Conselho das Finanças Públicas

Macroeconomic forecasts underlying the Draft State Budget for 2025

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The Portuguese Public Finance Council is an independent body created by Article 3 of Law No. 22/2011, of 20 May 2011, which made the 5th amendment to the Budget Framework Law (Law no. 91/2001, of 20 August 2001, republished by Law no. 37/2013, of 14 June). The final version of the CFP Statutes was approved by Law no. 54/2011, of 19 October.

The CFP began its activity in February 2012, with the mission of undertaking an independent assessment of the consistency, compliance and sustainability of fiscal policy, while fostering its transparency so as to contribute to the quality of democracy and economic policy decision-making, as well as reinforcing the Republic's financial credibility.

This Opinion was prepared based on the information available until October 8, 2024.

INTRODUCTION

This Opinion focuses on the macroeconomic forecasts underlying the State Budget Proposal for 2025 (DSB/2025), presented by the XXIV Constitutional Government in the XVI Legislature, within the framework of the "Protocolo entre o Ministério das Finanças e o Conselho das Finanças Públicas sobre a elaboração de parecer relativo às previsões macroeconómicas subjacentes ao Programa de Estabilidade e à Proposta de Orçamento do Estado", agreed on February 6, 2015.

In accordance with the provisions of the Protocol, the Government formally communicated to the Portuguese Public Finance Council (CFP), on 14 August, that the DSB/2025 would be presented to the Assembly of the Republic on 10 October (day "D" for the purposes of the calendar included in section 5 of the Protocol).

Under the terms of the Protocol, on September 12 (day "D-20") the Ministry of Finance (MF) should have sent the macroeconomic forecasts – embodied in the scenario of a no-policy change scenario. On 17 September, the MoF requested the postponement of this submission to 26 September (day "D-10") together with the first version of the programmatic scenario (which includes the impact of possible policy measures). Despite the insistence that the no-policy-change scenario be sent in advance, this request from the CFP was not answered, which compromised step 3 of the Protocol. On 26 September, the MF sent the no-policy change macroeconomic forecasts and the first preliminary version of the programmatic scenario to the CFP. The MF did not share the "overall assessment of the effects of policy measures on macroeconomic forecasts" provided for in the Protocol. On October 2nd, a meeting took place between the MF and CFP teams, in which the former made a summary presentation of the two scenarios (no-policy policy change and programmatic). The final version of the macroeconomic scenario was only communicated to the CFP on October 7.

This Opinion focuses on the estimates considered by the MF for the external and technical assumptions, as well as for the macroeconomic forecasts presented in Table 1. The methodology and analysis process used are described in the above-mentioned Protocol, and the CFP used the following procedures:

a) Technical analysis of forecasts by CFP analysts;

b) Comparison with the available forecasts and projections published by other institutions: Bank of Portugal (BdP), European Commission (EC), CFP, International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD);

c) More recent statistical information, produced by the national statistical authorities –Statistics Portugal (INE) and BdP;

d) Verbal technical clarifications provided by the MF.

MACROECONOMIC SCENARIO UNDERLYING THE DSB/2025

The preparation of the macroeconomic scenario underlying the DSB/2025 continues to take place in a context marked by high uncertainty, particularly external,[1] which limits its comparison with other forecasts and projections.

In the comparison between macroeconomic scenarios, it is worth highlighting a set of additional factors that influence their comparability. These include its elaboration at different moments in time, based on different methodologies and assuming different technical hypotheses. The incorporation of policy measures also differs between institutions – namely, the CFP scenario is prepared in policy novice and the MF scenario incorporates the economic policy measures included in the DSB/2025. This last element is associated with uncertainty regarding the correct quantification of these same measures and their incorporation on the macroeconomic scenario. In the prospective budgetary year, the size of these measures necessarily has a relevant impact on the projections, influencing comparisons against a no-policy-change scenarios. In addition, on 23 September, INE published a new series of National Accounts, with reference to the base year 2021, which replaces the previous 2016 base year, with final annual data for the year 2022 and preliminary data for 2023, as well as quarterly national accounts by institutional sector until the 2nd quarter of 2024.[2] The new base year caused cross-sectional revisions in the National Accounts series.

Presentation of the scenario and reconciliation with previous forecasts

The MF predicts that the Gross Domestic Product (GDP) in volume will grow by 1.8% in 2024, a slowdown of 0.7 p.p. compared to the 2.5% in 2023 (Table 1). Despite the annual deceleration, compared to the forecasts presented in the Stability Programme 2024-2028 (SP/2024) and in the State Budget for 2024 (SB/2024), growth is revised upwards by 0.3 p.p. (see Chart 1). This revision is mainly the result of a more favourable outlook on the evolution of private consumption and public consumption, as the rate of change of investment (GFCF) and exports has been revised downwards.

The growth projected by the MF for 2024 is based on the expectation of an increase in the contribution of domestic demand and a slightly negative

[1] As an example of the deterioration of the external context, consider the most recent forecast for the German economy from the country's main economic institutes, which in the publication '*Joint Economic Forecast Autumn 2024*' of 26 September, anticipate a reduction in GDP of 0.1% in 2024 and revise downwards the growth outlook to 0.8% in 2025 and 1.3% in 2026 – in the spring, they anticipated growth of 0.1% in 2024 and 1.4% in 2025.

[2] INE (2024). " Nova série de Contas Nacionais Portuguesas para 1995-2023 ". This change of base year is part of the regular reviews, which are carried out every five years, within the framework of the ESA Regulation and Eurostat's recommendations, with the aim of introducing methodological developments, the incorporation of new information (e.g. 2021 Census, 2022 Household Expenditure Survey, new Balance of Payments series), especially of a multiannual nature and introducing conceptual and methodological recommendations emanating from Eurostat.

contribution of net exports. According to the MF, the estimated contribution of domestic demand should essentially reflect a significant increase in general government consumption (+2 p.p. to 2.6%) compared to 2023, as it anticipates a slowdown in the growth of private consumption (-0.2 p.p. to 1.8%) and GFCF (-0.4 p.p. to 3.2%). The contribution of net exports is expected to become marginally negative in 2024 (-0.2 p.p.) because of the expectation of a growth rate of imports (2.9%) higher than that of exports (2.5%). Compared to the previous MF forecasts, the current estimates represent an upward revision for private consumption (+0.3 p.p.) and public consumption (+0.8 p.p.), and a downward revision for GFCF (-1.2 p.p.) and exports (-0.6 p.p.).

Chart 1 – Comparison of forecasts included in DSB/2025, SB/2024 and SP/2024 (change, %)

Source: MF – DSB/2025, SB/2024 and SP/2024.

The macroeconomic scenario for 2024 essentially consists of the forecast for the performance of the economy in the second half of the year. With the availability of statistical information from the Quarterly National Accounts, including sectoral ones, until the 2nd quarter of 2024, it is possible to decompose the forecast for the annual growth between a *carry-over*[3] effect and an implicit growth for the

[3] This effect makes it possible to calculate how much GDP would grow in a given year if all quarter-on-quarter growth rates in the second half of 2024(or those not yet observed) were

second half of 2024 (see Chart 2). In the case of **GDP**, the effect of *carry-over* is estimated at 1.4%. Thus, the expected real growth of 1.8% for the year as a whole implies a quarterly growth of 0.5%, on average, in the 3rd and 4th quarters of the year. In the case of **private consumption**, with the 1.7% growth recorded in the 1st half of 2024 compared to the 2nd half of 2023, a marginal contraction in the second half of 2024 would be needed for the 1.8% growth forecast for 2024 to be reached. For **investment**, compared to the 1.2% drop recorded in the first half of the year, growth of approximately 7% would be needed in the second half of 2024 to reach the forecast for 2024 (3.2%). This forecast contrasts with that made for **exports**, for which a contraction (-1.6%) is anticipated in the second half of the year, to reach the expected annual growth of 2.5%. In the case of **GDP deflator**, the expected growth of 3.1% in 2024 is underpinned by a deflator reduction of around 0.6% in the second half of 2024, after an increase of 2.4% in the 1st half. This forecast is based on a loss of **terms of trade** in the second half of this year (-3.4% after a growth of 2% in the 1st half).

Chart 2 – Growth compared to the previous semester: observed (1st half 2024) and implicit in the forecasts (2nd half 2024)

Source: INE, DSB/2025 and CFP calculations.

For 2025, the macroeconomic scenario presented projects an acceleration in real GDP growth to 2.1%. This forecast revises upwards compared to SP/2024 (1.9%).[4] It reflects an increase in the contribution of net exports (+0.2 p.p. to 0.0 p.p.) and a marginal increase of 0.1 p.p. in the contribution of domestic demand (to 2.1 p.p.). The greater economic momentum is due to the expectation of an acceleration in the growth rate of exports of goods and services (+1 p.p. to 3.5%), as well as private consumption (+0.2 p.p. to 2.0%) and investment (+0.3 p.p. to 3.5%), partially mitigated by the more significant deceleration in the growth rate of general government consumption of 1.4 p.p. to 1.2%,. The upward revision compared to the SP/2024 is associated with higher growth in private consumption (+0.3 p.p.) and public consumption (+0.1 p.p.), in contrast to a downward revision of the forecast for the rate of change of exports (-0.7 p.p.) and investment (-0.4 p.p.).

equal to zero (which is equivalent to assuming that quarterly GDP levels in that year would remain at the same level as in the last observed quarter).

[4] The SB/2024 includes only projections for 2023 (T) and 2024 (T+1).

Table 1 – Macroeconomic forecast underlying DSB/2025

	2023	2024	2025
Real GDP and components (change, %)			
GDP	2.5	1.8	2.1
Private consumption	2.0	1.8	2.0
Public consumption	0.6	2.6	1.2
Investment (GFCF)	3.6	3.2	3.5
Exports	3.5	2.5	3.5
Imports	1.7	2.9	3.5
Contributions to real GDP change (p.p.)			
Domestic demand	1.7	2.0	2.1
Net exports	0.8	-0.2	0.0
Prices (change, %)			
GDP deflator	6.9	3.1	2.6
Private consumption deflator	4.4	2.4	2.0
Public consumption deflator	5.0	4.2	4.3
GFCF deflator	3.4	2.4	2.5
Exports deflator	1.3	0.5	1.5
Imports deflator	-3.6	-0.4	1.1
HICP	5.3	2.6	2.3
Nominal GDP			
Change (%)	9.6	5.0	4.8
Labour market (change, %)			
Unemployment rate (% labour force)	6.5	6.6	6.5
Employment	1.0	1.1	0.7
Compensation per employees	8.0	6.0	4.7
Apparent labour productivity	1.5	0.7	1.4
External sector (% GDP)			
Net lending / net borrowing, total economy	1.6	3.4	3.7
Trade balance	0.9	1.1	1.3
Balance of primary income and transfers	-0.7	-0.2	-0.4
Capital account	1.4	2.5	2.8
Cyclical developments			
Potential GDP (change, %)	2.4	2.4	2.1
Output gap (% potential GDP)	1.1	0.6	0.6
Assumptions			
Foreign demand (change, %)	-0.5	0.9	2.4
Short-term interest rate (annual average, %)	3.4	3.6	2.4
EUR-USD exchange rate (annual average)	1.08	1.09	1.13
Oil price (Brent, USD/barrel)	80.6	81.3	75.5

Source: MF – latest information from October 7, 2024.

The scenario underlying the DSB/2025 anticipates a deceleration in growth in most domestic demand deflators. The GDP deflator is expected to slow from 6.9% in 2023 to 3.1% in 2024, framed by a significant deceleration of the private consumption deflator (-2 p.p. to 2.4%) and the investment deflator (-1 p.p. to 2.4%). It should be noted that, despite a lower magnitude, the GDP deflator continues to benefit from significant gains in terms of trade (around 0.8 p.p.). In 2025, the MF scenario anticipates a further deceleration in the growth of the GDP deflator to 2.6%, which should result mainly from the expectation of a slowdown in the implicit deflator of private consumption and also from the reduction of gains in terms of trade to about half of those observed in the previous year. The SP/2024 anticipated a similar trajectory for most of the variables under review, but the current forecast revises upwards the growth of the GDP deflator in 2024 (+0.2 p.p.) and it remains unchanged in 2025. The difference is due, in the first case, to gains in terms of trade; and, in the second case, to higher growth in the public consumption deflator (from 3% forecast in April to 4.3%), mitigated by the downward revision in the private consumption deflators and GFCF.

Regarding the Harmonised Index of Consumer Prices (HICP), the MF anticipates an increase of 2.6% for 2024 and 2.3% in 2025. This forecast differs slightly from the one advanced in the SP/2024, in that it revises it upwards for 2024 (+0.1 p.p.) and for 2025 (+0.2 p.p.).

For the labour market, the scenario anticipates a greater dynamism in employment growth in 2024 and 2025 compared to previous forecasts. The MF forecasts that the number of employed will grow by 1.1% in 2024 (+0.1 p.p. compared to 2023). This is an upward revision compared to the forecasts released in the SP/2024, which forecast a growth of 0.4%. Even so, the MF expects the unemployment rate to increase compared to 2023, to 6.6% of the labour force (+0.1 p.p. compared to the previous year). In 2025, the MF's forecasts point to a slowdown in employment growth to 0.7%, an upward revision of the value projected in the SP/2024 (0.4%). The unemployment rate is expected to decrease to 6.5% of the labour force, a figure in line with that foreseen in the SP/2024.

For the MF, the apparent labour productivity is expected to grow faster in 2025. According to this forecast, apparent labour productivity growth will be 0.7% in 2024 and 1.4% in 2025. The forecast for 2024 is revised by -0.4 p.p. compared to the previously forecast, and by 0.1 p.p. for 2025.

The MF anticipates that the Portuguese economy will have a net lending of 3.4% of GDP in 2024 and 3.7% in 2025. These figures compare with the 1.6% in 2023, reflecting a capital account surplus of 2.5% of GDP in 2024 (+1.1 p.p.), as well as a smaller increase in the current account balance (+0.7 p.p. to 0.9%). The expected increase in net lending for 2025 (+0.3 p.p. to 3.7% of GDP) is based on the expectation of an improvement in the capital account balance of the same magnitude. Compared to the previous forecasts, the estimate for 2024 revises slightly upwards the value put forth in April (SP/2024), while the forecast for 2025 is revised upwards by 0.9 p.p.

Reconciliation with the forecasts of other institutions

This section presents a comparison of the scenario underlying DSB/25 with the macroeconomic scenarios of other institutions. It should be emphasised that the comparability of the MF macroeconomic scenario is limited by the fact that it includes the direct and indirect impact of policy measures, while the scenarios presented by other institutions do not incorporate the impact of policy measures that have not yet been put into law at the time of their preparation.

The analysis of the macroeconomic scenario also considers the degree of risk inherent in the MF forecasts. In order to illustrate this risk, based on the assessment of the past performance of the MF forecasts, asymmetric confidence intervals associated are presented.[5] The results are presented in Chart 3.

The MF's projection for real GDP growth in 2024 is broadly in line with the projections of other institutions (Table 2 and Chart 3). This is identical to the projection presented by the CFP, and it is between the IMF (1.9%) and OECD and BdP (1.6%) projections. The composition of growth among GDP components is broadly aligned with the projections of the other institutions. Two exceptions should be noted: the forecast for public consumption (2.6%), which is higher than the weighted average of the projections of the other institutions (1.6%), and the forecast for exports of goods and services (2.5%), which is lower (3.3%).

The growth forecast for 2025 (2.1%) is slightly lower than the weighted average of the available projections (2.2%). This figure is identical to that advanced by the BdP, but slightly lower than other recent projections, namely those made by the IMF (2.3%) and CFP (2.4%). The forecasts for most components of GDP are close to the other projections. The only exception is GFCF, with the MF's projection of 3.5% being substantially lower than the weighted average (5.4%), which may be associated with the expectation of a contraction in private investment. It was not possible to validate this assumption, given the lack of response, by the MF, to the CFP's request to share the detailed breakdown GFCF between its public and private components. In the case of exports, the MF forecast (3.5%) is higher than the reference average (3%).

[5] Based on the State Budget reports published in the period 1997-2024, the CFP calculated the confidence intervals associated with the MF forecasts based on the respective forecast errors, i.e. the difference between the forecast values and the observed values. The greater the relative uncertainty for a given forecast, the wider the region of confidence associated with that point (and the less dark its hue). The forecast intervals considered are asymmetric, which means that different probabilities are calculated for the occurrence of negative and positive deviations.

Table 2 – Forecasts and projections for the Portuguese economy

Year	2023	2024						2025					
Institution		OECD	EC	CFP	IMF	BdP	MF	OECD	EC	CFP	IMF	BdP	MF
Publication date	Sep24	May24	May24	Sep24	Oct24	Oct24	Oct24	May24	May24	Sep24	Oct24	Oct24	Oct24
Real GDP and components (change, %)													
GDP	2.5	1.6	1.7	1.8	1.9	1.6	1.8	2.0	1.9	2.4	2.3	2.1	2.1
Private consumption	2.0	1.5	1.8	1.8	1.7	2.5	1.8	1.8	1.9	2.5	1.9	2.3	2.0
Public consumption	0.6	1.7	2.1	1.5	2.1	1.0	2.6	1.4	1.2	2.4	2.3	0.9	1.2
Investment (GFCF)	3.6	3.9	3.9	2.0	3.5	0.8	3.2	4.0	3.7	8.7	3.9	5.4	3.5
Exports	3.5	3.1	2.8	3.6	2.8	3.8	2.5	3.3	2.5	2.8	3.0	3.3	3.5
Imports	1.7	4.2	4.1	3.6	3.3	4.5	2.9	3.6	3.2	5.0	2.9	4.4	3.5
Contributions to real GDP growth (p.p.)													
Domestic demand	1.7	2.1	2.2	1.8	2.1	-	2.0	2.1	2.1	3.5	2.3	-	2.1
Net exports	0.8	-0.5	-0.6	0.0	-0.2	-	-0.2	-0.1	-0.3	-1.0	0.1	-	0.0
Prices (change, %)													
GDP deflator	6.9	2.7	2.6	4.7	2.8	4.5	3.1	2.2	2.1	2.7	2.4	2.9	2.6
Private consumption deflator	4.4	2.5	2.3	2.6	-	-	2.4	2.0	2.0	2.3	-	-	2.0
Public consumption deflator	5.0	4.2	3.7	4.9	-	-	4.2	2.9	2.1	3.2	-	-	4.3
GFCF deflator	3.4	1.8	2.1	2.3	-	-	2.4	2.1	2.1	2.2	-	-	2.5
Exports deflator	1.3	0.4	1.8	1.6	-	-	0.5	2.0	1.8	1.9	-	-	1.5
Imports deflator	-3.6	0.0	1.5	-2.2	-	-	-0.4	1.9	1.6	1.6	-	-	1.1
HICP	5.3	2.4	2.3	2.7	2.5	2.6	2.6	2.0	1.9	2.2	2.1	2.0	2.3
Nominal GDP													
Change (%)	9.6	4.4	4.4	6.6	4.8	-	5.0	4.3	4.0	5.2	4.8	-	4.8
Labour market (change, %)													
Unemployment rate (% labour force)	6.5	6.3	6.5	6.5	6.5	6.4	6.6	6.2	6.4	6.4	6.4	6.4	6.5
Employment	1.0	0.2	1.0	1.4	1.0	1.1	1.1	0.3	0.9	0.7	0.4	0.6	0.7
Compensation per employee	8.0	5.6	3.3	7.3	-	7.4	6.0	3.6	2.8	4.5	-	4.4	4.7
Apparent labour productivity	1.5	1.4	0.7	0.4	0.9	0.5	0.7	1.7	0.9	1.7	1.9	1.5	1.4
External sector (% GDP)													
Net lending	1.6	-	2.1	3.2	-	4.2	3.4	-	1.9	4.0	-	4.1	3.7
Current account	0.2	1.0	0.8	2.2	2.0	-	0.9	0.8	0.6	1.8	2.3	-	0.8
Balance of goods and services	0.9	0.6	0.4	2.5	1.2	2.5	1.1	0.4	0.2	1.7	1.8	2.1	1.3
Balance of primary income and transfers	-0.7	0.4	0.4	-0.4	0.8	-	-0.2	0.4	0.4	0.1	0.5	-	-0.4
Capital account	1.4	-	1.3	1.0	-	-	2.5	-	1.2	2.2	-	-	2.8
Cyclical developments													
Potential GDP (change, %)	-	1.7	2.2	2.3	2.5	-	2.4	1.6	2.2	2.5	2.4	-	2.1
Output gap (% potential GDP)	-	-0.7	0.9	0.7	1.0	-	0.6	-0.3	0.6	0.6	0.9	-	0.6
Public finance (% GDP)													
Budget balance	1.2	0.3	0.4	0.7	0.2	-	0.4	0.3	0.5	0.4	0.2	-	0.3

Sources: 2023: Statistics Portugal (National Accounts – Base year 2021). 2024-2028: OECD - Economic Outlook No 115, May 2024; EC - Spring 2024 Economic Forecast, May 2024; CFP - Economic and Fiscal Outlook 2024-2028 (update), September 2024; IMF - Article IV Consultation, October 2024; BdP - Economic Bulletin, October 2024; MF – Draft State Budget for 2025, October 2024.

There are no significant differences in the outlook for prices. In the case of the HICP, the MF estimates are in line with the projections of the IMF, CFP and BdP in 2024, and within the respective confidence bands. However, in 2025, the MF's forecast for inflation (2.3%) is higher than the weighted average for the other institutions (2.1%),and is also the highest among the various institutions. The forecasts for the GDP deflator are within the range of projections from other institutions, both in 2024 and 2025.

The MF's forecasts for employment growth and the unemployment rate are broadly aligned with the other institutions' projections. In the case of the unemployment rate, the MF's forecast is 0.1 p.p. above the weighted average of projections from other institutions, both for 2024 (6.5%) and 2025 (6.4%). For employment, the forecast is within the range for both 2024 and 2025. As a result, the same can be said for the forecast for apparent labour productivity growth.

Chart 3 - Forecast intervals associated with MF forecasts (change, %)

Source: DSB/2025; CFP – calculations of the confidence bands based on the forecast errors of the macroeconomic scenarios published in the State Budget reports from 1997 to 2024. | Note: the weighted average of the change rates presented by other institutions (BdP, EC, CFP, IMF and OECD) is calculated by weighting the projection of each institution with the percentage of information available at the date of each projection exercise, resulting in a higher weight for the most recently published projections.

Finally, the MF's forecast for the net lending of the Portuguese economy in 2024, of 3.4%, is close to the CFP's projection. Regarding the balance of goods and services, the MF forecast (1.1% of GDP) is lower than the BdP and CFP projections (2.5% of GDP), but only slightly lower than the 1.2% projected by the IMF. This divergence, especially in relation to the CFP and BdP projections, mainly reflects differences in the growth prospects of exports and imports in volume, and the respective deflators.

In 2025, the MF's forecast for net lending (3.7%) is below the projections of the most recently released macroeconomic scenarios. In particular, compared to the CFP and the BdP, the difference partly reflects the persistence of differences in the outlook for the balance of goods and services. However, it should be noted that projections are strongly influenced by the assumptions regarding the financial implementation of the Recovery and Resilience Plan (RRP), which differ between the various institutions.

KEY CONSIDERATIONS

Considering the risks of the MF scenario, the uncertainty of the current macroeconomic outlook and the existing projections for the Portuguese economy, the macroeconomic scenario underlying the DSB/2025 appears both probable and prudent. As described in this Opinion, the macroeconomic scenario is broadly in line with the most recent projections for the Portuguese economy presented by other institutions, which incorporate the latest information on developments in Portugal's main trading partners, commodity prices on international markets, as well as monetary policy decisions by the ECB. In addition, the analysis of the macroeconomic scenario confirmed that they are well bounded when considering the degree of uncertainty inherent in the MF forecast.

Even so, it is important to point out that the projections for 2024, in particular for the components of GDP, present some inconsistencies compared to the data known for the first half of the year. When considering the forecast for the whole of 2024 and the statistical information already available until the 1st half of the year, it is possible to approximate the implicit growth expected for the second half of 2024. In the forecast for private consumption, the stagnation foreseen in the 2nd half of the year contrasts with the policy measures implemented in this period, namely the revision of the PIT withholding tables in September and October, which will increase the disposable income. For investment, the expected growth of approximately 7% for the second half of 2024 appears to be driven by a growth in public investment that is difficult to achieve. In the case of the GDP deflator, the forecast of 3.1% in 2024, depends on a fall of around 0.6% in the second half of 2024, and is dependent on a loss in the terms of trade that seems unlikely. The underestimation of the growth rate of the GDP deflator is also reflected in the projection for nominal GDP. Overall, there are downside risks to investment and upside risks to private consumption, GDP deflator and nominal GDP, relevant for the calculation of budget ratios.

Some relevant risks remain. In particular, it is worth highlighting the possibility that the international environment may deteriorate more significantly in 2024 and 2025 than anticipated by the current macroeconomic scenarios, which may penalize the outlook for external demand more intensely and negatively affect exports. In addition to recent developments in the industrial sector, these risks may be reinforced, inter alia, by relevant geopolitical tensions, linked to the fragmentation of world trade, capital flows and technological diffusion, with an impact on productivity growth; armed conflicts, with the potential to introduce further disruptions to global value chains and fuel the rise in the price of energy raw materials and to weaken confidence and investment; and the risk of volatility in financial markets, namely due to an evolution of inflation, and consequently of monetary policy, different from that anticipated. In the case of domestic demand, it is worth mentioning, on the positive side, the possibility of a greater propensity to consume by households, together with high saving rates, interest rate decreases, and fiscal policy measures with a positive impact on income; as well as the recent growth of the working-age population – as a result of positive net migration– and increases in the participation rate, which may offer more favourable prospects for the growth of the Portuguese economy. On the other

hand, it is important to note that, as with the CFP projection presented in the Economic and Fiscal Outlook 2024-2028 (update) report, there is also a risk that GFCF may be less dynamic than expected either due to a greater impact of high interest rates, or as a result of a lower than assumed execution of the RRP.

CONCLUSION

The conclusion of this analysis by the Portuguese Public Finance Council takes into account the principles of Article 8 of the Budgetary Framework Law (Law No. 151/2015, of 11 September): "*The budgetary projections underlying the budget programming documents should be based on the most likely macroeconomic scenario or a more prudent* scenario". This same guiding principle of using realistic forecasts for the conduct of fiscal policies is also reflected in European legislation, in particular in the Stability and Growth Pact and in Council Directive 2011/85/EU of 8 November 2011 laying down requirements for the budgetary frameworks of the Member States.

Pursuant to Article 4(4) of Regulation No. 473/2013 of the European Parliament and of the Council of 21 May 2013, as a result of the analysis carried out on the macroeconomic forecasts underlying the Constitutional Government's Draft State Budget for 2025, based on the information currently available and weighing the risks identified, **the Portuguese Public Finance Council endorses the macroeconomic forecasts presented.**