



Report on the main budgetary lines for 2015 of the Autonomous Region of Murcia

In the two years 2014-2015, the Autonomous Region of Murcia must make a fiscal effort equivalent to 1.5% of its expected regional GDP for 2015, after having excluded the adjustment triggered by the non-repetition of transactions that took place in 2013. At year-end 2013, for the purposes of the stability target, the Region's net borrowing was €825m, which is 3.1% 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 €628m. This is 2.2% of the regional GDP forecast for 2015. Of this reduction, €198m will be corrected by there being no repetition of the foreclosure of the Aeromur S.A. guarantee and the inclusion of the company, Desaladora de Escombreras, S.A. in the general government sector of the Region, both of which occurred in 2013. The remaining €430m account for 1.5% of expected 2015 regional GDP.

There are risks that in 2015 the Autonomous Region of Murcia might not reach its deficit target for the year, which has been set at 0.7% of its regional GDP. 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 published by this Region for 2015, there are implementation risks that jeopardise compliance with the stability target for this year. These risks are based on:

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.

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- **Practical certainty of non-compliance with the target set for 2014.** In the fiscal scenario forecast by the Region for the year-end, a very high risk of non-compliance with some revenue and expenditure items is observed which will mean making further cutbacks in 2015 over and above those already foreseen in the draft plans presented.
- **Deviation risks observed in the draft budgetary plans for 2015.** The greatest deviation risks detected in the draft 2015 budgetary plans are driven, on the revenue side, by the forecasts for the Inheritance & Donations tax and the Asset Transactions & Documented Legal Acts tax, and on the expenditure side, by the current expenditures on goods and services.

The Region's 2014 deficit could stand at over 2% of its regional GDP. In the year-end 2014 fiscal scenario forecast by the Region in the main budgetary lines questionnaire for 2015, there is a high risk that the forecasts for certain revenues and expenses will not be met. The figures attached to them do not seem to be underpinned either by their performance to date or any measures adopted by the Region or scheduled for the final quarter, and there is no certainty regarding their materialisation. In quantitative terms, the greatest uncertainty relates to the proceeds from the disposal of property assets and current expenditure on goods and services and current transfers, which could lead to a greater deficit than targeted.

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 Murcia expects to achieve its 2014 stability target with a 4.7% increase in revenues and a 4.1% 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 expects to achieve the stability target set for the year at -1% of its regional GDP. This outcome would be obtained by a 4.7% increase in non-financial revenues, above all from proceeds of property asset disposals and a 4.1% reduction in non-financial expenditure, mainly driven by current expenses. Changes are expected in national accounts terms, which will reduce the deficit by a further €66m.

The primary deficit expected by the Region is 0.3% 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 1.0% of the regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 went down 3.2% 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 3.2% 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 €400m. The Region has reported revenue-side measures for this year, whose impact is valued at €242m. The largest ones relate to the disposal of property assets. The effect of expenditure-side measures is valued at €158m.

The main risks of deviation from the 2014 stability target come from the expected figure for proceeds of property asset disposals, and other items impacting current revenues and expenditure.

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:
 - **Disposal of property assets:** At year-end it expects €163m in proceeds from property asset divestment. This is based on a property asset optimisation plan valued at €156m, which is expected to be carried out for the final quarter of the year. The high figure attached to this measure (0.5% of its regional GDP) and the delay in its implementation, along with the additional information about it provided by the Region, cast a high degree of uncertainty regarding its achievement.
 - **Tax on Asset Transactions & Documented Legal Acts:** The Region estimates a €23m increase in revenues raised from this tax. This is 11.9% more than in 2013. The effect of the measures implemented in August 2013 in this respect, is valued at €16m. However, the revenue actually accrued from this tax to September show a 1% increase against the same period of the previous year, which would not support the probability of achieving the year-end forecasts. This conclusion is in line with the insights obtained in the study carried out by AIReF on the projected tax revenues for all the Autonomous Regions as a whole, stemming from developments in free-market housing prices given by INE, the Spanish Statistical Institute, and the data from the Professional Association of Registrars on second-hand housing transactions.¹ The findings of this analysis are that the year-end 2014 forecasts presented produce an upward deviation against the average values in the model.
 - **Rates, public prices and other revenues:** The Region expects a 0.4% decrease under these headings against the previous year. However, data to September for these items show a 10% year-on-year decrease and although the Region expects a €4m increase in the final quarter of the year due to the co-payment measure for long-term hospital stays, this would only account for a positive change of 0.3%.

¹ The model is estimated on a quarterly basis for the common sample (2004Q1-2014Q1) with the data in logarithms and corrected for seasonality. The series shows a stable correlation in the long term (they are co-integrated). The model finally estimated is as follows: $\ln(ITPAJD) = c + 0,94 * \ln(Transactions)_t + 2,2 * \ln(HouseingPrices)_t + \varepsilon_t$

2. Moreover, the following risks are visible in the **expenditure** scenario forecast by the Region for 2014:
 - **Current expenditure on goods and services and current transfers:** The main budgetary lines questionnaire for 2015 expects a €199m reduction for 2014. This is down 11% against the previous year, whereas the measures scheduled by the Region in this area account for €154m. No additional measures have been reported that would make it possible to endorse this decrease, which does not seem to be underpinned by the performance of expenditure to date. The data on budget implementation to 30th September show a 6% year-on-year reduction in expenditure.

Analysis of possible deviation in the 2015 forecasts

The Autonomous Region of Murcia expects to achieve its 2015 stability target with a 2.3% increase in revenues and a 1.4% increase in expenditure in public-sector accounting terms. For 2015, the budgetary stability target is -0.7% of GDP. According to the available information, this outcome would be obtained with a 2.3% positive year-on-year change in non-financial revenues and a 1.4% increase in non-financial expenditure, compared against the expected year-end 2014 forecast contained in the main budgetary lines questionnaire for 2015. Additionally, in public-sector accounting terms this deficit would be reduced with the positive adjustments in national accounts terms, estimated at €150m. According to the Region, this would enable it to bring its net borrowing into line with achievement of the stability target.

The primary deficit expected by the Region is 1.0% of its regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014 accounts for 0.9% of the regional GDP.

Revenues from the funding system that the State expects to pay out to the Region increase 3.2% 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 3.2% increase in these revenues for the Region compared against 2014. The average increase for all the Autonomous Communities under the common regime is 2.8%.

The discontinuation in 2015 of measures adopted in earlier years means an approximately €200m higher deficit. The Region estimates that the effect of the measures scheduled for 2015 will mean a €62m decrease in revenues against expected year-end 2014, mainly driven by the fact that this year the measure for property asset disposals valued at €156m will be reverted. However, if the transaction does not materialise in 2014, the measures scheduled for 2015 will mean a €94m increase in revenues. Moreover, the savings from expenditure measures are valued at €75m, after discounting the higher expense for the

discontinuation of the suspension during 2013 and 2014 of the supplementary pay package amounts for public employees valued at approximately €40m.

The main risks of deviation from the 2015 stability target are driven by certain taxes and the current expenditure on goods and services.

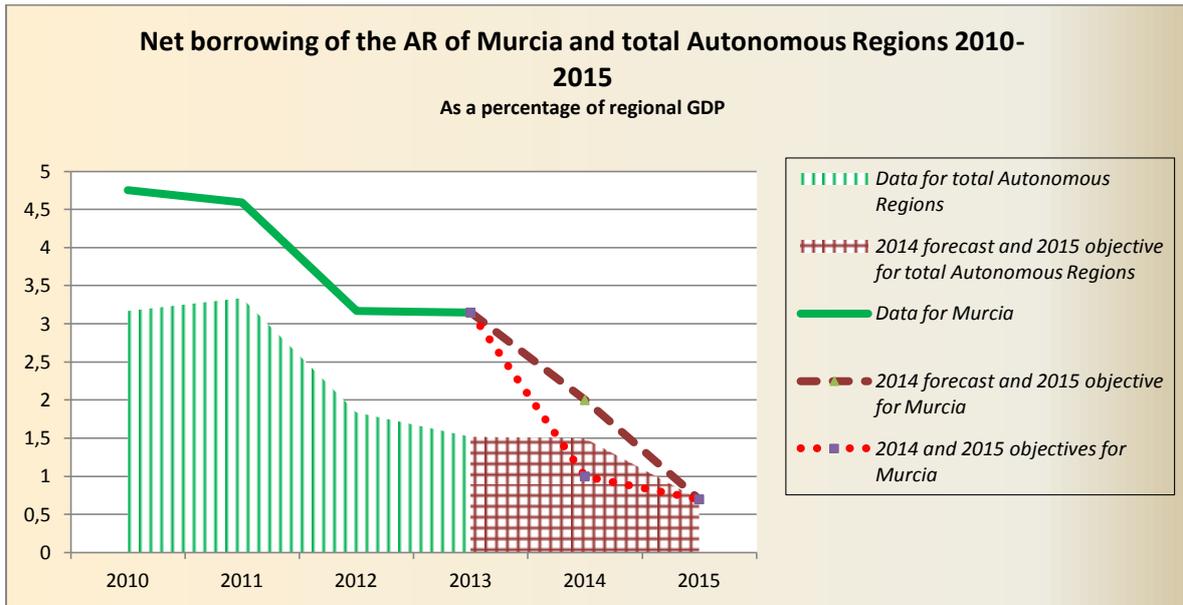
1. In the **revenue** scenario foreseen by the Region for 2015 a risk of non-compliance with the stability target can be identified, which mainly stems from the following taxes:
 - **Tax on Asset Transactions & Documented Legal Acts:** A 31% increase is expected against the previous year. The lack of measures to underpin such an increase and the revenue accrued from this tax to September 2014 do not seem to endorse these forecasts.
 - **Tax on Inheritance & Donations:** For 2015 a €21m increase is expected against 2014 (up 19.76%), without any measures having been reported with such effect in 2015 to make this increase more probable.

2. In the **expenditure** scenario, the risk of non-compliance in 2014 is detected mainly in **current expenditure on goods and services**, which will carry over to the 2015 figures, as the forecast for 2015 is maintained along the same lines (21% reduction against year-end 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 an Independent Authority for Fiscal Responsibility and article 20 of the AIReF Statute).

The fiscal adjustment achieved by the Autonomous Region of Murcia between 2010 and 2013 was €514m. This is equivalent to 1.9% of its regional GDP in 2013. As can be seen in the graph, this fiscal adjustment is slightly higher than that of the Autonomous Regions sector as a whole (vertical green bars), which was almost 1.8% of GDP.

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



Note: The actual figure achieved in 2013 includes the foreclosure of the Aeromur S.A. guarantee and the inclusion of the company, Desaladora de Escombreras, S.A. in the general government sector of the Region, accounting for 0.7% of its regional GDP.

The Autonomous Region of Murcia presents practical certainty of non-compliance with the stability target established at -1% of regional GDP for 2014. 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 budgetary plans presented by the Autonomous Regions) and taking into account the data on the Region's execution of non-financial transactions to 30th September², in national accounts terms there are certain circumstances in the Autonomous Region of Murcia that could mean a deviation in its compliance with the targets established for 2014. These circumstances are mainly driven by the uncertainty surrounding the materialisation of the proceeds from disposals of property assets and the current expenditure on goods and

² According to the latest data published by the IGAE (Government Comptroller's Office), the Region's net borrowing to September 2014 was €515m. This is 1.88% of its GDP, 0.2% 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>

services in the terms described 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 article 21 of Organic Law 6/2013, of 14th November.

Consequently, this report is submitted to the Ministry of Finance & Public Administration with a recommendation 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.