

***Position on Policy Guidelines and Measures to address Portugal's Main Economic Challenges***

1. In light of the challenges currently faced by the Portuguese economy, PSD is committed to consolidating Portugal's public finances, to fostering economic growth, to correct macroeconomic imbalances, to stabilize and strengthen the financial sector and to improving the economy's financing conditions. As such, we welcome and support initiatives undertaken at the European Union level aimed at improving economic governance and competitiveness, as evidenced by PSD's International Relations Committee *Policy Briefs* on past European Council conclusions.
2. PSD fully supports Portugal's fiscal strategy aimed at placing the debt-GDP ratio on a declining path from 2013 onwards and reducing the general government deficit to 4.6% of GDP in 2011, and 3% and 2% percent in 2012 and 2013 respectively. In conformity with this commitment, and notwithstanding our status as Portugal's principal opposition party, we supported the government's attempts in the past to honour its international obligations, as was the case with the 2010 Growth and Stability Pact (GSP) and the 2011 Budget Law to name but two examples.
3. The new policy guidelines and measures announced on 11 March raise concern for two reasons:
  - a. First and foremost, the announced measures reflect the continued failure of government to implement a coherent, credible and sustainable program of structural reform aimed at fiscal consolidation, public debt reduction and economic growth despite being in power for over six years. Moreover, it has largely been reactive to external pressure rather than pro-actively seeking to address Portugal's main economic challenges through its own volition. As such, nothing leads us to expect that the government will improve its performance in the foreseeable future, especially when it comes to reforms that will undermine parts of its electoral base that are tied, directly or indirectly, to state-financed employment or business ventures.
  - b. Second, the adoption of additional austerity measures and structural reforms necessarily entails a wide-ranging consensus, both on a political and societal level, in order to ensure their acceptance, effective implementation and sustainability. On this score, however, the government has been completely remiss even though it does not enjoy majority parliamentary support. Indeed, it seems to have gone out of its way to avoid prior negotiations with relevant stake-holders while simultaneously neglecting established democratic practices and procedures, including those detailed in the executive summary of the GSP approved in March 2010.
4. PSD reaffirms its unflinching support for a structural reform program aimed at fiscal consolidation, public debt reduction and economic growth. Yet PSD is unable to support the announced new measures, not only because of their likely limited and ineffectual implementation but also due to the sacrifices that they impose on the most vulnerable members of society.
5. The final outcome of the process initiated with this surprise announcement could be favorable if political parties and social partners are more supportive than they have been in the last two years of a well designed program of fiscal consolidation and structural reforms. Indeed, a broad coalition for change would improve the political legitimacy of such a program as well as current market perceptions of Portugal's risk.