

## Quarterly Sector Accounts

1<sup>st</sup> quarter of 2014

### Net lending of the Portuguese economy decreased to 1.7% of GDP

In the first quarter of 2014, Gross National Income and GDP at current prices increased by 0.2% and 0.3%, respectively. The gross savings of the economy increased, attaining 15.8% of GDP, due to the increase by 0.5% of the Disposable Income, while final consumption increased 0.3%.

In the 1<sup>st</sup> quarter of 2014, the net lending of the Portuguese economy decreased to 1.7% of GDP (net lending of 1.9% in 2013) with the increase in Gross Capital Formation (change rate of 2.5%) more than compensating the improvement in gross savings.

The households saving rate maintained the downward trend, attaining 11.9%, mainly due to the increase of the final consumption expenditure. The net lending of households decreased, reaching 6.1% of GDP in the 1<sup>st</sup> quarter of 2014 (6.8% in the previous quarter). The non-financial corporations and financial corporations balances stood respectively at -2.4% and 2.0% of GDP in the 1<sup>st</sup> quarter of 2014 (-2.2% and 2.3% in the previous quarter, by the same order).

The net borrowing of general government decreased from 5.0% of GDP in 2013 to 4.0% in the year ending in the 1<sup>st</sup> quarter of 2014. This behaviour mainly reflected the decrease in other capital expenditure and, to a lesser extent, in compensation of employees paid.

The current results are the preliminary version of the Quarterly Sector Accounts for the 1<sup>st</sup> quarter of 2014. Unless stated otherwise, the results and graphics in this press release are presented as the cumulated sum of 4 quarters. The change rates compare the year ending in the reference quarter with the year ended in the previous quarter. All variables are valued at current prices.

Besides the attached tables to this press release, additional information can be accessed in Statistics Portugal's website.

It should be mentioned that these quarterly accounts are the last publication in accordance with the European System of National and Regional Accounts 1995 (ESA95). The next publication will present results accordingly with the new European System of Accounts 2010 (ESA2010), which will introduce a significant set of changes. Additional information is available in INE website<sup>1</sup>.

<sup>1</sup> [http://www.ine.pt/xportal/xmain?xpid=INE&xpaid=ine\\_cn\\_sec2010&xlang=en](http://www.ine.pt/xportal/xmain?xpid=INE&xpaid=ine_cn_sec2010&xlang=en).

### Main results

The Portuguese economy recorded a net lending of 1.7% of GDP in the year ending in the first quarter of 2014, compared with a net lending of 1.9% in the fourth quarter of 2013. This development was mainly due to the reduction of the external balance of goods and services, determined by the increase of 1.5% in imports, which more than offset the 0.6% increase in exports.

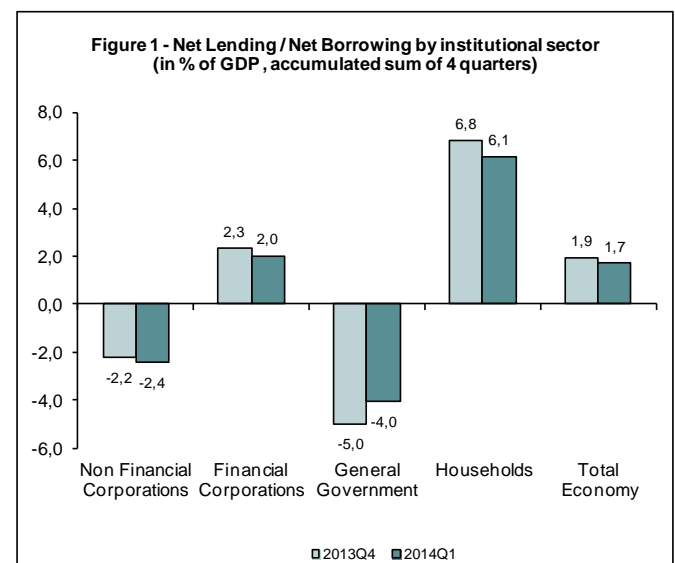
Figure 1 shows the evolution of net lending/borrowing of the sectors of the economy. The net borrowing of general government sector (GG) decreased from 5.0% of GDP in 2013 to 4.0% in the year ending in the first quarter of 2014, reflecting a decrease in other capital expenditure, compensation of employees paid and, on the revenue side, an increase of 1.3% in current taxes.

For all the other domestic sectors, the net lending decreased 1.2 percentage points (p.p.), reaching 5.7% in the year ending in the 1st quarter of 2014. This behaviour was mainly a result of the decrease in the net lending of households of 0.7 p.p. of GDP, determined by the decrease in gross savings, as a consequence of the increase in final consumption expenditure. The current taxes on income paid by households increased by 2.0% in the first quarter of 2014.

### Households: net lending decreased to 6.1% of GDP

The net lending of the households decreased to 6.1% of GDP in the year ending in 1<sup>st</sup> quarter of 2014 (6.8% of GDP in 2013). This evolution reflected the reduction of 0.3% in disposable income and the increase of 0.5% in final consumption, which determined the decrease of the saving rate of households to 11.9% (12.6% in 2013).

The reduction of disposable income was mainly determined by the evolution of current taxes on income paid by households which increased by 2.0% in the first quarter of 2014, while the compensation of employees decreased by 0.1%.



## **General Government: net borrowing decreases by 1.0 p.p.**

The net borrowing of the general government sector (GG) recorded a decrease of 1 percentage points in the year ending in the first quarter of 2014 compared to the year ending in the previous quarter, attaining 4.0% of GDP. This decrease in net borrowing resulted from an increase of the revenue and a decrease of the expenditure (see Table 1).

On the expenditure side, there was a decrease in the current expenditure, namely a significant reduction on compensation of employees. On the opposite side it should be highlighted the increase in intermediate consumption and in subsidies. The reduction of capital expenditure results from the recording in national accounts, as capital transfer paid by the General Government sector, of a capital increase in a financial institution in the first quarter of 2013.

On the revenue side, most of the components increased, notably the tax revenue. In contrast, the social contributions presented a slight decrease.

Taking into account the quarterly figures instead of the sum of four quarters (see Table 3), the net borrowing of the GG stood at about -2.389,4 million Euros in the first quarter of 2014 (-6.0% of GDP), while in the same quarter of 2013 it was -10.0% of GDP.

In the compilation of the budget deficit 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 and revenues are recorded in the accounting period in which they are paid and received. On the contrary, in National Accounts, expenditure and revenue are recorded on an accrual basis, that is, in the accounting Quarterly sector accounts – 1<sup>st</sup> quarter of 2014

period to which they refer to, regardless of whether their payment is made or their revenue is received in a different period. Another important adjustment is related to sector delimitation of general government. In National Accounts, the general government sector includes entities which are not considered in Public Accounting. Similarly, entities which are not part of general government sector from a National Accounts viewpoint but are included in Public Accounting should be excluded.

Finally, there are transactions that, according to the Framework of National Accounts, have a specific classification. Notably, there are cases of entities belonging to the general government sector that acquire shares from other entities, which should be recorded as capital transfers rather than financial transactions, thus leading to the introduction of the corresponding adjustments.

Table 4 presents the main adjustments carried out for moving from Public Accounting to National Accounts balances, with the latter in EDP concept (see note in the table 4). Comparing the first quarter of 2014 with the same quarter of the previous year, there was an improvement of the National Accounting balance which is mainly related with the improvement of the Public Accounting balance and the fact that the net borrowing of the first quarter of 2013 is affected by the already mentioned recording of the capital transfer in national accounts from General Government to a financial institution.

Table 1: Revenue and expenditure of general government in the year ending in the quarter

Unit: 10<sup>6</sup> euro

	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
<b>Total revenue</b>	<b>67.731,4</b>	<b>68.772,6</b>	<b>70.052,4</b>	<b>72.409,7</b>	<b>72.898,6</b>
Current revenue	65.418,3	66.647,9	68.172,8	70.907,1	71.261,3
Current taxes on income and wealth	15.802,1	16.872,0	17.680,9	19.522,2	19.775,4
Taxes on production and imports	22.273,6	22.034,4	22.174,6	22.568,3	22.827,5
Social contributions	19.253,7	19.303,4	19.544,6	20.139,6	20.097,6
Sales	4.591,1	4.558,5	4.666,9	4.508,2	4.593,0
Other current revenue	3.497,8	3.879,6	4.105,8	4.168,7	3.967,8
Capital revenue	2.313,1	2.124,7	1.879,6	1.502,6	1.637,4
<b>Total expenditure</b>	<b>79.179,8</b>	<b>78.770,9</b>	<b>80.276,6</b>	<b>80.650,7</b>	<b>79.604,0</b>
Current expenditure	73.962,7	74.513,8	75.462,0	76.627,1	76.256,1
Social benefits	37.600,2	37.955,7	38.444,4	38.834,0	38.687,8
Compensation of employees	16.637,2	16.850,1	17.020,8	17.788,6	17.443,7
Interest	7.145,4	7.168,5	7.242,6	7.183,2	7.179,2
Intermediate consumption	7.250,9	7.295,7	7.340,4	7.307,9	7.501,1
Subsidies	988,8	1.001,2	1.037,9	1.116,9	1.179,8
Other current expenditure	4.340,1	4.242,6	4.375,9	4.396,6	4.264,4
Capital expenditure	5.217,1	4.257,1	4.814,6	4.023,5	3.347,9
Gross fixed capital formation	2.251,1	2.069,1	2.649,7	2.485,0	2.524,1
Other capital expenditure	2.966,0	2.188,0	2.164,9	1.538,5	823,8
<b>Current Balance</b>	<b>-8.544,4</b>	<b>-7.865,9</b>	<b>-7.289,2</b>	<b>-5.720,1</b>	<b>-4.994,8</b>
<b>Balance</b>	<b>-11.448,4</b>	<b>-9.998,3</b>	<b>-10.224,2</b>	<b>-8.241,0</b>	<b>-6.705,3</b>
<i>By memory:</i>					
Primary current expenditure	66.817,28	67.345,34	68.219,38	69.443,95	69.076,86
Gross domestic product at current market prices	163.756,10	163.612,80	163.813,10	165.690,00	166.118,90
Balance in % of GDP	-7,0%	-6,1%	-6,2%	-5,0%	-4,0%

Table 2: Change rates of revenue and expenditure of general government in the year ending in the quarter

	change rate (%)				change rate (%)
	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
<b>Total revenue</b>	<b>0,2</b>	<b>1,5</b>	<b>1,9</b>	<b>3,4</b>	<b>0,7</b>
Current revenue	0,5	1,9	2,3	4,0	0,5
Current taxes on income and wealth	3,5	6,8	4,8	10,4	1,3
Taxes on production and imports	-1,2	-1,1	0,6	1,8	1,1
Social contributions	0,6	0,3	1,2	3,0	-0,2
Sales	-0,4	-0,7	2,4	-3,4	1,9
Other current revenue	-0,7	10,9	5,8	1,5	-4,8
Capital revenue	-7,4	-8,1	-11,5	-20,1	9,0
<b>Total expenditure</b>	<b>1,2</b>	<b>-0,5</b>	<b>1,9</b>	<b>0,5</b>	<b>-1,3</b>
Current expenditure	0,8	0,7	1,3	1,5	-0,5
Social benefits	1,2	0,9	1,3	1,0	-0,4
Compensation of employees	0,8	1,3	1,0	4,5	-1,9
Interest	-0,1	0,3	1,0	-0,8	-0,1
Intermediate consumption	-2,0	0,6	0,6	-0,4	2,6
Subsidies	2,1	1,3	3,7	7,6	5,6
Other current expenditure	3,0	-2,2	3,1	0,5	-3,0
Capital expenditure	7,4	-18,4	13,1	-16,4	-16,8
Gross fixed capital formation <sup>(1)</sup>	-9,3	-8,1	28,1	-6,2	1,6
Other capital expenditure	24,8	-26,2	-1,1	-28,9	-46,5

<sup>(1)</sup> Includes Gross capital formation and Acquisitions less disposals of non-financial non-produced assets

Table 3: Revenue and expenditure of general government

	1st quarter of 2013		1st quarter of 2014		Change rate (%)
	million euro	% GDP	million euro	% GDP	
<b>Total revenue</b>	<b>15.354,7</b>	<b>39,2</b>	<b>15.843,7</b>	<b>40,0</b>	<b>3,2</b>
Current revenue	15.175,1	38,7	15.529,3	39,2	2,3
Current taxes on income and wealth	3.747,6	9,6	4.000,8	10,1	6,8
Taxes on production and imports	4.962,7	12,7	5.221,9	13,2	5,2
Social contributions	4.657,9	11,9	4.615,9	11,7	-0,9
Sales	968,7	2,5	1.053,5	2,7	8,7
Other current revenue	838,2	2,1	637,3	1,6	-24,0
Capital revenue	179,6	0,5	314,4	0,8	75,0
<b>Total expenditure</b>	<b>19.279,8</b>	<b>49,2</b>	<b>18.233,1</b>	<b>46,0</b>	<b>-5,4</b>
Current expenditure	17.993,2	45,9	17.622,1	44,5	-2,1
Social benefits	9.182,3	23,4	9.036,2	22,8	-1,6
Compensation of employees	4.197,0	10,7	3.852,1	9,7	-8,2
Interest	1.824,4	4,7	1.820,4	4,6	-0,2
Intermediate consumption	1.364,9	3,5	1.558,1	3,9	14,2
Subsidies	157,8	0,4	220,7	0,6	39,9
Other current expenditure	1.266,7	3,2	1.134,5	2,9	-10,4
Capital expenditure	1.286,6	3,3	611,0	1,5	-52,5
Gross fixed capital formation <sup>(1)</sup>	441,9	1,1	480,9	1,2	8,8
Other capital expenditure	844,8	2,2	130,1	0,3	-84,6
<b>Current Balance</b>	<b>-2.818,0</b>	<b>-7,2</b>	<b>-2.092,8</b>	<b>-5,3</b>	
<b>Balance</b>	<b>-3.925,1</b>	<b>-10,0</b>	<b>-2.389,4</b>	<b>-6,0</b>	

(1) Includes Gross capital formation and Acquisitions less disposals of non-financial non-produced assets

Table 4: Public to National Account adjustments

	Unit: million euro	
	2013Q1	2014Q1
<b>Balance in Public Accounting</b>	<b>-1.319,5</b>	<b>-908,0</b>
Accrual adjustment and sector delimitation in National Accounts	-56,7	50,3
Difference between paid and due interest	-1.019,8	-760,4
Other receivables:	-890,9	-592,5
Other payables:	-1,9	167,3
Other adjustments:	-620,8	-285,9
<i>of which:</i>	<i>0,0</i>	<i>0,0</i>
<i>Capital injections</i>	<i>-700,0</i>	<i>-389,0</i>
<b>Balance in National Accounts (EDP concept): <sup>(1)</sup></b>	<b>-3.909,5</b>	<b>-2.329,2</b>
% of GDP	-10,0%	-5,9%

<sup>(1)</sup> According to the Commission Regulation (EC) N.º 351/2002, amending the Council Regulation (EC) N.º 3605/93 as regards references to ESA95, the classification of interest flows and swap contracts and forward rate agreements (FRAs) has a specific treatment for the data transmitted under the excessive deficit procedure. This approach leads to differences between the Balance Net Lending (+)/Net borrowing (-) according to the European System of National and Regional Accounts (ESA95) - B.9 and the balance under the excessive deficit procedure EDP-B.9, expressed in the current table.

**Unit labour costs (ULC) increased**

In the 1<sup>st</sup> quarter of 2014, unit labour costs increased by 0.5% (increase of 1.9% in 2013). This evolution was determined by a less pronounced increase in average compensation of employees, which moved from 3.4% in 2013 to 1.3% in the year ended in the 1<sup>st</sup> quarter 2014. The deceleration of the average compensation of employees mainly reflected the reduction of GG expenditure with compensation of employees (-1.9% in the year ended in the 1<sup>st</sup> quarter of 2014).

