30 September, 2014

Quarterly Sector Accounts
2nd quarter of 2014

Net lending of the Portuguese economy increased to 1.6% of GDP

In the 2nd quarter of 2014, the net lending of the Portuguese economy increased to 1.6% of GDP (1.4% in the previous quarter). This improvement was determined by the increase in gross savings, which was determined by an increase in disposable income (1.1%) larger than the increase of final consumption expenditure (0.7%).

Excluding the General Government sector, all domestic sectors registered improvements in their net lending/net borrowing. The net lending of the households increased to 5.4% of GDP in the year ending in 2nd quarter of 2014 (5.1% of GDP in the previous quarter). The households saving rate increased to 10.1% (0.5 percentage points more than in the previous quarter) mostly as a result of the improvement of households disposable income (1.3% change). The non-financial corporations and financial corporations balances stood respectively at -1.8% and 2.9% of GDP in the 2nd quarter of 2014 (-2.2% and 2.6% in the previous quarter, by the same order).

The net borrowing of general government increased from 4.1% of GDP in the year ending in the 1st quarter to 4.8%. This behaviour mainly reflected the increase in other capital expenditure and, to a lesser extent, in compensation of employees. In the 1st half of 2014, the net borrowing of general government was 6.5% of GDP (6.6% in the same period of the previous year).

New series of National Accounts by Institutional Sector – benchmark year 2011, ESA 2010

With the publication of the new series of National Accounts by Institutional Sector (both annual and quarterly), Statistics Portugal carries on the publication of the Portuguese National Accounts (PNA) with 2011 as benchmark year and accordingly with the new ESA 2010.

The revisions of the PNA stem from, on the one side, the methodological changes associated to the implementation of the new European System of Accounts 2010 – ESA 2010 (comparing with the previous system, the ESA 1995) and, on the other side, from the use of new structural data sources, notably the 2011 Census.

To obtain more detailed information on the benchmark year 2011 implementation process, please see the press releases of 29th August and 8th September on Statistics Portugal website. At the end of this press release a box with the most significant changes on national accounts by institutional sector is shown.

Unless stated otherwise, the results and graphics in this press release are shown 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[1].

Main results

The Portuguese economy recorded a net lending of 1.6% of GDP in the year ending in the second quarter of 2014, 0.2 percentage points (p.p.) more than the previous quarter. This development reflected the reduction of property income paid to the rest of the world (-3.9% change rate), which more than offset the reduction of the balance of goods and services. The imports and exports increased 0.5% and 0.3%, respectively, in the second quarter of 2014.

Figure 1 shows the evolution of net lending/borrowing by institutional sectors. The net borrowing of general government sector (GG) increased from 4.1% of GDP in the 1st quarter to 4.8% in the 2nd quarter of 2014 due to an increase in capital transfers, and, on the revenue side, an increase of 2.4 % in taxes on production and imports.

For all the other domestic sectors, the net lending increased 0.9 percentage points (p.p.), reaching 6.4% of GDP in the year ending in the 2nd quarter of 2014. Excluding GG, all domestic sectors registered improvements in their net lending/net borrowing.

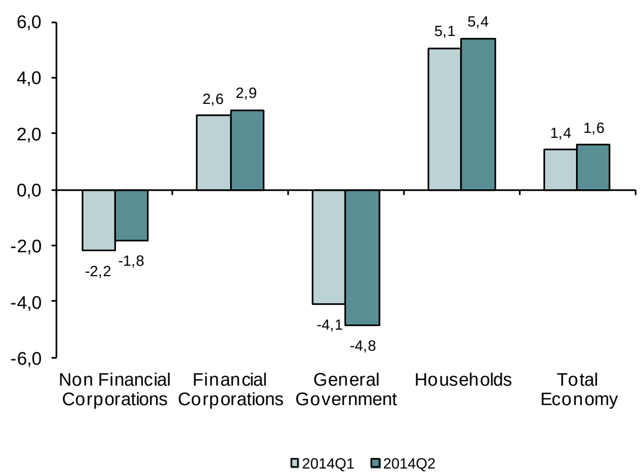
The net borrowing of Non Financial Corporations decrease 0.4 p.p. to 1.8% of GDP in the 2nd quarter of 2014 as a result of an increase in capital transfers received. In the same period, the net lending of Financial Corporations stood at 2.9% of GDP mainly determined by the improvement of the balance of property income.

Households: net lending increased to 5.4% of GDP

The net lending of the households increased to 5.4% of GDP in the year ending in 2nd quarter of 2014 (5.1% of GDP in the previous quarter). This evolution reflected the increase of 1.3% in disposable income, which more than offset the increase of 0.7% in final consumption expenditure. As a consequence the saving rate of households reached 10.1% (9.6% in the year ending in the first quarter of 2014).

The upward change in disposable income was mainly determined by the increase in compensation of employees and in the balance of property income in the second quarter of 2014 (0.9% and 5.9% changes, respectively).

Figure 1 - Net Lending / Net Borrowing by institutional sector
(in % of GDP, accumulated sum of 4 quarters)



General Government: net borrowing increases by 0.7 p.p.

The net borrowing of the general government sector (GG) recorded an increase of 0.7 percentage points in

[1] http://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_cn_sec2010&xlang=en.

the first quarter of 2014 compared to the previous quarter, attaining 4.8% of GDP.

This increase in net borrowing resulted from an increase of the expenditure larger than the increase of the expenditure (see Table 1).

On the revenue side, the taxes on production and imports registered an increase, while the revenue from taxes on income remained stable. At the same time, the other revenue components registered a reduction.

The increase in expenditure was mainly determined by higher capital expenditure and, to a lesser extent, by an increase in employee compensations. On other hand, intermediate consumption decreased.

The increase in capital expenditure was a result of the recording, as capital transfers, of the financing transactions between the General Government and two Public Transportation entities (1192 Million Euros) and the write-off of the BPN Crédito loan (96 Million Euros).

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 -3230.7 million Euros in the second quarter of 2014 (-7.3% of GDP).

In the 1st half of 2014, the net borrowing of the GG stood at -55373.7 million Euros, corresponding to -6.5% of GDP (-6.6% of GDP in the same period of the previous year).

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 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 1st half of 2014 with the same period of the previous year, there was a worsening affected by the already mentioned capital transfers.

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

Unit: 10^6 euro

	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Total revenue	**73.851,5**	**74.793,9**	**77.425,3**	**77.819,5**	**78.038,9**
Current revenue	71.614,2	72.923,8	75.650,5	76.078,9	76.377,1
Current taxes on income and wealth	16.753,0	17.507,7	19.388,9	19.623,5	19.628,9
Taxes on production and imports	22.810,5	22.993,1	23.507,2	23.769,3	24.330,5
Social contributions	19.869,5	20.084,2	20.404,1	20.213,0	20.255,0
Sales	6.718,7	6.919,1	6.890,1	7.018,2	6.947,9
Other current revenue	5.462,5	5.419,7	5.460,2	5.454,9	5.214,9
Capital revenue	2.237,3	1.870,2	1.774,8	1.740,6	1.661,8
Total expenditure	**83.237,8**	**84.964,7**	**85.734,5**	**84.834,3**	**86.408,0**
Current expenditure	78.036,7	79.334,4	80.374,2	79.995,4	80.347,9
Social benefits	33.608,7	34.198,7	34.728,3	34.688,2	34.622,8
Compensation of employees	20.330,2	20.555,7	21.230,4	20.900,4	21.238,4
Interest	8.414,2	8.509,5	8.530,3	8.586,7	8.681,3
Intermediate consumption	9.884,8	10.058,3	9.802,3	9.946,4	9.812,6
Subsidies	976,1	976,3	986,8	1.038,1	1.087,7
Other current expenditure	4.822,6	5.036,1	5.096,1	4.835,5	4.905,3
Capital expenditure	5.201,1	5.630,2	5.360,3	4.839,0	6.060,0
Gross fixed capital formation	3.436,2	3.905,2	3.810,5	4.019,1	3.967,5
Other capital expenditure	1.765,0	1.725,0	1.549,9	819,9	2.092,5
Current Balance	-6.422,4	-6.410,6	-4.723,7	-3.916,5	-3.970,8
Balance	**-9.386,3**	**-10.170,7**	**-8.309,2**	**-7.014,9**	**-8.369,0**
By memory:					
Primary current expenditure	69.622,43	70.824,97	71.843,87	71.408,65	71.666,69
Gross domestic product at current market prices	169.152,12	169.655,45	171.210,95	172.628,05	173.701,30
Balance in % of GDP	-5,5%	-6,0%	-4,9%	-4,1%	-4,8%

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

change rate (%)

	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Total revenue	**1,0**	**1,3**	**3,5**	**0,5**	**0,3**
Current revenue	1,4	1,8	3,7	0,6	0,4
Current taxes on income and wealth	6,6	4,5	10,7	1,2	0,0
Taxes on production and imports	-1,4	0,8	2,2	1,1	2,4
Social contributions	0,1	1,1	1,6	-0,9	0,2
Sales	0,7	3,0	-0,4	1,9	-1,0
Other current revenue	4,5	-0,8	0,7	-0,1	-4,4
Capital revenue	-12,6	-16,4	-5,1	-1,9	-4,5
Total expenditure	**0,0**	**2,1**	**0,9**	**-1,0**	**1,9**
Current expenditure	0,9	1,7	1,3	-0,5	0,4
Social benefits	0,7	1,8	1,5	-0,1	-0,2
Compensation of employees	1,1	1,1	3,3	-1,6	1,6
Interest	0,7	1,1	0,2	0,7	1,1
Intermediate consumption	3,7	1,8	-2,5	1,5	-1,3
Subsidies	-4,8	0,0	1,1	5,2	4,8
Other current expenditure	-2,9	4,4	1,2	-5,1	1,4
Capital expenditure	-11,1	8,3	-4,8	-9,7	25,2
Gross fixed capital formation [1]	-6,2	13,7	-2,4	5,5	-1,3
Other capital expenditure	-19,3	-2,3	-10,2	-47,1	155,2

[1] Includes Gross capital formation and Acquisitions less disposals of non-financial non-produced assets

Table 3: Revenue and expenditure of general government

	2st quarter of 2013		2st quarter of 2014		Change rate (%)
	million euro	% GDP	million euro	% GDP	
Total revenue	**18.386,0**	**42,8**	**18.605,5**	**42,3**	**1,2**
Current revenue	17.954,0	41,8	18.252,3	41,5	1,7
Current taxes on income and wealth	4.388,0	10,2	4.393,4	10,0	0,1
Taxes on production and imports	5.409,1	12,6	5.970,3	13,6	10,4
Social contributions	4.888,0	11,4	4.930,0	11,2	0,9
Sales	1.689,5	3,9	1.619,2	3,7	-4,2
Other current revenue	1.579,4	3,7	1.339,4	3,0	-15,2
Capital revenue	432,0	1,0	353,2	0,8	-18,2
Total expenditure	**20.262,6**	**47,2**	**21.836,2**	**49,6**	**7,8**
Current expenditure	19.313,1	45,0	19.665,7	44,7	1,8
Social benefits	8.133,0	18,9	8.067,6	18,3	-0,8
Compensation of employees	5.174,3	12,0	5.512,3	12,5	6,5
Interest	2.083,9	4,9	2.178,4	4,9	4,5
Intermediate consumption	2.632,4	6,1	2.498,5	5,7	-5,1
Subsidies	218,4	0,5	268,0	0,6	22,7
Other current expenditure	1.071,1	2,5	1.140,8	2,6	6,5
Capital expenditure	949,5	2,2	2.170,5	4,9	128,6
Gross fixed capital formation (1)	827,6	1,9	776,1	1,8	-6,2
Other capital expenditure	121,8	0,3	1.394,5	3,2	1.044,5
Current Balance	-1.359,1	-3,2	-1.413,4	-3,2	
Balance	-1.876,6	-4,4	-3.230,7	-7,3	

(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

	2013S1	2014S1
Balance in Public Accounting	**-3.809,5**	**-4.240,9**
Accrual adjustment and sector delimitation in National Accounts	-411,3	571,2
Difference between paid and due interest	-72,9	332,1
Other receivables:	-872,4	-920,3
Temporal adjustment to taxes and contributions	*-735,1*	*-335,6*
Others	*-137,3*	*-584,7*
Other payables:	-296,4	109,7
Expenditure already incurred but not yet paid	*-225,6*	*77,0*
Others	*-70,7*	*32,7*
Other adjustments:	-51,4	-1.425,5
of which:	*0,0*	*0,0*
Capital injections	*-702,0*	*-1.782,4*
Balance in National Accounts (1):	**-5.513,9**	**-5.573,7**
	83.095,5	85.585,8
% of GDP	-6,6%	-6,5%

(1) 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 2nd quarter of 2014, unit labour costs increased by 0.7% (0.6% change in the previous quarter) as the average compensation per employee also increased 0.7%.

Figure 2 - Unit labour costs change rates (moving averages of 4 quarters)

Revisions to the balances by institutional sector with the new series of the national accounts

For a better understanding of the results now obtained, the conceptual changes with the most significant impact on national accounts by institutional sector are outlined below:

a) One major change was the introduction of new rules for the analysis of sector classification of institutional units. The companies created for managing shareholding (SGPS) that, according to ESA 95, were classified in the institutional sector of most of its subsidiaries institutional sector are now classified according to whether or not their exercise management functions. As explained in more detail in the EDP press release, there were also significant changes in the rules for the public sector classification of institutional units.

b) It was also amended the sector classification and valuation of the production of "special purpose entities" (Special Purpose Entities - SPE) - units with little physical presence. Compared with the results in ESA95, it is estimated that this change has had a negative impact on GDP of around 676 million Euros in 2011, being located mainly in the Madeira Free Trade Zone.

c) Unlike the ESA 95, in which the transfer of pension funds from companies in the sector of GG were registered, at the time that happened, as a revenue with a positive effect on their balance, the 2010 SEC classifies this transfer as a financial transaction, with no impact on balance.

d) Changes in the balance of payments with the implementation of the 6th version of the respective manual (BPM6) and the development of a new system of information gathering by the Bank of Portugal lead to impacts on balances with the Rest of the World.

The methodological and statistical sources introduced in 2011 on the basis of the Portuguese National Accounts revisions led to changes, sometimes significant, in various macroeconomic aggregates, particularly in net borrowing /lending of institutional sectors. Most significant differences observed in corporations sectors and in GG sector arise mainly from the changes in recording pension funds transfers.

For Financial Corporation sector also stands out the inclusion in the sector of SGPS that do not exercise management functions of groups of companies (Holding Companies) previously classified in the Non-Financial Corporations sector. As a result, there are significant changes in the flows of property income (interest and dividends) of the financial sector.

Regarding Household sector, the results presented in the base year 2011 net lending tends to be revised downwards, more significantly from 2010 onwards, with special focus on the year 2011. The main causes, transversal to the entire series, relate firstly to the calculation of interest paid and received by the sector and, secondly, with the dividends received. Indeed, with the implementation of base year 2011, the use and validation of information for the corporations sectors was deepened (through a more intensive use of data Simplified Entrepreneurial Information database (IES)), leading to an increased quality in the estimates for interest and dividends.

Concerning the rest of the world, despite the implementation of the 6th version of the Manual Balance of payments (BPM6) and the development of a new system of information gathering by the Bank of Portugal, the balances of the Rest of the World with the Portuguese economy did not change significantly throughout the series comparing with the previous results from base year 2006.