



Report on the main budgetary lines for 2015 of the Autonomous Region of La Rioja

In the two years 2014-2015, the Autonomous Region of La Rioja must make a fiscal effort equivalent to 0.3% of its expected regional GDP for 2015. At year-end 2013, the Region's net borrowing was €81m, which is 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 €23m. This is 0.3% of the regional GDP forecast for 2015.

There are risks that may affect compliance with the deficit target for 2015, which has been set at -0.7% of its regional GDP. Furthermore, the 2014 year-end is seen to be very tight, which requires strict application of the Region's cost curtailment measures. 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 later corrected by the Region, and in the draft budget published by the Region for 2015, there are implementation risks that could jeopardise compliance with the stability target for this year. The main deviation risk in 2015 can be seen in the revenues scenario, specifically in the forecasted revenues from the funding system and in current transfers other than those from the system and in the Tax on Asset Transactions and Documented Legal Acts (ITPAJD, *Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*).

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

Moreover, the Region's 2014 year-end is very tight for meeting the stability target, set at -1% of its regional GDP, as there is tension in the estimated revenues scenario. More specifically, this tension can be seen in the performance envisaged for ITPAJD, Tax on Inheritance & Donations and in current transfers other than those arising from the funding system, notwithstanding the fact that this risk could be mitigated with additional cost curtailment over and above the year-end estimates.

Analysis of compliance with the 2014 budget stability target

The Autonomous Region of La Rioja expects to achieve its 2014 stability target with a 3% reduction in revenues and a 2% 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 year-end 2014 the Region expects to achieve the stability target set for the year at -1% of its regional GDP. This outcome would be obtained with a 3% reduction in non-financial revenues, driven basically by lower revenues received from the funding system; and a reduction in non-financial expenditure of around 2%. Adjustments in public-sector accounts are expected that would correct this outcome and bring the deficit down by an estimated €26m.

The primary deficit expected by the Region is 0.9% of regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014, accounts for 0.4% of regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 went down 3.4% against 2013. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim payments and final settlement. These were down 3.4% against 2013. The average

reduction for all the Autonomous Regions under the common regime is 3.3%.

The Region has not quantified the impact of the measures adopted for this year. The Region has not reported on the measures adopted for 2014, with respect to either revenues or expenditure, in the main budgetary lines questionnaire.

The Autonomous Region of La Rioja's fiscal scenario is very tight to meet the 2014 stability target, which is set for -1% of its regional GDP, as tension can be seen in the estimated revenue scenario that could be offset by curtailment of expenditure implementation. The main uncertainties are focused on the following items:

- **Tax on Inheritance & Donations and Tax on Asset Transactions and Documented Legal Acts.** Receipts from these taxes accrued to September are falling 24% and 11.5% respectively, whereas the latest year-end forecasts provided by the Region are for 8% and 4% reductions respectively.

The deviation in the Tax on Asset Transactions and Documented Legal Acts (ITPAJD) is in line with the findings of the AIR^eF study conducted on the forecasted tax receipts for the Autonomous Region subsector as a whole, based on housing price data from the National Statistical Institute (INE, *Instituto Nacional de Estadística*) and second-hand housing transactions compiled by the Professional Association of Registrars.¹ As a result of this analysis, the 2014 forecasts submitted show an upward deviation compared against the model's average values.

¹ The model is estimated every quarter for the common sample (2004Q1-2014Q1), with the data in logarithms and corrected for seasonal variation. The data sets used show a stable long-term relationship (they are co-integrated). The model finally estimated is as follows: $\ln(ITPAJD) = c + 0,94 * \ln(Transactions)_t + 2,2 * \ln(HousePrices)_t + \varepsilon_t$

- **Revenues from current transfers other than those arising from the funding system.** The Region estimates an 8% increase in these revenues that is not underpinned by any measures, although the revenues from this item accrued to September remain at similar levels to last year (once the advances on interim payments received by the Region to September 2013 are factored out).

Notwithstanding the above, a strict application of additional cost curtailment measures could allow possible deviations in year-end revenue estimates to be offset and the target set to be achieved.

Analysis of compliance with the 2015 budget stability target

The Autonomous Region of La Rioja expects to achieve its 2015 stability target with an 11.1% increase in revenues and a 9.3% increase in expenditure in public-sector accounting terms. For 2015, the budget stability target is -0.7% of regional GDP. According to the available information, this outcome would be obtained with an 11.1% increase in non-financial revenues and a 9.3% increase in non-financial expenditure against the previous year. Furthermore, adjustments in public-sector accounts are expected that would bring the deficit down by an estimated €50.9m in national accounts terms. According to the Region, this would enable it to bring its net borrowing down to €49.3m, or 0.6% of the regional GDP expected for 2015, which is below the stability target, set for -0.7% of its regional GDP.

The primary deficit expected by the Region is 0.7% of the regional GDP, in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2015, accounts for 0.5% of regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region increase 4.8% against 2014. The largest item recorded as non-financial revenues are from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 4.8% increase in these against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

The Region has not quantified the impact of the measures adopted for this year. The Region has not reported on the measures adopted for 2015, with respect to either revenues or expenditure, in the main budgetary lines questionnaire.

The main risks of deviation from the 2015 stability target are focused on the following items of the revenue scenario, specifically:

- **Revenues from the funding system payable in interim instalments and final settlement** are valued at €8.9m above the amount budgeted by the State and included in the draft General State Budget for 2015. In the Economic & Financial Report that accompanies the draft budget, the Region explains that a deferment of the 2013 settlement forecast reported by the State and included in the GSB has been factored into the calculation on the assumption that this will be treated in the same manner as the negative settlements of 2008 and 2009. The settlement total expected in the State for 2013 for all items is -€9.4m and the Region has booked €0.5m to 2015. Pursuant to current legislation, at this moment in time, the funding system settlements have to be booked when they are made, which will occur approximately in July 2015, and it is envisaged as such in the draft GSB.

- Additionally, the Region expects to receive €18m from the State from what is known as the “**Bilateral boundary effect compensation agreement**” which it explains, arises from applying article 46 of the Statute. This item was included in the initial 2014 budget, although nothing has been paid by the State to date. There is no express provision for this item in the State budget for 2015.
- Excluding the above items, **other revenues from current transfers** are estimated to increase 50% against those forecasted for year-end 2014 in the main budgetary lines questionnaire. The Region explains out that this growth is due to the claim it has made against the State for the Health Guarantee Fund. There is no express provision for this item in the State Budget for 2015, generating uncertainty with regard to its payment.
- In the same manner, the revenues envisaged from the **Tax on Asset Transactions and Documented Legal Acts**, which, although significantly reduced against the initial 2014 budget estimates, imply a 32.8% growth, justified by the Region by the effect of economic recovery.