Conselho das Finanças Públicas

ECONOMIC AND FISCAL OUTLOOK 2023-2027

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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 Report was prepared based on the information available as at 03 March 2023.

A spreadsheet containing the numerical data inherent to the charts and tables in this report is available at www.cfp.pt in the publications area.

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OVERALL ASSESSMENT

The last two years of strong economic growth have allowed Portugal to recover to pre-pandemic GDP levels. Economic growth is expected to be more modest until 2027, characterised by a highly uncertain environment at the international level. The world economy continues to be marked by an unfavourable geopolitical situation, with no end in sight to the war between Russia and Ukraine. A very slight growth in world trade is expected, as well as a slowdown in the economic growth of some of Portugal's main trading partners. For now, the Euro zone economy has avoided a recession, but the risk is high.

The effect of the pandemic crisis on supply chains and on energy and food markets, aggravated by the shortages generated by the conflict in Ukraine and atypical weather phenomena in Europe and Central and South Asia, resulted in the development of pressures throughout the production and distribution process. These pressures have materialised into a generalised increase in producer and consumer prices, reaching long-term highs in many countries, the nature of which is expected to be higher and more protracted than in the latest issue of the Economic and Budgetary Outlook.

Persistent inflationary pressure has led to a rapid and synchronised tightening of monetary policy in many countries. At the European level, the Governing Council of the European Central Bank has been adjusting the nature of monetary policy since July 2022, causing a rise in benchmark interest rates, and it is expected that this restrictive policy will be maintained until price developments stabilise around the long-term objective of 2%. The more restrictive monetary environment should result in a decline in demand, which, together with lower commodity and energy prices, should help curb inflation. This adjustment process should result in less intense world economic growth in 2023, recovering from 2024 onwards.

The situation of the labour market, the gradual elimination of the transitional support measures for families and businesses to cushion price rises, and the gradual recovery of economic activity, allow us to anticipate a trajectory of improvement in the budgetary situation, both in terms of balance and debt reduction. This projection assumes the continuity of the other public policies in force and benefits from the expenditure restraint policy based on the budget management instruments used in recent years, and not from a real review of public expenditure.

The evolution of the budgetary indicators cannot be dissociated from the projected evolution of GDP at current prices, which will continue to benefit from a deflator growth that is still expressive compared to the most recent period. Thus, if the developments projected herein were to materialise, the general government account balance would move from a deficit in 2023 to a balanced position from 2025 onwards. These developments ensure compliance with the nominal objectives for the budget balance and are compatible with a reduction of the public debt ratio by 18 p.p. to around 95.9 % of GDP in 2027.

The uncertainty surrounding the macro-fiscal outlook, namely as regards the impact of the geopolitical situation, the evolution of energy and commodity prices and, more recently, the signs of some risks in the financial system, remains high, with downside risks predominating on the evolution of economic activity and upside risks on price developments. From the point of view of economic policy, the times ahead are challenging times that require ambitious reforms and investment, conditioned not only by the pre-existing high level of public debt, but also now by the worsening financing conditions.

Ensuring the stability of the economy will therefore require, in the short-term, close coordination between fiscal and monetary policy. In addition to correcting cyclical imbalances, there are important challenges for economic policy in creating conditions that allow, in the medium and long term, for an increase in the potential growth of the economy, reinforcing its resilience to unfavourable shocks, promoting climate, digital and demographic transitions in a timely, balanced and sustainable manner. If, on the one hand, it is necessary to maintain a sustainable path for public finances in the medium-term, on the other, the manifestation of some tensions at the social or labour level signals the existence of short-term pressures that may lead to new measures with a budgetary impact over the horizon analysed herein. Although inflation is projected to slow down in 2023 and 2024, there is a risk that it will remain high, which may result in the maintenance or adoption of new measures to mitigate its impact on consumers, particularly the most vulnerable families.

Public expenditure management will, in the years to come, have to accommodate the costs that are set to rise in the framework of environmental, digital and demographic transitions. The prioritisation of public expenditure, associated with an adequate, comprehensive and recurrent spending review , are fundamental mechanisms for the allocation of scarce resources, allowing inefficiencies to be eliminated and good management practices to be disseminated across the administration. The implementation of these elements, which are included in the public finance reform, has a high potential in improving public expenditure management. The digital transition, the centralisation of services and the decentralisation of powers to local government that have been announced open up space for reflection on opportunities to rationalise public spending that may benefit the general government, from the point of view of both its efficiency and the effectiveness of its actions.

The medium-term fiscal strategy, which will soon be updated in the National Reform Programme and the Stability Programme in the framework of the European Semester and the Major Options Law, is an opportunity to enhance the strategic priorities for the next five years. This moment is favourable to accelerating the public finances reform, with the budgetary and financial expression of that strategy in the instruments provided for in the Budget Framework Law. Indeed, the Medium Term Expenditure Framework, Programme Budgeting and the implementation of the new accounting standard are essential instruments to promote a more efficient allocation and management of public resources and transparency in the assessment of results in each area of action.

In a context of ongoing review of the rules of economic governance at European level, the instruments necessary for an effective control of public spending are of central importance. In addition to contributing to the sustainability of public finances, such instruments should above all promote the discussion on the policies and goals they are intended to achieve, ensuring their effectiveness.

EXECUTIVE SUMMARY

Macroeconomic outlook

This scenario is developed in a context in which the Portuguese economy is still affected by the high geopolitical uncertainty stemming from the Russian military aggression in Ukraine, by the impact of persistent inflationary pressures, despite the anticipation of its gradual fading, and by the deteriorating financing conditions of the economy. The exercise was concluded ahead of recent developments in banking institutions in the US and Switzerland and the latest monetary policy decisions by the European Central Bank (ECB).

The CFP's macroeconomic scenario projects a significant slowdown in economic activity from 5.5 p.p. to 1.2% in 2023 (6.7% in 2022). For 2024 and 2025, the scenario forecasts a recovery in the growth rate of real gross domestic product (GDP) to 1.8% and 2.0%, respectively. In the medium term, under no policy change, economic activity is expected to converge to values around the growth of potential output (1.7%).

Summary of CFP's macroeconomic scenario (change, %)

	2022	2023	2024	2025	2026	2027
Produto Interno Bruto	**6,7**	**1,2**	**1,8**	**2,0**	**1,7**	**1,7**
Consumo privado	5,7	0,4	0,7	1,2	1,2	1,3
Consumo público	2,4	2,8	1,0	0,7	0,7	0,7
Formação Bruta de Capital Fixo	2,7	2,3	4,2	5,1	3,7	3,2
Exportações	16,7	2,3	3,9	3,2	3,2	3,2
Importações	11,0	2,3	2,9	3,1	2,9	2,9
Contributo da procura interna (p.p.)	4,7	1,2	1,4	1,9	1,6	1,6
Contributo das exportações líquidas (p.p.)	2,1	0,0	0,4	0,1	0,1	0,1
Taxa de desemprego (% pop. ativa)	6,0	6,4	6,4	6,1	6,0	5,8
Emprego	2,0	0,2	0,4	0,1	0,0	0,0
Cap. líq. de financiamento face ao exterior (% PIB)	-1,0	1,0	1,1	0,7	0,8	0,3
Balança de bens e serviços (% PIB)	-2,5	-2,8	-2,3	-2,3	-2,2	-2,1
Deflator implícito do PIB	4,5	4,1	2,5	2,3	2,1	1,9
Indice Harmonizado de Preços no Consumidor	8,1	5,9	3,1	2,3	2,1	2,0
Hiato do produto (% Produto potencial)	1,4	0,8	0,5	0,5	0,4	0,3

Sources: CFP (2023-2027) and Statistics Portugal (2022) projections.

The slowdown projected for 2023 stems from the reduction in the contribution of both domestic demand and net exports. The dynamics of domestic demand are driven mainly by the anticipation of a significant decrease in private consumption to 0.4% (5.7% in 2022) and, less intensely, in gross fixed capital formation (GFCF) to 2.3% (2.7% in 2022). These result from the persistence of high levels of uncertainty and inflation, as well as from deteriorating financing conditions, which contribute to the erosion of consumers' purchasing power and the delay of investment decisions by entrepreneurs.

The acceleration in the absorption of European funds associated with the Recovery and Resilience Plan (RRP) should be reflected in the growth rate of total GFCF - albeit mostly through its public component - to 4.2% in 2024 and 5.1% in 2025. Private consumption should start a gradual recovery path from 2024 onwards (0.7%), stabilising at around 1.2% in the medium-term, in line with the gradual decrease of inflationary pressures and the stabilisation of interest rates.

Regarding exports of goods and services, a considerable slowdown from 14.4 p.p. to 2.3% in 2023 is projected, reflecting an international landscape characterised by a slowdown in external demand and a reduction in market share gains, despite some positive impact due to the expectation of a decrease of inflationary pressures on commodity prices. For 2024, the growth rate is projected to recover to 3.9%, consistent with the improvement in the international environment, and to stabilise in the medium-term at around 3.2%.

In the labour market, the pace of job creation is expected to decrease to 0.2% in 2023 and recover to 0.4% in 2024, in line with the dynamics projected for economic activity. The unemployment rate is expected to rise to 6.4% in 2023 and to stabilise at this level in 2024, reflecting a slightly rising trend in the participation rate in the short term, in line with the recent developments of this indicator. In the medium term, employment is projected to stabilise and the unemployment rate to gradually reduce to 5.8% of the labour force, in line with demographic dynamics.

For inflation, the current scenario anticipates a gradual reduction in inflationary pressures over 2023 and 2024, projecting a slowdown in the growth of the Harmonised Index of Consumer Prices (HICP) to 5.9% in 2023 and 3.1% in 2024. The normalisation of monetary policy by the European Central Bank, as well as the progressive fading of supply constraints, should contribute to reduce inflationary pressures over the forecast horizon.

Fiscal outlook

Based on this macroeconomic scenario, the CFP presents the budget projection under a no policy change scenario which, by definition, does not consider new policy measures, nor measures already announced but not legislated or quantified.

The projection points to a path of correction of the fiscal imbalance reaching a balanced position from 2025 onwards. This path increases the safety margin with respect to the 3% of GDP deficit limit, allowing for normal cyclical fluctuations without incurring in an excessive deficit situation.

The high growth of economic activity in 2022 and the effect of inflation on the increase in tax revenue contributed to a better budget result than that forecast by the Ministry of Finance (MF), which estimated a deficit of 1.9% of GDP. The CFP budget estimate for 2022 points to a deficit set at 0.5% of GDP. However, for 2023 the budget deficit is projected to increase to 0.6% of GDP, due to the strong slowdown in economic growth, the impact of the implementation of energy-related measures, and the increase in civil service salaries. For 2024 a reduction in the budget deficit to 0.1% of GDP is anticipated, influenced mainly by the easing of the effect of the measures in response to the rise in fuel and energy prices, with a return to the pre-pandemic position. A stabilisation in a balanced budget position is forecast for the following three years.

Summary of the CFP's fiscal scenario (% of GDP)

	2021 INE	2022 CFP	Projeção CFP 2023	2024	2025	2026	2027
Receita total	44,9	44,0	44,4	44,4	44,3	43,7	43,4
Receita fiscal e contributiva	37,5	38,0	38,0	38,0	37,7	37,6	37,4
Receita fiscal	24,7	25,6	25,4	25,4	25,3	25,2	25,2
Contribuições sociais	12,7	12,4	12,6	12,6	12,5	12,4	12,3
Receita não fiscal e não contribut	7,5	5,9	6,4	6,4	6,5	6,1	6,0
Despesa primária	45,4	42,5	42,8	42,2	41,8	41,2	41,0
Despesa corrente primária	41,6	38,6	38,1	37,7	37,1	36,8	36,6
Despesa de capital	3,8	3,8	4,6	4,5	4,7	4,4	4,4
Saldo primário	-0,5	1,5	1,7	2,3	2,5	2,5	2,5
Juros	2,4	2,0	2,2	2,3	2,4	2,5	2,4
Despesa total	47,8	44,5	45,0	44,5	44,2	43,7	43,4
Saldo orçamental	-2,9	-0,5	-0,6	-0,1	0,1	0,0	0,0
Saldo ajustado de medidas one-off	-2,9	-0,4	-0,3	-0,1	0,1	0,0	0,0
Dívida pública	125,5	113,8	109,2	105,3	101,9	98,8	95,9

Sources: CFP projections and calculations.

The CFP's fiscal scenario anticipates a decrease in the public expenditure ratio to nominal GDP between 2023 and 2027, from 45% to 43.4% of GDP. This evolution is entirely justified by the downward dynamic of current primary expenditure (-2.1 p.p.), given that capital expenditure should increase its share in GDP (+0.6 p.p.) as well as the interest burden (+0.5 p.p.). It should also be noted that the reduction projected for current primary expenditure in 2023 and 2024 is determined by the macroeconomic framework implicit in the fiscal scenario, by the new policy measures included in the SB/2023, but also by the reversal of: (i) the emergency measures caused by the effect of the pandemic; (ii) of some measures to mitigate the geopolitical shock and (iii) the measures to support household income which only had an impact in 2022.

Total revenue is projected to decline by 0.6 p.p. of GDP over the time horizon, to 43.4% of GDP in 2027. The evolution of revenue is expected to be determined by the evolution of current revenue (-0.9 p.p. of GDP between 2022 and 2027), given that the capital revenue to GDP ratio is forecast to increase (+0.4 p.p.). Projected revenue values are influenced by the intertemporal profile of transfers received concerning the RRP and structural funds throughout the projection horizon, especially in the budget aggregates of 'capital revenue' and 'other current revenue', having a neutral effect on the budget balance.

After the debt ratio fell in 2022 to pre-pandemic levels in 2019, this indicator is expected to decline by 18 p.p. over the projected horizon, reaching 95.9% of GDP in 2027. Between 2023 and 2027, the debt trajectory is essentially determined by a favourable dynamic effect, which shows a higher contribution from GDP growth (of -22 p.p. of GDP in accumulated terms) than from the interest rate (11.9 p.p. of GDP in accumulated terms). The primary balance effect should contribute 11.3 p.p. of GDP to the decrease of the ratio. A sensitivity analysis that increases the financing costs by 50 basis points, in each year of this period, indicates an impact of 0.5 p.p. of GDP on the public debt ratio at the end of the projection time horizon.

Risks

The CFP's current macroeconomic scenario is characterised by a context of high uncertainty, with risks leaning mainly upwards for the inflation rate and downwards for the evolution of economic activity. In this sense, the persistence of the war in Ukraine, the rise in commodity prices due to China's reopening process, the possible easing of inflation expectations over the medium term and the transmission of inflationary dynamics to the less volatile CPI components may lead to a higher and more persistent inflation rate than that currently projected by the CFP. Consequently, the main central banks may accelerate the monetary policy normalisation processes, harming both domestic demand due to the impact that the rise of interest rates has on a highly indebted economy, such as the Portuguese one, and external demand due to the slowdown in economic activity of Portugal's main trading partners. Finally, and notwithstanding the fact that the present scenario envisages an RRP implementation rate below 100%, it should be noted that the implementation may still fall behind the assumed threshold, thus jeopardising the current projection for real GFCF.

At the fiscal level, it is possible that the trajectory for the General Government balance may prove less favourable, due to the effect of automatic stabilisers, in a context of high uncertainty regarding macroeconomic projections. In this context, reference should be made to the pressure on current primary expenditure, namely social transfers and compensation of employees.

Additionally, over the horizon of the CFP budget projection, some risks remain that may penalise the budget balance, arising, namely, from: i) requests by concessionaries of public-private partnerships to restore the financial balance; ii) possible defaults by beneficiaries of public guarantees; iii) the ongoing restructuring process of the TAP and SATA groups possibly entailing additional financial support; iv) disputes regarding the amount attributable to deferred tax assets; v) the possible use, even if partial, of the remaining amount of 485 M€ under the Novo Banco Contingent Capitalisation Agreement, even though the restructuring process has already been finalised; vi) the timeliness and definitive terms of the sale of the public holding in EFACEC.

1. INTRODUCTION

Within the scope of its mission, the Portuguese Public Finance Council (CFP) prepares economic and budgetary projections, and this Report presents an update of the macroeconomic and budgetary projections for the 2023-2027 period, under a no policy change scenario.

Compared to the report published in September, the projections presented herein incorporate the most up-to-date information on public finances and the Portuguese economy compiled by the national statistics authorities.

The document is structured as follows: Chapter 2 highlights the macroeconomic outlook for the Portuguese economy under no policy change (2023-2027), the respective external framework, recent developments and identified risks; and Chapter 3 develops the outlook for public finances in the period covered by this work, the development of the different budgetary aggregates and public debt, also specifically addressing some quantifiable contingent liabilities and the main risks for the medium-term budgetary scenario. The final part of this chapter presents the technical assumptions assumed in the projection of this scenario.

The CFP would like to thank all the entities contacted for the support and clarifications required for the preparation of this work.

The projections presented herein were prepared based on information available as at 3 March 2023.

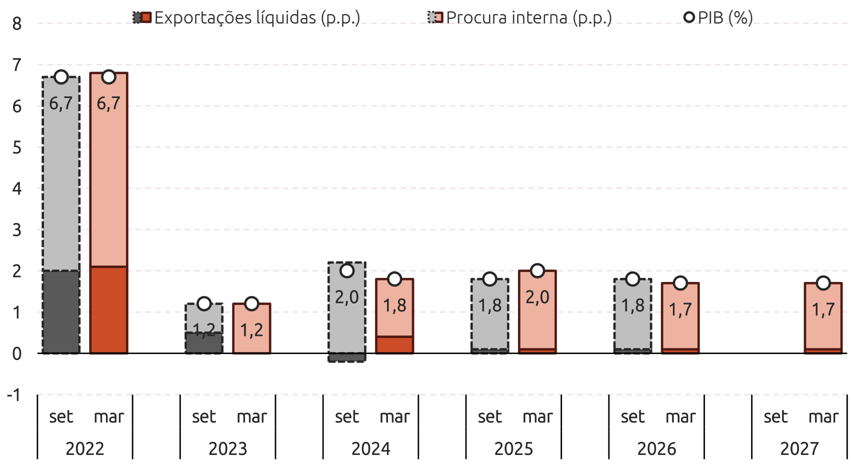
2. MACROECONOMIC OUTLOOK

2.1 Portuguese economy under no policy change: 2023-2027

High uncertainty persists in the external environment of the Portuguese economy, fostered, among others, by the developments of Russia's aggression against Ukraine and other geopolitical tensions, the dynamics of inflation in the Euro Area (EA) and the resulting normalisation of monetary policy by the ECB.

In this context, the CFP estimates a slowdown in economic activity in Portugal to 1.2% in 2023 (6.7% in 2022), followed by a recovery to 1.8% and 2.0% in 2024 and 2025, respectively. In the short term, this scenario is conditioned by an environment in which inflationary pressures prevail, although with a downward profile, by the worsening of the economy's financing conditions - as a result of the normalisation of the ECB's monetary policy, including the increase in the key ECB rates - as well as by the slowdown in the economies of Portugal's main economic partners. The recovery of the economy's pace of growth in 2024 and 2025 is expected to be supported by the recovery of foreign and domestic demand, with the easing of inflationary pressures allowing a slight acceleration in real private consumption terms and the implementation of the Recovery and Resilience Plan (RRP) boosting public investment. In the medium term, the economy's pace of growth should stabilise at around 1.7% (Chart 1 and Table 1).

Chart 1 - GDP growth and contributions in CFP scenarios (volume)



Sources: Statistics Portugal and CFP projections - March/2023 and September/2022.

The average growth projected for the Portuguese economy for the 2022-2027 period is in line with the average observed for the 2015-2019 period.

As for the composition of growth, in this scenario, gross fixed capital formation (GFCF) and exports are expected to make the main contributions to the dynamics of economic activity, with investment benefiting in volume from the implementation of the RRP.

Table 1 - CFP macroeconomic scenario

	2022	2023	2024	2025	2026	2027
PIB real e componentes (variação, %)						
PIB	**6,7**	**1,2**	**1,8**	**2,0**	**1,7**	**1,7**
Consumo privado	5,7	0,4	0,7	1,2	1,2	1,3
Consumo público	2,4	2,8	1,0	0,7	0,7	0,7
Investimento (FBCF)	2,7	2,3	4,2	5,1	3,7	3,2
Exportações	16,7	2,3	3,9	3,2	3,2	3,2
Importações	11,0	2,3	2,9	3,1	2,9	2,9
Contributos para a variação real do PIB (p.p.)						
Procura interna	4,7	1,2	1,4	1,9	1,6	1,6
Exportações líquidas	2,1	0,0	0,4	0,1	0,1	0,1
Preços (variação, %)						
Deflator do PIB	4,5	4,1	2,5	2,3	2,1	1,9
Deflator do consumo privado	6,2	4,8	2,4	2,2	2,1	2,0
Deflator do consumo público	4,8	4,1	2,3	2,1	2,0	1,4
Deflator do investimento (FBCF)	8,1	4,4	2,9	2,5	2,1	2,1
Deflator das exportações	14,8	4,6	2,7	2,4	2,1	2,1
Deflator das importações	18,6	5,2	2,7	2,4	2,1	2,1
IHPC	8,1	5,9	3,1	2,3	2,1	2,0
PIB nominal						
Variação (%)	11,5	5,4	4,4	4,3	3,9	3,7
Nível (mil M€)	239,5	252,3	263,5	274,9	285,4	295,9
Mercado de trabalho (variação, %)						
Taxa de desemprego (% pop. ativa)	6,0	6,4	6,4	6,1	6,0	5,8
Emprego	2,0	0,2	0,4	0,1	0,0	0,0
Remuneração média por trabalhador(1)	7,4	6,3	4,6	4,2	3,9	3,9
Produtividade aparente do trabalho	4,6	1,0	1,4	1,8	1,8	1,8
Sector externo (% PIB)						
Cap. líq. de financiamento face ao exterior(2)	-1,0	1,0	1,1	0,7	0,8	0,3
Balança corrente(2)	-2,1	-1,9	-1,4	-1,4	-1,3	-1,2
Balança de bens e serviços	-2,5	-2,8	-2,3	-2,3	-2,2	-2,1
Balança de rend. primários e transferências(2)	0,4	0,9	0,9	0,9	0,9	0,9
Balança de capital(2)	1,1	2,9	2,5	2,1	2,1	1,5
Desenvolvimentos cíclicos						
Produto potencial (variação, %)	1,9	1,9	2,1	2,0	1,9	1,8
Hiato do produto (% produto potencial)	1,4	0,8	0,5	0,5	0,4	0,3

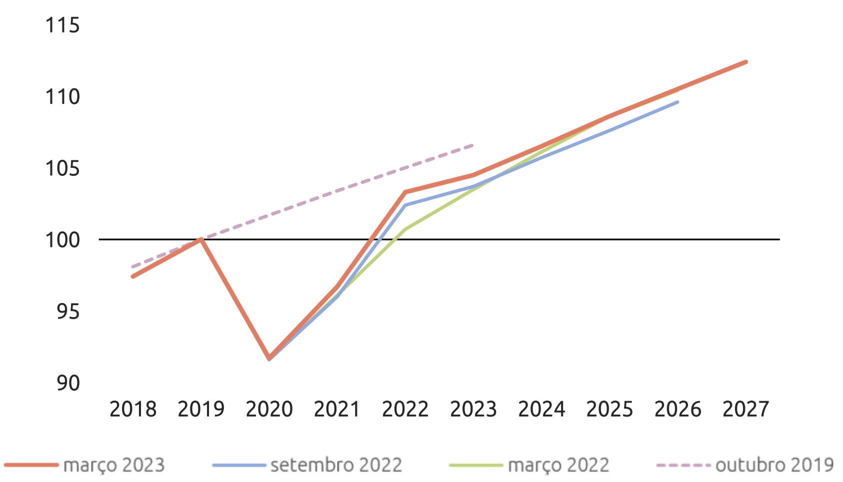
Source: CFP (2023-2027) and Statistics Portugal (2022) projections | Note: Cyclical developments are estimated in line with the commonly agreed EU methodology, parametrised in the EUCAM programme provided jointly with the European Commission Autumn Forecast 2022; (1) The 2022 annual change considers Eurostat data for Compensation of employees; (2) Figures for 2022 consider the CFP's estimates for the 4th quarter of 2022.

The inflation rate should decrease to 5.9% in 2023 (-2.2 p.p. compared to 2022) and continue to slow down over the rest of the projection horizon. A reduction to 3.1% in 2024 and stabilisation at around 2.0% in the medium term are expected. This profile reflects the expected evolution of energy and food prices, the decrease in other inflationary pressures from external sources, the containment of internal pressures from compensations to employees and the success of the monetary policy normalisation in the medium term.

Regarding the labour market, the CFP estimates a slowdown in job creation to 0.2% in 2023 (2.0% in 2022), reflecting not only the slowdown in economic activity but also the shortage of labour in the main sectors of activity. After a slight acceleration to 0.4% in 2024, employment is projected to stabilise in the medium term (Table 1).

As for the unemployment rate, it should increase in 2023 to 6.4% of the labour force (6.0% in 2022), assuming that the participation rate observes a slight increase in the short term - in line with the recent dynamics observed - and reaches a new historical maximum of around 60.7% of the working-age population. In the medium term, labour supply growth should be conditioned by demographic dynamics. Thus, the projected variation rate of the labour force should be lower than that of employment, leading to a reduction in the unemployment rate to values around 6.0% at the end of the projection horizon.

Chart 2 - Real GDP in CFP scenarios (2019=100)



Sources: Statistics Portugal and CFP projections - March/2023, September/2022, March/2022 and October/2019.

The incorporation of the National Accounts for the 4th Quarter of 2022 confirmed real GDP growth in 2022 equal to that expected in the CFP scenario published in the Economic and Fiscal Outlook (PEO) of September 2022 (Box 2). Given this scenario, based on the external assumptions, risk weighting and CFP's macroeconomic projection models, the growth prospects for economic activity in 2023 are maintained at 1.2% (Chart 1), with a marginal review of the economic growth profile in the remaining projection horizon, with a slight impact on projected levels. (Chart 2).

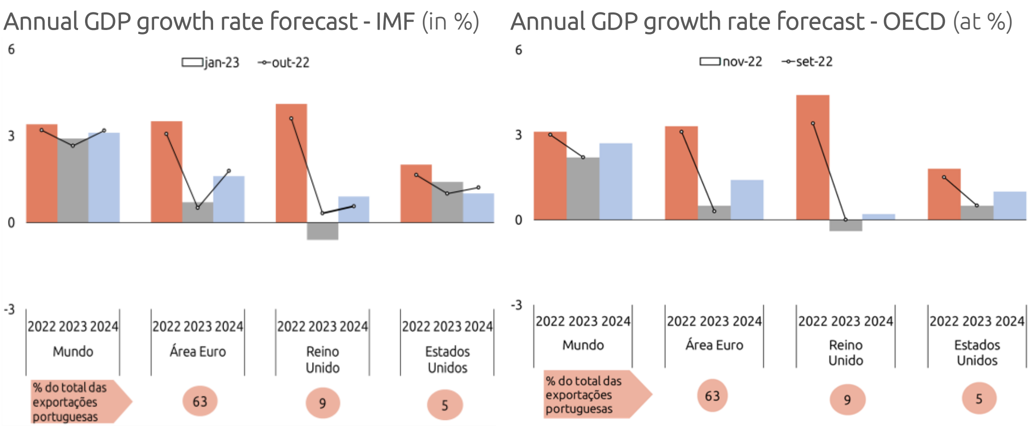
2.2 External environment of Portuguese economy

International economy

According to the most recent macroeconomic projections, global GDP is expected to decelerate in 2023, reflecting both the rise in the reference interest rates of the main central banks in the current context of high inflation and the negative consequences resulting from the ongoing military conflict in Ukraine. Thus, both the International Monetary Fund (IMF), in the scenario published in the World Economic Outlook (Update) of January, and the Organisation for Economic Co-operation and Development (OECD), in its Economic Outlook of last November, project global GDP rates of change of 2.9% and 2.2%, respectively (Chart 3). A recovery in the growth rate of world output is expected for 2024, with the scenarios published by the IMF and OECD at the close of this Report forecasting annual rates of change of 3.1% and 2.7%, respectively. The acceleration of global economic activity next year should reflect the easing of the inflation rate in the world's main economies, as well as the reduction of the effects related to the Russian-Ukrainian military conflict.

Within this framework, and according to the aforementioned projections, the rate of change of North American real GDP should be between the 0.5% expected by the OECD and the 1.4% projected by the IMF in 2023, settling at 1.0% in both institutions' scenarios in 2024. The UK economy is expected to contract this year, with the IMF and OECD projecting rates of change in UK's real output of -0.6% and -0.4%, respectively. For 2024, both institutions foresee a modest recovery in UK's economic activity (0.2% in OECD's scenario and 0.9% in the IMF scenario).

Chart 3 - Forecasts for real GDP growth for the world and for Portugal's main trading partners (%)



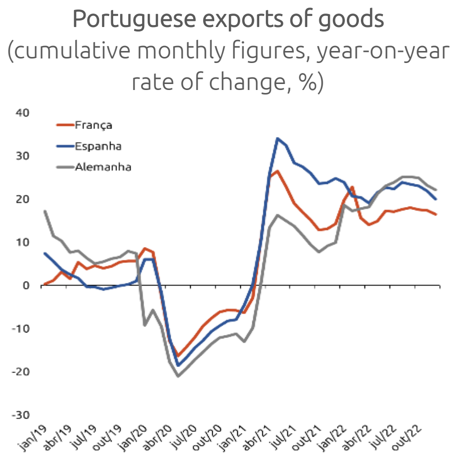
Sources: IMF - *World Economic Outlook (Update)* January 2023 and *World Economic Outlook* October 2022; OECD - *Economic Outlook* November 2022 and *Economic Outlook (Interim)* September 2022. CFP calculations.

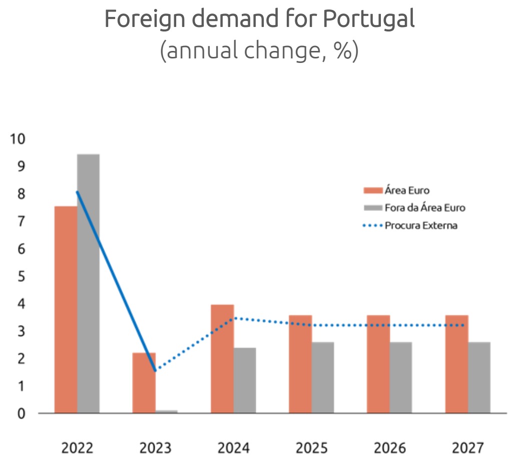
The Euro area, the main destination of Portuguese exports, is also expected to reflect the slowdown of global economic activity in 2023 and an acceleration in 2024.[1]

International trade and foreign demand for Portugal

In 2022, benefiting from the economic growth of Portugal's main trading partners, as well as of the absence of constraints on economic activity in Portugal, contrary to what occurred in 2021 due to the COVID-19 pandemic, national exports of goods to Spain, Germany and France grew by 20.0%, 22.1% and 16.5%, respectively.

Chart 4 - Portuguese exports of goods and foreign demand





Source: Statistics Portugal, EC, IMF, OECD and CFP calculations

In a context of slowing international economic activity, the growth of external demand for Portugal is expected to slow down to 1.6% in 2023 (-6.5 p.p. compared to 2022). Demand from non-EU countries should remain practically stagnant with an expected growth rate of 0.1% (-9.3 p.p. vis-à-vis 2022), while the expected growth in demand from European single currency countries should slow down to 2.2% (-5.3 p.p. year-on-year). An acceleration in demand for goods and services directed to the Portuguese economy is projected for 2024, reflecting the recovery of world economic growth outlooks. Indeed, the CFP's calculations based on EC, IMF and OECD projections indicate that external demand for Portugal should grow by 3.5% (Chart 4), benefiting from the acceleration of demand from Euro area countries (3.9%), and from other countries in

[1] After the cut-off date of this publication, the ECB released its March 2023 exercise, where it forecasts a slowdown in the Euro area growth to 1% in 2023 followed by a recovery in 2024 and 2025 to 1.6%. Regarding inflation, it points to 5.3% in 2023, 2.9% in 2024 and 2.1% in 2025. Compared to December, there was an upward revision of 0.5 p.p. in real GDP growth for 2023 and approximately 0.3 p.p. downward for the two following years. The inflation rate was revised downwards for the entire projection horizon: -1.0 p.p. in 2023, -0.5 p.p. in 2024 and -0.2 p.p. in 2025. Nonetheless, the ECB does not incorporate the possible effects of the current financial market turmoil, as its financial year ended in early March. The OECD presented on 17 March a growth forecast of 0.8% for the euro area in 2023 and 1.4% for 2024, and 6.2% and 3.2% for inflation in 2023 and 2024, respectively.

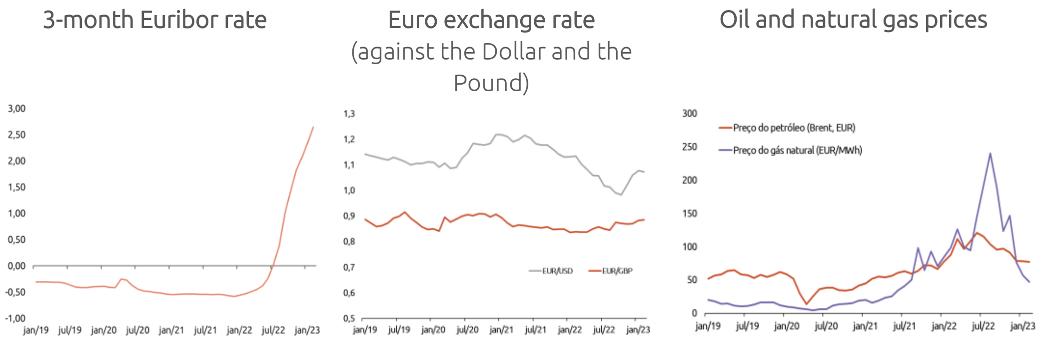
the world (2.4%). From 2025 onwards, this indicator should stabilise, and at the end of the projection horizon the growth rate of external demand for Portugal is expected to be at 3.2%, with European single currency countries (3.6%) making a slightly higher contribution than the rest of the world (2.6%).

Financial and commodity markets

In response to the current high inflation environment, ECB has started the process of monetary policy normalisation in the second half of 2022, including the successive increase of key interest rates, with the rate applicable to the main refinancing operations reaching 3% at the Council meeting last February. Consequently, there was a very significant increase in the 3-month Euribor rate, from -0.56% in January 2022 to 2.64% in February of this year (Chart 5). This movement is expected to continue in the near future, as the ECB has signalled new increases in interest rates and their maintenance at restrictive levels until inflationary pressures are controlled.

In response to the high inflation observed in the USA, the US Federal Reserve began the process of raising interest rates in the first half of 2022, earlier than the ECB and at a faster pace for reference rates than in the EA. Consequently, the North American currency appreciated significantly against the European single currency, with the EUR/USD exchange rate reaching values close to parity in September/October 2022, although in recent months there has been a slight recovery in the European single currency due to the increases in interest rates in the EA (Chart 5). Notwithstanding the fact that the Bank of England has also started its process of raising interest rates, the Pound Sterling depreciated against the Euro, with the monthly average of the EUR/GBP rate dropping from 0.84 in January 2022 to 0.89 in February this year.

Chart 5 - 3-month Euribor rate, exchange rates and oil and natural gas prices



Source: ECB, BoP and Investing. | Note: Average for the period. The price of natural gas corresponds to the value of the Dutch TTF Natural Gas future contract for delivery in the following month.

The increase in oil prices that began with the post-pandemic recovery in economic activity and intensified due to the invasion of Ukraine by the Russian Federation at the beginning of last year, resulted in the increase in the price of a barrel of Brent to a maximum of € 120.6 in June 2022. Since then, and reflecting fears of a cooling down of the world economy due to the current international context, the average monthly price of a barrel of Brent has been falling, reaching € 77.2 in February this year (Chart 5). The price per MWh of natural gas evolved similarly, with its average monthly price reaching its maximum in August 2022 (239.9 €/MWh) due to the military conflict in Ukraine and fears of an indefinite cut in the supply of Russian natural gas to Europe. Even so, with the precaution of natural gas reserves for the current winter generally achieved, with the growing substitution of imports from Russia by other suppliers and in a context of cooling down of global economy, the price of this commodity has fallen sharply in recent months, with its average monthly value reaching 47.1 €/MWh in February this year. In a scenario of reduced geopolitical tensions and relative stabilisation of world economic growth, the value of Brent crude futures contracts traded on the cut-off date of this report indicates that, after peaking at € 98.5 per barrel in 2022, the price of Brent crude futures contracts will gradually fall to approximately € 64 per barrel at the end of the projection horizon (Table 2).

Technical assumptions for the external economic environment

Considering the most recent developments at international level, as well as the above-mentioned outlook for world economic activity, this projection exercise assumes the following technical assumptions :

Table 2 - Technical assumptions for the external economic environment

	2022	2023	2024	2025	2026	2027
Pressupostos						
Procura externa (variação, %)	8,1	1,6	3,5	3,2	3,2	3,2
Taxa de juro de curto prazo (Euribor 3M, %)	0,3	3,6	3,6	3,1	3,0	3,0
Taxa de câmbio EUR-USD	1,05	1,06	1,06	1,06	1,06	1,06
Preço do petróleo (Brent, Eur)	98,5	78,2	73,8	69,6	66,2	63,7

Sources: BoP, ECB, EC, IMF, OECD and CFP estimates. | Note: The technical assumption for the EUR-USD exchange rate assumes that the average rates observed in the two weeks prior to the information cut-off date (3 March) will continue over the course of the projection time horizon. The technical assumption for the price of oil is based on future contracts for Brent oil in USD. The change in the 3-month Euribor rate is based on the expectations implicit in future contracts for 2023-2027.

Box 1 – Projections and forecasts for the Portuguese economy

Contrary to the scenario presented by the CFP in this report, the majority of the projections of other institutions for the Portuguese economy presented in this box were released during the last quarter of 2022 and therefore do not benefit from information regarding the end of the year or economic activity in early 2023. The scenarios presented by other institutions were prepared at different points in time, based on different calculation methods, making different technical assumptions regarding macroeconomic and fiscal developments and incorporating different policy measures, and therefore cannot be directly comparable with each other.

According to most of the institutions considered, one can expect a significant slowdown of the Portuguese economy in 2023. According to the various macroeconomic scenarios, the real output growth rate for next year should be between the 0.7% projected by the IMF and the 1.5% registered in the Bank of Portugal (BoP) scenario. As regards the evolution of prices, inflationary pressures are expected to slow down in 2023, anticipating the deceleration of the HICP to values oscillating between the 4.0% estimated by the MF and the 6.6% projected by the OECD. For the labour market, the estimate for the unemployment rate should be between the 5.6% of the labour force estimated by the MF and the 6.5% projected by the IMF, and in parallel, a reduction in the employment growth rate is anticipated by all institutions, to values between the 0.0% of the BoP and the 0.6% presented by the IMF. In relation to the external sector, the exercises shown in Table 3 project a positive net lending capacity of the Portuguese economy in 2023, with the MF anticipating a balance of 1.5% of GDP, and the BoP projecting a balance of 1.7% of GDP. In relation to the goods and services account, the scenario presented by the MF anticipates a deterioration of this account to -2.6% of GDP, while the OECD and BoP scenarios project an improvement to -1.0% of GDP and -0.9% of GDP, respectively.

For 2024, the macroeconomic scenarios presented by the institutions considered anticipate an acceleration in the Portuguese economy's growth rate, with the rate of change of real GDP between OECD's 1.2% and IMF's 2.4%. A new easing of inflationary pressures is expected, since all the entities considered anticipate a new deceleration of HICP's annual rate of change, whose values should fall within a range between the 2.4% estimated by the OECD and the 3.3% forecast by the BoP. Regarding the labour market, according to the IMF and OECD the unemployment rate should decrease slightly or remain unchanged, between the 5.9% of the BoP and the 6.4% of the IMF, while the employment growth rate should recover to between the 0.2% of the BoP and the 0.5% advanced by the OECD. With regard to the external sector, BoP's scenario anticipates the maintenance of the economy's net lending capacity at 1.7% of GDP, while the goods and services account should become less negative, increasing to 0.3% of GDP in BoP's scenario, and to -0.9% in OECD's scenario.

In the following year, and according to the exercises in the table below, a deceleration is expected in the Portuguese economy's growth rate. The BoP projects a real GDP growth rate of 1.9% and the IMF anticipates a decline to 2.2% in 2025. According to the IMF, The unemployment rate should stabilise in these institutions' scenarios, around 5.9%of the labour force in the case of the BoP, and around 6.3% according to the IMF.

Table 3 - Other macroeconomic projections and forecasts for the Portuguese economy

Ano	2022	2023					2024				2025		2026	2027
Instituição		MF	FMI	OCDE	BdP	CE	FMI	OCDE	BdP	CE	FMI	BdP	FMI	FMI
Data de publicação	fev23	out22	out22	nov22	dez22	fev23	out22	nov22	dez22	fev23	out22	dez22	out22	out22
PIB real e componentes (variação, %)														
PIB	6,7	1,3	0,7	1,0	1,5	1,0	2,4	1,2	2,0	1,8	2,2	1,9	1,9	1,9
Consumo privado	5,7	0,7	-	0,3	0,2	-	-	1,0	0,8	-	-	1,1	-	-
Consumo público	2,4	2,3	-	2,3	1,9	-	-	1,8	1,2	-	-	0,9	-	-
Investimento (FBCF)	2,7	3,6	-	2,6	2,9	-	-	3,5	5,4	-	-	4,3	-	-
Exportações	16,7	3,7	1,7	3,5	4,3	-	2,7	3,0	3,7	-	2,7	3,9	2,7	2,7
Importações	11,0	4,0	2,1	3,4	3,0	-	2,4	3,9	3,2	-	2,6	3,4	2,6	2,5
Contributos para o crescimento real do PIB (p.p.)														
Procura interna	4,7	1,6	-	1,0	-	-	-	1,7	-	-	-	-	-	-
Exportações líquidas	2,1	-0,3	-	0,0	-	-	-	-0,5	-	-	-	-	-	-
Preços (variação, %)														
Deflator do PIB	4,5	3,6	4,6	6,4	-	-	2,9	2,9	-	-	2,5	-	2,3	2,2
IHPC	8,1	4,0	4,7	6,6	5,8	5,4	2,6	2,4	3,3	2,6	2,3	2,1	2,1	2,0
PIB nominal														
Variação (%)	11,5	4,9	5,3	7,5	-	-	5,4	4,1	-	-	4,7	-	4,2	4,1
Mercado de trabalho (variação, %)														
Taxa de desemprego (% pop. ativa)	6,0	5,6	6,5	6,4	5,9	-	6,4	6,2	5,9	-	6,3	5,9	6,3	6,3
Emprego	2,0	0,4	0,6	0,1	0,0	-	-	0,5	0,2	-	-	0,1	-	-
Sector externo (% PIB)														
Capacidade líquida de financiamento	-	1,5	-	-	1,7	-	-	-	1,7	-	-	2,2	-	-
Balança de bens e serviços	-2,5	-2,6	-	-1,0	-0,9	-	-	-0,9	-0,3	-	-	0,1	-	-

Sources: 2022: Statistics Portugal. 2023-2027: MF - State Budget Proposal Report for 2023, October 2022; IMF - *World Economic Outlook*, October 2022; OECD - *Economic Outlook No 112*, November 2022; BoP - Economic Bulletin, December 2022; EC - *Winter 2023 Economic Forecast*, February 2023.

2.3 Recent developments in Portuguese economy and CFP projections

GDP and components development

The CFP's current macroeconomic scenario anticipates a significant slowdown in economic activity in 2023, estimating a real GDP growth of 1.2% (-5.5 p.p. compared to the value observed in 2022). This dynamic is based on the expectation of a reduction both in the contribution of domestic demand, from 4.7 p.p. in 2022 to 1.2 p.p. in 2023, and in the contribution of net exports, which should decrease from 2.1 p.p. in 2022 to zero in 2023.

The developments estimated for the contribution of domestic demand are mainly associated with a significant deceleration in private consumption and, to a lesser extent, in investment. This dynamic is conditioned by the geopolitical uncertainty panorama exacerbated by the continuing war between Russia and Ukraine, by the persistence, although to a lesser degree, of inflationary pressures that led to the loss of confidence of economic agents and the erosion of consumer purchasing power, and by the worsening of financing conditions for both families and companies. In turn, the reduction estimated for the contribution of net exports reflects the anticipation of a marked slowdown in the growth rate of exports of goods and services, which is higher than that expected for imports, in line with the slowdown dynamics anticipated for foreign demand, notwithstanding some positive impact from the gradual easing of bottlenecks in global value chains and the expectation of some gains in market shares.

For 2024 and 2025, the CFP projects a recovery in the growth rate of real GDP to 1.8% and 2.0%, respectively, resulting from an increase in the contribution of domestic demand to 1.4 p.p. in 2024 and 1.9 p.p. in 2025, and an increase in the contribution of net exports to 0.4 p.p. in 2024, followed by a reduction to 0.1 p.p. in the following year. For the medium term, the GDP growth rate converges to values close to 1.7%, as a result of the stabilisation of the contribution of domestic demand at 1.6 p.p. and of the maintenance of the contribution of net exports at 0.1 p.p. over the remaining projection horizon (Table 1).

Table 4 - Contributions net of imports to real GDP growth (p.p.)

	2022	2023	2024	2025	2026	2027
PIB real (variação, %)	**6,7**	**1,2**	**1,8**	**2,0**	**1,7**	**1,7**
Procura interna	3,1	0,7	0,9	1,2	1,0	0,9
Consumo privado	2,5	0,1	0,3	0,5	0,5	0,5
Consumo público	0,3	0,4	0,1	0,1	0,1	0,1
Investimento	0,3	0,2	0,5	0,6	0,4	0,3
Exportações	3,6	0,5	0,9	0,8	0,7	0,8

Source: CFP and Statistics Portugal projections and calculations.

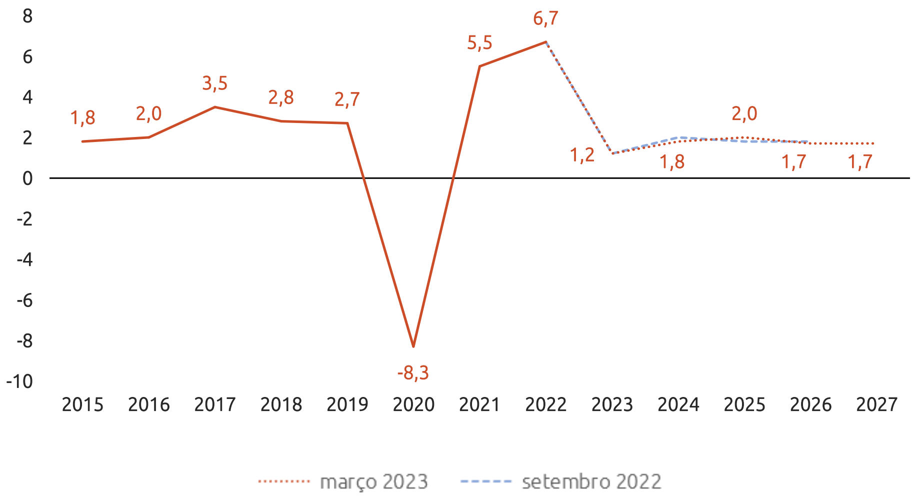
The analysis of the contributions net of imports[2] reveals that the reductions in the contributions of exports and private consumption, and to a lesser extent, investment, are the main determinants of the slowdown of growth of the Portuguese economy in 2023. In the medium term, the evolution projected for real GDP should result from the dynamic contribution of domestic demand (particularly through private consumption and investment), and also from the contribution of exports, which should remain high (Table 4).

The preparation of this exercise benefited from the incorporation of the Quarterly National Accounts for the 4th quarter of 2022, released by Statistics Portugal, the update of the outlook for the foreign environment and the update of the RRP implementation profile. The new information, the risk weighting and the measures incorporated result in the maintenance of the estimate for the real GDP growth rate for 2023 at 1.2%, compared to the scenario published in September 2022 (Chart 6). The maintenance of the projection for economic activity growth is the result of downward revisions in exports growth (-1.3 p.p.), GFCF (-0.6 p.p.), and private consumption (-0.1 p.p.), which should be mitigated by the upward revision of public consumption growth (+2.5 p.p.) and by the downward revision of imports growth (-0.3 p.p.). In 2024, the real GDP projection is revised downwards (-0.2 p.p.), due to a deterioration in the growth outlook for the contribution of domestic demand (-0.8 p.p.) higher, in absolute value, than the upward revision of the contribution of net exports (+0.6 p.p.). For 2025 and 2026, the real GDP growth rate was revised upwards (+0.2 p.p.) and downwards (-0.1 p.p.), respectively, which essentially reflects a revision in the same direction in the

[2] For more details on the calculation of contributions net of imports, see the Box '*Contributions to real GDP growth net of imports*', published on the CFP's website.

contribution of domestic demand, since the contribution of net exports remains unchanged in both periods compared to the estimates of the previous year.

Chart 6 - Real GDP (annual rate of change (%), 2015-2027)



Sources: CFP and Statistics Portugal.

Box 2 - Deviations from CFP's macroeconomic projections in 2022

This box analyses the projection deviations between the CFP's macroeconomic scenarios for 2022 - published in the Economic and Fiscal Outlook (PEO) of March 2022 and September 2022 – and the preliminary data of Annual National Accounts, published by Statistics Portugal at the end of February 2023. Several factors contributed to t these deviations. Firstly, it should be noted that the year 2022 was marked by the beginning of the military conflict between Russia and Ukraine, which led to a rapid intensification of inflationary pressures in the economy, as well as a strong deterioration in the confidence of economic agents, which contributed to a particularly high degree of uncertainty, particularly in the March exercise. On the other hand, it should be recalled that the CFP's macroeconomic projections, like those prepared by other institutions: (i) are based on macroeconomic models and, as such, are subject to their intrinsic limitations - they represent only a simplification of the economic structure and are subject to estimate errors due, for example, to breaks in the time series structure; (ii) incorporate technical assumptions and judgement options for the evolution of a set of macroeconomic and fiscal variables, which may or may not materialise; and (iii) incorporate the information available at the time of the exercise, which is incomplete and subject to possible revisions by the statistical authorities. Additionally, the CFP's projections are prepared under a no policy change scenario, and as such only consider economic policy measures that have already been duly specified or legislated.

Table 5 - CFP projection deviations in 2022

	Observado (INE)	CFP - março 2022		CFP - setembro 2022	
		Estimativa (%)	Desvio (p.p.)	Estimativa (%)	Desvio (p.p.)
PIB	6,7	4,8	-1,9	6,7	0,0
Consumo privado	5,7	3,6	-2,1	5,1	-0,6
Consumo público	2,4	2,5	0,1	1,9	-0,5
Investimento (FBCF)	2,7	6,9	4,2	3,6	0,9
Exportações	16,7	10,4	-6,3	17,8	1,1
Importações	11,0	8,6	-2,4	12,1	1,1
Deflator do PIB	4,5	2,5	-2,0	3,9	-0,6
IHPC	8,1	3,9	-4,2	7,7	-0,4
Emprego	2,0	1,1	-0,9	1,9	-0,1
Taxa de desemprego (% da pop. ativa)	6,0	6,4	0,4	5,6	-0,4
Balança de bens e serviços (% PIB)	-2,5	-3,6	-1,1	-3,0	-0,5

Sources: Statistics Portugal - National Accounts, February/2023; and CFP - Economic and Fiscal Outlook 2022-2026, March/2022 and Economic and Fiscal Outlook 2022-2026 (Update), September/2022.

Table 5 shows the projection deviations between the CFP's estimates for 2022, for a set of macroeconomic variables, and the figures published by INE. In 2022, and according to the national statistics authority, the real GDP growth rate will have accelerated 6.7%, bringing the Portuguese economy to the levels observed in 2019. In the exercise carried out in March 2022, the CFP estimated a 4.8% growth in the Portuguese economy in 2022, underestimating the observed value by 1.9 p.p. In September, the CFP revised its projection upwards to 6.7%, resulting in a zero projection deviation this year.

This increase in the estimate's accuracy between the March and September exercises, which is one of the desirable properties of the projections, reflects, among other things, the incorporation of additional data that was not available at the time of the first exercise, namely data on the quarterly National Accounts for the first two quarters of 2022, and updated information on the implementation of the RRP (the latter having a significant impact on the projection for GFCF), as well as new technical assumptions regarding the evolution of some macroeconomic variables.

A more detailed analysis reveals that the reduction in the projection deviation for the pace of real GDP growth resulted from an improvement in the accuracy of the projection of both domestic demand and net exports dynamics. At the domestic demand level, there is a reduction in the projection deviations of most of its components, with the exception of public consumption. In particular, the GFCF projection deviation was reduced from 4.2 p.p. in March to 0.9 p.p. in September, mainly reflecting the incorporation of updated information on the implementation of the RRP. Similarly, the CFP's projections underestimated private consumption growth by 2.1 p.p. in March, and only by 0.5 p.p. in September. In the case of public consumption, in September the projection deviation (-0.5 p.p.) was higher, in absolute terms, than in March (0.1 p.p.). Regarding net exports, the increase in projection accuracy resulted from a reduction in the projection deviations of its two components, although this was stronger in the case of exports (from an underestimation of 6.3 p.p. in March to an overestimation of 1.1 p.p. in September) than in the case of imports (from -2.3 p.p. to 1.2 p.p., in the same exercises).

With regard to prices, the CFP's projections underestimated the growth of both the HICP and the GDP deflator by 4.2 p.p. and 2.0 p.p., respectively, in the March exercise. In September, the incorporation of new information allowed both projection deviations to be reduced, with an underestimation of 0.4 p.p. in the case of the HICP and 0.6 p.p. for the GDP deflator.

In relation to the labour market, it should be noted that in March the value expected by the CFP for the unemployment rate (6.4%) overestimated the 2022 unemployment rate by 0.4 p.p., while the estimate for the employment growth rate (1.1%) was 0.9 p.p. below that published by Statistics Portugal (2.0%). In turn, in the September exercise, the CFP revised its estimate for the unemployment rate downwards to 5.6% of the labour force, this time leading to an underestimation of this indicator by 0.4 p.p., while the projection for the employment growth rate (1.9%) converged towards the value published by Statistics Portugal, and was only 0.1 p.p. below it.

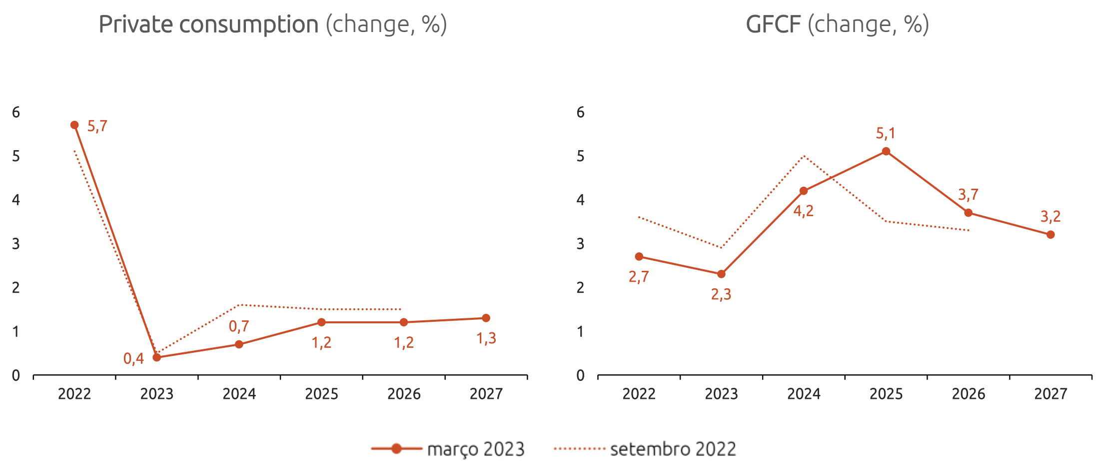
Finally, for the goods and services account, CFP's estimate presented in March pointed towards a negative output balance of 3.6%, a value 1.1 p.p. below that published by Statistics Portugal (-2.5%). For the September exercise, the estimate for this item was revised upwards to -3.0% of output, which led to a lower -0.5 p.p. deviation. It should be noted that the greater precision in the projection of this account reflects, among other things, the greater revision in the exports growth rate between March and September, when compared to the revision of imports, as well as the greater precision in the projection of real GDP and of the respective deflator.

For 2023, the current scenario estimates a sharp deceleration in the real private consumption growth rate to 0.4%, which represents a 5.3 p.p. reduction from the value observed in 2022 (Chart 7). This behaviour is largely a result of the persistence of inflationary pressures during this period, although lower than in 2022, and whose contagion effects to core inflation (which excludes unprocessed food and energy) are expected to exacerbate the deterioration in consumer confidence, the high levels of uncertainty and the erosion of purchasing power. The impact of the expectation of an increase in interest rates assumed in the technical assumptions should condition the financial situation of households, given the high prevalence of variable-rate loans in the Portuguese economy, especially for indebted households and those with lower incomes, which are more exposed to the worsening of financing conditions. This slowdown in real private consumption reflects also the easing of the accumulated savings levels during the pandemic years throughout 2022, notwithstanding the anticipation of a slight recovery in the 2023 savings rate - from historically low estimated levels in 2022 - and which should be determined by the promotion of savings for precautionary reasons, and by the expected increase in nominal disposable income, which should benefit from the growth in average earnings per worker.

From 2024 onwards, private consumption should begin its gradual recovery path, with a 0.7% projected growth, which should reflect the gradual decrease in inflationary pressures and the stabilisation of interest rates. These factors should contribute to the gradual recovery of real household income and to an increase in consumers' confidence level. In the medium term, private consumption growth is expected to stabilise at around 1.2%, in parallel with the gradual convergence of the savings rate to values close to the pre-pandemic average (6.8%, equivalent to the average for the 2014-2019 period).

The growth rate of real public consumption should accelerate by 0.4 p.p. to 2.8% in 2023, in line with the expected increase in public employment, which should raise compensation of employees, and with the expected increase in intermediate consumption , as forecast in the State Budget for 2023. For subsequent years, the current exercise anticipates the public consumption growth rate to converge to 0.7% in the medium term.

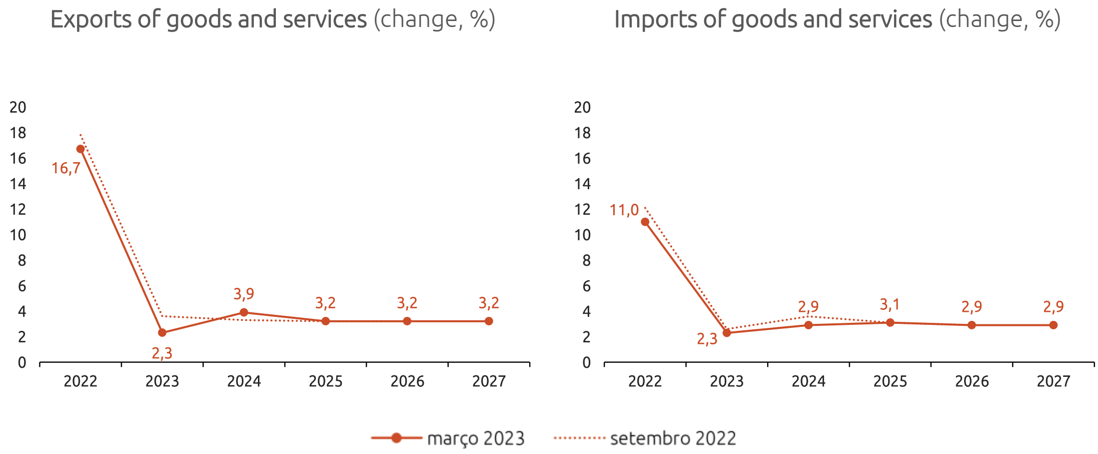
Chart 7 - Private consumption and GFCF (2022-2027)



Sources: CFP and Statistics Portugal.

Real GFCF should decelerate by 0.4 p.p. to 2.3% in 2023 (2.7% in 2022). This dynamic is determined by the postponement of investment decisions, within a high uncertainty scenario, marked by supply constraints that still prevail and affect production factors, by high inflation that tends to increase production costs, by the worsening of financing conditions and by the slowdown in demand (both domestic and foreign), which deteriorate production prospects and business confidence levels. However, this evolution of investment should be partially supported by the expectation of an acceleration in the absorption of European funds, particularly those associated to the RRP, which should be reflected in the acceleration of total GFCF growth to 4.2% in 2024 and 5.1% in 2025 - although mostly through its public component. This acceleration in investment also reflects the expectation of a progressive normalisation of global demand and the easing of uncertainty over these two years. A gradual convergence of the GFCF growth rate is expected in the medium term, up to 3.2% in 2027 (Chart 7).

Chart 8 - Exports and imports (2022-2027)



Source: CFP and INE.

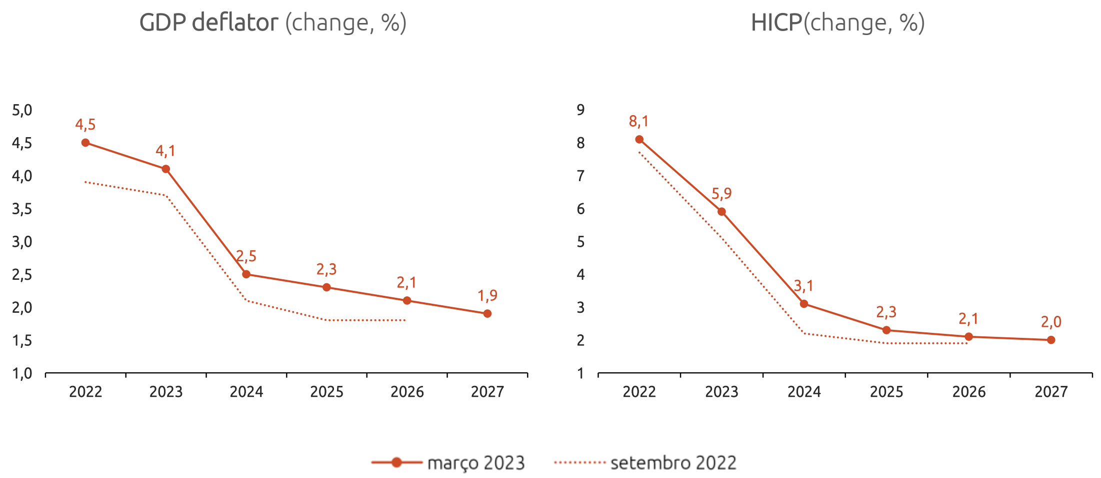
According to the current scenario, real exports of goods and services should grow by 2.3% in 2023, a significant deceleration of 14.4 p.p. compared to the value observed in 2022, but still higher than the foreign demand growth projection for Portuguese economy, which should foster the recovery of Portuguese exports' market share, though at a considerably more conservative pace than in the previous year. This deceleration reflects the prospects of a slowdown in the economies of Portugal's main economic partners, incorporated in the foreign demand dynamics. Service exports, particularly those linked to tourism activities, After having recovered in 2022 to levels higher than those observed in the pre-pandemic period, are expected to slow down their growth rate in 2023, although some momentum is still expected in this sector, with the foresight of events such as the World Youth Day in the third quarter. In 2024 total export growth is projected to accelerate to 3.9%, consistent with the improvement of the international environment and the recovery of foreign demand. In the medium term, the growth rate of goods and services exports should converge to 3.2%, in line with the projected trajectory for foreign demand, maintaining market shares.

For real imports of goods and services, a growth of 2.3% is estimated for 2023, which represents an 8.7 p.p. decrease compared to the growth observed in 2022. These dynamics reflect the expected evolution of global demand, especially for components with higher import content. For 2024 and 2025 the pace of import growth is expected to increase to 2.9% and 3.1%, respectively, followed by a slowdown to 2.9% in the two following years (Chart 8).

Price developments

The gradual reduction of inflationary pressures in the economy throughout 2023 should result in a slight slowdown in the growth rate of the implicit GDP deflator, by 0.4 p.p. to 4.1%, compared to 2022 (Chart 9). These dynamics should mainly reflect an expected slowdown in domestic demand deflators overall, especially in GFCF deflators, for which a reduction of 3.7 p.p. to 4.4% is foreseen, and in private consumption, whose growth rate is expected to decrease 1.4 p.p. to 4.8%. On the other hand, a less intense deterioration in the terms of trade is anticipated as a result of the expected gradual normalisation of production chains and the prices of the main -commodities in international markets, especially energy and food, which should materialise in a slowdown in the imports deflator (13.4 p.p. to 5.2%) more intense than expected for- the exports deflator (-10.2 p.p. to 4.6%). Likewise, a reduction is foreseen in the inflation rate, measured by the annual HICP variation, to 5.9% in 2023 (8.1% in 2022), especially in its energy and food components.

Chart 9 - Price indicators (2022-2027)



Sources: CFP and Statistics Portugal.

The GDP deflator is projected to continue to decelerate in the following years, more intensely in 2024, when it is expected to grow by 2.5%, and more gradually in the medium -term, converging to 1.9% in 2027. During this period, the domestic demand components' deflators are expected to slow down again, to values around 2.0%, in the case of private consumption and GFCF, and 1.4%, in the case of public consumption, at the end of the projection horizon. In turn, the terms of trade should show a neutral evolution from 2024 onwards, due to the expectation of a progressive deceleration of the deflators of both exports and imports, to values, in both cases, around 2.1%, in line with the progressive easing of inflationary pressures. A deceleration of the inflation rate is also expected over the projection horizon, with this slowdown being more expressive in 2024, when this indicator should reach a value of 3.1%, and more gradual in the following years, to 2.0% in 2027 (Chart 9).

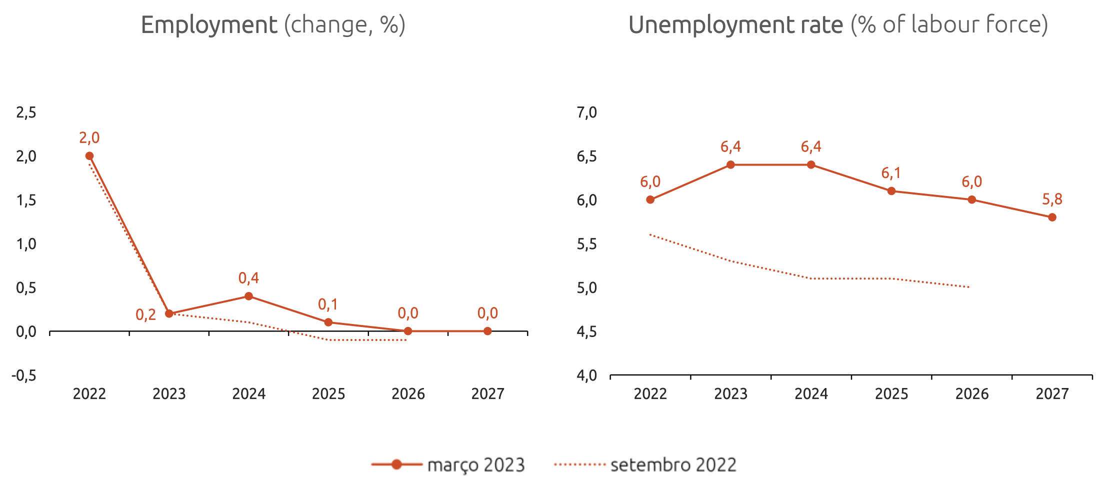
Nominal GDP is projected to grow by 5.4% in 2023, and to progressively decelerate in the following years to values around 3.7% in the medium -term.

Labour market

In relation to the labour market, the current scenario projects, for 2023, a significant slowdown in the employment growth rate to 0.2% (2.0% in 2022), in line with the deceleration estimated for economic activity, while the unemployment rate should increase by 0.4 p.p. to 6.4% of the labour force (Chart 10). This increase in the unemployment rate should reflect, above all, the increase projected for the labour force, above the estimated value for employment, associated with an expectation of a short-term increase in the participation rate, in line with the recent developments of this indicator.

For the following years, the current scenario foresees an acceleration in the job creation pace to 0.4% in 2024, in line with the evolution projected for economic activity, and the maintenance of employment in the following years, which should reflect the maturing of the labour market in the medium term. In the same period, the unemployment rate is expected to remain stable in 2024, at around 6.4%, and begin a downward trajectory in the following years, converging to values around 5.8% in 2027 (Chart 10). This evolution is associated with the expected stabilisation of the participation rate from 2025 onwards, and with the demographic developments projected for this period, which point towards a slight reduction in the labour force from 2024 onwards.

Chart 10 - Labour market indicators (2022-2027)



Sources: CFP and Statistics Portugal.

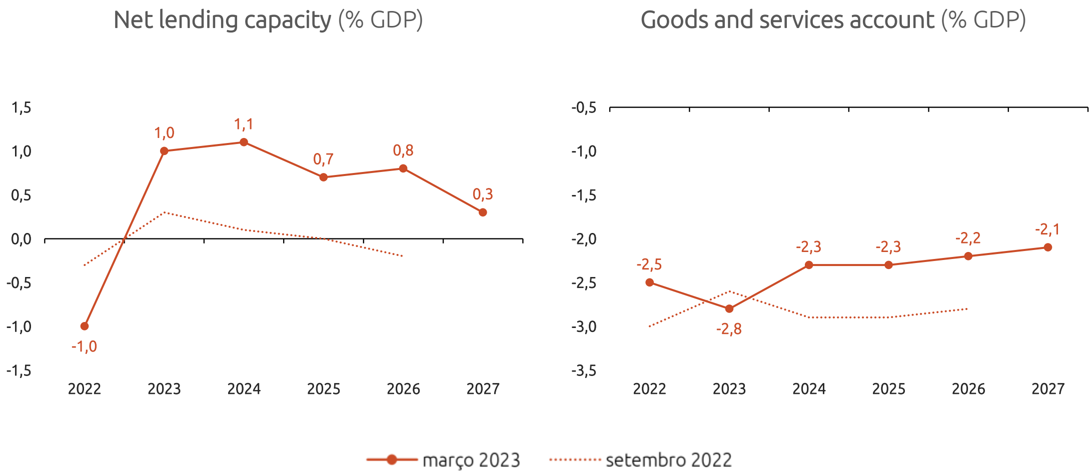
As a result of the projections presented for the economic activity and the labour market, the pace of apparent labour productivity growth is expected to decelerate significantly in 2023, to 1.0% (4.6% in 2022). In the following years, productivity is projected to accelerate to 1.8% in 2025, in line with the expected rebound of economic activity and the slowdown in the employment growth, stabilising around this value in the medium term. Unit Labour Cost (ULC) is expected to grow by 5.2% in 2023, accelerating by 2.5 p.p. compared to 2022, and below the inflation estimate, which implies a contraction of real ULC. The developments estimated for ULC result from a deceleration in apparent labour productivity higher than that estimated for compensation per employee. In the following years, ULC should decelerate to 3.1%

in 2024, 2.3% in 2025 and stabilise around 2.1% in the medium term, in line with inflation.

External sector

The CFP's macroeconomic scenario anticipates that the Portuguese economy will have a net foreign financing capacity of approximately 1.0% of GDP in 2023, which contrasts with an estimated negative balance of the same magnitude in 2022 (Chart 11). The improvement in the external balance in 2023 results, above all, from the expectation of a 1.8 p.p. increase in the capital account balance to 2.9% of output, which should reflect, to a large extent, the dynamics of the inflows associated to the RRP (even though its implementation may show a lagged dynamic). A slight improvement, of 0.2 p.p., is also estimated for the current balance, to -1.9% of GDP, particularly in the primary and secondary income account, since a deterioration is anticipated in the goods and services balance, in line with the projected dynamics for exports and imports of goods and services, and their respective deflators.

Chart 11 - External sector (2022-2027)



Sources: CFP and Statistics Portugal.

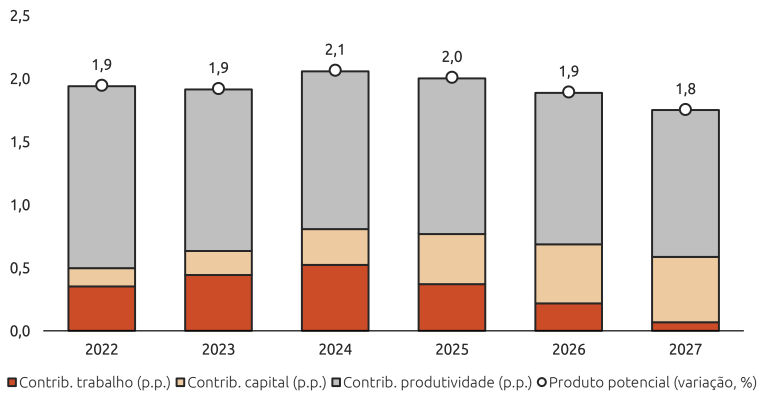
The external accounts balance should remain relatively stable in 2024, and decrease in the following two years to values around 0,8% of output. This evolution should result, on the one hand, from the profile assumed for the capital account, whose balance should decrease to 2.1% of GDP in 2025 and stabilise in the following year, in line with the hypothesis assumed for the inflow of funds associated to the RRP, and, on the other hand, from the evolution envisaged for the current account, mainly reflecting the dynamics of the foreign goods and services account.

At the end of the projection horizon, the financing capacity of the Portuguese economy should decrease to 0.3% of GDP (Chart 11). The largest contribution to this reduction should come from the capital account, whose balance is expected to decrease by up to 1.5% of output, reflecting the cessation of inflows associated with the RRP (which is considered to end in 2026), since the current account balance is expected to remain relatively stable, at around -1.2%.

Potential output and output gap

The estimates presented in this section have been calculated based on the CFP's projections and the commonly agreed EU methodology, parametrised in the EUCAM programme, provided by the European Commission jointly with its autumn forecast 2022.

Chart 12 - Potential output growth composition



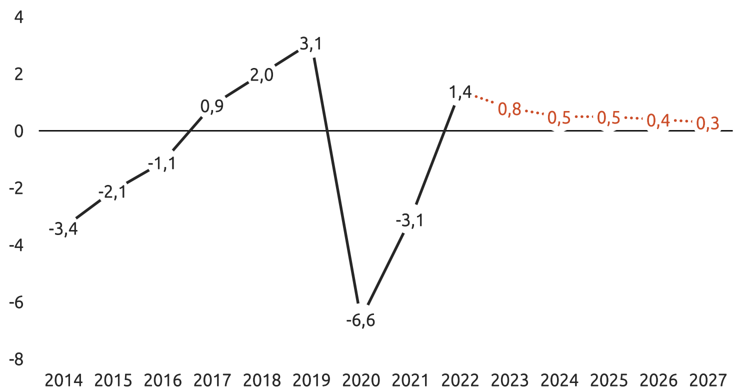
Source: CFP calculations. | Note: Cyclical developments are estimated in line with the commonly agreed EU methodology, parametrised in the EUCAM programme provided jointly with the European Commission Autumn Forecast 2022. The contribution of productivity refers to total factor productivity (TFP).

According to the CFP's current macroeconomic scenario and the commonly agreed EU methodology, a stabilisation of the potential growth rate of Portuguese economy of around 1.9% is estimated for 2023. In the following years, the potential growth of Portuguese economy is expected to accelerate to 2.1% in 2024 and, in the following years, to gradually slow down to 1.8% at the end of the projection horizon (Chart 12).

The dynamics projected for potential output growth should reflect, until 2024, a progressive increase of 0.2 p.p. in the contribution of capital accumulation and 0.1 p.p. in the contribution of labour input, which should be partially offset by a reduction of 0.1 p.p. in the contribution of total factor productivity. In the following years, the potential output dynamics should be largely influenced by the 0.4 p.p. reduction in the contributions of labour input (particularly in the contribution of employment) and total factor productivity (0.1 p.p.), since a further 0.2 p.p. increase is anticipated in the contribution of capital accumulation, which should reflect, over the entire projection horizon, the positive impacts associated with the RRP.

As such, the current projections assume that the output gap will narrow gradually over the entire projection horizon, decreasing from 1.4% of potential output in 2022 to 0.3% in 2027 (Chart 13).

Chart 13 - Output gap (% potential output)



Source: CFP calculations. | Note: Cyclical developments are estimated in line with the commonly agreed EU methodology, parametrised in the EUCAM programme provided jointly with the European Commission Autumn Forecast 2022.

2.4 Risks and uncertainty

The macroeconomic scenario underlying this projection exercise is marked by a context of high uncertainty, with mostly upside risks to the inflation rate and downside on economic activity.

As regards the inflation rate trajectory projected by the CFP, its gradual and consistent downward profile over the projection horizon may be affected by the materialisation of the following upside risks: i) escalation of the military conflict in Ukraine, which may contribute to an increase in the price of energy commodities, in the event of insufficient natural gas reserves by central and eastern European countries to face the 2023/2024 winter; ii) increase in the price of commodities due to the reopening of the Chinese Republic after three years of restrictions associated with the pandemic context were in force; iii) de-anchoring of medium-term inflation expectations by economic agents; and iv) transmission of inflationary dynamics to the less volatile CPI components, thus contributing to the rise and entrenchment of underlying inflation, and delaying the disinflationary process desired by central banks.

Should these risks materialise, there could be further rises in key interest rates by the main central banks. Consequently, the acceleration of this process could pose downside risks to national economic activity: i) directly, since the rise in interest rates to levels higher than those currently anticipated will particularly affect an economy with such a high level of public and private debt as Portugal; and ii) indirectly, since the economic activity of Portugal's main trading partners will also reflect a slowdown greater than that now considered, harming national exports, among which those originating in the tourism sector, one of the most important for the recovery of the Portuguese economy in the post-pandemic period. The emergence of credit events in a context of higher interest rates could also contribute to a worsening of financing conditions in most economies, leading to a more pronounced slowdown in economic activity than currently expected.

Also in relation to the downside risks to national economic activity, notwithstanding the assumption of an RRP execution rate below 100%, the possibility that this implementation may still be below the value considered in the current scenario is emphasised, thus jeopardising the projected GFCF. It should also be noted that the delay in the implementation of the RRP in a context of significant inflationary pressures may lead to an increase in the prices of contracted investment, resulting in the same nominal execution without achieving the objectives projected for the investment in real terms.

As upwards risks to the economic activity expected in the current scenario we highlight the following: i) a downward trajectory of the inflation rate more accelerated than that currently projected, allowing for an easing of financing conditions and of the fiscal margin of the various economic agents; ii) the reduction of geopolitical tensions, namely in the Russian-Ukrainian war; iii) a post-pandemic recovery in China at a faster pace than currently projected, positively influencing the pace of world GDP growth.

3. FISCAL OUTLOOK

This chapter presents the no policy change scenario for the evolution of Portuguese public finances for the 2023-2027 period, based on the macroeconomic scenario. The CFP's projection cannot be interpreted as a forecast, as it reflects the probable evolution of the budgetary variables under the assumption of no change in economic policy measures, i.e. considering only the policy measures that are currently in force (both those listed in the SB/2023 and in the SP/2022, and those adopted through one-off legislation). In other words, this scenario does not incorporate new policy measures, or measures already announced but not legislated or quantified. The technical assumptions underpinning the projection are detailed in section 3.6.

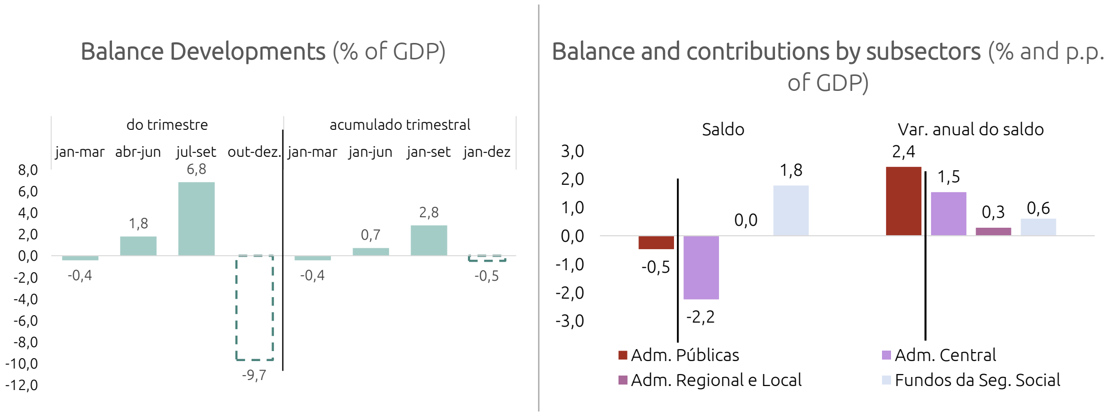
3.1 CFP estimate for the General Government account in 2022

The projection of the medium-term fiscal scenario takes as its starting point the budgetary developments in the year 2022. Considering that the estimate for the general government balance is still being compiled by the national statistics authorities, to be released after the publication of this report, on 24 March, in the context of the first notification of the year regarding the Excessive Deficit Procedure (EDP), the current projection is based on the CFP's own estimate for 2022. This estimate uses the available but not yet complete information for the 2022 budget year.

The CFP's estimate for the general government account points to a deficit of 0.5% of GDP, which corresponds to a reduction of 2.4 p.p. of GDP compared to 2021 (left panel of Graph 14). This improvement reflects the strong recovery in economic activity and the effect of rising prices on the growth in tax revenue, which mitigated the effect of measures in response to the pandemic, the geopolitical shock and the economic and social impact of rising inflation. As a matter of prudence, the CFP's estimate considers the impact of the State's financial support to TAP in the amount of 990 M€. This transaction is still under review by the national statistics authorities. This value differs from the 600 M€ admitted by the MoF in the DSB/2023, whose understanding is based on the argument that the remaining 390 M€ are for the partial repayment of the loan granted by TAP S.A. to the respective holding company, which would be accounted for in the public debt of general government as a whole. Should 600 M€ be considered, the deficit would be 0.3% of GDP.[3] Besides this transaction, the CFP's annual estimate does not incorporate possible losses to be determined by Statistics Portugal concerning guarantees from the State to respond to the pandemic crisis and to the increase in production costs incurred by companies in the context of the exceptional rise in energy prices. Regardless of the impact of these transactions, the deficit to be disclosed in the 1st EDP notification will be lower than that anticipated in the budgetary programming documents presented by the Government (a deficit of 1.9% of GDP), confirming CFP expectations in its September projection (a deficit of 1.3% of GDP).

[3] It should be noted that the classification of this operation has no impact on the remaining projection time horizon.

Graph 14 - General Government budgetary development in 2022 (in % of GDP)



Source: Statistics Portugal (first three quarters of 2022), DGO. CFP calculations and estimate for Q4 and 2022 as a whole.

The main fiscal developments underpinning the CFP's 2022 estimate reflect:

- The high dynamics of tax revenue with an estimated increase of 0.9 p.p. to 25.6% of GDP, mainly driven by direct taxes, above MoF's forecast. Despite this strong increase, the share of revenue as a ratio to GDP is estimated to have decreased by 0.4 p.p. to 44% of GDP, discounting the effect in 2021 of the return of the commission paid in advance to the European Financial Stability Facility (equivalent to 0.4% of GDP, Table 14). 'Other current revenue' contributed most to this evolution, as a result of the significant decrease in European Union support in response to COVID-19, which in 2021 rose to more than 1400 M€ (0.7% of GDP);
- The reduction of the public expenditure to GDP ratio, estimated at 3.3 p.p. to 44.5% of GDP, benefitting from a nominal growth of GDP at current prices three times higher than the estimated expenditure growth (Table 6). Current primary expenditure is expected to have made the greatest contribution (-2.9 p.p. of GDP) as a result of the easing of the measures to respond to the pandemic crisis, with greater expression in subsidies, social benefits and intermediate consumption, more than offsetting the impact of the new emergency measures to respond to the rise in inflation. The interest burden contributed to a lesser extent, with an estimated decrease of 0.4 p.p. of GDP to 2% of the weight on GDP, beyond that forecast by the MoF. Capital expenditure is expected to have maintained the 2021 level with an estimated GDP of 3.8% of GDP, below the increase forecast in the SBP/2023;

- The contribution of central government and social security funds (2.1 p.p. of GDP) as the main sub-sectors responsible for the reduction of deficit (2.4 p.p. of GDP), with the Social Security Funds reinforcing their budget surplus by 0.6 p.p. to 1.8% of GDP (right-hand panel of Graph 14). The regional and local government budget balance is estimated to improve by 0.3 p.p. of GDP, which should be close to balance, reflecting a surplus in local government and a smaller budget deficit for each of the autonomous regions compared to 2021 (right-hand panel of Graph 14).

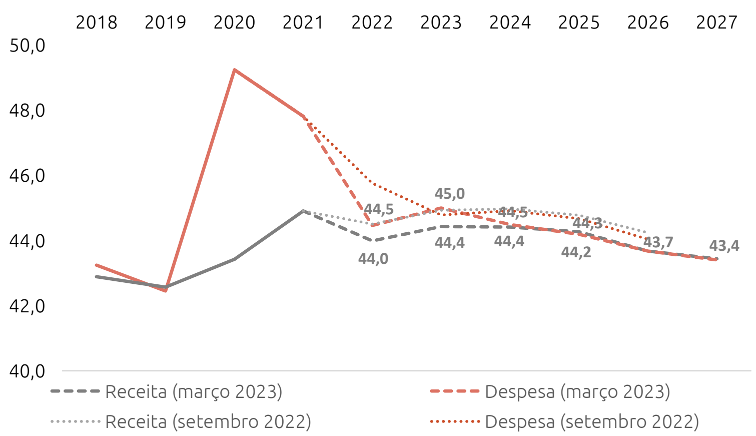
3.2 Expenditure and revenue developments outlook

The increase in inflationary pressures continues to influence the evolution of some fiscal variables, especially until 2024, given the expectation of convergence of the inflation rate around the objective established by the ECB (2%) in the last years of the projection horizon. However, despite the slowdown in the underlying inflation rate this year, it should remain above its historical average since joining the Euro. In this context, revenue should continue to benefit, albeit temporarily, from this phenomenon, while expenditure should reveal upward pressures, especially in relation to social benefits, personnel and intermediate consumption.

As mentioned in previous reports, the denominator effect in this projection has a greater impact on the trajectory of the budgetary variables as a percentage of GDP than would be the case if the nominal change in GDP were not so significant, despite expecting a slowdown in nominal GDP throughout the horizon. The ratio development of GDP may also lead to a different reading from that which would be obtained from the analysis of the percentage change in nominal terms. For example, if revenue grows in nominal terms at the same rate as nominal GDP (at current prices) its share in GDP remains constant.

The projected evolution for revenue and expenditure is shown in Chart 15 and in Table 6, with the annexed Table 14 presenting the evolution adjusted for one-off measures. Overall, the projection points to a reduction of the expenditure-to-GDP ratio converging to a slightly downward trajectory for revenue in 2026, reaching a balanced budgetary position in the last two years of the projection.

Chart 15 - Total revenue and expenditure developments
(in % of GDP)



Source: Statistics Portugal. CFP calculations and projections.

Expenditure

The dissipation of the budgetary impact of the measures implemented to combat the pandemic and the measures to mitigate the geopolitical shock and inflation in 2023, and to a lesser extent in 2024, has a materially relevant influence on the projected evolution of current primary expenditure. This effect, combined with the macroeconomic framework, leads to a decrease in public expenditure as a share in GDP between 2022 and 2027 by 1.1 p.p. of GDP, reaching 43.4% in 2027. This reduction stems from the downward dynamics of current primary expenditure (-2.1 p.p.), since capital expenditure is expected to increase its share in GDP (+0.6 p.p.), and an increase is forecast in interest payments (+0.5 p.p. of GDP).

As regards the evolution of current primary expenditure, all its items are expected to contribute to the reduction of its share in nominal GDP. The reduction in the social transfers expenditure ratio (-1 p.p.) and intermediate consumption (-0.7 p.p.) stand out. This reduction stems not only from the effect of the reversal of the aforementioned measures, but also from the effect of the denominator reflecting nominal GDP growth higher than the evolution of the macroeconomic bases of these expenditure components.

Expenditure on social benefits reflects the behaviour of social transfers in cash and in kind, with reductions of 0.9 p.p. and 0.1 p.p. of GDP, respectively, over the period under analysis. The first year of the projection, 2023, is influenced by the reversal of the measures to contain and mitigate the effects of the pandemic and provide support to households in order to mitigate the effects of inflation, including the one-off payment of half a pension to pensioners in the amount of 1 bn€ (0.4% of GDP) made in 2022. The update of social benefits in cash is described in point 3.6 'Assumptions on the evolution of budgetary aggregates', is different in 2023, where pensions are updated in accordance with the SB/2023, and the update rule of Law is subsequently applied.[4] Despite the aforementioned effects, the analysis in absolute terms differs from that resulting as a percentage of GDP, with social benefits expenditure projected to grow in absolute terms.

Intermediate consumption expenditure is expected to reduce its share in GDP by 0.7 p.p., to 4.9% of GDP in 2027. As in previous years, the current projection is influenced: (i) by the reversal of the impact of measures adopted regarding COVID-19, with effects in 2023 and 2024; (ii) by the increase of costs with the acquisition of goods and services due to the increase of energy costs in the amount of 1,078 M€ (0.4% of GDP), identified by the MoF in the SB/2023, with the CFP considering that the reversal effect of this expenditure is spread in two years, 60% in 2024 and 40% in 2025; (iii) by the fall in the future burden of PPPs; and (iv) by spending on intermediate consumption expenditure part of the RRP funds (see last part of this subsection).

[4] The annual update of pensions and other benefits granted by the Social Security System and the Caixa Geral de Aposentações is based on the wording of Article 6 of Law no. 53-B/2006, of 29 December, and of Article 6 of Law no. 52/2007, of 31 August, respectively.

The projection for compensation of employees indicates a growth in absolute terms over the entire time horizon. However, the analysis of compensation of employees as a percentage of GDP suggests a reduction from 10.9% in 2023 to 10.6% of GDP in 2027. This decrease results from a projected GDP growth rate that is higher than the effect of updates, progressions[5] and other compensation variations (price effect), combined with the increase in public employment (volume effect) in line with the assumptions identified in section 3.6.

Between 2023 and 2027, the share of subsidies and 'other current expenditure' in GDP is expected to decrease by 0.2 p.p., reaching 3.2% of GDP in the last year. In 2023, the weight of this variable in GDP is also expected to remain unchanged (Table 6), since the impact of the reversal of the measures to support huseholds and companies allocated in the context of the pandemic is offset by the estimated amount of the measures to mitigate the geopolitical shock and inflation. The latter have a particular effect on subsidies, which include the measure to reduce the electricity grid access tariff (500 M€) and the subsidy to companies for the rise in gas prices (estimated by the CFP in the amount of 500 M€, but with a maximum allocation of 1 bn€).[6]

Following the methodology used in previous reports, the evolution of capital expenditure reflects the incorporation of the RRP and the acceleration of structural investment, which leads to a significant annual increase in the value of gross fixed capital formation (GFCF). Following the low level of implementation of the RRP estimated for 2022, an acceleration in 2023 to 4.6% of GDP and an update of the investment profile of this programme throughout the period (Table 6) is projected. The new profile assumed for the execution of the RRP is the main driver for capital expenditure to increase to 4.7% of GDP by 2025 - falling to 4.4% of GDP in 2026 and 2027. Additionally, the other capital expenditure in 2023 is burdened by three one-off measures (0.2% of GDP) corresponding to (i) the payment of deferred tax assets (120 M€) and (ii) court decisions concerning PPP and EDP in the amounts of 236 M€ and 218 M€, respectively. In the opposite direction, compared to 2022, other capital expenditure in 2023 is reduced by 990 M€ (0.2 p.p. of GDP) due to the non-recurrence of support to TAP granted in 2022.

As regards the interest burden, this exercise includes an upward trajectory for this variable as a percentage of GDP, given the current context of rising interest rates, which are reflected in higher financing costs (see point 3.4). According to the assumptions adopted, the interest burden share in GDP should increase from 2.2% in 2023 to 2.4% in 2027, reaching its maximum share in 2026 (2.5% of GDP).

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[5] Resulting from the application of the Integrated System of Management and Performance Assessment in Public Administration (SIADAP).

[6] The detail of the estimate prepared by the CFP can be found in section 3.6 Main Technical Assumptions.

Table 6 - CFP's budgetary scenario (in % of GDP)

	2021 INE	2022 CFP	Projeção CFP 2023	2024	2025	2026	2027
Receita total	**44,9**	**44,0**	**44,4**	**44,4**	**44,3**	**43,7**	**43,4**
Receita corrente	43,7	43,3	43,4	43,3	42,9	42,6	42,4
Receita fiscal	24,7	25,6	25,4	25,4	25,3	25,2	25,2
Impostos indiretos	15,1	15,1	15,0	15,0	14,9	14,8	14,8
Impostos diretos	9,7	10,5	10,4	10,4	10,4	10,4	10,4
Contribuições sociais	12,7	12,4	12,6	12,6	12,5	12,4	12,3
Vendas e out. receitas correntes	6,3	5,3	5,5	5,3	5,2	5,0	5,0
Receita de capital	1,2	0,7	1,0	1,2	1,4	1,1	1,0
Despesa primária	**45,4**	**42,5**	**42,8**	**42,2**	**41,8**	**41,2**	**41,0**
Despesa corrente primária	41,6	38,6	38,1	37,7	37,1	36,8	36,6
Consumo intermédio	5,8	5,6	5,9	5,5	5,1	4,9	4,9
Despesa com pessoal	11,6	10,8	10,9	10,9	10,8	10,8	10,6
Prestações sociais	19,4	18,8	17,7	18,0	17,9	17,8	17,8
Subsídios e out. despesas correntes	4,7	3,5	3,5	3,3	3,3	3,2	3,2
Despesa de capital	3,8	3,8	4,6	4,5	4,7	4,4	4,4
Saldo primário	**-0,5**	**1,5**	**1,7**	**2,3**	**2,5**	**2,5**	**2,5**
Juros	2,4	2,0	2,2	2,3	2,4	2,5	2,4
Despesa total	**47,8**	**44,5**	**45,0**	**44,5**	**44,2**	**43,7**	**43,4**
Saldo orçamental	**-2,9**	**-0,5**	**-0,6**	**-0,1**	**0,1**	**0,0**	**0,0**
Saldo ajust. medidas temp. e n/recorrentes	-2,9	-0,4	-0,3	-0,1	0,1	0,0	0,0
Dívida pública	**125,5**	**113,8**	**109,2**	**105,3**	**101,9**	**98,8**	**95,9**

Source: CFP projections and calculations. | Note: the values for 2022 and 2023 are influenced by the effect of one-off measures as detailed in Table 13 in annex. The adjusted budget and primary balances are net of these effects. Table 14 in annex presents this scenario adjusted for one-off measures. Due to rounding, the totals may not necessarily correspond to the sum of the figures.

Revenue

The expected development of the fiscal variables on the revenue side is based on the CFP's estimate for 2022 (base year for the 2023-2027 outlook), where the growth of tax and contributory revenue (13.4%) is estimated to be greater than the growth rate forecast for nominal GDP (11.5%). The positive evolution of revenue reflects not only the improved performance of economic activity, but also the dynamics of inflation in 2022. Between 2023 and 2027, the fiscal scenario foresees a reduction in the share of total revenue GDP, from 44.4% to 43.4% of GDP in the final year (-0.6 p.p.). (Table 6). As already mentioned, it is important to bear in mind that the analysis of revenue as a percentage of GDP differs from the analysis in absolute terms, for which an increase in revenue is projected over the entire time horizon.[7] The trajectory of total revenue is influenced by the underlying macroeconomic bases, but also by the intertemporal profile of the transfers received in relation to the RRP.

[7] The projected trajectory for nominal GDP is higher than the change in macroeconomic bases (of social contributions, direct and indirect taxes and sales), which contributes to the reduction of their relative weight.

In the current scenario, the total revenue trajectory will be determined by the development of current revenue (-0.9 p.p. of GDP between 2022 and 2027), since the share of capital revenue is expected to increase by 0.4 p.p. of GDP (Table 6). In this period, tax revenue (-0.4 p.p. of GDP), revenue from sales and 'other current revenue' (-0.3 p.p. of GDP) and social contributions (-0.2 p.p. of GDP) are expected to be the main drivers of the downward developments in current revenue. In more detail, tax revenue ratio to GDP is expected to decrease, justified by its two components, indirect and direct taxes (-0.3 p.p. and -0.1 p.p. of GDP, respectively). The amount of these taxes in 2023 is influenced by the extension of some measures previously adopted, as well as by the adoption of new personal income tax relief measures identified in Table 11. As regards social contributions, their share in GDP is forecast to decrease from 12.6% of GDP in 2023 to 12.3% in 2027 (Table 6), in line with the projected growth rate of compensations, which is forecast to be lower than that expected for GDP.

Regarding capital revenue, its trajectory is influenced by the incorporation of transfers from the European Union under the RRP and by the nominal growth of GDP. As adopted in previous reports, the CFP only considers the amounts referring to grants, thus having a null impact on the budget balance, since the application of those funds in capital expenditure (GFCF and other capital expenditure) corresponds to the same amount considered under capital revenue. The current projection is based on an implementation profile for the annual RRP funds that differs from that underlying the various budget programming documents presented by the Government, since it is estimated that the implementation of those funds in 2022 will prove to be lower than foreseen in those official documents. For the 2023-2025 period, an increasing amount of funds to be executed from the RRP was assumed, corresponding to approximately 70% of the global RRP value considered by the CFP, leaving the remainder to be executed in 2026. The combination of the above-mentioned determinants leads to an anticipated growth in capital revenue until 2025 (4.7% of GDP), decreasing in 2026, as a result of the approaching end of the application of the RRP-related funds (1st half of 2026), and this item is expected to be 4.4% of GDP in 2027.

3.3 Budget balance, primary balance and structural balance

Budget and primary balance

In the absence of new policy measures the medium-term fiscal projection, , points towards a path of correction of the budgetary imbalance, with a balanced position being projected from 2025 onwards (left panel of Chart 16). This trajectory is compatible with the compliance of nominal targets for the budget balance established at the limit of 3% of GDP for the deficit in the Treaty of the Functioning of the European Union.

After having set the budget deficit below that limit in 2021, two years before the deactivation of the safeguard clause that the Council of the European Union established until the end of 2023, in 2022 fiscal developments point to a continuation of the correction trajectory.[8] The CFP's estimate for 2022 anticipates a deficit of 0.5% of GDP, a downward revision from the estimate of 1.3% of GDP presented in September.

As a result of this revision for 2022, the CFP's medium-term projection now assumes a significantly less unfavourable budgetary position. However, the general government deficit is projected to worsen in 2023 to 0.6% of GDP, reflecting: (i) the strong slowdown of economic growth, (ii) the impact of emergency measures related to energy, (iii) the increase in public sector compensations, as well as (iv) the extraordinary expenditure related to three .[9,10]one-off operations. Together, these effects more than offset the suppression of the remaining effect of the measures implemented in response to the COVID-19 pandemic, as well as the non-recurrence of the measures implemented in 2022 to respond to price increases.

A reduction in the budget deficit to 0.1% of GDP is anticipated for 2024. This development which, as in 2023, does not benefit from the contribution of the economic cycle or interest charges, reflects an improvement to the budget balance by 0.5 p.p. of GDP, underpinned by the elimination of support measures related to energy and fuel (1.0 p.p. of GDP) and the easing of the unfavourable effect on the balance of one-off measures (0.2 p.p. of GDP).

Between 2025 and 2027, a return to the pre-pandemic position with a balanced budget balance is envisaged, in a context of easing of the effect of emergency measures taken in the past,

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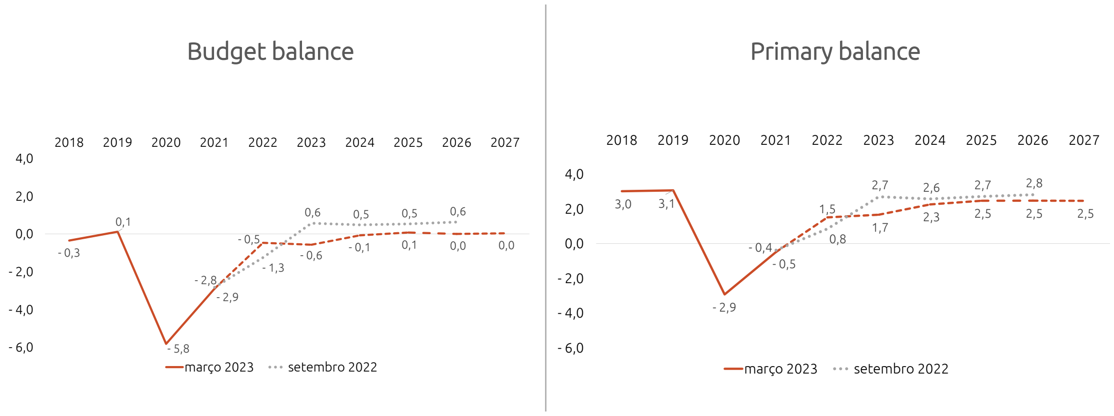
[8] In this regard, the recent Commission communication to the Council on the fiscal policy guidelines for 2024 states that 'all Member States are invited to set budgetary targets that ensure that the deficit does not exceed 3% of GDP or is below 3% of GDP over the period covered by the Stability or Convergence Programme and to ensure credibly that in the medium-term no policy change scenario the deficit is kept below 3% of GDP'. In this framework, the Commission will propose to the Council to open Excessive Deficit Procedures in the spring of 2024, based on the implementation data of 2023. Member States should bear this understanding in mind when implementing their budgets for 2023 and in preparing their Stability and Convergence Programmes to be submitted in the spring of this year, and in their Draft Budget Plans for 2024 to be submitted in autumn.

[9] The generalised salary increase for civil servants incorporates the assumptions described in 3.6.

[10] The one-off operations concerned relate to: (i) indemnity payable by Infraestrutura de Portugal; (ii) a court decision regarding EDP dams and (iii) a new expense arising from deferred tax assets.

Chart 16 - Budget balance and primary balance of general government
(in % of GDP)



Source: Statistics Portugal. CFP calculations and projections. | Note: The figures for the budget balance and primary balance for the period from 2018 to 2023 are influenced by the effect of one-off measures, as detailed in Table 13 in annex.

The primary balance, which excludes the interest burden, is expected to return to a surplus in 2022 (1.5% of GDP), which represents an annual change of 2 p.p. of GDP. From this year onwards, the projection points to the return to a primary surplus trajectory, which was interrupted in 2020 and 2021 due to the pandemic crisis (right-hand panel of Chart 16). Thus, in 2023 the primary balance is expected to rise to 1.7% of GDP and in 2024 to 2.3% of GDP, stabilising in the last three years at 2.5% of GDP.

Maintaining a primary surplus in the 2023-27 period, 1 p.p. of GDP higher than in 2022, is decisive in offsetting the unfavourable impact of the increased share of interest payments (0.5 p.p. of GDP) and sustaining the improvement in the overall balance (by 0.5 p.p. of GDP).

Structural balance

Removing the effect of the economic cycle, which derives from the CFP's calculation for the cyclical component of the budget balance and the effect of one-off measures, the structural balance is projected to improve by 1.0 p.p. of potential GDP between 2023 and 2027. In the absence of new policy measures, there would be an average annual improvement of 0.2 p.p., more intense in the first two years of the projection. Thus, the fiscal position would evolve from a structural deficit of 1.2% of potential GDP in 2022 to a position close to structural balance in 2027 (-0.1% of potential GDP).

Table 7 - Projected developments of the structural balance between 2022 and 2027 (% of GDP)

	2022	2023	2024	2025	2026	2027
1. Saldo orçamental	-0,5	-0,6	-0,1	0,1	0,0	0,0
1a. Medidas Temporárias não recorrentes	-0,1	-0,2	0,0	0,0	0,0	0,0
1b. Componente cíclica	0,8	0,4	0,3	0,3	0,2	0,2
2. Saldo Estrutural [(1) - (1a) - (1b)]	**-1,2**	**-0,8**	**-0,4**	**-0,2**	**-0,2**	**-0,1**
3. Variação anual projetada do Saldo Estrutural	0,4	0,4	0,4	0,2	0,0	0,0
Por memória						
Saldo Estrutural previsto no PE/2022	-1,3	-0,5	-0,3	-0,1	-0,1	

Source: Projections and calculations from the CFP and MF. | Note: Structural balance as a percentage of potential GDP. Cyclical developments are estimated according to the common methodology agreed in the EU, parametrised in the EUCAM programme made available together with the European Commission Autumn Forecast 2022.

This structural balance path increases the safety margin with respect to the nominal budget deficit ratio of 3% of GDP, making it possible to respond to normal cyclical fluctuations without incurring in an excessive deficit situation. These developments contribute to the reduction of the public debt ratio, a necessary condition, to place public debt on a downward path.

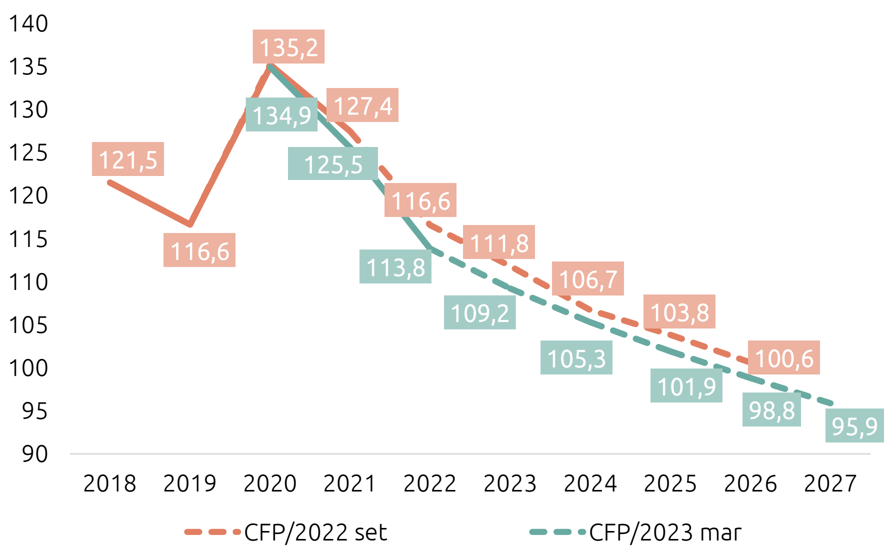
3.4 Public debt developments outlook

Maastricht debt development outlook

In 2022 the Maastricht debt ratio fell by 11.7 p.p. of GDP, largely due to strong GDP growth at current prices, which alone contributed to a reduction of 13.1 p.p. of GDP. Thus in 2022 the debt ratio fell below the level recorded in the pre-pandemic period, in 2019.

The updated trajectory for the public debt ratio points towards a decrease of 18 p.p. of GDP over the projection horizon. From 2026 onwards, this indicator is expected to fall below 100% of GDP, reaching 95.9% of GDP in the last year (2027) of the projection (Chart 17). After the sharp decline observed in 2022 (-11.7 p.p. of GDP), debt as a percentage of GDP is projected to decline on average by 3.6 p.p. per year until 2027. This more gradual decline in the ratio is mainly due to the less pronounced nominal GDP growth. The trajectory presented in this projection exercise shows a more favourable evolution compared with the September 2022 projection, due to i) the upward revision of nominal GDP growth over the horizon and, to a lesser extent, ii) a more favourable expectation for the accumulated evolution of the primary balance and interest.

Chart 17 - Public debt developments (% of GDP)



Sources: MF, Statistics Portugal and BoP. CFP calculations and projections.

The decrease of the debt ratio in the next five-year period (by 18 p.p. of GDP) is largely due to the favourable contribution of the growth effect (by 22 p.p. of GDP, accumulated), which will be partially eased due to the slowdown of nominal GDP growth (GDP expressed at current prices), from -5.8 p.p. of GDP in 2023 to -3.5 p.p. of GDP in 2027 (Table 7). Even so, the growth effect more than offsets the unfavourable contribution of the interest effect (11.9 p.p. of GDP, accumulated), resulting in a dynamic effect that leads to the reduction of debt (by 10.2 p.p. of GDP, accumulated). The primary balance effect will also contribute favourably to the evolution of the debt ratio (11.3 p.p. of GDP, accumulated), increasing throughout the horizon under analysis. In contrast, the deficit-debt adjustment should have an unfavourable impact on the debt ratio of 0.7 p.p. of GDP on average (3.5 p.p. of GDP in cumulative terms).

Table 8 - Contributions to Maastricht debt developments (% of GDP)

		Projeção CFP					Variação acum.
	2022	2023	2024	2025	2026	2027	2023-27
Dívida Pública	**113,8**	**109,2**	**105,3**	**101,9**	**98,8**	**95,9**	**-18,0**
Variação do rácio da dívida	**-11,7**	**-4,6**	**-3,9**	**-3,4**	**-3,1**	**-2,9**	-18,0
Efeito saldo primário	-1,5	-1,7	-2,3	-2,5	-2,5	-2,5	-11,3
Efeito dinâmico (bola de neve)	-11,1	-3,6	-2,3	-2,0	-1,3	-1,1	-10,2
- efeito juros	2,0	2,2	2,3	2,4	2,5	2,4	11,9
- efeito crescimento	-13,1	-5,8	-4,6	-4,4	-3,8	-3,5	-22,0
Ajust. défice-dívida	0,9	0,6	0,6	1,0	0,7	0,6	3,5
por memória:							
Taxa de juro implícita (%)	*1,8*	*2,1*	*2,2*	*2,4*	*2,5*	*2,6*	0,8

Sources: MF, Statistics Portugal and BoP. CFP Calculations and projections. Note: the sum of the interest effect and the growth effect corresponds to the dynamic debt effect, also known as the snowball effect.

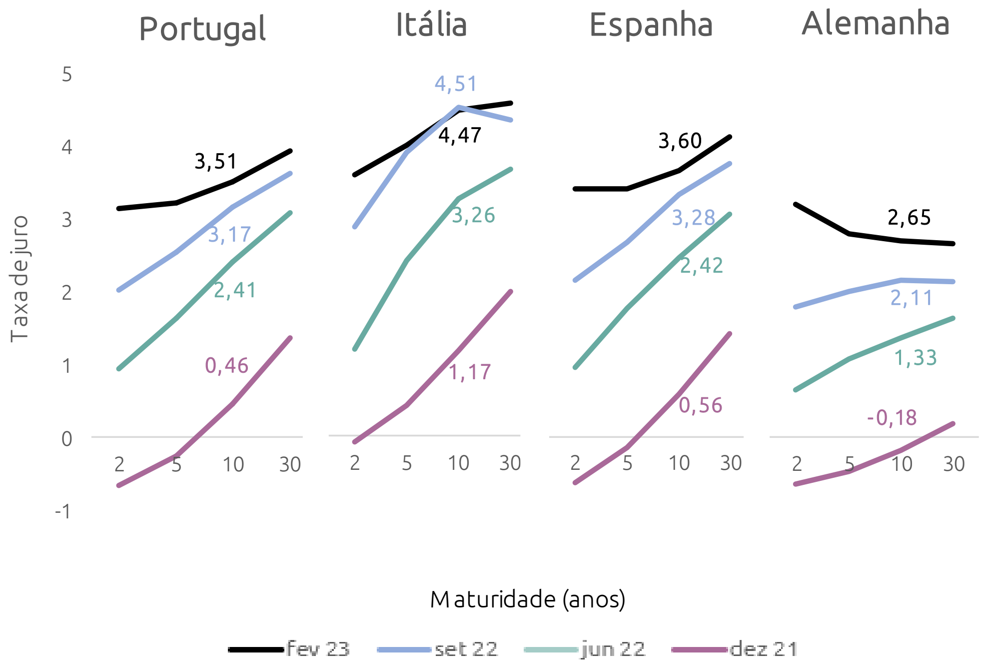
Financing conditions

Inflationary pressures continued to mark the second half of 2022, with the implementation by central banks of measures aimed at controlling the inflation rate above the medium-term objectives extending into 2023. In the US, the Federal Reserve committed to reduce the amount of assets on its balance sheet from the second half of last year. Simultaneously, the Federal Reserve increased the reference interest rate range to values previously observed only in 2007, by a total of 4 p.p., to 4.25%-4.5%. A further increase of 0.25 p.p. to 4.5%-4.75% was decided in February this year. In the Euro area, between June and July, the ECB: i) ended new purchases under the *Asset Purchase Programme* (APP), reinvesting only the existing amounts in the portfolio; ii) launched a new monetary policy instrument, the Transmission Protection Mechanism (TPM); and iii) made the first increase in the reference interest rate in 11 years, initiating an upward trajectory.

The February monetary policy decision signalled a further 50 base points rise in the reference interest rate in March, and changes were made to the APP. In particular, as of this month, the portfolio of securities purchased under this programme would decline at an average rate of 15 bn€ per month until the end of June 2023, with its subsequent pace of decline to be determined at a later date, according to new information on economic developments. In turn, securities purchased under the Pandemic Emergency Purchase Programme (PEPP) will be reinvested at least until the end of 2024.

As mentioned in the previous CFP Economic and Fiscal Outlook report - update published in September, following these measures adopted by central banks, the yield curve flattened, with interest rate rises in all maturities in most Euro area countries (Chart 18). The Portuguese 10-year yield averaged 1.6% in the first half of 2022, exceeding 3% in the secondary debt market from October onwards. Throughout 2022, the 10-year financing costs rose 3.1 p.p. in Portugal (3.5 p.p. in Italy, 3.1 p.p. in Spain, and 2.7 p.p. in Germany). The Portuguese 10-year interest rate rose from 3.2% in September 2022 to 3.6% at the end of December, which compares with 0.5% in the previous year. In the first two months of 2023, interest rates on the 10-year government bonds of Euro area members registered small adjustments.

Chart 18 - Yield curves of selected Member States (%)

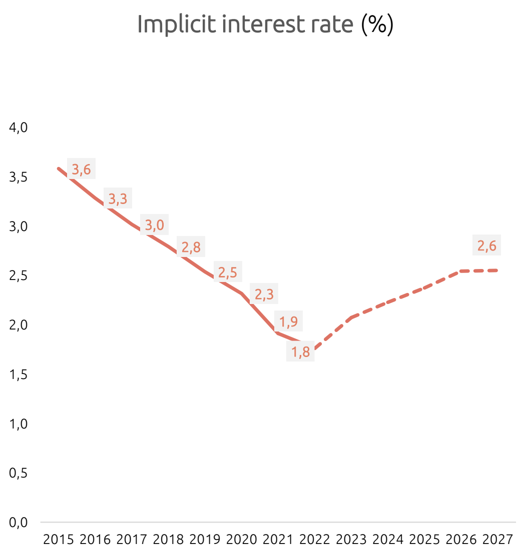


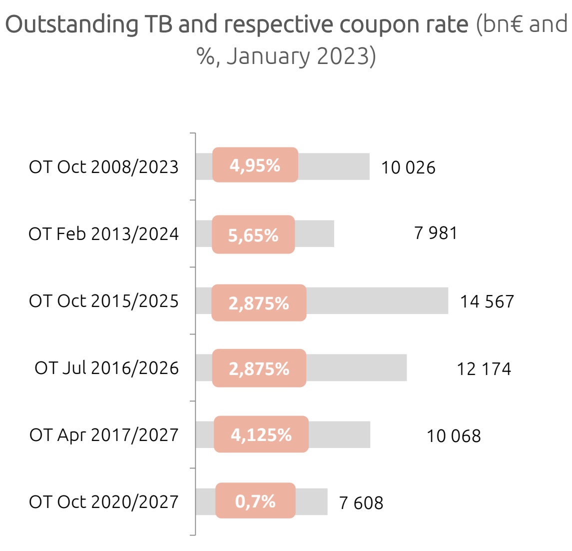
Sources: Bloomberg. CFP calculations. | Notes: Data regarding the end of each month. The data labels shown in the graph correspond to interest rates for bonds with 10-year maturities.

The rise in interest rates had immediate repercussions on the increase of financing costs. According to the IGCP, the cost of new issued Portuguese debt[11] rose from 0.6% in 2021 to 1.7% in 2022. Even so, new debt is expected to be issued at a lower cost than Treasury Bonds scheduled for redemption in 2023 and 2024, with coupon rates of 4.95% and 5.65%, respectively (Chart 20, right-hand panel). CFP projections assumed a gradual increase in the 10-year yield up to 4.6% in 2025, followed by a gradual decrease. However, although financing remains at a historically low cost, the expected rise in sovereign debt rates means the implicit interest rate on debt is expected to rise gradually to 2.6% in 2027 (Chart 19, left-hand panel) .

[11] Average cost of Treasury Bills, Treasury Bonds, Variable Yield Treasury Bonds and Medium-Term Notes issued in the corresponding year, weighted by the respective amount and maturity.

Chart 19 - Debt market conditions





Source: Statistics Portugal, BoP and IGCP. CFP calculations and projections. | Note: OT = Treasury Bond.

3.5 Main risks to the fiscal scenario

The main risk to the fiscal scenario stems from uncertainty about the macroeconomic projections, which remains high amid the continuing military conflict between Russia and Ukraine, rising prices across the board and disruptions in supply chains. The continuity and possible extension of the military conflict continue to pose projection exercises to high uncertainty recommending special caution in its interpretation. A less favourable macroeconomic development than forecast would immediately imply a less favourable trajectory for the general government's budget balance, due to the effect of automatic stabilisers. On the other hand, the fact that the CFP's projection exercise adopts a no policy change scenario, may under no circumstances be interpreted as a forecast, and in this context of economic and geopolitical uncertainty, it may prove to be optimistic. In this regard, reference should be made to the technical assumption that the direct budgetary impacts of one-off and extraordinary measures legislated to be in force until the end of a given year are cancelled out in the following year. This assumption alone leads to a direct and positive effect in that year, thus implying a lower budgetary pressure. Additionally, the current uncertainty context may lead to the extension of some of the support measures to families and companies, or even to the adoption of new ones, not envisaged in the CFP's projection scenario.

The risks arising from contingent liabilities which can materialize into public expenditure due to the default of the debtor, concerning the ongoing negotiations with concessionaires to restore financial balance (REF) within the scope of Public-Private Partnerships (PPP) and public guarantees on credit facilities, hamper the CFP's fiscal projection. As for the REF requests, the SB/2023 report, presented in October 2022, presented a total of 525.5 M€ for the road sector, 194.9 M€ for the railway sector and 92.9 M€ in the health sector. An indicative amount of 214 M€ is added for the airport sector. In the case of standardised guarantees, the national statistics authority has already recorded expected losses as general government expenditure, from 2020 onwards,. Hence, the risk of these guarantees should be contained, unless losses effectively recorded exceed the figures considered by Statistics Portugal.

Other risks also arise from the ongoing restructuring processes of public companies, specifically the TAP and SATA Groups, as well as possible litigation regarding deferred tax assets of the banking sector entities and the use of the remaining amount of the Contingent Capitalisation Agreement (ACC) by Novo Banco.[12] Reference should also be made to the risks associated with the process involving the disposal of the public holding in EFACEC, which may lead to additional charges besides those incurred in 2022. This will depend on the effective conclusion of the sale and the conditions under which it will take place.

Within the scope of current primary expenditure, budgetary pressures are expected on (i) social benefits, namely pensions and other social benefits, should new family support measures be adopted; and (ii) on compensation of employees, following the pressure due to the unfreezing of general government careers. In addition to this investments associated with the dual transition, green and digital, are needed, which cannot be supported by subsidies from the RRP and other Community funds.[13]

In the opposite direction, some identified fiscal risks may lead to a more favourable budget trajectory than projected by the CFP. These include, inter alia: (i) greater elasticity of tax revenue vis-à-vis the tax bases; (ii) growth in social contributions higher than that of compensation of employees (in line with the results in recent periods); (iii) a lower execution of public investment supported by national funding; (iv) less intense growth in social benefits.

Regarding the projection of public debt, the risks associated with uncertainty and unpredictability regarding the behaviour of the financial markets, which remain high and have recently been increased by the developments involving financial institutions on both sides of the Atlantic, should be highlighted. On the upside, there are risks of persistent high inflation, in a context in which central banks, both in Europe and the USA, have already signalled further rises in reference interest rates. These further rises would, as in 2022, have an unfavourable impact on financing costs and thus on the debt ratio. On the downside, is the possible need to refrain from further increases in the reference interest rate, due to the recent credit events in the US banking system, which could alter the monetary policy decisions previously signalled. According to the CFP's calculations, a worsening (improvement) of financing costs by 50 basis points in 2023-2027, representing a maximum 10-year yield over the projection horizon of 5.1% (4.1%) in 2025, would lead to an increase (decrease) in the implicit interest rate to 2.7% (2.4%) at the end of the projection horizon in 2027, compared to 2.6% in the baseline scenario. This increase (decrease) in financing costs would translate into a public debt ratio 0.5 p.p. of GDP higher (lower) than that projected in the CFP's baseline scenario (95.9% of GDP).

[12] 3,890 M€ have been earmarked in the TCA and to date 3,405 M€ have been paid out. Thus, the maximum amount that Novo Banco may request is 485 M€, depending on the calculation of losses on assets protected by this mechanism and the regulatory requirements in terms of capital ratios.

[13] Notwithstanding the expenditure on mitigation measures, growing risks on public expenditure related to climate change adaptation cannot be ruled out.

Despite not having considered any budgetary impact of the 'Mais Habitação' (More Housing) legislative package, announced at the press conference of the Council of Ministers on 16 February 2023, the adoption of some of the measures foreseen therein may represent a net downward impact on the balance, with an uncertain magnitude (according to the statement of the Minister of Finance at the referred press conference *'The estimated value of the programme is around 900 M€, not including what may be values of costs with rents, with works to be carried out on the plots or purchases'*.).

3.6 Main technical assumptions

Impact of economic policy measures

The next section analyses the impact of the main economic policy measures considered by the CFP on the developments of the general government budget balance over the projection time horizon.

Based on the available data up to 3 March 2023 and, in particular, on the measures included in the SB/2023 and in the SP/2022 and the assumptions detailed below, the CFP's estimate indicates that, in the current year, the main economic policy measures considered in those budgetary programming documents will lead to an improvement in the general government budget balance by 2,142 M€ (1.0 p.p. of GDP), notwithstanding the negative effect of 436 M€ forecast for one-off measures. Without this effect, the forecast improvement is of 2,578 M€ (1.2 p.p. of GDP), strongly driven by the easing of the impact of most COVID-19 measures, which alone will lead to a balance improvement of 2,354 M€ (1.0 p.p. of GDP) in 2023, as shown in the table below.

Table 9 - Impact of the main economic policy measures
(year-on-year change in M€ and in p.p. of GDP)

	Projeção CFP							
	Variação em M€				Variação em p.p. do PIB			
	2023	2024	2025	2026	2023	2024	2025	2026
Receita total	**-1 674**	**155**	**55**	**15**	**-0,6**	**0,1**	**0,0**	**0,0**
Receita corrente	-1 674	155	55	15	-0,6	0,1	0,0	0,0
Receita fiscal	-1 591	155	55	15	-0,6	0,1	0,0	0,0
Impostos indiretos	-356	90	0	0	-0,1	0,1	0,0	0,0
Impostos diretos	-1 235	65	55	15	-0,5	0,0	0,0	0,0
Contribuições sociais	0	0	0	0	0,0	0,0	0,0	0,0
Vendas e out. receitas correntes	-82	0	0	0	0,0	0,0	0,0	0,0
Receita de capital	0	0	0	0	0,0	0,0	0,0	0,0
Despesa primária	**-3 816**	**-2 002**	**-6**	**0**	**-1,7**	**-0,8**	**0,0**	**0,0**
Despesa corrente primária	-3 325	-1 206	24	0	-1,4	-0,5	0,0	0,0
Consumo intermédio	-353	-250	0	0	-0,2	-0,1	0,0	0,0
Despesa com pessoal	0	0	0	0	0,0	0,0	0,0	0,0
Prestações sociais	-2 600	44	24	0	-1,1	0,0	0,0	0,0
Subsídios e out. despesas correntes	-372	-1 000	0	0	-0,2	-0,4	0,0	0,0
Despesa de capital	-491	-796	-30	0	-0,2	-0,3	0,0	0,0
Saldo primário	**2 142**	**2 157**	**61**	**15**	**1,0**	**0,9**	**0,0**	**0,0**
Juros	0	0	0	0	0,0	0,0	0,0	0,0
Despesa total	**-3 816**	**-2 002**	**-6**	**0**	**-1,7**	**-0,8**	**0,0**	**0,0**
Saldo orçamental	**2 142**	**2 157**	**61**	**15**	**1,0**	**0,9**	**0,0**	**0,0**
Por memória:								
Impacto na variação do saldo decorrente de:								
Medidas COVID-19	*2 354*	*250*	*0*	*0*	*1,0*	*0,1*	*0,0*	*0,0*
Medidas choque geopolítico e inflação	*-49*	*1 206*	*0*	*0*	*0,0*	*0,5*	*0,0*	*0,0*
Medidas one-off	*-436*	*574*	*0*	*0*	*-0,2*	*0,2*	*0,0*	*0,0*
Outras medidas	*273*	*127*	*61*	*15*	*0,2*	*0,1*	*0,1*	*0,0*

Source: MF. CFP calculations. | Notes: the values reflect year-on-year change: For example, it is estimated that in 2023 the economic policy measures will imply a reduction in tax revenue of 1,591 M€ compared to 2022 and a decrease in expenditure on social transfers of 2,600 M€; the identification of the main economic policy measures considered in the CFP's projection is presented in Table 11 and in Table 12, in annex.

The main economic policy measures imply a reduction in public revenue of 1,674 M€ (0.6% p.p. of GDP) in 2023. This development is explained almost exclusively by a decrease in tax revenue of 1,591 M€, of which 1,235 M€ in direct taxes, mainly due to the impact of the following measures: (i) Update of personal income tax ranges; (ii) Reduction in IRS withholdings to support housing costs; (iii) Cross-cutting reduction of personal income tax ranges; (iv) Reform of the Subsistence Level and; (v) Tax incentive for recovery. Revenue from indirect taxes should decrease 356 M€ due to the impact of measures, particularly the reduction of the tax on petrol and diesel (which implies a loss of 335 M€, as shown in Table 11, in annex).

On the expenditure side, the economic policy measures imply a 3,816 M€ reduction in 2023 (1.7 p.p. of GDP), almost 90% in current primary expenditure, influenced by the easing of the impact of most COVID-19 measures: 2,413 M€ less than in 2022, of which 1,737 M€ in social benefits and subsidies. The measures related to the geopolitical shock and inflation should justify a 433 M€ decrease in expenditure (Table 12, in annex), as a result of impacts of opposite direction, the most significant of which are highlighted below:

- On the one hand, in the current year expenditure on subsidies is expected to al 1 bn€, to reduce the tariff for access to the electricity grid (500 M€) and to finance the cost of natural gas for companies. This subsidy called the 'Transitional price stabilisation scheme for gas by legal persons with a consumption of more than 10,000 m^3' was approved by Decree-Law no. 84-D/2022, of 9 December. The overall amount considered by the CFP differs from that announced by the Government and considered in the budget execution estimate for 2022 in the SB/2023 Report. However, as its impact will be felt in 2023, it is the CFP's understanding that it should be recorded in 2023 and not 2022. According to the law, this temporary regime is limited to a total amount of 1 bn€ and to a maximum support value of EUR 40 per MWh (excluding taxes), a maximum that is only reached if the market price of gas is greater than or equal to EUR 80 per MWh[14]. Given that the market price of gas has been decreasing since January, although still volatile, and as the futures prices practised in the Iberian gas market, point to values around EUR 50 for the rest of the year, it does not seem likely that the average price of natural gas in MIBGAS will be 80€/MWh. Thus, based on market information, the CFP considered an average value of EUR 60 per MWh, which implies that the support granted will be around half of the maximum amount available for this temporary regime. Hence, a 500 M€ direct budgetary impact was considered for this measure in 2023.

- On the other hand, in the current year, public expenditure is expected to decrease by 1,264 M€ due to the base effect resulting from the following temporary support paid in 2022: i) Extraordinary support to income and social benefit beneficiaries (EUR 125 per adult with a gross salary up to EUR 2,700 and EUR 50 for each dependent up to 24 years old)[15]; ii) Extraordinary support to the most vulnerable households (initially two instalments of EUR 60 and subsequently EUR 240 per household, in the case of households receiving minimum benefits or benefiting from the social electricity tariff);[16] iii) Extraordinary support to IPSS. Almost all of these one-off supports will have an impact on the social benefits heading in 2022, which is expected to fall by 1.1 bn€ in 2023.[17]

The development of social benefit expenditure is also impacted by the payment of an exceptional supplement to pensioners in 2022 (equivalent to 50% of the monthly pension value), which will consequently imply a reduction of 987 M€ in the current year. It should be noted that all the economic policy measures considered by the CFP will justify a reduction of 2.6 bn€ (1.1 p.p. of GDP) in this item compared to 2022 (Table 9).

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[14] Article 3 of the aforementioned decree-law defines the amount of support to be granted according to the following expression: A(NG index) = P(MIBGAS index) - 40, where A(NG index) is the support granted, through the discount to be applied, expressed in Euros per MWh and P(MIBGAS index) is the value of the price of natural gas for the daily product (D+1), with delivery the following day at the «punto virtual de balance», corresponding to the Spanish price area, listed on the platform managed by MIBGAS, S. A., as operator of the Iberian gas market (MIBGÁS), expressed in Euros per MWh.

[15] The extraordinary support to income and social benefit beneficiaries was created by Decree-Law no. 57-C/2022, of 6 September. This regulation also created the exceptional supplement for pensioners.

[16] Extraordinary support for the most vulnerable households was created by Decree-Law no. 28-A/2022, of 25 March, amended by Decree-Laws no. 30-D/2022, of 18 April, 42/2022, of 29 June, and 85-B/2022, of 22 December.

[17] The support for each dependent up to 24 years of age had an impact on the 'other current expenditure' heading, implying a 138 M€ reduction in 2023.

As regards capital expenditure, the measures will imply a decrease of 491 M€ (0.2 p.p. of GDP) in 2023, especially due to the base effect arising from the financial support to TAP in 2022.[18] Mitigating this base effect, one-off measures should imply an increase of 436 M€ in capital expenditure, mainly due to judicial decisions.

In 2024, the effect of the economic policy measures should lead to an improvement in the general government's budget balance by 2,157 M€ (0.9 p.p. of GDP), of which 1,206 M€ assuming that almost all the measures to mitigate the geopolitical shock and inflation will be eliminated by the end of this year. Within this scope, the assumed elimination of the measures supporting the cost of natural gas to companies and the reduction of the tariff to access to the electricity grids stand out, as these two measures will lead to a reduction in subsidies expenditure of 1 bn€ compared to 2023 (Table 9). In that same year, the easing of the one-off measures effect will lead to a 574 M€ (0.2 p.p. of GDP) balance improvement. Excluding this effect, the improvement in the balance forecast for 2024 is expected at 1,583 M€ (0.7 p.p. of GDP).

In the last three years of the projection horizon, the impact of policy measures is reduced as no effect of geopolitical shock and inflation mitigation measures, nor of COVID-19 measures, were considered. Thus being, a 61 M€ balance improvement is estimated in 2025, of which 45 M€ due to the easing of the loss of revenue arising from the compensation to landlords for limiting rent updates to 2%. Only the loss of revenue from the recovery tax incentive was considered for 2026, which, even so will be 15 M€ lower than the loss forecast for 2025, thus implying an improvement in the budget balance in the same amount.[19]

[18] Under the TAP restructuring plan, approved by the European Commission, financial support from the Portuguese State of up to 990 M€ in 2022 was envisaged, which was the maximum value considered by the CFP in national accounts. It should be noted that, in terms of public accounting, this ended up totalling 303.9 M€. According to TAP's announcement of 27 December 2022, the remaining part of the capital increase will be carried out in a phased manner: 343 M€ on 20 December, 2023 and 343 M€ on 20 December, 2024.

[19] The recovery tax incentive, created by Law no. 12/2022, of 27 June, consists of a tax benefit for eligible investments made between 1 July and 31 December, 2022, allowing the deduction of these expenses from corporate income tax collection. The deduction is made in the corporate income tax settlement for the tax period beginning in 2022. If the amount cannot be deducted under the terms defined in that Law, it may be deducted during the five subsequent taxation periods. According to the MF, this incentive should imply a loss of tax revenue of 150 M€ in the current year. In the years 2024, 2025 and 2026 the loss should be 40 M€, 30 M€ and 15 M€, respectively (Table 11, in annex).

Assumptions on the evolution of budgetary aggregates

The budgetary scenario presented for the 2023 to 2027 time horizon, in section '3.2 Medium-term budgetary scenario under no policy change', reflects not only the aforementioned economic policy measures, but above all the expected changes to the macroeconomic framework, with particular focus on developments of the main economic bases implicit in the projection. Table 10 Table 10presents the main technical assumptions underlying the projections for fiscal aggregates, i.e. the change in their underlying bases.

Table 10 - Key technical assumptions underlying the 2023-2027 fiscal aggregates projection

	2023	2024	2025	2026	2027
Receita Fiscal					
Impostos Indiretos					
IVA	5,2%	3,2%	3,4%	3,3%	3,3%
ISP	5,2%	3,2%	3,4%	3,3%	3,3%
IABA	5,2%	3,2%	3,4%	3,3%	3,3%
IT	5,2%	3,2%	3,4%	3,3%	3,3%
Impostos Diretos:					
IRS - variação da massa salarial	8,2%	5,4%	4,5%	4,2%	4,0%
IRC - variação do PIB nominal	5,4%	4,4%	4,3%	3,9%	3,7%
Contribuições sociais					
Contribuições sociais	8,2%	5,4%	4,5%	4,2%	4,0%
Contribuições efetivas	8,5%	5,7%	4,6%	4,2%	4,3%
Contribuições imputadas	7,1%	4,3%	4,2%	4,1%	3,1%
Despesas com Pessoal					
Ordenados e salários					
Efeito preço					
Atualização anual com base no pressuposto CFP	6,0%	3,3%	3,1%	3,0%	2,1%
Efeito volume					
Emprego público	1,0%	1,0%	1,0%	1,0%	1,0%
Consumo Intermédio					
Consumo intermédio sem incluir PPP	5,4%	4,4%	4,3%	3,9%	3,7%
Taxa de crescimento das PPP em contab. nacional	-3,0%	-16,3%	-31,1%	-35,0%	5,1%
Prestações Sociais em dinheiro					
Pensões					
Efeito preço					
Fator de atualização das pensões na Seg. Social	4,7%	6,6%	3,1%	2,3%	2,1%
Fator de atualização das pensões na CGA	4,6%	6,5%	3,1%	2,3%	2,1%
Efeito volume					
Segurança Social	0,7%	0,7%	0,9%	1,8%	2,0%
Caixa Geral de Aposentações	0,4%	0,3%	0,5%	0,5%	0,7%
Desemprego					
Efeito volume					
Variação do número de desempregados	0,1%	-0,6%	-4,2%	-2,4%	-2,9%
Efeito preço					
Variação das remunerações	8,2%	5,4%	4,5%	4,2%	4,0%
Prestações Sociais em Espécie					
Prestações sociais em espécie excluido PPP	5,4%	4,4%	4,3%	3,9%	3,7%
Taxa de crescimento das PPP da saúde em contab. nacional	7,6%	0,0%	0,0%	0,0%	0,0%
Outras Despesas					
Subsidios	5,4%	4,4%	4,3%	3,9%	3,7%
Outras despesas correntes	5,4%	4,4%	4,3%	3,9%	3,7%

Note: The changes observed in Table 6 may be influenced by policy measures and temporary effects, justifying the difference from the change in the macroeconomic indicator underlying their projection.

The methodology implicit to the projection remains unchanged compared to previous years, considering nominal GDP, private and public sector wages, private consumption, inflation and demographic indicators, especially the evolution of the labour force, as the essential variables to explain the trajectories of tax and contributory revenue and public expenditure.

The evolution of tax and contribution revenue is determined by the main underlying economic bases, especially nominal GDP, compensations and private consumption. The projections of this revenue are based on the assumption of a fiscal and contributory policy stability context throughout the period under analysis.

With regard to the tax trajectory alone it is noted that: (i) indirect taxes reflect the evolution of nominal private consumption;[20] and (ii) direct taxes reflect the dynamic interaction of the main macroeconomic variables underlying the projection - compensation, employment and nominal GDP. However, it should be noted that between 2023 and 2024, the expected behaviour for taxes is influenced by the economic policy measures described in the last subsection. The trajectory of social contributions revenue should be determined by the expected evolution of the economy's compensation of employees. Regarding the remaining revenue components, namely other current revenue and capital transfers, their behaviour is assumed to follow nominal GDP, despite the fact that their trajectory is influenced by the profile of policy measure options and investments under the RRP.

As regards primary expenditure, its trajectory is essentially determined by the behaviour of social benefits, in particular cash social benefits (also known as social benefits not in kind), and by intermediate consumption.

Expenditure on social benefits continues to be the primary expenditure with the highest share in GDP throughout the projection period, especially cash social benefits, which fundamentally reflect the development of pension expenditure. This projection exercise maintains unchanged the methodology for calculating pension expenditure, based on its volume and price effects. For the first effect, we considered the variation in the number of pensioners, whose composition effect differs according to the pension system - Social Security or Caixa Geral de Aposentações (CGA). The latest available information was incorporated for both systems, provided within the scope of the SB/2023, the SP/2022, as well as some medium-term assumptions based on The 2021 Ageing Report, from the European Commission (EC). With regard to the so-called cash social benefits price effect, which translates into the change in the value of pensions and other social benefits, it incorporates: (i) updating the Social Support Index (IAS) by 8.4% in accordance with Ministerial Order no. 298/2022, of 16 December[21]; and (ii) updating pensions under the general social security scheme and the convergent social protection scheme (CGA). The assumptions of the pension projection differ over the time horizon, since in 2023 their update differs from the application of the Law in force.[22] Ministerial Order no. 24-B/2023, of 9 January, applies to this year, determining

[20] The projection for indirect taxes assumes that contributions on the banking sector, the energy sector and the pharmaceutical industry will remain in force, given the successive annual renewal of these measures in the State Budget.

[21] The IAS value for 2023 is EUR 480.43, which represents an increase of EUR 37.23 compared to 2022.

[22] The annual update of pensions and other benefits granted by the Social Security System and Caixa Geral de Aposentações is carried out under the terms foreseen in Article 6 of Law no. 53-B/2006, of 29 December, and Article 6 of Law no. 52/2007, of 31 August.

that the statutory and regulatory disability and old age pensions of the General Social Security Scheme, as well as the retirement, old-age and disability pensions of the Convergent Social Protection Regime be updated in accordance with the following percentages: (i) pensions up to EUR 960.86 have an increase of 4.83% (instead of 9.3% foreseen in the legal pensions update formula); (ii) for pensions between EUR 960.86 and EUR 2,882.58, the update value is 4.49% (instead of 8.9% if the law were applied); (iii) for pensions between EUR 2,882.58 and EUR 5,765.16, the update will be 3.89% (instead of 8.1%); and finally, (iv) pensions of more than EUR 5,765.16 are not updated.[23] For the remaining years, i.e., between 2024 and 2027, the update considers the Law in force and takes into consideration the real GDP growth and the value of the CPI. Also in relation to cash social benefits, it should be noted that the methodology underlying the calculation of expenditure on unemployment benefits remains unchanged, incorporating the expected behaviour of private sector compensations and the number of unemployed, implicit in the macroeconomic scenario. As for the remaining social benefits, their evolution will be determined by the Social Index update, in 2023, in line with the CPI for the remaining years.

Social benefits in kind, excluding the PPP effect, remained unchanged compared to previous reports and were assumed to evolve in line with nominal GDP. The source for the PPP expenditure projection is the Ministry of Finance (SB/2023).

The intermediate consumption projection basically assumes that its evolution follows the behaviour of nominal GDP. However, this item is influenced by the set of measures described in the previous subsection, which justify the deviation of its evolution in line with nominal GDP.

The trajectory of compensation of employees is given by the variation of price and volume indicators. Its projection incorporates in the price effect the impact of compensation updates resulting from the Multi-year Agreement for the Valorisation of General Government Workers signed on 24 October 2022 between the Government, FESAP and the STE Trade Union Front for the current legislature period, i.e., until 2026. This agreement is based on the medium-term pact to improve incomes, salaries and competitiveness, which resulted in the Income Agreement concluded in Social Dialogue for the same period. The agreement for the valorisation of general government workers which was enacted, and included in this projection, translates into the following updates: (i) compensations up to EUR 709.47 are converted into the new general government salary system (BRAP) value set at EUR 761.58; (ii) compensations between EUR 709.48 and 2,612.03 are updated by EUR 52.11; and (iii) a 2% update is applied to compensations above EUR 2,612.04. For 2027, the last year of the horizon, the technical assumption of salary update for general government employee according to the inflation projected for that year was assumed. Additionally to the compensations valorisation effect, there is an impact due to the career progression of civil servants over the entire projection horizon, in accordance with the normal application of the Integrated System of Management and Performance Assessment in Public

[23] Pensions over EUR 5,765.16 are not updated in 2023, with the exception of the situations foreseen in Article 102 of Decree Law no. 187/2007, of 10 May, and in Article 7(2) of Law no. 52/2007, of 31 August.

Administration (SIADAP).[24] The CFP has assumed that it takes approximately 6.6 years for a standard general government employee, to progress to the next salary level.[25] This assumption is based on the fact that although general careers (senior technicians, technical and operational assistants) progress on the basis of performance assessments, special careers have their own rules, as is the case with the careers of teachers, magistrates, military or police officers, whose progression depends in part on length of service. The CFP's projection also incorporates the annual savings due to employee substitution effect, which translates into an average saving of 180 M€ per year, less than 0.1 p.p. of GDP.[26]

As for the volume effect, this exercise considers a constant 1% increase in the number of civil servants over the entire projection horizon. The current projection exercise considers the impact of the assumptions described above on the trajectory of compensation of employees, personal income tax revenue and social contributions.

The trajectory of subsidy expenditure is economically based on the evolution of nominal GDP. In 2023, this item is influenced by a set of measures that move its evolution away from the economic base mentioned above. The elimination of measures to mitigate the impacts of the pandemic, the geopolitical shock and inflation stand out, namely the aforementioned Transitional price stabilisation scheme for gas by legal persons with a consumption of more than 10,000 m^3.

Finally, it was assumed that the share of GDP of 'other current expenditure' will be maintained and that capital expenditure is projected according to the investment profile defined by the RRP, which justifies the fluctuations of this expenditure item over the projection horizon.

[24] This system presupposes the accumulation of 10 points as a result of the performance assessment in recent years. The law on contractual ties, careers and compensation of civil servants establishes that, as from 2013, the assessment cycles will be biennial and thus the points will be counted for the purposes of compulsory changes in compensation position, in accordance with the following rules: For each maximum mark designated 'excellent' six points are counted, followed by the mark 'very good' representing four points, for each mention immediately following ('good'), two points and one point for each 'sufficient'.

[25] SIADAP is subject to quotas in the attribution of the two highest marks 'excellent' and 'very good', which allow for faster progression and implies that only a percentage of workers, determined for each service, can access these classifications. In addition, the progression depends also on the existence of a budget allocation, i.e. on the budget of the service in question having funds that will allow the compensation transition to the next level for all employees who meet the above-mentioned criteria.

[26] The headcount substitution effect corresponds to the wage difference between the workers who retire at the end of their careers and those who enter at the beginning of their careers.

Public debt developments assumptions

The projection of public debt is calculated based on the sum between i) the debt stock of the previous year and ii) CFP's expectation for financing requirements in the analysis horizon, considering the budget balance and the deficit-debt adjustment. The forecast underlying the SP/2022[27] was taken into account for the calculation of the latter. Additionally, it considered i) the unfavourable effect of the transfer of pension fund liabilities that occurred in the past and ii) the effects of the extraordinary support measures for electricity and natural gas.

The lines of action of the 2023 financing programme, were considered to calculate current year's emissions, as well as the presentation to investors of February 2023. For the following years, in the absence of more recent data on the instruments and maturities of State funding, the information contained in the presentation to investors of June 2022 was incorporated. The secondary market's closing interest rates at 3 March 2023 were used.

The interest rate projected by the CFP is calculated for each type of debt instrument and takes into account i) the outstanding amount of each instrument, as well as the respective maturity date; ii) the interest related to new issues, broken down by type of instrument and maturity; and iii) the CFP's perspective on the evolution of the new issuing rate. The implicit interest rate presented results from the scenario projected by the CFP, consisting of the ratio between general government interest in the year under analysis and the Maastricht debts tock in the previous year. It should be mentioned that a gradual increase in the interest rate for new medium and long-term issues was assumed, given the current economic environment and the possible continuation of measures adopted by the Eurosystem to mitigate inflationary pressures in the Euro area. The CFP anticipates that, in 2025, financing costs should reach a maximum of 4.6% for 10-year financing, with a gradual decrease starting in 2026.

[27] In the absence of more up-to-date information, the CFP has taken into account the forecasts for the deficit-debt adjustment underlying the SP/2022. However, the value forecast by the MF for 2024 has a significantly favourable impact on the debt trajectory. Furthermore, and notwithstanding the anticipated repurchases that IGCP may carry out, high-volume TB repayments are scheduled for 2025 and 2026, and an accumulation of deposits in the previous period can be expected, which would lead to an increase in the deficit-debt adjustment in 2024, contrary to what is forecast by the MF. As a result, the time distribution of the deficit-debt adjustment retained by the CFP differs from that underlying the SP/2022.

4. ANNEXES

4.1 Tables

Table 11 - Revenue: economic policy measures with fiscal impact
(year-on-year change, by measure, in M€ and in p.p. of GDP)

Designação	Variação em M€				Variação em p.p. do PIB			
	2023	2024	2025	2026	2023	2024	2025	2026
Mitigação do choque geopolítico e da inflação	-482	90	0	0	-0,2	0,1	0,0	0,0
Gasóleo e gás profissional para transporte público de passageiros	-25				0,0			
Transição para o mercado regulado do gás natural	-60				0,0			
Redução do ISP na gasolina e no gasóleo	-335	0			-0,1			
Fim gradual das isenções prejudiciais de ISP	5				0,0			
Redução do IVA da eletricidade para 6%	-67	90			0,0	0,0		
COVID-19	-60	0	0	0	0,0	0,0	0,0	0,0
REAT C-EU e FSE	-51				0,0			
Outras medidas	-8				0,0			
Outras medidas	-1 132	65	55	15	-0,4	0,0	0,0	0,0
Atualização dos escalões do IRS em 5,1%	-300				-0,1			
Redução de retenções na fonte de IRS para apoiar encargos de habitação	-250				-0,1			
Reforma do Mínimo de Existência	-200				-0,1			
Redução transversal das taxas de IRS	-200				-0,1			
Alargamento do IRS Jovem	-15				0,0			
IRS- dedução do 2.º filho	-10				0,0			
IRC - Majoração gastos c/energia, fertilizantes, rações, alimentação animal	-60				0,0			
IRS - Complemento de abono de família	-30				0,0			
IRS - Incentivo ao autocons. e venda de exced. de prod. de energ. renov. à rede	-5				0,0			
IRS - Compensação pela limitação do aumento das rendas a 2%		-45	45			0,0	0,0	
Eliminação do PEC	-10				0,0			
Incentivo fiscal à recuperação	-150	110	10	15	-0,1	0,0	0,0	0,0
Desagravamento das Tributações autónomas de IRC	-5				0,0			
Atualização das taxas de IUC, ISV, IABA, IT, IMT em 4%	134				0,1			
Eliminação faseada das taxas moderadoras no SNS	-31				0,0			
Impacto total na variação da receita	-1 674	155	55	15	-0,6	0,1	0,0	0,0

Source: MF. CFP calculations. | Notes: the values correspond to year-on-year changes: For example, in 2023 it is estimated that the update of the IUC, IABA, IT and IMT rates will imply a revenue increase of 134 M€ compared to 2022; although the table does not include RRP revenue (because it is not an economic policy measure), the respective impact was incorporated into the CFP's projection; the table does not include 2027 because no budgetary impact on revenue arising from policy measures is forecast for that year.

Table 12 - Expenditure: economic policy measures with fiscal impact
(year-on-year change, by measure, in M€ and in p.p. of GDP)

Designação	Variação em M€				Variação em p.p. do PIB			
	2023	2024	2025	2026	2023	2024	2025	2026
Mitigação do choque geopolítico e da inflação	-433	-1 116	0	0	-0,2	-0,4	0,0	0,0
Apoio ao transporte de passageiros e mercadorias	-49				0,0			
Subsídio às empresas pela subida dos custos do gás	-59				0,0			
Financiamento custo do gás natural às empresas	500	-500			0,2	-0,2		
Agricultura e pescas	-62				0,0			
Redução da tarifa de acesso às redes eletricidade	500	-500			0,2	-0,2		
Apoio Extraordinário às famílias mais vulneráveis	-241				-0,1			
Apoio extraordinário a Instituições Particulares de Solidariedade Social (IPSS)	-147				-0,1			
Apoio a famílias mais carenciadas	-127				-0,1			
Apoio aos refugiados	-30				0,0			
Apoio excecional a trabalhad.: 125€ por adulto c/salário bruto até 2700€	-611				-0,3			
Manutenção dos preços dos passes e tarifas	66	-66			0,0	0,0		
AUTOVaucher	-85				0,0			
Apoio excecional a crianças e jovens: 50€ por cada depend. até 24 anos	-138				-0,1			
Apoio à Ucrânia	50	-50			0,0	0,0		
COVID-19	-2 413	-250	0	0	-1,0	-0,1	0,0	0,0
Vacinas, EPI, medicamentos, adaptação locais de trabalho, serviços limpeza	-179	-250			-0,1	-0,1		
Outras aquisições de bens e serviços	-33				0,0			
Prestações sociais	-578				-0,2			
Testes COVID-19	-307				-0,1			
Apoios às empresas e outros apoios	-852				-0,4			
Outras despesas correntes	-34				0,0			
Outros investimentos	-174				-0,1			
Outros apoios	-256				-0,1			
Medidas *one-off*	436	-574	0	0	0,2	-0,2	0,0	0,0
Indemização judicial à EDP	218	-218			0,1	-0,1		
Indemnização judicial no âmbito de PPP	236	-236			0,1	-0,1		
Pagamento de ativos por impostos diferidos (DTA)	-18	-120			0,0	0,0		
Outras medidas	-1 405	-62	-6	0	-0,6	0,0	0,0	0,0
Complemento excecional a pensionistas (50% do valor mensal da pensão)	-987				-0,4			
Atualização do indexante dos apoios sociais	155				0,1			
Gratuitidade progresiva das creches	40	40	24		0,0	0,0	0,0	
Pacote Garantia para a infância	49	70			0,0	0,0		
Abono de Família (alteração dos escalões + elegibilidade)	13				0,0			
Aumento de lugares na Rede Nacional de Cuidados Continuados Integrados	43				0,0			
Reforço complemento solidário para idosos	53				0,0			
Apoio a estudantes do ensino superior deslocados	10				0,0			
Exercício de Revisão da Despesa	-141				-0,1			
Transferência para o Orçamento da União Europeia	-93				0,0			
Investimentos estruturantes	457				0,2			
Entrega 2 navios patrulha	-53				0,0			
Entrega de novo material militar (adicional)	172	-172			0,1	-0,1		
Lei de Programação Militar	20				0,0			
Lei de Programação de Infraestruturas da Administração Interna	64				0,0			
Execução de garantias	70		-30		0,0		0,0	
Apoio do Estado à EFACEC	-185				-0,1			
Apoio financeiro à TAP	-990				-0,4			
Apoio financeiro à SATA	-102				0,0			
Impacto total na variação da despesa	-3 816	-2 002	-6	0	-1,7	-0,8	0,0	0,0

Source: MF. CFP calculations. | Notes: the values correspond to year-on-year change, e.g. it is estimated that the exceptional supplement granted to pensioners in 2022 will imply a reduction in expenditure of 987 M€ in 2023; although the table does not include the impact of expenditure to be carried out within the scope of the RRP (because it is not an economic policy measure), nor of the unfreezing and review of careers (because this reflects the normal development of careers with promotions and progressions), these impacts were incorporated into the CFP's projection; the table does not include 2027 because no budgetary impact on expenditure deriving from policy measures is foreseen for that year.

Table 13 - One-off measures (% of GDP)

	% do PIB					
	2018	2019	2020	2021	2022	2023
Medidas *one-off* (impacto no saldo)	-0,5	-0,6	-0,7	0,3	-0,1	-0,2
Receita	0,1	0,0	0,0	0,5		
Devolução de comissão do FEEF (*prepaid margins*)				0,5		
Recuperação de garantia do BPP	0,1	0,0	0,0	0,0		
Despesa	0,5	0,6	0,7	0,2	0,1	0,2
Recapitalização do Novo Banco (NB)	0,4	0,5	0,5	0,2		
Ativos por impostos diferidos	0,0		0,1	0,0	0,1	0,0
Incêndios florestais	0,1					
Decisões judiciais desfavoráveis ao Município de Lisboa	0,0					
Compensação à concessionária AEDL, S.A.		0,1				
Transferência do FGCAM por devolução ao BdP			0,0			
Decisão judicial relativa à obrigação de pagamento de retroativos de suplementos de férias não pagos à PSP e à GNR			0,1			
Indemnização judicial PPP						0,1
Indemnização judicial à EDP						0,1
Por memória (impacto por agregado orçamental)						
Receitas de capital	0,1	0,0	0,0	0,5		
Outra despesa corrente	0,0					
Outras despesas de capital	0,5	0,6	0,7	0,2	0,1	0,2

Sources: Statistics Portugal and Ministry of Finance. | Notes: Calculation and classification under the responsibility of the CFP. Due to rounding, the totals do not necessarily correspond to the sum of the figures. No one-off measures were considered from 2022 to 2027. Values may be modified in face of new information. Acronyms: see list of abbreviations in the report.

Table 14 - CFP's fiscal scenario adjusted for temporary and non-recurrent measures (% of GDP)

	2021 INE	2022 CFP	Projeção CFP 2023	2024	2025	2026	2027
Receita total	**44,4**	**44,0**	**44,4**	**44,4**	**44,3**	**43,7**	**43,4**
Receita corrente	43,7	43,3	43,4	43,3	42,9	42,6	42,4
Receita fiscal	24,7	25,6	25,4	25,4	25,3	25,2	25,2
Impostos indiretos	15,1	15,1	15,0	15,0	14,9	14,8	14,8
Impostos diretos	9,7	10,5	10,4	10,4	10,4	10,4	10,4
Contribuições sociais	12,7	12,4	12,6	12,6	12,5	12,4	12,3
Vendas e out. receitas correntes	6,3	5,3	5,5	5,3	5,2	5,0	5,0
Receita de capital	0,7	0,7	1,0	1,2	1,4	1,1	1,0
Despesa primária	**45,2**	**42,4**	**42,5**	**42,2**	**41,8**	**41,2**	**41,0**
Despesa corrente primária	41,6	38,6	38,1	37,7	37,1	36,8	36,6
Consumo intermédio	5,8	5,6	5,9	5,5	5,1	4,9	4,9
Despesa com pessoal	11,6	10,8	10,9	10,9	10,8	10,8	10,6
Prestações sociais	19,4	18,8	17,7	18,0	17,9	17,8	17,8
Subsídios e out. despesas correntes	4,7	3,5	3,5	3,3	3,3	3,2	3,2
Despesa de capital	3,6	3,8	4,4	4,5	4,7	4,4	4,4
Saldo primário	**-0,8**	**1,6**	**1,9**	**2,3**	**2,5**	**2,5**	**2,5**
Juros	2,4	2,0	2,2	2,3	2,4	2,5	2,4
Despesa total	**47,6**	**44,4**	**44,8**	**44,5**	**44,2**	**43,7**	**43,4**
Saldo orçamental	**-3,2**	**-0,4**	**-0,3**	**-0,1**	**0,1**	**0,0**	**0,0**

Source: CFP projections and calculations.

4.2 List of Acronyms

Acronyms	Meaning
ACC	Contingent Capitalisation Agreement
EA	Euro Area
AEDL	Autoestradas do Douro Litoral, S.A.
AP	Administrações Públicas (General Government)
APP	Asset Purchase Programme
ECB	European Central Bank
BoP	Bank of Portugal
BPP	Banco Privado Português (Portuguese Private Bank)
BRAP	Civil Servants Salary System
EC	European Commission
CFP	Conselho das Finanças Públicas (Public Finance Council)
CGA	Caixa Geral de Aposentações (Portuguese civil servants
COVID	Coronavirus Disease
CTUP	Unit Labour Costs
DGO	Directorate-General for State Budget
DTA	Deferred Tax Asset
EDP	Energias de Portugal (Energies of Portugal)
EFACEC	Empresa Fabril de Máquinas Eléctricas, SARL
USA	United States of America
EUCAM	European Union's Commonly Agreed Methodology
EUR	Euro
EUROSTAT	Statistical Office of the European Union
GFCF	Gross Fixed Capital Formation
MCGF	Mutual Counter-Guarantee Fund
Fed	Federal Reserve of the United States of America
EFSF	European Financial Stability Facility
FESAP	Federação de Sindicatos da Administração Pública e de Entidades com Fins Públicos (Federation of General Government and Public-Purpose Entities Trade Unions)
FGCAM	Mutual Agricultural Credit Guarantee Fund
IMF	International Monetary Fund
FSE	European Social Fund
GBP	Great Britain Pound
GNR	Guarda Nacional Republicana (National Guard)
IABA	Tax on alcohol, alcoholic drinks and drinks containing sugar or
IAS	Social Support Index
IGCP	Treasury and Public Debt Management Agency
HICP	Harmonised Index of Consumer Prices
IMT	Municipal Tax on Real Estate Transfers
Statistics Portugal	National Statistics Institute
CPI	Consumer Price Index
IRC	Corporate Income Tax
IRS	Personal Income Tax
ISP	Tax on oil and energy products
IT	Tobacco tax
IUC	Single circulation tax
VAT	Value Added Tax
M€	Million Euros
MF	Ministry of Finance
MWh	Megawatt-hour
NB	Novo Banco
OECD	Organisation for Economic Co-operation and Development
SB	State Budget
OT	Treasury Bonds
p.p.	Percentage points
EDP	Excessive Deficit Procedure
PE	Stability Programme
PEC	Special Payment on Account
PEO	Economic and Budgetary Prospects
PEPP	Pandemic Emergency Purchase Programme

Acronyms	Meaning
GDP	Gross Domestic Product
SBP	State Budget Proposal
PPP	Public Private Partnerships
RRP	Recovery and Resilience Programme
PSP	Public Security Police
REACT - EU	Recovery Assistance for Cohesion and the Territories of Europe
RFB	Restoring financial balance
SATA	Azorean Air Transport Service
SIADAP	Integrated System of Management and Performance Assessment
STE	Sindicatos dos Quadros Técnicos do Estado e Entidades com Fins Públicos (Civil Servants Trade Unions)
TAP	Portuguese Air Transport
TFP	Total Factor Productivity
TPM	Transmission Protection Mechanism
EU	European Union
USD	United States Dollar

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