

ENDORSEMENT OF THE  
MACROECONOMIC FORECASTS OF THE  
2023-2026 STABILITY PROGRAMME

20/23



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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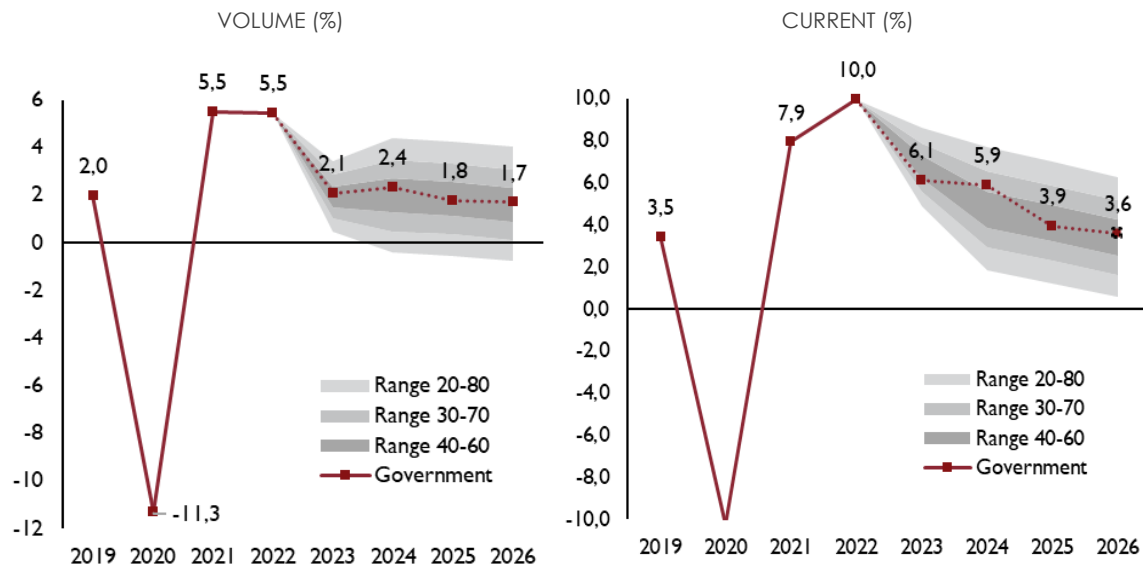
# ENDORSEMENT OF THE MACROECONOMIC FORECASTS OF THE 2023-2026 STABILITY PROGRAMME

**The Independent Authority for Fiscal Responsibility, AAI (AIReF) has received the Government's request for a report on the macroeconomic forecasts of the 2023-2026 Stability Programme.** In accordance with Article 14 of Organic Law 6/2013, of November 14<sup>th</sup>, creating the Independent Authority for Fiscal Responsibility (AIReF), the General Government must request that AIReF issue a report on the macroeconomic forecasts to be incorporated in the draft budget or in the Stability Programme Update (SPU), indicating therein whether such forecasts are endorsed. The purpose of this report is to verify that the budgetary scenario is based on realistic macroeconomic forecasts, within the uncertainty that persists in the national and international context. The report is drawn up with the information available until April 28<sup>th</sup>, 2023, before becoming aware of the potential economic policy measures that the SPU document may contain.

**With these limitations, AIReF endorses the medium-term macroeconomic scenario proposed by the Government considering, based on its own forecasts, that both the GDP growth path and the inflation forecasts are feasible.** The Government's scenario provides for real GDP growth of 2.1% in 2023, identical to the forecast contained in the General State Budget (GSB) for 2023, and which accelerates to 2.4% in 2024. In 2025 and 2026, real growth will decelerate converging towards potential growth, which the Government estimates at 1.6%. According to the Government's forecasts, national demand is the main element underpinning growth during the projected horizon, based on the favourable performance of employment and investment, while the contribution from net foreign demand is practically zero on average during this period. As regards prices, the Government scenario provides for high growth of the GDP deflator and private consumption (4% and 3.9%, respectively), which will moderate in the following years to converge at rates of close to 2% at the end of the projected period. Consequently, expected nominal growth remains high in the medium-term horizon, particularly in 2023 and 2024, with rates of 6.1% and 5.9% respectively, which will drop to 3.9% and 3.6% in 2025 and 2026. As can be seen in Figure 1, the Government's real growth forecasts of GDP stand, over the course of the projected period, within the central range of probability defined in AIReF's own estimates. At current prices, the estimates for 2023 stand below those expected by AIReF as a result of a lower expected growth in the GDP deflator, while those corresponding to 2024 would stand at the upper limit of the central

range. The Government's forecasts are considered feasible and, as such, are endorsed.

**GRAPH 1. GROWTH FORECASTS OF GROSS DOMESTIC PRODUCT**



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

**The technical assumptions on which the medium-term scenario is based contain the most recent forecasts on growth and global trade made by the European Commission and the European Central Bank and the expectations regarding financing conditions and raw material prices on international markets.** These external assumptions are marked by the fall in energy prices and, in particular, natural gas (which would decrease from 100 euros/MWh in 2022 to 59 euros/MWh in 2023, stabilising at 50 in the rest of the projected horizon) and the tightening of financial conditions, with an increase in both short- and long-term interest rates. The GDP growth assumptions in the euro area translate to a significant slowdown of export markets from Spain in 2023. Overall, these assumptions contain the most recent projections and latest developments in the financial and exchange-rate markets, and for raw materials.

**The uncertainty surrounding the Government's medium-term scenario remains high.** On the one hand, the swift and intense tightening of financing conditions that has taken place over recent months could diminish the dynamic nature of private consumption and investment from the Government's scenario, particularly in the second half of 2023 and in 2024. In this regard, the real growth estimates for 2024 fall within the higher limits of the central range of probability

estimated by AIReF on the basis of its own forecast scenarios. On the other hand, the Government's scenario provides for significant growth in employment over the course of the projected horizon, higher than the forecasts by AIReF and other institutions and private bodies, placing the unemployment rate at 9.8% in 2026.

**At a global level, the persistence of geopolitical tensions, fragmentation and the monetary and financial cycle pose downward risks for the economic growth forecast in both the Government's and AIReF's scenario.** The ongoing war in Ukraine, tensions towards greater trade fragmentation and global investment flows, the tightening of financing conditions and the persistence of high inflation rates project downward risks on the Government's growth scenario.

**As regards prices, the persistence of high inflation rates poses an upward risk on the Government's deflator scenario, especially in the short term.** The baseline effects on energy and the energy price falls in international markets are helping general inflation to fall quickly (to stand at 4.1% in April, after exceeding rates of 10% between June and August 2022). However, core inflation remains elevated, exceeding 6% this month. The persistence of high inflation rates increases the risk of second-round effects on compensation of employees and business margins. Furthermore, the drought may drive food prices upwards more than expected.

## Recommendations

**AIReF reiterates two live recommendations:**

- 1. AIReF reiterates to the Ministries of Economic Affairs and Digital Transformation and of Finance and the Civil Service the need to have appropriate information on the budgetary and fiscal measures incorporated into the macroeconomic scenario in order to increase the rigour of the endorsement process.** Given the interrelations between the macroeconomic outlook and the fiscal scenario, AIReF believes that a rigorous endorsement requires an understanding of the revenue and expenditure path that accompanies the Government's macroeconomic outlook and detailed information on the fiscal measures that it intends to incorporate in the medium-term horizon. The improvement in the provision of information is particularly important in the case of the Recovery, Transformation and Resilience Plan, given the central role it may perform in stimulating activity.
- 2. Finally, 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, in line with best practices in peer countries, the flow and timing of the exchange of information through an agreement or “Memorandum of Understanding”.

The President of AIReF

A handwritten signature in blue ink, appearing to be "C. H. Sánchez", written over a faint circular watermark.

Cristina Herrero Sánchez