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Recommendation for a

COUNCIL OPINION

on the updated stability programme of Portugal, 2009-2013

EXPLANATORY MEMORANDUM

1. General background

The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The 2005 reform of the Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run.

Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], which is part of the Stability and Growth Pact, stipulates that each Member State has to submit, to the Council and the Commission, a stability or convergence programme and annual updates thereof. Member States that have already adopted the single currency submit (updated) stability programmes and Member States that have not yet adopted it submit (updated) convergence programmes.

In accordance with the Regulation, the Council delivered an opinion on the first stability programme of Portugal on 8 February 1999 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the Regulation foresees that these are assessed by the Commission and examined by the Committee mentioned above and, following the same procedure as set out above, the updated programmes may be examined by the Council.

2. Background for the assessment of the updated programme

The Commission has examined the most recent update of the stability programme of Portugal, submitted on 29 March 2010[2], and has adopted a recommendation for a Council Opinion on it.

In order to set the scene against which the budgetary strategy in the updated stability programme is assessed, the following paragraphs summarise:

(1) the Commission Communication of 26 November 2008 ("A European Economic Recovery Plan");

(2) the conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy";

(3) the country's position under the corrective arm of the Stability and Growth Pact (excessive deficit procedure);

[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text are available at: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

[2] The late submission of the programme was largely related to the appointment of a new Cabinet following parliamentary elections in late September 2009 and the adoption of the 2010 Budget Law only in March 2010. The programme was discussed in the Portuguese Parliament on 25 March 2010.

(4) the most recent assessment of the country's position under the preventive arm of the Stability and Growth Pact (summary of the Council Opinion on the previous update of the stability programme).

2.1. The Commission Communication of 26 November 2008 ("A European Economic Recovery Plan")

In view of the unprecedented scale of the global crisis that hit financial markets and the world economy in 2008-2009, the European Commission called for a European Economic Recovery Plan (EERP)[3]. The plan proposed a co-ordinated counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the economy consisting of (i) an immediate budgetary impulse amounting to € 200 bn. (1.5% of EU GDP), made up of a budgetary expansion by Member States of € 170 bn. (around 1.2% of EU GDP) and EU funding in support of immediate actions of the order of € 30 bn. (around 0.3 % of EU GDP); and (ii) a number of priority actions grounded in the Lisbon Strategy and designed to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth. The plan called for the fiscal stimulus to be differentiated across Member States in accordance with their positions in terms of sustainability (or room for manoeuvre) of government finances and competitive positions. In particular, for Member States with significant external and internal imbalances, budgetary policy should essentially aim at correcting such imbalances. The plan was agreed by the European Council on 11 December 2008.

2.2. The conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy"

Following the halt of the sharp decline in economic activity and first signs of a recovery from the crisis, the stabilisation of financial markets and the improvement in confidence, the Council concluded on 20 October 2009 that, while in view of the fragility of the recovery it was not yet time to withdraw the support governments provided to the economy and the financial sector, preparing a coordinated strategy for exiting from the broad-based policies of stimulus was needed. Such a strategy should strike a balance between stabilisation and sustainability concerns, take into account the interaction between the different policy instruments, as well as the discussion at global level. Early design and communication of such a strategy would contribute to underpinning confidence in medium-term policies and anchor expectations. Beyond the withdrawal of the stimulus measures of the European Economic Recovery Plan, substantial fiscal consolidation was required in order to halt and eventually reverse the increase in debt and restore sound fiscal positions. Increasing the efficiency and effectiveness of public finances and the intensification of structural reform were desirable even in the short term as they would contribute to fostering potential output growth and debt reductions.

The Council agreed on the following principles of the fiscal exit strategy: (i) the strategy should be coordinated across countries in the framework of a consistent implementation of the Stability and Growth Pact; (ii) taking country-specific circumstances into account, timely withdrawal of fiscal stimulus was needed; provided that the Commission forecasts continued to indicate that the recovery was strengthening and becoming self-sustaining, fiscal consolidation in all EU Member States should start in 2011 at the latest; (iii) in view of the

[3] Communication from the Commission to the European Council of 26 November 2008.

challenges, the pace of consolidation should be ambitious, in most countries going well beyond the benchmark of 0.5% of GDP per annum in structural terms; and (iv) important flanking policies to the fiscal exit would include strengthened national budgetary frameworks for underpinning the credibility of consolidation strategies and measures to support long-term fiscal sustainability; in addition, structural reform efforts should be strengthened to enhance productivity and to support long-term investment. The Council agreed that these elements should be reflected in the stability and convergence programmes, to be transmitted by Member States to the Commission by the end of January 2010.

2.3. The excessive deficit procedure for Portugal

On 2 December 2009 the Council adopted a decision stating that Portugal had an excessive deficit, in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU). At the same time, the Council addressed a recommendation under Article 126(7) TFEU specifying that the excessive deficit had to be corrected by 2013.

In particular, Portugal was recommended to "bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. To this end, the Portuguese authorities should: (a) implement the consolidation strategy envisaged in the January 2009 update of the Stability Programme; (b) ensure an average annual fiscal effort of 1¼% of GDP over the period 2010-2013, which should also contribute to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus; (c) specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected". Additionally, the Council recommended that "the Portuguese authorities should seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. To limit risks to the adjustment, Portugal would benefit from strengthening the enforceable nature of its medium-term budgetary framework as well as from continuing to improve the monitoring of the budget execution throughout the year". The Council established the deadline of 2 June 2010 "for the Portuguese government to take effective action necessary to (…) progress towards the correction of the excessive deficit". Portugal was also asked to report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes prepared between 2010 and 2013.

2.4. The assessment in the Council Opinion on the previous update

In its opinion of 10 March 2009, the Council summarised its assessment of the previous update of the stability programme, covering the period 2008-2011, as follows. The Council considered that "the programme aims at a significant temporary fiscal impulse in 2009 in line with the EERP, which represents an adequate response to the economic downturn. The programme rightly plans the resumption of fiscal consolidation as soon as the economy recovers. Yet, in the light of the favourable macroeconomic assumptions, economic growth may underpin fiscal consolidation by less than envisaged in the programme. Progress with fiscal consolidation is also necessary to strengthen the long-term sustainability of public finances. In addition, further strengthening the budgetary framework can be instrumental to achieve the planned fiscal path. Finally, continue to fostering the quality of public finances is important also to underpin a smooth adjustment of the economy in the light of the imbalances it is faced with, notably by supporting potential GDP growth, helping improving competitiveness and supporting the correction of the external deficit". In view of this assessment, the Council invited Portugal to: "(i) implement the 2009 fiscal policy as planned in line with the EERP and within the framework of the SGP, while avoiding a further deterioration of public finances in 2009 and carry out with determination the planned adjustment in 2010 and beyond, strengthening the pace of budgetary consolidation if cyclical conditions are better than projected; (ii) further strengthen the budgetary framework, as envisaged, and ensure that fiscal consolidation measures continue to be geared towards enhancing the quality of the public finances in the light of the needed adjustment of the existing imbalances".

Recommendation for a

COUNCIL OPINION

on the updated stability programme of Portugal, 2009-2013

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[4], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On [22 April 2010] the Council examined the updated stability programme of Portugal, which covers the period 2009 to 2013[5].

(2) The global crisis has caught the Portuguese economy in a situation of sluggish economic growth for almost a decade, reflecting structural weaknesses, notably low productivity and potential GDP growth. After stagnation in 2008, real GDP fell in 2009 by 2.7% driven by shrinking domestic demand, notably investment and to a lesser extent household consumption, whereas net trade was largely neutral to growth. The unemployment rate rose to 10% in late 2009. The government deficit reached 9.4% of GDP in 2009 after 2.8% of GDP in 2008 as a result of sharply falling activity and the implementation of some stimulus measures, but it also reflects prior weaknesses as revealed by high, even if declining, structural deficits in pre-crisis years. On the basis of a planned government deficit in excess of 3% of GDP in 2009 and an increasing debt in excess of 60% of GDP, the Council decided in December 2009 that an excessive deficit existed in Portugal and set a deadline of 2013 for its correction. At the same time, large external imbalances persist despite the slump in GDP, with net external borrowing representing 9½% of GDP and a negative net international investment position of over 110% of GDP at the end of 2009. External imbalances relate to eroded competitiveness, reflecting not only low productivity growth but also insufficient labour costs adjustment in a context of, first, increased competition in global markets, notably in labour-intensive sectors where

[4] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

[5] The late submission of the programme was largely related to the appointment of a new Cabinet following parliamentary elections in late September 2009 and the adoption of the 2010 Budget Law only in March 2010. The programme was discussed in the Portuguese Parliament on 25 March 2010.

Portugal used to show a comparative advantage and, second, rather benign financing conditions for a number of years. However, financial turbulence during the crisis has been contained. A lasting improvement in economic performance will require considerable adjustments. In the fiscal domain, consolidation is essential to contain an otherwise increasing public debt that undermines long-term sustainability. At the same time, an overarching objective is to raise potential GDP growth, notably by boosting productivity and create jobs in a durable manner. Continued efforts to that end would also help to narrow the large external imbalance, which will remain a major drag on national income in the coming years given the service of the high external debt. Narrowing the external imbalance will require rebalancing the sources of GDP growth towards the external sector by regaining competitiveness through structural reform efforts and lower labour costs growth vis-à-vis trading partners.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, the level of potential output has also been negatively affected. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability and increasing structural unemployment. Moreover, the impact of the economic crisis compounds the negative effects on potential output and public finances of demographic ageing. Against this background it will be essential to accelerate the pace of structural reforms with the aim of raising potential growth. In particular, for Portugal it is important to undertake further reforms in the areas of education and training, competition in services and network industries, and to address labour market issues at large, including segmentation, minding also the strengthening of the adjustment capacity in the EMU context.

(4) The macroeconomic scenario underlying the programme assumes that real GDP growth will gradually improve from 0.7% in 2010 to 1.7% by 2013. The acceleration in economic activity would be driven mainly by a domestic demand recovery, with some additional contribution coming from the external sector. Assessed against currently available information[6], this scenario appears to be based on somewhat favourable assumptions, notably for the outer years of the programme. However growth is projected to be low and the output gap remains negative all along the programme period. In particular, in the medium-term, the outlook for income and consequently for domestic demand may be more constrained by the adjustment needs of both households and corporations' balance sheets, notably linked to rising debt burdens, than foreseen by the programme. The envisaged export performance crucially hinges upon a sustained recovery of demand from major trading partners (mainly euro area economies) and improvements in the competitiveness position of Portuguese exporters. As regards inflation the programme’s projections appear realistic for 2010, but may turn out to be on the high side for later years. Net foreign borrowing needs are foreseen to decline only slightly, hovering 8½% of GDP in the outer years of the programme, pointing to a further deterioration of the negative international investment position, which could come close to some 130% of GDP by the programme horizon also driven by a 'snow-ball effect' given low nominal GDP growth.

[6] The assessment notably takes into account the Commission services' autumn 2009 forecast. Other information that has become available since then (notably GDP and inflation outturns) has also been used for the risk assessment.

(5) The programme estimates the general government deficit in 2009 at 9.3% of GDP[7]. The significant deterioration from a deficit of 2.8% of GDP in 2008 reflects to a large extent the impact of the crisis on government finances through the free play of automatic stabilisers, but also stimulus measures amounting to ¾% of GDP which the government adopted in line with the European Economic Recovery Plan (EERP) and by other discretionary measures[8]. The increase in government expenditure accounted for most of the deterioration in the budget deficit, but combined with also large falling revenue it led to a much worse budgetary outturn (by almost 1½% of GDP) than expected at the time the Council issued its recommendation under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU) in December 2009. According to the programme, fiscal policy is planned to turn restrictive in 2010, in line with the exit strategy endorsed by the Council, and with a view to correcting the excessive deficit by 2013 and returning to a sustainable public finances position.

(6) According to the programme, the target for the general government deficit in 2010 stands at 8.3% of GDP, which is fully aligned with the 2010 Budget Law adopted on 12 March 2010 (see footnote 5). The targeted deficit reduction of 1 percentage point of GDP in 2010 is planned to be driven for ¾ by an increase in revenue (namely non-tax revenue) and for ¼ by a fall of expenditure (namely capital expenditure). Apart from the discontinuation of temporary stimulus measures adopted for 2009, the Budget Law does not present new sizeable consolidation measures. The fiscal stance in 2010 as measured by the change in the structural balance, i.e. the cyclically-adjusted balance net of one-off and other temporary measures, is planned to be restrictive, with an improvement of just over ¾ of a percentage point of GDP, below the average annual fiscal effort of 1¼% of GDP recommended by the Council under Article 126(7) despite a much worse 2009 deficit outturn.

(7) The main goal of the medium-term budgetary strategy is to bring the deficit below the 3% of GDP reference value by 2013, in line with the Council Recommendation under Article 126(7) TFEU of 2 December 2009. The update targets government deficits of 6.6%, 4.6% and 2.8% of GDP for 2011, 2012 and 2013 respectively. Similarly, the primary balance is aimed to improve gradually from an estimated deficit of 6.4% of GDP in 2009 up to a deficit of 0.6% of GDP in 2012 and a surplus of 1.3% of GDP in 2013. The structural balance is planned to improve by an average of almost 1¾% of GDP per annum between 2011 and 2013. The planned deficit reduction is based on consolidation measures totalling an impact of 3½% of GDP by 2013. Measures cover various areas with the most sizeable budgetary savings concerning social transfers (about 1% of GDP), capital spending (¾% of GDP), public wage bill (½% of GDP), and personal income taxes (½% of GDP). The spending containment seems to be further helped by measures launched in recent years, notably in relation to the government wage bill and old-age pension reforms. Conversely, interest expenditure is assumed to increase to 4.1% of GDP in 2012 and 2013 from 2.9% of GDP in 2009, given the projected increase in the debt-to-GDP ratio of about 25 percentage points between end 2008 and end 2012. Taking also into

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7 According to data of the EDP notification due before 1 April 2010 made public by the Portuguese Statistical Office after the submission of the programme, the government deficit outturn was 9.4% of GDP.

8 These measures concern notably the reduction of the VAT standard rate by one percentage point in July 2008 and measures to support households' income.

account the gradually accelerating GDP and a gradual return of tax revenue close to its pre-crisis ratio in terms of GDP, three fifths of the deficit reduction over the years 2011-2013 is assumed to be driven by the fall in the expenditure-to-GDP ratio, whereas the increase in the revenue-to-GDP ratio accounts for the other two fifths. Relying primarily on the expenditure side is to be welcome. In nominal terms, revenue and expenditure would grow by around 4½% and 1% per annum respectively over the programme period (primary expenditure would stagnate on average over the period 2011-2013). As communicated by the authorities, the medium-term budgetary objective (MTO) for the Portuguese budgetary position is a structural deficit of 0.5% of GDP. Given the most recent projections and debt level, the MTO more than adequately reflects the objectives of the Pact, which, however, would not be achieved within the programme period.

(8) The budgetary outcomes could be worse than projected in the programme. The impact of some expenditure and revenue consolidation measures presented in the programme, especially non-tax revenue, capital expenditure and social transfers, might not yield the expected results, including in 2010. From 2011 onwards, there are also the risks associated with any back loaded consolidation strategy, linked to the uncertainty stemming from the fact that the consolidation measures outlined in the programme still need to be adopted and implemented. Additional risks are linked to the lack of specification of some of the announced measures, especially as regards the cut in capital spending, and a somewhat favourable macroeconomic scenario, notably for the outer years. Also, the foreseen rapid recovery of revenue after the sharp shortfalls recorded in 2009 and the favourable elasticity of tax revenue to domestic demand make possible a scenario with lower revenue growth, therefore putting at risk the budgetary targets.

(9) Government gross debt is estimated at 77.2% of GDP at the end of 2009, up from 66.3% in 2008, reflecting both the sizeable increase in the deficit and the decline in nominal GDP. The debt ratio is projected to increase by a further 12½ percentage points over the programme period, to reach 90.7% of GDP in 2012, before declining slightly to 89.8% of GDP in 2013. That path reflects the high though declining government deficits, coupled with the acceleration in nominal GDP. Yet the 'snow-ball effect' is expected to be positive over the programme period as the implicit average interest rate (averaging 4½% per annum between 2010 and 2013) exceeds the nominal GDP growth rate (averaging 3%). Conversely, the debt path is contained by privatisations proceeds amounting to some 3% of GDP in cumulative terms over the programme period. In view of the negative risks to the budgetary targets and the macroeconomic scenario, the evolution of the debt ratio is likely to be less favourable than projected in the programme. The government gross debt ratio was above the Treaty reference value in 2009 and is on an increasing trend until 2012 according to the programme. Medium-term debt projections until 2020 that take account of more recent economic developments and projections on the potential growth show that the budgetary development envisaged in the programme, taken at face value, is enough to stabilise the debt-to-GDP ratio by 2020.

(10) The long-term budgetary impact of ageing is clearly below the EU average, with pension expenditure showing a more limited increase, as a result of the pension reforms already enacted. The budgetary position in 2009, which worsened significantly according to the programme, compounds the budgetary impact of population ageing on the sustainability gap. Ensuring higher primary surpluses over

the medium term, would contribute to reducing the risks to the sustainability of public finances, which were assessed in the Commission 2009 Sustainability Report[9] as medium.

(11) The programme announces the intention to reform the budgetary framework. A major element is the move towards a multi-annual budgetary framework with annual expenditure ceilings. However, not many details are outlined about the renewed budgetary framework, for instance in terms of time, institutions or expenditure categories coverage, the form the expenditure rules will take, or enforcement and correction mechanisms in case of deviations. Besides these changes to ex-ante budget planning, some further changes towards a more integrated reporting of budgetary execution are also envisaged. Overall, these efforts address two aspects where the Portuguese budgetary framework has shown needs of continued improvement, namely planning fiscal policy in the broader medium-term setting and controlling expenditure developments in a more thorough way.

(12) The programme acknowledges the existence of a number of important policy challenges for the coming years beyond fiscal consolidation, such as lifting potential GDP growth and narrowing external imbalances. The programme includes an extensive review of past and future measures aimed at tackling those and other very related issues such as reducing oil dependency, reforming the labour market, improving business environment, stimulating R&D or enlarging the exports basis. Implementing some of those measures in a context of strong fiscal consolidation underscores the need of ensuring the efficiency and effectiveness of public spending, as well as of setting priorities in terms of reform efforts and of public spending. The programme also touches upon two aspects relevant for Portuguese public finances, namely public-private partnerships and state-owned enterprises. Concerning the former, a revamped unit to monitor those partnerships is announced. That seems essential given the increased recourse to public-private partnerships over the current decade, which have given rise to sizeable implicit liabilities for the years to come (notably beyond the programme horizon), which should be factored into fiscal sustainability assessments and long-term plans. Regarding state-owned enterprises, the programme outlines changes to their governance and a cap on the growth of the debt of non-financial state-owned enterprises. The aim is to reduce the burden on government finances of loss-making enterprises, including containing the implicit risks steaming from the large and growing debt stock of state-owned enterprises. Yet the annual ceilings for the nominal increases in that debt, although in a decreasing path, are in excess of the assumed nominal GDP growth rates, which may lead to further increase debt-to-GDP ratios for the whole group of state-owned enterprises.

(13) Overall, the budgetary strategy set out in the programme is broadly consistent with the Council Recommendation under Article 126(7) of 2 December 2009. However, taking into account the risks mentioned above, the budgetary strategy might not be fully consistent with the Council Recommendation under Article 126(7) of 2 December 2009. Ensuring the reduction of the deficit below the 3% of GDP

[9] In the Council conclusions from 10 November 2009 on sustainability of public finances "the Council calls on Member States to focus attention to sustainability-oriented strategies in their upcoming stability and convergence programmes" and further "invites the Commission, together with the Economic Policy Committee, to further develop methodologies for assessing the long-term sustainability of public finances in time for the next Sustainability Report", which is foreseen in 2012.

threshold by 2013 might entail a stronger consolidation effort than currently planned. While the average fiscal effort envisaged by the programme is in line with the recommended 1¼% of GDP per year, this fiscal effort could fall short in view of both the risks and the much worse than expected 2009 deficit outturn. Finally, the strategy may also not be sufficient to bring the debt ratio back on a downward path. Ensuring a correction of the excessive deficit as recommended by the Council is also required in view of the projected fast accumulation of public debt as well as Portugal's entrenched adjustment challenges, notably the narrowing of the large external imbalance.

(14) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the optional data[10]. In its recommendations under Article 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Portugal to report on progress made in the implementation of the Council recommendations in a separate chapter in the updates of its stability programme[11].

The overall conclusion is that the current crisis impact on Portuguese public finances is severe. Yet the actual budgetary situation reflects also prior fiscal weaknesses, notably high – even if declining - structural deficits before the crisis. The stability programme update aims at achieving a government deficit below 3% of GDP by 2013 through fiscal consolidation over the entire period, leading to a stabilisation of the debt ratio at around 90% of GDP in 2012-2013. The consolidation efforts are back loaded as they are concentrated in 2011 and beyond. Fiscal consolidation is essential as mounting fiscal deficits and debt are likely to damage medium-term economic growth which is already exposed to negative feedback effects from the large external debt on domestic income. Achieving the ambitious fiscal consolidation path may require efforts beyond those outlined in the programme. First, the outlined revenue performance and expenditure containment may be difficult to attain on the basis of the announced measures, already in 2010. Second, there is the risk that a lower-than-assumed GDP growth would dampen revenue growth and jeopardise the fall in the expenditure-to-GDP ratio over the coming years envisaged in the programme, endangering the planned fiscal consolidation path. In such a context, a functioning medium-term budgetary framework is an essential instrument to contain the risks to the budgetary targets, in particular to support the achievement of the envisaged quasi-freeze of primary expenditure. In addition, fostering the quality of public finances also in the context of a broader reform agenda is paramount to underpin a much needed lift in productivity and potential GDP growth, and to address other key challenges the Portuguese economy is faced with such as boosting competitiveness, narrowing the large external imbalance and supporting employment creation.

In view of the above assessment and also in the light of the Recommendation under Article 126(7) TFEU of 2 December 2009, Portugal is invited to:

(i) achieve the 2010 deficit target of 8.3% of GDP, if necessary by adopting additional consolidation measures; back-up the strategy to bring the deficit below 3% by 2013 by the timely implementation of concrete measures; stand ready to adopt further consolidation measures in case the programme scenario proves more favourable than

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[10] In particular, data on deflators of public consumption and of investment, and on general government expenditure by function are not provided.

[11] Portugal materially complied with this recommendation, although the reporting was not in a separate chapter but integrated in the chapter on the medium-term budgetary strategy.

the scenario underpinning the Article 126(7) recommendation and/or any slippages emerge; seize any opportunity beyond fiscal efforts, including from better economic conditions, to accelerate the reduction of the gross debt ratio towards the 60% of GDP reference value;

(ii) implement an effective multi-annual budgetary framework in order to ensure the adherence to the budgetary targets across the government sector and to firmly contain expenditure over the medium-term;

(iii) enhance the quality of public finances, along the lines envisaged in the programme, notably by improving the efficiency and effectiveness of public spending in the various areas of government action; decisively address the situation of loss-making state-owned enterprises; and factor into the fiscal sustainability position the spending commitments and risks arising from public-private partnerships;

(iv) frame fiscal consolidation measures together with efforts to raise productivity and potential GDP growth in a sustained way, to boost competitiveness and to narrow the large external imbalances, which will also help improving the sustainability of public finances.

Comparison of key macro economic and budgetary projections

		2008	2009	2010	2011	2012	2013
Real GDP (% change)	**SP Mar 2010**	**0.0**	**-2.7**	**0.7**	**0.9**	**1.3**	**1.7**
	COM Nov 2009	0.0	-2.9	0.3	1.0	n.a.	n.a.
	SP Jan 2009	*0.3*	*-0.8*	*0.5*	*1.3*	*n.a.*	*n.a.*
HICP inflation (%)	**SP Mar 2010**	**2.7**	**-0.9**	**0.8**	**1.9**	**1.9**	**2.0**
	COM Nov 2009	2.7	-1.0	1.3	1.4	n.a.	n.a.
	SP Jan 2009	*2.6*	*1.2*	*2.0*	*2.0*	*n.a.*	*n.a.*
Output gap[1] (% of potential GDP)	**SP Mar 2010**	**0.5**	**-2.2**	**-1.9**	**-1.6**	**-1.3**	**-0.8**
	COM Nov 2009[2]	-0.1	-2.9	-3.0	-2.6	n.a.	n.a.
	SP Jan 2009	*-0.4*	*-2.1*	*-2.5*	*-2.5*	*n.a.*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Mar 2010**	**-10.3**	**-9.4**	**-9.3**	**-9.1**	**-8.7**	**-8.3**
	COM Nov 2009	-10.3	-8.5	-8.6	-8.6	n.a.	n.a.
	SP Jan 2009	*-10.5*	*-9.2*	*-8.4*	*-7.6*	*n.a.*	*n.a.*
General government revenue (% of GDP)	**SP Mar 2010**	**43.2**	**39.7**	**40.5**	**41.1**	**41.8**	**42.6**
	COM Nov 2009	43.2	43.7	43.5	43.3	n.a.	n.a.
	SP Jan 2009	*43.5*	*44.1*	*43.6*	*43.6*	*n.a.*	*n.a.*
General government expenditure (% of GDP)	**SP Mar 2010**	**45.9**	**49.1**	**48.8**	**47.7**	**46.5**	**45.4**
	COM Nov 2009	45.9	51.6	51.5	52.0	n.a.	n.a.
	SP Jan 2009	*45.8*	*48.0*	*46.5*	*45.9*	*n.a.*	*n.a.*
General government balance (% of GDP)	**SP Mar 2010**	**-2.7**	**-9.3**	**-8.3**	**-6.6**	**-4.6**	**-2.8**
	COM Nov 2009	-2.7	-8.0	-8.0	-8.7	n.a.	n.a.
	SP Jan 2009	*-2.2*	*-3.9*	*-2.9*	*-2.3*	*n.a.*	*n.a.*
Primary balance (% of GDP)	**SP Mar 2010**	**0.2**	**-6.4**	**-5.1**	**-2.8**	**-0.6**	**1.3**
	COM Nov 2009	0.2	-5.0	-4.9	-5.2	n.a.	n.a.
	SP Jan 2009	*0.8*	*-0.6*	*0.4*	*1.1*	*n.a.*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**SP Mar 2010**	**-2.9**	**-8.3**	**-7.5**	**-5.9**	**-4.1**	**-2.5**
	COM Nov 2009	-2.6	-6.6	-6.7	-7.5	n.a.	n.a.
	SP Jan 2009	*-2.0*	*-3.0*	*-1.8*	*-1.2*	*n.a.*	*n.a.*
Structural balance[3] (% of GDP)	**SP Mar 2010**	**-2.9**	**-8.3**	**-7.5**	**-5.9**	**-4.1**	**-2.5**
	COM Nov 2009	-3.5	-6.6	-6.7	-7.5	n.a.	n.a.
	SP Jan 2009	*-2.0*	*-3.0*	*-1.8*	*-1.2*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**SP Mar 2010**	**66.3**	**77.2**	**86.0**	**89.4**	**90.7**	**89.8**
	COM Nov 2009	66.3	77.4	84.6	91.1	n.a.	n.a.
	SP Jan 2009	*65.9*	*69.7*	*70.5*	*70.0*	*n.a.*	*n.a.*

Notes:

[1]Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.

[2]Based on estimated potential growth of 0.6%, 0.0%, 0.3% and 0.7% respectively in the period 2008-2011

[3]Cyclically-adjusted balance excluding one-off and other temporary measures. There are no one-off and other temporary measures in the programme and there are 0.8% of GDP in year 2008, all deficit-reducing, in the Commission services' autumn 2009 forecast.

Source:

Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations.