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COMMISSION OPINION

of 21.11.2023

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[1] 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 Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires 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 8 March 2023, the Commission adopted a Communication[2] providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.

4. On 26 April 2023, the Commission presented three legislative proposals[3] to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023[4] and on 27 October 2023[5], the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to apply. The fiscal component of the Spring 2023 country-specific recommendations included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

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[1] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

[2] Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

[3] Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

[4] Council Conclusions on 'Orientations for a reform of the EU economic governance framework' of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

[5] European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23

5. As announced in its fiscal policy guidance for 2024[6], the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.

6. The Recovery and Resilience Facility[7] 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')[8]. The Facility will 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 Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING PORTUGAL

8. On 16 October 2023, Portugal submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Portugal of 14 July 2023[9], the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. According to the Draft Budgetary Plan, Portugal's real GDP is projected to grow by 1.5% in 2024 (2.2% in 2023), while HICP inflation is forecast at 3.3% in 2024 (5.3% in 2023). Similarly, according to the Commission 2023 autumn forecast, Portugal's

[6] Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

[7] 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).

[8] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

[9] Council Recommendation on the 2023 National Reform Programme of Portugal and delivering a Council opinion on the 2023 Stability Programme of Portugal, OJ C 312, 1.9.2023, p. 206.

real GDP is projected to grow by 1.3% in 2024 (2.2% in 2023), while HICP inflation is forecast at 3.2% in 2024 (5.5% in 2023). Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's 2023 autumn forecast for 2023 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. According to the Draft Budgetary Plan, Portugal's general government surplus is projected to decrease to 0.2% of GDP in 2024 (from 0.8% in 2023). This decrease is mainly driven by revenue-decreasing discretionary measures in personal income tax and expenditure-increasing discretionary measures affecting the public wage bill and social transfers. The general government debt-to-GDP ratio is set to decrease to 98.9% at the end of 2024 (from 103.0% at the end of 2023). In turn, according to the Commission 2023 autumn forecast, Portugal's general government surplus is projected to decrease to 0.1% of GDP in 2024 (from 0.8% in 2023), while the general government debt-to-GDP ratio is set to decrease to 100.3% at the end of 2024 (from 103.4% at the end of 2023).

11. Based on the Commission's estimates, the fiscal stance[10] is projected to be expansionary at 1.4% of GDP in 2024, following a broadly neutral fiscal stance of -0.1% in 2023.

12. The Draft Budgetary Plan assumes that expenditure amounting to 1.9% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.8% of GDP in 2023. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure financed by Recovery and Resilience Facility grants will enable 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 backed by loans from the Recovery and Resilience Facility, amounting to 0.1% of GDP in 2023 and 2024.

13. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, measures to mitigate the economic and social impact of the increase in energy prices are expected to be partially wound down by the end of 2023, and sizeable measures are projected to remain in place beyond the end of 2024[11]. They consist of measures extended from 2023, in particular the general reduction of the fuel tax and the freeze of the carbon rate under the fuel tax. In addition, the Draft Budgetary Plan includes new and extended revenue and expenditure measures for 2024 that are not directly related to energy price developments. On the revenue side these include a personal income tax reform, including a reduction of the marginal tax rates and an update of the tax brackets, enhanced personal income tax framework conditions for the youth, revisions to indirect taxes (tobacco, vehicles and others) and the widening of tax

[10] 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 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.

[11] Measures that, according to the Draft Budgetary Plan, are not to be phased out in the course of 2024 are, in principle, assumed in the Commission 2023 autumn forecast as having a budgetary impact also in 2025.

incentives for firms' capitalisation. On the expenditure side measures relate to increases in public wages, the reinforcement of the family allowance, a subsidy for housing loans interest rates and the reimbursement of tuition fees to recent graduate students. The aggregate cost of these measures is estimated by the Commission at 1.2% of GDP in 2024 and most measures are expected to have a permanent impact on public finances.

14. On 14 July 2023, the Council recommended that Portugal ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure[12] in 2024 to not more than 1.8%, unless a higher reference rate in net nationally financed primary expenditure growth is estimated to be compatible with Portugal reaching its medium-term budgetary objective (MTO) of -0.5% of GDP, *inter alia* if interest expenditure is lower than projected by the Commission in its 2023 spring forecast. According to the Commission 2023 autumn forecast, while net nationally financed primary expenditure growth is estimated to increase above the recommended maximum growth rate at 5.7% in 2024, Portugal's structural balance is projected at -0.1% of GDP in 2024 (from 0.0% in 2023), thereby above the country's MTO. Portugal is therefore assessed as being in line with what was recommended by the Council.

15. Moreover, the Council recommended that Portugal take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Portugal should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission 2023 autumn forecast, the net budgetary cost[13] of energy support measures is projected at 1.3% of GDP in 2023, 0.7% in 2024 and 0.6% in 2025. In particular, the general reduction of the fuel tax and the freeze of the carbon rate under the fuel tax are assumed to remain in force in 2024 and 2025. The energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Most of these energy support measures in 2023 and 2024 do not appear to be targeted at the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

16. In addition, the Council recommended that Portugal preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission 2023 autumn forecast, nationally financed public investment is projected to remain stable at 2.0% of GDP in 2024 and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 2.6% of GDP in 2024 (from 1.5% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Portugal continue to pursue a medium-term fiscal strategy of gradual

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[12] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

[13] 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.

and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position. The Draft Budgetary Plan does not include budgetary projections beyond 2024.

19. Finally, on 14 July 2023, the Council also recommended Portugal to improve the effectiveness of the tax and social protection systems, in particular by prioritising the simplification of both frameworks, strengthening the efficiency of their respective administrations and reducing the associated administrative burden. The Draft Budgetary Plan refers to the new measures included in the modified recovery and resilience plan for Portugal[14] aimed at addressing this recommendation. These new measures include the creation of a permanent technical unit dedicated to tax policies, the revision of the legal framework underpinning tax benefits, and the creation of a single social benefit.

20. According to the Commission's forecast, Portugal is projected to achieve its MTO in 2024.

However, according to the Commission 2023 autumn 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 as soon as possible in 2023 and 2024.

Portugal is expected to preserve nationally financed public investment. Portugal should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Portugal is not fully in line with the Council Recommendation of 14 July 2023. Therefore, the Commission invites Portugal to wind down the energy support measures as soon as possible in 2023 and 2024.

At the same time, the Commission projects Portugal's headline budget balance at a surplus of 0.1% of GDP in 2024, within the Treaty reference value of 3% of GDP of headline budget balance deficit, and the government debt ratio at 100.3% in 2024, above the Treaty reference value of 60% of GDP.

The Commission is also of the opinion that Portugal has made limited progress with regard to structural elements of the fiscal recommendations made by the Council on 14 July 2023, and thus invites the Portuguese authorities to accelerate progress.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

[14] Council Implementing Decision amending Council Implementing Decision (EU) (ST 10149/2021; ST 10149/2021 ADD 1) of 6 July 2021 on the approval of the assessment of the recovery and resilience plan for Portugal (ST 13351/23+ADD 1 REV 1).

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	**DBP**	**COM**	**DBP**	**COM**
Real GDP (% change)	6.8	2.2	2.2	1.5	1.3
HICP inflation (%; annual average)	8.1	5.3	5.5	3.3	3.2
General government balance (% of GDP)	-0.3	0.8	0.8	0.2	0.1
Primary balance (% of GDP)	1.6	3.0	2.8	2.5	2.4
General government gross debt (% of GDP; at end-year)	112.4	103.0	103.4	98.9	100.3
	COM	**COM**		**COM**	
Fiscal stance (*) (% of GDP)	-1.2	-0.1		-1.4	
Fiscal adjustment (**) (% of GDP)	-1.9	0.5		-0.4	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	1.9	-0.6		-0.6	
Growth in net nationally financed primary expenditure (% change) (A)				5.7	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				1.8	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				-3.9	
Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation (*****) (% of GDP)				1.5	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including 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 nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as 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 nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(****) According to the Council Recommendation 'on the 2023 National Reform Programme of Portugal and delivering a Council opinion on the 2023 Stability Programme of Portugal', (OJ C 312, 1.9.2023, p. 206).

(*****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

'DBP' 2024 Draft Budgetary Plan, 'COM' Commission 2023 autumn forecast.

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For the Commission
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