



# ANALYSIS OF THE APPROVED STATE BUDGET FOR 2021 EXECUTIVE SUMMARY

February 2021





# EXECUTIVE SUMMARY

## *The impact of the budgetary amendments resulting from the approval of the State Budget/2021*

During the process of approval of the State Budget in the Portuguese Parliament some of the measures of the initial Government proposal were changed and new measures were added. Among the changes were: the anticipation and extension of the extraordinary update of pensions to the beginning of the year; the extension of the universe of beneficiaries of the new extraordinary income support for workers (article 156); the extension for a further 6 months of the periods of unemployment benefit ending in 2021, as well as the increase of the minimum limit of this benefit (articles 154 and 155); the increase in workers' wages payments covered by furlough mechanisms to 100% with a limit of three minimum wages (article 142). Among the approved measures not included in the Government proposal are: the special and transitional scheme of payment in instalments of IRC (Corporate Income Tax) or VAT in 2021 (Article 418 of the State Budget Law 2021); the suspension of payments on account in IRC for cooperatives and micro and small and medium enterprises in 2021 (Article 374); the evaluation of the review of allowances and remuneration supplements for the security forces, as well as the allocation of a risk allowance and remuneration supplement for professionals of these forces (Article 42). Additional measures were also approved in the Health area, namely the allocation of a €200 supplement for the exercise of duties as health authority (article 49), the investment in health centre facilities (article 276) and the recovery of consultations in health centres (article 277). Additional measures in the area of Health were also approved, namely the allocation of a €200 supplement for the exercise of health authority functions (article 49), investment in health centre facilities (article 276) and the recovery of consultations in primary health care (article 277), as well as the specification of an increase in the number of professionals in primary health care (article 278), intensive care (article 279 concomitant with an increase in the number of beds) and public health units (article 297).

Excluding financial assets and liabilities, the changes in the approved budgetary statements compared to those in the draft law amounted €10 million, with only €3.2 million having an impact on public budget balance. It is difficult to reconcile the scope of the approved amendments and the smallness of the amendments to the maps,

which may be due either to over-budgeting in the maps of the initial proposal or to under-budgeting in the approved maps. The case of Social Security is paradigmatic in this case, whose maps have not undergone any change despite the amendments approved in the AR. In national accounts, the Government has not made available the forecast of the general government account resulting from the approved budget.

The unavailability of a general government account for 2021 in national accounts compatible with the State Budget approved by the Parliament makes it impossible to know the budgetary impact of the measures approved by the Parliament and which were not included in the draft State Budget for 2021 presented by the Government (POE/2021). Constrained by this lack of information, the analysis of the budgetary aggregates focused on the information provided by the Ministry of Finance (MF) in the public budget accounts perspective, which made it impossible to make a conclusive and consistent assessment with the CFP's DBP analysis for 2021.

The amendments to the maps of the draft law of the State Budget for 2021 approved by Parliament, from a cash accounting perspective, resulted in a reduction in expenditure appropriations of 473.4 M€ and an increase in the forecast revenue of 3.2 M€. The most significant expression of these changes occurred in expenditure on financial assets, mainly as a result of the elimination of the Resolution Fund allocation to Novo Banco (476.6 M€). The remaining changes, which exclude financial assets and liabilities, totalled 10 M€, with only 3.2 M€ having an impact on the balance, covered by financial liabilities, whose revenue forecast (from loans) increased by 2.6 M€, and by the use of the balance from the previous year amounting 0.6 M€. This increase in the expenditure allocation was reflected in the reinforcement of funds allocated to the Municipal Emergency Fund (2.6 M€) and the Transparency Entity (0.6 M€), expressed respectively in expenditure on current transfers and "other current expenditure". These changes increased effective expenditure by 3.2 M€, to 102 599.8 M€, leading to a general government (GG) balance of -11 153.1 M€, which is 3.2 M€ lower than that presented in the State Budget for 2021. With no impact on the budget balance, there was a sum of 6.8 M€ to strengthen the budget of the Directorate General for the Arts, due to a reduction in the expenditure budgeted in the provisional appropriation, whose initially forecast value of 500 M€ in the POE/2021 changed to 493.2 M€. The lack of information to establish the connection between public budget accounting (cash basis) and national accounting (accrual basis), made it impossible to know, in the latter accounting basis, of the General Government balance for 2021 compatible with the approved State Budget. It also made it impossible to know whether, at the level of budget aggregates, the approved changes resulted in a marginal impact, as verified in terms of public budget accounting.

With regard to the State debt limit, the approval of the State Budget for 2021 increased by 473.4 M€ the margin in relation to the State's overall debt expected for this year, raising to about 5400 M€ the margin available to reach that limit. The decrease in the overall direct state debt contributed to this change, mainly as a result of the elimination of the Resolution Fund allocation to Novo Banco, which led to the approval of a reduction of 476.6 M€ in the maximum appropriations of expenditure on financial assets compared to the forecast in DBP/2021.

The Multiannual Framework of Public Expenditure (MMPF) remained unchanged from what was initially proposed, accommodating the 3.2 M€ amendments approved to the State Budget for 2021 within the expenditure limit.

As part of the analysis of the impact of the policy measures that were introduced during the process of discussion and approval of the State Budget for 2021 in the Portuguese Parliament (involving both the amendment of measures already included in the State Budget for 2021, and additional measures not included therein), the CFP did not receive the information requested from the MF, and therefore it was not possible to analyse the respective forecast budgetary impact for the current year, in clear harm of budgetary transparency.

#### *Analysis of the budgetary forecast for the general government and NHS sub-sectors*

The sectoral analysis, including the National Health Service (NHS), was based on the MF forecast underlying POE/2021 and on the information provided by the Ministry of Health to the CFP. The recovery of the general government balance expected by the MF for 2021 entails a budget surplus forecast only for the Social Security Funds subsector, albeit lower than that estimated for 2020. This surplus is, however, insufficient to offset the deficits forecast in the remaining general government subsectors (Central Government and Regional and Local Government). Nevertheless, the improvement of the balance for general government as a whole forecast by the MF in the POE/2021 is expected to be due solely to Central Government, whose reduction of the deficit forecast for this subsector in 2021 will more than compensate for the deterioration of the balance of the remaining subsectors. According to MF forecasts, Social Security Funds will be the subsector with the most significant deterioration of the balance in 2021, followed by Regional and Local Government, which will return to a deficit situation after successive years of budget surplus. In the context of this subsector, it should be noted that, similarly to the budgets of previous years, the State Budget for 2021 considers exceptions to the rules on the financing needs of the Autonomous Regions and to the municipal debt limits, to which should be added others specifically arising from the response to the pandemic.

With regard to the NHS, the data sent by Administração Central do Sistema de Saúde, IP (ACSS) to the CFP (Public Finance Council)

regarding the respective account underlying the State Budget approved for 2021 did not contain any update to the NHS account associated with the POE/2021 and contained in the [Explanatory Note of the Ministry of Health](#) presented during the parliamentary discussion. In these terms, a deficit of 89 M€ is expected, compared to a balanced budget situation expected for 2020 when the POE/2021 was prepared. This deterioration is explained by an increase in expenditure greater than the increase in revenue. On the revenue side, transfers, and other current subsidies more than justify the expected increase (+315 M€), while the increase in expenditure is driven by the compensation of employees and external supplies and services, which grow by 189 M€ and 185 M€, respectively.

### *Budget developments until the end of Q3 2020*

Until September, general government revenue amounted to 62.002 M€ (41.5% of GDP for the same period), which is 4435 M€ less than in the same period of the previous year. This performance, which already incorporates, to a large extent, the impact of the pandemic crisis, reflects a year-on-year negative variation rate of 6.7%, less unfavourable than the 7.3% reduction expected by the MF for 2020 as a whole. This was mainly due to the decrease in tax and contributory revenue (€3.464 million; -6.1%) induced by the behaviour of tax revenue (-€3.373 million; -8.5%) triggered by the current economic context and the impact of the measures in response to the pandemic crisis.

Public expenditure reached 69,273 M€ between January and September 2020, equivalent to 46.4% of GDP generated in that period. In year-on-year terms, there was an increase of 3987 M€, driven by current primary expenditure and capital expenditure and mitigated by the reduction in interest charges. This increase corresponds to only half of what is implicit in the MF estimate for 2020 as a whole. Even so, the growth rate of expenditure accelerated from 6.5% in the 2nd quarter to 8.3% in the 3rd quarter of 2020, reaching 6.1% in the first nine months of the year (below the 8.7% implicit in the MF's estimate for the annual growth of expenditure). The acceleration in the 3rd quarter was mainly due to the €1.2 billion financial support granted by the State to TAP, S.A., which was recorded under "Other capital expenditure" - the only expenditure item with a more unfavourable evolution until September than that estimated for the year as a whole. The growth of compensation of employees (3.9%) is practically in line with the MF estimate (3.8%), the same occurring with expenditure on subsidies (264.9%), which explains more than half of the increase in current primary expenditure in absolute terms, due to the impact of the measures adopted in the context of the COVID-19 pandemic.

As a result of the budgetary developments in public revenue and expenditure, in the first three quarters of the year the general government sector achieved a negative budget balance of € 7272 million (-4.9% of accumulated GDP to September), reflecting the

sequence of three consecutive quarters with a deficit, which contributed to accentuate the deterioration of the budget balance compared to the same period of 2019. Compared to the estimate for 2020 that underlies the forecast for 2021 presented in the report of the State Budget proposal, the materialisation of the MF annual estimate for the 2020 balance (-7.3% of GDP) implies that this indicator records a lower result in the last quarter of the year (-14.6% of the quarter's GDP) than that recorded in the 2nd quarter (-10.5% of GDP). The public debt ratio as a percentage of GDP continued the upward trajectory that began in the 1st quarter of 2020, rising to 130.8% of GDP in the year ended in the 3rd quarter. This result, which reflects a 4.8 p.p. of GDP increase over the previous quarter, keeps the debt ratio below the MF estimate for 2020 (134.8% of GDP) underlying the POE/2021. This increase was essentially explained by the accumulation of central government deposits (+4.6 p.p. of GDP), which implied that the debt net of deposits only increased by 0.2 percentage points. This higher volume of deposits largely justifies the contribution of the deficit-debt adjustment (5.2 billion euros) to the change in public debt (7.1 billion euros) in the 3rd quarter, plus the budget deficit (2 billion euros) also recorded in that period.