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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 7.5.2008
SEC(2008) 573 final

Recommendation for a

COUNCIL DECISION

abrogating Decision 2005/730/EC on the existence of an excessive deficit in Portugal

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. BACKGROUND

Article 104 of the Treaty establishes that Member States should avoid excessive deficits and lays down a procedure for their identification and correction. The excessive deficit procedure (EDP) is further specified in Council Regulation (EC) No 1467/97 on "speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the planned or actual government deficit exceeds the reference value of 3% of GDP (unless either the deficit ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether government debt exceeds the reference value of 60% of GDP (unless the debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the EDP. As part of the application of this Protocol, Member States have to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93[2,3].

On 22 June 2005, the Commission initiated the EDP for Portugal with the adoption of a report under Article 104(3), based on a planned general government deficit of 6.2% of GDP and an expected government debt of 66.5% of GDP in 2005 after being above the 60% of GDP reference value already in 2003 and 2004, as revealed in the June 2005 update of the stability programme of Portugal[4]. On 20 September 2005, the Council decided, on a recommendation from the Commission, that Portugal was in excessive deficit according to Article 104(6)[5]. At the same time, and also based on a Commission recommendation, the Council addressed recommendations under Article 104(7) to Portugal with a view to bringing the situation of an excessive government deficit to an end, by 2008 at the latest[6].

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1 OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

2 OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

3 The most recent notification of Portugal can be found at: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,58110711&_dad=portal&_schema=portal.

4 SEC(2005) 836.

5 OJ L 274, 20.10.2005, p. 91.

6 All EDP related documents for Portugal can be found at the following website: http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/excessive_deficit9109_en.htm.

In its recommendation under Article 104(7), the Council recommended that "The Portuguese authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner by 2008 at the latest by taking action in a medium-term framework. Specifically, to this end, the Portuguese authorities should: limit the deterioration of the fiscal position in 2005, by ensuring a rigorous implementation of the announced corrective measures; thoroughly implement the necessary measures to ensure a sustained and marked correction of the cyclically-adjusted deficit, excluding one-off and other temporary measures, by taking a very substantial step of a reduction of 1,5% of GDP in 2006 from 2005, followed by a further significant decrease of, at least, ¾% of GDP in each of the two subsequent years; rapidly implement reforms to contain and reduce expenditure over the coming years; seize any opportunity to accelerate the reduction of the budget deficit, and stand ready to adopt the additional measures which may be necessary to achieve the correction of the excessive deficit by 2008". The Council also recommended that "The Portuguese authorities should ensure that the government gross debt ratio is brought onto a firm downward path and approaches the reference value at a satisfactory pace by ensuring that debt developments reflect progress in the reduction of the deficit, by avoiding debt-increasing financial transactions, and by considering carefully the possible impact on debt of major public investment projects, including those in partnership with the private sector;" The Council required the Portuguese authorities to "further improve the collection and processing of general government data".

In addition, the Council invited the Portuguese authorities "to ensure that budgetary consolidation towards the medium term position of government finances close to balance or in surplus is sustained through a reduction in the cyclically-adjusted deficit, net of one-offs and other temporary measures, by at least 0,5% of GDP per year after the excessive deficit has been corrected".

Table 1: Adjustment endorsed by the Council on 20 September 2005

% of GDP, unless indicated otherwise	**2005**	**2006**	**2007**	**2008**
General government balance	deficit of (at most) 6.2	-4.8	deficit < 4	deficit < 3
change in structural balance		+1.5	*+¾ (at least)*	*+¾ (at least)*
p.m.: Real GDP growth (%)	0.8	1.4	2.2	2.6

Note: structural balance = cyclically-adjusted balance excluding one-off and other temporary measures
Source: Council recommendation under Article 104(7), quoting the June 2005 update of the stability programme

On 22 June 2006, i.e. after the expiry of the 6-months deadline for taking action set in the Council recommendation, the Commission carried out an assessment of the action taken by the Portuguese authorities with a view to bringing the situation of excessive government deficit to an end. On that basis, it adopted a communication to the Council, which concluded that Portugal had taken action representing adequate progress towards the correction of the excessive deficit within the time limits set by the Council and that no further steps in the excessive deficit procedure of Portugal were necessary at that time[7]. In its meeting of 11 July 2006, the Council concurred with this assessment.

According to Article 104(12), a Council decision on the existence of an excessive deficit is to be abrogated on the basis of a Commission recommendation, when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

[7] SEC(2006) 786.

2. RECENT DEFICIT DEVELOPMENTS

Data provided by the Commission (Eurostat) following the reporting by Portugal before 1 April 2008, indicate that the general government deficit in 2007 represented 2.6% of GDP[8], which follows government deficit outturns of 6.1% of GDP in 2005 and 3.9% of GDP in 2006 (see Table 2). Given the currently reported deficit and the deficit reference value, the probability that any future revision raises the 2007 government deficit ratio to in excess of 3% of GDP is low[9].

The recent government deficit path materialised against low but gradually improving economic growth, with real GDP growth rates moving from 0.9% in 2005 to 1.3% in 2006 and 1.9% in 2007. The negative output gap is estimated to have narrowed somewhat over the same period.

The budgetary execution in 2006 and 2007 was better than targeted at the time the recommendation under Article 104(7) was issued[10]. Notably, deficit outturns in those two years were about 1 percentage point of GDP lower than originally planned in the June 2005 update of the stability programme of Portugal[11]. The 2007 budgetary outturn also compares with an estimate of 3% of GDP presented in the December 2007 update of the stability programme of Portugal. In all, a government deficit below the 3% of GDP reference value was achieved one year before the deadline set by the Council. Indeed, as urged by the Council in its recommendation under Article 104(7), the opportunity to accelerate the reduction of the budget deficit was used, essentially by locking in better-than-expected revenue collection.

The narrowing of the fiscal deficit achieved in 2006 and 2007 owes to both a falling government expenditure-to-GDP ratio and a rising revenue-to-GDP ratio. The expenditure ratio declined by about 1¼ percentage points of GDP in 2006 and almost ½ percentage point of GDP in 2007. In parallel, government revenue ratio increased by some ¾ percentage point of GDP in both 2006 and 2007. Fiscal consolidation hinged mainly upon structural measures, with a marginal contribution from a one-off operation worth 0.1% of GDP in 2007[12].

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8 Eurostat News Release No 54 of 18 April 2008.

9 Deficit ratios are usually revised - upwards or downwards - after the publication of the first outcome in the spring notification. For the EU Member States as a whole, the revisions are usually relatively small and on average insignificantly different from zero. In the case of Portugal, upward revisions in the deficit ratio have been relatively more frequent than downward revisions; this might suggest that a bias exists in the compilation of the first outcomes. However, and even if future revisions in the Portuguese government accounts cannot be excluded, data for the latest years have shown to be more reliable than in the past.

10 When compared with the fiscal targets presented in the June 2005 update of the stability programme of Portugal, on the basis of which the present excessive deficit procedure was initiated, as described in Section 1.

11 Revisions in late 2005 and early 2006 of the GDP data series have resulted in higher GDP levels, which mechanically have yielded a deficit ratio level reduction by about ¼ percentage point of GDP.

12 Related to the long-term concession contract for the exploitation of a dam and recorded as reduction of other capital expenditure according to the ESA95 rules.

On the expenditure side, a stabilisation of current primary expenditure materialised in real terms in both 2006 and 2007. In particular, reductions of compensation of government employees were crucial for the observed expenditure containment on the back of reductions in public employment and, to a lesser extent, through wage restraint coming from below-inflation annual wage updates and a freeze of seniority-related pay increases. At the same time, social transfers other than in kind decelerated somewhat from the very high growth rates of previous years. To that result contributed a slowdown in old-age pension outlays, mainly on the back of more contained retirement flows, and, in 2007, a shrink in unemployment benefits. A reduction in public investment contributed further to the expenditure curb and a subsequent deficit reduction of about ½% of GDP in 2006. Overall, these figures are in line with the Council recommendation to implement measures to contain expenditure, an example of which was the reform of old-age pension schemes.

On the revenue side, tax proceeds expanded at a quick pace, especially given the context of low economic growth (and, more specifically, of domestic demand). That seems to have been the result of an increase in the VAT standard rate by 2 percentage points (to 21% from 19%) in July 2005, discretionary measures to increase the rates of some taxes (excise taxes, social contribution rate for some workers categories, new marginal personal income tax rate for high incomes) and lower credits on some direct taxes. Furthermore, an important part of the tax buoyancy can be ascribed to gains coming from improved tax administration and compliance that seem to have resulted into enlargement of the tax bases, which to a large extent have been carried forward. In addition, the more efficient tax administration has allowed higher rates of success in collecting tax arrears. In 2007, additional tax revenue came from a recovery of profitability of some large corporate tax payers and from taxes on real-estate wealth. Other revenue (including sales of goods and services by the government) grew by almost ½ percentage point of GDP in accumulated terms in 2006 and 2007. To some extent, that was also the result of a recovery from the shortfall in dividend payments to the government by state-owned enterprises observed in 2005.

The budgetary and economic developments described above led to a significant reduction of the structural deficit (i.e., the cyclically-adjusted deficit net of one-off and other temporary measures) in 2006 and 2007. In the former year, a reduction of some 2 percentage points of GDP was achieved, followed by a further decline by about 1 percentage point of GDP in the latter (see Table 2). These results seem to have gone well beyond the Council recommendation under Article 104(7) asking for a reduction of the structural balance by 1.5% of GDP in 2006 from 2005 and, at least, ¾% of GDP in 2007.

3. DEFICIT PROJECTIONS FOR 2008 AND BEYOND

According to the Commission services’ spring 2008 economic forecasts, with a projected real GDP growth of 1.7%, the general government deficit is expected to decline to 2.2% of GDP in 2008. This forecast compares with a budgetary target of 2.4% of GDP set in the December 2007 update of the stability programme of Portugal (with real GDP growth assumed to come at 2.2%) and with a revised target of 2.2% of GDP, as announced on 26 March after the publication of the 2007 budgetary outcome.

The projected improvement of the fiscal balance in 2008 is mainly driven by revenue. In 2008, overall tax receipts are projected to continue increasing faster than nominal GDP, albeit clearly by a lower margin than in 2007. Indeed, tax elasticities are expected to start moving closer to their historical average after the high figures of recent years, reflecting also the assumption that marginal gains of improved tax administration and compliance may enter a declining phase. In 2008, tax revenue will benefit from a normalisation in VAT net revenues after the reduction in the maximum reimbursement period implemented in 2006 and 2007. However, the reduction in the VAT standard rate by 1 percentage point (from 21% to 20%) as from 1 July 2008 will dampen tax revenues. In addition, other government revenue is projected to increase somewhat as a share of GDP thanks to rising EU funds, in the context of the implementation of the new National Strategic Reference Framework[13]. The expenditure-to-GDP ratio is forecast to remain stable. In particular, personnel expenditure is expected to fall in terms of GDP by about 0.4 percentage point on account of wage moderation and declining employment in central government. Interest expenditure will be curbed as the result of a discretionary reduction in the interest rate structure of government-issued savings certificates as from early 2008. Granting of concessions of electricity-generating dams by the government will post a one-off deficit-reducing contribution of almost 0.2% of GDP[14].

Under the assumption of unchanged policies, the Commission services spring 2008 economic forecasts projects a government deficit of 2.6% of GDP in 2009 against an assumption of real GDP growth of 1.6% of GDP. The December 2007 update of the stability programme of Portugal set the 2009 budgetary target at 1.5% of GDP, against an assumed real GDP growth of 2.8%. According to the Commission services spring 2008 economic forecasts, the evolution in the fiscal balance is expected to be driven mainly by a falling tax burden, reflecting still the impact of the reduction in the VAT standard rate in July 2008. In addition, important macroeconomic bases for tax revenue such as household consumption and compensation of employees are projected to track behind GDP, while tax revenue is assumed to, unlike in previous years, evolve in line with the relevant tax bases. Therefore, it is assumed that the enlargement of the tax bases mentioned in Section 2 has been essentially of a permanent nature. However, should part of those gains show ex-post a more temporary or non-sustainable nature or be hurt by the economic slowdown, the budgetary outlook would be gloomier. The discontinuation of the one-off operation implemented in 2008 will drive the nominal deficit further up. The current backdrop of higher-than-usual uncertain about financial and economic developments creates a number of risks to public finances.

According to the Commission services spring 2008 economic forecasts, the structural balance is expected to improve by a ¼ percentage point of GDP in 2008. At unchanged policies, a worsening by ¼ percentage point of GDP is projected for 2009. On this basis, a substantial step towards fiscal consolidation with the 2008 budgetary execution and an ambitious 2009 budget are required to ensure compliance with the Council recommendations under Article 104(7) for further reductions of the structural balance towards a medium-term position close to balance or in surplus by at least 0.5% of GDP per year after the excessive deficit had been corrected.

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[13] Concomitantly, these inflows will also imply additional spending, consequently mitigating considerably the impact of those receipts on the overall budget balance.

[14] Recorded as reduction of other capital expenditure according to the ESA95 rules, but part of the operation's proceed is used to pay to electricity-generating companies compensation for only gradually reflecting on consumer prices the production prices.

The December 2007 update of the stability programme of Portugal set deficit targets of 0.4% of GDP in 2010 and 0.2% of GDP in 2011. These plans have to be seen against the assumed backdrop of real GDP growth rates of 3% in both years. In its Opinion on the programme update, the Council considered that the "budgetary stance in the programme may not be sufficient to ensure that the Medium-term Objective of a structural deficit of 0.5% of GDP is achieved by 2010, as envisaged in the programme. Although the planned pace of consolidation towards the MTO is in line with the Stability and Growth Pact, the adjustment may require additional efforts in view of the risks (…)"[15].

4. DEBT DEVELOPMENTS AND PROJECTIONS

The government gross debt ratio exceeded the 60% of GDP reference value in 2005 when it jumped to 63.6% of GDP from 56.9% of GDP in 2004[16]. In 2006, the debt ratio went further up to 64.7% of GDP in 2006 and fell back to 63.6% of GDP in 2007. The increase in the government debt ratio recorded in 2006 was the result of the high primary government deficit and, to a lesser extent, of the fact that the implicit interest rate on government debt exceeded nominal GDP growth (the so-called "snow-ball effect"). In 2007, the debt ratio decline was mainly due to a debt-reducing stock-flow adjustment. To a lesser extent, the acceleration of GDP and a marginal primary surplus gave additional help to the debt ratio fall.

To the extent that the debt ratio declined in 2007, the observed government debt path has been consistent with the Council recommendation under Article 104(7) of 20 September 2005. In addition, in 2006 and 2007, financial operations as a whole have contributed to a negative stock-flow adjustment and therefore helped the reduction of the government debt ratio: in 2006, large privatisation proceeds were key for the decline in financial assets; in 2007, a reduction in deposits and currency was pivotal to the further decline in financial assets and a subsequent debt-decreasing stock-flow adjustment. Excluding deposits and currency and privatisation proceeds, the net acquisition of financial assets remained positive in 2006 and 2007, consequently adding to the debt ratio.

According to the Commission services spring 2008 economic forecasts, the government debt ratio is expected to rebound marginally to over 64% of GDP in 2008 and, on the basis of the no-policy change assumption, to come at 64¼% of GDP in 2009. These developments have to be seen against a backdrop of low nominal GDP growth and still relatively high government deficits this year and the next. In 2008, on the basis of the plans outlined in the December 2007 update of the stability programme of Portugal, the debt ratio is expected to reflect a positive stock-flow adjustment corresponding to 0.4% of GDP[17]. Further pressure to the stock-flow adjustment is given by the assumption that redemptions of debt above its face value will increase sizeably in the near future as the result of changes in the remuneration of savings certificates introduced in January 2008. Overall, the debt ratio path is consistent with the Council recommendation under Article 104(7) in the sense that its evolution reflects

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[15] OJ C 73, 19.3.2008, p. 6.

[16] The differences in these debt figures and the ones estimated at the time of initiating the excessive deficit procedure reflect mainly the revisions in the GDP data mentioned in footnote 11.

[17] That seems to be owed to a positive difference between accrual-based and cash-based deficits, as implicit in the programme update. The stock-flow adjustment figures were adjusted to reflect the more recent classification by the Portuguese authorities of some capital injections in some government-owned hospitals as capital transfers instead of financial operations.

progress in the reduction of the deficit and that, between 2006 and 2009 on average, financial operations do not add to the debt ratio.

5. OTHER CONSIDERATIONS

Under Article 104(7), the Council recommended Portugal to improve the collection and processing of general government data, given the apparent deficiencies in the compilation of reliable public finance statistics.

In the latest number of years there have been institutional changes and other technical improvements in the compilation of the Portuguese government accounts. These include a enhanced cooperation as well as a clearer labour division between the National Statistical Office, the Finance Ministry and the central bank, with an increase in the resources, responsibility and accountability of the Statistical Office. Notably, in early 2006 an agreement was signed between those three institutions, foreseeing cooperation among them, and creating two working groups to analyse the government accounts before each fiscal notification and to discuss methodological issues[18]. Those changes are expected to contribute to the quality of government sector statistics. The compilation and publication of quarterly government accounts should also contribute to the reliability and overall quality of annual accounts, as transactions that require specific accounting treatment will be identified earlier. Timely reporting of data by government subsectors seems to have been enforced more actively; in addition, information on budgetary execution has been made more detailed and more timely available. As a result, data for the latest years have shown to be more reliable than in the past. All in all, these developments indicate compliance with the Council recommendation.

6. CONCLUSIONS

The general government deficit declined significantly from 6.1% of GDP in 2005 to 3.9% of GDP in 2006 and to 2.6% of GDP in 2007, below the 3% of GDP reference value. The measures underlying the deficit reduction have been mostly of a permanent nature. The structural balance, i.e. the cyclically-adjusted balance net of one-off and other temporary measures, improved by some 2 percentage points of GDP in 2006 and a further 1 percentage point of GDP in 2007, thereby well beyond the fiscal efforts recommended by the Council of 1.5% of GDP in 2006 and of, at least, ¾% of GDP in 2007. According to the Commission services' spring 2008 forecasts, the headline deficit is expected to narrow to 2.2% of GDP in 2008 (including one-offs amounting to almost 0.2% of GDP, without which the deficit would nonetheless still be below 3% of GDP). On a no-policy change basis, the deficit is projected to rise to 2.6% of GDP in 2009. This indicates that the deficit has been brought below the 3% of GDP ceiling in a credible and sustainable manner.

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18 'Acordo de Cooperação Institucional no Domínio das Estatísticas das Administrações Públicas' (Institutional Cooperation Agreement in the Field of General Government Statistics); English version available at http://www.dgo.pt/FP/StatisticsAgreement_INE_BP_DGO.pdf. See also 'Consolidated Inventory of sources and methods [for EDP statistics]', available at: http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_DS_GFS/PGE_DS_GFS_11/EDPI_PT_2007_REV1.PDF.

General government gross debt declined to 63.6% of GDP in 2007 from 64.7% of GDP in 2006. According to the Commission services' spring 2008 forecasts, debt is expected to bounce back slightly to some 64% of GDP in 2008 and to 64¼% of GDP by 2009, the latter on a no-policy change basis, against a backdrop of low GDP growth rates and still relatively high government deficits.

From an overall assessment, it follows that the excessive deficit situation in Portugal has been corrected. Accordingly, the Commission recommends to the Council to abrogate its decision on the existence of an excessive deficit in Portugal.

Table 2: Budgetary developments, 2005-2009

		2005	2006	2007	2008		2009	
% of GDP, unless indicated otherwise					**COM**	**SP**[(2)]	**COM**[(3)]	**SP**[(2)]
General government balance		-6.1	-3.9	-2.6	-2.2	-2.4 (-2.2)	-2.6	-1.5
- Total revenue		41.6	42.4	43.1	43.6	42.7	43.3	42.8
- Total expenditure		47.7	46.3	45.7	45.7	45.1	45.9	44.4
Of which :	*- interest expenditure*	2.6	2.8	2.8	2.8	2.9	2.7	2.8
	- gross fixed capital formation	2.9	2.3	2.4	2.4	2.2	2.4	2.3
Primary balance		-3.5	-1.1	0.2	0.6	0.5	0.1	1.3
One-off and temporary measures		-0.1	0.0	0.1	0.2	0.0	0.0	0.0
Structural balance[(1)]		-5.2	-3.2	-2.2	-1.9	-1.6	-2.2	-1.0
Structural primary balance[(1)]		-2.6	-0.4	0.6	0.8	1.3	0.6	1.8
Government gross debt[(4)]		63.6	64.7	63.6	64.1	64.1	64.3	62.5
Change in debt ratio (a) = (b) + (c) + (d) [(5)]		5.3	1.1	-1.1	0.5	-0.3	0.2	-1.6
Contributions:	*- primary balance (b)*	3.5	1.1	-0.1	-0.6	-0.5	-0.1	-1.3
	- "snow-ball" effect (c)	0.7	0.3	-0.2	0.4	-0.1	0.3	-0.4
	- stock-flow adjustment (d)	1.1	-0.2	-0.8	0.7	0.4	0.0	0.0
Pm	*Real GDP growth (%)*	0.9	1.3	1.9	1.7	2.2	1.6	2.8
Pm	*Output gap*[(2)]	-1.7	-1.6	-1.1	-1.0	-1.8	-1.0	-1.1

(1) Cyclically-adjusted (primary) balance excluding one-off and temporary measures.

(2) Cyclically-adjusted and structural balances and output gaps according to the programme as calculated by Commission services on the basis of the information in the programme.

(3) No-policy change assumption.

(4) The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - y_t}{1 + y_t} \right) + \frac{SF_t}{Y_t}$$

where t is a time subscript; D, PD, Y and SF are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth. The term in parentheses represents the "snow-ball" effect.

(5) The components may not add up to the total due to rounding.

Sources: Commission services' spring 2008 forecasts (COM) and December 2007 update of the stability programme (SP). In brackets, the new official projection announced by the Portuguese authorities on 26 March 2008.

Recommendation for a

COUNCIL DECISION

abrogating Decision 2005/730/EC on the existence of an excessive deficit in Portugal

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2005/730/EC[19], following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Portugal. The Council noted that the planned general government deficit for the year 2005 was 6.2% of GDP, above the 3% of GDP Treaty reference value, while general government gross debt was expected to reach 66.5% of GDP, above the 60% of GDP Treaty reference value.

(2) On 20 September 2005, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[20], the Council made, based on a recommendation from the Commission, a recommendation addressed to Portugal with a view to bringing the excessive deficit situation to an end by 2008 at the latest. The recommendation was made public.

(3) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(4) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol

[19] OJ L 274, 20.10.2005, p. 91

[20] OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

on the excessive deficit procedure annexed to the Treaty establishing the European Community[21].

(5) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by Portugal before 1 April 2008 and on the Commission services' spring 2008 forecasts, the following conclusions are warranted:

– the general government deficit was reduced from 6.1% of GDP in 2005 to 3.9% of GDP in 2006 and to 2.6% of GDP in 2007, which is below the 3% of GDP deficit reference value. The latter compares with a target of 3% of GDP set in the December 2007 update of the stability programme of Portugal,

– both a falling government expenditure-to-GDP ratio and a rising revenue-to-GDP ratio contributed to the improvement in the government balance. The expenditure ratio declined by 1¼ percentage points of GDP in 2006 and almost ½ percentage point of GDP in 2007. In parallel, the government revenue ratio increased by some ¾ percentage point of GDP in both 2006 and 2007. Fiscal consolidation hinged mainly upon structural measures, with a marginal contribution from a one-off operation worth 0.1% of GDP in 2007. The improvement in the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) is estimated at 2 percentage points of GDP in 2006 and 1 percentage point of GDP in 2007, which is in line with the Council recommendation under Article 104(7) for a reduction of the structural balance by 1.5% of GDP in 2006 and, at least, ¾% of GDP in 2007,

– for 2008, the Commission services' spring 2008 forecasts project the deficit to be reduced further, to 2.2% of GDP, mainly driven by some additional revenue, with the budgetary execution benefiting from a 0.2% of GDP one-off deficit-reducing operation. This is broadly in line with the official deficit targets of 2.4% of GDP set in the December 2007 update of the stability programme of Portugal and the revised target of 2.2% of GDP announced by the Portuguese authorities in late March 2008. For 2009, the spring forecasts project, on a no-policy change basis, a government deficit at 2.6% of GDP. This indicates that the deficit has been brought below the 3% of GDP ceiling in a credible and sustainable manner. The structural balance is projected to improve by about ¼ percentage point of GDP in 2008 and, on a no-policy change basis, to worsen by ¼ percentage point of GDP in 2009. This has to be seen against the need to make progress towards the medium-term objective (MTO) for the budgetary position, which for Portugal is a structural deficit of 0.5% of GDP,

– government debt declined from 64.7% of GDP in 2006 to 63.6% of GDP in 2007. The low GDP growth and still relatively high government deficits projected in the Commission services' spring 2008 economic forecasts are expected to yield a government debt at some 64¼% of GDP in 2009.

[21] OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

(6) In the view of the Council, the excessive deficit in Portugal has been corrected and Decision 2005/730/EC should therefore be abrogated.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Portugal has been corrected.

Article 2

Decision 2005/730/EC is hereby abrogated.

Article 3

This Decision is addressed to the Portuguese Republic.

Done at Brussels,

For the Council
The President