

26 March, 2015

Excessive Deficit Procedure

Rectified – page 4 chart (March 27, 17H00)

1st notification 2015

Excessive Deficit Procedure (1st notification for 2015)

According to EU regulations, Statistics Portugal is sending to Eurostat, until the end of the current month, the first notification for 2015 related to the Excessive Deficit Procedure (EDP). Table 1 of the notification, presented below, summarizes the main results for the period 2011-2015.

Table 1: Reporting of government deficit/surplus and debt levels and provision of associated data

Member State: Portugal Data are in millions of euros Date: 26/03/2015	ESA 2010 codes	2011	2012	2013	2014	2015
		Final	Final	Half-finalized	Half-finalized	Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	S.13	-12 967,5	-9 450,1	-8 180,9	-7 822,3	-4 860,1
- Central government	S.1311	-13 162,5	-10 583,0	-9 004,2	-9 050,5	-6 719,4
- Local government	S.1313	- 242,5	818,9	400,6	445,2	924,3
- Social security funds	S.1314	437,5	314,0	422,6	783,0	935,0
General government consolidated gross debt						
Level at nominal value outstanding at end of year		195 689,6	211 784,3	219 644,6	225 280,4	223 603,0
<i>By category:</i>						
Currency and deposits	AF.2	10 143,0	9 388,1	10 490,6	14 922,1	
Debt Securities	AF.3	123 921,9	116 797,1	114 402,5	110 750,1	
Short-term	AF.31	12 027,0	13 025,4	7 411,7	12 681,5	
Long-term	AF.32	111 894,9	103 771,8	106 990,8	98 068,6	
Loans	AF.4	61 624,7	85 599,1	94 751,5	99 608,2	
Short-term	AF.41	4 486,0	2 948,7	2 415,0	1 661,2	
Long-term	AF.42	57 138,6	82 650,4	92 336,5	97 947,0	
General government expenditure on:						
Gross fixed capital formation	P.51	6 139,5	4 158,3	3 533,8	3 486,6	4 372,7
Interest (consolidated)	D.41 (uses)	7 604,4	8 214,4	8 318,6	8 580,3	8 886,3
Gross domestic product at current market prices	B.1*g	176 166,6	168 398,0	169 394,9	173 053,3	178 245,0
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-7,4%	-5,6%	-4,8%	-4,5%	-2,7%
General government consolidated gross debt on GDP		111,1%	125,8%	129,7%	130,2%	125,4%

Remarks:

(i) The results for 2014 do not include an impact in the General Government deficit due to the capitalization of Novo Banco by the Portuguese Resolution Fund. Considering that the sale of Novo Banco has not yet occurred, there is no sufficient information to have a final assessment of the capitalization operation (see box in the end of this press release).

(ii) Eurostat intends to revisit the current wording of the Manual on Government Deficit and Debt, in order to further clarify and ensure harmonized application by all Member-States, on the definition of the face value of the currency and deposits instrument, as the accumulated capitalization of the respective interest should be included in the gross debt of General Government. This clarification will be made in a permanent discussion forum of the European Statistical System which addresses methodological issues relevant for the compilation of the deficit and debt, leading to the revision of the General Government debt where applicable. In the case of Portugal the issue is the amount of capitalized interest on Savings Certificates, which has always been reported in Table 4 of the Excessive Deficit Procedure notification (attached to this press release) and is not included in the level of the General Government consolidated debt.

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As usual since 2006, the present notification was prepared under the Institutional Agreement in the field of General Government Statistics signed on the 10th of January 2006 between Statistics Portugal (National Accounts Department), the Portuguese Central Bank (Statistics Department) and Budget Directorate-General.

For 2014 and precedent years, the compilation of the Net lending / net borrowing is prepared by Statistics Portugal and the Gross Debt is compiled by the Portuguese Central Bank.

For the current year (2015), the estimates of Net lending / net borrowing and Gross Debt are a responsibility of the Ministry of Finance.

Under Council Regulation (EC) No. 473/2009 the notifications begin a joint work between national statistical authorities and Eurostat which, within a three weeks deadline, should examine the notifications and publish the final results for all Member States.

Comparing with the previous EDP notification, the figures for 2012 and 2013 were revised due to the incorporation of recently available data. The results referring to 2012 are now final, whereas those for 2013 have still a provisional nature. Regarding the revisions on 2012 these resulted from the incorporation of final and exhaustive information, which is now available for each unit that is classified inside General Government (GG) sector. The revisions for 2013 mainly reflect the incorporation of data from Simplified Corporate Information (IES). It should also be mentioned that GDP was revised since 2012 due to the compilation of the detailed and final results of the Annual National Accounts for 2012 as well as from the incorporation of final data for the general Government and international trade of goods and services for 2012 and the following years (see press release on Annual National Accounts 2012 also published today).

The following table details the revisions on net lending / net borrowing for 2012 and 2013, by subsector of General Government.

Unit: million euro	2012	2013
Net borrowing (-)/ net lending (+)		
General government	- 88,8	128,3
- Central government	- 139,9	105,9
- Local government	37,7	8,8
- Social security funds	13,4	13,5

In the compilation of GG net lending / net borrowing in National Accounts it is necessary to make several adjustments to Public Accounting data. Indeed, Public Accounting data is on a cash-basis, meaning that expenditures are recorded in the accounting period in which they are paid. On the contrary, in National Accounts, expenditure is recorded on an accrual-basis, that is, in the accounting period to which they refer to, regardless of whether their payment is made in a different period. Accordingly, payments referring to expenditure that is due to other periods are not considered. Another important adjustment is related to sector delimitation of GG. This sector includes entities which are not considered in Public Accounting, but belong to GG sector in National Accounts. Similarly, entities which are not part of GG sector from a National Accounts viewpoint but are included in Public Accounting are excluded. Finally, there are transactions that, according to the conceptual framework of the National Accounts, have a specific classification, notably in some cases where entities from the GG sector acquire shares from other entities, which are recorded as capital transfers and not as financial transactions, leading to the introduction of the corresponding adjustments.

The table below details the main adjustments for 2013 and 2014, presented in tables 2A, 2C and 2D of the Excessive Deficit Procedure notification attached to this press release, namely the Public to National Accounts adjustment.

	Unit: millions of euro	
	2013	2014
Balance in Public Accounting	-8.383,3	-6.945,1
Accrual adjustment and sector delimitation in National Accounts	835,9	3.512,6
Difference between paid and due interest	-290,8	-601,4
Other receivables:	-511,3	354,2
<i>Temporal adjustment to taxes and contributions</i>	37,2	137,2
<i>Others</i>	-548,6	217,0
Other payables:	968,6	365,4
<i>Expenditure already incurred but not yet paid</i>	1.003,8	567,1
<i>Others</i>	-35,3	-201,7
Other adjustments:	-800,0	-4.508,0
<i>Capital injections and debt assumptions</i>	-1.206,7	-5.122,2
<i>Others</i>	406,7	614,1
Balance in National Accounts	-8.180,9	-7.822,3

The net borrowing of GG in 2014 was 7,882.3 million euro (4.5% of GDP), corresponding to an improvement compared with the results observed in 2013 (8,180.9 million euro or 4.8% of GDP).

As it can be observed in the previous table, one of the main adjustments in 2014 in the balance of Public Accounting corresponds to the item "other adjustments" that includes 1.490 million of euro (0.86 percentage points of GDP for the

recording of the financing operations of the State to the public enterprises "Carris" and "STCP", to the *write-off of non-performing loans* by BPN Crédito, held by Parvalorem, S.A. and to the assumption of the guaranteed debt of Fundo de Contragarantia Mútuo. The remaining value corresponds to capital injections granted to corporations classified in GG sector reflected in the "accrual adjustment and sector delimitation in National Accounts" without impacting the net borrowing of GG.

The table below details the net lending/ net borrowing and the gross debt of (Regional and) Local Government (S1313). It is worth highlighting the positive balance exhibited by Regional Administration of Madeira in 2013 and 2014, following several years in which its balance was affected by extraordinary effects, such as the recording of a debt assumption corresponding to expenditure not recorded in previous periods.

Unit: million euro	2010	2011	2012	2013
Net borrowing (-)/ net lending (+)				
- Regional and Local Government	- 242,5	818,9	400,6	445,2 *
<i>Regional Government of Madeira</i>	- 725,3	- 204,3	80,3	89,2
<i>Regional Government of Azores</i>	- 104,5	- 80,7	- 8,6	- 4,6
<i>Local Government</i>	587,4	1 104,0	328,9	360,6
Gross Debt				
- Regional and Local Government	11 046,6	10 458,4	10 777,4	10 970,8
<i>Regional Government of Madeira</i>	4 058,3	4 117,7	4 290,9	4 468,3
<i>Regional Government of Azores</i>	1 057,6	1 146,5	1 262,1	1 398,9
<i>Local Government</i>	5 930,7	5 194,1	5 224,5	5 103,6

* By mistake the total value did not correspond to the sum of the items (corrected in 27/03/2015 at 17:00)

It is also worth noting that the transfers received by Central Government are considered in the compilation of Regional and Local Government net lending / net borrowing. In 2014, these corresponded to the following amounts, expressed in millions of Euros: Regional Government of Madeira, 191.7; Regional Government of Azores, 266.1 Local Government, 2433.8

These transfers are recorded as expenditure in Central Government, so that they consolidate in the General Government Account.

As far as gross debt is concerned, according to European legislation, the following clarifications are relevant: i) Trade credits are excluded; ii) Debt of public corporations not classified inside General Government is not considered; iii) Debt of municipalities and parishes located in the territory of the Autonomous Regions is included in Local Government.

Box: Treatment of the capitalization of *Novo Banco* in the General Government (GG) accounts

It should be recalled what has been published in the Quarterly National Sector Accounts press release of the 3rd quarter of 2014, published in 23 December of 2014:

"The *Novo Banco* (NB) was established on August 3, 2014 after the resolution of *Banco Espírito Santo S.A. (BES)*. The capital of NB is 4.9 billion euro, wholly owned by the Resolution Fund (FdR), an entity classified in the GG institutional sector. The NB is a public corporation and, given the nature of its activity, is classified in the Financial Corporations institutional sector. Considering there is the intention of selling NB following its capitalization by the FdR, if it occurs in a short period of time (less than one year), the two operations - capitalization and privatization - will have to be analyzed together, accordingly to the Manual on Government Deficit and Debt (MGDD), in the part of the Capital injections into public corporations. In this context, since the sale of NB did not occurred yet, there is not enough information to make a final assessment of the capitalization operation. Thus, for now, the capitalization operation will only be reflected in the financial accounts of GG without impact on the net borrowing.

It is worth mentioning the provisional nature of this treatment. The final recording, assuming that the sale of NB will occur in a short period of time and taking into account the information presently available, should be one of the following two possibilities:

- i) If the revenue from the sale of NB is equal to or greater than the amount of the capital injection, there will be no impact on the GG deficit.
- ii) If this revenue is lower, there will be a negative impact on the balance of GG corresponding to the difference between the amount of the capital injection and the value of the sale.

Finally, it should be noted that if the sale of NB does not occur in that brief period, the context of the analysis changes. In this situation, the capital injection in NB must be analysed within the broader framework of MGDD capital injections into public corporations: when a corporation in which there was injection of capital ensures a sufficient rate of return, it will be recorded a financial transaction without impact on the deficit; otherwise it will be recorded a capital transfer with impact on the GG deficit."

The results for 2014 do not include an impact due to the capitalization of Novo Banco by the Portuguese Resolution Fund. Considering that the sale of Novo Banco has not yet occurred, there is no sufficient information to have a final assessment of the capitalization operation.

It is worth mentioning the provisional nature of this recording that will be reassessed when new relevant information becomes available.