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Statement by the EC, ECB, and IMF on the Sixth Review Mission to Portugal

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Lisbon during November 12 - 19 for the sixth quarterly review of Portugal's economic programme.

The programme is broadly on track, despite stronger headwinds. With much already accomplished, strong commitment and perseverance need to be maintained as the programme enters its second half. External and fiscal adjustment continues to advance, adequate capital and liquidity buffers have reduced financial stability risks, and structural reforms are proceeding apace. At the same time, rising unemployment, lower incomes, and uncertainty are weighing on confidence, while the recession in the euro area is beginning to bear on export dynamics. Given financing constraints and high debts, the programme adequately balances the need to adjust, against the unavoidable costs of adjustment for economic activity and jobs.

While downside risks to growth are significant, the programme's macroeconomic framework remains appropriate. Recent data have been mixed, although they continue to support the programme scenario. After a 3 percent decline in 2012, real GDP in 2013 is projected to decline by 1 percent but should gradually return to positive quarterly growth rates during the year, with annual GDP in 2014 expected to grow by 0.8 per cent. The external current account deficit is projected to improve further to below 1 percent of GDP in 2013.

Fiscal consolidation efforts are in line with the revised deficit targets for 2012 and 2013. Revenue collection has been somewhat weaker than envisaged in recent months, but this was offset by tight spending execution. The government remains committed to achieving the deficit target of 5 percent of GDP in 2012 and a deficit of 4.5 percent of GDP in 2013. Going forward, the mission supports the authorities' intention to rebalance the adjustment effort toward permanent reductions in expenditure. An expenditure review is underway. Results will be discussed during the seventh review, including measures to address potential implementation risks in 2013.

Policy efforts to improve financing conditions for viable firms have continued. While deleveraging in the banking system is proceeding on pace, access to credit at reasonable conditions remains difficult for parts of the economy, particularly for exporting companies and small and medium-sized enterprises (SMEs). Measures to ensure adequate funding include initiatives to improve information-sharing on SMEs and facilitate their access to capital markets.

Fostering a more competitive economy remains imperative. The privatisation strategy is on track, and state-owned enterprises as a whole have brought operational costs in line with revenues, but more progress is needed in several enterprises to reduce their deficits and debt burdens. The renegotiation of private-public-partnership contracts is proceeding, while cost reductions for ports will ensure a more competitive framework in this part of the transport infrastructure that is critical for exports. In addition to strengthening active labour market policies, the authorities are committed to reducing severance pay to promote labour market flexibility and job creation. A comprehensive reform of the corporate income tax has been launched to foster investment and competitiveness while remaining compatible with EU rules. Judiciary reforms in the areas of civil procedures and court management, which aim at unclogging the court system, are being finalised.

Overall, the review confirms that solid progress is being made. A broad political and social consensus continues to be an important asset for the success of the programme. Following a successful bond exchange, the authorities have intensified their work on preparing the expected return to market financing during 2013. Provided the authorities persevere with strict programme implementation, euro area member states have declared they stand ready to support Portugal until full market access is regained.

The government's programme is supported by loans from the European Union amounting to €52 billion and a €26 billion Extended Fund Facility with the IMF. Approval of the conclusion of this review will allow the disbursement of €2.5 billion (€1.6 billion by the EU, and €0.9 billion by the IMF). These disbursements could take place in January 2013 subject to the approval of the IMF Executive Board and ECOFIN and Eurogroup. The joint mission for the next programme review is expected to take place in February 2013.