



Economics and Public Finance

Tutorial 9

Topics:

- Concept and scope of the State Budget
- Budget Cycle
- Budgetary rules
- Classification of revenue and expenditures



Topics for discussion - 1

- "The budget is always balanced."

Using two concepts of equilibrium (associated with two different balances), explain why in one case the claim is correct and the other case it is wrong.



Topics for discussion - 2

Say what you mean by the **State Budget** and explain briefly the role of government and Parliament in the budgetary process.



Topics for discussion - 3

Distinguish briefly between effective revenue and total revenue.

What kind of revenue is the public administration budget deficit related to?



Multiple Choice - 1

The State Budget contains a forecast of revenue and expenses of the:

- a) State (strict sense);
- b) Central government;
- c) Central government and Social Security;
- d) Central government, Social Security, Regional and Local Administrations.



Multiple Choice - 2

The functional classification of expenditure is especially important for:

- a) Clarifying the government's policy priorities for central government and social security.
- b) Being able to do an economic analysis of expenditures.
- c) Clarifying the priority functions of general government.
- d) Identifying the budget that each agency will have to manage.



Multiple Choice - 3

The economic classification of revenues and expenditures is important because, among other things, allows:

- a) to predict for the macroeconomic impact of the state budget.
- b) to predict the microeconomic impact of the state budget.
- c) to establish the policy priorities of government.
- d) to calculate a set of budget balances by distinguishing the type of income and expenditure.



Multiple Choice - 4

The total budget revenue must be used to fund all budget expenditure. This is the rule:

- a) Specification.
- b) No earmarking.
- c) No compensation.
- d) Universality.



Multiple Choice - 5

The issuance of government debt is a government revenue of the following type:

- a) Capital effective revenue.
- b) Revenue from a financial asset.
- c) Revenue from a financial liability.
- d) Extraordinary revenue.



Multiple Choice - 6

Choose what is the false proposition:

- a) The budget of a municipality is prepared and approved independently of the state budget.
- b) The municipal revenues are part of the revenues of the State Budget.
- c) The expenditures of the municipalities are included in general government expenditure.
- d) The budget of a municipality receives transfers from the State Budget.



Exercise 1

In the report accompanying the 2012 State Budget the following information is available:

- Table I - State spending, economic classification
- Table II - State spending, functional classification
- Table III - State spending, main aggregates

The same tables for the 2010 State Budget execution.



(Cont.)

- a) Using **Table I**, compute the structure of spending of the State sub-sector in 2010 (execution) and 2012 (forecast) and comment the main changes.
- b) Still with **Table I**, compute and comment the change in the share of primary spending on total effective spending.
- c) Using **Table II**, determine the development of the structure of spending in the State sub-sector by function. Is it possible to identify changes in priorities in this period?



(Cont.)

d) Using **Table III**, identify two items that are mandatory spending, and independent of government actions in the short-run. What is their respective share in total spending?

e) Still with **Table III**, compute for 2010 and 2012, the share in effective spending of *Investments, Specific Allocations, and Functioning in strictu sensu*. Which items reflect the objectives of reduction in primary spending?

Table I (million euros)

Item	2010	2012
Current spending	46564.5	44108.7
Compensation of employees	11383.3	6792.0
Acquisition of goods and services	1357.0	1892.9
Interest payments	4971.7	8013.8
Current transfers	27740.7	24259.2
Subsidies	698.8	304.1
Other current spending	413.0	872.2
Primary current spending	41592.8	36094.9
Capital spending	3991.6	2580.7
Acquisition of capital goods	1505.7	496.2
Capital transfers	2469.3	2074.7
Other capital spending	16.6	9.8
Effective spending	50556.2	46689.4



Table II (million euros)

Functions	2010 (exec)	2012 (forecast)
General sovereignty	8260.4	6463.8
Social functions	30843.0	26438.7
Economic functions	1586.4	1013.2
Other functions	9866.4	12773.7
Effective spending	50556.2	46689.4

Table III (million euros)

	2010	2012
1. Investments	1116.2	841,6
2. Specific allocations	35898.3	34339.8
<i>Of which</i>		
Transfers to National Health System	8698.7	7498.8
Transf. to Social Security	7726.7	6457.2
Transf. to LRG	2913.1	2592.4
Financial contribution to the EU	1667.6	1500.0
Education and Tertiary Education	2173.0	1690.0
Interests payments	4970.0	8013.0
Pensions (civil servants)	4012.7	4173.2
3. Functioning in strictu sensu	10923.8	8938.0
Effective spending	50556.2	46689.4