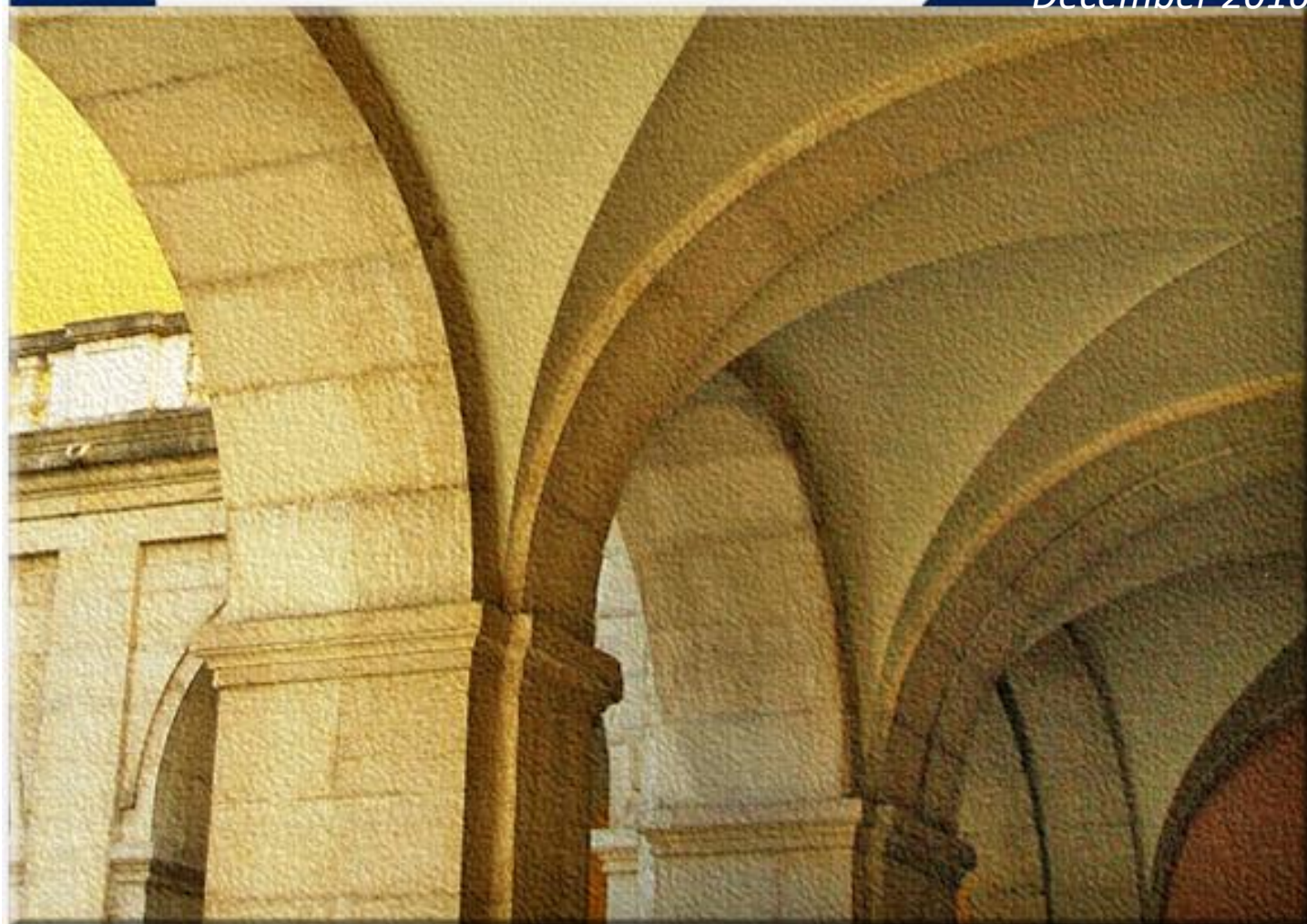


Budget Outturn Summary Report

December 2016



DGOOrçamento
PORTUGAL
MINISTRY OF FINANCE
BUDGET GENERAL DIRECTORATE



Budget Outturn Summary Report
Monthly edition
Portuguese version published on the 26th
January 2017

Budget General Directorate

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OVERALL BALANCE

- According to the 2016 provisory implementation data available, the **General Government deficit** on a cash basis approach (that is, revenues minus payments) amounted to 4,255.7 million euros, 496.8 million euros lower than in the previous year.

General Government's revenue increased in a higher proportion (2.7%) compared to the expenditure's rate of growth (1.9%). Note that the primary balance was positive (4,028.9 million euros), 747.3 million euros higher than in the previous year.

Revenue rise was due to the positive evolution of its components, with the exception of direct taxes. Expenditure growth resulted from an increase in employees' compensation, social benefits (with the exception of unemployment benefits) and direct State debt interest and other charges, partially offset by a decrease in current and capital goods acquisition.

In terms of General Government subsectors, the balance evolution was due to the increase in Social Security surplus (in 522.5 million euros) and in Local and Regional Government's balance (in 87.8 million euros).

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

Period: January to December							€ Millions	
	Overall balance		Revenue		Expenditure		YOY Change Rate (%)	
	Dec-2015	Dec-2016	Dec-2015	Dec-2016	Dec-2015	Dec-2016	Revenue	Expenditure
Central Government and Social Security	-5 299,7	-4 890,7	69 561,9	71 549,2	74 861,6	76 439,9	2,9	2,1
Central Government (CG)	-6 336,6	-6 450,1	55 281,9	56 258,9	61 618,5	62 709,0	1,8	1,8
State subsector	-5 606,4	-6 156,8	42 887,1	44 205,7	48 493,5	50 362,6	3,1	3,9
Autonomous Services and Funds	-730,2	-293,2	28 206,0	29 016,9	28 936,2	29 310,2	2,9	1,3
<i>of which: CG State Owned Enterprises</i>	-1 190,2	-1 052,1	8 968,9	9 123,4	10 159,1	10 175,5	1,7	0,2
Social Security	1 036,9	1 559,3	24 602,0	25 705,1	23 565,1	24 145,7	4,5	2,5
Regional Government	-194,1	-27,2	2 451,7	2 567,6	2 645,7	2 594,8	4,7	-1,9
Local Government	741,3	662,2	7 245,5	7 316,8	6 504,2	6 654,6	1,0	2,3
General Government	-4 752,5	-4 255,7	76 136,6	78 194,0	80 889,1	82 449,7	2,7	1,9

Note: Cash basis amounts not consolidated of flows among different subsectors; differences against the values published in 2015 are due to data updates.
Source: Budget General Directorate

- 2016 **Central Government and Social Security** provisory¹ balance amounted to -4,890.7 million euros (-5,299.7 million in 2015), while the primary balance was 3,142.6 million euros (+2,471.8 million in 2015). Revenue's rate of growth (2.9%) was superior to expenditure's in 0.8 p.p.. On its turn, the primary expenditure grew 2%.

¹ The definitive data regarding the budgetary execution of 2016 on a cash basis approach under the clearance of the State final accounts, to be released until the end of June of 2017.



1. Summary

- **Regional and Local Government** recorded a balance of 635 million euros (662.2 million euros for the Local Government and -27.2 million euros for the Regional Government). This result compared favorably to 547.2 million euros in 2015.

2. Central Government and Social Security

OVERALL BALANCE

- **Central Government and Social Security** overall and primary balances implicit to the 2016 provisory implementation reached -4,890.7 and +3,142.6 million euros, respectively, results having implicit an improvement of the overall and primary balance (in 409 and 670.8 million euros, respectively) over the last year. Revenue increased 2.9%, while expenditure grew 2.1%.

Table 2 - Central Government and Social Security Consolidated Account

Period: January to December							Million euros
Revenue/expenditure/balance	2015	2016	YOY cumulative change				YOY Change Rate Contrib. (p.p.)
			Absolute		Relative (%)		
	Cumulative implementation	November	December	November	December		
Current revenue	68 214,7	70 314,5	1 004,4	2 099,8	1,6	3,1	3,0
Tax	40 307,6	41 283,5	164,0	975,9	0,4	2,4	1,4
Direct taxes	18 265,0	17 768,6	-939,6	-496,4	-5,9	-2,7	-0,7
Indirect taxes	22 042,6	23 514,9	1 103,6	1 472,3	5,3	6,7	2,1
Social security contributions	18 644,0	19 471,7	629,1	827,7	3,7	4,4	1,2
Current transfers	1 443,8	1 950,1	419,4	506,3	34,9	35,1	0,7
Other current revenue	7 408,4	7 454,6	-59,9	46,2	-0,9	0,6	0,1
Consolidation differences	410,9	154,6					
Capital revenue	1 347,2	1 234,6	187,4	-112,6	21,6	-8,4	-0,2
Sale of investment good	210,6	230,0	17,3	19,4	9,4	9,2	0,0
Capital transfers	1 031,1	920,7	174,8	-110,4	27,4	-10,7	-0,2
Other capital revenue	86,3	83,6	7,6	-2,7	22,7	-3,1	0,0
Consolidation differences	19,1	0,3					
Effective revenue	69 561,9	71 549,2	1 191,8	1 987,2	1,9	2,9	
<i>Memo Item:</i>							
<i>Tax and contributions revenue</i>	58 951,6	60 755,2	793,1	1 803,6	1,5	3,1	2,6
<i>Non tax revenue</i>	10 610,3	10 793,9	398,6	183,6	4,4	1,7	0,3
Current expenditure	70 803,1	72 792,7	1 515,0	1 989,6	2,4	2,8	2,7
Employees	15 466,1	16 076,7	559,5	610,6	4,0	3,9	0,8
Purchase of goods and services	8 598,0	8 548,2	-180,3	-49,8	-2,5	-0,6	-0,1
Interests and other charges	7 771,5	8 033,3	320,6	261,8	4,3	3,4	0,3
Current transfers	36 985,0	38 019,0	886,9	1 034,0	2,6	2,8	1,4
Subsidies	1 241,9	1 275,7	-12,9	33,8	-1,3	2,7	0,0
Other current expenditure	656,4	785,8	-33,0	129,5	-6,1	19,7	0,2
Consolidation differences	84,3	54,0					
Capital expenditure	4 058,5	3 647,2	-536,9	-411,4	-15,6	-10,1	-0,5
Investments	2 790,2	2 533,3	-282,9	-257,0	-12,6	-9,2	-0,3
Capital transfers	1 187,3	1 014,2	-216,4	-173,1	-19,4	-14,6	-0,2
Other capital expenditure	81,0	86,7	-50,0	5,7	-73,5	7,1	0,0
Consolidation differences	0,0	13,0					
Effective Expenditure	74 861,6	76 439,9	978,2	1 578,3	1,4	2,1	
<i>Memo Item:</i>							
<i>Current and capital transfers</i>	38 172,3	39 033,2	670,5	860,9	1,9	2,3	1,2
<i>Other current and capital expenditure</i>	737,3	872,5	-82,9	135,2	-13,7	18,3	0,2
Overall balance	-5 299,7	-4 890,7	213,6	409,0			
Primary expenditure	67 090,1	68 406,6	657,5	1 316,4	1,1	2,0	1,8
Current balance	-2 588,4	-2 478,2	-510,6	110,2			
Capital balance	-2 711,3	-2 412,5	724,2	298,8			
Primary balance	2 471,8	3 142,6	534,2	670,8			

Source: Budget General Directorate and Social Security Financial Management Institute

2. Central Government and Social Security

EXPENDITURE

- **Central Government and Social Security** expenditure increased 2.1% while the primary expenditure grew 2%, explained by the evolution of transfers - in particular those relating to the payment of pensions and social benefits (with the exception of unemployment benefits), to the delivery of contributions to the Single Resolution Fund and financial aids co-financed by the European Agricultural Fund for Rural Development - employees' compensation (especially as a result of the reversal of the remuneration reduction measure applied to the public sector) and other expenditure (particularly relating to the school social action). Note that the interest and other debt charges expenditure increased by 3.4%.

Both expenditure and primary expenditure's year-on-year change rate were higher in comparison with the previous period (increase of 1.4% and 1.1% until November, respectively), which, in the case of the latter, was mainly the consequence of dispersed factors, highlighting the reversal of the other expenditure's behavior (+18.3% compared with a decrease of 13.7% until November) and the acceleration of transfers (+2.3%, compared with 1.9% until November).

- The **employees' compensation** increased 3.9% (a rhythm of evolution similar to that observed until November, +4%) primarily as a result of the budgetary impact of the additional reversal of the remuneration reduction in Public Administration².

This expenditure component's evolution was influenced by the different pattern of payments of the public employers' contributions to the social security system, taking into consideration the legal deadlines for the entities to proceed to the delivery of these amounts. Excluding this effect, employees' compensation would have increased 3.6%. As above mentioned, it's important to stress out the effect associated with the reversal of the remuneration reduction applied to the public sector (of 20 additional³ percentage points in each quarter), in compliance with the phased disposal scheme of that measure during the course of 2016.

It is also relevant to stress some particular sectoral effects, mainly the following: the increase of the number of staff in the National Health Service; the impact associated with the Arbitration Court's decision on previous years' promotion procedures by the Institute for Employment and Job Training; and the effect of compensation payments in 2016 for the expiration of the contracted teaching staff.

- The **purchase of goods and services** expenditure change rate (-0.6%) was determined by several dispersed factors, with incidence on Defense, Environment and Internal Affairs.

This expenditure component showed a slightly less sharped contraction (-2.5% until November), mainly due to the acceleration of the National Health Service's expenditure with clinical consumption material, mostly associated to the settlement of arrears.

² The Law No. 75/2014, of the 12th September established new remuneration reductions: "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% in 2015.

In 2016, the remaining remuneration reduction was reversed during that year, at the rate of an additional 20% per quarter, in accordance with article 2 of Law 159-A / 2015, of December 30.

³ "Additional" with reference to the reversal of 20% already having occurred in 2015.

- **Interest and other charges expenditure** increased 3.4%, mainly explained by the evolution of direct State debt interest charges (+4.3%). This result reflected mainly the evolution of the Treasury Bonds' outstanding since 2015, as well as the increase, particularly in January 2015, in the public debt stock represented by instruments for household savings (Treasury and Saving Certificates), with impact on the interests paid in 2016.

The slowdown in interest and other charges compared to the previous period (+4.3% until November) was due to the sharper contraction of interest expenses related to borrowings contracted under the Portuguese Economic and Financial Adjustment Program, mainly related to the repayment by the European Financial Stabilization Fund in December 2016 of the prepaid margin that was retained at the disbursement of the loan.

- **Transfers** change rate was +2.3%, to which contributed mainly: i) The increase in social security pensions (+2.5%) and in social benefits (excluding pensions and unemployment benefits) (+3.7%), highlighting the benefits attributed under the Social Integration Income and by parenthood; ii) The increase in budgetary expenditure on financial aids co-financed by the European Agricultural Fund for Rural Development⁴; and iii) The delivery, for the first time in 2016, of the contributions of credit institutions and investment firms charged at national level to the Single Resolution Fund, set up under the Single Resolution Mechanism⁵.

The growth of transfers at a faster pace (+1.9% until November) was justified by the concentration of financial aid expenditure paid by the Agriculture and Fisheries Financing Institute⁶ in the final months of 2016

- The increase in **subsidy** expenditure (+2.7%), as well as the inversion of its behavior compared to the result observed until November (-1.3%), was attributable to the evolution of vocational training subsidies co-financed by the European Social Fund (+26.5%, compared with +18.9% up to November).
- The **investment** expenditure fell by 9.2%, especially as a result, on the one hand, of the lower volume of investments in the *Alqueva*⁷ Multi-purpose Undertaking, an effect that was partly associated with the transition between European Union multiannual financial frameworks; and, on the other hand, of the 2015 base effect associated with capital expenditure within the *Marão*⁸'s tunnel construction.

The lower level of investment contraction (-12.6% until November) was due to the acceleration in expenditure associated with concessions and sub-concessions of road infrastructure under public-private partnership contracts (+30%, which compared with +21.8% until November), given the specific timing of payments due to the concessionaires.

⁴ In 2015, there was no national public contribution associated with the EU financing - since the new multiannual financial framework of the European Union determined that the implementation of measures of up to € 500 million would be financed only through EU budget funds - and was therefore included in extra-budgetary expenditure in that year.

⁵ The Single Resolution Mechanism is an existing system in the European Union which aim is to ensure the resolution of non-viable financial institutions. It was established by the Regulation (EU) No 806/2014 of the European Parliament and of the Council, of 15 July 2014.

⁶ The IFAP, IP (Agriculture and Fisheries Financing Institute) is a governmental agency which mission is that of proceeding to the validation and payment of various measures defined at national and communitarian level regarding agriculture, rural development, fisheries and related sectors, and proposing policies and strategies.

⁷ *Alqueva Dam*, the largest strategic water reserve in Europe.

⁸ *Marão*, which is located in the north of Portugal, is the sixth highest mountain in Continental Portugal

2. Central Government and Social Security

- **Other expenditure** increased by 18.3%, influenced by the behavior of social action of non-higher education institutions in 2016. This result was an inflection in comparison to the previous period (-13,7% until November), as a consequence of the different intra-annual profile of the payments of those institutions to *Parque Escolar, EPE*⁹.

REVENUE

- **Central Government and Social Security revenue** increased 2.9% in 2016, with emphasis on the contribution of the tax revenue (1.4 p.p.), contributory revenue (1.2 p.p.) and non-tax and non-contributory revenue (0.3 p.p.).

The higher level of revenue growth (+1.9% up to November) was attributable, to a greater extent, to the recovery of tax revenue (+2.4%, compared to +0.4% up to November) – mainly from the Corporation Income Tax, Tax on Oil and Energy Products and Value-Added Tax - and from contributory revenue (+4.4%, which compares with +3.7% until November).

- **Tax revenue** evolution (+2.4%) was the result of the increase in indirect tax revenues (+6.7%), despite the direct taxes revenue' contraction (-2.7%), which has been reducing since August. This result was favorably influenced by the revenue collected under the Special Program for the Reduction of Debt to the State, which amounted to 512.7 million euros (of which 473.7 million euros in December 2016).

Direct taxes' reduction was justified by the decrease in the Personal Income Tax revenue (-3.8%), attributable to the reduction of the surcharge and to the increase in refunds.

The level of contraction of direct tax revenue was lower than that observed until November (-5.9%), reflecting the evolution in the same direction of the Corporation Income Tax revenue (-0.3%, which compares with -9.6% until November).

Indirect taxes revenue growth (+6.7%) was due to the behavior of the Tax On Oil and Energy Products (+22.5%) - justified in part by the rate increase -, the Tobacco tax (+24.9%) - explained by the rise in tax rates and by the time lag regarding the entry into force of 2016 State Budget -, the Stamp Tax (+4.2%) and the Tax on vehicles (+17.2%) - influenced by the sale of motor vehicles' growth since 2015.

Revenue from indirect taxes growth rate was higher than that of November (+5.3%), an effect attributable to the evolution of Tax On Oil and Energy Products revenue (+ 17.5% until November) and Value Added Tax Added (+1.5%, compared to +0.7% until November).

- The **Social Security systems contributions'** increase (+4.4%), as well as the favourable performance compared to the previous period (+3.7% until November), was the result of the rise in the social security system contributions (+5.2%, 0.7 pp higher than the value recorded until November), as a result of the improvement of the employment's evolution.

⁹ *Parque Escolar* is a public corporation under the responsibility of the Ministry of Education which object is that of planning, managing, developing and executing the modernisation programme for the public network of non-high education establishments.

2. Central Government and Social Security



- The **non-tax and non-contributory revenue** increase (+1.7%), as well as the evolution compared to that observed until November (+4.4%), was mainly due to the behavior of revenue from the European Union (which grew 21.6% until December and 31.3% until November), mainly under the European Social Fund and from the European Agricultural Fund for Rural Development.