

21 September 2018

Excessive Deficit Procedure

2nd Notification 2018

Excessive Deficit Procedure (2nd Notification for 2018)

According to EU regulations, Statistics Portugal presents the second notification for 2018 associated with the Excessive Deficit Procedure (EDP) to be sent to Eurostat before the end of the month¹. According to these provisional results, the net borrowing of General Government (GG) in 2017 amounted to € 5 762.5 million, corresponding to 3.0% of GDP (2.0% in 2016). This balance includes the effect of the recapitalisation process of Caixa Geral de Depósitos (CGD), in the amount of € 3 944 million, implying an increase in net borrowing of 2.0% of GDP. Gross debt of GG amounted to 124.8% of GDP in 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 Data: 21/09/2018	ESA 2010 codes	2014 Final	2015 Final	2016 Final	2017 Half-finalized	2018 Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	S.13	-12 402.3	-7 917.8	-3 674.2	-5 762.5	-1 490.2
- Central government	S.1311	-13 850.8	-9 817.7	-6 084.6	-8 492.9	-3 451.3
- Local government	S.1313	650.5	771.3	840.1	486.0	970.1
- Social security funds	S.1314	798.0	1 128.6	1 570.2	2 244.5	990.9
General government consolidated gross debt ²		Final	Final	Final	Half-finalized	Planned
Level at nominal value outstanding at end of year		226 040.5	231 512.6	240 962.6	242 804.5	244 914.7
<i>By category:</i>						
Currency and deposits	AF.2	14 921.9	18 646.7	22 536.1	25 187.8	
Debt Securities	AF.3	111 476.4	121 722.6	132 856.2	142 260.4	
Short-term	AF.31	12 681.4	10 537.9	14 956.8	15 400.4	
Long-term	AF.32	98 795.0	111 184.7	117 899.4	126 860.0	
Loans	AF.4	99 642.2	91 143.4	85 570.3	75 356.3	
Short-term	AF.41	2 591.2	3 377.3	2 808.1	1 457.6	
Long-term	AF.42	97 051.0	87 766.0	82 762.2	73 898.7	
General government expenditure on: Gross fixed capital formation	P.51	3 446.3	4 045.4	2 887.4	3 563.5	4 585.0
Interest (consolidated)	D.41 (uses)	8 483.0	8 209.9	7 800.4	7 436.9	7 052.1
Gross domestic product at current market prices	B.1*g	173 079.1	179 809.1	186 480.5	194 613.5	202 008.6
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-7.2%	-4.4%	-2.0%	-3.0%	-0.7%
General government consolidated gross debt on GDP		130.6%	128.8%	129.2%	124.8%	121.2%

¹ Together with this press release is published on INE's website the list of units classified in the GG sector, relevant for National Accounts.

² As mentioned in previous press releases, Eurostat is analysing 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 GG. 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 GG 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 notification (attached to this press release) and is not included in the GG consolidated debt.

Responsibilities in the notification

The present notification was prepared under a new Institutional Agreement in the field of General Government (GG) Statistics, signed on the 27th March 2017, where Statistics Portugal, Banco de Portugal and the Budget Directorate-General (Ministry of Finance) are responsible for the reporting according to the following terms.

For 2017 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 (2018), the estimates of Net lending / net borrowing, Gross debt and GDP are a responsibility of the Ministry of Finance, based on the macroeconomic scenario underlying the 2018 Stability Programme.

Under Council Regulation (EC) No. 479/2009 **the notifications initiate 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 2017 notification

Comparing with the first EDP notification of 2018, the figures for 2016 and 2017 were revised due to the incorporation of recently available data. The results for 2016 are now final, whereas those for 2017 have still a provisional nature.

The revisions of the figures for 2016 are determined by the use of final and exhaustive information, now available for each unit classified in the General Government sector. As for 2017, the revisions mainly reflect the incorporation of data from Simplified Business Information (Informação Empresarial Simplificada – IES) and of data on an accrual basis, rather than cash basis for a vast group of entities. The new information for Municipalities based on an accrual basis explains the revision of Local Government in -102 million euro.

The following table details the revisions on net lending / net borrowing for 2016 and 2017, by subsector of General Government:

	ESA 2010 codes	2014 Final	2015 Final	2016 Final	2017 Half-finalized
Unid: million euro					
Net borrowing (-)/ net lending (+)	B.9				
General government	S.13	0.0	0.0	-9.1	-53.0
- Central government	S.1311	0.0	0.0	-3.9	37.9
- Local government	S.1313	0.0	0.0	-14.5	-102.0
- Social security funds	S.1314	0.0	0.0	9.4	11.0

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. In National Accounts, expenditure is recorded on an accrual-basis, that is, in the accounting period to which it refers 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 expenditure (capital transfer) and not as financial transactions.

The table below details the main adjustments for 2016 and 2017, presented in tables 2A, 2C and 2D of the EDP notification attached to this press release, namely the Public to National Accounts adjustment.

	Unit: million euro	
	2016	2017
Balance in Public Accounting	-4 438.2	-2 779.1
Accrual adjustment and sector delimitation in National Accounts	2 920.1	3 086.0
Difference between paid and due interest	- 87.5	- 77.6
Other receivables:	- 632.2	- 702.6
<i>Temporal adjustment to taxes and contributions</i>	- 123.9	271.6
<i>Others</i>	- 508.4	- 974.2
Other payables:	242.8	226.5
<i>Expenditure already incurred but not yet paid</i>	175.5	91.3
<i>Others</i>	67.3	143.4
Other adjustments:	-1 679.3	-5 515.7
<i>Capital injections and debt assumptions</i>	-2 510.3	-6 376.6
<i>Others</i>	830.9	860.9
Balance in National Accounts	-3 674.2	-5 762.5

The previous table shows an improvement in the balance in public accounting, as the increase in revenue was larger than the increase in expenditure.

One of the main adjustments in the public accounting balance refers to the item *Capital injections and debt assumptions* that includes, in 2017, the capital injection of € 3 944 million in CGD.

The net borrowing of GG in 2017 amounted to € 5 762.5 million, corresponding to 3.0% of GDP (2.0% in 2016). This balance includes the effect of the recapitalisation process of Caixa Geral de Depósitos (CGD), in the amount of € 3 944 million, implying an increase in net borrowing of 2.0% of GDP³.

Total revenue grew in 2017 as the increase of current revenue more than compensated the decrease of capital revenue. The positive behaviour of current revenue, particularly tax revenue and social contributions, is explained to a large extent by the evolution of the economic activity and employment. Capital revenue decreased as a result of the decrease in other capital transfers received. In part, the drop of other capital transfers is related with the recording, in 2016, of the reimbursement of the prepaid margins by the European Financial Stability Facility to the GG, as the maturity of the loans granted under the Economic and Financial Assistance Programme was reached (€ 302 million).

Current expenditure grew due to the combined effect of the increase of the compensation of employees and of the increase of social benefits (excluding social transfers in kind) and the decrease of interest payments.

The significant increase in capital expenditure is largely explained by the effect of the recapitalisation process of CGD. Notwithstanding, capital expenditure, net of this operation, continues to show a positive variation, due to the increase in investment (gross capital formation).

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

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
Net borrowing (-)/ net lending (+)				
- Regional and Local Government	650.5	771.3	840.1	486.0
<i>Regional Government of Madeira</i>	114.6	177.2	223.9	79.6
<i>Regional Government of Azores</i>	- 30.5	- 39.8	- 67.3	- 48.3
<i>Local Government</i>	566.4	633.9	683.5	454.7
Gross Debt				
- Regional and Local Government	11 004.3	10 899.4	10 561.6	10 347.5
<i>Regional Government of Madeira</i>	4 756.9	4 934.1	4 852.8	4 866.2
<i>Regional Government of Azores</i>	1 404.8	1 485.2	1 596.0	1 690.4
<i>Local Government</i>	4 842.6	4 480.2	4 112.8	3 791.0

³ Considering two decimal places, the net borrowing of GG corresponded to 2.96% of GDP and the effect of the CGD recapitalization process was 2.03% of GDP in 2017. Consequently, excluding this impact, the net borrowing was 0.93% of GDP.

It is 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 2014 to 2017, included in the General Government Account.

Unit: million euro	2014	2015	2016	2017
Transfers from Central Government to:				
<i>Regional Government of Madeira</i>	173.0	172.5	174.6	172.8
<i>Regional Government of Azores</i>	252.4	251.0	251.9	250.5
<i>Local Government</i>	2 176.2	2 208.8	2 262.3	2 347.8

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.