PORTUGAL

STABILITY AND GROWTH PROGRAMME

UPDATE FOR THE PERIOD 2001-2004

January 2001

C O N T E N T S

S U M M A R Y

The central objective of this programme is to set out the strategy to reach budget equilibrium in 2004. This will be achieved by restraining and tightly controlling primary current expenditure in order to free resources that will support the country's development and real convergence. This expenditure restraint will be done through a more rational resource allocation aimed at increasing public administration efficiency.

The figures available for 2000 show that budgetary consolidation has progressed at a satisfactory pace. Expenditure growth was contained, enabling the target set for the overall budget balance to be achieved.

The central government budget for 2001 is a further step towards balanced public finances, with primary current expenditure being reduced by 0.5 percentage points (of GDP) to a level of 37%. Between 2002 and 2004, strong expenditure controls will be pursued and the weight of primary current expenditure to GDP will be kept stable by holding down non-social spending.

To combat public spending rigidity and to ensure the sustainability of public finances in the medium term, a new Public Finance Consolidation Programme will be drawn up and finalised in the first half of 2001. The programme will be aimed at rationalising resource allocations and boosting the efficiency of public services.

Tax reform will also continue to be implemented. Its aims are to make the tax system fairer and more even-handed and to enhance the competitiveness of the economy by broadening the tax base and reducing tax evasion.

The effort that will be required in order to achieve a balanced budget in 2004 is, in this update, greater than in the previous programme, since GDP is now expected to grow somewhat below initial forecasts. This decision to step up adjustment efforts is in line with the Broad Economic Policy Guidelines.

I. INTRODUCTION

Between 1995 and 1999, the Portuguese economy enjoyed average annual GDP growth of 3.4%, thanks to the macroeconomic policy mix, the favourable economic climate and the buoyant expectations created by Portugal's integration into the euro area. This growth was achieved in a context of low inflation and a reduction in the unemployment rate to around 4%. The general government deficit, which averaged 3.3% of GDP over that period, was cut to 2% in 1999 and to an estimated 1.5% in 2000.

Despite these encouraging results, per capita GDP stands at only around 75% of the European Union average. This indicator is highly expressive of the development efforts which Portugal must undertake in order to gradually close the gap with its EU partners. This effort will need to be made at a time of rapid change throughout the world, marked by globalisation, the challenges of European integration (in particular enlargement), greater penetration of new technologies and the development of an information and knowledge-based society.

Budgetary equilibrium will help increase domestic savings, reducing the external deficit and fostering the growth of productive investment in the country. More sustainable public finances will also be an important factor in coping with the ageing of the Portuguese population. Legislative and regulatory implementation of the new basic social security law is now in progress: one of the aims of this law is to ensure that the social security system is financially sustainable in the medium and long term (see Annex B).

The strategy underpinning the fiscal programme, which forms the basis for the stability and growth programme, has four main objectives:

- public spending reform, in particular a more rational allocation of resources created via structural reforms. The green paper on public administration reform should be finalised, and the first results of the public finance consolidation programme should be available, by the end of the first half of 2001;
- tax reform aimed at making the tax system fairer and boosting the competitiveness of the economy;
- centralisation of the central government treasury;
- implementation of the privatisation programme.

The economic growth scenario for the present programme shows productivity gains of 2.2% a year on average, an improvement of nearly 0.3 percentage points on average for 1996-99. These productivity gains will be supported by investments in human and production capital, policy strengthening competition and the positive impact of tax reform on businesses.

Convergence with the EU through balanced and sustained development of the country, in both the economic and social areas, requires a major effort to find the right mix of macroeconomic policy and structural reforms for creating a favourable climate for business, a more efficient resource allocation and a more dynamic growth of potential output. Budgetary consolidation is part of a broader strategy including policies for:

- encouraging modernisation of the productive structure;
- developing public infrastructure, with externalities in terms of business productivity;
- reducing the tax burden while widening the tax base and encouraging a higher participation rate of the labour force;
- ensuring wage restraint to consolidate improvements in competitiveness within the framework of a balanced distribution of productivity gains that allows an upward trend in real wages;
- stimulating investment in human capital in order to increase skills and better match to labour market needs;
- promoting modernisation and flexibility of the labour market including that of the public administration;
- modernising and boosting efficiency in public administration; and
- exploiting opportunities offered by partnerships between the public and private sectors.

Most of the necessary structural reforms identified are under implementation. The major challenge in the years ahead is to bring all these reforms to a satisfactory conclusion, taking advantage of new opportunities brought about in all areas of economic and social activity by globalisation and the diffusion of new technologies.

This update to the stability and growth programme sets out the strategy for achieving a balanced budget in 2004 and gives an overview of the ongoing structural reforms with the greatest impacts on budget equilibrium. These reforms must go together with consolidation to ensure sustainability and improvements in public service quality. Recent economic developments are also described, as well as measures already taken or planned for in 2001 in the tax and budgetary reform sectors.

The present document also endeavours to respond to concerns and follow the recommendations of the Council of the European Union in its opinion on the preceding update of Portugal's stability and growth programme, as well as those set out in the broad economic policy guidelines, namely:

- to ensure that the economic policy stance promotes a pattern of growth that is less dependent on domestic demand and helps to reduce external imbalances;
- to keep public spending under strict control, in particular through the use of activity-based budgeting;
- to speed up the consolidation of public finances in the event economic growth turns out to be faster than planned;
- to ensure that structural reforms are carried through.

The programme was updated in accordance with Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the coordination of economic policies with complementary legislation.

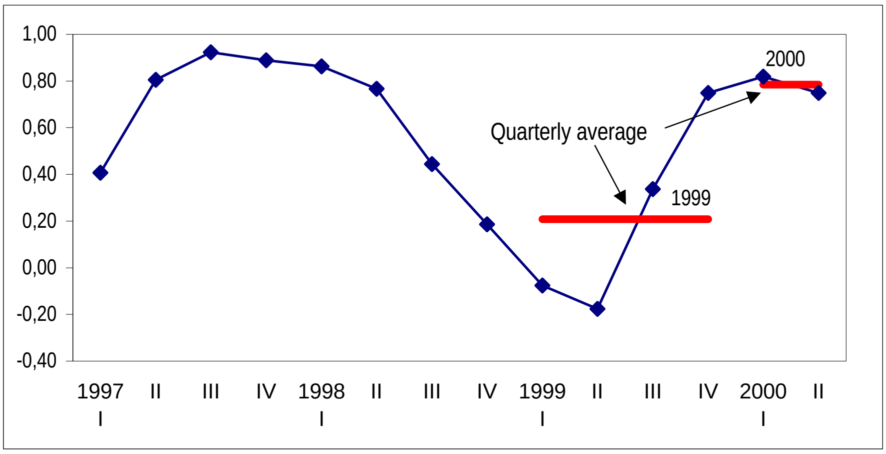
II. RECENT DEVELOPMENTS IN THE PORTUGUESE ECONOMY AND PROSPECTS FOR 2001

II. 1. Economic performance in 2000

After the slowdown between the beginning of 1998 and the second quarter of 1999, the Portuguese economy began to enjoy faster growth, as can be seen from the activity indicator (see Graph 1), which shows average growth in 2000 substantially higher than in the preceding year.

On the basis of the available information, GDP is estimated to have grown by 3¼% in 2000, an improvement of 0.2 percentage points over the previous year. As far as the components of expenditure are concerned (see Table 1.), there was faster growth in exports of goods and services, which should register a real increase of 8.7%, while investment continued to expand at a buoyant rate. Private consumption, partly reflecting the rise in interest rates, should slow down markedly in comparison with 1999 and is estimated to grow at 3.4%. Imports rose at a brisker rate of 8.9% in 2000, compared with 8.1% in 1999, related with the more vigorous growth in exports.

Graph 1. Economic activity indicator a/



Source: INE (National Statistics Institute), Monthly Economic Review, September 2000.
a/ Standardised series.

The unemployment rate began to decline from 1997 onwards and fell more sharply in 1999 and 2000, standing at 4% in the third quarter of 2000 against an EU average of 8.4% (see Table 2). Total employment over that period increased by 1.8% year-on-year, raising the employment rate to 72.4%. This trend contributed to a slight acceleration of wages and labour costs, especially in the services sector.

Table 1. Aggregate Demand (1999-2000)
(Real growth rate as %)

	1999	2000
Expenditure on final consumption by residents	4.6	3.4
Expenditure on final consumption by General Government	3.0	2.8
Gross fixed capital formation	6.3	6.3
Domestic demand	4.8	4.0
Exports of goods and services	3.4	8.7
Imports of goods and services	8.1	8.9
GDP	**3.1**	**3.3**
Memorandum item: GDP deflator (% change)	2.9	2.3

Source: Ministry of Finance, based on data available up to October 2000.

In 2000, the sharp rise in oil prices combined with the country's high level of dependence on imported energy and the appreciation of the US dollar helped to push up import prices and production costs, the effects of which were reflected in consumer prices (the impact on the CPI is estimated at 0.3 percentage point). Another factor feeding inflation was the poor weather, which had an adverse effect on the supply of fresh foodstuffs. Annual inflation, as measured by the harmonised index of consumer prices, thus rose from 2.2% in 1999 to 2.8% in 2000, 0.7 percentage points above the EU average.

Table 2. Main economic indicators

	GDP (real growth rate as %)		Unemployment rate (%)		Inflation rate (HICP) (%)	
	Portugal	EU-15	Portugal	EU-15	Portugal	EU-15
1998	4.0	2.7	5.0	9.9	2.2	1.3
1999	3.1	2.5	4.4	9.2	2.2	1.2
2000e	3.3	3.4	4.1[(1)]	8.4	2.8	2.1

Sources: European Commission, Ministry of Finance.
(1) Average for the first three quarters.
e: October 2000 estimate.

The aggregate deficit of the current plus capital account worsened significantly, rising from 4.8% of GDP in 1998 to 6.6% in 1999. This was mainly due to the widening growth differential between domestic demand and output, triggering an increase in imports and deterioration in the balance of payments, but also due to a rapid expansion in domestic credit to individuals and businesses and a greater borrowing of the financial system in the external market. The deficit is expected to widen further in 2000, mainly due to a marked deterioration in the terms of trade.

II. 2. Prospects for 2001

The prospects for economic activity in 2001 are, on the whole, favourable. The expected buoyancy of domestic output and demand in the European Union[1] should enable Portuguese exports to continue to enjoy sustained growth. In this context, wage restraint and further productivity gains will play a key role in improving the competitiveness of Portuguese businesses and export market shares. Implementation of the Third Community Support Framework will give a further impulse to economic growth.[2] The reform of the personal income tax should help to boost disposable income, particularly for low-income households, thereby supporting a moderate expansion of consumption. The expected growth in employment will also play a part in increasing household incomes.

Nevertheless, the macroeconomic scenario underpinning the central government budget for 2001 contains some risks, particularly in regard to international oil prices and their second-round effects on both domestic prices and the level of economic activity. Movements in interest rates are expected to be less pronounced than in the recent past and should have less impact on domestic demand.

Against this background, the Portuguese economy in 2001 is expected to grow at a real rate of 3.3%, the growth pattern being based more on exports and investment and less on private consumption. Such a growth mix will help to improve the balance in the Portuguese economy, with the aggregate deficit of the current plus capital account, in particular, being forecasted to fall (from 9.3% of GDP in 2000 to 7.6% in 2001).

Private consumption should grow by around 3%, supported by a rise in real personal disposable income resulting from increases in real wages, reductions in the tax burden on low-income households and increases in employment.

External demand should stay strong, paving the way for an 8.4% real growth rate in exports. Investment should continue at a strong growth rate as well in response to external demand, a rise in public investment and the persistence of a favourable business investment climate.

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[1] According to the European Commission's autumn economic forecasts.

[2] It is estimated that the direct and indirect effects of expenditure under the Structural Funds will generate over the period 2000-06: (i) a GDP increment representing on average around 2.1% of its total level, (ii) an increase in gross fixed capital formation of approximately 7% of its total level and (iii) extra jobs accounting for 1.7% of total employment.

The average inflation rate in 2001 is expected to be around 2.8%, assuming a moderate increase in wages and in international commodity prices.

Table 3. Main indicators
(Real growth rate as %)

	2001 forecast
GDP	**3.3**
Expenditure on final consumption by residents	3.0
Expenditure on final consumption by General Government	1.0
Gross fixed capital formation	6.4
Exports of goods and services	8.4
Imports of goods and services	7.1
GDP deflator (% change)	3.6
Overall general government balance (% of GDP)	-1.1

Source: Ministry of Finance. Based on data available up to October 2000.

Recent movements in interest rates, oil prices and the exchange rate of the euro reinforce the favourable expectations for domestic output growth.

II. 3. Implementation of the budget in 2000

Information on the central government budget outturn on the basis of public accounts shows that actual expenditure undershot budgeted expenditure by 0.6 percentage points of GDP, of which nearly half of this resulted from current expenditure curbing. This marks the beginning of a new cycle in public finances characterised by an effective restrain on public spending, which is translated by a rise in current expenditure of only 6.8% compared to a budget ceiling of 8%. On the revenue side, data for the central government points to a nominal growth rate of 7.7% (10.4% excluding excise duty on petroleum products), which is some 2 percentage points higher than nominal GDP growth.

In this context, current estimates suggest that the objectives of the budget and the stability and growth programme for 2000 have been met. Successful control of spending has meant that, for the first time in several years, a supplementary budget was not needed.

The general government deficit should not exceed 1.5% of GDP, i.e. 0.5 percentage points lower than in 1999, thanks to an increase in revenue of 1.8 percentage points and an increase in spending of only 1.3 percentage points of GDP. The stock of general government debt is expected to have by fallen 0.2 percentage points, to 55.6% of GDP.

Around 82% of the growth in spending was used for improving social services, which accounted for 15.6% of GDP in 2000 as compared to 15.1% in 1999.

On the revenue side, the negative impact deriving from measures taken to reduce the personal income tax burden, in particular the update of the specific deduction and creation of a new lower income bracket, were more than offset by greater efficiency in collection, resulting in a nominal increase of 12%. Direct tax revenue accruing to the central government grew by 12.1%, 5.3 percentage points more than nominal GDP growth. The indirect tax take rose by 4.8%, around 1 percentage point less than GDP;

this was the result of combined effects: a fall in receipts from excise duty on fuels, and a good performance on other important taxes, in particular VAT, revenue from which grew by 11.4%.

Summing up, the 2000 budget was implemented against a background of rising oil prices, a stronger dollar and a slowdown in private consumption. In order to achieve fiscal objectives, it was necessary to reduce expenditures. The reduction in actual, as against initially budgeted, central government spending is estimated at PTE 130 billion, including PTE 60 billion in current expenditure. Revenue from the award of UMTS licences (0.4% of GDP) compensated for some of the shortfall in non-tax revenues.

II. 4. Budget for 2001

The main quantitative goal of the 2001 budget is to reduce the general government deficit to 1.1% of GDP, 0.4 percentage points below the figure for 2000, thereby continuing the policy of gradually consolidating public finances and fulfilling the commitment made in the stability programme for 2000.

This will be achieved thanks to nominal revenue and expenditure growth of 8.1% and 7.2%, respectively, compared with nominal GDP growth of 7%.

Budgeted expenditures reflect a strong restraint on sovereignty functions, whose share of central government spending will fall from 15.7% in 2000 to 14.9% in 2001. On the other hand, welfare spending will grow faster than GDP, with its share of total central government spending rising to 56.8%, as against 56% in 2000, with increased resources being allocated in particular to pensions, the national health service and higher education. Transfers to local authorities will also rise steeply in accordance with the local finance law.

On the tax revenue side, the impact of the reform envisaged in the 2001 budget, which involves a reduction in the tax burden together with a broadening of the tax base, should generate nominal growth of 9.2% in income and wealth tax yields. Revenue from taxes on production and imports should grow at a faster rate than in the previous year, namely 8.8%. Overall, tax yields are forecast to rise by 8%, representing an efficiency gain in collection of 1.1 percentage points (see Graph 3). This increase in efficiency, which is the lowest in recent years, is the outcome of the combined effect of the loss of revenue caused by tax reform and the positive effects of broadening the tax base, more effective tax inspection and the expected increase in revenue from excise duty on fuels and stamp duty.

As regards tax burden, according to the OECD, Portugal was ranked twelfth in 1998, with a total tax burden of 34.2% as compared with a non-weighted EU average of 41.3%. This indicates that there is room for improving efficiency in tax collection, and efforts will focus on inspection and auditing as means of combating tax avoidance and evasion.

III. MEDIUM-TERM PROJECTIONS

III.1. Trends and objectives 2001-04

III. 1.1. Macroeconomic environment

This update of the stability and growth programme incorporates changes in the international environment[3], with positive and negative effects on economic growth. The positive effects include a more marked growth in external demand (the average for 2000-04 was assumed to be 6.5% in the 2000 update and 8.3% in the present update). The negative effects stem from two main factors:

- the short-term interest rate assumption, which in the 2000 update was 4.1% for the 2000-04 average, is now 5.3% in the present update, and
- the price of oil (per barrel) assumption, which in the 2000 update was USD 22.2, and has now risen to USD 27.8.

The combined effect of these factors is a decline in GDP growth compared with the 2000 programme - for the period 2000-04, the average growth rate has been revised downwards, from 3.4% to 3.2%.

With regard to the composition of GDP, a slight fall in domestic demand is expected, from an average growth rate for 2000-04 of 3.7% in the previous stability programme to 3.3%. This slowdown is offset partly by stronger real growth in exports, from 6.7% to 8.1% over the same period. The balance on goods and services has improved and is more balanced in the current scenario, in which the average growth rate of exports is 8.1% and that of imports 6.8%.

Table 4. National expenditure
(Growth rate in volume terms, %)

	2000	2001	2002	2003	2004
Expenditure on final consumption by residents	3.4	3.0	2.6	2.4	2.4
Expenditure on final consumption by General Government	2.8	1.0	0.9	0.8	0.7
Gross fixed capital formation	6.3	6.4	5.8	5.6	5.4
Domestic demand	4.0	3.4	3.1	2.9	2.9
Exports of goods and services	8.7	8.4	7.9	7.8	7.8
Imports of goods and services	8.9	7.1	6.2	5.8	5.9
GDP	**3.3**	**3.3**	**3.2**	**3.2**	**3.2**
Memorandum item: GDP deflator (growth rate %)	2.3	3.6	3.0	2.8	2.6

Source: Ministry of Finance.

Average productivity growth for 2001-04 is 2.2%, reflecting the expected positive impact of the structural reforms under way (see Annex A and Box 1).

III. 1.2. General government

The target scenario of the 2001 stability and growth programme shows current revenue rising by 1.7 percentage points of GDP in the period 2000-04. This reflects the tax reductions under the current reform, which will be more than offset by the expected gains in preventing tax avoidance by introducing control measures as part of the reform.

3 Based on the OECD's *Medium-term reference scenario* (EO68 Nov 2000) (see Annex C).

Table 5. General Government accounts

(in PTE billion)

	2000	2001	2002	2003	2004
Current revenue	9556	10322	11101	11911	12692
Current expenditure	9116	9637	10254	10831	11390
Primary current expenditure	8395	8879	9445	10015	10554
Interest on public debt	721	758	809	817	836
Balance on current account	440	686	847	1080	1302
Capital revenue	577	630	596	543	497
Capital expenditure	1361	1591	1627	1696	1787
Overall balance	-344	-275	-185	-73	13
Primary balance	377	483	624	743	849
Primary expenditure	9756	10470	11072	11711	12341

Source: Ministry of Finance.

It is expected that tax efficiency will thus improve by around 1.5% a year between 2001 and 2004. This is 0.5 percentage point lower than the annual average recorded between 1996 and 2000 (see Graph 3).

Graph 2. Gains in tax efficiency a/

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Tax revenue	9,1	8,0	9,0	10,0	7,5	8,1	8,2	7,7	7,5
GDP	7,0	6,7	7,7	6,1	5,8	7,0	6,4	6,1	5,9

Source: Ministry of Finance.
a/ Difference between nominal growth rates of GDP and tax revenue.

In the period 2000-04, primary current expenditure will fall from 37.5% of GDP to 36.9%, with the largest cut in expenditures occurring in 2001. As a result, the primary balance will increase by 1.3 percentage points of GDP, to 3% of GDP in 2004.

Table 6. General Government accounts

(% of GDP)

	2000	2001	2002	2003	2004
Current revenue	42.7	43.1	43.5	44.0	44.3
Current expenditure	40.7	40.2	40.2	40.1	39.8
Primary current expenditure	37.5	37.0	37.0	37.0	36.9
Interest on public debt	3.2	3.2	3.2	3.0	2.9
Current balance	2.0	2.9	3.3	4.0	4.5
Capital revenue	2.6	2.6	2.3	2.0	1.7
Capital expenditure	6.1	6.6	6.4	6.,3	6.2
Overall balance	-1.5	-1.1	-0.7	-0.3	0.0
Primary balance	1.7	2.0	2.4	2.7	3.0
Primary expenditure	43.6	43.7	43.4	43.3	43.1

Source: Ministry of Finance.

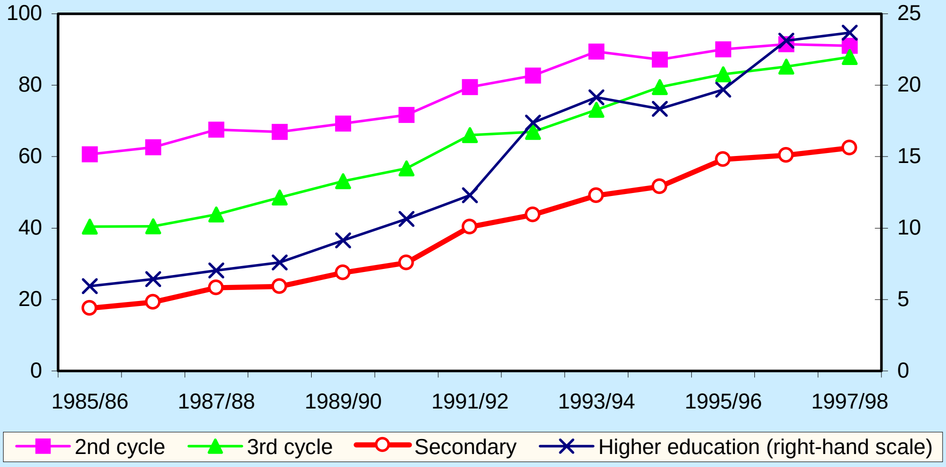
Box 1. Human Capital

Human capital is a major factor in economic development and in the establishment of the information and knowledge-based society. Education and vocational training policies are essential tools in pursuing this strategy.

Portugal has been making great efforts in this area, and this is reflected in particular in the trend of school enrolment rates and the levels of education completed by the labour force.

Graph 3. School enrolment rates a/

(%)



Source: Education Ministry, DAPP.
a/ Ratio of the number of pupils/students of normal age following education or training to the resident population of the same age.
b/ From 85/86 to 87/88 includes students at professional courses.

For basic education (first and second cycles – years one to six), the net school enrolment rate is 100%; for the third cycle (years seven to nine), the rate has been rising and is now around 90%; the rate for secondary education has increased significantly but is still not satisfactory (63%). Overall, the trend was positive in the 1980s and 1990s.

There has also been a positive trend in the level of education of the labour force. According to data from the INE's employment survey, the proportion of young people between 15 and 24 who have not attended school fell from 2.4% in 1998 to 1.4% in 2000 and the proportion of the population having completed basic education fell from 73.5% to 72%, while the proportion having completed secondary education rose from 21.4% to 23.9% in the same period. The proportion of the population having completed higher education remained unchanged during the two reference periods.

Table 7. Level of education of young people

(Share of total, %)

	15-24 years of age	
	1998	2000
No education	2.4	1.4
Basic (years 1 to 9)	73.5	72.0
Secondary (years 10 to 12)	21.4	23.9
Higher	2.7	2.7
Total	100	100

Source: INE, Employment survey.

Reflecting the continued efforts required of the country in the field of infrastructure development, capital expenditures would remain above 6% of GDP throughout the period.

The combined effect of these developments will allow a progressive reduction in general government borrowing requirements, so that balance is reached in 2004.

The slower GDP growth forecast in this update of the stability and growth programme implies that, when compared with the previous programme, greater effort has been envisaged so as to reach budgetary balance in 2004.

III. 1.3. Tax policy

The main objectives of the current tax reform are to improve tax equity by redistributing the tax burden and seeking to offset the decrease in revenue by widening the tax base through more efficient collection. The aim is not only to create a greater sense of social justice, but also to increase firm competitiveness and to boost labour supply. Implementation of the tax reform, which began in 2000, will continue to be through 2003 based on the principles of reducing tax rates, widening the tax base and tightening control (see Box 2).

In 2001 the tax reform will produce cuts in labour income taxation, reducing overall revenue by an estimated PTE 100 billion and in particular easing the tax burden on small businesses by introducing a PTE 6 900 000-10 000 000 income bracket taxable at a rate of 38% (2 percentage points lower than at present). This reduction is to be offset by widening the tax base and improving the efficiency of collection, resulting in revenue growth of 8.1% in nominal terms.

III. 1.4. Measures to control budgetary expenditure

The approach taken throughout the 1990s to consolidate public finances is no longer appropriate. The clampdown on growth in public consumption has already reached its limit. The rigidity of public expenditure creates ineffectiveness in future cuts unless the conditions causing this rigidity are altered. This can only be done by undertaking structural reforms in the sectors with the largest shares in expenditure (see Annex A).

Under these circumstances, public expenditure needs to be reassessed and restructured in the interests of flexibility and in order to enhance the quality and efficiency of public services. To this end, the new public finance consolidation programme is being drawn up along three main lines:

- reassessment of the merits of public expenditure, which must be closely scrutinised in accordance with a cost-benefit model that incorporates economic and social aspects;
- rationalisation of management in all sectors of the general government providing public services in order to improve quality, cut costs, remove duplication and avoid operational inefficiencies;

- control of chronic deficit situations in state-run enterprises, taking not only financial restructuring and management measures, but also adopting decisions with regard to the future of those firms.

To implement these decisions, a coordination committee for the public finance consolidation programme was assigned. This committee will make proposals to the government in the first half of 2001 on the measures necessary to overcome public expenditure rigidity, on redesigned methods for drawing up the state budget and on deepening financial reform.

Activity-based budgeting (ABB) is another instrument being used to consolidate public finances. Appraisal of public service performance will be based on two fundamental factors: the costs incurred in achieving the approved targets and the cost-benefit relationship of the developed work. Implementation of ABB in Portugal will mean breaking with a long-standing practice, and proper training will be needed for budget officials. The first stage of this work is under way with the design of conceptual models and their application to the public bodies selected for pilot testing. The system will be introduced during 2001.

The proposals comprising the budget framework law are being examined by parliament. The law will attempt to address major problems being encountered by the administration in budget planning and implementation control. The key principles reflected in the new law are the following:

- definition of the requirements for structuring programme-based budgeting, introduction of the principle of activity-based budgeting and strengthening of the role of auditing;
- definition of precise rules for implementing the budget and of basic rules governing its financial management, strengthening of budgetary control instruments and introduction of effective rules for imposing financial responsibility;
- disclosure and transparency of financial management;
- multiannual financial programming;
- extension of budgetary framework discipline to all central government sub sectors, including autonomous funds and departments and social security funds;
- strengthening of the rules and means of administrative and political control with regard to both legality and management.

The freezing of certain budget items in 2000 will be essentially maintained in the 2001 budget. It can be discontinued only with authorisation from the Finance Minister. In the 2001 budget it represents some 1.3% of central government current expenditure excluding debt interest. The Decree-Law implementing the budget included rules limiting some of the operating expenditures of the autonomous funds and departments to a percentage of the corresponding expenditure in 2000.

Box 2. T a x R e f o r m

At the end of December 2000, an important set of changes to Portuguese tax legislation was approved. The new legislation has the following objectives:

- reductions in labour taxes, especially for those in the lowest income brackets;
- increases in saving incentives and in family protection;
- extension of the tax base and stepping up of efforts to prevent tax evasion;
- simplification of relations between the taxpayer and the tax administration, notably through greater use of new information and communication technologies;
- introduction of simplified tax regimes for smaller firms.

The reform is based on the following principles:

- compatibility with the structural budget balance, to be achieved in 2004;
- compatibility with a gradual reduction in the stock of public debt;
- continuation of structural expenditure-side reforms to accompany the tax reform and to ensure the sustainability of budgetary consolidation in the medium term.

The main measures that will be enforced at the beginning of 2001, are the following:

1. Personal income tax (IRS)

- change of tax brackets and reduction in tax rates for lower-income taxpayers so as to reduce their tax burden;
- reduction in the number of income categories and widening of the tax base to line up the various income categories with regard to their contribution to personal income tax receipts;
- establishment of an optional simplified scheme to determine taxable income in the case of business and professional income below a specific amount;
- introduction of the possibility of splitting a couple's income if the couple so wishes;
- adaptation of the system of deductions and allowances so as to improve the mechanisms designed to ensure protection of the family, notably through the deduction for education costs in the case of family units with three or more dependants;
- removal of tax benefits with little social relevance in cases where the interest protected is not greater than the interest of Treasury.

2. Corporate income tax

- reduction in tax rates and introduction of reduced rates for firms in specific regions of the country;
- introduction of the concept of transfer prices and strengthening of measures against abusive practices relating to under capitalisation;
- modification of the arrangements for deducting costs and provisions;
- change in the tax treatment of capital gains;
- elimination of the double taxation of dividends;
- establishment of an optional simplified scheme for determining taxable profits.

Revision of the corporate income tax code will permit a widening of the tax base and will improve tax effectiveness, notably through the use of new technologies allowing for more rapid presentation, gathering and processing of information and subsequent monitoring. It will create the conditions for changes in tax rates with a view to minimising taxpayer costs.

3. Fighting tax avoidance and evasion

The measures to fight tax avoidance and evasion were reinforced, notably through:

- access by the tax administration to information protected by banking secrecy in the event of a refusal to disclose banking documents or when there is need to verify the tax benefits granted or when the administration doubts the veracity of the taxpayers´ declarations;

- change in the rules on the burden of proof when the taxable income declared departs significantly and for no good reason from the income patterns resulting from exhibited variations in assets or wealth;
- introduction of possible use of indirect methods for determining the income of individuals and the profit of firms;
- strengthening of the effectiveness of the Tax Inspectorate by stepping up the use of new information technologies to create a single register of taxpayers common to all taxes, thereby improving information cross checking;
- approval of a new legal regime for tax infringements that sets out in a single document all tax penalties.

The tax administration will press ahead with its efforts to improve communication with taxpayers by using new information and communication technologies, and in particular:

- continue the process of issuing new electronic taxpayer cards;
- on-line consultation for taxpayers regarding their tax position;
- direct Internet access to the entire body of Portuguese tax legislation;
- computerisation in 2001 of all tax offices.

4. Rationalisation of tax incentives

Credit institutions and financial companies setting up in the Free Zone of Madeira will be subject to tax, albeit at reduced rates.

5. Tax reform timetable

In the first half of 2001 new legislative measures amending taxes on assets will be proposed. A series of proposals relating to taxes with an environmental impact will also be presented (see timetable below).

Proposed law	Expected date of entry into force
Taxation of income	1 January 2001
Tax Infringements and Penalties Code	During 2001
Taxation of assets	1 January 2002
Taxation of fuels and motor vehicles	During 2001

In January 2001 the Government adopted several measures to regulate recruitment procedures in the public administration including:

(i) limiting the increase in staff by fixing a ratio of no more than 50% of new entrants to departures (retirement or cessation of civil servant status); this will cut recruitment back significantly;

(ii) strengthening of the arrangements for promoting geographical, departmental and professional staff mobility, notably through centralised recruitment and the setting up of an employment exchange;

(iii) centralising open competitions for general careers in public administration;

(iv) strengthening contractual rules for staff on fixed-term contracts.

These measures are designed to bring about a gradual qualitative improvement in the profile of public administration staff and to compress public expenditure. Other measures already implemented in connection with public administration reform are: a general survey of the civil service, the establishment of a corresponding human resources database and the planning of staff requirements over the next five years.

In addition, the official public accounting plan is to be extended rapidly to all public-sector bodies. Sectoral accounting plans adapted to local authorities and the education and health sectors were approved, while legislation associated with the basic social security law is being drafted.

Further action is being taken to improve management of the State Treasury. This entails centralising the balances available to the central government or to the autonomous funds and departments so as to minimise financing requirements met by issuing short-term debt. Since the target of centralising 30% of the balances available to the autonomous funds and departments was met in 2000, the target for 2001 has been set at 60%. The general rules and principles applicable to autonomous public institutes are also being redrafted and the areas of competence to be assigned to them redefined.

III. 1.5. Privatisation

The privatisation process has made a significant contribution to the restructuring, modernisation and innovation of the productive fabric as well as to the development of the capital market and the consolidation of public finances.

The privatisation programme for the two-year period 2000-02 has already been approved and its main objectives are to promote higher productivity, strengthen and consolidate nationally based private decision-making centres and reduce the weight of public debt-service payments in the economy.

The programme envisages disposals of the State's holdings in various sectors, especially insurance, energy (where privatisation of the electricity utility Electricidade de Portugal will continue and calls for tender will be made in the gas and oil sectors), manufacturing (including paper and cement), and transport and communications (airports, motorways, telecommunications, air transport and certain rail services and/or units).

In the 2001 budget the central government borrowing requirement will benefit from privatisation receipts estimated at PTE 154 billion (0.7% of GDP).

III. 1.6. Structural budget balance

The structural budget balance was estimated using the methodology recommended by the Commission.[4] Observations for the period 1977-2000 were used for the estimation.

Table 8. Budget balance as % of GDP

	1999	2000	2001	2002	2003	2004
Overall	-2.0	-1.5	-1.1	-0.7	-0.3	0.0
Structural	-2.0	-1.6	-1.3	-0.8	-0.4	0.0
Cyclical	0.0	0.1	0.2	0.1	0.1	0.1

Source: Ministry of Finance.

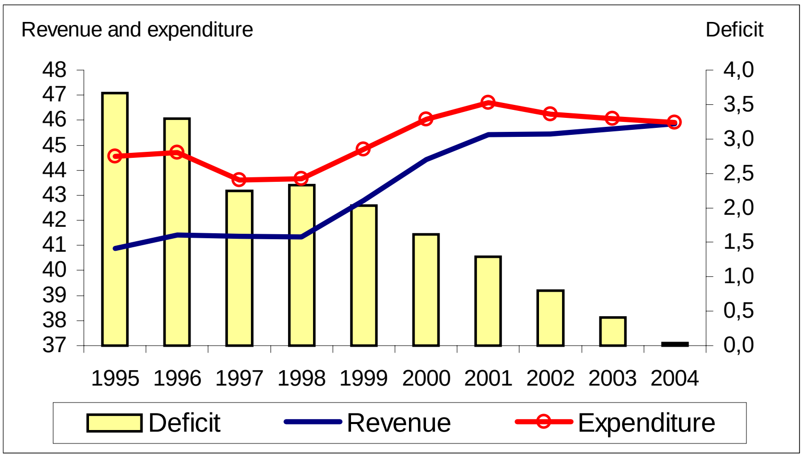
It can be concluded from Table 8, which gives the results obtained, that the structural balance in 2004 will be close to equilibrium, with the pace of adjustment being identical to that of the overall balance throughout the programming period. The

4 European Economy, No 60, 1995.

contribution made by the cyclical component to the consolidation of public finances is, therefore, only marginal.

As Graph 4 shows, there will be a sustained reduction in the overall structural deficit, which will be in equilibrium in 2004, in line with the target set in the stability and growth pact. Given the small size of the cyclical effect, the corresponding impact on the stock of debt is not significant.

Graph 4. Structural revenue, expenditure and deficit
(as % of GDP)



Source: Ministry of Finance.

III. 1.7. Budget balance by sub sector

Within the time horizon of the current stability programme, and in a context of financial solidarity between the various tiers of public administration, pursuit of an overall balance equilibrium is consistent with the following programming for the balances of the general government sub sectors.

Table 9. Overall general government balance by sub sector
(as % of GDP)

	2001	2002	2003	2004
Central government	-1.0	-0.8	-0.4	-0.1
Regional and local government	-0.1	0.0	0.0	0.0
Social security funds	0.0	0.1	0.1	0.1
Total	-1.1	-0.7	-0.3	0.0

Source: Ministry of Finance.

The consolidation of public finances basically involves reducing the central government budget deficit, while taking into consideration the growing financial transfers to other sub sectors. The path forecasted for the sub sectors' overall balance is the following:

- gradual and sustained reduction in the central government deficit from 1.9% of GDP in 2000 to 0.1% in 2004;
- trend towards equilibrium at regional and local government level in the period 2002-04 following implementation of the local finance law;
- sustained budget surpluses for the social security funds equivalent to 0.1% of GDP.

The projection made for the social security sector took into account the impact of the ageing population and in particular the change in volume terms, the updating of pensions and the composition effect resulting from the retirement of higher-pension recipients (see Annex B).

III. 1.8. Government debt

The projection of government debt in the period 2002-04 was based on the following assumptions:

- the overall general government deficit will remain on the downward path mapped out in this programme;
- central government financial assets, net of reimbursements, will remain at PTE 18 billion throughout the period;
- the privatisation receipts used for public debt redemption, net of debts and liabilities, will be PTE 154 billion in 2001. They will then fall significantly before disappearing altogether in 2004;
- exchange rates will remain at end-of-2000 levels;
- interest rates will follow the path set out in the OECD's November 2000 medium-term forecasts;
- central government financing will come essentially from the issue of medium- and long-term treasury bonds. Savings certificates will continue to be issued in line with demand. In net terms, the volume of these securities, as a proportion of public debt, is expected to remain stable throughout the reference period.

In line with these assumptions, gross General Government debt, on a national accounts basis, will continue to fall as a percentage of GDP throughout the period 2000-04, in line with the downward path recorded in recent years, from an estimated 55.6% of GDP in 2000 (based on ESA 95) to 48.1% in 2004.

Table 10. Government debt

(as % of GDP)

	2000	2001	2002	2003	2004
General Government	55.6	53.4	51.5	49.8	48.1

Source: Ministry of Finance.

The strategy for managing government debt has been geared to the objectives of minimising the impact of interest-rate volatility on debt-servicing costs and increasing the liquidity of the corresponding instruments.

This strategy will be developed in the years ahead, with the following measures being taken:

- obtaining financing from a smaller number of instruments, the aim being to increase their liquidity;
- maintaining and developing a sound and extensive network centred on the euro area for distributing Treasury certificates;
- designating the euro area as the reference area for placing Portuguese government debt.

III. 2. Sensitivity of the general government balance

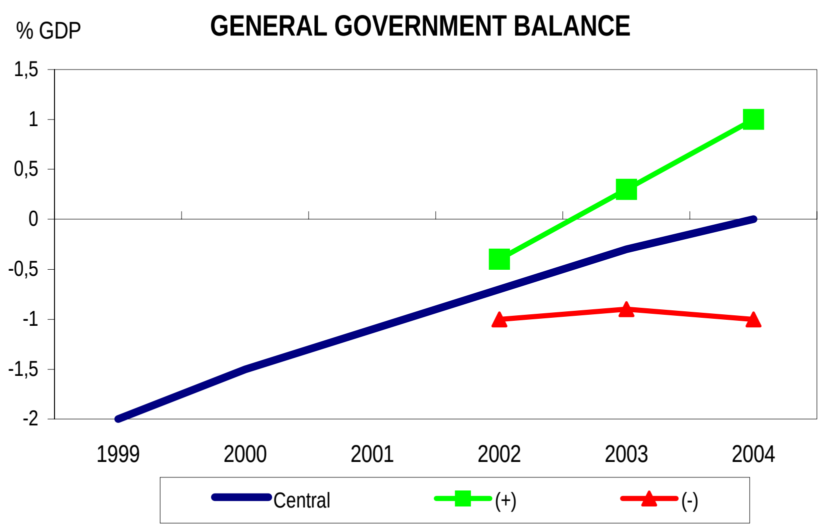
The sensitivity analysis was carried out by simulating an increase (decrease) of one percentage point in GDP growth. The results obtained indicate that in 2004 the overall general government balance will show a surplus equivalent to 1% of GDP in the positive scenario and a deficit of the same magnitude in the negative scenario (see Box 3). In the positive scenario, equilibrium would be achieved in 2003.

A second simulation was carried out in which the short-term interest rate was one percentage point higher (lower) than in the central scenario. In 2004 there is a general government deficit equivalent to 0.4% of GDP with the higher interest rate (H) and a surplus of the same magnitude with the lower interest rate (L) (see Box 4).

Accordingly, for each percentage point of reduction in GDP growth, the budget deficit would rise by 0.3 percentage points and, under normal conditions, this rules out the possibility of an excessive deficit during the reference period.

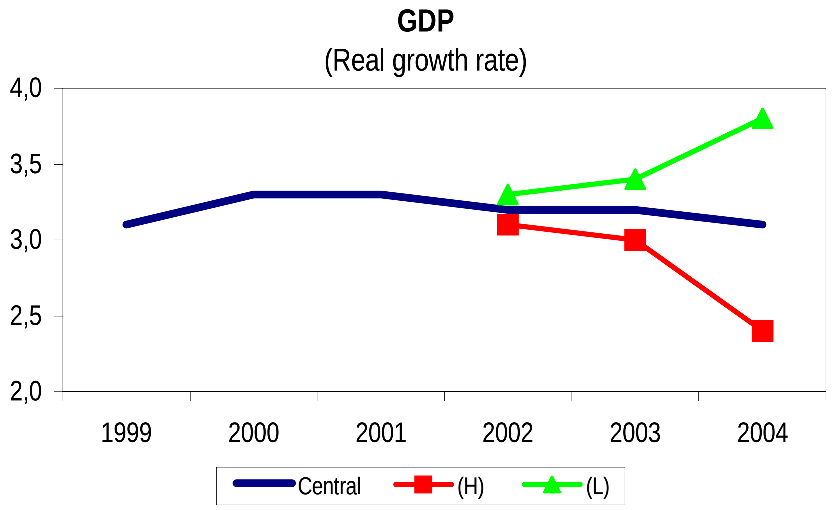
If economic activity proves to be more buoyant than what is implicit in the basic scenario, the resulting gains, as a matter of priority, will be used to reduce the overall deficit so as to achieve equilibrium earlier than programmed.

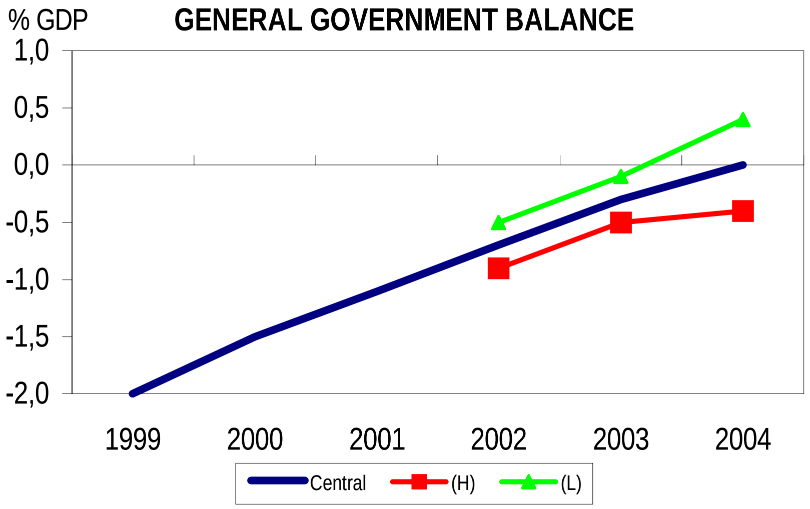
Box 3. REAL GROWTH RATE OF GDP HIGHER(+)/LOWER(-) THAN IN THE CENTRAL SCENARIO
(in percentage point)



	2001	2002	2003	2004
GDP (C)	3.3	3.2	3.2	3.2
GDP(+)	3.3	4.2	4.2	4.2
GDP(-)	3.3	2.2	2.2	2.2
Gen gvt bal (C)	-1.1	-0.7	-0.3	0.0
Gen gvt bal(+)	-1.1	-0.4	0.3	1.0
Gen gvt bal(-)	-1.1	-1.0	-0.9	-1.0

Box 4. INTEREST RATE HIGHER/LOWER THAN IN THE CENTRAL SCENARIO
(in percentage point)





	2001	2002	2003	2004
GDP (C)	3.3	3.2	3.2	3.2
GDP (H)	3.3	3.1	3.0	2.5
GDP (L)	3.3	3.3	3.4	3.9
Gen gvt bal (C)	-1.1	-0.7	-0.3	0.0
Gen gvt bal (H)	-1.1	-0.9	-0.5	-0.4
Gen gvt bal (L)	-1.1	-0.5	-0.1	0.4

ANNEX A

Structural reforms

The challenge facing Portugal, if real convergence with the EU is to be achieved and an effective improvement in life standards is to be brought about, is to secure rapid growth in productivity essentially by improving manpower skills, enhancing the quality and efficiency of public goods and services and pursuing a new public finance consolidation programme.

The series of structural reforms under way in Portugal are designed ultimately to foster productivity growth so as to strengthen productive potential and to move forward in the field of social cohesion. Gradually narrowing the gap with the EU average calls for efforts in various fields and a delicate equilibrium between, on the one hand, the need to increase public expenditure in order to foster, in particular, the development of economic and social infrastructures, R&D and modernisation of public administration and, on the other hand, the need to hold down inflation and to free resources for the private sector. In this context, budgetary consolidation is an objective requiring above all measures aimed at using available resources more efficiently. The structural reforms described in this annex are those that will have greater impact on budgetary consolidation while at the same time being of fundamental importance in promoting sustained development.

Improved productivity and competitiveness presuppose a major drive to develop human capital. In the 2001 budget, **education** accounts for around 20% of central government resources, reflecting the recent tendency of increasing resources allocated to education. The challenge here is to improve the quality of teaching, to adapt it more closely to the needs of the labour market, to combat unemployment by providing vocational training that will enhance employability and to give individuals a better notion of citizenship.

The second sector accounting for a large proportion of budgetary resources is **health**, which absorbs around 17.5% of central government resources. The basic objective of the reform in this area is to improve the quality of health services in a framework of more rational resource uses.

The cost burden on firms and, consequently, their competitiveness, is very closely linked to the quality of services provided by the public administration. In addition, sound economic and social management depends on a sound administrative structure with minimum costs. This is the challenge facing administrative reform. It is necessary to change the way in which the management of public services is viewed by introducing human resource management criteria and financial criteria in line with predetermined targets, notably through activity-based budgeting.

The reforms under way are taking place at a time when the information and knowledge-based society is developing throughout Europe. This aspect needs, therefore, to be incorporated into the reforms so as to take advantage of change in order to speed up convergence. In this context, it is fundamental that the reforms should be designed in light of **new technologies**. The creation of conditions at all levels that will allow these technologies to be exploited is of prime importance not only in order to boost productivity but also in order to promote a leap forward in development.

Education

Education spending in Portugal accounts for some 6% of GDP, compared with a non-weighted average of 5.3% in the EU. School enrolment numbers have increased among different education levels as access has improved. The results are positive, although resources still need to be used more efficiently. The introduction of arrangements permitting rigorous investment appraisal is a priority. An improvement in the quality of education, without which there would be no equality of opportunities, is not possible without stringent application of appraisal policies and incorporation of policy findings into educational practices.

In spite of the effort made, the education capital in Portuguese society has remained below the EU average. In 1988 only 20% of people between 25 and 64 had completed secondary education, i.e. one third of the EU average. Although this indicator does not take account of vocational experience acquired at the workplace or in training courses, it still points to the need for measures to make the sector more efficient.

The number of pupils/students per teacher in primary and secondary education is one of the lowest in the EU and this is largely attributable to the immobility of the system, which has not kept pace with demographic developments. There is a clear need to rethink its geographical structure as a function of current population data.

To sum up, the educational system needs to adapt in order to permit more effective use of the resources allocated to it. The package of measures for 2001 include, among others, the following:

- rationalisation of the school network and qualification of school installations and equipment;
- increase in the supply of pre-school education and, at the secondary level, of courses with larger technological and vocational components;
- diversification of the courses offered at secondary level so as to tailor supply more closely to labour market requirements and to students' interests, the aim being to give them an incentive to stay in school;
- linkage between technology course networks and vocational course networks at the secondary level, guaranteeing the consistency and viability of the various training resources;
- reorganisation of catch-up education, enhancing the effectiveness of training for adults with little formal education;
- development of teacher training;
- assessments of universities and polytechnics and publication of the findings;
- expansion of higher-education training, particularly in healthcare;
- extensive monitoring of the quality of teaching provided in each school;
- increase in the supply of educational and vocational guidance.

Health

Public spending on health rose from 4.3% of GDP in 1990 to 5.2% in 1998 and to an estimated 5.7% in the 2001 budget.

The fundamental problem identified in the Portuguese health system is the relative inefficiency resulting from how the system itself is structured. The adoption of new contract-based models involving gradual separation of financing and healthcare functions is one of the changes envisaged in the reform. Solutions are therefore being sought that respecting basic values, will bring greater rationality and efficiency to the national health service in particular and to the health sector in general.

The measures to be taken in this connection in 2001 include in particular:

- introduction of medical prescriptions for active ingredients that are accessible to all doctors via computer and collection of prescription data;
- promotion of prescriptions and use of generic medicines;
- repackaging of medicines;
- introduction of a financial and physical information system for the entire national health service;
- adoption of a new model of independent hospital management, along with gradual implementation of a new legal statute;
- adoption of a new legal and organisational model for health centres and its gradual implementation in the five health regions;
- setting up of integrated responsibility centres in hospitals as intermediate levels of management;
- gradual implementation of the national hospital pharmacy reorganisation plan;
- reorganisation of hospital supply services;
- introduction of public supply contracts for the purchase of clinical and pharmaceutical products.

Public administration

The model for modernising public administration, cutting red tape and simplifying administrative procedures is currently under implementation. It aims at making management more flexible, reducing the number of hierarchical levels, increasing participation and autonomy of decision-making, enhancing performances to streamline the relationship between the administration and the public, while safeguarding public interest.

In 2001 the reform will include the following measures:

- formulation of guidelines for the organisational model of public administration with a view to streamlining, simplification and flexibility;
- simplification of administrative procedures;
- rationalisation and consistency of procedures for allocating human, financial and organisational resources;
- improvement of the systems to manage, monitor and control human, financial and organisational resources in order to increase management autonomy and hence accountability;
- improvement in officials' professional qualifications;
- dissemination of the benefits of the information society within the administration, particularly aimed at ensuring the availability via computer of administrative information, promoting the functioning of public departments on-line and facilitating access to the administration by individuals and by economic and social operators;

- simplification and streamlining of administrative approval procedures.

As regards human resource management, the following measures in particular are planned:

- setting up of an employment exchange that will permit more rational use of existing human resources;
- establishment of a centralised recruitment system for "common" careers in public administration, together with initial training;
- introduction of overall and sectoral employment and training plans for the provisional management, training and retraining of staff;
- systemisation and simplification of the legislation governing the status of civil service and the possible revision of inappropriate legal provisions;
- recruitment numbers for civil servants to be kept much lower than the numbers retiring;
- establishment of a human resources database incorporating the findings of the general survey of workers in public administration.

Diffusion of new technologies

The diffusion of new technologies and the development of educational and vocational training constitute one of the fundamental objectives of the structural reforms under way in Portugal, the aim being to exploit them fully. They will be applied horizontally across virtually all economic and social sectors.

In 2001 the measures provided for in the operational programme of the Third Community Support Framework and in the Internet Initiative action will be launched or continued. They include in particular:

- general application of the digital cities programme;
- introduction of incentives for SMEs to participate in the digital economy, and in particular in electronic commerce;
- development of an integrated tele-medicine programme;
- preparation of a high-speed network for scientific, educational and cultural purposes;
- development of the Portuguese Telematics University with its international coverage and with access to the higher-education and R&D capacities of scientific, technological and higher-education institutions;
- connection to the Internet of primary schools not yet connected and of teacher training centres, extending the IT network to the entire educational system;
- raising tax incentives to encourage families to buy a computer;
- increasing tax incentives for business investment in R&D;
- use of electronic data transfers between public departments;
- availability via the Internet of all information published by public entities.

A N N E X B

Projection of social security spending

This annex presents in more detail the assumptions underlying the projections of current social security spending in the period 2002-04.

Measures to reform social security are necessary to cope with the future ageing of the population, which will entail a significant increase in social spending, particularly on pensions. In order to guarantee the financial sustainability of public pensions systems in Portugal, the trend of spending on different types of pension must be monitored regularly. Only in this way will it be possible to take the corrective measures necessary to control total spending in good time.

If this objective is to be achieved, the following steps in particular will have to be taken:

- combination, at the level of financial management of social security, of the pay-as-you-go and funding models;
- diversification of the financing sources for spending on social protection;
- reformulation of the methods for calculating social security benefits, in particular by gradually taking into account the entire contribution period of individuals when awarding pensions;
- encouragement of complementary social protection schemes.

At the meeting of the Ecofin Council on 7 November 2000, the EU Finance Ministers analysed long-term projections of public spending on pensions and, aware of the need for reforms, agreed to incorporate this aim in the regular assessment of the state of public finances under the stability programmes.

The following parameters were taken into account in the projections:

Table 11. Assumptions adopted for social security

	2002	2003	2004
Real growth rate (%)	1.3	1.3	1.3
Discount rate (%)	3.8	3.5	3.3
Composition effect (%)	4.0	3.5	2.5

The results obtained by the simulations are given in the table below:

Table 12. Current social security spending

(based on national accounts)

(as % of GDP)	**1999**	**2000** (Estimate)	**2001** (Budget)	**2002**	**2003**	**2004**
Current spending,	12.9	13.6	14.0	14.1	14.3	14.5
of which:						
Pensions*	6.1	6.2	6.5	6.7	6.8	6.9
Subsidies	1.5	1.6	1.6	1.6	1.6	1.6

Source: Ministry of Finance.

* Not including the Civil Servant Retirement Fund (Caixa Geral de Aposentações).

A N N E X C

Underlying assumptions and comparison of results

The macroeconomic scenario for the present update of the stability and growth programme for the period 2001-04 is based on a set of assumptions regarding the international economy that significantly influence that scenario. The following table sets out those assumptions:

Table 13. UNDERLYING ASSUMPTIONS

INTERNATIONAL CONTEXT

	2000	2001	2002	2003	2004	2001-04
World GDP (real growth rate)	4.4%	4.0%	4.1%	-	-	-
GDP USA (real growth rate)	5.2%	3.5%	3.3%	3.6%	3.6%	3.5%
GDP EU15 (real growth rate)	3.4%	3.0%	2.7%	2.4%	2.3%	2.6%
GDP EU11 (real growth rate)	3.5%	3.1%	2.8%	2.5%	2.4%	2.7%
HCPI EU11 (rate of growth)	2.3%	2.2%	1.9%	-	-	-
Demand and external profits (on the main markets for domestic exports)						
External demand (real growth rate)	11.9%	8.9%	7.8%	6.9%	6.9%	7.6%
Foreign income (real growth rate)	4.0%	3.4%	3.0%	2.6%	2.5%	2.9%
Interest rates (as %)						
Long-term - Germany (g*overnment bonds*)	5.3%	5.6%	5.6%	5.6%	5.6%	5.6%
Short-term - Euribor (3-month)	4.4%	5.4%	5.5%	5.5%	5.5%	5.5%
Prices and exchange rates						
Price barrel oil (USD/bbl)	29.0	29.0	27.0	27.0	27.0	27.5
Price other commodities (USD)	77.0	80.0	81.0	82.0	83.0	
Exchange rate 1 USD = ... euro	1.088	1.094	1.094	1.086	1.075	
(+) appreciation (-) depreciation of dollar	15.9%	0.5%	0.0%	-0.7%	-1.0%	

Source: OECD, *Medium-term reference scenario* and *Economic Outlook 68*, November 2000, European Commission, autumn forecasts, Ministry of Finance.

The external assumptions differ significantly from those in the stability and growth programme for 2000. The increase in interest rates and the level of the oil price, plus the appreciation of the dollar, are factors that adversely affect the nation's disposable income and weaken the buoyancy of the main variables of domestic demand.

Table 14. Comparison of the main exogenous variables

	2000	2001	2002	2003	2004
Short-term interest rate (%)					
Feb00	3.3	4.3	4.3	4.3	4.3
Jan01	4.4	5.4	5.5	5.5	5.5
Price barrel oil (USD/bbl)					
Feb00	22.1	22.2	22.2	22.2	22.2
Jan01	29.0	29.0	27.0	27.0	27.0
Exchange-rate variation of the euro against the dollar (%) (+ appreciation of US dollar)					
Feb00	0.6	0.0	-0.2	-0.3	0.0
Jan01	15.9	0.5	0.0	-0.7	-1.0
GDP growth in euro area (%)					
Feb00	2.9	2.9	2.6	2.5	2.4
Jan01	3.5	3.1	2.8	2.5	2.4
Growth of domestic export market (%)					
Feb00	6.5	6.7	6.7	6.6	6.6
Jan01	11.9	8.9	7.8	6.9	6.9

Source: OECD, *Medium-term reference scenario*, 1999 and November 2000.

NB. Feb00 – SGP2000; Jan01 – SGP2001.

With regard to growth and public finances, the following table gives the main results of the present update of the stability and growth programme and of its February 2000 version.

Table 15. Main differences in growth and public finances

	2001	2002	2003	2004
GDP (real growth rate)				
Feb00	3.6	3.6	3.5	3.5
Jan01	3.3	3.2	3.2	3.2
Overall balance (as % of GDP)				
Feb00	-1.1	-0.7	-0.3	0.0
Jan01	-1.1	-0.7	-0.3	0.0
Public debt (as % of GDP)				
Feb00	55.2	53.3	51.0	48.4
Jan01	53.4	51.5	49.8	48.1

Source: Ministry of Finance.
NB. Fev00 – SGP2000; Jan01 – SGP2001.