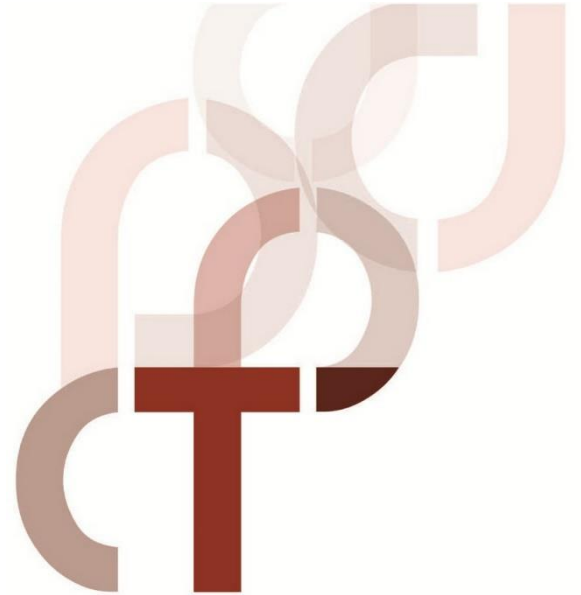


# Overview



## Public Finance: Position and Constraints 2018-2022

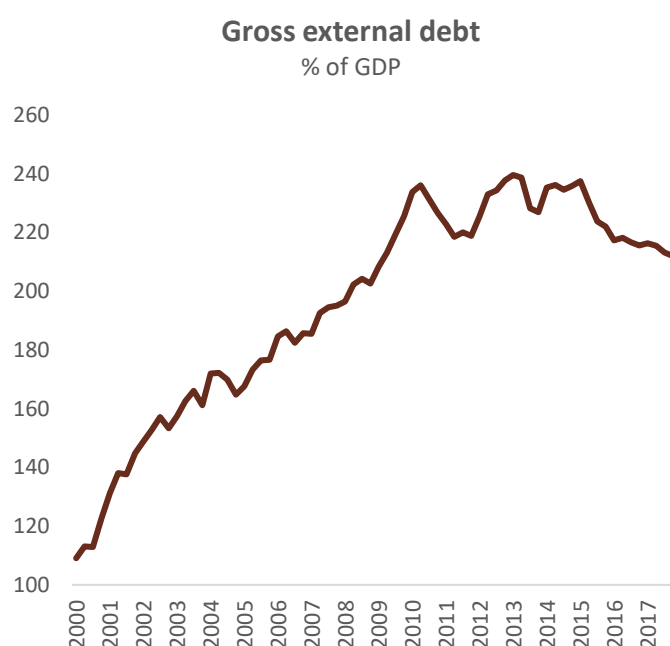
CFP Report no. 2/2018

Lisbon, 15 March 2018

## OVERVIEW

### *Public Finance: Position and Constraints 2018-2022*

In 2018 the output generated by the Portuguese economy should finally exceed the level recorded before the beginning of the international crisis in 2007. This benefitted from a highly expansionist monetary policy but, given the levels of indebtedness and the instability and near stagnation seen in the period prior to the crisis, it also required the implementation of strong fiscal and structural correction measures. This adjustment allowed the external sector to become the economy's main driver once again, as exports encouraged investment and job creation, while at the same time lowering the external debt ratio despite the rise in imports.



Source: Bank of Portugal

The medium-term economic projections set out in this document point to a distinctly positive scenario, despite the slowdown in growth, which is associated with external demand, in a projection exercise that does not incorporate new policy measures. As we know an exercise of this type is not designed to predict the future but rather to act as a basis for assessing new policy measures. In this regard it is important to stress the confidence in the solvency of the economy, a foundation stone for growth in investment, which simply must go on and be aimed at the tradable sectors, in order to sustain employment, consumer confidence and the ability to fund public expenditure.

Given the level of State indebtedness, this ability implies that priority continues to be given to correcting the budget deficit and producing primary surpluses. These remain a decisive factor as regards confidence and continue to require an important adjustment effort in areas critical to economic, financial and social sustainability. Noteworthy examples in this field are civil service reform, corporate and public investment governance, and social spending.

As regards the civil service, it is generally agreed that the freezes and thaws it has experienced for decades have been detrimental to careers and the ability to recruit and adapt to new State responsibilities. At present the sector benefits from a positive factor which, if properly exploited, offers an opportunity to overcome these problems. In fact, the high number of civil servants who will reach retirement age in the coming years makes it possible to renew staff while at the same time temporarily cutting personnel expenditure, by reducing the relative weight of staff at the end of their career. This means more efficient methods of civil service management can be introduced that, in turn, should favour the formation of a skilled workforce and the quality of public expenditure.

The increasing number of pensioners partially offsets this advantage, although it should be noted that the reforms introduced in this area mitigate the problem. However, the unfavourable demographic changes which the country faces have important medium and long-term implications, in both social and fiscal terms, in the health, pensions and social assistance fields. This topic is not discussed here but it is worth noting that one of the problem-solving factors, i.e. increased productivity, does not arise spontaneously, rather it flows from structural policies linked to incentives to vocational training, innovation and competitiveness, which depend upon the quantity and quality of public and private investment.