



Lisbon,

**Ms. Iskra MIHAYLOVA, MEP**

Chair, Regional Development Committee

**Mr. Roberto GUALTIERI, MEP**

Chair, Economic and Monetary Affairs Committee

Excellencies,

As you are aware, the Council decided, upon a recommendation made by the European Commission (COM), not to impose a fine to Portugal following the earlier decision that Portugal had not taken effective action to reduce its deficit between 2013 and 2015. This final decision was taken upon careful consideration of the criteria set out in Regulation (EU) 1173/2011 and the reasoned request presented by Portugal<sup>1</sup>. As defined in Article 23(15) of Regulation (EU) 1303/2013, the COM and the European Parliament will now start a “structured dialogue” regarding the possible suspension of part of commitments or payments of the European Structural and Investment Funds (ESIFs).

Having that in mind, I would like to recall that when cancelling the fine the COM and the Council already recognized that:

- Portugal has undergone a substantial fiscal consolidation effort and has implemented a wide-ranging set of structural reforms;
- the Portuguese Government has committed to comply with the rules of the Stability and Growth Pact and to proceed with the implementation of further structural reforms, as set forth in the 2016 National Reform Programme;
- the European and international economic environment presents increased uncertainties, recently aggravated by the outcome of the British referendum.

The COM and the Council, by unanimous decision, have reached the conclusion that these and other relevant reasons were strong enough not to apply sanctions to Portugal. All these reasons stand and are fully applicable to the present procedure, which was triggered by the same situation. Actually, since the fine would have less damaging consequences than any suspension of the ESIFs, there are even stronger motives to decide not to apply any sanctions now. Hence, a proposal by the COM to suspend EU Funds would be contradictory with the reasoning for the cancellation of the fine and very difficult to understand by the European citizens.

Moreover, under article 23 of Regulation (EU) 1303/2013, the COM "shall take account of all relevant information", and has to fully respect the principles of proportionality and equality of treatment between Member States. Furthermore, any decision must take into consideration the economic and social situation of the Member States concerned, particularly the level of unemployment (which is higher in Portugal than the EU average),

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<sup>1</sup> Available here: <http://www.portugal.gov.pt/pt/ministerios/mf/noticias/20160718-mf-ce.aspx>



and the impact of the suspension on the economy. According to these principles, rules and criteria, the suspension of EU Funds for Portugal would be not only unfair and counterproductive, but also against what is established in this Regulation.

In fact, the suspension of EU Funds would have a strong impact on the economy, as it would affect confidence and investment plans, many of which are dependent on EU Funds. Portugal is in a process of economic recovery. The mere possibility of a suspension of funds would only increase the uncertainty that economic agents face, with expected negative effects on investment, growth and, consequently, in the soundness of public finances.

A possible suspension of EU Funds, either through commitments or payments, and even if temporary, would undermine the ongoing efforts to bring sustainable growth and social cohesion to Portugal, and indeed to foster convergence with EU partners. It would also hamper the capacity to implement the National Reform Programme, which was welcomed by the COM and described as "solid". And it would make compliance with the Growth and Stability Pact much harder, in a moment when the Government is implementing the necessary measures to achieve a 2.5% deficit in 2016, which will allow Portugal to exit the Excessive Deficit Procedure (EDP).

All in all, a decision to suspend EU Funds for Portugal would have a direct and detrimental impact on citizens, enterprises and on the economy as a whole. Therefore, avoiding the suspension of the ESIFs is not only in line with the principles and rules of Regulation (EU) 1303/2013, but it is the only fair and intelligent solution to the situation at hand. As such, the European Parliament is in a key position to advise the COM to propose not imposing any suspension of Funds.

Yours sincerely,

Mário Centeno

Finance Minister

Copy:

Mr. Jerzy Buzek, Chair of Agriculture Committee

Mr. Jean Arthuis, Chair of Budget Committee

Mr. Thomas Händel, Chair of Employment Committee

Mr. Alain Cadec, Chair of Fisheries Committee

MEPs of the Regional Development Committee

MEPs of the Economic and Monetary Affairs Committee