



Council of Ministers

Draft Organic Law on Budgetary Stability and Financial Sustainability of Public Administrations

27 January 2012. The Council of Ministers has approved the draft of the Organic Law on Budgetary Stability and Financial Sustainability of Public Administrations.

The draft 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 content of the draft text. The autonomous regions gave it their backing at the Council of Fiscal and Financial Policy, while local authorities backed it at the National Commission of Local Administration.

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.

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 to present structural equilibrium
- 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 actions 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, pluriannuality, transparency and efficiency in allocating and using public funds, this Act enshrines 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 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.

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

- 1) Public debt is introduced as a criterion of budgetary sustainability. Public debt may not exceed 60% of GDP.
- 2) All public administrations will have to present a balanced or surplus budget calculated in SEC 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
 - A structural deficit may occur in exceptional situations (natural disasters, economic recession or extraordinary emergency situations)
- 3) The EU recommendations on the Stability Programme shall be taken into account to set the 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 attending to 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-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 get back within the limits.

8) In the event of non-compliance with the plan, the administration responsible will have to automatically approve the non-availability of credit that will ensure the established objective is met.

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 debt issuance
- Granting subsidies
- 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) Any sanctions imposed on Spain in relation to stability will be assumed by the responsible administration. The Act also transposes the EU corrective mechanisms. Therefore, in the event that an economic-financial plan is not fulfilled:

- The Administration that has failed to fulfil the plan must make a deposit of 0.2% of its nominal GDP, which after six months may become a penalty if the failure is repeated.

- After nine months, the Ministry of Finance and Public Administrations may send a delegation to assess the economic and budgetary situation of the administration in question.

13) The Act reinforces the principle of transparency as each public administration will have to establish equivalence between the budget and national accounting. 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 coordination in the economic and financial actions of all our public administrations.

14) 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 to reducing the budgetary imbalances will be devised until public debt of 60% of GDP is achieved.

Public debt shall be reduced as long as the national economy is experiencing a real positive growth rate. Furthermore, 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 2 points 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.

In 2015 and 2018 the deficit and debt paths will be reviewed.