



Report on the Catalonia Autonomous 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 Autonomous Region of Catalonia of the budget stability target, the debt target and the expenditure rule in 2014.

After analysing the draft Economic-Financial Plan (EFP), AIReF takes the following view:

- **STABILITY TARGET:** there is practical certainty of non-compliance with the 2015 budget stability target. Moreover, the significant deviation that is likely to be recorded this year compromises the possibility of compliance with the stability target set for 2016.
- **DEBT TARGET:** the uncertainty surrounding the debt targets and possible exceptions to be approved by the Ministry of Finance & Public Administrations (MINHAP) with a view to their appraisal makes it impossible for a forecast to be made about compliance with them by Catalonia.
- **EXPENDITURE RULE:** the EFP should be expanded to incorporate the necessary information to be able to assess compliance with expenditure developments.

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

There is practical certainty about non-compliance with the budget stability target set at -0.7% of GDP for 2015. The deficit might stand at around 2% of regional GDP.

However, the growth estimates forecast in the EFP by the Catalonia Region seem prudent, so the final regional GDP outcome might correct slightly this year-end forecast.

For the region to reach the 2015 budget stability target AIReF is of the view that the draft EFP submitted by Catalonia should be expanded to incorporate additional measures even though the autonomous region has made above-average use of its normative competences on taxation compared to the other autonomous regions in the common taxation regime.

In 2014, the region's borrowing amounted to 2.58% of its GDP, with the result that it failed to comply with the budget stability target set at -1% of GDP.

For 2015, the Catalonia Region has put forward **MEASURES** representing 1.1% of its GDP (€2.27 billion), of which 0.9% of the GDP figure corresponds to measures designed to boost revenues and 0.2% to measures to reduce its expenditure.

The main **revenue measures** consist of the disposal of real estate investments and administrative concessions, which are expected to bring in revenues representing 0.8% of the GDP figure. No documentary justification has been furnished on the concrete transactions under these measures. Moreover, considering the available budget implementation data to April uncertainty is perceived around the full materialisation of the revenue in the year. All the other revenue measures (0.1% of GDP) are taxation-related measures and essentially centre around the adoption of new levies such as the tax on thermonuclear electricity production, tax on empty properties and other environmental levies.

As far as the **expenditure measures** are concerned, the impact valued at year-end amounts to 0.2% of GDP (€391 million). Excluding the reinstatement of the public employee extraordinary salary payment eliminated during 2012, 2013 and 2014, the expenditure measures amount to €971 million from interest payment savings arising from Royal Decree (RD) 17/2014.

With regard to the **BUDGETARY SCENARIO** forecast for year-end, the EFP shows that Catalonia is estimating an increase in non-financial revenue other

than the revenue from the regional funding system (interim payments and settlement) amounting to 0.8% of GDP in line with the envisaged impact of the revenue measures adopted. Nevertheless, there may be an upside margin in the forecast made by the region for the tax on asset transactions and documented legal acts (*Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*, ITPyAJD). According to the available budget implementation data to date and the study carried out by AIReF on the revenue projections for this 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, the 4.8% growth forecast estimated by the region seems prudent.

As far as the expenditure scenario is concerned, Catalonia forecasts a reduction in non-financial expenses after stripping out the effect of obligations recorded in non-budgetary accounts that amount to 0.3% of GDP (€613 million). This reduction is not fully supported in the measures although the implementation data available to date do reflect a reduction in non-financial expenses compared to the previous year in line with the region's forecasts

2016

Compliance with the budget stability target of -0.3% of GDP is considered unlikely. The starting point contained in the plan is a deficit of 0.7% of GDP in 2015. Nevertheless, as pointed out in the paragraphs above, there is practical certainty of non-compliance with the 2015 target. As a result, the additional retrenchment to be achieved in 2016 might entail a deviation from the target not currently envisaged in the region's scenario. Even though a reduction in the deficit of around 1% of GDP is considered feasible, it would not be enough for compliance with the -0.3% GDP target.

For the Autonomous Region of Catalonia to reach the 2016 budget stability target AIReF is of the view that the draft EFP submitted by the region should be expanded to incorporate additional measures and the adjustment of the revenue scenario forecast for year-end.

The **MEASURES** for 2016 are mainly reversions of measures adopted in previous years.

The negative impact of **revenue measures** stems from the reversion of measures on the disposal of real estate investments and administrative concessions adopted in 2015 (0.8% of its GDP). Nevertheless, revenue measures totalling €20 million (0.01% of GDP) arising from several taxes created in 2014 are expected in 2016.

As for **expenditure measures**, they are essentially centred on the reinstatement of the 2012 public employee extra salary payment and interest payment savings.

With regard to the **BUDGETARY SCENARIO** forecast at year-end whose starting assumption is compliance in 2015, the EFP shows that Catalonia is estimating an increase in non-financial revenue of 0.7% of GDP (€1.48 billion), with a negative overall effect of the measures representing 0.8% of GDP.

The forecast for revenue from the regional funding system (interim payments in 2016 and forecast settlement for 2014) calculated by the region is consistent with the projections made by AIReF. The basis used for the projections are the data published by the Spanish Tax Authority (AEAT) and the State Comptroller's Office (IGAE) regarding collection of taxes transferred to the region in 2014 (which will impact the settlement of the funding system corresponding to that year) and the macroeconomic assumptions for 2016 contained in the 2015-2018 Stability Programme Update.

In addition, the region has forecast revenues to be paid to it by the State valued at 0.6% of regional GDP (€1.2 billion) about which there is currently no evidence of the existence of any payment commitment. These transactions are funds the region expects to receive from the State under additional provision three of the Catalonia Statute of Autonomy (*Estatuto Autonómico Catalán*) and due to the regularisation of the agreement to finance the autonomous regional police force during the period 2010-2014.

As regards the expenditure scenario, the region is forecasting a reduction in non-financial expenses after stripping out the effect of obligations recorded in non-budgetary accounts totalling €54 million (0.03% GDP). This reduction is not supported in the measures because their effect is negative (higher expenditure), amounting to 0.2% of the region's GDP (€410 million).

2. Debt target

The current system for setting the debt target does not allow AIReF to know at the date of publication of this report either the debt target for 2015 (the initial target set last year for 2015 has already been exceeded) or the exceptions that will allow the debt target to be recalculated at year-end 2015.

Catalonia's debt at year-end 2014 was €117 million higher than the revised target for the region in that period. According to Banco de España data Catalonia's total debt at 31st December 2014 was €64.47 billion, equivalent to 32.3% of its regional GDP. The target set for 2014 for the region under the

Council of Ministers Decision (ACM, *Acuerdo del Consejo de Ministros*) of 12th September 2014 was 30.3% of GDP. However, MINHAP recalculated Catalonia's target to incorporate the exceptions envisaged by the ACM, raising the target to a debt/GDP ratio of 32.2%¹.

The starting point of the 2015 debt target is the level of debt reached by the region at year-end 2014, after deducting the €117 million excess debt over and above the target permitted. According to the data furnished by the region, its debt at year-end 2015 is going to amount to €69.42 million, 33.2 % of the region's GDP, and at year-end 2016, €70.18 billion, equivalent to 33% of its GDP.

Although the starting debt level is known, the uncertainty about what the year-end targets will be for 2015 and 2016 means no forecasts can be made regarding compliance with them.

3. Expenditure rule

After analysing the plan submitted by Catalonia, AIReF has identified the lack of a sufficient breakdown for assessment of compliance with the development of the expenditure eligible to be included in the expenditure rule calculated in the terms set out in article 12 of the LOEPSyF and the Report of the Council of Ministers Decision of 27 June 2014 setting the reference rates for the expenditure rule for 2015-2017.

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.

The variation rate of the expenditure eligible to be included in the expenditure rule calculation in Catalonia in 2014 was 1.7% 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 region failed to comply with the expenditure rule in 2014.

Nevertheless, 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

¹ MINHAP report published on 24th April 2015 on the degree of compliance with the budget stability target, public debt target and expenditure rule in 2014.

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 THE 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 payments 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	

3. SUFFICIENCY OF MEASURES

3.1 REVENUES

3.1.1 TAX REVENUES

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF 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		

3.1.2 NON-TAXATION REVENUES

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF 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 EXPENDITURE

3.2.1 PERSONNEL EXPENDITURE

VARIABLES	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.