

Concerning the item “**Military expenditures**” the Banco de Portugal agrees, in general, with the group’s recommendations. In particular, the classification of military weapons systems as gross fixed capital formation is an improvement in relation to the current SNA.

The rules in the present SNA are sometimes difficult to implement in practice. For instance, it may not be straightforward to distinguish between expenditures with military goods that can be used also for civilian purposes (and should be considered as Gross Capital Formation) from the expenditures with goods to be exclusively used for military purposes (which should be considered as intermediate consumption of public administrations). Furthermore, sometimes it might be difficult to distinguish between material that is acquired to equip police and other security forces (which should be considered as Gross Capital Formation) from the material to equip the army or other military forces (which again should be considered as intermediate consumption of public administrations).

The Banco de Portugal understands the suggestion to clearly identify the expenditure with military equipment as a specific category of investment in the relevant tables presenting the national accounts. In our view, to correctly evaluate the causes of GDP growth it is important to have such a distinction, i.e., between GFCF related to military equipment (which provide a service that is not directly observable in the framework of the GDP accounting procedures) and the other type of GFCF (that has perhaps a more direct link to the evolution of potential output in the economy). As a corollary, in the public administrations consumption of fixed capital there should be also a similar distinction.

Concerning the classification of expendable durable military goods, which is proposed to be recorded as change on inventories, it may be difficult to draw a precise line between these goods and military weapons systems. Moreover, the argument for including military weapons systems in gross fixed capital formation – they are produced assets that can be used continuously in processes of production of services of defence for more than one year – can also be used in relation to expendable durable goods. In fact, nowadays,

stocks of bombs, especially non-conventional ones, and other ammunition may be stored for long periods of time and are themselves deterrents against possible aggression. Thus, both for practical reasons and for the sake of coherence in the arguments, with the possible exclusion of light ammunition, it should be envisaged the possibility of recording government expenditure on expendable durable military goods also as gross fixed capital formation and not as changes in inventories.