REPÚBLICA
PORTUGUESA

XXI GOVERNO CONSTITUCIONAL

STABILITY
PROGRAMME
2018-2022

REPÚBLICA
PORTUGUESA | XXI GOVERNO CONSTITUCIONAL

April 2018

Prepared with information available until the day April 12, 2018.

Index

Executive Summary

The Stability Programme (SP) 2018-2022 is in line with the economic and fiscal policy strategy presented in the Government Programme and with the reform agenda established in the National Reform Programme (NRP). The plans drawn up to ensure policy predictability and coherence in promoting inclusive growth, social cohesion and sustainable fiscal consolidation are producing results. With the implementation of the NRP and strict and prudent management of public expenditure, responding flexibly and effectively to changes in the macroeconomic environment, Portugal achieves the goals of debt reduction and broad, sustainable growth. The SP 2018-2022 pursues a strategy that has produced clear results, in the form of the current dynamism of the economy and a solid trajectory of rebalancing the public finances, in due respect for future generations.

In 2017, Portugal recorded the best economic and financial performance in several decades. GDP grew by 2.7%, which is higher than the EU average and the highest level since 2000. The unemployment rate fell to 8.1% at the end of 2017, its lowest level since 2008 and below the euro area average. This was due to employment growth of 3.3% and a 0.8% increase in the labour force, the first since 2010. This growth is also sustainable. It is based on a positive trend in exports of goods (6.8%) and services (10.9%), as well as a sharp increase in investment (9.1%). Also worth noticing is the increase of around 25% in public investment, following a more efficient execution of European funds within Portugal 2020, which had been suffering delays since 2014. Portugal has also committed to the delivery of world-class public services, increasing public spending on healthcare (3.5%) and education (5.6%), in 2017.

This path is compatible with an effective effort to rebalance the public finances and reduce the fiscal deficit to 0.9% of GDP - a downward revision of the figure entered in the SP 2017-2021, due to stronger growth, stronger labour market performance, an increase in household's disposable income and greater savings in interest costs. Public debt fell by 4.2 p.p. to 125.7% of GDP - the largest reduction in the last 20 years.

The SP 2018-2022 is based on prudent forecasts, in line with the objectives set out in the Government Program. By 2018, real growth is projected at 2.3% of GDP (upward revision of the forecast presented in the State Budget for 2018). The unemployment rate is expected to decline to 7.6% (another downward revision). Over the SP horizon, GDP should grow at an average of around 2.2%. Efforts to review public spending eliminate waste and allow resources to be channelled to the most productive ends will continue lie at the heart of the Government's budgetary strategy improving the quality of expenditure and increasing its efficiency. The fiscal deficit is expected to decline to 0.7% of GDP in 2018, whereas public debt should continue to decline to 122.2% of GDP. We anticipate that, by 2022, public debt will be down to 102% of GDP.

This debt reduction trajectory is crucial as it guarantees sustainable financing for the Portuguese economy, including families, businesses, and public services, today and in the future. By reducing public debt gradually and lastingly, in an effort that should be considered in light of medium and long term demographic trends, the Government creates healthy conditions for the financing of the economy and the provision of high-quality public services, and conveys a strong signal of confidence to future generations.

The continued commitment to responsible and credible management of public finances accompanies the longstanding commitment to supporting structural change in the Portuguese economy. The implementation of the six pillars of the NRP will allow the Government to continue supporting change and increasing the potential growth of the economy, mainly through human capital improvements and increases in business competitiveness. This will support an ongoing process of structural transformation of

the economy, reflected in exports, which are expected to increase by 6.3% in 2018, and in investment, which is expected to grow by 6.2%.

Investment growth is expected to accelerate (reaching 7.1% by 2020), boosted by structural funds associated with the Portugal 2020 programme and greater business investment in the expansion of the productive capacity of the economy. Public investment is expected to continue on the current growth trend, with a 32% nominal increase in 2018, supported by better and more efficient use of European funds. In the medium term, and as part of a cycle that started in 2017 and that will last until 2024, public investment in public services and infrastructure will be particularly significant — e.g. railways (EUR 886 million), ports (EUR 192 million), human capital (€ 267 million) and healthcare (€ 792 million) — and will contribute to improving the external competitiveness of the economy.

Growth sustainability is also supported by the continued deleveraging of households and businesses, coupled with an expected increase in the household savings rate. This trend benefits from a reduction of the tax burden on labour in 2018 associated with the end of the surcharge and changes in Personal Income Tax levels.

The SP 2018-2022 is, therefore, fully aligned with the goals set out in the Government Program. It builds on the efforts made in previous years and reflects the reformist agenda of the NRP to address challenges that remain, many of which in the form of direct legacies of the economic and financial crisis. It does so in a context of social responsibility, fostering sustainable and inclusive growth, while ensuring rigorous and prudent management of the public finances, for the benefit of both present and future generations.

Annex 1 - Statistical Tables

Table 1a. Macroeconomic prospects

	ESA Code	2017 Level (10⁶ euros)	2017	2018	2019	2020	2021	2022
1. Real GDP	B1*g	179 167,4	2,7	2,3	2,3	2,3	2,2	2,1
2. Nominal GDP	B1*g	193 048,6	4,1	3,8	3,7	3,8	3,7	3,7
Components of real GDP								
3. Private final consumption expenditure	P.3	118 278,5	2,3	2,0	2,0	2,0	2,0	2,0
4. Government final consumption expenditure	P.3	33 584,4	-0,2	0,7	-0,1	-0,1	-0,2	0,0
5. Gross fixed capital formation	P.51	30 794,2	9,1	6,2	7,0	7,1	6,4	5,5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P53	389,5	0,2	0,2	0,2	0,1	0,1	0,0
7. Exports of goods and services	P.6	83 350,8	7,8	6,3	4,8	4,2	4,2	4,2
8. Imports of goods and services	P.7	87 591,5	7,9	6,3	5,0	4,5	4,5	4,4
Contributions to real GDP growth								
9. Final domestic demand		-	2,9	2,5	2,6	2,6	2,5	2,4
10. Changes in inventories and net acquisition of valuables	P.52 + P53	-	-0,1	0,0	0,0	0,0	0,0	0,0
11. External balance of goods and services	B.11	-	-0,2	-0,2	-0,2	-0,3	-0,3	-0,2

Table 1b. Price developments

	2017	2018	2019	2020	2021	2022
1. GDP deflator	1,4	1,4	1,4	1,4	1,5	1,5
2. Private consumption deflator	1,3	1,4	1,4	1,5	1,5	1,6
3. HICP[1]	1,6	1,5	1,5	1,5	1,8	1,8
4. Public consumption deflator	1,9	1,4	1,0	1,0	1,2	1,0
5. Investment deflator	1,0	1,1	1,2	1,2	1,2	1,2
6. Export price deflator (goods and services)	3,6	1,7	1,2	1,3	1,3	1,3
7. Import price deflator (goods and services)	4,1	1,7	1,2	1,3	1,3	1,3

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	2017 Level	2017	2018	2019	2020	2021	2022
1. Employment, persons[1]		4 802,0	3,3	1,9	1,1	0,9	0,8	0,8
2. Employment, hours worked[2]								
3. Unemployment rate[2] (%)		-	8,9	7,6	7,2	6,8	6,5	6,3
4. Labour productivity, persons[3] (10³ euros)		37,3	-0,6	0,5	1,2	1,4	1,4	1,3
5. Labour productivity, hours worked[5]								
6. Compensation of employees (10⁶ euros)	D.1	85 724,5	4,6	3,9	3,1	3,1	3,2	3,2
7. Compensation per employee		20,9	1,1	2,1	2,1	2,2	2,4	2,4

[1] Occupied population, domestic concept national accounts definition.
[2] National accounts definition.
[2] Harmonised definition, Eurostat; levels.
[3] Real GDP per person employed.

Table 1d. Sectoral balances

% of GDP	ESA	2017	2018	2019	2020	2021	2022
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	1,4	1,6	1,8	1,8	1,6	1,6
of which:								
- Balance of goods and services		1,0	1,0	1,0	0,8	0,7	0,7
- Balance of primary incomes and transfers		-0,5	-0,3	-0,3	-0,2	-0,3	-0,2
- Capital account		0,9	0,9	1,1	1,1	1,1	1,1
2. Net lending/net borrowing of the private sector	B.9	2,3	2,4	2,0	1,1	0,1	0,3
3. Net lending/net borrowing of general government	EDP B.9	-0,9	-0,7	-0,2	0,7	1,4	1,3
4. Statistical discrepancy								

Table 2a. General government budgetary prospects

	ESA Code	2017 Level	2017 % GDP	2018 % GDP	2019 % GDP	2020 % GDP	2021 % GDP	2022 % GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector								
1. General government	S.13	-1 765,4	-0,9	-0,7	-0,2	0,7	1,4	1,3
2. Central government	S.1311	-8 530,8	-4,4					
3. State government	S.1312	-	-	-	-	-	-	-
4 Local government	S.1313	588,0	0,3					
5. Social security funds	S.1314	2 233,5	1,2					
General government (S13)								
6. Total revenue	TR	82 840,5	42,9	43,2	42,9	42,9	43,2	42,7
7. Total expenditure[1]	TE	84 606,0	43,8	43,9	43,0	42,2	41,7	41,4
8. Net lending/borrowing	B.9	-1 765,4	-0,9	-0,7	-0,2	0,7	1,4	1,3
9. Interest expenditure	D.41	7 475,1	3,9	3,5	3,4	3,2	3,1	3,1
10. Primary balance[2]	B.9+D.41	5 709,7	3,0	2,8	3,2	3,9	4,5	4,4
11. One-off and other temporary measures[3]		-34,5	0,0	-0,4	-0,1	0,0	0,4	0,0
Selected components of revenue								
12. Total Taxes (12=12a+12b+12c)		48 742,6	25,2	25,1	24,9	24,8	24,7	24,7
12a. Taxes on production and imports	D.2	29 028,0	15,0	15,2	15,2	15,2	15,2	15,2
12b. Current taxes on income, wealth, etc	D.5	19 714,6	10,2	9,9	9,7	9,7	9,5	9,5
12c. Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D.61	22 704,2	11,8	11,8	11,8	11,8	11,9	11,9
14. Property income	D.4	1 331,3	0,7	0,7	0,7	0,7	0,7	0,7
15. Other[4]		10 062,5	5,2	5,6	5,4	5,5	5,9	5,4
16=6. Total revenue	TR	82 840,5	42,9	43,2	42,9	42,9	43,2	42,7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		66 694,8	34,5	34,5	34,4	34,4	34,4	34,4
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	31 739,5	16,4	16,2	15,9	15,5	15,3	15,0
17a. Compensation of employees	D.1	21 269,7	11,0	10,8	10,6	10,4	10,2	10,0
17b. Intermediate consumption	P.2	10 469,8	5,4	5,3	5,2	5,1	5,1	5,0
18. Social payments (18=18a+18b)		35 615,8	18,4	18,3	18,2	17,9	17,8	17,7
of which **Unemployment benefits[6]**		1 312,4	0,7	0,6	0,6	0,6	0,5	0,5
18a. Social tranfers in kind - purchased market production	D.6311, D.63121, D.63131	3 446,1	1,8	1,8	1,7	1,7	1,6	1,6
18b. Social tranfers other than social tranfers in kind	D.62	32 169,6	16,7	16,6	16,5	16,2	16,1	16,1
19=9. Interest expenditure	D.41	7 475,1	3,9	3,5	3,4	3,2	3,1	3,1
20. Subsidies	D.3	866,4	0,4	0,4	0,4	0,4	0,4	0,4
21. Gross fixed capital formation	P.51g	3 415,4	1,8	2,3	2,4	2,6	2,6	2,6
22. Capital transfers	D.9	998,5	0,5	0,8	0,5	0,3	0,3	0,3
23. Other[7]		4 495,2	2,3	2,4	2,3	2,3	2,2	2,2
24=7. Total expenditure	TE	84 606,0	43,8	43,9	43,0	42,2	41,7	41,4
p.m.: Government final consumption expenditure (nominal)	P.3	33 934,4	17,6	17,3	16,8	16,3	15,9	15,5

[1] TR - TE = B.9.

[2] The primary balance is calculated as B.9 (item 4) plus D.41 (item 5).

[3] A plus sign means deficit-reducing one-off measures.

[4] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91).

[5] Including those collected by the EU and including na adjustment for uncollected taxes and social contributions (D.995), if appropriate.

[6] Includes social benefits other than social transfers in kind (D62) and social transfers in kind via market producers (D632) related to unemployment benefits.

[7] D29pay+D4pay (other than D41pay) + D5pay + D7pay + P52 + P53 +NP + D8.

Table 2b. No-policy change projections

	2017 Level	2017 % GDP	2018 % GDP	2019 % GDP	2020 % GDP	2021 % GDP	2022 % GDP
1. Total revenue at unchanged policies	82 840,5	42,9	43,2	42,8	42,7	43,1	42,6
2. Total expenditure at unchanged policies	84 606,0	43,8	43,9	43,3	42,5	41,9	41,5

[1] The projections shall start at the time when the Stability or Convergence Programme is drafted (please indicate the cut-off date) and show revenue and expenditure trends under a no-policy change assumption. Therefore, figures for X-1 should correspond to actual data for revenue and expenditure.

Table 2c. Amounts to be excluded from the expenditure benchmark[1]

	2017 Level	2017 % GDP	2018 % GDP	2019 % GDP	2020 % GDP	2021 % GDP	2022 % GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1 048,4	0,5	0,7	0,8	0,9	0,9	0,8
1.a) of which investments fully matched by EU funds revenue	526,7	0,3	0,5	0,5	0,6	0,6	0,6
2. Cyclical unemployment benefit expenditure[1]	-120,6	-0,1	-0,1	0,0	0,0	0,0	0,0
3. Effect of discritionary revenue measures[2]	-396,0	-0,2	0,0	-0,2	0,0	0,4	-0,4
4. Revenue increases mandated by law	-	-	-	-	-	-	-

[1] Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5.

[2] Revenue increases mandated by law should not be included in the effect of discritionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.

Table 3. General government expenditure by function

	COFOG code	2016	2021	2022
1. General public services	1	8,3		
2. Defence	2	0,9		
3. Public order and safety	3	1,8		
4. Economic affairs	4	3,2		
5. Environmental protection	5	0,6		
6. Housing and community amenities	6	0,5		
7. Health	7	5,9		
8. Recreation, culture and religion	8	0,8		
9. Education	9	4,9		
10. Social protection	10	18,0		
11. Total expenditure (=item 3 =22 in Table 2a)	TE	44,9		

Table 4. General government debt developments

% of GDP	ESA Code	2017	2018	2019	2020	2021	2022
1. Gross debt[1]		125,7	122,2	118,4	114,9	107,3	102,0
2. Change in gross debt ratio		-4,2	-3,5	-3,8	-3,5	-7,6	-5,3
Contributions to changes in gross debt							
3. Primary balance[2]	B.9+D.41	-3,0	-2,8	-3,2	-3,9	-4,5	-4,4
4. Interest expenditure[3]	D.41	3,9	3,5	3,4	3,2	3,1	3,1
5. Stock-flow adjustment		-2,1	0,4	0,5	1,4	-2,0	-0,2
p.m.: Implicit interest rate on debt[4]		3,1	2,9	2,9	2,8	2,8	3,0

[1] As defined in amended Regulation 479/2009.

[2] Cf. Item 6 in Table 2a.

[3] Cf. Item 5=17 in Table 2a.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

Table 5. Cyclical developments

% of GDP	ESA Code	2017	2018	2019	2020	2021	2022
1. Real GDP growth (%)		2,7	2,3	2,3	2,3	2,2	2,1
2. Net lending of general government	B.9	-0,9	-0,7	-0,2	0,7	1,4	1,3
3. Interest expenditure	D.41	3,9	3,5	3,4	3,2	3,1	3,1
4. One-off and other temporary measures[1]		0,0	-0,4	-0,1	0,0	0,4	0,0
of which:							
- One-offs on the revenue side: general government		0,2	0,2	0,0	0,0	0,4	0,0
- One-offs on the expenditure side: general government		-0,2	-0,6	-0,1	0,0	0,0	0,0
5. Potential GDP growth (%)		1,6	1,9	2,3	2,2	2,1	2,2
contributions:							
- labour							
- capital							
- total factor productivity							
6. Output gap		0,2	0,7	0,7	0,8	0,9	0,8
7. Cyclical budgetary component		0,1	0,3	0,3	0,4	0,4	0,4
8. Cyclically-adjusted balance (2 - 7)		-1,0	-1,1	-0,5	0,3	1,0	0,9
9. Cyclically-adjusted primary balance (8 + 3)		2,8	2,4	2,9	3,5	4,1	4,0
10. Structural balance (8 - 4)		-1,0	-0,6	-0,4	0,3	0,6	0,9

[1] A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

% of GDP	ESA Code	2017	2018	2019	2020	2021	2022
Real GDP growth (%)							
Previous update		1,8	1,9	2,0	2,1	2,2	-
Current update		2,7	2,3	2,3	2,3	2,2	2,1
Difference		0,9	0,5	0,3	0,2	0,0	-
General government net lending (% of GDP)	EDP B.9						
Previous update		-1,5	-1,0	-0,3	0,4	1,3	-
Current update		-0,9	-0,7	-0,2	0,7	1,4	1,3
Difference		0,6	0,2	0,1	0,3	0,2	-
General Ggovernment gross debt (% of GDP)							
Previous update		127,9	124,2	120,0	117,6	109,4	-
Current update		125,7	122,2	118,4	114,9	107,3	102,0
Difference		-2,2	-2,0	-1,5	-2,7	-2,1	-

Table 7. Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
Of which: **age-related expenditures**			**25,3**	**26,2**	**27,3**	**27,3**	**26,1**
Pension expenditure			13,6	14,3	14,7	13,7	12,0
Social security pension			9,0	10,1	11,2	11,5	11,0
Old-age and early pensions			7,1	8,3	9,5	9,8	9,4
Other pensions (disability, survivors)			1,8	1,8	1,8	1,6	1,6
Caixa Geral de Aposentações pensions (occupational pensions)			4,7	4,2	3,5	2,2	1,0
Health care			6,2	6,9	7,5	8,0	8,3
Long-term care			0,6	0,7	0,9	1,2	1,4
Education expenditure			4,2	3,6	3,5	3,8	3,8
Other age-related expenditures			0,7	0,6	0,6	0,6	0,6
Interest expenditures							
Total revenue							
Of which: property income							
Of which: from pensions contributions (or social contributions if appropriate)			**12,8**	**11,9**	**11,1**	**11,0**	**11,8**
Pension reserve fund assets							
Of which: consolidated public pension fund assets (assets other than government liabilities)							
Systemic pension reforms[1]							
Social contributions diverted to mandatory private scheme[2]			-	-	-	-	-
Pension expenditure paid by mandatory private scheme[3]			-	-	-	-	-
Assumptions							
Labour productivity			1,0	1,4	1,7	1,8	1,7
Real GDP growth			0,4	1,0	0,8	0,9	1,0
Participation rate males (aged 20-64)			83,9	83,2	82,9	83,1	82,3
Participation rate females (aged 20-64)			78,0	80,4	81,5	82,4	81,8
Total participation rate (aged 20-64)			80,8	81,7	82,2	82,7	82,1
Unemployment rate			9,7	8,7	8,2	7,7	7,7
Population aged 65+ over total population			22,5	27,2	31,9	35,0	34,9

[1] Systemic pension reforms refer to pension reforms that introduce a multi-pillar syste that includes a mandatory fully funded pillar.

[2] Social contributions or pther revenue recieved by the mandatory fully funded pillar to cover for the obligations it acquired in conjunction with the systemic reform.

[3] Pension expenditure or other social benefits paid by the mandatory fully funded pillar linked to the pension obligations it acquired in conjunction with the systemic pension reform.

Table 7a. Contingent liabilities

% of GDP	2017
Public guarantees	0,1
Of which: linked to the financial sector	

Table 8. Basic assumptions

	2017	2018	2019	2020	2021	2022
Short-term interest rate[1] (annual average)	-0,3	-0,3	-0,1	0,4	0,7	1,0
Long-term interest rate (annual average)	1,2	1,3	1,5	1,7	1,9	2,0
USD/€ exchange rate (annual average)	1,1	1,2	1,3	1,3	1,3	1,3
Nominal effective exchange rate	0,8	9,4	2,4	0,0	0,0	0,0
Exchange rate vis-à-vis the € (annual average) (for countries not in euro area or ERM II)	-	-	-	-	-	-
World excluding EU, GDP growth	3,8	4,0	4,0	4,0	4,0	4,0
EU GDP growth	2,5	2,1	1,9	1,9	1,9	1,9
Growth of relevant foreign markets	5,0	4,5	4,2	4,0	4,0	3,9
World import volumes, excluding EU	4,2	4,1	4,1	4,1	4,1	4,1
Oil prices (Brent, USD/barrell)	54,8	65,9	62,2	59,4	58,0	57,6

[1] If necessary, purely technical assumptions.

Annex 2 – Clarifications Regarding the Expenditure Related to 2017 Wildfires

Clarifications Regarding the Expenditure Related to 2017 Wildfires

The severe wildfires that hit Portugal in June and October 2017 constituted an extraordinary event with impact on the public finances, namely in compensation for victims, the effort of reconstruction and expenditure with prevention.

In 2017, € 60 million were already spent in the compensation for victims and reconstruction. Following parliamentary approval, the final budget for 2018 foresees € 231 million to address expenditure related to the wildfires (net of a € 50 million EU contribution). Besides the amount dedicated to severance payments and reconstruction (€ 99 million) and the expenditure with prevention, equipment for firefighters and institutional improvement (€ 82 million), the central government foresees to concede loans to the local government for the cleaning of areas surrounding houses and villages during 2018 (€ 50 million).

Expenditure regarding the compensation of victims and reconstruction clearly falls under the one-off definition. This expenditure amounted to € 60 million in 2017, while the projections for 2018 point to € 99 million. On the contrary, prevention costs should be treated as an expenditure related to an unusual event: as reflected in the Portuguese budget for 2018, this expenditure amounts to € 132 million in 2018.

Detailed information is available in Decreto-Lei n.º 142/2017 (Permanent Home Reconstruction Support Program) and Resolução de Conselho de Ministros n.º 11-A/2018 (detailed expenditure for prevention and fire fighting in 2018).

Table 1 - Provisional impact on national accounts deficit by type of measure

Impact on the headline balance - breakdown by functional categories, excluding EU contributions	Millions of euros	
	2017	2018
1. Severance payments and reconstruction	60	99
2. Local administration - cleaning of areas surrounding houses and villages		50
3. Prevention, Equipment for firefighters and institutional improvement		82
4. Total impact on headline deficit (4=1+2+3)	60	231
of which one-off	*60*	*99*

Source: Ministry of Finance

Table 2 - Provisional impact on the deficit in 2017 and 2018 by ESA category

Impact on the headline balance - breakdown by ESA categories	Millions of euros	
	2017	2018
1. Compensation of employees (D1)		13
2. Intermediate consumption (P2)		95
3. Social transfer in kind (D632)		73
4. Current tranfers (D7)	60	63
5. Gross Fixed Capital Formation (P51)		38
6. Total impact on headline deficit (6=1+2+3+4+5)	60	281
7. Compensation from EU		50
8. Total impact on headline deficit net of EU contributions (8=6-7)	60	231
9. Total impact on headline deficit net of EU contributions (% of GDP)	0,03%	0,12%
of which one-off (% of GDP)	*0,03%*	*0,05%*

Source: Ministry of Finance