EUROPEAN COMMISSION

STATEMENT

Brussels, 28 February 2014

Statement by the EC, ECB and IMF on the Eleventh Review Mission to Portugal

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Lisbon during February 20-28 for the eleventh quarterly review of Portugal's economic adjustment programme.

The economic recovery is strengthening. Led by investment and exports, economic growth is somewhat ahead of projections, employment is increasing, and the unemployment rate is continuing to decline from very high levels. GDP is now expected to rise by 1.2 percent in 2014 – an upward revision of 0.4 percentage points – while unemployment is projected to decline to 15.7 percent – a downward revision of 1.1 percentage points. The current account balance, which moved into surplus in 2013, is expected to improve further, although at a more moderate pace than before.

The programme's fiscal targets remain unchanged. The 2013 budget deficit is estimated at 4.5 percent of GDP (excluding the recapitalisation of Banif), well below earlier projections. This outcome reflects better revenue performance, including collections from the one-off tax and social security debt recovery scheme, and prudent expenditure control. The 2014 deficit target of 4.0 percent of GDP has been confirmed, with the improved economic outlook implying more evenly balanced risks around this target. Nevertheless, should any risks to the execution of the budget materialise, the government remains committed to implement compensatory measures of equivalent size and quality to meet the agreed deficit target. Looking further ahead, the government's Fiscal Strategy Document due by end-April will provide a key opportunity to signal continued commitment to budget discipline, including by specifying the spending ceilings and measures needed to reach the deficit target of 2.5 percent of GDP in 2015.

The stabilisation of the financial sector has continued, but low profitability, high corporate debt levels and financial fragmentation are still posing challenges. Capital buffers are broadly adequate, and liquidity conditions have improved further. However, banks' profitability remains depressed, and reducing the corporate debt overhang requires a strategic plan to facilitate debt workouts, particularly for viable small and medium-sized enterprises.

A deepening of the structural reforms agenda is needed to continue the switch to an export-led growth model. A wide array of structural reforms has already been adopted, and these reforms are expected to have a positive impact on growth and job creation over the coming years. But there are still important bottlenecks that hinder Portuguese companies in competing with their foreign competitors on a level playing field; these include remaining excessive rents in the non-tradable sector and rigidities in the labour market, while public administration needs to become more business-friendly. A strong commitment to continue and expand the process of structural reform into the medium term will be essential in attracting more foreign direct investment to the tradable sectors.

The programme remains on track, as also reflected in improved market sentiment. Yields on sovereign debt have continued to tighten, and recent bond issues combined with remaining programme disbursements ensure that the public sector's financing needs for 2014 are fully covered. Public debt remains high but is sustainable provided the reform momentum is maintained beyond the programme horizon. Reaching a broad political understanding that fiscal discipline and structural reform efforts have to continue to underpin Portugal's future policies would certainly constitute an important anchor for restoring full and sustainable market financing. Provided the authorities persevere with steadfast programme implementation, euro area Member States have declared they stand ready to support Portugal until full market access is regained.

Portugal's economic adjustment programme is supported by loans from the European Union amounting to €52 billion and a €26 billion Extended Fund Facility with the IMF. The conclusion of the 11th review could take place in April 2014, subject to the approval of ECOFIN and Eurogroup and of the IMF Executive Board. This would allow for the disbursement of €2.5 billion (€1.6 billion by the EU, and about €0.9 billion by the IMF) following the approval of the current review. The joint mission for the next programme review is expected to take place in April 2014.

Contacts :

For the public: **Europe Direct** by phone **00 800 6 7 8 9 10 11** or by e-mail