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## Portugal near political crisis over debt

By Peter Wise in Lisbon

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Portugal moved towards a political crisis on Thursday night as its finance minister appealed to opposition parties not to defeat the minority Socialist government over a regional finance bill that he said would undermine the country's international credibility.

In a televised address, Fernando Teixeira dos Santos said opposition proposals to allow the Portuguese islands of Madeira and the Azores to increase their debt would have "grave consequences for Portugal's public accounts" and send "the worst possible message" to financial markets.

His warning came as Portuguese bonds and shares came under fire for the second day running as concerns over sovereign debt spread from Greece to other high-deficit countries in the eurozone.

The Lisbon stock market fell almost 5 per cent on Thursday, the biggest daily fall since November 2008, and bond yields rose to new highs amid doubts over the ability of Portugal to consolidate its public accounts.

The cost of insuring Portuguese debt against default also rose to a record high.

Mr Teixeira dos Santos said approval of the bill would involve an increase of €50m (£45m, \$70m) in funding for the islands this year, rising to an increase of €83m in 2013. This would make it impossible for the government to meet its commitment to the European Commission to cut the budget deficit from 9.3 per cent of GDP in 2009 to less than 3 per cent in 2013.

The centre-right Socialists were re-elected to a second four-year term in September, but lost their overall majority in parliament. The contested bill is supported by opposition parties on the left and right who together have enough votes to defeat the government.

Opposition parties accused the government of "irresponsibility" and deliberately creating a crisis to ensure the bill was defeated.

Earlier on Thursday, Mr Teixeira dos Santos said "strong and credible" measures to be presented the European Commission this month would be "no less ambitious" than the Greek plan to consolidate public finances endorsed by Brussels on Tuesday.

He said Portugal had taken over from Greece as the main victim of the "animal spirits" of financial markets that were often "irrational". The concern in the case of Portugal, he said, was not justified.

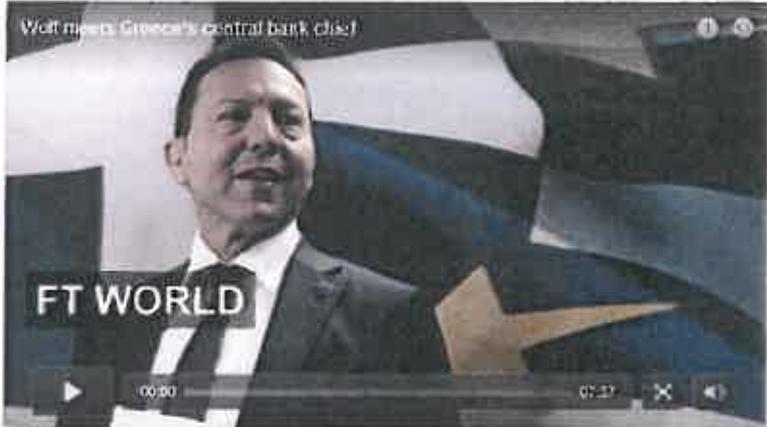
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