Executive summary

Analysis of the General Government budget outturn 2013

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Macroeconomic framework

In 2013 the Portuguese economy contracted by 1.4%, in real terms, a decline lower than forecasted at the beginning of the year (-2.3%), although it was larger than expected in the macroeconomic scenario set out in the initial State Budget (-1.0%).

The performance of the labour market, which reflected a net job creation since the 2nd quarter, had an important impact on the change in the macroeconomic climate, as shown by a more positive change in private consumption and investment than expected.

The external imbalance adjustment process went on at a rate above expected in most forecasts. The Portuguese economy increased its net external lending capacity (balance equal to +2.0% of GDP), mainly as a result of the rise in household savings and the drop in non-financial companies and general government borrowing requirements.

General government balances

The budget deficit stood at 4.9% of GDP from the national accounts perspective. This deficit compares favourably with the goal set in the first and second amendments to the State Budget for 2013 (5.5% of GDP and 5.9% of GDP, respectively), although unfavourably with the original goal of 4.5% of GDP. Unlike previous years, it reflects a less unfavourable result than that obtained from the public accounting perspective.

Net of the impact of temporary and one-off measures, the general government budget deficit stood at 5.3% of GDP in 2013 (8,701 M€). This represents an improvement of 0.7 p.p. of GDP *vis-à-vis* 2012 and compares favourably with the Ministry of Finance's revised forecasts issued during 2013. Nonetheless**,** it is the least significant annual improvement recorded in the last three years, which is explained to a large extent by the restoring of two bonuses to civil servants and pensioners which were not paid in 2012. The primary deficit (which excludes interest) fell to 1.0% of GDP, a figure slightly better than that recorded in 2008.

The fiscal developments over 2013 reflected the major contribution of revenue in the decrease of the public deficit, which was especially evident from the 2nd quarter of the year. Expenditure did not contribute to the budget imbalance correction, due to the poor performance of current primary expenditure, particularly in the 2nd half of the year, when three quarters of spending was undertaken.

Revenue and expenditure

In 2013, the adjusted general government revenue recorded a growth of 2.3 p.p. of GDP versus 2012, and stood at 42.9% of GDP. The performance of tax revenue accounted for over 80% of that growth as a result of the increased tax burden that totalled 34.7% of GDP, in non-adjusted terms. These indicators reflect the budget impact of a series of tax policy measures introduced in 2013 and designed to reduce the budget imbalance.

Adjusted general government expenditure rose by 1.6 p.p. of GDP, reversing the trend of the two previous years, while remaining below the figure recorded in 2010. This change reflects the 5.0% rise in current primary expenditure, which was strongly impacted by the restoring of holiday and Christmas bonuses to civil servants and pensioners. The reduction in capital expenditure and interest contributed to a move in the opposite direction. Expenditure outturn suggests that the budget consolidation measures on the expenditure side did not produce all the effects expected by the Ministry of Finance.

Social security funds

As was the case in 2012, the positive budget balance in the social security funds subsector was achieved by means of an extraordinary State Budget transfer. The impact of the economic cycle continued to worsen the budgetary position of this subsector, although to a lesser extent than in 2012; this led to a smaller drop in social contributions revenue and a slowdown in the rate of growth in unemployment benefits compared to the previous year. Expenditure continued to rise, reflecting the restoring of the holiday and Christmas bonuses to pensioners. Consequently, an extraordinary State Budget transfer was required without which the subsector would have recorded an adjusted budget deficit of 1,253 M€, up by 696 M€ on 2012 (excluding the extraordinary transfer received that year).

Regional and local government

Subnational governments produced a surplus once again (355 M€), 273 M€ from local administration and 82 M€ from regional administration. The 2013 outturn of the Madeira Autonomous Region exceeded the goal set for the budget balance in the adjustment program. Two years after the program was introduced, the results for the Region appear to reflect a path to budget imbalance correction.

Public debt

In 2013 the public debt ratio continued to rise, having gone from 124.1% to 129.0% of GDP, a figure higher than that forecast in all the budget programming documents. Although public debt rose more than the budget deficit, the differential corresponding to the stock-flow adjustment was the lowest of the last four years. That adjustment reflects, to a large extent, payments of arrears at the regional and local government levels and health sector debt settlement schemes which had already been taken into account under the national accounts perspective in previous years.

Over the last three years, corresponding to the period of the financial assistance program still in effect, the debt ratio deteriorated by 35 p.p. of GDP, of which 15.7 p.p. was due to cumulative budget deficits, 14.8 p.p. to the stock-flow adjustment and 4.5 p.p. were the result of the contraction of the economy.