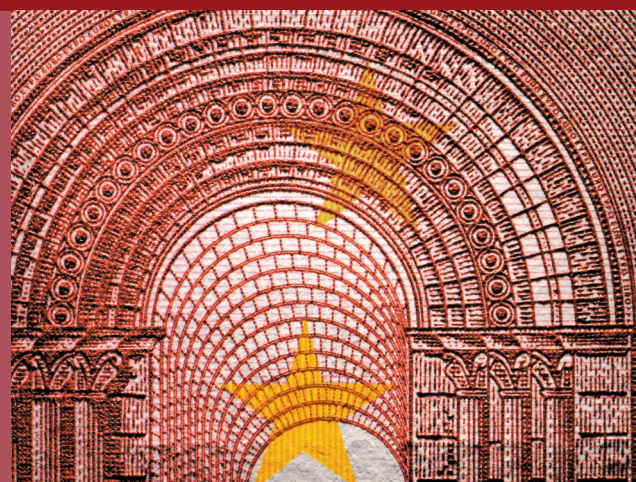


# SUPPLEMENT TO THE STATISTICAL BULLETIN

2|2012



General Government Statistics

*October 2012*



*Banco de Portugal*

EUROSISTEMA



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STATISTICAL BULLETIN  
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# GENERAL GOVERNMENT STATISTICS



INTRODUCTION

1

METHODOLOGICAL FRAMEWORK

2

PRESENTATION OF SOME RESULTS

3





# I GENERAL GOVERNMENT STATISTICS

## 1 INTRODUCTION

This Supplement to the Statistical Bulletin presents the general government statistics compiled by Banco de Portugal. It explains the concepts, methodologies, data sources and statistical results of this statistical domain.

The compilation of general government statistics by Banco de Portugal is included in the functions attributed in its Organic Law (Law No 5/98 of 31 January, and amendments) and by the Law on the National Statistical System (Law No 22/2008 of 13 May). The division of tasks and the cooperation framework for the compilation of national accounts are defined by a protocol signed in 1998 by Banco de Portugal and the Instituto Nacional de Estatística - INE (Statistics Portugal). According to this agreement, INE compiles the national non-financial accounts and Banco de Portugal compiles the national financial accounts. To achieve consistency between the financial and non-financial accounts, the protocol establishes cooperation mechanisms, mutual consultation and methodological discussions for the compilation of national accounts, namely the harmonized implementation of the European System of National and Regional Accounts.

For general government accounts, a specific institutional framework has existed since 2006, when the Institutional Cooperation Agreement in the Field of General Government Statistics was signed between Banco de Portugal, INE and the Ministry of Finance's Directorate-General for the Budget (DGO) (see Box 2). In this framework Banco de Portugal assumed the responsibility of compiling the financial accounts of general government and Maastricht debt.

In this context, besides the reporting of statistics to international organisations (Eurostat, European Central Bank, International Monetary Fund, among others), Banco de Portugal disseminates the following general government statistics:

	Frequency	Statistical Bulletin (tables)	Timeliness (days after the reference period*)	Compiler
Financial accounts of general government	Quarterly	F.1.4.4 / F.2.4.4	t+110	Banco de Portugal
	Annual	F.1.2.4 / F.2.2.4	t+110	
Public debt	Monthly	K.2.1	t+50	
	Quarterly / annual	E.3.2	t+110	
Deficit-debt adjustment	Quarterly / annual	E.3.4	t+110	
General government financing	Monthly	E.1.1 to E.1.4	t+50	
Public sector indebtedness	Monthly	K.1.2	t+50	
General government revenue and expenditures	Quarterly / annual	E.3.5 and E.3.6	t+110	Statistics Portugal
Budget execution of State and Social security	Monthly	E.2	t+20	Directorate-General for the Budget
Direct State debt	Monthly	E.1.5	t+20	Portuguese Treasury and Debt Management Agency

\* The exact date is the date of publication of Statistical Bulletin.

With the publication of this Supplement, Banco de Portugal also launches its publication of quarterly information on public debt, net lending (+) / borrowing (-), deficit-debt adjustment and revenue and expenditure of general government in the Statistical Bulletin and *BPstat* | Statistics online.

Section 2 of this Supplement describes the methodological framework of general government statistics and section 3 gives some insight into the most recent results of these statistics.

## 2 METHODOLOGICAL FRAMEWORK

The methodological framework for the general government statistics is the European System of National and Regional Accounts 1995 (ESA95) – Council Regulation (EC) No 2223/96 of 25 June, which sets up a closed integrated system of representative economic statistics broken down into institutional sectors and financial instruments.

In addition to the rules defined in the ESA95, the recording of general government operations is clarified in the ESA95 Manual on Government Deficit and Debt, as well as through specific guidelines issued by Eurostat. These rules concern, among other statistical issues, the delimitation of general government (see Box 1), time of recording of transactions, relations with public corporations, relations with the financial sector and public-private partnerships. Box 3 presents some examples of records in national accounts applicable to the general government.

## BOX 1 | DELIMITATION OF GENERAL GOVERNMENT AND PUBLIC SECTOR

The **public sector** includes the public institutional units classified in the institutional sectors of general government, non-financial corporations and financial corporations (see figure 1). Public institutional units are entities which are controlled by general government, i.e. whose general policy is determined by government. Public institutional units can be market or non market producers. Nonmarket units are the ones for which less than half of their production costs are covered by sales. In this context sales are deliveries of goods or services at economically significant prices, i.e. prices which influence the amounts produced and consumed.

**General government** includes all non market public institutional units. It can be broken down into three subsectors: central government; regional and local government; social security funds. The general government sector comprises entities with corporate statute – **public corporations included in general government** – and entities without corporate statute – **general government entities excluding corporations**.

Market public institutional units which are classified in the institutional sector of non-financial corporations are the **public non-financial corporations not included in general government**. These entities have the main function of supplying goods and services at economically significant prices.

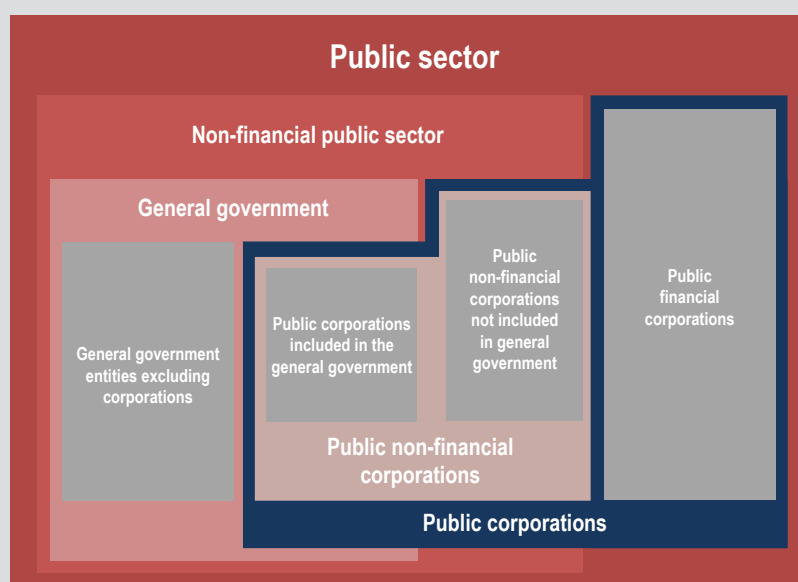
The group of public corporations included in general government and public non-financial corporations not included in the general government are designated as **public non-financial corporations**.

The main function of some public institutional units is financial intermediation or auxiliary financial activities. These entities are classified in the institutional sector of financial corporations and are designated as **public financial corporations**. These entities dedicate themselves to channelling funds from agents with available financial means to others in need of financing. Financial intermediaries assume the risk associated with obtaining funds and acquiring assets.

The group of non-financial public corporations and financial corporations are called **public corporations**.

**Figure 1**

### DELIMITATION OF THE PUBLIC SECTOR



Banco de Portugal's website publishes lists of institutions for statistical purposes for general government and for public sector entities excluding the general government. These lists are compiled in cooperation with INE and are, in general, updated every year.

## 2.1 National financial accounts

The national financial accounts (hereinafter referred to as financial accounts) form one of the main components of the System of National Accounts. They are a structured and coherent depiction of statistical information relating to the economy's financial transactions and stocks.

In the national accounts economic agents are classified into five institutional sectors (non-financial corporations, financial corporations, general government, households and the rest of the world). Additionally, the general government sector is broken down into three subsectors: central government, regional and local government, and social security funds. The financial transactions carried out in the economy are grouped into seven financial instruments (monetary gold and special drawing rights, currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves, and other accounts receivable and payable), for which additional breakdowns may be used.

One of the main purposes of the financial accounts is to determine the **financial saving** in different sectors of the economy; in other words, to calculate the difference between investments in financial assets in a given period and liabilities taken on in the same period. Simultaneously, non-financial accounts determine the lending capacity or the borrowing requirement for each institutional sector. This is reached by finding the difference between sources (revenues) and uses (expenditures). The acquisition of financial assets and the issuing of liabilities in any given sector for any given period are the counterpart to the lending capacity or the borrowing requirement that stems from the economic activity in the same sector during the same period. Thus, net lending results from situations where the resources exceed the uses in non-financial accounts and in which transactions in financial assets are greater than transactions in liabilities, in the financial accounts. **Net lending** corresponds to a **positive value of the balance of the sector**, and can also be called **surplus**. Conversely, **net borrowing** occurs when resources are lower than uses and when transactions in financial assets are lower than transactions in liabilities, which originates a **negative balance** also called **deficit**.

ESA95 stipulates two kinds of information for the national accounts, flows and stocks. **Flows** cover the creation, transformation, exchange, transfer or extinction of an economic value over a period of time. Flows can derive from transactions or from other changes in assets. They are recorded in transaction accounts and in other changes in volume and revaluation accounts, respectively. Financial transactions refer to the net acquisition of financial assets or the net increase in liabilities through various types of financial instruments. Financial transactions are defined as the relationship between resident institutional units or between these and the rest of the world, where there is mutual agreement on the creation, settlement or change in ownership of financial assets and/or liabilities.

**Other changes in assets** record the changes in stocks that are not generated by transactions. They include, among other things, other changes in volume and holding gains and losses. Other changes in volume include the appearance or disappearance of assets (such as gold that becomes monetary gold or access to previously unexploited resources), the changes in assets and liabilities due to extraordinary events (such as natural disasters, wars or the unilateral writing-off of debt), and changes in the classification or in the structure of institutional bodies or instruments. Holding gains and losses result from the mere ownership of assets and liabilities and this stems from price movements that cause changes in share values or from exchange rate fluctuations where the instruments are denominated in a foreign currency.

**Stocks** correspond to assets and/or liabilities held at any one moment in time. They are recorded at the start and end of each accounting period and include all types of assets and/or liabilities, as long as they are used in business and could give rise to ownership rights. Stocks are valued at market prices. Since the national accounts system is exhaustive, all changes in stocks should be explained by flows recorded in the system. **Net financial wealth** corresponds to the difference between financial assets and liabilities. A positive/negative net financial wealth means that the sector is a creditor/debtor when measured in terms of financial assets and liabilities. It should additionally be noted that, net financial wealth does not reflect all the assets/liabilities of a given sector, since they also include real assets.

## BOX 2 | THE INSTITUTIONAL COOPERATION AGREEMENT IN THE FIELD OF GENERAL GOVERNMENT STATISTICS

The **Institutional Cooperation Agreement in the Field of General Government Statistics** (ACIEAP) was established in 10 January 2006 between the Macroeconomic Statistics Department of INE, the Statistics Department of Banco de Portugal and the Directorate-General for the Budget.

The main goal of this agreement was to allow for a better coordination of the statistical activities in the field of general government. This coordination involves several activities, namely, the analysis of methodological issues, the delimitation of general government, the compilation of annual and quarterly accounts and debt and the preparation of the Excessive Deficit Procedure notifications. The working group on general government statistics (GTAP) was created, in this framework, with experts from the three entities. The working group's mandate involves planning the activities related with compilation of general government statistics, defining the necessary data, implementing technological solutions to access the information, discussion and proposal of methodological options for new operations and analysing the results.

Since 31 March 2006 the Excessive Deficit Procedure notifications were made under the ACIEAP. The fourteenth notification compiled in this framework was transmitted on 28 September 2012.

The ACIEAP's results are very positive. First, there have been no reservations about the data transmitted to Eurostat by Portugal since 2006. Eurostat expresses reservations when it has doubts about the quality of the reported data. Between 2002 and 2005, before the establishment of the ACIEAP, Eurostat had expressed reservations about the data transmitted by Portugal in five out of eight reports. Second, revisions to the data of the general government debt and deficit have become less frequent and, in general, less significant.

## 2.2 Public debt

**Public debt**, also referred to as **Maastricht debt**, is commonly used to measure the indebtedness level of a country's general government. This concept is established in Council Regulation (EC) No 479/2009, of 25 May, on the application of the protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community. According to this legal diploma, public debt corresponds to the general government gross liabilities at nominal value, at the end of the year, with the exception of those liabilities whose corresponding financial assets are held by the general government sector. Therefore, the Maastricht debt is compiled on a consolidated basis, excluding general government assets whose corresponding liabilities are issued by general government's own entities, i.e. excluding transactions between government entities.

Public debt includes the liabilities in currency and deposits, securities other than shares, excluding financial derivatives and loans, according to ESA95 definitions. Note that gross liabilities exclude financial derivatives and other accounts payable (which include trade credits). Additionally, public debt is an end-of-a-period position at nominal value, that is, at liabilities' face value, which corresponds to the amount contractually agreed by general government to repay to creditors at maturity.

Maastricht debt differs from the concept of direct State debt, which is compiled on a monthly basis by the Agência de Gestão da Tesouraria e da Dívida Pública - IGCP (Portuguese Treasury and Debt Management Agency) and also published by Banco de Portugal. The main differences are:

- **Sector delimitation** – direct State debt includes only debt issued by the State, while Maastricht debt includes the debt of all entities classified, for statistical purposes, in general government;
- **Consolidation** – direct State debt includes the gross liabilities of the State, while Maastricht debt is consolidated, i.e. assets of general government which are also liabilities of general government are excluded;
- **Accrued interest of saving certificates** – direct State debt includes the accrued interest of saving certificates, which are excluded from Maastricht debt.

## 2.3 Deficit-debt adjustment

Usually, general government's deficit over a certain period is not equal to the change in debt in the same period, although the same trend is expected. In principle, debt increases when a deficit is observed, and decreases when a surplus occurs. However, changes may occur in public debt due to other factors.

The difference between the deficit and change in debt is usually called **deficit-debt adjustment** or **stock-flow adjustment**. A positive deficit-debt adjustment means that public debt grows more than would be expected from the accumulation of deficits (or decreases less than the accumulation of surpluses). On the contrary, a negative deficit-debt adjustment shows that public debt grows less than the deficit (or decreases more than the surplus).

The deficit-debt adjustment is caused, mainly, by three factors:

- **Transactions in financial assets.** Public debt is a gross concept, i.e. it concerns general government's liabilities, and does not take into account the assets of this sector. Thus, changes in financial assets held by general government are a factor of difference because, sometimes, it is necessary to issue debt to purchase financial assets or, on the contrary, existing financial assets are used to finance the deficit or debt repayment. These transactions in financial assets can occur in any of the instruments defined in ESA95: currency and deposits, securities other than shares, loans granted to entities not included in the general government sector, shares and other equity or other financial assets. For

example, if government obtains a loan and keeps the proceeds as a deposit then a deficit-debt adjustment will arise. The use of privatisation proceeds to make repayments of debt is, also, an example of an operation that affects the debt, without any impact on the deficit, also originating a stock-flow adjustment.

- **Transactions in liabilities not included in debt.** The definition of public debt used in Europe excludes the financial instruments of financial derivatives and other accounts payable (namely trade credits). Thus, public debt may increase due to payments related to expenditure recorded in the deficit in previous periods according to accrual basis accounting. Changes in liabilities not included in public debt are thus a second main source of difference. An example of these transactions is trade credits obtained to finance the purchase of goods and services. Given that trade credits are not included in the concept of public debt, this operation has only an impact on the deficit, originating a stock-flow adjustment for the amount unpaid. Another example occurs when the State issues debt to pay trade credits recorded in previous periods. This operation will entail an increase in debt, with no impact on the deficit, leading to a deficit-debt adjustment for an equal amount.
- **Valuation differences.** Public debt is a stock measured at nominal value, according to the methodology defined at European level. On the one hand, this means that transactions in interest accrued and not paid are not added up to the stock of debt but are included in the deficit. On the other hand, changes in value or reclassifications with an impact on debt are not reflected in the deficit, since they are not transactions. For example, the accumulation of interest accrued and not paid is reflected in a higher general government deficit, without any impact on the nominal amount of public debt, originating a deficit-debt adjustment. Another example occurs with the appreciation / depreciation of debt issued in foreign currency, which is a change in value, with an impact only on government debt.

Eurostat monitors the results of the stock-flow adjustment for each country. This is considered one of the most important criteria for evaluating the quality of information reported by national institutions under the excessive deficit procedure (Council Regulation (EC) No 479/2009 of 25 May). The main factors contributing to the deficit-debt adjustment in each country are published by Eurostat.

### BOX 3 | NATIONAL ACCOUNTS RULES (ESA95) – SOME EXAMPLES APPLIED TO GENERAL GOVERNMENT

**Delimitation of general government:** general government includes all non-market institutional units controlled by public entities. Non market units are the ones for which less than half of their production cost are covered by sales. (see Box 1).

**Financial defeasance:** in cases where the government intervenes in the financial sector by purchasing problematic assets, an impact on deficit and debt should be recorded, at the amount of the loss incurred by government.

**Guarantees:** guarantees are contingent liabilities, with an impact on deficit and on debt only when called. However, guarantees provided by the general government to corporations in a difficult financial situation should trigger an immediate reclassification of the total guaranteed debt of these enterprises as a capital transfer, with an impact on government deficit and debt.

**Privatisations:** privatisation operations of public corporations constitute a restructuring of the asset portfolio of general government, with no impact on the deficit. However, differences between the sale value and the amount recorded in the portfolio have an impact on financial assets.

**Public corporations (capital injections):** capital injections made by government into a public corporation are recorded as a capital transfer, with an impact on government deficit, if the expected return on investment is below a rate considered sufficient.

**Public-Private Partnerships:** public investments made through public-private partnerships are considered as public expenditure if government bears most of the risks associated to the exploitation of the infrastructure.

**Time of recording of military equipment expenditure:** government expenditure on military goods must be recorded in the national accounts at the time of delivery of the goods, irrespective of the moment at which the payment occurs.

**Time of recording of taxes and social contributions:** taxes and social contributions should be recorded on an accrual basis. However, it should not include amounts unlikely to be collected.

**Time of recording of interest:** interest is recorded in the accounting period in which it accrues becomes payable, irrespective of the moment of payment.

**Trade credits:** trade credits transferred by a supplier of goods and services to a financial institution, as well as trade credits that are subject to renegotiation between the supplier and the general government, should be considered as loans, and included in Maastricht debt.

Additional examples can be found on the ESA95 Manual on Government Deficit and Debt, as well as in specific guidance notes published by Eurostat on its website.



## 2.4 Sources of information

Banco de Portugal mainly uses **internal sources** for the compilation of general government statistics, monetary and financial statistics, balance of payments and international investment position statistics, central balance-sheet database statistics and securities statistics.

Monetary and financial statistics supply information on deposits and loans relating to monetary and financial institutions and other financial intermediaries and financial auxiliaries supervised by Banco de Portugal. The Central Credit Register also has an important role, providing individual data on loans granted by the resident financial sector to public sector entities.

The balance of payments and international investment position statistics provide information on the transactions and positions vis-a-vis non-residents, such as the amount of loans granted by non-residents.

The central balance-sheet database has information on government shareholdings in non-financial corporations.

Finally, the securities statistics provide information on issues and portfolios of debt securities and/or equity, a key instrument for the compilation of public debt and government financing. These statistics are supported by a securities database (security-by-security and investor-by-investor), which contains all the information on this financial instrument, particularly its features, amounts issued and holders.

Internal information compiled by Banco de Portugal is complemented with **information from external entities**.

The Portuguese Treasury and Debt Management Agency (IGCP) provides details of the Treasury's liabilities in deposits, State's direct debt and issues and redemptions of various debt instruments.

The regional statistical services of the Azores and Madeira also provide information on the debt and the deficit-debt adjustment of each region. Recently, the statistical services of those regions began to compile their own debt data in collaboration with Banco de Portugal.

The Directorate-General for the Budget is responsible for data on budget execution, the State's financial assets and guarantees granted by the State.

Social security and the Directorate-General for the Treasury and for Finance also provide information on their financial instruments's portfolios.

Finally, Statistics Portugal (INE) provides information on other accounts receivable and payable, like time lags of taxes and social contributions and funds received from the European Union, among others.

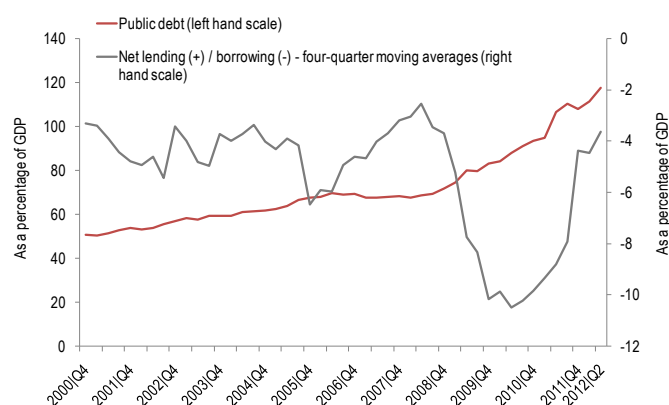
### 3 PRESENTATION OF SOME RESULTS

In the second quarter of 2012, public debt, under the Excessive Deficit Procedure definition reached 117.6 per cent of GDP (see [Chart 1](#)). In this quarter, general government's net lending (+) / borrowing (-) was -5.9 per cent of GDP. Over the last four quarters, net lending (+) / borrowing (-) was -3.7 per cent of GDP.

In the first half of 2012, general government's net lending (+) / borrowing (-) was -5.6 billion euro (-6.8 per cent of GDP), which compares with -6.9 billion euro (-8.2 per cent of GDP) in the first half of 2011.

**Chart 1**

**PUBLIC DEBT AND GENERAL GOVERNMENT NET LENDING (+) / BORROWING (-)**



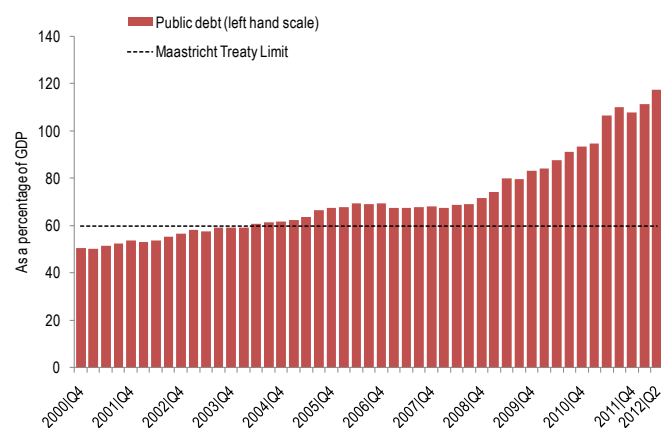
Data available in Chapter **E.3.1** and **E.3.2** of the **Statistical Bulletin** and in **BPstat** | Statistics online.

#### 3.1 Public debt

In the second quarter of 2012, Portugal's general government debt was 198.1 billion euro, i.e. 117.6 per cent of GDP. This value represents an increase in relation to the 111.5 per cent of GDP recorded at the end of the first quarter of 2012. The government debt ratio has exceeded the limit set by the Maastricht Treaty since the second quarter of 2004 (see [Chart 2](#)). The growth of debt in the second quarter of 2012 was mainly explained by the loans received under the Economic and Financial Assistance Programme to Portugal, which amounted to 14.9 billion euro during this period. This programme began in the second quarter of 2011 and, by the end of the second quarter of 2012, an amount of 54.5 billion euro, of a total of 78 billion euro, was received from the European Financial Stabilisation Mechanism (20.1 billion euro), the European Financial Stability Facility (14.8 billion euro) and the International Monetary Fund (16.1 billion euro). The evolution of debt is also explained by the reduction of loans granted by domestic financial institutions and by a decrease in debt securities. Furthermore, by other financial intermediaries and financial auxiliaries of the public sector in the Treasury increased.

Chart 2

# GENERAL GOVERNMENT DEBT



Data available in Chapter E.3.2 of the **Statistical Bulletin** and in BPstat | Statistics online.

## BOX 4 | PUBLIC DEBT CONCEPTS

In general government statistics, several concepts of public debt may be distinguished. The most common concept corresponds to Maastricht debt, which is the consolidated debt of general government less trade credits.

Non-financial public sector debt (see Box 5), includes, in addition to the debt of general government entities, the debt of public non-financial corporations not included in general government.

Additionally, the Economic and Financial Assistance Programme to Portugal, established a performance criterion for public debt. The definition of debt for this purpose is based on Maastricht debt, but excludes a set of adjusters specified in the Memorandum of Understanding: (i) debt contracted for bank restructuring, when carried out under the Programme's banking sector support and restructuring strategy, (ii) IGCP deposits, (iii) the prepaid margin on European Financial Stability Facility loans, (iv) revisions to the stock of debt used to set up the ceiling, (v) impact of the revaluation of debt at the "programme exchange rates". The exchange rate defined in the programme corresponds to that of 5 May, 2011.

Table 1 presents a summary of the main concepts and respective results for December 2011 and June 2012.

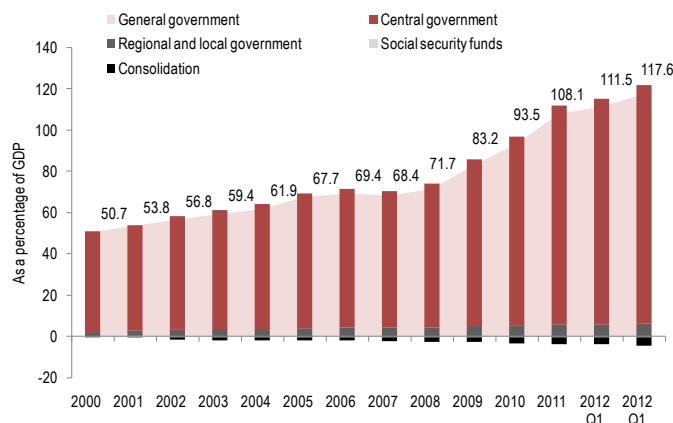
Table 1

PUBLIC DEBT CONCEPTS AND COMPARISON WITH THE PERFORMANCE CRITERION UNDER THE ECONOMIC AND FINANCIAL ASSISTANCE PROGRAMME TO PORTUGAL		In billion euro	
		DEC/11	JUN/12
(1)	Non-consolidated debt of non-financial public sector	236.7	249.8
(2)	Debt of public non-financial corporations not included in general government	22.9	19.0
(3)= (1-2)	Non-consolidated general government debt	213.8	230.8
	<i>of which: general government debt of central government</i>	200.4	217.2
	<i>of which: general government debt of local government</i>	13.5	13.6
(4)	Debt between entities of general government	25.6	28.9
(5)= (3-4)	Consolidated general government debt	188.2	201.9
(6)	Trade credits obtained by the general government	3.5	3.8
(7)= (5-6)	Maastricht debt	184.7	198.1
(8)	Maastricht debt net of central government's deposits	170.4	182.0
(9)	Exclusions for the purpose of the FAP performance criterion	15.8	27.2
(10)= (7-9)	General government debt for the FAP performance criterion	168.9	170.9
(11)	<i>Ceiling on the FAP performance criterion</i>	175.9	175.0
(12)= (10-11)	Difference from the ceiling	-7.0	-4.1

**Chart 3** shows the breakdown of government debt by subsector and the consolidation effect. The increase in general government debt in the second quarter of 2012 was 7.7 billion euro and was explained primarily by the increase of central government debt (8.4 billion euro). The debt of regional and local government increased by 0.1 billion euro, and the consolidation effect amounted to 0.8 billion euro.

**Chart 3**

#### GENERAL GOVERNMENT DEBT BY INSTITUTIONAL SECTOR

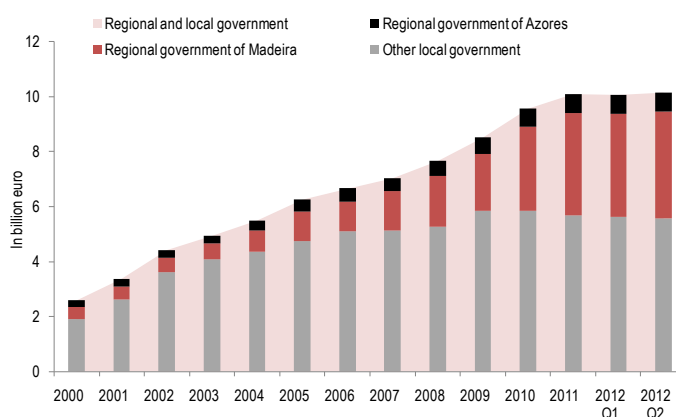


Data available in Chapter E.3.2 of the **Statistical Bulletin** and in **BPstat** | Statistics online..

**Chart 4** presents the debt evolution for the regional governments of Azores and Madeira and of other local government units. The total debt for the two regions increased from 0.7 billion euro at the end of 2000 (0.5 per cent of GDP) to 4.6 billion euro at the second quarter of 2012 (2.7 per cent of GDP).

**Chart 4**

#### REGIONAL AND LOCAL GOVERNMENT DEBT



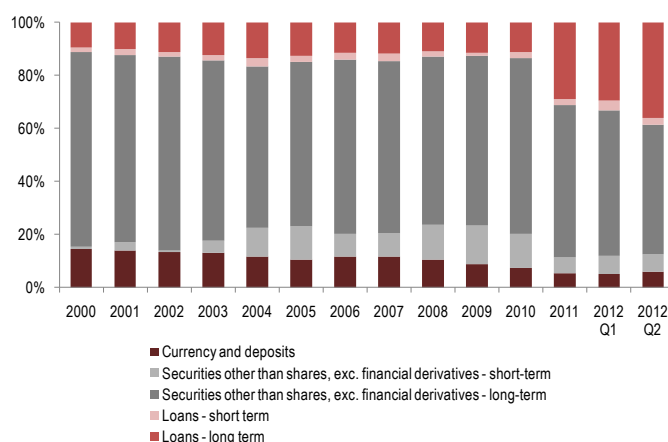
Data available in Chapter E.3.2 of the **Statistical Bulletin** and in **BPstat** | Statistics online..

Thus, the two autonomous regions' share of total regional and local government debt increased from 26 percent at the end of 2000 to 45 percent in June 2012.

The debt of other local government units shows a clear increasing trend between 2000 and 2010, from

Chart 5

## DEBT BY FINANCIAL INSTRUMENT



Data available in Chapter E.3.3 of the **Statistical Bulletin** and in BPstat | Statistics online..

1.9 billion euro at the end of 2000 (1.5 per cent of GDP) to 5.9 billion euro at the end of 2010 (3.4 per cent of GDP) (see [Chart 5](#)). In the second quarter of 2012, the debt of other local government units was 5.6 billion euro (3.3 per cent of GDP).

The breakdown of general government debt by financial instrument (see [Chart 5](#)) shows an increase in the weight of loans in total debt and a decrease in the weight of securities since 2011, mainly due to the Economic and Financial Assistance Programme to Portugal. The share of loans was 38.6 per cent of total debt at the end of the second quarter of 2012, which compares with 13.4 per cent at the end of 2010. Conversely, the share of securities decreased to 55.5 per cent of total debt at the end of the second quarter of 2012, from 79.3 per cent at the end of 2010.

Additionally, the second quarter of 2012 recorded an increase of currency and deposits, due to deposits of other financial intermediaries and financial auxiliaries of the public sector in the Treasury, which offset the divestment of saving certificates by households.

Since February 2012 Banco de Portugal has published regularly, the indebtedness levels of the non-financial public sector, including both general government and public non-financial corporations not included in general government. This information is detailed in section 3.6.

### 3.2 Financial saving

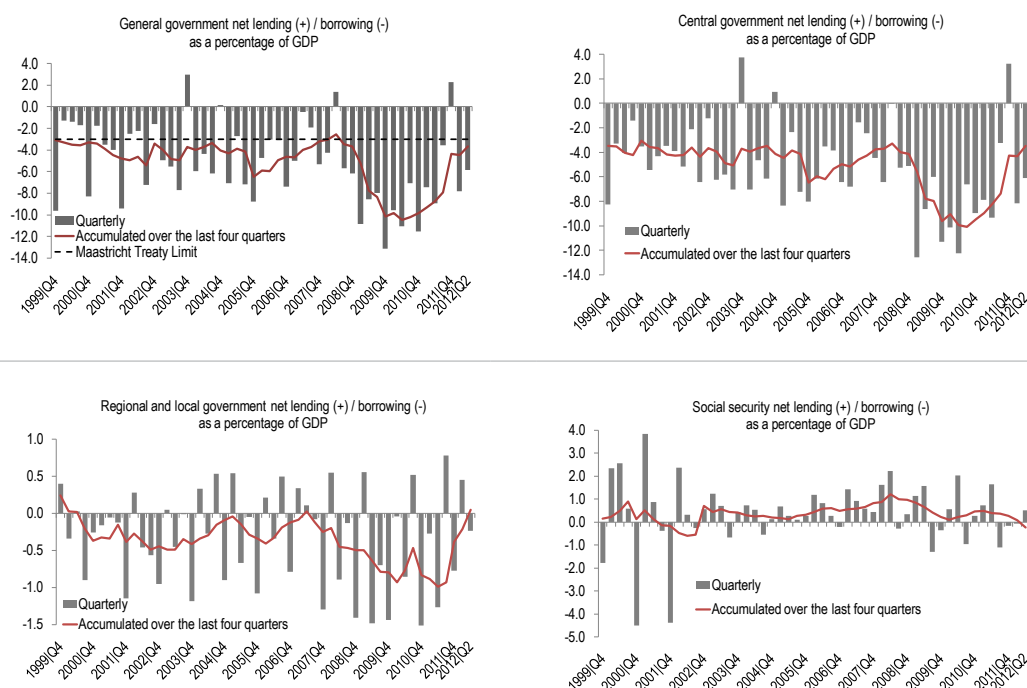
General government's net borrowing (i.e., a negative financial saving) was 5.9 per cent of GDP in the second quarter of 2012, which compares with 9.0 per cent in the same quarter of 2011 (see [Chart 6](#)).

The decrease in borrowing needs was mainly due to the reduction of the borrowing needs of the central government from 9.3 per cent of GDP in the second quarter of 2011 to 6.1 per cent of GDP in the second quarter of 2012. Regional and local government also recorded a decrease in borrowing needs, which were 0.2 per cent of GDP in the second quarter of 2012, after 1.3 per cent of GDP in the same period of 2011. Social security funds slightly decreased their lending capacity from 1.6 per cent of GDP in the second quarter of 2011 to 0.5 per cent of GDP in the same quarter of 2012.

General government's borrowing needs decreased from 4.5 per cent of GDP in the year ending in the first quarter of 2012, to 3.7 per cent of GDP in the year ending in the second quarter of 2012. The transfer of pension funds from the banking sector to the State, which occurred in the last quarter of 2011, is still affecting this result.

Chart 6

## NET LENDING (+) / BORROWING (-)

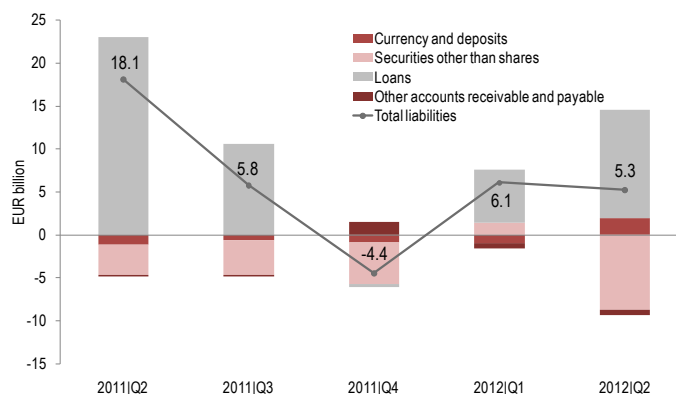


Data available in Chapter E.3.1 of the **Statistical Bulletin** and in BPstat | Statistics online.

In the second quarter of 2012, general government's borrowing needs were influenced by a larger increase in liabilities than in financial assets. The rise in financial resources (see [Chart 7](#)) was determined by the loans received under the Economic and Financial Assistance Programme to Portugal and by the increase in deposits in the Treasury, as previously mentioned. In this quarter there was a significant net redemption of government bonds, and, to a lesser extent, a reduction in loans granted by financial institutions. In the year ending in the second quarter of 2012, regional and local government started to present a slight surplus, which was 0.05 percent of GDP. Conversely, social security funds inverted the trend shown in recent years, and showed a deficit of 0.2 percent of GDP.

Chart 7

## GENERAL GOVERNMENT LIABILITIES (TRANSACTIONS)

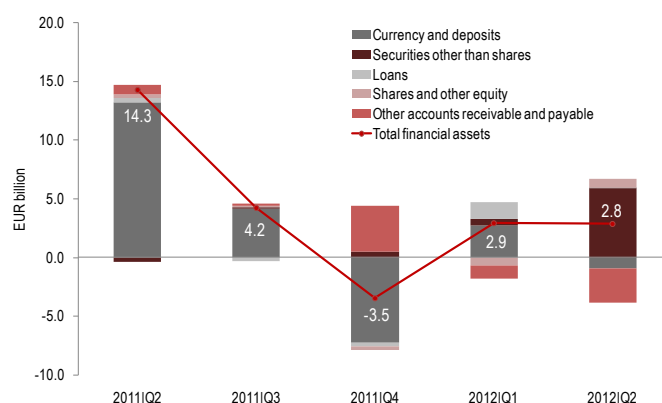


Data available in Chapter F.1.4.4 of the **Statistical Bulletin** and in BPstat | Statistics online.

Financial assets grew in the second quarter of 2011 (see [Chart 8](#)), in particular in securities other than shares. This was due to the subscription, by the State, of 5.4 billion euro of contingent capital instruments issued by banks in the context of their recapitalisation process. The State also subscribed the capital increase carried out by Caixa Geral de Depósitos, which was reflected in an increase of shares and other equity held by general government. In the second quarter of 2012, financial assets were negatively influenced by the net withdrawal of deposits held at resident financial institutions. Financial assets also reflect the instalment of the banking sector pension funds transfer in 2011, which resulted in a reduction in other accounts receivable.

**Chart 8**

**GENERAL GOVERNMENT FINANCIAL ASSETS (TRANSACTIONS)**



Data available in Chapter **F.1.4.4** of the **Statistical Bulletin** and in BPstat | Statistics online.

### 3.3 Financial wealth

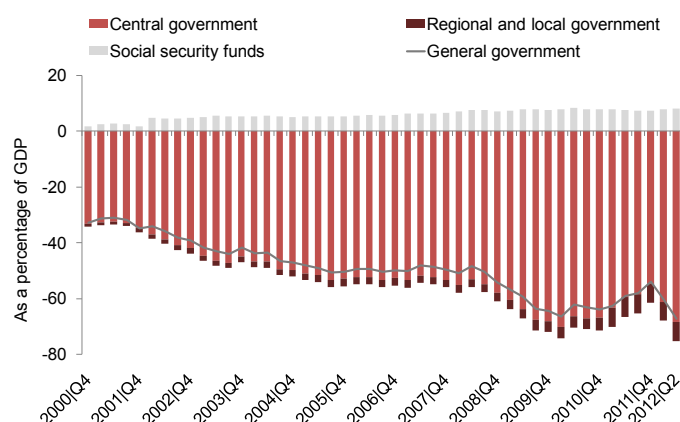
The net financial assets of general government reached -67.3 per cent of GDP at the end of the second quarter of 2012, which compares with -60.4 at the end of the previous quarter. The deterioration in net financial assets was determined by the evolution of the central government subsector, which, at the end of the second quarter of 2012, recorded a value of -68.5 per cent of GDP, versus -61.3 per cent of GDP at the end of the previous quarter (see [Chart 9](#)). Regional and local government's net financial assets decreased at the end of the second quarter of 2012 to -6.8 per cent of GDP, versus -6.7 per cent of GDP at the end of the first quarter of 2012. At the same time, social security funds' net financial assets, which are positive mainly due to the accumulation of the surpluses of the contributory schemes, recorded a value of 8.0 per cent of GDP at the end of the second quarter of 2012, which compares with 7.6 per cent of GDP at the end of the previous quarter.

In recent years, general government's net financial assets deteriorated significantly from -32.7 percent of GDP at the end of 2000 to -67.3 percent of GDP at the end of the second quarter of 2012.



Chart 9

## GENERAL GOVERNMENT NET FINANCIAL ASSETS BY INSTITUTIONAL SECTOR

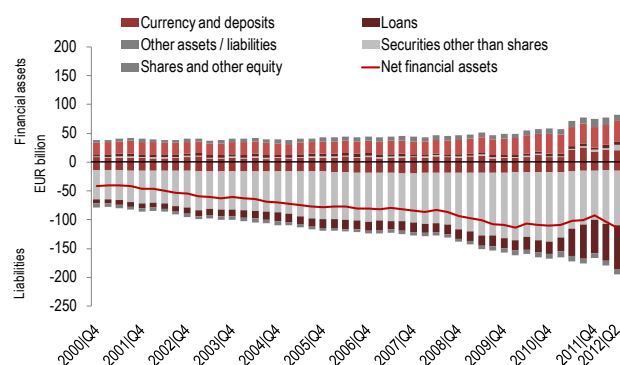


Data available in the Statistical Bulletin and in BPstat | Statistics online.

The composition of the general government's net financial assets by financial instrument (Chart 10) shows the importance of securities other than shares. The weight of this instrument remained constant in the second quarter of 2012, since the increase in the price of securities offset the net redemption. The weight of loans in general government financing increased as a result of the Economic and Financial Assistance Programme, as in previous quarters. General government's financial assets are strongly influenced by the subscription of contingent capital instruments and shares issued by banks in the context of their recapitalisation process.

Chart 10

## GENERAL GOVERNMENT NET FINANCIAL ASSETS BY FINANCIAL INSTRUMENT

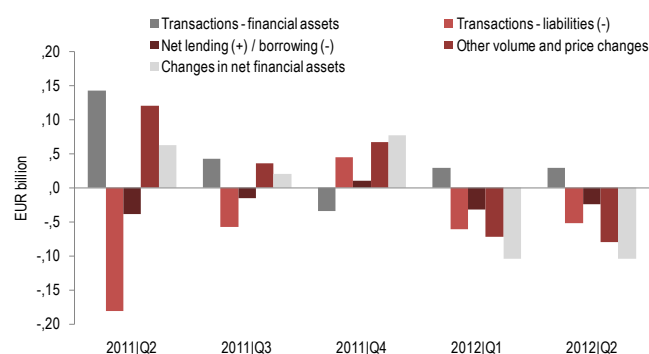


Data available in Chapter F.2.4.4 of the Statistical Bulletin and in BPstat | Statistics online.

The deterioration in the net financial assets of general government in the second quarter of 2012, shows a compensation effect between the borrowing needs of the sector, which have a positive impact on net financial assets, and the negative impact of the decrease in the liabilities' market value, as a consequence of the increase in value of general government securities (Chart 11). This increase is noticeable in net financial assets, but not in Maastricht debt, due to the different valuation principles. Additionally, the increase recorded in securities and shares, in the context of the recapitalisation process of banks, had a positive impact on net financial assets, since this aggregate results from the difference between assets and liabilities.

Chart 11

## CHANGE IN GENERAL GOVERNMENT'S NET FINANCIAL ASSETS



Data available in Chapter F.1.4.4 and F.2.4.4 of the **Statistical Bulletin** and in BPstat | Statistics online

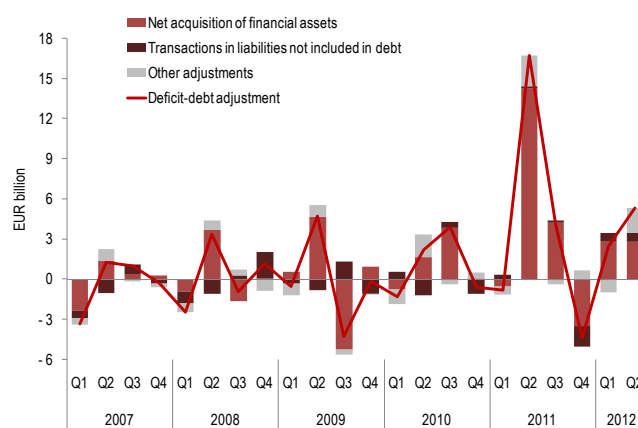
## 3.4 Deficit-debt adjustment

In the second quarter of 2012, the difference between the deficit (2.4 billion euro) and the change in debt (7.7 billion euro) was 5.3 billion euro (see [Chart 12](#)). This difference is mostly explained by the increase in financial assets, which largely results from the subscription of contingent capital instruments and shares issued by banks in the context of their recapitalisation process (6.2 billion euro). In the opposite direction, there was a reduction of financial assets in deposits (1.0 billion euro) and in other accounts receivable (2.9 billion euro, mainly due to the amounts that were settled during the first half of 2012 under the pension funds transfer). The deficit-debt adjustment in 2011 is also explained by transactions in interest accrued and not paid (1.4 billion euro) and exchange rate variations in foreign currency debt (0.4 billion euro).

The high deficit-debt adjustment shown in [Chart 12](#) for the second quarter of 2011 is primarily explained by the accumulation of general government deposits in monetary and financial institutions, due to the funds received under the Economic and Financial Assistance Programme to Portugal, which began in this quarter.

Chart 12

## DEFICIT-DEBT ADJUSTMENT



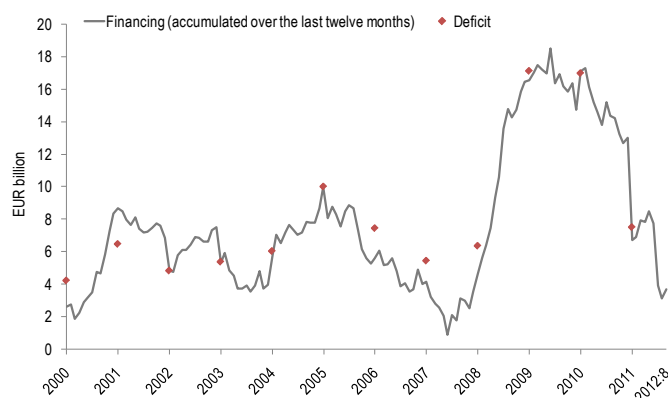
The information on the quarterly deficit-debt adjustment is available in BPstat | Statistics online and in the chapter E.3.4 – Adjustment between net lending / borrowing and change in debt of general government of the Statistical Bulletin of Banco de Portugal.

### 3.5 Deficit and financing of general government

The financing of general government includes liabilities in securities and loans, minus changes in deposits and investments in securities, except central government and regional and local government transactions in shares and other equity issued by residents other than monetary and financial institutions, and trade credits granted by residents. The financing of general government provides additional monthly information on its financial situation. However, since it does not include all financial instruments, the value in the end of the year is not equal to the financial saving. Nevertheless, in annual terms, the values are similar, as can be seen in Chart 13, which shows cumulative financing over 12 months compared with general government's annual deficit (borrowing needs).

**Chart 13**

#### DEFICIT AND FINANCING OF GENERAL GOVERNMENT



Data available in Chapter E.1.1 and E.3.1 of the **Statistical Bulletin** and in BPstat | Statistics online.

Financing and the deficit may show greater differences on a quarterly basis, as some adjustments made in financial accounts have a more significant impact on quarterly figures and not so much on the annual ones, since they correspond, in general, to inter-quarter adjustments. Therefore, the value of the deficit for the fourth quarter of 2012 in national accounts (2.4 billion euro) is different from the financing of general government from April to June 2012 (1.3 billion euro). This difference is caused essentially by the inclusion, in the national accounts, of additional information that allows for the recording of operations following the accrual principle, namely, the recording of the amounts that were settled during the first half of 2012 under the pension funds transfer, the interest accrued and not paid, which is added to the underlying financial instrument, changes in trade credits, which are added to other accounts payable, and time differences in taxes, which are added to other accounts receivable.

### 3.6 Indebtedness of the non-financial public sector

#### BOX 5 | PUBLIC SECTOR STATISTICS

Public sector statistics provide fundamental elements to describe the economy of each country. In the European Union context, these statistics allow compliance with the criteria set by the Maastricht Treaty, to be assessed, under which the annual deficit of the Member States must not exceed 3 percent of GDP and their public debt must not exceed 60 percent of GDP. Furthermore, in the current scenario of financial and economic crisis, these statistics play a key role in assessing the evolution of general government accounts. They also integrate the performance criteria agreed under the Economic and Financial Assistance Programme to Portugal. In this context, these statistics are increasing demand.

Banco de Portugal has recently made information available on the indebtedness of the non-financial public sector which includes general government and non-financial public corporations not included in general government, in Chapter K of the Statistical Bulletin. Apart from the enlarged institutional sector coverage, it also includes monthly data on general government debt, as well as a breakdown of debt by financing institutional sector.

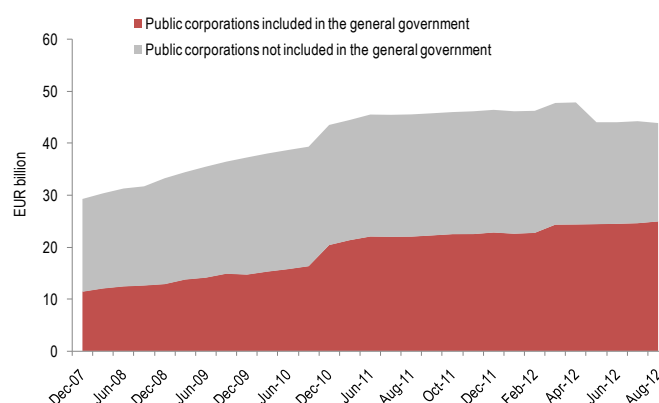
According to the most recent data made available in Chapter K - Non-financial sector indebtedness, of the Statistical Bulletin of Banco de Portugal, public debt, under the Maastricht concept, stood at 198.8 billion at the end of August 2012, which represents an increase of 663 million euro compared with June 2012. This increase primarily reflects the loans received under the Economic and Financial Assistance Programme to Portugal (4.1 billion euro) and the net issuance of securities of -2.8 billion euro.

Public corporations' debt not included in general government reached 18.9 billion euro, in August 2012 which represents a slight decrease of around 96 million euro compared with the June 2012 figure (see [Chart 14](#)). Conversely, maintaining the same trend of previous months, public corporations' debt included in general government increased by 163 million euro, when compared with June.

Therefore, total consolidated debt in the non-financial public sector, including trade credits was 221.5 billion euro in August 2012.

Chart 14

#### PUBLIC CORPORATIONS DEBT

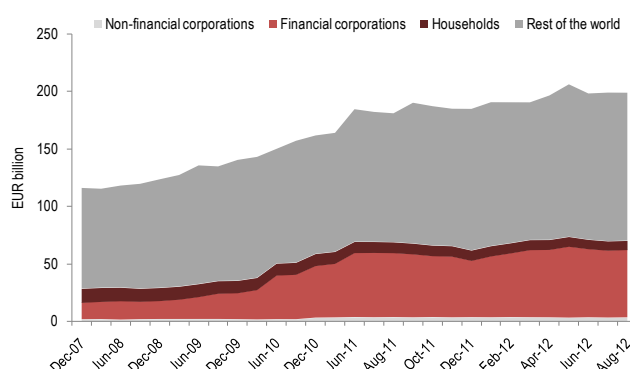


Data available in Chapter **K.1.2** of the **Statistical Bulletin** and in BPstat | Statistics online.

The main lenders to general government (see [Chart 15](#)) are non-residents, who hold approximately 64.8 per cent of public debt, according to the Maastricht concept, followed by the resident financial institutions (29.6 per cent). In recent years, there has been an increase in the proportion held by resident financial institutions, which was 12.6 per cent in December 2007 and, hence, a reduction in the proportion held by non-residents, which was 75.7 per cent in that period.

**Chart 15**

**PUBLIC DEBT BY FINANCING SECTOR**



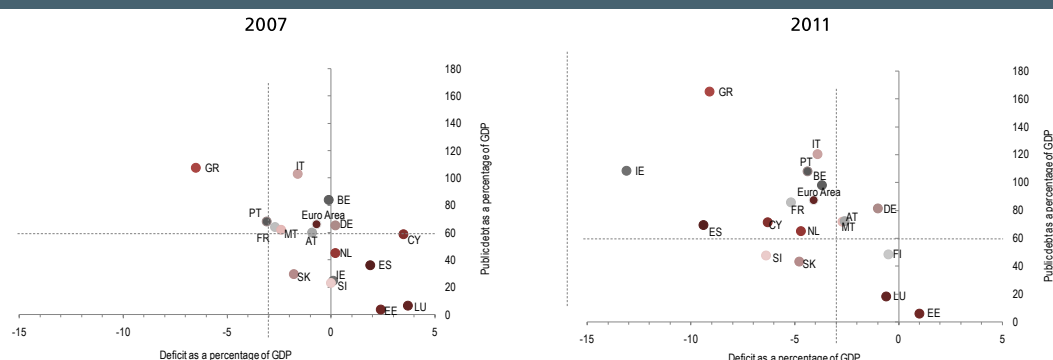
Data available in Chapter K.1.3 of the **Statistical Bulletin** and in BPstat | Statistics online.

### 3.7 International comparison<sup>1</sup>

Between 2007 and 2011, most countries in the euro area showed a significant deterioration in their respective debt and deficit (see [Chart 16](#)). The most negative results were recorded in the countries for which financial assistance programmes are in place, i.e. Greece, Ireland, Portugal and Spain.

**Chart 16**

**PUBLIC DEBT AND DEFICIT BY COUNTRY**



**Legend:** AT: Austria; BE: Belgium; CY: Cyprus; DE: Germany; EE: Estonia; ES: Spain; FI: Finland; FR: France; GR: Greece; IE: Ireland; IT: Italy; LU: Luxembourg; MT: Malta; NL: Netherlands; PT: Portugal; SI: Slovenia; SK: Slovakia; Euro area: composition of 17 countries.

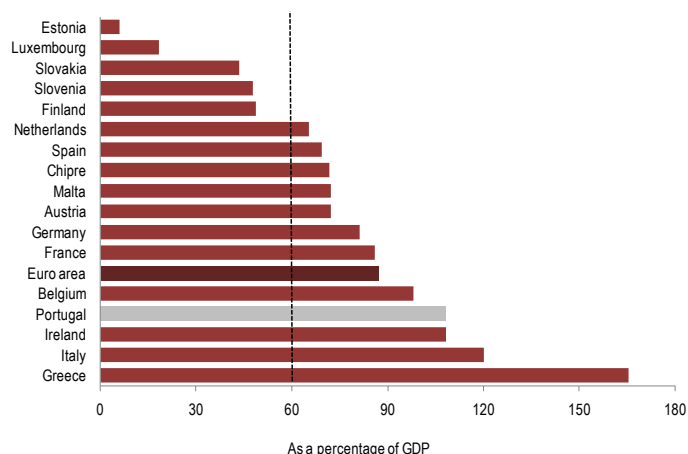
<sup>1</sup> Comparison based on annual data available from Eurostat..

The Main Indicators chapter of the Statistical Bulletin presents information on Public Finance (Section A.14 and A.15), which highlights the comparison between Portugal and the euro area. This section also presents charts that compare some countries in the euro area, particularly regarding the level of public debt and the deficit-debt adjustment.

At the end of 2011, public debt was above the limit set by the Maastricht Treaty in the majority of the euro area countries (see [Chart 17](#)).

**Chart 17**

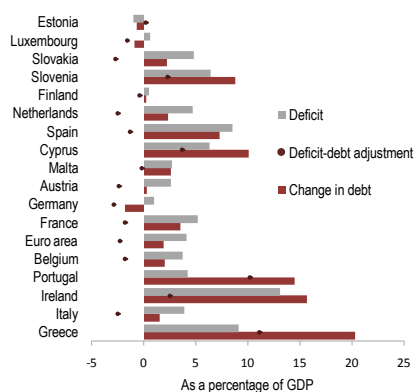
**PUBLIC DEBT BY COUNTRY | 2011**



In 2011, the deficit-debt adjustment in the selected countries accounted for relatively small amounts, except in Greece and in Portugal, where the change in debt was significantly higher than the deficit (see [Chart 18](#)). In Portugal, the amount of the deficit-debt adjustment for 2011 was particularly high, mostly due to the accumulation of general government deposits in monetary and financial institutions, due to the funds received in the framework of the Economic and Financial Assistance Programme to Portugal. At the same time, there was an increase in other accounts receivable due to the transfer of pension funds, which was settled in the first half of 2012.

**Chart 18**

**DEFIT, CHANGE IN DEBT AND DEFICIT-DEBT ADJUSTMENT | 2011**



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## SUPPLEMENTS TO THE STATISTICAL BULLETIN

- 1/98 *Statistical information on non-monetary financial institutions, December 1998*
- 2/98 *Foreign direct investment in Portugal: flows and stocks statistics for 1996 and stocks estimates for 1997, December 1998*
- 1/99 *New presentation of the balance of payments statistics, February/March 1999*
- 2/99 *Statistical information on Mutual Funds, December 1999*
- 1/00 *Portuguese direct investment abroad, December 2000 (only in Portuguese)*
- 1/01 *"Statistical balance sheet" and "Accounting balance sheet" of other monetary financial institutions, August 2001*
- 1/05 *A New Source for Monetary and Financial Statistics: the Central Credit Register, April 2005*
- 2/05 *National Financial Accounts for the Portuguese Economy. Methodological Notes and Statistical Results for 2000-2004, June 2005*
- 3/05 *National Financial Accounts for the Portuguese Economy. Statistics on Financial Assets and Liabilities for 1999-2004, November 2005*
- 4/05 *Seasonal Adjustment of Balance of Payments Statistics, November 2005*
- 5/05 *Statistics on Non-Financial Corporations from the Central Balance-Sheet Database, December 2005*
- 1/07 *Papers presented by Banco de Portugal representatives at the 56<sup>th</sup> session of the International Statistical Institute, held in Lisbon 22-29 August 2007, August 2007*
- 1/08 *Simplified reporting: Inclusion of the Simplified Corporate Information in the Statistics on Non-Financial Corporations from the Central Balance-Sheet Database, May 2008*
- 2/08 *Securities Statistics: Integrated System Features and Main Results, July 2008*
- 1/09 *Papers presented by Banco de Portugal representatives at the 57<sup>th</sup> Session of the International Statistical Institute, held in Durban, South Africa, 16-22 August 2009*
- 1/11 *Papers presented by the Statistics Department in national and international fora, October 2011*
- 2/11 *Papers presented by Banco de Portugal representatives at the 58<sup>th</sup> World Statistics Congress of the International Statistical Institute, held in Dublin, Ireland, 21-26 August 2011, October 2011*
- 1/12 *Quality management in the statistics of Banco de Portugal, January 2012 (only in Portuguese)*