

Mr Antonio Beteta
State Secretary for Public Administration
Ministry of Finance and Public Administrations

Madrid, 5 December 2014

Dear Mr. Beteta,

On 15 October AIReF published its *Report on the Draft State Budget and Main Budgetary Guidelines from Public Administrations*, to assess compliance with the targets on stability, debt and expenditure benchmarks. Our analysis fulfills the requirements laid down on art. 20 of AIReF's Organic Law and on art. 17.1 of the Organic Law on Budget Stability and Financial Sustainability (LOEPySF, by its Spanish abbreviation).

When the above-mentioned report was drafted, the General Government Financial Information Center from the Ministry of Finance and Public Administration was not able to provide detailed enough information to conduct the analysis on a community-by-community basis. Therefore, the Report announced already the publication of a follow up individual budgetary assessment.

After 15 October AIReF started the preparatory works for the aforesaid complementary report using additional information provided by you, Draft Budgetary Plans (DBP) provided by the communities and data on budgetary executions available until 30 September (in national accounts terms).

As regards the data collection process, I would like to stress the role of Autonomous Communities, that provided us with documents, updated budgetary figures and clarifications which proved very important to pin down the final conclusions.

Overall, we have assessed as very tight the 2014 estimated scenario by the Autonomous Communities in the *Questionnaire on the 2015 Main Budgetary Guidelines*. The main reason being the existence of implementation risks in certain budgetary items with (potentially) negative consequences for achieving a budget balance target of -1% of GDP. However, as the fiscal year comes to an end, we expect increasing controls and more effective and rigorous accounting procedures being already approved. Besides that, the relatively tight situation between budgeted expenditure and forecasted revenue in 2014 also seems to

show the existence of a lower sensitivity and a lag effect between regional public finances and the economic cycle.

Beyond the aforesaid, we have identified risks of noncompliance with the 2014 targets for a given set of communities.

Since yearly budget executions are almost completed, AIReF recommends to speed up the application of the preventive measures foreseen in Art. 19 of LOEPySF, in those cases in which a high risk of noncompliance has been identified, before its confirmation in March 2015.

If risks of noncompliance finally materialize for 2014, the former action would ensure the adoption of corrective measures and strict surveillance since early 2015. Moreover, it would help to avoid, as much as possible, the repetition of the current situation in which only one Economic and Financial Plan (by Aragón) was presented (and approved by the Fiscal and Financial Policy Council) due to noncompliance.

In addition, it is important to recall that previous deviation from targets by Autonomous Communities during an elections year had a negative impact on public finances credibility and general financing conditions.

Due to the reasons described above and to give advice on the activation of the correction mechanisms set out in Chapter IV of LOEPySF, AIReF has listed *per community*, in an additional section, the identified risks of noncompliance with the 2014 targets. The *Individual Report on Main Budgetary Guidelines for 2015* is done in accordance with the provisions of Art. 21 of Organic Law 6/2013 and following the procedure foreseen in Art. 20 of AIReF's Organic Statute.

In the first place, AIReF has identified a high risk of noncompliance with the 2014 budget balance target of -1% of GDP in Extremadura, Murcia, Valencia and Catalonia. Moreover, the deviation from the target could be larger than 1% of GDP.

In addition, AIReF has identified risks in the implementation of deficit reducing measures in Andalucía, the Balearic Islands and Castilla-La Mancha. Should risks materialize, the deviation from targets could be around 0.3% and 0.4% of GDP.

In the case of Castilla-La Mancha, risks are related with the measures to under execute budgeted expenditures, which are not yielding the desired effects.

As regards Andalucía, deviation risks are associated, on the revenue side, with lease-back of assets and the reception of EU funds. Although the regional government has provided documentation regarding the implementation of these measures, the proximity with the end of year poses high risks for its completion in 2014. Likewise, the uncertainty surrounding the assessment of lease-back transactions in terms of national accounts together with the recent fiscal developments in budget executions, especially on the expenditure side, increases the risk of deviation in 2014.

Finally, with regards to the Balearic Islands, noncompliance risks stem from the recent developments observed in budget executions, in particular on the expenditure side, coupled with the uncertainty linked to transfers due to an agreement with the State.

The Report I submit, in accordance with the provisions of Art. 21 of Organic Law 6/2013, recommends to activate the preventive measures foreseen in Art. 19 of LOEPySF. Furthermore, as laid down in the Organic Law 6/2013, noncompliance with this recommendation must be followed by a public explanation.

Best regards,

A handwritten signature in black ink, appearing to be 'Jai', written in a cursive style with a horizontal line underneath.