Budget Outturn Summary Report 2013

December

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Budget Outturn Summary Report
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OVERALL BALANCE

- The **General Government (GG) provisional deficit**, according to the Economic and Financial Adjustment Program (EFAP) criteria[1], amounted to € 7,151.5 million in 2013, € 1,748,5 million less than the established limit.

Table 1 – Limits and implementation of General Government

€ Millions

	2012 Execution	I quarter 2013	II quarter 2013	III quarter 2013	IV quarter 2013
EFAP limits	**-9.028**	**-1.900**	**-6.000**	**-7.300**	**-8.900,0**
General Government Balance (cash basis)	**-7.134,6**	**-1.435,4**	**-4.058,0**	**-5.414,6**	**-8.730,9**
Central Government	**-8.048,8**	**-1.469,4**	**-4.434,9**	**-5.008,0**	**-8.342,2**
State	-8.896,0	-1.852,0	-4.851,2	-5.443,1	-7.687,5
Autonomous Services and Funds excluding reclassified SOE	1.682,1	772,5	1.014,6	1.019,0	318,2
Reclassified State Owned Enterprises	-834,9	-390,0	-598,4	-583,8	-972,9
Regional Government	**-266,0**	**3,7**	**7,4**	**-722,5**	**-825,3**
Madeira	-254,9	3,1	26,4	-719,6	-819,7
Açores	-11,1	0,6	-19,1	-2,9	-5,6
Local Government	**748,7**	**-104,4**	**-48,5**	**-111,6**	**-42,1**
Municipalities reported	748,7	-104,1	-49,9	-108,2	-66,8
Social Security	**431,5**	**134,7**	**418,1**	**427,5**	**478,6**
Adjustments underlying to the Technical Memorandum of Understanding					
Garantees, loans and capital injections	-93,4	0,2	-11,0	-13,3	-57,7
Adjustment for the arrears settled - Health arrears clearance strategy	1.500,0			10,5	423,5
Pension funds	-2.783,9	-48,1	-48,1	-48,1	-48,1
Adjustment for the arrears settled - Local Administration (€1 billion credit facility)	13,3	132,5	271,7	359,8	407,8
Adjustment for the arrears settled - RAM Government (€1,1 billion bank loans, with central government guarantees)				804,4	853,9
General Government Balance (criteria of the EFAP)	**-8.498,6**	**-1.350,9**	**-3.845,4**	**-4.301,3**	**-7.151,5**
Gap (General Government Balance (criteria of the EFAP) minus EFAP Limit	**529,4**	**549,1**	**2.154,6**	**2.998,7**	**1.748,5**

- **Central Government and Social Security** balance in 2013 attained € -7,863.6 million (€ -7,617.3 million in 2012), while the primary balance recorded € -164.5 million (€ 312.7 million in 2012).

  In the absence of some of the *one off* effects that influence the year-on-year comparison (listed on table 3), an improvement in the overall balance of € 2,518.4 million and in the primary balance of € 2,287.5 million would be observed. This evolution is a result of the adjusted revenue's increase rate (8.5%) which overrules the adjusted expenditure increment rate (3.8%).

- **Central Government** balance shows an apparent worsening of € 293.5 million euros, while primary balance fell € 524.5 million, when compared to 2012. Revenue and expenditure increased 3.8%. In the absence of the *one-off* effects listed on table 3, the overall and the primary balance would improve € 2,471.2 million (€ -10,880.8 million in 2012 to € -8,409.6 million in 2013) and € 2,240.2 million (€ -2,953.1 million in 2012 to

[1] For balance calculation under the EFAP criteria, some operations are excluded from the expenditure, more significantly the amounts related to debt regularizations under the Financial Adjustment Plan of the Autonomous Region of Madeira (€ 853.5 million), Local Economy Support Program (€ 407.8 million) and Health Sector Debts Settlement Plan (€ 423.5 million). Similarly, the incorporation of the pension fund of the *Instituto de Financiamento da Agricultura e Pescas, I.P.* (€ 48.1 million) in CGA is excluded from revenue.

€ -712.9 million in 2013), respectively. The adjusted revenue would have increased 12.4%, due to the evolution of tax revenue and CGA[2] contributions. On the other hand, expenditure would have increased 5.7%, reflecting the higher transfers to Social Security under the corresponding specific Law, pensions and other benefits paid by CGA and employees' compensation

- **Social Security** balance in 2013 reached € 478.6 million, € 47.1 million higher than in 2012. The bigger contribution comes from the revenue (4.7% when compared to 2012) explained by State Budget transfers which contributed in 2.8 p.p. to the revenue year-on-year (YOY) variation. In regard to expenditure evolution, the YOY variation of 4.6% is mainly determined by social benefits (3.6 p.p.), as well as the 19.5% growth of job training expenditure (1 p.p.).

- **Regional and Local Government** recorded a deficit of € 867.4 million (€ -42.1 million in Local Administration and € -825.3 million in Regional Administration). Excluding the suppliers' debt regularization effect, under the PAEL (Local Economy Support Program) and the loan taken by the Autonomous Region of Madeira for the same purpose, the resulting budget surplus would have been of € 432.4 million for the overall subsector (€ 482.5 million in 2012).

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

OVERALL BALANCE

- The overall and primary balances of **Central Government and Social Security** in 2013 amounted to € -7,863.6 million and € -164.5 million, respectively.

The comparability of the 2013 implementation in relation to the previous year is determined by the following *one-off* effects (table 3):

i) In 2012, the revenue associated to the transmission of the remaining parcel of the ownership of credit institutions pension funds' assets and the BPN pension fund (€ 2,783.9 million), and the Revenue associated to the transmission of the pension funds' assets from PT Comunicações, S.A., to CGA, I.P. (€ 476.2 million) ;

ii) In 2013, the revenue associated to the integration of the pension funds' assets from the *Instituto de Financiamento da Agricultura e Pescas, I.P.* (€ 48.1 million) and also a parcel of the ownership of credit institutions pension funds' assets (22,8 millions).

iii) Revenue from the sale of the 4th generation mobile frequency use rights (€ 272 million in 2012 and € 20 million in 2013), the revenue from the concession of the infrastructure of Civil Aviation *ANA – Aeroportos de Portugal S.A* (€ 800 million in 2012 and € 400 million in 2013) and previous years debt payments in the Health sector (€ 1,500 million in 2012 and € 423.5 million in 2013).

These effects taken altogether have a net impact of € -2,832 million and € -67.4 million in the overall balance of 2012 and 2013, respectively.

Therefore, excluding those factors, the adjusted overall and primary balances would have improved of € 2,518.4 million and € 2,287.5 million, respectively; on the other hand, revenue and expenditure YOY variation would be of 8.5% and 3.8%, respectively (see table 3).

2. Central Government and Social Security

Table 2 - Central Government and Social Security Consolidated Account

Period: January to December — **€ Millions**

	Supplementary Budget	2012		2013		YOY Change Rate (%)		YOY Change Rate Contrib. (p.p.)	YOY change rate implicit to Budget (%)
	2013	Monthly Execution	Accumulated Execution	Monthly Execution	Accumulated Execution	Execution	Accumulated		
Current revenue	**65,777.0**	**6,869.8**	**60,497.3**	**8,015.2**	**65,929.4**	**16.7**	**9.0**	**8.2**	**8.7**
Tax	36,000.9	3,335.3	33,976.0	4,928.3	37,501.4	47.8	10.4	5.3	6.0
Direct taxes	16,524.7	1,783.6	13,655.9	2,982.5	17,421.8	67.2	27.6	5.7	21.0
Indirect taxes	19,476.2	1,551.7	20,320.1	1,945.8	20,079.7	25.4	-1.2	-0.4	-4.2
Social security contributions	18,521.2	1,699.1	16,868.1	2,064.4	18,505.3	21.5	9.7	2.5	9.8
Other current revenue	11,254.9	1,835.4	9,653.2	1,022.5	9,922.7	-44.3	2.8	0.4	16.6
(of which: transfers from other GG subsectors)	82.4	5.6	66.3	5.2	64.8	-6.5	-2.2	0.0	24.4
Capital revenue	**2,404.3**	**1,782.0**	**5,873.0**	**254.7**	**1,861.0**	**-85.7**	**-68.3**	**-6.0**	**-59.1**
Sale of investment good	169.1	3.7	15.3	9.0	101.7	145.9	566.0	0.1	1,007.4
Capital transfers	1,577.8	960.1	4,591.5	227.0	1,195.2	-76.4	-74.0	-5.1	-65.6
(of which: transfers from other GG subsectors)	60.9	1.5	9.1	0.3	14.4	-79.1	58.2	0.0	567.2
Other capital revenue	657.3	818.2	1,266.2	18.7	564.1	-97.7	-55.5	-1.1	-48.1
Effective revenue	**68,181.3**	**8,651.9**	**66,370.3**	**8,269.9**	**67,790.4**	**-4.4**	**2.1**		**2.7**
Current expenditure	**73,594.8**	**8,112.6**	**69,468.1**	**7,281.9**	**72,395.4**	**-10.2**	**4.2**	**4.0**	**5.9**
Public consumption	25,806.8	3,167.7	24,759.5	2,729.5	24,766.8	-13.8	0.0	0.0	4.2
Employees	12,808.2	1,144.1	11,754.7	1,151.9	12,970.4	0.7	10.3	1.6	9.0
Purchase of goods and servicesand other current expend	12,998.6	2,023.6	13,004.9	1,577.6	11,796.5	-22.0	-9.3	-1.6	0.0
Subsidies	2,459.2	865.8	1,996.1	636.3	2,483.0	-26.5	24.4	0.7	23.2
Interests and other charges	7,822.3	491.9	7,929.9	415.4	7,699.1	-15.6	-2.9	-0.3	-1.4
Current transfers	37,506.6	3,587.1	34,782.6	3,500.8	37,446.4	-2.4	7.7	3.6	7.8
(of which: transfers to other GG subsectors)	2,175.5	79.2	1,848.0	209.2	2,187.9	164.3	18.4	0.5	17.7
Capital expenditure	**3,858.8**	**987.8**	**4,519.4**	**534.1**	**3,258.7**	**-45.9**	**-27.9**	**-1.7**	**-14.6**
Investments	2,123.8	697.7	2,440.9	279.1	1,508.1	-60.0	-38.2	-1.3	-13.0
Capital transfers	1,620.6	289.9	2,015.4	137.0	1,611.8	-52.7	-20.0	-0.5	-19.6
(of which: transfers to other GG subsectors)	978.4	133.3	1,302.8	50.7	965.2	-62.0	-25.9	-0.5	-24.9
Other capital expenditure	114.5	0.3	63.1	117.9	138.8	46,308.1	119.8	0.1	81.3
Effective Expenditure	**77,453.6**	**9,100.4**	**73,987.6**	**7,816.0**	**75,654.0**	**-14.1**	**2.3**		**4.7**
Overall balance	**-9,272.4**	**-448.5**	**-7,617.3**	**453.9**	**-7,863.6**				
Adjustments related to EFAP									
Guarantees, loans and capital injections	-88.2	-30.2	-93.4	-32.9	-57.7				
Supplementary transfer to the National Health Service		91.8	1,500.0	101.1	423.5				
Pension funds	-48.1	0.0	-2,783.9	0.0	-48.1				
Overall Balance (criteria of the EFAP)	**-9,408.7**	**-386.8**	**-8,994.6**	**522.1**	**-7,545.9**				
Primary expenditure	69,631.4	8,608.5	66,057.6	7,400.6	67,954.9	-14.0	2.9		
Current balance	-7,817.8	-1,242.7	-8,970.9	733.3	-6,465.9				
Capital balance	-1,454.6	794.2	1,353.6	-279.4	-1,397.7				
Primary balance	-1,450.1	43.4	312.7	869.3	-164.5				
Financial assets net of reimbursements	19,214.1	2,852.1	14,140.0	-570.2	4,452.6	-120.0	-68.5		
of which revenue from:									
Disposal of Capital Shares	1,380.0	2,048.1	2,208.1	1,419.6	1,459.4	-30.7	-33.9		
Financial liabilities net of amortizations	27,053.0	-4,774.7	19,417.8	-11,490.3	15,590.0	140.7	-19.7		

Notes:

The execution rate is calculated by reference to the supplementary budget excluding freezing

The YOY change rate is calulated by comparing the initial budget with 2012 implementation

The residual items of revenue for the 2013 Budget were adjusted between other current revenue and other capital revenue.

The negative values are the result of consolidation operations

Source: Ministry of Finance and Social Security Financial Management Institute

Table 3 - Central Government Account - Comparable data, 2013 and 2012

Period: January to December — € Million

	Real implementation				2012 adjustments				2013 adjustments				Adjusted implementation			
	2012	2013	YoY Change Rate (%)	YoY Change Rate Contrib.	Credit institutions Pension Funds	Health Debts	4G Frequency Use Rights	Health Debts	Credit institutions and IFAP Pension Funds	Health Debts	4G Frequency Use Rights	Health Debts	2012	2013	YoY Change Rate (%)	YoY Change Rate Contrib.
Revenue	**66,370.3**	**67,790.4**	**2.1**	**2.1**	**-3,260.0**	**-800.0**	**-272.0**		**-70.9**	**-400.0**	**-20.0**	**0.0**	**62,038.3**	**67,299.5**	**8.5**	**8.5**
Tax revenue	33,976.0	37,501.4	10.4	5.3									33,976.0	37,501.4	10.4	5.7
Direct taxes	13,655.9	17,421.8	27.6	5.7									13,655.9	17,421.8	27.6	6.1
Indirect taxes	20,320.1	20,079.7	-1.2	-0.4									20,320.1	20,079.7	-1.2	-0.4
Social security contributions	16,868.1	18,505.3	9.7	2.5									16,868.1	18,505.3	9.7	2.6
Non tax revenue	15,526.2	11,783.7	-24.1	-5.6	-3,260.0	-800.0	-272.0		-70.9	-400.0	-20.0	0.0	11,194.2	11,292.8	0.9	0.2
Expenditure	**73,987.6**	**75,654.0**	**2.3**	**2.3**				**-1,500.0**				**-423.5**	**72,487.6**	**75,230.5**	**3.8**	**3.8**
Current expenditure	69,468.1	72,395.4	4.2	4.0				-1,500.0				-423.5	67,968.1	71,971.8	5.9	5.5
Current primary expenditure *of which:*	61,538.2	64,696.2	5.1	4.3				-1,500.0				-423.5	60,038.2	64,272.7	7.1	5.8
Employees	11,754.7	12,970.4	10.3	1.6									11,754.7	12,970.4	10.3	1.7
Purchase of goods and services and other current expenditures	13,004.9	11,796.5	-9.3	-1.6				-1,500.0				-423.5	11,504.9	11,372.9	-1.1	-0.2
Current transfers	34,782.6	37,446.4	7.7	3.6									34,782.6	37,446.4	7.7	3.7
Subsidies	1,996.1	2,483.0	24.4	0.7									1,996.1	2,483.0	24.4	0.7
Interests and other charges	7,929.9	7,699.1	-2.9	-0.3									7,929.9	7,699.1	-2.9	-0.3
Capital expenditure	4,519.4	3,258.7	-27.9	-1.7									4,519.4	3,258.7	-27.9	-1.7
Overall balance	**-7,617.3**	**-7,863.6**			**-3,260.0**	**-800.0**	**-272.0**	**1,500.0**	**-70.9**	**-400.0**	**-20.0**	**423.5**	**-10,449.3**	**-7,931.0**		
Primary expenditure	66,057.6	67,954.9	2.9	2.6	0.0	0.0	0.0	-1,500.0	0.0	0.0	0.0	-423.5	64,557.6	67,531.4	4.6	4.1
Primary balance	**312.7**	**-164.5**			**-3,260.0**	**-800.0**	**-272.0**	**1,500.0**	**-70.9**	**-400.0**	**-20.0**	**423.5**	**-2,519.4**	**-231.8**		

Source: Ministry of Finance

EXPENDITURE

- The **Central Government and Social Security** expenditure[3] increased by 3.8%, while the primary expenditure increased by 4.6% (6.4% and 7.5% respectively until November). The fall, compared to November, of primary expenditure change rate is a result of a slowdown of the expenditure of purchase of goods and services and investment, as well as the mitigation of the effect of the payment of holydays allowance to public employees and the 14.th month pay to pensioners of *Caixa Geral de Aposentações, I.P.* (CGA), in accordance with Law 39/2013[4], dated June 21.

- **Compensation of employees** increased 10.3% in 2013, which is mainly justified by the payment in 2013 of the holiday and Christmas allowances (which, under the State Budget Act for 2012, had been suspended that year) and by the increase of contributions rate to CGA and Social Security. The mitigation of the effect associated to the reimbursement of holiday allowances justified the slowdown of this expenditure item (11.4% until November).

- **Purchase of goods and services and other current expenditures**[3] decreased 1.1%, an inflexion when compared to the previous month (+3.4% until November), this evolution is determined by the specific pattern of the payments in 2013; in fact, in previous months, occurred advanced payments to the health entities integrating the State Owned Enterprises sector, under the program contracts established with these entities.

[3] The current analysis is based on adjusted expenditure, that is, excluding the effect identified on table 3.

[4] Regulates the reinstatement, in 2013, of the holiday allowance for public employees and pensioners, after the declaration of unconstitutionality, by the Constitutional Court, of the State Budget Act for 2013 norm that determined the suspension of payment of holiday allowance.

- The decrease in expenditure with **interest and other charges** was 2.9%, more pronounced than in November (-2.1%), mostly justified by the financial charges incurred by State Owned Enterprises (-17.6%, which compares to -11.6% until November). The reduction is explained by the effect of the early settlements of interest rate derivative contracts in 2013 and by the lower volume of payments by the companies responsible for managing the portfolio of credits acquired under the process of privatization of BPN.

  The expense associated with interest charges of the direct State debt kept the behavior observed in the previous month (-0.1% compared with -0.5% until November). The reduction in interest expense of Treasury Bonds offset the increase in the amount of expenses associated with borrowings under the Economic and Financial Adjustment Program (EFAP).

- The decrease of change rate of **current transfers** (7.7% compared with 8.8% until November) is mainly attributable to the dilution of the effect associated with the payment occurred in November of 14th month pension allowance to the beneficiaries of the pension system managed by the CGA.

  For the whole year, the growth in current transfers resulted from the impact associated with the payment of the 13th and 14th month pension allowances (which, in 2012, was suspended by force of the State Budget Act) to the beneficiaries of the social security system and of the pension system managed by the CGA (6% and 15.4% growth rate, respectively), and also, in which concerns the pension system managed by the CGA, the increasing number of retirees (the total number of pensioners increased by 1.8% from 2012 to 2013).

  Noteworthy the pressure on expenditure determined by the evolution of expenditure with unemployment subsidy and employment supports, despite the wind down of the growth rate (5.1% to whole year which compares to 6.5% until November).

  Finally, the growth rate of current transfers is also determined by the different allocation, when compared to 2012, between current and capital transfers to Local Government according to Local Finances Law, without any expenditure increase.

- **Subsidies** increased 24.4%, a variation significantly less pronounced than in November (63.4%), evolution justified by the reclassification from the item *transfers* to the item *subsides* of part of the Social Security expenditure with job training actions financed by the European Social Fund.

  Also, although working as offset of the main variation, the allocation in December 2013 of financial compensations to various entities, due to the amount related to the financial and economic balance collect by the State subsector, in exchange for the concession of the use of the hydric resources in 2007 which still had not been paid.

- **Investment** expenditure decreased 38.2%, mostly reflecting the reduction of investments in the public school network by *Parque Escolar, E.P.E.*[5], resulting either of the postponement or the suspension of projects – and the REFER[6].

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[5] *Parque Escolar* is a governmental corporation which aim is that of planning, management, development and execution of the modernisation programme for the public network of secondary and other schools under the responsibility of the Ministry of Education.

[6] A governmental corporation responsible for the management of the railway network.

This variation is more pronounced when compared to November (-29.5%), and it is explained by the payment, in 2012, of a financial contribution to the Lisbon Municipality, under the Memorandum of Understanding between the State and this local authority, as a counterpart for the recognition of the State- ownership of Lisbon Airport lands.

- The reduction in 20% of **capital transfers** is mostly explained by the capital transfers to the Local Government under the Local Finance Law, as written above, this result being related to the increase of current transfers due to a different allocation when compared to 2012.

  The decrease is more pronounced than that observed in the previous month (-14.5%), it explained by the settlement of financial liabilities of the State in respect to concessionary companies in the end of 2012.

- The expressive increased on **Other Capital Expenditure** (119,8%) is justified by the payment, in December 2013, of the financial counterpart agreed between the Central Government and the Regional Government of Madeira for the integration of airports in Madeira in the national airport network.

REVENUE

- **Central Government and Social Security Revenue** increased[7] 8.5% in 2013 (8.2% until November). The improvement is justified by the positive evolution of the tax revenue and the contributions to the social security systems, partly offset by the non-tax revenue, which evolution registered a slowdown.

- **Tax revenue**[8] increased 10.4% (6.3% until November), evolution which is justified by the pattern of improvement on direct and the trend of the sustainable recovery of the revenue from the indirect taxes.

- **Direct taxes** revenue reinforced the trend of growth observed until November (21.6%) and registered a variation of 27.6% until the end of 2013. This result was partly due to revenue collected under the *Extraordinary Scheme for the Settlement of Tax and Social Security Debts (RERD)*, which provisional collection reached € 1,045 million[9], €545 million upper the target established under the second amendment to the State Budget 2013.

  In fact, Personal Income Tax (IRS) revenue increased 35.5% (30.9% until November), mostly explained by the higher amounts of tax withholding over capital and real estate income, alongside with the positive impact that resulted from enhanced control over withholding delivered by employers. This result compares positively with target established under the second amendment to the State Budget 2013 (32.2%).

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[7] The current analysis is based on adjusted revenue, that is, excluding the effects identified on table 3.

[8] This includes the revenue collected under the Exceptional Regularization Regime of Tax and Social Security Debts (Decree-Law nr.151-A/2013, dated the 21 October) which started in November.

[9] The global amount of additional revenues collected under that mechanism was € 1,277 million, taking into account the Social Security additional contributions revenue.

On its turn, revenue from Corporation Income Tax (IRC) increased 18.8% (9.2% until November) contributed to these developments, among other factors, the significant increase taxes on large companies both through reserve charge in May 2013 and by an increase of the advance payments on account throughout 2013. The corresponding implicit target established on second amendment to the State Budget 2013 was 4.7%.

- The improvement change rate of revenue from **indirect taxes** in 2.2 p.p. resulted from a recovering of collection of all indirect taxes, with highlight to the Value Added Tax (VAT).

  The VAT revenue evolution is a result of the economy recovery and the enhanced control and action against tax evasion and the underground economy, as consequence of the significant results obtained either with the invoice reform and with the reform of the transport documents.

  Taking into account the weight on the whole indirect tax revenues, it's important to refer the improvement of Stamp Tax revenue (which its evolution shows an inflexion increasing 0.6% while until November was decreasing 0.4%), and the Tax on Oil and Energy Products (ISP) performance (-0.7% while until November it was -1.9%).

- The revenue of **contributions to Social Security systems** presents an increase of 9.7% (8.4% until November), evolution mostly determined by the contributions to Social Security favorable behaviour (2.5% while until November it was 1.7%) and the contributions to CGA (41.4% while until November it was 37.4%) and yet, with slighter importance, the stabilization of contributions to public health subsystems (14.3% while until November it was 13.3%).

  Noteworthy that the Social Security contributions have recorded a positive annual change since May, result which is more pronounced by the revenue collected under the settlement of debts to the Social Security.

- **Non-tax revenue** increased 0.9% (13.1% until November), the slowdown being justified by the marked reduction of revenue from European Funds of *REFER – Rede Ferroviária Nacional, E.P.E.* as result of the anticipation, in the end of 2012, of the entry of funds related to submitted applications to European co-financing. Likewise, the above effect also was observer in the European Funds Revenue of *Parque Escolar, E.P.E.*.

  This effect is partly offset, for the whole year, by the increase of Bank of Portugal dividend, the contingent capital bonds (coco bonds) interest and the Social Security revenue from the European Social Fund.