

AIReF ENDORSES THE GOVERNMENT'S ECONOMIC SCENARIO FOR 2025 AND 2026, BUT POINTS OUT THAT KEY INFORMATION IS STILL MISSING TO MAKE A FULL EVALUATION OF GROWTH

- The Independent Authority for Fiscal Responsibility (AIReF) endorses the figures in the macroeconomic scenario that the Government will include in the Draft General State Budget for 2025 and the medium-term Structural-Fiscal Plan
- However, it warns of the complexity of the context and states that it will update its estimates and its evaluation when it has full information on the Fiscal Plan and the Spanish National Accounts data
- AIReF states that the request for endorsement comes at a complex time in which the Government is negotiating the medium-term Structural-Fiscal Plan adjustment path with the European Commission, which may affect forecasts
- AIReF recalls that a review is also being carried out by the National Statistics Institute (INE), which adds to the difficulty, as essential information is lacking to evaluate the Government's GDP forecast
- With the information available and despite the limitations, AIReF updates its forecasts and expects real GDP to increase by 2.8% in 2024, 2.3% in 2025 and 2% in 2026, in a scenario without measures
- Although the nature of the measures that make up the Fiscal Plan and the timeline of its implementation are not yet known, AIReF has drawn up a second scenario to determine whether the Government's path is feasible in the event that a fiscal adjustment is incorporated, and calculates that the size of the adjustment required could reduce growth to 2% in 2025 and 1.8% in 2026
- In this second scenario, the Government's forecasts would stand at the upper limit of AIReF's central forecast band and AIReF therefore endorses the Government's figures
- AIReF reiterates to the Ministries of Economy and Finance the need to provide more information on the budgetary and fiscal measures included in the macroeconomic scenario. If not, it recommends performing the endorsement process in two stages like other countries
- AIReF recommends that the INE should evaluate the suitability of statistical publication calendars with the needs of the budgetary cycle
- In order to improve the implementation of the new fiscal rules, it considers that the Government should draw up a complete economic scenario with at least a four-year horizon

The Independent Authority for Fiscal Responsibility (AIReF) has published the endorsement of the macroeconomic forecasts of the Draft General State Budget (GSB) for 2025 and of the medium-term Structural-Fiscal Plan on its website today. However, it points out that it will update its forecasts at a later date when it has full information on the content of the Fiscal Plan and the Spanish National Accounts data and will carry out a full evaluation of both the macroeconomic scenario and the plan itself.

In the report, AIReF highlights that the request for endorsement comes at a complex time, as the Government is in the midst of negotiations with the European Commission on the fiscal adjustment path that the Fiscal Plan will contain in order to meet the requirements of the new fiscal rules. In this context, the Government's macroeconomic scenario is one of the necessary elements for drawing up the plan that will be in force over the next four years. This can only be modified in exceptional circumstances, but, at the same time, the size of the adjustment and the nature of the measures included in this plan have a knock-on effect on expected GDP growth. This makes the endorsement process more difficult, as AIReF does not currently have complete information on the adjustment or the measures.

Furthermore, the request for AIReF's endorsement comes in the midst of a statistical revision process that makes this exercise even more difficult. On September 18th, the INE published the main results of the 2024 Statistical Revision of the National Accounts series for the years 1995 to 2023. At the time of finalising this report, the estimates of the Quarterly National Accounts (QNA) consistent with this revision were not available, nor were the Non-Financial Accounts of the Institutional Sectors, information that is essential to evaluate the path of growth and the behaviour of certain aggregates such as private consumption.

Nevertheless, AIReF has updated its growth forecasts to incorporate the latest statistical and circumstantial information. In the absence of any major revisions in the growth pattern for the years 2023 and 2024 in the data to be published by the INE next Friday, September 27th, the estimate for real GDP growth for 2024 would be revised to 2.8%, compared with 2.4% in the July scenario. Forecasts for 2025 are also revised by the same amount, to 2.3%, compared with the previous 2%. For 2026, expected growth now stands at 2%, compared with 1.8% previously.

According to these estimates, the Government's GDP growth forecasts accompanying the Budget and the Structural-Fiscal Plan would stand in the central probability band in both nominal and real terms. However, AIReF's scenario does not incorporate the structural adjustment that the Government will likely have to implement from 2025 onwards, which is currently unknown.

That is why a second preliminary growth scenario has been drawn up that incorporates a possible structural adjustment estimated by AIReF at 0.43 points of GDP per annum for the next seven years. This exercise is necessary to assess whether or not the Government's growth path is feasible in a scenario of fiscal adjustment. With all the necessary prudence, as the impact of a certain adjustment fundamentally depends on the nature of the measures that comprise it and the timeline of its implementation, which is still unknown, AIReF calculates that a potential structural adjustment of the size calculated would reduce GDP growth in 2025 by 0.3 points, to 2%, and in 2026 by 0.2 points, to 1.8%.

According to this scenario, the Government's forecasts would stand at the upper limit of the central scenario band. This allows AIReF to endorse the Government's GDP growth scenario for 2025 and 2026, without prejudice to updating the forecasts at a later date when full information is available on the content of the medium-term Structural-Fiscal Plan and on the National Accounts and a more complete evaluation will be made.

Recommendations

AIReF has reiterated on several occasions the need for more information on the budgetary and fiscal measures included in the macroeconomic scenario. In the current circumstances, it is essential to draw up a macroeconomic outlook that is consistent and coherent with the fiscal scenario and thus avoid possible errors in the design of the Fiscal Plan, which will remain in force for the next four years. AIReF therefore reiterates its request to the Ministries of Economy, Trade and Enterprise and Finance to provide more information on the budgetary and fiscal measures included in the macroeconomic scenario. If not, AIReF would consider it advisable that, following the best practice in other peer countries, the endorsement process should be carried out in two stages: one in which only an inertial macroeconomic outlook would be evaluated and another with the full outlook once the breakdown of the proposed measures is known.

Furthermore, and despite this year's extraordinary revision, AIReF recalls that the INE's usual calendar means that every year the budget is drawn up without having information on the accounts of the institutional sectors. It therefore recommends that the implementation of the recommendations of the technical working group on the use in the context of the pandemic of the sources of circumstantial information underlying the main macroeconomic indicators be evaluated, especially those relating to the suitability of the publication calendars of the statistics with the needs of the budgetary cycle.

Guidance on best practices

AIReF also considers that the Government should draw up a complete economic scenario with at least a four-year horizon, with investment and expenditure needs and the breakdown of the fiscal measures, given that the Structural-Fiscal Plan will remain in force for four years. According to AIReF, the new European fiscal framework has to be based on a genuine medium-term budgetary planning strategy to increase the likelihood of governments being able to meet the expenditure demands required to tackle the socio-demographic challenges associated with the demographic and climate transition, among others, while at the same time reducing high levels of debt.