Stability Programme & National Reform Programme

The Stability Programme (SP) and the National Reform Programme (NRP) were submitted to the European Commission, following a discussion in the National Parliament. The documents are presented **under the EU's European Semester process**, in which Portugal fully participates since the end of the Economic Adjustment Programme in mid-2014.

The SP includes the Government's **policy proposals for the medium-term** and presents the **underlying macro-fiscal scenario**. The NRP describes the **annual progress under the European Semester, with a special focus on structural reforms**. The documents are available here and here (in Portuguese only).

i. Macroeconomic Scenario for 2015-2019

Updated projections indicate a **positive outlook**, as **economic growth is forecast to accelerate**, in tandem with a **pickup in investment**, continued **export growth** and sustained **employment creation**.

- **GDP is expected to increase by 1.6% this year** (0.1 p.p. higher than forecast in the State Budget). Growth should accelerate to **2.0% in 2016** and **2.4% in 2017, 2018 and 2019**.
- The **unemployment rate is forecast to decrease** to **13.2% in 2015**, and to continue declining afterwards. It is estimated at **11.1% in 2019**.
- The external adjustment is projected to proceed. The economy's **net lending position should improve** from 2.1% of GDP in 2015 to 2.7% of GDP in 2019; and the **current account surplus should increase** from 0.5% to 1.4% in the same period.

ii. Fiscal Projections for 2015-2019

The Government maintains its **firm commitment to respect the 2015 deadline for Portugal to exit the EU's Excessive Deficit Procedure. Fiscal adjustment is set to continue** in the medium-term, ensuring **sound public finances, in compliance with EU rules**.

- The **deficit target for 2015 is reaffirmed at 2.7% of GDP**. The **General Government balance is expected to turn into a surplus in 2019 (0.2% of GDP)**, underpinned by a gradual correction.
- The **primary surplus** is expected to **improve from 2.2% of GDP in 2015 to 3.7% of GDP in 2019**. These figures compare with a primary deficit of 8.2% of GDP in 2010.
- The **medium-term objective (structural deficit of 0.5% of GDP) is now forecast to be reached in 2016**, one year earlier than anticipated in the 2014 Fiscal Strategy Document.
- **General Government Gross Debt is expected to decrease by 6 p.p. in 2015, to 124.2% of GDP** by end-year. The ratio is set to maintain this downward trajectory, reaching 107.6% in 2019. **In net terms**, the debt-to-GDP ratio is forecast to decline from **116.5% in 2015 to 103.8% in 2019**.

Financial Markets

The Debt Management Agency (IGCP) carried out a **debt exchange offer** aimed at reducing refinancing needs in the short run. On April 23rd, **Portuguese Government bonds maturing in 2017 and 2018** (amounting to € 4.54bn) were exchanged for **bonds maturing in 2024 and 2030 (**amounting to € 4bn).

Further information is available here.

Fiscal Adjustment

i. Excessive Deficit Procedure (revision of the first notification for 2015)

The 2014 General Government deficit was revised downwards by € 105.4m (from € 7822m **to € 7717m**). The revision refers only to the results for 2014 and is mainly explained by the incorporation of new information regarding Portugal's contribution to the European Union Budget.

As a percentage of GDP, the 2014 deficit remained at 4.5%. The **primary surplus was revised upwards to 0.5% of GDP**. The estimated deficit excluding **one-off operations was also revised to 3.3% of GDP** (which is 1.8 p.p. lower than 5.1% recorded in 2013).

The revised notification is available here.

ii. Budget Outturn (January-March 2015)

On a cash basis, the **General Government budget deficit** was **€ 710m up to March,** about **€ 125m lower** than the deficit in Jan-Mar 2014. The primary balance recorded an overall surplus of € 832m.

Adjusting the GG perimeter for comparability, **Central Government expenditure grew by 4.8%** in **y-o-y terms**, mainly due to **interest charges** (which were highly concentrated in February) and **investment expenditure** (given the PPP payments' calendar).

Cumulative State Tax Revenue (in net terms) grew by 5.3% y-o-y. Regarding direct taxes, **CIT revenue** increased by 3.6% and **PIT revenue** decreased by 1.8%. As for indirect taxes, **VAT revenue grew** by 10.7%, **as did revenue from taxes on motor vehicles** (+27.1%), **car circulation** (+13.9%) and **tobacco products** (+11.8%). The improvement in tax collection reflects the **ongoing recovery of economic activity** and the growing effectiveness of **measures against tax fraud and evasion**.

Social Security recorded a **surplus of € 411m. This represents an** improvement in the balance of € 337m (y-o-y), underpinned by lower expenditure (-5.1%) and higher revenue (+0.6%).

Further information is available here.