

## International Monetary Fund

[Portugal](#) and the IMF

**Portugal:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

**Press Release:**

[IMF Completes Fifth Review Under an EFF Arrangement with Portugal, Approves €1.5 Billion Disbursement](#)  
October 24, 2012

October 14, 2012

The following item is a Letter of Intent of the government of Portugal, which describes the policies that Portugal intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Portugal, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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## PORTUGAL: LETTER OF INTENT

Lisbon, October 14, 2012

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Ms. Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in recent months towards the objectives laid out in our program supported by the Extended Arrangement. It also updates previous MEFPs and highlights the policy steps to be taken in the months ahead.

2. While we remain strongly committed to the program's policies and objectives, the challenging domestic and external environment is weighing on program performance. The fiscal outlook has deteriorated considerably, reflecting mainly the impact of the economic rebalancing on tax bases and revenue performance (see paragraphs 1 and 3 of the MEFP). Although spending has been tighter than envisaged in the program, a large fiscal gap has now emerged and the initial program targets are no longer achievable. As a result—and in spite of having met the end-June quarterly performance criteria on the general government cash deficit and debt—we estimate that the end-September target on the general government cash deficit has been missed (see Table 1).

3. We have started to settle the stock of existing domestic arrears and have advanced the implementation of the new commitment control systems. Nevertheless, the underlying arrear position has continued to deteriorate—although with smaller increases in recent months, resulting in further breaches of the related indicative target under the program. The operational restructuring of SOEs is being successfully implemented and we are assessing options to strengthen their long-term financial viability. Our policy efforts to preserve financial stability have continued, and further steps have been taken to promote competitiveness, growth, and employment. All the structural benchmarks for the fifth review were met.

4. While the program strategy remains appropriate, a recalibration of the fiscal path is needed at this difficult juncture to avoid imposing too large a social and output cost (see MEFP paragraph 5). Additional corrective measures will be implemented this year to limit the deficit to 5 percent of GDP in 2012. The 2013 Budget will aim at a deficit of 4.5 percent of GDP and will be underpinned by permanent measures designed to limit the impact of fiscal consolidation on growth and the poorest segments of the population. We are implementing the new law on commitment control in order to avoid further accumulation of domestic arrears. Special attention is being given to local governments and the health sector where the main challenges are concentrated.

5. The achievement of an orderly deleveraging of the economy remains a key objective under our program and we are developing alternative options to facilitate credit to productive firms, in particular SMEs, by fostering the diversification of financing alternatives. The bank capital augmentation exercise due by June 2012 has been successfully completed and we will continue to closely monitor compliance with capital requirements and take prompt and appropriate actions if needed.

6. We are implementing the deep structural reforms already committed to under the program, and we will intensify efforts in areas with high potential to create jobs. For the fifth review, we present a new initiative to substantially streamline licensing requirements and procedures to create a business-friendly environment that should help spur new investment and relieve the heavy regulatory burden on small and medium firms. Building on the good results already secured in our privatization program, we will broaden its scope, releasing more resources to the private sector.

7. On the basis of the strength of the policies defined in this letter, and in light of our performance under the program, including the corrective measures already taken as a prior action for this review, we request the completion of the fifth review under the Extended Arrangement, the sixth purchase under the arrangement in the amount of SDR 1,259 million, as well as a waiver of nonobservance of the end-September cash deficit performance criterion and a waiver of applicability of end-September debt performance criterion.

8. We remain confident that the policies described in the current and previous MEFPs are adequate to achieve the objectives under the program. We stand ready to take additional measures should they be needed to meet the objectives of the economic program and will consult with the IMF, the European Commission, and the ECB, in advance of any necessary revisions to the policies contained in this letter and attached Memorandum.

9. This letter is copied to Messrs. Juncker, Rehn, and Draghi.

Sincerely yours,

/s/

\_\_\_\_\_  
Vitor Gaspar  
Minister of State and Finance

/s/

\_\_\_\_\_  
Carlos da Silva Costa  
Governor of the Banco de Portugal

Attachments: 1. Memorandum of Economic and Financial Policies (MEFP)  
2. Technical Memorandum of Understanding (TMU)

## PORTUGAL: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

October 14, 2012

### I. MACROECONOMIC OUTLOOK

1. **GDP growth and inflation for the year as a whole are expected to remain in line with the program framework.** In the second quarter of 2012, real GDP contracted by 1.2 percent over the previous quarter, with a strong contribution of net exports offsetting the deterioration in domestic demand. More recently, confidence indicators have been steady, albeit at historically low levels, and labor market adjustment has continued. Output is expected to contract by 3 percent in 2012. Despite weaker domestic demand and falling unit labor cost, headline consumer price inflation is expected to average 2¾ percent in 2012, mainly reflecting the remaining effects of the tax measures in the context of the fiscal consolidation effort.

2. **External adjustment is proceeding rapidly.** The current account deficit has improved by five percentage points of GDP over the past year, and nine points from the trough in late 2008, with exports making the largest contribution to the improvement. Sustained adjustment will be needed to reduce Portugal's very large net external debts. Despite the weakening external environment, growing exports to non euro area trade partners with better growth prospects over the next year will help maintain some momentum. Over the medium-term, we are committed to ensuring the sustainability of the strong performance to date through a reform program that facilitates the adjustment of relative prices across our economy, enabling our firms to become more competitive, grow and create employment.

### II. ADVANCING FISCAL ADJUSTMENT

3. **The downside risks to revenue collections highlighted at the time of the Fourth Review have fully materialized.** These developments have become particularly apparent since May, after weak performance under the quarterly VAT regime became visible and the 2011 final tax returns proved disappointing. Significant tax and social contributions revenue deviations—of about 2 percent of GDP compared to the supplementary budget—have now emerged, reflecting the following factors:

- *Changes in the macroeconomic environment.* The faster-than-expected rebalancing of growth away from domestic demand and imports, more intense labor shedding, and the lower prices and wages have weighed on tax and social security contribution bases and receipts, and the ex-post yield of the various tax measures.
- *Unfavorable composition effects.* The squeeze in incomes has prompted a re-allocation toward lower tax brackets and tilted consumption in favor of less tax-yielding goods.

- A small part of the deviation is explained by one-offs and other factors.

**4. Despite tight spending controls and favorable one-off factors, these developments have opened a significant gap with respect to the fiscal targets.**

Notwithstanding an increase in unemployment benefits, expenditure has been under very tight control, with large savings on employee compensation. Moreover, lower net interest payments, the reprogramming of EU cohesion funds, and a large receipt expected from the airport concession will help offset the revenue deviation. In spite of this, the 2012–13 fiscal deficit objectives—of 4½ percent of GDP in 2012 and 3 percent of GDP in 2013—are no longer achievable.

**5. In light of this, the fiscal path under the program needs to be recalibrated.** At the current juncture, the additional measures necessary to reach the initial program objectives would entail large output and social costs. Some degree of front-loading is, however, still necessary to maintain confidence and the credibility of fiscal policy. In order to strike a balance between these two objectives, we intend to contain the deficit to 5 percent of GDP in 2012 and 4½ percent of GDP in 2013. The fiscal consolidation needed to achieve the SGP’s fiscal objective—of reducing the deficit to below 3 percent of GDP—would then be completed by 2014, with the projected deficit of 2½ percent of GDP. In spite of the wider deficits, the debt peak (about 124 percent of GDP in 2014) would be contained by the broadening of the scope of the privatization program (see MEFP paragraph 15).

**6. We are taking a number of measures to limit the fiscal deficit in 2012 to 5 percent of GDP.** We have frozen some of the 2012 Budget appropriations and frontloaded a broadening of the public sector contributions base, an increase in the tax on investment income, and a stamp duty on high value properties, generating savings of about 0.2 percent of GDP. In addition, the measures affecting social benefits described below will be frontloaded for 2012; these measures are expected to generate resources of about 0.1 percent of GDP over two months.

**7. Fiscal measures of the order of ¾ percent of GDP are necessary to achieve the new 2013 deficit target.** This includes 3 percent of GDP of consolidation measures, as well as measures to accommodate the fiscal effect of the Constitutional Court ruling on some articles of the 2012 Budget Law (¾ percent of GDP).

**8. The fiscal measures will be designed with a view to limiting their impact on growth and protecting the poorest segments of the population.** They will also aim at advancing toward our medium-term objectives of making the public sector more efficient, attracting investment, and boosting private sector activity. This includes refocusing expenditure on the key tasks of the public sector and moving toward a more effective tax system. Most of the measures will be implemented in the context of the 2013 Budget, which will be submitted to Parliament on October 15 (prior action). The main measures include:

On the expenditure side:

- *Compensation of public employees.* Savings of about 0.4 percent of GDP will be generated through (i) an acceleration in the reduction of the number of government sector employees, including cuts in short-term contracts, (ii) a reduction in overtime, and (iii) cuts in non-wage compensation.
- *Social transfers.* We will improve the targeting of, and scale down, social programs and pension benefits and apply the recent reform of unemployment benefits to all future unemployed. Savings of the order of  $\frac{3}{4}$  percent of GDP are expected from these measures.
- *Health sector reform* will proceed according to plans, generating savings of 0.3 percent of GDP, of which about two-thirds on pharmaceutical products.
- *The ongoing SOE operational restructuring and a further reduction in capital spending in public enterprises* will allow for further savings of about 0.2 percent of GDP.

On the revenue side:

- *We will reduce the number of PIT tax brackets to 5 and increase the average effective rates,* aligning our PIT system with European standards. In addition, a surcharge of 4% on the part of taxable income above minimum wage *will be imposed* at least until the end of the program and until permanent expenditure cuts to offset its elimination can be identified. These measures will generate some  $1\frac{1}{2}$  percent of GDP in additional revenue, more than offsetting the measures to accommodate the fiscal effect of the Constitutional Court ruling—reinstatement of the 13<sup>th</sup> public sector wage and slightly above one month of pension. Social benefits will be delinked from tax benefits.
- *We will further reduce the debt-bias in the CIT system* by limiting interest deductibility and update a number of excise rates (0.1 percent of GDP).
- *Property taxes.* We will work toward completing the taxable property valuation (see MEFP paragraph 18) (0.3 percent of GDP).

Given the implementation risks related to such a large adjustment, we stand ready to introduce contingency measures, as needed, during the course of 2013.

9. **We will launch a comprehensive expenditure review to identify potential sources of additional savings to reach our medium-term fiscal objectives.** We are fully committed to stabilizing the general government structural deficit below  $\frac{1}{2}$  percent of GDP by 2015. To achieve this objective, a further consolidation—of about  $2\frac{1}{4}$  percent of GDP in primary

structural terms—will be necessary in 2014–15. Savings will be generated mainly through expenditure cuts to be specified by mid-February 2013.

### III. CONTAINING FISCAL RISKS

#### A. Public Financial Management

10. **We continue to press ahead with our PFM reforms with a particular focus on halting arrears accumulation.** We have intensified efforts to implement the new commitment control systems over the past months. The new software complying with the law has been rolled out to all national health system (HNS) entities. In parallel, we have concluded negotiations on the €1.5 billion debt settlement program for the health sector in line with the announced strategy. We reaffirm our strong commitment to halting the accumulation of new arrears in hospitals. We will also continue to work closely with local governments to ensure that the commitment control systems have been effectively implemented across all municipalities. Any disbursement under the €1 billion credit line (PAEL) will only be made after IGF has certified the full working functionality of the commitment systems. Given that the Autonomous Region of Madeira has not yet fulfilled the program requirement to revise its arrears settlement strategy, we will ensure that no claims will be paid before such a document is finalized and all arrears validated by IGF.

11. **We have finalized our PFM strategy document (mid-September structural benchmark), which outlines our reform priorities over the next three years.** We remain committed to adapting our legislation to the new European Union fiscal governance rules by end-2012. We will focus on further reducing budgetary fragmentation, notably by streamlining the autonomous funds (SFA) sector. With a view to increasing the central government's general revenues, we will deepen this reform, reviewing the classification of SFA's own revenues, and those of other budgetary entities, by end-September 2013.

#### B. State-Owned Enterprises

12. **Our efforts to restore financial viability to state-owned enterprises are beginning to pay off.** We now expect to exceed our objective of reaching operational balance for the state-owned enterprises (SOE) sector on aggregate by the end of 2012. Several SOEs—including in the problematic transport and infrastructure sectors—already reached operational balance in the first half of the year, and others are performing better than expected. While achieving further gains in operational balances will be challenging, we remain committed to furthering financial discipline in these firms. With further reductions in costs to be achieved over the remainder of the year and in 2013, some SOEs will be in a position to start reducing their debts over the medium-term. A new law reforming the governance framework for SOEs will soon come into force, giving the Ministry of Finance increased control over their finances. Firms consolidating in government will not be able to borrow from the private sector, and borrowing by those not consolidating will be subject to prior approval, ensuring unsustainable debt burdens will not be built up in future. The law

also allows for improved monitoring of SOEs' financial operations, including local government SOEs.

13. **Nonetheless, financial risks stemming from SOEs remain significant.** With high existing debts, operational balances continue to be too low to cover interest payments in many firms, resulting in still-rising debt. Even with further restructuring, restoring financial viability to some of these firms will require managing excessive historical debt burdens. Despite unfavorable market conditions, we are exploring options for selling SOE assets and repurchasing debt, respecting our financing constraints, and continue to actively manage liabilities falling due to avoid unbudgeted financial support.

14. **We are expanding the privatization program.** Privatizations are advancing. Nonbinding offers have already been received for the airline, TAP, and are expected by end-October for the airport concessionaire, ANA. We expect final decisions to be taken by end-2012, with the financial completion of these transactions in early 2013. Interest in both companies has been strong. In the first quarter of 2013, we expect to advance with the privatizations of the postal company CTT once the universal service provision concession in this sector is granted. We also expect to proceed with the privatization of the waste management operations of the water company Águas de Portugal in the first quarter of 2013, and we are developing a strategic plan by the end of 2012 with other stakeholders—notably local governments—to restructure the broader water sector. We have sought strategic advice on preparing a sale or concession of a television channel and radio station belonging to RTP. The sale of the rail cargo firm CP Carga is expected in the second quarter of 2013. Finally, and while the bulk of eligible assets have already been considered, we are indentifying further public companies and assets that could be privatized.

### C. Public-Private Partnerships

15. **Our PPP reform is entering its final phase.** Following the reform of the institutional and legal PPP framework, and the conclusion of the third-party report, we have concluded negotiations of the PPP subconcessions, which aimed at cutting capital and operational costs of about €1 billion (in NPV terms). This renegotiation will result in reduced availability payments starting in 2014. Looking ahead, by the sixth review we will prepare a detailed strategic plan to renegotiate the remaining PPP contracts. We aim to reduce the government's financial obligations, obtaining substantial upfront savings while minimizing the consequences for public debt. We will also work swiftly to ensure that the MOF's technical PPP unit is fully operational by end-December. We will not engage in any further contracts until the technical PPP unit and the new legal framework are in place and able to limit fiscal risks.

### D. Revenue Administration

16. **We have been proactive in strengthening revenue administration (AT) to fight noncompliance.** A key reform to curb tax fraud and evasion will enter into force on



January 1<sup>st</sup>, 2013 with the following objectives: (i) invoicing will be mandatory across all sectors and transactions; (ii) businesses will be obliged to report the relevant content of invoices to a centralized VAT monitoring database; (iii) goods in circulation will be electronically monitored; and (iv) a tax incentive scheme to encourage taxpayers to ask for the issuance of invoices—notably in hard-to-tax sectors—will be launched. This model will enhance the AT's capacity to access information and enable automatic cross-checks. Moreover, we will enhance the exchange of information between AT and the Social Security Administration, especially by adopting a unified monthly return on withholding of wages and a single form on independent workers' annual income.

17. **We remain committed to implementing our reform agenda.** We are on track to meet the end-December structural benchmark on implementing the Large Taxpayer Office. On the judicial front, the task force of judges has increased the pace of its work on high-value tax cases while the State success ratio in the tax courts is increasing. We reaffirm our commitment to clearing the remaining tax cases. Finally, we will deepen our efforts to conclude the property evaluation process by year end, despite limited access to the buildings blueprints. In order to minimize fiscal risks under the program, we will ensure that the new value of all properties will serve as a basis for the tax levied in 2013.

#### **E. Regional and Local Public Finances**

18. **We have made significant progress regarding the local administration reform.** We have approved a law that establishes a new regime for local SOEs and we will start working towards the dissolution of all local SOEs that do not comply with legal requirements. We have also passed legislation with a view to streamlining management positions at the local level. Work on the reduction of the number of parishes is proceeding. Finally, our working group for the revision of the local and regional finance laws is advancing with the draft proposals, and has started discussions with external stakeholders. Despite a slight delay in the timetable, the submission of the draft finance laws to Parliament (end-December structural benchmark) remains on track.

#### **IV. PRESERVING FINANCIAL STABILITY**

19. **Orderly deleveraging of the economy remains a key objective under the program.** Eased liquidity conditions and strengthened capital buffers are helping alleviate risks of an excessive credit contraction. While the needed deleveraging process proceeds, it is crucial to ensure that the most productive segments are not subject to undue funding strains and can effectively support the economic recovery. To this purpose, we are taking measures to facilitate credit to productive firms, in particular SMEs, while continuing to ensure that these steps do not burden or pose risks to public finances. As part of these efforts, the Ministry of Finance, together with BdP and other stakeholders, have put forward a set of proposals and are currently evaluating different options to enhance information sharing and foster the diversification of financing alternatives to the corporate sector. In parallel, the

supervisory work of Banco de Portugal (BdP) is helping promote an orderly adjustment of banks' balance sheets. Recent initiatives to avoid evergreening and promote prompt restructuring of problem loans include new instructions by the BdP for banks to report restructured loans due to financial difficulties of the borrower, with the first report expected by end-November.

20. **Adequate bank liquidity remains critical to preserve financial stability.** The exceptional liquidity support provided by the Eurosystem is playing a pivotal role in easing liquidity pressures and mitigating potential constraints to bank lending. Portuguese banks are making significant use of the recent measures by the Eurosystem to support collateral availability. Going forward, we encourage banks to continue their efforts to strengthen collateral buffers on a sustainable basis. In parallel, to facilitate reallocation of liquidity among domestic banks, the BdP has recently launched a new platform for interbank unsecured lending, which is expected to be extended to secured transactions by the beginning of next year. We believe that these ongoing efforts can contribute to an orderly deleveraging of the economy, with a view to reduce banks' dependence on Eurosystem liquidity over the medium term.

21. **The bank capital augmentation exercise due by June 2012 has been successfully completed.** The envisaged capital augmentation measures, including the public injection of capital, have been completed as planned, allowing banks to meet the capital needs stemming from the EBA 2011 Capital Exercise, the Special On-Site Inspection Program (SIP), and the pension fund transfer. In line with EU rules, banks having received public capital support have been required to draw up restructuring plans, aimed at enhancing the banks' resilience. These measures are also expected to enable these banks to meet the Core Tier 1 program target of 10 percent by end-2012, which applies to all banks. BdP is closely monitoring compliance with the capital requirements, with a view to promptly take appropriate action if needed.

22. **As part of its regular supervisory activities, the BdP continues to update its evaluation of banks' impairment levels and assess the resilience of the banking sector.** The field work of a new onsite inspections program (OIP), launched last May by the BdP, has already started in the major banking groups and is on track. This initiative is part of BdP regular supervisory activities, which are currently focused on assets classes that are more sensitive to existing market conditions. In parallel, the BdP will continue to update its quarterly stress test exercise. In this context, banks will reflect the OIP findings in the implementation of the SIP recommendations on asset quality and stress testing methodologies by end-December 2012, with the update of the treatment of collective impairments expected to be finalized at the latest by end-June 2013.

23. **We remain committed to providing further support to the banking sector, if needed.** In the event new capital needs were to arise, we continue to encourage banks to seek private solutions. Nevertheless, resources from the Bank Solvency Support Facility (BSSF)

remain available to support viable banks if needed, in line with state aid rules and subject to strict conditionality aiming to avoid subsidizing private shareholders and prevent migration of private liabilities to the public sector balance sheet. The remaining resources in the BSSF will solely be utilized to provide public support, if needed, to the banking system.

24. **We are implementing the strategy for managing the distressed assets from Banco Português de Negócios (BPN).** We intend to outsource the management of the credits currently held by Parvalorem to a professional third party. We are finalizing the terms of reference for the mandate of the party managing the credits to ensure maximization of recoveries, while minimizing operational costs. The competitive bidding process to select the asset manager will be launched by end-October at the latest, with a view to complete the tender process by end-March 2013. We will also ensure timely disposition of the subsidiaries and the real assets in the other two state-owned SPVs. CGD's state guaranteed claim will be gradually settled in cash, according to the schedule agreed with the EC, ECB, and IMF. Any net recoveries realized on the assets will also be applied towards the settlement of CGD's claim.

25. **Progress is being made towards strengthening the early intervention and resolution framework.** We are finalizing the implementation of the measures necessary for completion of the new legislative framework for banking resolution. We have established the regulation governing the organization and operation of the resolution fund. The decree law on the banks' contributions to the resolution fund is expected to be approved by end-November. The BdP will have approved by then the two supervisory notices on recovery plans and bridge banks (end-October) and will finalize the supervisory notice on resolution plans by end-November. Moreover, we will swiftly transpose the new EU Directive on bank resolution as soon as it enters into force.

26. **We have concluded the improvements to the legal framework for corporate debt restructuring.** After the entry into effect of the amendments to the Insolvency Code in May 2012, we have adopted the conciliation framework (SIREVE) mediated by IAPMEI, a public entity, to facilitate extrajudicial corporate debt restructurings for viable SMEs which entered into effect on September 1, 2012. We will continue to step up actions to raise public awareness of the new restructuring tools.

27. **Resolving household sector indebtedness in an orderly fashion remains a key priority.** We continue monitoring the evolution of household indebtedness closely and are establishing a framework for financial institutions to engage in out-of-court debt restructuring for households which will enter into effect soon. A nationwide network of duly accredited structures will also be developed, based on existing structures, in order to provide financial advice to households in debt distress.

## V. BOOSTING COMPETITIVENESS AND GROWTH

### A. Promoting Employment

28. **Unemployment continues to be a priority concern, and we are delivering on commitments to support employment as the economy adjusts.** Our strategy focuses on effective active labor market policies. *Vida Ativa*, our new targeted training initiative, has reached out to over 150,000 unemployed, of which more than 50,000 are already involved in training. We have also stepped up our efforts towards activation by sending notifications to over 250,000 unemployed with good results: about 5,000 unemployed have been placed in jobs, and over 125,000 unemployed have been integrated in an occupational or other training program. We are conducting a real-time evaluation of the effectiveness of these targeted training programs and, based on the results, we will look to enlarge eligibility.

29. **Important reforms of labor market institutions are nearing completion.** The new Labor Code entered into force on August 1 and positions all workers and all firms to benefit from a more dynamic and efficient labor market, particularly as the cycle turns and hiring resumes.

- *By reforming the wage setting mechanism, we have reduced substantially the scope for large incumbent firms to unduly burden the competitive position of other firms in the sector.* We have formalized the criteria for extending collective agreements, ensuring that in sectors where employers' associations represent less than 50 percent of the total work force, collective agreements reached by those associations will not be extended to all firms in the sector. The government resolution defining these criteria and the modalities for their implementation was adopted on October 10 (structural benchmark).
- *We have made important efforts in reducing one of the highest levels of employment protection in Europe.* Building on the changes in the Labor Code regarding individual dismissals, and following the first step we took in November 2011, we will by mid-November 2012 lower severance payments further to 8–12 days per year of service, bringing them in line with relevant comparators in the euro area.

### B. Business Environment: Slashing Licensing Requirements

30. **We are launching a comprehensive program to tackle excessive licensing procedures, regulations and other administrative burdens—a key bottleneck to economic activity.** These explicit and implicit barriers to the establishment, operation, and expansion of firms create substantial uncertainty, discourage investment and limit job growth. By alleviating these costs—which represent a particular burden for small and medium firms—we also hope to encourage foreign direct investment, with all its positive spillovers. To that end,

- We will start with a decisive first step—by end-June 2013 we commit to deal with the legacy of excessive licensing by carrying out a full inventory of all regulations at all levels of government, with a view to eliminating overlapping and redundant regulations.
- To prevent the problem from re-emerging in the future, we will study the feasibility of putting in place a “one-in, one-out” rule that prohibits the creation of a new regulation without the elimination of an existing regulation or regulations with an equivalent cost.
- By end-year we will put in place a working group (*Gabinete do Investimento*) to analyze and to fast-track planned existing investment opportunities unresolved or undecided for more than 12 months.
- We will advance the availability of zero-licensing procedures for industrial and commercial activities via an online portal, alongside work being done for firms in the services sector (see MEFP ¶32). A wide range of further changes to the licensing regime are described in the fifth update of the Memorandum of Understanding (MoU).

### C. Product Markets, Competition, and Regulation Framework

31. **Through bold reforms in ports, we aim to reduce the port bill for exporters by 25–30 percent.** A landmark revision of the Ports Work Law, which was submitted to Parliament in September, substantially lowers wage costs and removes constraints to optimizing the use of labor. To ensure the transmission of lower unit labor costs to end-user costs of port services, we are revising incentives for port operators by adopting a new performance-based model for concession contracts as they expire, and we are looking to encourage entry of new operators. Finally, responding to exporters’ concern, we will reduce by end-December fees on port use (*TUP-Carga*), aiming to lower these fees by 20 percent.

32. **Work on removing legal and administrative barriers to trade in the economically very significant services sector is well advanced.** We have accelerated the drafting of the needed legislation, and, as a result, over half of the amendments to sector-specific legislation have already been approved either by government or by Parliament and are now in effect. The remaining 23 amendments required to complete this effort will be submitted to Parliament by end-October 2012. We will step up the efforts to establish a well-functioning online platform (Point of Single Contact) which simplifies the procedures for establishing and operating firms in these sectors. In addition, we have submitted to Parliament a new horizontal framework law concerning the *professional bodies of highly regulated professions* (such as lawyers, accountants, architects), easing access to these professions and limiting anti-competitive practices.

33. **We are creating a strong and stable legal framework for regulation to ensure market efficiency and protect public interests.** Given the limited scope for greater competition through entry of new operators in a number of industries, particularly in energy and telecommunications, we recognize that strong, independent, and effective regulators are key to preventing anti-competitive outcomes, with the attendant effects on prices, innovation, and resource allocation. To that end, we are preparing a framework law for regulation that draws on the findings and recommendations of the recently completed expert report, benchmarking the responsibilities, resources, and independence of the main sectoral regulators against international best practices. The framework law will guarantee independence, as well as financial, administrative and management autonomy, benefitting from broad consultation with the regulatory bodies concerned. While this important law is being prepared, we will soon amend the statutes of the electricity regulator (ERSE) to give it the appropriate powers, independence, and autonomy ahead of full market liberalization in January 2013.

#### **D. Judicial Reform**

34. **We continue pushing ahead with targeted measures to reduce the backlogged enforcement cases.** Despite the challenges in addressing the backlog court cases, an additional 25,000 enforcement cases have been cleared, bringing down the total number by about 95,000 enforcement cases since November 2011. The inter-agency task forces have set quarterly targets for reviewing enforcement cases to be closed by mid-November 2012. To this end, we have stepped up our efforts by expanding the task forces to small claims court cases in specific courts. We will prepare revised draft bills to strengthen the legal and institutional framework for enforcement agents and to include a fee structure that incentivizes speedy enforcement by mid-November 2012 based on extensive consultation including IMF/EU technical assistance and informed by cross country experience and which will be approved by the government by end-February 2013. We continue overhauling the information system to facilitate the speedy processing of court cases.

35. **We are advancing the reforms to improve efficiency of the court system.** We have refined the comprehensive judicial roadmap to reduce the number of courts and streamline the court structure and the new draft Code of Civil Procedure to speed up the judicial process with extensive stakeholder consultation and also informed by IMF/EU technical assistance.

Table 1. Portugal: Quantitative Performance Criteria  
(In billions of Euros, unless otherwise specified)

	Performance Criteria (unless indicated otherwise)								Dec-12	Mar-13	Indicative Targets
	Dec-11		Mar-12		Jun-12		Sep-12				
	Program	Actual	Program	Actual	Program	Actual	Program	Actual			
1. Floor on the consolidated General Government cash balance (cumulative)	-10.3	-7.1	-1.9	-0.45	-4.4	-4.1	-5.9	-7.9	-9.0	-1.9	-4.5
2. Ceiling on accumulation of domestic arrears by the General Government (continuous indicative target) 1/	0	Not met	0	Not met	0	Not met	0	N/A	0	0	0
3. Ceiling on the overall stock of General Government debt	175.9	167.8	182.0	171.2	175.0	170.9	177.5	N/A	180.0	182.2	184.1
4. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the general government (continuous performance criterion)	0	0	0	0	0	0	0	0	0	0	0

1/ Domestic arrears for the purpose of the program remained broadly stable between end-March and end-July 2012. They increased by about €200 million between end-March and end-June, and decreased by about €200 million in July.

**Table 2. Portugal: Structural Conditionality: Fifth Review Under the EFF**

<b>Measure</b>	<b>Timing</b>	<b>Status</b>
<b>Prior action</b>		
Submit to Parliament the 2013 budget consistent with ¶5-9 of the MEFP.		
<b>Structural Benchmarks</b>		
<b>A. Strengthen financial stability</b>		
1 Make effective the amendments to the Corporate Insolvency Law to better support rescue of viable firms (after completing all necessary legislative and publication requirements)	Mid-June 2012	Met
2 Prepare a proposal for encouraging the diversification of financing alternatives to the corporate sector.	End-July 2012	Met
<b>B. Enhance competitiveness and address bottlenecks to growth</b>		
3 Submit to Parliament draft legislation defining the criteria for extension of collective agreements (including a majority representation threshold) and the modalities for their implementation.	End-Sept 2012	Met with delay
4 Prepare a proposal to implement identified best international practices in order to reinforce the independence of the main sectoral regulators.	End-Sept 2012	Met
5 Submit to Parliament a new Code of Civil Procedure to streamline and speed up the court procedures.	End-Nov 2012	
6 Submit to Parliament the bill to implement the judicial roadmap to improve the court structure.	End-Nov 2012	
<b>C. Strengthen fiscal institutions and reduce fiscal risks</b>		
7 Develop a PFM strategy covering the next three years, to be attached to the 2013 budget.	Mid-Sept 2012	Met
8 Revise and submit to Parliament the draft regional and local public finance law.	End-Dec. 2012	
9 Implement a full-fledged Large Taxpayer Office (LTO), to cover audit, taxpayer services, and legal functions concerning all large taxpayers, including the adoption of account managers.	End-Dec. 2012	



**PORTUGAL: TECHNICAL MEMORANDUM OF UNDERSTANDING**

October 14, 2012

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed to the Memorandum of Economic and Financial Policies. It also describes the methods to be used in assessing the Program performance and the information requirements to ensure adequate monitoring of the targets. We will consult with the EC, the ECB, and the IMF before modifying measures contained in this letter or adopting new measures that would deviate from the goals of the Program, and provide the EC, the ECB, and the IMF with the necessary information for Program monitoring.
2. For Program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at “Program exchange rates” as defined below, with the exception of the items affecting government fiscal balances, which will be measured at spot exchange rate (i.e., the rate for immediate delivery) prevailing on the date of the transaction. The Program exchange rates are those that prevailed on May 5, 2011. In particular, the exchange rates for the purposes of the Program are set €1 = 1.483 U.S. dollar, €1 = 116.8390 Japanese yen, €1.09512 = 1 SDR.
3. For reporting purposes, the MoF and BdP will employ the reporting standards and templates considered to be appropriate given the transmission of data covered by this TMU, unless otherwise stated or agreed with the EC, the ECB and the IMF.

**General Government**

4. **Definition.** For the purposes of the Program, the General Government, as defined in the Budget Framework Law, Law No. 91/2001 of August 20, amended by Law 22/2011 of May 20, includes:
  - 4.1. The Central Government. This includes:
    - 4.1.1. The entities covered under the State Budget, which covers the budgets of the Central Administration, including the agencies and services that are not administratively and financially autonomous, agencies and services that are administratively and financially autonomous (*Serviços e Fundos Autónomos – SFA*).
    - 4.1.2. Other entities, including Incorporated State-owned enterprises (ISOE), or extra-budgetary funds (EBF) not part of the State Budget, but which are, under the European System of Accounts (ESA95) and ESA95 Manual on Government

Deficit and Debt rules, classified by the National Statistical Institute (INE) as part of the Central Government.

- 4.2. Regional and Local Governments, that include:
  - 4.2.1. Regional Governments of Madeira and Azores and Local Governments (*Administrações Regionais and Locais*);
  - 4.2.2. Regional and local government-owned enterprises or companies, foundations, cooperatives and other agencies and institutions, which are, under the ESA95 and ESA95 Manual on Government Deficit and Debt rules, classified by the INE as Local Government.
- 4.3. Social Security Funds comprising all funds that are established in the general social security system.
- This definition of General Government also includes any new funds, or other special budgetary and extra budgetary programs or entities that may be created during the Program period to carry out operations of a fiscal nature and which are, under the ESA95 and ESA95 Manual on Government Deficit and Debt rules, classified by the INE in the correspondent subsector. The MoF will inform the EC, ECB, and IMF of the creation of any such new funds, programs, entities or operations at the time of its creation or statistical re-classification or, in the case of Regional and Local Governments, at the time the Government acknowledges its creation.
- The General Government, as measured for purposes of Program monitoring in 2012, shall not include entities nor operations (including pension funds) that are re-classified into the General Government during 2012, but shall include those reclassified in 2011.<sup>1</sup>

## 5. **Supporting Material**

- 5.1. Data on cash balances of the State Budget will be provided to the EC, the ECB and the IMF by the MoF within three weeks after the end of the month. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published by the MoF.

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<sup>1</sup> An operation refers to part of a legal entity that is involved in the production or delivery of goods and services—including government services provided on a nonmarket basis. As such, it does not include transactions relating to the assets or liabilities of an entity. For example, should an entity handle a number of PPPs, reclassifying only one PPP would be considered as reclassifying an operation. In contrast, taking over part of an entity's debt by the government would not qualify for the exclusion. On this issue, see also paragraph 13.

- 5.2. Data on the cash balances of the other parts of General Government as defined in paragraph 4<sup>2</sup> will be provided to the EC, the ECB and the IMF by the MoF within seven weeks after the end of the month. Data will include detailed information on revenue and expenditure items. Data will also include detailed information on PPP-related revenues and expenditures for those PPP reclassified within the General Government sector according to ESA 95, and called guarantees.
- 5.3. Data on domestic and external debt redemptions (securities), new domestic and external debt issuance (securities), change in the domestic and foreign currency assets and liabilities of the Central Government at the BdP and other financial institutions will be provided to the EC, the ECB, and the IMF by the BdP within 40 days after the closing of each month.
- 5.4. BdP will provide to the EC, the ECB, and the IMF detailed monthly data on the financing of the General Government, as defined in ESA95, within seven weeks after the closing of each month.
- 5.5. Data on the revenues, operating expenses, capital expenditure, remuneration of personnel, EBITDA, and number of staff will be provided for state-owned enterprises (SOEs) on a quarterly basis, within 7 weeks after the end of each quarter. Aggregate data for the SOEs within the perimeter will be provided, with company-specific information for REFER, Estradas de Portugal, Metro de Lisboa, and Metro de Porto. Furthermore data for Comboios de Portugal and Parpública (outside the perimeter) will also be provided.

## **QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE CEILINGS, AND CONTINUOUS PERFORMANCE CRITERIA: DEFINITIONS AND REPORTING STANDARDS**

### **A. Floor on the Consolidated General Government Cash Balance (Performance Criterion)**

6. **Definition.** The consolidated General Government cash balance (CGGCB) is defined as the sum of the cash balances of the entities covered by the State Budget, the ISOE, the Regional and Local Governments, and the Social Security Funds, and other entities and EBFs, as defined in paragraph 4. Privatization receipts will be excluded from cash receipts. In 2012 and beyond, revenues from the reclassification of pension funds into the general government will not be accounted for as cash revenues for the purpose of the calculation of the consolidated general government cash balance. The net acquisition of financial assets for

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<sup>2</sup> In 2011, data exclude regional and local government-owned enterprises or companies, foundations, cooperatives and other agencies and institutions, which are, under the ESA95 and ESA95 Manual on Government Deficit and Debt rules, classified by the INE as Local Government, i.e., entities referred in paragraph 4.2.2.

policy purposes, including loans and equity participation will be recorded as cash expenditures, except for transactions related to the banking sector support and restructuring strategy under the Program. Called guarantees (excluding those related to the banking sector support and restructuring strategy), where entities of the General Government make cash payments on behalf of entities that are not part of the General Government, will be recorded as cash expenditures.

**6.1. The cash balance of the State Budget.** The cash balance of the State Budget will be measured from above the line, based on budget revenues (recurrent revenue plus nonrecurrent revenue, including EU revenues, minus tax refunds) minus budget expenditures of the State Budget as published monthly on the official website of the DGO of the MoF, and in line with the corresponding line items established in the State Budget. Budget expenditures will exclude amortization payments but include salaries and other payments to staff and pensions; grants to Social Security Funds, medical care and social protection; operational and other expenditure, interest payments; cash payments for military equipment procurement; and EU expenses.

**6.2. The cash balance of the Regional and Local Governments, Social Security Funds, ISOE and other entities or EBFs.** The cash balance of each of these parts of the General Government will be measured from above the line, based on revenues minus expenditures as it will be provided by the DGO of the MoF in the monthly General Government budget execution report (see Para 5), and in line with the corresponding line items established in their respective budgets. All entities including ISOE that prepare accrual-based financial statements will submit monthly cash flow statement in accordance with form and content specified by the MoF. The reporting by Local Government will be phased as set out in paragraph 8 below.

**6.3. Adjustor.** The 2012 and 2013 quarterly floors on the consolidated general government cash balance will be adjusted for the cumulative amount of arrears settled in the context of the arrears clearance strategy. This includes the health sector arrears settled with the banks' pension funds transfers' resources, as well as local government arrears settled through the €1 billion credit facility created in May 2012.

### **Other Provisions**

7. For the purpose of the program, the expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector and restructuring strategy. However, any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to the EC, ECB, and IMF.

8. Quarterly consolidated accounts for the General Government on a cash basis will be reported for internal, EC, ECB, and IMF monitoring 7 weeks after the reference period, starting with the first quarter of 2012. The reports will be published externally starting with

December 2011 data. SOEs will be consolidated with the general government accounts starting with the first quarter 2012. The larger municipalities (defined as those with a population of 100,000 voters or more) are required to provide monthly reports under current arrangements, and their cash balance will be included in the calculation of the monthly cash General Government balance. The cash balance of the smaller municipalities, i.e. those with a population of under 100,000 voters, will be excluded until any necessary legal changes requiring them to provide monthly reports have been put in place. In this transitory period, the MoF will provide a monthly estimate of the cash balance of these smaller municipalities excluded from the General Government reports to the EC, the ECB, and the IMF.

## 9. **Supporting Material**

9.1. Data on cash balances of the State Government, ISOEs, Regional and Local Government and Social Security Funds will be provided to the EC, the ECB and the IMF by the MoF within seven weeks after the end of each month. The information provided will include general government net acquisitions of financial assets for policy purposes, including loans and equity participations, as well as called guarantees where entities that are part of the General Government make cash payments on behalf of entities that are not part of the General Government.

9.2. The MoF will submit quarterly data on General Government accounts determined by the INE in accordance with ESA 95 rules, showing also the main items of the transition from cash balances to the General Government balances in national accounts. The reconciliation will be accompanied by necessary explanatory materials for any indication of potential deviation of the annual general government cash target from the annual general government accrual target determined in accordance with ESA 95 rules.

### **B. Non-Accumulation of New Domestic Arrears by the General Government (Continuous Indicative Target)**

10. **Definitions.** Commitment, liabilities, payables/creditors, and arrears can arise in respect of all types of expenditure. These include employment costs, utilities, transfer payments, interest, goods and services and capital expenditure. Commitments are explicit or implicit agreements to make payment(s) to another party in exchange for that party supplying goods and services or fulfilling other conditions. Commitments can be for specific goods and services and arise when a formal action is taken by a government agency, e.g., issuance of a purchase order or signing a contract. Commitment can also be of a continuing nature that require a series of payments over an indeterminate period of time and may or may not involve a contract, e.g. salaries, utilities, and entitlement payments. Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources (usually cash) embodying economic benefits or service potential. In relation to commitment, the liability arises when a third party satisfies the terms of the contract or similar arrangement. Payables/creditors are a subset of liabilities.

For the purposes of the program payables/creditors exclude provisions, accrued liabilities. Arrears are a subset of payables/creditors. For the purposes of the Program domestic arrears are defined as payables/creditors (including foreigner commercial creditors), that have remained unpaid for 90 days or more beyond any specified due date (regardless of any contractual grace period). In case no due date is specified, arrears are defined as payables/creditors that have remained unpaid for 90 days or more after the date of the invoice or contract. Data on arrears will be provided within seven weeks after the end of each month. The continuous indicative target of non-accumulation of new domestic arrears requires that the total arrears at the end of any month are not greater than the corresponding total at the end of the previous month—based on the same perimeter with respect to the entities covered. This also includes arrears that are being accumulated by the SOEs not included in the General Government.

11. **Supporting Material.** The stock of arrears will be measured through a survey. Reports on the stock of arrears of the General Government are being published monthly. The MoF will provide consistent data on monthly expenditure arrears of the General Government, as defined above. Data will be provided within seven weeks after the end of each month and will include total arrears classified by the different constituent sectors of the General Government sub-sector as defined in paragraph 4, as well as the monthly amounts of (i) health sector arrears settled with the banks' pension funds transfers' resources, and (ii) local government arrears settled through the €1 billion credit facility created in May 2012.

12. **Adjustor.** The monthly change in the stock of arrears will be adjusted for any stock adjustment related to the arrears clearance strategy. This includes the health sector arrears settled with the banks' pension funds transfers' resources, as well as local government arrears settled through the €1 billion credit facility created in May 2012. This will allow monitoring the underlying flow of new arrears.

### **C. Ceiling on the Overall Stock of General Government Debt (Performance Criterion)**

13. **Definition.** The overall stock of General Government debt will refer to the definition established by Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty establishing the European Community. For the purposes of the Program, the stock of General Government debt will exclude: (i) debt contracted for bank restructuring, when carried out under the Program's banking sector support and restructuring strategy; (ii) IGCP deposits; and (iii) (from end-September 2011) the *'prepaid margin'* on all EFSF loans.

14. **Adjusters.** For 2012, the ceiling of the overall stock of General Government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock at end-December 2011 general government debt of EUR183.33 billion. From 2013 onwards, the ceiling of the overall stock of General Government debt will be adjusted

upward (downward) by the amount of any upward (downward) reclassification of entities or operations that affects the stock at end-December of the previous year.

15. **Supporting Material.** Quarterly data on the total stock of General Government debt as defined in paragraph 12 will be provided to the EC, ECB and IMF by the BdP no later than 90 days after the end of each quarter, as reported to the ECB and the Eurostat. Monthly estimates will be provided to the EC, ECB and IMF by BdP no later than seven weeks after the end of each month.

#### **D. Non-Accumulation of New External Debt Payments Arrears by the General Government (Continuous Performance Criterion)**

16. **Definition.** For the purposes of the Program, the definition of debt is the same as in paragraph 12. An external debt payment arrear will be defined as a payment on debt to nonresidents, contracted or guaranteed by the general government, which has not been made within seven days after falling due (taking into account any applicable contractual grace period). The performance criterion will apply on a continuous basis throughout the Program period.

17. **Supporting Material.** Any external debt payment arrears of the General Government will be immediately reported by the MoF.

#### **E. Bank Solvency Support Facility**

18. The dedicated Bank Solvency Support Facility (BSSF) account will be maintained at the Bank of Portugal. As per previous review, resources for the BSSF will be agreed at each review and deposited in the dedicated account.

#### **F. Overall Monitoring and Reporting Requirements**

19. Performance under the Program will be monitored from data supplied to the EC, the ECB, and the IMF by the MoF and BdP. The authorities will transmit to the EC, ECB, and IMF any data revisions in a timely manner.

**PORTUGAL: LETTER OF INTENT TO THE EUROPEAN COMMISSION  
AND THE EUROPEAN CENTRAL BANK**

Lisbon, October 14, 2012

Mr Jean-Claude Juncker  
President  
Eurogroup

Mr Vassos Shiarly  
Minister of Finance  
Cyprus

Mr Olli Rehn  
Vice President  
European Commission

Mr Mario Draghi  
President  
European Central Bank  
Dear Sirs,

The attached Memorandum of Understanding (MoU) describes the progress made in recent months towards the objectives laid out in our Programme. It also updates previous MoUs and highlights the policy steps to be taken in the months ahead.

While we remain strongly committed to the Programme's policies and objectives, the challenging domestic and external environment is weighing on Programme performance. The fiscal outlook has deteriorated considerably, reflecting mainly the impact of the economic rebalancing on tax bases and revenue performance and the more subdued growth projections. In spite of a rigorous budget implementation on the expenditure side, a large fiscal gap has now emerged and the initial programme targets are no longer achievable.

We have started to settle the stock of existing domestic arrears and have advanced the implementation of the new commitment control systems. Nevertheless, the underlying arrear position has continued to deteriorate—although with smaller increases in recent months, resulting in further breaches of the related indicative target under the Programme. The operational restructuring of SOEs is being successfully implemented and we are assessing options to strengthen their long-term financial viability. Our policy efforts to preserve financial stability have continued, and further steps have been taken to promote competitiveness, growth, and employment.

While the Programme strategy remains appropriate, a recalibration of the fiscal path is needed at this difficult juncture to avoid imposing too large a social and output cost. Additional corrective measures will be implemented this year to limit the deficit to 5 percent of GDP in 2012. The 2013 budget will aim at a deficit of 4.5 percent of GDP and will be underpinned by permanent measures designed to limit the impact of fiscal consolidation on growth and the poorest segments of the population. We endeavour to identify a set of measures to be used in case of deviations with respect to the 2013 target. We will aim at a deficit well below 3 percent of GDP in 2014. To this end, we are undertaking a comprehensive expenditure review



to identify the necessary measures to present a preliminary version by the sixth review in November. We are implementing the new law on commitment control in order to avoid further accumulation of domestic arrears. Special attention is being given to local governments and the health sector where the main challenges are concentrated.

The achievement of an orderly deleveraging of the economy remains a key objective under our Programme and we are developing alternative options to facilitate credit to productive firms, in particular SMEs, by fostering the diversification of financing alternatives. The bank capital augmentation exercise due by June 2012 has been successfully completed and we will continue to closely monitor compliance with capital requirements and take prompt and appropriate actions if needed.

We are implementing the deep structural reforms already committed to under the Programme, and we will intensify efforts in areas with high potential to create jobs. For the fifth review, we present a new initiative to substantially streamline licensing requirements and procedures to create a business-friendly environment that should help spur new investment and relieve the heavy regulatory burden on small and medium firms. Building on the good results already secured in our privatization programme, we will broaden its scope, releasing more resources to the private sector.

On the basis of the strength of the policies defined in this letter, and in light of our performance under the Programme, including the corrective measures already taken as a prior action for this review, we request the completion of the fifth review under the Economic Adjustment Programme, the release of the sixth instalment under the Programme in the amount of EUR 2 800 million.

We remain confident that the policies described in the current and previous MoUs are adequate to achieve the objectives under the Programme. We stand ready to take additional measures should they be needed to meet the objectives of the Economic Adjustment Programme and will consult with the European Commission, the ECB and the IMF in advance of any necessary revisions to the policies contained in this letter and attached Memorandum.

This letter is copied to Ms. Christine Lagarde.

Sincerely yours,

/s/

\_\_\_\_\_  
 Vítor Gaspar  
 Minister of State and Finance

/s/

\_\_\_\_\_  
 Carlos da Silva Costa  
 Governor of the Banco de Portugal

Attachments: Memorandum of Understanding (MoU); Memorandum of Economic and Financial Policies (MEFP); Technical Memorandum of Understanding (TMU)

**PORTUGAL: MEMORANDUM OF UNDERSTANDING ON  
SPECIFIC ECONOMIC POLICY CONDITIONALITY**

Fifth Update – October 14, 2012

With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, the fifth update of the Memorandum of Understanding on specific economic policy conditionality (MoU) details the general economic policy conditions as embedded in Council Implementing Decision 2011/344/EU of 17 May 2011 on granting Union financial assistance to Portugal<sup>1</sup>

The first disbursement of financial assistance from the EFSM took place following the entry into force of the MoU and of the Loan Agreement.

The Council Implementing Decision specifies that the release of further instalments is conditional on a positive conclusion of the reviews of conditionality that will take place throughout the three-year duration of the programme. These reviews will assess progress made with respect to the policy criteria in the Council Implementing Decision and specified in the Memorandum of Economic and Financial Policies (MEFP) and in this updated MoU, as well as Council Recommendations in the context of the Excessive Deficit Procedure.

The fifth quarterly review was carried out in September 2012. It assessed compliance with the conditions to be met by end-July and the need and scope for additional policy steps. This fifth update of the MoU reflects the findings of the fifth review. The following reviews taking place in any given quarter will assess compliance with the conditions to be met by the end of the previous quarter or, where applicable, up to date of the mission.

If targets are missed or expected to be missed, additional action will be taken. The authorities commit to consult with the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) on the adoption of policies falling within the scope of this updated Memorandum, allowing sufficient time for review. Staff of the EC, the ECB and the IMF will, in cooperation with the Portuguese authorities, monitor and assess progress in the implementation of the programme and track the economic and financial situation. Staff will also monitor whether the implementation and effects of measures taken by the Portuguese authorities fall short of the commitments of previous versions of the MoU; such commitments might be re-inserted. To this effect the authorities commit to provide all required information as soon as available. In areas where there are risks of significant delays in the implementation of policies under this programme the authorities in cooperation with the EC, the ECB and the IMF consider making use of technical assistance.

Prior to the release of the instalments, the authorities shall provide a compliance report on the fulfilment of the conditionality.

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<sup>1</sup> On 8 April 2011, Eurogroup and ECOFIN Ministers issued a statement clarifying that financial support of the EU (European Financial Stabilisation Mechanism, EFSM) and the euro-area (European Financial Stability Facility, EFSF) would be provided on the basis of a policy programme supported by strict conditionality and negotiated with the Portuguese authorities, duly involving the main political parties, by the Commission in liaison with the ECB, and the IMF. Further to the EU support from the EFSM, loans from the EFSF will contribute to the financial assistance. The Loan Facility Agreement on the EFSF financing contribution specifies that the disbursements thereunder are subject to the compliance with the conditions of this Memorandum.

## ***1. Fiscal policy***

### **Objective**

The fiscal consolidation path under the programme is adjusted to accommodate the internal rebalancing of the economy, while safeguarding a steady decline of the debt-to-GDP ratio over the medium-term. The faster-than-expected rebalancing of growth away from domestic demand towards net exports and the more intense labour shedding has adversely affected tax revenues and the social security budget in 2012. Moreover, private domestic demand remains weak, with consumption tilted towards less-value added, lower tax-yielding goods. This reflects a correction of pre-crisis consumption excesses, which is good in the long run, but a drag on demand in the short run. Budgetary sustainability in the medium-term needs to be supported by a successful internal adjustment resulting in permanent competitiveness gains. The fiscal consolidation over the medium-term up to a balanced budgetary position will be maintained by containing expenditure growth. The consolidation will be achieved by means of high-quality permanent measures and minimising the impact of consolidation on vulnerable groups.

### **Fiscal policy in 2012**

The planned 2012 general government headline deficit target of 4½ percent of GDP will be revised to 5 percent of GDP (EUR 8.3 billion) to partially accommodate the negative windfall from the deterioration in the macroeconomic outlook and facilitate the on-going internal adjustment of growth towards net exports alongside a sustained implementation of the budgetary and structural reform programmes. The SGP fiscal objective of reducing the budget deficit well below 3 percent of GDP will be achieved by 2014, with a projected budget deficit of 2½ percent of GDP in 2014.

1.1. The government will achieve a general government deficit of no more than EUR 8.3 billion (5 percent of GDP) in 2012.<sup>2</sup> **[Q4-2012]**

1.2. Throughout the year, the government will rigorously implement the Budget Law for 2012, as amended by the Supplementary Budget. Within the year, progress will be assessed against the (cumulative) quarterly ceilings for the consolidated general government cash balance in the MEFP, as defined in the TMU, without prejudice to full-year ESA-95 deficit targets. **[Q3 and Q4-2012]**

1.3. The revenue deviations compared to the 2012 supplementary budget (of about 2 percent of GDP) mostly explained by macro-economic developments will be partly off-set by lower net interest payments, the reprogramming of EU cohesion funds, interest gained on the bank recapitalisation support, a larger decrease in the wage bill expenditure, and a large receipt from the sale of a concession for the Lisbon airport. Moreover, the government will take additional measures to confine the deficit to 5% of GDP in 2012, as follows: i) some of the 2012 budget

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<sup>2</sup> In 2012, operations related to the banking sector support and restructuring strategy under the programme will not be considered for the assessment of compliance with the programme target for the general government deficit. Conversely, if during the sixth review there is an agreement that there are sufficient safeguards to prevent further accumulation of arrears and the implementation of the strategy for the arrears' settlement is on track, the accrual government balance objectives may be adjusted by the amount of settled arrears.

appropriations for investment projects not yet initiated will be frozen, stamp duties on high value properties will be raised, and tax rates on investment income will be slightly increased, generating savings of about 0.1% of GDP; ii) another 0.1% of GDP of savings will be generated by frontloading some of the 2013 budget measures affecting social benefits; and iii) other measures generating savings in intermediate consumption and revenues from sales will be implemented in order to ensure the achievement of a budget deficit target of 5.0% of GDP in 2012.

### **Fiscal policy in 2013**

1.4. The government will achieve a general government deficit target of no more than EUR 7.5 billion (4½ percent of GDP), revised upwards from 3 percent of GDP. **[Q4-2013]**

1.5. In addition to the effort necessary to close the fiscal gap carried forward from 2012, measures will be adopted to compensate the fiscal effects of the Constitutional Court's ruling on the 13th and 14th salaries and pensions. The 13th month public sector wage and 1.1 monthly pensions will be reinstated (about ¾% of GDP) and compensated by measures of equivalent budgetary impact, including the reform of the personal income tax structure. Throughout the year, the government will rigorously implement the Budget Law for 2013.

1.6. Throughout the year, the government will rigorously implement the Budget Law for 2013. Within the year, progress will be assessed against the (cumulative) quarterly ceilings for the consolidated general government cash balance in the Memorandum of Economic and Financial Policies (MEFP), as defined in the Technical Memorandum of Understanding (TMU), without prejudice to full-year ESA-95 deficit targets. **[Q1, Q2, Q3 and Q4-2013]**

1.7. Permanent consolidation measures of about 3% of GDP were identified and will be adopted with the 2013 budget law to reach the 4½ % of GDP deficit target in 2013. The measures listed below will be detailed and carried out with the 2013 Budget Law **[Q4-2012]**, unless otherwise specified:

#### *Expenditure*

1.8. Measures introduced in the 2013 Budget Law, other than the measures to compensate the fiscal effects of the Constitutional Court ruling, leading to a reduction in expenditure of at least 1.6 % of GDP in the following areas:

- i. Wage bill: EUR 630 million. Decrease of at least 2 per cent (full-time equivalent) in the permanent staff of central, regional and local governments and decrease in the number of temporary positions in specific areas of public administration; reduction in overtime pay;
- ii. Intermediate consumption: EUR 150 million. Reduction in operational cost of public administration, education and school network rationalisation, and operational cost of state-owned enterprises;
- iii. Social transfers and subsidies, all economy, public and private: EUR 1170 million;
- iv. Health sector: EUR 485 million;
- v. Capital spending of public enterprises: EUR 200 million;

## *Revenue*

1.9. Measures introduced in the 2013 Budget Law, other than the measures to compensate the fiscal effects of the Constitutional Court ruling, leading to an increase in revenue in the following areas:

- i. Direct taxes: about  $\frac{3}{4}$  % of GDP. The measures are aimed at: a) broadening the tax bases by reduction in personal income tax (PIT) benefits and tax deductions; b) reducing the tax brackets of the PIT and increasing the average tax rates in line with European standards, while delinking social benefits from tax benefits; c) introducing a surcharge on PIT; d) broadening of the corporate income tax (CIT) base; e) increases in investment income tax rate; f) base broadening by allowing taxation of social transfers;
- ii. Consumption taxes: about 0.1% of GDP;
- iii. Property taxes: about 0.4% of GDP. Broadening of the property taxation base by completing the update of all property values and introducing stamp tax surcharges for high-value property;
- iv. Social contributions: about 0.1% of GDP.

1.10. The government will look for ways to increase the weight of the expenditure reduction in the overall consolidation package of 3% of GDP to be included with the 2013 budget in order to ensure a medium-term growth-friendly fiscal adjustment tilted towards the expenditure side.

1.11. In the framework of 2013 budget proposal, the government will prepare a set of contingency measures, predominantly on the expenditure side, to use in the course of 2013 in case of need, given possible implementation risks.

## **Fiscal policy in 2014**

1.12. The government will achieve a general government deficit of no more than EUR 4.3 billion ( $2\frac{1}{2}$  percent of GDP) in 2014. [Q4-2014]. To achieve this objective, further consolidation measures of about  $1\frac{3}{4}$  % of GDP will be necessary in 2014. Savings will be generated through expenditure cuts (about 4 bn EUR over 2014-15). A comprehensive expenditure review to fully specify the additional sources of savings will be carried out by the time of the sixth review and measures will be fully specified by mid-February 2013 in time for the seventh review. The fiscal consolidation plans for 2014-15 will be fully detailed in the 2013 Stability Programme.

1.13. Within the year, progress will be assessed against the (cumulative) quarterly ceilings for the consolidated general government cash balance in the Memorandum of Economic and Financial Policies (MEFP), as defined in the Technical Memorandum of Understanding (TMU), without prejudice to full-year ESA-95 deficit targets. [Q1 and Q2-2014]

## ***2. Financial sector regulation and supervision***

Preserve financial sector stability; maintain liquidity and support a balanced and orderly deleveraging in the banking sector; ensure adequate financing and working capital for the productive sectors; strengthen banking regulation and supervision; optimise the process for

recovering the assets transferred from BPN to the three state-owned SPVs; streamline state-owned Caixa Geral de Depósitos; complete the bank resolution framework and reinforce the Deposit Guarantee Fund and the Guarantee Fund for Mutual Agricultural Credit Institutions; reinforce the corporate and household insolvency frameworks.

#### 2.1. *Maintaining liquidity in the banking sector*

Encourage banks to strengthen their collateral buffers on a sustainable basis and to take full advantage of the broadening of the range of eligible collateral for the purpose of Eurosystem re-financing. The Banco de Portugal (BdP), in close cooperation with the ECB, will continue to monitor closely the liquidity situation of the banking system and stands ready to take the appropriate measures to maintain sufficient system liquidity. **[Ongoing]** A new platform for interbank unsecured lending has been launched and the BdP is expected to extend it to secured interbank lending by the beginning of next year.

#### *Deleveraging in the banking sector*

2.2. The banking system should in the medium run eliminate its funding imbalances. Monitor the banks' implementation of the funding plans aiming at an indicative loan-to-deposit ratio of about 120% in 2014. It is important that the pace and composition of deleveraging should not jeopardise the provision of appropriate credit to finance productive investment and working capital in the private sectors of the economy, not least SMEs. Fiscal adjustment and an attendant reduction in the public sector's financing are crucial for reconciling potentially conflicting objectives. In addition, the BdP will implement the measures taken to discourage evergreening of doubtful loans with a view to facilitating an effective adjustment of bank balance sheets respecting EU state aid rules. In this context, banks are identifying and reporting recently restructured loans due to debtors' financial difficulties and the first report by the BdP is expected by **end-November 2012**. These steps will be taken without burdening or posing risks to public resources. Banks' funding and capital plans and broader credit developments will continue to be monitored closely. There is room for the necessary deleveraging to take place in an orderly manner and it is crucial that the pace and composition of the deleveraging remain consistent with the macroeconomic framework of the programme. **[Ongoing]**

#### *Capital buffers*

2.3. Ensure that the programme target of a Core Tier 1 ratio of 10% by **end-2012** target is reached including through the monitoring of the restructuring plans banks having received public capital support were requested to draw up, aiming at enhancing the banks' resilience.

2.4. BdP is closely monitoring compliance with the capital requirements for all banks, with a view to promptly take appropriate action if needed. **[Ongoing]**

2.5. Remain committed to provide further support to the banking system, if needed. Resources from the Bank Solvency Support Facility (BSSF) are available in line with state aid rules to further support viable banks, subject to strict conditionality. Avoid subsidizing private shareholders and prevent further migration of private liabilities to the public sector balance sheet. In the event new capital needs were to arise, banks are encouraged to seek private solutions. **[Ongoing]**

*Caixa Geral de Depósitos (CGD)*

2.6. Continue to streamline the state-owned CGD group.

*Banking regulation and supervision*

2.7. The BdP will continue to strengthen its supervisory organisation, optimise its supervisory processes and develop and implement new supervisory methodologies and tools. The field work of a new onsite inspections program (OIP), launched in May 2012 by the BdP has already started in the major banking groups. This initiative is part of BdP regular supervisory activities, which are currently focused on assets classes that are more sensitive to existing market conditions.

2.8. In addition, the BdP is stepping up the monitoring of banks, including via ad hoc audits. **[Ongoing]**

2.9. BdP will remain committed to close coordination with home and host country supervisors, both within and outside the EU. **[Ongoing]**

*Monitoring of bank solvency*

2.10. The BdP will continue to monitor on a **quarterly** basis the banks' potential capital needs with a forward looking approach under stress conditions. In this context, banks will reflect the OIP findings in the implementation of the SIP recommendations on asset quality and stress testing methodologies by **end-December 2012**, with the update of the treatment of collective impairments expected to be finalized at the latest by **end-June 2013**.

*Banco Português de Negócios*

2.11. Gradually settle CGD's state guaranteed claim on the SPVs in cash, according to the schedule agreed with the EC, ECB and IMF. Any recoveries on the assets held by the three state-owned SPVs will also be used to promptly repay CGD. **[Ongoing]**

2.12. Outsource the management of the credits currently held by Parvalorem to a professional third party, with a mandate to gradually recover the assets over time. Select the party managing the credits through a competitive bidding process, to be launched by **end-October 2012**, at the latest, and with a view to complete it by **end-March 2013**. Include proper incentives to maximise the recoveries and minimise operational costs into the mandate. Ensure timely disposition of the subsidiaries and the assets in the other two state-owned SPVs.

*Bank resolution framework*

2.13. The early intervention, resolution and deposit guarantee framework has been strengthened. The authorities are asked to conclude the implementing measures. In particular, the following actions will be taken: (a) setting-up of the resolution fund with a view to ensuring its funding arrangement through the approval of a decree-law on the banks' contributions to the resolution fund by **November 2012**; (b) adopt supervisory notices on recovery plans by **end-October 2012**; (c) adopt resolution plans regulations by **end-November 2012**, taking into account, to the extent possible in view of the deadline, the EBA recommendations and templates; (d) adopt rules applicable to setting-up and operation of bridge banks in line with EU competitions rules by **end-October 2012**. Give priority to the review of the recovery and subsequent resolution plans of the banks that are of systemic importance.

2.14. The legislator will closely follow the process of adoption of the EU Directive on resolution and revise the national resolution framework as soon as the Directive enters into force. **[Ongoing]**

*Corporate and household debt restructuring framework*

2.15. Establish a framework for financial institutions to engage in out-of-court debt restructuring for households and implement an action plan to raise public awareness of the restructuring tools. **[Ongoing]**

*Monitoring of corporate and household indebtedness*

2.16. Continue the monitoring of the high indebtedness of the corporate and household sectors through the quarterly reports. **[Ongoing]**

*Encouraging the diversification of financing alternatives to the corporate sector*

2.17. The Ministry of Finance, the BdP, and other stakeholders, have put forward a set of preliminary proposals to encourage the diversification of financing alternatives to the corporate sector<sup>3</sup>.

i. Develop and evaluate the different options put forward with a view to set priorities.

**[Ongoing]**

ii. Consider in this exercise also the measures to facilitate access to finance for SMEs **[Ongoing]** and assess the effectiveness of EU-compatible government-sponsored export credit insurance schemes with a view to take appropriate measures to promote exports **[Q1-2013]**.

### ***3. Fiscal-structural measures***

#### **Objectives**

Improve the efficiency of the public administration by eliminating redundancies, simplifying procedures and reorganising services; regulate the creation and functioning of all public entities including SOEs, PPPs, foundations, associations; re-focus their activities to core public policy objectives and enhance their cost efficiency and fiscal sustainability; streamline the budgetary process, including by adopting new financing laws at regional and local level; strengthen risk management, accountability, reporting and monitoring of all parts of the general government. Government action will build on the recommendations provided by the IMF/EU technical assistance missions.

#### **Public Financial Management framework**

##### *Reporting and Monitoring*

3.1. Publish a comprehensive report on fiscal risks **each year as part of the budget**. The report will outline general fiscal risks and specific contingent liabilities to which the general

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<sup>3</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.



government may be exposed, including those arising from Public-Private Partnerships (PPPs), SOEs and explicit guarantees to the banks. Technical assistance will be provided if necessary.

3.2. Publish a tax expenditure report **each year as part of the budget**. The report will define a clear methodology to estimate and to evaluate tax expenditures, in line with international best practices. The report will cover central, regional and local administrations.

3.3. Prepare, in consultation with the EC and the IMF, a dedicated document, which will accompany the budget report, assessing reform progress in the area of public financial management, including the reduction of budget fragmentation and delineating next steps over the next three years. **[Q3-2012]**<sup>4</sup>

3.4. Reduce the number of Serviços e Fundos Autónomos (SFA) in view of reducing budget fragmentation and improving efficiency in the general government. In particular, this reform will be deepened by reviewing the classification of own revenues to enlarge central government revenues. **[Q3-2013]**

#### *Arrears*

3.5. The stock of domestic arrears will be significantly reduced by the end of the programme period. A significant part of the existing arrears will be reduced as laid down in the strategy for the settlement of arrears. The Inspeção Geral de Finanças (IGF) will carry out inspections throughout the process to verify compliance of the commitment control system through a risk-based approach. **[Q3-2012]**

3.6. IGF will reinforce the verification of local governments' arrears claims and commitment control systems. Disbursements under the "*Programa de Apoio à Economia Local*" (PAEL) will only take place where IGF has certified the full functioning of the commitment control system. Transparency of the use of the credit line will be ensured through the monthly publication of the amounts lent, disbursed, and used to settle arrears and other liabilities by municipality in the framework of the PAEL. **[Ongoing]**

#### *Budgetary framework*

3.7. Publish a fiscal strategy document for the general government annually in **April**. The document will be in compliance with the requirements of the Stability and Growth Pact and will specify 4-year medium-term economic and fiscal forecasts and 4-year costs of new policy decisions. Budgets will include a reconciliation of revisions to the 4 year fiscal forecasts attributable to policy decisions and parameter revisions e.g. policy decisions, changes in the macroeconomic environment.

3.8. Review the Budget Framework Law to take account of the reinforced EU fiscal framework and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (fiscal compact). The revised law will also accommodate the developments in the regional and local financing laws. **[Q4-2012]**

3.9. Define in detail the characteristics of the medium-term budgetary framework, including medium-term fiscal strategy, decision-making and prioritisation process, carry-over rules,

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<sup>4</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.

commitment controls, and appropriate contingency reserves and related access rules after modification of the Budget Framework Law. **[April-2013]**

### **Regional and local budgetary frameworks**

3.10. The government will ensure that the measures to implement the new budgetary framework at central government level will also be applied at regional and local level. Adequate structures of monitoring, fiscal reporting, and commitment control will be put into place. **[Ongoing]**

3.11. The budgetary frameworks at local and regional levels will be considerably strengthened, in line with recommendations by the IMF/EC technical assistance mission of July 2011 and the new EU fiscal policy framework. A draft proposal to revise the regional finance law and the local finance law will be discussed with EC/IMF/ECB by **[Q3-2012]** and submitted to Parliament by **[Q4-2012]**<sup>5</sup>. They will include the following main elements:

- i. fully adapt the local and regional budgetary frameworks to the principles and rules in the revised Budgetary Framework Law, namely in what concerns (i) the inclusion of all relevant public entities in the perimeter of local and regional government; (ii) the multi-annual framework with expenditure, budget balance and indebtedness rules, and programme budgeting; and (iii) the interaction with the function of the Fiscal Council. The revision will also foresee that: (i) the Fiscal Council reviews local and regional governments own revenue projections and multi-annual fiscal plans (ii) a contingency reserve is included under the overall current expenditure envelope as a buffer against negative revenue surprises or erroneous expenditure planning, and (iii) the revised legal and institutional PPP framework is applied (see below);
- ii. strengthen fiscal accountability, in particular by: (i) tighter financial requirements for regional and local SOEs and other regional and local public bodies; (ii) a revision of the regime of transfers between the State and the regions and the local authorities; (iii) strengthening the supervisory power from the State on budgetary execution and (iv) apply tighter debt ceilings combined with the adoption of a multi-tiered monitoring system as suggested by the July 2011 technical assistance mission. This reform should follow international best practices;
- iii. limit the scope for lower tax rates in the Autonomous Regions vis-à-vis the rates applied in the mainland and ensure that the resulting additional revenues from increasing the regional rates are used as a priority for fiscal consolidation.
- iv. Strengthen the auditing and enforcement powers of the central tax administration to exercise control over the whole territory of the Republic of Portugal including currently exempt tax regimes.

3.12. Create a working group with representatives from the Ministry of Finance, the Autonomous Regions and the local authorities to prepare a proposal for common revenue forecasting guidelines for subnational governments. **[Q3-2012]**

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<sup>5</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.

3.13. Proceed with identifying data needs to support the revenue projections, balancing the need to preserve tax secrecy and the elaboration of sound forecasts by subnational governments. **[Q3-2012]**

3.14. The Government's financial arrangement with the Autonomous Region of Madeira (RAM), which is in full compliance with the Memorandum of Understanding, will be implemented. The Portuguese Government will monitor progress of implementation by RAM and present the results on a quarterly basis in advance of the reviews of the Memorandum of Understanding **[Ongoing]**.

### **Public Private Partnerships**

3.15. The renegotiation of PPP sub-concession contracts was completed; the final results of the agreements will be reported to EC, ECB and IMF. Based on the study to assess the costs and benefits of renegotiating any PPP contract to reduce the government financial obligations, the government will develop a detailed strategic plan **before the sixth review** for the renegotiation of PPPs in view of obtaining substantial fiscal gains, while minimising the debt burden, and ensure a sustainable reduction in government liabilities. **[Q4-2013]**.

3.16. The government will further work towards implementing the PPP framework law and making the new technical unit in the Ministry of Finance fully operational. No PPP will be launched until this new legal and administrative framework is fully effective. **[Ongoing]** Regions will be encouraged to design a similar framework for assessing fiscal risks derived from PPP, concessions and other public investments, as well as for monitoring their execution. **[Q4-2012]**

3.17. The annual PPP report will provide a comprehensive assessment of the fiscal risks stemming from PPPs and concessions. The report will provide information and analysis at sectoral level and an analysis of credit flows channelled to PPPs through banks (loans and securities other than shares) by industry and an impact assessment on credit allocation and crowding out effects. This particular element will be done in liaison with the Banco de Portugal. The report will serve as input to the fiscal risks assessment for the budget. **[Q3-2013]**

### **State-owned enterprises**

3.18. SOEs with commercial activity will reach operational balance by **end of 2012**. This will be achieved by substantially reducing operational costs and raising revenues. To this end the government is implementing the comprehensive SOEs strategy by reviewing the revenue structure and service provision of SOEs, with numerical targets on cost reductions, including measures to realign wages, reduce employment, and additional measures as appropriate. **[Q4-2012]** The authorities will inform the EC, IMF and ECB on progress before the **sixth review**. The government is further assessing options for managing the heavy debt load of SOEs, including Parública. **[Ongoing]**

3.19. The government submitted to Parliament a draft law to strengthen the governance of SOEs in accordance with international best practices. It reviews the existing shareholder approach, giving the Ministry of Finance a decisive role in financial matters of the enterprises, including monitoring of local SOEs. This will enhance the monitoring powers of the central administration over all SOEs. In addition, the timing and content of financial and operational reporting will be defined. The decisions adopted at central level to improve the efficiency of the enterprises while reducing their financial burden will be implemented at all SOEs, taking into

account their specificities. It will include the prohibition for SOEs within the general government to incur new debt with the private sector. No additional SOEs will be created until this law is adopted. **[Ongoing]**

3.20. Equivalent measures on operational results, debt, restructuring and governance will be taken at the local and regional levels, while respecting their administrative autonomy as foreseen in the law. The annual and quarterly SOEs reports will assess progress towards achieving these objectives for central and local SOEs. Each Autonomous Region will provide similar annual reports. These will serve as inputs to the fiscal risks analysis in the budget. **[Ongoing]**

### **Privatisation**

3.21. The government is implementing its privatisation programme under the new framework law for privatisation. The privatisation plan targets front-loaded proceeds of about EUR 5 billion through the end of the programme. The sale of GALP and the small remaining stake in REN on the free market have been delayed until market conditions improve. The privatisation or concession of the cargo handling subsidiary of CP (CP Carga) will be concluded by the **second quarter of 2013**. The tenders for the privatisation of the national air carrier (TAP) and the airport operator Aeroportos de Portugal (ANA) were launched in the third quarter, with a view to final decisions by end-2012 and the financial completion of these transactions in **early 2013**. The privatisation of Correios de Portugal (CTT) will be launched, once changes underway in regulation of this sector have their full impact, in order to complete the sale in 2013. The sale or concession of a television channel and radio station belonging to RTP and concessions for transport operators in Lisbon and Porto upon completion of restructuring of the public transport firms in these cities are being considered. CGD's health insurance will be sold in 2012 and the process to sell its insurance arm (Caixa Seguros) to a final buyer is ongoing. The privatisation programme will be expanded to include additional companies and assets for sale or concession in 2013.

3.22. With a view to introducing private capital and management in the water company Águas de Portugal (AdP), a strategy will be prepared. This strategy will include considerations of the competitive and regulatory environment and organisational consequences. **[Q4-2012]**

3.23. The government will work together with the municipalities and regional governments in order to identify the scope for further privatisation, by preparing an inventory of their assets, including real estate. **[Q4-2012]** Progress will be reported in the **sixth review**.

### **Revenue administration**

3.24. The Government is concluding the implementation of the undergone merger of the tax administration, customs administration and the information technology service (DGITA) in a single entity, *Autoridade Tributária e Aduaneira* (AT) by **Q4-2012**.

3.25. Following the creation of *Autoridade Tributária e Aduaneira* (AT), the focus in 2012 will be to merge central and support functions and reduce the number of branches. The reform will be deepened in **2013** by targeting a business function-type structure. In particular, the following elements will be implemented:

- i. review the experience with the task force of tax judges for cases with value above EUR 1 million and assess the need to establish special chambers within the tax tribunals to handle such cases **[mid-November 2012]**;
- ii. reducing the number of municipal offices by at least 20 per cent per year in 2012 and 2013 **[Q4-2012 and Q4-2013]**;
- iii. increase in the resources devoted to auditing in the tax administration to at least 30 per cent of the total staff, mostly through reallocations of staff within the tax administration and other parts of the public administration. The threshold should be attained by **Q4-2012**;
- iv. publish quarterly reports on recovery rates, duration and costs of tax cases starting from **Q4-2012** within four months after the end of the relevant quarter.

3.26. To strengthen control and simplify compliance, exchange of information between the collection units of the Tax Authority and the Social Security administration will be significantly strengthened by means, among others, of a unified monthly tax return covering withholding information **[Q1-2013]** as well as a unified form on Independent Workers annual revenue **[Q2-2013]**.

3.27. The government will address the bottlenecks in the tax appeal system by progressing with clearing cases worth above EUR 1 million **[Q4-2012]** with the support of the tax court judges.

3.28. With the aim of curbing down fraud and evasion, the Government has approved a reform on the invoicing system in Portugal that will enter into force on 1<sup>st</sup> January 2013. The reform implies mandatory invoicing across all sectors and transactions, a centralized VAT monitoring database, a system to electronically monitor goods in circulation and a tax incentive for final consumers to ask for invoices in hard-to-tax sectors. An evaluation report of the measures will be prepared **[Q2-2013]**.

3.29. Also as part of the development of a modern tax compliance management framework, a fully-fledged Large Taxpayer Office (LTO) will be operational by **[Q4-2012]**<sup>6</sup>.

## **Public administration**

### *Central, regional and local administration*

3.30. Conclude the public administration restructuring programme (PREMAC). The final report, comprising the internal organisation and the roster of each entity, including the reallocation of human resources, will be presented in **[Q3-2012]**.

3.31. Based on the cost/benefit analysis on foundations, the central, regional or local administration responsible for each foundation or its financial support will decide accordingly whether to maintain, reduce or extinguish them in respect of the new legislation. The government will promote that the same objective is achieved by regions. **[Q3-2012]**

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<sup>6</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.

3.32. The approach on foundations – the compulsory census and the subsequent analysis, adjusted as needed - will also be applied to associations and extended later to other public and quasi-public entities across all levels of government. **[Q4-2012]**

3.33. Reorganise local government administration. There are currently 308 municipalities and 4,259 parishes. The government will reorganise and significantly reduce the number of such entities. These changes, which will come into effect by the beginning of the next local election cycle, will enhance service delivery, improve efficiency, and reduce costs. **[Q3-2012]**

3.34. Building on the study carried out by the inter-ministerial working group for territorial issues an identification of potential duplication of activities and other inefficiencies between the central administration, local administration and locally-based central administration services will be made by the **sixth review**. Based on this analysis, reform the existing framework to eliminate the identified inefficiencies. **[Q4-2012]**

#### *Shared services*

3.35. Develop the use of shared services in the central administration by fully implementing the ongoing projects and by regularly assessing the scope for further integration:

- i. complete the implementation of the strategy of shared services in the area of financial resources (GeRFIP). **[Q1-2013]** GeRFIP will also be implemented in the Autonomous Region of Madeira and in the Autonomous Region of Azores **[Q4-2013]**;
- ii. fully implement the strategy of shared services in the area of human resources (GeRHuP) in the Ministry of Finance's entities **[Q4-2012]**, with the exception of the Tax Authority for which this is scheduled for **end-June 2013**. Other Ministries will follow in 2013. The Autonomous Region of Madeira will implement GeRHuP gradually;
- iii. rationalise the use of IT resources within the central administration by implementing shared services and reducing the number of IT entities in individual Ministries or other public entities in line with the "Overall Strategic plan to rationalise and reduce costs on ICT in Public Administration". **[Q4-2012]**

3.36. Reduce the number of local branches of line ministries (e.g. tax, social security, justice). The services should be merged in citizens' shops covering a greater geographical area and developing further the e-administration over the duration of the programme. **[Q4-2013]**

#### *Human resources*

3.37. The 2012 budget promotes flexibility, adaptability and mobility of human resources across the administration, including by providing training and requalification where appropriate. In addition, the mobility schemes, namely geographic mobility and the regulation on mutual agreement on contract termination, will be reinforced as an instrument to manage human resources across administrations. The human resource instruments (geographic mobility, special mobility and overtime compensation rules) are to be applied to all sectors of Public Administration, including teachers and health professionals. **[Ongoing]**

3.38. Limit staff admissions in public administration to achieve annual decreases in 2012–2014 of 2 per cent per year (in full-time equivalents) in the staff of central administration and 2

per cent in local and regional administrations (in full-time equivalents); including a significant reduction of fixed-term contracts. The government will ensure the implementation of this measure at local administration level and will promote the initiatives needed so that each region will present its plan to achieve the same target. **[Ongoing]**

3.39. The government will prepare a comprehensive review of wage scales in the general government, to identify unwarranted differences in remuneration between the public and the private sector for similar types of qualifications. **[Q4-2012]** The comprehensive study of SOEs will follow in **Q2-2013**.

3.40. Acceleration the convergence of the system of social protection for staff that are in the Regime de Proteção Social Convergente (RPSC) to the rules of Regime Geral de Seguranga Social. **[Q4-2013]**

## **Health care system**

### **Objectives**

Improve efficiency and effectiveness in the health care system, inducing a more rational use of services and control of expenditures; generate additional savings in the area of pharmaceuticals to reduce the overall public spending on pharmaceutical to 1.25 percent of GDP **by end 2012** and to about 1 per cent of GDP in 2013; generate additional savings in hospital operating costs and devise a strategy to eliminate arrears.

The government will take the following measures to reform the health system:

#### *Financing*

3.41. The revision of NHS moderating fees (*taxas moderadoras*) will result in additional revenues of EUR 150 million in 2012 and an additional 50 million in 2013. **[Q4-2012]**

3.42. In the light of the urgency and size of the savings needed in the health sector to address large arrears and budget limitations, plans to achieve a self-sustainable model for health-benefits schemes for civil servants will be accelerated. The current plan foresees that the overall budgetary cost of existing schemes - ADSE, ADM (Armed Forces) and SAD (Police Services) - will be reduced by 30 per cent in 2012 and by further 20 per cent in 2013 at all levels of general government. The system would become self-financed by 2016. The costs of these schemes for the public budget will be reduced by lowering the employer's contribution rate to 1.25% in 2013 and by adjusting the scope of health benefits. **[Q3-2012]**.

#### *Pricing and reimbursement of pharmaceuticals*

3.43. Enact legislation which automatically reduces the prices of medicines when their patent expires to 50 per cent of their previous price. **[Q4-2012]**

3.44. The government implements an annual revision of prices of medicines and of countries of reference in order to achieve cost savings. Second price revision to be published in **January 2013**.

3.45. The government will monitor monthly pharmaceutical expenditures and ensure that the overall public pharmaceutical expenditure does not exceed the target of 1.25 per cent of GDP in 2012 and 1 per cent of GDP in 2013. **[Ongoing]**

*Prescription and monitoring of prescription*

3.46. Continue to improve the monitoring and assessment system of doctors' prescription behaviour regarding medicines and diagnostic in terms of volume and value and vis-à-vis prescription guidelines and peers. Feedback continues to be provided to each physician on a regular basis (e.g. quarterly), in particular on prescription of costliest and most used medicines.

**[Ongoing]**

3.47. Continue to devise and enforce a system of sanctions and penalties, as a complement to the assessment framework **[Ongoing]**. Assess the possibility of establishing agreements with private sector physicians for the application of prescription rules as applied in the NHS.

3.48. Strictly monitor the implementation of the legislation making it compulsory for physicians at all levels of the system, both public and private, to prescribe by International Non-proprietary Name (INN) to increase the use of generic medicines and the less costly available product. An implementation report will be published by **December 2012**.

3.49. Continue to publish prescription guidelines with reference to medicines and the realisation of complementary diagnostic exams on the basis of international prescription guidelines, audit their implementation and integrate them in the electronic prescription system. A first set of guidelines is introduced in the e-prescription system by **Q2 2013**.

3.50. The government will produce a report assessing the effectiveness of the enacted legislation aimed at removing all effective entry barriers for generic medicines, in particular by reducing administrative/legal hurdles in order to speed up the use and reimbursement of generics. **[Q1-2013]**

3.51. The above measures should aim at gradually and substantially increasing the share of generic medicines to at least 30 per cent of all outpatient prescription (in volume) in 2012. Targets for substantial further increases in 2013 will be agreed in the **sixth review**.

*Pharmaceutical retailers and wholesalers*

3.52. The Government will produce an intermediate assessment of the savings related to the revision of the calculation of profit margins for wholesale companies and pharmacies. **[Q3-2012]**.

3.53. If the revision does not produce the expected reduction in the distribution profits of at least EUR 50 million, an additional contribution in the form of an average rebate (pay-back) will be introduced, which will be calculated on the mark-up. The rebate will reduce the new mark-up on producer prices further by at least 2 percentage points on pharmacies and 4 percentage points on wholesalers. The rebate will be collected by the government on a monthly basis through the Centro de Conferência de Facturas, preserving the profitability of small pharmacies in remote areas with low turnover. **[Q4-2013]**

*Centralised purchasing and procurement*

3.54. Reinforce the centralised acquisition of vehicles, utilities, external services and other cross functional goods and services by all entities included in the NHS, in order to reduce costs through price volume agreements and fighting waste. A detailed action plan will be published by **November 2012**.



3.55. INFARMED will continue implementing the uniform coding system and a common registry for medical supplies. **[Ongoing]**

3.56. Take further measures to increase competition among private providers and reduce by an additional 10 percent the overall spending of the NHS with private providers delivering diagnostic and therapeutic services (with particular reference to dialysis and rehabilitation). Regularly evaluate and if necessary revise (at least every two years) the remuneration paid to private providers with the aim of reducing the cost of more mature diagnostic and therapeutic services. **[Q4-2012]**

3.57. Implement the centralised purchasing of medical goods through the recently created Central Purchasing Authority (SPMS), using the uniform coding system for medical supplies and pharmaceuticals. Assess the possibility of implementing the compulsory use of a formulary in all hospitals to monitor the stock and flows of hospital medicines and medical supplies and monitor compliance with central purchasing. **[Ongoing]**

3.58. Conduct an analysis of the market characteristics of relevant areas of service provision such as dialysis and the pharmacies sector in view of ensuring competition and fair prices in private markets. **[Q4-2013]**

#### *Primary care services*

3.59. As part of the reorganisation of health services provision and notably the concentration and specialisation of hospital services and the further development of a cost-effective primary care service, the Government reinforces measures aimed at further reducing unnecessary visits to specialists and emergencies and improving care coordination. **[Ongoing]** This will be done through:

- i. increasing the number of USF (*Unidades de Saúde Familiares*) units contracting with regional authorities (ARs) using a mix of salary and performance-related payments as currently the case. Extend performance assessment to the other primary care units (UCSPs). Make sure that the new system leads to a reduction in costs and more effective provision;
- ii. setting-up a mechanism to guarantee the presence of family doctors in needed areas to induce a more even distribution of family doctors across the country;
- iii. moving human resources from hospital settings to primary care settings and reconsidering the role of nurses and other specialties in the provision of services;
- iv. updating patients' registration lists and the national register in order to increase by at least 20 per cent the maximum number of patients per primary care/family doctor for health centres and by 10 per cent for the USF.

#### *Hospital services*

3.60. Implement the strategy to clear arrears in the health sector, within the overall strategy for settling and avoiding the re-emergence of arrears. Ensure standardised and tight control procedures for all health sector entities to ensure expenditure commitments stay within the budget allocated to each entity and therefore prevent the re-emergence of arrears. **[Q3-2012]**

3.61. Hospital SOEs will change the existing accounting framework and adopt accounting standards in line with the requirements for private companies and other SOEs. This will help improving the management of the enterprises and the quality of the financial oversight by the general government. **[Q4-2013]**

3.62. Implement measures aimed at achieving a reduction of at least EUR 200 million in the operational costs of hospitals **in 2012**. This is to be achieved through the reduction in the number of management staff, concentration and rationalisation in state hospitals and health centres with a view to reducing capacity. **[Q4-2012]**

3.63. Continue the publication of clinical guidelines and set in place an auditing system of their implementation. **[Ongoing]**

3.64. On the basis of the comprehensive set of indicators, produce regular annual reports comparing hospital performance (benchmarking). Establish a web-portal with publicly available information. The first report is to be published **by end 2012** and its results should be used to establish targets for less performing hospitals. **[Q4-2012]**

3.65. Continue work to ensure full interoperability of IT systems in hospitals, in order for the ACSS to gather real time information on hospital accounting and activities and to produce monthly reports to the Ministry of Health and the Ministry of Finance. **[Ongoing]**

3.66. Continue with the reorganisation and rationalisation of the hospital network through specialisation, concentration and downsizing of hospital services, joint management (building on the Decree-Law 30/2011) and joint operation of hospitals. The aim is to adjust hospital provision within the same health region, notably in the presence of newly established PPP hospitals, adjust the activity of some hospitals from curative care towards areas such as rehabilitation, long-term and palliative care and revise emergency and transplantation structures. These improvements aim at eliminating unnecessary duplication, achieving economies of scale and deliver additional cuts in operating costs by at least 5 percent in 2013 while improving the quality of care provided. A detailed action plan is published **by 30 November 2012** and its implementation is finalised **by end-2013**. Overall, from **2011 to 2013**, hospital operational costs must be reduced by at least 15 per cent compared to 2010 level. **[Q4-2012]**

3.67. Annually update the inventory of all health staff and prepare regular annual reports presenting plans for the allocation of human resources in the period up to 2014. The report specifies plans to reallocate qualified and support staff within the NHS. **[Q2-2013]**

3.68. Update the current legal framework applying to the organisation of working time of healthcare staff, including introduction of rules to increase mobility within and across Health Regions, adoption of flexible time arrangements and review of payment mechanisms for emergency work, the prevention regime and per call payments, notably by aligning overtime remuneration in the health care sector with the general legal framework recently adopted. In this context, overtime compensation should be reduced by 20% in 2012 and another 20% in 2013. **[Q4-2012]**

#### *Regional health authorities*

3.69. Improve monitoring, internal control and fiscal risks management systems of the Administrações Regionais de Saúde. **[Q4-2012]**

*Cross services*

3.70. Roll-out the system of patient electronic medical records and ensure access to all relevant health care facilities. **[Ongoing]**

3.71. Reduce costs for patient transportation by one third compared to 2010. **[Q4-2012]**

**4. Labour market and education****Labour market****Objectives**

Revise the unemployment insurance system to reduce the risk of long-term unemployment while strengthening social safety nets; reform employment protection legislation to tackle labour market segmentation, foster job creation, and ease the transition of workers across occupations, firms, and sectors; ease working time arrangements to contain employment fluctuations over the cycle, better accommodate differences in work patterns across sectors and firms, and enhance firms' competitiveness; promote labour cost developments consistent with job creation and enhanced competitiveness; ensure good practices and appropriate resources to Active Labour Market Policies to improve the employability of the young and disadvantaged categories and ease labour market mismatches.

Address early school leaving and improve the quality of secondary education and vocational education and training, with a view to raising the quality of human capital and facilitate labour market matching.

Reforms in labour and social security legislation will be implemented after consultation with social partners, taking into account possible constitutional implications, and in respect of EU Directives and Core Labour Standards.

*Unemployment benefits*

4.1. Following the reform of the unemployment benefit system (Decree-law 64/2012 and Decree-law 65/2012 of 15 March) - which introduces a declining profile for unemployment benefits, reduces the maximum monthly amount of benefits, reduces the maximum unemployment benefits duration and increases coverage by reducing the contribution period for eligibility and by extending the system to a clearly-defined category of self-employed - the government will prepare by **Q4-2012** an analysis on benefit dependency and long-term unemployment with a view to assessing whether further measures are needed to address possible deficiencies by **Q1-2013**.

*Employment protection legislation*

4.2. The government will carry out reforms in the employment protection system aimed at tackling labour market segmentation, fostering job creation, and easing adjustment in the labour market. **[Ongoing]**

4.3. Severance payments **[Ongoing]**. Following the entry into force of law n. 53/2011 concerning the reform in the severance payments for new hires in line with the MoU (which reduces severance payments to 20 days per year of work for both open-ended and fixed-term contracts, while introducing a cap of 12 months of pay and eliminating the 3 months of pay

irrespective of tenure for permanent contracts, and makes compulsory the partial financing of severance payments via a compensation fund) and the entry into force of law n. 23/2012 (which aligns the level of severance payments to current employees), the government will further reduce severance payments and implement the compensation fund to partly finance severance payments. Until the fund is operational, the employers remain responsible for the total of severance payments. In consultation with social partners, the Government will, submit to Parliament by **Q3-2012** draft legislation aiming at:

- aligning the level of severance payments with the EU average of 8–12 days;
- implementing the compensation fund for severance payments allowing the severance pay entitlements financed from the fund to be transferable to different employers by means of the creation of notional individual accounts.

4.4. Following the changes to the dismissal rules as stated in law n. 23/2012, the government will prepare a report on the effects of these changes on relevant labour market indicators by **Q3-2013**.

#### *Wage setting and competitiveness*

4.5. The government will promote wage developments consistent with the objectives of fostering job creation and improving firms' competitiveness with a view to correcting macroeconomic imbalances. To that purpose, the government will:

- i. commit that, over the programme period, any increase in the minimum wage will take place only if justified by economic and labour market developments and agreed in the framework of the programme review [**Ongoing**];
- ii. ensure wage moderation by using the available discretion in the current legislation of not extending collective agreements until clear criteria are defined as foreseen by point 4.5(iii);
- iii. define clear criteria to be followed for the extension of collective agreements and commit to them. The representativeness of the negotiating organisations and the implications of the extension for the competitive position of non-affiliated firms will have to be among these criteria. The representativeness of negotiating organisations will be assessed on the basis of quantitative indicators. To that purpose, the government will take the necessary steps to collect data on the representativeness of social partners. Based on this data, a collective agreement subscribed by employers' associations representing less 50 percent of workers in a sector cannot be extended. When that threshold is reached a decision on extension will have to take into consideration the implications on competitiveness of firms in the sector. Draft legislation defining criteria for extension and modalities for their implementation will be submitted to Parliament or published as a Council of Ministers resolution by **Q3-2012**<sup>7</sup>, with a view to entering into force by **Q1-2013**;
- iv. prepare an independent review by **Q4-2012** on:

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<sup>7</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.

- how the tripartite concentration on wages can be reinvigorated with a view to defining norms for overall wage developments that take into account the evolution of the competitive position of the economy and a system for monitoring compliance with such norms;
- the desirability of shortening the survival (*sobrevigência*) of contracts that are expired but not renewed (art 501 of the Labour Code).

4.6. The Government will promote wage adjustments in line with productivity at the firm level. Following the implementation of the organised decentralisation (which creates the possibility for collective agreements to define conditions under which works councils can negotiate functional and geographical mobility, working time arrangements and remuneration) and the decrease of the firm size threshold to 150 workers for unions to delegate power to conclude collective agreements to works councils, the government will, by **Q1-2013**, assess in a report the effects of these measures and how they are being applied in collective agreements. If needed, an action plan will be prepared in consultation with the social partners by **Q2-2013** to ensure that works councils are given the possibility to negotiate wages at firm level.

#### *Active labour market policies*

4.7. The Government will ensure good practices and an efficient amount of resources to activation policies to strengthen job search effort by the unemployed and to other Active Labour Market Policies (ALMPs) to improve the employability of the young and disadvantaged categories and ease labour market mismatches. Following the preparation of a report assessing the effectiveness of ALMPs and the publication of the Council of Ministers Resolution n.20/2012, which sets a plan to improve ALMPs, including the role of Public Employment Services (PES) , the Government by **Q4-2012** will present a report:

- i. detailing expenditures and sources of financing of the different ALMPs;
- ii. assessing the role played by the job counselling/ job search assistance and activation/sanctions systems in facilitating the transition out of unemployment;
- iii. reviewing the implementation of the Council of Ministers Resolution n. 20/2012 regarding the reorganisation of the PES and other ALMPs;
- iv. proposing specific action to improve the effectiveness of training measures in light of the results of the report assessing the effectiveness of employment and training measures.

#### *Education and training*

4.8. The government will continue action to tackle low education attainment and early school leaving and to improve the quality of secondary education and vocational education and training, with a view to increase efficiency in the education sector, raise the quality of human capital and facilitate labour market matching. To this purpose, the government will:

- i. set up an analysis, monitoring, assessment and reporting system in order to accurately evaluate the results and impacts of education and training policies, notably plans already implemented (notably concerning cost saving measures, vocational education and training and policies to improve school results and contain early school leaving). Following the progress made until Q4-2011, the

government will continue to improve the system with a view to having an operational management tool by **Q3-2012**;

- ii. in line with the action plan to improve the quality of secondary education the Government, by **Q3-2012**, will: (i) implement the legislation to promote trust agreements with public schools and report about progress; (ii) define and implement a simple formula-based funding framework comprising performance evaluation criteria and accountability for public schools and schools under autonomy agreements; (iii) present an assessment of the new inspection model;
- iii. in line with action plan on vocational and educational training (VET) the Government will present a progress report on: (i) ways to promote the involvement of businesses in the provisions of traineeships [**Q3-2012**]; (ii) action taken to reorganise modalities for the provision of VET, improve the quality and attractiveness of VET, and to enhance students' orientation and career guidance [**Q4-2012**]; (iii) the establishment of "professional schools of reference". [**Q1-2013**]

## ***5. Goods and services markets***

### **Objectives**

Reduce entry barriers in network industries and sheltered sectors of the economy such as services and regulated professions so as to increase competition and reduce excessive rents. These measures should help improving the competitiveness of the Portuguese economy by lowering input prices, raising productivity and improving the quality of the products and services provided. This should contribute decisively to the social balance of the programme by reducing unwarranted sector protection and rents so that all segments of the society participate in the burden sharing of the needed adjustment.

### **Energy markets**

#### **Objectives**

Complete the liberalisation of the electricity and gas markets; ensure the sustainability of the national electricity system and avoid further unfavourable developments in the tariff debt; ensure that the reduction of the energy dependence and the promotion of renewable energies is made in a way that limits the additional costs associated with the production of electricity under the ordinary and special (co-generation and renewables) regimes; ensure consistency of the overall energy policy, reviewing existing instruments. Continue promoting competition in energy markets and to further integrate the Iberian market for electricity and gas (MIBEL and MIBGAS).

#### *Liberalisation of electricity and gas markets*

5.1. Fully transpose the Third EU Energy Package. In particular, adopt the law on the penalty system of the regulator and of the decree-laws transposing the electricity and gas directives by **Q3-2012**. To ensure the National Regulatory Authority's independence, autonomy and all powers foreseen in the package, adopt by [**Q3-2012**] the new regulators' bylaws agreed in July 2012, consulting the EC/ECB/IMF if changes are introduced, and ensure that they are effective

before end of year in time for the liberalisation of the electricity and gas market [Q4-2012]. Progress towards this end will be monitored during the **sixth review**.

5.2. Take measures to accelerate the establishment of a functioning Iberian market for natural gas (MIBGAS), through regulatory convergence and the harmonisation of the tariff structures in Portugal and Spain. In particular, in accordance with the roadmap of 30 September 2011 agreed with the Spanish authorities, the regulators of each country will:

- i. present proposals to harmonise the tariffs for access to the interconnection networks taking into account the outcome of the public consultation conducted in January 2012 [Q3-2012];
- ii. prepare a report analysing and developing options to improve the harmonised mechanism for capacity allocation and congestion management of cross-border flows with Spain, including the introduction of virtual reverse flows and other mechanisms allowing smaller players to make efficient use of the LNG Sines facility [Q1-2013];
- iii. apply a harmonised allocation and congestion management mechanism to all the interconnection capacity between Portugal and Spain, in line with the EU network codes and guidelines in this respect [Q1-2013].

5.3. Clarify the national legal framework with respect to the scope of competencies of the logistics operator and define based on a cost-benefit analysis a way of convergence of the existing two platforms for electricity and natural gas. [Q4-2012]

*Ensure sustainability of the national electricity system*

5.4. Conclude the measures approved in the Council of Ministers on 17 May 2012 to reduce excessive rents and to address the sustainability of the national electricity system. Cost reduction measures address the following compensation schemes: power guarantee, special regime (renewables - excluding those granted under tender mechanisms – and cogeneration), CAE's (power purchase agreements) and CMECs, and will reduce policy cost by at least EUR 1275 million in Net Present Value (NPV)<sup>8</sup> [Q3-2012]. The updated estimation of cost reductions that will be achieved as well as progress towards elimination of the tariff debt (defice tarifário) by 2020 will be presented and assessed in the **sixth review**.

5.5. Conclude the announced measures to limit the policy costs embedded in CMECs and PPAs by **October 2012**. In particular, as an element in revising the rate of return to bring it in line with the cost of capital at the moment the CMEC compensation was defined plus, if warranted, a risk premium of the assets that the mechanism remunerates: (i) reduce the CMEC annuity discount rate from 7.55% to 5% (yielding a NPV of EUR 120 million) in a legally certain manner; and (ii) set a compensation for the extension of exploitation licences of the power plants in Sines and Pego<sup>9</sup> yielding NPVs of EUR 55-75 million and EUR 30-50 million respectively, providing details on the valuation methodology leading to these figures. The

<sup>8</sup> Computed using a discount rate of 7.55% back to June 2012.

<sup>9</sup> Pego power plant compensation will not be included when determining the reduction of the rate of return of the CMEC.

updated estimation of cost reductions that will be achieved will be presented and assessed in the **sixth review**.

5.6. Present a report on the CMEC scheme including the foreseen annual compensation amounts to each beneficiary and past payments since 2007 and the forecast of future payments. The report will also describe the process for the extension of the concession of the public hydro resource by the former CAE hydro power plants, its correspondent economic valuation, and the rationale for the direct award instead of a tender process. The report will assess and consider all the information available within the governmental and the official bodies (General Directorates, Regulator, State representative in the contracts). **[Q3-2012]**

5.7. Conclude the announced measures to limit the policy costs of renewables under the special regime - excluding those granted under tender mechanisms, in particular (i) the compensation to be paid by the generators (yielding a NPV of EUR 85 to 103 million); and (ii) the introduction of a maximum duration for the feed in tariff in small hydro plants (yielding an NPV of EUR 200 to 250 million). The updated estimation of cost reductions that will be achieved will be presented and assessed in the **sixth review**.

5.8. Accelerate convergence to market-based pricing for co-generation operators in parallel with electricity market developments under the EU internal electricity and gas market legislation. The remuneration scheme for co-generation will be further revised to improve efficiency of the support system in ensuring continued guaranteed access of operators to electricity networks and markets with the calculation of explicit subsidies based on relevant price factors in the context of a competitive electricity market. The revision should ensure that the design of the support scheme allows a dynamic correlation between electricity market prices and the efficiency premium when the values of avoided externalities are not adequately reflected in electricity and other factor prices. This revision will be undertaken in line with the framework of the transposition of the energy efficiency directive **[Q1-2013]**. Ensure through annual audits that plants not fulfilling the requirements for co-generation do not receive the support, and report on the progress. **[Q2-2013]**

5.9. For new contracts in renewables, revise downward the feed-in tariffs and ensure that the tariffs do not over-compensate producers for their costs and they continue to provide an incentive to reduce costs further, through digressive tariffs. For more mature technologies develop alternative mechanisms (such as feed-in premiums). Reports on action taken will be provided annually in **Q3-2012** and **Q3-2013**.

5.10. Decisions on future investments in renewables, in particular in less mature technologies, will be based on a rigorous analysis in terms of its costs and consequences for energy prices. International benchmarks will be used for the analysis and an independent evaluation will be carried out. Reports on action taken will be provided annually in **Q3-2012** and **Q3-2013**.

## **Telecommunications and postal services**

### **Objectives**

Increase competition in the market by lowering entry barriers; guarantee access to network/infrastructure; strengthen power of the National Regulator Authority.



### *Telecommunications*

5.11. Ensure an efficient, objective, transparent and non-discriminatory mechanism for the designation of the universal service provider(s), in compliance with the Court of Justice ruling of 7 October 2010. Re-negotiate the concession contract with the undertaking currently providing the universal service, by reducing the scope of the services covered, so as to exclude the universal service and launch a new tender process for designation of universal service provider(s). **[Q3-2012]**

5.12. Following the corrective measures already taken, monitor the competitive situation in the telecommunications sector, in particular wholesale and retail broadband access, and mobile origination charges. **[Ongoing]**

### *Postal services*

5.13. Following the transposition of the Third Postal directive, further liberalise the postal sector by amending the decree-law laying down the framework of the concession contract and renegotiating the amendment of said contract with CTT, in order to reflect the new law (Law 17/2012) transposing the Third Postal Directive; ensuring in particular that the current designation period for the universal service provision is shortened to 2020 and that investment needs and return on investment are taken into account when setting new designation periods. **[Q3-2012]**

## **Transport**

### **Objectives**

Adopt a strategic plan to: rationalise networks and improve mobility and logistic conditions in Portugal; improve energy efficiency and reduce environmental impact; reduce transport costs and ensure financial sustainability of the companies; strengthen competition in the railways sector and attract more traffic; integrate ports into the overall logistic and transport system, and make them more competitive.

### *Strategic Plan for Transport*

5.14. Implement the Strategic Plan for Transport for 2011–2015 **[Q4-2012]**, namely:

- i. continue the reforms in the transport SOEs to achieve their EBITDA balance, by focusing efforts on the reduction of operational costs;
- ii. reduce the forecast debt burden of Estradas de Portugal through the reduction of PPP contracts' scope still in the construction phase, revision of shadow-toll schemes and the adjustment of the CSR (Road Service Contribution) to the inflation level. Analyse additional measures to further reduce the forecast debt burden of Estradas de Portugal;
- iii. attract new low-cost airline companies and/or routes, making use of the existing infrastructures;
- iv. focus the investment priorities in projects that present a positive cost-benefit ratio and contribute to the competitiveness of Portuguese exports, namely in the port and freight rail sectors;

- v. reform the transport and infrastructures' regulatory framework in order to improve the effectiveness, efficiency and independence of the entities regulating the transport sector. [Q1-2013]

5.15. Present a long term vision of the transport system and a list of actions to improve its efficiency and sustainability [Q4-2012]. It will specifically include an assessment of the existing rail, road and port networks and present a set of investment priorities for the 2020 and 2030 horizons, taking also into account TEN-T networks, with an estimate of the financial needs and the foreseen sources of financing [Q2-2013].

#### *Railways sector*

5.16. Continue with the transposition of the EU Railway Packages and in particular:

- i. ensure that the rail regulator enjoys the independence required under the EU rail Directives, in particular regarding the rules of appointment and dismissal of the director of the rail regulator. Strengthen the capacities of the railway regulator to fulfil its regulatory mandate effectively, including by exploring synergies with other transport regulators in the context of the revision of national regulatory agencies. [Q4-2012];
- ii. continue to implement the plans to bring the infrastructure manager to operational balance, in particular by reducing operational costs by at least 23 per cent in 2012 compared to 2010 [Q4-2012]. On the revenue side, track access charges for freight services should not be increased in order to prevent a deterioration of the competitiveness of rail freight services. Reintroduce incentives to REFER to reduce costs and access charges. Provide annual progress reports on the implementation of balancing revenues and expenditures [Q2-2013];
- iii. ensure that the new Public Service Obligation (PSO) contracts concluded on rail passenger transport respect EU legislation including Regulation (EC) No 1370/2007, and in particular provide a detailed breakdown of state contributions for each line under PSO [Q3-2012]. Develop administrative capacity for a stepwise introduction of competitive tendering of PSOs starting with some suburban services. Ensure that the awarding authority has the required level of independence and competence and guarantees fair conditions of tendering [Q4-2012];
- iv. extend the performance scheme on infrastructure charges to other operators [Q4-2012];
- v. review and render more effective the yield management on long-distance passenger ticket prices. [Q1-2013];
- vi. to prepare the privatisation of the freight branch of the state-owned rail operator, carry out an analysis for transferring part or whole of CP Carga's rolling stock to a rolling stock operating company [Q2-2013];
- vii. ensure that the rail terminals currently owned by CP Carga are transferred to another entity that will guarantee non-discriminatory access to all rail freight operators. [Q4-2012]; Plans will be presented and assessed in the **sixth review**.

*Ports*

5.17. In cooperation with EC/IMF/ECB prepare and submit to Parliament a revised legal framework governing port work to make it more flexible, including narrowing the definition of what constitutes port work, bringing the legal framework closer to the provisions of the Labour Code. **[Q3-2012]** The revised legal framework is expected to come into force by **[Q4-2012]**. A review of the overall savings generated and the impact of the introduction of the law on port usage cost will be made by **August 2013**.

5.18. Take further steps to improve the governance model of the ports system with the objective to enhance the competitiveness and the efficiency of ports in line with the Strategic Plan of Transport 2011-2015. The Government will deliver and enforce policies that ensure strong integrated policy-making, strategic planning and surveillance functions common to all ports in the country. Moreover, policy decisions will be taken and enforced so that (i) efficiency gains and cost-savings are passed through to port customers; and (ii) concession-holders of terminals and land facilities in ports respect minimum performance criteria. **[Q4-2012]**

*Road pricing*

5.19. Adopt the necessary legislative amendments in order to achieve full compliance with Directive 1999/62/EC (Eurovignette Directive) and the EU Treaty and, in particular, to guarantee non-discriminatory application of tolling schemes to non-resident road users **[Q4-2012]**. After the deadline of this measure, rebates in tolling schemes that pursue compelling reasons of territorial and social cohesion may only be applied if their compliance with the EU law is demonstrated.

**Other services sector****Objectives**

Eliminate entry barriers in order to increase competition in the services sector; soften existing authorisation requirements that hinder adjustment capacity and labour mobility; reduce administrative burden that imposes unnecessary costs on firms and hamper their ability to react to market conditions.

*Sector-specific legislation of Services*

5.20. Further to the adoption of a significant number of amendments to the sector specific legislation, complete the adoption of the outstanding sectorial amendments necessary to fully implement the Services Directive, easing the requirements related to establishment and reducing the number of requirements to which cross-border providers are subject. Adopt the remaining required amendments and submit them to Parliament by **[October 2012]** in view of approval by **[January 2013]**.

5.21. Adopt the necessary sector-specific amendments in the areas of construction and real estate to make both regimes fully compatible with the Services Directive and with the Treaty on the Functioning of the European Union. This includes making less burdensome the requirements applying to cross-border providers, both for construction and real estate activities, and reviewing obstacles to the establishment of service providers such as restrictions on subcontracting (for construction) and on excessive liquidity obligations and physical establishment (for real estate). For real estate, submission to the Parliament took place on 1 August in view of approval by **[Q3-**

**2012]**. For construction services, submit to Parliament by **[Q3-2012]** in view of approval by **[Q4-2012]**.

*Professional qualifications*

5.22. Improve the recognition framework on professional qualifications, in particular through the adoption of the executive order (portaria) on the services providers' prior declaration alongside the entry into force of amendment to Law 9/2009. **[Q3-2012]**

*Regulated professions*

5.23. Review and reduce the number of regulated professions and in particular eliminate reserves of activities on regulated professions that are no longer justified, through adoption by the Parliament of the law for professions where regulation does not involve a professional body (Ordens or Câmaras) by **[October-2012]**. Following the final report by the Comissão de Regulação do Acesso a Profissões (CRAP), launch by **[Q1-2013]** a second phase investigation of the review of regulated professions to eliminate unjustified requirements by **[Q2-2013]**.

5.24. Further improve the functioning of the regulated professions (such as accountants, lawyers, notaries) for which regulation involves a professional body (Ordens or Câmaras) by carrying out a comprehensive review of requirements affecting the exercise of activity and eliminate those not justified or proportional, including: (i) adopting the measures included in 5.22 and 5.23; (ii) eliminating restrictions to the use of commercial communication (advertising), as required by the Services Directive. To achieve the two conditions above the government has, following the public consultation, submitted a draft horizontal legal framework to Parliament in view of approval by **[Q3-2012]**. Upon enactment, the professional bodies will make the necessary changes in their statutes by **[Q4-2012]**.

*Administrative burden*

5.25. Continue the simplification reform effort by:

- i. adapting the content and information available at the Point of Single Contact (PSC) for the 44 amended regimes to ensure conformity with the Services Directive and for those that have not required amendments so far by **[January 2013]** and make available online forms for the completion of procedures by **[Q1-2013]**. Constantly adapting the content and information available at the PSC to the remaining 24 sector-specific regimes that are about to be adopted to ensure conformity with the Services Directive (see 5.20 and 5.21 above) at the latest 1 month after the adoption of each sector-specific regime, clearly differentiating information on requirements applicable to established providers and to cross-border ones, and by making available online forms and extend on-line procedures for all sectors covered by the Services Directive no later than 2 months after adoption of the sector-specific regime;
- ii. adapting the content and information available at the PSC for the 13 regimes approved to ensure conformity with the Professional Qualifications Directive by **[January 2013]** and online forms by **[Q1-2013]**. Constantly adapting the content and information available at the PSC to the new legislation to be adopted to ensure conformity with the Professional Qualifications Directive at the latest 1 month after the adoption of amendments mentioned in 5.22, clearly differentiating information on requirements applicable to established providers and to cross-

border ones, and by extending on-line forms and procedures for each profession no later than 2 months after adoption of amendments;

- iii. making available in PSC on-line procedures for the registration, installation, modification, occupation of public space regimes, and closing up of restaurants, bars and other establishment for the 5 municipalities (Porto, Águeda, Abrantes, Portalegre and Palmela) covered by "Zero Authorisation" pilot project (DL 48/2011) by **[Q4-2012]**. Foster collaboration from municipalities in providing the content for the working hours map for the stores and establishments services and advertisement regimes for which they have full competence to make the PSC operational **[Q4-2012]**; Identify and classify municipalities where the availability of those procedures through the PSC would have the most significant economic impact by **[November-2012]** to prepare for the extension of this tool to major municipalities by **[January-2013]**. Make fully operational the "Zero Authorisation" project that abolishes authorisations/licensing and substitute them with a declaration to the PSC for the wholesale and retail sector and restaurants and bars by **[Q2-2013]**. The platform will be available to all levels of administration, including all municipalities **[Q2-2013]**;
- iv. extending PSC to services not covered by the Services Directive **[Q4-2013]**;
- v. extending the "Zero Authorisation" project to other services sectors of the economy **[Q4-2013]**.

5.26. Submit an updated detailed work programme of AMA to fulfil 5.25 by **[October 2012]** and to be regularly updated on a **monthly** basis.

## ***6. Housing market***

### **Objectives**

Improve access to housing; foster labour mobility; improve the quality of housing and make better use of the housing stock; reduce the incentives for households to build up debt.

#### *Property taxation*

6.1. The government will continue to step up the appraisal of the taxable value of the housing stock. In particular, the measures will: (i) ensure that the taxable value of all property in 2012 is close to the market value and (ii) property valuation is updated regularly (every year for commercial real estate and once every three years for residential real estate as foreseen in the law). **[Q4-2012]**

6.2. The government will gradually rebalance property taxation towards the recurrent real estate tax (IMI) and away from the transfer tax (IMT), while considering the socially vulnerable. **[Q3-2013]**

#### *Comprehensive review of the housing market*

6.3. Following the adoption of the amendments to the New Urban Lease Act Law 6/2006 and the Decree Law which simplifies the administrative procedures for renovation, the government will undertake a comprehensive review of the functioning of the housing market with the support of internationally-reputed experts. The review will determine whether the new legal provisions

adopted are sufficient to make the housing market more dynamic and, if necessary, will propose new policy measures. [Q2-2013]

## ***7. Framework conditions***

### **Judicial system**

#### **Objectives**

Improve the functioning of the judicial system, which is essential for the proper and fair functioning of the economy, through: (i) ensuring effective and timely enforcement of contracts and competition rules; (ii) increasing efficiency by restructuring the court system, and adopting new court management models; (iii) reducing slowness of the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms.

#### *Court backlog*

Recognising the urgency of the judicial reform to make the judicial system more efficient and more effective, the government will:

7.1. Eliminate court backlogs by **Q2-2013**.

7.2. Implement targeted measures to achieve steady reduction of the backlogged enforcement cases. In particular, set quarterly targets for closing enforcement cases and prepare quarterly reports on implementation status, by inter-agency task forces with the fourth report to be completed by **mid-November 2012**.

7.3. Present a revised draft bill for enforcement agent's framework (i) strengthening the authority and financing structure of the oversight body and enhancing the accountability of enforcement agents, and (ii) to include a fee structure that incentivises speedy enforcement to be further refined by extensive consultation including with the IMF/EU technical assistance by **mid-November 2012** which will be approved by the government by **end-February 2013**.

#### *Management of courts*

Advance with reforms aimed at improving management efficiency of the court system:

7.4. Having submitted an initial draft bill on judicial reform **mid-August 2012** it will be further refined by extensive consultation by **end-September 2012**. Submit a Bill to implement the judicial reform roadmap to Parliament by **end-November 2012**<sup>10</sup>.

#### *Alternative dispute resolution for out-of-court settlement*

Continue strengthening alternative dispute resolution (ADR) to facilitate out-of-court settlement:

7.5. Submit the Bill to improve the Justices for Peace regime to Parliament by **end-November 2012**.

#### *Civil law cases in the courts*

Further streamline and speed up civil case processing in the courts:

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<sup>10</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.

7.6. Having prepared an initial draft of the new Code of Civil Procedure by 6 July 2012, it will be further refined by extensive consultation by **end-September 2012**. By **end-November 2012**<sup>11</sup> submit to Parliament the Code of Civil Procedure which addresses the key areas for improvement, including (i) to consolidate legislation for all aspects of enforcement cases before the court, (ii) to give the judge the power to expedite cases, (iii) to restrict the administrative burdens for judges, (iv) to enforce statutory deadlines for court processes and in particular injunction procedures and debt enforcement and insolvency cases and (v) to establish a single judge procedure for small claims, and taking into account stakeholder consultation and comparative law analysis.

*Budget and allocation of resources*

Remain committed to putting in place a more sustainable and transparent budget for the judiciary:

7.7. Publish quarterly reports on recovery rates, duration and costs of corporate insolvency cases starting from **[Q3-2011]**, within four months after the end of the relevant quarter.

**Competition, public procurement and business environment**

**Objectives**

Ensure a level playing field and minimise rent-seeking behaviour by strengthening competition and sectoral regulators; eliminate special rights of the state in private companies (golden shares); reduce administrative burdens on companies; ensure fair public procurement processes; improve effectiveness of existing instruments dealing with export promotion and access to finance and support the reallocation of resources towards the tradable sector.

*Competition and sectoral regulators*

7.8. The Government shall take the necessary measures to ensure that the Portuguese State or any public bodies do not conclude, in a shareholder capacity, shareholder agreements the intention or effect of which hinder the free movement of capital or which influence the management or control of companies **[Ongoing]**. The Portuguese State will ensure that CGD alienates its participation in Galp. **[Q3-2012]**

7.9. Going beyond elimination of special rights of the State, the authorities also commit to ensure that obstacles to free movement of capital will not be created by their action. The authorities acknowledge that the discretion granted under the amended article 13(2) of the Framework Law of Privatisations (Law 11/90 amended by Decree 3/XII of the Parliament of 5 August 2011), if used, shall be restricted solely to the concrete privatisation operation and thus used in such a proportionate manner that privatisation's implementing laws will not set or allow holding or acquisition caps beyond the privatisation transaction. **[Ongoing]**

7.10. Monitor the inflow of cases and report on the functioning of the specialised court for Competition, Regulation and Supervision, assessing the situation in terms of risk of potential court backlogs. **[Q4-2012]**

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<sup>11</sup> Structural benchmark in the Memorandum of Economic and Financial Policies.

7.11. Following up on the adoption of the executive order (*portaria*) concerning the transfers of payments from regulators to the Competition Authority and the report prepared under measure 7.12 (i), the financing model of the latter will be re-examined resulting in a technical proposal by [Q1-2013] to be implemented by [Q2-2013]. Given the enlarged scope of action of the Competition Authority, review with key stakeholders the conditions for the proper execution of its mandate. [Q3-2012]

7.12. Building on the independent report on the main National Regulator Authorities, the government will prepare a framework law for regulators in broad consultation with the Regulator Authorities. This law will establish a regulatory environment that protects the public interest and promotes market efficiency. The law will guarantee the Regulator's independence and financial, administrative and management autonomy to exercise their responsibilities, in full compliance with EU law. The law will also contribute towards the effectiveness of the competition authority in enforcing competition rules therefore supporting and complementing the effect of the recently adopted competition law. The framework law will be submitted to parliament by [Q1-2013].

#### *Public procurement*

The government will modify the national public procurement legal framework and improve public contracts award practices to ensure a more transparent and competitive business environment and improve efficiency of public spending. In particular, it will:

7.13. Submit a report analysing the effectiveness and impact of the amendments to the revised Public Procurement Code as well as of the enhanced role of the Court of Auditors in ensuring compliance with public procurement rules by [Q1-2013].

#### *Business environment*

7.14. Make operational the procedures for requesting VAT exemptions for exporting firms and to simplify procedures associated with indirect exports as part of the “Simplex Exports” programme. [Q4-2012]

7.15. As a follow up to the report delivered on access to finance and internationalisation of companies, present an action plan with measures to facilitate access to finance and to export markets for companies, in particular for SMEs. [Q3-2012]

7.16. Promote liquidity conditions for business by timely implementing the New Late Payments Directive. [Q1-2013]

7.17. Continue reducing administrative burdens by including municipalities and all levels of public administration within the scope of the Simplex Programme. [Q1-2013]

### **Licensing environment**

#### **Objectives**

The government is launching a new comprehensive programme to tackle excessive licensing procedures, regulations and other administrative burdens in the economy. These explicit and implicit barriers represent a major obstacle for economic growth in Portugal. Companies face substantial costs and uncertainty which affect investment decisions, thus limiting job creation. Furthermore, these barriers affect small and medium-sized enterprises in a disproportionate way



because they have fewer resources to surpass these obstacles, deteriorating the competitive environment. Foreign investment is also affected disproportionately because national companies have information advantages. The various new initiatives laid out below cover all families of licenses and will have a substantial impact in the business environment. The reviews of the legal regimes of environment and territory planning and of industrial and commercial licencing aim at ensuring their mutual compatibility.

### *Regulatory simplification*

7.18. To deal with the legacy of excessive licences procedures and other administrative burdens, carry out a full inventory and an analysis of the costs of all regulations in the economy (at central, regional and local levels). **[Q2-2013]** On the basis of the analysis the government will devise a roadmap for a regulatory simplification.

7.19. To prevent future growth in excessive licenses and regulations, study the feasibility of a rule that prohibits at all levels of government the creation of a new regulation generating costs for businesses without the elimination of an existing regulation or regulations with an equivalent cost. The feasibility of such rule will be decided by **[Q1-2013]** with a view of being in place by **[Q2-2013]**.

7.20. Create a working group to analyse and fast-track applications for the licensing of planned investment projects which are left unresolved or undecided for more than 12 months **[Q4-2012]**.

### *Environment and territory planning*

7.21. In consultation with the relevant stakeholders, review the legal regimes at all levels of Government in the area of territorial planning, in order to increase and facilitate the establishment of investors while at the same time limiting urban sprawl. In particular, review the following legal regimes, in the area of territorial planning:

- i. new Base Law of Soil and Territorial and Urbanism Planning (Lei dos Solos), that should be aligned with the new Industrial Licensing regime (measure 7.24 ii) **[Q4-2012]**;
- ii. National Ecological Reserve/ Risks (REN): (1) Changes to Decree-Law 166/2008 (RJREN); (2) Publication of strategic orientations regarding modifications of REN's municipal delimitations; (3) Revocation of Ordinance 1356/ 2008 (Compatible REN actions); 4. Joint Dispatch of the Secretaries of State of Environment and Territorial Planning and of Internal Administration in order to determine the creation of Risk Sectorial Plan **[Q4-2012]**;
- iii. review the legal regimes of the Territorial Management Instruments (RJIGT) and of the related regulations **[Q4-2012]**;
- iv. diploma for the regularization of activities not in accordance with Territorial Management Instruments **[Q4-2012]**
- v. diploma for the harmonization of Territorial Planning Regional Plans – new generation **[Q4-2012]**

- vi. review the Legal Regime for Urbanism and Building (RJUE) , that should be aligned with, the new Industrial Licensing regime (measure 7.24 ii) **[Q1-2013]**
- 7.22. Increase a nationwide land registration system (registro cadastral) to allow a more equal (perequativa) distribution of benefits and costs in the execution of urban planning. The government will:
- i. implement a Legal Regime of Land Registration (registro cadastral) **[Q4 2013]**;
  - ii. create a diploma on Land Registration and Land Registration Experts **[Q4-2013]**;
  - iii. review the cartography for plans regime **[Q4-2013]**, and the diploma on Cartography (Q4-2013);
  - iv. enforce the Council of Ministers Resolution 56/2012 by **Q4-2013**, to collect all land registration procedures, currently scattered in various departments.
- 7.23. Change the legal regime for Environment Impact Evaluation in order to increase the speed and effectiveness of this regulation and reduce associated monetary and time costs. **[Q4-2012]**.

### *Industrial Licensing*

- 7.24. Implement the new Industrial Licensing regime by means of:
- i. fully implement the approved Programme of Responsible Industry (“PIR - Programa da Indústria Responsável” **[Q2-2013]**);
  - ii. review the following legal norms and regimes that are crucial for a successful implementation of the approved System of Responsible Industry (“SIR - Sistema da Indústria Responsável”):
    - a. implement zero licensing procedures for Type 3 and Type 2 industries **[Q4 2012]**, including fully integration of these procedures in the one-stop shop (“Balcão do empreendedor”). Implement fast-track procedures for Type 1 industries **[Ongoing]**;
    - b. define and establish the Zones of Responsible Enterprises (ZER – Zonas da Indústria Responsável) by **[Q1-2013]**, which will allow the installation of industries in areas previously licensed with all industrial, building and environmental provisions required by national and European law;
    - c. create and define standardized industrial licenses **[Q1-2013]**;
    - d. ensure that the new Industrial Licensing is aligned with, and strengthened by, the review of the New Base Law of Soil and Territorial and Urbanism Planning while at the same time limiting urban sprawl (measure 7.21 i) **[Q4-2012]**;

- e. ensure that the new Industrial Licensing is aligned with, and strengthened by, the review of the Legal Regime for Urbanism and Building (RJUE - measure 7.21 vi) **[Q1-2013]**.

### *Commercial licensing*

7.25. Review the commercial licensing regime. Approval of a new legal regime for commercial activities and establishment of the Program for the Competitiveness of Commerce and Services activities (“Programa para a Competitividade do Comércio e Serviços), which will simplify and condense in a single law more than 20 dispersed existing legal regimes **[Q4-2012]**.

### *Geology*

7.26. Reviewing the geological licensing regimes, including:

- i. revision of the legal regime concerning the licensing of mining and geological production and investment in line with international best practices in this field **[Q4-2012]**;
- ii. simplify the legal and bureaucratic procedures pertaining to mining and geological investments, especially in terms of assessment, search, development, and production activities **[Q4-2012]**.

### *Tourism*

7.27. Review the Licensing in Tourism regime:

- i. eliminate or transforming into a voluntary regime the mechanism of prior communication in the Regime for Urbanism and Building **[Q1-2013]** Simplify the legal regime for touristic establishments **[Q4-2012]**;
- ii. expand the range of ex post control mechanisms in urban operations, significantly reducing administrative procedures and costs for developers **[Q4-2012]**;
- iii. simplified and transparent requirements on the classification of the several types of touristic establishments (number of stars) **[Q4-2012]**;
- iv. review of the sanction legislation on the touristic establishments regime as a way to fight informal touristic economy, giving more powers to ASAE (Authority for Economic and Food Safety). **[Q4-2012]**