Economic Adjustment Program

The Portuguese Government decided to **exit the Economic Adjustment Program without any further support**. The announcement was made on May 4th, after a special cabinet meeting. The official press release is available here.

The decision follows the successful **conclusion of the 12th and final review** mission, on May 2nd. The EC-ECB-IMF staff stated that "the **program remains on track to be concluded**, following the completion of this final review. The **program has put the Portuguese economy on a path towards sound public finances, financial stability and competitiveness.**" The joint press release is available here.

On May 5th, these developments were presented at the Eurogroup meeting. **The euro area finance ministers welcomed the progress achieved throughout the Program period and stated their support for "the Portuguese government's decision** to exit its macroeconomic adjustment programme without successor arrangement". The Eurogroup statement on Portugal is available here.

On the same day, the **President of the European Commission** praised Portugal's efforts and declared that **"most of the serious economic imbalances that led to the crisis have been, or are being, corrected. The foundations for sustainable growth have been laid. And investor confidence has returned."** President Barroso added that **"The European Commission will remain at Portugal's side** following its exit from the programme". The President's statement on Portugal is available here.

Financial Markets

"The situation in the financial markets, notably the successful issuance of long-term debt, **and the existence of a cash buffer that covers the government's funding needs for the next 12 months" was a decisive factor in the Portuguese Government's decision** on the exit strategy, as indicated in the official press release.

Portugal recently returned to long-term bond auctions, thereby completing a decisive step in the strategy to regain full bond market access. **On April 23rd,** the Debt Management Agency **(IGCP) held one auction of the Portuguese Government Bond maturing in February 2024**, issuing an amount of **€ 750M**. The **weighted average yield of 3.5752%** and the **bid-to-cover ratio of 3.5** confirmed the confidence and credibility that Portugal has been accumulating over the past three years.

Fiscal Strategy Document

The **Fiscal Strategy Document for 2014-2018** (FSD) **was presented** on April 30th. It includes the Government's proposals for the **medium-term fiscal strategy and the underlying macro-financial scenario**. The document and its annex are available here and here (only in Portuguese).

i. Macroeconomic Scenario

The **macroeconomic scenario was updated** as the economy continues to recover gradually:

- **GDP is still expected to increase by 1.2% this year**. Projections indicate that **growth should accelerate to 1.5% in 2015, 1.7% in 2016 and 1.8% in 2017 and 2018**.
- The **unemployment rate was revised downwards once again**. It is now expected to reach **15.4% in 2014** and to continue declining in outer years, **reaching 13.2% in 2018**.

ii. Fiscal Accounts & Public Debt

The Government remains **committed to comply** with a **4% of GDP deficit in 2014** and a **2.5% of GDP deficit in 2015,** thereby closing the Excessive Deficit Procedure next year. **Fiscal adjustment will continue in the outer years**, so as to achieve the **medium-term objective in 2017** (structural deficit of 0.5% of GDP) and a **balanced budget in 2018**.

General Government gross debt is now expected to reach 130.2% of GDP by end-2014. The revision vis-à-vis the 11th review is **mainly explained by the ongoing debt management operations in SOEs.** Nevertheless, **net debt is expected to remain below 122% of GDP** by end-year, reflecting the cash buffer accumulated so far.

iii. Fiscal Consolidation Measures for 2015

The FSD includes the **specification of measures of 0.8% of GDP, consistent with achieving the 2015 deficit target**, as agreed in the 11th review. They rely **mainly on the expenditure side** and result from the ongoing **streamlining of the public sector**. For 2015, the Government also proposes to **start reversing some transitory measures** in place, which implies the need for additional measures:

- **20% of the wage reduction applied to civil servants will be reversed.** This will be compensated with additional savings from the use of the requalification program and the Aproximar program.
- **The Extraordinary Solidarity Contribution on pensions (CES) will be abolished**. It will be compensated with a sustainability contribution on pensions, a 0.25 p.p. increase in the normal VAT rate (which will be allocated to the pension systems) and a 0.20 p.p. increase in employees' contribution to social security.

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