

Staff statement following the tenth post-programme surveillance mission to Portugal

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Staff from the European Commission, in liaison with staff from the European Central Bank, visited Lisbon from 14 to 19 June for the tenth post-programme surveillance (PPS) mission to Portugal.¹ Staff from the European Stability Mechanism (ESM) also participated in the mission in the context of its Early Warning System.

The mission discussed key challenges facing the Portuguese economy in the context of decelerating, but still robust economic growth, in particular high debt levels, external risks and the deteriorating current account. Discussions also addressed the fiscal situation and outlook, including the risks to structural consolidation as outlined in the Commission assessment of the Portuguese Stability Programme. As regards structural reforms, the mission focused on challenges emanating from weak productivity growth, labour market policies, housing, judicial reforms, energy and competition..

Noting improved asset quality, bank profitability and capital adequacy, financial sector discussions focused on remaining vulnerabilities. A key topic was the implementation of the strategy for further reducing the declining, but still high stock of non-performing loans. Discussions addressed the importance of strengthening banks' capital generation capacity and their ability to finance the economy, as well as the efficiency of the legal system. The mission scrutinised risks related to the persistent price increase in the housing market, also given the still high level of household debt. It also discussed the draft law revising financial supervision and resolution, with the discussions centring on the law's necessary consistency with EU legislation and best European practices regarding the macroprudential framework.

The PPS report presenting the detailed findings of this mission will be published in October 2019.

The mission would like to thank the Portuguese authorities for their constructive and open discussions. The next PPS mission will take place in the autumn of 2019.

[1] European Central Bank (ECB) staff participated in the mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

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