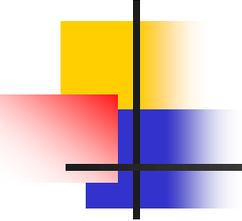


# Economics and Public Finance

## Tutorial 8

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- Topics for discussion:
  - The Accounts and Balances of General Government.
  - Subsectors of general government and accounts consolidation (revenues and expenditures).
  - Degree of Centralisation of Public Administration

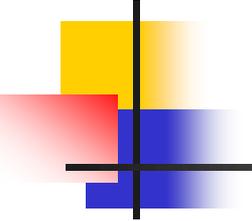


# Bibliography

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## Readings

- Summary Chapter 11.
- Slides from **Lectures 13 and 14.**

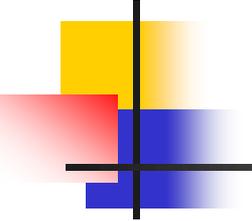


# Topics for discussion - 1

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Distinguish, in general terms, the **Public Accounts** and the **National Accounts** methodology.

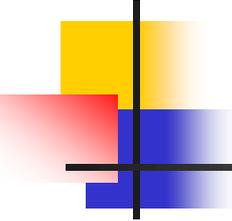
Clarify why the National Accounts is more appropriate to assess the fiscal position of a country.



# Topics for discussion - 2

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Explain what is the meaning of current spending **consolidation** within the three general government sub-sector accounts, and what is its purpose.

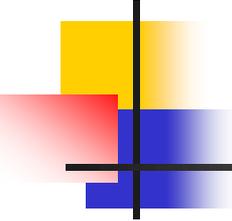


# Multiple Choice Question - 1

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Which of the following measures does not change, *ceteris paribus*, the deficit of public administrations?

- a) Decrease in transfers from the Central Government to Social Security.
- b) Decrease in personal income tax benefits.
- c) Tax increases.
- d) Increase in the taxation of capital gains.

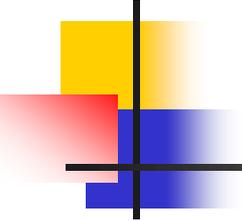


# Multiple Choice Question - 2

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**The primary balance is given by:**

- a) Current revenues minus primary spending.
- b) Effective revenues minus effective spending, excluding interest payments.
- c) Primary revenue minus primary spending.
- d) Total balance minus government debt.

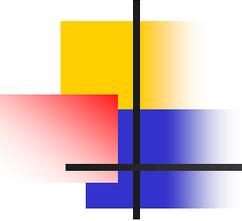


# Multiple Choice Question - 3

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The degree of decentralisation of the general government is given by:

- a) The ratio of consolidated central government spending over GDP.
- b) The ratio of consolidated central government spending over total general government spending.
- c) The ratio of consolidated central government and social security spending over total general government spending.
- d) The ratio of consolidated spending of local and regional government over total general government spending.

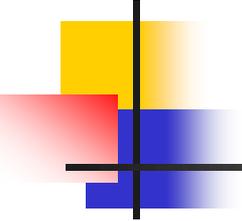


# Multiple Choice Question - 4

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All else being equal, the balance of the Social Security subsector worsens with an:

- a) Increase in property taxes.
- b) Increase in Social Security contributions.
- c) Increase in transfers from Central Administration to Social Security.
- d) Increase in unemployment benefits.



# Exercise 1

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Using the table in the next slide:

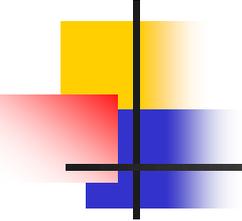
**a)** Compute:

*i)* the **consolidated values** of current revenue, other current revenue, current spending and current transfers of general government,

*ii)* the current balance, the capital balance, the the budget balance of general government and the primary balance of central government. Assess the results

	Central Administration	Local and Regional Governments	Social Security	Public Administration
<b>1. CURRENT REVENUE</b>	53644,7	6533	17972,2	?
1.1. Direct taxes	11525,8	2414,2	0	13940
1.2. Indirect taxes	19178,9	1021,1	592	20792
1.3. Social security contributions	5973	6,6	11037,3	17016,9
1.4. Other current revenue	16967	3091,1	6342,9	?
(of which: transfers from other sub-sectors)	11699,4	1783,6	4971,8	
	0			
<b>2. CURRENT SPENDING</b>	59268,5	5713,3	17640,6	?
2.1. Public consumption	26350,5	5065	492,3	31907,8
2.2. Subsidies	2275	146,4	505,1	2926,5
2.3. Interest payments	4019,2	129,4	6	4154,6
2.4. Current transfers	26623,8	372,5	16637,2	?
(of which: transfers to other sub-sectors)	17347,1	34,2	1073,6	
	0			
<b>3. CURRENT BALANCE</b>	-5623,8	819,7	?	?
	0			
<b>4. CAPITAL REVENUE</b>	2897,1	2502,9	33,4	3314,8
(of which: transfers from other sub-sectors)	555,8	1546,6	16,2	
	0			
<b>5. CAPITAL SPENDING</b>	5039,6	3357,2	67,2	6345,4
5.1. Investments	1253,1	2957,2	31,8	4242,1
5.2. Capital tranfers	3757	375,7	35,4	2049,5
(of which: transfers to other sub-sectors)	2098,4	11,8	8,4	
5.3. Other capital spending	29,5	24,3	0	53,8
Effective total revenue	56541,8	9035,9	18005,6	?
Effective total spending	64308,1	9070,5	17707,8	?
<b>6. TOTAL BALANCE</b>	?	-34,6	297,8	?
<b>7. PRIMARY BALANCE</b>	?	94,8	303,8	-3348,4

Source: Portuguese Budget.



# Exercise 2

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Consider the following estimates for the Public Administrations (public accounts recording for 2009, next slide):

- a) Determine, presenting your calculations: effective expenditures; budget balance and primary balance (both consolidated) **for the subsector Central Administration**. Explain the meaning and relevance of these balances.
- b) Consider the need for an improvement of the total balance of 2.000 million EUR and that the subsector Central Government will contribute to that improvement **proportionally to its share in effective government spending**. Compute that contribution.

Million EUR	Central Admin.	Local and Regional Gov.	Social Security	Public Admin.
<b>CURRENT REVENUE</b>	63.945,80	7.889,20	23.640,30	70.968,20
Direct taxes	15.296,60	3.329,30	0	18.625,90
Indirect taxes	22.291,00	988,3	713,1	23.992,30
Social security contributions	4.029,30	11,3	13.865,90	17.906,40
Other current revenue	22.328,90	3.560,40	9.061,30	10.443,60
<i>(of which: transfers from other sub-sectors)</i>	15.505,40	1.992,80	7.008,90	(-)
<b>CURRENT SPENDING</b>	67.156,90	7.280,90	22.039,10	71.969,90
Public consumption	24.630,00	6.137,50	508,7	31.276,20
Subsidies	1.941,80	199,9	1.168,00	3.309,70
Interest payments	5.720,50	294,5	10	6.025,00
Current transfers	34.864,50	649	20.352,50	31.359,00
<i>(of which: transfers to other sub-sectors)</i>	23.501,90	21,1	984	(-)
<b>CAPITAL REVENUE</b>	3.620,50	2.395,20	67	3.806,50
<i>(of which: transfers from other sub-sectors)</i>	701,80	1.563,90	10,7	(-)
<b>CAPITAL SPENDING</b>	5.702,30	3.511,80	113,5	7.051,10
Investments	1.457,70	2.982,20	47,6	4.487,50
Capital tranfers	3.778,90	463,4	65,8	2.031,70
<i>(of which: transfers to other sub-sectors)</i>	2.268,20	8	0,2	(-)
Other capital spending	465,60	66,3	0	531,9

Source: Portuguese Budget, 2009.