March 25, 2024
Excessive Deficit Procedure
1st Notification 2024

EXCESSIVE DEFICIT PROCEDURE

(1ST NOTIFICATION 2024)

According to EU regulations, Statistics Portugal presents the first notification for 2024 associated with the Excessive Deficit Procedure (EDP) to be sent to Eurostat before the end of the month[1]. According to these provisional results, the General Government (GG) had a positive balance, in 2023, amounting to EUR 3 193.5 million, corresponding to 1.2% of GDP (-0.3 % in 2022). Gross debt of GG attained 99.1 % of GDP in 2023 (112.4 % of GDP in 2022).

Table 1 of the notification, presented below, summarizes the main results for the period 2020-2024 (a detailed table can be seen in the end of this press release).

Table 1 - **Reporting of government deficit/surplus and debt levels and provision of associated data**

Unit: 10^6 EUR

Member State: Portugal Date: 25/03/2024	ESA 2010 Codes	2020	2021	2022	2023	2024
		Final	Final	Half-finalized	Half-finalized	Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	**S.13**	**-11 669.0**	**-6 215.3**	**- 779.1**	**3 193.5**	**530.0**
- Central government	S.1311	-13 659.8	-8 057.0	-4 946.6	-2 328.6	-5 046.0
- Local government	S.1313	- 207.2	- 607.7	- 90.7	- 147.8	405.0
- Social security funds	S.1314	2 197.9	2 449.3	4 258.2	5 669.9	5 171.0
General government consolidated gross debt		**270 495.0**	**269 089.0**	**272 427.0**	**263 085.0**	**263 649.0**
Gross domestic product at current market prices	B.1*g	200 518.9	216 053.2	242 340.8	265 503.0	277 284.0
Memorandum items:						
Net lending (+)/Net borrowing (-) on GDP		-5.8%	-2.9%	-0.3%	1.2%	0.2%
General government consolidated gross debt on GDP		134.9%	124.5%	112.4%	99.1%	95.1%

Source: Statistics Portugal, Banco de Portugal, Budget Directorate-General

[1] Excel files containing additional data are made available in attachment to this press release. It should also be noted that the list of entities classified in the institutional sector of General Government (GG) from the perspective of National Accounts, is also available on INE's website.

Responsibilities in the notification

The present notification was prepared under an Institutional Agreement in the field of GG Statistics, signed on the 27th of 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 2023 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 (2024), estimates of the Net lending/ net borrowing, gross debt and nominal GDP are the responsibility of the Ministry of Finance based on the macroeconomic and budgetary scenario of the 2024 State Budget.

Under Council Regulation (EC) No. 479/2009 the notifications initiate a joint work between national statistical authorities and Eurostat which, within a three-week deadline, should examine the notifications and publish the results for all Member States.

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. Public Accounting data is on a cash-basis, meaning that expenditure is recorded in the accounting period in which it is 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 2022 and 2023 in the Public to National Accounts adjustment, presented in tables 2A, 2C and 2D of the EDP notification attached to this press release.

Table 3. **Public to National Accounts adjustments**

Unit: 10^6 EUR

	2022	2023
Balance in Public Accounting	**-3 599.1**	**6 218.6**
Accrual adjustment and sector delimitation in National Accounts	3 381.2	-196.2
Caixa Geral de Aposentações	*-88.1*	*-2 955.5*
Autonomous Services and Funds	*257.0*	*43.6*
Public Entities classified in GG	*3 212.3*	*2 715.6*
Difference between paid and due interest	1 136.3	742.1
Other receivables:	554.9	-189.9
Temporal adjustment to taxes and social contributions	648.8	-379.2
Others	-93.9	189.3
Other payables:	-119.7	-340.9
Expenditure already incurred but not yet paid	-103.0	-153.0
Others	-16.8	-187.9
Other adjustments:	-2 132.7	-3 040.2
Capital injections and debt assumptions	-3 902.5	-3 256.6
Others	1 769.7	216.4
Balance in National Accounts	**-779.1**	**3 193.5**

Source: Statistics Portugal

The balance of GG was positive in 2023, standing at EUR 3 193.5 million , which corresponded to 1.2% of GDP (-0.3% of GDP in 2022). As it can be seen from the table above, the balance in public accounts showed a significant improvement in 2023, which was reflected in an improvement in the national accounts balance. The revenue growth (9.0%) was higher than the growth of expenditure (5.2%). The increase in revenue was mainly due to an increase in the revenue of taxes and social contributions. Current expenditure increased by 4.6% and capital expenditure by 11.0%.

GG expenditures in 2023 reflect the effects of some public policy measures to mitigate the effects of high prices of various goods and services, namely energy prices, as a result of the geopolitical conflict, although to a lesser degree than in the previous year.

Among the various measures implemented, we highlight the following: *i)* support to needy households; *ii)* national public contribution of European funds to support agricultural production and fisheries sectors; *iii)* compensation of employees, in particular due to the effects of wages upgrades and remuneration valuations; *iv)* pension charges reflecting the burden associated with the automatic and interim pension update, as well as the increase in the costs associated with the majority of social benefits and *vi)* additional allocation of funds to the National Electric System (SEN) for tariff reduction (EUR 200 million), considered in the "*Accrual adjustment and sector delimitation in National Accounts - Autonomous Services and Funds*", as it corresponds to an expenditure assumed in 2023 but not yet paid.

It should be noted that the improvement in the public accounts balance is influenced by the transfer of the liabilities held by the Pension Fund from *Caixa Geral de Depósitos (CGD)* and the corresponding assets to *Caixa Geral de Aposentações (CGA)*, amounting to EUR 3 018.3 million. In national accounts this effect is included in "*Accrual adjustment and sector delimitation in National Accounts - CGA*". According to the European System of Accounts (ESA 2010), to the extent that the assets of the transferred funds cover the commitments assumed with the future payment of pensions, the transfer of a pension fund is considered a financial transaction at the time it occurs, with no impact on GG net balance. In the future, the payment of pensions will be offset by a current transfer received, neutralizing the impact on the GG net balance, until the amount initially received with the transfer from the pension fund is spent.

As referred in previous press releases, the adjustment "*capital injections and debt assumptions*" includes capital injections granted to public corporations classified in the GG sector (EUR 3 068.2 million) with no impact on the national accounts balance, being also reflected in the item "*Accrual adjustment and sector delimitation in National Accounts – Public Entities classified in GG*".

Additionally, in the " item "*Accrual adjustment and sector delimitation in National Accounts – Public Entities classified in GG*", the following stand out: *i)* recording of additional losses of non-recoverable claims (EUR 915.9 million) held by *Parvalorem, S.A.*, in addition to the losses initially estimated for *BPN*'s portfolio [2] ; *ii)* reprivatisation of *Efacec Power Solutions, SGPS, SA.*, which implied the recording of a capital expenditure of the GG sector amounting to EUR 166,2 million, corresponding to a capital increase (EUR 235,8 million) made by *Parpública, Participações Públicas, SGPS, SA*, net of the amount used to release the guarantees granted in the past and recorded in GG expenditure in 2022.

In the adjustments considered under "*Other adjustments - other*", the following stand out: *i)* conversion of deferred tax assets (DTA) of *Novo Banco* amounting to EUR 117 million; *ii)* the decision of the Supreme Administrative Court that determined the payment of EUR 227.6 million by the State to *EDP - Energias de Portugal*, as refund of the amount paid in 2009 for the rights of exploitation of the Fridão dam concession, whose construction did not occur.

The two transactions correspond to commitments made in 2023 with a negative impact on the national accounts balance. However, as these amounts were not yet paid, they are included in the adjustment to the public accounting balance.

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

[2] In the context of the restructuring of *BPN - Banco Português de Negócios, S.A*. (BPN), the corporations *Parvalorem, S.A.*, *Parups, S.A.*, and *Parparticipadas, SGPS, S.A.*, were created in 2010 with *BPN* as sole shareholder. In 2012, the Portuguese State, through the Directorate-General of the Treasury and Finance, acquired 100% of the shares representing the capital of these companies, since then becoming their sole shareholder, directly assuming all rights and obligations. In consequence, a set of assets (credits, real estate, financial assets and works of art) were transferred to *Parvalorem S.A*. and *Parups S.A*. According to ESA 2010, these entities, because they configure "defeasance" structures controlled and financed by the Portuguese State, were classified in the GG sector, determining the need to record the losses of the transferred assets in the year of incorporation. Thus, in 2010 the expected losses amounting to EUR 1 800 million were recorded as capital transfer with impact on the net borrowing. In 2023, as part of the restructuring process of these companies, with the merger of the others into *Parvalorem S.A*., a business plan was prepared for the period 2024-2027 focusing on the estimated recovery of the credit portfolio until the close of the company. As part of this process, the value of the credits that will not be recovered was determined and registered in national accounts as a capital transfer with impact on the balance of the GG.

Balances of Regional and Local Government and transfers from Central Government

The table below details the net borrowing/net lending and the gross debt of (Regional and) Local Government (S1313).

Table 4. **Net borrowing/net lending and gross debt of (Regional and) Local Government (S1313)**

Unit: 10^6 EUR

	2020	2021	2022	2023
Net borrowing (-)/ net lending (+)				
- Regional and Local Government	**- 207.2**	**- 607.7**	**- 90.7**	**- 147.8**
Regional Government of Madeira	*- 128.5*	*- 213.0*	*- 142.1*	*25.3*
Regional Government of Azores	*- 372.5*	*- 385.0*	*- 395.1*	*- 146.0*
Local Government	*293.9*	*- 9.6*	*446.5*	*- 27.2*
Gross Debt				
- Regional and Local Government	**10 646.0**	**10 856.7**	**11 199.6**	**11 298.6**
Regional Government of Madeira	*5 112.0*	*5 077.1*	*5 035.2*	*5 002.3*
Regional Government of Azores	*2 405.4*	*2 708.9*	*3 063.5*	*3 202.8*
Local Government	*3 128.6*	*3 070.8*	*3 100.8*	*3 093.5*

Source: Statistics Portugal, Banco de Portugal

As it can be seen in the previous table, there was an improvement in the balance of the subsectors of the Regional Government, with the balance of the Local Government from positive in 2022 to negative.

It should be underlined the provisional nature of the results for Local Government, given the delays in the reporting of several municipalities, associated with difficulties in the implementation of the new accounting system for GG sector (*Sistema de Normalização Contabilística para as Administrações Públicas – SNC-AP*) in particular, in the context of the COVID-19 pandemic.

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 2020 to 2023, included in the General Government Account.

Table 5. **Transfers to the Regional and Local Government**

Unit: 10^6 EUR

	2020	2021	2022	2023
Tranfers to General Government:				
Regional Government of Madeira	182.6	185.8	173.8	181.2
Regional Government of Azores	293.9	301.8	281.2	288.9
Local Government	2 315.3	2 552.1	2 395.7	2 607.8

Source: Statistics Portugal

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.

Date of the next press release – September 23, 2024

Table 1a - Reporting of government deficit/surplus and debt levels

and provision of associated data

Unit: 10^6 EUR

Member State: Portugal Date: 25/03/2024	ESA 2010 Codes	2020	2021	2022	2023	2024
		Final	Final	Half-finalized	Half-finalized	Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	S.13	-11 669.0	-6 215.3	- 779.1	3 193.5	530.0
- Central government	*S.1311*	*-13 659.8*	*-8 057.0*	*-4 946.6*	*-2 328.6*	*-5 046.0*
- Local government	*S.1313*	*- 207.2*	*- 607.7*	*- 90.7*	*- 147.8*	*405.0*
- Social security funds	*S.1314*	*2 197.9*	*2 449.3*	*4 258.2*	*5 669.9*	*5 171.0*
General government consolidated gross debt Level at nominal value outstanding at end of year		270 495.0	269 089.0	272 427.0	263 085.0	263 649.0
By category:						
Currency and deposits	AF.2	33 062.0	34 441.0	39 642.0	48 503.0	
Debt Securities	AF.3	169 244.0	164 634.0	162 291.0	147 152.0	
Short-term	*AF.31*	*10 749.0*	*5 966.0*	*6 286.0*	*2 134.0*	
Long-term	*AF.32*	*158 495.0*	*158 669.0*	*156 005.0*	*145 017.0*	
Loans	AF.4	68 188.0	70 014.0	70 494.0	67 430.0	
Short-term	*AF.41*	*1 291.0*	*1 206.0*	*1 474.0*	*549.0*	
Long-term	*AF.42*	*66 897.0*	*68 808.0*	*69 021.0*	*66 882.0*	
General government expenditure on:						
Gross fixed capital formation	*P.51*	*4 641.9*	*5 583.7*	*5 773.1*	*6 742.8*	*9 197.0*
Interest (consolidated)	*D.41 (Empregos)*	*5 786.9*	*5 190.9*	*4 664.2*	*5 751.6*	*6 270.0*
Gross domestic product at current market prices	B.1*g	200 518.9	216 053.2	242 340.8	265 503.0	277 284.0
Memorandum items:						
Net lending (+)/Net borrowing (-) on GDP		*-5.8%*	*-2.9%*	*-0.3%*	*1.2%*	*0.2%*
General government consolidated gross debt on GDP		*134.9%*	*124.5%*	*112.4%*	*99.1%*	*95.1%*

Source: Statistics Portugal