REPÚBLICA PORTUGUESA

GABINETE DO PRIMEIRO-MINISTRO

Lisbon, 04 july, 2016

Dear President of the European Commission,

Dear Prime-Minister of Slovakia, Holder of the Presidency of the Council of the EU

On the 24th of May the European Commission warmly welcomed the 2016 Portuguese National Reform Programme, stating that the Programme "shows sufficient ambition to tackle the excessive imbalances, outlines relevant measures to foster competitiveness and reduction of private debt and refers to the challenges in the 2016 Country Report and the euro area recommendations focusing on the need to re-launch investment and ensure the sustainability of public finances". Portugal clearly needs a better balance between ensuring sound public finances and structural change. It is now time for a structural focus and to address our structural weaknesses.

It is worth stressing that such a focus on overcoming the structural weaknesses of the Portuguese economy is not diverting the Government from pursuing sound public finances. The Commission's own forecast for 2016 predicts that Portugal will achieve the lowest fiscal deficit and the highest primary surplus since 1995, accomplished with a relevant structural balance improvement.

As the European Commission and the European Central Bank acknowledged, following the fourth post-programme surveillance mission to Portugal, the cash-based fiscal data suggest that in 2016 the budget execution has been broadly on track during January-April.

It is in this context that the consequences for excessive deficit procedure purposes of the Portuguese deficit in 2015 should be assessed.

It is important to stress the facts we are referring to: after eliminating all one -off and extraordinary measures the nominal deficit, as measured by Eurostat, is 3.2% of GDP, i.e. a deviation of 0.2 percentage points which corresponds to less than 350 million euros.

It should also be stressed that this result culminates an adjustment process that has reduced the Portuguese deficit excluding one-off and temporary measures from 8.6% of GDP in 2010 to 3.2% of GDP in 2015.

This adjustment process was directly monitored by the European Commission, the European Central Bank and the International Monetary Fund, that have always noted the effective action of the Portuguese government in the consolidation of public finances. In fact, Portugal has always been appointed by the institutions as an example of good implementation of the adjustment programme. It would be therefore difficult to understand a reversal of that assessment, particularly on the first year that the European Commission itself acknowledges that Portugal will achieve for the first time a deficit below 3% of GDP.

The Treaty rules are clear and must be met. The existence of an excessive deficit does not result in the automatic application of sanctions. The consequences should be assessed and considered in the context of the efforts already made.

In this context, we strongly argue against the possibility of the Commission presenting a proposal to impose sanctions for the following reasons:

- **it would be unfair** to punish a Member State that is on the right path to correct its excessive deficit and just when it is about to achieve it;

- **it would be counterproductive**, as it would make it harder for Portugal to ensure fiscal consolidation by increasing our public expenditure and potentially causing us a major reputation damage in the international financial markets, possibly triggering negative rating actions;

- **it would not be understood** by the Portuguese people, who have gone through a harsh economic recession and suffered “austerity” measures, and would thus risk fostering an anti-European mood.

In addition to these reasons, the result of the United Kingdom referendum and the systemic implications it has and will continue to have in the European Union deserve an enhanced political consideration of the effects that such a decision could have.

In conclusion, there are strong economic and political arguments for allowing both institutions - the Commission and the Council - to conclude that effective action has been taken to correct the excessive deficit in 2015 and therefore to put aside the possibility of imposing sanctions to Portugal, while reinstating the need for the Portuguese Government to implement the recommendations addressed by the European Commission under the excessive deficit procedure, in accordance with the rules of the Stability and Growth Pact. Portugal is fully committed to the implementation of such recommendations.

In the present moment, there is no doubt that this will be the right option to take, as it is the one that serves the interest of both the future of Portugal and the future of the European Union.

Yours sincerely,

António Costa
Prime Minister of Portugal

H. E. the President of the European Commission
Jean-Claude Juncker

H.E. the Prime Minister of Slovakia
Mr. Robert Fico