

## Key messages:

- AIReF has endorsed the macro scenario underlying the Draft Budgetary Plan for 2019
- Fiscal plans for 2019 seem feasible provided all the measures are adopted
- But high legal and economic uncertainty advises a close monitoring of fiscal plans and measures for 2019
- A credible medium – term fiscal plan needs to be carried out to reduce public debt

## Macroeconomic outlook

AIReF has endorsed the macroeconomic scenario underlying the Draft Budgetary Plan (DBP) for 2019. The macroeconomic scenario is considered prudent overall considering the exogenous assumptions and defined policies. Growth profiles for 2018 and 2019 and their composition are considered plausible (Chart 1). Since July, AIReF has revised down its inertial scenario due to worsening of the external environment and revision of National Statistical Office (INE) series. The limited macroeconomic impact of the measures included in the DBP is considered plausible.

## Short-term fiscal outlook

AIReF's current estimation points to a deficit for the general government in 2018 of 2.7% of GDP. This implies a deviation of 0.5% of GDP with respect the official target (2.2% of GDP) approved in July 2017 (Chart 2) mainly due to the deficit-increasing measures included in the 2018 General State Budget. AIReF considers that overall spending will very likely exceed the level initially planned in the Stability Programme Update (SPU). On the contrary, revenues are growing faster than expected, in particular, the corporate income tax, so that the official revenue projections are very likely to be met.

As in the previous two years, the government has not been able to pass a Draft State Budget for 2019 in time. However, revised fiscal plans for 2019, including new fiscal targets for the different public administration levels, have been submitted to the European Commission in the DPB for 2019. AIReF has conducted a thorough assessment of the DBP, which will be revised once the Draft State Budget is approved and additional information on the remaining subsectors is received. The new deficit target proposed by the government (1.8% of GDP), still to be approved by Congress, is considered feasible (Table and Chart 2) provided all the measures submitted to AIReF are finally adopted. Revenue projections are feasible but subject to high uncertainty since they depend, on the one hand, on the final materialization of significant measures, among them: creation of two new taxes (on financial transactions and on digital services) increasing the maximum social security contribution bases, and, on the other hand, on the effectiveness of anti-fraud measures. AIReF estimates that the general government expenditure will unlikely be met.

## Medium-term fiscal outlook

The DBP projects a reduction of the public debt to GDP ratio by 1.5p.p. in 2019 reaching 95.5%. In 2019 a primary surplus would be reached for the first time again since 2007. AIReF considers this debt reduction feasible. However, meeting the 60% target in a reasonable period of time, ie by 2034, would require persistent primary surpluses of around 2% of GDP. Current primary surpluses would just stabilize the ratio slightly above 90% (Chart 3).

## Fiscal framework and national fiscal rules

Uncertainty surrounding the implementation and the final economic impact of the measures foreseen in the DBP for 2019 advises for a close monitoring in the context of the Spanish Budgetary Stability Law. Besides, on the SPU 2019-2022, a credible medium-term fiscal plan should be carried out to reduce the structural deficit and promote sustainable public debt dynamics.

Key MoF's indicators-DBP 2019	2017	2018	2019	AIReF's assessment of 2019 targets
Real GDP growth (% change)	3.0	2.6	2.3	feasible
GDP deflator (% change)	1.2	1.3	1.8	feasible
GG balance – targets still to be approved (% GDP)	-3.1	-2.7	-1.8	feasible
GG debt - (% GDP)	98.1	97.0	95.5	feasible

Chart 1: real GDP (% change)

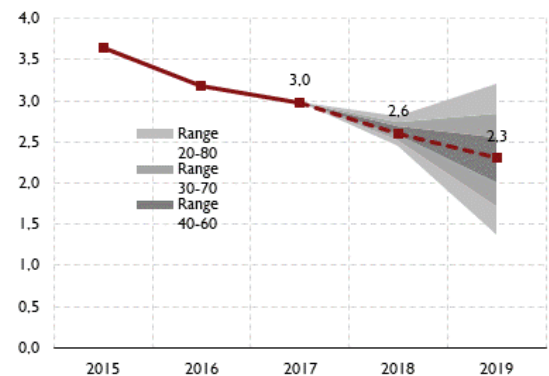


Chart 2: general government balance (% of GDP)

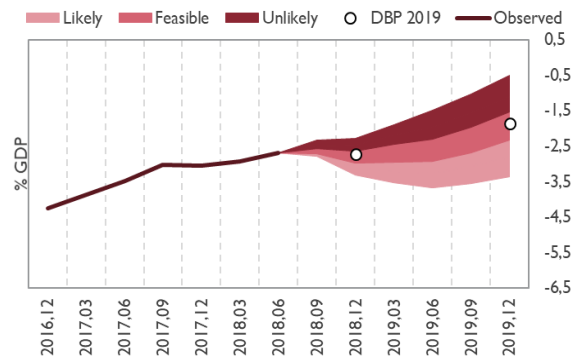


Chart 3: public debt (% of GDP)

