Executive summary

Economic and fiscal developments until the end of the 3rd quarter and outlook for 2014

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EXECUTIVE SUMMARY

The outlook for the world economy in 2014 was revised downwards over the course of the year. The successive forecasts incorporated a number of risks, in particular the slowdown in emerging economies (such as China, Brazil and Angola) and the rise in geopolitical tensions with Russia. In Europe the negative signs coming from some countries (such as France and Italy) and the declining inflation trend were partially offset by factors such as the fall in the price of oil and the stronger expansionary monetary policy. In 2014 Portuguese exports became more dependent upon intra-community trade, which reveals the need, recorded in recent years, to further diversify export destinations.

Up to the end of the third quarter of 2014, the Portuguese Gross Domestic Product (GDP) grew in volume for four consecutive quarters, a situation that had not occurred since 2010. In year-on-year terms GDP rose 1.1% in the third quarter, with domestic demand making a 2.1 p.p. contribution. Net external demand made a negative contribution to output (-1.0 p.p.), since imports continued to increase by more than exports, in both absolute and relative terms. The labour market showed continuing improvement as regards wages, employment and unemployment rate. Accumulated growth in GDP up to the third quarter is in keeping with the annual forecast in the 2015 State Budget (SB/2015), 1.0%, although that figure is based on a greater contribution from domestic demand.

The CFP estimates that the real GDP growth rate in 2014 will lie between 0.9% and 1.0%, slightly below or in keeping with the Ministry of Finance (MF) estimate published in the SB/2015. It is a preliminary estimate, still subject to uncertainties as to intra-annual performance of public consumption and the development of net external demand. Price behaviour will lead GDP to grow by less than 2.0% in 2014, in nominal terms.

Up to the end of September the general government budget deficit, in adjusted terms, was in line with the figure underpinning the MF estimate published in the SB/2015 for 2014 (3.8% do GDP). This result represents a year-on-year fall of 1.3 p.p. of GDP, stemming from the growth in tax and social contributions revenue and the near stagnation in public spending. Based on the information available for the months of October and November, the adjusted deficit forecast for 2014 in absolute terms appears to be achievable, and the target of 3.8% should be met provided nominal GDP records annual growth of at least 1.7% (compared to the 2.5% growth forecast by the MF).

In light of tax revenue performance up to September, and given its subsequent outturn in the public accounts, this item is likely to exceed the figure estimated by the MF in October for the whole of 2014, contributing favourably to achieving the deficit goal. If this outcome is confirmed it will have a positive carry-over effect, reducing the risks inherent to the 2015 forecast underlined by the CFP in its analysis of the SB/2015 proposal.

The slight year-on-year nominal growth in spending up to September (+0.1%) was partly due to the change in expenditure on interest (+0.1 p.p.) since primary expenditure fell by 0.1%, returning to the trend started in the 1st quarter. The year-on-year decline in primary expenditure up to September is fully explained by the outcome in capital expenditure, since the change in current primary expenditure still recorded growth of 0.5% over that period. However, it is important to stress that the change in expenditure up to September is influenced by the time lag in the payment of 2013 holiday bonuses, without which general government spending would have decreased by more than the MF estimate for the whole of 2014.

The public debt ratio, according to the Maastricht definition, rose to 131.4% of GDP at the end of the 3rd quarter, an increase of 1.9 p.p. of GDP on the previous quarter. Thus, achievement of the MF forecast for the debt ratio at the end of 2014 (127.2% of GDP) requires a decrease of 5,100 M€ in debt stock in the final quarter. However, despite the fall recorded in November, the available information suggests the decrease in December will not be sufficient to meet this target. Therefore, at the end of 2014 the public debt ratio is expected to exceed the target set at 127.2% of GDP. In addition to the nominal value of the debt, the magnitude of that deviation will depend upon nominal GDP for the whole of 2014, which the CFP estimates to be below the MF projection.