



Report on the Madrid Region Economic-Financial Plan (EFP)

The report sent to the government in April by the Ministry of Finance & Public Administrations (MINHAP) determined the non-compliance by the Madrid Region of the budget stability target in 2014.

After analysing the draft Economic-Financial Plan (EFP), AIReF is of the view that compliance with the budget stability target in 2015 and 2016 is possible. However, risks of deviation are seen in the 2015 stability target. Essentially these risks centre on estimates with an upside bias in certain revenue scenario items such as disposal of investments and the tax on asset transactions and documented legal acts (*Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*, ITPyAJD). With respect to 2016, the Madrid Region's forecasts are deemed plausible and the stability target is therefore considered to be achievable.

On another issue, Organic Law 2/2012 on Budget stability and financial sustainability (LOEPySF) and the report of the Council of Ministers Decision of 27th June 2014 state that whenever a public administration has an EFP growth in the expenditure eligible to be included in the calculation has to be in line with the path set out for it in that EFP. Therefore, the Madrid Region EFP should be expanded to include the information needed to be able to assess compliance with the expenditure rule in the period covered by the EFP (2015 and 2016).

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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1. Budget stability target

2015

Compliance with the budget stability target set at -0.7% of GDP for 2015 is deemed possible by AIReF although there are risks stemming from a number of estimates skewed to the upside in certain revenue items.

Nevertheless, the growth estimates forecast in the EFP by the Madrid Region seem prudent, so the final regional GDP outcome might partially correct any possible deviation in the revenue scenario.

For the Madrid Region to meet the 2015 budget stability target AIReF is of the view that it should revise its revenue scenario and, as and where necessary, incorporate additional measures to offset the corrections made.

In 2014, the region's borrowing amounted to 1.34% of its GDP, with the result that it failed to comply with the budget stability target set at -1% of GDP.

The Region of Madrid has now put forward **MEASURES** representing 0.06% of its GDP (€123 million), of which 0.10% of the GDP figure corresponds to measures designed to boost revenues and 0.04% to measures that will increase its expenditure.

The sole **revenue measure** contained in the EFP for 2015 is linked to the region's participation in the collection by the State of the tax on deposits in lending institutions, created by a State law —Law 16/2012 of 27 December, adopting different tax measures aiming to consolidate public finances and boost economic activity. The assessment includes the revenue in 2014 and the interim payment for 2015, although only the 2015 figure will have an impact on the deficit in the year.

As far as **expenditure measures** are concerned, the effect is negative, amounting to 0.04% of GDP (€77 million). This figure includes the reinstatement of the extraordinary public employee salary payment for 2012, which represents an additional €80 million in expenditure, and the saving on interest payments valued at €3 million arising from Royal Decree (RD) 17/2014.

With regard to the **BUDGETARY SCENARIO** forecast for year-end, the EFP shows that the Madrid region is estimating an increase in non-financial revenue other than the revenue from the regional funding system (interim payments and settlement) amounting to 0.55% of GDP (€1.12 million). However, the expected impact of the measures adopted represents 0.1% of GDP. More specifically, revenue is expected from the disposal of real estate

assets (not included in the measures section) but no documentary justification has been furnished on the concrete transactions under that heading. Furthermore, considering the available budget implementation data to April, uncertainty is perceived around the full materialisation of the revenue in the year. In addition, a risk of deviation is perceived in the ITPyAJD forecast given that the available budget implementation data to date and the study carried out by AIReF on the revenue projections for the tax, taking into account information on the development of free-market price housing prices published by INE (National Statistical Institute) and the data on second-hand housing transactions compiled by the Professional College of Registrars, do not endorse such high growth as forecast in the region's estimates (57.4% compared to year-end 2014).

As far as the expenditure scenario is concerned, the Madrid Region forecasts an increase in non-financial expenditure after stripping out the effect of the obligations recorded in non-budgetary accounts valued at 0.12% of GDP (€252 million more than 2014). The implementation data available to date, however, reflect a reduction in that expenditure compared to the previous year. An additional factor to be taken into account is the one-off operations valued at 0.15% of GDP (€311 million) that took place in 2014. For 2015, the region forecasts only one extraordinary operation because of a payment ruling amounting to 0.06% of regional GDP.

2016

In spite of the fact that the Madrid Region does not envisage adopting any measures in 2016, compliance with the stability target of -0.3% of GDP is deemed likely given the positive development of revenues linked to the regional funding system.

The valuation of the **MEASURES** totals 0.04% of GDP (€77 million). It originates in the reversion of the reinstatement in 2015 of the extraordinary public employee salary payment for 2012.

With regard to the **BUDGET SCENARIO** forecast at year-end, the Madrid region is estimating an increase in non-financial revenue totalling 0.25% of GDP (€605 million).

The forecast made by the region for funds from the regional funding system (2016 interim payments and 2014 forecast settlement) seems prudent in line with AIReF's own projections. These are based on the data published by the Spanish Tax Authority (AEAT) and the State Comptroller's Office (IGAE) for the collection of transferred taxes in 2014, which will have an impact on the settlement of payments in the funding system corresponding to that year and

on the macroeconomic assumptions for 2016 covered in the 2015-2018 Stability Programme.

As regards the expenditure scenario, the Madrid Region forecasts a reduction in non-financial expenditure after stripping out the effect of the obligations recorded in non-budgetary accounts totalling 0.06% of PIB (€127 million). Out of that total, 0.04% is supported by concrete measures.

2. Expenditure rule

The variation rate for the expenditure eligible to be included in the calculation of the Region of Madrid in 2014 was 0.2% when the medium-term reference growth rate of the economy was 1.5%. As a result, and in line with the report issued by MINHAP, the Madrid Region complied with the expenditure rule in 2014. Nevertheless, for the purposes of being able to assess and monitor the expenditure rule, AIReF believes that the information required to calculate the growth in the computable expenditure in the period covered in the plan (2015 y 2016) must be incorporated into the EFP.

Under article 12 of the LOEPySF, whenever a public administration has an EFP or a rebalancing plan compliance with the expenditure rule shall take into account that the growth in the eligible expenditure to be included in the calculation must be aligned with the path stated in the corresponding plans. This circumstance is explicitly noted in the report of the Council of Ministers Decision of 27 June 2014 setting the reference rates of the expenditure rule for 2015-2017.

In accordance with the above, any EFPs that are submitted must contain sufficient information to allow for an appraisal to be made of the expenditure rule both at the time of approval of the EFP as well as in the quarterly monitoring exercise conducted by MINHAP. For that purpose it would be advisable for MINHAP to prepare a standard form in which the required information can simply be filled in so that a like-for-like calculation for all the Autonomous Regions (ARs) could be made for non-financial uses (with the required detail of adjustments in national accounting terms), as well as the exceptions necessary to obtain the computable expenditure.

ANNEX

 1. DOCUMENT CONSISTENCY AND QUALITY OF INFORMATION

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
OBJETIVITY	X		
CLARITY	X		
CONCRETENESS	X		
INTEGRITY			
▪ Content of article 21 of the LOEPySF			
1. Causes of non-compliance	X		
2. Trend forecasts		X	
3. Description, quantification and calendar of measures	X		
4. Economic and budgetary forecasts	X		
5. Sensitivity analysis		X	
▪ Other information	X		

 2. ADEQUACY OF FORECASTS WITH RESPECT TO TARGETS

 2.1 STABILITY TARGET

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
ECONOMIC VARIABLES		X	
CONSISTENCY OF BUDGETARY SCENARIO-MEASURES			
▪ Revenue scenario			
1. Revenues from funding system (interim payment and final settlement)	X		
2. All other revenues from the funding system	X		
3. Other taxation revenues		X	
4. All other revenues *			X
▪ Expenditure scenario			
1- Personnel expenditure	X		
2- Financial expenditure	X		
3- All other current expenditure	X		
4- Capital expenditure	X		
▪ Adjustments in national accounts terms			
1. Uncertain revenue collection	X		
2. Interest	X		
3. Account 409/413	X		
4. Non-implementation	-	-	-
5. All other adjustments		X	

*The autonomous region does not include disposal of investments as a revenue measure

3. SUFFICIENCY OF MEASURES

3.1 REVENUES

3.1.1 TAX REVENUES (*)

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS			
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF THE ECONOMIC IMPACT	X		

(*) *The tax on deposits in credit institutions (IDEC) was created by the State in Law 16/2012, which makes it a discretionary measure for the State.*

3.2 EXPENDITURE

3.2.1 PERSONNEL EXPENDITURE

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF THE MEASURES IN PREVIOUS YEARS	X		
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF THE ECONOMIC IMPACT	X		

3.2.2 FINANCIAL EXPENDITURE (*)

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF THE MEASURES IN PREVIOUS YEARS			
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF THE ECONOMIC IMPACT	X		

(*)The financial expenditure measures arise mainly from the application of RDL 17/2014 which makes them discretionary measures for the State.