

**Opinion of the Economic and Social Council of Portugal
on the Fiscal Strategy Document for 2014-2018¹**

Summary of the “Conclusions” (free translation)

The implementation of a fiscal policy based on tax increases and on non-structural spending cuts has dramatically affected the disposable income of households and investment. This has led the Portuguese economy to an inevitable recession.

The main mistake of that approach was an underestimation of the weight of internal demand and of unsolved structural issues. Therefore there was also an incorrect projection of the impact of the measures taken. On the other hand, exports were conditioned by those structural problems and by the euro appreciation which was driven by the monetary policy pursued by the European Central Bank during the crisis.

The sustainability of the recent signs of a slight economic recovery is still uncertain and do not allow the projection of a cycle of growth that could lead the country out of the crisis. The strategy outlined for the consolidation of public finances over the period covered by the Fiscal Strategy Document highly conditions the macroeconomic projections presented.

As the Economic and Social Council of Portugal has continuously defended, the timing for the consolidation of our public accounts should be reset so that it is part of a Program that incorporates economic growth. That Program should also integrate a global structural reconversion ranging from the State to our productive tissue.

¹ Approved by the Plenary of the Economic and Social Council of Portugal on the 28 May 2014 with no votes against (35 votes in favour and 12 abstentions).

The review of the goals and timetable that result from the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union is far from being a Portuguese problem only. Indeed, all Member States involved should seriously reflect on the conditions for its fulfilment.

The Economic and Social Council believes that fiscal consolidation cannot postpone the development of investment and employment friendly policies. Those policies should make the most of our productive factors aiming at competitive innovation rather than competitive devaluation.

The Reform of the State that the country needs cannot be based on indiscriminate spending cuts with short-term fiscal objectives. That Reform has to be directed to streamline procedures as well as the roles of the public service. The Reform should aim to modernise public service and adjust it to new economic and social challenges while also ensuring the sustainability of our social model.

Regarding the 2014-2018 period, the first priority should be to guarantee necessary funding. Debt management should be based on the choice of the most appropriate timing to carry out the operations that allow reducing the debt stock while also decreasing the debt service.

The growth of our economy is not compatible with the current levels of austerity and tax burden. We need a Program that has the primary objective of starting a growth path that allows us to re-converge with the European Union.

That path has to be supported on structural changes to make it sustainable over time. That Program should also pursue a gradual reduction of debt levels and of our external dependence. The share of public spending in GDP should be decreased while ensuring

the social role of the State and the relevance that public investment can have in certain key areas.

The Council considers that Portugal should be actively involved – together with other Member States - in a comprehensive reform of the euro zone that encompasses European institutions, their functions and powers. That reform should aim at positioning the European Union as a true economic convergence region with mechanisms that reduce financial speculation on the economies of Member States.

The Council reaffirms the need to promote a broad public debate with greater involvement of social partners about the use of structural funds in the coming years. The application of those funds should focus on the promotion of employment, of the qualifications of the Portuguese people and of the country's competitiveness. On the other hand, it is essential to promote in due time and under sustainable conditions credit lines that ensure the private component of the projects.