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**Assessment of the 2015 Stability Programme for
PORTUGAL**

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses Portugal's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission 30 April 2015 and covers the period 2014-2019. It was approved by the government and presented on 22 April 2015 to the national parliament for a debate that included a vote approving its budgetary strategy.

Portugal is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Portugal on 2 December 2009. The country is recommended to correct the excessive deficit by 2015. The year following the correction of the excessive deficit, Portugal will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2015 is projected at 124.4% of GDP, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Portugal is also subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 26 February 2015 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 2015 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 Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, 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 and the quality of public finances. Section 7 summarises the main conclusions.

2. MACROECONOMIC OUTLOOK

In 2014, real GDP grew by 0.9%, on the back of robust domestic demand. Regarding the external side, imports increased more strongly than exports, mainly due to production stoppages at an oil refinery in early 2014, causing a negative contribution from net exports for the first time since 2010. The labour market improved significantly in 2014 on account, among other factors, of the implementation of active labour market policies and the labour market reforms undertaken in the past years.

The macroeconomic scenario underlying the Stability Programme expects real GDP to accelerate from 1.6% in 2015 to 2.0% in 2016 and to 2.4 % on average in 2017-2019. Domestic demand is projected to continue its strong rebound, further supported by low oil prices, the favourable monetary policy stance and further improvements in the labour market outlook. Private consumption is expected to decelerate from 2.1% in 2014 to 1.9% in 2015 and 2016 before growing at 2.1% in 2017-2019. In contrast, gross fixed capital formation (GFCF) is expected to gain momentum over the forecast horizon, from 3.8% in 2015 to 5.0% in 2019, in line with expansion of production capacity in response to acceleration of global demand. Export growth is also expected to pick up due to the strengthening in external demand, with an annual growth rate of 4.8% in 2015, 5.5% in 2015 and 5% in 2017-2019. In addition, the euro depreciation and the moderate unit labour cost developments are also expected to support exports. Import growth is expected to remain solid over the forecast period, consistent with the outlook for domestic demand. Overall, net exports are projected to

contribute positively to GDP growth, by 0.1 pp. in 2015-2016 and 0.2 pp. in the next years. As regards the labour market outlook, employment is forecast to accelerate from a moderate increase of 0.6% in 2015 to 1% by the end of the forecast horizon. HICP inflation is projected to remain in negative territory this year at -0.2% and to increase to 1.3% in 2015 and 1.4% in 2016-2019.

The Commission 2015 spring forecast projects GDP growth at 1.6% in 2015 and 1.8% in 2016. While in 2015 there are no major differences between the macroeconomic scenarios underlying the Stability Programme and the Commission 2015 spring forecast, in 2016, however, the Stability Programme expects a somewhat stronger domestic demand contribution to GDP growth (1.9 pps. against 1.6 pps. in the Commission forecast), mainly due to more robust private consumption growth (1.9% against 1.6% in the Commission forecast). According to the Commission 2015 spring forecast, households are expected to continue benefiting from lower oil prices, the improvement in the labour market and the looser credit conditions, but the still high deleveraging pressures are projected to partly offset those positive effects.

The output gap as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, is gradually narrowing and closing by 2018. According to the authorities' own calculation, the output gap is narrowing at a much more moderate pace, which reflects their own more optimistic potential growth forecast in the medium-term.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018	2019
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	0.9	0.9	1.6	1.6	1.8	2.0	2.4	2.4	2.4
Private consumption (% change)	2.1	2.1	2.0	1.9	1.6	1.9	2.1	2.1	2.1
Gross fixed capital formation (% change)	2.5	2.5	3.5	3.8	4.0	4.4	4.9	4.9	5.0
Exports of goods and services (% change)	3.4	3.4	5.3	4.8	6.1	5.5	5.7	5.7	5.8
Imports of goods and services (% change)	6.4	6.4	4.7	4.6	5.8	5.3	5.4	5.4	5.7
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	1.7	2.1	1.7	1.6	1.6	1.9	2.2	2.2	2.2
- Change in inventories	0.4	0.4	-0.3	-0.2	0.0	0.0	0.1	0.0	0.0
- Net exports	-1.1	-1.1	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Output gap ¹	-5.1	-5.1	-3.1	-3.5	-1.4	-2.0	-0.6	0.4	1.2
Employment (% change)	1.4	1.4	0.6	0.6	0.7	0.8	0.9	0.9	1.0
Unemployment rate (%)	14.1	13.9	13.4	13.2	12.6	12.7	12.1	11.6	11.1
Labour productivity (% change)	-0.5	-0.5	1.0	1.1	1.1	1.2	1.4	1.4	1.4
HICP inflation (%)	-0.2	-0.2	0.2	-0.2	1.3	1.3	1.4	1.4	1.4
GDP deflator (% change)	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Comp. of employees (per head, % change)	-1.4	-1.4	0.5	0.6	1.1	1.0	1.3	1.5	1.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.0	1.9	2.6	2.1	2.8	2.0	2.2	2.4	2.7

Note:

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

Source:

Commission 2015 spring forecast (COM); Stability Programme (SP).

The macroeconomic scenario underpinning the Stability Programme is plausible until 2016 and favourable thereafter. The GDP growth rates of 2.4 % for 2017 to 2019 in the Stability Programme seem rather optimistic when compared to the estimates of the potential growth rate of the economy and the still substantial deleveraging needs in the private and public sectors, which remain important obstacles to stronger medium-term growth. The Stability Programme includes a positive impact of structural reforms as upside risks to the main scenario.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2014

The general government deficit reached 4.5% of GDP in 2014, lower than the 4.8% projected in the Draft Budgetary Plan (DBP) for 2015. As compared to the DBP 2015 projections, the lower-than-expected headline deficit in 2014 was mainly due to unexpectedly high tax collection and effective expenditure control, in particular as regards public investment, compensating for lower-than-expected other revenue. Excluding one-offs and other temporary measures worth 1.1% of GDP, the general government deficit fell to 3.3% of GDP, leading to an improvement of the baseline for 2015. These deficit-increasing one-off measures mostly concerned the financial restructuring of State-owned enterprises and financial sector debt assumptions. There is also still a risk to the final headline deficit figure associated with the statistical recording of the financial sector support measure related to Banco Espírito Santo.

The improvement of the general government deficit in 2014 as compared to 2013 was both revenue and expenditure-driven, with particularly significant contributions from solid collection of indirect taxes (+5.0%) and the decrease in compensation of employees (-2.7%).

Despite the impact of deficit-increasing one-offs, the primary balance improved to 0.5% of GDP and the structural balance reached -0.8% of GDP, only 0.3 pp. below the medium-term objective (MTO) of a structural deficit of 0.5% of GDP.

3.2. Target for 2015 and medium-term strategy

The target for 2015

The Stability Programme maintains the headline target of the Draft Budgetary Plan (DBP) for 2015 of a headline deficit of 2.7% for 2015, above the target of 2.5% of GDP in the Council recommendation of 21 June 2013. The Stability Programme confirms the Portuguese commitment to achieve a timely correction of the excessive deficit in 2015. However, the composition of the budget balance has been slightly adjusted for certain expenditure and revenue items. The overall increase of revenue and expenditure as a percentage of GDP by around 0.6 pp. as compared to the 2015 DBP only reflects the recent downward revision of nominal GDP, while total revenue and expenditure have remained broadly stable in absolute terms.

The Stability Programme's headline deficit estimate of 2.7% of GDP compares with a projection of 3.1% of GDP in the Commission 2015 spring forecast. The difference vis-à-vis the authorities' projection has thus narrowed by 0.2 pp. since the assessment of the 2015 DBP, essentially reflecting the improved carry-over from 2014 regarding tax collection and the revised macroeconomic outlook in early 2015. However, the Commission spring forecast maintains a more cautious assessment of the expected yield of some of the consolidation

measures included in the 2015 DBP and of the envisaged additional yield of measures to combat tax fraud and evasion in 2015.

While the Stability Programme projects the structural balance, as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, to reach -1.0% of GDP, thereby corresponding to a deterioration by 0.3 pp. y-o-y, the Commission 2015 spring forecast projects a structural balance of -1.5% and a deterioration by 0.8 pp. y-o-y. The differences in the structural balance are due to the differences in the headline deficit but also due to more positive prospects for potential growth in the Stability Programme scenario leading to higher output gaps and hence a better structural balance.

The medium-term strategy

The purpose of the programme is to steadily bring down the headline deficit from 2.7% in 2015, to 1.8% in 2016 and 1.1% in 2017, and to turn it into a surplus of 0.2% of GDP in 2019. According to the authorities, this would bring the structural deficit to the MTO of -0.5% of GDP already in 2016, keep it at MTO in 2017, and allow for structural balances slightly above the MTO thereafter, up to -0.2% of GDP in 2019. The chosen MTO of -0.5% of GDP, which has not changed since the 2014 Fiscal Strategy Document, reflects the objectives of the Pact.

The structural balance as recalculated by the Commission would still reach -0.9% of GDP in 2016, while only achieving the MTO in 2019. The difference between the structural balance projections in the Stability Programme and the structural balance projections as recalculated by the Commission is due to the lower projected output gaps in the Commission calculations. In the programme, the improving fiscal position in 2016 and the following years is underpinned by enhanced economic growth, significant estimated savings in interest payments and a series of fiscal measures. As regards interest payments, the scenario projects a decrease by 1.5 pps. of GDP over the programme horizon (of which 0.6 pp. in 2016 alone), thus accounting for about half of the overall improvement in the headline deficit. Moreover, the programme assumes compensation of employees broadly stable in nominal terms, leading to a significant decline by 1.9 pps. of GDP over the programme horizon.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	2019	Change: 2014-2019
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	44.5	45.0	45.2	44.4	44.8	44.3	43.9	43.4	-1.1
<i>of which:</i>									
- Taxes on production and imports	14.2	14.7	14.9	14.9	15.1	15.2	15.3	15.4	1.2
- Current taxes on income, wealth, etc.	10.9	10.9	10.9	10.3	10.6	10.3	10.0	9.8	-1.1
- Social contributions	11.9	11.8	11.8	11.7	11.6	11.5	11.3	11.1	-0.8
- Other (residual)	7.5	7.5	7.6	7.5	7.5	7.3	7.3	7.1	-0.4
Expenditure	49.0	48.0	47.9	47.2	46.5	45.5	44.4	43.3	-5.7
<i>of which:</i>									
- Primary expenditure	44.0	43.1	42.9	42.7	42.2	41.4	40.6	39.8	-4.2
<i>of which:</i>									
Compensation of employees	11.8	11.3	11.1	11.1	10.9	10.5	10.2	9.9	-1.9
Intermediate consumption	5.9	6.0	6.1	6.1	6.1	5.8	5.6	5.3	-0.6
Social payments	19.7	19.5	19.4	19.3	19.1	18.9	18.6	18.3	-1.4
Subsidies	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	-0.2
Gross fixed capital formation	2.0	2.3	2.3	2.2	2.2	2.2	2.3	2.2	0.2
Other (residual)	3.9	3.5	3.5	3.5	3.5	3.5	3.5	3.5	-1.2
- Interest expenditure	5.0	4.9	5.0	4.5	4.3	4.1	3.8	3.5	-1.5
General government balance (GGB)	-4.5	-3.1	-2.7	-2.8	-1.8	-1.1	-0.6	0.2	4.7
Primary balance	0.5	1.8	2.2	1.7	2.6	3.0	3.2	3.7	3.2
One-off and other temporary measures	-1.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	1.1
GGB excl. one-offs	-3.3	-3.1	-2.8	-2.8	-1.9	-1.1	-0.6	0.2	3.5
Output gap ¹	-5.1	-3.1	-3.5	-1.4	-2.0	-0.6	0.4	1.2	6.3
Cyclically-adjusted balance ¹	-1.9	-1.5	-0.9	-2.1	-0.8	-0.8	-0.8	-0.4	1.5
Structural balance (SB)²	-0.8	-1.5	-1.0	-2.1	-0.9	-0.8	-0.8	-0.4	0.4
Structural primary balance ²	4.2	3.4	4.0	2.4	3.4	3.3	3.0	3.1	-1.1
<i>Notes:</i>									
¹ Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the 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.									
<i>Source:</i>									
Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.									

Measures underpinning the programme

As regards fiscal measures, the programme uses as a baseline the 2015 level of temporary consolidation measures implemented under the economic adjustment programme. About half of the measures in the programme relate to the gradual reversal of these temporary consolidation measures over the four-year horizon, which entails a deficit-increasing impact. The two main measures alone – the gradual reversal of public sector wage cuts and the decrease of the personal income tax surcharge – imply a cumulative permanent negative budgetary impact of 0.7 pp. of GDP. This impact is supposed to be partially compensated by a pension reform worth 0.3 pp. and further reforms in the public sector worth 0.2 pp., which are however not specified further in the programme.

Under unchanged legislation, these main temporary measures – the public sector wage cut and the personal income tax surcharge – are bound to automatically expire at the end of 2015. According to the Commission's no-policy-change assumption, their reversal is fully incorporated in its projection for 2016 in the 2015 spring forecast. The Commission's forecast

also does not factor in effects of the pension reform and further rationalisation of the public sector, which are mentioned in the Stability Programme without further specifications.

Main budgetary measures

Revenue	Expenditure
2016	
<ul style="list-style-type: none"> • Reduction by 0.875 pp. of the personal income tax surcharge (-0.1% of GDP) • Measure for the sustainability of the pension system (+0.1% of GDP)* • Reduction by 1 pp. of corporate income tax (-0.05% of GDP) 	<ul style="list-style-type: none"> • Reversal of 20% of temporary public sector wage cuts (+0.1% of GDP) • Measure for the sustainability of the pension system (-0.2% of GDP)* • Early repayment of another 33% of the IMF loans (in addition to 50% already approved) (-0.1% of GDP) • Public sector reform and rationalisation (-0.05% of GDP)
2017	
<ul style="list-style-type: none"> • Reduction by 0.875 pp. of the personal income tax surcharge (-0.1% of GDP) • Reduction by 1 pp. of corporate income tax (-0.05% of GDP) 	<ul style="list-style-type: none"> • Reversal of 20% of temporary public sector wage cuts (+0.1% of GDP) • Public sector reform and rationalisation (-0.05% of GDP)
2018	
<ul style="list-style-type: none"> • Reduction by 0.875 pp. of the personal income tax surcharge (-0.1% of GDP) • Reduction by 1 pp. of corporate income tax (-0.05% of GDP) 	<ul style="list-style-type: none"> • Reversal of 20% of temporary public sector wage cuts (+0.1% of GDP) • Public sector reform and rationalisation (-0.05% of GDP)
2019	
<ul style="list-style-type: none"> • Reduction by 0.875 pp. of the personal income tax surcharge (-0.1% of GDP) • Reduction by 1 pp. of corporate income tax (-0.05% of GDP) 	<ul style="list-style-type: none"> • Reversal of 20% of temporary public sector wage cuts (+0.1% of GDP) • Public sector reform and rationalisation (-0.05% of GDP)
<p><u>Note:</u> 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.</p> <p>*As the pension sustainability measure still needs to be specified, the revenue/expenditure breakdown is merely indicative based on the technical hypotheses of the 2014-2018 Fiscal Strategy Document.</p>	

3.3. Debt developments

General government consolidated gross debt has increased markedly since 2010, in the context of the global financial crisis and subsequent recession, high headline deficits and the reclassification of off-balance items and entities in the general government perimeter. This resulted in a debt-to-GDP ratio of 130.2% by the end of 2014. The Stability Programme projects this ratio to be on a downward path, expecting it to stand at 124.2% by the end of 2015 and at 121.5% of GDP in 2016. Based on the assumptions of increasing primary balances in a low interest rate environment and nominal GDP growth of 3.8% from 2017 onwards, the debt-to-GDP ratio is projected to decrease rapidly further to 112.1% in 2018 at end 2018 and 107.6% at end 2019.

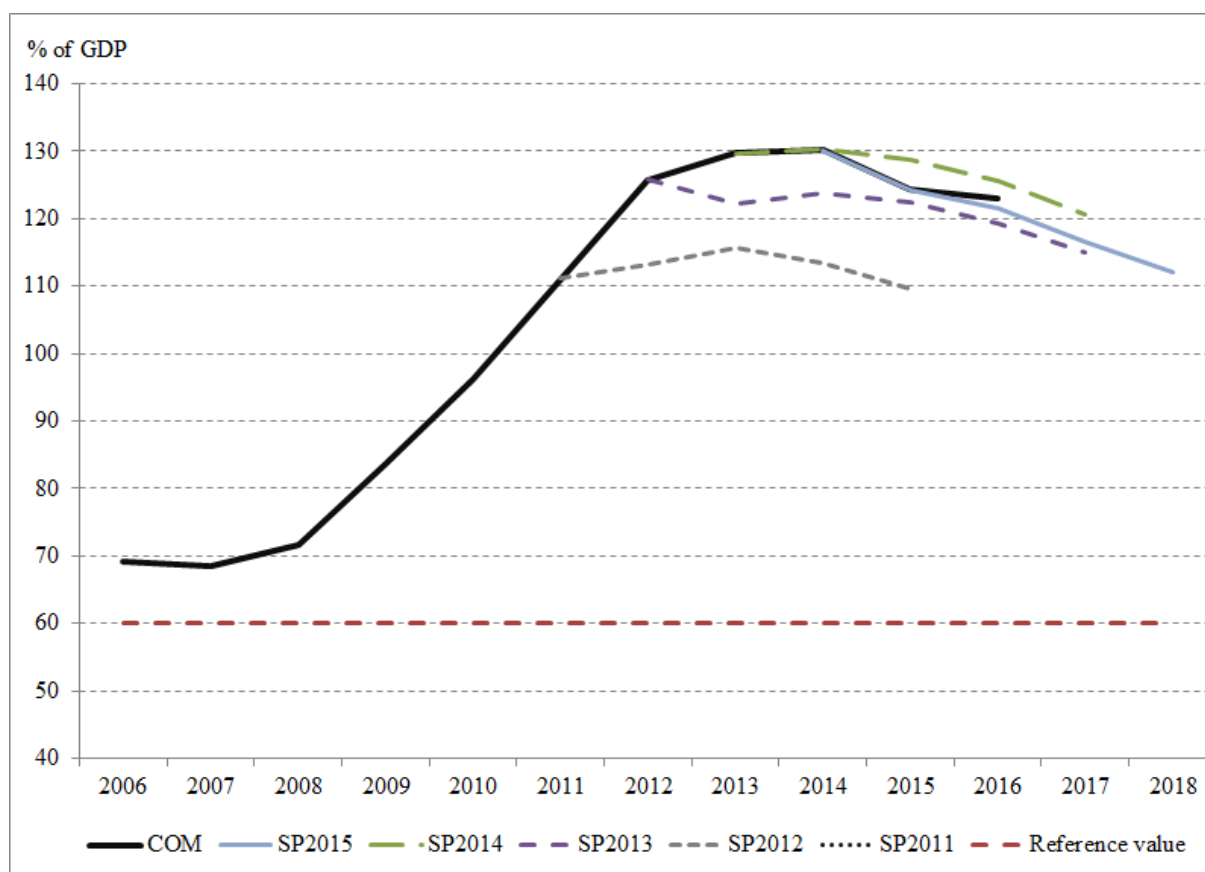
The main stock-flow adjustments impacting debt projections are related to the repayment of the resolution fund loan following the sale of Novo Banco and the projected purchase of national public debt by the Social Security Fund in 2015.

The Commission 2015 spring forecast predicts a somewhat higher public debt level for both 2015 and 2016 due to higher projected fiscal deficits and a lower nominal GDP projection for 2016.

Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018	2019
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio¹	109.3	130.2	124.4	124.2	123.0	121.5	116.6	112.1	107.6
Change in the ratio	11.6	0.5	-5.8	-6.0	-1.4	-2.7	-4.9	-4.5	-4.5
<i>Contributions² :</i>									
1. Primary balance	3.8	-0.5	-1.8	-2.2	-1.7	-2.6	-3.0	-3.2	-3.7
2. “Snow-ball” effect	5.1	2.2	1.2	1.3	0.6	0.2	-0.3	-0.4	-0.6
<i>Of which:</i>									
Interest expenditure	4.0	5.0	4.9	4.9	4.5	4.4	4.1	3.8	3.5
Growth effect	1.8	-1.1	-2.1	-2.0	-2.2	-2.4	-2.8	-2.7	-2.6
Inflation effect	-0.7	-1.6	-1.6	-1.6	-1.7	-1.8	-1.6	-1.5	-1.5
3. Stock-flow adjustment	2.7	-1.2	-5.2	-5.0	-0.3	-0.3	-1.6	-0.8	-0.2
<i>Of which:</i>									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									
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 2015 spring forecast (COM); Stability Programme (SP); Commission calculations.									

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



Source: Commission 2015 spring forecast (COM); Stability Programmes (SP).

3.4. Risk assessment

There appear to be a number of short and medium-term risks to the programme's budgetary strategy, in particular regarding the required structural adjustment in 2015 and 2016 and the growth assumptions for the later years.

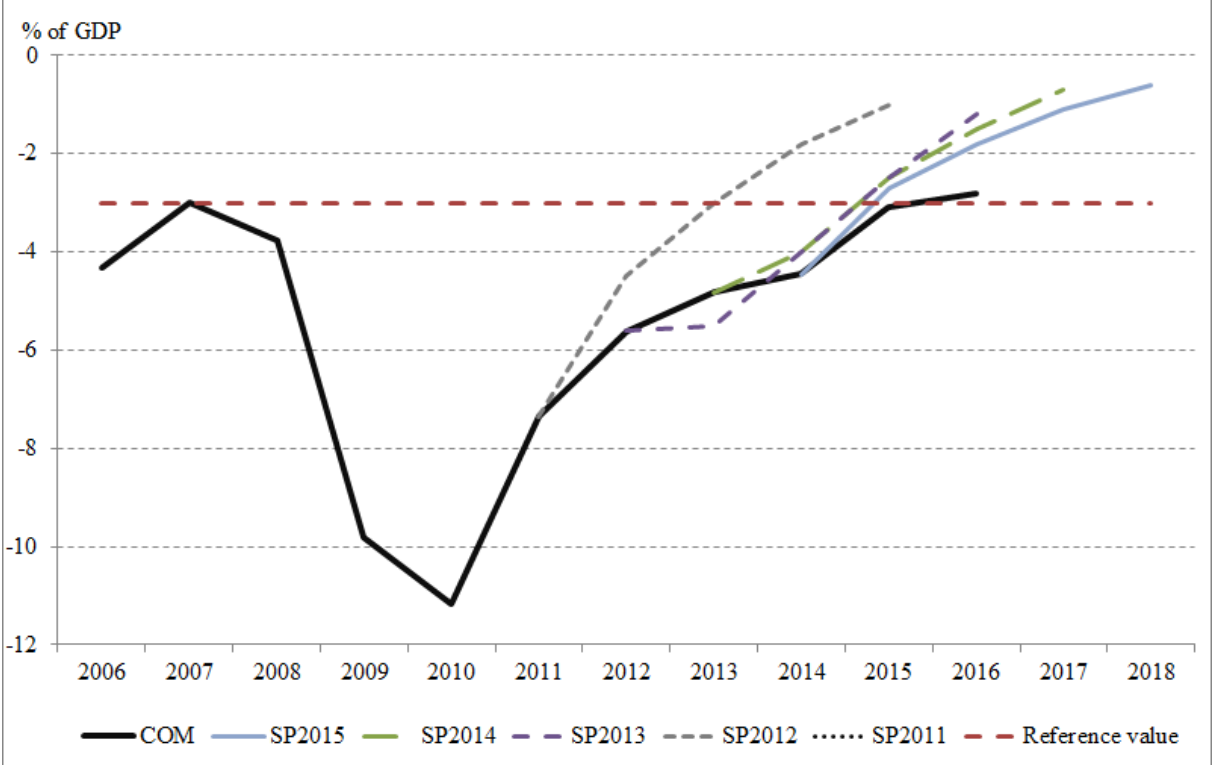
As regards 2015, the Stability Programme projects a headline deficit of 2.7% of GDP, while the Commission 2015 spring forecast projects 3.1% of GDP. According to the Commission forecast, there thus remain risks to the timely correction of the excessive deficit, even if the 3% of GDP Treaty reference value is still within reach. Its achievement will require firm implementation of the Budget 2015 consolidation measures and the measures to fight tax fraud and evasion so as to effectively ensure the additional yields budgeted by the authorities. However, there also appears to be a risk of certain expenditure slippages, as, despite the more favourable baseline carried forward from 2014 and a further improved macroeconomic outlook, the programme does not project any improvement of the 2015 headline deficit as compared to the Budget 2015. The fact that the envisaged deficit reduction is mostly driven by the improved cyclical conditions also implies a deterioration of the projected structural balance, thereby increasing the risk of the structural adjustment falling short of the recommendation. Thus, if, despite firm implementation of already adopted measures, additional measures turn out to be necessary to achieve a headline deficit below the 3% reference value, it would appear appropriate to take measures of a permanent nature that would also ensure a greater structural adjustment and thereby a durable correction of the excessive deficit.

As regards 2016 and the outer years, there appear to be risks regarding the replacement of temporary consolidation measures implemented during the economic adjustment programme by adequate permanent consolidation measures. Irrespective of the effective speed of reversion (fully in 2016 or spread over up to four years), the two main measures alone – the reversal of the public wage cuts and the cancellation of the personal income surcharge – imply a permanent negative fiscal impact of 0.7 pp. of GDP by the end of the programme horizon. The two major permanent balance-improving measures proposed by the programme – a pension reform and further public sector rationalisation – are by contrast only worth 0.5 pp. of GDP and seem to face significant implementation risks as suggested by the lack of further specification in the programme. Overall, this potential unfavourable balance of deficit-increasing and deficit-reducing measures appears to create a risk to the achievement of the required structural adjustment and to the later maintenance of the structural balance at the MTO.

As regards the outer years 2017 to 2019, there appears to be a risk linked to the optimistic growth prospects underpinning the programme targets. Thus, potential GDP growth is supposed to be significantly higher than according to the output gap working group t+10 projections. There also appears to be a risk regarding the assumption of the stabilisation of certain expenditure categories in nominal terms, in particular as regards compensation of employees, leading to a corresponding decrease when expressed as a percentage of GDP, while the programme at the same time projects no further decrease in public sector employment stipulating the full 1:1 replacement for all departures.

Finally, there also appear to be risks to the assumptions regarding the decrease in interest payments and to the effective revenue impact of ongoing and planned tax reforms (PIT and green tax reform, CIT reform etc.).

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



Source: Commission 2015 spring forecast (COM); Stability Programmes (SP).

By potentially preventing the budgetary strategy from materialising, the above-mentioned risks would also jeopardize the planned debt developments, slowing down the decrease of the debt-to-GDP ratio. Given its high current level, at above 120% of GDP, debt developments would be particularly sensitive to any significant increase in interest rates.

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

Box 1. Council recommendations addressed to Portugal

On 21 June 2013, the Council recommended Portugal under Article 126(7) of the Treaty to correct its excessive deficit by 2015. To this end Portugal should put an end to the present excessive deficit situation by 2015. Portugal should bring the headline deficit to 5.5 % of GDP in 2013, 4.0 % of GDP in 2014 and 2.5 % of GDP in 2015, which is consistent with an improvement in the structural balance of 0.6 % of GDP in 2013, 1.4 % of GDP in 2014 and 0.5 % of GDP in 2015, based on the Commission services updated 2013 spring forecast. Portugal should implement measures amounting to 3½ % of GDP to confine the 2013 deficit to 5.5 % of GDP. These include the measures defined in the 2013 Budget Law and additional measures included in the Supplementary Budget, namely, reductions in the wage bill, increased efficiency in the functioning of public administration, lower public consumption and better use of Union funds. Portugal should, building on the PER, adopt permanent consolidation measures worth at least 2.0 % of GDP in view of attaining a headline deficit of 4.0 % of GDP in 2014. Portugal should aim at streamlining and modernising the public administration, addressing redundancies across the public sector functions and entities, improving the sustainability of the pension system and achieving targeted cost savings in individual line ministries. Portugal should adopt the necessary permanent consolidation measures to achieve the 2015 deficit target of 2.5 % of GDP.

On 8 July 2014, 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 implement the necessary fiscal consolidation measures for 2014 so as to achieve the fiscal targets and prevent the accumulation of new arrears. For the year 2015, implement a revised budgetary strategy in order to bring the deficit to 2.5 % of GDP, in line with the target set in the Excessive Deficit Procedure Recommendation, while achieving the required structural adjustment. Replace consolidation measures which the Constitutional Court considers unconstitutional by measures of similar size and quality as soon as possible. The correction of the excessive deficit should be done in a sustainable and growth-friendly manner, limiting recourse to one-off/temporary measures. After the correction of the excessive deficit, pursue the planned annual structural adjustment towards the medium-term objective, in line with the requirement of an annual structural adjustment of at least 0,5 % of GDP, more in good times, and ensure that the debt rule is met in order to put the high general debt ratio on a sustainable path. Prioritise expenditure-based fiscal consolidation and increase further the efficiency and quality of public expenditure. Maintain tight control of expenditure in central, regional and local administration. Continue the restructuring of the state-owned enterprises. Develop by the end of 2014 new comprehensive measures as part of the ongoing pension reform, aimed at improving the medium-term sustainability of the pension system. Control healthcare expenditure growth and proceed with the hospital reform. Review the tax system and make it more growth-friendly. Continue to improve tax compliance and fight tax evasion by increasing the efficiency of the tax administration. Strengthen the system of public financial management by swiftly finalising and implementing the comprehensive reform of the Budgetary Framework Law by the end of 2014. Ensure strict compliance with the

Commitment Control Law. Effectively implement single wage and supplements' scales in the public sector from 2015 onwards.

4.1. Compliance with EDP recommendations

In 2014, the headline deficit reached 4.5 % of GDP, thus missing the 4% of GDP deficit target recommended by the Council in June 2013. As regards the structural improvement in 2014, the change in the structural balance reached 1.0% of GDP, below the recommended improvement of 1.4 % of GDP. The cumulative change in the structural balance over 2013-2014, at 1.7 % of GDP, also falls short of the cumulative required change of 2 % of GDP of the EDP recommendation. Mainly due to corrections for windfall revenues, the adjusted structural effort in 2014 is estimated to be 0.8% of GDP (and 0.0% of GDP over 2013-2014), well below the required effort. The overall picture reflected by the structural effort indicators has however been negatively affected by the ESA 2010 revisions as well as other recent methodological revisions, which, however, do not change the overall conclusion. The amount of permanent consolidation measures taken under the programme and thereafter is estimated at 1.5 % of GDP in 2014, showing a shortfall with respect to the recommended level of 2% of GDP of permanent measures. Not included in this assessment are the yields of actions to fight tax fraud and evasion, which are likely to be underpinning improved tax collection, especially on the back of the e-invoicing reform successfully implemented in 2013.

For 2015, the Stability Programme confirms the authorities' commitment to correct the excessive deficit by 2015 as recommended by the Council. As is the case for the 2015 budget, the Stability Programme targets a headline deficit of 2.7 % of GDP, which is above the 2.5 % of GDP deficit recommended by the Council. The Commission spring forecast projects the headline deficit at 3.1% of GDP, which is well above the recommended headline deficit target of 2.5 % of GDP and points to remaining risks to a timely correction of the excessive deficit by 2015 as recommended by the Council. Moreover, the Commission forecast also points to a significant deterioration in the structural balance in 2015 by 0.8% of GDP, well below the recommended improvement of 0.5% of GDP. The cumulative change in structural balance over 2013-2015, at 0.9 % of GDP altogether, falls markedly short of the recommended 2.5 % of GDP.

As part of the careful analysis, the adjusted change in the structural balance in 2015 is estimated at -1.2% of GDP, compared to the recommended improvement by 0.5% of GDP. In cumulative terms over 2013-2015, the adjusted change in the structural balance is also estimated at -1.2 % of GDP, thereby falling significantly short of the recommended improvement of 2.5% of GDP and putting a stress on deficit-reduction being to a large extent of a cyclical nature. This is mainly explained by corrections for windfall revenues predominantly in 2013, and to a lesser extent in 2014 and 2015. Nevertheless, such windfall revenues might turn out somewhat lower if the yield of the fight against fraud and evasion would be assessed as a permanent measure. A bottom-up assessment cannot be applied for 2015, as the Council recommendation did not include a reference to the amount of measures necessary to reach the envisaged deficit target.

Table 4: Compliance with the requirements of the corrective arm

(% of GDP)	2014	2015	
	COM	SP	COM
Headline balance			
Headline budget balance	-4.5	-2.7	-3.1
EDP requirement on the budget balance	-4.0	-2.5	
Fiscal effort - change in the structural balance			
Change in the structural balance ¹	1.0	-0.3	-0.8
Cumulative change ²	1.7	1.4	0.9
Required change from the EDP recommendation	1.4	0.5	
Cumulative required change from the EDP recommendation	2.0	2.5	
Fiscal effort - adjusted change in the structural balance			
Adjusted change in the structural balance ³	0.8	-	-1.2
of which:			
<i>correction due to change in potential GDP estimation (α)</i>	0.1	-	0.2
<i>correction due to revenue windfalls/shortfalls (β)</i>	0.3	-	0.5
Cumulative adjusted change ²	0.0	-	-1.2
Required change from the EDP recommendation	1.4	0.5	
Cumulative required change from the EDP recommendation	2.0	2.5	
Notes			
¹ Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on the Stability Programme is recalculated by the 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.			
<u>Source</u> :			
<i>Stability Programme (SP); Commission 2015 spring forecast (COM); Commission calculations.</i>			

4.2. Compliance with the debt criterion

Assuming that Portugal effectively achieves a timely correction of its excessive deficit by the recommended deadline of 2015, it will then be subject to the preventive arm of the Stability and Growth Pact from 2016 onwards and in the transition period as regards compliance with the debt criterion.

Table 5: Compliance with the debt criterion

	2016	
	SP	COM
Gap to the debt benchmark ^{1,2}	n.r.	n.r.
Structural adjustment ³	0.1	-0.6
<i>To be compared to:</i>		
Required adjustment ⁴	n.a.	0.2
<p><u>Notes:</u></p> <p>¹ Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.</p> <p>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.</p> <p>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.</p> <p>⁴ Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – the Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.</p> <p><u>Source:</u> Commission 2015 spring forecast (COM); Stability Programme (SP); Commission calculations.</p>		

As the calculation of the minimum linear structural adjustment (MLSA) requires data for 2020 for its forward-looking benchmark, it has not been possible to recalculate the MLSA based on Stability Programme assumptions. The Stability Programme itself calculates that the transitional debt rule results in a negative required minimum linear structural adjustment (-0.4% of GDP) for 2016. According to the Stability Programme itself, the change in the structural balance in 2016 would therefore be above the required minimum linear structural adjustment and Portugal would thus make sufficient progress towards compliance with the debt criterion in 2016.

According to the 2015 spring forecast and taking into account the output gap working group t+10 projections for the outer forecast years, the required minimum linear structural adjustment is 0.2% of GDP in 2016. The change in the structural balance in 2016 of -0.6%, according to the Commission forecast, would be below the required adjustment and Portugal would not make sufficient progress towards compliance with the debt criterion in 2016.

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

Assuming that Portugal effectively corrects its excessive deficit by 2015, it will under the preventive arm of the Stability and Growth Pact have to ensure compliance with the MTO or the required adjustment towards the MTO.

Using the matrix presented in the January 2015 communication on flexibility within the Stability and Growth Pact¹, with the Commission 2015 spring forecast projecting a normal cyclical condition for Portugal in 2016 (i.e. the projected output gap of -1.4% of GDP is in the interval between -1.5% and 1.5% of GDP), Portugal will be required to pursue an annual structural adjustment towards the MTO of 0.6% of GDP in 2016.

According to the programme, the MTO of -0.5% of GDP will already be reached in 2016. However, based on recalculations by the Commission using the commonly agreed methodology, the MTO will not yet be reached in 2016 (structural balance: -0.9% of GDP), but rather in 2019. According to the programme, the planned structural adjustment of 0.4% of GDP will be sufficient to reach the MTO in 2016. However, based on recalculations by the Commission using the commonly agreed methodology, the structural adjustment is projected to reach only 0.1% of GDP in 2016, and would accordingly fall short by 0.5% of GDP of the required adjustment of 0.6% of GDP. According to the information provided in the Stability Programme, the growth rate of government expenditure, net of discretionary revenue measures, in 2016 will exceed the applicable expenditure benchmark rate (-1.5%) leading to a deviation by 1.1% of GDP.

The Commission 2015 spring forecast projects the MTO not to be reached in 2016 (structural balance: -2.1% of GDP). As the Commission spring forecast also projects a deterioration of the structural balance by 0.6% of GDP in 2016, there would accordingly be a risk of significant deviation (by 1.2% of GDP) from the required improvement by 0.6% of GDP. According to the Commission 2015 spring forecast, the growth rate of government expenditure, net of discretionary revenue measures in 2016 will exceed the applicable expenditure benchmark rate (-1.5%), leading to a deviation by 1.5% of GDP.

In sum, deviations from the required adjustment towards the MTO are projected according to both the recalculated programme scenario and the Commission 2015 spring forecast. While the recalculated programme scenario points to a risk of some deviation, the Commission 2015 spring forecast points to the risk of significant deviation from the adjustment path towards the MTO in 2016 based on both the structural balance and the expenditure benchmark pillars.

¹ COM(2015) 12 final of 13 January 2015

Table 6: Compliance with the requirements under the preventive arm

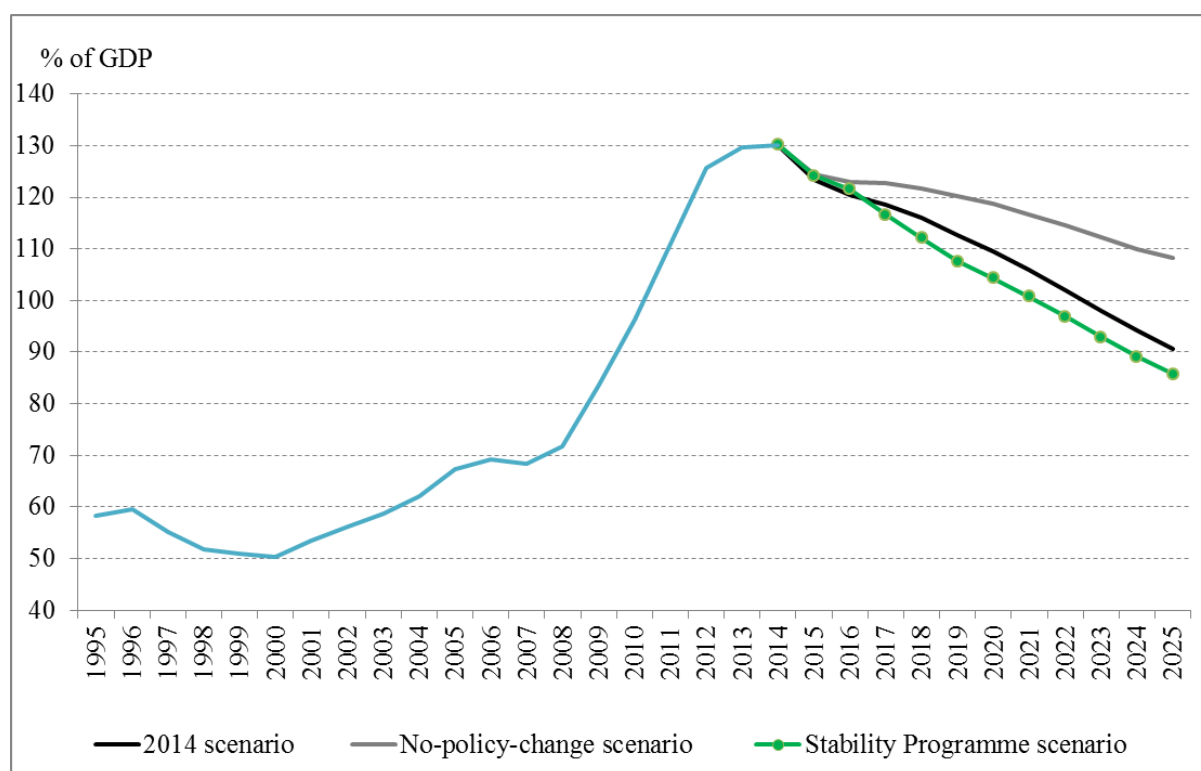
(% of GDP)	2016	
Initial position¹		
Medium-term objective (MTO)	-0.5	
Structural balance ² (COM)	-2.1	
Structural balance based on freezing (COM)	-	
Position vis-a-vis the MTO³	Not at MTO	
(% of GDP)	2016	
	SP	COM
Structural balance pillar		
Required adjustment ⁴	0.6	
Required adjustment corrected ⁵	0.6	
Change in structural balance ⁶	0.1	-0.6
<i>One-year deviation from the required adjustment⁷</i>	-0.5	-1.2
<i>Two-year average deviation from the required adjustment⁷</i>	In EDP	In EDP
Expenditure benchmark pillar		
Applicable reference rate ⁸	-1.5	
<i>One-year deviation⁹</i>	-1.1	-1.5
<i>Two-year average deviation⁹</i>	In EDP	In EDP
Conclusion		
Conclusion over one year	Overall assessment	Significant deviation
Conclusion over two years	In EDP	In EDP
Notes		
<p>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 is allowed in order to be evaluated as having reached the MTO.</p> <p>² Structural balance = cyclically-adjusted government balance excluding one-off measures.</p> <p>³ Based on the relevant structural balance at year t-1.</p> <p>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 28.).</p> <p>⁵ Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.</p> <p>⁶ Change in the structural balance compared to year t-1.</p> <p>⁷ The difference of the change in the structural balance and the required adjustment corrected.</p> <p>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 not at its MTO.</p> <p>⁹ 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.</p>		
<i>Source:</i>		
<i>Stability Programme (SP); Commission 2015 spring forecast (COM); Commission calculations.</i>		

5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report² published on 12 May. It therefore updates the assessment made in the Country Reports³ published on 26 February.

Public debt is on a decreasing path under the Commission's latest long-term projections after the spring forecast based on the no policy-change assumption as from 2016 (see Figure 1 below). Nevertheless, given the very high starting point, the debt-to-GDP ratio is expected to remain above pre-crisis levels for a considerable time and to fall below 110% only in the second half of the next decade. Assuming full implementation of the Stability Programme scenario, public debt would be on a steeper downward path, implying that the debt-to-GDP ratio would fall below 100% in the first half of the next decade. For a more detailed debt sustainability analysis including sensitivity to various adverse shocks please see pp. 22-24 of the Country Report⁴.

Figure 3: Gross debt projections (% of GDP)



Source: Commission 2015 spring forecast; Stability Programme, Commission calculations

Portugal appears to face high fiscal sustainability risks in the medium-term as measured by the medium-term sustainability indicator S1. The medium-term sustainability gap shows that

² See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

³ See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

⁴ See http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_portugal_en.pdf

reducing the debt ratio to 60% of GDP by 2030 would require an overall adjustment effort of 3.8pps of GDP until 2021. This high medium-term sustainability gap is primarily related to the current high level of government debt, which is partially offset by the positive structural primary balances. In the long-term, Portugal appears to face low fiscal sustainability risks as measured by the long-term sustainability gap S2, i.e. the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, which is 0.4% of GDP. This is primarily related to the positive structural primary balances.

Risks would be higher in the event of the structural primary balance reverting to the lower values observed in the past. It is therefore appropriate for Portugal to continue to implement measures that reduce government debt.

Table 7: Sustainability indicators

	Portugal			European Union		
	2014 scenario	No-policy-change scenario	Stability Programme scenario	2014 scenario	No-policy-change scenario	Stability/Convergence Programme scenario
S2*	-1.3	0.4	-0.6	1.4	1.7	0.4
<i>of which:</i>						
Initial budgetary position (IBP)	-2.0	-0.3	-0.9	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	0.7	0.7	0.3	1.0	1.1	1.1
<i>of which:</i>						
pensions	0.2	0.0	-0.5	0.0	0.1	0.1
healthcare	1.7	1.8	1.7	0.8	0.7	0.6
long-term care	0.3	0.2	0.2	0.7	0.7	0.6
others	-1.5	-1.3	-1.1	-0.4	-0.3	-0.2
S1**	1.3	3.8	1.4	1.4	1.8	0.5
<i>of which:</i>						
Initial budgetary position (IBP)	-3.1	-0.7	-2.6	-0.4	-0.3	-1.6
Debt requirement (DR)	4.1	4.3	4.2	1.7	1.9	1.8
Long-term cost of ageing (CoA)	0.2	0.2	-0.2	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.30	:	:	:	:	:
<i>Fiscal subindex</i>	0.26	:	:	:	:	:
<i>Financial-competitiveness subindex</i>	0.32	:	:	:	:	:
Debt as % of GDP (2014)	130.2			88.6		
Age-related expenditure as % of GDP (2014)	26.8			25.6		
Source: Commission, 2015 Stability Programme						
Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. 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.						
* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.						
** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.						
*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indices, thresholds are respectively at 0.35 and 0.45.						

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

6.1. Fiscal framework

As highlighted in the Country Report, the proposed reforms of public financial management as recommended in the 2014 fiscal country-specific recommendation (CSR1), have made some progress and are set to further improve the national fiscal framework. The proposal for a major reform of the budget framework law described in the Stability Programme has recently been approved by government. Among other important modifications (such as reduction of budgetary fragmentation, reporting improvements, increased accountability of budget units etc.) the proposed reform also includes a better alignment with the European Semester of the calendar of presentation of the draft budget and the Stability Programme to Parliament (by 1 October / by 15 April respectively). The reform of the commitments control law that should further strengthen discipline and budgetary control and prevent any new accumulation of arrears has entered into force in March. In order to strictly ensure expenditure control, it will be essential to fully implement the law, including the newly added provisions.

The macroeconomic forecasts underlying the Stability Programme have been endorsed by the Portuguese Fiscal Council in an opinion attached to the programme. While the Council considers the forecasts plausible for 2015 and 2016, it points at downside risks for the period 2017-2019.

The Stability Programme does not explicitly state that it also constitutes the national medium-term fiscal plan in line with Art 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.

6.2. Quality of public finances

As regards the quality of public finances, the Stability Programme focusses on recent measures taken in the areas of education, health and justice. As also highlighted by the Commission Country Report, the reorganisation of the public school network should help make education spending more efficient. As regards budget management for education, the programme draws particular attention to the project of centralisation of all salary payments launched in order to reduce administrative costs. The programme, in line with Country Report analysis, also confirms that recent health system reforms continue to bring results for the financial sustainability of the national health system while maintaining quality and access to healthcare. Finally, while the programme also discusses recent reforms to enhance the efficiency of spending in the justice system, in particular as regards property, IT and administrative management, there appears to be a need for close monitoring of their results.

The programme does not dedicate a specific section to public investment. The medium-term budgetary strategy however foresees a stabilisation of public gross fixed capital formation at around 2¼ % of GDP over 2015 to 2019, thus slightly inverting the decreasing trend between 2010 (5.3%) and 2014 (2.0%) while staying around 1pp of GDP below the pre-financial-crisis level of 3.2% of GDP recorded in 2007.

7. CONCLUSIONS

In 2014, Portugal achieved a headline deficit of 4.5% of GDP, which was above the recommended target of 4% of GDP. The fiscal effort indicators also point to a shortfall in the structural effort, based on the change in both the unadjusted and adjusted structural balance in 2014 and in cumulative terms over 2013-2014, as well as on the permanent consolidation measures taken under the programme and thereafter.

Portugal plans to correct its excessive deficit by the 2015 deadline set by the Council and to ensure an improvement of the structural balance of 0.4% of GDP in 2016 to reach the MTO and stay at the MTO thereafter.

Based on the Commission 2015 spring forecast, a timely correction of the excessive deficit by 2015 is not yet ensured, but within reach. At the same time, the fiscal effort is below what is recommended by the Council based on the change in both the unadjusted and adjusted structural balance in 2015, as well as in cumulative terms over 2013-2015.

Assuming that the excessive deficit is corrected, Portugal would be subject to the preventive arm of the Pact as of 2016. According to the Commission spring forecast there appears to be a risk of a significant deviation from the required adjustment towards the medium-term objective in 2016.

ANNEX

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	3.8	0.8	0.0	-4.0	-1.6	0.9	1.6	1.8
Output gap ¹	3.3	-0.1	-1.4	-6.1	-6.7	-5.1	-3.1	-1.4
HICP (annual % change)	2.7	2.9	1.8	2.8	0.4	-0.2	0.2	1.3
Domestic demand (annual % change) ²	4.7	0.6	-0.8	-7.3	-2.5	2.1	1.4	1.7
Unemployment rate (% of labour force) ³	5.9	7.8	10.7	15.8	16.4	14.1	13.4	12.6
Gross fixed capital formation (% of GDP)	27.3	23.7	21.1	15.8	14.6	14.6	14.7	15.1
Gross national saving (% of GDP)	19.3	15.0	11.7	13.7	15.4	15.4	15.9	16.5
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-3.8	-4.9	-7.0	-5.6	-4.8	-4.5	-3.1	-2.8
Gross debt	52.4	62.7	86.2	125.8	129.7	130.2	124.4	123.0
Net financial assets	-33.1	-44.7	-55.5	-76.9	-84.6	n.a	n.a	n.a
Total revenue	39.1	40.5	41.3	42.9	45.2	44.5	45.0	44.4
Total expenditure	42.9	45.4	48.4	48.5	50.1	49.0	48.0	47.2
<i>of which: Interest</i>	3.2	2.7	3.3	4.9	4.9	5.0	4.9	4.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-4.4	-4.7	-4.0	2.7	3.0	3.9	3.4	2.5
Net financial assets; non-financial corporations	-143.8	-132.2	-154.8	-163.9	-165.8	n.a	n.a	n.a
Net financial assets; financial corporations	-9.6	-7.4	-4.2	1.2	-1.1	n.a	n.a	n.a
Gross capital formation	14.2	12.8	12.5	9.5	9.0	9.6	9.2	9.8
Gross operating surplus	19.8	19.4	20.8	21.2	20.9	20.9	21.7	23.0
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	1.3	2.1	2.5	3.0	4.3	2.5	2.3	3.0
Net financial assets	155.2	122.1	119.3	130.4	140.8	n.a	n.a	n.a
Gross wages and salaries	38.4	37.8	36.7	34.9	34.8	34.0	34.1	33.6
Net property income	4.8	5.0	6.0	5.7	6.5	6.6	7.0	8.2
Current transfers received	20.6	21.6	23.5	25.8	27.0	26.2	25.9	25.6
Gross saving	7.9	6.8	5.8	5.5	6.2	4.9	4.6	5.3
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-6.9	-7.5	-8.5	0.0	2.5	2.0	2.6	2.8
Net financial assets	36.0	66.0	101.3	118.9	117.6	n.a	n.a	n.a
Net exports of goods and services	-9.8	-8.2	-7.2	-0.5	0.9	0.5	1.8	2.0
Net primary income from the rest of the world	-1.1	-1.8	-3.3	-2.4	-1.0	-1.1	-1.5	-1.5
Net capital transactions	1.9	1.7	1.2	2.0	1.6	1.4	1.4	1.3
Tradable sector	44.7	41.4	39.8	41.4	41.8	41.7	n.a	n.a
Non tradable sector	42.9	45.7	47.8	46.2	45.9	45.6	n.a	n.a
<i>of which: Building and construction sector</i>	6.5	6.2	5.4	4.3	3.8	3.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.8	101.4	101.0	92.2	95.2	93.9	89.7	88.6
Terms of trade goods and services (index, 2000=100)	98.3	98.9	99.0	98.6	99.7	101.6	104.2	104.4
Market performance of exports (index, 2000=100)	102.5	96.4	99.0	109.2	114.9	113.5	113.7	113.8
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 2015 spring forecast.								