Budget Outturn Summary Report 2014

February

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 to € -30.8 million in February 2014, which compares favorably with the corresponding result for the same period of 2013 (-181.7 million euro).

Table 1 – EFAP limits and General Government budgetary implementation

€ Millions

	2013 Execution	Jan-14	jan-fev 2014	Mar-14
EFAP limits	**-8,900**			**-1,700**
General Government Balance (cash basis)	**-8,751.5**	**636.7**	**-48.3**	
Central Government	**-8,342.2**	**399.5**	**-149.6**	
State	-7,687.5	-181.4	-579.1	
Autonomous Services and Funds excluding reclassified SOE	318.2	432.3	585.0	
Reclassified State Owned Enterprises	-972.9	148.6	-155.5	
Regional Government	**-831.3**	**13.1**	**-77.9**	
Madeira	-825.7	-15.6	-81.5	
Açores	-5.6	28.7	3.6	
Local Government	**-56.6**	**88.6**	**84.7**	
Municipalities reported	-64.5	83.9	78.4	
Social Security	**478.6**	**135.5**	**94.5**	
Adjustments underlying to the Technical Memorandum of Understanding				
Garantees, loans and capital injections	-57.7	-5.0	-5.7	
Adjustment for the arrears settled - Health arrears clearance strategy	423.5	0.0	0.0	
Pension funds	-48.1	0.0	0.0	
Adjustment for the arrears settled - Local Administration (€1 billion credit facility)	443.8	15.5	18.2	
Adjustment for the arrears settled - RAM Government (€1,1 billion bank loans, with central government guarantees)	853.9	0.0	5.0	
General Government Balance (criteria of the EFAP)	**-7,136.1**	**647.3**	**-30.8**	
Gap (General Government Balance (criteria of the EFAP) minus EFAP Limit	**1,763.9**			

Notes:
Updated accrued amounts with last available data.

- **Central Government and Social Security** balance attained € -55 million (€ -244.1 million in 2013), while the primary balance recorded € 706.8 million (€ 271 million in 2013), corresponding to a revenue's increase rate (5.5%) higher than expenditure increase rate (3.6%).

- **Regional and Local Government** recorded a surplus of € 6.8 million (€ 84.7 million in Local Administration and € -77.9 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 € 64 million for the overall subsector (€ 69.2 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 until February 2014, amounted to € -55 million and € 706 million, respectively.

  For the improving of the global balance contributed mostly the behavior of tax revenue, especially direct taxes revenue.

Table 3 - Central Government and Social Security Consolidated Account

Period: January to February	Accumulated Execution		YOY Change Rate (%)	YOY Change Rate Contrib. (p.p.)	YOY change rate implicit to Budget (%)
€ Millions	2013	2014	Accumulated		
Current revenue	**10,239.0**	**10,822.7**	**5.7**	**5.6**	**2.3**
Tax	5,991.7	6,470.1	8.0	4.6	2.7
Direct taxes	2,127.2	2,439.0	14.7	3.0	3.9
Indirect taxes	3,864.5	4,031.1	4.3	1.6	1.7
Social security contributions	3,008.4	3,116.3	3.6	1.0	2.7
Current transfers	214.6	80.4	-62.5	-1.3	5.3
Other current revenue	886.9	1,110.4	25.2	2.1	2.5
Consolidation differences	137.4	45.5			
Capital revenue	**263.9**	**259.9**	**-1.5**	**0.0**	**-16.6**
Sale of investment good	5.7	35.2	515.0	0.3	138.1
Capital transfers	142.9	142.1	-0.6	0.0	-15.2
Other capital revenue	114.7	82.5	-28.0	-0.3	-42.8
Consolidation differences	0.5	0.0			
Effective revenue	**10,502.9**	**11,082.5**	**5.5**		**1.7**
Current expenditure	**10,237.7**	**10,563.7**	**3.2**	**3.0**	**-1.3**
Employees	1,968.2	1,935.4	-1.7	-0.3	-7.5
Purchase of goods and services	1,298.4	1,330.2	2.5	0.3	-9.0
Interests and other charges	515.1	761.0	47.7	2.3	0.8
Current transfers	6,074.2	6,177.7	1.7	1.0	0.9
Subsidies	178.0	256.3	44.0	0.7	-0.3
Other current expenditure	203.9	75.1	-63.2	-1.2	48.9
Consolidation differences	0.0	27.9			
Capital expenditure	**509.3**	**573.9**	**12.7**	**0.6**	**7.5**
Investments	221.3	312.2	41.1	0.8	48.2
Capital transfers	283.7	252.8	-10.9	-0.3	-27.3
Other capital expenditure	2.3	0.7	-67.8	0.0	-49.7
Consolidation differences	2.0	8.2			
Effective Expenditure	**10,747.0**	**11,137.6**	**3.6**		**-0.9**
Overall balance	**-244.1**	**-55.0**			
Adjustments related to EFAP					
Guarantees, loans and capital injections	-0.3	-5.7			
Overall Balance (criteria of the EFAP)	**-244.4**	**-60.7**			
Primary expenditure	10,231.9	10,376.5	1.4		
Current balance	1.3	259.0			
Capital balance	-245.4	-314.1			
Primary balance	271.0	706.0			

Source: Ministry of Finance and Social Security Financial Management Institute

EXPENDITURE

- **Central Government and Social Security** expenditure increased, until February 2014, 3.6% year-on-year, having contributed mostly the behavior of interests and other charges expenditure. Primary expenditure increased 1.4%, determined by transfers, investment and subsides.

  The inflection of the expenditure and primary expenditure evolution (both with a decrease of 4.4% until January) results from the dilution of the 2013 base effect due to the anticipation of the February 2013 monthly contribution to the EU budget to January 2013. In the absence of this effect, it would have been observed a reduction of the primary expenditure rate change in 0.8p.p.[2].

- **Compensation of employees** decreased 1.7%, reflecting the effect of the State Budget 2014 remuneration reduction measure. This results embodies an inflection while compared to the previous month (+0.6%), determined by the slowdown of the expenditure associated with the terminations by mutual agreement program, which, regarding to Central Government, amounted to 45.9 million euros.

- The **purchase of goods and services and other current expenditures** decreased 6.5%, determined by several factors, among which the reimbursements of cash advances on behalf of revenue from European funds made in 2013[3] by the Social Security, and also, from the anticipation to the end of 2013, of ADSE's[4] health expenditure under health scheme supplier contracts.

  The observed reduction until February is less pronounced than in January (-14.3%), due to expenditure acceleration by the National Health Service.

- The increase in expenditure with **interest and other charges** was 47.7%, determined by the charges related to direct state debt (+53.6%), associated with the payment of the first coupon of Treasury Bonds issued in February 2013 and the holding of securities repurchase transactions of Treasury Bonds last February. These facts also contributed to explain the inflexion of this expenditure item behavior (-8.2% in January 2014).

- The change rate of current transfers was 1.7%, mainly determined by the fact that, from 2014 onwards, the state transfer to Local Government of the variable share on Personal Income Tax-PIT (IRS) is accounted in budgetary expenditure, with equal reflection in this tax revenue5; and the increase in pensions of social security and CGA pension system, which in the latter case is attributable to the evolution of pensioners number.

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[2] From 2.2% in January to 1.4% in February.

[3] When Social Security receives advances provided by the State Budget Law, on behalf of European funds, considers them as cash operations. When these amounts are received as transfers from the EU, they are included in revenue and expenditure budget (accounted in "other current expenditure").

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

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

The expenditure and primary expenditure evolution inflection is explained by a 2013 base effect dilution, related to February 2013 E.U. contribution shift to January. In the absence of this effect, the primary expenditure change rate, would have decreased by 0.8 p.p.

- **Subsidies** increased 44%, mostly justified by the increase of active employment policies and vocational training implementation.

- **Investment** expenditure increased 41.1%, a slowdown while compared to January (75.7%). Both trends are attributable to a different pattern of intra-annual expenditure with road concessions.

- The reduction of 10.9% in **capital transfers** is mainly associated with the decrease of transfers to the autonomous regions (Regional Government), result that is consistent, on the one hand, with the implicit variation in the 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 current/capital pattern[7] in comparison with the 2013 implementation.

  The evolution compared to the previous month (-15.3%) is explained by the dilution of the transfer to Regional Government reduction effect, since the transfers occur at the first month of each quarter.

REVENUE

- **Central Government and Social Security Revenue** increased 5.5% until February (6.2% in January), evolution which is determined by the increase of tax revenue (8%) and the contributions to the social security systems (3.6%). The deceleration results from the slowdown in revenue growth of Individual Income Tax (IRS) and contributions to the social security systems.

- The increase on **Tax revenue** is supported by an increase both in direct (14.7%) and indirect taxes (4.3%).

- For the increase of **Direct taxes** revenue contributed the growth of revenue of Personal Income Tax (PIT-IRS) (17.7%), reflecting the labor market conditions improvement 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].

[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).

Direct taxes revenue increase is mainly supported by Personal Income Tax (PIT-IRS) revenue growth (17.7%), which derives from the labor market recovery, as well as from the effectiveness of withholding delivery implemented control. Part of the increase is also explained by an accounting procedure change regarding PIT Local Government share.

- The variation of **indirect taxes** is explained by the behavior of Value Added Tax (VAT) (+3.6%), and in a less degree, the different pattern of intra-annual return of compensations for gaming areas granting[9] and the revenues of the social games net operating income allocated to Social Security[10].

  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 7.5% year-on-year.

  For the reduction of indirect taxes revenues growth rate (4.3% until to February, compared with 5% in January) contributed the tax on tobacco and the stamp tax, which decreased 1% for both tax, showing an inflection when compared with January (rising of 4.9% and 5.1% respectively).

- The increase of **contributions to Social Security systems** was mostly determined by the contributions to CGA (15.4% which compares with 44.2% in January). This variation is explained by the increased rate of contribution of public employers in 2014 and the enlargement of the base of the extraordinary solidarity contribution.

  The deceleration of revenue contributions (3.6% compared with 6.5% in January) is attributable to the dilution of the effect resulting from the reflection of the State Budget measures time lag in both years in contributions revenue of the public employers, being the impact more pronounced in 2013[11].

- For the slight **non-tax revenue** decreasing (-0.4%) contributed 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. The less pronounced falling of non-tax revenue (-8.2% in January) is due to the dilution of the above effect.

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[9] Revenue consigned to financing tourism projects.

[10] This revenue accounted in the "indirect taxes" item from 2014 onwards, when until 2013 it was accounted in the "other current revenue" item

[11] 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.).