

# **Annex II: Report on the Main budgetary lines of the Regional Governments for 2015. Stability Objective.**

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## 1. Scope of the Report

The information provided for the preparation of the report does not include all data requested **and therefore the scope of the analysis is limited to the sub-sector of the Regional Governments as a whole and to the assessment on the suitability of the main budgetary lines to comply with the established budgetary stability objective.**

In particular, the following data, which are necessary for the carrying out of a complete and consistent assessment as regards the adequacy of the main budgetary lines of the Regional Governments for 2014, have not been provided:

- Individual information by Regional Government.
- Information on the level and structure of the debt and the amount of interests up to date in terms of accruals and cash.
- Information necessary for the verification of the attainment of the expenditure rule under the terms provided by Resolution 5/2014, of 2 October, by the President of the Independent Authority for Fiscal Responsibility (AIReF)<sup>1</sup>.
- Breakdown of contingent liabilities.
- Information on the rationalisation of pharmaceutical expenditure.
- Supplementary information supporting the breakdown of the national accounting adjustments allowing to relate the budget balance resulting from revenue and expenditure to net lending or net borrowing.
- Breakdown by chapter of transactions recording obligations pending application to the budget (409/413 account and similar accounts).
- Biannual implementation of revenue- and expenditure-related measures in 2014 as well as the corresponding breakdown allowing their connection to the different budget items affected.

In view of the foregoing, **the scope of this Report is limited to:**

- Analysis for the sub-sector as a whole of the adequacy of the revenue projections and expenditure allocations contained in the aggregate information on the main budgetary lines for 2015 of the Regional Governments so as to attain the budgetary stability objective.

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<sup>1</sup> Resolution 5/2014, of 2 October, by the President of the AIReF on the Official List of Documents required for the preparation of the Report on the General Budget of the General Government (article 6.9 of the Organic Statute of the AIReF). [Resolución 5/2014 Información necesaria para la emisión del Informe de Presupuestos Generales de las Administraciones Públicas](#)

- Verification of the consistency of such budgetary lines with the expected outcome for 2014 as well as verification of the likelihood of said projection based on the results of the first half of 2014.

## **2. Main budgetary lines of the Regional Governments for 2015.** **Analysis of non-compliance risks as regards the stability objective.**

### **a) Introduction**

The year-on-year evolution of previous fiscal years, including the one arising from the budget implementation of the first half of each one of them and its relation to the outcome, are the starting point for the analysis of those data provided on the main budgetary lines of the Regional Governments for 2015.

The expected budget scenario for this sub-sector during 2014 and 2015 shows an upward trend as regards non-financial revenue projections for the latter fiscal year as compared to the expected outcome for 2014, amounting to less than 1%. The figure projected for 2015 represents an increase by 5% on the expected outcome for 2013. Likewise, the scenario for 2015 includes a reduction of non-financial budgetary expenditure slightly over 1% as compared to the one foreseen for the 2014 scenario, thus reaching figures similar to the ones registered in 2013. This evolution of revenue and expenditure results in a budget deficit of 0.79% of National GDP.

To the resulting balance will be added the projected national accounting adjustments which, according to the information provided, should allow to attain, both in 2014 and in 2015, the stability objective established for each fiscal year, amounting to 1% and 0.7% of National GDP, respectively.

This latter scenario is supplemented by a breakdown by category of the main expenditure- and revenue-related measures which are to be implemented in the sub-sector for each one of the fiscal years, and which must support the projected year-on-year variations in relation to the revenue and expenditure headings.

**b) Non-compliance risk of the 2015 budget stability objective. Probability of non-compliance with the 2014 stability objective and additional risks regarding 2015 scenario.**

The analysis of the probability of non-compliance with the 2015 stability objective according to the projected scenario is subject to the previous assessment as to whether the 2014 objective is attainable or not, since the tax effort necessary for 2015 depends on the final balance of the previous fiscal year. Risk arising from the non-compliance with the 2014 objective must be combined with those risks inherently related to the scenario projected for 2015.

The expected outcome for 2014 and those figures projected for 2015 provided by the Ministry of Finance and Public Administrations (MINHAP) have been analysed, considering the following aspects: the evolution of the main revenue- and expenditure-related items from previous fiscal years, both in the first half of 2014 and at the end of such fiscal year; revenue from system resources for 2014 and 2015; implementation data available for the other budgetary items until June 2014; assessment and implementation of those measures adopted and projected for each fiscal year; and other additional information arising from the studies carried out by the Independent Authority for Fiscal Responsibility (AIReF) or such information obtained for the issue of other reports by this body.

- ***Assessment of revenue projections***

- i. System Resources subject to interim payments and subsequent settlement*

Those financing system resources paid by the Central Government by means of interim payments and subsequent settlement in terms of annual collection represent an approximate 64% of total non-financial revenue of the Regional Governments. These resources arise from the assignment of the Personal Income Tax, Value Added Tax and Manufacturing Excise Duties as well as from the allocations by the Central Government to the Guarantee Fund, Global Sufficiency Fund and Convergence Funds.

On the other hand, final settlements of the financing systems corresponding to fiscal years 2008 and 2009, executed in 2010 and 2011, respectively, generated a negative balance for the Regional Governments. Such balance, which is not considered for the purposes of the attainment of the budgetary stability objective, was decided to be repaid to the Central Government from 2011 within a five-year period. In 2012, the repayment period was extended to ten years and, from January 2015, a new extension for twenty years was approved. The collection of these settlements is carried out by subtracting

interim payments corresponding to each period on a monthly basis. Final settlements of the financing system of fiscal years 2008 and 2009 are not considered for the purposes of compliance with the stability objective.

Since data are calculated and notified to the Regional Governments by the Central Government, their initial budgeting, as well as their accounting registry by the Regional Governments upon collection, should match those amounts notified and budgeted by the MINHAP.

Therefore, if Regional Governments registered an amount from these financing system resources higher than the one corresponding to the amounts notified, there would be a higher deficit risk within the sub-sector. Such risk would only diminish in the event that the settlement of system resources increased as compared to the one foreseen, since interim payments included in the budget by the Central Government do not change during the fiscal year.

In relation to the projected settlement for 2014, the MINHAP proposed a revenue scenario according to which Regional Governments are expected to be allocated financing system resources in 2014 corresponding to the total amount of the interim payments of that same year, the settlement of 2012 and those repayments which must be made as deferrals for the 2008 and 2009 settlements. Since, as of today, the settlement for the year 2012 has already been paid up and executed and interim payments and repayments are not amended as regards previous estimations, the balance to be collected by Regional Governments as expected outcome for 2014 is known and accurate.

However, according to the information available at the MINHAP website on resources for 2014, we can see that, as regards the projected scenario, there is an overvaluation of the financing system resources to be settled by the Central State Administration in 2014 amounting to over € 400 million. **Such amount would represent a financing need for 2014 coming up to 0.04% of National GDP.**

As regards the fiscal year 2015, Regional Governments will receive as resources from the financing system the interim payments of the system corresponding to year 2015, as well as the settlement corresponding to 2013. When executing the payment of said resources, the Central Government will deduct the repayment for the deferrals of negative settlements corresponding to 2008 and 2009 which, from that fiscal year onwards, will be implemented within a twenty-year period, according to the projections set out in the additional provision thirty six of Law 2/2012, on the State Budget for 2012, by virtue of the wording contained in Royal Decree-Law 12/2014, of 12 September.

In accordance with data published in the Economic and Financial Report of the 2015 State Budget, the Regional Governments are going to receive € 84,434 million, as

interim payment for the total amount of the financing system resources. Likewise, as settlement corresponding to 2013, an amount coming up to € 824 million is projected. This totals to € 85,258 million. The repayment of the negative settlements corresponding to 2008 and 2009 will be deducted from said amount, which comes up to € 953 million with the aforementioned deferral. As previously mentioned, since this amount does not affect the calculation of the financing need, the amount of the financing system resources to be allocated in terms of national accounting comes up to € 85,258 million.

However, according to the information provided by the MINHAP for 2015 as regards those financing system resources which integrate the financing need for the purposes of attaining the budget stability objective of the Regional Government sub-sector, it can be inferred that such amount exceeds by € 950 million the amount budgeted by the Central Government. **This represents an increase by 0.09% of the projected National GDP as regards the financing needs of the Regional Governments sub-sector.**

ii. *Tax on Asset Transactions and Documented Legal Acts (ITPyAJD, according to Spanish acronym)*

Projections for 2015 included in the documentation provided in which the main budgetary lines are supported show an increase in revenue as compared to those projections made in 2013, last year closed, amounting to almost € 1,200 million in absolute terms, whereas the assessment of the measures adopted in relation to this tax for 2014 and 2015 as a whole amounts to approximately € 500 million.

In 2014, the Regional Governments of the Balearic Islands, Cantabria and Castilla-La Mancha, have implemented measures regarding this tax aimed at increasing revenue. For their part, the Regional Governments of Catalonia, Murcia and Valencia raised the general tax rate, valid from August 2013, and therefore, in the first half of 2014, the effects arising from such measures are still noticeable. On the other hand, the Regional Governments of Aragón, Castilla y León, Extremadura, Galicia and Madrid have removed the increased tax rates or have approved reduced rates for specific transactions which were affected by such tax.

### Evolution of the application of the ITPyAJD tax

*Application percentage on the initial budget*

	2012		2013		2014
	Junio/ Presupuesto inicial	Cierre/ Presupuesto inicial	Junio/ Presupuesto inicial	Cierre/ Presupuesto inicial	Junio/ Presupuesto inicial
<b>% Ejecución derechos reconocidos</b>	39,15%	77,01%	41,52%	82,45%	44,22%
<b>% Ejecución Recaudación</b>	34,60%	71,34%	36,71%	76,93%	39,43%

Source: Ministry of Finance and Public Administrations (MINHAP)

**Year-on-year evolution of the collection from the ITPyAJD tax**

*Million Euros and percentage of the year-on-year variation*

2012		2013		2014	2013/ 2012		2014/ 2013
Junio	Cierre	Junio	Cierre (A)	Junio	Junio	Cierre	Junio (*)
2.539	5.235	2.467	5.171	2.587	-2,82%	-1,23%	4,85%

(\*) Last data regarding budget implementation corresponding to June 2014 result in a percentage of year-on-year variation amounting to 7.87%.

Source: Ministry of Finance and Public Administrations (MINHAP)

The expected outcome for 2014 shows an increase in said revenue as compared to projections for 2013 by more than 15%. Taking into account the evolution of the collection obtained from this tax until June 2014, the behaviour of such revenue in the previous fiscal year and the additional effect expected for this year as regards those measures adopted in relation thereof, **it is unlikely that revenue projections for 2014 will be attained. Said conclusion is also applicable to 2015 projections**, which also include an additional growth of around 5% in comparison to 2014 projections.

These conclusions seem to be endorsed by the study conducted by the AIReF on the projections on tax revenue arising from the evolution of the prices of unsubsidised housing provided by the INE (Spanish Statistical Office) and data on transactions related to second-hand housing provided by the Professional Association of Property Registrars.<sup>2</sup> Taking into consideration conservative assumptions on the emerging recovery of the housing market for 2014 and 2015, the annual collection projection is supplemented by means of the effect of those policy measures adopted during the fiscal year. As a result of this analysis, outcome projections for 2014 and outcome projections for 2015 show an upward deviation from model values (by a lower amount in the case with 2015).

*iii. Tax on Inheritances and Gifts (ISyD, according to the Spanish acronym)*

The scenario presented for 2015 foresees a growth by 5% of the revenue arising from this tax as compared to the outcome projection for 2014.

On the other hand, according to projections provided for 2014, a slight year-on-year increase below 1% of the revenue arising from this tax is projected. Said increase would be lower than the expected one in view of the measures adopted according to the documents received, which is consistent with the following aspects:

- The negative evolution of the collection from this tax until June 2014, and
- Policy changes adopted throughout fiscal years 2013 and 2014 which do not seem to endorse the assessment carried on the effect of the relevant measures. In the case with the Regional Governments of Aragón, Cantabria, Castilla y León, Castilla-La Mancha and Extremadura, a rise in tax reliefs and increases or applications of tax reductions were approved; whereas the Regional Governments of Catalonia, Murcia or Valencia removed reductions or diminished tax reliefs; such measures, in the case of the two latter Regional Governments were adopted in the second half of 2013 and therefore no additional effect is expected other than the one already arisen in the first half of 2014.

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<sup>2</sup>The model is estimated with a quarterly frequency for the common sample (2004Q1-2014Q1), with logarithmic data corrected by their seasonal pattern. Series used present a long-term stable relationship (which means they are co-integrated). The final model estimated is as follows:

## Evolution of the application of the ISyD tax

*Application percentage on the initial budget*

	2012		2013		2014
	Junio/ Presupuesto inicial	Cierre/ Presupuesto inicial	Junio/ Presupuesto inicial	Cierre/ Presupuesto inicial	Junio/ Presupuesto inicial
<b>% Ejecución derechos reconocidos</b>	<b>75,43%</b>	<b>128,33%</b>	<b>66,98%</b>	<b>121,17%</b>	<b>54,24%</b>
<b>% Ejecución Recaudación</b>	<b>52,93%</b>	<b>105,44%</b>	<b>45,52%</b>	<b>97,31%</b>	<b>36,49%</b>

Source: Ministry of Finance and Public Administrations (MINHAP)

## Year-on-year evolution of the collection from the ISyD tax

*Million Euros and percentage of the year-on-year variation*

2012		2013		2014	2013/ 2012		2014/ 2013
Junio	Cierre	Junio	Cierre (A)	Junio	Junio	Cierre	Junio (*)
<b>1.048</b>	<b>2.088</b>	<b>1.049</b>	<b>2.243</b>	<b>960</b>	<b>0,10%</b>	<b>7,42%</b>	<b>-8,51%</b>

(\*) Last data regarding budget implementation corresponding to June 2014 result in a percentage of year-on-year variation amounting to 1.42%.

Source: Ministry of Finance and Public Administrations (MINHAP)

In the case of this tax, although it is likely that, according to the aforementioned projections, **negative deviations may arise in 2014 as regards the expected outcome, said risk does not seem significant. However, it is actually relevant in the case of 2015, in which the projection of year-on-year growth amounts to more than 5% as regards this revenue, which does not seem to be supported, since such increase doubles the additional effect expected for such fiscal year in relation to those measures adopted within this scope.**

iv. Other Non-Financial Revenue.

According to the documents received, **revenue from assets** is expected to decrease by 60% in 2015 as compared to outcome projections for 2014. These projections for 2014 represent an increase by over 120% as compared to the implementation of 2013, approximately € 800 million, which will arise mostly from the disposal of administrative concessions set out in the Economic-Financial Plan (PEF) of the Regional Government of Catalonia, which was subject to a review by the AIReF on the 28 July 2014<sup>3</sup>. Said transactions are valued in the PEF at € 1,430 million; in the report issued by the AIReF it was pointed out that a degree of **uncertainty as regards the full implementation of its effects for 2014 was noticeable**. Implementation data published until July 2014 stressed such uncertainty since, despite of the fact that projections related to these transactions are less pessimistic, those recognized rights accumulated as of today by said Regional Government amount to € 35 million, whereas all Regional Governments as a whole reached € 198 million, which represent 12% of the outcome projection.

As regards the **disposal of real estate investments**, for 2015 a decrease by 47.77% is projected as compared to the expected outcome for 2014. The projection for 2015 represents a shortfall of 119.87% as compared to the outcome of 2013, which means that the volume of asset disposal during the two-year period must be maintained.

In view of the results obtained during previous years as regards the final execution of these transactions and the evolution of revenue until July 2014, **there is significant uncertainty as to whether those projected measures may have full effect at the end of 2014 and the expected increase** by more than € 1,800 million as compared to those figures reached in 2013 may be attained. **For the same reasons, it is deemed unlikely that projections for 2015 are going to be met**, although the shortfall may be lower than that of the previous fiscal year since some of the transactions projected for 2014, which cannot be implemented this year, may be carried forward to 2015.

## Evolution of the application of recognized rights for investment disposal

*Application percentage on the initial budget*

2012		2013		2014
Junio/ Presupuesto inicial	Cierre/ Presupuesto inicial	Junio/ Presupuesto inicial	Cierre/ Presupuesto inicial	Junio/ Presupuesto inicial (*)
<b>5,48%</b>	<b>20,03%</b>	<b>8,46%</b>	<b>22,30%</b>	<b>6,54%</b>

(\*) The last data regarding budget implementation corresponding to July 2014 result in an application percentage on the budget amounting to 15%.

*Source: Ministry of Finance and Public Administrations (MINHAP)*

### v. Other considerations as regards revenue projections

**The information provided does not allow to assess the likelihood of realization for 2014 and 2015 as regards other revenue-related items** included in the budget scenario, such as:

- Current transfers other than the ones related to system resources, for which in 2014 an increase over 20% as compared to the outcomes of 2013 is projected; in 2015, a shortfall is foreseen, which, in any case, would represent a revenue over € 2,200 million higher than that settled in 2013.
- The Tax on Certain Means of Transport, in relation to which a growth over 25% on the recognized rights of the previous fiscal year is projected for 2014; an additional increased by 12% is projected for 2015. The evolution of the collection of previous fiscal years and data available on the fiscal year do not seem consistent with the outcome projection for 2014 and the evolution projected for 2015.
- Other direct and indirect taxes, for which only an aggregate amount is provided. Such amount includes, apart from environmental taxes, gambling taxes and other taxes adopted by the Autonomous Regions under the common system of taxation, the ones corresponding to the Regional Government of Navarra arising from its statutory regime (IRPF, IVA, IIEE). Said heading may include, among the aforementioned concepts, the revenue projection for 2014 from the National Tax on Bank Deposits; however, it was not possible to identify its separate amount or the year of registration of its entry (2014 or 2015) and, as a consequence, its effect on the projected national accounting adjustments cannot be assessed either.

- ***Assessment of expenditure projections***

Since outcome projections for 2014 and 2015 of the account transactions recording those liabilities pending allocation to the budget have not been provided, the analysis on the evolution of the expenditure is limited because of the impossibility of calculating for these fiscal years and for each budget item the "actual" expenditure incurred at the end of each fiscal year. Additionally, the lack of a breakdown by chapter regarding those measures adopted and projected for each fiscal year makes it impossible to relate -for most of the expenditure- the budget evolution with the expected effect of those measures adopted.

However, it is actually possible to globally assess the evolution of the total non-financial expenditure once the effect of the obligations recorded in non-budgeted accounts from the information of the global adjustment projected for this item in the national accounting adjustment list is no longer present. Since, once the aforementioned adjustment has been implemented, the resulting year-on-year variations are similar to those arising from purely budgetary data, this report focuses its analysis on the latter, considering the reservations arising from such limitation.

In global terms, for 2014, it is projected a non-financial budgetary expenditure of the sub-sector amounting to almost 1% as compared to the outcome of 2013, arising from a similar percentage increase of current expenditure and slightly higher as regards capital expenditure. On the other hand, the main budgetary lines for 2015 foresee a year-on-year reduction of the non-financial budgetary expenditure of the sub-sector around 1%, as a result of a similar evolution of the current expenditure and a slight increase in capital expenditure.

The assessment of such evolution requires a more detailed analysis of the main groups of budgetary expenditure.

- i. Personnel expenditure*

In 2014, a slight increase in personnel expenditure, which seems consistent with the evolution of this expenditure registered until June 2014, is foreseen.

## Year-on-year evolution of those liabilities allocated as personnel expenditure

*Million Euros and percentage of the year-on-year variation*

2012		2013		2014	2013/ 2012		2014/ 2013
Junio	Cierre	Junio	Cierre (A)	Junio	Junio	Cierre	Junio
27.468	52.563	26.224	52.608	26.220	-4,53%	0,09%	-0,02%

*Source: Ministry of Finance and Public Administrations (MINHAP)*

However, said projection is not consistent with the assessment of the measures communicated for 2014 within this scope, which foresees an additional saving of € 1,000 million as compared to those figures of 2013. Unless significant measures -other than the ones implemented in 2013- are adopted by most of the Regional Governments in the last quarter of the fiscal year, it is unlikely that the aforementioned savings are generated which, in any case, are not included in the budget scenario provided.

In accordance with the information available as of today, only two Regional Governments, Catalonia and Murcia, have kept in 2014 the elimination of the 13<sup>th</sup> month pay benefit under the same terms applied in 2013, whereas Andalusia is no longer implementing a similar measure. Even though there are still different personnel-related measures in place within the sub-sector, the effect of the situation projected for these Regional Governments, with a significant share regarding the total, would be that of an increase in expenditure. Despite of the fact that such increase may be offset by the series of additional measures implemented in the sub-sector, it does not seem very likely that said offset may lead to the aforementioned saving, amounting to € 1,000 million.

Therefore, the uncertainty as regards the quantification of those savings generated by the measures projected for 2014 is confirmed, although there is **no deviation risk in relation to projections for 2014**, which does not seem to consider the impact of said measures.

Regarding 2015, according to the information provided, it is expected that the expenditure included in Chapter I will increase by approximately 2% as compared to the projected outcome for 2014. This year, the Regional Governments of Catalonia and Murcia are planning to end the elimination of the 13<sup>th</sup> month pay benefit, the effect of which is valued at around € 550 million Euros. Additionally, the partial recovery of the 13<sup>th</sup> month pay eliminated in 2012 would represent an approximate amount of € 700 million (the impact of the recovery of the 13<sup>th</sup> month pay is not considered as regards

the update of the Stability Programme 2014-2017, although it is included in the information provided by the MINHAP for the preparation of this report).

These circumstances, which would lead to an increase in expenditure exceeding the amount projected for the scenario, would be partially offset by the effect arising from the additional saving measures that may be adopted by Regional Governments regarding personnel. However, given the strategy applied within this scope from 2012, it is noted that there is not much margin for additional measures.

In any case, **projections for 2015 seem consistent with the expected outcome for 2014 and the consideration of the aforementioned circumstances**. However, it must be pointed out that, as the case with data regarding 2014, there is certain inconsistency in the assessment of the measures programmed for 2015 within this scope, which show a dissaving way below the one included in the budget scenario.

#### *ii. Financial expenditures*

The forecast at year-end for 2014 as regards financial expenditure shows that this item is 13% higher than the outcome of 2013. Said projection amends the initial budget forecast by including the saving of € 409 million resulting from the improvement of the financial conditions of the Regional Liquidity Fund (FLA) as it was agreed on the 31 July by means of the Resolution of the Executive Committee of the Government for Economic Issues.

Projections for 2015 show a reduction of said expenditure by almost 2%, around € 150 million, as compared to projections for 2014. Said amount includes the expected saving, estimated in € 1,638 million, resulting from the improvement in the financial conditions of the FLA.

Considering the information provided, it is not possible to perform a deeper analysis of the deviation risk that may affect the **outcome forecast for 2014 and projections for 2015** as regards said budget item; however, and taking into account data available until June 2014, **such forecasts seem reasonable in view of the evolution of expenditure during 2014 and the improvement forecasts of the general financial conditions**.

## Year-on-year evolution of obligations allocated as financial expenditure

*Million Euros and percentage of the year-on-year variation*

2012		2013		2014	2013/ 2012		2014/ 2013
Junio	Cierre	Junio	Cierre (A)	Junio	Junio	Cierre	Junio
2.974	6.241	3.496	7.289	4.167	17,56%	16,79%	19,20%

*Source: Ministry of Finance and Public Administrations (MINHAP)*

### *iii. Other current expenditure*

This budget item includes current expenditure on goods and services and current transfers. Among other items, this heading mostly includes the recording of health and pharmaceutical expenditure, the one related to the disability allowance and other social expenditure, as well as general operating expenditure of the corresponding administrations; therefore such item is particularly inelastic.

The scenario projected for 2014 foresees that the level of budget expenditure for said items (the effect of accounts 413/409 and related ones still present) will be the same as in the previous fiscal year.

Considering the evolution of these items in previous fiscal years, the information available on the measures adopted and projected and budgetary implementation data until the first half of 2014, **the outcome forecast for 2014 and projections for 2015 seem reasonable.**

### *iv. Capital expenditure*

The year-on-year growth expected at the end of 2014 as regards this budget item, which includes expenditure in real estate investments and expenditure on capital transfers, amounts to around 2%, approximately € 200 million as compared to the outcome of 2013. On the other hand, in 2015, a slight additional increase of this expenditure is foreseen. Considering that the period for the justification of the expenditure co-financed by means of the funds provided by the EU corresponding to the Operational Programme 2007-2013 is about to expire and that the new Operational Programme 2014-2020 has started, an increase in the affected investment expenditure, in line with the increase in capital income resulting from these funds, is expected. However, since the expected increase as regards **revenue from capital transfers**

exceeds 9% as compared to the one registered in 2013, there seems to be some inconsistency with the increase foreseen in relation to capital expenditure.

In spite of this possible inconsistency, the outcome forecast for 2014 and projection for 2015 in relation to capital expenditure seem consistent with its evolution during the first half of 2014 and the information available on those measures adopted and planned.

- *Other circumstances that may affect compliance with the 2015 stability objective*

**In compliance with the application of the ruling passed by the Court of Justice of the European Union of 27 February 2014 which declared that the Tax on Retail Sales of Certain Hydrocarbons was contrary to EU law**, according to the information provided by the MINHAP, it is expected a revenue return amounting to € 2,000 million to be executed in fiscal year 2014 in terms of national accounting.

Said amount has been allocated as a reduction of the Tax on Hydrocarbon of the revenue budget of the State in 2014 coming up to € 500 million, as set out in the Economic and Financial Report of the State Budget of 2015. The remainder, according to the information provided by the MINHAP, has been recorded as a national account adjustment in 2014 within the sector of the Central Government; however, the distribution between the Central Government and the Regional Governments is still pending.

**To the extent that refunds are partially or totally charged to Regional Governments, the attainment of the objective on the part of this sub-sector will be affected and, therefore, there would be a potential risk.**

### **c) Risks detected in Economic and Financial Plans for 2014 and 2015 of the Regional Governments.**

The report submitted to the Central Government by the Ministry of Finance and Public Administrations in April confirmed the non-compliance with the budgetary stability objective by the Regional Governments of Aragón, Castilla-La Mancha, Catalonia, Murcia, Navarra and Valencia, as well as the non-compliance with the debt objective by the regional Governments of Aragón, Castilla-La Mancha and Navarra.

Article 21 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability (LOEPySF) disposes, in the event of non-compliance with the budgetary

stability or debt objectives or with the expenditure rule, that it is mandatory to prepare and submit an Economic and Financial Plan aimed at the attainment of the objective established for the ongoing year and the following one. On the other hand, in accordance with Article 21 of Royal Decree 215/2014, of 28 March, approving the Organic Statute of the AIReF, those Regional Governments which are required to submit the relevant Plan, must request the AIReF the issue of a report on such Plan before it may be approved by the Economic and Financial Policy Council.

On the basis of the above, the AIReF issued on the 28 July<sup>4</sup> the report corresponding to those Economic and Financial Plans sent by the aforementioned Regional Governments. The following conclusions were drawn based on said reports:

- As regards the Regional Governments of Castilla-La Mancha and Navarra, the attainment of the budgetary stability objective for 2014 is deemed likely and very likely, respectively, since measures included in their Plans may be enough to guarantee compliance therewith.
- In relation to the Regional Governments of Aragón and Catalonia attainment of the budgetary stability objective for 2014 is deemed not likely since measures included in their Plans are not sufficient for guaranteeing compliance therewith.
- As regards the Regional Government of Murcia, attainment of the budgetary stability objective for 2014 is deemed unlikely since measures included in the Plan are clearly insufficient for guaranteeing compliance therewith.
- In the case with the Regional Government of Valencia, attainment of the budgetary stability objective for 2014 is deemed very unlikely since measures included in the submitted Plan are clearly insufficient.
- As a whole, outcome forecasts for the budget scenario (on revenue, expenditure or both) were not supported by implementation data available as of the date on which the report was issued.

Said conclusions were presented together with the specific recommendations to be followed in each case so as to correct the non-compliance risks detected.

Up to date, only the Economic and Financial Plan of the Regional Government of Aragón has been approved and published<sup>5</sup>, including an express reference to the compliance with the recommendations issued in the report of the AIReF particularly

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[2014 Report on the Economic and Financial Plans of the Autonomous Communities](#)

<sup>5</sup><http://www.minhap.gob.es/Documentacion/Publico/PortalVarios/FinanciacionTerritorial/Autonomica/PEFCCAA/PEF%202014%202015%20ARAG%20N.pdf>

focused on the need to specify the budget items affected by the non-availability agreements foreseen.

The update of the rest of Economic-Financial Plans submitted has not been received; likewise, information on the follow-up on the part of the Regional Governments affected by the recommendations set out in the AIReF's report is not available and therefore those conclusions stated therein are still valid. Even though the improvement of the financial conditions of the extraordinary financing mechanisms may entail additional savings up to € 409 million for these regional governments as regards the scenario projected in their plans, the relevance of such improvement on the deficit is not significant and therefore the conclusions of the report will not be amended. Additionally, implementation data available up to date (June) do not support those outcome forecasts included in the scenarios presented.

**Considering the relevance of the sub-sector's deficit in relation to the Regional Governments of Catalonia, Murcia and Valencia** (more than 30% as regards monthly data of 2014; more than 40% as regards outcome data for 2012 and 2013), **and the intensity of the risk detected** for each one of them according to the report by the AIReF on their Economic-Financial Plans, **the deviations in the attainment of the objective for these regional governments would probably lead to a non-compliance with the budgetary stability objective for 2014 of the sub-sector as a whole.**