

Annex I. Report on the State Draft Budget for 2015

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Central Government Sub-sector Budget Stability Objective

The Central Government has established in the 2015 State Draft Budget (PGE Draft) a deficit amounting to 2.9% of GDP, in line with the objective approved by virtue of the Resolution of the Council of Ministers of 27 June 2014.

The PGE Draft for 2015 is based on a budget or cash accounting basis. The Central Government does not prepare a budget based on national accounts headings that would enable to automatically determine the stability objective. Pursuant to article 27 of the LOEPySF, the 2015 PGE Draft includes, as in previous fiscal years, information that allows matching the resulting budget balance of revenue and expenditure with the net lending or net borrowing calculated in accordance to the standards of the European System of National and Regional Accounts.

The reconciliation of these balances is made based on total non-financial revenue and expenditure of the State and introducing national accounts adjustments that include the overall result for the Organisms of the Central Government.

The revenue and expenditure forecasts included in the 2015 PGE Draft are shown in the table below:

Net lending/net borrowing of the Central Government

Million Euros

Items	2015
1. Non-financial revenue	133,711.7
2. Non-financial expenditure	161,992.3
3. Non-financial Surplus (+) or deficit (-) of the Budget (1-2) expressed as a percentage of the GDP	-28,280.6 -2.9
4. Adjustments	-3,409.6
5. Net lending(+)/net borrowing(-) of the Central Government	-31,690.2
6. Net lending(+)/net borrowing(-) of the General Government Organisms	435.2
7. Net lending(+)/net borrowing(-) of the General Government (5+6) expressed as a percentage of the GDP	-31,255.0 -2.9

Source: Economic-financial Report of the 2015 PGE Draft

For the purposes of analysing the attainment of the deficit objective for the Central Government, the same scheme included under the 2015 PGE Draft will be followed: analyses of non-financial revenue and expenditure of the State, national accounts adjustments and net lending/net borrowing of the Central Government Organisms, so as to obtain the net lending/net borrowing of the Central Government.

1. Non-Financial Revenue

The PGE Draft is accompanied by a revenue collection forecast of the previous fiscal year that serves as the starting point for the revenue estimates of the 2015 PGE Draft.

The overall non-financial revenue¹ foreseen for 2015 came to 205,988 million Euros, that is 2.1% above the expected outcome for the 2014 Budget. **After deducting the share of Regional and Local Governments in IRPF (Personal Income Tax), VAT and excise duties, the State non-financial revenue of the 2015 PGE Draft amounts to 133,712 million Euros, 3% above the expected outcome for 2014.**

Given that the share of sub-national governments in assigned taxes is determined by directly applying the legal provisions contained in the financing system of Regional and Local Governments, all the analyses in this report are made on the overall revenue, and not on the State revenue.

Below follows a distinction between tax and non-tax revenue, focused on the analysis of the main items under each group:

a) Tax Revenue

The overall tax revenue foreseen in the 2015 PGE Draft amounts to 186,112 million Euros, with an increase of 5.4% (9,485 million Euros) compared to the 2014 expected outcome. **If we deduct the share of Regional and Local Governments from the overall revenue, the State tax revenue comes to 113,836 million Euros with an increase of 8.7% (9,067 million Euros) compared to the projected outcome.**

Considering their quantitative impact, the following items should be highlighted:

- Personal Income Tax (IRPF), with an expected collection of 72,957 million Euros, 0.6% below the projected outcome for 2014.
- Corporate Tax (IS), with an expected collection of 23,577 million Euros, 20.4% above the projected outcome for 2014.
- Value Added Tax, with an expected collection of 60,260 million Euros, 7.2% above the projected outcome for 2014.

¹ Total State revenue before deducting the share of Regional and Local in IRPF, VAT and excise duties.

This revenue estimate includes the potential effects of the fiscal reform that will be effective in 2015 and that is based on the modification of the main taxes of the Spanish tax system: Personal Income Tax (IRPF) and Corporate Tax (IS). The increase of the tax revenue estimated in the 2015 PGE Draft, excluding the fiscal reform, would have been 7.6% above the projected outcome for 2014.

The 2015 PGE Draft establishes that the steady improvement shown in the macroeconomic scenario included in the PGE will positively affect the evolution of the tax bases and, as a consequence, it will also have a positive impact on revenue.

In order to analyse this assumption, the AIReF has assessed, by means of quantitative tools, the validity of revenue forecasts of the main taxes in 2015. The methodology at the basis of this analysis is included in Annex II. Methodological Annex. Total Tax Revenue Forecast.

In accordance with this assessment, it can be concluded that tax objectives may be met as long as forecasts regarding the macroeconomic scenario included in the 2015 General State Draft Budget come true. However, there is some uncertainty associated to tax refunds in the main taxes.

- **Direct Taxes**

Direct taxes foreseen in the 2015 PGE Draft amount to 100,186 million Euros, with an increase of 3.9% compared to the 2014 outcome. **The State revenue foreseen for 2015 from direct taxes, after deducting the share of Regional and Local Governments, would amount to 67,444 million Euros, 3.8% above the projected outcome for 2014.**

Direct taxes in the 2015 PGE Draft

Million Euros

Capítulos	PGE INICIAL 2014		AVANCE LIQUIDACION 2014		PGE INICIAL 2015		% (5)/(3)
	ESTADO (1)	ESTADO (2)	TOTAL (3)	ESTADO (4)	TOTAL (5)		
Impuesto sobre la Renta de las Personas Físicas	41.276	41.974	73.415	40.215	72.957	-0,6%	
Impuesto sobre Sociedades	22.327	19.589	19.589	23.577	23.577	20,4%	
Impuesto sobre la Renta de no Residentes	1.690	1.332	1.332	1.530	1.530	14,9%	
Fiscalidad medioambiental	1.560	1.920	1.920	1.958	1.958	2,0%	
Otros	376	164	164	164	164	0,0%	
Total	67.229	64.979	96.420	67.444	100.186	3,9%	

Source: Ministry of Finance and Public Administrations (MINHAP)

The following sections contain an analysis of the main tax estimates included under the 2015 PGE Draft:

i. Personal Income Tax (IRPF)

The 2015 PGE Draft foresees a decrease of 0.6% in IRPF collection compared to the 2014 outcome estimate. Taking out the ex ante impact of the tax reform included in this estimate (-3,366 million Euros²), the IRPF collection estimated for 2015 would increase by 4% (2,908 million Euros).

The quantitative analysis performed by the AIReF does not show the existence of significant deviations in the IRPF revenue forecasts included in the 2015 PGE Draft.

ii. Corporate Income (IS)

As for the IS, the increase foreseen in the 2015 PGE Draft is 20.4% (3,988 million Euros) compared to the projected outcome. The ex ante impact of the fiscal reform in this case amounts to -437 million Euros³. However, as already mentioned in the Economic and Financial Report, if we deduct the effect of refunds, the estimated gross revenue for 2015 would increase by approximately 8% compared to the previous year.

Nevertheless, the increase projected for 2015 regarding this tax is subject to various factors that affect the 2014 collection forecast, such as the existence of regulatory changes, the implementation of negative tax bases and the high amount of refund requests. The 2015 PGE Draft determines that the 2014 collection foreseen in the forecast not only depends on the tax pre-payments made by large companies and holdings, but also on the tax base of the previous fiscal year and on the impact of regulatory measures. Thus, it is worth mentioning that the projected outcome for 2014 includes elements exerting some downward pressure: the special taxation of asset revaluations and the significant impact of refunds for fiscal year 2012, which were submitted in 2013 and the payment of which will be completed in 2014. Furthermore, the regulatory changes foreseen for this tax were affected by a decrease of the negative tax bases accrued. Taking into account these effects, the tax bases would increase by 10% in 2014.

² Ex ante reform. Amount foreseen in the 2015 PGE Draft and in the Financial Report of the Draft Law amending Act 35/2006 of 28 November on the Individual Income Tax on Natural Persons.

³ Ex ante reform. Amount foreseen in the 2015 PGE Draft and in the Financial Report of the Draft Law on the Corporate Tax.

However, as already mentioned in the Economic and Financial Report, if we deduct the effect of extraordinary refunds, the estimated gross revenue would increase by approximately 8% compared to the previous year.

The quantitative analysis carried out by the AIReF is consistent with the increase foreseen for 2014 bases (10%) and 2015 gross tax revenue (8%), although there is not enough information available to determine how net tax collection would be affected by taking into account negative tax bases and by the new refund schedule.

iii. Fiscal Reform: Impact on the IRPF and Corporate Tax

The impact of this reform is distributed between fiscal years 2015 and 2016, according to the information included in the 2015 PGE Draft, with a total ex ante impact for both fiscal years amounting to -9,059 million Euros (0.9% of GDP). Once the second round effects that imply higher revenues are taken into account, the estimated ex post cost amounts to -6,900 million Euros (0.6% of GDP).

The data contained in the 2015 PGE Draft determines that the ex post impact of the IRPF reform, for 2015 and 2016, amounts to -4,500 million Euros and to -2,400 million Euros in terms of Corporate Tax, these impacts being those forecasted in the Stability Programme. In this line, the 2014-2017 Stability Programme already included the estimated impact of the fiscal reform on the IRPF and Corporate Tax. The impact estimated for the IRPF was -4,947 million Euros (-2,566 million Euros in 2015 and -2,381 million Euros in 2016) and -2,000 million Euros for the Corporate Tax, which would affect the 2016 collection. The joint impact of the fiscal reform foreseen in the Stability Programme for both taxes (6,947 million Euros) virtually matches the ex post estimate included in the 2015 PGE Draft (-6,900 million Euros). However, the individual figures of each tax show a distribution between both taxes different from the one initially foreseen in the Stability Programme.

The reports included in the draft Laws regulating the aforementioned reform make a thorough and consistent analysis of the economic impact to be expected during 2015 and 2016, which the AIReF appreciates as a positive input.

iv. Other Direct Taxes

As regards environmental taxation, the forecasted revenue is 1,958 million Euros, that is 2% above the projected outcome for 2014. Although this estimate seems reasonable compared to the outcome forecast, it is worth mentioning that this revenue, pursuant to Act 15/2012, is used to finance certain costs of the electricity system and is therefore correlated, along with other revenue items in the State budget expenditure, to

the above mentioned financing through a transfer of capital from the Ministry of Industry to the National Competition and Markets Commission.

Lastly, it is also worth mentioning the Tax on Income of Non-Residents, which has an estimated collection of 1,530 million Euros for 2015, 15% above the 2014 outcome forecast. This tax would also suffer the effects of the fiscal reform, in line with the modifications of the IRPF and Corporate Tax, although to a very small extent.

- **Indirect Taxes**

Indirect taxes foreseen in the 2015 PGE Draft amount to 83,690 million Euros, with an increase of 7.2% compared to the projected outcome for 2014. The State revenue foreseen for 2015 from indirect taxes, after deducting the share of Regional and Local Governments, would amount to 44,156 million Euros, 17.3% above the projected outcome for 2014.

Indirect taxes in the 2015 PGE Draft

Million Euros

Capítulos	PGE INICIAL	AVANCE LIQUIDACION			PGE INICIAL 2015		% (5)/(3)
	2014	2014		2015			
	ESTADO	ESTADO	TOTAL	ESTADO	TOTAL		
	(1)	(2)	(3)	(4)	(5)		
I.V.A	27.122	28.488	56.216	32.529	60.260	7,2%	
Impuestos especiales	7.763	6.367	19.057	8.092	19.894	4,4%	
Alcohol y bebidas derivadas	339	315	778	331	792	1,8%	
Cerveza	113	113	286	122	294	2,8%	
Productos intermedios	7	9	19	7	20	5,3%	
Hidrocarburos	4.170	4.159	9.944	4.404	10.695	7,6%	
Labores del Tabaco	2.964	1.883	6.367	2.945	6.398	0,5%	
Electricidad	-94	-352	1.423	43	1.455	2,2%	
Carbón	264	240	240	240	240	0,0%	
OTROS	3.202	2.795	2.795	3.536	3.536	26,5%	
TOTAL	38.087	37.650	78.068	44.157	83.690	7,2%	

Source: Ministry of Finance and Public Administrations (MINHAP)

i. Value Added Tax (VAT)

The VAT revenue foreseen for 2015 is 60,260 million Euros, 4,044 million Euros more than the projected outcome for 2014, or in other words, an increase of 7.2%. According to the 2015 PGE Draft, this increase is based on the evolution foreseen for the expenditure subject to this tax. The PGE Draft states that, based on the macroeconomic forecasts, the domestic expenditure of households is expected to grow in nominal terms at a rate of 2.7%, and that the expenditure in home purchases is expected to bring a small positive contribution. These two improvements, according to the 2015 PGE Draft, will offset the decrease in current and capital expenditure of General Government.

Pursuant to the projections of tax bases by the AIReF and taking into account the revenue impact resulting from regulatory and collection mechanisms changes to be

implemented in 2015, no relevant deviations are identified for the VAT revenue forecast included in the 2015 PGE Draft. In particular, the analyses performed emphasize the importance of a favourable dynamics of adjustments in tax collection, so these adjustments must be specifically monitored.

ii. Excise Duties

Excise duties foreseen in the 2015 PGE Draft amount to 19,894 million Euros, that is 837 million Euros more than the projected outcome for 2014. In order to analyse this estimate, it must be considered that, according to the 2015 PGE Draft, the projected outcome for revenue in 2014 suffered the impact of extraordinary refunds of the tax on retail sales of certain hydrocarbons, which must be executed pursuant to judgment of the European Court of Justice of 27 February 2014 for an amount of approximately 500 million Euros, based on available data.

The AIReF performed an estimate of the main taxes comprised under excise duties: hydrocarbons, manufactured tobacco, alcohol and alcohol products, beer and electricity. Pursuant to AIReF models and forecasts, no significant deviations are observed regarding excise duties.

- ***Fees and Other Tax Revenue***

Revenue from fees and other tax revenue are not very representative of the overall non-financial revenue. As for the 2015 budget, **considering the general increase foreseen for fees (1%), the forecast included seems reasonable.**

b) Non-Tax Revenue

The non-tax revenue foreseen in the 2015 PGE Draft amounts to 19,876 million Euros, 20.6% above the amount foreseen in the projected outcome for 2014. The impact of this significant decrease in revenue foreseen for 2015 is mainly due to the effects of revenue resulting from the difference between the repayment and issuance value of public debt, which experienced a strong growth during fiscal year 2014. Nonetheless, it must be taken into account that this revenue is subject to national accounts adjustments with the aim of spreading it throughout the borrowing period, in accordance with interest accrued. The data supporting the budget do not include details of this accounting adjustment in the outcome forecast for 2014 because it is included as part of the amount paid as interest.

- ***Revenue from Current Transfers***

Revenue from current transfers come to 10,532 million Euros and represents 53% of the non-tax revenue foreseen in the 2015 PGE Draft. Within these transfers, it is

worth emphasizing those from Regional Governments (9,456 million Euros), representing 90% of the total revenue from transfers. An increase of 2.9% is expected in the revenue from transfers during 2015, compared to the initial budget of 2014, and an increase of 9.7% if compared to the projected outcome for 2014.

As for the **projected outcome for 2014, 9,602 million Euros are expected to be collected, that is 636 million Euros (6.2%) less than the revenue foreseen in the initial budget of that same year.** The largest shortfall occurs in transfers from Regional Governments, more specifically in revenue from the Basque Country (contribution and financial compensations) where the shortfall compared to the initial budget of 2014 is -927 million Euros.

Within the revenue from transfers budgeted for 2015, the most significant one (7,109 million Euros) is the revenue resulting from the Global Sufficiency Fund, a mechanism of the regional financing system.

Given the amounts resulting from the mechanisms of the regional financing system do not strictly match revenue estimates, but on the contrary are obtained by directly applying the provisions of Act 22/2009 regulating the financing system of the Regional Governments subject to the common regime and autonomous cities, no comments are made in this regard.

Another significant amount is that of transfers from the Basque Country –in terms of its contribution and financial compensations–, for an overall amount of 1,580 million Euros, a very similar figure to that contained in the initial 2014 budget. According to the Economic and Financial Report, this amount was considered an extension of the previous five-year period in the 2015 PGE Draft, because on the approval date of the draft, the act on the methodology of contributions for the new five-year period had not been approved yet. Considering the evolution of State tax revenue since the base year of the five-year period (2007), the AIReF sees an over-estimation risk in the revenue projected for 2015.

- ***Revenue from assets***

The revenue from assets foreseen in the 2015 PGE Draft came to 6,412 million Euros. **The most important headings are comprised by interest revenue on loans granted (2,230 million Euros) and dividends and shares in Public entities (3,637 million Euros).**

The interests projected are mainly derived from interest of the Regional Liquidity Fund (FLA, according to the Spanish acronym) and of the Fund for Financing Payments to Suppliers² (FFPP2), once the latter has become a Fund with no legal personality.

The revenue foreseen for interest on loans granted to Regional Governments decreased by 22% compared to the 2014 Budget. This decrease however must be somewhat qualified because the 2014 Budget included exclusively the forecast for revenue from interest on loans granted by the FLA to Regional Governments, while in 2015, as a result of the conversion of the Fund for Financing Payments to Suppliers into an entity with no legal personality (FFPP2), the estimation of interest to be collected from the FFPP2 was also included (1,400 million Euros).

The projected revenue from interests on loans granted by the FLA suffered a significant decrease for 2015 as a consequence of the support measures to Regional Governments that were recently approved and that result in a lower revenue estimate in the 2015 PGE Draft: 2,047 million Euros for 2014 and 2015. Thus, the initial revenue forecast made in 2014 of 2,767.86 million Euros came to a forecast of 787.7 million Euros in 2015.

This measure entailing a decrease in State revenue of -400 million Euros in 2014 and -1,640 million Euros in 2015 has not been detailed among those included in the 2014-2017 Stability Programme because it was subsequently adopted.

In addition, it should be noted that this downwards change of the financial conditions of loans granted by the FLA made it necessary to adjust the governing regulations of this financing mechanism, which initially was based on the assumption that the financing conditions applicable to these credit operations would guarantee the passing on of financial expenses and other costs incurred by the Regional Liquidity Fund (FLA). Such assumption was removed from final provision 2 of Royal Decree-Law 12/2014 of 12 September, which no longer requires to cover the costs incurred by the FLA.

The projected revenue from dividends is mainly the result of the profit sharing of the Bank of Spain and the State Company of Lotteries and Gambling. The projected revenue is 3.7% lower than the revenue forecast in the initial 2014 Budget and 20.2% below the revenue forecast of the projected outcome for 2014, therefore this is a cautious estimate.

- ***Other Non-Tax Revenue***

The forecasted revenue from disposal of investments and capital transfers amounts to €518 million, **that is 62% below the 2014 Budget and 20,7% above the projected 2014 collection.**

2. Non-Financial Expenditure

The Budget for State non-financial expenditure amounts to 161,992 million Euros, 1.7% below the initial 2014 Budget. If we deduct the transfers to Regional and Local Governments related to their financing systems, the amount comes to 129,060 million Euros, 3.2% less than the initial 2014 Budget.

In order to analyse the deficit objective for 2015 from the viewpoint of the expenditure budget, the most relevant non-financial State expenditure items were chosen.

Main Non-Financial State Expenditure Items

Million Euros

	2014	2015	%change	%/total
Non-Financial Expenditure	164,849	161,992	-1.7	100.00
Interest	36,616	35,519	-3.0	21.93
Financing of Regional and Local Governments.	31,589	32,933	4.3	20.33
Active Personnel Expenditure	13,880	13,719	-1.2	8.47
Passive Classes	12,643	13,185	4.3	8.14
EU Contributions	12,799	12,639	-1.3	7.80
Social Security Syst. Contribution	13,000	13,074	0.6	8.07
Contribution to SEPE and FOGASA	14,598	10,409	-28.7	6.43
Electricity System Costs	4,154	4,207	1.3	2.60
Investment	3,254	3,411	4.8	2.11
Remaining Operations	22,315	22,896	2.6	14.13

Source: Ministry of Finance and Public Administrations (MINHAP)

a) Interest

Interest expenditure represents one of the most important items in the expenditure Budget of the last few fiscal years. The expenditure projected for interest in the 2015 PGE Draft is 35,519 million Euros, that is 2,650 million Euros more than the projected outcome for 2014. In the fiscal year 2014, 36,616 million Euros were budgeted and the projected outcome contained in the PGE amounts to 32,872 million Euros, that is 3,700 million Euros less than what was initially foreseen.

This estimate might be deemed very cautious considering the likelihood of a stabilization of interest rates in 2015, which could generate some leeway in the State budget.

The projected increase in interest payments is due, on the one hand, to a greater need for net financing foreseen in the 2015 draft budget (47,000 million Euros, an amount significantly lower than the net financing need of 2014, -73,000 million Euros, and that of 2013, -71,000 million Euros) and, on the other hand, to the impact on the State interest burden of taking over, from July 2014 onwards, the financial burden of the Fund for Financing Payments to Suppliers⁴ (FFPP2) which entered with an interest rate above that of the remaining debt of the State.

b) Personnel expenditure

The personnel expenditure foreseen in the 2015 PGE Draft came to 15,823.19 million Euros. Active personnel expenditure amounts to 13,719 million Euros, including the partial recovery of the 13th month pay of 2012 (230.9 million Euros), 1.2% less than in the 2014 budget.

The impact of the recovery of the 13th month pay was not taken into account in the 2014-2017 Stability Programme, although the impact of said recovery on the Central Government is not particularly important, and is included under the 2015 PGE Draft.

⁴ Act 13/2014 of 14 July on the conversion of the Fund for Financing Payments to Suppliers. The FFPP2 entails the assumption by the State of €26,200 million.

c) Contribution to the Social Security Fund, SEPE and FOGASA

State contributions to the Social Security System account for 14.5% of its non-financial budget and amount to 23,483 million Euros, 14.9% less than in 2014, mainly due to a smaller contribution to the SEPE.

The 2015 Draft Budget foresees a transfer of 13,074 million Euros to the Social Security System, 0.8% more than in 2014 for financing minimum complements, non-contributory retirement pensions and family allowances.

Another important line in the 2015 expenditure Draft Budget is the one related to transfers to the SEPE and FOGASA for a projected amount of 10,409 million Euros in 2015, 28.7% less than the 2014 Budget. The most significant one of these budget lines is that of the current transfers to the SEPE, with an amount of 10,098 million Euros in 2015 and a decrease of 30.8% compared to the initial budget of 2014, which is mainly used for unemployment benefits.

The amount of these lines will be analysed under the Social Security sub-sector because they are directly related to the deficit objective of this sub-sector.

d) Investment

Within State investments, military investment deserves special attention. Special Programmes for modernizing armament are military investments considered to be of a strategical nature given their technological and industrial complexity.

These special programmes, with a high economic cost, are jointly financed by the Ministry of Industry, Energy and Tourism and the Ministry of Defence.

For the purposes of public deficit, this expense is recorded, in terms of national accounts, at the moment when the effective transfer of asset ownership takes place, regardless of the instalment payment foreseen throughout several fiscal years. In order to assess the impact of these investments on public deficit it would be necessary to have access to the schedule of the aforementioned effective asset ownership transfers.

On the other hand, since 2012, several budgetary changes have been approved in order to allocate under the relevant budget the investments of Modernization Programmes which had already been recorded under national accounts and were therefore included in the deficit. With the aim of increasing accountability and offering a true view of the investments of the Ministry of Defence, it might be advisable to include these credits under the initial State Budget.

e) Current Expenditure on Goods and Services

The 2015 PGE Draft includes the implementation of one of the measures comprised in the Programme for the Reform of the General Government (CORA, according to the Spanish acronym), which consists of centralising under the Central State Administration certain services and supply contract categories with the aim of realizing savings as a result of an improved efficiency in the management of activities that, based on their similarity, may be carried out in a centralised or joint manner. This measure will mainly affect chapter 2 of State expenditure, increased by 0.8 per cent compared to 2014 in homogeneous terms and after excluding the expenses for general, regional and local elections in 2015.

The annual report of the CORA⁵ determined the economic impact of the saving expected from the beginning of the centralisation of certain procurement and services contracts among Ministries at an overall amount of less than €80 million. Considering the initial amount foreseen for this measure was not very significant, it is not possible to assess its impact on the 2015 budget. However, these measures included in the CORA will be subject to a follow-up process in order to determine the economic impact they will entail in the future.

f) Tax Benefits in the 2015 PGE Draft

The 2015 PGE Draft includes, as it did in previous years, the budget of tax benefits. The 2015 PGE details the tax benefits resulting from expenditure policies amounting to €40,719 million, that is 6.2% more than those foreseen in the 2014 Budget.

However, the information on tax benefits included under the revenue budget is allocated to various expenditure policies, therefore, for the purposes of this report, tax benefits are included under the expenditure section. It may be appropriate, **in order to achieve a greater level of accountability and to perform a comprehensive analysis of expenditure policies, to incorporate tax benefits into the analysis of certain policies.**

⁵ Resolution of the Council of Ministers of 19 September 2014

Tax Benefits in the 2015 PGE Draft

Million Euros

Beneficios fiscales	2014	2015	% Variación	Var Mill. €
1. Fomento del empleo	7.609	7.542	-0,9	-67
2. Otras actuaciones de carácter económico (*)	6.088	6.474	6,3	386
3. Comercio, turismo y PYME	4.948	5.410	9,3	462
4. Agricultura, pesca y alimentación	3.812	4.365	14,5	553
5. Servicios sociales y promoción social	3.437	3.378	-1,7	-59
6. Acceso a la vivienda y fomento de la edificación	3.475	3.334	-4,1	-141
7. Sanidad	2.471	2.754	11,4	283
8. Deuda Pública	1.411	1.606	13,9	196
9. Pensiones	1.657	1.542	-7,0	-116
10. Educación	919	1.039	13,2	121
11. Subvenciones al transporte	925	1.017	10,0	92
12. Cultura	647	807	24,7	160
13. Investigación, desarrollo e innovación	244	641	162,2	396
14. Infraestructuras	260	342	31,6	82
15. Servicios de carácter general	313	306	-2,3	-7
16. Seguridad ciudadana e instituciones penitenciarias	74	92	25,2	19
17. Industria y energía	36	44	24,5	9
18. Desempleo	12	15	24,9	3
19. Política exterior	24	11	-51,9	-12
TOTAL	38.360	40.719	6,2	2.359

* Deducción IRPF por rendimientos del trabajo, deducción por reinversión de beneficios extraordinarios, dotaciones a la reserva de inversiones apra Canarias, exenciones IVA

Source: Ministry of Finance and Public Administrations (MINHAP)

3. National Accounts Adjustments

Pursuant to article 27 of the LOEPSF, the 2015 PGE Draft includes information which allows to match the resulting balance from Budget revenue and expenditure with the net lending or net borrowing calculated in accordance with the standards of the European System of National and Regional Accounts.

Of the adjustments included, the following are worth highlighting, among others:

- **Interests.** This adjustment totals 3,840 million Euros. This corresponds to the difference between the budget interest paid in the fiscal year of maturity whereas the national accounting allocates it to the year in which they accrue.
- **Military investments.** The adjustment in military investments has been recurrent in the last few fiscal years and totals an adjustment of -1,597 million Euros in 2015.
- **The deferment of payments to regional and local governments** in favour of the State accounts for an adjustment in 2015 of -5,688 million Euros.

Although it is true that this makes it possible to reconcile the balance of the non-financial budget surplus or deficit of the State with its net lending or net borrowing, as required by the law, it would be best for the purpose of the clarity of the information to also attach a presentation in national accounts terms of non-financial resources and uses envisaged in the initial budget, as it is done with the projected outcome.

The Spanish and EU budget stability law establishes objectives and rules in terms of national accounts, which means it is necessary to assess in those terms the impact of the projected revenue and expenditure items contained in the PGE. However, the information annually included in the PGEs only indicates the main adjustments necessary to convert the budget balance into national accounts terms.

These adjustments change from one year to another and generally there is not enough information to be able to assess their short and medium-term evolution. The adjustments are not stable enough in time to make it possible to issue projections or estimates, and consequently the analysis of the budgets and their compliance with the objectives is limited. There are years in which these adjustments have been quantitatively very relevant such as in 2011.

In general, more information and clarity as to the national accounting adjustments would be necessary. It is suggested that the PGE include an additional chapter in the

Economic and Financial Report reflecting the budget in the national accounting categories and offer more information on these adjustments.

AJUSTES PRESUPUESTO INICIAL

	2009	2010	2011	2012	2013	2014	Mille 2015
Inejecución	4.728	4.842	1.709	4.496	1.305	636	839
Intereses	2.262	3.200	1.700	-398	2.130	2.133	3.840
Inversiones abono total del precio	450	50	225	30	35	202	200
Inversiones APP			-980	-296	-32	70	50
Inversiones militares	-999	-533	-795	-1.415	-1.401	-671	-1.597
Gastos de acuñación de moneda	-85	-80	-80	-80	-80	-60	
Reasignación de operaciones SEPI	-350	-600	-450	-340	-340	-350	-350
Operaciones del FAD/FONPRODE	-2.138	-899	-559	-125			
Aportaciones de capital a empresas públicas	-4.273	-5.769	-5.129	-1.240	-1.233	-1.529	-2.249
Fondo de Inversión Local		-300	-1.000				
Aplazamiento de las liquidaciones AATT a favor Estado		7.313	25.544	-5.956	-5.956	-5.688	-5.688
Anticipos a cancelar CCAA				1.733			
Obligaciones de ejercicios anteriores				2.270	4.282	1.811	
Otros ajustes de ingresos				-2.034	-648	1.967	1.986
Otros ajustes	-200	-850	-538	-225	-390	-585	-440
	-606	6.375	19.648	-3.580	-2.327	-2.064	-3.410

Fuente: IEF

4. Total Expected Tax Revenue Methodology Annex

This annex outlines the method followed to estimate the projected total tax revenue before deducting the participation of the Regional and Local Governments. The analysis of the risks in the projected revenue from the main taxes contained in the PGE draft is done by comparing them to values projected by means of quantitative models. Some simplified examples of these models, offered in spreadsheets, can be downloaded from the AIReF website.

The advanced projections in the draft budget are offered in terms of cash. In order to make a comparison with the model projections, the projected bases must be turned into tax payments made by using the effective tax rates and the corresponding cash-accrual adjustment.

Therefore, it is worth speaking of: (i) risks that are known or quantifiable by means of the econometric modelling in the first step; and (ii) unknown risks associated to other determining factors of tax collection and, in particular, the step from the bases and accrued taxes to the cash revenue, depending largely on the collection mechanics of each tax.

This approach is compatible with the one used in the Annual Tax Collection Report for 2013, published by the Tax Agency. The scheme proposed for projecting revenue subdivides it into three explanatory factors as reflected in the equation [1]:

$$R = VM \frac{BI}{VM} \frac{ID}{BI} \frac{R}{ID} \quad [1]$$

Where R is collection, VM the variables relevant to the macro-scenario, BI is the corresponding tax base and ID, the accrued revenue. The evolution of collection is therefore determined by:

- i. The relationship between the macro-economic scenario and the tax bases; $VM \frac{BI}{VM}$.
- ii. The effective average rate; $\frac{ID}{BI}$.
- iii. The cash-accrual adjustments from the collection mechanics; $\frac{R}{ID}$.

This piece-by-piece approach allows for greater flexibility when projecting revenue as it can be adapted to the different types of taxes and facilitates a high level of detail. It also facilitates better ex-post understanding of possible deviations in the collection with respect to the projected scenarios.

In short, the projection process is done sequentially:

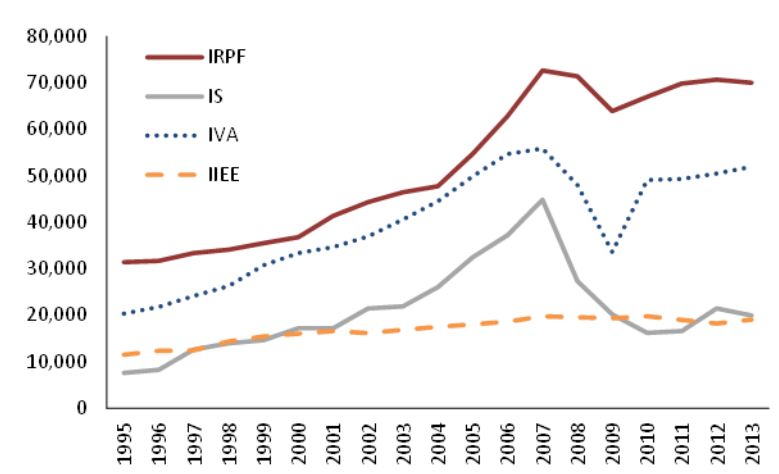
1. **Projection of the tax bases** based on a prior estimate of the relationship between the bases and the relevant variables in the macro-economic table and other factors.
2. **Projection of the accrued taxes** by first applying the effective tax rates from the previous year to the projected tax bases, in order to obtain the projected revenue accrued without regulatory changes in a specific year. Secondly, the inclusion of the estimated impact of the regulatory changes on the effective rates.
3. **Projection of the cash revenues:** estimate/calibration of the expected adjustments between the accrued resources and those actually collected in the corresponding year.

4.1. Data

The database used to monitor these three components is compiled by the historical series published for bases, effective rates and accrued taxes.⁶ The data are supplied on a quarterly and annual basis and are available for the main taxes: personal income tax (IRPF), corporate tax (IS), value added tax (IVA) and excise taxes (IIEE). The following graph shows the revenue series for these four components at an annual frequency for the 1995-2013 period.

Tax revenue, 1995-2013

Million Euros



Source: Spanish Tax Agency

4.2. Models for Projecting Accrual Bases

The projection of tax bases is supported by its relationship with the macro-economic aggregates of the scenario offered by the government.

Table A.1 summarises an approximation for each one of the 4 tax items as well as for social contributions. Explanatory variables were selected in an attempt to, on the one hand, maintain correlation with the variables included in the macro-economic table

⁶http://www.agenciatributaria.es/AEAT.internet/datosabiertos/catalogo/hacienda/Informe_mensual_de_Recaudacion_Tributaria.shtml

offered by the government and, on the other hand, reflect to the extent possible other determining factors of the taxes not reflected in the macro-economic aggregates.

Estimated models for projecting accrual bases⁷

	Gasto sujeto	Variables explicativas*	Frecuencia	Muestra
IVA	Gasto en bienes y servicios de los hogares	Gasto en consumo final de los hogares [0,74]	Anual	1995-2013
	Gasto de las Administraciones Públicas	Gasto Administraciones Públicas por componentes (consumo intermedio [0,42], adquisiciones directas [0,25] y formación bruta de capital fijo [0,35])		
	Gasto en compra de vivienda de los hogares	Inversión en Vivienda [0,53] y Transacciones de vivienda libre nueva [0,66]		
IIEE**	Alcohol (litros)	Gasto en consumo final de los hogares y PIB [1,52]	Anual	1995-2013
	Cerveza (litros)			
	Gasóleos y Gasolinas (litros)			
	Tabaco (cajetillas)			
	Electricidad (KwH)			
IS**	Base imponible consolidada	Excedente Bruto de Explotación [1,94]	Anual	1995-2013
IRPF	Rentas brutas de los hogares	Cotizaciones totales de la Seguridad Social (contingencias comunes, accidentes de trabajo, cotizaciones de desempleo y cese de actividad) [0,77]	Anual	1995-2013
		Excedente Bruto de Explotación [0,22]		
		Índice de la bolsa de Madrid (IBEX35) [0,04]		
Cotizaciones	Cotizaciones totales: contingencias comunes, accidentes de trabajo, cotizaciones de desempleo y cese de actividad	Asalariados [0,26]	Anual	1995-2013
		Base Máxima [0,49]		
		Remuneración de Asalariados [0,72]		

* Entre corchetes figuran las principales elasticidades de las bases imponibles devengadas ante cambios en sus determinantes

** Los modelos para los IIEE y el IS están estimados en tasas de variación. La elasticidad reflejada en el caso de los IIEE hace referencia al modelo de Gasóleos y Gasolinas.

4.3. Assumptions Related to Effective Rates and the Cash-Accrual Adjustment

As a general hypothesis on effective rates, a "no policy change" scenario is assumed for 2015 projections. In the case of the personal income tax, corporate tax and VAT, the ex-ante impact of the regulatory reforms entering into force in 2015 is considered separately, as outlined in the Yellow Book for the Draft Budget and the corresponding economic impact reports which offer a detailed and coherent analysis of the economic effects for fiscal years 2014 and 2015. The new resulting effective rates which are to be

⁷ All of the variables are statistically significant although the suitability of the adjustment varies from one model to another. The VAT and personal income tax (IRPF) models and contributions are estimated in logarithms for the levels as there is co-integration between the variables used.

used to project the accrued taxes are estimated based on the official estimate of the impact of the reforms on collection.

As far as the cash-accrual adjustment goes, there is an attempt to reflect the uncertainty linked to the mechanics of tax collection. In the case of indirect taxes (and to a lesser extent the IRPF), the evolution of the ratio between the collection in cash terms and the corresponding accrued amounts has remained relatively constant over the last few years. An average adjustment is considered which is therefore a cautious approach. In the case of the IS, on the contrary, the adjustment has been more unstable, with great influence on the actual collection figures. For this reason, the dynamics of the returns are analysed separately. In particular, the change in the law in 2012 is considered to have increased the percentage payable in the form of prepayments, which caused that in 2013 and 2014 large amounts of advances had to be returned for that year. As of 2015, the returns should begin to stabilise under the new regulatory framework.

Social Security Funds: Budget Stability Objective

The budget stability objective established as part of the Resolution of the Council of Ministers of July 2014 for Social Security Funds provides for a deficit of 0.6% of national GDP. An assessment of the compliance with this objective requires a joint analysis of the 2015 budgets for the Social Security System, the National Public Employment Service (SEPE, as it is known by its Spanish acronym) and the Wage Guarantee Fund (FOGASA, as it is known by its Spanish acronym), the entities which, in accordance with the National and Regional Accounts System, are a part of the Social Security Fund sub-sector.

In order to reach this objective, the Social Security System foresees revenue for non-financial transactions totalling 126,267 million Euros, which is 5.51% higher than the initial 2014 budget, and expenditure for non-financial transactions totalling 132,710 million Euros, which is 2.53% higher than the initial 2014 budget.

In relation to the forecasts included in the 2015 Draft Budget, it is important to highlight that the Social Security System budget **does not include an estimated budget outcome for the prior year**, despite the fact that the General Budget Act establishes the obligation that Draft Budgets be accompanied by an estimated budget outcome for the prior year. Nonetheless, it is worth indicating that for the purposes of the preparation of this report, the Ministry of Employment and Social Security has provided certain information to AIReF relating to the expected outcomes.

On a positive note, it is worth mentioning that the Draft Budget for the Social Security System is presented in national accounting categories, although it does not include any itemisation of the national accounting adjustments.

1. Non-Financial Revenue

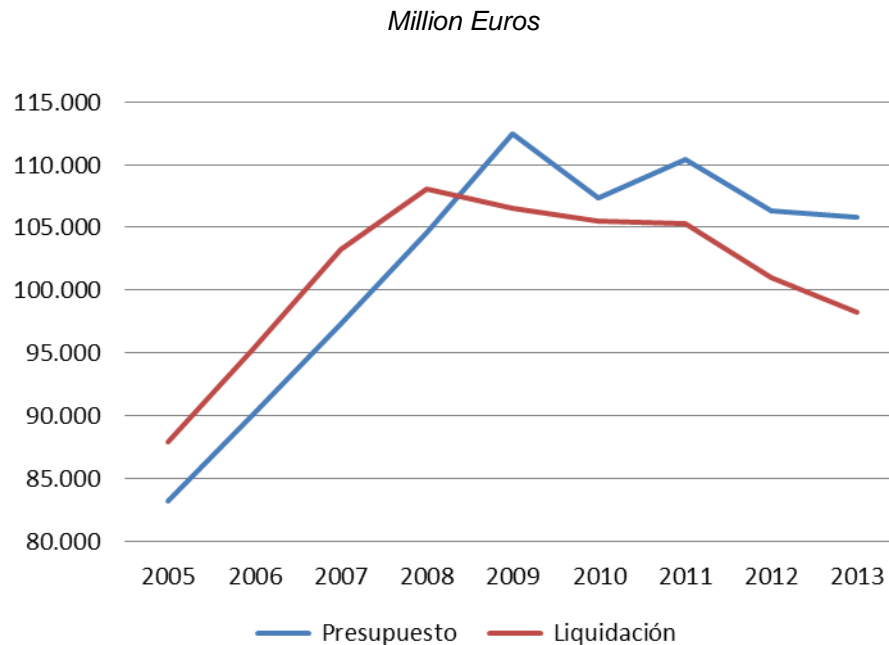
The most important resources for the Social Security Funds come from the revenue from social contributions.

The Social Security System expects revenue for 2015 from contributions totalling 109,833 million Euros, which is 6.8% more than initially budgeted in 2014 which means an increase of 7,000 million Euros over the initial 2014 budget.

Therefore, the 2015 Draft Budget provides for significant growth in the contributions which must be subject to individual analysis as it generates some uncertainty as to

compliance considering the evolution in the last fiscal years and the information available as concerns the macro-economic variables of influence.

Contributions deviation



Source: Social Security financial-economic report

As gathered in the 2015 Draft Budget, this increase in contributions is basically the result of the joint effect of an increase in the contributions of the employed of 8.6% and a decrease in the contributions of the unemployed of 12.4%. On the other hand, the occupational accident and disease quotas increased by 9.5% with respect to the initial 2014 budget.

AIReF has conducted a detailed analysis of the estimated revenue from contributions for 2015, as follows:

- Firstly, the expected outcome from contribution revenue was estimated for 2014 based on the existing execution data and with the inclusion of the uncertainties that exist at this time as to the effect of certain revenue measures adopted in 2014 which were not planned for in the initial budget, specifically the effect of including certain in-kind compensation in the contribution base. The result of this projection would imply that the revenue for contributions in 2014 will be below the initial amount budgeted by the end of the year which, if true, would mean the increase expected for 2015 would be higher than the 6.8% projected in the 2015 Draft Budget.**

- **On the other hand, an analysis was done on the evolution of the macroeconomic variables that influence collection, as well as the data on affiliation and collection of contributions until September, with the observation that they do not support this rate of growth.** The macroeconomic picture offered in the PGE estimates an evolution of total employment (jobs in full-time equivalent) for 2015 of 1.4%, an increase of 1% in compensation per employee and an increase of 2.7% in nominal GDP. The affiliation data available as of September 2014 shows 2.2% growth in comparison to the same month the year before, and the data on contributions collected to date provides for an estimated increase in collection of around 1.5% without including the effect the changes in the contribution base for in-kind compensation may have.

- **In order to analyse the projected contributions for 2015, AIReF made a quantitative estimate of the historical series of contributions collected for the 1995-2013 period.** In order to estimate this, the significant explanatory variables used were the series of employees and compensation per employee, as proxies of the number of contributors and contribution bases, as well as the maximum base including a supposed 1.4% evolution in the number of full-time employees and 3% in employee wages. **The result of this estimate, after including these hypotheses regarding the determining factors of contributions, shows that the projected revenue from contributions in the 2015 Social Security System draft budget would be far from the likely results.**

On the other hand, this estimate helps support the analysis of the projected revenue estimated by the Draft PGE for personal income tax.⁸ For this purpose, the evolution in the tax bases was estimated based on their main determining factors, detecting **inconsistency between the projected contributions and the personal income tax projections (see annex II for more details).**

The result of the estimate does not, however, provide for the possible effect of the new management measures to collect contributions and the increase in the contribution base the Social Security administration plans to apply in 2015 as the impact on collection is not absolute certain.

- **An analysis of the new management measures in the 2015 Draft which could provide for higher collection of contributions in 2015 was done.**

To this end, the Social Security System budget estimates an increase in the number of affiliates of 2.6% and an increase in the contribution base of 3.7%. The increase in affiliates of 2.6% (430,000 more affiliates) should be a sum of

⁸ Analysis based on the revenue forecast of the Central Government

full-time and part-time jobs in order to be coherent with the projected job creation included in the macro scenario.

Social Security sources believe the application of the new direct liquidation system completed by the Social Security administration itself (CRETA, as it is known by its Spanish acronym) will enable greater control over the workers' unitary bases, discounts applied and deductions for temporary disability as well as reduce the risk of business disappearance as concerns later claims. Work on the new system began in 2013 and it is currently in the test phase with 70,000 companies and 1.3 million workers. They believe it will be fully operational at the end of May 2015.

On the other hand, the increase in the contribution base is justified in the 2015 Draft PGE with various measures:

- **The inclusion of in-kind compensation in the contribution base. As per the expected timeline, most of the increase in collection will occur during 2015.** The 0.25% increase in the maximum contribution base and the 1% increase in the minimum base for the Special Self-Employed Worker Scheme leads to a total of approximately 140 million Euros based on simulation work done by AIReF with the Continuous Work History Sample.
- The effect of the reductions included in the flat fees for the General Scheme and the Special Self-Employed Workers Scheme (€640 million).

Finally, certain inconsistency was observed between the projected increase in contributions in the Draft Budget and the projected collection by the State Public Employment Service for 2015, which estimates an increase in contributions of 3.6% in comparison to the initial 2014 budget.

It is not possible to assess the impact of the full inclusion of the in-kind compensation in the contribution base and the application of the new direct liquidation system which, as per Social Security authorities, will significantly improve collection due to the better control over the bases, discounts and the application of temporary disability. The result of these measures will be a determining factor on the balance of the Social Security accounts for 2015, and the high collection expected requires monitoring the measures in order to be able to verify the real impact on the social contributions revenue.

2. Non-Financial Expenditure

The Draft Social Security System Budget projects non-financial expenditure of 132,712 million Euros. No significant risks were observed with respect to the projected expenditure.

The pension expenditure is to increase as expected, with projected increases of 1.23% in the number of pensions, of 1.6% in the average pension for new pensions with respect to expired pensions, and of 0.25% in the annual update of current pensions. These percentages are reasonable and perhaps slightly optimistic with respect to the evolution of the number of pensions, considering that the data until August show an increase of 1.44% in the number of pensions and of 1.67% in the average pension, both in comparison to the same month of 2013, although it is true that these variations have slightly dropped in recent months.

The draft budgets do not include information on the estimated pension revaluation index (IRP, as it is known by its Spanish acronym) which will soon be the subject of an AIREF specific analysis soon. Given that 2015 is the first year the index is to be applied, it would be a good idea to include information concerning this calculation in the draft Social Security System Budgets. An AIREF Opinion is expected to be issued in November, which will assess the values of the variables and parameters used to calculate the pension revaluation index included in the Draft.

The expenditure on the temporary disability benefit is budgeted with an increase of 1.3% with respect to the initial 2014 estimate. If the measures proposed by the Government and incorporated into the Mutual Insurance Company Act reforms are not effective, this item could present increased pressure, because until August 2014 there has been an annual increase of 10% in spending, with an increase in the number of processes of 7.4%. Nevertheless, the effect of regulatory modifications approved during this year that could help maintain the expenditure level is unknown.

3. SEPE and FOGASA Budgets

The draft SEPE budget for 2015 is in balance, whereas the FOGASA budget shows a deficit of nearly 200 million Euros. The latter has showed a deficit since the year 2009 which was nearly 800 million Euros a year in the 2010-2014 period. The lower 2015 deficit is the result, on the one hand, of a higher transfer received from the State of 300 million Euros and lower expenditure in benefits also totalling nearly 300

million Euros. The expenditure may be partially affected by the regulatory changes approved⁹ and by the end of labour shedding; however, there is not enough information available to assess whether this lower expenditure is realistic or may be an added risk that increases the deficit of the Social Security administrations.

The expenditure in unemployment benefits projected for 2015 drops by 11% with respect to the initial allocation for 2014 (4,427 million Euros). The allocation for 2015 is quite close to the estimated outcome for 2014.

The initial allocation for 2015 seems excessively cautious under the assumption of constant legislation meaning that, unless there are regulatory changes, the year could end with a significant surplus if the initial State transfers are maintained.

⁹ Final Provision Five of the General State Budget Act for 2014, effective 1st January, deleted article 33.8 of the Workers' Statute which provided for employee compensation of 40% OF the legal indemnity when the employee's contract is extinguished due to the causes outlined in articles 51 and 52 of the Workers' Statute and article 64 of the Insolvency Act, at companies with less than twenty-five employees.

Expenditure Rule

In accordance with articles 17.1 of LOEPSF and 16.1 of the Organic Law on AIReF, this report must assess whether the 2015 PGE Draft was prepared in compliance with the expenditure rule.

This rule was established for the first time ever in the year 2013 meaning the first report on compliance with it was issued by MINHAP on 11 April 2014 in reference to the variation in the provisional 2013 expenditure outcome with respect to that of 2012. That report indicated the more than sufficient compliance with the expenditure rule by the Central Government, given that the computable expenditure had decreased by 8.3% whereas the reference rate allowed for an increase of up to 1.7%.

In the same report, MINHAP indicated that it would provide detailed information on compliance with the expenditure rule when preparing the updated national accounts for fiscal year 2013, which would be the ones included in the second notification of the PDE to the European Commission in October 2014.

For this reason, no method has been published for the calculation of the expenditure rule by the Central Government¹⁰, nor there are any details as to the way this rule is applied at the time this report is issued, which is a significant limitation.

In the scope of the PGE, the expenditure rule is to affect only the Central Government sub-sector with a view to measure if the variation in the computable expenditure exceeds the reference medium-term GDP growth rate for the Spanish economy, which was established by Resolution of the Council of Ministers of 27 June 2014, at 1.3% for 2015.

Therefore, the application of the expenditure rule in the PGE Draft for 2015 involves verifying whether the calculable expenditure budgeted by the central government for 2015 does not exceed the 2014 expenditure by more than 1.3%.

In order to verify this, the calculable expenditure for both 2014 as well as the 2015 draft budget need to be verified.

In accordance with the LOEPSF, this calculable expenditure shall be the non-financial uses in terms of SEC 2010 less any debt interest, the non-discretionary expenditure in unemployment benefits, the portion of the expenditure financed with allocated funds

¹⁰ A calculation method for local governments was published.

from the European Union and transfers to the Regional and Local Governments connected to the financing systems.

In addition and in accordance with the regulations, the calculable expenditure level for 2015 should decrease as far as the equivalent sum if regulatory changes are expected in 2015 that would decrease the revenue in comparison to 2014, and could also increase if permanent revenue increases are expected.

Notwithstanding, AIReF finds **methodological obstacles** to calculating the central government expenditure rule. They are outlined below:

1. Non-Financial Employment in Terms of SEC 2010:

This data is known as concerns the estimated 2014 outcome, but not as concerns the initial 2015 budget, which presents a significant limitation on the calculation of the expenditure rule, given that non-financial uses are the starting point when calculating the computable expenditure. For this reason, the non-financial uses data must be calculated based on budget data and the corresponding national accounting adjustments must be made to this. As concerns these adjustments, only those relating to the State and not those attributable to each one of the authorities comprising the Central Government sub-sector are available. Added to these difficulties is the fact that at this time, it is highly complex having to apply the new method deriving from the recently approved SEC 2010, which affects the preparation of general government accounts.

2. Expenditure Financed with European Union Funds in Terms of SEC 2010

There is no information available on the portion of the expenditure financed with European Union funds in terms of SEC 2010 or in the 2014 budget or the initial 2015 budget.

Given these limitations and considering the information available, an approximate expenditure rule for the central government was estimated based on calculating the expenditure rule for the State. To the extent to which the non-financial uses of the State in the estimated 2014 outcome represent 95% of the non-financial employment of the Central Government, it may be considered an adequate indicator of how the expenditure rule would be for the entire Central Government.

In order to overcome the lack of information available as well as the applicable methodology, the calculation was done in accordance with the following criteria:

- **For the data relating to non-financial uses in the initial budget**, the non-financial expenditure of the State was used and then the national accounting adjustments relating to expenditure provided by MINHAP were added in, as well as the total amount of the assignment of taxes to the Local Governments and the assignment of VAT and excise taxes to the Regional Governments.
- **As the projected financial assistance from the State in 2014 and 2015 is unknown**, this was not considered to exist in any of the two years. This hypothesis is based on the fact that, according to information from the updated IGAE as of 30 September 2014, no assistance has been granted in the first two quarters of 2014. Therefore, this assistance for non-financial employment was not deducted.
- **As far as the non-discretionary expenditure on unemployment benefits is concerned**, AIReF believes that by analogy with the calculation of the expenditure rule, in accordance with European regulations and in order to safeguard due consistency with the medium-term balance or structural surplus objective, this expenditure would have to be understood as referring to the cyclical unemployment expenditure as far as the part attributable to the Central Government is concerned. As long as there is no data available and using a method to get an approximate calculation of the non-discretionary expenditure on unemployment benefits by the State, the transfer made by the State to the State Public Employment Service to finance its budget was considered to be fully used to pay out unemployment benefits. Moreover and as concerns fiscal year 2014, the State was considered to have fully paid the transfer provided for in its initial budget.
- **With respect to the portion of the expenditure financed with European Union funds**, this data was estimated considering that this part of the expenditure coincides with the revenue received by the State through current transfers as well as capital transfers from European Union funds. The national accounting adjustments that affect said revenue must be added to this amount.
- **The 2015 computable expenditure level has decreased as a result of the drop in revenue for the year due to tax reforms and in proportion to the ex-post cost expected due to the reforms for 2015**, as per the information provided by MINHAP. On the contrary, no increase was considered in the computable



expenditure level due to the constant increase in revenue given that, as per the information provided by MINHAP, these amounts do not seem to be significant.