

New spending ceiling for 2025 and higher deficits for regional and local governments.

The **key takeaways** from the recently approved spending ceiling for 2025 and the new 2025-2027 stability roadmap:

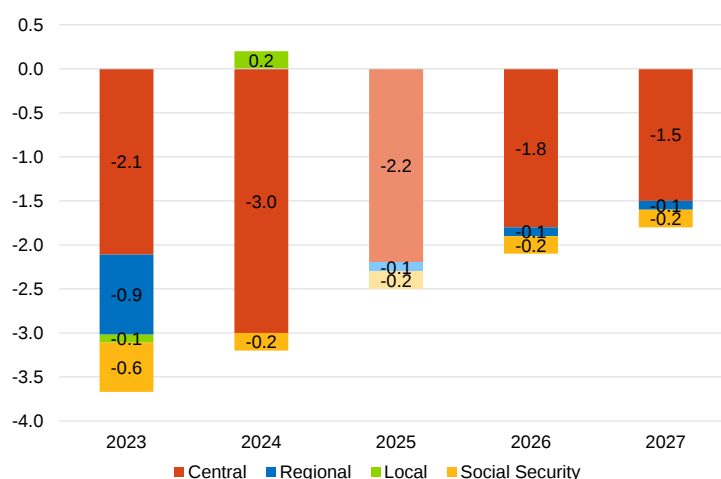
The new stability targets and roadmap are in line with the reinstated fiscal rules.

The public deficit is expected to come down by 0.5pp to 2.5% of GDP in 2025.

As much as 0.6pp of the state deficit is being reallocated to the rest of the subsectors, which will have more room to spend in 2025.

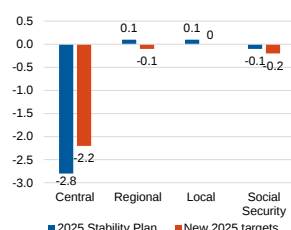
1. **The new stability roadmap targets to 2027 reflect a gradual reduction in the aggregate public deficit, in line with the new fiscal rules.** The total deficit projected for 2025-2027 is below the threshold of 3% of GDP in nominal terms. However, under the new fiscal framework, that effort needs continue until the structural deficit is reduced to 1.5%.
2. **In 2025, the deficit is expected to come down by 0.5pp, from 3% of GDP in 2024.** The deficit burden will fall to the state, which is expected to reduce its deficit by 0.8pp, to 2.2%. That allows the state to give the other levels of government more room for manoeuvre, particularly the regional governments and Social Security, whose deficit target for the coming years is unchanged. Specifically, they are now allowed to present a deficit of 0.1pp and 0.2pp of GDP, respectively. The local governments are expected to present balanced budgets.

Exhibit 1. Deficit by level of government.
Actual 2023 figures and forecasts and targets for 2024-2027.



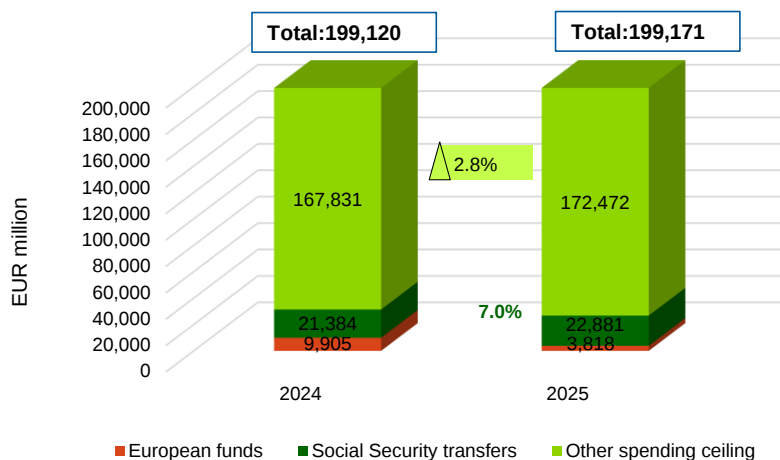
Source: Ministry of Finance and Government

Exhibit 2. New 2025 targets vs. Stability Plan
Source: Ministry of Finance and Government



The spending ceiling has been set at €199.17 billion, similar to the 2024 ceiling.

3. **The changes compared to the targets set out in the last Stability Programme affect the overall deficit targets for 2025 and 2026, as well as the breakdown by subsector.** The new targets are more stringent as a whole: from 2.7% to 2.5% of GDP in 2025; and from 2.5% to 2.1% in 2026. The targeted deficits have also been re-apportioned among the various subsectors so that most of the belt tightening falls to the state government (which now has to cut its deficit by one point more in 2026 than previously targeted), leaving the other levels of government with more room for spending. The regional and local governments no longer have to deliver a budget surplus but can now incur a deficit of 0.1pp of GDP in the case of the former and zero in the case of the latter. The Social Security's deficit target is unchanged, at 0.2pp.
4. **The spending ceiling for 2025 has been announced at €199.17 billion, virtually unchanged from the 2024 equivalent of €199.12 billion.** Excluding the RRF funds and forecast transfers to the Social Security (€22.88 billion, growth of 7%), the spending ceiling falls to €172.47 billion, which marks **growth of 2.8% from 2024 but is below the benchmark rate of 3.2% (including transfers to the Social Security).**

Exhibit 3. Trend in the spending ceiling in 2024 and 2025.


Source: Ministry of Finance and Government

Stripping out transfers to the Social Security (up 7%), the spending ceiling increases by 2.8%.

In terms of nominal GDP, the cap on non-financial spending implies a year-on-year reduction of 0.2%.

The regional financing system (outside the spending ceiling) funds are expected to increase below the benchmark rate¹, thanks to a sharp decrease in the definitive settlements payable in 2025.

5. Moreover, in terms of nominal GDP, according to Afi's forecasts, the level of spending approved by the Cabinet, without considering the European funds, is equivalent to 12.1% of GDP, down 0.2pp from the previous year. This forecast signals a more restrictive budget on the spending side with a view to complying with a more stringent deficit consolidation roadmap.
6. Recall that the spending ceiling does not include the spending contemplated under the territorial financing systems, which operate under their own rules. Also, the impact on the state's accounts of the annual disbursements under the system affect both the expenditure side of the budget while reducing the revenue corresponding to the state via tax revenue sharing arrangements. Regardless, as the government announced yesterday, the forecast funding for the regional governments under the regional financing scheme is 2.5% lower in cash terms in 2025, which is likewise below the benchmark rate.

¹ Benchmark rate under the spending rule contemplated in the Budget Stability and Financial Sustainability Law, expressed in relation to eligible spending. Another matter is the technical trajectory to be established by Brussels next autumn, which applies to net primary spending.