

# ENDORSEMENT OF THE MACROECONOMIC FORECASTS OF THE 2020-2021 STABILITY PROGRAMME UPDATE

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Autoridad Independiente  
de Responsabilidad Fiscal

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

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# ENDORSEMENT OF THE MACROECONOMIC FORECASTS OF THE 2020-2021 STABILITY PROGRAMME UPDATE

**The Independent Authority for Fiscal Responsibility (AIReF) endorses the macroeconomic forecasts included in the Government's draft macroeconomic scenario that will accompany the Stability Programme Update (SPU).** AIReF considers the macroeconomic scenario it received from the Government on 28 April to be reasonable against the present increased economic uncertainty. This endorsement is made under the assumptions that the hypotheses made by the Government regarding the evolution of the pandemic are fulfilled and that the economic policy measures considered within the macroeconomic framework are those that have already been approved.

**The increased uncertainty caused by COVID-19 has led the European Commission to significantly simplify its information requirements.** The draft macroeconomic scenario sent to AIReF utilises this flexibility and limits the time frame to two years (2020-2021). The set of variables offered has also been reduced. In particular, the information received does not include the economy's cyclical situation, which is very difficult to estimate in the current circumstances, nor the institutional sectors' accounts.

**Furthermore, AIReF has not received enough detail about the macroeconomic and budgetary impact of the measures implemented by the Government to combat the crisis.** Despite the fact that the Government has facilitated information exchange regarding the preparation of the macroeconomic scenario, AIReF has not received the fiscal scenario or details of the assessment of the measures approved and their transfer to the macroeconomic scenario. Not only does this make it difficult to assess the consistency of the no-policy change macroeconomic scenarios, it also prevents the evaluation of coherence between the macro and fiscal scenarios.

**Considering the available information and assuming that the Government's assumptions about the intensity and duration of the pandemic are accurate, AIReF considers the macroeconomic scenario to be feasible.** The Government's macroeconomic scenario is within the range of AIReF's own forecasts and those of other public and private organisations. Furthermore, AIReF believes that the scenario reasonably reflects the contraction in

domestic demand and employment caused by social distancing measures and the paralysis of some economic activities, along with a fall in exports in a setting of a global recession.

**However, worse scenarios cannot be excluded, mainly due to the intensity of recovery.** AIReF identifies downside risks, particularly in relation to the possibility of more adverse epidemiological scenarios or more persistent damage to the economy's productive capacity and employment that would hinder the projected recovery for the second half of 2020 and for 2021. More specifically, the relative specialisation of the Spanish economy in the service activities most affected by social distancing measures, the high prevalence of temporary contracts that continues to exist in the labour market and the greater relative presence of small companies, which are more exposed to financial restrictions than larger companies, could complicate recovery. At the European level, the possibility of tensions reappearing in the financial and sovereign debt markets, which had previously been contained by the actions of the monetary authorities, cannot be excluded. The balance of risks could change direction if medical advances occur, reducing the public health risk of coronavirus.

**While the information flexibility allowed this year by the European Commission is understandable, AIReF highlights the need for information exchange to be systematised and for details of the assumptions and hypotheses that are incorporated in the design of the Government's macroeconomic scenario to be expanded.** In particular, it is more important than ever to have more detail on no-policy-change scenarios, as this allows the estimated impact of the measures adopted to confront the crisis to be assessed more accurately. It is also essential to accompany the macroeconomic scenario with a fiscal scenario to ensure coherence between the two. Based on the experience of preparing this report, AIReF reiterates the following recommendations:

- That the information that the Government should supply to AIReF to issue the reports provided for in article 14.1 of Organic Law 6/2013 should include a fiscal scenario and a no-change-policy scenario that detail and quantify the impact of the measures adopted or expected and their transfer to the final macroeconomic scenario.
- That, in line with the usual practices in surrounding countries in our interaction between the Government and the National Independent Fiscal Institution, the flow and schedule of information exchange be regulated through an agreement or "memorandum of understanding".

**To issue this endorsement, AIReF has prepared its own economic scenarios that will be included, along with the assessment of the budget information, in**

**the Stability Programme report. This report will be published in the week beginning 4th May.** The extreme uncertainty caused by the COVID-19 pandemic makes it particularly difficult to assign probabilities to specific scenarios. It is difficult to determine the duration of the health crisis and how much it will be possible for economic activity to normalise once the pandemic has been controlled. In addition to this, the absence of sufficient indicators to limit its economic impact, along with the lack of information on specific aspects such as the impact of instruments to provide flexibility to labour relations and, particularly, of ERTES (temporary redundancy plans), which is essential when determining the impact of the crisis on the labour market, makes assigning probabilities difficult. Therefore, AIRcF has decided to adapt its analysis and has prepared its own economic scenarios based on different assumptions on the evolution of the pandemic and the speed of recovery. These scenarios and the assessment of the budget information included in the SPU will be incorporated in Stability Programme report that will be published in the week of 4-9 May.