

ENDORSEMENT OF THE
MACROECONOMIC FORECASTS
OF THE 2022-2025
STABILITY PROGRAMME

20/22





The mission of the Independent Authority for Fiscal Responsibility, AAI (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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Publication date: April 28th 2022

ENDORSEMENT OF THE MACROECONOMIC FORECASTS OF THE 2022-2025 STABILITY PROGRAMME

The Independent Authority for Fiscal Responsibility (AIReF) has received a request from the Government for a report on the macroeconomic forecasts of the 2022-2025 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 Stability Programme Update (SPU). This report responds to that request.

AIReF endorses the Government's macroeconomic scenario that accompanies the SPU as it considers it feasible, on the basis of its own estimates, in a context of major uncertainty. The Government's macroeconomic scenario for the period 2022-2025 is in the central range of the confidence bands estimated by AIReF on the basis of its own scenarios, both at constant and current prices (see Figures 1 to 4). However, the energy crisis, the supply problems in production chains that have been observed since mid-2021 and the persistence of the pandemic, project extreme uncertainty on the economy, which has intensified with the outbreak of the war in Ukraine.

For 2022, the SPU scenario assumes GDP growth in volume terms of 4.3%, almost three percentage points lower than the 7% growth with which the General State Budget for 2022 was drawn up. This growth is in line with AIReF's most recent estimates, which, for 2022, coincide with those published on April 7th in its Report on the Initial Budgets of the General Government¹, and is prudent in relation to the most recent forecasts made by other public and private institutions (see Figure 2). AIReF considers that these downward revisions are justified by the energy crisis and the shortage of intermediate inputs observed since 2021, which, exacerbated by the invasion of Ukraine, have ended up leading to a scenario of lower growth and high and persistent inflation.

In the medium term (2023-2025), the Government forecasts gradual moderation of GDP growth as the boost associated with the pent-up demand accumulated

¹ See [Report on the initial Budgets of the General Government for 2022](#).

during the pandemic and the Recovery, Transformation and Resilience Plan (RTRP) is diluted. Specifically, the Government forecasts GDP growth of 3.5%, 2.4% and 1.8% for 2023, 2024 and 2025, respectively, with the three years lying in the central range of AIReF's probability bands. This scenario of convergence at real growth rates close to the potential growth of the economy is also considered feasible.

FIGURE 1. GROSS DOMESTIC PRODUCT. VOLUME. (YEAR-ON-YEAR RATE OF CHANGE)

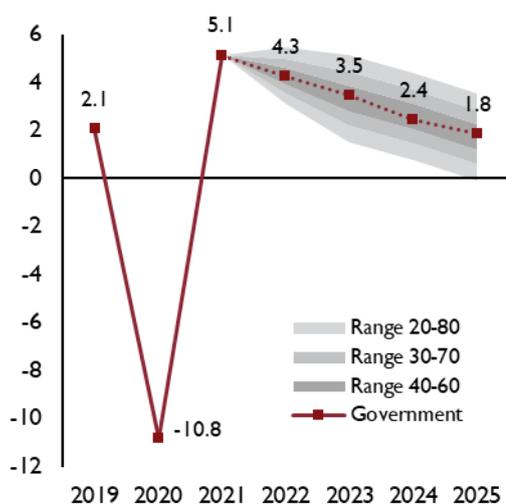
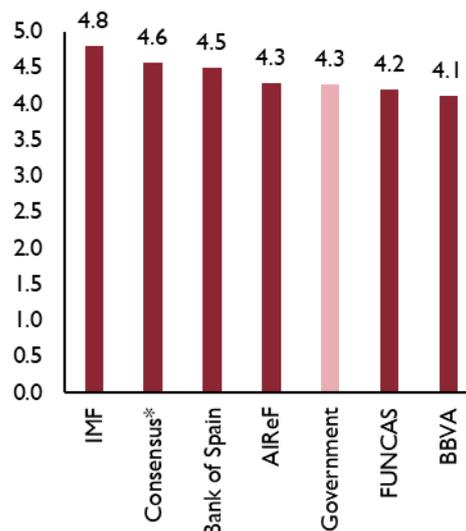


FIGURE 2. COMPARISON OF GDP FORECASTS IN 2022. VOLUME. (YEAR-ON-YEAR RATE OF CHANGE)



Source: AIReF, Ministry of Economic Affairs and Digital Transformation and Consensus
 * Note: for consensus estimates, only the data of those entities that have revised their growth projections over the month of April have been used.

As regards prices, the growth forecast of the implicit GDP deflator is considered plausible over the forecast horizon. The Government forecasts a sharp increase in the GDP deflator in 2022 and a certain degree of persistence in 2023 (with growth rates of 4% and 2.4%, respectively), with subsequent moderation. These rates are in the central probability range estimated by AIReF based on its own scenarios (see Figure 3).

As a consequence of the above, forecasts of nominal GDP growth are considered feasible as they are in the central range of the bands calculated by AIReF for the entire forecast horizon (2022-2025). The Government puts forward a scenario of nominal GDP growth that would reach 8.5% in 2022, which, according to AIReF's estimates, would fall within the central range, although at its upper end. For the other years, the nominal growth forecasts are in the central range of the probability bands calculated by AIReF (see Figure 4).

FIGURE 3. IMPLICIT DEFATOR OF GROSS DOMESTIC PRODUCT. (YEAR-ON-YEAR RATE OF CHANGE)

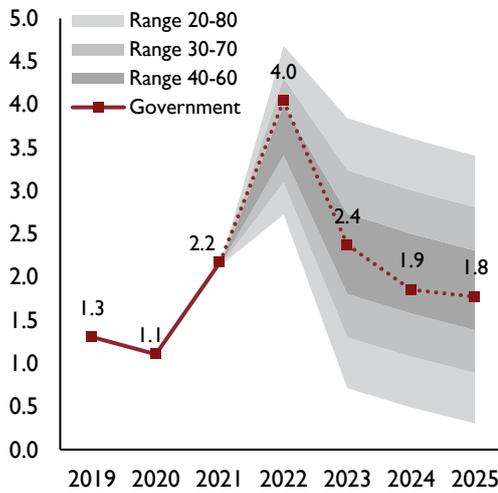
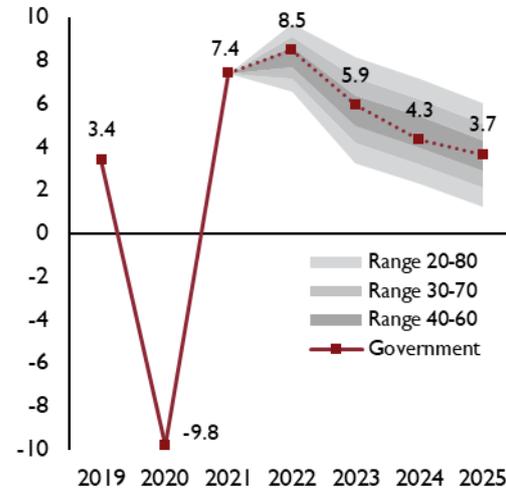


FIGURE 4. GROSS DOMESTIC PRODUCT. NOMINAL TERMS. (YEAR-ON-YEAR RATE OF CHANGE)



Source: AIReF and Ministry of Economic Affairs and Digital Transformation

Despite the similarity of the Government's macroeconomic scenario to that of AIReF itself, the technical assumptions on interest rates used by the Government might be optimistic. In particular, inflationary pressures are causing a tightening of interest rates in all terms and an increase in the yields on the public debt of the sovereign issuers of the euro area, including Spain. This is barely reflected in the technical assumptions of the Government's macroeconomic scenario, which put the 10-year Spanish public debt rate at 0.8% in 2022, when this yield currently stands at around 1.8%.

The balance of risks to growth expected by the Government and AIReF itself is skewed downwards, especially in the short term. The economic recovery that began in 2021 was accompanied by tensions in global value chains and in raw material markets, especially energy markets, which have become more intense and persistent following Russia's invasion of Ukraine. These tensions could be exacerbated if the invasion results in cuts in supplies and further tensions in raw material markets.

In addition, the coronavirus remains a fundamental determining factor for the economic situation. The recent increase in cases and the "zero coronavirus" policy in the People's Republic of China might accentuate supply problems in manufacturing industry, given this country's importance in global value chains. In addition, the emergence of new variants that could slow the pace of normalisation of tourism, which has provided favourable surprises over recent months, cannot yet be ruled out.

The inflationary tensions that emerged in 2021 could intensify and make the growth-inflation combination more adverse than expected by the Government and most analysts, including AIReF. The intensity of the price increases and the expectation of greater persistence might trigger spirals of price and wage rises. This could lead to a further tightening of monetary policy and a worsening of financing conditions, which would place a drag on consumption and investment. The greater energy intensity of the Spanish economy and the high pass-through of energy raw material prices to household prices and business costs could lead to a loss of competitiveness vis-à-vis the outside world.

As for the RTRP, more than one year after its approval, no information is yet available on the level of execution of revenue and investment projects. The Government's macroeconomic scenario does not provide details of the macroeconomic impact associated with this instrument either in the short or medium term. This adds complexity to the assessment of the Government's scenario and has prompted AIReF to make a new recommendation.

AIReF believes that if bottlenecks are accentuated and inflationary tensions are intensified, the boost to economic growth associated with the RTRP could be undermined. The succession of supply-side shocks is particularly adverse for some sectors that are key to the development of the RTRP, such as the automotive, digitisation and energy transition sectors. Therefore, the multiplier effect associated with the RTRP could be lower. In fact, AIReF has already revised the short-term multiplier downwards (from 1.2 to 0.9), which results in a reduction in the estimated impact on the level of GDP associated with this instrument.

- **Summary and recommendations**

Based on all these considerations, AIReF endorses the macroeconomic scenario that underpins the SPU for the period 2022-2025 and considers it feasible, in a global context where downside risks predominate, especially in the short term.

The Government's scenario is in line with AIReF's and is prudent with respect to the most recent forecasts by the consensus and some national and international institutions. The downside balance of risks that affects all these growth scenarios is linked to the uncertainty about the duration and consequences of the war in Ukraine and about the future evolution of the pandemic, which are making it difficult for global supply to accompany the recovery in demand, and may lead to a greater persistence of inflationary tensions and a tightening of the financing conditions of the economy.

AIReF makes the following recommendations:

New recommendations

1. **An effort at transparency and coordination between all areas of the General Government is necessary to make available the information required in the framework of the European Commission's communication of March 2nd 2022².**

In particular, this information refers to execution of the RTRP funds in national accounts terms over the horizon of the stability programme, which is very useful when assessing its impact.

Repeated recommendations

1. **AIReF calls for more information on the budgetary and fiscal measures included in the macroeconomic scenario with the aim of increasing the rigour of the endorsement process.** The law establishes that the endorsement refers exclusively to the macroeconomic outlook and not to the public finance 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 RTRP.

Live recommendations

1. **AIReF once again notes 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

² See [COMMUNICATION FROM THE COMMISSION TO THE COUNCIL](#)

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 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 a large, stylized 'C' followed by 'H. S.' and a long horizontal stroke.

Cristina Herrero Sánchez