

25 March 2020

Excessive Deficit Procedure

1<sup>st</sup> Notification 2020

**Excessive Deficit Procedure (1<sup>st</sup> Notification for 2020)**

According to EU regulations, Statistics Portugal presents the first notification for 2020 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, the net lending of General Government (GG) in 2019 amounted to € 403.9 million, corresponding to 0.2% of GDP (-0.4% in 2018). Gross debt of GG attained 117.7% of GDP in 2019.

Table 1 of the notification, presented below, summarizes the main results for the period 2016-2020.

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: 25/03/2020	ESA 2010 codes	2016 Final	2017 Final	2018 Half-finalized	2019 Half-finalized	2020 Planned
<b>Net borrowing (-)/ net lending (+)</b>	B.9					
General government	S.13	<b>-3 608.6</b>	<b>-5 792.2</b>	<b>- 904.0</b>	<b>403.9</b>	<b>515.0</b>
- Central government	S.1311	-6 025.1	-8 351.6	-3 279.2	-3 278.6	-2 937.0
- Local government	S.1313	846.6	316.8	347.5	727.3	653.0
- Social security funds	S.1314	1 569.9	2 242.6	2 027.7	2 955.2	2 799.0
<b>General government consolidated gross debt <sup>2</sup></b>						
<b>Level at nominal value outstanding at end of year</b>		<b>245 244.8</b>	<b>247 173.7</b>	<b>249 260.6</b>	<b>249 980.3</b>	<b>252 133.0</b>
<i>By category:</i>						
Currency and deposits	AF.2	26 831.8	29 461.4	30 795.5	31 803.2	
Debt Securities	AF.3	132 766.2	142 151.4	149 327.9	151 636.2	
Short-term	AF.31	14 956.8	15 400.4	13 264.8	11 245.2	
Long-term	AF.32	117 809.4	126 751.1	136 063.1	140 390.9	
Loans	AF.4	85 646.8	75 560.8	69 137.2	66 540.9	
Short-term	AF.41	2 815.8	1 446.2	1 283.0	1 497.8	
Long-term	AF.42	82 831.0	74 114.6	67 854.2	65 043.1	
<b>General government expenditure on:</b>						
<b>Gross fixed capital formation</b>	P.51	2 875.2	3 496.5	3 794.7	3 979.9	4 925.0
<b>Interest (consolidated)</b>	D.41 (uses)	7 738.9	7 398.9	6 897.8	6 379.3	6 365.0
<b>Gross domestic product at current market prices</b>	B.1*g	186 489.8	195 947.2	204 304.8	212 302.8	219 384.0
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-1.9%	-3.0%	-0.4%	0.2%	0.2%
General government consolidated gross debt on GDP		131.5%	126.1%	122.0%	117.7%	114.9%

<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 2019 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 (2020)**, 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 2020 State Budget. It should be noted that this scenario does not yet include the macroeconomic and budgetary impacts of the measures taken by the Government in the context of combating the Covid-19 pandemic, given the enormous uncertainty that exists in the national and international context.

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 compared with the October 2019 notification

Comparing with the previous notification, the figures from 2016 to 2018 were revised due to a change in the national accounts recording of a court decision on a concession contract<sup>2</sup>. The fact that the exact terms of this court decision were not known led to an incorrect recording.

In national accounts the amount of compensation set by the court must be recorded at the time of the decision that constitutes the irrevocable right to that revenue, regardless of the way the payment is done, in this case spread over the remaining years of the concession. The reference moment is the fourth quarter of 2016.

The correction of the initial recording determined, in 2016, an increase in the net borrowing by 81 million euros and in the years 2017 and 2018 there was an improvement in the net balance of around 7 million euros in each year, corresponding to the cancellation of the annual payments, which are considered as previously committed cash flows.

This revision ensures a homogeneous treatment of the consequences of a similar court decision on the compensation of the State to the concessionaire "*AEDL - Autoestradas do Douro Litoral*"<sup>3</sup>, which determined an increase in expenditure

<sup>2</sup> The court condemned the State to compensate the concessionaire "*Brisal - Autoestradas do Litoral S.A. - Litoral Centro concessionari*" for the decrease in toll revenue, through a payment, made in 2016, of an amount for the period between July 2010 and December 2014, and of a fixed amount to be paid in December of each year until the end of the concession contract.

<sup>3</sup> The court condemned the State to compensate the concessionaire "*AEDL - Autoestradas do Douro Litoral S.A. - Douro Litoral concessionari*" for the decrease in toll revenue. This decision entered into force in November 2019, determining the recording in the fourth quarter of an amount for the period between December 2011 and that date, and of a fixed amount to be paid semi-annually until the end of the concession contract.

in the fourth quarter 2019 of approximately 219 million euros. The future payments to be made by the State in each of the remaining years of the concession will be cancelled.

## 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 amendments for 2018 and 2019 in the Public to National Accounts adjustment, presented in tables 2A, 2C and 2D of the EDP notification attached to this press release.

	Unit: million euro	
	2018	2019
<b>Balance in Public Accounting</b>	<b>-2 576.5</b>	<b>- 722.3</b>
Accrual adjustment and sector delimitation in National Accounts	2 764.7	2 808.2
Difference between paid and due interest	332.4	796.8
Other receivables:	205.9	- 97.1
<i>Temporal adjustment to taxes and contributions</i>	<i>766.6</i>	<i>263.8</i>
<i>Others</i>	<i>- 560.6</i>	<i>- 361.0</i>
Other payables:	159.0	310.9
<i>Expenditure already incurred but not yet paid</i>	<i>80.6</i>	<i>89.6</i>
<i>Others</i>	<i>78.4</i>	<i>221.3</i>
Other adjustments:	-1 789.6	-2 692.6
<i>Capital injections and debt assumptions</i>	<i>-2 051.7</i>	<i>-3 484.6</i>
<i>Others</i>	<i>262.1</i>	<i>792.0</i>
<b>Balance in National Accounts</b>	<b>- 904.0</b>	<b>403.9</b>

The net lending of GG in 2019 amounted to € 403.9 million, corresponding to 0.2% of GDP (-0.4% in 2018). As shown, there is a significant improvement in the public accounting balance from 2018 to 2019.

As referred in previous press releases, one of the main adjustments in the public accounting balance refers to the item "Other adjustments" that 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".

Total revenue increased between 2018 and 2019. Given the decrease in capital revenue, the positive change in total revenue is due to the current revenue increase driven by the growth of its main components: social contributions, taxes on production and imports and, to a lesser extent, current taxes on income and wealth.

Total expenditure increased between 2018 and 2019 determined by the behaviour of current expenditure while capital expenditure diminished.

The increase in current expenditure was mainly due to the growth in social benefits, other than social transfers in kind, and also to the growth in the compensation of employees. In the opposite direction, there was a decrease in interest payments, in line with the decreasing trend which started in 2015.

For a more detailed analysis of the changes in expenditure and revenue, please see 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	2016	2017	2018	2019
<b>Net borrowing (-)/ net lending (+)</b>				
- Regional and Local Government	<b>846.6</b>	<b>316.8</b>	<b>347.5</b>	<b>727.3</b>
Regional Government of Madeira	223.8	79.6	101.3	38.0
Regional Government of Azores	- 67.1	- 70.0	- 139.6	- 75.2
Local Government	689.9	307.2	385.8	764.5
<b>Gross Debt</b>				
- Regional and Local Government	<b>10 575.5</b>	<b>10 335.7</b>	<b>10 200.4</b>	<b>9 968.4</b>
Regional Government of Madeira	4 790.3	4 803.7	4 746.9	4 662.8
Regional Government of Azores	1 596.0	1 690.4	1 860.0	1 956.6
Local Government	4 189.2	3 841.6	3 593.5	3 348.9

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 2016 to 2019, included in the General Government Account.

Unit: million euro	2016	2017	2018	2019
<b>Transfers from Central Government to:</b>				
<i>Regional Government of Madeira</i>	174.6	172.8	177.4	176.7
<i>Regional Government of Azores</i>	251.9	250.5	259.3	285.3
<i>Local Government</i>	2 262.3	2 347.8	2 267.5	2 283.3

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.