Budget Outturn Summary Report 2014

January

Portugal
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 balance**, according to the Economic and Financial Adjustment Program (EFAP) criteria[1], amounted in January 2014, to € 638.7 million.

Table 1 – EFAP limits and General Government budgetary implementation

€ Millions

	2013 Execution	Jan-14	Mar-14
EFAP limits	**-8.900**		**-1.700**
General Government Balance (cash basis)	**-8.770,4**	**636,0**	**0,0**
Central Government	**-8.342,2**	**399,5**	**0,0**
State	-7.687,5	-181,4	
Autonomous Services and Funds excluding reclassified SOE	318,2	432,3	
Reclassified State Owned Enterprises	-972,9	148,6	
Regional Government	**-831,3**	**13,1**	**0,0**
Madeira	-825,7	-15,6	
Açores	-5,6	28,7	
Local Government	**-75,5**	**87,9**	
Municipalities reported	-83,3	78,6	
Social Security	**478,6**	**135,5**	
Adjustments underlying to the Technical Memorandum of Understanding			
Garantees, loans and capital injections	-57,7	-5,0	
Adjustment for the arrears settled - Health arrears clearance strategy	423,5	0,0	
Pension funds	-48,1	0,0	
Adjustment for the arrears settled - Local Administration (€1 billion credit facility)	412,0	7,6	
Adjustment for the arrears settled - RAM Government (€1,1 billion bank loans, with central government guarantees)	853,9	0,0	
General Government Balance (criteria of the EFAP)	**-7.186,8**	**638,7**	**0,0**
Gap (General Government Balance (criteria of the EFAP) minus EFAP Limit	**1.713,2**		**0,0**

- **Central Government and Social Security** balance in attained € 535 million (€ -26.4 million in 2013), while the primary balance recorded € 634.8 million (€ 82.3 million in 2013), corresponding to a revenue's increase rate of 6.2% and an expenditure decrease rate of 4.4%. Both rates are higher than the Budget target.

- **Regional and Local Government** recorded a surplus of 101 million euro (€ 87.9 million in Local Administration and € 13.1 million in Regional Administration). Excluding the suppliers' debt regularization effect, under the PAEL (Local Economy Support Program), the resulting budget surplus would have been of € 108.6 million for the overall subsector (€ 156.1 million in the same period 2013).

[1] For purpose of the General Government balance calculation according to the EFAP criteria, some operations are excluded, namely those listed on table 1.

2. Central Government and Social Security

OVERALL BALANCE

- The overall and primary **Central Government and Social Security** balances amounted to € 535 million and € 634.8 million, respectively, in January 2014.

  For the improving of the global balance contributed – in the Revenues side - mostly the behavior of tax revenue, especially direct taxes, and Other Current Revenues. In the expenditure side, the main factors are the anticipation, to January 2013, of the monthly contribution to the EU budget of February 2013 and the reduction of Other Current Expenditures.

Table 2 - Central Government and Social Security Consolidated Account

Period: January — € Millions

	2013 Execution	2014 Execution	YOY Change Rate (%) Execution	YOY Change Rate Contrib. (p.p.)	YOY change rate implicit to Budget (%)
Current revenue	**5,072.4**	**5,466.8**	**7.8**	**7.5**	**1.2**
Direct taxes	1,127.9	1,350.0	19.7	4.2	3.9
Indirect taxes	1,635.2	1,716.2	5.0	1.5	1.7
Social security contributions	1,559.9	1,660.7	6.5	1.9	-1.2
Current transfers	164.1	33.2	-79.8	-2.5	4.8
General Government subsectors	2.4	2.4	-0.6	0.0	24.8
Others	161.7	30.8	-81.0	-2.5	4.3
Other current revenue	492.6	664.2	34.8	3.2	11.0
Consolidation differences	92.6	42.4			
Capital revenue	**205.4**	**136.4**	**-33.6**	**-1.3**	**-16.6**
Sale of investment good	0.5	5.4	934.4	0.1	138.1
Capital transfers	98.9	55.3	-44.1	-0.8	-15.2
General Government subsectors	1.5	0.6	-62.1	0.0	7.9
Others	97.4	54.7	-43.8	-0.8	-15.3
Other capital revenue	104.9	75.6	-27.9	-0.6	-42.8
Consolidation differences	1.1	0.0			
Effective revenue	**5,277.8**	**5,603.1**	**6.2**		**0.6**
Current expenditure	**5,079.1**	**4,864.1**	**-4.2**	**-4.1**	**-2.3**
Employees	966.0	972.2	0.6	0.1	-7.5
Certain and permanent wages	757.7	700.5	-7.6	-1.1	-13.6
Variable or contingent bonuses	37.2	82.8	122.5	0.9	23.9
Social security	171.0	188.8	10.4	0.3	10.1
Purchase of goods and services	589.9	583.5	-1.1	-0.1	-9.0
Interests and other charges	108.8	99.8	-8.2	-0.2	0.8
Current transfers	3,194.6	3,054.0	-4.4	-2.6	-1.1
General Government subsectors	188.3	242.0	28.5	1.0	20.4
Others	3,006.3	2,812.0	-6.5	-3.7	-2.4
Subsidies	95.2	119.3	25.2	0.5	-0.3
Outras despesas correntes	124.7	28.8	-76.9	-1.8	48.9
Consolidation differences	0.0	6.4			
Capital expenditure	**225.1**	**204.1**	**-9.3**	**-0.4**	**7.5**
Investments	14.8	26.0	75.7	0.2	48.2
Capital transfers	209.7	177.7	-15.3	-0.6	-27.3
General Government subsectors	161.6	122.0	-24.5	-0.7	-32.2
Others	48.1	55.7	15.8	0.1	-21.2
Other capital expenditure	0.4	0.3	-34.4	0.0	-49.7
Consolidation differences	0.2	0.2			
Effective Expenditure	**5,304.2**	**5,068.2**	**-4.4**		**-1.8**
Overall balance	**-26.4**	**535.0**			
Adjustments related to EFAP					
Guarantees, loans and capital injections	0.0	-5.0			
Supplementary transfer to the National Health Service	0.0	0.0			
Pension funds	0.0	0.0			
Overall Balance (criteria of the EFAP)	**-26.4**	**530.0**			
Primary expenditure	5,195.4	4,968.3	-4.4		
Current balance	-6.7	602.7			
Capital balance	-19.7	-67.7			
Primary balance	82.3	634.8			

Source: Ministry of Finance and Social Security Financial Management Institute

2. Central Government and Social Security

EXPENDITURE

- The **Central Government and Social Security** expenditure and primary expenditure decreased 4.4 year-on-year. This behavior was mostly determined by the anticipation of the February 2013 monthly contribution to the EU budget to January, amounted to € 336 million (€ 201.6 million in 2014 compares with € 552.3 million in 2013). Also regarding transfers, but in the opposite direction, there was an increase pension expenditure, which is explained by the payment of the twelfth of the Christmas bonus in 2013 started only in February.

- **Compensation of employees** remained nearly at the same level as January 2013, reflecting the interaction of opposing factors. On one hand, reference to the base effect of 2013 associated to the fact that the payment of the increased contributions from public employers to *Caixa Geral de Aposentações, I.P.* (CGA)[2] and to Social Security did not occur starting at the beginning of that year, and to the expenditure associated with the terminations by mutual agreement program. On the other hand, in terms of expenditure reduction, it should be noted the effect of the measure of remuneration reduction.

- The **purchase of goods and services and other current expenditures** decreased 14.3%, resulting mostly from the reduction of schools' operating costs, namely those financed by the European Social Fund, from the reimbursements made in 2013 by the Social Security cash advances on behalf of revenue from European funds, and also, from the anticipation to the end of 2013, of ADSE's[3] health expenditure under health scheme supplier contracts.

- The decrease in expenditure with **interest and other charges** was 8.2%, determined by the charges related to direct state debt (-13%), which is justified by the decrease of expenditure with contracts of interest rate derivatives (swap).

- The change rate of **current transfers** was -4.4%, mainly determined by the anticipation of February 2013 financial contribution to the EU budget, to January 2013. On the other hand, it is noteworthy the increase in pensions of social security and CGA pension system, attributable mainly to the fact that the corresponding twelfth of the 13th month pension wasn't paid in January 2013; also relevant is the fact that, from 2014 onwards, the state transfer to Local Government of the variable share on Personal Income Tax-PIT (IRS) was accounted in budgetary expenditure[4]. In January this amounts to € 42.5 million (null value in 2013).

- **Subsidies** increased 25.2%, being justified by the higher supports to vocational training assigned by Social Security, with European Social Fund financing, by the implementation of active employment policies and vocational training by IEFP[5], and by the different pattern of execution of compensatory allowances to companies for providing public service.

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

[3] ADSE is the public health subsystem of civil servants and pensioners, other than military and security forces (which have a special health subsystem).

[4] While, until 2013, this share was transferred by deducting to the Central Government's PIT gross collection.

[5] Institute for Employment and Vocational Training

- **Investment** expenditure increased 75.7%, associated mainly to the reinforcement of amounts expended with the conservation of road infrastructure, due to the recent adverse weather conditions.

- The reduction of 15.3% in **capital transfers** is mainly associated with the reduction of transfers to the autonomous regions (Regional Government), result consistent, on one hand, with the implicit variation on State Budget 2014 transfers under the *Regional Finances Law* and, secondly, with the fact that the extraordinary transfers under the *Financial Means Law* to Madeira Autonomous Region[6] expired in December 2013. An additional contribution to this expenditure item decrease was the *Financial Stability Fund (FEF)* transfer under Local Finance Law, which shows a different monthly pattern from 2013 implementation, between current and capital nature[7].

REVENUE

- **Central Government and Social Security Revenue** increased 6.2%, result which is determined by the increase of tax revenue (11%) and the contributions to the social security systems (6.5%).

- The increase on **Tax revenue** is supported by an increase both in direct (19.7%) and indirect taxes (5%).

- For the increase of **Direct taxes** revenue contributed the growth of revenue of Personal Income Tax (PIT-IRS) (24.2%), reflecting the improving of the labor market conditions and the positive impact that resulted from enhanced control over withholding delivered by employers. Part of that increase is also attributable to the change in the accounting registration procedure of PIT Local Government share[8].

- The variation of **indirect taxes** is explained by the behavior of Value Added Tax (VAT) (+4.2%), Tax on tobacco (+4.9%), Tax on vehicles (29,3%) and Stamp Tax (5.1%).

  The VAT revenue evolution is a result of the economy recovery and the enhanced control and action against tax evasion and the underground economy, as consequence of the results obtained with the invoice reform and the reform of the transport documents. It is to be noted in particular that voluntary VAT collection increased 8% year-on-year.

- The increase of **contributions to Social Security systems** was mostly determined by contributions to CGA (44.2%). This variation is explained by the fact that the payment of contributions from public employers recorded in January of each year does not entirely reflect the measures determined by the Budget Act. In January 2013 the impact of this effect was more pronounced when comparing with January 2014[9].

[6] This law determined the financial means to ensure the funding of initiatives to support the reconstruction of Madeira following the storm of February 2010.

[7] The breakdown between current and capital transfers was 89% / 11% in 2014, when, in 2013, it had been 79% / 21%. Under the new Local Finances Law), current transfers cannot exceed 90% of the *FEF*.

[8] The transfer of the variable participation of Local Government in the PIT (IRS) is now accounted as state general revenue, which resulted in a net increase in income tax revenue of the State subsector (as a counterpart of the effect referred in current transfers in expenditure).

[9] In 2013, the contribution rate increased from 15% to 20% and this increase was applied on a greater salary basis, due to the payment of the Christmas salary in twelfths. In 2014, it remains the payment of that allowance in twelfths and the increase in the contribution rate is lower (3.75 p.p.).

- The **Non-tax revenue** decreased 8.2%, mainly explained by the reduction in transfers from the EU, especially revenues from the European Agricultural Fund for Rural Development (EAFRD) - justified by the base effect associated with the registration of reimbursements from this fund regarding to the last quarter of 2012 in January 2013- and revenues of Social Security from the European Social Fund. On the other hand, the increase in the "Other current revenues", which is due to the revenues related with CoCo bonds (in 2013 they only started in July); the interest revenues from the Madeira Loan (€ 16 million) and the increase in sales of goods and services of *Parque Escolar*[10] (€ 63.1 million), resulting from the contract that was approved in the end of 2013.

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