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► **C1** COUNCIL IMPLEMENTING DECISION

of 17 May 2011

on granting Union financial assistance to Portugal ◀

(2011/344/EU)

(OJ L 159, 17.6.2011, p. 88)

Amended by:

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► <u>M1</u>	Council Implementing Decision 2011/541/EU of 2 September 2011	L 240	8	16.9.2011
► <u>M2</u>	Council Implementing Decision 2011/683/EU of 11 October 2011	L 269	32	14.10.2011
► <u>M3</u>	Council Implementing Decision 2012/92/EU of 14 December 2011	L 46	40	17.2.2012
► <u>M4</u>	Council Implementing Decision 2012/224/EU of 29 March 2012	L 115	21	27.4.2012
► <u>M5</u>	Council Implementing Decision 2012/409/EU of 10 July 2012	L 192	12	20.7.2012
► <u>M6</u>	Council Implementing Decision 2012/658/EU of 9 October 2012	L 295	14	25.10.2012
► <u>M7</u>	Council Implementing Decision 2013/64/EU of 20 December 2012	L 26	30	26.1.2013
► <u>M8</u>	Council Implementing Decision 2013/323/EU of 21 June 2013	L 175	47	27.6.2013
► <u>M9</u>	Council Implementing Decision 2013/703/EU of 19 November 2013	L 322	31	3.12.2013

Corrected by:

► **C1** Corrigendum, OJ L 178, 10.7.2012, p. 15 (2011/344/EU)

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COUNCIL IMPLEMENTING DECISION

of 17 May 2011

on granting Union financial assistance to Portugal

▼B

(2011/344/EU)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism ⁽¹⁾, and in particular Article 3(2) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) Portugal has recently come under increasing pressure in financial markets, creating rising concerns about the sustainability of its public finances. Indeed, the current crisis has had a dramatic impact also on public finances, which ultimately led to a sharp increase in sovereign spreads. Amidst consecutive downgradings by credit rating agencies of Portuguese bonds, the country became unable to refinance itself at rates compatible with long-term fiscal sustainability. In parallel, the banking sector, which is heavily dependent on external financing, particularly within the euro area, was increasingly cut off from market funding.
- (2) In view of this severe economic and financial disturbance caused by exceptional circumstances beyond the control of the government, Portugal officially requested financial assistance from the European Union, the Member States whose currency is the euro, and the International Monetary Fund ('IMF') on 7 April 2011 with a view to supporting a policy programme to restore confidence and enable the return of the economy to sustainable growth, and to safeguarding financial stability in Portugal, the euro area and the Union. On 3 May 2011, an agreement was reached between the Government and the joint Commission/IMF/ECB mission in respect of a comprehensive three-year policy programme for the period up to mid-2014, to be laid down in a Memorandum of Economic and Financial Policies ('MEFP') and a Memorandum of Understanding on Specific Economic Policy Conditionality ('MoU'). This policy programme was supported by the two largest opposition parties.

⁽¹⁾ OJ L 118, 12.5.2010, p. 1.

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- (3) This draft economic and financial adjustment programme ('the Programme') submitted by Portugal to the Commission and the Council aims at restoring confidence in the sovereign and in the banking sector and supporting growth and employment. It foresees comprehensive action on three fronts. First, deep and frontloaded structural reforms to boost potential growth, create jobs, and improve competitiveness (including through fiscal devaluation). In particular, the Programme contains reforms of the labour market, the judicial system, network industries, and housing and services sectors, with a view to strengthening the economy's growth potential, improving competitiveness and facilitating economic adjustment. Second, a credible and balanced fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control over Public-Private-Partnerships ('PPPs') and state-owned enterprises ('SOEs'), aiming at putting the gross public debt-to-GDP ratio on a firm downward path in the medium term. The authorities are committed to reducing the deficit to 3 % of GDP by 2013. Third, a financial sector strategy based on recapitalisation and deleveraging, with efforts to safeguard the financial sector against disorderly deleveraging through market-based mechanisms supported by back-up facilities.
- (4) Under the Commission's current projections for nominal GDP growth (- 1,2 % in 2011, - 0,5 % in 2012, 2,5 % in 2013 and 3,9 % in 2014), the fiscal targets are consistent with a path for the debt-to-GDP ratio of 101,7 % in 2011, 107,4 % in 2012, 108,6 % in 2013 and 107,6 % in 2014. The debt-to-GDP ratio would therefore be stabilised in 2013 and be placed on a declining path thereafter, assuming further progress in the reduction of the deficit. Debt dynamics are affected by several below-the-line operations, which are projected to increase the debt-to-GDP ratio by 1¼ percentage points ('pps') of GDP in 2011 and by ¾ pps per year between 2012 and 2014. These include sizeable acquisitions of financial assets, notably for possible bank recapitalisation and financing to SOEs amounting to ½ % of GDP per year between 2011 and 2014. On the other hand, privatisation proceeds totalling around 3 % of GDP up to the year 2013 will support debt reduction efforts.
- (5) The assessment by the Commission, in liaison with the European Central Bank ('ECB') and together with the IMF, is that Portugal needs financing of a total amount of EUR 78 billion (78 000 million) over the period from June 2011 to mid 2014. Notwithstanding the significant fiscal adjustment, the financing gap for the sovereign may amount to EUR 63 billion over the period of the Programme. This assumes no access to the medium- and long-term debt market until the first half of 2013. Portugal is assumed to be able to roll-over part of its existing stock of short-term debt, while the programme also provides for a financing buffer in case of unexpected deviations from the Commission's baseline financing scenario. Portugal is encouraged to maintain and adjust its financial market operations, seeking to develop market access and confidence. The financial sector strategy contained in the programme to restore confidence in the Portuguese banking system on a sustainable basis requires

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banking groups to bring their core tier 1 capital ratio to 9 % by the end of 2011 and to 10 % by the end of 2012 and to maintain it thereafter. The programme contains a banking support scheme of up to EUR 12 billion to provide the necessary capital in case market solutions cannot be found. Actual funding needs may, however, be substantially lower, in particular if market conditions improve significantly and no severe unexpected banking losses materialise during the period of the Programme.

- (6) The Programme would be financed through contributions from external sources. The Union's assistance to Portugal would reach up to EUR 52 billion under the European Financial Stabilisation Mechanism ('EFSM') established by Regulation (EU) No 407/2010 and from contributions from the European Financial Stability Facility. In addition, Portugal has requested a loan of SDR 23,742 billion (equivalent to EUR 26 billion at the exchange rate of 5 May 2011) from the IMF under an Extended Fund Facility. The support from the EFSM needs to be supplied on terms and conditions similar to those of the IMF. The Union financial assistance should be managed by the Commission.
- (7) The Council should review on a regular basis the economic policies implemented by Portugal.
- (8) The specific economic policy conditions agreed with Portugal should be laid down in a Memorandum of Understanding on Specific Economic Policy Conditionality (the 'Memorandum of Understanding'). The detailed financial terms should be laid down in a Loan Facility Agreement.
- (9) The Commission, in liaison with the ECB, should verify at regular intervals that the economic policy conditions attached to the assistance are fulfilled, through missions and regular reporting by the Portuguese authorities.
- (10) Throughout the implementation of the Programme, the Commission should provide additional policy advice and technical assistance in specific areas.
- (11) The operations which the Union financial assistance helps to finance must be compatible with Union policies and comply with Union legislation. Interventions in support of financial institutions must be carried out in accordance with Union rules on competition.
- (12) The assistance should be provided with a view to supporting the successful implementation of the Programme,

HAS ADOPTED THIS DECISION:

Article 1

▼M8

1. The Union shall make available to Portugal a loan amounting to a maximum of EUR 26 billion, with a maximum average maturity of 19,5 years. The maturity of individual tranches of the loan facility may be of up to 30 years.

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2. The financial assistance shall be made available during three years starting from the first day after the entry into force of this Decision.

▼M1

3. The Union financial assistance shall be made available by the Commission to Portugal in a maximum of 14 instalments. An instalment may be disbursed in one or several tranches. The maturities of the tranches under the first and second instalment may be longer than the maximum average maturity referred to in paragraph 1. In such cases, the maturities of further tranches shall be set so that the maximum average maturity referred to in paragraph 1 be achieved once all instalments have been disbursed.

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4. The first instalment shall be released subject to the entry into force of the Loan Facility Agreement and the Memorandum of Understanding. Any subsequent loan releases shall be conditional upon a favourable review by the Commission, in consultation with the ECB, of Portugal's compliance with the general economic policy conditions as defined by this Decision and the Memorandum of Understanding.

▼M2

5. Portugal shall pay the cost of funding of the Union for each tranche.

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6. In addition, the costs referred to in Article 7 of Regulation (EU) No 407/2010 shall be charged to Portugal.

7. If required in order to finance the loan, the prudent use of interest rate swaps with counterparties of the highest credit quality and advanced borrowing shall be permitted.

8. The Commission shall decide on the size and release of further instalments. The Commission shall decide on the size of the tranches.

▼M8

9. At the request of Portugal, the Commission may extend the maturity of an instalment or a tranche, provided that the maximum average maturity as set out in paragraph 1 is respected. The Commission may refinance all or part of its borrowing for that purpose. Any amounts borrowed in advance shall be kept on an account with the ECB that the Commission has opened for the administration of the financial assistance.

▼B*Article 2*

1. The assistance shall be managed by the Commission in a manner consistent with Portugal's undertakings.

2. The Commission, in consultation with the ECB, shall agree with the Portuguese authorities the specific economic policy conditions attached to the financial assistance as set out in Article 3. Those conditions shall be laid down in a Memorandum of Understanding to be signed by the Commission and the Portuguese authorities consistent with the undertakings referred to in paragraph 1. The detailed financial terms shall be laid down in a Loan Facility Agreement to be concluded with the Commission.

▼B

3. The Commission, in liaison with the ECB, shall verify at regular intervals (at least quarterly) that the economic policy conditions attached to the assistance are fulfilled, and report to the Economic and Financial Committee before disbursement of each instalment. To this end, the Portuguese authorities shall cooperate in full with the Commission and the ECB, and shall place all the necessary information at their disposal. The Commission shall keep the Economic and Financial Committee informed of possible refinancing of the borrowings, or changes to the financial conditions.

4. Portugal shall adopt and implement additional consolidation measures to ensure macro-financial stability, in case such measures will be necessary during the programme of assistance. The Portuguese authorities shall consult the Commission and the ECB in advance of the adoption of any such additional measures.

Article 3

1. The draft economic and financial adjustment programme (the 'Programme') prepared by the Portuguese authorities is hereby approved.

2. The disbursement of each instalment after the first one shall be made on the basis of a satisfactory implementation of the Programme and, more particularly, the specific economic policy conditions laid down in the Memorandum of Understanding. These shall include, inter alia, the measures provided for in paragraphs 4 to 8 of this Article.

▼M8

3. The general government deficit shall not exceed 5,9 % of GDP in 2011, 5,0 % of GDP in 2012, 5,5 % of GDP in 2013 and 4 % of GDP in 2014. For the calculation of this deficit, the possible budgetary costs of bank support measures in the context of the Government's financial sector strategy shall not be taken into account. The budgetary consolidation shall be achieved by means of high-quality permanent measures and minimising the impact of consolidation on vulnerable groups.

4. Portugal shall adopt the measures specified in paragraphs 5 to 8 before the end of the indicated year, with exact deadlines for the years 2011-2014 being specified in the Memorandum of Understanding. Portugal shall stand ready to take additional consolidation measures to achieve the deficit targets throughout the Programme period.

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5. Portugal shall adopt the following measures before the end of 2011, in line with specifications in the Memorandum of Understanding:

▼M3

(a) 2011 fiscal deficit target shall be reached by an exceptional measure. Assets acquired as a result of the transfer of banks pensions funds to the State social security system shall not be used in a way detrimental to long-term sustainability of Portuguese public finances.

▼ M3

- (b) Portugal shall adopt measures to reinforce public finance management. Portugal shall implement the measures provided for in the new Budgetary Framework Law, including setting up a medium-term budgetary framework and establishing an independent Fiscal Council. The budgetary framework at local and regional levels shall be considerably strengthened, in particular by putting forward the key options for the alignment of the respective financing laws to the requirements of the Budgetary Framework Law. Portugal shall step up reporting and monitoring of public finances and reinforce budgetary execution rules and procedures. The Portuguese Government shall prepare a strategy for the validation and settlement of arrears which is to present a roadmap setting out how and when the stock of arrears is to be stabilised and explore various options of settling arrears. Regarding Public Private Partnerships (PPPs), the Portuguese Government shall not enter into any new PPPs before the study results on existing PPPs envisaged in the Programme and the legal and institutional reforms proposed become available.

▼ M1

- (c) Portugal shall continue strengthening labour market functioning, notably by taking measures to reform employment protection legislation, wage setting and active labour market policies.

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- (d) In the energy sector, Portugal shall take measures to facilitate entry, promote the establishment of the Iberian gas market and review the support and compensation schemes for the production of electricity. For other network industries, in particular transport, telecommunications and postal services, Portugal shall adopt additional measures to promote competition and flexibility.

▼ M3

- (e) Portugal shall continue opening up the economy to competition. The Portuguese Government shall take the necessary measures to ensure that the Portuguese State or any public body does not conclude, in a shareholder capacity, agreements which may hinder the free movement of capital or influence the management control of companies. The new Privatisation Law shall also be respectful of the principles of free movement of capital and not grant or allow special rights to the State. A revision of competition law shall be undertaken aiming at improving the speed and effectiveness of enforcement of competition rules.

▼ B

- (f) Portugal shall improve practices and rules for public procurement contributing to a more competitive business environment and to more efficient public spending.

▼ M1

- (g) Portugal shall adopt measures to improve the efficiency and sustainability of SOEs at central, regional and local level. Portugal shall prepare a comprehensive SOEs strategy document reviewing the tariff structure and the service provision and a plan to tighten borrowing requirements as of 2012. Portugal shall implement ongoing plans to reduce operational costs by at least 15 % on average in central government SOEs outside the health sector and prepare an equivalent plan for regional and local government SOEs.

▼ M3

- (h) Portugal shall prepare a financial arrangement with the Autonomous Region of Madeira (RAM) consistent with the Programme. Until the agreement of that arrangement and its implementation in the RAM budget, Portugal shall closely monitor the execution of the RAM budget, shall keep transfers from the State to the RAM government suspended and shall not honour any new commercial or financial debt or guarantees by the RAM government and its SOEs that are not approved by the Ministry of Finance.

▼ M6

- 6. Portugal shall adopt the following measures during 2012, in line with specifications in the Memorandum of Understanding:

- (a) the general government deficit shall not exceed 5,0 % of GDP in 2012. Portugal shall continue to closely monitor fiscal developments and implement further policy adjustments to achieve the 2012 target. To this effect, Portugal shall freeze some of the 2012 budget appropriations for investment projects not yet initiated; increase stamp duties on high value properties; raise tax rates on investment income; frontload some of the 2013 budget measures affecting social benefits; implement additional measures generating savings in intermediate consumption and raising other revenues in order to secure the deficit target for 2012;
- (b) Portugal shall aim to reduce expenditure in 2012 by at least EUR 6,8 billion including by reducing public sector wages and employment; making cuts in pensions; carrying out a comprehensive reorganisation of the central administration, eliminating redundancies and other inefficiencies; reducing transfers to SOEs; reorganising and reducing the number of municipalities and parishes; making cuts in education and health; lowering transfers to regional and local authorities; and reducing capital expenditure and other expenditure as set out in the Programme;
- (c) on the revenue side, Portugal shall implement revenue measures of at least EUR 3 billion, including by broadening VAT bases through the reduction of exemptions and the rearranging of the lists of goods and services subject to reduced, intermediate and higher rates; increasing excise taxes; broadening the corporate and personal income tax bases by reducing tax deductions and special regimes; ensuring the convergence of personal income tax deductions applied to pensions and labour income; and changing property taxation by substantially reducing exemptions. These measures shall be complemented by action to fight tax evasion, fraud and informality;

▼ **M6**

- (d) Portugal shall continue adopting measures to reinforce public finance management. Portugal shall implement the measures provided for in the new Budgetary Framework Law, including setting up a medium-term budgetary framework. The local and regional budgetary frameworks shall be considerably strengthened, in particular by aligning the respective financing laws with the requirements of the Budgetary Framework Law. Portugal shall step up the reporting and monitoring of public finances and reinforce budgetary execution rules and procedures. The Portuguese Government shall apply the strategy for the validation and settlement of arrears and step up the implementation of the commitment control law to prevent the creation of new arrears. Portugal shall implement the new legal and institutional PPPs framework. No PPP shall be launched until the new framework is fully effective. Based on a study prepared by an international auditing firm, Portugal shall develop a detailed strategic plan, in full compliance with applicable Union law including public procurement law, with a view to obtaining substantial fiscal gains, while minimising the debt burden and ensuring sustainable reduction of government liabilities. Portugal shall adopt a law to regulate the creation and the functioning of SOEs at central, regional and local levels;

- (e) Portugal shall apply the new legislation to reorganise and significantly reduce the number of local government entities. These changes shall come into effect by the beginning of the next local election cycle. In addition, Portugal shall enhance efforts to streamline the public sector by reducing entities and improving task sharing at all levels of government;

- (f) Portugal shall deepen the reform of the revenue administration by reinforcing the links between the Autoridade Tributária e Aduaneira and the revenue collection units of the Social Security, reducing the number of municipal offices and addressing remaining bottlenecks in the tax appeal system;

- (g) Portugal shall implement the financial arrangement with the RAM;

- (h) Portugal shall adopt measures to improve the efficiency and sustainability of SOEs at central, regional and local level. Portugal shall explore options in order to manage the heavy debt load of SOEs, including Parública, and to ensure improved conditions for market financing. Portugal shall aim to reach operational balance at sector level by the end of 2012;

- (i) Portugal shall continue implementing the privatisation programme. The direct sale of Caixa Geral de Depósitos' (CGD) insurance arm, Caixa Seguros, is ongoing;

- (j) the Portuguese Government shall submit draft legislation to the Portuguese Parliament to align severance payments with the Union average of 8 to 12 days per year of work and to create a compensation fund for severance payments;

▼ M6

- (k) Portugal shall promote wage developments consistent with the objectives of fostering job creation and improving firms' competitiveness with a view to correcting macroeconomic imbalances. Over the Programme period, any increase in minimum wages shall take place only if justified by economic and labour market developments. Measures shall be taken to address weaknesses in the current wage bargaining schemes, including legislation to redefine the criteria and modalities of the extension of collective agreements and to facilitate firm-level agreements. Until then, collective agreements shall not be extended;
- (l) Portugal shall continue to improve the effectiveness of its active labour market policies in line with the results of the assessment report and the action plan to improve the functioning of the public employment services;
- (m) Portugal shall implement the measures set out in its action plans to improve the quality of secondary and vocational education and training;
- (n) the functioning of the judicial system shall be improved by implementing the measures proposed under the Judicial Reform Map and by applying targeted measures to progressively eliminate the court backlog and to foster alternative dispute resolution;
- (o) Portugal shall continue opening up its economy to competition. The Portuguese Government shall take the necessary measures to ensure that obstacles to free movement of capital will not be created by their action and, in particular, that the Portuguese State or any public body does not conclude, in a shareholder capacity, agreements which may hinder the free movement of capital or influence the management control of companies. The functioning of professional services shall be fostered by improving the framework for recognition of professional qualifications and by eliminating unnecessary restrictions on regulated professions. In construction and real estate activities, Portugal shall make the requirements for cross-border providers less burdensome and review obstacles to the establishment of service providers;
- (p) the competition and regulatory framework shall be improved. Portugal shall reinforce the independence, autonomy and governance of the main national regulatory authorities; implement the Competition Law with a view to improving the speed and effectiveness of the enforcement of competition rules; and monitor the inflow of new cases and report on the functioning of the specialised court for competition, regulation and supervision;

▼ M6

- (q) in the energy sector, Portugal shall take measures to facilitate market entry and promote the establishment of the Iberian gas market and shall take further steps towards fully transposing the Third EU Energy Package. To ensure the independence and autonomy and powers of the national regulatory authority provided for in the Third EU Energy Package, Portugal shall adopt the new regulators' by-laws, as agreed in July 2012 with the Commission, the ECB and the IMF, by the third quarter of 2012, and shall ensure that they are effective before the end of 2012 in time for the liberalisation of the electricity and gas market. Portugal shall take measures to review the support and compensation schemes for the production of electricity. Portugal shall take measures to reduce excessive rents and eliminate the tariff debt by 2020, focusing on compensation schemes for power guarantee, special regime (renewables — excluding those granted under tender mechanisms — and cogeneration), and the ordinary regime (CMECs and CAEs);
- (r) in other network industries, in particular transport, telecommunications and postal services, Portugal shall adopt additional measures to promote competition and flexibility;
- (s) Portugal shall adopt a number of measures with a view to increase the efficiency of the licensing schemes for territorial planning, industrial and commercial licensing and tourism. In addition, the Portuguese Government shall analyse and fast-track applications for the licensing of planned investment projects which are left unresolved or undecided for more than 12 months;
- (t) Portugal shall prepare an action plan with measures to facilitate access to finance and to export markets for companies, in particular for SMEs.

▼ M9

7. Portugal shall adopt the following measures during 2013, in line with specifications in the Memorandum of Understanding:

- (a) the general government deficit shall not exceed 5,5 % of GDP in 2013. For the calculation of this deficit, the possible budgetary costs of bank support measures in the context of the government's financial sector strategy shall not be taken into account. The consolidation measures included in the 2013 budget and supplementary budget shall be implemented rigorously throughout the rest of the year. In addition, should further slippages arise in budgetary execution, the Government shall implement additional corrective measures;
- (b) Portugal shall continue implementing its privatisation programme;
- (c) Portugal shall complete the implementation of the strategy of shared services in public administration;
- (d) Portugal shall continue the reorganisation and rationalisation of the hospital network through specialisation, concentration and down-sizing of hospital services, joint management and joint operation of hospitals, and shall ensure the implementation of the multiyear action plan for hospital reorganisation;

▼ **M9**

- (e) following the adoption of the amendments to the Law 6/2006 on new urban leases and the decree law which simplifies the administrative procedure for renovations, Portugal shall undertake a comprehensive review of the functioning of the housing market;
- (f) Portugal shall develop a nationwide land registration system to allow a more equal distribution of benefits and costs in the execution of urban planning;
- (g) while respecting the Constitutional Court's ruling of 26 September 2013, Portugal shall devise and implement alternative reform options of the labour market with similar effects to those that were declared unconstitutional in that ruling;
- (h) Portugal shall promote wage developments which are consistent with the objectives of fostering job creation and improving firms' competitiveness with a view to correcting macroeconomic imbalances. Over the Programme period, any increase in minimum wages shall take place only if justified by economic and labour market developments;
- (i) Portugal shall continue to improve the effectiveness of its active labour market policies in line with the results of the assessment report and the action plan to improve the functioning of the public employment services;
- (j) Portugal shall continue to implement the measures set out in its action plans to improve the quality of secondary and vocational education and training; in particular the Government shall present plans to make the funding framework of schools more effective and the professional schools of reference shall be established;
- (k) Portugal shall complete the adoption of the outstanding sectorial amendments necessary to fully implement Directive 2006/123/EC of the European Parliament and the Council ⁽¹⁾;
- (l) the Government shall submit to the Portuguese Parliament the professional bodies' amended statutes;
- (m) Portugal shall approve the corresponding amendments to the bylaws of the National Regulatory Authorities;
- (n) Portugal shall publish quarterly reports on recovery rates; duration and costs of corporate insolvency cases; duration and cost of tax cases and on the clearance rate of enforcement court cases;
- (o) Portugal shall improve the business environment by completing pending reforms on the reduction of administrative burden (fully operational Points of Single Contact provided for by Directive 2006/123/EC and 'Zero Authorisation' projects) and by carrying out further simplification of existing licensing procedures, regulations and other administrative burdens in the economy which are a major obstacle for the development of economic activities;
- (p) Portugal shall complete the reform of the ports' governance system, including the overhaul of port operation concessions;

⁽¹⁾ Directive 2006/123/EC of the European Parliament and the Council of 12 December 2006 on services in the internal market (OJ L 376, 27.12.2006, p. 36).

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- (q) Portugal shall implement the measures enhancing the functioning of the postal and telecommunications sectors;
- (r) Portugal shall implement the measures enhancing the functioning of the transport system;
- (s) Portugal shall implement the measures eliminating the energy tariff debt;
- (t) Portugal shall ensure that the new legal and institutional PPP framework is applied and the PPP road contracts continue to be renegotiated in line with the strategic plan presented by the Government and with the regulatory framework revision, in order to obtain substantial fiscal gains, particularly in 2013;
- (u) Portugal shall continue to focus on measures to combat tax fraud and evasion and strengthen taxpayers' compliance.

8. Portugal shall adopt the following measures during 2014, in line with specifications in the Memorandum of Understanding:

- (a) the general government deficit shall not exceed 4 % of GDP in 2014. For the calculation of this deficit, the possible budgetary costs of bank support measures in the context of the government's financial sector strategy shall not be taken into account. To achieve this objective Portugal shall deliver consolidation measures worth 2,3 % of GDP, primarily through the 2014 Budget Law. Measures shall be mainly of a permanent nature and tilted towards the expenditure savings side;
- (b) the consolidation package shall build on the expenditure-reducing measures that were prepared in the framework of the public expenditure review. Overall, the amount of these measures shall add up to 1,8 % of GDP in 2014 and shall include:
 - (i) limiting outlays on the public wage bill by reducing the size of the public-sector work force while changing its composition towards higher-skilled employees, notably through a requalification programme and a voluntary redundancy scheme; further convergence of public and private sector work rules (including the increase in working hours and reduction in holiday entitlements) and the introduction of a single wage scale as well as the streamlining of wage supplements. Beneficiaries' contributions to the special health insurance schemes shall be increased and thereby contribute to enhance the equity and efficiency of public spending;
 - (ii) reforms of the pension system by an increase in the statutory retirement age *via* changes to the sustainability factor; an alignment of the rules for pension benefit calculations between the civil servants' pension regime (CGA) and the general pension system, while protecting benefits below minimum thresholds; and streamlining survivors' pensions of both CGA and the general pension regime in cases where these accumulate with other pensions;

▼ **M9**

- (iii) savings in intermediate consumption and expenditure programmes across line ministries. In view of political and legal risks, some of the measures may be partly or fully replaced by others of equivalent size and quality;
- (c) the public expenditure review package shall be completed with other permanent revenue measures which aim to further improve the efficiency and equity of the current tax and benefit structure (worth 0,4 % of GDP). In particular, the taxation on expenses related to company cars shall be increased and environmental and health-related taxation shall be improved by changing the taxation of passenger diesel cars and by increasing excises on tobacco and on alcoholic beverages. Tax exemptions in property taxation for pension funds and real estate funds shall be reduced. The caps to the social security contributions of members of statutory bodies shall be removed. A special levy on the energy sector shall be imposed curbing excessive rents from the energy sector. Part of the income generated by this levy shall be used to reduce the tariff debt. Online gambling licences shall be sold with a view to the regularisation of this market and this activity shall also be taxed. A special fee on media spectrum shall be introduced and the levy on financial institutions shall be increased. Moreover, a number of one-off measures shall be implemented, more than offsetting the costs arising from the one-off upfront payments related to the introduction of the mutual agreement redundancy scheme in the public sector. These include the transfer of the CTT health fund to the government sector, the sale of a port and silos concessions as well as special dividends from the sale of excessive oil reserves from a public company;
- (d) Portugal shall present a report with the following objectives:
 - (i) to identify overlaps of services and jurisdictions and other sources of inefficiencies between the central and the local levels of government; and
 - (ii) to reorganise the network of decentralised services of ministries mainly through the ‘Lojas do Cidadão’ (administration and utilities single points of contact) network and other approaches, encompassing more efficient geographical areas and intensifying the use of shared services and digital government;
- (e) Portugal shall continue the reorganisation and rationalisation of the hospital network through specialisation, concentration and down-sizing of hospital services, joint management and joint operation of hospitals, and shall ensure the implementation of the multiyear action plan for hospital reorganisation;
- (f) Portugal shall implement the plan to create an independent gas and electricity logistics operator company;
- (g) Portugal shall implement the measures enhancing the functioning of the transport system;

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- (h) Portugal shall assess the impact of the optional VAT cash accounting regime;
- (i) Portugal shall carry out an inventory and an analysis of the cost of regulations that are likely to have a higher impact on economic activity.

9. With a view to restoring confidence in the financial sector, Portugal shall aim to maintain an adequate level of capital in its banking sector and ensure an orderly deleveraging process in compliance with the deadlines set in the Memorandum of Understanding. In that regard, Portugal shall implement the strategy for the Portuguese banking sector agreed with the Commission, the ECB and the IMF so that financial stability is preserved. In particular, Portugal shall:

- (a) monitor the banks' transition to the new capital rules as laid down in the Capital Requirements Directive IV package (CRD IV) and ensure that capital buffers remain commensurate with the challenging operating environment;
- (b) advise banks to strengthen their collateral buffers on a sustainable basis;
- (c) ensure a balanced and orderly deleveraging of the banking sector, which remains critical in permanently eliminating funding imbalances and reducing the reliance on Eurosystem funding in the medium-term. Banks funding and capital plans shall be reviewed quarterly;
- (d) encourage the diversification of financing alternatives for the corporate sector, and in particular SMEs, through an array of measures aiming to improve their access to the capital markets;
- (e) continue to streamline the state-owned CGD group;
- (f) outsource the management of the BPN credits currently held by Parvalorem to the firms selected through the bidding process with a mandate to gradually recover the assets; and ensure timely disposal of the subsidiaries of, and the assets in, the other two state-owned special purpose vehicles;
- (g) on the basis of the proposals to encourage the diversification of financing alternatives to the corporate sector, develop and implement solutions that provide financing alternatives to traditional bank credit for the corporate sector; and assess the scope for improving the performance and governance of the existing government-sponsored credit lines building on the results of the recent external audit and the submitted roadmap;
- (h) analyse banks' recovery plans and issue guidelines to the system on recovery plans and prepare resolution plans on the basis of the reports submitted by the banks. The Government shall submit to the Portuguese Parliament the necessary amendments to the recapitalisation law reflecting the Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis;

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- (i) implement the framework for financial institutions to engage in out-of-court debt restructuring for households, smoothen the application for restructuring of corporate debt and implement an action plan to raise public awareness of the restructuring tools;
- (j) prepare quarterly reports on the implementation of the new restructuring tools; on the basis of the recently conducted survey, explore alternatives to increase the successful recovery of companies adhering to the PER (the Special Revitalisation Procedure for companies in serious financial distress) and the SIREVE (the Companies' Recovery System through Extrajudicial Agreements for companies in a difficult economic situation or imminent or actual insolvency).

▼ M6

10. In order to ensure the smooth implementation of the Programme's conditionality, and to help to correct imbalances in a sustainable way, the Commission shall provide continued advice and guidance on fiscal, financial market and structural reforms. Within the framework of the assistance to be provided to Portugal, together with the IMF and in liaison with the ECB, the Commission shall periodically review the effectiveness and economic and social impact of the agreed measures, and shall recommend necessary corrections with a view to enhancing growth and job creation, securing the necessary fiscal consolidation and minimising harmful social impacts, particularly on the most vulnerable parts of Portuguese society.

▼ B*Article 4*

Portugal shall open a special account with the Bank of Portugal for the management of the Union financial assistance.

Article 5

This Decision is addressed to the Portuguese Republic.

Article 6

This Decision shall be published in the *Official Journal of the European Union*.