

Budget Outturn Summary Report 2014

March

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OVERALL BALANCE

- **General Government (GG) provisional balance**, according to the Economic and Financial Adjustment Program (EFAP) criteria¹, amounted to € -825.5 million in March 2014, which compares favorably with the corresponding result for the same period of 2013 (-1,350.7 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	-846.1
Central Government	-8,342.2	399.5	-149.6	-869.8
State	-7,687.5	-181.4	-579.1	-1,489.3
Autonomous Services and Funds excluding reclassified SOE	318.2	432.3	585.0	781.4
Reclassified State Owned Enterprises	-972.9	148.6	-155.5	-161.9
Regional Government	-831.3	13.1	-77.9	-124.5
Madeira	-825.7	-15.6	-81.5	-129.4
Açores	-5.6	28.7	3.6	4.9
Local Government	-56.6	88.6	84.7	74.0
Municipalities reported	-64.5	83.9	78.4	51.0
Social Security	478.6	135.5	94.5	74.2
Adjustments underlying to the Technical Memorandum of Understanding				
Guarantees, loans and capital injections	-57.7	-5.0	-5.7	-6.4
Adjustment for the arrears settled - Health arrears clearance strategy	423.5	0.0	0.0	0.0
Pension funds	-48.1	0.0	0.0	0.0
Adjustment for the arrears settled - Local Administration (€1 billion credit facility)	448.5	8.5	11.0	14.0
Adjustment for the arrears settled - RAM Government (€1,1 billion bank loans, with central government guarantees)	853.9	0.0	5.0	12.9
General Government Balance (criteria of the EFAP)	-7,131.4	640.2	-37.9	-825.5
Gap (General Government Balance (criteria of the EFAP) minus EFAP Limit)	1,768.6			874.5

Notes:

Updated accrued amounts with last available data.

Source: Ministry of Finance

- **Central Government and Social Security** balance attained € -795.6 million (€ -1,321.6 million in 2013), while primary balance recorded € 313.6 million (€ -389.1 million in 2013), corresponding to a revenue's increase rate of 3.2% and expenditure change rate of -0.2%.

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



1. Summary

- **Regional and Local Government** recorded a deficit of € 50.5 million (€ 74 million for Local Administration and € -124.5 million for Regional Administration). Excluding the suppliers' debt regularization effect under the PAEL (Local Economy Support Program), the resulting budget surplus would have been of € 43.1 million for the overall subsector (€ 32.9 million in the same period 2013).



OVERALL BALANCE

- 2014 first quarter **Central Government and Social Security** overall and primary balances amounted to € -795.6 million and € 313 million, respectively.

Global balance improving was explained mostly by the tax revenue and social security systems contributions behavior (increase of € 404.5 and € 164.5 million respectively), on the one hand, and, regarding expenditure, by the compensation of employees decrease (less € 106,5 million) and other current expenditure reduction (less € 177.9 million).

2. Central Government and Social Security

Table 3 - Central Government and Social Security Consolidated Account

Period: January to March		€ Millions		
	Accumulated Execution		YOY cumulative Change Rate (%)	YOY Change Rate Contrib. (p.p.)
	2013	2014		
Current revenue	14.887,9	15.345,2	3,1	3,0
Tax	8.389,8	8.794,3	4,8	2,7
Direct taxes	3.367,0	3.630,1	7,8	1,7
Indirect taxes	5.022,8	5.164,2	2,8	0,9
Social security contributions	4.422,7	4.587,3	3,7	1,1
Current transfers	562,5	309,7	-44,9	-1,7
Other current revenue	1.298,3	1.604,1	23,6	2,0
Consolidation differences	214,6	49,9		
Capital revenue	372,4	400,3	7,5	0,2
Sale of investment good	6,2	58,1	843,4	0,3
Capital transfers	248,3	255,2	2,8	0,0
Other capital revenue	117,2	86,8	-25,9	-0,2
Consolidation differences	0,7	0,3		
Effective revenue	15.260,3	15.745,5	3,2	
<i>Memory item:</i>				
<i>Non tax revenue</i>	2.447,8	2.364,0	-3,4	-0,5
Current expenditure	15.832,7	15.849,9	0,1	0,1
Employees	3.004,6	2.898,2	-3,5	-0,6
Purchase of goods and services	2.095,1	2.146,8	2,5	0,3
Interests and other charges	932,6	1.108,6	18,9	1,1
Current transfers	9.112,2	9.110,5	0,0	0,0
Subsidies	396,2	455,0	14,8	0,4
Other current expenditure	292,0	114,1	-60,9	-1,1
Consolidation differences	0,0	16,7		
Capital expenditure	749,3	691,3	-7,7	-0,3
Investments	396,3	363,0	-8,4	-0,2
Capital transfers	347,6	326,6	-6,1	-0,1
Other capital expenditure	4,1	1,1	-74,1	0,0
Consolidation differences	1,2	0,6		
Effective Expenditure	16.581,9	16.541,1	-0,2	
<i>Memory item:</i>				
<i>Purchase of goods and services and other current expenditures</i>	2.387,1	2.260,9	-5,3	-0,8
<i>Current and capital transfers</i>	9.459,9	9.437,1	-0,2	-0,1
Overall balance	-1.321,6	-795,6		
Adjustments related to EFAP				
Guarantees, loans and capital injections	0,2	-6,4		
Pension funds	48,1	0,0		
Overall Balance (criteria of the EFAP)	-1.273,4	-802,0		
Primary expenditure	15.649,4	15.432,5	-1,4	
Current balance	-944,8	-504,6		
Capital balance	-376,9	-291,0		
Primary balance	-389,1	313,0		

Source: Ministry of Finance and Social Security Financial Management Institute



EXPENDITURE

- 2014 first quarter **Central Government and Social Security** expenditure decreased 0.2% year-on-year. By its turn, primary expenditure reduction (-1.4%) was determined by all expenditure items with exception of purchase of good and services and subsidies.

Expenditure and primary expenditure evolution inflection (increasing of 3.6% and 1.4% until February respectively) derives from interests and other charges behavior, in the first case, and in which concerns to primary expenditure, from road concessions charges and a different execution pattern of the monthly EU budget Portuguese contribution.

- **Compensation of employees** decreased 3.5%, reflecting the 2014 State Budget remuneration reduction measure effect. This diminution was deeper when compared to the previous month (-1.7%), which was determined by the expenditure associated with terminations by mutual agreement program² slowdown and the different execution pattern of public entities contributions to social security systems.
- 2014 first quarter **purchase of goods and services** expenditure increased 2.5% (the same result of the previous month), mainly due to National Health Service advances to hospitals belonging to the public enterprise sector³.
- **Interest and other charges** expenditure increased 18.9%⁴, determined by the charges related to direct state debt (+41.3%), with a bigger contribution of interests related to Treasury Bonds and to contracted loans under the Economic and Financial Adjustment Program.
- **Transfers**⁵ recorded a slight decrease (-0.2%), result determined by the anticipation of April 2013 financial contribution to the EU budget to March.

In absence of this effect⁶, transfers would have increased 1.1% (at the level of the previous month) 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 reflex in tax revenue; and the increase in pensions of social security and CGA pension system⁷, which in the latter case is attributable to the evolution of the pensioners number.

² Regarding Central Government, it attained € 47.7 million.

³ Granted by the NHS under health suppliers contracts scheme.

⁴ It should be noted that the significant slowdown when compared to February's outcome (47.7%) was mainly attributable to a *Metropolitano de Lisboa E.P.E* (Lisbon' subway public corporation) implementation's correction. In fact, the accounting correction of swap contracts capital part from "interest and other charges" to "financial liabilities" took place at April 2013.

⁵ From this edition on, current transfers and capital transfers are analyzed together.

⁶ The advancement in 2013 recorded € 126.9 millions

⁷ Caixa Geral de Aposentações (CGA) is the public body that administrates the Portuguese civil servants pension scheme.

2. Central Government and Social Security

- **Subsidies** increased 14.8%, mostly justified by the increase of active employment policies and vocational training implementation.
- **Other Current Expenditure** reduction of 60.9% (-63.2% until February) was due to the evolution of vocational training expenditure in education area financed by the European Social Fund, which, in 2013, benefited from higher level of execution of funds carried from the previous year. Also, even if at a lesser degree, reference to the effect on this expenditure item evolution deriving from the European funds reimbursements made by Social Security in 2013.
- **Investment** expenditure decreased 8.4%, an inflexion when compared to February (+41.1%). Both trends are attributable to a different pattern of intra-annual expenditure with road concessions.

REVENUE

- **2014 first quarter Central Government and Social Security revenue** increased 3.2%, evolution which was determined by tax revenue and social security systems' contributions YOY growth (4.8% and 3.7%, respectively).
- **Tax revenue** increase is supported by a rise in both direct (7.8%) and indirect taxes (2.8%), even if at a lesser degree.
- **Direct taxes** revenue evolution is due to the Personal Income Tax revenue growth (9.8%)⁸, reflecting the labor market conditions improvement and the positive impact of enhanced control over withholding delivered by employers.

Corporate Income Tax (IRC) decreased 8.7% in the 1st quarter of 2014, this variation showing a recovery when compared to the previous month (-15.2%). This evolution reflects the impact dilution of January 2013 extraordinary IRC increase, consequence of dividends distribution occurred in December 2012.

- **Indirect taxes** variation is explained by the behavior of Value Added Tax (VAT) (+2.3%), and in a less degree, of Tax on vehicles (ISV) (+36.2%) and Tax on vehicle circulation (IUC) (+26%).

The VAT revenue evolution results from the economic 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 5% year-on-year.

- **Social Security systems contributions** increase was mostly determined by the CGA contributions (which YOY rise kept stabilized around 15%). 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.

Non-tax revenue decreasing (-3.4%) derives from the EU transfers reduction, especially revenues from the European Social Fund (-64%). The more pronounced falling of non-tax revenue (-0.4% in February) was also determined by the evolution of the transfers from European Union to the Social Security budget.

⁸ The variation includes the accounting adjustment of the transfer of the variable participation of Local Government in the PIT (IRS) as recommended by the Court of Auditors (TC)