

23 September 2020

Excessive Deficit Procedure
2nd Notification 2020

Excessive Deficit Procedure (2nd Notification for 2020)

According to EU regulations, Statistics Portugal presents the second notification for 2020 associated with the Excessive Deficit Procedure (EDP) to be sent to Eurostat before the end of the month¹. According to these provisional results, the net lending of General Government (GG) in 2019 amounted to € 177 million, corresponding to 0.1% of GDP (-0.3% in 2018). Gross debt of GG attained 117.2% of GDP in 2019.

Despite the circumstances determined by the pandemic COVID-19, Statistics Portugal calls for the best collaboration by companies, families and public entities in responding to Statistics Portugal's data requests. The quality of official statistics, particularly its ability to identify the impacts of the pandemic COVID-19, crucially depends on this collaboration, which Statistics Portugal thanks in advance.

Table 1 of the notification, presented below, summarizes the main results for the period 2016-2020.

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

Member State: Portugal Data are in millions of euros Data: 23/09/2020	ESA 2010 codes	2016 Final	2017 Final	2018 Final	2019 Half-finalized	2020 Planned
Net borrowing (-)/ net lending (+)	B.9					
General government	S.13	-3 608.6	-5 792.2	- 716.1	177.0	-13 972.2
- Central government	S.1311	-6 025.1	-8 351.6	-3 250.1	-3 383.2	-14 409.7
- Local government	S.1313	846.6	316.8	499.2	588.5	- 120.3
- Social security funds	S.1314	1 569.9	2 242.6	2 034.8	2 971.6	557.9
General government consolidated gross debt ²						
Level at nominal value outstanding at end of year		245 244.8	247 173.7	249 263.3	249 985.1	268 302.2
<i>By category:</i>						
Currency and deposits	AF.2	26 831.8	29 461.4	30 798.2	31 808.1	
Debt Securities	AF.3	132 766.2	142 151.4	149 327.9	151 636.2	
Short-term	AF.31	14 956.8	15 400.4	13 264.8	11 245.2	
Long-term	AF.32	117 809.4	126 751.1	136 063.1	140 390.9	
Loans	AF.4	85 646.8	75 560.8	69 137.2	66 540.9	
Short-term	AF.41	2 815.8	1 446.2	1 283.0	1 497.8	
Long-term	AF.42	82 831.0	74 114.6	67 854.2	65 043.1	
General government expenditure on: Gross fixed capital formation Interest (consolidated)	P.51 D.41 (uses)					
		2 875.2	3 496.5	3 790.2	4 014.5	4 973.5
		7 738.9	7 398.9	6 902.5	6 330.7	6 138.3
Gross domestic product at current market prices	B.1*g	186 489.8	195 947.2	205 184.1	213 301.0	200 552.5
<i>Memorandum items:</i>						
Net lending (+)/Net borrowing (-) on GDP		-1.9%	-3.0%	-0.3%	0.1%	-7.0%
General government consolidated gross debt on GDP		131.5%	126.1%	121.5%	117.2%	133.8%

¹ The list of institutional units included in the GG sector, relevant for National Accounts, is published on INE's website together with this press release.

Responsibilities in the notification

The present notification was prepared under an Institutional Agreement in the field of GG Statistics, signed on the 27th March 2017, where Statistics Portugal, Banco de Portugal and the Budget Directorate-General (Ministry of Finance) are responsible for the reporting according to the following terms.

For 2019 and precedent years, the compilation of the Net lending / net borrowing is prepared by Statistics Portugal and the Gross debt is compiled by the Banco de Portugal.

For the current year (2020), the estimates of Net lending / net borrowing, Gross debt and GDP are a responsibility of the Ministry of Finance, based on the macroeconomic and budgetary scenario, underlying the Supplementary 2020 State Budget, approved by the Assembly of the Republic.

Under Council Regulation (EC) No. 479/2009 **the notifications initiate 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 compared with the October 2019 notification

Comparing with the previous notification, the figures for 2018 and 2019 were revised due to the incorporation of recently available data. The results for 2018 are now final, whereas those for 2019 still have a provisional nature.

The revisions of the figures for 2018 are determined by the use of final and complete information, now available for each unit classified in the General Government sector. As for 2019, the revisions mainly reflect the incorporation of data from Simplified Business Information (Informação Empresarial Simplificada – IES) and of data on an accrual basis, rather than cash basis, for a vast group of entities. The main revisions are for Local Government (+138.8 million euro in 2018 and -147.9 million euros in 2019) due to the incorporation of new information for Municipalities based on an accrual basis.

The following table details the revisions on net lending / net borrowing for 2018 and 2019, by subsector of General Government:

	ESA 2010 codes	2018 Final	2019 Half-finalized
Unid: million euro			
Net borrowing (-)/ net lending (+)	B.9		
General government	S.13	187.9	-226.9
- Central government	S.1311	29.1	-104.6
- Local and Regional government	S.1313	151.7	-138.8
- Social security funds	S.1314	7.1	16.5

Public to National Accounts adjustments

For the compilation of GG net lending / net borrowing in National Accounts several adjustments to Public Accounting data are necessary. Indeed, Public Accounting data is on a cash-basis, meaning that expenditure is recorded in the accounting period in which it is paid. In National Accounts, expenditure is recorded on an accrual-basis, that is, in the accounting period to which it refers to, regardless of the period of its payment. Accordingly, payments referring to expenditure due on other periods are not considered. Another important adjustment is related to sector delimitation of GG. As the classification of a public entity may differ under National Accounts and Public Accounting viewpoints, not all the entities included in the GG sector are coincident with those considered in the Public Accounting balance. Finally, there are transactions that, according to the conceptual framework of the National Accounts, have a specific classification, notably in the cases where entities from the GG sector acquire shares from other entities, which are recorded as expenditure (capital transfer) and not as financial transactions.

The table below details the main amendments for 2018 and 2019 in the Public to National Accounts adjustment, presented in tables 2A, 2C and 2D of the EDP notification attached to this press release.

	Unit: million euro	
	2018	2019
Balance in Public Accounting	-2 576.5	- 634.8
Accrual adjustment and sector delimitation in National Accounts	2 793.4	2 842.2
Difference between paid and due interest	332.4	795.4
Other receivables:	212.1	- 198.9
<i>Temporal adjustment to taxes and contributions</i>	<i>766.6</i>	<i>202.8</i>
<i>Others</i>	<i>- 554.5</i>	<i>- 401.8</i>
Other payables:	296.5	98.2
<i>Expenditure already incurred but not yet paid</i>	<i>80.6</i>	<i>56.9</i>
<i>Others</i>	<i>215.9</i>	<i>41.3</i>
Other adjustments:	-1 774.0	-2 725.1
<i>Capital injections and debt assumptions</i>	<i>-2 051.7</i>	<i>-3 394.6</i>
<i>Others</i>	<i>277.7</i>	<i>669.4</i>
Balance in National Accounts	- 716.1	177.0

The net lending of GG in 2019 amounted to € 177 million, corresponding to 0.1% of GDP (-0.3% in 2018). As shown, there is a significant improvement in the public accounting balance from 2018 to 2019.

As referred in previous press releases, one of the main adjustments in the public accounting balance refers to the item "Other adjustments" that includes the capital injections granted to corporations classified in the GG sector, without impacting the balance in national accounts as they are reflected in the item "Accrual adjustment and sector delimitation in National Accounts".

Total revenue increased between 2018 and 2019 due to the increase in current revenue increase whereas the capital revenue decreased. This behaviour of the current revenue reflects the growth of its main components: social contributions, taxes on production and imports and, to a lesser extent, current taxes on income and wealth.

Total expenditure increased between 2018 and 2019. This behaviour was the combined result of an increase in current expenditure with a near stabilization of capital expenditure. The increase in current expenditure was mainly due to the growth in social benefits, other than social transfers in kind, and also to the growth in the compensation of employees. In the opposite direction, there was a decrease in interest payments.

For a more detailed analysis of the changes in expenditure and revenue, please see the press release "Main Aggregates of General Government".

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).

Unit: million euro	2016	2017	2018	2019
Net borrowing (-)/ net lending (+)				
- Regional and Local Government	846.6	316.8	499.2	588.5
<i>Regional Government of Madeira</i>	223.8	79.6	101.8	38.3
<i>Regional Government of Azores</i>	- 67.1	- 70.0	- 127.1	- 66.4
<i>Local Government</i>	689.9	307.2	524.5	616.6
Gross Debt				
- Regional and Local Government	10 575.5	10 335.7	10 200.4	9 968.4
<i>Regional Government of Madeira</i>	4 790.3	4 803.7	4 746.9	4 662.8
<i>Regional Government of Azores</i>	1 596.0	1 690.4	1 860.0	1 956.6
<i>Local Government</i>	4 189.2	3 841.6	3 593.5	3 348.9

It is 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, from 2016 to 2019, included in the General Government Account.

Unit: million euro	2016	2017	2018	2019
Transfers from Central Government to:				
<i>Regional Government of Madeira</i>	174.6	172.8	177.4	176.7
<i>Regional Government of Azores</i>	251.9	250.5	259.3	285.3
<i>Local Government</i>	2 262.3	2 347.8	2 267.5	2 285.9

As far as gross debt is concerned, and accordingly with 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.