

# REPORT ON MACROECONOMIC FORECASTS OF THE 2020 DRAFT BUDGETARY PLAN

REPORT 62/19





Independent Authority  
for Fiscal Responsibility

The Independent Authority for Fiscal Responsibility (AIReF) was created with the mission of ensuring strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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## EXECUTIVE SUMMARY

**The Independent Authority for Fiscal Responsibility (AIReF) endorses the Government's macroeconomic forecasts included in the 2020 Draft Budgetary Plan.** AIReF considers that the Government followed a prudent approach in the preparation of its forecasts by presenting a no-policy-change scenario, consistent with the current situation of an acting government. In addition, the Government took the effort to incorporate in its analysis the considerable impact implied by the last review of the National Accounts carried out by the National Statistics Institute (RE2019).

**The basic assumptions underlying the macroeconomic scenario included in the 2020 Draft Budgetary Plan are considered feasible.** In relation to the 2019-2022 Stability Programme Update (SPU), the external environment included in the Draft Budgetary Plan (DBP) has deteriorated. This is in line with the forecasts of the European Central Bank and other international organisations. The downward revision of world growth, of Spanish export markets growth and of the Euro area is worth highlighting. In the opposite sense, the government's assumptions regarding short and long-term interest rates now imply a greater support for economic growth. Interest rates have been revised downwards, in line with the evolution of the forward yield curve. However, the existence of a negative differential with respect to market expectations in long-term rates calls the attention. Finally, expectations regarding the evolution of oil price are conservative. The Government expects oil price to be above most recent forecasts prepared by international organisations and those implied by futures markets. In this sense, the slow down in the path of oil price foreseen by the main international organisations could lead to lower imports and a restraint in price indexes with respect to the Government's official forecasts.

**The composition of growth is considered plausible, characterised by a progressively dominant contribution from domestic demand, and a positive, albeit decelerating, contribution from the external sector. This is in line with the statistical revision of the National Accounts published by the National Statistics Institute at the end of September.** Thus, the 2020 DBP foresees a growth pattern for 2020 in line with previous years, supported by internal demand as the main driver and approaching its cyclical peak in the medium term as it converges to potential growth. With respect to 2019, private consumption will gain momentum in 2020. This dynamic is in line, although slightly lower, with the forecast prepared by AIReF. This forecast is based on the evolution and

contribution of its main determinants and assumes that the impact of the statistical revision is essentially limited to the year 2019. The main variables that support the evolution of private consumption anticipate, in effect, a sustained growth, although decelerating in the coming years. This projection includes a slight upturn in precautionary savings, as stated in the latest data reviewed by the National Statistics Institute (INE). The projection for productive investment included in the 2020 DBP for 2019 and 2020 is above AIReF forecasts, specially in 2019 (in which two quarters have already been observed and where high frequency information does not signal an upturn in line with government figures). Government projections for construction investment are in line with AIReF for 2020. This implies modest rates compared to the recent historical pattern and confirms a more balanced growth profile. As regards public consumption, official forecasts are in line with those of AIReF but diverge in 2020 as they imply a marked slowdown. Finally, regarding the external sector, imports are expected to decouple from domestic demand in 2019, leading to a positive contribution to growth from the external demand well above the historical average. However, in 2020 imports are projected to resume a trajectory more in line with domestic demand dynamics. These values are in line with AIReF forecasts, which maintain a slightly positive contribution to economic growth from external demand in 2020.

**As regards fiscal policy, the budgetary projections received are taken as no-policy change.** Compared to the scenario presented in the SPU from last April, the 2020 DBP is carried out under the assumption of "no-policy change", without including measures. The 2020 DBP only includes the indexation of public pensions to the evolution of the Consumer Price Index (CPI) and the increase in public wages, previously analysed by AIReF in its report on the SPU. Based on AIReF's internal models, the macroeconomic effect of these measures is, in principle, in line with the impact estimated by the Government (both in real and nominal terms).

**As in October last year, no significant biases have been identified in the forecasts for the last four years.** During the period 2015-2018, the forecast errors implied in official projections do not present large and unjustified errors in a systematic way in any of the observed variables. In relation to previous recommendations, AIReF is still waiting for the publication of the improvements in public consumption forecasting tools. This is a commitment made by the Government as a response to the recommendation published in the Report on Macroeconomic Forecasts of the 2018 DBP published in April 2018. However, as in the period 2014-2017, the presence of large and unjustified errors in public consumption does not seem to have been repeated consecutively during the period 2015-2018 either.

**In terms of recommendations, AIReF focuses on this report in the publication of the RE2019.**

In 2019, the National Statistics Institute (INE) has proceeded to review the National Accounts series within the framework of an exercise carried out in a coordinated manner by 18 Member States of the European Union and Norway. The review was published in two phases. Firstly, the INE presented a first release on September 16 of the Quarterly National Accounts data until the second quarter of 2019 and the Annual National Accounts until 2018. However, this release did not include the Annual Non-Financial Accounts broken down by Institutional Sectors (CNFSI) consistent with this revision. This reduced the effectiveness of the advance publication. Finally, the publication of a complete second release including CNFSIs data took place on 30 September.

Although this revision has been carried out in compliance with the requirements and quality criteria for statistical production established in the European Statistical Programme framework, it should be noted that its dissemination does not fully satisfy two basic principles in the operation of any statistical producer: to be user-oriented and to communicate with transparency.

Indeed, the proximity in time of the RE2019 publication to the preparation of the 2020 DBP that the Government must send to the European Commission authorities represents an additional difficulty when formulating the basic macroeconomic forecasts (which must incorporate the most updated statistical information, included those relating to National Accounts).

In addition, the communication of the impact of these methodological changes on the main macroeconomic aggregates was not transparent. This has made the preparation of projections a more complex task for all analysts. Indeed, any forecasting exercise must have as its starting point a well-founded understanding and modelling of economic relationships. If these links have been affected by statistical changes (sources, techniques, models, assumptions), it will be necessary to know their detail and their impact in order to make any type of inference in the future.

The RE2019 has had important consequences for the analysis of the Spanish economy, modifying, to a large extent, the estimated historical patterns and the relationships between variables that are the basis of our understanding of the functioning of the economic system. However, despite the scope of the revisions, there has not been an active policy of communicating methodological innovations and their impact on historical series.

For this reason, and having reviewed other European experiences and best practices, AIReF considers that INE's action should go beyond strict compliance with the minimum standards established by European regulations of the ESA2010 Data Transmission Programme and the quality criteria in statistical production established by Eurostat.

The INE should use the flexibility margins allowed by the timetable set by Eurostat to facilitate the work of the Government and the main institutional actors in the preparation of the macroeconomic and fiscal scenarios on which the main budgetary documents are based.

In addition, the INE should conduct itself with much greater transparency in its procedures for reviewing and publishing National Accounts data and adopt an approach aimed at facilitating the users' work, as indispensable elements to ensure the most efficient use of its statistics. This need is even more evident now, given the significant impact of the RE2019.

**To this end, the AIReF recommends that the INE:**

Following the general principles of INE's review policy, in particular Principle 15, -to develop compliance with its own transparency and user information requirements through the implementation of a transparent and active communication policy of National Accounts data revisions-, to reflect European best practice, through:

- The publication and dissemination of existing methodological guides used in the compilation of National Accounts.
- The dissemination of data revisions in line with the national and European budgetary calendars.
- An improved communication of revisions, including comparative exercises which allow the end user of statistics to understand their motivation and scope.