DOC. 138

SGP

Commissioner warns of possible “supplementary measures” in 2010

14 APRIL 2010

Olli Rehn said that Portugal may have to adopt “supplementary budget consolidation measures” if the “macroeconomic development risks materialise”.

The European economic affairs commissioner warned on Wednesday that Portugal could have to take “supplementary budget consolidation measures” in 2010.

Despite considering the Portuguese Stability and Growth Programme (SGP), which was approved by Brussels this Wednesday, as “ambitious and quite specific”, Olli Rehn recalled that the “supplementary measures” may be needed, if “the risks that weigh on the macroeconomic and budgetary developments materialise”.

“The result of the 2009 deficit was worse than anticipated at the time of the recommendation for excessive deficit and so the budget consolidation efforts could have to be reinforced this year”, he added.

At the end of the meeting where the Portuguese SGP was analysed, the European commissioner also added that the “consolidation is equally indispensable, bearing in mind the need to reduce the huge external imbalances”.

Olli Rehn also said that “other risks, apart from the deficit, are related with the relatively optimistic macroeconomic scenario and with the fact that the measures announced for the following years of the programme need to be completely implemented in order to generate the expected results”.

Expresso

ECONOMY

SGP: Brussels warns about additional measures

14/04/2010 at 12:00

The European Commission approved the Portuguese Stability and Growth Programme (SGP) today, but warned that the government should be prepared for additional measures (see SIC video at the bottom of the page).

Brussels gave its approval to the updated Portuguese SGP today and considered the government strategy “adequate”, but warned there were “risks” connected with concentrating the budget consolidation in the last years of the 2010-2013 period. “The updated version of the Portuguese programme aims, adequately, to reduce the budget deficit gradually to 3% of GDP by 2013”, the community leaders concluded in the assessment approved by the college of European commissioners. Brussels then warned that “as with any other consolidation strategy consolidated in the last years of the programme, there are risks for this budget strategy, caused by the uncertainty arising from the fact that the consolidation measures given in the programme still have to be adopted and implemented”.

POSSIBILITY OF SUPPLEMENTARY MEASURES

The European Commission stressed that the Portuguese government should be prepared to take “other measures” if the “relatively optimistic” economic forecasts Lisbon used in drawing up the programme don’t come true. “Apart from that, the relatively optimistic macroeconomic suppositions after 2010 may imply an economic growth contribution to budget consolidation that is lower than the forecast and, consequently, demand other consolidation measures”, the European Commission said. Every year, the EU members update their stability programmes (euro zone) and convergence programmes (EU only) to be presented to the European Commission and Council, normally by 1 December each year. This year the deadline was until the end of January. The EU finance ministers must give their “opinion” in May about the programmes that are presented based on the assessment made by the European Commission and the Economic and Financial Committee of the 27. The 27 may suggest a particular policy action if they consider that the measures put forward are insufficient.

REVISED SGP

The revision of the Portuguese stability programme was presented on 29 March 2010 after a debate in the Portuguese parliament on 25 March. Brussels said the programme reflected “the serious impact caused by the current crisis on the public finances”, with an estimated deficit of 9.3% of GDP in 2009 and a fast growing public debt ratio. Public debt, which was under 66.3% in 2008 is expected to increase to 77.2% in 2009 and keep climbing until it reaches 90.0% by 2013.

DN - Economy

Foreign debt at 130% in 2013

RUDOLFO REBÊLO | 15 DE ABRIL DE 2010 08:05

Taxes may have to go up, Brussels said after it approved the economic strategy for the coming years.

The country's foreign debt may reach 130% of GDP in 2013 and, for this year, it may be necessary to increase budget revenues or cut spending further to reduce the 8.3% of GDP deficit in the state accounts, according to an assessment of the Stability and Growth Programme (SGP) made by Brussels. Portuguese finance minister, Mr Teixeira dos Santos, has already rejected a tax hike or additional measures to reduce the budget deficit.

"These do not seem to be needed at the moment", Mr Teixeira dos Santos said, acknowledging, however, that further measures may be taken "if necessary". For this year, the commission said that three-quarters of the one percentage point reduction in the deficit – from 9.4% to 8.3% of GDP - was due to an increase in revenues, and the other quarter by a cut in spending, mainly investment spending.

Yesterday, the services of the economic affairs commissioner, the Finn Olli Rehn, said the Portuguese SGP was "ambitious and pretty specific". The commission gave its approval to the programme to cut the deficit until 2013, but the commissioner stressed that the macroeconomic suppositions were "optimistic after 2010" and that the main part of the budget deficit reduction had been transferred to the last years of the programme.

The economy deserves some close analysis. Activity between 2010 and 2013 is going to increase, the commission said, because of "internal demand" – particularly family consumption – with a "contribution" from exports. But, the commissioner warned, "the performance of exports depends on a sustained recovery in demand from the main trading partners". In other words, the euro zone, which is the destination of over 70% of the country's foreign sales. But, the recommendation to Portugal stressed, the export sector depends on gains in competitiveness. The commission acknowledges a reduction in the foreign deficit to 8.5% of GDP, but it is the "snowball effect" that justifies foreign borrowing "that could get as high as 130%" of the country's final production (GDP) – measured by the international investment position – on the "programme horizon".

The programme to reduce the budget deficit anticipates for 2010 a 0.7% expansion in the economy, after a 2.7% contraction in 2009. The ingredients for this growth involve greater family consumption and an increase in foreign trade. Figures that are contrary to the Bank of Portugal forecasts. If there is a steep fall in investment, the economy should only grow 0.4%.