



Report on the Basque Country 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 Basque Country Autonomous Region of the expenditure rule in 2014.

After analysing the region's draft Economic-Financial Plan (EFP), AIReF considers that compliance with the expenditure rule in 2015 and 2016 is possible. Nevertheless, the EFP the region has submitted does not include the applicable part of the minimum contents regulated by article 21 of the LOEPSF.

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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Expenditure rule

On the basis of the data contained in the EFP, AIR^eF considers that compliance by the Basque Country Autonomous Region with the expenditure rule in 2015 and 2016 is possible. The development of eligible expenditure in the region's forecast would mean an increase of 0.2% in 2015 and 1.0% in 2016. Both figures are lower than the growth rate limits set for the two years respectively at 1.3% and 1.8%.

The rate of change in the eligible expenditure of the Basque Country Autonomous Region in 2014 was 3.3%, when the reference medium-term growth rate for the economy was 1.5%. As a result, and according to the report published by MINHAP, the Basque Country region failed to comply with the expenditure rule in 2014.

As a consequence of its non-compliance, the baseline figure to be used when calculating the variation rate in the region's eligible expenditure in 2015 would not be the actual eligible expenditure recorded by the region in 2014 (€9.27 billion), but rather the maximum amount that could have been reached if it had complied with the expenditure rule (€9.11 billion) in that year. Moreover, the impact of the revenue measures affecting 2014 would need to be taken into account too. If MINHAP accepts the measures amounting to €118 million which are explained by the Basque Country region in its EFP, the eligible expenditure figure as a starting point for 2015 would be €9.23 billion. According to these calculations, the increase in eligible expenditure envisaged in 2015 is 0.5%. This is lower than the 1.3% reference growth rate set for the year.

The 0.5% increase is still substantially lower than the figure that might result from applying the expenditure rule, but it seems consistent with the fact that in 2014 the region recorded a number of one-off expenditure operations totalling €61 million that will not be repeated in 2015. Those extraordinary expense items amounting to €48 million were linked to legal rulings and, to a lesser extent, to the damages caused by storms on the coasts, as well as a €13 million expense booked for accounting unit classifications. The total expenditure in these operations would justify a 0.6% drop in the region's eligible expenditure in 2015.

The EFP submitted by the Basque Country does not comply with the applicable part of the minimum content requirement in the LOEPSF. Nor does the EFP's structure seem adequate for the purposes of evaluating the expenditure rule. There is a mandatory minimum content requirement for EFPs (article 21 of the LOEPSF) that can nonetheless be adapted for this specific case when submission of the EFP is solely and

exclusively due to non-compliance with the expenditure rule to which it applies in order to assess that rule. The plan should therefore include the trend in the development of expenditure, an analysis of alternative scenarios, and forecasts of the economic and budgetary variables that are the basis of the EFP. The EFP's structure does not allow any checks to be made either on the consistency of the data provided on the calculation of eligible expenditure with the budgetary scenario contained in it.

As it has requested in previous reports on EFPs, AIReF considers that it would be advisable for MINHAP to establish a standardised format to be filled in for an EFP so that the expenditure rule can be evaluated.

This is particularly important for the autonomous regions that are submitting an EFP when the only reason for the plan is because of failure to comply with this rule, as in the case of Basque Country. This standard format should contain a specific section on the development of the eligible expenditure throughout the EFP reference period and make it possible for a like-for-like calculation to be made for all the autonomous regions for both non-financial uses (with the necessary details of the national accounting adjustments) and the necessary exceptions to obtain the computable expenditure figure. Likewise, the EFP scenario should contain a sufficiently detailed breakdown so that the consistency of the development of the eligible expenditure with the forecast budgetary scenario can be checked.

ANNEX

 1. DOCUMENT CONSISTENCY AND QUALITY OF INFORMATION

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
OBJECTIVITY	X		
CLARITY	X		
CONCRETENESS	X		
INTEGRITY			
▪ Content of article 21 of the LOEPSF			
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 EXPENDITURE RULE

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
CONSISTENCY BUDGETARY SCENARIO – ELIGIBLE EXPENDITURE			
▪ Expenditure scenario: non-financial budgetary expenditure excluding debt servicing	X		
▪ Adjustments to convert the budgetary expenditure to uses			
1. Disposal of investments	X		
2. Resources from the system that are payments to the State	-	-	-
3. Non-implementations		X	
4. Capital contributions		X	
5. Other entities considered general government sector		X	
6. All other adjustments		X	
▪ Items excluded			
1. Allocated expenditure using EU funds	X		
2. Allocated expenditure from other general government entities	X		
3. Transfers to Local Corporations associated with the financing system	-	-	-
4. LORCA earthquake expenditure	-	-	-
▪ Revenue differences because of normative changes			
1. Increases stemming from permanent measures	X		
2. Decreases stemming from measures	X		