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**Banco de Portugal publishes the quarterly financial accounts of General government and the quarterly public debt statistics for the second quarter of 2011**

**Main highlights**

Banco de Portugal publishes today in the *BPstat* |Statistics Online the quarterly financial accounts of General government and the quarterly public debt for the second quarter of 2011<sup>1</sup>.

**In the second quarter of 2011, the public debt amounted to 106.6 per cent of GDP and the net lending (+) / borrowing (-) of the General government was -8.9 per cent of GDP**

The Public debt<sup>2</sup> maintained its increasing trend which began in the fourth quarter of 2009. In the end of the second quarter of 2011, the public debt, in the Excessive Deficit Procedure definition, was 106.6 per cent of GDP (see Chart 1). The net lending (+) / borrowing (-) of General government was -8.9 per cent of GDP in the second quarter of 2011. Considering the sum of the four last quarters, the net lending (+) / borrowing (-) was -8.8 per cent of GDP. The accumulated value was the lowest since the third quarter of 2009, and follows the improving trend observed since the second quarter of 2010.

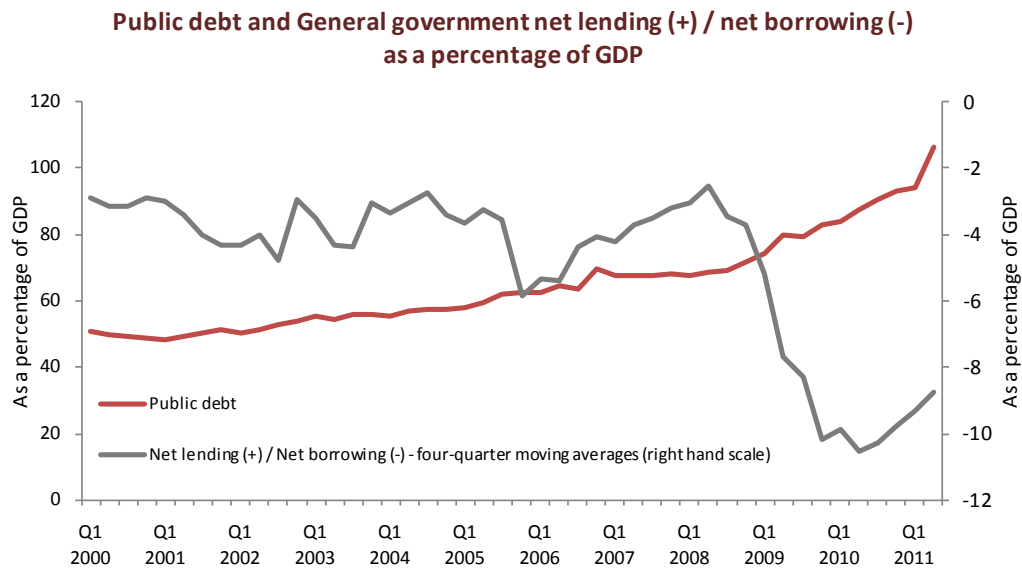
In the first half of 2011, the net lending (+) / borrowing (-) of General government was -7.0 billion euro (-8.3 per cent of GDP), which compares with -8.7 billion euro (-10.4 per cent of GDP) in the first half of 2010. The target for 2011 for the net lending (+) / borrowing (-) of General government is -10.0 billion euro (-5.9 per cent of GDP).

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<sup>1</sup> The quarterly financial accounts of General government are available in chapter F of the Statistical Bulletin of Banco de Portugal and in *BPstat* |Statistics Online.

<sup>2</sup> This concept is equivalent to the so-called Maastricht debt. It differs from the concept of direct State debt, which is compiled monthly by the Portuguese Treasury and Debt Management Agency (IGCP) and also published by Banco de Portugal. The main differences are: i. sector delimitation – direct State debt includes only debt issued by the State, while the Maastricht debt includes the debt of all entities classified, for statistical purposes, in General government; ii. consolidation – direct State debt shows only the liabilities of the State, while the Maastricht debt is consolidated, i.e. assets of General government which are liabilities of General government are excluded; iii. accrued interest of saving certificates – direct State debt includes the accrued interest of saving certificates, which are excluded from Maastricht debt. For definitions and additional methodological issues, see the Technical note and references at the end of this document.

Chart 1



In the context of the compilation of the accounts of the second quarter of 2011 and of the Excessive Deficit Procedure notification of September 2011, information on the debts of the Regional Government of Madeira, which were known in September 2011, were included<sup>3</sup>. In the next table, the impact of these revisions in Public debt and net lending (+) / borrowing (-) of General government is presented.

**Impact of the revision of the accounts of the Regional government of Madeira**

		<b>2008</b>	<b>2009</b>	<b>2010</b>
Public debt	in million euro	-	-	695
	as a percentage of GDP	-	-	0.40
Net lending (+) / net borrowing (-) of General government	in million euro	-174.7	-68.4	-975
	as a percentage of GDP	-0.10	-0.04	-0.56

The revision of debt is lower than the revision of deficit. In the one hand, part of the expenditures imputed to the accounts of 2010 was not subject to debt repayment arrangements and were, therefore, recorded as trade credits, hence excluded from the definition of Public debt. In the other hand, the share of trade credits that was discounted with the financial sector (through operations of factoring without recourse) was already recorded in the debt for EDP purposes.

From now on, Banco de Portugal will publish information on the breakdown of annual statistics of Local government debt between Regional government of Azores, Regional government of Madeira and Other local government. The following table presents this breakdown for 2007-2010.

<sup>3</sup> According to the [Joint Press Release of Statistics Portugal and Banco de Portugal on the Accounts of the Regional Government of Madeira](#).

**Debt of Local government by subsector**

	In million euros			
	2007	2008	2009	2010
<b>Local government</b>	<b>7 055</b>	<b>7 688</b>	<b>8 533</b>	<b>9 659</b>
Regional government of Azores	470	537	601	652
Regional government of Madeira	1 426	1 848	2 066	3 110
Other local government	5 159	5 303	5 866	5 897

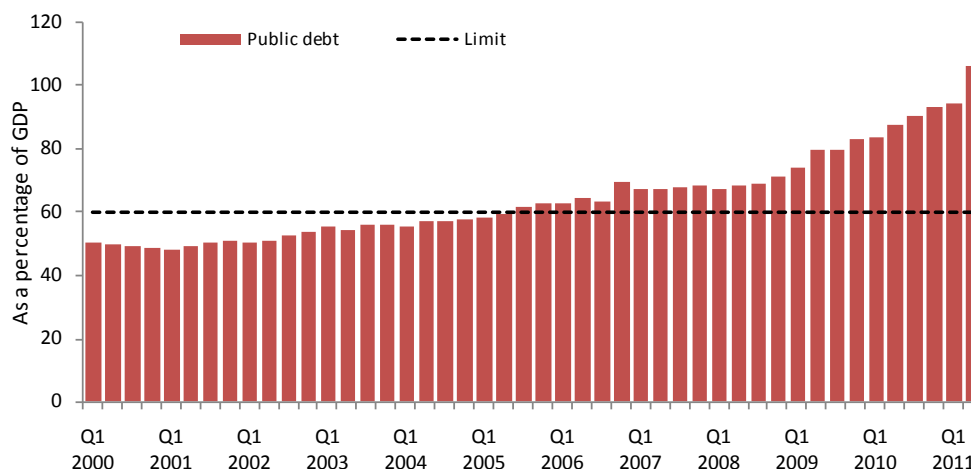
**Data analysis**

**Public debt reached 106.6 per cent of GDP**

In the second quarter of 2011, Portugal's General government debt was 184.1 billion euro, i.e. 106.6 per cent of GDP. This value represents an increase in relation to the 94.4 per cent recorded in the end of the first quarter of 2011. The government debt ratio is above the limit set by the Maastricht Treaty since the third quarter of 2005<sup>4</sup> (see Chart 2). The growth of debt in the second quarter of 2011 was mainly explained by the loans received in the framework of the Economic and Financial Assistance Program to Portugal. This program began in the second quarter of 2011 and, until the end of this period, an amount of 19.8 billion euro was received from the European Financial Stability Facility (7.1 billion euro), the European Financial Stabilisation Mechanism (6.5 billion euro) and the International Monetary Fund (6.2 billion euro). A significant part of these loans had not been used by the end of the second quarter of 2011 and were recorded as assets of General government in the form of deposits. The evolution of debt is also explained by loans granted by domestic financial institutions and by the assumption by the Regional government of Madeira of the debt of a road concession company, which occurred in the second quarter of 2011.

**Chart 2**

**General government debt as a percentage of GDP**



<sup>4</sup> In the April 2011 Excessive Deficit Procedure notification, three public transport corporations were reclassified in General government. The debt of these corporations is included, from the fourth quarter of 2006, in the debt of General government, with an amount of 5.3 per cent of GDP in that period.

Chart 3 shows the breakdown of Government debt by subsector and the consolidation effect<sup>5</sup>. The increase of General government debt in the first quarter of 2011 was 20.7 billion euro and was explained mainly by the increase of Central government debt (20.7 billion euro). The debt of Local government increased by 0.3 billion euro, and the consolidation effect corresponded to -0.3 billion euro.

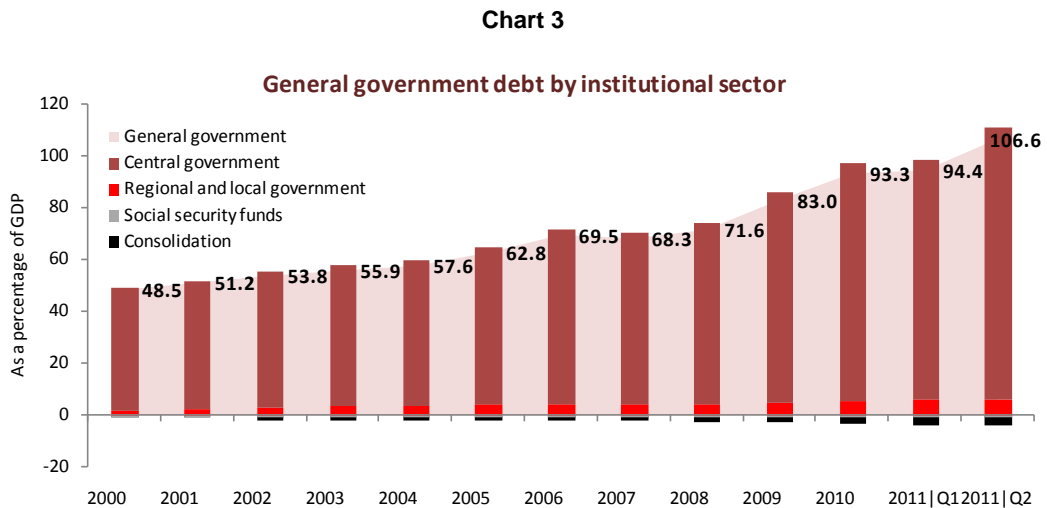
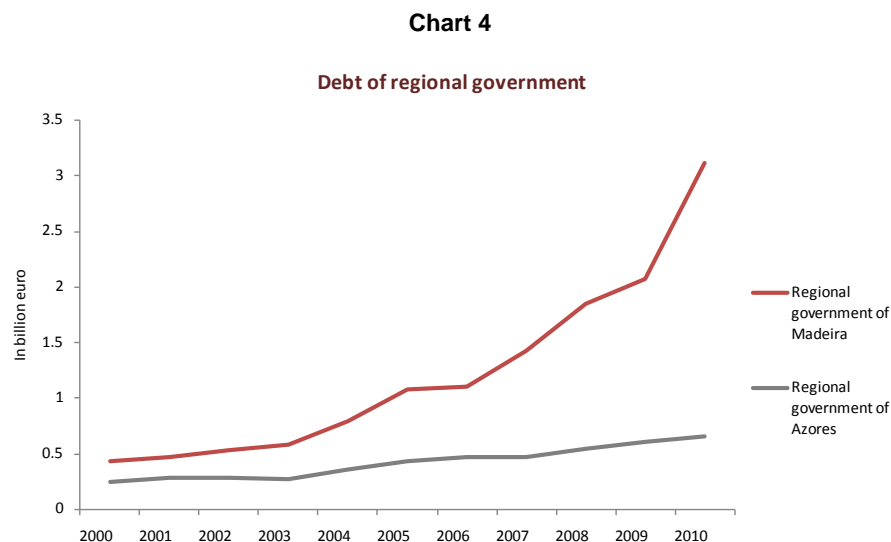


Chart 4 presents the evolution of the debt of the Regional governments of Azores and Madeira. The total amount of the debt of both regions increased from 0.7 billion euro in the end of 2000 (0.5 per cent of GDP) to 3.8 billion euro in the end of 2010 (2.2 per cent of GDP).

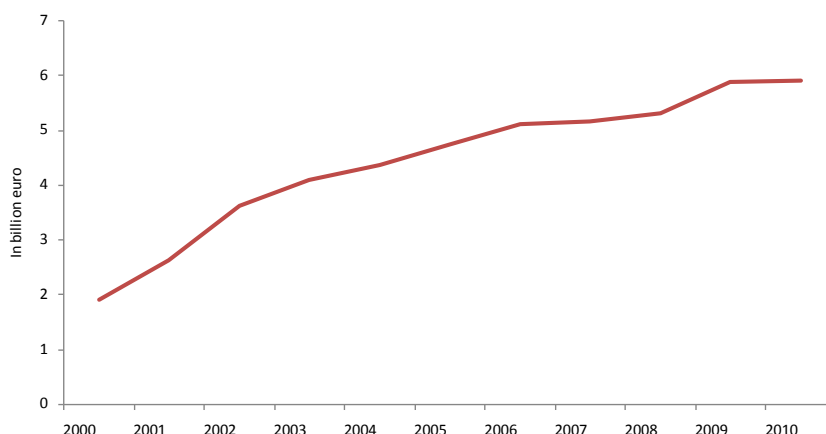


The debt of other local government units shows a clear increasing trend between 2000 and 2010, from 1.9 billion euro in the end of 2000 (1.5 per cent of GDP) to 5.9 billion euro in the end of 2010 (3.4 per cent of GDP) (see Chart 5).

<sup>5</sup> Consolidation means cancelling out transactions between entities from the same institutional sector or sub-sector, both in terms of flows and stocks.

**Chart 5**

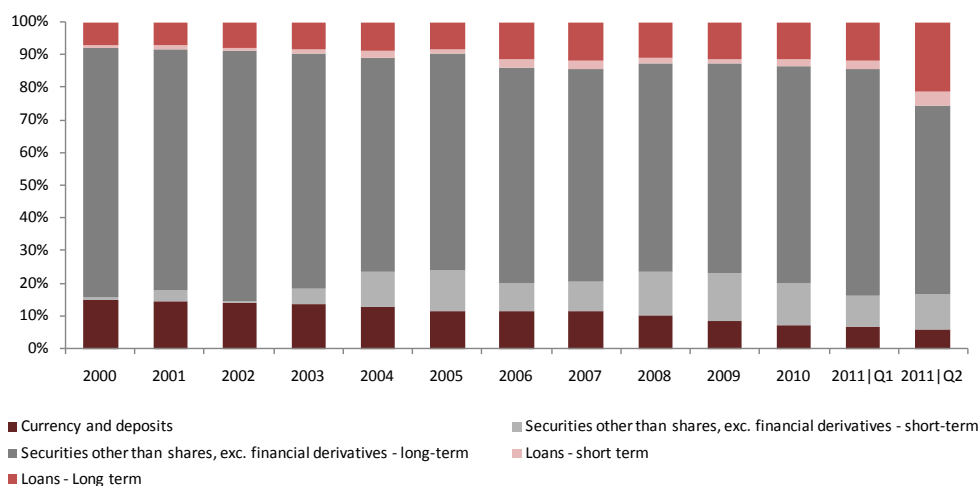
**Debt of other local government**



The breakdown of General government debt by financial instrument (see Chart 6) shows an increase in the weight of loans in total debt and a decrease in the weight of securities. The share of loans was 25.4 per cent of total debt in the end of the second quarter of 2011, which compares with 14.4 per cent in the end of the previous quarter. Conversely the share of securities decreased to 68.6 per cent of total debt in the end of the second quarter of 2011, from 78.5 per cent in the end of the previous quarter.

**Chart 6**

**Debt by financial instrument**



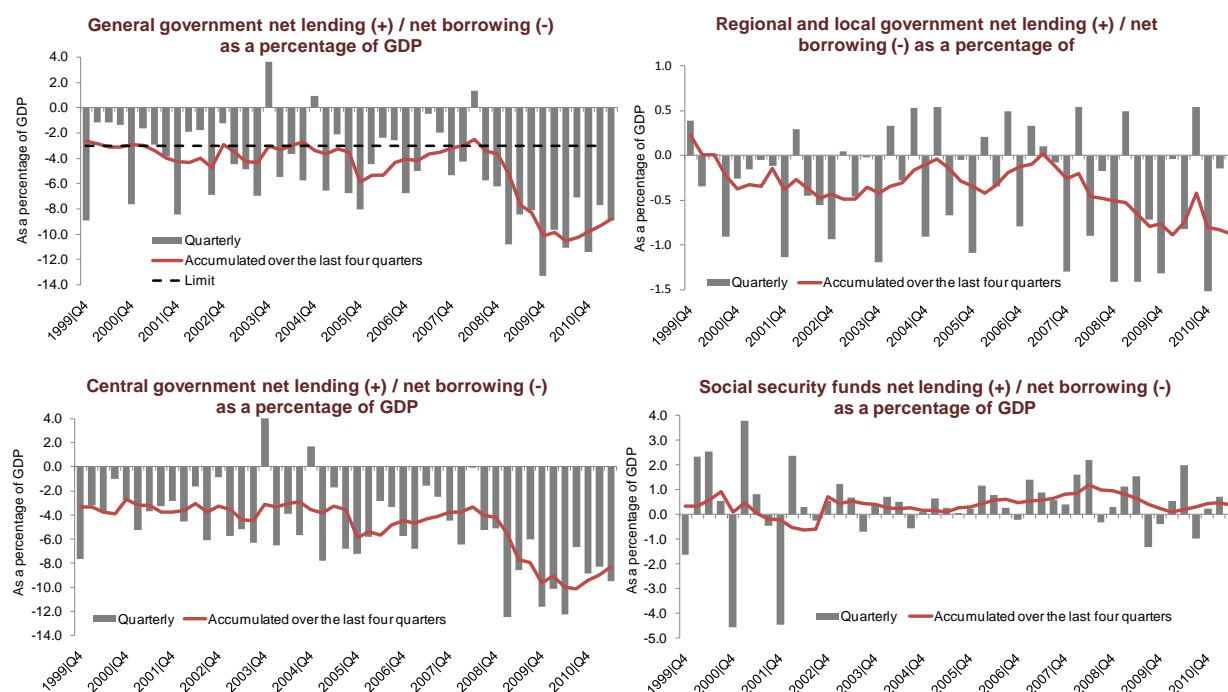
The second quarter of 2011 also recorded an increase of loans granted by financial institutions and a decrease of currency and deposits, due to a divestment of households in saving certificates which was only partially compensated by a net investment in Treasury certificates. These financial instruments are classified as deposits and are liabilities of General government.

## The financial saving<sup>6</sup> of General government was -8.9 per cent of GDP

The borrowing needs of General government were, in the second quarter of 2011, 8.9 per cent of GDP, which compares to 11.0 per cent in the same quarter of 2010 (Cfr. Chart 7). The decrease in borrowing needs was mainly due to the reduction of the borrowing needs of the Central government from 12.2 per cent of GDP in the second quarter of 2010 to 9.5 per cent of GDP in the second quarter of 2011. Local government recorded borrowing needs of 1.0 per cent of GDP in the second quarter of 2011, which represents an increase when comparing with the same period of 2010. Social security funds decreased slightly their lending capacity from 2.0 per cent of GDP in the second quarter of 2010 to 1.6 per cent of GDP in the same quarter of 2011.

The borrowing needs of General government decreased from 9.3 per cent of GDP in the year ending in the first quarter of 2011, to 8.8 per cent of GDP in the year ending in the second quarter of 2011.

Chart 7

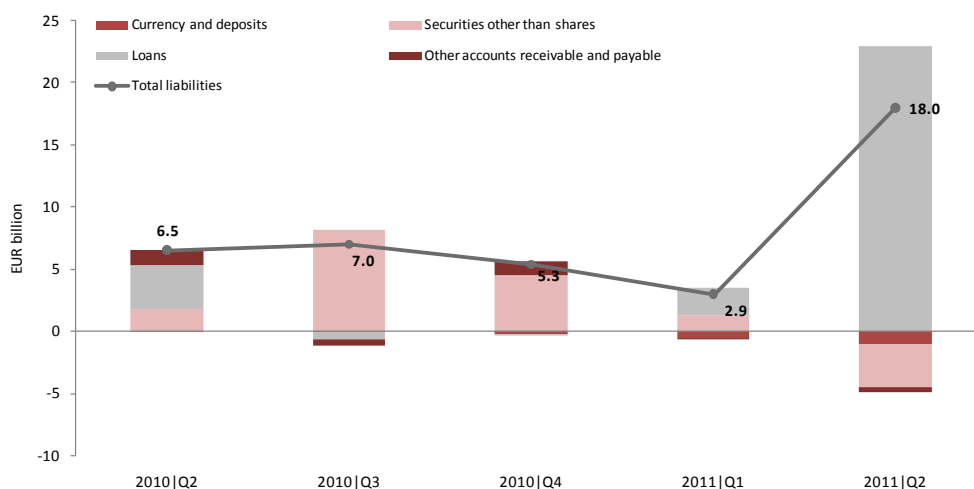


In the second quarter of 2011, the borrowing needs of General government were influenced by an increase in liabilities higher than the increase in financial assets. The rise in financial resources (Cfr. Chart 8) was, to a great extent, determined by the loans received in the framework of the Economic and Financial Assistance Program to Portugal and, to a lesser extent, by loans granted by financial institutions. The net issue of securities was negative for the first time since the third quarter of 2009. The liabilities in currency and deposits decreased due a divestment of households in saving certificates which was only partially compensated by a net investment in Treasury certificates.

<sup>6</sup> The financial saving is equal to the net lending (+) / net borrowing (-), i.e. the difference between transactions in financial assets and liabilities. A positive difference between the two aggregates corresponds to a net lending or a surplus. A negative difference means that a net borrowing or a deficit occurred in the period.

**Chart 8**

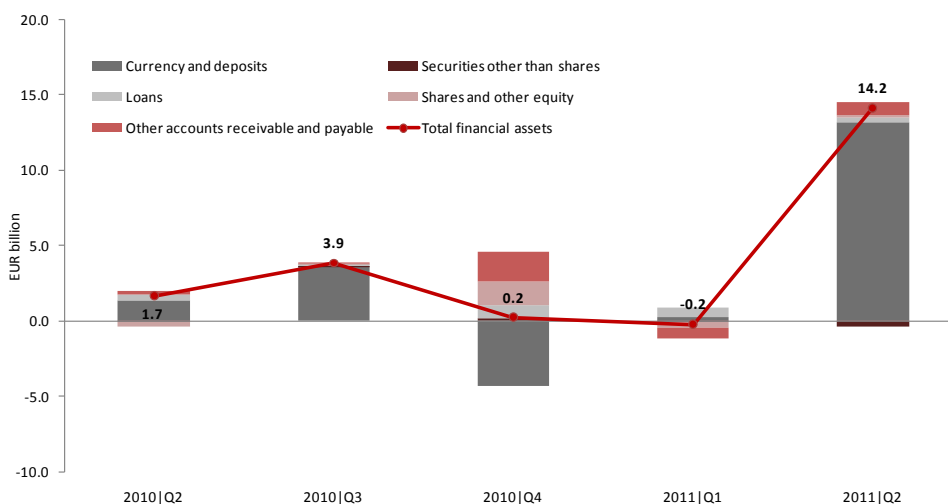
**General government liabilities (transactions)**



An increase in financial assets occurred in the second quarter of 2011 (Cfr. Chart 9), especially in currency and deposits. The deposits of General government in the Banco de Portugal and Other Monetary and Financial Institutions are highly influenced by the funds received in the framework of the Economic and Financial Assistance Program to Portugal and which were not yet used by the end of the second quarter of 2011. Financial assets were also affected by the recording of the anticipated payment of the margin of the loan granted by the European Financial Stability Facility.

**Chart 9**

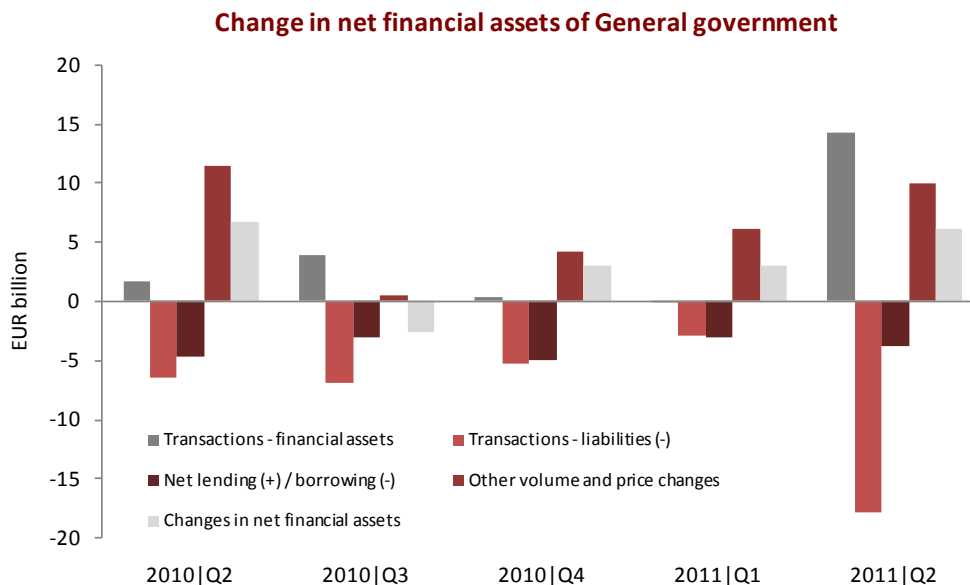
**General government financial assets (transactions)**



**The net financial assets of General government reached -58.2 per cent of GDP in the end of the second quarter of 2011**

The net financial assets of General government reached -58.2 per cent of GDP in the end of the second quarter of 2011, which compares with -61.6 in the end of the previous quarter. The improvement in net financial assets is a result of a compensation effect between the borrowing needs of the sector, which have a negative impact in net financial assets, and the positive impact of the decrease of the market value of liabilities, in consequence of the lower value of General government securities (see Chart 10). This decrease in value is noticeable in the net financial assets, but not in the Maastricht debt, due to the different valuation principles. Additionally, the funds received in the framework of the Economic and Financial Assistance Program to Portugal and not yet used in the end of the second quarter of 2011, had a positive impact in the net financial assets, since this aggregate results from the difference between assets and liabilities. On the contrary, Maastricht debt is not deducted of the unused resources, because it is defined in gross terms.

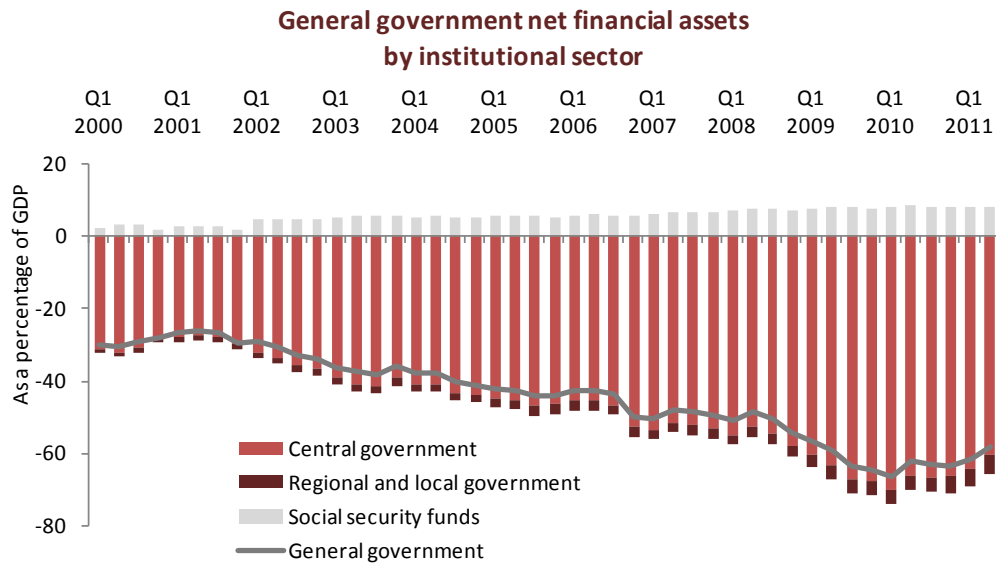
**Chart 10**



The net financial assets of General government increased mainly in consequence of the improvement of Central government, which, in the end of the second quarter of 2011, recorded a value of -60.7 per cent of GDP, which compares with -64.5 per cent of GDP in the end of the previous quarter (see Chart 11). The net financial assets of Local government decreased slightly in the end of the second quarter of 2011 to -5.2 per cent of GDP, after -4.8 per cent of GDP in the end of the first quarter of 2011. The net financial assets of Social security funds, which are positive in consequence of the accumulation of the surpluses of the social security contributory schemes, remained, in the end of the second quarter of 2011, in 7.6 per cent of GDP.

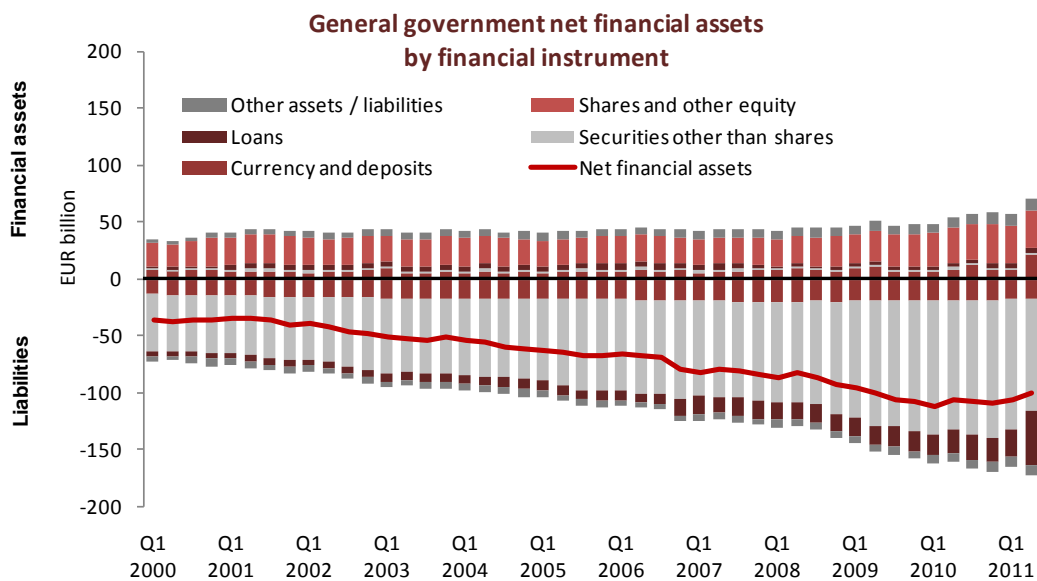


Chart 11



The composition of the net financial assets of General government by financial instrument (see chart 10) shows the importance of securities other than shares, in spite of the decrease in the second quarter of 2011, which resulted from both negative net issuance and devaluation. The share of loans in the financing of General government increased as a result of the loans received in the framework of Economic and Financial Assistance Program. The financial assets of General government are strongly influenced by the funds received in the framework of the Economic and Financial Assistance Program to Portugal and not yet used by the end of the second quarter of 2011.

Chart 12

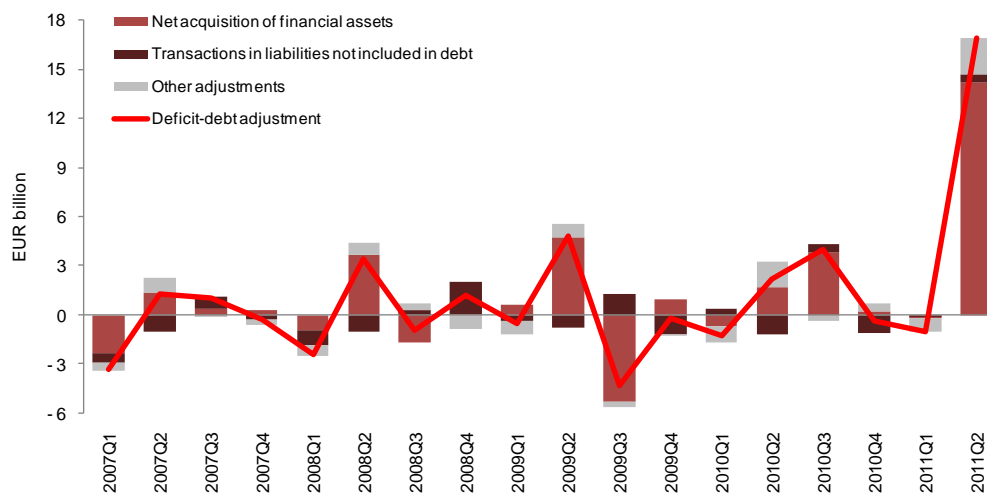


### The deficit-debt adjustment was 38.9 per cent of GDP in the second quarter of 2011

In the second quarter of 2011, the difference between deficit (3.8 billion euro) and change in debt (20.7 billion euro) was 16.8 billion euro (see Chart 13). This difference is mainly explained by the increase in financial assets (14.2 billion euro), which result, in part, of the investment in deposits of the funds received in the framework of the Economic and Financial Assistance Program to Portugal and not yet used by the end of the second quarter of 2011. The remaining amounts are due to the recording of the anticipated payment of the margin of the loan granted by the European Financial Stability Facility and to the payment of interest which was already recorded in the deficit of previous quarters.

Chart 13

Deficit-debt adjustment

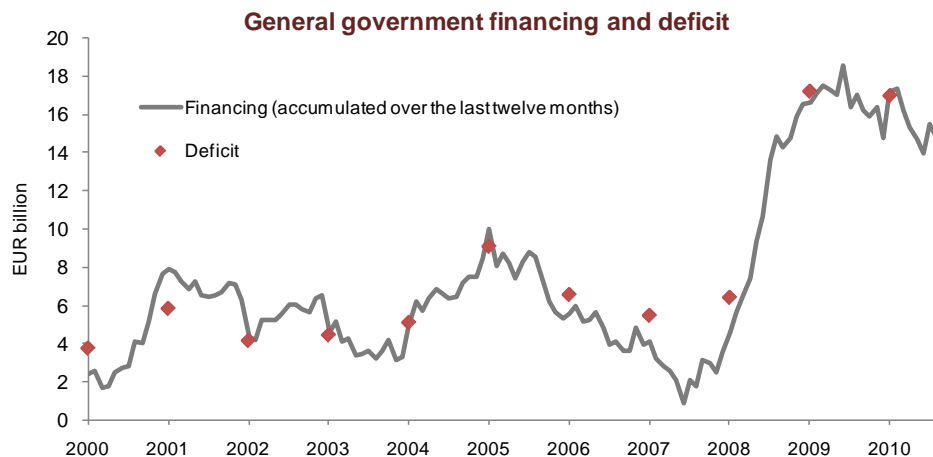


### Deficit and financing of General government

The financing of General government<sup>7</sup> includes liabilities in securities and loans, minus changes in deposits and investments in securities, except Central government and Local government transactions in shares and other equity issued by residents, trade credits granted by residents. The financing of General government provides additional monthly information on the financial situation of General government. 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 14, which shows the financing accumulated over 12 months compared with the annual deficit (borrowing needs) of General government.

<sup>7</sup> Information on the financing of General government is available in Chapter E.1 of the Statistical Bulletin and in *BPstat* | Statistics online.

Chart 14



On a quarterly basis, the financing and the deficit can show higher differences since some adjustments made in financial accounts have a more significant impact in quarterly figures and not so much in the annual ones, since they correspond, in general, to inter-quarter adjustments. Therefore, the value of the deficit for the second quarter of 2011 in national accounts (3.8 billion euro) is significantly different from the financing of General government from April to June 2011 (5.4 billion euro). This difference is caused mainly by the inclusion, in national accounts, of additional information, namely 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.

#### Technical note

The methodological framework of the Financial Accounts is the European System of Accounts 1995 (ESA95) which sets up a closed integrated system of representative economic statistics broken down into institutional sectors and financial instruments. Economic agents are classified in five institutional sectors (Non-financial corporations, Financial corporations, General government, Households - covering Households in the strict sense and Non-profit institutions serving households - and the Rest of the World). Additionally, the General government sector is broken down in three subsectors: Central government, Local Government and Social security funds. The financial transactions carried out in the economy are grouped in 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 there are some additional breakdowns..

One of the main purposes of Financial Accounts is to ascertain 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. Non-financial Accounts, in their turn, ascertain the lending capacity or the borrowing requirement for each institutional sector. This is reached by finding the difference between sources and uses. The acquisition of financial assets and the issuing of financial 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.

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 bodies 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 non-exploited 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 when 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. The National Accounts system is exhaustive, so all changes in stocks should be explained by flows recorded in the system.

In addition to the rules defined in the ESA 95, 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, time of recording of transactions, relations with public corporations, relations with the financial sector and public-private partnerships.

The definition of public debt is established in the Council Regulation (EC) no 479/2009, May 25<sup>th</sup>, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community. According to this legal diploma, the public debt corresponds to the General government gross liabilities at nominal value, at the end of the year, with the exception of those liabilities which the corresponding financial assets are held by the General government sector. Public debt includes the liabilities in currency and deposits, securities other than shares, excluding financial derivatives and loans, according to ESA 95 definitions.

Usually, the deficit of General government in a certain period is not equal to the change in debt in the same period, although the same trend is expected. In principle, public 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. A positive deficit-debt adjustment means that public debt grows more than what it 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 value of deficit (or decreases more than the value of the surplus).

The deficit-debt adjustment is caused, mainly, by three factors. Firstly, public debt is a gross concept, i.e. it concerns liabilities of General government, and it 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. Secondly, the definition of public debt used in Europe excludes the financial instruments Financial derivatives and Other accounts payable (namely trade credits). Therefore, it is possible that public debt increases when payments of expenditure which was already recorded in previous periods occur, in compliance with the accrual principle. Thus, changes in liabilities not included in public debt are a second main source of difference. Finally, public debt is, according to the methodology defined at European level, a stock measured at nominal value. This means that, on the one hand, transactions in interest accrued and not paid are not added up to the stock of debt and, on the other hand, changes in value or reclassifications with impact in the level of debt, which, not being transactions, are not reflected in deficit.

### **References**

Methodological document: "[National Financial Accounts](#)", available in section Quality, methodologies and statistical nomenclatures in the page on statistics at the Banco de Portugal website (only in Portuguese).

Methodological document: "[Public Finance Statistics](#)", available in section Quality methodologies and statistical nomenclatures in the page on statistics at the Banco de Portugal website (only in Portuguese).

[Manual on Government Deficit and Debt - Implementation of ESA95](#) ).

Council Regulation no 479/2009, May 25<sup>th</sup>, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

European System of National and Regional Accounts – ESA 95 (Council Regulation no. 2223/96, June 25<sup>th</sup>), with the amendments introduced by Regulation no. 1392/2007 of the Parliament and the Council, November 13<sup>th</sup>.

Statistical Press Release: "[Banco de Portugal publishes the quarterly financial accounts of General government and the quarterly public debt statistics for the first quarter of 2011](#)", of 21 July 2011, available in the section on Statistical Publications page at the website of Banco de Portugal.

Suplement [2/2005](#) to the Statistical Bulletin, "National Financial Accounts for the Portuguese Economy. Methodological Notes and Statistical Results for 2000-2004".

Suplement [3/2005](#) to the Statistical Bulletin, "National Financial Accounts for the Portuguese Economy. Statistics on Financial Assets and Liabilities for 1999 - 2004".