



Methodological scheme of the report on macroeconomic forecasts included in the draft Budget for 2015

The Organic Law creating AIReF disposes that macroeconomic forecasts included in the draft budgets of all Public Administrations shall be based on a report issued by the AIReF and will state if such forecasts have been endorsed by it.

The government should previously request to the Independent Authority for Fiscal Responsibility to issue the report, which shall be taken into account in order to draw up the final forecasts to be included in their draft budget.

To that effect, the report shall be submitted to the government some days before the scheduled approval of the draft budget for 2015.

The preparation of the report requires prior submission of relevant documents. As the law does not specify a deadline

for the publication of the report, the general provision is that the relevant information should be provided by the authorities 10 days before the intended date of publication of the report. Nevertheless, the term of 10 days may be reduced for urgency reasons. In any case, the Administration should submit the documentation needed for the preparation of the report within a reasonable term.

The report will be released on the same day that the draft Budget is approved by the Council of Ministers.

This resolution of the President of AIReF defines and makes public the specific aspects to evaluate in the report, its methodology and the objective criteria used for evaluation, as required by the Statute of AIReF.

The Independent Authority for Fiscal Responsibility (AIReF) was founded with the mission of overseeing strict compliance of the budget stability and financial sustainability principles provided for in article 135 of the Spanish Constitution.

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Content of the report

The report will consist of two parts, one evaluating the possible bias of the macroeconomic forecasts made in previous fiscal years and the other to assess the forecasts for 2015.

First, the report will include an evaluation of whether or not there has been an important bias in the macroeconomic forecasts during a minimum period of four years, in accordance with [COUNCIL DIRECTIVE 2011/85/EU of 8 November 2011](#) on requirements for budgetary frameworks of the Member States. In this respect, article 4.6 of this Directive stipulates that “macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation based on objective criteria, including ex post evaluation.” Hence, the report has to include an ex post evaluation of the forecasts provided by the government in the budget for the last four years, at least, in order to identify whether there has been a significant bias

Second, the report will evaluate if forecasts are compliant with the above mentioned Directive, and will assess, in particular, the following requirements which forecasts for fiscal planning should satisfy:

- be realistic and use the most up-to-date information
- be based on the most likely macrofiscal scenario or on a more prudent scenario
- the macroeconomic and budgetary forecasts shall be compared with the most updated forecasts of the Commission and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission’s forecast shall be described with reasoning, in particular if the level or growth of variables in external assumptions departs significantly from the values contained in the Commission’s forecasts.
- include the methodologies, assumptions and relevant parameters underpinning the forecasts.

Methodology and evaluation criteria

To assess, in the first part of the report, whether there has been a significant bias in previous forecasts, government forecasts for the main macroeconomic variables will be compared, on the one side, with those of other independent institutions private and public –notably with those of the European Commission--, and on the other, with the observed outcomes. In this way, it will be possible to verify whether government forecasts were biased with respect to those of other institutions and if, ex post, the possible bias produced an underestimation or overestimation of the actual outcome. The bias will be deemed significant if it has been systematic, i.e. repeated in consecutive years, and if, in addition, it is not justified by a better approximation to the observed outcomes. The technical instruments and the basic information used in this comparison will be published in the web of AIReF.

The evaluation of government forecasts for the year 2015, in the second part of the report, will not be limited to check whether they are biased, as in the previous years but, in addition: i) it will verify that they are based on the most updated information; and ii) will review the methodologies, assumptions and relevant parameters underpinning the forecasts. To assess whether the government forecasts are realistic and based on the most likely macrofiscal scenario or on a more prudent scenario, a deeper analysis of that scenario will be necessary. Specifically, the assumptions and results of the equations and models used in the forecasts will be analyzed, together with the technical judgments incorporated in the analysis and the internal consistency of the different variables.

The most detailed analysis will include comparisons of the government forecasts with those prepared by the European Commission and other institutions, up to the point allowed by the available information. The analysis will be focused on the macroeconomic table and the tables with the simplified accounts of the institutional sectors, so that it is possible to understand the connections between real variables, like employment or output, and nominal variables, like wages or prices, and between objectives like GDP growth or the ratio government deficit/GDP. AIReF will gradually develop, test and make public a diversity of models. The models used in each report will be published in the web of AIReF before releasing the report itself. From the analysis of the residuals of equations and models used, that is, from the differences between the forecast values for the key variables and the values that would be explained by their main determinants, it will be concluded, taking into account any specific technical judgment contributing to explain those residuals, whether the forecasts for the different variables are realistic. From the integration of these variables in the macroeconomic table and in the tables with the simplified accounts of the institutional sectors, it will be concluded

whether the macroeconomic scenario is consistent in its assumptions and objectives, and whether it is overall the most likely one, or a more prudent one.

A global consideration of the previous evaluations will conclude whether the government forecasts are endorsed by AIReF or not.

A handwritten signature in black ink, appearing to read 'J. L. Escrivá Belmonte'.

EL PRESIDENTE DE LA
AUTORIDAD INDEPENDIENTE
DE RESPONSABILIDAD FISCAL

Fdo.- José Luis Escrivá Belmonte