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2016/0358 (NLE)

Proposal for a

COUNCIL OPINION

on the economic partnership programme presented by Portugal

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013[1] on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, and in particular Article 9(4) thereof,

Having regard to the proposal of the European Commission,

Whereas:

(1) The Stability and Growth Pact (SGP) aims at securing budgetary discipline across the Union and sets out the framework for preventing and correcting excessive government deficits. It is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and jobs.

(2) Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area sets out provisions for enhanced monitoring of budgetary policies in the euro area and for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the SGP and the European Semester. Since purely budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit, additional policy measures and structural reforms may be required.

(3) Article 9 of Regulation (EU) No 473/2013 sets out the modalities for economic partnership programmes, to be submitted by euro area Member States under an excessive deficit procedure. Setting out a roadmap of measures to contribute to an effective and durable correction of the excessive deficit, the economic partnership programme should detail, in particular, the main fiscal-structural reforms, notably those referring to taxation, pension and health systems and budgetary frameworks, which will be instrumental to correct the excessive deficit in a timely and durable manner.

(4) On 2 December 2009, the Council adopted a decision according to Article 126(6) of the Treaty, whereby Portugal was placed in an excessive deficit procedure. In October 2012 and subsequently in June 2013, the Council adopted revised recommendations under Article 126(7) of the Treaty in the context of an excessive deficit procedure which was opened before the entry into force of Regulation (EU) No 473/2013. In line

[1] OJ L 140, 27.5.2013 p. 11.

with Article 7(1) of Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, Portugal reported in the framework of its macroeconomic adjustment programme and was therefore not requested to present an economic partnership programme in June 2013 following the revised recommendation under Article 126(7) of the Treaty. On 12 July 2016, the Council adopted a decision in accordance with Article 126(8) of the Treaty, establishing that Portugal did not take effective action to correct its excessive deficit by the 2015 deadline. Further to this, on 8 August 2016, the Council, in accordance with Article 126(9) of the Treaty, decided to give notice to Portugal to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit by 2016. The Council decision to give notice in accordance with Article 126(9) also specified that Portugal, in view of the macroeconomic adjustment programme, should present an economic partnership programme by 15 October 2016, in line with Articles 9(3) and 17(2) of Regulation (EU) No 473/2013.

(5) On 21 October 2016, Portugal presented to the Commission and to the Council an economic partnership programme, setting out, in particular, fiscal-structural reforms that aim at ensuring an effective and lasting correction of the excessive deficit. The economic partnership programme includes fiscal structural measures aimed at addressing the Council's requests in its decision under Article 126(9), including measures on the fiscal and budgetary frameworks and on the pension and healthcare systems. The document also includes measures aimed at enhancing competitiveness and long-term sustainable growth in line with the Council Recommendations addressed to Portugal in the context of the European Semester. Specifically, the fiscal-structural measures planned by Portugal are the following: i) conducting expenditure reviews; ii) improving the transparency of public-private partnerships (PPPs); iii) improving the funding and sustainability of the social security sector; and iv) improving efficiency and sustainability of the health sector. If effectively implemented, these measures can be expected to contribute to the lasting correction of Portugal's excessive deficit situation.

(6) The rigorous implementation of the budget, including through the freezing of intermediate consumption, can be expected to deliver the fiscal effort requested by the Council for 2016 and ensure a correction of the effective deficit by the deadline. However, risks to a timely and durable correction remain, notably due to the impact of the direct effect of potential bank support. For 2017, even assuming the full implementation of the 2017 Budget according to the budgetary targets set in Portugal's Draft Budgetary Plan for 2017, the planned structural adjustment would point to a risk of some deviation from the required adjustment path towards the MTO in 2017. The assessment based on the Commission 2016 autumn forecast points, instead, to a risk of significant deviation from the adjustment path towards the MTO.

(7) The on-going spending reviews can be expected to concur to maintaining fiscal sustainability in the medium term as they would identify efficiency gains and fiscal savings in the public administration and state-owned enterprise sector (SOEs), which, if swiftly implemented, would be ultimately reducing their need for transfers from the state. As the reviews have only been launched recently, the overall potential savings identified so far are still relatively moderate (around 0.1% of GDP over a three-year period for the expenditure review according to the Draft Budgetary Plan for 2017).

The contribution of these reviews to addressing the challenge of fiscal sustainability will need to be carefully monitored.

(8) Following recent improvements, a review of the public procurement code — planned to be concluded by the end of 2016 — may yield some efficiency gains from improved transparency for public-private partnerships (PPPs) and concessions. At the same time, the economic partnership programme also expects transparency improvements regarding PPPs and concessions to materialise at the regional and local levels and for port terminal concession contracts. Nonetheless, the economic partnership programme does not provide any indication of the impact of these reforms on the budget balance.

(9) Regarding the measures aimed at improving the financing and sustainability of social security, the authorities plan gradually to reduce to zero the extraordinary transfers from the state budget by 2019 in line with the continued economic recovery. At the same time, Portugal is planning a reassessment of the sustainability and adequacy of the pension system with the intention of keeping a neutral impact of possible measures on the fiscal position. Challenges on how to ensure sustainability in the short and medium term remain and, when referring to the currently planned comprehensive study on the diversification of funding sources and other measures, the programme does not yet provide enough information on how such challenges would be addressed.

(10) Finally, measures aimed at improving the efficiency and sustainability of the health sector, including strengthening transparency and auditing as well as conducting a review of agreements and subcontracts, while pointing to the right direction, are not yet fully specified and sufficient information regarding concrete future efficiency gains apart from the ones identified in the spending review is not provided. A new National Health System funding line from the new tax on sugary drinks is expected to yield an annual EUR 80 million in additional revenue for the health system,

HAS ADOPTED THIS OPINION:

The economic partnership programme of Portugal presented to the Commission and to the Council on 21 October 2016 includes a broadly adequate set of fiscal-structural reforms, which would be supportive to an effective and lasting correction of the excessive deficit, as a development of its National Reform Programme and Stability Programme. Specifically, the economic partnership programme confirms the reform agenda for fiscal and other structural reforms included in the National Reform Programme and provides some further details on the implementation of some of these measures since its submission and on the timelines for follow-up. At the same time, some recommendations by the Council are still only partly backed by concrete measures, notably those regarding the sustainability of the social security system. The Commission and the Council will monitor the implementation of the reforms in the context of the European Semester and the post-programme surveillance.

Done at Brussels,

For the Council
The President