

Portugal: Public accounts until July 2017

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Budget deficit improved until July, in cash-basis accounts

Budget deficit improved EUR 1,153 million in the first seven months of 2017, according to data in cash-basis published by DGO. Both revenue and expenditure have increased, although at slower pace than expected by the Government, as forecasted in the State Budget for 2017, especially in the case of expenditure. Revenue has been affected by a weak performance of direct taxation, driven by an earlier execution of refunds on income tax and VAT, in comparison with 2016. However, data up to July revealed a lesser effect from this anticipation, with fiscal revenues increasing above the rate expected by the Government. On the expenditure side, spending on current transfers and on subsidies decreased until July; on the other hand, the remaining categories of expenditure saw increases in comparison with the same period of last year. Our assessment for the evolution of public accounts did not change. Probably, the budget deficit at the end of the year should not deviate much from the Executive's objective, despite the existence of various factors that will put more pressure in budget execution on the second half of the year, namely in income tax revenue or related to the CGD recapitalization.

Budget execution until July revealed an improvement in the fiscal balance. In fact, fiscal budget improved to EUR -3.8 billion in the first 7 months of 2017, from EUR -4.9 billion recorded in the same period of the previous year. Central Government registered an improvement to EUR -5.0 billion, from EUR -6.3 billion in 2016, as well as Social Security, by EUR +145 million to EUR +1.0 billion. On the other hand, Local and Regional Administration posted a smaller surplus than in the previous year, EUR 231 million up to July 2017, compared to EUR 469 million in the same period of 2016. **The primary budget balance remained positive, at EUR 1.7 billion up to July (EUR 349 million in the first 7 months of 2016).**

Budget Execution (January - July 2017) (Cash-basis)

	Budget Execution		YOY %		Contributions
(million EUR)	July 2016	July 2017	Δ July 17/16	SB 17	
Current Revenue	41,842	43,118	3.0%	3.1%	3.0%
Tax	24,352	25,195	3.5%	2.1%	2.0%
Direct Taxes	10,512	10,888	3.6%	2.0%	0.9%
Indirect Taxes	13,840	14,307	3.4%	2.1%	1.1%
Social Security Contributions	11,230	11,286	0.5%	-0.6%	0.1%
Other Current Revenue	6,231	6,587	5.7%	-	0.8%
Capital Revenue	988	1,103	11.7%	39.5%	0.3%
Effective Revenue	42,830	44,221	3.2%	3.9%	3.2%
Current Expenditure	45,249	45,271	0.0%	3.0%	0.0%
Compensation of Employees	11,771	11,792	0.2%	0.9%	0.0%
Acquisition of Goods & Services	6,016	6,235	3.6%	2.0%	0.5%
Interests & other charges	5,265	5,489	4.2%	0.7%	0.5%
Current Transfers	21,081	20,676	-1.9%	1.6%	-0.8%
Subsidies	488	452	-7.5%	41.4%	-0.1%
Other Current Expenditures	425	619	45.7%	89.4%	0.4%
Capital Expenditure	2,497	2,713	8.6%	27.3%	0.5%
Effective Expenditure	47,746	47,984	0.5%	4.4%	0.5%
Overall Balance	-4,916	-3,763	-23.5%	-	-
Primary Balance	349	1,726	394.5%	-	-

Source: DGO, BPI calc.

Total revenues rose 3.2% up to July, better than the performance seen in previous months (between January and June, revenues have increased 1.0% yoy) and come closer to the predictions inscribed in the State Budget for 2017 (3.9%). Fiscal revenues increased 3.5%, boosted by direct and indirect taxes. Direct taxes increased 3.6% yoy up to July, benefiting from the lower decrease in the case of income tax revenues (reflecting the lesser effect from the anticipation of tax refunds seen in the previous months) and the performance of corporate tax revenues, which are still showing large increases (+18.8% yoy), hinting at an improvement of corporate profitability. Indirect taxes rose 3.4% yoy, above the rate previous anticipated by the Government (2.1% yoy), reflecting the improvement in all of indirect taxes, excepting tobacco tax revenues. However, it is

important to highlight the performance seen in VAT revenues (+4.9% yoy, though adversely affected by the tax refunds, which increased 13.5% y/y up to July) and in vehicle tax revenues, a reflection of increasing sales of automobiles (+8.3% until July, in accumulated terms, according to the ACAP's statistics). Contributions to the social protection systems increased 0.5% yoy up to July, explained by different factors, which affected this item in diverse ways: (i) factors affecting adversely: contributions to the ADSE in 2017 is accounted in other segment (sales of current goods and services); changing in payment of Christmas allowance (50% of payment is due in duodecimals, while the other 50% will be paid in November; in 2016, all the payment was due in duodecimals); and the reduction of Contribuição Extraordinária de Solidariedade (CES); (ii) factors affecting positively: improvement in macroeconomic environment, especially in the labour market (employment is increasing), as well as other factors pointed by the DGO, as upper efficiency in combating fraud and the increase in minimum monthly wage. The execution rate of revenues stood at 55% until July (54% in the same period of 2016).

Expenditure increased only slightly in the first 7 months of 2017, by +0.5% yoy, substantially below the Government's estimates (+4.4% yoy). With the exceptions of current transfers (-1.9% yoy), where unemployment subsidies are included, and subsidies (-7.5% yoy), all other items are increasing. The decrease in current transfers is mostly due to a reduction in pension expenditure, because of a different scheduling of the "13th month" (a Christmas bonus similar to one month's pension) – this year it's paid 50% over each month, and 50% in November, while in 2016 the amount was divided equally among the 12 months of the year. Moreover, the positive evolution of the labour market had a very meaningful impact, allowing for a decrease in unemployment subsidies expenditure (-13.4% yoy). Wages in the public sector increased 0.2% yoy until July, driven by different factors with varying impact on this performance. On the one hand, there were contributions for the rise of expenditure: a gradual reversion of the wage cuts in 2016, meaning that these were paid in full from the beginning of 2017; an increase in the meal allowance; and other sectorial measures (increase of overtime pay and other variable allowances in the health sector, for example). Other factors have pulled expenditure downwards, such as the same issue referred above regarding the "13th month" payment. Purchases of goods and services surged 3.6% yoy up to July, well above what was expected by the Government (2.0%), especially due to purchases related with the National Health Service and other health-related spending (out of EUR 218.6 million of increase in expenditure of this category, EUR 129.5 were in the health department). At the same time, interest and debt charges increased 4.2% yoy, above the 0.7% predicted in the State Budget, explained by the charges supported by the Reclassified Public Entities (+91.9% yoy up to July), partially offset by the decrease of interests related to the direct public debt (-0.9% yoy). The execution rate of current expenditure was 57% in the first 7 months of the year. Capital expenditure increased 8.6% yoy until July, significantly lower than 27.3% surge planned for the year (until July, only 42% of capital expenditure intended was effected).

Fiscal Revenue - State (January - July)

(million EUR)	Accumulated Execution		YOY %			
			Absolute		%	
	2016	2017	June	July	June	July
Direct Taxes	8,871.0	9,201.5	-620.2	330.6	-8.3	3.7
Income Tax	5,810.7	5,604.7	-1,082.9	-206.0	-20.4	-3.5
Corporate Tax	2,859.1	3,397.5	452.3	538.4	22.5	18.8
Other	201.2	199.3	10.5	-1.9	5.6	-0.9
Indirect Taxes	12,523.1	13,142.8	399.9	619.7	3.7	4.9
Oil and energy products	1,845.8	1,914.3	55.6	68.5	3.5	3.7
VAT	8,363.4	8,770.4	247.3	407.0	3.4	4.9
Vehicles	396.1	463.4	57.3	67.3	17.3	17.0
Tobacco	769.2	666.2	-109.1	-103.0	-16.8	-13.4
Alcoholic beverages	103.3	148.2	33.0	45.0	39.2	43.5
Stamp duty	822.6	860.0	34.9	37.4	5.0	4.5
Circulation Tax	183.5	201.2	15.3	17.7	9.9	9.7
Other	39.3	119.1	65.6	79.8	198.1	202.8
Fiscal Revenues	21,394.1	22,344.3	-220.2	950.2	-1.2	4.4

Source: DGO

Social Security: Expenditure

(million EUR)	Jul 16	Jul 17	YOY %	% of total expenditure
Pension	9,537	9,387	-1.6%	66%
Survival	1,354	1,338	-1.2%	9%
Incapacity	788	746	-5.3%	5%
Old age	7,394	7,302	-1.2%	51%
Beneficiaries of former combatants	0	0	24.2%	0%
Allowance for children and young people	372	384	3.2%	3%
Sickness allowance	271	311	14.6%	2%
Unemployment	918	796	-13.4%	6%
Solidarity Supplement for the Elderly	119	121	2.1%	1%
Other	446	488	9.3%	3%
Social action	944	988	4.6%	7%
Social Integration Income	192	199	3.5%	1%
Other Expenditure	1,551	1,531	-1.3%	11%
Total Expenditure	14,351	14,205	-1.0%	100%

Source: DGO; BPI calc..

Concluding, the budget execution remains well under control, making possible a budget deficit in line with Government's expectations. Thus,

our perspective remains unchanged: the budget deficit in accrual-basis should not rise above the 2% of GDP seen in 2016, and the Government is likely to reach its target of 1.6% of GDP inscribed in the State Budget for 2017 (or 1.5% expected in the Stability Program for 2017-2021). According to

our calculations, there are some deviations in expenditure and revenue: in the first case, it is possible that expenditure could be lower than planned at the end of the year, while in revenues, it is possible to see an opposite situation (however, it will be important to analyze the possible negative impact due to "surcharge" reduction taking effect in the second half of the year). Government should keep some margin to adjust expenditure, namely in investment and purchases of goods and services, in order to prevent any significant deviation from the target at the end of the year. Finally, we highlight also overdue payments (unpaid debt for more than 90 days), which reached a higher level in July than at the end of the previous year. However, it is important to take notice that this item has a very seasonal pattern, usually declining by year end. Indeed, this July overdue payments still compare favorably both with July 2016 or July 2015.

Overdue payments (unpaid debts for more than 90 days)

(stock at the end of period, million EUR)

	Dec 13	Dec 14	Dec 15	Jul 16	Dec 16	Jul 17
Public Administration	1,199	1,539	920	1,138	851	1,099
Central Govern., excl. health	30	22	13	23	17	21
Health subsector	10	7	4	15	6	4
Hospital EPE	1	553	451	675	544	852
Reclassified Public Companies	671	3	15	14	13	13
Local Government	523	437	242	223	150	111
Regional Government	714	516	194	187	120	99
Other entities	103	1	1	3	3	1
Non-reclassified public companies	611	1	1	3	3	1
Total	1,913	1,539	921	1,141	854	1,100

Source: DGO.

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