



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

In the two years 2014-2015, the Autonomous Region of Valencia must make a fiscal effort equivalent to 1.4% of its expected regional GDP for 2015. At year-end 2013, the Region's net borrowing was €2,150m, which is 2.2% 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 €1,422m. This is 1.4% of the regional GDP forecast for 2015.

There are risks that in 2015 the Autonomous Region of Valencia may 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 budget 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:

- **Practical certainty of non-compliance with the target set for 2014.** In the fiscal scenario foreseen by the Region for the year-end, a very high risk of non-compliance with some revenue items is observed, which would mean that additional retrenchment not initially envisaged in the plans presented would be required in 2015.

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

- **Deviation risks observed in the draft budgetary plans for 2015.** The greatest deviation risks detected in the 2015 draft budgetary plans are focused on the same revenues for which there is a high risk that they will not materialise in 2014.

The Region's 2014 deficit could be between 2.2% and 2.4% 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 that the Region expects to receive from the State may not materialise, as there is no express evidence or legal grounds underpinning their receipt.

In application of article 20 of Royal Decree 215/2014, 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 Valencia expects to achieve its 2014 stability target with a 12.4% increase in revenues and a 7.0% increase 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 by a 12.4% increase in non-financial revenues, above all current transfers and own taxes, and a 7.0% increase in non-financial expenditure, mainly driven by the performance of current expenditure on goods and services and capital expenditure. Likewise, adjustments in the national accounts are expected that would bring down the deficit by €1,537m, mainly driven by the positive adjustment expected in the obligations pending application to the budget (account 409/413).

The primary deficit expected by the Region is 1.3% 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 1.2% of the regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 went down 4.0% 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 4.0% 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 €1,178m. The Region has reported measures for this year that have an impact on non-financial revenues valued at €1,369m. The main measures are driven by the tax equalisation fund payable by the State and the compensation expected from the State for the approval of IDEC (tax on deposits of financial institutions). Moreover, €105m more budgetary expenditure is expected as the

net effect of not maintaining measures from previous years. €86m more expenditure is also foreseen for the incorporation of the remaining items from the PIP (Productive Investment Plan) in application of Decree Law 1/2009, of 20th February.

The deviation observed in the 2014 stability target is mainly related to a clear risk of non-compliance with the revenue estimates and, in particular, the following revenue items:

- **Current State transfers:** In line with the updated Draft Economic & Financial Plan (EFP) the Region expects to receive €1,000m from the State apportioned from the tax equalisation fund. Attention was already drawn to the risk that these revenues may not materialise in the report AIReF issued in July on the Draft EFP submitted by the Region then¹.
- **Own taxes:** A 1,234% growth in direct and indirect own taxes is estimated, €238m more than the figure collected under this item last year. The item includes the IDEC (tax on deposits of financial institutions) that the Region approved in December 2013, whose effect it values at €230m (having accrued €140m in entitlements to November, according to the Region's information).

However, in this Region's case, the tax was approved after the enactment of Law 16/2012, of 27th December, which established the State-wide tax. Thus, the Autonomous Region of Valencia does not fall into any of the sets of circumstances established in the Organic Law on the Financing of Autonomous Regions (LOFCA), which determines the right to receive the compensation that the State pays out to Andalusia, Extremadura and Canary Islands. Consequently, for the moment, the only amount that will certainly be received for IDEC would be from the collection of the State-wide tax that corresponds to the Region. This amount is estimated significantly below the figure given.

¹ <http://www.airef.es/es/contenidos/informes/21-informe-2014-de-los-planes-economico-financieros-de-las-ccaa>

The AIReF report issued on 28th July on the draft EFP presented by the Autonomous Region of Valencia questioned the successful implementation of the measures to dispose of property assets contained in the document. The Region has moderated its year-end forecasts and the value apportioned for measures of this kind. The September data endorse the new estimate.

Analysis of the possible deviation in the 2015 forecasts

The Autonomous Region of Valencia expects to achieve its 2015 stability target with a 4.0% increase in revenues and an 8.3% reduction in expenditure in public-sector accounting terms. For 2015, the budgetary stability target is -0.7% of regional GDP. According to the available information, this outcome would be obtained with a 4.0% positive year-on-year change in non-financial revenues and an 8.3% reduction in non-financial expenditure, which would especially impact the current expenditure on goods and services and capital expenditure. Additionally, in public-sector accounting terms this deficit would be reduced with the positive adjustments in national accounts terms, estimated at €151m. According to the Region, this would enable it to bring its net borrowing into line with the stability target.

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 2015 accounts for 1.0% of the regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region are down 0.6% against 2014. The largest items recorded as non-financial revenues are from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 0.6% reduction in these against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

The discontinuation in 2015 of measures adopted in earlier years means higher expenditure/lower revenues of approximately €166m. The Region estimates that the effect of the expected measures in 2015 will mean, firstly, €280m higher revenues than those expected at year-end 2014, mainly driven by the advance payment from the Competitiveness Fund and the increase in asset divestment, and secondly, €114m higher expenditure, as the net effect of discontinuing measures previously applied.

The main risks of deviation from the 2015 stability target are on the revenue side.

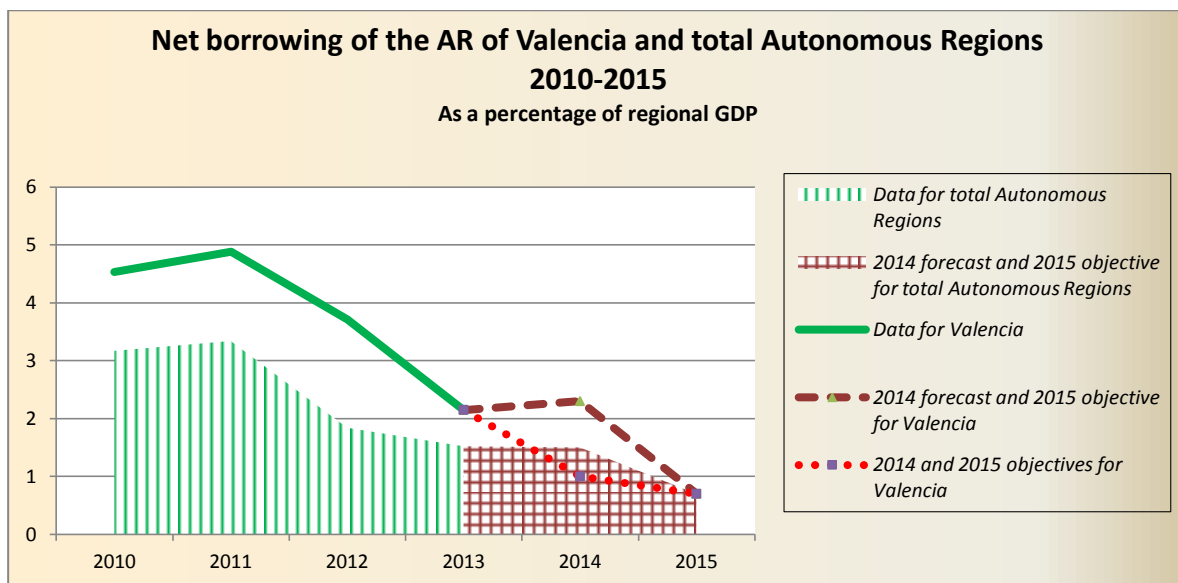
1. In the **revenues** scenario, risk of non-compliance is identified in the following items:

- **Revenues from the funding system payable with interim instalments and final settlement:** The Region calculates an advance payment out of the Competitiveness Fund corresponding to 2015, which will be received with the final settlement of the 2017 funds, which it values at €1,178m, on the basis of article 64 of Law 22/2009. This advance payment is not envisaged in the draft General State Budget.
- **Compensation for IDEC (tax on deposits of financial institutions):** This is valued at €201m. For the reasons given in the analysis section of the year-end 2014 forecasts, these revenues are not expected to materialise. The only revenue that the Region will receive would be from the collection of the State tax in the proportion corresponding to the Region. This is estimated at an amount significantly below the figure given.
- **Rates, public prices and other revenues:** The Region's draft budgetary plan expects a €120m increase in these revenues above the year-end 2014 estimate contained in the main budgetary lines questionnaire (up 29%). Of this amount, only measures amounting to €76m are supported with evidence, €65m of which correspond to the new charge for providing social services.

Report on the application of the corrective mechanisms established in Organic Law 2/2012, 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 graph below shows that between 2010 and 2013 the Autonomous Region of Valencia achieved a fiscal adjustment of €2,546m. This is 2.5% of its 2013 regional GDP. This fiscal adjustment is higher than that of the Autonomous Regions sector as a whole (vertical green bars), which was almost 1.8% of GDP.

The following graph 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).



The Autonomous Region of Valencia 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 Valencia that will mean a deviation in its compliance with the target established for 2014. These are mainly driven by a significant amount of revenues that the Region expects to receive from the State regarding which there is no express evidence or legal grounds endorsing their receipt, 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.

² According to the latest data published by the IGAE (Government Comptroller's Office), the **Region's net borrowing to September 2014 was €1,301m. 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>

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.