Conselho das Finanças Públicas

Portuguese Public Finance Council

Macroeconomic forecasts underlying the 2019-2023 Stability Programmeme

Opinion of the Portuguese Public Finance Council

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

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

This Opinion uses the information available up to 11 April 2019.

INTRODUCTION

This Opinion relates to the macroeconomic forecasts underlying the draft 2019-2023 Stability Programme (SP/2019), and 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]

Pursuant to the aforesaid Memorandum of Understanding (MoU), on 18 February the Government formally informed the Portuguese Public Finance Council (CFP) that the SP/2019 would be presented to Parliament on 15 April ("D" day for the purposes of the calendar included in section 5 of the MoU).

On 18 March the CFP received a draft of the macroeconomic forecasts under a no-policy change scenario. Given their nature and contents, the CFP felt it was necessary to comply with stage 3 of the process, and so on 22 March it sent an unpublished optional technical document as a first reaction to this trend-based scenario. On 1 April the Ministry of Finance (MF) sent to the CFP a new version of the macroeconomic forecasts under the no-policy-change scenario and the macroeconomic forecasts under the programmatic scenario, *i.e.*, taking into account the policy measures forecast by the Government in the document under analysis.

On 2 April, a meeting between the MF and CFP teams was held at which the former presented a summary of the two scenarios, a table identifying and providing preliminary quantification of the measures considered and answers to the questions raised in the CFP's first reaction to the no-policy-change scenario. At this meeting the CFP requested additional information regarding the assumptions made by the MF and the nature of the judgements implicit in the forecasts and the paths of the scenario's main variables.

On 9 April the MF sent a new version of the no-policy-change scenario, that partially incorporated the questions raised by the CFP at the technical meeting, and the final version of the macroeconomic forecasts under the programmatic scenario, which included new information on policy measures that had not been described in detail.

This Opinion relates to the figures considered by the MF regarding the external and technical assumptions, and to the macroeconomic forecasts underlying the programmatic scenario sent to the CFP on 9 April. Table 1 shows the main indicators which result from the latest information provided to the CFP by the MF at this Opinion's cut-off date.

The methodology and analytical process used to produce this Opinion are described in the aforesaid MoU. The CFP employed the following means to analyse the macroeconomic forecasts underlying SP/2019:

[1] Available at the CFP website.

a) Analysis of those forecasts by CFP technical staff;
b) Comparison with the projections produced by benchmark institutions: European Commission (EC), Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), Banco de Portugal (BdP) and CFP;
c) The latest available statistics produced by the national statistical authorities – Statistics Portugal (INE) and BdP;
d) Verbal and technical clarifications provided by the MF relating to its forecasts.

The CFP's analysis is based on the SEC2010 figures published by the INE (2011 base), which will be revised in September of this year and will take as a reference a new Portuguese National Accounts base (2016 base).

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MINISTRY OF FINANCE FORECASTS

Macroeconomic scenario underlying the 2019-2023 Stability Programme

The macroeconomic scenario underlying SP/2019 estimates a gradual rise in economic growth up to 2023, following a slight slowdown expected for 2019. It includes a downward revision in growth across the entire time period compared to the previous SP (SP/2018), as well as a revision of the growth path, which now rises slightly. The stable growth forecast for private consumption at around 2.0% and the sustained and sharp growth in exports support the predicted growth dynamics.

For 2019 the MF foresees real GDP growth of 1.9%, which is below the 2.1% growth observed in 2018. The predicted slowdown is due to a drop in the contribution of domestic demand (from 2.8 p.p. in 2018 to 2.1 p.p. in 2019), as a result of the lower growth rates forecast for private consumption and public consumption. According to the MF forecasts, private consumption growth rate should fall by 0.7 p.p. (recording 1.8% in 2019) while public consumption growth rate should drop by 0.6 p.p. to 0.2%. On the other hand, gross fixed capital formation (GFCF) should record an increase, going from 4.4% in 2018 to 5.3% in 2019. The scenario foresees exports growth rising in 2019 (from 3.6% in 2018 to 3.8% in 2019) and a sharp slowdown in imports growth (from 4.9% in 2018 to 3.9% in 2019). Thus, the contribution of net exports to GDP growth increases by 0.5 p.p., changing from -0.7 p.p. in 2018 to -0.2 p.p. in 2019.

For the 2020-2023 period, the MF expects real GDP growth to rise gradually from 1.9% in 2020 to 2.1% in 2023. This performance is due, in part, to the small increase in the contribution of domestic demand, which changes from 2.1 p.p. in 2020 to 2.2 p.p. in 2021, before stabilising over the rest of the projection time horizon. This reflects the moderate increase in the rate of growth in private consumption (from 1.8% in 2020 to 2.0% in 2021, to be followed by stabilisation at around 1.9% up to 2023), a rate of growth in public consumption at around 0.5% in the medium-term and a slight decline in growth in GFCF from 4.9% in 2020 to 4.5% in 2021, a rate which continues in the medium-term. According to the MF, the contribution of net exports should remain at -0.2 p.p. in 2020 and 2021, before recovering slightly to -0.1 p.p. thereafter. This performance is due to the steady rise in exports growth in the medium-term, from 3.8% in 2020 to 3.9% in 2022 and 2023, following a slight slowdown of 0.1 p.p. forecast for 2021, and to the rate of growth in imports remaining at 3.9% throughout the time horizon in question.

Table 1 – Macroeconomic forecasts underlying the SP/2019

	2018	2019	2020	2021	2022	2023
Real GDP and components (change, %)						
GDP	2.1	1.9	1.9	2.0	2.0	2.1
Private consumption	2.5	1.8	1.8	2.0	1.9	1.9
Government consumption	0.8	0.2	0.6	0.5	0.5	0.5
Investment (GFCF)	4.4	5.3	4.9	4.5	4.5	4.5
Exports	3.6	3.8	3.8	3.7	3.9	3.9
Imports	4.9	3.9	3.9	3.9	3.9	3.9
Contributions to real GDP change (p.p.)						
Domestic demand	2.8	2.1	2.1	2.2	2.2	2.2
Net exports	-0.7	-0.2	-0.2	-0.2	-0.1	-0.1
Prices (change, %)						
GDP deflator	1.4	1.5	1.5	1.6	1.5	1.5
Private consumption deflator	1.2	1.3	1.4	1.5	1.5	1.5
Public consumption deflator	1.8	1.4	1.6	1.6	1.5	1.1
GFCF deflator	2.0	1.2	1.2	1.1	1.0	1.1
Exports deflator	2.0	1.3	1.4	1.4	1.3	1.3
Imports deflator	2.4	1.1	1.3	1.3	1.3	1.3
HICP	1.2	1.4	1.5	1.6	1.5	1.6
Nominal GDP						
Change (%)	3.6	3.4	3.5	3.6	3.5	3.5
Labour market (change, %)						
Unemployment rate (% active pop.)	7.0	6.6	6.3	5.9	5.6	5.4
Employment	2.3	0.6	0.6	0.6	0.6	0.4
Compensation per employee	2.1	2.7	3.0	3.2	3.2	3.2
Labour productivity	-0.2	1.3	1.3	1.4	1.4	1.6
External sector (% GDP)						
Net lending / net borrowing, total economy	0.2	0.4	0.5	1.0	0.6	0.6
Balance of goods and services	0.1	0.2	0.2	0.2	0.2	0.2
Balance of primary income and transfers	-1.0	-1.0	-0.9	-0.4	-0.8	-0.8
Capital account	1.0	1.2	1.2	1.2	1.2	1.2
Net lending / net borrowing, private sector	0.6	0.6	0.3	0.1	-0.1	-0.1
General government balance	-0.5	-0.2	0.3	0.9	0.7	0.7
Cyclical developments						
Potential GDP (change, %)	1.9	2.0	2.0	2.0	2.0	2.0
Output gap (% potential GDP)	0.8	0.7	0.6	0.6	0.6	0.7
Assumptions						
Foreign demand (change, %)	3.5	3.3	3.5	3.5	3.6	3.6
Short-term interest rate (annual average, %)	-0.3	-0.3	-0.1	0.2	0.3	0.4
EUR-USD exchange rate (annual average)	1.18	1.14	1.14	1.14	1.14	1.14
Oil price (Brent, USD/barrel)	71.5	66.0	65.5	63.5	61.9	61.1

Source: MF – Information provided on 9 April 2019.

As for price developments, the scenario published in SP/2019 foresees that the rate of growth of the GDP deflator will increase slightly from 1.4% in 2018 to 1.5% in 2019 and will remain at around that level over the entire forecast time horizon. According to the MF, the private consumption deflator will go from 1.2% in 2018 to 1.3% in 2019, and then increase steadily to 1.5% in the medium-term. The forecast development in the Harmonised Index of Consumer Prices (HICP) rises from 1.2% in 2018 to 1.4% in 2019, and it will see average annual increases of +0.1 p.p. over the forecast time horizon, until it reaches 1.6% in 2023. While growth in the public consumption deflator (an indicator strongly influenced by the behaviour of general government salaries) will move in the opposite direction and should drop from 1.8% in 2018 to 1.4% in 2019, before rising to 1.6% in 2020 and 2021, only to be followed by a new dip to 1.5% and 1.1% in 2022 and 2023, respectively. Similarly, the MF predicts the rate of growth in the GFCF deflator will fall from 2.0% in 2018 to 1.2% in 2019 and 2020, before dropping to a figure of around 1.1% in the medium-term. In 2019, the decline in growth in the exports' deflator should be less than that in the imports' deflator (-0.7 p.p. compared to -1.3 p.p.). Therefore, the MF scenario assumes there will be gains in the terms of trade in 2019 that will continue into 2021, before dissipating in the medium-term.

As a result of the MF forecast development for real GDP growth and the deflator, the rate of nominal GDP growth will drop from 3.6% in 2018 to 3.4% in 2019, and then stabilise at around 3.5% in the medium-term.

In general, the variables relating to the labour market will perform favourably over the projection time horizon. In 2019 the unemployment rate should fall by 0.4 p.p. to 6.6% of the active population, and then drop steadily until it reaches 5.4% in 2023. At the same time, employment will continue to grow, although at a rate 1.7 p.p. lower than in 2018, which implies a growth of 0.6% in 2019. The MF estimates this rate of growth will continue up until 2022, to be followed by a drop to 0.4% in 2023. As for nominal average earnings per employee, they should follow an upward path, increasing by 0.6 p.p. in 2019 to 2.7% and 0.3 p.p. to 3.0% in 2020, and stabilising at around 3.2% in the medium-term. Given the forecast performance of HICP, in 2019 real average earnings per employee should grow at the same rate as apparent labour productivity (1.3%). For the remaining years, the MF foresees real average earnings per employee growing 0.2 p.p. above the growth in productivity up to 2022.

As for the external sector, the MF scenario points to an improvement up to 2021, followed by a slight deterioration, before stabilising at the end of the projection time horizon. Thus, the net external borrowing requirement forecast for 2019 is 0.4% of GDP, which represents a 0.2 p.p. improvement in comparison to the previous year. In 2020 and 2021, the MF foresees a net borrowing requirement of 0.5% and 1.0% of GDP, respectively, stabilising at 0.6% of GDP from 2022. This performance is brought about mainly by the behaviour of the income and transfers account, which records a +0.6 p.p. of GDP improvement from 2019 to 2021 (reaching -0.4% of GDP in that year), although it will deteriorate in subsequent years, reaching -0.8% of GDP in 2023. The capital account will also improve in 2019, to stand at 1.2% of GDP (+0.2 p.p. compared to 2018), and it is expected to remain at this level throughout the projection time horizon. As for the goods and services account it should see a slight improvement in 2019 (+0.1 p.p. to 0.2% of GDP) and then stabilise at around that figure in subsequent years.

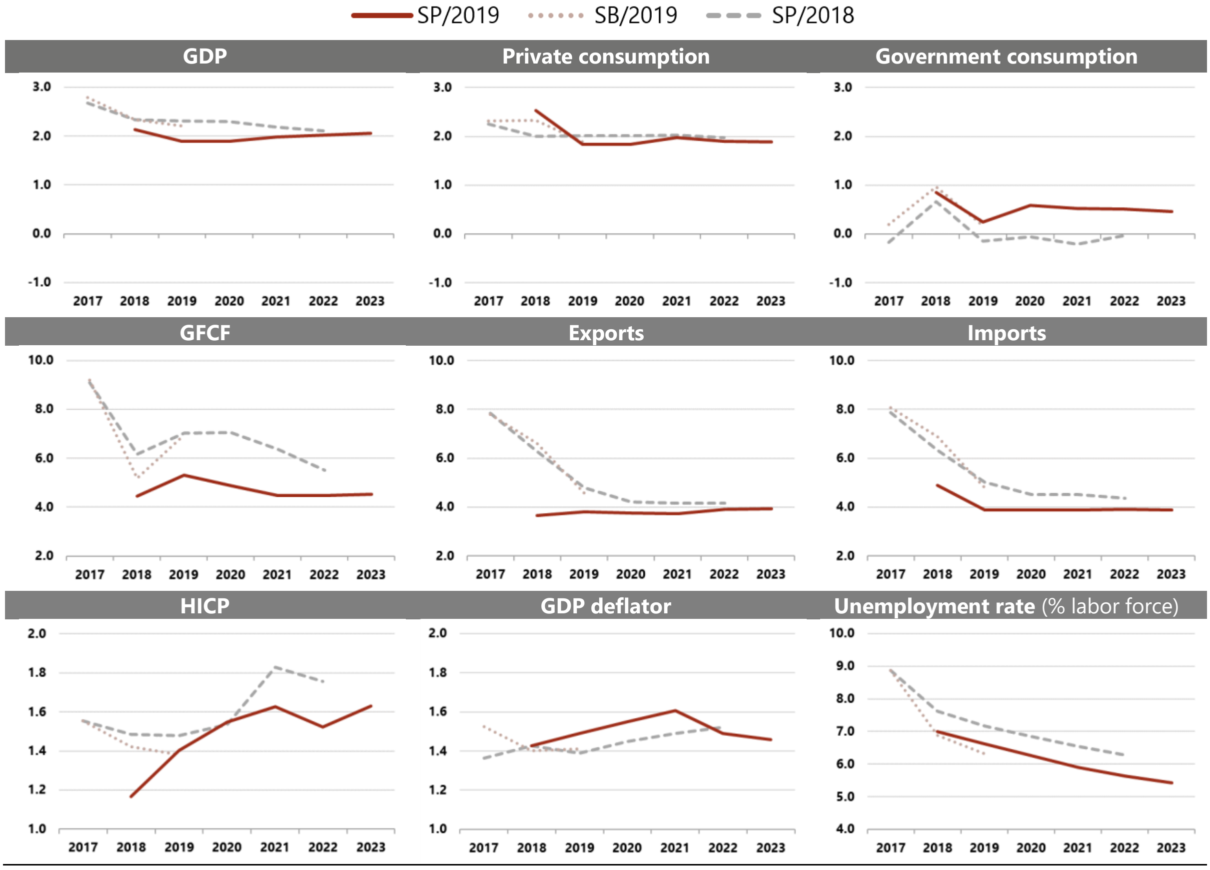
In terms of cyclical developments, the scenario underlying SP/2019 points to a slight rise in potential GDP to 2.0% in 2019 (compared to 1.9% in 2018), which will stabilise until the end of the forecast period. At the same time the output gap will gradually decrease from 0.8% of potential GDP in 2018 to 0.6% in 2020, and then stabilise at around this level in the medium-term. According to the information provided by the MF, this robust growth of potential GDP stems from the impact of the structural reforms introduced in the country in recent years.

Comparison with previous MF forecasts

This section compares the scenario published in the SP/2019 with earlier MF forecasts, namely those underlying the SB/2019 and the SP/2018.

For 2019, the MF has revised downwards its estimate for GDP growth by volume (to 1.9%) compared to the scenario underlying the SB/2019 (which pointed to 2.1%) and the scenario published in SP/2018 (2.2%). This downward revision in growth applies to most GDP components. GFCF is the GDP component that records the largest revision in 2019, as its growth rate has been revised from 7.0% in both the SB/2019 and the SP/2018 to 5.3% in the scenario underlying the SP/2019.

Chart 1 – Comparison of forecasts included in SP/2019, SB/2019 and SP/2018 (change, %)



Source: MF – SP/2019, SB/2019 and SP/2018.

The rate of growth in private consumption forecast in the SP/2019 (1.8%) represents a slight revision compared to the figures in the SB/2019 and the SP/2018 (of -0.1 p.p. and -0.2 p.p., respectively). Growth rates of exports (a rate of change of 3.8%) are also revised downwards in the forecast in the SB/2019 (-0.8 p.p.) and the SP/2018 (-1.0 p.p.). The figure relating to the rate of change in imports (3.9%) is subject to similar revisions (-0.9 p.p. compared to SB/2019 and -1.1 p.p. compared to SP/2018), while under the current scenario, real growth in public consumption (0.2%) has been revised upwards compared to the SP/2018 (+0.3 p.p.).

For the period after 2019, GDP growth is revised downwards, although it converges to a growth rate similar to that published in the SP/2018 for the end of the time horizon (2.1%), which implies a change in the GDP growth path, which now rises instead of falling. The current forecasts for private consumption, GFCF and exports are more moderate than those set out in the scenario underlying the SP/2018. Thus, the MF predicts private consumption and GFCF will grow at average annual rates of 1.9% and 4.6%, respectively (that is, -0.1 p.p. and -1.7 p.p. compared to the SP/2018) while exports are expected to see average annual growth of 3.8% (-0.4 p.p. in comparison to the SP/2018). On average, imports are revised downwards (0.6 p.p. compared to the SP/2018) to 3.9% growth per year. The forecast performance of public consumption is once again revised upwards compared to the SP/2018 scenario, since this GDP component is expected to grow by an average of 0.5% per year, which contrasts with the contraction forecast in the SP/2018 (an average of -0.1%).

Regarding the prices, the forecast for the HICP in 2019 remains unchanged compared to the SB/2019 and revised slightly downwards compared to the SP/2018 throughout the projection time horizon (-0.2 p.p. on average). The forecast for the GDP deflator is revised slightly upwards (+0.1 p.p.) compared to the SB/2019 and the SP/2018, while it converges on the figures published in SP/2018 throughout the time horizon.

As for the unemployment rate, the SP/2019 includes a slight upward revision compared to the SB/2019 of 0.3 p.p. to 6.6% of the active population in 2019. For 2020-2022 the current scenario foresees a sharper decline in the unemployment rate compared to the SP/2018, and it is expected to reach 5.6% of the active population in 2022 (6.3% in the SP/2018).

Box 1 – Forecasts and projections for the Portuguese economy

For 2019 the MF predicts real GDP growth within the projection ranges published by the institutions considered by the CFP and set out in Table 2, although the latest estimates project more moderate economic growth. In fact, the MF forecast (1.9%) is higher than the projections of the European Commission (1.7%), the Banco de Portugal (1.7%), the International Monetary Fund (1.7%) and the Portuguese Public Finance Council (1.6%), and is only lower than the figure projected by the Organisation for Economic Cooperation and Development in November of last year (2.1%). For 2020, the MF expects the rate of change in GDP to stabilise at 1.9%, before rising to 2% in 2021, a growth rate that will continue the following year, and will rise again to 2.1% in 2023. This real output growth path does not match any projection of the other institutions, as no other scenario expects the rate of economic growth at the end of its time horizon to be higher than the figure put forward for 2019. Accordingly, in 2023 the MF predicts real GDP growth to be 0.7 p.p. above both the IMF (1.4%) and the CFP (1.4%) projections.

The boost to the economy forecast by the MF from 2019 to 2021 is based on an increase in domestic demand's contribution from 2.1 p.p. to 2.2 p.p. and according to the scenario set out in the SP/2019, it reflects a rise in the growth rates of both private consumption (1.8% in 2019 *vs*. 2.0% in 2021) and public consumption (0.2% in 2019 *vs*. 0.5% in 2021), while growth in GFCF is expected to fall from 5.3% to 4.5% over the same period. The BdP expects the rate of growth in private consumption to rise from 2.7% in 2019 to 1.6% in 2021 and that of public consumption to slow from 0.3% to 0.2%. Likewise, the CFP scenario estimates a decline in growth in both private consumption (2.0% in 2019 to 1.5% in 2021) and public consumption (0.5% in 2019 to 0.4% in 2021). As for external trade, the MF expects that up to the end of the projection time horizon net exports will make a less negative contribution to GDP growth (-0.2 p.p. in 2019 *vs*. -0.1 p.p. in 2023), as the annual growth rates of exports and imports converge, standing at 3.9% in 2023. However, it should be noted that both the IMF and the CFP expect the rate of growth in imports to exceed that of exports in 2023, and the CFP projects that net exports will have a negative contribution of around 0.3 p.p..

Regarding the prices, the MF foresees a slight rise in inflation over the forecast time horizon (from 1.4% in 2019 to 1.6% in 2023), which is in line with the figures expected by the CFP and below the 1.9% foreseen by the IMF. Under the MF scenario, the rate of change in the GDP deflator should remain practically unchanged at 1.5% from 2019 to 2023, which is also the case under the IMF scenario which foresees its stabilisation throughout the projection time horizon (1.7%). Thus, in 2023 the MF's forecast for the GDP deflator growth rate is 0.2 p.p. lower than the CFP (1.7%) and IMF (1.7%) projections. Regarding the labour market, the MF, along with the other institutions, expects the unemployment rate to continue to fall, from 6.6% of the active population in 2019 to 5.4% in 2023, as well as annual growth in employment of around 0.6% from 2019 to 2022 followed by a dip in its rate of change to 0.4% in 2023. For 2019 and 2020 the MF foresees a lower growth rate for employment compared to other the institutions, although it is more optimistic than the BdP (0.4%) and the CFP (0.4%) in terms of the rate of change in employment in 2021 (0.6%).

In 2019 and 2020, the MF expects the economy net lending to remain at 0.4% of GDP and 0.5% of GDP, respectively. In both years the forecast falls within the range of the known projections. From 2021 onwards the MF provides the most optimistic forecast for the economy net lending (Table 2).

The MF scenario takes into account policy measures for 2019-2023 that the projection exercises of the other institutions do not, and some of them were produced using the no-policy-change assumption.

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Table 2 – Projections and forecasts for the Portuguese economy

Year	2018	2019						2020						2021				2022			2023			2024
Institution and publication		OECD	EC	CFP	BdP	IMF	MF	OECD	EC	CFP	BdP	IMF	MF	CFP	BdP	IMF	MF	CFP	IMF	MF	CFP	IMF	MF	IMF
Publication date		Nov18	Feb19	Mar19	Mar19	Apr19	Apr19	Nov18	Feb19	Mar19	Mar19	Apr19	Apr19	Mar19	Mar19	Apr19	Apr19	Mar19	Apr19	Apr19	Mar19	Apr19	Apr19	Apr19
Real GDP and components (change, %)																								
GDP	2.1	2.1	1.7	1.6	1.7	1.7	1.9	1.9	1.7	1.6	1.7	1.5	1.9	1.5	1.6	1.4	2.0	1.5	1.4	2.0	1.4	1.4	2.1	1.4
Private consumption	2.5	1.8	-	2.0	2.7	-	1.8	2.0	-	1.7	1.9	-	1.8	1.5	1.6	-	2.0	1.5	-	1.9	1.4	-	1.9	-
Public consumption	0.8	0.2	-	0.5	0.3	-	0.2	-0.3	-	0.4	0.2	-	0.6	0.4	0.2	-	0.5	0.4	-	0.5	0.5	-	0.5	-
Investment (GFCF)	4.4	6.0	-	5.4	6.8	-	5.3	5.0	-	4.2	5.8	-	4.9	3.8	5.2	-	4.5	3.4	-	4.5	3.0	-	4.5	-
Exports	3.6	4.3	-	3.9	3.8	4.1	3.8	4.0	-	3.4	3.7	4.1	3.8	3.3	3.6	3.9	3.7	3.2	3.8	3.9	2.6	3.8	3.9	3.8
Imports	4.9	4.8	-	4.0	6.3	5.2	3.9	4.5	-	3.7	4.7	4.7	3.9	3.6	4.1	4.2	3.9	3.6	4.1	3.9	2.9	4.1	3.9	4.1
Contributions to real GDP growth (p.p.)																								
Domestic demand	2.8	2.2	-	2.0	-	-	2.1	2.1	-	1.9	-	-	2.1	1.8	-	-	2.2	1.8	-	2.2	1.7	-	2.2	-
Net exports	-0.7	-0.2	-	-0.2	-	-	-0.2	-0.2	-	-0.3	-	-	-0.2	-0.3	-	-	-0.2	-0.3	-	-0.1	-0.3	-	-0.1	-
Prices (change, %)																								
GDP deflator	1.4	1.4	-	1.8	-	1.7	1.5	1.4	-	1.7	-	1.7	1.5	1.6	-	1.7	1.6	1.6	1.7	1.5	1.7	1.7	1.5	1.7
Private consumption deflator	1.2	1.4	-	1.4	-	-	1.3	1.4	-	1.5	-	-	1.4	1.5	-	-	1.5	1.6	-	1.5	1.6	-	1.5	-
Public consumption deflator	1.8	1.3	-	2.1	-	-	1.4	1.4	-	2.1	-	-	1.6	1.1	-	-	1.6	1.1	-	1.5	1.1	-	1.1	-
GFCF deflator	2.0	1.3	-	1.6	-	-	1.2	1.4	-	1.6	-	-	1.2	1.6	-	-	1.1	1.6	-	1.0	1.7	-	1.1	-
Exports deflator	2.0	0.6	-	1.6	-	-	1.3	0.7	-	1.6	-	-	1.4	1.7	-	-	1.4	1.9	-	1.3	1.9	-	1.3	-
Imports deflator	2.4	0.5	-	1.9	-	-	1.1	0.6	-	1.6	-	-	1.3	1.6	-	-	1.3	1.8	-	1.3	1.8	-	1.3	-
HICP	1.2	1.5	1.3	1.2	0.8	1.0	1.4	1.4	1.6	1.4	1.2	1.7	1.5	1.4	1.3	1.7	1.6	1.5	1.8	1.5	1.6	1.9	1.6	2.0
Nominal GDP																								
Change (%)	3.6	3.5	-	3.4	-	3.4	3.4	3.4	-	3.3	-	3.2	3.5	3.1	-	3.1	3.6	3.1	3.2	3.5	3.1	3.1	3.5	3.1
Level ('000 M€)	201.6	208.7	-	208.5	-	208.8	208.5	215.8	-	215.4	-	215.5	215.7	222.1	-	222.3	223.5	229.0	229.3	231.4	236.0	236.4	239.6	243.8
Labour market (change, %)																								
Unemployment rate (% active pop.)	7.0	6.4	-	6.1	6.1	6.8	6.6	5.7	-	5.8	5.5	6.3	6.3	5.6	5.2	6.1	5.9	5.6	6.0	5.6	5.6	5.9	5.4	5.9
Employment	2.3	1.1	-	1.1	1.5	1.2	0.6	1.1	-	0.6	0.9	0.7	0.6	0.4	0.4	-	0.6	0.3	-	0.6	0.3	-	0.4	-
Compensation per employee	2.0	2.5	-	2.3	-	-	2.7	2.9	-	2.5	-	-	3.0	2.5	-	-	3.2	2.7	-	3.2	2.7	-	3.2	-
Apparent labour productivity	-0.2	0.9	-	0.5	-	-	1.3	0.9	-	1.0	-	-	1.3	1.1	-	-	1.4	1.2	-	1.4	1.1	-	1.6	-
External sector (% GDP)																								
Net lending	0.2	-	-	0.1	0.6	-	0.4	-	-	0.0	0.6	-	0.5	0.0	0.9	-	1.0	0.0	-	0.6	-0.1	-	0.6	-
Current account	-0.9	-0.4	-	-0.8	-	-0.4	-0.8	-0.1	-	-0.8	-	-0.5	-0.7	-0.9	-	-0.7	-0.3	-0.9	-1.0	-0.6	-1.0	-1.2	-0.6	-1.2
Balance of goods and services	0.1	0.7	-	0.0	0.2	-	0.2	0.6	-	-0.1	-0.2	-	0.2	-0.2	-0.4	-	0.2	-0.4	-	0.2	-0.5	-	0.2	-
Balance of primary income and transfers	-1.0	-1.2	-	-0.8	-	-	-1.0	-0.6	-	-0.7	-	-	-0.9	-0.6	-	-	-0.4	-0.5	-	-0.8	-0.5	-	-0.8	-
Capital account	0.9	-	-	0.9	-	-	1.2	-	-	0.8	-	-	1.2	0.9	-	-	1.2	0.9	-	1.2	0.9	-	1.2	-
Cyclical developments																								
Potential GDP (change, %)	-	1.3	-	1.8	-	-	2.0	1.3	-	1.9	-	-	2.0	1.7	-	-	2.0	1.6	-	2.0	1.6	-	2.0	-
Output gap (% potential GDP)	-	-2.2	-	1.1	-	0.2	0.7	-1.3	-	0.8	-	0.2	0.6	0.6	-	-	0.6	0.5	-	0.6	0.3	-	0.7	-
Public finance (% GDP)																								
Budget balance	-0.5	-0.2	-	-0.3	-	-0.6	-0.2	0.1	-	-0.1	-	-0.1	0.3	0.4	-	0.4	0.9	-0.1	0.3	0.7	-0.1	0.3	0.7	0.5
Public debt	121.5	118.4	-	117.9	-	119.5	-	115.0	-	115.7	-	117.3	-	110.8	-	111.3	-	107.4	107.4	-	104.1	106.3	-	102.7

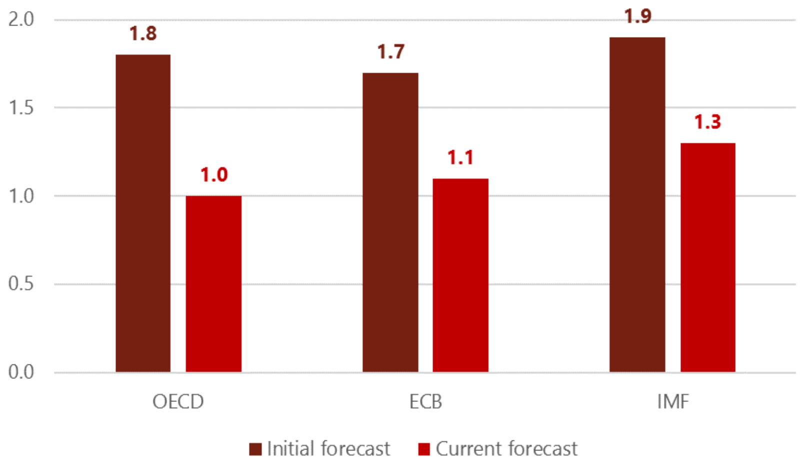
Sources: 2018: INE. 2019-2024:OECD - Economic Outlook No 104, November 2018; EC - Winter 2019 Economic Forecast (Interim), February 2019; CFP - Public Finance: Position and Constraints 2019-2023, March 2019; BdP - Economic Bulletin, March 2019; IMF -World Economic Outlook, April 2019; MF - SP/2019-2023, April 2019

ANALYSIS OF THE FORECASTS

The macroeconomic scenario published in the SP/2019 points to an increase in economic activity from 2019-2023, which differs from the latest forecasts and projections for the Portuguese economy covering that period.

From the external point-of-view, it is worth pointing out the deterioration in Euro Area economic growth expectations for 2019 (Chart 2) by institutions such as the OECD, the European Central Bank (ECB) and the IMF.

Chart 2 – Revisions in Euro Area expected growth for 2019 (change, %)



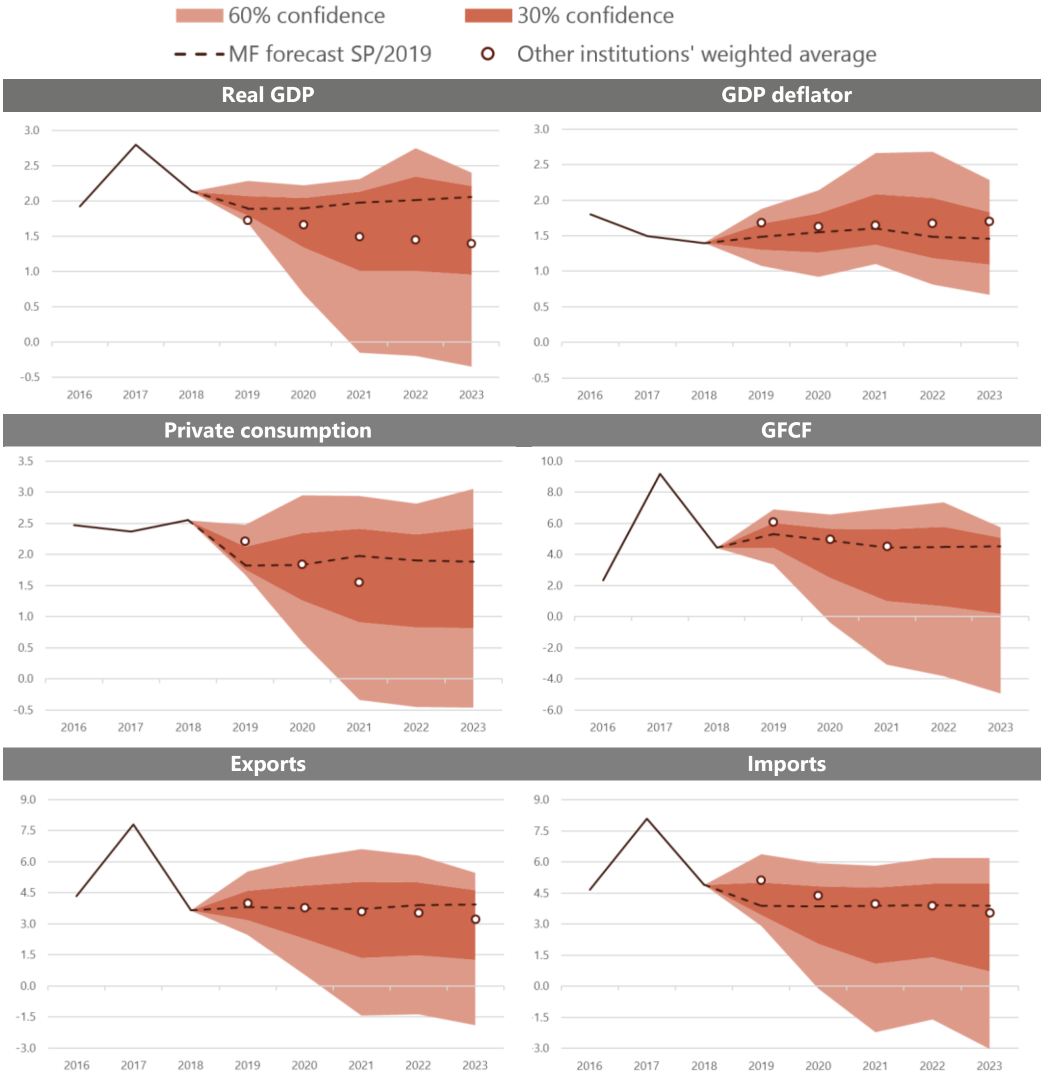
Sources: OECD – Economic Outlook No. 104, November 2018 and Interim Economic Outlook, March 2019; ECB – ECB staff macroeconomic projections for the euro area, December 2018 and March 2019; and IMF – World Economic Outlook, October 2018 and April 2019.

The risk of a slowdown in the economies of Portugal's main trading partners has a direct impact on the external trade variables, and possible effects on the remainder of the scenario. The external assumptions made by the MF regarding the Portuguese economy have a positive overall impact on the macroeconomic scenario under analysis. The MF predicts relatively stable growth in external demand for Portuguese goods and services, of around 3.5% in the medium-term, and a slight deterioration in the external context for Portuguese exports in 2019. The assumed depreciation of the euro against the dollar has a potentially favourable impact on national exports.

Despite the downward revision in the Portuguese economic growth compared to the scenario presented by the MF in the SB/2019 and the SP/2018, this scenario shows downside risks, which increase in the period from 2021 to 2023. In order to highlight the risk and uncertainty, based upon the analysis of the past performance of the MF's forecasting model, the asymmetrical confidence intervals for the forecasts were calculated (probability density function associated with the forecasts).[2] The results are shown in Chart 3.

[2] Based on the SP/DSB reports published from 1998-2018, the CFP calculated the confidence intervals for the MF forecasts associated with the respective forecast errors, i.e., the difference between the forecast figures and the observed figures. The greater the uncertainty as to a particular forecast, the greater the size of the confidence region associated with that point (and the lighter its colour). The forecast intervals are asymmetrical, which means that different probabilities are assigned to negative and positive deviations.

Chart 3 – Forecasting intervals for MF forecasts (change, %)

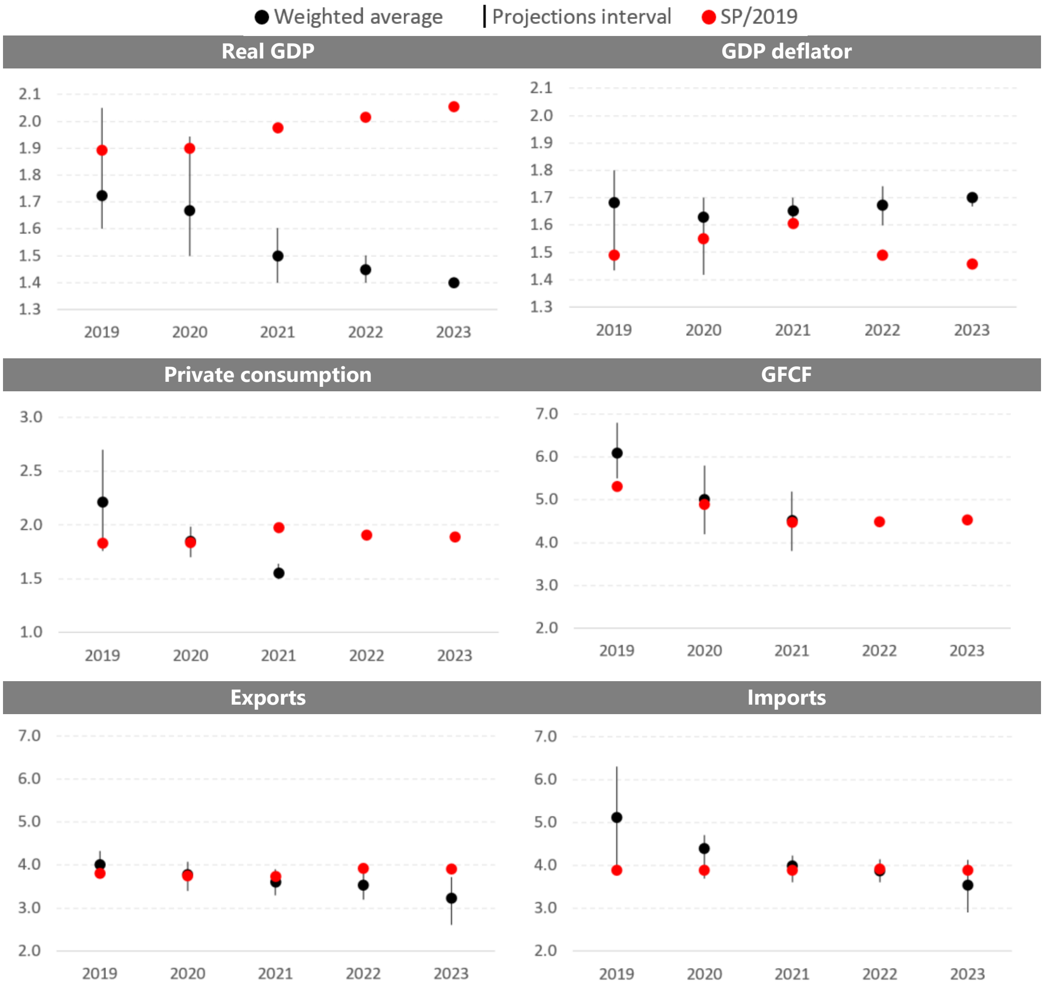


Source: SP/2019; CFP – confidence intervals calculated on the basis of SP/FSD reports 1998-2018; see note to Chart 4 on the weighted average calculations.

In addition, according to the projections of other institutions for the Portuguese economy (Table 2), the MF macroeconomic forecasts fall within the distribution of the existing projections. The weighted average of those projections is also provided (Chart 4).

This framework is adopted whenever projections from at least two institutions other than the MF are available. Therefore, given the information available (Table 2), the results for the spread and the weighted average of the private consumption and GFCF projections are shown up to 2021 only.

Chart 4 – SP/2019 forecasts framework (change, %)



Source: SP/2019; CFP calculations – the weighted average of the growth rates published by the other institutions (OECD, EC, CFP, BdP and IMF) is calculated by weighting the respective indicator of each institution (Table 2) according to the degree of information available at the time the projection was made. The percentage represents the time elapsed between the publication of the projections of the said institutions and the date the DSB was delivered. For indicator *j* of institution *i*, the weight ($P_{j,i}$) is obtained from the following formula: $P_{j,i} = \frac{1-D_{j,i}/360}{P_j}$, where $D_{j,i}$ is the number of days (in a year comprising 360 days) between the date the DSB was delivered and the publication of the institution's i projections, and $P_j = \sum_{i=1}^{n}(1 - D_i/360)$. The interval of the projections is defined by the full sample of the forecasts made by the institutions listed in Table 2, excluding the MF.

Considering the nature of the macroeconomic scenario in the SP/2019 and its external framework, the analysis is divided into two blocks: one relating to the MF forecast for 2019-2020 and the other relating to 2021-2023.

Forecast for 2019-2020

The forecasts for 2019-2020 presented in the scenario under analysis are within the range of the projections included in Table 2 and Chart 4. However, excluding the OECD scenario, which is the one which incorporates less recent information (November 2018), the MF forecasts relating to real GDP fall outside the projections' interval.

For 2019-2020 the forecasts presented in the scenario under analysis are within the limit for probable outcomes, although they are subject to downside risks. Given the framework and the underlying risks, this scenario for 2019-2020 may thus be considered a probable scenario, but not the most probable.

Forecast for 2021-2023

As for 2021-2023, the MF forecast of economic growth of around 2.1% in the medium-term carries downside risks, especially when taking into consideration the fact the projections made by the other institutions point to a slowdown in the Portuguese economy over this period.

The variables that carry the greatest risk in the medium-term are exports and private consumption, which are those that contribute the most to growth in this scenario.

The scenario underlying the SP/2019 includes a rise in compensations per employee in the medium-term, which in real terms (using the HICP as the deflator) grow systematically above the increase in labour productivity. This assumption leads to an increase in disposable income which sustains growth in private consumption in the medium-term higher than that foreseen by the other forecasting institutions. The risk of that performance not materialising translates into a smaller contribution to output growth, as well as a potential loss of tax revenue via direct taxes (on earnings) and indirect taxes (via private consumption). Therefore, in the medium-term, the forecast for private consumption growth is optimistic, which increases the downside risk underlying the forecast for real GDP growth and the potentially negative effects on the general government balance.

Regarding the exports, the MF scenario assumes that the path followed by the exports of goods and services in real terms in the past will continue, giving rise to market share gains of around 0.3 p.p. in the medium-term. This risk, which had already been highlighted in the CFP Opinion on macroeconomic forecasts underlying the SP/2018, is increased by the deterioration observed in the international context and by the fact that the current scenario foresees an increase in unit costs larger than the increase in apparent labour productivity. MF forecasts for exports in the medium-term differ from the weighted average of the projections of the other institutions (Chart 4).

CONCLUSION

The following conclusion takes 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 in the Council Directive 2011/85/EU of 8 November 2011 which sets the requirements for budgetary frameworks of the Member States.

In accordance with Article 4 (4) of the Regulation No 473/2013 of the European Parliament and of the Council of 21 May 2013, as a result of the assessment of **the macroeconomic forecasts underlying the 2019-2023 Stability Programme, the Portuguese Public Finance Council:**

1. **Endorses the forecasts for 2019-2020. Based on the most recent information available for the national and international economic outlook the forecasts for this period are within the limit of likelihood of the forecasts, even though they contemplate increased downward risks to economic growth, mainly from external factors;**

2. **Does not endorse the forecasts for 2021-2023, given the significant divergence from the other forecasts and projections considered, both in terms of product growth and its acceleration path. According to the CFP, based on available information, such forecasts do not translate the most likely scenario neither a more prudent scenario.**