



Report on the main budgetary lines for 2015 of the Autonomous Region of Madrid

In the two years 2014-2015, the Autonomous Region of Madrid must make a fiscal effort equivalent to 0.3% of its expected regional GDP for 2015. At year-end 2013, the Region's net borrowing was €1,838m, which is 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 €467m. This is 0.3% of the regional GDP forecasted for 2015.

There are risks that the Autonomous Region of Madrid will not meet the stability target, which has been set for that year at -0.7% of its regional GDP. Furthermore, the 2014 year-end is seen to be very tight, which requires strict application of the Region's cost curtailment measures. On the basis of the information available in questionnaire on the main budgetary lines submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration) and later corrected by the Region, and in the draft budget published by the Region for 2015, there are implementation risks that could jeopardise compliance with the stability target for this year. The main deviation risk in 2015 can be seen in the revenues scenario, basically in forecasts for disposal of property assets and for the Tax on Asset Transactions and Documented Legal Acts (ITPAJD, *Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*).

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.

AIReF:

José Abascal, 2, 2^o floor. 28003 Madrid. Tel. +34 91 010 08 95
email: Info@airef.es. website: www.airef.es

Moreover, the Region's 2014 year-end is very tight to meet the stability target, set at -1% of its regional GDP, as there is tension in the estimated revenues scenario and in the adjustments in national accounts terms expected by year-end.

Analysis of compliance with the 2014 budget stability target

The Autonomous Region of Madrid expects to achieve its 2014 stability target with a 3.2% reduction in revenues and a 0.2% increase in expenditure, in public-sector accounting terms. On the basis of the information facilitated in the main budgetary lines questionnaires submitted to the Ministry of Finance & Public Administration, by year-end 2014 the Region expects to achieve the stability target set for the year at -1% of its regional GDP. This outcome would be obtained with a 3.2% reduction in non-financial revenues and a 0.2% increase in non-financial expenditure. Adjustments in public-sector accounts are expected that would increase the deficit by an estimated €858m in national accounts terms.

Notwithstanding the above, the Region has significantly up-dated the year-end forecast against the initial 2014 budget in the supplementary information submitted. Initially it expected a 0.7% increase in non-financial revenues and a 3.9% increase in non-financial expenditure.

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 2014, accounts for 0.5% of regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 went down 3.3% against 2013. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim payments and final settlement. These were down 3.3% against 2013, which is similar to the average reduction for all the Autonomous Regions under the common regime.

The Region has not quantified the impact of 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 budgetary lines questionnaire.

The Autonomous Region of Madrid's fiscal scenario is very tight to meet the 2014 stability target, which is set for -1% of its regional GDP, as tension can be seen in the estimated revenue scenario and in the adjustments in national accounts terms expected by year-end, which could be offset with a more favourable performance from expenditure. The main uncertainties are focused on the following items:

1. In the **revenue** scenario forecasted by the Region for 2014, uncertainty surrounds the estimates of the following items:
 - **Tax on Asset Transactions and Documented Legal Acts:** The Region estimates €319m more in revenues against the previous year; a 37.9% increase. Although the tax receipts accrued to September have increased by 12% year-on-year, they do not support the forecast. This conclusion is in line with the findings of the AIR^eF study on the forecasted tax receipts for the Autonomous Region subsector as a whole, based on housing price data from the National Statistical Institute (INE, *Instituto Nacional de Estadística*) and second-hand housing transactions compiled by the Professional Association of Registrars.¹ As a result of this analysis, the

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 sets used show a stable long-term relationship (they are co-integrated). The model finally estimated is as follows: $\ln(TAT\&DLA) = c + 0,94 * \ln(Transactions)_t + 2,2 * \ln(HousePrices)_t + \varepsilon_t$

2014 forecasts submitted show an upward deviation compared against the model's average values.

- **Asset revenues:** The Region estimates a 24.8% reduction in these revenues against the previous year. The reduction to September however, is 56.2%.
 - **Disposal of property assets:** In its initial budget, the Region expected €718m from the disposal of property assets. However, according to the year-end forecast contained in the supplementary information submitted by the Region, this has been reduced by €643m, which accounts for 0.34% of regional GDP. This significant change has been passed on mainly to the expenditure scenario, and to a lesser extent, to adjustments in public sector accounts.
- 2. Adjustments in public-sector accounts** are expected to bring an extra €237m from obligations pending application to the budget (account 409/413). This estimate represents a reversal of the trend of previous years. Movements on this account are similar at 30th September to the previous year, when payments were not made until year-end.

However, the tension observed in the above revenue items and in the adjustment to account 409/413 could be off-set by a favourable performance of the expenditure budget, although the buffer arising from expenditure must absorb the entire change occurring in the disposal of property assets.

Analysis of compliance with the 2015 budget stability target

The Autonomous Region of Madrid expects to achieve its 2015 stability target with a 10.1% increase in revenues and a 4.8% increase in expenditure in public-sector accounting terms. For 2015, the budget stability target is -0.7% of regional GDP. According to the available information, this outcome would be obtained with a 10.1% increase in non-financial revenues and a 4.8% increase in non-financial expenditure against the Region's 2014 forecasts. In both cases, this would be concentrated mainly on capital transactions. Additionally, negative adjustments in public-sector accounts are expected that would increase the deficit by an estimated €1,066m in national accounts terms. According to the Region, this would bring its net borrowing in line with the stability target set.

The primary surplus expected by the Region is 0.3% 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 0.5% of regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region increase 5.0% against 2014. The largest item recorded as non-financial revenues are from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 5.0% increase in these against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

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

The main risks of deviation from the 2015 stability target are focused on the revenue scenario, specifically:

- **Disposal of property assets:** The Region expects €684 in revenues from disposals of property assets. Uncertainty can be seen as to whether the total forecast will be met. This uncertainty is justified by the nature of the revenues, the difficulty in materialising them underpinned by the performance of this item in previous years and by the fact that no information has been submitted on the disposal plan or on the steps taken to this end to date. The transaction accounts for 0.4% of the regional GDP expected for this year.
- **Tax on Asset Transactions and Documented Legal Acts:** The Region estimates a €340m increase in revenues against the previous year, which represents a 29.3% increase against the Region's 2014 year-end forecast. In the event that the year-end estimate quoted in the section on the 2014 analysis is not realised, it could increase the uncertainty about its total realisation in 2015.
- **Tax on certain means of transport:** The Region estimates a €90m increase in revenues against the previous year, which represents a 100% increase against the Region's 2014 year-end forecast. The Region has not reported having adopted any measure that would underpin this performance, or any intention of doing so.