Commission press release on the action undertaken by Portugal to correct its excessive deficit (21 June 2006)

Caption: On 21 June 2006, the European Commission forwards a communication to the Council in which it assesses the measures adopted by Portugal since mid-2005 in order to reduce its excessive deficit. This press release, published on the same day, summarises the substance of the communication.

Source: RAPID. The Press and Communication Service of the European Commission. [ON-LINE]. [Brussels]: European Commission, [24.10.2007]. IP/06/811. Disponible sur http://europa.eu/rapid/setLanguage.do?language=en.

URL: http://www.cvce.eu/obj/commission_press_release_on_the_action_undertaken_by_portugal_to_correct_its_excessive_deficit_21_june_2006-en-2ad2044c-7ab3-4790-b715-95d3ab5d94fc.html

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Commission assesses Portuguese action to correct excessive deficit by 2008 (Brussels, 21 June 2006)

The European Commission considers that Portugal is on track to correct its excessive deficit by 2008 as recommended by the Council in September 2005, provided it strictly implements the 2006 budget and pursues a rigorous budgetary consolidation strategy in 2007 and following years. At present it does not appear necessary to recommend any further steps under the excessive deficit procedure. The Commission will continue to monitor the situation closely, particularly in light of the significant risks and uncertainties surrounding the evolution of the budget.

"*Portugal has adopted a comprehensive and courageous package of measures since mid-2005 to reduce its excessive deficit, but there remain significant risks and uncertainties, especially as some important measures have yet to be implemented. The consolidation efforts need to be stepped up, particularly on the expenditure side to put the public finances back on a firm and sound ground as a pre-condition for more and stronger economic growth and for the creation of jobs*", said Joaquín Almunia, Commissioner for Economic and Monetary Affairs.

On 20 September 2005, the Council decided that an excessive deficit existed in Portugal and recommended that the government take measures, before 19 March 2006, to "*limit the deterioration of the fiscal position in 2005*", "*ensure a sustained and marked correction of the cyclically-adjusted deficit, excluding one-off and other temporary measures, by* (reducing the deficit by) *1.5% of GDP in 2006, followed by a further significant decrease of, at least, ¾% of GDP in each of the two subsequent years*". The Council also called on Portugal to "*contain and reduce expenditure over the coming years; seize any opportunity to accelerate the reduction of the budget deficit*" and to "*stand ready to adopt the additional measures which may be necessary to achieve the correction of the excessive deficit by 2008*". It requested Portugal to "*ensure that the government gross debt ratio is brought onto a firm downward path and approaches the reference value at a satisfactory pace*". Lastly, the Council invited the Portuguese authorities to "*further improve the collection and processing of general government data*" and to achieve a balanced budget in the medium term.

In a Communication to the Council adopted today, the Commission considers that the action taken by Portugal represents adequate progress towards the correction of the excessive deficit within the set time limit. In particular, Portugal (i) achieved the deficit target for 2005 (6% of GDP); (ii) adopted a comprehensive package of corrective measures whose full planed effect should deliver the required structural adjustment this year; (iii) confirmed the deficit target for 2008 below 3% of GDP and a structural adjustment path that follows the Council recommendation; (iv) implemented expenditure reforms and kept fiscal targets in spite of less benign GDP growth prospects; (v) plans to return government debt to a declining path as from 2008; and (vi) has taken action to improve statistics.

Portugal particularly increased its standard VAT rate to 21% from 19%, raised taxes on oil and tobacco products and improved the collection of tax revenues, something which is already wielding effects. The 2006 budget also aims at stabilising expenditure in real terms namely through a freeze of transfers to local governments, stricter hiring rules for civil servants as well as a freeze on automatic career promotions. More permanent measures include the phasing out of the civil servants' pension scheme and their integration into the general regime as well as health-expenditure cuts.

While there remain uncertainties about the effectiveness of the expenditure-containment measures and mechanisms, preliminary data on budgetary execution suggest that the plans have been broadly observed so far this year.

As a result, the Commission considers that no further steps under the excessive deficit procedure are needed at present. At the same time, it stresses that there are significant risks and uncertainties surrounding the objective of correcting the excessive deficit by 2008 – the chief proviso being that the budgetary outcomes can be achieved only if all the announced corrective measures are effectively implemented. It notes that, should the planned measures prove ineffective, further corrective efforts will be needed in order to attain the fiscal targets. The Commission will continue to monitor budgetary developments in Portugal closely, in particular in the light of the fragile situation of its public finances.

The Commission's communication to the Council is available at:
http://ec.europa.eu/economy_finance/about/activities/sgp/edp/edppt_en.htm

The following table compares Portugal's budgetary targets contained in the December and June 2005 Stability Programmes as well as the Commission's services spring economic forecasts of May 8 this year.

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