

AIReF ENDORSES BASQUE COUNTRY'S MACROECONOMIC FORECASTS FOR 2023

The Independent Authority for Fiscal Responsibility (AIReF) endorses and considers the forecasts for 2023 presented by the Basque Country feasible. The institution notes that 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 GDP rate of change forecast by the Basque Country for 2023 is higher than AIReF's estimate, it falls within the range of estimates of the consensus of analysts and is similar to the forecast made in the macroeconomic outlook that accompanies the General State Budget (GSB).

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 Basque Country is framed in a context in which the recovery and economic growth at the start of 2021 has been impacted by unprecedented rises in the price of energy and other raw materials, supply chain shocks and a strong rise in uncertainty following the invasion of Ukraine. 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.

In accordance with the macroeconomic scenario of the Basque Country, which considers these risks and constraints, the GDP of the Basque Country could grow by 4.3% in 2022. This forecast falls within the range of estimates of other private bodies and institutions, but AIReF considers that this scenario may be optimistic, given the rapid decline being recorded by most economic activity indicators and the outlook for the worsening of economic growth by its main European partners.

For 2023, the Basque Country estimates GDP growth in volume terms of 2.1%. AIReF notes that these 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 Spanish Regional Accounts is the benchmark for the year 2020. Neither is this information in line with the most up-to-date information available for the country as a whole as a result of the latest statistical revisions made by the National Statistics Institute for the years 2019 to 2021, published on September 15th, 2022.

In this regard, although the GDP rate of change forecast is higher than AIReF's estimate (1.4%), it stands within the range of estimates of the consensus of analysts of the Autonomous Regions and is similar to the estimate provided for in the macroeconomic outlook that accompanies the General State Budget. Taking these constraints into

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account, AIReF considers that the forecasts for 2023 presented by the Basque Country are feasible and, as such, endorses them.

AIReF underlines that the Basque Country complies with the recommendation to submit the information on the macroeconomic forecasts and corresponding request for endorsement, prior to the publication of the draft budget. Furthermore, the Region has followed the advice on good practices to include a comparison with other independent forecasts. It has also provided detailed information on the econometric techniques, models and parameters and on the assumptions used in its macroeconomic forecasts, following the advice on good practices proposed in October 2021. However, the Basque Country has still not provided the expenditure forecasts in Regional Accounting terms, hence AIReF reiterates this advice on good practices. It also considers that it would be desirable to include a macroeconomic scenario beyond 2023, since this is one of the fundamental elements for medium-term planning.

Finally, AIReF makes a recommendation to the Basque Country consisting of including the assumptions on the macroeconomic impact associated with the Recovery, Transformation and Resilience Plan (RTRP) for the period forecast among the information provided.