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

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OBJECTIVES OF THIS LAW

- Guarantee the budget sustainability of all Public Administrations
- Strengthen confidence in the stability of the Spanish economy
- Reinforce Spain’s commitments to the EU

Budget stability and sustainability are key to economic growth and job creation
SCOPE OF THIS LAW

- Develops Article 135 of the Spanish Constitution
- Incorporates the demands stemming from EU regulations (Six-Pack), including the recently agreed fiscal pact
- Single text for all levels of Public Administration
GENERAL PRINCIPLES

- Stability
  (balance or surplus ESA → Fiscal Pact)
- Multi-annuality
- Efficiency
- Transparency
- Responsibility
  (no bail out)
- Financial Sustainability
  (debt criterion)
- Institutional loyalty

Budget sustainability: the guiding principle for all levels of Public Administration
THREE FISCAL RULES

- **STRUCTURAL BALANCE**
- **PUBLIC DEBT**
- **EXPENDITURE RULE**

- Preventive and corrective arms are strengthened
- Clear, simple, flexible, and accepted rules
- Designed for ordinary periods, but taking into account extraordinary situations
- Adapted to the current situation (excessive deficit procedure until 2013) with a transitional period until 2020
All levels of the Public Administration must present a balanced or surplus budget in ESA terms. None may incur a structural deficit

- In the event of structural reforms having long-term budget impact, a structural deficit of 0.4% of GDP may be incurred

- A structural deficit may be incurred under exceptional circumstances (natural disasters, economic recession, or extraordinary emergency)

Public debt is introduced as a criterion of budget sustainability: public debt <60% of GDP

EU recommendations will be taken into account when setting stability and public debt targets
EXPENDITURE RULE

- The expenditure rule is defined according to the EC methodology.
- Public Administrations’ expenditure may not increase above the GDP growth rate, in accordance with European regulations.
- Absolute priority for debt servicing costs.
WHAT WOULD THE PUBLIC DEFICIT IN SPAIN HAVE BEEN IF WE HAD HAD AN EXPENDITURE RULE?

Source: Bank of Spain, "La reforma del marco fiscal en España...", September 2011
THE LAW STRENGTHENS PREVENTIVE AND CORRECTIVE MECHANISMS

Preventive arm → Early warning mechanisms

Corrective arm → Rebalancing plans
                   → Corrective measures
                   → Government intervention mechanisms
Failure to meet targets will require presenting a 1-year economic and financial plan
- In the event of non-compliance with the plan: automatic approval of a spending cut (the so called “non-availability of budgetary appopiations”) to guarantee the compliance with the established target

A deficit due to exceptional circumstances will require a rebalancing plan to address the consequences of these situations
CORRECTIVE MECHANISMS

- Compliance with targets will be taken into account when:
  - Authorizing debt issues
  - Granting subsidies
  - Signing agreements

- EU corrective mechanisms are transposed:
  - EU sanctions will be borne by the responsible Public Administration
  - In the event of non-compliance with an economic and financial plan, a paid deposit of 0.2% of its nominal GDP will be constituted
  - It can become a fine, if non-compliance persists
  - If the failure persists, a delegation could be sent to the Public Administration to assess the economic and budget situation
Eventually, the Government could apply the intervention mechanism set in article 155 of the Spanish Constitution

- If an Autonomous Community does not fulfill the obligations set previously, the Government can adopt the necessary measures in order to oblige the latter forcibly to meet with its commitments
- The approval is granted by an absolute majority of the Senate
STRENGTHENING THE PRINCIPLE OF TRANSPARENCY

- Each budget will include the equivalence between budget information and national accounts
- Before approving its budget, each Public Administration must provide information on its key features

Improved coordination on all Public Administrations’ economic and financial actions
LIQUIDITY SUPPORT FOR AUTONOMOUS COMMUNITIES AND LOCAL ENTITIES

- Extraordinary measures for liquidity support have been approved
- This mechanism requires an effective adjustment plan
- The adjustment plan will be public, and will include a schedule for its approval, implementation and monitoring
- Information will be sent quarterly to the Ministry of Finance (e.g. guarantees, credit lines, commercial debt, derivatives operations)
TRANSITIONAL PERIOD

- A transitional period until 2020 has been established, under the following rules:
- Public debt will be reduced to achieve the 60% of GDP as long as the economy is experiencing a positive real growth rate
  - When a growth rate of 2% is achieved (or net employment is generated in annual terms) the debt ratio will be reduced annually by a minimum of 2 GDP points
- The structural deficit will be reduced by an average of 0.8% of national GDP per year
  - The deficit and debt paths will be comprehensively revised in 2015 and 2018