Conselho das Finanças Públicas
Portuguese Public Finance Council

Macroeconomic forecasts underlying the 2016-2020 Stability Programme

Opinion of the Portuguese Public Finance Council

20 April 2016

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. 91/2001 of 20 August, republished by Law no. 37/2013 of 14 June).

The decision to set up the Council was taken following the publishing of the final report of the Taskforce to the European Council on economic governance in Europe, and became a reality in October 2010 after agreement was reached between the Socialist Party (PS), in Government, and the Social Democratic Party (PSD). 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 Opinion uses the information available up to 19 April 2016.

1 INTRODUCTION

This Opinion examines the macroeconomic forecasts underlying the 2016-2020 Draft Stability Programme (SP/2016) and was issued according to the joint terms of article 12-I (1) of the Budgetary Framework Law (Law no. 41/2014 of July 10), article 6 (a) of the Portuguese Public Finance Council's Statutes, as approved by Law no. 54/2011 of 19 October, articles 4 (4) and 6 (3f) of Regulation (EU) no. 473/2013 of the European Parliament and of the Council of 21 May 2013. This Opinion is framed by "*the Memorandum of Understanding between the Ministry of Finance and the Portuguese Public Finance Council on the preparation of an opinion on the macroeconomic forecasts underlying the Stability Programme and the Draft State Budget*", signed on 6 February 2015.[1]

According to the aforesaid Memorandum of Understanding (MoU), the Government formally notified the CFP on 25 February that the Stability Programme would be published on 30 April ("D" day for the purposes of the timeline included in section 5 of the MoU).

On 6 April the CFP received an early version of the macroeconomic forecasts under the no policy change scenario and the Government programmatic scenario, which includes the planned policy measures. On 8 April a meeting was held between the technical teams of the Ministry of Finance (MF) and the CFP, where the former presented a brief summary of the two scenarios. At the meeting the CFP requested some additional information, which was again specified in an email sent on the April 11. A part of such information was received on that day.

On 8 April the CFP was informed by email that the Stability Programme would be submitted to the Parliament on 21 April. Although this was a change in the timeline set out in the MoU referred above, the CFP's Senior Board decided it should prepare its Opinion. It covers the figures employed by the MF in its external and technical assumptions and in the macroeconomic forecasts underlying the programmatic scenario. Table 1 shows the main indicators from the latest information provided by the MF to the CFP up to the time this Opinion was completed (20 April 2016). This Opinion refers to that information – which does not include the wording of the Stability Programme and consequently does not cover the fiscal strategy description nor the policy measures planned up to 2020.

As the Government had made the National Reform Programme public on 29 March and the information provided by the MF on 6 April did not include any relevant information as to how that document fitted in with SP/2016, on the following day the CFP asked in writing for "*information on the nature and the predicted fiscal and economic impacts of the main measures in the National Reform Programme for the time horizon of the Stability Programme projection*". That request was repeated at the technical meeting and in the email referred above. However, up to the time this Opinion was completed, the information requested on how the SP/2016 articulates with other policy instruments was not received.

[1] Available at the CFP website.

The methodology and analysis used in this Opinion are described in the aforementioned MoU. In order to conduct this analysis the CFP used the following sources of information:

a) Analysis of the forecasts conducted by CFP technical staff;
b) Comparison with the forecasts produced by reference institutions: European Commission (EC), Organisation for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), Bank of Portugal (BoP) and CFP;
c) Comparison with the latest forecasts by other official and unofficial institutions;
d) Coincident and leading indicators and the latest available statistics from the national statistical authorities — Statistics Portugal (INE) and BoP;
e) Technical clarifications provided by the MF in regard to the forecasts produced.

2 MINISTRY OF FINANCE FORECASTS

Macroeconomic scenario underlying the 2016-2020 Stability Programme

The SP/2016 anticipates the economy will accelerate gradually over the projection period driven by the positive contribution of domestic demand. For 2016 the MF retains the scenario disclosed in the State Budget for 2016 (SB/2016), expecting that the economy will grow at a rate of 1.8%. Domestic demand should maintain a contribution similar to 2015 (2.4 p.p. in 2016 versus 2.5 p.p. in 2015). For this evolution contributes the increase in investment growth (from 3.9% to 4.9% in 2016) and the almost steady growth in private consumption (2.4% in 2016 versus 2.6% in 2015), while public consumption should grow at a slower pace (0.2% versus 0.6%). Growth is expected to diminish in both exports (from 5.2% to 4.3%) and imports (from 7.4% to 5.5%), while net exports will once again contribute negatively in 2016 (-0.6 p.p.).

From 2017 to 2020 the MF forecasts an acceleration in the economy of approximately 0.1 p.p. per year, reaching a GDP growth of 2.1% in 2020. Domestic demand continues to be the main driver of growth over the next four years, contributing slightly less than 2.0 p.p./year, while net exports will make almost no contribution. Private consumption should present a growth of 1.8% per year, whereas it is expected that public consumption records negative changes, particularly in 2018 and 2019. GFCF will record an annual growth over 4% throughout the forecast time horizon.

As for prices, the GDP deflator is expected to accelerate in 2016 (from 1.9% to 2.1%) followed by a deceleration and subsequent growth stabilisation at 1.5% per year in the medium-term. The main contributing factors will be:

i) the public consumption deflator, which will grow by 2.8% in 2016, as a consequence of the increase in public sector compensation of employees, before decelerating in 2017 to 0.7% and then levelling out at around 1.0%;
ii) the private consumption deflator should follow the path forecasted for the Harmonised Index of Consumer Prices (HICP) throughout the projection period, standing at 1.2% in 2016 and then accelerating gradually up to 1.8% in 2020. This projection assumes that inflation in Portugal will converge to the ECB inflation goal for the medium term; and
iii) the slow recovery in the imports deflator, which will reach positive growth in 2018 (1.7%) and will slowdown afterwards to just above 1% in the final two years of the projection period.

Nominal GDP results from the combination of price and volume changes. For 2016 the MF foresees a variation of 3.9%, which reflects both the positive changes in prices and the growth in volume. In the 2017-2020 period the nominal growth will be around 3.5%, of which the larger share will come from the volume effect, while the GDP deflator will contribute with 1.5 p.p.. The expected path for nominal GDP has a positive impact on the fiscal balance and public debt ratios, measured as a percentage of GDP.

In the labour market a continued decline in the unemployment rate is anticipated, reaching 9.0% of the active population in 2020. The MF expects the unemployment rate to fall by over 2.0 p.p. from 2016 to 2020. Employment growth should stay at around 1.0% in the same period. In 2016 the compensation per employee should increase 2.4% in nominal terms, contrary to the trend observed in the last two years. According to the MF, this pattern will continue in subsequent years, with compensation per employee growing around 2.0% per year. Deflating this series with GDP implicit prices, real compensation per employee will grow slower than the projected rate for apparent labour productivity.

Table 1 – 2016-2020 Stability Programme forecasts

	2015	2016	2017	2018	2019	2020
Real GDP and components (change, %)						
GDP	1.5	1.8	1.8	1.9	2.0	2.1
Private consumption	2.6	2.4	1.8	1.8	1.8	1.8
Public consumption	0.6	0.2	-0.7	-1.1	-1.2	-0.3
Investment (GFCF)	3.9	4.9	4.8	4.1	4.7	4.1
Exports	5.2	4.3	4.9	4.9	4.9	4.9
Imports	7.4	5.5	4.9	4.1	4.3	4.4
Contributions to real GDP growth (p.p.)						
Domestic demand	2.5	2.4	1.9	1.7	1.8	1.9
Net exports	-1.0	-0.6	-0.1	0.2	0.1	0.1
Prices (change, %)						
GDP deflator	1.9	2.1	1.6	1.5	1.5	1.5
Private consumption deflator	0.7	1.2	1.6	1.7	1.8	1.8
Public consumption deflator	0.5	2.8	0.7	1.2	1.0	1.0
GFCF deflator	0.6	0.2	0.3	0.6	0.8	0.9
Exports deflator	-1.0	1.0	0.4	1.7	1.2	1.1
Imports deflator	-4.1	-0.6	-0.4	1.7	1.2	1.1
HICP	0.5	1.2	1.6	1.7	1.8	1.8
Labour market (change, %)						
Unemployment rate (% active pop.)	12.4	11.4	10.9	10.4	9.8	9.0
Employment	1.4	0.8	0.7	1.0	1.0	1.2
Compensation per employee	-0.5	2.4	2.0	2.0	2.2	2.2
Apparent labour productivity	0.1	1.0	1.1	0.9	1.0	0.9
External sector (% GDP)						
Net lending	1.1	1.6	1.8	2.0	1.9	2.4
Current account	-0.1	0.4	0.6	0.8	0.7	1.0
Balance of goods and services	0.8	1.0	1.3	1.7	2.0	2.2
Balance of primary income and transfers	-0.9	-0.6	-0.8	-0.9	-1.3	-1.2
Capital account	1.2	1.2	1.2	1.2	1.2	1.4
Cyclical developments						
Potential GDP (change, %)	0.0	0.6	1.1	1.3	1.4	1.5
Output gap (% potential GDP)	-2.4	-1.3	-0.6	-0.1	0.5	1.0
Assumptions						
Foreign demand (change, %)	3.9	4.3	4.9	4.8	4.8	4.8
Short-term interest rate (%)	0.0	-0.2	-0.3	-0.2	-0.2	-0.2
EUR/USD exchange rate	1.1	1.1	1.1	1.1	1.1	1.1
Oil prices (Brent, Eur)	53.6	42.0	41.2	44.9	44.9	44.9

Source: MF – Information available on 19 April 2016.

The macroeconomic scenario projects a favourable path for the external sector. The country's net lending capacity will improve by 0.5 p.p. to 1.6% of GDP in 2016, and will show positive progress to 2.4% in 2020. The current account will contribute to this positive development in the coming years, driven by the dynamics of the goods and services account. The already negative balance on primary revenue and transfers (-0.9% in 2015) is expected to deteriorate further to -1.2% of GDP in 2020.

The 2016-2020 SP forecast points to a positive output gap in 2019 and 2020. The MF foresees potential output growth of 0.6% in 2016 (after a stagnation in 2015) followed by an upward path, reaching 1.5% in 2020. The output gap will evolve from -2.4% of potential output in 2015 to 1.0% in 2020.

The external assumptions regarding the Portuguese economy have a positive impact on the macroeconomic scenario. The external demand increases 1.0 p.p. from 2015 to 2017, and stabilises at an annual growth rate of 4.8% in the last three years of projection. It is assumed that the short-term interest rate (three-month Euribor) will remain negative over the reference period, settling at -0.2% from 2018 onwards. The euro-dollar exchange rate remains unchanged over the projection time horizon. Oil prices on the international markets are expected to drop in 2016 and 2017 (to 42.0 and 41.2 USD/barrel, respectively) and to increase to 44.9 USD/barrel from 2018 onwards.

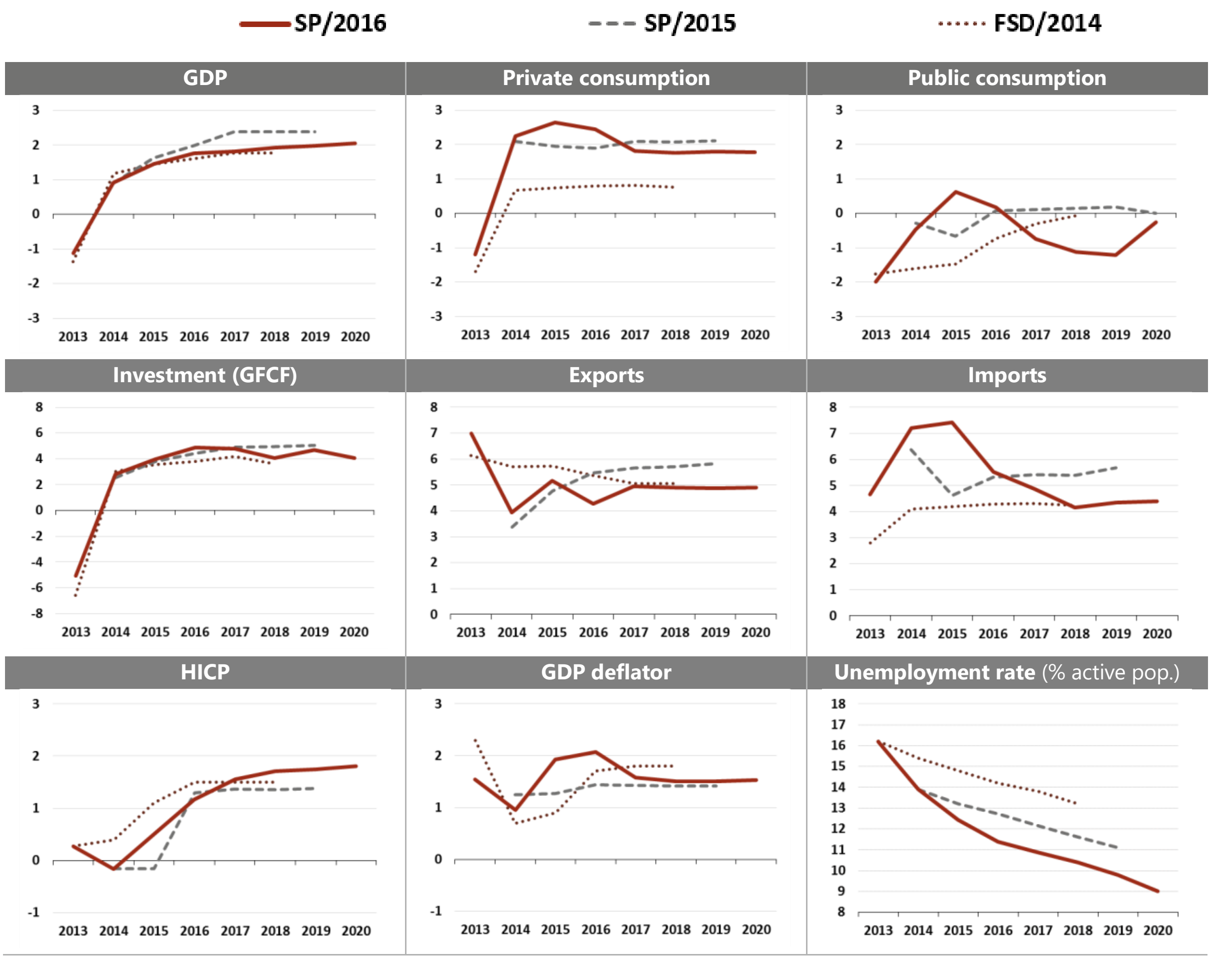
Conciliation with previous forecasts

This section compares the scenario under review with previous MF forecasts, published in April 2015 in the 2015-2019 Stability Programme (SP/2015). This section excludes the forecasts underlying SB/2016 because they do not differ from the macroeconomic scenario published in SP/2016 for this year.

The MF foresees a lower real economic growth for the period under review than in the SP/2015 scenario. The forecast of private consumption growth is lower from 2017 onwards, as is public consumption, which presents negative change (

Chart 1). The evolution of investment is slightly less favourable when compared to the SP/2015 forecast, despite greater growth in 2016 (4.9% compared to 4.4% forecasted previously). Net exports will only make a positive contribution to the GDP growth in 2018 and 2019, whereas SP/2015 estimated a positive contribution over the entire period. That difference may be explained by the lower forecast for exports growth (down by over 1.0 p.p. in 2016), which does not offset the downward revision of imports growth.

Chart 1 – Comparison of forecasts included in SP/2016, SP/2015 and FSD/2014 (change, %)



Source: MF – 2016-2020 SP; 2015-2019 SP and 2014-2018 FSD. | Note: The 2014-2018 FSD figures were adjusted by the CFP in line with the ESA 2010 benchmark (methodology described in Report nº 6/2014).

Compared to the SP/2015, the SP/2016 scenario expects a faster increase in prices and a swifter decrease in the unemployment rate:

- Real GDP growth is lower than projected in the SP/2015, returning to the values expected in the FSD/2014.
- Inflation and GDP deflator paths are now higher over the forecast period.
- The decrease in the unemployment rate is sharper, achieving in 2017 levels that under the SP/2015 were only expected for 2019 (10.9% of the active population in 2017 against 11.1% in 2019 under SP/2015).

Box 1 – Official forecasts for the Portuguese economy

The MF estimate for real GDP growth in 2016 (1.8%) is higher than the projections from the main official institutions (from 1.4% to 1.7%). On the one hand, this results from the other institutions' more modest projections for private consumption and GFCF (see Table 2 below and Table 3 in the annex). On the other hand, the MF foresees lower growth in public consumption than the other forecasters. Exports developments are aligned with the average of the published forecasts, while imports are 1.0 p.p. below the average. Thus, the MF expects external demand contribution to GDP growth (-0.6 p.p.) to be lower than the other institutions' forecasts, being offset by a larger contribution from domestic demand (2.4 p.p.). As for prices, the MF estimates higher growth for both the HICP (1.2%) and the GDP deflator (2.1%) than the average (0.7% and 1.3%, respectively). Regarding the unemployment rate and the growth in employment the MF forecasts are in line with the other institutions, but diverge on the plus side in the case of growth in compensation per employee. Finally, the MF's estimate of net lending is below that of the other forecasters, due to the less favourable performance of the current account.

For 2017 the MF foresees a GDP growth rate identical to the maximum among the range of other forecasts (1.8%), characterized by the decrease in public consumption and the higher growth in GFCF. From 2018 to 2020 the MF estimates for the GDP evolution are consistently higher than the official institutions', which is explained by a more favourable investment scenario that offsets the negative trend in public consumption.

The difference between the MF estimate and the average of the other institutions for inflation decreases over the projection period, although it remains positive (from 0.5 to 0.3 p.p. in 2020). In 2017-2018 the MF presents the highest rate for GDP deflator growth (1.6% and 1.5%), but in later years it is in line with the average. The MF's expectation of a more favourable goods and services account matches with its expectations concerning the performance of exports and imports. Finally, in the labour market the final two years of the projection are the most noteworthy since the MF forecasts differ from the others, in that the MF expects a lower unemployment rate and a higher employment growth, while the rise in compensation per employee is always higher than the average.

Note that the MF scenario already incorporates the final figures in the 2015 National Accounts and takes into account policy measures over the 2017-2020 period that the other institutions do not include in their projections, since some are drawn up under the no policy change scenario. The institutions' scenarios used in this exercise are detailed in Table 3 in the annex.

Table 2 – Comparison of the average official forecasts for the Portuguese economy with the SP/2016

	2015	2016		2017		2018		2019		2020	
		Official institutions	MF	Official institutions	MF	Official institutions	MF	Official institutions	MF	Official institutions	MF
Real GDP and components (change, %)											
GDP	1.5	1.6	1.8	1.6	1.8	1.5	1.9	1.4	2.0	1.3	2.1
Private consumption	2.6	2.0	2.4	1.9	1.8	1.7	1.8	-	1.8	-	1.8
Public consumption	0.6	0.5	0.2	0.4	-0.7	0.4	-1.1	-	-1.2	-	-0.3
Investment (GFCF)	3.9	2.4	4.9	3.6	4.8	3.4	4.1	-	4.7	-	4.1
Exports	5.2	4.4	4.3	4.9	4.9	4.4	4.9	3.9	4.9	3.9	4.9
Imports	7.4	4.5	5.5	5.2	4.9	4.5	4.1	3.8	4.3	3.9	4.4
Contributions to real GDP growth (p.p.)											
Domestic demand	2.5	1.8	2.4	1.8	1.9	-	1.7	-	1.8	-	1.9
Net exports	-1.0	-0.2	-0.6	-0.1	-0.1	-	0.2	-	0.1	-	0.1
Prices (change, %)											
GDP deflator	1.9	1.3	2.1	1.2	1.6	1.3	1.5	1.4	1.5	1.6	1.5
HICP	0.5	0.7	1.2	1.1	1.6	1.3	1.7	1.4	1.8	1.5	1.8
Nominal GDP											
Change (%)	3.4	2.9	3.9	2.7	3.4	2.7	3.5	2.8	3.5	3.0	3.6
Level ('000 M€)	179.4	184.3	192.7	189.4	199.3	195.4	206.1	201.0	213.4	207.0	221.1
Labour market (change, %)											
Unemployment rate (% active pop.)	12.4	11.5	11.4	10.9	10.9	10.5	10.4	10.1	9.8	9.7	9.0
Employment	1.4	0.9	0.8	0.7	0.7	-	1.0	-	1.0	-	1.2
Compensation per employee	-0.5	1.3	2.4	1.1	2.0	-	2.0	-	2.2	-	2.2
Apparent labour productivity	0.1	0.7	1.0	0.9	1.1	-	0.9	-	1.0	-	0.9
External sector (% GDP)											
Net lending	1.1	2.4	1.6	2.2	1.8	2.1	2.0	-	1.9	-	2.4
Current account	-0.1	0.8	0.4	0.6	0.6	0.4	0.8	0.2	0.7	0.1	1.0
Balance of goods and services	0.8	1.5	1.0	1.4	1.3	1.5	1.7	-	2.0	-	2.2
Cyclical developments											
Potential GDP (change, %)	0.0	0.6	0.6	0.9	1.1	-	1.3	-	1.4	-	1.5
Output gap (% potential GDP)	-2.4	-2.2	-1.3	-1.3	-0.6	-	-0.1	-	0.5	-	1.0
Assumptions											
Foreign demand (change, %)	-	4.2	4.3	4.7	4.9	4.3	4.8	-	4.8	-	4.8
Short-term interest rate (%)	0.0	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-	-0.2	-	-0.2
EUR/USD exchange rate	1.1	1.1	1.1	1.1	1.1	-	1.1	-	1.1	-	1.1
Oil prices (Brent, Eur)	48.3	36.0	38.5	40.4	36.8	41.4	40.1	-	40.1	-	40.1

Source: MF – 2016-2020 Stability Programme, April 2016; IMF – World Economic Outlook, April 2016; BoP – Projections for the Portuguese economy: 2016-2018, March 2016; CFP – Public Finance: Position and Constraints 2016-2020, March 2016; EC – Winter forecasts, February 2016; OECD – Economic Outlook No. 98, November 2015. | Note: the average is not presented when information is only available from one institution other than the MF.

3 ANALYSIS OF FORECASTS

The CFP was informed that, except for the impact of Community funds,[2] the SP/2016 scenario does not take into account the effects of other economic policy measures apart of those of fiscal nature disclosed in SB/2016, and so it has no connection to the measures contained in other economic strategy documents, such as the National Reform Programme. As the CFP has already mentioned, when evaluating the macroeconomic scenarios underlying Stability Programmes it is essential to examine the interdependence – in terms of diagnostics, strategies and impacts – of fiscal policy and other public policies in the more general context of economic policy. The fact that these measures were not taken into consideration means that, in some regards, it is difficult to interpret the path presented for the scenario in the SP/2016.

The CFP's analysis focus on two central themes: the short- and medium-term macroeconomic scenario risks; and the composition and path of economic growth in the medium-term.

The SP/2016 implies an increase in economic growth from 1.8% in 2016 to 2.1% in 2020 not taking into account the considerable short- and medium-term risks. The latest forecasts for the Portuguese economy point to a downward revision in the outlook for growth. According to the IMF reports published in April[3] the negative risks for the euro area economy are greater and there is growing uncertainty over the macroeconomic and financial situation, when compared to the previous assessment (in October 2015). If these risks materialize even in a mildly way, they would have a negative impact on the Portuguese economy's growth.

The MF has not revised the macroeconomic scenario for 2016 since the SB/2016 was published, despite the information currently available suggesting that this projection should be revised. It would be expected an adjustment in the estimate for 2016, not only to incorporate the latest information from leading economic indicators, but also because of the publication of the National Accounts for 2015, which contain figures that differ from those anticipated by the MF in the SB/2016 and therefore suggest a different evolution for the current year.

The dynamics of the private consumption deflator matches the HICP's trajectory, which assumes that inflation in Portugal will converge to the ECB's medium-term inflation goal. However, it must be stressed that the private consumption deflator presents a recovery swifter than the other deflators and it differs from other known comparable forecasts (see Table 2 and Table 3).

[2] According to the information provided by the MF, the macroeconomic scenario takes into account the investment that is expected to be leveraged by structural and investment funds under the Portugal 2020 Operational Programmes. Nonetheless, although requested, it was not possible to obtain the information required to identify the quantity, nature and distribution of such investment over the period under review.
[3] *World Economic Outlook*, April 2016 and *Global Financial Stability Report*, April 2016.

Given that the macroeconomic scenario for 2016 has not been revised, the risks identified in the CFP's Analysis of DSB/2016 and Opinion on the macroeconomic forecasts included in DBP/2016 still holds for the short term in the SP/2016. The greater risks identified are related to the expected role of private consumption growth as the main driver of the economy in the medium-term and the effects of uncertainty over the international outlook.

Private consumption

According to the forecasts included in the SP/2016 macroeconomic scenario, private consumption loses the ability to drive the economy as estimated in DSB/2016. The macroeconomic scenario underlying the budgetary plan, which the CFP analysed in January and March 2016, estimated an economic path based largely on an increase in household expenditure in 2016, which did not seem to be sustainable in the medium-term. The outlook for this aggregate in the SP/2016, which predicts annual increases of around 1.8% – lower than GDP growth – from 2017 onwards, is more in line with prudent economic policy management.

External demand and exports

The macroeconomic forecasts in the SP/2016 contain a high degree of uncertainty regarding the assumptions for the external demand, which influence the behaviour of various GDP components, in particular, exports and investment. The MF's assumption for external demand in 2016 is, albeit only slightly, above the average of the remaining forecasters and in line with the BoP's December forecast, which involves an acceleration of external demand greater than the latest figures would suggest, and may have a positive, unjustifiable impact on the growth path. From 2017 onwards the MF opted, as a simple technical assumption, to maintain that annual growth rate.

The forecast of exports growth in volume, at a constant rate of 4.9% per year, is based on the maintenance of the market share, thus matching the assumption made for the external demand development. The lack of economic grounds in the information given to the CFP weakens that forecast, which is relevant in terms of the exports' weight in GDP and given the importance that a balanced trade account has to macroeconomic stability.

Investment

The MF's forecast for growth in GFCF for the 2016-2020 period will be difficult to achieve and is essentially based on the realization of the investment amounts co-financed by European funds. The CFP has no information on the amount or distribution of the structural funds considered in the projection for financing the private sector investment. In the short-term, 4.9% growth in 2016 appears improbable given the latest economic indicators recently published, while at the same time the negative expectations and uncertainty are still visible in the international context. Expected growth in GFCF is higher than that of the remaining official forecasters — a sharp positive development, which does not appear to have a significant impact on other components, such as employment growth.

Public consumption

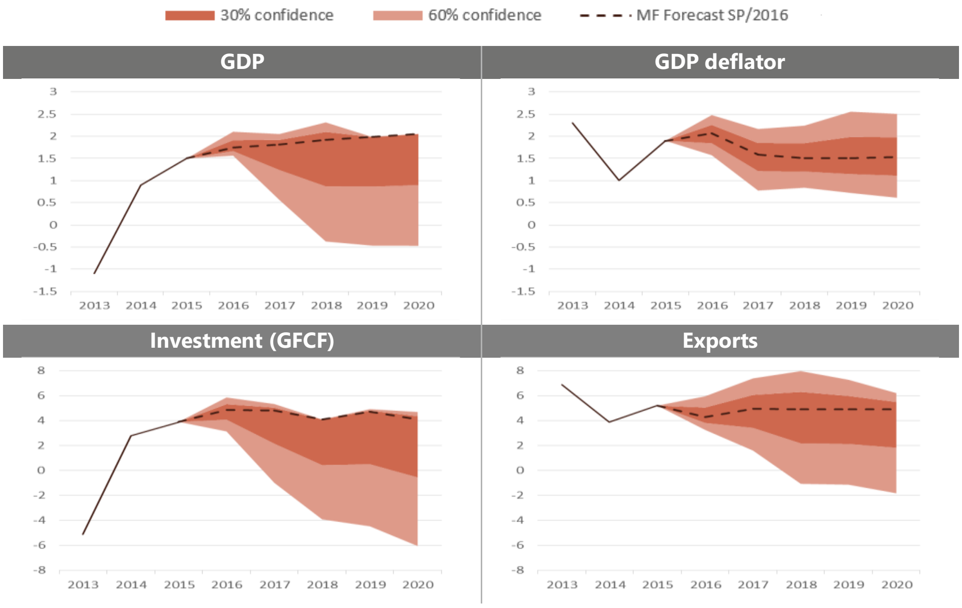
The volume of public consumption is expected to fall over the 2017-2020 period, explained by the introduction of rules to cut the number of civil servants and mainly by measures about which the CFP had received no details at the time this Opinion was completed. Previous experience shows that unspecified measures do not constitute sufficient grounds for the presented forecast.

Uncertainty

Despite the increase in GDP growth over the 2016-2020 period being lower than in previous Stability Programme scenarios, these projections bear a degree of uncertainty that is difficult to measure. On the basis of the Stability Programme and Fiscal Strategy Document reports from 1998 to 2015, the CFP has calculated the confidence intervals for the MF forecasts. Asymmetric forecast intervals were used, which assume a risk weighing probability that is different according to the occurrence of positive and negative deviations from the forecast.

The MF forecasting mechanism tends to be particularly optimistic for GDP and investment forecast, tends to produce unbiased forecasts for the GDP deflator and shows some optimism, namely in the medium-term, in the estimation of exports performance. The outcomes may result from systematically making more favourable assumptions or of the actual workings of the forecasting model. The data shown in Chart 2 cannot be interpreted as making any judgement as to the current or future quality of MF forecasts. However, they do show trends in regard to some variables which, based on past experience, are critical to any assessment of the forecasts. That information is relevant when framing the CFP's conclusions about the scenario to which this Opinion relates.

Chart 2 – Forecast intervals associated with MF forecasts (change, %)



Source: SP/2016; CFP – calculations based on the SP/FSD 1998-2015 reports.

4 CONCLUSION

The conclusions set out below take into account the principles of article 8 of the Budgetary Framework Law (Law no. 151/2015, of 11 September): "The budget projections underlying the budgetary programming documents shall be based on the most likely macroeconomic scenario or on a more prudent scenario". The same guiding principle for the use of realistic forecasts when conducting fiscal policy is also contained in European legislation, particularly in the Stability and Growth Pact and Council Directive 2011/85/EU of 8 November 2011 on the requirements for budgetary frameworks of the Member States.

As a result of the assessment of the macroeconomic forecasts underlying the 2016-2020 Stability Programme's draft, the Portuguese Public Finance Council concludes that:

1. **The CFP already gave its opinion on the forecasts included in the scenario for 2016 on 21 January and 1 March 2016. The data available since then not only confirms but also increases the risks highlighted at the time.**

2. **The composition of aggregate demand growth based on the dynamics of investment and exports from 2017 onwards, if observed, is more suitable for the Portuguese economy.**

3. **Over the forecasting period the CFP stresses the risks associated with:**
    a. **the prudence of the assumptions regarding the evolution of external demand and exports growth in the medium run;**

    b. **the fundamentals of the dynamics of investment.**

4. **The instability surrounding the Portuguese financial system carries a significant additional risk for the achieving of the macroeconomic scenario under examination.**

5. **The highlighted risks have consequences for the overall macroeconomic scenario and may require a revising of the expected fiscal outcomes. The greater risks concern the forecasts for the 2017-2020 period.**

6. **The perception of the forecast risks may be mitigated when the analysis of the macroeconomic scenario underlying the Stability Programme takes account of the full set of economic policy instruments aimed at the introduction of the structural reforms that the Portuguese economy still requires. Such analysis is especially relevant in the case of a document that is meant to define the fiscal policy stance for the life of the parliament. However, the Government has not provided the Portuguese Public Finance Council with the information required to take these into account.**

Table 3 – Details on official forecasts for the Portuguese economy

Year	2015	2016						2017						2018				2019			2020		
Institution		OECD	EC	CFP	BoP	IMF	MF	OECD	EC	CFP	BoP	IMF	MF	CFP	BoP	IMF	MF	CFP	IMF	MF	CFP	IMF	MF
Date		nov15	feb16	mar16	mar16	apr16	apr16	nov15	feb16	mar16	mar16	apr16	apr16	mar16	mar16	apr16	apr16	mar16	apr16	apr16	mar16	apr16	apr16
Real GDP and components (change, %)																							
GDP	1.5	1.6	1.6	1.7	1.5	1.4	1.8	1.5	1.8	1.7	1.7	1.3	1.8	1.6	1.6	1.2	1.9	1.6	1.2	2.0	1.5	1.2	2.1
Private consumption	2.6	1.6	1.9	2.7	1.8	-	2.4	1.5	1.8	2.4	1.9	-	1.8	2.1	1.3	-	1.8	2.0	-	1.8	2.0	-	1.8
Public consumption	0.6	0.5	0.4	0.2	1.1	-	0.2	0.4	0.4	0.3	0.4	-	-0.7	0.3	0.6	-	-1.1	0.3	-	-1.2	0.3	-	-0.3
Investment (GFCF)	3.9	3.0	3.0	3.1	0.7	-	4.9	2.6	4.7	2.4	4.5	-	4.8	2.4	4.5	-	4.1	2.2	-	4.7	1.9	-	4.1
Exports	5.2	5.9	4.3	4.9	2.2	4.8	4.3	5.5	5.3	4.2	5.1	4.2	4.9	4.0	4.8	4.3	4.9	3.6	4.3	4.9	3.3	4.4	4.9
Imports	7.4	6.0	4.9	5.5	2.1	4.3	5.5	5.4	6.0	4.4	5.6	4.4	4.9	4.1	4.9	4.5	4.1	3.3	4.3	4.3	3.4	4.4	4.4
Contributions to real GDP growth (p.p.)																							
Domestic demand	2.5	1.6	1.8	2.1	-	-	2.4	1.5	2.0	1.8	-	-	1.9	1.8	-	-	1.7	1.6	-	1.8	1.6	-	1.9
Net exports	-1.0	0.0	-0.2	-0.4	-	-	-0.6	0.0	-0.2	-0.2	-	-	-0.1	-0.2	-	-	0.2	0.0	-	0.1	-0.1	-	0.1
Prices (change, %)																							
GDP deflator	1.9	0.5	1.5	1.8	-	1.5	2.1	0.8	1.3	1.2	-	1.4	1.6	1.1	-	1.4	1.5	1.3	1.6	1.5	1.6	1.7	1.5
Private consumption deflator	0.7	0.4	0.7	0.9	-	-	1.2	0.7	1.1	1.0	-	-	1.6	1.2	-	-	1.7	1.4	-	1.8	1.6	-	1.8
Public consumption deflator	0.5	1.5	1.6	2.3	-	-	2.8	1.0	1.3	0.8	-	-	0.7	1.1	-	-	1.2	1.6	-	1.0	1.9	-	1.0
GFCF deflator	0.6	0.9	0.4	0.7	-	-	0.2	1.3	0.5	0.9	-	-	0.3	1.2	-	-	0.6	1.6	-	0.8	1.8	-	0.9
Exports deflator	-1.0	0.6	-0.4	-0.2	-	-	1.0	0.7	1.1	1.0	-	-	0.4	1.0	-	-	1.7	1.2	-	1.2	1.5	-	1.1
Imports deflator	-4.1	1.1	-2.0	-1.4	-	-	-0.6	0.7	0.3	0.9	-	-	-0.4	1.3	-	-	1.7	1.6	-	1.2	1.7	-	1.1
HICP	0.5	0.7	0.7	0.9	0.5	0.7	1.2	1.0	1.1	1.0	1.4	1.2	1.6	1.1	1.6	1.4	1.7	1.2	1.5	1.8	1.4	1.6	1.8
Nominal GDP																							
Change (%)	3.4	2.1	3.1	3.5	-	2.9	3.9	2.3	3.2	2.8	-	2.7	3.4	2.8	-	2.6	3.5	3.0	2.7	3.5	3.2	2.8	3.6
Level ('000 M€)	179.4	182.5	184.4	185.8	-	184.6	192.7	186.6	190.3	191.0	-	189.6	199.3	196.3	-	194.5	206.1	202.1	199.8	213.4	208.6	205.5	221.1
Labour market (change, %)																							
Unemployment rate (% active pop.)	12.4	11.3	11.7	11.6	-	11.6	11.4	10.6	10.8	10.9	-	11.1	10.9	10.4	-	10.7	10.4	10.0	10.2	9.8	9.6	9.8	9.0
Employment	1.4	0.9	0.8	1.0	-	1.0	0.8	0.5	0.7	0.9	-	0.5	0.7	0.7	-	-	1.0	0.6	-	1.0	0.5	-	1.2
Compensation of employees	1.3	1.4	2.4	2.8	-	-	3.1	1.6	2.1	1.7	-	-	2.7	0.9	-	-	2.9	1.1	-	3.1	1.4	-	3.3
Compensation per employee	-0.5	0.5	1.6	1.7	-	-	2.4	1.1	1.4	0.8	-	-	2.0	0.2	-	-	2.0	0.5	-	2.2	0.9	-	2.2
Apparent labour productivity	0.1	0.7	0.8	0.7	-	-	1.0	1.0	1.1	0.8	-	-	1.1	0.9	-	-	0.9	1.0	-	1.0	1.0	-	0.9
External sector (% GDP)																							
Net lending	1.1	-	2.4	1.9	2.9	-	1.6	-	2.4	2.0	2.3	-	1.8	1.8	2.3	-	2.0	1.8	-	1.9	1.7	-	2.4
Current account	-0.1	0.5	1.1	0.8	-	0.9	0.4	0.2	1.1	0.9	-	0.4	0.6	0.7	-	0.1	0.8	0.6	-0.2	0.7	0.6	-0.4	1.0
Balance of goods and services	0.8	0.9	1.5	1.1	2.6	-	1.0	0.9	1.6	1.1	2.1	-	1.3	0.9	2.0	-	1.7	0.9	-	2.0	0.8	-	2.2
Balance of primary income and transfers	-0.9	-0.4	-0.4	-0.3	-	-	-0.6	-0.7	-0.5	-0.3	-	-	-0.8	-0.2	-	-	-0.9	-0.2	-	-1.3	-0.2	-	-1.2
Capital account	1.2	-	1.3	1.1	-	-	1.2	-	1.3	1.1	-	-	1.2	1.1	-	-	1.2	1.1	-	1.2	1.1	-	1.4
Cyclical developments																							
Potential GDP (change, %)	0.0	0.8	0.3	0.6	-	-	0.6	1.1	0.7	1.0	-	-	1.1	1.1	-	-	1.3	1.1	-	1.4	1.2	-	1.5
Output gap (% potential GDP)	-2.4	-4.6	-1.1	-1.3	-	-2.0	-1.3	-3.5	0.0	-0.6	-	-1.2	-0.6	-0.1	-	-	-0.1	0.4	-	0.5	0.6	-	1.0
Assumptions																							
Foreign demand (change, %)	-	4.2	4.8	3.8	3.9	-	4.3	5.1	5.1	3.8	4.9	-	4.9	3.9	4.8	-	4.8	4.0	-	4.8	4.0	-	4.8
Short-term interest rate (%)	0.0	0.0	-0.2	-0.3	-0.3	-	-0.2	0.1	-0.2	-0.3	-0.3	-	-0.3	-0.2	-0.2	-	-0.2	0.0	-	-0.2	0.1	-	-0.2
EUR/USD exchange rate	1.1	1.1	1.1	-	1.1	-	1.1	1.1	1.1	-	1.1	-	1.1	-	1.1	-	1.1	-	-	1.1	-	-	1.1
Oil prices (Brent, Eur)	48.3	44.8	33.0	35.0	31.3	-	38.5	44.8	39.2	40.6	36.9	-	36.8	42.6	40.2	-	40.1	44.0	-	40.1	45.2	-	40.1
Oil prices (Brent, USD)	53.6	50.0	35.8	-	34.9	36.1	42.0	50.0	42.5	-	41.2	42.2	41.2	-	44.9	45.4	44.9	-	47.8	44.9	-	49.6	44.9

Source: IMF - *World Economic Outlook*, October 2015; EC – Autumn economic forecasts, November 2015; OECD – Economic Outlook No 98, November 2015; BoP – Economic Bulletin, December 2015; MF – Draft Budgetary Plan 2016, January 2016