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STABILITY PROGRAM

2024-2028



REPÚBLICA
PORTUGUESA

FINANÇAS

STABILITY PROGRAM

2024-2028

Prepared based on data as of April 5th 2024.

MINISTRY OF FINANCE

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XXIV GOVERNO CONSTITUCIONAL

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**STABILITY
PROGRAM**

2024-2028



FOREWORD

The 2024-2028 Stability Programme is being produced in a profoundly atypical context. On the one hand, in compliance with the April 15th deadline (set out in article 33 of the Budgetary Framework Law), this document was released on the first working day after the presentation and discussion of the XXIV Government's Programme (which took place on April 11th and 12th). In other words, only 13 days after the Ministers took office and 11 days after the Secretaries of State took office, making up the entire Government.

On the other hand, the preparation of the 2024-2028 Stability Programme coincides with the finalisation phase of the process of reforming the European Union's Economic Governance Review, which began in November 2021. This process, which results in the redefinition of budgetary surveillance rules at the European level, will run until September 2024, when Portugal will have to submit a medium-term structural budget plan, which will frame the country's economic and budgetary policy over a four to seven year horizon. This budget plan will define the rate of growth of "corrected" primary expenditure which, in line with the public debt sustainability analysis methodology adopted by the European Commission, achieves a gradual and sustainable reduction in the public debt ratio in the short, medium and long term.

The new rules, which enter into force on April 30th, determine, on the one hand, the end of the obligation to submit the Stability Programme and, on the other hand, the creation of this new budgetary plan which, in 2024, must be submitted to the European Commission at the end of September. Therefore, the Commission signaled to the Member States that compliance with the submission of the Stability Programme in April 2024 would only be formal and mainly focused on the completion by the Member States of the annexed tables (with particular attention to tables 13 and 14 relating to the RRP). The reform of European budgetary surveillance will soon require an amendment to the Budgetary Framework Law, in order to adapt the legal norms to the new timetable, as well as to the new budgetary rules.

In view of this, this Stability Programme is presented in a no-policy-change scenario, i.e. with no new policy options. In other words, the macroeconomic and budgetary outlook contained in this document does not yet take into account the economic policies that the XXIV Government will implement.

The XXIV Government, which is now taking office, has a reformist spirit. Its Government's Programme is ambitious but realistic, promoting structural changes in order to increase the productivity and competitiveness of the Portuguese economy. These changes will materialize through measures in various areas, such as context costs, the tax system, innovation and science, justice, the labour market and incentives related to the capitalisation, size and internationalisation of companies, among others.

Only a more productive and competitive economy can generate greater economic growth. Only with more economic growth will it be possible to generate the wealth needed to sustainably and over time have better jobs, with higher levels of pay and wages. But it is also economic growth that will make it possible to reduce the tax burden on families and

companies while ensuring the necessary resources for quality public services and higher social benefits, which protect the most vulnerable in particular.

A balanced budget and a reduction in public debt are fundamental conditions for sustainable economic and social development. In this sense, the XXIV Government is the guarantor of maintaining the balance of public accounts and a robust path towards reducing public debt.

In this way, the Government will start negotiating with the European Commission with a view to defining the medium-term budget plan, seeking to combine budgetary balance and the reduction of public debt, with the necessary flexibility to reduce taxes and meet the needs of public services, public investment and the demands of different professional classes in the Public Administration.

Despite the high level of international uncertainty and the geopolitical and economic risks, the actions of the XXIV Government will continue to be guided by reformism, a commitment to innovation, attracting investment and boosting exports, raising incomes and wages and improving the quality of public services, as well as recovering public investment.

REPORT TABLES

Table A1. 1. Macroeconomic prospects

	ESA Code	2023	2023	2024	2025	2026	2027	2028
		Level (10 ⁵ euros)						
1. Real GDP	B1*g	215 929,0	2,3	1,5	1,9	2,0	1,5	1,8
2. Nominal GDP	B1*g	265 502,9	9,6	4,5	4,5	4,5	3,8	4,0
Components of real GDP								
3. Private final consumption expenditure	P.3	137 940,9	1,7	1,5	1,7	1,7	1,8	1,6
4. Government final consumption expenditure	P.3	36 278,8	1,0	1,8	1,1	1,4	1,0	1,2
5. Gross fixed capital formation	P.51	40 249,0	2,5	4,4	3,9	5,1	-0,5	2,8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	559,1	0,3	0,1	0,1	0,1	0,1	0,1
7. Exports of goods and services	P.6	98 417,0	4,1	3,1	4,2	3,9	3,8	3,8
8. Imports of goods and services	P.7	97 494,1	2,2	4,0	4,5	4,6	3,1	3,9
Contributions to real GDP growth								
9. Final domestic demand		-	1,4	1,9	2,0	2,4	1,2	1,8
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-0,3	-0,2	0,0	0,0	0,0	0,0
11. External balance of goods and services	B.11	-	0,9	-0,4	-0,1	-0,3	0,3	0,0

Source: Ministry of Finance.

Table A1. 2. Prices

	2023	2024	2025	2026	2027	2028
1. GDP deflator	7,1	2,9	2,6	2,5	2,3	2,2
2. Private consumption deflator	5,1	2,5	2,1	2,2	2,0	2,0
3. HICP1	5,3	2,5	2,1	2,0	2,0	2,0
4. Public consumption deflator	4,9	4,4	3,0	2,7	2,7	2,7
5. Investment deflator	3,1	3,4	2,7	2,4	2,1	2,1
6. Export price deflator (goods and services)	0,7	2,6	1,9	1,8	1,7	1,8
7. Import price deflator (goods and services)	-4,0	2,6	1,5	1,4	1,6	1,7

¹ Optional for stability programmes.

Source: Ministry of Finance.

Table A1. 3. Labour market developments

	ESA Code	2023	2023	2024	2025	2026	2027	2028
		Level						
1. Employment, persons¹		5 079,5	0,9	0,4	0,4	0,5	0,3	0,3
3. Unemployment rate ² (%)		-	6,5	6,7	6,5	6,3	6,1	5,8
4. Labour productivity, persons ³ (103 euros)		42,5	1,4	1,1	1,5	1,6	1,1	1,4
6. Compensation of employees (106 euros)	D.1	125 687,9	10,7	5,6	4,7	4,2	3,3	3,6
7. Compensation per employee		28,0	8,3	5,0	4,3	3,7	2,9	3,2

¹ Occupied population, domestic concept national accounts definition.

² Harmonised definition, Eurostat, levels.

³ Real GDP per person employed.

Source: Ministry of Finance.

Table A1. 4. Sectorial balances

% GDP	ESA Code	2023	2024	2025	2026	2027	2028
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	2,6	3,2	2,8	2,7	2,6	2,9
of which:							
- Balance of goods and services		0,8	0,4	0,4	0,3	0,7	0,7
- Balance of primary incomes and transfers		-1,9	-1,1	-1,1	-1,1	-1,2	-1,2
- Capital account		1,3	1,6	1,3	1,3	1,0	0,9
2. Net lending/net borrowing of the private sector	B.9	1,4	3,0	2,5	2,6	2,0	2,5
3. Net lending/net borrowing of general government	B.9	1,2	0,3	0,3	0,1	0,6	0,4
4. Statistical discrepancy		:	:	:	:	:	:

Source: Ministry of Finance.

Table A1. 5. General government budgetary prospects

	ESA Code	2023	2023	2024	2025	2026	2027	2028
		Level	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector								
1. General government	S.13	3 193,5	1,2	0,3	0,3	0,1	0,6	0,4
2. Central government	S.1311	-2 328,6	-0,9					
3. State government	S.1312	-	-	-	-	-	-	-
4 Local government	S.1313	-147,8	-0,1					
5. Social security funds	S.1314	5 669,9	2,1					
General government (S13)								
6. Total revenue	TR	115 621,5	43,5	44,3	44,6	44,3	42,4	42,3
7. Total expenditure1	TE	112 428,0	42,3	44,0	44,3	44,2	41,8	41,8
8. Net lending/borrowing	B.9	3 193,5	1,2	0,3	0,3	0,1	0,6	0,4
9. Interest expenditure	D.41	5 751,6	2,2	2,3	2,3	2,3	2,4	2,3
10. Primary balance2	B.9+D.41	8 945,1	3,4	2,6	2,6	2,4	3,0	2,7
11. One-off and other temporary measures3		-1 303,0	-0,5	-0,1	0,0	0,0	0,0	0,0
Selected components of revenue								
12. Total Taxes (12=12a+12b+12c)		66 888,3	25,2	25,2	25,1	25,0	25,0	24,9
12a. Taxes on production and imports	D.2	38 453,0	14,5	14,9	14,9	14,8	14,8	14,7
12b. Current taxes on income, wealth, etc	D.5	28 435,3	10,7	10,3	10,2	10,2	10,2	10,2
12c. Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D.61	32 720,4	12,3	12,3	12,3	12,2	12,1	12,1
14. Property income	D.4	1 948,4	0,7	0,8	0,8	0,8	0,7	0,7
15. Other4		14 064,4	5,3	6,0	6,3	6,2	4,6	4,6
16=6. Total revenue	TR	115 621,5	43,5	44,3	44,6	44,3	42,4	42,3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)5		99 608,7	37,5	37,5	37,4	37,3	37,1	37,0
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	41 830,8	15,8	16,1	16,1	15,9	15,4	15,5
17a. Compensation of employees	D.1	27 787,0	10,5	10,6	10,5	10,4	10,3	10,3
17b. Intermediate consumption	P.2	14 043,8	5,3	5,5	5,5	5,5	5,1	5,2
18. Social payments (18=18a+18b)		46 346,9	17,5	18,0	17,9	17,8	17,8	17,7
of which Unemployment benefits6		1 357,0	0,5	0,5	0,5	0,4	0,4	0,4
18a. Social tranfers in kind - purchased market production	D.6311, D.63121, D.63131	4 607,5	1,7	1,8	1,9	1,9	1,9	1,9
18b. Social tranfers other than social tranfers in kind	D.62	41 739,3	15,7	16,2	16,0	15,9	15,9	15,7
19=9. Interest expenditure	D.41	5 751,6	2,2	2,3	2,3	2,3	2,4	2,3
20. Subsidies	D.3	2 001,0	0,8	0,7	0,5	0,5	0,5	0,5
21. Gross fixed capital formation	P.51g	6 742,8	2,5	3,4	4,0	4,3	3,0	3,1
22. Capital transfers	D.9	3 493,0	1,3	0,9	1,0	1,0	0,4	0,4
23. Other7		6 261,9	2,4	2,5	2,4	2,4	2,3	2,4
24=7. Total expenditure	TE	112 428,0	42,3	44,0	44,3	44,2	41,8	41,8
p.m.: Government final consumption expenditure (nominal)	P.3	45 126,0	17,0	17,3	17,2	17,1	17,1	17,1

¹ RT - DT = B.9.

² The primary balance is calculated as (B.9, item 8) plus (D.41, item 9)

³ A plus sign means deficit-reducing one-off measures.

⁴ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

⁵ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

⁶ Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits.

⁷ D.29+D.4 (other than D.41) + D.5+D.7+P.52+P.53+K.2+D.8.

Source: Ministry of Finance.

Table A1. 6. No-policy change projections ¹

	2023	2023	2024	2025	2026	2027	2028
	Level	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1. Total revenue at unchanged policies	115 621,5	43,5	44,3	44,6	44,3	42,4	42,3
2. Total expenditure at unchanged policies	112 428,0	42,3	44,0	44,3	44,2	41,8	41,8

¹ The projections shall start at the time when the Stability or Convergence Programme is drafted (please indicate the cut-off date) and show revenue and expenditure trends under a 'no-policy change' assumption. Therefore, figures for X-1 should correspond to actual data for revenue and expenditure.

Source: Ministry of Finance.

Table A1. 7. General government by function

% GDP	COFOG code	2020	2021	2022
1. General public services	1	7,0	6,6	5,7
2. Defence	2	0,8	0,8	0,7
3. Public order and safety	3	1,9	1,8	1,6
4. Economic affairs	4	6,2	5,6	4,8
5. Environmental protection	5	0,7	0,8	0,7
6. Housing and community amenities	6	0,6	0,6	0,5
7. Health	7	7,5	7,6	7,1
8. Recreation, culture and religion	8	0,9	1,0	0,9
9. Education	9	4,7	4,7	4,3
10. Social protection	10	18,9	18,1	17,5
11. Total expenditure (=item 3 +22 in Table 2a)	TE	49,2	47,5	44,1

Source: Ministry of Finance.

Table A1. 8. General government debt developments

% GDP	ESA Code	2023	2024	2025	2026	2027	2028
1. Gross debt¹		99,1	95,7	91,4	87,2	83,4	79,8
2. Change in gross debt ratio		-13,3	-3,4	-4,3	-4,1	-3,8	-3,6
Contributions to changes in gross debt							
3. Primary balance ²	B.9+D.41	3,4	2,6	2,6	2,4	3,0	2,7
4. Interest expenditure ³	D.41	2,2	2,3	2,3	2,3	2,4	2,3
5. Stock-flow adjustment		-2,3	1,1	0,1	-0,1	0,0	0,1
p.m.: Implicit interest rate on debt ⁴		2,1	2,4	2,5	2,6	2,8	2,8
Other relevant variables							

¹ As defined in amended Regulation 479/2009.

² Cf. Item 10 in Table A.1 5.

³ Cf. Item 9 in Table A.1 5.

⁴ Proxied by interest expenditure divided by the debt level of the previous year.

Source: Ministry of Finance.

Table A1. 9. Cyclical developments

% GDP	ESA Code	2023	2024	2025	2026	2027	2028
1. Real GDP growth (%)		2,3	1,5	1,9	2,0	1,5	1,8
2. Net lending of general government	B.9	1,2	0,3	0,3	0,1	0,6	0,4
3. Interest expenditure	D.41	2,2	2,3	2,3	2,3	2,4	2,3
4. One-off and other temporary measures ¹		-0,5	-0,1	0,0	0,0	0,0	0,0
of which:							
- One-offs on the revenue side: general government		0,0	0,0	0,0	0,0	0,0	0,0
- One-offs on the expenditure side: general government		0,5	0,1	0,0	0,0	0,0	0,0
5. Potential GDP growth (%)		2,3	2,2	2,1	2,0	1,8	1,7
6. Output gap		1,2	0,5	0,4	0,4	0,1	0,1
7. Cyclical budgetary component		0,6	0,3	0,2	0,2	0,0	0,1
8. Cyclically-adjusted balance (2 - 7)		0,6	0,0	0,1	-0,1	0,6	0,4
9. Cyclically-adjusted primary balance (8 + 3)		2,7	2,3	2,4	2,2	3,0	2,6
10. Structural balance (8 - 4)		1,1	0,1	0,1	-0,1	0,6	0,4

¹ A plus sign means deficit-reducing one-off measures.

Source: Ministry of Finance.

Table A1. 10. Divergence from previous update

% GDP	ESA Code	2023	2024	2025	2026	2027	2028
Real GDP growth (%)							
Previous update		1,8	2,0	2,0	1,9	1,8	-
Current update		2,3	1,5	1,9	2,0	1,5	1,8
Difference		0,5	-0,5	-0,1	0,1	-0,3	-
General government net lending (% of GDP)							
	B.9						
Previous update		-0,4	-0,2	-0,1	0,0	0,1	-
Current update		1,2	0,3	0,3	0,1	0,6	0,4
Difference		1,6	0,4	0,3	0,1	0,6	-
General Government gross debt (% of GDP)							
Previous update		107,5	103,0	99,2	95,6	92,0	-
Current update		99,1	95,7	91,4	87,2	83,4	79,8
Difference		-8,4	-7,3	-7,8	-8,4	-8,6	-

Source: Ministry of Finance.

Table A1. 11. Long-term sustainability of public finances

% GDP	2022	2030	2040	2050	2060	2070
Total expenditure						
Of which: age-related expenditures	23,3	24,4	26,4	27,0	24,3	22,8
Pension expenditure	12,2	13,5	14,7	14,6	11,8	10,4
Health care	6,2	6,2	6,7	7,1	7,3	7,2
Long-term care	0,5	0,6	0,7	0,9	0,9	0,9
Education expenditure	4,4	4,1	4,3	4,4	4,3	4,3
Other age-related expenditures	-	-	-	-	-	-
Interest expenditures						
Total revenue						
Of which: property income						
Of which: from pensions contributions (or social contributions if appropriate)	14,2	14,1	14,2	14,2	11,9	10,3
Pension reserve fund assets						
Of which: consolidated public pension fund assets (assets other than government liabilities)						
Systemic pension reforms¹						
Social contributions diverted to mandatory private scheme ²	-	-	-	-	-	-
Pension expenditure paid by mandatory private scheme ³	-	-	-	-	-	-
Assumptions						
Labour productivity	1,5	1,5	2,0	2,0	1,6	1,2
Real GDP growth	6,7	0,7	1,2	1,4	1,4	1,1
Participation rate males (aged 20-64)	85,3	85,3	85,6	86,2	86,4	87,1
Participation rate females (aged 20-64)	79,9	81,3	82,6	84,0	84,5	85,2
Total participation rate (aged 20-64)	82,5	83,3	84,1	85,1	85,5	86,1
Unemployment rate	5,9	5,8	6,2	6,2	6,2	6,2
Population aged 65+ over total population	23,8	27,0	31,2	34,0	33,8	33,6

¹ Systemic pension reforms refer to pension reforms that introduce a multi-pillar system that includes a mandatory fully funded pillar.

² Social contributions or other revenue received by the mandatory fully funded pillar to cover for the obligations it acquired in conjunction with the systemic reform.

³ Pension expenditure or other social benefits paid by the mandatory fully funded pillar linked to the pension obligations it acquired in conjunction with the systemic pension reform.

Source: Ageing Report 2024; Ministry of Finance.

Table A1. 12. Basic assumptions

	2023	2024	2025	2026	2027	2028
Short-term interest rate ¹ (annual average)	3,4	3,4	2,5	2,3	2,3	2,4
Long-term interest rate (annual average)	3,2	3,1	3,2	3,2	3,3	3,4
USD/€ exchange rate (annual average) (Euro area and ERM II countries)	1,1	1,1	1,1	1,1	1,1	1,1
Nominal effective exchange rate	2,2	-0,2	-0,1	0,0	0,0	0,0
Exchange rate vis-à-vis the € (annual average) (for countries not in euro area or ERM II)	-	-	-	-	-	-
World excluding EU, GDP growth	3,4	3,2	3,4	3,4	3,4	3,3
EU GDP growth	0,7	1,5	2,1	2,0	1,8	1,7
Growth of relevant foreign markets	0,4	3,3	3,6	3,6	3,5	3,4
World import volumes, excluding EU	0,4	3,5	3,8	3,7	3,7	3,6
Oil prices (Brent, USD/barrel)	82,0	79,1	75,1	72,2	70,2	69,1

¹ If necessary, purely technical assumptions.
Source: Ministry of Finance.

Table A1. 13. RRF impact on programme's projections - GRANTS

Revenue from RRF grants (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
RRF grants as included in the revenue projections		0,0	0,3	0,6	1,3	1,8	1,7
Cash disbursements of RRF grants from EU		0,8	0,2	1,4	1,3	0,9	1,3
Expenditure financed by RRF grants (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees D.1		0,0	0,0	0,0	0,0	0,0	0,0
Intermediate consumption P.2		0,0	0,0	0,0	0,2	0,3	0,3
Social payments D.62+D.632		0,0	0,0	0,0	0,0	0,0	0,0
Interest expenditure D.41		0,0	0,0	0,0	0,0	0,0	0,0
Subsidies, payable D.3		0,0	0,0	0,0	0,0	0,0	0,0
Current transfers D.7		0,0	0,1	0,0	0,1	0,1	0,1
TOTAL CURRENT EXPENDITURE		0,0	0,1	0,1	0,4	0,5	0,5
Gross fixed capital formation P.51g		0,0	0,1	0,1	0,6	0,9	0,9
Capital transfers D.9		0,0	0,1	0,3	0,4	0,4	0,3
TOTAL CAPITAL EXPENDITURE		0,0	0,2	0,5	1,0	1,3	1,2
Other costs financed by RRF grants (% of GDP) ¹							
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue		-	-	-	-	-	-
Other costs with impact on revenue		-	-	-	-	-	-
Financial transactions		0,0	0,0	0,0	0,0	0,0	0,0

¹ This covers costs that are not recorded as expenditure in national accounts

Source: Ministry of Finance.

Table A1. 14. RRF impact on programme's projections – LOANS

Cash flow from RRF loans projected in the programme (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
RRF grants as included in the revenue projections		0,2	0,3	0,3	0,6	0,3	0,6
Cash disbursements of RRF grants from EU							
Expenditure financed by RRF loans (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees D.1	-	0,0	0,0	0,0	0,0	0,0	0,0
Intermediate consumption P.2	-	0,0	0,0	0,0	0,0	0,0	0,0
Social payments D.62+D.632	-	0,0	0,0	0,0	0,0	0,0	0,0
Interest expenditure D.41	-	0,0	0,0	0,0	0,0	0,0	0,0
Subsidies, payable D.3	-	0,0	0,0	0,0	0,0	0,0	0,0
Current transfers D.7	-	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL CURRENT EXPENDITURE	-	0,0	0,0	0,0	0,0	0,0	0,0
Gross fixed capital formation P.51g		0,0	0,0	0,0	0,1	0,3	0,6
Capital transfers D.9	-	0,0	0,0	0,0	0,0	0,2	0,2
TOTAL CAPITAL EXPENDITURE		0,0	0,0	0,0	0,1	0,5	0,8
Other costs financed by RRF loans (% of GDP) ¹							
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue	-	-	-	-	-	-	-
Other costs with impact on revenue	-	-	-	-	-	-	-
Financial transactions	0,0	0,0	0,1	0,0	0,1	0,2	0,1

¹ This covers costs that are not recorded as expenditure in national accounts.

Source: Ministry of Finance.