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The Government may only have succeeded in meeting an EU-agreed 7.3% budget deficit target by transferring a pension fund to state control. According to figures published by the Directorate-General of the Budget (DGO), the state closed 2010 with a public administration deficit of 6.6% of GDP. But this was largely thanks to the fact that the Government transferred Portugal Telecom’s pension fund to state-run social security control. In fact without the transfer of the pension fund Portugal’s budget deficit, despite extraordinary measures, would have been €14,429,000 more than the budget deficit at the end of 2009. In other words, the actual budget deficit would have been nearer to 9.3% of GDP.

Under the terms of the European Union’s Growth & Stability Pact, EU member states should have a budget deficit less than three per cent of GDP. However, most countries in the EU have failed to meet that target since the 2007 financial crisis.

“Without extraordinary measures such as transferring PT’s pension fund to Government control, the Government would have had a deficit above the rate forecast,” said economist Paulo Trigo Pereira, from the Higher Institute for Economy and Management (ISEG).
But last week, at the end of a Council of Ministers meeting, the Finance Minister, Fernando Teixeira dos Santos, saw things differently. “The budget figures for 2010 have provided a solid base for us to be confident that the 7.3% deficit rate has been met,” he said, adding that this had been thanks to effectively controlling expenditure: reducing total state expenses by around €1.03 billion.

According to data from the DGO, the actual expenditure of the State sub-sector (public administration and government departments) rose 3.7% in 2010 compared with the previous year. That figure would have stood at around 1.6% had it not been for the fact that expenditure from the purchase of two German submarines (€1.1 billion) for the Portuguese Navy was counted in the 2010 figures.

Originally, the Finance Minister had said that the cost of the two submarines would not be included in the figures for 2010 but would be deferred to the following year – something not allowed under strict European Union rules. In October last year, the Portuguese Parliament agreed, after significant opposition party reluctance, to vote through stringent Government proposals to slash the budget by around €3 billion by savage cuts and €1.5 billion in tax hikes. But even without the submarines, the actual State overspend – largely hidden by the PT telecom pension fund transfer – may be in the order of 1.2% or €595.6 million.

Links:
[1] http://asymptotix.disqus.com/?url=http%3A%2F%2Fwww.asymptotix.eu%2Fcontent%2Fcloser-look-details-portugals-debt-lehman-brothers-style-accounting-trick