Conselho das Finanças Públicas

GENERAL GOVERNMENT BUDGET OUTTURN IN 2023

EXECUTIVE SUMMARY

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Three years after the pandemic outbreak, in 2023 the General Government (GG) eliminated the budget imbalance, returning to a surplus position, larger than the one achieved in 2019. The preliminary estimate for the budget balance calculated by the national statistical authorities stands at 1.2% of GDP. This surplus contrasts with a deficit of 0.9% of GDP forecast in the Draft State Budget 2023 (DSB/2023). This more favourable performance placed Portugal in the group of three European Union member states that recorded the biggest recovery in the budget balance since 2021, bringing it above the pre-pandemic level.

This positive development continued to benefit from the gains in tax revenue resulting mainly from the increase in wages with an impact on PIT revenue, as well as the reaction of VAT to the rise in the prices of goods and services. The phasing out of measures to respond to the pandemic and the context of rising inflation mitigated the nominal growth in public spending, which already fully reflected the lagged effect of rising prices. These combined effects contributed to an improvement in the budget balance by 1.5 p.p. of GDP compared to the previous year due to the central government subsector and, to a lesser extent, the Social Security Funds, which saw their budget surplus strengthened. The primary balance, the balance that excludes interest charges, more than doubled its surplus compared to 2022, reaching 3.4% of GDP.

The budget surplus achieved in 2023 would have been 1.7% of GDP if it hadn't been affected by the unfavourable impact of one-off transactions, equivalent to 0.5% of GDP. Excluding the effect of those transactions, the improvement in the balance compared to 2022 was 1.9 p.p. of GDP, mainly as a result of the government's discretionary fiscal policy measures, assessed by the change in the structural primary balance, which showed an increase of 2.0 p.p. of potential GDP. This strong contribution reflects the progressive elimination of the fiscal stimulus used to respond to the pandemic, to the effects of rising inflation and to the geopolitical shock. In this context, fiscal policy has adopted a restrictive stance, despite the direct stimulus provided by the fiscal impulse associated with the Recovery and Resilience Plan (RRP), equivalent to 0.3 p.p. of GDP in 2023.

Reflecting these developments, the budgetary performance in 2023 consolidated a comfortable margin for compliance with the budget balance rule and debt ratio reduction rule, which were however suspended in that year. These results have led to a better fiscal position, above structural budget balance for the first time, which ensures compliance with the medium-term objective, and a more favourable starting point for facing the new framework of budgetary discipline.

In absolute terms, in 2023, revenue was decisive in improving the budget balance, performing better than forecast in the budget programming documents. Direct and indirect taxes accounted for more than half of the increase in public revenue, with social contributions accounting for almost a third of that variation. A higher nominal GDP growth vis-a-vis the forecast in the DSB/2023 contributed to this result. In fact, CFP calculations (Box 8 of the report) show that taxation on the additional better than forecasted GDP totalled 45.5% in 2022 and 43.2% in 2023. Despite the strong percentage growth in public revenue (9%), its GDP ratio fell to 43.5% of GDP (-0.2 p.p.), as a result of nominal GDP growth (9.6%) above that of revenue. After three consecutive years of increase, the tax burden fell by 0.2 p.p. of GDP to 35.6% of GDP.

The public spending ratio fell by 1.8 p.p. in 2023, down to 42.3% of GDP. This reduction benefited from a denominator effect, since nominal GDP (9.6%) grew almost twice as much as public spending (5.2%). Despite the lower impact of measures to mitigate the geopolitical shock and inflation and the dissipation of the COVID-19 measures, public expenditure increased by €5554 million compared to 2022, reflecting a lower implementation than expected in the DSB/2023. Primary current expenditure was the determining factor in this increase, driven by all its components, except subsidies and "other current expenditure". Current primary expenditure execution exceeded the forecast in the DSB/2023, mainly due to policy measures that were introduced subsequently in the Stability Programme, with an impact on expenditure on social benefits, compensation of employees and subsidies. Interest costs exceeded the forecast in the DSB/2023 and grew both in absolute terms and as a percentage of GDP, interrupting the downward trend recorded since 2015. Capital expenditure increased compared to the previous year, mainly due to investment (GFCF) financed by EU funds other than the RRP. However, this item's execution was €1875 million lower than forecast in the DSB/2023, essentially due to the low level of execution of investments under that Plan.

The first three-year period (2021-23) of the RRP implementation points to an overall execution of €2410 million. Two-thirds of this result (€1618 million, or 0.6% of GDP) was executed in 2023, reflecting an acceleration in the application of funds, although still short of what the government had planned in the budget programming documents. Compared to the DSB/2023 forecast, the implementation rate stood at 61.8%, which represents a deviation of €2282 million. This level of execution was once again insufficient to boost public investment, which since 2012 has been unable to replenish the stock of public capital, resulting in negative net investment, which jeopardises the potential of future economic growth.

The public debt ratio maintained its downward trend, standing at 99.1% of GDP in 2023, the lowest value since 2010. This result, which was lower than forecast in the DSB/2023 (110.8% of GDP), translated into an annual reduction in the ratio of 13.3 p.p. of GDP. The dynamic effect (-7.6 p.p. of GDP), mainly influenced by the price effect due to inflation, explained more than half of the reduction in the debt ratio, accompanied to a lesser extent by the favourable effect of the primary balance (-3.4 p.p.) and the deficit-debt adjustment (-2.3 p.p.). In terms of financing, only households strengthened their position in nominal terms, accounting for 17% of the total Portuguese public debt stock. This evolution was due to the higher volume of net subscriptions to Savings Certificates, which led to an increase in the debt held by the resident sector, from 55% to 58% of the total public debt. The Central Bank, which is included in this resident sector, continued to be the most representative creditor (26.1% of the total).

Although not recorded as debt, a high level of contingent liabilities can nevertheless signal a high level of budgetary risk. The most common form of contingent liabilities relates to guarantees granted by the GG sector. The most recent data on these liabilities shows that, in consolidated terms, they represent 4.5% of GDP in 2022. Most of these guarantees are issued by the State and other central government entities. At the end of 2023, active guarantees granted by the State totalled €10 969 million, €371 million less than in 2022, equivalent to 4.1% of GDP. More than three quarters of these guarantees were given to GG entities themselves (3.1 % of GDP), with the remainder relating to guarantees provided to public entities and other entities not part of GG. The GG's liabilities associated with guarantees provided to cover credit lines created in the context of COVID-19 fell by €2036 million each year, to a value of outstanding guarantees of €3478 million at the end of 2023. This evolution reflected a much higher amount of amortisations than that of new contracts, as a result of the progressive closure of such credit lines.