

Key messages:

- The macroeconomic scenario of the SPU was endorsed by AIReF as prudent as a whole, given assumptions and policies.
- AIReF considers compliance with the approved General Government deficit target of -1.3% of GDP for 2019 unlikely.
- Compliance with the “revised” deficit path of the SPU 2019-2022 is feasible until 2021, and barely unlikely in 2022.
- The debt-to-GDP ratio encompasses an accumulated adjustment of 8.4 points of GDP, which borders feasibility.
- AIReF has stressed the need for consistency between the macroeconomic outlook and the fiscal projections.

Macroeconomic outlook

AIReF endorsed the macroeconomic scenario underlying the SPU 2019-2022, given exogenous assumptions and defined policies. The real GDP growth profile is considered prudent overall, given the external assumptions and policies envisaged. Government estimates a gradual drop in aggregate activity growth from 2.6% in 2018 to 1.8% in 2022, in the central part of AIReF’s interval. The SPU also poses a prudent cyclical position, which seems more mature than AIReF’s estimates. Regarding growth composition, the SPU expects a fall in the contribution of the internal demand in 2019-2022, which AIReF sees as a downward bias. Meanwhile, the external demand contribution becomes neutral from 2020 until the end of the forecasting horizon, a pattern that AIReF views as optimistic considering the global outlook and risks going forward.

Short-term fiscal outlook

Following the refusal of the 2019 Government Budget as well as to new taxes by Parliament, the SPU foresees a deficit of 2% of GDP for 2019, which is within AIReF’s central interval. Thus AIReF considers that meeting the General Government deficit target approved by Parliament of -1.3% in 2019 is unlikely. The lack of support to the 2019 Budget means that a relevant package of measures presented in the Draft Budgetary Plan 2019 will not enter into force this year, with a net positive effect on the deficit.

Medium-term fiscal outlook

The SPU presents a deficit reduction path of 2.5 points of GDP in 2019-2022, which AIReF considers feasible until 2021, and barely unlikely in 2022. However, AIReF pointed out that the distribution of deficit targets among subsectors does not reflect the real situation of each of them. Revenue forecasts are considered feasible although with a decreasing probability in the last years, despite a lack of consistency with the macroeconomic scenario underlying the SPU, and a different composition. The consolidation is partially explained by the entry into force of several revenue measures, some of them already included in the 2019 Draft Budgetary Plan, which were not implemented due to the draft budget refusal. The scenario also comprises the implementation of proposals arising from the spending review carried out by AIReF. Finally, the SPU places the debt-to-GDP ratio at 88.7% by 2022, encompassing an accumulated adjustment of 8.4 points, which AIReF regards as bordering feasibility.

Strengthening the medium-term fiscal framework

AIReF recommended, among others: i) to ensure consistency between the macroeconomic outlook and the fiscal projections, ii) to specify the measures following the Spending Review projects carried out by AIReF, iii) to expedite the processing of planned tax measures to come into effect in 2020.

SPU 2019-2022 main indicators	2018	2019	2020	2021	2022	AIReF’s assessment
Real GDP growth (%)	2.6	2.2	1.9	1.8	1.8	likely
GDP deflator (%)	1.0	1.6	1.7	1.8	1.7	likely
Output Gap (% GDP)	0.6	1.5	1.8	1.9	1.9	unlikely
GG balance – targets (% GDP)	-2.5	-2.0	-1.1	-0.4	0.0	feasible path
GG structural balance (% GDP)	-2.6	-2.7	-2.2	-1.6	-1.1	likely
GG debt (% GDP)	97.1	95.8	94.0	91.4	88.7	feasible

Chart 1: economic growth rates 2019-2022 (% change real GDP)

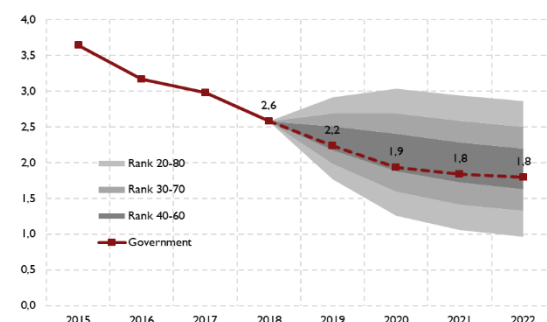


Chart 2: general government balance targets 2019-2022 (% GDP)

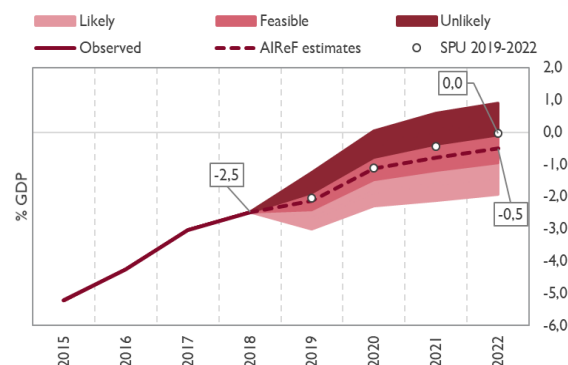


Chart 3: general government public debt to GDP 2019-2022

