

ENDORSEMENT OF THE MACROECONOMIC FORECASTS OF THE DRAFT GENERAL STATE BUDGET FOR 2022

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The Independent Authority for Spanish Fiscal Responsibility, AAI (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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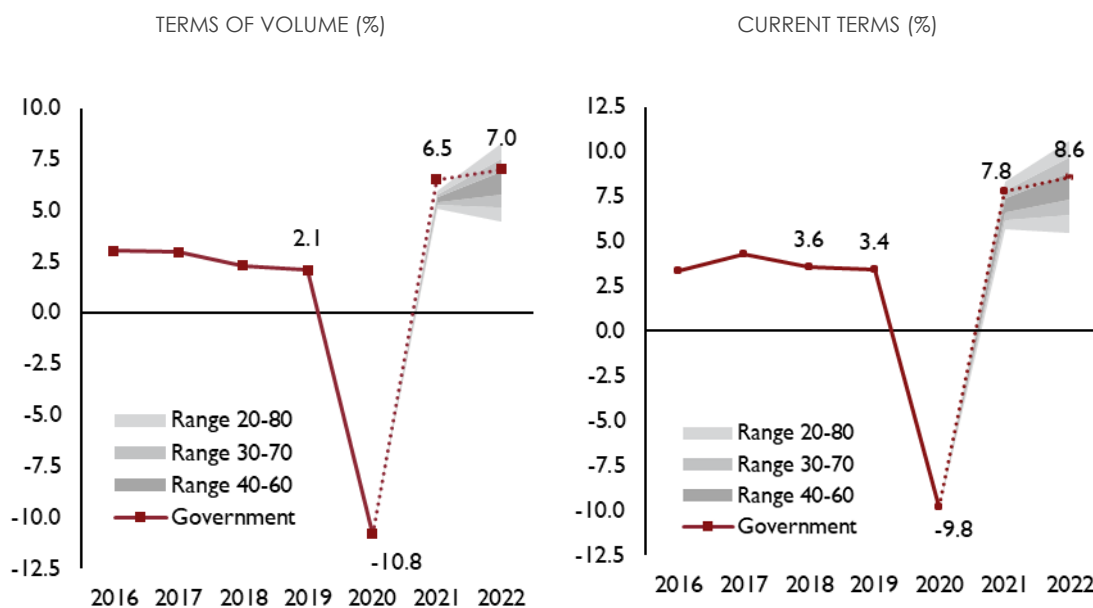
The Independent Authority for Fiscal Responsibility, AAI (AIReF) has received the Government's request for a report on the macroeconomic scenario that will be incorporated into the draft General State Budget for 2022 (2022 GSB). In accordance with Article 14 of Organic Law 6/2013, of November 14th, on the establishment of the Independent Authority for Fiscal Responsibility (AIReF), the General Government must request that this institution issue a report on the macroeconomic forecasts to be incorporated into the Draft Budget or the Stability Programme Update, indicating whether such forecasts are endorsed.

The Government's macroeconomic scenario accompanying the 2022 GSB forecasts GDP growth of 6.5% and 7% in 2021 and 2022, respectively. The GDP growth projections remain unchanged compared with those included in the 2021-2024 SPU last spring, although they include changes in the composition of growth in 2021. These changes reflect the favourable evolution of private consumption recorded in the first half of the year, a worse performance of investment linked partly to the weakness of this aggregate in the first few months of 2021, and a delay in the macroeconomic impact associated with the Recovery, Transformation and Resilience Plan (RTRP). The scenario for 2022 barely changes compared with that of the SPU and assumes GDP growth of 7%, which will be accompanied by employment growth of 2.7% and a reduction in the unemployment rate to 14.1% of the active population.

AIReF endorses the Government's macroeconomic scenario as it considers that both the expected GDP path and the assumptions on which it is based are achievable, although downside risks predominate for 2022. In particular, the growth scenario that accompanies the 2022 GSB is achievable and falls in the central range of the confidence bands obtained based on the most recent projections of AIReF itself (see Graph 1). These projections have been revised downwards slightly with respect to those made in July and foresee GDP growth of 6.4% in 2021 and 6.8% in 2022¹.

¹¹ AIReF's most recent projections incorporate the new information available up to September 16th and will be revised for the report on the 2022 GSB to incorporate the

GRAPH 1. GROSS DOMESTIC PRODUCT GROWTH FORECASTS



Source: National Statistics Institute, Ministry of Economic Affairs and Digital Transformation and AIReF.

The gradual materialisation of pent-up demand from the periods of lockdown and mobility restrictions is one of the main levers on which the Government's macroeconomic outlook is based. Progress in the vaccination process - with over 76% of the population fully vaccinated against the SARS-COV-2 coronavirus - has led to a recovery in household confidence and spending and in domestic tourism, which has been stronger than most analysts expected. The removal of capacity and mobility restrictions that has been taking place over recent months in Spain and other European economies suggest that this trend will continue into 2022, which will be reflected in high growth in private consumption and a reduction in savings accumulated during the periods with mobility restrictions, as provided for in the scenario of the 2022 GSB.

Along the same lines, the buoyant recovery in European economies sustains the expansion in exports and the revival of inbound tourism flows included in the 2022 GSB. In particular, the macroeconomic scenario of the GSB considers that exports will record strong growth in 2022, which is justified by the recovery of the export markets of the advanced economies and, especially, by the revival of inbound tourism flows, which has also been stronger in the summer than expected by AIReF in the spring.

information from the quarterly accounts that will be published on September 23rd and the non-financial accounts of the institutional sectors that will be published on September 30th. Details of the full macroeconomic outlook will be published in that report.

Despite these favourable elements, AIReF considers that downside risks predominate in 2022 relating to the evolution of the pandemic, the emergence of supply disruptions and problems in production processes worldwide and the macroeconomic impact of the RTRP. Firstly, the process of immunising the population has led the Government, like most analysts and AIReF itself, to propose an economic scenario for 2022 where epidemiological factors have a lower impact. In this regard, until higher vaccination rates are observed in other countries across the world, especially in emerging and developing countries, the health crisis cannot yet be considered over, nor can we rule out the emergence of new variants that will require the reintroduction of mobility restrictions and prevent a full return to normal economic activity.

Uncertainty also remains about the impact of the RTRP, the implementation of which has been delayed compared with the timeline assumed in previous budgets and the SPU. In fact, as already indicated back in July, AIReF has revised downwards the macroeconomic impact for 2021 to 0.7 pp of GDP compared with the 1.5 pp estimated in the spring, leaving the estimate for 2022 unchanged at 2.5 pp until further information is available. The figures available on recognised and executed obligations of the European Funds and calls for tender for Strategic Projects for Economic Recovery and Transformation (PERTEs), which are generally still being studied, show a delay in the macroeconomic impact of the RTRP until at least the last quarter of the year. This delay is also present in the Government's scenario. However, as was the case in the SPU, the exact impact assigned to the Plan is unknown. If it is prolonged, the delay in the impact of the RTRP, together with the weakness shown by investment in equipment and construction in the early months of 2021, pose downside risks to the expected evolution of this aggregate in the 2021-2022 two-year period.

Finally, there are also downside risks associated with the increase in prices of energy and other raw materials and the disruptions in industrial global supply chains. The speedy recovery in demand in relation to the global supply of industrial products has been causing disruptions to supply chains since the end of 2020 in some sectors. These disruptions have progressively spread to the entire manufacturing industry, affecting, for the time being, Spain to a lesser extent than other advanced economies. Although this phenomenon is expected to be temporary and supply will end up meeting demand needs, the persistence of this situation might hamper the economic recovery while also triggering increases in production costs and inflationary tensions that might persist over time. Added to this are the recent increases in the price of energy raw materials, which have a high impact on production costs and household purchasing power.

In this regard, the nominal growth scenario is considered realistic, although the deflators implicit in the Government's macroeconomic outlook present upside

risks. In particular, the Gross Domestic Product deflator has upside risks, according to AIReF's estimates. All the other assumptions about external developments are considered plausible, although oil price futures have turned upwards relative to the assumptions underpinning the Government's macroeconomic outlook.

Summary and recommendations

Based on all these considerations, AIReF estimates that the macroeconomic scenario that underpins the Draft General State Budget for 2022 is feasible. The Government's scenario falls within the confidence bands estimated by AIReF, although it should be borne in mind that these bands developed with statistical criteria cannot reflect the uncertainty that remains about the future evolution of the pandemic, the rate at which the projects associated with the RTRP will be transferred to gross fixed capital formation and employment, or the persistence of supply problems in production processes and the associated inflationary tensions. All these elements pose downside risks regarding the growth expected by the Government and by AIReF itself for 2022.

AIReF makes three recommendations:

1. **AIReF reiterates to the Ministries of Economic Affairs and Digital Transformation and of Finance and the Civil Service the need to have more information on the budgetary and fiscal measures incorporated into the macroeconomic scenario to increase the rigour of the endorsement process.** Given the interrelationships between the macroeconomic outlook and the fiscal scenario, AIReF considers that providing a more rigorous endorsement would require greater detail on the fiscal measures that the Government intends to incorporate in the budget, particularly when these are of the size of those contained in the RTRP.
2. **AIReF reiterates to the Ministry of Economic Affairs and Digital Transformation 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 comparable countries regarding the interaction between the Government and the National Independent Fiscal Institution.
3. **Lastly, a new recommendation is made to the National Statistics Institute (INE) to adapt the publication calendars of such relevant statistics as those**

of the Quarterly National Accounts and the Non-Financial Accounts of the Institutional Sectors to the national and European budgetary calendars, ensuring that it is provided with the information and coordination mechanisms necessary for this purpose. The Spanish Constitution lays down the legal obligation for the General State Budget to be presented at least three months before the expiry of the previous year's budget. This prevents the macroeconomic scenario underpinning the budgets from incorporating relevant statistical information, and improved coordination should therefore be pursued so that the General State Budget may be drawn up with the most complete information possible on the state of the economy.

The President of AIReF

A handwritten signature in blue ink, consisting of a large, stylized 'C' followed by 'H' and 'S' in a cursive script.

Cristina Herrero Sánchez