



Report on the main budgetary lines for 2015 of the Autonomous Region of Castilla y León

In the two years 2014-2015, the Autonomous Region of Castilla y León must make a fiscal effort equivalent to 0.4% of its expected GDP for 2015. At year-end 2013, the Region's net borrowing was €633m, which is 1.1% of its regional GDP. Using the year-end as a starting point, in order to meet its stability target in 2015, it has to reduce its deficit by €233m. This is 0.4% of the regional GDP forecast for 2015.

The Autonomous Region of Castilla y León is deemed likely to achieve the deficit target for 2015, which has been set at -0.7% of its regional GDP. However, the tension observed in the 2014 year-end estimates for certain revenues could mean that additional retrenchment not initially envisaged in the plans would be required in 2015. On the basis of the information available in the main budget lines questionnaire submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration, MINHAP) and in the draft budget published by the Region, it is deemed likely that the Region will comply with the stability target for this year. However, the Region's 2014 year-end forecasts are very tight. Tensions can be observed, mainly in the estimate for revenues from capital transfers. Should this uncertainty materialise, it would mean that additional retrenchment not initially envisaged in the plans presented would be required in 2015.

The mission of AIReF, the Independent Authority for Fiscal Responsibility, is to ensure strict compliance with the principles of budgetary stability and financial sustainability contained in article 135 of the Spanish Constitution.

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Analysis of compliance with the 2014 budget stability target

The Autonomous Region of Castilla y León expects to achieve its 2014 stability target with a 3.4% reduction in revenues and a 2.3% reduction in expenditure in public-sector accounting terms. On the basis of the information facilitated in the main budget lines questionnaires submitted to the Ministry of Finance & Public Administration (MINHAP), by year-end 2014 the Region expects to achieve the stability target set for the year at -1% of regional GDP. This outcome would be obtained with a 3.4% reduction in non-financial revenues and a 2.3% reduction in non-financial expenditure. Likewise, adjustments in national accounts terms are expected that will correct the budget outcome and bring down the deficit by €111m.

The primary deficit expected by the Region is 0.4% of regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014, accounts for 0.8% of regional GDP.

Revenues from the funding system paid out by the State to the Region went down 4.6% against 2013. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim instalments and final settlement. These went down 4.9% against the amount received by the Region in 2013. The average reduction for all the Autonomous Regions under the common regime is 3.3%.

The Region has not quantified the measures adopted for this year. The Region has not reported on the measures adopted for 2014 with respect to either revenues or expenditure in the main budget lines questionnaire.

Tension can be observed in certain revenue items at year-end 2014 that could be offset by favourable performance from other budget headings. The 2014 year-end forecast expected by the Region is very tight. Tension can be observed, mainly in the estimate of revenues from capital transfers. The uncertainties are based on:

- **Tax on Asset Transactions & Documented Legal Acts:** The Region estimates €24m in extra revenues against the previous year, which is a 10.8% increase. The proceeds recorded for this tax to September have fallen by 5.3% year-on-year. This conclusion is in line with the findings of the study conducted by AIReF on forecasted revenues from this tax for the Autonomous Region subsector as a whole, based on the data on the performance of private-sector housing prices from the National Statistical Institute (INE, *Instituto Nacional de Estadística*) and second-hand housing transactions compiled by the Professional Association of Registrars.¹ Based on this analysis, the 2014 year-end forecasts present an upward deviation compared to the average values for the model.
- **Capital transfers:** The Region expects an increase of €15m, up 4.5% against the Region's 2014 year-end forecast. A 27.3% reduction in funds has been observed to September. The Region has not reported any measures that would underpin this forecast.

However, the favourable performance that seems to be observed in other revenue lines and in the expenditure scenario could offset this possible deviation.

¹ The model is estimated every quarter for the common sample (2004Q1-2014Q1), with the data in logarithms and corrected for seasonal variation. The data series used show a stable long-term relationship (they are co-integrated). The model finally estimated is as follows: $\ln(AT\&LDT) = c + 0,94 * \ln(Transactions)_t + 2,2 * \ln(HousePrices)_t + \varepsilon_t$

Analysis of compliance with the 2015 stability target

The Autonomous Region of Castilla y León expects to achieve its 2015 stability target with a 5.8% increase in revenues and a 2.6% increase in expenditure in public-sector accounting terms. For 2015, the budget stability target is -0.7% of regional GDP. According to the information available, this outcome would be obtained with a 5.8% increase in non-financial revenues and a 2.6% increase in non-financial expenditure against the Region's 2014 forecasts. In addition, positive adjustments to public sector accounts would bring the deficit down by an estimated €58m in national accounts terms. According to the Region, this would enable it to bring its borrowing needs in line with the stability target set.

The primary deficit expected by the Region is 0.1% of regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2015, accounts for 0.7% of regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region increase 3.5% against 2014. The largest items recorded as non-financial revenues are from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 3.5% increase in these funds against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

The Region has not quantified the measures adopted for this year. The Region has not reported on the measures adopted for 2015 with respect to either the revenues or the expenditure in the main budget lines questionnaire.

The Autonomous Region of Castilla y León is deemed likely to achieve the deficit target for 2015, which has been set at - 0.7% of regional GDP. The scenario forecast by the Region in the plans presented seems to be consistent with achieving the stability target set for this year. However, the tension observed in certain 2014 year-end revenue estimates —mainly in capital transfers— could mean that additional retrenchment not initially envisaged in the plans would be required in 2015. This situation is accentuated by the fact that the 2015 forecast for this kind of revenues represents an increase of approximately 15% against year-end 2014.

It should be pointed out that the Region expects €151m in revenues from the disposal of property assets, which form part of the Property Asset Disposal Plan of the Autonomous Region of Castilla y León 2015-2018. Given the nature of these revenues, the plans and procedures that underpin these forecasts should be set out in detail in the course of the year.