

Budget Outturn Summary Report 2014

September

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Budget General Directorate

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OVERALL BALANCE

- **General Government (GG) provisional balance**, in cash basis accounting, amounted to € -3,989.8 million until September, which compares favorably with € -5,410.9 million for the same period of the previous year, reflecting an improvement of € 1,421.1 million.

Table 1 – General Government budgetary implementation

	€ Millions				
	III quarter 2013	2013 Execution	Mar-14	I quarter 2014	III quarter 2014
General Government Balance (cash basis)	-5,410.9	-8,830.2	-844.7	-4,192.0	-3,989.8
Central Government	-5,007.7	-8,425.5	-869.8	-4,625.0	-4,560.2
State	-5,431.1	-7,664.5	-1,489.3	-5,306.0	-5,190.6
Autonomous Services and Funds excluding reclassified SOE	1,022.4	218.1	781.4	1,086.4	1,091.7
Reclassified State Owned Enterprises	-599.1	-979.0	-161.9	-405.4	-461.3
Regional Government	-722.5	-831.3	-124.5	-291.9	-335.8
Madeira	-719.6	-825.7	-129.4	-279.7	-336.9
Açores	-2.9	-5.6	4.9	-12.2	1.1
Local Government	-108.2	-62.6	75.4	254.9	407.4
Social Security	427.5	489.1	74.2	470.0	498.8

Source: Ministry of Finance

- **Central Government and Social Security** balance attained € -4,061.4 million (€ -4,580.2 million in 2013), while primary balance recorded € 889 million (€ 397.9 million in 2013), corresponding to a revenue increase rate of 3.9%, 1.3p.p. above expenditure's increase.
- **Regional and Local Government** recorded a balance of € 71.6 million (€ 407.4 million for Local Government and € -335.8 million for Regional Government). Excluding the effects from the one-off concession of the infrastructure of Civil Aviation in Madeira¹, the suppliers' debt regularization effect under the PAEL (Local Economy Support Program) and loans contracted by Madeira Autonomous Region, the resulting budget surplus would have been of € 438.5 million for the overall subsector (€ 290.1 million in the same period 2013).

¹ The Concession of ANAM in 2013 generated € 80 million to Regional Government of Madeira.

2. Central Government and Social Security

OVERALL BALANCE

- **Central Government and Social Security** overall and primary balances amounted to € -4,061.4 million and € +889.4 million until September of 2014, respectively.
- **Expenditure** increased 2.6% over the same period last year, to which contributed mainly the behavior of transfers and employees' compensation.

In the case of employees' compensation, the growth (+10%) was due to time lag of allowance holidays' payment for public servants, the reversion of the salary reduction measure² and the increases of the contribution rate of public employers to Caixa Geral de Aposentações (CGA)³ and to Social Security.

The increase in transfers (+1.8%), on one hand, resulted from the change in the accounting criteria of the State transfer to Local Government of the variable share on Personal Income Tax-PIT (IRS), and on the other hand, the time lag of 14th month allowance paid to the retirees (in 2014 the payment occurred in July, while, in 2013, occurred in November).

- Regarding **revenue**, the change rate was 3.9%, a result of increased tax revenues and contributions for social security systems (both revenue items with a growth rate of +7.6%), partially offset by a reduction in transfers to the Social Security with provenance from the European Social Fund.

² The 2014 budget act led to a reduction of the salaries of civil servants, this measure having been considered as unconstitutional by the Constitutional Court. Presently, the 2011 salary reduction, of lesser intensity compared to 2014, was reapplied since the 12th September.

³ *Caixa Geral de Aposentações, IP* (CGA) is the public body that administrates the Portuguese civil servants pension scheme.

2. Central Government and Social Security

Table 3 - Central Government and Social Security Consolidated Account

Period: January to September		€ Millions		
	2013	2014	YOY cumulative Change Rate (%)	YOY Change Rate Contrib. (p.p.)
	Accumulated Execution			
Current revenue	47,398.7	49,673.8	4.8	4.7
Tax	26,552.9	28,580.1	7.6	4.2
Direct taxes	12,012.5	13,054.5	8.7	2.1
Indirect taxes	14,540.4	15,525.6	6.8	2.0
Social security contributions	13,402.6	14,426.7	7.6	2.1
Current transfers	1,836.0	1,301.7	-29.1	-1.1
Other current revenue	5,014.9	5,309.9	5.9	0.6
Consolidation differences	592.3	55.4		
Capital revenue	1,338.4	986.9	-26.3	-0.7
Sale of investment good	41.1	83.0	101.8	0.1
Capital transfers	754.0	779.5	3.4	0.1
Other capital revenue	539.4	124.2	-77.0	-0.9
Consolidation differences	3.8	0.3		
Effective revenue	48,737.1	50,660.7	3.9	
<i>Memo Item:</i>				
Non tax revenue	8,781.7	7,653.9	-12.8	-2.3
Current expenditure	51,131.5	52,581.8	2.8	2.7
Employees	9,127.7	10,041.8	10.0	1.7
Purchase of goods and services	7,189.3	7,199.1	0.1	0.0
Interests and other charges	4,978.2	4,950.8	-0.5	-0.1
Current transfers	27,658.6	28,369.0	2.6	1.3
Subsidies	1,466.0	1,302.4	-11.2	-0.3
Other current expenditure	684.7	438.9	-35.9	-0.5
Consolidation differences	27.1	279.8		
Capital expenditure	2,185.8	2,140.3	-2.1	-0.1
Investments	1,010.4	1,145.9	13.4	0.3
Capital transfers	1,158.2	959.9	-17.1	-0.4
Other capital expenditure	7.4	28.8	290.3	0.0
Consolidation differences	9.9	5.8		
Effective Expenditure	53,317.4	54,722.1	2.6	
<i>Memo Item:</i>				
Current and capital transfers	28,816.8	29,328.8	1.8	1.0
Overall balance	-4,580.2	-4,061.4		
Primary expenditure	48,339.2	49,771.3	3.0	
Current balance	-3,732.8	-2,908.0		
Capital balance	-847.4	-1,153.4		
Primary balance	397.9	889.4		

Source: Ministry of Finance and Social Security Financial Management Institute

2. Central Government and Social Security

EXPENDITURE

- **Central Government and Social Security** expenditure increased 2.6% until the third quarter of 2014, reflecting a slowdown when compared with the observed until the the previous month (+3.3%). Likewise, primary expenditure's change rate reduced in 0.1 p.p. (3% until September 2014).
- The **employees' compensation** evolution (+10% which compares to +8.9% until August) was mostly determined by:
 - i) The payment of the holiday allowance to employees in public functions, which, in the previous year, was paid in November;
 - ii) Reversion of the 2014 State Budget remuneration reduction measure; and
 - iii) The increase of public employers contribution rate to CGA and Social Security.

The acceleration of employee's compensation expenditure was explained by expenditure concentration in September associated with the terminations by mutual agreement program, mainly in Education area.

- **Purchase of goods and services** expenditure growth rate kept in +0.1%. This expenditure item was influenced by the rhythm at which the amounts allocated to the institutions of the National Health Service have been processed by the regional health authorities, under the contract programs with hospitals belonging to the public enterprise sector.
- The inflection on the behavior of **Interest and other charges** expenditure (-0.5% until September which compares to 5.9% until August), is explained by the evolution of the charges related to direct State debt (3.6% until September which compares to 11.2% until August), which reflects the dilution effect arising from the payment in the first quarter of 2014 of interests related to a particular line of Treasury Bonds and repurchase transactions of Treasury Bonds.

On the other hand, the financial charges incurred by the State Owned Entities decreased 46.8%, result which is yet related to the conversion of State loans into State' share capital in some public enterprises of infrastructure management and to the earlier settlement of derivative interest rate contracts operations (swaps) performed in 2013.

- **Transfers**⁴ change rate was 1.8% to which contributed mostly the increase in pensions of social security and CGA pension system as well as 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 expenditure and revenue.

⁴ Since March edition on, current transfers and capital transfers are analyzed together.



The slowdown of this expenditure item until August (+2.1%) was due to the previously described effect of the time lag in payment of the 14th month to retirees and pensioners. It should be remembered, that in the previous year⁵, was only paid in November.

- **Subsidies** decreased 11.2% (-2.9% until August), which reflects the reduction of benefits conceded by Social Security for vocational training financed by the European Social Fund, effect that offset the increasing number of vocational training taken by IEFP⁶.
- **Investment** expenditure increased 13.4% (26.4% until August). The oscillation of this expenditure item is related with the intra-annual expenditure pattern with road concessions.
- **Other Current Expenditure** evolution (-35.9% until September which compares to -41.8% until August), is mainly associated with the evolution of vocational training expenditure in education area⁷.

REVENUE

- **Central Government and Social Security revenue** increased 3.9% (+4.2% until August), evolution which was determined by the tax revenue and social security systems' contributions (YOY growth 7.6% to both revenue items).
- **Tax revenue** increase was supported by a rise in both direct (8.7%) and indirect taxes (6.8%).

This result was influenced by the fact that, from 2014 onwards, the revenue from the contribution on Banking Sector - which collection in the current year amounted to EUR 160.2 million until September - is registered as direct tax.

Similarly, a part of the revenue from social games, consigned to Social Security - with a value of EUR 125.2 million until September 2014 - began to be recorded as indirect taxes.

Both categories of taxes were previously classified as "non-contributory and non-tax revenue" in 2013.

- To the evolution of **Direct taxes** revenue contributed the Personal Income Tax revenue growth with 11%⁸ (+11.8% until August), reflecting the labor market conditions improvement and the positive impact of enhanced control and action against tax evasion.

By its turn, Corporate Income Tax (CIT) decreased 2.5% a less pronounced decrease compared with the previous month (-4.3%).

⁵ Under the Law n.º39/2013, of June 21st ("Regulates the replacement of the holiday allowances for public workers, retirees, pensioners and other pensioners in 2013").

⁶ Institute for Employment and Vocational Training

⁷ It is noteworthy, in this context, the impact of the reclassification to Employees amounts that were recorded in "other current expenditure" item.

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)

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- **Indirect taxes** variation was 6.8% until September (6.9% until August), remaining mainly explained by the behavior of Value Added Tax (VAT) (+7.5%)⁹ and, although with a lesser weight in the contribution to the revenue change rate, the tax on vehicle (+35.8%) and Tax on Tobacco (+7.9%).

The evolution of VAT revenue is explained by the economic recovery and the enhanced control and action against tax evasion and the underground economy.

- **Social Security systems contributions** maintained previous month behavior (7.6% until September which compares to 7.5% until August).

This result was mostly determined by the CGA contributions (+17.7%) which remained explained by:

- The increase of public employers' contribution rate in 2014;
- The enlargement of the extraordinary solidarity contribution basis; and
- The reversion of the 2014 State Budget remuneration reduction measure.

It is also important to underline the positive effect of Social Security contributions which increased 3.3% until August.

- **Non-tax and non-contributory revenue** evolution (-12.8%), was mainly explained by the reduction of Social Security revenue from the European Social Fund (-32.6%), by the behavior of dividends received from the Bank of Portugal and the interests paid by the State Owned Enterprises from transportation area¹⁰.

This result was also influenced by the already mentioned reclassification of the Contribution over the Banking Sector and the social games revenue consigned to the Social Security.

⁹ From July to September, the remaining categories of indirect taxes recorded marginal variations regarding to evolution of contribution to the rate of change.

¹⁰ As a result of the above mentioned conversion of government loans into statutory capital of these entities.