Conselho das Finanças Públicas
Portuguese Public Finance Council

Analysis of 2018-2022 Stability Programme

Portuguese Public Finance Report

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The Portuguese Public Finance Council is an independent body, set up by article 3 of Law no. 22/2011 of 20 May that introduced the 5th amendment to the Budgetary Framework Law (Law no. 22/2001 of 20 August, republished by Law no. 37/2013 of 14 June).The final version of its Statutes was approved by Law no. 54/2011 of 19 October.

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

This Report uses the information available up to 4 May 2018.

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 Stability Programme 2018-2022 (SP/2018) benefits from a favourable starting point, despite the continued uncertainty over the international framework and the need to pursue the structural and financial (public and private) adjustment efforts in Portugal. The recovery in the economy and in employment in 2017 proved the export sector's importance to job creation and investment, stimulating domestic demand while and providing the means required to finance imports.

In this context, the SP/2018 adopts the correct option regarding fiscal policy, i.e. a generally counter cyclical approach that involves a decrease in the deficit and the debt ratio during the favourable phases of the business cycle. In fact, contrary to the fiscal strategies generally adopted in the past, it is the only way to create the fiscal space in the medium term that will allow expansionist measures to be carried out in less favourable phases without risking financial collapse. More importantly: the high degree of State indebtedness brought about by those strategies now reinforces the need for prudence in regard to measures impacting on the more inflexible components of expenditure, particularly spending on health and pensions, which are dependent on factors whose developments are not influenced by State actions and which have long-term effects, as in the case of demographics.

In this regard the strategy set out in the SP/2018 is still insufficient. In fact, the forecast developments of budgetary balance are essentially dependent upon the economy and policies adopted in the past and upon "spending review" measures that are not sufficiently described to allow their impact to be assessed or their outturn monitored. It is true that a genuine spending review programme supposes the existence of a public management infrastructure that does not exist in Portugal. This programme should be based on budgeting by expenditure programmes, a concept that has been present since the first budgetary framework law (BFL) to be passed since the implementation of democracy, but one that has never been effectively implemented.

Some conditions that were lacking in the past have now been, or soon will be, met which will make this implementation viable. The most basic conditions relate to the actual definition of the general government sector and the accounting rules that govern it. As for the former, the European System of Accounts 2010 (ESA 2010) rules led to the adoption of a broad definition which proved to be indispensable long ago. Under the rules provided for in the Official Public Accounts Plan (POC-P) Portugal adopted, at an early date, a demanding accruals accounting system which, despite having been at least partially carried out by some government departments, has not become universal nor has it been used in the budget process. Later, in 2015, the new BFL laid down a new accruals system – the General Government Accounting Standards System (SNC-AP) – amended in line with the changes in international accounting standards that had taken place in the meantime. When this system is adopted by general government it should supply the information required to budget by programme, also provided for in the law, integrated within a system designed to provide the ability to monitor and assess programme costs as well as make the respective managers accountable.

This is the necessary basis for a spending review system that must be structured in line with goals that have been clearly defined by the Government, in order to ensure that public expenditure achieves those goals at minimum cost. The diversity of frameworks and goals means that there is no model ready-to-use to budget by programme or to review expenditure. However, there is wide international experience in the matter which, together with the experience already gained in Portugal, should make it possible to design and put into practice a model suited to national purposes in a relatively short period. However, this task, despite being essential to the implementation of the SP/2018 strategy options, is not explicitly stated therein.

EXECUTIVE SUMMARY

The Stability Programme (SP/2018) projects an improvement in the budgetary balance net of one-offs of around 0.3 p.p. of GDP/year, except in 2020 when the forecast improvement is 0.8 p.p. Thus, it foresees a shift from a deficit of 0.8% of GDP in 2017 (3% including one-offs) to a surplus of 1.3% of GDP in 2022. That change results from a decline in expenditure's relative weight in GDP. After adjusting for the effects of the business cycle, the Stability Programme predicts the Medium-Term Objective will be achieved in 2020 when there will be a structural surplus of 0.4% of GDP. For the two following years the Stability Programme forecasts an additional improvement in the structural balance of 0.5 p.p. of GDP, leading to a structural surplus of 0.9% of GDP in 2022.

The favourable performance of the budgetary balance and the forecast economic growth should lead to a decrease in the debt ratio from 2017 to 2022 of 23.6 p.p. of GDP. This decrease will be granted by the build-up of primary surpluses (18.8 p.p.) and by a favourable dynamic effect (4.9 p.p. of GDP), reflecting nominal growth in GDP higher than the implicit debt interest rate. Thus, the Stability Programme predicts that debt will be 102% of GDP in 2022.

The achievement of the medium-term fiscal goals for the budgetary balance and debt depends essentially upon the forecasts for the economy and is not based on new policy measures. Almost the entire forecast improvement in the balance and in debt flows from changes in the budget variables, which reflects not only the macroeconomic outlook but also policies adopted in the past, as new measures make a marginal contribution. This poses a significant risk since the Portuguese economy is very vulnerable to external shocks. Furthermore, whilst SP/2018 sees a fall in interest rates as a measure, such development is partially dependent on factors beyond the Government's control. Given the current situation in the financial markets, the interest rate development must be deemed a risk. It should also be stressed that the SP does not mention the impact of additional support to the finance sector beyond 2018, which – should it arise – would have an impact on the balance or the debt, or both. In addition, the possibility that an apparently optimistic forecast for social contributions revenue may not occur is a non-negligible risk, while on the expenditure side, unidentified pressures continue to bear on compensation of employees and social contributions that could have an unfavourable impact on the forecast decline in the expenditure ratio.

1 INTRODUCTION

This report analyses the Stability Programme for the period 2018-2022 (SP/2018) submitted to Parliament on 13 April 2018. Thus, the CFP complies with article 7 of its statutes, in particular the production of reports on the Stability Programme and other procedures set out in the regulatory framework of the European Stability and Growth Pact, as well as the Multiyear Framework of Budgetary Planning. The CFP's analysis of the macroeconomic scenario underlying this Stability Programme can be found in CFP Opinion no. 1/2018.

This report is divided into four chapters. This first one is an introduction and describes the goals of the analysis and the structure of the document. The second chapter presents the budgetary balance paths forecast in the SP/2018, compares them with those of the previous Programme, assesses the rate of the structural adjustment and checks whether the targets set for 2018-2022 for the observable balance, the structural balance and the change in debt abide by the Portuguese fiscal policy rules. The third chapter analyses the consistency between the no-policy-change scenario and the scenario set out in the SP/2018, bearing in mind the fiscal policy measures provided to the CFP. This chapter also analyses the public debt development and identifies some risks underlying the projections and forecasts included in the Programme. The fourth and final chapter appraises the Multiyear Framework of Budgetary Planning (MBPF) included in the SP/2018.

The general government budget aggregates have not been adjusted for the impact of temporary measures, one-off measures and other special factors. Nonetheless, this adjustment is duly highlighted in the text whenever it is relevant to a better understanding of the fiscal consolidation effort.

This report benefitted from the additional information and clarifications provided by the departments of the Ministry of Finance (MF), namely 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). The CFP would like to thank them all for their contributions.

2 ASSESSMENT OF FISCAL ADJUSTMENT AND COMPLIANCE WITH RULES FROM 2018 TO 2022

Following the abrogation of the Excessive Deficit Procedure (EDP), the assessment of Portugal's public finance position is now subject to the requirements of the preventive arm of the Stability and Growth Pact (SGP).[1] These are: 1) keeping he budgetary balance below -3% of GDP; 2) achieving sufficient progress along the convergence path in order to ensure compliance with the Medium-Term Objective; and (3) complying with a transitional public debt rule. As regards the second requirement, the rate of adjustment depends not only on an improvement in the structural balance greater than 0.5 p.p. of GDP, but also on the consistency between the performance of this indicator and a sustainable expenditure path measured as the change in the corrected (primary) expenditure aggregate which must be lower than the medium-term growth benchmark in potential GDP. As regards the third requirement, the transitional period will run from 2017 to 2019, during which Portugal must make sufficient progress to reduce its debt ratio. Such progress will be assessed annually, both "ex-ante" and "ex-post", by comparing it with a minimum linear structural adjustment (MLSA) which takes into account the effect of the business cycle and the debt reduction benchmark.

Generally speaking the analysis conducted in this chapter uses unadjusted figures; however, reference is made to the impact of temporary and one-off measures. These may be found in Table 8 and in some cases differ from those underlying the accounts published by the Ministry of Finance in SP/2018. Note that the structural balance concept excludes such measures.

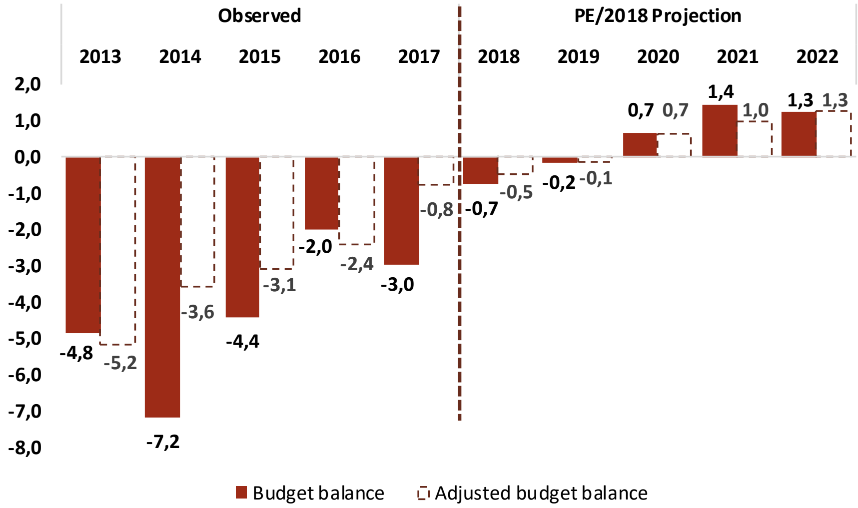
2.1 BUDGETARY BALANCES

According to the MF forecasts the budgetary balance that achieved -3.0% of GDP last year, will record continuous improvement over the coming years, but for 2022. Under SP/2018, the general government budget should fall from 3.0% in 2017 to 0.7% of GDP in 2018 (Chart 1). This is a decrease of 2.2 p.p. of GDP, of which 2 p.p. flow from the base effect due to the CGD bank recapitalisation in 2017. Improvements in the balance of 0.6 p.p. and 0.8 p.p. in 2019 and 2020, respectively, are forecast and 2020 should see a budget surplus of 0.7% of GDP. The surplus should rise to 1.4% of GDP in 2021 due to the refunding of the 991 M€ commission paid on the second loan granted under the European Financial Stability Facility (EFSF), under the Economic and Financial Assistance Programme (EFAP). Net of this one-off measure the surplus in that year would be 1.0% of GDP. The impact of this extraordinary revenue will cause a break in the budgetary balance's upward path in the following year, which should slip to 1.3% of GDP in 2022.

[1] Council Decision (EU) 2017/1225 of 16 June 2017 abrogating Decision 2010/288/EU on the existence of an excessive deficit in Portugal.

Chart 1 – GG Balance, observed and projected in SP/2018

(% of GDP)



Source: INE and Ministry of Finance. CFP calculations. Note: Details of the temporary and one-off measures can be found in Table 8.

Net of temporary and one-off measures, SP/2018 projects an annual improvement in the budgetary balance of approximately 0.3 p.p. of GDP, except in 2020, when the improvement is expected to be more than double the benchmark (0.8 p.p. of GDP). The MF expects to achieve a budget surplus by 2020. The expected improvement over the five-year period in question will contribute to the achieving of primary structural surpluses (accumulative improvement of 1.0 p.p. of GDP, of which 0.5 p.p. will arise in 2020) and a decrease in interest's relative weight in public debt (0.8 p.p. of GDP, of which 0.4 p.p. will arise in 2018). The business cycle is likely to make a positive contribution of 0.3 p.p. of GDP in cumulative terms of which 0.2 p.p. will be recorded in 2018 (Table 1).

Table 1 – Budget indicators

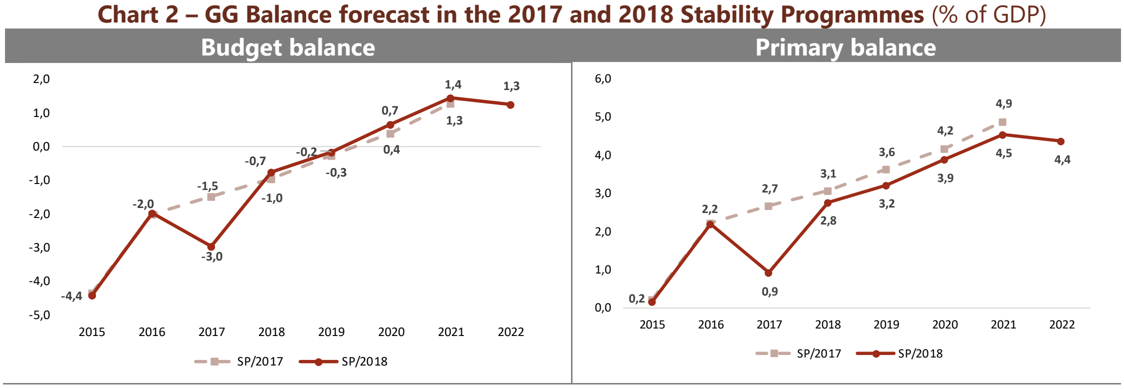
	% of GDP							Change (p.p. of GDP)							
Budget balance:	2016	2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022	2013-17	2018-22
Primary	**2,2**	**0,9**	**2,8**	**3,2**	**3,9**	**4,5**	**4,4**	**-1,3**	**1,9**	**0,4**	**0,7**	**0,7**	**-0,2**	**1,6**	**3,5**
Actual (headline)	**-2,0**	**-3,0**	**-0,7**	**-0,2**	**0,7**	**1,4**	**1,3**	**-1,0**	**2,2**	**0,6**	**0,8**	**0,8**	**-0,2**	**2,7**	**4,2**
Adjusted of temporary & one-off measures	-2,4	-0,8	-0,5	-0,1	0,7	1,0	1,3	1,6	0,3	0,4	0,8	0,3	0,3	4,8	2,0
Cyclically adjusted	-1,5	-3,1	-1,0	-0,4	0,4	1,1	0,9	-1,5	2,0	0,6	0,8	0,7	-0,2	0,6	3,9
Structural	**-2,0**	**-0,9**	**-0,8**	**-0,4**	**0,4**	**0,6**	**0,9**	**1,1**	**0,1**	**0,4**	**0,7**	**0,3**	**0,3**	**2,7**	**1,8**
Structural primary	2,2	3,0	2,8	3,0	3,6	3,7	4,0	0,8	-0,2	0,3	0,5	0,1	0,3	1,7	1,0
memo items															
temporary & one-off measures	0,4	-2,2	-0,3	-0,1	0,0	0,4	0,0	-2,6	1,9	0,2	0,1	0,4	-0,4	-2,1	2,2
output gap*	-0,9	0,2	0,5	0,5	0,6	0,8	0,7	1,1	0,3	0,0	0,1	0,1	0,0	4,0	0,6
cyclical component	-0,4	0,1	0,3	0,3	0,3	0,4	0,4	0,5	0,2	0,0	0,1	0,1	0,0	2,0	0,3
interest payments	4,2	3,9	3,5	3,4	3,2	3,1	3,1	-0,3	-0,4	-0,1	-0,2	-0,1	0,0	-1,0	-0,8

Source: INE, MF. CFP calculations. Notes: * as a percentage of potential output. (i) changes were calculated in comparison to the previous year (for example, the change over 2018-22 is anchored in 2017) and may not match the differences between the figures as a percentage of GDP due to rounding; (ii) the cyclical component was calculated using the Community semi-elasticities method on the basis of the output gap calculated in line with the macroeconomic scenario in SP/2018 and the EC common methodology (Spring Forecasts); (iii) details of the temporary and one-off measures taken into consideration are set out in Table 8.

For this year SP/2018 predicts the budget deficit will be lower than stated in SB/2018. SB/2018 forecast a decrease in the budget deficit from 1.4% of GDP in 2017 (MF estimate) to 1.1% of GDP in 2018.[2] Excluding the impact of the CGD recapitalisation in 2017, the deficit was 0.9% of GDP, which represent a more favourable starting point to the tune of 0.5 p.p. of GDP (or 985 M€) compared to the figure in SB/2018. SP/2018 forecasts a deficit 0.4 p.p. smaller than that considered in SB/2018 (see section 3.1.1.). This new deficit forecast for the current year reflects a 275 M€ decrease compared to last year (net of the impact of the CGD recapitalisation), representing a little over half the 533 M€ decrease shown in SB/2018 compared to the MF estimate included in that document for 2017. However, it should be stressed that for the current year the SP/2018 forecast takes into account a budget impact of 0.4% of GDP (or 792 M€) stemming from the capitalisation of Novo Banco which was not taken into account in SB/2018.

Compared to SP/2017, the path for the primary balance (which excludes interest charges) has been revised downwards while that of the overall balance has been revised slightly upwards. This apparent contradiction is due to the downward revision in interest charges (approximately 0.5% of GDP each year) being sufficiently large to accommodate primary surpluses of a relatively smaller scale (annual revision of -0.3 p.p. on average) and, even then, present a higher objective for the overall balance (Chart 2).

Chart 2 – GG Balance forecast in the 2017 and 2018 Stability Programmes (% of GDP)



Source: Ministry of Finance. CFP calculations. | Note: unadjusted figures.

2.2 FISCAL ADJUSTMENT AND FISCAL POLICY STANCE

The SP includes a change in the structural balance of 0.4 p.p. of GDP in 2018. This change takes into account a series of temporary and one-off measures that differs from those recognized by the CFP (see Table 8). When calculating the structural balance, the MF also includes expenditure of 130 M€ relating to the cost of preventing forest fires scheduled for 2018 as according to the SP the Government intends to invoke the unusual event clause. These unusual events costs are not deducted from expenditure in the structural balance calculation and are only taken into account when appraising the existence of a significant deviation.

[2] The MF estimate for 2017, included in the SB/2018 report, does not take into account any impact from the CGD recapitalisation.

According to CFP's own classification of temporary measures SP/2018 implies the structural deficit will decline in 2018 by 0.1 p.p. of GDP, an improvement that is less than the minimum adjustment required under the Stability and Growth Pact (SGP). On the basis of the CFP's classification of temporary measures and the business cycle position underlying the macroeconomic scenario in SP/2018, it is estimated that the structural deficit (which excludes temporary and one-off measures and the effect of the business cycle) will fall from 0.9% of GDP in 2017 to 0.8% in 2018.[3] This slight decrease is due to the reduced interest charges and lower structural current primary expenditure (down 0.4 p.p. of GDP and 0.1 p.p. of GDP, respectively) and to the 0.1 p.p. of GDP increase in structural revenue, compared to the 0.5 p.p. of GDP increase in capital expenditure.[4] Unlike in 2017 (when the improvement in the structural balance was 1.1 p.p. of GDP),[5] the planned change of +0.1 p.p. of GDP for 2018 does not satisfy the minimum adjustment laid down in the SGP[6] - namely a 0.5 p.p. of GDP change, which could constitute a significant deviation.[7] Such performance would also not provide for compliance with the general rule for an annual improvement in the structural balance prescribed in the BFL.[8] However, should the EC take into consideration a different series of temporary measures and invoke the aforesaid unusual event clause, the final figure could be sufficient not to merit being classified as a significant deviation. Furthermore, an analysis of 2017 and 2018 as a whole could lead to the non-existence of a significant deviation, if the average deviation for both years is less than 0.25% of GDP.

The structural adjustment should accelerate in 2019 and especially in 2020, the year for which a 0.4% of GDP surplus is forecast which would mean the Medium-Term Objective (MTO) was met. Improvements in the structural balance of 0.4 p.p. of GDP in 2019 and 0.7 p.p. of GDP in 2020 are forecast. These are based above all in the decrease in current primary expenditure of 1.2 p.p. of GDP over the two years as a whole (see Table 6 and Chart 3). The

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[3] The value of the structural deficit in 2017 differs slightly from the estimate in the CFP's report on the General Government Account in 2017 (1.0% of GDP). This difference comes from the output gap used (because the macroeconomic scenario in SP/2018 does not match the CFP's no-policy-change projection, which impacts both at the potential output level, via investment and employment, and at the GDP level). The fact that, in the meantime, the costs have been ascertained for the refunding of the Civil Protection Municipal Tax (58.6 M€), for compensation payments and reconstruction after last year's forest fires (60 M€. also contributes to this divergence. Since they were temporary measures in 2017, they have now been excluded from the structural balance calculations.

[4] The relative weight of public GFCF should increase from 1.8% of GDP in 2017 to 2.3% of GDP in 2018.

[5] The CFP report on the GG Account for 2017 pointed to a 1.1 p.p. of GDP decrease in the structural balance in 2017 (see explanation of difference in footnote nº 4). The adjustment achieved in 2017 ensured compliance with the Council Recommendation of 12 June 2016 (in Portuguese), which required Portugal to ensure a durable correction of the excessive deficit by taking the necessary structural measures and thereafter, to achieve an annual fiscal adjustment of at least 0,6 % of GDP.

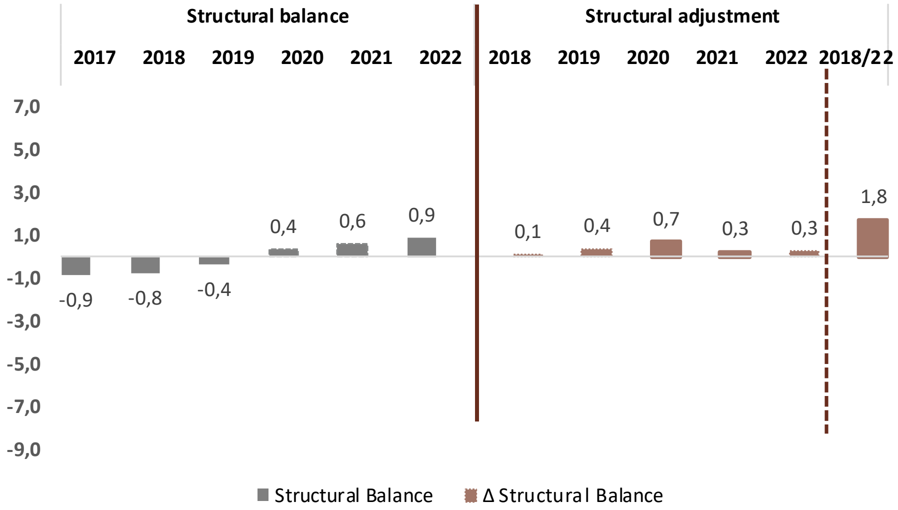
[6] According to the matrix published in the relevant Communication, COM (2015) 12, of 13 January 2016, in Portugal's case during the time horizon covered by the SP/2018 the minimum adjustment should exceed 0.5 p.p. of GDP, since the country has a public debt of over 60% of GDP and the output gap lies between -1.5% and +1.5% of GDP. The EC has stated that it believes that an adjustment of over 0.5 p.p. means a minimum adjustment of 0.6 p.p. of GDP.

[7] Pursuant to articles 6(3) and 10(3) of Council Regulation no. 1466/97, when a Member-State does not achieve its Medium-Term Objective (MTO), a deviation away from the necessary adjustment is considered significant if it is, at least, 0.5 p.p. of GDP in any particular year or if it is at least 0.25 p.p. of GDP in two consecutive years.

[8] Article 12-C (6) of the Budgetary Framework Law (as per the wording of Law no. 41/2014 of 10 July) provides that, "while the medium-term objective has not been achieved the annual structural balance adjustment may not be less than 0.5 [p.p. of GDP]".

improvement estimated for 2019 is less than that required by the preventive arm of SGP, but, in principle, the difference is not a significant deviation. Whilst the improvement expected in 2020 will give rise to a positive structural balance of 0.4% of GDP and reach the MTO (currently equal to 0.25% of GDP) that year.[9]

Chart 3 – Structural adjustment forecast for the 2018-2022 period (% and p.p. of GDP)



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

However, the rate of adjustment forecast for 2018 and 2019 does not appear to ensure progress consistent with a sustained change in the expenditure path. According to information provided by the MF, the deviation in the corrected expenditure aggregate calculated by the CFP exceeds the benchmark in 2018 and 2019 by 1.3% and 1.7% of GDP, respectively. Such deviation, which already excludes the impact of temporary and one-off measures, is greater than the maximum limit of 0.5% in each year and the two years as a whole.[10] Should that deviation occur, it would require an overall assessment that also takes into account the deviations forecast in the change in the structural balance.

After meeting the MTO in 2020, the structural surplus should increase to stand at 0.9% of GDP at the end of the Stability Programme's time horizon. From 2021-2022 the budget surplus is expected to record a cumulative improvement of 0.5 p.p. and be 0.9% of GDP in 2022 (Chart 3). In this period the decrease in structural current primary expenditure (0.7 p.p.) should offset a 0.2 p.p. of GDP decrease in structural revenue, most of which will result from the new cut in PIT in 2021 which, according to the MF, will have an impact of 200 M€.

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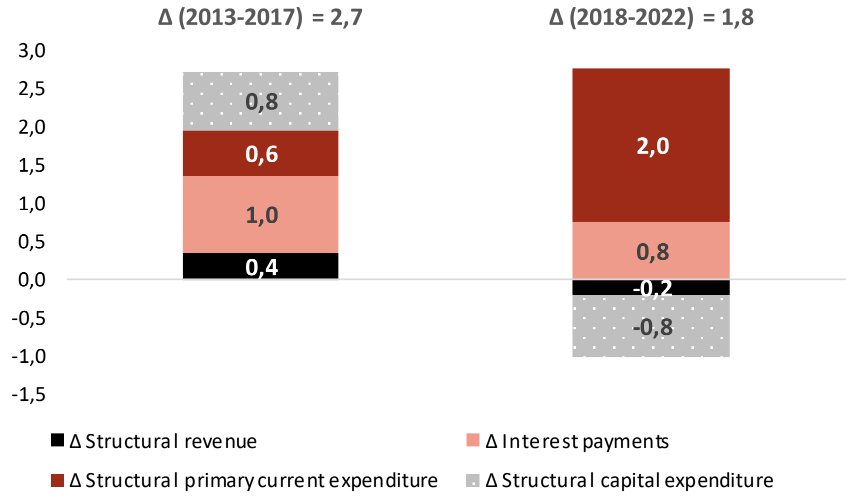
[9] The MTO figure is revised every three years, and the last revision took place in 2016. The MTO for Portugal could be revised downwards following a decrease in the public debt ratio and new European Commission projections for budget costs stemming from an ageing population, produced in the context of the Ageing Report of 2018.

[10] The fiscal effort focused on the expenditure benchmark is based on the application of a benchmark based on the potential GDP growth in the medium-term, which is penalised by the negative potential growth estimated for the years hit by the recent financial crisis. Over a 10-year time period average potential GDP growth is below the potential GDP growth underlying the structural balance for 2018 and 2019. For a better understanding of this expenditure indicator see Box nº 2 of the CFP's Report No. 09/2017 regarding the Analysis of State Budget Proposal for 2018.

Over the SP/2018 time horizon (2018-2022), the forecast structural adjustment accounts for around two-thirds of that estimated for the previous five-year period. Over the 2013-2017 period the structural adjustment will have been 2.7 p.p. of GDP, and it is estimated that the structural deficit was 0.9% of GDP last year. This outcome brought the MTO closer, allowing reduced fiscal effort in the period covered by SP/2018, which forecasts a 1.8 p.p. of GDP improvement in the structural balance (when an adjustment of 1.2 p.p. is required to achieve the MTO). Capital expenditure is expected to recover the weight lost in the previous five-year period while current primary expenditure should record a sharper decrease (an extra 1.4 p.p. of GDP) (Chart 4). The relative weight of the cost of public debt interest in GDP should fall by 0.8 p.p., following a decrease of 1.0 p.p. from 2013-2017. SP/2018 predicts a decrease in structural revenue of 0.2 p.p. of GDP, in contrast to the 0.4 p.p. increase estimated for the previous five-year period.

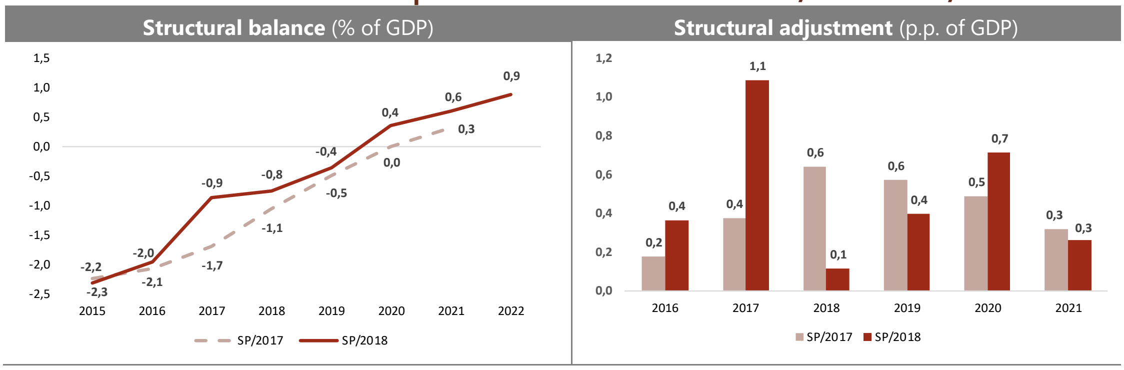
Chart 4 – Contributions to change in the structural balance from 2013-17 and from 2018-22 (p.p. of GDP)



Source: INE and Ministry of Finance. CFP calculations. | Note: a positive change in revenue/expenditure corresponds to a positive contribution to the structural adjustment, while the opposite is the case with a negative change in revenue/expenditure; the figures relating to 2013-2017 show the estimated changes while those relating to 2018-2022 are the expected changes in SP/2018.

The annual structural adjustment is smaller than forecast in SP/2017, despite indicating more favourable structural balances. Although throughout the period common to both Stability Programmes (2018-2021) the structural balance forecast in SP/2018 is more favourable than in the previous programme, the implicit adjustment in this period is smaller than in SP/2017 (-0.5 p.p. of GDP especially in 2018, as shown in the right-hand panel of Chart 5). That is because the starting point (-0.9% of GDP in 2017) is more favourable than that taken into account in the previous Stability Programme (-1.7% of GDP), as can be seen in the left-hand panel of Chart 5.

Chart 5 – Forecast developments of structural balance in SP/2017 and SP/2018



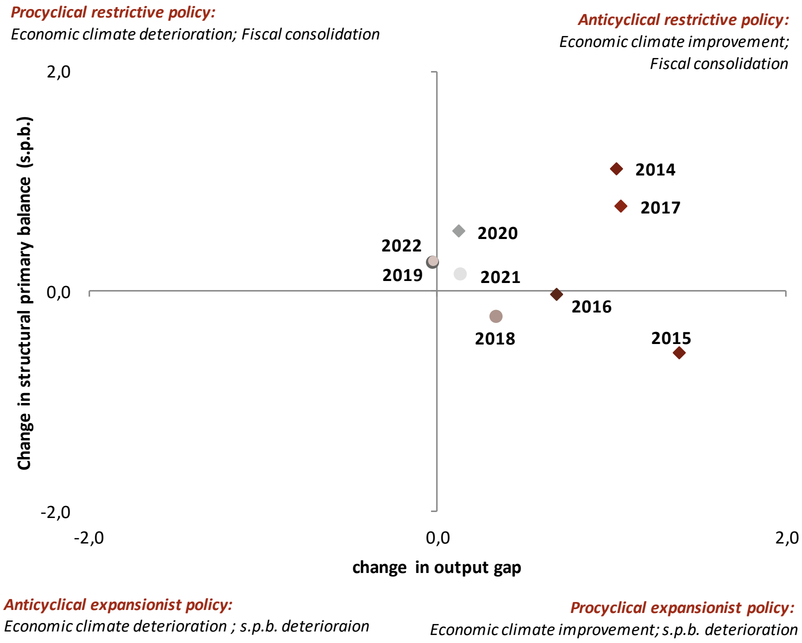
Source: Ministry of Finance. CFP calculations. | Note: the structural adjustment is equal to the change in the structural balance based on the temporary measures taken into consideration by the CFP and the business cycle position estimated by the MF in the SP.

The fiscal progress forecast in SP/2018 is mainly based on an anticyclical, tight fiscal policy from 2019 to 2022. According to CFP's classification of temporary measures and the business cycle position underpinning the macroeconomic scenario in SP/2018, a deterioration is to be expected in the structural primary balance of 0.2 p.p. of GDP in 2018. Bearing in mind that this deterioration should take place within an expanding economy, it is likely that the fiscal policy approach this year will be expansionist and procyclical (Chart 6).[11] From 2019 to 2022 the fiscal policy stance is expected to be tight (an average annual increase in the structural primary surplus of 0.3 p.p. of GDP is forecast for this period), in an improving economic climate in 2020 and 2021, where the output gap should record an average annual increase of 0.1 p.p. of potential GDP, reflecting a anticyclical stance.[12]

[11] However, this conclusion is sensitive to the temporary and one-off measures classification used. The MF classification produces a neutral fiscal policy stance for 2018.

[12] A positive output gap means that the level of output generated by the economy exceeds its potential. For further details on the output gap and potential output concepts see the CFP glossary on public finance terms (only in Portuguese).)

Chart 6 – Fiscal policy and cyclical position from 2014-2022



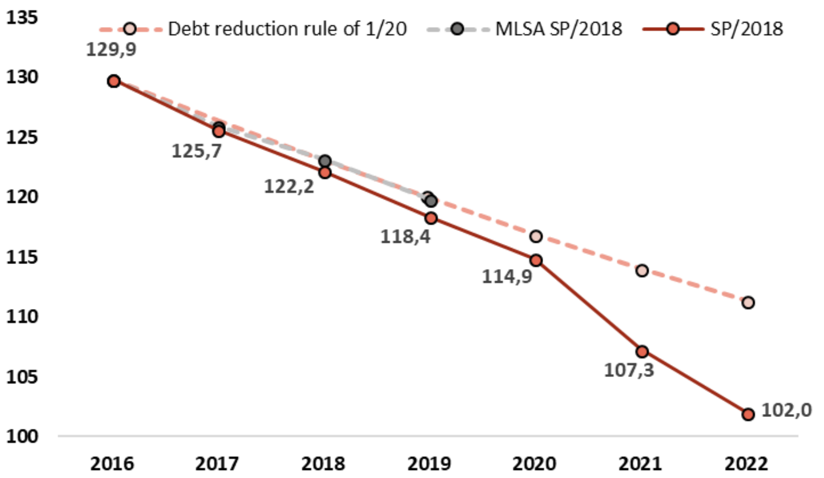
Source: INE and MF. CFP calculations. | Notes: (i) The fiscal policy stance is assessed by the change in the structural primary balance; (ii) The business cycle position is evaluated by the change in the output gap, given by the difference between the observed GDP growth rate and the potential GDP growth rate. (iii) The CFP is of the opinion that fiscal stance is tight if the structural primary balance to potential GDP ratio improves at least 0.25% per year and is expansionist if this ratio deteriorates 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 debt ratio development complies with the debt reduction rules throughout the SP/2018 time horizon. Since Portugal left the EDP in 2016, under the European rules it has until 2019 (transition period) to comply with the Minimum Linear Structural Adjustment — MLSA. Over the period in question the debt ratio included in SP/2018 complies with the minimum adjustment required under the less restrictive criterion, the retrospective criterion.[13] In 2020 and for the rest of the time horizon, the applicable debt reduction rule is that laid down in the BFL of one-twentieth per year, and it is also complied with in the MF forecast. From 2018 to 2019, the period during which the MLSA applies, the MF expects a lower ratio than that required during the transitional period (Chart 7). From 2020 onwards the one-twentieth per year decrease applying to debt in excess of 60% of GDP intensifies and a decrease of 16.4 p.p. is forecast compared to the 8.5 p.p. of GDP required.

[13] During the three-year transitional period, until the debt differential reduction rule of 5% per year applies, Member-States are required to reduce public debt so as to satisfy at least one of the following criteria: retrospective, prospective and cyclically adjusted. All the 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: Analysis of the 2014-2018 Fiscal Strategy Document.

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



Source: MF. CFP calculations.

3 FISCAL PROJECTIONS AND FORECASTS[14]

The Stability Programme assumed a no-policy-change scenario which is the starting point for drawing up the medium-term public finance strategy. This incorporates the new fiscal policy measures that the Government wishes to introduce to fulfil its programme, bearing in mind the national and European budgetary framework. From 2018 to 2022, the new policy measures make a marginal contribution to compliance with the overall balance objectives published in this budgetary programming document. This is based above all on the impact of the macroeconomic outlook, even though the impact of discretionary policies introduced in the recent past has contributed to the fiscal adjustment. Therefore, the current medium-term strategy is mainly dependent upon the fulfilment of the published projections and forecasts. As regards public debt developments, SP/2018 expects a consolidation of the downward trend in the debt to GDP ratio up to 2022.

3.1 GENERAL GOVERNMENT ACCOUNT

3.1.1 No-policy-change scenario

The SP/2018 medium-term scenario takes as a starting point the updated budgetary forecast for 2018, rather than that published in SB/2018, which represents a more favourable outlook for public expenditure and the balance. Since fiscal performance was better than expected in 2017[15] both the MF estimate for that year and the fiscal forecast for 2018 (set out in SB/2018) became outdated. This required a downward revision of the general government deficit for 2018 from 1.1% to 0.7% of GDP (Table 2). The downward correction in the level of public expenditure forecast for that year reflects, above all, the positive spillover effect due to the lower volume of expenditure undertaken compared to the forecast for 2017, whereas the updating of the public revenue forecast for 2018 did not contribute to a more favourable balance position. Non-tax and non-contributions revenue explains the change, due to the downward revision in the sales revenue forecast, confirming the CFP's doubts over this specific forecast, expressed in its analysis of DSB/2018.

[14] Note that the projections stem from the no-policy-change scenario, whilst the forecasts include the effects of the planned measures.

[15] Net of the impact of temporary measures that occurred that year, since they do not give rise to a sustained change in the fiscal position. They are transactions that affect a given year but their effect is not permanent and they do not have repercussions in future years.

Table 2 – Updating of Forecast for 2018

	2017			2018 (SB/2018) (4)	2018 Forecast review			2018 (SP/2018) (8)
	SB/2018 (1)	EDP March 18 (2) excluding CGD	Deviation (3)=(2)-(1)		One-off (5)	Oth. effects (excluding one-off) (6) =(7)-(5)	Total review (7)=(8)-(4)	
TOTAL REVENUE	**83 507**	**82 841**	**-667**	**86 788**	**612**	**-826**	**-214**	**86 573**
Tax and contribution revenue	71 064	71 447	382	73 161	235	469	704	73 865
Indirect taxes	28 880	29 028	148	30 166	0	306	306	30 472
Direct taxes	19 683	19 715	32	19 640	235	-116	119	19 759
Social Security contributions	22 502	22 704	202	23 355	0	279	279	23 634
Non Tax and non contribution revenu	12 443	11 394	-1 049	13 626	377	-1 295	-918	12 708
Sales	6 789	6 752	-37	7 557	0	-613	-613	6 944
Other current revenue	4 358	3 907	-450	4 709	0	-577	-577	4 132
Capital Revenue	1 296	734	-562	1 361	377	-105	272	1 633
TOTAL EXPENDITURE	**86 257**	**84 606**	**-1 651**	**89 005**	**994**	**-1 954**	**-961**	**88 063**
Primary Expenditure	78 689	77 131	-1 558	81 878	994	-1 880	-887	81 011
Primary current Expenditure	74 148	72 703	-1 446	76 333	177	-1 598	-1 421	74 857
Intermediate Consumption	10 772	10 470	-303	11 323	0	-620	-620	10 703
Compensation of employees	21 409	21 270	-139	21 497	0	225	225	21 721
Social transfers	36 057	35 616	-441	37 128	0	-372	-372	36 756
Subsidies	1 010	866	-144	1 094	0	-220	-220	875
Other current expenditure	4 900	4 481	-419	5 292	177	-611	-435	4 802
Capital Expenditure	4 540	4 428	-112	5 545	817	-282	535	6 154
Gross Fixed Capital Formation	3 224	3 415	192	4 577	0	-67	-67	4 585
Other capital expenditure	1 316	1 013	-304	967	817	-215	602	1 569
Interest paid	7 569	7 475	-94	7 126	0	-74	-74	7 052
BUDGET BALANCE	**-2 750**	**-1 765**	**985**	**-2 217**	**-381**	**1 128**	**747**	**-1 490**
% of GDP	*-1,4*	*-0,9*	*0,5*	*-1,1*	*-0,2*	*0,6*	*0,4*	*-0,7*

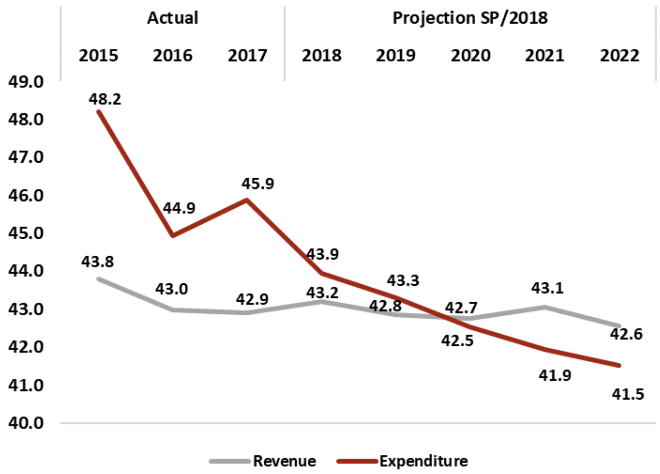
Source: MF. CFP calculations, million Euros. Note: Temporary and one-off measures are those classified as such by the MF in SB/2018 and in SP/2018.

The developments seen in the current primary expenditure items explain the updating of the public expenditure forecast. With the exception of compensation of employees, all current primary expenditure items were revised downwards (column 7 of Table 2), reflecting the aforesaid favourable deviation in the budget outturn in 2017. The scale of these deviations is even greater when the impacts of temporary measures are removed (column 6 of Table 2). Intermediate consumption, "other current expenditure" and subsidies have all recorded corrections larger than the deviation seen in the outturn for that year (column 3 of Table 2), providing space to accommodate the upwards corrections in expenditure stemming from the Novo Banco recapitalisation, the higher salaries in the health and education sectors and the increased spending on fires (compensation and prevention).

However, the updating of the level of public expenditure forecast for 2018 does not reflect an increase in the rate of decline in this indicator's GDP ratio compared to the no-policy scenario in SP/2017. According to the projection in SP/2018, despite the starting point (excluding the one-off support to the financial sector) suggesting a primary expenditure ratio (40%) that is lower than the SP/2017 forecast (40.1%), the medium-term projection for primary expenditure reflects a rate of decrease in that indicator that is 0.4 p.p. of GDP down on the figure considered in the no-policy-change scenario published in that SP.

In the absence of new fiscal policy measures, the public revenue projection in SP/2018 points to a decline in its relative weight in GDP from 2017 to 2022. This decrease is caused by growth in nominal output (19.8%) above that projected for revenue up to the end of the projection time horizon (18.8%). Over four-fifths (84%) of the revenue growth, which in nominal terms is expected to total 15 602 M€, can be explained by the contribution of tax and social contributions revenue. Tax revenue explains over half (52.8%) of the nominal increase in General Government revenue, due mainly to the projected development in indirect taxes which, according to the MF, accounts for 70% of the expected increase in tax revenue (8 237 M€) from 2017 to 2022. On a smaller scale the increase in contributions to social security funds explains almost a third (31.2%) of the change.

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



Source: INE and MF. CFP calculations. | Note: The figures as a percentage of GDP shown in the chart have been rounded.

Generally speaking the tax and social contributions revenue projection[16] is in line with the MF's expectations as to the economy performance. Over the SP/2018 time horizon the elasticity of tax and social contributions revenue has values close to one, which reveals the expectation that its growth will be identical to that of nominal output (Table 3). That performance is the result of a prudent assumption by the MF as to the tax revenue projection[17]. In the opposite direction, the elasticity of actual social contributions compared to GDP and to earnings is greater than one over the entire period, and it is even higher than the expected growth for earnings in the economy.

Table 3 – Elasticities underlying the SP/2018 projections, no-policy-change scenario (%)

	2018	2019	2020	2021	2022
Tax Revenue and actual social contributions/GDP elasticity	1.0	0.9	0.9	1.0	1.0
Indirect taxes/GDP elasticity	1.2	0.9	0.9	0.9	0.9
Direct taxes/GDP elasticity	0.6	0.7	0.8	0.8	0.9
Actual social contributions/GDP elasticity	1.3	1.1	1.1	1.2	1.3
Indirect taxes/private consumption elasticity	1.3	1.0	1.0	1.0	1.0
Actual social contributions/compensation of employees elasticity	1.2	1.3	1.4	1.4	1.4

Source: MF and INE. CFP calculations. | Note: The figures for tax and actual contributions revenue do not include the impact of new policy measures nor of temporary and one-off measures.

Under the no-policy-change scenario, the decrease in the public expenditure ratio comes from nominal GDP growth being higher than that projected for expenditure.

16 Excluding imputed social contributions.

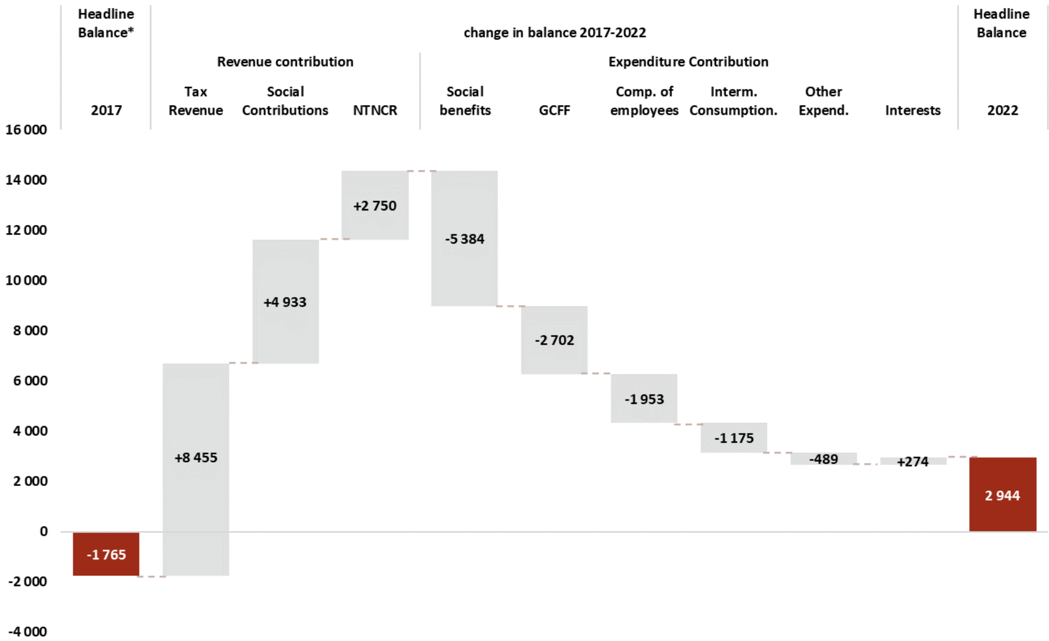
17 According to the 2015 OECD publication "*Adjusting fiscal balances for the business cycle: New tax and expenditure elasticity estimates for OECD countries*" in Portugal the elasticity of tax revenue compared to GDP is between the 0.98 estimated for indirect taxes and the 2.29 calculated for PIT. Note also that according to the same publication, the elasticity of social contributions compared to GDP is 0.98 and compared to earnings their elasticity is equal to one.

While the MF estimates a nominal increase in expenditure (8.4%), this budget aggregate as a ratio of output will experience a decrease of 4.4 p.p. up to 2022. The main contribution to this decrease (around a half, -2.2 p.p.) will come from "other capital expenditure", taking into account the base effect stemming from the CGD recapitalisation in 2017. Current primary expenditure, in particular compensation of employees and social transfers, will record the largest decrease in their relative weight in GDP up to 2022 (down 1.0 and 0.8 p.p. of GDP, respectively), even though they will experience nominal growth in the period (9.2% and 14.4%, respectively). Interest will also see its weight in output decline by 0.6 p.p. from 2017 to 2022. Over the same period GFCF will see its weight in GDP rise by 0.5 p.p., with a positive change in nominal terms of 55.1%.

3.1.2 Scenario with measures

Taking into account the impacts of the new policy measures, compliance with the balance path forecast in SP/2018 reflects, in nominal terms, a contribution from revenue capable of ensuring public expenditure growth four times greater than in the 2012-2017 period. Excluding the impact of the CGD recapitalisation in 2017, the forecast growth in public expenditure up to 2022 in SP/2018 should total 11 428 M€ (that is to say +13.5%), a figure that compares with growth of 2 887 M€ (an increase of 3.5%) recorded between 2012 and 2017. This difference is brought about by two components that increase the rigidity of public spending and account for around two-thirds (64%) of the forecast increase: social transfers, where the increase forecast in SP/2018 (+5 384 M€, Chart 9) more than doubles that seen from 2012 to 2017 (+2 606 M€) and the increase in compensation of employees (1 953 M€) which will be almost 25% higher than the figure recorded in the previous period (+1 582M€). The remaining increase is explained above all by GFCF, where the increase (2 702 M€) reverses the fall seen from 2012 to 2017 (743 M€), and by intermediate consumption, which the MF expects to rise by around 50% (that is to say 1 175 M€) compared to the amount recorded in that period (784 M€). The expenditure on interest forecast in SP/2018 continues to contribute to the drop in public expenditure, although its contribution (274 M€) is less than half of that seen from 2012 to 2017 (739 M€).

Chart 9 – Contribution of revenue and expenditure to change in balance from 2017-2022 (M€)

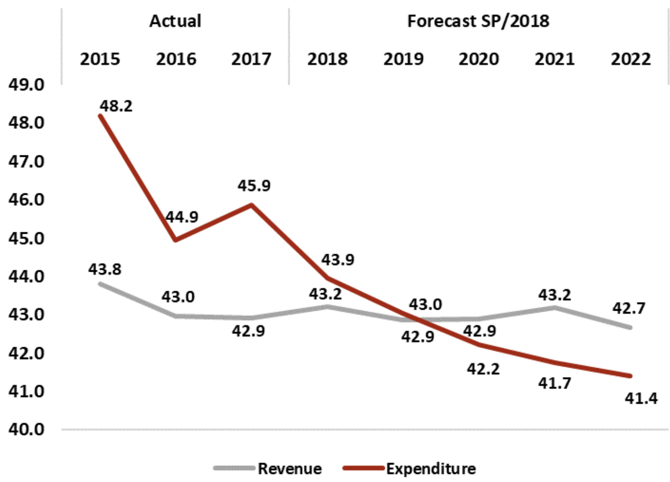


Source: MF and INE. CFP calculations. | Notes: *Excluding the impact of CGD recapitalisation; a positive/negative sign corresponds to a positive/negative contribution from a specific revenue or expenditure component to the improvement/deterioration in the budgetary balance. RNFNC – Non-Tax and Non-Contributions Revenue, includes Sales, "Other current revenue" and Capital revenue; Other Expenditure includes "Other current expenditure", subsidies and "Other capital expenditure".

3.1.2.1 Revenue and expenditure

Incorporating the impact of the policy measures set out in SP/2018, the MF forecast a budgetary balance of 1.3% of GDP for 2022. This represents an adjustment of 4.2 p.p. of GDP, compared to the balance recorded in 2017 (-3% of GDP). The expected decreases in the relative weights of revenue and expenditure from 2017 to 2022 are due to the fact that the MF estimates nominal GDP growth (20.1%) to be higher than the expected change in both revenue (19.5%) and expenditure (8.5%).

Chart 10 – Unadjusted revenue and expenditure forecasts, with measures (% of GDP)



Source: INE and MF. CFP calculations. | Note: The figures as a percentage of GDP shown in the chart have been rounded.

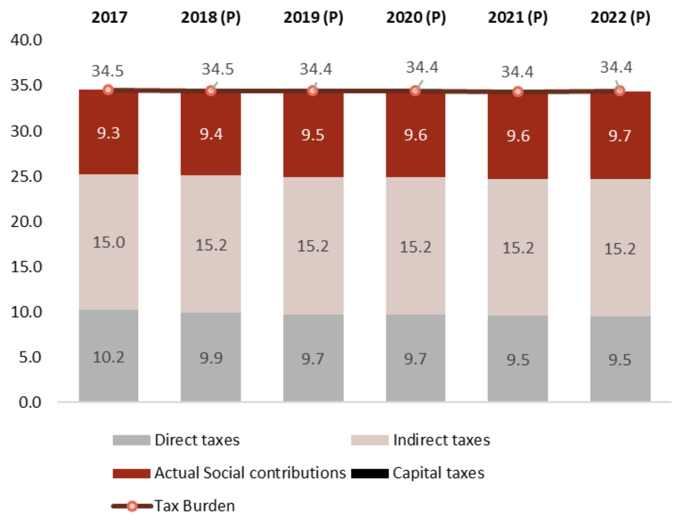
The relative weight of total revenue in GDP should fall slightly up to the end of the forecast time horizon (-0.2 p.p.). This development will reflect the decline in the weight of tax and social contributions revenue (-0.4 p.p.) and, more precisely, the weight of tax revenue (-0.6 p.p.). In contrast the weight of non-tax and non-contributions revenue should increase by 0.2 p.p. of GDP from 2017-2022, driven solely by the increase in relative weight of capital revenue (0.4 p.p.), which results essentially from the expected rapid absorption of structural funds and Community backed investments (145%, or 172% in adjusted terms, from 2017 to 2022). Offsetting the favourable contribution from non-tax and non-contributions revenue, the MF's more prudent outlook suggests the weight of sales and of other current revenue will both fall by 0.1 p.p. of GDP, which reflects the expectation that the growth in these items will be slightly lower than the expected change in nominal output from 2017 to 2022.

According to the forecasts underlying SP/2018the tax burden should decrease slightly from 2017 to 2022. Having reached the highest level for the last 22 years in 2017 (34.5% of GDP), the tax burden should fall very slightly up to the end of the forecast time horizon and stabilise at 34.4% from 2019 onwards (Chart 10). That decrease is due only to the estimated easing of the weight of direct taxes (-0.7 p.p. of GDP), which reflects the impact of the changes to PIT tax bands in 2018, and the new (as yet unspecified) measure in this field that will have a negative impact on revenue (200 M€) which should occur in 2021. The increased weight of indirect taxes (0.1 p.p. of GDP) comes from the changes to excise duties[18] introduced in 2018, as well as a new rise in indirect taxes in 2019 (90 M€) and a revision of tax benefits that should generate an additional 90 M€/year in revenue from 2020 to 2022. As for actual social contributions, their relative weight should increase by 0.4 p.p. of GDP by 2022, as a result of the growth in contributions (25.7%) being higher than the expected change in nominal GDP (20.1%) and assuming a high elasticity in regard to the projected earnings path (see Table 3).

[18] Excise duties include the tax on alcohol, alcoholic beverages and sugary drink (IABA); energy tax (ISP); and the tobacco tax (IT).

Chart 11 – Tax burden developments

(% of GDP)



Source: MF. CFP calculations. | Note: The totals may not match the sum of the individual items as a % of GDP due to rounding.

According to SP/2018, from 2020 onwards the relative weight of public expenditure will record the lowest figures since, at least, 1995.[19] SP/2018 predicts a continual decrease in the weight of public expenditure in the output from 45.9% in 2017 to 41.4% of GDP in 2022. The largest decrease is expected to occur in 2018 (-1.9 p.p. of GDP), although that change is influenced by the CGD recapitalisation which placed a 2.0 p.p. of GDP burden on expenditure in 2017. For 2019 the MF expects a decrease of 0.9 p.p., with the rate of decline falling steadily up to the end of the period covered by SP/2018 (0.8 p.p. in 2020, 0.5 p.p. in 2021 and 0.3 p.p. in 2022).

Approximately half of the decrease in the relative weight of public expenditure in GDP forecast in SP/2018 is dependent on contribution from current primary expenditure. The 2.3 p.p. of GDP decrease in the weight of current primary expenditure from 2017 to 2022 is due to the nominal GDP growth being higher than the increase in that expenditure aggregate. On the one hand, the MF forecasts that compensation of employees will fall by 1.0 p.p. of GDP, despite increasing in nominal terms, above all as a consequence of the unfreezing of civil service promotions that began in 2018.[20] On the other hand, social transfers should also decline (0.8 p.p. of GDP). Three-quarters of this decline is explained by the performance of social transfers in cash, in particular the decrease in spending on CGA pensions and unemployment benefit, and, to a lesser degree, by social transfers in kind. The decrease in the weight of the latter will come partly from the reduced cost of PPP in the health sector. Intermediate consumption contributes through a 0.4 p.p. decrease in its relative weight in GDP, which according to SP/2018 will come from implementing measures under

[19] Taking into account the available comparable general government figures (ESA 2010) in national accounts that go back as far as 1995, the previous record low was recorded in 1997 (42.4% of GDP).

[20] The nominal increase from 2017 to 2020 in compensation of employees (1 139 M€) is due to a large extent (91%) to the impact of this measure (1 040 M€). The change in the increase in compensation of employees to fight and prevent fires also contributed to this rise.

the public expenditure review programme and from the expected lower cost of PPP and road subconcessions.

In contrast capital expenditure (excluding the base effect resulting from the CGD recapitalisation in 2017) sees its relative weight in GDP rise. This development, which does not take into account the 2.0 p.p. impact of the CGD recapitalisation that occurred in 2017 and which affected "other capital expenditure", suggests capital expenditure will increase by 0.7 p.p. of GDP.[21] That performance is driven by GFCF which, since it is not influenced by that effect, will increase by 0.9 p.p. of GDP from 2017-2022: from 1.8% of GDP in 2017 to 2.3% in 2018, then to 2.4% in 2019 and to 2.6% in 2020, thereafter stabilizing at this level until the end of the forecast's time horizon. According to the MF, this change reflects the implementation of large scale investment projects, namely those relating to rail transport infrastructures (international links) and light railways (Lisbon and Porto). On the other hand, over the same period "other capital expenditure" should experience a decrease of 0.2 p.p. of GDP, despite the increase in 2018 stemming from support to the financial sector where the impact will be 0.5 p.p. of GDP.

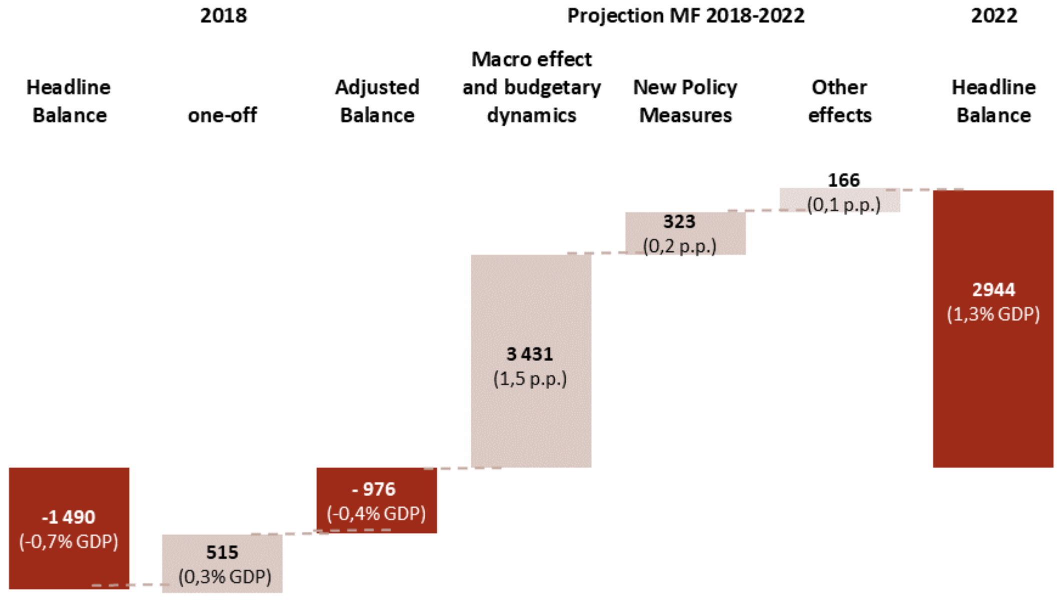
Interest will continue to contribute to the decrease in public expenditure which, according to the SP/2018 forecast, should lead to a downward path for the relative weight of interest in GDP up to 2021 before stabilising in the final year of the forecast's time horizon. The MF foresees a decrease in interest's weight in GDP of 0.8 p.p. from 2017 to 2022. Around half of that (0.4 p.p.) will take place in 2018, after which the average decrease will be 0.1 p.p. per year until interest represents 3.1% of GDP in 2021. The ratio is expected to stabilise the following year, despite a nominal increase in expenditure on interest (4.0%). According to the MF that change stems, on the one hand, from a general improvement in the country's terms of finance that has a larger impact in the early years of the time horizon, and, on the other hand, from the incorporating of a future rise in interest rates.

3.1.2.2 Fiscal policy measures

In net terms the contribution from new policy measures marginally improves the budgetary balance from 2018 to 2022. According to the MF estimate, the measures to be introduced from 2019 to 2022 only account directly for a 323 M€ improvement in the balance (0.2 p.p. of GDP), and only make a positive contribution in the first two years (Chart 12 and Table 10). Thus, it is the dynamics of the performance of budget variables – which not only reflect the macroeconomic outlook but also the impact of policies adopted in the past – that explains almost the entire adjustment required to ensure compliance with the path forecast for the overall balance (excluding the impact of temporary and one-off measures) in SP/2018.

[21] Excluding the aforesaid base effect, the MF forecasts that capital expenditure will fall by 1.4 p.p. of GDP from 2017 to 2022.

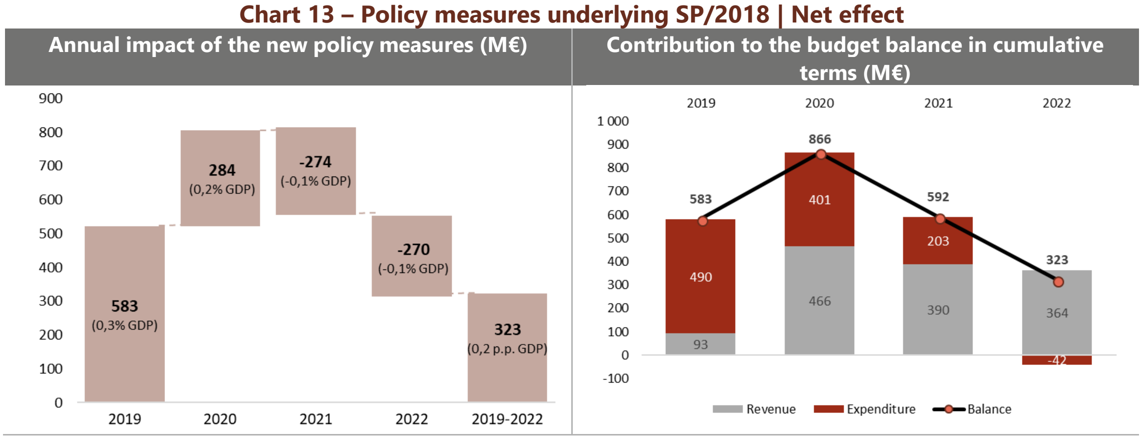
Chart 12 – From the 2018 deficit to the 2022 surplus (M€)



Source: MF. CFP calculations. | Note: The "Macro and Fiscal Dynamics" effect includes the direct effect of the macroeconomic variables as well as the effects of the Government's discretionary actions, in particular those stemming from the use of public expenditure management and control instruments. "Other effects" should include measures 2nd order effects. For further details on the policy measures see Table 10. The totals may not necessarily match the sum of the individual items as a percentage of GDP due to rounding.

A breakdown of this contribution shows four types of direct impact: the impact associated with the restoring of public investment (747M€), partly financed by structural funds (204M€), where the net impact is a 543M€ deterioration in the budgetary balance; the impact of the decrease in interest charges that has a positive effect on the balance of 442M€; tax revenue measures which, in net terms, improve the balance by 160M€; a series of expenditure side measures that produce a 427 M€ deterioration in the social transfers balance, which is more than offset by the "spending reviews" that contribute 350M€ in terms of intermediate consumption, 90M€ in social transfers and 250M€ in "other current expenditure" to produce an overall positive impact of 690M€.

Chart 13 – Policy measures underlying SP/2018 | Net effect



Source: MF. CFP calculations. | Note: The impact of the measures is described in detail in Table 10. 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 net impact of the measures and the respective breakdown lead us to the conclusion that the budgetary balance performance depends essentially on the favourable dynamics of the economy, on the policies adopted in previous years and on the fulfilling of a broad spending review strategy. The former reflects the reversal of the impact of the automatic stabilisers on revenue and expenditure, which the measures include in SP/2018 strengthen. On the expenditure side, in addition to the important role played by the decrease in interest charges, as a result of the fiscal consolidation effort already undertaken plus the international framework, the spending reviews are key to fulfil the defined strategy. Such importance is stressed by the fact that, according to the MF's impact evaluation (Table 10), on top of the proposed measures there is the increase in social transfers, whose autonomous growth is largely the result of population ageing, while at the same time medium-term stability calls for the taking into account of international economy fluctuations and their inevitable impact on the national economy and the State Budget.

In addition, under the CFP's evaluation, the forecast net impact on the budgetary balance of the new policy measures continues to depend on goals not supported by specific measures. As indicated in our analysis of SP/2017, some of the new policy measures published in the latest programme are insufficiently described and refer to an amount the outcome of which is uncertain for this very reason. Measures of this nature include spending review measures, increases in indirect taxes by way of the raising of "other taxes" and the savings to be obtained by revising tax benefits. In the case of the spending reviews, while details have been provided about such measures, especially in the health and education sectors, there are no results from the past that allow us to assess the efficiency gains obtained with those expected by the MF. This lack of information introduces uncertainty as to the level of savings that the MF forecasts achieving (690 M€). In the case of indirect taxes, the lack of detail not only affects credibility and a correct understanding of them by economic agents, but it also introduces uncertainty as to the application.

3.1.3 Consistency between the scenarios with and without policy measures

The budgetary balance path published in SP/2018 is consistent with the macroeconomic developments and the impact of the fiscal policy measures estimated by the MF. Assuming that the budget forecast for 2018 occurs, a comparison of the MF's no-policy-change base scenario with the policy changes scenario (which includes the impact of policy measures) shows that for 2019 to 2022 the forecasts for revenue and expenditure are generally in line with the policy measures' impact on the base scenario (Table 4). In fact, from 2020 onwards, the budget forecast for the balance only points to a minimal difference (0.1 p.p. of GDP) compared to the projection that would result from the policy measures' impact on the base scenario. This difference is explained by revenue and is centred in tax and social contributions revenue. The forecast for direct taxes and social contributions is higher than that which stems from the measures' impact on the base scenario reflecting, in addition to the performance of budget variables that change in line with their macroeconomic index (salaries), the changes in "other effects" which are a consequence of the effects the measures induce on the macroeconomic scenario.

Table 4 – "Other effects" in the GG account

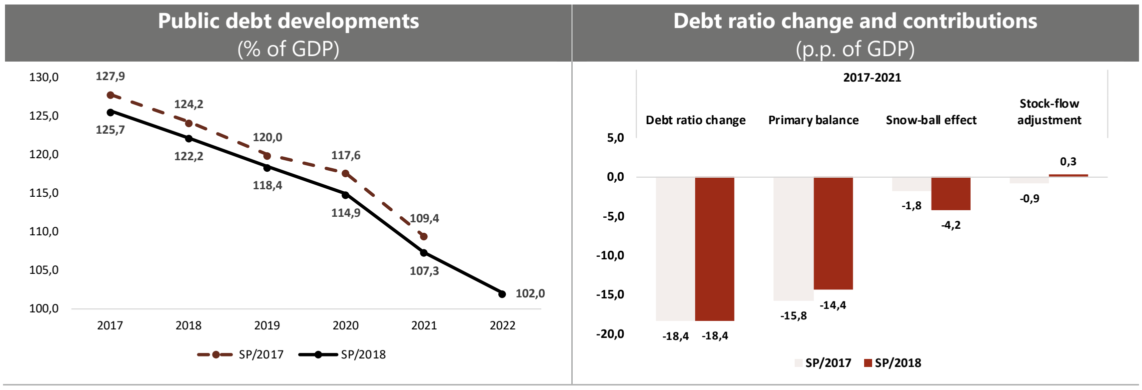
	2019	2020	2021	2022
Absolute figures (M€)				
Total Revenue	44	129	163	172
Total Expenditure	-6	-17	-3	5
Budget balance	49	146	165	166
In % of GDP				
Total Revenue	0,0	0,1	0,1	0,1
Total Expenditure	0,0	0,0	0,0	0,0
Budget balance	0,0	0,1	0,1	0,1

Source: MF. CFP calculations. | Note: The figures shown are unadjusted (influenced by temporary and one-off measures) and were calculated using the following formula: Difference between the SP/2018 projections under a no-policy-change scenario and those resulting from the impact of the policy measures on the base scenario (Changing Policies).

3.2 PUBLIC DEBT DEVELOPMENTS

SP/2018 predicts a downward path for the debt ratio over the projection time horizon in keeping with the previous budget programming document. The path shown in the latest document for the period common to both programmes (2017-2021), despite having a lower starting point, points to the same level of decrease in the public debt ratio based on the smaller contribution from primary balance and the larger contribution from the dynamic effect (Chart 14). Thus, the MF forecasts that the debt ratio will fall by 23.6 p.p. of GDP, moving steadily from 125.7% of GDP in 2017 to 102% in 2022 (Chart 15).

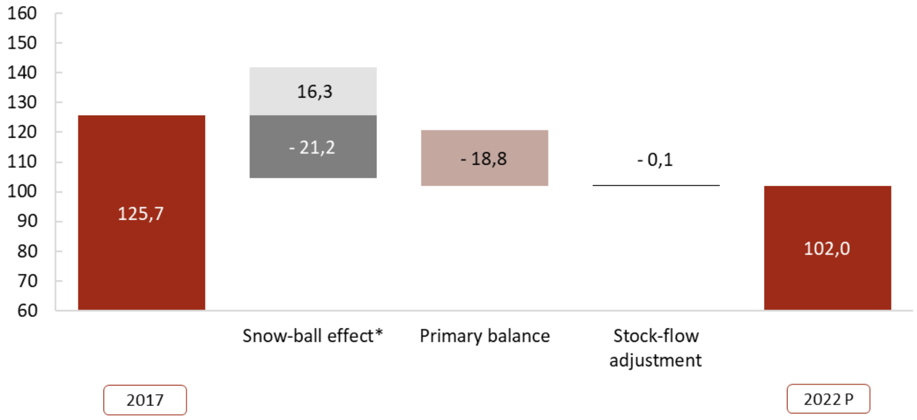
Chart 14 – Debt development and dynamics from 2017 to 2021 according to SP/2017 and SP/2018 forecasts



Source: MF and BoP. CFP calculations.

The primary surplus forecast by the MF explains over three-quarters of the decrease in the public debt ratio from 2017 to 2022. That decline stems from the accumulation of primary surpluses (18.8 p.p.), coupled with the favourable dynamic effect (4.9 p.p. of GDP) which reflects the fact that nominal GDP growth is higher than interest's impact on the debt ratio. Likewise, the stock-flow adjustment makes a favourable, albeit marginal, contribution (-0.1 p.p. of GDP).

Chart 15 – Contributions to public debt developments from 2018-2022 (% of GDP)

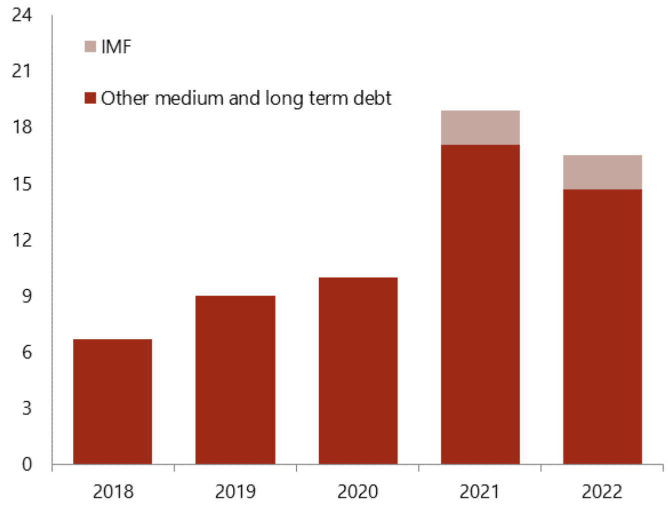


Source: MF and BoP. CFP calculations. | Notes: * Snow-ball effect is made up of interest effect (positive impact) and growth effect (negative impact). "F" stands for "Forecast".

Whilst the stock-flow adjustment has only a marginal impact over the forecast time horizon as a whole, in annual terms it makes a significant contribution to the in public debt development. This adjustment penalises the public debt ratio from 2018 to 2020 and has the opposite effect in 2021 and 2022. In 2018, the first year of the forecast, the decrease in deposits and loans is partially offset by the increase in i) shares and other investments that include the use of lines of credit linked to the European and National Resolution Fund, as well as the positive impact of the of asset sales; ii) other assets /other net State acquisitions where they are included in SB/2018[22] and iii) other changes in debt, leading to a stock-flow adjustment of 0.4 p.p. of GDP. In 2019 a not very significant adjustment of 0.5 p.p. of GDP is expected. In the following two years the adjustment reveals a more significant change as a result of the larger accumulation of deposits in 2020 and the subsequent repaying of medium and long-term debt in 2021. The amount of the adjustment in 2020 is explained by the build-up of deposits in the sum of 2 600 M€ (compared to the end of 2019). This increase in deposits is designed to repay the Treasury Bonds and Medium-Term Notes (13 600 M€), the Floating Rate Treasury Bonds (3 500 M€) that fall due 2021, along with a portion of the IMF loan (1 800 M€), as per Chart 16. In those two years the scale of the stock-flow adjustment will be 1.4 p.p. and -2 p.p. of GDP, for 2020 and 2021, respectively.

[22] The amounts included in Chapter 60 of SB/2018 are not intended to finance the lines of credit relating to the European and National Resolution Fund, nor the requirements of the Reclassified Public Corporations (especially the reimbursing of guarantees, international holdings, loans to the Refurbishment Finance Instrument (FRRU) or to Portugal 2020, or capital allocations to hospitals).

Chart 16 – Medium and long-term debt repayments from 2018-2022 ('000 M€)



Source: IGCP, Presentation to Investors, April 2018.

In nominal terms, the MF predicts a decrease of 8 200 M€ in debt stock from 2018 to 2022, despite expecting an increase in public debt in the first three years (5 900 M€). The deciding factor in this development is the decrease in debt in 2021 and 2022, to the sum of 10 900 M€. Over the five years of the forecast the dynamic effect remains at around 7 000 M€, and the primary balance effect plays a decisive role in the change in the debt balance, going from a contribution of -5 600 M€ in 2018 to -10 100 M€ in 2022.

SP/2018 forecasts an implicit debt interest rate lower than most projections and estimates made by other official bodies. The implicit interest rate forecast by the MF is between 2.8% and 3% over the five years in question, which constitutes a forecast in line with the average interest rate of 3% forecast by the IMF and with the 2.9% the EC expects to see in 2018 and 2019.[23] This favourable development in the MF forecast is based on the expectation that the interest rate for the new Treasury Bonds to be issued from 2018-2022 will be lower than the weighted average for the Treasury Bonds due to be repaid over the same period (3.9%). According to the MF the expenditure on interest ratio should follow a downward path going, dropping from 3.5% of GDP in 2018 to 3.1% of GDP in 2022, 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 risks associated with the budget projections contained in SP/2018 stem from the risks underlying the macroeconomic scenario and the expenditure forecasts. The budgetary balance performance is based on the combination of the near stabilisation of the weight of revenue in GDP, based to the tune of 85% on tax and contribution revenue which is heavily dependent on economic developments, and a significant decrease in spending on compensation of employees and social transfers. The macroeconomic scenario underlying SP/2018 includes an economic growth forecast that is contingent on changes in investment

[23] See Post-Programme Mission VI, February 2018 and *Spring Forecast*, May 2018, respectively.

and export performance, and which supposes market share gains with unchanged terms of trade over the entire time horizon. In this regard the MF identifies in the SP a series of downside risks for the macroeconomic scenario which are similar to those set out by the CFP in its report on that scenario.

SP/2018 includes analysis and quantification of fiscal risks which should be extended to other variables relevant to fiscal policy, such as tax and social contributions revenue, compensation of employees and social transfers. Chapter III of SP/2018 provides sensitivity analysis 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 mainly on the State's contingent liabilities and management of direct debt.

The fulfilling of the medium-term objectives for the budgetary balance and for debt depends basically upon the economic performance forecasts. This poses a significant risk since the Portuguese economy is very vulnerable to external shocks, especially if we take into account the fact the new policy measures make a marginal contribution to the improvement in the balance and debt. Furthermore SP/2018 considers the decrease in interest to be a measure, but this is only partially dependent on factors within the Government's control and given the current state of the financial markets, changes in interest rates must in themselves be deemed a risk. It must also be stressed that the SP does not mention the impact of additional support to the financial sector after 2018, which – should it be required – would have an impact on the balance, on debt or both.

The possible non-materialisation of what may be deemed an optimistic forecast for social contributions revenue constitutes a non-negligible risk. The MF assumes elasticity significantly higher than one for the relationship between social contributions revenue, GDP and earnings. This relationship, for which there is some statistical evidence in recent years which correspond to the upward phase in the business cycle, may, however, be threatened in a downward phase such as that forecast in the SP from 2019 onwards. This risk becomes greater should a more significant disturbance arise in the world economy due to protectionist tensions or financial instability.

The less flexible expenditure, comprised of compensation of employees and social transfers, is subject to pressures that could have an unfavourable effect on the forecast decrease in the expenditure ratio. In this context, compensation of employees, already influenced by the unfreezing of promotions included in SB/2018 does not include the impact of extending the unfreezing of other promotions. The extension covers promotions based on length of service, such as teachers and the armed services, which are not included in the forecasts and so constitute an additional risk. In terms of social transfers, above all pensions, the latest alterations undertaken, namely the new rules for early, penalty free, retirement for those who have paid contributions for long periods and the extraordinary updates, together with the ageing population scenario constitute additional pressure.

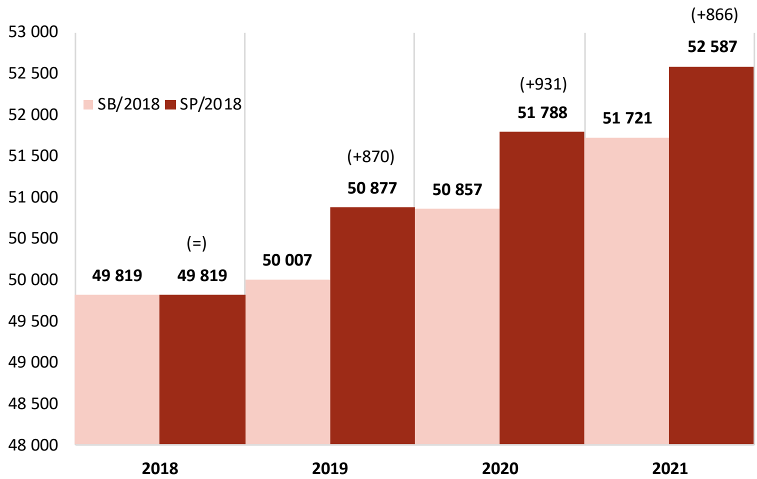
The budget forecast risks mentioned above are reflected in the projected public debt path. This risk may be gauged by the contribution of accumulated primary surpluses, which account for 18.8 p.p. out of the 23.6 p.p. of GDP decrease in the debt ratio, being the main factor in the predicted decrease over the forecast's time horizon.

4 MULTI-ANNUAL BUDGETARY PLANNING FRAMEWORK 2018-2022

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. Law no. 114/2017 of 29 December which approved SB/2018, updated the MBPF for the 2018-2021 period.[24] Nonetheless, the SP/2018 report includes a proposal to update the MBPF that was not submitted for Parliamentary approval

SP/2018 proposes the upwards revision of the expenditure limits in force for 2019 to 2021 while retaining the limit set for the current year. The MBPF put forward in SP/2018 implies a total increase of 2 667 M€ over the period common to the MBPF updated by SB/2018 (Chart 17). For 2018 the SP takes into account the same limits as the budget programme approved by the SB/2018 Law.[25] For 2019, when it is possible to compare the limits by programme grouping, the updating planned in SP/2018 implies an upwards revision in the Social (+458 M€), Economic (+421 M€) and Sovereignty (+4 M€) fields which more than offset the downwards revision in the limit on Security (-13 M€). The revisions for 2020 and 2021 are on a similar scale to 2019. However, the report that accompanies SP/2018 makes no mention of the grounds for the changes.

Chart 17 – Expenditure limits during the period common to the MBPF approved by SB/2018 and the updating project set out in SP/2018 (M€)



Source: MF. CFP Calculations. | Note: the MBPF updated by the SB/2018 Law covers the period from 2018-2021, while the MBPF updating project included in SP/2018 covers the period from 2018-2022. The difference between the two budget programming documents for each year is shown in brackets.

[24] See article 331 of SBL/2018. This article amends Law no. 7 -C/2016 of 31 March, which approved the MBPF for the years 2016 to 2019, which had been revised by Law no. 42/2016 of 28 December (SB/2017 Law).

[25] In regard to the SB/2018 Bill, the changes resulting from its discussion in Parliament led to an upward revision of 154 M€ to the limit on expenditure covered by general revenue in 2018, which applies to the "Employment, Solidarity and Social Security" (+29 M€) and "Finance and Public Administration" (+125 M€, relating to the centralised allocation to meet the cost of the fires in 2017) programmes. Expenditure covered by general revenue is that which is financed in essence by taxes. The MBPF does not cover expenditure financed by departments' own revenue (for example fees). In this regard see the CFP Glossary on Public Finance Terms.

The expenditure limit subject to the MBPF increases in all the years covered by SP/2018. In absolute terms the SP/2018 proposes an updating of the limits which implies a continual increase in the expenditure limit from 2018 to 2022, although the increase will steadily shrink (Table 5 and left-hand panel of Chart 18). The projected cumulative growth is 5 302 M€, of which around one third occurs in 2018 (around 1 737 M€). The increase in 2018 is the result of the increased allocation to the "Finance and Public Administration" programme (1 835 M€), since the other Social programmes fall by 640 M€. However, this is a biased reading of the situation to the extent that the "Finance and Public Administration" programme includes the initial recording of the provisional allocation (495 M€) and the allocations centralised in the MF for specific ends (totalling 745 M€[26]), which during the budget outturn are assigned to items of expenditure in all the other budget programmes. In 2019 all programmes experience an increase in the expenditure subject to the MBPF (Table 5), totalling 1 058 M€, and the largest increases are to be found in the Social (707 M€)[27] and Economic (249 M€)[28] groupings. The expenditure subject to the MBPF should also grow in 2020 (by 912 M€), with the major increases arising in the same groupings. In 2021 and 2022 the MBPF update implies annual growth of 1.5% in the expenditure subject, without jeopardising the forecast decrease in the "Public Debt Management" programme in those years.

Table 5 – Change in expenditure subject to the MBPF for 2018-2022 (M€)

Program	Turnout	SP/2018 forecast					Change				
	2017	2018	2019	2020	2021	2022	2017/18	2018/19	2019/20	2020/21	2021/22
1. SOVEREIGNTY	**4 663**	**4 786**	**4 851**	**4 926**			**123**	**65**	**76**		
P001 - Sovereign Bodies	3 420	3 448	3 486				29	38			
P002 - Governance	104	120	121				16	1			
P003 - Foreign Affairs	273	290	293				17	3			
P008 - Justice	612	619	626				8	7			
P009 - Culture	255	308	324				53	15			
2. SECURITY	**3 234**	**3 374**	**3 411**	**3 459**			**140**	**37**	**48**		
P006 - Defence	1 629	1 743	1 762				114	19			
P007 - Internal Security	1 605	1 631	1 649				26	18			
3. SOCIAL	**29 344**	**28 704**	**29 411**	**29 965**			**-640**	**707**	**553**		
P010 - Science, Technology and Higher Education	1 456	1 492	1 521				36	30			
P011 - Basic and Secondary Educ. and School Adm.	5 605	5 314	5 421				-290	106			
P012 - Solidarity, Employm. and Social Security	13 634	13 429	13 771				-205	342			
P013 - Health	8 649	8 470	8 698				-180	229			
4. ECONOMIC	**10 841**	**12 955**	**13 204**	**13 428**			**2 113**	**249**	**224**		
P004 - Finance and Public Administration	2 379	4 214	4 260				1 835	46			
P005 - Public Debt Management	7 123	7 268	7 454	7 475	7 306	7 083	145	186	21	-169	-223
P014 - Planning and Infrastructures	806	813	822				7	9			
P015 - Economy	124	213	215				89	2			
P016 - Environment	64	87	88				23	1			
P017 - Agriculture, Forests and Rural Development	313	313	316				0	3			
P018 - Sea	33	48	49				15	1			
5. TOTAL (1+2+3+4)	**48 082**	**49 819**	**50 877**	**51 788**	**52 587**	**53 384**	**1 737**	**1 058**	**912**	**799**	**797**

Source: MF. CFP calculations. | Notes: The figures for 2017 are provisional and match the estimate provided by the DGO. The MBPF limit for 2020 set out in SP/2018 is 51 788 M€; however, the sum of the expenditure by groupings is 10 M€ lower than this total. The "Finance" Programme includes, in 2018, 1 240 M€ relating to the provisional allocation and the allocations centralized in the MF which are set against increase in other expenditure items across the budget programmes.

As a percentage of GDP, SP/2018 predicts expenditure subject to MBPF will continue on a downward trend, following its stabilisation this year. Given that the rates of growth

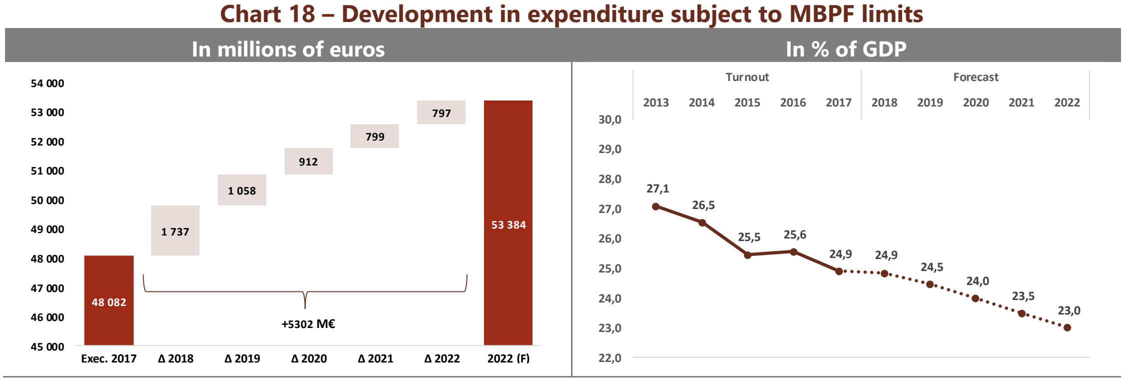
[26] The sums allocated by purpose are as follows: settling of Central Government non-financial liabilities (300 M€), financing of costs borne by Central Government bodies due to unfreezing of General Government employee promotions (130 M€), the 2017 forest fires (125 M€), overall national public share of Portugal 2020 co-finance (100 M€), Health sector sustainability by assigning a portion of IABA revenue (84.9 M€) and Portugal Participatory Budget (5 M€).

[27] In particular the "Solidarity, Employment and Social Security" (342 M€) and "Health" (229 M€) programmes.

[28] Of which 186 M€ relates to the "Public Debt Management" programme. It is noted that for GG as a whole, that is to say in consolidated terms across the GG subsectors, and regardless of the source of financing, SP/2018 forecasts a decrease in spending on interest in 2019 (7 022 M€) compared to the sum forecast for 2018 (7 052 M€).

forecast by the MF for nominal GDP are, in every year of the SP time horizon, higher than those for expenditure subject to MBPF, the respective ratio moves downward throughout the SP/2018 time horizon, and a decrease of 1.9 p.p. of GDP is expected from 2017 and 2022 (right-hand panel of Chart 18), a scenario which is identical to that forecast in the previous SP.[29] That expectation is built upon the difference between the average annual rates for growth of GDP nominal for 2018-2022 (3,7%) and of expenditure subject to the MBPF (2,1%).

Chart 18 – Development in expenditure subject to MBPF limits



Source: Ministry of Finance. CFP calculations. | Notes: the figure for 2017 is provisional and match the estimate provided by the DGO; "Δ" stands for the forecast change compared to the previous year.

As was the case in the previous SP, the SP/2018 report does not show how the MBPF expenditure limits are consistent with the fiscal goals defined in national accounts for 2019-2022. Under the BFL the MBPF must define expenditure limits for central government expenditure covered by general revenue that are consistent with the objectives set out in the Stability Programme.[30] In its Analysis of the Draft State Budget for 2018, the CFP held that the MBPF limit for 2018 was consistent with the national accounts deficit objective in DSB/2018 (2 034 M€, higher than the 1 490 M€ deficit forecast in SP/2018).[31] However, the SP/2018 report once again fails to provide information that allows for an assessment of the consistency with the objectives defined for the remainder of the MBPF time horizon. 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 along with the MBPF.[32]

[29] It should be noted that expenditure subject to MBPF limits as a percentage of GDP had identical values to those now considered for 2019 to 2021, despite starting from higher ratios in 2017 and 2018.

[30] See 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 the provisions of article 7 (2) of Law nº 151/2015 of 11 September.

[31] The amendments resulting from the Parliamentary debate led to the revising of the MBPF from 49 665 M€ in the SB/2018 Bill to 49 819 M€ in the approved SB (+154 M€). The deficit was also revised upwards from 2 034 M€ in the Bill to 2 217 M€ in SB/2018.

[32] The publication of these projections is compulsory under article 12-D (6) of the BFL.

ANNEXES

Table 6 – Headline general government account 2017–2022 (% of GDP)

	2017	2018	2019	2020	2021	2022	Change (p.p.) 2018/2022
Total revenue	**42,9**	**43,2**	**42,9**	**42,9**	**43,2**	**42,7**	**-0,2**
Current revenue	**42,5**	**42,4**	**42,2**	**42,1**	**41,9**	**41,9**	**-0,6**
Tax revenue	25,2	25,1	24,9	24,8	24,7	24,7	-0,6
Indirect taxes	15,0	15,2	15,2	15,2	15,2	15,2	0,1
Direct taxes	10,2	9,9	9,7	9,7	9,5	9,5	-0,7
Social contributions	11,8	11,8	11,8	11,8	11,9	11,9	0,2
of which: actual soc. contr. receiv	9,3	9,4	9,5	9,6	9,6	9,7	0,4
Sales & other current rev.	5,5	5,5	5,4	5,4	5,4	5,3	-0,2
Capital transfers received	**0,4**	**0,8**	**0,7**	**0,8**	**1,3**	**0,8**	**0,4**
Total expenditure	**45,9**	**43,9**	**43,0**	**42,2**	**41,7**	**41,4**	**-4,5**
Primary expenditure	**42,0**	**40,4**	**39,7**	**39,0**	**38,6**	**38,3**	**-3,7**
Current primary expend.	37,7	37,4	36,8	36,1	35,7	35,3	-2,3
Intermediate consumption	5,4	5,3	5,2	5,1	5,1	5,0	-0,4
Compensation of employees	11,0	10,8	10,6	10,4	10,2	10,0	-1,0
Social transfers	18,4	18,3	18,2	17,9	17,8	17,7	-0,8
other than in kind	16,7	16,6	16,5	16,2	16,1	16,1	-0,6
Subsidies	0,4	0,4	0,4	0,4	0,4	0,4	0,0
Other current expenditure	2,3	2,4	2,3	2,3	2,2	2,2	-0,1
Capital expenditure	4,3	3,1	2,9	3,0	3,0	3,0	-1,4
GFCF	1,8	2,3	2,4	2,6	2,6	2,6	0,9
Other	2,6	0,8	0,5	0,3	0,3	0,3	-2,2
Interest paid	**3,9**	**3,5**	**3,4**	**3,2**	**3,1**	**3,1**	**-0,8**
General government balance	**-3,0**	**-0,7**	**-0,2**	**0,7**	**1,4**	**1,3**	**4,2**
Primary balance	0,9	2,8	3,2	3,9	4,5	4,4	3,5
Public debt	125,7	122,2	118,4	114,9	107,3	102,0	-23,6

Source: Ministry of Finance. CFP calculations. Note: The change is based on the 2017 figures.

Table 7 – Adjusted general government account 2017–2022 (% of GDP)

	2017	2018	2019	2020	2021	2022	Change (p.p.) 2018/2022
Total revenue	**42,9**	**43,0**	**42,9**	**42,9**	**42,7**	**42,7**	**-0,2**
Current revenue	**42,5**	**42,4**	**42,2**	**42,1**	**41,9**	**41,9**	**-0,6**
Tax revenue	25,2	25,1	24,9	24,8	24,7	24,7	-0,6
Indirect taxes	15,0	15,2	15,2	15,2	15,2	15,2	0,1
Direct taxes	10,2	9,9	9,7	9,7	9,5	9,5	-0,7
Social contributions	11,8	11,8	11,8	11,8	11,9	11,9	0,2
of which: actual soc. contr. receiv	9,3	9,4	9,5	9,6	9,6	9,7	0,4
Sales & other current rev.	5,5	5,5	5,4	5,4	5,4	5,3	-0,2
Capital transfers received	**0,3**	**0,6**	**0,7**	**0,8**	**0,8**	**0,8**	**0,4**
Total expenditure	**43,6**	**43,5**	**43,0**	**42,2**	**41,7**	**41,4**	**-2,2**
Primary expenditure	**39,8**	**40,0**	**39,6**	**39,0**	**38,6**	**38,3**	**-1,5**
Current primary expend.	37,6	37,3	36,8	36,1	35,7	35,3	-2,3
Intermediate consumption	5,4	5,3	5,2	5,1	5,1	5,0	-0,4
Compensation of employees	11,0	10,8	10,6	10,4	10,2	10,0	-1,0
Social transfers	18,4	18,3	18,2	17,9	17,8	17,7	-0,8
other than in kind	16,7	16,6	16,5	16,2	16,1	16,1	-0,6
Subsidies	0,4	0,4	0,4	0,4	0,4	0,4	0,0
Other current expenditure	2,3	2,3	2,3	2,3	2,2	2,2	-0,1
Capital expenditure	2,1	2,7	2,8	3,0	3,0	3,0	0,8
GFCF	1,8	2,3	2,4	2,6	2,6	2,6	0,8
Other	0,4	0,4	0,4	0,3	0,3	0,3	0,0
Interest paid	**3,9**	**3,5**	**3,4**	**3,2**	**3,1**	**3,1**	**-0,8**
General government balance	**-0,8**	**-0,5**	**-0,1**	**0,7**	**1,0**	**1,3**	**2,0**
Primary balance	3,1	3,0	3,3	3,9	4,1	4,4	1,3
Public debt	125,7	122,2	118,4	114,9	107,3	102,0	-23,6

Source: Ministry of Finance. CFP calculations. Note: The change is based on the 2017 figures.

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

As % of GDP	2013	2014	2015	2016	2017	SP/2018		
						2018	2019	2021
Temporary measures and one-off measures *(impact on balance)*	**0,3**	**-3,6**	**-1,3**	**0,4**	**-2,2**	**-0,3**	**-0,1**	**0,4**
Revenue	**0,8**		**0,1**	**0,4**	**0,0**	**0,2**		**0,4**
RERD (2013) / PERES (2016) *	0,8			0,2				
VAT	0,1							
Other indirect taxes	0,1			0,1				
PIT; CIT	0,4			0,2				
IMI; IMT **	0,0							
Social contributions	0,1			0,0				
Prepaid Margins				0,2				0,4
Contribution to the Single Resolution Fund			0,1					
BPP guarantee recovery					0,0	0,2		
Expenditure	**0,4**	**3,6**	**1,4**	**0,0**	**2,2**	**0,4**	**0,1**	
Capital transfers (Banking sector)	0,4	2,9	1,4		2,1	0,4	0,1	
Novo Banco recapitalization		2,8				0,4		
BANIF recapitalization	0,4		1,3					
BANIF recapitalization (OITANTE assets acquisition)			0,1					
BPN recapitalization		0,1						
CGD					2,0			
DTA (deferred tax assets)					0,1		0,1	
Debt assumptions (STCP + CARRIS)		0,7			0,1			
One-off payments to the EU Budget				0,0				
F-16 aircrafts delivery to Romania				-0,1	0,0			
Wild fires					0,0	0,0		
Lisbon municipality civil protection fee reimbursement (Constitutional Court decision)					0,0			

Source: MF. CFP calculations. | Notes: 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 2020 and 2022.

Table 9 – Temporary measures and one-off measures (M€)

In M€	2013	2014	2015	2016	2017	SP/2018		
						2018	2019	2021
Temporary measures and one-off measures *(impact on balance)*	**580**	**-6 186**	**-2 333**	**780**	**-4 213**	**-515**	**-120**	**991**
Revenue	**1 280**		**130**	**745**	**73**	**377**		**991**
RERD (2013) / PERES (2016) *	1 280			443				
VAT	186							
Other indirect taxes	116			103				
PIT; CIT	690			293				
IMI; IMT **	53							
Social contributions	234			47				
Prepaid Margins				302				991
Contribution to the Single Resolution Fund			130					
BPP guarantee recovery					73	377		
Expenditure	**700**	**6 186**	**2 463**	**-34**	**4 286**	**892**	**120**	
Capital transfers (Banking sector)	700	4 994	2 463		4 098	792	120	
Novo Banco recapitalization		4 900				792		
BANIF recapitalization	700		2 284					
BANIF recapitalization (OITANTE assets acquisition)			179					
BPN recapitalization		94						
CGD					3 944			
DTA (deferred tax assets)					154		120	
Debt assumptions (STCP + CARRIS)		1 192			111			
One-off payments to the EU Budget				77				
F-16 aircrafts delivery to Romania				-111	-41			
Wild fires					60	100		
Lisbon municipality civil protection fee reimbursement (Constitutional Court decision)					59			

Source: MF. CFP calculations. | Note: No temporary measures or one-off measures are forecast for 2020 and 2022.

Table 10 – New policy measures, net cumulative effect versus the no-policy-change scenario (M€)

Component/measure	2019	2020	2021	2022	Measures effect
Total Revenue	**93**	**466**	**390**	**364**	
Taxes on income and wealth	**0**	**0**	**-200**	**-200**	
PIT	0	0	-200	-200	Worsen the Balance
Taxes on Production and Imports	**90**	**180**	**270**	**360**	
Other taxes	90	90	90	90	Improves Balance
Tax benefits	0	90	180	270	Improves Balance
Capital transfers received	**3**	**286**	**320**	**204**	
Structural funds	3	286	320	204	Improves Balance
Total Expenditure	**-490**	**-401**	**-203**	**42**	
Intermediate consumption	**-150**	**-250**	**-300**	**-350**	
Spending review	-150	-250	-300	-350	Improves Balance
Social Benefits	**23**	**-23**	**157**	**337**	
Spending review	0	-90	-90	-90	Improves Balance
Other social benefits	23	67	247	427	Worsen the Balance
Interest paid	**-496**	**-676**	**-571**	**-442**	
interest Savings	-496	-676	-571	-442	Improves Balance
Other current expenditure	**-90**	**-180**	**-225**	**-250**	
Spending review	-90	-180	-225	-250	Improves Balance
Gross Fixed Capital Formation	**224**	**729**	**737**	**747**	
Structural funds	224	729	737	747	Worsen the Balance
Impact on Budget Balance	**583**	**866**	**592**	**323**	
Memo | p.p. of GDP	**0,3**	**0,4**	**0,3**	**0,2**	
Measures that improve the balance | Impact on balance	**829**	**1 662**	**1 776**	**1 696**	
Revenue (revenue increases)	**93**	**466**	**590**	**564**	
Expenditure (reductions in expenditure)	**-736**	**-1 196**	**-1 186**	**-1 132**	
Measures that worsen the balance | Impact on balance	**-246**	**-795**	**-1 183**	**-1 374**	
Revenue (revenue reductions)	**0**	**0**	**-200**	**-200**	
Expenditure (increases in expenditure)	**246**	**795**	**983**	**1 174**	
Volume of Policy Measures | Absolute value	**1075**	**2457**	**2959**	**3070**	
Volume of revenue measures = (1) + (2)	**93**	**466**	**790**	**764**	
(1) Revenue increases	93	466	590	564	
(2) Expenditure reductions	0	0	-200	-200	
Impact on balance | Revenue Measures	**93**	**466**	**390**	**364**	
Volume of expenditure measures = (3) + (4)	**982**	**1991**	**2169**	**2306**	
(3) Revenue increases	246	795	983	1174	
(4) Expenditure reductions	-736	-1196	-1186	-1132	
Impact on balance | Expenditure Measures	**490**	**401**	**203**	**-42**	

Net contribution of new policy measures excluding the interests savings					
Impact on Budget Balance	**87**	**190**	**21**	**-119**	**Impact on Budget Balance**
Memo | p.p. of GDP	**0,0**	**0,1**	**0,0**	**-0,1**	**Memo | p.p. of GDP**
Measures that improve the balance | Impact on balance	**333**	**986**	**1 205**	**1 254**	
Revenue (revenue increases)	**93**	**466**	**590**	**564**	
Expenditure (reductions in expenditure)	**-240**	**-520**	**-615**	**-690**	
Measures that worsen the balance | Impact on balance	**-246**	**-795**	**-1 183**	**-1 374**	
Revenue (revenue reductions)	**0**	**0**	**-200**	**-200**	
Expenditure (increases in expenditure)	**246**	**795**	**983**	**1 174**	
Volume of Policy Measures | Absolute value	**579**	**1 781**	**2 388**	**2 628**	
Volume of revenue measures = (1) + (2)	**93**	**466**	**790**	**764**	
(1) Revenue increases	93	466	590	564	
(2) Expenditure reductions	0	0	200	200	
Impact on balance | Revenue Measures	**93**	**466**	**390**	**364**	
Volume of expenditure measures = (3) + (4)	**486**	**1315**	**1598**	**1864**	
(3) Revenue increases	246	795	983	1174	
(4) Expenditure reductions	240	520	615	690	
Impact on balance | Expenditure Measures	**-6**	**-275**	**-368**	**-484**	

Source: MF. CFP calculations.

Table 11 – New policy measures, net effect; change compared to previous year (M€)

Component/measure	2019	2020	2021	2022	Measures effect
Total Revenue	**93**	**373**	**-76**	**-25**	
Taxes on income and wealth	**0**	**0**	**-200**	**0**	
PIT	0		-200		Worsen the Balance
Taxes on Production and Imports	**90**	**90**	**90**	**90**	
Other taxes	90				Improves Balance
Tax benefits		90	90	90	Improves Balance
Capital transfers received	**3**	**283**	**34**	**-115**	
Structural funds	3,0	283,0	34,0	-115,0	Improves Balance
Total Expenditure	**-490**	**89**	**198**	**244**	
Intermediate consumption	**-150**	**-100**	**-50**	**-50**	
Spending review	-150	-100	-50	-50	Improves Balance
Social Benefits	**23**	**-46**	**180**	**180**	
Spending review		-90			Improves Balance
Other social benefits	23	44	180	180	Worsen the Balance
Interest paid	**-496**	**-180**	**105**	**129**	
interest Savings	-496	-180	105	129	Improves Balance
Other current expenditure	**-90**	**-90**	**-45**	**-25**	
Spending review	-90	-90	-45	-25	Improves Balance
Gross Fixed Capital Formation	**224**	**505**	**8**	**10**	
Structural funds	224	505	8	10	Worsen the Balance
Impact on Budget Balance	**583**	**284**	**-274**	**-270**	
Memo | p.p. of GDP	**0,3**	**0,1**	**-0,1**	**-0,1**	
Impact on Budget Balance (excluding the interests savings)	**87**	**104**	**-169**	**-141**	
Memo | p.p. of GDP	**0,0**	**0,0**	**-0,1**	**-0,1**	

Source: MF e CFP calculations.

LIST OF ABBREVIATIONS

Abbreviations	Meaning
ADM	Military Health System
ADSE	Civil Servants Health System
AMECO	Annual Macro-Economic Database of the European Commission
ANA	Aeroportos de Portugal, S.A.
ASB	Amending State Budget
BFL	Budgetary Framework Law
BoP	Bank of Portugal
CC	Constitutional Court
CET1	Common Equity Tier
CFP	Portuguese Public Finance Council
CGA	Civil Servants Pension Agency
CIT	Corporate Income Tax
CP	Comboios de Portugal, E.P.E.
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
CTT	Correios de Portugal S. A
DGO	Direção-Geral do Orçamento (Directorate-General for Budget)
EC	European Commission
ECOFIN	Economic and Financial Affairs Council
EDP	Energias de Portugal, S.A.
EDP	Excessive Deficit Procedure
EFAP	Economic and Financial Assistance Programme
EGREP	EGREP-Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E.
ESA	European System of National and Regional Accounts
ESC	Extraordinary Solidarity Contribution
ESSD	Extraordinary System for Settling Tax Debts and Social Security Debts
EU	European Union
EUR	Euro
FSD	Fiscal Strategy Document
g	Nominal GDP growth rate
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GG	General government
GPEARI	Planning, Strategy, Evaluation and International Relations Office (at the Ministry of Finance)
HCPI	Harmonised Consumer Price Index
ICT	Information and Communications Technology
IMF	International Monetary Fund
IMI	Municipal Property Tax
IMT	Municipal Property Transfer Tax
INE	Statistics Portugal (Portuguese Statistical Authority)
ISP	Tax on Oil and Energy Products
IT	Tax on Tobacco
M€	Million euros
MBPF	Multi-annual Budgetary Planning Framework
MF	Ministry of Finance
MLSA	Minimum Linear Structural Adjustment
MTO	Medium-Term Objective
NHS	National Health Service
NRPC	Non-Reclassified Public Corporations

Abbreviations	Meaning
OECD	Organisation for Economic Co-operation and Development
p.p.	Percentage points
s.p.b.	Structural primary balance
PB	Primary Balance
PIT	Personal Income Tax
PPP	Public-Private Partnerships
r	Implicit interest rate
REN	Redes Energéticas Nacionais, SGPS, S.A.
SAD	Police Force Health System
SB	State Budget
SF	Special factors
SFA	Stock-flow adjustment
STCP	Sociedade de Transportes Coletivos do Porto, SA
Swaps	Swap agreements
TAAB	Tax on Alcohol and Alcoholic Beverages
USD	US Dollar
VAT	Value Added Tax

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