

The Economic Adjustment Programme for Portugal. Fifth review – Summer 2012

The European Commission today published the Fifth Review Report on the Economic Adjustment Programme for Portugal. A joint mission from the Commission, the European Central Bank and the International Monetary Fund met with the Portuguese authorities in Lisbon between 28 August and 11 September to assess compliance with the terms and conditions of the Programme. The report provides an overview and summarises the main findings of the mission.

Overall, programme implementation remains solid, but important risks and challenges are lying ahead. The revised fiscal adjustment path (with new deficit targets of 5% of GDP in 2012, 4.5% of GDP in 2013, and 2.5% of GDP in 2014) coupled with the additional measures planned for 2013-2014 should keep fiscal consolidation on track. But risks and challenges arise from several areas. Concerning the macro-economic outlook, the continued tensions in the euro area have the potential to spill over to Portugal through the trade, financial markets or confidence channel. Fiscal adjustment has moved more strongly towards the revenue side in the short run. In a forward-looking perspective, the composition of consolidation measures should be rebalanced towards the expenditure side which is more conducive to medium-term growth. Finally, consensus-building is paramount for a successful implementation of the Programme.

Raising competitiveness, employment and the growth potential of the economy remains of crucial importance for the success of the Programme. Good progress has been made in implementing the structural reform agenda in a number of areas such as services, regulated professions and judiciary reform.

Orderly deleveraging of the economy remains a key objective. All banks foresee to meet the indicative loan to deposit target of 120% by 2014. The recent recapitalisation of the four largest banking groups has injected more than EUR 7 billion into the system, thereby improving liquidity and solvency ratios.

The Programme's financing envelope remains sufficient. The financing needs derived from the target revision amount to EUR 3.9 billion and can be covered by the Portuguese State within the Programme envelope. The review mission confirmed the assumption that Portugal will be able to regain market access by mid-2013. Approval of the conclusions of this review will allow the disbursement of EUR 4.3 billion (EUR 2.8 billion by the EU and EUR 1.5 billion by the IMF) in October 2012, bringing the total amount disbursed to Portugal to EUR 61.4 billion.