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Roundtable - Recent Developments: SPAIN

Changes to the Spanish budgetary framework in 2012

On September 2011 the Spanish parliament passed a reform of Section 135 of the Constitution. The main goals of the reform consist of: ensuring budgetary stability and financial sustainability of the public debt principles and linking all levels of government to its fulfilment.

As a result of this constitutional amendment some months later the parliament approved a new budgetary law (April 2012). The *Organic Act on Budgetary Stability and Financial Sustainability of Public Administration* (Also called Budgetary Stability Act) which modifies the previous budget stability law in the sense that it forces all the Public Administrations at the different levels of government (Central, State and Local) to meet the deficit and debt objectives (structural balance and a maximum of the debt).

The scope of this law includes all levels of government: Central Government, State Governments (also called Autonomous Communities) and Local Governments. The two key aims contained in this law are on the one hand to implement the Section 135 of the Constitution and on the other to guarantee the budgetary sustainability.

The organic Act introduced three important new fiscal rules. Expenditure, Structural Balance and Public Debt rules. According to its Section 12 t**he Expenditure rule** provides that the expenditure variation may not exceed the medium term GDP growth reference rate (MT-GDP). All levels of government must consider the MT-GDP reference rate when elaborating their draft Budgets. Debt interest, non-discretional expenditure on unemployment benefits, finalist expending funded from the EU and transfers to regional and local governments linked to funding system are excluded. In addition to this all levels of government must approve an expenditure ceiling in keeping with the stability target and the expenditure rule.

The **structural balance or surplus rule** (Section 11) implements the principle of budgetary stability that means by the end of the transitional period (2020) the budget must be balanced or show a surplus at all levels of government. This Act has two exceptions to the rule: first at all in the case of adopting a deep structural reform the structural deficit may rise up to 0.4% of the nominal GDP (Section 11.2); secondly in special circumstances such as natural disasters, economic recession or extraordinary emergency situations the Central and the State Governments may incur structural deficit (Section 11.3). In these cases a *rebalancing Plan* shall be approved. These exceptional circumstances must be accepted by an absolute majority of the members of the Congress of Deputies. On the other hand the law does not provide exceptions in the case of Local governments: all of them must keep balanced or show surplus (Section 11.4). The Social Security Administration can show a deficit only in special cases.

The **Public Debt rule** consists on: the volume of public debt must be lower than 60% of the GDP or the amount established in the future by EU regulations. This amount is distributed among the different levels of government in terms of GDP as follows: 44% for the Central government, 13% for all the State governments (17ACs) and 3% for Local governments (around 8.100 LGs). This rule aims to implement the principle of the public finances' financial sustainability.

A **transitional period is regulated** for the entry into force of the deficit and debt ceilings until 2020. During this period non-financial expenditure of each level of government may not rise faster than the rate of the Spanish economy's real GDP growth. In addition to this during this period the General government must reduce its structural deficit by a yearly average of at least 0.8% of the GDP. This reduction will be distributed among Central and States governments on the grounds of their contribution to the structural deficit recorded at 1 January 2012.

In accordance with the Budgetary Stability Act in 2015 and 2018 deficit and debt reduction pathways will be reviewed to ensure that the general scheme of a structurally balanced budget is in place by 2020.

The new law reinforces fiscal discipline and includes as its main innovation a system of early warnings and compulsory compliance and sanction procedures. By establishing a monthly reporting system, apart from the previous quarterly one, whereby the State Governments (ACs) have to report to the Central Government and they even have to send the outlines of their budgets before they are adopted, all of which makes it easier to monitor and correct any deviations from the deficit objectives if necessary.

The transparency principle (Section 6): Budgets and accounts from all levels of government will be disclosed. All public administrations must supply all information needed to ensure the compliance with the law. As well as be subject to public availability forecasts used for budget planning and methodology, assumptions and parameters on which they are based.

ACs must submit monthly income and expenditure information and quarterly in the case of the Local authorities. As well as the information required on the initial budget in terms of National Accounts. The *Ministry of Treasury and Public Administration* has the responsibility of maintenance and dissemination of the information contained in a Central Data Base.

All information about implementation of the Central Government and ACs budgets (incomes, expenditures and balances) is subject of synthesis and analysis task carried out by the *Public Finances and Economic Research Division (the Research Unit of the Congress)*. This information is made available to the Members of the Congress through the internal network.

A few words about the role of the parliament in the implementation of the Budgetary Stability Act. As it has been noted above this Act confers a special role to the Congress of Deputies to give consent for structural deficit, which the Central Government and the ACs may incur in exceptional circumstances. That kind of situation *must be accepted by an absolute majority of the members of the Congress of Deputies* (Section 11.3). The Senate can authorize the Government by absolute majority voting to carry out enforcement measures to ACs if they do not meet the requirements made by them. Both Chambers: can debate and vote, but not modify the government's proposal relating to: On the one hand, the objectives on budgetary stability and on public debt (Section 15.6) and on the other hand, the *Economic and financial Plan* and the *Rebalancing Plan* that must be elaborated and forwarded by the Government in case of excessive deficit of the Central government (Section 23.2).

To conclude it is important to point out that several experts agree on indicating that (in a context of high decentralization of the public spending) one of the greatest achievements of this new budgetary framework is to extend both debt and deficit limits on the ACs and to impose a balanced budget on Local Governments. In the same way one must consider that a solid institutional framework has already been set up which is essential for the achievement of fiscal consolidation.

(February 5, 2013)