Conselho das Finanças Públicas
Portuguese Public Finance Council

Analysis of the General Government Account 2012

Report by the Portuguese Public Finance Council

No. 2/2013

April 2013

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Executive summary

EXECUTIVE SUMMARY

Macroeconomic framework

In 2012 the Portuguese economy shrank by 3.2%, twice the rate of the previous year and more than initially forecasted. This development was driven by the decline of the positive contribution of net foreign demand and by the more significant negative contribution of domestic demand. The external imbalance adjustment process continued at a stronger pace than expected, leading to a net lending position of the Portuguese economy vis-à-vis the rest of the world, mainly due to the fall in domestic demand, as well as to gains in the market share of exports.

Performance of macroeconomic forecasts

The official macroeconomic forecasts for 2012, both of the Ministry of Finance and the international organisations that provide financial assistance to Portugal, proved to be optimistic in a number of components of significant relevance to the budgetary outturn, in particular as regards employment, GDP, implicit prices and the economic progression over the year.

General government balances

The preliminary estimate of the Portuguese statistical authority (INE) suggests that general government's borrowing requirements rose in 2012 to 10.6 billion euros, equal to 6.4% of GDP. The 2 p.p. of GDP deterioration compared to 2011 results from the dissipation of the effects of temporary measures taken in 2011 and of special factors which had an impacting on expenditure in 2012 In particular, this was the case of the reclassification of capital expenditure transactions which had been previously classified as financial transactions. Adjusting for these effects the deficit stood at 9,800 million euros (M€), or 5.9% of GDP, which is an improvement of 1.3 p.p. of GDP (2,500 M€) in regard to the comparable figure for 2011. The frequent use of temporary measures, which involve large sums, as well as their variability tend to reduce the information the overall balance change can provide about consolidation efforts.

According to the information available, the structural deficit, net of the impact of special factors on expenditure, stood at 4.3% of GDP in 2012, improving by 2 p.p. of GDP compared to 2011. The improvement in the primary structural balance, net of special factors, will have been 2.4 p.p. of GDP compared to 2011. This improvement stems entirely from the spending cuts. As stated in the body of the report these figures may be revised.

In non-adjusted terms the budget deficit was 1.9 p.p. of GDP above the forecasts in the budgetary planning documents (BSD/2011, SB/2012 and BSD/2012). This unfavourable bias was due entirely to revenue, as expenditure fell below the level forecasted in those documents. Adjusting for the reclassified capital transfers, the gap was approximately 1 p.p. of GDP.

Revenue

In adjusted terms general government revenue fell when compared to 2011, and accounted for 40.7% of GDP in 2012. This change is explained above all by the decline in tax revenue, although it was mitigated by the increase in "sales and other current revenues" and by capital revenue. This situation arose despite the increase in taxation, mainly due to the change in the structure of VAT rates. Although the decline in tax revenues was partially due to the harsher than expected economic environment, the magnitude of the bias raises doubts on the reasonableness of initial estimates of the impact of the tax measures set out in the State Budget of 2012 (SB/2012).

Contrary to the assumptions made in various budgetary planning documents published by the Ministry of Finance, the tax burden as a percentage of output fell in 2012, totalling 32.1% of GDP (non-adjusted values).

Expenditure

From 2010 to 2012, the largest annual fall in the adjusted expenditure-to-GDP ratio occurred in 2012. In this period, public expenditure was reduced by 7,035 M€, which represents a decrease of 2.1 p.p. of GDP compared to 2010. This was the result of a sharp fall in primary expenditure (3.6 p.p. of GDP), which was partially offset by the increase in interest charges (1.6 p.p. of GDP). As in 2011, all components of primary expenditure fell in 2012, in nominal terms, with cuts in compensation of employees making the largest contribution to the fiscal consolidation. Over half of the correction of 2012 was concentrated in the final quarter of the year.

Social security funds

The budgetary position of the social security funds subsector has deteriorated considerably in the last two years. Despite the introduction of a number of fiscal consolidation measures since 2010, their impact on expenditure was offset by the substantial rise in the cost of unemployment benefits and pensions (up by 489 M€ and 496 M€, respectively). The growth of revenue did not match the pace of growth in expenditure, consequently reducing the system's balance.

Regional and local governments

During the period 2010-2012 the improvement of the local and regional governments' fiscal imbalances contributed to the general government fiscal adjustment. The local governments' budgetary surpluses in the last two years were a decisive factor in that adjustment. Local debt (according to the Maastricht definition) also decreased.

The two regional governments signed economic and financial assistance agreements with the Central Government. The downward trend in the regional government deficit, interrupted in 2011, was resumed in 2012. The Azores regional government approached a balanced budget, while the Madeira regional government, in the first year of its adjustment program, initiated its imbalance correction process. Regional public debt (Maastricht definition) continued its trend upwards, although at a slower rate.

Public debt

In 2012 general government gross public debt, according to the Maastricht definition, reached 204,500 M€ (123.6% of GDP), which represents a substantial rise of 19,200 M€ (15.3 p.p. of GDP) compared to 2011. There was also a considerable increase in the interest due on debt, reaching 7,600 M€ (4.4% of GDP) in 2012.

In 2012 the increase in debt was much higher than the (non-adjusted) deficit of 10,600 M€, reflecting deficit-debt adjustments of 8,900 M€, due mainly to transactions stemming from the banking sector recapitalisation process and debt settlement operations, particularly concerning the National Health Service.

1 INTRODUCTION

According to its statutes and following the publication of the 1st notification for 2013 issued by the Portuguese statistical authority (INE) under the Excessive Deficit Procedure (EDP)[1] and of the first provisional estimate of the Quarterly National Accounts by Institutional Sector relating to the fourth quarter and to 2012[2], the Public Finance Council (CFP) presents this evaluation Report on the budget outturn in 2012.

The report is divided into four sections. The first is the introduction, while the second describes the macroeconomic framework in 2012 and assesses the performance of macroeconomic forecasts. The third section analyses the public finance situation, both in terms of general government and the social security funds and local and regional government subsectors. The analysis is based on figures net of temporary and one-off measures and special factors. The section presents an estimate for the structural balance. The fourth and final chapter deals with indebtedness and borrowing.

[1] INE (2013 b).

[2] INE (2013 a).

2 MACROECONOMIC FRAMEWORK

2.1 CHANGES IN THE ECONOMIC CLIMATE

The year 2012 was marked by a continued slowdown in global economic growth (5.1% in 2010, 4% in 2011 and 3.2% in 2012).[3] Economic activity in the Eurozone, the main destination for Portuguese exports, will have shrunk by 0.6% over the course of 2012 (whereas in 2011 it recorded a growth of 1.4%). This situation was brought about by the on-going sovereign debt crisis, by fears that it would spread to Spain and Italy, as well as by Greece's possible withdrawal from the Eurozone. The European Central Bank's (ECB) intervention was decisive in reducing the level of uncertainty as regards the crisis solution and to bring about greater optimism in the financial markets, especially following the continuation of liquidity granting operations and the announcement of the new OMT – Outright Monetary Transactions program.

The Portuguese economy shrank by 3.2% in 2012, twice the rate of the previous year. The decline in GDP in year-on-year terms grew stronger over the year, reaching a drop of 3.8% in the 4th quarter.[4] Note that this more negative performance in the final quarter of 2012 also occurred in most European Union countries. However in 2012 the Portuguese economy will have shrunk by 2.6 p.p. more than the Eurozone, due to the budgetary restraints as well as the rebalance and adjustment of the balance sheets of the various economic agents, which resulted in the tightening of credit.[5]

The larger decline in national economic activity in 2012 compared to 2011 was the result of the weak positive contribution of net foreign demand (which went from 4.7 p.p. to 3.9 p.p.) and the increased negative contribution of domestic demand (from -6.3 p.p. to -7.0 p.p.). In the former case, the main cause was a slowdown in exports which actually fell in the final quarter of the year.[6] Thus over the year the exports of goods and services increased only 3.3%, whereas in the previous year they had grown by 7.2%.[7] On the other hand, domestic demand fell 6.8% in real terms in 2012 (-5.8% in 2011), as a result of the deterioration in all components, but especially private consumption (-5.6%) and investment (-14.5%). It should be stressed that one of the major consolidation measures laid down in the State Budget for 2012 (SB/2012) was the suspension/reduction in holiday and

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[3] International Monetary Fund forecasts (IMF (2013).

[4] These developments, which were more negative than expected in the 4th quarter of 2012, will also have given rise to the recent revising of the forecast for GDP growth in 2013 from -1% to -2.3%.

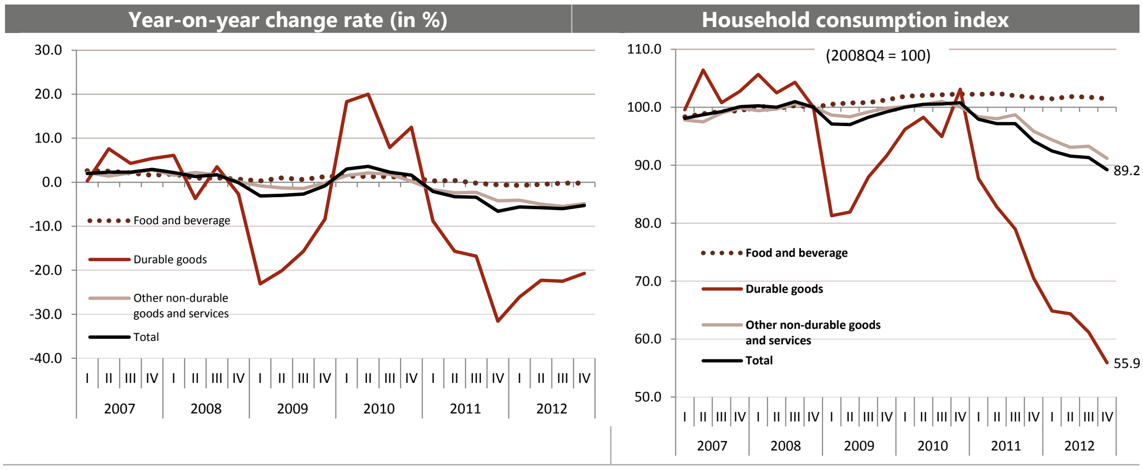
[5] According to Bank of Portugal data, in 2012 total credit granted to non-financial companies and private individuals fell by 7.4% and 4% respectively.

[6] The volume of exports of goods and services dropped in the 4th quarter of 2012 (0.5%), which may have resulted in part from the port strikes.

[7] Even then exports had a very significant gain in market share over the year, bearing in mind that according to the macroeconomic forecasts published by GPEARI on 26 March relevant foreign demand for goods fell by 1.4% in 2012.

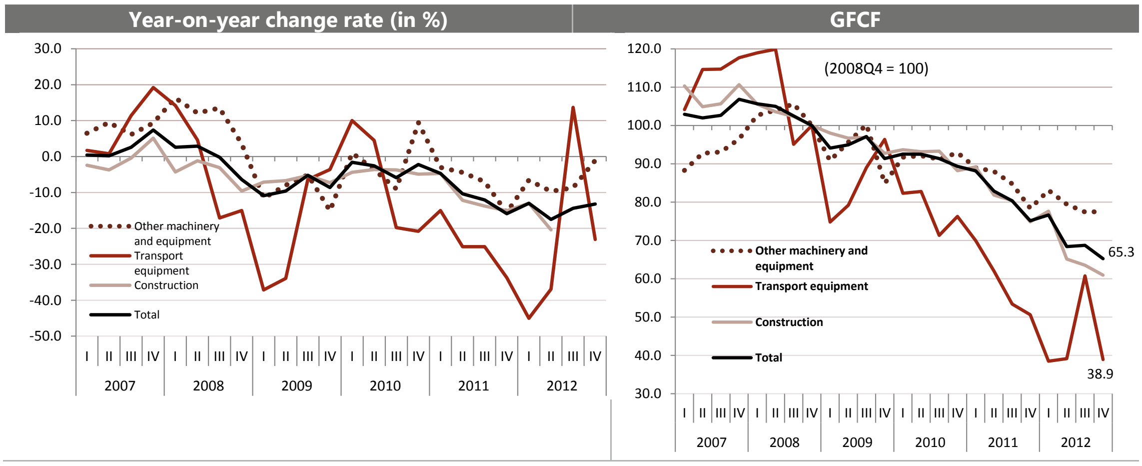
Christmas bonuses payable to civil servants and pensioners with earnings over 1100 euros[8], which had a negative impact on households' disposable income.

Chart 1 – Household consumption



Source: INE, Quarterly National Accounts for March 2013. Resident household final consumption expenditure, chain-linked volume data (reference year=2006).

Chart 2 – Gross Fixed Capital Formation Components (GFCF)



Source: INE, Quarterly National Accounts for March 2013. Gross fixed capital formation, chain-linked volume data (reference year=2006). | Note: selected components.

Inflation fell from 3.7% in 2011 to 2.8% in 2012. In 2012 part of the price increase will have been directly related to the tax impact of the VAT band restructuring approved in SB/2012 (shifting some goods and services from the reduced rate to the normal rate and others from the intermediate rate to the normal rate), along with the increase in the administered prices of various goods and services.

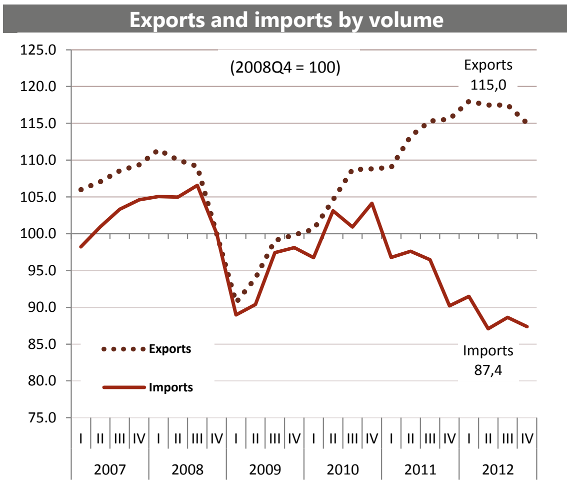
The macroeconomic imbalance correction process had a recessive impact with negative consequences for the labour market. In 2012 the average rate of unemployment was 15.7%, having risen by 3 p.p. compared to the previous year. This increase closely matched the economic contraction. In the final quarter of 2012, the rate of unemployment reached 16.9%. At the same time total employment fell 4.2% in 2012, having registered a fall of 1.5%

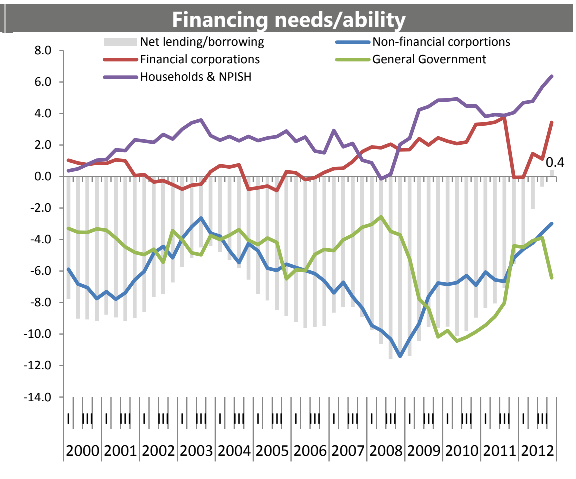
[8] Civil servants and pensioners holiday and Christmas bonuses between 600 and 1100 euros, were reduced by a gradual reduction rate, which led to an average cut of one of these bonuses.

in 2011.[9] The unfavourable change in both these indicators had negative effects on the budget outturn, brought about by the automatic stabilizers which led to lower revenues from social security contributions and income tax, as well as an increase in social transfers. In addition the rise in unemployment will have resulted in lower private consumption and a reduced amount of indirect taxes collected.

In 2012, the Portuguese economy was already able to obtain foreign financing[10]. In effect, the external imbalance adjustment continued and the balance on the current and capital account went from a deficit of 5.6% of GDP in 2011 to a 0.4% surplus.[11] This surplus contrasts with repeated external deficits recorded over several decades and which rose to 11.4% of GDP in 2008 (Chart 3). This outcome is especially important inasmuch as the correction of the external imbalance will lead to less dependence on external savings to finance the national economy, an essential foundation for sustainable economic growth.

Chart 3 – Exports, imports and Portuguese economy's financing needs





Source: INE (2013 a). For exports and imports, chain-linked volume data (reference year=2006); economy borrowing requirements at current prices expressed as percentage of GDP at current prices, 4 period rolling average, which corresponds to the twelve months ending in the reference quarter.

The financial corporations sector made the largest contribution to the external imbalance adjustment achieved in 2012. The balance on the current and capital account improved by 6 p.p. of GDP (Chart 3). This resulted in an increased net lending capacity of the financial corporations (3.5 p.p.) and non-profit institutions serving households (2.3 p.p.), as well as a decrease in the borrowing requirements of non-financial corporations (from 5.2% to 3% of GDP). The public sector's borrowing requirements moved in the opposite direction (in non-adjusted terms, the public deficit went up from 4.4% to 6.4% of GDP).[12] In 2012, in addition to the gains in export market shares, the external balance adjustment was, above all,

[9] According to OECD figures (*Quarterly Employment Situation – 4th Quarter 2012*), the rate of employment in Portugal was 61.8% in 2012, down 2.4 p.p. on 2011.

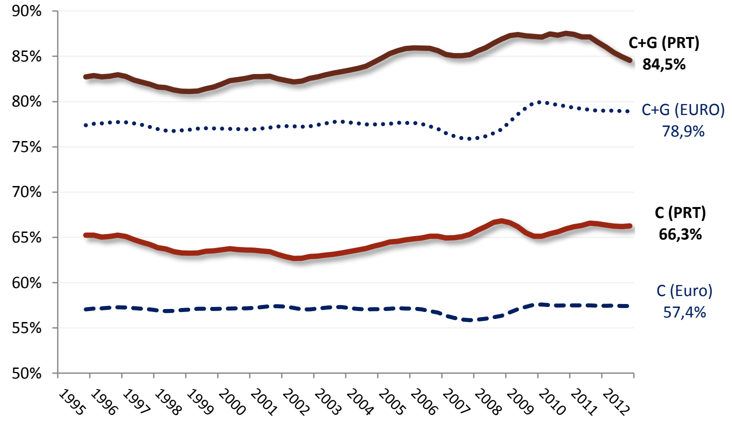
[10] The external financing capacity (requirement) is equal to the positive (negative) balance on the balance on the current and capital account. For the other sectors it is equal to the respective financial savings, that is to say, current savings minus investment.

[11] The change was mainly due to the improvement in the balance on goods and services. The INE figures show that in nominal terms the external balance on goods and services went from -4.4% of GDP in 2011 to a practically balanced position in 2012 (-0.5%).

[12] Adjusted for the impact of temporary and one-off measures and special factors, the overall general government balance improved by 1.3 p.p. of GDP (see Section 3, Box 2).

the result of a fall in domestic demand. In effect the twin goal of budget consolidation and lower public and private indebtedness caused domestic demand to contract sharply, especially through increased savings and lower investment, which penalised economic growth. However it should be stressed that despite the fall in household consumption of durable goods given their sensitivity to the business cycle (Chart 1), the relative weight of private consumption and of total consumption in total expenditure is still well above the Euro area average, as can be seen in the Chart below.

Chart 4 – Weight of private consumption and public consumption in GDP: Portugal and Euro area



Source: Eurostat. | Notes: C stands for private consumption and G stands for public consumption.

2.2 PERFORMANCE OF MACROECONOMIC FORECASTS

Macroeconomic forecasts are a central feature of economic policy, since they are widely used to support the decision making process, and are also important in moulding economic players' expectations. Thus their degree of reliability is key to achieving the budget goals. The quality of the forecasts is even more important in periods of fast fiscal and structural adjustment, since any underestimate of the economic impacts of that adjustment may jeopardise the fulfilment of budget goals.

Table 1 – Macroeconomic forecasts for the Portuguese economy

	2011	2012												Change vs. initial budget
	EDP	MoU initial	FSD	MoU 1st rev.	initial budget	MoU 2nd rev.	1st amend.	MoU 3rd rev.	FSD	MoU 4th rev.	Estimate*	MoU 6th rev.	EDP	
	mar13	may-11	aug-11	sep-11	oct-11	dec-11	mar12	apr-12	apr-12	jul-12	oct-12	jan-13	mar13	
Real GDP	**-1.6**	**-1.8**	**-1.8**	**-1.8**	**-2.8**	**-3.0**	**-3.3**	**-3.3**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.2**	**-0.4**
Private consumption	-3.8	-4.4	-3.3	-3.7	-4.8	-5.4	-5.8	-5.8	-6.3	-6.0	-5.9	-5.7	-5.6	-0.8
Government consumption	-4.3	-4.8	-6.5	-4.6	-6.2	-4.1	-3.2	-2.9	-3.2	-3.2	-3.3	-3.5	-4.4	1.8
Gross Fixed-Capital Formation (GFCF)	-10.7	-7.4	-5.6	-9.2	-9.5	-10.3	-10.2	-11.7	-9.8	-12.2	-14.1	-13.7	-14.5	-5.0
Exports (Goods and services)	7.2	6.0	6.4	6.5	4.8	3.8	2.1	2.0	3.4	3.5	4.3	4.6	3.3	-1.5
Imports (Goods and services)	-5.9	-3.0	-1.3	-2.0	-4.3	-5.0	-5.9	-6.8	-6.4	-6.2	-6.6	-5.9	-6.9	-2.6
Contributions to change in GDP														
Domestic demand	-6.3	-5.0	-4.5	-4.8	-6.2	-6.2	:	-6.5	-6.7	-6.5	-7.1	-6.8	-7.0	-0.9
Net exports of goods and services	4.7	3.2	2.7	3.0	3.4	3.2	:	3.3	3.7	3.7	4.1	3.9	3.9	0.5
Price developments														
Inflation rate	3.7	2.1	2.3	2.1	3.1	3.3	3.1	3.2	3.2	2.7	2.8	2.8	2.8	-0.3
GDP Deflator	0.5	1.3	1.4	1.4	1.7	1.1	0.9	1.0	0.9	0.6	0.3	0.3	-0.1	-1.8
Labour market variables														
Unemployment rate	12.7	13.4	13.2	13.5	13.4	13.7	14.5	14.4	14.5	15.5	15.5	15.5	15.7	**2.3**
Employment growth	-1.5	-1.1	-1.0	-1.0	-1.0	-1.9	-2.5	-2.5	-2.5	-4.2	-4.3	-3.9	-4.2	-3.2
Current account (inc. capital transfers)	-5.6	-5.8	-4.3	-5.0	-2.5	-5.2	-3.0	-3.0	-2.5	-2.7	-1.1	-0.1	0.4	2.9
GDP at current market prices	171.1	169.8	170.5	170.5	169.3	168.5	168.3	167.7	167.4	166.9	166.3	166.3	165.4	-3.9
General gov. balance (*% GDP*)	-4.4	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-5.0	-5.0	-6.4	-1.9
Public Debt (*% GDP*)	108.3	112.2	106.1	111.8	110.5	116.3	112.5	112.4	113.1	114.4	119.1	120.0	123.6	13.1

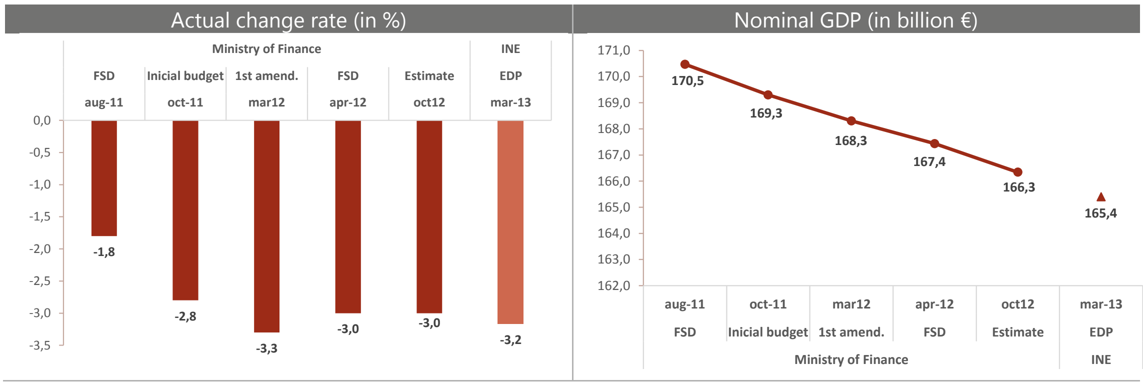
Sources: INE, Ministry of Finance and IMF. | Notes: (*) Estimate for 2012, included in the SB/2013 report, presented at the same time as the 2nd amendment to SB/2012; (**) the inflation forecasts made by the IMF in the Memorandum of Understanding (MoU) correspond to the harmonised index of consumer prices; estimates made in the 5th review of the MoU were not included as they are similar to those given in the Estimate for 2012, but for public consumption (-3.5%) and net external requirements (-1.2%).

The above table shows the series of revisions made by the Ministry of Finance in the various budget strategy documents, as well as by the International Monetary Fund (IMF) in its financial assistance program reviews. This table shows that the official macroeconomic forecasts for 2012 did not come true and that the recessive effect of the fiscal measures might have been underestimated, namely their impact on economic players' expectations which in turn affects private consumption, investment and employment.

The macroeconomic position proved to be much less favourable than initially forecasted in SB/2012 and in the financial assistance program. This situation also contributed to the issuance of two corrective budgets (in March and October 2012). Under the second amendment to SB/2012 it was necessary to increase SB transfers to finance the Social Security budget (due to the drop in social contributions and the rise in benefit payments) and to cover the borrowing requirements of the National Health Service and the Civil Servants Pension Scheme (CGA). On the other hand, throughout the year additional consolidation measures were taken, such as the suspension of investment projects, restraining new purchases of goods and services, measures to curb social security expenditure, and the implementation of the "Tax Package",[13] under which taxes on high value properties and on capital gains were increased.[14]

The Ministry of Finances (MoF) outlook on the economic contraction was always in line with the conclusions of the regular financial assistance program reviews. Both the original version of the adjustment program, dated May 2011 and the Budget Strategy Document presented in August 2011 (BSD/2011) estimated that GDP would shrink by 1.8% in 2012. In the SB/2012 report the forecast pointed to a fall of 2.8%, which would later be revised to 3.3% in the 1st amendment to SB/2012 presented at the end of March. The economic contraction turned out to be very close to this figure (3.2%), although the official outlook turned less negative (-3%), following the publication of BSD/2012 in April 2012, as net exports were expected to make a greater contribution.

Chart 5 – Ministry of Finance forecasts for GDP in 2012



Source: INE and Ministry of Finance. CFP calculations.

The fact that the budget goals are expressed as a percentage of GDP makes it difficult to evaluate the budget consolidation process.[15] In effect, in 2012, the forecasts for nominal GDP were successively revised downwards, both by the MoF and the IMF in the Portuguese adjustment program reviews. To give an idea of the actual deviation it should be noted that nominal GDP ended the year 3,900 M€ below the forecast in SB/2012 (Chart 5).

The downward revision of the forecast concerning the economic activity in 2012 contributed to the change in the budget goals. In fact, two months before the end of the year the 2012 budget deficit was revised upwards from 4.5% to 5% of GDP, under the 5th financial assistance program review.

[13] Law no. 55-A/2012 of 29 October which amended the Income Tax, Corporation Tax and Stamp Duty codes and the General Tax Law.

[14] Note that in order to achieve a deficit equal to 5% of GDP, the new estimate for 2012, included in the SB/2013 report, forecast extraordinary revenue from the sale of the concession of the Portuguese airport operator (ANA). Nonetheless for the purposes of the national accounts *Eurostat* did not approve the inclusion of that revenue (around 1,200 M€).

[15] In the original version of the MoU a limit of 7,600 M€ (4.5% of GDP) was set for the budget deficit in 2012. In the 5th review this limit rose to 8,300 M€ (5% of GDP), with the proviso that it could not include operations relating to the restructuring of the banking sector under the MoU and that, on the other hand, it could be adjusted at a later date to account for changes in overdue payments.

Box 1 – The importance of the GDP deflator in macro-fiscal forecasts

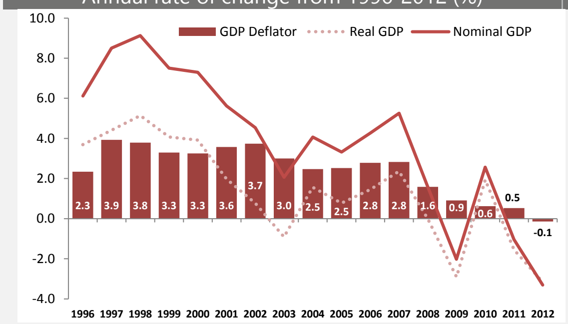
The main public finance ratios are expressed as a percentage of nominal GDP (at current prices). When comparing these indicators over time, for example between 2011 and 2012, the change is the result of both the change of the specific variable in the numerator, as well as the change in GDP at current prices. The change in nominal GDP stems from the change in the volume of economic activity (real growth in the quantities traded) and the effect of the change in (implicit) prices, measured by the GDP deflator. Unlike inflation, which is measured by the change in the consumer price index (CPI), the GDP deflator does not measure just the price change of a basket of goods and services for household consumption, but rather the prices of domestic output. It is a weighted average of the prices of various output components of aggregate demand (private consumption, public consumption, gross capital formation and net exports, that is to say exports less imports).

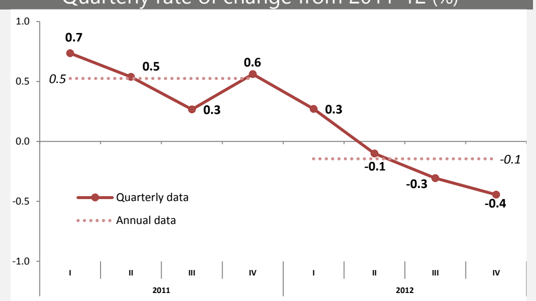
In 2012 the GDP deflator was negative (-0.1%), for the first time in several decades. This change was above all the result of public consumption implicit prices which fell 7.7% compared to 2011, due to the suspension of holiday and Christmas bonuses for civil servants, which offset the 2.1% rise in private consumption implicit prices and a moderate increase in the gross capital formation deflator. Over the year the deflator recorded a negative change in all quarters with the exception of the first (Chart 6).

Differences between the GDP deflator and the rate of inflation may stem from a number of factors, such as differences in the structure of private consumption as regards the basket of goods and services used to calculate the CPI, differences between the private and public consumption deflators, as well as any change in trade (relative change in prices of exports and imports). In fact when the terms of trade deteriorate, the GDP deflator shrinks compared to domestic demand. In economic terms, this represents a loss of earnings for the country, which is then obliged to use a larger portion of its output to acquire the same volume of imports. All these factors were, to varying degrees, important in 2012.

The fall in output implicit prices was not anticipated in the original MoF and Economic and Financial Assistance Program (EFAP) forecasts. Note that the deflator forecast in SB/2012 (1.7%) was actually higher than forecasted under the 1st review of the MoU (1.4%). The initial forecasts reflected the expectation of a higher increase than in 2011 (0.5%). Throughout 2012 those forecasts were continually revised downwards, although a negative annual change in the deflator was never predicted.

Chart 6 – Change in GDP deflator





Source: INE. CFP calculations.

Thus, according to the 1st EDP notification of 2013, nominal GDP stood at 165,400 M€ in 2012, a figure 3,900 M€ below the forecast in SB/2012. The CFP calculations suggest that over ¾ of the difference can be explained by the unanticipated impact of price changes.

Therefore deviations in GDP deflator forecasts are an underlying cause of the revisions in budgetary balance and public debt ratios, expressed as a percentage of GDP due to the so called "denominator effect".

Table 2 – Change in GDP and implicit prices

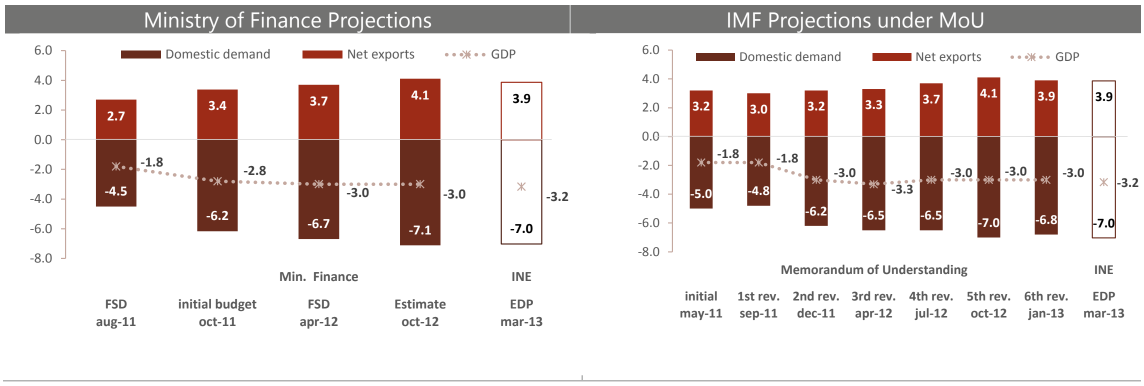
	2012		Diference
	initial budget oct-11	EDP mar-13	
GDP Deflator (%)	1.7	-0.1	-1.8
Nominal GDP			
- billions of euro	169.3	165.4	-3.9
- YoY % change	-1.2	-3.3	-2.1
Real GDP (YoY % change)	-2.8	-3.2	-0.4

Sources: INE and Ministry of Finance. CFP calculations

Note that the macroeconomic forecasts for 2013 were recently revised under the 7th EFAP review. GDP should shrink by 2.3% rather than by 1%, and its components have been revised downwards (with the exception of public consumption). However, according to a note to investors, written by the IGCP[16], the GDP deflator has been revised upwards from 1.3% to 1.7%.

Both the MoF and the IMF errors when predicting the actual change in GDP stemmed above all from the fact that domestic demand made a more negative contribution than expected. The macroeconomic scenario underlying SB/2012 pointed to a 2.8% contraction in GDP, due to the negative impact of domestic demand (-6.2 p.p.) and the positive impact of net exports (3.4 p.p.). However, domestic demand shrank even more (contributing -7.0 p.p.), which was only mitigated by net exports being higher than expected (3.9 p.p.).[17] Note that in the original version of the Memorandum of Understanding agreed in May 2011 domestic demand was expected to make a negative contribution of 5 p.p., having been revised to 4.8 p.p. under the 1st review.

Chart 7 – Contributions to actual change in GDP (p.p.)



Source: INE, Ministry of Finance IMF. CFP calculations. | Note: information relating to the 1st amendment to SB/2012, presented in March 2012 is not available.

The decrease in volume of public consumption (-4.4%) was well below the original forecast (-6.2%). Repeated errors have been made when estimating this indicator, both as regards the change in volume (in real terms), and the deflator. It should be stressed that the SB/2011 macroeconomic scenario also pointed to an 8.8% decrease in public consumption, when in fact it fell by less than a half (-4.3%). As stated earlier, the deviation in 2012 stems from the fact that the public consumption deflator was -7.7%, a more negative change of 2.5 p.p. than the figure underlying SB/2012. This was possibly a result of the difficulty in the distribution between the change in volume and the change in prices due to the suspension

[16] IGCP (2013).

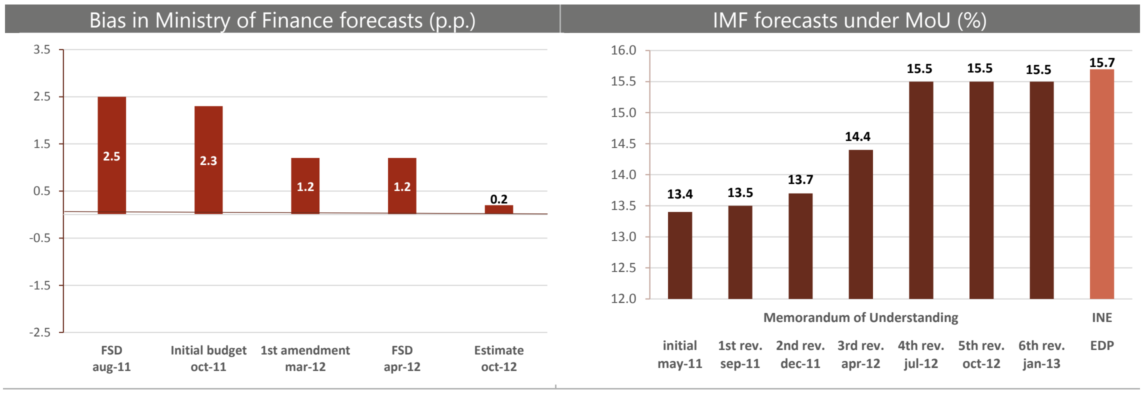
[17] This larger than initially expected contribution was due solely to the sharper fall in imports (-6.9% rather than -4.3%), since exports growth was lower than estimated in SB/2012 (3.3% instead of 4.8%).

of the bonuses. In nominal terms (at current prices) the change in public consumption (-11.8%) was more or less in line with the projections in SB/2012 (-11.1%).

In 2012, investment underwent a very sharp fall (-14.5%), which was even greater than in the previous year (-10.7%). Gross fixed capital formation (GFCF) was the indicator most biased from the original forecasts: the decrease was 5 p.p. greater than the SB/2012 forecast. Note that the drop was almost double that of the May 2011 forecast in the original version of the EFAP. This bias is even more significant if we compare it with the BSD presented in August 2011, when it was estimated that the fall in investment would be only 5.6%. The continued existence of restrictive financing conditions and unfavourable economic expectations contributed to this change.

Hence the effect of a greater reduction in domestic demand (from -5.8% in 2011 to -6.8%) contributed to an external deficit correction rhythm much greater than expected: according to the original forecasts such deficit was expected to go down from 5.6% of GDP in 2011 to 2.5% whereas in 2012 this balance recorded a net lending capacity of 0.4% of GDP.

Chart 8 – Unemployment rate



Source: INE, Ministry of Finance and IMF. CFP calculations. | Note: a positive bias means that the average rate of unemployment was higher than expected.

The situation in labour market deteriorated significantly in 2012, and the unemployment rate rose from 12.7% in 2011 to 15.7%. None of the forecasts included in the various fiscal strategy documents issued by the Ministry of Finance proved to be accurate. The forecast made in the original budget for 2012 showed an unfavourable bias of 2.3 p.p. and even the estimate made last October was slightly less than the actual figure (-0.2 p.p.). Note that when the SB/2012 report was published it was already possible to foresee that the original forecast was not going to be accurate. Indeed it pointed to a rate of 13.4% which, according to the estimates at the time, corresponded to a rise of just 0.9 p.p. compared to 2011, whereas at the same time the contraction in GDP was estimated at 2.8%.[18]

The high degree of error in the rate of unemployment forecast had major effects on the budget outturn, inasmuch as it involved less tax revenue, as well as additional spending on social transfers. Indeed the poorer outlook in the labour market was one of the main reasons for revising the forecasts over the year. Fiscal and tax revenue was

[18] Note also that in the 4th quarter of 2011 the rate of unemployment reached 14%, a figure that being higher than the average annual rate forecasted for 2012 (13.4%), would have to assume a fall over the year.

repeatedly revised downward, while spending on social transfers (in particular unemployment and employment support benefits) received a larger allocation.

Note that the rate of unemployment in the Memorandum reviews was also underestimated. The original version of the Memorandum of Understanding pointed to a rate of 13.4%, and it was only increased to 15.5% after the 4th review, completed in April 2012.

Change in employment (-4.2%) was also less favourable than SB/2012 forecasts (- 1.0%). In effect the original estimate pointed to a smaller decrease than in 2011 (-1.5%). This indicator was also revised a number of times, but only the figure included in the estimate presented two months before the end of the year was in line with the actual figure recorded.

3 PUBLIC FINANCE SITUATION

3.1 MAIN GENERAL GOVERNMENT BUDGET DEVELOPMENTS

3.1.1 Balances

In 2012 general government borrowing requirements stood at 10 596 M€, equal to 6.4% of GDP. The primary deficit was 3,331 M€ (2% of GDP) and interest charges were 7,265 M€ (or 4.4% of GDP). Eliminating the impact of the aid to the financial sector, the deficit totalled 5.8% of GDP, according to Eurostat (2013a).[19]

In 2012 the budget balance was negative, due to the thinning out of the effect of the temporary measures taken in 2011 and to special factors that had an impact on expenditure in 2012.[20] Compared to 2011 the overall balance deteriorated by 3,053 M€ (or 2 p.p. of GDP), mainly as a result of the dissipation of the temporary effect of the banking pension fund transfer made in 2011 (which totalled 5,950 M€, equal to 3.5% of GDP) and of the two financial operations reclassified as capital transfers in 2012 (which increased expenditure by 0.9% of GDP).

The dynamics of the temporary measures net of special factors (impacting on expenditure) contributed to the deterioration of the deficit by 3.3 p.p. of GDP from 2011 to 2012. In 2011 the deficit gained from the use of temporary measures net of special factors which was reduced by 2.8 p.p. of GDP, whereas in 2012 this type of measures led to an increase the deficit by 0.5 p.p. of GDP. In effect, in 2012 the budget balance gained from temporary and one-off measures amounting to 0.5% of GDP. At the same time capital transfer reclassifications relating to the increase in capital of the CGD bank and the re-routing of Sagestamo, together with the impairment in companies stemming from the nationalisation of the BPN bank, increased expenditure (and the deficit) by 1 p.p. of GDP. These reclassifications are deemed special factors in this analysis.

Adjusting for the impact of temporary and one-off measures and net of the effect of special factors (on expenditure) the deficit stood at 9,800 M€ or 5.9% of GDP, which is an improvement of 1.3 p.p. of GDP compared to 2011. Considering the effect of special factors, the deficit adjusted for temporary and one-off measures was 6.9% of GDP, an improvement of 1.5 p.p. of GDP over 2011.

[19] Greece and Spain recorded significant impacts on aid to the financial sector as bank recapitalisation, totalling 4 p.p. of GDP and 3.6 p.p. of GDP, respectively.

[20] All estimates in this section are contingent on the information and restrictions referred to in Box 2, and they eventually may be revised.

Table 3 – Budget indicators

Budget Balance	% GDP 2008	2009	2010	2011	2012	Anual change (p.p. GDP) 2009	2010	2011	2012
Primary balance (EDP)	-0,6	-7,3	-7,0	-0,4	-2,0	-6,7	0,3	6,7	-1,7
Actual headline (EDP)	-3,6	-10,2	-9,8	-4,4	-6,4	-6,5	0,3	5,4	-2,0
Adjusted of temporary & one-off measures	-4,7	-10,2	-11,5	-8,4	-6,9	-5,5	-1,3	3,1	1,5
Adjusted of temporary & one-off measures & special factors	-4,4	-10,2	-8,7	-7,2	-5,9	-5,7	1,5	1,5	1,3
Cyclically adjusted	-3,7	-8,9	-9,4	-3,5	-4,7	-5,2	-0,5	5,9	-1,2
Structural	-4,7	-8,9	-11,1	-7,5	-5,2	-4,1	-2,2	3,5	2,3
Structural net of special factors	-4,5	-8,9	-8,3	-6,3	-4,3	-4,4	0,6	1,9	2,0
Structural primary	-1,7	-6,1	-8,3	-3,5	-0,8	-4,3	-2,2	4,8	2,6
Structural primary net of special factors	-1,5	-6,1	-5,5	-2,3	0,1	-4,6	0,6	3,2	2,4
memo items									
temporary measures	1,1	0,0	1,7	4,0	0,5	-1,1	1,7	2,3	-3,5
special factors	-0,3	0,0	-2,8	-1,2	-1,0	0,3	-2,8	1,6	0,2
temporary measures & special factors	0,8	0,0	-1,1	2,8	-0,5	-0,8	-1,1	3,9	-3,3
output gap (EC - Winter 2013)*	0,1	-2,7	-0,9	-1,9	-3,6	-2,8	1,9	-1,0	-1,7
cyclical component*	0,0	-1,3	-0,4	-0,9	-1,7	-1,3	0,9	-0,5	-0,8
interest payments (EDP)	3,0	2,8	2,8	4,1	4,4	-0,2	0,0	1,2	0,3

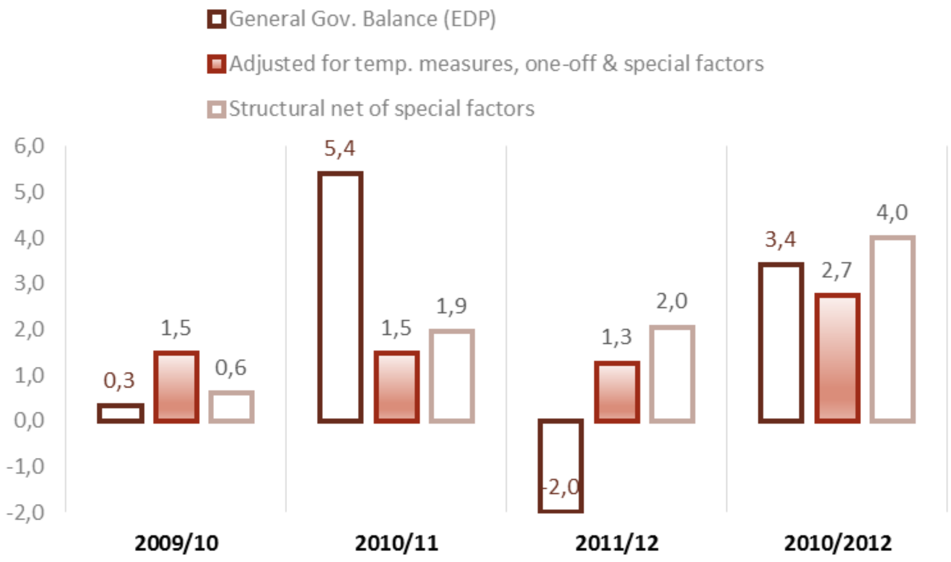
Sources: INE, European Commission, CFP. | Notes: * As % of potential output.

The budget balance was negatively affected by the unfavourable economic climate. According to the European Commission (winter 2013 forecast) the deterioration in the economic climate in 2012 will have contributed to deteriorate the budget balance in 0.8 p.p. of GDP. However, this estimate is surrounded by considerable uncertainty and the CFP's opinion it will tend to be revised downwards.

The structural deficit net of the impact of special factors on expenditure will have been 4.3% of GDP in 2012, an improvement of 2 p.p. of GDP compared to 2011.[21] If no adjustments were made for the effect of special factors, in 2012 the improvement in the structural balance and the primary balance would have been 2.3 p.p. of GDP and 2.6 p.p., respectively. The primary structural balance would have been negative to the tune of 0.8% of GDP. Eliminating the effect of special factors, there would have been a primary structural surplus net of special factors of 0.1% of GDP, representing an improvement of 2.4 p.p. of GDP over 2011.

[21] Calculations on the basis of the estimate of the cyclical component of the budget balance presented by European Commission in the winter 2013 forecast (22 February 2013). This forecast assumed an estimated decline in GDP of 3.2% in 2012, a decline of 1.9% in 2013 and growth of 0.8% in 2014. A downwards revision of these growth estimates would tend to drive down the cyclical component in 2012 in absolute terms, thus bringing the structural balance closer to the overall balance.

Chart 9 – Change in budget balances (p.p. of GDP)



Source: INE and Ministry of Finance. CFP calculations.

Frequent and varied use of temporary measures involving large sums tends to reduce the information the overall balance change can provide about consolidation efforts. An example of this can be found in the change recorded in 2011 and 2012, as shown in the Chart above. In 2011 temporary measures accounted for 4% of GDP, above all as a result of the transfer of banking pension funds. Therefore in that year the improvement in the headline budget balance was 5.4 p.p. of GDP. In 2012, the use of temporary measures equalled 0.5% of GDP. The lesser extent of these measures compared to the previous year led to an automatic deterioration in the headline balance (3.5 p.p. of GDP). Over the two years of the financial assistance program the improvement in the balance adjusted for temporary measures and special factors was 2.7 p.p. of GDP, lower than the 3.4 p.p. of GDP improvement of the headline balance.

Composition of the budgetary adjustment effort

Bearing in mind that interest payments are mainly pre-established by the stock and cost of debt, it is normal practice to evaluate the fiscal consolidation efforts by the change in the primary structural balance. Over the two years of the financial assistance program the (provisional) estimate suggests a 5.6 p.p. of GDP improvement in the primary structural balance net of special factors.

The fall in primary expenditure was decisive for the improvement in the primary structural balance net of special factors from 2010 to 2012. In fact, the contribution of structural revenue to the consolidation efforts, measured by this indicator, was only 11% of the total (0.6 p.p. of GDP). The cut in current primary structural expenditure net of special factors accounts for around ⅔ of the adjustment (a 3.6 p.p. of GDP decrease), while the cut in capital expenditure represents ¼ (1.4 p.p. of GDP). The negative contribution of interest payments to the adjustment process should also be noted, as its relative weight in GDP grew by 1.6 p.p. between 2010 and 2012.

Table 4 – Breakdown of fiscal consolidation efforts

	% of GDP			Change (p.p. GDP)			Contrib to struct. adjustment		
	2010	2011	2012	2010/11	2011/12	2010/12	2010/11	2011/12	2010/12
Structural revenue net s.f.	39,9	40,9	40,5	1,0	-0,4	0,6	31%	-17%	11%
Structural primary expenditure net s.f.	45,4	43,2	40,4	-2,2	-2,8	-5,0	69%	117%	89%
of which: current primary	41,7	40,3	38,1	-1,4	-2,2	-3,6	44%	91%	64%
of which: capital	3,7	2,9	2,3	-0,8	-0,6	-1,4	25%	26%	26%
Structural primary balance net s.f.	**-5,5**	**-2,3**	**0,1**	**3,2**	**2,4**	**5,6**	**100%**	**100%**	**100%**
memo items:									
Structural expenditure net s.f.	48,2	47,3	44,8	-1,0	-2,5	-3,4	30%	103%	61%
Interest paid	2,8	4,1	4,4	1,2	0,3	1,6	-39%	-14%	-28%

Note: Breakdown based on cyclical components estimated by the European Commission (Winter 2013 forecast). "net s.f." means "net of special factors". CFP calculations.

Box 2 – From observable balance to structural balance

The aim of calculating the structural balance is to find the fiscal balance that would be observable if the economy was working at its full potential and excluding the effect of fiscal policy measures that have no permanent impact on the public sector's borrowing needs, so as to reveal the underlying trend.

However, as stated in Council Report no. 3/2012, the structural balance is not directly observable, and it must be estimated. This involves two critical stages: i) the cycle adjustment method; and ii) the identification of the temporary measures and one-off measures. The CFP also recognises "special factors" within spending. They are operations involving large sums that tend to increase spending, and consequently the fiscal deficit. They do not occur on a regular basis and therefore bring changes in public finance aggregates biasing their analysis, but in the CFP's opinion they cannot be deemed "temporary or one-off". Correcting for these factors allows a more direct analysis of the fiscal stance in each year, although it would not be appropriate to eliminate them when calculating the structural balance.

Since the CFP is not in a position to prepare its own estimate of the output gap, this Report uses the European Commission's most recent estimate.

Table 5 – Temporary measures, one-off measures and special factors (2010-2012)

In % of GDP	2010	2011	2012
Temporary & one-off measures ***(impact on b. balance)***	**1,7**	**4,0**	**0,5**
Revenue side	**1,7**	**4,0**	**0,3**
Transfer of pensions funds	1,6	3,5	0,1
Taxes on repatriation of capitals	0,1		0,2
PIT surcharge of 3.5% on 2011 taxable income		0,5	0,1
Expenditure side	**0,0**	**0,0**	**-0,2**
Proceeds from concessions	-0,1	0,0	-0,2
One-off payment to the EU Budget (due to revision of GNI series)	0,1		0,1
Special factors ***(impact on budget balance)***	**-2,8**	**-1,2**	**-1,0**
Expenditure side	**2,8**	**1,2**	**1,0**
Delivery of submarines	0,5		
BPN, BPP capital expenditure	1,3	0,4	0,1
Capital transfers (CGD, Sagestamo)			0,9
Reclassification of PPP into general governmt.	0,4	0,1	
Recording of Madeira region debt	0,6		
Madeira capital operations (SESARAM & recl. Via Madeira)		0,3	
Madeira region- debts from program-contracts & to football clubs		0,1	
Reclassification of support fund to health service		0,3	
Temporary, one-off and special factors	**-1,1**	**2,8**	**-0,5**

Sources: INE, Ministry of Finance, Bank of Portugal.

Note: The totals do not necessarily correspond to the differences between the figures as a percentage of GDP due to rounding.

The above Table updates the sums and the operations deemed temporary, one-off and special factors in the aforesaid Report no. 3/2012, in line with the new information available.

On the revenue side the following operations were deemed temporary and one-off: i) the transfer of Portugal Telecom (2010), banking sector (2011) and BPN (2012) pension funds; ii) the revenue under the Exceptional Tax Scheme (RERT III) for assets placed abroad (in 2010 and 2012) and; iii) the revenue from the extraordinary income tax surcharge, introduced in 2011 which also impacted on 2012.

The increased contribution to the European Union budget following the review of the national accounts was deemed a one-off measure as it's effect is limited to the year in which it arose.

On the spending side, the purchase of military equipment in 2010 and the payment of Madeira region debts from previous years, which occurred in 2010 and 2011, were deemed special factors. The latter includes the region's commercial arrears recorded entirely in 2010 and arrears concerning programme contracts- (health) and Madeira football club arrears recorded in 2011.

Other special factors considered were the reclassification of the Caixa Geral de Depósitos recapitalisation, the acceptance of debts relating to the impairment resulting from the transfer of BPN assets to Parvalorem, SA and Parups, SA, the conversion of the loans granted to Parpública, Participações Públicas (SGPS) into an increase in the share capital of Sagestamo in 2012 and the reclassification of public-private partnership assets as general government assets. This category also includes the realisation of the collateral granted by the Madeira Regional Government to the state company SESARAM and the Madeira Regional Government's acceptance of the debts of the Via Madeira Company. Revenue from concession agreements which are recorded in the capital account in the national accounts as a minus item in the in capital expenditure has been recorded as a temporary measure.

The so called *code of conduct* on the implementation of the Stability and Growth Pact defines temporary and one-off measures as *measures having a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position*. Generally speaking they are measures that have no permanent lowering effect on the fiscal deficit. In this respect the Council does not ignore the risk of a possible change in the values of the measures classed as temporary in 2012. The Constitutional Court's compulsory judgement no. 187/2013, ruling that article 29 [Suspending of payment of holiday bonus or the equivalent] and article 77 [Suspending of payment of holiday bonus or the equivalent to retired persons] of Law no. 66-B/2012 of 31 December are unconstitutional, may lead to the reclassification of budget savings in 2012 as temporary measures, under the similar rules in the State Budget law for 2012, although these measures do not fall within the "easy" measures category, which in the words of the European Commission, «leave the government's net worth unchanged and imply no political cost».[22] However, they may be classified as temporary legislative changes relating to the timing of outlays or revenue with a positive impact on the budget balance.[23] Effectively the current classification leads us to consider the effect of the rules truly limited to a single year as "structural", which can be a step away from the concept underlying the structural balance. However the classification is complex, as the suspension of the rules in question in 2012 did not lead to the postponing of the cost (which would undoubtedly constitute a timing change). Nonetheless they make it possible to avoid this outlay in 2012, albeit temporarily and therefore they do not clearly and undeniably fall within the said category. Thus their correct classification can only be made *ex-post*, i.e., after analysing the effects of the measures the Government and Parliament eventually adopt to replace them.

3.1.2 Change in general government revenue in adjusted terms

In 2012, the general government budgetary outturn was penalised by the unfavourable performance of tax revenue. Indeed, despite the increase in taxation - in particular the VAT tax rates rationalisation measure – the deterioration in economic players' expectations, together with the decline in disposable household income, led to a reduction in private consumption, which in turn had a rather negative impact on tax revenue.

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[22] In the original «Although one-off and temporary measures are not always associated with an intention to make the figures look better, it is clear that the temptation exists for policy-makers to lower the budget deficit or public debt through 'easy' measures, which leave the government's net worth unchanged and imply no political cost.» European Commission, Public finances in EMU – 2006, European Economy, 3, January 2006.

[23] In the original, «Temporary legislative changes in the timing of outlays or revenues with a positive impact on the general government balance» in the aforesaid publication.

Eliminating the effect of temporary and one-off measures, total general government revenue fell by 4.1% (2889 M€) compared to 2011. This negative change was above all the result of the reduction in fiscal and tax revenue, which contributed -2.7 and -2.4 p.p., respectively. This item decreased by 3582 M€, when in the previous year it had risen 909 M€.[24] It should be stressed that the decline in general government (adjusted) revenue in 2012 was mitigated by the increase in sales and other current revenue (+7.1%) and capital transfers received (+7.4%).

Table 6 – General government (adjusted) revenue (M€)

	INE (EDP)			Change				Contrib. to change
	2010	2011	2012	2010/12	2010/11	2011/12		
	Millions of euro			Millions of euro			%	p.p.
Valores ajustados | *Adjusted figures*								
Receita Total | *Total revenue*	**69 100**	**70 144**	**67 254**	**-1 846**	**1 043**	**-2 889**	**-4,1**	**-4,1**
Receita corrente | *Current revenue*	**67 079**	**68 453**	**65 439**	**-1 640**	**1 374**	**-3 014**	**-4,4**	**-4,3**
Receita fiscal | *Tax revenue*	38 262	39 512	37 629	-633	1 251	-1 884	-4,8	-2,7
Impostos indiretos | *Indirect taxes*	23 040	23 390	22 522	-517	350	-867	-3,7	-1,2
Impostos directos | *Direct taxes*	15 222	16 123	15 106	-116	900	-1 016	-6,3	-1,4
Contribuições Sociais | *Social contributions*	21 270	20 929	19 230	-2 039	-341	-1 698	-8,1	-2,4
Das quais: efectivas | *of which: actual soc. contr. received*	15 725	15 965	14 982	-744	239	-983	-6,2	-1,4
Vendas e outras receitas correntes | *Sales & other current rev.*	7 548	8 012	8 580	1 032	464	568	7,1	0,8
Vendas de bens e serviços | *Sales*	4 356	4 432	4 561	206	76	130	2,9	0,2
Outra receita corrente | *other current expenditure*	3 192	3 580	4 019	827	388	438	12,2	0,6
Receitas de capital | *Capital transfers received*	**2 021**	**1 691**	**1 815**	**-206**	**-330**	**124**	**7,4**	**0,2**
for memory:								
PIB nominal | *GDP at current market prices*	**172 860**	**171 065**	**165 409**	**-7 450**	**-1 795**	**-5 656**		

Source: INE. CFP calculations. | Notes: Adjusted figures; the final column shows each item's contribution to the annual change 2011/12.

The ratio of (adjusted) revenue to GDP was down by 0.3 p.p. and accounted for 40.7% of GDP in 2012. Nonetheless this change was biased by the fact that nominal GDP fell by approximately 5,700 M€.[25] In the three-year period 2010-2012 there were changes in the structure of revenue, namely a progressive decrease in the relative weight of social contributions in GDP (12.3% in 2010, 12.2% in 2011 and 11.6% in 2012[26]), while the opposite trend was seen in regard to sales and other current revenues (4.4%, 4.7% and 5.2%, respectively). The ratio of (adjusted) tax revenue to GDP fell to 22.7% in 2012, having risen from 22.1% to 23.1% in 2011.

[24] In the particular case of general government (adjusted) tax revenue, the change (a decrease of 1884 M€) is even more unfavourable as SB/2012 estimated an increase of 1801 M€.

[25] The decrease of 2889 M€ is equal to 1.7% of GDP in 2012.

[26] The relative weight of social contributions in 2012 is influenced by the suspension of holiday and Christmas payments to civil servants.

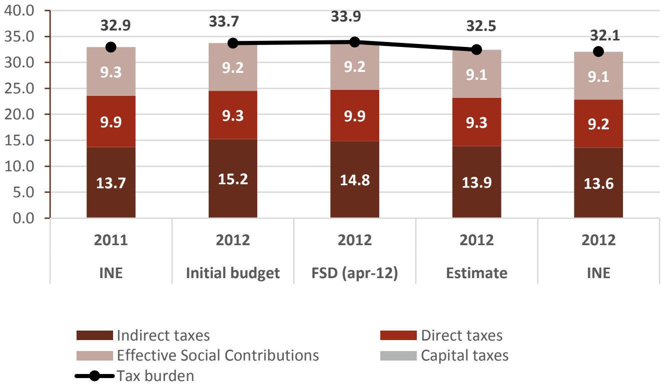
Table 7 – General government (adjusted) revenue (% of GDP)

	INE (EDP)			Change		
	2010	2011	2012	2010/12	2010/11	2011/12
	% GDP			p.p. GDP		
Valores ajustados | *Adjusted figures*						
Receita Total | *Total revenue*	**40.0**	**41.0**	**40.7**	**0.7**	**1.0**	**-0.3**
Receita corrente | *Current revenue*	**38.8**	**40.0**	**39.6**	**0.8**	**1.2**	**-0.5**
Receita fiscal | *Tax revenue*	22.1	23.1	22.7	0.6	1.0	-0.3
Impostos indiretos | *Indirect taxes*	13.3	13.7	13.6	0.3	0.3	-0.1
Impostos directos | *Direct taxes*	8.8	9.4	9.1	0.3	0.6	-0.3
Contribuições Sociais | *Social contributions*	12.3	12.2	11.6	-0.7	-0.1	-0.6
Das quais: efectivas | *of which: actual soc. contr. received*	9.1	9.3	9.1	0.0	0.2	-0.3
Vendas e outras receitas correntes | *Sales & other current rev.*	4.4	4.7	5.2	0.8	0.3	0.5
Vendas de bens e serviços | *Sales*	2.5	2.6	2.8	0.2	0.1	0.2
Outra receita corrente | *other current expenditure*	1.8	2.1	2.4	0.6	0.2	0.3
Receitas de capital | *Capital transfers received*	**1.2**	**1.0**	**1.1**	**-0.1**	**-0.2**	**0.1**

Source: INE. CFP calculations. | Note: Adjusted figures.

Non-adjusted tax burden[27] accounted for 32.1% of GDP in 2012, 0.8 p.p. down on 2011. The major contributor to this change was direct taxes, whose relative weight in GDP fell from 9.9% to 9.2%. It should be stressed that, as a result of the increase in taxation in 2012, the forecasts included in the various budgetary planning documents published by the Ministry of Finance pointed to an increase of the tax burden of around 1 p.p. of GDP, based on the expectation of improved performance of indirect taxes, which did not occur. Only the estimate published two months before the end of the year predicted a decrease in the tax burden of 0.5 p.p. of GDP.

Chart 10 – Non-adjusted change in general government tax burden from 2011-12



Sources: INE and Ministry of Finance. CFP calculations. | Notes: figures not adjusted for revenue from extraordinary income tax surcharge (840 M€ in 2011 and 185 M€ in 2012), nor for the revenue from RERT III (258M€ in 2012) relating to capital tax; the relative weight of capital tax is not shown in the Chart given its reduced size (in Estimate/2012 and in INE figures for 2012, it accounted for 0.2% of GDP).

[27] Measured by the sum of tax revenue, actual social contributions and capital tax. Note that the change in the tax burden was analysed in headline terms, so as to take into account the effect of the introduction of an extraordinary income tax surcharge in 2011, as well as the revenue from RERT III.

3.1.3 Change in general government expenditure in adjusted terms

Public expenditure underlying the first Excessive Deficit Procedure (EDP) notification incorporates the impact of a number of transactions that took place from 2009 to 2012. These measures, very considerable in size, influenced the change in the various components of expenditure and make it difficult to analyse the trend. Therefore, so as to ensure the figures are comparable, public expenditure has been adjusted for temporary and one-off measures and special factors, identified in Box 2, which affected the fiscal balance and the level of public expenditure from 2009 to 2012.

Table 8 – Change in adjusted Public Expenditure, 2010 -2012

	INE (EDP)			Change				Contrib. to Change
	2010	2011	2012	2010/12	2010/11	2011/12		
	Millions of euros			Millions of euros			%	p.p.
Valores ajustados | *Adjusted figures*								
Despesa Total | *Total expenditure*	**84 095**	**82 455**	**77 060**	**-7 035**	**-1 640**	**-5 394**	**-6,5**	**-6,5**
Despesa Primária | *Primary expenditure*	**79 245**	**75 517**	**69 795**	**-9 450**	**-3 728**	**-5 722**	**-7,6**	**-6,9**
Despesa Corrente Primária | *Current primary expend.*	72 790	70 515	65 977	-6 813	-2 276	-4 538	-6,4	-5,5
Consumo intermédio | *Intermediate consumption*	8 059	8 027	7 536	-524	-32	-491	-6,1	-0,6
Despesas com pessoal | *Compensation of employees*	21 157	19 438	16 309	-4 848	-1 719	-3 130	-16,1	-3,8
Prestações sociais | *Social transfers*	37 895	37 486	37 355	-540	-409	-131	-0,3	-0,2
que não em espécie | other than in kind	29 553	29 645	29 789	*236*	*92*	*143*	*0,5*	*0,2*
em espécie | in kind via market producers	8 343	7 841	7 566	*-776*	*-502*	*-274*	*-3,5*	*-0,3*
Subsídios e outra despesa corrente | *Subsidies & other current exp*	5 678	5 563	4 777	-901	-115	-786	-14,1	-1,0
Subsídios | *Subsidies*	1 283	1 151	1 039	-244	-132	-112	-9,7	-0,1
Outra despesa corrente | *other current expenditure*	4 396	4 413	3 739	-657	17	-674	-15,3	-0,8
Despesas de capital | *Capital expenditure*	6 455	5 002	3 818	-2 637	-1 453	-1 184	-23,7	-1,4
FBCF | *GFCF*	5 195	3 973	3 057	*-2 139*	*-1 223*	*-916*	*-23,1*	*-1,1*
Outras despesas de capital | *Other capital expenditure*	1 260	1 030	761	-499	-230	-268	-26,1	-0,3
Juros (PDE) | *Interest paid (EDP)*	**4 850**	**6 938**	**7 265**	**2 416**	**2 088**	**328**	**4,7**	**0,4**
memo items:								
PIB Nominal | *GDP at current prices*	**172 860**	**171 065**	**165 409**	**-7450**	**-1 795**	**-5 656**	**-3,3**	

Source: INE. CFP calculations. | Notes: Adjusted figures. The final column shows each item's contribution to the annual change 2011/12.

Table 9 – Change in adjusted Public Expenditure ratio to GDP, 2010 - 2012

	INE (EDP)			Change		
	2010	2011	2012	2010/12	2010/11	2011/12
	% of GDP			p.p. of GDP		
Valores ajustados | *Adjusted figures*						
Despesa Total | *Total expenditure*	**48,6**	**48,2**	**46,6**	**-2,1**	**-0,4**	**-1,6**
Despesa Primária | *Primary expenditure*	**45,8**	**44,1**	**42,2**	**-3,6**	**-1,7**	**-1,9**
Despesa Corrente Primária | *Current primary expend.*	42,1	41,2	39,9	-2,2	-0,9	-1,3
Consumo intermédio | *Intermediate consumption*	4,7	4,7	4,6	-0,1	0,0	-0,1
Despesas com pessoal | *Compensation of employees*	12,2	11,4	9,9	-2,4	-0,9	-1,5
Prestações sociais | Social transfers	21,9	21,9	22,6	0,7	0,0	0,7
que não em espécie | other than in kind	*17,1*	*17,3*	*18,0*	*0,9*	*0,2*	*0,7*
em espécie | in kind via market producers	*4,8*	*4,6*	*4,6*	*-0,3*	*-0,2*	*0,0*
Subsídios e outra despesa corrente | *Subsidies & other current exp*	3,3	3,3	2,9	-0,4	0,0	-0,4
Subsídios | *Subsidies*	0,7	0,7	0,6	-0,1	-0,1	0,0
Outra despesa corrente | *other current expenditure*	2,5	2,6	2,3	-0,3	0,0	-0,3
Despesas de capital | *Capital expenditure*	3,7	2,9	2,3	-1,4	-0,8	-0,6
FBCF | *GFCF*	3,0	2,3	1,8	-1,2	-0,7	-0,5
Outras despesas de capital | *Other capital expenditure*	0,7	0,6	0,5	-0,3	-0,1	-0,1
Juros (PDE) | *Interest paid (EDP)*	**2,8**	**4,1**	**4,4**	**1,6**	**1,2**	**0,3**

Source: INE. CFP calculations. | Note: Adjusted figures.

In adjusted terms, the expenditure ratio in 2012 represents the largest annual decrease since 2009. From 2010 to 2012 there was a decline in public expenditure of around 7,035 M€, accounting for 46.6% of GDP in 2012, i.e., a decrease of 2.1 p.p. of GDP compared to

2010. This was due in part to a sharp fall in primary expenditure in this period (3.6 p.p. of GDP), an effect which was partially offset by the increase in interest charges (+1.6 p.p. of GDP).

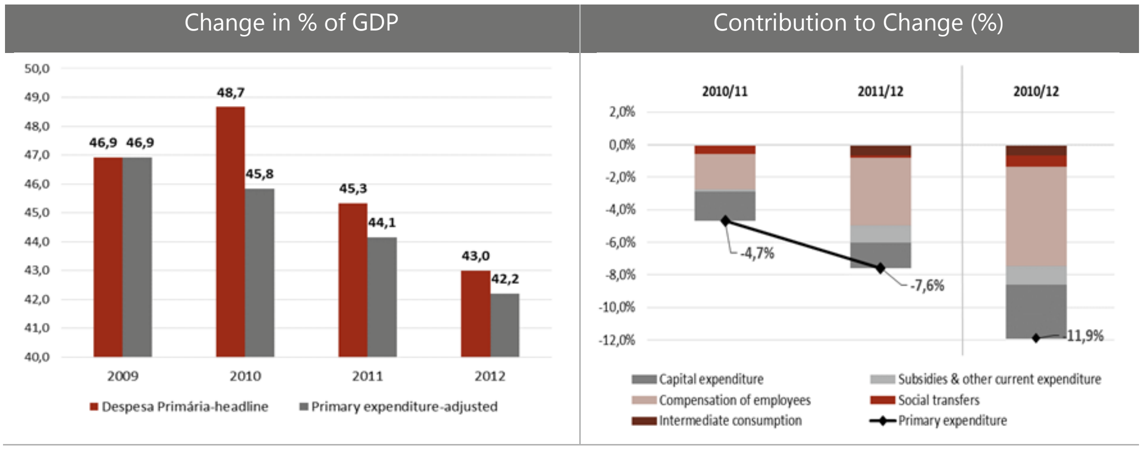
In 2012 the cut in spending was due to the decrease in primary expenditure (1.9 p.p. of GDP). The decrease in primary expenditure in 2012 was very expressive, although this fall is not fully reflected in the change of the expenditure ratio to nominal GDP, since this ratio was influenced by the "denominator effect", which fell by 3.3% in nominal terms.

Primary expenditure

Primary expenditure has decreased considerably since 2010 by around 9,450 M€, of which 5,722 M€ occurred in 2012. As in 2011, all components of primary expenditure fell in 2012 in nominal terms. In 2012 the fall in primary expenditure not adjusted for temporary measures and special factors was 6,414 M€ (2.3 p.p. of GDP).

By subsectors, the largest contribution to the fall in adjusted primary expenditure from 2011 to 2012 came from the central government subsector (-4,405 M€), followed by local and regional government (-1,259 M€). The contribution of the social security funds subsector went in the opposite direction, recording an increase of 769 M€.

Chart 11 – Primary expenditure



Source: INE

The main factor explaining the decrease of this aggregate was the change in compensation of employees which fell by 4,848 M€ from 2010 to 2012, mainly concentrated in 2012 (-3,130 M€). This was partly due to the measures taken in 2010 namely the civil service wage freeze since 2010, the introduction of an average wage cut of 5%, followed in 2012 by the progressive decrease in holiday and Christmas bonuses and the reduction of overtime payments (which accounted for approximately 1 p.p. of GDP). In 2012, in addition to the price effect (around -12%), the level of employment in the general government sector fell by 4.6%[28].

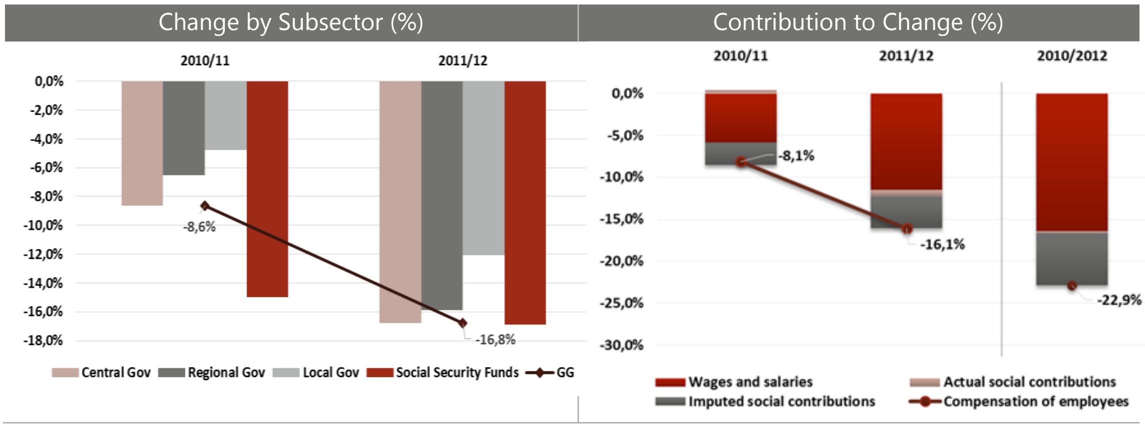
Despite the 22.9% decrease in compensation of employees since 2010, the trend among the various components of this outlay has not been uniform. Over the same period actual

[28] Change between December 2011 and December 2012 (according to DGAEP).

social contributions paid by general government fell by 9.8%, while imputed social contributions reduced by 23.7%.

In order to understand this situation we need to recall the changes introduced since 2009. Factors which explain the change in actual social contributions from 2010 to 2011 are the 15% increase in 2010 of the Civil Servants Pension Fund contribution, applying to all public employers, the 22.3% increase in 2011 of the public employers social security contribution, and the introduction of a 2.5% contribution of employers to the Civil Servants Health System (ADSE) on earnings subject to CGA and social contributions. The civil service wage cuts applied since 2011 and the suspending of bonuses (holiday and Christmas), which impacted in 2012, moved outlays in the opposite direction.

Chart 12 – Compensation of Employees

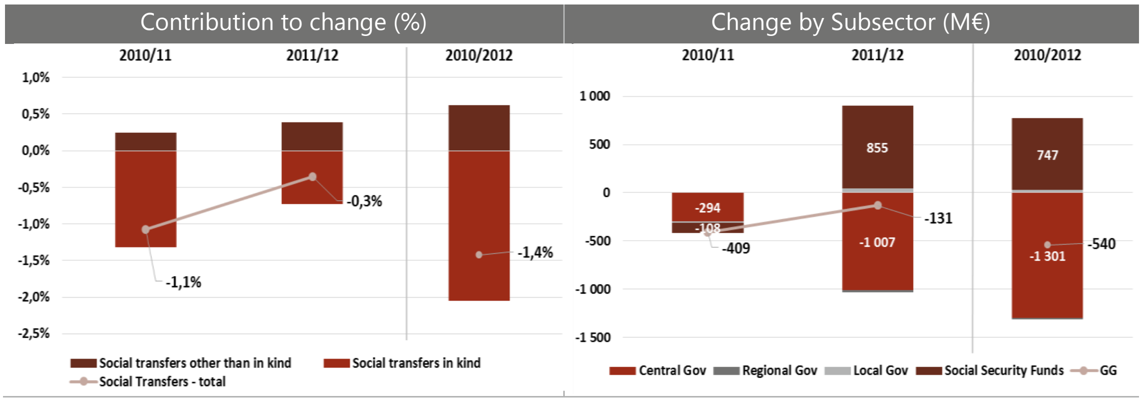


Source: INE, Note: GG stands for General government.

Spending on intermediate consumption decreased every year from 2010 to 2012, for the sector as a whole, and recorded accumulated savings of 524 M€ over the period. This decrease was particularly sharp in 2012 when it totalled 491 M€ (0.1 p.p. of GDP). However, there were distinct differences across subsectors, with expenditure rising in 2011 in the central government subsector, due essentially to commission paid under the EFAP and to the purchase of military equipment, and in 2012 to increased outlays in the social security funds subsector.

Despite the actual decrease in nominal terms from 2010 to 2012 (-540 M€), the social transfers expenditure-to-GDP ratio in 2012 increased its relative weight vis-à-vis 2010 (+0.7 p.p. of GDP). The decrease in nominal terms was due essentially to the decline in social transfers in kind which offset the increase in social transfers other than kind. The changes to this component reflect the impact of the various measures implemented since 2009 and the change in nominal GDP. As for social transfers other than kind, several fiscal consolidation measures were introduced in 2010 and 2011 in the social security system covering various social benefits, in particular family allowances, unemployment benefits and the social inclusion income benefit.

Chart 13 – Social Transfers Expenditure



Source: INE

Despite the measures taken in 2012, expenditure on social security pensions continued to rise in 2012. A number of measures to contain the increase in spending on pensions were put in force both in the social security and CGA systems. In 2011 there was a nominal freeze which was maintained in 2012 when only the lowest pensions were increased to compensate for the cost of living. In 2012 the main fiscal consolidation measure was the suspension of the holiday and Christmas bonuses to retired persons under both public systems, which were paid only to pensioners receiving pensions under 1,100 euros. However, the impact of these measures was offset by an increase in pension expenditure in 2011 and 2012 due to the transfer of pension fund liabilities to these systems. Since 2011 expenditure in the CGA and the social security systems includes expenditure with the pensions of former employees of Portugal Telecom and Rádio Marconi respectively, following the 2010 transfer of the assets belonging to the respective pension funds and, in 2012, social security pension expenditure included for the first time the costs of g the banking pension schemes and the BPN pension fund.

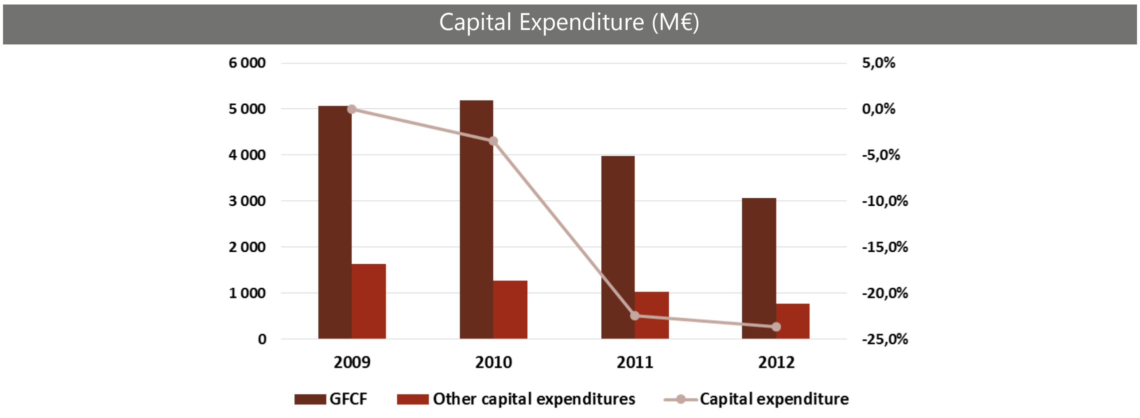
Social transfers other than in kind were up 143 M€ in 2012, reflecting a decrease of 749 M€ in the central government subsector and a rise of 852 M€ in the social security funds subsector. In the central government subsector, where growth in the number of civil servant pensioners continued (around 2.3%), the impact of the measures that affected CGA pensions explain the larger decrease of this subsector's spending. In regard to the social security funds subsector, spending on pensions rose by around 496 M€, reflecting the increase due to the banking pension scheme outlays. Spending on other pensions fell slightly by 0.1%, despite an increase in the number of pensioners of around 1.7%. It is clear that the effect of the measures implemented in 2012 regarding pension expenditure, in particular the suspension of the holiday and Christmas bonuses (around 1% of GDP) managed to offset the budgetary impact of the rise in the number of pensioners under the two systems, of the maturation of the systems and of the increase that covered lower pensions. The remaining social transfers (other than in kind) financed by the social security funds subsector increased significantly in global terms, more than compensating the fall in the CGA system, due essentially to the rise in unemployment benefit payments (+489 M€).

Spending on social transfers in kind has fallen significantly since 2010, recording a drop of 776M€ from 2010 to 2012, of which 274 M€ occurred in2012. Several measures introduced to the National Health Service explain this change by reducing the cost of the State concerning conventions, pharmaceutical subsidies and corporate-hospitals.

Outlays on subsidies and other current expenditure fell sharply in 2012 (-786 M€), equal to 0.4 p.p. of GDP, due in particular to the decrease in compensatory allowances paid by the State and in social security system subsidies (relating to the national public counterpart of the European Social Fund). The change in other current expenditure was due to the significant decline of current transfers to other institutional sectors (-499 M€), of which 45% was due to the central government subsector and the remainder mainly in local government.

Capital expenditure has been reducing its relative weight in adjusted primary expenditure since 2009, and in 2012 it recorded its lowest level since 2005. This change was the result of the sharp drop in gross fixed capital formation of 23.1% compared to 2011, and to the 26.1% decline in capital transfers. From 2010 to 2012 this component represents a spending cut equal to 1.4 p.p. of GDP. The decrease in capital expenditure not adjusted for temporary and one-off measures accounted for 2.7 p.p. of GDP.

Chart 14 – Change in Capital Expenditure



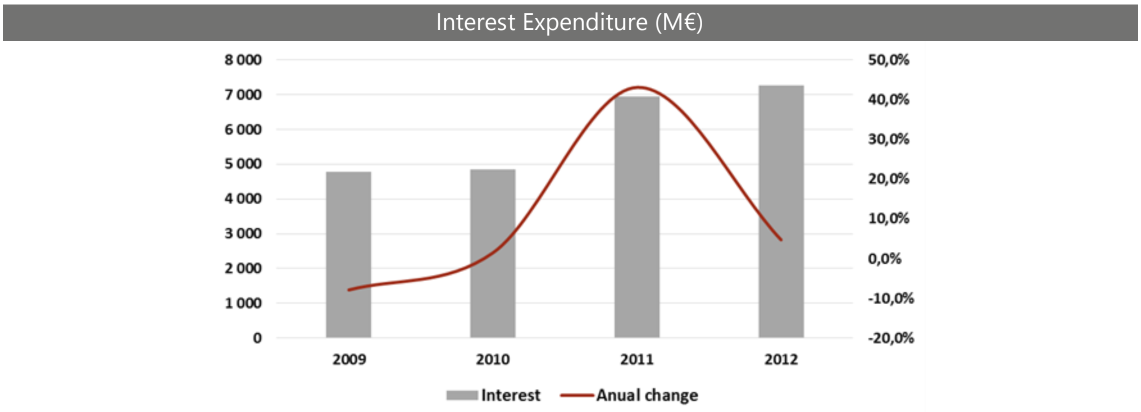
Source: INE

Interest

The cost of public debt interest, according to the relevant definition under the EDP, rose sharply from 2010 to 2012, recording an increase of 2,416 M€, equal to 1.6 p.p. of GDP. It was the only public expenditure component that increased over the period. The change is explained both by the continuous increase in the stock of public debt and by the change in public debt interest rates. The largest increase in nominal terms took place in 2011, and in that year alone interest payments rose by 2,088 M€, which constitutes an increase of 43.1% when compared to 2010. In that year there was a substantial increase in the implicit interest rate[29] compared to 2010 (from 3.4% to 4.3%). At the end of 2012 interest paid totalled 7,265 M€ (4.4% of GDP), consuming 9.4% of the general government's expenditure budget.

[29] Calculated on the basis of the ratio between the annual interest and the value of the stock of debt at the end of the previous year..

Chart 15 – Change in Interest Expenditure



Source: INE

Box 3 – Infra-annual change in adjusted public expenditure

In the period under review the largest adjustment on the expenditure side occurred in 2012. Although all expenditure items fell in 2012, their quarterly change was different. *Over half of the correction to expenditure took place in the last quarter of the year (around 52%), while at the end of the 1st half of the year only 30% of the decrease had took place.*

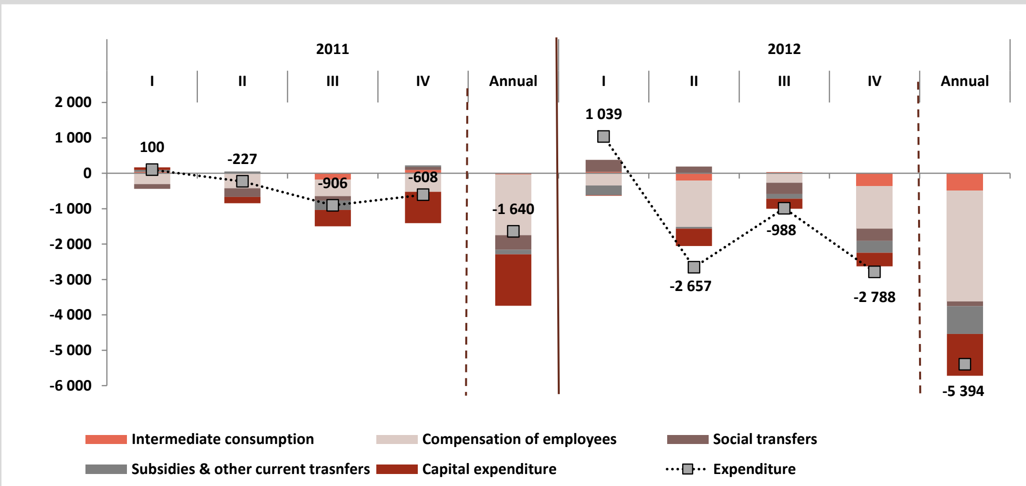
Intermediate consumption was the component that performed most inconsistently over the year. In the 1st quarter of the year, as was the case the previous year, expenditure rose, while the trend was reversed in the 2nd quarter possibly due to the coming into force of the Law on Commitments and Late Payments. In the 3rd quarter it recovered again and more than 70% of the savings recorded on this item occurred in the last quarter of the year compared to the previous year.

Staff costs were more stable and the year-on-year change more marked in the 2nd and 4th quarters, reflecting the impact of the suspension of holiday and Christmas bonuses, normally paid in these periods. Contrary to their performance in 2011, social transfers had a positive year-on-year change up to the 3rd quarter, then fell from the 3rd quarter onwards, reflecting some of the effects of the measures taken in the 2nd and 3rd quarters.

The decrease in subsidies and other current expenditure was also concentrated in the last quarter of the year (over 40% of the annual fall). This result can be explained by the change in other current expenditure.

Finally, the behaviour of capital expenditure is worthy of note. It can be explained essentially by the change in investment expenditure (GFCF) that made up over 80% of the 2012 decrease.

Chart 16 – Quarterly year-on-year change in adjusted public expenditure



Source: INE

Therefore spending cuts were highly concentrated in the 4th quarter, particularly as regards intermediate consumption expenditure and other current expenditure, while only staff costs recorded a steady change over the year.

3.1.4 Comparison with budgetary planning documents

Non-adjusted budgetary deficit was 1.9 p.p. of GDP higher than in the budgetary planning documents (FSD/2011, SB/2012, and FSD/2012). In absolute terms the bias was approximately 3000 M€. Approximately half of this deviation is attributable to the reclassification of the equity injection in CGD and Sagestamo as capital transfers. Correcting for this effect, that is to say, adding the value of these transactions to the original forecasts, as undertaken in panel B of the table below, the excess over the forecast deficit falls to 1.1 p.p. of GDP (around 1500 M€).

This unfavourable bias is entirely due to revenue, as expenditure fell below the estimated level. The bias was markedly negative for indirect taxes and social contributions. In absolute terms, spending was below the forecasts in each of these three planning documents: 2459 M€ compared to the August 2011 forecast and approximately 1100 M€ below the November 2011 forecast (in SB/2012) and the April 2012 forecast (in FSD/2012). However, as GDP at current prices was much lower than expected, when analysed in terms of GDP ratios expenditure was in line with the FSD/2011 forecast and 0.4 p.p. above SB/2012forecast.[30]

In absolute terms current primary expenditure was below FSD/2011 and FSD/2012 estimates. The bias in compensation of employees is particularly large (over 3,000 million below the FSD/2011 forecast) as that document does not include the suspension of the payment of holiday and Christmas bonuses that was decided in SB/2012. Compared to FSD/2012, the unfavourable bias in staff costs, subsidies and other current expenditure and in capital expenditure was partially offset by the fact that social transfers were much higher than expected.

Interest paid and capital expenditure, adjusted for the transfer's reclassification, was below forecasted. When adding the value of the reclassified capital transfer in 2012 (1500 M€), which would have been difficult to anticipate in the original forecasts[31], total capital expenditure is still significantly lower than expected.

General government debt, according to the Maastricht definition, was much higher than expected. The deviations were 17.5, 13.1 and 10.5 p.p. of GDP when compared to the forecasts in FSD/2011, SB/2012 and FSD/2012, respectively. The dynamics of public debt is analysed in greater detail in the next section.

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[30] In absolute terms it is the result of the high negative error in the GDP at current prices forecast: GDP in 2012 was 5,061M€ below the August 2011 forecast and 3,890 M€ below the April 2012 forecast.

[31] The amount relating to CGD capital transfer was only reclassified as a capital transfer in the EDP notification of March 2013, and had not been considered by the INE in the general government quarterly accounts for the 2nd quarter, published previously.

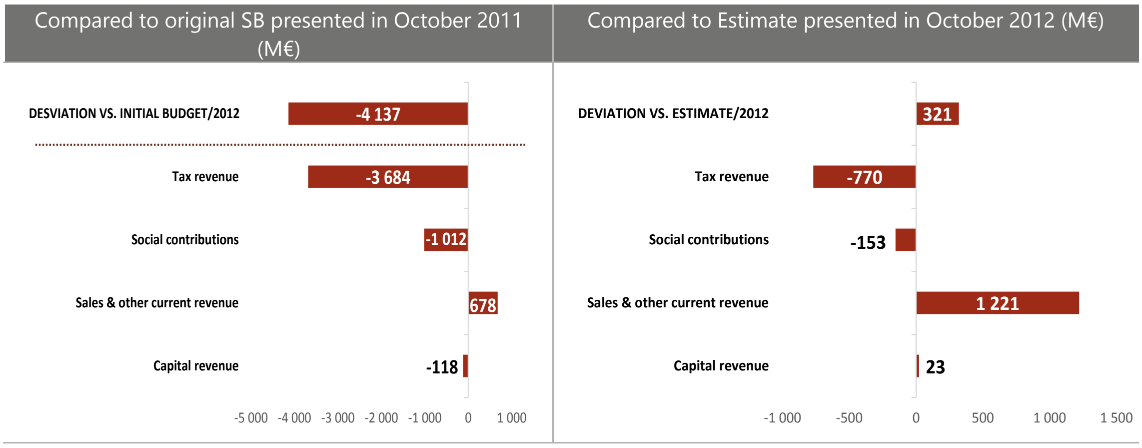
Table 10 – Budgetary forecasts

	Deviations in M€ of EDP from:			Deviations in GDP p.p. from:		
	FSD/2011	SB/2012	FSD/2012	FSD/2011	SB/2012	FSD/2012
	aug/2011	nov/2011	apr/2012	aug/2011	nov/2011	apr/2012
A. Valores não ajustados | *Headline figures*						
Receita Total | *Total revenue*	**-5 455**	**-4 137**	**-4 093**	**-2,0**	**-1,5**	**-1,9**
Receita corrente | *Current revenue*	**-5 470**	**-4 018**	**-3 988**	**-2,0**	**-1,5**	**-1,9**
Receita fiscal | *Tax revenue*	-3 863	-3 684	-3 602	-1,6	-1,7	-1,9
Impostos indiretos | *Indirect taxes*	-2 941	-3 210	-2 289	-1,3	-1,6	-1,2
Impostos directos | *Direct taxes*	-923	-474	-1 313	-0,3	-0,1	-0,7
Contribuições Sociais | *Social contributions*	-2 185	-1 012	-907	-0,9	-0,3	-0,4
Vendas e outras receitas correntes | *Sales & other current rev.*	579	678	522	0,5	0,5	0,4
Receitas de capital | *Capital transfers received*	**15**	**-118**	**-106**	**0,0**	**0,0**	**0,0**
Despesa Total | Total expenditure	**-2 459**	**-1 086**	**-1 103**	**0,0**	**0,4**	**-0,1**
Despesa Primária | *Primary expenditure*	**-1 487**	**473**	**-449**	**0,4**	**1,3**	**0,3**
Despesa Corrente Primária | *Current primary expend.*	-2 089	700	-365	0,0	1,3	0,3
Consumo intermédio | *Intermediate consumption*	332	-188	42	0,3	0,0	0,1
Despesas com pessoal | *Compensation of employees*	-3 139	-680	-634	-1,5	-0,2	-0,3
Prestações sociais | *Social transfers*	148	1 860	816	0,8	1,6	0,8
que não em espécie | *other than in kind*	-22	*1 770*	1 070	0,5	1,5	0,9
em espécie | *in kind via market producers*	169	*90*	-254	0,2	0,2	-0,1
Subsídios e outra despesa corrente | *Subsidies & other curr. exp.*	571	-292	-590	0,4	-0,1	-0,3
Despesas de capital | *Capital expenditure*	602	-227	-83	0,4	-0,1	0,0
FBCF | *GFCF*	-286	-527	-398	-0,1	-0,3	-0,2
Outras despesas de capital | *Other capital expenditure*	888	301	314	0,6	0,2	0,2
Juros (PDE) | *Interest paid (EDP)*	**-972**	**-1 560**	**-654**	**-0,4**	**-0,8**	**-0,3**
Saldo global (PDE) | *General government balance (EDP)*	**-2 996**	**-3 050**	**-2 991**	**-1,9**	**-1,9**	**-1,9**
Saldo Primário (PDE) | *Primary balance (EDP)*	-3 968	-4 610	-3 645	**-2,4**	**-2,8**	**-2,2**
B. Valores corrigidos das transferências de capital reclassificadas | *Figures corrected for reclassified capital transfers*						
Despesa Total | Total expenditure	**-3 959**	**-2 586**	**-2 603**	**-0,9**	**-0,4**	**-1,0**
Despesa Primária | *Primary expenditure*	-2 987	-1 027	-1 949	-0,5	0,4	-0,6
Despesas de capital | *Capital expenditure*	-898	-1 727	-1 583	-0,4	-0,9	-0,9
Saldo global (PDE) | *General government balance (EDP)*	**-1 496**	**-1 550**	**-1 491**	**-1,1**	**-1,1**	**-1,0**
memo items:						
Dívida Pública | Public Debt (Maastricht def.)	23 556	17 415	15 043	17,5	13,1	10,5
PIB nominal | GDP at current market prices	-5 061	-3 891	-2 028	:	:	:

Note: In panel B a sum of 1500M€ has been added to the other capital expenditure included in FSD/2011, SB/2012, FSD/2012 and E2012, corresponding to the increases in the share capital of CGD and Sagestamo, reclassified as capital transfers, so as to make the value of this account *directly comparable with the sum calculated by the INE*. The estimate for 2012, presented in October 2012, in the draft budget for 2013 has been corrected for the impact of the ANA (airports authority) concession included therein. For this purpose 1100 M€ were added to the estimate (as the concession operation was set against other capital expenditure). The adjustment made here differs from that used in the previous section.

Non-adjusted general government revenue fell short of the SB/2012 forecast (by 4,137 M€) as a consequence of the weak performance of fiscal and tax revenue. Even when comparing to the estimate published last October, this aggregate revealed a negative bias (in this case 923 M€). However, total revenue ended up higher than estimated due to a favourable and very significant deviation in other current revenue (1,337 M€). In recent years this revenue item has consecutively been overestimated but in 2012 the situation was reversed. In effect, despite the downward revision (2,682 M€) of original forecast in SB/2012 (3,005 M€), this revenue reached 4,019 M€.

Chart 17 – Deviations in general government revenue in 2012



Source: INE and Ministry of Finance. CFP calculations. | Note: headline figures.

The tax revenue estimated for 2012 depended heavily on an accurate evaluation of the impact of the tax measures set out in SB/2012. Although the magnitude of the bias compared to the original forecast (minus 3,684 M€, equal to around 2.2% of GDP) was partly due to the harsher than expected economic environment,[32] it raises doubts as to the reasonableness of the initial estimated impact of these tax measures. For example, underlying SB/2012 was a 10% increase in indirect tax revenue, when there was actually a 3.7% decline.

Table 11 – General government tax revenue

	2011	2012				Deviations (M€)		Change (%)		
	INE (mar-13)	Initial budget (oct-11)	FSD (apr-12)	Estimate (oct-12)	INE (mar-13)	Initial budget	Estimate	Initial budget (oct-11)	Estim. (oct-12)	INE (mar-13)
		(1)	(2)	(3)	(4)	(4)-(1)	(4)-(3)			
Indirect taxes	23 390	25 732	24 811	23 042	22 522	-3 210	-520	10.0	-1.5	-3.7
Direct taxes	16 963	15 766	16 604	15 542	15 291	-474	-250	-7.1	-8.4	-9.9
Tax revenue	**40 352**	**41 498**	**41 416**	**38 584**	**37 814**	**-3 684**	**-770**	**2.8**	**-4.4**	**-6.3**

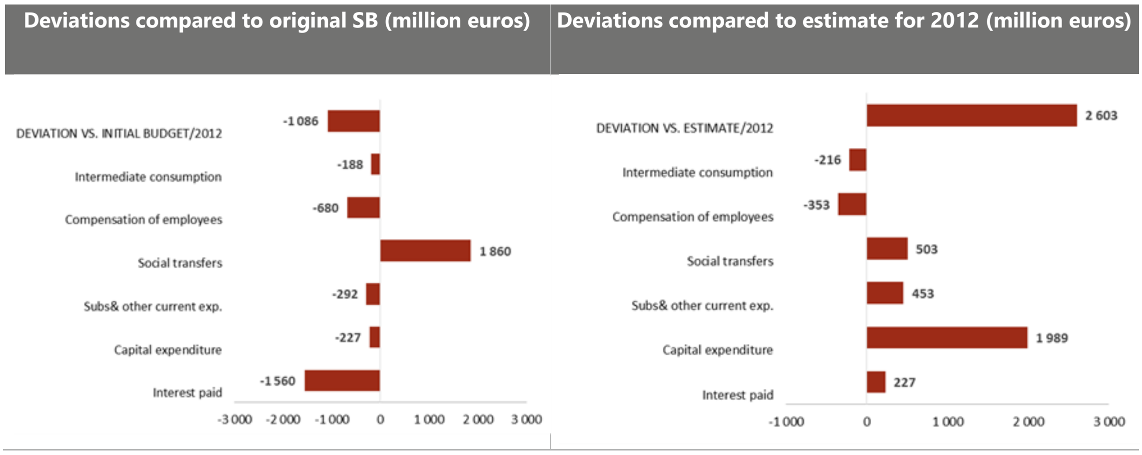
Sources: INE and Ministry of Finance. | Note: headline figures; BSD figures were used rather than those of the 1st amendment to SB/2012 because, while both documents were published at roughly the same time, in the BSD an error in the make-up of tax revenue, that occurred when the public accounts became national accounts, has been corrected.

Throughout 2012 the tax revenue forecasts were repeatedly revised downwards, but the changes proved to be insufficient. In the BSD presented in April the correction was minor (minus 82 M€) but given the change in budgetary outturn, tax revenue was revised sharply downwards in the estimate presented last October (minus 2,914 M€). Nonetheless even that estimate turned out to be optimistic, taking into account the unfavourable bias of 770 M€, of which over ⅔ stems from indirect taxes. Bearing in mind that this estimate has been used to predict tax revenue in 2013, the bias (equal to around 0.5% of GDP) implies, due to the knock-on effect, greater difficulty in achieving the original goal set for this year, which has already been revised.[33]

[32] The change in corporation tax revenue reflected the effect of lower corporate profits during a recession, while revenue from indirect taxes was jeopardized by the fall in the consumption of the goods subject to the higher taxation.

[33] The general government budget deficit goal for 2013 was also revised: in the initial version of the MoU it was 3%, revised to 4.5% during the 5th review (set/2012) and to 5.5% under the 7th review of the financial assistance program in February 2013.

Chart 18 – Deviations in general government expenditure in 2012



Source: INE

Budget developments on the expenditure side recorded significant deviations from the forecasts for 2012. A comparison of the initial expenditure forecasts for 2012 and the actual spending shows that total expenditure fell below the forecast in the initial budget (-1,086 M€), but turned out well above the final estimate presented along with draft SB/2013 (+2,603 M€ million euros).

The performance of total expenditure over 2012 justified the revision of the estimates for all expenditure components when presenting draft SB/2013. The estimate for primary expenditure was revised downwards by 1,903 M€ by resorting to one-off measures, namely the ANA Aeroportos de Portugal, SA concession, which was reflected in the capital expenditure forecast. Primary current expenditure was revised upwards (+313 M€) assuming that the rise in social transfers expenditure would be partially offset by the savings on compensation of employees, subsidies and other current expenditure. Overall, total expenditure was revised downwards, also reflecting an expected decline in interest payments (1,786 M€) and a sharp drop in capital expenditure to offset the expected rise in primary current expenditure.

Comparing the budget outturn reported under the EDP and the final forecast reveals major biases in various items of expenditure. The classification of the revenue from the ANA Aeroportos de Portugal, SA concession by the statistics authority (INE) as a financial transaction, therefore with no impact on the general government fiscal balance (1,100 million euros), and the debt assumption relating to the impairment resulting from the transfer of BPN assets and the capital transfers relating to CGD and Sagestamo, justify the increase in capital expenditure, which was partially offset by a sharp reduction on other capital expenditure (both GFCF and other capital transfers). Among the remaining components of expenditure, note should be made on the deviations recorded in social transfers in kind, in other current expenditure and interest paid, whose spending forecasts were revised downwards in October 2012, while their outturns, with the exception of interest, exceeded the original Government forecasts.

3.2 BUDGET POSITION BY SUBSECTORS

3.2.1 Social security funds

The budgetary position of this subsector deteriorated substantially over the last two years. In addition to the negative effects of structural factors on expenditure (in particular the maturation of the system and the demographic changes) the significant reversal in economic growth in the last two years has significantly eroded the social security systems balance.

Revenue progressed much slower than expenditure, reducing the system's financing capacity. In fact, from 2010 to 2012 revenue dropped by 17 M€ while the increase in outlays reached 486 M€. This deterioration, more marked in 2012, reveals the high sensitivity of the system's revenue and expenditure to changes in the rate of economic growth. In 2012 revenue from the pay-as-you-go system (previdencial system) did not provide for the self-financing of the system, which means current transfers from the State subsector were increased to cover expenditure. Even with this increase the social security system's total revenue was 547 M€ below the forecast in the inicial budget, while spending recorded a deviation of 657 M€ from the same forecast.

The impact of fiscal consolidation measures implemented from 2009 to 2012 was offset by the substantial rise in unemployment benefit payments. Measures were adopted to slow the increase in expenditure of several social benefits and consequently reducing the financing requirements, in the form of State subsector transfers. The rising unemployment rate, especially from the final quarter of 2011 onwards, triggered the automatic stabilisation mechanisms inherent in the social security system, rising unemployment benefit outlays to unprecedented levels.

The social security funds subsector budgetary outturns were well below the original forecasts, although they surpassed the October 2012 forecasts. Both revenue and expenditure deviated greatly from the original budget in 2012 with particular reference to the deviations in social transfers (+1,023 M€), revenue from social security contributions (-738 M€) and tax revenue (+116 M€). The results reported in the EDP of March 2013 compare favourably with the latest Government forecasts for this subsector, presented in the State Budget for 2013, and show a fiscal balance improvement of 219 M€, stemming essentially from the lower expenditure outturn.

Table 12 – Social security funds budget aggregates

	INE EDP				Change			Change	
	2009	2010	2011	2012	2010/12	2010/11	2011/12	2010/12	2011/12
	Millions of euros				Millions of euros			p.p. of GDP	
Valores não ajustados | *Headline figures*									
Receita Total | *Total revenue*	21 877	22 998	22 369	22 981	-17	-629	612	0,6	0,8
Despesa Total | *Total expenditure*	21 487	22 213	21 931	22 700	486	-282	769	0,9	0,9
Saldo global (PDE) | *Social Security Funds balance (EDF*	390	785	438	281	-503	-346	-157	-0,3	-0,1
Despesa corrente | *Current expenditure*	21 380	22 124	21 862	22 665	541	-262	803	0,9	0,9
PIB nominal | *GDP at current market prices*	168 529	172 859	171 065	165 409	-7 450	-1 794	-5 656		

Source: INE.

Revenue and expenditure reached their highest value as a percentage of GDP in 2012 (13.9 and 13.7 respectively) accounting for over 34% of general government revenue and absorbing around 29.5% of public expenditure[34]. The budgetary surplus just amounted to 0.2% of GDP, the lowest figure since 2009.

The subsector's fiscal balance was positive due to the increase in current transfers from the State subsector, which helped reduce the pay-as-you-go system deficit. The social security funds fiscal balance is a result of the balance achieved in the various systems that make up the social security account:

- The citizenship social protection system comprising the solidarity, family protection and social assistance subsystems[35];
- The previdential system that incorporates a component managed as a pay-as-you-go scheme - pay-as-you-go system and a public capitalisation stabilisation component - -capitalisation system[36] and,
- The special schemes system covering schemes which are not covered by the other systems whose expenditure has been transferred to the social security budget and.

The systems have separate sources of financing. The citizenship social protection system and the special schemes system are essentially funded by State subsector transfers and tax revenues. The balance of the citizenship social protection system was positive in 2012, despite the solidarity and family protection subsystems recording deficits which were offset by an improvement in the fiscal balance of the social assistance subsystem as a result of a lower expenditure than expected.

The pay-as-you-go previdential system, essentially financed from social security contributions, has been in the red since 2011[37] reflecting the effects of the fall in economic activity on the system's revenue and expenditure. In 2012 the impact of the economic climate on the system's financial position justified the resort to other sources of financing[38], which led to an extraordinary current transfer from the State subsector of 856.6 M€, to ensure coverage of the system's expenditure.

In 2012 74% of this subsector's balance can be explained by the previdential system (both pay-as-you-go and capitalisation components), which was positive overall following the increase in current transfers from the State subsector and due to the income generated by

[34] Figures adjusted for temporary and one-off measures and special factors.

[35] The solidarity subsystem finances payments of a non-contributory nature, in particular social inclusion income, old-age solidarity supplement, minimum pensions, non-contributory and other equivalent pensions, and early retirement due to unemployment pensions. The family protection subsystem finances the cost of family, disability and dependency allowances. Finally the social assistance subsystem finances social transfers in kind and transfers to private social security institutions.

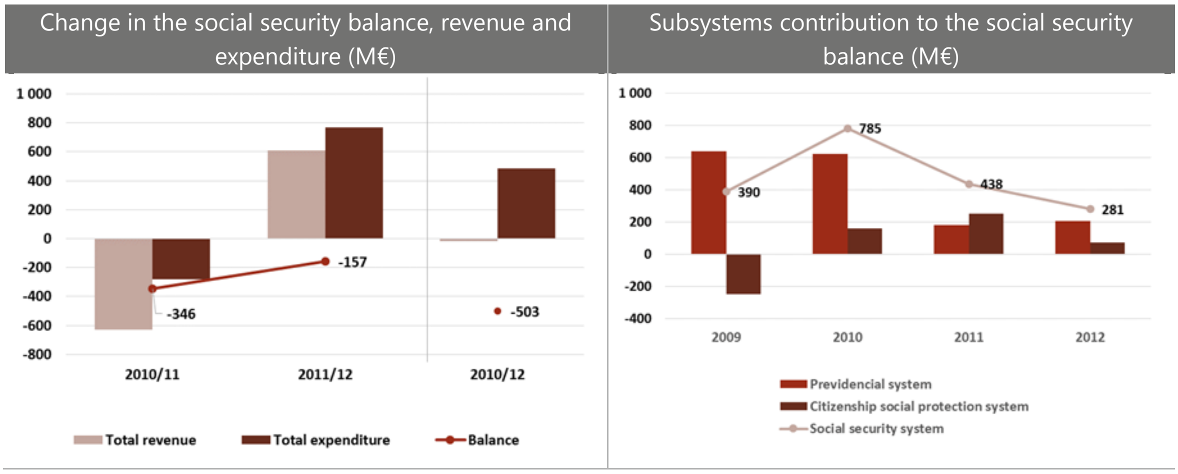
[36] The pay-as-you-go system finances payments of a contributory nature of contingencies covered by the general social security scheme such as sickness, maternity/paternity, unemployment and disability, survivors and old age pensions. The capitalisation system is built up to finance eventual pay-as-you-go welfare system deficits.

[37] For purposes of comparison with the method used since 2011, in 2009 and 2010 the pay-as-you-go system's budget balance was adjusted to include the financing of revenue loss arising from lower contribution rates, which in those years were accounted for in the solidarity subsystem.

[38] State budget transfers or Social Security Financial Stabilisation Fund transfers (article 14 of Decree-Law no. 367/2007).

the Social Security Financial Stabilisation Fund. Adjusting this system's balance from the effect of the extraordinary transfer made at the end of 2012, the subsector's balance stands at -575 M€, equal to -0.3 % of GDP.

Chart 19 – Social security funds revenue, expenditure and balance



Source: INE, IGFSS, CFP calculations. Note: National accounting figures.

Change in Revenue

In 2012 social security funds revenue increased by 0.8 p.p. of GDP, compared to a decrease of 0.2 p.p. the previous year. In 2012 revenue recorded an overall growth of 2.7%, despite the distinct variations in its main components. The change in the social security funds subsector revenue is mainly explained by the performance of social security contributions, tax revenues and current transfers which include State subsector transfers.

Table 13 – Social security funds revenue

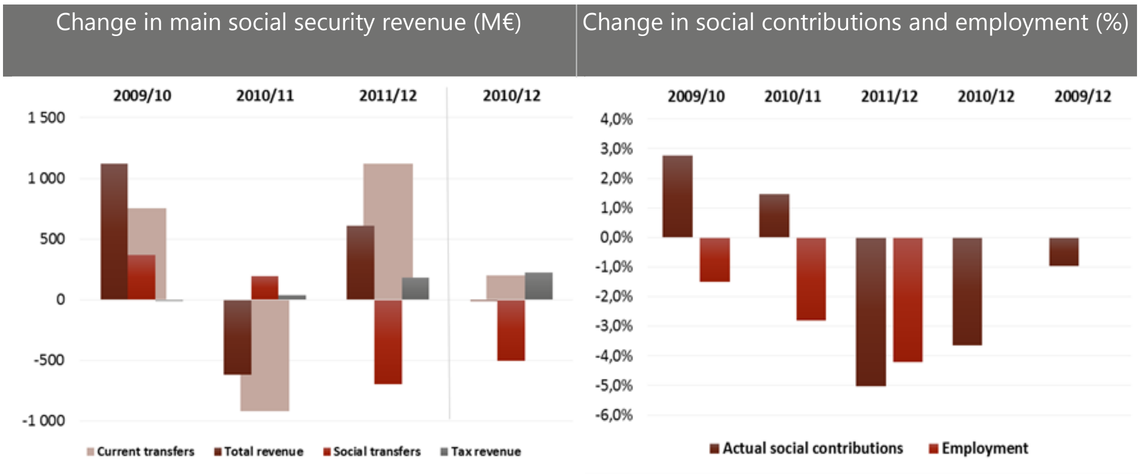
	INE EDP				Change			Contrib.
	2009	2010	2011	2012	2010/12	2010/11	2011/12	to AGR
	Millions of euros				(%)			p.p.
Valores não ajustados | *Headline figures*								
Receita Total | *Total revenue*	**21 877**	**22 998**	**22 369**	**22 981**	**-0,1**	**-2,7**	**2,7**	**2,7**
Receita corrente | *Current revenue*	**21 865**	**22 987**	**22 367**	**22 977**	**0,0**	**-2,7**	**2,7**	**2,7**
Receita fiscal | *Tax revenue*	858	849	889	1 072	26,2	4,7	20,6	0,8
Da qual:								
IVA Social | *VAT*	689	698	715	719	3,0	2,5	0,5	0,0
IVA (PES+ ASECE) | *VAT*	0	0	0	173	-	-	-	
Jogos Sociais | *Profits on fiscal monopolies*	161	143	164	171	19,8	14,5	4,6	0,0
Contribuições Sociais | *Social contributions*	13 199	13 565	13 756	13 061	-3,7	1,4	-5,1	-3,1
Das quais: efectivas | *of which: actual soc. contr. received*	13 164	13 529	13 726	13 036	-3,6	1,5	-5,0	-3,1
Vendas e outras receitas correntes | *Sales & other current rev.*	7 808	8 573	7 722	8 844	3,2	-9,9	14,5	5,0
Das quais:								
Rendimentos de propriedade | *Property income*	330	344	402	398	15,8	16,9	-0,9	0,0
Transf. Corr. - subsector Estado | *Current transfers State budget*	7 455	8 209	7 291	8 410	2,4	-11,2	15,3	5,0
Das quais:								
Contrapartida Pública National | *National counterpart*	264	228	118	202	-11,6	-48,4	71,3	0,4
Regime Substitutivo Bancários | *Banking Scheme*	0	0	0	516	-	-	-	
Lei de Bases da Segurança Social | *SS Framework Law*	6 757	7 499	6 603	6 280	-16,2	-11,9	-4,9	-1,4
Transferência extraordinária | *Extraordinary transfer*	0	0	0	857	-	-	-	
Receitas de capital | *Capital transfers received*	**12**	**11**	**3**	**4**	**-63,7**	**-73,6**	**37,3**	**0,0**

Source: INE, IGFSS, CSS (2009, 2010 and 2011). | Notes: The final column shows each account's contribution to the annual change 2011/12. PES – Social Emergency Program; ASECE – Extraordinary Social Support to Energy Consumers.

In 2012 social contributions revenue showed a sharp deviation from the original forecast, as a result of over optimistic macroeconomic-fiscal forecasts. Social contributions revenue has grown at a slow pace since 2009, falling sharply in 2012 (-5.1%). The indexation of this revenue to the change in the wage bill is a transmission mechanism of the evolution of the economic activity into the social security system, hence. Revenue from social contributions mirrors the sharp fall registered in employment and in the wage bill, given their greater exposure to changes in economic growth and salary levels.

From 2009 to 2012 this effect was mitigated by a number of measures that contributed to rise revenue from social contributions, in particular the coming into force of the Social Security System Contribution Schemes Code in 2011, which revised the contribution rates, changed the contribution basis and provided the full inclusion of bank sector employees in the general social security scheme. The pay cut affecting civil servants covered by the general social security scheme[39] had the opposite effect as wage cuts introduced in 2011 reduced their salaries by an average of 5%. In 2012, in addition to the impact of lower pay, social contributions also reflected the effect of suspending holiday and Christmas bonuses paid to civil servants registered in the general social security scheme.

Chart 20 – Social security funds revenue



Source: INE

Current transfers were up by 15.3% in 2012, more than compensating for the 11.2% fall in 2011. In 2012 State subsector current transfers were higher than expected in the original budget forecast. This increase helped to maintain a positive increase in total revenue, following the fall recorded in 2011 (-2.7%). The increase in transfers aimed at offsetting the drop in social contributions revenue to ensure the pay-as-you-go systems balance and financing the cost of the banking replacement pension scheme, transferred to the system at the end of 2011.

The decrease in current transfers revenue recorded in 2011 was due to the adoption of a number of fiscal consolidation measures in 2010 and 2011 which led to a decline in the financing requirements of the subsystems funded by this source of finance. In 2012, although

[39] The impact of this measure on the social contributions revenue reflects only the cut in pay of civil servants who were enrolled in the general social security scheme because they changed from an individual contract of employment to a civil service contract, and of persons who began working for the general government after 1st January 2006.

the original budget reflects this on-going downward trend in the State subsector's contribution to the social security system financing, current transfers revenue was corrected in the two amendments made to the State Budget. This increase stemmed from the need to increase State subsector current transfers revenue to the tune of 856.6 M€ to offset the fall in social contributions revenue and to ensure the necessary funds to cover expenditure on pensions previously paid by pension funds which were transferred to the social security system, amounted to 515.8 M€ in 2012.

Earmarked tax revenue allocated to the social security funds subsector grew by 20.6% in 2012. Regarding revenue, the increase in tax revenue collected by this subsector, which corresponds to the VAT revenue and the net profit on the social games managed by Santa Casa da Misericórdia de Lisboa, stands out. In 2012 this increase was mainly due to the increase in the VAT revenue as a result of the increase in the VAT tax rate, which was earmarked to finance the Social Emergency Program and the Extraordinary Social Support to Energy Consumers. Compared to the original budget tax revenue had a positive deviation of 116 M€ in 2012, which was concentrated in the 4th quarter of the year.

Change in expenditure

Social security funds subsector spending has fluctuated between2009 to 2012, having risen again after a fall in 2011. From 2009 to 2012 social security funds expenditure increased by 1,213 M€, equal to 1 p.p. of GDP. In 2011 there was an actual decrease in expenditure of 769 M€ (-1.3%), and the trend was reversed in 2012 when spending rose by 486 M€ (+3.5%). This is explained by the change in current expenditure, which accounts for over 99% of total expenditure, since capital expenditure has fallen very sharply since 2009 (67.2%).

Table 14 – Social security funds expenditure

	INE EDP				Change			Contrib. to AGR
	2009	2010	2011	2012	2010/12	2010/11	2011/12	
	Millions of euros				(%)			p.p.
Valores não ajustados | *Headline figures*								
Despesa Total | Total expenditure	**21 487**	**22 213**	**21 931**	**22 700**	**2,2**	**-1,3**	**3,5**	**3,5**
Despesa Primária | *Primary expenditure*	**21 487**	**22 213**	**21 931**	**22 700**	**2,2**	**-1,3**	**3,5**	**3,5**
Despesa Corrente Primária | *Current primary expend.*	21 380	22 124	21 862	22 665	2,4	-1,2	3,7	3,7
Consumo intermédio | *Intermediate consumption*	94	106	67	85	-19,8	-37,4	28,1	0,1
Despesas com pessoal | *Compensation of employees*	363	342	290	241	-29,3	-15,0	-16,9	-0,2
Prestações sociais | *Social transfers*	18 608	19 404	19 296	20 151	3,8	-0,6	4,4	3,9
que não em espécie | *other than in kind*	18 475	19 255	19 195	20 048	4,1	-0,3	4,4	3,9
Pensões | *Pensions*	13 465	14 012	14 449	14 945	6,7	3,1	3,4	2,3
Sobrevivência | *Survivors pensions*	1 954	2 028	1 955	2 003	-1,2	-3,6	2,4	0,2
Invalidez | *Disability pensions*	1 418	1 408	1 396	1 374	-2,4	-0,9	-1,6	-0,1
Velhice | *Old age pensions*	10 069	10 547	11 064	11 019	4,5	4,9	-0,4	-0,2
Benefícios Antigos Combatentes | *Former combatentes benefits*	24	29	34	34	15,2	17,4	-1,9	0,0
Regime Substitutivo dos Bancários | *Banking scheme*	0	0	0	516	-	-	-	-
Prestações por desemprego | *Unemployment benefits*	2 045	2 221	2 104	2 593	16,7	-5,3	23,3	2,2
Prestações por doença | *Sickness benefits*	451	447	451	414	-7,3	0,8	-8,0	-0,2
Prestações por parentalidade | *Parental benefits*	376	426	453	429	0,9	6,3	-5,1	-0,1
Prestações familiares | *Family allowances*	1 137	1 109	812	807	-27,2	-26,7	-0,6	0,0
Outras prestações | *Other benefits*	1 002	1 041	928	860	-17,4	-10,8	-7,3	-0,3
em espécie | *in kind via market producers*	133	149	100	103	-30,8	-32,8	3,1	0,0
Subsídios e outra despesa corrente | *Subsidies & other current exp.*	2 315	2 272	2 210	2 187	-3,7	-2,7	-1,0	-0,1
Das quais:								
Transferências Correntes entre administrações públicas	842	820	680	668	-18,6	-17,0	-1,8	-0,1
Transferências Correntes diversas	1 289	1 276	1 349	1 359	6,5	5,7	0,7	0,0
Despesas de capital | *Capital expenditure*	106	90	69	35	-61,1	-23,3	-49,3	-0,2
Juros (PDE) | *Interest paid (EDP)*	**0**	**0**	**0**	**0**	**-75,6**	**-75,6**	**0,0**	**0,0**

Source: INE, IGFSS, Social security account (2009, 2010, 2011). CFP calculations. | Note: The unemployment benefit figures include employment support payments. AGR, stands for annual growth rate.

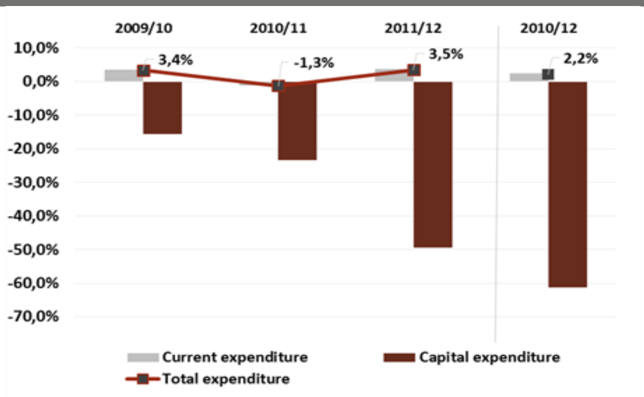
Current expenditure

From 2009 to 2012 current expenditure rose by 1,285 M€ (+6%), of which 803 M€ occurred in 2012 (+3.7%). This subsector's current expenditure performance was determined by the change in social transfers other than in kind (monetary) and in kind, which together represent around 89% of this aggregate in 2012. Social transfer's expenditure was up 4.4% in 2012, contributing 3.9 p.p. to the change in current expenditure.

Staff costs fell 16.9% in 2012, due in part to the fall in the level of employment in this subsector (-3.4%), as well as to the suspension of the payment of holiday and Christmas bonuses to civil servants. Intermediate compensation increased by 28.1% in 2012, against the trend of other general government subsectors. In 2012 the contribution of these two components to the change in current expenditure was -0.1 p.p.

Chart 21 – Social security funds expenditure

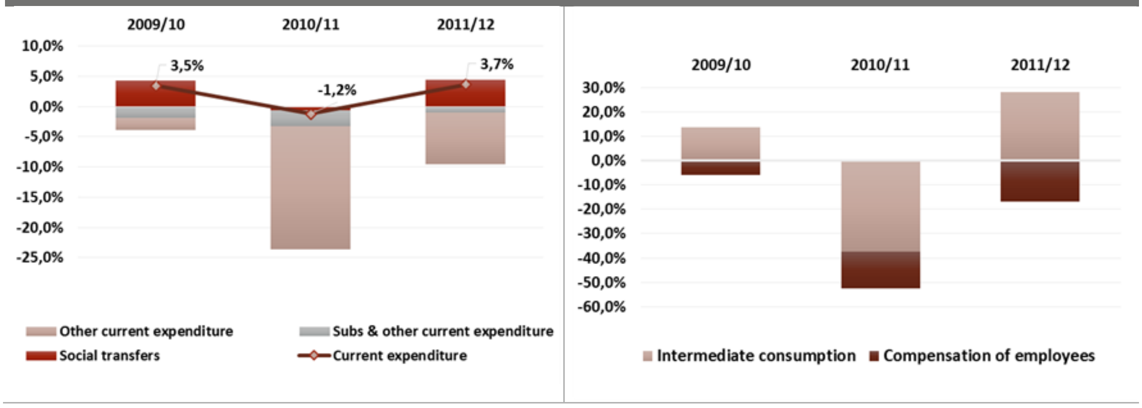
Change in Current and Capital Expenditure (%)



Source: INE, IGFSS, Social security account (2009, 2010, 2011).

Chart 22 – Social security funds current expenditure

Change in current expenditure by component (%)



Source: INE, IGFSS, Social security account (2009, 2010, 2011). Note: "Other current expenditure" refers to compensation of employees and intermediate consumption.

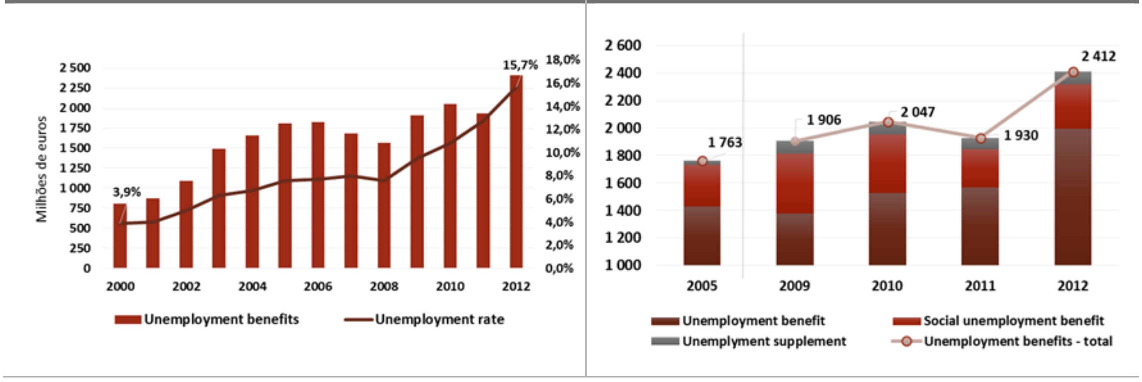
From 2009 to 2012, 2011 was the only the year in which social transfers expenditure fell, especially in the case of social transfers in kind (-32.8%). The 2011 budget outturn benefitted from the impact of a series of consolidation measures adopted in 2010, with effects that lasted until the following year. In this context there was a change in rules concerning eligibility and maintenance of benefits of the solidarity subsystem (social inclusion income and unemployment benefit) and of the family protection subsystem (family allowance for children and young persons). Expenditure on family allowances for children and young persons also reflects the a suspension to the 4^{th} and 5^{th} income brackets, the suspension in 2010 of the additional benefit paid in September to beneficiaries in the 3^{rd} income bracket and the 25% increase that had been introduced in 2008 for 1^{st} income bracket beneficiaries, as well as cut of the value of scholarships paid to secondary school students from 2011 onwards.

Changes were also made to the unemployment protection scheme, resulting in the suspension of the extension of the unemployment benefit that had been introduced in 2009, the increase in the qualifying period for unemployment benefit, and the introduction of adjustments to the maximum level of the benefit, which in addition to the ceiling of 3 times the Social Support Index (IAS), was limited to 75% of the net reference salary.

The suspension of the updating of the IAS since 2009 had an across the board effect on a number of social benefits, and a non-negligible effect on pensions, which were nominally frozen in 2011.

Chart 23 – Change in unemployment benefit expenditure

Unemployment benefit expenditure and unemployment rate	Expenditure by benefit type (M€)



Source: INE, IGFSS, Social security account (2009, 2010, 2011).

Following the fall in 2011, current expenditure rose again in 2012, driven by the growth in unemployment and pension payments. In 2012 although several measures were undertaken, their impact was not sufficient to offset the increase in unemployment payments[40] of 489 M€, compared to the previous year (23.3%). Of this sum, 427 M€ relate to the unemployment benefit, where expenditure rose 27.3% in year-on-year terms, a figure that accounts for the largest annual change in this payment since 2003.

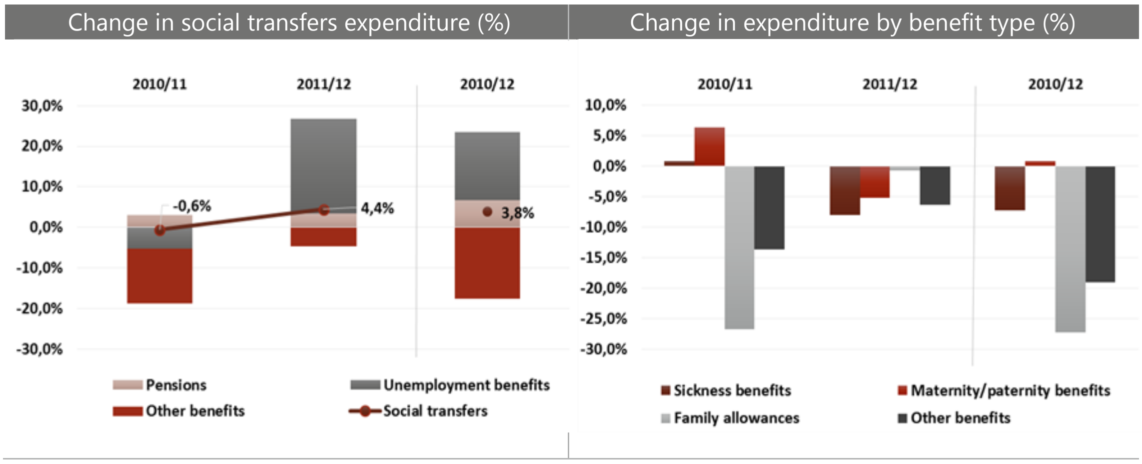
[40] It includes all expenditure relating to unemployment and employment support benefits, in particular the Wage Guarantee Fund.

Expenditure on pensions, which represents over 70% of social transfers expenditure was also subject to measures intended to curtail their growth. Besides the suspension of the pension updating rule, except for the lowest pensions, the payment of holiday and Christmas bonuses to pensioners was also suspended. Access to early retirement pensions was also suspended from April 2012 onwards. The effect of these measures was, however, partially offset by cost of pensions previously borne by pension funds, namely the banking pension scheme and BPN pension fund pensions, which added 516 M€ (0.3% of GDP) to the system's expenditure. The net effect was a rise of 496 M€ in 2012 (3.4%).

The unemployment protection scheme was also revised in 2012 leading to: i) a reduction of the benefit after six months of payment ; ii) a reduction in the maximum benefit to 2.5 times the IAS; iii) a reduction in the concession period; and, iv) the decrease of the qualifying period[41]. Since the impact of this type of measures is gradual, no significant effect was felt in 2012 that could reduce expenditure on these payments, which increased substantially.

Other social transfers paid by the social security funds subsector decreases overall in 2012, also due to the various budget consolidation measures affecting the rules for calculating sickness benefits, maternity/paternity and death benefits, as well as the eligibility and maintenance rules for social inclusion income benefits. In effect, expenditure on other social transfers that have been subject to budget consolidation measures since 2010 was down by 130 M€, compared to the previous year, making a positive contribution to this subsector's consolidation.

Chart 24 – Change in social transfers expenditure



Source: INE, IGFSS, Social security account (2009, 2010, 2011). CFP calculations.

Expenditure on subsidies and other current expenditure fell by 1%, due above all to the decline of 11.3% in subsidies, as a result of the decrease in the national public counterpart of the European Social Fund and of the current transfers to other general government subsectors, namely to finance active employment and vocational training policies. Current transfers to other institutional sectors rose by 0.7%.

[41] This measure has a negative effect on unemployment benefit expenditure, as it increases access to the benefit.

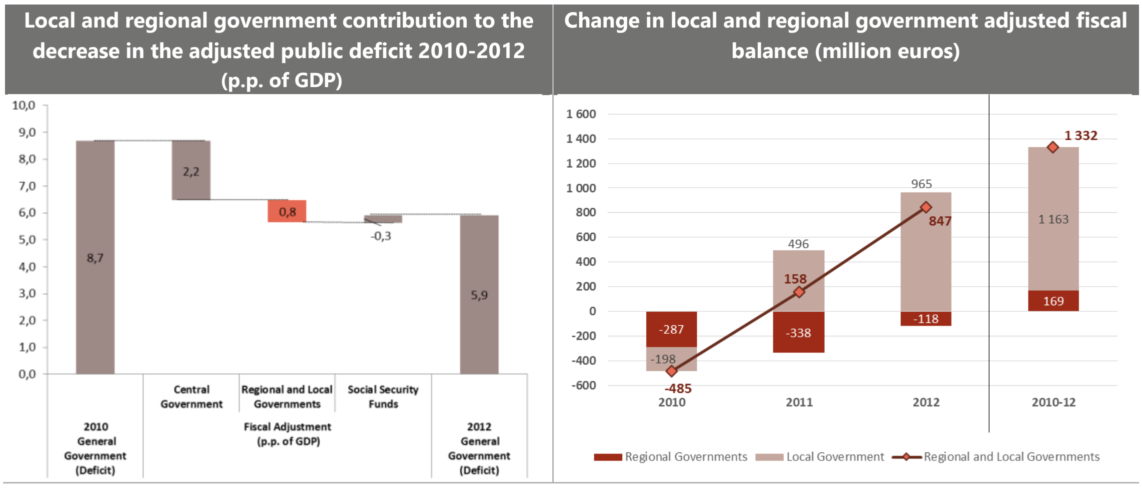
Capital expenditure

Similarly to the other general government subsectors, social security funds capital expenditure decreased sharply from 2010 to 2012 (-61.1%). Capital expenditure accounts for less than 1% of the subsector's expenditure, so any change has a minor effect. Nonetheless, its change reflects a sharp decrease in capital transfers to non-profit institutions, since investment expenditure (GFCF) moved in the opposite direction, having risen 61.5% and 29% in 2011 and 2012, respectively. Note that the change in investment expenditure has been influenced since 2010 by the sale of assets which in the national accounts is deducted from investment expenditure. In 2010 and 2011 this revenue reached to 23.8 M€ and 3.9 M€ respectively, falling to 2.6 M€ in 2012.

3.2.2 Local and regional government budgetary position

In the last three years regional and local government contributed to the decrease in the public deficit. If the impact of temporary measures and special factors[42] is not considered (see Box 2), over the three-year period of 2010 to 2012, this subsector's fiscal imbalance correction represented around 30% of the fiscal adjustment undertaken by general government. A critical factor in this correction was the decrease in subnational sectors expenditure, whose relative weight in public spending fell from 13.8 % in 2010 to 12.9% in 2012. The local government subsector, which in the last two years recorded budget surpluses, was decisive in this adjustment. As a result of the economic and financial assistance agreements signed between the autonomous regions and central government, in 2012 regional government returned to the downward course in the budgetary deficit that had been interrupted in 2011 (see Box 4).

Chart 25 – Local and regional government budgetary position



Source: INE and CFP calculations.

[42] The adjustments included correspond only to special factors affecting the Madeira region in 2010 and 2011. The impact on expenditure of the operations described in Box 2 as special factors was 954 M€ (0.6% of GDP) and 820 M€ (0.5% of GDP) in 2010 and 2011, respectively. As a result of these operations the regional government deficit, not adjusted for the effect of special factors was 1,242 M€ and 1,158 M€ in 2010 and 2011, respectively.

The correction in the regional and local government fiscal imbalance was sustained by the reduction in primary expenditure. From 2010 to 2012, primary expenditure dropped by 1,711 M€ (-15%), equal to 0.7 p.p. of GDP, and over half of this decrease (-983 M€) was due to the reduction in capital expenditure, mainly in investment (gross fixed asset formation) of local government.

The year 2012 was particularly important, as it accounted around ¾ of the primary expenditure adjustment from 2010 to 2012 and marked a change in the nature of the expenditure adjustment. The fall in expenditures relating to staff, as a result of the suspension of payment of holiday and Christmas bonuses, as well as the decrease in intermediate consumption at the regional government level, contributed to a large extent to the fact that in 2012 around 2/3 of the cut in expenditure was provided by primary current expenditure. This was the result of fiscal consolidation measures approved in SB/2012 and subsequent measures introduced through the economic and financial assistance agreements signed with the autonomous regions. The new adjustment profile outweighed the predominance of capital expenditure reductions in 2010 and 2011, greatly influenced by the establishment of new limits on municipal indebtedness, in particular the ban on taking out new loans, including all forms of debt that involve an increase in a municipality's net indebtedness.[43]

In terms of revenue, this aggregate fell from 2010 to 2012. The sharp drop in revenue in 2012 (4.7%), caused entirely by capital revenue, was the decisive factor in this outcome. The trend of current revenue was unchanged, although tax revenue and other current revenue performed differently. Growth in the latter component, in particular at the local government level, offset the decrease in tax revenue recorded by regional government.

Table 15 – Local and regional government budget aggregates

REGIONAL AND LOCAL GOVERNMENTS	Million Eur				Change (%)	% of GDP	Change p.p. GDP		
	2009	2010	2011	2012	2011/12	2012	2010/12	2010/11	2011/12
Valores ajustados | adjusted for *special factors*									
Receita Total | *Total revenue*	11 220	11 092	11 329	10 794	-4,7%	6,5	0,1	0,2	-0,1
Receita corrente | *Current revenue*	9 265	8 861	9 033	9 032	0,0%	5,5	0,3	0,2	0,2
Receitas de capital | *Capital transfers received*	1 954	2 231	2 297	1 762	-23,3%	1,1	-0,2	0,1	-0,3
Despesa Total | Total expenditure	12 561	11 577	11 171	9 947	-11,0%	6,0	-0,7	-0,2	-0,5
Despesa Primária | *Primary expenditure*	12 314	11 443	10 991	9 732	-11,5%	5,9	-0,7	-0,2	-0,5
Despesa Corrente Primária | *Current primary expend.*	9 041	8 581	8 673	7 853	-9,5%	4,7	-0,2	0,1	-0,3
Despesas de capital | *Capital expenditure*	3 273	2 862	2 318	1 879	-18,9%	1,1	-0,5	-0,3	-0,2
Juros (PDE) | *Interest paid (EDP)*	248	135	180	215	19,6%	0,1	0,1	0,0	0,0
Saldo global (PDE) | *Overall balance (EDP)*	-1 342	-485	158	847		0,5	0,8	0,4	0,4
Saldo Primário (PDE) | *Primary balance (EDP)*	-1 094	-350	338	1 062		0,6	0,8	0,4	0,4
Despesa corrente | *Current expenditure*	9 288	8 716	8 853	8 068	-8,9%	4,9	-0,2	0,1	-0,3
Dívida Pública | *Public Debt (Maastricht def.)*	8 525	9 577	10 111	9 444	-6,6%	5,7	0,2	0,4	-0,2
PIB nominal | *GDP at current market prices*	168 529	172 859	171 065	165 409	-3,3%				

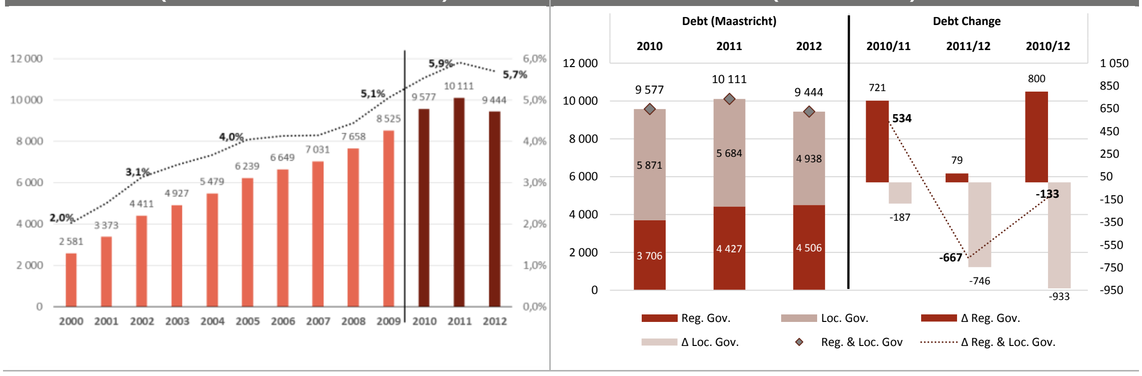
Source: INE and CFP calculations.

[43] When Law no. 12-A/2010 of 30 June was approved it established a series of additional fiscal consolidation measures aimed at reinforcing and accelerating the decrease in the excessive deficit and the control of growth in public debt set in the Stability and Growth Program (SGP). The purpose of these measures was to achieve the new budget goal for 2010. This goal corresponded to the updating of the budget target set in the SB/2010 report (deficit of 8.3%), to 7.3% of GDP. Provisions of the mentioned law included new restrictions on the local authority indebtedness limits as laid down in article 15 (1).

In 2012 regional and local government debt (Maastricht definition) interrupted the annual growth recorded for more than a decade[44,45]. From 2010 to 2012 this indicator fell by 9,444 M€ (5.7% of GDP). This figure was 133 M€ lower than that of 2010, essentially due to the budget outturn in 2012, the year in which the growth of this subsector's debt was interrupted. Local government performance fully explained this reversal, even if it was countered in part by the behaviour of regional government which continued to record an increase in debt in 2012. As a result of this performance the relative weight of regional government debt in combined regional and local government debt increased once again. At the end of 2012, the relative weight of regional governments was 47.7%, up 9 p.p. on the 2010 figure.

Chart 26 – Regional and local government debt

Change in regional and local government debt 2000-2012 (million euros and % of GDP)	Debt and change in debt by subsector (million euros)



Source: Bank of Portugal and CFP calculations.

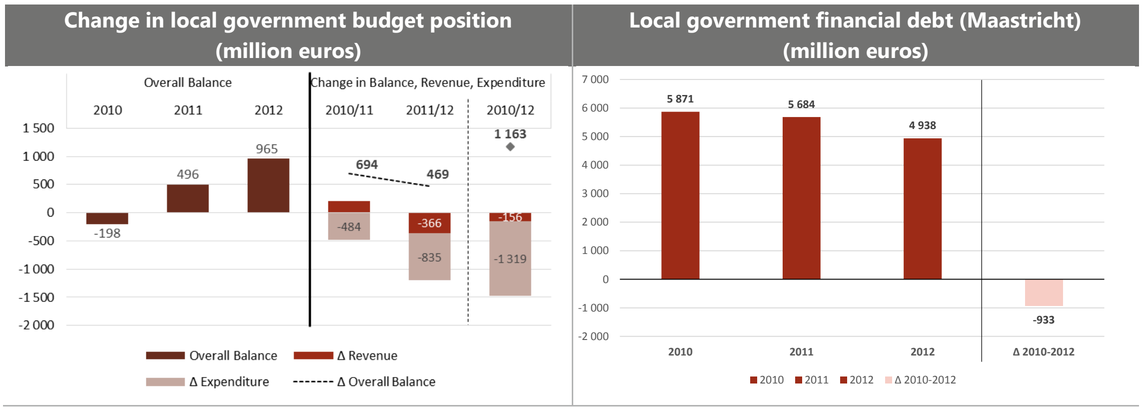
3.2.2.1 Local Government Budgetary Position

Consolidation of the 2011 budgetary surplus allowed local government to improve the state of local finances in 2012. The positive balance achieved by this subsector in 2012 (965 M€) was greater than the surplus recorded in 2011 (496 M€). The reversal in 2011 of the deficit position marks a turning point in the correction of this subsector's fiscal imbalance, now heading towards a recovery in municipal finances. The financial imbalance in local debt calculated in line with the Maastricht definition followed the same course and over the last two years fell by 933 M€. This reduction in financial indebtedness, justified by the accumulated budgetary surplus (1,461 M€), was the largest debt reduction since 2006, the first year for which detailed information is available.

[44] Based on the information in Chart 28 relating to regional and local government debt (Maastricht definition) for the period from the 1st quarter of 2000 to the 4th quarter of 2012, reported quarterly by the national statistical authorities to *Eurostat*.

[45] The definition of public debt (Maastricht) established in the Stability and Growth Pact and used for excessive deficit procedure reporting, does not include commercial debt, nor the debt of state companies that fall outside the scope of general government. A broader concept of general government debt also covers non-financial and administrative debt of the various subsectors.

Chart 27 – Change in local administration fiscal and financial framework



Source: INE and CFP calculations.

The decrease in local authority expenditure was critical to the correction of this subsector's trend. From 2010 to 2012 the 1,163 M€ (0.7 p.p. of GDP) improvement in the local government fiscal balance was due to the decrease in primary expenditure (-0.6 p.p. of GDP; 1,387 M€). In 2012 the consolidation measures laid down in EFAP, and approved in SB/2012, contributed to the continued decline in expenditure that had begun in previous years. In nominal terms, the magnitude of the decrease in primary expenditure (-9.9%, - 835 M€) steepened in that year. The most important contribution to this decrease was current primary expenditure (5.8 p.p. of GDP; -486 M€) driven by compensation of employees and other current expenditure. Although capital expenditure dropped (384 M€), its contribution (-4.6p.p.) to the decrease in local authority spending was less as a result of the smaller decline in investment.

Table 16 – Local government budget aggregates

LOCAL GOVERNMENT	Million Eur 2009	2010	2011	2012	Change (%) 2011/12	% of GDP 2012	Change p.p. GDP 2010/12	2010/11	2011/12
Valores ajustados | adjusted for *special factors*									
Receita Total | *Total revenue*	8 947	8 724	8 934	8 568	-4,1%	5,2	0,1	0,2	0,0
Receita corrente | *Current revenue*	7 684	7 232	7 395	7 553	2,1%	4,6	0,4	0,1	0,2
Receitas de capital | *Capital transfers received*	1 263	1 492	1 539	1 015	-34,0%	0,6	-0,2	0,0	-0,3
Despesa Total | Total expenditure	9 869	8 922	8 437	7 603	-9,9%	4,6	-0,6	-0,2	-0,3
Despesa Primária | *Primary expenditure*	9 694	8 839	8 322	7 452	-10,5%	4,5	-0,6	-0,2	-0,4
Despesa Corrente Primária | *Current primary expend.*	6 823	6 372	6 354	5 868	-7,6%	3,5	-0,1	0,0	-0,2
Despesas de capital | *Capital expenditure*	2 871	2 467	1 967	1 583	-19,5%	1,0	-0,5	-0,3	-0,2
Juros (PDE) | *Interest paid (EDP)*	175	83	116	151	30,5%	0,1	0,0	0,0	0,0
Saldo global (PDE) | *Overall balance (EDP)*	-921	-198	496	965		0,6	0,7	0,4	0,3
Saldo Primário (PDE) | *Primary balance (EDP)*	-746	-115	612	1 116		0,7	0,7	0,4	0,3
Despesa corrente | *Current expenditure*	6 998	6 455	6 470	6 019	-7,0%	3,6	-0,1	0,0	-0,1
Dívida Pública | *Public Debt (Maastricht def.)*	5 859	5 871	5 684	4 938	-13,1%	3,0	-0,4	-0,1	-0,3
PIB nominal | *GDP at current market prices*	168 529	172 859	171 065	165 409	-3,3%				

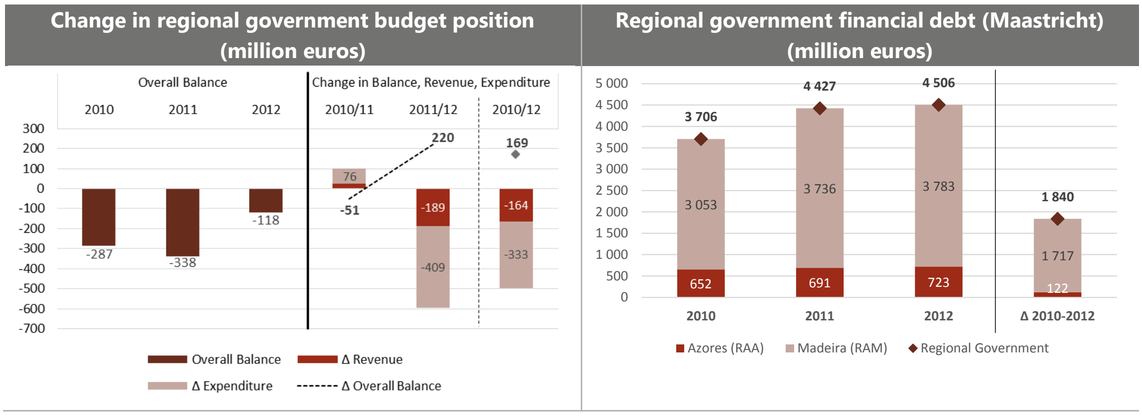
Source: INE and CFP calculations

Local authorities own revenue did not favour growth in this subsector's revenue. From 2010 to 2012, the weight of revenue generated by local government compared to revenue from transfers and production subsidies deteriorated slightly. This outcome was the result of weak performance of the "sales" budget item, whose negative contribution had a very unfavourable effect in this subsector's own revenue over the period, despite the favourable contribution of income from property and the positive, but marginal, contribution of tax revenue, upset by the adverse macroeconomic climate.[46] Even then, in 2012, the fall in own revenue was smaller than in 2011. In terms of overall revenue from production subsidies and transfers from general government subsectors and other subsectors, including the rest of the world, we find that the subsectors outside of general government were those which contributed most to growth in overall local government revenue over the three-year period.

3.2.2.2 Regional Government Budgetary Position

The regional government fiscal imbalance declined in 2012. The autonomous regions deficit progressed favourably in 2012. Despite the difference in size and direction of the fiscal balance in each autonomous region over the three-year period 2010-2012, the change in the last year was significant for the decrease in the imbalance of both regions. Under the Economic and Financial Assistance Program agreed with Madeira (RAM), achieving the budget balance target set for 2012 allowed the region’s deficit to resume a downward course. In 2012 the Azores (RAA) continued to converge towards a balanced budget, in line with that set out in the memorandum of understanding signed with the national government. As a result of these developments the change in regional public debt (Maastricht definition) decelerated considerably in 2012, although maintaining an upward trend. In that year the increase of financial indebtedness of the autonomous regions was up by 79 M€, which compares to 721 M€ in 2011.

Chart 28 – Change in regional administration fiscal and financial framework



Sources: INE and CFP calculations.

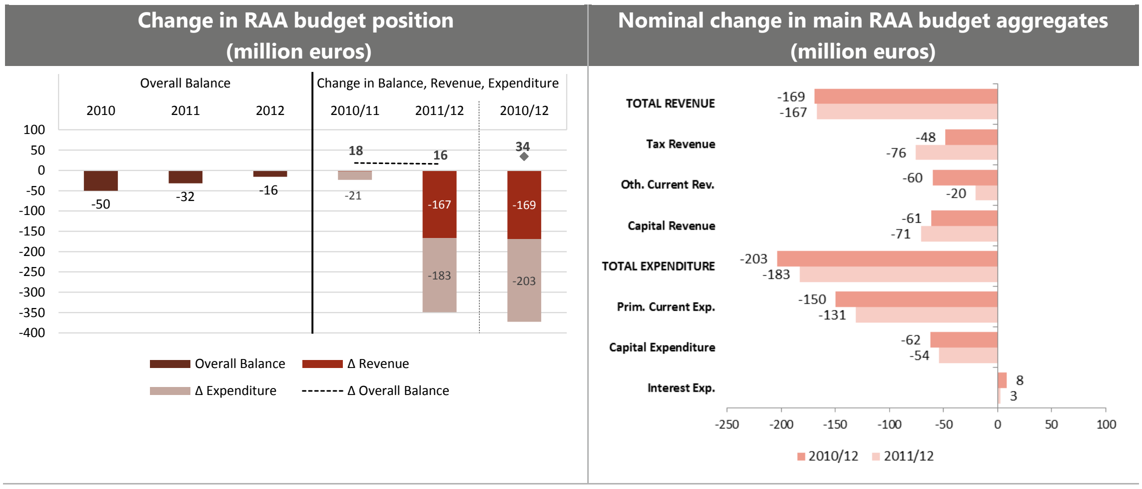
3.2.2.2.1 Change in Azores (RAA) Budgetary Position

The Azores autonomous region continued to converge towards a balanced budget. The provisional estimate for the 2012 deficit calculated by the national statistical authority points to a budgetary position close to balance (deficit of 16 M€). In terms of the region’s GDP this outcome represents an improvement of 0.4 p.p. In the three-year period 2010-2012, the accumulated decrease in the deficit was 34 M€ (0.9 p.p. of regional GDP), and almost half of this correction was due to the budget outturn in 2012. Despite the sharp fall in revenue in 2012 (-3.6 p.p. of regional GDP), caused by tax revenue and capital revenue, the magnitude of the decrease in spending (4 p.p. of regional GDP) in that year determined the convergence

[46] The terms “sales”, in the national accounts corresponds to commercial output, output for own use and payments relating to other non-commercial output (P.11+P.12+P.131). This item, among others, includes the majority of the sums pertaining to fines and other penalties, as well as the sale of goods and services.

towards a balanced budget. The change in financial debt (Maastricht) continued on an upward course (723 M€) in 2012, despite the slowdown for the second successive year.

Chart 29 – Change in RAA balance and main budget aggregates



Sources: INE and CFP calculations.

The decrease in expenditure was critical for the RAA budget deficit correction. In the three-year period, 2010-2012, the accumulated decrease in the region's expenditure was 203 M€ (4.2 p.p. of regional GDP). The budget outturn in 2012 was decisive for this decrease. The major contribution came from current primary expenditure (-2.9 p.p. of regional GDP), in particular the accounts relating to compensation of employees (-2.1 p.p. of regional GDP) and other current expenditures (-0.9 p.p. of regional GDP), mainly as a result of suspending the payment of holiday and Christmas bonuses, as well as other measures to reduce operating expenditures. Again capital expenditure contributed to the decrease (-1.3 p.p. of GDP) in 2012, although less than the operating expenditure items. In the period 2010-2012 revenue made an unfavourable contribution to the fiscal correction efforts (-3.3 p.p. of regional GDP). The sharp drop in revenue in 2012 (-3.6 p.p. of regional GDP), influenced by the adverse macroeconomic climate and the decrease in social contributions, due to the pay cut, penalised tax and contributory revenue (-2.2 p.p. of regional GDP), which recorded the largest decrease in this three-year period. The decrease in capital revenue also reflected the lower fiscal allocation, approved in SB/2012, according to the autonomous regions finance law and the lower revenue from other sectors.

Table 17 – Azores Autonomous Region budget aggregates

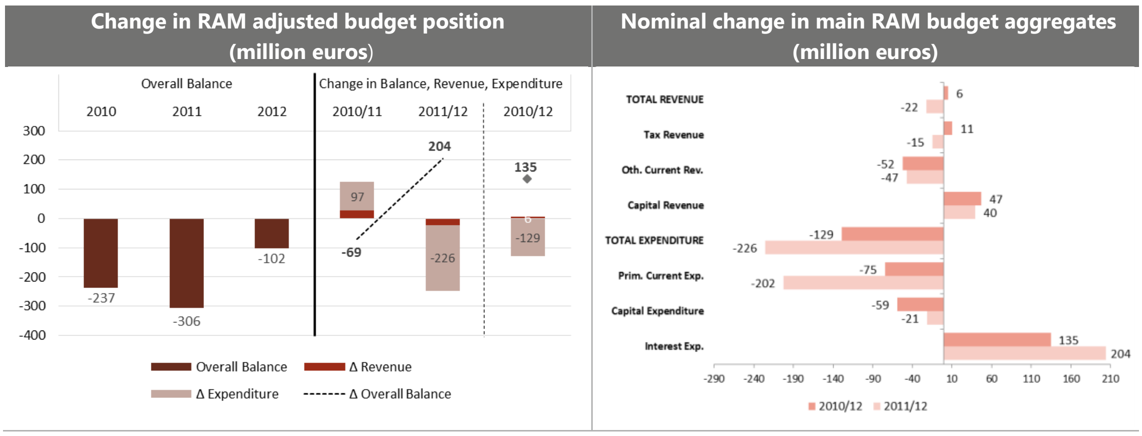
AUTONOMOUS REGION OF AZORES	Million Eur				Change (%)	% of GDP Regional	Change p.p. Regional GDP		
	2009	2010	2011	2012	2011/12	2012	2010/12	2010/11	2011/12
Valores ajustados | adjusted for *special factors*									
Receita Total | *Total revenue*	1 159	1 181	1 178	1 012	-14,1%	28,3	-3,3	0,3	-3,6
Receita corrente | *Current revenue*	686	718	705	610	-13,6%	17,0	-2,1	-0,1	-2,0
Receitas de capital | *Capital transfers received*	474	463	473	402	-15,0%	11,2	-1,1	0,4	-1,5
Despesa Total | Total expenditure	1 241	1 231	1 210	1 027	-15,1%	28,7	-4,2	-0,2	-4,0
Despesa Primária | *Primary expenditure*	1 226	1 217	1 190	1 005	-15,6%	28,1	-4,4	-0,4	-4,1
Despesa Corrente Primária | *Current primary expend.*	1 009	1 018	999	868	-13,1%	24,3	-2,9	-0,2	-2,7
Despesas de capital | *Capital expenditure*	217	199	191	137	-28,3%	3,8	-1,5	-0,2	-1,3
Juros (PDE) | *Interest paid (EDP)*	15	14	20	22	12,8%	0,6	0,2	0,2	0,1
Saldo global (PDE) | *Overall balance (EDP)*	-82	-50	-32	-16		-0,4	0,9	0,5	0,4
Saldo Primário (PDE)| *Primary balance (EDP)*	-67	-36	-12	7		0,2	1,1	0,6	0,5
Despesa corrente | *Current expenditure*	1 025	1 032	1 019	890	-12,6%	24,9	-2,7	0,0	-2,6
Dívida Pública | *Public Debt (Maastricht def.)*	601	652	691	723	4,6%	20,2	2,8	1,3	1,5
Memo:									
Overall Balance in % of GDP	0,0	0,0	0,0	0,0					
Public Debt of RAA in % of GDP	0,4	0,4	0,4	0,4					

Source: INE and CFP calculations. Note: The regional GDP estimate for 2012 took into account the figures calculated by INE up to 2011, assuming the same change as the national figure.

3.2.2.2.2 Change in Madeira Autonomous Region (RAM) Budgetary Position

In 2012 RAM began a fiscal and financial imbalance correction process. Under the adjustment program agreed between the regional government and the national government, quarterly targets were set for the deficit in public accounting and an annual goal for the deficit in national accounts. These goals were achieved over the year, paving the way to correct these imbalances. Excluding the impact of temporary measures and special factors, in 2012 the fall in the deficit totalled 204 M€ (3.9 p.p. of regional GDP). Because of this reduction the value of debt (Maastricht definition) practically stabilised in nominal terms in 2012 (+1.3%), contrary to what happened in 2010 and 2011, when debt grew 987 M€ and 683 M€ respectively. Although not included in the Maastricht debt definition, a special note goes to commercial debt, which registered no growth, meeting the non-accumulation of debt criterion in 2012.

Chart 30 – Change in RAM balance and main budget aggregates



Sources: INE and CFP calculations | Note: the overall balance does not include the effect of temporary measures and special factors, see Box 2.

The RAM fiscal adjustment in 2012 resumed the deficit correction trend interrupted in 2011. In the three-year period 2010-2012, the budget deficit, measured in terms of GDP generated in the region, fell by 2.5 p.p. The 2012 budget outturn contributed fully to this outcome (3.9 p.p. of regional GDP), in the context of the consolidation measures established for that year in the Madeira Adjustment Program (see Box 5). In 2012, the general decrease in the regional expenditure components explained around 90% (3.5 p.p. of regional GDP) of the decrease in the deficit. The suspending of the payment of holiday and Christmas bonuses, along with the application of consolidation measures relating to health, intermediate consumption, services and autonomous funds, as well as other measures envisaging the reduction of other operating expenditure, explain the major contribution of current primary expenditure (3.2 p.p. of regional GDP) to the decrease in the region's overall spending. In terms of revenue, and despite the adoption of tax measures such as the introduction of new VAT rates and the changes in the rates of other special taxes on consumption, there was a fall in tax and contributory revenues (-0.1 p.p. of regional GDP). The reduced economic activity and the civil service pay cut explain this fall. Among the remaining revenue items, the performance of other current revenue (-0.5 p.p. of regional GDP) and of capital revenue (+1 p.p. of regional GDP) took different paths in 2012. The fall in current revenue was due to the lower budget allocation approved under the Autonomous Regions Finance Law and the retaining of State transfers to pay previous years' expenses. The increase in capital revenue reflects benefits from agreements reached with suppliers concerning commercial debt arrears.

Table 18 – Madeira Autonomous Region budget aggregates

AUTONOMOUS REGION OF MADEIRA	Million Eur				Change (%)	% of GDP Regional	Change p.p. Regional GDP		
	2009	2010	2011	2012	2011/12	2012	2010/12	2010/11	2011/12
Valores ajustados | adjusted for *special factors*									
Receita Total | *Total revenue*	1 142	1 221	1 248	1 226	-1,8%	24,8	1,4	1,0	0,4
Receita corrente | *Current revenue*	897	913	933	871	-6,6%	17,6	0,1	0,7	-0,6
Receitas de capital | *Capital transfers received*	245	308	315	355	12,6%	7,2	1,3	0,3	1,0
Despesa Total | Total expenditure	1 480	1 458	1 554	1 328	-14,5%	26,9	-1,1	2,4	-3,5
Despesa Primária | *Primary expenditure*	1 423	1 420	1 510	1 287	-14,8%	26,0	-1,2	2,3	-3,5
Despesa Corrente Primária | *Current primary expend.*	1 210	1 193	1 320	1 118	-15,3%	22,6	-0,3	2,9	-3,2
Despesas de capital | *Capital expenditure*	213	227	190	169	-11,1%	3,4	-1,0	-0,7	-0,3
Juros (PDE) | *Interest paid (EDP)*	57	38	44	42	-5,7%	0,8	0,1	0,1	0,0
Saldo global (PDE) | *Overall balance (EDP)*	-338	-237	-306	-102		-2,1	2,5	-1,4	3,9
Saldo Primário (PDE) | *Primary balance (EDP)*	-281	-199	-262	-60		-1,2	2,6	-1,3	3,9
Despesa corrente | *Current expenditure*	1 267	1 230	1 365	1 160	-15,0%	23,5	-0,2	3,1	-3,2
Dívida Pública | *Public Debt (Maastricht def.)*	2 066	3 053	3 736	3 783	1,3%	76,5	17,9	14,5	3,4
Memo:									
Overall Balance in % of GDP	-0,2	-0,1	-0,2	-0,1					
Public Debt of RAM in % of GDP	1,2	1,8	2,2	2,3					

Source: INE and CFP calculations. Note: The regional GDP estimate for 2012 took into account the figures calculated by INE up to 2011 and the estimated nominal change in national GDP.

Box 4 – Economic and financial agreements with the Regional Governments

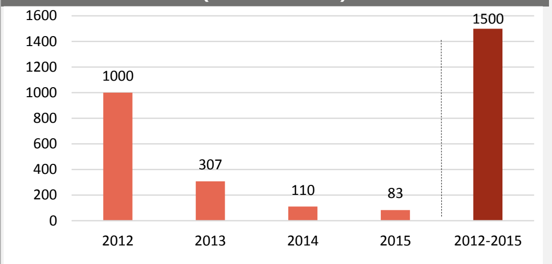
In compliance with the targets laid down in the EFAP for deficit reduction and fiscal consolidation in public accounts, the national government signed agreements in 2012 with each of the autonomous regions with separate aims. The Economic and Financial Assistance Plan signed with the Madeira regional government (EFAP-RAM) in January sets out to correct the region's financial imbalance and so ensure public finances are sustainable, while the Memorandum of Understanding signed in August between the Azores regional government and the national government sets out to overcome the barriers concerning markets access in order to finance the region's debt.

Madeira Adjustment Program. In order to restore the sustainability of public finance and the region's financing capacity, the economic and financial assistance program for this region lays down a series of fiscal consolidation measures to be adopted while the program is in operation (2012-2015). The program's financial package totals 1,500 M€ (around a quarter of the region's total debt), payable in instalments, from 2012 to 2015. The first refund of the loan is expected in 2016 ending in 2033. As with the financial program agreed between the Portuguese government and the EC/ ECB/ IMF, the Madeira adjustment program also sets quantitative limits for the budget balance, in public and national accounts. Compliance with these limits is a mandatory and necessary condition to be met in return for the payment of the sums set out in the finance package. The deficit correction over the period in which the program is in course is based on consolidation measures to be applied on the expenditure and revenue sides, and the greatest consolidation effort is called for in 2012. As a result of these measures, budget surpluses are expected from 2014 onwards as well as a downward shift in the RAM's public debt ratio in 2012 (81.1% of regional GDP) so as to achieve a decrease in that ratio of over 8 p.p. of regional GDP by 2015.

Main budget targets of Madeira adjustment program (million euros)

	2012	2013	2014	2015
Overall Balance (EDP)	-159	-39	18	Surplus
Public Debt of RAM in % of Reg. GDP	81,1%	Ratio in reduction		72,9%
Fiscal Consolidation Measures	649	90	0	0
Revenue	127	90	0	0
Expenditure	522	0	0	0
Non other debt accumulation	0	0	0	0

Financial package and finance program instalments (million euros)



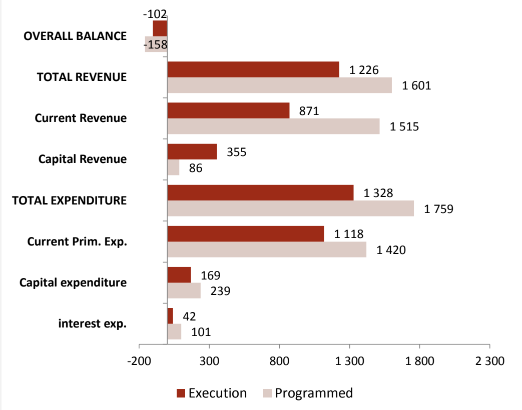
Source: MoF (RAM Economic and Financial Adjustment Program and quarterly assessments of budget outturn in 2012) and European Commission (Report on 3rd Review of EFAP).

Memorandum of Understanding signed with the Azores. The financial support from the State, as defined in the Memorandum of Understanding signed with this autonomous region, provided a loan of 135 M€, to which an additional loan of 50 M€ may be added to meet early repayment of national financial institutions' loans to RAA. The loan granted by the Portuguese government has a maximum maturity of 10 years and during this period the regional government agreed to put into practice a series of measures. Under this commitment the main terms to be met are: (i) the regional government's commitment to ensure the budgetary position is close to balanced and strong compliance with the region's budget; (ii) the implementation of measures aimed at ensuring EFAP goals are met, within its constitutional and legal powers; (iii) application in the Azores of all measures laid down in the State Budget law; (iv) a commitment to achieve and maintain financial balance in the Regional Business Sector and apply the State's new business sector rules; (v) not to undertake any new public-private partnerships except those that will result in a decrease in regional expenditure and (vi) compliance with the law on commitments and *arrears*.

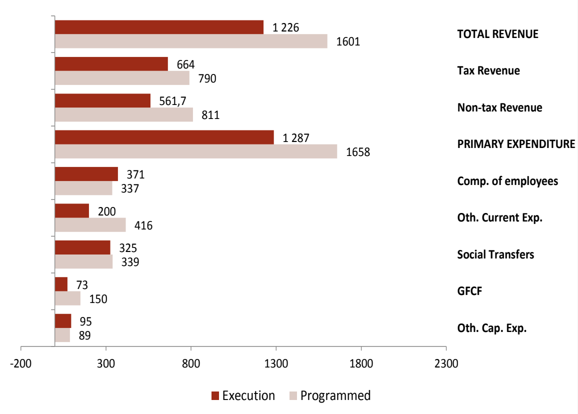
Box 5 – Budget outturn in first year of the Madeira Assistance Program (EFAP-RAM)

In the first year of the Madeira adjustment program, fiscal consolidation efforts concentrated on reducing regional expenditure. Given the impact of the fiscal consolidation measures set out in the program for 2012, the budgetary deficit correction in that year was based on a decrease in expenditure better than initially planned. The deteriorating macroeconomic framework penalised the program estimated tax revenue and required, during the course of budget outturn additional measures to reduce expenditure further. A result of these measures, by the end of the year it was possible to surpass the budget balance goal for 2012, which resulted in a deficit of 102 M€, less 56 M€ than estimated in the program. The critical factor in this outcome was the sharper decrease in current primary expenditure (-302 M€), particularly in terms of other current expenditure and intermediate consumption, which together accounted for almost ¾ of the decrease. On a smaller scale, the reduction in capital expenditure, by means of investment, was greater than expected (16% or -70 M€).

Program outturn vs. forecasts for 2012 (million euros)



Main deviations in program budget outturn for 2012 (million euros)



Source: MoF (RAM Economic and Financial Adjustment Program and quarterly assessments of budget outturn in 2012) and European Commission (Report on 3rd Review of EFAP) Note: deviations are calculated as the difference between outturn and forecasts: a negative/positive deviation indicates outturn was below/above the forecast.

The main consolidation measures provided in the program on the revenue side did not have the estimated impact in 2012. Amongst the measures expected to have the greatest impact on the revenue side, was the convergence of VAT rates with those levied in mainland Portugal, as well as the change in the rates of other special taxes on consumption. These measures did not have the expected impact in 2012, and contributed in large measure to the 126 M€ deviation in tax revenues. Nonetheless these measures mitigated the fall in tax revenue in 2012 (2.2%), caused above all by indirect taxes. Although the outcome was unfavourable it was better than RAA's, where tax revenue fell by 15%. Concerning non-tax revenue, the budget outturn was also worse than expected (-250 M€). The favourable deviation in capital revenue was not sufficient to offset the negative deviation in other current revenue.

4 GENERAL GOVERNMENT FINANCING AND INDEBTEDNESS

4.1 CHANGE IN PUBLIC DEBT IN ABSOLUTE TERMS

In 2012 general government gross debt[47] stood at 204,500 M€ (123.6% of GDP), which represents a significant rise of 15.3 p.p. of GDP compared to 2011. The increase in public debt volume was 19,200 M€ in 2012, less than the increase in 2011 which was 22,800 M€. From 2000 to 2012, the increase in public debt was 143,000 M€, to which the last two years contributed around 29.3%. In 2012 interest on the debt was 7,300 M€, which compares with half that sum in 2000. Accumulated interest from 2000 to 2012 totalled 61,300 M€. It should be noted that whereas in 2011 interest charges rose as a consequence of both the growth in debt stock and the rate of interest, in 2012 the increase was due solely to the volume effect, since the implicit interest rate fell to 3.9% (4.3% in 2011).

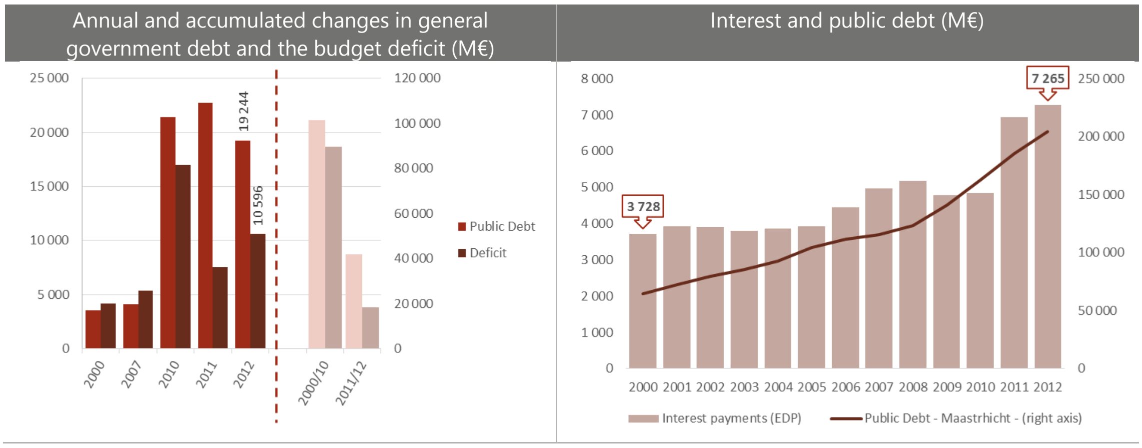
Table 19 – Stock-flow adjustments

(Unit.: M€, except %)

General Government	INE (EDP)					Accum. Changes	
	2000	2007	2010	2011	2012	2000/10	2011/12
(1) General Government Deficit	**4 161**	**5 333**	**16 982**	**7 543**	**10 596**	**89 723**	**18 139**
(2) Stock-flow adjustment (residual)	**-651**	**-1 236**	**4 436**	**15 224**	**8 648**	11 746	23 873
Net Acquisition of Financial Assets	-886	-163	4 878	14 225	4 845	10 945	19 070
Currency and deposits	-678	-400	713	10 247	1 200	-1 398	11 448
Securities other than shares	77	-76	-510	142	6 184	441	6 326
Loans	168	-2 047	1 283	445	1 224	1 522	1 669
Shares and other equity	-494	1 504	1 592	-336	-1 146	4 458	-1 483
Other financial assets	41	856	1 800	3 727	-2 617	5 921	1 110
Financial liabilities not included in Debt	97	-1 129	-1 146	-541	3 452	78	2 911
Other changes in debt (Includes valuations)	138	56	704	1 540	351	723	1 892
(3) Change in General Government Debt	**3 510**	**4 097**	**21 418**	**22 767**	**19 244**	**101 469**	**42 012**
(4) Public Debt (Maastricht def.)	**64 514**	**115 786**	**162 473**	**185 241**	**204 485**		
memo items							
Interest payments (EDP)	3 728	4 978	4 850	6 938	7 265	47 415	14 203
Implicit interest rate (J/Dt-1)	6,1%	4,5%	3,4%	4,3%	3,9%		

Source: INE and Bank of Portugal. CFP calculations.

Chart 31 – Changes in debt and budget deficit and interest payments



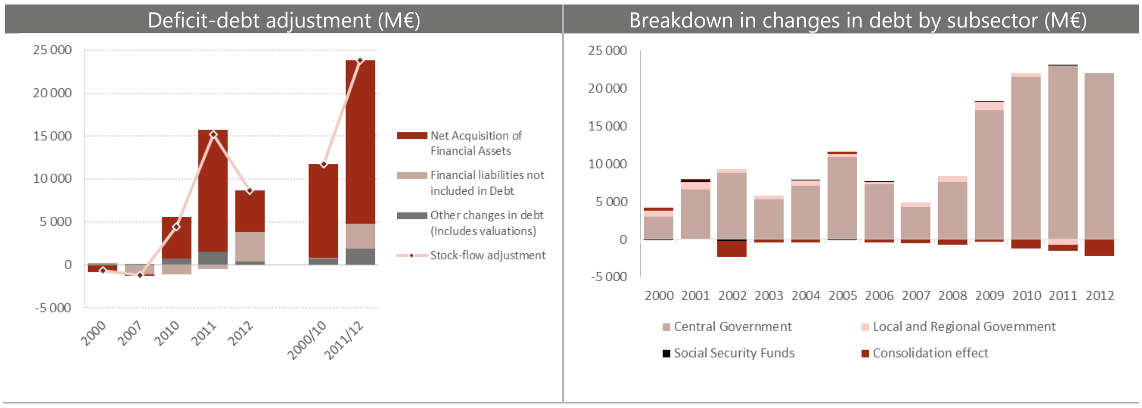
Source: INE and Bank of Portugal. CFP calculations.

In 2012, the 19,200 M€ change in public debt was much higher than the (non-adjusted) deficit of 10,600 M€, as a result of a stock-flow adjustment of 8,600 M€. This adjustment is explained by financial transactions which, under the accounting rules, only have an impact

[47] From Maastricht standpoint.

on debt and not expenditure. Particularly relevant to the stock-flow adjustment are the net changes in financial assets and liabilities. The net purchase of financial assets to the tune of 4,845 M€ is mainly explained by the change in securities other than shares relating to the banking sector recapitalisation (BCP, BPI and CGD) in the sum of 6,200 M€[48] (3.7 p.p. of GDP). The effect of this transaction was partially offset by the privatisation revenue applied to debt redemption, the final transfers of the banking sector and PT pension funds to Caixa Geral de Aposentações, the cancelling of the double effect of the CGD capital injection[49], the repurchase of ISE's by BPI to the sum of 200 M€, and social security investments in public debt worth 1,400 M€, which were recorded as shares and other operations and as other financial assets. In terms of financial liabilities not included in debt, amounting to 3,800 M€, they are partially related to the settlement of debts to National Health Service (NHS) suppliers which totalled 1,900 M€.

Chart 32 – Stock-flow adjustment and breakdown of changes in debt by subsector



Source: INE and Bank of Portugal. CFP calculations.

While on average over the 2000 decade the budget deficit accounted for 88.4% of the change in public debt, in the accumulated total for 2011 and 2012, its relative weight fell to 43.2%. In effect, 89,700 M€ of the 101,500 M€ increase in debt stock from 1999 to 2010 was due to the budget deficits recorded from 2000 to 2010, while the net purchase of financial assets explains 10,900 M€ of the remaining 11,800 M€. During the two years of the financial assistance program the net purchase of financial assets (19,000 M€) exceeded the contribution of budget deficits (18,100 M€) to the 42,000 M€ increase in debt stock (from 2010 to 2012). The significant rise in central government deposits (11,800 M€), as well as the financial sector recapitalisation operations and the NHS adjustments, explain the contribution of the net purchase of financial assets to the increase in Maastricht debt stock.

From the Maastricht standpoint, central government debt net of deposits, stood at 187,900 M€ (113.6% of GDP) in 2012. In fact, central government deposits stood at 16,600 M€ (10% of GDP) at the end of 2012, and corresponded to 8.1% of general government gross public debt. The deposits made in 2011 and 2012 were the most significant and relate to

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[48] Broken down as follows:

1) On capital instruments eligible for Core Tier 1 ("ISE's") in BCP, BPI and CGD, to the amount of 3,000 M€, 1,500 M€ and 900 M€, respectively.
2) On increase in CGD share capital of 750 M€.

[49] Since this recapitalization was classified as a non-financial operation with an impact of 750 M€ on general government capital expenditure, and for this reason it is reflected in the deficit.

sums received under the EFAP but not employed immediately. As for the consolidated debt of reclassified state companies (EPR), at the end of 2012 it stood at 16,200 M€ (9.8% of GDP) and had fallen by 1,700 M€ compared to 2011. Although EPR debt on a consolidated basis fell by 0.7 p.p. of GDP from 2011 to 2012, there was a 3,600 M€ (2.3 p.p. of GDP) simultaneous increase in the debt of those entities financed by general government.

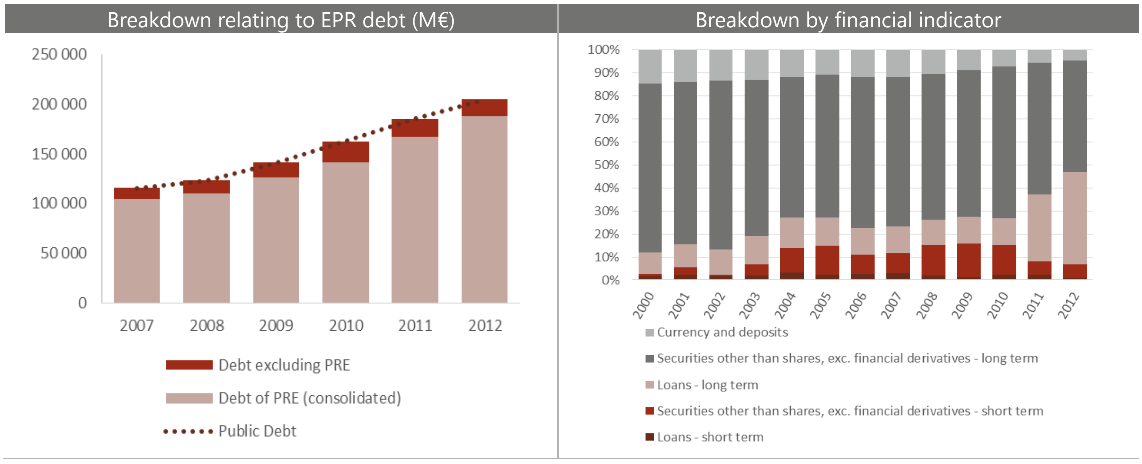
Table 20 – Maastricht debt net of Central Government deposits

General Government	INE (PDE) / Bank of Portugal					Changes			Ponderosity
	2008	2009	2010	2011	2012	2008/12	2011	2012	in PD 2012
M€						M€			%
Public Debt (Maastricht)	123 302	141 055	162 473	185 241	204 485	88 699	22 767	19 244	
from which is PRE debt (consolidated)	13 001	14 791	20 594	17 932	16 202	4 471	-2 662	-1 730	7,9
Central Government Deposits	3 441	2 944	3 737	14 337	16 585	12 829	10 600	2 248	8,1
Net Debt from Central Government deposits	**119 861**	**138 111**	**158 736**	**170 904**	**187 900**	**75 870**	**12 168**	**16 996**	
% of GDP						p.p.			%
Public Debt (Maastricht)	71,7	83,7	94,0	108,3	123,6	55,2	14,3	15,3	
from which is PRE debt (consolidated)	7,6	8,8	11,9	10,5	9,8	2,9	-1,4	-0,7	7,9
Central Government Deposits	2,0	1,7	2,2	8,4	10,0	7,8	6,2	1,6	8,1
Net Debt from Central Government deposits	**69,7**	**82,0**	**91,8**	**99,9**	**113,6**	**47,4**	**8,1**	**13,7**	**0,0**
memo item									
Gross Domestic Product	171 983	168 529	172 859	171 065	165 409				

Source: INE and Bank of Portugal. CFP calculations.

The breakdown of changes in public debt by subsector shows that the rise in general government debt resulted, exclusively from the increase in central government debt (consolidated basis) to the sum of 20,700 M€. However, this increase was slightly tempered by the decrease in local and regional government debt (consolidated basis) to the tune of 700 M€, and to a minimal extent by the decline in social security funds debt (consolidated basis). The consolidation effect in 2012 was 2,200 M€, having risen 1,300 M€ compared 2011.

Chart 33 – Breakdown of general government debt



Source: INE and Bank of Portugal. CFP calculations.

In regard to the structure of public debt by financial instrument, over the last two years the relative weight of loans obtained in total debt has tended to rise. In fact in 2012 the rise was 27.4 p.p. compared to 2010, stemming from loans obtained under the EFAP. At the end of 2012, the loans represented 41.3% of total debt, compared to 13.9% at the end of 2010. Note that in 2012, as since 2009, cash and bank deposits declined as a result of the fall in net investment of private individuals in saving certificates, instruments which are recorded in this account. As regards "securities other than shares and financial derivatives", which over the last decade were always the dominant item in public debt, with a relative weight of over 70%, this trend was reversed in 2011 and 2012, and they came to represent only 54.1% of the total in 2012. On the other hand, debt maturity increased and in 2012 long-term debt accounted for around 89% of the total.

Note that financing received under the EFAP had reached 61,700 M€ (proceeds value). by the end of 2012. Taking into account only the amount actually received in 2012 (27,000 M€) we may conclude that around 72% (19,400 M€) was related to the sums received from the European Union [European Financial Stabilisation Mechanism (7,900 M€) and the European Financial Stability Fund (11,300 M€)] and the remaining amount from the International Monetary Fund (7,800 M€). On the other hand, the level of funding originally agreed under the EFAP (78,000 M€) is currently 79,800 M€ as a result of the currency gain stemming from the IMF outlays being denominated in Special Drawing Rights (SDR)[50], whose value is a combination of four currencies: US dollar, Euro, GB pound and Yen, and which are subject to currency fluctuations in regard to the Euro.

Table 21 – Loans received under EFAP

Loans received	2011	2012	Until dec.2012		
	Issuance amount per year (M€)		Nominal value (M€)	"*All in cost*"	Average maturity (years)
EFSF	7 011	11 357	19 478	3,0%	12,4
EFSM	14 079	7 936	22 100	3,0%	14,6
IMF	13 147	8 181	21 328	4,1%	7,3
Financial Assistance Programme	**34 237**	**27 474**	**62 905**	**3,4%**	**11,4**

Source: IGCP. CFP calculations.

At the Eurogroup and ECOFIN meeting held on 12th April 2013, it was decided to extend by 7 years the maturity of the loans granted by the European Financial Stability Fund (EFSF) and the European Financial Stabilisation Mechanism (EFSM). In a broader context this measure aims at supporting a return to the marketplace, raising investor confidence and protecting Portugal and Ireland from refinancing risks stemming from possible unfavourable trends in other Euro countries. The decision still requires parliamentary ratification in some Member-States. In the specific case of Portugal, it is also contingent upon the results of the 7th review of the EFAP.

4.2 CHANGE IN DEBT RATIO

In 2012 the ratio of public debt to GDP rose by 15.3 p.p., mainly as a result of the unfavourable dynamic effect in the difference between interest rates and output growth (8.1 p.p. of GDP) and the stock-flow adjustment (5.2 p.p. of GDP). The primary deficit contribution was 2 p.p. of GDP. It is worth stressing that in 2011 the most important factor in the increase in the debt ratio was the stock-flow adjustment. In particular in 2012 the implicit interest rate was 3.9%, a much higher figure than the change in nominal GDP (-3.3%), which led to a snowball effect. The dynamic effect of the rate of nominal growth in GDP being less than the implicit debt interest rate becomes worse as the debt ratio rises, and

[50] Special Drawing Rights (SDR) are assets issued by the IMF which act as foreign exchange reserve assets.

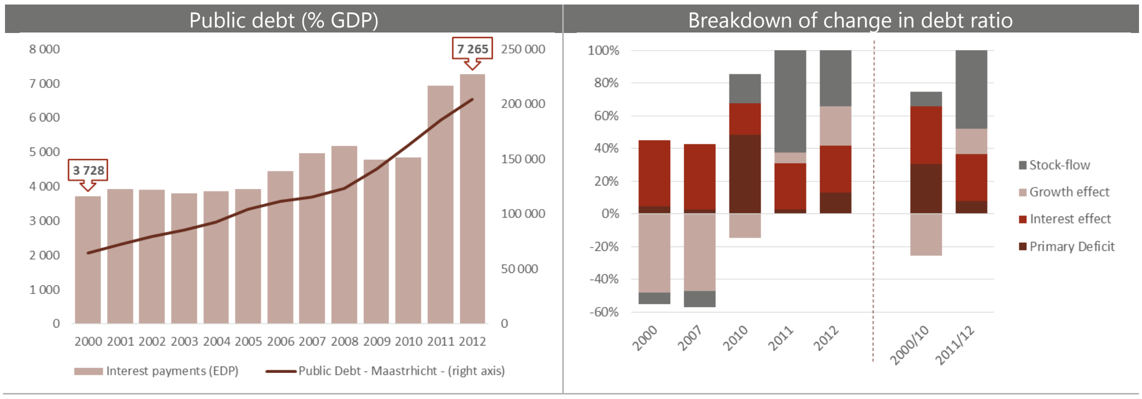
leads to an automatic rise in the latter. Bringing the debt ratio to a downward track requires primary surpluses and a decrease in the unfavourable dynamic effect, which in abstract terms depends on economic recovery and/or the reduction of the cost of debt reflecting an improvement in the countries' risk perception.

Table 22 – Debt and change in debt

General Government	INE (DPE)					Change Accum.	
	2000	2007	2010	2011	2012	2000/10	2011/12
Public debt (% of GDP)	**50,7**	**68,4**	**94,0**	**108,3**	**123,6**	**42,6**	**29,6**
Change in debt (in p.p. of GDP)	**2,8**	**-1,1**	**10,3**	**14,3**	**15,3**	**42,6**	**29,6**
Primary deficit	0,3	0,2	7,0	0,4	2,0	26,2	2,4
Dynamic effect (snow ball effect)	-0,6	-0,5	0,7	5,0	8,1	8,9	13,1
- interest effect	2,9	2,9	2,8	4,1	4,4	30,8	8,4
- growth effect	-3,5	-3,5	-2,1	1,0	3,7	-21,9	4,7
Stock-flow adjustment (residual)	3,0	-0,7	2,6	8,9	5,2	7,5	14,1

Source: INE and Bank of Portugal. CFP calculations.

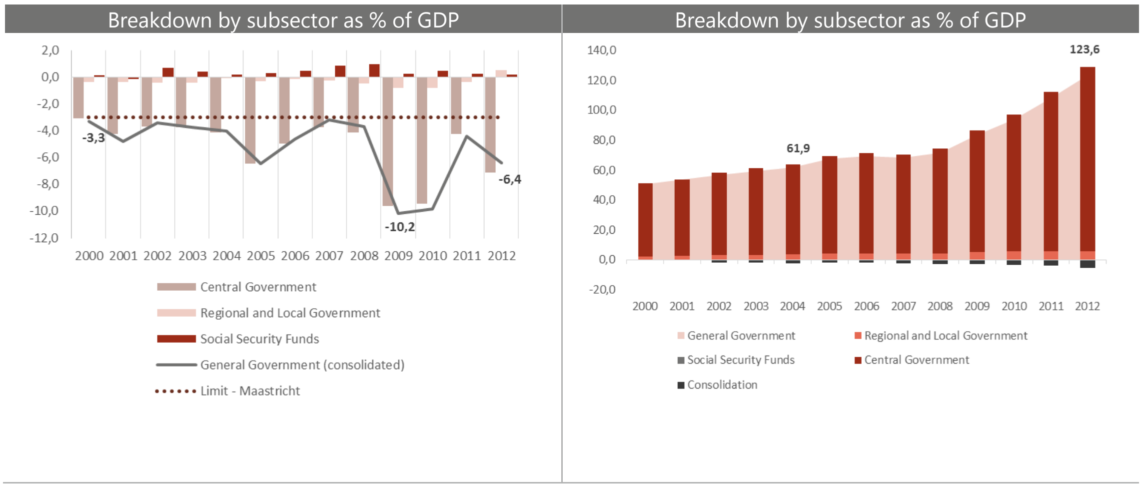
Chart 34 – General government debt



Source: INE and Bank of Portugal. CFP calculations.

Over the last 8 years the debt ratio more than doubled, increasing from 61.9% in 2004 to 123.6% of GDP in 2012, permanently above the figure laid down in the Maastricht Treaty (60% of GDP) and growing constantly. In the Euro area, Portugal has the third largest debt ratio after Greece and Italy. Indeed the change in public debt has seen a very unfavourable trend, and the debt-to-GDP ratio has risen by around 73 p.p. from 2000 to 2012, of which about 21% was in 2012.

Chart 35 – Breakdown of general government's net borrowing/net lending and debt ratio



Source: INE and Bank of Portugal. CFP calculations.

4.3 INDEBTEDNESS OF NON-FINANCIAL PUBLIC SECTOR

At the end of 2012 the total debt of non-reclassified state companies (EPNR) stood at 20,600 M€, which represents a decrease of around 4,900 M€ or 19.2%, compared to the previous year. Conversely, total debt of reclassified state companies (EPR) rose by 1,900 M€, an increase of 8.3%. However, given that part of the debt was financed by the State, its value from a consolidated standpoint falls by 1,300 M€. Compared to the 2007 figures, EPR debt increased by 13,400 M€, which is indeed a very significant change of 114.1%.

In 2012 the main general government financier continued to be the foreign sector, which held 66.1% of public debt (Maastricht definition). The domestic financial sector held 28.5% of public debt stock, with companies and private individuals holding 3.3% and 3.9%, respectively. Since 2007 the relative weights of the foreign sector and private individuals in general government financing have declined by around 9.6 p.p. and 6.7 p.p., respectively, and their shares have been replaced by the domestic financial sector whose weight has increase by 15.8 p.p.

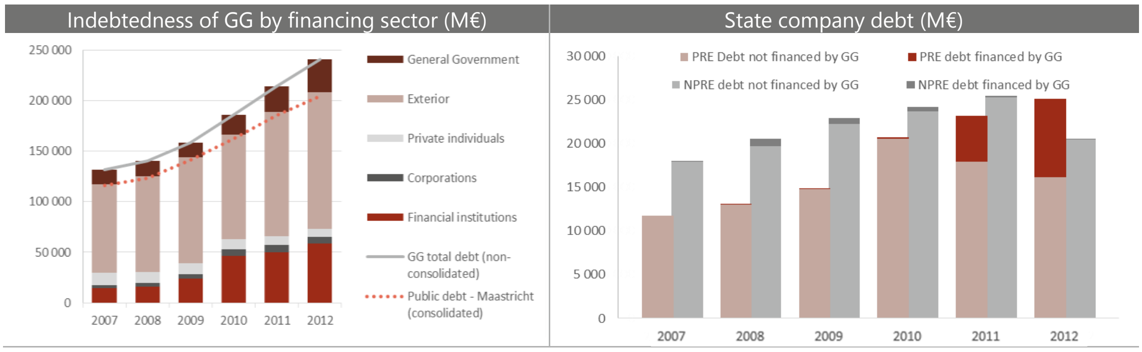
Table 23 – Non-financial public sector debt (not consolidated)

(Unit: M€, except %)

Indebtedness	INE (EDP) / Bank of Portugal						Changes					(%)
	2007	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	
Total Debt												
(1) **General Government (non-consolidated)**	**131 381**	**139 964**	**158 591**	**185 844**	**214 378**	**241 085**	**8 584**	**18 626**	**27 253**	**28 534**	**26 707**	**12,5**
memo items												
(2) Public Debt - Maastricht (DPE)	115 786	123 302	141 055	162 473	185 241	204 485	7 516	17 753	21 418	22 767	19 244	10,4
(3) Gross Domestic Product (GDP)	169 319	171 983	168 529	172 859	171 065	165 409	2 664	-3 454	4 330	-1 794	-5 656	-3,3
(4) Commercial credits	1 769	1 940	3 151	3 894	3 539	3 671	171	1 211	743	-355	132	3,7
(5) Debt financed by General Government	13 825	14 722	14 384	19 477	25 598	32 927	897	-338	5 093	6 121	7 330	28,6
(6) **Public Enterprises (non-consolidated)**	**29 707**	**33 609**	**37 856**	**44 966**	**48 694**	**45 720**	**3 902**	**4 246**	**7 110**	**3 728**	**-2 974**	**-6,1**
(7) Reclassified Public Enterprises (total)	11 731	13 027	14 926	20 728	23 199	25 120	1 296	1 899	5 802	2 471	1 922	8,3
of which financed by General Government (PRE debt)	0	26	135	135	5 267	8 918	26	109	-1	5 132	3 651	69,3
(8) Non Reclassified Public Enterprises (total)	17 976	20 582	22 930	24 237	25 495	20 600	2 606	2 348	1 308	1 258	-4 895	-19,2
of which financed by General Government (NPRE debt)	37	814	644	541	142	143	777	-170	-104	-399	1	0,9
Non-financial Public Sector (non-consolidated) (1) + (8)	**149 357**	**160 546**	**181 520**	**210 081**	**239 873**	**261 685**	**11 190**	**20 974**	**28 561**	**29 792**	**21 812**	**9,1**

Source: INE and Bank of Portugal. CFP calculations.

Chart 36 – Indebtedness of general government and state companies



Source: INE and Bank of Portugal. CFP calculations.

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Bank of Portugal (2013 b), *BPstat | Online statistics*

ANNEX

Table 24 — General Government account not adjusted for the effects of temporary measures and special factors

	Milhões de Euros					Variação em Milhões de Euros			Em % do PIB			Em % do PIB		
	2008	2009	2010	2011	2012	2010/12	2010/11	2011/12	2010	2011	2012	2010/12	2010/11	2011/12
Valores não ajustados | ***Headline figures***														
Receita Total | ***Total revenue***	**70 697**	**66 728**	**71 991**	**76 934**	**67 794**	**-4 197**	**4 943**	**-9 140**	**41,6**	**45,0**	**41,0**	**-0,7**	**3,3**	**-4,0**
Receita corrente | ***Current revenue***	**69 447**	**65 481**	**67 079**	**69 293**	**65 624**	**-1 455**	**2 214**	**-3 669**	**38,8**	**40,5**	**39,7**	**0,9**	**1,7**	**-0,8**
Receita fiscal | *Tax revenue*	40 858	36 633	38 262	40 352	37 814	-448	2 091	-2 539	22,1	23,6	22,9	0,7	1,5	-0,7
Impostos indiretos | *Indirect taxes*	24 214	21 487	23 040	23 390	22 522	-517	350	-867	13,3	13,7	13,6	0,3	0,3	-0,1
Impostos directos | *Direct taxes*	16 644	15 146	15 222	16 963	15 291	69	1 740	-1 671	8,8	9,9	9,2	0,4	1,1	-0,7
Contribuições Sociais | *Social contributions*	20 503	21 032	21 270	20 929	19 230	-2 039	-341	-1 698	12,3	12,2	11,6	-0,7	-0,1	-0,6
Das quais: efectivas | *of which: actual soc. contr. received*	15 138	15 204	15 725	15 965	14 982	-744	239	-983	9,1	9,3	9,1	0,0	0,2	-0,3
Vendas e outras receitas correntes | *Sales & other current rev.*	8 086	7 815	7 548	8 012	8 580	1 032	464	568	4,4	4,7	5,2	0,8	0,3	0,5
Vendas de bens e serviços | *Sales*	4 171	4 086	4 356	4 432	4 561	206	76	130	2,5	2,6	2,8	0,2	0,1	0,2
Outra receita corrente | *other current expenditure*	3 915	3 730	3 192	3 580	4 019	827	388	438	1,8	2,1	2,4	0,6	0,2	0,3
Receitas de capital | ***Capital transfers received***	**1 250**	**1 247**	**4 912**	**7 641**	**2 170**	**-2 742**	**2 729**	**-5 471**	**2,8**	**4,5**	**1,3**	**-1,5**	**1,6**	**-3,2**
Despesa Total | **Total expenditure**	**76 933**	**83 842**	**88 973**	**84 477**	**78 390**	**-10 582**	**-4 496**	**-6 087**	**51,5**	**49,4**	**47,4**	**-4,1**	**-2,1**	**-2,0**
Despesa Primária | ***Primary expenditure***	**71 744**	**79 062**	**84 123**	**77 539**	**71 125**	**-12 998**	**-6 584**	**-6 414**	**48,7**	**45,3**	**43,0**	**-5,7**	**-3,3**	**-2,3**
Despesa Corrente Primária | *Current primary expend.*	66 444	72 374	74 220	70 703	66 079	-8 141	-3 518	-4 624	42,9	41,3	39,9	-3,0	-1,6	-1,4
Consumo intermédio | *Intermediate consumption*	7 637	8 411	8 942	8 039	7 536	-1 407	-903	-504	5,2	4,7	4,6	-0,6	-0,5	-0,1
Despesas com pessoal | *Compensation of employees*	20 677	21 399	21 157	19 438	16 309	-4 848	-1 719	-3 130	12,2	11,4	9,9	-2,4	-0,9	-1,5
Prestações sociais | *Social transfers*	33 184	37 009	37 949	37 625	37 355	-594	-325	-270	22,0	22,0	22,6	0,6	0,0	0,6
que não em espécie | *other than in kind*	25 992	28 661	29 553	29 645	29 789	236	92	143	17,1	17,3	18,0	0,9	0,2	0,7
em espécie | *in kind via market producers*	7 193	8 348	8 397	7 979	7 566	-830	-417	-413	4,9	4,7	4,6	-0,3	-0,2	-0,1
Subsídios | *Subsidies*	1 168	1 259	1 283	1 188	1 039	-244	-95	-149	0,7	0,7	0,6	-0,1	0,0	-0,1
Outra despesa corrente | other current expenditure	3 778	4 296	4 889	4 413	3 841	-1 048	-476	-572	2,8	2,6	2,3	-0,5	-0,2	-0,3
Subsídios e outra despesa corrente | *Subsidies & other current exp.*	4 946	5 555	6 171	5 600	4 879	-1 292	-571	-721	3,6	3,3	2,9	-0,6	-0,3	-0,3
Despesas de capital | *Capital expenditure*	5 300	6 688	9 902	6 836	5 046	-4 857	-3 066	-1 791	5,7	4,0	3,1	-2,7	-1,7	-0,9
FBCF | *GFCF*	5 059	5 067	6 497	4 436	3 057	-3 440	-2 061	-1 379	3,8	2,6	1,8	-1,9	-1,2	-0,7
Outras despesas de capital | *Other capital expenditure*	241	1 621	3 406	2 401	1 989	-1 417	-1 005	-412	2,0	1,4	1,2	-0,8	-0,6	-0,2
Juros (PDE) | ***Interest paid (EDP)***	**5 188**	**4 780**	**4 850**	**6 938**	**7 265**	**2 416**	**2 088**	**328**	**2,8**	**4,1**	**4,4**	**1,6**	**1,2**	**0,3**
Saldo global (PDE) | ***General government balance (EDP)***	**-6 236**	**-17 114**	**-16 982**	**-7 543**	**-10 596**	**6 386**	**9 439**	**-3 053**	**-9,8**	**-4,4**	**-6,4**	**3,4**	**5,4**	**-2,0**
Saldo Primário (PDE) | ***Primary balance (EDP)***	**-1 047**	**-12 334**	**-12 132**	**-605**	**-3 331**	**8 801**	**11 527**	**-2 726**	**-7,0**	**-0,4**	**-2,0**	**5,0**	**6,7**	**-1,7**
Carga fiscal | *Tax burden*	56 004	51 838	54 074	56 317	53 054	-1 021	2 243	-3 264	31,3	32,9	32,1	0,8	1,6	-0,8
Despesa corrente | *Current expenditure*	71 632	77 154	79 070	77 640	73 344	-5 726	-1 430	-4 296	45,7	45,4	44,3	-1,4	-0,4	-1,0
Dívida Pública | ***Public Debt (Maastricht def.)***	**123 302**	**141 055**	**162 473**	**185 241**	**204 485**	**42 012**	**22 767**	**19 244**	**94,0**	**108,3**	**123,6**	**29,6**	**14,3**	**15,3**
PIB nominal | ***GDP at current market prices***	**171 983**	**168 529**	**172 860**	**171 065**	**165 409**	**-7 450**	**-1 795**	**-5 656**						

Source: INE, CFP calculations.

Table 25 — General Government account adjusted for the effects of temporary measures and special factors

	Milhões de Euros					Variação em Milhões de Euros			Em % do PIB			Em p.p. % do PIB		
	2008	2009	2010	2011	2012	2010/12	2010/11	2011/12	2010	2011	2012	2010/12	2010/11	2011/12
Valores ajustados | *Adjusted for one-offs & special factors*														
Receita Total | *Total revenue*	**70 697**	**66 728**	**69 100**	**70 144**	**67 254**	**-1 846**	**1 043**	**-2 889**	**40,0**	**41,0**	**40,7**	**0,7**	**1,0**	**-0,3**
Receita corrente | *Current revenue*	**69 447**	**65 481**	**67 079**	**68 453**	**65 439**	**-1 640**	**1 374**	**-3 014**	**38,8**	**40,0**	**39,6**	**0,8**	**1,2**	**-0,5**
Receita fiscal | *Tax revenue*	40 858	36 633	38 262	39 512	37 629	-633	1 251	-1 884	22,1	23,1	22,7	0,6	1,0	-0,3
Impostos indiretos | *Indirect taxes*	24 214	21 487	23 040	23 390	22 522	-517	350	-867	13,3	13,7	13,6	0,3	0,3	-0,1
Impostos directos | *Direct taxes*	16 644	15 146	15 222	16 123	15 106	-116	900	-1 016	8,8	9,4	9,1	0,3	0,6	-0,3
Contribuições Sociais | *Social contributions*	20 503	21 032	21 270	20 929	19 230	-2 039	-341	-1 698	12,3	12,2	11,6	-0,7	-0,1	-0,6
Das quais: efectivas | *of which: actual soc. contr. received*	15 138	15 204	15 725	15 965	14 982	-744	239	-983	9,1	9,3	9,1	0,0	0,2	-0,3
Vendas e outras receitas correntes | *Sales & other current rev.*	8 086	7 815	7 548	8 012	8 580	1 032	464	568	4,4	4,7	5,2	0,8	0,3	0,5
Vendas de bens e serviços | *Sales*	4 171	4 086	4 356	4 432	4 561	*206*	*76*	*130*	2,5	2,6	2,8	0,2	0,1	0,2
Outra receita corrente | *other current expenditure*	3 915	3 730	3 192	3 580	4 019	*827*	*388*	*438*	1,8	2,1	2,4	0,6	0,2	0,3
Receitas de capital | ***Capital transfers received***	**1 250**	**1 247**	**2 021**	**1 691**	**1 815**	**-206**	**-330**	**124**	**1,2**	**1,0**	**1,1**	**-0,1**	**-0,2**	**0,1**
Despesa Total | **Total expenditure**	**78 320**	**83 842**	**84 095**	**82 455**	**77 060**	**-7 035**	**-1 640**	**-5 394**	**48,6**	**48,2**	**46,6**	**-2,1**	**-0,4**	**-1,6**
Despesa Primária | ***Primary expenditure***	**73 131**	**79 062**	**79 245**	**75 517**	**69 795**	**-9 450**	**-3 728**	**-5 722**	**45,8**	**44,1**	**42,2**	**-3,6**	**-1,7**	**-1,9**
Despesa Corrente Primária | *Current primary expend.*	66 444	72 374	72 790	70 515	65 977	-6 813	-2 276	-4 538	42,1	41,2	39,9	-2,2	-0,9	-1,3
Consumo intermédio | *Intermediate consumption*	7 637	8 411	8 059	8 027	7 536	-524	-32	-491	4,7	4,7	4,6	-0,1	0,0	-0,1
Despesas com pessoal | *Compensation of employees*	20 677	21 399	21 157	19 438	16 309	-4 848	-1 719	-3 130	12,2	11,4	9,9	-2,4	-0,9	-1,5
Prestações sociais | *Social transfers*	33 184	37 009	37 895	37 486	37 355	-540	-409	-131	21,9	21,9	22,6	0,7	0,0	0,7
que não em espécie | *other than in kind*	25 992	28 661	29 553	29 645	29 789	*236*	*92*	*143*	17,1	17,3	18,0	0,9	0,2	0,7
em espécie | *in kind via market producers*	7 193	8 348	8 343	7 841	7 566	*-776*	*-502*	*-274*	4,8	4,6	4,6	-0,3	-0,2	0,0
Subsídios | *Subsidies*	1 168	1 259	1 283	1 151	1 039	-244	-132	-112	0,7	0,7	0,6	-0,1	-0,1	0,0
Outra despesa corrente | other current expenditure	3 778	4 296	4 396	4 413	3 739	-657	17	-674	2,5	2,6	2,3	-0,3	0,0	-0,3
Subsídios e outra despesa corrente | *Subsidies & other current exp.*	4 946	5 555	5 678	5 563	4 777	-901	-115	-786	3,3	3,3	2,9	-0,4	0,0	-0,4
Despesas de capital | *Capital expenditure*	6 687	6 688	6 455	5 002	3 818	-2 637	-1 453	-1 184	3,7	2,9	2,3	-1,4	-0,8	-0,6
FBCF | *GFCF*	5 059	5 067	5 195	3 973	3 057	*-2 139*	*-1 223*	*-916*	3,0	2,3	1,8	-1,2	-0,7	-0,5
Outras despesas de capital | *Other capital expenditure*	1 628	1 621	1 260	1 030	761	-499	-230	-268	0,7	0,6	0,5	-0,3	-0,1	-0,1
Juros (PDE) | ***Interest paid (EDP)***	**5 188**	**4 780**	**4 850**	**6 938**	**7 265**	**2 416**	**2 088**	**328**	**2,8**	**4,1**	**4,4**	**1,6**	**1,2**	**0,3**
Saldo global (PDE) | ***General government balance (EDP)***	**-7 623**	**-17 114**	**-14 995**	**-12 311**	**-9 806**	**5 189**	**2 684**	**2 505**	**-8,7**	**-7,2**	**-5,9**	**2,7**	**1,5**	**1,3**
Saldo Primário (PDE) | ***Primary balance (EDP)***	**-2 434**	**-12 334**	**-10 145**	**-5 373**	**-2 540**	**7 605**	**4 772**	**2 833**	**-5,9**	**-3,1**	**-1,5**	**4,3**	**2,7**	**1,6**
Carga fiscal | *Tax burden*	56 004	51 838	54 074	55 477	52 869	-1 206	1 403	-2 609	31,3	32,4	32,0	0,7	1,1	-0,5
Despesa corrente | *Current expenditure*	71 632	77 154	77 640	77 452	73 242	-4 398	-188	-4 210	44,9	45,3	44,3	-0,6	0,4	-1,0
Dívida Pública | ***Public Debt (Maastricht def.)***	**123 302**	**141 055**	**162 473**	**185 241**	**204 485**	**42 012**	**22 767**	**19 244**	**94,0**	**108,3**	**123,6**	**29,6**	**14,3**	**15,3**
PIB nominal | ***GDP at current market prices***	**171 983**	**168 529**	**172 860**	**171 065**	**165 409**	**-7 450**	**-1 795**	**-5 656**						

Source: INE, CFP calculations.

Portuguese Public Finance Council
Praça de Alvalade, n.º 6 – 10.º, 1700-036 Lisbon, Portugal
TEL +351 211 024 400 | FAX +351 211 021 870
www.cfp.pt