

26 March 2021

Excessive Deficit Procedure

1<sup>st</sup> Notification 2021

**EXCESSIVE DEFICIT PROCEDURE (1<sup>ST</sup> NOTIFICATION FOR 2021)**

According to EU regulations, Statistics Portugal presents the first notification for 2021 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 2020 amounted to EUR 11 501.1 million, corresponding to 5.7% of GDP (net lending of 0.1% in 2019). Gross debt of GG attained 133.6 % of GDP in 2020 (116.8% of GDP in 2019).

Despite the circumstances determined by the pandemic COVID-19, Statistics Portugal calls for the best collaboration by companies, families and public entities in responding to Statistics Portugal's data requests. The quality of official statistics, particularly its ability to identify the impacts of the pandemic COVID-19, crucially depends on this collaboration, which Statistics Portugal thanks in advance.

Table 1 of the notification, presented below, summarizes the main results for the period 2017-2021.

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

| Member State: Portugal<br>Data are in millions of euros<br>Data: 26/03/2021 | ESA 2010 codes | 2017<br>Final    | 2018<br>Final    | 2019<br>Half-finalized | 2020<br>Half-finalized | 2021<br>Planned  |
|---|----------------|------------------|------------------|------------------------|------------------------|------------------|
| <b>Net borrowing (-)/ net lending (+)</b>                                   | B.9            |                  |                  |                        |                        |                  |
| General government  | S.13           | -5 792.2         | - 716.1          | 177.0                  | -11 501.1              | -9 132.0         |
| - Central government  | S.1311         | -8 351.6         | -3 250.1         | -3 383.2               | -13 393.7              | -9 566.3         |
| - Local government  | S.1313         | 316.8            | 499.2            | 588.5                  | - 176.0                | - 527.3          |
| - Social security funds   | S.1314         | 2 242.6          | 2 034.8          | 2 971.6                | 2 068.6                | 961.7            |
|   |                |                  |                  |                        |                        |                  |
|   |                | Final            | Final            | Final                  | Half-finalized         | Planned          |
| <b>General government consolidated gross debt</b>                           |                |                  |                  |                        |                        |                  |
| <b>Level at nominal value outstanding at end of year</b>                    |                | <b>247 174.5</b> | <b>249 260.5</b> | <b>249 977.5</b>       | <b>270 491.7</b>       | <b>275 981.7</b> |
| <i>By category:</i>   |                |                  |                  |                        |                        |                  |
| Currency and deposits   | AF.2           | 29 462.3         | 30 798.2         | 31 808.1               | 33 062.2               |                  |
| Debt Securities   | AF.3           | 142 151.4        | 149 327.9        | 151 636.2              | 169 255.2              |                  |
| Short-term  | AF.31          | 15 400.4         | 13 264.8         | 11 245.2               | 10 761.9               |                  |
| Long-term   | AF.32          | 126 751.1        | 136 063.1        | 140 390.9              | 158 493.2              |                  |
| Loans   | AF.4           | 75 560.8         | 69 134.4         | 66 533.3               | 68 174.4               |                  |
| Short-term  | AF.41          | 1 446.2          | 1 283.0          | 1 497.8                | 1 291.3                |                  |
| Long-term   | AF.42          | 74 114.6         | 67 851.4         | 65 035.5               | 66 883.1               |                  |
|   |                |                  |                  |                        |                        |                  |
| <b>General government expenditure on:</b>                                   |                |                  |                  |                        |                        |                  |
| <b>Gross fixed capital formation</b>  | P.51           | 3 496.5          | 3 790.2          | 4 014.5                | 4 454.9                | 6 019.2          |
| <b>Interest (consolidated)</b>  | D.41 (uses)    | 7 398.9          | 6 902.5          | 6 330.7                | 5 786.3                | 5 486.9          |
|   |                |                  |                  |                        |                        |                  |
| <b>Gross domestic product at current market prices</b>                      | B.1*g          | <b>195 947.2</b> | <b>205 184.1</b> | <b>213 949.3</b>       | <b>202 465.7</b>       | <b>210 834.0</b> |
| <i>Memorandum items:</i>  |                |                  |                  |                        |                        |                  |
| Net lending (+)/Net borrowing (-) on GDP                                    |                | -3.0%            | -0.3%            | 0.1%                   | -5.7%                  | -4.3%            |
| General government consolidated gross debt on GDP                           |                | 126.1%           | 121.5%           | 116.8%                 | 133.6%                 | 130.9%           |

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

## Responsibilities in the notification

The present notification was prepared under an Institutional Agreement in the field of 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 2020 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 (2021)**, estimates of the Net lending/ net borrowing, gross debt and nominal GDP are the responsibility of the Ministry of Finance and relate to the macroeconomic and budgetary scenario included in the State Budget for 2021. This scenario has not yet been updated and does not include the macroeconomic and budgetary impacts resulting from the containment measures in place until the end of the first quarter of 2021, as the Ministry of Finance is still working on these impacts, which will only be presented in the stability programme.

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

For the compilation of GG net lending / net borrowing in National Accounts several adjustments to Public Accounting data are necessary. Indeed, Public Accounting data is on a cash-basis, meaning that expenditure is recorded in the accounting period in which it is 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 amendments for 2019 and 2020 in the Public to National Accounts adjustment, presented in tables 2A, 2C and 2D of the EDP notification attached to this press release.

|   | Unit: million euro |                  |
|---|--------------------|------------------|
|   | 2019               | 2020             |
| <b>Balance in Public Accounting</b>                             | <b>- 634.8</b>     | <b>-10 851.2</b> |
| Accrual adjustment and sector delimitation in National Accounts | 2 842.2            | 1 915.4          |
| Difference between paid and due interest                        | 795.4              | 1 070.8          |
| Other receivables:  | - 198.9            | - 710.5          |
| <i>Temporal adjustment to taxes and contributions</i>           | <i>202.8</i>       | <i>- 540.2</i>   |
| <i>Others</i>   | <i>- 401.8</i>     | <i>- 170.3</i>   |
| Other payables:   | 98.2               | 127.8            |
| <i>Expenditure already incurred but not yet paid</i>            | <i>56.9</i>        | <i>- 23.7</i>    |
| <i>Others</i>   | <i>41.3</i>        | <i>151.5</i>     |
| Other adjustments:  | -2 725.1           | -3 053.4         |
| <i>Capital injections and debt assumptions</i>                  | <i>-3 394.6</i>    | <i>-2 135.4</i>  |
| <i>Others</i>   | <i>669.4</i>       | <i>- 918.0</i>   |
| <b>Balance in National Accounts</b>                             | <b>177.0</b>       | <b>-11 501.1</b> |

The net borrowing of GG in 2020 amounted to EUR 11 501.1 million, corresponding to 5.7% of GDP (net lending of 0.1% in 2019).

As it can be seen from the above table, the balance in public accounting deteriorates significantly in 2020, reflecting the budgetary impacts of the measures taken by the government in the context of the COVID-19 pandemic. With reference to the information available at the time included in the budget implementation reports published by the Directorate-General for the Budget, the impact of these measures in the net borrowing will have amounted to around 2.3% of GDP.

As referred in previous press releases, one of the main adjustments in the public accounting balance refers to the item "Other adjustments" that 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".

The adjustment "*capital injections and debt assumptions*", in addition to the capital injections granted to enterprises classified in the GG sector, also includes some transactions recorded as capital transfer in National Accounts with an impact on the balance of GG: i) recording of the retroactive payment obligation for unpaid holiday supplements to police officers resulting from a court decision amounting to EUR 114 million; ii) the granting of a guarantee by the Regional Government of the Açores to SATA Air Açores of EUR 132 million, registered as a capital transfer considering the economic and financial situation of the corporation.

The item "other" includes the loan from the Directorate-General for Treasury and Finance to TAP Air Portugal amounting to EUR 1 200 million, classified as a capital transfer taking into account the economic and financial situation of the corporation.

The total revenue of GG decreased between 2019 and 2020, mainly due to the decrease in taxes on production and imports and current taxes on income and wealth, reflecting the strong reduction in economic activity in 2020.

The total expenditure of GG increased as a result of the simultaneous increase in current expenditure and capital expenditure, reflecting the budgetary impacts of the measures taken by the government to combat the COVID-19 pandemic.

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

As stated, the actual spending behaviour largely results from the impact of the measures taken by the government in the context of combating the COVID-19 pandemic. However, it should be noted that other support measures have been implemented, in particular for corporations, which do not translate into actual expenditure at the present time, such as guarantees granted by GG on loans from financial institutions. It is recalled that, in national accounts, guarantees constitute a contingent liability at the time they are granted and are only recorded as expenditure at the time of their call. In 2020, the overall amount of guarantees granted by entities of the GG amounted to around EUR 7 160 million, compared with around EUR 948 million granted in the previous year.

## 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                        | 2017            | 2018            | 2019           | 2020            |
|---|-----------------|-----------------|----------------|-----------------|
| <b>Net borrowing (-)/ net lending (+)</b> |                 |                 |                |                 |
| - Regional and Local Government           | <b>316.8</b>    | <b>499.2</b>    | <b>588.5</b>   | <b>- 176.0</b>  |
| <i>Regional Government of Madeira</i>     | 79.6            | 101.8           | 38.3           | - 120.5         |
| <i>Regional Government of Azores</i>      | - 70.0          | - 127.1         | - 66.4         | - 371.6         |
| <i>Local Government</i>                   | 307.2           | 524.5           | 616.6          | 316.1           |
| <b>Gross Debt</b>                         |                 |                 |                |                 |
| - Regional and Local Government           | <b>10 328.2</b> | <b>10 190.1</b> | <b>9 965.9</b> | <b>10 649.0</b> |
| <i>Regional Government of Madeira</i>     | 4 803.7         | 4 746.9         | 4 662.8        | 5 109.0         |
| <i>Regional Government of Azores</i>      | 1 690.4         | 1 860.0         | 1 956.6        | 2 405.4         |
| <i>Local Government</i>                   | 3 834.1         | 3 583.2         | 3 346.5        | 3 134.6         |

As observed in the previous table there was a deterioration of the net borrowing/net lending for all the Regional and Local Government.

The Regional Government of Madeira and Açores net lending results from a decrease in the revenue and an increase in the expenditure reflecting the impact of the measures of combating the Covid-19 pandemic. Additionally, the results of Regional Government of Açores are explained, as previously referred, by the recording of a capital transfer of a guarantee granted by the Regional Government to the corporation SATA Air Açores amounting to EUR 132 million.

In the Local Government the increase in expenditure was substantially higher than in revenue resulting in a decrease in the balance vis-à-vis the 2019 figures.

However, it should be underlined the preliminary nature of these results for Local Government, given the delays in the reporting of several municipalities, associated with difficulties in the implementation of the *Sistema de Normalização Contabilística para as Administrações Públicas (SNC-AP)*, in particular in the context of the COVID-19 pandemic.

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 2020, included in the General Government Account.

| Unit: million euro                           | 2017    | 2018    | 2019    | 2020    |
|--|---------|---------|---------|---------|
| <b>Transfers from Central Government to:</b> |         |         |         |         |
| <i>Regional Government of Madeira</i>        | 172.8   | 177.4   | 176.7   | 182.6   |
| <i>Regional Government of Azores</i>         | 250.5   | 259.3   | 285.3   | 293.9   |
| <i>Local Government</i>                      | 2 347.8 | 2 267.5 | 2 285.9 | 2 386.7 |

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.