GENERAL GOVERNMENT BUDGET OUTTURN 2019

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Conselho das Finanças Públicas
Portuguese Public Finance Council

Report
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The Portuguese Public Finance Council is an independent body, set up by article 3 of Law no. 22/2011 of 20 May that introduced the 5th amendment to the Budgetary Framework Law (Law no. 22/2001 of 20 August, republished by Law no. 37/2013 of 14 June).The final version of its Statutes was approved by Law no. 54/2011 of 19 October.

The Council began its work in February 2012 and its mission is to conduct an independent assessment of the consistency, compliance with the stated objectives and the sustainability of public finances, while promoting fiscal transparency, so as to contribute to the quality of democracy and of political economic decisions and so strengthen the State's financial credibility.

This Report uses the information available up to 14 April de 2020.

In the publications section at www.cfp.pt, a spreadsheet containing all the figures used to build the charts and tables in this Report is available for download.

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EXECUTIVE SUMMARY

Balances, adjustment and fiscal stance in 2019

In 2019, General Government (GG) recorded a financing capacity of 0.2% of GDP, confirming the surplus estimate advanced by CFP last October. This result, which concludes the correction of the budgetary imbalance initiated in the adjustment programme period (2011-2014), constitutes the first annual surplus in the comparable national accounts statistical series, available from 1995 onwards. The surplus achieved in 2019 thus contrasts with the estimated deficit anticipated by the Ministry of Finance in the budgetary planning documents. The improvement in the budgetary balance by 0.6 p.p. of GDP was higher than expected, although penalised by the greater impact of temporary and one-off measures than initially foreseen. The primary surplus (3.2% of GDP) was higher than the one obtained in 2018 (2.9% of GDP).

Excluding the effect of one-off and temporary measures, the general government budgetary balance corresponded to 0.8% of GDP in 2019, an annual improvement of 0.8 p.p. of GDP. The reduction of the interest burden on GDP justifies around half of this improvement, the other half being the result of the discretionary action of the policy maker, since cyclical developments in the economy did not benefit the evolution of the budgetary position, according to the methodology used.

Based on the available information and the EU's Commonly Agreed Methodology, correcting the budgetary balance for the effects of the business cycle and one-off measures and temporary, the structural balance in 2019 is estimated to have been close to the Medium-Term Objective (MTO) by reaching structural balance. This is an improvement of 0.8 p.p. of GDP, which was due in roughly equal parts to the reduction of interest burden and the improvement of the structural primary balance (0.4 p.p. of GDP), reflecting the government's discretionary ,action.

Assessment of compliance with budgetary rules in 2019

Within the framework of the requirements established in the preventive aspect of the Stability and Growth Pact (SGP) and in the recommendation of the Council of the European Union (EU) addressed to Portugal for the year 2019, the reading of the budgetary effort made on the basis of the structural balance points to compliance with the general rule of annual improvement foreseen in the Budgetary Framework Law (0.5% of GDP), as well as that established in the SGP and in the recommendation of the Council of the European Union (EU). This budgetary effort also ensures compliance with the debt criterion in the last year of the transitional period (2019).

Notwithstanding these developments, net primary expenditure continued to grow at a nominal rate above the maximum recommended increase. According to CFP calculations, the estimated nominal growth of primary expenditure net of discretionary measures and one-off temporary measures would have been above the maximum recommended increase of 0.7%. This excess of expenditure over the recommended one constitutes a deviation above the 0.5% of GDP threshold from which a risk of significant deviation (from the convergence path towards the MTO) can be pointed out. The default on this expenditure rule contrasts with the reading provided by the structural balance, since half of the improvement in the structural balance is due to the decrease in interest payments that are excluded from the primary expenditure indicator.

Revenue and expenditure in 2019

In 2019, general government revenue grew by 3.8%, practically in line with the change in GDP, with the ratio of that budgetary aggregate to GDP standing at 42.9%, the same as in 2018. Tax and social contributions revenue continued to be crucial to the evolution of revenue. More than four-fifths of general government tax revenue was due to the good performance of indirect tax revenue, the 3.9% variation of which was mainly based on the growth of net VAT revenue (5.4%). Direct taxes made a smaller contribution to the evolution of tax revenue by reaching a growth of 0.9%. This variation reflects the positive performance of net income from personal income tax and other direct taxes, largely absorbed by the fall in corporate income tax (2.1%). Social contributions recorded robust annual growth (6.3%), based almost entirely on the performance of effective social contributions, which continued to outperform remuneration (4.5%) throughout 2019. This evolution contributed to increase the weight of effective social contributions in nominal output, raising the tax burden to a maximum of 34.7% of GDP. Non-tax and non-contributory revenue grew again in 2019. The sales and dividends received explained this evolution mitigated by the reduction in capital revenue, which reflects the lower amount of recovery in 2019 of the guarantee provided by the State to BPP.

The execution of public revenue in 2019 was higher than expected, reflecting an annual growth rate 0.3 p.p. higher than that forecast in the 2019 State Budget (3.5%). This evolution was exclusively due to the contribution of current revenue (3.9% vs. 2.9% in the State Budget for 2019), since capital revenue was lower than that forecast by the MF (-9.6% vs. 59.4% in the State Budget for 2019).

As regards public expenditure, this aggregate increased by 2.3% in 2019. As it was a lower growth than nominal GDP, expenditure decreased its share in GDP by 0.7 p.p.. The nominal increase was justified by current primary expenditure, as a result of an acceleration in the growth of social transfers and compensation of employees. Interest and intermediate consumption were the only current expenditure items that recorded a nominal reduction from 2018. While for interest expenditure it was the fifth consecutive year of reduction, the last time that intermediate consumption had recorded a nominal reduction was in 2013. Part of the containment of this expenditure is expected to result from the management of withholdings, although the increase in final withholdings was slight in 2019. Capital expenditure declined despite an increase in FBCF and despite the effect of temporary measures being more unfavourable than in 2018. Without the effect of these one-off measures, capital expenditure would have decreased more sharply and public expenditure growth would have decelerated from 3.4% in 2018 to 2.0% in 2019.

Compared to what was foreseen in the Budget for 2019, public expenditure was lower than expected, mostly due to a lower than forecast interest burden. Primary expenditure was virtually in line with the forecast because the unfavourable deviation in current primary expenditure was more than offset by a favourable deviation in capital expenditure. Within the scope of the latter, the unfavourable deviation in "other capital expenditure" (due to the impact of the recapitalisation of Novo Banco being larger than forecast in the State Budget for 2009 and also due to the unforeseen judicial decision to compensate the highway PPP Autoestradas do Douro Litoral) was more than accommodated by the behaviour of FBCF, which last year was again far below forecast. As a percentage of GDP, public expenditure decreased from 43.4% in 2018 to 42.7% in 2019, staying below the 43.5% forecast in the State Budget for 2009 (although the size of this gap is influenced by the fact that nominal GDP was almost 3 thousand million euros higher than forecast).

Subsectors in 2019

Social Security Funds were the GG sub-sector that contributed most to the improvement in the budgetary balance in 2019. The increase in the surplus of this sub-sector, by approximately 0.4 p.p. of GDP, represented almost two thirds of the 0.6 p.p. of GDP improvement observed for the General Government balance. Regional and Local Government resumed in 2019 the positive contribution to the improvement of the balance by raising its surplus by 0.2 p.p. of GDP. With an equally positive contribution, Central Government recorded a reduction of its deficit by 0.1 p.p. of GDP, mainly determined by nominal GDP growth above the marginal change in its balance.

Public debt developments in 2019

The public debt ratio continued in 2019 the downward trajectory begun two years ago, reaching 117.7% of GDP, a figure that is below the latest estimate advanced by MF in POE/2020 (118.9%). The annual reduction of the debt ratio by 4.3 p.p. of GDP was due to the favourable contributions of the primary balance (3.2 p.p.) and the dynamic effect (1.6 p.p.), which size was sufficient to cancel out the unfavourable contribution of the deficit-debt adjustment (0.5 p.p.) resulting from a higher amount of net acquisition of financial assets, namely securities other than shares.

In the area of financing, the non-resident sector strengthened its position as the largest public debt creditor in 2019 by holding 68% of those liabilities. The increase in the volume of debt held by external creditors (from 28% in 2018 to 30% of the total) and the financing of the Eurosystem, through the Public Sector Purchase Programme, which in 2019 accounted for 18% of Portuguese debt, 1% more than in 2018, contributed to this. Conversely, the share of debt under the Economic and Financial Assistance Programme declined to 20%, as a result of the early repayment of 2 thousand million euros of the FEEF loan. The debt held by the resident sector decreased slightly in 2019, justified by the lower financing of the financial sector.

Table 1 – Public Finance Scoreboard (% of GDP)

	2013	2014	2015	2016	2017	2018	2019
Total Revenue	44,8	44,4	43,8	42,9	42,4	42,9	42,9
Current revenue	44,0	43,7	43,0	42,3	42,0	42,5	42,5
Tax Revenue	25,0	25,1	25,3	24,8	24,8	25,3	25,0
Indirect taxes	13,7	14,2	14,6	14,7	14,9	15,2	15,1
Direct taxes	11,3	10,9	10,7	10,1	9,9	10,1	9,8
Social Contributions	12,0	11,8	11,6	11,6	11,6	11,7	11,9
Sales and other current revenue	7,0	6,8	6,2	5,9	5,7	5,6	5,6
Capital Revenue	0,9	0,7	0,8	0,6	0,4	0,4	0,4
Primary Expenditure	45,1	46,9	43,7	40,7	41,6	40,0	39,7
Current primary expenditure	41,9	40,7	39,4	38,7	37,2	36,9	36,8
Intermediate consumption	5,6	5,7	5,6	5,5	5,4	5,4	5,2
Compensation of employees	12,5	11,8	11,3	11,2	10,9	10,7	10,7
Social Benedits	20,6	19,9	19,5	19,0	18,4	18,2	18,2
Subsidies and other current expenditure	3,2	3,3	3,0	2,9	2,6	2,6	2,7
Capital expenditure	3,2	6,1	4,3	2,0	4,4	3,1	2,9
Primary balance	-0,3	-2,5	0,1	2,2	0,8	2,9	3,2
Interest	4,8	4,9	4,6	4,1	3,8	3,4	3,0
Headline Budget balance	-5,1	-7,4	-4,4	-1,9	-3,0	-0,4	0,2
One-off and temporary measures	0,3	-3,6	-1,3	0,4	-2,2	-0,5	-0,6
Adjusted budget balance from one-offs	-5,4	-3,8	-3,2	-2,4	-0,8	0,0	0,8
Cyclical component	-2,4	-1,9	-1,2	-0,6	0,5	0,8	0,8
Structural balance	-3,0	-1,8	-1,9	-1,7	-1,3	-0,8	0,0
Change in structural balance	0,5	1,2	-0,1	0,2	0,4	0,4	0,8
Primary Structural Balance	1,8	3,0	2,7	2,4	2,5	2,6	3,0
Change in structural balance	0,4	1,2	-0,4	-0,2	0,1	0,0	0,4
Public debt	131,4	132,9	131,2	131,5	126,1	122,0	117,7
Change in public debt, breakdown:	2,4	1,5	-1,8	0,3	-5,4	-4,1	-4,3
Primary deficit	0,3	2,5	-0,1	-2,2	-0,8	-2,9	-3,2
Dynamic effect or snowball effect	3,2	2,9	-0,3	-0,6	-2,6	-1,8	-1,6
Stock-flow adjustment	-1,0	-3,9	-1,3	3,2	-2,0	0,6	0,5
in memo:							
Implicit interest rate	*3,8%*	*3,8%*	*3,6%*	*3,3%*	*3,0%*	*2,8%*	*2,6%*
Other fiscal indicators							
Tax burden	33,9	34,1	34,3	33,9	33,9	34,6	34,7
Current expenditure	46,7	45,6	44,0	42,8	41,0	40,3	39,8
Public Consumption	18,8	18,4	17,9	17,6	17,2	16,9	16,9

Source: INE, BdP and CFP calculations. | Note: (i) the figures for the years 2013 to 2019 are influenced by the effect of one-offs as detailed in the attached Table 17, as well as, the adjusted account of one-off measures for the years 2018 and 2019, which is shown in Table 14 attached; (ii) The changes were calculated in relation to the previous year and may not correspond to the differences in the values as a percentage of GDP due to rounding; (iii) The cyclical component has been calculated according to the common EC methodology for (new) semi-elasticities, based on the output gap resulting from the macroeconomic projections contained in the 2020 state budget proposal reported in December 2019.

1. INTRODUCTION

This report presents the budgetary developments of the General Government (GG) sector throughout 2019 and a comparative analysis of these developments against the targets set by the Ministry of Finance (MF) for the balance and public debt.

The analysis is based on the data released on 25 March 2020 in the following statistical sources: the first 2020 notification under the Excessive Deficit Procedure (PDE) published by the National Statistical Institute (INE) and the quarterly national accounts by institutional sector for the 4th quarter of 2019 published by INE and Banco de Portugal (BoP). The data underlying this report are of a preliminary nature and subject to revisions, as has been the case in previous quarters.

Adopting the approach followed in previous reports, general government budgetary aggregates are presented in national accounts and without the correction of the effects of temporary and one-off measures. However, whenever deemed relevant, this correction is presented and justified in the text where such treatment is relevant to allow a better assessment of the evolution of budget execution.

Contrary to previous analyses, the comparison between the forecast and the result obtained is hampered by the changes introduced by the new national accounts base. These changes have affected the level of some of the revenue and expenditure components with impacts on some relevant fiscal policy indicators. In view of these changes, and given that the forecast of the general government account (State Budget for 2009) on a national accounts basis compatible with the revision of the series introduced by the statistical authorities was not available, it was decided to carry out only the comparison at the level of aggregates and of some sub-aggregated, including where possible a comparative reference to some budgetary components. As regards general government debt, statistical revisions had equally important implications, namely on the value of nominal debt and the ratio of GDP. In this case, and on the basis of available information, which makes it possible to build a comparable nominal debt, it was decided to make only the comparison in terms of nominal value.

The report is structured in four chapters. After the introductory chapter, the second chapter examines the budgetary situation of the general government sector and of each sub-sector. This chapter also includes the analysis of structural adjustment and fiscal policy stance, as well as the assessment of compliance with the budgetary rules. In the third chapter the public debt is analysed, identifying the factors that, in addition to the deficit, explain the change in this indicator. Finally, the fourth and final chapter is dedicated to the possible comparison between the initial forecast in the State Budget Report and the result obtained.

The analysis benefited from information regularly received from INE and the BoP, in national accounts (financial and non-financial statistics), as well as from additional clarifications provided by these entities. In addition, the Directorate General for Budget (DGO) provided information through access to budget information systems and the

Treasury and Agência de Gestão da Tesouraria e da Dívida Pública, E.P.E. (Public Debt Management Agency), provided regular information. As for the Social Security Funds sub-sector, the analysis is mainly based on the financial information received from the Social Security Financial Management Institute (IGFSS), and the physical data on the social security system requested by the CFP is still partially missing. We would like to thank all these entities for the cooperation that we continue to request in order to promote greater transparency in public accounts.

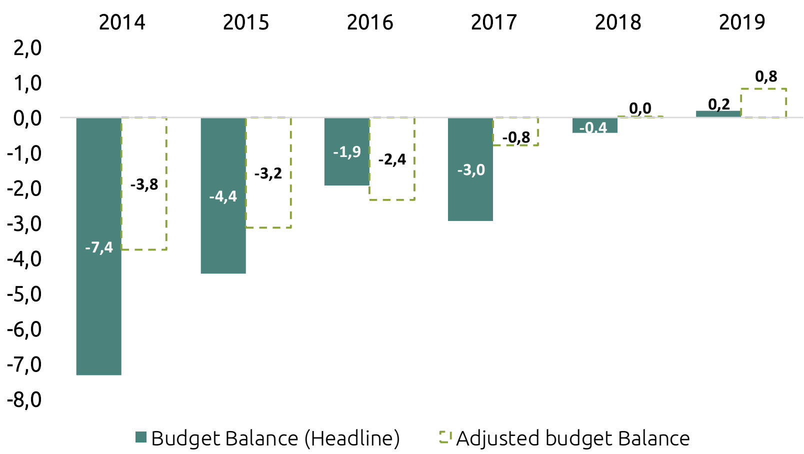
2. MAIN BUDGETARY DEVELOPMENTS IN 2019

2.1 Balances, adjustment and stance of fiscal policy

The analysis presented in this subsection uses the classification of temporary and non-recurring measures adopted by the Portuguese Public Finance Council (Tables 16 and 17), which in some cases may not coincide with those considered by the Ministry of Finance (MF) and the European Commission (EC). With regard to the calculation of the cyclical component of the budgetary balance, the CFP uses the semi-elasticities adopted by the EC, with the output gap being the one presented in the report of the Proposed State Budget for 2020 and calculated based on the EC methodology (use of the CONV programme applied to the forecast in that report) following the most recent version for that recalculation. For these reasons, the assessment of the structural balance and the respective structural adjustment, as well as of the fiscal policy stance analysed in this report, may be different from that carried out by those institutions.

The annual budget surplus achieved in 2019 was the first in the comparable statistical series of national accounts, available from 1995 onwards. This result confirms the surplus estimate advanced by the CFP in October, which anticipated by one year the elimination of the budgetary imbalance foreseen by the MF for 2020. Contrary to recent years, it is estimated that the improvement in the budgetary balance in 2019 will not have benefited from cyclical developments in the economy. The interest burden justified half of those developments, with the same contribution to the discretionary action of the policy maker, who in 2019 took a restrictive stance on fiscal policy.

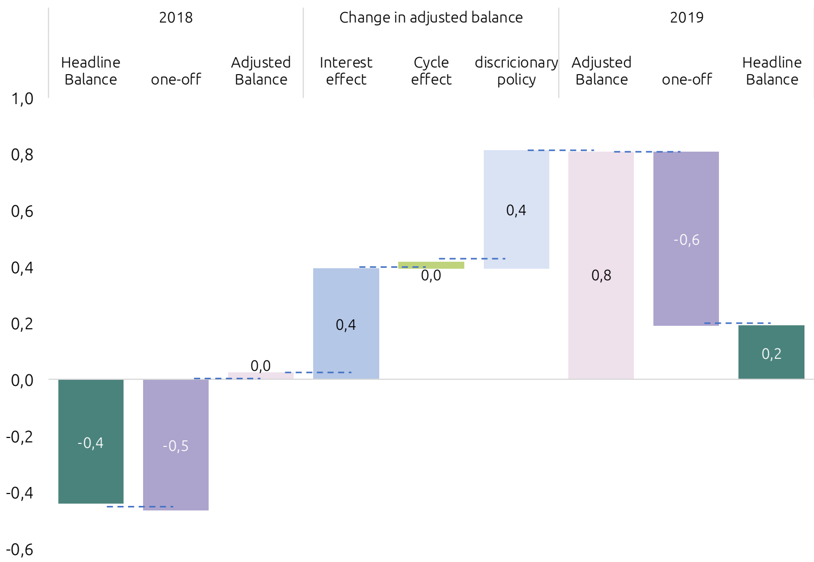
Chart 1 – General Government budgetary balance (% of GDP)



Source: INE. CFP calculations. | Note: figures notified for EDP purposes; the detail of the temporary and one-off measures can be seen in Table 17.

In 2019, General Government recorded a financing capacity of 0.2% of GDP, concluding the correction of the budgetary imbalance initiated during the adjustment programme period (2011-2014). This result, which confirms the estimated surplus anticipated by the CFP in October 2019, reflects an improvement in the budgetary balance of 0.6 p.p. of GDP, determined by the contribution of all sub-sectors, in particular the Social Security Funds responsible for around two thirds of that change (see Box 3).[1] That surplus, although affected by the negative impact on the balance of temporary and non-recurring measures more unfavourable than that initially assumed by the MF (-0.6% of GDP), contrasts with the deficit estimate of 0.2% of GDP anticipated by the MF in the budgetary programming documents. From a public accounting perspective, the 2019 implementation result recorded a negative balance, corresponding to a deficit of 0.3% of GDP. The accrual adjustments arising from interest and those for taxes and social contributions justify the main differences between these two accounting policies (Table 15). The primary balance maintained the positive trend of accumulating surpluses, reaching 6783 M€ in 2019 (3.2% of GDP), up 793 M€ on 2018 (2.9% of GDP).

Chart 2 – From the 2018 headline balance to the 2019 headline balance (% of GDP)



Source: INE. CFP calculations. | Note: the detail of the temporary and one-off measures can be found in Table 17. The discretionary policy of the government corresponds to the change of the structural primary balance. Due to rounding the totals do not necessarily correspond to the sum of the percentage GDP figures.

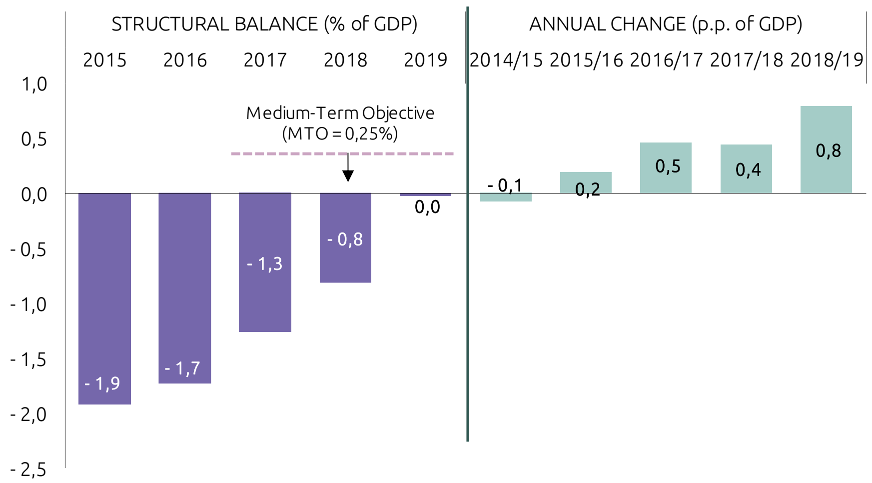
Excluding the effect of one-off and temporary measures, the general government budgetary balance consolidated a position above balance in 2019. In a year in which cyclical developments in the economy are estimated not to have benefited the budgetary balance, the result of this indicator adjusted for the effect of those measures (one-off) amounted to 0.8% of GDP in 2019 (Chart 2). This improvement was due in roughly equal parts to the reduction of interest burdens and to the Government's discretionary action. The reduction of interest burdens has been contributing to the improvement of the adjusted balance since 2015. The use of budgetary management instruments at the level of "other capital expenditure" (-0.3 p.p. of GDP), as well as the implementation of public

[1] This estimate was advanced in the CFP report No. 10 published on 10 October. Subsequently, the Ministry of Finance, in the framework of the presentation of DBP 2020 and POE/2020, updated twice the estimate for the balance anticipating a deficit of 0.1% of GDP in 2019.

expenditure revision measures with an impact on intermediate consumption (-0.1 p.p.), justify the contribution that is theoretically attributed to government action as a result of the implementation of discretionary policy measures (0.4 p.p. improvement in the structural primary balance).[2,3]

Adjusted for the effects of the business cycle and the impact of one-off measures, the structural balance is estimated to have reached balance in 2019, close to the Medium-Term Objective (MTO) of a surplus of 0.25% of GDP. This estimate, which is based on available information and the use of the Community methodology, points to a change in the structural balance of 0.8 p.p. of GDP in 2019 (Chart 3)[4]. This pace of adjustment reflects an improvement in the structural balance that is higher than the adjustment in 2018 (0.4 p.p. of GDP). It should be taken into account that these calculations are conditional on the information available at the time of this Report, in particular the estimate of the output gap that is sensitive to GDP developments in the years following 2019. It is thus expected that the estimation of the output gap arising from the common methodology will change, increasing with the introduction of the effects of the pandemic.

Chart 3 – Structural balance: adjustment between 2014 and 2019



Source: INE. CFP calculations. | Note: This estimate is based on the European Commission's common methodology and conditional on the information available for calculating the output gap, which is subject to revisions by construction, with a particular focus on the contemporary period and its neighborhood. The value of the medium-term objective applicable until 2019 is 0.25% of GDP. he minimum value for the MTO was revised by the Government in 2019 for a balanced structural balance. This new minimum value applies to forecasts and outturn from 2020 onwards.

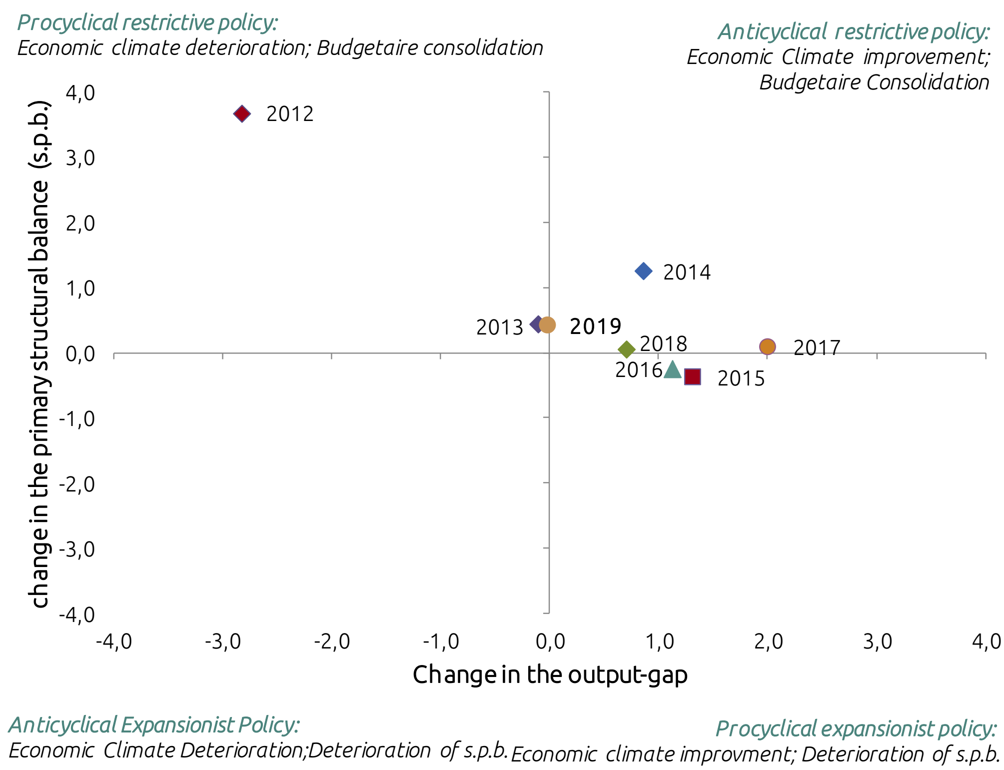
[2] The growth of those expenses below the nominal change in GDP amplified the contribution of the discretionary action of the policy maker in 2019, overriding the increase in dividends (Bank of Portugal and Caixa Geral de Depósitos [General Pension Fund]) from which revenue benefited that year.

[3] The change in the structural primary balance is benefited by the land sale operation carried out by the municipality of Lisbon with an impact on "other capital expenditure". If the impact of that operation were excluded there would be a reduction in "other capital expenditure" of 0.2 p.p. of GDP, which would result in a change in the structural primary balance of 0.3 p.p. of GDP.

[4] If the quantification of temporary and one-off measures of the Ministry of Finance for the years 2018 and 2019 were used, a balanced structural balance for 2019 would be achieved, but corresponding to an improvement of 0.6 p.p. of GDP.

Based on the one-off classification of the CFP, the fiscal policy stance was restrictive in 2019. However, this assessment is sensitive to the one-off measures classification.[5] The combination of the indicator on the change in the structural primary balance (structural balance excluding interest expenditure) and the position in the business cycle (measured by the change in the output gap), allows us to assess the restrictive or expansionary nature of fiscal policy. In 2019, in the context of an economic climate that translates into a zero effect of the economic cycle (maintenance of the output gap), the positive change in the structural primary balance (0.4 p.p. of GDP) points to an adjustment made within the framework of a restrictive fiscal policy (Chart 4).

Chart 4 – Fiscal policy and cyclical position in the period [2012- 2019] (p.p. of GDP)



Source: INE and MF. CFP calculations. | Note: (i) The fiscal policy stance is assessed by the change in the structural primary balance; (ii) The development of the cyclical position of the economy is evaluated by the output gap, given by the difference between GDP and potential GDP; (iii) CFP considers that the fiscal stance has tightened if the ratio of the structural primary balance to potential GDP improves by at least 0.25 percent per year, has loosened if that ratio deteriorates by at least 0.25 percent per year, and has remained neutral otherwise.

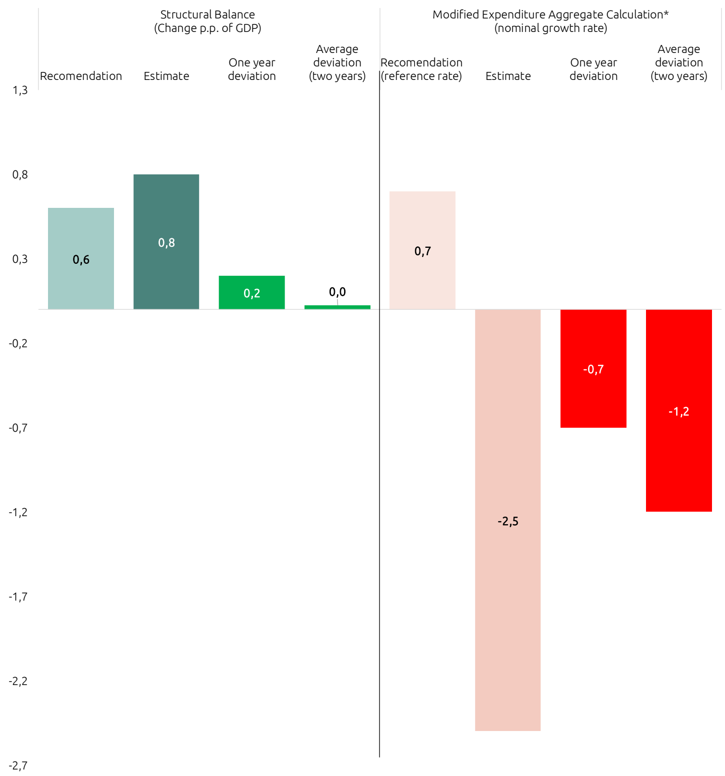
[5] Using the quantification of temporary and one-off measures of the Ministry of Finance for the years 2018 and 2019, the improvement in the structural primary balance would be 0.2 p.p. of GDP, which is lower than the margin of 0.25 p.p. of GDP.

2.2 Assessment of compliance with budgetary rules

Under the preventive aspect of the Stability and Growth Pact (SGP), each Member State should make progress in ensuring that the budgetary balance is kept above -3% of GDP at the same time as the structural adjustment needed to achieve the medium-term objective (MTO) is implemented. Once this objective is achieved, a sound budgetary position should be preserved to ensure that it remains at the MTO. The assessment of the appropriate adjustment path towards that objective determines that it should be based on the structural balance indicator and the expenditure benchmark. In parallel with this progress, compliance with the transitional provisions of the debt rule, which in the Portuguese case depends on the progress in reducing the debt ratio in the 2017-2019 triennium, should also be ensured.

The budgetary results achieved in 2019 have allowed convergence towards the medium-term objective to continue. The positive evolution of the structural balance ensured budgetary progress in line with the fulfilment of the debt criterion in the last year of the transitional period (2019), contrary to net primary expenditure, which continued to record a nominal growth rate above the maximum recommended increase.

Chart 5 – Criteria for the evaluation of the adjustment path towards the MTO



Source: INE, CFP calculations. | Note: * evaluated in terms of nominal growth rate. The applicable reference rate corresponds to the maximum recommended increase. The gap is calculated in terms of% of GDP. If negative, it represents an excess compared to the reference rate of expenditure.

In compliance with the provisions of the Stability and Growth Pact, the recommendation of the Council of the European Union (EU) of July 2018 established that Portugal should take measures to ensure that, in 2019, the nominal growth rate of net public primary

expenditure does not exceed 0.7%[6]. This recommendation, which corresponds to an annual structural adjustment of 0.6% of GDP, aims at pursuing convergence towards the MTO in line with the requirements of the preventive aspect of the SGP. On the fiscal side, the EU Council also recommended to "strengthen expenditure control, cost-effectiveness and tighter budgeting". On the debt side, it recommended to "use windfall gains to accelerate the reduction in the general government debt ratio, in parallel with improving the financial sustainability of public enterprises, notably by increasing their overall net income and reducing debt".

The estimated improvement in the structural balance for 2019 (0.8 p.p. of GDP) is in line with the pace of structural adjustment recommended by the EU Council. This ex-post assessment, which is based on the outcome for 2019, points to an estimated change in the structural balance in that year (0.8 p.p. of GDP) higher than required to ensure the 0.5 p.p. of GDP improvement set out in the budgetary framework law (LEO) and the 0.6 p.p. of GDP improvement resulting from the recommendation of the Council of the European Union for 2019.

Despite this progress, net primary expenditure continues to reflect a development that is not compatible with meeting the expenditure benchmark. The reading of the fiscal effort based on the expenditure indicator, which excludes interest and does not capture the revenue windfall gains (elements that have benefited the reading of the fiscal effort when the structural balance is used) points to the nominal growth rate of net public primary expenditure being higher than the applicable reference rate in 2019. Based on available information, CFP calculations point to an estimated nominal growth of primary expenditure net of discretionary measures and one-off temporary measures of 2.5% (see Box 5). This exceeds the maximum recommended increase of 0.7% (the applicable reference rate for expenditure), leading to a deviation from the programmed growth of that primary expenditure of -0.7% of GDP in 2019[7]. This result reflects a deviation above the 0.5% ceiling, which points to a significant risk of deviation in 2019. The nature of this deviation remains, even considering the average of the deviations for the years 2018 and 2019 (-1.2% of GDP).

It is estimated that the transitional debt reduction rule was complied with in 2019. Continuing the progress already made in 2017 and 2018 in reducing the debt ratio, CFP calculations based on the value of the government debt ratio reported by statistical authorities for 2019 and the fiscal information already available indicate fiscal progress consistent with the minimum linear structural adjustment (MLSA). The positive evolution of the (estimated) structural balance for 2019 (0.8 p.p. of GDP) above that required by MLSA (-1.4 p.p.) ensures compliance with the debt criterion in the last year of the transitional period (2019).

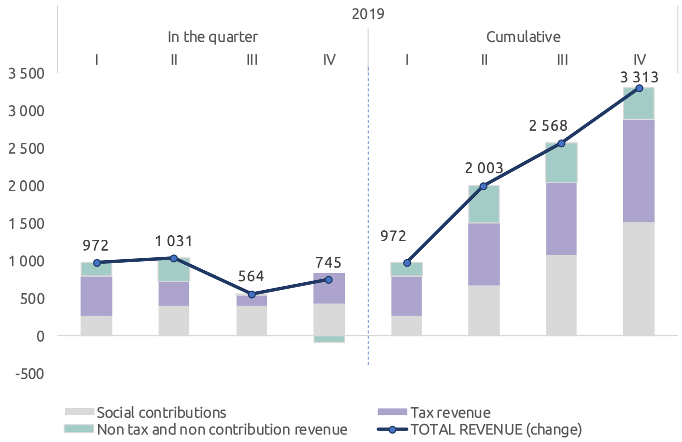
[6] Final recommendation of the Council of the European Union COM (2018) 421 of 23 May 2018 on the National Reform Programme 2018 Portugal and providing a Council Opinion on the Portuguese stability programme 2018.

[7] According to Articles 6(3) and 10(3) of Commission Regulation 1466/97, in the case of a Member State that has not achieved the medium-term objective (OMP), a deviation from the required adjustment is considered significant if it is at least 0.5 p.p. of GDP in a given year or if it is at least 0.25 p.p. of GDP in two consecutive years.

2.3 Revenue analysis

In 2019, the growth of general government revenue reflected the positive evolution of almost all its components, highlighting, however, the performance of indirect taxes and effective social contributions. As in previous years, the performance of these items continued to reflect the favourable evolution of underlying macroeconomic indicators. The growth of sales and dividends received by general government were determinant for the increase in non-tax and non-contributory revenue.

Chart 6 – Contribution to the General Government revenue growth (YoY, M€)



Source: INE. CFP calculations.| YoY means year-on-year growth.

Tax and contributory revenue continued to ensure the main contribution to total revenue growth in 2019. General government revenue amounted to 91 008 M€, increasing by 3313 M€ from 2018 (Chart 6 and Table 3). This growth was due, in almost 90%, to the increase recorded in tax and contributory revenue, with tax revenue and revenue from social contributions accounting for around 42% and 45% of total public revenue growth, respectively. In relative terms, there was an annual change of 3.8% in public revenue (Table 3), practically in line with the growth of nominal GDP (3.9%), sufficient to keep the weight of general government revenue as a percentage of output unchanged from that recorded in 2018 (42.9% of GDP).

The growth in tax revenue in 2019 was mainly due to the favourable performance of indirect tax revenue. GG tax revenue grew by 1377 M€ (2.7%) reflecting the good performance of indirect tax revenue (1193 M€), which, in relative terms, registered an annual variation of 3.9%, above that observed for nominal private consumption (3.3%). This was largely due to the favourable performance of VAT (5.4%), since the remaining taxes in this category had a more modest evolution, due to the decreases in annual IT and ISV revenues (Table 2). With regard to direct taxes as a whole, it can be seen that in 2019 their contribution to the growth of tax revenue was relatively moderate, with the annual variation of 184 M€ (0.9%) reflecting the increases in net revenue from personal income tax and other direct taxes, in contrast to the revenue from corporate income tax, which fell by 2.1% compared to the amount collected in 2018.

Table 2 – General government Tax Revenue in national accounts (in M€)

	BUDGET OUTTURN		Change								
	jan-dec		jan-sep/19			oct-dec/19			Annual		
	2018	2019	M€	%	Ctrc (p.p.)	M€	%	Ctrc (p.p.)	M€	%	Ctrc (p.p.)
TAX REVENUE	51 637	53 013	971	2,6	2,6	406	2,9	2,9	1 377	2,7	2,7
Indirect Taxes	**30 956**	**32 148**	**871**	**3,8**	**2,3**	**321**	**4,0**	**2,3**	**1 193**	**3,9**	**2,3**
VAT	17 865	18 828	607	4,6	1,6	356	7,5	2,6	962	5,4	1,9
Excise duties	5 428	5 422	65	1,6	0,2	-71	-5,2	-0,5	-6	-0,1	0,0
Petroleum Tax	3 551	3 636	87	3,3	0,2	-1	-0,1	0,0	86	2,4	0,2
Tobacco Tax	1 578	1 483	-27	-2,2	-0,1	-68	-17,8	-0,5	-95	-6,0	-0,2
IABA	300	299	1	0,7	0,0	-2	-2,6	0,0	-1	-0,2	0,0
Municipal Property Tax	1 667	1 682	16	1,3	0,0	0	0,0	0,0	16	0,9	0,0
Vehicle tax	785	743	-28	-4,6	-0,1	-14	-7,9	-0,1	-42	-5,3	-0,1
Tax on real estate transactions	976	1 005	30	4,2	0,1	-1	-0,3	0,0	29	3,0	0,1
Other taxes	4 235	4 469	182	5,9	0,5	51	4,5	0,4	233	5,5	0,5
Direct Taxes	**20 681**	**20 865**	**100**	**0,7**	**0,3**	**85**	**1,5**	**0,6**	**184**	**0,9**	**0,4**
PIT	13 312	13 579	126	1,3	0,3	142	3,6	1,0	267	2,0	0,5
CIT	6 802	6 662	-74	-1,4	-0,2	-66	-4,0	-0,5	-140	-2,1	-0,3
Other taxes	567	624	48	11,3	0,1	9	6,3	0,1	57	10,0	0,1

Source: INE, MF and AT. CFP Calculations. | Notes: The breakdown of indirect taxes and direct taxes is the sole responsibility of the CFP, corresponding to the calculation in national accounts made by the CFP based on AT cash basis data.

Box 1 - Quarterly evolution of accumulated personal income tax, corporate income tax and VAT revenue

This box analyses the contributions of gross revenue and reimbursements to the evolution of the three highest taxes in the Portuguese tax system over the course of 2019.

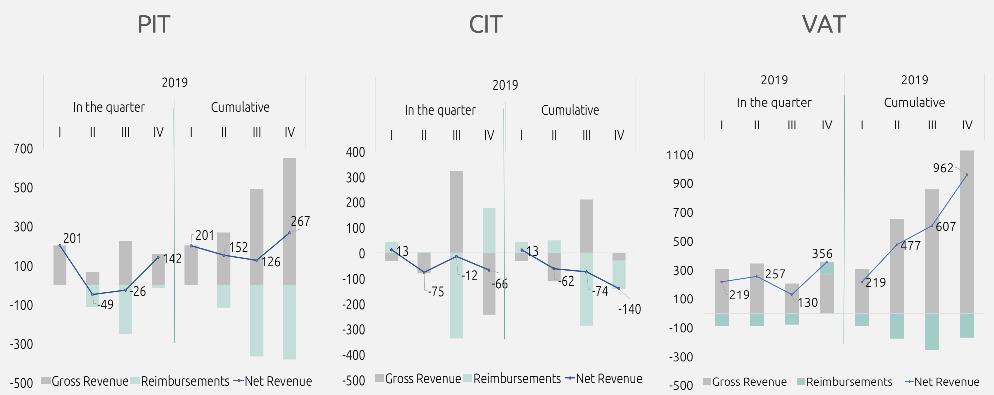
IRS: The net revenue from this tax grew by 267 M€ (2%) compared to 2018, sustained in full by the positive performance of the gross tax revenue (650 M€ or 4.1%). The performance of this component was explained, in more than 85%, by the growth registered in withholding taxes (563 M€; 4%). In fact, this item benefited from the positive contributions of withholding taxes from labour income (403 M€; 4%), pensions (111 M€; 4%), capital[1] (34 M€; 3.8%) and property income (23 M€ or 8%). In quarterly terms, it was found that the year-on-year increases in reimbursements paid in the second and third quarters led to a net decrease in income from personal income tax in those periods, despite the fact that gross tax revenue recorded positive year-on-year changes in all quarters of the year.

Corporate income tax (IRC): The annual change in net revenue from this tax, in the year 2019, stood at -140 M€ (-2.1%) reflecting both the increase in reimbursements (110 M€; 8.6%) and the decrease in its gross revenue (-30 M€; -0.4%). Contributing to the decrease in the gross revenue of IRC was the decrease in revenue arising from the special payment on account (-173 M€; -87.6%), as a result of the legislative change introduced by the State Budget for 2009 which established the end of the obligation to deliver this component of the tax, as well as the decrease registered in the collection notes (-79 M€; -28.3%). To mitigate this reduction, the positive annual variations in other components of gross revenue are noteworthy, namely the revenue from payments on account (249 M€; 6.2%) and enforced collection (49 M€; 38.7%). With the exception of the first quarter, there were year-on-year falls in net corporate income tax revenue in the remaining quarters of 2019, this performance being explained both by the fall in gross tax revenue itself in the second and fourth quarters and by the growth in refunds paid to economic agents in the third quarter of the year.

VAT: In 2019, the gross revenue from this tax grew 4.8%, above the year-on-year growth rate of nominal private consumption (3.3%), with reimbursements registering an annual variation of

3%. Consequently, the net VAT revenue grew 5.4% compared to the total revenue collected in 2018, which corresponds to an increase of 962 M€ in absolute terms. The net VAT revenue was responsible for four-fifths of the annual growth in revenue from indirect taxes and more than two-thirds (about 70%) for the increase in tax revenue in 2019. In terms of intra-annual developments, the good performance of gross tax revenue over the four quarters of the year should be highlighted, allowing that even with the growth in the amounts reimbursed in the first three quarters, net VAT revenue recorded positive year-on-year changes over all the quarters of 2019.

Chart 7 – Decomposition of the PIT, CIT and VAT quarter and cumulative revenue, in national accounts (year-on-year, in M€)



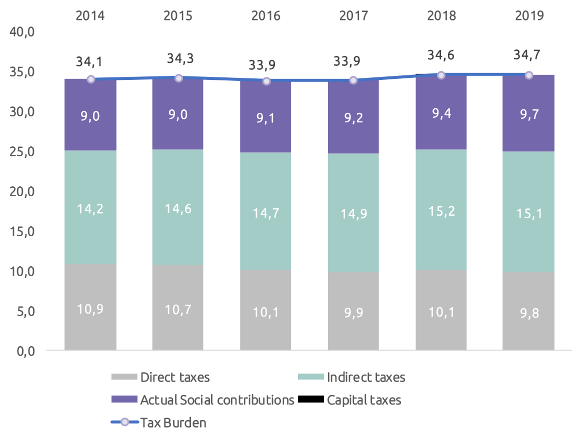
Source: INE . CFP calculations. Note: Figures in national accounts were estimated by CFP based on data from AT. Reimbursements are represented as the contribution for the variation of the tax net revenue. Therefore, a positive/negative reimbursements' contribution corresponds to a negative/positive annual change of reimbursements, favouring/penalizing the variation of the net revenue collected.

[1] The positive evolution of withholding taxes from capital income was due to the tax generated from the income from securities of issuing and registered entities and to "other capital income" (58 M€), since the tax revenue generated by interest on deposits continues to decrease (-24 M€) due to the current context of low interest rates.

Social contributions increased their growth in 2019, constituting the component with the largest contribution to the evolution of public revenue. The increase in revenue from social contributions (1507 M; 6.3%) was responsible for around 45% of the increase in public revenue in 2019. Within this component, the good performance of effective social contributions should be highlighted, which, with an absolute annual variation of 1471 M€, accounted for almost all (98%) of the increase in social contributions as a whole. In relative terms, the annual growth of effective social contributions stood at 7.7%, continuing to exceed the good dynamic presented by remunerations (4.5%) throughout 2019.

The tax burden reached a new peak reflecting the higher growth of effective social contributions. In 2019, the increase in the tax burden to 34.7% of GDP (+0.1 p.p. versus 2018) was exclusively due to the increase in the share of effective social contributions (9.7% of GDP in 2019 vs. 9.4% of GDP in 2018), since the share of nominal output collected in the form of taxes decreased in 2019 (Chart 8). It should be noted that, in this category, both direct and indirect taxes saw their share on output decline, with the share of direct taxation standing at 9.8% of GDP (10.1% of GDP in 2018) and the share of indirect taxes standing at 15.1% of GDP (15.2% of GDP in 2018).

Chart 8 – Tax burden for the period 2014-2019 (in p.p. of GDP)



Source: INE. CFP calculations. Notes: The weight of capital taxes is residual throughout the period, thus is not visible in the graph. The amount of the tax burden calculated corresponds to tax revenues and actual social contributions collected by the general government sector (S13).The total tax burden in % of GDP may not correspond to the sum of its components because the figures are approximate values.

In 2019, non-tax and non-contributory revenue grew again, this time based only on the contribution of some of its components. Contrary to 2018, the increase in non-tax and non-contributory revenue (3.5%) was due, in 2019, mainly to sales and dividends received by general government. The 260 M€ increase in GG sales of goods and services (3.6%), together with the 368 M€ (52.3%) increase in dividends received, which mainly reflects the increase in dividends distributed by CGD and BdP, were enough to offset the 80 M€ drop in capital revenue (-9.6%). This reduction, which is due exclusively to capital revenue from other sectors of the economy (-127 M€; -43%), reflects the lower amount of recovery in 2019 of the guarantee provided by the State to BPP (54.8 M€ in 2019 vs. 166.3 M€ in 2018).

Table 3 – General government account (in accrual basis)

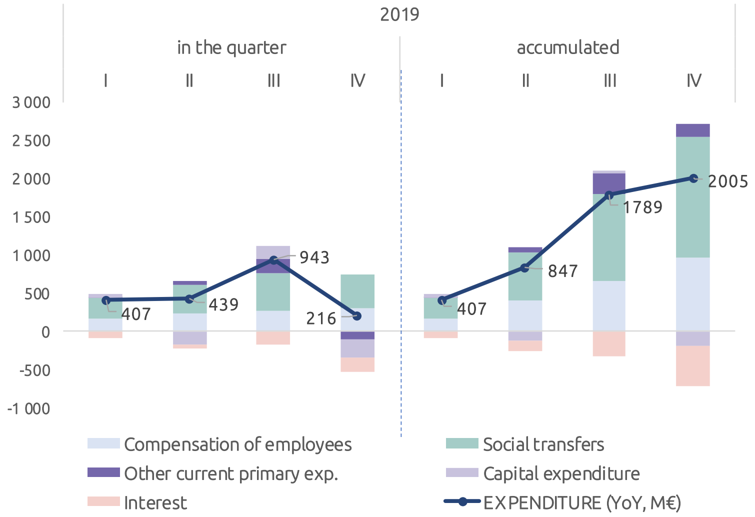
	M€		%of GDP		Annual change			
	2018	2019	2018	2019	%	Ctrc	M€	p.p. GDP
Total Revenue	87 695	91 008	42,9	42,9	3,8	3,8	3 313	-0,1
Current revenue	86 867	90 259	42,5	42,5	3,9	3,9	3 393	0,0
Tax revenue	51 637	53 013	25,3	25,0	2,7	1,6	1 377	-0,3
Indirect taxes	30 956	32 148	15,2	15,1	3,9	1,4	1 193	0,0
Direct taxes	20 681	20 865	10,1	9,8	0,9	0,2	184	-0,3
Social contributions	23 835	25 342	11,7	11,9	6,3	1,7	1 507	0,3
of which: actual soc. contr. received	19 128	20 598	9,4	9,7	7,7	1,7	1 471	0,3
Sales & other current revenues	11 395	11 903	5,6	5,6	4,5	0,6	509	0,0
Sales	7 129	7 389	3,5	3,5	3,6	0,3	260	0,0
Other current revenues	4 265	4 514	2,1	2,1	5,8	0,3	249	0,0
Capital transfers received	829	749	0,4	0,4	-9,6	-0,1	-80	-0,1
Total expenditure	88 599	90 604	43,4	42,7	2,3	2,3	2 005	-0,7
Primary expenditure	81 701	84 225	40,0	39,7	3,1	2,8	2 524	-0,3
Current primary expenditure	75 399	78 112	36,9	36,8	3,6	3,1	2 713	-0,1
Intermediate consumption	11 067	10 991	5,4	5,2	-0,7	-0,1	-76	-0,2
Compensation of employees	21 835	22 799	10,7	10,7	4,4	1,1	964	0,1
Social transfers	37 099	38 684	18,2	18,2	4,3	1,8	1 585	0,1
other than in kind	33 472	34 731	16,4	16,4	3,8	1,4	1 258	0,0
in kind	3 626	3 953	1,8	1,9	9,0	0,4	327	0,1
Subsidies	750	887	0,4	0,4	18,2	0,2	137	0,1
Other current expenditure	4 648	4 750	2,3	2,2	2,2	0,1	102	0,0
Capital expenditure	6 302	6 113	3,1	2,9	-3,0	-0,2	-189	-0,2
GFCF	3 795	3 980	1,9	1,9	4,9	0,2	185	0,0
Other capital expenditure	2 507	2 133	1,2	1,0	-14,9	-0,4	-374	-0,2
Interest paid	6 898	6 379	3,4	3,0	-7,5	-0,6	-519	-0,4
General government balance	-904	404	-0,4	0,2	:	:	1 308	0,6
Primary balance	5 994	6 783	2,9	3,2	:	:	789	0,3
Tax Burden	70 764	73 612	34,6	34,7	4,0	3,2	2 848	0,0
Current expenditure	82 297	84 491	40,3	39,8	2,7	2,5	2 194	-0,5
Nominal GDP	204 305	212 303	:	:	3,9	:	7 998	:

Source: INE and MF. CFP calculations. Note: These figures are not adjusted for the impact of the temporary and one–off measures.

2.4 Analysis of expenditure

In 2019 public expenditure increased in nominal terms, pressured by social benefits and personnel expenditure. Interest and intermediate consumption were the only current expenditure items that recorded a nominal reduction from 2018. The evolution of capital expenditure was influenced by a more unfavourable effect of temporary measures than in 2018.

Chart 9 – Contribution to the change in public expenditure in 2019 (in M€)



Source: INE. CFP calculations. | Note: figures are not adjusted from one-off measures.

Public expenditure increased by 2.3% in 2019 after falling by 0.3% the previous year. Public expenditure growth decelerated in the last quarter of 2019 (Chart 9), with a year-on-year increase of only 0.8% in that period. In cumulative terms, general government expenditure amounted to 90,604 M€ in 2019, up 2005 M€ on the previous year. This change was due to an increase in current primary expenditure of 2713 M€, together with a reduction in interest expenditure (-519 M€) and capital expenditure (-189 M€). The share of public expenditure in the value of wealth generated in the country rose from 43.4% of GDP to 42.7% of GDP. This decrease of 0.7 p.p. is influenced by the fact that the nominal growth of expenditure (2.3%) was considerably lower than that of GDP (3.9%).

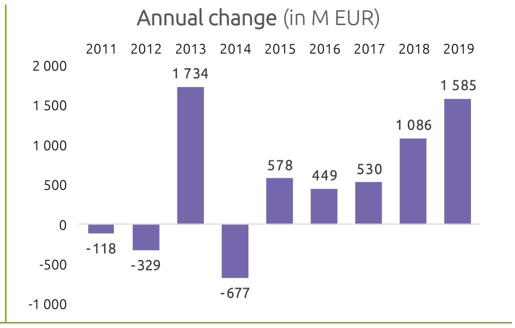
Social benefits account for more than half of the increase in current primary expenditure in 2019. This expenditure reached 38 684 M€ in 2019, 1585 M€ more than the previous year. This was the fifth consecutive year of growth in social benefit expenditure (right panel of Chart 10), which accelerated from 3.0% in 2018 to 4.3% in 2019. The increase was mainly due to social benefits other than in kind (+1258 M€), following the increase in pension expenditure (left panel of Chart 10). The growth of pension expenditure in the social security system (of 994 M€ or 5.8%) is noteworthy, mainly due to the ordinary updating of pensions, the increase in the number of pensioners and the greater budgetary impact of the extraordinary update of pensions and the social inclusion benefit.

Chart 10 – Evolution of social transfers expenditure

Outturn breakdown (in M EUR)

	2018	2019	Change %	Change Ctrc*
Social transfers	37 099	38 684	4,3	4,3
other than in kind	33 472	34 731	3,8	3,4
Pensions	26 413	27 542	4,3	3,0
CGA pensions	9 372	9 507	1,4	0,4
Social Security pensions	17 041	18 035	5,8	2,7
Unemployment benefits	1 234	1 188	-3,7	-0,1
Other	5 826	6 001	3,0	0,5
in kind	3 626	3 953	9,0	0,9

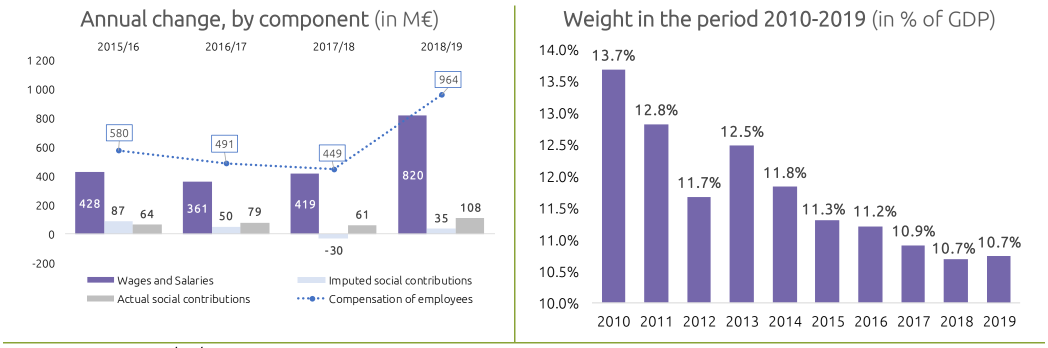
Source: INE and the Ministry of Finance. CFP calculations. | Notes: * Ctrc means contribution for the total expenditure rate of change. For the calculation of pensions in national accounts, CFP used data from CGA and Social Security.



Source: INE. CFP calculations.

Personnel expenditure growth more than doubled from 2.1% in 2018 to 4.4% in 2019. Personnel costs for all general government amounted to 22,799 M€ in 2019, 964 M€ more than the previous year. This is well above the annual average of 507 M€ recorded in the period 2016-2019 (left panel of Chart 11). In that four-year period, personnel expenditure increased by 2484 M€, reaching an amount higher than in 2011 (22 582 M€). Around 85% of last year's increase occurred in wages and salaries expenditure – which 5.1% growth was higher than nominal GDP (3.9%) – reflecting the impact of the gradual unfreezing of careers in public administration, career revision and other rights[8]. In addition, the average number of general government employees increased 2.4% in 2019, according to provisional data published by DGAEP. As a percentage of GDP, compensation of employees stabilized at 10.7% of GDP, thus interrupting the downward trajectory started in 2014 (right panel of the graph below).

Chart 11 – Evolution of compensation of employees



Source: INE. CFP calculations.

Interest and intermediate consumption were the only current expenditure items that recorded a nominal reduction from 2018. On the one hand, interest charges totalled 6379 M€ in 2019, down 519 M€ (or 7.5%) on the previous year. This was the fifth consecutive year in which this item contributed to the containment of public expenditure, with a reduction of around 2 thousand million euros compared to 2014. Interest expenditure as a percentage of GDP continued the downward trend seen in

[8] No information is available on this impact, but the latest MF estimate for 2019 was an impact of 540 M€ from progression and promotions and 125 M€ from career review and other rights. It is recalled that in 2019 the unfreezing phase was 75% on 1 May and 100% on 1 December.

recent years and stood at 3.0% in 2019, 1.9 p.p. less than in 2014 (of which -0.4 p.p. last year). On the other hand, intermediate consumption reached 10,991 M€ in 2019, having fallen by 76 M€ (or 0.7%) - Table 3. The last time this item had recorded a nominal reduction was in 2013. The containment of this expenditure occurred in local government and in the State sub-sector (which may in part be related to possible savings obtained within the scope of the public expenditure review exercise and to the management of captivates by the MF, an instrument that is analysed in detail in Box 2).[9]

Capital expenditure decreased despite the increase in Gross Fixed Capital Formation (FBCF) in 2019. Capital expenditure decreased by 189 M€ following a reduction of "other capital expenditure" by 374 M€ and an increase of FBCF by 185 M€. The effect of temporary measures under "other capital expenditure" was more unfavourable in 2019,[10] following the payment of 1149 M€ by the Resolution Fund to Novo Banco, in the context of the contingent capitalisation mechanism (357 M€ more than in 2018) and the judicial decision by the State to compensate the concessionaire Autoestradas do Douro Litoral (which implied the registration of 219 M€ as a capital transfer in the 4th quarter of 2019).[11][12]However, this unfavourable effect of the one-off measures was more than compensated by the favourable impact of the receipt of 273.9 M€ in 2019, following the sale of land from the former Feira Popular, carried out by the municipality of Lisbon (which, in national accounts, is deducted from "other capital expenditure") and by a base effect resulting from operations in 2018. In the[13] opposite direction, FBCF grew for the third consecutive year (although progressively less expressive, as shown in the right panel of Chart 12), reaching 3980 M€ in 2019. The increase of 185 M€ observed last year occurred mainly in the sub-sector of regional and local government (left panel of Chart 12), mostly in households. The FBCF ratio stabilised at 1.9% of GDP in 2019.

[9] It should be noted that expenditure on road PPPs fell by 28 M€ to 1337 M€ in 2019, and that intermediate consumption in the Health sector increased by 121 M€.

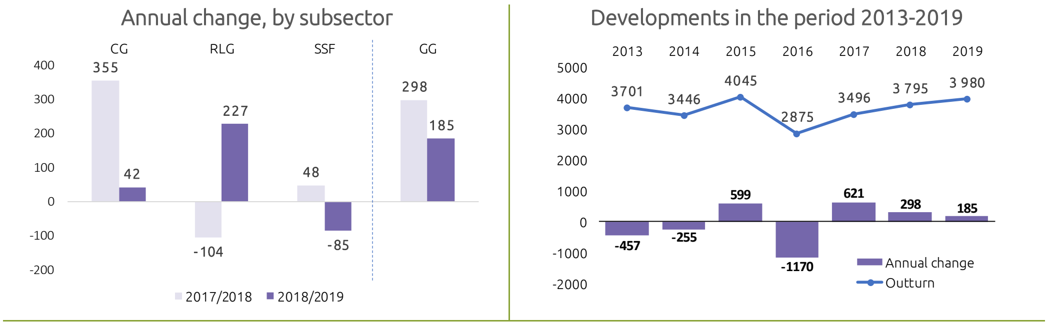
[10] Excluding the effect of one-off measures, "other capital expenditure" declined by 656 M€ in 2019 and public expenditure growth decelerated from 3.4% in 2018 to 2.0% in 2019.

[11] Amount established in court to compensate the referred concessionaire for the decrease in toll revenues between December 2011 and November 2019. According to INE, in national accounts the impact on public expenditure of future payments to be made by the State in each of the remaining years of the concession will be cancelled.

[12] In 2018, in addition to the impact of 792 M€ under the contingent capitalisation mechanism, the CFP considered the following temporary measures: 130 M€ relating to forest fire prevention costs; 99.5 M€ arising from the conversion of deferred taxes and an expense of 65 M€ incurred by the Municipality of Lisbon following a legal process.

[13] Base effect, relative to 2018, arising from the loan granted by DGTF to the Credit Recovery Fund "FRC-INQ - Papel Comercial ESI e Rio Forte", following the execution of guarantees related to the group of investors commonly known as "BES injured parties" (280.6 M€); the granting of a guarantee and an increase in the capital of the company SATA Air Açores for a total amount of 76 M€) and the assumption of debts of municipalities (23.8 M€).

Chart 12 - Evolution of GFCF (in M EUR)



Source: INE, MF. CFP calculations. | Note: figures are not adjusted from one off measures shown in Table 16; CG - Central Government; RLG - Regional and Local Government; SSF - Social Security Funds; GG - General Government.

Box 2 – Instruments of budgetary control in 2019

This box reviews the Ministry of Finance's management of budgetary control instruments in 2019. The data are presented from a public accounting perspective, but their treatment is similar in national accounts.

1 - Budgetary captivations

The budget withholdings correspond to the retention of part of the expenditure appropriations of central government departments and bodies, in order to ensure flexible control of budget implementation. The conditional use of budget appropriations for 2019 was initially established in Article 4 of the State Budget Law for 2019.[1] This rule conditioned the use of some budget appropriations of central government entities, making them subject to prior authorisation by the member of the Government responsible for the area of finance.

According to the DGO, the initial captivations on the actual expenditure appropriations of central government departments and bodies for 2019, including the budget reserve, totalled 1473 M€, to which were added captivations made during budget implementation for 48 M€.

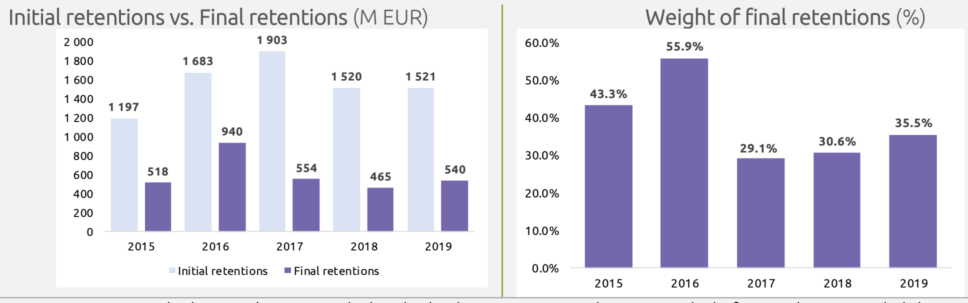
Table 4 – Retentions in central government expenditure in 2019 (in M€)

	Retentions		Spent retentions		Final retentions	
	initial	outturn	Value	Degree	Value	Degree
	(1)	(2)	(3)	(4)=(3)/[(1)+(2)]	(5)	(6)=(5)/(1+2)
Current expenditure:	**1 358**	**45**	**892**	**63.6%**	**511**	**36.4%**
Despesas com pessoal	197	15	137	65.0%	74	35.0%
Procurement of goods and services	567	23	346	58.6%	244	41.4%
Current transfers	109	4	89	79.4%	23	20.6%
Subsidies	0	0	0	87.4%	0	12.6%
Other current expenditure	486	4	320	65.3%	170	34.7%
- Budgetary reserve	*420*	*2*	*303*	*71.8%*	*119*	*28.2%*
Capital expenditure:	**115**	**3**	**88**	**75.1%**	**29**	**24.9%**
Procurement of capital goods	39	3	15	36.2%	27	63.8%
Capital transfers	75	0	73	96.8%	2	3.2%
Total	**1 473**	**48**	**981**	**64.5%**	**540**	**35.5%**

Source: DGO. CFP calculations. | Notes: figures in cash basis; information registered in the systems of the DGO as of 12/31/2019; does not include financial assets or liabilities; does not include the reflexive retentions in the funds transferred from the State Budget to the entities with financial autonomy.

Provisional figures provided by DGO indicate that a total of 981 M€ was discarded in 2019, with final captives amounting to 540 M€ (most of which concerned expenditure financed by own revenue, which depends on the respective collection in order to materialise). This figure corresponds to 35.5% of total initial and execution captives, a ratio higher than the 30.6% recorded in 2018 (right panel of the graph below). In absolute terms, final captives increased by 75 M€ against the previous year but remained in line with the average recorded in recent years (with the exception of 2016), as shown in the left panel of the chart below.

Chart 13 – Budgetary retentions management in the period 2015-2019



Source: DGO. CFP calculations. | Notes: includes the budgetary reserve; does not include financial assets or liabilities; does not include the reflexive retentions in the funds transferred from the State Budget to the entities with financial autonomy; consolidated values, that is, excluding flows within the scope of central administration; the figures for the 2015-2018 period are adjusted for movements related to other budgetary management operations and/or were improperly registered and that were referred in the respective General State Account; the initial retentions include retentions in the execution; the weight of the final captives represents their weight in the total of initial and outturn retentions.

2 - Budget reserve

The budgetary reserve (provided for in article 4 of the State Budget Law for 2019) corresponded to 2.5% of the budget of each central government budgetary programme for 2019, totalling 470.3 M€. [2] According to clarifications provided by MF, this amount was included in the 590 M€ allowance considered by MF in the GG Account for 2019.

However, provisional figures for 2019 indicate that the budget reserve has been used to the tune of 300 M€, of which 115.5 M€ is for the reinforcement of the budget of the Institute of Financial Management of Education, with the Education Establishments and Basic and Secondary Education as final recipients.

Table 5 – Utilization of the budget reserve in 2019 (in M€)

Ministry / Entity	Initial appropriation	Updated appropriation	Utilization
Sovereign Bodies	5.7	1.2	4.5
Governance	3.4	2.6	0.8
Ministry of Foreign Affairs	7.4	1.7	5.7
Ministry of Finance	77.7	48.4	29.3
Ministry of National Defense	40.4	15.6	24.8
Ministry of Internal Security	44.6	3.7	41.0
Secretaria Geral do Ministério da Administração Interna	*37.0*	*0.0*	*37.0*
Ministry of Justice	37.4	6.8	30.6
Instituto de Gestão Financeira e Equipamentos da Justiça	*26.1*	*3.6*	*22.5*
Ministry of Culture	6.2	5.7	0.5
Ministry of Science, Technology and Higher Education	10.4	0.7	9.7
Ministry of Education	124.9	8.0	116.9
Instituto de Gestão Financeira da Educação (IGEFE)	*115.5*	*0.0*	*115.5*
Ministry of Solidarity, Employment and Social Security	19.5	19.5	0.0
Ministry of Health	22.0	3.6	18.5
ADSE - Instituto de Proteção e Assistência na Doença	*15.6*	*0.0*	*15.6*
Ministry of Planning and Infrastructures	21.9	21.5	0.4
Ministry of Economy	10.9	6.9	4.0
Ministry of Environment	25.0	19.9	5.1
Ministry of Agriculture, Forests and Rural Development	11.4	4.2	7.2
Ministry of the Sea	1.5	1.2	0.3
Total	**470.3**	**171.1**	**299.2**

Source: SIGO. CFP calculations.

It should be noted that, from a national accounts point of view, the general government account for 2019 had implicitly deducted 590 M€ from expenditure, of which 470 M€ from the budgetary reserve, 60 M€ from the purchase of goods and services, 30 M€ from personnel expenditure and 30 M€ from the purchase of capital goods. According to the MF, these allowances reflected the expectation of not using that part of the expenditure appropriations for 2019, resulting from legal and standardized procedures related to public tenders for the acquisition of goods and services, investment or hiring of personnel. The use of the budgetary reserve by around €300 M€ was mitigated by the fact that the final captions on the three items mentioned above were higher than the abatements initially considered by the MF, as shown in Table 4.

3 - Provisional appropriation

The provisional appropriation is another budgetary control instrument which use can only be authorised exceptionally by the Minister of Finance and is intended to cover exceptional and unforeseeable expenditure arising during the year. As financing needs are identified during the year, the provisional appropriation (initially classified under the heading "Other current expenditure" in public accounts and under the headings "Staff expenditure" and "Intermediate consumption" in national accounts) is cancelled in return for the reinforcement of other expenditure headings (mostly staff expenditure, as shown in Table 6).

As in recent years, the provisional appropriation for 2019 has been fully used, totalling 330 M€. Around 89% of this amount was used by the Ministry of Education, mainly in expenditure on staff in primary and secondary education establishments.

Table 6 – Reinforcements financed by the provisional appropriation in 2019 (in M€)

Ministério / Serviço	Compensation of employees	Acquisition of goods and services	Interest	Current transfers	Other current expenditure	Acquisition of capital goods	Capital transfers	Total
Sovereign Bodies								
Supremo Tribunal Administrativo					2.4			**2.4**
Gabinete do Representante da República - Região Aut. Açores	0.1						20.0	**20.1**
Governance								
Instituto Nacional de Estatística (INE)	2.6	0.1				1.3		**4.0**
Ministry of Internal Security								
Secretaria-Geral do MAI					10.2			**10.2**
Ministry of Finance								
Autoridade Tributária e Aduaneira (AT)			0.1					**0.1**
Ministry of Education								
Estabelecimentos de educação e ensinos básico e secundário	232.9							**232.9**
Instituto de Gestão Financeira da Educação (IGEFE)				60.0				**60.0**
Direção-Geral dos Estabelecimentos Escolares		0.2						**0.2**
Total	**235.6**	**0.3**	**0.1**	**60.0**	**12.6**	**1.3**	**20.0**	**330.0**

Source: DGO. CFP calculations. | Note: figures in cash basis account.

4 - Centralised allocations

The remaining appropriations centralised in the Ministry of Finance, which amounted to 264 M€ in the State Budget for 2009, were implemented to the tune of 194 M€, which was 70 M€ less than expected (Table 7). Only the appropriations related to the PART and to the settlement of non-financial liabilities were fully implemented, highlighting the low degree of implementation of the appropriations for the national public counterpart and the sustainability of the Health sector.

Table 7 – Allocations centralized in the Ministry of Finance in 2019 (M€)

Designation	Inicial appropriation	Outturn	Deviation	Utilization rate
Financing of the Tariff Reduction Program (PART)	104.0	104.0	0.0	100%
Sustainability of the Health Sector	84.9	48.8	-36.1	57%
Global National Public Counterpart	50.0	16.9	-33.1	34%
Regularization of Non-Financial Liabilities of the Central Government	20.0	20.0	0.0	100%
Participative Budget of Portugal	5.0	4.2	-0.8	84%
Total	**263.9**	**193.8**	**-70.1**	**73.4%**

Source: DGO. CFP calculations. | Note: only includes actual expenditure appropriations.

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1 - Article 4 of Law No. 71/2018, of 31 December, establishes the percentages of captivations, the exceptions (including appropriations for the acquisition of Health services and the allocation to certain projects of the programs "Health" and "Basic and Secondary Education and School Administration") and the possibility of redistribution and discouragement of funds. The Budgetary Execution Decree for 2019 established additional captivations, covering appropriations for personnel expenditure, transfers outside the general government and other current expenditure (Article 5 of Decree-Law No. 84/2019 of 28 June).

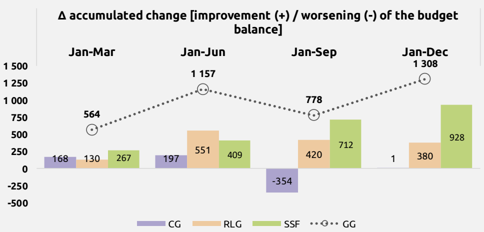
2 - Institutions belonging to the NHS and to Higher Education, as well as the EPRs covered by the simplified scheme, were excluded from the application of the budgetary reserve. The calculation of the budgetary reserve does not concern expenditure financed by European funds, investments of financial assets and liabilities, nor does it concern the Military Infrastructure Act and the so-called specific appropriations.

Box 3 - Main fiscal developments by general government sub-sectors

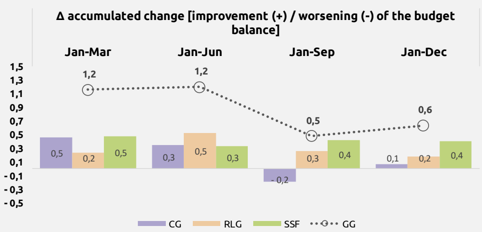
The improvement of the budgetary balance (0.6 p.p. of GDP) to reach a surplus in 2019 resulted from different contributions from the general government sub-sectors. Social Security Funds (FSS) were the sub-sector that contributed the most to this improvement, increasing their surplus by around 0.4 p.p. of GDP, almost two thirds of the change observed for the general government balance (Chart 14). The Regional and Local Government (ARL) also saw its budget surplus increase, contributing 0.2 p.p. of GDP to the improvement in the balance. In the case of Central Government (CA) there was a reduction in the deficit (by 0.1 p.p. of GDP) mainly explained by nominal GDP growth higher than the marginal change that the balance of this sub-sector recorded in absolute terms.

Chart 14 – Subsector's contribution to the change in the GG balance in 2019

In M



In GDP p.p.



Source: INE. CFP calculations.

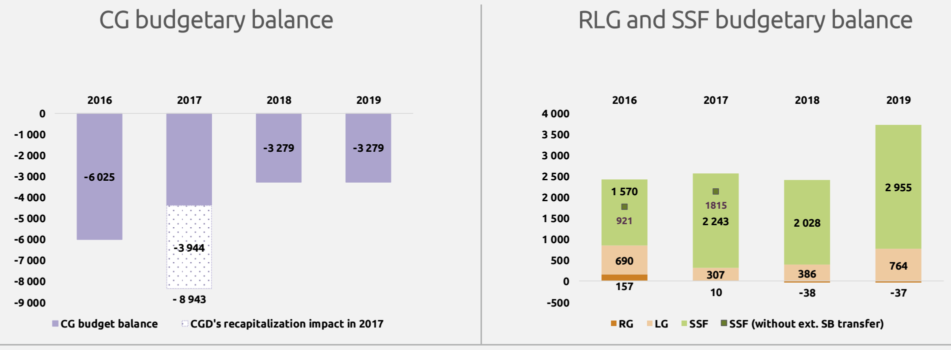
Central Government

The evolution of the budget implementation of CA over the year led to a virtually nil contribution of this sub-sector to the improvement of the balance in absolute terms. This situation occurred even though there was a deterioration of the balance of the sub-sector in the 3rd quarter, associated with a higher volume of IRS and IRC reimbursements, as well as an acceleration in current primary expenditure (Chart 14). Despite the negative impact of temporary and one-off measures on the CA balance, in particular in the 2nd and 4th quarters, this was eventually diluted by favourable developments in tax revenue of the sub-sector, but also by base effects related to one-off expenditure in 2019, namely "BES injured parties". In consolidated terms,[1] CA accounted for 61.2% and 70.3% of total GG expenditure and revenue in 2019, respectively. However, it should be noted that transfers paid to other sub-sectors, namely under the financing laws,[2] are considered as expenditure of central government.

Regional and Local Government (ARL)[3]

In 2019 the ARL sub-sector returned to a positive budgetary balance (727 M€), consolidating a surplus situation that has existed since 2012. The balance also shows an improvement of 380 M€ compared to 2018. An increase in revenue contributed to this result, particularly from the non-tax and non-contributory component, which more than offset the increase in expenditure, benefiting, in national accounts, from the sale of land by the Municipality of Lisbon. In fact, the largest contribution to the improvement of the ARL balance came from Local Government (LA), as detailed below (Chart 17). It should be noted that in 2019 the revenue and expenditure of the subnational governments represented 13.4% and 10.4%, respectively, of the consolidated total of general government, practically unchanged from the previous year, with the largest financial contribution coming from LA (10.2% and 7.9%, respectively).

Chart 15 – Budgetary balance by General Government subsector (M€)



Source: INE. CFP calculations.

Regional Administration (AR)

In 2019, and similarly to 2018, the HR recorded a budget deficit (37 M€) interrupting the succession of surpluses from 2013 onwards (Chart 15). More than half of the increase in regional revenue came from tax revenue. However, increases in expenditure, particularly in personnel, social benefits and investment, contributed to a year-on-year change in the balance that was practically nil, notwithstanding the decrease in other capital expenditure that in 2019 reflects lower financial support from the Autonomous Region of the Azores to SATA (7.5 M€ in 2019, 76 M€ in 2018). It is also worth noting the transfers received from CA (590 M€ in 2019, around 20%

of AR's revenue), of which 462 M€ relate to transfers from the State Budget under the regional finance law (+5.8% compared to 2018). [4]

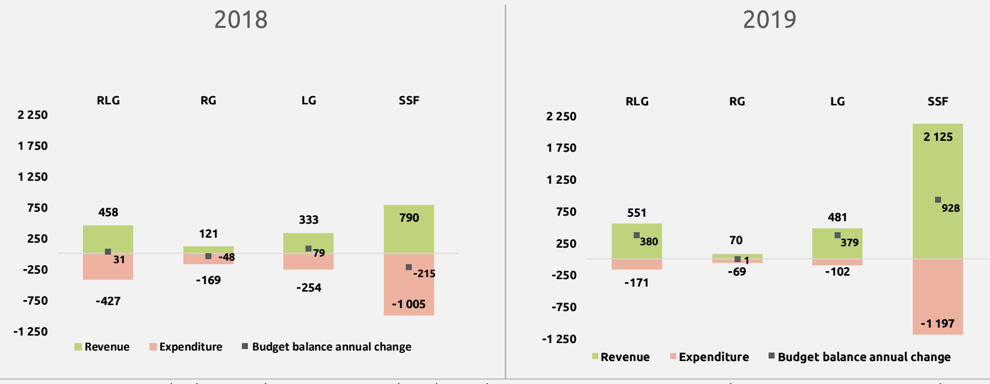
Local Administration (AL)

The AL showed a budget surplus for the ninth consecutive year. The balance reached in 2019 (764 M€), represents the second best result obtained since 2011 (the maximum occurred in 2012, benefiting from the sale of land at Lisbon airport). The positive change in the balance in 2019 (379 M€) was due to the increase in revenue which more than offset the overall increase in expenditure (more than four times). A decisive factor in this evolution was the sale of land by the Municipality of Lisbon (273.9 M€), which, from the point of view of national accounting, deducted the other capital expenditure. [5] Excluding this effect, there would still be an improvement in the balance. However, this would be almost zero if the impact of the payment made in 2018 by that municipality following a judicial decision (96 M€) is discounted. [6]

The favourable evolution of non-tax and non-contributory revenue in 2019 was mainly responsible for the increase in AL revenue of 481 M€. The change in this aggregate in 2019 (+329 M€) benefited from: i) the increase of more than 10% in transfers from other sub-sectors, almost all of the AC,[7] where those made under the Local Finance Law through the State Budget are included; ii) sales that more than offset the decreases in other current revenue; iii) the higher volume of community funds. Tax revenue, despite growing less than in 2018, favoured the balance by 138 M€. This growth in tax revenue was mainly anchored to the contributions of the municipal surcharge and the IMT.

The overall change in overall AL expenditure (+102 M€) was due to the growth of current primary expenditure and investment, which more than offset the effects arising from the operations concerning the Municipality of Lisbon. The unfreezing of careers contributed to the higher current primary expenditure, reflected in the increase in personnel expenditure (+6.8%) as well as the increase in other current expenditure.

Chart 16 – Contributions to the annual budgetary balance change in the LRG and SSF subsectors (M€)



Source: INE. CFP calculations. | RLG - Regional and Local Government, RG - Regional Government, LG - Local Government, SSF - Social Security Funds. Note: The sum of the contributions from RG and LG regarding revenue and expenditure do not exactly match the contributions of these aggregates from the LRG perspective since there are cross-sectoral flows between the RG and the LG that consolidate. RLG corresponds to the "Local Government" ESA 2010 definition.

Social Security Funds

In 2019 the FSS continued to show a budget surplus (2955 M€, Chart 15), which is a new maximum of the statistical series available since 1995. Conversely to the previous year, when the balance of this sub-sector deteriorated, an improvement of 928 M€ was observed in 2019.

The base effect resulting from the elimination from 2018 onwards of the extraordinary transfer from the State Budget to the Social Security System - Distribution contributed to this change. [8] This positive change was anchored in an increase in revenue that more than offset the increase in expenditure (Chart 16).

The favourable evolution of FSS revenue in 2019 was benefited by the behaviour of social contributions, as well as by other revenues assigned to the sub-sector. Being the main source of financing of the sub-sector, the revenue from social contributions increased by 1,485 M€ in 2019, associated with a positive labour market environment, which more than exceeded the increase in total SSS expenditure (1,197 M€). The evolution of the revenue was also favoured by the increase in transfers made under the Basic Law of Social Security (LBSS) which, in contrast to 2018, recorded an increase (+333 M€), as well as by the positive variation in the revenue consigned to this sub-sector of social VAT, additional to IMI and IRC. [9]

Social benefits increased their growth in 2019. This increase in the main component of SSC expenditure amounted to 1147 M€. Several measures adopted to increase expenditure on social benefits, namely pensions, as well as the change in the number of beneficiaries, contributed to this evolution. It should also be noted that, despite the continued fall in expenditure with unemployment benefits in recent years, the resulting savings in 2019 are substantially lower than those obtained in previous years.

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1 - Excluding transfers and interest paid to other GG subsectors.

2 - Total transfers paid by AC to the other GG sub-sectors amounted to 11,801 M€ in 2019 and total transfers received from the other sub-sectors amounted to 1427 M€. These transfers are subject to consolidation when considering the general government as a whole, since they are expenditure of one sub-sector, but also revenue of another.

3 - This sub-sector includes the Regional Government (AR) - corresponding to the Autonomous Regions (RA) of the Azores and Madeira - as well as the Local Government (AL). In the Portuguese case, both are included in code S.1313 of SEC 2010, namely because AR does not cover the whole national territory, with AR and AL corresponding to sub-divisions of it.

4 - Cf. INE's April 2020 Excessive Deficit Procedure Highlight.

5 - Alienation at public auction of the former Feira Popular de Lisboa land and attached parcel of land. In national accounting, this type of operation translates into a disposal of a non-produced non-financial asset (the land), the amount being written off as "other capital expenditure", which includes the net acquisition costs of this type of asset.

6 - Under this assumption the year-on-year change in the AL balance would be 9 M€. It should be noted that although a one-off of a similar nature was foreseen for 2019 in the amount of 170 M€, this measure was eventually carried over to 2020, being implicit in the POE/2020, in a slightly lower amount (160 M€).

7 - Transfers received from AC by AL totalled 2980 M€ in 2019 (30% of AL revenue).

8 - This transfer began in 2012 to cover the system's deficit. In 2018 and 2019, the State Budget did not consider any transfer under this heading as a surplus in the social security system was expected.

9 - A total of 1176 M€ in 2019 (+232 M€ than in 2018).

3. EVOLUTION OF PUBLIC DEBT IN 2019

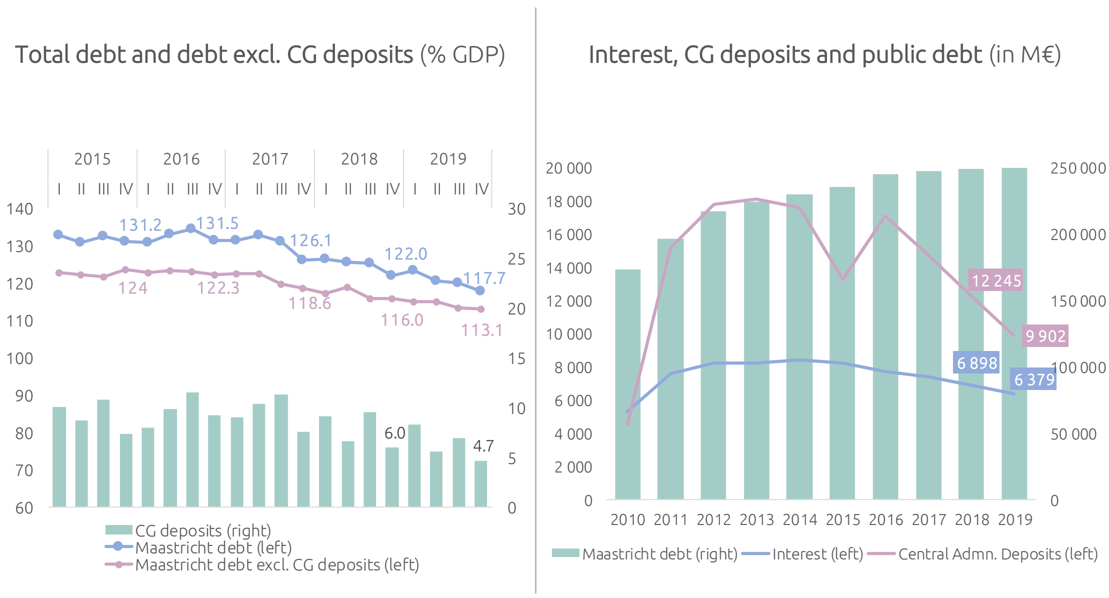
The public debt ratio continued in 2019 the downward trajectory initiated in the two previous years. This contrasts with a change in nominal debt which slower pace of growth was mainly justified by the financing capacity achieved in 2019. The net debt of central government deposits followed the path of public debt, declining as a ratio to GDP and increasing in nominal terms. In terms of financing, the non-resident sector strengthened its position as the largest creditor of public debt in 2019.

3.1 Maastricht debt

At the end of 2019, the public debt ratio stood at 117.7% of GDP, a reduction of 4.3 p.p. of GDP compared to the previous year. The primary balance (-3.2 p.p.) and the snowball effect (-1.6 p.p.) contributed favourably to this evolution, where the growth effect more than offset the unfavourable impact of the interest effect. In the opposite direction, the deficit adjustment led to a 0.5 p.p. increase in the ratio. The evolution of the debt ratio is also accompanied by a reduction of the debt net of deposits from 116% of GDP in 2018 to 113.1% of GDP, influenced by the decrease of AC deposits, by 1.3 p.p., to 4.7% of GDP (Chart 17).

In nominal terms, public debt increased by 700 M€ compared to the end of the previous year, reaching 250 thousand million euros in 2019. The financial instruments that contributed most to that variation were the increase in cash and deposits (+1,000 M€) and debt securities (+2.3 M€), with the negative variation in shorter maturity securities to the detriment of long-term securities. These increases were mitigated by the decrease in loans (-2.6 thousand million euros), particularly long-term loans, due to the early repayment of 2 thousand million euros to the FEEF carried out in October 2019.

Chart 17 – General government debt and interest evolution



Sources: INE and BoP. CFP calculations.

The change in general government debt continued to be mostly due to the AC sub-sector. This sub-sector showed an increase in consolidated debt of 0.8 thousand million euros in 2019, while ARL debt decreased slightly (0.1 thousand million euros), with Social Security Funds debt maintaining a zero contribution.

3.2 Deficit-debt adjustment

The budget surplus achieved in 2019 justified a smaller annual increase in government debt. Despite a financing capacity of 404 M€ in 2019, there was an increase in public debt of 720 M€. This difference between the change in debt and the deficit was due to the unfavourable impact of the deficit-debt adjustment, which amounted to 1124 M€ (Table 8). This was due to the increase in the net acquisition of financial assets, which explains more than the total adjustment, and financial liabilities not included in the debt. On the contrary, the other changes in debt contributed to a smaller adjustment. In comparison to 2018, the lower increase in debt (2087 M€ compared to 720 M€ in 2019) should be highlighted, mostly justified by the favourable evolution of the general government budgetary balance.

Table 8 – Stock-flow adjustment

	2018	2019
(1) Budget Deficit GG	**904**	**-404**
(2) Stock-flow adjustments (difference) = (3)-(1)	1 183	1 124
Net acquisition of financial assets (+)	-161	1 314
Currency and deposits	-1 525	-2 164
Securities other than shares	585	2 320
Loans	64	112
Shares and other equities	667	674
Other financial assets	48	372
Financial liabilities not included in Debt (-)	-1 557	-686
Other changes in debt (including valuations] (+)	-213	-877
(3) Change in GG Debt	**2 087**	**720**
(4) Public debt (*Maastricht*)	**249 261**	**249 980**
Public debt (% of GDP)	**122.0**	**117.7**
Memo items:		
Interest	6 898	6 379
Implicit interest rate (J/Dt-1)	2.8%	2.6%

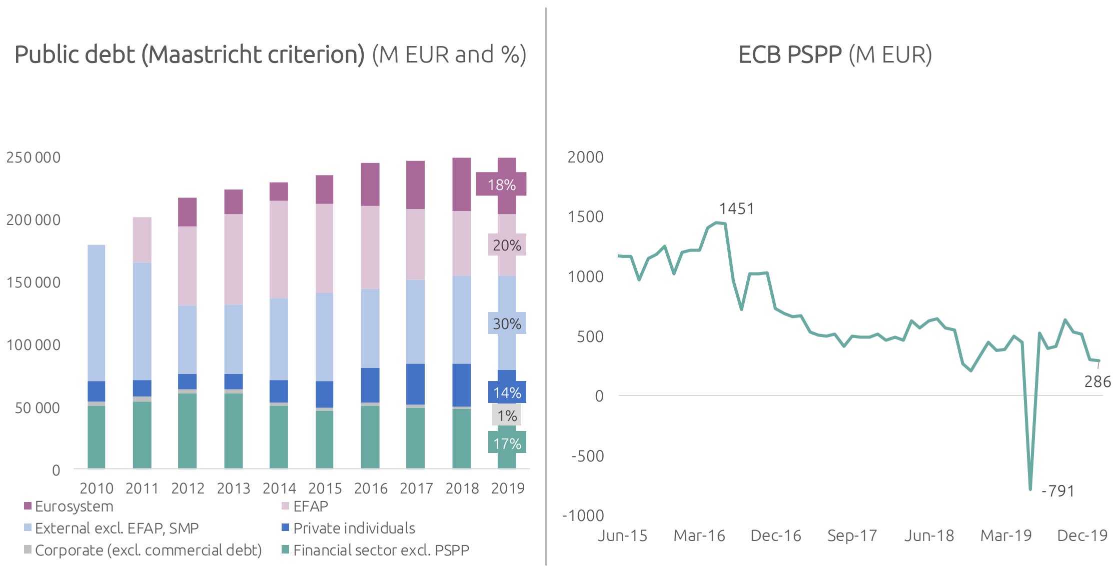
Sources: INE and BoP. CFP calculations.

3.3 Financing sector

The non-resident sector strengthened its position as the largest creditor of general government debt in 2019. External creditors together held 68% of the debt in 2019, compared with 66% at the end of 2018 (left panel of Chart 18). This increase was driven by the higher volume of foreign-owned debt excluding the PAEF and the SMP, which increased from 28% to 30% of Maastricht debt. This variation seems to have been due to other external creditors, as both the PAEF and the SMP decreased their representativeness in total debt, namely through early repayment to the FEEF. With regard to the debt held by the resident sector, there was a slight decrease in 2019, justified by the lower financing of the financial sector, which fell from 19% to 17% of the total.

In 2019, the Eurosystem held around 18% of Portuguese public debt. In the course of 2019 the ECB continued to reinvest the amounts held under the *Public Sector Purchase Programme (*PSPP), and in November it resumed net purchases under the same programme (right panel of Chart 18). In 2019 the net purchases of Treasury Bonds by the Eurosystem amounted to 4.3 thousand million euros.

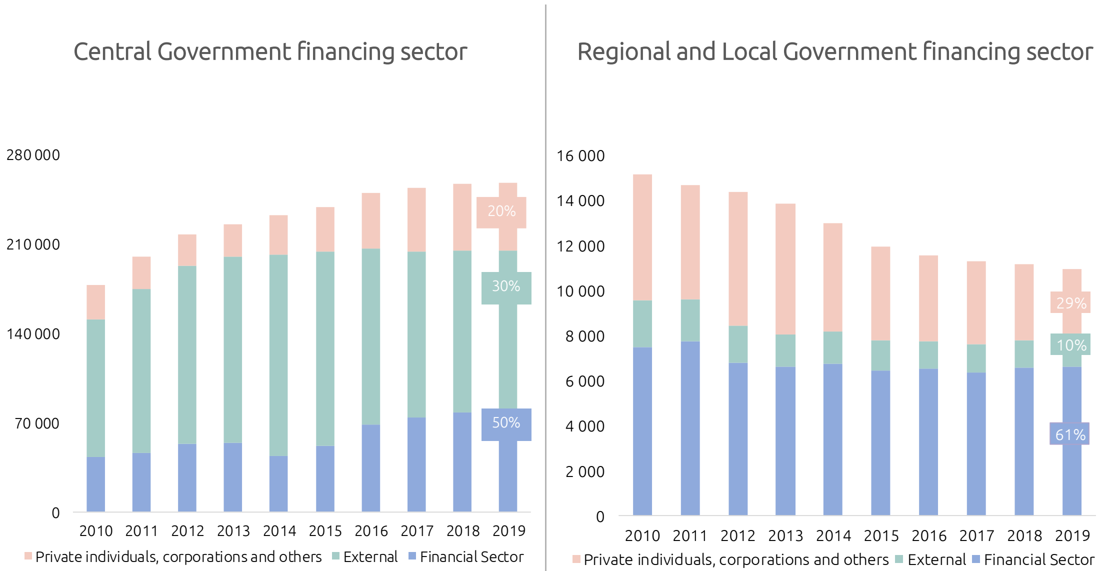
Chart 18 - Maastricht debt financing sectors



Sources: BoP, ECB and IGCP. CFP calculations. | Note: the sum of the different parcels may differ from 100% due to rounding effects.

The financing of central government debt and regional and local government debt in 2019 showed small variations in the opposite direction. AC debt increased by 0.2 thousand million euros as a result of a considerable increase in external financing (which finances 50% of the total, left panel of Chart 19), and was partly countered by a decrease in the financing of the financial sector (30%) and, to a lesser extent, of households, companies and others (20%). In the opposite direction, ARL's debt fell by around 0.2 thousand million euros, with minor variations between financing sectors in comparison to the previous year (right panel of Chart 19).

Chart 19 – Financing sector of consolidated debt (M€ and % of total)

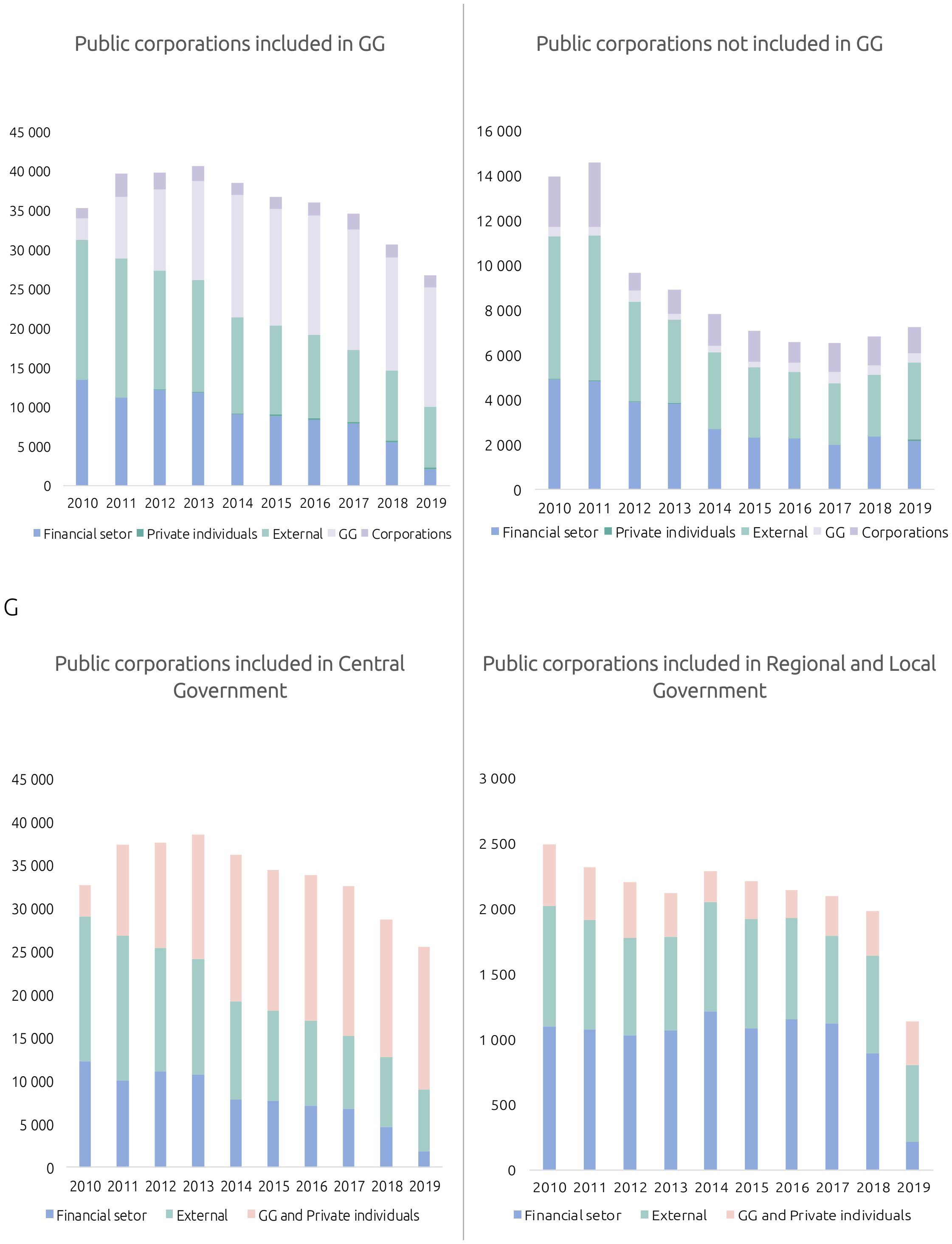


Sources: BoP. CFP calculations. | Note: the sum of the different parcels may differ from 100% due to rounding effects. The charts use different scales to facilitate graphical representation.

The debt of public enterprises included in the general government decreased in 2019, in particular the reduction in financing granted by the resident financial sector. The debt of these companies continued the downward trajectory that began in 2014, standing at 26.7 thousand million euros, the lowest figure since 2009 (24 thousand million euros). Compared to 2018, there was a decrease of 3.9 thousand million euros, of which 3.5 thousand million euros resulted from the negative change in financing provided by the financial sector (upper left panel of Chart 20). Also noteworthy is the decrease in external financing, to the detriment of financing provided by general government. In the opposite direction, public sector debt not included in general government increased for the second year in a row, from 6.8 thousand million euros to 7.3 thousand million euros. External financing recorded the most significant positive change, increasing by 0.6 B€ (upper right panel of Chart 20).

Enterprises included in central government and regional and local government experienced a decline in debt, in particular debt financed by the financial sector. In central government companies the slight increase in financing provided by households (+0.7 B€) was more than offset by the decrease in financing from the financial sector (-2.8 thousand million euros) and from abroad (-1 thousand million euros), resulting in a change from - 3.1 thousand million euros to 25.6 thousand million euros at the end of 2019 (lower left panel of Chart 20). In companies included in ARL, there was a decrease across all financing sectors, with the main emphasis on the reduction of financing in the financial sector, which led to a decrease of 0.8 thousand million euros in the debt of this sub-sector (lower right panel of Chart 20).

Chart 20 – Financing sector of public corporations (M€)



Sources: BoP. CFP calculations. | Note: The charts use different scales to facilitate graphical representation.

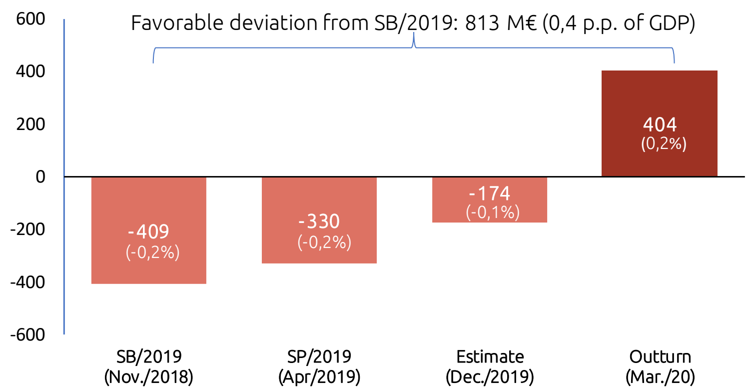
4. COMPARISON WITH BUDGET PROGRAMMING DOCUMENTS

The analysis presented in this chapter is hampered by the introduction of the new national accounts base, which occurred in September 2019. This alteration does not allow the budget execution results analysed in the previous chapter to be directly comparable with the forecast in the State Budget for 2009 account approved by the Portuguese Parliament. The impact of these changes already analysed in the 2019 CFP Report No 11 had an effect on the level of some budgetary components. In this context, taxes, sales and social benefits with important impacts on some sub-aggregated, such as tax revenue, non-tax revenue, tax burden, public consumption, and the weight of social benefits in the public expenditure structure should be highlighted. In view of these changes, a comparison was made only at the level of aggregates and some sub-aggregated revenue and expenditure, including where possible a comparative reference to some fiscal items. For general government debt, nominal debt was considered for comparison purposes only, given the availability of information on the capitalised interest of postal savings certificates on government debt, which makes it possible to estimate comparable nominal debt.

4.1 General Government Account

The government surplus for 2019 reported by the national statistical authorities was better than projected by the MF in the budgetary programming documents. 404 million (corresponding to 0.2% of annual GDP) reflects a favourable deviation of Expenditure around two thirds of this deviation (65%), with a lower increase than forecast in the State Budget for 2009, the rest being due to revenue as a result of a growth above that anticipated by the MF. This divergence of forecast from the balance also continues in PE/2019 and in POE/2020, with a difference of 0.4 p.p. and 0.3 p.p. of GDP, respectively.

Chart 21 – General government balance in 2019: from the State Budget 2019 to the outturn (in Million €)



Source: INE and MF. CFP calculations. | Notes: figures are not adjusted from temporary measures; the Estimate was included in the DSB/2020 report and the Outturn figures are those published by INE.

The total revenue of general government grew more than forecast in the State Budget for 2009, due to the favourable deviation in current revenue. In 2019, the public revenue grew 3.8%, 0.3 p.p. above the target inscribed in the OE/2019 (3.5%). This performance resulted exclusively from the growth of current revenue (3.9% vs. 2.9% in OE/2019) which reflects, among others, the behaviour of social contributions. In contrast, the capital revenue registered an execution below that forecast by MF (-9.6% vs. 59.4% in OE/2019). The lower than expected recovery of the BPP Guarantee, as well as the lower than expected amount of transfers from the European Union influenced a lower than expected execution of capital revenue. In nominal terms, the positive deviation in GG's revenue amounted to 287 M€, reflecting the higher level of current revenue collected (859 M €), which more than offset the negative deviation in capital revenue as a whole (-572 M€).

Table 9 – General government account: deviations towards SB/2019 (in M€)

	2018	2019		Change (M€)		Change (%)		Deviations
	Outturn	SB/2019	Outturn	SB/2019	2018/19	SB/2019	2018/19	
Total revenue	87 695	90 721	91 008	3 026	3 313	3.5	3.8	287
Current revenue	86 867	89 400	90 259	2 534	3 393	2.9	3.9	859
Capital transfers received	829	1 321	749	492	-80	59.4	-9.6	-572
Total expenditure	88 599	91 130	90 604	2 531	2 005	2.9	2.3	-526
Primary expenditure	81 701	84 263	84 225	2 562	2 524	3.1	3.1	-38
Current primary expenditure	75 399	77 932	78 112	2 533	2 713	3.4	3.6	180
Capital expenditure	6 302	6 331	6 113	29	-189	0.5	-3.0	-218
Interest paid	6 898	6 867	6 379	-31	-519	-0.4	-7.5	-488
General government balance	-904	-409	404	495	1 308			813
in % of GDP	*-0.4*	*-0.2*	*0.2*	*0.2*	*0.6*			*0.4*
Primary balance	5 994	6 458	6 783	464	789			325
Nominal GDP	204 305	209 322	212 303	5 017	7 998	2.5	3.9	2 981

Source: INE, Ministry of Finance. | Notes: the values are influenced by the effect of one-off measures detailed in Table 16 (attached); outturn corresponds to the values published by INE; the positive sign deviations in the overall balance and in the primary balance correspond to favorable deviations compared to the SB/2019.

General government expenditure was 526 M€ lower than forecast in the State Budget for 2009. Interest expenditure made an important contribution to this result, as it was 488 M€ below the value considered in the State Budget for 2009 (Table 9)[14]. Primary expenditure was practically in line with the forecast because the unfavourable deviation of 180 M€ in current primary expenditure[15] was more than offset by a favourable deviation of 218 M€ in capital expenditure. Under the latter, the unfavourable deviation in "other capital expenditure" (due to the fact that the recapitalisation of Novo Banco was 749 M€ higher than forecast in the State Budget for 2009 and also due to the unforeseen judicial decision to compensate Autoestradas do Douro Litoral for 219 M€) was more than accommodated by the behaviour of FBCF, which last year was again well below forecast[16]. As a percentage of GDP, public expenditure was 0.9 p.p. below the forecast in the State Budget for 2009 (although the size of this gap is influenced by the fact that nominal GDP was almost 3 thousand million euros higher than forecast).

Box 4 - Comparison with the 2019 estimate underlying POE/2020

The POE/2020, presented in December last year, included an estimate for 2019, compatible with the new national accounts base, which is not the case with the forecasts presented in the previous budget programming documents which predated the change in the statistical base. Given the different deadline for presenting the POE/2020,[1] it incorporated a higher level of information on that year's implementation, compared with the budget proposals presented within the general schedule set out in the Budgetary Framework Law (up to 15 October of the previous year to which the State Budget refers).[2] In the POE/2020, the MF considered for 2019 a budget deficit corresponding to 0.1% of nominal GDP, 0.3 p.p. below the surplus preliminarily calculated by INE (Table 10).

The difference was due to a more favourable expenditure outturn than the MF estimate (0.7 p.p. of GDP), which more than offset the fact that revenue outturn was lower than estimated (-0.4 p.p. of GDP). The denominator effect resulting from the fact that GDP in 2019 calculated by INE was 1526 M€ higher than that considered in POE/2020 accentuates the favourable effect on expenditure (lower than estimated and calculated in relation to higher GDP) while on revenue, a higher execution than that estimated in December results in a lower favourable effect, or even a negative one. In this respect, see Table 10 for opposite changes of equivalent magnitude in nominal terms, but with different results when expressed as a function of output - for example, indirect taxes and the sale of goods and services in the case of revenue and expenditure with personnel and social transfers on expenditure).

[14] In recent years interest expenditure has always fallen short of MF's initial forecast, with a favourable deviation of 3 thousand million euros in cumulative terms since 2015.

[15] Personnel costs were 255 M€ higher than forecast in OE/2019. This deviation seems to have contributed to a greater impact of the unfreezing of careers than initially forecast, as well as to a greater volume effect resulting from the growth in public employment. Moreover, in the account presented in the State Budget for 2009, the MF considered at the outset a part of the provisional appropriation (200 M€) under this heading, but the reinforcement in return for that appropriation amounted to 236 M€ in 2019, as shown in Table 6 of Box 2.

[16] In the State Budget for 2009, the MF predicted that public investment in large structuring projects would reach 1100 M€. However, no information is available to assess the degree of execution of these projects.

Table 10 – Comparison with the 2019 estimate for underlying the DSB/2020 (M€)

	Turnout [A]		DSB/2020 estimate [B]		Difference [C]=[A]-[B]	
	M€	% of GDP	M€	% of GDP	M€	GDP p.p.
Total revenue	**91 008**	**42,9**	**91 213**	**43,3**	**-205**	**-0,4**
Current revenue	90 259	42,5	90 473	42,9	-214	-0,4
Tax revenue	53 013	25,0	52 909	25,1	104	-0,1
Indirect taxes	32 148	15,1	31 963	15,2	186	0,0
Direct taxes	20 865	9,8	20 946	9,9	-81	-0,1
Social contributions	25 342	11,9	25 256	12,0	87	0,0
of which: actual soc. contr. received	20 598	9,7	20 570	9,8	28	-0,1
Sales & other current revenues	11 903	5,6	12 308	5,8	-405	-0,2
Sales	7 389	3,5	7 550	3,6	-161	-0,1
Other current revenues	4 514	2,1	4 758	2,3	-243	-0,1
Capital transfers received	**749**	**0,4**	**739**	**0,4**	**9**	**0,0**
Total expenditure	**90 604**	**42,7**	**91 387**	**43,4**	**-782**	**-0,7**
Primary expenditure	84 225	39,7	84 861	40,3	-636	-0,6
Current primary expend.	78 112	36,8	78 593	37,3	-481	-0,5
Intermediate consumption	10 991	5,2	11 271	5,3	-280	-0,2
Compensation of employees	22 799	10,7	22 701	10,8	98	0,0
Social transfers	38 684	18,2	38 749	18,4	-65	-0,2
other than in kind	34 731	16,4	34 730	16,5	1	-0,1
in kind	3 953	1,9	4 020	1,9	-66	0,0
Subsidies	887	0,4	872	0,4	15	0,0
Other current expenditure	4 750	2,2	5 000	2,4	-250	-0,1
Capital expenditure	**6 113**	**2,9**	**6 267**	**3,0**	**-154**	**-0,1**
GFCF	3 980	1,9	4 168	2,0	-188	-0,1
Other capital expenditures	2 133	1,0	2 100	1,0	34	0,0
Interest paid	**6 379**	**3,0**	**6 526**	**3,1**	**-147**	**-0,1**
General government balance	**404**	**0,2**	**-174**	**-0,1**	**578**	**0,3**
Primary balance	6 783	3,2	6 352	3,0	431	0,2
Tax burden	73 612	34,7	73 480	34,9	132	-0,2
Current Expenditure	84 491	39,8	85 119	40,4	-628	-0,6
Nominal GDP	212 303	:	210 774	:	1 529	:

Sources: INE (turnout) and MF (DSB/2020 estimate for 2019). CFP calculations.

In absolute terms, the difference in expenditure was 782 M€ lower than estimated by MF. Intermediate consumption and other current expenditure, as well as investment and interest expenditure explain a lower-than-expected outturn than offsetting other expenditure items, namely personnel, which were above that estimate (Table 10). In revenue, the greatest differences occurred in non-tax and non-contributory current revenue, which execution was around 400 M€ below that estimated by the MF. These differences were, however, partially offset by a more favourable execution than that estimated for tax and contributory revenue.

1 - Which resulted from the holding of legislative elections on 6 October 2019 (cf. paragraph 2 of article 12 - E of Law 91/2001, of 20 August, as amended by Law 41/2014, of 10 July, which remains in force by virtue of the provisions of paragraph 2 of article 7 of Law 151/2015, of 11 September, which approved the new Budget Framework Law - LEO, in its current wording).

2 - Cf. paragraph 1 of the same article referred to in the above note.

4.2 Public debt

The nominal debt forecasts presented in the budgetary programming documents for 2019 are estimated to have been above the figure reported by the national statistical authorities. This calculation is based on the information provided by the BoP. on the revision of the debt, which now includes the capitalised interest on postal savings certificates[17]. Incorporating in the MF forecasts the impact of around 4 thousand million euros on the inclusion of interest, those forecasts would have been about 2 thousand million euros higher than the 250 thousand million euros debt at the end of 2019.

Even considering the most recent estimate for the debt ratio in 2019 advanced by MF in POE/2020 (118.9%) which considers nominal debt compatible with the new statistical series for public debt, the magnitude of the recent nominal GDP revision affects, once again, the direct comparison with the debt ratio for that year (117.7% of GDP). This difference corresponding to 1.1 p.p. of GDP is explained by the upward revision of GDP (denominator effect), the remaining quarter being due to a smaller amount of nominal debt than estimated (numerator effect).

[17] The analysis of these statistical revisions can be found in the *2019 CFP Report No 11*.

5. ATTACHMENTS

Box 5 - Expenditure Benchmark

The measurement of compliance with the rule results from the calculation algorithm adopted by the European Commission (EC). The information used by the CFP to calculate the deviation is based on the provisional and preliminary estimate made by the national statistical authorities respectively for the years 2018 and 2019, as well as on EC data from the spring forecasts for 2018 and 2019.

This exercise is part of an *ex-post* evaluation which aims to indicate whether or not there is significant deviation. The following tables present the steps for the calculation that determine the verification of compliance with the rule as described in the Box provided on the CFP website - Expenditure Benchmark

Calculation of corrected aggregate expenditure: It uses information from some of the general government expenditure and revenue components underlying the estimate for 2018 and 2019 as compiled by the statistical authorities, except for the amount of temporary and non-recurring measures which follows the classification of the CFP (Table 17, in annex).

Table 11 – The Modified Expenditure Aggregate calculation (Net primary expenditure (B€)

MODIFIED EXPENDITURE AGGREGATE CALCULATION	2018	2019	Fórmulas
General government expenditure	**88,6**	**90,6**	(1)
Interest expenditure	6,9	6,4	(2)
Government expenditure on EU programmes fully matched by EU funds revenue	1,1	1,2	(3)
Nationally financed gross fixed capital formation t	3,3	3,4	(4)
Annual average nationally financed gross fixed capital formation t-3 to t	2,9	3,0	(5)
Cyclical unemployment expenditure	-0,2	-0,1	(6)
Total discretionary revenue measures (DRM)	-0,3	0,0	(7)
One-offs on the revenue side	0,2	0,1	(8)
One-offs on the expenditure side	-1,1	-1,4	(9)
One-offs	-1,0	-1,3	(10)=(8)+(9)
Total discretionary revenue measures net of one-offs	-0,4	0,1	(11)=(7)-(8)+(8)ano $_{(n-1)}$
Corrected expenditure aggregate* (nominal)	**80,4**	**82,8**	(12)=(1)-(2)-(3)-(4)+(5)-(6)
Corrected expenditure aggregate net one-offs * (nominal)	79,3	81,4	(13)=(12)+(9)
Corrected expenditure aggregate net of DRM and RML* (nominal)	80,7	82,8	(14)=(12)-(7)
Corrected expenditure aggregate net of DRM, RML and one-offs * (nominal)	79,7	81,3	(15)=(13)-(11)
Net public expenditure annual growth in % (nominal)	**0,5**	**2,9**	(16)=100*[(14)-(12)$_{t-1}$]/(12)$_{t-1}$
Net public expenditure annual growth corrected for one-offs in % (nominal)	**4,8**	**2,5**	(17)=100*[(15)-(13)$_{t-1}$]/(13)$_{t-1}$

Sources: MF and EC. CFP calculations. Note: Cyclical unemployment benefit expenditure uses the CFP recalculation of NAWRU according to common EC methodology. DRM: Discretionary revenue measures, which considers the information for the years 2018 and 2019 contained in the tables attached to the Draft Budget Plan 2020 sent to the European authorities in December.

Calculation of the reference rate: Uses EC information from the spring forecasts for 2018 and 2019: (i) the 10-year average growth rate of potential output; (ii) the GDP deflator; (iii) primary expenditure as a ratio to GDP.

Table 12 – Applicable Expenditure Benchmark rate (%)

Applicable Expenditure Benchmark rate calculation	2018	2019	Fórmulas
Applicable expenditure Benchmark rate (real)	**-1,2**	**-0,7**	(18)=(19) - (20)
Geometric average of the 10-year Potential Product growth rate (real)	0,2	0,8	(19)
SF 2018 |Year 2019 based on horizon [2013 - 2022]	0,2		
SF 2019 |Year 2020 based on horizon [2014 - 2023]		0,8	
Convergence margin recalibrated	1,4	1,5	(20)=(21) x (22)
Convergence margin	1,2	1,2	(21)= 50 / (22)
Primary Expenditure of (Year n-1) as % GDP based on SF Ano (n-1)	40,8	40,5	(22)
Required Adjustment > = 0,6	0,6	0,6	(23)
GDP deflator (% change) | Assessment of Year n based on SF Ano (n-1)	1,4	1,4	(24)
Applicable expenditure Benchmark rate (nominal)	**0,2**	**0,7**	(25)=[(1+(18)/100)*(1+(24)/100)-1]x100

Sources: EC. CFP calculations. Note: SF Year (n-1) means EC Spring Forecast for the year prior to the reporting date, ie the 2020-year analysis uses the 2019 spring forecast (SF 2019).

Measuring compliance with the rule: Exercise comparing the result obtained by each of the indicators identified above in order to ascertain the deviation and distance between it and the established ceiling of 0.5% of GDP in one year, or cumulatively in two consecutive years.

Table 13 - Expenditure Benchmark

EB deviation adjusted for one-offs	2018	2019	Fórmulas
Deviation in year t (B€)	-3,5	-1,5	(26)=[(8)-(17)]/100*(13) t-1
GDP nominal	204,3	212,3	(27)
Deviation in year t, if negative it is an excess over the benchmark (in % GDP)	-1,7	-0,7	(28)=(26)/(27)*100
Average deviation in t-1 and t (in % GDP)		-1,2	(29)=Média[(28) t-1 ;(28)]

Sources: EC. CFP calculations. Note: A negative sign deviation means an excess over the benchmark (Table 10). This implies excessive expenditure for each of those years a risk of significant deviation from the recommended structural adjustment as it is above the permitted ceiling of 0.5%. Considering the analysis for all those years, the risk of significant deviation remains. The average deviation of -1.1% from GDP is greater than the admitted cumulative ceiling of 0.5% of GDP (ie 0.25% of GDP each year).

Table 14 – Adjusted General Government account

	M€		% of GDP		Annual change			
	2018	2019	2018	2019	%	Ctrc	M€	p.p. GDP
Total Revenue	**87 529**	**90 955**	**42.8**	**42.8**	**3.9**	**3.9**	**3 426**	**0.0**
Current revenue	86 867	90 259	42.5	42.5	3.9	3.9	3 393	0.0
Tax revenue	51 637	53 013	25.3	25.0	2.7	1.6	1 377	-0.3
Indirect taxes	30 956	32 148	15.2	15.1	3.9	1.4	1 193	0.0
Direct taxes	20 681	20 865	10.1	9.8	0.9	0.2	184	-0.3
Social contributions	23 835	25 342	11.7	11.9	6.3	1.7	1 507	0.3
of which: actual soc. contr. rece	19 128	20 598	9.4	9.7	7.7	1.7	1 471	0.3
Sales & other current revenues	11 395	11 903	5.6	5.6	4.5	0.6	509	0.0
Sales	7 129	7 389	3.5	3.5	3.6	0.3	260	0.0
Other current revenues	4 265	4 514	2.1	2.1	5.8	0.3	249	0.0
Capital transfers received	**662**	**696**	**0.3**	**0.3**	**5.1**	**0.0**	**34**	**0.0**
Total expenditure	**87 482**	**89 236**	**42.8**	**42.0**	**2.0**	**2.0**	**1 754**	**-0.8**
Primary expenditure	80 584	82 857	39.4	39.0	2.8	2.6	2 273	-0.4
Current primary expenditure	75 369	78 112	36.9	36.8	3.6	3.1	2 743	-0.1
Intermediate consumption	11 067	10 991	5.4	5.2	-0.7	-0.1	-76	-0.2
Compensation of employees	21 835	22 799	10.7	10.7	4.4	1.1	964	0.1
Social transfers	37 099	38 684	18.2	18.2	4.3	1.8	1 585	0.1
other than in kind	33 472	34 731	16.4	16.4	3.8	1.4	1 258	0.0
in kind	3 626	3 953	1.8	1.9	9.0	0.4	327	0.1
Subsidies	750	887	0.4	0.4	18.2	0.2	137	0.1
Other current expenditure	4 617	4 750	2.3	2.2	2.9	0.2	133	0.0
Capital expenditure	**5 215**	**4 745**	**2.6**	**2.2**	**-9.0**	**-0.5**	**-471**	**-0.3**
GFCF	3 795	3 980	1.9	1.9	4.9	0.2	185	0.0
Other capital expenditure	1 421	765	0.7	0.4	-46.2	-0.7	-656	-0.3
Interest paid	**6 898**	**6 379**	**3.4**	**3.0**	**-7.5**	**-0.6**	**-519**	**-0.4**
General government balance	**47**	**1 719**	**0.0**	**0.8**	**:**	**:**	**1 672**	**0.8**
Primary balance	6 944	8 098	3.4	3.8	:	:	1 154	0.4
Tax Burden	70 764	73 612	34.6	34.7	4.0	3.3	2 848	0.0
Current expenditure	82 267	84 491	40.3	39.8	2.7	2.5	2 225	-0.5
Nominal GDP	204 305	212 303	:	:	3.9	:	7 998	:

Source: INE and MF. CFP calculations. Note: These figures are adjusted for the impact of the temporary and one–off measures.

Table 15 – Adjustment between the two accounting approaches (% of GDP)

	2018	2019
(1) Balance in Public Accounts	-1,3	-0,3
Central Government and Social Security Funds	-1,4	-0,6
Regional and Local Government	0,2	0,2
(2) Adjustments to National Accounting	0,8	0,5
Differences due to General Government Perimeter	0,0	0,0
Accrual (cash - commitment adjustments)	1,7	1,8
Taxes and social contributions *	0,4	0,1
Differences between interested paid and accrued	0,2	0,4
Other time adjustments *(of which)*	1,2	1,3
Cash Commitments HNS and CPS	0,0	0,2
Accrual to Public Corporation Sector incl. in GG (*of which*)	1,4	1,2
capital increase in RPC included in GG	1,0	1,6
Other Adjustments *(of which)*	-0,9	-1,3
Capital injections (*of which*)	-1,0	-1,6
Capital increase in RPC included in GG	-1,0	-1,6
Pension Funds	0,3	0,3
(3) = (1)+(2) National Accounts Balance	-0,4	0,2

Source: INE. CFP calculations | Note: (*) Time adjustment. In the table positive/negative adjustments produce an increase/reduction of the deficit in national accounts vis-à-vis the deficit in public accounts. Due to rounding the totals do not necessarily correspond to the sum of the percentage GDP figures.

Table 16 – Temporary measures and one-off measures (in M€)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Temporary measures, one-off measures (impact on balance)	-2199	294	-509	580	-6186	-2333	780	-4213	-951	-1313
Revenue	**87**	**840**	**444**	**1280**		**130**	**745**	**73**	**166**	**55**
Taxes on repatriation of capitals	87		259							
Exceptional Scheme for Settling Tax and Social Security Debts - VAT				186						
Exceptional Scheme for Settling Tax and Social Security Debts - Oth. IT.				116						
Exceptional Scheme for Settling Tax and Social Security Debts - PIT ; CIT				690						
Exceptional Scheme for Settling Tax and Social Security Debts - IMT; IMI				53						
Exceptional Scheme for Settling Tax and Social Security Debts - social contributions				234						
Surcharge on PIT for 2011 income		840	185							
PERES Extraordinary debt settlement scheme other IT 2016 one-off							103			
PERES Extraordinary debt settlement scheme PIT 2016 one-off							29			
PERES Extraordinary debt settlement scheme CIT 2016 one-off							263			
PERES Extraordinary debt settlement scheme SSC 2016 one-off							47			
BPP guarantee recovery								73	166	55
Banking sector contribution for transfer to European Resolution Fund						130				
Prepaid margin payment from EFSF							302			
Expenditure	**2286**	**546**	**952**	**700**	**6186**	**2463**	**-34**	**4286**	**1117**	**1368**
Proceeds from concessions	-124	-54								
Capital transfers (Banking sector)	2250	600	850	700	4994	2463		4098	892	1149
One-off payments to the EU Budget	160		102				77			
Debt assumptions of transportation sector					1192			111		
Sale of F-16 to Romania							-111	-41		
Forest fires								60	130	
Lisbon municipality's civil protection fee reimbursement (Constitutional Court decision)								59		
Lisbon municipality's unfavourable judicial rulings									96	
Compensation to the concessionaire AEDL, S.A.										219
Special factors (impact on balance)	-2538	-612								
Revenue										
Expenditure	**2538**	**612**								
Delivery of submarines	881									
Reclassification of PPP into general government	756	226								
Recording of Madeira region debt	900									
Madeira capital transactions (reclass. of Via Madeira)		274								
Madeira region debts from programme contracts & football clubs		112								
Temporary measures, one-off measures and special factors (impact on balance)	-4737	-318	-509	580	-6186	-2333	780	-4213	-951	-1313

Source: MF. CFP calculations. | Note: Totals may not match the sum of the individual figures due to rounding. It is a classification that may be revised in light of new information.

Table 17 – Temporary measures and one-off measures (in % of GDP)

Temporary measures, one-off measures (impact on balance)	-1,2	0,2	-0,3	0,3	-3,6	-1,3	0,4	-2,2	-0,5	-0,6
Revenue	**0,0**	**0,5**	**0,3**	**0,8**		**0,1**	**0,4**	**0,0**	**0,1**	**0,0**
Taxes on repatriation of capitals	0,0		0,2							
Exceptional Scheme for Settling Tax and Social Security Debts - VAT				0,1						
Exceptional Scheme for Settling Tax and Social Security Debts - Oth. IT.				0,1						
Exceptional Scheme for Settling Tax and Social Security Debts - PIT ; CIT				0,4						
Exceptional Scheme for Settling Tax and Social Security Debts - IMT; IMI				0,0						
Exceptional Scheme for Settling Tax and Social Security Debts - social contributions				0,1						
Surcharge on PIT for 2011 income		0,5	0,1							
PERES Extraordinary debt settlement scheme other IT 2016 one-off							0,1			
PERES Extraordinary debt settlement scheme PIT 2016 one-off							0,0			
PERES Extraordinary debt settlement scheme CIT 2016 one-off							0,1			
PERES Extraordinary debt settlement scheme SSC 2016 one-off							0,0			
BPP guarantee recovery								0,0	0,1	0,0
Banking sector contribution for transfer to European Resolution Fund						0,1				
Prepaid margin payment from EFSF							0,2			
Expenditure	**1,3**	**0,3**	**0,6**	**0,4**	**3,6**	**1,4**	**0,0**	**2,2**	**0,5**	**0,6**
Proceeds from concessions	-0,1	0,0								
Capital transfers (Banking sector)	1,3	0,3	0,5	0,4	2,9	1,4		2,1	0,4	0,5
One-off payments to the EU Budget	0,1		0,1				0,0			
Debt assumptions of transportation sector					0,7			0,1		
Sale of F-16 to Romania							-0,1	0,0		
Forest fires								0,0	0,1	
Lisbon municipality's civil protection fee reimbursement (Constitutional Court decision)								0,0		
Lisbon municipality's unfavourable judicial rulings									0,0	
Compensation to the concessionaire AEDL, S.A.										0,1
Special factors (impact on balance)	-1,4	-0,3								
Revenue										
Expenditure	**1,4**	**0,3**								
Delivery of submarines	0,5									
Reclassification of PPP into general government	0,4	0,1								
Recording of Madeira region debt	0,5									
Madeira capital transactions (reclass. of Via Madeira)		0,2								
Madeira region debts from programme contracts & football clubs		0,1								
Temporary measures, one-off measures and special factors (impact on balance)	-2,6	-0,2	-0,3	0,3	-3,6	-1,3	0,4	-2,2	-0,5	-0,6

Source: MF. CFP calculations. | Note: Totals may not match the sum of the individual figures due to rounding. It is a classification that may be revised in light of new information.

Table 18 - Debt dynamics

	2018	2019
Public debt (% of GDP)	**122.0**	**117.7**
Change in debt (in p.p. of GDP)	**-4.1**	**-4.3**
Primary deficit	-2.9	-3.2
Dynamic effect (snow ball effect)	-1.8	-1.6
- interest effect	3.4	3.0
- growth effect	-5.2	-4.6
Stock-flow adjustment	0.6	0.5

Source: INE and BoP. CFP calculations. | Note: A detailed explanation of the breakdown in the change in the debt ratio used in this table can be found in Box 3 of the CFP Notebook on public debt.

5.1 List of Abbreviations

Abbreviations	Meaning
AC	Central Government
AL	Local Government
GG	General Government
AR	Regional Government
ARL	Regional and Local Government
AT	Tax and Customs Authority
ECB	European Central Bank
BoP	Bank of Portugal
BES	Banco Espírito Santo
BIORC	Budgetary Business Intelligence
BPP	Banco Privado Português [Portuguese Private Bank]
EC	European Commission
CFP	Portuguese Public Finance Council
CGA	Caixa Geral de Aposentações
CGD	Caixa Geral de Depósitos
DGAEP	Directorate General for Administration and Public Employment
DGO	Directorate General for Budget
DGTF	Directorate General of Treasury and Finance
EPR	Reclassified Public Entities
FBCF	Gross Fixed Capital Formation
FEEF	European Financial Stabilisation Fund
FSS	Social Security Funds
IABA	Tax on Alcohol and Alcoholic Beverages
IGCP	Treasury and Public Debt Management Agency
IGFSS	Institute of Financial Management of Social Security
IMI	Municipal Real Estate Tax
IMT	Municipal Property Transfer Tax
INE	National Statistical Office
IPC	Consumer Price Index
IRC	Corporate Income Tax
IRS	Personal Income Tax
IS	Stamp Duty
ISP	Tax on Petroleum and Energy Products
ISV	Vehicle Tax
IT	Tobacco Tax
VAT	Value Added Tax
LBSS	Social Security Basic Law
LEO	Budget Framework Law
M€	Millions of Euros
MDR	Discretionary measures on the revenue side
MF	Ministry of Finance
MLSA	Minimum Linear Structural Adjustment
MROL	Measures in the revenue due to the obligation of the law
OE	State Budget
MTO	Medium Term Objective
p.p.	Percentage points
PAEF	Economic and Financial Assistance Programme
PART	Public Transport Fare Reduction Support Program
PDE	Excessive Deficit Procedure
PE	Stability Program
SGP	Stability and Growth Pact
GDP	Gross Domestic Product
POE	State Budget Proposal
PPP	Public Private Partnerships
PSPP	Public Sector Purchase Programme
SEC	European System of Accounts
SF	Spring Forecast
SFA	Autonomous Funds and Services
SIGO	Budget Management Information System
SMP	Securities markets programme
SNS	National Health Service
EU	European Union
VH	Year-on-year change
VHA	Cumulative homologous variation

5.2 Main Sources of Statistical Information

Bank of Portugal (2020 a), Statistical Bulletin - February 2020

Bank of Portugal (2020 b), BPstat | Statistics online

DGAEP (2020), Statistical overview of public employment - 4th quarter 2019

DGO (2020), Summary of monthly execution of February 2020

IGCP (2020), Statistics online

INE (2019 a), Quarterly National Accounts by Institutional Sector, 4th quarter 2019

INE (2019 b), Excessive Deficit Procedure (1st Notification 2020)

MINISTRY OF FINANCE (2018a), Report on the State Budget for 2019

MINISTRY OF FINANCE (2019a), Report on the State Budget for 2020

5.3 Charts Index

5.4 Tables Index

5.5 Box Index