# Key features of the draft General State Budget for 2015

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**The 2015 draft budget supports fiscal consolidation efforts in the coming year. More favorable economic conditions, together with tax reform, are the major factors underpinning the assumptions of the current proposal.**

*The Popular Party has recently presented its 2015 budget proposal for parliamentary debate. As in previous years, the main objective of this year´s draft is fiscal consolidation. Despite existing challenges, fiscal performance has shown some improvement and is projected to remain on a consolidation path, given international consensus on an improved growth outlook. By 2016, the projected deficit is 2.8% of GDP – below the upper limit set by the EU. Although optimistic, revenue forecasts take into account the expected improvement in economic conditions, together with the anticipated effects of the tax reform that will enter into force in January 2015, with changes applicable, for the most part, to the individual and corporate income tax. On the expenditure side, the Government anticipates an overall cut of 1.5%* versus *2014, or 0.5% of GDP, supported by decreases in unemployment benefits and other benefits, together with a reduction in debt servicing costs.*



## Fiscal consolidation as the main objective

On Friday, September 30th, the Council of Ministers passed the draft 2015 General State Budget. This document sets out the distribution of the State's expenses and revenues, including those of the various ministerial departments, the social security system, autonomous agencies, and state-owned companies. As required by law, the figures in the draft are subject to debate in the two houses of parliament, the Congress and the Senate, during the final quarter of the year. After this process of discussion by parliamentary groups, the draft law should be passed in both houses before the end of 2014, incorporating any modifications to the original text arising from the debate. However, given the Popular Party's absolute majority in both houses, no substantial changes to the draft are expected. This article aims to give an overview of public income and expenditure projections for the coming year.

The 2015 budget is the third the People's Party government has prepared since the elections held on November 20th, 2011. As in previous years, the budget's stated priority is to consolidate the public accounts. After several years of effort, the general government deficit dropped from 8.9% to 6.3% between 2011 and 2013 (measured in SEC-2010 terms). In 2013, the objective of meeting the 6.5% target set by the European Union

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was achieved. Although the policies applied continue to yield fruit in terms of shoring up public finances, consolidation is turning out to be very challenging for three main reasons. Firstly, the economic situation in the last few years. GDP growth from 2011 to 2013 was 0.1%, -1.6%, and -1.2%. Secondly, the sharp drop in the tax base.

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Households' gross income changed by 0.4%, -4.4%, and -1.2% in the years 2011 to 2013. Over this same period, the change in final spending, subject to VAT, was -5.8%, -4.5%, and -4.6%. And finally, the sharp rise in unemployment benefits and debt interest. Budgeted unemployment benefit payments for 2015 come to 25,300 million euros (the figure in 2007 was 14,470 million euros). Likewise, debt interest is forecast to cost 35,490 million euros in 2015 (compared with 15,925 million euros in 2007). The scale of these two items, which in 2015 accounted for 5.56% of GDP, will be directly related to the Spanish economy's high unemployment rate (22.9% in 2015 compared with 8.3% in 2007), and the rising general government debt (which is set to reach 101.7% of GDP in 2015, compared to 36.2% in 2007).

Table 1 shows the deficit targets for all levels of government –central government, autonomous regions, local government, and the social security system– for the coming years. The forecasts set a target of -4.2% in 2015, -2.8% in 2016 and -1.1% in 2017. As can be seen, most of the 2015 deficit corresponds to the central government, as local authorities are projected to balance their budgets. The information in the table suggests that in 2016, a public deficit of less than 3% will be reached, thus complying with the upper limit set in the convergence criteria. Similarly, the forecasts suggest that 2016 will be the first year since the start of the crisis in which the level of public debt begins to fall, dropping from 101.7% in 2015 to 101.5% in 2016 and 98.5% in 2017. The growth forecasts set in the macroeconomic table support this process of fiscal consolidation, with expected GDP growth rates of 1.3% in 2014 and 2.0% in 2015. The expected improvements in the Spanish economy have been noted by the International Monetary Fund (IMF), which has doubled its growth forecast for the Spanish economy in just six months. Its latest estimates for 2014 and 2015, included in the October edition of *World Economic Outlook,* are 1.3% and 1.7%, respectively. The government's forecasts have been backed by the Independent Fiscal Responsibility Authority (AIREF), which considers them, overall, to be realistic.[3] The aforementioned official estimates

Table 1
**Forecast public deficit trends 2014-2017**

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| 1. Central Government | -3.5 | -2.9 | -2.2 | -1.1 |
| 2. Autonomous Regions | -1.0 | -0.7 | -0.3 | 0.0 |
| 3. Local Authorities | 0.0 | 0.0 | 0.0 | 0.0 |
| 4. Social Security System | -1.0 | -0.6 | -0.3 | 0.0 |
| TOTAL General Government | -5.5 | -4.2 | -2.8 | -1.1 |

*Source: Draft General Budget 2015.*

[3] Since 2013, the Independent Fiscal Responsibility Authority (AIREF) has been responsible for supervising the budget cycle and the Spanish economy's growth forecasts.

are identical to the Funcas´ (Spanish Savings Banks Foundation) panel estimates, based on an average of the projections by 18 reputable research departments from academia and the corporate world.

## Income forecasts

The government estimates total non-financial revenues of 205,988 million euros in 2015, 90.3% of which will be tax revenue. Tax revenue is expected to grow compared to the 2014 settlement preview by 5.4% (186,112 million euros). As Table 3 shows, tax revenue is expected to rise by 5.4% in 2015, or 9,485 million euros.[4] Of this figure, 4,044 million euros (42.5%) will come from VAT, 3,988 million euros (42.0%) from corporate income tax, and 837 million euros from excise duties (8.8%). Particularly noteworthy is the fact that VAT collection is expected to reach a record since this tax was introduced in the Spanish tax system in 1986. In the case of personal income tax (IRPF, in its Spanish initials), the government anticipates a drop of 0.6% in revenues, as against an increase of 20% in corporate income tax (as we shall see below, both of these taxes are due to be reformed in 2015).

The revenue forecasts have taken into account the interrelation between the following two factors: (i) the improved economic situation; and, (ii) the tax reform that will come into effect in January 2015, although it will not be completed until 2016. As regards the economic cycle, aggregate demand is expected to grow by 2.5% in 2015, compared with 1.6% in 2014 and -2.3% in 2013. Thus, as Table 2 shows, both the unemployment rate (dropping by 1.8 points from 24.7% to 22.9%) and compensation of employees will improve in 2015. Nevertheless, the aforementioned 5.4% increase in tax revenue looks optimistic if we bear in mind that it is twice the forecast growth in aggregate demand or GDP, which would suggest that the Spanish tax system's revenues are highly elastic

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Table 2

**Forecasts and macroeconomic context on which the state budget for 2015 is based**

| Real change in % | 2013 | 2014 | 2015 |
|---|---|---|---|
| Nominal GDP | -1.2 | 1.3 | 2.0 |
| Private final consumption | -2.3 | 2.0 | 2.1 |
| Internal demand | -2.3 | 1.6 | 2.5 |
| Exports of goods and services | 4.3 | 3.6 | 5.2 |
| Imports of goods and services | -0.5 | 4.4 | 5.0 |
| Compensation per employee | 1.7 | 0.8 | 1.0 |
| Unemployment rate | 26.1 | 24.7 | 22.9 |
| GDP deflator | 0.7 | 0.1 | 0.6 |

*Source: Draft General Budget 2015.*

[4] In the absence of fiscal reform, the growth in tax revenues would be 7.6% compared with the 5.4% envisaged in the budget.

Table 3

**Forecast collections in 2015**

**(million euros)**

| | Advance settlement 2014 | Budget 2015 | Change (%) | Change (Euros) |
|---|---|---|---|---|
| 1. **TAX REVENUES** | 176,627 | 186,112 | 5.4 | 9,485 |
| Personal income tax | 73,415 | 72,957 | -0.6 | -458 |
| Non-resident income tax | 1,332 | 1,530 | 14.9 | 198 |
| Corporate income tax | 19,589 | 23,577 | 20.4 | 3,988 |
| VAT | 56,216 | 60,260 | 7.2 | 4,044 |
| Excise duties | 19,057 | 19,894 | 4.4 | 837 |
| Other tax revenue | 7,018 | 7,894 | 12.4 | 876 |
| 2. **NON-TAX REVENUES** | 25,034 | 19,876 | -20.6 | -5,158 |
| 3. **TOTAL NON-FINANCIAL INCOME** | 201,661 | 205,988 | 2.1 | 4,327 |

*Source: Draft General Budget 2015.*

with respect to the economic cycle – a conclusion not currently supported by existing empirical work. The second factor noted is the entry into force of the personal income and corporate income tax reform, the outlines of which are sketched out below.[5] The aim of this reform is to help consolidate the change in cycle begun in 2014, thereby reducing the burden on taxpayers of both taxes in order to stimulate economic growth.[6]

As Table 4 shows, the total cost of the reform during its two years of implementation will be 9,059 million euros. Of this figure, a third corresponds to corporate income tax (IS in its Spanish initials) and the remainder to personal income tax (IRPF). IRPF reform will cost 3,366 million euros in 2015 and 2,615 million euros in 2016. In the case of corporate income tax, the cost to revenues is basically concentrated in the second year, rising from 437 million euros in 2015 to 2,641 million euros in 2016. However, a slightly lower impact on revenues may be expected if we take into account the fact that the tax cut will boost growth through household consumption and business investment. In this respect the government has estimated that the overall cost of the reform could be reduced to 6,900 million euros.

Table 4

**Distribution of expected cost of the tax reforms**

**(millions of euros)**

| Tax types / years | 2015 | 2016 | Total |
|---|---|---|---|
| Personal income tax | 3,366 | 2,615 | 5,981 |
| Corporate income tax | 437 | 2,641 | 3,078 |
| Total | 3,803 | 5,256 | 9,059 |

*Source: Draft General Budget 2015.*

[5] In addition, the government has postponed the abolition of the wealth tax, which was due to take place in 2015.

[6] The structure of the value-added tax and excise duties will remain unchanged. However, as a result of the ruling by the European Court of Justice, as of January 2015, the tax rate on intermediate goods used in the production of medicinal products, diagnostic medical equipment, and medical apparatus will be raised from 10% to 21%.

IRPF reform will basically operate on four fronts. Firstly, the system will be changed and the amounts applicable as deductions for earned income will be modified. Secondly, the number of tax brackets for earnings will be cut from seven to five. Thus, as Table 5 shows, the minimum marginal rate taxpayers will pay will drop from 24.75% to 19% in 2016.[7] The highest marginal rate will also be cut, from 52% in 2014 to 45% in 2016. The number of earned income tax brackets will remain unchanged, but they will be made wider and the marginal rates will be cut. Table 4 shows how the distribution of the marginal rate for small savers will drop over two years from 21% to 19%. At the same time, the marginal rate for large savers will go from 27% to 23%. Thirdly, the value of the individual and family exemptions will increase, although this will not produce a fiscal saving, as the lowest marginal rate for both earned and unearned income has been cut. For example, the individual exemption will rise by 30%, although the fiscal saving produced is just 164.87 euros, as this goes from 1,274.87 euros (0.2475 x 5,151 euros ) to 1,110 euros (0.20 x 5,550 euros). Finally, the reform aims to encourage long-term saving. The effects of IRPF reform and its impact on household incomes will begin to be noticeable in 2015 through the reduction in the withholdings on earned income and investment income.

Table 5

**Changes in IRPF tax rates and individual and family exemption allowances**

| | 2015 | 2016 | Total |
|---|---|---|---|
| **Rates** | | | |
| General[1] | (7 brackets) Minimum: 24.75%; Maximum: 52% | (5 brackets) Minimum: 20%; Maximum: 47% | (5 brackets) Minimum: 19%; Maximum: 45% |
| Saving | (3 brackets) 21% from 1 to 6,000 25% from 1 to 24,000 27% for >24,000 | (3 brackets) 20% from 1 to 6,000 22% from 1 to 50,000 24% for >50,000 | (3 brackets) 19% from 1 to 6,000 21% from 1 to 50,000 23% for >50,000 |
| **Allowances** | | | |
| Individual | 5,151 | 5,550 | |
| First child | 1,836 | 2,400 | |
| Second child | 2,040 | 2,700 | |
| Third child | 3,672 | 4,000 | |
| Subsequent children | 4,182 | 4,500 | |
| Child < 3 years | 2,244 | 2,800 | |
| Relative >65 | 918 | 1,150 | |
| Relative >75 | 2,020 | 2,550 | |
| Disability >33% <65% | 2,316 | 3,000 | |
| Disability <65% and reduced mobility | 4,632 | 6,000 | |
| Disability >65% | 9,354 | 12,000 | |

*Note: [1] As sum of State and regional rates.*

*Source: Draft General Budget 2015.*

[7] Adding the State and regional rates.

Table 6

**Changes in corporate income tax rates**

| Categories | 2014 | 2015 | 2016 |
|---|---|---|---|
| Standard rate | 30% | 28% | 25% |
| SME rate | 25% (Tax base up to €300,000)<br>30% (Remaining tax base) | 25% (Tax base up to €300,000)<br>28% (Remaining tax base) | 25% |
| Rate for new start-ups | 15% (Tax base up to €300,000)<br>20% (Remaining tax base) | | |

*Source: Draft General Budget 2015.*

In the case of corporate income tax, the reform's changes basically comprise: (i) lower tax rates, to bring the nominal rate closer to the effective average rate, while at the same time eliminating most of the deductions; (ii) creation of two reserves, allowing companies to reduce their tax burden; and, finally, (iii) limiting the offsetting of losses. As Table 6 shows, the general rate will be cut by five points over two years, from 30% in 2014 to 25% in 2016. As of 2016, there will be no special scheme for SMEs (net turnover less than 10 million euros such that the general 25% rate will apply to them. The reform envisages creating two new reserves referred to as the capitalisation and balancing reserves. The capitalisation reserve is the result of applying a reduction to the tax base equivalent to 10% of the increase in equity–this reserve will be unavailable for five years unless there are losses. Additionally, SMEs can make use of the balancing reserve, setting aside an annual maximum of 10% of the tax base up to a maximum of a million euros. The purpose of the reserve is to offset tax losses in the following five years. If there are no losses, the reserve will be taxed along with the rest of the company's earnings. Lastly, the reform changes how losses are offset by establishing a general system of 60% of the tax base, up to a maximum of 1 million euros, although with no time limit on application (the limit in 2014 is 18 years).[8]

## Public spending: On the path to fiscal consolidation

Table 7 shows the consolidated general state budget, containing the forecast expenditures of the central government, the social security system, the autonomous agencies, and state agencies. The 2015 budget will continue along the path of fiscal consolidation, reducing spending from 353,218 million euros in 2014 to 347,839 million euros in 2015. This reduction is equivalent to 0.5% of GDP (5,379 million euros). The total for chapters I to VII (current and capital expenditures) is set to rise by 1,412 million euros in 2015, although this figure is largely offset by the variation in financial assets, which will be reduced by 8,147 million euros. The central government will account for 45.7% of consolidated spending, the social security system for 39.1%, and the remaining 15.2% will be managed by autonomous agencies, state agencies, and other public

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sector bodies. The biggest items are pensions (131,658 million), transfers to the autonomous

[8] This limitation on both the amounts and timing for the compensation of tax loss carryforwards deepens the changes introduced in 2011 and 2012.

Table 7
**Consolidated state expenditure budget (Chapters I to VIII) Breakdown by spending policy**
**(millions of euros)**

| Chapters | Initial budget 2014 | Weight (%) | Initial budget 2015 | Weight (%) | Change (%) |
|---|---|---|---|---|---|
| **1. Basic public services** | | | | | |
| **Total** | **16,355.0** | **4.6** | **16,476.3** | **4.7** | **121 (0.7)** |
| (Justice, defence, citizen security, and foreign policy) | | | | | |
| **2. Social protection and welfare** | | | | | |
| **Total** | **179,340** | **50.8** | **180,524.1** | **51.9** | **1,184 (0.7)** |
| Pensions | 127,483.8 | 36.1 | 131,658.9 | 37.9 | 3.3 |
| Unemployment | 29,727.5 | 8.4 | 25,300.0 | 7.3 | -14.9 |
| Other benefits, | 22,128.7 | 11.3 | 23,565.2 | 6.7 | -41.2 |
| **3.Public and merit goods** | | | | | |
| **Total** | **6,710.0** | **1.9** | **6,883.6** | **2.0** | **173 (2.6)** |
| Health | 3,817.1 | 1.1 | 3,861.5 | 1.1 | 1.2 |
| Education | 2,175.0 | 0.6 | 2,273.0 | 0.7 | 4.5 |
| Culture | 717.9 | 0.2 | 749.0 | 0.2 | 4.3 |
| **4. Economic measures** | | | | | |
| **Total** | **28,030.1** | **7.9** | **30,374.3** | **8.7** | **2,344 (8.4)** |
| Farming, fishing and food | 7,680.5 | 2.2 | 8,579.9 | 2.5 | 11.7 |
| Energy and industry | 5,777.7 | 1.6 | 6,027.7 | 1.7 | 4.3 |
| Tourism, trade and SMEs | 936.2 | 0.3 | 963.3 | 0.3 | 2.9 |
| Transport subsidies | 1,255.7 | 0.4 | 1,339.4 | 0.4 | 6.7 |
| Infrastructure | 5,453.5 | 1.5 | 6,141.0 | 1.8 | 12.6 |
| R&D and innovation | 6,104.2 | 1.7 | 6,395.4 | 1.8 | 4.8 |
| Remainder | 822.0 | 0.2 | 927.4 | 0.3 | 12.8 |
| **5. General measures** | | | | | |
| **Total** | **114,978.5** | **32.6** | **113,580.7** | **32.7** | **-1,398 (-1.2)** |
| Transfers to other public administrations | 45,988.7 | 13.0 | 47,161.8 | 13.6 | 2.6 |
| General Government Debt | 36,590.0 | 10.4 | 35,490.0 | 10.2 | -3.0 |
| Remainder | 32,399.8 | 8.8 | 30,928.9 | 8.8 | -4.5 |
| **TOTAL CHAPTERS I to VIII** | **353,218.8** | **100.0** | **347,839.2** | **100.0** | **-5,379 (-1.5)** |

*Source: Draft General Budget 2015.*

regions[9] and local authorities (47,161 million euros), debt interest (35,490 million euros), and unemployment benefits (25,300 million euros). Specifically, pensions, debt interest, and unemployment benefits make up 55.3% of the consolidated expenditure budget.

[9] In Spain, the autonomous regions are responsible for health and education spending.

Staff costs account for 6.2% of consolidated state expenditure and are set to grow by 1.4% in 2015 (294 million euros). This change is against the backdrop of a five-year salary freeze. The rise is partly due to the fact that the courts have ordered Christmas bonuses to be repaid to employees. The increase in the replacement rate in certain public services, such as education, health, police, the armed forces, fire-brigade, tax inspectorate, will also push staff costs up slightly. Total investment by the central government grew for the first time since the start of the crisis, rising from 12,090 million euros in 2014 to 13,103 million euros in 2015. This latter figure is a long way short of public investment in 2008, which came to 31,503 million euros. A large share of investment in 2015 was devoted to rail infrastructure, with a disbursement of 3,999 million euros (30% of total investment).

## State budget

In 2015, central government expenditure under Chapters I to VIII will be 190,918 million euros (54.8% of consolidated spending). A 5.9% spending cut is being aimed for in 2015, totalling 12,065 million euros. As Table 8 shows, 38.9% of this figure is spending through all ministries, while the remaining 62.2% basically corresponds to debt interest payments (21.9%), transfers from the central government to the autonomous regions and local authorities (20.3%), civil service pensions (8.1%), and European Union financing (8.0%). The total spending managed by the ministries will continue to fall. The cut in 2015 will be 5.1%, with a drop from 66,335 million euros to 62,946 million euros. This is an adjustment of 3,389 million euros, on top of an approximately 19 billion euros cumulative cut in the 2012 to 2014 budgets. This adjustment to the 2015 State budget has played a key role in reducing the expenditure of the Ministry of Employment and Social Security (MESS), which is responsible for paying unemployment benefits through the State employment service (4,118 million euros). To this end it should be borne in mind, as Table 8 shows, that it is the MESS that is in charge of managing the largest volume of public resources (35.6%), followed at a distance by the Ministries of the Interior (11.7%), Defence (9.15%), Industry, Energy, and Tourism (9.1%), and Public Works (7.9%). The ministries in which spending has grown most are Agriculture, Food and Environment (14.0%), Industry, Tourism and Energy (11.3%), and Foreign Affairs (4.9%). By contrast, the biggest reductions are in Employment and Social security (-15.5%) and Public Works (-14.2%). In 2015, debt interest will account for spending of 35,490 million euros, equivalent to 3.24% of GDP (3.43% in 2014). Financial charges in 2015 have been calculated in a scenario where total general government debt will reach a record figure of 101.7% (97.6% in 2014). The government expects the level of debt to start falling from 2016 onwards, dropping below 100% in 2017. Nevertheless, the volume of debt will grow more slowly than between 2010 and 2013, as it will not be affected by payments into funds, such as the electricity system deficit amortisation fund, the financial assistance program for bailed-out countries, or the recapitalisation of the Spanish financial system. In any event, the Public Treasury's net debt will come to 47 billion euros in 2015, basically met by issuing bonds (93.6%).

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The downward trend in debt yields has limited the growth in interest. Specifically, the nominal yield on ten-year Spanish government bonds traded on the secondary market has dropped between January and September 2014 by 200 basis points, to 2.04%.[10]

[10] After reaching a record spread over the German bond, at a maximum of 630 basis points in July 2012, in late October 2014, the spread was around 120 basis points.

Table 8

## State expenditure budget (Chapters I to VII) Breakdown by sections

(millions of euros)

| Chapters | Initial budget 2014 | Weight (%) | Initial budget 2015 | Weight (%) | Change (%) |
|---|---|---|---|---|---|
| **Constitutional bodies** | | | | | |
| Royal household, Parliament, National audit office, Constitutional court, etc. | 361.6 | 0.2 | 358.5 | 0.2 | -0.9 |
| **General Government Debt** | | | | | |
| Debt interest | 36,590 | 22.2 | 35,490.0 | 21.9 | -3.0 |
| **Civil Service Pensions** | | | | | |
| Civil service pensions | 12,643.0 | 7.7 | 13,184.89 | 8.1 | 4.3 |
| **Ministries** | | | | | |
| Foreign Affairs | 994.5 | 0.6 | 1,043.3 | 0.6 | 4.9 |
| Justice | 1,460.95 | 0.9 | 1,474.9 | 0.9 | 1.0 |
| Defence | 5,739.8 | 3.5 | 5,764.8 | 3.6 | 0.4 |
| Treasury and other public administration bodies | 2,139.7 | 1.3 | 2,184.7 | 1.3 | 2.1 |
| Interior | 7,294.9 | 4.4 | 7,421.2 | 4.6 | 1.7 |
| Public Works and Transport | 5,805.0 | 3.5 | 4,979.5 | 3.1 | -14.2 |
| Education, Culture and Sport | 2,680.2 | 1.6 | 2,759.6 | 1.7 | 3.0 |
| Employment and Social Security | 26,539.9 | 16.1 | 22,421.4 | 13.8 | -15.5 |
| Industry, Energy and Tourism | 5,157.1 | 3.1 | 5,740.5 | 3.5 | 11.3 |
| Agriculture, Food and Environment | 1,613.0 | 1.0 | 1,839.5 | 1.1 | 14.0 |
| Prime minister's office | 422.4 | 0.3 | 442.0 | 0.3 | 4.6 |
| Health, Social Services and Equality | 1,907.4 | 1.2 | 1,919.4 | 1.2 | 0.7 |
| Economy and Competitiveness | 2,338.7 | 1.4 | 2,314.7 | 1.4 | -1.0 |
| Spending by various ministries | 2,241.9 | 1.4 | 2,640.2 | 1.6 | 17.8 |
| Total for all Ministries | 66,335.7 | 40.2 | 62,946.5 | 38.9 | -5.1 |
| Other financial relationships with territorial bodies | 997.9 | 0.6 | 994.1 | 0.5 | -0.4 |
| Inter-territorial compensation fund | 582.4 | 0.4 | 582.4 | 0.4 | 0.0 |
| Financial relationships with the EU | 13,083.2 | 7.9 | 12,921.9 | 8.0 | -1.1 |
| Contingency fund | 2,665.1 | 1.6 | 2,581.2 | 1.6 | -3.2 |
| System of financing for local and regional authorities | 31,589.5 | 19.2 | 32,932.6 | 20.3 | 4.3 |
| **Total for Chapters I to VII** | 164,848.6 | 100.0 | 161,992.2 | 100.0 | -1.7 |

*Source: Draft General Budget 2015.*

## Social Security budget

Continuing the trend from previous years, social security spending will continue to rise until it reaches 136,117 million euros. The figure will increase by 3.3% from its 2014 level due to the rising numbers of pensioners, new pensioners' larger average pension, and the 0.25% rise in existing pensions.[11] The main expense items in the 2015 social security budget are those for contributory retirement pensions, which consume 89.9% of total resources. Contributions make up the main source of finance, paying for 80.7% of the total budget (109,833 million euros). The central government contributes to financing the Social Security System's spending, through a contribution of 13,186 million euros (9.7%). The bulk of this contribution (7,563 million euros) is earmarked to cover top-ups for minimum pensions. For example, in 2015 the minimum monthly pension for people over 65 with a spouse will be 782.5 euros and the survivor's pension for those over 65 will be 634.5 euros.

The government anticipates a sharp rise in social security contribution revenue in 2015, with a change of 6.8%. Three hypotheses have been used to formulate these estimates. Firstly, the growth in the number of social security contributors (both employees and self-employed) over the course of 2014 will be sustained through 2015. In the general scheme, 457,124 new members were registered between January and September 2014, compared with 154,681 during the same period in 2013. Secondly, it is anticipated that workers' average compensation in 2015 will be somewhat more favourable than in 2014 (the expected growth for 2015 is 1%, compared with 0.8% forecast for 2014). And finally, the unemployment rate is expected to drop from 24.7% in 2014 to 22.9% in 2015. In short, the expected growth in contributions revenue is based on improvements in employment and wages, as there will be no substantial changes in contributions (only a 0.25% increase in the contributions ceiling).

## Budget for autonomous and state agencies

Alongside the central government and the Social Security System, there is another group of entities (autonomous agencies and state agencies) whose budgets form part of the general state expenditure budget. These are bodies that provide a wide range of services, and include the tax collections agency, the public employment

Table 9

**Breakdown of the main social security expenditure items**

| Items | Initial budget 2014 | Weight (%) | Initial budget 2015 | Weight (%) | Change (%) |
|---|---|---|---|---|---|
| Sum total of revenues under Chapters I to VIII | 131,831.4 | -- | 136,117.0 | -- | 3.3 |
| Current transfers | 125,318.8 | 100.0 | 128,615.4 | 100.0 | 2.6 |
| Contributory pensions | 112,102.6 | 89.5 | 115,669.2 | 89.9 | 3.2 |
| Non-contributory pensions | 2,166.1 | 1.7 | 2,242.5 | 1.7 | 3.5 |
| Temporary incapacity | 4,878.3 | 3.9 | 4,942.7 | 3.9 | 1.3 |
| Maternity, pregnancy and breastfeeding | 2,177.9 | 1.7 | 2,098.2 | 1.6 | -3.7 |
| Care for dependent adults | 1,092.5 | 0.9 | 1092.2 | 0.8 | 0.0 |
| Other transfers | 2,901.2 | 2.3 | 2570.4 | 2.0 | -11.4 |

*Source: Draft General Budget 2015.*

[11] The number of pensioners grew by 69.4 thousand between December 2013 and September 2014. Likewise, in August 2014, the average monthly retirement pension passed the 1,000 euros barrier for the first time (1,001.9 euros with a year-on-year growth of 2%).

Table 10

**Budget for state employment service programmes**

| Programmes | Budget Initial 2014 | Weight (%) | Initial budget 2015 | Weight (%) | Change (%) |
|---|---|---|---|---|---|
| Benefits for termination of activity (self-employed persons) | 23.5 | 0.1 | 19.8 | 0.1 | -15.7 |
| Promoting labour market access and job stability | 4,041.5 | 11.9 | 4,712.1 | 15.6 | 16.6 |
| Unemployment benefits | 29,727.5 | 87.6 | 25,300.0 | 83.6 | -14.9 |
| Internal transfers | 124.17 | 0.4 | 213.7 | 0.7 | 72.2 |
| TOTAL | 33,916.8 | 100.0 | 30,245.7 | 100.0 | -10.8 |

*Source: Draft General Budget 2015.*

service, and the national meteorological office. In 2015, the aggregate expenditure of this group of bodies came to 55,652 million euros, with an increase of 3% between 2014 and 2015. The national employment office will be in charge of managing the bulk of these resources, which are basically used to pay both contributory unemployment insurance and welfare benefits. The 2015 budget will devote a total of 25,300 million euros to this item (around 4.4 billion euros less than in 2014 due to the 1.8 point drop in the unemployment rate). Contributory unemployment insurance will come to 16,385 million euros (1.010 million beneficiaries), while spending on non-contributory benefits will be 6,482 million euros (1.148 million beneficiaries).