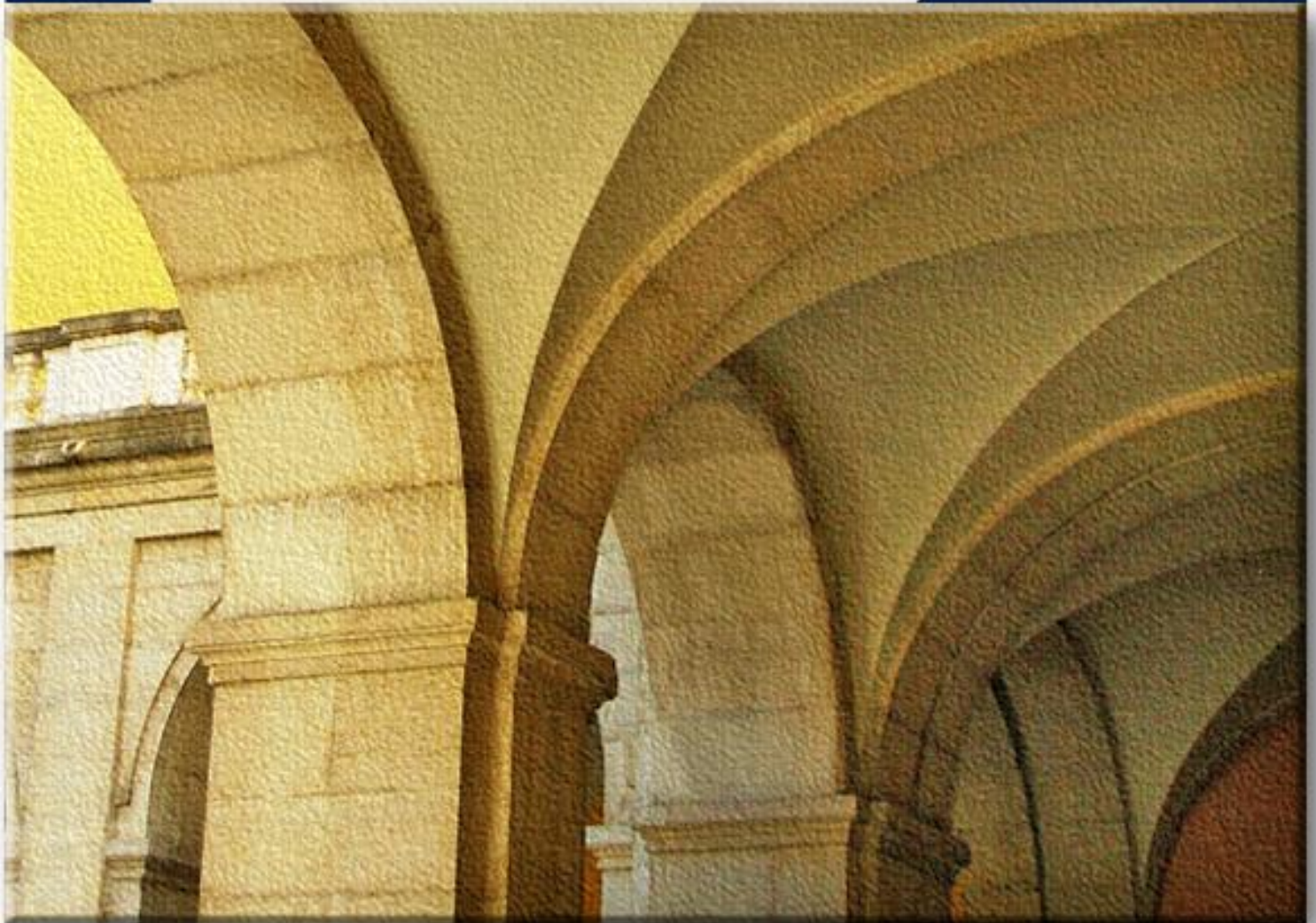


# Budget Outturn Summary Report

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## OVERALL BALANCE

- In the period January-September 2015 the **General Government balance**, on a cash basis approach (that is, revenues minus payments) amounted to -3,156.5 million euros, which corresponded to a primary balance of 2,460.6 million euros. Considering the comparable universe<sup>1</sup>, the General Government overall balance has improved 899.9 million euros over the same period of the previous year as a result of the combined effect of increased revenue and decreased expenditure.

Total revenue increased 0.7%, due to the increase in tax revenue (5.3%) partially offset by a reduction in the remaining components. The reduction in expenditure (-0.9%) was determined by the decrease in expenditure on subsidies to vocational training and unemployment benefits and employees' compensation that more than offset the observed increase in other expenditure items, especially the investment, the purchase of goods and services and interest and charges associated with public debt.

In terms of subsectors, the balance improvement was due to the increase in the Local Government and Regional balance (in 364.8 million euros, partly due to the settlement of prior years' debt in an amount lower than in the same period of 2014) and to the Social Security surplus (in 322.8 million euros), as well as to the improvement of the Central Government deficit (in 212.3 million euros).

**Table 1 – General Government budgetary implementation – revenue, expenditure and balance**

Period: January to September		€ Millions							
	Overall balance		Revenue		Expenditure		YOY Change Rate (%)		
	Sep-2014	Sep-2015	Sep-2014	Sep-2015	Sep-2014	Sep-2015	Revenue	Expenditure	
Central Government and Social Security	-4 048,4	-3 513,3	50 611,8	50 783,8	54 660,2	54 297,1	0,3	-0,7	
Central Government	-4 547,2	-4 334,9	39 581,3	40 298,7	44 128,5	44 633,7	1,8	1,1	
State subsector	-5 177,6	-4 255,4	30 622,3	32 112,4	35 799,9	36 367,8	4,9	1,6	
Autonomous Services and Funds	630,4	-79,6	20 031,1	19 885,6	19 400,8	19 965,1	-0,7	2,9	
<i>of which: Central Government State Owned Enterprises</i>	-461,3	-702,5	1 957,8	2 075,7	2 419,2	2 778,3	6,0	14,8	
Social Security	498,8	821,6	18 989,7	18 590,8	18 491,0	17 769,2	-2,1	-3,9	
Regional Government	-335,8	-195,4	1 641,9	1 622,3	1 977,7	1 817,7	-1,2	-8,1	
Local Government	414,5	638,8	5 045,9	5 283,9	4 631,4	4 645,1	4,7	0,3	
<b>General Government - comparable universe</b>	<b>-3 969,8</b>	<b>-3 069,9</b>	<b>54 927,4</b>	<b>55 323,5</b>	<b>58 897,2</b>	<b>58 393,4</b>	<b>0,7</b>	<b>-0,9</b>	
New Central Government State Owned Enterprises in 2015	-	-95,4	-	4 262,8	-	4 358,2			
New Regional Government State Owned Enterprises in 2015	-	8,8	-	353,0	-	344,2			
<b>General Government - total universe</b>	<b>-</b>	<b>-3 156,5</b>	<b>-</b>	<b>56 022,9</b>	<b>-</b>	<b>59 179,4</b>			

**Note:** cash basis amounts not consolidated of flows among different subsectors; differences against the values published in 2014 are due to data updates.

**Source:** Budget General Directorate

- **Central Government and Social Security** balance until September of 2015 amounted to -3,608.7 million euros<sup>2</sup> (-4,048.4 million until September of 2014), while the primary surplus was 1,825.7 million euros (+821.8 million until September of 2014). Considering the comparable universe, revenue increased 0.3%,

<sup>1</sup> That is, excluding the new public entities reclassified into the General Government's institutional perimeter in 2015, mainly by force of the new European System Accounts (ESA 2010).

<sup>2</sup> Consider Table 2 or the "Central Government and Social Security" and "New Central Government State-Owned Enterprises in 2015" lines in Table 1.



## 1. Summary

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while expenditure decreased 0.7%. It should be noted the reduction of the primary expenditure (-1.4% in the period).

- **Regional and Local Government** recorded a balance of 443.4 million euros (638.8 million euros for the Local Government and -195.4 million euros for the Regional Government). Excluding the effects associated with the suppliers' debt regularization effect under the PAEL (Local Economy Support Programme) and loans contracted by Madeira Autonomous Region, the resulting budget surplus would have been of 605.2 million euros for the overall subsector (450.2 million in the same period of 2014).

## 2. Central Government and Social Security

### OVERALL BALANCE

- Central Government and Social Security overall and primary balances until September of 2015 reached -3,608.7 and +1,825.7 million euros, respectively, results having implicit an improvement of the overall and primary balances (in 439.7 and 1,003.9 million euros, respectively) over the same period of last year.

Table 2 - Central Government and Social Security Consolidated Account

Period: January to September	€ Millions					
	2014	2015 Comparable	YOY cumulative Change Rate (%)		YOY Change Rate Contrib. (p.p.)	2015
	Accumulated Execution	Accumulated Execution	August	September	(p.p.)	Accumulated Execution
<b>Current revenue</b>	<b>49 624,9</b>	<b>50 060,5</b>	<b>1,1</b>	<b>0,9</b>	<b>0,9</b>	<b>50 615,7</b>
Tax	28 584,8	30 100,4	5,5	5,3	3,0	30 101,2
Direct taxes	13 057,1	13 443,0	2,9	3,0	0,8	13 443,0
Indirect taxes	15 527,7	16 657,3	7,5	7,3	2,2	16 658,1
Social security contributions	14 426,7	13 908,1	-3,3	-3,6	-1,0	13 908,1
Current transfers	1 301,7	798,1	-35,8	-38,7	-1,0	904,4
Other current revenue	5 258,8	5 076,8	-4,2	-3,5	-0,4	5 480,8
Consolidation differences	53,0	177,2				221,3
<b>Capital revenue</b>	<b>986,9</b>	<b>723,3</b>	<b>-13,5</b>	<b>-26,7</b>	<b>-0,5</b>	<b>827,6</b>
Sale of investment good	83,0	96,3	-1,0	16,0	0,0	146,7
Capital transfers	779,4	562,5	-10,3	-27,8	-0,4	612,4
Other capital revenue	124,1	63,3	-51,7	-49,0	-0,1	63,6
Consolidation differences	0,3	1,3				4,9
<b>Effective revenue</b>	<b>50 611,8</b>	<b>50 783,8</b>	<b>0,8</b>	<b>0,3</b>		<b>51 443,3</b>
<i>Memo Item:</i>						
Tax and contributions revenue	43 011,5	44 008,4	2,5	2,3	2,0	44 009,2
Non tax revenue	7 600,3	6 775,4	-8,3	-10,9	-1,6	14 347,5
<b>Current expenditure</b>	<b>52 519,9</b>	<b>51 691,3</b>	<b>-0,9</b>	<b>-1,6</b>	<b>-1,5</b>	<b>52 216,5</b>
Employees	10 041,8	9 686,9	-1,2	-3,5	-0,6	11 697,3
Purchase of goods and services	7 199,1	7 429,8	3,5	3,2	0,4	5 898,4
Interests and other charges	4 870,3	5 226,0	8,8	7,3	0,7	5 434,4
Current transfers	28 368,9	28 127,3	-0,7	-0,9	-0,4	27 946,1
Subsidies	1 302,4	722,2	-49,1	-44,5	-1,1	722,3
Other current expenditure	438,9	428,5	0,4	-2,4	0,0	445,6
Consolidation differences	298,5	70,6				72,4
<b>Capital expenditure</b>	<b>2 140,3</b>	<b>2 605,8</b>	<b>22,1</b>	<b>21,7</b>	<b>0,9</b>	<b>2 835,5</b>
Investments	1 145,9	1 622,3	39,2	41,6	0,9	1 854,3
Capital transfers	959,9	907,0	-0,8	-5,5	-0,1	903,6
Other capital expenditure	28,8	65,5	64,8	127,5	0,1	65,5
Consolidation differences	5,8	11,0				12,1
<b>Effective Expenditure</b>	<b>54 660,2</b>	<b>54 297,1</b>	<b>0,1</b>	<b>-0,7</b>		<b>55 052,0</b>
<i>Memo Item:</i>						
Current and capital transfers	29 328,8	29 034,4	-0,7	-1,0	-0,5	28 849,7
Other current and capital expenditure	467,7	494,0	5,0	5,6	0,0	511,1
<b>Overall balance</b>	<b>-4 048,4</b>	<b>-3 513,3</b>				<b>-3 608,7</b>
Primary expenditure	49 789,9	49 071,1	-0,8	-1,4		49 617,6
Current balance	-2 895,0	-1 630,8				-1 600,9
Capital balance	-1 153,5	-1 882,5				-2 007,9
Primary balance	821,8	1 712,7				1 825,7

Source: Budget General Directorate and Social Security Financial Management Institute



## 2. Central Government and Social Security

### EXPENDITURE

- **Central Government and Social Security** expenditure decreased 0.7% and primary expenditure reduced 1.4%. These results had underlying the interaction of opposite direction effects, being relevant to stress, on the one hand, the decrease in expenditure on benefits for social protection in unemployment, subsidies for vocational training and employees' compensation; and, on the other hand, the increase in payments within the concession and sub-concession of road infrastructure contracts, interest and other charges and with management contracts with health institutions belonging to the State-Owned Enterprises sector.

There was an expenditure behavior's inflection compared to that observed until August (+0.1%), which was specially the effect of the interest and other charges expenditure's deceleration (by -1.5 p.p.). The contraction of primary expenditure was more pronounced (-0.8% until August), to which mainly contributed the evolution of employees' compensation, influenced by base effects, as well as the aggravation on the contraction level of the expenditure aimed at supporting the agricultural and fisheries sectors.

- The **employees' compensation** decreased 3.5%, which was due to several factors, of which highlighted: the suspension, between June and September 2014, of any remuneration reduction measure<sup>3</sup>; the elimination, in 2015, of the public employers entities' contribution for the public health subsystem (ADSE), under the promotion of the sustainability of public health systems process; and the base effect associated with the expenditure incurred under the Program Terminations by Mutual Agreement.

The reduction in this expenditure component was more pronounced compared to the previous month (-1.2% until August), due to: the increasingly deeper effect over the period of about three and a half months associated with the suspension of any remuneration reduction<sup>4</sup>; and the concentration, in September of 2014, of payment of amounts due as compensation for the terminations by mutual agreement, especially in the Education sector.

- **Purchase of goods and services** expenditure growth rate was 3.2% (in line with the result observed until August, +3.5%), due to the higher payment level of advances within the context of program contracts with hospitals belonging to the State Owned Enterprises sector, partly aimed at financing the charges associated with the partial reversal of the reduction measure remuneration from January 2015 onwards. It is also to be emphasized the different implementation profile of health expenditure provided by the civil servants' health subsystem (ADSE) due to a large anticipation of payments in December 2013, and also to the settlement, in January 2015, of expenses of this nature carried from 2014.

<sup>3</sup> During the first 5 months of 2014, it prevailed the remuneration reduction measure provided in the State Budget Law for 2014 (*Article 33 – for wages values higher than € 675 and less than € 2000, it was applied a progressive rate ranging between 2.5% and 12% on the total amount of remuneration and 12% on the total amount of remuneration exceeding € 2000*). This article was declared unconstitutional by the Constitutional Court (Judgment No 413/2014, of 30<sup>th</sup> May).

From September 2014 onwards, by force of the Law No. 75/2014, of the 12<sup>th</sup> September, new remuneration reductions were at place, though lower compared to those in force in the first 5 months of the year (*3.5% of the total value of remuneration over € 1500 and less than € 2000 plus 16% of the value of total compensation in excess of € 2000, making an overall reduction between 3.5% and 10% in the case of greater than or equal remuneration € 2000 up to € 4165; for wages greater than € 4165, a single cut rate of 10% is to be applied*).

The same law reverted the remuneration reduction by 20% from January 2015 onwards.

<sup>4</sup> Furthermore, it should be noted that although the Law No. 75/2014 of the 12<sup>th</sup> September have come into force on the day following its publication, the effect of the new measure remuneration reduction on the part of September that was subject to it was only materialized during the processing of salaries and allowances related to October.

- **Interest and other charges expenditure** increased 7.3%, a result mainly attributable to the concentration, in February and April, of the coupon payment of some of the Treasury bonds series issued in 2014. It was also relevant the increase in interest expenditure associated with the loans contracted under the Portuguese Economic and Financial Adjustment Programme, in particular through the European Financial Stability Mechanism (EFSM) and the International Monetary Fund.

The slowdown of this expenditure item (+8.8% until August) was justified by the dilution of the effects described.

- **Transfers** change rate was -1%<sup>5</sup>, which was particularly explained by the evolution of expenditure on social benefits relating to unemployment protection (-21.8%). This effect was largely absorbed by the behavior of pension expenditure of the convergent social protection scheme managed by the CGA (+2.4%)<sup>6</sup>.

Transfers reduced to a more pronounced level in comparison to that observed in the previous month (-0.7% until August), which was due to the reduction in financial aids to the agricultural and fisheries sectors, partly due to the base effect associated with the conclusion of the previous multiannual financial framework of the European Union.

- **Subsidies** decreased 44.5%, which reflected the reduction of benefits conceded by the Social Security for vocational training<sup>7</sup> - the evolution of this component determined the progress of expenditure on subsidies as a whole against the observed in the previous month (-49.1% until August) - and, even if at a lesser degree, those allocated under the employment and vocational training measures by the Institute of Employment and Vocational Training.
- **Investment** expenditure change rate (+41.6%, roughly in line with the observed result until August (+39.2%)) was due to the time lag of State's payments made under concessions of road infrastructure.

### REVENUE

- **Central Government and Social Security revenue** increased 0.3% until September of 2015, with emphasis on the contribution of tax revenue by 3 p.p. to this result - in particular, the evolution of tax revenue on Value Added Tax (VAT), which grew 8.4% -, partially offset by the contribution of non-tax and non-contributory revenue (-1.6 p.p.) and contributory revenue (-1 p.p.). It should be noted that the evolution of this latter revenue aggregate was influenced by the change occurred since 2015 of the accounting treatment of financial flows between the Social Security and the *Caixa Geral de Aposentações, IP*, to finance the unified pension scheme of each of these pension systems' responsibility.

<sup>5</sup> In 2015, transfers from Social Security to *Caixa Geral de Aposentações* (CGA) (the public body that administrates the Portuguese civil servants pension scheme) aimed at financing the unified pension scheme were reclassified from "other transfers - pensions" to "transfers to Social Security". Until September 2014, the expenditure of this nature amounted to 388.3 million euros.

<sup>6</sup> Pensions paid by the general social security scheme, which fell 1.5%, were nonetheless influenced by the effect described in the previous note. In the absence of this effect, this expense would have increased.

<sup>7</sup> This expenditure has been financed through cash advances from the social security budget on account of transfers from the European Union.

## 2. Central Government and Social Security

Revenue showed an unfavorable development (+0.8% until August), which was due to the fact that the contraction of the revenue from the European Union budget was sharper during the reported period in comparison with the previous month.

- **Tax revenue** growth (+5.3%)<sup>8</sup> was justified by the increase in indirect tax revenues (+7.3%), and, even if to a lesser extent, the increase in revenue from direct taxes (+3%).

The acceleration of tax revenue (+5.5% until August) was determined by the evolution of Personal Income Tax (PIT) and Value Added Tax (VAT) revenue.

- The increase in **direct taxes** revenue (+3%, in line with the result observed until August, +2.9%) was attributable to the growth of the Corporation Income Tax (CIT) (+12.6%) and of the "Contribution on the Banking Sector" (+13.7%), as well as the more anticipated profile of the collection of the "Contribution on the Energy Sector" in 2015<sup>9</sup>. These effects taken altogether more than offset the slight reduction of the PIT revenue (-0.9%), mainly due to the base effect associated with the suspension of General Government remuneration reductions.

The performance of the CIT revenue, despite the reduction of the tax rate from 2015, resulted from the improvement in economic activity as well as the enlargement of the tax base resulting from the implementation of the system e-invoice, the better control of businesses' inventories and of the undue CIT refunds.

- **Indirect taxes** variation (+7.3%) was mainly explained by the behavior of the VAT revenue (+8.4%) - reflecting the economic recovery and the enhanced control and action against tax evasion and the underground economy, both in the perspective of collection's recovery and the increased control of undue reimbursements - and, to a lesser degree of importance, the tax on oil and energy products (+9.8%) and the Vehicle Tax (+23.9%).

The slight slowdown in collection of indirect taxes in comparison with the previous month (+7.5% until August) was attributable to the reduction of the rate of change of VAT revenue (8.8% until August).

- **Social Security systems contributions** decreased 3.6%. A significant part of this reduction was explained by the accounting reclassification of flows between the CGA and Social Security under the unified pension regime of each of these pension systems' responsibility<sup>10</sup>.

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<sup>8</sup> The rates of change in tax revenue and the corresponding tax categories referred to in this Section should not be directly compared to those in Table 6 "State Revenue" of the statistical annexes. Indeed, the data referred in this analysis relate to the universe of Central Government and Social Security, which includes not only the State subsector (referred in table 6), but also the subsector of the Autonomous Services and Funds and Social Security.

<sup>9</sup> In 2014, the collection of the extraordinary contribution of the energy sector occurred in the last two months of the year (see table 18 - "Temporary/special effects on the Central Government and Social Security Account" of the statistical annexes).

<sup>10</sup> In 2015, transfers from Social Security to *Caixa Geral de Aposentações* (CGA) (the public body that administrates the Portuguese civil servants pension scheme) aimed at financing the unified pension scheme were reclassified from "contributions" to "transfers". Similarly, the transfer of Social Security for the CGA was subject of the same change in accounting treatment. The revenue of this nature registered until September 2014 was 388.3 and 78.6 million euros respectively.





Apart from this fact, the decrease of contributions to CGA (-19.9%) reflected the impact of changes in the volume of retirements in contributions of the pension system's beneficiaries and of employers public entities, on the one hand and, on the other hand, the redefinition, by force of the State Budget law for 2015, of the "Extraordinary Solidarity Contribution" (ESC) incidence scope.

On its turn, the evolution of Social Security revenue from contributions (+2.8%<sup>11</sup>) was explained - despite the effects of the reduction in the ESC revenue and the suppression of the contribution on the benefits under the sickness and unemployment eventualities<sup>12</sup> - by the improving conditions in the labor market and the Minimum Guaranteed Retribution increase.

- The **non-tax and non-contributory revenue** decrease (-10.9%), as well as its evolution against the previous month (-8.3%), were mainly explained by the behavior of revenue from the European Union, in particular arising from the European Social Fund and from the European Agricultural Fund for Rural Development, effect partially due to the transition between multiannual financial frameworks.

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<sup>11</sup> Note that this growth rate is negatively influenced by the effect of the reclassification described in the previous footnote.

<sup>12</sup> Under Article 115 (which subjects the amounts of sickness and unemployment social benefits for a contribution of 5% and 6%, respectively) of Act No. 83-C/2013 of 31 December (State Budget for 2014), which was declared unconstitutional by force of the Constitutional Court Ruling No. 413/2014 of 26 June.