

23 September, 2015

Quarterly Sector Accounts

2nd quarter of 2015

Net lending of the Portuguese economy reached 1.3% of GDP in the second quarter of 2015

The Portuguese economy registered a net lending of 1.3% of GDP in the year ended in the 2nd quarter of 2015, 0.6 percentage points (p.p.) less than in the previous quarter. This behaviour reflected a reduction in the current saving of the economy and the increase of the gross capital formation. The growth of disposable income of the economy was below the increase in final consumption expenditure, which resulted in a decrease of 2.0% in current savings.

The net lending of Households decreased to 2.1% of GDP in the year ending in the 2nd quarter of 2015 (0.6 p.p. less than in the previous quarter). The Households saving rate stood at 5.0% (0.8 p.p. less than in the previous quarter), which reflected an increase of final consumption expenditure of households higher than disposable income (change rates of 1.0% and 0.1%, respectively, in the year ended in the 2nd quarter of 2015).

The gross capital formation of the economy increased 1.9% while the investment rate of Non-Financial Corporations remained stable at 20.4% of GDP.

The net borrowing of the General Government (GG) dropped from 7.1% of GDP in the year ended in the first quarter of 2015 to 6.4% in the year ended in the 2nd quarter of 2015. These results are significantly influenced by the recording of the capitalization of Novo Banco as capital transfer in the 3rd quarter 2014. Not considering moving averages of 4 quarters, the GG deficit stood at 4.7% of GDP for the total of the first two quarters of 2015, 1.5 p.p. less than in the same period of 2014.

The current results are the preliminary version of the Quarterly Sector Accounts for the 2nd quarter of 2015. 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.

The present release includes also the definitive results for 2013, which comprehend detailed data by branch of

activity and by institutional sector. Besides the attached tables to this press release, additional information can be accessed in Statistics Portugal's website:

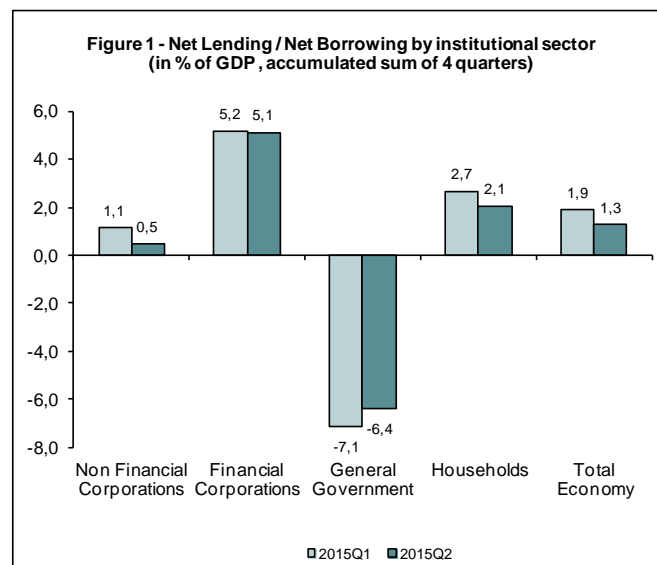
http://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_cnacionais&xlang=en

Net lending of the Portuguese economy stood at 1.3% of GDP

The Portuguese economy registered a net lending of 1.3% of the GDP in the 2nd quarter of 2015, less 0.6 percentage points (p.p.) than in the previous quarter. This evolution was due to the reduction in the gross savings, with final consumption expenditure increasing more than gross disposable income. The improvement of gross disposable income reflected mainly the increase in nominal GDP (growth rate of 0.9%). The external balance of goods and services decreased to 0.4% of GDP (less 0.2 p.p. than in the previous quarter), with both exports and imports increasing by 1.8% and 2.4%, respectively.

Figure 1 presents the evolution of the net lending(+)/borrowing(-) of the economy by institutional sector. The net borrowing of General Government (GG) decreased 0.7 p.p. to 6.4%. This reflected mainly the decrease in capital transfers paid (change rate of -15.5%) and the increase in the revenue from taxes on production and imports (change rate of 1.8%).

For the remaining sectors of the economy, the net lending decreased to 7.6% of GDP in the 2nd quarter of 2015 with the reduction of the balance of Non-Financial Corporations (a decrease of 0.6 p.p.) associated with the reduction of the net lending of Households (-0.6 p.p. of GDP).



Households: net lending decreased to 2.1% of GDP

The net lending of Households decreased to 2.1% of GDP in the year ending in the 2nd quarter of 2015 (2.7% in the previous quarter). For this result contributed mainly the increase of final consumption expenditure (change rate of 1.0%), which more than offset the increase in disposable income. Thus, the saving rate decreased to 5.0% of disposable income (5.8% in the previous quarter). The reduction of the net lending of Households was also influenced by the increase of the Gross Capital Formation (change rate of 1.2%).

The stabilization in the disposable income reflected the combined effect of the decrease of received property income and the increase in paid social contributions, which partially offset the increase in compensation of employees received. Property income received by Households recorded a decrease of 2.3%, together with an increase of 1.1% of social contributions paid, in the 2nd quarter of 2015.

The weight of compensation of employees received reached 63.4% of disposable income in the year ending in the 2nd quarter of 2015.

Non-Financial Corporations: net lending reached 0.9% of GDP

The net lending of Non-Financial Corporations stood at 0.5% of GDP in the year ended in the 2nd quarter of 2015 (0.6 p.p. less than in the previous quarter). This reduction reflected mainly the decrease in capital transfers received and the increase in compensation of employees paid (change of 0.8%). The decrease in capital transfers received reflects the funding carried by the General Government to the public transportation companies in the 2nd quarter of 2014, which stopped impacting the balance of the sector in the current quarter. Without this extraordinary effect, the net lending of Non-Financial Corporations would have remained stable at 0.5% of GDP, in the two quarters of 2015.

The rate of investment (measured by the ratio between Gross Fixed Capital Formation and the GVA) stood at 20.4%.

Financial Corporations: net lending reached 5.1% of GDP

In the 2nd quarter 2015, the sector of Financial Corporations presented a net lending of 5.1% of GDP, which compares with 5.2% in the previous quarter. It should be mentioned that the balance in the year ending in the 2nd quarter 2015 is influenced by the capitalization of Novo Banco in the 3rd quarter 2014, recorded as a capital transfer. The simultaneous reduction of paid and received property income

(decrease of 5.8% and 4.7%, respectively) determined the stabilization of both the balance of property income and Financial Corporation's net lending.

The compensation of employees paid by the Financial Corporations maintained a decreasing trend, showing a change rate of -1.6% (decrease of 0.5% in the year ended in the 1st quarter of 2015). The current savings of the sector decreased by 0.6% due to the reduction in the gross value added.

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

In the year ending in the 2nd quarter of 2015 compared to the year ending in the previous quarter, the net borrowing of the General Government sector (GG) recorded a decrease of 0.7 p.p. in percentage of the GDP, attaining 6.4%. This decrease in net borrowing resulted from the combined effect of a decrease by 0.8% of the revenue and an increase of the expenditure by 0.7%.

On the revenue side, both current revenue and capital revenue registered an increase. It should be highlighted the increase in revenues from taxes on production and imports and social contributions. At the same time, the other current revenue components recorded a reduction.

The decrease in expenditure was mainly determined by lower capital expenditure and, to a lesser extent, by a decrease in subsidies and interest paid.

The reduction of the capital expenditure is mainly explained by the financing transactions between the General Government and two Public Transportation entities, classified as public non-financial corporations, recorded in the 2nd quarter of 2014. The effect of these

operations on the accumulated balance disappears in the current quarter.

The remaining current expenditure components increased due to higher intermediate consumption and employee compensations.

It should be noted that the balance of the year ending in the 2nd quarter of 2015 reflects the effect of the recording of the capitalization of Novo Banco in the 3rd quarter of 2014, with a negative impact in General Government sector.

Taking into account the quarterly figures rather than the sum of four quarters, the net borrowing of the GG stood at about -1.669,9 million Euros in the 2nd quarter of 2015 (-3.7% of GDP), while in the same quarter of

2014 it was -6.6% of GDP (-2.900,1 million Euros). As it can be seen from Table 3 this improvement was determined by an increase in total revenue, particularly influenced by the increase of taxes on production and imports (7.7%) and social contributions (5.0%). On the other hand, the total expenditure decreased, namely due to the capital expenditure reduction compared with the same period of the previous year (-40.1%).

Table 4 presents the main adjustments carried out for moving from Public Accounting to National Accounts balances. Comparing the 1st semester of 2015 with the same period of the previous year, there was a significant improvement of the National Accounts balance.

Treatment of the capitalization of Novo Banco

As mentioned previously, if the sale of Novo Banco (NB) would not occur within a year, the recording of the capitalization would be treated accordingly with the general case, provided by the Manual on Government Deficit and Debt on capital injections into public corporations by the General Government (GG).

Thus, considering the information available on the economic and financial situation of NB, the capitalization was recorded as a capital transfer.

As NB is a unit classified in the Financial Corporations sector, the capital transfer has a negative impact in the balance of the GG sector and has the symmetrical effect on the balance of the Financial Corporations sector.

Contributions from the banks to the Resolution Fund, an entity included in the GG sector, will continue to impact positively the GG balance and negatively the balance of Financial Corporations.

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

Unit: 10⁸ euro

	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Total revenue	77.720,7	78.712,5	77.230,8	77.675,6	78.272,0
Current revenue	75.964,6	76.912,0	75.785,8	76.211,0	76.768,1
Current taxes on income and wealth	19.502,2	19.981,9	18.973,7	18.914,4	18.904,1
Taxes on production and imports	24.188,2	24.556,3	24.592,6	25.026,1	25.488,1
Social contributions	20.627,2	20.837,0	20.370,8	20.596,9	20.854,4
Sales	6.563,8	6.492,0	6.531,0	6.472,5	6.560,2
Other current revenue	5.083,3	5.044,8	5.317,7	5.201,1	4.961,3
Capital revenue	1.756,1	1.800,5	1.445,0	1.464,6	1.503,9
Total expenditure	85.682,7	91.485,1	89.676,9	90.158,2	89.524,4
Current expenditure	80.019,9	80.914,1	79.287,5	79.677,0	79.841,5
Social benefits	34.553,3	35.253,7	34.106,3	34.105,6	34.172,1
Compensation of employees	21.345,2	21.481,4	20.494,6	20.609,1	20.697,8
Interest	8.280,1	8.408,9	8.502,3	8.550,4	8.452,8
Intermediate consumption	9.768,6	9.816,0	10.079,2	10.213,3	10.324,6
Subsidies	1.162,5	1.160,7	1.209,7	1.213,1	1.183,4
Other current expenditure	4.910,1	4.793,3	4.895,4	4.985,6	5.010,9
Capital expenditure	5.662,8	10.571,1	10.389,4	10.481,2	9.682,9
Gross fixed capital formation	3.543,4	3.487,7	3.578,5	3.588,0	3.859,0
Other capital expenditure	2.119,5	7.083,4	6.810,8	6.893,2	5.823,9
Current Balance	-4.055,2	-4.002,1	-3.501,8	-3.466,1	-3.073,4
Balance	-7.962,0	-12.772,6	-12.446,2	-12.482,6	-11.252,4
<i>By memory:</i>					
Primary current expenditure	71.739,76	72.505,15	70.785,21	71.126,61	71.388,70
Gross domestic product at current market prices	172.364,93	173.575,91	173.446,19	174.908,37	176.400,01
Balance in % of GDP	-4,6%	-7,4%	-7,2%	-7,1%	-6,4%

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

change rate (%)

	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Total revenue	0,6	1,3	-1,9	0,6	0,8
Current revenue	0,9	1,2	-1,5	0,6	0,7
Current taxes on income and wealth	-0,4	2,5	-5,0	-0,3	-0,1
Taxes on production and imports	2,4	1,5	0,1	1,8	1,8
Social contributions	1,5	1,0	-2,2	1,1	1,3
Sales	0,0	-1,1	0,6	-0,9	1,4
Other current revenue	-2,5	-0,8	5,4	-2,2	-4,6
Capital revenue	-10,1	2,5	-19,7	1,4	2,7
Total expenditure	2,0	6,8	-2,0	0,5	-0,7
Current expenditure	0,9	1,1	-2,0	0,5	0,2
Social benefits	-0,3	2,0	-3,3	0,0	0,2
Compensation of employees	2,2	0,6	-4,6	0,6	0,4
Interest	0,1	1,6	1,1	0,6	-1,1
Intermediate consumption	0,0	0,5	2,7	1,3	1,1
Subsidies	6,9	-0,2	4,2	0,3	-2,4
Other current expenditure	5,5	-2,4	2,1	1,8	0,5
Capital expenditure	20,1	86,7	-1,7	0,9	-7,6
Gross fixed capital formation ⁽¹⁾	-9,1	-1,6	2,6	0,3	7,6
Other capital expenditure	158,9	234,2	-3,8	1,2	-15,5

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

Table 3: Revenue and expenditure of general government

	2nd quarter of 2014		2nd quarter of 2015		Change rate (%)
	million euro	% GDP	million euro	% GDP	
Total revenue	18.907,0	43,2	19.503,4	43,1	3,2
Current revenue	18.574,6	42,4	19.131,7	42,2	3,0
Current taxes on income and wealth	4.329,3	9,9	4.318,9	9,5	-0,2
Taxes on production and imports	5.963,5	13,6	6.425,5	14,2	7,7
Social contributions	5.194,7	11,9	5.452,3	12,0	5,0
Sales	1.583,5	3,6	1.671,3	3,7	5,5
Other current revenue	1.503,5	3,4	1.263,7	2,8	-16,0
Capital revenue	332,4	0,8	371,7	0,8	11,8
Total expenditure	21.807,1	49,8	21.173,3	46,8	-2,9
Current expenditure	19.817,3	45,2	19.981,7	44,1	0,8
Social benefits	8.086,4	18,5	8.152,9	18,0	0,8
Compensation of employees	5.681,1	13,0	5.769,8	12,7	1,6
Interest	2.029,8	4,6	1.932,2	4,3	-4,8
Intermediate consumption	2.492,5	5,7	2.603,8	5,7	4,5
Subsidies	310,8	0,7	281,0	0,6	-9,6
Other current expenditure	1.216,7	2,8	1.242,0	2,7	2,1
Capital expenditure	1.989,8	4,5	1.191,5	2,6	-40,1
Gross fixed capital formation ⁽¹⁾	587,3	1,3	858,4	1,9	46,2
Other capital expenditure	1.402,5	3,2	333,1	0,7	-76,2
Current Balance	-1.242,7	-2,8	-850,0	-1,9	
Balance	-2.900,1	-6,6	-1.669,9	-3,7	

(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	
	2014S1	2015S1
Balance in Public Accounting	-4.069,1	-3.901,2
Accrual adjustment and sector delimitation in National Accounts	807,0	1.644,9
Difference between paid and due interest	325,4	531,1
Other receivables:	-311,3	-204,4
<i>Temporal adjustment to taxes and contributions</i>	-334,8	-246,4
<i>Others</i>	23,5	42,0
Other payables:	121,0	-375,2
<i>Expenditure already incurred but not yet paid</i>	85,7	-254,2
<i>Others</i>	35,3	-121,0
Other adjustments:	-2.159,7	-1.788,0
<i>of which:</i>	0,0	0,0
<i>Capital injections and debt assumptions</i>	-1.319,7	-2.217,1
Balance in National Accounts:	-5.286,7	-4.092,9
	84.986,9	87.940,7
% of GDP	-6,2%	-4,7%

National Economy: Gross National Income (GNI) increased 0.6%

In the 2nd quarter of 2015, the Gross National Income (GNI) registered a nominal change rate of 0.6 %, 0.3 p.p. lower than the rate of change of nominal GDP. To this result contributed the reduction of the balance of property income (interest and dividends) with the rest of the world (change rate of -0.3% for the income received and 2.7% for the income paid).

Table 5: GDP, GNI and GDI as the cumulated sum of 4 quarters

year ended in the quarter	GDP		GNI		GDI	
	million euros	change of rate (%)	million euros	change of rate (%)	million euros	change of rate (%)
2008Q2	178 077	0,0	171 725	0,0	173 066	0,0
2008Q3	179 098	0,6	172 232	0,3	173 742	0,4
2008Q4	178 873	-0,1	171 910	-0,2	173 720	0,0
2009Q1	177 212	-0,9	169 999	-1,1	171 638	-1,2
2009Q2	176 030	-0,7	168 797	-0,7	170 267	-0,8
2009Q3	175 544	-0,3	169 086	0,2	170 186	0,0
2009Q4	175 448	-0,1	169 024	0,0	169 934	-0,1
2010Q1	177 312	1,1	171 224	1,3	172 152	1,3
2010Q2	178 333	0,6	172 102	0,5	173 214	0,6
2010Q3	179 365	0,6	172 541	0,3	173 819	0,3
2010Q4	179 930	0,3	173 878	0,8	174 987	0,7
2011Q1	179 514	-0,2	174 402	0,3	175 649	0,4
2011Q2	178 996	-0,3	174 281	-0,1	175 543	-0,1
2011Q3	178 022	-0,5	174 335	0,0	175 654	0,1
2011Q4	176 167	-1,0	172 772	-0,9	174 098	-0,9
2012Q1	174 821	-0,8	170 486	-1,3	171 807	-1,3
2012Q2	172 001	-1,6	167 737	-1,6	168 946	-1,7
2012Q3	170 371	-0,9	165 906	-1,1	167 063	-1,1
2012Q4	168 398	-1,2	164 317	-1,0	165 851	-0,7
2013Q1	167 663	-0,4	164 382	0,0	165 954	0,1
2013Q2	168 044	0,2	165 472	0,7	167 263	0,8
2013Q3	168 869	0,5	166 374	0,5	168 206	0,6
2013Q4	170 269	0,8	167 975	1,0	169 808	1,0
2014Q1	170 764	0,3	168 440	0,3	170 542	0,4
2014Q2	172 365	0,9	169 920	0,9	171 892	0,8
2014Q3	173 576	0,7	171 741	1,1	173 812	1,1
2014Q4	173 446	-0,1	171 119	-0,4	173 292	-0,3
2015Q1	174 908	0,8	172 474	0,8	174 702	0,8
2015Q2	176 400	0,9	173 468	0,6	175 554	0,5

The Net Disposable Income (NDI) registered an increase of 0.5% in the 2nd quarter of 2015 while the final consumption expenditure of the economy (which includes the final consumption expenditure of Households and of General Government) registered an increase of 0.9%. The net saving of the economy decreased by 2.0%, determining the reduction of the Net lending of the economy to 1.3% of GDP (0.6 p.p. less than in the previous quarter). The investment for

the total economy was 15.1 % of GDP in the 2nd quarter of 2015 (more 0.2 p.p. than in the previous quarter).

Table 6: Gross Saving and Net Lending / Net Borrowing unit: % of GDP

year ended in the quarter	Gross Saving	Balance of Capital Transfers with the Rest of the World	Gross Capital Formation	Net Lending / Net Borrowing
2008Q3	11,2	-0,8	23,8	-11,7
2008Q4	11,0	-0,9	23,6	-11,4
2009Q1	10,4	-0,8	22,8	-11,4
2009Q2	10,4	-1,1	22,0	-10,3
2009Q3	10,9	-1,2	21,4	-9,2
2009Q4	10,7	-1,1	20,8	-9,0
2010Q1	11,3	-1,0	21,1	-8,8
2010Q2	10,9	-0,9	21,4	-9,5
2010Q3	10,5	-1,0	20,9	-9,5
2010Q4	10,8	-1,3	21,1	-9,0
2011Q1	11,3	-1,5	20,9	-8,1
2011Q2	11,9	-1,4	20,4	-7,0
2011Q3	12,8	-1,5	20,0	-5,7
2011Q4	13,1	-1,4	18,6	-4,0
2012Q1	12,6	-1,6	17,6	-3,3
2012Q2	13,0	-1,7	16,6	-1,8
2012Q3	12,8	-1,8	15,5	-0,8
2012Q4	13,7	-2,0	15,7	0,0
2013Q1	14,3	-1,8	15,1	1,0
2013Q2	15,0	-1,8	14,8	2,0
2013Q3	15,2	-1,7	14,8	2,1
2013Q4	15,4	-1,5	14,6	2,3
2014Q1	15,5	-1,6	14,9	2,1
2014Q2	15,3	-1,5	15,1	1,8
2014Q3	15,7	-1,5	15,1	2,2
2014Q4	15,4	-1,3	15,1	1,7
2015Q1	15,4	-1,3	14,9	1,9
2015Q2	15,0	-1,3	15,1	1,3

Unit labour costs (ULC) decreased

In the 2nd quarter of 2015, the UCL fell by 1.0% (reduction of 0.3% in the previous quarter). This evolution was determined by a decrease of 1.3% in the average compensation of employees, which more than offset the decrease in productivity.

