

23 December, 2014

Quarterly Sector Accounts

3rd quarter of 2014

Net lending of the Portuguese economy increased to 1.9% of GDP

The Portuguese economy registered a net lending of 1.9% of GDP in the 3rd quarter of 2014, 0.3 percentage points (p.p.) more than in the previous quarter. This improvement was determined by the increase of the current savings of the economy, as a result of the increase of 0.7% of National Gross Disposable Income, which more than offset the increase in the final consumption expenditure (0.6% in the year ended in the 3rd quarter of 2014).

The net lending of Households decreased to 5.4% of GDP in the year ending in the 3rd quarter of 2014 (less than 0.3 p.p. than in the previous quarter). The Households saving rate declined, standing at 9.7% (10.3% in the year ended in the previous quarter), mainly due to the increase of final consumption expenditure of Households (change rate of 0.7%). The balances of Non-Financial Corporations and Financial Corporations stood at, respectively, -1.9% and 2.7% of GDP in the 3rd quarter of 2014 (-1.8% and 2.6% in the previous quarter, in the same order).

The net borrowing of the General Government (GG) decreased from 4.8% of GDP in the 2nd quarter to 4.3% in the year ending in the 3rd quarter of 2014, reflecting mainly the increase in taxes on production and imports, income taxes and of the social contributions. For the set of three quarters of 2014, the balance of the GG was -4.9% of GDP (-5.7% of GDP in the same period last year).

The current results are the preliminary version of the Quarterly Sector Accounts for the 3rd 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.

Main results

The Portuguese economy registered a net lending of 1.9% of GDP in the 3rd quarter of 2014, 0.3 percentage points (p.p.) more than in the previous quarter. This was mainly due to the improvement of the balance of property income, as income received from abroad increased by 5.7%. The external balance of goods and services stabilized at 0.7% of GDP, with imports and exports presenting the same rate of change in the year finished in the 3rd quarter of 2014 (by 0.9%).

Figure 1 presents the evolution of the net lending(+)/borrowing(-) of the economy by institutional

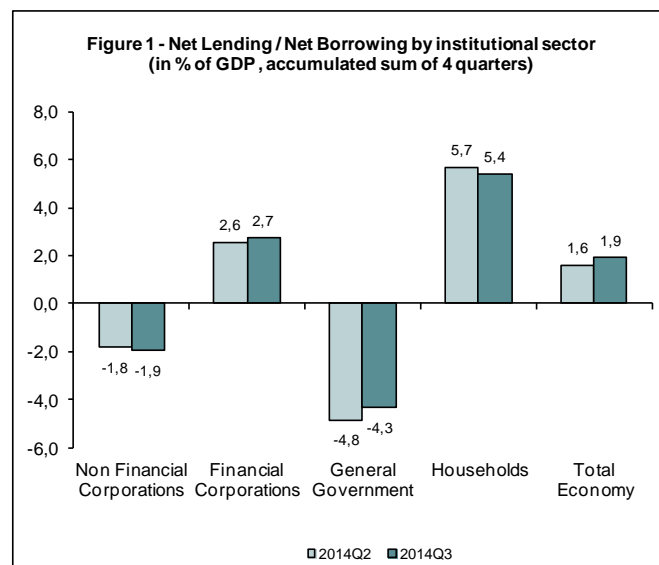
sector, for the years ending in the 2nd and 3rd quarters of 2014. The net borrowing of the General Government (GG) decreased by 0.5 p.p., standing at 4.3% in the year finished in the 3rd quarter of 2014, reflecting mainly the increase of the revenue from the income taxes (growth rate of 2.7%) and taxes on production and imports (growth rate of 1.5%).

For the remaining sectors of the economy, the net lending decreased to 6.2% of GDP in the 3rd quarter of 2014 (6.5% in the previous quarter), mainly due to the decrease by 0.3 p.p. of the GDP in the net lending of Households' sector. The reduction of the balance of the Households reflected the simultaneous increase in the final consumption expenditure and the income tax, at 0.7% and 3.8%, respectively.

Households: net lending decreased to 5.4% of GDP

The net lending of Households decreased to 5.4% of GDP in the year ending in the 3rd quarter of 2014 (5.7% in the previous quarter). For this result contributed the increase of final consumption expenditure by 0.7%, which more than offset a slight increase of 0.1% of gross disposable income. This evolution determined a decrease of 5.2% of the gross savings of Households, settling the savings rate at 9.7% (10.3% in the year ended in the previous quarter).

The slight increase in the disposable income was determined by the increase of the compensation of employees (change rate of 0.6% in the year ended in the 3rd quarter of 2014) which was almost offset by the increase of the income taxes (variation of 3.8%).



General Government: net borrowing decreases by 0.5 p.p.

The net borrowing of the General Government sector (GG) recorded a decrease of 0.5 percentage points in the 3rd quarter of 2014 compared to the previous quarter, attaining 4.3% of GDP. This increase resulted from an increase of the revenue larger than the decrease of the expenditure (see tables 3 and 4).

On the revenue side, the taxes on production and imports and on income and the social contributions registered an increase, while the other revenue components decreased.

The current expenditure increased, influenced by increases in employee compensations, social benefits, interest and intermediate consumption. On the other hand, investment and the other components of capital expenditure decreased, partially offsetting the increase in current expenditure.

Taking into account the quarterly figures rather than the sum of four quarters, the net borrowing of the GG stood at about -772.8 million Euros in the 3rd quarter of 2014 (-1.7% of GDP).

Considering the sum of the three quarters of 2014, the balance of general government attained -6344 million Euros, corresponding to -4.9% of GDP (-5.7% for the same period of 2013). As can be seen from Table 5 this improvement was determined by an increase in total revenue at a higher pace than the increase of expenditure (3.3% and 1.6%, respectively), in particular, the increase of the revenue of taxes on income (5.8%) and taxes on production and imports (7.4%).

Table 6 presents the main adjustments carried out for moving from Public Accounting to National Accounts balances. Comparing the 3rd quarter of 2014 with the same period of the previous year, there was a significant improvement of the balance in National

Accounts determined by the improving of the balance in Public Accounting.

The balance of GG for the 3rd quarter 2014 does not include any impact of the recapitalization of *Novo Banco* held by *Fundo de Resolução*. However, it is important to note the provisional nature of this treatment due to the lack of information about the whole operation (capitalization followed by privatization) - see box at the end of this press release. This treatment will be reassessed in March in the context of the next Excessive Deficit Procedure notification.

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

Unit: 10⁶ euro

| | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 |
|---|------------------|-----------------|-----------------|-----------------|-----------------|
| Total revenue | 74.793,9 | 77.425,3 | 77.789,0 | 78.289,6 | 79.252,6 |
| Current revenue | 72.923,8 | 75.650,5 | 76.035,1 | 76.636,5 | 77.706,7 |
| Current taxes on income and wealth | 17.507,7 | 19.388,9 | 19.623,5 | 19.631,0 | 20.170,8 |
| Taxes on production and imports | 22.993,1 | 23.507,2 | 23.778,5 | 24.371,5 | 24.747,1 |
| Social contributions | 20.084,2 | 20.404,1 | 20.246,6 | 20.434,6 | 20.809,3 |
| Sales | 6.919,1 | 6.890,1 | 7.023,3 | 7.016,7 | 6.981,8 |
| Other current revenue | 5.419,7 | 5.460,2 | 5.363,3 | 5.182,7 | 4.997,7 |
| Capital revenue | 1.870,2 | 1.774,8 | 1.753,8 | 1.653,1 | 1.545,9 |
| Total expenditure | 84.964,7 | 85.734,5 | 84.787,4 | 86.656,1 | 86.722,4 |
| Current expenditure | 79.334,4 | 80.374,2 | 80.070,1 | 80.914,6 | 81.106,6 |
| Social benefits | 34.198,7 | 34.728,3 | 34.833,5 | 34.973,2 | 35.217,7 |
| Compensation of employees | 20.555,7 | 21.230,4 | 20.782,0 | 21.333,0 | 21.389,9 |
| Interest | 8.509,5 | 8.530,3 | 8.553,6 | 8.563,6 | 8.618,6 |
| Intermediate consumption | 10.058,3 | 9.802,3 | 9.907,2 | 9.756,1 | 9.811,9 |
| Subsidies | 976,3 | 986,8 | 1.048,0 | 1.107,5 | 1.101,6 |
| Other current expenditure | 5.036,1 | 5.096,1 | 4.945,9 | 5.181,2 | 4.966,9 |
| Capital expenditure | 5.630,2 | 5.360,3 | 4.717,2 | 5.741,5 | 5.615,8 |
| Gross fixed capital formation | 3.905,2 | 3.810,5 | 3.884,4 | 3.633,8 | 3.514,4 |
| Other capital expenditure | 1.725,0 | 1.549,9 | 832,8 | 2.107,7 | 2.101,4 |
| Current Balance | -6.410,6 | -4.723,7 | -4.035,0 | -4.278,1 | -3.399,9 |
| Balance | -10.170,7 | -8.309,2 | -6.998,4 | -8.366,5 | -7.469,8 |
| <i>By memory:</i> | | | | | |
| Primary current expenditure | 70.824,97 | 71.843,87 | 71.516,57 | 72.350,95 | 72.488,06 |
| Gross domestic product at current market prices | 169.572,20 | 171.211,07 | 171.783,69 | 173.076,56 | 173.791,84 |
| Balance in % of GDP | -6,0% | -4,9% | -4,1% | -4,8% | -4,3% |

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

| | change rate (%) | | | | |
|--|-----------------|------------|-------------|------------|------------|
| | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 |
| Total revenue | 1,3 | 3,5 | 0,5 | 0,6 | 1,2 |
| Current revenue | 1,8 | 3,7 | 0,5 | 0,8 | 1,4 |
| Current taxes on income and wealth | 4,5 | 10,7 | 1,2 | 0,0 | 2,7 |
| Taxes on production and imports | 0,8 | 2,2 | 1,2 | 2,5 | 1,5 |
| Social contributions | 1,1 | 1,6 | -0,8 | 0,9 | 1,8 |
| Sales | 3,0 | -0,4 | 1,9 | -0,1 | -0,5 |
| Other current revenue | -0,8 | 0,7 | -1,8 | -3,4 | -3,6 |
| Capital revenue | -16,4 | -5,1 | -1,2 | -5,7 | -6,5 |
| Total expenditure | 2,1 | 0,9 | -1,1 | 2,2 | 0,1 |
| Current expenditure | 1,7 | 1,3 | -0,4 | 1,1 | 0,2 |
| Social benefits | 1,8 | 1,5 | 0,3 | 0,4 | 0,7 |
| Compensation of employees | 1,1 | 3,3 | -2,1 | 2,7 | 0,3 |
| Interest | 1,1 | 0,2 | 0,3 | 0,1 | 0,6 |
| Intermediate consumption | 1,8 | -2,5 | 1,1 | -1,5 | 0,6 |
| Subsidies | 0,0 | 1,1 | 6,2 | 5,7 | -0,5 |
| Other current expenditure | 4,4 | 1,2 | -2,9 | 4,8 | -4,1 |
| Capital expenditure | 8,3 | -4,8 | -12,0 | 21,7 | -2,2 |
| Gross fixed capital formation ⁽¹⁾ | 13,7 | -2,4 | 1,9 | -6,5 | -3,3 |
| Other capital expenditure | -2,3 | -10,2 | -46,3 | 153,1 | -0,3 |

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

Table 3: Revenue and expenditure of general government

| | 1st-3rd quarter of 2013 | | 1st - 3rd quarter of 2014 | | Change rate (%) |
|--|-------------------------|-------------|---------------------------|-------------|-----------------|
| | million euro | % GDP | million euro | % GDP | |
| Total revenue | 55 135.5 | 43.4 | 56 962.8 | 44.0 | 3.3 |
| Current revenue | 54 040.9 | 42.6 | 56 097.1 | 43.3 | 3.8 |
| Current taxes on income and wealth | 13 390.3 | 10.5 | 14 172.2 | 10.9 | 5.8 |
| Taxes on production and imports | 16 769.6 | 13.2 | 18 009.4 | 13.9 | 7.4 |
| Social contributions | 14 825.2 | 11.7 | 15 230.4 | 11.8 | 2.7 |
| Sales | 4 994.3 | 3.9 | 5 086.0 | 3.9 | 1.8 |
| Other current revenue | 4 061.5 | 3.2 | 3 599.0 | 2.8 | -11.4 |
| Capital revenue | 1 094.6 | 0.9 | 865.7 | 0.7 | -20.9 |
| Total expenditure | 62 318.9 | 49.1 | 63 306.8 | 48.9 | 1.6 |
| Current expenditure | 58 649.1 | 46.2 | 59 381.6 | 45.9 | 1.2 |
| Social benefits | 25 416.4 | 20.0 | 25 905.8 | 20.0 | 1.9 |
| Compensation of employees | 15 296.2 | 12.1 | 15 455.8 | 11.9 | 1.0 |
| Interest | 6 410.7 | 5.1 | 6 499.0 | 5.0 | 1.4 |
| Intermediate consumption | 7 054.4 | 5.6 | 7 064.0 | 5.5 | 0.1 |
| Subsidies | 591.1 | 0.5 | 706.0 | 0.5 | 19.4 |
| Other current expenditure | 3 880.3 | 3.1 | 3 751.0 | 2.9 | -3.3 |
| Capital expenditure | 3 669.8 | 2.9 | 3 925.3 | 3.0 | 7.0 |
| Gross fixed capital formation ⁽¹⁾ | 2 539.6 | 2.0 | 2 243.6 | 1.7 | -11.7 |
| Other capital expenditure | 1 130.2 | 0.9 | 1 681.7 | 1.3 | 48.8 |
| Current Balance | -4 608.3 | -3.6 | -3 284.5 | -2.5 | |
| Balance | -7 183.4 | -5.7 | -6 344.0 | -4.9 | |

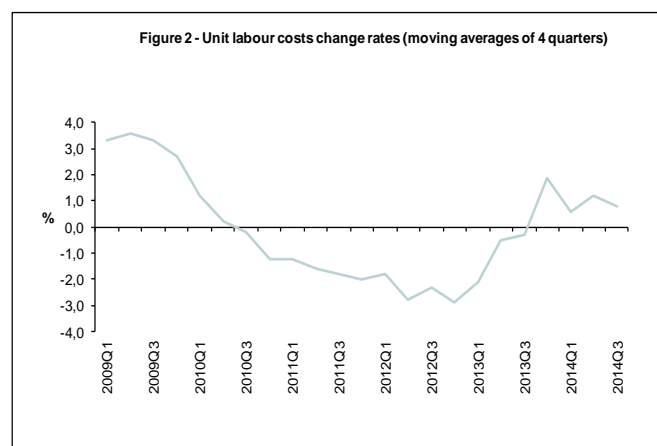
⁽¹⁾ Includes Gross capital formation and Acquisitions less disposals of non-financial non-produced assets

Table 4: Public to National Account adjustments

| | Unit: million euro | |
|---|--------------------|---------------|
| | 2013Q3 | 2014Q3 |
| Balance in Public Accounting | -1.233,4 | 205,7 |
| Accrual adjustment and sector delimitation in National Accounts | -421,7 | 480,4 |
| Difference between paid and due interest | -720,0 | -1.250,8 |
| Other receivables: | -367,6 | -129,9 |
| <i>Temporal adjustment to taxes and contributions</i> | 241,6 | -62,7 |
| <i>Others</i> | -609,2 | -67,2 |
| Other payables: | 890,7 | 59,0 |
| <i>Expenditure already incurred but not yet paid</i> | 813,1 | 124,6 |
| <i>Others</i> | 77,6 | -65,6 |
| Other adjustments: | 182,4 | -137,2 |
| <i>of which:</i> | 0,0 | 0,0 |
| <i>Capital injections</i> | -0,9 | -478,1 |
| Balance in National Accounts ⁽¹⁾: | -1.669,6 | -772,8 |
| % of GDP | -3,8% | -1,7% |

Unit labour costs (ULC) increased

In the 3rd quarter of 2014, unit labour costs decelerated, moving from a change rate of 1.2% in the previous quarter to 0.8%, mainly due to the deceleration of the average compensation per employee. The total of compensation of employees paid in the economy increased by 0.5%.



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

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.