



GOBIERNO
DE ESPAÑA

MINISTERIO
DE HACIENDA
Y ADMINISTRACIONES PÚBLICAS

ORGANIC LAW ON BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY OF PUBLIC ADMINISTRATIONS



CONTENTS

- Objectives of the Law
- General principles
- The three tax rules
 - Structural balance
 - Debt ceiling and sustainability
 - Expenditure rule
- Process to set regional and local authority targets.
- Autonomous Region and Local Authority budgeting
- Oversight of compliance with targets and plans
- New preventive and corrective mechanisms
 - Preventive mechanisms
 - Corrective and enforcement mechanisms
 - Grounds for applying enforcement measures
- Increased transparency and plans oversight.
- Additional funding mechanisms and adjustment plan
- Transition period and entry into force



OBJECTIVES OF THE LAW

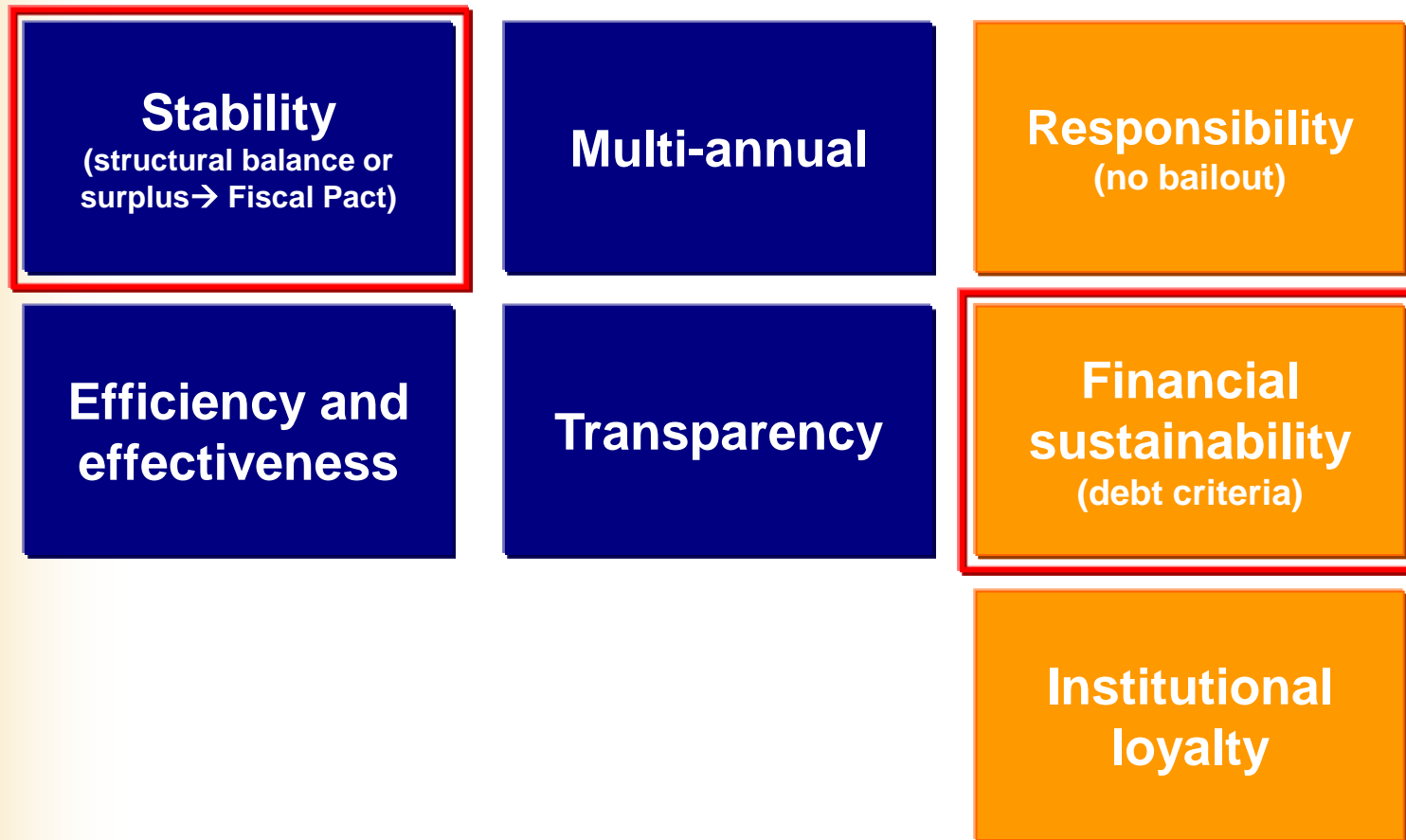
- Implements Article 135 of the Spanish Constitution
- Guarantees budgetary sustainability of all public admins
- Boosts confidence in the stability of the Spanish economy
- Strengthens Spain's commitment to the EU by incorporating EU regulation requirements and allowing these to be continually and automatically adapted

Budgetary stability and sustainability are essential for economic growth and job creation





GENERAL PRINCIPLES



Budgetary sustainability will be the guiding principle behind the actions of all public administrations





THREE FISCAL RULES

STRUCTURAL BALANCE

PUBLIC DEBT

EXPENDITURE RULE

- ✓ New preventive and corrective mechanisms
- ✓ **Clear, simple rules**





IMPLEMENTATION OF THE PRINCIPLE OF BUDGETARY STABILITY

All public administrations



Structural balance or surplus
☞ **MTOs for Spain are stiffer
than the EU minimum**

The Law allows 2 exceptions:

**Structural reform with
positive long-term budgetary impact**



0.4% Maximum structural deficit

Exceptional circumstances:

- Natural disaster
- Serious economic recession
- State of emergency



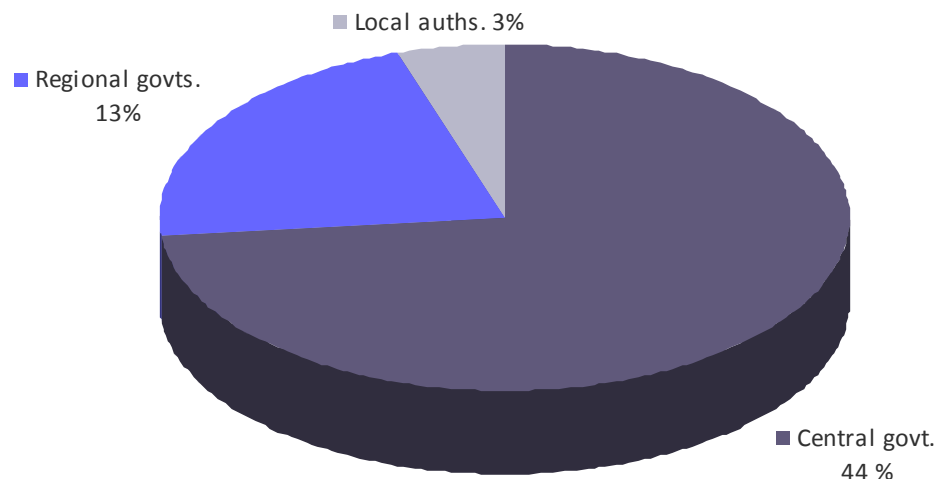
STATE, AUT. REGIONS
Structural deficit + rebalancing plan





IMPLEMENTATION OF THE FINANCIAL SUSTAINABILITY PRINCIPLE

- Volume of EDP Public debt < 60% or EU target



Interest and public debt payments have priority over any other expenditure





EXPENDITURE RULE

**Computable expenditure
variation**



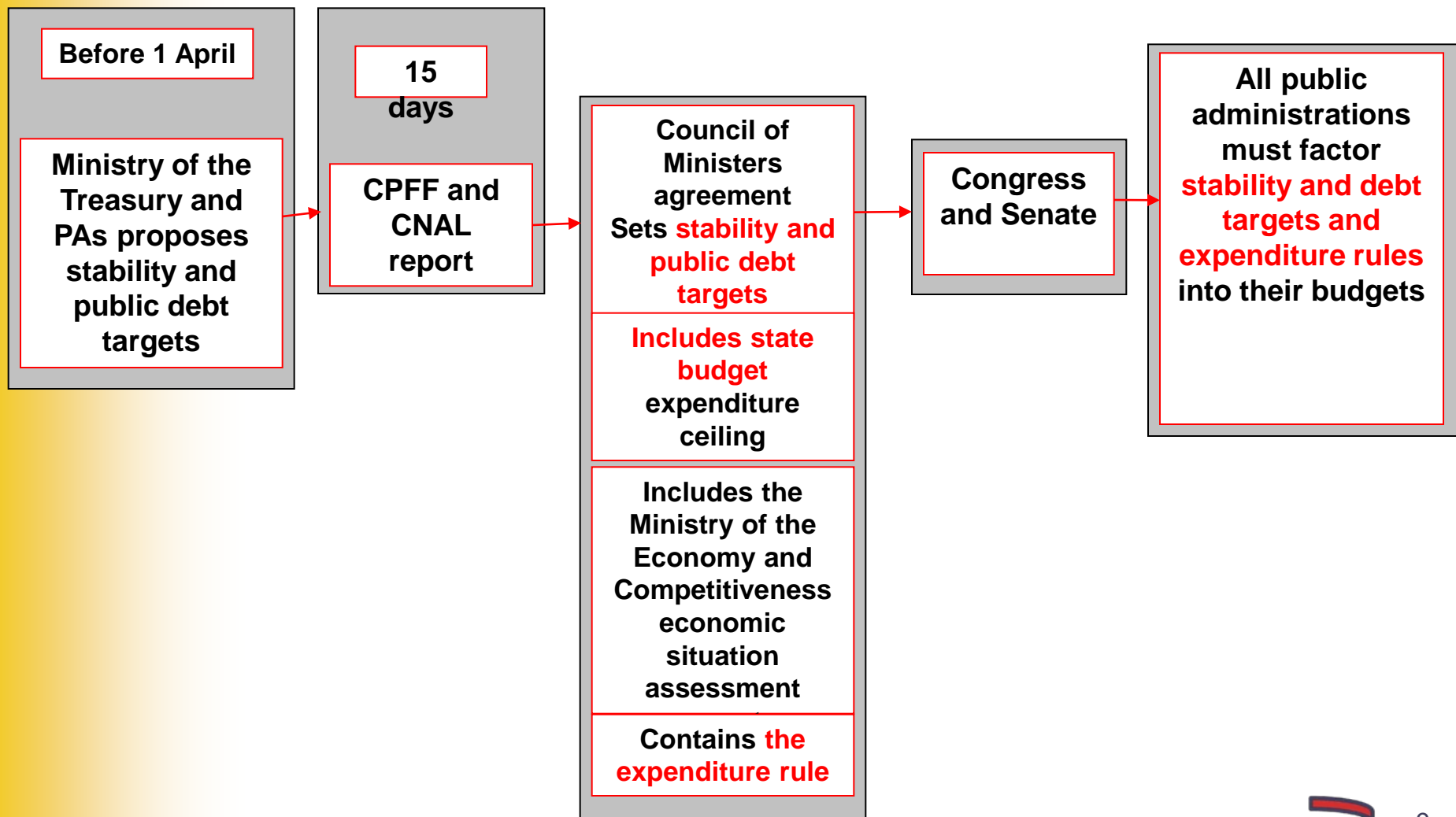
**Medium-term
GDP growth reference rate**
(To be determined according to EC
methodology and published in the
economic situation report)

**All public administrations (including regional govts.) must approve an
expenditure ceiling in keeping with the stability target and the
expenditure rule**



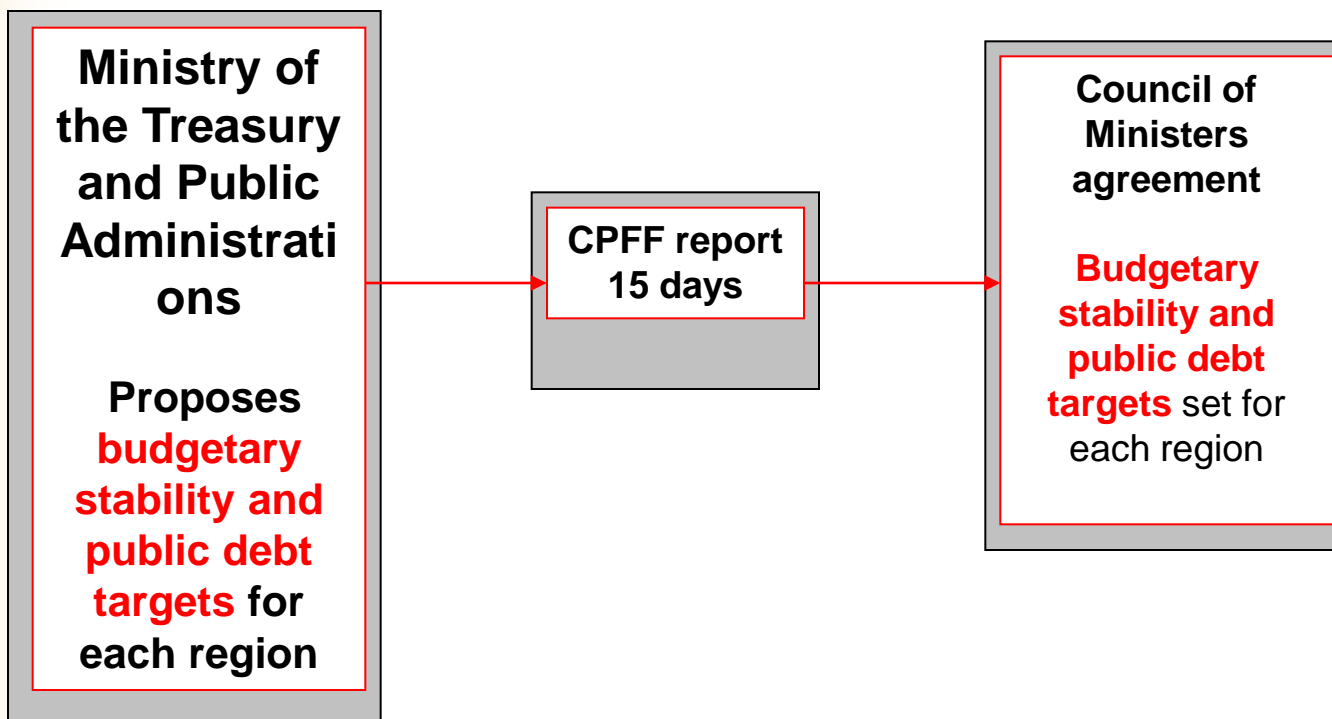


PROCESS TO SET REGIONAL AND LOCAL AUTHORITY TARGETS





PROCESS TO SET INDIVIDUAL REGION'S TARGETS.





REGIONAL AND LOCAL AUTHORITY BUDGETING

SECOND SEMESTER

Before 1 August

Regional govts. submit their approved expenditure ceiling to CPFF

Local authorities approve expenditure ceiling

Before 1 October

Regional govts. and Local authorities send their basic budgetary framework to Ministry of the Treasury and Public Administrations

Before 15 October

Ministry of the Treasury and Public Administrations decides whether budgets comply with stability, debt and expenditure rule targets for following year's budget

Possible recommendations

Publication

October, November and December

Approval of regional and local government budgetary projects

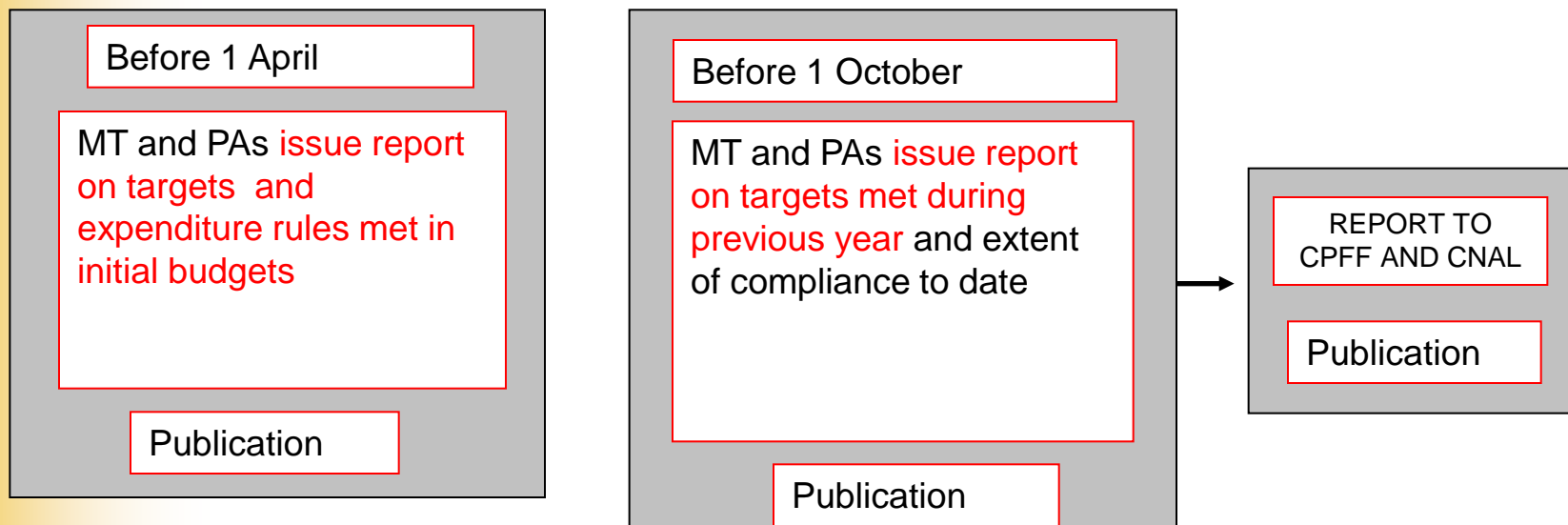
Approval of budgets Assemblies and Plenary sessions





TARGET AND EFP COMPLIANCE OVERSIGHT

FOLLOWING YEAR



Regional govts. Monthly oversight of budgetary spending

Regional govts. Economic and financial plan quarterly oversight.
Local Auths. Six monthly oversight





NEW PREVENTIVE AND CORRECTIVE MECHANISMS

Preventive mechanisms

Automatic preventive measures

Non-compliance risk warning

Corrective and enforcement mechanisms

Automatic corrective measures

Economic and financial plans

Enforcement measures and enforced compliance measures





AUTOMATIC PREVENTIVE MEASURES

CAUSE: Deviation during budget implementation

CONSEQUENCES: Adjust public spending to guarantee compliance by the end of the year

CAUSE: 95% of debt ceiling breached

CONSEQUENCES: Only cash operations

CAUSE: Long-term deficit forecast for the pensions system

CONSEQUENCES: The sustainability factor will be automatically applied





PREVENTIVE MECHANISMS

WARNING ISSUED

CAUSE: Risk of non-compliance

WHEN: At any time

SPONSOR: MT and PAs

COMPETENT AUTHORITY: Central government

Notifies **CPFF** and **CNAL**

PUBLICATION

Administration
adopts measures
with risk of non-
compliance

ONE MONTH

Insufficient or a lack of
measures will lead to
CORRECTIVE MEASURES

- Authorisation of all Regional govt. borrowing (only long-term if EFP is submitted) and long-term Local auth. operations
- Preliminary report on agreements and subsidies
- Economic financial plan
- Approve non-availability agreement within 15 days
- *Possible exercise of regulatory authority on taxes granted by central government*



CORRECTIVE MECHANISMS

ECONOMIC-FINANCIAL PLAN

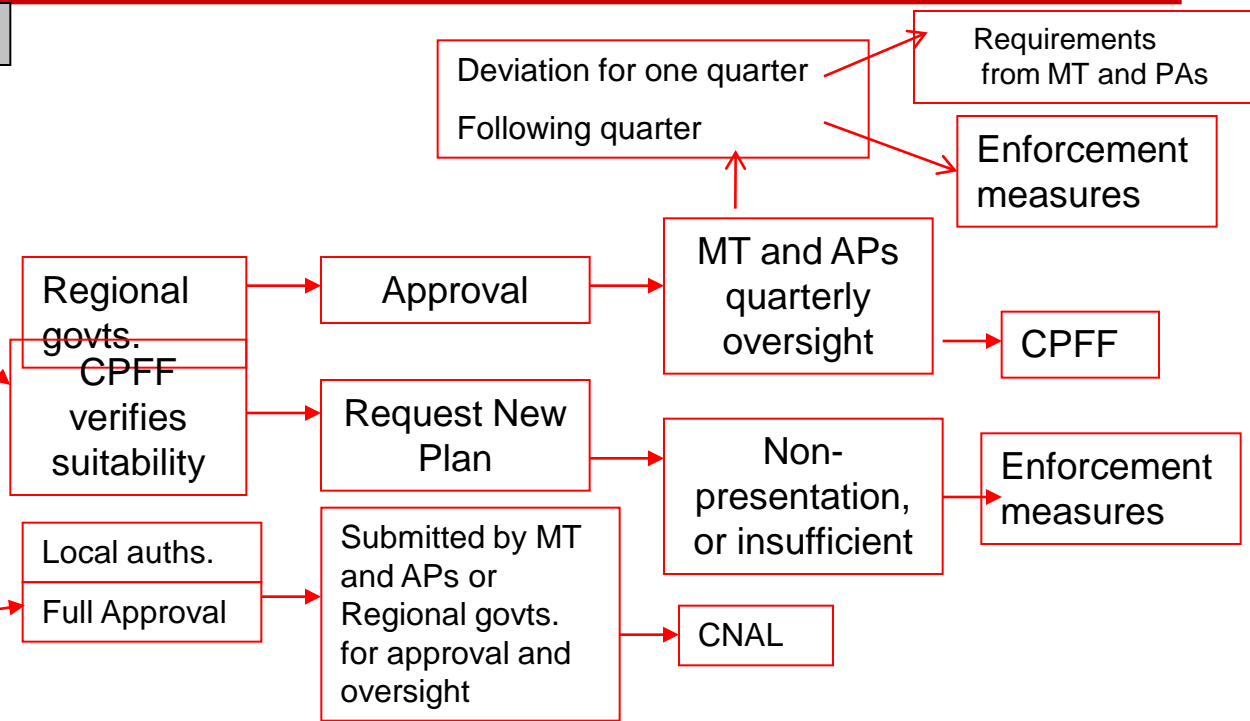
CAUSE: targets not met
WHEN: 1 April for initial budget and 1 October for liquidation
 One year to meet targets

PUBLICATION

PREPARATION DEADLINE:
 One month from date of non-compliance

APPROVAL DEADLINE: two months

IMPLEMENTATION: three months



REBALANCING PLAN

CAUSE: structural deficit incurred
CASES: Recession, natural disaster or state of emergency

→ Same EFP procedure





CORRECTIVE MECHANISMS

AUTOMATIC CONTROL MEASURES IN THE EVENT OF NON-COMPLIANCE WITH TARGETS

WHEN:

- Initial budget: 1 April
- Budget settled: 1 October

- Authorisation all debt operations (*long-term only following EFP approval*)
- Preliminary report from MT and APs for any subsidy or agreements (*applicable in the case of warning*)





ENFORCEMENT MEASURES

ENFORCEMENT MEASURES

CAUSES:

- No EFP submitted
- Not approved
- Non-compliance EFP
- Also adjustment plans

- 15 day adoption non-availability agreement
- *Possible exercise of regulatory authority on taxes granted by central government*
- Interest bearing deposits in Bank of Spain → 0.2% GDP
 - No interest if measures not implemented in 3 months
 - Becomes a fine if still not implemented after 3 months.
Procedure: Government Agreement
- If non-availability agreement is not adopted or insufficient measures: expert delegation is dispatched
 - **Procedure:** Government agreement
 - Submit proposals and conclusions: One week
 - No borrowing or financial mechanisms
- EU fines are transferred to administration responsible
 - **When:** if Spain receives an EU sanction



ENFORCED COMPLIANCE MECHANISMS

ENFORCED COMPLIANCE MEASURES

CAUSES:

NO AGREEMENT REACHED
NO AVAILABILITY
NO DEPOSIT MADE
EXPERTS' MEASURES NOT ADOPTED

Autonomous Regions

- Government issues order to President of **Autonomous Region**(Art. 155 of Spanish Constitution).
- Order not followed: government, with Senate absolute majority: enforced implementation.
- Government issues instructions to regional authorities.

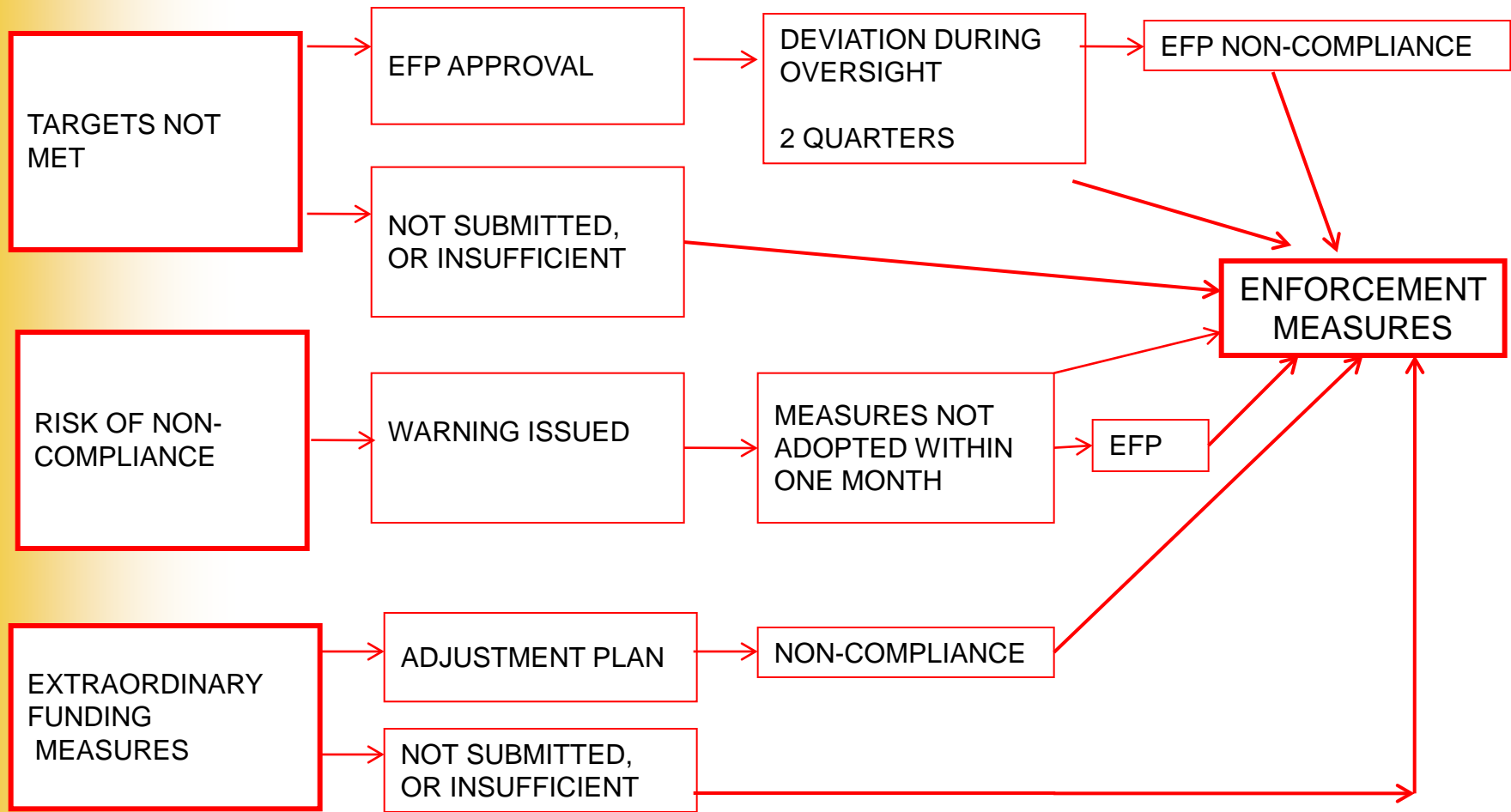
Local Auths.

- Order from the Government or competent Regional Govt. to the President of the **local authority**.
- Order not followed: central or regional govt: enforced implementation.
- Local auth. persists: **local authority dissolved**.





GROUNDINGS FOR APPLYING ENFORCEMENT MEASURES





TRANSPARENCY: INFORMATION REG. GOVTS AND LOCAL AUTHS.

GENERAL PRINCIPLES

- Budgets and accounts will include **full disclosure**
- Public administrations to supply all **information needed** to ensure compliance with the Law
- **Institutional loyalty** in the exchange of information

INFORMATION TO SEND

- **Budgets to include information for calculating the balance in ESA terms**
- **Basic budgetary framework**
- **Budgetary projects**
- **QUARTERLY:** Local authorities income and expenditure settlements
- **MONTHLY:** Regional govts. income and expenditure settlements
- Order of the Ministry of the Treasury and PAs, subject to report by CPFF and CNAL

CENTRAL DATA BASE

- Ministry of the Treasury and PAs **maintenance**
- Information on the economic and financial activity of Administrations
- Order of the Ministry of the Treasury and PAs, subject to report by CPFF and CNAL





TRANSPARENCY: INFORMATION REGIONAL GOVTS. AND LOCAL AUTHS.

ECONOMIC AND FINANCIAL PLANS

- Grounds for deviation
- Future trends
- Measures
- Economic and budgetary variables
- Sensitivity analysis
- In the event of EDP: Any additional information

REBALANCING PLANS

- Additionally: pathway to return to balance, public debt and analysis of its half-life

PLAN OVERSIGHT

- Ministry of the Treasury and PAs will require information for quarterly oversight





ADDITIONAL FUNDING MECHANISMS

- Regional govt. ICO line maturities.
- Regional govt. and Local auth. supplier payment plan
- Funding System Advance Payments 2010
- Extension 2008-2009 Funding System refunds, to 60 and 120 months

Requirement: Adjustment Plan





ADJUSTMENT PLAN

Features:

- Public
- Extraordinary adjustment measures
- Guarantees compliance with stability targets
- Additional information requirements
- Special oversight system:
 - ✓ Comptroller report and IGAE control measures
- Failure to submit, negative assessment or non-compliance Enforcement Measures
- Non-compliance: release of financial support





TRANSITION PERIOD AND ENTRY INTO FORCE

- The Law will enter into force the day after it is published in the BOE
- The 60% public debt and structural limits must be met by 2020.
- In 2015 and 2018 established deficit reduction and debt pathways will be revised to ensure compliance with 2020 targets

Economic and financial and rebalancing plans submitted by Regional govts. and targets set for 2012 will be governed by the new Law

