COUNCIL DECISION

of 3 June 2008

abrogating Decision 2005/730/EC on the existence of an excessive deficit in Portugal

(2008/561/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2005/730/EC [1], following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Portugal. The Council noted that the planned general government deficit for the year 2005 was 6,2 % of GDP, above the 3 % of GDP Treaty reference value, while general government gross debt was expected to reach 66,5 % of GDP, above the 60 % of GDP Treaty reference value.

(2) On 20 September 2005, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure [2], the Council made, based on a recommendation from the Commission, a recommendation addressed to Portugal with a view to bringing the excessive deficit situation to an end by 2008 at the latest. The recommendation was made public.

(3) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(4) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of the Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community [3].

(5) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by Portugal before 1 April 2008 and on the Commission services' spring 2008 forecasts, the following conclusions are warranted:

— the general government deficit was reduced from 6,1 % of GDP in 2005 to 3,9 % of GDP in 2006 and to 2,6 % of GDP in 2007, which brings it below the 3 % of GDP deficit reference value one year before the deadline set by the Council. The latter compares with a target of 3 % of GDP set in the December 2007 update of the stability programme of Portugal,

— both a falling government expenditure-to-GDP ratio and a rising revenue-to-GDP ratio contributed to the improvement in the government balance. The expenditure ratio declined by 1¼ percentage points of GDP in 2006 and almost ½ of a percentage point of GDP in 2007. In parallel, the government revenue ratio increased by some ¾ of a percentage point of GDP in both 2006 and 2007. Fiscal consolidation hinged mainly upon structural measures, with a marginal contribution from a one-off operation worth 0,1 % of GDP in 2007. The improvement in the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) is estimated at two percentage points of GDP in 2006 and one percentage point of GDP in 2007, which is in line with the Council recommendation under Article 104(7) for a reduction of the structural balance by 1,5 % of GDP in 2006 and, at least, ¾ % of GDP in 2007,

[1] OJ L 274, 20.10.2005, p. 91.
[2] OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).
[3] OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

— for 2008, the Commission services' spring 2008 forecasts project a further reduction in the deficit, to 2,2 % of GDP, mainly driven by some additional revenue, with the budgetary execution benefiting from a 0,2 % of GDP one-off deficit-reducing operation. This is broadly in line with the official deficit targets of 2,4 % of GDP set in the December 2007 update of the stability programme of Portugal and the revised target of 2,2 % of GDP announced by the Portuguese authorities in late March 2008. For 2009, the spring forecasts project, on a no-policy change basis, a government deficit at 2,6 % of GDP. This indicates that the deficit has been brought below the 3 % of GDP reference value in a credible and sustainable manner,

— nevertheless, the structural balance is projected to improve by about ¼ percentage point of GDP in 2008 and, on a no-policy change basis, to worsen by ¼ percentage point of GDP in 2009. This has to be seen against the need to make progress towards the medium-term objective (MTO) for the budgetary position, which for Portugal is a structural deficit of 0,5 % of GDP,

— government debt declined from 64,7 % of GDP in 2006 to 63,6 % of GDP in 2007. The low GDP growth and still relatively high government deficits projected in the Commission services' spring 2008 economic forecasts are expected to yield a government debt at some 64¼ % of GDP in 2009.

(6) In the view of the Council, the excessive deficit in Portugal has been corrected and Decision 2005/730/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Portugal has been corrected.

Article 2

Decision 2005/730/EC is hereby abrogated.

Article 3

This Decision is addressed to the Portuguese Republic.

Done at Luxembourg, 3 June 2008.

For the Council

The President

A. BAJUK