

Our deficit forecast is in line with the deficit target of the Medium- and Long-Term Fiscal Plan for 2025

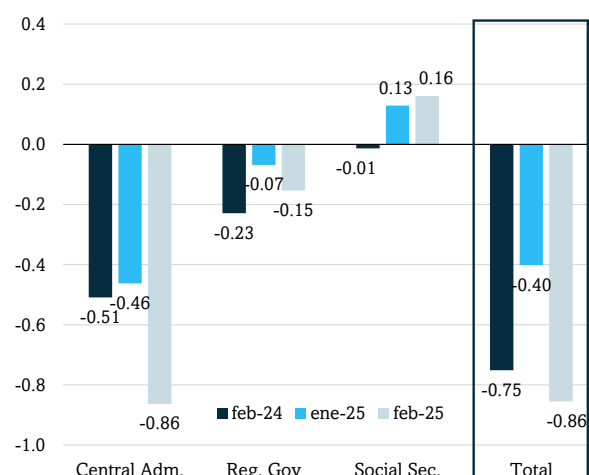
1. Consolidated deficit of the Public Administrations (without local administrations) until February

The deficit of the General Government as a whole, excluding the local sector, amounts to **14,357 million euros** (+20.1% compared to the figure for February 2024), explained by the behaviour of the central government (in more detail below). In relative terms, the **negative non-financial balance is equivalent to 0.86% of GDP**, one tenth higher than the figure obtained up to Feb-24. The expenditure associated with the DANA imputed up to February amounts to 1,891 million euros, so the **deficit for the purposes of meeting the target would stand at 0.74% of GDP**.

The **regional sector recorded an improvement in the deficit to -0.15% GDP** (compared to -0.23% GDP up to Feb-2024), thanks to the increase in non-financial revenues (+7% YoY), among which the dynamism in the collection of ceded taxes such as ITP and AJD (+27.4% YoY) should be highlighted. This performance of resources has made it possible to absorb the growth in non-financial expenses (+3.4% YoY), mainly linked to the remuneration of employees.

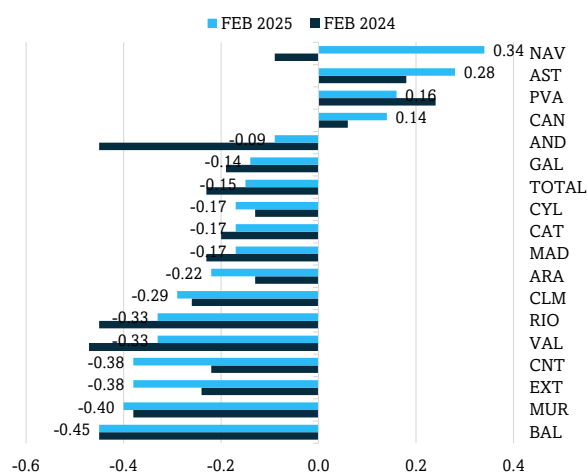
As for the **Social Security Funds, a surplus of 0.16% GDP has been obtained** compared to the budgetary balance recorded in the same period of the previous year. On the one hand, there was a substantial growth in non-financial income (+14.3% YoY), mainly justified by the higher rate of budget execution of transfers received from the State to 7,182 million euros (+70.3% YoY). In addition, social contributions grew at rates of 7.1% YoY, which includes the increase of one tenth of the percentage of the Intergenerational Equity Mechanisms (MEI) to 0.8%. For its part, pension expenditure increased by 6.3% YoY after applying a less intense revaluation of contributory pensions than in 2024 (2.8% vs 3.8%).

Figure 1. Evolution of the deficit by sector (% of GDP)



Source: IGAE

Figure 2. Evolution of the deficit by Autonomous Community (% GDP)



Source: IGAE

2. State deficit up to the first quarter.

The **State closes the first quarter of 2025 with a deficit of 0.22% of GDP**, which represents an **increase of two tenths of GDP compared to the 2024 record** for the same period.

This deterioration is explained by the imbalance between the increase in non-financial resources (+6.2% YoY) and **non-financial expenditure, which rose significantly to 11.5% YoY**. This strong advance is explained by the evolution of transfers between public administrations (+11.4% YoY; 60% of total expenditure) with an increase of 4,392 million euros more than in 2024, driven by **the transfer made to the local government to finance DANA expenditure of 1,757 million, which contributes to the total rate of change with 2.7 pp¹.**, and the faster pace of budget execution of some items, included in the transfers to the Social Security System. In addition to this unique impact, there was a special acceleration in three expenditure headings, such as **interest** (+17.3%, +€1,121 million), encouraged by the rise in interest rates in the first part of the year, the **contribution to the EU from VAT and GNI resources** (+32%, +€761 million) and **subsidies²** (+57.2%, +€629 million). Discounting the combined effect of these increases, **non-financial expenditure would have stood at a growth of 5.8%, more in line with that of non-financial income**. It should be noted that the impact of the increase in expenditure associated with the Remuneration of employees will be cushioned throughout the year, since the timing of the application of salary updates is not homogeneous in both years.

Table 1. Evolution up to March of the main tax figures in terms of homogeneous income (millions of euros)

	MAR. 2024	MAR. 2025	% YoY 25/24	DEC. 2024	% YoY 24/23
Direct taxes	33,342	37,136	11.4%	175,779	8.9%
<i>Personal income tax</i>	<i>32,410</i>	<i>35,656</i>	<i>10.0%</i>	<i>130,867</i>	<i>8.4%</i>
Corporate income tax	-68	-296	336.1%	39,344	8.5%
Other taxes	1,000	1,776	77.6%	5,568	26.2%
Indirect taxes	32,620	35,493	8.8%	118,985	6.5%
<i>VAT</i>	<i>26,185</i>	<i>28,488</i>	<i>8.8%</i>	<i>90,380</i>	<i>6.5%</i>
Special taxes	5,007	5,365	7.1%	22,628	6.4%
Other taxes	1,428	1,640	14.8%	5,977	5.6%
TOTAL TAX REVENUE	65,962	72,629	10.1%	294,764	7.9%

Source: Afi, IGAE.

¹ This item, in terms of national accounts, is exempt from compliance with the fiscal rules as it is expenditure aimed at alleviating the effects of the DANA, **which would place the deficit for the first quarter for these purposes at 0.12% of GDP**. In cash terms, a total of 1,954 million have been accounted for in the program of contingencies associated with the Isolated Depression at High Levels (DANA) of 2024. On the other hand, it should be taken into account that the effects of the measures implemented by the extension of the general payment periods for taxpayers with tax domicile in the territorial area affected by the DANA have also been recorded, in the opposite direction.

² It includes the coverage by the State of part of the costs of the electricity system for an amount of 1,403 million in 2025, compared to 806 million in 2024.

A positive pulse of the collection dynamics is maintained with a 10.1% growth compared to the first quarter of 2024. The main tax figures, both Personal Income Tax (+10% YoY) and VAT (+8.8% YoY) are registering higher rates of variation than those at the end. The exceptional performance in VAT, higher by more than two percentage points compared to December 2024, is explained, among other reasons, by the fact that in the first three months of 2025 the VAT tax rates on electricity and food correspond to the original rates, while, in the same period of 2024, low rates were still applied.

3. Revision of the public deficit forecast for 2025.

Spain closed 2024 with a deficit of 2.8% GDP without taking into account expenditure linked to the DANA, expenditure not included in the deficit for the purposes of the Excessive Deficit Protocol (3.2% GDP if included). Although the result is below the 3% GDP that marks the exit from the EDP, the application of the new fiscal rules forces the deficit to continue to be reduced to 1.5% of GDP – in order to generate a preventive buffer. However, the rate of reduction of this will be less demanding, 0.25% per year, as Spain has a Medium-Term Fiscal and Structural Plan (PFEMP) 2025-2028 approved by the Commission. For practical purposes, **the deficit forecast in the PFEMP for 2025 of 2.5% GDP would be in line with the requirement of the fiscal rules in terms of budgetary stability.**

Under this scenario and after knowing today the figures for the State's execution in the first quarter of the year and the consolidated deficit without local administrations until February, we have the set of data that allow us to update the deficit forecast for the year. Assuming the budget extension of the central government for the current year, **we revise our deficit forecast to 2.3% of GDP, excluding expenditure linked to the DANA and defence.** With the DANA effect and defence spending, the deficit would amount to 2.8% of GDP. This figure shows that, according to our forecast, compliance with the deficit foreseen in the PFEMP (2.5% GDP) could be achieved with some ease. For our estimate, **a nominal growth of the economy of 5.1% y.o.y. has been taken into account.** and is supported by the following **hypotheses** by subsectors:

- **Status:** we estimate a growth in total revenue collection in 2025 of 5.5% YoY, which would represent a certain slowdown compared to the 7.9% YoY at the end of 2024, in line with a 1.1 pp. decline in the evolution of nominal GDP forecast for this year. This result includes the structural impact of the tax measures contained in 2023 and, in line with AIREF's assessments, we estimate that the temporary measures will have a neutral impact in 2025³. The expected evolution of non-financial expenditure means that the expenditure rule (+3.2% y-o-y.) will be exhausted at the end of the 2024 expenditure ceiling, discounting extraordinary expenditure on capital transfers as a result of the effects of unfavourable rulings for the State in tax matters in the previous year (four tenths of GDP). With these considerations, **the State deficit would stand at 2.1% of GDP⁴.** This would imply a consolidation of four tenths compared to 2024.
- **Autonomous Communities:** on the non-financial income side, we estimate a growth of 3.2% YoY compared to the end of 2024, in line with what was included in the report prepared by the

³ On the positive side, due to the partial recovery of revenue lost in 2024 due to the re-establishment of certain limits on Corporate Income Tax through the entry into force of Law 7/2024 of 20 December, and on the negative side, due to the repeal from 2025 of the temporary tax on the energy sector (1,164 million in 2024).

⁴ Not including measures to mitigate the impact of the DANA, or increases in defence spending, which are discounted for the purposes of the deficit target

Ministry of Finance of the initial Budgets of the Autonomous Communities. This is due to i) the increase in Regional Financing System (SFA) resources (+3,700 million euros), mainly due to payments on account - we expect that before the end of the year they will be updated, as happened in 2024-, and ii) that revenues not linked to the SFA will grow at 4.4% y.o.y., supported mostly by the good performance of the Transfer Tax and Stamp Duty (ITP and AJD). Regarding non-financial expenses, we forecast a growth of 3.2% y.o.y. compared to the 2024 settlement, in line with the expenditure rule, which would imply a growth of 1.2 p.p. higher than that contemplated in their initial budgets. With all this, the **deficit of the regional sector would stand at one tenth of GDP by 2025.**

- **Local Corporations: we estimate a reduction in the surplus of the local sector to two tenths of GDP**, justified by a lower intensity of revenue growth – the resources linked to the financing system only grow by 378 million euros – and by the acceleration of expenditure, which would grow in line with compliance with the expenditure rule (3.2% YoY).
- **Social Security:** the expected growth of the main item of Social Security income, social contributions, will slow down to rates of 5.9% YoY (compared to 7.1% YoY at the end of 2024), in line with the evolution of economic growth forecast in our scenario. With regard to the second source of financing for this subsector, transfers received from other Public Administrations, mainly from the State, we maintain the volume received during the previous year stable, which exceeded the amount included in their initial budgets by 10%. On the pension side, we estimate growth of 6% YoY, compared to 7.2% in 2024, due to the effect of a lower pension revaluation. Keeping the rest of the items constant, the **Social Security deficit would improve slightly by two tenths to stand at 0.3% of GDP.**

Finally, it should be taken into account that **any increase in defence spending planned in the coming years is exempt from compliance with the fiscal rules**, as well as the expenditure associated with alleviating the effects of the DANA. However, this exemption does not prevent associated non-financial expenses from having an impact on the deficit forecast for 2025 and subsequent years.

The **Industrial and Technological Plan for Security and Defence for 2025** published on 23 April by the Government anticipates that the financing planned to undertake an investment of 10,471 million euros is made up of **savings generated and credits from the Recovery Plan**, thus minimising the impact on the deficit. In the absence of further details on the planned sources of financing, we understand that the intention is to take advantage of the margin caused by the liberalisation of expenditure from the previous year, which is not replicated in 2025. Under the assumption that revenue levels are maintained, this could have a neutral effect on the deficit by replacing one type of expenditure with another in the field of defence.

Therefore, in light of the detail known in the Plan, we estimate that the impact could be limited to 1) the execution of the **Contingency Fund** (1,395 million euros) and 2) the application to non-financial expenditure of the **lower liquidity fund needs of the Autonomous**

Communities. (2,819 million euros), to the extent that its liberalisation was applied to the execution of non-financial expenditure, instead of financial operations⁵.

Without prejudice to revisions of future publications to quantify the added impact on the deficit in this way, the items a priori affected would add up to **a total maximum of 0.25% tenths of GDP by 2025.**

Table 2. Closing deficit 2024 and forecast 2025 (% GDP)

	2024	2025		
		Afi	AIReF	Govern.
Central Adm.	-2.6	-2.1	-2.0	-2.2
Reg. Gov	-0.1	-0.1	-0.4	-0.1
Local Gov	0.4	0.2	0.3	0.0
Social Sec.	-0.5	-0.3	-0.3	-0.2
TOTAL*	-2.8	-2.3	-2.4	-2.5
DANA + defense (2025)	-3.2	-2.8	-2.7	

* No DANA resources or defense expenses

Source: Afi, AIReF, Government.

⁵ With regard to the **planned loan repayments** (financial income in national accounts amounting to 1,680 million euros), we understand that they will be applied to the promotion of financial instruments launched by the same bodies that recover the revenues, without impacting the deficit (CDTI, SETT, SEPIDES, ICO, among others). However, we will continue to review future publications to review the added impact on the deficit in this way.