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Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Portugal

[and delivering a Council opinion

on the updated Stability Programme of Portugal, 2011-2014]

{SEC(2011) 730 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, and in particular Article 5(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe’s potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[1], which together form the “integrated guidelines”. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first

[1] Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011.

European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes. Specific commitments and actions for 2011 are not explicitly communicated in the Portuguese National Reform Programme, but are expected to be submitted to the European Council.

(6) On 23 March 2011, the Portuguese government submitted a Stability Programme for 2011-2014 to the national parliament, which rejected it. On 19 April 2011, the Portuguese government submitted a National Reform Programme. The proposed macroeconomic and fiscal scenarios and the policy recommendations have been overtaken by the Memorandum of Understanding signed on 17 May 2011.

(7) On 17 May 2011, the Council adopted Decision 2011/0122 to make available to Portugal medium-term financial assistance for a period of three years 2011-2014 in accordance with Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism. The accompanying Memorandum of Understanding signed on the same day and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.

(8) In 2010, Portugal's GDP grew at a rate of 1.3%. This positive growth rate was, however, largely due to exceptional factors that boosted exports and private consumption. Price and cost developments clearly indicated that Portugal was not boosting competitiveness at a sufficiently fast rate to redress its current account deficit, which was high at 10% of GDP in 2010. The weak overall economy and the steep increase in unemployment (11.2% at the end of 2010), spilled into large government deficits, which exceeded 10% of GDP in 2009 and 9% in 2010, up from 3.5% in 2008. As a result, Portugal has recently come under increasing pressure in financial markets, raising concerns about the sustainability of its public finances. Following consecutive downgradings of Portuguese bonds by credit rating agencies, the country became unable to refinance itself at rates compatible with long-term fiscal sustainability. In parallel, the banking sector, which is heavily dependent on external financing, particularly within the euro area, was increasingly cut off from market funding.

(9) Portugal committed to implementing the economic and financial adjustment programme with the aim of restoring confidence in its sovereign debt and in the banking sector and supporting growth and employment. It provides for comprehensive action on three fronts: (i) a credible and balanced fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control; (ii) deep and

frontloaded structural reforms in the labour and product markets; and (iii) efforts to safeguard the financial sector against disorderly deleveraging through market-based mechanisms supported by back-up facilities.

(10) The Commission has assessed the National Reform Programme[2]. It has taken into account not only its relevance for sustainable fiscal and socio-economic policy in Portugal but also its conformity with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU level input into future national decisions. In this context, the Commission stresses the urgency of implementing the planned measures to comply with Council Decision 2011/0122,

HEREBY RECOMMENDS that Portugal should:

Implement the measures as laid down in Council Decision [2011/0122] and further specified in the Memorandum of Understanding of 17 May 2011 and its subsequent supplements.

Done at Brussels,

For the Council
The President

2 See SEC(2011) 730.