Conselho das Finanças Públicas
Portuguese Public Finance Council

Analysis of 2017-2021 Stability Programme

Portuguese Public Finance Council Report

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The Council began its work in February 2012 and its mission is to conduct an independent assessment of the consistency, compliance with the stated objectives and the sustainability of public finances, while promoting fiscal transparency, so as to contribute to the quality of democracy and of political economic decisions and so strengthen the State's financial credibility.

This Opinion uses the information available up to 11 May 2017.

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

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OVERVIEW

The objectives set out in the 2017-2021 Stability Programme (SP/2017) point to a gradual and continuous fiscal consolidation path and foresee a substantial improvement in the fiscal balance and a significant decrease in the public debt ratio over the next four years. Those objectives are appropriate for the Portuguese economy and comply with the national and European fiscal rules, except for the fiscal consolidation effort in 2017, since the forecast structural balance improvement is less than that required by the budgetary framework law and the Stability and Growth Pact.

The forecast public debt ratio decrease is key to any improvement in the market's perception of Portugal and its risk rating and to a stable improvement in borrowing terms. The strategy for reducing this ratio by a total of 21 p.p. of GDP over four years is based on a build-up of primary surpluses (18.5 p.p. of GDP) and on a favourable economic setting: the contribution of economic growth more than offsets the unfavourable impact of interest charges, leading to a favourable dynamic effect of 1.7 p.p. of GDP.

The programme estimates a cumulative improvement in the fiscal balance of 3.3 p.p. of GDP from 2016 to 2021 (i.e. €6405 million in the adjusted balance). According to SP/2017 the developments in the economy and budget variables under a no-policy-change scenario would be sufficient to ensure the elimination of the budget deficit and produce a small surplus in 2021.

In effect the largest contribution to the 5197 M€ improvement (equal to 2.6 p.p. of GDP) in the adjusted balance from 2017 to 2021 will come from the expected impact of the no-policy-change scenario (3647 M€), which accounts for 70% of the change, while the direct impact of policy measures only explains one quarter of the expected positive change (1337 M€).

Thus the estimated improvement in the balance is crucially dependent upon macroeconomic developments and the accurate forecasting of changes in the budget variables under a no-policy-change scenario. As for the macroeconomic developments, we draw attention to the observations made by the CFP in its Opinion, dated 18 April 2017, as regards the macroeconomic scenario underlying PE/2017, which are still pertinent:

> *A key element necessary to ensure the consistency of the scenario is a set of tax policy measures and other economic policy measures that allow the changes in the behaviour of economic agents implicit in the consumption and investment paths to materialize. While the developments projected by the SP/2017 scenario are the most conducive to a sustained growth of the Portuguese economy, past experiences show that neither the abundance of credit nor a favourable external environment are sufficient conditions to guarantee their fulfilment. A redirection of investment to the sector of tradable goods and policies that simulate households and firms' savings are necessary conditions for the changes in growth composition forecasted by the SP/2017 to materialize.*
>
> *Excluding the possible effect of such measures, there are significant risks regarding the composition of economic growth forecasted in the SP/2017 for the period 2018-2021.*

In particular, the stabilization of the real private consumption growth around 1.6% per year over the whole period is unlikely to be consistent with the continued decline in the unemployment rate, and the acceleration of the average compensation per employee. Should the projected path for the private consumption deflator materialize, the stabilization of the private consumption growth in real terms also implies a stabilization of in nominal growth, at a pace of around 3.3% per year. Given the expected acceleration in disposable income growth and taking into account the historical behaviour of economic agents, the risks associated with a stronger growth of private consumption should not be ignored, namely the unfavourable impacts on exports and imports, as well as in the direction of private investment.

[…]

GFCF is a key variable in this scenario, not only because of its level, but also because of its projected path and the way it will be financed. Furthermore, developments in exports and imports are also dependent on the measures that influence investment. The exports forecast implies gains in market share over the entire period 2018-2021, and although the scenario also forecasts labour productivity to grow at a faster pace than the compensation per employee in real terms, it is not clear whether this is sufficient to drive the market share gains. As for imports, the forecast of constant growth at the same pace of 2017 is dependent on the moderate growth of private consumption and on the composition of GFCF.

Two observations must be made as regards the fiscal policy measures: whilst they focus mainly on expenditure, over four fifths of the expenditure cuts (1367 M€) are from efficiency gains to be obtained from unspecified measures that merely indicate targets. Important examples of this type of measure are the nominal freezing of intermediate consumption and of other current expenditure, which totals 1305 M€.

In conclusion, SP/2017 lays down economic and budgetary goals in keeping with the sustainability of economic growth and Portuguese public finance, but it does not provide sufficient details in regard to the economic and fiscal strategy and policy measures required to achieve them. The lack of a proper description has been a feature of Portuguese Stability Programmes, thereby missing the opportunity to act as a framework for the taking of the decisions on which the credibility of the objectives and the ability to achieve them depend.

1 INTRODUCTION

This report analyses the Stability Programme for the period 2017-2021 (SP/2017), submitted to Parliament on 13 April 2017. In this manner CFP is complying with the provisions of article 7 of its Statutes, in particular its duty to report on the Stability Programme and other procedures laid down in the European regulatory framework of the Stability and Growth Pact, as well as in the Multi-annual Budgetary Planning Framework. The analysis of the macroeconomic scenario underlying that Stability Programme is available in the Council's Opinion no. 1/2017 (Parecer do CFP n.º 1/2017).

The report is divided into four chapters. The first is this introduction which sets out the aim of the analysis and describes the document structure. The second chapter presents the fiscal balance path forecast in SP/2017 and compares it with the previous Programme. It also assesses the structural adjustment rate and checks whether the targets set for the headline and structural balances, along with the change in debt over the 2017-2021 period, comply with the Portuguese fiscal policy rules. The third chapter analyses the consistency between a no-policy-change scenario and the scenario included in the Stability Programme, bearing in mind the fiscal policy measures made available to CFP, and it also reviews the public debt developments and identifies certain risks underlying the projections and forecasts published in the Programme. The fourth and final chapter appraises the Multi-annual Budgetary Planning Framework (MBPF) incorporated in SP/2017.

The general government budget aggregates have not been adjusted for the impact of temporary measures, one-off measures and other special factors. However, where this adjustment provides for a better assessment of the consolidation effort it has been duly noted in the text.

This report has benefitted from the information and explanations provided by Ministry of Finance (MF) bodies, in particular the Office for Economic Policy and International Affairs (GPEARI), the Directorate-General for the Budget (DGO), the Public Debt Management Agency (IGCP) and the Social Security Financial Management Institute (IGFSS). CFP wishes to thank all those for the contributions received.

The latest information to be included in the report was a partial answer to questions raised by CFP on 26 April and was received from the MF on the afternoon of 11 May. That information included a GG account forecast without policy measures, that was different to the one initially communicated on 18 April. The consistency of the SP forecasts can only be examined on the basis of an exchange of technical information at a meeting with the MF, which, for the first time, was not held. For this reason the analysis presented in this report covers the four year period 2018-21, and it was not possible to check the consistency of the budgetary forecasts for 2017 underlying the SP.

2 ASSESSMENT OF FISCAL ADJUSTMENT AND COMPLIANCE WITH RULES FROM 2017 TO 2021

According to SP/2017, "The 2% of GDP deficit achieved in 2016 (…) and the sustainable path of this indicator over the projection time horizon (…) create the conditions for Portugal to leave the Excessive Deficit Procedure (EDP)". If this scenario becomes true, then from 2017 onwards Portugal's public finance position will be assessed under the preventive arm of the Stability and Growth Pact (SGP).[1] The major fiscal rules applying under these circumstances may be summarised as follows: 1) Maintaining the fiscal balance below 3% of GDP. 2) Ensuring the structural balance convergence with the Medium-Term Objective (MTO), set at +0.25% of GDP. Until the MTO is achieved, and given that Portugal has a debt to GDP ratio of over 60%, the annual minimum adjustment (annual improvement in the structural balance) must be greater than 0.5 p.p. of GDP, in the presence of observable GDP growth higher than growth in potential output and an output gap within the interval [-1,5; 1,5]. 3) Following closure of the EDP, there will be a three-year transitional period before the 5% per year excess debt correction rule begins to apply. Over that period (2017-19) Portugal most make sufficient progress to lower its debt ratio. Progress will be assessed annually, both "ex-ante" and "ex-post" against the minimum linear structural adjustment (MLSA), that takes into account the business cycle effect and the benchmark for debt reduction.

In general, the figures shown in this analysis are unadjusted; however reference is made to the impact of temporary measures, one-off measures and special factors. These can be found in Table 8 and in some cases differ from those underlying the accounts published by the Ministry of Finance in SP/2017. Note that in regard to the structural balance, the concept itself excludes such measures.

2.1 FISCAL BALANCES

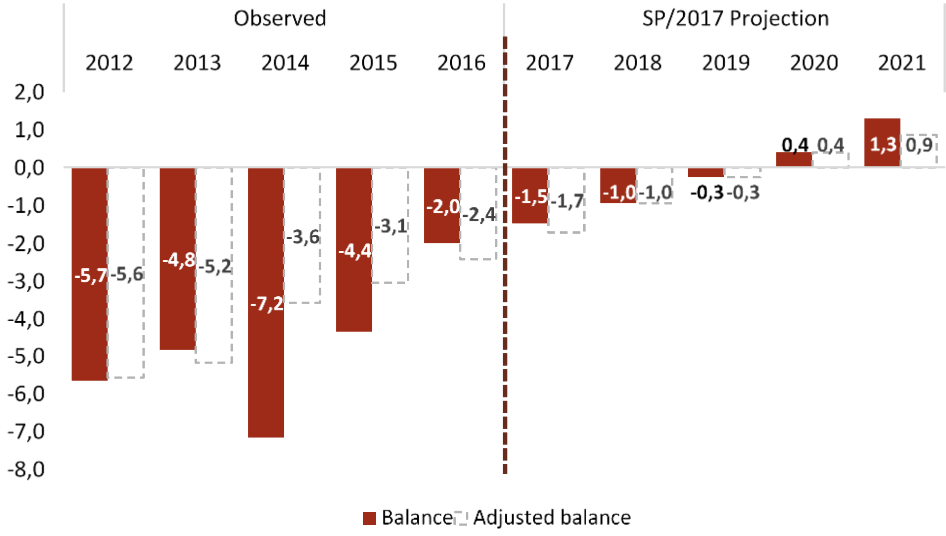
SP/2017 projects a steadily improvement of the fiscal balance, and estimates a deficit of 1.5% of GDP in the current year and budget surpluses from 2020 onwards. The budget deficit should fall from 2.0% in 2016[2] to 1.5% of GDP in 2017 (0.5 p.p. of GDP decrease). An identical improvement is forecast for 2018 and a greater one from 2019 until the end of the programme time horizon, to produce a cumulative decrease of 3.3 p.p. of GDP. For 2021 the MF forecasts a budget surplus of 1.3% of GDP, which includes the extraordinary revenue from the receipt of 948 M€ relating to the prepaid margins on the European Financial Stability Facility (EFSF) monies borrowed under the EFAP, which accounts for 0.4 p.p. of forecast GDP (without this one-off measure the surplus would be 0.9% of GDP that year).

[1] The closing of the EDP and the consequent exit from the corrective arm of the GSP are dependent upon the budget deficit correction being deemed sustainable by the European Council.

[2] The 2016 budget deficit was revised downwards by the INE on 12 April by INE (Revisão da 1ª Notificação de 2017 no âmbito do Procedimento dos Défices Excessivos) following publication of CFP Report no. 3/2017 "Analysis of general government account 2016" (Relatório nº 3/2017 -"Análise da conta das administrações públicas 2016", do CFP,) to stand at 2.0% of GDP rather than the 2.1% previously estimated by the national statistics authority. The INE revision was based on the detection of *"(…) an error when handling the information relating to Local Government [LG] that has a significant impact on GG borrowing requirements"*. That correction implied investment expenditure (GFCF) by LG lower than initially estimated, resulting in a decrease in the GG budget deficit (-84.9 M€), which now stands at -3722.4 M€. The revised figure also had an impact on the LG subsector balance which now stands at 617 M€.

Chart 1 – GG balance, observed and projected in SP/2017

(% of GDP)



Source: INE and Ministry of Finance. CFP calculations. Note: Details on the temporary and one-off measures are given in Table 8.

The planned improvement in the fiscal balance totals 3.3 p.p. of GDP over the 2017-2021 period and benefits from favourable economic developments. The expected improvement stems from a positive contribution of 0.9 p.p. of GDP (of which 0.3 p.p. in 2017) from the business cycle, from the ability to generate structural primary surpluses over the projection time horizon (cumulative improvement of 1.8 p.p. of GDP) and from the decrease in the relative weight of public debt interest in GDP (down 0.6 p.p. of GDP).

Table 1 – Budget indicators

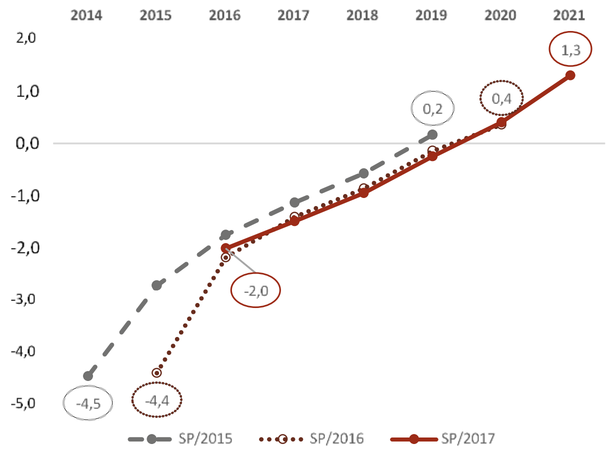
Budget balance:	% of GDP 2015	2016	2017	2018	2019	2020	2021	Change (p.p. of GDP) 2016	2017	2018	2019	2020	2021	2012-16	2017-21
Primary	**0,2**	**2,2**	**2,7**	**3,1**	**3,6**	**4,2**	**4,9**	**2,0**	**0,4**	**0,4**	**0,6**	**0,6**	**0,7**	**5,3**	**2,7**
Actual (headline)	**-4,4**	**-2,0**	**-1,5**	**-1,0**	**-0,3**	**0,4**	**1,3**	**2,3**	**0,5**	**0,5**	**0,7**	**0,7**	**0,9**	**5,4**	**3,3**
Adjusted of temporary & one-off measures & special factors	-3,1	-2,4	-1,7	-1,0	-0,3	0,4	0,9	0,6	0,7	0,8	0,7	0,7	0,5	4,8	3,3
Cyclically adjusted	-3,5	-1,7	-1,5	-1,1	-0,5	0,0	0,8	1,9	0,2	0,4	0,6	0,5	0,7	5,1	2,4
Structural net of special factors	**-2,2**	**-2,1**	**-1,7**	**-1,1**	**-0,5**	**0,0**	**0,3**	**0,2**	**0,4**	**0,6**	**0,6**	**0,5**	**0,3**	**4,5**	**2,4**
Structural primary net of special factors	2,3	2,2	2,5	3,0	3,4	3,8	3,9	-0,1	0,3	0,5	0,4	0,4	0,1	4,4	1,8
memo items															
temporary measures & special factors	-1,3	0,4	0,2	0,0	0,0	0,0	0,4	1,7	-0,2	-0,2	0,0	0,0	0,4	0,6	0,0
output gap*	-1,6	-0,7	-0,1	0,2	0,5	0,8	1,1	0,9	0,7	0,3	0,3	0,3	0,3	0,6	1,8
cyclical component	-0,8	-0,4	0,0	0,1	0,2	0,4	0,5	0,4	0,3	0,1	0,1	0,2	0,1	0,3	0,9
interest payments	4,6	4,2	4,2	4,0	3,9	3,8	3,6	-0,3	-0,1	-0,1	-0,1	-0,1	-0,2	-0,1	-0,6

Source: INE, MF. CFP calculations. Notes: * as a percentage of potential output. (i) The changes were calculated in relation to the previous year (for example, the change over the 2017-21 period is based on the figures for 2016) and may not match the differences in the GDP percentage figures due to rounding; (ii) The cyclical component was calculated in line with the Community semi-elasticities method, on the basis of the output gap calculated in accordance with the SP/2017 macroeconomic scenario and the common EC methodology (Spring Forecasts); (iii) Details on the temporary and one-off measures are given in Table 8.

Compared to SP/2016 the aim of achieving a budget surplus of 0.4% of GDP in 2020 is retained, although the annual goal are slightly less demanding from 2017 to 2019. SP/2017 foresees continuous improvement in the general government (GG) balance, leading to a budget surplus of 0.4% of GDP in 2020 and 1.3% of GDP at the end of the time horizon. Compared to SP/2016 the annual goals for the fiscal balance laid down in SP/2017 are less demanding from 2017 to 2019 (-0.1 p.p. of GDP per year). It is also noted that for 2016 the balance calculated by INE (-2.0% of GDP) exceeds by 0.2 p.p. the -2.2% of GDP forecast in SP/2016 (Chart 2).

Chart 2 – GG balance projected in SP/2015, SP/2016 and SP/2017

(% of GDP)



Source: INE and Ministry of Finance. CFP calculations.

Taking as a starting point the primary surplus recorded in 2016 (2.2% of GDP), SP/2017 forecasts that the surplus will continuously improve over the programme time horizon, to reach 4.9% of GDP in 2021. The increase in the primary balance over the five-year period forecast in SP/2017 is equal to 2.7 p.p. of GDP. From 2017 to 2020 the forecast is for an average annual improvement of 0.5 p.p., while the forecast for 2021 is 0.7 p.p., which includes the extraordinary revenue referred to above (0.4 p.p. of GDP).

2.2 FISCAL ADJUSTMENT AND FISCAL POLICY STANCE

On the basis of the CFP's classification of temporary measures and on the business cycle position underlying the SP macroeconomic scenario, it is estimated that in 2016 the structural deficit will have fallen by 0.2 p.p. of GDP, a change that compares favourably with the EU Council's recommendation. The estimate for the structural deficit – which excludes one-off measures and the business cycle effect – went from 2.2% of GDP in 2015 to 2.1% of GDP in 2016. It is an improvement equal to 0.2 p.p. of GDP (due to the rounding of 0.18), which compares favourably with the stabilisation recommended by the European authorities last August[3] and which arose because the decrease in structural revenue (-1.2 p.p. of GDP) was smaller than the decrease in structural expenditure (-1.4 p.p. of GDP, of which -0.9 p.p. of GDP relates to capital expenditure).

[3] In the context of Council Decision no. 11553/16 of 2 August 2016 (Decisão n.º 11553/16 do Concelho Europeu, de 2 de agosto de 2016), it was decided that Portugal had not taken effective action to solve the excessive debt situation up to the end of 2015, as required by the Council Recommendation of 21 June 2013. However, no financial penalty was approved and it was held that a zero structural adjustment in 2016 would be sufficient to ensure a safety margin for a sustainable correction of the excessive deficit.

For 2017 the SP provides for a smaller structural balance improvement than required by the Budgetary Framework Law and by the Stability and Growth Pact (SGP) rules. The structural deficit should be 1.7% of GDP in the current year, and the CFP estimates a 0.4 p.p. decrease compared to 2016, which is due solely to the rise in structural revenue. If the EDP is closed on the basis of the 2016 budget outturn, Portugal will leave the corrective arm of the SGP and be subject to the preventive arm from 2017 onwards.[4] Under this arm, and taking into account the macroeconomic scenario in SP/2017 and the Portuguese public debt ratio, an annual improvement in the structural balance of at least 0.6 p.p. of GDP[5] is required until the MTO is achieved.[6] Therefore, if the structural adjustment in 2017 is indeed 0.4 p.p. of GDP, it will have fallen short of the requirement, although such divergence may be held to be not significant.[7]

From 2018 onwards the forecast structural adjustment should accelerate and come to be based on a decrease in expenditure. From 2018-2020 the SP provides for an annual improvement in the structural balance of around 0.6 p.p. of GDP, the minimum amount required under the SGP's preventive arm.[8] In cumulative terms the forecast improvement over that three-year period is 1.7 p.p. of GDP, driven by a much greater decline in structural expenditure (-2.0 p.p. of GDP) than in structural revenue (-0.3 p.p. of GDP).

The MF forecasts suggest that in 2020 the structural balance will reach an equilibrium and the following year the MTO will be achieved. SP/2017 provides for a cumulative improvement in the structural balance of 2.4 p.p. of GDP over the 2017-2021 period. It is estimated that the structural balance will reach an equilibrium in 2020 and that in 2021 the medium-term objective (currently set at 0.25% of GDP) will be achieved by way of a structural

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[4] For that decision to be made it is not enough for the budget deficit to have been below 3% of GDP in 2016, it also requires that this figure remains below the limit in the next two years, so as to ensure the correction is sustained. The European Commission's Spring Forecast for Portugal, published on 11 May, foresees a budget deficit of 1.8% of GDP in 2017 and 1.9% of GDP in 2018. Those forecasts refer explicitly to the "potential deficit-increasing impact of banking support measures". The impact on the headline balance of the financial system support measures from 2016 to 2018 will be taken into account when the Council makes its decision.

[5] On the basis of the matrix published in Communication COM (2015) 12, de 13 de janeiro, in Portugal's case, over the time horizon covered by SP/2017 the minimum structural adjustment must be greater than 0.5 p.p. of GDP, since the country has a public debt of over 60% of GDP and the output gap is within the interval -1.5% and + 1.5% of GDP. The EC has stated that in its view an adjustment of over 0.5 p.p. means a minimum adjustment of 0.6 p.p. of GDP.

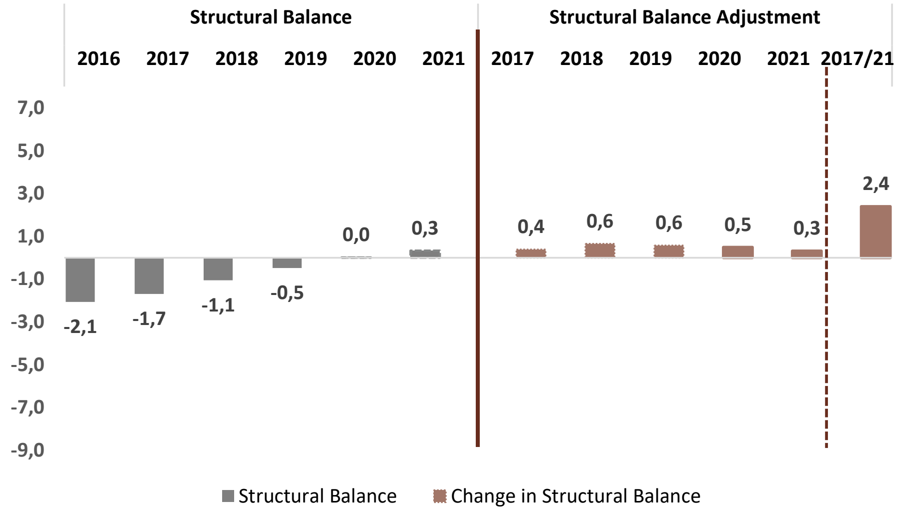
[6] Article 12-C (6) of the Budgetary Framework Law (as per the wording of Law no. 41/2014 of 10 July) also states that "until the medium-term objective is achieved the structural balance annual adjustment cannot be less than 0.5 [p.p. of GDP]". The recommended improvement of 0.6 p.p. of GDP was reaffirmed in October 2016, in the letter from the European Commission to the Portuguese Minister of Finance at the time the Draft SB/2017 was delivered and in November 2016, in the document evaluating that Draft.

[7] According to articles 6(3) and 10(3) of European Commission Regulation nº 1466/97, if a Member-State does not achieve the MTO, a divergence from the required adjustment shall be considered significant if it is at least 0.5 p.p. of GDP in any one year or at least 0.25 p.p. of GDP in two consecutive years.

[8] In 2020 the estimated structural adjustment of 0.5 p.p. of GDP, represents a divergence of 0.1 p.p. of GDP compared to the required level, which would not be considered significant.

surplus of 0.3% of GDP.[9] If the minimum annual structural adjustment of 0.6 p.p. of GDP were applied in all the years covered by SP/2017, the MTO would be achieved one year earlier, in 2020. Note that once the MTO is achieved quantification of the structural balance remains relevant to monitoring the public finance position. When a divergence from the MTO is deemed significant a corrective mechanism is activated.

Chart 3 – Forecast structural adjustment for the 2017-2021 period (% and p.p. of GDP)

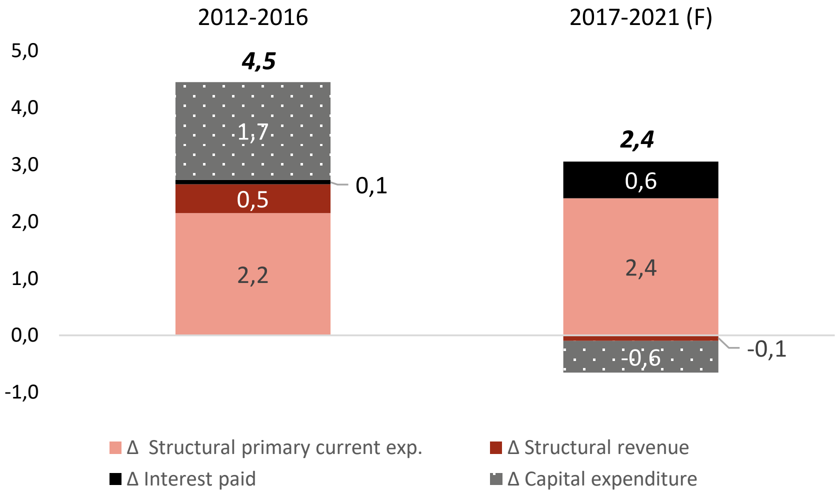


Source: INE and Ministry of Finance. CFP calculations. | Note: The figures are net of the impact of the business cycle and temporary and one-off measures (see Table 8, attached).

The structural adjustment forecast for the 2017-2021 period is 2.1 p.p. of GDP down on that seen in the previous five-year period. In the previous five-year period (2012-2016) the structural adjustment was 4.5 p.p. of GDP. Given this better starting point, it will be possible to achieve the MTO in the time horizon covered by SP/2017 with a smaller fiscal consolidation effort, accounting for 2.4 p.p. of GDP improvement in the structural balance. As regards the breakdown of the adjustment, the difference between the five-year periods will arise in the time horizon of SP/2017 where revenue is expected to make a negative contribution and the decrease in structural expenditure will be smaller. A 0.6 p.p. of GDP increase in capital expenditure from 2016-2021 is expected, when that item had fallen by 1.7 p.p. of GDP in the previous five-year period. The decrease in the relative weight of debt interest should contribute 0.6 p.p. of GDP to the consolidation of the public accounts (up 0.1 p.p. on its contribution in the previous five-year period). Unlike the previous five-year period when revenue contributed 0.5 p.p. of GDP to the improvement in the structural balance, a decrease of 0.1 p.p. of GDP in structural revenue is forecast in SP/2017.

[9] The MTO figure is revised every three years. The latest revision took place in 2016, and was changed from a structural deficit of 0.5% of GDP to a structural surplus of 0.25% of GDP (more information on this subject can be found in Box 1 of the CFP Report that analyses the 2016-2020 Stability Programme Caixa 1 do relatório do CFP relativo à Análise do Programa de Estabilidade 2016-2020).

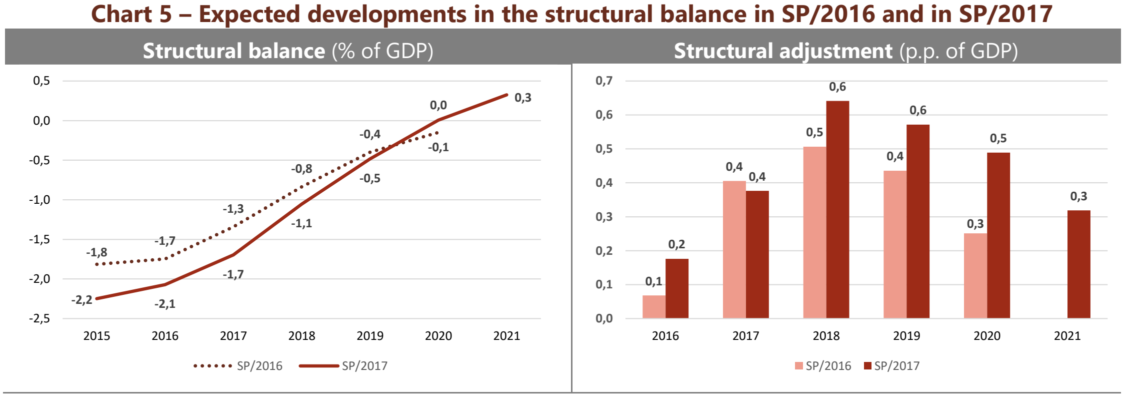
Chart 4 – Contributions to change in the structural balance in 2012-16 and in 2017-21 (p.p. of GDP)



Source: INE and Ministry of Finance. CFP calculations. | Note: a positive change in revenue/expenditure corresponds to a positive contribution to the structural adjustment, and the opposite is the case when there is a negative change in revenue/expenditure; the figures relating to 2012-16 are estimated changes while those relating to 2017-21 are expected changes (F) in SP/2017.

Compared to SP/2016, the annual structural adjustment forecast for the period covered by SP/2017 is greater, despite pointing to higher structural deficits (except in 2020). In effect, throughout the four-year period common to both Stability Programmes (2017-2020), the structural deficit forecast in SP/2017 is always greater than in SP/2016. However, SP/2017 foresees a balanced budget in 2020, a situation that was not forecast over the time horizon covered by SP/2016, and which requires a larger annual structural adjustment.

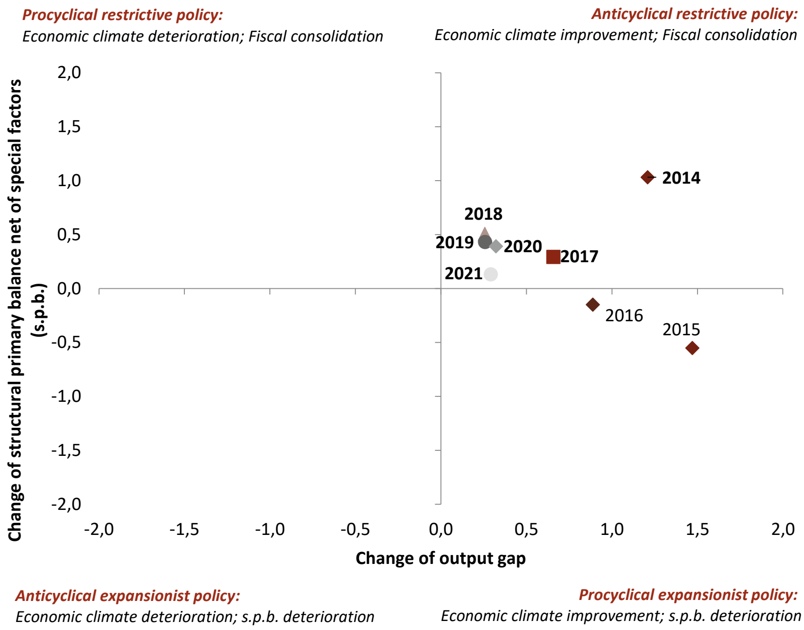
Chart 5 – Expected developments in the structural balance in SP/2016 and in SP/2017



Source: Ministry of Finance. CFP calculations. | Note: the structural adjustment is equal to the change in the structural balance.

Following a procyclical, expansionist stance in 2015 and a neutral stance in 2016, fiscal policy should take an anticyclical, restrictive stance from 2017 to 2021. In 2015 the fiscal policy stance was expansionist and procyclical, which led to a deterioration in the structural primary balance (0.6 p.p. of GDP in 2015) while the economic climate was improving (positive change of 1.5 p.p. of potential GDP in the output gap). In 2016 the change in the structural primary balance (-0.1 p.p. of GDP) points to an overall neutral fiscal policy in an improving economic setting. SP/2017 projects a change in fiscal policy that should become restrictive and anticyclical from 2017-2021, bearing in mind that the structural primary balance and the output gap should see positive changes in every year covered by SP/2017.[10]

Chart 6 – Fiscal policy and cyclical position from 2014-2021



Source: INE and MF. CFP calculations. | Notes: (i) The fiscal policy stance is assessed by the change in the structural primary balance; (ii) The business cycle position is gauged by the change in the output gap, which is approximately equal to the difference between the observed GDP growth rate and the potential GDP growth rate. (iii) The CFP is of the opinion that fiscal stance is tight if the structural primary balance to potential GDP ratio records an annual improvement of at least 0.25% and is expansionist if this ratio deteriorates by at least 0.25%. If the change is between -0.25% and +0.25% fiscal stance is deemed to be neutral.

2.3 PUBLIC DEBT

The public debt path presented in SP/2017 meets the minimum requirements for the decrease in public debt applying to Portugal. Assuming that Portugal leaves the EDP on the basis of the general government account figures relating to 2016, the three following years will be deemed the *transitional period*, as per the European rules. During this period the debt ratio forecast by the MF complies with the Minimum Linear Structural Adjustment (MLSA), in accordance with the criterion which is less restrictive under the SP/2017 conditions: the retrospective criterion.[11] In 2020 and thereafter, the debt reduction rule of one twentieth per year applies, which is also met by the MF forecasts.

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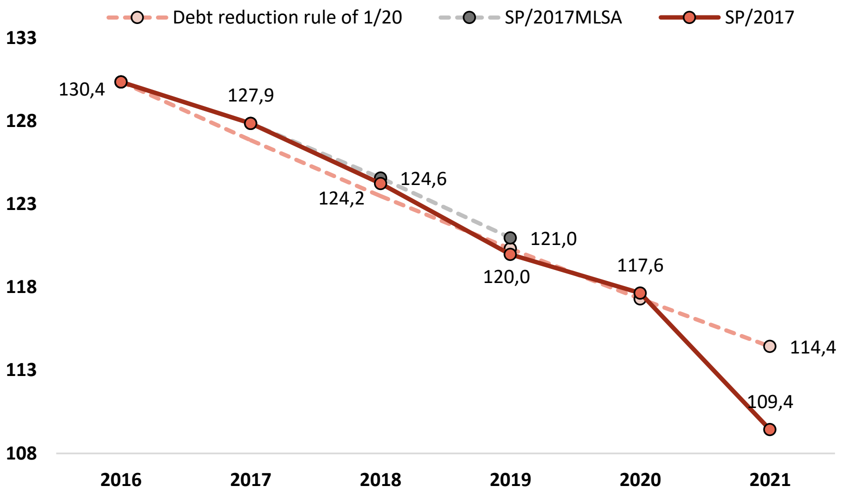
[10] A positive output gap means that the output level generated by the economy is greater than its potential output. For further details on the output gap and potential output concepts, see the CFP glossary on public finance Glossário de termos das Finanças Públicas do CFP.

[11] During the three-year transitional period, until the 5% per year debt reduction rule applies, Member-States are required to reduce public debt so as to meet at least one of three criteria: retrospective, prospective and cyclically adjusted. All three criteria assume a linear adjustment over the three years. The size of the adjustment is proportional to the deviation from the estimated debt path in the absence of the adjustment relating to the benchmark (i.e., maintaining the structural balance unaltered at the level in the year the excessive deficit procedure was closed). For further details on the criteria determining the MLSA, see: Análise do Documento de Estratégia Orçamental 2014-2018.

Chart 7 – Compliance with European debt reduction rules (as % of GDP)



Source: MF. CFP calculations.

The debt ratio published in SP/2017 is in line with MLSA in 2017 and is lower in 2018 and 2019. In 2017, the forecast for debt as a percentage of GDP is identical to the figure obtained from the MLSA. For 2018 and 2019 the MF foresees a lower ratio (by 0.4 p.p. and 1 p.p. of GDP, respectively) than required during the transitional period. The MF debt forecast for 2020 is 0.3 p.p. higher than the one twentieth per year adjustment applying to debt exceeding 60% of GDP, but in the following year the forecast is considerably lower than the ratio required under the same rule, thereby ensuring compliance with the rules applying to Portugal at the end of the forecast time horizon.

3 BUDGET PROJECTIONS AND FORECASTS[12]

The Stability Programme was drawn up on the basis of a no-policy-change scenario which was the starting point for the devising of medium-term public finance strategy. This incorporates the new fiscal policy measures that the Government wishes to introduce in order to fulfil its programme in the light of the national and European fiscal framework. From 2017 to 2021, the MF forecasts that the economy will make a positive contribution to the GG account, with policy measures providing an accumulated direct impact of 1337 M€. The fulfilment of the published projections and forecasts involves some risks. These risks stem from the fact that a significant number of measures are not detailed and that other effects are not identified, in addition to the risks caused by the macro scenario measures. As regards public debt developments, the SP/2017 predicts a downward path for public debt to GDP ratio up to 2021.

3.1 GENERAL GOVERNMENT ACCOUNT

3.1.1 No-policy-change scenario

The SP/2017 medium-term budgetary forecasts take as a starting point the updated budgetary forecast for 2017. The medium-term scenario in SP/2017 was based on the policy changes underlying the approved 2017 State Budget (see Table 2, column 5). In this context the MF took into consideration the effects of existing legislation and the new policy measures presented in that planning document and accepted in the parliamentary debate on the draft State Budget, which will be felt from 2017 onwards (see column 2), as well as "other effects" (see column 4) which include, among others, the impact of those measures on the macroeconomic scenario. The revising of the no-policy-change scenario in SP/2017 basically reflects the improvement in the macroeconomic scenario in 2017 and the favourable deviation on the 2016 fiscal balance (see column 7). In light of this new information the budgetary forecast for 2017 was revised in and gave rise to a more favourable starting point for the SP medium-term projections.

[12] Note that the projections are based on the no-policy-change hypothesis, whilst the forecasts include the effects of the planned measures.

Table 2 – Baseline scenario for SP/2017 projection

	SB/2017					SP/2017	
	No Policy Change (1)	Policy Measures (2)	NPC + Policy. Measures (3)=(1)+(2)	Other effects (4)=(5)-(3)	MF Forecast [SB/2017] (5)	Revision (6)=(7)-(5)	No Policy Change (7)
TOTAL REVENUE	**82 523**	**1 204**	**83 727**	**426**	**84 153**	**-1 499**	**82 654**
Tax and contribution revenue	**69 114**	**796**	**69 909**	**5**	**69 914**	**111**	**70 025**
Indirect taxes	27 733	664	28 397	-228	28 169	131	28 300
Direct taxes	19 103	174	19 277	155	19 432	-154	19 278
Social Security contributions	22 277	-42	22 235	78	22 313	134	22 447
Non Tax and non contribution revenue	**13 410**	**408**	**13 818**	**421**	**14 239**	**-1 610**	**12 629**
TOTAL EXPENDITURE	**87 024**	**-387**	**86 637**	**531**	**87 168**	**-1 671**	**85 498**
Primary Expenditure	**78 772**	**-387**	**78 385**	**486**	**78 871**	**-1 304**	**77 567**
Intermediate Consumption	10 808	-290	10 518	162	10 680	0	10 680
Compensation of employees	21 018	-164	20 854	121	20 975	190	21 165
Social transfers	35 740	247	35 987	-372	35 615	0	35 615
Subsidies	966	0	966	137	1 104	-55	1 049
Gross Fixed Capital Formation	3 697	0	3 697	480	4 177	-365	3 812
Other Current and Other capital exper	6 542	-180	6 362	-41	6 321	-1 075	5 246
Interest paid	**8 252**	**0**	**8 252**	**45**	**8 297**	**-367**	**7 930**
BUDGET BALANCE	**-4 501**	**1 591**	**-2 910**	**-106**	**-3 016**	**172**	**-2 844**

Source: MF. CFP calculations. | Note: Under SB/2017, "No-policy-change scenario" includes the direct effect of macroeconomic variables and pressure on budget variables taken into consideration in the estimate for 2016 (deficit of 2.4%), while "Other effects" includes the effects induced by the macroeconomic scenario measures. As for SP/2017, "No-policy-change scenario" also reflects the impact of the macroeconomic scenario update. The 2017 measures are those published in SB/2017 and identified in Relatório do CFP nº 10/2016.

However, the no-policy-change scenario designed for 2017 suggests that it did not take as the basis for the projections the updating of the budget estimate for 2016 (INE revision) nor the effects of the policy measures set out in SB/2017, associated with the calculation of new carry-overs for 2017. The projection exercise undertaken by CFP is unable to confirm the impact of the policy measures from the baseline scenario that takes as a reference the budget estimate for 2016 calculated by the statistical authorities. Since the MF seems to base the projected no-policy-change scenario on the assumption that the budgetary forecast for 2017 will be achieved (the budgetary forecast is the same with or without policy changes), the CFP is unable to assess the consistency of the budgetary forecast and the no-policy-change scenario projection from 2016 to 2021. Therefore analysis of consistency will be restricted to the period from 2018 to 2021 (see section 3.1.3.).

According to SP/2017 the change in the economy and the budgetary variables in the absence of new policy measures (no-policy-change scenario) will be sufficient to ensure the elimination of the fiscal imbalance. The MF predicts that macroeconomic developments and their effects on the budgetary variables can explain the improvement in the fiscal balance from 2016 to 2021 (2.6 p.p. of GDP), a sum large enough to eliminate the adjusted budget deficit in 2016. [13]

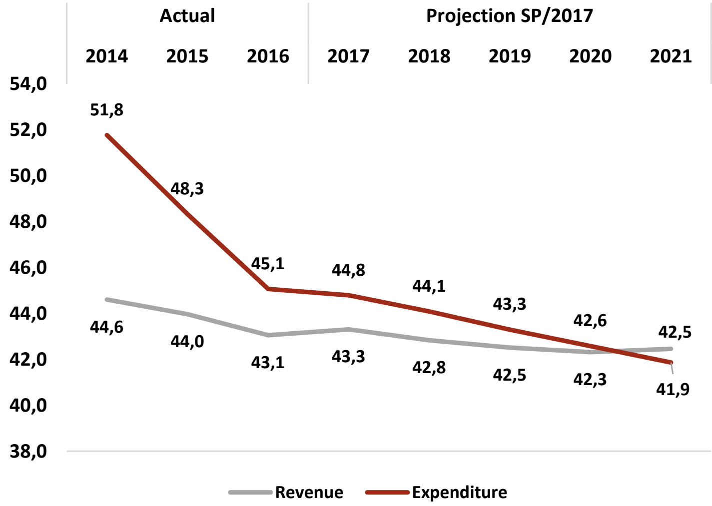
Taking into account the no-policy-change scenario underlying SP/2017 a positive fiscal balance of 0.6 % of GDP (1 301 M€) will be achieved at the end of the projection time horizon. According to the MF, from 2016 to 2021, the expenditure ratio will drop by 3.2 p.p.

[13] The balance change under the no-policy-change scenario reflects the dynamic performance of the budgetary variables, including those that react strongly to the business cycle, as well as the effect of associated fiscal pressures, such as the developments in Public-Private partnerships and social transfers.

of GDP while revenue will fall by 0.6 p.p. The consolidation forecast for the projection period will be built on the nominal increase in revenue (+17.1%) at a higher rate than the growth in total expenditure (+10.3%).[14]

Despite the nominal increase in revenue, the fact it is projected to grow less than the nominal GDP will mean that its relative weight in output will fall. In nominal terms total revenue will grow by 13 579 M€ (17.1%) from 2016 to 2021. Over three-quarters of that growth will come from the increase in tax and contribution revenue. Tax revenue will account for 48.8% of the nominal increase in total revenue, whilst the growth in contributions to Social Security funds will account for 28.8%.

Chart 8 – Unadjusted revenue and expenditure projections in a no-policy-change scenario (% of GDP)



Source: INE and MF. CFP calculations. | Note: Figures as a percentage of GDP have been rounded to one decimal place.

Given the macroeconomic developments underlying SP/2017, the tax revenue projection under the no-policy-change scenario is, in general, more conservative than the social contribution revenue projection. According to the MF the increase in direct taxes will be less than the growth in salaries over the projection entire time horizon, unlike the performance of actual social contributions in relation to the same macroeconomic variable, where the MF is more optimistic about the revenue to be obtained. As for the indirect taxes projection, with the exception of 2017, growth is expected to be slightly lower or to match (2020) the projected change in nominal private consumption.

[14] This figure includes 948 M€ relating to a temporary measure, that it the return of the EFSF prepaid margin scheduled for 2021, which the MF has taken into account in its no-policy-change scenario.

Table 3 – Elasticities underlying the SP/2017 projections, no-policy-change scenario (%)

	2017	2018	2019	2020	2021
Indirect taxes/private consumption elasticity	1,3	0,8	0,8	1,0	0,8
Direct taxes/compensation of employees elasticity	0,8	0,7	0,5	0,8	0,8
Actual social contributions/compensation of employees elasticity	1,4	1,1	1,3	1,3	1,2
Indirect taxes/GDP elasticity	1,3	0,8	0,8	0,9	0,8
Direct taxes/GDP elasticity	0,8	0,7	0,5	0,8	0,8
Actual social contributions/GDP elasticity	1,5	1,1	1,2	1,2	1,1

Source: MF and INE. CFP calculations. | Note: The figures for tax revenue and actual contribution revenue are adjusted from policy measures, temporary measures, one-off measures and special factors.

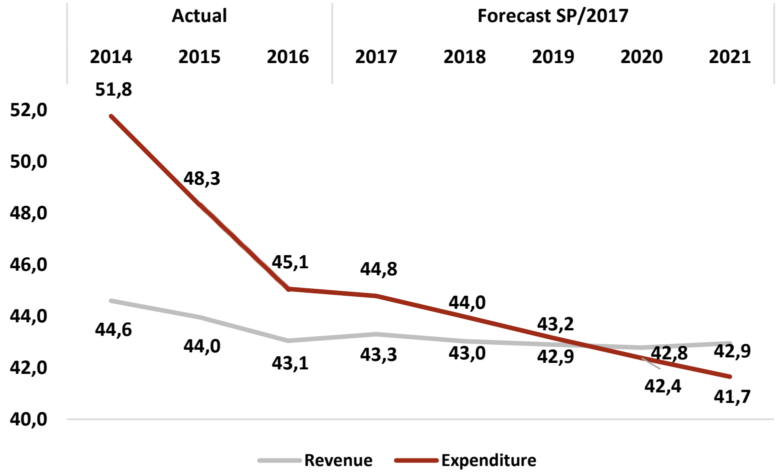
According to the projection under the no-policy-change scenario, the public expenditure ratio will fall as a result of the nominal growth in expenditure being smaller than the nominal growth in GDP. Although the MF foresees nominal growth in expenditure (+10.3%), its relative weight in output will fall by 3.2 p.p. up to 2021. The major contribution to this decrease will come from compensation of employees (down 1.6 p.p. of GDP from 2016 to 2021), given the nominal freeze in this item from 2017 to 2021, along with the performance of social transfers which, despite projected nominal growth of 11.4%, will see its relative weight in GDP fall 1.2 p.p. up to 2021. The relative weights of interest and intermediate consumption will also fall by 0.6 p.p. and 0.3 p.p., respectively, reflecting a nominal growth at rates below the forecast nominal growth in GDP (+18.7%) from 2016 to 2021. On the other hand, over the same period, the relative weight of capital expenditure in output should increase by 0.5 p.p., driven by the recovery in GFCF.

3.1.2 Scenario with measures

3.1.2.1 Revenue and expenditure

Taking into account the effects of the fiscal policy measures set out in SP/2017, the MF predicts that by the end of the time horizon expenditure will weigh less in GDP terms than revenue. Fiscal balance adjustment forecast for 2016 to 2021 (+3.3 p.p. of GDP) is based on a decrease in expenditure's relative weight of 3.4 p.p. of GDP, a figure which compares with the decrease in total revenue's weight of 0.1 p.p. The expected decline in the weights of total revenue and expenditure will flow from nominal GDP growth (19.0%) at a higher rate than nominal growth in revenue (18.7%) and expenditure (10.0%).

Chart 9 – Unadjusted revenue and expenditure forecasts, with measures (as % of GDP)

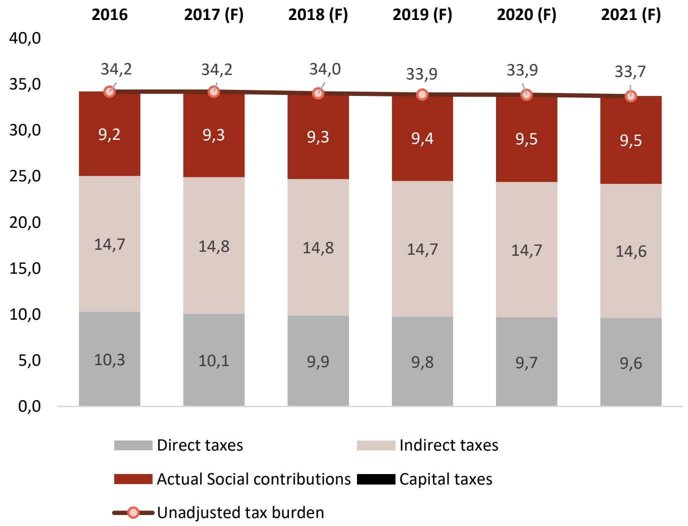


Source: INE and MF. CFP calculations. | Note: Figures as a percentage of GDP have been rounded to one decimal place.

The forecasts included in SP/2017 point to a slight decrease in total revenue's weight over the forecast's entire time horizon. Over this period the MF foresees a 0.1 p.p. of GDP (after rounding) decrease in total revenue's relative weight. This stems from the 0.8 p.p. of GDP decrease in the weight of tax and contribution revenue which basically reflects the performance of tax revenue (-0.9 p.p. of GDP), which will grow from 2016 to 2021 at a slower rate (+14.9%) than the expected growth in nominal GDP growth (+19.0%). It is forecast that over the same period that decrease will be offset by an increase of 0.7 p.p. of GDP weight in non-tax and non-contribution revenue. However, that revenue is positively impacted by the return of the pre-paid margin by the EFSF in 2021 (+0.4 p.p. of GDP).

The forecasts underlying SP/2017 represent a decrease in the tax burden from 2016 to 2021. Following the decrease in the tax burden in 2016 (-0.3 p.p. of GDP compared to 2015), SP/2017 forecasts a new decrease (-0.5 p.p. of GDP) from 2016 until the end of the time horizon, which is expected to reach 33.7% of GDP in 2021. The main contribution to this easing of the tax burden will come from direct taxes (-0.7 p.p. of GDP), reflecting the elimination of the PIT surcharge and support for low income families through changes in that tax. Indirect taxes will contribute to a lesser extent (-0.1 p.p. of GDP) and, despite new as yet unspecified measures, will record percentage growth below that of nominal GDP. The relative weight of actual social contributions (+0.3 p.p. of GDP) will partially offset the easing of the tax burden, which reflects the performance of average wages and employment, as well as the increase in enforced collection linked to the fight against contribution and transfer fraud and evasion.

Chart 10 – Tax burden developments
(as % of GDP)



Source: MF. CFP calculations. | Notes: The totals do not necessarily match the sum of the individual items as % of GDP due to rounding. (F) – Forecast.

If SP/2017 forecasts prove to be true, in 2021 public expenditure will record its lowest weight in GDP since 1995. The SP/2017 forecasts indicate that expenditure's relative weight will go from 45.1% of GDP at the end of 2016 to 41.7% of GDP in 2021. In annual terms, 2017 is the year that will see the smallest decrease in public expenditure's weight in GDP (down 0.3 p.p. on 2016). From 2018 to 2020, the MF forecasts annual decreases of 0.8 p.p. of GDP, followed by a drop of 0.7 p.p. of GDP in 2021.

The decrease in public expenditure's relative weight is based on current primary expenditure. The decrease in current primary expenditure's weight in GDP (3.4 p.p. of GDP) results from the fact that its forecast growth is nearly half the growth forecast for nominal GDP. Compensation of employees and social transfers explain around three-quarters of the drop in the weight of current primary expenditure. The former is expected to fall by 1.2 p.p. of GDP, despite the unfreezing of civil service promotions from 2018 onwards. The weight of social transfers in GDP will also decline (-1.2 p.p.) due, according to SP/2017, to the development in pensions paid by the CGA and in social transfers in kind, as well as to the decrease in spending on unemployment benefit. Smaller contributions will come from the fall in the weight of intermediate consumption (0.7 p.p. of GDP), as a result, according to SP/2017, of rationalisation and simplification measures, and of cost savings in a number of GG areas.

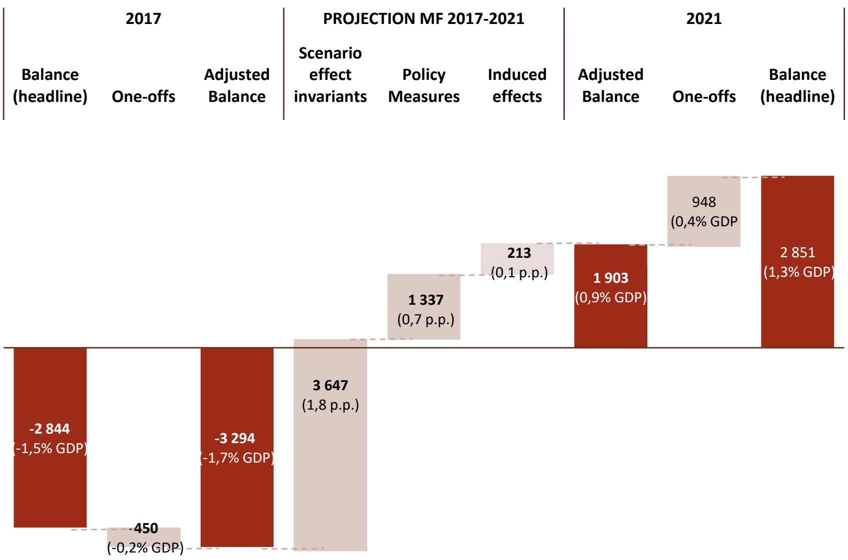
The forecasts underlying SP/2017 indicate that interest's weight in GDP will follow a downward path over the projection time horizon. The MF estimates the weight of interest will fall by 0.6 p.p. of GDP, going from 4.2 p.p. in 2016 to 3.6 p.p. in 2021. According to the MF that drop is due to the decrease in public debt stock as a percentage of GDP and to the gradual decline in the implicit interest rate.

In contrast to the decrease in current expenditure's weight in GDP, the MF expects capital expenditure's weight to rise. Over SP/2017 time horizon the MF expects capital expenditure's weight to increase from 2% in 2016 to 2.6% of GDP in 2021. Gross fixed capital formation will be the sole cause of that growth reflecting, according to the MF, greater use of European Structural and Investment Funds (ESIF). Note that SP/2017 does not take into account any fiscal effect from support provided to the banking sector.

3.1.2.2 Fiscal policy measures

From 2017 to 2021, the direct effect of policy measures explains a quarter of the forecast improvement in the fiscal balance. The new measures to be introduced from 2018 to 2021 should directly explain the 1337 M€ (0.7 p.p. of GDP) improvement, as per Table 9.[15] Compliance with the headline balance path published in SP/2017 is mainly dependent upon changes in budget variables, including the effect of the macroeconomic outlook. The direct effect of macroeconomic variables and pressure on budget variables under a no-policy-change scenario, as mentioned earlier, explains an improvement of 3647 M€, while other effects (which include the 2nd order effects of such measures on the macroeconomic scenario) explain the remainder (213 M€).

Chart 11 – From the 2017 deficit to the 2021 surplus (M€)



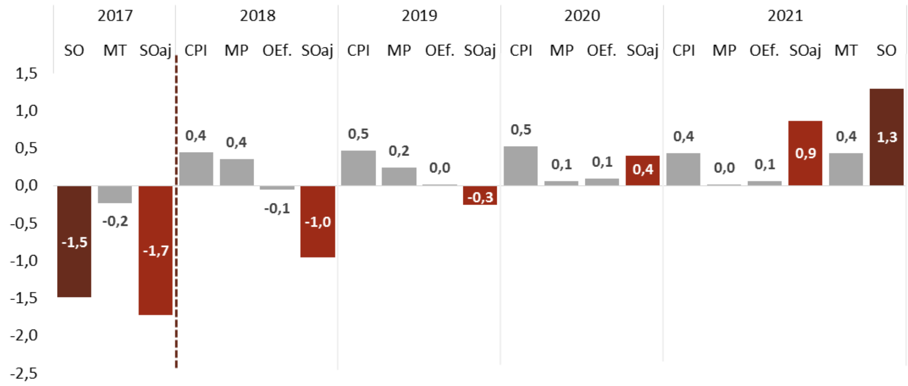
Source: MF. CFP calculations. | Note: The "No-policy-change scenario" includes the direct effect of macroeconomic variables and pressure on budget variables. "Other effects" should include the 2nd order effects of policy measures. For further details on policy measures see Table 9. The totals do not necessarily match the sum of the individual items as a percentage of GDP due to rounding.

2018 is the year in which the improvement in the fiscal balance will be most dependent upon policy measures. In subsequent years compliance with the fiscal balance objectives will be based above all on favourable economic developments. The contribution of policy measures to the fiscal objectives will steadily decrease and tail off to almost nothing in 2021.

[15] The policy measures analysed by CFP follow the average net value approach. The impact of measures relating to the gradual unfreezing of civil service promotions and constraints on public employment are only taken into account in net terms, since they are expenditure measures. Under this approach the effects of these measures that impact on tax revenue (via direct taxes) and on contribution revenue (via actual social contributions) are directly set against the value of the measure on the expenditure side.

Therefore, the favourable performance of the business cycle plays a decisive role in the implementation of the fiscal strategy underlying SP/2017.

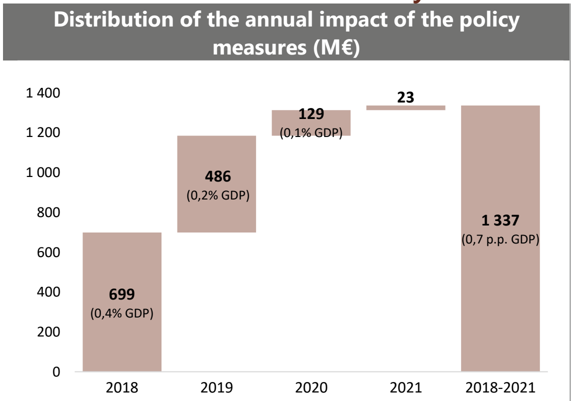
Chart 12 – Annual distribution of effects from 2017 to 2021 (as % and p.p. of GDP)

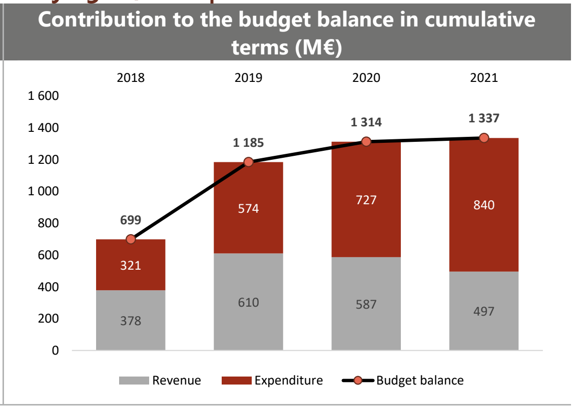


Source: MF. CFP calculations. | Note: CPI – No-policy-change scenario includes the direct effect of macroeconomic variables and pressure on budget variables; MP – Policy measures; MT – Temporary measures or one-off measures. For further details see Table 8; OEF – Other effects include the 2nd order effects of measures; SOaj – Adjusted fiscal balance; SO – Fiscal balance. The totals do not necessarily match the sum of the individual items as a percentage of GDP due to rounding.

In terms of policy makers' discretionary actions, the measures forecast for expenditure have the largest volume and contribute the most to compliance with fiscal balance objectives. Measures affecting expenditure to be introduced from 2018 to 2021 should total 2420 M€, more than double the volume forecast for revenue as a whole. The expenditure volume is comprised of cutting measures (1630 M€) and increasing measures (790 M€). According to the MF, the net cumulative impact of those measures on the balance may be 840 M€ at current prices. The savings stemming from the nominal freezing of intermediate consumption and "other current expenditure" (1305 M€), the savings on interest (248 M€) and, to a lesser extent, the constraints on public employment (15 M€) will be the main contributors to the improvement in the fiscal balance. According to the MF forecast half of that contribution will be cancelled out by measures to increase public expenditure, in particular the gradual unfreezing of civil service promotions (564 M€) and the 226 M€ relating to the aforementioned measures to enhance the use of ESIF.

Chart 13 – Policy measures underlying SP/2017 | Net Effect





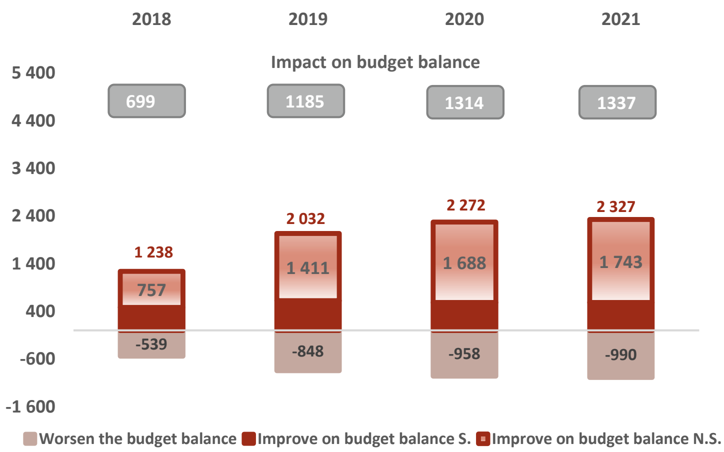
Source: MF. CFP calculations. | Note: The impact of the measures is quantified and classified in Table 9. In the right hand panel the bars represent contributions to an improvement in the balance, from both revenue and expenditure. The expenditure side measures are net of their direct impact on revenue.

The measures forecast on the revenue side will make a smaller contribution to the balance improvement. Over the 2018-2021 period, the estimated net impact of these measures will be 497 M€ at current prices, of which 697 M€ relate to increases in revenue and the remaining 200 M€ to decreases in it, mainly as a result of the support for low income via taxation (see Table 9). Revenue measures total 897 M€, of which over three-quarters come from tax and contribution revenue (701M€), while the remainder is the result of measures designed to enhance the use of European Structural and Investment Funds, where the impact on capital revenue is intended to support the increase in public investment. In terms of the net impact on the balance, the measures forecast for tax and contribution revenue account for 301 M€ of the total impact which the MF expects to obtain with the revenue side measures (497 M€), up to 2021.

According to the CFP's assessment the forecast net impact of new policy measures on the fiscal balance depends on targets not supported by specified measures. A little over one tenth (13%) of the measures that the CFP feels are not fully specified are on the revenue side (see Table 9), although in terms of volume they represent around one quarter of total unspecified measures. The greatest portion (87%) of the net impact of unspecified measures (see note to Table 10) is on the expenditure side (their volume accounts for three-quarters of the total). Over four-fifths of the measures aimed at reducing expenditure (1357 M€) come from efficiency gains, which are dependent on unspecified measures that merely indicate the targets to be achieved. The nominal freezing of the expenditure categories referred to above explain this uncertainty as to the results to be achieved, since the savings represent 1305 M€ of the total 1630 M€ that the MF classes as expenditure cutting measures.

Chart 14 – Accumulated impact of specified and unspecified policy measures

(M€ at current prices)



Source: MF and CFP calculations. | Note: S. – Specified; N. S. – Unspecified. The measures that have a negative effect on the balance were also divided into specified and unspecified, although that split is not shown in the chart. For further details on unspecified measures see Table 9.

The lack of details on the forecast measures raises doubts about the compliance with the fiscal balance path set out in SP/2017. The expected joint impact of the unspecified measures varies between 359 M€ in 2018 and 1317 M€ in 2021, of which around two-thirds is concentrated in 2018 and 2019. In this regard the CFP once again stresses the need for the annual budgetary planning documents, in particular the State Budget, to provide the necessary details and figures on the measures in question, because the credibility of the outlined strategy depends on them. Furthermore it is desirable for the Government report on the fulfilment of fiscal policy measures implemented previously.

3.1.3 Consistency between scenarios with and without policy measures

In addition to the lack of details on measures, the fiscal balance path shown in SP/2017 is not sufficiently explained by the macroeconomic developments and the fiscal policy measures disclosed by the MF. Assuming that the budgetary forecast for 2017 materialises, on the basis of the policy measures and other effects underlying it (see Table 2), a comparison of the MF's no-policy-change scenario with the policy-change scenario (which includes the impact of the policy measures) shows that for 2018 to 2021 the budgetary forecast for revenue and expenditure is greater than the impact of the policy measures on the baseline scenario. Although the budgetary forecast for the balance points to a minimum difference compared to the projection that would result from the impact of the policy measures on the baseline scenario, the effects identified in the breakdown of the balance are critical to complying with the objectives set out in SP/2017 and may put the forecast budgetary path at risk.

Table 4 – Accumulated "Other effects" in the GG account

	2018	2019	2020	2021
Absolute figures (M€)				
Total Revenue	68	297	557	814
Total Expenditure	179	395	463	601
Budget balance	-112	-98	94	213
In % of GDP				
Total Revenue	0,0	0,1	0,3	0,4
Total Expenditure	0,1	0,2	0,2	0,3
Budget balance	-0,1	0,0	0,0	0,1

Source: MF. CFP calculations. | Note: The figures shown are unadjusted and were calculated using the following formula: Difference between the SP/2017 projections in a policy change scenario and those resulting from the impact of the policy measures under the baseline (no-policy-change) scenario.

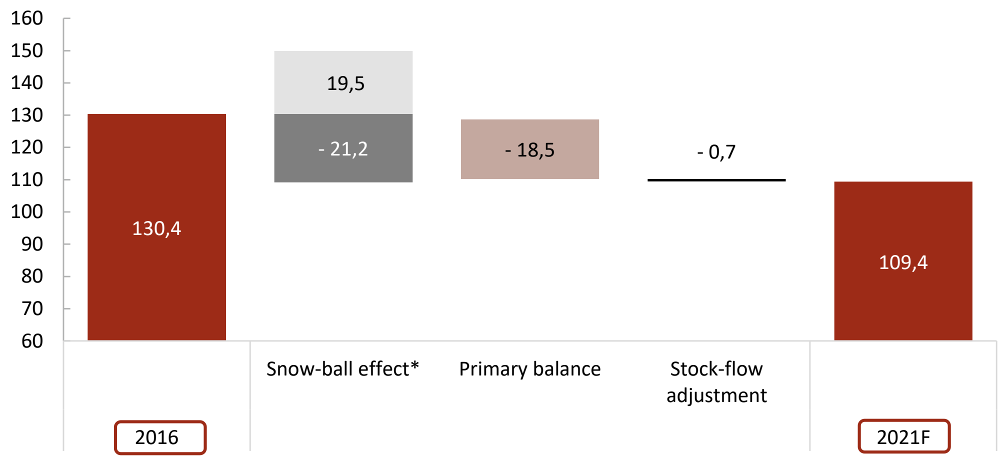
The scale of "other effects" in the budgetary forecast for the revenue and expenditure sides supposes the existence of unidentified and undescribed effects. According to the above table, the scale of the difference between the budgetary forecast and the impact of the policy measures on the baseline scenario is greater on the revenue side. In terms of revenue this difference (varying from 0.1% of GDP in 2018 to 0.4% in 2021) is determined above all by the performance of fiscal variables that go beyond the change in the macroeconomic index and the described measures, namely in "other current revenue" and in capital expenditure, the latter in the last year of the forecast.[16] On the expenditure side the scale of the difference (varying from 0.1% of GDP in 2018 to 0.3% in 2021) is explained by compensation of employees and interest, which contributed to an estimated level of public expenditure higher than the projected impact of the policy measures on the baseline scenario. This suggests there are "other effects" that deserve greater explanation to ensure transparency.

3.2 PUBLIC DEBT DEVELOPMENTS

SP/2017 predicts a downward path for the debt ratio over the five-year period. The debt ratio is expected to fall steadily by 21 p.p. of GDP, going from 130.4% of GDP in 2016 to 109.4% in 2021 (Chart 15). That decrease flows from the accumulation of primary surpluses (18.5 p.p.), a slightly favourable stock-flow adjustment (-0.7 p.p. of GDP) and a favourable dynamic effect (1.7 p.p. of GDP), which according to the SP predictions is brought about by nominal GDP growth, which more than makes up for the impact of interest on the debt ratio.

[16] To a lesser extent tax and contribution revenue also contributes to the scale of "other effects". In this case the effects of policy measures on the macroeconomic scenario are considered to be identified effects.

Chart 15 – Contributions to public debt developments from 2017-2021 (as % of GDP)

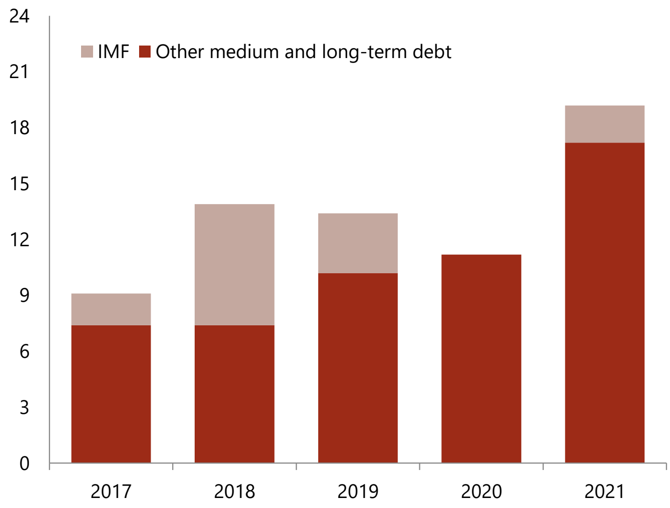


Source: MF and BoP. CFP calculations. | Notes: *Dynamic effect is made up of interest effect (positive impact) and growth effect (negative impact). "F" stands for "Forecast".

In 2020 the stock-flow adjustment is sizeable as a result of the greater accumulation of deposits, which will be used in 2021. In 2017, the first year of the forecast, the decrease in deposits and loans (through the repayment of CoCo's) is partially offset by the increase in i) shares and other holdings; ii) other State assets/net acquisitions and iii) other changes in debt, leading to a stock-flow adjustment of 0.1 p.p. of GDP. In 2018 and 2019 the forecast is still for a minor adjustment (0.4 p.p. and -0.2 p.p. of GDP, respectively). In 2020 the stock-flow adjustment increases to 2.4 p.p., and this change is explained by the build-up of deposits totalling 4,500 M€ (compared to the end of 2019), which are to be used to repay Treasury Bonds and Medium Term Notes (13,700 M€), Floating Rate Treasury Bonds (3,500 M€), that mature in 2021, as well as a tranche of the IMF loan (2,000 M€) (Chart 16). Thus, the final year is marked by a sharp decrease in the debt ratio of 8.2 p.p. of GDP, conversely to 2019 as regards cash and deposits, which are expected to fall by around 6000 M€.

The stock-flow adjustment may make a significant contribution to the debt ratio development, given that in the last five years it provided between -3.5 p.p. of GDP and 4 p.p. of GDP. Details are not available as to the timing or amount of the adjustment by transaction type (only by budget item), so it is possible that some matters which may have a significant influence on this adjustment over the next five years - such as revenue from the sale of Oitante, the capitalisation of the European resolution fund and the repayment of the BPP guarantee - have not been taken into account.

Chart 16 – Medium and long-term debt repayments in 2017-2021 ('000 M€)



Source: IGCP, Presentation to Investors, April 2017.

In nominal terms, the MF forecasts a gradual increase in debt stock of 8,300 M€ up to 2020, followed by a drop of 8,600 M€ in 2021. Over the five-year period the dynamic effect remains at around 8,000 M€, and the primary balance effect plays a decisive role in the debt balance development, shifting from a contribution of -5,100 M€ in 2017 to -10,800 M€ in 2021. As mentioned above, the changes in deposits in 2020 and 2021, despite practically cancelling each other out, will have a significant impact in each year when taken per se.

SP/2017 forecasts an implicit debt interest rate on the lower limit of most projections and estimates made by other official bodies. The implicit interest rate forecast by the MF is between 3.2% and 3.3% over the five years in question, which is below the 3.4% predicted by the OECD and the IMF for those years, while the EC expects an implicit interest rate of 3.3% in 2017 and 2018.[17] This favourable move in the MF's forecast is based on the likelihood of an interest rate of around 4% for new Treasury Bonds to be issued from 2017-2021, which will be lower than the interest rate of Treasury Bonds to be repaid at the same time (where the coupons range from 3.85% to 4.8%). According to the MF, the expenditure on interest ratio should show a downward trend, going from 4.2% of GDP in 2016 to 3.6% of GDP in 2021, driven largely by the decrease in debt stock as a percentage of GDP forecast by the MF, as well as by the aforesaid drop in the implicit interest rate.

3.3 BUDGET PROJECTION AND FORECAST RISKS

The main risk associated with the budget projections contained in SP/2017 results from the risks underlying the macroeconomic scenario. The budget deficit correction is based on the combination of the near stabilisation of revenue's weight in GDP, dependent to the tune of 75% on tax and contribution revenue, and a significant decrease in social transfers, which makes it highly sensitive to the risks of changes in the economy. This is especially significant when the macroeconomic scenario underlying SP/2017 contains an economic

[17] See *Economic Outlook* reports, November 2016; 5th Post Program Monitoring Mission, February 2017 and *Spring Forecast*, May 2017, respectively.

growth forecast that is largely contingent on the performance of exports, which supposes permanent market share gains with unchanged terms of trade. In this regard the SP identifies a series of risks for the macroeconomic scenario which are similar to those set out by the CFP in its report on that scenario.

SP/2017 includes a review and quantification of fiscal risks, which are adequate in the areas covered but could be extended to other variables relevant to fiscal policy and so bring greater transparency to the budgetary procedure. Chapter III of SP/2017 provides sensitivity analyses covering the macroeconomic framework and fiscal strategy. The former shows the outcome of oil price and external demand shocks (technical assumptions of the forecasting model). The latter focuses on the State's contingent liabilities and management of direct debt.

The cost cutting measures are not fully specified which constitutes a risk. The expected combined impact of the unspecified measures ranges from 359 M€ in 2018 to 1317 M€ in 2021, of which around two-thirds are concentrated in 2018 and 2019. Among these, mention must be made of the weight of the savings from the nominal freezing of intermediate consumption and "other current expenditure" (1305 M€) in the forecast decrease in public expenditure. The effect of these measures is important, since they determine the ability to cancel out the impact of measures increasing expenditure, such as the gradual unfreezing of civil service promotions and the updating of pensions, as well as the decrease in the public expenditure ratio forecast up to 2021.

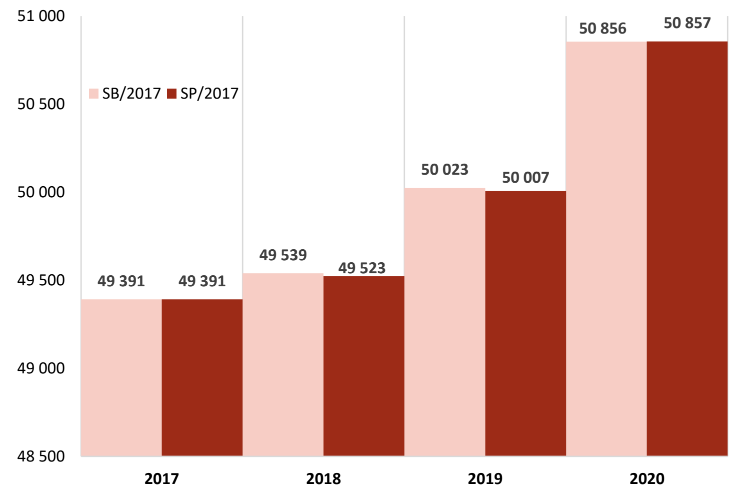
The aforementioned risks put the forecast public debt path at risk. In effect, 18.5 p.p. of the 21 p.p. of GDP decrease in the debt ratio is based on the accumulation of primary surpluses, making them the key item in the forecast decrease. Furthermore, SP/2017 does not incorporate any impact of banking sector support already given or to be given over the period in question.

4 MULTI-ANNUAL BUDGETARY PLANNING FRAMEWORK 2017-2021

The Budgetary Framework Law (BFL) requires the Multi-annual Budgetary Planning Framework (MBPF) be updated annually, for the four following years, in the State Budget Law and match the objectives laid down in the Stability Programme. The SB/2017 Law, published on 28 December 2016, approved the MBPF for the 2017-2020 period. The expenditure limits must be updated within scope of the SB/2018 Law but the SP/2017 report includes a proposal to update the MBPF that was not submitted for Parliamentary approval.

SP/2017 retains the current spending limits for 2017 and proposes a minor revision of those limits from 2018-2021. SP/2017 retains the limits set for each budget programme for 2017 in the SB/2017 Law.[18] However, for 2018 and 2019, it incorporates a proposal to lower the total of expenditure covered by general revenue (-16 M€ in both years).[19] In the case of the 2018 limit the update represents an upwards revision in the Social (+348 M€), Sovereignty (+86 M€) and Security (+37 M€) programme groupings, which is more than offset by a downward revision in the Economy (-488 M€) programme groupings, in particular expenditure on public debt interest. The limit set for 2020 is practically the same as that in the current legislation.

Chart 17 – Expenditure limits in the period common to the MBPF in SB/2017 and in SP/2017 (M€)



Source: Ministry of Finance. CFP calculations. | Note: The MBPF approved by the SB/2017 Law covered the 2017-2020 period, while the MBPF included in SP/2017 covers the 2017-2021 period.

In absolute terms the expenditure limit subject to the MBPF should increase every year from 2017 to 2021. The proposed MBPF update included in SP/2017 points to expenditure increasing over the entire five-year period, and the projected cumulative growth is 4308 M€, of which 1978 M€ arises in the current year (see Table 5 and left hand panel of Chart 18). The increase in 2017 is explained by the "Finance and General Government" programme (+1197

[18] Article no. 273 of Law no. 42/2016 of 28 December.

[19] Expenditure financed essentially by taxes. The MBPF does not cover expenditure covered by departments' own revenue (for example, fees). See the CFP's Glossary on Public Finance (Glossário de Finanças Públicas do CFP).

M€), influenced by the provisional appropriation for 2017 (535 M€) being centralised initially in the MF and by the allocations earmarked for settling central government non-financial liabilities (300 M€) ensuring the sustainability of the Health sector (100 M€) and providing the overall national public contribution to Portugal 2020 funds (100 M€). In 2018, whilst the MF predicts a decrease of 122 M€ in public debt interest, expenditure subject to the MBPF should rise by 132 M€, in particular the "Health" (+81 M€) and "Solidarity, Employment and Social Security" (+68 M€) programmes. An increase of 484 M€ is projected for 2019, stemming mainly from a larger allocation of resources to Social (+281 M€) and Economy (+124 M€) programmes. Expenditure subject to the MBPF should increase by 1.7% in 2020 e in 2021.

Table 5 – Change in expenditure subject to the MBPF for 2017-2021 (M€)

Program	Outturn	Forecast					Change				
	2016	2017	2018	2019	2020	2021	2016/17	2017/18	2018/19	2019/20	2020/21
1. SOVEREIGNTY	**4 364**	**4 772**	**4 800**	**4 847**			**408**	**28**	**47**		
P001 Sovereign Bodies	3 167	3 457	3 474				290	17			
P002 Governance	99	114	115				15	1			
P003 Foreign Affairs	267	288	289				21	1			
P008 Justice	739	615	618				-124	3			
P009 Culture	91	298	304				207	6			
2. SECURITY	**3 243**	**3 374**	**3 391**	**3 424**			**131**	**17**	**33**		
P006 Defence	1 635	1 743	1 752				108	9			
P007 Internal Security	1 608	1 631	1 639				23	8			
3. SOCIAL	**28 725**	**28 490**	**28 672**	**28 953**			**-235**	**182**	**281**		
P010 Science and Higher Education	1 415	1 461	1 468				46	7			
P011 Basic and Secondary Educ. and School Adm.	5 510	5 254	5 280				-256	26			
P012 Solidarity, Employm. and Social Security	13 601	13 650	13 718				49	68			
P013 Health	8 200	8 125	8 206				-75	81			
4. ECONOMIC	**11 081**	**12 755**	**12 659**	**12 783**			**1 674**	**-96**	**124**		
P004 Finance and Public Administration	2 393	3 590	3 608				1 197	18			
P005 Public Debt Management	7 379	7 543	7 421				164	-122			
P014 Planning and infrastructure	614	813	817				199	4			
P015 Economy	236	370	371				134	1			
P016 Environment	62	79	79				17	0			
P017 Agriculture, Florests and Rural development	368	313	314				-55	1			
P018 Sea	28	48	49				20	1			
5. TOTAL (1+2+3+4)	**47 413**	**49 391**	**49 523**	**50 007**	**50 857**	**51 721**	**1 978**	**132**	**484**	**850**	**864**

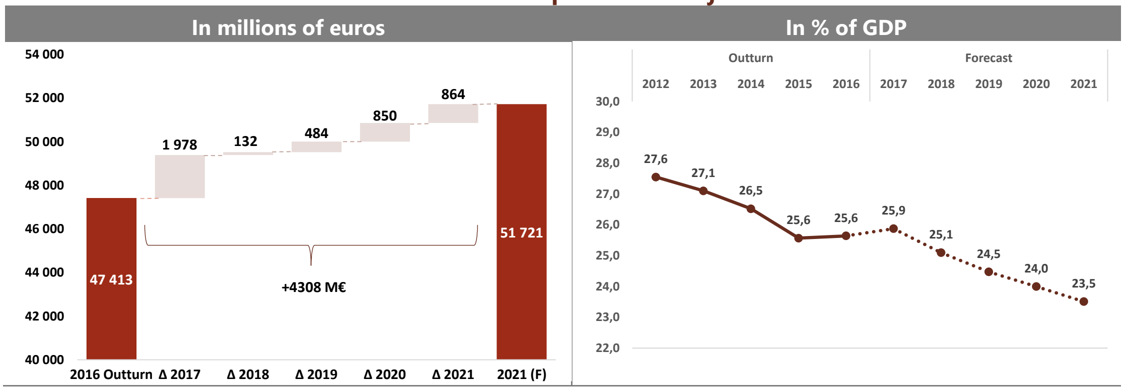
Source: Ministry of Finance. CFP calculations. | Note: The figures relating to 2016 are provisional and correspond to the estimate provided by the DGO; the changes compared to 2016 in the "Sovereign Bodies" and "Justice" programmes are explained by the fact that responsibility for processing the payment of Judges' salaries (P008) has been transferred to the Supreme Court Council (P001); the changes compared to 2016 in P009 and in P014 were influenced by the fact that in 2016 the State broadcaster, RTP, had classified the audiovisual charge as own revenue and Infraestruturas de Portugal had also so classified part of the road service charge. Both charges should be fully classified as general State revenue. The problem persists in 2017, according to the figures reported up to February.

However, as a percentage of GDP, expenditure is expected to fall from 2018 onwards. Should growth in output forecast by the MF be achieved, the expenditure's GDP ratio should return to a downward path from 2018-2021 (accumulated decrease of 2.4 p.p. of GDP),[20] following the 0.1 p.p. of GDP rise recorded in 2016[21] and the 0.2 p.p. of GDP increase projected for 2017 — see right hand panel of Chart 18. The forecast downward path is built on the expectation that over the four years from 2018 to 2021 average annual growth in nominal GDP (3.6%) will be higher than the expenditure subject to the MBPF (1.2%).

[20] In the three-year period 2013-2015 the fall was 2.0 p.p. of GDP.

[21] In 2016 expenditure subject to the MBPF limit increased by 1516 M€, mainly due to the reversal of the pay cut (MF estimates the impact to be 397 M€) and to the fact that some earmarked revenue would become classified as general revenue, in particular the road service contribution where the impact is 459 M€, as stated by the CFP in Análise da conta das administrações públicas 2016.

Chart 18 – Performance of expenditure subject to MBPF limits



Source: Ministry of Finance. CFP calculations. | Notes: the figure relating to 2016 is provisional and matched the estimate provided by the DGO; "Δ" stands for the expected change against the previous year.

The SP/2017 report does not demonstrate that the expenditure limits forecast in the MBPF are consistent with the fiscal goals set out in national accounts for the 2018-21 period. Under article 12-D (4) of the BFL (Law no. 91/2001 of 20 August, as per the wording of Law no. 41/2014 of 10 July, which remains in force due to article 7 (2) of Law no. 151/2015 of 11 September), the MBPF must set limits for central government expenditure covered by general revenue, which match the objectives laid down in the Stability Programme. When analysing the draft State Budget for 2017 (Análise da proposta do SB/2017), the CFP held that the limit for 2017 was consistent with the national accounts deficit objective (3016 M€, higher than the 2844 M€ deficit forecast in SP/2017). The SP/2017 report does not provide the information required to assess consistency with the objectives set for the remainder of the MBPF time horizon. Lastly, it is noted that once again the projections for general revenue and own revenue for central government bodies and the Social Security subsector for the coming four years were still not published. The publication of these projections is compulsory under the terms of article 12-D (6) of the BFL.

ANNEXES

Table 6 – Unadjusted general government account, 2016–2021 (as % of GDP)

	2016	2017	2018	2019	2020	2021	Variação | Change (p.p.) 2017/2021
Total revenue	**43,1**	**43,3**	**43,0**	**42,9**	**42,8**	**42,9**	**-0,1**
Current revenue	**42,5**	**42,6**	**42,5**	**42,3**	**42,2**	**41,9**	**-0,6**
Tax revenue	25,1	24,9	24,7	24,5	24,4	24,2	-0,9
Indirect taxes	14,7	14,8	14,8	14,7	14,7	14,6	-0,2
Direct taxes	10,3	10,1	9,9	9,8	9,7	9,6	-0,7
Social contributions	11,7	11,8	11,7	11,8	11,8	11,7	0,1
of which: actual soc. contr. received	9,2	9,3	9,3	9,4	9,5	9,5	0,4
Sales & other current rev.	5,8	6,0	6,1	6,1	6,0	6,0	0,2
Capital transfers received	**0,5**	**0,7**	**0,5**	**0,6**	**0,6**	**1,0**	**0,5**
Total expenditure	**45,1**	**44,8**	**44,0**	**43,2**	**42,4**	**41,7**	**-3,4**
Primary expenditure	**40,8**	**40,6**	**40,0**	**39,3**	**38,6**	**38,1**	**-2,8**
Current primary expend.	38,9	38,2	37,4	36,7	36,0	35,5	-3,4
Intermediate consumption	5,7	5,6	5,4	5,2	5,1	5,0	-0,7
Compensation of employees	11,3	11,1	10,8	10,6	10,3	10,0	-1,2
Social transfers	18,9	18,7	18,4	18,2	17,9	17,7	-1,2
other than in kind	17,1	17,0	16,8	16,6	16,4	16,2	-0,9
Subsidies	0,6	0,5	0,5	0,5	0,5	0,5	0,0
Other current expenditure	2,4	2,3	2,2	2,2	2,2	2,2	-0,2
Capital expenditure	2,0	2,4	2,5	2,6	2,6	2,6	0,6
GFCF	1,5	2,0	2,1	2,1	2,1	2,1	0,6
Other	0,5	0,4	0,5	0,5	0,5	0,4	0,0
Interest paid	**4,2**	**4,2**	**4,0**	**3,9**	**3,8**	**3,6**	**-0,6**
General government balance	**-2,0**	**-1,5**	**-1,0**	**-0,3**	**0,4**	**1,3**	**3,3**
Primary balance	2,2	2,7	3,1	3,6	4,2	4,9	2,7
Public debt	130,4	127,9	124,2	120,0	117,6	109,4	-20,9

Source: Ministry of Finance. CFP calculations. Note: The change is based on the 2016 figures.

Table 7 – Adjusted general government account, 2016–2021 (as % of GDP)

	2016	2017	2018	2019	2020	2021	Variação | Change (p.p.) 2017/2021
Total revenue	**42,6**	**43,1**	**43,0**	**42,9**	**42,8**	**42,5**	**-0,1**
Current revenue	**42,3**	**42,6**	**42,5**	**42,3**	**42,2**	**41,9**	**-0,4**
Tax revenue	24,8	24,9	24,7	24,5	24,4	24,2	-0,6
Indirect taxes	14,7	14,8	14,8	14,7	14,7	14,6	-0,1
Direct taxes	10,2	10,1	9,9	9,8	9,7	9,6	-0,5
Social contributions	11,7	11,8	11,7	11,8	11,8	11,7	0,1
of which: actual soc. contr. received	9,1	9,3	9,3	9,4	9,5	9,5	0,4
Sales & other current rev.	5,8	6,0	6,1	6,1	6,0	6,0	0,2
Capital transfers received	**0,3**	**0,4**	**0,5**	**0,6**	**0,6**	**0,6**	**0,2**
Total expenditure	**45,1**	**44,8**	**44,0**	**43,2**	**42,4**	**41,7**	**-3,4**
Primary expenditure	**40,8**	**40,6**	**40,0**	**39,3**	**38,6**	**38,1**	**-2,8**
Current primary expend.	38,8	38,2	37,4	36,7	36,0	35,5	-3,3
Intermediate consumption	5,7	5,6	5,4	5,2	5,1	5,0	-0,7
Compensation of employees	11,3	11,1	10,8	10,6	10,3	10,0	-1,2
Social transfers	18,9	18,7	18,4	18,2	17,9	17,7	-1,2
other than in kind	17,1	17,0	16,8	16,6	16,4	16,2	-0,9
Subsidies	0,6	0,5	0,5	0,5	0,5	0,5	0,0
Other current expenditure	2,3	2,3	2,2	2,2	2,2	2,2	-0,2
Capital expenditure	2,0	2,4	2,5	2,6	2,6	2,6	0,6
GFCF	1,6	2,0	2,1	2,1	2,1	2,1	0,6
Other	0,5	0,4	0,5	0,5	0,5	0,4	0,0
Interest paid	**4,2**	**4,2**	**4,0**	**3,9**	**3,8**	**3,6**	**-0,6**
General government balance	**-2,4**	**-1,7**	**-1,0**	**-0,3**	**0,4**	**0,9**	**3,3**
Primary balance	1,8	2,4	3,1	3,6	4,2	4,5	2,7
Public debt	130,4	127,9	124,2	120,0	117,6	109,4	-20,9

Source: Ministry of Finance. CFP calculations. Note: The change is based on the 2016 figures.

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

As % of GDP		2013	2014	2015	2016	SP/2017	
						2017	2021
Temporary measures, one-off measures (impact on balance)	**-0,1**	**0,3**	**-3,6**	**-1,3**	**0,4**	**0,2**	**0,4**
Revenue	**0,3**	**0,8**		**0,1**	**0,4**	**0,2**	**0,4**
RERD (2013) / PERES (2016) *		0,8			0,2		
VAT		0,1			0,0		
Other indirect taxes		0,1			0,0		
PIT; CIT		0,4			0,2		
IMI; IMT **		0,0					
Social contributions		0,1			0,0		
Prepaid Margins					0,2		0,4
Taxes on repatriation of capitals	0,2						
Surcharge on PIT	0,1						
Contribution to the Single Resolution Fund				0,1			
BPP guarantee recovery						0,2	
Expenditure	**0,3**	**0,4**	**3,6**	**1,4**	**0,0**		
Capital transfers (Banking sector)	0,5	0,4	2,9	1,4			
Novo Banco recapitalization			2,8				
BANIF recapitalization		0,4		1,3			
BANIF recapitalization (OITANTE assets acquisition)				0,1			
BPP recapitalization							
BPN recapitalization	0,1		0,1				
CGD	0,4						
Debt assumptions			0,7				
Proceeds from concessions	-0,2						
One-off payments to the EU Budget	0,1				0,0		
F-16 aircrafts delivery to Romania					-0,1		

Source: MF. CFP calculations. | Note: The totals do not necessarily match the sum of the individual items as a percentage of GDP due to rounding. No temporary and one-off measures are forecast for 2018-2020.

Table 9 – Policy measures, net accumulated effect versus the no-policy-change scenario (M€)

Component/measure	2018	2019	2020	2021
Total Revenue	**378**	**610**	**587**	**497**
Taxes on Production and Imports	**-200**	**-200**	**-200**	**-200**
Support for low incomes	-200	-200	-200	-200
Capital transfers received	**411**	**501**	**501**	**501**
Extraordinary Contribution on the Banking Sector	187	187	187	187
Extraordinary Contribution on the Energy Sector (CESE)	90	90	90	90
Extraordinary Contribution on the Energy Sector 2 (CESE 2)	30	30	30	30
Contribution on the Pharmaceutical Industry	14	14	14	14
Other taxes	90	180	180	180
Capital transfers received	**167**	**309**	**286**	**196**
Structural funds	167	309	286	196
Total Expenditure	**-321**	**-574**	**-727**	**-840**
Compensation of employees	**134**	**267**	**408**	**549**
Gradual unfreezing of civil servants careers	141	282	423	564
Public employment control	-7	-15	-15	-15
Intermediate consumption	**-300**	**-600**	**-800**	**-900**
Nominal freeze of intermediate consumption w ithout PPP	-300	-600	-800	-900
Interest paid	**-152**	**-286**	**-248**	**-248**
interest Savings	-152	-286	-248	-248
Subsidies	**-20**	**-51**	**-62**	**-62**
Structural funds	-20	-51	-62	-62
Other current expenditure	**-180**	**-270**	**-360**	**-405**
Nominal Freeze	-180	-270	-360	-405
Gross Fixed Capital Formation	**162**	**302**	**284**	**202**
Structural funds	162	302	284	202
Other capital expenditure	**36**	**63**	**51**	**24**
Structural funds	36	63	51	24
Impact on balance	**699**	**1 185**	**1 314**	**1 337**
Memo item | p.p. of GDP	**0,4**	**0,6**	**0,7**	**0,7**
Measures that improve the balance | Impact on balance	**1 238**	**2 032**	**2 272**	**2 327**
Revenue (revenue increases)	**578**	**810**	**787**	**697**
Specified [S]	321	321	321	321
Non specified [N.S.]	257	489	466	376
Expenditure (reductions in expenditure)	**-660**	**-1 222**	**-1 485**	**-1 630**
Specified [S]	-160	-301	-263	-263
Non specified [N.S.]	-500	-921	-1 222	-1 367
Measures that worsen the balance | Impact on balance	**-539**	**-848**	**-958**	**-990**
Revenue (revenue reductions)	**-200**	**-200**	**-200**	**-200**
Specified [S]	0	0	0	0
Non specified [N.S.]	-200	-200	-200	-200
Expenditure (increases in expenditure)	**339**	**648**	**758**	**790**
Specified [S]	141	282	423	564
Non specified [N.S.]	198	366	335	226
Impact on balance of non specified measures *	**359**	**845**	**1 153**	**1 317**
	57	**289**	**266**	**176**
	302	**555**	**887**	**1 142**
Volume of Policy Measures | Absolute value	**1 777**	**2 880**	**3 230**	**3 317**
Volume of revenue measures = (1) + (2)	**778**	**1 010**	**987**	**897**
(1) Revenue increases	**578**	**810**	**787**	**697**
Specified [S]	321	321	321	321
Non specified [N.S.]	257	489	466	376
(2) Expenditure reductions	**-200**	**-200**	**-200**	**-200**
Specified [S]	0	0	0	0
Non specified [N.S.]	-200	-200	-200	-200
Impact on balance | Revenue Measures	**378**	**610**	**587**	**497**
Volume of expenditure measures = (3) + (4)	**999**	**1 870**	**2 243**	**2 420**
(3) Revenue increases	**339**	**648**	**758**	**790**
Specified [S]	141	282	423	564
Non specified [N.S.]	198	366	335	226
(4) Expenditure reductions	**-660**	**-1 222**	**-1 485**	**-1 630**
Specified [S]	-160	-301	-263	-263
Non specified [N.S.]	-500	-921	-1 222	-1 367
Impact on balance | Expenditure Measures	**321**	**574**	**727**	**840**
Volume of non specified measures	**1 155**	**1 976**	**2 223**	**2 169**
Revenue non specified measures	**457**	**689**	**666**	**576**
Expenditure non specified measures	**698**	**1 287**	**1 558**	**1 593**

Source: MF. CFP calculations. | Note: CFP's own classification. See note in next table.

Table 10 – Policy measures, net effect; change compared to previous year (M€)

Component/measure	2018	2019	2020	2021	Measures	
					Type	Situation
Total Revenue	**378**	**232**	**-24**	**-90**		
Taxes on Production and Imports	**-200**	**0**	**0**	**0**		
Support for low incomes	-200				Worsens the Balance	N.S.
Capital transfers received	**411**	**90**	**0**	**0**		
Extraordinary Contribution on the Banking Sector	187				Improves Balance	S
Extraordinary Contribution on the Energy Sector (CESE)	90				Improves Balance	S
Extraordinary Contribution on the Energy Sector 2 (CESE 2)	30				Improves Balance	S
Contribution on the Pharmaceutical Industry	14				Improves Balance	S
Other taxes	90	90			Improves Balance	N.S.
Capital transfers received	**167**	**142**	**-24**	**-90**		
Structural funds	167	142	-24	-90	Improves Balance	N.S.
Total Expenditure	**-321**	**-253**	**-153**	**-113**		
Compensation of employees	**134**	**134**	**141**	**141**		
Gradual unfreezing of civil servants careers	141	141	141	141	Worsens the Balance	S
Public employment control	-7	-7			Improves Balance	S
Intermediate consumption	**-300**	**-300**	**-200**	**-100**		
Nominal freeze of intermediate consumption without PPP	-300	-300	-200	-100	Improves Balance	N.S.
Interest paid	**-152**	**-134**	**38**	**0**		
Interest Savings	-152	-134	38	0	Improves Balance	S
Subsidies	**-20**	**-31**	**-11**	**0**		
Structural funds	-20	-31	-11	0	Improves Balance	N.S.
Other current expenditure	**-180**	**-90**	**-90**	**-45**		
Nominal Freeze	-180	-90	-90	-45	Improves Balance	N.S.
Gross Fixed Capital Formation	**162**	**140**	**-18**	**-82**		
Structural funds	162	140	-18	-82	Worsens the Balance	N.S.
Other capital expenditure	**36**	**28**	**-12**	**-27**		
Structural funds	36	28	-12	-27	Worsens the Balance	N.S.
Impact on balance	**699**	**486**	**129**	**23**		
Memo item | % of GDP	**0,4**	**0,2**	**0,1**	**0,0**		

Source: MF and CFP calculations. | Note: CFP's own classification. [E] Specified; [N.E.] Unspecified. Unspecified measures are those for which insufficient details are provided and their quantification is dependent on uncertain outcomes, as well as those measures that still require specific legislation in order to be implemented, or require additional legislative acts. In the latter case the CFP excluded the extraordinary surcharges on the banking sector, energy sector and pharmaceutical industry, since for practical purposes they are permanent measures, as they are fully defined and have been successively renewed, although they do require specific annual legislation. The policy measures shown in this table are recorded at average net value. The impact of measures relating to the gradual unfreezing of civil service promotions and the constraints on public employment are only taken into consideration in net terms, since they are expenditure measures. Under this approach the impact on tax revenue (via direct taxes) and contribution revenue (via actual social contributions) are set directly against the value of the measures on the expenditure side. The measures relating to taxes on production and imports include 321 M€ in tax revenue to come from the retaining of the extraordinary surcharges on the banking sector, energy sector and pharmaceutical industry which are in force until the end of 2017.

LIST OF ABBREVIATIONS

Abbreviations	Meaning
Banif	*Banco Internacional do Funchal*
BFL	Budgetary Framework Law
BoP	Bank of Portugal
BPN	*Banco Português de Negócios*
BPP	*Banco Privado Português*
Carris	*Companhia Carris de Ferro de Lisboa, S.A.*
CESE	*Contribuição Extraordinária sobre o Setor Energético* (Extraordinary Contribution on the Energy Sector)
CFP	Portuguese Public Finance Council
CG	Central Government
CGA	Civil Servants Pension Agency
CGD	*Caixa Geral de Depósitos*
CIT	Corporate Income Tax
CoCo's	Contingent convertible notes
DGAEP	*Direção-Geral da Administração e do Emprego Público* (Directorate-General for Public Employment and Administration)
DGO	*Direção-Geral do Orçamento* (Directorate-General for Budget)
EC	European Commission
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFAP	Economic and Financial Assistance Programme
EFSF	European Financial Stability Facility
ESC	Extraordinary Solidarity Contribution
ESIF	European Structural and Investment Funds
EU	European Union
F	Forecast
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GG	General government
GPEARI	*Gabinete de Planeamento, Estratégia e Relações Internacionais* Office for Economic Policy and International Affairs
IGCP	*Agência de Gestão da Tesouraria e da Dívida Pública* (Public Debt Management Agency)
IGFSS	*Instituto de Gestão Financeira da Segurança Social* (Social Security Financial Management Institute)
IMF	International Monetary Fund
IMI	Municipal Property Tax
IMT	Municipal Property Transfer Tax
INE	Statistics Portugal (Portuguese Statistical Authority)
ISP	Tax on Petroleum and Energy Products
ISV	Tax on Vehicles
IT	Tax on Tobacco
LG	Local Government
M€	Million euros
MBPF	Multi-annual Budgetary Planning Framework
MF	Ministry of Finance
MISI	Minimum Income for Social Inclusion
MLSA	Minimum Linear Structural Adjustment
mM€	Thousand million euros
MTN	Medium Term Notes

Abbreviations	Meaning
MTO	Medium-Term Objective
N.S.	Non Specified / Unspecified
NHS	National Health Service
Novo Banco	Novo Banco S.A.
OECD	Organisation for Economic Co-operation and Development
Oitante	Oitante, S.A.
OT	*Obrigações do Tesouro* (Treasury Bonds)
p.p.	Percentage points
p.s.b.	Primary structural balance
PERES	*Programa Especial de Redução de Endividamento ao Estado* (Exceptional Scheme for Settling Tax and Social Security Debts - 2016)
PGB	Portuguese Government Bonds
PIT	Personal Income Tax
PPP	Public-Private Partnerships
PSPP	Public Sector Purchase Programme
RAA	Autonomous Region of Azores
RAM	Autonomous Region of Madeira
RERD	*Regime Excecional de Regularização de Dívidas Fiscais e à Segurança Social* (Exceptional Scheme for Settling Tax and Social Security Debts - 2013)
RLG	Regional and Local Government
RPC	Reclassified Public Corporations
S.	Specified
SB	State Budget
SF	Special Factors
SGP	Stability and Growth Pact
SMP	Securities Markets Programme
SP	Stability Program
SSE	Solidarity Supplement for the Elderly
SSF	Single Settlement Fund
SSF	Social Security Funds
SSFL	Social Security Framework Law
TA	Tax Authority
TAAB	Tax on Alcohol and Alcoholic Beverages
VAT	Value Added Tax

Portuguese Public Finance Council
Praça de Alvalade, nº 6 – 10º, 1700-036 Lisbon, Portugal
TEL +351 211 024 400 | FAX +351 211 021 870
www.cfp.pt