23 September 2019

Main aggregates of General Government
1995-2018

## Main aggregates Of General Government

Statistics Portugal publishes the first results on the main aggregates of General Government (GG) in a new series of the Portuguese National Accounts, with 2016 as benchmark year. The results now presented cover the 1995-2018 period, with provisional data for 2018 and final data for the previous years.

According to the provisional estimate for 2018, the GG sector presented a net borrowing of 910.9 million euro, corresponding to 0.4% of GDP.

The GG sector accounts presented in this press release are compiled in accordance with the concepts and definitions of the European System of National and Regional Accounts 2010 (ESA 2010). In addition, specific guidelines of the Manual on Government Deficit and Debt[1] are applied. The results presented in this press release are sent to Eurostat in accordance with the ESA 2010 data transmission programme[2] and are fully consistent with the second notification of 2019 for the Excessive Deficit Procedure (EDP), also published today.

### *The 2019 provisional estimate*

Table 1 presents the half-finalized data for the main aggregates of GG, arranged by sub-sector, for 2018.

**TABLE 1 – MAIN AGGREGATES OF GENERAL GOVERNMENT - HALF-FINALIZED DATA**
**TIME: 2018**
*Unit: Million euro*

| Transaction code | Transaction label | General Government S13 | Central Government S1311 | Local and Regional Government S1313 | Social Security Funds S1314 |
|---|---|---|---|---|---|
| **OTE** | **Total expenditure** | 88 606 | 64 906 | 11 842 | 24 639 |
| **OTR** | **Total revenue** | 87 695 | 61 620 | 12 189 | 26 667 |
| **B.9** | **Net lending (+) / Net borrowing (-)** (National Accounts balance) | -911 | -3 286 | 348 | 2 028 |

Note: For total expenditure (OTE) and total revenue (OTR), the sum of sub-sectors is not equal to the sector value, due to consolidation effects in some transactions.

[1] This document is available at https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-19-007.

[2] Regulation (EU) No. 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts.

The net borrowing of the GG sector was 910.9 million euro in 2018, which corresponds to 0.4% of GDP (912.8 million euro and 0.5% of GDP in the previous provisional version[3], published last March). This negative balance was driven by the Central Government subsector, as both the Local and Regional Government and the Social Security Funds presented a positive balance.

Table 2 presents the main components of GG revenue.

**TABLE 2 – GENERAL GOVERNMENT REVENUE** *Unit: Million euro*

| Transaction code | Transaction label | 2017 | 2018 |
|---|---|---|---|
| **OTR** | **Total revenue** | **83 105** | **87 695** |
| | **Current revenue** | **82 387** | **86 867** |
| | of which | | |
| D.2 | Taxes on production and imports | 29 155 | 30 956 |
| D.61 | Social contributions | 22 693 | 23 835 |
| D.5 | Current taxes on income, wealth, etc... | 19 414 | 20 681 |
| **D.9** | **Capital revenue** | **718** | **829** |

Compared to 2017, GG total revenue increased by 5.5% in 2018 (4.6 thousand million euro). This positive change is due to the capital revenue increase of 15.4% and the current revenue increase of 5.4%, driven by the growth of its main components: taxes on production and imports (+6.2%), social contributions (+5.0%) and current taxes on income and wealth (+6.5%).

Table 3 presents the main components of GG expenditure for 2017 and 2018. Total expenditure decreased by 0.3% between 2017 and 2018. This reduction was the combined result of an increase in current expenditure (+2.4%) with a decrease in capital expenditure (-26.1%).

The increase in current expenditure was mainly due to the 3.0% growth in social benefits, other than social transfers in kind, and the 2.1% growth in the compensation of employees. In the opposite direction, there was a decrease of 6.8% in interest payments (501 million euro).

As for the capital expenditure, the 2018 decrease was mainly due to the significant drop in capital transfers, which in 2017 included the effect of the recapitalisation process of Caixa Geral de Depósitos (CGD). In the opposite direction, gross capital formation grew 9.4%.

[3] National Accounts 2011 benchmark provisional estimate.

**TABLE 3 – GENERAL GOVERNMENT EXPENDITURE** *Unit: Million euro*

| Transaction code | Transaction label | 2017 | 2018 |
|---|---|---|---|
| **OTE** | **Total expenditure** | **88 904** | **88 606** |
| | **Current expenditure** | **80 372** | **82 297** |
| | of which | | |
| D.1 | Compensation of employees | 21 386 | 21 835 |
| D.62 | Social benefits other than social transfers in kind | 36 013 | 37 099 |
| D.41 | Interest | 7 399 | 6 898 |
| **D.9+P.5+NP** | **Capital expenditure** | **8 533** | **6 309** |

As a result of the above mentioned changes, the current expenditure share in total expenditure increased from 90.4% in 2017, to 92.9% in 2018, given the larger weight of social benefits (+1.4 p.p.) and of the compensation of employees (+0.6 p.p.) which, together, represented 66.5% of total expenditure in 2018. In the opposite direction, interest payments accounted for 8.3% of public expenditure in 2017 and 7.8% in 2018.

In accordance with the increase in the current expenditure share, the relative importance of capital expenditure in total expenditure decreased by 2.5 p.p. when compared to the previous year.

Table 4 shows GG balances for 2017 and 2018.

**TABLE 4 - GENERAL GOVERNMENT BALANCES** *Unit: Million euro*

| Transaction code | Transaction label | 2017 | 2018 |
|---|---|---|---|
| **B.9** | **Net lending (+) / Net borrowing (-)** (National Accounts Balance) | **-5 799** | **-911** |
| | Current balance | 2 016 | 4 569 |
| B.9 - D.41 | Primary balance | 1 600 | 5 987 |

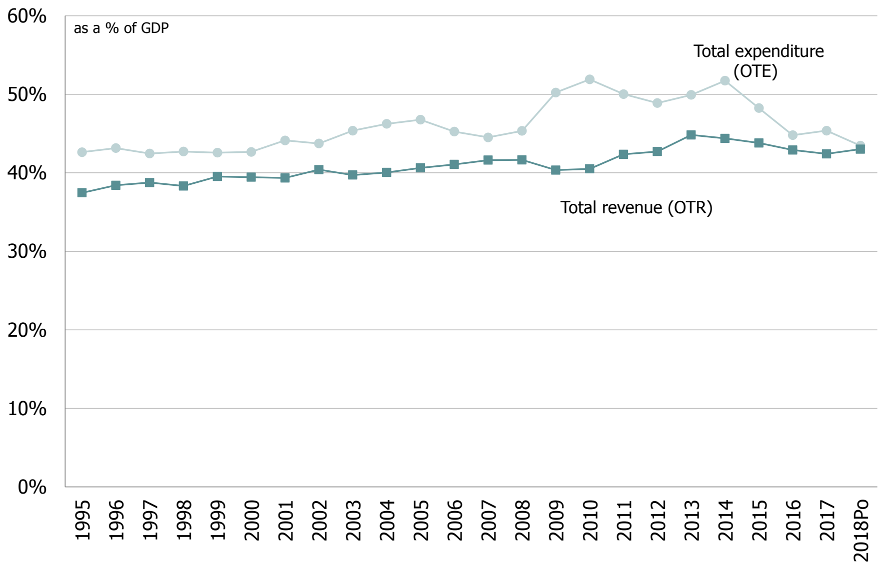
The 2018 provisional estimate reveals that the net borrowing of GG sector decreased by 4.9 thousand million euro when compared to the 2017 results, reaching 910.9 million euro in 2018, which represents 0.4% of GDP. This reduction in the net borrowing was the result of a revenue increase (+5.5%) and a slight decrease in expenditure (-0.3%).

The primary balance (the global balance net of interest payments) increased by more than 4 thousand million euro comparing with 2017, moving to a surplus of near 6 thousand million euro.

### *The change over the period 1995-2018*

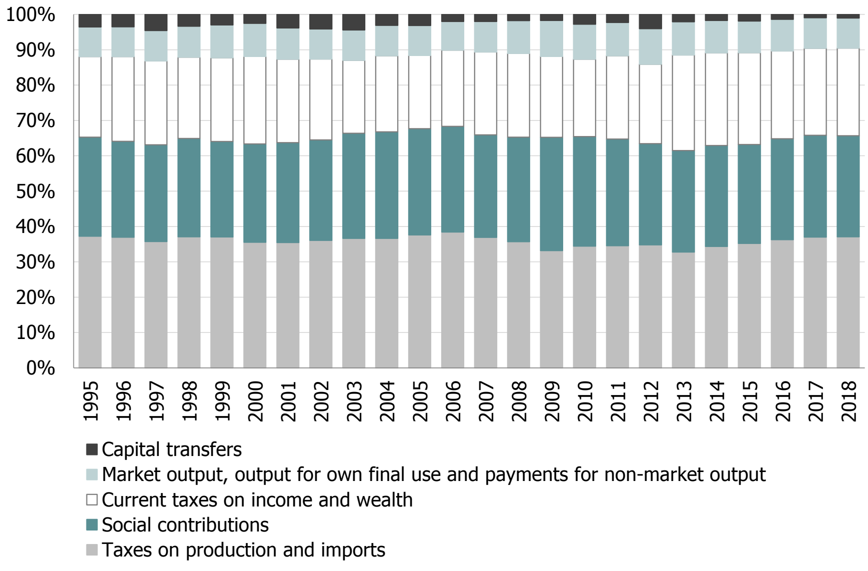
Due to the combined performance of revenue and expenditure over the period 1995-2018 there was a persistence GG net borrowing, particularly high between 2009 and 2014, reaching maximums in 2009 and 2010 and a decreasing trend onwards.

**Figure 1 – Main aggregates of General Government, 1995-2018**




Over the period 1995-2018, tax revenue, including social contributions, ranged from 80% (in 2012) and 86% (in 2018) of total revenue. Over the entire period, taxes on production and imports were the main source of revenue (with an annual contribution, on average, of 34% of total revenue), followed by social contributions (on average, 27% of total revenue) and current taxes on income and wealth (22%).

**Figure 2 – Composition of the General Government revenue, 1995-2018**

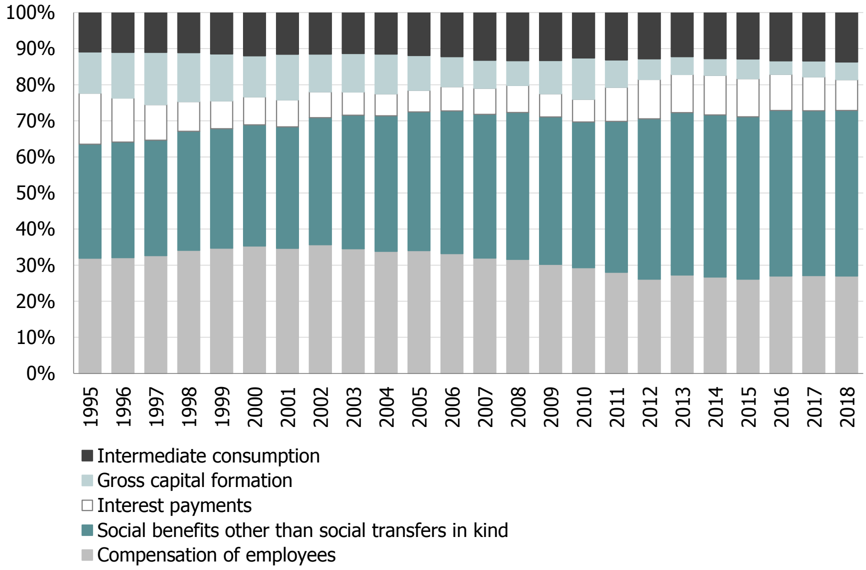



Between 1995 and 2018, GG total expenditure grew on average 3.8% per year, moving from 38.0 to 88.6 thousand million euro. In percentage of GDP, public expenditure remained relatively stable till 2008, showing a growing trend between 2008 and 2014 and representing, on average over this shorter period, 50% of the GDP.

In 2015, this trend has been reversed with 2018 showing a ratio closer to the one of 1995 (43.5% and 42.6% of GDP, respectively).

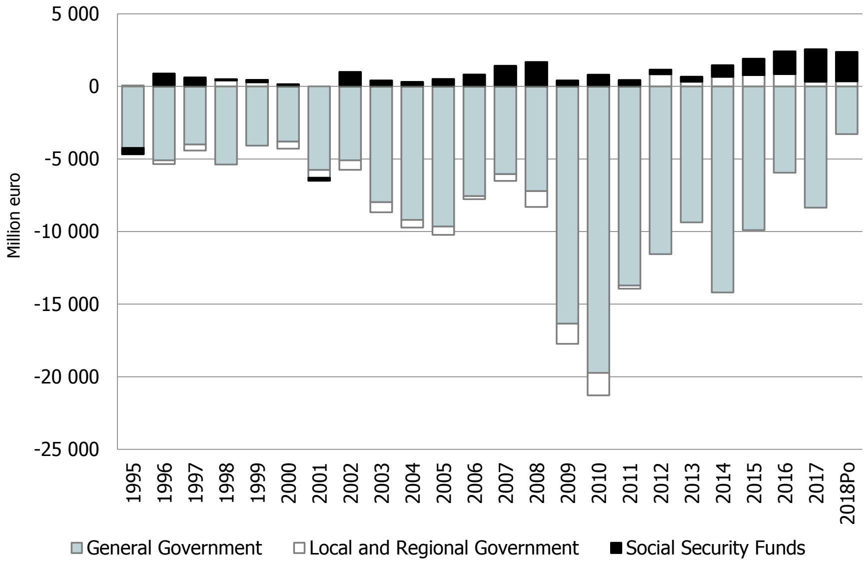
Over the series, there was a change in the composition of public expenditure given the larger share of social benefits which more than compensated for the decrease in weight of the compensation of employees. In 1995, these two items accounted for 58.2% of GG expenditure, with a slight dominance of the compensation of employees; in 2018, these items accounted for 66.5% of total expenditure, but with unequal individual contributions: 24.6% of the compensation of employees and 41.9% of social benefits.

**Figure 3 – Composition of the General Government expenditure, 1995-2018**




Over the period under analysis, the Portuguese General Government showed a persistence net borrowing, mainly due to the performance of Central Government accounts. The Local and Regional Government, after of period of 12 years of public deficits, has a surplus since 2012 even if with erratic amounts. In case of Social Security Funds, among the 24 budget years under analysis, in only two there was a deficit: 1995 and 2001. In particular, in the last years (since 2015), the Social Security Funds balance in national accounts exceeded 1 thousand million euro.

**Figure 4 – General Government net lending (+) / net borrowing (-), 1995-2018**




## Methodological note

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 deep methodological changes as a result of the ESA 2010 implementation, the 2016 benchmark series does not include structural methodological changes. In general, the purpose is: i) to incorporate new information, namely in transactions recorded in the Balance of Payments; ii) to integrate improvements in computation methods and procedures, including advices arising from the permanent dialogue with Eurostat; iii) and to improve the consistency between the rest of the world account and the Balance of Payments, which will also produce revised series in October.

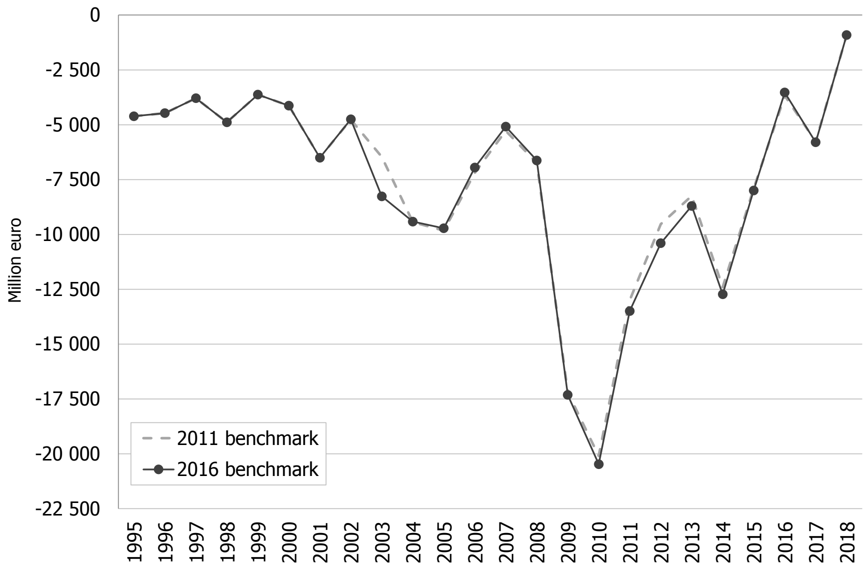
In the specific case of the General Government, the 2019 edition of Manual on Government Deficit and Debt (MGDD) clarified the recording procedures of some operations; additionally, some changes were introduced as the result of adjustments in the sector classification of some units.

The results under analysis in this press release correspond to the first release of the main aggregates of General Government within the Portuguese National Accounts 2016 benchmark. The 1995-2017 series is final. The 2018 data are half-finalized. The revisions introduced in the 2016 benchmark have a more significant impact in the period between 2003 and 2016, as shown in Figure 5.

The implementation of the MGDD 2019 edition allowed for the clarification of the recording procedures of some operations, as the revenue from the allocation of 4G UMTS licenses and the European Union funds intermediated by public institutions.

Additionally, and as a result of the ongoing debate and, especially the last Eurostat dialogue visit to Portugal, which took place in January 2019, it should be highlighted (i) the change in the recording procedure of operations on tax credits securitisation, with a particularly relevant impact in 2003, with the corresponding revenues being allocated to the years in which the credits were actually recovered and (ii) to change the sector classification of TAP, SGPS from General Government to the Non-financial Corporations sector from 2016 onwards, following the partial privatization of the company, which required for the backward revision of the series by incorporating the additional past losses attributable to the company.

**Figure 5 – General Government net lending (+) / net borrowing (-), 2011 benchmark and 2016 benchmark, 1995-2018**




Notes:
2017 data are half-finalized in 2011 benchmark and final in 2016 benchmark.
2018 are half-finalized in both series.

Comparing the two time series, 2011 benchmark and 2016 benchmark, it becomes clear that General Government net lending was revised downwards, especially for 2003 (-1 799 million euro), with this being fundamentally explained by the change in recording tax credit securitization transactions. For the period 2009-2015, there were also minor downward revisions as a result of adjustments in the intermediation by public entities of the European Union funds.