Statistical News Release

Date: June 26, 2015

The government’s financial deficit more than doubled in the fourth quarter of 2014, due to a hike in government expenditure.

In the fourth quarter of 2014, the government’s financial deficit widened by Afl. 128.1 million to Afl. 206.8 million, when compared to the fourth quarter of 2013, registering the Afl. 123.7 million increase in government expenditure (Chart 1). This resulted mainly from an Afl. 170.0 million rise in long-term claims of the civil service pension fund (APFA). The government’s cash-adjusted deficit rose by Afl. 120.7 million to Afl. 195.5 million in the fourth quarter of 2014, up from an Afl. 74.8 million deficit registered in the same period of 2013. The government registered Afl. 3,871.0 million in outstanding debt at the end of December 2014, which is an expansion of Afl. 451.4 million or 11.7 percent, compared to the level recorded at the end of December 2013.

On an annual basis, the government’s financial deficit reached Afl. 406.1 million in 2014, which is Afl. 73.3 million more than the financial deficit registered in 2013. Likewise, the government’s cash-adjusted financial deficit of Afl. 440.5 million in 2014 surpassed the cash-adjusted deficit in 2013 by Afl. 108.7 million.

Financial operations

The government’s total revenue contracted by Afl. 6.0 million to Afl. 304.4 million in the fourth quarter of 2014, compared to the fourth quarter of 2013. The drop in total revenue resulted from an Afl. 9.8 million decrease in nontax revenue, which was partly offset by an Afl. 3.6 million gain in tax revenue. The fall in nontax revenue was attributed to an Afl. 9.8 million reduction in other nontax revenue, mainly caused by lower dividend payouts. The main contributors to the upturn in tax
revenue were the categories wage tax (+Afl. 4.5 million), profit tax (+Afl. 2.4 million), motor vehicle fees (+Afl. 2.4 million), excises on tobacco (+Afl. 1.9 million), and excises on liquor (+Afl. 1.0 million).

In 2014, the government’s total revenue decreased by Afl. 28.5 million to Afl. 1,114.4 million, compared to 2013. This reduction was caused by a drop of Afl. 83.5 million in nontax revenue, which was mitigated in part by an Afl. 55.0 million growth in tax revenue. The downturn in nontax revenue was associated with contractions in both other nontax revenue and grants received in 2014 of Afl. 60.2 million and Afl. 23.3 million, respectively. The main contributing categories to the increase in tax revenue were wage tax (+Afl. 25.0 million), profit tax (+Afl. 12.1 million), other taxes on services (+Afl. 8.4 million), excises on tobacco (+Afl. 5.1 million), motor vehicle fees (+Afl. 4.7 million), foreign exchange tax (+Afl. 4.1 million), and excises on liquor (+Afl. 2.4 million). On the other hand, the categories import duties, income tax, and transfer tax noted downturns of Afl. 4.9 million, Afl. 3.2 million, and Afl. 3.2 million, respectively.

In the quarter under review, total government expenditure rose by Afl. 123.7 million to Afl. 504.4 million, compared to the same quarter of the previous year. This increase was mainly caused by a surge of Afl. 162.4 million in the category ‘items not included elsewhere’, related to an Afl. 170.0 million capital injection by the government into the civil service pension fund (APFA), to bring its gross coverage ratio to 100 percent. During the fourth quarter of 2014, the government’s wage-related spending dropped by Afl. 32.5 million to Afl. 150.3 million, compared to the fourth quarter of 2013, as spending on employer’s contribution, wages, and wage subsidies contracted by Afl. 24.5 million, Afl. 4.6 million, and 3.4 million, respectively. The decrease in employer’s contribution resulted from lower pension premiums for government employees, related to the reform of the pension scheme for government employees. In the quarter under review, the wage-related spending to total-tax-revenue ratio fell by 1.8 percentage points to 58.2 percent, down from 60.0 percent in the previous quarter.

On an annual basis, total government expenditure grew by Afl. 49.0 million, to Afl. 1,487.2 million in 2014, when compared to 2013. The categories ‘items not included elsewhere’ and ‘interest’ were the main drivers behind the expenditure increase, as these categories expanded by Afl. 171.4 million and Afl. 23.1 million, respectively. The government’s wage-related spending noted an Afl. 47.4 million decline to Afl. 647.3 million in 2014, compared to 2013, as spending on employer’s contribution and wage subsidies fell by Afl. 51.5 million and Afl. 1.7 million, respectively. The sharp reduction in
spending on employer’s contribution is mainly due to the aforementioned lower pension premiums for government employees. These declines were slightly offset by an upturn of Afl. 5.8 million in spending on wages. In 2014, the wage-related spending to total-tax-revenue ratio decreased by 8.8 percentage points to 64.8 percent, down from 73.6 percent in 2013.

![Chart 3: Wage-related spending to total tax revenue ratio](chart3.png)

Outstanding debt

The government’s total outstanding debt increased by Afl. 311.9 million or 8.8 percent to Afl. 3,871.0 million at end-December 2014, up from Afl. 3,559.1 million at the end of September 2014 (Chart 4). Domestic debt moved upward by Afl. 137.0 million to Afl. 1,989.3 million, caused by a rise in long-term claims of the civil service pension fund (APFA) (+Afl. 170.0 million) related to the capital injection mentioned earlier. Foreign debt also expanded by Afl. 174.9 million to Afl. 1,881.7 million, as a consequence of a surge of Afl. 185.4 million in other foreign debt.

For 2014 as a whole, the government’s total outstanding debt increased by Afl. 451.4 million, up from Afl. 3,419.6 million at end-December 2013. Domestic debt rose by Afl. 205.9 million, as non-negotiable debt grew by Afl. 211.8 million, mainly due to higher long-term claims of the civil service pension fund (APFA). Foreign debt increased by Afl. 245.6 million, as a consequence of expansions in U.S.A. debt and in other foreign debt of, respectively, Afl. 175.0 million and Afl. 89.0 million reflecting the government bond issues in October and December, partly mitigated by debt repayment in the amount of Afl. 11.2 million.

![Chart 4: Government debt](chart4.png)