The Bill on Budgetary Stability is approved

- All administrations must show a balance or surplus, calculated in ESA terms, and must set an expenditure ceiling

- The text includes a number of recommendations made by the Council of State

2 March 2012. The Council of Ministers has approved the Organic Law on Budgetary Stability and Financial Sustainability of Public Administrations to be sent to the Cortes Generales, after incorporating a number of recommendations made by the Council of State.

The **recommendations** incorporated include the requirement for greater precision so that any regulations that go against the principles of budgetary stability may be put before the Constitutional Court. Also incorporated is a hearing procedure for the administration responsible which will come prior to an official warning that they risk breaching the Law. The Council of State has concluded that the Law adequately ensures compliance with the principle of budgetary stability as set out in article 135 of the Constitution and states that the State should agree a regulatory measure that will have a bearing on regional financial powers provided that this is directly related to correcting deviations.

The regulation approved by the Council of Ministers incorporates the main objective of the government's economic policy to control the deficit, since budgetary stability and sustainability are key to economic growth and job creation. The Organic Law will form the legal and economic basis of the Government's budgetary policy. All public administrations are committed to the text of the project, which will be passed through parliament applying urgent procedures. The autonomous regions gave it their backing at the

Council of Fiscal and Financial Policy, while local authorities did likewise at the National Commission for Local Administration.

Basic objectives

The three basic objectives of the Act are:

- To guarantee the budgetary sustainability of all public administrations;
- To boost confidence in the stability of the Spanish economy
- To reinforce Spain's commitments to the European Union

The Organic Law on Stability complies with the mandate set out in Article 135 of the Spanish Constitution. Spain will therefore find itself among the pioneering nations that have incorporated the regulations on budgetary discipline that should ensure the smooth operation of the European Union.

Requirements

The Act therefore guarantees continuous and automatic adaptation to European economic governance regulations and includes the following requirements, among others:

- The obligation for all public administrations not to incur a structural deficit
- The establishment of a debt limit as a guarantee of budgetary sustainability
- The formulation of a medium term budgetary framework for drawing up budgets, which will ensure a budget schedule in line with stability and public debt objectives
- The incorporation of early warning, prevention and automatic correction measures
- The reinforcement of sanction mechanisms which will take into account the recidivism and seriousness of breaches, in line with European regulations

In addition to the principles of stability, multiannuality, transparency and efficiency in allocating and using public funds, this Act incorporates the principles of financial sustainability, responsibility, and constitutional loyalty. Budgetary sustainability will be set as the guiding principle for action for all public administrations and, for this reason, the first new

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principle features in the name of the Act. The aim of this is to reinforce the idea of stability, not only in the present, but permanently.

Fundamental elements

The fundamental elements of the Budgetary Sustainability Act are as follows:

1. Public debt is introduced as a criterion of budgetary sustainability. The entry into effect of this Act marks the start of a transitional period up to 2020, as established in the Constitution. During this period, a path will be devised to reduce budgetary imbalances until public debt of 60% of GDP is achieved. When a growth rate of 2% is reached or net employment is generated in annual terms, the debt ratio shall be reduced annually, by a minimum of two percent of GDP. Likewise, the joint structural deficit of all the public administrations must be reduced by an annual average of 0.8% of national GDP. The deficit and debt paths will be reviewed in 2015 and 2018 to ensure the limits set out are reached by 2020.

2. All public administrations will have to present a balanced or surplus budget calculated in ESA terms. No administration may incur a structural deficit. In the event of structural reforms with long-term budgetary effects, a structural deficit of 0.4% of GDP may be incurred The State and Autonomous Communities may incur a structural deficit in exceptional situations (natural disasters, economic recession or extraordinary emergency situations) with the approval of a rebalancing plan.

3. The EU recommendations on the Stability Programme shall be taken into account to set stability and public debt targets.

4. All public administrations must approve an expenditure ceiling in keeping with the stability target and the expenditure rule.

5. Public sector expenditure may not rise above the GDP growth rate, in accordance with European regulations.

6. Absolute priority must go to servicing the interest and capital of the public debt above all other expenses, as established in the Constitution.

7. Failure to comply with these objectives will result in the requirement to present an economic and financial plan that will enable the deviation to be corrected within a one year period. This plan must explain the reasons for the deviation and the measures that will enable the administration to return to within the limits.

8. If the plan is not fulfilled, the Administration responsible will have to automatically approve the non-availability of credit.

9. A deficit due to exceptional circumstances will require a rebalancing plan that contains the appropriate measures needed to tackle the consequences of these situations.

10. Fulfilment of the objectives will be taken into account for authorising the issuance of debt, awarding subsidies and signing agreements.

11. The Act reinforces the preventive measures and mechanisms for monitoring the stability and debt objectives. It also sets a debt threshold of a preventive nature, from which point the only debt transactions permitted will be liquid asset transactions.

12. The sanctions imposed on Spain in the area of stability shall be assumed by the administration responsible. The Act also transposes the EU and Eurozone corrective mechanisms. If an administration fails to comply with an economic and financial plan, the non-complying administration will have to pay a deposit which could become a fine in the event of further non-compliance. The Ministry of Finance and Public Administrations may send a delegation to assess the situation of the non-compliant Administration. Adoption of the proposed measures will be mandatory.

13. The Act reinforces the principle of transparency. Every administration must establish equivalence between the budget and national accounts and must supply all the information required to do so. This is the information that is sent to Europe to verify fulfilment of our commitments in relation to budgetary stability. Prior to its approval, each public administration must provide information on the fundamental lines of its budget, in order to meet European regulatory requirements. Furthermore, the amount of information to be provided shall be extended in order to improve

the economic and financial co-ordination of all our public administrations.

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