



8 June 2021  
GOVERNMENT EXPENDITURE STATISTICS  
1995-2020

*Rectified version on 09-06-2021, at 04 pm*

*In the 1st paragraph, where it reads “This amount of expenditure was significantly lower than the average for all countries in the Euro area (-5.1 p.p.)” it should be read “This amount of expenditure was significantly lower than the average for all countries in the Euro area (-5.7 p.p.)”.*

## GOVERNMENT EXPENDITURE REACHES ALMOST 100 BILLION EURO IN 2020

In 2020, government expenditure reached 98.1 billion euros, corresponding to 48.4% of GDP (+5.9 p.p. compared to 2019). This amount of expenditure was significantly lower than the average for all countries in the Euro area (-5.7 p.p.).

Compared to 2019, government expenditure increased by 7.8% in nominal terms, largely due to economic policy measures taken to alleviate the impact of the COVID-19 pandemic.

Social benefits were the most relevant economic item, representing 19.8% of GDP. Compensation of employees and intermediate consumption weighed 11.7% and 5.6%, respectively.

Using the classification of functions of government, in 2019, the last year for which this information is available, the structure of government primary expenditure was already focused on the social protection function (42.7%), followed by the health function and the education function (16.6% and 11.1%, respectively).

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Statistics Portugal presents, for the first time as a press release, a summary of government expenditure statistics, consistent with the base year 2016 of the Portuguese National Accounts, as it was made with the already regular press release of tax revenues statistics, published on 11<sup>th</sup> May. This information is consistent with the General Government Accounts underlying the first notification of 2021 on the Excessive Deficit Procedure (EDP), released by end March. Figures for 1995 to 2018 have the nature of final data.

The framework of government expenditure statistics and the adopted terminology is based on the European System of National and Regional Accounts (ESA2010) and the Manual on sources and methods for the compilation of COFOG statistics, allowing the analysis and comparison of the results with other EU member states.

This information is sent to Eurostat annually in the context of the SEC 2010 transmission program and complements the information from National Accounts in the field of General Government statistics. Tables with detailed information are already available in the National Accounts area of Statistics Portugal's Official Website.

This press release is organized into three distinct parts: i) total government expenditure; ii) economic classification of expenditure; iii) functional classification of expenditure.

GOVERNMENT EXPENDITURE STATISTICS – 1995-2020



## Total government expenditure

In 2020, the nominal value of government expenditure reached 98.1 billion euro (48.4% of GDP and 5.9 p.p. more than in 2019), representing an increase of 7.8% compared to the previous year.

This increase put a stop in the reduction of this indicator started in 2018 and had brought the share of government expenditure in GDP, in 2019, close to that registered in 1999 (42.6%), the year of the introduction of the euro. In the 20 years that followed, the weight of public expenditure in GDP stood, on average, at 46.5%.

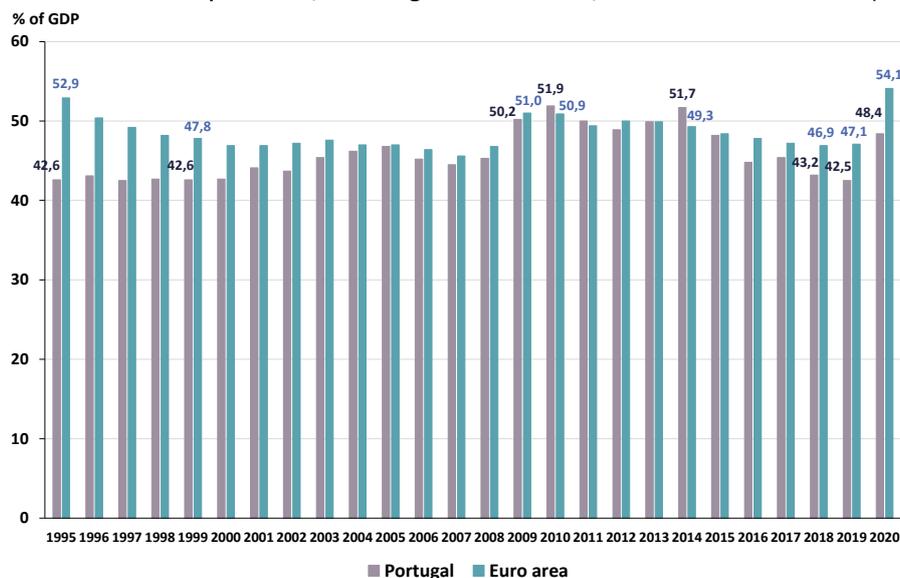
As a result of the economic policy measures taken in 2020 to lessen the impact of the COVID-19 pandemic, expenditure on subsidies, current transfers and capital transfers increased by 4.7 billion euro, compared to the previous year (change of +58.9%).

It should also be noted that investment rose 16.3% (+633 million euro compared to 2019) and property income (which mainly corresponds to interest paid) decreased 546 million euro (-8.6%).

With the exception for a brief period between 2010 and 2014, the share of government expenditure of countries that adopted the Euro in their GDP was always higher than the value of this indicator for Portugal.

In 2020, the share of government expenditure in relation to GDP was 48.4% in Portugal, 5.7 percentage points lower than the value for the Euro area average.

Figure 1. Government expenditure, in Portugal and Euro area, between 1995 and 2020 (% of GDP)



Fonte: Statistics Portugal, National Accounts; Eurostat



## Economic classification of expenditure

Considering the economic classification of government expenditure, the two most important expenditure items are social benefits and compensation of employees. In 2020, they represented 19.8% and 11.7% of GDP, respectively.

Regarding social benefits, between 1999 and 2020, they grew, on average, 4.7% per year, with pensions, which in 2020 accounted for almost three quarters of expenditure on social benefits, growing by 5.8% per year. It should be noted that, in the same period, the average annual nominal growth of GDP was only 2.5%.

In the same period, compensation of employees, grew 1.9% per year. However, this evolution was even more irregular than that of social benefits. From 1999 to 2010, expenditure on compensation of employees reached an average of 4% per year. From 2011, with the Economic and Financial Assistance Program, put into practice because of the financial crisis that the country went through, measures were adopted to reduce wages and suspend vacation pay and Christmas holiday pay, which led to a decrease in compensation of employees (-8.1% between 2010 and 2011 and -13% between 2011 and 2012). Since 2014, compensation of employees increased by 2.5% on an annual average. In 2020, the value of compensation of employees reached 23.7 billion euros, a figure still down by around 830 million euros compared to the maximum reached in 2010.

As for intermediate consumption, in 2020, its value reached 11.3 billion euros, representing 5.6% of GDP. Compared to 1999, the average annual growth rate was 3.7%.

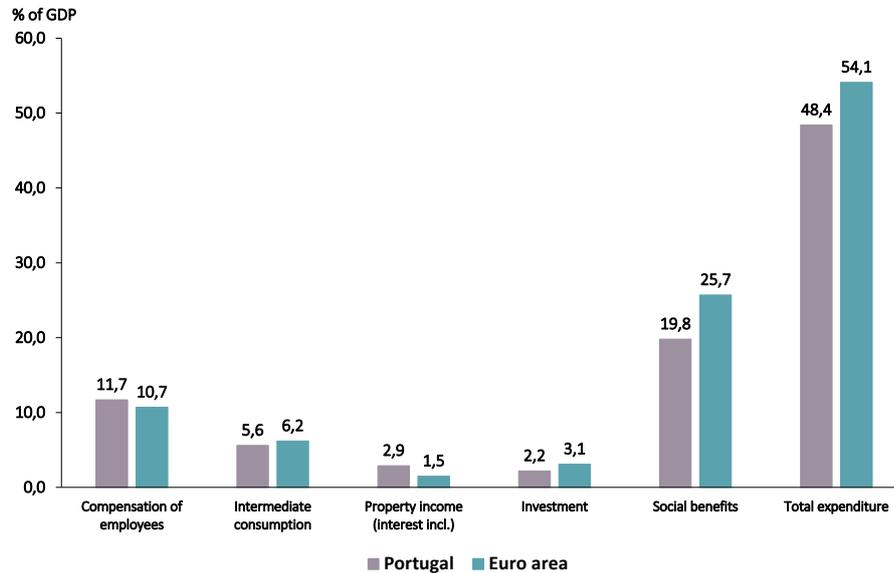
Regarding investment, it represented 2.2% of GDP, reaching 4.5 billion euros in 2020. In the period from 1999 to 2020, the annual average rate of change was -1.3%. A note for the peak registered in 2010, which is largely associated to the acquisition of submarines and the recording of the underlying assets of some public-private partnerships on roads, which in SEC2010 are considered investment of General Government.

In the period from 2011 to 2014, there were negative changes in this item in all years, having reached in 2011 the most negative rate of change (-36.4%). From 2015 onwards, developments have been relatively irregular, reaching the lowest level in 2016 as a percentage of GDP (see Figure 3). In 2020, government expenditure on investment increased by 16.3%, compared to the previous year.

Comparing with the Euro area, Portugal has a greater share, in relation to GDP, in expenditure on compensation of employees (11.7% vs. 10.7% in the Euro area) and in property income (2.9% vs. 1.5%). Regarding expenditure on social benefits, intermediate consumption and investment, the average for the group of countries in the Euro area register greater shares than Portugal.

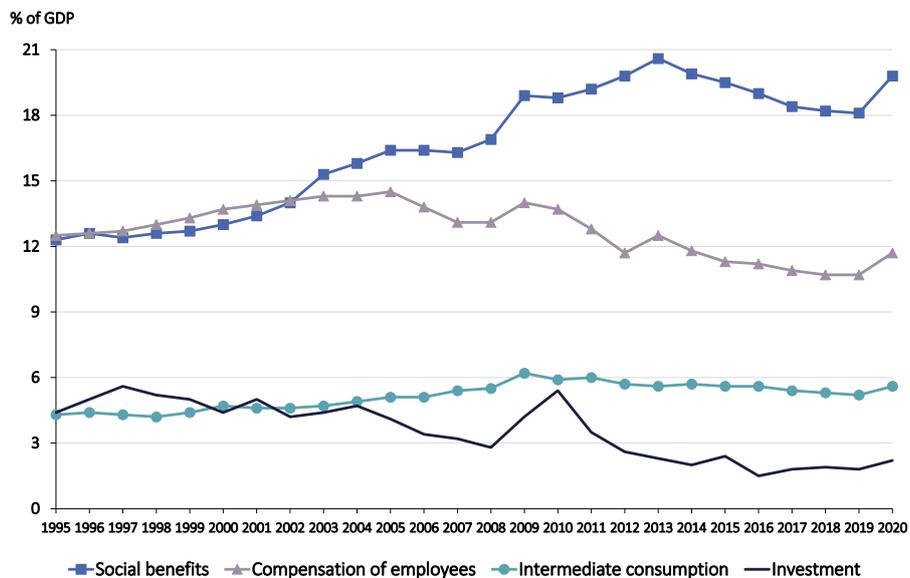


Figure 2. Share of government expenditure items, in Portugal and Euro area, in 2020 (% of GDP)



Fonte: Statistics Portugal, National Accounts; Eurostat

Figure 3. Government expenditure items, in Portugal, between 1995 and 2020 (% of GDP)



Fonte: Statistics Portugal, National Accounts

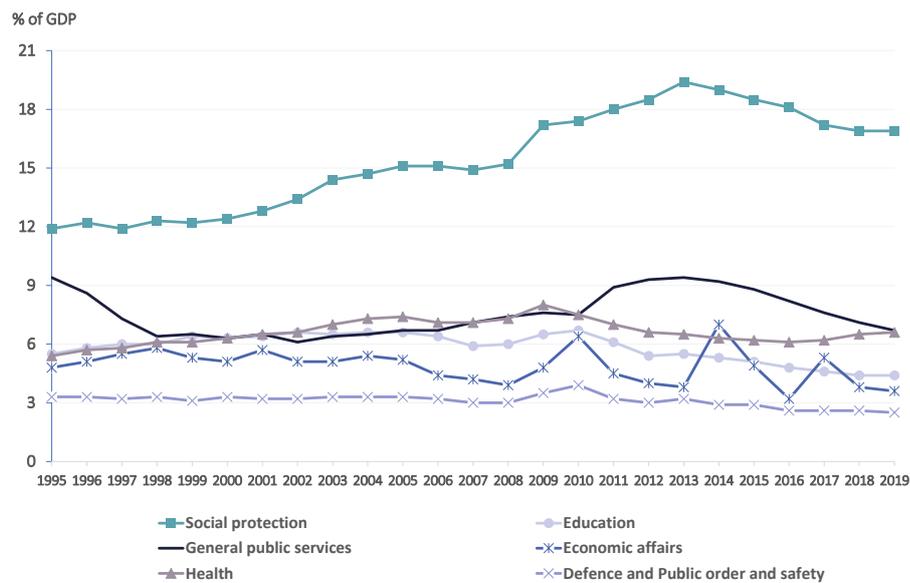


## Functional classification of expenditure

In addition to economic classification, government expenditure can also be classified by functions. The functional classification adopted here is that recommended by ESA 2010. This classification complements the economic classification by providing information on the purposes of government expenditure, thus broadening the analytical framework for assessing its quality. Currently, 2019 is the last year in which this information is available.

The main function of government expenditure has been social protection, far from the others considered in this classification (COFOG). In 2019, its weight in GDP was 16.9%. This was followed by general public services function (which includes interest paid) with a value of 6.7% of GDP. The health function and the education function registered values of 6.6% and 4.4%, respectively. Finally, expenditure on economic affairs registered a value of 3.6%, with expenditure on defence and public order and safety reaching 2.5% of GDP.

Figure 4. Government expenditure main functions, in Portugal, between 1995 and 2019 (% of GDP)



Fonte: Statistics Portugal, National Accounts

Analysing the evolution of expenditure by function, there is a continued increase in the share in GDP of the function in social protection until 2013 (where it reaches a maximum value of 19.4% of GDP), decreasing from 2014 onwards. This decrease is partially explained by the evolution of the unemployment benefits, having been paid around 2.8 billion euros in that year. This amount was around 1.3 billion euros by 2019.

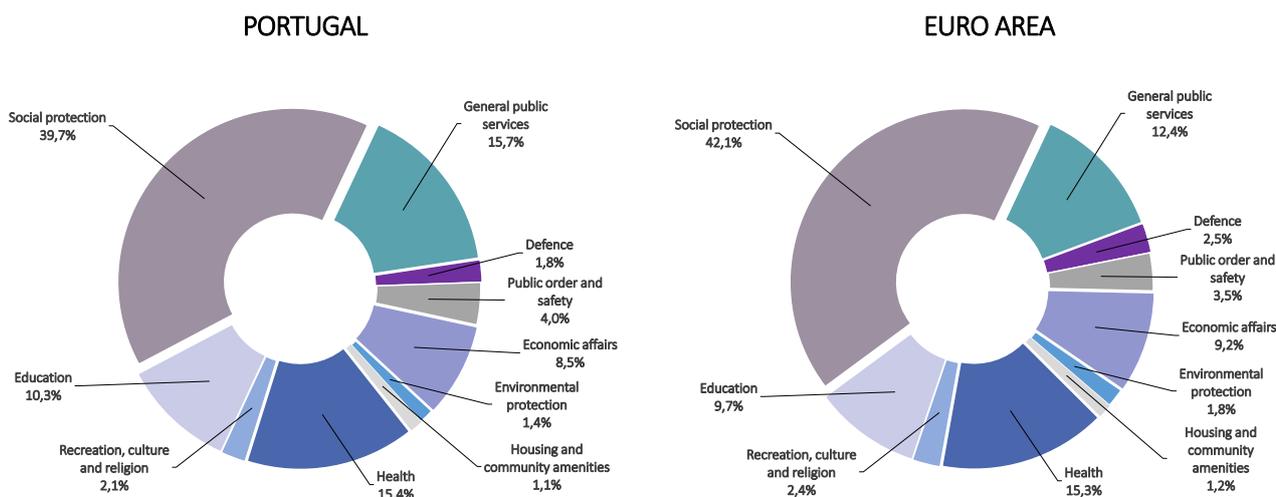
There were also decreases in the share in GDP in health and education functions, from 2009 and 2010 onwards, respectively, although the share of health expenditure in GDP has increased again since 2017.



With regard to expenditure on economic functions, there were occasional increases in 2010, mainly due to the classification as public investment of the assets included in some public-private partnerships on roads; in 2014, as a result of capital injections in Novo Banco (4.9 billion euros) and in Carris and STCP – main Lisbon and Porto public road transport corporations (1.2 billion euros); and in 2017, related to the capital injection in Caixa Geral de Depósitos (3.9 billion euros).

Comparing the structure of public expenditure by functions with the Euro Area, in 2019, Portugal showed a higher share of expenditure in the functions of education, public order and safety and general public services (which includes interest paid). On the other hand, the group of countries in the Euro area presented greater share in the functions of social protection, economic affairs and defence. Health expenditures had a very similar share, both in Portugal and in the Euro area.

Figure 5. Government expenditure by functions, in Portugal and in the Euro area, in 2019



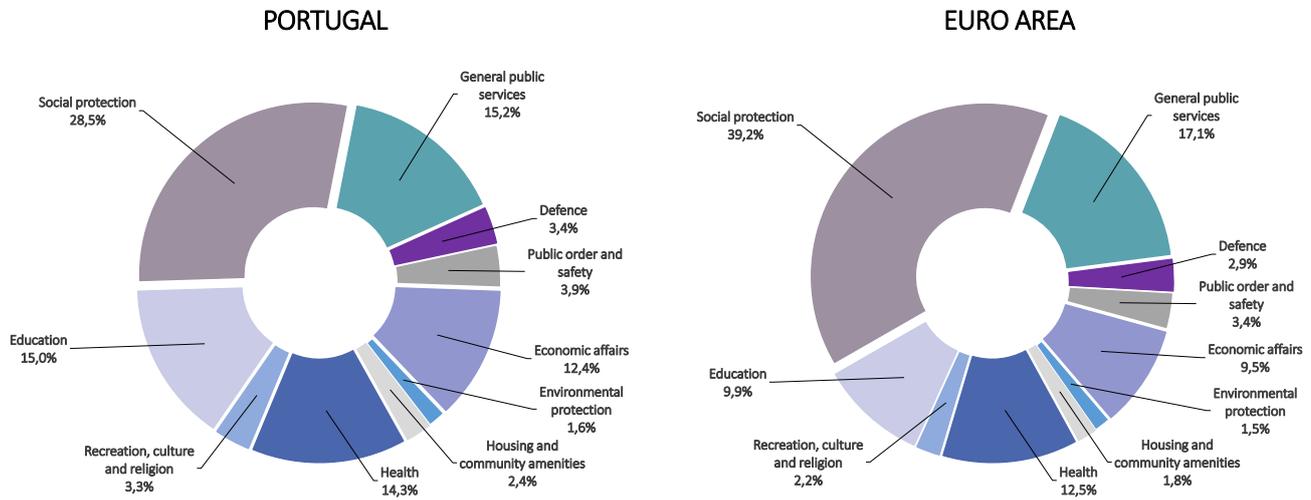
Fonte: Statistics Portugal, National Accounts; Eurostat

Making the same analysis for 1999, the profile changes slightly, with Portugal presenting a greater share of expenditure in the functions of education, health, economic affairs, defence and public order and safety. In the Euro Area, there were higher percentages in the functions of social protection and general public services.

Between the two periods, Portugal managed to reduce the difference for the Euro Area, in the share of expenditure on social protection (from -10.7 pp to -2.4 pp), but in turn, the Euro area increased its share of expenditure on education and health, having even surpassed the weight of expenditure on economic affairs and defence.



Figure 6. Government expenditure by functions, in Portugal and in the Euro area, in 1999



Fonte: Statistics Portugal, National Accounts; Eurostat