

23 September, 2015

Excessive Deficit Procedure

2nd notification 2015

Excessive Deficit Procedure (2nd notification for 2015)

According to EU regulations, Statistics Portugal is sending to Eurostat, until the end of the current month, the second notification for 2015 related to the Excessive Deficit Procedure (EDP). Table 1 of the notification, presented below, summarizes the main results for the period 2011-2015.

Table 1: Reporting of government deficit/surplus and debt levels and provision of associated data

Member State: Portugal Data are in millions of euros Date:23/09/2015	ESA 2010 codes	2011	2012	2013	2014	2015
		Final	Final	Final	Half-finalized	Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	S.13	-13 006,1	-9 529,1	-8 245,2	-12 446,2	-4 860,1
- Central government	S.1311	-13 201,2	-10 662,0	-8 881,6	-13 785,5	-6 719,4
- Local government	S.1313	- 242,5	818,9	288,5	546,2	924,3
- Social security funds	S.1314	437,5	314,0	347,9	793,1	935,0
General government consolidated gross debt						
Level at nominal value outstanding at end of year		196 231,4	212 534,9	219 649,0	225 766,6	223 023,7
<i>By category:</i>						
Currency and deposits	AF.2	10 143,0	9 388,1	10 490,6	14 921,8	
Debt Securities	AF.3	123 931,9	116 797,1	114 402,5	110 750,1	
Short-term	AF.31	12 036,8	13 025,4	7 411,7	12 681,5	
Long-term	AF.32	111 895,1	103 771,8	106 990,8	98 068,6	
Loans	AF.4	62 156,5	86 349,7	94 755,8	100 094,7	
Short-term	AF.41	5 129,2	3 806,9	2 513,5	2 594,5	
Long-term	AF.42	57 027,4	82 542,9	92 242,3	97 500,2	
General government expenditure on: Gross fixed capital formation	P.51	6 139,5	4 158,3	3 701,1	3 525,3	4 372,7
Interest (consolidated)	D.41 (uses)	7 604,4	8 214,4	8 258,3	8 502,3	8 886,3
Gross domestic product at current market prices	B.1*g	176 166,6	168 398,0	170 269,3	173 446,2	178 117,3
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-7,4%	-5,7%	-4,8%	-7,2%	-2,7%
General government consolidated gross debt on GDP		111,4%	126,2%	129,0%	130,2%	125,2%

Remarks:

- (i) As mentioned in the previous press release, Eurostat is currently changing the wording of the Manual on Government Deficit and Debt, in order to further clarify and ensure harmonized application by all Member-States, on the definition of the face value of the currency and deposits instrument, as the accumulated capitalization of the respective interest should be included in the gross debt of General Government. This clarification is being analysed in a permanent discussion forum of the European Statistical System which addresses methodological issues relevant for the compilation of the deficit and debt, leading to the revision of the General Government debt where applicable. In the case of Portugal the issue is the amount of capitalized interest on Savings Certificates, which has always been reported in Table 4 of the Excessive Deficit Procedure notification (attached to this press release) and is not included in the level of the General Government consolidated debt.

Responsibilities in the notification

As usual since 2006, the present notification was prepared under the Institutional Agreement in the field of General Government Statistics signed on the 10th of January 2006 between Statistics Portugal (National Accounts Department), the Portuguese Central Bank (Statistics Department) and Budget Directorate-General.

For 2014 and precedent years, the compilation of the Net lending / net borrowing is prepared by Statistics Portugal and the Gross Debt is compiled by the Portuguese Central Bank.

For the current year (2015), the estimates of Net lending / net borrowing and Gross Debt are a responsibility of the Ministry of Finance.

Under Council Regulation (EC) No. 473/2009 the notifications begin a joint work between national statistical authorities and Eurostat which, within a three weeks deadline, should examine the notifications and publish the final results for all Member States.

Revisions comparing with the April 2015 notification

Compared to the previous notification, this notification includes revisions of the general government balances for the four years presented.

The revisions in 2011 and 2012 are due to the classification of SPGM – Sociedade de Investimento, S.A. and Fundo de Contragarantia Mútuo (FCGM) in the General Government (GG) sector. The change in classification of these entities resulted from a detailed analysis in the context of the creation of IFD - Instituição Financeira de Desenvolvimento.

The revisions in 2013 and 2014 resulted from the incorporation of recently available data. The results referring to 2013 are now final, whereas those for 2014 have still a provisional nature. The revisions for 2013 resulted from the incorporation of final and exhaustive information, which is now available for each unit that is classified inside General Government (GG) sector. The revisions for 2014 mainly reflect the incorporation of 4.9 billion euro related to the capitalization of Novo Banco (NB) as a capital transfer, as well as the incorporation of revised data for Local Government and National Health Service and data from the Simplified Corporate Information (IES).

The following table details the revisions on net lending / net borrowing by subsector of General Government:

Unid: million euro	ESA 2010 codes	2011 Final	2012 Final	2013 Final	2014 Half-finalized
Net borrowing (-)/ net lending (+)	B.9				
General government	S.13	-38,6	-79,0	-64,3	-4.729,3
- Central government	S.1311	-38,6	-79,0	122,6	-4.840,4
- Local government	S.1313	0,0	0,0	-112,1	101,0
- Social security funds	S.1314	0,0	0,0	-74,7	10,1

Treatment of the capitalization of *Novo Banco* by the Resolution Fund

As mentioned previously, if the sale of Novo Banco (NB) would not occur within a year, the recording of the capitalization would be treated accordingly with the general case, provided by the Manual on Government Deficit and Debt on capital injections into public corporations by the General Government (GG).

Thus, considering the information available on the economic and financial situation of NB, the capitalization was recorded as a capital transfer.

As NB is a unit classified in the Financial Corporations sector, the capital transfer has a negative impact in the balance of the GG sector and has the symmetrical effect on the balance of the Financial Corporations sector.

Contributions from the banks to the Resolution Fund, an entity included in the GG sector, will continue to impact positively the GG balance and negatively the balance of Financial Corporations.

Public to National Accounts adjustments

In the compilation of GG net lending / net borrowing in National Accounts it is necessary to make several adjustments to Public Accounting data. Indeed, Public Accounting data is on a cash-basis, meaning that expenditures are recorded in the accounting period in which they are paid. On the contrary, in National Accounts, expenditure is recorded on an accrual-basis, that is, in the accounting period to which they refer to, regardless of whether their payment is made in a different period. Accordingly, payments referring to expenditure that is due to other periods are not considered. Another important adjustment is related to sector delimitation of GG. This sector includes entities which are not considered in Public Accounting, but belong to GG sector in National Accounts. Similarly, entities which are not part of GG sector from a National Accounts viewpoint but are included in Public Accounting are excluded. Finally, there are transactions that, according to the conceptual framework of the National Accounts, have a specific classification, notably in some cases where entities from the GG sector acquire shares from other entities, which are recorded as capital transfers and not as financial transactions, as it is the case of the capitalization of NB, leading to the introduction of the corresponding adjustments.

The table below details the main adjustments for 2013 and 2014, presented in tables 2A, 2C and 2D of the Excessive Deficit Procedure notification attached to this press release, namely the Public to National Accounts adjustment.

	Unit: millions of euro	
	2013	2014
Balance in Public Accounting	-8.383,3	-7.100,4
Accrual adjustment and sector delimitation in National Accounts	929,8	3.448,1
Difference between paid and due interest	-290,8	-622,1
Other receivables:	-586,3	312,7
<i>Temporal adjustment to taxes and contributions</i>	37,2	139,2
<i>Others</i>	-623,6	173,5
Other payables:	855,6	730,2
<i>Expenditure already incurred but not yet paid</i>	890,8	571,2
<i>Others</i>	-35,3	159,0
Other adjustments:	-770,2	-9.214,6
<i>Capital injections and debt assumptions</i>	-1.206,7	-9.858,0
<i>Others</i>	436,5	643,4
Balance in National Accounts	-8.245,2	-12.446,2

The net borrowing of GG in 2014 was 12 446.2 million euro corresponding to 7.2% of GDP.

As it can be observed in the previous table, one of the main adjustments in 2014 in the balance of Public Accounting corresponds to the item "other adjustments" that includes 6 186 million euro (3.6% of GDP) for the recording of the financing operations of the State to the public enterprises "Carris" and "STCP", to the *write-off of non-performing loans* by BPN Crédito, held by Parvalorem, S.A. and to the capitalization of NB. The remaining value corresponds to capital injections granted to corporations classified in GG sector reflected in the "accrual adjustment and sector delimitation in National Accounts" without impacting the net borrowing of GG.

Balances of Regional and Local Government and transfers from Central Government

The table below details the net lending/ net borrowing and the gross debt of (Regional and) Local Government (S1313). It is worth highlighting the positive balance exhibited by Regional Administration of Madeira in 2013 and 2014, following several years in which its balance was affected by extraordinary effects, such as the recording of a debt assumption corresponding to expenditure not recorded in previous periods.

Unit: million euro	2011	2012	2013	2014
Net borrowing (-)/ net lending (+)				
- Regional and Local Government	- 242,5	818,9	288,5	546,2
<i>Regional Government of Madeira</i>	- 725,3	- 204,3	83,6	87,6
<i>Regional Government of Azores</i>	- 104,5	- 80,7	- 9,3	- 6,3
<i>Local Government</i>	587,4	1 104,0	214,2	464,9
Gross Debt				
- Regional and Local Government	10 935,4	10 350,8	10 683,3	10 732,6
<i>Regional Government of Madeira</i>	4 058,3	4 117,7	4 290,9	4 490,9
<i>Regional Government of Azores</i>	1 057,6	1 146,5	1 262,1	1 404,8
<i>Local Government</i>	5 819,5	5 086,5	5 130,3	4 836,9

It is also worth noting that the transfers received by Central Government are considered in the compilation of Regional and Local Government net lending / net borrowing. These transfers are recorded as expenditure in Central Government, so that they consolidate in the General Government Account. The following table presents these transfers for 2011 to 2014 included in the General Government Account.

Unit: million euro	2011	2012	2013	2014
Transfers from Central Government to:				
<i>Regional Government of Madeira</i>	250,0	239,8	241,8	173,0
<i>Regional Government of Azores</i>	353,5	333,8	318,9	252,4
<i>Local Government</i>	2 397,9	2 284,0	2 284,2	2 176,2

As far as gross debt is concerned, according to European legislation, the following clarifications are relevant: i) Trade credits are excluded; ii) Debt of public corporations not classified inside General Government is not considered; iii) Debt of municipalities and parishes located in the territory of the Autonomous Regions is included in Local Government. From the current notification of September 2015 onwards, the accounts payable relating to cash collaterals on financial derivatives are included in public debt.