

26 March 2019

Excessive Deficit Procedure

1<sup>st</sup> Notification 2019

**Excessive Deficit Procedure (1<sup>st</sup> Notification for 2019)**

According to EU regulations, Statistics Portugal presents the first notification for 2019 associated with the Excessive Deficit Procedure (EDP) to be sent to Eurostat before the end of the month<sup>1</sup>. According to these provisional results, the net borrowing of General Government (GG) in 2018 amounted to € 912.8 million, corresponding to 0.5% of GDP (3.0% in 2017). Gross debt of GG reduced from 124.8% of GDP in 2017 to 121.5% in 2018.

Table 1 of the notification, presented below, summarizes the main results for the period 2015-2019.

**Table 1: Reporting of government deficit/surplus and debt levels and provision of associated data**

Member State: Portugal Data are in millions of euros Data: 26/03/2019	ESA 2010 codes	2015 Final	2016 Final	2017 Half-finalized	2018 Half-finalized	2019 Planned
<b>Net borrowing (-)/ net lending (+)</b>	B.9					
General government	S.13	<b>-7 917.8</b>	<b>-3 674.2</b>	<b>-5 766.1</b>	<b>- 912.8</b>	<b>- 409.1</b>
- Central government	S.1311	-9 817.7	-6 084.6	-8 492.9	-3 358.3	-2 988.3
- Local government	S.1313	771.3	840.1	482.4	424.4	848.4
- Social security funds	S.1314	1 128.6	1 570.2	2 244.5	2 021.1	1 730.8
<b>General government consolidated gross debt <sup>2</sup></b>		Final	Final	Half-finalized	Half-finalized	Planned
<b>Level at nominal value outstanding at end of year</b>		<b>231 512.6</b>	<b>240 962.6</b>	<b>242 804.8</b>	<b>244 905.7</b>	<b>248 093.9</b>
<i>By category:</i>						
Currency and deposits	AF.2	18 646.7	22 536.1	25 188.1	26 537.8	
Debt Securities	AF.3	121 722.6	132 856.2	142 260.4	149 417.9	
Short-term	AF.31	10 537.9	14 956.8	15 400.4	13 264.8	
Long-term	AF.32	111 184.7	117 899.4	126 860.0	136 153.1	
Loans	AF.4	91 143.4	85 570.3	75 356.3	68 950.0	
Short-term	AF.41	3 377.3	2 808.1	1 457.6	1 217.7	
Long-term	AF.42	87 766.0	82 762.2	73 898.7	67 732.4	
<b>General government expenditure on:</b>						
<b>Gross fixed capital formation</b>	P.51	4 045.4	2 887.4	3 563.5	3 965.2	4 853.4
<b>Interest (consolidated)</b>	D.41 (uses)	8 209.9	7 800.4	7 436.9	6 955.6	6 867.2
<b>Gross domestic product at current market prices</b>	B.1*g	179 809.1	186 480.5	194 613.5	201 605.7	208 963.7
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-4.4%	-2.0%	-3.0%	-0.5%	-0.2%
General government consolidated gross debt on GDP		128.8%	129.2%	124.8%	121.5%	118.7%

<sup>1</sup> Together with this press release, the list of units classified in the GG sector, relevant for National Accounts, is also published on INE's website.

<sup>2</sup> As mentioned in previous press releases, Eurostat is analysing the wording of the Manual on Government Deficit and Debt, in order to further clarify and ensure harmonized application by all Member-States, on the definition of the face value of the currency and deposits instrument, as the accumulated capitalization of the respective interest should be included in the gross debt of GG. This clarification is being analysed in a permanent discussion forum of the European Statistical System which addresses methodological issues relevant for the compilation of the deficit and debt, leading to the revision of the GG debt where applicable. In the case of Portugal, the issue is the amount of capitalized interest on Savings Certificates, which has always been reported in Table 4 of the notification (attached to this press release) and is not included in the GG consolidated debt.

## Responsibilities in the notification

The present notification was prepared under a new Institutional Agreement in the field of General Government (GG) Statistics, signed on the 27<sup>th</sup> March 2017, where Statistics Portugal, Banco de Portugal and the Budget Directorate-General (Ministry of Finance) are responsible for the reporting according to the following terms.

**For 2018 and precedent years**, the compilation of the Net lending / net borrowing is prepared by Statistics Portugal and the Gross debt is compiled by the Banco de Portugal.

**For the current year (2019)**, the estimates of Net lending / net borrowing, Gross debt and GDP are a responsibility of the Ministry of Finance, based on the 2019 State Budget.

Under Council Regulation (EC) No. 479/2009 **the notifications initiate a joint work between national statistical authorities and Eurostat** which, within a three weeks deadline, should examine the notifications and publish the final results for all Member States.

## Public to National Accounts adjustments

In the compilation of General Government (GG) net lending / net borrowing in National Accounts it is necessary to make several adjustments to Public Accounting data. Indeed, Public Accounting data is on a cash-basis, meaning that expenditures are recorded in the accounting period in which they are paid. In National Accounts, expenditure is recorded on an accrual-basis, that is, in the accounting period to which it refers to, regardless of the period of its payment. Accordingly, payments referring to expenditure due on other periods are not considered. Another important adjustment is related to sector delimitation of GG. As the classification of a public entity may differ under National Accounts and Public Accounting viewpoints, not all the entities included in the GG sector are coincident with those considered in the Public Accounting balance. Finally, there are transactions that, according to the conceptual framework of the National Accounts, have a specific classification, notably in the cases where entities from the GG sector acquire shares from other entities, which are recorded as expenditure (capital transfer) and not as financial transactions.

The table below details the main adjustments for 2017 and 2018, presented in tables 2A, 2C and 2D of the EDP notification attached to this press release, namely the Public to National Accounts adjustment.

	Unit: million euro	
	2017	2018
<b>Balance in Public Accounting</b>	<b>-2 779.1</b>	<b>-2 512.8</b>
Accrual adjustment and sector delimitation in National Accounts	3 086.0	2 773.8
Difference between paid and due interest	- 77.6	331.3
Other receivables:	- 702.6	- 99.2
<i>Temporal adjustment to taxes and contributions</i>	271.6	774.3
<i>Others</i>	- 974.2	- 873.6
Other payables:	226.5	74.8
<i>Expenditure already incurred but not yet paid</i>	91.3	58.9
<i>Others</i>	143.4	44.3
Other adjustments:	-5 519.3	-1 480.7
<i>Capital injections and debt assumptions</i>	-6 380.2	-2 051.7
<i>Others</i>	860.9	571.0
<b>Balance in National Accounts</b>	<b>-5 766.1</b>	<b>- 912.8</b>

The net borrowing of GG in 2018 amounted to € 912.8 million, corresponding to 0.5% of GDP (3.0% in 2017). The balance in public accounting presents a less significant improvement in 2018, determined by an increase in revenue and a decrease in expenditure.

One of the main adjustments in the public accounting balance refers to the item *Other adjustments* that includes, in 2017, the capital injection of € 3 944 million in *Caixa Geral de Depósitos* (CGD). This adjustment also includes the capital injections granted to corporations classified in the GG sector, without impacting the balance in national accounts as they are reflected in the item "Accrual adjustment and sector delimitation in National Accounts".

In 2018, this item includes some transactions recorded as capital transfers in national accounts impacting the GG balance: *i)* capital increase of € 792 million euro in *Novo Banco*, made by *Fundo de Resolução*; *ii)* the loan and the guarantee granted by the *Direção Geral de Tesouro e Finanças* to the Credit Recovery Fund for the unqualified investors holding commercial paper of ESI and Rio Forte amounting to € 280.6 million; *iii)* a guarantee granted by Regional Government of Açores (RGA) to *SATA, Air Açores*, amounting to € 65 million, recorded as a capital transfer due the economic and financial condition of the corporation.

This EDP notification refers to the Portuguese National Accounts System according to the benchmark year 2011. The 2<sup>nd</sup> EDP notification for 2019, which will be presented in September 2019 to Eurostat, will be calculated with reference to the new benchmark year 2016, currently under preparation. The benchmark revision will imply several changes, including on the delimitation of the economy institutional sectors. The information already available points to a small positive impact of this change in the net borrowing of GG.

The improvement in the balance of 2018 was mainly determined by the increase in the current revenue, particularly tax revenue and social contributions, explained to a large extent by the evolution of the economic activity and employment.

Current expenditure grew due to the combined effect of the increase of the compensation of employees and of the increase of social benefits (excluding social transfers in kind) and the decrease of interest payments. The capital expenditure that in 2017 included the effect of the recapitalisation process of CGD, decreased despite the increase in investment (gross capital formation).

For a more detailed analysis of the changes in expenditure and revenue, please consult the press release "Main Aggregates of General Government".

## Balances of Regional and Local Government and transfers from Central Government

The table below details the net lending/ net borrowing and the gross debt of (Regional and) Local Government (S1313).

Unit: million euro	2015	2016	2017	2018
<b>Net borrowing (-)/ net lending (+)</b>				
- Regional and Local Government	<b>771.3</b>	<b>840.1</b>	<b>482.4</b>	<b>424.4</b>
<i>Regional Government of Madeira</i>	177.2	223.9	79.6	107.3
<i>Regional Government of Azores</i>	- 39.8	- 67.3	- 51.9	- 126.0
<i>Local Government</i>	633.9	683.5	454.7	443.1
<b>Gross Debt</b>				
- Regional and Local Government	<b>10 899.4</b>	<b>10 561.6</b>	<b>10 347.5</b>	<b>10 238.9</b>
<i>Regional Government of Madeira</i>	4 934.1	4 852.8	4 866.2	4 809.2
<i>Regional Government of Azores</i>	1 485.2	1 596.0	1 690.4	1 859.0
<i>Local Government</i>	4 480.2	4 112.8	3 791.0	3 570.7

The previous table shows a more negative balance for RGA in 2018, which decreased by € 74.1 million compared to the result observed in 2017.

This outcome is explained by the guarantee and the capital injection granted by RGA to SATA, Air Açores, amounting to € 76 million, recorded as a capital transfer impacting the net borrowing.

It is worth noting that the transfers received by Central Government are considered in the compilation of Regional and Local Government net lending / net borrowing. These transfers are recorded as expenditure in Central Government, so that they consolidate in the General Government Account.

The following table presents these transfers, from 2017 to 2018, included in the General Government Account.

Unit: million euro	2015	2016	2017	2018
<b>Transfers from Central Government to:</b>				
<i>Regional Government of Madeira</i>	172.5	174.6	172.8	177.2
<i>Regional Government of Azores</i>	251.0	251.9	250.5	259.3
<i>Local Government</i>	2 208.8	2 262.3	2 347.8	2 368.4

As far as gross debt is concerned, and accordingly with European legislation, the following clarifications are relevant: i) Trade credits are excluded; ii) Debt of public corporations not classified inside General Government is not considered; iii) Debt of municipalities and parishes located in the territory of the Autonomous Regions is included in Local Government.