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Banco de Portugal

EUROSYSTEM

Banco de Portugal publishes the quarterly financial accounts of General government and the quarterly public debt statistics for the first 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 first quarter of 2011[1].

From now on, Banco de Portugal will publish in BPstat |Statistics Online, in the domain of Public finance statistics, quarterly data on the debt of General government, in addition to annual data which was already available.

In the first quarter of 2011, the public debt amounted to 94.0 per cent of GDP and the net lending (+) / borrowing (-) of the General government was -7.7 per cent of GDP

The public debt[2] maintained its increasing trend which began in the fourth quarter of 2009. In the end of the first quarter of 2011, the public debt, in the Excessive Deficit Procedure definition, was 94.0 per cent of GDP (see Chart 1). The net lending (+) / borrowing (-) of General government was -7.7 per cent of GDP in the first quarter of 2011. Considering the sum of the four last quarters, the net lending (+) / borrowing (-) was -8.7 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.

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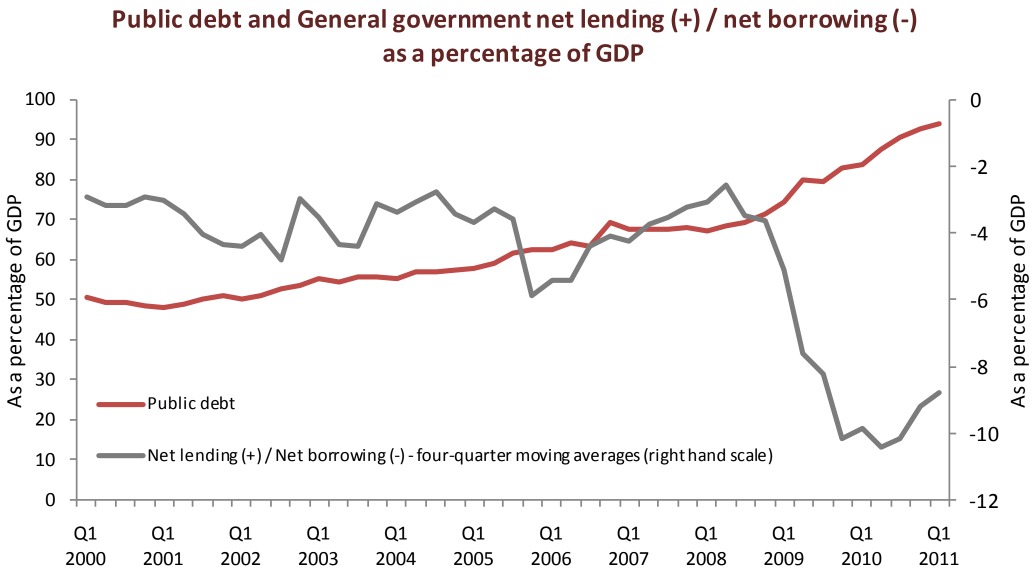
[1]The quarterly financial accounts of General government are available in chapter F of the Statistical Bulletin of Banco de Portugal and in BPstat |Statistics Online.

[2]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



Data analysis

Public debt reached 94.0 of GDP

In the first quarter of 2011, Portugal's General government debt was 162.6 billion euro, i.e. 94.0 per cent of GDP. This value represents an increase in relation to the 92.9 per cent recorded in the end of the fourth quarter of 2010. The government debt ratio is above the limit set by the Maastricht Treaty since the third quarter of 2005[3] (see Chart 2). The growth of debt in the first quarter of 2011 was mainly due to loans granted by both domestic and foreign financial institutions and, to a lesser degree, to the issue of securities. The stock of debt reflects, additionally, the amounts needed to finance the participation of Portugal in the financial assistance programs to Greece and Ireland which, in the end of the first quarter, amounted to 1,103 and 108 million euro, respectively.

[3] 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 2

General government debt as a percentage of GDP

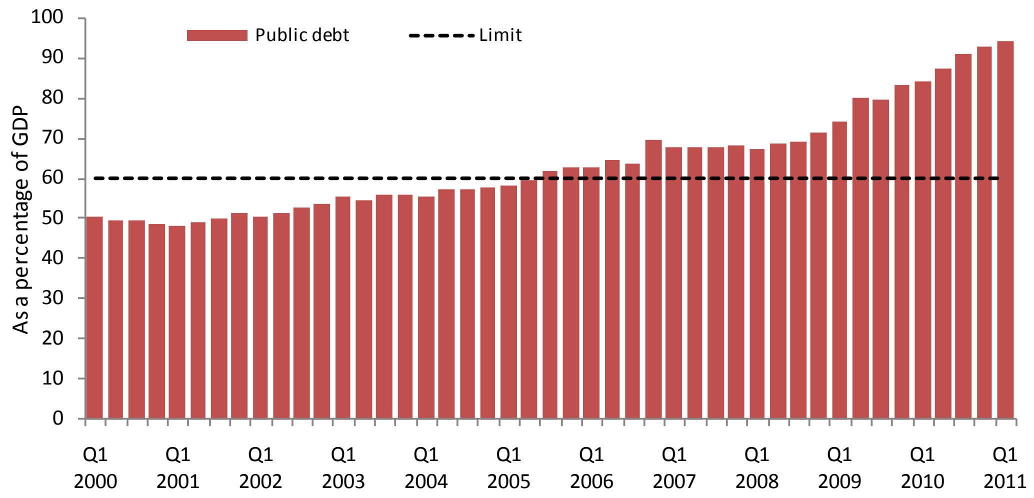
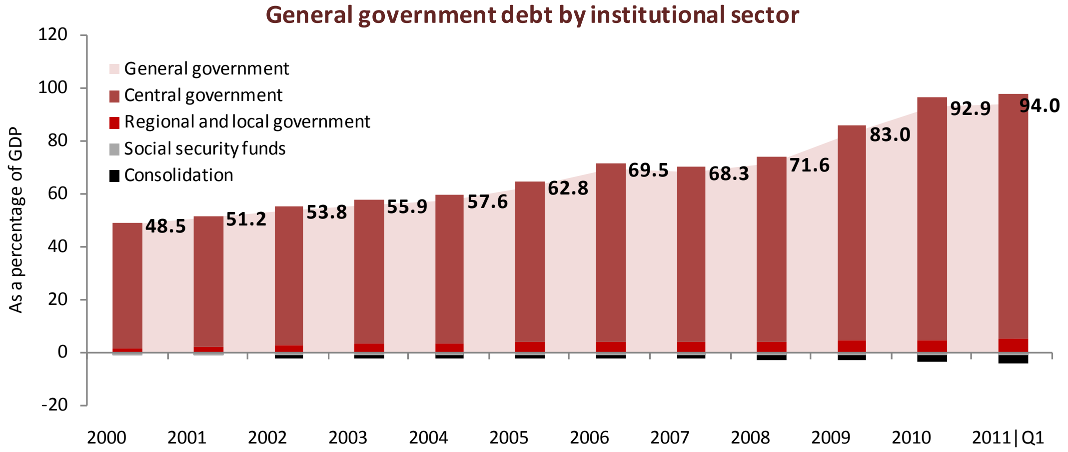


Chart 3 shows the breakdown of Government debt by subsector and the consolidation effect[4]. In the last decade, the debt of Central government weighed on average around 97 per cent of total General government debt. In this period, Local government debt represented 6 per cent of total General government debt and the debt of Social security funds was negligible. The consolidation had an impact of approximately -3 per cent. The increase of General government debt in the first quarter of 2011 was 2.1 billion euro and was explained mainly by the increase of Central government debt (2.2 billion euro). The debt of Local government increased by 0.4 billion euro, and the consolidation effect corresponded to -0.5 billion euro.

Chart 3

General government debt by institutional sector



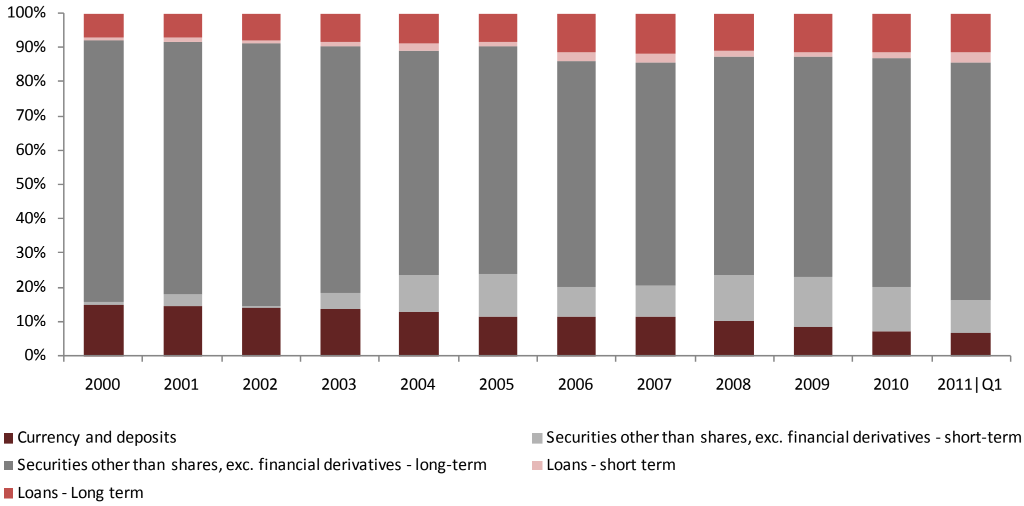
The breakdown of General government debt by financial instrument (see Chart 4) shows that securities other than shares excluding financial derivatives were still the most important instrument in the first quarter of 2011, with a weight of 78.9 per cent of total debt. This amount compares with 79.8 per cent in the previous quarter. This financial

[4] Consolidation means cancelling out transactions between entities from the same institutional sector or sub-sector, both in terms of flows and stocks.

instrument includes mainly Treasury bonds which usually have long original maturities. The debt with long maturities assumes, therefore, a dominant role in the structure of General government debt, reaching 80.9 per cent of the total in the first quarter of 2011. The relative weight of each instrument in the debt of the three subsectors is quite different. While in Central government, securities are the main instrument (84 per cent of the debt of this subsector in the end of the first quarter of 2011), Local government and Social security funds are financed mainly through loans (94 and 100 per cent of the debt of these subsectors in the same period.

Chart 4

Debt by financial instrument



In the first quarter of 2011 it was also recorded an increase of loans granted by both domestic and foreign 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.

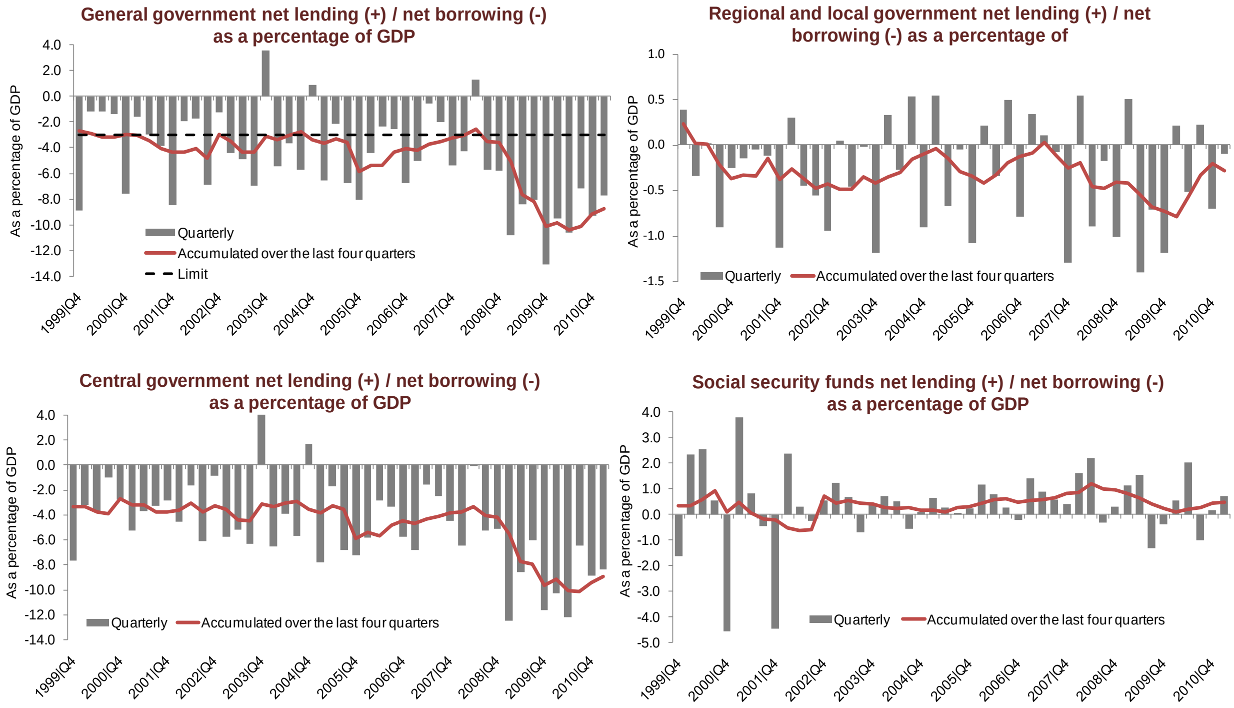
The financial saving[5] of General government was -7.7 per cent of GDP

The borrowing needs of General government were, in the first quarter of 2011, 7.7 per cent of GDP, which compares to 9.5 per cent in the same quarter of 2010 (Cfr. Chart 5). The decrease in the borrowing needs was mainly due to the reduction of the borrowing needs of the Central government from 10.3 per cent of GDP in the first quarter of 2010 to 8.3 per cent of GDP in the first quarter of 2011. The Local government recorded borrowing needs of 0.1 per cent of GDP in the first quarter of 2011, which represents an increase when comparing with the same period of 2010. Social security funds increased slightly their lending capacity from 0.5 per cent of GDP in the first quarter of 2010 to 0.7 per cent of GDP in the same quarter of 2011.

The borrowing needs of General government decreased from 9.2 per cent of GDP in the year ending in the fourth quarter of 2010, to 8.7 per cent of GDP in the year ending in the first quarter of 2011.

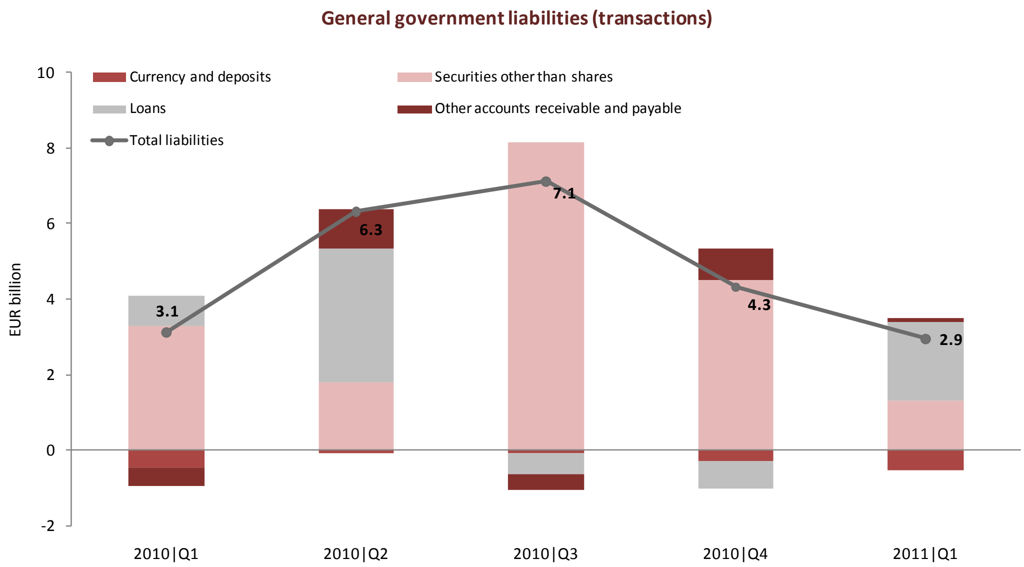
[5] The financial saving is equal to the net lending (+) / net borrowing (-), i.e. the difference between transactions in financial assets and liabilities. A positive difference between the two aggregates corresponds to a net lending or a surplus. A negative difference means that a net borrowing or a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

Chart 5



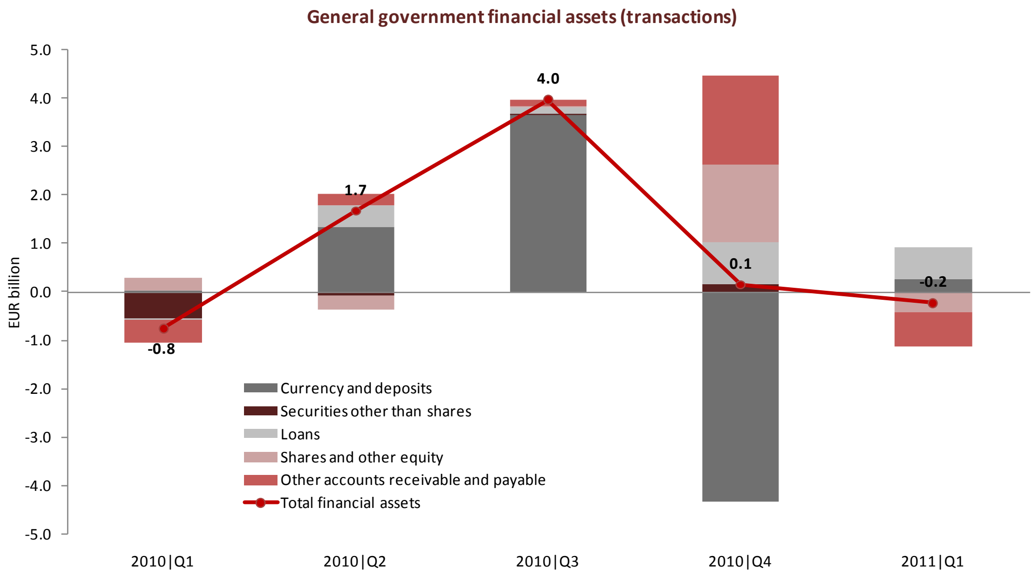
In the first quarter of 2011, the borrowing needs of General government were influenced by an increase in liabilities higher than the increase in financial assets. The rise in financial resources (Cfr. Chart 6) was, to a great extent, determined by the increase in loans granted by domestic and foreign financial institutions and by the issue of securities. 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.

Chart 6



The increase in financial resources occurred simultaneously with a reduction in financial assets (Cfr. Chart 7), especially in shares and other equity and other accounts receivable. An increase was recorded in loans, as a result of the funds granted Greece and Ireland (555 e 108 million euro, respectively), in the context of the financial assistance to those countries.

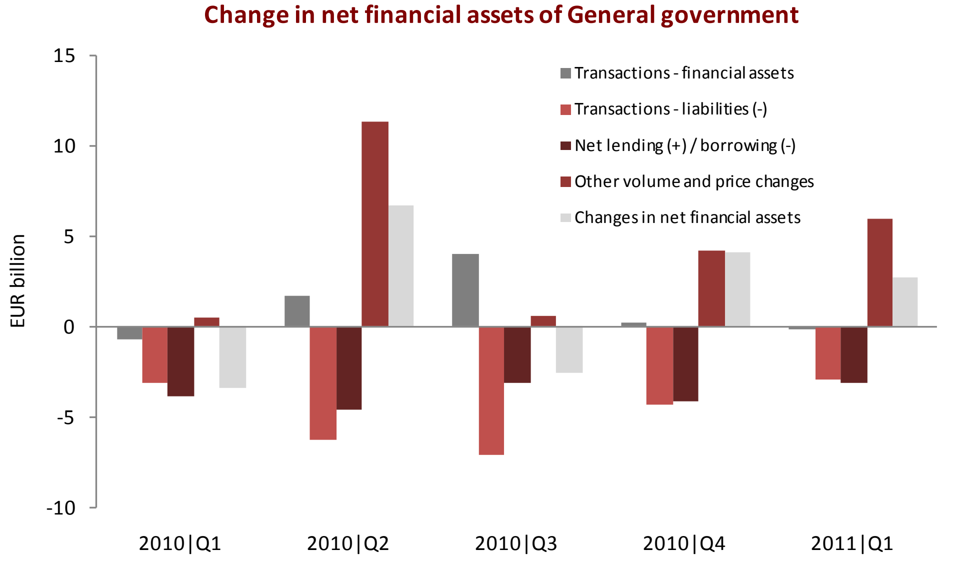
Chart 7



The net financial assets of General government reached -60.7 per cent of GDP in the end of the first quarter of 2011

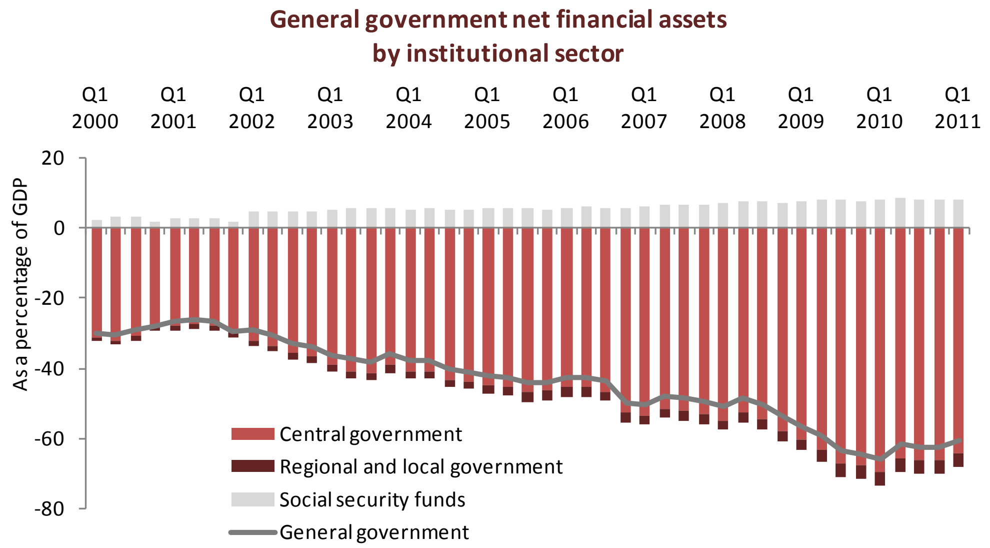
The net financial assets of General government reached -60.7 per cent of GDP in the end of the first quarter of 2011, which compares with -62.4 in the end of 2010. These stocks are valued at market prices and differ from the Maastricht debt, which is measured at nominal value. The improvement in net 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. This decrease in value is noticeable in the net financial assets, but not in the Maastricht debt, due to the different valuation principles (see Chart 8).

Chart 8



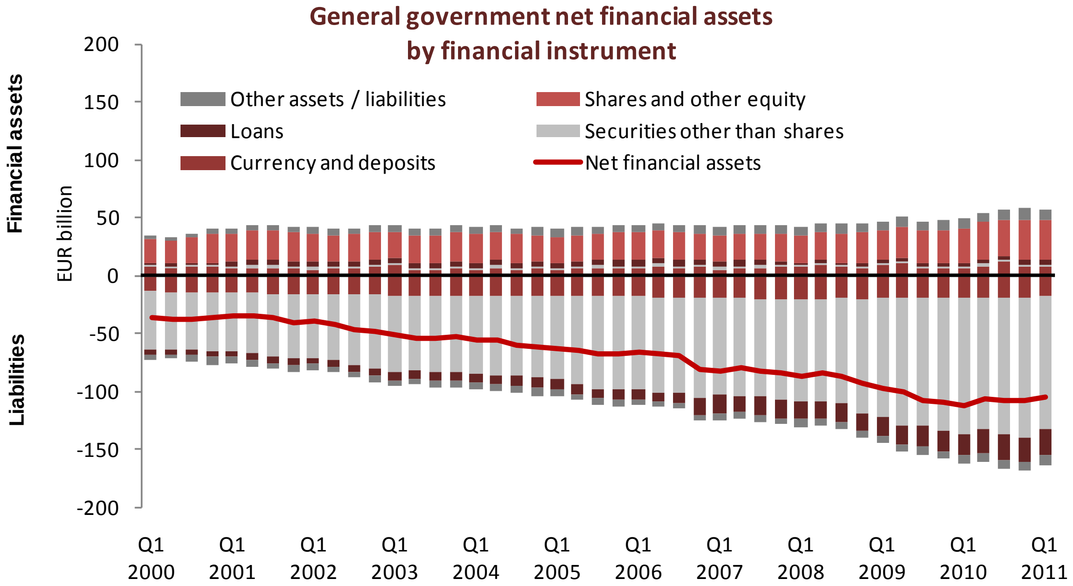
The net financial assets of General government increased mainly in consequence of the improvement of Central government, which, in the first quarter of 2011, recorded a value of -64.2 per cent of GDP, which compares with -66.2 per cent of GDP in the fourth quarter of 2010 (see Chart 9). The net financial assets of Local government decreased slightly in the first quarter of 2011 to -4.1 per cent of GDP, after -4.0 per cent of GDP in the last quarter of 2010. The negative value of the net financial assets of these two subsectors is compensated by 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. In the first quarter of 2011, the net financial assets of Social security funds amounted to 7.6 per cent of GDP, recording a slight decrease in relation to the last quarter of 2010.

Chart 9



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 its devaluation in the first quarter of 2011. Loans and currency and deposits, which are essentially composed of saving and Treasury certificates, represent another important source of General Government financing. The financial assets´ side is composed mainly by shares and other equity.

Chart 10



The deficit-debt adjustment was -2.6 per cent of GDP in the first quarter of 2011

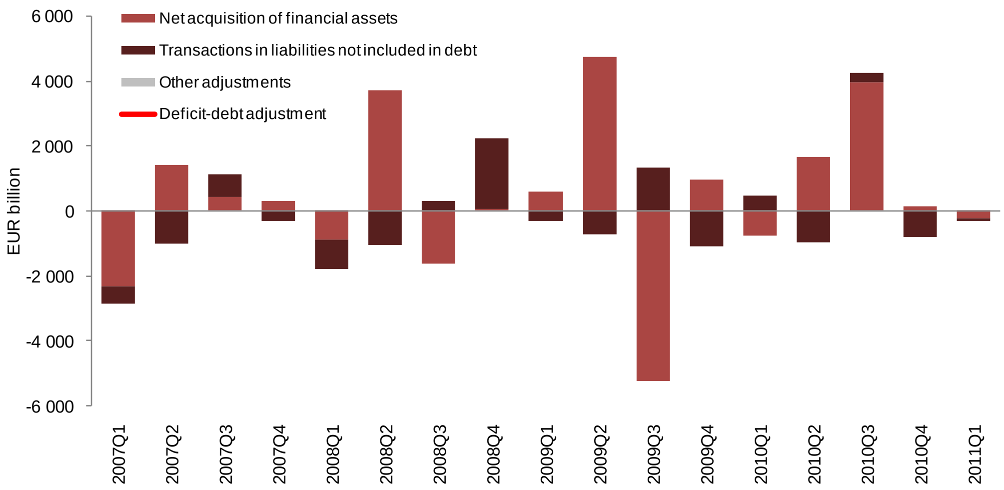
Usually, the deficit of General government in a certain period is not equal to the change in debt in the same period, although the same trend is expected. In principle, public debt increases when a deficit is observed, and decreases when a surplus occurs. However, changes may occur in public debt due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

In the first quarter of 2011, the difference between deficit (3,177 million euro) and change in debt (2,114 million euro) was 1,063 million euro (see Chart 11). The amount of debt issued was lower than the deficit, since, on the one hand, interest accrued and not paid had a significant value, and, on the other hand, financial assets were used up (-229 million euro) to finance the deficit. It can be observed that, in the first quarter, debt usually increases less than the value of the deficit.

Chart 11

Deficit-debt adjustment



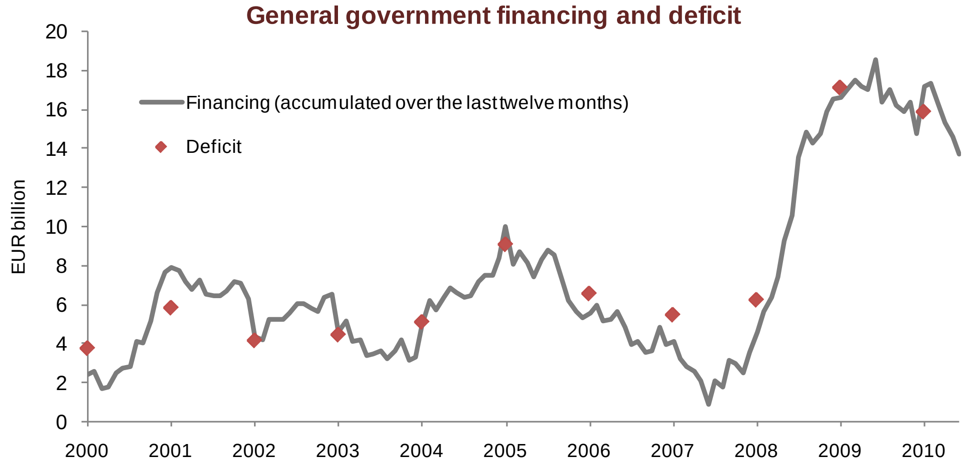
In the section on international comparisons, additional information on the deficit-debt adjustment in some euro area countries is presented.

Deficit and financing of General government

The financing of General government[6] 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 12, which shows the financing accumulated over 12 months compared with the annual deficit (borrowing needs) of General government.

[6] Information on the financing of General government is available in Chapter E.1 of the Statistical Bulletin and in BPstat | Statistics online.

Chart 12



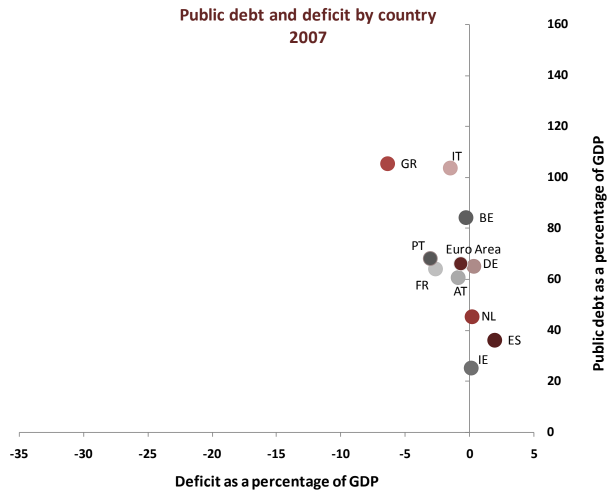
On a quarterly basis, the financing and the financial savings can show higher differences since some adjustments made in financial accounts have a more significant impact in quarterly figures and not so much in the annual ones, since they correspond, in general, to inter-quarter adjustments. Therefore, the value of the deficit for the first quarter of 2011 in the national accounts (3,177 million euro) is significantly different from the financing of General government from January to March 2011 (510 million euro). This difference is caused mainly due to the inclusion, in national accounts, of additional information which allows for the recording of operations according to the accrual principle, i.e. when the economic value is created, transformed or extinguished or when the rights and obligations are created, transformed or extinguished. This additional information takes into account, in particular, 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.

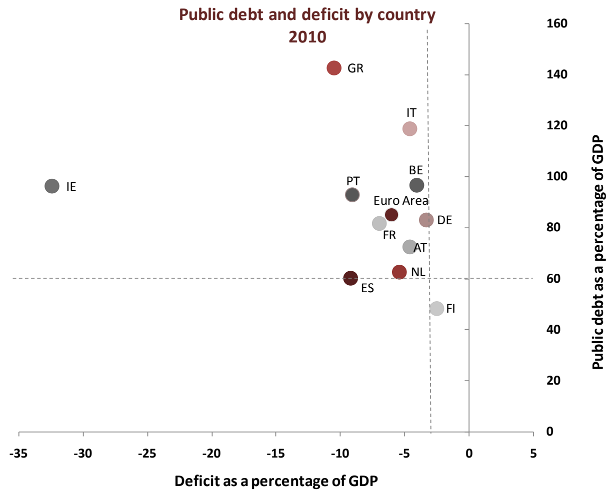
International comparison [7]

Between 2007 and 2010, most countries in the euro area showed a significant deterioration of debt and deficit (see Chart 13). The most negative results were registered in the countries for which financial assistance programs are in place, i.e. Greece, Ireland and Portugal.

[7] Comparison based on annual data available from Eurostat.

Chart 13



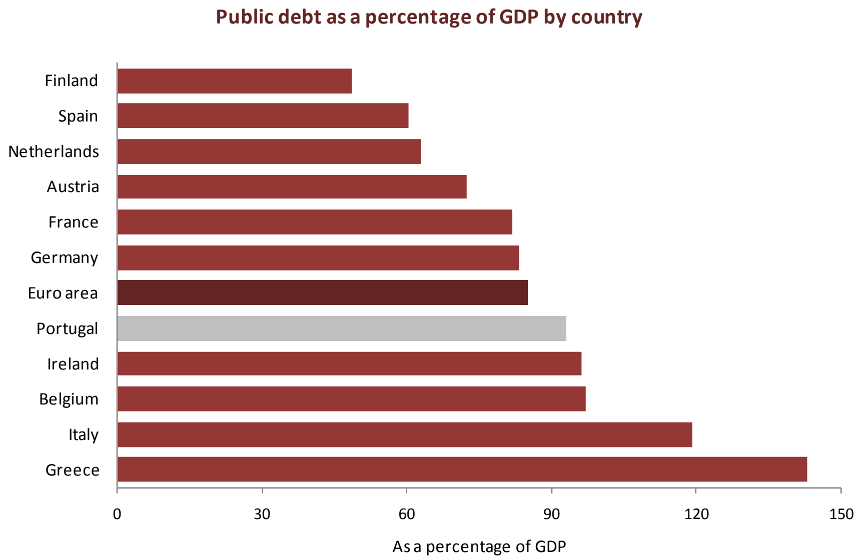


Legend:
AT: Austria; BE: Belgium; DE: Germany; FR: France; ES: Spain; FI: Finland; GR: Greece; IE: Ireland; IT: Italy; NL: Netherlands; PT: Portugal; Euro Area: composition of 17 countries.

In the chapter of the Main Indicators of the Statistical Bulletin a set of information on Public Finance (Section A.14 and A.15) is available, 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.

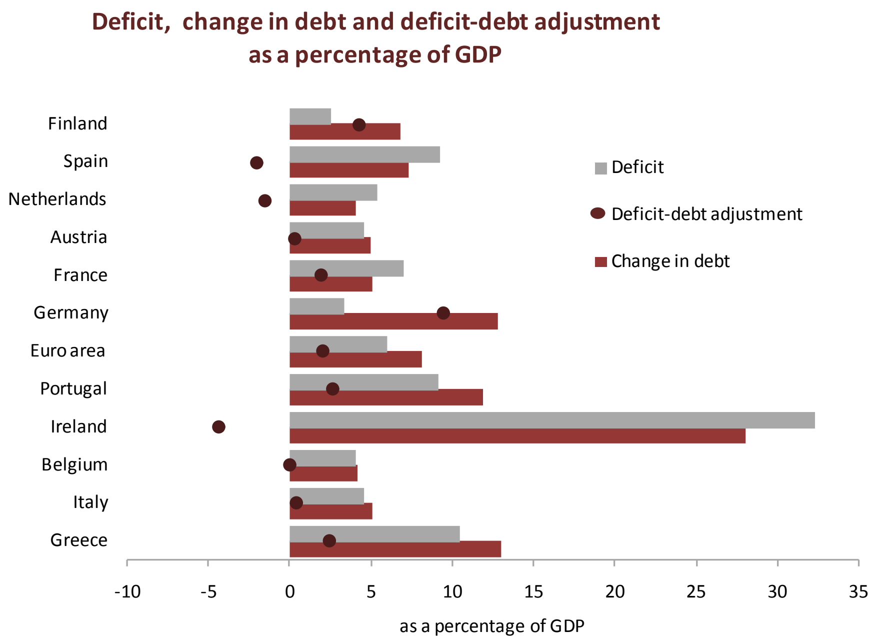
In the end of 2010, public debt was above the limit set by the Maastricht Treaty in all the countries presented, except Finland (see Chart 14)**.**

Chart 14



In 2010, the deficit-debt adjustment in the selected countries accounted for relatively small amounts, except in Germany and Finland, where the debt grew in a much higher scale than the deficit of the year, and in Ireland, where the debt presented a lower amount than what would be the result of the simple accumulation of the deficit of the year (see Chart 15). In Portugal, the amount of the deficit-debt adjustment for 2010 was slightly higher than the average of the euro area, mainly due to acquisitions of financial assets recorded at the end of that year.

Chart 15


Deficit, change in debt and deficit-debt adjustment
as a percentage of GDP
Finland
Spain
Netherlands
Austria
France
Germany
Euro area
Portugal
Ireland
Belgium
Italy
Greece
Deficit
Deficit-debt adjustment
Change in debt
-10
-5
0
5
10
15
20
25
30
35
as a percentage of GDP

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 25th, 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.

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 25th, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

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

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