

AIReF ENDORSES CANARY ISLANDS' MACROECONOMIC FORECASTS FOR 2023

The Independent Authority for Fiscal Responsibility (AIReF) endorses the forecasts presented by the Canary Islands for 2023. These forecasts are prepared in a context of uncertainty that complicates their assessment at a national level, but heightens them at a territorial level. Although the central estimated GDP rate for 2023 made by the Canary Islands is higher than AIReF's estimate and the estimate included in the macroeconomic outlook that accompanies the General State Budget (GSB), it falls within the range of estimates of the consensus of analysts. Furthermore, the nominal growth estimated by the Canary Islands for 2023 is identical to AIReF's estimate.

According to the Law on the Establishment of AIReF, the macroeconomic forecasts incorporated in the draft budgets of all General Government sub-sectors must include a report from the institution indicating whether they have been endorsed.

However, Royal Decree 215/2014, of March 28th, approving the Organic Statute of AIReF, states that in the event that any General Government body incorporates or applies in the corresponding budget a set of forecasts that exactly corresponds to those incorporated by another General Government body integrated in its territorial scope and which has been endorsed by AIReF, it will not be necessary to issue a specific report. This circumstance shall be expressly stated in the draft budget.

The macroeconomic scenario of the Canary Islands is framed in a context in which the materialisation of a number of risks identified by AIReF since the end of 2021, and particularly over the course of 2022, will impact the economic outlook of the European Union and Spain in the coming years. Specifically, AIReF indicates the risks surrounding the energy crisis, the persistence of inflation and the tightening of financing conditions.

The Canary Islands has prepared alternative growth scenarios for 2022 and 2023, establishing a central scenario, along with an optimistic and a pessimistic scenario, contingent on the evolution of national and international tourist demand. The Region's estimates point to GDP growth that could range from 6.3% to 9%, with growth of 7.6% in the central scenario.

The scenarios prepared by the Canary Islands for 2023 range from 1.3% under the pessimistic scenario to 5.2% under the optimistic scenario, with 3.3% as the central estimate. This central estimate exceeds AIReF's estimate of 1.5%, which is more in line with the pessimistic scenario. Furthermore, the central estimate is higher than the Government's estimate contained in the macroeconomic outlook that accompanies the General State Budget, although it would fall within the range of forecasts made by other institutions. Overall, this Region presents a complete macroeconomic scenario that includes deflator forecasts. In this regard, the nominal growth estimated by the Canary Islands for 2023 is identical to AIReF's estimate.

Taking these constraints into account and based on the similarity of the forecast nominal growth, AIReF endorses the forecasts of the Canary Islands for 2023. However, it

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considers that the real growth forecast in its central scenario is optimistic, while the forecast in the pessimistic scenario is feasible.

AIReF notes that these macroeconomic forecasts are made in a context of uncertainty that complicates their assessment at a national level, but heightens them at a territorial level, since the latest information available on the Spanish Regional Accounts relates to the year 2020, published in December 2021. Furthermore, this is not consistent with the most recent information on the National Accounts following the latest statistical revisions made by the National Statistics Institute for the years 2019 to 2021, published on September 15th, 2022.

AIReF underlines that the Canary Islands complies with the recommendation to submit to AIReF, prior to the publication of the draft budget, the information on the macroeconomic forecasts that underpin this and the corresponding request for endorsement, although the draft budget was published on October 25th. The Region has also followed the advice on good practices to include a comparison with other independent forecasts and to provide detailed information on the econometric techniques used in its macroeconomic forecasts. However, to facilitate the evaluation of the macroeconomic forecasts, the advice on good practices to include expenditure forecasts in terms of the Regional Accounts is reiterated. Finally, as with the other Autonomous Regions that have received a report on their macroeconomic forecasts, AIReF makes a recommendation to the Canary Islands to include the assumptions on the macroeconomic impact associated with the Recovery, Transformation and Resilience Plan (RTRP) for the period forecast among the information provided.