



**APPEARANCE OF THE MINISTER OF FINANCE AND PUBLIC ADMINISTRATION, CRISTÓBAL MONTORO,
AT THE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE OF THE SPANISH CONGRESS
(26-01-2012)**

Mr Chairman, ladies and gentlemen of the committee and members of the House. A few weeks after the formation of the Government, I now have the pleasure of returning to the Congress, as requested by various parliamentary groups and announced by the Chairman of the Committee, in order to present the basic approaches of the policy of the department that I manage, the Ministry of Finance and Public Administration.

In the circumstances the Spanish economy and society are currently experiencing, it is evident that the Government's policy is to overcome, as soon as possible, an economic crisis that not only is the worst in our recent history, but which has been the most destructive in terms of jobs and the most damaging to our young people's confidence in their future, and which has placed our country at the epicentre of the problems concerning the euro. The Government's ambitious reformist agenda has clear goals in the sphere of finance and public administration: To turn our public sector into a driver of economic growth, to create employment, to ensure the provision of public services as befits a modern welfare society, and to guarantee equal opportunities for all Spaniards when it comes to accessing these public services.

As is known to the members of the House, and to society as a whole, we are in recession, an economic recession that the financial crisis is projecting and prolonging; we are in a recession that is European, but which is more severe in Spain due to the constraints on credit caused by our banking sector's inability to absorb the consequences of recent real-estate prices; we are in an economy that is heavily in debt externally and unfortunately, and this is the worst part, has 5.4 million people out of work, as will likely be announced by the Working Population Survey for the final quarter of 2011. This high level of unemployment has led to a loss of confidence in the 47 million citizens that make up Spanish society. As such, the task and the challenge for Government policies and, I am sure, the policies of all the groups represented in this House, is to recover this confidence, to recover the image of Spain as a reliable partner in Europe, and to leave the metaphorical periphery of Europe which is causing us to have to pay such high costs to fund our economic activity. The challenge is technically described as deleveraging our economy, reducing our economic agents' debt level, beginning with the public sector and continuing, or, if you prefer, working in parallel with the major sectors of the Spanish economy, including families; a policy and a strategy that has much to do with the public policies to be pursued, including tax policy. Members of the House, I have said that our mission should consist of fulfilling the mandate that we received from the Spanish people in the last general election, and of course, in working with our European partners to strengthen the euro and the European Union, which are our common project, and to ensure their future and their stability.

It is also our responsibility, as I have said before, to reinforce the capacity of public and local administrations, of our country's regional governments, and to encourage responsibility, thereby guaranteeing the major public services of education, healthcare and social services, and public access to these services. Ladies and gentlemen, the Spanish economy is a listing ship that needs to recover its balance as soon as possible if it is to move forward. Recovering this balance involves and requires the prompt delivery of austerity measures in all public administrations and structural reforms in the public sector and the Spanish economy's goods and services markets.

We have only just begun our term of office, yet instead of launching an agenda or setting out our intentions, urgency has compelled us to implement significant measures, which it is the responsibility of the Government, and the Ministry of Finance and Public Administration in particular, to adopt. That is why, in appearing here today, I bring more than news of our political direction in this term of office. In reality, we have already broken new ground, having to "make our road by walking it" from the early days of this Government. The decisions taken in recent days have demonstrated the Government's clear determination, its firm desire to overcome the problems facing it, and to do so with conviction, no matter how great the difficulties, the unexpected deficits or the adverse forecasts. Also in recent days, we have seen, and I say this with great satisfaction, how all the regional and municipal public administrations (only yesterday in the case of the municipalities) have lent their full and unanimous backing to the approach of austerity measures and a balanced budget.

This shared path is essential to the recovery of confidence in Spain from all of its European partners, and in the eyes of international investors. The bill on budgetary stability and financial stability, which will be heard tomorrow in the Council of Ministers in its capacity as a draft bill, will come into being with the institutional support of all the public administrations concerned. I am also sure that it will meet with the full satisfaction of our European partners. In a short space of time, we have been obliged to act swiftly and decisively to prevent a serious departure from the targets envisaged in the public-deficit-reduction timetable, leading to a renewed loss of confidence from our creditors and the markets, and in short, a backward step in the international reputation of our country.

In response to this, Royal Decree-Law 20/2011 of 30 December on urgent measures referring to budgetary, fiscal and financial aspects to correct the public deficit, was passed by this House, a decree-law which I had to honour to defend in the name of the Government before the Congress in plenary session. It contains extensive austerity and cost-cutting measures, with a reduction in public spending totalling €8,914 million and an increase in the tax revenues generated by the IRPF (Personal Income Tax) and IBI (Property Tax) worth €6,275 million. In short, this represents a budget adjustment in relation to the deferred budget (as is the case with the budget that will come into force in 2012), amounting to €15,189 million.

On entering Government, when taking up the role of managing the ministries, and the Ministry of Finance and Public Administration in particular, we discovered a practice that we now learn is more or less normal, in the statistical sense of the term, in the changeover of Governments, and which we must now eradicate once and for all: an unacknowledged public deficit, a budget shortfall needing to be covered. This is a practice that we must prevent and eradicate through Spanish law, clearly identifying the liabilities of politicians and public officials who falsify our country's public accounts, in the different spheres in which this liability may apply to them. We have seen this before and now we are seeing it again in the Spanish Government. It is a practice that must be eradicated, repeat, because it goes against the most basic transparency in the exercise of Government; it goes against the essential principals of democracy because it is in Parliament, on its different levels, that budgets are approved. By budgets I mean the spending limits to which politicians and public officials are subject. And therefore, these practices also go against the commitments that Spain has undertaken towards its European partners and in relation to the international community.

We discovered a deviation of two percentage points (€20,000 million) over what the deficit should have been at the end of 2011; large figures, which public opinion, as is usually the case, received with a coolness that goes with something so difficult to understand. That is normal. But behind these large numbers, there are job losses. Behind these large numbers and these public deficits, is a lack of finance for small- and medium-sized enterprises and self-employed workers; and behind these large numbers and these budgetary constraints, we see the reason why Spain at the start of 2012 is now suffering an economic recession after four long years of financial crisis. It was bad news, but there was no time for complaining. We decided to face up to it as soon as possible in order to prevent still greater damage to our international standing and to lose no time in applying what would be the focus of our economic policy. This, therefore, was the justification for us pressing ahead with the biggest budgetary adjustment in Spain's recent history, making it clear to all, both in Spain and abroad, that the Government is convinced

that the deficit correction is the first hurdle that we must leap on the road that leads to the recovery of economic growth and the creation of jobs.

Job creation is and shall be the purpose of all economic policy in this Government's term of office. As everybody knows, the International Monetary Fund and the Bank of Spain are respectively predicting that the Spanish economy will contract by 1.7% and 1.5% in 2012. In addition to this serious deviation in forecasted growth, which is not insignificant, I must add to my earlier comments, that the starting point for correcting the public deficit has already been revised upwards for the year 2011. The result being that the planned deficit of 6% in 2011 was not achieved, rather it was 8%. As I stressed earlier, this led us to take measures to contain public spending, as well as measures relating to increased taxation capacity and tax collection that will be implemented on a temporary basis and in a progressive manner. I must absolutely underline that these measures are focused firmly on reducing the public deficit.

I will not say much about the content of these measures, since they have already been examined and voted upon in the House, but I would like to turn your attention to the measures relating to the future approach to policy that has been entrusted to the Government. The temporary increase in Personal Income Tax (IRPF), done fairly, should not harm the economic progress of our country and should not fundamentally diminish consumption, given that we are seeing an extremely moderate increase, where this increase exists at all, in taxes on low incomes, a similarly moderate increase in taxes on middle incomes, and a more significant tax increase on this country's highest incomes. As such, this should not interrupt or negatively affect the prompt recovery of consumption or consumer confidence in Spain.

With regard to the increase in Property Tax (IBI), this is also limited to housing with the highest rateable value in each municipality, and as such we are not looking at a taxation measure that in any way prevents a potential recovery in domestic demand, or significantly diminishes the purchasing power of household economies.

I must also underline the importance that the Government attaches in its election manifesto to the recovery of tax relief for home buyers. This is something we regard as a basic, fundamental element for helping many people gain access to housing, which in this country should really be facilitated by the tax system. We will also apply the super-reduced rate of VAT on certain property sales during 2012, on brand-new properties, which will be implemented in this country in order to facilitate the purchase and acquisition of housing.

This Government's fiscal and taxation plans also include putting up a determined fight against tax evasion. Precise compliance with tax obligations means both the public meeting their obligations to the State, and the State meeting its obligations to the public. We must underline and emphasise the importance that this approach has in correcting tax evasion, which can in no way be seen as normal in a modern society. Among the measures aimed at verifying and investigating tax evasion, are the initiatives in relation to economic sectors or activities in which there is a greater perception of fraud: Actions on international taxation, investigation of the black economy and control of foreign trade and excise taxes.

Within the sphere of international taxation, I wish to emphasise the new arrangement by which information will be used that has been provided, from the beginning, by countries no longer appearing on the list of tax havens as a result of signing the relevant agreements. The observation that the payment of tax and customs debts has been avoided on a number of occasions through various mechanisms, means that fighting tax evasion, at the time of collection, becomes vitally important. For this reason, the involvement of the tax-collecting authorities shall be brought forward to such time as management procedures are initiated, especially with regard to the payment of higher sums, with tax-collection officials attending in person in cases in which garnishment proceedings of particular importance to the tax authorities are not complied with.

In addition to the foregoing measures, the Government, and the tax authority in particular, is studying the possible placing of a quantitative limit on the use of cash in certain financial transactions, following the example of neighbouring countries such as France and Italy. In order to implement these measures as

soon as possible, a General Tax Control Plan shall be drawn up in February for the 2012 financial year, covering the partial plans on tax management, inspection, collection and customs, and excise taxes.

As well as the struggle against tax evasion, it is also important to place emphasis on the improving voluntary compliance, as I said earlier. We cannot forget the need to build a system of taxation that is attractive to investment and economic dynamism, meaning that it is especially important to rely on a clear and secure legal framework, especially if we take into account the superimposition of European legislation onto Spain. To this end, we will encourage the making of enquiries to the tax authority regarding the treatment of particularly complex or economically important transactions.

We must also make it simpler to pay taxes, and encourage the use of new technologies by all taxpayers. This is an absolutely fundamental point, since the expansion of these new technologies will also allow us to develop the tax measures that we committed to in our election manifesto for the general election held last 20 November.

In short, this will allow more tax information to be managed in less time and with greater certainty. That is why, in terms of encouraging compliance with tax obligations, in the short term there will be improvements to the self-assessment system that uses the Prepopulated Personal Income Tax return, which will mean that the payment periods for the amounts payable will be speeded up.

We have already taken some tax measures. What I would also like to announce to you is that the Government is disposed, in fulfilling its election manifesto, to press ahead with measures to stimulate economic activity; tax incentives for small- and medium-sized businesses; stimulus measures for self-employed workers, and in short, providing fiscal help for entrepreneurs, who we are fully convinced are the major actors who will have to pull us out of this financial crisis. For this reason, in the regulations that Ministry of Finance and Public Administration will be working on with other ministerial departments, we will define a tax framework in support of entrepreneurs that will allow them to face up to their tax obligations with greater ease and comfort, and to dedicate the majority of their profits to the creation of jobs. Some of these fiscal measures, along with certain others in the area of funding, administrative treatment and labour management, shall be covered, as I mentioned, in the regulations that the Government is already preparing for the coming months, and during the first quarter of 2012 in particular. For these purposes, and in compliance with our electoral mandate, our intention is to review Personal Income Tax with a view to raising the fairness of our tax system, especially with regard to families.

Taking into account the realistic macroeconomic scenarios, and the responses that are emerging to the adjustment measures that have already been adopted, we are willing to review the minimum personal allowances for individuals and families, in order to match or improve the amounts, regardless of the taxation system that is selected.

In terms of corporation tax, with a view to assisting the potential growth of our economy through stimulus, job creation, risk-taking, entrepreneurship and saving measures, we will study keeping the reduced rates of tax for smaller companies, linked to the creation or retention of employment, over the coming financial years. Simultaneously, in order to update and improve companies' self-financing capacity, this being a fundamental strand of the policy that I previously described as the financial deleveraging of our country, we are studying ways to improve the tax treatment of corporate profits so that these can be reinvested in the businesses themselves. We are also looking at the possible introduction of an exemption on the capital gains generated through the sales of fixed assets that are reinvested in other assets linked to the business, and the improvement of taxation on retained earnings; in short, the self-financing of businesses in its broadest sense, in order to help companies reduce their financial dependence on borrowed capital and therefore get our country's economy back into shape.

In terms of VAT, and with the same goal in mind, the requirements applicable to transactions made by self-employed workers and small- and medium-sized businesses shall be regulated, so that the requirement to pay tax is moved closer to the time when the corresponding invoices are collected.

We will begin by focusing especially on the suppliers to public administrations, always holding companies to their obligations using electronic information on the transactions they carry out, thereby ensuring that the tax authority has control over them. We will also work towards the goal of helping families to save, as cannot be otherwise. Our intention is to press ahead with the review of and improvements to the taxation of families' pension plans.

The idea and the objective are always the same: To foster the financial deleveraging of our country and to help the major economic agents reduce their financial dependence, beginning, as I said, with the public sector (reducing the public deficit) and continuing with businesses and families. This is our line of action in the sphere of taxation, and one that will define the proposals for tax reform that we will be bringing before the House. In short, we will continue to be who we are, we will keep believing that more growth will be achieved with lower taxes.

That by widening tax bases we achieve fairer taxes and that we must encourage economic growth and job creation. We continue to believe in the selective reduction of taxes, which we would have undertaken the moment we entered government had the previous Government actually performed its duty of controlling the public deficit, and had we not encountered the deviation in the deficit that is so negative for our economy.

Lastly, I would like to make it clear that the adopted measures, consisting of a temporary increase in certain figures, were motivated, and let me be clear, by this deviation and ultimately by the negative economic situation that we have before us. But that is where these measures end. Members of the House, there will be no new tax increases. There will be no new tax increases whilst we are in this stage of recession, which is basically the legacy that we have inherited, and which we must overcome through public-sector policies as soon as possible.

In what we should understand as a policy of regional and local government, in exercising the constitutional responsibility that the Government of Spain has in co-ordinating the economic policies that are implemented in the context of Spain, the Spanish state and all public administrations, just a few days ago we held the first Fiscal and Financial Policy Council under this Government, and just yesterday the local government committee convened for the first time.

A few days ago at the meeting of the Fiscal and Financial Policy Council, we noted the ready willingness of the Autonomous Regions to assume deficit-reduction commitments, this being nothing less than compliance with the Article 135 of the current Spanish Constitution, in accordance with the decisions taken in this House since the end of last summer. Also at the Council of Fiscal and Financial Policy, and in the continuation of the working groups that will take place this afternoon, we have also noted the willingness of all the regional governments for us to have a new Budgetary Stability Act for Spain, an act that I will now speak about. Obviously this is a law with a governmental initiative that corresponds to the development, and the provisions of the aforementioned Article 135 of the Spanish Constitution. But this morning I must insist on the importance, not so much economic but political, of the agreements reached by the Fiscal and Financial Policy Council on 17 January.

This firm determination, this decisive intent on the part of all the Autonomous Regions to contribute towards reducing the public deficit, is essential for generating confidence both inside Spain and out. Regardless of the ideology that defines, prevails and is present within these governments, all of us are committed to reducing the deficit and the levels of debt, something that is vitally important and which we must emphasise as a major value of the "State of Autonomies" [system of autonomous regions] in Spain. This is a message that we must project to our European partners and also to international investors. This agreement means adopting a common discipline; it means adopting transparent procedures in public management; and ultimately, it means preventing situations in which the public accounts are falsified, situations that will effectively be punished and prevented by legislation.

The State of Autonomies is an intrinsic part of Spanish democracy. It has nothing to do with a "State of Waste". The system of autonomous regions is perfectly compatible with politically and administratively

decentralised governments that are efficient in the provision of the public services they are responsible for. The State of Autonomies is wholly consistent with the essence of Spanish history and therefore this idea that has taken root in Spanish public opinion that because there is a State of Autonomies, there is waste in public spending, is something that we have to eradicate because it is no way true.

One only has to look at neighbouring federal countries to realise that the most disciplined countries in budget terms and with the most stable finances, are countries with a federal structure. It is for this reason that we must move away, once and for all, from this equivalence that has taken root in a section of public opinion, and which in no way should form part of the political discourse (of course, it goes without saying that political discourse is free, I mean the political discourse of this Government) since there is nothing to be achieved in this except, as a matter of fact, that the State of Autonomies efficiently manages the resources at its disposal.

It is therefore very important, and we should celebrate the agreements of the Fiscal and Financial Policy Council, as well as of the National Committee of Local Administration, that all public administrations commit, regardless of the ideology of their governments, to the correction of the public deficit as soon as possible. The field of public administration is a matter for this Government, and it is the responsibility of this member of the Government who is appearing this morning before you, and we cannot ignore that the quality and efficiency of public institutions are a factor of the first order in terms of competitiveness. This is why, in our strategy for sparking and boosting economic growth, we must underline the importance of modernising, reforming and updating our public administrations in order to make significant progress in the economic sphere, and likewise, and equally importantly, in the social sphere and in terms of environmental impact, fostering a growth economy that can create jobs.

In this sense, our public administrations must improve and provide an example, in the first instance, of austerity, transparency and engagement with the public, revitalising their commitment to society. So these, then are the fundamental elements of our policy in the area of public administration: Austerity, transparency and responsibility. Three elements, three arguments that will pervade the reforms that we undertake during this term of office.

Civil service. Impartial, high-quality civil service, with a modern human-resources policy, based on the principles of merit and ability. To do this we will also undertake to modernise the statute on the civil-service personnel of the General State Administration, ensuring the function of leadership, strengthening professionalism, specialisation, high competence and neutrality. Obviously, with an austerity policy we will have to streamline the public recruitment criteria to the maximum, with the incorporation of this general principle in restrictive terms, except in the area of the law-enforcement forces and agencies, and the basic public services that are regarded as high-priority for guaranteeing the provision of essential services. The criteria for the organisation of human resources must be redefined, encouraging the mobility of public employees between all administrations, better co-ordinating the General State Administration, the Autonomous Regions and local authorities in terms of filling public posts, maintaining homogeneous principles of action and undertaking, in central government, to define a new model for the civil service of the future, without losing sight of the control over expenditure that we all have a responsibility to exercise.

I would like to place special emphasis on e-Government. With the objective of situating the individual at the centre of the organisation of services and procedures that may affect them, we will provide the public with access to all the advances made in e-Government, and make society aware of the tools that are actually available to it; not instruments of control, but instruments that are basically for improving the delivery, operation and effectiveness of public services.

We will also modernise the structure of public administrations in an area that I would like to highlight today; the streamlining of the public sector that is dependent on central, regional and local government, where it exists and where there is capacity for reducing public spending. This specifically consists of the abolition of organisations, foundations, entities or misnamed public-sector companies, which are not public-sector companies but means of escaping from administrative law and the controls of state intervention, and which we therefore have to abolish in the name of the transparency of the

administrations that work in this area, and the commitment to meet the public-deficit targets. In this respect, there are specific agreements that have been adopted by the committees responsible for co-ordinating central government with both the Autonomous Regions and local authorities in order to pursue, with the briefest possible delay, this reduction in what I insist is a misnamed public enterprise sector.

They are not public-sector companies that are selling their services, they are the proceedings of arbitrary political decision-making, they not subject to control, and therefore we have to return them to the fold (if you will allow me the expression) of a conduct that is orthodox, identified and transparent, i.e. that typical of today's European governments.

We must also make progress in terms of procedures and management quality, to reduce administrative burdens all round, for families and especially for companies, who cannot devote so many resources to meeting administrative requirements, with the implicit and inherent costs that these entail, and which means that there is a parallel tax system, a parallel obligation imposed through these administrative burdens.

Members of the House, another extremely important issue, to which the Government attaches great value, is the standardisation of laws, regional and municipal regulations which are currently preventing the creation of economic activity with free movement in Spain. As such, we are going to work employing the institutional loyalty of these administrations, with regional parliaments and the municipal councils, in order to stop these rules from resulting in barriers or obstacles that prevent the development of our companies, and ultimately, therefore, economic growth and the creation of jobs.

From my words, you may draw the conclusion that the Government wants and intends to co-ordinate our activity with the other public administrations within Spain, i.e. with the central, regional and local governments of this country. We also have to ensure that the treatment received by local administrations is on the same footing as that received by the Autonomous Regions. Local administrations must cease to be the "poor cousin" in our State of Autonomies.

We believe that the time has come to rearrange these instruments, that it is time to undertake reforms in public administration which, by eliminating the competences that are currently repeated in different spheres of administration, which is an important issue and a development of our election manifesto, achieving an appropriate organisation - one administration, one competence, and therefore helping public administrations to overcome this anomalous situation that has been caused by taking on powers that are not defined in the current law defining the rules of local government (Ley de Bases del Régimen Local) and which are placing an added burden on local authorities' budgets. I must stress that reorganising these competences is a question of the utmost importance for this government, as it is something that is rightfully demanded by the local authorities in this country, specifically by the Spanish Federation of Municipalities and Provinces.

I will now move on to recount the key aspects of the draft Organic Law on Budgetary Stability and Financial Sustainability. This will obviously be put before this House, as this is the intention of the Government, and therefore we will have a chance to study it much more carefully, but it is important that I present this initiative to you this morning, as we are doing in the Autonomous Regions and local authorities, emphasising that Spain, its recent history, and that of the Spanish tax authorities, has been an international benchmark. We have been a model in terms of posting balanced budgets over the last decade and in fact, over the last 15 years.

This was the result of a balance, a fixing of income and expenditure that would allow Spain to help set up the euro in the 1990s, simultaneously receiving the confidence of the international financial markets and boosting the most important period of intensive economic growth and job creation in our history. Members of the House, it is important that we all of us accept, and not just the Government, the truth of a reality that can be easily checked against the statistics: That we are the only euro area country to have reduced its public debt to GDP by more than 30 percentage points since we set out on the path to becoming

founders of the euro. We should therefore have learned much from this example we gave, in terms of stability and commitment.

I would like to remind the members that in the year 1996, public debt was close to 70% of gross domestic product, and that by 2007 this debt had been reduced to 37 percent of GDP. No other European country has managed anything similar. Therefore, now that we are on a footing whereby we can respond with loyalty to our European partners, we should emphasise to them and also to the international organisations, that we are a country that has already gone through this, that we have already reduced if not the deficit, then the public debt, that we did it not by sacrificing the essential elements of our welfare state, but by fostering the most employment intensive economic growth in our history. This is the intention and the driving force behind this new law, in this update of the General Budgetary Stability Act, an act which complies with the mandate of Article 135 of the Spanish Constitution.

This is the first chance I have had to talk about this act in parliament, an opportunity that I will now take to warn the political groups that the Government wants this act be approved in this House with the greatest possible parliamentary majority. This is because it is vital that the agreements that allowed the reform of the Constitution last year not only remain, but are extended by securing political support expressed by the people's current representatives for the validity, updating and introduction of a Budgetary Stability Act for Spain. What this seeks to achieve is to make the constitutional principle of ensuring budgetary stability valid, by binding all public administrations to achieving this, strengthening Spain's commitment to the European Union and at the same time guaranteeing our country's social and economic sustainability. I therefore wish to demonstrate that the Government is keen to press ahead with the political agreements with all parliamentary groups within the House.

I hope that we can work together on the parliamentary procedure by which the act will be approved. I will nothing more regarding the importance of the Act. Its main objectives are as follows: To guarantee the budgetary sustainability of all public administrations, to strengthen confidence in the stability of the Spanish economy and to reinforce Spain's commitments to the European Union.

In this Act, we will initiate a process to endow all public administrations with a structural balance, establishing a debt limit as a guarantee of budgetary sustainability, formulating a medium-term budgetary framework in line with the preparation of the budget and ensuring that budget planning is consistent with the stability and public debt targets, whilst incorporating the preventive early warning and automatic correction mechanisms and stronger sanction mechanisms, in which European regulations will be taken into account.

Indeed, they are not just taken into account (excuse me if I correct myself), what will happen with the European sanction mechanisms is that they will be automatically transposed in the content of this Act. This means that as European economic governance advances and as we progress, we can also automatically plan to incorporate the regulatory and disciplinary parameters that are contained in European economic governance into our legislation. The most substantive aspects are as follows.

First, all public administrations must present a balanced budget or a surplus. This also refers to all other entities that make up the public sector: Public companies, foundations, etc. Second, public administrations' debts may not exceed the reference value of 60% of GDP, as established in the Treaty on the Functioning of the European Union, and in European regulations, save in exceptional circumstances. Third, the State, the Autonomous Regions and the local authorities must approve a spending ceiling. This is a new requirement for the Autonomous Regions and local authorities in big cities. Fourth, public administrations' expenditure may not rise above the GDP growth rate that is established in European regulations. Fifth, the recommendations of the European Union on the stability programme will be taken into account in setting budgetary stability and public-debt targets. Sixth, the priority is established whereby the interests and capital of public debt are responded for ahead of any other expense, as is the case in the Spanish Constitution. This provision is now established under Article 135 of the Constitution. Seventh, failure to meet the stability target shall necessitate the presentation of an economic-financial plan that allows the deviation to be corrected within a period of one year. Said plan

shall explain the causes of the deviation and the measures that will enable the budget to return within its limits. Eighth, deficits caused by exceptional circumstances, i.e. natural disasters, economic recession or extraordinary emergency situations shall be treated differently, such causes already being provided for in the Constitution. In such circumstances, a plan must be presented that allows a return to a balanced budget, detailing appropriate measures for dealing with the budgetary consequences that result from these exceptional situations. Ninth, the law reinforces the preventive and follow-up mechanisms for the stability and debt targets. For example, compliance with the targets shall be reported in budget planning, which will allow steps to be taken to prevent risk and additional measures to be adopted where necessary. A debt threshold of a preventive nature is also established. This is similar to a signal for avoiding the liquidity problems that are occurring today at various levels within our public administrations.

Another point is compliance with the stability targets. This will be taken into account in order to authorise the debt issues, and for granting subsidies or signing agreements. There will be no agreements with any administration that is failing to comply with its stability programme.

The sanctions imposed on Spain in the area of stability shall be assumed by the administration responsible. Furthermore, the Act serves to transpose the corrective mechanisms of the European Union into Spanish law. As such, in the event of non-compliance with an economic-financial plan, the administration in breach must furnish a deposit, which may be converted into a fine in the event of repeated non-compliance. The Ministry of Finance and Public Administration may send a delegation to assess the budgetary/economic situation of the administration in breach, as has been the case with the European Union countries that have been subject to audit.

We are transferring the current architecture of European governance to the heart of Spain's State of Autonomies. At the same time we are setting up a number of extraordinary mechanisms to support the liquidity of our Autonomous Regions and local authorities. These extraordinary mechanisms are subject to budgetary adjustment plans and rigorous monitoring conditions, reporting and extraordinary adjustment measures that may have to be adopted by these administrations.

Furthermore, the Act clearly reinforces the principle of transparency. It is essential to be clear and transparent in moving from budgetary accounts to national accounts, which is basically the European requirement, this equivalence between budget and national account, and prior to approval each administration must provide information regarding the fundamental lines of its budget. This is a European regulation. We are talking about the development of European regulations as they are approved in the determined phases of European economic governance.

As you can see, our intention and our decision is to commit ourselves fully to deficit and transparency targets in public management, with the utmost respect for regional competences, and with the maximum levels of self-governance for our Autonomous Regions and local authorities. I must stress that Spain is a State of Autonomies, and therefore the Government desires and intends, as cannot be otherwise, to fully comply with our legislation and not to confuse the plane of intersection between transparency, controls and requirements with anything that might mean interference in the government of our Autonomous Regions and local authorities.

With regard to public-sector companies (I have almost finished), we are streamlining, and where possible privatising these public-sector companies. I must stress that this is only a possibility, because privatisations make sense to increase competition and to manage a service more efficiently. They cannot and should not have any other economic purpose. They are not for bringing in cash, but for improving the services that are and that may be received by the Spanish public.

Therefore, in the sphere of public-sector companies, in which you know that this Ministry holds wide-ranging powers, our commitment is to press ahead with streamlining their structure, improving their business management (which is very important) and, thirdly, privatisation in situations where this is possible and can be done where economically advisable to serve the public interest, in terms of recovering jobs in this country.

Mr, Chairman, members of the House, I have all but finished. Austerity and reforms; reforms and austerity to create employment. This is the summary of all our initiatives; it is the sense and the essence of our initiatives and objectives. The whole of the approach that I have laid out in my speech responds to this. I have attempted, in short, to outline the agenda of the Ministry of Finance and Public Administrations. Members of the House, we are at a critical time, a time of extraordinary difficulty. The public are aware of this, and what they expect of the Government, and I am sure of this House too, is firstly that we act in a manner in keeping with these difficult circumstances that we are going through, and secondly, that we respond and take measures that open up the prospect of a recovery in confidence and the restoration of Spain's image, both at home and abroad.