Box ECONOMIC AND FINANCIAL ASSISTANCE PROGRAMME (EFAP)

On 17 May 2011, the Republic of Portugal signed a loan agreement with the EC, ECB and IMF amounting to EUR 78 billion. This loan will be granted by the European Financial Stability Mechanism (EFSM), the European Financial Stability Facility (EFSF) and the IMF, each contributing with EUR 26 billion.

The Economic and Financial Assistance Programme (EFAP) is based on three pillars:

1. Budget consolidation. This first pillar is aimed at restoring confidence and credibility in public finances. The quantitative targets include the narrowing of the budget deficit to 3.0 per cent of GDP in 2013 and the inversion of the upward trend of the debt-to-GDP ratio.

In order to meet these goals, while minimising the negative impact on economic activity, the Programme foresees that 2/3 of the adjustment be made on the expenditure side.

Table 1 – Budgetary consolidation

Budgetary consolidation strategy (as % of GDP)						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Budget Balance	-5.9	-4.5	-3.0	-2.3	-1.8	-1.8
Primary Balance	-1.6	0.7				
Debt of the PA	106.4	112.2	115.3	115.0	112.9	111.0
Impact of the measures taken (as % of GDP)						
Revenue	2.0	0.9	0.5			
Expenditure	3.7	2.1	1.4			

SOURCE: State Budget Report 2012

2. A structural reform agenda. This pillar is aimed at increasing competitiveness in the Portuguese economy by correcting inefficiencies in several sectors. The main reforms include:

i. Liberalisation of the electricity, gas, transportation and telecommunication sectors;
ii. The end of golden shares and special rights;
iii. A privatisation programme, through which a total revenue of EUR 5 billion is expected to be obtained;
iv. Reforms of the judicial system and of the labour market;
v. Restructuring of the state-owned enterprises sector, reducing the number and the operational costs of state-owned companies;
vi. Rationalisation of public-private partnerships;
vii. Simplification of public administration services.

3. Reinforcing financial stability. The third pillar is aimed at preventing the adjustment process, namely the correction of the high external indebtedness, from resulting in a loss of confidence in the banking sector. With this view in mind, the following measures are foreseen:

i. Controlled deleveraging of the banking sector;
ii. Increase of the capital requirements;
iii. Creation of a bank solvency support facility of EUR 12 billion under the EFAP;
iv. Increase of government guarantees to bank debt issues.

To date, three missions comprising members of the three international organisations involved in the programme were in Portugal to monitor compliance with the quarterly targets established. According to the reviews carried out so far, the implementation of the programme was considered to be on track. In this context, Portugal received in 2011 several tranches of the total loan, which totalled approximately EUR 34 billion. The all-in-cost of these operations is estimated at approximately 4 per cent (see details in the following chapter).