

Report on the main line budgetary lines for 2015 of the Autonomous Region of Extremadura

In the two years 2014-2015, the Autonomous Region of Extremadura must make a fiscal effort equivalent to 0.2% of the expected regional GDP for 2015. At year-end 2013, the Region's net borrowing was €147m, 0.9% 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 €26m. This is 0.2% of the regional GDP forecast for 2015.

There are risks that in 2015 the Autonomous Region of Extremadura may not reach its deficit target for the year, which has been set at 0.7% of its regional GDP. On the basis of the information available in the main budgetary lines questionnaire 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 this Region for 2015, there are implementation risks that jeopardise compliance with the stability target for this year. These risks are based on:

- **Practical certainty of non-compliance with the target set for 2014.** In the Region's own year-end budget scenario, its deficit is €253m. This is 1.5% of its regional GDP. Moreover, there is a risk of non-compliance with some revenue items. Such non-compliance would require the Region to make additional retrenchment in 2015 over and above the effort already foreseen in the draft presented.
- **Deviation risk observed in the draft budgetary plans for 2015.** The greatest risks of deviation detected in the draft budgetary plans are related to capital revenues.

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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The Region's 2014 deficit may stand at over 2% of the regional GDP. The Region's own year-end budget scenario for 2014 in the main budgetary lines questionnaire for 2015 is a €253m deficit. This is 1.5% of its regional GDP. Additionally, risks are detected in this scenario with regard to collection of certain revenues. There is no evidence that some of them will materialise, and even if they do the amounts assigned to them are not supported either by developments to date or by measures adopted by the Region. In quantitative terms, the greatest uncertainty relates to the revenues from capital transfers.

In application of article 20 of Royal Decree 215/2014, of 28th March, approving the Organic Statute of the Independent Authority for Fiscal Responsibility, an independent section is included in this report on the deviation risk detected in 2014.

Analysis of the possible deviation from the 2014 budgetary stability target

The Autonomous Region of Extremadura expects to end 2014 with a deficit of 1.5% of its regional GDP. Revenues will be down 1.5% and expenditure down 1.6% in public-sector accounting terms. According to the questionnaire on main budgetary lines submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration, MINHAP) and later corrected by the Region, the expectation is for the Region to overshoot the stability target set for 2014 by 0.5% of GDP. This would be the outcome of non-financial revenues falling 1.5% —above all current non-financial revenues— and a 1.6% reduction in non-financial expenditure, mainly due to lower current expenditure on goods and services and current transfers. The adjustments required to present public accounts in national accounts terms will increase the deficit by a further €85m.

The primary deficit expected by the Region is 0.3% of the regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014 accounts for 0.7% of the regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 fell 0.8% 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 were down 0.8% against what the Region received in 2013. The average reduction for all the Autonomous Communities under the common regime has been 3.3%.

The Region has not quantified the measures taken for this year. In the main budgetary lines questionnaire, the Region did not report on any measures adopted for 2014 with respect to either revenues or expenditure.

There are other risks apart from those envisaged by the Region in its year-end forecast, above all with regard to revenues. These include:

- **Capital transfers:** A €39m increase is expected, up 12.5% against 2013. However, the revenue performance to September 2014 shows a 32% reduction against the same period of the previous year. In the supplementary documentation submitted, the Region explains this increase with reference to the funds collected from the European Union and the €100m revenue item credited under "Historical debt". However, there is no evidence in the State Budget of any increase over 2013 in transfers to the Region during 2014 for "Historical debt".
- **Tax on Asset Transactions & Documented Legal Acts:** This is expected to rise nearly €6m by year-end, up 7.5% against the previous year. No measure has been reported in this respect, and the performance of the rights accrued to September reflect a year-on-year fall of 5%.

The supplementary documentation submitted by the Region indicates that the Closure of Accounts Order for 2014 set 10th October as the deadline for committing expenditure. Moreover, instructions have been laid down to speed up the certification of expenditure jointly funded by the European Union. In 2014, these measures could offset the deviation seen in other items.

Analysis of possible deviation in the 2015 forecasts

The Autonomous Region of Extremadura expects to reach the 2015 stability target with a 19.7% increase in revenues and a 19.9% increase in expenditure, in public-sector accounting terms. For 2015, the budgetary stability target is -0.7% of regional GDP. According to available information, this would be achieved with a 19.7% increase in non-financial revenues and a 19.9% increase in non-financial expenditure. In both cases, this performance would mainly come from capital transactions. Additionally, adjustments from public to national accounts terms will lead to a €91m lower deficit.

The primary deficit expected by the Region is 0.4% of the 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 the regional GDP.

Revenues from the funding system that the State expects to pay out to the Region increase 4.5% against 2014. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 4.5% increase in these revenues against 2014. The average increase for all the Autonomous Communities under the common regime is 2.8%.

The Region has not quantified the measures adopted or forecast for this year.

The greatest risks of deviation from the 2015 stability target are related to the across-the-board increase in current revenues and the reduction in current expenditure on goods and services.

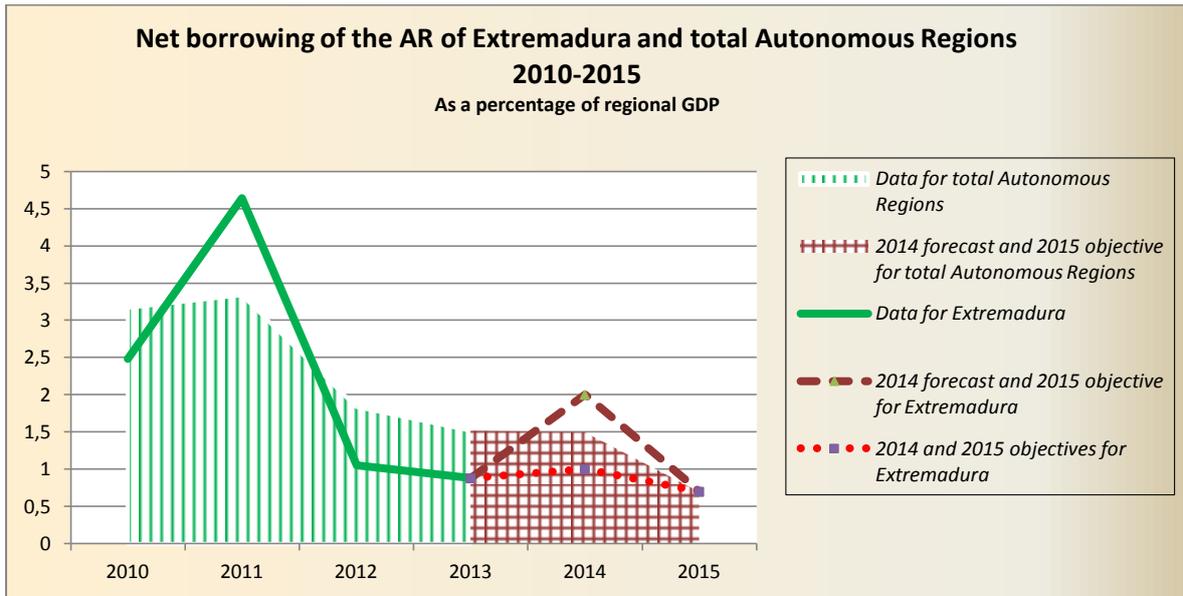
- 1. The revenues scenario** forecast by the Region for 2015 shows an across-the-board increase in revenues. No measures have been reported to support the likelihood of achieving such performance. The largest items are:

- **Capital Transfers:** These are expected to increase €368m, up 104% against 2014. Although the Region explains this increase with funds it expects to receive from the European Union, there is uncertainty about the materialisation of these revenues in 2014. If they are not as high as the expected amount, the increase in revenues would have to be even greater in 2015 in order to reach the forecast in this scenario.
 - **Disposal of property assets:** A €89m increase is expected. The Region has announced an *Asset Disposal Plan* that it expects to roll out in 2015. However, the only disposal identified for the moment is the direct sale of a property for €2m.
 - **Rates, public prices and other revenues:** These increase by 28%, up €32m against the previous year. This performance stands in contrast to the 39% year-on-year decrease recorded in 2014, according to data to 30th September. However, the Region explains this expected increase with the improvement in the economic situation expected in 2015 and with the future amendment of the Rates Act, for which a working group has been set up.
2. In the **expenditure** scenario, according to the supplementary information submitted by the Region, chapter 2 on Current expenditure on goods and services shows a reduction in 2015 against 2014, after having factored out the impact of Account 409/413. This reduction corresponds to the Extremadura Health Service. However, there is little to support this expectation, as the Region only states that cost-cutting measures will probably be adopted but does not mention any specific measures.

Report on the application of the corrective mechanisms established in Organic Law 2/20152, of 27th April, on Budgetary Stability & Financial Sustainability (article 21 of Organic Law 6/2013 on the establishment of an Independent Authority for Fiscal Responsibility and article 20 of the AIReF Statute)

The Autonomous Region of Extremadura has achieved a fiscal adjustment of €294m between 2010 and 2013. This is approximately 1.8% of regional GDP. The chart shows that this fiscal adjustment is almost the same as that made by the entire sector of Autonomous Regions (vertical green bars).

The chart also shows the expected fiscal adjustment for 2014 and 2015 in line with the targets set (dotted red line) and the amount needed to reach the 2015 target if the risks of not meeting the target for 2014 materialise (dotted brown line).



Note: The actual figure for 2012 includes the ruling in favour of the Region for its IDEC (tax on deposits of financial institutions), which accounted for 1.5% of GDP.

The Autonomous Region of Extremadura presents practical certainty of non-compliance with the stability target established at -1% of regional GDP for 2014. According to the available information for the issuing of the individualised Report on the main lines of the Autonomous Regions' budgets for 2015 (information from the questionnaire submitted by the Ministry of Finance and later corrected by the Region and draft budgetary plans presented by the Autonomous Regions), and taking into account the data on the Region's execution of non-financial transactions at 30th September¹, in national accounts terms, the Autonomous Region of Extremadura expects to end 2014 with a deficit of 1.5% of its regional GDP. Certain situations are also observed that will mean additional risks of deviation from compliance with the target set for 2014. These stem mainly from the deviations observed in the estimation of the revenues from

¹According to the latest data published by the IGAE (Government Comptroller's Office), the **Region's net borrowing to September 2014 was €341m. This is 2.02% of its GDP**, 1.8% higher than the figure recorded on the same date of 2013.

<http://www.igae.pap.minhap.gob.es/sitios/igae/es-ES/ContabilidadNacional/infadmPublicas/infadmcomunidadesautonomas/Paginas/imnofinancierasCA.aspx>

capital transfers, in the terms described in the section on *Analysis of the possible deviation from the 2014 budgetary stability target*.

In accordance with article 20.1, section b) of the AIReF Organic Statute, this possible deviation is explicitly stated in this report, in an independent section, for the purposes laid down in article 21 of Organic Law 6/2013, of 14th November.

Consequently, this report is submitted to the Ministry of Finance & Public Administration with a recommendation to activate the measures established in article 19 of Organic Law 2/2012, of 27th April, on Budgetary Stability & Financial Sustainability.