the progressive increase in expenditure would be driven primarily by higher interest expenditure, cash social benefits reflecting the impact of ageing, and gross capital formation as a result of defence spending. These increases will be slightly offset by the decline in the share of compensation of employees and subsidies.

TABLE 20.EXPENDITURE AS % OF GDP (EXCLUDING THE RTRP). AIREF MEDIUM-TERM PATH

	AIReF					
	2025	2026	2027	2028	2029	2030
EXPENDITURE	**44.5**	**45.0**	**45.2**	**45.2**	**45.5**	**45.7**
Remuneration of employees	10.7	10.6	10.8	10.7	10.6	10.6
Intermediate consumption	5.6	5.6	5.6	5.6	5.6	5.6
Social transfers in kind via market	2.6	2.6	2.6	2.6	2.6	2.6
Cash social benefits	17.0	17.1	17.2	17.3	17.4	17.5
Interest	2.4	2.5	2.5	2.7	2.7	2.8
Gross capital formation	2.6	2.9	3.0	3.0	3.1	3.2
Subsidies	1.1	1.3	1.0	1.0	1.0	1.0
Investment aid and other capital transfers	0.8	0.7	0.7	0.7	0.7	0.7
Other expenditure	1.6	1.8	1.7	1.7	1.7	1.6

Source: IGAE and AIReF

FIGURE 29. TREND IN TOTAL GENERAL GOVERNMENT EXPENDITURE (% GDP)



Source: IGAE and AIReF

4.2.1. Main components of government consumption

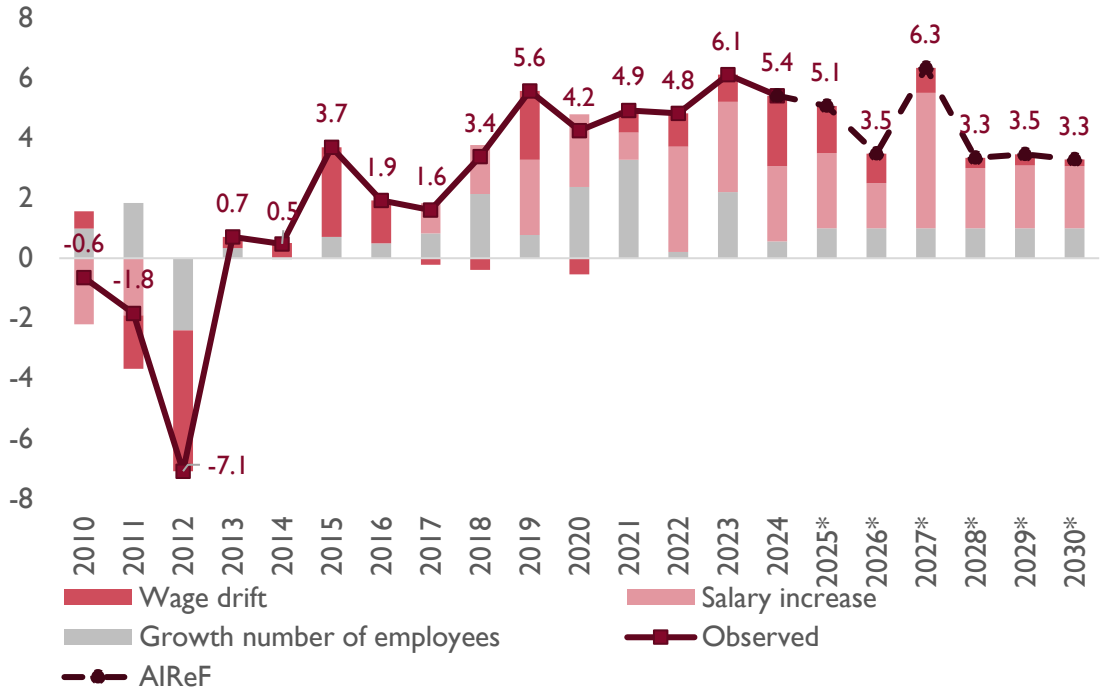
AIReF expects the main components of government consumption to decline as a share of GDP in 2026, rise temporarily in 2027 and then remain stable until the end of the period at their 2026 level. Specifically, government consumption is estimated to fall to 18.8% of GDP in 2026, two-tenths of a point lower than in 2025, before recovering those two-tenths in 2027. From that year onwards, government consumption would return to its 2026 level and remain at around

18.8% of GDP until 2030. Looking at its main components, the temporary increase in 2027 is chiefly explained by the projected rise in expenditure on compensation of employees that year.

4.2.1.1 Compensation of employees

Compensation of employees will rise temporarily as a share of GDP in 2027, before falling to 10.6% of GDP in 2029-2030. The expenditure path is shaped by the pay increase agreed with trade unions under the multi-year agreement for 2025-2028, which provides for an increase of 4.5% in 2027, compared with 2% in both 2026 and 2028. For the remainder of the period not covered by the agreement, pay is expected to develop in line with projected CPI inflation of 2.1% in 2029 and 2% in 2030. In addition, the forecasts incorporate pay measures adopted by several Autonomous Regions, including Catalonia, the Principality of Asturias and the Balearic Islands. The forecasts also assume annual growth of 1% in the number of employees and average wage drift of 0.5% throughout the period 2026-2030.

FIGURE 30. BREAKDOWN OF PUBLIC SECTOR COMPENSATION OF EMPLOYEES GROWTH (%)



Source: INE, IGAE and AIReF

4.2.1.2 Intermediate consumption and social transfers in kind

Over the medium term, both intermediate consumption expenditure and social transfers in kind are expected to grow in line with GDP. In the case of

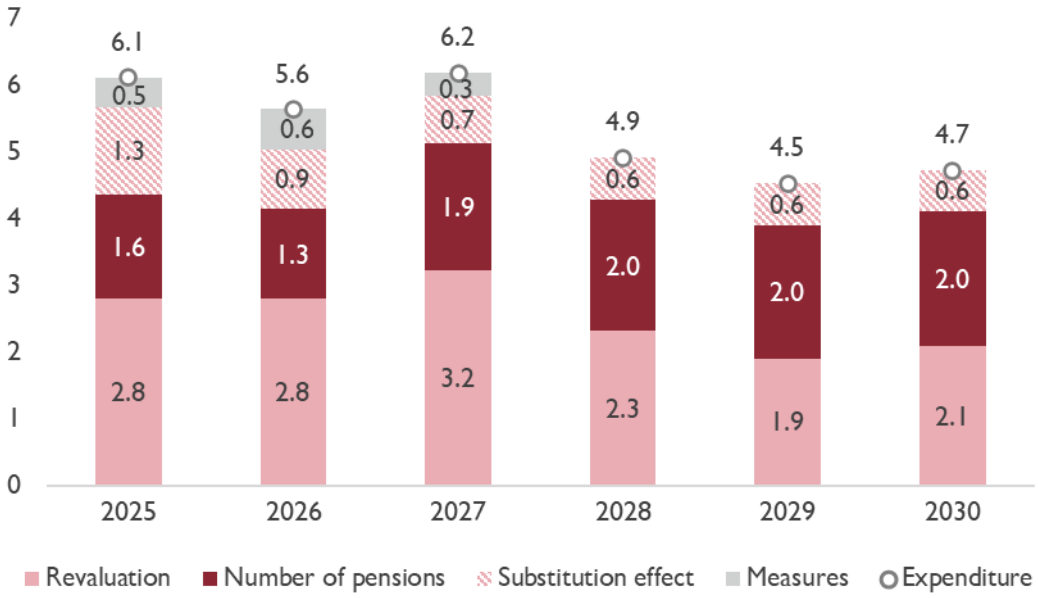
intermediate consumption, AIReF estimates that its share will remain at 5.6% of GDP. For Central Government, this path incorporates an increase in defence spending, as well as the impact of the national and European elections scheduled for 2027 and 2029, respectively, in accordance with the ordinary electoral calendar. Social transfers in kind, meanwhile, will remain stable at 2.6% of GDP. For the Autonomous Regions, developments are shaped by health and education needs.

4.2.2. Cash social benefits

AIReF expects cash social benefits to increase gradually as a share of GDP, from 17% in 2025 to 17.5% in 2030. An increase of one-tenth of a point is estimated for 2026, in line with the forecast contained in the 2026 Annual Progress Report, followed by further annual increases of one-tenth until 2030. This trend is chiefly explained by higher pension expenditure, whose share of GDP increases by five-tenths of a point between 2025 and 2030. Expenditure on temporary incapacity benefits also contributes to the increase, while unemployment benefit expenditure works in the opposite direction.

AIReF estimates that growth in Social Security pension expenditure will moderate from 6.1% in 2025 to 4.7% in 2030. Developments in pension expenditure are explained by annual indexation, the increase in the number of pensions, the replacement effect and the approved measures. The acceleration in growth in 2027 reflects the rise in inflation recorded in 2026. Thereafter, pension expenditure slows as inflationary pressures ease and the replacement effect is estimated to decline, factors partly offset by the projected increase in the number of pensioners. The measures incorporated include the increase in minimum pension supplements and non-contributory pensions provided for under Royal Decree-Law 2/2023 between 2024 and 2027, with a view to reaching the poverty threshold. The forecast also incorporates the increase in the average pension resulting from men's increased access to the maternity supplement and the supplement to reduce the gender gap.

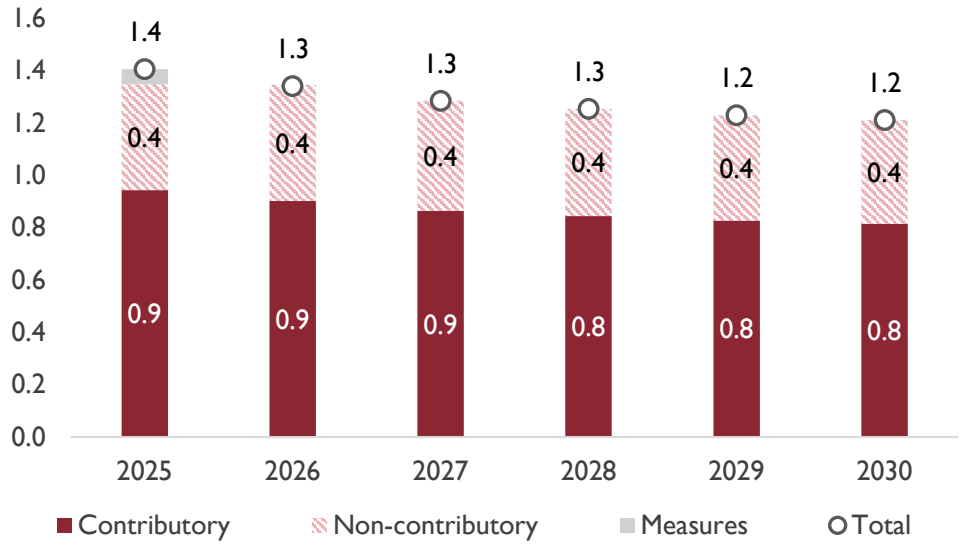
FIGURE 31. GROWTH IN SOCIAL SECURITY PENSION EXPENDITURE (% CHANGE). AIREF PROJECTIONS



Source: AIReF

Unemployment benefits gradually decline as a share of GDP, from 1.4% in 2025 to 1.2% in 2030. The item's share declines throughout the projection horizon as a result of the expected moderation in the unemployment rate and the overall buoyancy of the labour market. The measures incorporated include the reform of unemployment assistance benefits under Royal Decree-Law 2/2024.

FIGURE 32. TREND IN UNEMPLOYMENT BENEFIT EXPENDITURE AS % OF GDP. AIREF PROJECTIONS



Source: AIReF

Other cash social benefits increase as a share of GDP, from 4% in 2025 to 4.1% in 2030. This is mainly explained by the increase of one-tenth of a point in the share of expenditure on temporary incapacity benefits and of half a tenth in expenditure on State Pension Scheme pensions.

4.2.3. Interest

AIReF estimates that interest expenditure will increase progressively over the period, reaching 2.8% of GDP in 2030, four-tenths of a point above its 2025 level. This medium-term increase in the financial burden is consistent with the progressive rise in the implicit interest rate on debt, reflecting the higher average cost of outstanding debt. This path is consistent with market expectations, which, according to information derived from Euribor futures, point to higher ECB rates in an environment of persistent inflationary pressures and geopolitical uncertainty.

FIGURE 33. FINANCIAL BURDEN AND IMPLICIT INTEREST RATE ON DEBT

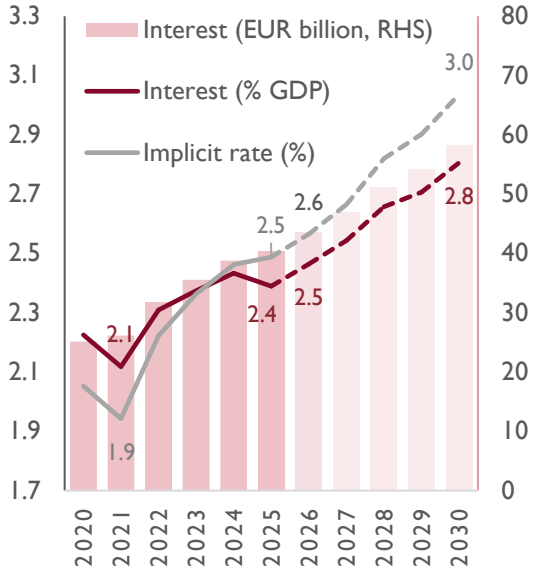
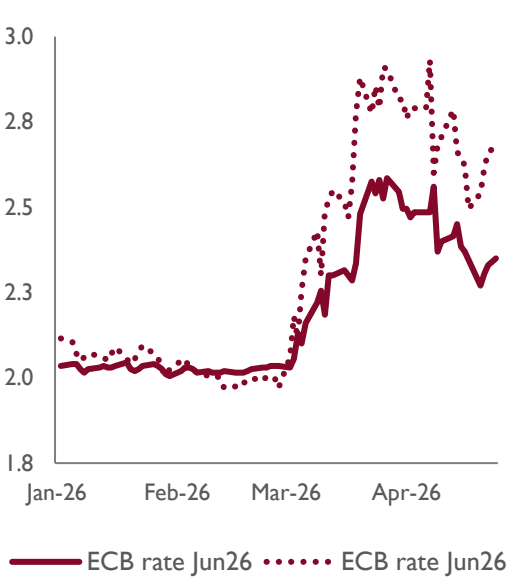


FIGURE 34. INTEREST RATE EXPECTATIONS IMPLIED BY EURIBOR FUTURES: JUNE AND DECEMBER 2026



Source: Spanish Treasury, IGAE and AIReF

4.2.4. Gross capital formation

AIReF estimates that gross capital formation excluding the RTRP will increase more sharply in 2026 and more moderately over the medium term, reaching 3.2% of GDP in 2030, compared with 2.6% in 2025. This trend mainly reflects the increase in Central Government military investment, driven by the expected progressive rise in deliveries of military equipment over the period. In addition,

gross capital formation grows more strongly in 2026 as a result of the measures to rebuild fixed assets affected by the storms in early 2026 and the 2024 DANA floods, both at Central Government level and in the Autonomous Regions—specifically Valencia, Extremadura and Andalusia—and among the Local Governments affected by these adverse weather events. From 2026 onwards, growth moderates and follows a gradual path, with annual increases of one-tenth of a point of GDP, except in 2028, when the share remains stable as the impact of those measures disappears, having had a still partial effect in 2027.

4.2.5. Subsidies

AIReF estimates that subsidies will remain at around 1% of GDP throughout the period, with the exception of 2026. In 2026, they would rise temporarily by two-tenths of a point to 1.3% of GDP. This increase arises in the Central Government subsector as a result of the expenditure measures approved by the Government to finance extraordinary aid for the agricultural and fisheries sectors, intended both to alleviate the damage caused by the storms at the beginning of the year and to offset the rise in diesel and fertiliser prices resulting from the crisis in the Middle East. Also in connection with this crisis, the increase in subsidies reflects, on the one hand, higher transfers to the CNMC to finance measures aimed at reducing energy costs and, on the other, aid to mitigate the increase in fuel prices in road and maritime transport. In 2027, the withdrawal of these temporary measures will reduce expenditure to 1% of GDP, after which it will remain close to that level until the end of the period.

4.2.6. Investment grants and other capital transfers

AIReF expects expenditure on investment grants and other capital transfers to fall by almost one-tenth of a point to 0.7% of GDP in 2026, before remaining at that share of GDP until 2030. This slight contraction in 2026 is mainly due to the end of the one-off impact recorded in the SSF subsector in 2025 as a result of the court ruling on the pension supplement for fathers, which entailed expenditure of EUR 529 million. This reduction is partly offset by higher Central Government expenditure arising from the extraordinary measures to repair rail infrastructure affected by the storms and the interest subsidies on ICO-MAPA-SAECA loans, together with higher expenditure in the Autonomous Regions associated with the new 2026-2030 Housing Plan, which raises the level of implementation in its first year. Over the remainder of the period, expenditure will grow in line with GDP.

4.2.7. Other expenditure

AIReF expects other expenditure to increase to 1.8% of GDP in 2026, decline to 1.7% in 2027 and remain at that level until 2029, before falling to 1.6% in 2030. The increase in 2026 is mainly explained by the higher Central Government contribution to the European Union budget. From 2027 onwards, expenditure moderates, falling slightly but remaining unchanged as a share of GDP, except in 2030, when it declines to 1.6%.

4.3. Impact of the measures on the accounts of the Public Administrations

AIReF includes the approved measures in its forecasts and estimates their impact over the period for which they are legally in force. This covers the impact on the 2025 and 2026 deficits of the measures to alleviate the effects of the 2024 DANA, together with the measures approved in 2026 in response to the Middle East crisis and those addressing the storms in early 2026, which particularly affected Andalusia and Extremadura. Taken together, these measures push the 2026 deficit up by more than seven-tenths of a point of GDP, although their impact is expected to ease in later years, adding more than a further two-tenths over the remaining period.

4.3.1. Temporary measures

Between 2024 and 2026, three packages of measures have been approved to mitigate the economic impact of unforeseeable events. Two of them related to natural disasters—the DANA of 2024 and the storm train of early 2026—and a third related to the crisis in the Middle East. Altogether, the fiscal impact of these measures between 2025 and 2030 amounts to EUR 20.9 billion, approximately one point of GDP, of which more than seven-tenths is concentrated in 2026.

First, the measures approved to alleviate the effects of the DANA had a fiscal impact in 2025 of EUR 3.55 billion in the whole of GG, 0.2% of GDP. These measures were mainly aimed at infrastructure replacement investments, aid to companies and families, and cleaning and damage repair work. In 2026, spending under these measures is expected to total EUR 1.692 billion (0.1% of GDP), focused on infrastructure investment and business support. In the remaining years, the impact of the measures is expected to diminish, concentrated in the territorial administrations.

Second, the deficit impact of the measures adopted to address the storms is estimated at EUR 8.153 billion (0.5% of GDP), spread across 2026 to 2028. The

2026 financial year concentrates most of the expenditure, with an estimated impact of EUR 6.234 billion for the GG as a whole, equivalent to 0.4% of GDP. In subsequent years, this impact is progressively reduced, reaching 0.1% of GDP in 2027 and being practically residual in 2028. The measures adopted include compensation to the agricultural, fishing and livestock sectors, direct aid to companies, as well as the repair of infrastructure. However, it is worth recalling the uncertainty over how much is ultimately implemented and the timing of these measures, which could differ substantially from what was initially planned.

Finally, the package of measures associated with the effects of the crisis in the Middle East has an impact on the 2026 deficit estimated at EUR 5.30 billion, equivalent to three tenths of GDP in 2026. This package includes both spending and revenue measures. In the field of spending, direct aid is contemplated to compensate for the increase in energy costs, compensation to the electricity sector and support measures for the industry, among others, with an aggregate amount close to EUR 3.0 billion. On the revenue side, the main measures are the VAT reductions on hydrocarbons, gas and electricity and the cuts in excise duties on hydrocarbons and electricity, with an estimated budgetary impact of around EUR 2.4 billion.

TABLE 21. FISCAL IMPACT ON THE GG AS A WHOLE. OF THE TEMPORARY MEASURES APPROVED

Fiscal impact on the GG as a whole of the temporary measures approved						
	2025	2026	2027	2028	2029	2030
Revenue measures		**-2,378**				
Middle East Crisis		-2,378				
Expenditure measures	**3,550**	**10,853**	**2,510**	**861**	**396**	**382**
DANA	3,550	1,692	833	604	396	382
Storms		6,234	1,662	257		
Middle East Crisis		2,927	15			
Total (EUR million)	**-3,550**	**-13,231**	**-2,510**	**-861**	**-396**	**-382**
Total (% GDP)	**-0.2**	**-0.7**	**-0.1**	**0.0**	**0.0**	**0.0**

Source: AIReF.

4.3.2. Permanent revenue measures

AIReF's estimates include a series of permanent measures that raise revenue in 2030 by almost one-tenth of a point of GDP relative to 2025. These measures are spread across the subsectors of Central Government, the SSF and the Autonomous Regions. For Central Government and the Autonomous Regions, they reduce revenue by almost 0.1% of GDP in each case. This is more than

offset by the measures approved for the SSF, which increase revenue by over 0.2% of GDP.

The measures adopted by Central Government would have a growing negative impact over the period 2026-2030, reaching 0.1% of GDP in 2030. In PIT, the increase in the tax rate on capital income above EUR 300,000, approved by Law 7/2024, would generate around EUR 0.20 billion a year, while the earned income deduction for low-income earners will reduce revenue by EUR 0.250 billion in 2026 and EUR 0.650 billion annually from 2027, following the entry into force of the measure approved by Royal Decree-Law 5/2026. In CIT, the phased reduction in the tax rates applicable to small businesses and microenterprises between 2026 and 2029, approved by Law 7/2024, will reduce revenue by EUR 0.50 billion a year. The introduction of the Top-up Tax established by the same law will generate an additional EUR 1 billion a year[10]. Lastly, under excise duties, the increase in the Tax on Tobacco Products, introduced by Law 7/2024, and the new Tax on Liquids for Electronic Cigarettes and Other Tobacco-Related Products would structurally add EUR 0.069 billion relative to 2025, the year in which both measures entered into force.

AIReF forecasts that the cumulative impact of the SSF revenue measures will reach 0.2% of GDP in 2030. The measures currently being phased in are the Intergenerational Equity Mechanism, the additional solidarity contribution and the increase in maximum contribution bases. The Intergenerational Equity Mechanism is a targeted increase in social contributions which entered into force in 2023 and progressively raises the social contribution rate from 0.6 percentage points in that year to 1.2 percentage points in 2029, after which it remains at that level. The 2023 reform also introduces a path for increasing the maximum contribution base that combines indexation in line with the CPI with an additional fixed increase of 1.2 percentage points per year. Lastly, the additional solidarity contribution—

[10] This estimate is lower than the EUR 1.708 billion reported in the Annual Progress Report, as the detailed design of the international framework makes the tax less revenue-intensive than initially envisaged. The development of the OECD's Pillar 2, based on the effective tax rate by jurisdiction calculated on covered taxes and adjusted income, narrows the cases subject to the levy, while safe harbours and the spread of equivalent qualified domestic minimum top-up taxes further limit the taxable base and shift revenue towards other jurisdictions. This is compounded by pressure from the United States, which has promoted an approach based on parallel agreements outside the common framework, weakening its coordinated implementation at global level.

a new contribution on labour income above the maximum contribution base—entered into force in 2025 and will increase progressively until 2045.

The permanent measures adopted by the Autonomous Regions will result in a revenue loss of around EUR 1.150 billion over the period 2026-2030. These tax cuts are distributed broadly evenly across 2026, 2027 and 2028, although in the last of these years they affect only some Autonomous Regions. PIT measures account for around 80% of the total amount. In this case, the impact on the regional accounts will arise in subsequent years and will exceed the pure revenue effect in years when it is reflected both in lower advance payments for that year and in a smaller settlement for year n-2. Next in importance after PIT are the reductions in Inheritance and Gift Tax, although these are concentrated in a small number of Autonomous Regions. Alongside these tax-cutting measures, measures with a positive revenue impact have also been adopted, chiefly in the form of environmental taxes. In aggregate terms, the introduction of tax cuts by the Autonomous Regions continues to slow compared with previous periods, while there has been slight progress in regulating measures to increase revenue. Nevertheless, the scale and direction of tax reforms continue to vary across Autonomous Regions. Catalonia and Castile-La Mancha continue to record an overall positive revenue impact from the measures adopted, as do the Balearic Islands and Andalusia to a lesser extent. Castile and Leon, meanwhile, has not planned any revenue measures during the period. By contrast, the revenue loss over the period will amount to 0.4% of GDP in the Chartered Community of Navarre, and 0.2% of GDP in Asturias, La Rioja, Madrid and Valencia. The latter two Autonomous Regions have approved above-average tax cuts in previous years as well. In the Region of Murcia and the Canary Islands, the reduction in revenue will be 0.1% of GDP, while in the remaining Autonomous Regions it will be less than 0.1% of GDP.

TABLE 22.CUMULATIVE REVENUE IMPACT OVER THE PERIOD 2026-2030 OF PERMANENT REVENUE MEASURES ADOPTED OR PLANNED BY THE AUTONOMOUS REGIONS. (€M AND % GDP)

ARs	PTI	Inheritance and gift tax	Wealth tax	Transfer tax and stamp duty	Other	TOTAL	
						€ M	% GDP
ANDALUSIA	-71	0	0	52	22	**3**	**0.0**
ARAGON	0	-3	0	0	0	**-3**	**0.0**
ASTURIAS	-72	0	0	0	0	**-72**	**-0.2**
BALEARIC ISLANDS	0	0	0	0	8	**8**	**0.0**
CANARY ISLANDS	-96	0	0	-10	26	**-79**	**-0.1**
CANTABRIA	0	-1	0	0	0	**-1**	**0.0**
CASTILE AND LEÓN	0	0	0	0	0	**0**	**0.0**
CASTILE-LA MANCHA	-3	0	0	-5	26	**18**	**0.0**
CATALONIA	-65	0	0	112	116	**164**	**0.0**
EXTREMADURA	-5	0	0	0	-1	**-6**	**0.0**
GALICIA	-5	-4	0	-3	2	**-10**	**0.0**
COMMUNITY OF MADRID	-512	-131	0	0	23	**-620**	**-0.2**
REGION OF MURCIA	-21	0	-7	-6	0	**-33**	**-0.1**
NAVARRE	-130	0	0	0	0	**-129**	**-0.4**
BASQUE COUNTRY							
LA RIOJA	-1	-1	-15	-3	0	**-19**	**-0.2**
VALENCIAN COMMUNITY	-51	-61	-69	-167	-22	**-370**	**-0.2**
TOTAL Ars	**-1,030**	**-200**	**-90**	**-30**	**201**	**-1,148**	**-0.1**

Source: AIReF and MTBP (Mid-Term Budgetary Plan) of the Autonomous Regions.

TABLE 23.PERMANENT REVENUE MEASURES. CHANGE RELATIVE TO 2025 (EUR MILLIONS)

Fiscal impact by subsector of permanent revenue measures					
	2026	2027	2028	2029	2030
CG (millions of euros)	**519**	**-381**	**-881**	**-1,381**	**-1,381**
CG (% GDP)	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**
PIT	**-50**	**-450**	**-450**	**-450**	**-450**
Rate increase in capital income	200	200	200	200	200
Deduction neutralise SMI increase	-250	-650	-650	-650	-650
CIT	**500**	**0**	**-500**	**-1,000**	**-1,000**
Reduction of the rate for ERD and microenterprises	-500	-1,000	-1,500	-2,000	-2,000
Supplemental minimum tax	1,000	1,000	1,000	1,000	1,000
Excise duties	**69**	**69**	**69**	**69**	**69**
Rise in rate tobacco and new vapers	69	69	69	69	69
SSFs (millions of euros)	**1,170**	**2,183**	**3,284**	**4,415**	**4,946**
SSFs (% GDP)	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**
Intergenerational Equity Mechanism	768	1,564	2,402	3,289	3,564
Trend maximum bases contribution	307	426	589	728	855
Solidarity Charge	96	192	293	399	527
ARs (millions of euros)	**-369**	**-629**	**-1,148**	**-1,148**	**-1,148**
ARs (% GDP)	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**
PIT	-327	-524	-1,030	-1,030	-1,030
Inheritance and gift tax	-141	-172	-200	-200	-200
Wealth tax	-90	-90	-90	-90	-90
Transfer tax and stamp duty	53	-30	-30	-30	-30
Other	136	187	201	201	201
Total (EUR million)	**1,320**	**1,173**	**1,254**	**1,886**	**2,416**
Total (% GDP)	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**

Source: AIReF

4.4. Contingent liabilities and fiscal risks

Fiscal risks associated with implementing court rulings adverse to GG remain high, in line with previous years. In recent years, a significant volume of judgments adverse to the State's interests has accumulated, with an impact on the deficit of over EUR 11.2 billion in 2024 and more than EUR 3 billion in 2025. Moreover, the full cost of some judgments already handed down has yet to be recorded, while uncertainty remains over the outcome of ongoing court proceedings and the possible filing of new claims. In this context, the final cost to public finances could exceed AIReF's estimates, both in terms of the final amount of compensation and the year in which it ultimately affects the deficit.

One of the most significant cases is the judgment on the regional component of the Hydrocarbon Tax. In May 2024, the Court of Justice of the European Union ruled that this component, which was in force from 2013 to 2018, was contrary to EU law because it permitted rates to differ by territory. The 2024

General State Account estimated a potential impact of up to EUR 6.5 billion, equivalent to the revenue collected by the Autonomous Regions during that period. In 2026, the Supreme Court has already handed down several judgments against the State, at a cost of approximately EUR 0.315 billion plus interest, although this amount could increase as further appeals are resolved. The final cost will be borne by the Autonomous Regions or the State, depending on the applicable legislation.

In addition, some judgments already enforced may continue to affect the deficit in the coming years, together with various lawsuits and contingent liabilities that have yet to be resolved. These include the ruling concerning the Castor gas storage facility, which adds a further EUR 0.255 billion forecast for 2026 for management and dismantling work to the EUR 1.454 billion recorded in 2020; this amount could increase until the facilities are finally closed. They also include the ruling on the electricity social tariff scheme, with a cumulative impact of EUR 0.913 billion in 2022-2025; the ruling concerning the Tax on Business Activities for mobile phone operators, with an executed cost of EUR 0.708 billion, although the Government has recognised a provision of EUR 1.480 billion; and the ruling concerning withholding tax on dividends paid by foreign investment funds, whose cumulative impact exceeds EUR 0.800 billion. These are compounded by numerous contingent liabilities arising from ongoing litigation, such as international energy arbitration proceedings, with possible awards of up to EUR 1.371 billion, and the termination of toll-motorway concessions, with a potential impact of EUR 1.8 billion. Lastly, other risks include the possible unconstitutionality of the limitation on the deduction of losses from the sale of equity interests, the possible annulment of Madrid City Council's waste collection fee, and various claims relating to radioactive waste charges and the fee for reserved use of the public radio spectrum.

Standardised guarantees, meanwhile, are a contingent liability that continues to affect the deficit. The extension of ICO guarantee facilities in response to various circumstances—including the pandemic, the war in Ukraine, the 2024 DANA floods, the purchase of a first home, support for businesses affected by U.S. tariff policy and cover for rent arrears—has progressively increased the cost associated with these guarantees. Overall, the cumulative impact of these standardised guarantees exceeded EUR 5.5 billion over the period 2021-2025.

Lastly, the geopolitical environment adds uncertainty and risks to the projected fiscal scenario, Mainly due to international tensions, the instability of US trade policy and the need to increase defence spending. Developments in these factors, as well as the possible adoption of new measures, could affect employment, wages and consumption and, consequently, tax

revenue, contributions and the projected deficit. In this context, if the revenue measures were extended until the end of the year, their impact could amount to around EUR 6 billion.

4.5. Analysis by subsector

Over the medium term, Central Government accounts for most of the deficit, although the path is shaped by differing developments across the subsectors. In 2026, the increase in the deficit is due to the deterioration in Central Government's balance, mainly as a result of the cost of all the measures approved, while the remaining subsectors improve their fiscal position. In 2027, the improvement is broad-based across all subsectors. From then onwards, both Central Government and the SSF begin to follow a slight deteriorating path, while the territorial administrations continue to record some improvement, which appears to stall, or even reverse in the case of the Autonomous Regions in 2030.

TABLE 24.DEFICIT BY SUBSECTOR (% GDP). AIREF MEDIUM-TERM PATH

	AIReF					
	2025	2026	2027	2028	2029	2030
GG	**-2.4**	**-2.6**	**-2.2**	**-2.3**	**-2.3**	**-2.4**
CG	-2.0	-2.4	-2.3	-2.5	-2.5	-2.5
SSFs	-0.3	-0.2	-0.1	-0.1	-0.1	-0.2
ARs	-0.4	-0.1	0.0	0.1	0.1	0.0
LGs	0.3	0.2	0.2	0.3	0.3	0.3

Source: AIReF

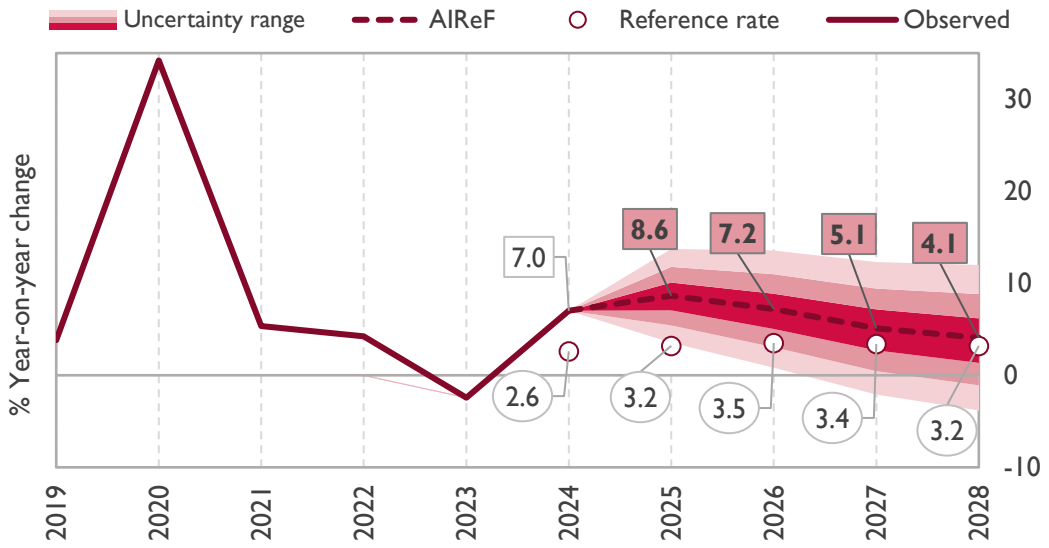
4.5.1. Central Government

AIReF expects Central Government to breach the national expenditure rule in 2026, 2027 and 2028, as it estimates growth in net eligible expenditure above the reference rates for that period. Overall, it estimates average growth of 6.3% between 2025 and 2028, compared with an average reference rate of 3.3%. Specifically, for 2026 it projects growth in eligible expenditure net of revenue measures of 7.2%, well above the 3.5% reference rate for that year. In 2027 and 2028, it estimates growth in net eligible expenditure of 5.1% and 4.1%, respectively, also above the corresponding reference rates of 3.4% and 3.2%.

Among other factors, developments in net eligible expenditure are shaped in the short term by extraordinary expenditure measures and, over the medium term, by one-off increases in public-sector pay and electoral spending, together with the sustained increase in military investment. In 2026, the increase in computable expenditure is clearly shaped by the measures

approved by the Government to finance Local Governments, expenditure associated with the storms at the beginning of the year—which is not excluded from the calculation—and measures arising from the conflict in the Middle East. In 2027, the growth rate of computable expenditure declines as these extraordinary measures are withdrawn. Lastly, in 2028, growth in eligible expenditure moderates again due, among other factors, to the disappearance of general election expenditure under the ordinary calendar in 2027 and to the reduction in the agreed pay increase for public-sector employees, from 4.5% in 2027 to 2% in 2028.

FIGURE 35. MEDIUM-TERM ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE NATIONAL EXPENDITURE RULE. CENTRAL GOVERNMENT (% CHANGE)



Source: AIReF.

As regards the European expenditure rule, AIReF estimates average net expenditure growth for Central Government of 5.9% between 2025 and 2028, compared with the average commitment of 3.4% for GG as a whole. Specifically, it expects net expenditure to grow by 8.9% in 2026, far exceeding the reference rate due to extraordinary expenditure measures and temporary revenue reductions linked to the Middle East conflict[11]. Growth would subsequently moderate to around 4% in 2027, before rising again to 4.8% in

[11] Unlike the national expenditure rule, the European rule's calculation captures both one-off expenditure—arising from court rulings and standardised guarantees, both of which weigh particularly heavily on the Central Government subsector—and revenue associated with temporary measures. Given their scale, the latter notably include revenue resulting from the failure to adjust for inflation and, in 2026, revenue associated with the Middle East crisis.

2028 due to the removal of the Tax on Net Interest and Fee Income of certain financial institutions. In both years, the committed rates would be exceeded, thereby reducing the margin available to other subsectors to ensure compliance with the path for GG as a whole. For 2029 and 2030, estimated net expenditure growth is 4.5% and 3.2%, respectively. Taking the period 2025-2030 as a whole, average net expenditure growth would be 5.2%.

TABLE 25.COMPARISON OF EXPENDITURE AND COMPUTABLE EXPENDITURE UNDER THE NATIONAL AND EUROPEAN EXPENDITURE RULES. CENTRAL GOVERNMENT 2025-2030 (% CHANGE)

Central Government	Forecast AIReF % change					
	2025	2026	2027	2028	2029	2030
Expenditure (excluding RTRP)	4.4	7.6	5.1	4.7	4.4	5.0
Expenditure (excluding RTRP, DANA and storms)	5.1	7.5	6.1	5.0	4.5	5.0
Eligible expenditure National spending rule	8.6	7.2	5.1	4.1		
Eligible expenditure European spending rule	5.9	8.9	4.0	4.8	4.5	3.2

Source: MINHAC and AIReF

AIReF estimates that the Central Government deficit will deteriorate in 2026 as a result of the cost of the measures approved, improve in 2027 as they are withdrawn, and rise again in 2028, before remaining at around 2.5%. The forecast up to 2027 is affected by the entry into force and expiry of the temporary packages of measures approved. In 2028, the increase in the deficit reflects the withdrawal of the Tax on Net Interest and Fee Income of certain financial institutions, combined with weaker Corporate Income Tax performance. From then onwards, the deficit moderates slightly, although it remains at 2.5% over the projection path.

TABLE 26.TREND IN CENTRAL GOVERNMENT REVENUE, EXPENDITURE AND BALANCE EXCLUDING THE RTRP (% GDP)

	Central Government					
	2025	2026	2027	2028	2029	2030
REVENUE	19.4	19.6	19.8	19.7	19.8	20.1
EXPENDITURE	21.4	22.0	22.1	22.2	22.3	22.6
BALANCE	-2.0	-2.4	-2.3	-2.5	-2.5	-2.5

Source: IGAE and AIReF

AIReF expects revenue to increase by seven-tenths of a point of GDP between 2025 and 2030, following a progressively upward path except for a slight decline in 2028. In the current year, revenue increases by two-tenths, driven

by buoyant PIT and Corporate Income Tax receipts, as well as by the entry into force of the Top-up Tax under OECD Pillar Two. Revenue subsequently grows until 2028, when it loses one-tenth owing to a pronounced slowdown in Corporate Income Tax—reflecting developments in gross operating surplus—and the withdrawal of the Tax on Net Interest and Fee Income of certain financial institutions. The increase in revenue is supported by direct taxation, whose share rises by nine-tenths over the period, while indirect taxation and social contributions lose two-tenths and one-tenth, respectively.

TABLE 27. TREND IN CENTRAL GOVERNMENT REVENUE EXCLUDING RTRP (% GDP)

	Central Government					
	2025	2026	2027	2028	2029	2030
REVENUE	**19.4**	**19.6**	**19.8**	**19.7**	**19.8**	**20.1**
TAXES	15.7	15.9	16.2	16.0	16.3	16.5
On production	8.1	7.9	8.0	8.0	8.0	7.9
Tax on income type	7.6	8.0	8.2	8.0	8.3	8.5
Capital	0.0	0.0	0.0	0.0	0.0	0.0
SOCIAL SECURITY CONTRIBUTIONS	0.6	0.6	0.5	0.5	0.5	0.5
Transfers between GG	1.3	1.3	1.2	1.2	1.2	1.2
Other revenue	1.8	1.9	1.8	1.9	1.8	1.9

Source: IGAE and AIReF

AIReF projects an upward trend in expenditure, more pronounced in 2026 and then more gradual, reaching 22.6% of GDP in 2030. This trend is driven mainly by higher interest and defence spending, both of which grow faster than GDP throughout the period. In 2026, this is compounded by the increase in subsidies and gross capital formation arising from the extraordinary measures approved to address the storms at the beginning of the year and the Middle East crisis, raising expenditure by six-tenths of a point of GDP compared with 2025. From 2027 onwards, growth moderates as these extraordinary measures disappear, before beginning a gradual upward path to reach 22.6% of GDP in 2030, 1.2 percentage points above the 2025 level.

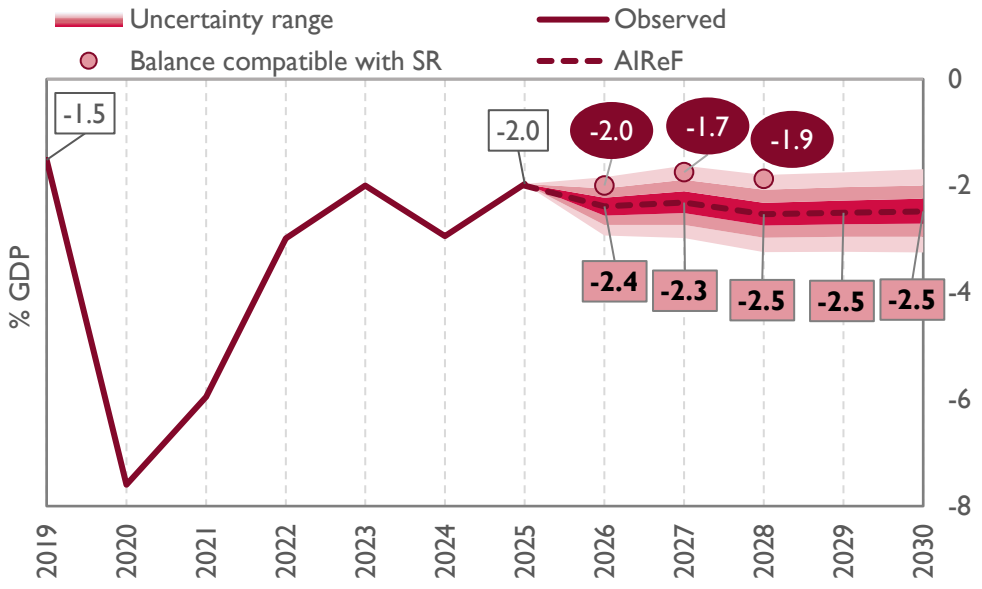
TABLE 28.MEDIUM-TERM EXPENDITURE PATH FOR CENTRAL GOVERNMENT EXCLUDING THE RTRP (% GDP)

	Central Government					
	2025	2026	2027	2028	2029	2030
EXPENDITURE	**21.4**	**22.0**	**22.1**	**22.2**	**22.3**	**22.6**
Remuneration of employees	1.9	1.9	1.9	1.9	1.9	1.9
Intermediate consumption	0.9	1.0	1.0	1.0	1.0	1.0
Social transfers in kind via market	0.2	0.2	0.2	0.2	0.2	0.2
Cash social benefits	1.7	1.7	1.8	1.8	1.8	1.8
Interest	2.1	2.2	2.3	2.4	2.5	2.6
Transfers between GG	11.7	11.7	11.9	11.8	11.7	11.8
Gross capital formation	0.8	1.0	1.1	1.2	1.3	1.4
Grants and other expenditure	2.0	2.3	2.0	1.9	1.9	1.9

Source: MINHAC and AIReF

Compliance with the expenditure rule over the period 2026-2028 would reduce the Central Government deficit to 1.9% of GDP in 2028, almost seven-tenths below the unchanged-policy forecast. Based on AIReF's revenue forecasts, compliance with the national expenditure rule would improve its deficit by four-tenths of a point of GDP in 2026, and by six-tenths in both 2027 and 2028.

FIGURE 36. NET LENDING/BORROWING. CENTRAL GOVERNMENT. MEDIUM TERM EXCLUDING THE RTRP (% GDP)

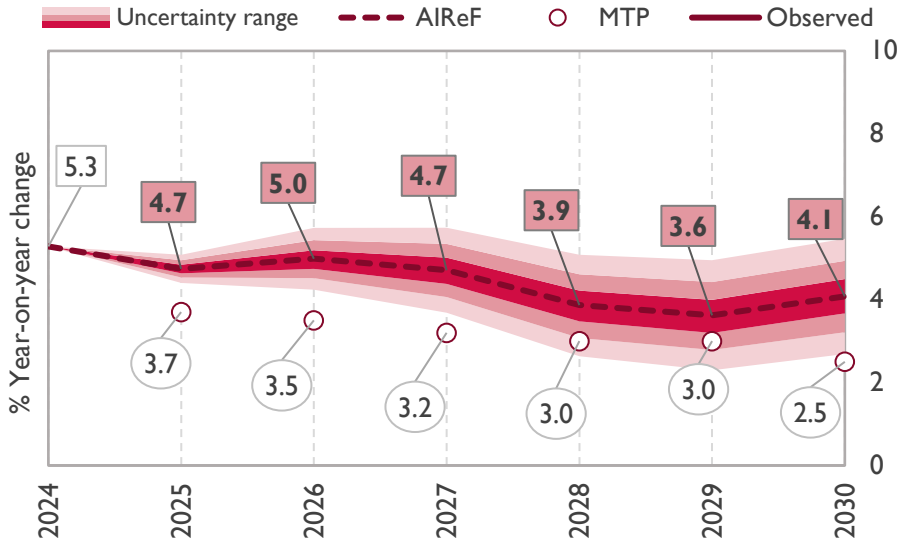


Source: MINHAC and AIReF.

4.5.2. Social Security Funds

AIReF estimates growth in primary expenditure net of revenue measures for the SSF of 5% in 2026 and 4.6% a year on average over the period 2025-2028. Unlike the national rule, the European expenditure rule includes the SSF, although the commitment is set for GG as a whole. The growth forecast for 2026 is above the annual target of 3.5%, which will reduce the margin available for the remaining subsectors. For the period 2025-2030 as a whole, average annual growth in primary expenditure net of revenue measures for the SSF will be 4.3%.

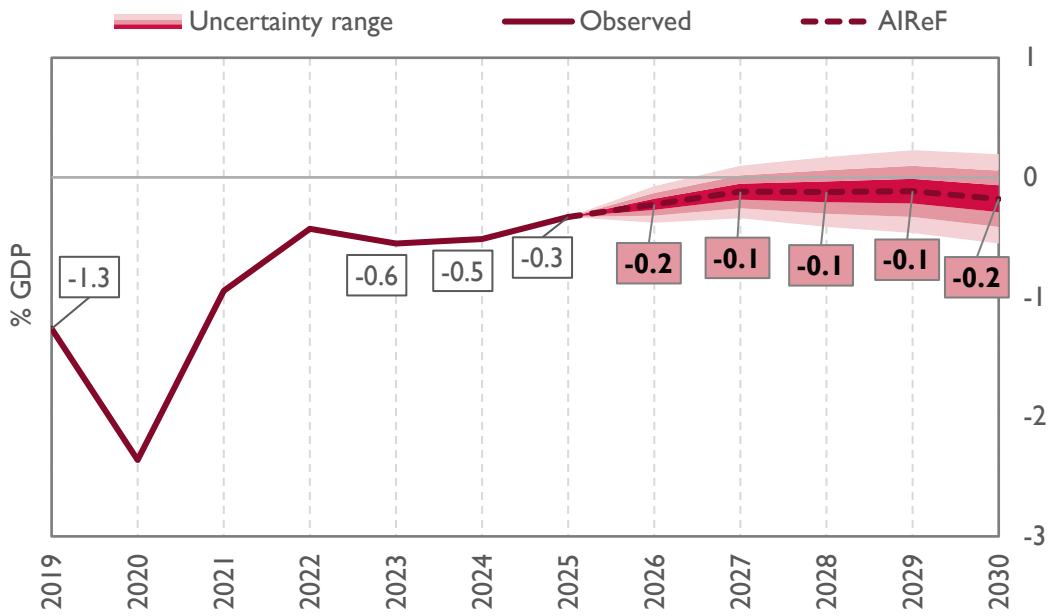
FIGURE 37. CHANGE IN ELIGIBLE EXPENDITURE ACCORDING TO THE EUROPEAN RULE FOR THE SOCIAL SECURITY FUNDS (% CHANGE)



Source: AIReF

AIReF expects the SSF deficit to stand at 0.2% of GDP in 2026, improve to 0.1% between 2027 and 2029 and deteriorate again to 0.2% in 2030. The improvement in the balance between 2026 and 2029 is explained by the SSF revenue-to-GDP ratio increasing faster than expenditure, driven mainly by higher social contributions and, to a lesser extent, by an increase in transfers from Central Government. In 2030, this dynamic reverses as social contributions stabilise and pension expenditure continues to rise.

FIGURE 38. SOCIAL SECURITY FUNDS. NET LENDING/BORROWING (% GDP)



Source: IGAE and AIReF

AIReF estimates that SSF revenue as a share of GDP will increase by one-tenth in 2026 and by a further three-tenths in 2027, after which it will stabilise. This trend is explained by the increase in social contributions as a share of GDP, driven mainly by the strength of the labour market and, to a lesser extent, by the gradual rise in the rates associated with the Intergenerational Equity Mechanism and the additional solidarity contribution. This is compounded, in 2027, by the increase in transfers from Central Government arising from the agreements approved to raise minimum and non-contributory pensions so that they reach the poverty threshold.

TABLE 29. REVENUE AS % OF GDP EXCLUDING THE RTRP. AIREF MEDIUM-TERM PATH

	SSFs					
	2025	2026	2027	2028	2029	2030
REVENUE	**15.6**	**15.7**	**16.0**	**16.0**	**16.0**	**16.0**
Social security contributions	12.6	12.8	13.0	13.0	13.0	13.0
Transfers between GG	2.8	2.8	2.9	2.9	2.9	2.9
Other revenue	0.1	0.1	0.1	0.1	0.1	0.1

Source: IGAE and AIReF

AIReF estimates that expenditure will increase by two-tenths between 2026 and 2030, reaching 16.2% of GDP. The main factor explaining this trend is the increase in pension expenditure as a share of GDP, followed by higher

expenditure on temporary incapacity benefits, effects that are partly offset by the moderation in unemployment benefit expenditure. The increase in pension expenditure is mainly due to CPI indexation, while expenditure on unemployment benefits falls as a share of GDP thanks to the strength of the labour market.

TABLE 30. EXPENDITURE AS % OF GDP (EXCLUDING THE RTRP). AIREF MEDIUM-TERM PATH

	SSF					
	2025	2026	2027	2028	2029	2030
EXPENDITURE	**15.9**	**16.0**	**16.1**	**16.1**	**16.1**	**16.2**
Cash social benefits	14.8	14.9	15.1	15.1	15.2	15.3
Pensions	*11.6*	*11.7*	*11.8*	*11.9*	*12.0*	*12.1*
Unemployment benefits	*1.4*	*1.4*	*1.3*	*1.3*	*1.3*	*1.2*
Other	*1.8*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*
Transfers between GG	*0.5*	*0.5*	*0.5*	*0.5*	*0.5*	*0.4*
Other expenses	0.6	0.5	0.5	0.5	0.5	0.5

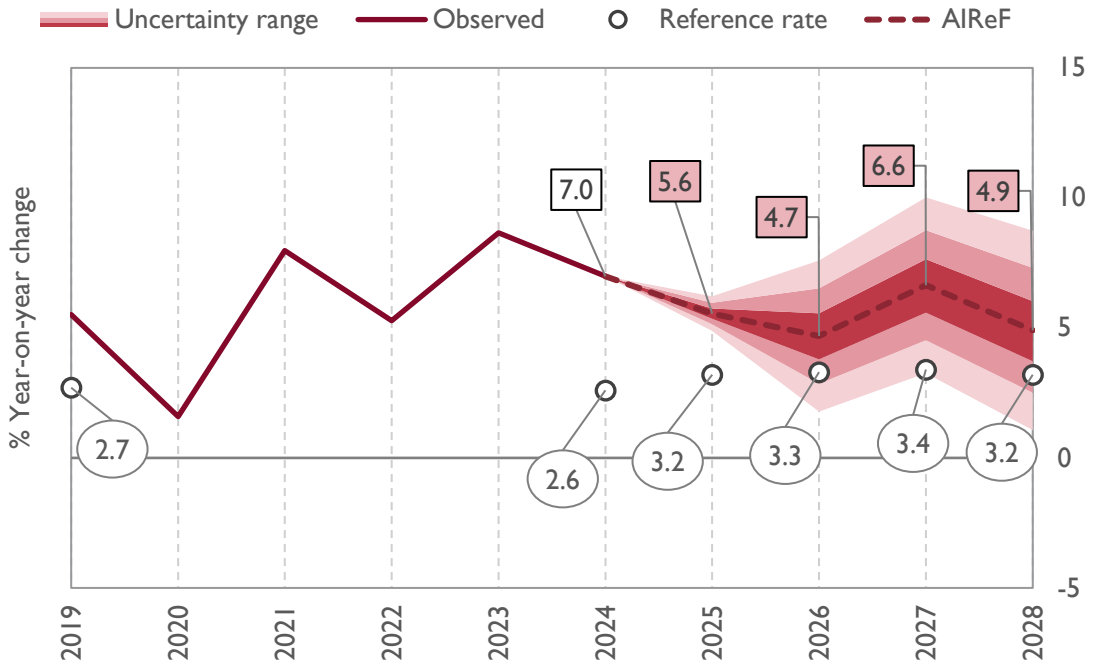
Source: AIReF

4.5.3. Autonomous Regions

Under an unchanged-policy scenario, AIReF expects eligible expenditure in the Autonomous Regions for the purposes of the national expenditure rule to grow above the current reference rate in every year. Specifically, eligible expenditure is estimated to grow by around 4.7% in 2026, exceeding the 3.5% reference rate. Growth of 6.6% is expected in 2027 and 4.9% in 2028, above the respective limits of 3.4% and 3.2% in both years.

At the same time, AIReF estimates that primary expenditure net of revenue measures in the Autonomous Regions will grow by an average of 5% over the period 2025-2028. Under the specifications of the European framework, eligible expenditure will grow by around 4.2% in 2026, supported, among other factors, by the transfer of the new Tax on Net Interest and Fee Income of certain financial institutions. In 2027, growth will accelerate to 6.4%, before moderating to 4.5% in 2028 and around 4% in 2029 and 2030. Over the full period analysed, 2025-2030, average growth would stand at 4.7%.

FIGURE 39. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE. AUTONOMOUS REGIONS. (% GDP)



Source: IGAE and AIReF

TABLE 31. AIREF FORECASTS FOR THE CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE UNDER THE NATIONAL AND EUROPEAN EXPENDITURE RULES. TOTAL AUTONOMOUS REGIONS. (% CHANGE)

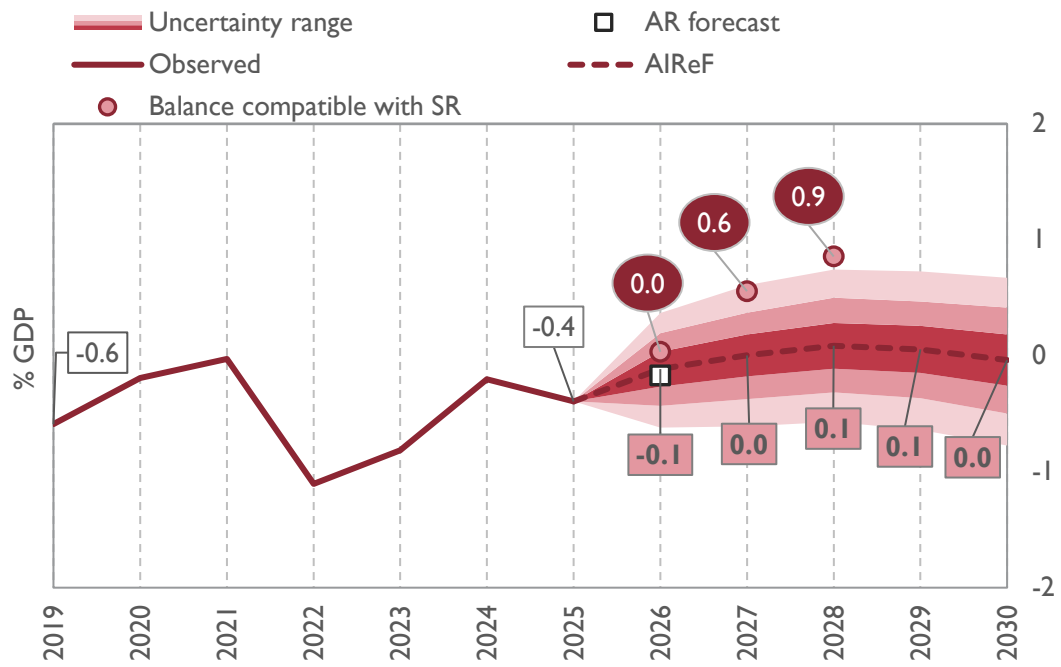
Autonomous Regions	Forecast AIReF % change					
	2025	2026	2027	2028	2029	2030
Net expenditure (excluding RTRP)	5.8	4.1	5.1	4.0	4.1	3.7
Expenditure (excluding RTRP, DANA and storms)	5.3	3.8	5.8	4.2	4.2	3.7
Eligible expenditure National spending rule	5.6	4.7	6.6	4.9		
Eligible expenditure European spending rule	4.9	4.2	6.4	4.5	4.0	4.1

Source: AIReF

AIReF expects the Autonomous Regions to reach budget balance in 2030. In 2026, despite recording new extraordinary expenditure associated with the floods at the beginning of the year, the balance will improve relative to 2025 thanks to the positive performance of the financing system and other tax revenue, the recording of the new Tax on Net Interest and Fee Income of certain financial institutions, the reduction in measures linked to the DANA floods and more moderate growth in other expenditure. Accordingly, the

Autonomous Regions will end 2026 with a deficit of 0.1% of GDP, which would be balance if expenditure associated with natural disasters were excluded. This position will be maintained until 2030, with a slight improvement in 2028 and 2029. Under AIReF's current revenue forecasts, compliance with the national expenditure rule every year up to 2028 would improve the regional balance by eight-tenths of a point of GDP over this period.

FIGURE 40. TREND IN THE BALANCE OF THE AUTONOMOUS REGIONS TO 2030 (% GDP)



Source: IGAE and AIReF

TABLE 32.REVENUE, EXPENDITURE AND BALANCE OF THE AUTONOMOUS REGIONS EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

	Autonomous Regions					
	2025	2026	2027	2028	2029	2030
REVENUE	15.2	15.4	15.6	15.8	15.8	15.7
EXPENDITURE	15.6	15.5	15.6	15.7	15.8	15.8
BALANCE	-0.4	-0.1	0.0	0.1	0.1	0.0

Source: AIReF

TABLE 33.REVENUE, EXPENDITURE AND BALANCE OF THE AUTONOMOUS REGIONS EXCLUDING THE RTRP, DANA FLOODS AND STORMS (% GDP). AIREF MEDIUM-TERM PATH

	AR without DANA or Storms					
	2025	2026	2027	2028	2029	2030
REVENUE	15.2	15.4	15.6	15.8	15.8	15.7
EXPENDITURE	15.5	15.4	15.6	15.7	15.8	15.8
BALANCE	-0.3	0.0	0.0	0.1	0.1	0.0

Source: AIReF

4.5.3.1 Revenue of the Autonomous Regions

AIReF estimates that revenue in the Autonomous Regions will reach 15.7% of GDP in 2030. This is five-tenths of a point of GDP higher than in 2025, mainly as a result of the positive performance of financing-system revenue and other tax resources.

TABLE 34.REVENUE OF THE AUTONOMOUS REGIONS EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

	Autonomous Regions					
	2025	2026	2027	2028	2029	2030
Net revenue excluding RTRP	**15.2**	**15.4**	**15.6**	**15.8**	**15.8**	**15.7**
Net SFA	9.5	9.7	10.1	10.3	10.4	10.5
Net EACs	*8.8*	*9.0*	*9.2*	*9.4*	*9.5*	*9.6*
Net settlement	*0.7*	*0.8*	*0.9*	*0.8*	*0.9*	*0.8*
Transfer tax and stamp duty	0.8	0.8	0.8	0.8	0.8	0.8
Inheritance and gift tax	0.2	0.2	0.2	0.2	0.2	0.1
Other non-SFA taxes	0.9	0.9	0.9	0.9	0.9	0.9
Other revenues	3.8	3.8	3.7	3.6	3.5	3.4

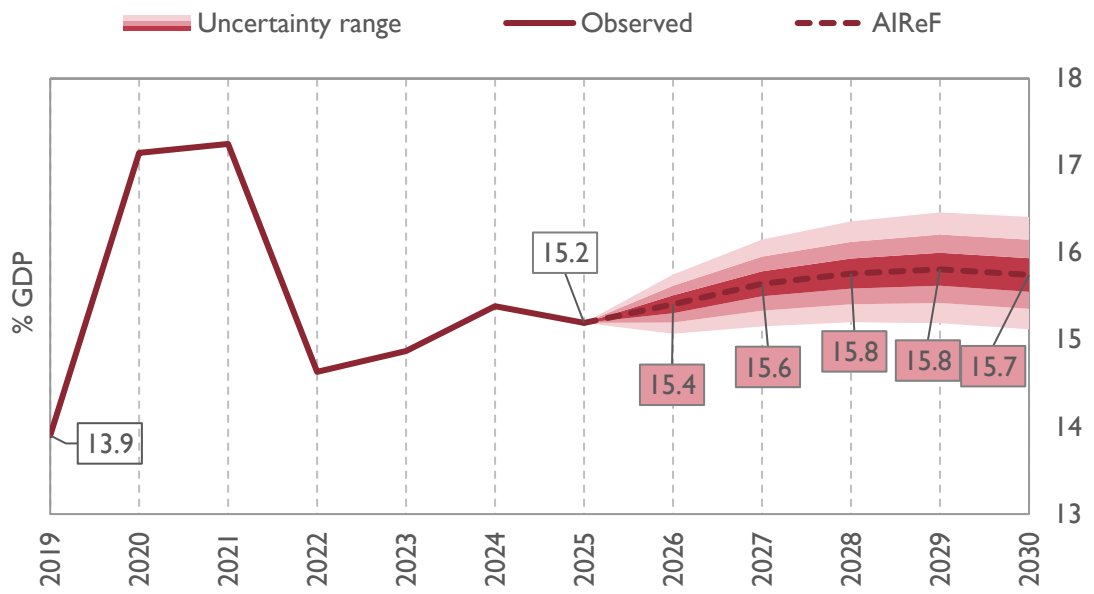
Source: IGAE and AIReF

Revenue from the financing system of the ordinary-regime Autonomous Regions will grow by an average of 6.1% over the period 2026-2030, reaching 10.5% of GDP in 2030. In 2026, AIReF continues to incorporate into its central scenario the update of advance payments in line with the figures reported by the Ministry of Finance in November 2025. This revenue accounted for 62.3% of total revenue at year-end 2025, with its share increasing to 65.8% in 2030. Settlements under the financing system will remain at around 0.8%-0.9% of GDP, affected by the PIT tax-cutting measures adopted or currently planned, whose impact will run until 2028. Advance payments, meanwhile, will grow by an average of 5.9% over the period, increasing from 8.8% of GDP in 2025 to 9.6% in 2030.

Other revenue will lose weight, falling to 5.3% of GDP in 2030. Tax revenue and production-related revenue, together with the contributions made by the

Provincial Councils to the Basque Country, will broadly maintain their share of GDP, albeit with a slight decline at the end of the period. The recording of the 2021-2027 European funds is also forecast in line with the increasing implementation of expenditure financed by those funds up to 2029, adjusted to the financial programming and compliance with the n+3/n+2 rule. In 2030, the amount would fall as the new framework begins. Lastly, State transfers not associated with the financing system include the new Tax on Net Interest and Fee Income from 2026 to 2028. Earmarked transfers remain stable, although between 2026 and 2030 they incorporate the increase linked to the Housing Plan, offset in 2027 and 2028 by the withdrawal of temporary transfers, including transport aid and the youth rental voucher.

FIGURE 41. NET REVENUE EXCLUDING THE RTRP OF THE AUTONOMOUS REGIONS. (% GDP)



Source: IGAE and AIReF.

4.5.3.2 Expenditure of the Autonomous Regions

AIReF expects expenditure in the Autonomous Regions to stabilise over the medium term at 15.8% of GDP, with average growth of 4.2% over the period 2026-2030. The highest year-on-year growth rates over the period will generally be recorded in items associated with health and education expenditure, as well as interest expenditure.

TABLE 35. EXPENDITURE OF THE AUTONOMOUS REGIONS EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

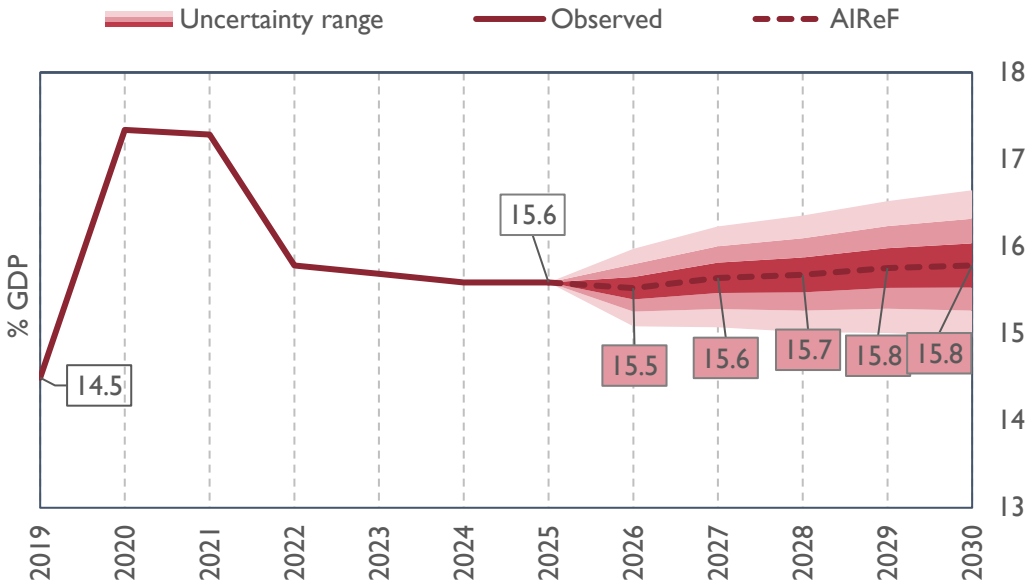
	Autonomous Regions					
	2025	2026	2027	2028	2029	2030
Net expenditure excluding RTRP	**15.6**	**15.5**	**15.6**	**15.7**	**15.8**	**15.8**
Intermediate consumption	2.6	2.6	2.6	2.6	2.6	2.7
Remuneration of employees	6.7	6.6	6.8	6.8	6.8	6.8
Social transfers in kind	2.4	2.4	2.4	2.4	2.4	2.4
Interest	0.4	0.4	0.5	0.5	0.5	0.5
Other current expenditure	1.9	1.9	1.8	1.8	1.8	1.8
Capital expenditure	1.6	1.6	1.6	1.6	1.6	1.6

Source: IGAE and AIReF

The main components of government consumption are affected by developments in expenditure associated with population ageing and the adoption of the new agreement with trade unions at national level. Once this agreement has ceased to apply, AIReF assumes that public-sector wages will rise in line with projected CPI inflation, plus the effect of the personnel measures planned by the Autonomous Regions. The rest of government consumption—mainly health and education—is projected using AIReF's medium- and long-term models, which incorporate the impact of ageing and average growth in expenditure unrelated to demographic factors. On this basis, health expenditure will grow by more than 4.5% on average, while average growth in education expenditure will be 4%.

The performance of the remaining expenditure is shaped by temporary measures and by the implementation of European funds and other conditional transfers. AIReF expects the measures planned to mitigate the effects of the DANA floods and storms to run until 2028, albeit on a declining profile. It also incorporates the higher expenditure associated with the new 2026-2030 Housing Plan, which requires 40% regional co-financing. From 2027 onwards, the smaller impact of natural-disaster measures and the end of expenditure financed through temporary conditional transfers from the State determine the change in current and capital expenditure not associated with the RTRP; this expenditure also records the increasing implementation of investments financed by the 2021-2027 European funds up to 2029, adjusted to the financial programming. Lastly, a slightly rising profile is estimated for interest expenditure.

FIGURE 42. NET EXPENDITURE W/O RTRP OF THE AUTONOMOUS REGIONS. (% GDP)



Source: IGAE and AIReF.

4.5.3.3 Individual forecasts for the Autonomous Regions

AIReF expects that, in almost all Autonomous Regions, eligible expenditure for the purposes of the national expenditure rule will grow above the set reference rates every year. In line with the position set out in the 15 April report, albeit with some changes mainly stemming from the update of European-fund estimates and new information on financially sustainable investments, AIReF estimates that in 2025 only La Rioja will keep its eligible expenditure within the 3.2% limit, although Galicia and Catalonia are very close to compliance. In 2026, no region would comply with the expenditure rule, although the deviations in La Rioja, Aragon, Cantabria and Catalonia would be moderate. In 2027, AIReF expects eligible expenditure to grow by more than 5% in all regions. In 2028, growth will be equal to or above 4% in all of them.

As regards primary expenditure net of revenue measures, average annual growth over the period 2025-2028 ranges from 3.8% to 6.2%. The most moderate changes would be recorded in 2026, partly due to the introduction of the new Tax on Net Interest and Fee Income, while the highest rates would be seen in 2027 as a result of pressure from personnel expenditure and, in some regions, the adoption of tax cuts. For 2028, AIReF estimates that in almost all Autonomous Regions the change in primary expenditure net of revenue measures will be around 4%.

TABLE 36. AIREF FORECAST FOR THE CHANGE IN ELIGIBLE EXPENDITURE UNDER THE NATIONAL EXPENDITURE RULE BY AUTONOMOUS REGIONS. 2025-2028 (% CHANGE)

Autonomous Regions	2025	2026	2027	2028
ANDALUSIA	6.4	5.0	7.3	5.0
ARAGON	3.7	4.4	7.3	4.8
ASTURIAS	5.6	6.9	7.1	4.7
BALEARIC ISLANDS	3.7	6.6	8.3	5.6
CANARY ISLANDS	8.0	5.0	7.1	5.2
CANTABRIA	9.2	4.5	6.8	4.7
CASTILE AND LEÓN	5.1	5.2	6.4	4.4
CASTILE-LA MANCHA	4.9	4.6	6.4	5.0
CATALONIA	3.8	4.4	5.6	5.1
EXTREMADURA	9.2	6.0	6.6	4.0
GALICIA	3.6	4.7	7.0	5.0
COMMUNITY OF MADRID	6.4	4.7	6.0	5.9
REGION OF MURCIA	6.5	5.2	7.1	4.5
CHARTERED COMMUNITY OF NAVARRE	3.5	2.4	9.6	6.5
BASQUE COUNTRY	5.2	4.8	5.4	4.0
LA RIOJA	3.2	4.2	5.2	4.5
VALENCIAN COMMUNITY	4.8	5.7	6.9	4.7
TOTAL AUTONOMOUS REGIONS	**5.6**	**4.7**	**6.6**	**4.9**

TABLE 37. AIREF FORECAST FOR THE AVERAGE CHANGE IN PRIMARY EXPENDITURE NET OF REVENUE MEASURES BY AUTONOMOUS REGIONS. 2025-2028 (% CHANGE)

Autonomous Regions	Average chg. 2025-2028
ANDALUSIA	5.8
ARAGON	4.6
ASTURIAS	5.6
BALEARIC ISLANDS	5.2
CANARY ISLANDS	5.5
CANTABRIA	5.9
CASTILE AND LEÓN	4.8
CASTILE-LA MANCHA	4.8
CATALONIA	4.3
EXTREMADURA	6.2
GALICIA	4.5
COMMUNITY OF MADRID	4.8
REGION OF MURCIA	5.6
CHARTERED COMMUNITY OF NAVARRE	6.0
BASQUE COUNTRY	4.9
LA RIOJA	3.8
VALENCIAN COMMUNITY	5.1
TOTAL AUTONOMOUS REGIONS	**5.0**

Source: IGAE and AIReF.

Over the medium term, most Autonomous Regions will improve their balance. The expected performance of the main regional revenue items and the moderation of growth in expenditure less affected by population ageing, together with the withdrawal of temporary expenditure measures, will allow almost all Autonomous Regions to improve their fiscal position from 2026. Nevertheless, this improvement will be slightly tempered from 2029 by the disappearance of the Tax on Net Interest and Fee Income, the intensity of implementation of expenditure financed by European funds and the moderation of growth in tax revenue.

TABLE 38. AIREF FORECAST FOR THE BALANCE BY AUTONOMOUS REGIONS. 2026-2030 (% GDP)

Autonomous Regions	2025	2026	2027	2028	2029	2030
ANDALUSIA	0.1	-0.1	0.5	0.3	0.3	0.1
ANDALUSIA without storms		0.5	0.6	0.3	0.3	0.1
ARAGON	-0.4	0.1	0.1	0.1	0.1	-0.1
ASTURIAS	0.5	0.6	0.0	0.2	0.3	0.0
BALEARIC ISLANDS	0.1	0.1	0.1	0.3	0.3	0.2
CANARY ISLANDS	0.1	0.5	0.7	0.7	0.7	0.6
CANTABRIA	0.3	0.4	0.7	0.8	0.7	0.7
CASTILE AND LEÓN	-0.3	0.0	-0.2	0.1	0.0	-0.2
CASTILE-LA MANCHA	-0.1	0.3	0.5	0.5	0.4	0.2
CATALONIA	-0.5	-0.2	-0.2	-0.1	-0.2	-0.3
EXTREMADURA	-0.1	-0.7	-0.3	0.0	0.3	-0.1
EXTREMADURA without storms		0.1	0.0	0.3	0.3	-0.1
GALICIA	0.2	0.6	0.5	0.6	0.5	0.3
COMMUNITY OF MADRID	-0.3	0.1	0.2	0.2	0.1	0.0
REGION OF MURCIA	-1.6	-1.2	-1.3	-1.2	-1.2	-1.2
CHARTERED COMMUNITY OF NAVARRE	2.0	1.6	1.4	1.5	1.6	1.6
BASQUE COUNTRY	0.1	0.3	0.3	0.5	0.6	0.7
LA RIOJA	-0.5	-0.5	0.0	0.1	0.0	0.0
VALENCIAN COMMUNITY	-2.5	-1.9	-1.7	-1.4	-1.2	-1.4
VALENCIAN COMMUNITY without DANA	-1.5	-1.4	-1.5	-1.3	-1.2	-1.4
TOTAL AUTONOMOUS REGIONS	**-0.4**	**-0.1**	**0.0**	**0.1**	**0.1**	**0.0**
TOTAL AR without DANA and storms	**-0.3**	**0.0**	**0.0**	**0.1**	**0.1**	**0.0**

Source: AIReF

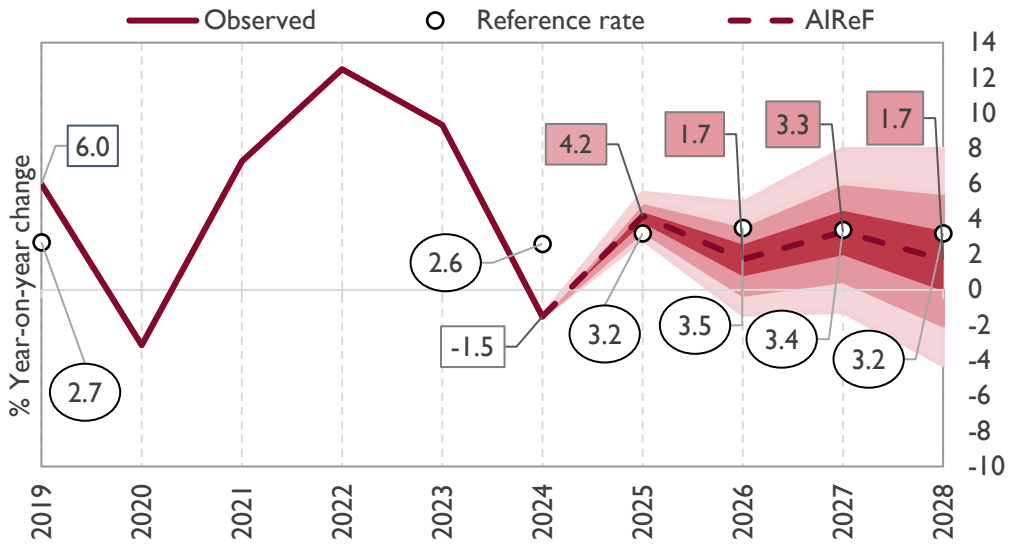
The detailed individual analysis is set out in the corresponding published reports. The individual reports published alongside this report contain detailed information on the medium-term forecasts for each of the Autonomous Regions.

4.5.4. Local Governments

AIReF expects eligible expenditure in the Local Governments, for the purposes of the national expenditure rule, to grow below the set limits until 2028. In 2025, eligible expenditure is estimated to change by more than 4%, which would lead to a breach of this fiscal rule in that year. In 2026, AIReF considers that the

subsector would comply with the national expenditure rule as a result of a larger contribution from investments financed with funds from other General Government authorities, linked to the DANA floods and storms, or through the RTRP, together with more moderate developments in other expenditure. The following year, as financed investments lose importance, the change in the subsector's eligible expenditure would approach the reference rate set for that year, but without exceeding it.

FIGURE 43. NATIONAL EXPENDITURE RULE. LOCAL GOVERNMENTS (% GDP)



Source: IGAE and AIReF estimate

In the 2025-2028 medium-term scenario, AIReF estimates average growth of 4.2% in primary expenditure net of revenue measures. For the Local subsector as a whole, and in the absence of additional measures, primary expenditure net of revenue measures will grow at an average rate of 4.2% over the period 2025-2028. After increasing by 2.4% in 2025, growth would rebound to above 5% in 2026 and 2027, contributing negatively to compliance with the European expenditure rule for GG as a whole. In the following years, growth rates are more moderate, although slightly above the commitment set out in the MTP. Considering the full period 2025-2030, average net expenditure growth would stand at 4%.

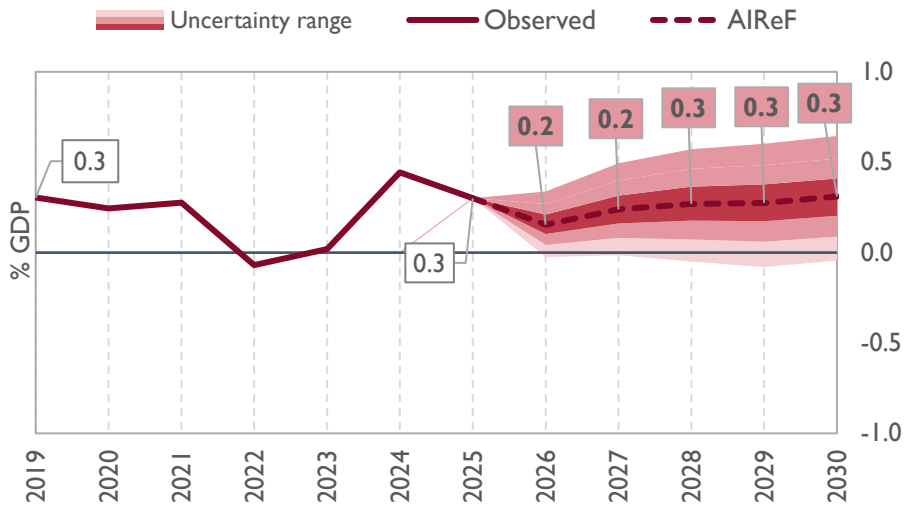
TABLE 39.AIREF FORECASTS FOR THE CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE UNDER THE NATIONAL AND EUROPEAN EXPENDITURE RULES. LOCAL GOVERNMENTS (% CHANGE)

Local Corporations	Forecast AIReF % change					
	2025	2026	2027	2028	2029	2030
Expenditure (excluding RTRP)	5.1	5.2	3.9	1.8	3.2	3.2
Expenditure (excluding RTRP, DANA and storms)	5.0	3.5	4.4	2.8	3.2	3.2
Eligible expenditure National spending rule	4.2	1.7	3.3	1.7		
Eligible expenditure European spending rule	2.4	5.3	5.9	3.2	3.5	3.6

Source: AIReF

AIReF estimates that the Local government subsector will maintain net lending of 0.3% of GDP until the end of the period. For 2026, a reduction of one-tenth of a point is expected relative to the balance recorded in 2025. In 2026 and 2027, implementation of extraordinary investment to mitigate the effects of natural disasters—the 2024 DANA floods and the series of storms at the beginning of 2026—will be significant. Although most of this expenditure is financed primarily by the State, there is a timing mismatch between the recording of revenue and the implementation of expenditure. From 2028 onwards, the subsector's surplus will stabilise at 0.3% of GDP.

FIGURE 44. TREND IN NET LENDING/BORROWING. LOCAL GOVERNMENTS (% GDP)



Source: IGAE and AIReF estimate

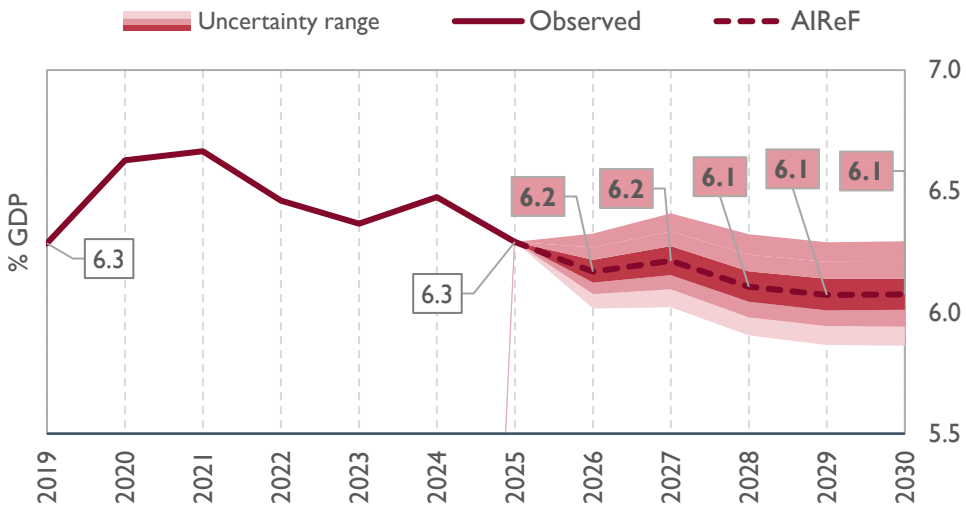
TABLE 40.REVENUE, EXPENDITURE AND BALANCE OF THE AUTONOMOUS GOVERNMENTS EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

	Local Governments					
	2025	2026	2027	2028	2029	2030
REVENUE	6.3	6.2	6.2	6.1	6.1	6.1
EXPENDITURE	6.0	6.0	6.0	5.8	5.8	5.8
BALANCE	0.3	0.2	0.2	0.3	0.3	0.3

Source: MINHAC and AIReF estimate

AIReF estimates that Local revenue will decline to 6.1% of GDP in the final years of the period, two-tenths of a point below the share recorded in 2025. This development is explained by the presence in 2025 and, to a lesser extent, in 2026 and 2027 of extraordinary revenue that is not repeated in subsequent years. Specifically, in 2025 the Local Governments received revenue of over EUR 2 billion linked to the effects of the DANA floods and, in 2026 and 2027, they will receive similar amounts overall associated with the series of storms in Andalusia and Extremadura. Stripping out these extraordinary events, revenue will grow at slightly above 3% in the subsequent years of the period considered, excluding RTRP funds, and will stabilise at 6.1% of GDP.

FIGURE 45. TREND IN REVENUE EXCLUDING THE RTRP. LOCAL GOVERNMENTS (% GDP)



Source: IGAE and AIReF estimate

By component, developments vary across the different revenue items. Taxes on income and VAT are the tax resources with the highest growth rates, averaging more than 6% a year and over 4%, respectively. Revenue associated with taxes on products and with fees and public charges grows at

more moderate rates, close to 4%. Current transfers from GG which mainly comprise financing-system resources, after moderate growth in 2025 and 2026 due to the partial offset between higher advance payments and lower settlements, rebound in 2027 and continue to perform well in the final years of the period, stabilising at 1.8% of GDP. Municipal taxes and other revenue, such as revenue from the European Union, grow more moderately and lose weight as a share of GDP.

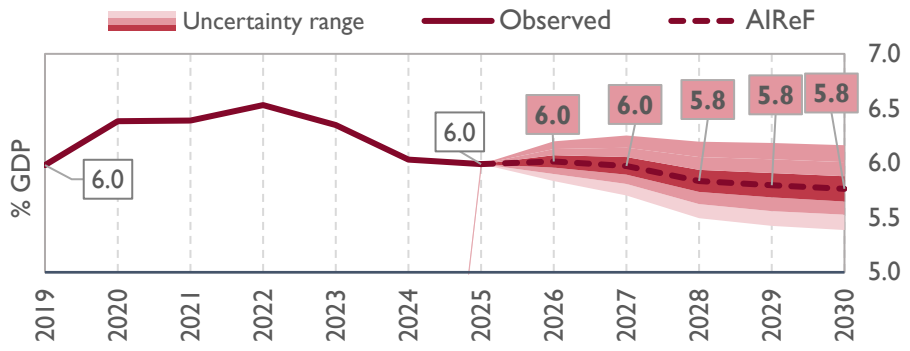
TABLE 41.REVENUE OF THE LOCAL GOVERNMENTS EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

	Local Governments					
	2025	2026	2027	2028	2029	2030
Net revenue excluding RTRP	**6.3**	**6.2**	**6.2**	**6.1**	**6.1**	**6.1**
SFA	1.6	1.6	1.8	1.8	1.8	1.8
EAC	*1.5*	*1.6*	*1.6*	*1.7*	*1.7*	*1.7*
Net settlement	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Other production taxes	1.1	1.1	1.1	1.0	1.0	1.0
VAT	0.5	0.5	0.5	0.5	0.5	0.5
Personal income tax, Corporate Income Tax	0.6	0.6	0.6	0.6	0.6	0.6
Other taxes	0.6	0.6	0.5	0.5	0.5	0.5
Sales	0.6	0.6	0.6	0.6	0.6	0.6
Other revenues	1.3	1.2	1.2	1.1	1.0	1.0

Source: AIReF estimate

AIReF expects the weight of expenditure in GDP to decline gradually to 5.8% in 2030, two-tenths of a point below the 2025 level, after taking into account the impact of the RTRP. In 2026, Local expenditure will grow by more than 5%, driven partly by the expenditure to be implemented by the Local Governments affected by the DANA floods and by the series of storms. In subsequent years, total non-financial expenditure is expected to grow by close to 3% a year on average, leading to a slight and gradual decline in its share of GDP.

FIGURE 46. TREND IN EXPENDITURE EXCLUDING THE RTRP LOCAL GOVERNMENTS (% GDP)



Source: IGAE and AIReF estimate

Growth in current expenditure will be higher than in capital expenditure, excluding the RTRP. Compensation of employees is estimated to grow at average annual rates close to 3%, except in 2027, when it would grow by more than 5% as a result of the pay improvement measures agreed by the Government. Intermediate consumption will grow by more than 3%, while transfers from GG will increase at an annual rate of 5% as a result of developments in the contribution made by the Provincial Councils to the Basque Autonomous Region. Capital expenditure will grow more slowly than current expenditure, although the pattern will be uneven over the period. In particular, gross capital formation, affected by the DANA and storm measures, will intensify in 2026 and 2027, while more moderate growth is expected in the remaining years of the period.

TABLE 42.EXPENDITURE OF THE LOCAL GOVERNMENTS EXCLUDING THE RTRP (% GDP). AIREF MEDIUM-TERM PATH

	Local Governments					
	2025	2026	2027	2028	2029	2030
Net expenditure excluding RTRP	**6.0**	**6.0**	**6.0**	**5.8**	**5.8**	**5.8**
Intermediate consumption	2.0	2.0	1.9	1.9	1.9	1.9
Remuneration of employees	1.9	1.9	1.9	1.9	1.9	1.9
Contributions from Provincial Councils Basque Country Autonomous Region	0.8	0.8	0.8	0.8	0.8	0.9
Other corr expend. (chartered provincial council transfers and contributions)	0.6	0.6	0.6	0.5	0.5	0.5
Capital expenditure	0.7	0.7	0.8	0.7	0.7	0.7

Source: AIReF

5. PUBLIC DEBT

5.1. Total General Government

5.1.1. Comparison of outturn in 2024 and 2025 vs. MTP

The debt-to-GDP ratio has followed a more favourable path than envisaged in the MTP. This has occurred despite INE's September 2025 revision, which reduced 2023 GDP by two-tenths and therefore implied an initial debt-to-GDP level two-tenths higher than that assumed in the MTP. Stronger real growth and a lower interest burden than projected in the MTP are the main factors contributing to this more favourable outcome. By contrast, the primary deficit and the stock-flow adjustment have been higher than forecast, while the deflator has been lower than projected, limiting the reduction in the debt-to-GDP ratio and putting upward pressure on it.

FIGURE 47. DEBT (% GDP)

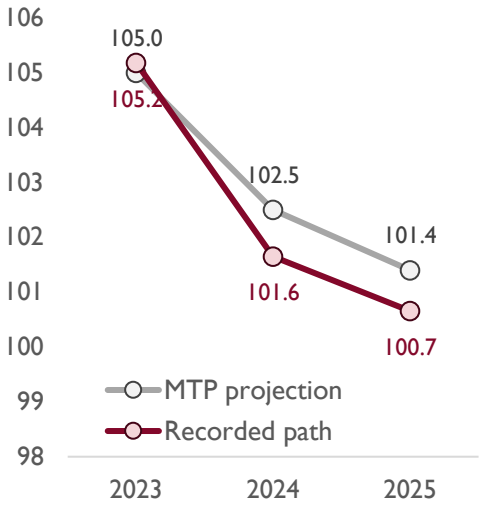
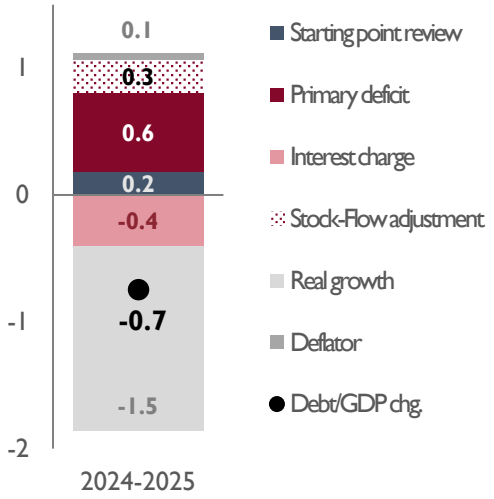


FIGURE 48. DIFFERENCES IN THE DEBT RATIO RELATIVE TO THE MTP (CUMULATIVE 2024-2025)



Source: Ministry of Economy, Bank of Spain and AIReF

5.1.2. Recent developments and medium-term forecasts

The public debt-to-GDP ratio stood at 100.7% at the end of 2025, a reduction of 2.4 points relative to the third quarter of 2025 and 0.9 points over the year. The cumulative reduction from the peak reached in the first quarter of 2021 (124.2%) amounts to 23.4 points. In absolute terms, using the February 2026 data, public debt stood at EUR 1.723 trillion, representing year-on-year growth of 4.7%.

However, the pace of reduction in the ratio has slowed, in line with more moderate nominal GDP growth. Economic growth has been the main driver of the decline in the ratio since the pandemic. Over the period 2021-2025, growth contributed 43 percentage points of GDP to the reduction in the debt ratio. The downward trend in the primary deficit has helped consolidate this reduction, despite the increase in the interest burden.

FIGURE 49. *DEBT (% GDP), QUARTERLY TREND*

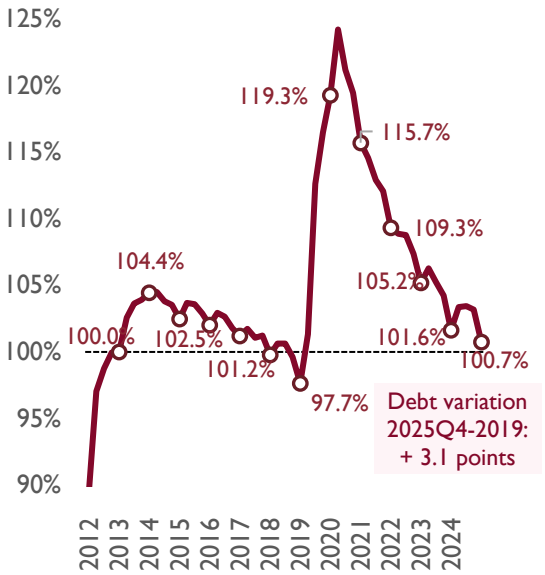
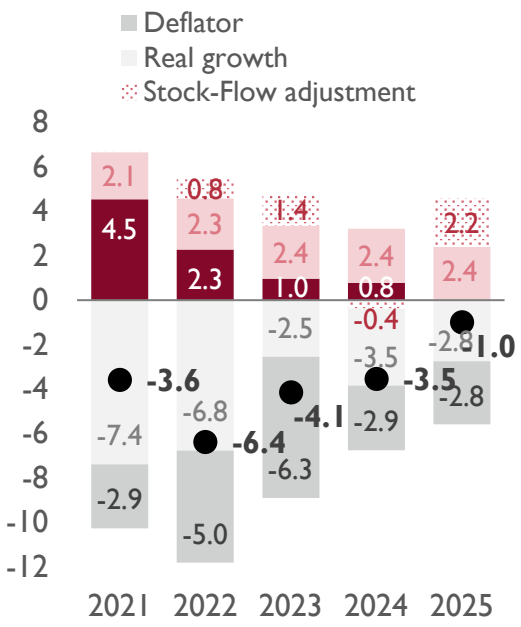


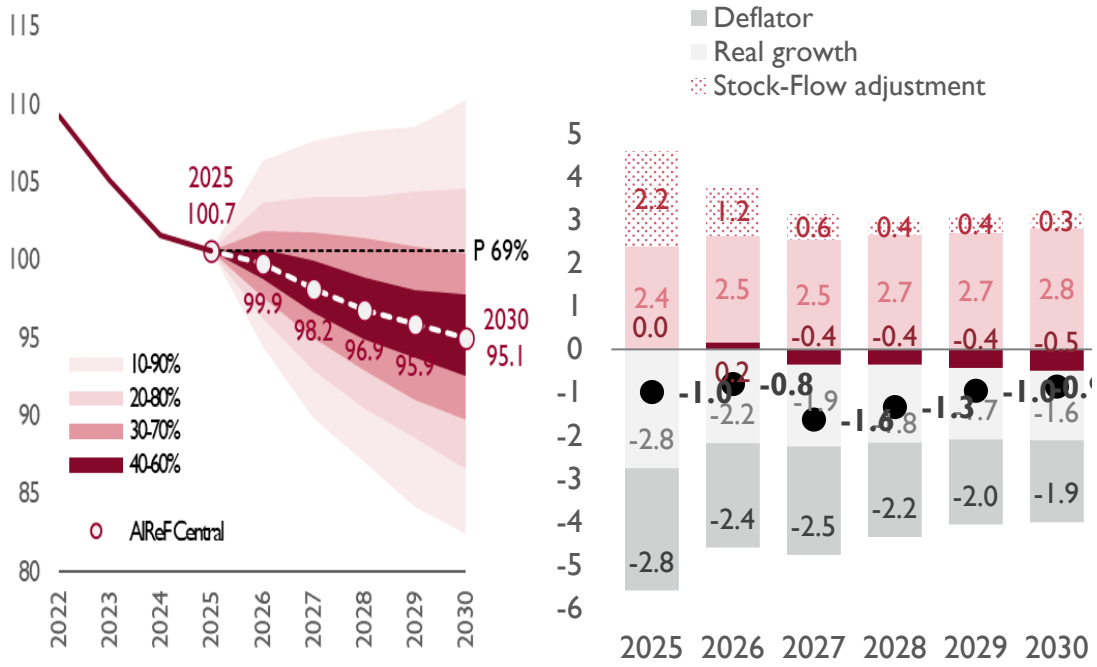
FIGURE 50. *CONTRIBUTIONS TO THE CHANGE IN DEBT (POINTS OF GDP)*



Source: Bank of Spain, INE and AIReF

In its inertial medium-term projection, AIReF estimates a 5.6-point reduction in the debt ratio relative to its 2025 level, bringing it to 95.1% in 2030. This reduction will be supported by nominal GDP growth (20.1 points), with a particularly large contribution from the deflator (11 points). Over the medium term, an improvement in the primary balance relative to the past is projected, with primary surpluses contributing 1.5 points to debt reduction. Interest expenditure, meanwhile, will amount to 13.2 points, while the stock-flow adjustment will moderate over the projection horizon, with a cumulative contribution of 2.8 points over the period as a whole.

FIGURE 51. DEBT FORECASTS (% GDP) AND CONTRIBUTION TO THE CHANGE



Source: AIReF

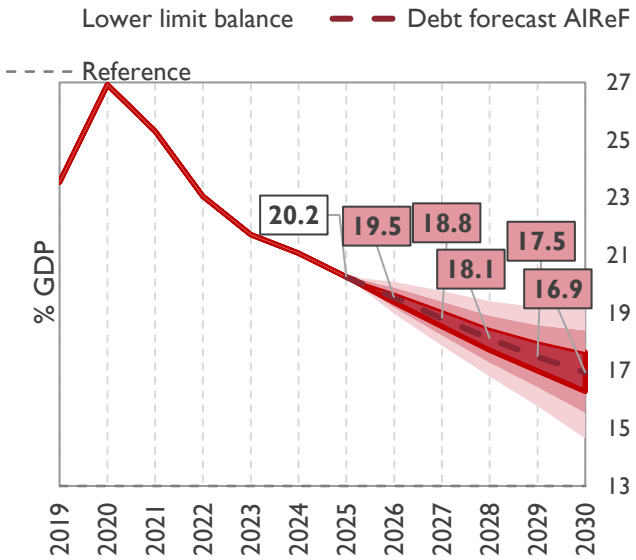
The pace of reduction in the debt ratio is projected to slow and is expected to come to a halt by the middle of the next decade. The moderation in the contribution from nominal growth, which will gradually decline over the period 2025-2030 (from 5.6% to 3.5%), together with the increase in interest expenditure (from 2.4% to 2.8%) and a primary balance stabilising at around 0%, will translate into a slowing pace of reduction in the debt ratio, which will come to a halt by the middle of the next decade.

5.2. Autonomous Regions and Local Governments

AIReF estimates that, under an unchanged-policy regulatory scenario, the debt-to-GDP ratio of the regional subsector would decline over the medium term but would still remain above 13% in 2030. Since the fiscal balances projected for the subsector as a whole fluctuate around balance, expected GDP developments are the only significant factor explaining the reduction in the debt ratio over the medium term. This result is obtained 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, together with the absence of new fiscal policy measures. However, the pace of reduction would be very moderate, with the ratio standing at around 17% in 2030. This path, together with expectations for

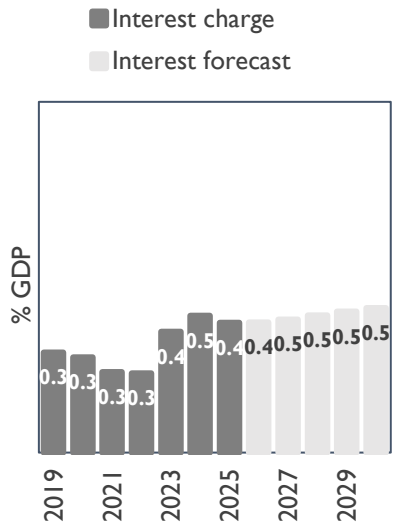
financial markets, would lead the interest burden to increase slightly as a share of GDP over the period 2026-2030.

FIGURE 52. MEDIUM-TERM DEBT FORECASTS FOR THE AUTONOMOUS REGIONS IN THE MEDIUM TERM (% GDP)



Source: Bank of Spain and AIReF

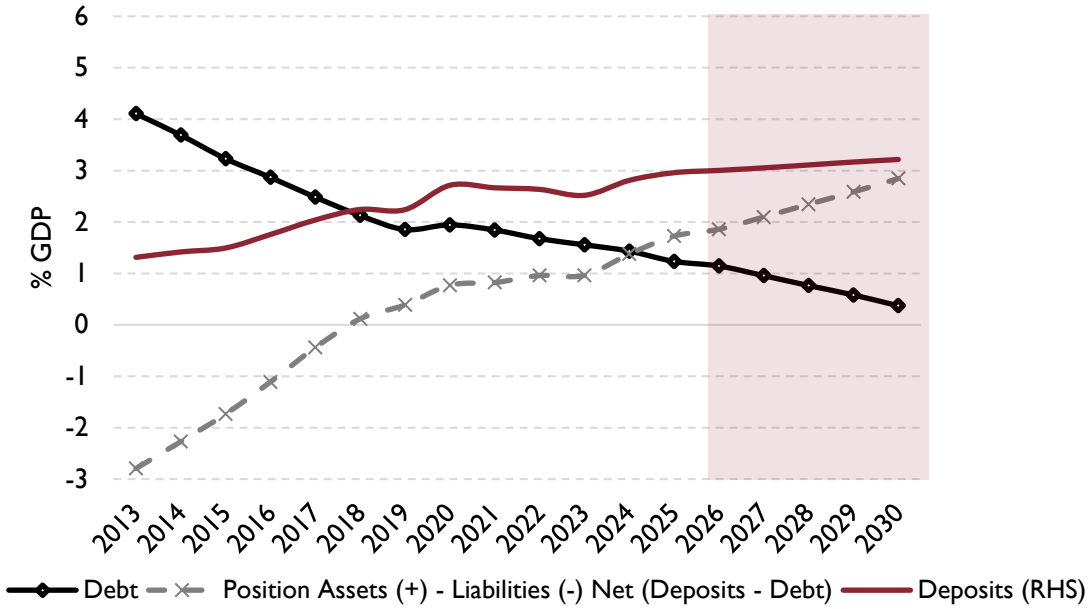
FIGURE 53. INTEREST BURDEN (% GDP)



Source: IGAE and AIReF

For Local Governments, AIReF expects an improvement in the net position (deposits less debt) of just over one point of GDP in 2030 relative to 2025. The improvement in the net position is due to a gradual decline in Local Governments' debt as a share of GDP, from 1.2% of GDP at the end of 2025 to 0.3% in 2030, as a result of the continuous surpluses expected throughout the period. This improvement in the net position is also supported by an increase in the deposits held by Local Governments with banks, which would rise by three-tenths of a point of GDP to 3.2% at the end of the period, as a result of the expected consolidation of the Local surplus.

FIGURE 54. TREND IN LOCAL GOVERNMENTS' DEBT AND DEPOSITS



Source: Bank of Spain and AIReF

6. RECOMMENDATIONS

6.1. New recommendations

A realistic and credible medium-term fiscal strategy

The recently reformed European fiscal framework currently coexists with the national fiscal framework in force since 2012. AIReF has already set out the reasons why reform of the national fiscal framework is necessary and has made specific proposals in this regard. This report once again highlights the problems arising from the lack of alignment between the two frameworks.

Compliance with both the national and European fiscal frameworks requires the adoption of measures that would improve sustainability, although they differ both in scale and in timing. Whereas national legislation requires measures to be applied as early as 2026, the European framework would allow them to be delayed until 2027. Moreover, unlike the national framework, the European fiscal framework does not allocate responsibility for implementing the measures among the subsectors that make up GG.

At the same time, the national fiscal framework has not become fully operational again following the end of the suspension of the fiscal rules. To date, no budgetary stability or debt targets have been approved again to guide the actions of the different government authorities alongside the expenditure rule. This is compounded by the failure to present a draft General

State Budget since 2023 or a Budgetary Plan in the last two years, further disrupting the budgetary cycle and hampering fiscal oversight.

The current implementation of the European fiscal framework is also falling short of the expectations raised by its reform and, in practice, diverges from some of its principles. The MTP submitted by Spain represents a commitment regarding the development of primary expenditure net of revenue measures, but lacks the elements needed to be considered a genuine fiscal strategy setting out how those commitments will be met.

In this context, **AIReF recommends that the Ministry of Finance**:

1. **Develop a realistic and credible medium-term fiscal strategy that ensures coordinated compliance with the national and European fiscal frameworks across all GG, including the approval of budgetary stability and debt targets ahead of the start of the 2027 budgetary processes.**

6.2. Repeated recommendations

Expand the content of the Annual Progress Report and request endorsement of the macroeconomic forecasts

The 2026 Annual Progress Report, sent to the European Union on 30 April, reports on progress made in complying with the fiscal commitments assumed in the MTP, as well as on progress in implementing the investments and reforms that underpin them.

Although the European reform has been a step in the right direction by placing the sustainability of public finances at the centre and strengthening the medium-term perspective, the content of the 2025-2028 MTP has not made it possible to take full advantage of its potential. For this reason, in its report on the MTP, AIReF recommended using the transposition of the Directive on National Fiscal Frameworks, scheduled for December 2025, as an opportunity to establish a robust, credible and effective medium-term budgetary framework.

In AIReF's view, this reform should not be limited to formal compliance with the minimum requirements established by European legislation, but should be undertaken in the belief that there are intrinsic benefits to having a sound national fiscal framework, particularly in a decentralised country, as set out in the Opinion on the Reform of the National Fiscal Framework.

Similarly, the Annual Progress Reports for 2025 and 2026, despite complying with the European Commission's guidance, do not contain sufficient information to make a proper assessment of compliance with the fiscal commitments over the reference period 2025-2028.

First, the update of the forecasts is insufficient, as the report only updates the fiscal forecasts to 2026 and the macroeconomic forecasts only partially. This lack of ambition weakens the medium-term orientation of fiscal policy and hampers the early identification of risks of deviation from the MTP commitments.

Moreover, since these Government macroeconomic forecasts could be used throughout the budgetary procedure by the various government authorities, it would be advisable to obtain AIReF's endorsement or, at least, to establish a technical dialogue before the macroeconomic scenario is presented.

Second, although compliance with the European expenditure rule concerns GG as a whole, the report does not provide a breakdown by subsector aligned with the aggregate information for total GG. In a decentralised country such as Spain, it is essential to know each subsector's contribution to compliance with the fiscal commitments, as this information helps ensure compliance with the overall path and manage possible offsets between subsectors.

AIReF therefore reiterates its **recommendation to the Ministry of Finance**:

2. **Expand the information included in the Annual Progress Report:**
   - **Update the fiscal forecasts through to the end of the Medium-Term Fiscal-Structural Plan period.**
   - **Include the changes in primary expenditure net of revenue measures for all years of the Medium-Term Fiscal-Structural Plan, providing the calculation for each year.**
   - **Break down the change in primary expenditure net of revenue measures by subsector, indicating each subsector's contribution to compliance with the European expenditure rule.**

AIReF also reiterates its recommendation to the Ministry of Economy, Trade and Enterprise:

3. **That endorsement of the macroeconomic table accompanying the Annual Progress Report be requested, or that a technical dialogue be established with AIReF before its publication**.

The President of AIReF

Inés Olóndriz de Moragas