

23 September 2019

Excessive Deficit Procedure

2<sup>nd</sup> Notification 2019

**Excessive Deficit Procedure (2<sup>nd</sup> notification for 2019)**

According to EU regulations, Statistics Portugal presents the second notification for 2019 associated with the Excessive Deficit Procedure (EDP) to be sent to Eurostat before the end of the month<sup>1</sup>. According to these provisional results, consistent with the Portuguese National Accounts benchmark year 2016, the net borrowing of General Government (GG) in 2018 amounted to € 910.9 million, corresponding to 0.4% of GDP (3.0% in 2017). Gross debt of GG attained 122.2% of GDP in 2018.

Table 1 of the notification, presented below, summarizes the main results for the period 2015-2019.

**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: 23/09/2019	ESA 2010 codes	2015 Final	2016 Final	2017 Final	2018 Half-finalized	2019 Planned
<b>Net borrowing (-)/ net lending (+)</b>	B.9					
General government	S.13	<b>-7 995.0</b>	<b>-3 527.5</b>	<b>-5 799.1</b>	<b>- 910.9</b>	<b>- 330.0</b>
- Central government	S.1311	-9 899.9	-5 944.0	-8 358.5	-3 286.1	-2 909.1
- Local government	S.1313	776.3	846.6	316.8	347.5	848.4
- Social security funds	S.1314	1 128.5	1 569.9	2 242.6	2 027.7	1 730.8
<b>General government consolidated gross debt <sup>2</sup></b>						
<b>Level at nominal value outstanding at end of year</b>		<b>235 746.1</b>	<b>245 157.9</b>	<b>246 966.5</b>	<b>249 143.1</b>	<b>251 569.0</b>
<i>By category:</i>						
Currency and deposits	AF.2	22 815.1	26 831.8	29 461.4	30 795.5	
Debt Securities	AF.3	121 722.6	132 766.2	142 170.4	149 311.9	
Short-term	AF.31	10 537.9	14 956.8	15 400.4	13 264.8	
Long-term	AF.32	111 184.7	117 809.4	126 770.0	136 047.1	
Loans	AF.4	91 208.5	85 559.9	75 334.7	69 035.7	
Short-term	AF.41	3 410.5	2 815.8	1 446.2	1 328.1	
Long-term	AF.42	87 798.0	82 744.1	73 888.5	67 707.6	
<b>General government expenditure on: Gross fixed capital formation Interest (consolidated)</b>	P.51 D.41 (uses)					
		4 045.4	2 875.2	3 496.5	3 794.7	4 381.8
		8 239.3	7 738.9	7 398.9	6 897.8	6 821.2
<b>Gross domestic product at current market prices</b>	B.1*g	179 713.2	186 489.8	195 947.2	203 896.2	210 843.7
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-4.4%	-1.9%	-3.0%	-0.4%	-0.2%
General government consolidated gross debt on GDP		131.2%	131.5%	126.0%	122.2%	119.3%

<sup>1</sup> The list of institutional units included in the GG sector, relevant for National Accounts, is published on INE's website together with this press release.

## Responsibilities in the notification

The present notification was prepared under a new Institutional Agreement in the field of GG Statistics, signed on the 27<sup>th</sup> 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 2018 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 (2019)**, 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 2019 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.

The results presented in this notification correspond to the first release of the GG accounts in the new National Accounts benchmark year of 2016, replacing the benchmark year 2011<sup>2</sup>. The results for national accounts series from 1995 to 2017 are final, whereas those for 2018 have still a provisional nature.

The regular update (usually every five years) of the National Accounts benchmark year is a common practice in European Union countries, and will be implemented in 2019 in more than 20 countries.

Unlike the 2011 benchmark series which incorporated significant methodological changes as a result of the ESA 2010 implementation, the 2016 benchmark included only minor methodological changes. Thus, the revisions in 2017 and 2018 are mainly due to the incorporation of more recent and complete data.

In the specific case of the General Government, the 2019 edition of the Manual on Government Deficit and Debt clarified the methodological procedures for the recording of some operations namely the inclusion of capitalised interest on saving certificates in the public debt, which was under discussion since 2015. For this reason the footnote included in table 1 of the previous press releases was the incorporation of recently available data. The new figures of public debt published by Banco de Portugal are available on the following address:  
<https://www.bportugal.pt/en/comunicado/statistical-press-release-public-debt-statistics-revised-methodology>.

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<sup>2</sup> About the impact on the GDP due to the change in the benchmark year and the revisions in the 2017 and 2018 figures it should be consulted the press release "Contas Nacionais Anuais – Base 2016" also released today (detailed version only in Portuguese).

## Revisions relative to April 2019 notification

Vis-à-vis the first EDP notification of 2019, the figures for 2017 and 2018 were revised due not only to the implementation of the 2016 benchmark but also to the incorporation of recently available data. The results for 2017 are now final, whereas those for 2018 are half-finalized.

The revisions of the figures for 2017 were determined by the use of final and detailed information, now available for all units classified in the General Government sector. As for 2018 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 following table details the revisions on net lending / net borrowing by subsector of GG:

Unid: million euro	ESA 2010 codes	2015 Final	2016 Final	2017 Final	2018 Half-finalized
	<b>Net borrowing (-)/ net lending (+)</b>	B.9			
General government	S.13	<b>-77.3</b>	<b>146.8</b>	<b>-33.0</b>	<b>1.9</b>
- Central government	S.1311	-82.2	140.6	134.5	72.2
- Local government	S.1313	5.0	6.5	-165.6	-76.9
- Social security funds	S.1314	-0.1	-0.3	-1.9	6.6

## Public to National Accounts adjustments

For the compilation of GG net lending / net borrowing in National Accounts several adjustments to Public Accounting data are necessary. 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 2017 and 2018, 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	
	2017	2018
<b>Balance in Public Accounting</b>	<b>-2 779.1</b>	<b>-2 576.5</b>
Accrual adjustment and sector delimitation in National Accounts	3 180.8	2 757.8
Difference between paid and due interest	- 77.6	332.4
Other receivables:	- 772.2	205.9
<i>Temporal adjustment to taxes and contributions</i>	270.5	766.6
<i>Others</i>	-1 042.6	- 560.6
Other payables:	178.8	159.0
<i>Expenditure already incurred but not yet paid</i>	18.1	80.6
<i>Others</i>	160.7	78.4
Other adjustments:	-5 529.7	-1 789.6
<i>Capital injections and debt assumptions</i>	-6 383.8	-2 051.7
<i>Others</i>	854.1	262.1
<b>Balance in National Accounts</b>	<b>-5 799.1</b>	<b>- 910.9</b>

The net borrowing of GG in 2018 amounted to € 910.9 million, corresponding to 0.4% of GDP (3.0% in 2017). The balance in public accounting presents a less significant improvement in 2018.

As referred in previous press releases, one of the main adjustments in the public accounting balance refers to the item *Other adjustments* that includes, in 2017, the capital injection of € 3 944 million in *Caixa Geral de Depósitos* (CGD). This adjustment also includes the capital injections granted to corporations classified in the GG sector, without impacting the balance in national accounts as they are reflected in the item "Accrual adjustment and sector delimitation in National Accounts".

It should be recalled that in 2018, this item includes some transactions recorded as capital transfers in national accounts impacting the GG balance: *i)* capital increase of € 792 million euro in *Novo Banco*, made by *Fundo de Resolução*; *ii)* the loan and the guarantee granted by the *Direção Geral de Tesouro e Finanças* to the Credit Recovery Fund for the unqualified investors holding commercial paper of ESI and Rio Forte amounting to € 280.6 million; *iii)* a guarantee granted by Regional Government of Açores (RGA) to *SATA, Air Açores*, amounting to € 65 million, recorded as a capital transfer due the economic and financial condition of the corporation.

Total revenue increased between 2017 and 2018. This improvement was mainly determined by the increase in the capital and current revenue, particularly tax revenue and social contributions.

The decrease in total expenditure, between 2017 and 2018, is mainly determined by the reduction of capital expenditure as the current expenditure increased. The capital expenditure that in 2017 included the effect of the recapitalisation process of CGD, decreased despite the increase in investment (gross capital formation).

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.

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	2015	2016	2017	2018
<b>Net borrowing (-)/ net lending (+)</b>				
- Regional and Local Government	<b>776.3</b>	<b>846.6</b>	<b>316.8</b>	<b>347.5</b>
<i>Regional Government of Madeira</i>	177.2	223.8	79.6	101.3
<i>Regional Government of Azores</i>	- 39.8	- 67.1	- 70.0	- 139.6
<i>Local Government</i>	638.9	689.9	307.2	385.8
<b>Gross Debt</b>				
- Regional and Local Government	<b>10 842.6</b>	<b>10 505.9</b>	<b>10 283.6</b>	<b>10 152.7</b>
<i>Regional Government of Madeira</i>	4 871.6	4 790.3	4 803.7	4 746.9
<i>Regional Government of Azores</i>	1 485.2	1 596.0	1 690.4	1 860.0
<i>Local Government</i>	4 485.9	4 119.6	3 789.5	3 545.9

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 2015 to 2018, included in the General Government Account.

Unit: million euro	2015	2016	2017	2018
<b>Transfers from Central Government to:</b>				
<i>Regional Government of Madeira</i>	172.5	174.6	172.8	177.4
<i>Regional Government of Azores</i>	251.0	251.9	250.5	259.3
<i>Local Government</i>	2 208.8	2 262.3	2 347.8	2 267.5

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.