

2014 Budget Execution

The 2014 General Government deficit on a cash basis was € 7074m., which is:

- Lower than the 2013 deficit by € 1762m. (reflecting a 20% annual reduction);
- Lower than the latest estimate for the 2014 deficit by € 655m. (the projection included in the 2015 State Budget Report was € 7729m.);
- Underpinned by a significant improvement in the primary balance, which moved from a €882m deficit in 2013 to a € 1030m. surplus in 2014.

The annual reduction in the deficit reflects effective expenditure reduction by € 1193m. (-1.4%), together with an increase in revenue by € 569m. (+0.8%).

Central Administration expenditure decreased by 0.1% y-o-y (vs. a 2.8% increase foreseen in October):

- The main contribution for the annual reduction came from Acquisition of goods and services, which decreased by 4.7%.
- Other Current Expenditure, Interest and other charges and Subsidies also declined y-o-y; while Compensation of Employees, Current Transfers and Capital Expenditure grew vis-à-vis 2013.
- The increase in compensation of employees (0.9%) is significantly affected by one-off severance payments from mutual agreement contract terminations and also reflects the rise in the employer’s contribution to social protection schemes.

State tax revenue (in net terms) increased by 2.3% in 2014 (5% when excluding the effect of the Extraordinary Scheme for the Settlement of Tax and Social Security Debts in 2013 - RERD). This outcome results from a y-o-y increase in both direct and indirect taxes, by 0.7% and 3.8% respectively (or 4.8% and 5.1% excluding RERD). The performance of tax collection in 2014 reflects the ongoing recovery of economic activity, but also the growing efficacy of new measures addressing tax fraud and evasion.

Social security recorded a surplus of € 419m. in 2014, slightly lower than in the previous year. Expenditure with unemployment benefits and employment support decreased and revenue from social security contributions increased, while revenue from transfers decreased.

Budget balances of Local and Regional Administration are still strongly influenced by the settlement of arrears. Excluding these effects (and the ANAM concession for Regional Administration), both balances would have improved vis-à-vis 2013.

Additional information on 2014 preliminary execution data by the Ministry of Finance is available [here](#).

Revenue Administration

Following the strategic plan to curb tax fraud and evasion for 2012-2014 (execution level of 95%), the Government approved the new plan to curb tax fraud and evasion for 2015-2017. Among its 109 new measures, it includes 40 priority measures to be implemented already in 2015, essentially based on the e-invoicing system and stronger data cross-checking based on new technologies. The plan is available [here](#) (in Portuguese only).

Financial Markets

On January 13th, IGCP managed a dual tranche syndicated transaction consisting of a 10-year and a 30-year Portuguese Government Bond. This was the first issue in the 30 year segment since 2006, marking the completion of the yield curve reconstruction. The key facts of the transaction are:

	10-year tranche	30-year tranche
<i>Maturity</i>	October 2025	February 2045
<i>Size</i>	€ 3.5 bn	€ 2.0 bn
<i>Coupon</i>	2.875%	4.1%
<i>Re-offer Yield</i>	2.920%	4.131%

IGCP’s press release is available [here](#).

Labor Market

According to INE’s monthly and seasonally adjusted figures for those aged 15-74 (available [here](#)), in December 2014:

- The unemployment rate was estimated at 13.4%, reflecting a monthly decrease (-0.1 p.p.) and an important y-o-y decrease (-1.8 p.p.);
- The employment rate was estimated at 56.7%, improving since November (+0.1 p.p.) and more significantly since December 2013 (+1.0 p.p.).

Price Developments

The Portuguese Consumer Price Index (CPI) recorded an average rate of change of -0.3% in 2014, which compares with +0.3% in 2013. INE’s press release is available [here](#).

The Harmonized Index of Consumer Prices (HICP) registered an average rate of change of -0.2% in Portugal and +0.4% in the euro area during 2014 (down from +0.4% and +1.4%, respectively, in 2013). Eurostat’s data in focus is available [here](#).

IMF Post-Program Monitoring (PPM)

The International Monetary Fund’s report on the first post-program monitoring mission to Portugal (which took place between October 28th and November 4th, 2014) was recently published. The staff report and the corresponding press release are available [here](#) and [here](#).

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