

Excessive Deficit Procedure

1<sup>st</sup> Notification 2017

**Excessive Deficit Procedure (1<sup>ST</sup> notification for 2017)**

According to EU regulations, Statistics Portugal presents the first notification for 2017 associated with the Excessive Deficit Procedure (EDP) sent to Eurostat<sup>1</sup>.

Table 1 of the notification, presented below, summarizes the main results for the period 2012-2017.

**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: 03/24/2017	ESA 2010 codes	2013 Final	2014 Final	2015 Half-finalized	2016 Half-finalized	2017 <sup>2</sup> Planned
<b>Net borrowing (-)/ net lending (+)</b>	B.9					
General government	S.13	<b>-8 245.2</b>	<b>-12 402.3</b>	<b>-7 826.0</b>	<b>-3 807.3</b>	<b>-3 018.2</b>
- Central government	S.1311	-8 881.6	-13 850.8	-9 756.2	-6 087.9	-5 115.0
- Local government	S.1313	288.5	650.5	817.2	705.8	970.6
- Social security funds	S.1314	347.9	798.0	1 113.1	1 574.8	1 126.3
<b>General government consolidated gross debt<sup>3</sup></b>						
<b>Level at nominal value outstanding at end of year</b>		<b>219 714.9</b>	<b>226 030.6</b>	<b>231 540.4</b>	<b>241 060.9</b>	<b>244 811.0</b>
<i>By category:</i>						
Currency and deposits	AF.2	10 490.6	14 922.8	18 646.2	22 536.5	
Debt Securities	AF.3	114 284.2	111 466.3	121 676.2	132 939.3	
Short-term	AF.31	7 411.7	12 681.5	10 537.9	14 956.8	
Long-term	AF.32	106 872.5	98 784.8	111 138.3	117 982.5	
Loans	AF.4	94 940.1	99 641.6	91 218.0	85 585.1	
Short-term	AF.41	2 513.5	2 591.2	3 377.3	2 785.6	
Long-term	AF.42	92 426.6	97 050.4	87 840.7	82 799.5	
<b>General government expenditure on: Gross fixed capital formation Interest (consolidated)</b>	P.51 D.41 (uses)					
		3 701.1	3 446.3	4 049.3	2 879.6	4 115.7
		8 258.3	8 483.0	8 191.3	7 836.0	8 297.0
<b>Gross domestic product at current market prices</b>	B.1*g	170 269.3	173 079.1	179 504.3	184 931.1	190 463.9
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-4.8%	-7.2%	-4.4%	-2.1%	-1.6%
General government consolidated gross debt on GDP		129.0%	130.6%	129.0%	130.4%	128.5%

<sup>1</sup> Together with this press release is published on INE's website the list of units classified in the General Government, relevant for National Accounts.

<sup>2</sup> For the current year (2017), the estimates of Net lending / net borrowing and Gross debt are a responsibility of the Ministry of Finance.

<sup>3</sup> As mentioned in the April 2015 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.

## 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 10<sup>th</sup> of January 2006 between Statistics Portugal (National Accounts Department), 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 (2017)**, the estimates of Net lending / net borrowing and Gross debt are a responsibility of the Ministry of Finance.

Under Council Regulation (EC) No. 479/2009 **the notifications originate 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.

## Revisions relative to April 2016 notification

The figures of 2015 include revisions comparing with the second EDP notification of 2016. These revisions are a result of the availability of new information that implied a downward revision of both total revenue and total expenditure. Nevertheless, the net borrowing balance was maintained at 4.4% of GDP, as the total revision was residual (revised downwards by 5 million euro).

## Public to National Accounts adjustments

In the compilation of General Government (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 the period of its payment. Accordingly, payments referring to expenditure due on other periods are not considered. Another important adjustment is related to sector delimitation of GG. As the classification of a public entity may differ under National Accounts and Public Accounting viewpoints, not all the entities included in the GG sector are coincident with those considered in the Public Accounting balance. Finally, there are transactions that, according to the conceptual framework of the National Accounts, have a specific classification, notably in the 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 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	
	<b>2015</b>	<b>2016</b>
<b>Balance in Public Accounting</b>	<b>-4 979.9</b>	<b>-4 465.8</b>
Accrual adjustment and sector delimitation in National Accounts	2 452.6	2 396.6
Difference between paid and due interest	- 622.4	- 87.6
Other receivables:	204.1	- 134.8
<i>Temporal adjustment to taxes and contributions</i>	<i>95.6</i>	<i>- 124.7</i>
<i>Others</i>	<i>108.5</i>	<i>- 10.1</i>
Other payables:	568.6	625.4
<i>Expenditure already incurred but not yet paid</i>	<i>291.1</i>	<i>198.2</i>
<i>Others</i>	<i>277.5</i>	<i>427.2</i>
Other adjustments:	-5 449.0	-2 141.1
<i>Capital injections and debt assumptions</i>	<i>-5 539.1</i>	<i>-2 500.1</i>
<i>Others</i>	<i>90.0</i>	<i>359.1</i>
<b>Balance in National Accounts</b>	<b>-7 826.0</b>	<b>-3 807.3</b>

The net borrowing of GG in 2016 was € 3 807 million corresponding to 2.1% of GDP (4.4% in 2015).

The previous table shows that the balance in public accounting displays an improvement as a result of the combined effect of reduction in expenditure and increase in revenue.

The reduction of total expenditure was mainly caused by a decrease in capital expenditure, as current expenditure rose between 2015 and 2016. The reduction in capital expenditure was determined by decreases in capital transfers, given the extraordinary operation of the Banif – *Banco Internacional do Funchal, S.A.* – resolution in 2015, and in gross fixed capital formation, which is partly related to the decrease in revenues from European Union funds.

Total revenue increased as a result of a combined rise in current revenue and a decrease in capital revenue. The behavior of current revenue reflects the growth of economic activity and employment and also the implementation of PERES – *Programa Especial de Redução do Endividamento ao Estado* – a regime published in the Portuguese Official Journal (D-L no. 67/2016) that specified special conditions of payment of outstanding debts to the State and Social Security (in the amount of € 588 million). The variation in capital revenue had as main contributors, with a positive sign, the prepaid margins paid back to the GG by the European Financial Stability Facility, in the amount of € 302 million, as the maturity of one of the loans granted under the Economic and Financial Assistance Programme was reached, and with a negative sign, the considerable decrease in the amounts received via European Union funds.

For a more detailed analysis of the changes in expenditure and revenue, please consult the press release “Main Aggregates of General Government”.

One of the main adjustments in the public accounting balance refers to the item "other adjustments" that included, in 2015, the € 1 766 million related to the State capital injection in Banif and the capital injections granted to corporation classified inside the GG sector reflected in the "accrual adjustment and sector delimitation in National Accounts" without impacting the net borrowing of GG. In 2016, this includes the reimbursement of the prepaid margins previously referred.

## 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	2013	2014	2015	2016
<b>Net borrowing (-)/ net lending (+)</b>				
- Regional and Local Government	<b>288.5</b>	<b>650.5</b>	<b>817.2</b>	<b>705.8</b>
<i>Regional Government of Madeira</i>	83.6	114.6	180.1	230.1
<i>Regional Government of Azores</i>	- 9.3	- 30.5	- 26.8	- 59.9
<i>Local Government</i>	214.2	566.4	663.9	535.6
<b>Gross Debt</b>				
- Regional and Local Government	<b>10 694.7</b>	<b>11 003.8</b>	<b>10 899.4</b>	<b>10 544.8</b>
<i>Regional Government of Madeira</i>	4 290.9	4 756.9	4 934.1	4 839.3
<i>Regional Government of Azores</i>	1 262.1	1 404.8	1 485.2	1 596.3
<i>Local Government</i>	5 141.7	4 842.1	4 480.2	4 109.2

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, from 2012 to 2016, included in the General Government Account.

Unit: million euro	2013	2014	2015	2016
<b>Transfers from Central Government to:</b>				
<i>Regional Government of Madeira</i>	241.8	173.0	172.5	174.6
<i>Regional Government of Azores</i>	318.9	252.4	251.0	252.0
<i>Local Government</i>	2 284.2	2 176.2	2 208.8	2 262.2

As far as gross debt is concerned, and accordingly with 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.