Conselho das Finanças Públicas
*Portuguese Public Finance Council*

# Analysis of the General Government Account 2014

**Portuguese Public Finance Council Report**

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The Portuguese Public Finance Council is an independent body, set up under article 3 of Law no. 22/2011 of 20 May which was the 5th amendment to the Budget Framework Law (Law no. 22/2001 of 20 August, republished by Law no. 37/2013 of 14 June).

The decision to set up the Council was taken following the publishing of the final report of the Taskforce to the European Council on economic governance in Europe, and became a reality in October 2010 after agreement was reached between the Socialist Party (PS), in Government, and the Social Democratic Party (PSD). 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.

The Portuguese version of this publication was made available on April 17th 2015.

In the publications section at www.cfp.pt, a spreadsheet is available for download that contains all the figures used to build the charts and tables in this report. The meaning of the terms used in this report are available at *Public Finance Concepts* [only in Portuguese].

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# EXECUTIVE SUMMARY

*2014 budget framework*

The 2014 budget exercise was carried out in a particularly difficult setting where a number of situations called for several revisions of budget aggregates. As was the case in 2013, the Government submitted two amendments of the State Budget to the Portuguese Parliament. These two documents reflected above all changes to fiscal consolidation measures and the change of the national accounts framework over to ESA2010.

*General government balance in 2014*

The balance reported in the first notification of the Excessive Deficit Procedure (revised) was a deficit of 4.5% of GDP. This is 0.5 p.p. of GDP higher than the deficit laid down in the Recommendation of the European Council (June 2013), although it includes the impact of temporary and one-off measures and special factors which amount to 0.9% of GDP.

Therefore, the general government deficit net of temporary and one-off measures was 3.6% of GDP in 2014, continuing the fiscal adjustment path begun in 2011. This outcome is a more favourable starting point than expected to offset the excessive deficit position in 2015. The fiscal progress achieved in 2014 suggests the structural balance has improved by 0.9 p.p. of GDP, leaving the structural deficit just 0.5 p.p. of GDP away from the Medium-Term Objective.

*Revenue and expenditure in 2014*

The growth in adjusted revenue (up by 2.2%) was explained by the favourable performance of tax and social contributions revenue, since other current revenue and capital revenue fell sharply. In 2014, the (non-adjusted) tax burden levelled out compared to 2013 at 34.2%. This reflects the increase in indirect taxes and social contributions partly offset by a decline in direct taxes. Despite the risks highlighted over the year, the expenditure outturn was better than expected, falling by 1%, i.e. a reverse in the growth trend witnessed in 2013. This change was driven by the decrease in current primary expenditure and in capital expenditure, which was partially mitigated by the increase in interest paid.

*Subsectors in 2014*

Three quarters of the 1.6 p.p. of GDP improvement in the (adjusted) balance is explained by the Central Government subsector, while the Social Security Funds and the Regional and Local Government subsectors increased their positive contributions to the General Government budget balance. In this context attention must be drawn to the improvement in the Social Security Funds balance, even after excluding the extraordinary State Budget transfer. Regional Government recorded a budget surplus for the second year running, with the Madeira region making the largest contribution to that surplus, since the Azores region continued to show a deficit, albeit close to a balanced budget. The Local Government surplus grew slightly compared to the previous year, sustained by the decline in expenditure, since adjusted revenue fell.

### *Comparison with budget programming documents for 2014*

The Ministry of Finance estimate for 2014, published in the Draft State Budget report for 2015, is the only annual benchmark available in the ESA2010 methodology. Under this national accounting system the deficit was down 0.4 p.p. of GDP in adjusted terms. Expenditure was well below the estimate due to the weak performance of gross fixed capital formation, of subsidies and other current expenditure. Revenue was less than estimated, since only tax revenue revealed a better outturn.

Contrary to predictions, the public debt ratio (Maastricht definition) worsened in 2014 ending the year at a higher level than forecast by the Ministry of Finance. Compared to the estimate published last October, the unfavourable deviation was 3 p.p. of GDP. However, the public debt ratio net of Central Government deposits was in line with the objective laid down in the 2015 State Budget report.

As was the case in 2013, Central Government spending subject to the limit set in the Multi-annual Budgetary Planning Framework for 2014 was repeatedly revised upwards, which shows how ineffectual this instrument is in curbing expenditure. However, actual expenditure was below the limit set at the time of the second amendment to the State Budget for 2014, although expenditure under some budgetary programmes exceeded the limit then approved. Spending, for its part, was higher than the limit set in the State Budget for 2014.

### *Fiscal adjustment from 2010 to 2014*

Over the 2010-2014 period the adjusted primary balance improved by 7 p.p. of GDP and the adjusted deficit fell by 4.9 p.p. of GDP. This adjustment led to a primary surplus in 2014 (1.4% of GDP), the first recorded since 1998.

From 2010 to 2014 the fiscal consolidation contributed more to the increase in revenue’s share of GDP than the decrease in primary expenditure’s share. Over that period revenue’s share of GDP rose by 3.9 p.p., while the fall in primary expenditure was 3.1 p.p. of GDP, which was partially offset by the increase in interest payments (2 p.p. of GDP).

The public debt ratio continued along an upward path, increasing by 0.5 p.p. of GDP compared to 2013 (34 p.p. of GDP more than in 2010). The deficit accounted for around two-thirds of that increase, driven by the sharp rise in interest charges (19.1 p.p. of GDP). However, over the last two years the contribution from the primary balance was sufficient to attenuate the growth in public debt.

# 1 INTRODUCTION

This report describes the fiscal developments in the General Government sector (GG) over 2014 and the consistency of the budget outturn and the deficit and public debt objectives, and assesses the extent to which the spending limits set for Central Government (CG) were met. It also analyses the fiscal adjustment over the 2010-2014 period, based on the following statistics published on 31 March 2015: the first notification under the Excessive Deficit Procedure (EDP), published by the Portuguese Statistical Authority (INE) in 2015; the quarterly national accounts by institutional sector (QNAIS) relating to the 4th quarter of 2014, published by the INE and by the Bank of Portugal (BoP). The data underlying this report have a provisional nature and are subject to possible revisions, as it was the case with figures relating to previous quarters.

Public finance performance was, naturally, influenced by the international economic setting and by developments in the Portuguese economy, while at the same time it influenced those developments. The CFP has had the opportunity to review the macroeconomic position since 2010, and in particular the year 2014, and it has shared its analysis in chapter 3 of the report entitled Public Finance: Position and Constraints 2015-2019, which was published on 18th March. Thus readers interested in the CFP's analysis are invited to read that chapter.

The GG budget aggregates have been adjusted for the impact of temporary measures, one-off measures and special factors, so as to allow for a better assessment of the consolidation effort. In regard to public debt, a detailed examination is presented of the factors which explain the change in this indicator, besides the deficit. Along with this report the CFP is also publishing a Glossary of Public Finance concepts intended to provide greater understanding of the topic and clarify the concepts used in published statistics and documents [in Portuguese only].

This report is divided into six chapters. Following on from the introduction, the second chapter takes a brief look at the fiscal forecasts published by the Ministry of Finance (MF) over 2014. The third chapter looks at the fiscal position of general government as a whole, and of the Social Security Funds (SSF) and Regional and Local Government (RLG) subsectors. The fourth chapter analyses public debt and the fifth is dedicated to a comparison of the forecasts in the various budget programming documents and the results achieved. The sixth and final chapter consists of an assessment of the fiscal adjustment developments over the 2010 – 2014 period, giving notice of the evolution of the main budget aggregates and public debt over that period.

The CFP's analysis benefitted from information supplied regularly by the BoP and the INE on the national accounts (financial and non-financial data), the additional explanations provided by those bodies and also the information received from the Directorate-General for Budget (DGO). The analysis of the SSF subsector is based largely on the financial information received from the Social Security Financial Management Institute (IGFSS), since the physical data requested of the Social Security system have not been received. A more thorough analysis of this subsector may be found in the Report on Analysis of the Social Security and Civil Servants Pension Agency budget outturn in 2014, albeit on a cash basis.

## 2 BUDGET EXERCISE FRAMEWORK IN 2014

The budget exercise in 2014 was carried out in a particularly difficult setting where a number of situations called for several revisions of the budget aggregates. As was the case in 2013, the Government submitted two amendments to the State Budget (SB) to the Portuguese Parliament. These two documents reflected above all the reworking of some of the fiscal consolidation measures following the Constitutional Court's negative appraisal of a number of rules.

Throughout the year, the more positive drift of the macroeconomic scenario – particularly as regards the labour market and private consumption, which impacted favourably on spending on unemployment benefits and on tax and social contributions revenue – contributed to the retention of the 2014 GG deficit goal of 4% of GDP (in non-adjusted terms) in the various budget documents. However, the impact of the 2014 fiscal consolidation measures was revised downwards, as the contribution of expenditure to the decrease in the deficit fell, while revenue made a larger contribution.

The budget deficit target was revised upwards (to 4.8% of GDP) only in the MF estimate published in October at the time of the Draft State Budget for 2015 (SB/2015). That estimate is the only benchmark for 2014 based on the new European System of Regional and National Accounts (ESA2010), which was adopted from September onwards together with the rebasing of national accounts for all sectors of the economy.

We now turn to the major developments which impacted on the GG account in 2014.

The SB/2014 estimated an improvement in the general government balance solely through a cut in expenditure, resulting from a larger cut in salaries and the convergence of pensions under the Civil Servants Pension Scheme (CGA) and Social Security schemes. In December 2013, that convergence proved to be unfeasible following the Constitutional Court's ruling.[1]

Therefore, at the time of the first amendment to the 2014 State Budget (ASB/2014),[2] the Government replaced the convergence measure by three measures: the broadening of the Extraordinary Solidarity Contribution (ESC) to lower value pensions; an increase in the contributions paid in the highest salary bands; an increase in the employee contribution rate to the Civil Servants Health System (ADSE).[3] On this occasion the macroeconomic scenario was not revised.

The Fiscal Strategy Document (FSD/2014), published at the end of April, presented a considerably more favourable macroeconomic scenario resulting from an upward revision of output growth (from 0.8% of GDP in SB/2014 to 1.2% of GDP) and a downward revision of

[1] Judgement no. 862/2013 of 19 December.

[2] Law no. 13/2014 of 30 March.

[3] The SB/2014 already foresaw an increase in the rate from 2.25% to 2.5%. But since the 1st ASB/2014 law stated that half the ADSE revenue relating to employers contributions would revert to the Treasury, the Council of Ministers decided on 30 January to increase the beneficiaries' rate from 2.5% to 3.5%. That increase was approved by Law no. 30/2014 of 19 May and came into force the following day. This measure was approved by Constitutional Court Judgment no. 745/2014 of 5 November.

the unemployment rate (of 2.3 p.p.). The fiscal consolidation measures for 2014 came to account for 2.1% of GDP (rather than the 2.3% of GDP in the 1st ASB/2014), due to the expected reduction in the revenue from the newer version of ESC, the implementation of the Termination by Mutual Agreement Programme and the adopting of the employee requalification system. While the deficit goal for 2014 was still 4% of GDP, the contribution from spending cuts was down while revenue came to make a positive contribution.

In May Portugal exited the Economic and Financial Assistance Programme (EFAP) without resorting to a precautionary programme. At the end of that month the Constitutional Court declared[4] three of the SB/2014 rules to be unconstitutional and according to the MF they would have had an overall positive impact on the balance of 860 M€ (0.5% of GDP):

- Article 33: Salary cuts of 2.5% to 12%, applying to GG employee salaries of over 675 €;
- Article 115: Contributions payable on sickness and unemployment benefits (reduction rates of 5% and 6%, respectively);
- Article 117: New rules for calculating CGA and Social Security widows' pensions (which decreased the sums payable to spouses and ex-spouses).

Despite the major impact of that decision, the Government only published the 2nd ASB/2014 at the end of August.[5] As a result of the Court's decision, spending allocations were increased and the salary cuts that were in force in 2013 were introduced to offset the impact of the suspension declared by the Constitutional Court.[6,7] According to the 2nd ASB/2014 Report, the overall value of the consolidation measures forecast for 2014 was revised downwards and the budget pressures were fully accounted for by a sharp upward revision in the estimate for tax revenue compared to SB/2014[8] and, to a lesser extent, the Social Security balance,[9] as well as by taking into account a greater level of savings on Public-Private Partnerships (PPP) compared to the SB/2014 estimate. However, the contribution of expenditure to the decline in the deficit was expected to fall substantially, while the revenue side was expected to account for three quarters of the improvement in the balance in non-adjusted terms.

[4] Judgement no. 413/2014 of 30 May.

[5] Approved by Law no. 75-A/2014 of 30 September.

[6] The new cut came to an end after 31 May, and was replaced from the middle of September onwards by the restoring of the cuts in force from 2011 to 2013 (of between 3.5% and 10% on monthly salaries over 1500 €), approved by Law no. 75/2014 of 13 September. While this cut was not yet in force salaries were paid in full which led to a rise in compensation of employees.

[7] In Judgment no. 574/2014 of 14 August, the Constitutional Court declared the reintroduction of the salary cut in 2014 and its reversal of 20% in 2015 to be constitutional. However, for the years after 2015, the rule making salary restoration dependent on the availability of budgetary resources (laid down in article 4 of Parliamentary Decree no. 264/XII) was declared unconstitutional. Note that FSD/2014 assumed a gradual reversal of the salary cut: 20% in 2015 and from 2016 onwards the reversal would depend on the achievement of efficiency gains.

[8] Benefitting from the fact that real growth in GDP had been revised to 1%, up 0.2 p.p. on SB/2014.

[9] Due, above all, to the downward revision in social transfers other than in kind, as a result of the unemployment rate being revised to 14.2%, down 3.5 p.p. on the original forecast.

**Table 1 – Revisions to the general government account forecasts for 2014** (in M€)

| system of account: | ESA 95 | | | | ESA 2010 |
|---|---|---|---|---|---|
| document: | SB/2014 | 1st Amend | FSD/2014 | 2nd Amend | MF Estimate |
| date: | oct/2013 | mar/2014 | apr/2014 | sep/2014 | oct/2014 |
| **A. Non-adjusted figures** | | | | | |
| **Total Revenue** | **71 964** | **71 990** | **72 951** | **73 450** | **78 071** |
| **Current revenue** | **70 106** | **70 132** | **71 093** | **71 898** | **76 394** |
| Tax revenue | 41 237 | 41 237 | 42 218 | 42 350 | 43 327 |
| Indirect taxes | 22 558 | 22 558 | 23 189 | 23 489 | 24 458 |
| Direct taxes | 18 679 | 18 679 | 19 029 | 18 861 | 18 869 |
| Social contributions | 19 570 | 19 585 | 19 926 | 20 488 | 20 701 |
| Sales & other current revenues | 9 299 | 9 310 | 8 949 | 9 060 | 12 367 |
| **Capital transfers received** | **1 858** | **1 858** | **1 858** | **1 552** | **1 676** |
| **Total Expenditure** | **78 757** | **78 783** | **79 629** | **80 274** | **86 407** |
| **Primary expenditure** | **71 433** | **71 459** | **72 305** | **72 914** | **77 620** |
| Current primary expenditure | 67 898 | 67 924 | 68 770 | 69 089 | 71 336 |
| Intermediate consumption | 7 754 | 7 754 | 7 746 | 7 835 | 10 146 |
| Compensation of employees | 15 773 | 15 641 | 16 370 | 17 076 | 20 318 |
| Social transfers | 38 327 | 38 486 | 38 657 | 38 659 | 34 188 |
| Subsidies | 1 201 | 1 201 | 1 201 | 1 172 | 1 401 |
| Other current expenditure | 4 842 | 4 842 | 4 796 | 4 347 | 5 283 |
| Capital expenditure | 3 535 | 3 535 | 3 535 | 3 825 | 6 284 |
| GFCF | 3 003 | 3 003 | 3 004 | 3 354 | 4 296 |
| Other capital expenditure | 532 | 532 | 532 | 471 | 1 988 |
| **Interest paid** | **7 324** | **7 324** | **7 324** | **7 360** | **8 787** |
| **General government balance** | **-6 793** | **-6 793** | **-6 678** | **-6 824** | **-8 336** |
| *as % of GDP* | *-4.0* | *-4.0* | *-4.0* | *-4.0* | *-4.8* |
| **Primary balance** | 531 | 531 | 646 | 536 | 451 |
| **B. Adjusted figures** | | | | | |
| Total Revenue | 71 724 | 71 750 | 72 711 | 73 210 | 78 071 |
| Total Expenditure | 78 927 | 78 953 | 79 799 | 80 444 | 85 118 |
| **General government balance** | **-7 203** | **-7 203** | **-7 088** | **-7 234** | **-7 047** |
| *as % of GDP* | *-4.3* | *-4.3* | *-4.2* | *-4.3* | *-4.0* |
| Primary balance | 121 | 121 | 236 | 126 | 1 739 |
| *Memo:* | | | | | |
| **Public Debt (Maastricht def.)** | **212 972** | **212 972** | **219 916** | **221 105** | **223 247** |
| GDP at current market prices | 168 152 | 168 152 | 168 906 | 168 872 | 175 471 |

Source: Ministry of Finance. CFP calculations. | Note: the adjustments made in each annual document may not be the same considered by the MF. The adjustments made in the "Estimate" column may be consulted in Table 11.

In October the MF published a new estimate for 2014, under the SB/2015, which is the only benchmark for 2014 under ESA2010. The main impact resulting from the adoption of ESA2010 was the incorporation of new entities in the scope of the GG. The MF estimate pointed to a deficit of 4.8% in 2014. This figure did not take into account the possible impact of the resolution plan relating to the BES bank (decided in August and which involved the purchase of the entire share capital of Novo Banco by the Resolution Fund to the tune of 4.9 bn euros),[10] but included the effects of the debt assumption of the transport operators, STCP and CARRIS, under their financial recovery process[11] as well as the writing-off of the

[10] At the present time the national statistical authority has not reached a decision on this matter.

[11] State funding had been granted in April.

BPN Crédito bank's bad loans held by Parvalorem,[12] which had an overall impact of 0.8 p.p. of GDP. The fiscal consolidation measures for 2014 were revised downwards to 1.5% of GDP.

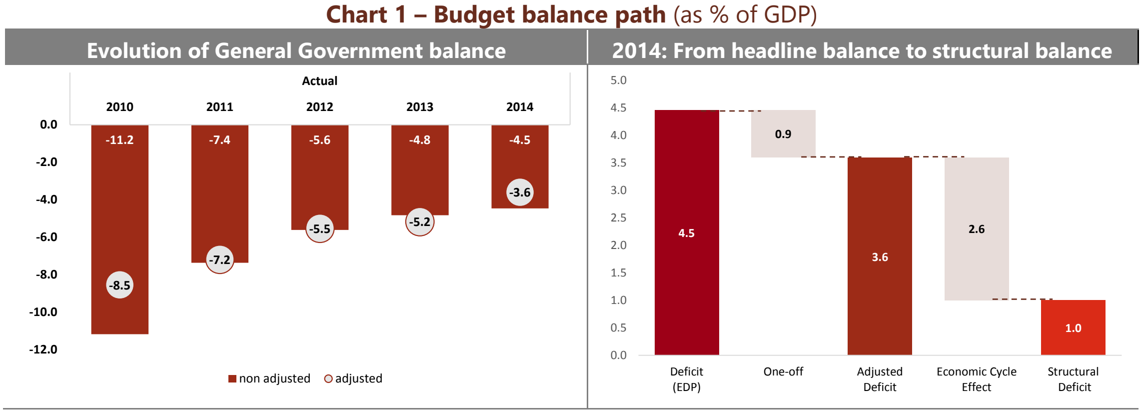
[12] Following the sale of the State's holding in BPN Crédito.

# 3 MAIN FISCAL DEVELOPMENTS IN 2014

## 3.1 BALANCES AND FISCAL ADJUSTMENT

**In 2014, the GG deficit net of temporary and one-off measures and special factors stood at 3.6% of GDP, confirming the correction path begun in 2011.**[13] This represents a decrease in the adjusted deficit of 1.6 p.p. versus 2013 (2,533 M€) and a 0.2 p.p. of GDP improvement compared to the estimate under ESA2010 disclosed by the MF in the SB/2015 Report. Under the corrective arm of the Stability and Growth Pact (SGP), the outcome achieved in 2014 represents a more favourable starting point for reversing the excessive deficit position forecast for 2015. The progressive correction of the fiscal imbalance over recent years contributed to a primary surplus in 2014 (1.4% of GDP), the first since 1998, according to the statistical series net of temporary and one-off measures and special factors.

**Chart 1 – Budget balance path** (as % of GDP)




Source: INE. CFP calculations. | Note: figures notified for EDP purposes. The term "One-off" refers to the impact of temporary and one-off measures and special factors (see Table 11).

**The reduction of the fiscal imbalance in 2014 was due to the favourable contributions of expenditure and all GG subsectors.** The improvement in the balance (adjusted) of 1.6 p.p. of GDP is fully explained by public expenditure (adjusted), the weight of which fell from 49.7% of GDP in 2013 to 48.1% of GDP in 2014. At the subsector level, CG accounted for around three quarters of the deficit decrease (1.2 p.p. of GDP), while SSF[14] and RLG made a lesser contribution, as their surpluses improved by 0.3 p.p. and 0,1 p.p. of GDP, respectively.

**The budget balance reported in the first EDP notification corresponded to a deficit of 4.5% of GDP, a figure that is 0.5 p.p. of GDP worse than the annual target set out in the European Council Recommendation of June 2013.** Under the corrective arm of the SGP which seeks to put an end to the excessive deficit position, Portugal must achieve the targets for the deficit (expressed as a percentage of GDP) set out in that Recommendation.[15]

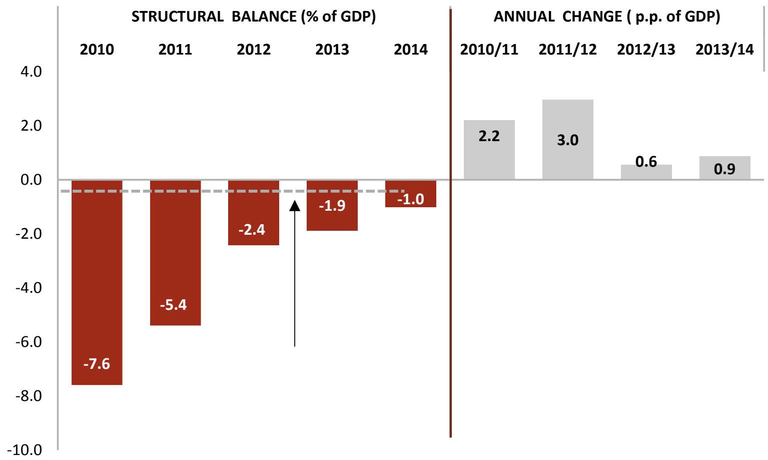
[13] For further information on the temporary and one-off measures and special factors taken into account by CFP see Box 4.

[14] Without the extraordinary SB transfer, Social Security Funds' contribution would be positive (0.4 p.p. of GDP).

[15] Recomendação, de 18 de junho de 2013, following the European Commission's update of the Economic Outlook for Portugal in May 2013, (which revised the deficit target for 2014 from 2.5% of GDP to 4.0% of GDP in non-adjusted terms).

However, the statistical authority's preliminary estimate for the GG deficit in 2014 (4.5% of GDP) includes the impact of the temporary and one-off measures that worsened the deficit by 0.9% of GDP.[16] These one-offs contributed to a deficit higher than the target set out in the mentioned Recommendation (+0.5 p.p. of GDP). In this respect, despite recognising the possibility of an upward revision in the 2014 deficit, in particular due to legal uncertainty surrounding the Constitutional Court's approval of some of the measures and to the statistical impact of transactions aimed at a more efficient management of the debt overhang of some state-owned enterprises, the latest Council Recommendation (8 July 2014) did not amend the 4% of GDP goal for the budget deficit. Rather that Recommendation[17] reiterated the need to introduce fiscal consolidation measures in 2014, so as to achieve the fiscal objectives and prevent further accumulation of public sector arrears.[18]

**Chart 2 – Structural adjustment from 2010 to 2014**




Source: INE. CFP calculations. | Note: Estimates were based on the European methodology, and are contingent on the information available when calculating the output gap, which is subject to revisions, especially in the contemporary and neighbouring periods.

**Corrected for the effects of the economic cycle and one-offs, the structural balance in 2014 is estimated to have improved by 0.9 p.p. of GDP, doubling the effort to converge to the Medium-Term Objective (MTO) in comparison with what was foreseen in the SB/2015 report (published in October 2014).** After removing the impact of the temporary and one-off measures and the adverse effect of the economic cycle, fiscal developments point to a structural deficit of 1% of GDP, a figure which represents a 0.9 p.p. of GDP improvement in the structural balance. This outcome compares favourably with the estimate

[16] Temporary and one-off measures totaled 1.5 bn euros (0.9% of GDP) and correspond to the recording of the following transactions: (i) State funding to STCP and CARRIS; (ii) the writing-off of BPN Crédito bad loans held by Parvalorem, S.A.; (iii) the assumption of the guaranteed debt of the Portuguese Mutual Counterguarantee Fund. The measures in 2014 and previous years are shown in Table 11. The measures in 2014 do not include the possible impact of purchase by the Resolution Fund of the Novo Banco share capital that took place in the 3rd quarter, since the national statistical authority has not yet taken a decision on the matter.

[17] Council Recomendation, July 8th 2014 on the National Programme Reform 2014 of Portugal delivering a Council opinion on the Stability Programme of Portugal, 2014.

[18] The Council also recommended developing until the end of 2014 "new comprehensive measures as part of ongoing pension reform, aimed at improving the medium-term sustainability of the pension system".

for 2014 delivered in the SB/2015, to the extent that it brings the structural balance closer to the MTO (at 0.5 p.p. of GDP from the MTO, instead of 0.9 p.p. of GDP stated in SB/2015).[19]

### Box 1 – From public accounts to national accounts

In 2014, the deficit (non-adjusted) calculated in national accounts (4.5% of GDP) was higher by 0.4 p.p. of GDP than recorded in public accounts (4.0% of GDP).[1] Adjustments stemming from transactions between general government and other entities not included in the general government ring were decisive in explaining this difference, as the impact of capital increases in Reclassified Public Corporations (RPC) is neutral, given that it is recorded in equal amount and with opposite signs in "other adjustments" and in the "accrual" adjustment.

Therefore net of these capital increases, the category of "other adjustments" had a negative contribution (0.5 p.p. of GDP) to the national accounts deficit. This was mainly caused by the debt assumption of the transport operators CARRIS - Companhia Carris de Ferro de Lisboa, S.A. and STCP - Sociedade de Transportes Colectivos do Porto, S.A. (0.7 p.p. of GDP) and the assumption of guaranteed debt of the Mutual Counterguarantee Fund (0.1 p.p. of GDP). These impacts were partially offset by the adjustment relating to pension funds (0.2 p.p. of GDP). According to the new treatment under ESA2010 a current transfer from households is recorded, with a positive impact when shifting from public accounts balance to the national accounts balance.[2]

Unlike in 2013, adjustments relating to the accruals principle did not contribute to the difference between the two balances, because time adjustment for taxes and social contributions and other time lags (other than those relating to capital increases in RPC) offset the difference between interest paid and received.

**Public to National Accounts Adjustments** (% of GDP)

| | 2013 | 2014 |
|---|---|---|
| **(1) Balance in Public Accounts** | **-4.9** | **-4.0** |
| Central Government and Social Security funds | -4.7 | -4.1 |
| Regional and local Government | -0.3 | 0.1 |
| **(2) Adjustments to National Accounting** | **0.1** | **-0.4** |
| Differences due to General Government Perimeter | 0.0 | 0.0 |
| Accrual (cash - commitment adjustments) | 0.6 | 2.2 |
| Taxes and social contributions * | 0.0 | 0.1 |
| Differences between interested paid and accrued | -0.2 | -0.3 |
| Other timing adjustments *(of which)* | 0.8 | 2.5 |
| Cash Commitments HNS and CPS | 0.2 | -0.1 |
| Accrual to Public Corporation Sector incl. in GG | 0.3 | 2.2 |
| Capital increase in RPC** included in GG - Further capital increase | 0.3 | 0.7 |
| Capital increase in RPC included in GG** - Conversion of loans in cap. ap | 0.0 | 1.4 |
| Other Adjustments *(of which)* | -0.5 | -2.6 |
| Capital injections | -0.7 | -2.2 |
| Further capital increase in RPC included in GG** | -0.3 | -0.7 |
| Conversion of loans to RPC (included in GG) in capital appropriations | 0.0 | -1.4 |
| Pension Funds | 0.2 | 0.2 |
| Debt assumptions | 0.0 | -0.8 |
| **(3) = (1)+(2) National Accounts Balance** | **-4.8** | **-4.5** |

Source: INE. CFP calculations | Note: (*) Time adjustment (**) Reclassified Public Corporations. The positive/negative adjustments give rise to a higher/lower deficit under the national accounts than under the public accounts.

[1] For further information on the adjustments, see Notebook "From Public Accounts Balance to National Accounts Balance"".

[2] For further information on the new accounting treatment of pension funds see Analysis of the 2015 State Budget Proposal "Annex 2 – The Impact of ESA2010 on public finance national accounts".

## 3.2 ANALYSIS OF REVENUE AND EXPENDITURE

**In adjusted terms GG revenue recorded a year-on-year growth of 2.2% (1,655 M€) compared to 2013 and its relative weight in GDP remained at 44.5%.** That change was caused by the performance of current revenue, which increased by 2.7% and was partially

[19] The lower structural deficit, by 0.4 p.p. of GDP compared to the target set for 2014 in the SB/2015 Report (1.4% of GDP), is explained by the lower GG deficit in 2014 (down by 0.24 p.p. of GDP) and by a less favourable cyclical component (by 0.2 p.p. of GDP), along with the lower volume of temporary and one-off measures (0.07 p.p. of GDP).

offset by the sharp decline of 19.2% in capital revenue. This in turn stemmed from the unfavourable outcome in the LG subsector, in particular the drop in investment aid and other funds from the European Union (EU).

**Table 2 – General government revenue and expenditure** (adjusted values in M€)

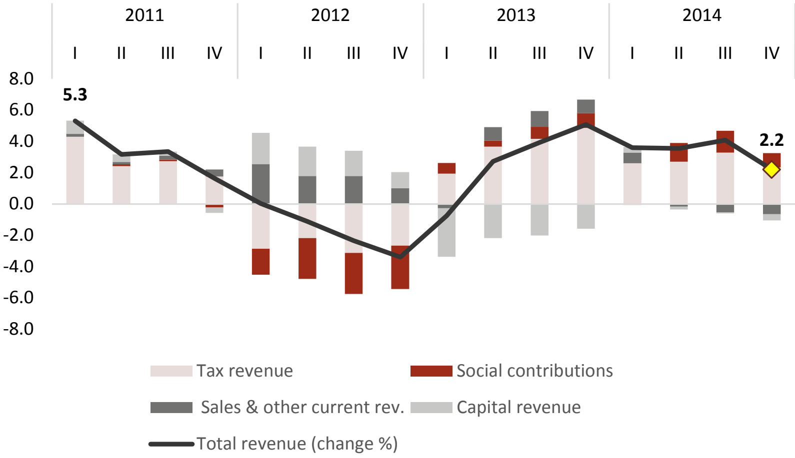
| | 2010 | 2011 | 2012 | 2013 | 2014 | Change 2013/2014 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | M€ | % | Ctrc |
| **Total revenue** | **73 050** | **74 240** | **71 718** | **75 357** | **77 012** | **1 655** | **2.2** | **2.2** |
| **Current revenue** | **70 855** | **72 301** | **69 005** | **73 783** | **75 741** | **1 958** | **2.7** | **2.6** |
| Tax revenue | 38 989 | 40 275 | 38 296 | 41 785 | 43 538 | 1 753 | 4.2 | 2.3 |
| Indirect taxes | 23 777 | 24 411 | 23 340 | 23 087 | 24 617 | 1 530 | 6.6 | 2.0 |
| Direct taxes | 15 211 | 15 863 | 14 956 | 18 699 | 18 922 | 223 | 1.2 | 0.3 |
| Social contributions | 21 362 | 21 201 | 19 142 | 19 817 | 20 513 | 696 | 3.5 | 0.9 |
| of which: actual soc. contr. receive | 15 457 | 15 671 | 14 621 | 14 881 | 15 615 | 734 | 4.9 | 1.0 |
| Sales & other current revenues | 10 504 | 10 826 | 11 567 | 12 181 | 11 690 | -491 | -4.0 | -0.7 |
| **Capital transfers received** | **2 195** | **1 939** | **2 713** | **1 574** | **1 271** | **-303** | **-19.2** | **-0.4** |
| **Total expenditure** | **88 414** | **86 889** | **81 031** | **84 118** | **83 239** | **-879** | **-1.0** | **-1.0** |
| **Primary expenditure** | **83 145** | **79 285** | **72 817** | **75 799** | **74 659** | **-1 140** | **-1.5** | **-1.4** |
| Current primary expend. | 74 524 | 72 742 | 67 887 | 71 315 | 70 572 | -744 | -1.0 | -0.9 |
| Intermediate consumption | 10 625 | 10 633 | 9 685 | 9 719 | 10 194 | 475 | 4.9 | 0.6 |
| Compensation of employees | 24 611 | 22 614 | 19 688 | 21 060 | 20 481 | -578 | -2.7 | -0.7 |
| Social transfers | 33 452 | 33 325 | 33 010 | 34 522 | 34 092 | -430 | -1.2 | -0.5 |
| other than in kind | 3 879 | 3 389 | 3 356 | 3 277 | 3 303 | 27 | 0.8 | 0.0 |
| Subsidies | 1 295 | 1 131 | 1 018 | 1 034 | 1 164 | 130 | 12.6 | 0.2 |
| Other current expenditure | 4 541 | 5 039 | 4 485 | 4 981 | 4 640 | -341 | -6.8 | -0.4 |
| Capital expenditure | 8 622 | 6 543 | 4 930 | 4 484 | 4 087 | -397 | -8.9 | -0.5 |
| GFCF | 7 296 | 5 677 | 4 158 | 3 534 | 3 487 | -47 | -1.3 | -0.1 |
| Other | 1 325 | 867 | 772 | 950 | 600 | -350 | -36.8 | -0.4 |
| **Interest paid** | **5 268** | **7 604** | **8 214** | **8 319** | **8 580** | **262** | **3.1** | **0.3** |
| **General government balance** | **-15 364** | **-12 649** | **-9 314** | **-8 760** | **-6 227** | **2 533** | **:** | **:** |
| Primary balance | **-10 096** | **-5 045** | **-1 099** | **-442** | **2 353** | **2 795** | **:** | **:** |
| Nominal GDP | 179 930 | 176 167 | 168 398 | 169 395 | 173 053 | 3 658 | : | : |

Source: INE. CFP calculations. | Notes: The general government budget aggregates are net of temporary and one-off measures and special factors as highlighted in Table 11. "Ctrc" means contribution to annual rate of change.

**The favourable development in current revenue reflected an increase in tax revenue (4.2%) and social contributions (3.5%).** The fiscal pressures identified for 2014[20] were accommodated by the improvement in tax and social security revenue. The increase in the sale of goods and services (1.5%) across all GG subsectors with the exception of the Autonomous Services and Funds (ASF), also contributed to the favourable outturn. Other current revenue moved in the opposite direction (down 10.8%), as a result of a decline in asset income (down 19.3%), explained mainly by the decrease in the dividends paid by the BoP (from 359.3 M€ in 2013 to 202.4 M€ in 2014), in the interest received from CoCo bonds and in loans granted to Reclassified Public Corporations, which have since been converted into increases in share capital.

[20] In the 2nd ASB/2014 the MF reassessed the fiscal pressures, in particular (i) the lesser impact of the Termination by Mutual Agreement Programme and the use of the workers Requalification System – the lower volume of savings estimated for 2014 bears additional pressure on compensation of employees; (ii) the downward revision in the LG balance taking into account the information available at the time of the first half-year budget outturn; and (iii) the effect of the extraordinary tax credit to investment on reverse charge in 2014 versus 2013.

**Chart 3 – Contributions to the year on year change in adjusted revenue** (in p.p. of GDP)




Source: INE. CFP calculations. | Note: "change %" stands for accumulated year-on-year change.

**Direct taxes recorded a year-on-year growth of 1.2%, mostly explained by PIT revenue (+2.7%).** This increase reflects the impact of the reversal of the public sector salary cuts,[21] the behaviour of employment and nominal salaries,[22] as well as improved tax efficiency. Also in regard to direct taxes, the 1.4% drop (- 70 M€) in CIT revenue was driven by the extraordinary tax credit on investment which totalled 221 M€.[23, 24] The 2014 outturn also reflects the impact of the legislative changes introduced in SB/2013,[25] which offset the fall in the reverse charge process in 2014.[26]

**Indirect taxes grew by 6.6%, with the contribution of nearly all components.** The economic recovery[27] contributed to the rise in VAT revenue (+8.5%), a result that also reflects the impact of the anti-fraud and anti-tax evasion measures. The change in revenue from the remaining indirect taxes (+4%) reflects the impact of the various tax policy measures and, in particular, the change in the rates of special taxes on consumption. The increase in the Motor Vehicle Tax (is driven by the increase in motor vehicle sales.[28] Net of the effect of the Exceptional System for Settling Tax Debts (RERD), the Municipal Property Transfer Tax (IMT)

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[21] The total elimination of the salary cuts, after they were declared unconstitutional, ran from 31 May to 12 September 2014.

[22] According to INE figures (national accounts) employees' salaries will have increased by 0.4% in 2014 and remunerated employment will have risen by 1,8%.

[23] Law no. 49/2013 of 16 July.

[24] Consulted on 6 April 2015 on the Autoridade Tributária e Aduaneira website.

[25] These include the limit on deductible financial costs and the decrease in the minimum limit at which the maximum rate of State Surcharge applies.

[26] This decrease was 10.1%.

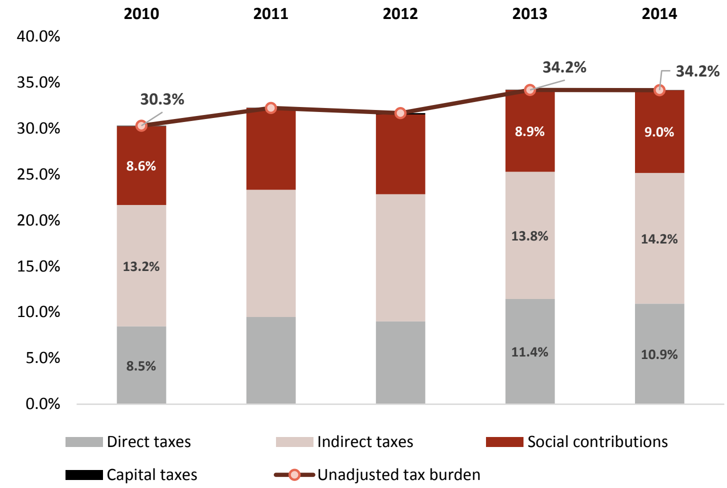
[27] Private consumption will have recorded an increase of 2.8% in nominal terms.

[28] In 2014, motor vehicle sales rose significantly and saw a year-on-year change of 36.1%, according to figures published by ACAP (consulted on 6 April 2015).

recorded a year-on-year change of 45.5% (+157.9 M€)[29] and Municipal Property Tax (IMI) 11.1% (+143 M€).[30]

**Social contributions recorded a year-on-year change of 3.5% compared to 2013.** The increase stemmed from the change in actual social contributions (734 M€), as a result of the salary cut reversal and the growth in employment and nominal salaries. The performance of social contributions is also explained by the change in the contributions rate from 2.25% to 3.5% in the state health subsystems (ADSE, ADM and SAD).[31] Imputed social contributions dropped by 39 M€ to total 4,897 M€ in 2014.

**Chart 4 – Tax burden under ESA2010 for the 2010-2014 period** (in p.p. of GDP)




Source: INE. CFP calculations.

**In 2014, the tax burden stabilised at 34.2% of GDP.** This stabilisation[32] reflects a different composition of the tax burden, consisting of an increase of 0.4 p.p. in indirect taxes and 0.1 p.p. in social contributions and a decrease of 0.5 p.p. in direct taxes.

**With regard to expenditure, in 2014 total adjusted expenditure fell by 1% (879 M€) and its relative weight in GDP decreased 1.6 p.p., reversing the growth seen in 2013.** That change was driven by the 744 M€ cut in current primary expenditure and the 397 M€ cut in capital expenditure, which was partially offset by the 262 M€ rise in spending on interest.

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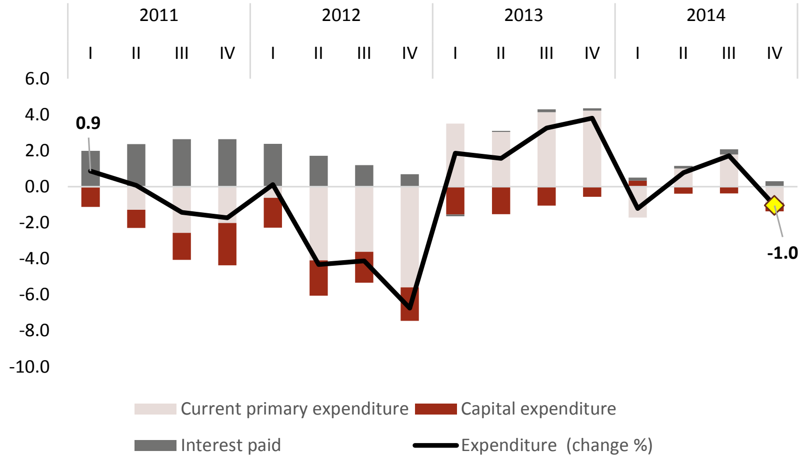
[29] This excludes the RERD value in 2013 (34.8 M€).

[30] This excludes the RERD value in 2013 (18.6 M€).

[31] In January it went from 2.25% to 2.5% and in May to 3.5%.

[32] Note: tax burden net of the impact of the RERD stood at 33.5% of GDP in 2013.

**Chart 5 – Contributions to the year-on-year change in adjusted expenditure** (in p.p.)




Source: INE. CFP calculations.

**Compensation of employees fell by 2.7% (-578 M€) versus 2013, despite the temporary reversal of the public sector salary cut.** Even with the impact of the reversal, compensation of employees and the "other current expenditure" were the major budget items explaining the decrease in expenditure in 2014. The decrease in spending on wages and salaries (down by 3.3%) resulted mainly from a 2.7% drop[33] in employment (volume effect) in General Government.

**Expenditure on social transfers fell by 1.2% (or 430 M€), making the second largest contribution to the cut in expenditure.** This development is mainly explained by the decrease in social transfers other than in kind (down 457 M€), in particular the decrease in spending on unemployment benefits (down 500 M€). Over 2014, the rate of decrease in this expenditure item accelerated, accompanied by a decline in the number of unemployment benefit recipients. In December this indicator had fallen by 18.8% when compared to the previous year. The increase in ESC (134.9 M€ or 25%)[34] also contributed to the decrease in social transfers expenditure.[35]

**As regards the remaining expenditure accounts mention must be made of the following:**

- Other current expenditure: decreased in comparison to 2013 (by 6.8% or 341 M€), as a result of the 6.9% (342 M€) decrease in transfers to other institutional sectors;
- Subsidies: increased by 12.6% (130 M€) compared to 2013, due to the increase in the ASF subsector, in particular the sums assigned to the Employment and Vocational Training Institute (IEFP);
- Capital expenditure: down by 8.9% (or 397 M€) versus the previous year due to the decrease in capital transfers paid to other sectors of the economy (down 268 M€). The decline in gross fixed capital formation (GFCF) was 1.3% (47 M€): despite this

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[33] Consulted on 6 April 2015 at: http://www.dgaep.gov.pt/upload//DEEP/SIEP2014/DGAEP-DEEP_SIEP_2014_T4_16022015.pdf

[34] In the public accounts the amount of ESC totalled 540.3 M€ in 2013 and 675.2 M€ in 2014.

[35] It should be noted that in national accounts this contribution is recorded as a reduction in social transfers expenditure.

decrease being the lowest since 2011, GFCF reached its lowest point since the statistical series began in 1995, standing at 2% of GDP in 2014;

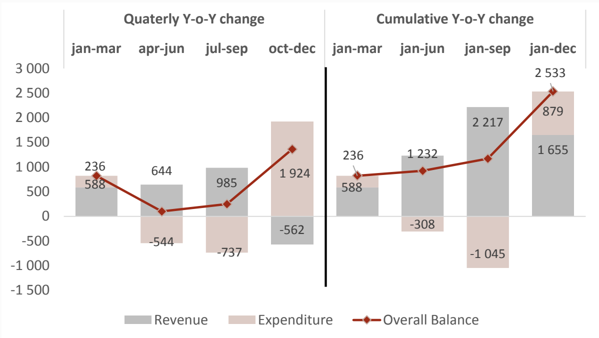
- Intermediate consumption: increased by 4.9% (475 M€). In 2014 the cost of road PPPs rose by over 30%. Net of this effect spending on intermediate consumption was up by 1.8%;
- Expenditure on interest: increased 3.1% (262 M€) in 2014. This increase was due entirely to the increase in the public debt stock (volume effect), since the price effect, that is to say the change in the implicit interest rate was negligible.

### Box 2 – Infra-annual developments in the adjusted budget balance

In 2014 both revenue and expenditure contributed to the decrease in the GG deficit. Revenue explained the positive change over the first three quarters of the year. The decisive factor in this performance was tax revenue whose contribution grew steadily from the 1st quarter, supported, albeit it to a lesser extent, by social contributions. In the final quarter the fall in capital revenue and "other current revenue" coupled with the unfavourable performance of tax and social security revenue caused revenue to make a negative contribution in that quarter.[1]

As for expenditure it only made a favourable contribution in the first and last quarters as a result of the decrease in compensation of employees and social transfers. Whilst in the 1st quarter this was due to the new salary cuts that were in force for the first five months of the year, in the 4th quarter it was due almost entirely to the different timing of the payment of holiday and Christmas bonuses to civil servants and pensioners. In the 2nd and 3rd quarters expenditure's negative contribution was due to: (i) the payment of the holiday bonuses in June and July (whereas in 2013 they had generally been paid in November), (ii) the suspension of the civil servant salary cuts from June to mid-September, and (iii) the high level of compensation paid under the Termination by Mutual Agreement Programme in September.[2]

**Chart 6 – Contribution of revenue and expenditure to change in the overall balance** (in M€)




Source: INE. CFP calculations.

[1] The lower interest and the different timing in paying holiday bonuses to civil servants explain, respectively, the fall in "other current revenue" and the unfavourable performance of tax and social security revenue. In the latter case it is recalled that in 2014 the payment of holiday bonuses to civil servants took place in the 2nd quarter and to pensioners on the 3rd, whereas in 2013 payments were made in the 4th quarter and partially in the 3rd quarter, respectively.

[2] The change in capital expenditure was slightly less important. The decrease from the 2nd quarter onwards more than offset the unfavourable change in interest over all quarters of the year.

## 3.3 ANALYSIS BY SUBSECTORS

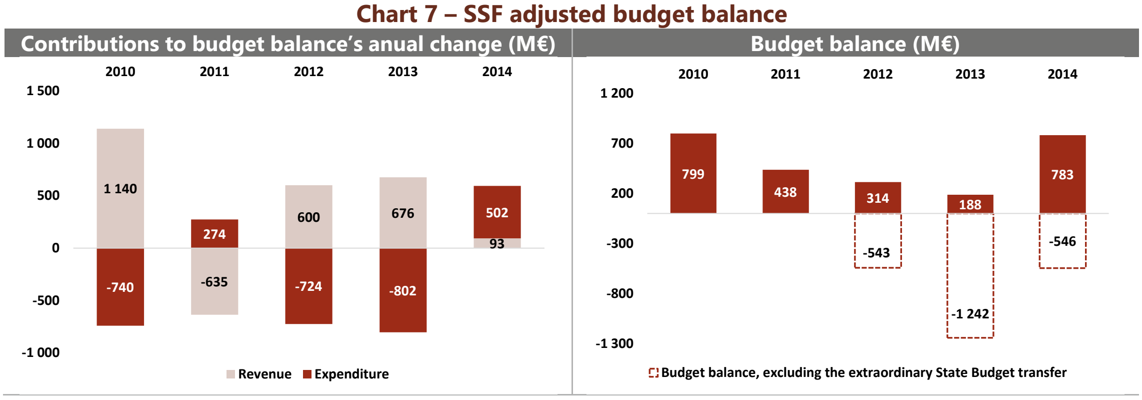
### 3.3.1 Social Security Funds

**In 2014 the SSF subsector recorded a budget surplus of 783 M€ which contributed to the decrease of the public deficit.**[36,37] Although this outcome was lower than estimated by the MF in the SB/2015 Report (918 M€), it resulted from the behaviour of expenditure which fell by 2.1% (502 M€) versus 2013 (exceeding the MF forecast which pointed to a decrease of 1.5%) and, to a lesser extent, from growth in adjusted revenue of 0.4% (93 M€).

**The performance of expenditure was driven by a decrease of 18.3% in unemployment benefits and job support measures when compared to 2013.** 2014 was an atypical year as regards spending on pensions. This account grew only 0.4%, reflecting the increase in the normal pensionable age which rose to 66, and led to a decrease in the number of old age pensions payable. For its part expenditure on Social Integration Income (RSI) and Solidarity Supplement for Elderly (CSI) continued on the downward path that had begun in 2011, and contributed 0.4 p.p. to the decrease in expenditure last year.

**On the revenue side, special mention should be made of the U-turn in the downward path that social contributions have followed since 2012.** This revenue item, net of the effects of the RERD in 2013, grew 4.1% (536 M€), thanks to the higher outturn of revenue from enforced collection (excluding the impact of RERD) and the positive contribution of the volume effect (increase in the number of beneficiaries who have declared income to Social Security).[38] In the opposite direction, SB transfers to comply with the Framework Law and to fund the deficit on the pay-as-you-go system fell, with decreases of 2.4% (153 M€) and 7.1% (101 M€), respectively.

**Chart 7 – SSF adjusted budget balance**




Source: INE and IGFSS. CFP calculations. | Note: In 2013 revenue was adjusted for temporary and one-off measures and special factors (see Table 11 attached).

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[36] Even if the extraordinary SB transfer is excluded, the subsector had a deficit of 546 M€, i.e. a significant improvement on the 1,242 M€ deficit in 2013 (see right hand panel of Chart 7).

[37] For further analysis of this subsector see on Analysis of the Social Security and Civil Servants Pension Agency budget outturn in 2014, which contains information on the budget outturn from the public accounting standpoint.

[38] According to the Bank of Portugal Statistical Bulletin consulted in March 2015.

### 3.3.2 Regional and Local Government

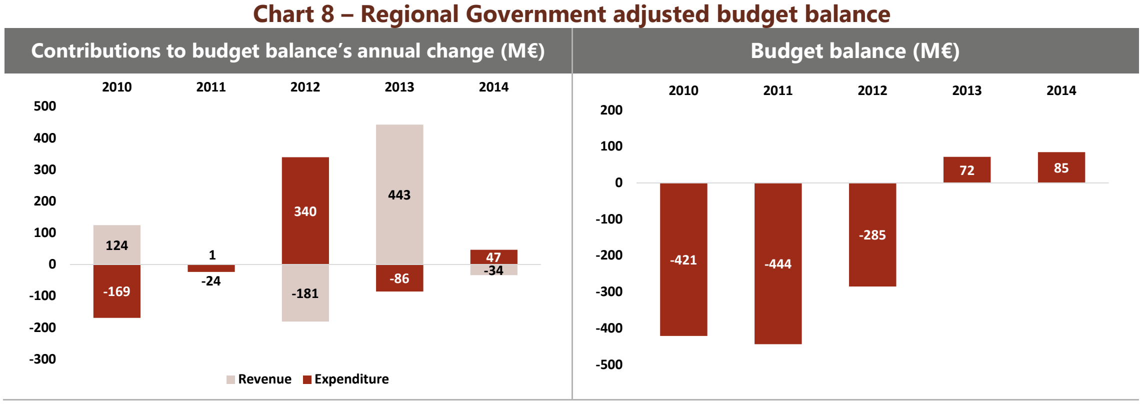
**Since 2011 the RLG subsector has recorded a budget surplus.** The outcome achieved in 2014 (445 M€), despite being greater than in 2013 (+98 M€) fell short of the MF estimate of last October (667 M€), due to a sharper decline in revenue. In effect this aggregate decreased by 3.7% (431 M€) compared to the previous year, driven by a fall in capital revenue, particularly in the Local Government. Nonetheless, expenditure decrease surpassed the decrease in revenue recording a drop of 4.7% (529 M€). This decrease was concentrated on the Local Government subsector, in particular in compensation of employees, current transfers outside of GG and capital expenditure.

#### Regional Government

**Regional Government recorded a budget surplus for the second year running.** Mention should be made of Madeira's positive contribution to this surplus. For the second year in a row the region produced a positive balance, which was 89 M€ in 2014, while the Azores continued to experience a deficit albeit close to breakeven (5 M€).

**Revenue and expenditure behaved differently in each region.** Whilst in Madeira revenue and expenditure recorded positive annual changes of 1.5% and 1.0%, respectively, in the Azores the same aggregates fell by 4.1% and 4.4%, respectively. In Madeira the outcome was influenced by the increase in tax revenue and capital expenditure, while in the Azores and despite the rise in tax revenue, it resulted from a significant change in capital revenue which drove investment expenditure in the same direction. Note also the change in the method for calculating SB transfers under the new Regional Finance law and the coming to an end of the Financial Means Law applying to Madeira, both of which influenced the decrease in capital revenue in the two regions.

**Chart 8 – Regional Government adjusted budget balance**



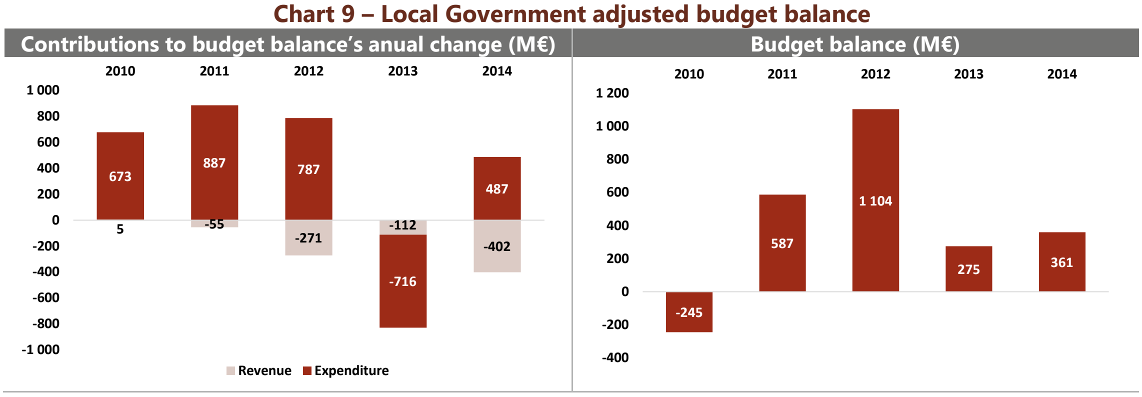

Source: INE. CFP calculations. Note: in 2010 and 2011, expenditure was adjusted for temporary and one-off measures and special factors (see Table 11 attached).

### Local Government

**In 2014, the Local Government surplus increased slightly on the back of the reduction of expenditure, since adjusted revenue fell by 4.5% (402 M€).** The decrease in that aggregate is explained by the sharp fall in capital revenue (down 63.8% or 529 M€), which reflects not only the decrease in transfers from the European Union, due to the reduced outturn of investment projects co-financed by local authorities, but also due to the fact that transfers from the Financial Balance Fund were mostly classified by the municipalities as current transfers instead of capital revenue. Nonetheless, attention is drawn to the increase in local authorities' own revenue, where tax revenue rose by 6.7% compared to 2013 and contributed to a 1.6% (127 M€) increase in current revenue.

**Expenditure contracted by 5.7% (487 M€) with similar contributions from current and capital expenditure.** The performance of current expenditure results essentially from a significant decrease in other current expenditure and, to a lesser extent, from the fall in compensation of employees. At the same time the downward trend of the last four years in intermediate consumption was halted as this account grew 6.6% in 2014. Capital expenditure moved in the same direction as capital revenue, although the decrease was less marked in nominal terms (15.6% or 281 M€).

**Chart 9 – Local Government adjusted budget balance**



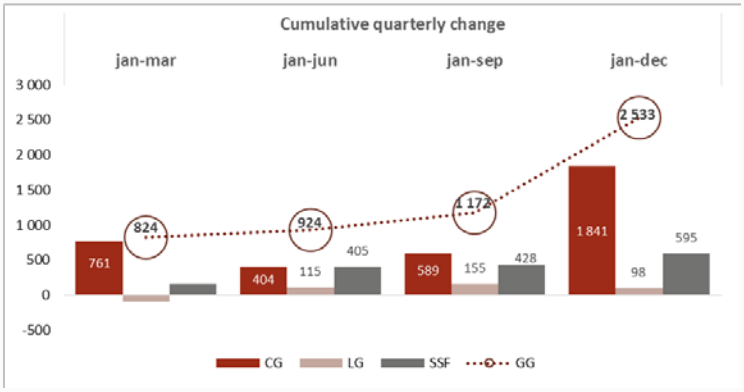

Source: INE. CFP calculations. Note: in 2013, the revenue was adjusted for temporary and one-off measures and special factors (see Table 11 attached).

**Box 3 – Contributions of subsectors to the infra-annual change in the adjusted budget balance**

As was the case in 2013, Central Government (CG) made a decisive contribution to the annual decrease in the deficit, although the other subsectors also made a favourable contribution in 2014. The rise in revenue, by way of tax revenue and the nominal decrease in expenditure across all subsectors explain the 2,533 M€ improvement in the budget balance in 2014, which was greater than in the previous year (553 M€).

In infra-annual terms, while the budget outturn revealed the generally positive performance of all subsectors, each quarter was different. The 3rd quarter was the only one in which all subsectors made a positive contribution to the decrease in the deficit, unlike the 2nd quarter which experienced CG's largest unfavourable contribution and consequently recorded the least fall in the public deficit in that quarter. The 1st and 4th quarters were, in ascending order, the most decisive, although they only saw positive contributions from CG and SSF. The contribution from RLG was provided by primary expenditure and the same was true, albeit partially, of SSF. In the case of CG, revenue was the predominant aggregate and explains this subsector's favourable contribution to the decrease in the general government deficit.

**Chart 10 – Contributions of Subsectors to the change in the overall balance** (M€)



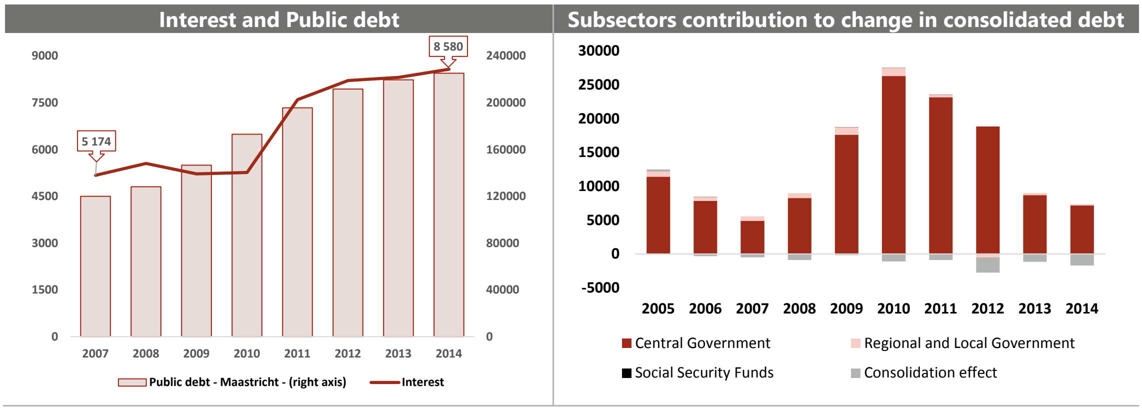

Source: INE. CFP calculations.

# 4 PUBLIC DEBT DEVELOPMENTS IN 2014

## 4.1 MAASTRICHT DEBT

**In 2014 gross general government debt continued to climb reaching 225.3 bn euros (130.2% of GDP).** The increase in the debt stock was €5.6 billion in 2014, which was less than the €7.9 billion rise seen in 2013. On the other hand, public debt interest rose again following a slight drop in 2013. The increase in interest charges reflects a growth in debt volume since the implicit interest rate remained practically the same (3.9%).

**Chart 11 – Interest charges and change in debt by subsector** (in M€)



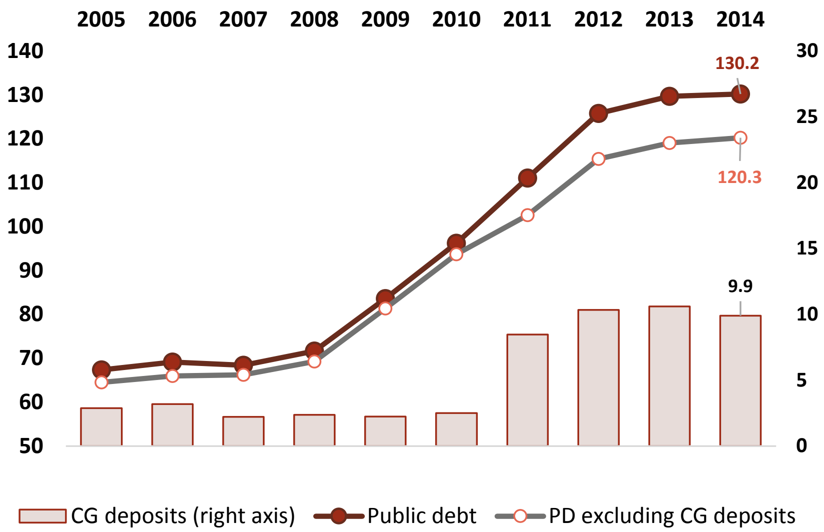

Source: INE and Bank of Portugal. CFP calculations.

**The increase of debt in 2014 accounted for approximately three quarters of the aggravation recorded in 2013.** Whilst in 2013 the change in debt had been 7,860 M€, in 2014 the rise was 5,636 M€. Central Government was once again responsible for the largest share of the debt increase, mainly through the financing of reclassified state corporations (included in its ring) and of transfers to other general government subsectors.

**At the end of 2014 the public debt ratio stood at 130.2% of GDP, which was 3 p.p. of GDP above the target set by the MF.**[39] However, the public debt ratio net of Central Government deposits was 120.3% of GDP, in line with the objective defined in the SB/2015 Report (120.2% of GDP). At the end of 2014 Central Government deposits totalled €17.1 billion, which is the lowest year-end figure recorded over the 2012 – 2014 period. The value of these deposits equals 9.9% of GDP and reflects the unused share of loans received under the financial assistance programme and Treasury issues.

[39] Set out in the SB/2015 Report.

**Chart 12 – General government public debt development** (% of GDP)




Source: Bank of Portugal. CFP calculations.

**In 2014 the change in the public debt ratio was one of the lowest in recent years (0.5 p.p. of GDP).** This was the result of the combined effect of a favourable stock-flow adjustment (down 1.2 p.p. of GDP) which was greater than in the previous year (-0.2 p.p. of GDP), of a higher primary surplus (up 0.5 p.p. of GDP) than in 2013 and of an unfavourable dynamic effect that fell to almost half of 2013.[40] A breakdown shows that in 2014 the interest effect was the sole factor that contributed to the increase in the public debt ratio. This gave rise to an unfavourable dynamic effect of 2.2 p.p. of GDP, not fully offset by the growth effect.

**Table 3 – Debt dynamics** (p.p. of GDP)

| General Government | INE | | | | | | Accumulated effect | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2010 | 2011 | 2012 | 2013 | 2014 | 2007/10 | 2010/14 |
| **Change in debt (in p.p. of GDP)** | **-0,7** | **12,6** | **14,9** | **14,7** | **3,9** | **0,5** | **27,7** | **34,0** |
| Primary deficit | 0,1 | 8,2 | 3,0 | 0,7 | -0,1 | -0,5 | 15,7 | 3,2 |
| Dynamic effect (snow ball effect) | -0,7 | 0,8 | 6,4 | 10,0 | 4,2 | 2,2 | 7,0 | 22,8 |
| *- interest effect* | 2,9 | 2,9 | 4,3 | 4,9 | 4,9 | 5,0 | 9,0 | 19,1 |
| *- growth effect* | -3,6 | -2,1 | 2,1 | 5,1 | -0,7 | -2,7 | -2,0 | 3,7 |
| Stock-flow adjustment (residual) | -0,1 | 3,5 | 5,5 | 3,9 | -0,2 | -1,2 | 5,0 | 8,0 |

Source: INE and Bank of Portugal. CFP calculations.

## 4.2 STOCK-FLOW ADJUSTMENT

**In 2014 the overall deficit (non-adjusted) of 7,717 M€ explained the 5,636 M€ rise in public debt.** The difference between the increase in debt and the budget deficit, corresponding to the stock-flow adjustment, stood at -2,081 M€. The transaction with the largest contribution was "securities other than shares". In 2014 this transaction is explained by the repayment of CoCo bonds by various banks (BCP, BPI and BANIF). The impact was mitigated by the positive contribution of the "shares and other holdings" account to the

[40] For an explanation of the change in the debt ratio used in Table 3 of this report, please see Box 3 of Notebook on Public Debt.

increase in public debt, where the most important transaction was the purchase of Novo Banco shares by the Resolution Fund.

**Table 4 – Stock-flow adjustments**

| General Government | | | | | | | Accumulated effect | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2010 | 2011 | 2012 | 2013 | 2014 | 2007/10 | 2010/14 | 2013/14 |
| **(1) Budget Deficit GG** | **5 279** | **20 100** | **12 967** | **9 450** | **8 181** | **7 717** | **49 319** | **58 416** | **15 898** |
| **(2) Stock-flow adjustments (difference) = (3)-(1)** | **-193** | **6 271** | **9 660** | **6 645** | **-321** | **-2 081** | 8 741 | 20 174 | -2 402 |
| Net acquisition of financial assets | -1 064 | 5 658 | 14 584 | 1 578 | -2 278 | -2 849 | 7 664 | 16 693 | -5 127 |
| Currency and deposits | -786 | 483 | 10 078 | 1 445 | 1 445 | -241 | -744 | 13 211 | 1 205 |
| Securities other than shares | 108 | 30 | 283 | 6 518 | -958 | -4 698 | 100 | 1 176 | -5 656 |
| Loans | -1 885 | 1 256 | 838 | 1 261 | -105 | -356 | -545 | 2 894 | -461 |
| Shares and other equities | 1 096 | 2 106 | -437 | -4 081 | -751 | 2 896 | 6 490 | -267 | 2 144 |
| Other financial assets | 405 | 1 782 | 3 822 | -3 565 | -1 908 | -451 | 2 364 | -321 | -2 359 |
| Financial liabilities not included in Debt | -1 657 | 3 478 | 6 487 | -4 039 | -2 007 | -329 | 423 | 3 589 | -2 336 |
| Other changes in debt (Including valuations) | -786 | 4 091 | 1 563 | 1 167 | -50 | 333 | 1 500 | 7 105 | 283 |
| **(3) Change in Debt GG** | **5 086** | **26 371** | **22 627** | **16 095** | **7 860** | **5 636** | **58 060** | **78 589** | **13 496** |
| **(4) Public debt (*Maastricht*)** | **120 088** | **173 062** | **195 690** | **211 784** | **219 645** | **225 280** | | | |
| **Public debt (% of GDP)** | **68.4** | **96.2** | **111.1** | **125.8** | **129.7** | **130.2** | | | |
| *Memo items:* | | | | | | | | | |
| Interest | 5 174 | 5 268 | 7 604 | 8 214 | 8 319 | 8 580 | 21 217 | 32 718 | 16 899 |
| Implicit interest rate (J/Dt-1) | 4.5% | 3.6% | 4.4% | 4.2% | 3.9% | 3.9% | | | |

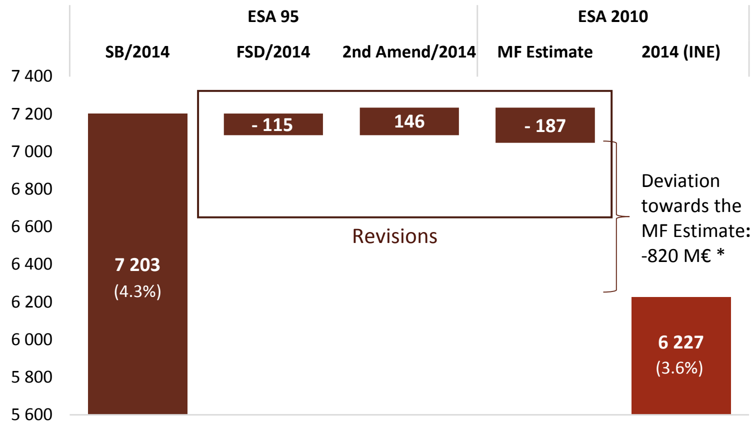
Source: INE and Bank of Portugal. CFP calculations.

# 5 COMPARISON WITH BUDGET PROGRAMMING DOCUMENTS

*Introductory note: The comparison of the budget outturn with budget programming documents for 2014 is adversely affected by the methodological change underpinning the national accounts statistics that took place in September 2014. When the budget programming documents were prepared (SB/2014, 1st ASB/2014, FSD/2014 and 2nd ASB/2014) the ESA95 rules were still in force, hence the MF estimate for 2014 presented in the DSB/2015 Report is the only annual benchmark available in ESA2010 rules. This prevents a direct comparison of the budget outturn forecasts in the aforesaid documents. For this reason preference has been given to the MF estimate (net of temporary and one-off measures and special factors) presented in the SB/2015. Nevertheless, in order to compare the actual outturn with the remaining MF forecasts, the change recorded in 2014 (under ESA2010) is compared to the implicit change in each of those reference documents (under ESA95).*

**The general government deficit forecast for 2014 was revised several times.** In adjusted terms the target laid down in the SB/2014 was a budget deficit of 4.3% of GDP. Under the 1st ASB/2014 the fiscal balance remained unchanged. In the FSD/2014 the deficit was revised downwards (down 115 M€). Following Parliamentary approval of the 2nd ASB/2014, the deficit forecast was revised upwards (up 146 M€), which meant it practically reached the original figure. Lastly, in regard to the SB/2015, the MF published an estimate for 2014 under ESA2010 of 4.0% of GDP for the deficit, in adjusted terms (down 187 M€ on that underpinning the 2nd ASB/2014).[41] The causes of each of the aforesaid revisions are described in Chapter 2.

**Chart 13 – General government deficit in 2014: from the initial forecast to the outturn** (adjusted figures in M€)




Source: INE and Ministry of Finance. CFP calculations. | Notes: * means the general government deficit was lower (by 820 M€) than the MF estimate for 2014; a revision with a negative sign corresponds to a lower deficit, while a revision with a positive sign corresponds to a higher deficit; under the 1st ASB/2014 the general government balance was not revised.

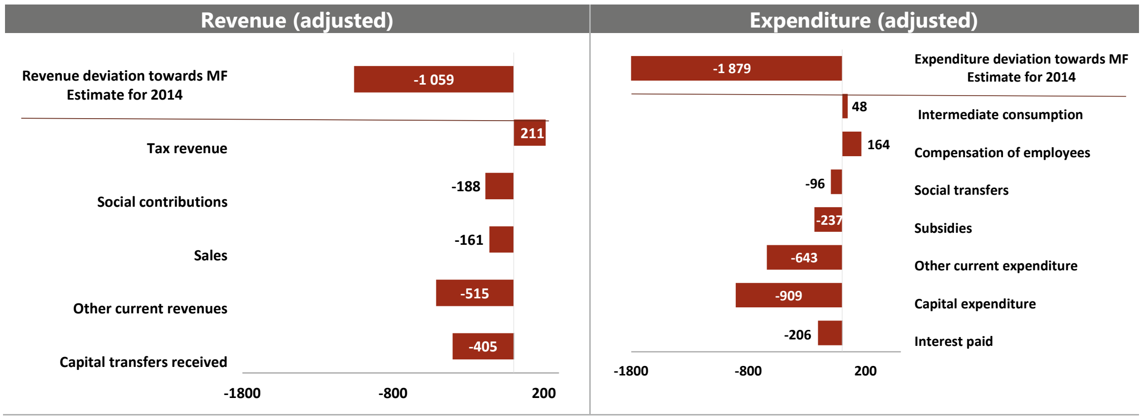
[41] The MF estimate for 2014 was adjusted in line with the temporary measures taken into account when reviewing the budget outturn.

## 5.1 COMPARISON OF GG ACCOUNT WITH MF ESTIMATE

**The budget balance recorded in 2014 compares favourably with the MF estimate delivered last October.** In adjusted terms the deficit was 3.6% of GDP in 2014, down 0.4 p.p. of GDP (820 M€) on the MF estimate.[42] Since that estimate was the basis for the MF projections for 2015, the starting point for the adjustment to be achieved this year is more favourable.

**The budget deficit (adjusted) in 2014 was less than the MF estimate due to a sharper decrease in expenditure, especially GFCF.** In fact expenditure was 1,879 M€ below the estimate published by the MF last October, which more than offset the 712 M€ shortfall in revenue. This favourable comparison is largely explained by the performance of capital expenditure (down 909 M€), with GFCF not only falling well short of the estimate (down 809 M€), but even falling by 47 M€ versus 2013.[43] Expenditure on interest also had a lower outturn than the MF estimate (down 206 M€).[44]

**Chart 14 – Deviations from MF estimate for 2014** (in M€)




Source: INE and Ministry of Finance. CFP calculations. Note: a deviation with positive sign in revenue and a negative sign in expenditure corresponds to a more favourable outturn, whereas a negative deviation in revenue and a positive one in expenditure have the opposite impact.

**Current primary expenditure was also below the MF estimate (down 764 M€).** This was due to the fact that overall expenditure on subsidies, "other current expenditure" and social transfers were 975 M€ below the MF estimate, and more than offset the unfavourable deviations in compensation of employees (up 164 M€) and intermediate consumption (up 48 M€).

[42] In non-adjusted terms the comparison is also favourable since the general government deficit was 4.5% of GDP in 2014 and the MF estimate pointed to 4.8% of GDP. Both figures do not include any impact stemming from the purchase of the share capital of Novo Banco by the Resolution Fund, as no decision has yet been taken by the national statistical authority on this matter. The INE bulletin of 26 March 2015 relating to the 1st EDP notification of 2015, stresses the provisional nature of that record, since sale of Novo Banco shares has not yet taken place.

[43] The MF estimate for 2014, disclosed two months before the end of the year, assumed a 762 M€ increase in GFCF. Note that this estimate already included a lower figure (down 124 M€) than that reported at the end of September in the context of the 2nd EDP notification of 2014 (under ESA2010).

[44] Compared to the forecast reported in the 2nd EDP notification of 2014, the deviation recorded in the interest account was even more favourable: down 269 M€.

**In 2014 revenue was 1,059 M€ below the MF estimate of October 2014 since only tax revenue recorded a more favourable outturn.** Revenue from "other current revenue" fell well short of the MF estimate (down 515 M€), which was also the case with capital revenue (down 405 M€), social contributions (down 188 M€) and sales (down 161 M€). This situation was partially offset by tax revenue, which exceeded by 211 M€ (of which 159 M€ from indirect taxes) the estimate of the MF last October. A side effect of this is the easing of the risks associated with this aggregate's forecast for this year, which the CFP identified in its analysis of DSB/2015.

**Lastly, it should be stressed that no information is available on the level of implementation of the adopted fiscal consolidation measures.** Therefore, the CFP again recommends the definition and disclosure of a governance model for the consolidation measures which, among other items, should specify the nature of each measure, the coordinating entity (ies), the executing entity (ies), the implementation schedule and the respective fiscal impact. In a later stage the use of the announced consolidation measures should be assessed. This would provide for greater transparency and credibility in budget programming and would improve monitoring and the ability to introduce corrections over the year.

## 5.2 COMPARISON OF GG ACCOUNT WITH OTHER BUDGET PROGRAMMING DOCUMENTS

**The fiscal balance recorded compares favourably with the estimates in SB/2014, 1st ASB/2014, FSD/2014 and 2nd ASB/2014.** The favourable deviations were 0.7 p.p., 0.7 p.p., 0.6 p.p. and 0.7 p.p. of GDP, respectively.

**Table 5 – Annual changes vs. implicit changes in 2014 in each budget document** (adjusted values, in M€)

| system of account: | ESA 95 | | | | ESA 2010 | |
|---|---|---|---|---|---|---|
| document: | SB/2014 | 1st Amend | FSD/2014 | 2nd Amend | MF Estimate | 2014 (INE) |
| date: | oct/2013 | mar/2014 | apr/2014 | sep/2014 | oct/2014 | mar/2015 |
| **Total Revenue** | **593** | **620** | **1 580** | **2 080** | **2 714** | **1 655** |
| **Current revenue** | **418** | **445** | **1 405** | **2 210** | **2 611** | **1 958** |
| Tax revenue | 192 | 192 | 1 173 | 1 305 | 1 541 | 1 753 |
| Indirect taxes | 345 | 345 | 976 | 1 276 | 1 371 | 1 530 |
| Direct taxes | -153 | -153 | 197 | 29 | 170 | 223 |
| Social contributions | -335 | -321 | 20 | 583 | 884 | 696 |
| Sales & other current revenues | 562 | 573 | 212 | 323 | 186 | -491 |
| **Capital transfers received** | **175** | **175** | **175** | **-130** | **102** | **-303** |
| **Total Expenditure** | **-905** | **-879** | **-32** | **613** | **1 001** | **-879** |
| **Primary expenditure** | **-1 165** | **-1 139** | **-293** | **316** | **533** | **-1 140** |
| Current primary expenditure | -1 546 | -1 520 | -674 | -355 | 21 | -744 |
| Intermediate consumption | 446 | 446 | 438 | 527 | 428 | 475 |
| Compensation of employees | -2 015 | -2 148 | -1 419 | -712 | -742 | -578 |
| Social transfers | -507 | -348 | -177 | -175 | -334 | -430 |
| Subsidies | 85 | 85 | 84 | 55 | 367 | 130 |
| Other current expenditure | 446 | 446 | 400 | -50 | 302 | -341 |
| Capital expenditure | 381 | 381 | 382 | 672 | 512 | -397 |
| GFCF | 627 | 627 | 628 | 978 | 762 | -47 |
| Other capital expenditure | -246 | -246 | -246 | -306 | -250 | -350 |
| **Interest paid** | 260 | 260 | 260 | 297 | **468** | **262** |
| **General government balance** | **1 498** | **1 498** | **1 613** | **1 467** | **1 713** | **2 533** |
| **Primary balance** | 1 758 | 1 758 | 1 873 | 1 764 | 2 181 | 2 795 |
| *Memo:* | | | | | | |
| Public Debt (Maastricht def.) | -659 | -659 | 6 285 | 7 474 | 3 602 | 5 636 |
| GDP at current market prices | 2 462 | 2 462 | 3 216 | 3 182 | 6 076 | 3 658 |

Source: INE. Ministry of Finance. | Notes: changes with a positive sign in revenue/balance and a with negative sign in expenditure correspond to a favourable development, whereas a negative deviation in revenue/balance and a positive one in expenditure have the opposite impact; the adjustments made can be seen in Table 10.

**The rise in revenue was greater than forecast in the SB/2014, in the 1st ASB/2014 and in FSD/2014**, due to considerably higher tax and social security revenue. The revenue from "sales and other current revenue" decreased, despite all the MF forecasts pointing to growth in 2014. The fall in capital revenue was much greater than that implicit in the 2nd ASB/2014.

**The decrease in expenditure only compares unfavourably with the SB/2014.** In effect at that time a larger decrease in compensation of employees was expected given the higher salary cuts (a measure which was later declared unconstitutional).[45] GFCF expenditure fell by 47 M€, despite all the budget programming documents assuming a rise of over 600 M€. The

[45] However, the decrease in compensation of employees was also less than in the 2nd ASB/2014, a document that already took into account the Constitutional Court decision.

decrease in expenditure was equal to that implied in the 1st ASB/2014 precisely because that change in GFCF offset the fact that the fall in current primary expenditure had not been so sharp. The decrease in social transfers and in "other current expenditure" was considerably greater than that implied in the 2nd ASB/2014. The increased expenditure on interest was in line with the budget documents under review in this subchapter.

## 5.3 COMPARISON OF PUBLIC DEBT WITH THE TARGETS

**The forecast for the public debt ratio (Maastricht debt) in 2014 was revised several times.** In the SB/2014, the MF forecast (under ESA95) suggested that 2014 would mark the beginning of a downward trend in the debt ratio which should have fallen to 126.7%. However, in the 2nd ASB/2014 that forecast was revised to 130.9% of GDP following the State funding to the transport operators STCP, Carris and CP (upon which their bank debt was recognised as State debt), and also the impact of Banco Espírito Santo, S.A. resolution measure.[46] Under ESA2010 the MF estimate for 2014 disclosed in the SB/2015 Report once again pointed to a turnaround in the public debt ratio's upward path which should fall to 127.2% of GDP in 2014.[47]

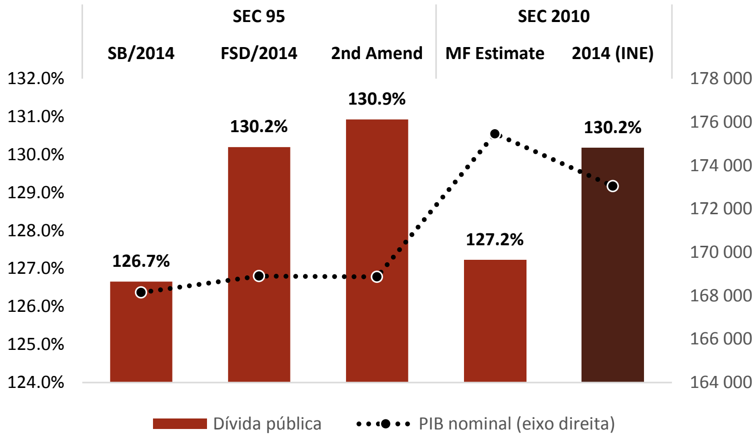
**Contrary to the forecasts the public debt ratio (Maastricht debt) deteriorated in 2014 and by the end of the year it was higher than the MF estimate of last October.** Public debt accounted for 130.2% of GDP in 2014. This figure constitutes a 0.5 p.p. of GDP increase compared to 2013, and is 3 p.p. of GDP higher than the latest MF estimate. This unfavourable deviation was due to the fact that nominal GDP was actually much lower than the figure in the MF estimate (down 2,418 M€) – see Chart 15.[48] The deviation is also explained by a nominal public debt greater than that estimated by the MF (up 2,033 M€). Furthermore the deviation versus the FSD/2014 was also unfavourable. This document included an estimate produced under the ESA2010 rules which pointed to a lower ratio (127.5% of GDP). The ratio achieved at the end of 2014 was considerably higher than the original target of 126.7% of GDP, as defined under ESA95.

[46] Impact of the €0.6 billion bank loan to the Resolution Fund, a body that became part of the general government scope.

[47] The new methodology adopted since September 2014 had the opposite effect on the calculation of this ratio, essentially through the reclassification of entities and the GDP revision. The downward revision (-3.7 p.p.) in the ratio compared to the forecast in the 2nd ASB/2014 was driven by a denominator effect (higher GDP– Chart 15), which more than offset the upward revision of nominal public debt (+€2.1 billion).

[48] On the one hand this significant difference stems from an overestimation of nominal GDP in the MF estimate; on the other hand it is a result of the recent downward revision in nominal GDP (down 1,331,000 M€), undertaken by the INE when disclosing the final annual accounts for 2012. If the nominal GDP considered in the MF estimate had materialized, the unfavourable deviation against the MF estimate would have been 1.2 p.p. of GDP (instead of 3 p.p. of GDP) and the public debt ratio would have improved by 1.3 p.p. of GDP compared to 2013 (rather than the 0.5 p.p. of GDP deterioration).

**Chart 15 – Public debt and nominal GDP forecasts for 2014** (% of GDP and M€)




Source: INE and Ministry of Finance. | Notes: FSD/2014 included an estimate for the public debt ratio under ESA2010 (127.5% of GDP in 2014). According to the 2nd EDP notification of 2014 (under ESA2010) released in September the public deficit would reach 127.8% of GDP.

## 5.4 MULTI-ANNUAL BUDGETARY PLANNING FRAMEWORK

**Central Government expenditure subject to the MBPF ceiling for 2014 was repeatedly revised upwards, which proves that instruments inability to contain spending.** In practice it is clear that the MBPF ceilings have not been binding, since the 2013 limit had already been revised upwards a number of times. The same situation arose with the limit on expenditure for 2014. In the MBPF approved under the SB/2014 law the ceiling had been set at 45,669 M€.[49] In April last year the FSD/2014 included an update proposal which assumed a 154 M€ increase in that ceiling.[50] This higher figure reflected the fiscal impact of the 1st ASB/2014, in particular the increased expenditure on CGA pensions and allowances.[51] Following Parliamentary approval of the 2nd ASB/2014, the limit for 2014 was revised upwards by 1,081 M€, reflecting, above all, the larger allocations required by the change in pay policy.[52] On all these occasions the fiscal impact of these circumstances was not compensated by measures on the expenditure side. This approach erodes the credibility of the MBPF, making it ineffective.

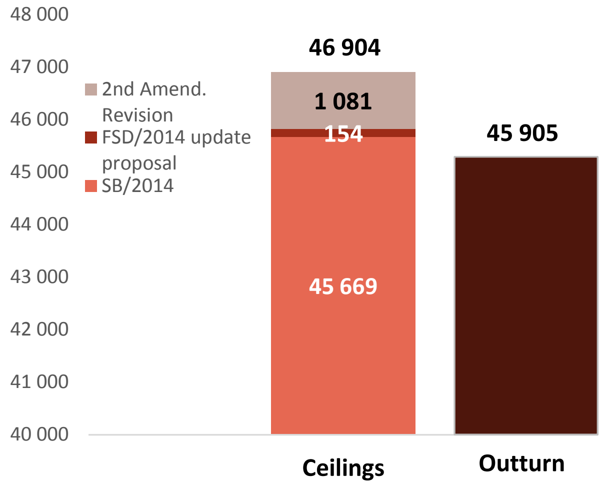
[49] The expenditure ceiling for 2014 was set for the first time in Law no. 28/2012 of 31 July at 43,691 M€, and assumed the suspending of Christmas and holiday bonuses to retired persons and pensioners (a situation that did not come to be). This law (which created the MBPF) still contains the rule which states that the ceilings set for the 2014 to 2016 period are indicative. The CFP has regularly called attention to this loophole in the law and once again recommends the revoking of the rule in question (article 2 (2) of Law no. 28/2012), so as to ensure compliance with the provisions of the BFL on this matter.

[50] The proposed update of the 2014 ceiling would only be effective if it had resulted from an amendment to the law, since the MBPF was not revised under the 1st ASB/2014.

[51] As a result of Constitutional Court Decision no. 862/2013 of 19 December (on the convergence of the civil servant social protection scheme and the general Social Security scheme).

[52] As a result of Constitutional Court Decision no. 413/2014 of 30 May that declared three rules in SB/2014 to be unconstitutional.

**Chart 16 – Expenditure ceiling for 2014: Forecasts vs. Outturn** (in M€)




Source: INE and Ministry of Finance. | Note: in the SB/2015 Report, the MF estimated that the Central Government expenditure financed by general revenue would reach 46,519 M€. FSD/2014 included only a forecast for the MBPF ceilings.

**However, the provisional budget outturn suggests that expenditure was below the ceiling revised in the 2nd ASB/2014.**[53] The MF estimate for 2014 delivered in the DSB/2015 report pointed to expenditure being lower (by 385 M€) than the limit approved in the 2nd ASB/2014.[54] The provisional figures for 2014 show an even more favourable deviation: down 999 M€, of which 827 M€ come from the "Finance and Public Administration" programme.[55] When compared to the SB/2014 and the FSD/2014 the expenditure subject to the MBPF ceiling was 236 M€ and 82 M€ higher, respectively. The major contribution to this unfavourable comparison came from the outturn of the "Basic and Secondary Education and School Administration". On the other hand, spending was lower than forecasted for "Public debt management" (expenditure on interest was 243 M€ lower than the sum forecast in both documents), "Finance and General Government" and "Solidarity, Employment and Social Security" programmes.

**In some programmes expenditure exceeded the ceiling approved in the 2nd ASB/2014.** This is the case with the "Justice", "Homeland Security", "Basic and Secondary Education and School Administration", "Science and Higher Education" and "Agriculture and the Sea" programmes.[56] However, this situation arose in part because of reinforcements financed by the provisional allocation. This allocation was initially included in the "Finance and Public Administration" programme and was later reassigned to other programmes as the budget outturn progressed. This procedure doesn't seem to be the most appropriate since according

[53] The final MBPF figures will be disclosed in the State General Account of 2014.

[54] Estimate included in Table I.1.6. – "Central Government expenditure financed by general revenue – Major aggregates" in the DSB/2015 Report (page 88).

[55] The fact that CG expenditure subject to the MBPF ceiling was below the figure set in the 2nd ASB/2014, gives significantly more room to comply with the limit for 2015. In fact the ceiling set for this year assumed a reduction in expenditure compared to the ceiling approved by the 2nd ASB/2014 (-75 M€).

[56] The outturn of the "Health" and "Environment, Territorial Planning and Energy" programmes was slightly above the limit set in the 2nd ASB/2014 (+1 M€ and +2 M€, respectively).

to the BFL the expenditure limits for each programme are binding for the first economic year of the MBPF.[57] On the other hand the allocation for paying compensation under the Termination by Mutual Agreement Programme was also originally assigned to the Ministry of Finance and later re-allocated to a number of programmes.[58] That expenditure, financed by general revenue, fell short of the amount forecast in the 2nd ASB/2014.[59]

**Table 6 – MBPF: deviations from the expenditure ceilings established for 2014** (in M€)

| Program | 2013 Outturn (jun/14) | 2014 SB/2014 (dec/13) | 2014 2nd Amend (sep/14) | 2014 Outturn (provisional) | Change 2013/14 | Deviation towards: SB/2014 | Deviation towards: 2nd Amend. |
|---|---|---|---|---|---|---|---|
| **1. SOVEREIGNTY** | ***4 112*** | ***4 144*** | ***4 257*** | ***4 290*** | ***178*** | ***146*** | ***33*** |
| Sovereign Bodies | 2 857 | 2 975 | 2 977 | 2 968 | 112 | -7 | -9 |
| Governance and Culture | 206 | 226 | 232 | 223 | 17 | -3 | -9 |
| Foreign Affairs | 307 | 285 | 292 | 289 | -17 | 4 | -3 |
| Justice | 743 | 658 | 756 | 809 | 67 | 151 | 53 |
| **2. SECURITY** | ***3 513*** | ***3 309*** | ***3 367*** | ***3 271*** | ***-242*** | ***-38*** | ***-96*** |
| Defence | 1 759 | 1 694 | 1 723 | 1 617 | -142 | -77 | -106 |
| Internal Security | 1 754 | 1 615 | 1 644 | 1 654 | -100 | 39 | 10 |
| **3. SOCIAL** | ***24 089*** | ***23 213*** | ***23 744*** | ***23 708*** | ***-381*** | ***495*** | ***-36*** |
| Health | 7 903 | 7 621 | 7 753 | 7 754 | -149 | 133 | 1 |
| Basic and Secondary Educ. and School Adm. | 5 429 | 4 938 | 5 362 | 5 400 | -29 | 462 | 38 |
| Science and Higher Education | 1 356 | 1 296 | 1 363 | 1 387 | 31 | 91 | 24 |
| Solidarity, Employm. and Social Security | 9 401 | 9 358 | 9 266 | 9 167 | -234 | -191 | -99 |
| **4. ECONOMIC** | ***14 433*** | ***15 002*** | ***15 536*** | ***14 637*** | ***204*** | ***-365*** | ***-899*** |
| Finance and Public Administration | 7 144 | 7 172 | 7 782 | 6 955 | -189 | -217 | -827 |
| Public Debt Management | 6 827 | 7 239 | 7 111 | 6 996 | 169 | -243 | -115 |
| Economy | 91 | 222 | 259 | 238 | 146 | 16 | -21 |
| Environment, P. Territory and Energy | 337 | 41 | 42 | 44 | -293 | 3 | 2 |
| Agriculture and Sea | 33 | 328 | 342 | 404 | 371 | 76 | 62 |
| **5. TOTAL** (1+2+3+4) | **46 146** | **45 669** | **46 904** | **45 905** | **-241** | **236** | **-999** |
| *Memo:* | | | | | | | |
| 6. Central Adm. total expenditure | 61 285 | 60 984 | 63 167 | 61 254 | -31 | 270 | -1 913 |
| 7. Weight, in % [(5)/(6)] | 75.3 | 74.9 | 74.3 | 74.9 | -0.4 | 0.1 | 0.7 |

Source: DGO. CFP calculations. | Notes: values on cash basis concerning CG expenditure financed by general revenue; the budget allocation for the "Finance and General Government " programme included the provisional allocation; the provisional outturn data for 2014 was supplied by the DGO at the request of the CFP.

**Contrary to what was implicit in the 2nd ASB/2014 the expenditure under the MBPF ceiling fell in comparison to 2013.** The provisional Central Government expenditure was 45,905 M€, which accounts for a 241 M€ decrease versus 2013.[60] This change contrasts with the 758 M€ increase that was implicit in the 2nd ASB/2014. The difference is mainly explained by the "Finance and Public Administration" programme that was influenced by the fact that the provisional allocation and the Termination by Mutual Agreement Programme allocation were originally fully assigned to it.

[57] Under the terms of article 12-D (5) of Law no. 41/2014 of 10 July. Note that the law does not provide for any exception to compliance with the MBPF ceiling stemming from expenditure reinforcements financed by the provisional allocation.

[58] According to additional information provided by the DGO, the Termination by Mutual Agreement Programme allocation was 207 M€, and was mostly assigned to the "Finance and General Government" and "Basic and Secondary Education and School Administration" programmes (100 M€ and 68 M€, respectively).

[59] According to the DGO, 29 M€ of the total 2014 allocation to the Termination by Mutual Agreement Programme was unused. In that year the rate of utilization of the provisional allocation was only 47.6%, and approximately 280 M€ remained unused.

[60] The relative weight of Central Government expenditure subject to the MBPF ceiling fell by 0.4 p.p. in 2014.

# 6 FISCAL ADJUSTMENT FROM 2010 TO 2014

*This chapter examines the change recorded in the main General Government accounts over the period covered by the Economic and Financial Assistance Programme (EFAP).*

## 6.1 BALANCES AND FISCAL ADJUSTMENT

**Over the 2010-2014 period the adjusted primary balance improved by 7 p.p. of GDP and the adjusted deficit fell by 4.9 p.p. of GDP.** The constraints resulting from the excessive deficit situation that begun in 2009 and became more severe in 2011 with the application of the EFAP, have greatly influenced the imbalance correction. The budget deficit (non-adjusted) went from 11.2% of GDP in 2010 to 4.5% of GDP in 2014, showing a 6.7 p.p. of GDP improvement. Almost three quarters of this change came from the decrease in the adjusted balance (4.9 p.p. of GDP) from 8.5% of GDP in 2010 to 3.6% of GDP in 2014. The remainder (1.8 p.p. of GDP) corresponds to a fall in the unfavourable impact of temporary and one-off measures and special factors, almost all affecting the expenditure side.[61] In the case of the primary balance (adjusted) there was an improvement of 7 p.p. of GDP which reflects the U-turn in this balance that went from a deficit of 5.6% of GDP in 2010 to a surplus of 1.4% of GDP in 2014.

**Table 7 – Budget indicators** (% of GDP)

| Budget balance | % of GDP | | | | | Change (p.p. of GDP) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2010 | 2011 | 2012 | 2013 | 2014 | 2010/14 |
| Primary | -8.2 | -3.0 | -0.7 | 0.1 | 0.5 | -1.4 | 5.2 | 2.3 | 0.8 | 0.4 | 8.7 |
| Actual (headline) | -11.2 | -7.4 | -5.6 | -4.8 | -4.5 | -1.4 | 3.8 | 1.7 | 0.8 | 0.4 | 6.7 |
| Adjusted of temporary & one-off measures & special factors | -8.5 | -7.2 | -5.5 | -5.2 | -3.6 | 1.2 | 1.4 | 1.6 | 0.4 | 1.6 | 4.9 |
| Cyclically adjusted | -10.2 | -5.6 | -2.5 | -1.5 | -1.9 | -2.1 | 4.7 | 3.1 | 1.0 | -0.3 | 8.4 |
| Structural net of special factors | -7.6 | -5.4 | -2.4 | -1.9 | -1.0 | 0.5 | 2.2 | 3.0 | 0.6 | 0.9 | 6.6 |
| Structural primary net of special factors | -4.7 | -1.1 | 2.5 | 3.0 | 4.0 | 0.5 | 3.6 | 3.5 | 0.6 | 0.9 | 8.6 |
| *memo items* | | | | | | | | | | | |
| temporary measures & special factors | -2.6 | -0.2 | -0.1 | 0.3 | -0.9 | -2.6 | 2.5 | 0.1 | 0.4 | -1.2 | 1.8 |
| output gap* | -1.9 | -3.5 | -6.1 | -6.5 | -5.1 | n.d. | -1.7 | -2.6 | -0.4 | 1.4 | -3.3 |
| cyclical component | -0.9 | -1.8 | -3.1 | -3.3 | -2.6 | 0.7 | -0.8 | -1.3 | -0.2 | 0.7 | -1.6 |
| interest payments | 2.9 | 4.3 | 4.9 | 4.9 | 5.0 | 0.0 | 1.4 | 0.6 | 0.0 | 0.0 | 2.0 |

Source: INE. CFP calculations. Note: * as a percentage of potential output. The cyclical component was calculated in line with the European Community semi-elasticity method, based on the output gap estimated according to the production function methodology and is conditional upon the available information, which is by construction subject to revisions, especially in the contemporary and neighbouring periods. The temporary and one-off measures and special factors relating to the 2010-14 period shown in Table 11, were classified by the CFP and may differ from classifications used by other entities.

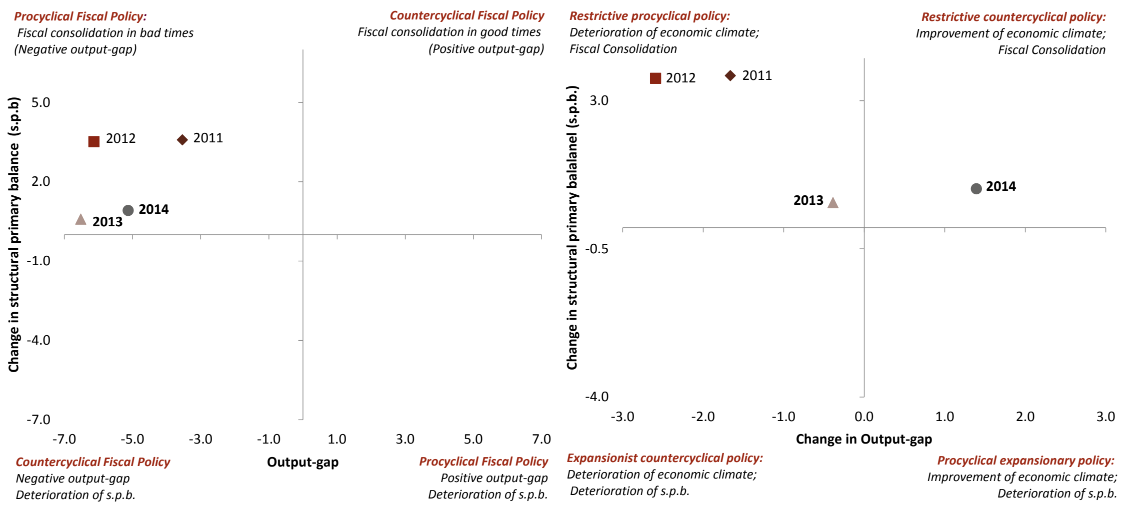
**The budget correction was greater in the first two years of this period and explained more than half of the effective improvement in the balance from 2010 to 2014.** An assessment of the imbalance correction, which excludes the effect of temporary and one-off measures and special factors, shows that 2011 and 2012 were the years that contributed the most to the budget correction over the 2010-2014 periods. The remainder (1.9 p.p. of GDP) was almost totally provided by the fiscal developments of 2014. This last year saw the rate of

[61] Explained by the cost of recapitalising certain banks, in particular BPN, CGD and BANIF (see Table 11 attached).

consolidation return to the level of the first two years (2011 and 2012) as the balance improved by 1.6 p.p. of GDP.

**Over the 2010 to 2014 period the General Government accounts recorded an improvement in their structural position which brought the balance closer to the Medium-Term Objective (MTO).** In 2014 the structural deficit reached 1% of GDP. This result means a 6.6 p.p. improvement in output compared to the 2010 figure, of which 1.6 p.p. of GDP are explained by the change in the cyclical component,[62] since GDP remained below its potential level over the entire time horizon.[63]

**Chart 17 – Fiscal policy and cyclical position (2011 – 2014)**




Source: INE and MF. CFP calculations. | Note: (i) The fiscal policy stance is evaluated by the change in the primary structural balance; (ii) The economic cycle position is gauged by the change in the output gap which is the difference between GDP and potential GDP.

**The correction of the public finance imbalance took place in an adverse economic cycle climate.** In order to correct the excessive deficit situation and achieve the MTO a number of discretionary measures were introduced. In this context the fiscal policy approach was restrictive. From 2011-13 it could be described as procyclical, to the extent that fiscal progress, gauged by the positive change in the primary structural balance (7.7 p.p. of GDP), took place in a deteriorating economic environment, as shown by the deterioration in the output gap estimate and by the 7.1 p.p. of GDP cumulative fall in real output. In 2014, the retention of a restrictive discretionary approach took place in an improved economic climate, as measured by an improvement in the output gap estimate.

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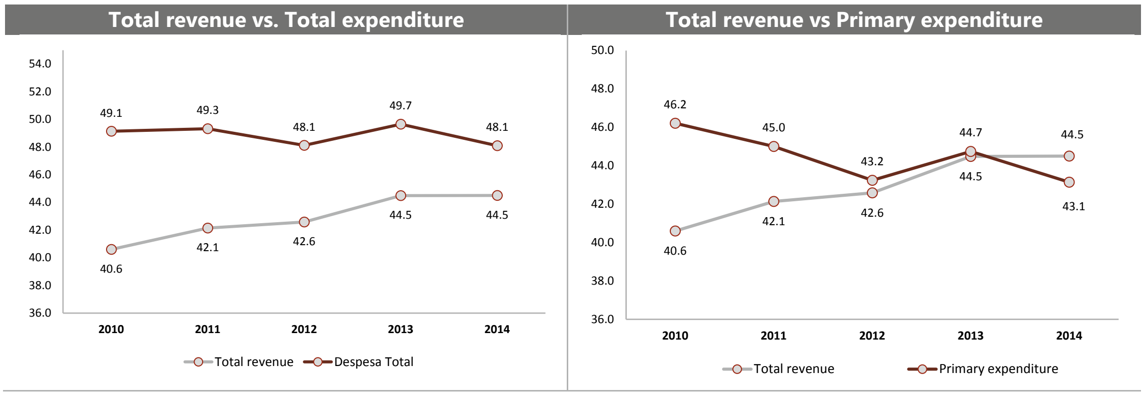
[62] In 2010 the effect of the automatic stabilisers would have worsened the deficit by 0.9% of GDP, while in 2014 this effect would have stood at around 2.6% of GDP.

[63] The new method for calculating the output gap and the change in the elasticity of tax revenue and expenditure brought the structural balance closer to the MTO. The change in the output gap calculation method may be found in the European Economic Forecast – Spring 2014 Box I.1: *The revised methodology for calculating output gap.* The change in the aforesaid elasticities may be found in: *Adjusting the budget balance for the business cycle: the EU methodology*.

## 6.2 THE CHANGE IN REVENUE AND EXPENDITURE

**The budget consolidation undertaken from 2010 to 2014 contributed more to the increase in revenue's share of GDP than to the fall in primary expenditure's share.** The fall of GDP from 2010 to 2014 contributed to boost the fiscal consolidation impact on the revenue side while reducing it on the expenditure side. From 2010 to 2014 revenue's share of GDP grew by 3.9 p.p. of GDP (+3,962 M€), while the relative weight in GDP of primary spending was 3.1 p.p. lower, despite corresponding to a decrease of 8,487 M€ in absolute terms.[64] Chart 20 and Chart 21 below provide information that complements that set out in this section.

**Chart 18 – Developments in adjusted revenue and expenditure** (% of GDP)




Source: INE. CFP calculations. | Notes: The revenue and expenditure figures are net of temporary and one-off measures and special factors.

**From 2010 to 2014 the main components of General Government revenue performed differently.** In adjusted terms the relative weight of current revenue in GDP rose by around 4.4 p.p. of GDP, while capital revenue fell by 0.5 p.p. of GDP mainly from 2013 onwards (see Chart 20 attached).

**The increase in the tax burden was decisive to the developments in adjusted revenue.** The performance of tax revenue from 2010 to 2014 accounts for over 90% of the increase in adjusted revenue, having risen by 3.5 p.p. of GDP. Direct taxes grew the most over the period under review by an amount equal to 2.5 p.p. of GDP, which is explained in essence by the rise in the PIT tax levels introduced in 2013. The weight of indirect taxes revenue in GDP rose to 13.9 p.p. in 2011 and 2012, following the increase in the various VAT rates in those years.[65]

[64] GDP at current prices fell by 3.8% from 2010 to 2014, an outcome that boosted the effect of the revenue increase as a percentage of GDP. Given that expenditure followed the path of GDP, the effect of this decline as a percentage of GDP is partly offset by the decrease in the denominator.

[65] The 2011 State Budget Law introduced an increase in the standard rate from 21% to 23% on mainland Portugal and 15% to 16% in the Azores and Madeira, coupled with a restructuring of the goods and services subject to the low rate of 6% and the intermediate rate of 13%. Following publication of Law no. 51-A/2011 of 30 September electricity and gas no longer benefitted from the low rate and were moved to the standard rate as from 1 October 2011. In 2012 the new structure of VAT rates caused low rate (6%) goods and services to be transferred to the standard rate (23%) or in some cases to the intermediate rate (13%), and goods and services subject to the intermediate rate (13%) to be transferred to the standard rate (23%).

After a 0.3 p.p. of GDP fall in 2013,[66] 2014 witnessed a recovery in indirect taxes revenue to stand at 14.2 % of GDP.

**Table 8 -General government adjusted account 2010 - 2014**

| Adjusted values | Millions of Euros | | | | | Change 2010/2014 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | M€ | % | Ctrc | p.p. GDP |
| **Total revenue** | **73 050** | **74 240** | **71 718** | **75 357** | **77 012** | **3 962** | **5.4** | **5.4** | **3.9** |
| **Current revenue** | **70 855** | **72 301** | **69 005** | **73 783** | **75 741** | **4 885** | **6.9** | **6.7** | **4.4** |
| Tax revenue | 38 989 | 40 275 | 38 296 | 41 785 | 43 538 | 4 550 | 11.7 | 6.2 | 3.5 |
| Indirect taxes | 23 777 | 24 411 | 23 340 | 23 087 | 24 617 | 839 | 3.5 | 1.1 | 1.0 |
| Direct taxes | 15 211 | 15 863 | 14 956 | 18 699 | 18 922 | 3 710 | 24.4 | 5.1 | 2.5 |
| Social contributions | 21 362 | 21 201 | 19 142 | 19 817 | 20 513 | -850 | -4.0 | -1.2 | 0.0 |
| of which: actual soc. contr. receive | 15 457 | 15 671 | 14 621 | 14 881 | 15 615 | 159 | 1.0 | 0.2 | 0.4 |
| Sales & other current revenues | 10 504 | 10 826 | 11 567 | 12 181 | 11 690 | 1 186 | 11.3 | 1.6 | 0.9 |
| **Capital transfers received** | **2 195** | **1 939** | **2 713** | **1 574** | **1 271** | **-923** | **-42.1** | **-1.3** | **-0.5** |
| **Total expenditure** | **88 414** | **86 889** | **81 031** | **84 118** | **83 239** | **-5 175** | **-5.9** | **-5.9** | **-1.0** |
| **Primary expenditure** | **83 145** | **79 285** | **72 817** | **75 799** | **74 659** | **-8 487** | **-10.2** | **-9.6** | **-3.1** |
| Current primary expend. | 74 524 | 72 742 | 67 887 | 71 315 | 70 572 | -3 952 | -5.3 | -4.5 | -0.6 |
| Intermediate consumption | 10 625 | 10 633 | 9 685 | 9 719 | 10 194 | -432 | -4.1 | -0.5 | 0.0 |
| Compensation of employees | 24 611 | 22 614 | 19 688 | 21 060 | 20 481 | -4 129 | -16.8 | -4.7 | -1.8 |
| Social transfers | 33 452 | 33 325 | 33 010 | 34 522 | 34 092 | 641 | 1.9 | 0.7 | 1.1 |
| other than in kind | 29 573 | 29 936 | 29 654 | 31 245 | 30 789 | 1 216 | 4.1 | 1.4 | 1.4 |
| Subsidies | 1 295 | 1 131 | 1 018 | 1 034 | 1 164 | -131 | -10.1 | -0.1 | 0.0 |
| Other current expenditure | 4 541 | 5 039 | 4 485 | 4 981 | 4 640 | 99 | 2.2 | 0.1 | 0.2 |
| Capital expenditure | 8 622 | 6 543 | 4 930 | 4 484 | 4 087 | -4 535 | -52.6 | -5.1 | -2.4 |
| GFCF | 7 296 | 5 677 | 4 158 | 3 534 | 3 487 | -3 810 | -52.2 | -4.3 | -2.0 |
| Other | 1 325 | 867 | 772 | 950 | 600 | -725 | -54.7 | -0.8 | -0.4 |
| **Interest paid** | **5 268** | **7 604** | **8 214** | **8 319** | **8 580** | **3 312** | **62.9** | **3.7** | **2.0** |
| **General government balance** | **-15 364** | **-12 649** | **-9 314** | **-8 760** | **-6 227** | **9 137** | **:** | **:** | **4.9** |
| **Primary balance** | **-10 096** | **-5 045** | **-1 099** | **-442** | **2 353** | **12 449** | **:** | **:** | **7.0** |
| Tax Burden | 54 443 | 55 945 | 52 917 | 56 668 | 59 154 | 4 711 | 8.7 | 6.4 | 3.9 |
| Current expenditure | 79 792 | 80 346 | 76 101 | 79 634 | 79 152 | -640 | -0.8 | -0.7 | 1.4 |
| **Nominal GDP** | **179 930** | **176 167** | **168 398** | **169 395** | **173 053** | **-6 877** | **-3.8** | **:** | **:** |

Source: INE. CFP calculations. | Notes: The revenue and expenditure figures are net of temporary and one-off measures and special factors.

**The developments in adjusted public expenditure also had an important contribution in reducing the budget deficit.** In adjusted terms general government spending accounted for 49.1% of GDP in 2010. Despite some fluctuations from 2010 to 2014, at the end of the four-year period public expenditure was less than 1 p.p. of GDP. This was the result of the 3 p.p. of GDP decrease in primary expenditure that was partially cancelled out by the rise in expenditure on interest (+2 p.p. of GDP).

**The decrease in primary expenditure reflects the sharp drop in capital expenditure which was 2.4 p.p. of GDP lower in 2014 than in 2010.** The change in capital expenditure was decisive in the fall of the expenditure share in GDP, due to gross fixed capital formation (-2 p.p. of GDP). This was the only expenditure item that fell systematically over the entire period under review (see Chart 21 attached).

**Current primary expenditure decreased by 0.6 p.p. of GDP, reflecting the performance of compensation of employees.** In effect from 2010 to 2014 the relative weight of

[66] Excluding the effect of the RERD, which in 2013 represented indirect tax revenue of 355 M€.

compensation of employees dropped by 1.8 p.p. of GDP, which corresponds to a nominal decrease of 16.8% in adjusted terms,[67] Expenditure on social transfers continued to grow, rising by 1.1 p.p. of GDP compared to the 2010 outturn. This rise is explained essentially by the change in expenditure on social transfers other than in kind, since the relative weight of social transfers in kind remained constant.

**From 2010 to 2014, budget aggregates in nominal terms did not develop the same way as in terms of GDP ratio.** In effect the nominal change in adjusted expenditure (-5.9%) was greater than in revenue (5.4%). A contributing factor was the decrease in primary expenditure (9.6 p.p.), partially offset by the interest's unfavourable contribution (3.7 p.p.).

## 6.3 PUBLIC DEBT DEVELOPMENTS

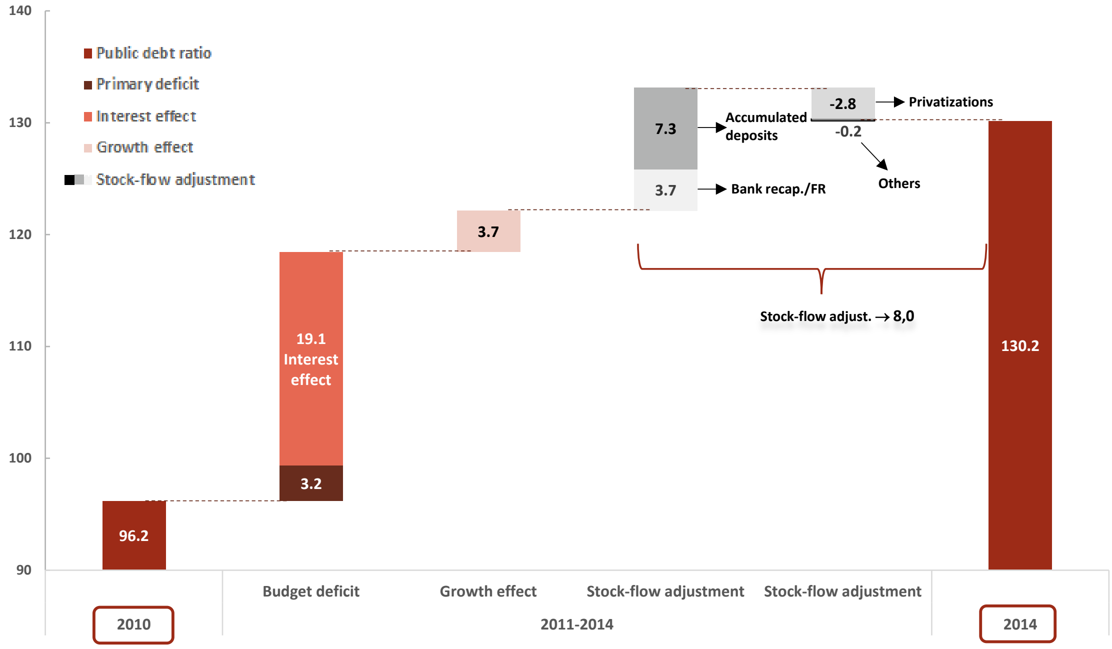
**From 2010 to 2014 the public debt ratio increased by 34 p.p. of GDP.** Around 87% of the deterioration in this indicator occurred in 2011 and 2012. In those two years the increase was caused by the stock-flow adjustments (9.5 p.p. of GDP) and to a less extent by interest (9.3 p.p. of GDP), the adverse growth effect (7.2 p.p. of GDP) and primary deficits (3.6 p.p. of GDP). However, in 2013 and 2014 the contributions of the primary balance, the growth effect and the stock-flow adjustments to the debt ratio were in the opposite direction counteracting the ratio's growth. Primary surpluses totalled 0.6 p.p. of GDP, the growth effect was a favourable 3.5 p.p. of GDP and the stock-flow adjustments provided 1.4 p.p. of GDP (see Table 3).

**The significant increase in the debt ratio over the last four years was due, in descending order, to the budget deficit, to the stock-flow adjustment and to the unfavourable change in output.** Therefore:

- 22.3 p.p. of GDP of this increase resulted from the accumulation of budget deficits from 2011 to 2014, shared between an accumulated primary deficit (3.2 p.p. of GDP) and interest charges (19.1 p.p. of GDP). Interest paid accounted for over half of the rise in the debt ratio (56%).
- 8.0 p.p. of GDP are explained by the stock-flow adjustment to which the main contributing factors were the accumulation of Central Government deposits (from public debt management issues and from loans received under the financial assistance programme), the bank recapitalisation and the Resolution Fund, offset by the financial inflows from privatisations;
- 3.7 p.p. of GDP corresponds to the unfavourable cumulative growth effect over this period, resulting from the unfavourable climate experienced in 2011 and 2012.

[67] In addition to the salary cuts implemented from 2011 onwards, this change reflects a significant fall in public sector employment over that period (see Chart 21 attached). According to the figures in Bulletin of Public Employment Statistics relating to 31 December 2014, public jobs fell by 9.8% from December 2011 to December 2014. As regards the 2010/11 change the only employment data available are in the national accounts (INE), which show a decrease of 2.9% that year.

**Chart 19 – Contributions to public debt developments 2010 - 2014** (as % of GDP)




Source: INE and Bank of Portugal. CFP calculations. | Note: RF – Resolution Fund. "Other" includes the difference between interested paid and interest due, as well as exchange rate changes debt in foreign currencies. For further details see the CFP's Notebook on Public Debt.

**Excluding Central Government deposits, the debt ratio rose by 26.6 p.p. of GDP.** From 2010 to 2014 Central Government deposits increased by 7.3 p.p. of GDP as a result of the unused loans provided under the EFAP and the increase in the liquidity reserve that took place mainly in 2014, to benefit from the improved market conditions and the fall in interest rates.

### Box 4 – Temporary and one-off measures and special factors

In the period under review in this report the general government accounts were adjusted for the effects of temporary and one-off measures and special factors in order to identify the fiscal consolidation effort. In 2014 one-offs were all on the expenditure side and totalled 0.9% of GDP.

The transaction with the largest impact in 2014 was the assumption of STCP and CARRIS debt, which led to a capital transfer from the State to those entities of an equal amount (0.7% of GDP). This debt reclassification was the result of the State funding to those entities in order to replace bank debt. Under the ESA2010 rules funding by the State leads to the recognition that these entities are unable to service their debt at a sustainable cost and the State is required to assume it. This transaction has been classified as a one-off because its impact on the budget is transitory and does not cause a sustained change in the budget position.

In addition to the assumption of the STCP and CARRIS debts, in 2014 the State also assumed guaranteed debts of the Mutual Counterguarantee Fund (FCGM) following the successive enforcement of guarantees in 2012, 2013 and 2014 (0.1% of GDP). This classification arose because the Deficit and Debt Manual rules state that when guarantees are enforced for three consecutive years, debt should be automatically assumed by the State.

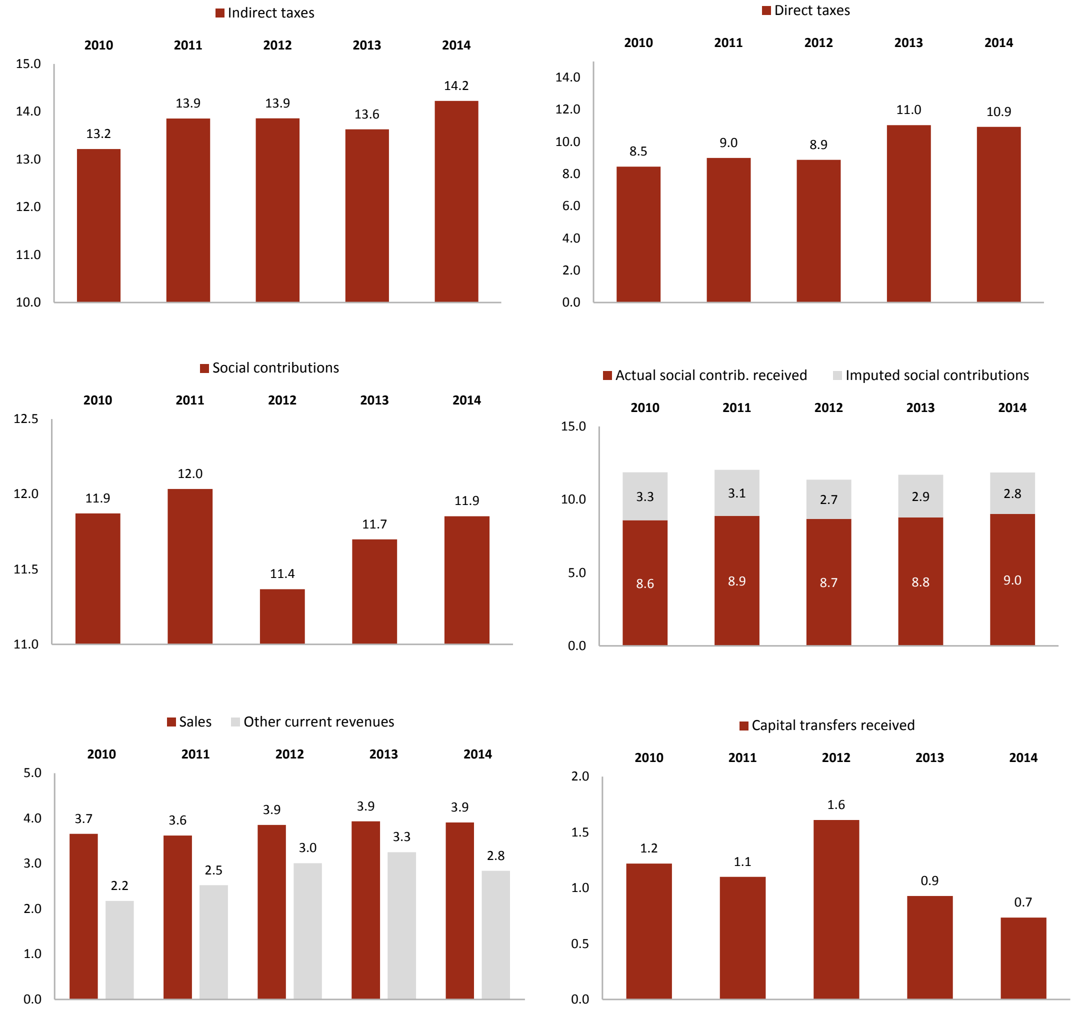
Concerning bank supports that have over the years been classified by the CFP as temporary measures, a loan made by Parvalorem to BPN Crédito (0.1% of GDP) which was written-off, was also considered in 2014.

In 2014 the loss of revenue from the investment tax credit and the impact of compensations (under the Termination by Mutual Agreement Programme), which had a combined impact estimated by the MF at 0.2% of GDP, were not classified as temporary measures. The former because it is a discretionary measure that increases the deficit. Its classification as a one-off measure would lead to an artificial improvement in revenue, and introduce bias into the analysis.

As for the expenditure under the Termination by Mutual Agreement Programme it was not deemed to be a one-off measure as it is a measure that increases the deficit. It could be classified as a one-off if its discontinuation was guaranteed which is not the case as the programme has been extended beyond 2014, in particular to the Local Government subsector (Ministerial Order no. 209/2014 of 13 October), thus making it a human resources management measure. In addition the indirect impacts on tax and social security revenue are not available.

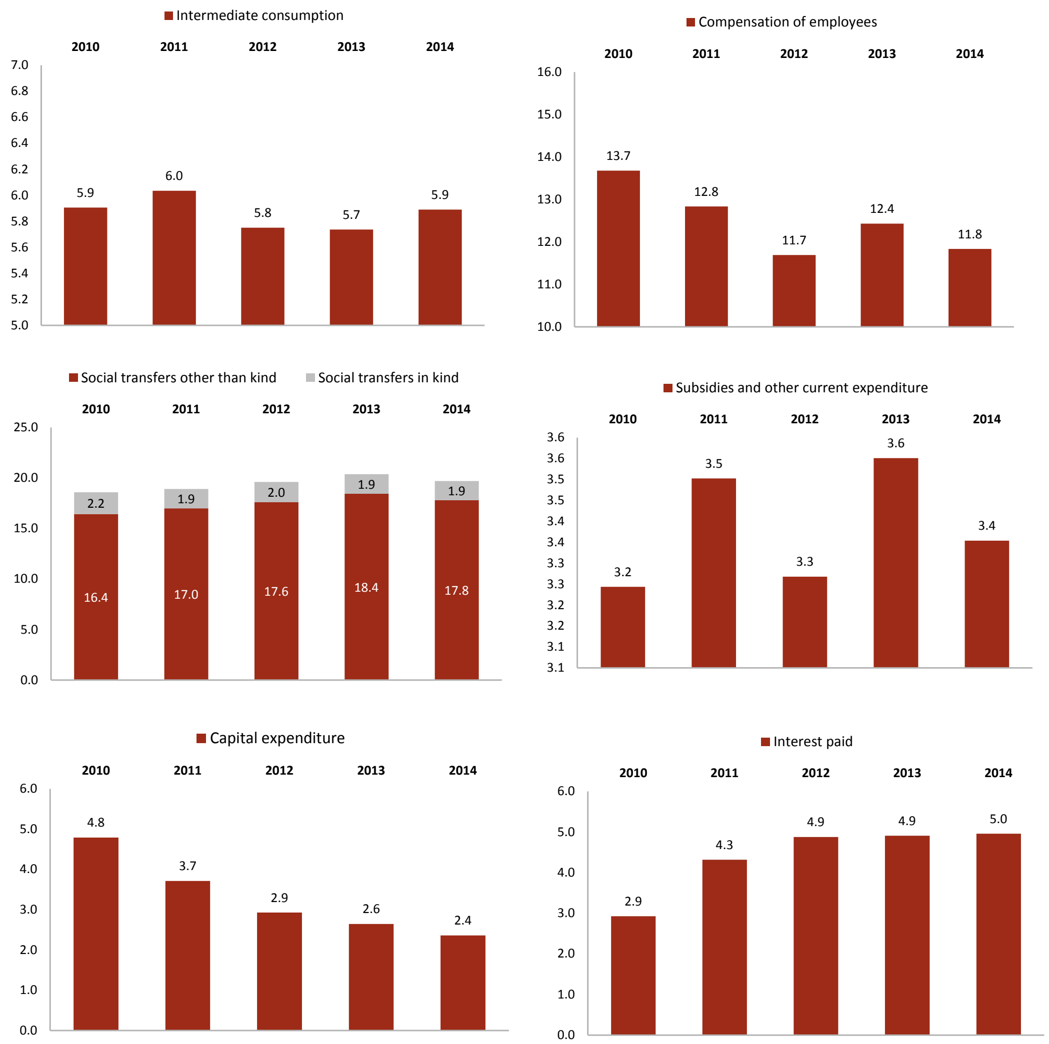
# ANNEXES

**Chart 20 – Developments in adjusted revenue, by item 2010 - 2014** (% of GDP)




Source: INE. CFP calculations.

**Chart 21 – Developments in adjusted expenditure, by item 2010 - 2014** (% of GDP)




Source: INE. CFP calculations.

### Table 8 – Non-adjusted general government account 2010 - 2014 (M€)

| | 2010 | 2011 | 2012 | 2013 | 2014 | Change 2013/2014 M€ | Change 2013/2014 % | Change 2013/2014 Ctrc |
|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **73 137** | **75 080** | **72 161** | **76 637** | **77 012** | **375** | **0.5** | **0.5** |
| **Current revenue** | **70 855** | **73 141** | **69 190** | **75 063** | **75 741** | **678** | **0.9** | **0.9** |
| Tax revenue | 38 989 | 41 115 | 38 481 | 42 831 | 43 538 | 708 | 1.7 | 0.9 |
| Indirect taxes | 23 777 | 24 411 | 23 340 | 23 442 | 24 617 | 1 175 | 5.0 | 1.5 |
| Direct taxes | 15 211 | 16 703 | 15 141 | 19 388 | 18 922 | -467 | -2.4 | -0.6 |
| Social contributions | 21 362 | 21 201 | 19 142 | 20 051 | 20 513 | 461 | 2.3 | 0.6 |
| of which: actual soc. contr. receive | 15 457 | 15 671 | 14 621 | 15 115 | 15 615 | 500 | 3.3 | 0.7 |
| Sales & other current revenues | 10 504 | 10 826 | 11 567 | 12 181 | 11 690 | -491 | -4.0 | -0.6 |
| **Capital transfers received** | **2 282** | **1 939** | **2 971** | **1 574** | **1 271** | **-303** | **-19.2** | **-0.4** |
| **Total expenditure** | **93 237** | **88 048** | **81 611** | **84 818** | **84 729** | **-89** | **-0.1** | **-0.1** |
| **Primary expenditure** | **87 969** | **80 443** | **73 397** | **76 499** | **76 149** | **-350** | **-0.5** | **-0.4** |
| Current primary expend. | 75 019 | 72 791 | 67 989 | 71 315 | 70 572 | -744 | -1.0 | -0.9 |
| Intermediate consumption | 10 627 | 10 645 | 9 685 | 9 719 | 10 194 | 475 | 4.9 | 0.6 |
| Compensation of employees | 24 611 | 22 614 | 19 688 | 21 060 | 20 481 | -578 | -2.7 | -0.7 |
| Social transfers | 33 452 | 33 325 | 33 010 | 34 522 | 34 092 | -430 | -1.2 | -0.5 |
| other than in kind | 3 879 | 3 389 | 3 356 | 3 277 | 3 303 | 27 | 0.8 | 0.0 |
| Subsidies | 1 295 | 1 168 | 1 018 | 1 034 | 1 164 | 130 | 12.6 | 0.2 |
| Other current expenditure | 5 034 | 5 039 | 4 587 | 4 981 | 4 640 | -341 | -6.8 | -0.4 |
| Capital expenditure | 12 950 | 7 652 | 5 408 | 5 184 | 5 577 | 393 | 7.6 | 0.5 |
| GFCF | 9 479 | 6 139 | 4 158 | 3 534 | 3 487 | -47 | -1.3 | -0.1 |
| Other | 3 471 | 1 513 | 1 250 | 1 650 | 2 090 | 440 | 26.7 | 0.5 |
| **Interest paid** | **5 268** | **7 604** | **8 214** | **8 319** | **8 580** | **262** | **3.1** | **0.3** |
| **General government balance** | **-20 100** | **-12 967** | **-9 450** | **-8 181** | **-7 717** | **464** | **:** | **:** |
| Primary balance | **-14 832** | **-5 363** | **-1 236** | **138** | **863** | **726** | **:** | **:** |
| Nominal GDP | 179 930 | 176 167 | 168 398 | 169 395 | 173 053 | 3 658 | : | : |

Source: INE. CFP calculations. | Note: "Ctrc" stands for contribution to annual change rate.

### Table 9 – Adjusted general government account 2010 - 2014 (% of GDP)

| | 2010 | 2011 | 2012 | 2013 | 2014 | Change (p.p.) 2010/2014 | Change (p.p.) 2013/2014 |
|---|---|---|---|---|---|---|---|
| **Total revenue** | **40,6** | **42,1** | **42,6** | **44,5** | **44,5** | **3,9** | **0,0** |
| **Current revenue** | **39,4** | **41,0** | **41,0** | **43,6** | **43,8** | **4,4** | **0,2** |
| Tax revenue | 21,7 | 22,9 | 22,7 | 24,7 | 25,2 | 3,5 | 0,5 |
| Indirect taxes | 13,2 | 13,9 | 13,9 | 13,6 | 14,2 | 1,0 | 0,6 |
| Direct taxes | 8,5 | 9,0 | 8,9 | 11,0 | 10,9 | 2,5 | -0,1 |
| Social contributions | 11,9 | 12,0 | 11,4 | 11,7 | 11,9 | 0,0 | 0,2 |
| of which: actual soc. contr. receiv | 8,6 | 8,9 | 8,7 | 8,8 | 9,0 | 0,4 | 0,2 |
| Sales & other current rev. | 5,8 | 6,1 | 6,9 | 7,2 | 6,8 | 0,9 | -0,4 |
| **Capital transfers received** | **1,2** | **1,1** | **1,6** | **0,9** | **0,7** | **-0,5** | **-0,2** |
| **Total expenditure** | **49,1** | **49,3** | **48,1** | **49,7** | **48,1** | **-1,0** | **-1,6** |
| **Primary expenditure** | **46,2** | **45,0** | **43,2** | **44,7** | **43,1** | **-3,1** | **-1,6** |
| Current primary expend. | 41,4 | 41,3 | 40,3 | 42,1 | 40,8 | -0,6 | -1,3 |
| Intermediate consumption | 5,9 | 6,0 | 5,8 | 5,7 | 5,9 | 0,0 | 0,2 |
| Compensation of employees | 13,7 | 12,8 | 11,7 | 12,4 | 11,8 | -1,8 | -0,6 |
| Social transfers | 18,6 | 18,9 | 19,6 | 20,4 | 19,7 | 1,1 | -0,7 |
| other than in kind | 2,2 | 1,9 | 2,0 | 1,9 | 1,9 | -0,2 | 0,0 |
| Subsidies | 0,7 | 0,6 | 0,6 | 0,6 | 0,7 | 0,0 | 0,1 |
| Other current expenditure | 2,5 | 2,9 | 2,7 | 2,9 | 2,7 | 0,2 | -0,3 |
| Capital expenditure | 4,8 | 3,7 | 2,9 | 2,6 | 2,4 | -2,4 | -0,3 |
| GFCF | 4,1 | 3,2 | 2,5 | 2,1 | 2,0 | -2,0 | -0,1 |
| Other | 0,7 | 0,5 | 0,5 | 0,6 | 0,3 | -0,4 | -0,2 |
| **Interest paid** | **2,9** | **4,3** | **4,9** | **4,9** | **5,0** | **2,0** | **0,0** |
| **General government balance** | **-8,5** | **-7,2** | **-5,5** | **-5,2** | **-3,6** | **4,9** | **3,6** |
| Primary balance | **-5,6** | **-2,9** | **-0,7** | **-0,3** | **1,4** | **7,0** | **4,2** |
| Tax burden | 30,3 | 31,8 | 31,4 | 33,5 | 34,2 | 3,9 | 2,4 |

Source: INE. CFP calculations.

**Table 10 – Temporary and special factors** (% of GDP)

| | INE | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| **Revenue** | **0.0** | **0.5** | **0.3** | **0.7** | **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 | | |
| **Expenditure** | **2.7** | **0.7** | **0.4** | **0.4** | **0.9** |
| Proceeds from concessions | -0.1 | 0.0 | -0.2 | | |
| Capital transfers (Banking sector) | 1.3 | 0.3 | 0.5 | 0.4 | 0.1 |
| One-off payments to the EU Budget | 0.1 | | 0.1 | | |
| Debt assumptions (Carris, STCP e Fundo Contragarantia Mútuo) | | | | | 0.8 |
| 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 | | | |
| **Temporay measures, one-off measures and special factors** | **2.7** | **1.2** | **0.7** | **1.1** | **0.9** |

Source: MF, INE. CFP calculations. | Note: The totals do not necessarily match the sum of the individual items as a percentage of GDP due to rounding.

# LIST OF ABBREVIATIONS

| Abbreviation | Meaning |
|---|---|
| CG | Central Government |
| ACAP | Portuguese Automobile Association |
| ADM | Ilness Assistance to Armed Forces Personnel |
| ADSE | Civil Servants Health System |
| ASB | Amending State Budget |
| ASF | Autonomous Services and Funds |
| BANIF | Banco Internacional do Funchal |
| BCP | Banco Comercial Português |
| bn | Billion |
| BES | Banco Espírito Santo |
| BFL | Budgetary Framework Law |
| BoP | Bank of Portugal |
| BPN | Banco Português de Negócios |
| CARRIS | Companhia Carris de Ferro de Lisboa, S.A. |
| CFP | Portuguese Public Finance Council |
| CGA | Civil Servants Pension Agency |
| CGD | Caixa Geral de Depósitos, SA |
| CIT | Corporate Income Tax |
| CoCo | Contingent convertible capital instruments |
| CP | Comboios de Portugal, EPE |
| CSI | Solidarity Supplement for the Elderly |
| Ctrc | Contribution to annual change rate |
| DGAEP | Directorate-General for Administration and Public Employment |
| DGO | Directorate-General for Budget |
| DSB | Draft State Budget |
| EDP | Excessive Deficit Procedure |
| EFAP | Economic and Financial Assistance Programme |
| ESA | European System of National and Regional Accounts |
| ESC | Extraordinary Solidarity Contribution |
| EU | European Commission |
| EU | European Union |
| FCGM | Mutual Counterguarantee Fund |
| FSD | Fiscal Strategy Document |
| GDP | Gross Domestic Product |
| GFCF | Gross Fixed Capital Formation |
| GG | General Government |
| IEFP | Instituto do Emprego e Formação Profissional, IP |
| IGFSS | Instituto de Gestão Financeira da Segurança Social |
| IMI | Municipal Property Tax |
| IMT | Municipal Property Transfer Tax |
| INE | Portuguese Statistical Authority |
| ISV | Motor vehicle tax |
| LC | Local Government |
| M€ | Million euros ($10^6$) |
| MBPF | Multi-annual Budgetary Planning Framework |
| MF | Ministry of Finance |
| MTO | Medium-Term Objective |
| NHS | National Health Service |
| p.p. | Percentage points |
| PARVALOREM | Parvalorem, S.A., |
| PIT | Personal Income Tax |
| PPP | Public-Private Partnerships |
| RERD | Exceptional System for Settling Tax Debts |
| RF | Resolution Fund |
| RLG | Regional and Local Government |
| RPC | Reclassified Public Corporations |

| Abbreviations | Meaning |
|---|---|
| RSI | Social Integration Income |
| SAD | Ilnesss Assistence Services (GNR & PSP) |
| SB | State Budget |
| SGP | Stability and Growth Pact |
| SIEP | Bulletin of Public Employment Statistics |
| SSF | Social Security Funds |
| STCP | Sociedade de Transportes Colectivos do Porto, S.A. |
| VAT | Value Added Tax |

# MAIN SOURCES OF STATISTICAL INFORMATION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