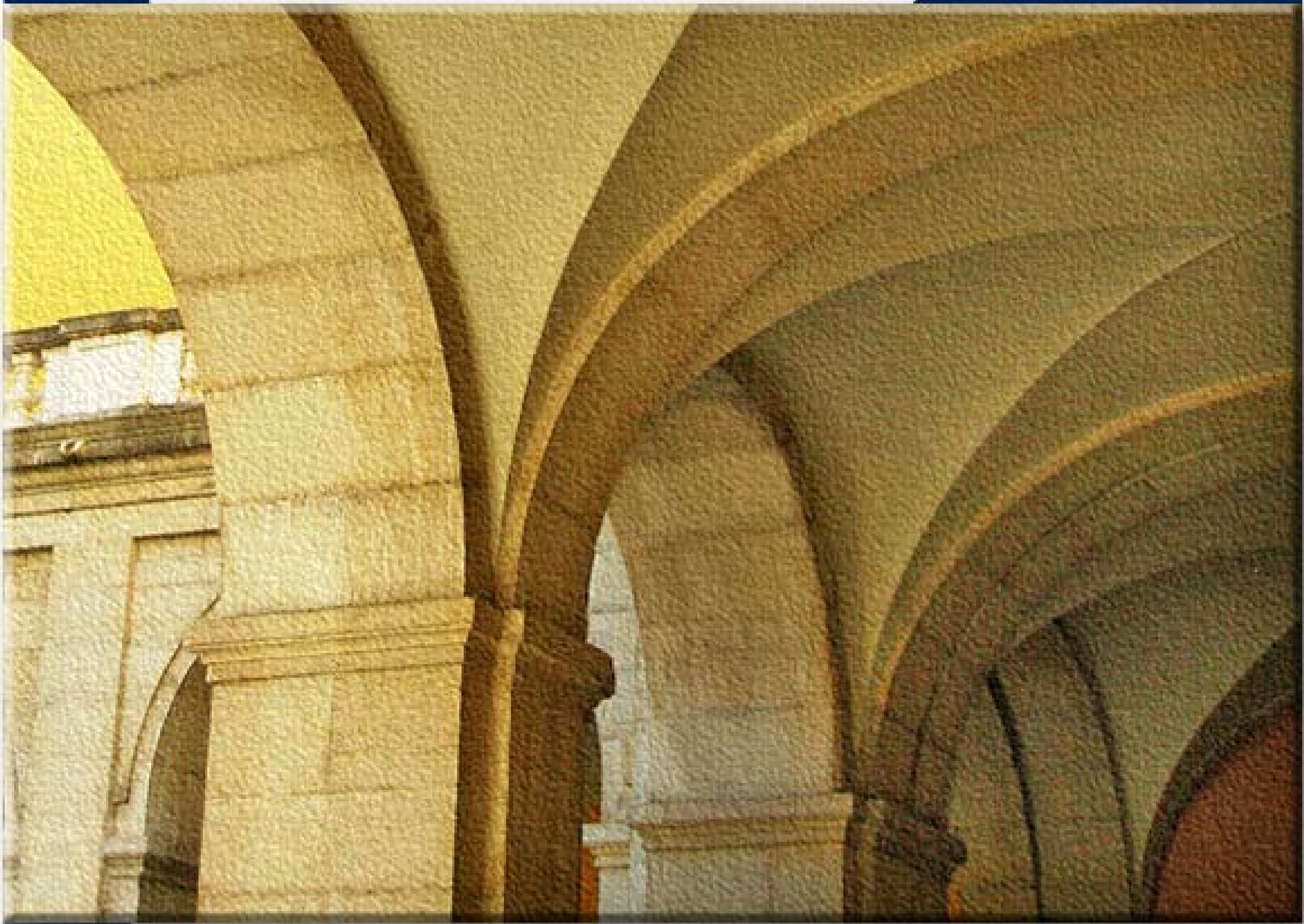
Budget Outturn Summary Report

December 2015



DGOrçamento

PORTUGAL
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BUDGET GENERAL DIRECTORATE

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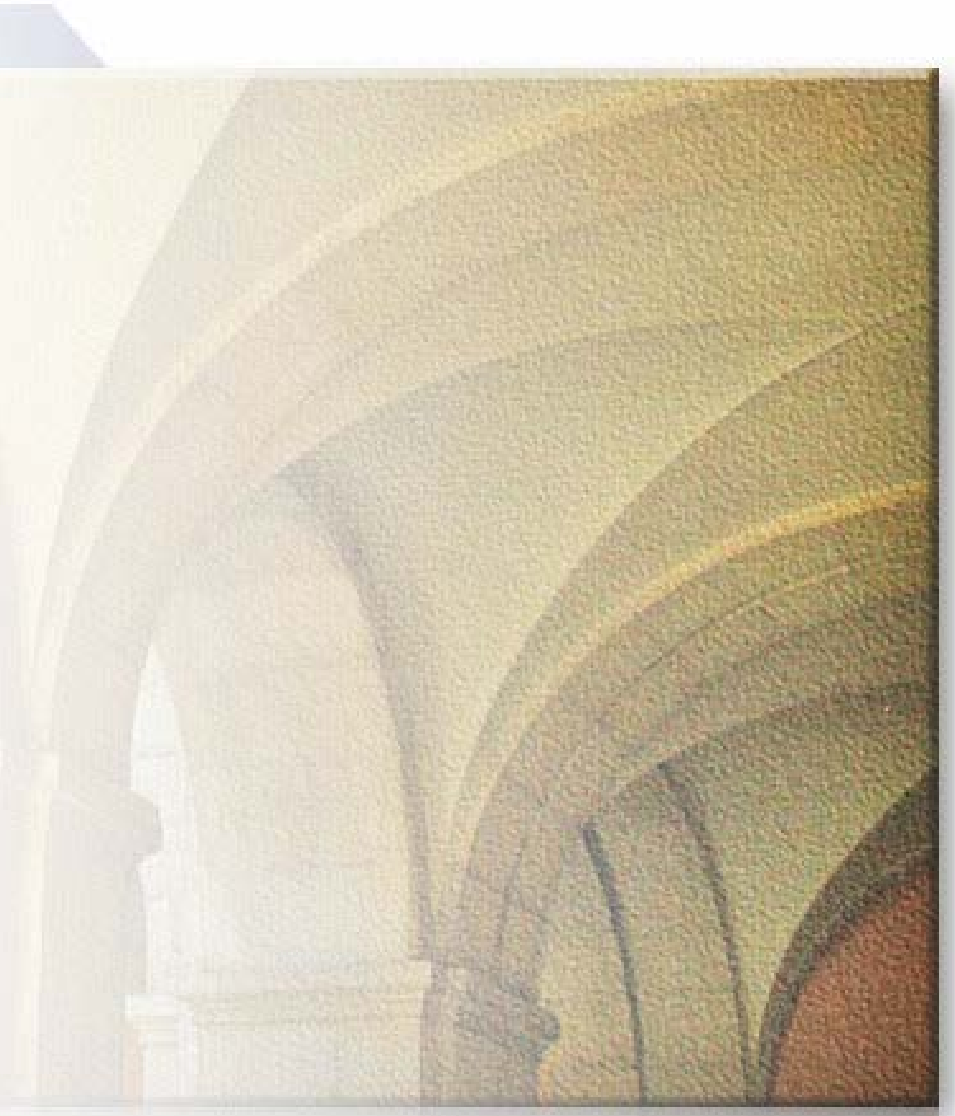

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OVERALL BALANCE

- According to the 2015 provisional implementation data available, the **General Government balance**, on a cash basis approach (that is, revenues minus payments) amounted to -4,594.2 million euros, 499 million euros below the implicit State Budget target. Considering the comparable universe[1], the General Government overall balance has improved 2,567.5 million euros over the previous year as a result of the combined effect of decreased expenditure and, at a lower proportion, increased revenue.

  Total revenue increased 0.8%, due to the increase in tax revenue (5.2%) partially offset by a reduction in the remaining components. The reduction in expenditure (-2.4%) was determined by the decrease in expenditure on subsidies to vocational training, employees' compensation, unemployment benefits and public debt interest charges that more than offset the observed increase in investment.

  In terms of General Government subsectors, the balance improvement was due to the lower Central Government deficit (in 1,451 million euros), to the increasing of Social Security surplus (in 598.7 million euros) and of Local and Regional Government's balance (in 517.8 million euros, partly due to the settlement of prior years' debt in an amount lower than in the same period of 2014).

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

Period: January to December | € Millions

	Overall balance		Revenue		Expenditure		YOY Change Rate (%)	
	Dec-2014	Dez-2015	Dec-2014	Dez-2015	Dec-2014	Dez-2015	Revenue	Expenditure
Central Government and Social Security	-7 124,1	-5 074,5	68 427,6	68 554,0	75 551,8	73 628,5	0,2	-2,5
Central Government	-7 553,6	-6 102,6	53 713,1	54 252,0	61 266,7	60 354,6	1,0	-1,5
State subsector	-7 127,9	-5 568,0	41 329,4	43 023,0	48 457,3	48 591,0	4,1	0,3
Autonomous Services and Funds	-425,6	-534,7	27 258,6	26 733,1	27 684,3	27 267,8	-1,9	-1,5
of which: Central Government State Owned Enterprises	*-1 108,3*	*-1 021,2*	*2 866,6*	*3 014,6*	*3 974,9*	*4 035,8*	*5,2*	*1,5*
Social Security	429,4	1 028,1	24 681,0	24 591,0	24 251,6	23 562,9	-0,4	-2,8
Regional Government	-419,5	-223,2	2 319,5	2 372,3	2 739,0	2 595,5	2,3	-5,2
Local Government	417,1	738,7	6 937,9	7 228,4	6 520,8	6 489,8	4,2	-0,5
General Government - comparable universe	**-7 126,5**	**-4 559,1**	**74 458,5**	**75 043,4**	**81 585,0**	**79 602,4**	**0,8**	**-2,4**
New Central Government State Owned Enterprises in 2015	-	-65,4	-	5 934,2	-	5 999,6		
New Regional Government State Owned Enterprises in 2015	-	30,3	-	527,8	-	497,5		
General Government - total universe	**-**	**-4 594,2**	**-**	**76 228,5**	**-**	**80 822,7**		

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

- **Central Government and Social Security** balance in 2015 amounted to -5,139.9 million euros[2] (-7,124.1 million in 2014), while the primary surplus was 2,641.2 million euros (+332.4 million in 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] 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

Considering the comparable universe, there was an improvement in the global balance of 2,049.6 million euros and the primary balance at 2,072.4 million euros. Revenue increased 0.2%, while expenditure decreased 2.5%. It should be noted the reduction of the primary expenditure (-2.9%).

- **Regional and Local Government** recorded a balance of 515 million euros (738.7 million euros for the Local Government and -223.2 million euros for the Regional Government). Excluding the effects associated with the suppliers' debt regularization effect under the Local Economy Support Programme and loans contracted by the Madeira Autonomous Region, the resulting budget surplus would have been of 731.3 million euros for the overall subsector (528.3 million in 2014).

OVERALL BALANCE

- **Central Government and Social Security** overall and primary balances in 2015 reached -5,139.9 and +2,641.2 million euros, respectively, results having implicit an improvement of the overall and primary balances (in 1,984.2 and 2,308.8 million euros, respectively) over the last year. Considering the comparable universe, the improvement observed was 2,049.6 and 2,072.4 million euros, respectively.

Table 2 - Central Government and Social Security Consolidated Account

Period: January to December — € Millions

Revenue/exependiture/balance	2014	2015 Comparable	YOY cumulative Change Rate (%)		YOY Change Rate Contrib. (p.p.)	2015
	Accumulated Execution		November	December		Accumulated Execution
Current revenue	**67 081,9**	**67 450,1**	**1,0**	**0,5**	**0,5**	**68 276,3**
Tax	38 438,5	40 445,0	5,2	5,2	2,9	40 446,0
Direct taxes	17 589,2	18 260,9	3,7	3,8	1,0	18 260,9
Indirect taxes	20 849,3	22 184,1	6,4	6,4	2,0	22 185,2
Social security contributions	19 371,0	18 642,3	-3,7	-3,8	-1,1	18 642,3
Current transfers	1 677,0	1 272,1	-26,5	-24,1	-0,6	1 447,4
Other current revenue	7 541,2	6 770,9	-6,2	-10,2	-1,1	7 345,7
Consolidation differences	54,2	319,8				394,9
Capital revenue	**1 345,8**	**1 104,0**	**-29,2**	**-18,0**	**-0,4**	**1 378,0**
Sale of investment good	120,8	130,7	4,5	8,2	0,0	209,2
Capital transfers	1 064,9	863,4	-30,2	-18,9	-0,3	1 046,2
Other capital revenue	154,3	83,9	-60,2	-45,6	-0,1	93,9
Consolidation differences	5,6	26,0				28,7
Effective revenue	**68 427,6**	**68 554,0**	**0,4**	**0,2**		**69 654,3**
Memo Item:						
Tax and contributions revenue	*57 809,4*	*59 087,2*	*2,2*	*2,2*	*1,9*	*59 088,3*
Non tax revenue	*10 618,2*	*9 466,8*	*-10,0*	*-10,8*	*-1,7*	*19 708,2*
Current expenditure	**72 020,4**	**69 890,9**	**-2,5**	**-3,0**	**-2,8**	**70 715,6**
Employees	13 137,2	12 728,7	-2,9	-3,1	-0,5	15 385,4
Purchase of goods and services	10 537,4	10 438,3	1,4	-0,9	-0,1	8 477,6
Interests and other charges	7 456,6	7 479,4	1,1	0,3	0,0	7 781,2
Current transfers	37 806,9	37 263,0	-1,6	-1,4	-0,7	37 067,9
Subsidies	1 947,2	1 231,7	-39,6	-36,7	-0,9	1 231,7
Other current expenditure	678,8	655,6	-0,2	-3,4	0,0	678,9
Consolidation differences	456,4	94,3				93,0
Capital expenditure	**3 531,4**	**3 737,6**	**20,0**	**5,8**	**0,3**	**4 078,7**
Investments	2 089,5	2 477,7	42,4	18,6	0,5	2 823,8
Capital transfers	1 366,3	1 178,9	-7,9	-13,7	-0,2	1 173,8
Other capital expenditure	63,3	80,9	65,2	27,8	0,0	81,0
Consolidation differences	12,2	0,0				0,0
Effective Expenditure	**75 551,8**	**73 628,5**	**-1,6**	**-2,5**		**74 794,2**
Memo Item:						
Current and capital transfers	*39 173,2*	*38 441,9*	*-1,8*	*-1,9*	*-1,0*	*38 241,8*
Other current and capital expenditure	*742,1*	*736,5*	*4,6*	*-0,8*	*0,0*	*759,8*
Overall balance	**-7 124,1**	**-5 074,5**				**-5 139,9**
Primary expenditure	68 095,2	66 149,1	-2,0	-2,9		67 013,1
Current balance	-4 938,5	-2 440,9				-2 439,3
Capital balance	-2 185,6	-2 633,6				-2 700,6
Primary balance	332,4	2 404,9				2 641,2

Source: Budget General Directorate and Social Security Financial Management Institute

2. Central Government and Social Security

EXPENDITURE

- **Central Government and Social Security** expenditure decreased 2.5% and primary expenditure reduced 2.9%. These results had underlying the decrease in transfers – mainly concerning to expenditure on benefits for social protection in unemployment and on support granted to the agricultural and fisheries sectors - , subsidies for vocational training and employees' compensation.

  The reduction was more pronounced compared to November (-1.6% and -2% to the total expenditure and the primary expenditure, respectively), to which partly contributed the slowdown of payments with the concession and sub-concession of road infrastructure contracts and the sharpest reduction of expenditure associated with programme contracts with health institutions belonging to the State-Owned Enterprises' sector.

- The **employees' compensation** decreased 3.1% (similar to the result observed until November, -2.9%) , which was due to several factors, of which highlighted: the base effect associated with the expenditure incurred under the "Terminations by Mutual Agreement Programme"; 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 suspension, between June and December 2014, of any remuneration reduction measure[3].

- **Purchase of goods and services** expenditure change rate was -0.9% (+1.4% until November) due to the reduction of expenditure associated with payments to the public corporate entities of the health sector under the respective programme contracts - as a result of the base effect associated with the implementation of addenda to the contracts in 2014 related to extraordinary measures aiming at financial balance and compensation for increase of personnel expenses[4] – as well as to the decrease in pharmaceutical expenditure.

- **Interest and other charges expenditure** increased 0.3%, mainly explained by the evolution of direct State debt interest charges (+2.1%). This result reflected, to a large extent, the increase in interest of debt instruments for household savings (Treasury and Saving Certificates), of Treasury bonds and loans contracted under the Economic and Financial Adjustment Programme, partially offset by the reduction of costs associated with short-term instruments (Treasury bills).

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[3] 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.

[4] Following the declaration of unconstitutionality of remuneration reduction measure provided by the State Budget Law for 2014, as described in note 3.

- **Transfers** change rate was -1.9%[5] (-1.8% until November), which was particularly explained by the evolution of expenditure on social benefits relating to unemployment protection (-21.4%), the reduction in aid granted to agriculture, rural development, fisheries and related sectors (-42.8%) as well as the fact that, in 2014, it has been transferred to the Resolution Fund the contribution on the banking sector of two years[6]. This effect was largely absorbed by the behavior of pension expenditure of the convergent social protection scheme managed by the CGA (+2.1%)[7].

- **Subsidies** decreased 36.7%, which reflected the reduction of benefits conceded by the Social Security for vocational training[8] and, even if at a lesser degree, those allocated under the employment and vocational training measures by the Institute of Employment and Vocational Training. The evolution of the first of those components determined the pace of expenditure on subsidies as a whole against the observed until the previous month (-39.6% until November).

- **Investment** expenditure change rate (+18.6%), as well as the slowdown in comparison with the observed result until November (+42.4%), were due to the evolution of State's payments made under concessions of road infrastructure.

REVENUE

- **Central Government and Social Security revenue** increased 0.2% in 2015, maintaining roughly the evolution pace observed until November (+0.4%), with emphasis on the contribution of tax revenue by 2.9 p.p. to this result - in particular, the evolution of tax revenue on Value Added Tax (VAT), which grew 7.3% -, partially offset by the contribution of non-tax and non-contributory revenue (-1.7 p.p.) and contributory revenue (-1.1 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.

- **Tax revenue** growth (+5.2%, the same observed until November)[9] was justified by the increase in indirect tax revenues (+6.4%), and, even if to a lesser extent, the increase in revenue from direct taxes (+3.8%).

  The increase in **direct taxes** revenue (+3.8%, which compares favorably with the result observed until November, +3.7%) was attributable to the growth of the Corporation Income Tax (CIT) (+15.4%) and of

[5] This rate of change is influenced by the change in the accounting of financial flows to finance the unified pension scheme. In fact, 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".

[6] Following the 2nd amendment to the State Budget for 2014 - Law No. 75-A/2014 of the 30th September, it was transferred the collection relative to the years of 2013 and 2014.

[7] Pensions paid by the general social security scheme, which fell 1.2%, were nonetheless influenced by the effect described in note 5. In the absence of this effect, this expense would have increased.

[8] This expenditure has been financed through cash advances from the social security budget on account of transfers from the European Union.

[9] 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.

the"Extraordinary contribution on the Energy Sector" [10] and "Contribution on the Banking Sector" (+13.5%) collection. These effects taken altogether more than offset the reduction of the Personal Income Tax revenue (-1.3%), partially explained by the decrease in revenues from capital income.

Indirect taxes variation (+6.4%, the same observed until November) was mainly explained by the behavior of the VAT revenue (+7.3%) and, to a lesser degree of importance, the tax on oil and energy products (+10.2%) and the Vehicle Tax (+23.1%).

- **Social Security systems contributions** decreased 3.8%, maintaining approximatively the recorded contraction level of November (-3.7%). 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[11].

  Apart from this fact, the decrease of contributions to CGA (-20.6%, which compares with -20.2% until November) 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%[12], which compares to +2.7% until November) 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[13] - by the improving conditions in the labor market and the Minimum Guaranteed Retribution increase.

- The **non-tax and non-contributory revenue** decrease (-10.8%, similar to the variation registered until November, -10%) was 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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[10] In 2014, the collection of the extraordinary contribution on the energy sector was recorded as non-tax and non-contributory revenue and amounted to 65.1 million euros. In 2015, that revenue was recorded as a direct tax, and the respective revenue amounted to 115.5 million euros (see table 18 – "Temporary/special effects on the Central Government and Social Security Account" of the statistical annexes).

[11] 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.

[12] Note that this growth rate is negatively influenced by the effect of the reclassification described in the previous footnote.

[13] 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.