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Council approves aid to Portugal, sets out conditions

The Council today[1] adopted a decision granting financial assistance to Portugal.

The EU will provide loans amounting to EUR 52 billion as part of a EUR 78 billion package of financial assistance, with EUR 26 billion respectively granted under the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility. The IMF will provide around EUR 26 billion under an Extended Fund Facility.

The EFSM loan will have a maximum average maturity of 7.5 years and a margin of 215 basis points on top of the EU's cost of funding. This will result in conditions similar to those of the IMF support.

The aid will be provided on the basis of a three-year policy programme for the period up to mid-2014, which was negotiated with the Portuguese authorities by the Commission and the International Monetary Fund, in liaison with the European Central Bank. It contains a banking support scheme of up to EUR 12 billion to provide the necessary capital in case market solutions cannot be found.

The economic and financial adjustment programme includes:

- structural reforms to boost potential growth, create jobs, and improve competitiveness;
- a fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control over public-private-partnerships and state-owned enterprises, aimed at putting the gross public debt-to-GDP ratio on a firm downward path in the medium term and reducing the deficit below 3 % of GDP by 2013;

[1] The decision was taken at a meeting of the Economic and Financial Affairs Council.

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu http://www.consilium.europa.eu/Newsroom

- a financial sector strategy based on recapitalisation and deleveraging, with efforts to safeguard the financial sector against disorderly deleveraging through market-based mechanisms supported by backstop facilities.

Portugal's caretaker government announced its intention to seek financial assistance on 7 April, following several months of pressure on sovereign bond markets and political crisis. Portugal has been the subject of the EU's excessive deficit procedure since December 2009, when the Council set out measures to correct its deficit by 2013.