Executive Summary

Fiscal developments until the end of the 3rd quarter 2017

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In the first three quarters of the year the general government budget deficit stood at 0.3% of GDP, a figure below the latest update for the deficit target set by the Government for the year as a whole (1.4%).

The balance achieved until the end of the 3rd quarter accounts for a greater year-on-year improvement than forecast for the entire year. This was largely due to the budget surplus recorded in the 3rd quarter (2.6% of GDP generated in the quarter), the highest figure since comparable statistics have been available (1st quarter of 1995).

This outcome benefitted to the tune of 0.1% of GDP from the impact of temporary and one-off measures forecast for this year by the Ministry of Finance, which in this period consisted of the partial recovery of the Banco Privado Português (BPP) guarantee and the sale of F-16 aircrafts to Romania.

The primary balance, which excludes expenditure on interest, maintained the surplus trend seen since the 3rd quarter of 2015. In the first three quarters of the year it totalled 3.6% of GDP generated in that period, a surplus which was also a new record high. This outcome reflected a year-on-year improvement in the primary balance amounting to 2.2 p.p. of GDP, and led to a 2.5 p.p. of GDP decrease in the headline balance (larger than the Ministry of Finance forecast for the year as a whole). The drop in expenditure on interest explains the remainder of the improvement in the headline balance (contributing 0.3 p.p. of GDP).

Excluding the possible impact of the recapitalisation of Caixa Geral de Depósitos (CGD), which is currently being appraised by the national and European statistical authorities, and taking into account the partial recovery of the Banco Privado Português (BPP) guarantee, the results seen up to the end of the 3rd quarter and the latest information on the 4th quarter (albeit still incomplete) point to a deficit of less than 1.4% of GDP for 2017 as a whole. This outcome will be achieved despite a significantly lower level of temporary revenues, since the BPP bank guarantee recovery falls short of the 450 M€ that the Ministry of Finance had expected to recoup in 2017.

Note that in comparison to the 3rd quarter examined in this report, the 4th quarter outturn, for which the national accounts figures will only be finalised by the INE by the end of March 2018, was negatively impacted by the payment of half of the Christmas bonus in November. There may also be other transactions that could have an impact in national accounts terms, such as the financial support to BES/GES clients victims of misselling practices and the conversion of deferred tax into tax credits. Nonetheless, greater revenue from taxes and social security contributions than forecast by the Ministry of Finance and the decline in expenditure on interest suggest that the final outturn for the year will be better than the October estimate.

The fiscal developments witnessed up to the end of September 2017 continue to show that the decrease in the fiscal imbalance benefits from a higher contribution from the increase in revenue, especially tax and social security contributions, than from the decrease in expenditure.

Over the 3rd quarter the rate of growth in general government revenue (5.5%) more than doubled compared to the first half of the year, exceeding in the average of the three quarters the 4.8% increase forecast for the year as a whole.

The growth in tax revenue, resulting from the performance of both direct and indirect taxes, accounted for around two-thirds of the increase in revenue accumulated up to the end of September. Growth in social contributions revenue in the 3rd quarter was once again higher than forecast by the Ministry of Finance for the year as a whole. That growth concerns effective contributions and reflects the recovery in the labour market. The rate of growth in non-tax and non-contributions revenue decelerated to 2.3% by the end of September, a figure below the change for 2017 predicted by the Ministry of Finance (6.6%).

At the end of the 3rd quarter of 2017 general government expenditure recorded a year-on-year decrease of 0.4%, in contrast to the 3.5% increase implicit in the Ministry of Finance estimate for 2017.

Up to the end of September all current primary expenditure components recorded an evolution below the Government estimate for 2017. Social transfers expenditure made the largest contribution to this development, as a result of the year-on-year decrease in pensions spending (due to the way the Christmas bonus was paid) and in unemployment benefits. The 3rd quarter of 2017 also recorded a slowdown in growth in intermediate consumption, an item which, along with capital expenditure, is growing at a lower rate than assumed in the MF estimate.

The public debt ratio (Maastricht definition) stood at 130.8% of GDP at the end of the 3rd quarter of 2017, a figure that compares with the 130.1% recorded at the end of 2016. This outcome, which is down 1.2 p.p. of GDP on the previous quarter, benefitted from the denominator effect (GDP), as the debt stock rose in nominal terms. As for debt net of deposits (also in the Maastricht definition), it was down 2.2 p.p. of GDP to 119.3% of GDP.

Following the increase in the public debt ratio in 2016 (counteracting the decline seen in 2015) it is to be expected that in 2017 that indicator will record a larger decrease than forecast in the Stability Programme, as the CFP had foreseen in September. The public debt ratio estimate for 2017 published by the Ministry of Finance in the Draft State Budget for 2018 points to 126.2% of GDP, which implies a decrease of 4.6 p.p. of GDP in that ratio in the final quarter of the year. Such a decrease will be achieved by the Treasury Bonds repayment that fell due in October 2017 and the December early repayment made to the IMF.