European Commission

Valdis DOMBROVSKIS
Executive Vice-President

Paolo GENTILONI
Commissioner for the Economy

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Dear Minister,

We would like to thank you for the submission of Portugal's Draft Budgetary Plan for 2022, which we received on 15 October 2021. However, we take note that the draft law on the State Budget for 2022, which was the basis for the Draft Budgetary Plan, was rejected by the Portuguese Parliament on 27 October 2021.

Against that background, we would like to consult you on some implications of the rejection of the draft law on the State Budget for 2022, for fiscal surveillance, for the implementation of the recovery and resilience plan and for the Support to mitigate Unemployment Risks in an Emergency (SURE).

Implications for the fiscal surveillance of Portugal

As regards the ongoing process relating to the fiscal surveillance of Portugal by the Commission, our understanding is that the Draft Budgetary Plan for 2022 submitted to the Commission's assessment is no longer valid as it was based on the draft law on the State Budget for 2022, which was rejected by the Parliament and, therefore, cannot be enacted as a law. On the basis of this understanding, the Commission does not intend to adopt an opinion on Portugal's Draft Budgetary Plan for 2022, of 15 October 2021.

This is without prejudice to the fact that the Commission continues to closely monitor Portugal's economic and budgetary situation, also in the light of its high public debt-to-GDP ratio, and the follow-up by Portugal to the Council Recommendation of 18 June 2021 on the 2021 Stability Programme. We therefore invite the Portuguese authorities to submit a new Draft Budgetary Plan for 2022 to the Commission and the Eurogroup, in due course, and as soon as a government presents to the Portuguese Parliament a new draft law on the State Budget for 2022.

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H.E. Mr João Leão
Minister of State and Finance
Ministry of Finance
Av. Infante D. Henrique, 1
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Portugal

Possible implications for the implementation of the recovery and resilience plan

The RRF is a performance-based instrument and payments under it are linked to the satisfactory fulfilment of the relevant milestones and targets set in the Council Implementing Decision on the approval of Portugal's recovery and resilience plan.

In order to minimise the risk of unnecessary delays, within the implementation horizon of the Recovery Instrument, we encourage the Portuguese authorities to, as soon as possible, signal to the Commission services any possible forthcoming difficulties for the satisfactory and timely fulfilment of the relevant milestones and targets that may emerge from the rejection of the draft law on the State Budget for 2022.

In this context, we would also appreciate clarification about the practical effects of the rejection of the draft law on the State Budget for 2022 on Portugal's public financial management, in particular, those relating to the application of the 'transitional budget execution regime' as per the Portuguese Budgetary Framework Law.

Our priority is to support Portugal in all the steps towards the swift and successful implementation of its recovery and resilience plan, so that the Portuguese economy can emerge stronger and more resilient from the COVID-19 crisis, and deliver on the green and digital transitions.

Possible implications for the implementation of the SURE programme

In June 2021, Portugal reported to the Commission lower total public expenditure on eligible measures than provided in Council Implementing Decision (EU) 2020/1354. Your services have identified additional measures, which are already being implemented and could be eligible for SURE financing, subject in particular to the adoption of a Council Implementing Decision amending Council Implementing Decision (EU) 2020/1354, where those would be included. Exchanges are ongoing between your and the Commission's services regarding the preparation of a proposal to amend Council Implementing Decision (EU) 2020/1354.

In that context, we would appreciate if you could clarify what implications the rejection of the draft law on the State Budget for 2022 could have on the process of amending Council Implementing Decision (EU) 2020/1354, and more generally on Portugal's capacity to absorb the maximum loan amount granted by the Council under SURE.

Regarding the next steps, once a common understanding about the eligible measures and amounts has been reached at technical level, the Portuguese Member of the Economic and Financial Committee will be invited to submit to the Commission's Secretary-General a formal request to amend Council Implementing Decision (EU) 2020/1354. The Commission services would then immediately initiate the procedure to have the proposal of amendment of that Decision adopted by the Commission.

The Commission seeks to continue and deepen its constructive dialogue with Portugal. Our services remain at your disposal and stand ready to assist you in all these processes.

Yours sincerely,

V. Dombrovskis

Valdis DOMBROVSKIS

P. Gentiloni

Paolo GENTILONI