GENERAL GOVERNMENT BUDGET OUTTURN 2019

EXECUTIVE SUMMARY

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Conselho das Finanças Públicas
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Balances, adjustment and fiscal stance in 2019

In 2019, General Government (GG) recorded a financing capacity of 0.2% of GDP, confirming the surplus estimate advanced by CFP last October. This result, which concludes the correction of the budgetary imbalance initiated in the adjustment programme period (2011-2014), constitutes the first annual surplus in the comparable national accounts statistical series, available from 1995 onwards. The surplus achieved in 2019 thus contrasts with the estimated deficit anticipated by the Ministry of Finance in the budgetary planning documents. The improvement in the budgetary balance by 0.6 p.p. of GDP was higher than expected, although penalised by the greater impact of temporary and one-off measures than initially foreseen. The primary surplus (3.2% of GDP) was higher than the one obtained in 2018 (2.9% of GDP).

Excluding the effect of one-off and temporary measures, the general government budgetary balance corresponded to 0.8% of GDP in 2019, an annual improvement of 0.8 p.p. of GDP. The reduction of the interest burden on GDP justifies around half of this improvement, the other half being the result of the discretionary action of the policy maker, since cyclical developments in the economy did not benefit the evolution of the budgetary position, according to the methodology used.

Based on the available information and the EU's Commonly Agreed Methodology, correcting the budgetary balance for the effects of the business cycle and one-off measures and temporary, the structural balance in 2019 is estimated to have been close to the Medium-Term Objective (MTO) by reaching structural balance. This is an improvement of 0.8 p.p. of GDP, which was due in roughly equal parts to the reduction of interest burden and the improvement of the structural primary balance (0.4 p.p. of GDP), reflecting the government's discretionary action.

Assessment of compliance with budgetary rules in 2019

Within the framework of the requirements established in the preventive aspect of the Stability and Growth Pact (SGP) and in the recommendation of the Council of the European Union (EU) addressed to Portugal for the year 2019, the reading of the budgetary effort made on the basis of the structural balance points to compliance with the general rule of annual improvement foreseen in the Budgetary Framework Law (0.5% of GDP), as well as that established in the SGP and in the recommendation of the Council of the European Union (EU). This budgetary effort also ensures compliance with the debt criterion in the last year of the transitional period (2019).

Notwithstanding these developments, net primary expenditure continued to grow at a nominal rate above the maximum recommended increase. According to CFP calculations, the estimated nominal growth of primary expenditure net of discretionary measures and one-off temporary measures would have been above the maximum recommended increase of 0.7%. This excess of expenditure over the recommended one constitutes a deviation above the 0.5% of GDP threshold from which a risk of significant deviation (from the convergence path towards the MTO) can be pointed out. The default on this expenditure rule contrasts with the reading provided by the structural balance, since half of the improvement in the structural balance is due to the decrease in interest payments that are excluded from the primary expenditure indicator.

Revenue and expenditure in 2019

In 2019, general government revenue grew by 3.8%, practically in line with the change in GDP, with the ratio of that budgetary aggregate to GDP standing at 42.9%, the same as in 2018. Tax and social contributions revenue continued to be crucial to the evolution of revenue. More than four-fifths of general government tax revenue was due to the good performance of indirect tax revenue, the 3.9% variation of which was mainly based on the growth of net VAT revenue (5.4%). Direct taxes made a smaller contribution to the evolution of tax revenue by reaching a growth of 0.9%. This variation reflects the positive performance of net income from personal income tax and other direct taxes, largely absorbed by the fall in corporate income tax (2.1%). Social contributions recorded robust annual growth (6.3%), based almost entirely on the performance of effective social contributions, which continued to outperform remuneration (4.5%) throughout 2019. This evolution contributed to increase the weight of effective social contributions in nominal output, raising the tax burden to a maximum of 34.7% of GDP. Non-tax and non-contributory revenue grew again in 2019. The sales and dividends received explained this evolution mitigated by the reduction in capital revenue, which reflects the lower amount of recovery in 2019 of the guarantee provided by the State to BPP.

The execution of public revenue in 2019 was higher than expected, reflecting an annual growth rate 0.3 p.p. higher than that forecast in the 2019 State Budget (3.5%). This evolution was exclusively due to the contribution of current revenue (3.9% vs. 2.9% in the State Budget for 2019), since capital revenue was lower than that forecast by the MF (-9.6% vs. 59.4% in the State Budget for 2019).

As regards public expenditure, this aggregate increased by 2.3% in 2019. As it was a lower growth than nominal GDP, expenditure decreased its share in GDP by 0.7 p.p.. The nominal increase was justified by current primary expenditure, as a result of an acceleration in the growth of social transfers and compensation of employees. Interest and intermediate consumption were the only current expenditure items that recorded a nominal reduction from 2018. While for interest expenditure it was the fifth consecutive year of reduction, the last time that intermediate consumption had recorded a nominal reduction was in 2013. Part of the containment of this expenditure is expected to result from the management of withholdings, although the increase in final withholdings was slight in 2019. Capital expenditure declined despite an increase in FBCF and despite the effect of temporary measures being more unfavourable than in 2018. Without the effect of these one-off measures, capital expenditure would have decreased more sharply and public expenditure growth would have decelerated from 3.4% in 2018 to 2.0% in 2019.

Compared to what was foreseen in the Budget for 2019, public expenditure was lower than expected, mostly due to a lower than forecast interest burden. Primary expenditure was virtually in line with the forecast because the unfavourable deviation in current primary expenditure was more than offset by a favourable deviation in capital expenditure. Within the scope of the latter, the unfavourable deviation in "other capital expenditure" (due to the impact of the recapitalisation of Novo Banco being larger than forecast in the State Budget for 2009 and also due to the unforeseen judicial decision to compensate the highway PPP Autoestradas do Douro Litoral) was more than accommodated by the behaviour of FBCF, which last year was again far below forecast. As a percentage of GDP, public expenditure decreased from 43.4% in 2018 to 42.7% in 2019, staying below the 43.5% forecast in the State Budget for 2009 (although the size of this gap is influenced by the fact that nominal GDP was almost 3 thousand million euros higher than forecast).

Subsectors in 2019

Social Security Funds were the GG sub-sector that contributed most to the improvement in the budgetary balance in 2019. The increase in the surplus of this sub-sector, by approximately 0.4 p.p. of GDP, represented almost two thirds of the 0.6 p.p. of GDP improvement observed for the General Government balance. Regional and Local Government resumed in 2019 the positive contribution to the improvement of the balance by raising its surplus by 0.2 p.p. of GDP. With an equally positive contribution, Central Government recorded a reduction of its deficit by 0.1 p.p. of GDP, mainly determined by nominal GDP growth above the marginal change in its balance.

Public debt developments in 2019

The public debt ratio continued in 2019 the downward trajectory begun two years ago, reaching 117.7% of GDP, a figure that is below the latest estimate advanced by MF in POE/2020 (118.9%). The annual reduction of the debt ratio by 4.3 p.p. of GDP was due to the favourable contributions of the primary balance (3.2 p.p.) and the dynamic effect (1.6 p.p.), which size was sufficient to cancel out the unfavourable contribution of the deficit-debt adjustment (0.5 p.p.) resulting from a higher amount of net acquisition of financial assets, namely securities other than shares.

In the area of financing, the non-resident sector strengthened its position as the largest public debt creditor in 2019 by holding 68% of those liabilities. The increase in the volume of debt held by external creditors (from 28% in 2018 to 30% of the total) and the financing of the Eurosystem, through the Public Sector Purchase Programme, which in 2019 accounted for 18% of Portuguese debt, 1% more than in 2018, contributed to this. Conversely, the share of debt under the Economic and Financial Assistance Programme declined to 20%, as a result of the early repayment of 2 thousand million euros of the FEEF loan. The debt held by the resident sector decreased slightly in 2019, justified by the lower financing of the financial sector.

Table 1 – Public Finance Scoreboard (% of GDP)

	2013	2014	2015	2016	2017	2018	2019
Total Revenue	**44,8**	**44,4**	**43,8**	**42,9**	**42,4**	**42,9**	**42,9**
Current revenue	**44,0**	**43,7**	**43,0**	**42,3**	**42,0**	**42,5**	**42,5**
Tax Revenue	25,0	25,1	25,3	24,8	24,8	25,3	25,0
Indirect taxes	13,7	14,2	14,6	14,7	14,9	15,2	15,1
Direct taxes	11,3	10,9	10,7	10,1	9,9	10,1	9,8
Social Contributions	12,0	11,8	11,6	11,6	11,6	11,7	11,9
Sales and other current revenue	7,0	6,8	6,2	5,9	5,7	5,6	5,6
Capital Revenue	**0,9**	**0,7**	**0,8**	**0,6**	**0,4**	**0,4**	**0,4**
Primary Expenditure	**45,1**	**46,9**	**43,7**	**40,7**	**41,6**	**40,0**	**39,7**
Current primary expenditure	**41,9**	**40,7**	**39,4**	**38,7**	**37,2**	**36,9**	**36,8**
Intermediate consumption	5,6	5,7	5,6	5,5	5,4	5,4	5,2
Compensation of employees	12,5	11,8	11,3	11,2	10,9	10,7	10,7
Social Benedits	20,6	19,9	19,5	19,0	18,4	18,2	18,2
Subsidies and other current expenditure	3,2	3,3	3,0	2,9	2,6	2,6	2,7
Capital expenditure	**3,2**	**6,1**	**4,3**	**2,0**	**4,4**	**3,1**	**2,9**
Primary balance	-0,3	-2,5	0,1	2,2	0,8	2,9	3,2
Interest	4,8	4,9	4,6	4,1	3,8	3,4	3,0
Headline Budget balance	**-5,1**	**-7,4**	**-4,4**	**-1,9**	**-3,0**	**-0,4**	**0,2**
One-off and temporary measures	0,3	-3,6	-1,3	0,4	-2,2	-0,5	-0,6
Adjusted budget balance from one-offs	**-5,4**	**-3,8**	**-3,2**	**-2,4**	**-0,8**	**0,0**	**0,8**
Cyclical component	-2,4	-1,9	-1,2	-0,6	0,5	0,8	0,8
Structural balance	**-3,0**	**-1,8**	**-1,9**	**-1,7**	**-1,3**	**-0,8**	**0,0**
Change in structural balance	0,5	1,2	-0,1	0,2	0,4	0,4	0,8
Primary Structural Balance	**1,8**	**3,0**	**2,7**	**2,4**	**2,5**	**2,6**	**3,0**
Change in structural balance	0,4	1,2	-0,4	-0,2	0,1	0,0	0,4
Public debt	**131,4**	**132,9**	**131,2**	**131,5**	**126,1**	**122,0**	**117,7**
Change in public debt, breakdown:	2,4	1,5	-1,8	0,3	-5,4	-4,1	-4,3
Primary deficit	0,3	2,5	-0,1	-2,2	-0,8	-2,9	-3,2
Dynamic effect or snowball effect	3,2	2,9	-0,3	-0,6	-2,6	-1,8	-1,6
Stock-flow adjustment	-1,0	-3,9	-1,3	3,2	-2,0	0,6	0,5
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Implicit interest rate	*3,8%*	*3,8%*	*3,6%*	*3,3%*	*3,0%*	*2,8%*	*2,6%*
Other fiscal indicators							
Tax burden	33,9	34,1	34,3	33,9	33,9	34,6	34,7
Current expenditure	46,7	45,6	44,0	42,8	41,0	40,3	39,8
Public Consumption	18,8	18,4	17,9	17,6	17,2	16,9	16,9

Source: INE, BdP and CFP calculations. | Note: (i) the figures for the years 2013 to 2019 are influenced by the effect of one-offs as detailed in the attached Table 17, as well as, the adjusted account of one-off measures for the years 2018 and 2019, which is shown in Table 14 attached; (ii) The changes were calculated in relation to the previous year and may not correspond to the differences in the values as a percentage of GDP due to rounding; (iii) The cyclical component has been calculated according to the common EC methodology for (new) semi-elasticities, based on the output gap resulting from the macroeconomic projections contained in the 2020 state budget proposal reported in December 2019.