14 September 2012

Eurogroup statement on Portugal

The Eurogroup welcomes the conclusion of the Troika's fifth review mission that the adjustment programme for Portugal remains broadly on track. The Portuguese authorities continue showing their strong commitment to the programme and have made further progress in undertaking important fiscal and structural reforms in line with the agreed policy conditionality.

The economic adjustment is taking place faster than expected through a rebalancing of the Portuguese economy from a predominantly domestic demand to a more export-led growth model. Competitiveness is improving and external imbalances are reducing. This is very much welcome.

As far as fiscal consolidation is concerned, the Eurogroup takes note that the authorities have continued to rein in expenditure, but have experienced revenue shortfalls resulting from the fast rebalancing of the economy from domestic demand towards exports, which are characterised by a lower tax-intensity. In addition, the social security budget came under pressure due to a stronger than expected increase in unemployment and lower social security contributions. On this basis and after having been reassured of the authorities resolve to continue implementing the programme, the Eurogroup welcomes that an agreement between the authorities and the Troika on revised fiscal targets has been reached. The deficit is expected to fall below 3% of GDP in 2014. The public debt-to-GDP ratio will peak below 124%, remains sustainable, and will be on a firm downward trajectory after 2014. The Eurogroup also concurs with the assessment by the Troika and the authorities that the programme's financing envelope of EUR 78bn remains adequate.

The Eurogroup is expected to decide on the next disbursement and an updated Memorandum of Understanding by the time of its next meeting on the basis of the forthcoming compliance report and all required programme documentation by the Commission, in line with established procedures.

Portugal continues to prepare its return to market financing in the course of 2013, as foreseen in the programme. We strongly encourage the authorities to continue their good track record in implementing policy conditionality. This is instrumental for fully regaining market confidence, which has already started to be reflected in the gradual but steady decrease in sovereign bond yields since early 2012. We are confident that Portugal will succeed in regaining market access next year.

The Eurogroup recalls that euro area Member States stand ready to assist programme countries until they regain market access and provided they implement the agreed conditionality.