ANALYSIS OF THE DRAFT STATE BUDGET FOR 2021

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Conselho das Finanças Públicas
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The Portuguese Public Finance Council is an independent body, set up by article 3 of Law no. 22/2011 of 20 May that introduced the 5th amendment to the Budgetary Framework Law (Law no. 22/2001 of 20 August, republished by Law no. 37/2013 of 14 June).The final version of its Statutes was approved by Law no. 54/2011 of 19 October. The Council began its work in February 2012 and its mission is to conduct an independent assessment of the consistency, compliance with the stated objectives and the sustainability of public finances, while promoting fiscal transparency, so as to contribute to the quality of democracy and of political economic decisions and so strengthen the State's financial credibility.

This Report uses the information available up to 21 October 2020.

In the publications section at www.cfp.pt, a spreadsheet containing all the figures used to build the charts and tables in this Report is available for download.

TABLE OF CONTENTS

OVERALL REVIEW

The coronavirus pandemic we are experiencing has a transitory shortage effect on the economy. As economic activity is one of the most important human phenomena of social contact, the need to keep distance between people in combating contagion, to avoid various interactions between agents, in itself causes a contraction of the frontier of production possibilities - temporarily, while the adversity lasts, it is not possible to reach pre-existing product levels again. In addition to this effect, sometimes referred to as the "supply effect", there are other effects, "demand effects", which have a negative impact. Households and companies will have lower incomes and more pessimistic and uncertain expectations, with negative consequences on consumption and investment.

The pandemic crisis brings with it profound implications for the conduct of fiscal policy. On the one hand, keeping economic activity below the potential level inexorably reduces tax revenue. But, more importantly, the State bears responsibility for combating the pandemic and its economic and social consequences, which will require increases in public expenditure, particularly in the health sector, social support for families and support for business activity. The proper conduct of budgetary policy in this context may, moreover, mark out, contain or even reverse the negative expectations of economic agents.

Accordingly, the proposed state budget for 2021 contains a number of measures of social support l and to stimulate the economy. It is based on a macroeconomic scenario that is characterised by a recovery in economic activity compared to the current year, namely that GDP is expected to grow by 5.4 per cent. Even so, the production level implicit in this growth remains below the levels reached in 2019, before the economic effects of the coronavirus pandemic we are experiencing were felt. The economic recovery that underlies the proposal cannot but be linked to an assumption of an improved pandemic situation in 2021 compared to 2020. As already noted in the CFP endorsement of these government forecasts , there are important downside risks in this respect with a non-negligible budgetary impact, as the intensification of the health crisis could lead to additional expenditure increases and revenue shortfalls, with the possible need for a supplementary or amending budget.

The levels of public expenditure required to cope with this adverse situation combined with an amount of tax revenue that remains below the potential level translate into a budget deficit that can be classified as moderately expansionary. It should be noted here that EU funding has a role to play in sustaining part of public expenditure in 2021, as EU financial support will support expenditure measures totalling 0.7% of GDP under the EU REACT initiative and the transfer of funds to the Recovery and Resilience Plan. This makes it possible to support and stimulate economic activity without the usual alternative of raising taxes or issuing more debt, which is an important budgetary 'dividend'. Without such support this budget proposal would present a deficit of more than 5% of GDP.

Given the moderately expansionary nature of the budget and the maintenance of expenditure levels not compensated by equivalent decisions to increase taxes, the designation of this proposal as an austerity budget is not appropriate. However, it is necessary to note that the amount of stimulus and support is limited by the political will to keep the growth of public debt under control, in order to ensure that fiscal sustainability is maintained, preserving credibility and ensuring financing costs that remain at low and adequate levels. The budget proposal foresees that the growth of debt as a percentage of GDP in 2020 will be reversed in the course of 2021, given the expected economic recovery. In addition to the shortage that, as a result of the pandemic, is characterised by a contraction of the frontier of production possibilities, there is another shortage - that resulting from the limited fiscal space available to an economy where public debt is already high (and among the highest in the euro area).

This situation of shortage calls for prudent financial and budgetary management at the substantive level, but also requires that such management be carried out in compliance with the basic procedural and formal rules of the Portuguese budgetary system, first and foremost those imposed by the Budget Framework Law. As the Public Finance Council had the opportunity to mention back in September: "The high economic and social costs of the pandemic still justify the use of public support programmes for families and economic agents most affected. However, national and Community public resources must be used in a judicious, efficient and transparent manner and there must be timely and comprehensive public disclosure of the implementation of all support instruments." As these shortcomings have not been overcome in the budgetary process now under way, the Public Finance Council must point them out again, namely the shortcomings in terms of budgetary transparency that are noted both in the budget proposal and in the supporting documents (Report and information). For example:

- the presentation of new non-consolidated expenditure limits in the multiannual framework for public expenditure, including expenditure on financial assets and liabilities (non-effective expenditure), as well as the failure to demonstrate the compatibility of these limits with the budgetary objectives underlying the medium-term path of public finances, which undermines fiscal transparency;

- similarly, such transparency is penalised by the existence of "unidentified and unexplained effects", which make it difficult to measure the capacity to achieve the expected evolution of the budget balance in 2021;

- information on the expected budgetary impact of the measures in response to COVID-19 appears to be insufficient, with inconsistencies and no distribution of the impact of these measures across the different revenue and expenditure components in the estimate for 2020 on which the budget forecast for 2021 is based.

In short, while it is true that the pandemic crisis, due to its unexpected character and seriousness, forced the adoption of a set of temporary and exceptional response measures, it is important, however, that it should not serve as a pretext for more or less permanently postponing the fundamental legal rules of our budgetary system. The deterioration in the quality of information manifested in these shortcomings in budgetary transparency conditions the work of the institutions participating in the budgetary process, including the consideration by Parliament, the prime addressee of the proposed State Budget Law, the accompanying Report and the other information elements.

EXECUTIVE SUMMARY

From the 2020 estimate to the 2021 budget forecast

In the context of the pandemic crisis, where its continuing effects are unknown, the State Budget proposal for 2021 (DSB/2021) foresees a budget deficit of 9132 M€, corresponding to 4.3% of Gross Domestic Product (GDP).[1] This forecast is based on the recovery of the economy and the reversal of part of the exceptional fiscal response measures to the effects of COVID-19, and points to a deficit reduction of 2.9 p.p. of GDP compared with the estimate for 2020, which in absolute terms translates into a lower deficit of 5292 M€. The lower forecast amount of government financial support to the financial sector and aviation in 2021 compared to 2020, combined with the reimbursement of *pre-paid margins* to the European Financial Stabilisation Fund (EFSF), contribute to this reduction in the expected budget deficit. Measures aimed at protecting employment and income, as well as those planned for public investment, both reflected in expenditure, account for almost all of the net impact of 3643 M€ calculated by the CFP on the basis of the measures explained in DSB/2021.

The analysis of the consistency of budgetary forecasts is hampered by the absence of a clear, objective and disaggregated quantification of the actual budgetary impact of the pandemic crisis response measures considered by the MF in the 2020 estimate and the 2021 budget forecast.

On the basis of the available evidence, it can be concluded that the recovery of economic activity envisaged by the government, a smaller amount of expenditure measures related to the pandemic, the already mentioned smaller support to specific sectors, "other unidentified and unexplained effects" and the recovery of the commission paid to the EFSF will be determinant for a deficit of 4.3% of GDP in 2021.

Budgetary developments expected for revenue and expenditure in 2021

The share of public revenue is expected to reach 43.5% of GDP next year, increasing by 0.9 p.p. of GDP compared to the figure expected by the Ministry of Finance (MF) for 2020, as a result of the increase in the share of tax revenue and non-tax and non-contributory revenue.

In nominal terms, tax and contributory revenue should explain approximately 60% of the growth of total General Government (GG) revenue (7159 M€), mostly based on the behaviour of revenue from taxes (3340 M€) and, to a lesser extent, on the increase in actual social contributions (1068 M€).

[1] Unless otherwise stated, in this report GDP is measured in nominal terms and the figure considered for the year 2021 is 210 833.22 M€ (see attached Table 14).

The expected dynamics of tax revenue explains exclusively the projected increase in the tax burden from 33.9% of GDP in 2020 to 34% of GDP in 2021, since, according to the MF, the share of actual social contributions is expected to fall by 0.1 p.p. of GDP next year. The decline in the share of these contributions in GDP results from the expectation of a slower pace of growth (5.3%) than that projected by the MF for nominal output (6.3%). The same should not happen with tax revenue, which projected growth of 7.1% is above the pace considered by the MF for the evolution of economic activity in 2021, implying an elasticity of tax revenue to GDP above the unit.

As regards non-tax and non-contributory revenue, the MF projects an annual rate of change substantially above that expected for economic activity when measured by GDP developments in 2021. Contributing to this performance will be, fundamentally, the robust increase in transfers from the European Union under the Recovery and Resilience Plan (RRP) and the Recovery Assistance for European Cohesion and Territories (REACT EU) initiative, which will have a positive impact on capital and other current revenue respectively.

The share of public expenditure in GDP is expected to fall from 49.9% in 2020 to 47.8% in 2021. This reduction of 2.1 p.p. of GDP is influenced by a strong denominator effect, as the MF expects nominal output to grow by 6.3% in 2021, after a contraction of 7.1% estimated for 2020.

The DSB/2021 foresees general government expenditure to reach 100 755 M€, following an increase of 1867 M€ compared to 2020, driven by current primary expenditure and, to a lesser extent, capital expenditure. Interest expenditure is expected to fall for the seventh year in a row, though less markedly than in recent years.

The primary current expenditure may register an increase of 2 thousand M€ in 2021, driven by social benefits and compensation of employees, which are the most rigid expenditure items and together account for about two-thirds of public expenditure planned for 2021. However, the growth rate of both is expected to decelerate in 2021, to 3.3% and 3.5% respectively. Still within current primary expenditure, intermediate consumption is the only item which growth is expected to accelerate in 2021 (to 4.1%), while only expenditure on subsidies is expected to decrease next year (-1251 M€/-40.2%, due to a lower impact from measures associated with COVID-19 than estimated for 2020).

Capital expenditure is expected to increase in 2021 because the increase in Gross Fixed Capital Formation (GFCF) by 1135 M€/23.2% should be more than enough to compensate the reduction of “other capital expenditure”. MF forecasts indicate that GFCF will increase for the fifth year in a row and register the most significant increase in recent years. The expected reduction in "other capital expenditure" is mainly due to the expectation that the net impact on the budgetary balance of expenditure with the Novo Banco and TAP Air Portugal will be less unfavourable.

Budgetary balances and fiscal policy stance

The DSB/2021 brings forward to 2020 an estimated budget deficit of 7.3% of GDP, a deterioration compared to the two previous budget planning documents (OE/2020 and PAOE/2020) published this year. For 2021, the MF foresees a reduction of the budget deficit to 4.3% of GDP, pursuing a consolidation strategy based mainly on reducing the expenditure-to-GDP ratio.

Excluding the effect of the business cycle and one-off and temporary measures, the structural balance underlying the proposed State Budget for 2021, recalculated by the CFP, is estimated to be negative at 3.3% of GDP. This result reflects a planned improvement in the structural balance of 0.2 p.p. of GDP in 2021, in the context of a broadly neutral fiscal policy stance. For the calculation of the structural balance, the PFP followed the same option adopted by the European Commission in assessing the 2020 Stability and Convergence Programmes, deciding not to classify as one-off and temporary measures the measures taken in response to the COVID-19 pandemic, given the specific circumstances and the great uncertainty surrounding their possible persistence beyond 2020. These measures are therefore not excluded from the estimation of the structural balance, nor from the baseline expenditure calculation.

Multiannual Framework for Public Expenditure

The Multiannual Framework for Public Expenditure (MFPE) provided for in the Budgetary Framework Law (BFL) is presented for the first time at the same time as DSB/2021 through the Draft Law on Major Planning Options. This medium-term budgetary programming instrument defines a total expenditure ceiling and per programme, from 2020 to 2024, including the projection of financing sources. The expenditure ceiling should be compatible with the objectives of the Stability Programme. The DSB/2021 report does not demonstrate the compatibility of the binding 2021 limit with the projected budget balance, so the CFP has carried out a tentative exercise to assess consistency with the 2021 expenditure ceiling. For the remaining time horizon, where the ceilings are indicative only, it is not possible to assess any compatibility as neither the DSB/2021 Report nor the 2020 Stability Programme presents the budgetary targets for 2022-2024.

The presentation of new non-consolidated expenditure limits in the MFPE, including expenditure on financial assets and liabilities (non-effective expenditure), does not benefit budgetary transparency. This situation stems from the partial implementation of the BFL, which still maintains many of the processes resulting from the previous accounting framework, albeit with adaptations, together with innovations that assumed the reform of public financial management instruments. It is therefore even more relevant that the next update of the MFPE demonstrates in a more explicit and sustained manner the link with the budgetary objectives underlying the medium-term path of public finances.

Budgetary risks

The budget forecast for 2021 carries non-negligible downside risks, starting with the inherent high degree of uncertainty about the magnitude, scope and duration of the pandemic situation, which does not rule out the possibility that the impact of policy measures in the context of the pandemic will turn out to be higher than expected.

On the revenue side, the forecast of taxes and social contributions points to a higher evolution of these fiscal variables than foreseen for their own macroeconomic bases. This forecast implies the verification of elasticities above the unit, for which the DSB/2021 report does not provide justification, which is a risk to be noted. This risk is reflected in the MF 2021 forecast for corporate income tax, VAT and social contributions.

On the expenditure side, in addition to a possible bigger impact that the measures to respond to the pandemic crisis may have, we identify the possibility that the unfavourable effect of expenditure on the Novo Banco and TAP could be greater than that considered in the forecast for 2021 in national accounts, as well as the risk associated with the possible activation of state guarantees granted under some of the measures to respond to the pandemic crisis (credit lines). Of a more uncertain dimension, the risk associated with the moratoria of credit granted by banks to economic agents should be noted, as the possible inability of these agents to solvency their commitments may imply losses to the Portuguese financial system and, consequently, require state intervention, through financial support.

Public debt

The Ministry of Finance forecasts that the debt ratio will resume its downward movement in 2021, from 134.8% to 130.9% of GDP, even if the debt grows in nominal terms. The main driver of this 3.9 p.p. of GDP decline in the ratio is GDP growth, which compensates for the unfavourable interest effect, resulting in a favourable dynamic effect (-5.4 p.p.) that more than justifies the reduction in the debt ratio. This effect, together with the slightly favourable stock-flow adjustment (-0.2 p.p.) in the DSB/2021 forecast, more than offsets the unfavourable contribution of the primary balance effect (+1.7 p.p.) to the change in the government debt ratio. Despite the rise in the stock of debt in nominal terms, the share of interest in GDP is set to fall further, to 2.9% and 2.6% of GDP in 2020 and 2021 respectively. This decline is explained by the contribution of the price effect, which reflects the current financing conditions of euro area members at historically low interest rates, more than offsetting the unfavourable stock-flow effect. Thus, the average cost of debt issued by the state until the end of August this year stood at 0.6%, compared with 1.1% in 2019.

Gross government borrowing requirements, according to the forecast underlying DSB/2021, are expected to increase slightly in 2021 compared to the previous year, as a result of the higher volume of medium and long-term debt repayments, justified mainly by the repayment of Floating Rate Bonds scheduled for 2021.

1. INTRODUCTION

In accordance with Article 7 of the Statutes of the Public Finance Council (PFC), this report examines the proposed State Budget for 2021 (DSB/2021). This Report was preceded by the Opinion of the CFP on the macroeconomic forecasts underlying the State Budget, prepared under the combined terms of Article 8 of the Budget Framework Law (Law No. 151/2015 of 11 September, as currently drafted),[2] Article 6(a) and Article 7 of the Statutes of the Public Finance Council (CFP).The Constitution of the CFP, approved by Law 54/2011 of 19 October, as amended by Law 82-B/2014 of 31 December, Article 4(4) and Article 6(3)(f), both of Regulation (EU) No. 473/2013 of the European Parliament and of the Council of 21 May 2013.

The analysis made in this report is based on the information contained in Proposed Law no. 61/XIV approving the State Budget for 2021, henceforth DSB/2021, presented to Parliament on 12 October, the Draft Budget Plan for 2021 sent to the European Commission (EC) on 15 October and the additional information provided by the MF to the CFP between 15 and 21 of that month, under the protocol established between the Ministry of Finance and the Public Finance Council for the consideration of budget programming documents and in the pursuit of the CFP's duties.

General government budget aggregates were not adjusted for the effect of one-off and temporary measures and other special factors. However, such adjustment is duly noted when relevant for a better assessment of the fiscal consolidation effort.

The preparation of this report has benefited from information and clarification provided by the Ministry of Finance.

This report is structured as follows: (i) Chapter 2assesses the consistency of budgetary forecasts; (ii) Chapter 3deals with the stance of fiscal policy; and (iii) Chapter 4examines government debt.

[2] Law no. 151/2015 of 11 September was amended by Law 42/2016 of 28 December, 2/2018 of 29 January, 37/2018 of 7 August and 41/2020 of 18 August.

2. ANALYSIS OF THE CONSISTENCY OF BUDGET FORECASTS

This chapter assesses the consistency of the budget forecast with the macroeconomic scenario and the underlying policy measures in the context of the State Budget proposal for 2021. The assessment of the consistency exercise on the evolution of the components of budgetary aggregates with respect to the macroeconomic bases uses the information provided by the MF. Although the information is incomplete, this exercise is also hampered by the lack of a breakdown of the budgetary impacts, by revenue and expenditure components, of the measures adopted in response to the pandemic crisis in 2020. The absence of this information limits the quantification of unidentified and unexplained effects in the budget forecast, with a prejudice to a full and conclusive assessment of the consistency of that forecast. The one-off and temporary (one-off) measures considered by the CFP in the analysis of the 2020 estimate and the 2021 forecast differ from that considered by the MF for those years (see chapter 3).

2.1 From the 2020 estimate to the 2021 budget forecast

The Draft State Budget for 2021 (DSB/2021) points to a decrease in the general government budget deficit to 4.3% of GDP next year. In the context of a pandemic crisis where the persistence of the effects is unknown, the 2021 MF budget forecast underlies the recovery of the economy and the reversal of part of the exceptional fiscal response measures to that epidemiological phenomenon. Thus, the MF expects that the budget deficit for 2021 will be reduced by 5292 M€, equivalent to 2.9 p.p. of GDP. In this section, the CFP uses the available information to try to explain the evolution envisaged by the MF. In analysing the evolution over time, it is important to take into account that, unlike previous budget proposals, the projected budget balance for 2021 is not anchored in a medium-term programme that defines a future path for public finances. Nevertheless, and despite the uncertainty associated with the evolution of the effects of the pandemic, the DSB/2021 Report presents a projection for the 2022 budget balance which points to the continuation of a downward path for the budget deficit, already in that year remaining below the 3% of GDP limit in the Treaty on the Functioning of the European Union (deficit of 2.8%).

This exercise seeks to assess the consistency between general government revenue and expenditure forecasts with the macroeconomic forecast and fiscal policy measures. As regards discretionary policy measures, it considers both the lagged effect of measures adopted in previous years (*carry-over* effects) and the effect of the new measures that the government proposes to adopt in 2021. Based on the information provided by the MF, the Table 1 breaks down the expected evolution of the general government account in 2021 considering the impacts of:

i. **Macroeconomic developments**, based on a calculation of the CFP which is based on the use of prudent figures for the elasticity between the fiscal variables and the corresponding macroeconomic bases;

ii. **Measures approved in previous years** which impacts affect the budget forecast for the following year (*carry-over* of measures), where the effects are taken into account in a No policy change scenario;

iii. Permanent discretionary measures (**new policy measures**), introduced in a policy change scenario;

iv. ***One-off* and temporary measures (henceforth *one-off*)** planned for 2021, plus financial support for the aviation sector;

v. **A residual component**, obtained by difference, called "other effects", which reflects the second-order effects induced by new policy measures via interaction with macroeconomic variables and other unidentified effects that do not fall into the categories listed above.

Table 1- From the 2020 estimate to the 2021 forecast Policy measures with a budgetary impact (M€)

	Year 2020			Explanatory factors of fiscal coherence				Year 2021		
	Estimate	One-off	Adjusted Estimate	*Carry-over (measures from previous years)*	New Policy Measures	Macroeconomic Scenario	Other effects	Estimate	One-off	MF Forecast
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)	(7)= (8) - [(3)+...+(6)]	(8)=(10)-(9) (8)=(3) +...+ (7)	(9)	(10)
Total revenue	84 464	40	84 424	71	1 222	3 476	1 271	90 464	1 159	91 623
Tax and Contributory Revenue	71 858	0	71 858	141	-288	2 680	1 782	76 173	0	76 173
Indirect taxes	28 656		28 656	0	-168	1 391	643	30 522		30 522
Direct taxes	18 444		18 444	11	-185	655	993	19 918		19 918
Social contributions	24 758		24 758	130	65	634	146	25 733		25 733
Non Tax and non contributory Revenue	12 606	40	12 566	-71	1 510	797	-511	14 291	1 159	15 450
Total expenditure	98 889	2 459	96 430	1 857	3 079	649	-2 335	99 680	1 075	100 755
Primary Expenditure	93 070	2 459	90 611	2 018	3 079	649	-2 164	94 194	1 075	95 269
Intermediate Consumption	11 501		11 501	307	165		-1	11 972		11 972
Compensation of employees	23 787		23 787	422	270		130	24 609		24 609
Social Benefits	40 611		40 611	580	701		60	41 952		41 952
Subsidies	3 112		3 112	0	1 165	197	-2 613	1 861		1 861
GFCF	4 884		4 884	692	779		-336	6 019		6 019
Other expenditure	9 175	2 459	6 717	17	0	452	595	7 781	1 075	8 856
Interest paid	5 819	0	5 819	-161	0	0	-171	5 487	0	5 487
Budget Balance	-14 424	-2 419	-12 006	-1 786	-1 857	2 827	3 606	-9 216	84	-9 132

Sources: Ministry of Finance. CFP calculations. | Notes: (i) "Non-Tax and Non-Contributory Revenue" includes: sales, other current revenue and capital revenue; (ii) "Other expenditure" includes "other current expenditure" and "other capital expenditure". For details of the various effects, see Table 13 in the annex. The one-offs measures considered follow the CFP's own classification, identified in chapter 3. The effects of the macro scenario are based on the use of prudent (unitary) elasticities of budgetary variables in relation to the respective macroeconomic impact bases, as explained below in footnote n.º 4, on page 13. The totals may not necessarily correspond to the sum of the instalments due to rounding.

Considering the effect of explicit measures by the government in DSB/2021, which stems from policy measures taken in previous years and those intend to be adopted in 2021, their net contribution, although negative, is mitigated by eliminating the unfavourable impact in 2020 of *one-off* and financial support. This change, which makes a positive contribution to reducing the budget deficit in 2021, is mainly explained by the reduction of the support provided to the Novo Banco through the Resolution Fund, under the contingent capitalisation mechanism of that institution, as well as by the decrease in in financial aid provided to the aviation sector. The smaller amount of this support combined with the extraordinary revenue from the reimbursement of the European

Financial Stabilisation Fund's (EFSF) *pre-paid margins* absorbs about two thirds (69%) of the effect of the policy measures, whose negative impact on the forecast balance for 2021 totals 3643 M€ (1.7% of GDP).[3] Approximately half of the impact on the balance of policy measures results from measures approved in previous years (-1 786 M€), with an impact mainly on public expenditure (see Section 2.2.). The remaining part of the net negative impact on the balance is justified by the new policy measures that the government intends to adopt in 2021 (negative impact of 1857 M€). Of particular note here are the expenditure expansion measures, with an impact of 3079 M€, mainly aimed at protecting employment and income, together with public investment measures (see Section 2.2.), the financing of which through the European Union explains about half (1520 M€) of the total expenditure expansion measures (Table 3).

Part of the improvement in the budget balance forecast in 2021 is determined by the impact of the macroeconomic scenario. This contribution (balance in column 6 of the above table) is underpinned by the positive evolution of the main macroeconomic bases, which explains the budget forecast of revenue and expenditure components. According to CFP calculations, which adopt a prudent elasticity in the evolution of budgetary variables related to the underlying macroeconomic bases, the result obtained is that the impact of the macroeconomic scenario contributes at least 2827 M€ (1.5 p.p. of GDP) for the reduction of the budgetary deficit, that is, more than half than the improvement envisaged for the budget balance in 2021.[4] The impact of the macro scenario has its greatest expression at the revenue level (3476 M€), in particular at the tax and contributory revenue, justifying more than three quarters of the expected evolution of that aggregate (column 6 of the Table 1). The explanation for this behaviour is mainly based on the MF forecast for nominal private consumption, for private and public sector wages and for GDP. These results, being conservative, differ from those forecast by the MF, which have implicit higher elasticities of fiscal variables to their macroeconomic bases. At the expenditure level, the effect of GDP is only on the forecast of subsidies and "other expenditure", as the forecast of compensation of employees, intermediate consumption and social transfers already suggests the incorporation of the macroeconomic effect into the quantification of the impact of measures in 2021.

The "other effects" justify the most significant positive impact (3606 M€) for deficit reduction in 2021. These effects reflect the reversal of part of the measures in response to the pandemic crisis adopted in 2020, as well as other impacts that reflect, among others, the second-round effects induced by new policy measures via interaction with macroeconomic variables, but also the behaviour of budgetary variables that go beyond the evolution of their macroeconomic peg and the explicit measures (Column 7 of the Table 1). Conceptually, a subdivision of this column should be presented between the reversal of the measures in response to the COVID-19 discontinued at the end of 2020 and the other effects, which is made impossible by the lack of information (Box 1). In fact, the DSB/2021 report does not present an expenditure breakdown according to the measures assumed by the MF in the estimate for 2020. With this limitation, it can be concluded that 60% of the positive impact of the "other effects" on the balance stems

[3] Sum of net impact on balance in columns 4 and 5 of Table 1.

[4] This calculation uses unit elasticity for: (i) indirect taxes vis-à-vis nominal private consumption; (ii) personal income tax vis-à-vis compensation of employees; (iii) corporate income tax vis-à-vis GDP; (iv) social contributions vis-à-vis compensation of employees (v) "other revenue", subsidies and "other expenditure" vis-à-vis GDP. The MF forecast may have a higher underlying value than the one considered here, which in this exercise is reflected in the estimation of "other effects".

from the reduction of primary expenditure, mainly on subsidies, which largely reflects the partial reversal of some measures impact adopted to mitigate the effects of the pandemic. At the revenue level, the positive contribution of the "other effects" is determined exclusively by tax and contributory revenue. In this area, direct taxes account for more than half of that contribution, reflecting the recovery of corporate income tax revenues in 2021, mainly as a result of the elimination of the suspension of payments on account of corporate income tax that occurred in 2020. As regards the positive "other effects" on indirect taxes and social contributions, the forecast for these components reflects a development that goes beyond their macroeconomic basis, indicating unexplained effects.[5] The magnitude of these effects is most evident in indirect taxes, suggesting in the case of social contributions a possible recovery of the tax execution processes that were suspended in 2020. [6]

The existence of unidentified and unexplained effects undermines budgetary transparency as regards the assessment of the capacity to achieve the budget balance forecast to 2021. The justification for the evolution of the balance attributed to "other effects" indicates that they result mainly from unidentified and unexplained effects. Assuming that the reversal of part of the impact of the response measures to the pandemic crisis may have a net impact on the balance of 2794 M€,[7] this figure represents about 77% of the total net positive impact on the balance of "other effects". The remaining around 23% will amount to 812 M€. Part of this amount could be justified by a larger impact of the macro-economic scenario on the budget forecast than admitted by the CFP. The use of higher elasticities by the MF, based on the assumption of a recovery of fiscal variables stronger than its own macroeconomic bases, contributes to this impact. Thus, the achievement of the fiscal balance envisaged by the MF for 2021 will depend in part on higher revenue elasticities.

Box 12- Insufficient information on the expected budgetary impact of the measures in response to COVID-19

The information provided in the DSB/2021 Report and the accompanying informative and complementary elements does not allow a clear and objective quantification of the actual budgetary impact of the measures in response to the pandemic crisis considered in the 2020 estimate and the 2021 forecast. Making available a breakdown of the budgetary impact of these measures between the different revenue and expenditure components, as already noted by the CFP in its report on the Analysis of the 2020 State Budget Review, would greatly benefit the analysis of DSB/2021 regarding the consistency of the budget forecast with the policy measures explained in it and the macroeconomic scenario in which that forecast is sustained.

[5] Taking by reference the calculation of unit elasticity assumed by the CFP for the macroeconomic bases.

[6] In the case of indirect taxes, changes in the composition of consumption (between durable and non-durable assets) in 2021 may explain part of this effect, but the POE/2021 Report provides no justification.

[7] This figure is calculated on the basis of the information available in Table 3.1 of the POE/2021 report which quantifies the impact on expenditure on COVID-19 measures, with an estimated amount of 4655 M€ for 2020 and a projected 3561 M€ for 2021. Considering that the difference between these figures, amounting to 1094 M€, reflects the impact of the partial reversal in 2021 of expenditure measures under COVID-19, and assuming on the revenue side not only full recovery in 2021 of the loss of revenue from corporate income tax in 2020 estimated by the MF at 1150 M€, but also full recovery in 2021 of the loss of revenue from social contributions estimated at 550 M€ by the MF for 2020 as a result of the application of the simplified *lay-off*, the net impact on the balance of the partial reversal of those measures would amount to 2794 M€.

From the information in that budget programming document, inconsistencies are found that are detrimental to quantifying the impact of the measures adopted in response to COVID-19, with implications for the assessment of coherence mentioned above:

Estimate for 2020

- Chart 2.2 of the DSB/2021 report (p. 32) shows that the estimated impact of the COVID -19 measures on the balance was negative by 5327 M€ (-2.7 % of GDP), with no quantification of the breakdown of this impact on revenue and expenditure. Despite this shortfall, using the information in Chart 3.1 of the same report (p. 59) it is noted that "COVID-19 expenditure" is equivalent to 1.7 p.p. of GDP, i.e. an amount between 3271 M€ and 3450 M€, depending on whether the rounding up or down to that decimal place is used. Compared with the figure of 4655 M€ obtained through the difference between estimated "total expenditure" for 2020 and "expenditure without measures related to COVID-19" (both also included in Table 3.1 of the report), a difference (between the figure obtained in Table 3.1 and that calculated in Chart 2.2) of 1205 M€ to 1384 Me is found. This divergence is reflected in the same dimension when the estimated impact of those measures on revenue is sought. This inconsistency makes it difficult to identify and quantify "other effects" and does not allow for an assessment of the coherence and consistency of the above-mentioned budget forecast.

Forecast for 2021

- On the basis of the information in Table 3.1 above, but now referring to the year 2021, it is possible to quantify that the estimated impact of the COVID-19 Measures amounting to 3561 M€ is not consistent with the policy measures explained in the DSB/2020 report. Using the information on the impact on expenditure of the new measures proposed for 2021 (3105 M€),[1] some 456 M€ remains to be explained.

In addition, there is a lack of explanation of measures approved in previous years (Table 3.2 of the DSB/2021 Report). The failure to identify the impact of COVID-19 measures legislated in 2020, the effects of which will extend to 2021, are not new policy measures proposed by the government for 2021. In this context, measures relating to prophylactic isolation, COVID-19 sickness benefit, expenditure on personal protective equipment and measures to support employment and the resumption of activity are identified.

[1] The calculation of this figure results from the impact on expenditure of the new policy measures identified in Table 3 of this report, excluding the impact of the following measures not related to COVID-19: (i) expenditure review exercice; (ii) extraordinary increase in pensions and (iii) enlargement of the 2nd category of childcare.

2.2 Policy measures underlying DSB/2021

Policy measures adopted in previous years with an impact in 2021

Policy measures adopted in previous years with an impact on government revenue will have a virtually zero effect on the General Government budget balance. In 2021, the General Government budget balance is expected to benefit positively, but marginally, from previously approved legislative measures that will raise the level of government revenue by 71 M€ (0.03% of GDP). In net terms, the items benefiting from previously approved policy measures will be direct taxes (11 M€; 0.01% of GDP) and social contributions (130 M€; 0.1% of GDP), while sales of goods and services are expected to have a negative carry over of 71 M€ (-0.03% of GDP).

The expected *positive carry-over of* public revenue will be due exclusively to measures related to GG human resources policy. The measures related to progression and promotion in the civil service, not only in general careers, but also in the careers of teachers and special careers, as well as the increase in operational assistants and ongoing recruitments, will increase the total revenue of general government by 182 M€ (0.1% of GDP), through its impact in direct taxes and social contributions (Table 2). In reverse, measures such as the implementation of young professional PIT and the second child deduction in PIT will negatively affect direct tax revenue (-40 M€). It should also be noted that the planned reduction in the NHS fees for primary health care and the reduction in fees for higher education will penalise the sales item by 47 M€ (-0.02% of GDP) and 23 M€ (-0.01% of GDP), respectively.

Table 2- Measures approved in previous years with an impact on the budget outturn of 2021
(change compared to 2020)

Component/measure	DSB/2021	
	M€	% of GDP
Impact in revenue	**71**	**0.0**
Direct taxes	**11**	**0.0**
Young professionals PIT	-16	0.0
Increase in the second child deduction (PIT)	-24	0.0
PIT - Career progressions and promotions	28	0.0
PIT - Teachers and other special careers	12	0.0
PIT - Ongoing hirings and Braga Hospital	9	0.0
PIT - Operational assistants increase	1	0.0
Social contributions	**130**	**0.1**
Career progressions and promotions	71	0.0
Teacher and other special careers	32	0.0
Ongoing hirings and Braga Hospital	24	0.0
Operational assistants increase	3	0.0
Sales	**-71**	**0.0**
Reduction of NHS user fees in primary health care	-47	0.0
Reductionof the tuition fees - Academic year 2020/21	-23	0.0
Impact in expenditure	**1 857**	**0.9**
Compensation of employees	**422**	**0.2**
Progressions and Promotions	231	0.1
Teachers and other special careers	102	0.0
Ongoing hirings + Braga Hospital	78	0.0
Operational assistants increase	11	0.0
Intermediate consumption	**307**	**0.1**
Intermediate consumptions	320	0.2
Road PPPs	-13	0.0
Social transfers	**580**	**0.3**
Pensions | Composition effect = Average pension increase + (inflows vs. outflows of pensioners)	409	0.2
Parenting Benefits and 3rd Person Assistance	45	0.0
Reduction of daycare fees	13	0.0
Expansion of access to social action grants	22	0.0
Extraordinary pension update in 2020 | Carry over in 2021	48	0.0
Status of informal caregiver	30	0.0
Solidarity Supplement for the Elderly	13	0.0
Other current expenditure	**17**	**0.0**
Transfer to the European Union Budget	17	0.0
Investment	**692**	**0.3**
Structuring investments	590	0.3
Proximity works (PEES)	102	0.0
Interest	**-161**	**-0.1**
Interest owed by general government	-161	-0.1
Impact in budget balance	**-1 786**	**-0.8**

Source: MF. CFP calculations. | Notes: Sign (+) budget pressure / sign (-) budget savings; for the preparation of this table, the measures listed by the MF in Table 3.2 of the DSB/2021 report were considered, to which the CFP added a positive impact on revenue (182 M€) due to progressions and promotions, ongoing hirings, the mitigation of frozen service time for teachers and other special careers.

Budgetary pressures on public expenditure in 2021, stemming from policy measures authorised in previous years, amount to 1857 M€ (0.9% of GDP). These pressures should fully justify the unfavourable net impact of 1786 M€ on the national accounts balance in 2021 stemming from measures legislated in previous years (Table 2), because on the revenue side the overall effect of previous measures should be slightly favourable.

Most of these pressures are on current primary expenditure (+1326 M€), an aggregate that includes expenditure with the highest degree of rigidity. In the context of social benefits (+580 M€), the composition effect on Social Security and General Pensions Fund (409 M€), determined by the increase in the average pension of new arrivals compared to outflows and the net balance of the number of pensioners, should be noted. The pressures on compensation of employees (422 M€) are mainly related to promotions and progressions[8] (232 M€), the mitigation of the frozen length of service in teachers and other special careers[9] (102 M€) and ongoing recruitments (75 M€). These are rigid expenditures which, together with others of a similar nature mentioned above (pensions), should justify an increase equivalent to 0.4% of GDP compared to 2020. The expected net impact on intermediate consumption (307 M€) mainly reflects commitments by general government in the year 2021, in particular those related to health and operating expenditure of the various entities.

GFCF is expected to be the expenditure item under most pressure from the effect of measures approved in previous years, which will entail an increase of 692 M€ compared to 2020. This concerns mainly structural multiannual investments in central government, in contracting or ongoing, which in national accounts will represent an increase of 590 M€ compared to 2020, mainly in the areas of transport, education and higher education. In addition, the proximity works under the Economic and Social Stabilisation Programme (PEES) - approved in June 2020 - should involve an increase of 102 M€, namely in the areas of infrastructure, environment, housing and for the removal of asbestos in schools.

Interest payments is the only expenditure item where the effect of measures in previous years should generate savings compared to 2020. In the baseline scenario of invariant policies, savings of 161 M€ compared to 2020 are expected in interest payments due to public debt and in the financial costs of the financial debt of Reclassified State-Owned Enterprises.

New fiscal policy measures

The European Union's financial support regarding the response to the pandemic crisis will finance expenditure measures to an amount of 0.7% of GDP. According to DSB/2021, this support will be split between other current revenue (1020 M€; 0.5% of GDP) and capital revenue (500 M€; 0.2% of GDP). The impact on the other current revenue is expected to come from funds received under the REACT-EU programme (1020 M€), which aims to accelerate the economic recovery process, while the expected effect on the capital revenue will come from the funds received under the Recovery and Resilience Plan presented by the Government.

The measures envisaged by the MF for tax revenue and sales of goods and services will penalise the general government balance by a total of 0.2% of GDP next year. Contrary to part of the positive contribution made by the European transfers referred in the previous paragraph, the measures envisaged for general government sales and for the

[8] In 2021 the impact of mandatory changes in remuneratory position will occur in general careers due to the completion of a new evaluation cycle (2019/2020).

[9] Under the terms of Decree-Law No. 65/2019 of 20 May, the accounting of the time of service in careers with multi-categories was phased as follows: 1/3 of the time on 1 June 2019; 1/3 of the time on 1 June 2020 and 1/3 of the time on 1 June 2021.

various taxes are expected to cast a burden on the general government revenue by 363 M€ in 2021. The reduction of withholding tax rates on personal income tax (-200 M€), the temporary reduction of VAT on gel and masks (-23 M€) and the reduction of autonomous corporate income tax for SMEs (-10 M€) are considered as one-off measures and will penalise the public revenue by 0.1% of GDP. With regard to the permanent measures proposed by the MF, it should be highlighted the negative impact expected from the reduction of VAT on electricity (-150 M€; -0.1% of GDP) and the reduction of the tolls (-10 M€).

Table 3- Impact of new fiscal policy measures in 2021

Component/measure	DSB/2021	
	M€	% of GDP
Total da Receita	**1 222**	**0.6**
Direct taxes	**-185**	**-0.1**
PIT withholding taxes	-200	-0.1
Autonomous taxation relief (CIT)	-10	0.0
PIT - Public servants hirings (Health, Education)	25	0.0
Indirect taxes	**-168**	**-0.1**
Energy VAT	-150	-0.1
Temporary reduction of the masks and the hand sanitizer VAT	-23	0.0
Cultural Heritage Lottery	5	0.0
Social contributions	**65**	**0.0**
Public servants hirings (Health, Education)	65	0.0
Sales	**-10**	**0.0**
Toll fares reduction	-10	0.0
Other current revenue	**1 020**	**0.5**
European Union funds: REACT program	1 020	0.5
Other capital revenue	**500**	**0.2**
Recovery and Resilience Plan revenue	500	0.2
Impact in ependiture	**3 079**	**1.5**
Compensation of employees	**270**	**0.1**
Strengthening public employment, particularly in health and education	210	0.1
Extraordinary risk allowance for health professionals	60	0.0
Intermediate consumption	**165**	**0.1**
Personal Protective Equipment and other health expenses	300	0.1
Expenditure review program	-135	-0.1
Social transfers	**701**	**0.3**
Extraordinary support for workers' income	450	0.2
Prophylactic Isolation	42	0.0
COVID-19 sickness allowance	24	0.0
Extraordinary pension increase	99	0.0
Increase in the minimum unemployment benefit threshold	75	0.0
Expansion of the 2nd tier in access to day-care for children	11	0.0
Subsidies	**1 165**	**0.6**
Support measures for employment and resumption of activity	965	0.5
Other current expenditure	**0**	**0.0**
IVAucher: VAT return catering, accommodation and culture	200	0.1
Investment (GFCF)	**779**	**0.4**
Public investiment in the scope of the Recovery and Resilience Plan	500	0.2
Digital school	279	0.1
Impact in budget balance	**-1 857**	**-0.9**

Source: MF. CFP calculations. | Notes: Sign (+) budget pressure / sign (-) budget savings; for the preparation of this table, the measures listed by the MF in Table 3.3 of the DSB/2021 report were considered, to which the CFP added the positive impact on revenue resulting from the strengthening of public employment (90 M€).

On the public expenditure side, the proposed new fiscal policy measures for 2021 are expected to have a net impact of 3079 M€ (1.5% of GDP). This effect stems largely from the response to the dual context of a pandemic and economic downturn, with the emphasis on measures to support employment and household income, as well as measures to leverage public investment through the use of EU funds.

About three quarters of this expected impact in 2021 is on current expenditure (2300 M€, 1.1% of GDP), which is the aggregate where most of the effect of new exceptional measures will fall under COVID-19. In the scope of expenditure on subsidies, the impacts of support for employment and the recovery of activity (965 M€) and the creation of the temporary "IVAucher" programme (200 M€) are noteworthy.[10] In the expenditure with social transfers is envisaged an impact of 701 M€, of which around two thirds are justified by the new extraordinary income support for workers (450 M€), which under the proposed Law of the State Budget for 2021 will last six months in a row or interpolated over 2021.[11] In intermediate consumption, the impact of new measures in the Health sector (300 M€) should be mitigated by an overall saving of 135 M€ to be achieved under the expenditure review exercise. In compensation of employees, the measures concerning the reinforcement of public employment (210 M€) [12] and the extraordinary new risk allowance for health professionals at the forefront of the response to COVID-19 (60 M€) are highlighted.

The impact of new measures on GFCF in 2021 is expected to amount to 779 M€ (0.4% of GDP). About two thirds of this figure is justified by public investment under the EU Recovery and Resilience Plan (500 M€). In the area of Education, the Digital School Programme is planned to be developed, a project aimed at equipping schools, teachers and pupils with the development of digital skills in school work, with an expected impact of 279 M€ in 2021.

2.3 Budgetary developments expected for revenue and expenditure in 2021

Revenue

The share of general government revenue in GDP is expected to increase in 2021. The MF expects the government revenue share to reach 43.5% of GDP next year, increasing by 0.9 p.p. of GDP from the expected figure for 2020 (Table 6 and Table 14). This evolution reflects a revenue growth (8.5%) higher than the expected for the nominal output (6.3%). In absolute terms, government revenue is expected to reach 91 623 M€ in 2021, increasing7159 M€ from the value expected for 2020.. This growth will be mainly sustained by the increase in taxes and social security contributions (4315 M€), of which the expected increase in the tax revenue (3340 M€) stands out. Although with a smaller

[10] Programme provided for in Article 249 of the draft Law of the State Budget/2021.

[11] According to article 59 of the Draft Law of the State Budget/2021, the extraordinary update of these pensions will be carried out on the same terms as in 2020, although this year it took place earlier (from May).

[12] The POE/2021 report foresees the recruitment of 4200 health professionals in 2021. This should be in addition to the 4200 professionals expected to be recruited in 2020, but it is not known how far this measure will go this year. The report also mentions the placement of approximately 1,000 senior staff in 2021, but provides for the rule of at least one entry for each exit.

increase, the non-tax and non-contributory revenue is projected to rise by 2844 M€ in 2021 sustained by the performance of all of its components.

Tax revenue is expected to recover driven by the upturn in economic activity next year. According to the MF, tax revenue is expected to grow by 7.1% (3,340 M€), above the growth forecast for the nominal output (6.3%), and to reach 50,441 M€ (23.9% of GDP) in 2021. This growth will result both from the expected evolution of indirect taxes (1866 M€; 6.5%) and from the expected performance of direct taxation (1474 M€; 8%). Contributing to the growth of indirect taxes will be, for the most part, the net revenue from VAT which annual variation is expected to be 1533 M€ (9.4%), thus explaining more than 80% of the expected variation for indirect taxation (Table 4). Regarding direct taxes, it can be seen that their recovery will be due mainly to the increase in corporate income tax. This tax, after recording a significant decrease of 2409 M€ (-36.2%) in 2020 due to the implementation of measures in response to the pandemic crisis, will recover 1210 M€ (28.4%) next year. Net personal income tax revenues are forecast to grow by 208 M€ (1.5%), partly reflecting the recovery of the labour market expected in the macroeconomic scenario underlying the DSB/2021.

The evolution of social contributions will be fully explained by the growth in actual social contributions in 2021. Social contributions are expected to increase by 975 M€ (3.9%) to 25 733 M€ (12.2% of GDP) next year. This dynamic reflects exclusively the change of 1068 M€ (5.3%) foreseen for actual social contributions and will be associated with the recovery of the labour market in 2021. As regards imputed social contributions, and notwithstanding the positive impact of the GG human resources policies set out in Section 2.2., the MF expects this item to decrease by 93 M€ (-2%), as a consequence of the fall in the number of subscribers registered in the CGA and the consequent decrease in revenue associated with this contribution scheme.

The tax burden is expected to grow slightly next year sustained by the increase in the tax share of GDP. The share of nominal output collected in the form of actual social contributions and taxes is expected to reach 34% of GDP next year, growing by 0.1 p.p. of GDP versus the estimated figure for 2020. This increase is due exclusively to the performance of the tax revenue-to-GDP ratio (+0.2 p.p. of GDP), as actual social contributions are expected to fall by 0.1 p.p. of GDP compared to 2020. Contributing to the higher share of tax revenue in nominal output will be, essentially, the corporate income tax, which is expected to increase its share in economic activity by 0.4 p.p. of GDP. On the indirect tax side, VAT, which share is expected to rise from 8.3% of GDP in 2020 to 8.5% of GDP in 2021, is also noteworthy. Thus, the share of indirect taxes, direct taxes and actual social contributions is expected to reach 14.5%, 9.4% and 10% of GDP next year respectively.

Table 4- Evolution of the tax burden

	% of GDP					M€				
	2019	2020	2021	Change 2019/20	Change 2020/21	2019	2020	2021	Change 2019/20	Change 2020/21
Tax Burden	**34.4**	**33.9**	**34.0**	**-0.6**	**0.1**	**73 465**	**67 182**	**71 589**	**-6 283**	**4 408**
Tax Revenue	24.8	23.8	23.9	-1.1	0.2	52 915	47 100	50 441	-5 814	3 340
Direct taxes	9.8	9.3	9.4	-0.5	0.1	20 849	18 444	19 918	-2 405	1 474
PIT	6.4	6.9	6.6	0.5	-0.3	13 580	13 619	13 827	39	208
CIT	3.1	2.1	2.6	-1.0	0.4	6 662	4 253	5 463	-2 409	1 210
Other direct taxes	0.3	0.3	0.3	0.0	0.0	607	572	628	-35	56
Indirect taxes	15.0	14.5	14.5	-0.6	0.0	32 066	28 656	30 522	-3 409	1 866
VAT	8.8	8.3	8.5	-0.5	0.2	18 786	16 382	17 915	-2 404	1 533
Excise duties	2.5	2.5	2.5	0.0	0.0	5 430	5 044	5 268	-386	224
Other indirect taxes	3.7	3.6	3.5	0.0	-0.2	7 850	7 230	7 339	-620	109
Actual social contributions	9.6	10.1	10.0	0.5	-0.1	20 550	20 081	21 149	-468	1 068
Capital taxes	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0

Source: INE (2019) and Ministry of Finance (2020 and 2021). CFP calculations. | Notes: The weight of capital taxes is residual throughout the period, thus is not visible in the Chart. The total tax burden in % of GDP may not correspond to the sum of its components because the figures are approximate values.

The growth in non-tax and non-contributory revenue is expected to reflect mainly the increase of transfers from the European Union. Non-tax and non-contributory revenue should grow by 2844 M€ (22.6%) in 2021. This dynamic will be underpinned by the expected increase in capital revenue (1425 M€; 120.5%), which will benefit from the amounts to be transferred under the Recovery and Resilience Plan (500 M€) and from the reimbursement of the *pre-paid margins of* the FEEF (1088 M€), as well as by the expected increase in other current revenue (1090 M€; 22.3%) associated with the strengthening of European funds to support employment. In turn, GG sales are expected to grow by 330 M€ (5%), thus explaining about one tenth of the expected change in non-tax and non-contributory revenue in 2021.

The MF's forecast for government revenue depends on tax revenue growth above the expected dynamics of the economic activity, as well as on a substantial increase in funds from the European Union. Excluding the impact of the policy measures listed in Section 2.2., the annual rate of change in tax revenue would be 7.8%, with an estimated GDP elasticity of 1.2, reflecting a forecast of a higher growth in tax revenue than the one expected for the economic activity (6.3%). In more detail, it can be seen that the elasticity of VAT and corporate income tax vis-à-vis their macroeconomic bases considerably exceeds the unit. It should be noted, however, that corporate income tax revenue could benefit next year from the suspension of payments on account in 2020, if the companies that suspended these payments present results coinciding with an upward regularisation of tax payable or a lower volume of reimbursements to be received in 2021. Nevertheless, and because the DSB/2021 report does not contain the detail justifying these variations, it should be signalled the existence of a downward risk to meeting the target for tax revenue next year. The implicit elasticity of actual social contributions to the remunerations is twice the unit value, thus configuring an increased risk for the collection of tax revenue in 2021. As regards non-tax and non-contributory revenue, its rate of change excluding the reimbursement of FEEF *prepaid margins* (13.9%) is above the developments expected by the MF for the economic activity, and its dynamics is based on a growth projection of 28.5% for capital revenue (without reimbursement of FEEF *prepaid margins*), and 22.3% for other current revenue. Since he increase of these two items will essentially depend on transfers from the EU, the implementation of the REACT EU and PRR programmes as envisaged by the MF is essential to achieve the amount expected for non-tax and non-contributory revenue in the DSB/2021.

Box 3 - State tax expenditure in DSB/2021

According to the data expressed in Public Accounts present in DSB/2021, it can be seen that next year State tax expenditure will amount to 13 220 M€. This represents an increase of 474 M€ (3.7%) compared with the estimate for 2020, but a decrease of 669 M€ (4.8%) compared with the figure for 2019. It should be noted that, in that year, the State tax expenditure had risen substantially compared with 2018 (+2451 M€; 21.4%). As a result of this dynamic, MF forecasts that tax expenditure, between 2018 and 2021, will grow by 1782 M€ (+15.6%).

Between 2018 and 2021, the increase in the State tax expenditure will be mainly due to the growth in estimated corporate tax expenditure (671 M€; 65.5%) and VAT (555 M€; 7.5%). In relation to CIT, the increase in tax expenditure will be due both to the increase in the tax base exempted by pension funds and similar funds and to the approval of the new tax credit for investment in July 2020, which will be reflected in the growth of deductions from this tax. In the case of VAT, the recovery of domestic demand in 2021 and the consequent increase in consumption of goods and services subject to its preferential rates (reduced and intermediate rates) should be responsible for the increase in tax expenditure on this tax.

Table 5- State tax expenditure, by tax

	2018	2019	2020	2021	Percentage of the total (%)			
					2018	2019	2020	2021
State Tax Expenditure	**11 438**	**13 889**	**12 746**	**13 220**	**100**	**100**	**100**	**100**
Taxes on Income	2 185	2 782	3 029	3 121	19.1	20.0	23.8	23.6
PIT	1 160	1 329	1 421	1 425	10.1	9.6	11.1	10.8
CIT	1 025	1 453	1 608	1 697	9.0	10.5	12.6	12.8
Taxes on produtions and imports	9 253	11 107	9 718	10 099	80.9	80.0	76.2	76.4
VAT	7 348	9 011	7 547	7 902	64.2	64.9	59.2	59.8
Petroleum Tax	422	523	475	475	3.7	3.8	3.7	3.6
Vehicle tax	376	415	320	338	3.3	3.0	2.5	2.6
Tobacco Tax	1	1	1	1	0.0	0.0	0.0	0.0
Tax on Alcohol and Alcoholic beverages	141	140	356	356	1.2	1.0	2.8	2.7
Stamp Duty	952	1 003	1 004	1 012	8.3	7.2	7.9	7.7
Single Transit Tax	14	16	16	16	0.1	0.1	0.1	0.1

Source: Ministry of Finance (DSB/2021) and CFP calculations.

Also in this period, tax expenditure regarding the personal income tax is expected to increase by around 265 M€ (22.8%). As in previous periods, the increase in personal income tax expenditure will essentially result from the growth in expenditure associated with taxpayers benefiting from the tax regime for non-habitual residents in Portugal, as well as from the increase in the amount of expenditure related to citizens with disabilities of 60% or more.

With regard to tax expenditure associated with the remaining taxes, it can be seen that the largest contribution to the expected growth of 291 M€ (15.3%) between 2018 and 2021 is due, by about three quarters, to the increase in tax expenditure on Alcohol tax (216 M€; 153.3%), with this dynamic being justified by the increase in the manufacture of medicines and alcohol-based sanitary products as part of the response to the current pandemic crisis..

Table 6- General government account in the DSB/2021

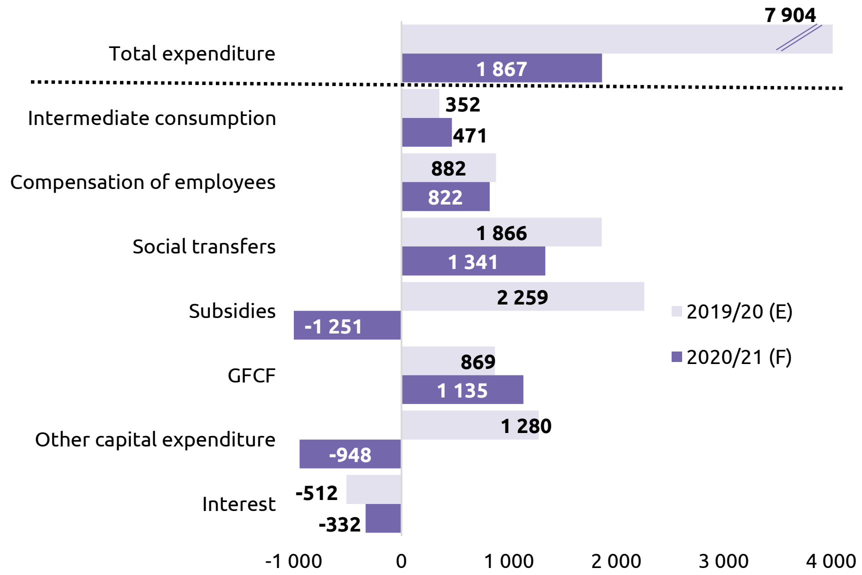
	M€			% of GDP		
	2019	2020 E	2021 P	2019	2020 E	2021 P
Total revenue	91 161	84 464	91 623	42.7	42.6	43.5
Current revenue	90 486	83 281	89 016	42.4	42.0	42.2
Tax revenue	52 915	47 100	50 441	24.8	23.8	23.9
Indirect taxes	32 066	28 656	30 522	15.0	14.5	14.5
Direct taxes	20 849	18 444	19 918	9.8	9.3	9.4
Social contributions	25 274	24 758	25 733	11.8	12.5	12.2
of which: actual soc. contr. received	20 550	20 081	21 149	9.6	10.1	10.0
Sales & other current revenues	12 296	11 423	12 842	5.8	5.8	6.1
Sales	7 425	6 542	6 872	3.5	3.3	3.3
Other current revenues	4 871	4 881	5 970	2.3	2.5	2.8
Capital transfers received	676	1 183	2 608	0.3	0.6	1.2
Total expenditure	90 984	98 889	100 755	42.7	49.9	47.8
Primary expenditure	84 654	93 070	95 269	39.7	46.9	45.2
Current primary expenditure	78 402	84 669	86 680	36.8	42.7	41.1
Intermediate consumption	11 149	11 501	11 972	5.2	5.8	5.7
Compensation of employees	22 905	23 787	24 609	10.7	12.0	11.7
Social transfers	38 745	40 611	41 952	18.2	20.5	19.9
other than in kind	34 760	36 382	37 570	16.3	18.4	17.8
in kind	3 985	4 228	4 382	1.9	2.1	2.1
Subsidies	853	3 112	1 861	0.4	1.6	0.9
Other current expenditure	4 750	5 658	6 287	2.2	2.9	3.0
Capital expenditure	6 252	8 401	8 588	2.9	4.2	4.1
GFCF	4 015	4 884	6 019	1.9	2.5	2.9
Other capital expenditure	2 237	3 517	2 569	1.0	1.8	1.2
Interest paid	6 331	5 819	5 487	3.0	2.9	2.6
General government balance	177	-14 424	-9 132	0.1	-7.3	-4.3
Primary balance	6 508	-8 606	-3 645	3.1	-4.3	-1.7
Tax revenue and social contributions	78 189	71 858	76 173	36.7	36.2	36.1
Non tax and non contribution revenue	12 972	12 606	15 450	6.1	6.4	7.3
Current Expenditure	84 732	90 487	92 167	39.7	45.6	43.7
Nominal GDP	213 301	198 263	210 833	-	-	-

Source: INE (2019) and Ministry of Finance (2020 and 2021). CFP calculations. "E" stands for estimate and "P" means projection.

Expenditure

The MF forecast projects the share of public expenditure in GDP to fall from 49.9% in 2020 to 47.8% in 2021. This is a reduction of 2.1 p.p. of GDP, after an increase of 7.2 p.p. estimated by the MF for this year (Table 6). The main contributors to this decrease are current primary expenditure (-1.6 p.p. of GDP), but also interest expenditure (-0.3 p.p.) and capital expenditure (-0.2 p.p.). This development is influenced by a strong denominator effect, as the MF expects nominal output to grow by 6.3% in 2021, after a contraction of 7.1% estimated for 2020.

Chart 1- General public expenditure change (in M€)



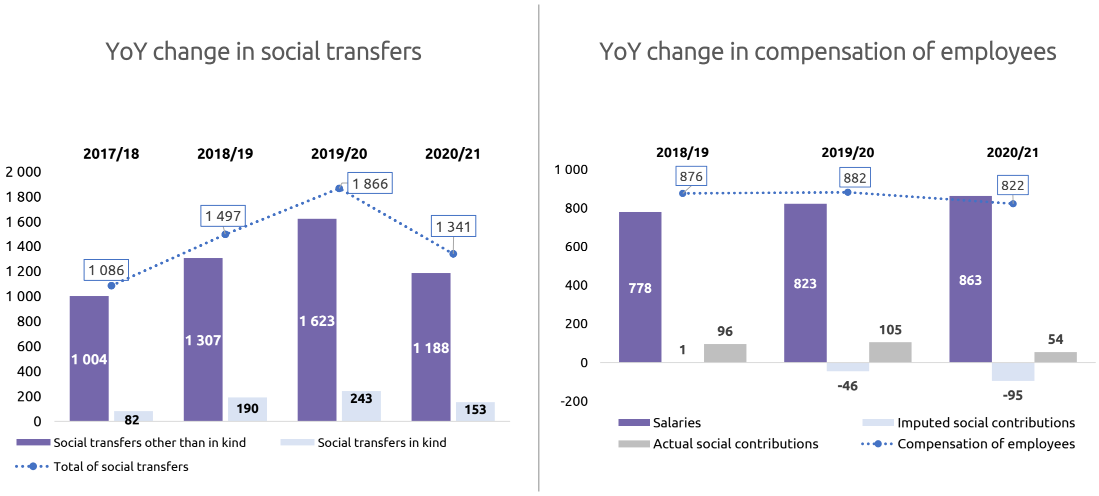
Sources: INE, MF. CFP calculations.| Note: chart does not include the variations implicit in "other current expenses" (+908 M€ in 2020 and +629 M€ in 2021) because they are influenced by the provisional allocation. "E" stands for "Estimate" and "F" for "Forecast".

According to the DSB/2021, expenditure growth is expected to decelerate from 8.7% in 2020 to 1.9% in 2021. In the current context of a pandemic crisis, the MF estimates a strong increase in general government expenditure in 2020 (+7904 M€) and a smaller additional increase in 2021 (+1867 M€), when expenditure should reach 100 755 M€. This deceleration should be justified essentially by the behaviour of subsidies (due to the bigger effect of measures to mitigate the impacts of the pandemic and support economic activity in 2020) and "other capital expenditure" (Chart 1), as explained in detail later in this section. The increase in public expenditure projected for 2021 is driven by current primary expenditure (+282 M€) and, to a lesser extent, by capital expenditure (+187 M€), and is mitigated by a reduction in interest payments of 332 M€.

Current primary expenditure is expected to increase by 2.4% in 2021, driven by social transfers and compensation of employees. According to the DSB/2021, this aggregate will increase by 2012 M€ next year, to which social transfers and compensation of employees, which are the expenditure items with the highest degree of rigidity and together account for about two thirds of public expenditure planned for 2021, should contribute the most. As can be seen in the left panel of the Chart 2, expenditure on social transfers is expected to increase by almost 6 thousand M€ in the four-year period 2018-2021, of which 1341 M€ in 2021 (reaching 41 952 M€ in that year) due to the impact of the policy measures identified in Section 2.2. highlighting the new extraordinary income support for workers (450 M€) and the effect of the increase in the average pension of new pensioners' inflows compared to outflows and the net balance of the number of pensioners (409 M€). Even so, social transfers growth rate is expected to slow from 4.8% in 2020 to 3.3% in 2021. Compensation of employees is expected to reach 24 609 M€ in

2021 and exceed the peak in 2010 (24 576 M€).[13] MF forecasts point to an average annual increase of 860 M€ in the three-year period 2019-2021 (right panel of the Chart 2), compared to 571 M€ in the previous three-year period.[14] The increase foreseen for next year (by 3.5% or 822 M€, of which 665 M€ in central government) stems from the measures mentioned in Section 2.2 highlighting the impact of wage valorisation measures (393 M€, of which 231 M€ for progression and promotions) and the increase in staff numbers (around 300 M€). The growth in compensation of employees is expected to decelerate slightly from 3.8% in 2020 to 3.5% in 2021.

Chart 2- Developments in compensation of employees and social transfers (M€)



Sources: INE, MF. CFP calculations.

Intermediate consumption is the only item of current primary expenditure which growth is expected to accelerate, from 3.2% in 2020 to 4.1% in 2021. MF forecasts that intermediate consumption will reach 11 972 M€ in 2021, a figure which reflects an increase of 471 M€ compared to the same body's estimate for 2020 (of which 307 M€ in central government). This is a higher growth than estimated for the current year (+352 M€) [15]and to which expenditure on personal protective equipment and other health care equipment (300 M€) mainly contributes, in addition to the budgetary pressures arising from commitments related to health and operating costs of the various entities (320 M€).[16] In the opposite direction, the estimated savings to be achieved under the expenditure review exercise (135 M€) are highlighted.

The only items under current expenditure which are expected to reduce next year are those on subsidies and interest. Expenditure on subsidies is expected to amount to 1861

[13] The compensation of employees forecast for 2021 incorporates 250 M€ corresponding to half of the value of the new centralised allocation in the MF created to finance unforeseen expenditure of the pandemic.

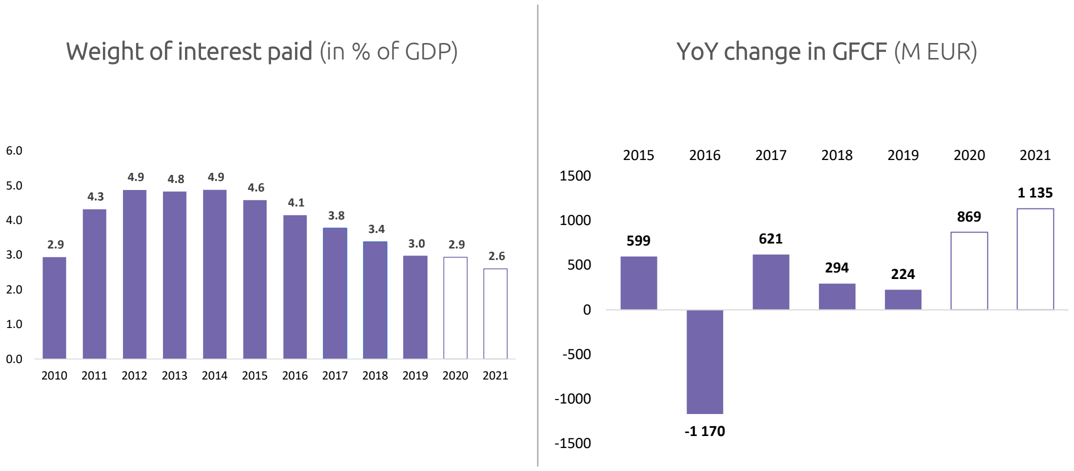
[14] The MF estimate for 2020, included in DSB/2021, is that compensation of employees will be 152 M€ higher than forecast in the SB/2020 revised last July.

[15] According to the new MF estimate for 2020, intermediate consumption is expected to be 425 M€ lower than forecast in the revised SB/2020.

[16] The forecast of intermediate consumption for 2021 includes a share (150 M€) of the new centralised allocation for unforeseen expenditure on the pandemic.

M€ and to fall significantly by 1251 M€ compared to 2020 (of which 1090 M€ less in the social security funds sub-sector) due to a lower impact of the measures associated with COVID-19, but this effect is not adequately quantified in the DSB/2021 Report.[17] Nevertheless, the impact expected next year of measures to support employment and the upturn in activity (965 M€), of the extension of the extraordinary support for the gradual upturn in activity (309 M€) and of the IVAucher (200 M€) should be highlighted.[18] Interest payments should total 5487 M€ in 2021, less 332 M€ than estimated for this year.[19] If this forecast materialises, it will be the seventh consecutive year in which this expenditure will decrease, both in absolute terms (the cumulative reduction between 2015 and 2021 will amount to almost 3 thousand M€) and as a percentage of GDP (the ratio is expected to decrease by 0.3 p.p. in 2021, reaching 2.6% of GDP, a lower figure than in 2010, as shown in the left panel of the Chart 3). Even so, the rate of growth of interest expenditure is set to go from -8.1% in 2020 to -5.7% in 2021.

Chart 3- Developments in interest paid and GFCF



Source: INE and Ministry of Finance. CFP calculations. | Note: the figures for 2020 and 2021 are the ones considered by the MF in DSB/2021.

Capital expenditure is expected to increase by 2.2% because the increase in GFCF will more than offset the reduction in "other capital expenditure". The capital expenditure should amount to 8588 M€, 187 M€ more than in 2020, following an increase of 1135 M€ in GFCF and a decrease of 948 M€ in “other capital expenditure”. The main contributor to the developments of the latter is the expectation that the impact on national accounts of expenditure on the Novo Banco and TAP Air Portugal will be less unfavourable than in 2020.[20] As for GFCF, MF forecasts indicate that it will increase for the fifth consecutive

[17] The MF estimates a strong increase of 2259 M€ in subsidies in 2020, following the implementation of measures to mitigate the impact of the pandemic and to revive the economy, such as the simplified furlough scheme and the gradual recovery facility, among others.

[18] The funding of the IVaucher programme in 2021 will be provided by a new centralised allocation in the Ministry of Finance, as explained later in this section.

[19] The MF estimate for 2020, included in the DSB/2021, points to interest being 319 M€ lower than forecast in the OE/2020 revised last July.

[20] MF estimates that this year TAP will use all of the 1200 M€ of the State loan. For 2021, an impact of 500 M€ is foreseen, resulting from a possible State guarantee to be granted so that TAP can finance itself in the market. For more details of the impact on the Novo Banco, see footnote 28 of this report.

year and record the most significant increase in recent years (right panel of the Chart 3). The nominal increase projected for 2021 is 23.2% and stems from new public investments and others already under implementation, the impact of which is identified in Section 2.2. and largely financed by EU funds. As a percentage of GDP, GFCF is expected to increase by 0.4 p.p. in 2021, standing at 2.9% of GDP and approaching the 3.2% of GDP recorded in 2011. The forecast for GFCF should, however, be interpreted with some caution due to the fact that in recent years this expenditure has been well below forecast.

The total value of expenditure allocations centralised in the Ministry of Finance is expected to increase next year. According to DSB/2021, centralised allocations in the MF with an impact on the balance in national accounts in 2021 amount to 1610 M€, a figure equivalent to 0.8% of GDP. As the Table 7, the increase of 186 M€ compared to this year comes mainly from the creation of two new centralised allocations in the MF, one to cope with unforeseen expenditure of the pandemic (500 M€) and the other to finance the IVAucher programme (200 M€).[21] In the opposite direction, the Tariff Reduction Support Programme has no longer an allocation centralised in the MF (although an amount of 198.6 M€ is foreseen for this purpose in 2021) and the same happens for the allocations for the sustainability of the Health sector and the participatory budget. The budgetary reserve and the provisional allocation are expected to decrease compared to 2020, the latter influenced by the 300 M€ reinforcement approved under the SB/2020 revised last July. [22] According to the MF, most of the value of the budgetary reserve has been written off in the national accounts expenditure forecast, both in the SB/2020 and in the DSB/2021.

Table 7- Appropriations centralized in the Ministry of Finance (M€)

Designation	Revised SB/2020	DSB/2021	Change
Provisional appropriation	630	500	-130
Budgetary reserve	515	360	-155
National public contribution	50	50	0
Unforeseen expenses of the pandemic		500	500
IVAucher		200	200
Financing of the Tariff Reduction Support Program*	139		-139
Sustainability of the Health Sector	85		-85
Participatory budgeting	5		-5
Total	1 424	1 610	186

Source: Ministry of Finance. CFP calculations. | Notes: * PART financing is no longer a centralized allocation in the MF on the DSB/2021 maps, but according to article 196 of the SB/2021 Law Proposal, the financing estimated for 2021 will be 198.6 M€; the table does not include the appropriation for the settlement of liabilities (170 M€ in SB/2020 in

[21] Under the terms of Article 8(21) of the draft Law of the State Budget for 2021, the Government is authorised, through the Minister of Finance, to make budgetary amendments between the various budgetary programmes in the case of operations not provided for in the initial budget for the financing of exceptional measures adopted by the Portuguese Republic as a result of the situation of the COVID-19 disease pandemic, as well as amendments related to the centralised allocation for unforeseen expenditure of the pandemic.

[22] In accordance with DGO Offiicial Circular No. 1399 of 31 July, the budgetary reserve generally corresponds to an allocation equivalent to 2.5% of the budget of each of the central government entities, with the exception of institutions belonging to the NHS and higher education and the SOEs covered by the simplified scheme.

DSB/2021) because it has no impact on the balance in national accounts; the appropriation for the investment of assets (520 M€ in both the SB/2020 and DSB/2021) is also not included because it has no impact on the budget balance.

The general government account for 2021 in national accounts incorporates a deduction in central government expenditure of 590 M€, which is exactly the same amount considered in the last three years. This deduction is referred in the DSB/2021 report[23] and corresponds to an usual procedure from the MF, arising from the possibility conferred by Article 3 of the Draft Law of the State Budget for 2021 and the mechanisms for budgeting and implementing expenditure allocations. According to the MF, the abovementioned deduction in national accounts (mostly considered in intermediate consumption) reflects the expectation of not using all expenditure budget allocations, due to "legal and standardised procedures related to public procurement of goods and services, investment or staff recruitment".[24] It should be noted that the general government account in national accounts is part of the report accompanying the Draft Law of the State Budget for 2021, but is not subject to approval by the Parliament. [25]

The forecast of public expenditure in national accounts for 2021 carries non-negligible risks:

i) The high degree of uncertainty remaining about the magnitude, scope and duration of the pandemic situation does not allow to exclude the possibility that the impact of policy measures associated with the pandemic could be higher than expected;
ii) The risk that the unfavourable impact of expenditures on the Novo Banco and TAP could be greater than assumed in the national accounts forecast for 2021. In the case of the Novo Banco, a maximum amount of 914 M€ may still be transferred under the Contingent Capitalisation Agreement, but the expenditure forecast in national accounts for that purpose in 2021 is well below that amount and also below the amounts transferred in the last two years. As for TAP, the DSB/2021 report itself warns about the uncertainty of the ammount TAP may need in 2021;
iii) The risk arising from the activation of State guarantees granted under some of the measures in response to the pandemic crisis, notably credit lines to companies;
iv) The risk resulting from moratoria on credit granted by banks to economic agents, as the possible inability of these agents to solvency their commitments could imply losses for the Portuguese financial system and require State intervention through financial support;
v) The expenditure forecast for 2021 incorporates an overall saving of 135 M€ compared to 2020 to be achieved under the expenditure review exercise, but there is still no evidence of efficiency gains from that exercise in recent years;
vi) Notwithstanding the exceptional and temporary regime applicable to PPP contracts, the DSB/2021 report states that the COVID-19 pandemic has been signalled by private partners as a possible basis for the right to compensation or the restoration of financial equilibrium, and states that it is likely that claims will be made to this effect;
(vii) The fact that a significant part of the expenditure planned for 2021 depends on EU funds which are not yet formally approved by the European institutions.

[23] In the note to "Table 3.4. - Transition of balances from Public to National Accounts".

[24] For example, according to paragraph 36 of DGO Official Circular 1399 of 31 July 2020, entities must budget 14 months' salary regardless of the moment when workers are actually hired.

[25] According to the Budget Framework Law, the only State Budget document subject to approval by the Parliament is the draft State Budget Law, which contains the articles and the so-called "maps of the law" in cash accounts (the amounts of which are approved in gross terms, without being affected by deductions).

3. ANALYSIS OF THE FISCAL POLICY STANCE

For the analysis presented in this chapter it should be taken into account that the calculated structural balance is based on the classification of the one-off measures according to the criteria for the analysis of the CFP and the cyclical components calculated in line with the common methodology agreed in the European Union. Differences from the figures presented in DSB/2021 result from different assumptions on the use of the common methodology and from different classifications of temporary measures in 2020 and 2021. The differences, following on from the previous assumptions, affect the assessment of the structural balance, which results from the deduction from the balance established in accordance with national accounting rules of the effects that the economic cycle has on that balance and of measures classified as one-off.

3.1 Budget balances

The DSB/2021 estimates for 2020 a deterioration of the budget balance compared to the previous two budgetary programming documents (SB/2020 and DSBA/2020). The DSB/2021 estimates a budget deficit of 7.3% of GDP for 2020 (6.3% of GDP in the DSBA/2020 published in June). This estimation is influenced by the impact of the pandemic crisis, with significant effect on expenditure on social benefits, subsidies and intermediate consumption, reflecting the health, employment and income support measures. Although with less impact, the MF forecasts that the fall in government revenue will also contribute to the deterioration of the budget balance, mainly as a result of the action of automatic stabilisers, which effects penalise tax and social contribution revenues. In nominal terms, the MF foresees in DSB/2021 that expenditure accounts for about three quarters of the deterioration in the budget balance compared to DSBA/2020, for which current primary expenditure (9092 M€) is the key determinant by concentrating, among other effects, almost the entire impact of the budgetary response to the pandemic. In addition, this estimation incorporates an unfavourable impact of *one-off* measures on the balance in the amount of 0.5 p.p. of GDP, mostly justified by the Novo Banco capital injection through the Resolution Fund.

For 2021, the Budget proposal pursues a consolidation strategy based mainly on reducing expenditure as a percentage of GDP. The MF foresees the budget deficit to be reduced in 2021 to 4.3% of GDP. This planned reduction compared to the previous year (-2.9 p.p. of GDP) reflects the expected decrease in expenditure on social benefits (-0.6 p.p. of GDP), other capital expenditure (-0.6 p.p. of GDP), reflecting the unfavourable impact of temporary effects[26], interest (-0.3 p.p. of GDP) and compensation of employees (-0.3 p.p. of GDP). These developments result from the combination of the

[26] Other capital expenditure includes the injection of capital into the Novo Banco (recapitalisation) of 1037 M€ in 2020 and 275 M€ in 2021.

expectation of an economic recovery underlying the macroeconomic scenario, the effect of the new policy measures planned for 2021, whose impact on the balance is expected to reach -0.9 p.p. of GDP, as well as policy decisions taken in previous years (invariant policy measures).

Table 8 - Budget indicators

	% of GDP	
	SB/2021	
	2020	2021
Primary balance	**-4,3**	**-1,7**
Global balance	**-7,3**	**-4,3**
Adjusted from temporary and one-off	-6,7	-4,7
Cyclically-adjusted	-4,1	-3,0
Structural balance	**-3,6**	**-3,3**
Primary Structural	-0,6	-0,7
Memo item:		
temporary and one-off measures	-0,5	0,3
output gap*	-5,9	-2,5
cyclical component	-3,2	-1,3
interest	2,9	2,6

Source: INE, MF. CFP calculations. Note: * as percentage of potential output. (i)The cyclical components used correspond to the EC, where the output gap was calculated based on the methodology agreed in the EC; Temporary measures, one-off measures reflect the CFP classification criterion, which is not coincident with that adopted by MF. Due to rounding the changes do not necessarily correspond to the differences between the percentage GDP figures.

In 2021, as in previous years, the expected budget deficit in national accounts will be lower than in cash accounting. This is the result of the different recording approach underlying each of the accounting systems. This is a recurrent situation which maintains a departure from the monthly monitoring of public accounts obtained from the cash point of view, resulting from the clearance in national accounts (accrual point of view). The positive sign of the total adjustments in 2021 leads to a better clearance of the balance in national accounts than expected regarding the cash point of view. The MF forecasts that the value of adjustments in national accounts amounts to 1428 M€ (0.7 p.p. of GDP), reflecting a substantial adjustment between two accounting views. This is explained by the accrual adjustments, correcting the cash data (receipts and payments) for the year to which the transaction originating them relates. This significant adjustment is substantiated by (i) the temporal adjustments that the MF foresees for Reclassified Public Entities (EPR) ('3425 M€); (ii) the reimbursement of the *pre-paid* margin previously mentioned (1088 M€); (iii) the *accrual* of interest (944 M€); (iv) the implicit payment of pensions to pension fund transfers collected in past years and not considered as expenditure in national accounts (550 M€); and (v) the temporal adjustments for taxes and social contributions (199 M€). In the opposite direction there are essentially adjustments relating to capital injections and loans (-3652 M€) and the neutrality of European funds (-823 M€).

The identification of *one-off*[27] measures is essential for the calculation of the structural balance, together with the determination of the cyclical component. These measures do not, by definition, have permanent effects that influence the budget balance and are determinant for the calculation of the budgetary consolidation effort in structural terms. The following table identifies the *one-off* measures considered by the CFP in the budget forecast for 2020 and 2021, underlying DSB/2021.

Table 9- Impact of temporary measures on the budget balance

	Millions of euros		% of GDP	
	2020	2021	2020	2021
One-off measures (impact in budget balance)	-1 078	724	-0,5	0,3
Revenue	40	1 159	0,0	0,5
BPP guarantee recovery	40	71	0,0	0,0
Pre-paid Margins		1 088		0,5
Expenditure	1 118	435	0,6	0,2
Capital Injection to Novo Banco	1 037	275	0,5	0,1
Judicial Court Decision- Lisbon Municipality		160		0,1
Transfer of FGCAM to FDG	81			0,0

Sources: INE and Ministry of Finance. | Note: CFP's calculation and classification of temporary measures. Due to rounding the totals do not necessarily correspond to the sum of the percentage GDP figures.

The measures considered by the CFP as *one-off* for 2020 and 2021 are those that already have been classified in previous reports. Regardind revenue, the measures identified are (i) the recovery of the remainder of the guarantee provided by the state to the Banco Privado Português (BPP), in 2020 and 2021, and which classification as *one-off is* based on the fact that the extraordinary revenue to be obtained results from the reversal of a financial system support operation that in 2010 negatively affected the balance of the GG; and (ii) the repayment of the commission paid on one of the two loans granted by the European Financial Stabilisation Fund, known as *pre-paid margin* (Table 9).

On the expenditure side, measures considered with an impact in 2020 and 2021 were: (i) the Novo Banco capital increase (recapitalisation)[28]; (ii) the repayment of contributions to Banco de Portugal, following the transfer of the deposit guarantee related to the Mutual Agricultural Credit Guarantee Fund (FGCAM) to the Deposit Guarantee Fund; and (iii) the extraordinary payment by judicial decisions (Municipality of Lisbon), since expenditure associated with lawsuits are highly likely to occur.

[27] The code of conduct on the implementation of the Stability and Growth Pact defines *one-off* measures as those which budgetary effect is transitory and does not lead to a sustained change in the intertemporal budgetary position.

[28] The capital increase in the Novo Banco by activation of the contingent capital mechanism was agreed as part of the process of selling that financial institution. The CFP considered the impact of 275 M€ on the amount of recapitalisation of the Novo Banco for 2021, i.e. the same figure as that identified by the Ministry of Finance in the *errata* to the information and complementary elements underlying POE/2021 in relation to the financing needs of the Resolution Fund. However, what is considered as *one-off* is the amount of capital expenditure corresponding to transfers made by the Resolution Fund to that institution and not the financing needs of the Resolution Fund. For example, for 2019, the 1037 M€ considered as *one-off* corresponds to the transfer made by the Resolution Fund, in an amount greater than the amount of the State loan to that General Government entity. According to the information contained in the budget development maps of the Resolution Fund, an expenditure of 476 M€ addressed to credit institutions is identified, but the CFP is unaware of the amount corresponding to this operation considered in the "other capital expenditure" by the MF.

The CFP decided to follow the option adopted by the European Commission in the assessment of the 2020 Stability and Convergence Programmes, which consists in not classifying as *one-off* measures those adopted in response to the COVID-19 pandemic, given the specific circumstances and the great uncertainty surrounding their possible persistence beyond 2020. These measures will therefore not be excluded from the estimation of the structural balance, nor from the calculation of the expenditure benchmark. On 20 March 2020, the Commission announced the activation of the general derogation clause of the Stability and Growth Pact (SGP) [29]. In this sense, the European Commission accepts that Member States may temporarily deviate from the normal obligations established in the European budgetary framework, allowing a more effective and rapid response to the SARS-Cov-2 pandemic. The Commission has decided to apply all the flexibility provided in the EU budgetary framework, for the time necessary to allow Member States to implement measures in order to contain the coronavirus outbreak and mitigate its negative socio-economic effects.

The classification of the measures by the CFP may be subject to review if there is additional information that justifies a new evaluation.

3.2 Fiscal policy stance

According to **the MF forecasts, by 2021 the recalculated structural balance underlying DSB/2021 is expected to resume the downward path observed until 2019[30].** CFP calculations put the structural balance at -3.3% of GDP in 2021, which represents an improving of 0.2 p.p. of GDP compared to 2020 (Table 8). The activation of the SGP's general derogation clause suspends the convergence rule for the medium-term objective,but assumes that fiscal sustainability is not compromised as these are temporary deviations from budgetary requirements.

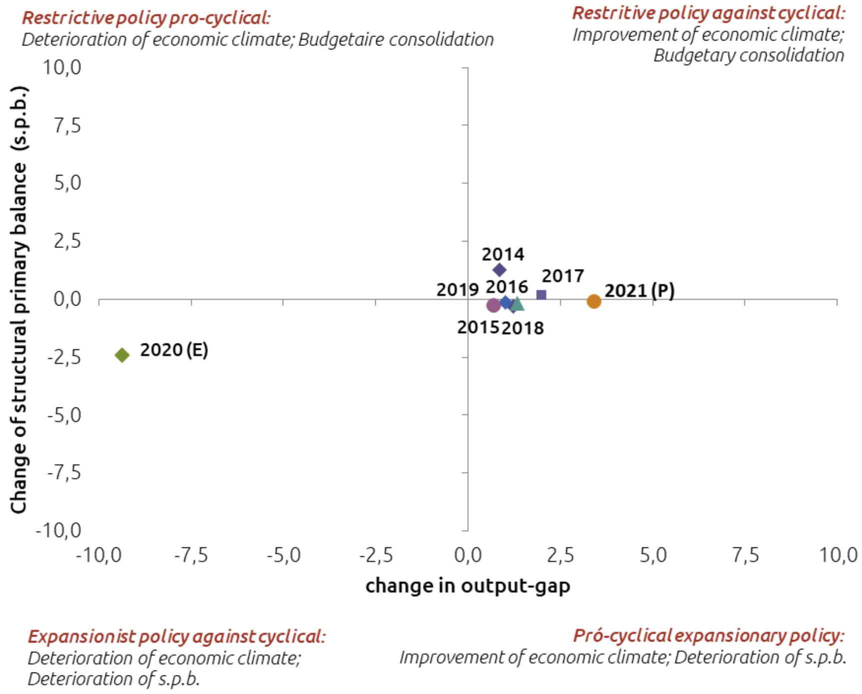
In 2021, the fiscal policy stance should be broadly neutral. Its determination is measured by the change in the structural primary balance, which allows the discretionary restrictive or expansionary nature of fiscal policy to be gauged, together with the change in the output gap. According to the CFP recalculation for the structural balance, there is an almost nil change expected for the structural primary balance (-0.1 p.p. of GDP), in a conjunctural context where, according to the macroeconomic forecast underlying DSB/2021, there should be an improvement in the macroeconomic scenario, but still in an unfavourable conjuncture with the output being below the potential output (negative output gap). For 2020, fiscal policy is expected to be expansionary against cyclical, due to the adoption of measures to address the pandemic crisis. For 2020, the CFP recalculation

[29] The general derogation clause was introduced as part of the reform of the Stability and Growth Pact in 2011 ("Six-Pack"). The economic and financial crisis has revealed the need to incorporate specific provisions into EU budgetary rules to allow for coordinated temporary deviations from normal requirements for all Member States if they are faced with a generalised crisis resulting from a severe economic downturn in the euro area or the European Union as a whole. The clause is laid down in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97, as well as in Articles 3(5) and 5(2) of Regulation (EC) No 1467/97, facilitating the coordination of budgetary policies in times of severe economic downturn.

[30] The structural balance corresponds to the budget balance expurgated from the effects of the business cycle by the CFP and *one-off* and temporary measures according to the CFP's own classification. The estimation of the cycle effects was done according to the common methodology agreed in the EU, with the CFP recalculating the output gap on the basis of this methodology and the macroeconomic forecast in POE/2021.

of the structural primary balance points to a negative change (-2.4 p.p. of GDP), in a context of cyclical deterioration according to the macroeconomic forecast underlying DSB/2021 (Chart 4).

Chart 4- Budgetary policy and cyclical position [2014-2021]



Source: INE and MF. CFP calculations. | Note: (i) The fiscal policy stance is assessed by the change in the structural primary balance net of special factors; (ii) The The cyclical position of the economy is evaluated by the variation in the output gap, given by the difference between GDP growth rates and potential GDP; (iii) CFP considers that the fiscal stance has tightened if the ratio of the structural primary balance to potential GDP improves by at least 0.25 percent per year, has loosened if that ratio deteriorates by at least 0.25 percent per year, and has remained neutral otherwise. E - Estimation, P - Forecast.

3.3 Multiannual framework for public expenditure (MFPE)

Law 151/2015 of 11 September (Budget Framework Law - BFL) introduced the Multiannual Framework for Public Expenditure (MFPE), which replaces the previous Multiannual Framework for Budgetary Programming (MFBP), establishing a limit on total expenditure per organic-based mission for the current year and the four following years. The main innovations compared with the previous scheme are as follows: (i) the inclusion of all expenditure of the Central Government (CG) and Social Security (SS) sub-sectors, and not only of actual CG expenditure financed by general revenues (e.g. taxes), making the total expenditure ceiling subject to compatibility with the objectives of the Stability Programme; (ii) the presentation of revenue projections for the same programming period, by source of financing; (iii) the linking of expenditure ceilings for the budget of the following economic year and indicative ceilings for the programming period coinciding with the rest of the legislature. [31] *(iv) the inclusion of the MFPE in the Major Planning Options Law, the proposal for which is presented and voted in Parliament during the first stage of the budgetary procedure.*[32] *It should be noted that this scheme, contained in Article 35 of the BFL, has, however, its application suspended until 2025 and the provisions of Article 5 of Law 41/2020 of 18 August, which made the third amendment to the BFL, apply. This transitional regime, being similar to the one contained in the BFL, differs with regard to the possibility of amendment of the binding limits by the Assembly of the Republic, also providing for the presentation, as an indication only, of the structural balance. As a follow-up, Draft Law 60/XIV on the Major Options for 2021-2023 includes the presentation of a MFPE for the period from 2020 to 2024.*

The expenditure ceiling for 2021 in the MFPE is consistent with the national accounts balance target (-4.3% of GDP). However, the consistency between these two benchmarks is not made explicit in the Report accompanying DSB/2021, as would be required, and can be gauged from a *bottom-up* exercise carried out by the CFP and presented in Table 10. The MFPE is defined from a public accounting perspective, with the limits established for both 2021 (271.6 thousand M€) and the years following the sum of total non-consolidated expenditure by the Central Government (CG) and Social Security (SS) sub-sectors. These amounts integrate both the so-called effective expenditure from a public accounting perspective, such as the planned expenditure on financial assets and liabilities.[33] This limit also includes expenditure on flows between entities of the CG and between CG and SS. For 2021, removing the intra-sector flows (72.8 thousand M€), consolidated expenditure is obtained from the perspective of each of the two sub-sectors. Excluding from this subtotal expenditure on financial assets and liabilities (consolidated, 91.6 thousand M€), it is possible to obtain the effective expenditure of each sub-sector, the sum of which amounts to 107.2 thousand M€, with any differences in the reconciliation being imputed to it. From this sum, the intersectoral flows between CG and SS must be removed, thus obtaining the actual consolidated expenditure of CG and SS (95.1 thousand M€). For the maximum amount of expenditure of CG in public

[31] In the previous MFPE, the expenditure ceilings for each budget programme, for each grouping of programmes and for all programmes together were binding respectively for the first, second and third and fourth economic years thereafter. In the new MFPE there is only a limit on total expenditure and limits for each organic-based mission (which correspond, in the MFPE submitted to the budgetary programmes).

[32] It thus forms part of the first phase of the budgetary procedure, before the draft State Budget Law is drafted under the 2015 BFL.

[33] According to the CFP Glossary, *"The concept of effective expenditure, used from a public accounting perspective, corresponds to expenditure that definitively changes net financial assets, i.e. the sum of the groupings of the economic classification of budgetary expenditure, of a current and capital nature, excluding "financial assets" and "financial liabilities".(...)"*.

accounts, the so-called "expectation of not fully utilising the budget appropriations" (590 M€) must be taken into account. The difference to the actual consolidated revenue of CG and SS results in the balance of this sub-sector, which corresponds to a deficit of 10.2 thousand M€. The balance of total GG in 2021 (-10,560 M€) results from taking into account the balance forecast for Regional and Local Governments (-323 M€). The calculation of the balance in national accounts (-9132 M€) is based on the forecast impact of the transition adjustments to this approach (-1428 M€) from the balance in public accounts.

Table 10- From the expenditure limit in the MFPE for 2021 to the structural balance

	(million euros)
1. Central Government+Social Security expenditure limit (MFPE)	271 561
1.1 Central Government expenditure limit	218 438
1.2 Social Security expenditure limit	53 123
2. Expenditure subject to intrasector consolidation (Flows between entities in the same sector)	72 847
2.1 Consolidation of flows between entities in the Central Government subsector	72 847
3. Subtotal consolidated Central Government and Social Security expenditure [(1) - (2)]	198 715
3.1 Total consolidated expenditure of Central Government	145 592
3.2 Total consolidated expenditure of Social Security	53 123
4. Consolidated financial assets and liabilities expenditure	91 620
4.1 Central Government consolidated financial assets and liabilities expenditure	69 241
4.2 Social Security consolidated financial assets and liabilities expenditure	22 380
5. Central Government consolidation differences (added to effective expenditure)	95
6. Subtotal consolidated effective expenditure Central Government and Social Security [(3) - (4) + (5)]	107 189
6.1 Central Government consolidated effective expenditure	76 446
6.1 Social Security consolidated effective expenditure	30 743
7. Intersectoral flows between Central Government and Social Security	12 098
8. Consolidated effective expenditure Central Government + Social Security [(6) - (7)]	95 091
8.1 Expectation not to make full use of budget appropriations	590
9. Effective consolidated revenue Central Government +Social Security	84 264
9.1 Tax revenue	44 695
9.2 Other current revenue	36 555
9.3 Capital transfers received	3 014
10. Central Government and Social Security budget balance [(9) - (8) + (8.1)]	-10 237
11. Local and Regional governments budget balance	-323
12. General Government budget balance (cash basis) [(12) + (13)]	-10 560
13. Adjustments into National Accounting	1 428
14. General Government budget balance (national accounting) [(12) + (13)]	-9 132
14.1 One-off measures considered by the Ministry of Finance	84
15. Ministry of Finance adjusted General Government budget balance [(14) - (14.1)]	-9 216
	(In % of GDP)
14. General Government budget balance (National Accounting) [(12) + (13)]	-4.3
14.1 One-off measures considered by the Ministry of Finance	*0.0*
15. Ministry of Finance adjusted General Government budget balance [(14) - (14.1)]	-4.4
15.1 Output gap considered by the Ministry of Finance	-2.4
15.2 Cyclical component (% potential GDP)	-1.3
16. Structural balance considered by the Ministry of Finance [(15) - (15.2)]	-3.1

Source: Ministry of Finance. CFP elaboration and calculations. | Note: The assessment of compatibility between the balance in national accounts and the structural balance shown in the table is carried out taking into account the information and complementary elements to DSB/2021 (corrected on 16 October), specifically the Draft Budget Plan for 2021. The one-off measures, the adjusted balance obtained and the output gap used to calculate the cyclical components necessary to determine the structural balance differ from those presented in Table 8 (see chapter 3).

The new MFPE includes the presentation, albeit as an indication, of the value of the structural balance. However, apart from the fact that figures for 2020 and 2021 are only given, the link with multiannual spending limits is not made explicit. For 2021, the MF indicates a structural deficit of 3.1% of GDP.[34] Arithmetically, and in continuity with the previous exercise, it is possible to demonstrate this link, based on the MF's assumptions for *one-off* measures and the cyclical component calculated for the adjusted balance of those measures (see table 6 in section 3.2. of the information and complement to DSB/2021). According to the MF, *one-off measures* residually benefit the balance in 2021, as opposed to the estimated negative impact for 2020. This results in an adjusted balance (-4.4% of GDP) which shift to the structural balance consists, in simplified terms, of removing the cyclical component, which is expected to be still negative in 2021 (-1.3% of potential GDP, although less than estimated by the MF for 2020). [35]

The Central Government (CG) and Social Security (SS) expenditure ceiling for 2021 set by Draft Law 60/XIV is lower than the expenditure estimated for 2020 in these two sub-sectors, but only when the "Public Debt Management" programme is considered.[36] The limit for 2021 of total expenditure for CG and SS is around 12.6 thousand M€ lower than estimated for 2020. However, this negative change stems only from the inclusion of all expenditure, both effective (e.g. interest) and non-effective (including operations with financial assets and liabilities, e.g. repayments) of the public debt management programme.[37] Excluding the latter from the analysis, the limit for 2021 is almost 12.1 thousand M€ higher by 2020, with the largest increases concentrated on social and economic area programmes (Chart 5). The largest increase occurs in the SS (3.9 thousand M€), a sub-sector where a significant part of expenditure on measures to support households and businesses in response to the pandemic is concentrated. In CG, which expenditure, excluding the "public debt management" programme, increases by 8.2 thousand M€, the largest increases occur in the "Finance" programme (2.7 thousand M€), Health (2 thousand M€), Labour, Solidarity and Social Security (1.2 thousand M€) and Infrastructure and Housing (1.4 thousand M€).[38] It is recalled that the expenditure entered for each programme refers to total expenditure, including operations with financial assets and liabilities. This information is not consolidated, which does not contribute to budgetary transparency as it makes it difficult to read these limits. [39]

[34]In the light of the Major Planning Option's Draft Law and DSB/2021 Report, the figures and assumptions subsequently updated by the MF in the framework of the Draft Budget Plan for 2021 were considered in terms of structural balance.

[35] In this sense, the balance is aggravated by the position in terms of the economic cycle, so that the structural balance will be more favourable than the projected budget balance for the general government.

[36] *According to* Law no. 151/2015, of 11 September (Budget Framework Law) as amended by Law no. 41/2020, of 18 August, *"(...) all references to the concept of organic-based mission shall, with the appropriate adaptations, be considered as made to the concept of budgetary programme of Law no. 91/2001, of 20 August, as amended"*. Thus, the expression "programmes" is adopted in the text for simplification as equivalent to "organic-based missions".

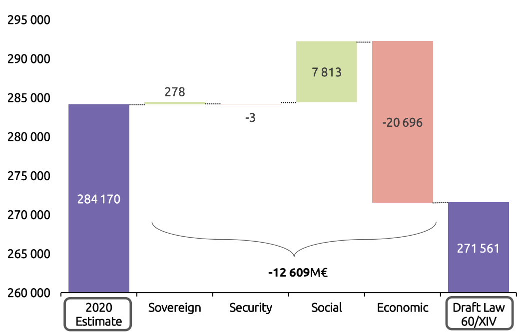
[37] The actual consolidated expenditure of the programme is 6.6 thousand M€ in 2021, -413 M€ more than estimated for 2020, which compares respectively with total expected expenditure of 95.7 thousand M€ and -24.7 thousand M€.

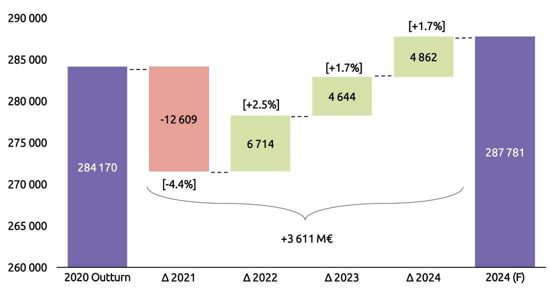
[38] The increase in the total amount of centralised allocations in the MF contributes to the change in the Finance programme. In the other programmes, the increase in transfers to the National Health Service (NHS), the Social Security and the investments planned by public companies, namely IP, SA, *"within the scope of public-private road partnership contracts, and the renovation, rehabilitation and development of the rail network, based on the 2020 Railway Investment Programme, should be* noted.

[39] As an example, the actual consolidated expenditure of the Health Programme, which includes the transfers to the NHS, is, according to Table 5.50. of the DSB/2021 Report, 12.5 thousand M€, increasing

The new MFPE considers, from 2021 onwards and until 2024, successive increases in total expenditure by Central Government and Social Security, with greater relevance in 2022. The increase in 2022, of 6.7 thousand M€ (+2.5%), compares with growth at a lower rate in the following two years (1.7% both in 2023 and 2024). Apart from "Public Debt Management", this increase occurs at a rate close to 2.7% from 2022 to 2024. This rate results from an annual growth of 3% in the social area programmes of CG and SS and 2% in the other programmes in the same period. It should be noted that the new MFPE is presented simultaneously with DSB/2021, although, under the terms of the 2015 BFL, it is foreseen that the Major Planning Options, which are part of this multiannual budgetary programming instrument, will be presented in a first phase, prior to the DSB, together with the update of the Stability Programme.

Chart 5- Expenditure limits in the scope of the MFPE (M€)





Source: Ministry of Finance. CFP calculations. | Notes: "Δ" designates the expected change from the previous year; the change in 2021 was calculated in view of the execution estimate for 2020 determined by the MF. (F) - Forecast. CG - Central Government, SS - Social Security. Although the limits by program grouping have ceased to exist in the new MFPE, it was considered useful to consider these groups in the analysis, including SS in the "Social" area. The Chart in the right panel indicates between [ ] the annual rate of change of the total expenditure limit.

According to the MFPE, almost two thirds of expenditure is to be financed by tax revenues. Projected revenues include the category of "other revenues", with a weight of more than 30% in the programming period, which in this case refers either to actual revenues (e.g. sale of goods and services) or non-actual revenues (revenues from the sale of assets or the use of financial liabilities, e.g. loans). The MFPE also estimates that the share of funding from European funds will rise from 1.9% in 2020 (5.5 thousand M€) to 2.6% in 2021 (6.9 thousand M€), reaching 2.8% in 2024 (8.2 thousand M€). These revenue projections also refer to the total, unconsolidated revenue of CG and SS, in line with the expenditure presentation approach. [40]

Under the new MFPE, expenditure ceilings become binding for the budget of the following economic year and indicative for the programming period coinciding with the rest of the parliamentary term. However, it is not possible to make any assessment of the compatibility of the expenditure ceilings provided for in the MFPE beyond 2021 as the

by 485 M€ compared to 2020. This compares with the 32.3 thousand M€ entered in the MFPE for this programme in 2021 and an increase of about 2 thousand M€ compared to 2020.

[40] For example, tax revenues that the state transfers to Social Security under the respective financing law are accounted for in both the revenue of the CG and the SS.

Stability Programme, as submitted in May 2020, did not present any trajectory for the general government account. [41]In addition, the MFPE does not include any forecast of the budget balance for the whole period to which it refers, which would allow the compatibility with indicative expenditure ceilings projected for the years 2022 to 2024 to be sustained.

The proposed MFPE refers to unconsolidated expenditure limits, including non-effective expenditure, which undermines budgetary transparency. This reflects the partial implementation of the BFL, which has been marked by several delays in several respects, with many of the processes resulting from the previous accounting framework remaining unchanged. It is therefore important that the link with the budgetary targets in the Stability Programme is made more explicit in the MFPE, although the difficulties that may arise from these two documents are (still) expressed in different accounting perspectives. [42]

Only experience can really demonstrate the effectiveness of the MFPE as a new multiannual budgetary programming instrument. The implementation of the previous PDF has shown inefficiency in the sense of budgetary accountability in the medium and long term. It is recalled that the usefulness of such instruments in supporting the formulation and implementation of public policies from a multiannual perspective depends to a large extent on the respect of the established expenditure ceilings, even if taking into account admittedly exceptional situations.

[41] See CFP Report No. 4/2020, which concluded that "*The document submitted on 7 May 2020 by the government does not provide the minimum information required to be considered a Stability Programme*".

[42] It should be noted that the wording of the BFL given by Law no. 41/2020, of 18 August, suspended until 2026 the presentation of financial statements as an integral part of the DSB, namely consolidated financial statements for the CG and SS sub-sectors, containing an estimate for the execution of the current year (paragraph h) of art. 43 of the BFL). In addition, the accumulated value of the commitments contracted, as provided for in Article 35 of Law 41/2020 of 18 August, establishing a transitional regime for the application of the MFPE, has not been presented.

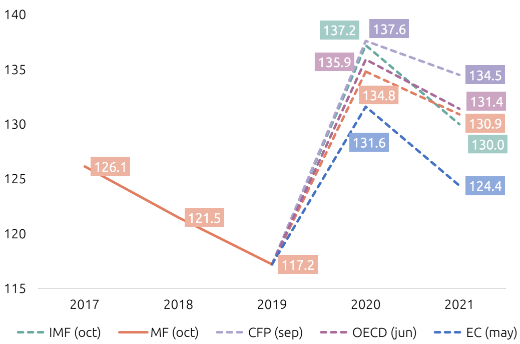
4. EVOLUTION OF PUBLIC DEBT

4.1 Debt dynamics

DSB/2021 anticipates that the debt ratio will resume its downward trend in 2021, driven mainly by the recovery in economic activity. The debt dynamics in 2021 differs significantly from that observed in 2020, primarily due to the lower unfavourable impact of the primary balance effect, but also due to the partial reversal in 2021 of the unfavourable contribution of the dynamic effect resulting from the expected economic recovery. Thus, for 2021, the forecasted reduction of the debt ratio by 3.9 p.p. of GDP is determined by the dynamic effect (-5.4 p.p.), which essentially reflects the effect of nominal GDP growth (-8 p.p.), which more than offsets the unfavourable interest effect (2.6 p.p.). According to the forecast in DSB/2021, the stock-flow adjustment should have a favourable contribution to debt reduction, mainly justified by the use of deposits foreseen, although absorbed by the unfavourable effect of the primary balance (+1.7 p.p.) (right panel of the Chart 6).

Chart 6- Public debt developments (% of GDP and p.p .)

Forecasts framework



Decomposition of 2020-2021 change

	2020	2021
Maastricht Debt (% of GDP)	134.8	130.9
Change (p.p. of GDP)	17.6	-3.9
Primary balance effect	4.4	1.7
Dynamic effect	11.8	-5.4
Interest effect	2.9	2.6
GDP effect	8.9	-8.0
Other	1.4	-0.2

Sources: MF, EC, CFP, IMF and OECD. CFP calculations.

MF forecasts for 2021 fall within the latest projection range. The MF anticipates an increase in debt to 134.8% of GDP in 2020, followed by a decline to 130.9% of GDP in 2021. Although this path falls within the forecast range of national and international institutions, the most recent publications, notably from the IMF and OECD, suggest that debt could reach a higher ratio in 2020 (of 137.2% or 135.9% of GDP respectively). However, for 2021, both institutions anticipate a more accelerated decline in the ratio (to 131.4% and 130.9% of GDP respectively), mainly due to lower nominal debt and, to a lesser extent, higher GDP growth, so the MF forecast is within this range (left panel of the Chart 6). The CFP also projects a higher increase in the debt ratio in 2020, but expects it to decline at a more moderate pace in the following year (-3.1 p.p. in 2021, compared to a decline of -3.9 p.p. in the MF forecast). The EC projection, since it dates back to May and is thus the one with the least up to date information, deviates from the others, both in terms of the amount of nominal debt (lower than the other forecasts) and GDP growth (which would be higher in the EC forecast).

Despite the expected increase in nominal debt, the MF expects the interest burden on GDP to continue to decline, as in recent years. The MF anticipates that in 2020-21 interest and other charges will stand at 2.9% and 2.6% of GDP respectively, maintaining the downward path since 2014 (4.9% of GDP) (Table 11). As in 2020, this decrease is explained by the favourable price effect (interest rate), rather than offsetting the unfavourable stock effect. The financing conditions, based on the European Central Bank's (ECB) continued asset purchasing programme, allowed the average cost of debt issued by the state (namely Treasury Bills, Treasury Bonds and Medium Term Notes) until the end of September to stand at 0.6% in 2020, compared with 1.1% in 2019. Nominal interest paid fell from 8.5 thousand M€ in 2014 to 6.3 thousand M€ in 2019, and is expected to fall further, as anticipated in DSB/2021 (to 5.8 and 5.5 thousand M€ in 2020 and 2021 respectively).

Table 11- Contributions to changes in interest

	Public debt stock (% of GDP) (1)	Public Debt average stock (% do GDP) (2)	Interest (% of GDP) (3)	Implicit interest rate (%)* (4)	Interest weight change (p.p.) (5)	Contributions to interest Δ		
						Stock effect (6)	Price effect (7)	Cross effect (8)
2016	131.5	131.3	4.1	3.2	-0.43	-0.02	-0.41	0.00
2017	126.1	128.8	3.8	2.9	-0.37	-0.08	-0.30	0.01
2018	121.5	123.8	3.4	2.7	-0.41	-0.15	-0.28	0.01
2019	117.2	119.3	3.0	2.5	-0.40	-0.12	-0.28	0.01
2020	134.8	126.0	2.9	2.3	-0.04	0.17	-0.19	-0.01
2021	130.9	132.9	2.6	2.0	-0.33	0.16	-0.46	-0.03

Sources: MF. CFP calculations. Formulas: Current year=t and previous year=t-1; PD = public debt; (1)=PD/GDP; (2)=[(1)t+(1)t-1)]/2]; (3)=Interest / GDP; (4)=((3) t+(3) t-1) /(2) t; (5)=(3)t-(3)t-1; (6)= (4)t-1*((2)t-(2)t-1); (7)=(2)t-1*((4)t-(4)t-1); (8)= ((2)t-(2)t-1)*((4)t-(4)t-1).
* Note: the implicit interest rate shown in this table differs from that in DSB/2021 to the extent it has been calculated through the average debt stock in the current year and the preceding year (column (2)), whereas the latter is based solely on the preceding year's debt stock.

4.2 State indebtedness and financing requirements

CFP calculations indicate that, based on the information in the DSB/2021 Report, total State direct debt will fall below the limit in DSB/2021. The calculation of direct indebtedness consists in the sum of: i) the central government budget deficit in public budget accounting (11.8 thousand M€); ii) the net acquisition of consolidated financial assets (4.2 thousand M€); and iii) the expectation that central government budget appropriations will not be fully used (0.6 thousand M€), resulting in an increase in government debt of 15.3 thousand M€, significantly below the limit of 19.9 thousand M€ set in DSB/2021 (Article 130(1)) for 2021.

The MF anticipates that gross government borrowing requirements will increase slightly in 2021, due to the higher volume of expected redemptions. According to DSB/2021, the higher expected medium and long-term debt repayments in euros (+3.6 thousand M€)

and, to a lesser extent, short-term products (+0.7 thousand M€) explain the increase in debt repayments compared to 2020 (2.4 thousand M€) (Table 12). This increase in redemptions more than offsets the reduction in net borrowing (-0.6 thousand M€). Thus, the higher volume of amortizations and cancellations justifies 133% of the increase in gross borrowing requirements (+1.8 thousand M€) in 2021. In 2020, the MF's estimate of net government borrowing (19.4 thousand M€) is close to that forecast in the PAOE/2020 (20.3 thousand M€). This more favourable estimate of 0.9 thousand M€ is due to the expected lower acquisition of financial assets (-0.6 thousand M€) together with the lower deficit expected for the government sub-sector (-0.3 thousand M€), as the forecast for debt repayments remains the same as in the PAOE/2020.

Table 12- State borrowing requirements 2020-2021 (M€)

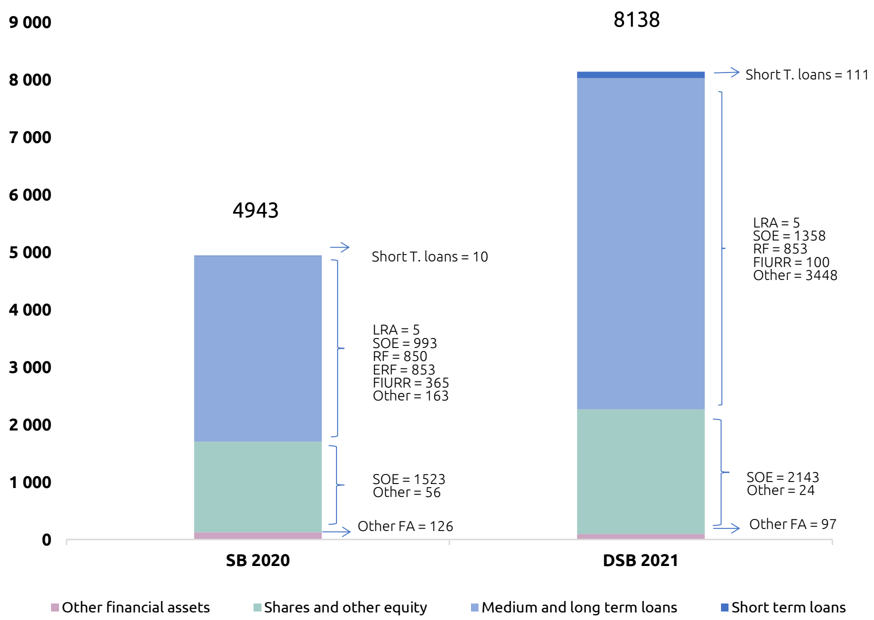
Borrowing requirements	2020		2021		Change 2021/20	
	Amount	Weight (%)	Amount	Weight (%)	Amount	%
1. Net borrowing requirements (a) + (b) - (c)	**19 382**	**35**	**18 799**	**33**	**-583**	**-3**
a) Budget deficit	14 600	27	11 814	21	-2 786	-19
b) Net Acquisition of Financial Assets (except privatizations)	4 782	9	6 985	12	2 203	-34
c) Privatization revenues	0	0	0	0	0	0
2. Amortizations and cancellations [settled debt] (d) + (e) + (f) + (g) + (h)	**35 532**	**65**	**37 878**	**67**	**2 346**	**7**
d) SC + TC	4 103	7	4 763	8	660	16
e) Short-term debt in euros	22 327	41	20 452	36	-1 875	-8
f) Medium long term debt in euros	9 106	17	12 684	22	3 578	39
g) Non-euro currency debt	0	0	0	0	0	-
h) Swaps capital flows (Net)	-3	0	-21	0	-18	600
3. Gross borrowing requirements (1) + (2)	**54 914**	**100**	**56 677**	**100**	**1 763**	**3**

Sources: MF. CFP calculations. | Note: SC = Saving Certificates and TC = Treasury Certificates.

The increase in repayments of established debt is based on the repayment of Variable Income Treasury Bonds (OTRVs) scheduled for 2021. In that year three OTRV lines will reach maturity, implying an additional volume of 3.5 thousand M€ of medium and long-term debt to be repaid in that year. To a lesser extent, an increase in the amortization of savings products, namely Treasury Certificates (CT), is also expected. To mitigate the impact of OTRVs and TCs, the MF foresees a decrease in repayments of CEDICs thus justifying the lower amount of short-term debt in euros to be repaid in 2021.

The decrease in net borrowing is explained by a smaller government deficit in 2021 sufficient to more than offset the increase in the acquisition of financial assets. The decrease in the deficit of the State sub-sector from 14.6 thousand M€ to 11.8 thousand M€ exceeds, in absolute terms, the increase in the net acquisition of financial assets from 4.9 thousand M€ to 8.1 thousand M€ (Chart 7). In this item it is worth noting, in 2021, the increase in medium and long-term loans (+2.5 thousand M€ to 5.8 thousand M€), including loans granted to public entities (rising from 56 M€ in 2020 to 3.2 thousand M€). The MF anticipates that the items of short-term loans and shares and other equity will evolve in the same direction (note, in the latter, the increase in shares and other equity in State Owned Enterprises), albeit with smaller increases, while other financial assets are expected to decrease slightly.

Chart 7- Financial assets expenditure forecasts (M€)



Sources: DGO and MF. CFP calculations.

The MF foresees that the gross government borrowing requirements will continue to be covered mainly by government bonds (PGB). The MF expects that funding through this type of instrument will represent around 86% of total state funding in 2021 (18.7 thousand M€, cash value[43]), reflecting an increase in the balance of PGB of 16.1 thousand M€. In addition, DSB/2021 foresees that disbursements under the EU SURE programme, aimed at financing measures to mitigate the impact of unemployment in the current pandemic context, will be evenly spread over the biennium 2020-2021 (+2.9 thousand M€ in 2021 for a total of 5.9 thousand M€). In the same vein, an increase in the balance of Treasury bills (+1.3 thousand M€), savings products (+0.9 thousand M€) and Special Debt Certificates (+0.1 thousand M€) is anticipated. The reimbursement of the *pre-paid margin* by the EFSF, as mentioned above in Section 2.3, will also contribute favourably to the State's financing (0.8 thousand M€). Also noteworthy is the decrease in the OTRV balance (-3.5 thousand M€), through the amortisation of 3 lines reaching maturity in 2021.

[43] Equivalent to nominal value, excluding interest.

5. ANNEXES

Table 13- From the 2020 estimate to the DSB/2021 forecast - detail of the policy measures with budgetary impact in 2021(M€)

	Year 2020			Explanatory factors of fiscal coherence				Year 2021		
	Estimate	One-off and and financial support	Adjusted Estimate	*Carry-over (measures from previous years)*	New Policy Measures	Macroeconomic Scenario	Other effects	Estimate	One-off and and financial support	MF Forecast
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)	(7)= (8) - [(3)+...+(6)]	(8)=(10)-(9) (8)=(3) +...+ (7)	(9)	(10)
Revenue	84 464	40	84 424	71	1 222	3 476	1 271	90 464	1 159	91 623
Tax and Contributory Revenue	71 858	0	71 858	141	-288	2 680	1 782	76 173	0	76 173
Indirect taxes	28 656	0	28 656	0	-168	1 391	643	30 522	0	30 522
Electricity VAT					-150					
Temporary reduction of VAT gel and masks					-23					
Instant Lottery "Do Património Cultural"					5					
Direct taxes	18 444	0	18 444	11	-185	655	993	19 918	0	19 918
Young professionals PIT				-16						
Increase in the second child deduction (PIT)				-24						
PIT - Career progressions and promotions				28						
PIT - Teachers and other special careers				12						
PIT - Ongoing hirings and Braga Hospital				9						
PIT - Operational assistants increase				1						
PIT withholdings Taxes					-200					
Relief from autonomous CIT taxation					-10					
Autonomous taxation on vehicles - PIT and CIT					25					
Social contributions	24 758	0	24 758	130	65	634	146	25 733	0	25 733
Career progressions and promotions				71						
Teacher and other special careers				32						
Ongoing hirings and Braga Hospital				24						
Operational assistants increase				3						
Strengthening public employment, particularly in health and education					65					
Non Tax and non contributory Revenue	12 606	40	12 566	-71	1 510	797	-511 0	14 291	1 159	15 450
Reduction of NHS user fees in primary health care				-47						
Decrease in tuition fees - Academic year 2020/21		40		-23						
BPP Guarantee Recovery									71	
Toll reduction					-10					
European Union funds: REACT program					1 020					
Recovery and Resilience Plan Revenue					500					
Pré Paid Margins									1 088	
Expenditure	98 889	2 459	96 430	1 857	3 079	649	-2 335	99 680	1 075	100 755
Primary Expenditure	93 070	2 459	90 611	2 018	3 079	649	-2 164	94 194	1 075	95 269
Intermediate Consumption	11 501	0	11 501	307	165	0	-1	11 972	0	11 972
Spending Review				320						
Road PPPs				-13						
Personal protective equipment and other health expenses					300					
Spending Review					-135					
Compensation of employees	23 787	0	23 787	422	270	0	130	24 609	0	24 609
Progressions and Promotions				231						
Teachers and other special careers				102						
Hiring in progress + Braga Hospital				78						
Increase of operational assistants				11						
Strengthening public employment, particularly in health and education					210					
Extraordinary risk allow ance for health professionals					60					
Social Benefits	40 611	0	40 611	580	701	0	60	41 952	0	41 952
Parenting Assistance benefits and the 3rd person				45						
Reduction of daycare fees				13						
Extension of social action grants access				22						
Pensions | Composition effect = Average pension increase + (inflows vs. outflows of pensioners)				409						
Extraordinary pension update in 2020 | Carry over in 2021				48						
Unformal caregiver status				30						
Solidarity Supplement for the Elderly				13						
Prophylactic Isolation					42					
Covid-19 sickness allow ance					24					
Extraordinary Support for Workers' Income					450					
Extraordinary increase in pensions					99					
Increase of the Sub threshold. Unemployment					75					
Expansion of the 2nd tier in access to day-care for children					11					
Subsidies	3 112	0	3 112	0	1 165	197	-2 613	1 861	0	1 861
Support measures for employment and resumption of activity					965					
IVAucher: VAT return catering, accommodation and culture					200					
GFCF	4 884	0	4 884	692	779	0	-336	6 019	0	6 019
Structuring investments				590						
Proximity works (PEES)				102						
Public investment in the scope of the Recovery and Resilience Plan					500					
Digital school					279					
Other expenditure	9 175	2 459	6 717	17	0	452	595	7 781	1 075	8 856
Transfer to the budget of the European Union				17						
Recapitalization of Novo Banco		1 037							275	
SATA guarantee and other Guarantees Execution (include COVID-19)		140							140	
Loan to TAP		1 200								
State guarantee for TAP loans									500	
Transfer of FGCAM to the Bank of Portugal		81								
Municipality of Lisbon: Judicial decisions									160	
Interest paid	5 819	0	5 819	-161	0	0	-171	5 487		5 487
Interest owed by general government				-161						
Budget Balance	-14 424	-2 419	-12 006	-1 786	-1 857	2 827	3 606	-9 216	84	-9 132

Source: Ministry of Finance. CFP calculations. | Note: For the individualization of the one-off measures, see Chapter 3. The totals may not necessarily correspond to the sum of the parcels due to rounding.

Table 14- General government account

	M€			Change				% of GDP			Change p.p. of GDP	
				M€		%						
	2019	2020 E	2021 P	2019/20	2020/21	2019/20	2020/21	2019	2020 E	2021 P	2019/20	2020/21
Total revenue	**91 161**	**84 464**	**91 623**	**-6 697**	**7 159**	**-7.3**	**8.5**	**42.7**	**42.6**	**43.5**	**-0.1**	**0.9**
Current revenue	**90 486**	**83 281**	**89 016**	**-7 204**	**5 734**	**-8.0**	**6.9**	**42.4**	**42.0**	**42.2**	**-0.4**	**0.2**
Tax revenue	52 915	47 100	50 441	-5 814	3 340	-11.0	7.1	24.8	23.8	23.9	-1.1	0.2
Indirect taxes	32 066	28 656	30 522	-3 409	1 866	-10.6	6.5	15.0	14.5	14.5	-0.6	0.0
Direct taxes	20 849	18 444	19 918	-2 405	1 474	-11.5	8.0	9.8	9.3	9.4	-0.5	0.1
Social contributions	25 274	24 758	25 733	-516	975	-2.0	3.9	11.8	12.5	12.2	0.6	-0.3
of which: actual soc. contr. received	20 550	20 081	21 149	-468	1 068	-2.3	5.3	9.6	10.1	10.0	0.5	-0.1
Sales & other current revenues	12 296	11 423	12 842	-873	1 419	-7.1	12.4	5.8	5.8	6.1	0.0	0.3
Sales	7 425	6 542	6 872	-883	330	-11.9	5.0	3.5	3.3	3.3	-0.2	0.0
Other current revenues	4 871	4 881	5 970	10	1 090	0.2	22.3	2.3	2.5	2.8	0.2	0.4
Capital transfers received	**676**	**1 183**	**2 608**	**507**	**1 425**	**75.0**	**120.5**	**0.3**	**0.6**	**1.2**	**0.3**	**0.6**
Total expenditure	**90 984**	**98 889**	**100 755**	**7 904**	**1 867**	**8.7**	**1.9**	**42.7**	**49.9**	**47.8**	**7.2**	**-2.1**
Primary expenditure	**84 654**	**93 070**	**95 269**	**8 416**	**2 199**	**9.9**	**2.4**	**39.7**	**46.9**	**45.2**	**7.3**	**-1.8**
Current primary expenditure	**78 402**	**84 669**	**86 680**	**6 267**	**2 012**	**8.0**	**2.4**	**36.8**	**42.7**	**41.1**	**5.9**	**-1.6**
Intermediate consumption	11 149	11 501	11 972	352	471	3.2	4.1	5.2	5.8	5.7	0.6	-0.1
Compensation of employees	22 905	23 787	24 609	882	822	3.8	3.5	10.7	12.0	11.7	1.3	-0.3
Social transfers	38 745	40 611	41 952	1 866	1 341	4.8	3.3	18.2	20.5	19.9	2.3	-0.6
other than in kind	34 760	36 382	37 570	1 623	1 188	4.7	3.3	16.3	18.4	17.8	2.1	-0.5
in kind	3 985	4 228	4 382	243	153	6.1	3.6	1.9	2.1	2.1	0.3	-0.1
Subsidies	853	3 112	1 861	2 259	-1 251	265.0	-40.2	0.4	1.6	0.9	1.2	-0.7
Other current expenditure	4 750	5 658	6 287	908	629	19.1	11.1	2.2	2.9	3.0	0.6	0.1
Capital expenditure	**6 252**	**8 401**	**8 588**	**2 149**	**187**	**34.4**	**2.2**	**2.9**	**4.2**	**4.1**	**1.3**	**-0.2**
GFCF	4 015	4 884	6 019	869	1 135	21.7	23.2	1.9	2.5	2.9	0.6	0.4
Other capital expenditure	2 237	3 517	2 569	1 280	-948	57.2	-27.0	1.0	1.8	1.2	0.7	-0.6
Interest paid	**6 331**	**5 819**	**5 487**	**-512**	**-332**	**-8.1**	**-5.7**	**3.0**	**2.9**	**2.6**	**0.0**	**-0.3**
General government balance	**177**	**-14 424**	**-9 132**	**-14 601**	**5 292**	**-**	**-**	**0.1**	**-7.3**	**-4.3**	**-7.4**	**2.9**
Primary balance	6 508	-8 606	-3 645	-15 113	4 960	-	-	3.1	-4.3	-1.7	-7.4	2.6
Tax revenue and social contributions	78 189	71 858	76 173	-6 331	4 315	-8.1	6.0	36.7	36.2	36.1	-0.4	-0.1
Non tax and non contribution revenue	12 972	12 606	15 450	-366	2 844	-2.8	22.6	6.1	6.4	7.3	0.3	1.0
Current Expenditure	84 732	90 487	92 167	5 755	1 680	6.8	1.9	39.7	45.6	43.7	5.9	-1.9
Nominal GDP	213 301	198 263	210 833	-15 038	12 570	-7.1	6.3	-	-	-	-	-

Sources: INE (2019) and Ministry of Finance (2020 and 2021). CFP calculations. "E" stands for estimate and "P" means projection.

Table 15- General government adjusted account

	M€			Change				% of GDP			Change p.p. of GDP	
				M€		%						
	2019	2020 E	2021 F	2019/20	2020/21	2019/20	2020/21	2019	2020 E	2021 F	2019/20	2020/21
Total revenue	**90 888**	**84 424**	**90 464**	**-6 463**	**6 040**	**-7.1**	**7.2**	**42.6**	**42.6**	**42.9**	**0.0**	**0.3**
Current revenue	**90 486**	**83 281**	**89 016**	**-7 204**	**5 734**	**-8.0**	**6.9**	**42.4**	**42.0**	**42.2**	**-0.4**	**0.2**
Tax revenue	52 915	47 100	50 441	-5 814	3 340	-11.0	7.1	24.8	23.8	23.9	-1.1	0.2
Indirect taxes	32 066	28 656	30 522	-3 409	1 866	-10.6	6.5	15.0	14.5	14.5	-0.6	0.0
Direct taxes	20 849	18 444	19 918	-2 405	1 474	-11.5	8.0	9.8	9.3	9.4	-0.5	0.1
Social contributions	25 274	24 758	25 733	-516	975	-2.0	3.9	11.8	12.5	12.2	0.6	-0.3
of which: actual soc. contr. received	20 550	20 081	21 149	-468	1 068	-2.3	5.3	9.6	10.1	10.0	0.5	-0.1
Sales & other current revenues	12 296	11 423	12 842	-873	1 419	-7.1	12.4	5.8	5.8	6.1	0.0	0.3
Sales	7 425	6 542	6 872	-883	330	-11.9	5.0	3.5	3.3	3.3	-0.2	0.0
Other current revenues	4 871	4 881	5 970	10	1 090	0.2	22.3	2.3	2.5	2.8	0.2	0.4
Capital transfers received	**402**	**1 143**	**1 449**	**741**	**306**	**184.3**	**26.8**	**0.2**	**0.6**	**0.7**	**0.4**	**0.1**
Total expenditure	**89 835**	**97 770**	**100 320**	**7 935**	**2 550**	**8.8**	**2.6**	**42.1**	**49.3**	**47.6**	**7.2**	**-1.7**
Primary expenditure	**83 505**	**91 951**	**94 834**	**8 447**	**2 882**	**10.1**	**3.1**	**39.1**	**46.4**	**45.0**	**7.2**	**-1.4**
Current primary expenditure	**78 402**	**84 669**	**86 680**	**6 267**	**2 012**	**8.0**	**2.4**	**36.8**	**42.7**	**41.1**	**5.9**	**-1.6**
Intermediate consumption	11 149	11 501	11 972	352	471	3.2	4.1	5.2	5.8	5.7	0.6	-0.1
Compensation of employees	22 905	23 787	24 609	882	822	3.8	3.5	10.7	12.0	11.7	1.3	-0.3
Social transfers	38 745	40 611	41 952	1 866	1 341	4.8	3.3	18.2	20.5	19.9	2.3	-0.6
other than in kind	34 760	36 382	37 570	1 623	1 188	4.7	3.3	16.3	18.4	17.8	2.1	-0.5
in kind	3 985	4 228	4 382	243	153	6.1	3.6	1.9	2.1	2.1	0.3	-0.1
Subsidies	853	3 112	1 861	2 259	-1 251	265.0	-40.2	0.4	1.6	0.9	1.2	-0.7
Other current expenditure	4 750	5 658	6 287	908	629	19.1	11.1	2.2	2.9	3.0	0.6	0.1
Capital expenditure	**5 103**	**7 283**	**8 153**	**2 180**	**871**	**42.7**	**12.0**	**2.4**	**3.7**	**3.9**	**1.3**	**0.2**
GFCF	4 015	4 884	6 019	869	1 135	21.7	23.2	1.9	2.5	2.9	0.6	0.4
Other capital expenditure	1 088	2 399	2 134	1 310	-265	120.4	-11.0	0.5	1.2	1.0	0.7	-0.2
Interest paid	**6 331**	**5 819**	**5 487**	**-512**	**-332**	**-8.1**	**-5.7**	**3.0**	**2.9**	**2.6**	**0.0**	**-0.3**
General government balance	**1 052**	**-13 346**	**-9 856**	**-14 398**	**3 490**	**-**	**-**	**0.5**	**-6.7**	**-4.7**	**-7.2**	**2.1**
Primary balance	7 383	-7 527	-4 369	-14 910	3 158	-	-	3.5	-3.8	-2.1	-7.3	1.7
Tax revenue and social contributions	78 189	71 858	76 173	-6 331	4 315	-8.1	6.0	36.7	36.2	36.1	-0.4	-0.1
Non tax and non contribution revenue	12 698	12 566	14 291	-132	1 725	-1.0	13.7	6.0	6.3	6.8	0.4	0.4
Current Expenditure	84 732	90 487	92 167	5 755	1 680	6.8	1.9	39.7	45.6	43.7	5.9	-1.9
Nominal GDP	213 301	198 263	210 833	-15 038	12 570	-7.1	6.3	-	-	-	-	-

Sources: INE (2019) and Ministry of Finance (2020 and 2021). CFP calculations. "E" stands for estimate and "P" means projection. | Note: details on the adjustments made can be found in Table 9.

5.1 List of Abbreviations

Abbreviations	Meaning
CG	Central Government
GG	General Government
ECB	European Central Bank
BPP	Portuguese Private Bank
BT	Treasury Tickets
SC	Saving Certificates
EC	European Commission
CEDIC	Special Short-term Debt Certificates
CEDIM	Medium and Long Term Special Debt Certificates
CFP	Public Finance Council
CGA	Caixa Geral de Aposentações [General Pension Fund]
CGD	Caixa Geral dos Depósitos [General Deposits Fund]
CT	Treasury Certificates
DGO	Budget General Directorate
EPR	Reclassified Public Entities
GFCF	Gross Fixed Capital Formation
FEEF	European Financial Stabilisation Fund
FGCAM	Mutual Agricultural Credit Guarantee Fund
IMF	International Monetary Fund
FR	Resolution Fund
FRE	European Resolution Fund
IABA	Tax on Alcohol and Alcoholic Beverages
IEC	Excise duty
IFFRU	Financial Institute for Urban Rehabilitation and Revitalisation
IGCP	Treasury and Public Debt Management Agency
IMI	Municipal Property Tax
IMT	Municipal Property Transfer Tax
STATISTICS PORTUGAL	National Statistical Office
IP	Infrastructures of Portugal
IRC	Corporate Income Tax
IRS	Personal Income Tax
IS	Stamp Duty
ISP	Tax on Oil and Energy Products
ISV	Vehicle Tax
IT	Tobacco Tax
IUC	Single circulation tax
VAT	Value Added Tax
BFL	Budgetary Framework Law
M€	Millions of Euros
MF	Ministry of Finance
MTN	*Medium Term Note*
OECD	Organisation for Economic Cooperation and Development
SB	State budget
OT	Treasury bonds
OTRV	Floating Yield Treasury Bonds
DSBA	Proposal to amend the State Budget
SP	Stability Programme
SGP	Stability and Growth Pact
PEC	Special Payment on Account
PEES	Economic and Social Stabilisation Programme
GDP	Gross Domestic Product
DSB	Draft State Budget
p.p.	Percentage points
PPP	Public Private Partnerships
PRR	Recovery and Resilience Plan
MFPE	Multiannual framework for public expenditure
MFBP	Multiannual Framework for Budgetary Programming
REACT EU	Recovery Assistance for Cohesion and the Territories of Europe
SNS	National Health Service
SS	Social security

Abbreviations	Meaning
EU	European Union

5.2 Main Sources of Statistical Information

CFP (2020a), Economic and Budget Outlook 2020-2024 (Update).

CFP (2020b), Macroeconomic forecasts underlying the proposed state budget for 2021.

EUROPEAN COMMISSION (2019), Vade Mecum on the Stability and Growth Pact.

EUROPEAN COMMISSION (2020a), Assessment of the 2020 Stability Programme for Portugal.

EUROPEAN COMMISSION (2020b), European Economic Forecast -Summer 2020.

INE (2020), National Accounts by Institutional Sector - 2nd quarter 2020.

MINISTRY OF FINANCE (2020a), Report on the State Budget for 2021.

MINISTRY OF FINANCE (2020b), Draft Budget Plan 2021.

5.3 Charts Index

5.4 Tables Index

5.5 Box Index