

Budget Outturn Summary Report 2013

September

Ministry of Finance

Budget General Directorate

DGOrçamento

Budget Outturn Summary Report
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Budget General Directorate

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OVERALL BALANCE

- The **General Government (GG) provisional deficit**, according to the Economic and Financial Adjustment Program (EFAP) criteria¹, amounted to € 4,335.7 million until 3rd quarter 2013, below the corresponding target.

Chart 1 – Limits and implementation of General Government

	€ Millions					
	2012 Execution	I quarter 2013	June 2013	July 2013	Aug. 2013	III quarter 2013
EFAP limits	-9,028	-1,900	-6,000			-7,300
General Government Balance (cash basis)	-7,134.6	-1,435.4	-4,055.8	-5,641.8	-5,467.8	-5,428.9
Central Government	-8,048.8	-1,469.4	-4,434.9	-5,520.0	-5,471.2	-5,017.6
State	-8,896.0	-1,852.0	-4,851.2	-5,696.6	-6,027.3	-5,443.1
Autonomous Services and Funds excluding reclassified SOE	1,682.1	772.5	1,014.6	790.8	1,112.5	1,019.0
Reclassified State Owned Enterprises	-834.9	-390.0	-598.4	-614.2	-556.5	-593.4
Regional Government	-266.0	3.7	7.4	-151.6	-474.9	-722.5
Madeira	-254.9	3.1	26.4	-144.4	-476.2	-719.6
Açores	-11.1	0.6	-19.1	-7.1	1.2	-2.9
Local Government	748.7	-104.4	-46.3	-142.6	-13.1	-116.2
Municipalities reported	748.7	-104.0	-45.5	-141.0	-11.2	-107.1
Social Security	431.5	134.7	418.1	172.3	491.4	427.5
Adjustments underlying to the Technical Memorandum of Understanding						
Guarantees, loans and capital injections	-93.4	0.2	-11.0	-11.1	-12.3	-13.3
Adjustment for the arrears settled - Health arrears clearance strategy	1,500.0			1.0	10.5	10.5
Pension funds	-2,783.9	-48.1	-48.1	-48.1	-48.1	-48.1
Adjustment for the arrears settled - Local Administration (€1 billion credit facility)	13.3	132.4	271.7	310.3	326.6	339.6
Adjustment for the arrears settled - RAM Government (€1,1 billion bank loans, with central government guarantees)				182.7	467.9	804.4
General Government Balance (criteria of the EFAP)	-8,498.6	-1,351.0	-3,843.2	-5,207.0	-4,723.2	-4,335.7
Gap (General Government Balance (criteria of the EFAP) minus EFAP Limit)	529.4	549.0	2,156.8			2,964.3

Notes:

Updated amounts with information available until October

Source: Ministry of Finance

- **Central Government and Social Security** balance until September attained € -4,590.1 million (€ -4,401.9 million in the same period of 2012), having the primary balance recorded € 387.7 million (€ 1,091 million in the same period of 2012). In absence of *one off* effects which have influenced the year-on-year comparability of the information, it would be observed an adjusted overall balance of € -6,053.6 million and a primary balance of € -560.7 million in 2012 and € -4,979.6 million and € 1.8 million, respectively, in 2013. This improvement is a consequence of the revenue evolution, given the fact that expenditure is negatively influenced by the reinstatement of the 13th and 14th payments to public servants and also the equivalent to the pensioners of *Caixa Geral de Aposentações (CGA)*².
- **Central Government** balance was € -5,017.6 million (€ -4,646.2 million in the same period of 2012). The primary balance was € -41.6 million (€ 844.9 million in the same period of 2012). Revenue increased 1% while

¹ For balance calculation under the EFAP criteria, some operations are excluded, more significantly the amounts related to debt regularizations under the Financial Adjustment Plan of the Autonomous Region of Madeira (€ 385.7 million), Local Economy Support Program (€ 326.6 million) and the incorporation of the Instituto de Financiamento da Agricultura e Pescas, I.P. pension fund (€ 48.1 million) in CGA.

² Public body that administrates the Portuguese civil servants pension scheme.



1. Summary

expenditure increased 1.8%. In the absence of the above mentioned *one-off* effects, revenue would have increased 8.9%, due to the evolution of revenue from direct taxes and CGA contributions. On the other hand, expenditure would have increased 5.3%, reflecting the higher transfers to Social Security under the specific Law and the Social VAT component, as well as the effect of payment of the reinstated subsidy by twelfths in pension expenditure and other benefits paid by CGA and in Central Government employee's compensation.

- **Social Security** surplus until September was € 427.5 million, € 183.3 million upper than the same period of 2012. The State Budget transfers contributed in 6.4 p.p. to the revenue year-on-year variation (7.5% until September). As to expenditure, the YOY variation of 6.6% is mainly determined by social expenditure, most of which due to the increase in expenditure with pensions – which reflects particularly the effect of the reinstated subsidy paid in twelfths – and by the unemployment subsidy and employment support, in line with previous months path.
- **Regional and Local Government** recorded a deficit of € 838.8 million (€ -116.5 million in Local Administration and € - 722.5 million in Regional Administration). Excluding the suppliers' debt regularization effect, under the PAEL (Local Economy Support Program) and the loan taken by the Autonomous Region of Madeira for the same purpose, the resulting budget surplus would have been of € 309.1 million for the overall subsector (€ 322.7 million in the same period of 2012).



OVERALL BALANCE

- The overall and primary balances of **Central Government and Social Security** until the 3rd quarter of 2013 amounted € -4,590.1 million and € -387.7 million, respectively. These amounts compare with an overall balance of € -4,401.9 million and a primary surplus of € 1,091 million, respectively, in 2012. This evolution is determined by the following 2012 and 2013 *one-off* effects: i) Accounting, in 2012, of the revenue associated to the transmission of the remaining parcel of the ownership of credit institutions pension funds' assets and the BPN pension fund (€ 2,783.9 million); ii) Revenue from the sale of the 4th generation frequency use rights (€ 272 million); iii) Revenue from the operation of concession of the infrastructure of Civil Aviation ANA – *Aerportos de Portugal S.A* (€ 400 million). iv) Previous years debt payments in the Health sector (€ 1,404.2 million in 2012 and €10.5 million in 2013). These effects together have a net impact on the overall balance until September 2012 of € -1,651 million and € -389.5 million in the balance of 2013. Therefore, excluding those factors, the overall and primary balance would have recorded an improvement of € 1,074 million and € 559 million, respectively, while revenue and expenditure YOY variation would be of 6.3% and 3.5%, respectively.

2. Central Government and Social Security

Chart 2 - Central Government and Social Security Consolidated Account

Period: January to September											€ Millions	
	2013 Supplementary Budget	2012		2013		YOY Change Rate (%)		YOY Change Rate Contrib. (p.p.)	YOY change rate implicit to Budget (%)	Accumulated Execution Degree (%)		
	2013	Monthly Execution	Accumulated Execution	Monthly Execution	Accumulated Execution	Execution	Accumulated					
Current revenue	65,262.1	5,110.4	44,412.4	5,575.9	47,256.7	9.1	6.4	5.9	7.9	72.4		
Tax	35,330.9	3,292.0	25,256.0	3,572.6	26,421.1	8.5	4.6	2.4	4.0	74.8		
Direct taxes	15,821.6	1,592.3	9,997.3	2,005.6	12,006.1	26.0	20.1	4.2	15.9	75.9		
Indirect taxes	19,509.3	1,699.7	15,258.7	1,567.0	14,415.0	-7.8	-5.5	-1.7	-4.0	73.9		
Social security contributions	18,471.8	1,323.7	12,559.7	1,459.3	13,402.6	10.2	6.7	1.7	9.5	72.6		
Other current revenue	11,459.4	494.6	6,596.7	544.0	7,433.0	10.0	12.7	1.7	18.7	64.9		
(of which: transfers from other GG subsectors)	82.4	6.8	48.4	5.8	46.4	-14.9	-4.1	0.0	24.4	56.3		
Capital revenue	2,649.2	75.5	3,964.9	472.9	1,338.2	526.6	-66.2	-5.4	-54.9	50.5		
Sale of investment good	187.0	0.7	8.3	2.1	40.9	206.1	394.3	0.1	1,124.6	21.9		
Capital transfers	1,577.8	65.3	3,496.2	67.4	754.0	3.3	-78.4	-5.7	-65.6	47.8		
(of which: transfers from other GG subsectors)	60.9	0.7	7.0	0.6	12.4	-12.8	78.4	0.0	567.2	20.4		
Other capital revenue	884.3	9.5	460.4	403.4	543.3	4,135.4	18.0	0.2	-30.2	61.4		
Effective revenue	67,911.3	5,185.9	48,377.3	6,048.9	48,595.0	16.6	0.4		2.3	71.6		
Current expenditure	73,684.9	5,427.8	49,914.9	5,429.0	51,015.1	0.0	2.2	2.1	6.1	69.2		
Public consumption	25,753.3	1,868.4	17,918.5	1,821.4	16,928.8	-2.5	-5.5	-1.9	4.0	65.7		
Employees	12,803.2	938.4	8,695.1	947.0	9,050.7	0.9	4.1	0.7	8.9	70.7		
Purchase of goods and services and other current expend	12,950.1	929.9	9,223.4	874.4	7,878.1	-6.0	-14.6	-2.5	-0.4	60.8		
Subsidies	2,459.0	90.2	903.1	144.2	1,450.7	59.9	60.6	1.0	23.2	59.0		
Interests and other charges	7,962.3	796.5	5,492.9	576.1	4,977.8	-27.7	-9.4	-1.0	0.4	62.5		
Current transfers	37,510.2	2,672.7	25,600.4	2,887.3	27,657.9	8.0	8.0	3.9	7.8	73.7		
(of which: transfers to other GG subsectors)	2,175.5	124.7	1,424.8	154.5	1,617.1	23.9	13.5	0.4	17.7	74.3		
Capital expenditure	3,861.4	157.1	2,864.3	230.2	2,169.9	46.5	-24.2	-1.3	-14.6	56.2		
Investments	2,124.1	49.1	1,415.6	149.9	994.5	205.2	-29.8	-0.8	-13.0	46.8		
Capital transfers	1,622.9	103.6	1,427.7	83.6	1,158.2	-19.3	-18.9	-0.5	-19.5	71.4		
(of which: transfers to other GG subsectors)	978.4	62.9	975.3	40.0	713.6	-36.3	-26.8	-0.5	-24.9	72.9		
Other capital expenditure	114.5	4.4	20.9	-3.3	17.3	-174.3	-17.3	0.0	81.3	15.1		
Effective Expenditure	77,546.3	5,584.9	52,779.2	5,659.2	53,185.1	1.3	0.8		4.8	68.6		
Overall balance	-9,635.0	-399.1	-4,401.9	389.7	-4,590.1							
Adjustments related to EFAP												
Guarantees, loans and capital injections	-88.2	-11.1	-56.5	-1.0	-13.3							
Supplementary transfer to the National Health Service		89.3	1,404.2	0.0	10.5							
Pension funds	-48.1	0.0	-2,783.9	0.0	-48.1							
Overall Balance (criteria of the EFAP)	-9,771.3	-320.9	-5,838.1	388.7	-4,641.0							
Primary expenditure	69,583.9	4,788.4	47,286.3	5,083.1	48,207.2	6.2	1.9			69.3		
Current balance	-8,422.8	-317.4	-5,502.5	147.0	-3,758.4							
Capital balance	-1,212.2	-81.6	1,100.6	242.8	-831.7							
Primary balance	-1,672.7	397.5	1,091.0	965.8	387.7							
Financial assets net of reimbursements	20,152.4	-137.5	9,056.4	166.0	3,583.0	-220.7	-60.4			17.8		
of which revenue from:												
Disposal of Capital Shares	1,040.0	0.0	160.0	0.0	0.0	-	-100.0			0.0		
Financial liabilities net of amortizations	28,301.6	3,172.2	20,647.4	-150.4	20,938.5	-104.7	1.4			74.0		

Notes:

The execution rate is calculated by reference to the supplementary budget excluding freezing
The YOY change rate is calculated by comparing the initial budget with 2012 implementation
The residual items of revenue for the 2013 Budget were adjusted between other current revenue and other capital revenue.
The negative values are the result of consolidation operations

Source: Ministry of Finance

EXPENDITURE

- The Central Government and Social Security expenditure increased by 0.8%, while the primary expenditure increased by 1.9%. Excluding the effect of the previous year's debt regularizations in the Health sector until September 2012, which amounted to € 1,404.2 million and 10.5 million in 2013, the expenditure and



primary expenditure would have increased 3.5% and 5% in a year-on-year base, respectively, which compares to 3.6% e 4.7% until August respectively. This slight raise of primary expenditure rate was affected by the slight increase of the investment made by *Parque Escolar, E.P.E.*³ and also the different pattern of implementation in the area of concessions and road investments and military investments.

- **Compensation of employees** increased 4.1% in cumulative terms YOY, which is mainly explained by the payment of one subsidy in twelfths and by the increase of contributions rate to *Caixa Geral de Aposentações, I.P.* (CGA) and Social Security.
- **Purchase of goods and services and other current expenditures** decreased 14.6% (-15.6% until August). This evolution results from the base effect of the previous years' debt regularizations in the Health sector which is more pronounced in 2012. In the absence of this effect, this expenditure item would have grown 0.6%, mainly due to the increase of the amounts allocated to the program contracts with hospitals, in this case by the effect of payment in twelfths of one subsidy.
- The decrease in expenditure with **interest and other charges** was 9.4% (-6.3% until August), which is essentially explained by the evolution of State's direct debt (-8.6%). This reduction is mainly justified by the lower amount of Treasury Bonds interest paid. It's also relevant to stress the effect of Treasury refunds throughout 2012 and 2013.

It should also be mentioned the reduction of the financial expenditure of public enterprises in the transport area, resulting from advanced payments of interest rate derivative and also the lower amount of interests paid by *RTP – Rádio e Televisão Portuguesa, S.A.*, resulting from the amortization of a loan to the *DEPFA Bank*.

- Year-on-Year rate of **Current transfers** stood at 8%, which results mainly from the payment of the reinstated subsidy in twelfths to the beneficiaries of the pension system managed by CGA and of the social security system (11.2% and 10.1% respectively), on one hand, and from the evolution of expenditure with unemployment subsidy and employment support (9.4%), on the other hand. Noteworthy, the growth of this kind of expenditure is slowing since the beginning of the year (this trend was interrupted only in June).
- **Subsidies** increased 60.6% (60.7% until August), evolution influenced by the increase in Social Security expenditure with job training actions financed by the European Social Fund – which costs were partially reclassified to this expenditure item⁴ -, and, with a minor impact, the increase support granted by *Instituto de Emprego e Formação Profissional, I.P.*⁵.
- **Investment** expenditure decreased 29.8% until September (-38.4% until August), mostly reflecting the reduction of investments in the public school network by *Parque Escolar, E.P.E.*⁶, resulting either of the post-

³ *Parque Escolar* is a corporation governed by public law corporate and has for object the planning, management, development and execution of the modernisation programme for the public network of secondary and other schools under the responsibility of the Ministry of Education.

⁴ Following the recommendation of the Accounts Court, the amounts allocated by Social Security to other General Government subsectors for job training actions purposes have passed to be accounted, in 2013, as subsidies while, in 2012, were registered as transfers.

⁵ Institute for Employment and Job Training

⁶ *Parque Escolar* is a corporation governed by public law corporate and has for object the planning, management, development and execution of the modernisation programme for the public network of secondary and other schools under the responsibility of the Ministry of Education.

2. Central Government and Social Security

ponement or the suspension of projects. This effect is partially offset by the increase of expenditure associated to road concessions by *Estradas de Portugal, S.A.*⁷.

- The reduction in **capital transfers** is in line with previous month (-18.8%), being justified by the allocation between current and capital natures of the amounts transferred on account of the Financial Stabilization Fund, under the Local Finance Law, which differs from the previous year.

REVENUE

- **Revenue** until September increased 0.4% year on year (-1.5% until August), an inflexion in the behavior observed in the last months, even though the base effects associated to the accounting in 2012 of the revenue collected from the remaining transfer of pension funds from credit institutions⁸ and the revenue from the sale in 2012 of the 4th generation frequency use rights and, in 2013, the revenue from the operation of concession of the infrastructure of Civil Aviation ANA – *Aerportos de Portugal S.A.*. Excluding these base effects, revenue would have increased 6.3% in relation to the same period of 2012 and 6% while comparing to August, result justified by the acceleration of direct taxes revenue.
- Central Government and Social Security **tax revenue** increased 4.6% until September, a positive performance when comparing to the preceding month (4%). For this result is relevant the contribution of the evolution of direct taxes, which YOY increase was 20.1% (19% until August). Personal income tax (IRS) and corporation tax (IRC) grew 30.1% and 6.1%, respectively, which is partially offset by the base effect revenue collected under the Fiscal Regularization Exceptional Regime (RERT III) compares positively with the State Budget targets to each of these revenue items.
- For the IRS evolution is relevant to stress the increase in tax withholding – as a result of the application of the tax withholding tables on income from employment and pensions, and the growth of those applicable to capital and real estate income -, alongside with the positive impact that resulted from enhanced control over withholding delivered by employers. Also, this evolution reflects the result of the liquidation of personal tax (IRS) for the year of 2012.

In the 3rd quarter of 2013, revenue from corporation tax (IRC) increased 8.5% (6.1% until August) which is justified by the additional payments on account made by the major corporations and also the payments on account made in September.

- The **indirect taxes** revenue presents a variation of -5.5% year-on-year (-5.2 % until August). It is important to underline the recovery of the VAT revenue (-6.7% until September which compares to -7.2% until August), an indicator of the recovery of the economy and the enhanced control and action against tax evasion and the underground economy. It is also important to refer the improvement of performance on Tax oil and energy products (ISP) which presents a decrease of 2.6% until September while, until August, it was deeper (-3.5%).
- The revenue of **contributions to Social Security systems** presents an increase of 6.7% until September (6.3% until August), which is due to the evolution of the contributions to Social Security, which YOY rate until September was 0.6% (0.2% until August). It is important to refer the slight increase observed since May as result

⁷ *Estradas de Portugal* is a governmental agency (state owned enterprise) responsible for administering the roads in Portugal.

⁸ Under nr. 5 of article nr. 6.º of the Law-Decree nr. 127/2011, of December 31st, “*The assets ownership transmission is made by the credit institutions in the following terms: a) Until December 31st 2011, the equivalent amount to, at least, 55% of the current provisory value of the responsibilities (...); b) Until June 30th 2012, the remaining amount to complete the current definitive value of the responsibilities (...).*”



of the improvement of the conditions on the labour market. On its side, the contributions to CGA and to public health subsystems maintained the growth levels observed in the previous month (30.4% and 9.7% until September, respectively), reflecting, in the first case, the increase of the fee paid by the public entities, and in both cases, the payment in twelfths of one subsidy.

- **Non-tax revenue** decreased 17 % (-22.4% until August). Excluding the mentioned effects, non-tax revenue would have grown 11.5% mainly due to the Bank of Portugal dividend increase and to the interest of contingent capital bonds (*coco bonds*) and the Social Security revenue from the European Social Fund.