



# **Report on the main lines of the 2015 Budget for the Autonomous Region of Aragón**

In the two years 2014-2015, the Autonomous Region of Aragón must make a fiscal effort equivalent to 1.3% of its expected regional GDP for 2015, after excluding the adjustment triggered by the non-repetition of transactions that took place in 2013. At year-end 2013, the Region's net borrowing was €718m, 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 €477m. This is 1.4% of the regional GDP forecast for 2015. €25m of this reduction will be corrected by the non-repetition of the regularisation of pharmaceutical expenditure that took place in 2013. The remaining €452m account for 1.3% of the expected 2015 regional GDP.

**There are risks that may affect compliance with the deficit target for 2015, which has been set at 0.7% of its regional GDP.** 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, there are implementation risks that could 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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- **Risk of non-compliance with the fiscal stability target set for 2014, driven by the tightness of the budget observed, especially in expenditure, together with uncertainty about the receipt of certain revenues.** The Region's year-end forecasts in its fiscal scenario are very tight, taking into account implementation to date. Moreover there is a specific risk of deviation in the expected revenues from property asset disposals and current transfers. If the revenues from the disposals do not materialise until 2015, it would have a neutral effect. But if these revenues do not materialise at all, this circumstance, together with the possible deviation in current transfer revenues, would mean that additional retrenchment not initially envisaged in the plans presented by the Region would be required.
- **Deviation risk observed in the draft budget for 2015.** The greatest deviation risks detected in the draft are focused on the forecasts for certain revenues, in which the Region expects a significant increase that is not underpinned by the measures reported, and in the estimated adjustment in national accounts terms due to the negative settlements from the State funding system from 2008 and 2009, amounting to €50m (0.1% of expected 2015 GDP) more than the amount that would be in line with the Region's revenue scenario and the information contained in the draft 2015 General State Budget.

**There is a risk of non-compliance with the stability target set for 2014.** There is a risk that in 2014 the Autonomous Region of Aragon might not achieve its deficit target for the year, set at -1% of regional GDP, due to the meagre buffer it has to absorb or correct any possible deviations posed by implementation to date, along with uncertainty about the receipt of certain revenues. According to the available information for issuing 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 implementation of non-financial transactions to 30th September<sup>1</sup>, in national accounts terms, certain specific circumstances can be observed in the Autonomous Region of Aragon that, together with the tension observed in budget execution, present a risk of deviation in its compliance with the target set for 2014. These situations are driven specifically by the uncertainty that surrounds the receipt of the estimated revenues from the disposal of property assets and current transfers this year, in the terms indicated in the section *Analysis of the possible deviation from the 2014 budgetary stability target*.

**The Region is subject to the corrective mechanisms established in Chapter IV of the Organic Law on Budgetary Stability & Financial Sustainability, with respect to quarterly monitoring of its Economic & Financial Plan by the Ministry of Finance & Public Administration (MINHAP).** The Autonomous Region of Aragon was obliged to submit an Economic & Financial Plan (EFP) because of non-compliance in 2013. The measures contained in that plan were considered suitable by the Fiscal & Financial Policy Council at its meeting on 31st July and following AIR<sup>e</sup>F report's dated 28th July. The Autonomous Region referred to the aforesaid AIR<sup>e</sup>F report in the approved Plan and filed additional documentation in response to the recommendations made in it. The fact that a Plan has been approved implies that this is monitored quarterly by the Ministry of Finance & Public Administration, pursuant to article 24 of The Organic Law on Budgetary Stability & Financial Stability (LOEPySF). For this reason, even though a risk of non-compliance with the stability target set is observed, the gradual application of the measures set out in the LOEPySF has to occur

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<sup>1</sup> According to the latest data published by the IGAE (Government Comptroller's Office), the **Region's net borrowing to September 2014 was €346m. This is 1% of its GDP, 0.3% lower 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](http://www.igae.pap.minhap.gob.es/sitios/igae/es-ES/ContabilidadNacional/infadmPublicas/infadmcomunidadesautonomas/Paginas/imnofinancierasCA.aspx)

through the monitoring process. The Ministry of Finance & Public Administration cannot be called upon to apply the preventive measures established in article 19 of the aforesaid law.

As the quarterly EFP monitoring report had not been published at the cut-off date for this report, we recommend that the Ministry of Finance & Public Administration publish said report as soon as possible, in compliance of article 24 the LOEPySF.

## **Analysis of possible deviation from the 2014 budget stability target**

The Autonomous Region of Aragon expects to achieve its 2014 stability target with a 1.2% increase in revenues and a 4.6% 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, 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 1.2% reduction in non-financial revenues, driven basically by current revenues; and a 4.6% reduction in non-financial expenditure, driven especially by capital expenditure. Likewise, changes in the national accounts are expected that would increase the deficit by €76m.

The primary deficit expected by the Region is 0.3% 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 0.6% of regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 went down 2.6% 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 2.6% against 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 €324m. The Region has reported revenue measures in its Economic & Financial Plan that have an impact valued at €64m. The main measures concern the disposal of property assets. The expenditure measures will have an impact valued at €260m. The most important expenditure measure is a withholding of budget appropriations valued at €148m. The Region submitted the

details of the appropriations affected entailing the declaration at 30<sup>th</sup> September of appropriations to the value of €213m as non-available.

**The main risks of deviation from the 2014 stability target are driven by the expected year-end revenues from property asset disposals and current transfers, along with the tension observed in expenditure:**

1. A risk of non-compliance is identified in the **revenue** scenario given by the Region for 2014 in the following items:
  - Basically, the **disposal of property assets**: the Region expects fourth quarter revenues of €39m, although only €1m has been implemented to September. According to additional information provided by the Region, €7.5m of the previous estimate is expected to materialise by year-end, from a transaction that remains outstanding at the time of signing the deed.
  - **Current transfers other than those from the funding system**, where a 39% increase is expected —€34m— which is not underpinned by the measures taken and does not appear to be consistent with the performance of these revenues to date.
2. Additionally, the buffer seems very meagre in the **expenditure** scenario expected by the Region for 2014. The implementation data to November facilitated by the Region show that year-on-year non-financial budget expenditure is being reduced and €213m in budget appropriations were declared non-available in September. However, meeting these year-end estimates demands strict application of the Region's cost curtailment plans and there is no margin for absorbing or correcting unforeseen deviations as there are doubts as to whether the existing non-availability of financing for appropriations will be enough to guarantee the complete correction of the 2013 imbalance. Finally, the implementation

data to 30<sup>th</sup> September show that the movements on account 413 are in line with the previous year, generating uncertainty about the balance that this account may reach by year-end and about meeting the Region's estimates on the effect this will have on the deficit.

## **Analysis of possible deviation in the 2015 forecasts**

**The Autonomous Region of Aragón expects to achieve its 2015 stability target with a 4.8% increase in revenues and a 6.5% 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 a 4.8% increase in non-financial revenues and a 6.5% increase in non-financial expenditure against the previous year. Likewise, adjustments in public sector accounts are expected that would bring the deficit down by an estimated €129m in national accounts terms. According to the Region, this would enable it to bring its net borrowing in line with the stability target set.

**The primary deficit expected by the Region is 0.4% 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 0.7% of regional GDP.

**Revenues from the funding system that the State is expected to pay out to the Region increase 2.3% 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 2.3% increase in these against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

**The measures planned by the Region for 2015 are expected to have an impact valued at €41m.** The Region has reported revenue measures in its Economic & Financial Plan for this year that will have an impact valued at €21m from the disposal of property assets. The expenditure measures have an impact valued at €20m. They maintain the withholding of budget appropriations decreed for 2014 and include an additional effect from measures concerning personnel and financial expenditure. However, in the draft budget published by the Region it values the disposal of property assets planned for the year at €27m, increasing the initial estimate included in the Economic & Financial Plan by €7m for this year. Moreover a new duty is levied on the provision of employment services and the Plan establishes measures to encourage and support entrepreneurs, so increased revenues are expected in Tax on Asset Transactions & Documented Legal Acts from corporate transactions. In its regional legislation however, in general it expands tax breaks in Income Tax, Tax on Asset Transactions & Documented Legal Acts and Estate Tax.

**The main risks of deviation from the 2015 stability target are driven by the expected amount of certain current revenue items and by the adjustments to national accounts:**

1. In the **revenues** scenario expected by the Region for 2015, a risk of non-compliance is identified in the expected revenue, more specifically in the following items:
  - **Estate Tax:** The Region envisages an 18% increase in revenues from this tax, but this is not underpinned by the performance of these revenues to date, or by the measures taken to that end. So there is a risk of deviation from the forecasts, despite the fact that the data for the year to September 2014 show a year-on-year performance that could improve the Region's 2014 year-end estimate, which would off-set the assessment of the increase and the risk observed in 2015.



- **Tax on Asset Transactions & Documented Legal Acts:** this is the current revenues line that is expected to show the greatest change. A 65.5% increase in revenues from this tax is envisaged; €82m above the 2014 year-end estimate. This increase is not supported by the measures taken to that end.
  - **Special Duty on Certain Means of Transport:** The forecast for 2015 is for a 133% increase against the 2014 year-end estimate, which is not supported by the measures taken. Consequently, these revenues could have been over-estimated.
  - **Disposal of property assets:** The Region expects to obtain €27m under this heading. Given their performance in previous years and their execution to date, the uncertainty surrounding their materialisation would be passed forward to 2015, unless this measure were postponed from 2014 to the next year, as has been indicated previously.
2. A risk of deviation has been detected with respect to the amounts that the Region has estimated for **adjustments in national accounts terms**, specifically in the following items:
- The expected adjustment for 2015 from **account 409/413** is slightly lower than the one recorded in 2013 and estimated for 2014. No developments have been reported that could support this change and no information has been provided on the expected movements in this account for the year.
  - The Region estimates a €125m adjustment for **non-execution**, which would cancel out the expected increase in expenditure to a large extent. Basically, this adjustment corrects the increase in the non-financial fiscal deficit in 2015 against 2014, enabling the Region to bring its net borrowing in line with the stability target set. If this non-execution entails a withholding of appropriations similar to the measure applied in 2014, it must be instrumented and justified. If expenditure were not curtailed to the extent expected by the Region, it

would extrapolate the uncertainty surrounding the effectiveness of this measure to 2015.

- In the draft budget published, the **adjustment for negative settlements in 2008 and 2009** is €50m greater than the figure given in the Region's fiscal scenario and the information in the draft 2015 General State Budget. According to the additional information provided by the Region, this was due to an initial forecast that the expected 2013 settlement would be postponed. The Region now says that this is being corrected in the passage through parliament of the draft budget legislation and that the published budget will then include the adjustment matching the information contained in the draft State Budget. What is not known however, is how this correction will affect all the other forecasts for 2015.