Box NEW BUDGETARY FRAMEWORK LAW: MULTIANNUAL PERSPECTIVE

Law no. 22/2011 of 20 May introduced significant changes in the Budgetary Framework Law. To begin with, the scope of application of the Budgetary Framework Law was broadened to include all entities comprising the General Government, as defined by the European System of National Accounts.

The new Law was drafted according to the multiannual principle. Pursuant to Article 4, annual budgets now have to comply with a multiannual financial programme. The programmes, measures and projects or activities leading to multiannual costs should be included in this programming, thereby showing total spending, the year's costs and those related to the subsequent three years.

The subsectors of the public administrative sector, as well as the entities integrated in these subsectors, are now subject to the principles of budget stability (Article 10 A) and reciprocal solidarity (Article 10 B). Stability is understood as a balanced or surplus budget according to the European System of National Accounts. Reciprocal solidarity means the obligation by all entities of all subsectors to contribute proportionally to meet the principle of budget stability.

Under the new Law, the annual budget is now subject to the principles and targets established in the Stability and Growth Programme (SGP). Pursuant to Article 12 B, the budget process begins with the revision of the SGP and should include the budgetary and economic policy measures as well as their financial impact, duly justified by an implementation calendar. The revision of the SGP should also include an update of the Multiannual Financial Programme (Article 12 D). This should be submitted each year with the budget law and updated for the subsequent four years.

The Budgetary Framework Law lays down that the cyclically-adjusted budget balance, net of one-off measures, may not be lower than the medium-term target established in the SGP (Article 12 C).

With regard to government funding, the changes introduced by the new Law make it possible to anticipate funding necessary for part of the following year's redemptions. The new Article 16 A sets forth that the limit to the direct overall net indebtedness may increase up to 50 per cent of Government funded debt to redeem in the following year. Should this possibility be used, the indebtedness ceiling of the subsequent year should be reduced by an equal amount. The Government may however increase this limit up to 50 per cent of the redemption of funded debt occurring in the following budget year.

This change brings greater flexibility to the Government debt management strategy by making it possible to choose the best timing to carry out funding operations. The timing may now be adjusted to market conditions and is no longer restricted purely to the borrowing needs of a specific budget year.