Speech by Fernando Medina,

at the European Parliament Economic Dialogue, on "Progress made by Portugal under the post-programme surveillance"

Brussels, 8 September 2022

[As prepared for delivery]

Honorable President of the European Parliament,

Honorable Members of the European Parliament,

Ladies and Gentlemen,

We face challenging times today. Europe has been living for six months with a war inside its doors. A conflict that we repudiate, that generates a humanitarian crisis to which we cannot, nor do we want to ignore and which, as a democratic Union that we are, requires a very firm response.

That is why Europe and Portugal, as a deeply European country, does not hesitate to take sides for freedom, peace, and democracy. As we all know this comes at a price today. Namely trough higher energy prices and shortages in supply.

The war has resulted in a significant increase in the price of energy, food, and other commodities. It has stifled their supply, feeding inflationary pressures which are eroding the living standards across Europe. Oil was the gateway to inflation in our country and made prices rise across the board. Food is more expensive, fuel is more expensive, the cost of living is higher.

All and all, this conflict is casting a shadow, particularly for countries where food security is of particular concern and accelerates the fragmentation of international cooperation and global trade.

European economies went from inflation rates below 2% to a scenario with average values above 7%. We have not lived through such times for decades and certainly not since the inception of the euro area.

Portugal is not a country with high dependence on gas nor with relevant ties to the Russian economy. But the current situation is just one more proof that we need to face such challenges, together, as a European Union.

Here, our European values must prevail. They will prevail.

This week the Portuguese government presented a support package, that puts families first. The size and ambition of this package, which amounts to 1% of GDP, worth 2.4 billion, was made possible due to our commitment to sound public finances.

The package adds to an effort of some 1,682 million euros already spent this year on measures to mitigate the impact of inflation.

We are aware of the significant challenges that lie ahead, and some of the many clouds hover over the outlook. Nevertheless, given the policy path of the last years, we believe are well prepared to face these many challenges.

In the measures we have presented, allow me to highlight the one-off payment of 125 euros to all those with an annual income of up to 37,800 euros, equivalent to twice the average income in Portugal, supporting this way the middle classes.

We will provide also 50 euros to all children and young adults, and we will strengthen the income of pensioners, paying them now, as a one-off measure, the equivalent to a half their monthly pension, when they need it most to face the rise in the cost of living.

This is in our views a timely, effective, sizeable, and responsible budgetary effort, which leaves no one behind; which shows that we acknowledge how difficult the current circumstance is for Portuguese families; and which clearly highlights that it is in times like these that we can use our margin of credibility to find the means to finance our policies.

This is the best and possible answer: giving back to citizens the result of their efforts as taxpayers and scaling this response to the extent that it does not compromise our fiscal capacity in the future.

Because we know our needs today, but we don't know for how long we will have to deal with effects of war, we need to preserve our capacity to act.

This way we assure for the future our choices of today. We are present, we are together and we put our families and our principles of freedom and democracy first.

Allow me to share some highlights of the structural situation of our economy.

Portugal is today on a renewed path of convergence to the European Economy. According to the European Commission, our economy is likely to achieve a 6.5% rise in GDP in 2022, which more than doubles the European Commission's forecast for the Union as a whole. When comparing to GDP levels at the end of 2019, we will also outperform the euro area growth average. This to say the recent growth is not only the result of the recovery of the pandemic, but the continuation of a convergence period that started in 2017.

Additionally, the unemployment rate in Portugal will likely continue to fall to values around 5,5%, and we will meet the ambitious fiscal targets we have set ourselves.

Today, Portugal is widely recognized for meeting the budgetary commitments and promoting balanced and efficient polices that promotes intergenerational justice and invests in the future.

This year the Portuguese deficit will fall from 2,8% of GDP to 1,9% of GDP, the sixth lower value in the EU. The public debt will likely decrease more then 7,5 percentage points, to values below 120% of GDP. This will be the third biggest reduction in the EU.

The results of our policies have already been noticed by most institutions. Rating agencies and financial markets investors are no exception. Fitch has upgraded the outlook for the Portuguese Republic's debt to positive in May; two weeks ago, DBRS raised our Treasury bonds rating to level A (low), the highest rating in the last 10 years.

Regarding Portugal's financial credibility, it is also important to remember that successive post-adjustment program assessments confirm that the Portuguese budgetary and debt management strategies have mitigated sustainability risks and reaffirmed the country's ability to meet its financial responsibilities.

Additionally, and although the general escape clause currently in place would allow for a different fiscal path, in 2022 we will meet the EU's fiscal rules.

Going forward, we advocate that the current economic governance framework may be improved and we expect the Commission's paper on economic governance review. Let me stress that common fiscal capacity instruments, however, should be a priority.

The European debt crisis was a dire experience from which we all have learned. One important lesson is that a monetary union without a common fiscal capacity result in a fragile institutional setup, that can generate financial sudden stops. On the other side, our ability to act together in the pandemic, with instruments like SURE or RRF, are big policy success on which we should build to the future.

The full deployment of the RRF offers a strong tailwind to growth and is a testament of our capacity as Europeans to find tailored solutions to our common challenges.

It is not just budgetary and financial policy that build an economy's credibility and capacity. The RRF is important not only for the fiscal impulse it provides, particularly through investment spending, but also for the changes that the reforms it spurs will create in our economic fabric.

We were the first country to submit the Recovery and Resilience Plan and I can confidently say today that its implementation is going well:

- 139 contracts have already been signed.
- More than half of the program's allocation has already been released.
- Projects worth more than five billion euros have already been approved.
- Around 705 million euros have already been paid to the final beneficiaries.

The mobilizing agendas constitute one of the most emblematic projects of the RRF: there are 51 agendas, focused on fostering bonds between the academy and the corporate sector, science investigation, climate and digital transitions. There will be a total of 7.6 billion euros of investment to be carried out in 4 years.

Thank you very much.