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Assessment of the 2017 stability programme for

Portugal

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

On 28 April 2017, Portugal submitted its 2017 stability programme (hereafter called stability programme), covering the period 2017-2021. The government approved the stability programme on 13 April and submitted it to the Parliament on the same day. Following a discussion in Parliament on 19 April, the final version of the programme was approved by the government on 27 April 2017.

Portugal is currently subject to the corrective arm of the Stability and Growth Pact (SGP). The Council opened the Excessive Deficit Procedure (EDP) for Portugal on 2 December 2009. On 8 August 2016, the country was requested to correct the excessive deficit by 2016. The year following the correction of the excessive deficit, Portugal will become subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO) provided that a timely and durable correction of the excessive deficit is achieved. As the debt ratio turned out at 130.4% of GDP in 2016, exceeding the 60%-of-GDP Treaty reference value, Portugal would also become subject to the transitional arrangements as regards compliance with the debt criterion during the three years following the correction of the excessive deficit (transitional debt rule), during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 22 February and updates it with the information included in the stability programme. Section 2 presents the macroeconomic outlook underlying the stability programme and provides an assessment based on the Commission 2017 spring forecast. The following section presents the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview on the medium-term budgetary plans, an assessment of the measures underpinning the stability programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Real GDP grew by 1.4% in 2016, supported by robust private consumption and exports, particularly in the second half of the year. Investment contracted marginally in 2016 but recovered markedly towards the end of the year, driven mainly by construction. In addition to exceptional exports of services, the recovery of exports of goods, in particular to Angola and Spain, also contributed to the strong overall performance. Imports increased as well, making the net external trade contribution to growth almost neutral. The strong growth momentum reinforced job creation and unemployment dropped to nearly 11% in 2016, while HICP inflation edged up to 0.6%, largely driven by the service sector.

The macroeconomic scenario underlying the stability programme expects real GDP growth to accelerate slightly to 1.8% in 2017 and to 2.0% on average per year over 2018-2020. Private consumption growth is expected to decelerate to 1.9% in 2017 and 1.6% per year in 2018-2020 amid a gradual increase in household savings. Investment growth is projected to accelerate from 4.8% in 2017 to 5.1% over 2018-2019, before losing momentum in 2020. Thereafter, the trend mainly reflects the assumed profile regarding the absorption of EU funds. Export growth is expected to remain almost flat at 4.5% annually in 2017-2020

following the external demand assumptions and some market share gains. Import growth is estimated to remain solid but below export growth over 2017-2020. As a consequence, net exports are projected to contribute positively to GDP growth by 0.1 pps. in 2017-2020. As regards the labour market outlook, employment is forecast to grow around 1.1% on average per year over 2017-2020. Consequently, the unemployment rate is set to decline to 8% by the end of the programme horizon. HICP inflation is projected to increase to 1.6% in 2017, mainly driven by the global oil price rebound, and then to 1.8% by the end of the forecast horizon maintained by nominal wage growth.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1.4	1.4	1.8	1.8	1.6	1.9	2.0	2.1	2.2
Private consumption (% change)	2.3	2.3	1.9	1.6	1.3	1.6	1.6	1.6	1.6
Gross fixed capital formation (% change)	-0.1	-0.1	5.4	4.8	4.7	5.1	5.1	4.8	4.7
Exports of goods and services (% change)	4.4	4.4	4.4	4.5	4.2	4.5	4.5	4.5	4.5
Imports of goods and services (% change)	4.4	4.4	5.2	4.1	4.5	4.1	4.1	4.1	4.1
Contributions to real GDP growth:									
- Final domestic demand	1.6	1.5	2.1	1.7	1.7	1.8	1.8	1.9	2.0
- Change in inventories	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.0	-0.1	-0.3	0.1	-0.1	0.1	0.1	0.1	0.2
Output gap[1]	-0.6	-0.7	0.4	-0.1	1.0	0.2	0.4	0.7	1.0
Employment (% change)	1.6	1.6	1.4	1.3	0.9	1.0	1.0	1.0	1.0
Unemployment rate (%)	11.2	11.1	9.9	9.9	9.2	9.3	8.6	8.0	7.4
Labour productivity (% change)	-0.2	-0.2	0.4	0.5	0.7	0.8	1.0	1.1	1.2
HICP inflation (%)	0.6	0.5	1.4	1.6	1.5	1.7	1.7	1.8	1.8
GDP deflator (% change)	1.6	1.6	1.4	1.4	1.4	1.5	1.6	1.6	1.6
Comp. of employees (per head, % change)	1.4	1.4	1.5	2.0	1.5	2.2	2.4	2.4	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.5	1.5	1.4	1.1	1.5	1.5	1.5	1.6	1.7

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2017 spring forecast (COM); stability programme (SP).

Compared to the Commission 2017 spring forecast, the macroeconomic scenario underlying the stability programme has a fully identical GDP growth projection for 2017 but turns more favourable thereafter. As regards GDP components, private consumption and investment are estimated to grow at a slightly lower rate in comparison with the Commission forecast in 2017, but this is offset by a higher contribution to growth from net exports. In 2018, both domestic demand components and net exports are expected to exceed the Commission forecast, though by a relatively small margin. In both 2017 and 2018, labour market indicators appear broadly identical in terms of employment and unemployment rates, but wage income is assumed to be somewhat higher in the stability programme. The output gap as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, is estimated to turn positive at 0.2% of GDP in 2018 and to gradually widen thereafter. The recalculated potential growth is estimated to rise faster in comparison

with the Commission forecast due to more favourable medium-term projections. Overall, the programme's macroeconomic assumptions are plausible until 2017 and favourable thereafter.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

The general government deficit reached 2.0% of GDP in 2016, 0.2% of GDP lower than the 2.2% planned in the 2016 budget and confirmed in the 2016 stability programme. As compared to the 2016 stability programme targets, the lower-than-expected headline deficit in 2016 was mainly due to containment of current expenditure (0.8% of GDP), particularly for intermediate consumption, and underexecution of capital expenditure (0.4% of GDP) which more than compensated a revenue shortfall of 1.0% of GDP (0.3% of GDP in tax revenue and 0.7% of GDP in non-tax revenue). The extraordinary debt settlement scheme (PERES), announced and implemented in the last quarter of the year, contributed to mitigate such a revenue shortfall by 0.25% of GDP in additional revenue from direct taxes and social security contributions.

Excluding one-offs – mostly consisting of the one-off part of the PERES scheme (0.2% of GDP) and the European Financial Stability Facility(EFSF) prepaid margins (0.1% of GDP) –, the headline deficit reached 2.3% of GDP, as compared to a headline deficit net of one-offs of 3.1% of GDP in 2015. Taking also into account the impact of the economic cyle, the structural balance improved by close to 0.3% of GDP in 2016.

In the stability programme, the government plans to reach a headline deficit of 1.5% of GDP in 2017, 0.1% of GDP lower than the target in the 2017 draft budgetary plan, but 0.1% of GDP higher than the previous target in the 2016 stability programme. The expected reduction in the headline deficit target vis-à-vis the 2017 draft budgetary plan reflects deficit-drecreasing effects on the expenditure side, notably the planned continued cointainment of current primary expenditure (-0.5% of GDP), underexecution of capital spending (-0.2% of GDP) and lower interest expenditure (-0.2% of GDP). Such deficit-decreasing effects on the expenditure side are planned to slightly more than compensate for deficit-increasing effects on the revenue side, notably the downward revision of several non-tax revenue items (-0.4% of GDP for other current revenue, -0.3% of GDP for capital revenue and -0.1% of GDP for sales). The revised targets mostly result from the carry-over from 2016 and the upward revision of the macroeconomic outlook. Additional major downward revisions have been done for interest expenditure, on the one hand, and revenue from sales, on the other, while capital expenditure has been revised upwards to partially compensate the carry-over from 2016's underexecution.

According to the stability programme, the planned headline deficit reduction in 2017 would be consistent with a slight improvement in the (recalculated) structural balance[1] by around 0.3% of GDP in 2017.

The planned headline deficit of 1.5% of GDP in the stability programme compares with a projection of 1.8% of GDP in the Commission 2017 spring forecast. The difference vis-à-vis the programme's target stems from more conservative assumptions based on standard

[1] Recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology.

elasticities, track-record and some plans not being sufficiently underpinned by measures, which affect both revenue and expenditure. On the revenue side, these concern a lower forecast in particular for social security contributions (about 0.1% of GDP) and on the expenditure side, these mainly concern higher projections for compensation of employees, intermediate consumption and social transfers (about 0.2% of GDP).

Due to the limited volume of fiscal consolidation measures, the structural balance is expected to deteriorate by about 0.2% of GDP in 2017 according to the Commission forecast.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

In the stability programme, the government commits to gradually reduce its headline deficit with the aim of reaching the MTO by 2021. The headline balance is planned to improve gradually by 2.8% of GDP over 2017-2021, reaching -1.0% of GDP in 2018, -0.3% in 2019, 0.4% in 2020 and 1.3% in 2021 (Figure 1). This would be consistent with a gradual improvement of the structural balance by around 0.5% of GDP per year over 2017-2021 towards the MTO. The chosen MTO of a structural balance of 0.25% of GDP reflects the objectives of the SGP. Overall, the pace of the headline deficit reduction broadly replicates the targets of the 2016 stability programme.

The planned fiscal path from 2017 to 2021 relies mostly on expenditure reduction in relation to GDP (-3.1 pps.), which would more than offset a moderate expected decline in revenue (-0.4 pps.), mostly driven by tax revenue (-0.7 pps.). On the expenditure side, a 1.1 pps. of the adjustment would come from a relative reduction in compensation of employees to GDP, following the new replacement ratio policy in 2018 and 2019 and despite the planned reversal of career freezings which will start in 2018. In addition, social transfers are expected to decline by 0.9 pps., on the back of the respective growth being projected to remain below nominal GDP growth without this being underpinned by any specific measures. Intermediate consumption would decline by 0.6 pps., based on continued – but gradually diminishing – freezing of expenditure growth compared to nominal GDP. Finally, interest expenditure would decline by 0.6 pps. based on relatively favourable assumptions regarding the evolution of the implicit average interest rate and supported by the planned early repayment of the IMF loans scheduled until 2019. On the revenue side, reductions of 0.5 pps. in taxes on income and wealth, 0.2 pps. in indirect taxes and 0.1 pps.in social security contributions are planned to be partly offset by an overall increase of 0.4 pps. in other current and capital revenues.

In the stability programme, the planned fiscal path in 2018 and the following years is underpinned by continuous nominal GDP growth of around 3.6% per year and by some fiscal policy measures. The programme mostly presents measures that would support overall expenditure savings and reduce the tax burden. Deficit-reducing measures for 2018 included in the programme are the freezing of intermediate consumption and of other current spending, the reduction of interest expenditure, the maintenance of special levies, the increase of other taxes and the containment of public employment. As deficit-increasing measures the programme includes a reduction of income taxes for low income households and the unfreezing of careers. Some of these measures are expected to have an additional budgetary impact in the following years; yet, no new measure is considered for the outer years, if not the one-off revenue from the recovery of pre-paid margins of the EFSF in 2021, which would yield 0.4% of GDP.

The planned headline deficit of 1.0% of GDP for 2018 in the stability programme compares with a Commission forecast of 1.9% of GDP, on a no-policy-change basis. The difference vis-à-vis the programme's projection reflects the carry-over from 2017, a less optimistic macroeconomic outlook and more conservative revenue estimates, which would imply less dynamic revenue (-0.5% of GDP compared to the stability programme) and higher current spending (+0.5 % of GDP), in the absence of sufficiently-specified containment measures. Due to the limited amount of sufficently-specified fiscal consolidation measures and less optimistic assumptions on potential growth, the Commission forecast points to a deterioration of the structural balance by 0.1% of GDP in 2018, compared to the improvement of the (recalculated) structural balance by 0.6% of GDP in the stability programme.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	2021	Change: 2016-2021
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**43.1**	**43.2**	**43.3**	**42.7**	**43.0**	**42.9**	**42.8**	**42.9**	**-0.1**
of which:									
- Taxes on production and imports	14.7	14.8	14.8	14.8	14.8	14.7	14.7	14.6	-0.2
- Current taxes on income, wealth, etc.	10.3	10.1	10.1	9.9	9.9	9.8	9.7	9.6	-0.7
- Social contributions	11.7	11.7	11.8	11.6	11.7	11.8	11.8	11.7	0.1
- Other (residual)	6.3	6.6	6.6	6.4	6.6	6.6	6.6	7.0	0.7
Expenditure	**45.1**	**45.0**	**44.8**	**44.6**	**44.0**	**43.2**	**42.4**	**41.7**	**-3.4**
of which:									
- Primary expenditure	40.8	40.8	40.6	40.5	40.0	39.3	38.6	38.1	-2.8
of which:									
Compensation of employees	11.3	11.2	11.1	11.0	10.8	10.6	10.3	10.0	-1.2
Intermediate consumption	5.7	5.6	5.6	5.6	5.4	5.2	5.1	5.0	-0.7
Social payments	18.9	18.7	18.7	18.6	18.4	18.2	17.9	17.7	-1.2
Subsidies	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.0
Gross fixed capital formation	1.5	2.0	2.0	2.1	2.1	2.1	2.1	2.1	0.6
Other (residual)	2.8	2.8	2.7	2.7	2.8	2.7	2.7	2.8	-0.6
- Interest expenditure	4.2	4.2	4.2	4.1	4.0	3.9	3.8	3.6	-0.6
General government balance (GGB)	**-2.0**	**-1.8**	**-1.5**	**-1.9**	**-1.0**	**-0.3**	**0.4**	**1.3**	**3.3**
Primary balance	**2.2**	**2.4**	**2.7**	**2.2**	**3.1**	**3.6**	**4.2**	**4.9**	**2.7**
One-off and other temporary measures	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.4	0.1
GGB excl. one-offs	**-2.3**	**-2.0**	**-1.7**	**-1.9**	**-1.0**	**-0.3**	**0.4**	**0.9**	**3.2**
Output gap[1]	-0.6	0.4	-0.1	1.0	0.2	0.4	0.7	1.0	1.6
Cyclically-adjusted balance[1]	-1.7	-2.0	-1.5	-2.4	-1.0	-0.5	0.0	0.8	2.5
Structural balance[2]	**-2.0**	**-2.2**	**-1.7**	**-2.4**	**-1.0**	**-0.5**	**0.0**	**0.4**	**2.4**
Structural primary balance[2]	2.2	2.0	2.5	1.7	3.0	3.4	3.8	4.0	**1.8**

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

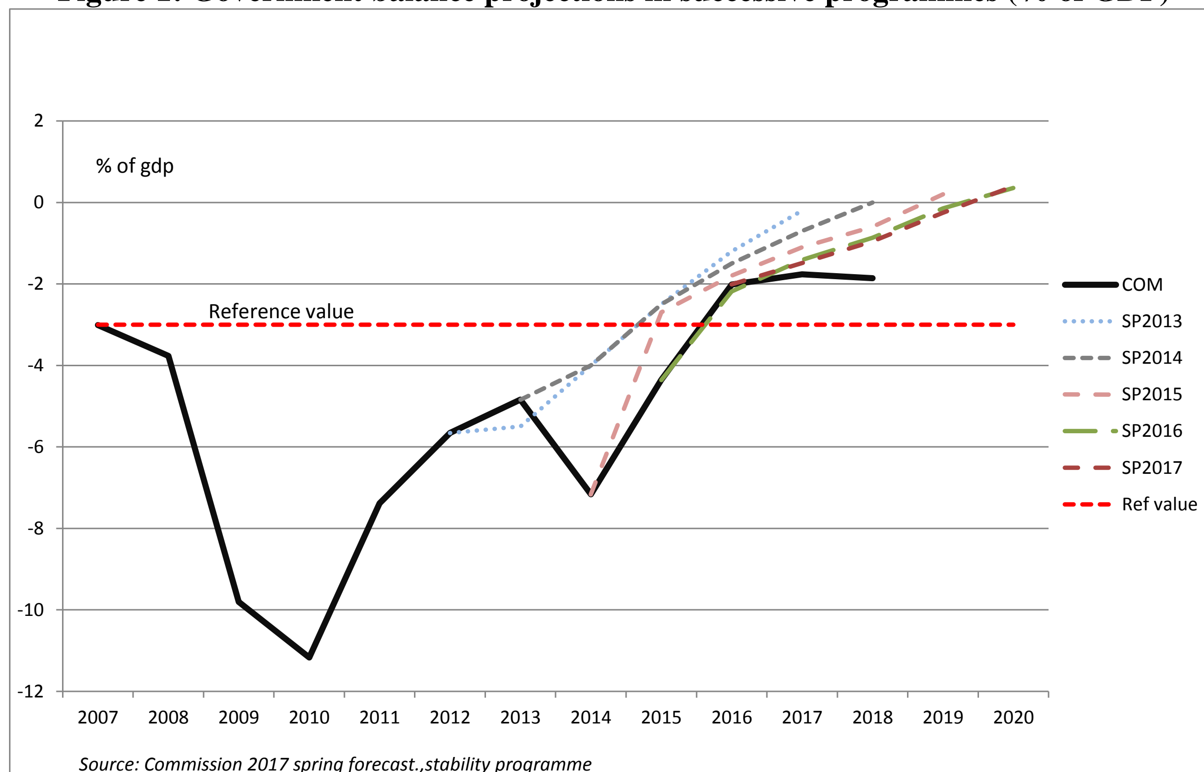
[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

While the former stability programmes have typically implied some delay in the fiscal adjustment as compared to the previous updates, the 2017 stability programme – building on the achievement of the 2016 fiscal targets –, projects a fiscal path that is very close to the path in the 2016 programme (see Figure 1).

Figure 1: Government balance projections in successive programmes (% of GDP)



3.3. MEASURES UNDERPINNING THE PROGRAMME

As regards fiscal policy measures for 2018, the deficit-increasing carry-over from the 2017 reversal of the Personal Income Tax (PIT) surcharge on higher tax brackets (0.1% of GDP) and the higher expenditure from pension increases (around 0.1% of GDP) are considered in the programme's no-policy change baseline scenario. On top of this baseline, the stability programme plans other deficit-increasing impacts from the PIT measures aimed at providing support to lower incomes (0.1% of GDP) and a gradual unfreezing of careers (0.1% of GDP). These are planned to be more than compensated by the deficit-decreasing impact of a nominal freeze of intermediate consumption (around 0.2% of GDP) and of other current expenditure (0.1% of GDP), together with savings from interest expenditure (0.1% of GDP). Finally, the overall effect on the general government balance of higher public investment using EU structural funds revenue is projected to be broadly neutral in line with the principle of budget neutrality of EU funds in national accounts. While the package of new measures would contribute to a close to 0.2%-of-GDP reduction in the 2018 headline deficit, the overall deficit-reducing impact from measures would be only be very minor if the effects from the above-mentioned PIT surcharge reversal and pension indexation are taken into account.

The Commission 2017 spring forecast takes fully into account the carry-over impact of the PIT surcharge reversal and the pension adjustment, and factors in at full value the impact of PIT measures aimed at providing support to lower incomes and the gradual unfreezing of careers. It instead takes into account only half of the estimated budgetary impact of the freezing of intermediate consumption and other current expenditure, as these two measures are not yet sufficiently specified. Savings in interest expenditure, while not explicitly considered a measure in the Commission forecast, broadly coincide with those of the stability programme.

As regards the period 2019-2021, no significant measures are planned on the revenue side. On the expenditure side, the nominal freeze of intermediate consumption and other current expenditure is set to remain but be gradually phased out over time (with a more pronounced reduction for other current expenditure); while the additional yearly budgetary impact of the gradual unfreezing of careers is planned to remain constant throughout the programme's horizon. Savings in interest expenditure and mutually-offsetting higher revenue and expenditure associated with the EU funds would continue in 2019. Finally, in 2021 a further recovery of EFSF pre-paid margins would improve the headline deficit by 0.4% of GDP (this being a one-off measure).

Main budgetary measures

Revenue	**Expenditure**
2018	
• PIT measure to provide support to lower incomes (-0.1% of GDP) • Additional revenue from EU structuralfunds (+0.1% of GDP)	• Gradual unfreezing of careers (+0.1% of GDP) • Higher investment linked to EU structural funds (+0.1% of GDP) • Nominal freeze of intermediate consumption except PPPs (-0.2% of GDP) • Savings in interest expenditure (-0.1% of GDP) • Nominal freeze in other current expenditure (-0.1% of GDP)
2019	
• Additional revenue from EU structural funds (+0.1% of GDP)	• Gradual unfreezing of careers (+0.1% of GDP) • Higher investment linked to EU structural funds (+0.1% of GDP) • Nominal freeze of intermediate consumption except PPPs (-0.2% of GDP) • Savings in interest expenditure (-0.1% of GDP)
2020	
	• Gradual unfreezing of careers (+0.1% of GDP) • Nominal freeze of intermediate consumption except PPPs (-0.1% of GDP)
2021	
	• Gradual unfreezing of careers (+0.1% of GDP) • Pre-paid margins EFSF (+0.4% of GDP)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

3.4. DEBT DEVELOPMENTS

After falling slightly to 129.0% in 2015, Portugal's gross general government debt-to-GDP ratio has risen to 130.4% in 2016, mainly due to issuance of new government debt for the recently-finalised public recapitalisation of the state-owned bank Caixa Geral de Depósitos (CGD). The stability programme projects the debt ratio to be on a firm downward path, expecting it to reach 127.9% by end-2017, and to steadily decline to 109.4% of GDP by end-2021 (Figure 2). The debt reduction is mostly underpinned by steadily increasing primary surpluses and a favourable snow-ball effect from 2018 onwards. The stock-flow adjustment is projected to have a diversified profile over the programme's horizon, mostly reflecting the use of cash deposits, which would report reductions in 2018 and 2019 and an accumulation in 2020 in view of large amortisation payments scheduled for 2021.

The Commission 2017 spring forecast expects a somewhat higher general government debt-to-GDP ratio of 128.5% of GDP in 2017 and 126.2% of GDP in 2018, mostly due to projected higher headline deficits and lower nominal GDP growth in 2018.

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020	2021
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**125.2**	**130.4**	**128.5**	**127.9**	**126.2**	**124.2**	**120.0**	**117.6**	**109.4**
Change in the ratio	6.6	1.4	-1.9	-2.5	-2.3	-3.6	-4.2	-2.3	-8.2
Contributions[2] :									
1. Primary balance	**1.2**	**-2.2**	**-2.4**	**-2.7**	**-2.2**	**-3.1**	**-3.6**	**-4.2**	**-4.9**
2. "Snow-ball" effect	**4.5**	**0.5**	**0.1**	**0.1**	**0.3**	**-0.1**	**-0.3**	**-0.5**	**-0.7**
Of which:									
Interest expenditure	4.7	4.2	4.2	4.2	4.1	4.0	3.9	3.8	3.6
Growth effect	1.0	-1.8	-2.3	-2.3	-2.0	-2.3	-2.4	-2.4	-2.5
Inflation effect	-1.1	-2.0	-1.7	-1.7	-1.8	-1.8	-1.9	-1.9	-1.8
3. Stock-flow adjustment	**0.9**	**3.1**	**0.4**	**0.1**	**-0.4**	**-0.4**	**-0.2**	**2.4**	**-2.6**

Notes:

[1] End of period.

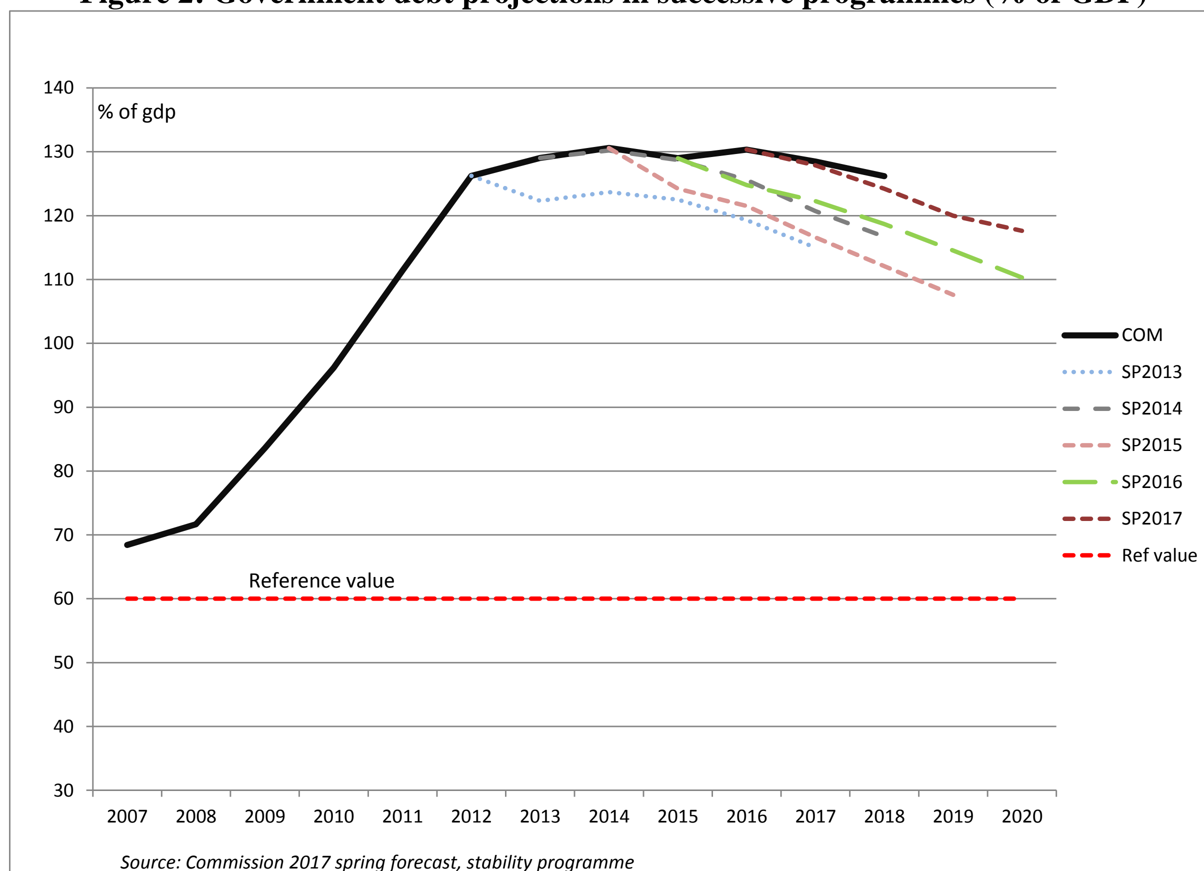
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2017 spring forecast (COM); stability programme (SP), Comission calculations.

The debt-to-GDP ratio has stabilised around 130% since 2013 and successive stability programmes have planned similar debt reduction paths. However, the effective start of such a downward path has in most years been delayed as compared to the previous programme.

Figure 2: Government debt projections in successive programmes (% of GDP)



3.5. RISK ASSESSMENT

Some short- and medium-term risks could affect the fiscal path planned in the programme. This concerns the achievement of the planned structural adjustment in 2017 and 2018, and the materialisation of the expected favourable economic growth assumptions and expenditure containment over the programme horizon.

As regards 2017, in addition to general risks related to uncertainties surrounding the macroeconomic outlook (including vulnerability to external developments), risks are mostly related to possible spending pressures (see also section 3.1) and the potential impact of bank support measures.

As regards 2018 and onwards, the macroeconomic assumptions of the stability programme are more optimistic than in the Commission 2017 spring forecast. Moreover, the planned yields of some measures appear very uncertain and have not been specified in sufficient detail. This regards in particular the impact of expenditure freezing of both intermediate consumption and other current expenditure, which lacks a detailed description. In addition, continued savings in interest expenditure are uncertain as they crucially hinge upon (domestic and external) market conditions, at a time where changes in monetary policy may be envisaged in the medium-term. Moreover, contingent liabilities from the banking sector may create downward risks to

the fiscal outlook over the programme's horizon[2]. Finally, the overall amount of planned consolidation measures appears to be insufficient to effectively achieve the planned moderate overall expenditure growth at below nominal GDP growth and thereby fulfil the planned improving path for both headline and structural balances.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

4.1. Compliance with EDP recommendations

Based on information available at the time of the 2016 autumn forecast, the Commission concluded on 16 November 2016 that Portugal had taken effective action in compliance with the Council Decision of 8 August 2016 under Article 126(9) of the Treaty and decided to keep the EDP for Portugal in abeyance[3]. According to the revised EDP notification of the 2016 general government deficit of 12 April 2017 and its validation by Eurostat on 24 April 2017, the 2016 general government headline deficit turned out at 2.0% of GDP, thus below the 2.5% of GDP target set by the Council on 8 August 2016 in its notice to Portugal in accordance with Article 126(9) of the Treaty. Similarly, according to the Commission 2017 spring forecast, the structural balance improved by 0.3% of GDP in 2016, thus above the structural effort of an unchanged structural balance with respect to 2015 requested by the Council. The Commission 2017 spring forecast also projects a deficit of 1.8% of GDP in 2017 (not including the potential deficit-increasing impact of bank support measures) and 1.9% of GDP in 2018 (on a no-policy-change basis), thus remaining below the 3%-of-GDP Treaty reference value over the forecast horizon. These projections do not include the potential deficit-increasing impact of bank support measures.

[2] Such risks could e.g. derive from the specific contingent liability mechanism included in the agreement on the sale of 75% of Novo Banco.

[3] COM(2016) 901 final, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016DC0901

Box 1: Council recommendations addressed to Portugal

On 8 August 2016, the Council, in accordance with Article 126(9) of the Treaty, gave notice to Portugal to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit. To this end,

"*1. Portugal shall put an end to the present excessive deficit situation by 2016.*

2. Portugal shall reduce the general government deficit to 2,5 % of GDP in 2016. This target does not include the impact of the direct effect of potential bank support. This improvement in the general government deficit is consistent with an unchanged structural balance with respect to 2015, based on the Commission 2016 spring forecast. Portugal shall also use all windfall gains to accelerate the deficit and debt reduction.

3. In addition to the savings already included in the Commission 2016 spring forecast, Portugal shall adopt and fully implement consolidation measures for the amount of 0,25 % of GDP in 2016. In particular, Portugal shall implement fully the consolidation measures incorporated in the 2016 Budget, including the additional expenditure control in the procurement of goods and services highlighted in the Stability Programme. Portugal shall complement those savings with further measures of a structural nature to achieve the recommended structural effort.

4. Portugal shall stand ready to adopt further measures should risks to the budgetary plans materialise. Fiscal consolidation measures shall secure a lasting improvement in the general government balance in a growth-friendly manner.

5. To ensure a durable improvement of public finances, Portugal shall strictly implement the Budget Framework Law and the Commitment Control Law and further improve revenue collection and expenditure control. Portugal shall present a clear schedule and implement steps to fully clear arrears and improve efficiency in the health care system, to reduce the reliance of the pension system on budget transfers, and to ensure fiscal savings in the restructuring of State-owned enterprises."

On 12 July 2016, the Council also addressed recommendations to Portugal in the context of the European Semester. In particular, in the area of public finances, the Council recommended to Portugal to "*Ensure a durable correction of the excessive deficit, in accordance with the relevant decisions or recommendations under the excessive deficit procedure, by taking the necessary structural measures and by using all windfall gains for deficit and debt reduction. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP.*"

Table 4: Compliance with the requirements of the corrective arm

(% of GDP)	2016
	COM
Headline balance	
Headline budget balance	-2.0
EDP requirement on the budget balance	-2.5
Fiscal effort - change in the structural balance	
Change in the structural balance[1]	0.3
Cumulative change[2]	0.3
Required change from the EDP recommendation	0.0
Cumulative required change from the EDP recommendation	0.0
Fiscal effort - adjusted change in the structural balance	
Adjusted change in the structural balance[3]	0.9
of which: *correction due to change in potential GDP estimation (α)*	0.0
correction due to revenue windfalls/shortfalls (β)	-0.6
Cumulative adjusted change [2]	0.9
Required change from the EDP recommendation	0.0
Cumulative required change from the EDP recommendation	0.0
Fiscal effort - calculated on the basis of measures (bottom-up approach)	
Fiscal effort (bottom-up)[4]	1.2
Cumulative fiscal effort (bottom-up)[2]	1.2
Requirement from the EDP recommendation	0.3
Cumulative requirement from the EDP recommendation	0.3

Notes

[1]Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on programme is recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology. Change compared to *t-1* .

[2] Cumulated since the latest EDP recommendation.

3 Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4]The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

Stability programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

4.2. Compliance with the debt criterion

Table 5: Compliance with the debt criterion

	2016	**2017**		**2018**	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**130**	**127.9**	**128.5**	**124.2**	**126.2**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	0.3	0.3	-0.2	0.6	-0.1
To be compared to:					
Required adjustment [4]		-0.2	0.7	-0.3	1.1

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2017 spring forecast (COM); stability programme (SP), Comission calculations.

Assuming the durable correction of the excessive deficit by the 2016 deadline, Portugal is subject to the transitional debt rule in the period 2017-2019. Based on the stability programme, the transitional debt rule results in a negative required Minimum Linear Structural Adjustment (MLSA) for 2017 (-0.2% of GDP) and 2018 (-0.3% of GDP). In 2017 and 2018, based on the (recalculated) change in the structural balance as planned in the stability programme, Portugal is expected to make sufficient progress towards compliance with the debt reduction benchmark.

In turn, calculated on the basis of the Commission 2017 spring forecast, the required MLSA would be 0.7% of GDP in 2017 and 1.1% of GDP in 2018. Thus, based on the Commission forecast, the projected deteriorations of 0.2% and 0.1% of GDP in the 2017 and 2018 structural balances would fall short of the requirement. Thus, based on the required MLSA calculated on the basis of the Commission forecast, Portugal is not projected to make sufficient progress towards compliance with the debt reduction benchmark in 2017 and 2018.

4.3. Compliance with the MTO or the required adjustment path towards the MTO

Assuming a durable correction of its excessive deficit by the 2016 deadline, Portugal is subject to the preventive arm of the SGP as of 2017 and has to ensure compliance with the required adjustment towards the MTO. To this end, Portugal is required to pursue an annual structural adjustment towards the MTO of at least 0.6% of GDP in 2017 and in 2018.

In 2017, the (recalculated) structural balance in the stability programme is set to improve by only 0.3% of GDP, thus pointing to a risk of some deviation from the recommended structural adjustment of 0.6% of GDP towards the MTO. According to the information provided in the stability programme, the planned growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark in 2017, leading to a negative impact of 0.6% of GDP in the underlying fiscal position and thus pointing to a risk of a significant deviation. This calls for an overall assessment. The difference between the two indicators mainly stems from two factors. First, the reading of the fiscal effort based on the structural balance pillar is positively impacted by revenue windfalls, which are however excluded from the expenditure benchmark pillar. Second, the reading of the fiscal effort based on the expenditure benchmark pillar is negatively impacted by the medium-term potential GDP growth used therein, which reflects negative potential GDP growth in the crisis years and is lower than the potential GDP growth underpinning the 2017 structural balance. Taking these factors into consideration, both indicators would point to a risk of some deviation from the requirements. Therefore, based on an overall assessment, the stability programme plans some deviation from the recommended structural adjustment towards the MTO in 2017.

In turn, based on the Commission 2017 spring forecast, the structural balance is expected to deteriorate by 0.2% of GDP in 2017, thus pointing to a risk of a significant deviation from the recommended minimum structural adjustment of 0.6% of GDP towards the MTO. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark in 2017, leading to a negative impact of 0.8% of GDP in the underlying fiscal position and thus also pointing to a risk of a significant deviation. This calls for an overall assessment. Taking into consideration the above-mentioned revenue windfall and difference in potential GDP growth benchmarks, both indicators would point to a risk of a significant deviation from the requirements. Therefore, based on an overall assessment, the Commission forecast points to a risk of a significant deviation from the recommended structural adjustment towards the MTO in 2017, putting at risk compliance with the requirements of the preventive arm of the SGP.

In 2018, the (recalculated) structural balance is expected to improve by 0.6% of GDP in the stability programme, in line with the recommended structural adjustment towards the MTO. According to the information provided in the stability programme, the planned growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark in 2018, leading to a negative impact of 0.6% of GDP in the underlying fiscal position and thus pointing to a risk of a significant deviation. This calls for an overall assessment. Similarly to 2017, the reading of the fiscal effort based on the expenditure benchmark pillar is negatively impacted by the medium-term potential GDP growth used therein, which reflects negative potential GDP growth in the crisis years and is lower than the potential GDP growth underpinning the 2018 structural balance. In addition, over 2017 and 2018 taken together, the structural balance pillar points to a risk of some deviation, while the expenditure benchmark pillar indicates a risk of a significant deviation. Taking into consideration the above-mentioned effects, both indicators would point to a risk of some deviation from the requirements over 2017 and 2018 taken together, suggesting that the 2017 deviations are not planned to be compensated for. Therefore, based on an overall assessment, the stability programme plans some deviation from the recommended structural adjustment towards the MTO over 2017 and 2018 taken together.

In turn, based on the Commission 2017 spring forecast, the structural balance is expected to deteriorate by 0.1% of GDP in 2018, thus pointing to a risk of a significant deviation from the recommended structural adjustment of 0.6% of GDP towards the MTO. The growth of

government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark in 2018, leading to a negative impact of 1.1% of GDP in the underlying fiscal position and thus also pointing to a risk of a significant deviation. Over 2017 and 2018 taken together, both indicators also point to a risk of a significant deviation from the requirements. Taking into consideration the above-mentioned difference in potential GDP growth benchmarks, the risk of a significant from the requirements in both 2018 and over 2017 and 2018 taken together would be confirmed. Therefore, based on an overall assessment, the Commission forecast points to a risk of a significant deviation from the recommended structural adjustment towards the MTO in 2018 and over 2017 and 2018 taken together, putting at risk compliance with the requirements of the preventive arm of the SGP.

These assessments are based on the matrix of preventive arm requirements agreed with the Council, which takes into account (i) the cyclical position of the economy, as assessed on the basis of output gap estimates using the commonly agreed methodology as well as the projected real GDP growth rate, and (ii) debt sustainability considerations. Given the current cyclical conditions and the uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of Portugal's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of appreciation in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

Table 6: Compliance with the requirements under the preventive arm

(% of GDP)	2017		2018	
Initial position[1]				
Medium-term objective (MTO)	0.3		0.3	
Structural balance[2] (COM)	-2.2		-2.4	
Structural balance based on freezing (COM)	-2.2		-	
Position vis-a -vis the MTO[3]	Not at MTO		Not at MTO	
(% of GDP)	**2017**		**2018**	
	SP	**COM**	**SP**	**COM**
Structural balance pillar				
Required adjustment[4]	0.6		0.6	
Required adjustment corrected[5]	0.6		0.6	
Change in structural balance[6]	0.3	-0.2	0.6	-0.1
One-year deviation from the required adjustment[7]	-0.3	-0.8	0.0	-0.7
Two-year average deviation from the required adjustment[7]			-0.1	-0.8
Expenditure benchmark pillar				
Applicable reference rate[8]	-1.4		0.1	
One-year deviation adjusted for one-offs[9]	-0.6	-0.8	-0.6	-1.1
Two-year deviation adjusted for one-offs[9]			-0.6	-1.0
PER MEMORIAM: One-year deviation[10]	-0.6	-0.9	-0.8	-1.3
PER MEMORIAM: Two-year average deviation[10]			-0.7	-1.1
Conclusion				
Conclusion over one year	Overall assessment	Significant deviation	Overall assessment	Significant deviation
Conclusion over two years	Compliance	Compliance	Overall assessment	Significant deviation

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :
Stability programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

Portugal does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures the short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on the Commission 2017 spring forecast and the customary no-policy-change assumption beyond the forecast horizon, general government debt, at 130.4% of GDP in 2016, is expected to fall to 119.4% in 2027, thus remaining above the 60%-of-GDP Treaty reference value. Over this horizon, general government debt is projected to have peaked in 2016 at more than 130% of GDP. This highlights high risks from the debt sustainability analysis in the medium term. The full implementation of the stability programme would nonetheless put debt on a clearly decreasing path by 2027, although remaining above the 60%-of-GDP Treaty reference value in 2027.

The medium-term fiscal sustainability risk indicator S1 is at 5.5 pps. of GDP, primarily related to the high level of general government debt contributing with 4.8 pps. of GDP, thus indicating high risks in the medium term. The full implementation of the stability programme would put the sustainability risk indicator S1 at 2.3 pps. of GDP, leading to lower the medium-term risk to just below the threshold for high risk. Overall, risks to fiscal sustainability over the medium term are, therefore, high. Fully implementing the fiscal plans in the stability programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 1.0pp. of GDP. In the long term, Portugal therefore appears to face low fiscal sustainability risks, primarily related to the initial budgetary position and the projected ageing costs. Full implementation of the programme would put the S2 indicator at -1.4 pps. of GDP, leading to a lower long-term risk.

Table 7: Sustainability indicators

Time horizon			No-policy change scenario		Stability programme scenario	
Short Term			**LOW risk**			
S0 indicator [1]			0.4			
Fiscal subindex			0.3	LOW risk		
Financial & competitiveness subindex			0.5	LOW risk		
Medium Term			**HIGH risk**			
DSA [2]			HIGH risk			
S1 indicator [3]			5.5	HIGH risk	2.3	MEDIUM risk
of which						
	Initial Budgetary Position		0.8		-2.5	
	Debt Requirement		4.8		4.7	
	Cost of Ageing		-0.1		0.0	
	of which					
		Pensions	0.4		0.3	
		Health-care	0.5		0.4	
		Long-term care	0.0		0.0	
		Other	-1.0		-0.6	
Long Term			**LOW risk**		**LOW risk**	
S2 indicator [4]			1.0		-1.4	
of which						
	Initial Budgetary Position		0.6		-1.9	
	Cost of Ageing		0.4		0.5	
	of which					
		Pensions	-0.3		-0.6	
		Health-care	1.7		1.6	
		Long-term care	0.2		0.2	
		Other	-1.2		-0.7	

Source: Commission services; 2017 stability programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for no-policy change scenario and from last available year for the SP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

As regards compliance with national numerical fiscal rules, the 2016 budgetary outcome appears to indicate that the change in the structural balance did not comply with the rule of a minimum annual adjustment of the structural balance by 0.5% of GDP as long as the MTO is not reached, as laid down in Article 12-C (6) of the currently applicable Budget Framework Law (BFL)[4]. Similarly, the improvement of the structural balance by 0.3% of GDP in 2017 as planned in the stability programme points to some planned deviation from the 0.5% minimum improvement of the structural balance.

From 2018 to 2021, the planned improvement of the structural balance of around 0.5% of GDP on average is instead overall consistent with the 0.5% of GDP minimum improvement laid down in the BFL. As regards the debt rule laid down in Article 10-G(1) of the BFL referring to the provisions of Article (2) of Council Regulation (EC) 1467/97 for the preventive arm, while the planned reduction may fall short of the transitional debt rule in 2017, compliance appears to be ensured from 2018 onwards.

The macroeconomic forecasts underlying the stability programme have been endorsed by the Portuguese Fiscal Council in an opinion attached to the programme. In the opinion, the Council points to downside risks for the period 2018-2021, in particular as regards the assumptions on net external demand.

The stability programme does not explicitly state that it also constitutes the national medium-term fiscal plan in line with Article 4(1) of Regulation 473/2013. The legal references contained in the opinion of the Fiscal Council however indicate that the stability programme is assumed to also constitute the national medium-term fiscal plan.

Based on the information provided in the stability programme, the past fiscal performance in Portugal and the one planned for 2017 appear not to comply with the requirements of the applicable national numerical fiscal rules. However, the planned targets for 2018 to 2021 would ensure compliance with the national numerical fiscal rules.

7. SUMMARY

In 2016, Portugal achieved a headline deficit of 2.0% of GDP, thus below the headline deficit target of 2.5% of GDP requested in the Council decision of 8 August 2016. Moreover, the required fiscal effort is also estimated to have been delivered.

Portugal plans an improvement of the structural balance of 0.3% of GDP in 2017 and 0.6% of GDP in 2018, compared to the recommended structural adjustment of 0.6% of GDP towards the MTO in both years. The planned growth rate of government expenditure, net of discretionary revenue measures and one-offs, is planned to exceed the applicable expenditure benchmark rate, leading to negative impacts of 0.6% of GDP on the underlying fiscal position in both years. Following an overall assessment, this points to a risk of some deviation from the recommended adjustment path towards the MTO in both years based on the stability programme. However, following an overall assessment on the basis of the Commission 2017 spring forecast, there is a risk of a significant deviation in 2017 and 2018.

Based on stability programme data, Portugal plans to make sufficient progress towards compliance with the debt reduction benchmark in 2017 and 2018. However, based on the

[4] Law n.º 41/2014 of 10 July (Eighth modification of Law n.º 91/2001, of 20 August) (Budget Framework Law)

Commission 2017 spring forecast, Portugal is not projected to make sufficient progress towards compliance with the debt reduction benchmark in both years.

8. ANNEXES

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	1.9	1.4	-1.6	0.9	1.6	1.4	1.8	1.6
Output gap [1]	1.5	0.0	-2.4	-3.2	-1.6	-0.6	0.4	1.0
HICP (annual % change)	3.3	2.6	1.5	-0.2	0.5	0.6	1.4	1.5
Domestic demand (annual % change) [2]	1.7	1.7	-3.3	2.2	2.5	1.5	2.1	1.7
Unemployment rate (% of labour force) [3]	5.9	8.7	13.6	14.1	12.6	11.2	9.9	9.2
Gross fixed capital formation (% of GDP)	26.5	22.9	18.1	15.0	15.3	14.8	15.4	15.8
Gross national saving (% of GDP)	17.9	13.1	12.7	15.0	14.7	15.4	16.0	16.4
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.8**	**-4.7**	**-7.8**	**-7.2**	**-4.4**	**-2.0**	**-1.8**	**-1.9**
Gross debt	**53.9**	**67.7**	**109.3**	**130.6**	**129.0**	**130.4**	**128.5**	**126.2**
Net financial assets	**-41.1**	**-55.8**	**-79.5**	**-108.9**	**-109.4**	**-104.5**	**n.a**	**n.a**
Total revenue	39.9	40.9	42.3	44.6	44.0	43.1	43.2	42.7
Total expenditure	43.7	45.6	50.1	51.8	48.3	45.1	45.0	44.6
of which: Interest	2.9	2.8	4.0	4.9	4.6	4.2	4.2	4.1
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-5.2**	**-6.1**	**0.4**	**6.0**	**3.6**	**2.7**	**2.6**	**2.5**
Net financial assets; non-financial corporations	**-108.5**	**-126.3**	**-138.6**	**-134.7**	**-129.7**	**-125.3**	**n.a**	**n.a**
Net financial assets; financial corporations	**1.5**	**3.5**	**5.3**	**9.2**	**9.4**	**7.9**	**n.a**	**n.a**
Gross capital formation	13.9	13.5	10.5	9.9	9.8	10.1	10.1	10.4
Gross operating surplus	19.6	19.9	21.0	21.6	21.8	21.5	21.7	22.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**1.5**	**1.7**	**3.4**	**2.2**	**1.0**	**0.8**	**0.6**	**0.9**
Net financial assets	**99.2**	**98.7**	**103.7**	**116.7**	**117.7**	**116.8**	**n.a**	**n.a**
Gross wages and salaries	38.5	37.0	36.0	34.5	34.1	34.3	34.2	34.1
Net property income	4.5	5.7	5.8	6.1	5.9	5.6	5.6	5.7
Current transfers received	21.0	22.2	25.0	26.1	25.4	25.1	24.6	24.5
Gross saving	7.6	5.8	6.1	3.6	3.1	3.0	2.9	3.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-7.4**	**-9.1**	**-3.9**	**1.0**	**0.3**	**1.5**	**1.4**	**1.5**
Net financial assets	**53.4**	**83.7**	**116.5**	**124.7**	**118.7**	**112.4**	**n.a**	**n.a**
Net exports of goods and services	-9.4	-8.6	-3.7	0.2	0.7	1.2	0.8	0.7
Net primary income from the rest of the world	-1.5	-2.7	-2.5	-1.7	-2.9	-2.1	-1.7	-1.6
Net capital transactions	1.8	1.3	1.5	1.3	1.0	1.0	1.0	1.0
Tradable sector	43.3	40.3	40.6	41.9	42.4	42.6	n.a	n.a
Non tradable sector	44.2	46.6	47.3	45.6	44.8	44.2	n.a	n.a
of which: Building and construction sector	6.6	6.0	4.7	3.6	3.5	3.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	96.7	102.6	97.4	92.8	89.4	90.7	90.4	89.7
Terms of trade goods and services (index, 2000=100)	99.0	98.2	99.6	101.4	104.8	106.0	105.6	105.6
Market performance of exports (index, 2000=100)	99.9	94.8	105.5	114.4	114.9	116.0	116.3	116.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :
AMECO data, Commission 2017 spring forecast