European Financial Stability Facility

Frequently asked questions on the EFSF financial assistance programme for Portugal (concluded on 18 May 2014)

1 – Why did Portugal need financial assistance?

Portugal had suffered from low GDP and productivity growth for more than a decade before the onset of the crisis. During this period, the low interest rates resulting from adoption of the euro boosted private and public consumption as well as indebtedness. Moreover, Portugal's competitiveness was undermined by rising labour costs and structural problems. The lack of fiscal discipline added to the rising imbalances as growth in public spending far exceeded economic growth. Fiscal risks intensified through the expansion of state-owned enterprises and public-private partnerships. In early 2011, increasing funding pressures associated with rising sovereign yields tipped Portugal into an acute economic crisis. The country became unable to refinance itself at sustainable rates and therefore requested financial assistance from the euro area countries, the EU and the IMF.

2 – How was the decision to grant financial assistance to Portugal taken?

On 17 May 2011, the Eurogroup (i.e. the finance ministers of the euro area) concurred with the European Commission and the ECB that providing financial assistance to Portugal was warranted to safeguard the financial stability of the euro area and the EU as a whole. The IMF Executive Board approved financial support for Portugal under the Extended Fund Facility on 20 May 2011.

3 – Who contributed to the financial assistance package?

The programme for Portugal was financed as follows:

- €78 billion in external support over three years, comprising
  - €26 billion from the EFSF;
  - €26 billion from the EFSM (European Financial Stabilisation Mechanism – an EU facility funded through bonds issued by the European Commission);
  - €26 billion from the IMF;

4 – What were the policy conditions that the Portuguese government had to implement in order to receive financial assistance?

The financial assistance provided was conditional upon the implementation of a macroeconomic adjustment programme, comprising actions in three main areas:

- A fiscal consolidation strategy, supported by structural-fiscal measures, aimed at setting the debt/GDP ratio on a downward path in the medium term;

- Structural reforms to boost potential growth, create jobs, and improve competitiveness; and
- Stabilisation of the financial sector strategy based on recapitalisation and deleveraging, with efforts to safeguard the financial sector against disorderly deleveraging through market based mechanisms supported by backstop facilities.

5 – How were the funds used by the Portuguese government?

The majority of total programme amount (€66 billion) was used for budget financing needs, while €12 billion was assigned to Bank Solvency Support Facility for the purpose of recapitalisation of banks.

6 – Has Portugal achieved the objectives of its macroeconomic adjustment programme?

The programme has put the Portuguese economy on a path towards sound public finances, financial stability and improved competitiveness, according to a statement issued on 2 May 2014 by the European Commission, ECB and IMF following the 12th and final review of Portugal's economic adjustment programme. Targets were adjusted in the course of the programme, which achieved its overall objective. During the past three years, the external current account has moved from a substantial deficit into surplus, the budget deficit has been more than halved, and public debt continues to be seen as sustainable. There have been ambitious reforms across all the main sectors of the economy, and bank capitalisation has been considerably strengthened. Portugal has started to regain access to long-term debt financing amid sharply declining yields.

7 – Why is it important that Portugal can now issue long-term bonds again?

Falling yields (from 16.6% in January 2012 to 3.5% in May 2014 for 10-year bonds) have enabled Portugal to return to long-term bond issuance. This means that financial markets positively assess the country's creditworthiness, based on the favourable prospects for the Portuguese economy and the ability to service debt. As a result, Portugal has returned to self-reliance in terms of financing its budget. This is also a consequence of the reforms implemented by the government, and the hardships endured by the Portuguese people have started to pay off. With continued determination to complete necessary reforms, recovery can be completed and economic gains can become visible to all parts of the population.

8 – When will Portugal have to repay the loans?

Portugal will repay the principal of the loan tranches starting from 2025, and the repayment is scheduled to end in 2040. Initially, the average maturity of loan tranches was up to 15 years, but this period was extended in June 2013 (following a decision by members of the Eurogroup) by 7 years.

9 – Has the Portuguese government requested a follow-up programme from the ESM?

No, in May 2014 the Portuguese government announced that it would exit the 3-year financial assistance programme without seeking a follow up programme from the ESM. This decision was fully supported by other euro area Member States, as well as by the European Commission, ECB and IMF.

- **10 – Will the Portuguese economy be subject to surveillance now that the financial assistance programme is over?**

A new system of post-programme monitoring for Member States emerging from adjustment programmes or precautionary assistance was introduced by the “Two-Pack” regulation.[1] Euro area countries will remain subject to post-programme monitoring until they have paid back a minimum of 75% of the assistance received. The European Commission (in liaison with the ECB) will carry out missions twice a year to assess the economic, fiscal and financial situation of the post-programme country. The European Commission is required to communicate its assessment to the European Parliament, the EFC, the parliament of the Member State concerned and will assess, in particular, whether corrective measures are needed.

- **11 – What will be the ESM’s role in Portugal from now on?**

The ESM will continue to work closely with the Portuguese authorities in the framework of the ESM’s early warning system. This is a procedure foreseen in the ESM Treaty (which also applies to EFSF programmes) aimed at ensuring timely loan repayments by detecting repayment risks and allowing for corrective actions.[2] Acting under the early warning system, the ESM protects its claims on behalf of all the euro area Member States until all loan repayments are completed. In order to avoid an additional reporting burden for Portugal, the ESM will join the European Commission twice a year when it performs its post-programme surveillance.

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[1] See Article 14 of Regulation (EU) No 472/2013 of 21 May 2013 "on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability"

[2] For more information on the ESM’s early warning system, please consult http://www.esm.europa.eu/pdf/2014-04-02%20FAQ%20EWS.pdf