



GOBIERNO  
DE ESPAÑA

MINISTERIO  
DE HACIENDA  
Y ADMINISTRACIONES PÚBLICAS

# ORGANIC LAW ON BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY OF PUBLIC ADMINISTRATIONS

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- **Increased transparency and budgetary management:**
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# OBJECTIVES OF THE LAW

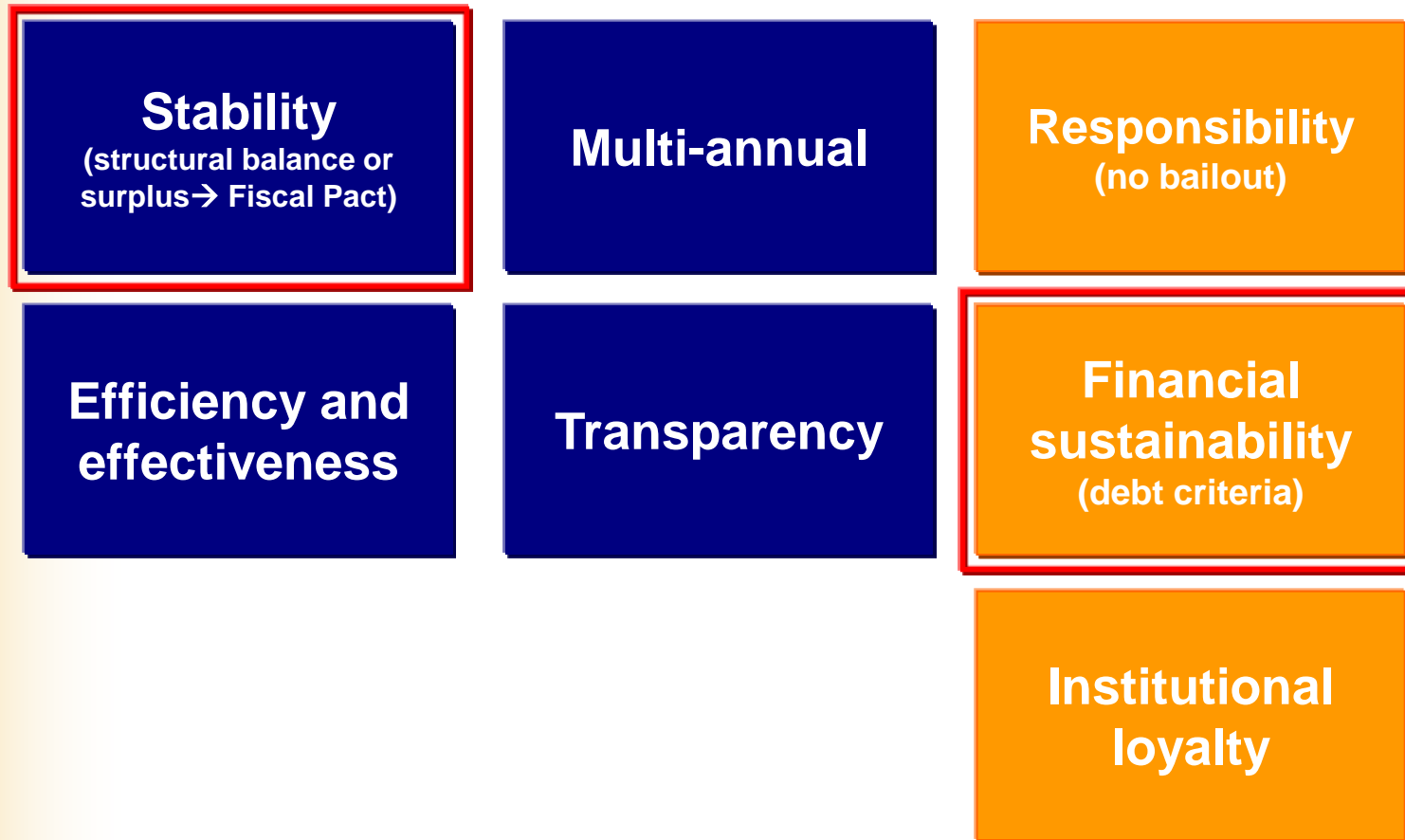
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- Implements Article 135 of the Spanish Constitution
- Guarantees budgetary sustainability of all public adminins
- Boosts confidence in the stability of the Spanish economy
- Strengthens Spain's commitment to the EU by incorporating EU regulation 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

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**STRUCTURAL BALANCE**

**PUBLIC DEBT**

**EXPENDITURE RULE**

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



# IMPLEMENTATION OF THE PRINCIPLE OF BUDGETARY STABILITY

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**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

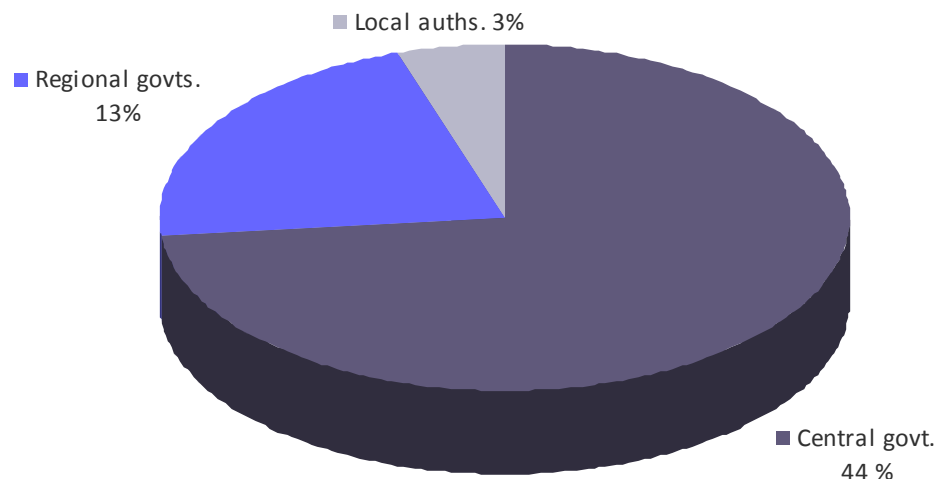


**STATE, AUT. REGIONS**  
**Structural deficit + rebalancing plan**



# 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

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**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**





# NEW PREVENTIVE AND CORRECTIVE MECHANISMS

**Preventive  
mechanisms**

Automatic preventive  
measures

Non-compliance risk warning

**Corrective and  
enforcement  
mechanisms**

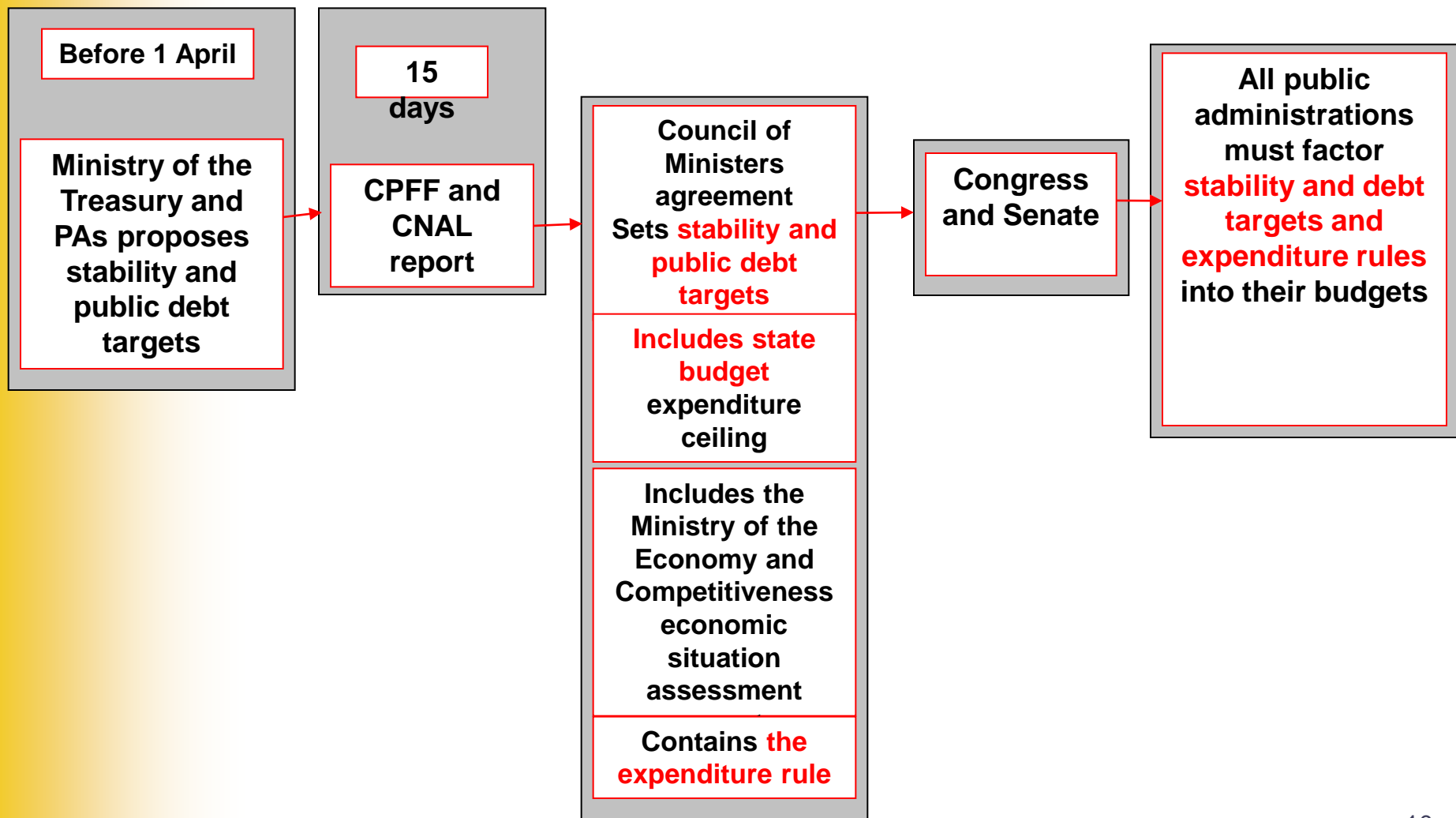
Automatic corrective  
measures

Economic and financial plans

Enforcement measures



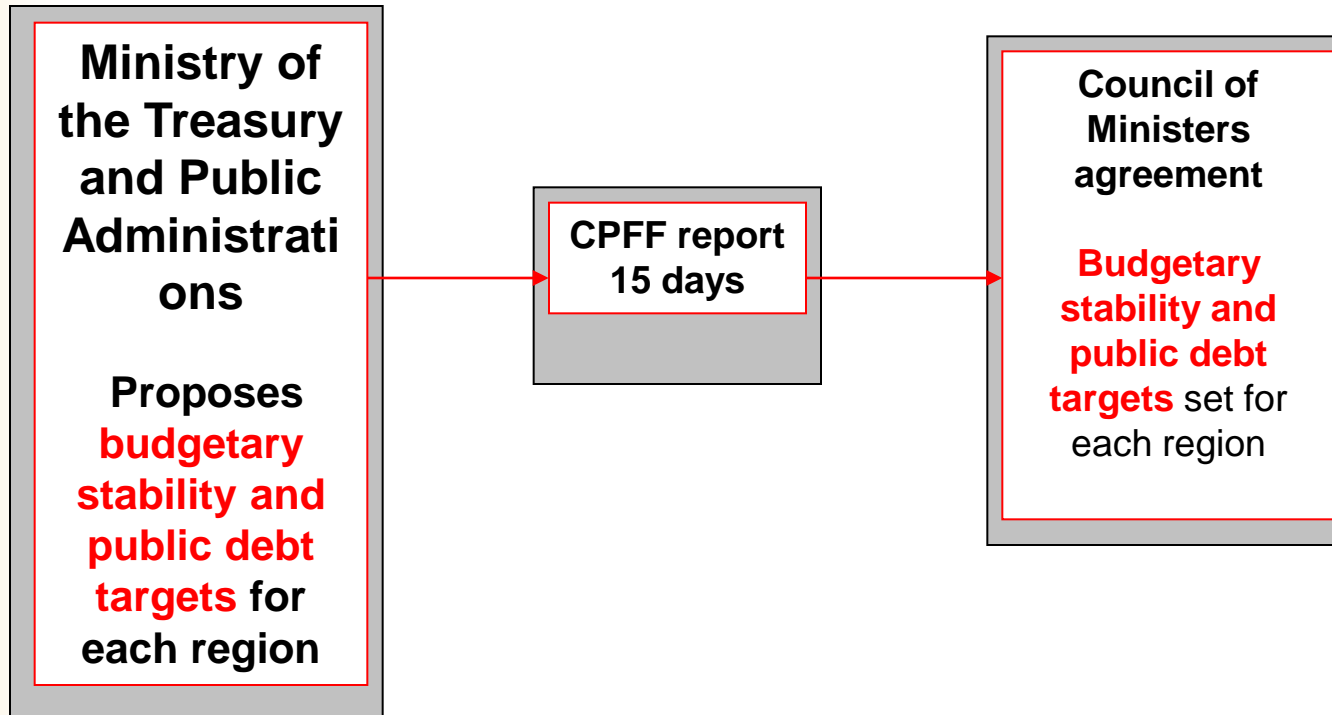
# PROCESS TO SET REGIONAL AND LOCAL AUTHORITY TARGETS





# PROCESS TO SET INDIVIDUAL REGION'S TARGETS.

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# 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

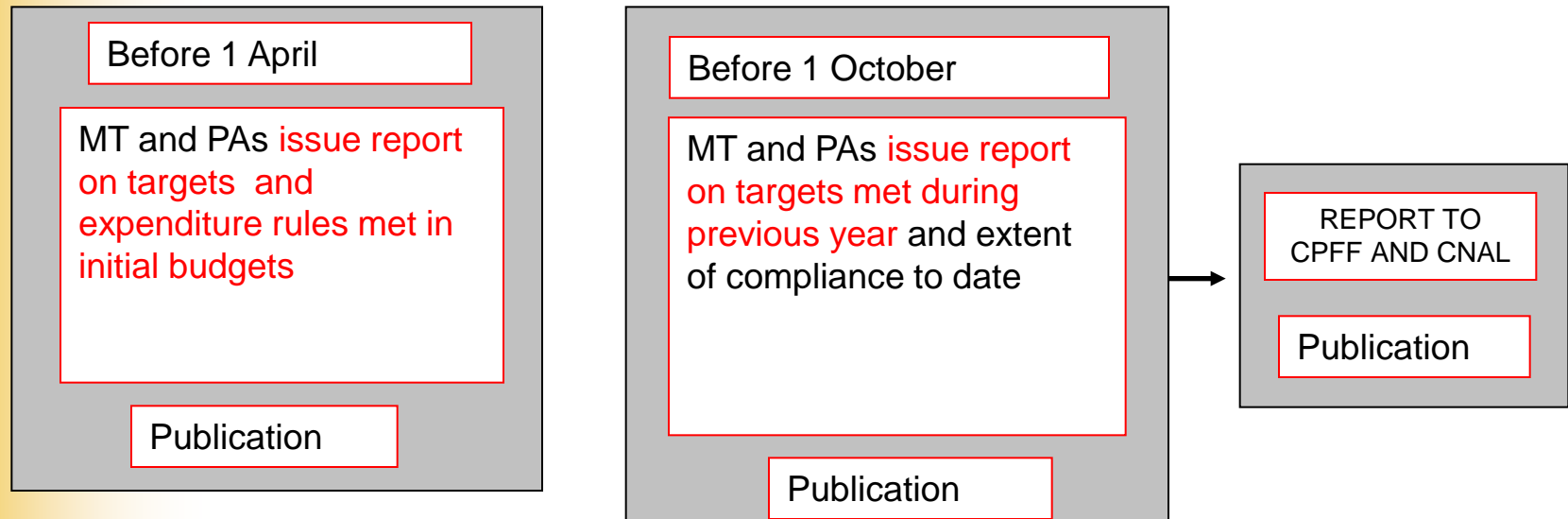
Approval of  
regional and  
local  
government  
budgetary  
projects

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



# 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

## AUTOMATIC BORROWING LIMIT

**CAUSE:** Over 95% of debt ceiling reached (100% transition period)

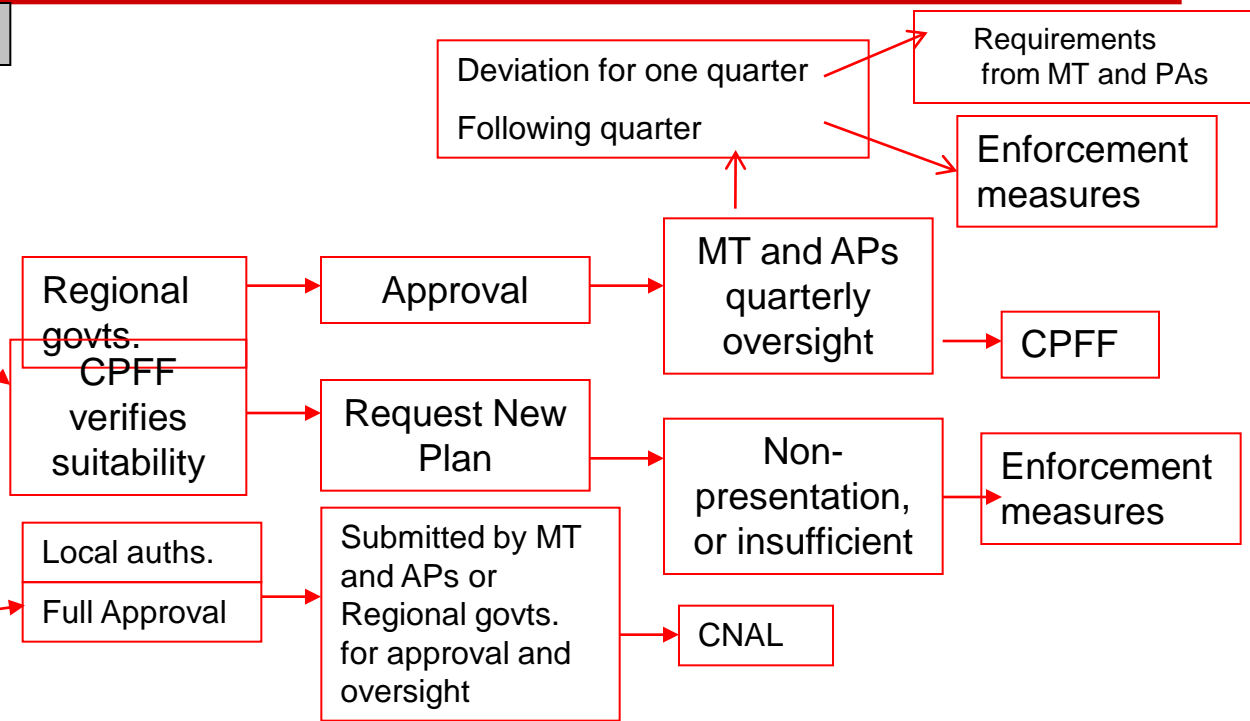
**CONSEQUENCES:** Only cash operations



# 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

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## 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

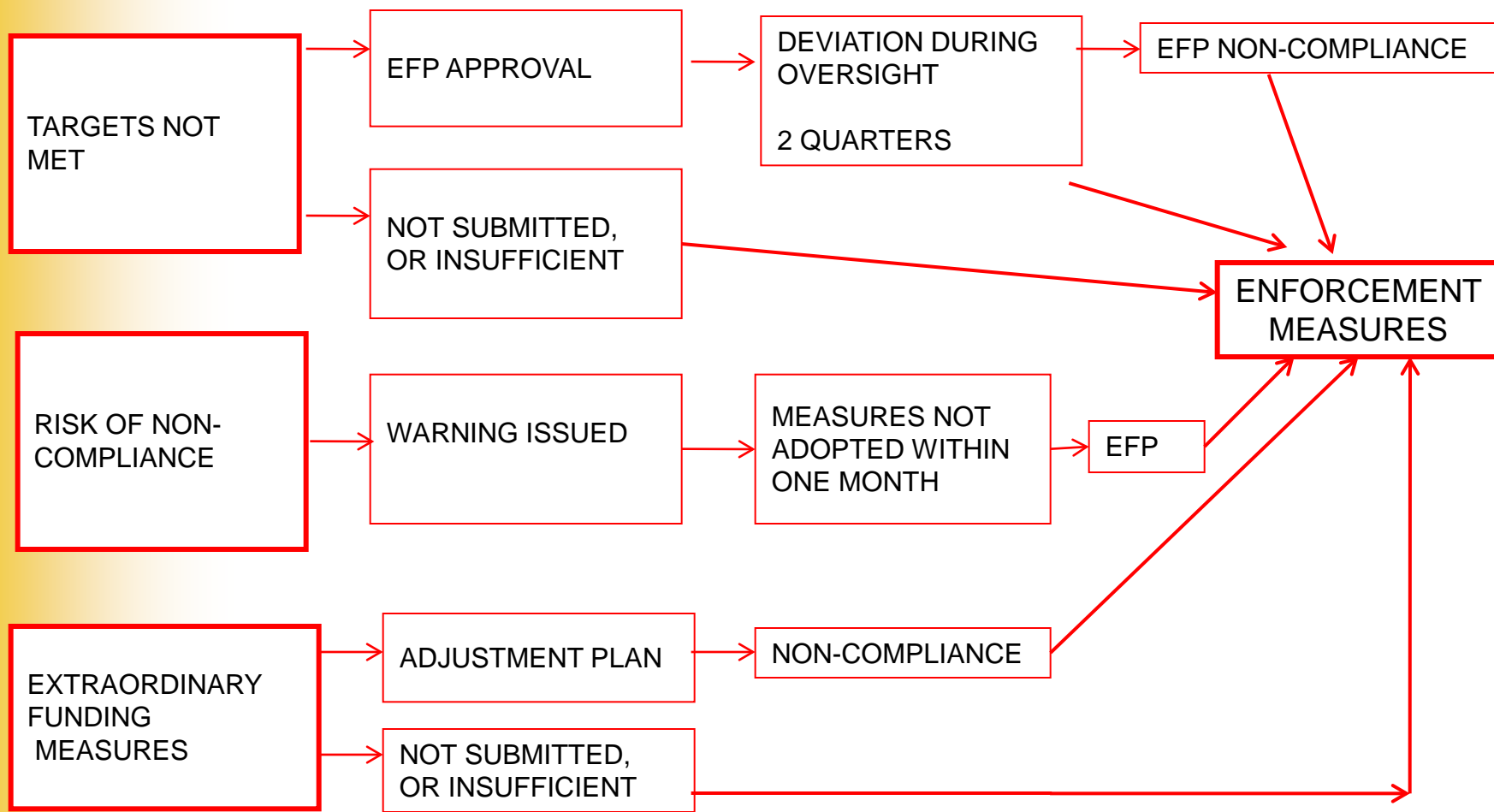
- Government issues order to President of **Autonomous Region**(Art. 155 of Spanish Constitution).
- Order not followed: government, with Senate absolute majority: enforced implementation.
- Government issues instructions to regional authorities.

### 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.

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## 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

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- 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

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## 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

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- 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**