



Report on the main budgetary lines for 2015 of the Autonomous Region of Castilla-La Mancha

In the two years 2014-2015, the Autonomous Region of Castilla-La Mancha must make a fiscal effort equivalent to 0.5% of its expected regional GDP for 2015, after having excluded the adjustment triggered by the non-recurring nature of transactions that took place in 2013. At year-end 2013, the Region's net borrowing was €770m, which is 2.1% of its regional GDP. Using the year-end as a starting point, in order to meet its stability target in 2015 it has to reduce its deficit by €501m. Of this reduction, €294m would be corrected by the fact that the IDAIMA Ruling (on environmental taxes) and the regularisation of VAT accrued in the company GICAMAN, which took place in 2013, will not be repeated. The remaining €207m account for 0.5% of expected 2015 regional GDP.

There are risks that in 2015 the Autonomous Region of Castilla-La Mancha might not reach its deficit target for the year, which has been set at 0.7% of its regional GDP. This is due to the possibility that in 2015 it will have to achieve greater fiscal retrenchment than foreseen because of a high risk of non-compliance with the 2014 target. On the basis of the information available in the main budgetary lines questionnaire submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration), and in the draft budget published by this Region for 2015, there are implementation risks that jeopardise compliance with the stability target for this year stemming from the possible deviation that may occur in 2014.

The mission of AIReF, the Independent Authority for Fiscal Responsibility, is to ensure strict compliance with the principles of budgetary stability and financial sustainability contained in article 135 of the Spanish Constitution.

AIReF:

José Abascal, 2, 2º floor. 28003 Madrid. Tel. +34 91 010 08 95
email: Info@airef.es. website: www.airef.es

In the fiscal scenario the Region expects for year-end 2014, a risk of non-compliance can be seen, mainly in the Region's forecasts for non-implementation of expenditure. Should this risk materialise, it would mean the Region would have to make an additional fiscal effort in 2015, over and above what it has already calculated in the draft budgets presented.

The Region's 2014 deficit could be 1.4% of its estimated regional GDP. The year-end 2014 fiscal scenario forecast by the Region in the main budgetary lines questionnaire for 2015, and the data on previous years' performance and on the implementation of the budget to September suggest some deviation against its forecasts. This is mainly driven by the estimates of non-financial expenditure items, which the Region expects to be lower than the previous year, underpinned by the non-execution of budget appropriations although this reduction does not seem to be endorsed by available data of budget implementation to date. If the trend of the latest quarter is not corrected, the deficit will be higher than targeted. However, the Region implemented the Order regulating year-end 2014 transactions one month earlier than the previous year. This could facilitate the containment of expenditure—especially of capital spending—and mitigate the deviation observed.

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

Analysis of the possible deviation from the 2014 budgetary stability target

The Autonomous Region of Castilla-La Mancha expects to achieve its 2014 stability target with a 2.6% increase in non-financial revenues and a 2.0% reduction in expenditure, in public-sector accounting terms. On the basis of the information facilitated in the main budgetary lines questionnaire submitted to the Ministry of Finance & Public Administration (MINHAP) by the Region, by year-end 2014 the Region is expected to achieve the stability target set for the year at -1% of its regional GDP. This outcome would be obtained by a 2.6% increase in non-financial revenues, above all from the return of environmental taxes (IDAIMA, a tax on specific activities impacting the environment) in 2013, and a 2.0% reduction in non-financial expenditure, mainly driven by current expenditure on goods and services and current transfers. Factoring out the comparative impact of the IDAIMA, revenues would have decreased by 1.4%. The budgetary outcome will be corrected with adjustments expected in national accounts terms, which will bring down the deficit by €76m.

The primary surplus expected by the Region is 0.1% of the regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014 accounts for 1.1% of the regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 went down 4.6% against 2013. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim instalments and final settlement. These were down 4.6% against what the Region received in 2013. The average reduction for all the Autonomous Regions under the common regime is 3.3%.

The measures foreseen by the Region for 2014 account for €289m. The Region has reported revenue measures for this year whose effect is valued at €50m. The main ones relate to the Tax on Asset Transactions & Documented Legal Acts and the disposal of property assets.

It values the effect of the expenditure measures at €239m, of which €210m correspond to the non-execution of budget appropriations included in the year-end forecast.

The main risks of deviation from the 2014 stability target are in the expenditure scenario, although possible deviations are observed in the revenues estimated for the Tax on Asset Transactions & Documented Legal Acts and for proceeds from property asset disposals.

1. A risk of non-compliance can be observed in the **revenue** scenario given by the Region for 2014 in its estimates of the following items:

- **Tax on Asset Transactions & Documented Legal Acts.** The Region expects to receive €58m from the Autonomous Region of Madrid for settlements against previous years credited to Madrid and corresponding to the Autonomous Region of Castilla-La Mancha. In the revenue recorded as accruing from the tax to September, this effect cannot be seen as yet, and developments to date do not fully endorse the year-end forecasts. According to the information provided by the Autonomous Region of Madrid, its expectations regarding the amounts payable to the Autonomous Region of Castilla-La Mancha under this item are lower than the estimates made by Castilla-La Mancha.
- **Disposal of property assets.** The performance of previous years and delivery to September this year do not make it possible to endorse the year-end forecast.

However, up to September **revenue from capital transfers** (above all, European Union funds) is very favourable. This may provide some buffer for negative deviations that may occur in other items.

2. On the **expenditure** side, the highest deviation risks for the Region's year-end 2014 forecast can be observed specifically in:

- **Current expenditure on goods and services and current transfers.** The Region expects this item to be 7% below 2013,

although the data to September show a significantly lower year-on-year reduction, of 0.1%. In the Economic & Financial Plan presented to AIReF in July, the Region explained the scenario of expenditure reduction by the non-execution of budget appropriations expected at year-end and valued at €210m. Detailed documentation was submitted to support this estimate, specifying the nature of the expenses earmarked, but the budgetary items were not identified and nor was their incorporation into the budget management process explained. Although the Region reported on the action and monitoring plan covering the effective implementation of the non-execution of the appropriations, to date no clear effect can be seen in the delivery of expenditure, which remains at levels very similar to the previous year. This is despite the fact that the Region attributes a €69m impact to the second-quarter accounts for this effect, and a €138m effect to the third quarter. If this trend is not corrected in the final quarter, there could be a deviation of 0.4% of regional GDP from the 2014 target.

Analysis of possible deviation in the 2015 forecasts

The Autonomous Region of Castilla-La Mancha expects to reach the 2015 stability target with a 4.2% increase in non-financial revenues and a 4.7% increase in non-financial expenditure, in public-sector accounting terms. For 2015, the budgetary stability target is -0.7% of regional GDP. According to available information, this would be achieved with a 4.2% increase in non-financial revenues and a 4.7% increase in non-financial expenditure. Additionally, in public-sector accounting terms the deficit would be reduced with the positive adjustments in national accounts terms, estimated at €224m. According to the Region, this would enable it to bring its net borrowing into line with the stability target.

The primary deficit expected by the Region is 0.2% of its regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2015 accounts for 1.2% of the regional GDP.

Revenues from the funding system that the State expects to pay out to the Region increase 5.0% against 2014. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 5.0% increase in these revenues for the Region compared against 2014. The average increase for all the Autonomous Regions (ARs) under the common regime is 2.8%.

The measures foreseen by the Region for 2015 account for €224m. The Region has reported revenue measures for 2015 whose effect is valued at €11m, the main ones driven by rates. It values the effect of the expenditure measures at €213m, of which €210m correspond to the non-implementation of budget appropriations included in the year-end forecast.

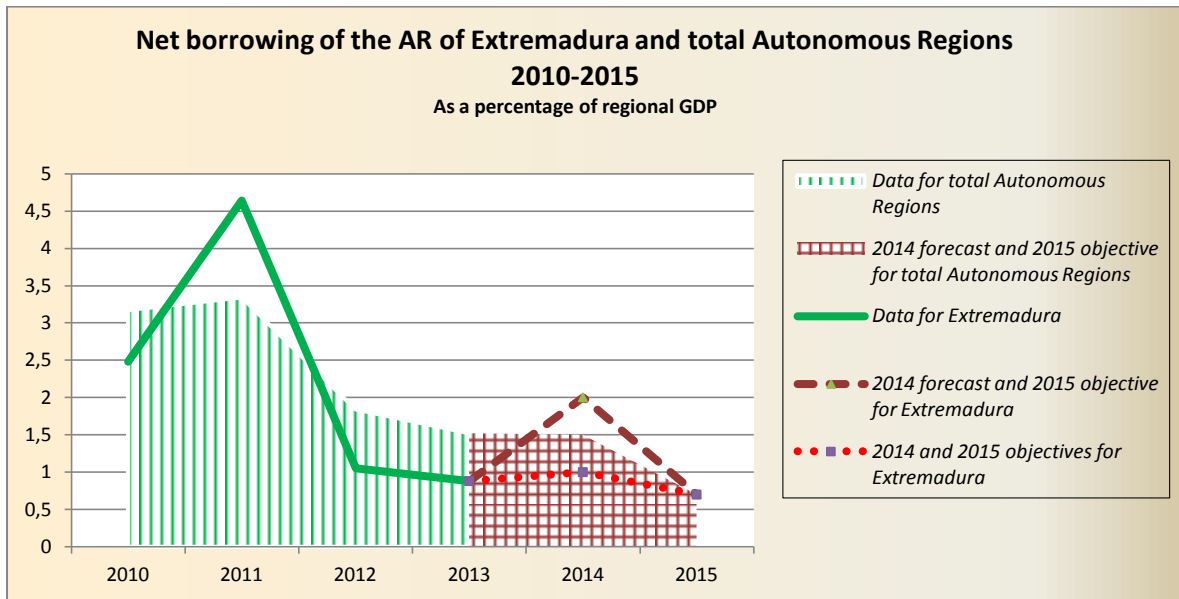
The deviation risk is driven by possible non-compliance with the 2014 stability target, which would increase the fiscal effort required for 2015. The fiscal scenario for 2015 in the draft budget appears to be compatible with the budgetary stability target for this

year, set at 0.7% of its GDP. The deviation risk, therefore, would come from the greater fiscal retrenchment over and above what has been forecast, in the event of non-compliance with the 2014 stability target. Additionally, the Region is calculating an adjustment in national accounts terms for non-execution of appropriations amounting to €210m, whose materialisation is subject to uncertainty given the situation observed to date in 2014.

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

The Autonomous Region of Castilla-La Mancha has achieved a fiscal adjustment of €1,699m between 2010 and 2013. This is equivalent to 4.6% of regional GDP. As can be seen in the graph, this is much higher than that of the Autonomous Regions sector as a whole (vertical green bars), which is almost 1.8% of regional GDP.

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



Note: The actual data for 2013 include the Ruling obliging the Region to return the revenues raised for IDAIMA and the regularisation of the VAT accrued by GICAMAN, which together account for 0.8% of its regional GDP.

The **Autonomous Region of Castilla-La Mancha presents a high risk of non-compliance with the 2014 stability target.** According to the available information for the issuing of the individualised Report on the main lines of the Autonomous Regions' budgets for 2015 (information from the questionnaire submitted by the Ministry of Finance & Public Administration and draft budgets presented by the Autonomous Regions.) and taking into account the data on the Region's execution of non-financial transactions to 30th September¹, in national accounts terms there are certain circumstances in the Autonomous Region of Castilla-La Mancha that could mean deviation in its compliance with the targets established for 2014. These circumstances are mainly

¹ According to the latest data published by the IGAE (Government Comptroller's Office), **the Region's net borrowing to September 2014 was €487m. This is 1.3% of its GDP**, 0.4% higher than the figure recorded on the same date of 2013.

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

driven by the possible deviations in expenditure estimates, in the terms explained in the section *Analysis of the possible deviation from the 2014 budgetary stability target*.

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

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

Nonetheless, until an Economic & Financial Plan is approved on the grounds of non-compliance with the 2014 stability target, any measures adopted must be incorporated into the fiscal scenarios for 2014 and 2015 within the framework of the monitoring of the 2013 Economic & Financial Plan, which may be approved before the year-end.