COUNCIL OF
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PRESSE 414

Portugal given an extra year to correct its deficit

The Council today[1] agreed to give Portugal an extra year, until 2014, to correct its excessive government deficit. It adopted:

- a decision modifying the conditions underpinning assistance to Portugal from the European Financial Stability Mechanism (EFSM), with a view to disbursement of the next instalment of financial assistance[2] (*13936/12*);
- a revised recommendation to Portugal on measures to be taken to bring its government deficit below the EU's 3% of GDP reference value in 2014, relaxing the deficit targets set for 2012 and 2013 (*14238/12*).

The recommendation sets deficit targets of 5,0 % of GDP for 2012, 4,5 % of GDP for 2013 and 2,5 % of GDP for 2014.

This follows the fifth review by the troika (the Commission and the IMF, in liaison with the European Central Bank) of progress by Portugal in implementing its economic adjustment programme. The troika agreed on 11 September to extend by one year the deadline for Portugal to bring its budget deficit below 3% of GDP. The agreement was welcomed by the Eurogroup at a meeting in Nicosia on 14 September. It is understood that the extension of the timeline will not increase Portugal's financing needs.

According to the Commission's economic outlook for Portugal, real GDP is expected to contract by 3 % in 2012. For both 2013 and 2014, it has been revised downward by about 1 percentage point, to around -1 % and +1 % respectively.

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1 The decision was taken at a meeting of the Economic and Financial Affairs Council.
2 The United Kingdom abstained from the decision.

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The negative outlook reflects a continuing deterioration of domestic demand, a diminishing stimulus from external demand and the impact of further budgetary consolidation. However, exports are set to record further gains in market share.

Portugal has been the subject of the EU's excessive deficit procedure since December 2009, when the Council initially set out measures to correct its deficit by 2013.

Portugal's EUR 78 billion loans package, shared equally by the EFSM, the European Financial Stability Facility and the IMF, is conditional on the economic adjustment programme, which runs from June 2011 to mid-2014. The programme involves structural reforms to boost potential growth, create jobs and improve competitiveness, a strategy for consolidation of Portugal's public finances and efforts to safeguard its financial industry.