COUNCIL DECISION

of 20 September 2005

on the existence of an excessive deficit in Portugal

(2005/730/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by Portugal,

Whereas:

(1) According to Article 104 of the Treaty Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) The excessive deficit procedure under Article 104 provides for a decision on the existence of an excessive deficit. The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 3605/93 of 22 November 1993 [1] lays down detailed rules and definitions for the application of the provision of the said Protocol.

(4) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. The Commission addressed such an opinion on Portugal to the Council on 20 July 2005. Having taken into account its report in accordance with Article 104(3) of the Treaty and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty, the Commission concluded that there exists an excessive deficit in Portugal. In delivering its assessment, the Commission took into account the Ecofin Report to the European Council on 'Improving the implementation of the Stability and Growth Pact', endorsed by the latter on 22 March 2005.

(5) Article 104(6) of the Treaty lays down that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists. In the case of Portugal, this overall assessment leads to the following conclusions.

(6) According to the June 2005 update of the Portuguese stability programme, the planned general government deficit is 6,2 % of GDP for 2005. The deficit is in excess of the 3 % of GDP reference value and not close to it. The excess of the deficit over the reference value does not result from an unusual event outside the control of the Portuguese authorities, nor is it the result of a severe economic downturn. While the rate of GDP growth has declined sharply since 2000, the economy returned to positive economic growth in 2004 and, according to the Commission services Spring 2005 forecasts and the June 2005 updated stability programme, it is expected to remain on a gradual, even if moderate, upward trend for the years to come. Moreover, although the negative output gap is sizeable and not expected to narrow significantly in the coming years, the deterioration of the government balance is out of proportion with the recent widening of the output gap. Therefore, the excess over the reference value cannot be considered as resulting from a severe economic downturn. According to Commission services Spring 2005 forecast, the government deficit ratio is projected to exceed its Treaty reference value by a large margin also in 2006, when the recovery of the economy is expected to gradually take hold. In fact, the June 2005 update of the Portuguese stability programme foresees the government deficit to narrow over the coming years, but to exceed the reference value until 2007.

(7) The excess over the reference value cannot be considered temporary in the sense of the Treaty and the Stability and Growth Pact. This indicates that the Treaty requirement concerning the deficit criterion is not fulfilled.

[1] OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Commission Regulation (EC) No 351/2002 (OJ L 55, 26.2.2002, p. 23).

(8) The debt-to-GDP ratio breached the 60 % of GDP reference value of the Treaty in 2003, reaching to 61,9 % in 2004, an increase of some 8,5 percentage points of GDP since 2000. The increase in the debt ratio can be explained by a very low primary surplus, the existence of a sizeable debt-increasing stock-flow adjustment and also by the low nominal GDP growth. Moreover, the projected debt figures for the years 2005 to 2007, contained in the June 2005 stability programme update, and broadly in line with the debt projections of the Commission services Spring 2005 forecast, suggest a further sharp increase in the debt ratio up to a peak of just below 68 % in 2007. This conflicts with the Treaty requirement that, in the event of an excess over the 60 % of GDP reference value, the 'debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace'. This indicates that the Treaty requirement concerning the debt criterion is not fulfilled either.

(9) According to the Ecofin Report to the European Council on 'Improving the implementation of the Stability and Growth Pact', taking into account other relevant factors in the Council decision on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty, 'must be fully conditional on the overarching principle that — before other relevant factors are taken into account — the excess of the reference value is temporary and the deficit remains close to the reference value'. In the case of Portugal, this condition is not met. Therefore, for the purpose of the Council decision in accordance with Article 104(6) of the Treaty, other relevant factors are not taken into account in the case of Portugal,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in Portugal.

Article 2

This decision is addressed to the Portuguese Republic.

Done at Brussels, 20 September 2005.

For the Council

The President

M. BECKETT