

ENDORSEMENT OF THE  
MACROECONOMIC  
FORECASTS OF THE  
2021-2024 STABILITY  
PROGRAMME

1/21



Autoridad Independiente  
\* Responsabilidad Fiscal



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

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# ENDORSEMENT OF THE MACROECONOMIC FORECASTS OF THE 2021-2024 STABILITY PROGRAMME

**The Independent Authority for Fiscal Responsibility (AIReF) has received the Government's request for a report on the macroeconomic forecasts of the 2021-2024 Stability Programme.** In accordance with Article 14 of Organic Law 6/2013, of November 14th, on the establishment of the Independent Authority for Fiscal Responsibility (AIReF), the Government must request that AIReF issue a report on the macroeconomic forecasts to be incorporated into the draft budgets of all public authorities or in the stability programme.

**AIReF endorses the Government's macroeconomic scenario, although it considers that there are still high risks related to the evolution of the pandemic and uncertainty about the macroeconomic impact of the Recovery, Transformation and Resilience Plan.** The health crisis continues to condition economic activity and still casts a high degree of uncertainty over the intensity of the recovery of the Spanish economy. In the short term, the acceleration of the vaccination rollout in line with the plans announced by the health authorities, after a slower-than-expected start, essentially determines the likelihood of a return to activities involving greater social interaction, which are particularly important in the Spanish economy. The degree of normality it will be possible to achieve in the medium term remains uncertain. This is compounded by the difficulty in estimating with the necessary rigour the impact of the Recovery, Transformation and Resilience Plan (RTRP) along the forecast horizon with the scant information currently available on the execution schedule of the funds and the breakdown of investment projects and reforms.

- **Forecasts for 2021-2024**

**AIReF believes that the forecast growth for 2021 is feasible if progress in the vaccination rollout and the development of new treatments allow progress to be made in controlling the pandemic and if the investments set out in the RTRP begin to materialise in the second half of the year.** In particular, the Stability Programme scenario assumes GDP growth of 6.5% in 2021, almost three percentage points lower than the 9.8% growth with which the General State Budget for that year was prepared. At that time, AIReF warned of the risk of more adverse scenarios materialising in relation to the evolution of the pandemic than those included in

the draft GSB<sup>1</sup>. It also pointed out that the impact of the Plan estimated by the Government was subject to downside risks related both to the process of implementing the projects and to their potential effects. For all these reasons, AIReF called for application of the principle of prudence in the preparation of macroeconomic and budgetary forecasts provided for in Royal Decree 337/2018, of May 25<sup>th</sup>, on the requirements applicable to macroeconomic and budgetary forecasts<sup>2</sup>.

**The successive waves of the pandemic and the delay in execution of the RTRP projects explain the downward revision of the Government's forecasts.** The health crisis has continued to have a major impact on economic activity in the final months of 2020 and so far in 2021. This has prevented the reactivation of a significant portion of social activities and inbound tourism flows and has slowed down the recovery in employment. In addition, the implementation of the RTRP - which was supposed to boost growth as from the start of the year - has been delayed. This means that the impact that the Government assigned to 2021 in the GSB, of 2.6 pp, is now lower.

**AIReF considers that this growth can be achieved in 2021 under the necessary condition that progress is made in controlling the pandemic, allowing mobility restrictions to be lifted and the effects of the RTRP to start to materialise.** In fact, AIReF's estimates included in the Report on the Initial Budgets published on April 8<sup>th</sup><sup>3</sup> forecast GDP growth of 6.6% this year, under similar assumptions to those incorporated into the Government's scenario, i.e., that progress in the vaccination process allows a gradual normalisation of tourism, hospitality and catering activities and that the projects set out in the RTRP start to be executed and take effect as early as the second half of the year.

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<sup>1</sup> See "Report on the Main Lines of the Budgets of the General Government". Report 29/20.

<sup>2</sup> This principle establishes, on the one hand, that macroeconomic forecasts that serve as the basis for fiscal or budgetary plans will pay particular attention to the risks that, should they materialise, may result in lower real or nominal growth of the main revenue-related variables and higher growth of the real or nominal variables related to public expenditure. On the other hand, budgetary planning will be based on realistic macroeconomic and budgetary forecasts, using the most likely or most prudent macroeconomic scenario.

<sup>3</sup> See "Report on the Initial Budgets of the General Government" Report 01/21

**More in the medium term, the Government's forecasts assume that GDP will record high growth, of 7% in 2022, to return at the end of the forecast horizon to rates higher than the pre-crisis estimates of potential growth (with rates of 3.5% in 2023 and of 2.1% in 2024).** The high growth estimated in 2022 reflects the revival of inbound tourism. Whether this will materialise depends on progress in the vaccination rollout and the lifting of international travel restrictions. Added to this is the significant impact of the RTRP - the average impact in the period between 2021 and 2023 is 2 pp in the Government scenario. AIReF considers that this growth is achievable if the pandemic subsides globally and if the projects included in the RTRP are implemented by the established deadlines and meet the requirements set at a European level, and are of sufficient quality to achieve the expected multiplier effects. The subsequent convergence of GDP growth in 2023-2024 at rates somewhat higher than the potential growth estimated before the crisis can also be realistic according to AIReF's estimates, subject to the design of the RTRP.

**The nominal growth scenario is also considered realistic.** The deflators of the macroeconomic outlook and the composition of growth, which influence the determination of the fiscal figures, are also realistic according to AIReF's estimates.

**The other assumptions about the evolution of the external environment are considered plausible.** The basic assumptions regarding the growth of the main trading partners, the evolution of the price of oil and interest rates that underpin the Government's macroeconomic scenario are consistent with the most recent forecasts of international organisations and with the evolution of the financial and commodity markets, although the recent upward trend in long-term interest rates poses some risk.

**With the information currently available, risks are skewed downwards.** The prolongation of the pandemic or the possibility of the illness becoming chronic, which cannot be ruled out at this time, might have permanent effects on the production structure and reduce the possibilities for medium-term growth. In contrast, faster progress in resolving the health crisis would lead to a reduction in uncertainty and could lead to the accumulated high rates of forced savings being transferred to household spending. In addition, there is currently no information available to judge the possible effects associated with the RTRP more accurately, as discussed below.

- **The macroeconomic impact of the Recovery, Transformation and Resilience Plan**

**AIReF would like to highlight the uncertainty surrounding the estimates of the macroeconomic impact of the RTRP, an essential element in the forecast scenario of the stability programme.** The Government estimates that the combined impact of this Plan on GDP growth will be two percentage points, compared with the average for the period 2021-2023. Although stylised estimates made with AIReF's econometric models yield similar results, AIReF notes the high uncertainty surrounding that impact. On the one hand, beyond the strategic lines described in the document "*España Puede*", there is no information on the breakdown of the projects approved, the execution schedules or the content of the structural reforms that will accompany the Plan in core areas of economic growth, such as the job market, the pension system and the tax reform. Without this information, it is impossible to judge the multiplier effects on growth and employment, the capacity to attract private investment, or its potential effect on the growth of the economy and productivity.

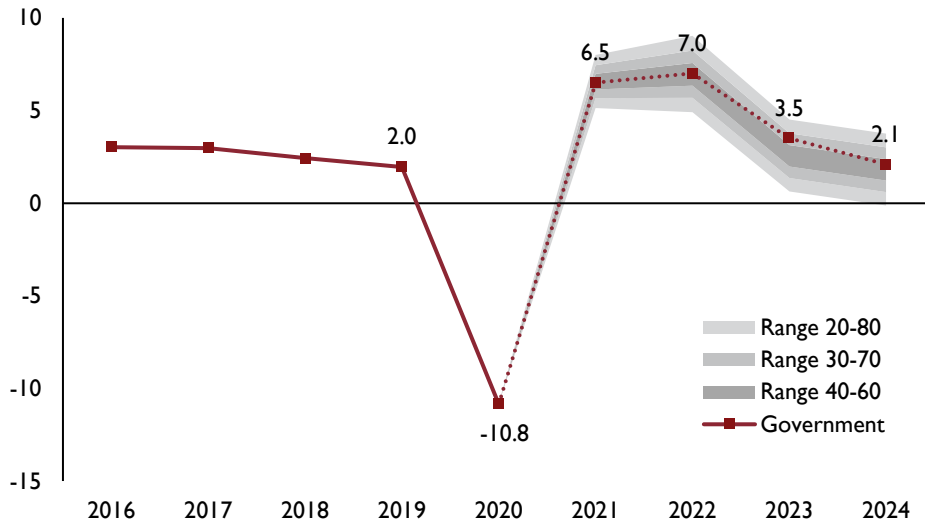
**In addition, there is little empirical evidence on the macroeconomic impact associated with any of the components of the Plan.** Empirical evidence suggests that expenditure on investment in physical, technological and human capital is associated with a high impact on GDP and employment, particularly when it takes place in periods of recession and in a coordinated manner in a group of countries, as is the case with the Next Generation EU funds. Furthermore, the effects associated with technological and human capital tend to last over time, particularly if they are accompanied by structural reforms. However, there is little evidence on the macroeconomic effects of such new types of investment as the Artificial Intelligence Strategy or the Hydrogen Roadmap, for example.

**The impact of the RTRP requires stringent requirements to be met.** For the RTRP to have the expected effect, it is necessary to design quality projects, accompany them with adequate structural reforms and avoid delays in the absorption of revenue and execution of the projects.

- **Summary and recommendations**

**Based on all these considerations, AIReF considers that the macroeconomic scenario underpinning the 2021-2024 stability programme is feasible.** The Government's scenario falls within the confidence bands estimated by AIReF, although these bands do not reflect the prevailing uncertainty around the future evolution of the pandemic. In this regard, in the short term, this scenario is dependent on progress in the vaccination rollout allowing a gradual normalisation of social activities and the effects of the RTRP starting to be deployed as early as the second half of 2021. In the medium term, the Government's macroeconomic outlook also seems achievable in a context of normalisation of social activities, recovery of employment and a reduction in the high rates of forced savings accumulated during the crisis. However, there is a great deal of uncertainty about the impact associated with the RTRP, which AIReF cannot judge with the information it has.

**GRAPH 1 GROSS DOMESTIC PRODUCT. TERMS OF VOLUME (YEAR-ON-YEAR RATE OF CHANGE)**



**AIReF makes two recommendations:**

1. **AIReF calls for more information on the budgetary and fiscal measures incorporated into the macroeconomic scenario so as to increase the rigour of the endorsement process.** The law establishes that the endorsement refers exclusively to the macroeconomic outlook and not to the public finances scenario. However, given the interrelations between the two aspects, AIReF believes that an endorsement with greater rigour would require more detail on the measures incorporated, particularly when these are of the importance of those contained in the European Recovery, Transformation Resilience Plan.

2. **AIReF once again reiterates the need for the process of endorsing the macroeconomic forecasts to be regulated by an agreement between the parties.** With the aim of making the process of endorsing the macroeconomic framework more transparent and efficient, AIReF reiterates its recommendation to the Government to regulate the flow and timing of the exchange of information through an agreement or "memorandum of understanding", in line with current practices in peer countries with regard to the interaction between the Government and the National Independent Fiscal Institution.

The President of AIReF

A handwritten signature in blue ink, consisting of stylized initials and a surname, positioned below the title of the President of AIReF.

Cristina Herrero Sánchez