PORTUGAL

STABILITY AND GROWTH PROGRAMME

2000 - 2004

(update)

February 2000

CONTENTS

1. INTRODUCTION

In the programme of the XIVth Constitutional Government, fiscal policy is stated as an essential instrument for strengthening macroeconomic stability and ensuring an environment conducive to investment, growth and employment creation. Macroeconomic stability will continue to be a major pillar of economic policy.

The National Economic and Social Development Plan advocates four strategic development areas: *to raise the skill levels of the Portuguese population and to promote employment and social cohesion; to tailor the productive structure to future-oriented activities; to make the most of the country's natural assets and its geo-economic position; to promote sustainable development in the regions and social cohesion*.

The task of achieving structural convergence of the Portuguese economy with the more developed economies of the EU involves stepping up the modernisation of the economy and improving competitiveness within a stable macroeconomic framework. The competitiveness of the Portuguese economy thus emerges as an essential condition for development. The specific factors in the modernisation and structuring of the different sectors of economic activity will be enhanced. Also, the general conditions for business competitiveness will be strengthened at the levels of administrative simplification and regulation of business activities. Furthermore, easier access to financing and incentives to invest in factors that determine competitiveness is to be provided.

The new economic regime, which began with the introduction of the euro on 1 January 1999 and of which Portugal as a founding member is part, is characterised among other things by growing competitiveness in terms of costs, innovation, quality, adaptability and management. The success of Portuguese participation in the euro depends on the process of modernising the business fabric and the institutional set-up through structural reforms that allow swift responses to changes in the patterns of demand and technology and to the new challenges that lie ahead. For instance, the consolidation and development of Portuguese firms, which are of fundamental importance to real convergence, require adjustment, modernisation and simplification of the existing structures and institutions in the markets for goods, services and capital. Modernisation of the labour market and the system of social protection also plays a key role. The pursuit of economic reforms will make macroeconomic stability policies more effective.

The structural changes will impart fresh stimulus to economic activity, creating sustainable jobs, promoting quality and generating the resources necessary for strengthening social cohesion. Underpinned by the social dialogue process, this strengthening of social cohesion will contribute to the restructuring and modernisation of the Portuguese economy and will speed up the implementation of reforms on the markets in goods, services, capital and labour. In this way, it will be possible to manage the transition to the 21st century and to fully exploit the opportunities offered by the information and knowledge society.

The main goal of structural change is to improve human capital, which is a vital factor in meeting the challenges of globalisation and of the knowledge society. By focusing on education and training, it will be possible to make further progress in improving productivity and employability. On the other hand, the dissemination and mastery of new technologies resulting from the digital revolution are essential to business competitiveness.

An important factor of competitiveness in the economy and of the actual process of structural convergence is wage moderation. Incomes policy will, therefore, be based on an appropriate distribution of productivity gains while guaranteeing a gradual and sustained improvement in real wages. Another important factor in the competitiveness of the economy is the efficiency of public administration. In this context, innovative interfaces will be created and developed between the administration, individuals and firms. The gains in efficiency in the provision of services by the administration will contribute to a reduction in public expenditure and, with improved quality of services, a general increase in welfare.

The process of budgetary consolidation and reduction in public debt as a proportion of GDP is essential for reinforcing the stable macroeconomic environment that is conducive to growth and higher employment on a sound basis. The consolidation of public finances will be reflected in a sustained decline in the budget deficit in line with the commitments entered into under the Stability and Growth Pact. This revision of the Portuguese Stability Programme re-affirms the objective of sustainable national public finances within the framework of a multi-annual strategy for budgetary consolidation and a reduction in the level of public indebtedness. Under the central scenario of this programme, the Government is committed to balance public finances by 2004. If the most favourable scenario for economic growth turns out, the additional revenue will be used to reach budgetary balance by 2003. Similarly, a less favourable trend of economic activity such as that underlying the lower growth scenario could result in a small deficit in the final year of the programme.

The control of primary current public expenditure will be improved by trimming back expenditure on goods and services via the multi-annual public expenditure programme and via a new framework law for the state budget that is to be approved shortly. Structural measures in the health sector will be of fundamental importance in improving the sustainability of public finances.

Faster implementation of the tax reform will make it possible to enhance fairness in tax matters and to strengthen business competitiveness. These objectives will be achieved by widening the tax base and by renewed efforts to combat tax evasion and avoidance. The success of these measures will be the basis for the gradual easing of the tax burden, namely, on businesses, thereby making them more competitive.

Consolidation of major social reforms in Portugal, and in particular the reform of social security and the health service, will make it possible to improve the financial sustainability of the social welfare system and to enhance the efficiency and quality of the services provided by the health service. The intention is, therefore, that the necessary budgetary discipline should result in the development of fairer and more effective policies of social protection.

The present update of the Stability and Growth Programme has been carried out in accordance with 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.

This programme was presented to the Assembly of the Republic and sent to the Economic and Social Council.

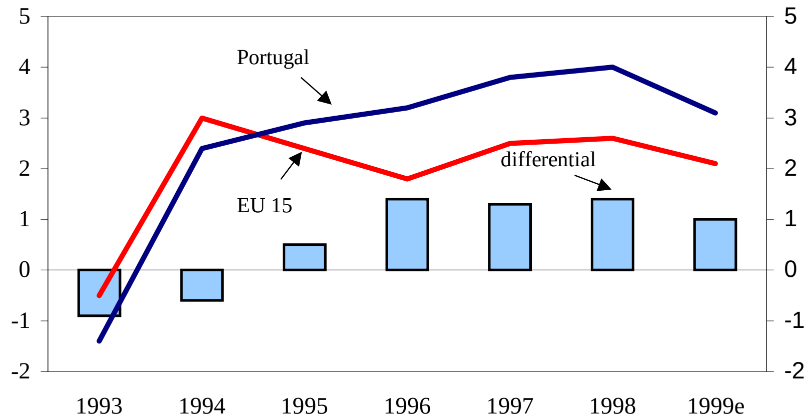
2. RECENT DEVELOPMENTS IN THE PORTUGUESE ECONOMY

Following a period of faster growth from 1994 onwards, the Portuguese economy recorded a slowdown in the growth rate between the end of 1998 and the beginning of 1999 that was attributable to the adverse international economic climate. Manufacturing exports were most directly affected by the shrinking export markets but picked up in the second half of 1999 in step with the economic recovery of Portugal's main trading partners. In turn, the marked dynamism of activity in the service sector compensated for the weaker activity in other sectors and ensured buoyant growth of the Portuguese economy in 1999.

Despite the less favourable external conditions, which were reflected in the weak performance of Portuguese exports in 1999, the Portuguese economy continued to perform remarkably, recording a growth rate in GDP of 3.1 per cent (one percentage point above the European Union average). This estimate was below that projected in the December 1998 Stability Programme, mainly as a result of the negative exogenous effects referred to above.

Graph 1 - GDP

(real change in percentage)



Sources: European Commission, *Economic Forecasts Autumn 1999*; INE (National Statistics Institute); Ministry of Finance.
e - estimate.

Despite being less dynamic, domestic demand, led by private consumption, continued to contribute significantly to growth. The reduction in interest rates to historically low levels was the key factor that underpinned strong confidence among economic agents, promoting consumption and investment decisions. The differential between import and export growth widened in 1999 and this was reflected in an increase in the current account deficit.

The dynamism of economic activity, combined with the sensitivity of the Portuguese labour market to the economic cycle, helped to boost employment and reduce the unemployment rate. Total employment in the economy increased by 1.8 per cent in 1999, pushing up the employment rate to 71.2 per cent (from 70.2 per cent in 1998). The unemployment rate fell for the third year in a row, from 5 per cent in 1998 to 4.4 per cent in 1999.

Job creation also benefited from the high level of wage flexibility in the Portuguese economy. In recent years, and despite wage restraint, real wage gains have been recorded in response to the increased buoyancy of economic activity. In 1999 it is estimated that average real gains rose by more than 2 per cent, a similar figure to that recorded in previous years.

In 1999, the annual average rate of inflation, as measured by the consumer price index, fell from 2.8 per cent in 1998 to 2.3 per cent. A major contributory factor in this slowdown was the behaviour of prices for non-tradable goods, whose average growth rate fell by 1.6 percentage points to 2.9 per cent. In contrast, the annual average rate of change of 2 per cent in the prices of tradable goods was slightly up (0.1 percentage points) from 1998.

The annual average inflation rate, as measured by the harmonised consumer price index, was 2.2 per cent in 1999, 1.1 percentage points higher than the average for the euro area and identical to the value recorded in 1998.

3. MACROECONOMIC PROJECTIONS FOR 2000-2004

3.1 External conditions

The assumptions regarding the trends in the relevant variables (economic growth in the European Union, international prices, interest rates and exchange rates) are taken from the most recent forecasts by the European Commission and the OECD. According to these forecasts, economic growth in the European Union is set to accelerate in the year 2000 and to show an average annual growth rate of around 2.6 per cent in the period 2000-2004. Inflation in the euro area is expected to remain within the price stability limits set by the European Central Bank.

By comparison with the projections underlying the December 1998 Stability Programme, the paths for economic growth and inflation within the European Union underlying this scenario exercise are very similar. However, the furthering of European integration brought about by the euro should be reflected in increasing intra-industry flows conducive to export growth. With nominal stability, monetary conditions in the euro area within the time horizon of this programme are such as to allow sustainable and job-creating economic growth.

3.2 Projections for 2000-2004

The macroeconomic projections were drawn up on the basis of the medium-term economic policy objectives set by the XIVth Constitutional Government with the intention of promoting sustainable output growth driven by strong productivity gains and resulting in the creation of more and better jobs. Fiscal policy, in turn, is still geared to promoting growth and social cohesion, the objective being to reconcile the reduction of the weight of the budget deficit and the public debt-to-GDP ratio in accordance with the Stability and Growth Pact with redirecting public spending towards social welfare expenditure and public investment so that the share of these components in total public expenditure is increased.

The annual average growth of the Portuguese economy in the period 2000-2004 will, at 3.5 per cent, be about one percentage point more than the Community average and slightly higher than the average for the previous five years. This period will usher in far-reaching changes in information and communication technologies in a context of greater liberalisation and of competitiveness in the European Union. On the other hand, the creation of e-Europe will promote investment in new technologies and foster electronic commerce, thereby boosting intra-European trade.

The current phase of restructuring and transition to an economy more based on knowledge and driven by innovation and new technologies will require new efforts to invest in infrastructures and to modernise Portuguese firms as well as a determined drive to improve human capital.

The projections include the forecasts for 1999 and 2000, which are part of the macroeconomic scenario underlying the draft State Budget for 2000. For 2001-2004, the projections are based on a set of assumptions, including the following in particular:

- export growth in line with the expansion of markets, growing at an annual average rate of 6.6 per cent during the period 2000-2004, with additional gains resulting from the furthering of European integration;
- continued moderation of nominal wage increases reflecting price stability and productivity gains, in accordance with the general principles of the Broad Economic Policy Guidelines.

Table 1 - Main economic indicators (1998-2004)

	1998	1999	2000	2001	2002	2003	2004	2000-04
Real change in percentage terms								
GDP	4.0	3.1	3.3	3.6	3.6	3.5	3.5	3.5
Private consumption expenditure	5.2	4.6	3.8	3.7	3.6	3.5	3.4	3.6
Government consumption expenditure	3.2	3.0	1.0	1.0	1.0	1.0	1.0	1.0
Gross fixed capital formation	9.8	6.3	6.8	6.9	7.1	6.9	6.9	6.9
Domestic demand	6.1	4.5	4.0	4.0	4.0	3.9	3.8	3.9
Exports of goods and services	8.7	3.3	6.4	6.7	6.8	6.8	6.8	6.7
Imports of goods and services	13.8	7.2	7.5	6.8	6.9	6.9	6.8	7.0
Change in percentage terms								
GDP deflator	3.6	2.7	2.4	2.3	2.2	2.3	2.3	2.3
Private consumption deflator	2.6	2.3	2.0	1.9	1.8	1.9	1.9	1.9
Total employment	2.3	1.8	1.0	1.0	0.9	0.8	0.6	0.9

Source: Ministry of Finance.

Compared with developments in recent years, the pattern of growth is more balanced and sustainable, underpinned primarily by the growth of exports and investment. Private consumption expenditure is projected to decelerate, reaching a growth rate below that of GDP in the last year of the programme.

Investment should expand at an annual average rate of 6.9 per cent, benefiting from a combination of factors capable of generating a climate favourable to investment growth in particular those stemming from the structural changes taking place on product and factor markets. The growth in exports should also contribute to the growth of investment. Community financial support under the third CSF constitutes an important additional stimulus to private business investment and to public investment in infrastructures which will continue to contribute significantly to boosting competitiveness and promoting the structural convergence of the economy.

The structural changes resulting from the reforms under way in the markets for goods, services, capital and labour will impart further momentum to economic activity, strengthening the conditions conducive to sustainable and hence job-creating growth. In this way, conditions will be created which will allow total employment in the economy to continue to rise, bringing the employment rate close to 72 per cent.

Inflation is projected to remain stable, with no significant pressures either from the tradable goods sector or from the non-tradables sector. Wage increases are moderated and compatible with the price stability objective of the euro area. Furthermore, the continuing process of liberalisation in certain sectors of the economy, notably electricity and telecommunications, will lead to reductions in the prices of the services concerned and will thus help bring inflation more closely into line with the euro-area average.

4. STRUCTURAL REFORMS

In the last quarter of the 20th century, the Portuguese opened up a new and decisive chapter in their relationship both among themselves and with the peoples with whom they have variously shared the most important aspects of their history over the past centuries. Portugal needs to harness all the resources of this culture of openness, initiative and responsibility in order to exploit the new opportunities afforded by European integration and to meet the challenges of the global economy. In this way, the Portuguese will have cultural, economic and social opportunities, and enjoy living conditions, on par with those in the more developed countries of Europe.

It is therefore important to envisage a definitive change in the growth model that will enable the Portuguese economy in the period 2000-2006 to assimilate clearly the activities, factors of competitiveness and technologies which dynamise and structure the world economy, in combination with a social model which promotes solidarity and cohesion. In order to overcome the qualitative structural gap which separates it from the more developed countries of the European Union, namely productivity and manpower skills, the quality of infrastructures, regional planning and the legal system, Portugal needs to continue to develop a modern and competitive economy which promotes development and jobs.

Portugal will have to carry out a number of structural reforms in order to boost human capital that will be required to meet the challenges of globalisation and the knowledge society. Priority must continue to be given to education and vocational training, promoting quality employment, productivity improvements and employability. Raising productivity will require improvements in the quality and relevance of training and a strong emphasis on the use of new technologies. Promoting skills will involve the following:

- guaranteeing basic education for all;
- expanding pre-school education so that in four years time all five-year-olds will be within the system;
- combating exclusion in school;
- reviewing curricula and organisational aspects;
- expanding the schools computer programme so that in 2003 there will be one computer for every twenty schoolchildren;
- creating a network of supply of education and training for young people;
- developing an apprenticeship system in collaboration with business which in 2002 should train 25 000 young people.

Portugal must participate in the global changes occurring in the wake of the digital revolution, taking steps to promote business competitiveness, to redesign the way in which work and employment are organised, making optimal use of teleworking, and to extend electronic commerce and the new segments of the digital economy – the multimedia industry, the software industry, the electronic support industry for the information society, the audiovisual and the leisure industry. In order to promote these objectives, measures will be taken:

- to encourage and foster the use of electronic data transfer between public service departments, thereby eliminating unnecessary formalities;
- to launch a national system of training and certification of basic information technology skills;
- to promote Internet access to all information published by public bodies;
- to encourage the use of electronic commerce, with the objective of at least 25 per cent of all government transactions being conducted in this way;
- to implement the first national plan for the information superhighway;
- to consolidate and redesign business support infrastructures.

One important contributory factor in the competitiveness of the economy is the efficiency of public administration. With this in mind, innovative interfaces will be developed between public authorities, individuals and firms. The increased efficiency of the administrative machine, together with the higher quality of service provision by the public authorities, will help to reduce public expenditure and to increase public welfare. In this connection the priorities are:

- to continue the process of administrative simplification, thereby cutting costs for firms and improving interaction between the public authorities and citizens;
- to re-assess the function of the State and re-define its institutional boundaries.

In justice:

- to improve procedures with respect to the winding up of firms;
- to accomplish the judicial infrastructure programmes;
- to reform the management of the courts.

In health:

- to create a new public financing institute with the specific task of overall financial management;
- to introduce autonomous management of hospitals, health centres and local health schemes;
- to distinguish between private and public activities.

Regulation of the financial system will be improved, in particular as regards its institutional framework, with the approval of new legislation which will create conditions favourable to the development of financial innovation and to making financial institutions more sound.

With a view at improving the functioning of goods and service markets, a new independent competition regulator will be set up and sectoral regulatory activities consolidated.

The privatisation policy will continue on the basis of a multi-annual programme establishing a reference framework and the corresponding timetable. The goals of this policy are more efficient management, a sustained increase in competitiveness and the development of the capital market.

5. MAIN FISCAL POLICY MEASURES

5.1 Tax policy measures

The Government believes that the tax system should be restructured independently of the state budget. Work is under way on a timetable of measures to introduce tax reforms over the course of this legislature.

Tax revenue has grown by an average of 9.5 per cent over the last four years, with an increase of 9.7 per cent expected in 2000. These high rates of growth have been made possible by substantial improvements in tax efficiency which should be maintained for the duration of the programme.

The Government has shown its determination to implement the Social Justice Pact by including in its budget for 2000 a series of measures designed to increase fairness in the tax system - reducing the burden on law-abiding taxpayers and cracking down on tax evasion and avoidance:

- the updating of tax brackets by more than expected inflation for the lowest income brackets and in line with expected inflation for the highest income brackets;
- a reduction in the rate of IRC (corporate income tax) from 34 per cent to 32 per cent;
- an IRC rate of 25 per cent for companies with a turnover of between 150 thousand euro and 500 thousand euro;
- the introduction of an optional, simplified tax scheme for individual entrepreneurs (category B of the IRS (personal income tax)) with a turnover of less than 150 thousand euro;
- the taxation of capital gains on securities held for more than twelve months;
- an overhaul of the registered traders' scheme, including stricter requirements regarding economic and compliance status in order to combat fraud detected in the payment of VAT on intra-Community transactions between taxable persons;
- a reduction in the non-taxable proportion of dividends on shares quoted on the stock exchange;
- a clarification of certain types of additional income which should be taxed.

Besides these legislative measures, a number of changes - still at the implementation stage - are being made to the procedures for administering tax assessment and collection, inspecting tax returns and dealing with cases in the tax courts, all of which will make for more effective detection of irregularities and pave the way for remedial action. For example:

- the staff of the tax inspection authorities was increased in 1999;
- a "data warehouse" system incorporating various "data mining" tools will come on stream in July 2000, making it possible for the first time to cross-check properly information from different sources and to detect quickly those taxable persons who have failed to pay IRC (corporate income tax), VAT, IRS (personal income tax) or IECs (special consumption taxes);
- from 2000 the *contribuição autárquica* (local authority tax) will be consolidated by taxable person. For the first time, information will be available on each taxable person's total real state property so that checks can be made on any exemptions or other benefits improperly granted;
- a new system for enforced tax collection became operational at the beginning of 2000. It can indicate the status of every enforcement proceeding at any point in time. It is therefore possible, for the first time, to keep track of proceedings, detect flaws in the system and take the necessary remedial action in time. By allowing enforcement proceedings to be initiated automatically together with the issue of the relevant collection notice and subsequent procedural documents, the new system will increase efficiency and speed up the whole enforcement procedure. At present this area is one of the main bottlenecks in tax administration;
- a set of indirect activity indicators will be complete in May 2000, enabling the tax authorities to compare returns submitted by companies against standard values and thus obtain information on potential fraud;
- the new Code on Special Consumption Taxes comes into force in February 2000, introducing tighter control of movements of alcoholic drinks and tobacco. It is acknowledged that the present system, which relies on the updating of old information, leaves the way open for serious evasion and avoidance.

The Government has promised to present, by October of this year, a series of measures designed to establish a fairer tax system, together with a timetable for their introduction during the present legislature. It is impossible to give details of the programme here, but we can outline its general thrust and some of the areas in which action will be taken.

The present system of personal income tax, implemented in 1989, has undergone a number of adjustments over time. The original thinking behind a single tax on income, which was never put fully into practice, has been undermined by the granting of successive tax concessions on certain types of income and by a proliferation of rebates and deductions. As a result, the structure of the tax now needs to be changed. This will entail, among other things:

- phasing out various tax benefits;
- gradually reducing the number of special rates of withholding tax (*taxas liberatórias*) and harmonising those rates, where justified;
- creating a system where all incomes, even those subject to such special rates, can be included in the annual tax returns;
- extending the taxation of additional income to cover new areas;
- reviewing rebates and deductions;
- assimilating, for tax purposes, income from independent activities and income of individual entrepreneurs to that of companies.

When the corporate income tax was introduced - also in 1989 - the guiding principle was to tax real profits. Although technically correct, this principle is difficult to apply in some cases, particularly because of the high cost of keeping orderly accounts. To minimise this problem, a simplified tax scheme was proposed in the 2000 budget. In addition to this simplification, there is a need to review the tax treatment of areas which were not relevant in 1989 but are now a major source of tax expenditure. For example, criteria need to be defined for:

- the accounting treatment of transfer prices, an area where there is scope for serious tax evasion;
- the calculation of capital gains on securities sold between companies in the same group;
- the taxation of new financial products, as some rules applied at present lead to delays in revenue collection without any advantage for issuing firms.

A crackdown on tax evasion and avoidance requires that infringements of the tax law be properly dealt with, otherwise non-payment will increase. For example, a whole year elapsed between the adoption of the 1989 income tax reform and the adoption of a legal framework for dealing with non-customs tax offences. During that period breaches of supplementary obligations went entirely unpunished. General rules for tax infringements must now be laid down.

The Government believes that there is a consensus on the principle that the tax system must be restructured independently of the state budget. In line with this principle, which is an appropriate solution, the Minister of Finance has set up the Tax Reform Implementation Office, which will contribute to the design and planning of measures to implement tax reform over the course of this legislature.

5.2 Measures for controlling budget expenditure

The state budget for 2000 contains safeguard measures designed to achieve fiscal policy objectives while allowing some leeway for accomodating any problems which have a negative impact on budget balances. The most important of these measures are:

- a freeze on 15 per cent of expenditure earmarked for “variable and contingency payments”, “the acquisition of goods and services”, “other current expenditure” and “the acquisition of capital goods”, totalling PTE 29 billion (0.13 per cent of GDP). These funds can be released only with the authorisation of the Minister of Finance;
- a freeze on 10 per cent of expenditure earmarked for “current transfers”, totalling PTE 37 billion (0.17 per cent of GDP). These funds too can be released only with the authorisation of the Minister of Finance;
- a reserve clause covering 8 per cent of expenditure earmarked for public investments and the Military Planning Law, totalling PTE 45 billion (0.2 per cent of GDP). These funds can be released only with the Government's authorisation;
- restrictions on civil service recruitment: new recruitments must be authorised by the Prime Minister and the Minister of Finance. With the ageing of the workforce, the number of civil servants retiring in Portugal is expected to increase significantly over the next few years. A substitution ratio of well below one will be a major factor in consolidating the budget in the medium term;
- the centralisation of the treasury from 2000, which will have a positive impact on the cash and debt management of Central Administration and mean quicker access to information for monitoring budget implementation.

In 1999 the Government continued the reform of its financial administration, extending significantly the Accounting Information System (SIC) and the Human Resources Management System (SRH), in line with the principles of administrative decentralisation and rationalisation of civil service departments which underpinned the revision of the Basic Law on Public Accounts. At the same time, steps were taken to implement the guiding principles behind the design of the financial administration's Internal Control System (SCI), in accordance with the programming guidelines in the new financial organisation model. An implementing decree laid down the SCI's operating rules and the *modus operandi* of its Coordinating Board, and the freeze on recruitment was temporarily waived to allow a number of entrants to inspector and/or higher technical posts assigned to internal control tasks in various ministries.

Major steps were taken towards standardising accounting systems in the financial administration. The first methodological rules were laid down for the Official Plan for Public Accounts, together with deadlines for its implementation. A group of pilot bodies were selected in 1999 which are to apply the new accounting plan under the supervision of the Government Accounts Standardisation Committee. The Official Plan for Local Authority Accounts was adopted and at the same time a transitional period was set for local authorities to adapt to the new accounting system (up to the end of 2001) and central government departments were given responsibility for training and informing local authority staff - a prerequisite for implementation. A new system was approved for classifying public revenue and expenditure in the budgets of the various government institutions, although it will not be applied until the budgets for 2001 are drawn up.

Significant progress was also made in relation to legal texts that specifically support public spending, with the clear objective of encouraging sound management of public resources. For example, the rules governing public spending on the lease and acquisition of goods and services and public tendering procedures for the acquisition of goods and services were reviewed as part of a drive to streamline procedures and ensure competition between suppliers. The various procedures involved in awarding public contracts and the rules on the responsibilities of departmental heads were simplified. A new legal framework was adopted for public works contracts which, as well as incorporating advances in Community law, is designed essentially to tighten the rules and increase transparency in award procedures by laying down the conditions under which contractors may become and remain public works contractors.

Measures will be also be taken to increase government revenue in areas other than fiscal policy. For example, the following measures were taken in the state budget for 2000:

- a resumption of the privatisation programme, which in 2000 is expected to bring in around PTE 500 billion (2.3 per cent of GDP), of which a significant amount will be used to repay government debt and thereby reduce servicing costs;
- the withdrawal from use and sale of state-owned assets which are not essential to the performance of the tasks of the State.

A new law on budgetary discipline is also being drafted. Under the present draft, the state budget is to be drawn up on a multiannual basis to make it easier to foresee the future impact of government action, whether in economic and social policy fields or in the organisation and efficiency of government departments. The draft also provides for a further tightening of internal financial control systems and the extension of budgetary discipline to all branches of central government, closer financial coordination, financial accountability and the implementation of a system of budgeting (a mixture of "activity-based budgeting", where this is appropriate for the Portuguese administration, and "zero-based budgeting" in other fields, e.g. transfers, grants and other aid) which will more clearly identify the cost of "goods" and services supplied by the administration.

6. PUBLIC FINANCES UP TO 2004

6.1 Overall balance of the general government budget

The increased sustainability of Portuguese public finances during the present programme is in keeping with the new approach set out in the Broad Eeconomic Policy Guidelines, which attaches priority to reducing primary current expenditure. Accordingly, the strategy underlying the present programme provides for a reduction in primary current expenditure of just under 1 percentage point of GDP between 2000 and 2004. This entails a continued effort to reduce non-essential expenditure while increasing social welfare expenditure - improving social security provision consistent with a high degree of social cohesion - which, on the whole, complies with the goal of sustainability of public finances. However, should economic growth be higher than expected in line with the higher scenario presented in the sensitivity analysis, public finances will achieve equilibrium by 2003. Conversely, if growth is lower than anticipated in the central scenario, these is projected a small deficit in the last year of the programme.

Table 2 - General government accounts

PTE billion

	2000		2001		2002		2003		2004	
	Value	(%) of GDP	Value	(%) of GDP	Value	(%) of GDP	Value	(%) of GDP	Value	(%) of GDP
CURRENT REVENUE	9842.0	44.7	10455.2	44.8	11083.2	44.9	11759.7	45.0	12450.9	45.0
CURRENT EXPENDITURE	9309.4	42.2	9813.7	42.0	10303.9	41.7	10795.1	41.3	11344.1	41.0
INTEREST ON GOVERNMENT DEBT	708.0	3.2	761.3	3.3	785.2	3.2	786.6	3.0	794.7	2.9
BALANCE ON CURRENT ACCOUNT	532.6	2.4	641.4	2.7	779.3	3.2	964.5	3.7	1106.8	4.0
CAPITAL REVENUE	738.4	3.4	808.3	3.5	819.0	3.3	779.1	3.0	783.9	2.8
CAPITAL EXPENDITURE	1612.3	7.3	1703.2	7.3	1763.4	7.1	1819.9	7.0	1879.0	6.8
OVERALL BALANCE	-341.3	-1.5	-253.5	-1.1	-165.1	-0.7	-76.3	-0.3	11.6	0.0
PRIMARY BALANCE	366.7	1.7	507.8	2.2	620.2	2.5	710.3	2.7	806.4	2.9
PRIMARY CURRENT EXPENDITURE	8601.4	39.0	9052.4	38.8	9518.7	38.5	10008.5	38.3	10549.4	38.1
Government debt	12590.3	57.1	12897.1	55.2	13167.8	53.3	13338.1	51.0	13412.2	48.4

Source: Ministry of Finance, drawn up in accordance with ESA 95.

Current receipts as a percentage of GDP will remain stable throughout the programme period, as the reduction in the tax burden aimed at enhancing the competitiveness of Portuguese industry and reducing distortions in the economy is offset by efficiency gains arising from the crackdown on tax evasion and avoidance, the implementation of further tax reform measures and the progressive nature of certain taxes.

The primary balance will increase from 1.7 per cent of GDP in 2000 to 2.9 per cent in 2004 as a result of the policy of containing primary current expenditure and the tax policy stance.

The public investment drive is based on the objectives laid down in the National Economic and Social Development Plan, with capital expenditure, net of capital revenue, remaining at around 4 per cent of GDP throughout the programme's period. Capital expenditure is significantly higher than the overall general government deficit, thus complying with the golden rule of public finances.

The current government surplus will increase from 2.4 per cent of GDP in 2000 to 4 per cent in 2004 as a result of a policy of increasing savings in the public sector in order to free the resources needed for business investment.

Public finances will be in balance in the programme's final year and, in 2002, assuming the normal effects of the economic cycle on the budget balance, the Portuguese budget will already meet the objective laid down in the Stability and Growth Pact, that is, avoiding a situation of excessive deficit in the event of a recession involving a decline in real GDP of one per cent.

6.2 Budget balance by subsector

The balances in the various government subsectors have been programmed to meet the central objective of eliminating the overall general government deficit by the end of the present stability programme.

Table 3 - Overall general government balance by subsector

(as % of GDP)

	1999	2000	2001	2002	2003	2004
Central government	-1.9	-1.7	-1.3	-1.0	-0.6	-0.3
Regional and local govt.	-0.2	0.0	-0.1	0.0	0.0	0.0
Social security	0.1	0.2	0.3	0.3	0.3	0.3
General government	-2.0	-1.5	-1.1	-0.7	-0.3	0.0

This decline in the overall general government deficit implies an effort at restraint public expenditures and safeguard budgetary discipline - to be achieved by the projected trends in individual subsectors:

- a gradual and sustained reduction in the central government deficit from 1.9 per cent of GDP in 1999 to 0.3 per cent in 2004;
- maintenance of a balanced budget for regional and local government;

- continuing budget surpluses in social security, which will strengthen the capitalisation component so as to meet the financial costs arising from the ageing of the population.

The main objective for the government deficit is, essentially, to continue consolidating the central government budget, while taking into account the growing financial transfers to the other subsectors under the existing solidarity mechanisms and as a response to the ageing of the population.

6.3 Government debt

In forecasting the government debt in Portugal for the period 2000–2004, the following assumptions were applied:

- the overall general government deficit will remain on the downward path set out in the programme;
- the State's financial operations, net of reimbursements, will remain at PTE 25 billion throughout the period;
- the privatisation receipts used to repay government debt, net of debts and liabilities, will be negative in 2000 (PTE 100 billion) and become positive in 2001 (PTE 150 billion). They will then fall significantly towards zero by 2004;
- exchange rates will remain at end-of-1999 levels;
- interest rates will follow the OECD forecasts;
- the main source of government financing will be the issue of medium- and long-term treasury bonds. Savings certificates will continue to be issued in line with demand but, in net terms, their volume, as a proportion of Portuguese government debt, is expected to fall over the reference period.

In line with these assumptions, gross general government debt, as assessed for national accounts purposes, will continue to fall as a percentage of GDP over the period 2000-2004. It is expected to decline from 57.9 per cent (based on ESA 79) or 56.6 per cent (based on ESA 95) in 1999 to 48.4 per cent (based on ESA 95) in 2000.

Table 4 - Government debt

(as % of GDP)

	2000	2001	2002	2003	2004
State	55.8	53.4	51.5	49.2	46.6
General government	57.1	55.2	53.3	51.0	48.4

Source: Ministry of Finance, drawn up in accordance with ESA 95 and Excessive Deficit Procedures.

The strategy for managing the 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 respective instruments. The maturity profile of the portfolio has gradually increased, the main source of financing being fixed-rate instruments with long maturities (5-10 years).

In the years ahead, this strategy will be pursued further, 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 the distribution of treasury instruments;
- designating the euro area as the reference area for placing Portuguese government debt.

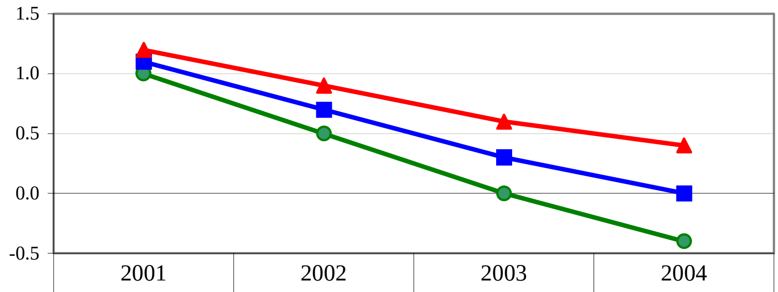
6.4 Sensitivity of the general government balance

To analyse the sensitivity of public finances, an assessment was made of the impact of different growth scenarios on the overall general government deficit.

A simulation was carried out to evaluate the impact of a change in GDP growth of 0.3 percentage points over the period 2001-2004 brought about by a change in the demand for exports.

Graph 2 - Overall general government deficit as a percentage of GDP

Different growth scenarios



	2001	2002	2003	2004
High	1.0	0.5	0.0	-0.4 *
Central	1.1	0.7	0.3	0.0
Low	1.2	0.9	0.6	0.4

Source: Ministry of Finance.
* A negative value indicates a budget surplus.

In the high-growth scenario, a surplus would be achieved in 2004 (the cumulative impact of an annual increase in GDP of 0.3 percentage points over four years). It is worth noting that this impact would be greater if the change in GDP were assumed to be the result of a change in domestic demand, since the latter makes up the VAT base whereas, under the present VAT system, imports are not taxable at the outset and have only an indirect impact on tax revenue.

A N N E X 1

Implications of the ageing of the population

As in most other developed countries, the recent demographic trends in Portugal have resulted in the ageing of the population in which two factors have been at play:

- a higher average life expectancy associated with a decline in infant mortality against a background of improving health conditions and health care;
- a lower birth rate associated with a lower composite index of fertility and attributable in the main to socio-cultural conditions.

The prospect of these phenomena continuing suggests a more pronounced average ageing of the Portuguese population, as shown below.[1]

Projections – Age structure of the Portuguese population

'000	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**
Total	9920.8	10022.2	10112.9	10172.2	10175.3	10134.2
0-14	1744.6	1690.5	1733.9	1755.0	1708.5	1634.4
15-24	1619.8	1427.5	1200.8	1119.8	1164.5	1193.2
25-49	3464.3	3676.0	3800.5	3762.3	3595.2	3406.6
50-64	1635.5	1681.8	1768.3	1881.3	1970.0	2070.4
65+	1456.6	1547.3	1608.4	1653.7	1737.0	1829.6
as %	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**
Total	100.0	100.0	100.0	100.0	100.0	100.0
0-14	17.6	16.9	17.1	17.3	16.8	16.1
15-24	16.3	14.2	11.9	11.0	11.4	11.8
25-49	34.9	36.7	37.6	37.0	35.3	33.6
50-64	16.5	16.8	17.5	18.5	19.4	20.4
65+	14.7	15.4	15.9	16.3	17.1	18.1

Source: PNDES, 1998.

Consequently, the percentage of the population aged 50 or over, which stood at 31.2 per cent in 1995, will reach 38.5 per cent in 2020; at the same time, the percentage of the population aged below 24 (33.9 per cent in 1995) will fall to 27.9 per cent in 2020.

[1] The central scenario of the demographic projections by PNDES permits the following assumptions: increase in the composite fertility index from the current level of 1.44 children per mother to 1.66 in 2020; increase in average life expectancy from 71.3 to 73.3 years (men) and from 78.6 to 80.1 years (women); stabilisation of the migration balance at 15 000 individuals per year.

Projections – Indicators of dependency and ageing in Portugal

per 100 indivíduals	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**
Total dependency	47.6	47.7	49.4	50.4	51.2	51.9
Dependency (young)	26.0	24.9	25.6	25.9	25.4	24.5
Dependency (elderly)	21.7	22.8	23.8	24.5	25.8	27.4
Ageing	83.5	91.5	92.8	94.2	101.7	111.9

Source: PNDES, 1998.

These developments will lead to a marked increase in the dependency index for the elderly (from 21.7 to 27.4) which, together with an albeit small decrease in the dependency index for young people (from 26.0 to 24.5), will result in an increase in the total dependency index, from 47.6 in 1995 to 51.9 in 2020.

During that same period, the ageing index (number of elderly people per 100 young people) is set to rise from 83.5 to 111.9.

A profound change in a society's demographic structure - this being one of the many socio-cultural changes that will affect the social fabric - is not insignificant in terms of its economic and financial consequences.

As regards to the sustainability of public finances, the main area that will feel the impact of such a structural change (the others being the health system and the education system) is the social security system, and in particular the level of old-age pensions and retirement pensions. The worsening in the dependency index for the elderly and the contraction in the labour force as a percentage of the population will be reflected in a higher ratio of the number of those receiving a pension to the number of gainfully employed individuals, and in a pay-as-you-go system such as that in Portugal this will produce a deterioration in the general government financial position and a consequent increase in the financial burden borne by the labour force.

This unavoidable focus of political concern has, over the last ten years, been the subject of growing attention by successive governments. For instance, the White Paper on Social Security was completed in December 1997 and comprised studies and contributions not only from academia but also from civil society. It triggered a wide-ranging debate and played a part in the politico-legislative process leading to the expected approval of a new Basic Law on Social Security.

The measures taken in the meantime to contain the effects that population ageing can have on public finances include:

- change of the invalidity and old-age pension arrangements under the general social security system designed to raise the retirement age for women (to that for men, at 65); extension of the minimum contribution period; and change in the formula for calculating pensions (increase in the contribution period and decrease in the rate at which rights are built up each year);

- change in the formula for calculating retirement pensions for members of the General Civil Servant Retirement Fund, which, for the new entrants since 1 September 1993, will take place in accordance with the statutory rules applying to the calculation of pensions for members of the general social security system;
- transfers from the state budget to the social security budget in accordance with the Basic Law on Social Security and corresponding capitalisation of the surpluses of the general scheme by the Management Institute for the Social Security Capitalisation Funds.

A N N E X 2

Cyclically adjusted budget balances

1. Introduction

Rigorous analysis of budgetary policy is a matter that has gained in importance and relevance on account of the need to pursue the process of budgetary consolidation under the stability and growth pact.

Assessment of the budgetary situation must take into consideration the developments in public accounts over a period close to the duration of a full economic cycle. Budget balances are not sufficient on their own since they do not provide relevant information on the true budget position, and so it is necessary to include in the analysis the effects of economic cycles on the trend of public finances.

Fluctuations in economic activity affect not only public revenue but also public expenditure through the operation of the automatic stabilisers. It is expected that, as economic activity slows down, social benefits (and in particular unemployment benefit) increase while tax receipts fall and that, as the pace of economic activity picks up, there will be an automatic increase in tax receipts and social security contributions.

Consequently, in order to identify the fiscal policy stance, it is necessary to identify the changes in the overall balance that are attributable to the changes in the cyclical component.

2. Methodology and data

Determining the cyclically adjusted budget balance,[2] which is based on the OECD methodology,[3] involves the following steps:

1. choice of a basic economic scenario that can serve as a basis on which to gauge the impact of changes in the economic cycle on the budget balance; this choice makes it possible to estimate trend output relative to actual output (output gap);
2. application of public revenue and expenditure elasticities to the output gap;

[2] CAB.
[3] Methodology described by Chouraqui, Hagemann and Sartor (1990) "Indicators of Fiscal Policy – A Reassessment", OECD, Economics and Statistics Department, Working Paper No 78.

3. calculation of the cyclically adjusted budget balance or structural budget balance.

The data used for this exercise were taken from the national accounts published by the National Statistics Institute (INE) up to 1995, together with estimates by the Ministry of Finance (1996-1999) and projections contained in the stability programme (2000-2004).

2.1 Estimation of the output gap using the Hodrick-Prescott filter

The Hodrick-Prescott (HP) method is currently the method most recommended by international organisations[4] for calculating the output gap since it is extremely straightforward and can be applied uniformly in all countries. Moreover, since the estimates are calculated mechanically, they do not require any *a priori* judgments or fine-tuning on the part of users and are preferred to more sophisticated methods, albeit with some reservations.

2.2 Public revenue and expenditure elasticities

The cyclical component of changes in the budget balance behaves differently depending on whether we look at public revenue or public expenditure. On the revenue side, some items are more sensitive than others to fluctuations in the economic cycle, e.g. taxes. This may be due either to the fact that the fluctuations in output have a different impact on revenue accruing from each tax or because the rates themselves are progressive. In this way elasticities can be calculated for each revenue component under consideration. On the expenditure side, only items such as unemployment benefit behave in a clear cyclical manner, the adjusted value of unemployment benefit being a function of changes in the unemployment rate around the trend rate.

The aggregate public revenue components taken into consideration were the following: direct taxes on family income (IDF), direct taxes on corporate income (IDE), indirect taxes (IBS), social security contributions (CSS) and other revenue (OR) (residual item covering all other revenue including investment income). As regards expenditure, the following aggregate components were taken into consideration: unemployment subsidies (SD), interest charges (i), and other expenditure (OD) (residual item also including capital expenditure).

Under the OECD methodology, it is accepted that interest charges (i) and other expenditure (OD) are independent of the economic cycle and, for the same

---

[4] See, for example; "The Commission Services' Method for the Cyclical Adjustment of Government Budget Balances", European Commission, II/401/95-EN, 13 July 1995.

reason, that other revenue (OR) displays unitary elasticity. Once the elasticities have been obtained, the adjusted value of each revenue and expenditure item can be calculated in formal terms as follows:

$$\mathbf{B^*_{i,n} = B_{i,n} * (1 + \varepsilon_i * GAP_n)}$$

where $\mathbf{B}_{i,n}$ is item i in year n, ε i the elasticity of item i, $B^*_{i,n}$ the adjusted value of item i in year n, and $\mathbf{GAP}_n$ the output gap in year n.

The above equation makes it possible to eliminate the effect of the economic cycle on each expenditure and revenue item. In the contractionary phases of the economic cycle, the real growth rate of output is below its trend rate, resulting in a positive output gap. Accordingly, the adjusted value of each revenue (or expenditure) component is equal to the observed value of that component plus an amount corresponding to the revenue (expenditure) that would have been generated if real GDP had grown at its trend rate. This amount is given by the sensitivity of revenue (expenditure) to unit changes in output multiplied by the change in output around its trend rate, i.e. $\varepsilon_i * GAP_n$.

2.3 Calculation of the cyclically adjusted balance

With the elasticities and the output gap available, the adjusted values of each revenue and expenditure item can then be calculated. Adding together the adjusted values for revenue and deducting the adjusted values for expenditure, we obtain for each year the adjusted value of the budget balance:

$$\mathbf{SCA^*_n = IDF^*_n + IDE^*_n + CSS^*_n + IBS^*_n + OR^*_n - SD^*_n - i_n - OD_n}$$

Obtaining the cyclically adjusted balances is equivalent to breaking down the budget balances into their cyclical and structural components. In this way an estimate of the cyclical effect for each year is obtained by calculating the difference between the balance observed and the adjusted balance as a percentage of GDP. It is then possible to determine the cyclical component and the structural component of the budget balance and to determine which of the two was more important in the years under consideration.

3. Results

The results of the estimation made using the above methodology (presented in Table 1) show a gradual decline in the cyclically adjusted budget deficit over the programme's time horizon.

Table 1 - Overall balance and cyclical effect

(as % of GDP)

Year	Overall balance	Cyclical effect	Adjusted overall balance
2000	-1.5	-0.2	-1.3
2001	-1.1	-0.1	-0.9
2002	-0.7	-0.1	-0.6
2003	-0.3	0.0	-0.3
2004	0.0	0.0	0.0

Source: Ministry of Finance.

Between 2000 and 2004 the decline of 1.5 percentage points in the budget deficit as a percentage of GDP is accompanied by a sustained reduction in the structural deficit which, in cumulative terms, is equal to 1.3 percentage points of GDP. This development reflects the structural improvement in public finances over the period covered by the stability programme.

A N N E X 3

General government accounts: 1995-1999

3.1 Impact of ESA95 on the overall balance

Overall balance

(as % of GDP)

	1995	1996	1997	1998	1999
ESA79	-5.7	-3.3	-2.5	-2.2	-1.9
ESA95	-4.6	-3.8	-2.6	-2.1	-2.0

Source: INE, Excessive Deficits Group

3.2 General government accounts

1995

PTE billion

	ESA 79 (A)	ESA95 (B)	Difference (B) - (A) Value	Change %	% of GDP (ESA79)
TOTAL CURRENT RESOURCES	**6126**	**6208**	**82**	**1.3**	**0.5**
CURRENT TAXES ON INCOME AND WEALTH, ETC.	1469	1500	31	2.1	0.2
SOCIAL SECURITY CONTRIBUTIONS	1785	1610	-175	- 9.8	- 1.1
TAXES ON PRODUCTION AND IMPORTS	2206	2316	111	5.0	0.7
OTHER CURRENT RESOURCES	667	782	115	17.3	0.7
TOTAL CURRENT EXPENDITURE	**6502**	**6413**	**-89**	**-1.4**	**- 0.6**
GOVERNMENT FINAL CONSUMPTION EXPENDITURE	2795	3025	230	8.2	1.5
of which: Compensation of employees	2225	2226	1	0.0	0.0
Goods, Services and other	570	799	229	40.2	1.4
SUBSIDIES	179	224	45	25.1	0.3
INTEREST	996	1013	17	1.7	0.1
CURRENT TRANSFERS	2532	2151	-381	- 15.0	- 2.4
GROSS SAVING	**-376**	**-205**	**171**		**1.1**
CAPITAL TRANSFERS, RECEIVED	**300**	**310**	**10**	**3.3**	**0.1**
CAPITAL EXPENDITURE	**830**	**845**	**15**	**1.8**	**0.1**
GFCF	584	605	21	3.6	0.1
OTHER CAPITAL EXPENDITURE	246	240	-6	- 2.6	0.0
CAPITAL BALANCE	**-530**	**-535**	**-5**		**0.0**
OVERALL BALANCE	**-906**	**-740**	**166**		**1.0**
AS % OF GDP	- 5.73	- 4.59			
PRIMARY BALANCE	**90**	**273**	**183**		**1.2**
AS % OF GDP	0.57	1.70			
For information:					
GDP	15802	16102			

Source: INE

1996

PTE billion

	ESA 79 (A)	ESA95 (B)	Difference (B) - (A) Value	Change %	% of GDP (ESA79)
TOTAL CURRENT RESOURCES	**6723.3**	**6825**	**102**	**1.5**	**0.6**
CURRENT TAXES ON INCOME AND WEALTH, ETC.	1680.8	1710	29	1.7	0.2
SOCIAL SECURITY CONTRIBUTIONS	1951.5	1791	-161	- 8.2	- 1.0
TAXES ON PRODUCTION AND IMPORTS	2411.8	2490	78	3.2	0.5
OTHER CURRENT RESOURCES	679.2	835	156	23.0	0.9
TOTAL CURRENT EXPENDITURE	**6744.3**	**6825**	**81**	**1.2**	**0.5**
GOVERNMENT FINAL CONSUMPTION EXPENDITURE	3052.5	3286	233	7.6	1.4
of which: Compensation of employees	2378.7	2371	-7	- 0.3	0.0
Goods, Services and other	673.8	914	240	35.7	1.4
SUBSIDIES	119.3	258	139	116.6	0.8
INTEREST	812.0	928	116	14.2	0.7
CURRENT TRANSFERS	2760.5	2353	-407	- 14.7	- 2.4
GROSS SAVING	**- 21.0**	**0**	**21**		**0.1**
CAPITAL TRANSFERS, RECEIVED	**533.2**	**357**	**-176**	**- 33.0**	**- 1.0**
CAPITAL EXPENDITURE	**1066.9**	**1010**	**-57**	**- 5.3**	**- 0.3**
GFCF	695.4	721	26	3.7	0.2
OTHER CAPITAL EXPENDITURE	371.5	289	-82	- 22.2	- 0.5
CAPITAL BALANCE	**-533.7**	**-653**	**-119**		**- 0.7**
OVERALL BALANCE	**- 554.7**	**-653**	**-98**		**- 0.6**
AS % OF GDP	- 3.3	- 3.82			
PRIMARY BALANCE	**257.3**	**275**	**18**		**0.1**
AS % OF GDP	1.5	1.61			
For information:					
GDP	16808.6	17098.6			

Source: INE, Excessive Deficits Group

1997

PTE billion

	ESA 79 (A)	ESA95 (B)	Difference (B) - (A) Value	Change %	% of GDP (ESA79)
TOTAL CURRENT RESOURCES	**7272.4**	**7269**	**-3**	**0.0**	**0.0**
CURRENT TAXES ON INCOME AND WEALTH, ETC.	1850.8	1873	22	1.2	0.1
SOCIAL SECURITY CONTRIBUTIONS	2124.0	1912	-212	- 10.0	- 1.2
TAXES ON PRODUCTION AND IMPORTS	2546.2	2656	110	4.3	0.6
OTHER CURRENT RESOURCES	751.4	828	77	10.2	0.4
TOTAL CURRENT EXPENDITURE	**7121.0**	**7068**	**-53**	**- 0.7**	**- 0.3**
GOVERNMENT FINAL CONSUMPTION EXPENDITURE	3291.8	3553	261	7.9	1.5
of which: Compensation of employees	2574.9	2575	0	0.0	0.0
Goods, Services and other	717.0	978	261	36.4	1.5
SUBSIDIES	104.4	216	112	106.9	0.6
INTEREST	762.4	785	22	2.9	0.1
CURRENT TRANSFERS	2962.4	2514	-448	- 15.1	- 2.5
GROSS SAVING	**151.4**	**202**	**50**		**0.3**
CAPITAL TRANSFERS, RECEIVED	**523.5**	**446**	**-78**	**- 14.8**	**- 0.4**
CAPITAL EXPENDITURE	**1128.4**	**1115**	**-14**	**- 1.2**	**- 0.1**
GFCF	769.8	811	41	5.4	0.2
OTHER CAPITAL EXPENDITURE	358.6	304	-55	- 15.3	- 0.3
CAPITAL BALANCE	**- 604.9**	**-669**	**-64**		**- 0.4**
OVERALL BALANCE	**- 453.5**	**-467**	**-14**		**- 0.1**
AS % OF GDP	- 2.5	- 2.56			
PRIMARY BALANCE	**308.9**	**317**	**8**		**0.0**
AS % OF GDP	1.7	1.74			
For information:					
GDP	17875.7	18276.4			

Source: INE, Excessive Deficits Group

1998

PTE billion

	ESA 79 (A)	ESA95 (B)	Difference (B) - (A) Value	Change %	% of GDP (ESA79)
TOTAL CURRENT RESOURCES	**7951.3**	**7955**	**4**	**0.0**	**0.0**
CURRENT TAXES ON INCOME AND WEALTH, ETC.	1962.7	1978	16	0.8	0.1
SOCIAL SECURITY CONTRIBUTIONS	2352.3	2129	-223	- 9.5	- 1.2
TAXES ON PRODUCTION AND IMPORTS	2863.6	2932	69	2.4	0.4
OTHER CURRENT RESOURCES	772.7	915	143	18.5	0.7
TOTAL CURRENT EXPENDITURE	**7632.3**	**7733**	**100**	**1.3**	**0.5**
GOVERNMENT FINAL CONSUMPTION EXPENDITURE	3589.8	3879	289	8.0	1.5
of which: Compensation of employees	2820.6	2821	1	0.0	0.0
Goods, Services and other	769.1	1057	288	37.5	1.5
SUBSIDIES	132.8	276	143	107.7	0.7
INTEREST	654.5	703	49	7.5	0.3
CURRENT TRANSFERS	3255.2	2875	-381	- 11.7	- 2.0
GROSS SAVING	**319.0**	**222**	**-97**		**- 0.5**
CAPITAL TRANSFERS, RECEIVED	**512.6**	**512**	**0**	**- 0.1**	**0.0**
CAPITAL EXPENDITURE	**1247.4**	**1150**	**-97**	**- 7.8**	**- 0.5**
GFCF	822.2	868	46	5.6	0.2
OTHER CAPITAL EXPENDITURE	425.2	282	-143	- 33.6	- 0.7
CAPITAL BALANCE	**- 734.8**	**-638**	**97**		**0.5**
OVERALL BALANCE	**-415.8**	**-416**	**0**		**0.0**
AS % OF GDP	- 2.2	- 2.11			
PRIMARY BALANCE	**238.7**	**287**	**49**		**0.3**
AS % OF GDP	1.2	1.46			
For information:					
GDP	19245.7	19692.9			

Source: INE, Excessive Deficits Group

1999 (provisional)

PTE billion

	ESA 79 (A)	ESA95 (B)	Difference (B) - (A) Value	Change %	% of GDP (ESA79)
TOTAL CURRENT RESOURCES	**8703.0**	**8959**	**256**	**2.9**	**1.3**
CURRENT TAXES ON INCOME AND WEALTH, ETC.	2209.4	2230	21	0.9	0.1
SOCIAL SECURITY CONTRIBUTIONS	2523.5	2381	-143	- 5.7	- 0.7
TAXES ON PRODUCTION AND IMPORTS	3116.2	3209	93	3.0	0.5
OTHER CURRENT RESOURCES	853.8	1139	286	33.4	1.4
TOTAL CURRENT EXPENDITURE	**8304.8**	**8519**	**214**	**2.6**	**1.1**
GOVERNMENT FINAL CONSUMPTION EXPENDITURE	3944.3	4448	504	12.8	2.5
of which: Compensation of employees	3095.8	3146	51	1.6	0.2
Goods, Services and other	848.4	1302	454	53.5	2.2
SUBSIDIES	148.4	148	0	0.0	0.0
INTEREST	657.2	706	49	7.4	0.2
CURRENT TRANSFERS	3554.9	3216	-339	- 9.5	- 1.7
GROSS SAVING	**398.1**	**440**	**42**		**0.2**
CAPITAL TRANSFERS, RECEIVED	**610.1**	**610**	**0**	**0.0**	**0.0**
CAPITAL EXPENDITURE	**1399.2**	**1461**	**61**	**4.4**	**0.3**
GFCF	926.5	961	34	3.7	0.2
OTHER CAPITAL EXPENDITURE	472.7	500	27	5.7	0.1
CAPITAL BALANCE	**- 789.1**	**-850**	**-61**		**- 0.3**
OVERALL BALANCE	**- 391.0**	**-411**	**-20**		**- 0.1**
AS % OF GDP	- 1.9	- 2.0			
PRIMARY BALANCE	**266.2**	**295**	**29**		**0.1**
AS % OF GDP	1.3	1.4			
For information:					
GDP	20361.8	20835.0			

Source: INE, Excessive Deficits Group