

Budget Outturn Summary Report 2015

February

Budget Outturn Summary Report
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OVERALL BALANCE

- **General government balance** in cash basis (that is, revenues minus payments) amounted to -239.8 million euros, while the primary balance stood at 929.7 million euros. Considering the comparable universe¹, the balance was -376.7 million euros (and the primary balance 772.8 million euros), which compares with -26.9 million euros in the same period of previous year.

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

	€ Millions								
	Overall balance			Revenue		Expenditure		YOY Change Rate (%)	
	Jan-Dec 2014	fev-2014	fev-2015	fev-2014	fev-2015	fev-2014	fev-2015	Revenue	Expenditure
Central Government and Social Security	-7.047,3	-46,9	-410,0	11.084,5	11.147,5	11.131,4	11.557,5	0,6	3,8
Central Government	-7.466,6	-141,4	-791,9	8.831,1	8.729,4	8.972,6	9.521,4	-1,2	6,1
State subsector	-7.092,5	-577,1	-970,2	6.872,3	6.941,2	7.449,4	7.911,4	1,0	6,2
Autonomous Services and Funds	-374,1	435,7	178,3	4.342,2	4.279,5	3.906,6	4.101,2	-1,4	5,0
of which: Central Government State Owned Enterprises	-1.069,5	-151,2	-338,0	448,3	405,2	599,5	743,1	-9,6	24,0
Social Security	419,3	94,5	382,0	3.976,1	4.183,5	3.881,6	3.801,5	5,2	-2,1
Regional Government	-419,5	-77,9	-55,2	324,1	330,4	402,0	385,6	2,0	-4,1
Local Government	392,8	97,9	88,5	938,0	902,1	840,1	813,6	-3,8	-3,2
General Government - comparable universe	-7.074,0	-26,9	-376,7	11.817,3	11.846,6	11.844,3	12.223,3	0,2	3,2
New Central Government State Owned Enterprises in 2015	-	-	125,0	-	785,0	-	659,9		
New Regional Government State Owned Enterprises in 2015	-	-	11,9	-	72,8	-	60,9		
General Government - total universe			-239,8		11.969,9		12.209,7		

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

Source: Ministry of Finance

- **Central Government and Social Security** balance until February 2015 amounted to -285 million euros (-46.9 million until February 2014), while the primary surplus stood at 855.7 million euros (+708.1 million until February 2014). Considering the comparable universe, revenue increase (+0.6%) was less pronounced than expenditure growth (+3.8%), which determined the observed evolution of the respective overall balance (-410 million until February 2015 which compares to -46.9 million until February 2014). Note that the primary expenditure growth (+0.6%) stood at a lower level than expenditure's, which revealed the impact of interest and other debt charges expenditure evolution in the budget outturn.
- **Regional and Local Government** recorded a balance of 45.2 million euros (88.5 million for Local Government and -43.4 million for 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 85.1 million euros for the overall subsector (69.5 million in the same period of 2014).

¹ 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).



2. Central Government and Social Security

OVERALL BALANCE

- **Central Government and Social Security** overall and primary balances until February 2015 reached -285 million euros and +855.7 million, respectively. Having regard to the comparable universe, balances attained -410 and +712.9 million euros, respectively, which compare to -46.9 and +708.1 million euros in the same period of the previous year.
- **Expenditure** increased 3.8% which resulted, to a greater extent, from the growth of interest and other public debt current charges expenditure and the higher State expenditure regarding concessions of road infrastructure.
- Regarding **revenue**, there was a rise of 0.6%, mainly due to the evolution of tax revenue (+1.9%).

2. Central Government and Social Security

Table 3 - Central Government and Social Security Consolidated Account

Period: January to February		€ Millions				
	2014	2015	YOY cumulative Change Rate (%)		YOY Change Rate Contrib. (p.p.)	2015
	Accumulated Execution	Comparable	January	February		Accumulated Execution
Current revenue	10.833,4	10.924,5	-5,5	0,8	0,8	11.065,4
Tax	6.487,2	6.611,9	-5,8	1,9	1,1	6.611,9
Direct taxes	2.439,3	2.394,9	-9,1	-1,8	-0,4	2.394,9
Indirect taxes	4.047,9	4.217,0	-3,2	4,2	1,5	4.217,0
Social security contributions	3.116,3	2.980,9	-3,2	-4,3	-1,2	2.980,9
Current transfers	80,6	277,6	358,2	244,5	1,8	296,9
Other current revenue	1.102,4	1.018,9	-25,2	-7,6	-0,8	1.147,6
Consolidation differences	46,9	35,2				28,0
Capital revenue	251,0	223,0	-6,0	-11,1	-0,3	224,9
Sale of investment good	26,3	45,4	505,3	72,5	0,2	46,8
Capital transfers	142,1	128,9	29,7	-9,3	-0,1	128,9
Other capital revenue	82,6	48,7	-38,3	-41,0	-0,3	49,1
Consolidation differences	0,0	0,0				0,0
Effective revenue	11.084,5	11.147,5	-5,5	0,6		11.290,2
<i>Memo Item:</i>						
Tax and contributions revenue	9.603,5	9.592,8	-4,9	-0,1	-0,1	9.592,8
Non tax revenue	1.481,0	1.554,7	-8,6	5,0	0,7	2.691,8
Current expenditure	10.557,7	10.845,9	-1,8	2,7	2,6	10.839,8
Employees	1.935,5	1.936,5	-2,1	0,0	0,0	2.302,2
Purchase of goods and services	1.330,0	1.416,1	9,9	6,5	0,8	919,2
Interests and other charges	755,0	1.122,9	30,7	48,7	3,3	1.140,7
Current transfers	6.177,7	6.110,0	-4,0	-1,1	-0,6	6.109,9
Subsidies	256,3	183,0	-24,7	-28,6	-0,7	183,0
Other current expenditure	75,2	77,5	6,5	3,0	0,0	78,9
Consolidation differences	28,0	0,0				106,0
Capital expenditure	573,6	711,6	32,4	24,0	1,2	735,4
Investments	312,3	474,7	293,9	52,0	1,5	499,7
Capital transfers	252,8	234,5	-7,3	-7,2	-0,2	231,8
Other capital expenditure	0,7	0,9	46,1	16,8	0,0	0,9
Consolidation differences	7,8	1,5				3,0
Effective Expenditure	11.131,4	11.557,5	-0,4	3,8		11.575,2
<i>Memo Item:</i>						
Current and capital transfers	6.430,5	6.344,5	-4,2	-1,3	-0,8	6.341,6
Other current and capital expenditure	76,0	78,4	6,9	3,1	0,0	79,7
Overall balance	-46,9	-410,0				-285,0
Primary expenditure	10.376,4	10.434,7	-1,0	0,6		10.434,5
Current balance	275,7	78,5				225,5
Capital balance	-322,6	-488,5				-510,5
Primary balance	708,1	712,9				855,7

Source: Ministry of Finance and Social Security Financial Management Institute

2. Central Government and Social Security

EXPENDITURE

- **Central Government and Social Security** expenditure increased 3.8%, while primary expenditure's change rate was +0.6%. The observed evolution (in January, the change rates were -0.4% and -1%, respectively) was due to the acceleration of interest and other current costs of direct State debt expenditure and, regarding primary expenditure, to the slowdown of the Portuguese financial contribution to the European Union budget decrease.
- The **employees' compensation** showed a stabilization compared with the result observed until February 2014, which resulted from the combination of factors with opposite effect in the behavior of this expenditure item: towards growth, it should be noted the partial reversal of the temporary measure of remuneration reduction and the less pronounced nature of the wage reduction in 2015, compared to that prevailed in the first five months of 2014²; in reducing, it should be referred the base effect of the expenditure incurred under the terminations by mutual agreement's program. The dilution of this effect explained the inflection of this expenditure component behavior relative to that observed in January (-2.1%).
- **Purchase of goods and services** expenditure growth rate was 6.5%, due to the higher payment level of advances within the context of contract programs with hospitals belonging to the State Owned Enterprises sector. 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.
- **Interest and other charges expenditure** increased 48.7%, higher than the Year-on-Year rate observed in the previous month (+30.7% in January), being mainly at stake the coupon payment, in February, of some of the latest series of Treasury Bonds, and the increased charges of loans from the International Monetary Fund, contracted under the Economic Adjustment Programme of Portugal.
- **Transfers** change rate was -1.3% (or -0.1% in adjusted terms³), particularly explained by the evolution of expenditure on social benefits relating to unemployment protection and employment support (-22.5%). The decrease was less marked than in the previous month (-4.2% in January), which was mainly owed to

² 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 30th May).

From September 2014 onwards, by force of the Law No. 75/2014, of the 12th 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.

³ 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". If, for purposes of comparability, it was excluded the value transferred until February 2014 (77.8 million), the cumulative annual rate of transfers would have been of -0.1%.



the different impact, on transfers to the European Union's budget, of the adjustments due on account of the budgets amendments approved by the Union⁴.

- **Subsidies** decreased 28.6%, which reflected the reduction of benefits conceded by the Social Security for vocational training and those allocated under the employment and vocational training measures by the Institute of Employment and Vocational Training. Nevertheless, the decrease was less pronounced than in the previous month (-24.7% in January), which was due to the dilution of some effects observed in the first month of the year.
- **Investment** expenditure change rate, as well as the evolution compared to January (+52% up to February compared with +293.9% in January) was due to the time lag of State's payments made under concessions of road infrastructure.

REVENUE

- **Central Government and Social Security revenue** increased 0.6%, determined by the tax revenue (+1.9%) and the non-tax and non-contributory revenue (+5%). The evolution observed in revenue compared to the previous month (-5.5%) mainly resulted from the inflection of the behavior of both the tax revenue (-5.8% in January) and non-tax and non-contributory revenue (-8.6% in January).
- **Tax revenue** growth was justified by the increase in indirect tax revenues (+4.2%), despite the decrease in revenues from direct taxes (-1.8%)⁵.
- The **direct taxes** revenue decrease was explained by the Personal Income Tax (PIT) revenue, which reduction was -2.2%. By its turn, Corporate Income Tax (CIT) decreased 10.9%. These results compare with -5.5% and -47.5% in January, respectively.
- **Indirect taxes** variation was mainly explained by the behavior of the Value Added Tax revenue (+7.8%), which reflected the economic recovery and the enhanced control and action against tax evasion and the underground economy.

The turning point in the behavior of indirect tax revenue (-3.2% in January) was due, on the one hand, to the acceleration of VAT revenue (+5% in January) and, on the other hand, to the slowdown of the level of reduction of Tax on Tobacco revenue (-44.6%, compared with -53.3% in January).

- **Social Security systems contributions** decreased 4.3% (-3.2% in January). In adjusted terms, the reduction would have been 1.3% (-0.3% in January)⁶, result largely explained by the evolution of the *Caixa Geral de Aposentações* (CGA)⁷ contributions' revenue.

⁴ In 2014, the adjustment was higher and paid in January; in 2015, the adjustment was smaller and paid in February.

⁵ 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" attached to this issue. 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 attached), but also the subsector of the Autonomous Services and Funds and Social Security - for deeper understanding of these concepts, see the Glossary of monthly summary of budget execution, available on the official website of the DGO on the Internet.



2. Central Government and Social Security

The adjusted CGA contributions revenue decreased 7.9%, due to the decrease of the Extraordinary Contribution of Solidarity⁸ and to the number of subscribers fall (-4.5%).

Note that it was observed an increase in Social Security adjusted revenue from contributions (+3.4% until February which compares to 3.5% until January⁹), to which contributed, despite the effect of the reduction in the Extraordinary Solidarity Contribution revenue, the improving conditions in the labor market and the Minimum Guaranteed Retribution increase.

- **Non-tax and non-contributory revenue** increased 5%, result that was mainly explained by the behavior of the transfers from the European Social Fund. The turning point in the behavior of this revenue aggregate (-8.6% in January) was mainly due to the dilution of effects occurred in January.

⁶ In 2015, transfers from Social Security to CGA aimed at financing the unified pension scheme were reclassified from "contributions" to "transfers". If, for purposes of comparability, it was excluded the value transferred until February 2014 (77.8 million euros transferred from the SS to CGA and 18.2 million euros from the CGA to SS) to the contributions, the accumulated annual rate of change would have been of -1.3%. In January the values of transfers were 38.8 million and 9.1 million euros, thus the adjusted annual rate of contributions would have been of -0.3% in that month..

⁷ *Caixa Geral de Aposentações* (CGA) is the public body that administrates the Portuguese civil servants pension scheme.

⁸ Its scope was largely reduced via the State Budget Law for 2015.

⁹ The adjusted values exclude 18.2 and 9.1 million euros to those observed until February and January 2014, respectively.