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June 12, 2013

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

June 12, 2013

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.

PORTUGAL: LETTER OF INTENT

Lisbon, June 12, 2013

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. We continue to advance the policies necessary to eliminate the macroeconomic imbalances that engendered the economic crisis:

- Despite weak economic conditions, the end-December and end-March deficit and debt performance criteria were met. The two end-December 2012 structural benchmarks on the regional and local finance laws and the implementation of the Large Taxpayer Unit were completed on time. We also timely submitted to Parliament amendments to the law governing banks' access to public capital, a structural benchmark for end-January 2013.

- As a condition for completion of this review, we have identified measures to close the fiscal gap created as a result of an unfavorable Constitutional Court ruling regarding a number of provisions in the 2013 budget.

3. Steady program implementation and important policy actions at Euro area level have successfully strengthened market prospects, setting the path for Portugal's gradual return to the international bond markets. Nevertheless, the economic outlook remains fragile, with weaker external and domestic conditions posing sizable challenges to fiscal performance, despite our corrective actions. As a result, we are recalibrating the fiscal targets under the program in a delicate balancing act between the output and social costs of adjustment and the need to secure fiscal consolidation and debt sustainability.

4. To support the still sizable fiscal efforts ahead, we have identified measures to strengthen the sustainability, effectiveness, and social equity of the expenditure programs and functions of the government. These measures underpin the medium-term fiscal framework—including fully-specified

measures to meet the 2014 deficit target—which was adopted and published by the Council of Ministers as a *prior action* for completion of this review. By the end of the legislative session (July 15, 2013), we will finalize all the key legislative changes required to implement the public expenditure review (PER), through approval by the Council of Ministers or submission to Parliament if needed, as specified in the attached MEFP. In parallel, we are conducting a comprehensive reform of the corporate income tax, to simplify and rationalize existing schemes in support of investment and employment. Moreover, we are making important progress in strengthening our budget controls, streamlining the public administration, and curbing tax evasion to ensure an equitable distribution of the fiscal adjustment.

5. We are committed to preserving financial sector stability and supporting a balanced and orderly deleveraging in the economy. The capital and liquidity conditions of the banking system have significantly strengthened, under the vigilant supervision of Banco de Portugal (BdP). Nevertheless, the challenges posed by the ongoing balance sheet adjustment call for renewed work to promote adequate funding conditions for the most productive and innovative segments of the economy, while ensuring prompt restructuring of viable firms in financial difficulties. We are exploring the setting-up of a mechanism to securitize high-quality mortgage credit with a supranational guarantee. Moreover, we are promoting new initiatives in support of viable SMEs, focused on developing their access to financial markets, retargeting existing government-sponsored initiatives, and facilitating information sharing.

6. We strive to push further ahead our ambitious structural agenda to bolster price and cost competitiveness and set the basis for a strong and durable recovery. Significant steps are underway to improve the dynamism and efficiency of the labor market, reduce costs for exporters, addressing the excessive rents in the energy sector and port costs, and further improve our business environment.

7. On the basis of the strength of the policies defined in this letter, and in light of our performance under the program, we request the completion of the seventh review under the Extended Arrangement and the eighth purchase under the arrangement in the amount of SDR 574 million.

8. The eight review mission by the IMF, the European Commission, and the ECB staff is expected to take place by mid-July 2013.

9. 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.

10. This letter is copied to Messrs. Dijsselbloem, Rehn, and Draghi.

Sincerely yours,

/s/	/s/
Vítor Gaspar	Carlos da Silva Costa
Minister of State and Finance	Governor of the Banco de Portugal

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

ATTACHMENT 1. PORTUGAL: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

June 12, 2013

1. **Macro-financial adjustment**. Strong program implementation is gradually correcting the sizable macro-financial imbalances accumulated in the pre-crisis period. Fiscal consolidation is underway, with significant progress achieved in reducing structural deficits in both 2011 and 2012. The current and capital account turned positive in 2012, reversing a long-run pattern of external deficits and starting to reduce the large external debt. Financial stability has been preserved, with Portuguese banks benefiting from strengthened capital and liquidity buffers. We have implemented ambitious structural reforms that will improve competitiveness and support employment creation over the medium term. Market confidence has improved markedly, allowing successful issuances at 5 and 10 year maturities in January and May 2013, respectively, well ahead of program schedule. Political support from the European partners is contributing to the success of the program. Important steps are still needed in the period ahead to strengthen debt sustainability and market prospects, while supporting a strong and durable recovery.

2. **Activity.** Economic conditions remain difficult, with unemployment higher and output lower than previously envisaged. The economy contracted by 3¼ percent last year and unemployment rose to 17¾ percent in the first quarter of this year. The outlook for 2013 remains difficult. In the main, this reflects the headwinds from the deeper euro area recession. The effect of this has been to slow export growth—an important source of support for overall economic activity—in recent months. With a smaller contribution to output from exports and the recovery in private investment delayed somewhat, we now expect output to contract by 2¼ percent in 2013 (compared to 1 percent at the time of the sixth review). As before, the recession is expected to trough this year, but with recovery only starting in the fourth quarter of the year, one quarter later than previously expected. Reflecting weak domestic demand and the effect of tax measures dissipating, we expect the headline inflation to average around ¾ percent this year. Unemployment is expected to peak at 18½ percent in 2014.

3. **External Adjustment.** The current account deficit narrowed faster than expected in 2012, to below 2 percent of GDP from 6.5 percent of GDP in 2011, implying a total adjustment since 2009 of some 9 percentage points of GDP. Sustained demand from non-EU destinations has supported robust exports growth for the year as a whole, despite the negative impact from the strike of port workers in late 2012 and the marked slowdown in activity in major EU trading partners. We expect the adjustment to continue, with the current account reaching a balanced position this year. Portugal's market share in most export markets has been improving. But the improvement in competitiveness indicators has been gradual. Additional challenges would arise if the slowdown of our main trading partners deepens. We therefore reaffirm our commitment to structural reforms to bolster competitiveness and ensure durable external adjustment, reducing external indebtedness.

I. Fiscal Policy

4. **2012 Budget Outturns**. The government deficit for program purposes reached 4.7 percent of GDP in 2012 —6.4 percent of GDP excluding the one-off transaction related to the ANA concession and including the increase in the share capital of CGD (as capital expenditure), the reclassified operations of the public entity Sagestamo, and changes in the valuation of the assets of BPN SPVs. This compares with a deficit target of 5 percent of GDP and is consistent with a structural primary adjustment of some 2.8 percentage points of GDP. The end-year general government cash deficit performance criterion was accordingly met. Compliance with the program objective was achieved on account of a significant tightening of budget execution—particularly intermediate consumption and capital expenditure—in the last few months of the year, to offset broad-based tax revenue shortfalls (in the order of ½ percent of GDP) due to weaker economic activity. Significant expenditure savings were also realized on the wage bill, as the reduction in the number of employees exceeded our targets. Domestic arrears declined by €700 million in the fourth quarter, but increased slightly in February; still, the stock of domestic arrears, as defined in the TMU, declined by €1 billion between September 2012 and February 2013.

5. **2013-15 Fiscal Path**. The deterioration in the macroeconomic outlook and a negative carry-over from 2012 have opened a fiscal gap of over 1 percent of GDP in 2013. Taking into consideration the financing constraints and implications for debt as well as the output and social costs of adjustment, we are recalibrating fiscal policy to contain the deficit to 5½ percent of GDP in 2013 and 4 percent of GDP in 2014. We estimate that permanent measures of about 2.9 percent of 2013 GDP will be necessary to achieve the revised fiscal objectives—with the equivalent of 0.9 percent of GDP frontloaded to the second half of 2013. These measures will be drawn from the ongoing public expenditure review (PER). The fiscal consolidation needed to achieve our commitment under the Excessive Deficit Procedure—of reducing the deficit to below 3 percent of GDP—would then be completed by 2015, with a targeted deficit of 2½ percent of GDP.

6. **Supplementary Budget for 2013**. On April 5, the Constitutional Court declared unconstitutional some key provisions of the 2013 budget: (i) the cuts in the 14th monthly payment to public wage earners and pensioners; and (ii) a new contribution on illness and unemployment benefits. The Court ruling opened a fiscal gap of about €1.3 billion (0.8 percent of GDP). In light of this, we have identified a series of measures that add-up to this amount and will allow us to meet our revised fiscal objective for 2013. These include mainly (i) expenditure compression in line ministries, (ii) a reprogramming of EU structural funds, and (iii) a minimum threshold for applying the contribution on illness and unemployment benefits. These measures have been included in a supplementary budget and submitted to Parliament at the end of May (*prior action*). Some of these savings are of temporary nature, but we are committed to replacing them with permanent savings from the PER starting in 2014. In addition, some of our Public Expenditure Review measures (PER—see below) will be frontloaded.

7. **Public Expenditure Review**. We have completed our major initiative to review and ensure the sustainability, effectiveness, and social equity of the expenditure programs and functions of the state. This comprehensive exercise, which was launched in the second half of 2012, has identified

measures to underpin fiscal adjustment in the years ahead. On this basis, the Council of Ministers has adopted and published a medium-term (2013-17) fiscal framework (DEO), which will form the basis for the 2014 budget. Fully-specified measures to meet the revised 2014 deficit target have been approved by the Council of Ministers and made public (*prior action* for completion of the review). By the end of the legislative session (July 15), all the key legislative changes, as described below, required to implement the public expenditure review will be finalized, and approved by the Council of Ministers or submitted to Parliament if needed.

8. **Expenditure Reforms.** Savings will be generated mainly by limiting outlays on the public wage bill and pensions—which account for almost 60 percent of primary spending and where Portugal spends relatively more in comparison to peer countries—as well as sector-specific reforms. To do so, the ongoing reform of the state implements measures that increase equity and efficiency in the provision of social transfers and public services. The total package of measures for 2014 will amount to €4.7 billion (net of reduced income tax and social contribution collections). The underlying reforms will be organized around three main pillars:

- A well-targeted *wage bill reform* will generate at least one-third (€2.2 billion) of the savings. The overall objective will be to (i) reduce the size of the public sector workforce—addressing excessive employment in particular sub-sectors—while tilting its composition toward high-skilled and better-trained civil servants; (ii) ensure convergence of the public sector work rules and regulations towards private sector legal regimes (including regarding working hours, working time arrangements, and holiday entitlements); (iii) increase beneficiaries' contributions to ensure self-sustainability of public sector health subsystem; and (iv) simplify the remuneration policy by implementing a single wage scale, streamlining the wage supplement scale, and reducing fringe benefits. The reduction in the workforce, which will be facilitated by increasing the working hours to 40-hours per week, will be achieved through a combination of policies, including lower replacement of retirees, voluntary separations, and enhanced use of the redesigned mobility pool. These reforms will be implemented through a series of legislative and regulatory amendments. In particular, we will submit to Parliament a new draft public administration labor law by the end of the legislative session (July 15) that will aim at aligning current public employment regime to the private sector rules, including for working hours and holiday time, and termination of tenure (*structural benchmark*). We will also submit a draft law on the redesigned mobility pool by end-June (*structural benchmark*). The single wage scale and wage supplement reforms will be made effective by January 1, 2014 through the adoption of a specific law.

- A comprehensive *pension reform* will also be a significant source of savings. It will be based on equity principles with preservation of minimum socially-acceptable income levels, thus protecting those who earn the lowest pensions. Specifically, the reform will take into consideration the need to reduce the current differences between the civil servants' regime and the general social security regime, aiming at enhancing the fairness of the overall pension system. Moreover, while reforms implemented over the past two decades have contributed to long-term sustainability, the amount of pension benefit payments for which the government is currently liable makes the system excessively costly under the current circumstances reassessing the need to take into account demographic developments. Accordingly, the reform will be based on two main elements: (i) an effective increase by one-year in the statutory retirement age to 66 years (implemented by adjusting the demographic sustainability factor); (ii) aligning the rules and benefits of the public sector pension funds, CGA, to the general pension regime by changing one of the replacement rate parameters from about 90 to about 80 percent for all applicable beneficiaries. Each of these reforms will be implemented through modifications to the relevant laws. The necessary legislative proposals will be submitted to Parliament by the end of the legislative session (July 15) (*both structural benchmarks*). In addition and if strictly necessary, a third measure we are also considering is a sustainability contribution on pensions that effectively lowers pension replacement rates to more affordable levels. This measure, however, may need to be replaced by identified measures of equivalent value and quality, as discussed below.

- *Other savings* will be generated through a combination of sector-specific reforms, which mainly include targeted dismissals of personnel and intermediate consumption cuts. Additional cutbacks in SOE and PPP expenditure will be generated through further negotiation and operational restructuring (see ¶15 and ¶17). In the education sector for example, rationalization of the school network and a convergence of the key indicators, namely class size, towards peer levels will be at the core of our reforms. In the health sector, savings will come from further reforms in the hospitals network.

Following the ongoing consultations with social and political partners, some of the above listed measures may be replaced by others of an equivalent value and quality, following discussion with EC/ECB/IMF staff, in time to allow for the finalization of all legislative changes required to implement the public expenditure review by July 15, 2013.

9. **Legal safeguards.** We will take a number of steps aimed at mitigating legal risks from future potential Constitutional Court rulings. First, expenditure reforms will be designed with the principle of public/private sector and intergenerational equity in mind as well as the need to address the sustainability of social security systems. Second, legislation underpinning the expenditure reforms will be duly justified on compliance with the fiscal sustainability rules in the recently-ratified European Fiscal Compact which now ranks higher than ordinary legislation. Third, the government will rely as much as possible on general laws—rather than on one-year budget laws—consistent with the structural nature of the reforms. This also opens the possibility of prior constitutional review of said laws, thus allowing early reaction on the part of the government in case these reforms raise constitutional issues.

10. **Debt Path.** Under this revised fiscal path, debt is set to peak at close to 124 percent of GDP in 2014. This projection is contingent on the government implementing two planned measures: (i) a partial reallocation of the Social Security portfolio from foreign assets to government securities; and (ii) the transfer of its CGD shares to Parpública.

11. **CIT Reform.** We have launched a far-reaching reform of the Portuguese corporate income tax (CIT). Our goal is to boost investment and growth by simplifying the CIT system through the redefinition of the tax base, the gradual lowering of the rate, the reduction of multiple surcharges, and the rationalization of the incentive schemes. We will also focus on enhancing legal stability, lowering compliance costs and aiming at reducing litigation. In addition, the reform will improve the international competitiveness of the tax and strengthen the territorial approach through measures that include, but are not limited to, the adoption of a universal participation exemption regime, while keeping track with internationally accepted standards. The reform will also envisage reducing policy-induced debt bias. We will work on a detailed and fully quantified proposal over the next months, in consultation with the EC/ECB/IMF staff. We will prepare a first draft law by end-June 2013, which will be sent for public discussion, ahead of its submission to Parliament. In order to stimulate productive investment in 2013, the Government will grant a CIT credit limited to 20 percent of investment expenses or €1 million (corresponding to a maximum eligible investment of €5 million). This measure will be applicable to eligible investments made between June 1, 2013 and December 31, 2013.

II. CONTAINING FISCAL RISKS

12. **Public Financial Management.** We have made significant progress in advancing our Public Financial Management reform. Parliament approved legislation transposing the EU economic and governance fiscal framework into the Budgetary Framework Law (BFL) and further changes are expected by year end to streamline budgetary procedures. We have published a comprehensive tax expenditure report, in line with international standards and greatly expanding public information in this domain, which from now on will accompany the budget proposal to support policy decision making. We remain committed to continue reducing the stock of outstanding arrears (€ 3.1 billion in December 2012) and haltering its accumulation. In particular, we are working closely with the enforcement authorities in order to effectively sanction public officials who do not comply with the commitment law. In the health sector, we will proceed with a second settlement program—in the value of € 432 million—following the same procedures envisaged in the March 2012 strategy document. All resources under this program will be applied to settle debt overdue above 60 days.

13. **Revenue Administration.** We will keep focusing our efforts on curbing tax evasion to support the achievement of the 2013 revenue targets. Key steps to support this effort have been made, notably the full functionality of the new Large Taxpayer Unit and the successful implementation of the VAT invoicing reform. We will establish a Risk Management Unit to speed up the phasing in of a modern compliance risk model, under the aegis of the new Compliance Council. Strengthening the PIT compliance management is a top priority, given the high reliance of the 2013 fiscal targets on this tax. To this end, we will accelerate the pilot projects on the High Net Wealth Individuals and the Self-employed Professionals, and strengthen the control of the monthly PIT withholding information. We have completed the property revaluation process, successfully bringing the property tax base closer to market values. Finally, we are advancing in our efforts to modernize tax litigation. The task force of judges has increased the pace of its work on high-value tax cases,

and remains committed to clearing the remaining cases in courts. The State has registered a positive win/loss balance in terms of merit-based decisions in 2012.

14. **Public Administration**. Streamlining the public administration continues to be a top priority and a key component of the PER. We have achieved strong results in 2012, reducing the number of public employees by 4.6 percent, well above the 2 percent target. We have put in place a new framework increasing flexibility of the working hours, geographical mobility, and regulating the mutual agreement on contract termination, which will support the PER efforts. Finally, drawing on the survey on foundations, we have taken key steps towards streamlining this sector and reducing its budgetary support.

15. **State-Owned Enterprises.** Cost-reduction efforts and voluntary redundancy programs have successfully brought the state-owned enterprises (SOEs) sector as a whole back to operating balance ahead of schedule, with even more problematic firms in the infrastructure and transport sectors showing results well ahead of expectations. We retain formal cost-cutting objectives for those firms still showing operating deficits, while other firms are required to continue improving operating balances with a view to reducing debt burdens and financial costs. We continue to manage the high debt burdens of some firms, and treasury support has remained within the envelope of budgeted transfers.

16. **Privatization**. The sale of the airport operator, ANA, represents another milestone in our privatization program. Following high quality proposals from several bidders, the financial transaction is expected to be successfully completed by end-July, allowing us to fully meet our revenue objectives for the full privatization program. The sale of the airline, TAP, did not go through due to inadequate financial assurances by the final bidder. The firm remains in good financial health and we expect to re-launch the process this year. We will launch the privatization process for the rail cargo firm, CP Carga, in the second half of the year, for completion by year end. With changes in the legal framework for postal services underway, we expect to launch the privatization process for the postal company CTT in the second quarter, and receive binding offers by end-2013. We have prepared a strategic plan for the water and waste sector, with a view to introducing private capital and management in the system. Binding offers for the sale of the waste management business will be sought by the end of the year. Opening water concessions to private capital and management is in course and will take longer.

17. **Public-Private Partnerships.** We are taking bold steps to achieve a fiscally-responsible PPP model. We continue to advance in staffing our newly-created PPP unit in order to bring it into fully operational status. We are also taking steps toward enhancing fiscal transparency and improving reporting in this area. Additional renegotiation commissions have been appointed in order to extend the Government's effort to other road concessions, the relevant meetings being expected to start until the end of 2Q2013. Preliminary agreements have been reached with the majority of the private partners', which set forth the terms under which the concession contracts will be reformed, as well as the expected public savings arising thereof. These agreements constitute a crucial milestone in the renegotiation process and offer solid prospects for reaching the revised savings goal of €300 million in 2013. The results of the renegotiation process are paramount to achieve the fiscal savings

envisaged in the budget, leading to a relevant contribution of this sector to fiscal consolidation. The ongoing revision of the regulatory framework is also part of the strategy to achieve road sector sustainability by reviewing downwards the service levels and capturing additional savings on other roads and concessions to the state. Finally, the PPP unit has started supporting similar negotiation efforts in the autonomous region of Madeira and is bringing expertise to the committee for the re-appraisal of the Lisboa Oriental PPP hospital.

18. **Regional and Local Governments.** The draft Regional and Local Finance Laws submitted to Parliament last-December 2012 (*structural benchmark*) aim at improving our inter-governmental fiscal framework, notably by applying the same principles of the Budgetary Framework Law to sub-national governments. The establishment of a coordination council between the central and sub-national governments is expected to enhance the exchange of information in order to support budgetary planning. The €1 billion credit line to support local governments' arrears settlement is being implemented, following the necessary procedures to validate the claims. The regional government of Madeira has made progress in budget consolidation and PFM reforms, justifying the release of the disbursements under its adjustment program with the central government, but we remain vigilant to budget risks.

III. SAFEGUARDING FINANCIAL STABILITY

19. **Capital Augmentation Exercise.** Following the successful completion of the capital augmentation exercise, all banks have met the 10 percent Core Tier 1 target set under the program. In addition, the results of the recent On-site Inspections Program, focused on assets related to the construction and commercial real estate sectors, and the latest round of stress tests have confirmed the continued resilience of the participating banks, including under adverse conditions. We remain committed to providing further support to the banking sector, in the event new capital needs were to arise. While we will continue to encourage banks to seek private solutions, resources from the Bank Solvency Support Facility (BSSF) remain available to support viable banks if needed. The resources in the BSSF will solely be utilized to provide public support, if needed, to the banking system. State aid will remain subject to strict conditionality, in line with EU rules, aimed at avoiding subsidizing private shareholders and preventing migration of private liabilities to the public sector balance sheet, while ensuring adequate lending to the real economy, with special focus on SMEs, particularly within the sectors of tradable goods and services.

20. **Funding and Liquidity Conditions.** Non-standard measures by the ECB to restore the proper transmission of monetary policy have helped ease liquidity pressures and improve market conditions, supporting an important first step in the gradual return of banks to international bond markets. Better funding conditions, stable customer deposits, and additional resources from the recent capital exercise, together with orderly balance-sheet deleveraging, have also allowed Portuguese banks to start reducing their reliance on Eurosystem liquidity, including through partial early repayment of the 3-year LTROs. Exceptional liquidity support is still playing a pivotal role in absorbing remaining funding constraints and mitigating the lingering risk of excessive credit

contraction, while strengthened collateral buffers provide an important shield against potential adverse shocks. Moreover, following the successful creation of a platform for interbank unsecured lending to facilitate the functioning of the domestic interbank market, the BdP has launched in early May a new platform for secured transactions.

21. **Credit Conditions and Orderly Deleveraging.** Despite the improvement in market sentiment and liquidity conditions, the credit situation remains difficult. While to date the sustained decline in bank credit is broadly in line with demand conditions and the necessary private sector deleveraging, lending rates on new business remain elevated across all segments of the economy. Moreover, while large corporations have been increasing access to funding alternatives through capital markets, this is currently not feasible for the smaller firms. In the context of this difficult credit environment, banks' funding and capital plans should keep ensuring that the deleveraging process takes place in an orderly manner to achieve a stable market-based funding position, while adequate and sustainable financing is provided to the economy. In particular, we will continue to ensure that the pace and composition of the deleveraging, as also envisaged under the restructuring plans of the aided banks, remains consistent with the program's macroeconomic framework and objectives. We presented an initial proposal for a mechanism to securitize banks' high quality mortgage credit as a contribution to this objective and to reinforce long-term viability of the Portuguese banking sector.

22. **Initiatives to Support Funding to SMEs.** The Ministry of Finance, together with the BdP, the Ministry of Economy, and other stakeholders, continue their efforts to promote more efficient financing allocation to the productive segments of the economy through the review and rationalization of existing government-sponsored measures, along EU state aid rules, as well as the promotion of alternative private funding options for SMEs. Specifically,

- *Review of Government-Guaranteed Credit Lines*. We will continue to strive to improve the performance of existing government-guaranteed credit lines, in line with international best practice. We have recently conducted an external audit of the National Guarantee System (NGS), which has helped identify preliminary policy recommendations aiming at making these schemes more efficient and minimizing risks for the state, by further enhancing pricing mechanisms and investment selection processes as well as the NGS risk management capabilities and governance structure. We will prepare by mid-June a detailed implementation plan of the key report recommendations, including a timetable of all the needed execution steps. Moreover, to support viable firms in financial difficulties, we will explore specific modalities for the provision of guaranteed credit conditional on the successful completion of a corporate restructuring process, with an initial proposal expected by early September. To support these efforts, we are establishing a new quarterly monitoring framework including key balance sheet indicators of the firms benefiting from government-guaranteed credit lines, with a first report to be prepared by end-June.

- *Development of SMEs Commercial Paper*. We are exploring possible changes to the regulatory and taxation environment to facilitate the expansion of the commercial paper market among a wider investor base, with a view to promote alternative funding options for SMEs. Detailed proposals by relevant entities have been requested by the government last April and are expected to be received by end-May. A first draft of the necessary amendments of the rules governing the commercial paper market will be prepared by end-June and will be subject to a review of any potential tax implications.

New initiatives to facilitate credit to firms by the Ministry of Finance, Ministry of Economy, and other relevant entities will be primarily focused on streamlining and improving the efficiency of existing schemes, without creating additional burden or posing risks to public finance. In this context, the government is conducting a stock-taking exercise aiming at streamlining and centralizing the management of EU structural funds.

23. **Central Credit Registry.** Efforts to promote information sharing, especially for SMEs, are ongoing. The BdP is further enhancing the data coverage and detail of the Central Credit Registry (CCR), namely to include additional financial products and to add supplementary classifications to the loans already reported to the CCR. Furthermore, BdP intends to implement the possibility of access by the financial institutions to historical information on their potential new clients, subject to the authorization of the Portuguese Data Protection Authority (CNPD). In parallel, the BdP is assessing available options for reducing information asymmetry for smaller companies, taking also into consideration other available data sources, such as the Central Balance Sheet Database (CBSD). The above mentioned enhancements, as well as a first progress report on the two last referred issues, are expected to be completed by end-October 2013.

24. **Private Sector Debt Restructuring**. We are stepping up our efforts to monitor closely the situation in the area of corporate and household insolvency. We will prepare quarterly reports on the application of the new corporate restructuring tools, including viability indicators for the companies going through these processes by end-June 2013. On household debt restructuring, we will continue to assess the effectiveness of the new regimes. We will conduct a survey of all insolvency stakeholders to inquire about the appropriateness of the existing debt restructuring tools and possible gaps or bottlenecks by end-July 2013.

25. **Bank Supervision.** Banks are making progress implementing recommendations with regard to their stress testing methodologies and impairment projections, issued as part of the original Special On-site Inspections Program. The BdP will launch a thematic review of banks' operational capacity in the area of loan restructuring and asset recovery to be completed by end-October 2013, with the aim to ensure that the banking system can effectively support the balance sheet adjustment of the private sector, by timely engaging troubled debtors before their financial viability is in jeopardy.

26. **Bank Recapitalization and Resolution Frameworks.** We have submitted to Parliament amendments to the law governing banks' access to public capital, allowing the state—under strict circumstances—to exercise control over recapitalized institutions and to perform mandatory recapitalizations. We are reviewing the recovery plans of the largest banks, and expect to receive recovery plans from all the other banks by end-November 2013. Institutions for which resolution plans are mandatory are expected to submit the data required in the supervisory notice of

December 2012 by end-July 2013. We remain committed to swiftly transpose the new EU Directive on bank recovery and resolution once it has been adopted.

27. **BPN SPVs.** We are implementing the strategy for managing the distressed assets from Banco Português de Negócios (BPN). The competitive bidding process to select a third party that will manage the credits currently held by Parvalorem, a state-owned Special Purpose Vehicle (SPV), has been launched in January and is on track to be completed by mid-2013. We will also ensure timely disposal of the subsidiaries and the 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 staff. Any net recoveries realized on the assets will also be applied towards the settlement of CGD's claim.

IV. BOOSTING EMPLOYMENT, COMPETITIVENESS, AND GROWTH

28. **Labor Market Institutions.** Significant steps have been taken over the past year to make the labor market more dynamic and efficient—including the adoption of a revised labor code, the reform of unemployment benefits and a reform of the wage-setting mechanism. A new reform of severance pay is currently under consideration by Parliament. This reform will reduce severance payments to 12 days per year of service for all new permanent labor contracts. For existing permanent contracts and all fixed-term contracts, severance payments will be reduced to 18 days per year of service for the first three years of the contract, and to 12 days per year of service for subsequent years. The cap of 12 months of pay will remain in place for all contracts, and acquired rights will be protected. The relevant law will become effective on October 1, 2013 (*structural benchmark*).

29. **Ports.** To help reduce costs for exporters, we have reduced fees on port use (*TUP-Carga*) by 20 percent to date. The landmark revision of the Ports Work Law became effective in February 2013. It is aimed at lowering wage costs and making the use of labor more flexible. We are now seeking effective transmission of lower labor costs to end-users of port services. In particular, we will engage with concessionaires with a view to modifying existing concession contracts so as to foster price reductions. We will also revise incentives for port operators by adopting a new performance-based model for future concessions and encourage entry of new operators. A review of the overall savings generated and these reforms will be conducted by December 2013.

30. **Energy.** We continue our efforts to reduce excessive policy-induced rents and improve the sustainability of the national electricity system. With overall cost reduction targets broadly within reach, shortfalls are emerging with respect to a specific measure. This, as well as downward pressures on demand for electricity, is likely to lead to upward revisions to tariff debt projections. In light of this, the government will update its projections of the medium-term tariff debt path and identify policy options—including additional cost reduction measures—to achieve the initial objective of eliminating the tariff debt by 2020. These revised projections and potential corrective measures will be prepared by mid-June (*structural benchmark*) and discussed at the time of the 8th review.

31. **Services.** Reforms in the services sector aim at eliminating entry barriers and increase competition. Significant progress has already been made in amending sector specific legislations to align them with the Services Directive. We expect adoption of the remaining necessary amendments (including for construction, universities and higher education courses) by Parliament by end-June 2013. A new legal framework aimed at improving the functioning of the regulated professions (such as accountants, lawyers, notaries) for which regulation involves a professional body was recently published. The professional bodies' statutes are being amended accordingly for approval by Parliament, including by eliminating unjustified restrictions to activity and further improving the conditions for mobility of professionals in line with EU Directives in the area of free movement of professionals.

32. **Licensing and Administrative Burden.** Progress is being made on initiatives to tackle excessive licensing procedures, regulations and other administrative burdens—which are impeding the establishment, operation, and expansion of firms. We are carrying out an inventory of the costs of regulations in the economy, starting with the most burdensome. On the basis of this analysis, to be presented by end-June 2013, the government will devise a roadmap for a regulatory simplification. We will step up the efforts to make operational the Point of Single Contact, an e-government portal which allows administrative procedures to be done online. Progress is being made toward implementing the New Late Payments Directive, which will help promote liquidity conditions for businesses.

33. **Regulation**. We have approved ahead of schedule a framework law for the functioning of regulators 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 best international practices. The law : (i) establishes a regulatory environment that protects the public interest and promotes market efficiency, (ii) guarantees the independence and financial, administrative and management autonomy of the National Regulatory Authorities in the exercise of their responsibilities, including the necessary conditions to guarantee adequate human and financial resources being able to attract and retain sufficiently qualified staff, and (iii) strengthens the role of the Competition Authority in enforcing competition rules. The framework law has been submitted to Parliament. The corresponding amendments to the bylaws of the National Regulatory Authorities will be approved by the Government in the three month following publication of the framework law. Once the NRA framework law and follow-up bylaws and internal regulations are in place, the regulators will continue to pursue adoption best international regulatory practices, including by organizing international peer review exercises.

34. **Judicial**. We continue pushing ahead with targeted measures to reduce the backlogged enforcement cases. Despite the challenges in addressing the backlog court cases, an additional 52,000 enforcement cases have been cleared, bringing down the total number by about 165,000 enforcement cases since November 2011. The inter-agency task forces have set quarterly targets for reviewing enforcement cases to be closed. We have further advanced the reforms to improve the efficiency of the judicial system. We have started preliminary steps to implement the comprehensive judicial roadmap to reduce the number of courts and streamline the court structure and the new

Code of Civil Procedure to speed up the judicial process. We will submit to Parliament by end-June 2013 an important draft bill to strengthen the authority and financing structure of the oversight body for enforcement agents and insolvency administrators (CACAJ) as well as recruitment which aims to meet market demands. The government will approve by end-June 2013 a fee structure that incentivizes speedy enforcement.

PORTUGAL

Table 1. Portugal: Quantitiative Performance Criteria

(In billions of euros, unless otherwise specified)

	Dec-12		Mar-13		Jun-13	Sep-13	Dec-13
	Program	Actual	Program	Actual			2/
1. Floor on the consolidated General Government cash balance (cumulative)	-9.0	-8.3	-1.9	-1.4	-6.0	-7.3	-8.9
2. Ceiling on accumulation of domestic arrears by the General Government (continuous indicative target) 1/	0	Met	0	Not met	0	0	0
3. Ceiling on the overall stock of General Government debt	180.0	177.2	182.2	178.5	187.3	188.9	187.4
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

1/ Domestic arrears for the purpose of the program declined by close to €0.7 billion between end-September and end-December 2012, but increased in February 2013. Overall, domestic arrears declined by €1 billion between September 2012 and February 2013.
2/ Indicative target.

Table 2. Portugal: Structural Conditionality: Seventh Review Under the EFF

Measure		Timing	Status
Prior Actions			
1	Adopt by the Council of Ministers and publish the medium-term fiscal framework that includes fully-specified measures to meet the 2014 deficit target (LOI ¶4 and MEFP ¶7).		Met
2	Submit to Parliament the supplementary budget that includes measures needed to meet the 2013 fiscal objective (MEFP ¶6).		Met
Structural Benchmarks			
A. Fiscal policy			
1	Submit to Parliament a new draft public administration labor law that will aim at aligning current public employment regime to the private sector rules, including for working hours and holiday time, and termination of tenure (MEFP ¶8).	July 15, 2013	
2	Submit to Parliament a draft law on the redesigned mobility pool (MEFP ¶8).	End-June 2013	
3	Submit to Parliament a legislative proposal that increases the statutory retirement age to 66 years (MEFP ¶8).	July 15, 2013	
4	Submit to Parliament a legislative proposal that aligns the rules and benefits of the public sector pension fund, CGA, to the general pension regime (MEFP ¶8).	July 15, 2013	
A. Strengthen financial stability			
5	Submit to Parliament amendments to the law governing banks' access to public capital (LOI ¶2).	End-January, 2013	Met
B. Enhance competitiveness and address bottlenecks to growth			
6	Enact the severance pay reform that reduces severance payments to 12 days per year for all new permanent labor contracts (MEFP ¶28)	October 1, 2013	
7	Update projections of the medium-term energy tariff debt path and identify policy options to eliminate the tariff debt by 2020 (MEFP ¶30).	June 15, 2013	
C. Strengthen fiscal institutions and reduce fiscal risks			
8	Revise and submit to Parliament the draft regional and local public finance law (LOI ¶2 and MEFP ¶18).	End-Dec 2012	Met
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 (LOI ¶2 and MEFP ¶13).	End-Dec 2012	Met

ATTACHMENT 2. PORTUGAL: TECHNICAL MEMORANDUM OF UNDERSTANDING

June 12, 2013

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 2013, shall not include entities nor operations (including pension funds) that are re-classified into the General Government during 2013, but shall include those reclassified in 2011-12.[1]

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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[1] 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[2] 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. In 2012-13, the cash proceeds from the sale of the ANA airport

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[2] 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.

concession will be accounted for as cash expenditure-reducing transactions. The net acquisition of financial assets for 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 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: (i) health sector arrears (up to €432 million), (ii) local government arrears settled through the €1 billion credit facility created in May 2012, and (iii) RAM government arrears subject to concluding the agreement with the central government (up to €1.1 billion).

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**

1. 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.

2. 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 arrears cleared under the arrears clearance strategy (see paragraph 6.3).

12. **Adjustor.** In 2013, the monthly change in the stock of arrears will be adjusted for any stock adjustment related to the arrears clearance strategy as per paragraph 6.3. 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 2013, 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 2012 general government debt of EUR 204.5 billion. From 2014 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.