

# THE SPANISH BUDGET: A READING GUIDE



**MINISTRY OF ECONOMY AND FINANCE  
STATE SECRETARIAT FOR FINANCE AND BUDGET  
GENERAL SECRETARIAT FOR BUDGET AND EXPENDITURE  
DIRECTORATE GENERAL FOR BUDGET**

**“THE SPANISH BUDGET: A READING GUIDE”**

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## I. INTRODUCTION

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## **I. INTRODUCTION**

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The Budget is an important source of information and it contains a vast and detailed data regarding the activities of the public sector.

The aim of this book is to make easier the reading of the General National Budget, that is to say the budget of the Central Administration, and to provide a quick guide to the reader to understand its contents.

The structure of this book is the following: First, the chapter II is referred to the Spanish budgetary system. The next chapter is devoted to examine the budget concept, the legal framework and the procedure of budget formulation. Chapter IV presents the institutional scope of the General National Budget according to the Spanish Constitution, the General Budgetary Law and the annual Budget Law. Chapters V- VI describe the budgetary structure of both the administrative and commercial business public sector. Finally, the contents of the Budget Law are specified in chapter VII.





## II. SPANISH BUDGETARY SYSTEM

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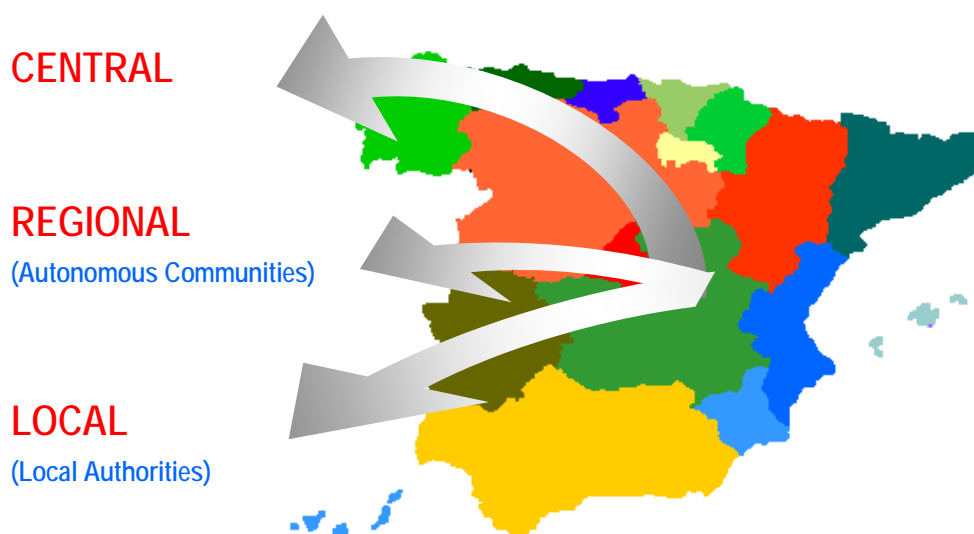
## II. SPANISH BUDGETARY SYSTEM

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Spain is a highly decentralized state with three Government layers: central, regional and local.

From a financial perspective, the administrative decentralization is based on the following principles: financial autonomy, coordination and solidarity, which are laid down by the 1978 Spanish Constitution.

### Three Government's levels



Both Autonomous Communities and Local Authorities have autonomy to decide and approve their budgets. Therefore, apart from the State Budget, there are budgets for the territorial administrations.

This book, *“The Spanish Budget: a reading guide”* is referred just to the Budget of the Central Administration.





### **III. WHAT IS THE GENERAL NATIONAL BUDGET?**

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### **III. WHAT IS THE GENERAL NATIONAL BUDGET?**

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#### **1. DEFINITION**

The General Budgetary Law 47/2003 of 26 November, in its article 32, defines the National General Budget as a “quantified, complete and systematic expression of the rights and obligations to be liquidated during the year by each of the bodies and entities that are part of the State Public Sector”.

All in all, the National General Budget is the document which contains the annual revenues and expenditures forecasted for the State Public Sector. It is one of the most important instruments of the Government’s economic policy, laying down the strategic objectives of the public policies and the resources assigned for their implementation.

#### **2. LEGAL FRAMEWORK**

The legal framework of the National General Budget is composed of the following regulations:

- The Spanish Constitution. The article 134 is devoted to the National General Budget.
- The General Budgetary Law (Law 47/2003 of 26 November)
- The Budget Stability Laws (Legislative Royal Decree 2/2007, of 28 December, approving the codifying legislation of the General Budget Stability Law and the Constitutional Law 3/2006, of 26 May on the reform of the Constitutional Law 5/2001, of 13 December, complementing the General Budget Stability Law).

To round out this legal framework, it should be mentioned the annual regulation of the Ministry of Economy and Finance establishing the standards to formulate the National General Budget and other regulations with minor level which regulate aspects of the budgetary Management (for example, the Resolution issued by the Directorate General for Budgets setting up the codes which defines the economic budgetary classification).

### 3. PROCEDURE OF FORMULATION

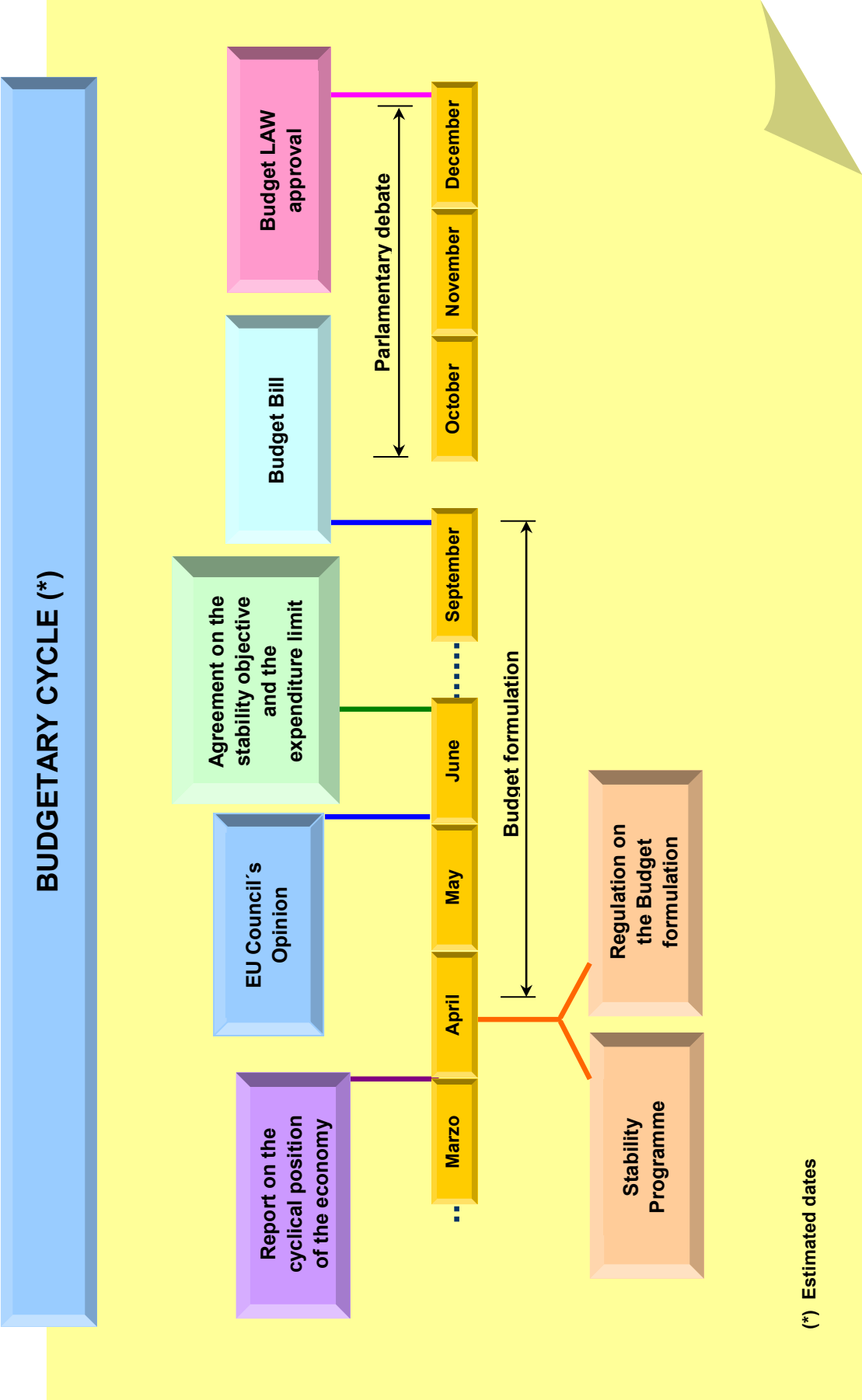
According to the abovementioned regulation, the draft budget shall be approved by the Government and submitted to the Parliament(*Cortes Generales*). The Parliament is empowered to examine, amend and adopt the budget.

The budgetary cycle may be summarize in the following stages:

- **Stability Programme Update** : Under the provisions of the Stability and Growth Pact, each year Spain shall submit to the EU an analysis of the economic situation and the economic policy guidelines. Medium term budgetary estimates (3 years) are drawn up based on this information.
- **Report on the cyclical position of the Spanish Economy**: It contains the most important economic parameters to fix the budget stability objective. This report is produced by the Ministry of Economy and Finance, following consultation with the Bank of Spain on the cyclical position of the Spanish economy, and taking into account the forecasts of the European Central Bank and the European Commission. It contains the multiannual economic chart which includes the forecast path of the Spanish economic growth.
- **Regulation on the formulation National General Budget**. The Ministry of Economy and Finance issues an annual regulation fixing the standards to formulate the National General Budget for the following year. From a formal point this regulation is the starting point of the budget formulation procedure. This regulation sets up the criteria to allocate the resources, the institutional scope, the working groups involved, the budgetary

structures, the data that shall be submitted and the deadlines in the formulation process.

- **Agreement on the stability objective and the expenditure ceiling for the State.** In the first half of every year, the Government at the proposal of the Ministry of Economy will establish the budget stability objective for the following three years, following the reports of the Tax and Financial Policy Council of the Autonomous Communities and of the National Commission of Local Administration in terms of the scope thereof. The budget stability objective is fixed for the public sector overall and for each one of the groups of agents included in it (Central Administration, Autonomous Communities, Local Authorities and Social Security). The agreement of the Council of Ministers containing the budget stability objective will be sent to Parliament. Following the corresponding Plenary debate, the Congreso de los Diputados (Spanish House of Commons) and the Senate will approve or reject the stability objective proposed by the Government. Besides, this Agreement is accompanied by the threshold for the State spending fixed for the following year.
  
- **Approval of the National General Budget Bill:** The Ministry of Economy and Finance submits the draft Budget to the Government for its approval. The bill for the National General Budget will be submitted to the Parliament accompanied by the budgetary additional data established by law before 1 October of the prior year covered by the Budget
  
- **Approval of the National General Budget Law:** Following the debate and the amendments of the Congress and the Senate, the National General Budget Law is approved and it will be in force the first of January of the corresponding year.



(\*) Estimated dates



#### **IV. INSTITUTIONAL SCOPE OF THE NATIONAL GENERAL BUDGET**

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## IV. INSTITUTIONAL SCOPE OF THE NATIONAL GENERAL BUDGET

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National General Budget includes the total expenditure and revenues of the entities comprised in the State public sector, which are listed in the article 2 of the General Budget Law. The annual Budget Law fixes this scope every year.

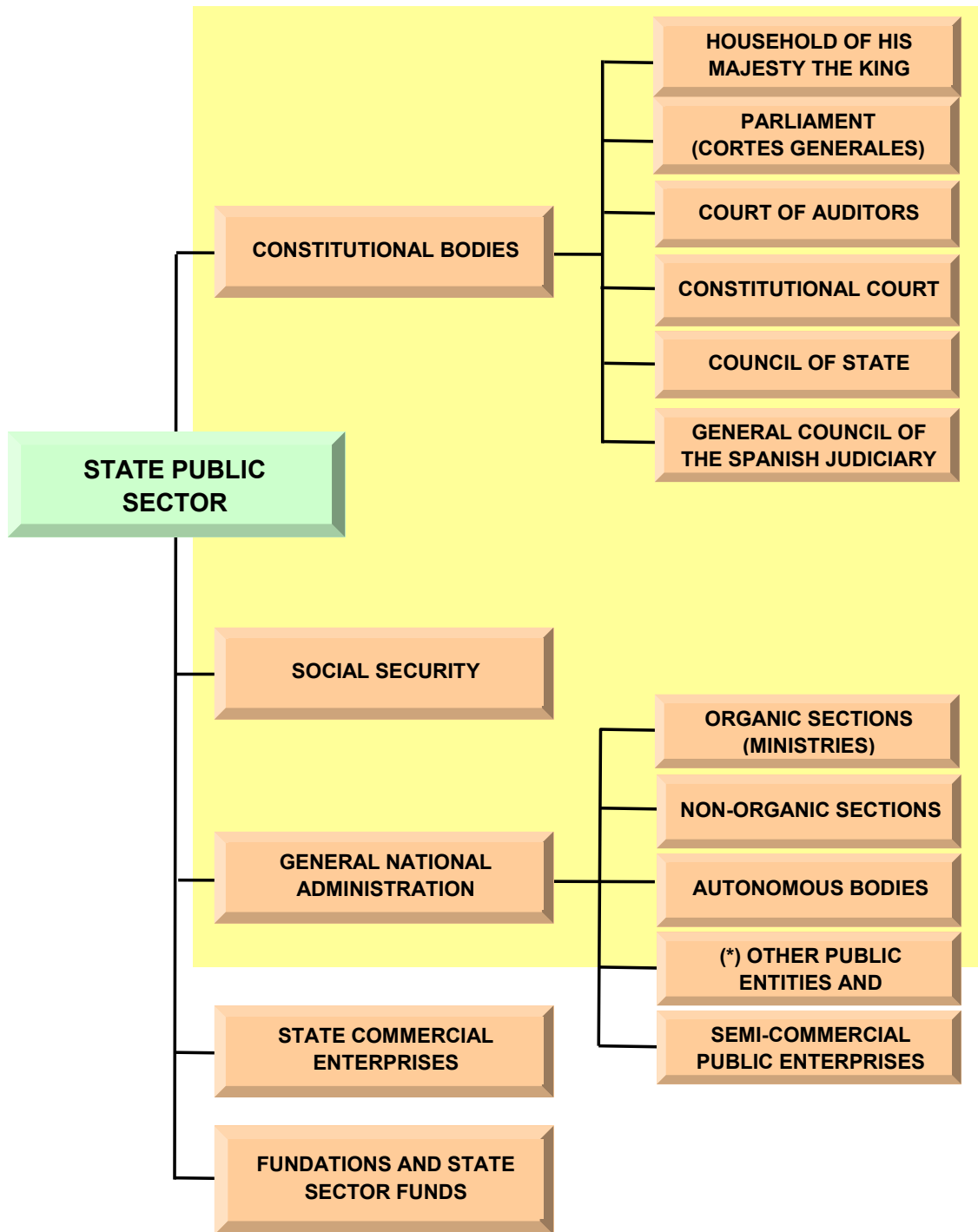
According to this regulation the National General Budget shall contain:

- a) The State Budget.
- b) Budgets of the autonomous bodies that belong to General National Administration.
- c) The budget of the Social Security.
- d) Budgets of the State Agencies.
- e) Budgets of other public bodies with limited credits in their expenditure budget.
- f) Budgets of funds referred to in article 2.2 of the General Budget Law.
- g) Budgets of the State commercial enterprises.
- h) Budgets of the foundations included in the State sector.
- i) Budgets of the semi-commercial public entities and other public bodies with the same economic nature.
- j) Budgets of the remaining entities of the State public sector.

The budgets of the abovementioned agents are included in the National General Budget. However, according to the nature of their budgets, two major groups shall be distinguished: agents with limited budgets or with non-limited budgets (estimated).

- Agents mentioned in the letter a) to e) constitute the administrative public sector with limited budget. This budget is notable for fixing the maximum expenditure that can be recognized by the agents. The budgets of the agents included in this group are added to constitute the so-called “Presupuestos Generales del Estado consolidados”, which reflects the global financial activity implemented by the administrative public sector with limited budget. The consolidation process is necessary to add the budgets of these entities, eliminating the internal transfers executed among them.
- The remaining agents make up the General National Budget without being part of the consolidated budget. They have estimated and non-limited budgets adapted to their economic activities. For example, State commercial enterprises.

## GENERAL NATIONAL BUDGET SCOPE AND CONSOLIDATED BUDGET



Scope of Consolidated Budget

(\*) The Consolidated Budget includes Public Entities and Consortia with other Public Administrations that are comprised in the Administrative Public Sector in accordance with the article 3.1 of the General Budget Law.





**V. BUDGETARY STRUCTURE OF THE PUBLIC ENTITIES  
INCLUDED IN THE ADMINISTRATIVE PUBLIC  
VI. SECTOR WITH LIMITED BUDGET**

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## **V. BUDGETARY STRUCTURE OF THE PUBLIC ENTITIES INCLUDED IN THE ADMINISTRATIVE PUBLIC SECTOR WITH LIMITED BUDGET**

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To describe the budgetary structure of the entities included in the State sector it should be taken into account the different agents within it and the nature of their activities. So, two groups can be distinguished: entities with limited budgets of expenditure (administrative public sector with limited budget) and entities with estimated and non-limited budgets of expenditure (semi-commercial public sector, public foundation sector and administrative public sector with non-limited budget).

This chapter provides information about the structure of expenditures and revenues comprised in the administrative public sector with limited budget. The following chapter is devoted to budgetary structures of the remaining entities of the State public sector.

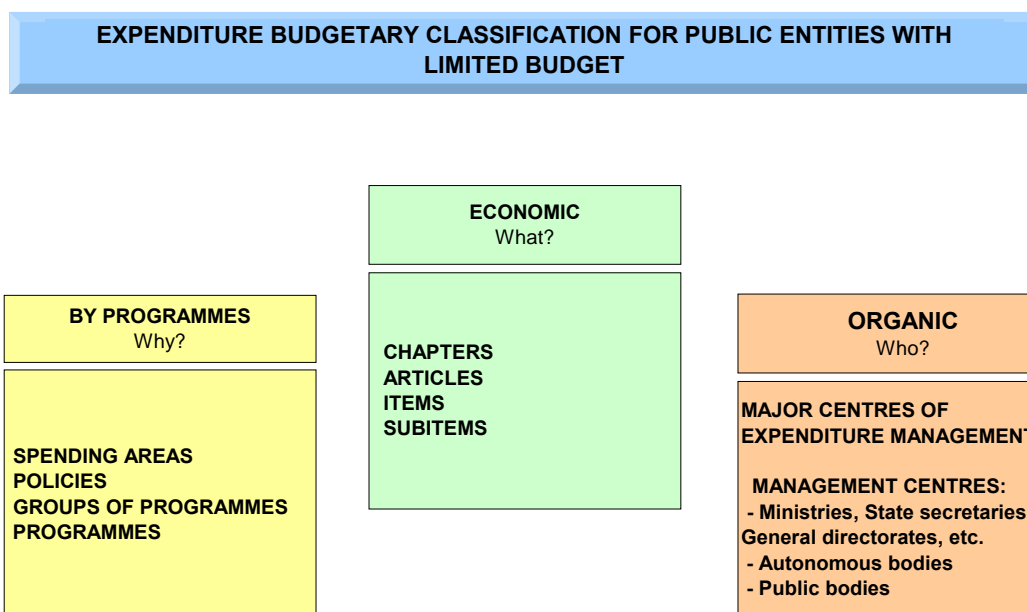
In addition to the general budgetary structure explained below, some autonomous bodies (specified in the General Budgetary Law) shall present additional financial statements.

Both general and specific budgetary structures are set up in the annual regulation of the Ministry of Economy and Finance establishing the standards to formulate the National General Budget and other regulations with minor level which regulate aspects of the budgetary management.

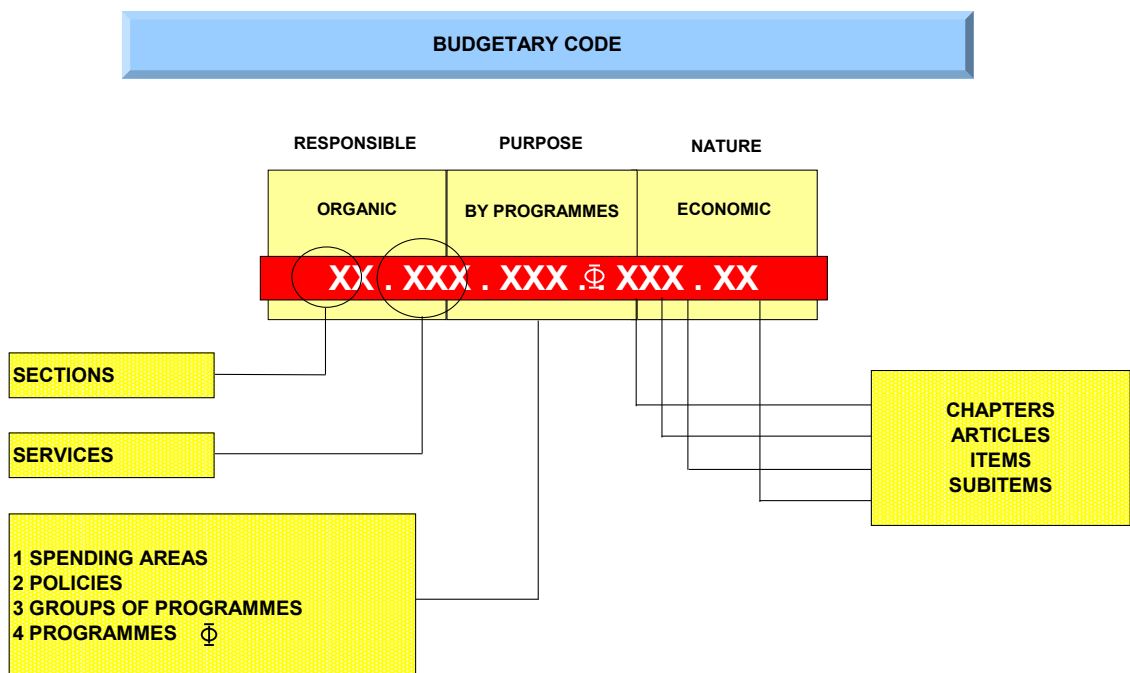
## 1. STATEMENT ON EXPENDITURE

According to the General Budget Law, the expenditure budget follows a triple classification: organic, by programmes and economic in accordance with the following criteria:

- The objectives to be achieved in the budgetary management (classification by programmes).
- The organization of the State public sector (organic classification).
- The economic nature of the budgetary spending (economic classification).



To make the reading of the Budget easier and for computing purposes, each budgetary allocation has its own alphanumeric code related to the triple classification. These codes are specified in the following paragraphs.



## 1.1 Classification by programmes

This is the major classification of the budgetary credits, identifying the purpose of public resources allocation. A budgetary programme might be defined as a collection of credits<sup>1</sup> assigned to management centres in order to achieve the objectives established. All in all, a budgetary programme sets up the expenditure needed for the public activities' development.

Budgetary programmes can be grouped in two: finalists programmes and instrumental and management programmes.

- **Finalists programmes:** are those in which measurable objectives and indicators can be defined, for instance, the programme "*Construction of infrastructures*".
- **Instrumental and management programmes:** The aim of these programmes is to manage the resources in order to develop general activities of regulation and planning; the execution of an activity in which measurable objectives can not be established; or to support a finalist programme. For example, the programme "*Management and general services of Economy and Finance*".

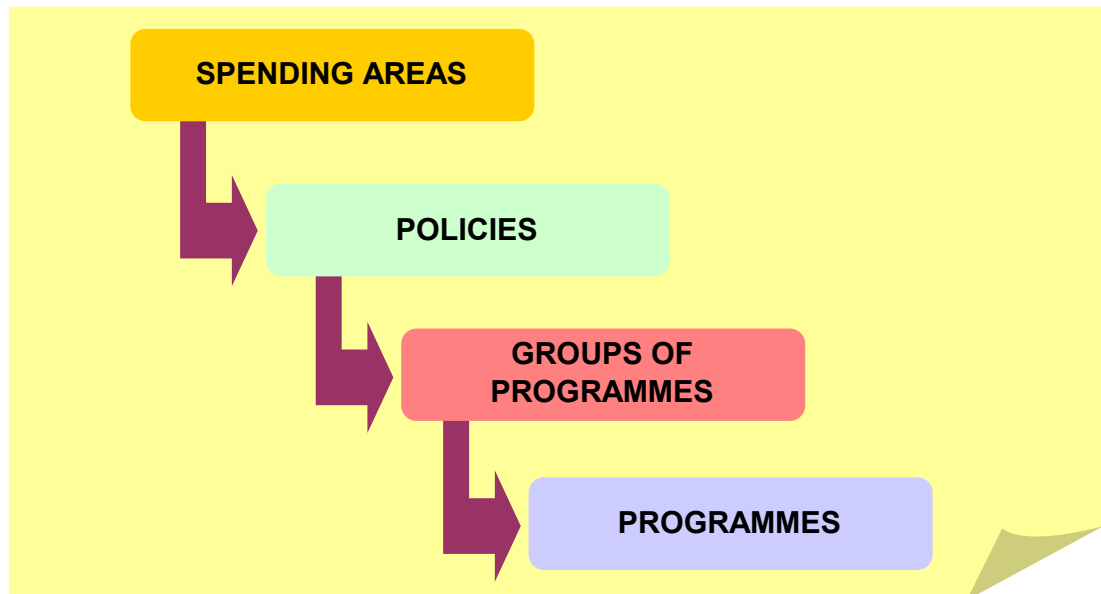
Budgetary programmes are organized following a tree diagram. So, budgetary programmes are brought together into groups of programmes and these groups of programmes make up spending policies. Spending policies are grouped in five spending areas:

- Spending area 1. "Basic public services".
- Spending area 2: "Social protection and promotion actions".
- Spending area 3: "Merit goods and services".
- Spending area 4: "Economic affairs".
- Spending area 9. "General public services".

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<sup>1</sup> According to the General Budgetary Law, budget credits are each of the individualized allocations for expenditure shown in the budget laid out to the management centres in order to meet the needs for which they have been approved.

## GENERAL NATIONAL BUDGET ESTRUCTURE BY PROGRAMMES



This is a flexible structure, so it can be modified in accordance to the specific needs of each financial year.

The latest General National Budgets contain around 200 budgetary programmes, 90 groups of programmes, 26 spending policies and 5 spending areas.

**GENERAL NATIONAL BUDGET  
SPENDING POLICIES**

**BASIC PUBLIC SERVICES**

**Justice  
Defense  
Public order  
Foreign Policy**

**SOCIAL PROTECTION AND PROMOTION ACTIONS**

**Pensions  
Sickness and disability benefits  
Social benefits  
Employment promotion  
Unemployment benefits  
Housing  
Social Security management**

**MERIT GOODS AND SERVICES**

**Health  
Education  
Culture**

**ECONOMIC AFFAIRS**

**Agriculture and fishing  
Industry and energy  
Trade, Tourism y SMES  
Transports  
Infrastructures  
Civil research, development and innovation  
Military research, development and innovation  
Other economic affairs**

**GENERAL PUBLIC SERVICES**

**Top management  
General services  
Financial and Tax administration  
Transfers to other public administrations  
Public Debt**

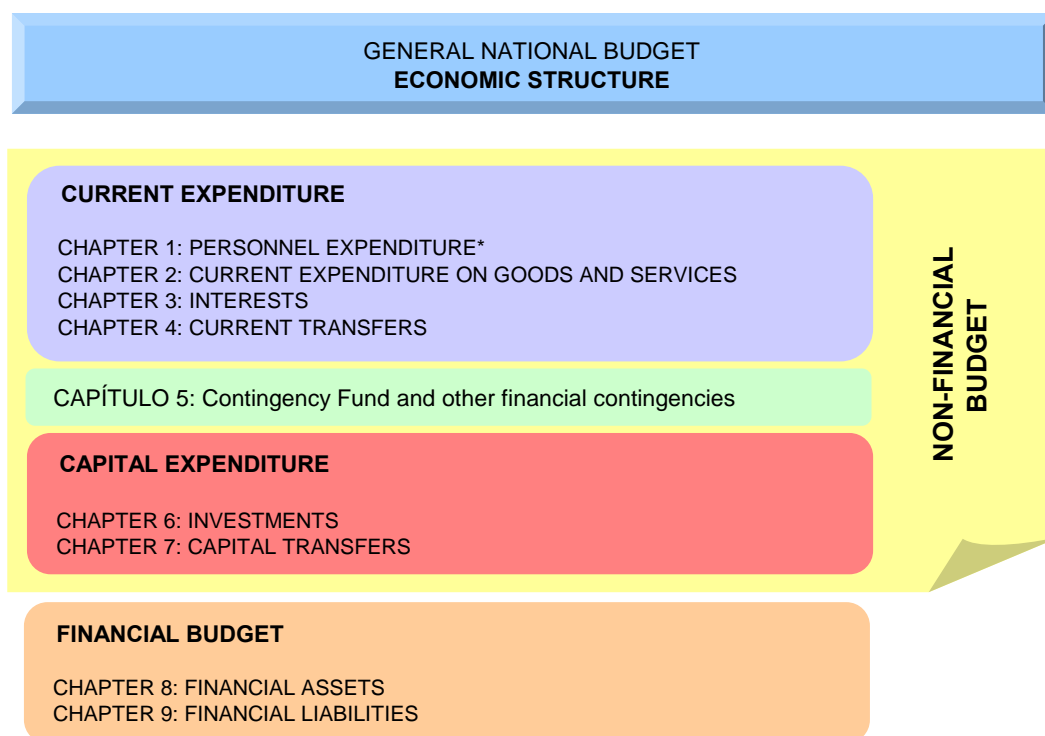
The classification by programmes is shown by an alphanumeric code made up by three digits and a letter. The first digit indicates the spending area, the first and the second digits define the spending policy and the three digits are referred to the group of programmes. The programme is identified by a letter. Finalist programmes have a letter comprised between A and L, and instrumental and management programmes have a letter form M to Z.

#### **Example of programmes code**

The programme **453C** "Maintenance of roads" belongs to the group of programmes **453** "Land transports infrastructure", which is in the spending policy **45** "Infrastructures", in the spending area **4** "Economic affairs". Besides, the letter **C** indicates that it is a finalist programme, because C is a letter between A and L.

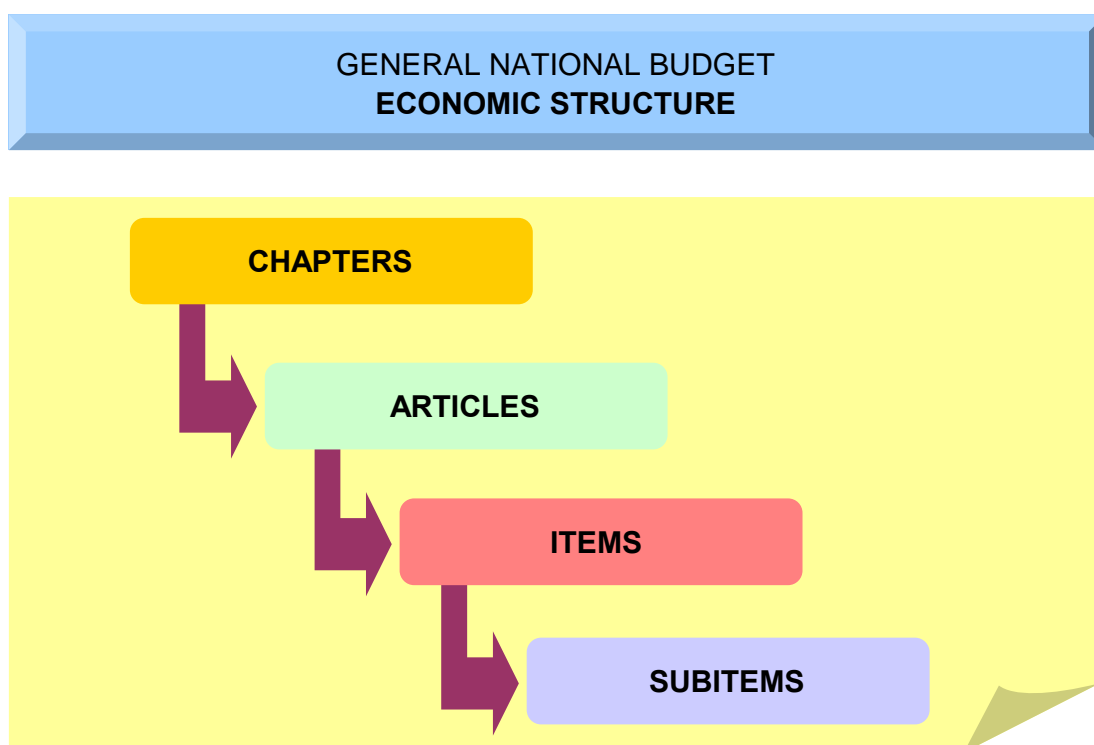
## 1.2 Economic classification

Regarding the economic classification, the credits included in the expenditure statements of the budget are presented according to the economic nature, showing how public resources are spent. Budgetary credits are grouped by chapters, differentiating current expenditure, capital expenditure, financial transactions and the Contingency Fund.



\* Personnel expenditure includes compensations of employees, civil servants' mutual benefits and civil servants' pensions

Each of these chapters is divided into articles. In addition, these articles are divided in items and subitems.



As well as budgetary programmes, a numeric code is assigned to budgetary allocations in the economic classification. The first digit on the left shows the chapter, the first and the second digits identify the article, the first three numbers correspond to the item and, in case there are two additional digits, they shall indicate the subitem.

#### **Example of the economic classification**

The budgetary allocation **221.01** means that it belongs to the chapter **2** "Current expenditure on goods and services", article **22** "Materials, supplies and others", subitem **221** "Supplies" and subitem **01** "Water".

### 1.3 Organic classification

According to the organic classification, public expenditure is distributed by management centres (ie. public units with separate allocations in the budget). The organic classification shows who spends, that is to say, what is the agent responsible for budget management. So, following this criteria different subsectors may be differentiated:

- 1) The State, divided into the so-called sections and services. In general, sections may be identified with ministries and services with units of the same or more rank than a Directorate-General (there are exceptions to this general rule).
- 2) Autonomous bodies of the State Administration, which are grouped in accordance to the Ministry that they belong.
- 3) State Agencies.
- 4) Social Security.
- 5) The remaining entities included in the administrative public sector with limited budget.

The organic classification is shown by a numeric code. The first two digits indicate the section responsible for the expenditure. Next, the service is specified (with two numbers) or the public body (with three numbers).

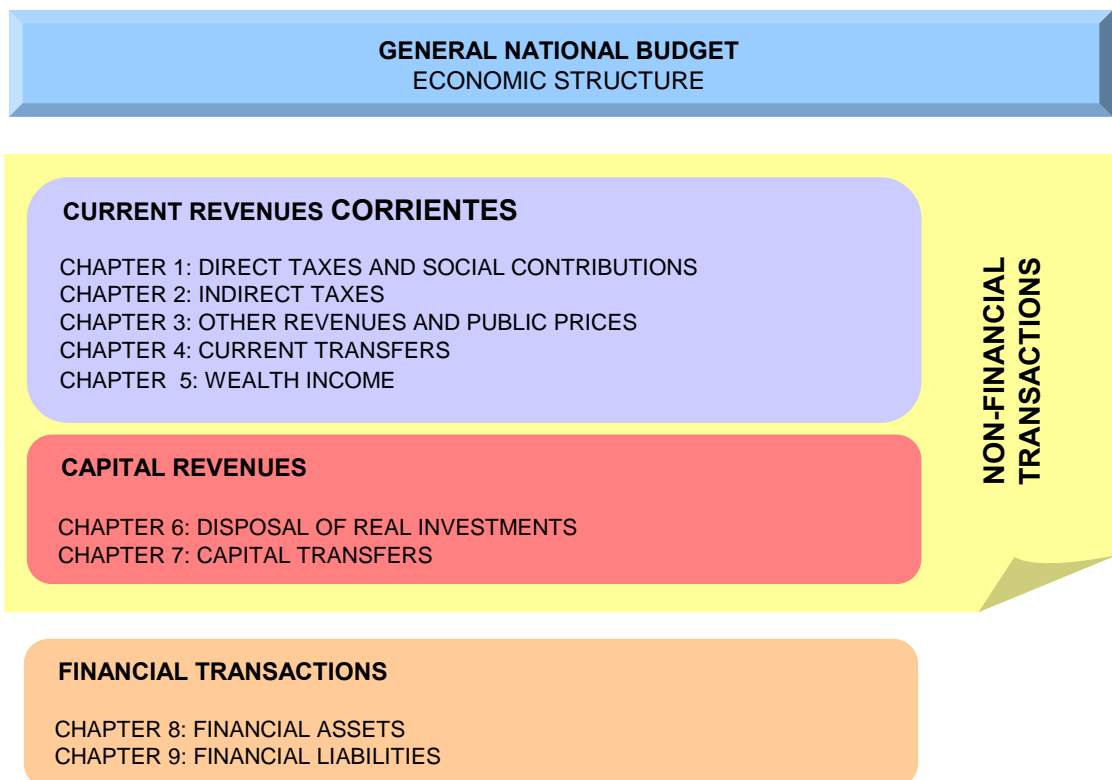
The section **15** is referred to the Ministry of Economy and Finance and within it, to the service **015** which identified the Directorate-General for Budgets. So, the budgetary code **16.015** is enough to name the Directorate-General for Budgets.

## 2. STATEMENT ON REVENUES

The statements on revenues comprised in the budgets of the entities of the administrative public sector with limited budget are structured following an organic and economic data.

The organic classification shall distinguish between revenues of the General Administration of the State and those of each of its autonomous bodies, Social Security and other entities of the administrative public sector, as appropriate.

Economic classification shall group the revenue, separating current ones, from capital revenue, and from financial transactions.



### **3. SPECIFIC BUDGETARY STRUCTURES FOR SOME AUTONOMOUS BODIES**

The budgetary structure for autonomous bodies of the State Administration is determined by the general rule explained above. In addition, the autonomous bodies specified in the first temporary provision of the General Budgetary Law, should include the following statements in their budgets:

- Operating account.
- Executive summary of the operating transactions.
- Statement on the working capital changes.
- Funding chart.

The content of these documents should be detailed by a Resolution issued by the Directorate General for Budgets.



## **VI. BUDGETARY STRUCTURE OF THE REMAINING ENTITIES OF THE STATE PUBLIC SECTOR**

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## **VI. BUDGETARY STRUCTURE OF THE REMAINING ENTITIES OF THE STATE PUBLIC SECTOR**

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In addition to the entities of state public sector with limited budget, there are entities with non-limited budget included in the General National Budget. According to the General Budgetary Law, the following entities shall be differentiated:

- Semi-commercial public entities
- State commercial enterprises
- State public entities different from autonomous bodies or semi-commercial public entities.
- Foundations of the State public sector.
- Consortia bearing a legal personality, when the State contribution that are mostly allocated from the General State Budget.
- Funds that lack a legal personality which are mostly allocated from the General State Budget, mentioned in the article 2.2 of the General Budgetary Law.

These entities shall draw up operating and capital budgets that should consist of a forecast of the profit and loss account and the state of the cash flows for the respective financial year, according to the article 64 of the General Budgetary Law.

A forecast of the entity's balance sheet should be attached as an annex to these budgets. The entities shall submit the financial statement mentioned in the

previous paragraph, besides those for the financial year relating to the General Budget Bill, the settlement of the last year closed and the preview of the settlement of the current year.

The entities should submit:

- A report explaining their content, the execution of the previous year and the expected execution of the current year.
- A description of the public investments that shall be carry out during the financial year.
- Multiannual programmes.

Finally, there are special formats taking into account the special characteristics of some entities included in the public sector, such us credit and ensurance entities.



## **VII. CONTENTS OF THE GENERAL NATIONAL BUDGET LAW**

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## **VII. CONTENTS OF THE GENERAL NATIONAL BUDGET LAW**

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The contents of the annual General National Budget Law are regulated in the General Budgetary Law. According to the article 37, the bill for the General State Budget is composed of articles, annexes and statements on revenues and expenditure with the degree of detail on credits required by the metioned Law. In addition, the bill for the General State Budget shall be accompanied by additional data.

### **1. ARTICLES**

In accordance with the structure of the latest years, the Law is divided into eight sections, annex and provisions.

## ARTICLES OF THE NATIONAL GENERAL BUDGET LAW

### STATEMENT OF REASONS

#### SECTION I. On the Budget approval and its modification

Chapter I Initial credits and their funding  
Chapter II Rules to modify and execute the budgetary credits  
Chapter III On the Social Security

#### SECTION II. On the budgetary management

Chapter I Budgetary management of education  
Chapter II Budgetary management of Health and Social Services  
Chapter III Other budgetary management rules

#### SECTION III. Staff expenditure

Chapter I Increase of the staff expenditure  
Chapter II On the payment system  
Chapter III Other rules regarding the public staff

#### SECTION IV. On the public pensions

#### SECTION V. On the financial transactions

Chapter I Public Debt  
Chapter II State guarantees  
Chapter III On the relation of the State and the Official Credit Institute

#### SECTION VI. Tax rules

Chapter I Direct taxes  
Chapter II Indirect taxes  
Capítulo III Other taxes

#### SECTION VII. On the subcentral government

Chapter I Local Authorities  
Chapter II Autonomous Communities

#### SECTION VIII. Social contributions

### PROVISIONS AND ANNEXES

The content of this law can be summarized as follows:

### **Section I. On the budget approval and its modification**

This section describes the subjective scope of the General National Budget and the rules that approve the statements of revenues and expenditures, as well as an estimation of the fiscal benefits that involve state taxes.

The annual and specific rules concerning the modification and execution of the budget credits, budget limits and binding credits that are in force during the year.

Finally, different aspects of the Social Security Budget are regulated in this law, as well as the funding of the medical care through the budget of the National Institute of Health, the State contributions to the National Institute of Migrations and Social Services and to the Marine Social Institute and the state contribution to finance the supplements for the minimum pensions.

### **Section II. On the budgetary management**

This section contains budgetary management rules for the Education, Health and social services and other budget management rules, such as regulations for the National Institute of Health and the National Institute of Migrations and Social Services.

### **Section III. On the staff expenditure**

The rules concerning the public staff expenditure appear in this section. Among other issues, it contains the modification on public sector wages, the authorisation for the annual replacement rate for public employees, wage's regulation on the highest posts of the Government, staff of advisory bodies and, in general, staff of the State Public Sector and rules for specific staff (Army, National Police, judges, etc).

#### **Section IV. On the public pensions**

This section provides public pension's rules on both systems the Social Security and public employee's pensions: the initial amount of the pensions, increase and adjustment limits, regulation on the supplements for the minimum pensions.

#### **Section V. On the financial transactions**

The amount of the debt transaction's authorization for the State and Public bodies. With regard to the State debt, the authorization is referred to the increase amount of the outstanding balance on the 31 of December. In addition, the total amount of guarantees provided by the state and public bodies are fixed in this section.

#### **Section VI. Tax rules**

This section includes the annual regulations on taxes that may affect the specific tax laws.

#### **Section VII. On the subcentral Government**

This section contains rules in relation to the funding of Local Authorities and Autonomous Communities.

#### **Section VIII. Social contributions**

This section provides the regulation on the taxable incomes and the rates of the different Social Security regimes.

## **2. NUMERICAL DATA**

The numerical statements of revenues and expenditure are composed of the following:

- a) The maximum financial obligations that can be recognized by the subjects included in the administrative public sector and bodies with a separate allocation, as well as the rights to be recognized during the relevant year.
- b) Revenues, expenditures, and investment and financial operations to be performed by the entities included in the semmi-commercial public sector and the public foundation sector.
- c) Financial transactions of the funds which are lack of legal personality that are mostly allocated from the National General Budget.

## **3. COMPLEMENTARY DATA**

In addition to the articles and the numerical statements, the bill for the General National Budget shall be accompanied by the following additional documentation:

- Descriptive reports on spending programmes and their annual objectives.
- Explicative reports on the contents of each budget allocation, with specifications of the main modifications compared to the present budgets in force.
- An annex with an itemised financial breakdown by spending management centres.

- An annex of a multiannual nature for projects of public investment with a territorial classification.
- Execution of the previous year's budgets and a forecast of the execution of the current year.
- Accounts and balances of the Social Security system of the previous year.
- Consolidated financial statement of the budget.
- Economic and financial report.
- Report on fiscal revenue.

#### **4. DOCUMENTS SUBMITTED TO THE PARLIAMENT**

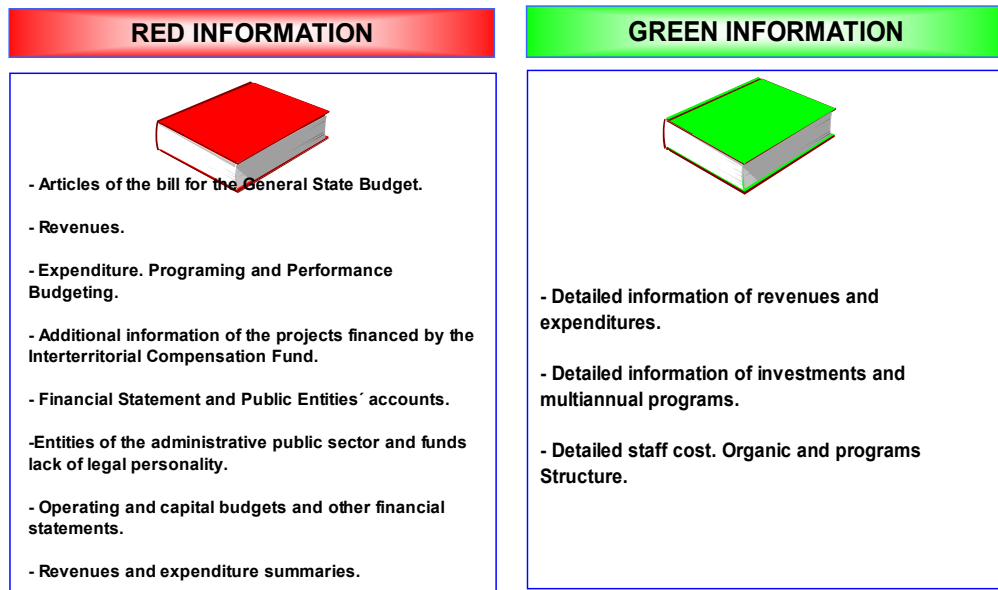
The abovementioned documentation is, in fact, vast and detailed. It can be found on the Internet through the official web of the Ministry of Economy and Finance ([www.meh.es](http://www.meh.es)).

To submit all these data to the Parliament and to make it easier to read, the documentation is presented in four groups identified by a colour:

- Red information: Essential information and numerical statements that constitute the State Budget Law, when approved by the Parliament.
- Green information: Additional details of the information given in the State Budget Law.
- Yellow information: Mandatory information on the presentation of the Budget plan to Parliament.
- Grey information: Additional non-mandatory information not included in the above groups, such as the Budget execution of the previous and current year.

The following charts give a general picture of these information.

Documentation submitted to the Parliament



Documentation submitted to the Parliament

