



# ANALYSIS OF THE 2020 STABILITY PROGRAMME

May 2020



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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, which made the 5<sup>th</sup> amendment to the Budgetary Framework Law (Law No. 91/2001, of 20 August, republished by Law No. 37/2013, of 14 June). The final version of the CFP Bylaws was approved by Law No. 54/2011, of 19 October.

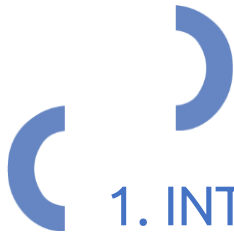
The CFP began its activity in February 2012, with the mission of carrying out an independent assessment of the consistency, compliance and sustainability of fiscal policy, promoting its transparency in order to contribute to the quality of democracy and economic policy decisions and to strengthen the financial credibility of the state.

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This Report has been prepared on the basis of information available up to 12 May 2020.



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## 1. INTRODUCTION

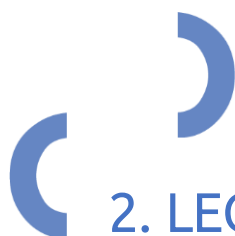
The Government presented a document entitled "2020 Stability Program" (PE2020) to the Parliament on 7 May.

The 2020 Stability Programme was submitted to the Portuguese Public Finance Council (PFC) on the same date it was made public. The preparation of this report follows the legal mandate of the CFP. In fact, Article 7(1) of the CFP Statutes, approved by Law 54/2011 of 19 October, states that "the Council shall produce reports on: a) the Stability and Growth Programme and other procedures within the European regulatory framework of the Stability and Growth Pact".

The Programme presented does not have a forward-looking character but focuses on "the identification of measures to combat the pandemic with an impact on the economy" (PE2020, p. 8), with "an assessment of the cost of the social containment period, both in economic and financial terms" (idem).

The impact of the COVID-19 pandemic is the explanation given for the absence of a scenario for the economy and public finances, given its disruptive nature and the consequent difficulty in making forecasts in this context.

According to the Budgetary Framework Law - LEO (Article 8 of Law 151/2015 of 11 September) and the European Regulations (Article 4(4) of Regulation 473/2013 of the European Parliament and of the Council of 21 May 2013), the Stability Programme should be accompanied by an opinion of the CFP analysing the underlying macroeconomic projections. In particular, it is required by Article 8(3) of the LEO that "budgetary planning documents shall indicate whether the underlying scenario has been assessed by the Portuguese Public Finance Council". However, the document under consideration does not include the macroeconomic scenario or the budgetary forecast, not even in a more concise version.



## 2. LEGAL FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF THE PE2020

### 2.1 European framework

Given the exceptional circumstances created by the COVID-19 pandemic and the restrictive measures adopted by most Member States, the European Commission has approved a set of "Guidelines for a simplified version of the Stability and Convergence Programmes" (hereafter 'Guidelines'). These guidelines exclude, for the update of the Stability Programmes to be presented in 2020, the rules stemming from the Stability Pact and its Code of Conduct as regards their format and content. These exceptional rules can be summarised as follows:

- 1) **General format and time range of the programme.** It should contain: an introductory section with the general characterisation of the fiscal policy response to the COVID crisis; the macroeconomic scenario; the general government budgetary balance, including its functional segregation. The minimum programme period covers the years 2020 and 2021.
- 2) **Macroeconomic scenario:**
  - For 2020, it should include the main assumptions and a preliminary estimation and projections for (at least) GDP growth and components, for the GDP deflator, employment and the inflation rate. Given the uncertainty of the moment, states may decide to present two or more projections instead of just one.
  - For 2021, Member States may submit:
    - A. Detailed projections for a baseline scenario; or
    - B. Economic projections for two scenarios with a minimum (low) coverage for GDP growth, the GDP deflator and inflation; or
    - C. If not applicable, at least qualitative information on economic assumptions and projections.
- 3) **Budgetary balance and measures:**
  - For 2020, a preliminary budgetary estimate, including information on aggregate revenue and expenditure ratios, should be provided. Given the existing uncertainty, Member States may choose to present two or more

scenarios instead of just one. The underlying macroeconomic assumptions and scenario should be clear. Member states should also include the projection for debt developments, at least for 2020.

- For 2021, Member States may submit:
  - A. Detailed budgetary projections for a baseline scenario, including government debt; or
  - B. Budgetary projections for two scenarios with a minimum (low) coverage for the revenue ratio, expenditure ratio, government deficit (as a percentage of GDP), debt ratio; or
  - C. If not applicable, at least qualitative information on the evolution of public debt and budgetary balance, reflecting the fiscal scenario and crisis response measures.
- 4) **Description of the crisis response measures:** including their classification from an accounting point of view, characterisation and duration, as well as contingent liabilities. The programmes should include a first assessment of their quantitative effects on the budgetary balance for the years 2020 and 2021, and this estimate is necessary to allow for the coordination of the EU budgetary response to the crisis.

Regardless of the format adopted, States are obliged to submit the simplified version of their programmes by 30 April 2020 as set out in the Stability and Growth Pact Regulation.

## 2.2 National framework

Given the same exceptional circumstances, the National Assembly approved Law no. 9-A/2020, of 17 April, which establishes an exceptional and temporary budgetary procedure following the COVID-19 disease pandemic.

The exceptions provided for in this Law are (Article 2):

1. In 2020 the provisions of paragraphs 2, 4 and 6 of Article 33 of the Budgetary Framework Law, approved in annex to Law No. 151/2015, of 11 September, as it currently stands, shall not apply and the Government shall submit to the National Assembly the update of the Stability Programme before it is sent to the European Commission, safeguarding the provisions of paragraph 3 of Article 33 of the Budgetary Framework Law.
2. In the context of the previous paragraph, the updating of the multiannual budgetary programming framework is an exception.
3. In the year 2020 the presentation of the Bill of Major Options Law, including the multi-annual budgetary programming, is made at the same time as the Bill of the State Budget.

This legislation has nothing to do with the substantive content defined in the above-mentioned European framework, but only the date of its presentation, which, as we have seen, contradicts the provisions of the European legal framework.

According to Article 33(1) of the LEO, the update of the Stability Programme is the responsibility of the Government and shall be carried out in accordance with the applicable European Union regulations. Therefore, the LEO refers to the provisions of Article 3 of Council Regulation 1466/97 of 7 July 1997, which lists the requirements that must be included in the Stability Programme, such as:

- i. The main assumptions concerning the expected development of the economy;
- ii. a quantitative assessment of the budgetary and other economic policy measures taken or proposed to achieve the objectives of the programme;
- iii. An analysis of the implications of changes in the main economic assumptions on the budgetary and debt situation.

Paragraph 3 of the same Article of this Regulation explicitly states that the trajectory of the general government balance and of the public debt ratio should be established on an annual basis. As mentioned above, the exceptional circumstances arising from the pandemic have led to the adoption of minimum guidelines in order to simplify the format and content of the Stability programmes to be submitted in 2020.



### 3. COMPLIANCE OF THE PE2020 WITH EUROPEAN AND NATIONAL STANDARDS

The document submitted on 7 May 2020 by the Government does not provide the minimum information required to be considered a Stability Programme. In fact, it does not present forecasts for the Portuguese economy, neither the forecast for the general government account nor for public debt. The very assessment of the fiscal measures adopted in response to the pandemic, described in detail in the document, is not duly quantified for the whole of 2020, and only a monthly cost is identified. This is below the legal requirements and contrasts with similar documents from other euro area countries.

Given the outdated assumptions on which the 2020 State Budget was based, it would be up to the Stability Programme to frame the various measures adopted in an overall perspective for the whole year, which is not the case. The absence of reliable information in real time on the Portuguese economy and public finances in these circumstances makes it difficult to make accurate forecasts, but it is exactly at times of high uncertainty that the availability of unbiased official forecasts becomes more useful. However, the document under consideration falls well short of this minimum content of information.

In particular, with regard to the macroeconomic component, and contrary to what was claimed by the 'Guidelines' summarised above, there is, from the outset, the absence of any scenario, referring only to the estimated impact of one and a half months of containment on the evolution of annual GDP (-6.5 per cent) without any justification being given for the calculation presented.

Regardless the great uncertainty, one would expect a projection at least for the year 2020, based on some hypotheses about the epidemiological and external evolution. It should have been presented at least: the evolution of GDP and its components at constant prices, the GDP deflator, the HICP, the general government balance and account and the gross public debt ratio.

The absence of a macroeconomic scenario makes it impossible to have budgetary projections, namely on the impact that the strong recession will have on public revenue. Thus, the fiscal balance or the evolution of public debt are not projected either. Therefore, only quantifications of measures related to COVID 19 are presented, which is quantified on a *per diem* basis (or, strictly speaking, *per month*). As the annual expenditure will depend on the duration and differentiated scope over time of these measures, the resulting information is scarce and excessively preliminary. The quantification of the measures adopted in response to the pandemic should quantify their impact for the entire year.

Projection and forecasting play an invaluable role in the design, evaluation and scrutiny of public policies. From this point of view, perspective, even if it proves to be imprecise, is preferable to its absence.





## 4. CONCLUSIONS

The document presented on 7 May 2020 by the Government does not provide the minimum information required for it to be considered a true Stability Programme. Contrary to the provisions of the legislation and the 'Guidelines' concerning the minimum information content of the update of the stability programmes, there is a crucial absence of: i) macroeconomic forecasts; ii) the forecast for the budgetary balance and public debt; iii) the quantification of the direct budgetary impact of the measures adopted in response to the COVID-19 pandemic for the whole of 2020.

In the absence of a macroeconomic scenario in this document, the Portuguese Public Finance Council had no opportunity to make either its usual prior assessment of macroeconomic forecasts or budgetary projections.

The absence of this minimum set of information elements constitutes an important gap in terms of budgetary transparency, with possible consequences on the confidence of economic agents, one of the most relevant dimensions of the current crisis and, more generally, on the capacity for public scrutiny of the measures and policies that have been adopted in this very adverse context.

The Portuguese Public Finance Council calls on the Government to provide adequate prospective information as soon as possible, so that economic agents can form their expectations and adjust their strategies in order to achieve a recovery of the economy and social cohesion as quickly as possible.