

23 April, 2011

Excessive Deficit Procedure

1st notification 2011 – Revised

Excessive Deficit Procedure: revision of the 1st notification of 2011

According to EU regulations, in 22nd April, Statistics Portugal sent out to Eurostat a revision of the first notification of 2011 of the Excessive Deficit Procedure (EDP). This revision determined an increase of the net borrowing and of the gross debt of General Government, respectively, of 0.5 and 0.6 percentage points of GDP comparing with the figures for 2010 of the initial notification. The table presented below summarizes the main results for the period 2007 to 2010.

Net borrowing and consolidated debt of General Government

Member State: Portugal Data are in millions of euros Date:31/03/2011	ESA 95 codes	Year			
		2007 Final	2008 Final	2009 Half-finalized	2010 Half-finalized
Net borrowing (-)/ net lending (+)	EDP B.9				
General government	S.13	-5 332.8	-6 081.0	-17 038.7	-15 782.6
- Central government	S.1311	-6 288.0	-7 031.0	-16 204.6	-16 175.7
- Local government	S.1313	- 431.3	- 697.1	-1 222.7	- 353.4
- Social security funds	S.1314	1 386.4	1 647.2	388.6	746.5
General government consolidated gross debt		Final	Final	Half-finalized	Half-finalized
Level at nominal value outstanding at end of year		115 587.1	123 108.4	139 944.5	160 470.1
<i>By category:</i>					
Currency and deposits	AF.2	13 678.9	12 925.3	12 288.0	11 707.4
Securities other than shares, exc. financial derivatives	AF.33	85 287.8	94 604.6	110 351.7	128 066.0
Short-term	AF.331	10 224.8	16 435.1	20 405.1	20 834.6
Long-term	AF.332	75 063.0	78 169.6	89 946.6	107 231.4
Loans	AF.4	16 620.4	15 578.4	17 304.8	20 696.6
Short-term	AF.41	3 257.1	2 213.7	1 726.1	3 039.9
Long-term	AF.42	13 363.3	13 364.8	15 578.8	17 656.7
General government expenditure on:					
Gross fixed capital formation	P.51	4 578.5	4 919.6	4 961.4	5 652.8
Interest (consolidated)	EDP D.41	4 977.8	5 188.4	4 871.7	5 195.0
p.m.: Interest (consolidated)	D.41 (uses)	5 084.0	5 311.2	4 903.8	5 241.1
Gross domestic product at current market prices	B.1*g	169 319.2	171 983.1	168 610.4	172 546.3
<i>Memorandum items:</i>					
Net lending (+)/Net borrowing (-) on GDP		-3.1%	-3.5%	-10.1%	-9.1%
General government consolidated gross debt on GDP		68.3%	71.6%	83.0%	93.0%

As mentioned in the Press Release of the initial notification of 31st March, under Council Regulation (EC) No. 479/2009, the notifications initiate 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. This revision is integrated in this context.

In the usual framework of the joint analysis of the technical aspects associated to the EDP notification, Statistics Portugal received in January a Dialogue Visit from Eurostat. In this mission it was possible to discuss in depth a significant set of aspects, some of which, given the complexity and volume of information, were left for later analysis with the aim that the October 2011 EDP notification could benefit from the results of that analysis.

Following the request for financial assistance from Portugal, there was a need to anticipate this schedule in order to compile stable figures for 2010, which constitute the starting benchmark figures for the ongoing negotiations. Statistics Portugal and Eurostat carried out an urgent analysis of those questions. All issues were clarified without the need for revisions, except one – the treatment of the contracts related to Public-Private Partnerships (PPP).

In fact, after detailed analysis of a large number of complex contracts, the conclusion was that three of them (two of which corresponding to renegotiated contracts of the ex-*SCUT*) do not have the nature of PPP contracts where the investment should be recorded in the balance sheet of the private partner. In those 3 contracts the payments of the users correspond to a significant proportion of the Central Government availability payment to the private partner.

This conclusion resulted from the dialogue with Eurostat since the guidelines of the Manual of Government Deficit and Debt in this respect (section VI.5) are not particularly explicit regarding the treatment of this type of contracts, which present an hybrid nature (i.e., in the case of construction of roads, contracts with tolls on the users). This issue is now fully clarified in agreement with Eurostat. The economic rationale is that when final users pay the majority of the cost of the service, the investment is to be recorded on the balance sheet of the institutional unit receiving these fees.

As government receives these tolls, this implies that the assets integrated in these contracts are considered as investment of the General Government, affecting in consequence the respective net borrowing. With an opposite effect on this balance in National Accounts, the component of future payments from the General Government intended to compensate the private counterpart for the investment, is not considered. Thus, comparing with the case where these contracts would be treated as PPP, this change leads to an increase in the deficit for the past and to a reduction in the future.

The following table shows the impacts of this change in the previous years:

Impacts on the balance and consolidated debt of
General Government

		2008	2009	2010
Balance	million €	-31	-99	-871
	% GDP	0.0	-0.1	-0.5
Debt	million €	31	130	1001
	% GDP	0.0	0.1	0.6