ECONOMIC AND FISCAL OUTLOOK 2020-2022

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

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

This Report has been prepared on the basis of information available up to 22 May 2020.

A spreadsheet file containing the values underlying all charts and tables in this report is available at www.cfp.pt in the publications area.

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OVERALL APPRECIATION

The impact of the new coronavirus (SARS-Cov-2) on the entire world economy is increasingly confirmed, translated into a fulminating, pronounced and unparalleled recession over the last hundred years, to which Portugal has not been immune. Last March, the Portuguese Public Finance Council took the decision to postpone the publication of its "Economic and Fiscal Outlook" report. One of the reasons was the absolute uncertainty, then verified, as to what the actual impact of the crisis would be and what behaviour the Portuguese economy would present until the end of the year. After this period, there are still – and given the specificity of this crisis – some important doubts as to the magnitude of the same recession and also as to how the economic recovery will proceed from now on.

In the Portuguese case, as a very open and dependent economy, the type of recovery and its speed will still depend (above all) on the form and speed of recovery of the economies with which we most directly relate, particularly in Europe. Considering, therefore, the subsistence of these important sources of uncertainty, it was decided to include in the report that is now published macroeconomic and fiscal projections presented in two scenarios and for a shorter than usual time horizon.

The incorporation of these two scenarios – baseline and severe - results precisely from this uncertainty as to the duration of the effects of the crisis and the capacity for economic recovery in the near future. Thus, in this report the CFP anticipates a fall in GDP of between 7.5% and 11.8% in 2020, with a recovery that, in annual terms, begins in 2021. A decisive factor in determining whether the situation will ultimately return more to the baseline or the severe scenario is the intensity of its effects in the second half of 2020.

In these two invariant policy scenarios, Portugal will again show a budget deficit in 2020 (of 6.5% of GDP in the baseline scenario and 9.3% in the adverse scenario). In the following two years, the budgetary imbalance is expected to decrease considerably, but it will not be eliminated in the absence of new policy measures. Reflecting this budgetary imbalance, the fall in GDP and the starting value, the public debt ratio will increase in 2020 more than the budget deficit, reaching a new peak. It should, however, be stressed that thanks to the economic recovery and the reduction of the fiscal imbalance, the public debt ratio is expected to return to a downward path from 2021 (inclusive) in both scenarios considered, albeit from a higher level than before.

In fact, the time has come to define the threads with which the country's economic recovery will be sewn. In the immediate future, and following measures already underway, it is important to ensure the liquidity of solvent companies, the survival of these companies and the sectors in which they operate, the protection of employment and household income, preserving the accumulated human and physical capital and thus maintaining, as far as possible, the country's productive capacity and the possibilities of consumption. However, it would be important to strengthen the diversification of the Portuguese economy, bearing in mind that the more diversified an economy is, the greater its capacity to share risk and absorb adverse shocks.

The ability of the economy to recover will largely depend on the future situation of public finances, not only in the short term (developments in fiscal balances) but also in the medium-to-long term (public debt dynamics).

It is indeed essential to preserve the conditions for the sustainability of Portuguese public finances, first and foremost because the State's ability to continue to perform its functions fully depends on it, particularly in the field of social protection. It is important to note that, despite the consolidation efforts made in recent years, the legacy acquired from 2019 – a debt of 117.7% of GDP – is still very heavy and disadvantages Portugal in the European context[1]. In the baseline scenario now presented, it is estimated that public debt as a percentage of GDP will increase by 15.4 p.p. in 2020 compared to the previous year, to stand at 133.1%. According to this same scenario, the weight of the debt acquired, in conjunction with the decrease in nominal GDP, prevailed significantly more for this increase than the deterioration of the primary balance expected for the same year (the latter contributing only 1/5 to this increase).

While it is true that in more immediate terms the ECB's action and the recovery plan recently proposed by the European Commission (not considered in these projections)[2] strengthen the conditions of sustainability of Portuguese public finances by helping to contain financing costs and promote growth in Europe as a whole, it is no less true that Portugal is, for the reasons set out above, subject to greater exposure to the financial markets and to a change in perceptions of sovereign risk. The effort to reverse the growth in debt, without compromising a favourable perception by the markets, will therefore be demanding. On the other hand, it is to be expected that, within the framework of the European rules and institutions, a return to budgetary 'normalcy' and the reaffirmation of a credible commitment by the State around a (new) objective of public debt reduction will soon be demanded.

Indeed, neither the context of social emergency and public health in which we live nor the expectation of a supported economic recovery should mean giving up, for example, the effort to implement ongoing institutional reforms associated with the implementation of sound and transparent public financial management processes, since they too are the basis for trust in the conditions of sustainability. Reforms already initiated in the field of public finances, the completion of which has been successively delayed, must not be neglected. In particular, the full implementation of the accounting standardisation system for general government (SNC-AP) would allow a consolidated view of the general government budgetary position, almost in real time,

[1] For a comparison with the share of public debt in the main euro area countries and in some other European Union (EU) countries, given the estimates in their stability and convergence programmes for the growth of the same debt after the pandemic crisis, see the study available on the CFP blog: https://www.cfp.pt/pt/blogue/financas-publicas/efeitos-da-pandemia-o-que-revelam-os-programas-de-estabilidade.

[2] The recent announcement of the European Recovery Programme by the President of the European Commission may be considered an upside risk for public finances and, therefore, for the Portuguese economy in general. The total value of the 'firepower' of the European Budget will be 1.85 billion euros (equivalent to 2% of EU Gross National Income), combining 750 billion euros associated with the new recovery instrument with the reinforcements foreseen for the different programmes of the new European financial framework, for the period 2021-2027. Information available here: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940.

from a perspective of accounting close to that relevant for national accounts, which would greatly facilitate the decision-making process and budgetary transparency. If the public decision-maker had this information, it would be possible to move towards a true public financial management, which would privilege the achievement of measurable results in the medium term, making use of the budgetary programmes and other instruments advocated in the Budgetary Framework Law of 2015, the full implementation of which has not yet taken place. It is perfectly within our reach to move towards a budgetary framework with these characteristics.

Support for economic recovery can be an opportunity, for Europe and for Portugal. For Europe, and first and foremost for the euro countries, the recovery instrument can favour both more effective convergence in wealth and income levels and greater synchronisation of the economic cycles of the respective member countries. For Portugal, it will be the opportunity for a strategy of sustainable growth, in economic, social and environmental terms, now, hopefully, within a framework of collective demand and responsibility that safeguards, for the future, the financial solidity of families, companies and the State.

EXECUTIVE SUMMARY

Macroeconomic outlook

In the current context of a pandemic by the new coronavirus (COVID-19), the Portuguese economy is expected to contract in 2020 in line with existing forecasts for the global economy and, particularly, for the euro area.

Due to the particularity of this projection exercise, regarding its high uncertainty and inherent risks, the CFP has opted to present two scenarios, a baseline and a severe scenario, taking into account the estimated impact of the lockdown measures and the economic and fiscal policy measures on the economy. The baseline scenario anticipates a contraction of output of 7.5% in 2020 while in the severe scenario the reduction is 11.8%.

The reduction of GDP in 2020 reflects, on the one hand, the significant decrease in external demand directed to Portugal, with an impact on total exports, particularly on the exports of services, due to the fall in external demand directed to the tourism sector and related activities. On the other hand, it reflects the delay of investment and consumption by economic agents, in a scenario of high uncertainty.

Summary of the CFP macroeconomic scenario (change, %)

		Baseline			Severe		
	2019	2020	2021	2022	2020	2021	2022
Gross Domestic Product	**2.2**	**-7.5**	**3.0**	**2.6**	**-11.8**	**4.7**	**3.2**
Private consumption	2.2	-7.5	4.3	3.4	-12.8	6.6	4.2
Public consumption	1.1	2.8	-0.3	0.7	3.5	-0.9	0.5
Gross Fixed Capital Formation	6.3	-10.4	6.9	5.1	-15.1	9.1	6.4
Exports	3.7	-20.6	6.0	2.2	-26.9	8.4	3.1
Imports	5.2	-18.4	7.8	4.0	-24.6	10.3	5.1
Domestic demand (p.p.)	2.7	-6.6	3.7	3.3	-10.7	5.5	4.0
Net exports (p.p.)	-0.6	-1.0	-0.7	-0.7	-1.1	-0.8	-0.8
Unemployment rate (% labour force)	6.5	11.0	9.0	8.1	13.1	10.8	9.5
Employment	1.0	-5.0	2.2	1.0	-7.2	2.6	1.5
Net lending (% GDP)	0.8	0.4	-0.7	-1.4	0.2	-0.8	-1.6
Trade balance (% GDP)	0.1	-0.5	-1.2	-1.8	-0.6	-1.3	-2.1
GDP deflator	1.7	1.2	1.1	1.2	1.0	1.0	1.2
HICP	0.3	-0.2	0.7	1.1	-0.3	0.7	1.1

Sources: CFP projections (2020-2022) and Statistics Portugal (2019).

Both scenarios focus the effect of the lockdown in the second quarter of 2020. They differ in the magnitude of the shocks to global and external demand, the pace of normalisation of economic activity, both domestic and external, during the second half of 2020 and the duration of policy measures.

The resumption of growth in 2021 and 2022 is based on the expectation that the shock in the economy is transitory, but the downside risks underlying this scenario are very high. The current context is characterised by a scenario of extreme uncertainty, in which a widespread shock at the global level intensifies the downside risks for Portugal as a small open economy. In either scenario, the expected recovery of the economy will not be sufficient to recover the level of pre-pandemic GDP in this time horizon.

Labour market conditions are expected to reflect the evolution of economic activity in 2020-2022. A contraction of 5.0% on employment and an increase in the unemployment rate to 11.0% of the labour force in 2020 are projected in the baseline scenario. During the recovery in 2021 and 2022, employment growth is projected to stand at 2.2% and 1.0%; and the unemployment rate is projected to decrease to 9.0% and 8.1% respectively. In the severe scenario, the recession in 2020 could lead to an employment contraction of 7.2% and an increase in the unemployment rate to 13.1%. The subsequent recovery of employment in this scenario is slower, reflecting greater labour market rigidity: in 2021 and 2022 employment is expected to increase by 2.6% and 1.5%; and the unemployment rate is expected to decrease to 10.8% and 9.5% of the labour force, respectively.

The current macroeconomic scenario of the CFP projects a rate of change in the Harmonised Index of Consumer Prices (HICP) around -0.2% in 2020. A growth of 0.7% in prices in 2021 and 1.1% in 2022 is anticipated.

Budgetary Prospects

The medium-term budgetary projection points in both scenarios to a reversal in the path of budget balance evolution. After the surplus reached in 2019 (0.2% of GDP), the CFP forecast anticipates for 2020 a significant deterioration of the general government balance, which in the baseline scenario should reach a deficit of 6.5% of GDP and in the severe scenario 9.3% of GDP.

The difference in magnitude of the budget balance between the two scenarios is justified by the differentiated macroeconomic framework and the estimated annual impact admitted by the CFP for the measures in response to COVID-19, which duration is not the same in both projections.

Summary of the CFP budgetary scenario (% of GDP)

		Baseline scenario			Severe scenario		
		2020	2021	2022	2020	2021	2022
Total Revenue	**42.9**	**42.4**	**43.0**	**42.3**	**42.7**	**43.3**	**42.6**
Current revenue	42.5	41.9	42.0	41.9	42.2	42.3	42.1
Tax Revenue	25.0	24.3	24.7	24.7	24.4	24.7	24.8
Indirect taxes	15.1	14.6	14.9	15.0	14.7	14.9	15.0
Direct taxes	9.8	9.6	9.8	9.8	9.7	9.8	9.7
Social Contributions	11.9	11.9	11.7	11.6	11.8	11.8	11.6
Sales and other current revenue	5.6	5.8	5.6	5.5	6.0	5.8	5.7
Capital Revenue	0.4	0.5	1.0	0.5	0.5	1.0	0.5
Primary Expenditure	**39.7**	**45.6**	**43.0**	**42.2**	**48.5**	**44.4**	**43.4**
Current primary expenditure	36.8	42.1	40.0	39.3	44.9	41.4	40.4
Intermediate consumption	5.2	5.8	5.5	5.4	6.1	5.7	5.5
Compensation of employees	10.7	11.9	11.6	11.3	12.5	12.0	11.6
Social Benefits	18.2	20.6	20.0	19.7	21.8	20.8	20.3
Subsidies and other current expenditure	2.7	3.9	2.9	2.9	4.5	2.9	2.9
Capital expenditure	2.9	3.5	3.0	2.9	3.6	3.1	3.0
Primary balance	**3.2**	**-3.2**	**0.0**	**0.1**	**-5.8**	**-1.2**	**-0.8**
Headline Budget balance	3.0	3.3	3.3	3.2	3.5	3.6	3.4
Total Expenditure	**42.7**	**48.8**	**46.2**	**45.4**	**52.0**	**48.0**	**46.8**
Headline Budget balance	**0.2**	**-6.5**	**-3.3**	**-3.1**	**-9.3**	**-4.7**	**-4.2**
Adjusted budget balance from one-offs	0.8	-5.8	-3.6	-3.1	-8.6	-5.0	-4.2
Public debt	117.7	133.1	131.4	129.8	141.8	139.0	137.6

Sources: CFP (2020-2022) and INE (2019) projections.

The return to fiscal imbalance in 2020 reflects, in addition to the action of automatic stabilizers, the budgetary impact estimated by the CFP for the exceptional response measures to the COVID-19 pandemic. The effect of these two factors is projected to be responsible in 2020 for more than three-quarters of the deterioration of the budget balance in the baseline scenario and more than four-fifths in the severe scenario. In either scenario, the action of the automatic stabilizers explains more than half of the worsening of the balance projected for this year. This imbalance will remain until 2022, with both scenarios showing a path of reduction of the budget deficit.

The primary balance, which excludes interest charges, will begin a recovery trajectory in 2021. Developments in the baseline scenario point to a balanced primary balance in 2021 and a primary surplus in 2022, contrary to the primary deficit situation projected to remain until 2022 in the severe scenario.

The worsening of the budget balance ratio results mainly from an increase in the share of expenditure in GDP and, to a lesser extent, from a decrease in the share of revenue. In both scenarios, a significant increase in the share of public expenditure in GDP is projected, the dynamics of which is determinant for the evolution of the fiscal balance in the period from 2020 to 2022. In 2020 alone, the public expenditure ratio is projected to increase by around 6.2 p.p. of GDP in the baseline scenario and 9.3 p.p. of GDP in the severe scenario. In invariant policies a reduction in the share of expenditure in GDP is anticipated from 2021 (inclusive) as a result of the phasing out of the measures to combat COVID-19 and the recovery of economic activity. However, no return of expenditure to the pre-COVID level is expected in this time horizon: between 2019 and 2022, the baseline scenario projects an increase in the share of public expenditure of 2.7 p.p. of GDP and the severe scenario an increase of 4.1 p.p. of GDP.

In contrast, public revenue is expected to reduce its weight in GDP reflecting the sharp contraction of economic activity in Portugal. In the baseline scenario, the projected path for revenue indicates a decrease of 0.5 p.p. of GDP between 2019 and 2022, concentrated in 2020. Regarding the severe scenario, the decrease should be 0.3 p.p. between 2019 and 2022. From 2021 on, in both scenarios it is projected the return of growth in absolute terms of public revenue and when expressed as a percent of GDP its trajectory is influenced by the denominator effect.

Public debt is projected to register a strong worsening of its weight in GDP in 2020, not recovering over the projection horizon to pre-pandemic levels. Both projection scenarios point to an increase in the public debt ratio in 2020, resuming a gradual reduction path until 2022.

In the baseline scenario the debt ratio is projected to increase by 15.3 p.p. of GDP, reaching 133.1% of GDP, while in the severe scenario this increase is 24 p.p., raising the debt ratio to 141.8% of GDP. In either scenario, the significant increase in the debt ratio in 2020 is explained by the significant unfavourable dynamic effect, which reflects the combination of the pre-existing debt ratio with the contraction of economic activity and the unfavourable interest effect.

The projected reduction in the debt ratio by 2022 will put that indicator at 129.8% of GDP in the baseline scenario, down 7.7 p.p. of GDP from that projected in the severe scenario (137.6% of GDP). The dynamic effect will be decisive for the reduction of the debt ratio in any of the scenarios, with the primary balance making a favourable contribution only in 2022, in the baseline scenario, to justify less than one tenth of the projected reduction for that ratio.

Risks

The projection exercise presented in this report takes place in a context of abnormal and historically high risks and uncertainty, the large part of which is of a downside nature. For this reason, the projections presented, fulfilling their original function of guiding the Portuguese public finances position, must be analysed with additional caution.

The current COVID-19 pandemic has resulted in an unprecedented negative shock to the world economy, posing important challenges not only to the Portuguese economy, but also to its main partners. This context imposes an unfavourable external environment for the Portuguese economy, as the recovery of economic activity based on good export performance is very limited.

The adverse impacts that the proliferation of COVID-19 has on the level of industrial production, on international logistics chains, on the tourism sector to which Portugal is particularly exposed, and on the level of confidence of businesses, consumers and investors on a global scale may prove to be stronger and longer lasting than assumed in these projections.

At the domestic level, the considerable level of indebtedness and the decrease in income have left Portuguese households more vulnerable, as an increase in financial market volatility may be reflected in an increase of interest rates. This risk is also extended to the general government, as they still have a high stock of debt, although this risk is partly mitigated by the maintenance of an accommodative monetary policy by the ECB.

An upside risk to this exercise arises from the fact that these are projections in invariant policies, only the economic policy measures already approved and in force are considered. The European Commission has already proposed a recovery plan for Europe and at the domestic level a proposal for a budget review law to amend the State Budget Law for 2020 is awaited, as well as a recalibration of measures to support the economy and employment. As the Stability Programme has not included any information on new measures to be adopted, these obviously cannot be included in a scenario of invariant policies. Should the approval of these documents result in effective economic stimulus measures, there will be an upside risk to these projections.

At the budgetary level, the risk of the impact of the discretionary measures adopted in response to COVID-19 is particularly relevant. In this respect, the absence of a forecast of the impact of these measures for the whole year led the CFP to prepare its own annual estimate, which further enhanced the associated risk.

Some of the policy measures systematised in the PE/2020 will have a direct negative impact on the budget balance, in particular the public health measures, the simplified lay-off and the support for the resumption of business activity. There are other liquidity support measures foreseen to support businesses, households and other entities, and estimated by the MF, which do not have an immediate direct impact from the fiscal point of view, but which in many cases are contingent liabilities of general government.

In addition, there is the potential risk of measures to support the financial sector and private sector entities, in particular possible support from the Portuguese State to TAP Air Portugal. Finally, the materialisation of budgetary pressures on the more rigid components of public expenditure (expenditure on social benefits and personnel expenditure) will make it more difficult to recover from a budgetary situation to the pre-crisis level.

1. INTRODUCTION

This Report presents macro-budgetary projections prepared by the Portuguese Public Finance Council (CFP) for the period from 2020 to 2022.

The document is presented at a particularly difficult time for Portuguese society and economy as a result of the effects of the public health crisis generated by the new coronavirus (SARS-CoV-2 pandemic (COVID-19)).

For the first time, the CFP presents macroeconomic and budgetary projections in two scenarios and for a shorter time horizon. This is due to the high uncertainty that continues to surround the evolution of the world and national economy, given the unprecedented impact of the COVID-19 pandemic on the economic activity of most countries, with natural reflexes on the Portuguese economy.

The first of the scenarios presented corresponds to the impact that, in view of the available information, we consider as the baseline of the projection and the other, more severe, to an amplification of these effects. The difference between the scenarios results mainly from the duration and intensity of the restrictive measures in Portugal and in its main trading partners and the recomposition of the productive and movement chains of people, goods and services on a European and global scale.

The scenarios presented are based on the assumption of invariant policies, described in detail in the body of the Report. However, the duration and intensity of these measures varies between the two scenarios. For the elaboration of the scenarios, the CFP used its own models, complemented by sectoral calculations using input-output tables and administrative data, as well as external technical assumptions.

The effects of the measures considered specified in the 2020 Stability Programme (SP/2020), in the State Budget Proposal Report (SB/2020) and in the 2019-2023 Stability Programme (SP/2019) were included, as well as the expected impacts in 2020 and subsequent years arising from measures implemented in previous years.

The developments presented do not correspond to forecasts for the period from 2020 to 2022, but to a projection of trends according to the available information.

The document is structured in three chapters, the first of which is an introduction. Chapter 2 presents the macroeconomic projections for the Portuguese economy for the period from 2020 to 2022, while Chapter 3 is devoted to the projection of the general government account for the same time span, based on the two macroeconomic scenarios presented in the previous chapter.

The CFP thanks all the entities contacted for their support and clarifications in the preparation of this work.

2. MACROECONOMIC OUTLOOK

2.1 Portuguese economy: the recession and the uncertainty of recovery in 2020

The public health crisis generated by the new SARS-CoV-2 coronavirus that caused the COVID-19 pandemic is having an unprecedented impact on economic activity in most countries. The necessary social distancing and the mitigation measures adopted, essential to contain the outbreak and the human toll of this crisis, have a strong impact on demand and supply decisions in the economy. A contraction of the Portuguese economy is expected in 2020, which follows the developments at the global level and, particularly, those in the euro area.

The current context is characterised by extreme uncertainty regarding: the magnitude and duration of the economic shock, including the transmission channels of the health crisis in the economy; the response of economic agents to measures supporting economic activity; and developments in the external environment. The widespread and generalised global shock intensifies the downside risks for Portugal as a small open economy, which in recent years has increased the weight of the tourism sector.

Due to the particularity of this projection exercise, regarding its high uncertainty and inherent risks, the CFP opted to present two scenarios (Table 1), a baseline and a severe scenario. Both scenarios concentrate the effect of the lockdown in the second quarter and project a recession in 2020. They differ in the magnitude of the shocks to global and external demand, the pace of normalisation of economic activity, both domestic and external, during the second half of 2020 and the duration of policy measures[3]. In the baseline scenario, the third quarter will still be quite affected, mainly by the slow recovery of external demand, despite the gradual opening of domestic activities. In the adverse scenario, a slower recovery of external demand and a more gradual domestic recovery will affect the third and also the fourth quarter.

Estimates of the impact of COVID-19 on overall demand and supply were obtained using shocks to expenditure and employment aggregates using the macro-budgetary model of the CFP (PMF), complemented by sectoral calculations using input-output tables, administrative data and external assumptions.

[3] See Box 2 for a description of the policy measures considered.

Table1 - CFP macroeconomic scenario

		Baseline scenario			Severe scenario		
	2019	2020	2021	2022	2020	2021	2022
Real GDP and components (change, %)							
GDP	2.2	-7.5	3.0	2.6	-11.8	4.7	3.2
Private consumption	2.2	-7.5	4.3	3.4	-12.8	6.6	4.2
Public consumption	1.1	2.8	-0.3	0.7	3.5	-0.9	0.5
Investment (GFCF)	6.3	-10.4	6.9	5.1	-15.1	9.1	6.4
Exports	3.7	-20.6	6.0	2.2	-26.9	8.4	3.1
Imports	5.2	-18.4	7.8	4.0	-24.6	10.3	5.1
Contributions to real GDP change (p.p.)							
Domestic demand	2.7	-6.6	3.7	3.3	-10.7	5.5	4.0
Net exports	-0.6	-1.0	-0.7	-0.7	-1.1	-0.8	-0.8
Prices (change, %)							
GDP deflator	1.7	1.2	1.1	1.2	1.0	1.0	1.2
HCPI	0.3	-0.2	0.7	1.1	-0.3	0.7	1.1
Nominal GDP							
Change (%)	3.9	-6.4	4.1	3.8	-10.9	5.7	4.4
Level ('000 M€)	212.3	198.6	206.7	214.6	189.1	199.9	208.8
Labour market							
Unemployment rate (% labour force)	6.5	11.0	9.0	8.1	13.1	10.8	9.5
Employment (change, %)	1.0	-5.0	2.2	1.0	-7.2	2.6	1.5
External sector (% GDP)							
Net lending	0.8	0.4	-0.7	-1.4	0.2	-0.8	-1.6
Trade balance	0.1	-0.5	-1.2	-1.8	-0.6	-1.3	-2.1

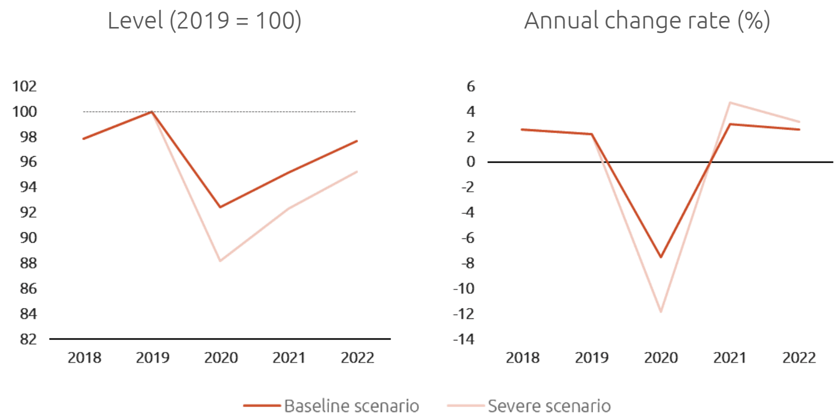
Source: CFP projections (2020-2022) and Statistics Portugal (2019).

Baseline Scenario

The projected dynamics of economic activity in the period 2020-2022 depends on the nature and magnitude of the shock and its persistence during 2020. The baseline scenario incorporates the expectation that the transitory negative shock, mainly on the demand side, will be more intense in the second quarter of 2020 and that the recovery of the economy will be relatively quick during the second half of the year. This negative shock adds to the moderate deceleration path the Portuguese economy was already on, notwithstanding successive upward revisions by the national statistics office to GDP growth in recent years.

In the baseline scenario, the Portuguese economy is expected to contract by 7.5% in 2020 (2.2% increase in 2019). The recovery of growth to 3.0% in 2021 and to 2.6% in 2022 is based on the expectation that the shock in the economy is transitory, but the downside risks underlying this scenario are very high (Table 1 and Chart 1).

Chart 1 – GDP at constant prices projections



Sources: Statistics Portugal and CFP calculations and projections.

For 2020, the expected reduction in the rate of change of real GDP by 9.7 p.p. reflects:

i) the significant fall in external demand directed to Portugal with an impact on exports of goods and services. The magnitude of the negative impact is estimated to be greater on exports of services, with the tourism sector being harmed by the current context and its recovery may take longer to occur, even until the end of the year;

(ii) the delay of investment and consumption by economic agents in a scenario of extreme uncertainty and loss of income; and

(iii) the decline on overall demand aggregates and imports due to the impossibility of spending during the lockdown.

For private consumption, the baseline scenario anticipates a reduction of 7.5% in 2020 (-9.7 p.p. than in 2019), followed by a recovery to 4.3% in 2021 and 3.4% in 2022. This performance reflects a sharp decrease in the consumption of durables in 2020 and the expected dynamics of households' real disposable income over the projection horizon, the decrease of which in 2020 is mitigated by the State support measures to households.

The baseline scenario projects that the pace of public consumption growth in volume should accelerate in 2020 by 1.7 p.p. to 2.8%, decreasing to -0.3% and 0.7% in 2021 and 2022, respectively. This projection stems from the expected dynamics for the social transfers in kind, compensation of employees and intermediate consumption items, particularly in public health expenditure.

In 2020, GFCF is expected to decrease by 10.4% in volume (6.3% increase in 2019), mainly due to the deterioration of businesses' expectations regarding the evolution of global demand and production prospects for the current year, as well as disruptions in production chains and demand. In 2021 and 2022 a recovery in the pace of GFCF growth to 6.9% and 5.1% respectively is anticipated, as a result of the implementation of postponed investment decisions from the previous year, and in line with an expectation of a recovery in external demand.

Exports of goods and services in volume should have a negative change of 20.6% in 2020, a fall of 24.3 p.p. from the growth observed in 2019 (3.7%). This evolution follows the expected contraction on external demand directed to the Portuguese economy (see Table 2), particularly in the demand for tourism and transport services. For 2021, the pace of growth of this component of GDP is projected to resume to 6.0%, and a deceleration to 2.2% is expected in 2022. This dynamic is based on the technical assumption of unchanged market share of national exports over the projection horizon.[4]

For imports of goods and services this scenario anticipates a significant drop in 2020, projecting a change of -18.4% in real terms (5.2% in 2019). This dynamic reflects the contraction of global demand components with a high import content. For 2021 and 2022, imports in volume are projected to increase by 7.8% and 4.0% respectively.

The projected drop in imports below that of exports implies, in this scenario, a degradation of the balance of goods and services in 2020 to -0.5% of GDP (+0.1% in 2019) although mitigated by the gain in terms of trade associated with the drop in oil prices. The deterioration of the balance of goods and services extends until 2022, reaching -1.8% of GDP. At the same time, it is anticipated that the external balance will also progressively deteriorate, becoming a deficit from 2021 onwards.

Labour market conditions are expected to reflect the evolution of economic activity in 2020-2022, even if its recovery is slower. In the baseline scenario, employment is projected to contract by 5.0% and the unemployment rate to increase to 11.0% of the labour force in 2020 (compared to an increase in employment of 1.0% and an unemployment rate of 6.5% in 2019). The recovery of economic activity from the end of 2020 onwards should lead to a subsequent recovery of employment growth to 2.2% in 2021 and 1.0% in 2022, and a decrease in the unemployment rate to 9.0% and 8.1% in 2021 and 2022, respectively.

The CFP baseline macroeconomic scenario projects a rate of change in the Harmonised Index of Consumer Prices (HICP) of -0.2% in 2020 (0.3% in 2019). The expectation of deflation in 2020 reflects, on the one hand, the negative shock on demand in a context of postponement of private consumption, combined with less favourable dynamics in the labour market. On the other hand, the evolution of prices during the year should incorporate the significant drop in oil prices. A price increase of 0.7% in 2021 and 1.1% in 2022 is anticipated.

Severe Scenario

In the severe scenario a decrease of 11.8% in real GDP is projected for 2020, followed by a recovery to a growth of 4.7% in 2021 and 3.2% in 2022 (Table 1 and Chart 1).

[4] In other words, the change in exports is identical to that assumed in the technical assumptions for external demand.

In this scenario, the peak of the effects of the pandemic, more severe than in the baseline scenario, is also expected to occur during the second quarter of 2020. However, the recovery of the economy will be slower than in the baseline scenario during the second half of the year, considering a more intense drop in trade and a climate of greater uncertainty.

The following contribute to the dynamics of real GDP during 2020-2022 in the severe scenario:

i) The 26.9% drop in total exports in volume in 2020, particularly in services exports due to the fall in the tourism sector and related activities. The recovery of growth to 8.4% and 3.1% in 2021 and 2022, respectively, follows the evolution of external demand, keeping the assumption of unchanged market share.

ii) The 15.1% decrease in GFCF by volume in 2020, in a scenario of greater uncertainty and more pessimistic prospects by businesses regarding the evolution of global demand and production for the current year, as well as less favourable financial conditions. The growth of 9.1% and 6.4% in 2021 and 2022, respectively, reflect a greater volume of investment postponed during 2020 and the greater need to replace the capital stock due to loss of productive capacity.

iii) The 12.8% reduction in private consumption in 2020, owing to the greater loss of disposable income of households due to labour market conditions and the increase in savings for precautionary reasons in the face of greater uncertainty. Private consumption growth recovers in 2021 and 2022 to 6.6% and 4.2% respectively.

In the severe scenario, the balance of goods and services shows a sharper deterioration of its balance, from -0.6% of GDP in 2020 to -2.1% in 2022, which is reflected in the path of the external balance.

In the CFP's severe macroeconomic scenario, the recession in 2020 leads to a 7.2% contraction in employment and an increase in the unemployment rate to 13.1%. The subsequent recovery of employment in this scenario is slower, reflecting greater rigidity in the labour market. In 2021 and 2022 employment is expected to increase by 2.6% and 1.5% and the unemployment rate is expected to decrease to 10.8% and 9.5% of the labour force, respectively.

2.2 External framework of the Portuguese Economy

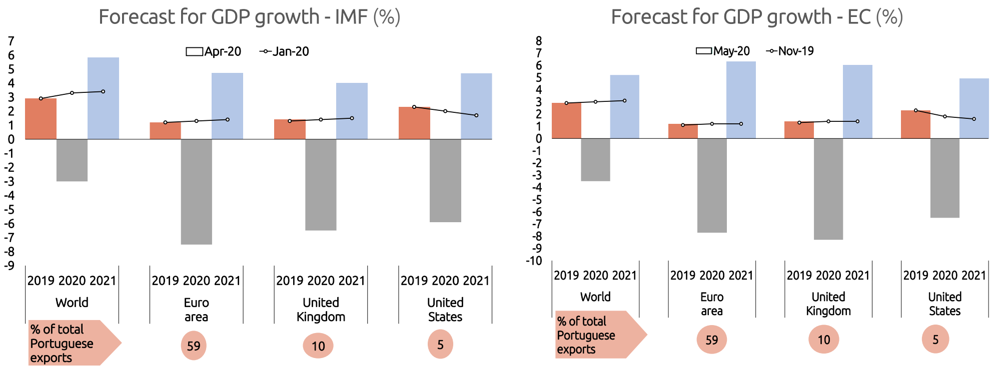
International economy

The latest projections point to a significant contraction of world GDP in 2020, reflecting the economic impacts related to the lockdown measures adopted at global level over the past months. This contraction is expected to occur after a 2.9% growth in world GDP in 2019 and represents a considerable downward revision of the economic prospects for 2020 compared to the previously released macroeconomic scenarios (Chart 2). Both the International Monetary Fund (IMF) in the April *World Economic Outlook* and the European Commission (EC) in the May *Spring Forecast* project global output contractions of 3.0% and 3.5%, respectively, representing revisions of -6.3 p.p.

and -6.5 p.p., compared to the scenarios previously published. For 2021, both the Fund and the EC anticipate a robust recovery in global economic activity, projecting world GDP growth of 5.8% and 5.2%, respectively.

In this context, the main Portuguese trading partners should not represent an exception. According to the most recent IMF data, the euro area (EA), the United Kingdom (UK) and the United States of America (USA) are expected to register a GDP contraction of 7.5%, 6.5% and 5.9%, respectively, in 2020. The EC also expects a decrease in the real output of these economies, projecting reductions of 7.7%, 8.3% and 6.5% respectively. The year 2021 should be a year of recovery, with the economies of the EA, the UK and the USA expected to grow by 4.7%, 4.0% and 4.7%, respectively in the Fund scenario, and to register growth of 6.3%, 6.0% and 4.9% in the EC scenario.

Chart 2 - Forecasts for GDP growth in volume for the world and for the main Portuguese trading partners (%)

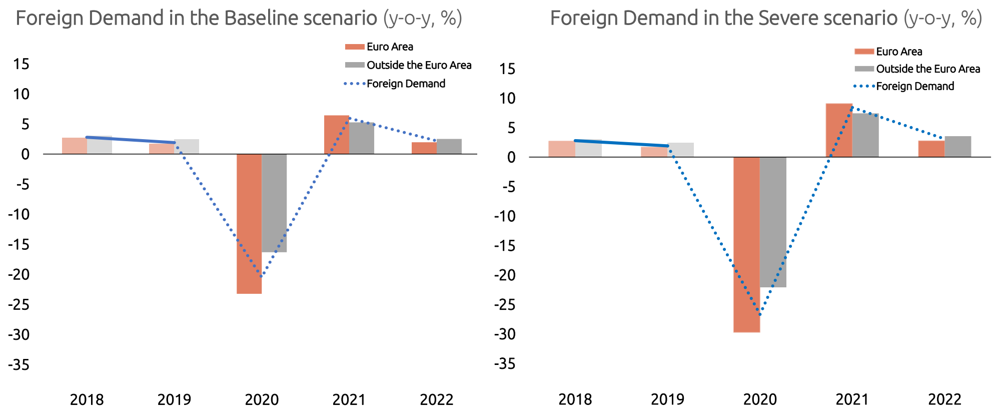


Source: EC – European Economic Forecast, November 2019 and May 2020. CFP calculations.

External demand directed to Portugal

Translating the projected evolution for the international economy and, more specifically, for the economies of Portugal's main trading partners, it is expected that external demand for Portuguese goods and services will decline sharply in 2020. Thus, and according to the two scenarios considered by the CFP, the external demand for Portugal is expected to fall by 20.5% in the baseline scenario and by 26.7% in the severe scenario, with the fall in demand from EA countries being greater than that of other countries in the world (Chart 3). In fact, the variation in demand from EA countries will be -23.2% in the baseline scenario and -29.7% in the severe scenario, while demand for goods and services from the rest of the world should fall between 16.3% and 22.1%, depending on the severity of the external environment considered. The more pronounced decrease in demand from the EA countries is due to the fact that the main Portuguese economic partners within this monetary area, i.e. Spain, Germany and France, are expected to contract their GDP by 9.4%, 6.5% and 8.2% respectively, according to the EC. In 2021 and 2022 we should observe a recovery in external demand directed at Portugal, driven both by growth in demand for goods and services from the EA and by demand from other countries in the world.

Chart3 - External demand directed at Portugal



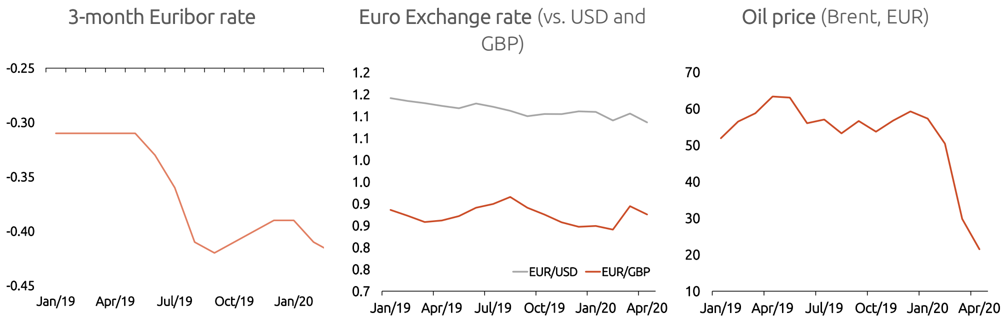
Sources: BdP, EC - Spring Forecast 2020 and CFP calculations.

Financial and raw materials markets

In the first quarter of the year, and following the trend already observed since the second half of 2019, the monthly average of the 3-month Euribor rate maintained its downward trend, reaching the historical low of -0.42% in March. Nevertheless, and following the financial turbulence resulting from the proliferation of the COVID-19 pandemic, short-term interest rates in the euro area increased, with the 3-month Euribor rate reaching -0.25% in April.

Following the monetary policy measures taken by the main world central banks in response to the current economic climate, the depreciation trend of the euro against the US dollar continued in the first months of 2020, with an average EUR/USD exchange rate of 1.086 in April. Against the Pound Sterling, and with the exception of a slight appreciation of the euro in March, in the period between August 2019 and April 2020, the single European currency depreciated against its British counterpart, as a result of the reduction in uncertainty associated with the departure of the United Kingdom from the European Union (Chart 4).

Chart 4 – 3-month Euribor rate, exchange rates and oil price



Source: ECB and BdP | Note: Average of observations through the period.

Brent's prices, in the first four months of the year, fell significantly, reaching 21.5 euros per barrel in April. This dynamic was the result of a trade conflict between two of the world's main oil-producing countries and, at a later stage, of a drop in world demand due to the lockdown policies adopted in all countries. With the gradual reopening of the economies and the consequent increase in demand from oil-importing countries, a recovery in Brent prices is expected in the coming months. This dynamic is observable through the values of the Brent futures contracts negotiated at the information cut-off date used in this document, which foresee a gradual increase in their price in dollars over the medium term (Chart 4 and Table 2).

Technical hypotheses for the external framework

Considering the most recent international developments and the outlook for the international economy described in this section, the following technical assumptions were considered for the projection exercise:

Table 2 - Technical assumptions for the external economic environment

		Baseline scenario			Severe scenario		
	2019	2020	2021	2022	2020	2021	2022
Assumptions							
Foreign demand (change, %)	2.1	-20.5	6.0	2.2	-26.7	8.4	3.1
Short-term interest rate (EURIBOR 3M, %)	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
EUR-USD exchange rate	1.12	1.09	1.09	1.09	1.09	1.09	1.09
Oil price (Brent, EUR)	57.2	32.7	35.5	38.7	32.7	35.5	38.7

Sources: BdP, ECB and CFP calculations. | Note: The technical assumption for the EUR-USD exchange rate assumes the average rates observed in the two weeks prior to the information cut-off date (May 22) will continue over the course of the projection time horizon. The technical assumption for the price of oil is based on future contracts for Brent oil in USD. The change in the 3-month Euribor is based on projections of the ECB for 2020-2022.

Box 1 - Projections and forecasts for the Portuguese economy

The institutions considered in Table 3 anticipate a contraction of the Portuguese economy in 2020 between -3.7% by the BdP in its baseline scenario (more time-lagged) and -6.8% and -8.0% of the EC and IMF, respectively. The rate of change of the Harmonised Index of Consumer Prices (HICP) is expected to decelerate from 0.3% in 2019 to 0.2% in 2020 in the BdP scenario, but to become negative in the projections released by both the IMF and the EC (-0.2% in both scenarios). The institutions considered project an increase in the unemployment rate from 6.5% in 2019, to figures ranging from 9.7% by the EC to 13.9% by the IMF, this year. In external terms, both the BdP and the EC anticipate that the net lending capacity of the Portuguese economy will remain positive, with balances of 2.0% and 0.5% of GDP, respectively.

In 2021, according to the scenarios in Table 3, the Portuguese economy is expected to recover to values ranging from 0.7% by the BdP to 5.0% and 5.8% by the IMF and the EC, respectively. Regarding prices, the HICP is expected to accelerate to a growth between 0.7% according to the BdP and 1.4% according to the IMF. The unemployment rate is expected to fall slightly next year, standing between 7.4% according to the EC and 9.5% according to the BdP scenario. The Portuguese economy's net lending in 2021 is expected to strengthen from this year's forecast figures, with a balance of 0.8% of GDP in the EC scenario and 2.4% of GDP in the macroeconomic framework released by the BdP. For 2022, the recovery of economic activity is expected to continue, with the BdP forecasting a real GDP growth of 3.1%, as well as a decrease in the unemployment rate to 8.0% of the labour force.

It should be noted that the projections presented are carried out at different times, based on technical assumptions and economic policy scenarios that differ between the various institutions.

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

Year	2019	2020			2021			2022
Institution and publication		BdP	IMF	EC	BdP	IMF	EC	BdP
Publication date	Mar20	Mar20	Apr20	May20	Mar20	Apr20	May20	Mar20
Real GDP and components (change, %)								
GDP	2.2	-3.7	-8.0	-6.8	0.7	5.0	5.8	3.1
Private consumption	2.2	-2.8	-	-5.8	1.4	-	5.3	2.9
Public consumption	1.1	2.1	-	2.4	-1.3	-	-1.5	1.0
Investment (GFCF)	6.3	-10.8	-	-8.6	2.9	-	8.9	7.9
Exports	3.7	-12.1	-	-14.1	4.2	-	13.2	5.5
Imports	5.2	-11.9	-	-10.3	5.5	-	10.3	6.2
Contributions to real GDP growth (p.p.)								
Domestic demand	2.7	-	-	-5.1	-	-	4.8	-
Net exports	-0.6	-	-	-1.6	-	-	1.0	-
Prices (change, %)								
GDP deflator	1.7	-	-	1.2	-	-	1.4	-
HICP	0.3	0.2	-0.2	-0.2	0.7	1.4	1.2	1.1
Nominal GDP								
Change (%)	3.9	-	-	-5.6	-	-	7.3	-
Level ('000 M€)	212.3	-	-	200.4	-	-	214.9	-
Labour market (change, %)								
Unemployment rate (% labour force)	6.5	10.1	13.9	9.7	9.5	8.7	7.4	8.0
Employment	0.8	-3.5	-	-3.4	0.7	-	2.7	1.8
External sector (% GDP)								
Net lending	0.8	2.0	-	0.5	2.4	-	0.8	1.3
Balance of goods and services	0.1	1.0	-	-1.0	0.6	-	0.0	0.2

Sources: 2019: INE. 2020-2022: BdP - Economic Bulletin, March 2020 (baseline scenario); IMF -World Economic Outlook, April 2020; EC - Spring 2020 Economic Forecast, May 2020.

2.3 Risks and uncertainty

The projection exercise presented in this report takes place in a context of abnormal and historically high risks and uncertainty, the large part of which is of a downside nature. For this reason, the projections presented, fulfilling their original function of guiding the Portuguese public finances position, must be analysed with additional caution.

Firstly, the unpredictability of the evolution of the COVID-19 pandemic, both in time and geographically, and the possibility of additional outbreaks in the future or the discovery of treatments and vaccines to mitigate their impact cannot be ruled out.

The current COVID-19 pandemic has resulted in an unprecedented negative shock to the world economy, occurring in a synchronised manner in most countries and posing important challenges not only to the Portuguese economy but also to its main partners. This context imposes an unfavourable external environment for the Portuguese economy, as the recovery of economic activity based on good export performance is very limited. Therefore, the following external risks should be highlighted:

i) The adverse impacts that the proliferation of the COVID-19 virus has on the level of industrial production, on international logistics chains, on the tourism sector to which Portugal is particularly exposed, and on the level of confidence of businesses, consumers and investors on a global scale may prove to be stronger and longer lasting than considered in these projections;

(ii) The unpredictability of the evolution of tensions between the United States and China, which could generate a further escalation of protectionism between two trading blocs, damaging value chains and international trade flows;

(iii) The high volatility in commodity prices and their relative unpredictability for the future, particularly oil, which is a source of uncertainty and may create an additional drag on the economy's recovery;

(iv) The considerable cooldown of global GDP, combined with a high level of public and private indebtedness worldwide, may increase risk aversion by international investors, leading to a restriction of liquidity in financial markets and a worsening of financing conditions for the most negatively rated economies.

At the domestic level, the rise in credit granted by banks to households for consumption and housing, in a context of high prices in the real estate market, a considerable level of indebtedness and falling income, left Portuguese households vulnerable to the latter listed risk, as an increase in volatility in financial markets could be reflected in an increase of interest rates. This risk also extends to the general government, as they still exhibit a high stock of debt, even considering the partial attenuation given the maintenance of an accommodative monetary policy by the ECB. These pressures may be aggravated in a context of increased corporate default and possible deterioration in the financial sector's capacity to support the recovery of the economy. The risk of an increase in default situations (e.g. non-performing loans), at the limit affecting the balance sheets of banks and the overall financial situation of this sector, will be all the greater when the resumption of activity by firms affected in crisis under conditions of full normality is deferred.

There is also an upside risk to these projections. As these are projections in invariant policies, they only consider the economic policy measures already approved and in force. However, the European Commission has already proposed a recovery plan for Europe and at domestic level a proposal for a budget review law amending the SB/2020 is awaited, as well as a recalibration of measures to support the economy and employment. As the SP/2020 has not included any information on new measures to be adopted, these obviously cannot be included in a scenario of invariant policies. The probability that effective economic stimulus measures will result from the approval of these documents constitutes an upside risk to these projections.

3. FISCAL OUTLOOK

3.1 Medium-term fiscal scenario in invariant policies

This chapter presents the scenario of the Portuguese public finances evolution for the period 2020-2022. The current projection exercise was conducted in a context of constant policies, incorporating the most recent information on fiscal aggregates and public debt released by national statistical authorities. Contrary to previous exercises, this exercise contains a high degree of uncertainty and associated risks given the strong economic impact that the extension and duration of the SARS-CoV-2 pandemic (COVID-19) will have on public finances. In this plan, it should be noted that the budgetary variables that will most directly suffer the impact of this epidemiological phenomenon will be, through the action of the effects of the automatic stabilisers, the revenue from taxes and social contributions and expenditure on unemployment benefits. Exceptional discretionary measures to contain and mitigate the effects of the COVID-19 pandemic will have an increased impact that will be reflected mainly in expenditure on subsidies, social benefits and intermediate consumption. Given this context, the CFP has developed two scenarios - baseline and severe - which assumptions are described in section 2.1 and in an estimate of the annual fiscal impact of the measures adopted, which takes into account assumptions for the validity periods of some of them (see Box 2). In addition, the policy measures approved in the State Budget for 2020 were considered and analysed in the report on the State Budget proposal for 2020.[5]

3.1.1 Expenditure and revenue outlook

The current projection considers, in both scenarios, a significant increase in the share of public expenditure in GDP, which dynamics was the main explanatory factor for the evolution of the fiscal balance in the period 2020 to 2022. Only in 2020, the public expenditure ratio is projected to increase about 6.2 p.p. of GDP in the baseline scenario and 9.3 p.p. of GDP in the severe scenario vis-à-vis 2019. Despite this increase, over the projection horizon it is expected that the share of public expenditure in GDP will decrease as a result of the progressive elimination of the measures to combat COVID-19 and the recovery of economic activity. Between 2019 and 2022 the baseline scenario projects an increase in the share of public expenditure of 2.7 p.p. of GDP and the severe scenario an increase of 4.1 p.p.. In contrast, public revenue is expected to reduce its weight in GDP reflecting the sharp contraction of economic activity in Portugal. In the baseline scenario, the projected path for revenue indicates a decrease between 2019 and 2022, with greater expression in 2020 (-0.5 p.p. of GDP). Regarding the severe scenario, the decrease should be 0.3 p.p. between 2019 and 2022, with a

[5] However, in order to consider part of the measures to prevent and combat COVID-19, the CFP did not admit in 2020 the effects foreseen in the State Budget for 2020 as part of the expenditure review exercise (intermediate consumption and other current expenditure).

drop of 0.2 p.p. of GDP in 2020. From 2021 on, in both scenarios, the return of the public revenue growth is projected and when expressed as a percentage of GDP its trajectory is influenced by the denominator effect.

Expenditure

The CFP projection in the baseline scenario points to an increase in the share of public expenditure in GDP from 42.7% in 2019 to 45.4% in 2022, reaching a peak of 48.8% of GDP in 2020 (+6.2 p.p. of GDP compared to 2019) (Table 4). In the severe scenario, underpinning a greater economic contraction and a longer duration of the implementation of measures in response to the effects of the pandemic (see Box 2), public expenditure is expected to stand at 46.8% of GDP in 2022, reaching a maximum of 52% of GDP in 2020 (+9.3 p.p. of GDP compared to 2019). In both scenarios, the increase in the share of public expenditure between 2019 and 2022 is mainly explained by current primary expenditure (+2.5 p.p. of GDP in the baseline scenario and +3.6 p.p. of GDP in the severe scenario) and to a lesser extent by the interest burden (+0.2 p.p. of GDP in the baseline scenario and +0.4 p.p. of GDP in the severe scenario). In 2020 the highest growth in current primary expenditure should be observed, 5.3 p.p. more in the baseline scenario and 8.1 p.p. of GDP more in the severe scenario than in 2019, reaching 42.1% and 44.9% of GDP, respectively.

The upward trend of current primary expenditure is mostly justified by the increase in the share of social transfers (1.4 p.p. and 2.1 p.p. of GDP in the baseline and severe scenarios, respectively). It should be noted that in 2020 this item is expected to record the largest increase in the projection range, of 2.4 p.p. in the baseline scenario and 3.6 p.p. of GDP in the severe one, reducing its share in GDP in the following two years. This component essentially reflects the evolution of social benefits in cash, which behaviour is determined by annual updates and foreseen in the law (price effect), by the increase in the number of beneficiaries (volume effect), as well as by the impact of the measures to contain and mitigate the effects of the COVID-19 pandemic described in Box 2. In this regard, it is important to mention the greater impact of expenditure on unemployment benefits, resulting from the increase in the unemployment rate and the measure to extend this benefit.

Also contributing to the increase in the share of current primary expenditure, expenditure on compensation of employees, intermediate consumption and subsidies (Table 4) should be highlighted. The gradual unfreezing of progressions - with the reintroduction of the Integrated System for Management and Performance Evaluation in Public Administration (SIADAP) - the other compensation effects and the increase in public employment, particularly the increase in personnel hiring in the health sector, influence the path of personnel expenditure. With regard to intermediate consumption, the savings measures included in the State Budget for 2020 and PE/2019 were not considered, and it is expected that in the current conjuncture there will be a considerable increase in their share of GDP as a result of the measures implemented to strengthen the public health system's response capacity, such as the purchase of individual protection equipment and the increase in expenditure on medication and complementary diagnostic and therapeutic means, among others. Expenditure on subsidies and other current expenditure is expected to register a sharp increase in

2020, reaching 3.9% and 4.5% of GDP in the baseline and severe scenarios, respectively (+1.2 p.p. and +1.8 p.p. compared to 2019). This increase reflects measures to support economic activity, such as simplified lay-offs and extraordinary support granted to self-employed workers, managing partners, the resumption of business activity and vocational training (see Box 2). It is expected that, with the phasing out of the measures in response to COVID-19, this expenditure will reduce its weight in GDP over the projection horizon, accompanying the recovery of economic activity.

Capital expenditure is expected to remain constant over the horizon, although in 2020 a significant increase to 3.5% of GDP (+0.6 p.p. of GDP than in 2019) is projected in the baseline scenario and to 3.6% of GDP (+0.7 p.p. compared to the previous year) in the severe scenario. This trajectory is based on the continued recovery of public investment, through measures to stimulate the full use of European structural funds, the replenishment of the general government capital stock and the strengthening of public investment.

Table 4 – CFP Budgetary Framework (in % of GDP)

	2019	Baseline scenario			Severe scenario		
		2020	2021	2022	2020	2021	2022
Total Revenue	**42.9**	**42.4**	**43.0**	**42.3**	**42.7**	**43.3**	**42.6**
Current revenue	42.5	41.9	42.0	41.9	42.2	42.3	42.1
Tax Revenue	25.0	24.3	24.7	24.7	24.4	24.7	24.8
Indirect taxes	15.1	14.6	14.9	15.0	14.7	14.9	15.0
Direct taxes	9.8	9.6	9.8	9.8	9.7	9.8	9.7
Social Contributions	11.9	11.9	11.7	11.6	11.8	11.8	11.6
Sales and other current revenue	5.6	5.8	5.6	5.5	6.0	5.8	5.7
Capital Revenue	0.4	0.5	1.0	0.5	0.5	1.0	0.5
Primary Expenditure	**39.7**	**45.6**	**43.0**	**42.2**	**48.5**	**44.4**	**43.4**
Current primary expenditure	36.8	42.1	40.0	39.3	44.9	41.4	40.4
Intermediate consumption	5.2	5.8	5.5	5.4	6.1	5.7	5.5
Compensation of employees	10.7	11.9	11.6	11.3	12.5	12.0	11.6
Social Benefits	18.2	20.6	20.0	19.7	21.8	20.8	20.3
Subsidies and other current expenditur	2.7	3.9	2.9	2.9	4.5	2.9	2.9
Capital expenditure	2.9	3.5	3.0	2.9	3.6	3.1	3.0
Primary balance	**3.2**	**-3.2**	**0.0**	**0.1**	**-5.8**	**-1.2**	**-0.8**
Headline Budget balance	3.0	3.3	3.3	3.2	3.5	3.6	3.4
Total Expenditure	**42.7**	**48.8**	**46.2**	**45.4**	**52.0**	**48.0**	**46.8**
Headline Budget balance	**0.2**	**-6.5**	**-3.3**	**-3.1**	**-9.3**	**-4.7**	**-4.2**
Adjusted budget balance from one-offs	0.8	-5.8	-3.6	-3.1	-8.6	-5.0	-4.2
Public debt	**117.7**	**133.1**	**131.4**	**129.8**	**141.8**	**139.0**	**137.6**

Source: CFP projections and calculations. | Note: the figures for the years between 2019 and 2021 are influenced by the effect of one-offs as detailed in Table 8 in annex. The adjusted budget balance and primary balance have been purged of these effects. The attached Table 9 shows this adjusted scenario of one-offs.

The increase in the share of interest expenditure in GDP is determined by the growing path projected for the stock of public debt, by the assumptions regarding interest rates (which are based on the moderate worsening of market conditions, implying an increase in this expenditure) and by the effect of developments in nominal GDP (see further details in section 3.1.3 Prospects for debt developments). According to the assumptions, the share of interest expenditure in GDP is expected to increase by 0.2

p.p. and 0.4 p.p. of GDP, reaching 3.2% and 3.4% of GDP in the baseline and severe scenarios, respectively, at the end of the period under review.

Revenue

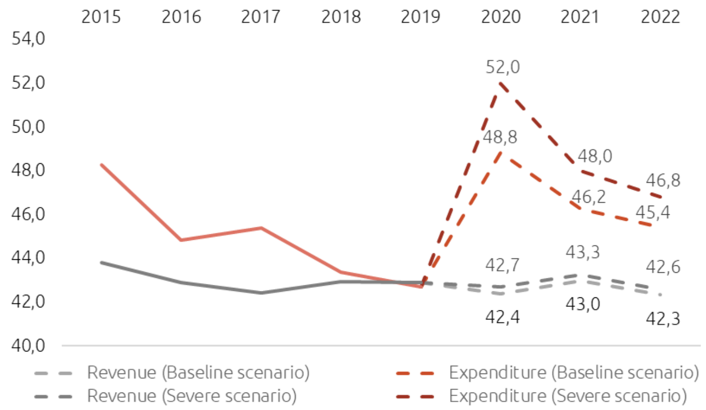
The path of total general government revenue for the three projection years points to a reduction of its share in GDP in both scenarios. In the baseline scenario the reduction stands at 0.5 p.p. of GDP, reaching 42.3% of GDP in 2022. In the severe scenario the evolution as a percent of GDP is largely influenced by the projected path of GDP, lower than the variation of the macroeconomic tax bases, and the revenue is projected to be 42.6% of GDP. The most expressive reduction of public revenue, both in the baseline and the severe scenario, should occur in 2020, less 0.5 p.p. and 0.2 p.p. of GDP relative to 2019. Although when expressed as a ratio to GDP the total revenue in the severe scenario is higher than in the baseline scenario due to the denominator effect, in absolute terms it is below the expected revenue in the baseline scenario. In absolute terms, from 2021 onwards, in both scenarios the return of public revenue growth is projected.

Current revenue determines the decreasing path of total revenue, contrasting with the slight increase expected for capital revenue. In this period, the contribution of tax and contributory revenue is expected to be the most determining factor for the negative evolution of current revenue.

In line with the projection of a more unfavourable combined evolution for wages and employment, as well as the loss of actual social contribution revenues due to the exemption from the employer's single social contribution rate applied to the simplified lay-off scheme, social contributions are expected to show a reduction in their share in GDP in both scenarios (Table 4). Direct taxes are also expected to decrease as a percentage of GDP in both scenarios, reflecting the dynamic interaction of the main macroeconomic variables underlying the projection (such as wages, employment and GDP). Regarding indirect taxes, their share in GDP is also expected to decrease, reflecting the lower level of private consumption and GDP.

Finally, for the capital revenue a slight increase in its weight in GDP is projected throughout the period under analysis of 0.1% of GDP (in both scenarios), with the exception of the year 2021 which is affected by the return of the prepaid margin commission of 991 M€ (equivalent to 0.5% of GDP) of one of the loans granted by the European Financial Stabilisation Fund (EFSF). Throughout the projection horizon, the evolution of capital revenue is also influenced by the trajectory of the European Union's financial co-payment prospective for public investment.

Chart 5 – Total revenue and expenditure evolution
(% of GDP)



Source: Statistics Portugal. CFP calculations and projections.

Box 2 - Exceptional measures to contain and mitigate the effects of the COVID-19 pandemic

As part of the response to the SARS-CoV-2 pandemic (COVID-19), the Portuguese authorities adopted a set of measures aimed at strengthening the health system's response capacity, protecting employment, ensuring the necessary social support and safeguarding the continuity of business activity.

In this context, the 2020 Stability Programme included the assessment of the budgetary impact of these measures, although it did not specify the quantification of their effect for the whole year. The budgetary impact considered, essentially affecting public expenditure, was limited to a monthly or annual quantification, with the estimate for the year as a whole depending on the magnitude that the effects of these measures may assume depending on the duration and extent of this epidemiological phenomenon.

According to the MF evaluation, it is estimated that, in monthly terms, the measures that concentrate the greatest budgetary impact are the simplified lay-off, the purchase of personal protective equipment, sick leave and exceptional family support (Table 5). The subsidies and social benefits paid by the general government will be the expenditure items that will reflect the greatest expression of the effects of those measures, followed by intermediate consumption expenditure that will ensure an equally important part of the health system response. At the revenue level, the loss, mainly through effective social contributions, is explained by the exemption from the single social tax that results from the application of the simplified lay-off.

Table 5 - Discretionary measures adopted in response to COVID-19

LIST OF MEASURES	DIRECT BUDGET IMPACT Budget aggregates	M€	% of GDP	FREQUENCE
Public health		**575**	**0,27**	
Personal protective equipment (e.g. masks, gloves, gowns)	Intermediate consumption	156	0,07	Monthly
Intensive care units equipment (e.g. ventilators)	GFCF	60	0,03	One-time
Prophylactic Isolation (sick leave)	Social benefits	110	0,05	Monthly
Sick leave (COVID-19)	Social benefits	155	0,07	Monthly
Other public health measures (1)	Intermediate consumption	94	0,04	N.S.
Families		**142**	**0,07**	
Exceptional family support	Other current expenditure	133	0,06	Monthly
Other support measures for families (2) includes social integration income and extension of unemployment benefit	Social benefits	9	0,00	N.S.
Economic Activity		**1 139**	**0,54**	
Simplified "lay-off" (support for maintenance of employment contract)	Subsidies	373	0,18	Monthly
Simplified "lay-off" - employers' social contribution exemption	-Effective social contributions	190	0,09	Monthly
Extraordinary support for self-employed workers and managing partners	Subsidies	60	0,03	Monthly
Extraordinary support for the resumption of business activity	Subsidies	508	0,24	One-time
Extraordinary support for vocational training	Subsidies	8	0,00	Monthly
Other measures		**54**	**0,03**	
Exemption from municipal charges	- Indirect taxes - Other current revenue	38	0,02	Monthly
Other measures (3)	Intermediate consumption + Other current expenditure	16	0,01	N.S.
TOTAL		1 911	0,90	

Source: MF, 2020 Stability Program. CFP calculations. | Notes: N.S. - Not specified; (1) - Includes, among others: Diagnostic tests; Reinforcement of human resources (hiring and overtime); Medicines; School hygiene campaign; Armed Forces (Military Laboratory, equipment, transport); Reinforcement of the integrated continuous care network; (2) - Includes, among others: Child and grandchild care allowance; Automatic extension of unemployment benefits and other social benefits; (3) - Includes, among others: ANI support line «INOV 4 COVID -19» (CEiiA); Foreign Affairs (consular network support and WHO contribution); as a percentage of 2019 GDP.

Assuming the quantification of the measures in response to COVID-19 presented by MF in SP/2020 and the most recent information made available by IGFSS concerning the data in volume and value of the social support already allocated under the exceptional measures, the CFP estimated the annual impact of these measures considering two scenarios: the baseline scenario and the severe scenario. The difference in magnitude of the estimated annual impact between the two scenarios is determined by the period of implementation of the measures. The baseline scenario allows for the cycle of renewal of the measures foreseen by the law, considering in some cases their renewal up to the established maximum period, such as in the latter case the measures concerning the simplified lay-off. In this scenario, it is generally envisaged that the effects of the measures will continue until the end of the 2nd quarter. In the severe scenario, in addition to the maximum number of renewals allowed by law, such as public health measures related to personal protective equipment and others, or extraordinary support to self-employed workers and managing partners, the extension of the legal term of the measures is admitted, and its application is assumed to still occur during most of the 3rd quarter. In this situation, the extension of the simplified lay-off for another two months is identified, as well as the exceptional support to families which extension is assumed until the beginning of the new school year.

The assumptions underlying each scenario result, for the current year, in an estimated budgetary impact of 3012 M€ (1.5% of GDP) in the baseline scenario, and 4564 M€ (2.4% of their GDP) in the severe scenario. In either scenario, the biggest budgetary impact of the measures is determined by the economic and health areas, where the incidence of the simplified lay-off and public health measures is concentrated.

Table 6 – Estimated annual budgetary impact of discretionary measures to respond to COVID-19 in 2020 (in M€)

	Annual impact	
Areas with exceptional support measures	Baseline scenario	Severe scenario
Revenue	-472	-761
Economic Activity	-434	-723
Other Measures	-38	-38
Expenditure	2 540	3 803
Public health	843	1 143
Families	117	153
Economic Activity	1 548	2 475
Other Measures	32	32
TOTAL	3 012	4 564
% of GDP	1,5	2,4

Source: MF, IGFSS. CFP calculations. | Notes: The areas with exceptional support measures integrate the discretionary measures of response to COVID-19 identified in Table 5; The total reflects the negative impact on the balance of general government, which corresponds to the difference between the amount of loss of revenue and the increase in public expenditure, that is, the amount of the sign opposite to that which appears in the "Total" presented in Table 5.

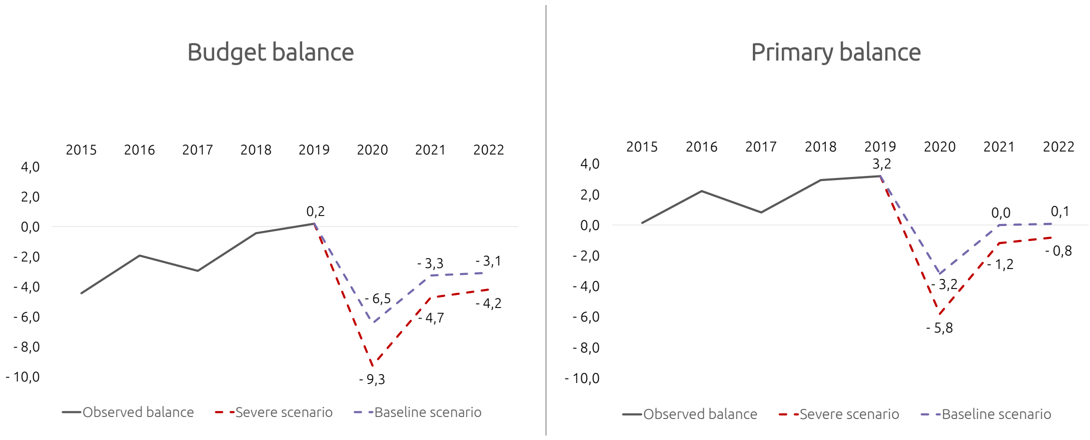
The annual estimate of the budgetary impact of the COVID-19 measures prepared by the CFP, for each of the scenarios, does not include, however, the possible effects on the general government balance that may arise from the "liquidity measures" envisaged to support enterprises, households and other entities, estimated by the MF at around 25 M€. This figure corresponds, according to the MF, to 11.8% of the 2019 GDP equivalent to 12.6% of the 2020 GDP in the baseline scenario or 13.2% of the 2020 GDP in the adverse scenario projected by the CFP. These include the easing of tax and contribution obligations, moratoria on housing and corporate loans, export credit insurance with State guarantees and credit lines also guaranteed by the State, including lines for cash financing and long-term investments. In this context, it should be noted that this support may constitute a budgetary risk, particularly in cases where the beneficiaries (companies and households) fail to meet their obligations, which would imply the assumption of such liabilities by the State, with a consequent negative impact on the general government balance and debt.

[1] For more details see Table III.2 of the 2020 Stability Programme.

3.1.2 Budgetary balance and primary balance

The medium-term budgetary projection points in both scenarios to a reversal of the budget balance path. After the surplus reached in 2019 (0.2% of GDP), the CFP forecast anticipates for 2020 a significant deterioration of the general government balance, which should reach a deficit of 6.5% of GDP in the baseline scenario and 9.3% of GDP in the severe scenario. This return to a budgetary imbalance reflects the budgetary impact estimated by the CFP for the exceptional measures in response to the COVID-19 pandemic, as well as the action of the automatic stabilisers. The high magnitude of these two factors will account in 2020 for more than three-quarters of the deterioration of the budget balance in the baseline scenario and more than four-fifths in the severe scenario. In either scenario, the action of the automatic stabilizers represents more than half of the worsening of the balance projected for this year, equivalent to 3.4 p.p. of GDP and 5.3 p.p. respectively for the baseline and the severe scenario.

Chart 6 – General government balance and primary balance
(as % of GDP)



Source: Statistics Portugal. CFP calculations and projections.

For 2021 a reduction in the budget deficit of 3.2 and 4.5 p.p. of GDP is projected, respectively in the baseline and the severe scenario. This outlook is anchored on the recovery considered for the Portuguese economy in that year, with a positive impact on most budgetary variables, but also on the gradual elimination of the budgetary policy measures adopted in 2020 in response to the COVID-19. The above-mentioned return of the prepaid margin commission on one of the loans granted by the European Financial Stabilisation Fund contributes to a further improvement in the budget balance in 2021[6]. For 2022, in both scenarios is projected the continuing reducing of the budgetary imbalance at a rate, however, below that of 2021 (0.2 p.p. of GDP in the baseline scenario and 0.5 p.p. of GDP in the severe one).

With regard to the primary balance, which excludes the interest burden, only in the baseline scenario is it expected that after 2020 the primary balance will recover to a balanced position in 2021 and a primary surplus in 2022 (0.1% of GDP). In the severe scenario, the recovery of the primary balance points to the persistence of primary deficits, interrupting the path of primary surpluses observed from 2015 (right panel of Chart 6).

3.1.3 Prospects for debt evolution

Main hypotheses

The evolution of the public debt stems from the annual projections for funding requirements, to which the outstanding debt of the previous year is added, in order to obtain the outstanding balance for the year under review in a stock-flow logic. These requirements include the fiscal balance and the stock-flow adjustment.

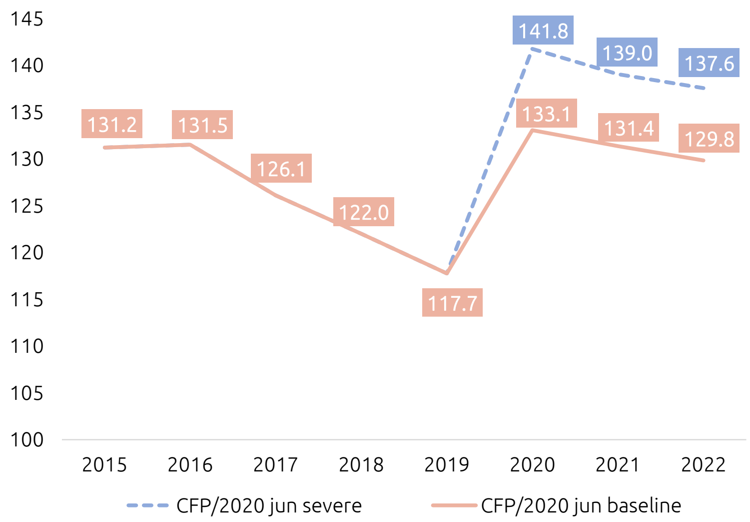
[6] More than offsetting the negative impact on the balance from capital transfers to the financial sector (see Table 8 in annex). It should be noted that only in 2021 is the combined impact on the balance of temporary and non-recurring measures considered positive.

In the CFP exercise, interest is projected according to the cost of financing and the stock of debt instruments already issued, plus possible new issuances. The new issuances considered in the CFP assumptions for 2020-2022 reflect the strategy disclosed in January by the Treasury and Public Debt Management Agency (IGCP) in its investors presentation, as well as the lines of action of the financing program for the 2nd quarter, which already include an increase in financing required to meet the needs generated by the COVID-19 pandemic. The CFP projection exercise took into account secondary market closing interest rates as of 25 May.

Prospects for the evolution of the Maastricht debt

The baseline scenario projected by the CFP points to an increase of 15.3 p.p. of GDP in the debt from the Maastricht perspective in 2020, to 133.1% of GDP, followed by a downward movement in 2021-22, to 131.4 and 129.8% of GDP respectively (Chart 7). In the severe scenario, which is based on i) a worsening of the budgetary outlook, which implies greater financing in 2020 and ii) a less favourable evolution of GDP growth, the debt is expected to reach 141.8% of GDP in 2020. Compared to the baseline scenario, the downward trend is more marked in the following years, rising to 139% in 2021 and 137.6% in 2022.

Chart 7 – Public debt evolution (in % of GDP)



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

The sharp increase in the debt ratio in 2020 is motivated by the financing needed to cope with the impact on public finances of the COVID-19 pandemic, although there is a distinct explanation for the variation in the ratio in the following two projection years. In the current year, both in the baseline and the severe scenario, the debt ratio is strongly influenced by the contraction of economic activity which, together with the unfavourable impact of the interest effect, results in a significant dynamic effect (11.4 p.p. in the baseline scenario and 17.9 p.p. in the severe scenario). The primary balance effect, which since 2015 contributed to the debt reduction, is expected to worsen the debt ratio in both scenarios, with the CFP projecting a greater impact in the severe scenario. The stock-flow adjustment explains 0.8 p.p. of the increase in debt in 2020 in the baseline scenario and 0.3 p.p. in the severe one. In 2021-2022, the trajectory of decrease is determined mainly by the recovery of GDP in both scenarios.

The change in the public debt ratio between 2019-2022 in the severe scenario amounts to 19.8 p.p. of GDP, compared to 12.1 p.p. in the baseline scenario. Overall, the contribution that most penalises the evolution of the debt in the severe scenario compared to the baseline scenario is the primary balance effect (7.8 p.p., compared to 3.1 p.p. of GDP in the baseline scenario). The dynamic effect is 3.5 p.p. of GDP higher in the severe scenario (11.3 p.p. over the projection horizon, compared to 7.8 p.p. in the baseline scenario), essentially due to the less favourable contribution of the growth effect and, to a lesser extent, to the interest effect. The accumulated stock-flow adjustment justifies 0.7 p.p. of the trajectory in the severe scenario, compared to 1.2 p.p. in the baseline scenario.

Table 7 – Contributions to Maastricht debt developments (as % of GDP)

		CFP projection					
		Baseline scenario			Severe scenario		
	2019	2020	2021	2022	2020	2021	2022
Public debt (% of GDP)	117.7	133.1	131.4	129.8	141.8	139.0	137.6
Change in debt (in p.p. of GDP)	-4.3	15.3	-1.7	-1.5	24.0	-2.7	-1.5
Primary balance effect	-3.2	3.2	0.0	-0.1	5.8	1.2	0.8
Dynamic effect (snow ball effect)	-1.6	11.4	-1.9	-1.7	17.9	-4.2	-2.5
- interest effect	3.0	3.3	3.3	3.2	3.5	3.6	3.4
- growth effect	-4.6	8.1	-5.2	-4.8	14.5	-7.7	-5.9
Stock-flow adjustment	0.5	0.8	0.2	0.2	0.3	0.2	0.2
memo item:							
Implicit interest rate	*2.6*	*2.6*	*2.6*	*2.5*	*2.6*	*2.7*	*2.6*

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

Access to funding

Both the baseline and the severe scenario are based on an increase in nominal interest rates, either by the effect of a higher nominal debt stock or by the price effect (increase in the cost of financing of Portugal). Despite the increase foreseen for the interest effect in both scenarios, it is still at values similar to those prior to 2011. In fact, the initial reaction of the financial markets to the current pandemic was reflected in an increase in the Portuguese debt yield curve in all maturities between the end of February and mid-March, with emphasis on shorter maturities: the 2-year yield went from -0.37% to -0.13% on March 12. The crisis response measures, namely the ECB's temporary asset purchase programme in the amount of 750 M€ (Pandemic Emergency Purchase Programme) with greater flexibility for the acquisition of public sector securities, reduced some uncertainty regarding euro area financing. This programme, together with the 120 M€ increase decided in December 2019 for the ECB's Asset Purchase Programme, also in force at the time, covers Portuguese financing needs in 2020. Thus, the interest rate fell progressively to -0.4% over 2 years and 0.5% over 10 years at the end of May (after a peak of 1.4% in mid-March). However, the new financing needs put additional pressure that must be considered.

3.1.4 Main risks to the budgetary scenario

This projection involves substantially higher risks than those usually associated with this type of exercise. Indeed, of the level of uncertainty about the scale of the impact of the measures to prevent and combat COVID-19 is considerable, as well as about the cost of the lockdown and the economic recovery measures. The total impact will depend on the spatial and temporal extent of this epidemiological phenomenon and on the very duration of the measures adopted, and the risk of a new wave of infection and lockdown cannot be excluded.

At the budgetary level, the risk that the impact of the discretionary measures adopted in response to COVID-19 may be higher than estimated by the MF in the SP/2020 is particularly relevant. It should be noted that in this document the MF did not provide a forecast of the impact of these measures for the whole year (the cost of most measures corresponds to a single month). This MF procedure required the CFP to make an annual estimate of the direct budgetary impact of these measures (Box 2), which increased the degree of complexity of this projection exercise and the inherent risk.

Some of the policy measures systematised in the SP/2020 will have a direct negative impact on the budget balance, in particular the public health measures, the simplified lay-off and the support for the resumption of business activity. There are other measures (moratoria, credit lines with State guarantees and measures to increase corporate liquidity) that do not have a direct impact from the fiscal point of view, but which in many cases are contingent liabilities of the general government. These are liabilities of the State which, in the event of default by the debtor, materialise in expenditure contributing to the worsening of the fiscal balance. This potentially high downside risk on the budget balance and on the government debt ratio in the coming years becomes even more relevant given the pre-existing level of contingent liabilities, which were assessed by Eurostat at 42.4% of GDP at the end of 2018.

This health crisis has led to economic disruption on the supply and demand side. These disturbances are already having a negative effect on GDP growth and, consequently, on the behaviour of budgetary aggregates, namely in the reduction of tax and contributory revenue (via private consumption, price levels and wages), the increase in expenditure on social benefits (unemployment benefits) and interest charges.

In the context of support for the financial system, the projections presented in this report only consider those for Novo Banco. In this respect, it should be recalled that the Portuguese State is subject to the obligations provided for in the Novo Banco's Contingent Capitalisation Agreement up to a maximum of 3890 M€. The impact in 2020 amounts to 1035 M€ (an amount higher than the 600 M€ provided for in the SBP/2020), this payment having occurred on 6 May. For 2021, the 400 M€ foreseen by the MF in the SP/2019 were considered. Should the Novo Banco's total capital ratio fall below the requirement established by the supervisory authorities, the Portuguese State may have to provide additional funds of an unknown amountfor the bank to comply with the regulatory requirements (Capital Backstop). In addition, there is currently a legal dispute between Novo Banco and the Resolution Fund, related to the decision to change the impact of the accounting regime (IFRS9) on the bank's own funds, which may have a negative impact on the Resolution Fund, and it is not clear that this possible impact may have coverage under the said contingent capital mechanism.

Other support to the financial system would have an impact on public debt and, depending on the type of operation, possibly also on the budget balance. This is also the risk inherent to any capital injections that the Portuguese State may have to make into public or affiliated companies, or even the provision of financial aid to private sector entities.

In this context, the downside risk related to the possible support from the Portuguese State to TAP Air Portugal, following the almost total suspension of the operation of this airline, should be highlighted. The SP/2020 does not include any information on this matter, but negotiations are currently underway between the State and TAP's Executive Committee, and the decision should be announced in June. The respective impact on public finances will depend on the form of intervention by the Portuguese State that will be approved by the Directorate General for Competition of the European Commission.

It is also worth noting the pressures on social benefit items other than those in kind (increased pension liabilities in a context of ageing populations and resource to early retirement mechanisms), personnel expenditure (arising from the unfreezing and career review measures) and intermediate consumption (especially in the health sector and in road PPPs, related to possible claims to restore financial balance and ongoing arbitration disputes). These budgetary pressures already repeatedly signalled in previous projection exercises will make it more difficult to recover from a budgetary situation to the pre-crisis level.

With the spread of the COVID-19 virus and the resulting economic and financial consequences, volatility returned to the financial markets. Although the consequences of the pandemic are not yet evident in debt yields, Portugal has the third highest public debt ratio (in the Maastricht definition) in the European Union, only behind Greece and Italy. This high starting weight makes the dynamics of the public debt ratio more unfavourable: in the baseline scenario only one fifth of the worsening of the debt ratio in 2020 is due to the primary deficit, most of which is the result of the unfavourable effect of the reduction in nominal GDP, combined with a high pre-pandemic debt ratio (dynamic effect).

4. ATTACHMENTS

Table 8 – Temporary measures and one-off measures (as % of GDP)

	2015	2016	2017	2018	2019	Baseline scenario 2020	Baseline scenario 2021	Severe scenario 2020	Severe scenario 2021
Temporary measures and one-off measures (impact on balance)	-1.3	0.4	-2.2	-0.5	-0.6	-0.7	0.3	-0.7	0.3
Revenue	**0.1**	**0.4**	**0.0**	**0.1**	**0.0**	**0.1**	**0.5**	**0.1**	**0.5**
PERES Extraordinary debt settlement scheme other IT 2016 one-off		0.1							
PERES Extraordinary debt settlement scheme PIT 2016 one-off		0.0							
PERES Extraordinary debt settlement scheme CIT 2016 one-off		0.1							
PERES Extraordinary debt settlement scheme SSC 2016 one-off		0.0							
BPP guarantee recovery			0.0	0.1	0.0	0.1		0.1	
Banking sector contribution for transfer to European Resolution Fund	0.1								
Prepaid margin payment from EFSF		0.2					0.5		0.5
Expenditure	**1.4**	**0.0**	**2.2**	**0.5**	**0.6**	**0.7**	**0.2**	**0.8**	**0.2**
Capital transfers (Banking sector)	1.4		2.1	0.4	0.5	0.6	0.2	0.6	0.2
One-off payments to the EU Budget		0.0							
Debt assumptions of transportation sector			0.1						
Sale of F-16 to Romania		-0.1	0.0						
Forest fires			0.0	0.1					
Lisbon municipality's civil protection fee reimbursement (Constitutional Court decision)			0.0						
Lisbon municipality's unfavourable judicial rulings				0.0		0.1		0.1	
Compensation to the concessionaire AEDL, S.A.					0.1				
Reimbursement to the BoP of the contributions made to the Gar Fund. Dep. CAM						0.0		0.0	
IP indemnification (for cancellation of the Coastal Algarve subconcession)						0.0		0.0	

Source: MF. CFP calculations. | Note: Totals may not match the sum of the individual figures due to rounding. It is a classification that may be revised in light of new information.

Table 9 – CFP adjusted Budgetary Framework (in % of GDP)

	2019	Baseline scenario 2020	Baseline scenario 2021	Baseline scenario 2022	Severe scenario 2020	Severe scenario 2021	Severe scenario 2022
Total Revenue	42.8	42.3	42.5	42.3	42.6	42.8	42.6
Current revenue	42.5	41.9	42.0	41.9	42.2	42.3	42.1
Tax Revenue	25.0	24.3	24.7	24.7	24.4	24.7	24.8
Indirect taxes	15.1	14.6	14.9	15.0	14.7	14.9	15.0
Direct taxes	9.8	9.6	9.8	9.8	9.7	9.8	9.7
Social Contributions	11.9	11.9	11.7	11.6	11.8	11.8	11.6
Sales and other current revenue	5.6	5.8	5.6	5.5	6.0	5.8	5.7
Capital Revenue	0.3	0.4	0.5	0.5	0.4	0.5	0.5
Primary Expenditure	39.0	44.8	42.8	42.2	47.7	44.2	43.4
Current primary expenditure	36.8	42.1	40.0	39.3	44.9	41.4	40.4
Intermediate consumption	5.2	5.8	5.5	5.4	6.1	5.7	5.5
Compensation of employees	10.7	11.9	11.6	11.3	12.5	12.0	11.6
Social Benefits	18.2	20.6	20.0	19.7	21.8	20.8	20.3
Subsidies and other current expenditure	2.7	3.9	2.9	2.9	4.5	2.9	2.9
Capital expenditure	2.2	2.7	2.8	2.9	2.8	2.9	3.0
Primary balance	3.8	-2.5	-0.3	0.1	-5.1	-1.5	-0.8
Headline Budget balance	3.0	3.3	3.3	3.2	3.5	3.6	3.4
Total Expenditure	42.0	48.1	46.1	45.4	51.2	47.8	46.8
Headline Budget balance	0.8	-5.8	-3.6	-3.1	-8.6	-5.0	-4.2
Public debt	117.7	133.1	131.4	129.8	141.8	139.0	137.6

Source: CFP projections and calculations. | Note: the figures for the years between 2019 and 2021 are influenced by the effect of one-offs as detailed in Table 8 in annex.

4.1 List of Abbreviations

Abbreviations	Meaning
PA	Public Administrations
ADSE	Institute for Disease Protection and Assistance
BdP	Banco de Portugal
ECB	European Central Bank
BPP	Portuguese Private Bank
EC	European Commission
CFP	Portuguese Public Finance Council
CGA	Caixa Geral de Aposentações [General Pension Fund]
SSE	Solidarity Supplement for the Elderly
COVID-19	New coronavirus disease
CTUP	Labor Costs per Unit Produced
DGAEP	Directorate General for Administration and Public Employment
DLRR	Deduction for retained and reinvested profits
USA	United States of America
EUR	Euro
EUROSTAT	Statistical Office of the European Union
GFCF	Gross Fixed Capital Formation
EFSF	European Financial Stabilisation Fund
IMF	International Monetary Fund
GBP	Great Britain Pound
IABA	Tax on Alcohol and Alcoholic Beverages
SSI	Social Support Index
HICP	Harmonised Index of Consumer Prices
IGCP	Treasury and Public Debt Management Agency
IMI	Municipal Real Estate Tax
IMT	Municipal Property Transfer Tax
INE	National Statistical Office
CPI	Consumer Price Index
IRC	Corporate Income Tax
IRS	Personal Income Tax
ISP	Tax on Petroleum and Energy Products
IT	Tobacco Tax
VAT	Value Added Tax
M€	Millions of Euros
MF	Ministry of Finance
NB	Novo Banco
OECD	Organisation for Economic Cooperation and Development
OE	State Budget
OT	Treasury Bonds
PE	Stability Program
PERES	Special Program for the Reduction of Indebtedness to the State
GDP	Gross Domestic Product
SMES	Small and Medium Enterprises
POE	State Budget Proposal
p.p.	Percentage points
PPP	Public Private Partnerships
ProTransP	Program to Support the Densification and Strengthening of Public Transport Offering
RSI	Social Insertion Income
SIADAP	Integrated management and performance evaluation system in
SS	Social Security
EU	European Union
USD	United States Dollar
WEO	World Economic Outlook

4.2 Main Sources of Statistical Information

BANK OF PORTUGAL (2020), Economic Bulletin - March 2020.

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MINISTRY OF FINANCE (2019a), Stability Programme 2019. Portuguese version: Programa de Estabilidade 2019.

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MINISTRY OF FINANCE (2020), 2020 Stability Programme. Portuguese version: Programa de Estabilidade 2020.

4.3 Charts Index

4.4 Tables Index

4.5 Boxes Index