**IP/00/231**

Brussels, 8 March 2000

# Commission assesses updated Stability Programme of Portugal

***The European Commission today adopted a Recommendation to the Council of Ministers on the updated stability programme of Portugal (2000-2004). The Commission concluded that the medium-term budgetary targets are in line with the requirements of the Stability and Growth Pact, although the adjustment strategy is not fully in line with the Broad Economic Policy Guidelines. Following a general government deficit of 2.0% in 1999, the updated programme projects a decline in the general government deficit ratio to 1.5 % of GDP in 2000 and to a balance position by 2004. During the same period, the debt ratio is expected to fall to 48.4% of GDP. Budgetary projections are based on a macroeconomic scenario assuming average GDP growth of 3.5% per year over the period 2000-2004. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal opinion on the updated Portuguese programme on [13 March 2000].***

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The Portuguese updated programme was submitted on 17 February 2000 and covers the period 2000-2004.

The Commission's Recommendation highlights the following:

- The macroeconomic scenario underlying the updated Portuguese stability programme assumes annual average growth of 3½ % over the period 2000-2004. While this average growth rate cannot be considered as over-ambitious for a catching-up country like Portugal, the growth pattern assumed in the programme relies excessively on domestic demand, which might exacerbate the already high external imbalance.
- The deficit targets for 1998 and 1999 set in the original stability programme were met despite somewhat lower than expected economic growth. This was only possible because of higher-than-expected revenues which more than offset the faster than planned expansion of current primary expenditure.

- The budgetary position underlying the medium-term target of the Portuguese stability programme update is in line with the requirements of the Stability and Growth Pact. However, as the government balance is projected to reach the required minimum benchmark position of 0.5% deficit only after 2002 and a fully balanced position in 2004, a faster decline in the deficit ratio would be advisable with a view to increasing the necessary safety margin, as recommended in the Council opinion on the original programme[1].
- Government primary expenditure is planned to continue to increase strongly in 2000 and is projected to decline marginally only from 2001 onwards. In 2000 higher revenues are again expected to offset the increased expansion. This adjustment strategy is not fully in line with the 1999 Broad Economic Policy Guidelines that advocate a strategy based on expenditure restrain.
- A number of urgent reforms are announced in the programme to strengthen the medium-term position of government finances, namely the introduction of a new basic law for the budget and a new law on social security and pensions. Measures to improve expenditure control and efficiency in the area of health care are also announced to underpin the process of fiscal consolidation.
- A rapid and determined implementation of these reforms, some of which were already announced in the original programme, would therefore be necessary in order to strengthen the overall credibility of the economic policy strategy.

**Key figures of the Portuguese stability programme update**

| | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** |
|---|---|---|---|---|---|---|
| Real GDP growth rate (annual % change) | 3.1 | 3.3 | 3.6 | 3.6 | 3.5 | 3.5 |
| General government budget deficit (% of GDP) | 2.0 | 1.5 | 1.1 | 0.7 | 0.3 | 0.0 |
| Government debt (% of GDP) | 56.6 | 57.1 | 55.2 | 53.3 | 51.0 | 48.4 |
| Inflation (private consumption deflator, annual % change) | 2.3 | 2.0 | 1.9 | 1.8 | 1.9 | 1.9 |

[1] OJ C68/2, 11.3.1999.