

European Commission  
Vice-President for Euro and Social Dialogue  
Mr. Valdis Dombrovskis

Lisbon, 12 May 2016

Dear Valdis,

The media has been reporting that the Commission could consider sanctions to Portugal under the EDP procedure regarding the non-compliance of the structural adjustment in 2015. Even if the Commission has denied that such a decision has already been taken, I feel it is my duty as former Finance Minister, and in a fully transparent manner, to recall some facts about the structural adjustment effort that Portugal has indeed delivered since 2010.

As you may remember, I have several times, within the Eurogroup, referred to the difficulty to explain why the amount of measures planned became insufficient due to statistical revisions of past values of GDP, and even methodological changes to the calculation of the output gap underpinning the structural adjustment required. Many colleagues joined me in this assessment, and I am glad to hear that you may be considering changes to the current methodology which may help solve these questions.

It is true that Portugal has not managed to end 2015 with a deficit up to 3% of GDP as had been planned but that is due to unexpected developments in the financial sector, namely the resolution of Banif. Without such an event, the nominal deficit would have been 3%, thereby allowing for the termination of the EDP procedure, and no sanctions would under that context be considered.

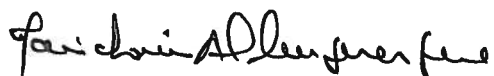
Going through the successive budget documents produced in recent years, one can observe that between April 2014 and April 2015 the structural adjustment for the period 2014-2015 has gone from +0.7 to -0.2, mostly due to a better than forecasted outcome of the deficit for 2014, corrected of extraordinary measures, and the changes from SEC1995 to SEC2010, along with changes the Commission has also introduced to the output calculation methodology. The measures then planned by the Portuguese Government, and the real effort required to the Portuguese people, were not changed. In March 2015, the Portuguese Statistical Authority revised sharply down the GDP for 2012, also impacting on the effort conducted since and the adjustment trajectory. It should be noted that even after taking into consideration all these effects, from 2010 to 2104, while implementing the Economic and Financial Adjustment Programme, the accumulated structural effort amounted to 7.6% (according to the SP 2015-2019), which should be recognised as a major effort under extremely difficult circumstances.

Any analysis to the successive documents produced by the EC in recent years, namely the economic forecasts, shows how unstable the assessment of the past can be as a result of the methodological issues alluded to above. Measures implemented in the past, on the other hand, and the sacrifices those involved, were obviously very real, the assessment does not change over time, and that should not be disregarded.

I am not disputing whether the Commission has formally the right to impose sanctions, and I do believe it is important to implement measures that assure an adequate correction of excessive deficits, and that we should as early as possible attain a balanced or even surplus budget, so as to reduce the very high debt level. That being said, I think it would be unfair, and detrimental to the adjustment effort which clearly continues to be necessary, that sanctions would be imposed to Portugal due to the outcome of 2015, when it is clear that without the measures to support the financial stability, Portugal could potentially be moved to the preventive arm of the EDP, and benefit from the flexibility of the SGP. Not benefiting from the flexibility already has a negative impact on the adjustment effort required, imposing sanctions on top of it would make it even more difficult to understand.

Either way, it is extremely important to clarify what could be the basis of a discussion on whether or not to apply sanctions to Portugal under the EDP. If the rationale is the outcome for 2015, I have above explained why I believe it should not be considered. If the rationale is the expectation that deviations will not be corrected from 2016 onwards, as patent in the EC Spring Forecast, then it is no longer up to me to present any arguments, though I'm certain that the Portuguese Government will show the necessary resolve to avoid that sanctions are applied. Given the relevance of this discussion to the public opinion, and to the political debate, I hope the EC spells out the grounds for any decision it may take in this process.

With kind regards,



Maria Luísa Albuquerque

Former Portuguese Minister of State and Finance