

# Report on the Macroeconomic Forecasts in the Draft Budgetary Plan for 2017

## Executive summary:

**AIReF, on the basis of exogenous assumptions and defined policies, endorses the Government's macroeconomic forecast.** AIReF deems the Government macroeconomic scenario accompanying the 2017 Draft Budgetary Plan to be prudent overall.

**The growth breakdown reflected in the Government scenario is deemed plausible, with domestic demand as the main driver of the economy together with a marginally positive contribution from the external sector.** Among the components of domestic demand, private consumption is still the primary growth force, aided by the upturn in employment and stability in favourable monetary conditions. In turn, the forecast development in Government consumption is seen as plausible, in line with the restraint in expenditure included in the deficit reduction targets for 2017. Concerning investment, the Government's updated forecasts, with respect to those presented in the October Draft Budgetary Plan, envisage a slowdown that is viewed as prudent and consistent with the potential macroeconomic impact of the announced tax measures. The external sector contribution is also considered to be feasible, as it stands on –moderately– positive terrain and is in line with AIReF's internal forecasts. Lastly, growth of prices envisaged in the Government scenario has remained on a recovery path, although at a prudent pace in light of the most recent information available.

**Risks stemming from the external environment are deemed more severe than those contemplated in the Government macroeconomic scenario.** Risks from the exterior environment are

The mission of AIReF, the Independent Authority for Fiscal Responsibility, is to ensure strict compliance with the principles of budgetary stability and financial sustainability contained in article 135 of the Spanish Constitution.

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underestimated as a whole, in view of the latest forecasts for world growth and trade, and the same applies to the price of commodities.

**There is genuine uncertainty over estimating the impact of the cyclical recovery and of the announced measures regarding revenue forecasts.** Given the uncertainty over the cyclical revenue gain for 2017 and the inherent difficulty in estimating the impact on tax revenue by the measures announced, there is a need for effective monitoring of tax revenues in order to assess the adequacy of these measures in line with the committed targets.

**Based on its analysis, AIReF postulates two recommendations:**

1. **The INE should ensure at all times internal consistency among the annual and quarterly National Accounting estimates,** correcting the current mismatch between the publication of the revised annual national accounting series and the full quarterly national accounting series consistent with the annual series.
2. **The Government should adopt and make public the necessary measures to correct the significant biases observed in the forecasts for government consumption over the last four years.**

**AIReF submits to the Government three suggestions for good practices:**

1. To accompany the macroeconomic outlook with a “no policy change” scenario and another quantifying the economic impact from the measures adopted or envisaged, to better understand the forecasts and to make explicit at all times the connection between the macroeconomic outlook and the budget scenario.
2. To integrate key forecasting elements in a simplified national accounting framework.
3. To offer a broader range of information on the relevant methodologies, assumptions and parameters for underlying the forecasts.