



# **Report on the main budgetary lines for 2015 of the Autonomous Region of the Canary Islands**

**In the two years 2014-2015, the Autonomous Region of the Canary Islands 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 €412m, 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 €111m. This is 0.3% of the regional GDP forecast for 2015.

**The Autonomous Region of the Canary Islands is deemed likely to achieve the deficit target for 2015, which has been set at -0.7% of its regional GDP.** However, the tension observed in the 2014 year-end estimate for current transfer revenues could mean that additional retrenchment not initially envisaged in the plans would be required in 2015. On the basis of the information available in the main budget lines questionnaire submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration, MINHAP) and in the draft budget published by the Region for 2015, it is deemed likely that the Region will comply with the stability target set for this year. However, the 2014 year-end forecasts given by the Region are very tight. Tension can be observed, mainly in the estimated revenues from current transfers other than those from the funding system.

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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Should this uncertainty materialise, it would mean that additional fiscal retrenchment not initially envisaged in the plans presented would be required in 2015.

### **Analysis of compliance with the 2014 budget stability target**

**The Autonomous Region of the Canary Islands expects to achieve its 2014 stability target with a 0.9% increase in revenues and a 2.1% reduction in expenditure in public-sector accounting terms.** On the basis of the information facilitated in the main budget lines questionnaires submitted to the Ministry of Finance & Public Administration, by year-end 2014 the Region expects to achieve the stability target set for the year at -1% of regional GDP. This outcome would be obtained by a 0.9% increase in non-financial revenues and a 2.1% reduction in non-financial expenditure. Likewise, adjustments in national accounts terms are expected that would correct the budget outcome and bring down the deficit by €197m.

**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 0.5% of regional GDP.

**Revenues from the funding system paid out by the State to the Region in 2014 went down 0.4% 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 0.4% against the amount received by the Region in 2013. The average reduction for all the Autonomous Regions under the common regime is 3.3%.

**The Region has not quantified 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 budget lines questionnaire.

**Tension can be observed in certain revenues at year-end 2014, but these could be offset by favourable performance from other items.** The 2014 year-end forecast given by the Region is very tight. There are tensions, mainly driven by the estimated revenues from current transfers other than those from the funding system. The Region expects a 160.4% increase in this line against 2013, valued at €170m. This increase is not however, underpinned by measures, nor is it supported by its performance to date (year-on-year change to September is around 6%).

Nonetheless, the favourable performance that seems to be observed in other revenue lines and in the expenditure scenario could offset this possible deviation.

## **Analysis of compliance with the 2015 stability target**

The Autonomous Region of the Canary Islands expects to achieve its 2015 stability target with a 3.2% increase in revenues and a 0.5% reduction in expenditure in public-sector accounting terms. For 2015, the budget stability target is -0.7% of regional GDP. According to the information available, this outcome would be obtained with a 3.2% increase in non-financial revenues and a 0.5% reduction in non-financial expenditure against the Region's 2014 forecasts. Additionally, positive changes to public accounts would bring the deficit down by an estimated €92m in national accounts terms. According to the Region, this would enable it to bring its borrowing needs in line with the stability target set.

The primary deficit expected by the Region is 0.6% of regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure Budget) for year-end 2015, accounts for 0.3% of regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region increase 1.4% 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 1.4% increase in these funds against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

The Region has not quantified 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 budget lines questionnaire.

The Autonomous Region of the Canary Islands is deemed likely to achieve the deficit target for 2015, which has been

**set at -0.7% of its regional GDP.** The scenario forecast by the Region in the plans presented seems to be consistent with achieving the stability target set for this year. However, the tension observed in the 2014 year-end estimated revenues from current transfers other than those from the funding system could mean that additional retrenchment not envisaged in the plans would be required in 2015. This situation is accentuated by the fact that the 2015 estimate for this kind of revenues represents an increase of approximately 10% over the 2014 year-end.