EUROPEAN COMMISSION

SECRETARIAT-GENERAL

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TEXTE EN

MINUTES

of the 2155th meeting of the Commission

held in Brussels

(Berlaymont)

on Friday 5 February 2016

(afternoon)

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Single sitting: Friday 5 February 2016 (afternoon)

The sitting opened at 14.00 with Mr JUNCKER, President, in the chair.

Present:

Mr JUNCKER	President	
Mr TIMMERMANS	First Vice-President	
Mr ANSIP	Vice-President	
Mr ŠEFČOVIČ	Vice-President	Item 2 (in part)
Mr DOMBROVSKIS	Vice-President	
Mr KATAINEN	Vice-President	
Ms MALMSTRÖM	Member	
Mr MIMICA	Member	
Mr ARIAS CAÑETE	Member	
Mr VELLA	Member	
Mr AVRAMOPOULOS	Member	Item 2 (in part)
Mr MOSCOVICI	Member	
Mr STYLIANIDES	Member	
Mr HOGAN	Member	
Ms JOUROVÁ	Member	
Ms CREȚU	Member	
Mr MOEDAS	Member	

The following members attended by videoconference:

Mr ANDRIUKAITIS	Member	
Lord HILL	Member	Item 2 (in part)
Ms VESTAGER	Member	

The following members attended by audioconference:

Mr OETTINGER	Member
Ms BULC	Member

Absent:

Ms MOGHERINI	High Representative / Vice-President
Ms GEORGIEVA	Vice-President
Mr HAHN	Member
Ms THYSSEN	Member
Ms BIEŃKOWSKA	Member
Mr NAVRACSICS	Member

The following sat in to represent absent Members of the Commission:

Ms VANNINI	Adviser in Ms MOGHERINI's Office
Ms WERNER	Chef de cabinet to Ms GEORGIEVA
Mr KARNITSCHNIG	Chef de cabinet to Mr HAHN
Mr HERMANS	Chef de cabinet to Ms THYSSEN
Mr HUSAK	Chef de cabinet to Ms BIEŃKOWSKA
Ms KIRALY	Chef de cabinet to Mr NAVRACSICS

The following also sat in:

Ms MARTÍNEZ ALBEROLA	Deputy Chef de cabinet to the PRESIDENT	
Mr ROMERO REQUENA	Director-General, Legal Service	
Mr PESONEN	Director-General, DG Communication	
Mr SCHINAS	Head of the Spokesperson's Service and Chief Spokesperson of the Commission	
Ms METTLER	Head of the European Political Strategy Centre	
Mr THOLONIAT	Adviser in the PRESIDENT's Office	
Mr LAHTI	Chef de cabinet to Mr DOMBROVSKIS	
Ms SCHMITT	Chef de cabinet to Mr AVRAMOPOULOS	Items 1 and 2 (in part)
Mr BAILLY	Chef de cabinet to Mr MOSCOVICI	
Ms ANDREEVA	Commission Spokesperson's Service	
Ms BREIDTHARDT	Commission Spokesperson's Service	
Mr MARTÍNEZ MONGAY	DG Economic and Financial Affairs	

Secretary: Mr ITALIANER, Secretary-General, assisted by Mr AYET PUIGARNAU, Director in the Secretariat-General.

1. AGENDA
(OJ(2016) 2155)

The Commission took note of that day's agenda.

2. DRAFT BUDGETARY PLAN OF PORTUGAL FOR 2016 – COMMISSION OPINION
(C(2016) 870)

At the invitation of the PRESIDENT, Mr DOMBROVSKIS reported on developments since the Commission meeting of 2 February with regard to the efforts made to persuade the Portuguese authorities to make amendments to their Draft Budgetary Plan for 2016, which they had submitted to the Commission on 22 January 2016. He explained that he and Mr MOSCOVICI had had numerous political exchanges with the Portuguese government since then and that the Directorate-General for Economic and Financial Affairs had carried out intensive technical work, which he welcomed.

He pointed out that, in accordance with the Stability and Growth Pact and, in particular, the legislation on the coordination of budgetary policies (the 'two-pack'), the Commission could have asked Portugal to submit a new draft budgetary plan, since the technical analysis of the initial draft had identified a particularly serious non-compliance with the budgetary policy obligations set out in the Pact. Whereas the Council had recommended that Portugal should achieve a structural effort of 0.6% of GDP as part of the preventive arm of the Stability and Growth Pact, its draft budgetary plan for 2016 showed a deviation from the recommendation equal to 1.2% of GDP.

At its meeting on 2 February, the Commission had granted an empowerment to the Members of the Commission responsible, Mr MOSCOVICI and Mr DOMBROVSKIS himself. He reminded the meeting of the terms of this empowerment, according to which, should the structural effort of the draft budgetary plan fall below the recommended level by 0.5% of GDP or more, the Commission would issue an opinion indicating a particularly serious non-compliance and would request a new draft, to be submitted within three weeks. In other words, the minimum structural effort requested of Portugal to avoid a negative opinion from the Commission must therefore be 0.2% of GDP and, at all events, above 0.1% of GDP.

However, he reported that, in the last few days, the Portuguese government had provided the Commission with additional information that was more positive than expected concerning its 2015 budget balance and the balance of its social security accounts, and had also announced new structural adjustment measures. It had notified three series of measures between 30 January and 4 February, which were set out in an official letter from the Portuguese Finance Minister and represented a total of €1.125 billion. According to the usual method, only €845 million could be considered by the Commission to be an actual structural effort, amounting to 0.46% of GDP. For more details on this set of measures, he referred to the memorandum sent to the members of the Commission today.

He added that, alongside the efforts of the Portuguese authorities, a technical analysis carried out by the Directorate-General for Economic and Financial Affairs had allowed the starting point for the Draft Budgetary Plan of 0.3% of GDP to be reassessed.

Based on all of this information, Mr DOMBROVSKIS considered that the Commission was now able to conclude that Portugal's Draft Budgetary Plan did not represent a serious non-compliance with the rules of the Stability and Growth Pact but rather a risk of non-compliance, meaning that the Commission did not need to ask the Portuguese government to submit a new draft.

He welcomed the outcome of the negotiations between the Commission and the Portuguese government, in which both sides had been very constructive, and sincerely thanked the relevant Commission departments that had worked day and night to assess the announced measures and help to bring the two sides closer together.

Nevertheless, Mr DOMBROVSKIS proposed that, in its opinion, the Commission should highlight very clearly the real risks posed by the draft budgetary plan for 2016, which the institution would monitor closely. He added that the Commission would without doubt have to review Portugal's budget situation in a few weeks, based on the full data from the 2015 financial year, the stability programme and the spring economic forecasts. The state of Portugal's public finances would need to be examined with regard to the criteria of the Stability and Growth Pact to determine whether the national budget enabled the country's excessive deficit to be corrected in 2016 and whether the government was reducing its very high level of debt, which currently stood at nearly 130% of GDP.

He concluded his presentation by emphasising that the Commission opinion proposed that day clearly warned the Portuguese government of the risks incurred, without prejudice to the decision the Commission would take in May under the excessive deficit procedure.

Mr MOSCOVICI, for his part, emphasised the complex nature of the events, in particular the variations in figures observed in the last few days, which were enough to justify a change to the Commission's position. He explained that the problem lay in the fact that Portuguese government had notified its commitments in three stages and that, while these commitments were being analysed, continued encouragement had to be given to Portugal to go further, but without it being possible to discuss the matter on the basis of solid figures. On this last point, he took the opportunity to suggest reappraising the very tight deadline imposed by the ‘two-pack’ legislation for successfully concluding this phase of the procedure.

He then explained why, despite these difficulties, he believed the proposal on the table that day was a good result for the Commission, for Portugal and for the euro area.

For the Commission, this good result was the fruit of negotiations conducted by himself and Mr DOMBROVSKIS working closely together, and they both unreservedly endorsed the conclusion. But it also owed much to the work of their departments to bridge the significant gap between the initial Draft Budgetary Plan and the conditions that had to be met in order to comply with the budgetary obligations of the Stability and Growth Pact. He was pleased, for the sake of the Commission's credibility, that the Pact had worked and had made it possible, through dialogue, to achieve a structural effort of €845 million. As requested by the College, the fiscal effort to which Portugal had committed itself, although significant, would not compromise its still fragile economic recovery. He regretted, however, that the measures put forward by the Portuguese government were heavily focused on budget revenue rather than expenditure, as recommended by the Commission.

He explained that the Commission had not relaxed its cautious and scrupulous method of evaluation in order to arrive at the proposed opinion. The structural effort would be between 0.1 and 0.2% of GDP, but in any case the proposed deviation should be clearly less than 0.5%, as required by the current rules.

He believed the outcome of the negotiations with the Commission was also favourable for Portugal, because it confirmed that the country intended to pursue a sound fiscal policy and comply with the common European framework. The fiscal measures it had announced in the past few days were its own choice, based on constructive cooperation with the Commission.

Finally, for the euro area, Mr MOSCOVICI stressed that the solution proposed that day was good news which would reassure investors and rating agencies as to the capacity of one its members – Portugal – to achieve economic recovery.

He concluded by saying that, for all these reasons, he and Mr DOMBROVSKIS believed that the budgetary measures announced by the Portuguese Finance Minister in his letter corresponded to the necessary effort required by both the Stability and Growth Pact and the Commission. For this reason he considered that the Commission could adopt its opinion, which remained critical and drew attention to the risks of the country failing to comply with its European obligations, without prejudging the decisions which the Commission would take on Portugal's situation in the spring.

In the course of the discussion that followed, the Commission raised the following key points:

– the merits of the approach agreed by the Commission at its last meeting, namely its decision to ask Mr DOMBROVSKIS and Mr MOSCOVICI to conduct targeted negotiations with the Portuguese authorities on the basis of the mandate contained in the empowerment adopted by the College; the fact that as a result of the intensive talks which had taken place it was now possible to present significant improvements on the initial Draft Budgetary Plan;

– an emphasis on the great efforts made by the Portuguese government over the past few days; its evident willingness to take the necessary steps to reduce the deviation that was found, despite an initial Draft Budgetary Plan that was far from satisfying the obligations of the Growth and Stability Pact; in this context, the Commission, as guardian of the application of the rules of economic governance, had demonstrated its ability to make every effort to facilitate convergence;

– general support from Members of the Commission for the analysis by Mr DOMBROVSKIS and Mr MOSCOVICI and for the approach they were proposing; the importance for the Commission of communication combining three aspects: (i) the gravity of the budgetary situation in Portugal, where the budget presented a genuine risk of non-conformity with the rules of the Stability and Growth Pact; (ii) the need for the Portuguese government to demonstrate its willingness to translate its commitments into deeds, something which the Commission would be monitoring closely over the coming months; and (iii) the challenge which the measures which had been announced would represent for the country in the coming period;

- some doubts were, however, expressed about the feasibility of the efforts announced by Portugal and the nature of the commitments it had made over the past few days; in particular, there was disappointment that some of the structural reforms of the previous government, which had started to yield results, were being thrown into doubt; a warning from some Members that the new Portuguese government was seriously jeopardising the country's medium and long-term economic stability;

- the need for the Commission, as part of the approach proposed that day, to insist once again on the path of budget deficit reduction which would enable Portugal to pursue budgetary consolidation, particularly by resuming the structural reforms that were needed;

- the correlation between the approach agreed by the Members that day and that which the Commission would have to consider with regard to Portugal under the excessive deficit procedure in May; the need, according to some Members, to draw attention now to the real risk of the procedure being reinforced if the measures announced were not implemented quickly and effectively, and the fact that failure to do so could lead to sanctions;

- more generally, a request for clarification concerning aspects of the comparison between this case and the approach adopted in previous instances;

- the importance of establishing closer cooperation with the governments of the Member States, in particular in the euro area, to facilitate greater convergence both technically and politically; whether, in the light of this experience, to reconsider how this process was handled, in order to allow more time for calm dialogue with the government of the Member State concerned and thereby facilitate the Commission's work;

– the need to take account of the inevitable impact of elections in the Member States on the budgetary cooperation process and, in this context, of the consequences of a change of government; a suggestion that a general examination of these issues should be made in the coming weeks to ensure the coherence of the important decisions to be taken in the course of this year.

On the possibility that the Portuguese government might abandon structural reforms introduced by the previous government, Mr DOMBROVSKIS said that this was the case for a number of these reforms, including increased working hours for civil servants and wage cuts. However, the current government had already indicated that it would not backtrack on other reforms such as the level of social security contributions of the most disadvantaged. Lastly, he expressed doubts about the figures relating to the overall balance of the national social security accounts. Although these accounts had been verified by the Commission, they had not been found to support the reasons justifying the different estimations made in recent days.

Mr DOMBROVSKIS concluded, however, that since Portugal's Draft Budgetary Plan did not deviate by more than 0.5% of GDP with respect to the targets set in the country-specific recommendation addressed to Portugal, there were no formal grounds for rejecting it.

Mr MOSCOVICI acknowledged that the deadlines for budgetary coordination procedures were sometimes too short. Due to the elections that were held regularly in the Member States, other emergency situations might arise requiring a rapid response and a close dialogue between the Commission and the government concerned.

As regards the nature of the decision, he pointed out that the Commission preferred persuasion to penalties, but that the agreement on Portugal's Draft Budgetary Plan for 2016 fully complied with the rules in force and was therefore not a political decision. Finally, he explained that the Commission was being neither more nor less lenient with Portugal than with other Member States in previous cases. In all cases, a Member State whose Draft Budgetary Plan risked being rejected had engaged in a close and constructive dialogue with the Commission in order to avoid such a decision being taken.

Mr MOSCOVICI acknowledged that the Commission's decision was based on the commitments made by the Portuguese Government in a letter addressed to him, but stressed that the draft budget would still have to be submitted to the Portuguese Parliament.

Lastly, he stressed the importance to be accorded to communicating the Commission's decision. On the one hand, it was necessary to be very precise about the next steps of the process. There was still a risk that the excessive deficit procedure would be reinforced with regard to Portugal and, in the long term, the possibility that a penalty would be imposed. On the other hand, it should be explained that the Commission's decision was good for Portugal, for the Commission and for the euro area, since it showed that, in the majority of cases, fiscal governance enabled substantial and concrete progress to be made.

The PRESIDENT reminded the meeting that, during the discussion of Portugal's Draft Budgetary Plan on 2 February, some Members had argued in favour of rejecting the Draft Plan and others in favour of accepting it. He considered that the Commission's decision was not of a political nature since the rules had been fully complied with and the figures carefully verified. He thanked Mr DOMBROVSKIS and Mr MOSCOVICI for the successful outcome of their negotiations and expressed his gratitude to the Commission departments involved.

He added that fiscal policy was not an exact science. State budgets were living organisms that were, inevitably, influenced by their environment. From this standpoint, he acknowledged that the decision was, to a certain degree, political, in the positive sense of the word. He also noted that certain rules and procedures, although they had been proposed by the Commission and adopted by the Member States in the Council, could usefully be adapted in order to avoid emergency situations with regard to issues of such importance.

The PRESIDENT noted the Commission’s agreement on the decision proposed by Mr DOMBROVSKIS and Mr MOSCOVICI. He, too, stressed the importance of appropriate communication, which should highlight the risks of non-compliance which continued to weigh on Portugal's Draft Budgetary Plan and might possibly lead to sanctions being adopted. Lastly, with reference to Portugal's future Draft Budgetary Plan for 2017, he considered that the main lines of that Plan should be discussed by the Commission and the Portuguese government in the framework of the stability programme in the spring.

Subject to final linguistic revision, the Commission adopted the opinion set out in C(2016) 870 for notification to the Portuguese Republic and transmission, for information, to the European Parliament and the Council.

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The meeting closed at 15.11.