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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Portugal

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(Only the Portuguese text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

CONSIDERATIONS CONCERNING PORTUGAL

6. On 15 October 2024, Portugal submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Portugal of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of Portugal for the years 2025 to 2028[4], which the Commission expects the Council to act upon in a timely manner.

7. On 21 October 2024, upon the Commission recommendation for Council recommendation on the economic, social, employment, structural and budgetary policies of Portugal of 19 June 2024[5], the Council recommended Portugal, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value.

8. On 11 October 2024, Portugal submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[6]. The plan commits to net expenditure growth not exceeding 5.0% in 2025, 5.1% in 2026, 1.2% in 2027 and 3.3% in 2028. The Commission has assessed the medium-term fiscal-structural plan of Portugal and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

9. According to the Draft Budgetary Plan, Portugal's real GDP is projected to grow by 2.1% in 2025 (1.8% in 2024), while inflation is forecast at 2.3% in 2025 (2.6% in 2024). According to the European Commission Autumn 2024 Forecast, Portugal's real GDP is projected to grow by 1.9% in 2025 (1.7% in 2024), while inflation is forecast at 2.1% in 2025 (2.6% in 2024). Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the European Commission's forecast for 2025 and 2024. Portugal complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

10. Based on the Commission's estimates, the fiscal stance[7] is projected to be expansionary by 0.4% of GDP in 2025, following an expansionary fiscal stance of

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[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Portugal, 26.11.2024, COM(2024)724 final.

[5] Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Portugal, 19.06.2024, COM(2024)622 final.

[6] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[7] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical

1.7% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

11. According to the Draft Budgetary Plan, Portugal's general government surplus is projected to decrease to 0.3% of GDP in 2025 (0.4% in 2024)[8], while the general government debt-to-GDP ratio is set to decrease to 93.3% at the end of 2025 (95.9% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 11.8% in 2024 and 4.9% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is below the growth rate in the medium-term fiscal-structural plan submitted by Portugal on 11 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Portugal's general government surplus is projected to decrease to 0.4% of GDP in 2025 (0.6% in 2024), while the general government debt-to-GDP ratio is set to decrease to 92.9% at the end of 2025 (95.7% at the end of 2024). The decrease in the surplus is driven by balance-deteriorating fiscal policy measures, such as the effect of the revised personal income tax framework, the planned update of the youth personal income tax regime, and discretionary increases in public wages. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 10.3% in 2024 and 4.7% in 2025.The main differences between both sets of projections for the surplus, and in turn net expenditure growth, reflect differences in the underlying macroeconomic forecast, such as the more muted inflation projected in the European Commission Autumn 2024 Forecast, and the differentiated aggregated budgetary cost of fiscal policy measures, with the Commission not incorporating fiscal policy measures that are not sufficiently detailed, such as the emergency plan for the National Health System or the 'green mobility' package. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are broadly balanced, and mainly relate to additional windfall tax revenues from the corporate sector, the implementation pace of projects financed by Recovery and Resilience Facility loans, the increasing spending pressure on public wages and social transfers, and the materialisation of contingencies related to ongoing processes for the financial rebalancing of public-private partnerships.

12. The Draft Budgetary Plan assumes that expenditure amounting to 2.3% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 1.3% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Portugal. The Draft Budgetary Plan also assumes expenditure supported by loans from the Recovery and Resilience Facility, amounting to 0.4% of GDP in 2025, compared with 0.1% of GDP in 2024.

13. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include revenue-decreasing measures, such as the

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unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

[8] According to the Draft Budgetary Plan, one-off measures are associated with a balance-deteriorating impact of 0.0% of GDP in 2025 (0.1% of GDP in 2024). These one-off measures relate to indemnity payments to state-owned enterprises, court rulings involving compensation for public concessions and the recording of additional losses of non-recoverable claims held by a state-owned enterprise. This is in line with the Commission 2024 autumn forecast.

broadening of the personal income tax regimes for the youth, the reduction in the personal income marginal tax rates and updated tax brackets, enlargement of the tax benefits to incentivise firm's capitalisation, and the enhanced coverage of the reduced value-added tax for electricity; and revenue-increasing measures, as the planned phase-out of the freeze of the carbon rate under the fuel tax. On the expenditure side, these measures include expenditure-increasing measures such as the update in public sector wages and the expansion of the free-of-charge crèches network; and expenditure-decreasing measures such as the phase-out of measures to mitigate the impact of high energy prices, as the reduction in the electricity grid tariffs. According to Commission estimates, the overall additional negative impact of the revenue measures decreases the general government surplus by 0.4% of GDP in 2025.

14. According to the European Commission Autumn 2024 Forecast, Portugal's net expenditure is projected to increase by 4.7% in 2025, which corresponds to a cumulative growth of 15.5% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value. Those net expenditure growth rates would be appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

15. On 21 October 2024, the Council also recommended that Portugal take action to wind down the emergency energy support measures before the 2024/2025 heating season. However, the emergency energy support measures are not fully wound down by the 2024/2025 heating season. In particular, the general reduction of the fuel tax is assumed to remain in force. According to the European Commission Autumn 2024 Forecast, the net budgetary cost[9] of energy support measures is projected at 0.5% of GDP in 2024 and 0.1% of GDP in 2025. This is not in line with what was recommended by the Council. The net budgetary cost of energy support measures not targeted at protecting vulnerable households and firms is estimated at 0.1% of GDP in 2025, of which 0.1% of GDP do not preserve the price signal to reduce energy demand and increase energy efficiency.

16. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to remain stable at 2.4% of GDP in 2025. In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to increase to 1.9% of GDP in 2025 (from 1.3% of GDP in 2024).

17. Finally, the Council also recommended Portugal to improve the effectiveness of the tax system, in particular by strengthening the efficiency of its administration and reducing the associated administrative burden and take action to ensure the medium-term fiscal sustainability of the pension system. In its 2025 Draft Budgetary Plan, Portugal describes envisaged measures to address these recommendations related to the digitalisation and automation of processes with the Tax and Customs Authority, but it reports no concrete measures on the medium-term sustainability of the pension system.

[9] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

18. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Portugal is not fully in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, and taking into consideration the information included in Portugal's Draft Budgetary Plan, the emergency energy support measures are not expected to be wound down before the 2024/2025 heating season. The energy support measures that are currently planned to remain in force do not appear to be targeted at protecting vulnerable households and firms and to preserve incentives for energy savings. At the same time, according to the European Commission Autumn 2024 Forecast, Portugal's net expenditure growth in 2025 is consistent with what was recommended by the Council on 21 October 2024. Therefore, the Commission invites Portugal to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2025 is in line with the Council Recommendation of 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	**DBP**	**COM**	**DBP**	**COM**
1	Real GDP	% change	2.5	1.8	1.7	2.1	1.9
2	HICP inflation	% change	5.3	2.6	2.6	2.3	2.1
3	General government balance	% GDP	1.2	0.4	0.6	0.3	0.4
4	Primary balance	% GDP	3.3	2.5	2.6	2.5	2.5
5	General government gross debt	% GDP	97.9	95.9	95.7	93.3	92.9
6	Fiscal stance (**)	% GDP	0.8		-1.7		-0.4
7	Net expenditure growth (annual)	% change		11.8	10.3	4.9	4.7
8	Net expenditure growth (cumulative)	% change				17.2	15.5
			Commission Recommendation for a Council Recommendation setting the net expenditure path of Portugal				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**5.0**	
10		% change			Cumulative	**17.4**	

Notes :
* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Portugal for the years 2025 to 2028.
** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.
Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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