

**Session #15**

**Chapter 4: The public sector in Portugal: scope, structure and accounts**

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4.2. The accounts and budget balance of the General Government (the case of Portuguese Public Administrations)

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4.2.4. The consolidation of accounts and the inter-governmental transfers

4.2.5. Centralisation degree of the PA: indicators

- Readings in English
  - **Summary Chapter 11** (translation) Pereira e Nunes, *Economia e Finanças Públicas da Teoria à Prática*
- Readings in Portuguese:
  - Manual:
- **Economia e Finanças Públicas**, Pereira et al. (2015), (5ª edição) Escolar Editora Capítulo 11 p. 379-388 and Chapter 12 429-435 (economic classification of revenues and expenditures). 6ª edição, Cap. 11, p. 395-404.
  - Exercises:
  - **Economia e Finanças Públicas: da Teoria à Prática**, Pereira e Nunes (2016), **Edições Almedina** Capítulo 11 (Resumo) Some multiple questions will be translated.



## Economics and Public Finance – Core topics

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- Consolidated values
  - Revenues, Expenditures
- Non-consolidated values
  - Revenues, Expenditures
- Intergovernmental transfers.
- The structure of revenues and expenditures
- The size of general government.
- The degree of centralization of general government.

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## EPF – Transfers between Public Administration subsectors

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- The synthesis of the “*budget*” of **General Government** in **Public Administration Accounting Standards** can be presented as follows:
  - **Non-consolidated values**
    - The transfers between sub-sectors are autonomously separated at the level of (current and capital) expenditures and revenues.
  - **Consolidated values**
    - All net values do not consider transfers between Public Administration subsectors.
- Hence, the analysis of the intergovernmental transfers between Public Administration sub-sectors is only possible if we follow **Public Administration Accounts’ Standards with non-consolidated values**.

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## EPF – General Government current revenues consolidation (1/3)

2015 (budget data) **General Government consolidated current revenues\***, using  
**Public Administration Accounting Standards**

<i>Million euros</i>	Central Administration	Local and Regional Governments (LRG)	Social Security (SS)	<b>General Government</b>
<b>Current revenues</b>	54627,9	8418,1	25237,9	74571,5*
Direct taxes	22093,8	1078,6	170,4	23342,8
Indirect taxes	18219,9	3112,2	0,0	21332,1
Soc. Sec. contributions	4731,3	10,1	14345,8	19087,2
Other current revenue	9582,9	4217,2	10721,7	10809,4
<i>(of which: transfers from other sub-sectors)</i>	1855,6	2713,3	9143,5	0,0

Note: values for the subsectors are non consolidated.

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## EPF – General Government current revenues consolidation (2/3)

- Considering as an example the previous table we have:
  - **the consolidated value** totalling the General Government current revenues (**74.571,5**), is less than the sum of current revenues (non-consolidated) of Public Administration sub-sectors (**88.283,9**)
    - this difference between the two values (**13.712,4**) are the intergovernmental transfers between Public Administration sub-sectors.
  - **Note**
    - The same consolidation analysis can be performed for other items in the budget as capital revenues, current spending, and capital spending.

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## EPF – General Government current revenues consolidation (3/3)

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- How do we consolidate the values of General Government current revenues?
  - By subtracting from the current revenues of each sub-sector the transfers from other General Government sub-sectors.
- What do we obtain for each subsector?
  - The value of current revenues obtained by each sub-sector outside the Public Administrations.
- What can we conclude?
  - In 2015, the Central Administration (Ministries) was the principal collector of current revenues, whilst the Local and Regional Governments was responsible for the lowest amount.

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## EPF – The analysis of the non-consolidated values (1/2)

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- For of each Public Administration subsector, non-consolidated values
  - are used in the analysis of revenues and expenditures,
  - reflect the effective revenues and expenditures,
  - enable a “**vertical**” analysis of the structure of revenues and expenditures.
- Note: Transfers are effective revenues/expenditures of subsectors.

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## EPF – The analysis of the non-consolidated values (2/2)

### 2015 General Government non-consolidated revenues, using Public Administration Accounting Standards, vertical structure

	Central Government	Local Regional Gov.*	Social Security
<b>Current revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Direct taxes	40,4	12,8	0,7
Indirect taxes	33,4	37,0	0,0
SS contributions	8,7	0.1	56,9
Other current revenue	17.5	50,1	42,4
<i>(of which: transfers from other General Government subsectors)</i>	<i>3.9</i>	<i>32,2</i>	<i>36,2</i>

\* They include the VAT generated in the territories of Azores and Madeira

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## EPF – General Government current spending consolidation (1/4)

### 2015 (forecast) General Government consolidated current spending, using Public Administration Accounting Standards

Million euros	Central Government*	Local and Regional Governments* ("LRG")	Social Security* ("SS")	General Government
<b>Current spending</b>	<b>58.794,4*</b>	<b>7.112,5*</b>	<b>24.357,7*</b>	<b>76.552,2</b>
Compensation of employees	14.856,6	3.445,7	269,5	18.571,8
Acquisition of goods and services	8.418,8	2.371,6	103,0	10.893,4
Subsidies	710,6	220,4	339,4	1.270,4
Interests	8.201,7	404,9	7,9	8.614,5
Other current transfers	1.708,4	132,4	14,3	1.855,1
<b>Current transfers</b>	<b>24.898,3</b>	<b>537,5</b>	<b>23.623,6</b>	<b>35.347,0</b>
<i>(of which: transfers to other sub-sectors)</i>	<i>11.799,9</i>	<i>50,9</i>	<i>1.861,6</i>	<i>0,0</i>

\* Non consolidated values.

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## EPF – General Government current spending consolidation (2/4)

- Considering as an example the previous table we have:
  - **the consolidated value** totalling the **General Government** current spending (**76.552.2**), is less than the sum of current revenues of Public Administration sub-sectors (**90.264.6**)
    - this difference between the two values (**13.712.4**) are the intergovernmental transfers between Public Administration sub-sectors.
  - **Note**
    - The same analysis can be performed for other items in the budget as capital revenues, current spending, and capital spending.

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## EPF – General Government current spending consolidation (3/4)

### 2015 General Government non-consolidated current spending, using Public Administration Accounting Standards, vertical structure

	Central Govern.	Local and Reg. Gover.	SS
<b>Current spending</b>	<b>100</b>	<b>100</b>	<b>100</b>
Compensation of employees	25,3	48,4	1,1
Acquisition of goods and services	14,3	33,3	0,4
Subsidies	1,2	3,1	1,4
Interests	14,0	5,7	0,04
Other current transfers	2,9	1,9	0,06
Current transfers	42,3	7,8	97,0
<i>(of which: transfers to other sub-sectors)</i>	<i>20,1</i>	<i>0,7</i>	<i>7,6</i>

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## EPF – General Government current spending consolidation (4/4)

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- **Take notice of the importance of**

1. public consumption, which accounts for the **wages** of civil servants
2. transfers **to** other General Government subsectors in the column referring to the State (Central Gov.) will become current revenues from transfers received **from** other subsectors
3. **interests** payments relating with **public debt** are part of current expenditures.

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## EPF – The analysis of the consolidated values

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- For an “**horizontal**” analysis of revenues and expenditures of Public Administration sub-sectors, **consolidated values should be generally preferred**:
  - The non-consolidated values allow to see separately the transfer inter sub-sectors.
  - The consolidate values do not allow that, but are then useful for a so-called horizontal analysis.

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## EPF – The analysis of the consolidated of revenues

- **How do we consolidate General Government revenues?**
  - Subtracting from current (and capital) revenue in each sub-sector the transfers from other sub-sectors.
- **What do we obtain?**
  - For each sub-sector the value of current (and capital) revenues collected in each sub-sector and originated from outside the General Government.
- **What can we compute?**
  - The share of current (and capital) revenues in total current (and capital) revenue of the General Government (*horizontal structure*).

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## EPF – The analysis of consolidated revenues

### 2015 (forecast) General Government consolidated current revenues, using Public Administration Accounting Standards

Million euros	CA	LRG	SS	Public Adm.
<b>Current revenues</b>	<b>54.627,9</b>	<b>8.418,1</b>	<b>25.237,9</b>	<b>74.571,5</b>
<i>(of which: transfers from other sub-sectors)</i>	<i>1.855,6</i>	<i>2.713,3</i>	<i>9.143,5</i>	<i>0,0</i>
<b>Consolidated current revenue</b>	<b>52.772,3</b>	<b>5.704,8</b>	<b>16.094,4</b>	<b>74.571,5</b>
% of total Public Administrations	<b>70,8%</b>	<b>7,6%</b>	<b>21,6%</b>	<b>100%</b>

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## EPF – General Government expenditures consolidation

- **How do we consolidate the values of General Government expenditures?**
  - By subtracting from the expenditures of each subsector the transfers to other General Government subsectors.
- **What do we obtain?**
  - The value of (effective, current and capital) expenditures associated with the functions and nature of each Public Administration subsector.
- **What can we compute?**
  - The share of current (and capital) spending in total current (and capital) spending of the General Government (*horizontal structure*).

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## EPF – The analysis of consolidated spending

2015 (forecast) General Government consolidated current spending, using Public Administration Accounting Standards

	CA	LRG	SS	PA
<b>Current spending</b>	<b>58.794,4</b>	<b>7.112,5</b>	<b>24.357,7</b>	<b>76.552,2</b>
<i>(of which: transfers to other sub-sectors)</i>	<i>11.799,9</i>	<i>50,9</i>	<i>1.861,6</i>	<i>0,0</i>
Consolidated current spending	<b>46.994,5</b>	<b>7.061,6</b>	<b>22.496,1</b>	<b>76.552,2</b>
% of total PA	<b>61,4%</b>	<b>9,2%</b>	<b>29,4%</b>	<b>100%</b>

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## EPF – General Government spending: indicators

- Starting with the consolidated values of the General Government expenditures,
  - it is possible to differentiate between **two ratios** concerning the **size** and **degree of centralisation** of Public Administration:
    - The **size** of the General Government (in unitary countries) is given by the consolidated expenditures of  
**General Government/GDP= (CA + SS + LRG)/GDP.**
    - The **degree of centralisation** of Public Administration is given by the consolidated expenditures of  
**(CA + SS)/(CA + SS + LRG)=(CA+SS)/General Government**

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## Economics and Public Finance – Some closing notes

- Some closing notes**
  - The various types of PA balances are given by certain revenues subtracted with certain expenditures of the Public Administration sub-sectors.
  - The State (in *stricto sensu*) is the sub-sector with higher tax revenues and also intergovernmental transfers.
  - There are important financial flows from Central Government to State Owned Enterprises (SOE), which **are seen as public expenditures** (for example, the payment of “compensatory indemnities” in exchange for the public service provided by SOE).

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