



Autoridad Independiente
de Responsabilidad Fiscal

Individual Report on the Main Budgetary Guidelines of the Autonomous Communities for 2015

**Advice on the activation of the correction mechanisms set out in the
Organic Law on Budget Stability and Financial Sustainability**

AIREF, Madrid
5 de Diciembre 2014

Schedule

AIReF publications so far:

28 Jul: Report on the Economic and Financial Plans of the Autonomous Communities→ Only one plan (out of six presented) was endorsed.

26 Sep: Report on Macroeconomic Forecasts→ Endorses macroeconomic scenario embedded in state Budget as probable and it highlights downside risks.

15 Oct: Report on the Draft State Budget and Main Budgetary Guidelines from Public Administrations→ concludes that deficit target is highly demanding and signals a list of noncompliance risks, one of these being target deviations in the Autonomous Regions. However:

- Information was limited
- A follow up individual report was envisaged

25 Nov: Opinion on the determination of the Revaluation Pension Index→ Only mandatory Opinion

Individual Report on the Main Budgetary Guidelines of the Autonomous Communities for 2015

Individual reports for communities published in two tranches:

5 Dec: Individual Report on the Main Budgetary Guidelines of the Autonomous Communities for 2015

- Noncompliance risks with 2014 targets are identified after careful analysis of draft budgets and new information from Autonomous Communities
- In general, compliance with 2014 targets (-1% PIB) is tight
- **High risks of a significant deviation** in some cases

16 Dec: Individual Report on the Main Budgetary Guidelines of **all** Autonomous Communities for 2015

Report for the remaining Autonomous Communities

Provisions in the Budget Stability and Financial Sustainability Law

A series of specific and staggered measures to prevent deviations and correct fiscal imbalances

- **Preventive Measures** → Before deviations occur.
 - Automatic preventive measures (art. 18)
 - Risk of noncompliance alert (art. 19)
- **Corrective Measures** → Once a deviation from target materializes: limits to debt issuance and design of Economic and Financial plans.
- **Coercive Measures** → if coercive measures are not approved: freeze on funds, deposit constitution, experts' commission and further coercive measures.

AIReF recommends the issuance of a Risk of noncompliance alert, as foreseen in art. 19

Identification of a deviation from 2014 target

- ✓ In accordance with the law (art. 21 of AIREF's organic law and art. 20 of AIREF's Statute)) AIREF must signal DEVIATION RISKS in the following cases:
 - a) If there is enough evidence after the analysis of quarterly national accounts → Available data until end of Sep has been assessed.
 - b) If it follows from the EFP analysis → no publication so far (Aragón only)
 - c) If it is detected during the preparation of any of the reports foreseen in the statute → Report on the State Draft Budget and Main Budgetary Guidelines (special section).
- ✓ IF A RISK OF DEVIATION IS IDENTIFIED, IT MUST BE COMMUNICATED TO THE COMPETENT BODY TO IMPLEMENT CORRECTIVE MEASURES AND IN ANY CASE TO THE MINISTRY OF FINANCE AND PUBLIC ADMINISTRATION.

COMPLY OR EXPLAIN PRINCIPLE MUST BE FOLLOWED

NONCOMPLIANCE RISK ALERT (art. 19)

- If a noncompliance risk is identified, the government (following a proposal from the Ministry of Finance and Public Administration) will **hear in an audience** the relevant party and eventually issue a risk of noncompliance alert.
- The noncompliance alert will be **public** and sent to the Fiscal and Financial Policy Council.
- The alerted party will have one month to implement the necessary measures:
- If no measures are adopted → Corrective Measures

Economic and Financial Plan

The importance of speed

Act swiftly to avoid delays

- Bring forward the possibility to adopt measures with high risk of significant deviation:
 - ✓ Factor in the procedural times to be respected by law.
- Waiting availability of data for the whole year implies to delay measures at least until March.
- Implementation of measures can take even longer since 2015 is an elections year (changes in government and delays in the policy process)

CONTINUE THE ALREADY MADE EFFORT AND AVOID A STAY

- In 2014 only one EFP has been presented and approved.

ANALYSIS FOR ALL COMMUNITIES: RISK ASSESSMENT

GENERAL ASSESSMENT: Overall, compliance of 2014 targets very tight.

Unsatisfactory developments on the expenditure side and deviations in some revenue categories

3.3% fall in transfers from the financing system for autonomous regions with a common regime

Relatively high share of interest expenditure and low elasticity of a high share of expenditure made by communities

Relaxation of previously adopted measures

RISK CONSIDERATIONS:

Quantitative → Significant deviation identification (higher than 3% of GDP)

Qualitative → Probability of risks materializing

Worsening → Additional risks for 2015

INDIVIDUAL RISK ASSESSMENT

VERY HIGH RISK OF DEVIATION (MORE THAN 2% OF GDP):

- EXTREMADURA
- CATALONIA
- VALENCIA
- MURCIA

HIGH RISK OF DEVIATION (MORE THAN 1.3% OF GDP):

CONSIDERED FACTORS: UNSATISFACTORY FISCAL DEVELOPMENTS UNTIL SEPTEMBER 2013 AND SPECIFIC RISKS IN:

- Castilla-La Mancha
- Andalucía
- Baleares

EXTREMADURA

2014 DEVIATION RISK

- Government forecast: 1,5% of GDP
- Additional risks in revenue forecasts: Capital transfers and Tax on Property taxes

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014
- Additional risks : Capital revenue forecasts and current expenditures from the Regional Health Service

CATALONIA

2014 DEVIATION RISK

- Tax on property transmissions
- Revenue for concessions and privatizations
- Adjustments from budgetary figures to national accounts (account 409/413)

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014
- Additional risks: state transfers → regional financing system, IDEC compensation and statutory investments

VALENCIA

2014 DEVIATION RISK

- Additional risks: state transfers → regional financing system and IDEC compensation

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014
- Additional risks: state transfers → regional financing system and IDEC compensation

MURCIA

2014 DEVIATION RISK

- Privatizations
- Tax on property transmissions
- Public taxes and price of public services
- Current expenditure

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014
- Additional risks: tax on property transmissions and heredity and donations tax

CASTILLA-LA MANCHA

2014 DEVIATION RISK

- Unsatisfactory result of measures to under execute expenditure
- Low risk: Lower income from property Transmissions tax or Privatizations can be partially compensated by positive developments on capital transfers.

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014

ANDALUCIA

2014 DEVIATION RISK

- Unsatisfactory evolution of expenditures
- Lease-back of assets → Timing issue and uncertainty about its recording in National Accounts.
- EU Funds → Difficult to certify all expenditures before 2015 starts.

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014, in case the lease-back transaction is considered a financial operation. Timing issue in case operations are shifted from 2014 to 2015.
- Additional risks: Resources from the financing system and adjustments from budgetary figures to national accounts (accounts 409/413)

BALEARIC ISLANDS

2014 DEVIATION RISK

- Unsatisfactory developments on the expenditure side → current transfers
- State capital transfers → 2014 agreement on highways

2015 DEVIATION RISK

- Base effect due to noncompliance in 2014
- Additional risks: State capital transfers