



Independent Authority  
for Fiscal Responsibility

**Report**

15 October 2018

# **Report on the Macroeconomic Forecasts of the 2019 Draft Budgetary Plan**

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.

**AIReF contact:**

C/José Abascal, 2, 2.ª planta. 28003 Madrid, Tel. +34 91 010 08 95

Email: [Info@airef.es](mailto:Info@airef.es)

Web: [www.airef.es](http://www.airef.es)

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## Executive summary

**The Independent Authority for Fiscal Responsibility (AIReF) endorses the Government's macroeconomic forecasts included in the 2019 Draft Budgetary Plan.** AIReF considers the Government's macroeconomic scenario to be prudent overall, considering the exogenous assumptions and defined policies.

**The basic assumptions underlying the macroeconomic scenario accompanying the 2019 Draft Budgetary Plan are considered feasible.** Regarding the 2017-2020 Stability Programme Update, the external assumptions made by the Government have undergone a downwards revision in most cases. The negative revision of world growth is noteworthy and in line with the forecasts by the European Central Bank and other international organisations. In the same vein, growth for the Spanish and eurozone export markets is decreasing. This weaker growth in export markets could be offset by the anticipated lower appreciation of the euro against the dollar. Expectations regarding the evolution of oil prices are higher than forecasts by international organisations, but lower than the prices of futures markets. Its predicted growth should have a direct expected impact in terms of higher import prices and higher inflation. Finally, the assumptions related to the long-term interest-rate yield curve are prudent, maintaining a positive differential with respect to market expectations implied by the *forward* yield curve.

**The composition of growth is deemed plausible, supported by domestic demand and a neutral contribution from the foreign sector.** The expected path for 2019 continues to be based on domestic demand as the main source of growth, mainly based on the projected positive evolution of investment (particularly in the construction branch). The forecast of private consumption is in line with AIReF's, following a revision of the latest quarterly data published by the National Statistics Institute at the end of September. In turn, there was an upward revision in government's public consumption forecast, in line with the latest available information and forecasts from the AIReF models, reflecting some of the measures contained in the Draft Budgetary Plan. Finally, the projected foreign sector's contribution to growth was reduced to approximately zero. This update is in line with AIReF's internal forecasts and uses the latest available information on the most contained evolution of exports.

**The macroeconomic impact of the fiscal measures advanced by the Government is assessed as feasible.** The AIReF appreciates the access provided by the Government to information related to the inertial scenario, which

allowed to carry out a preliminary estimate of the macroeconomic impact (and the main transmission channels) implied by the new measures. AIReF's assessment, based on its internal models, about the impact of the measures adopted is, broadly in line with the estimated impact presented in the Draft Budgetary Plan, both in real and in nominal terms.

**AIReF did not identify any significant bias in the forecasts for the variables analysed during the 2014-2017 period.** Over the past 4 years, forecast errors do not show large and systematic unjustified biases in any of the observed variables. The presence of large and unjustified biases previously identified in t+1 autumn forecasts for public consumption did not repeat in 2017. However, official forecasts for public consumption and budget balance for t+1 have been less precise and more volatile than those made by the Consensus of private analysts. AIReF still expects the publication of the improvements to public consumption forecasting tools, as committed by the Government to AIReF in response to a recommendation published last March in the Report on Macroeconomic Forecasts underlying the 2018 Draft General State Budget.

**In terms of transparency, AIReF makes three suggestions of good practices.** Firstly, that the practices reflected in the Code of Conduct, included in Regulation 473/2013, are followed. This implies the publication of a macro-fiscal scenario under a no-policy-change assumption together with an estimate of the macroeconomic impact of measures adopted. Secondly, it is necessary to integrate the key elements of the forecasts into a simplified framework of National Accounts, so that it is possible to establish the relationship between economic activity, demand and expenditure, on the one hand, and income flows and financing needs on the other. Finally, it is necessary to expand the information on the methodologies, assumptions and relevant parameters underlying the forecasts, in line with the provisions of Directive 2011/85 on National Fiscal Frameworks and of article 29 of the Organic Law on Budgetary Stability and Financial Sustainability.