ORGANIC LAW ON BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY OF PUBLIC ADMINISTRATIONS
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
Budgetary sustainability will be the guiding principle behind the actions of all public administrations.
THREE FISCAL RULES

- New preventive and corrective mechanisms
- Clear, simple rules

1. STRUCTURAL BALANCE
2. PUBLIC DEBT
3. 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
Expending 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
Before 1 April

Ministry of the Treasury and PAs proposes stability and public debt targets

15 days

CPFF and CNAL report

Council of Ministers agreement
Sets stability and public debt targets

Includes state budget expenditure ceiling

Includes the Ministry of the Economy and Competitiveness economic situation assessment

Contains the expenditure rule

Congress and Senate

All public administrations must factor stability and debt targets and expenditure rules into their budgets

PROCESS TO SET REGIONAL AND LOCAL AUTHORITY TARGETS
PROCESS TO SET INDIVIDUAL REGION'S TARGETS.

Ministry of the Treasury and Public Administrations

- Proposes budgetary stability and public debt targets for each region

CPFF report 15 days

Council of Ministers agreement

- Budgetary stability and public debt targets set for each region
REGIONAL AND LOCAL AUTHORITY BUDGETING

SECOND SEMESTER

Before 1 August
- Regional govts. submit their approved expenditure ceiling to CPFF

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

Local authorities approve expenditure ceiling
TARGET AND EFP COMPLIANCE OVERSIGHT

FOLLOWING YEAR

Before 1 April
MT and PAs issue report on targets and expenditure rules met in initial budgets
Publication

Before 1 October
MT and PAs issue report on targets met during previous year and extent of compliance to date
Publication

REPORT TO CPFF AND CNAL
Publication

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

<table>
<thead>
<tr>
<th>CAUSE</th>
<th>CONSEQUENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deviation during budget implementation</td>
<td>Adjust public spending to guarantee compliance by the end of the year</td>
</tr>
<tr>
<td>95% of debt ceiling breached</td>
<td>Only cash operations</td>
</tr>
<tr>
<td>Long-term deficit forecast for the pensions system</td>
<td>The sustainability factor will be automatically applied</td>
</tr>
</tbody>
</table>
**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**

**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

Regional govs.
CPFF verifies suitability

Local auths.
Full Approval

Approval
Request New Plan
Submitted by MT and APs or Regional govs. for approval and oversight

MT and APs quarterly oversight
Deviation for one quarter
Following quarter
Requirements from MT and PAs
Enforcement measures

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

- 15 day adoption non-availability agreement
- Possible exercise of regulatory authority on taxes granted by central government
- Interest bearing deposits in Bank of Spain $\rightarrow 0.2\%$ 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

CAUSES:
- No EFP submitted
- Not approved
- Non-compliance EFP
- Also adjustment plans
**ENFORCED COMPLIANCE MECHANISMS**

<table>
<thead>
<tr>
<th><strong>Autonomous Regions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government issues order to President of Autonomous Region (Art. 155 of Spanish Constitution).</td>
</tr>
<tr>
<td>Order not followed: government, with Senate absolute majority: enforced implementation.</td>
</tr>
<tr>
<td>Government issues instructions to regional authorities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Local Auths.</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Order from the Government or competent Regional Govt. to the President of the local authority.</td>
</tr>
<tr>
<td>Order not followed: central or regional govt: enforced implementation.</td>
</tr>
<tr>
<td>Local auth. persists: local authority dissolved.</td>
</tr>
</tbody>
</table>
GROUNDS FOR APPLYING ENFORCEMENT MEASURES

TARGETS NOT MET

EFP APPROVAL  →  DEVIATION DURING OVERSIGHT  →  EFP NON-COMPLIANCE
2 QUARTERS

NOT SUBMITTED, OR INSUFFICIENT

WARNING ISSUED  →  MEASURES NOT ADOPTED WITHIN ONE MONTH  →  EFP

RISK OF NON-COMPLIANCE

ADJUSTMENT PLAN  →  NON-COMPLIANCE

EXTRAORDINARY FUNDING MEASURES

NOT SUBMITTED, OR INSUFFICIENT
### 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
**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

**TRANSPARENCY: INFORMATION REGIONAL GOVTS. AND LOCAL AUTHS.**
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
• 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