



Report on the Murcia 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 Murcia of the budget stability target in 2014.

After analysing the draft Economic-Financial Plan (EFP), AIReF is of the view that there is practically certainty of non-compliance with the 2015 budget stability target. Likewise, the significant deviation that is likely to be recorded this year compromises the possibility of compliance with the stability target set for 2016.

As AIReF explained in its *Report on expected compliance with the 2015 budget stability, government debt and expenditure rule targets*, published on 17th July¹, the track record of recurrent non-compliance with the annual targets set makes the preparation of the EFP especially important for this autonomous region. The plan should therefore contain a credible path for the correction of the imbalance within a multiyear framework that matches the time frame established in the Stability Program Update (SPU). The annual correction commitments should be set out within this time frame together with the specific economic and financing assumptions on which the forecasted development of the region's revenue and expenditure is based and the concrete fiscal consolidation measures to be adopted.

¹ [Report-on-expected-compliance-with-the-2015-budget-stability-government-debt-and-expenditure-rule-targets-by-the-public-administrations-in-Spain](#)

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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Nevertheless, Spain's Organic Law 2/2012 on budget stability and financial sustainability (LOEPSF) states that AIReF must issue a report on the EFPs prior to their presentation to the Fiscal and Financial Policy Council. In this regard this report takes into account the formal and substantive aspects of the EFP such as the suitability of the measures and the adequacy of the forecasts for the current year and the following year.

Moreover, the LOEPSF and the report of the Council of Ministers' Decision (ACM) of 27th June 2014 state that whenever a public administration has an EFP, the growth in eligible expenditure to be included in the calculation has to be in line with the path set out for it in that EFP. Therefore, the Murcia 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).

1. Budget stability target

2015

There is practical certainty of non-compliance with the budget stability target set for 2015 at -0.7% of GDP. The deficit might end the year at around 2.5% of regional GDP.

For the Autonomous Region of Murcia to meet the 2015 stability target, AIReF is of the view that the draft EFP submitted by the region should be expanded to incorporate additional measures.

In 2014, the region's borrowing amounted to 2.8% of its GDP with the result that it failed to comply with the budget stability target set at -1% of GDP.

The Region of Murcia has now put forward **MEASURES** representing 1.4% of GDP (€392 million), of which 0.4% of the GDP figure corresponds to measures designed to increase revenue and 1% of GDP to expenditure reduction measures.

The primary **revenue measure** is the disposal of real estate assets, from which the region expects to collect revenue amounting to 0.3% of GDP. The region has provided documentary justification of the concrete transactions these measures entail. Nevertheless, uncertainty is perceived about whether the transactions will be carried out in full by the end of the year. All of the remaining measures (0.1% of the region's GDP) are taxation-related, essentially involving the Tax on Asset Transactions and Documented Legal

Acts (ITPAJD, as it is known in Spanish) and the Tax on Inheritance and Donations (ISD, as it is known in Spanish).

As far as **expenditure measures** are concerned, their impact valued at year-end would represent 1% of GDP (€284 million). If the reinstatement of the extraordinary public employee salary payment that was discontinued during the years 2012, 2013 and 2014 is excluded, the expenditure measures would amount to €329 million. The primary measure is the saving on interest payments stemming from Royal Decree-Law (RDL) 17/2014 (0.5% of GDP) and other current —mainly health-related (hospital pharmacy expenditure, a reduction in the cost of special agreements, direct supply of medicines and health products to socio-health centres through pharmacy services, etc.)— expenditure measures (0.7% of GDP).

As regards the **BUDGETARY SCENARIO** forecast for year-end, the EFP shows that the region is estimating an increase in non-financial revenue other than the revenue from the regional funding system (interim payments and final settlement) amounting to 0.5% of GDP, which is higher than the impact forecasted from revenue-linked measures. Nevertheless, there may be an upside margin in the forecast made by the region for the ITPyAJD. According to the budget implementation data available to date and the study made by AIReF on the revenue projections for this tax, taking into account the development of free-market housing prices published by INE (National Statistical Institute) and the data on second-hand housing transactions compiled by the Professional College of Registrars, the 2.7% forecast for growth estimated by the region seems prudent.

As far as the expenditure scenario is concerned, the region is forecasting a reduction in non-financial expenses, after stripping out the effect of obligations recorded in non-budgetary accounts valued at 1% of GDP. Although there are concrete measures to support this reduction, the implementation data available to date show that non-financial expenses are increasing compared to the previous year.

2016

AIReF considers compliance with the stability target of -0.3% of GDP to be unlikely. The baseline contained in the plan is a deficit of 0.7% of GDP in 2015. However, as stated in earlier sections of this report, there is practical certainty of non-compliance with that target this year. That means the additional effort to be made by the region in 2016 could lead to a deviation from the target which is not forecast in the Murcia region's scenario. Even

though a reduction in the deficit of around 1% of GDP is considered feasible, this would not be sufficient for the region to hit the -0.3% of GDP deficit target.

For the Autonomous Region of Murcia to meet the 2016 budget stability target, AIReF is of the view that the EFP draft submitted by the region should be expanded to incorporate additional measures.

Murcia Region has put forward **MEASURES** amounting to 0.2% of GDP (€59 million), of which 0.3% of GDP are earmarked to reduce regional expenditure and 0.1% of the GDP consist of revenue measures from previous years that are reverted in 2016.

The effect of the **revenue measures** would stem from the reversion of the real estate asset disposal measures adopted in 2015 (0.3% of GDP).

As far as **expenditure measures** are concerned, the region estimates their impact will represent 0.3% of GDP, mainly as a result of interest payment savings.

With regard to the **BUDGETARY SCENARIO** forecast at year end, which is based on compliance with the target in 2015, AIReF notes that according to the EFP the region is estimating an increase in its non-financial revenue totalling 0.9% of GDP (€252 million) and that the effect of the measures is negative (0.1% of GDP).

The forecast calculated 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 ceded 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 Update.

As for the expenditure scenario, the region is forecasting a reduction in non-financial expenditure, after stripping out the effect of the obligations recorded in non-budgetary accounting valued at 0.1% GDP. This reduction seems to be supported by measures (0.3% of GDP).

2. Expenditure rule

The variation rate for the expenditure eligible to be included in the calculation of the expenditure rule in the Region of Murcia in 2014

was -5% 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 Murcia 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 and 2016) must be incorporated into the EFP.

Under article 12 of the LOEPSF, 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 27th 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

| VARIABLES | ADEQUATE | INCOMPLETE | INADEQUATE |
|---|-----------------|-------------------|-------------------|
| OBJECTIVITY | 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

| VARIABLES | 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 REVENUE

3.1.1 TAX REVENUE

| <u>VARIABLES</u> | <u>ADEQUATE</u> | <u>INCOMPLETE</u> | <u>INADEQUATE</u> |
|--|-----------------|-------------------|-------------------|
| 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 REVENUE

| <u>VARIABLES</u> | <u>ADEQUATE</u> | <u>INCOMPLETE</u> | <u>INADEQUATE</u> |
|--|-----------------|-------------------|-------------------|
| 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 EXPENDITURE

3.2.1 NON-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.

3.2.3 ALL OTHER CURRENT EXPENDITURE

| <u>VARIABLES</u> | 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 | |