

31 March, 2016

Excessive Deficit Procedure

1st Notification 2016

Excessive Deficit Procedure (1st notification for 2016)

According to EU regulations, Statistics Portugal presents the first notification for 2016 associated with the Excessive Deficit Procedure (EDP) sent to Eurostat¹. Table 1 of the notification, presented below, summarizes the main results for the period 2012-2016.

Table 1: Reporting of government deficit/surplus and debt levels and provision of associated data

Member State: Portugal Data are in millions of euros Date: 03/31/2016	ESA 2010 codes	2012 Final	2013 Final	2014 Half-finalized	2015 Half-finalized	2016 Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	S.13	-9 529.1	-8 245.2	-12 446.2	-7 893.0	-4 125.4
- Central government	S.1311	-10 662.0	-8 881.6	-13 785.5	-9 770.4	-6 161.6
- Local government	S.1313	818.9	288.5	546.2	788.4	833.5
- Social security funds	S.1314	314.0	347.9	793.1	1 089.1	1 202.7
General government consolidated gross debt						
Level at nominal value outstanding at end of year		212 529.2	219 649.0	225 766.9	231 049.6	237 989.7
<i>By category:</i>						
Currency and deposits	AF.2	9 388.1	10 490.6	14 922.8	18 646.2	
Debt Securities	AF.3	116 979.8	114 345.5	111 590.4	121 592.6	
Short-term	AF.31	13 025.4	7 411.7	12 681.5	10 537.9	
Long-term	AF.32	103 954.4	106 933.8	98 908.9	111 054.7	
Loans	AF.4	86 161.4	94 812.8	99 253.7	90 810.8	
Short-term	AF.41	3 801.2	2 513.5	2 594.4	3 383.6	
Long-term	AF.42	82 360.2	92 299.3	96 659.3	87 427.3	
General government expenditure on: Gross fixed capital formation	P.51	4 158.3	3 701.1	3 525.3	3 856.9	3 659.6
Interest (consolidated)	D.41 (uses)	8 214.4	8 258.3	8 502.3	8 191.7	8 489.3
Gross domestic product at current market prices	B.1*g	168 398.0	170 269.3	173 446.2	179 378.9	186 328.2
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-5.7%	-4.8%	-7.2%	-4.4%	-2.2%
General government consolidated gross debt on GDP		126.2%	129.0%	130.2%	128.8%	127.7%

Remarks:

- (i) As mentioned in the previous press release, Eurostat is currently changing the wording of the Manual on Government Deficit and Debt, in order to further clarify and ensure harmonized application by all Member-States, on the definition of the face value of the currency and deposits instrument, as the accumulated capitalization of the respective interest should be included in the gross debt of General Government. This clarification is being analysed in a permanent discussion forum of the European Statistical System which addresses methodological issues relevant for the compilation of the deficit and debt, leading to the revision of the General Government debt where applicable. In the case of Portugal, the issue is the amount of capitalized interest on Savings Certificates, which has always been reported in Table 4 of the Excessive Deficit Procedure notification (attached to this press release) and is not included in the level of the General Government consolidated debt.

¹ Together with this press release it is published in INE's website the list of units classified in the General Government relevant for National Accounts.

Responsibilities in the notification

As usual since 2006, the present notification was prepared under the Institutional Agreement in the field of General Government Statistics signed on the 10th of January 2006 between Statistics Portugal (National Accounts Department), the Banco de Portugal (Statistics Department) and Budget Directorate-General.

For 2015 and precedent years, the compilation of the Net lending / net borrowing is prepared by Statistics Portugal and the Gross debt is compiled by the Banco de Portugal.

For the current year (2016), the estimates of Net lending / net borrowing and Gross debt are a responsibility of the Ministry of Finance.

Under Council Regulation (EC) No. 473/2009 **the notifications begin 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.

Public to National Accounts adjustments

In the compilation of GG net lending / net borrowing 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 are recorded in the accounting period in which they are paid. On the contrary, in National Accounts, expenditure is recorded on an accrual-basis, that is, in the accounting period to which they refer to, regardless of whether their payment is made in a different period. Accordingly, payments referring to expenditure that is due to other periods are not considered. Another important adjustment is related to sector delimitation of GG. This sector includes entities which are not considered in Public Accounting, but belong to GG sector in National Accounts. Similarly, entities which are not part of GG sector from a National Accounts viewpoint but are included in Public Accounting are excluded. Finally, there are transactions that, according to the conceptual framework of the National Accounts, have a specific classification, notably in some cases where entities from the GG sector acquire shares from other entities, which are recorded as capital transfers and not as financial transactions.

The table below details the main adjustments for 2014 and 2015, presented in tables 2A, 2C and 2D of the Excessive Deficit Procedure notification attached to this press release, namely the Public to National Accounts adjustment .

	Unit: million euro	
	2014	2015
Balance in Public Accounting	-7 100.4	-4 685.0
Accrual adjustment and sector delimitation in National Accounts	3 448.1	2 872.6
Difference between paid and due interest	- 622.1	- 597.1
Other receivables:	312.7	34.2
<i>Temporal adjustment to taxes and contributions</i>	139.2	- 54.6
<i>Others</i>	173.5	88.8
Other payables:	730.2	80.1
<i>Expenditure already incurred but not yet paid</i>	571.2	258.2
<i>Others</i>	159.0	- 178.1
Other adjustments:	-9 214.6	-5 597.8
<i>Capital injections and debt assumptions</i>	-9 858.0	-5 690.9
<i>Others</i>	643.4	93.1
Balance in National Accounts	-12 446.2	-7 893.0

The net borrowing of GG in 2015 was € 7 893 million corresponding to 4.4% of GDP (7.2% in 2014).

As it can be observed in the previous table, one of the main adjustments in the balance of Public Accounting corresponds to the item "other adjustments" that in 2014 includes € 6 186 million (3.6% of GDP) related to the recording of the financing operations of the State to the public enterprises "Carris" and "STCP", to the write-off of non-performing loans by BPN Crédito, held by Parvalorem, S.A. and to the capitalization of Novo Banco.

In 2015, this item includes € 1 766 million related to the capital injection of the State in Banif associated with the resolution operation (please see specific box in the end of this press release). The remaining impact of this operation amounting to € 697.2 million is included in the item "Accrual adjustment and sector delimitation in National Accounts", related to the capital injection of Fundo de Resolução to Banif (€ 489 million) and to the reclassification of some units in the GG sector.

The remaining value corresponds to capital injections granted to corporations classified in GG sector reflected in the "accrual adjustment and sector delimitation in National Accounts" without impacting the net borrowing of GG.

Balances of Regional and Local Government and transfers from Central Government

The table below details the net lending/ net borrowing and the gross debt of (Regional and) Local Government (S1313).

Unit: million euro	2012	2013	2014	2015
Net borrowing (-)/ net lending (+)				
- Regional and Local Government	818.9	288.5	546.2	788.4
<i>Regional Government of Madeira</i>	- 204.3	83.6	87.6	150.3
<i>Regional Government of Azores</i>	- 80.7	- 9.3	- 6.3	- 0.9
<i>Local Government</i>	1 104.0	214.2	464.9	638.9
Gross Debt				
- Regional and Local Government	10 350.8	10 683.3	10 732.1	10 646.9
<i>Regional Government of Madeira</i>	4 117.7	4 290.9	4 494.3	4 681.5
<i>Regional Government of Azores</i>	1 146.5	1 262.1	1 404.8	1 460.2
<i>Local Government</i>	5 086.5	5 130.3	4 833.0	4 505.2

It is also worth noting that the transfers received by Central Government are considered in the compilation of Regional and Local Government net lending / net borrowing. These transfers are recorded as expenditure in Central Government, so that they consolidate in the General Government Account. The following table presents these transfers for 2011 to 2014 included in the General Government Account.

Unit: million euro	2012	2013	2014	2015
Transfers from Central Government to:				
<i>Regional Government of Madeira</i>	239.8	241.8	173.0	172.5
<i>Regional Government of Azores</i>	333.8	318.9	252.4	251.7
<i>Local Government</i>	2 284.0	2 284.2	2 176.2	2 208.8

As far as gross debt is concerned, according to European legislation, the following clarifications are relevant: i) Trade credits are excluded; ii) Debt of public corporations not classified inside General Government is not considered; iii) Debt of municipalities and parishes located in the territory of the Autonomous Regions is included in Local Government.

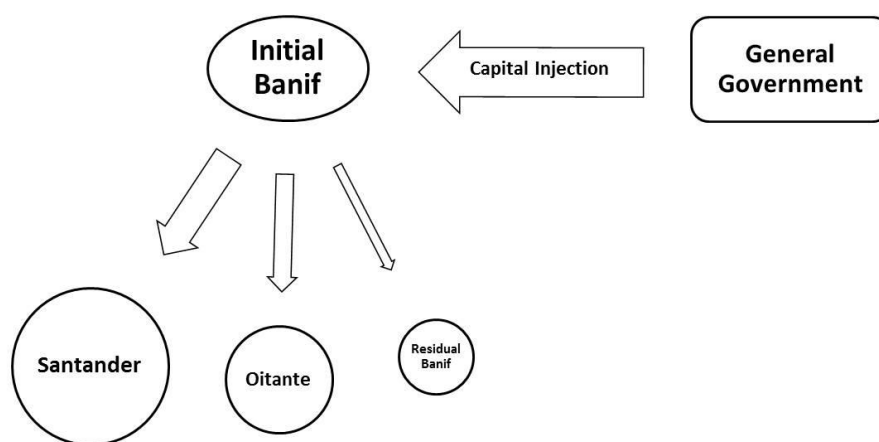
Box: Treatment of the operation of Banif Resolution

On March 24th, Statistics Portugal published the Main Aggregates of General Government press release, which included a box detailing the main features of the resolution measure applied to Banco Internacional do Funchal S.A. (Banif S.A.), occurred in December 20th and the corresponding impact on the General Government net borrowing balance.

The resolution comprised a public support in the form of a capital injection amounting to € 2 255 million of which € 489 million were injected by the Fundo de Resolução, an entity included in the General Government sector, and € 1 766 million directly by the State.

Most assets and liabilities of the former Banif were sold to Banco Santander Totta S.A. (Santander), for € 150 million, with the exception of the problematic assets that were transferred to an entity dedicated to the management of those assets, OITANTE, S.A. (Oitante) owned by the Fundo de Resolução. Banif S.A., which will be liquidated, kept a confined part of the assets, as well as the shareholders positions, subordinated claims and related parties. The capital injection of € 2 255 million is already net of the revenue obtained by Santander.

The following scheme illustrates the partition of the assets and liabilities of initial Banif by the three entities: Santander, Oitante and "residual Banif":



Considering that Oitante is a special purpose vehicle created specifically to manage the problematic assets and is owned by Fundo de Resolução, it was classified in the GG institutional sector according with the rules established in the Manual on Government Deficit and Debt for the treatment of defeasance units.

The assets transferred to Oitante for € 746 million include € 179.2 million of real estate assets that were recorded as gross fixed capital formation, impacting the deficit. According to the information from Banco de Portugal, the resolution of Banif had an impact in the value of the public debt in December 2015 due to the inclusion of the securities issued by Oitante (€ 746 million).

Additionally, it should be mentioned that Oitante injected € 29 million in Banif - Banco de Investimento, S.A., also recorded as capital transfer and impacting the deficit.

The analysis of the information on the residual Banif S.A required an extension of the dialog process between Statistics Portugal and Banco de Portugal, the institution responsible for the compilation of the Gross debt, namely concerning the entity's institutional sector classification and the statistical treatment of its liabilities. Regarding the sector classification, Statistics Portugal has integrated Banif S.A. in the GG institutional sector, namely due to the following facts:

- i) Even though the current board of directors has been appointed by the Banco de Portugal, its mission is associated with the liquidation process, implying a strictly instrumental nature, in a scenario where the Portuguese State is the main shareholder of Banif S.A.;
- ii) By deliberation of the Banco de Portugal, despite of formally keeping the financial license, Banif S.A. was prohibited to take deposits and to grant credits or invest funds in any type of assets, thus not being rationale to include this entity in the financial corporations institutional sector;
- iii) The liquidation of Banif S.A. has already been determined, which implies that there is no possibility of having again a financial intermediary or auxiliary activity in the future.

The information sent to Statistics Portugal indicates that this entity's debt amounts to € 295 million. Also accordingly with that information, the national authorities consider low or even nil the probability of the State assuming the responsibility of these liabilities, once the liquidation process is concluded. However, in Eurostat's understanding, the liabilities of residual Banif S.A. should be included in GG gross debt, a situation that is not reflected in the data sent by Banco de Portugal to Statistics Portugal and presented in this press release. If those liabilities were included, GG gross debt in 2015 would correspond to 129.0% of GDP rather than 128.8%.

In conclusion, the Banif resolution operation determined an increase of the GG deficit in 2015 of € 2 463.2 million (1.4% of GDP), as the following table reveals:

	Unit: million euro
Capital injection - State	1 766.0
Capital injection - Fundo de Resolução	489.0
Classification of Oitante in GG	
Capital injection in Banif - Banco de Investimento, S.A.	29.0
Aquisition of real estate assets	179.2
Total	2 463.2