International Monetary Fund

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Press Release:
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April 17, 2014

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

March 28, 2014

Portugal—Letter of Intent

Lisbon, March 28, 2014

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 toward 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 have made further progress toward the program objectives. The end-December 2013 deficit and debt performance criteria were met by a sizeable margin, reflecting *inter alia* strong tax collection, prudent expenditure control in the second half of 2013, and one-off revenues from the (tax and social security) debt recovery scheme. Preliminary information suggests that we are also on track to meet the end-March targets. We have continued to work on boosting the competitiveness of the Portuguese economy, most recently by eliminating the port user fee and easing licensing requirements for the tourism and industrial sectors. We have also made important progress with several initiatives aimed to facilitate access to finance, including enhancements to the existing government-guaranteed credit instruments.

3. Market prospects have improved, and we were able to issue long-term bonds and conduct a bond swap at favorable rates. Nevertheless, further efforts are needed to secure durable market access, generate higher sustained growth, reduce unemployment, complete our ambitious fiscal consolidation plan in line with our European commitments, and vigilantly monitor the resilience of the financial system in the context of the ongoing deleveraging and rebalancing of the economy. In particular,

- In the course of the program, significant reforms of labor and product markets were implemented in order to alleviate nominal rigidities, facilitate adjustment, and foster a reallocation of resources toward the tradable sector. To assess the impact of these reforms and ensure that the initial objectives are being achieved, we are preparing an outcome-based accountability framework to draw more concrete links between notional reforms and actual outcomes. In addition, we are working toward identifying the remaining policy distortions and other potential priority areas (notably, energy and labor markets) which will be tackled in the next phase of reforms.

- We remain committed to achieving our 2014 fiscal deficit target of 4 percent of GDP. To this end, we are carefully assessing progress towards the attainment of the defined budget objectives by line ministries; we are also finalizing supporting legislation necessary to implement the compensating measures adopted in January. Furthermore, should any risks to budget execution materialize, we stand ready to implement compensatory measures of equivalent size and quality. As part of our strategy to arrest any accumulation of new domestic arrears, we have identified specific public entities with structural financial imbalances and developed targeted programs to underpin their financial sustainability.

- We will advance our fiscal consolidation efforts in 2015, with a targeted deficit of 2.5 percent of GDP. The 2014 Fiscal Strategy Document will provide detailed spending ceilings by line ministries and underlying adjustment measures on, *inter alia*, supplements and wage scale reform and pension reform. Measures deemed to be consistent with achieving the budget deficit target of 2.5 percent of GDP in 2015 will be specified as a *prior action* for completion of this review.

- We are committed to preserving financial stability and supporting an orderly deleveraging of balance sheets. Banco de Portugal (BdP) continues to scrutinize the resilience of the banking system amidst a challenging operating environment and to ensure compliance with new capital requirements. We are also reviewing our strategies to facilitate corporate debt restructuring and to support the necessary capital reallocation towards the productive sectors of the economy. The BSSF resources—which amount to €6.4 billion—have been set aside for banking sector support and deposited in a dedicated account at the BdP.

4. On the basis of the strength of the policies outlined in this letter, and in light of our performance under the program, we request the completion of the eleventh review under the Extended Arrangement, as well as a waiver of applicability for the end-March deficit and debt performance criteria. In view of the expiration of the arrangement on May 19, 2014, we request an extension for technical purposes until June 30, 2014. This extension is needed to provide sufficient time to assess the end-March performance criteria, complete the final review, and enable the final purchase under the arrangement in accordance with Fund policies.

5. 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.

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

Sincerely yours,

/s/	/s/	/s/
Paulo Portas	Maria Luís Albuquerque	Carlos da Silva Costa
Deputy Prime Minister	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 I. Portugal: Memorandum of Economic and Financial Policies

March 28, 2014

Macroeconomic Outlook

1. **Recent macroeconomic developments.** The economic recovery is gaining traction. Exceeding expectations, output grew by 0.5 percent in the last quarter of 2013. Compared with the last quarter of 2012, output grew by 1.6 percent, the first positive yearly growth in three years. This, together with the upward revisions of the historical quarterly data, resulted in a 1.4-percent contraction in output in 2013, compared with the 1.6-percent decline projected at the time of the last review. The recovery is underpinned by improved domestic demand (in particular investment) and strong exports, which are estimated to have increased by close to 6 percent in 2013 in real terms. Employment growth has exceeded expectations, while the labor force has remained stable. Consequently, the unemployment rate has declined from 15.6 percent in the third quarter to 15.3 percent in the last quarter of 2013, resulting in an unemployment rate of 16.3 percent for 2013 as a whole, compared with 16.5 percent projected at the time of the last review. Inflation, at 0.4 percent in 2013, has remained below the euro area average.

2. **Outlook.** High-frequency indicators point to a continued expansion in activity, and economic sentiment is now close to its long-term average. Buoyed by a stronger-than-expected carry-over from the last quarter of 2013, growth in 2014 is expected to reach 1.2 percent, compared with 0.8 percent projected at the time of the last review. This growth will be supported by the continued recovery in investment and the strong export performance. The unemployment rate is expected to average 15.7 percent in 2014 vis-à-vis 16.8 percent envisaged in the 10th review. Inflation will increase slowly to 0.7 percent, in line with a still-large slack in the economy. Risks surrounding this baseline are related to the negative effects of private sector deleveraging and of the envisaged fiscal consolidation on growth; these effects may turn out to be stronger than expected.

3. **External adjustment.** The adjustment in the current account is expected to moderate, as the recovery in domestic demand gathers momentum. Having reached an estimated surplus of about ½ percent of GDP in 2013—an improvement of 2½ percentage points relative to 2012—the current account is expected to register a surplus of about 1 percent this year, in line with what was projected at the time of the 10th review. Export growth is expected to be supported by continued gains in market share amid the recovery in demand from other EU economies—notably Spain that alone contributed to a half of merchandise export growth in 2013—as well as continued robust demand from non-EU trading partners . Nevertheless, weaker external demand remains the main downside risk to external adjustment. More importantly, notwithstanding reforms already implemented, continued competitiveness gains will be needed to sustain robust export growth over the medium term.

Fiscal Policy

4. **2013 Outcome.** In 2013, we made significant progress towards our fiscal consolidation objectives. The end-December quantitative performance criteria on the general government cash balance and debt were met by a sizable margin (Table 1). The ESA95 general government deficit was successfully reduced to around 4.5 percent of GDP (excluding the BANIF recapitalization costs of 0.4 percent of GDP), compared to a 5.5 percent of GDP target. This over-performance reflects strong tax collection, on the back of positive macroeconomic developments and continued efforts to strengthen tax compliance, as well as prudent expenditure control and one-off revenues from the (tax and social security) debt recovery scheme. The underlying structural primary adjustment in 2013 is estimated at about 0.8 percent of GDP. Nevertheless, the continuous indicative target on arrears was missed, with 0.2 billion in new arrears accumulated in 2013, notably due to structural imbalances in state-owned hospitals.

5. **2014 Budget.** We remain committed to achieving our 2014 deficit target of 4 percent of GDP—consistent with a structural primary adjustment of about 0.7 percent of GDP. New additional pressures arising from lower social security revenues as well as higher transfers to state-owned hospitals—as part of the targeted programs to halt arrears (see ¶9)—are expected to be offset by the positive 2013 carryover (0.2 percent of GDP) and improved macroeconomic outlook (0.5 percent of GDP). We are monitoring closely budget implementation. Specifically,

- **Public Expenditure Review (PER)**. We are carefully assessing progress towards the attainment of the defined budget objectives by line ministries, through monthly reporting to the Council of Ministers, with a special focus on the Public Expenditure Review measures in the budget. In order to achieve the targeted reduction in the size of the public sector workforce, another scheme for low-skilled employees will be launched during the second quarter of 2014. We have extended the term of the ongoing schemes for teachers, with effects from March 2014. In the design of any new programs aimed at reducing over-employment in specific sub-sectors, we will continue to aim at a change in the composition of the public sector workforce towards high-skilled and better-trained civil servants.

- **Additional Measures.** Supporting legislation necessary to implement some of the additional measures in the budget is also being finalized. In particular, we have approved the ministerial order defining the levy on financial institutions. The framework law for online gambling has been sent to the Council of Ministers, for approval by end-April 2014. The port concession tender and real estate sale is expected by end-September 2014, while the Silopor concession, the transfer from the CTT health fund, and the sales of excess oil reserves are expected to be finalized by end-year.

Should any risks to the execution of the budget materialize, we remain committed to implement, following discussion with EC/ECB/IMF staff, compensatory measures of equivalent size and quality to meet the agreed deficit target.

6. **Medium-term fiscal consolidation.** We will advance our fiscal consolidation efforts in 2015, with a targeted deficit of 2.5 percent of GDP, consistent with a structural primary adjustment of around 1 percent of GDP, securing a successful exit from the EU Excessive Deficit Procedure. Moreover, further fiscal effort of about ½ percent of GDP will be needed in the outer years to keep public debt on a downward trajectory, in compliance with the medium-term fiscal sustainability requirements in the European Treaty on Stability, Coordination, and Governance. The 2014 Fiscal Strategy Document, that we are about to submit to the EC by end-April, will provide detailed spending ceilings by line ministries and underlying adjustment measures consistent with our EU budgetary commitments. Specifically, the following measures will underpin our medium-term plans in the 2014 Fiscal strategy document, largely building on the Public Administration law which is expected to be approved by end-March:

- **Supplements and Wage Scale Reforms**. Building on the principles identified in the Public Administration law, we have recently conducted a comprehensive review of wage supplements, aimed at standardizing and rationalizing existing supplements by key categories. Draft proposals will be presented by the time of the twelfth review mission, with the draft law expected to be submitted to Parliament by end-June. In parallel, we are advancing our comprehensive review of public sector remunerations and careers towards a new single wage scale for public employees. We expect to finalize the reform in the second half of 2014, in line with the budgetary plans to be presented in the 2014 Fiscal Strategy document.

- **Pension reform**. New comprehensive measures as part of the ongoing pension reform shall be undertaken, aimed at improving the long-term sustainability of the pension system. The recently appointed Pension Reform Committee is tasked to develop the specific details of the reform. The reform shall include short-term measures further linking pension entitlements to demographic and economic criteria while also respecting progressivity principles, in line with the recent Constitutional Court ruling on the convergence of the public workers' pension regime (CGA) to the general system. The final design of these short-term measures shall be presented by the time of the twelfth review and a draft law will be submitted to Parliament in the first half of the year. Further measures ensuring the long-term sustainability of the pension systems shall be also specified by the time of the twelfth review. In addition, the Government shall ensure that the recently increased retirement age effectively applies to the pension requests made to CGA as of 2014.

- Additional areas that are being considered include, amongst others, a further reduction in the number of management positions and administrative units in central administration, the use of European funds for vocational and professional training, concessions in the transport sector, further reorganization of SOEs (including mergers and additional privatizations), as well as green taxes.

Measures deemed to be consistent with achieving the budget deficit target of 2.5 percent of GDP in 2015 will be specified as a *prior action* for completion of this review.

7. **Reform of the State.** The above-mentioned steps to reform the Public Administration are part of our far-reaching **Proposal for the Reform of the State**, whose general principles were approved by the Council of Ministers last October. The reform will aim at achieving efficient and sustainable public sector policies, underpinning the balanced budget objectives and fiscal sustainability rules in the recently-ratified European Treaty on Stability, Coordination, and Governance—which now ranks higher than ordinary legislation. In recent months, we have conducted consultations with social partners and proposed the setting up of a Parliamentary committee to reach broad-based consensus on these reforms. Building on the first round of consultations with social partners, a new document will be approved by the Council of Ministers by end-March 2014 with draft proposals on different reform areas, which should ideally include social security sustainability, flexibilization and requalification of the public sector workforce, rationalization of general government entities, as well as greater efficiency in health and education. Further progress with this process will be discussed at the time of the next review.

8. **Debt Path.** Preliminary data indicate that gross debt reached 128.8 percent of GDP in 2013, against an initial projection at the time of the 10th review of 129.4 percent of GDP, supported by the improved fiscal cash balance and upward revision in nominal GDP. Looking forward, under the programmed fiscal path, debt is expected to start gradually declining, with a projected debt ratio of 126¾ percent of GDP in 2014, supported by recent buyback operations, further use of cash deposits as well as the ongoing reallocation of the Social Security portfolio from foreign assets to government securities. Given the buildup of Central Government cash balances, net debt is projected below 120 percent of GDP by end-2014.

Containing Fiscal Risks

9. **Public Financial Management.** We are advancing Public Financial Management reforms, including through new efforts to improve our accounting and reporting framework, but stricter compliance with the commitment control law (CCL) is needed to prevent any new accumulation of domestic arrears, particularly in the health sector.

- We remain committed to complete the transposition of the EU Fiscal Compact provisions in our Budget Framework Law (BFL) by end-March 2014. In parallel, on the basis of the report of the technical group charged with revising the BFL, we are working, in close consultation with IMF staff, on developing the key principles and elements that will be reflected at a later stage in an amended BFL to crystallize the reforms undertaken so far while underpinning an effective public financial management system. As the next step, we will consult in the coming months with key stakeholders to discuss the key elements of the legislation, notably streamlining the budget appropriation structure, strengthening accountability relations, and broadening the focus and analysis of fiscal risks. We will aim at developing the key aspects and structure of the new law by end-April and completing the underlying technical work, upon consultations with key stakeholders by end-September. As part of these efforts and key input into this process, we will undertake an IMF Fiscal Transparency Evaluation by the end of the program, which will be made publicly available.

- We remain committed to arrest any accumulation of new domestic arrears. As part of our strategy, we have identified specific public entities with structural financial imbalances, including twelve State Owned Enterprise (SOE) hospitals and the railroad company Comboios de Portugal (CP), and are finalizing by end-April the targeted programs to underpin their financial sustainability. Specifically, the programs targeted to SOE hospitals, envisage for 2014 the use of additional budgetary funds (up to €300 million) to close the operational imbalances and fully fund the investment needs of these hospitals. To this end, should any new arrears emerge, they will be fully offset by transfers from the general government. As regards CP, a new debt management strategy is currently being developed, which will aim at improving the company's funding model and halt any further accumulation of arrears, expected to be discussed at the time of the 12th review. Beyond these specific programs, the CCL will be enforced in full to all public entities in line with the continuous indicative target under the program. In this context, the dedicated unit within the Ministry of Finance, reporting directly to the State Secretary of the Budget in charge of the expenditure arrears for the public sector, was also established last February and is currently operational.

- We will take immediate steps to improve the public sector accounting and reporting framework, building on recent technical assistance recommendations by the IMF. In particular, we are committed to ensure adequate accounting for revenues, expenses, assets, and liabilities related to government bank accounts, debt, investments, tax revenue, and public private partnerships. To this purpose, we will have a central government accounting function in the Ministry of Finance by end-June, responsible for accounting for these and any other balance-sheet items that may not currently be accounted for in the government accounting system. It will also be responsible for preparing consolidated financial statements of general government and other public sector entities, including all SOEs and other controlled entities.

10. **Revenue Administration.** To bolster revenue performance in support of our medium-term fiscal objectives, we remain determined to make further progress in curbing tax evasion. Recent steps in this direction include hiring approximately 1000 new tax auditors and developing successfully the e-invoicing reform. The Compliance Risk Management Unit, created last November, is fully operational since last February. This unit is focused on strengthening tax compliance by (i) phasing in of a modern compliance risk model; (ii) improving PIT compliance management, through the pilot projects on the High Net Wealth Individuals and Self-employed Professionals; and (iii) enhancing control of the monthly PIT withholding information. Moreover, we are planning to establish by end-2014 a dedicated Taxpayer Services Department, unifying most services related to taxpayers and improving their relationship with the tax administration. As part of its reorganization 50 percent of local tax offices will be closed by end-May 2014.

11. **Anti-money laundering (AML).** We are committed to strengthen our AML legal and regulatory framework to tackle more effectively money laundering (as we did with the publication of Notice nº 5/2013 of Bank of Portugal that regulates the conditions, mechanisms and procedures needed for effective compliance of the financial institutions subject to the supervision of Banco de Portugal with the anti-money laundering and terrorist financing obligations) and its predicate

crimes, including tax crimes. To this end, we have set up a multidisciplinary working group that will carry out a national AML/CFT risk assessment. It will also propose any necessary amendment to bring our AML/CFT regime in line with the revised AML/CFT standard adopted by the Financial Action Task Force (FATF/GAFI). In this context, on the basis of recommendations made by IMF technical assistance, we have identified key areas of reforms to strengthen the exchange of information system between the AML authorities and other competent authorities, such as the Tax and Customs Authority, and we are committed to implementing these reforms by end-2014.

12. **Public-Private Partnerships (PPPs).** We continue taking steps to achieve a fiscally responsible PPP model. We are finalizing a major renegotiation of road contract PPPs with all concessionaires, generating additional structural savings of more than €2.5 billion over the life cycle of these concessions. The revision of the regulatory framework for the road and rail sectors, reducing operation, maintenance, and major repair requirements, in line with EU standards and with the objective of minimizing fiscal risks is also nearly finalized. Moreover, with a negotiation team appointed last February, the renegotiation of the Security Integrated System (SIRESP) PPP contract is proceeding as envisaged, with the objective of generating further permanent savings in 2014 via a reduction on its internal rate of return and full network scope improvement and optimization. Furthermore, the Ministry of Finance PPP unit continues working towards enhancing fiscal transparency, improving reporting on PPPs, expanding its field of action to other sectors, namely health and security, and advising the autonomous region of Madeira.

13. **State-Owned Enterprises.** Despite the reinstatement of the 13th and 14th month salaries, cost-cutting efforts and voluntary separation programs ensured that the consolidated operational balance of transport SOEs remained in surplus in 2013. Nonetheless, legacy debt burdens continue to weigh on the financial results of most firms. We will retain formal cost-reduction objectives for these firms, while requiring other firms to continue improving operating balances. In addition, we launched a new comprehensive debt management strategy as part of the efforts to restore the financial sustainability of transport SOEs and stop the accumulation of arrears (see ¶9). A plan is expected to be discussed at the time of the 12th review. We have started the selection process to staff the dedicated Technical Unit that was created under the new framework law for SOEs, and are on track to make it operational by end-April 2014.

14. **Privatization.** The privatization program is ahead of target. Agreement was reached with an investor on the sale of the insurance arm of state-owned CGD in February, with the proceeds contributing towards CGD’s CET1 capital. The sale of the airline, TAP, however, remains on hold. We continue to actively seek buyers for the group as a whole and expect to re-launch the process in the course of this year. The privatization of the rail cargo firm, CP Carga, has been postponed pending the unbundling of its terminals and the approval of the rail investment plan, expected to take place by June 2014. We have prepared a strategic plan for the water, sanitation, and waste sectors (PENSAAR 2020 and PERSU 2020), with a view to improving their efficiency, including by introducing private capital and management in the public waste company. Binding offers for the sale of the waste management company, EGF, are expected by end-June 2014. Opening water concessions to private capital and management is expected to take longer. The restructuring of transport SOEs in

Lisbon and Porto is ongoing. We have launched the consultation process for four concessions in February. The concessions are now expected to be launched by end-April 2014. The government will further consider expanding the privatization program to include additional assets for sale or concessions.

15. **Regional and Local Governments.** We remain committed to fiscal discipline in local and regional governments. Under the program for local governments' arrears settlement (PAEL), nine municipalities remain to be cleared by the Court of Auditors. The coordination council between the central and subnational governments, envisaged in the Regional Finance Law and Local Finance Law (LFL) approved by Parliament last year is expected to become operative by end-April 2014. The council is expected to enhance exchange of information in order to support budgetary planning. The LFL also introduced a Municipality Resolution Fund, for which rules and procedures are being proposed by a group of specialists. On this basis, we expect to submit to Parliament a draft law by end-April 2014. In terms of regional governments, we will continue to closely monitor Madeira's program with the State (PAEF).

Safeguarding Financial Stability

16. **Bank Supervision.** Banco de Portugal (BdP) continues to scrutinize the resilience of the banking system amidst a challenging operating environment.

- *Credit Impairments*. In line with past credit impairment reviews, and also in anticipation of the ECB's Comprehensive Assessment, the BdP continues to monitor the adequacy of banks' impairment levels, including via targeted audits of provisioning levels for exposures that relate to a selected number of large non-financial groups—where necessary resulting in further reinforcements. Guidelines on measuring credit portfolio impairment and disclosure of asset quality and risk management practices have been published incorporating best practices identified during the impairment reviews that have been conducted since May 2011.

- *Stress Testing*. The BdP continues its quarterly stress tests, which have been strengthened via the enhanced top-down stress testing framework, and uses their results to improve the banks' resilience, also in the light of the forthcoming EU-wide stress test. As usual, and where necessary, the stress test will be used as the basis to require measures that result in a strengthening of banks' capital positions.

- *Management of Distressed Loans. The BdP is review*ing action plans for enhancing operational capabilities in the area of distressed loan management (DLM), drawn up by the eight largest banks in response to the Special Assessment Program that reviewed DLM practices.

- *Recovery and Resolution Plans.* Banks have made significant progress in fine-tuning their recovery plans, based on recommendations and additional guidance from the BdP. In parallel, the BdP is continuing on-site visits to validate input received from the largest banks for resolution planning purposes. We remain committed to swiftly transposing the new EU Directive on bank recovery and resolution once it has been adopted.

17. **Transition to CRD IV.** As of January 1, 2014, banks are required to maintain a minimum common equity Tier 1 (CET1) capital ratio of 7 percent, considering all the transitional provisions related to capital definition. In the context of the ECB's asset quality review, the largest banks are expected to maintain a CET1 add-on of 1 percentage point. Additional measures are in place to conserve banks' current capital buffers, ensuring that they remain commensurate with the challenging operating environment. We continue to ensure compliance with the requirements envisaged in the EBA Recommendation on the preservation of capital and any future regulatory initiatives at European level.

18. **BSSF.** While we will continue to encourage banks to seek private solutions, we remain committed to providing further support to viable banks, with resources from the Bank Solvency Support Facility (BSSF), in the event new capital shortfalls were to arise. The BSSF resources—which currently amount to €6.4 billion, following the deposit of the remaining funds that were set aside for banking sector support as part of the program envelope—will solely be utilized to provide public support, if needed, to the banking system. Any public support will remain subject to strict conditionality, in line with EU State-aid 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.

19. **Funding and Liquidity Conditions.** Deposits have remained stable in an environment of gradually decreasing remuneration rates, while banks have been able to expand their access to financial markets funding. Non-standard measures by the ECB to restore the proper transmission of monetary policy continue to play a pivotal role in easing liquidity pressures and absorbing remaining funding constraints, while strengthened collateral buffers provide an important shield against potential adverse shocks. In parallel, we continue to explore with our European partners further initiatives to support funding conditions, including potential mechanisms to securitize banks' high quality mortgage and SME credit.

20. **Corporate Debt Restructuring.** Considering its importance to the deleveraging of the economy and potential medium- to long-term growth outlook, we are reviewing our strategy to facilitate corporate debt restructuring. In particular, we will draft, in consultation with the BdP, a strategic plan, to be discussed with the EC, ECB, and IMF staff during the 12th review, aiming at addressing the corporate sector debt overhang—with a particular focus on economically viable SMEs—and supporting the necessary capital reallocation towards the productive sectors of the economy, notably in the tradable sectors, while promoting financial stability.

21. **Initiatives to Facilitate Access to Finance.** Notwithstanding recent improvements and banks continued efforts to facilitate an orderly deleveraging of the private sector, credit conditions and access to finance remain challenging, especially for SMEs. In light of that, we have made important progress with key government supported initiatives.

- *National Guarantee System (NGS)*. We concluded the implementation of several enhancements to our existing government-guaranteed credit instruments, such as the implementation of a new pricing methodology for determining interest rate caps, supported by a new rating framework, and changes in the ownership and governance structure of the NGS. These improvements have led to lower interest rate caps than those applicable in 2013. Going forward, we will take stock of the impact of these measures on actual interest rates by May 15, 2014. We stand ready to pursue policy alternatives, if deemed necessary, in order to ensure that government guaranteed loans will be priced in a competitive and transparent manner in favor of end-users.

- *Development Financial Institution (DFI).* We continue to explore ways to promote an efficient use of EU structural funds and allocation of other government supported funding instruments. These initiatives will be streamlined and centralized through a DFI, already approved by the Council of Ministers. A task force has recently been constituted to design and operationalize the DFI, ensuring (i) that no additional burden on or risks to public finances will be incurred; (ii) that the DFI's sole purpose shall be to address market failures in the financing of private non-financial corporations, notably SMEs; and (iii) in doing so it shall not accept deposits or other repayable funds from the public, nor engage in direct lending, nor invest in Government debt or grant loans to the Government. The DFI's draft business model and by-laws will be submitted for in-depth consultations with EC, ECB and IMF staff prior of the 12th Review.

22. **Central Credit Registry.** We are on track to complete the agreed enhancements in our credit registry, including ongoing updates in the IT systems that will allow financial institutions to have access to companies' historical information as well as to the corporate balance sheet database, reducing information asymmetries. For this purpose, the Ministry of Finance is finalizing the needed changes to the Central Credit Registry legal framework, with support from BdP and in consultation with the Portuguese Data Protection Authority. We expect to be able to submit a final draft of the proposed legislation for approval by the Council of Ministers by end-April 2014, going subsequently to Parliament, and to complete the implementation of these changes before end-2014.

23. **BPN SPVs.** The gradual recovery of the assets from Banco Português de Negócios (BPN), held by three state-owned Special Purpose Vehicles (SPV), is progressing. Business plans of the two contracted service providers for the management of part of the credit portfolio of Parvalorem are expected to be finalized shortly, and the disposal of the participations and assets held by the other two state-owned SPVs is continuing. 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.

Boosting Employment, Competitiveness, and Growth

24. **Overall Reform Strategy.** The ultimate objective of our structural reform agenda is to enhance competitiveness and improve the business environment, so as to engineer a sustainable rebalancing of the economy toward the tradable sectors and boost medium-term growth and job creation prospects. Most reforms initiated at the beginning of the program are drawing to a close. Significant steps were taken on the labor and product market fronts, where reforms were designed to alleviate nominal rigidities, facilitate adjustment, and foster a reallocation of resources toward the tradable sector. Important steps were also taken to reduce red tape and raise the efficiency of the

judicial system. We are now refocusing our efforts on assessing the impact of the reforms already implemented and ensuring that the initial objectives are being achieved. In this context, an outcome-based accountability framework is being prepared to draw more concrete links between notional reforms and actual outcomes. Concurrently, we are working toward identifying the remaining policy distortions and other potential priority areas which will be tackled in the next phase of reforms. This will form the basis for our medium-term reform strategy, to be adopted by the end of the program.

25. **Competition/Regulation**. A framework law for the functioning of regulators was enacted last year. The law: (i) establishes a regulatory environment that protects the public interest and promotes market efficiency, (ii) guarantees the independence and the financial, administrative and management autonomy of the National Regulatory Authorities in the exercise of their responsibilities, including the necessary conditions to safeguard 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. We will redouble efforts to finalize the amendment of the corresponding bylaws of the National Regulatory Authorities, with the last revised drafts expected to be approved by end-April 2014. Once the regulators bylaws and internal regulations are in place, the regulators will continue to pursue the adoption of best international regulatory practices, including by organizing international peer review exercises. We are taking the necessary steps to ensure the effective functioning of the Competition Authority's financing model. To avoid disruptions in the transitory period up to the entry into force of the corresponding provisions in the forthcoming bylaws, we have issued an executive order specifying the necessary transfers from the contributing sectoral regulators. We will also leave room to accommodate potential growing needs over the medium term, and ensure the competition authority is adequately and sustainably funded. The competition authority has a critical role to play in evaluating public policies. As a first step in this direction, a new unit was created to assess impediments to competition/market entry in selected sectors.

26. **Energy.** The Portuguese government has taken measures in excess of €3.4 billion in order to achieve an elimination of tariff debt by 2020. Having taken these steps, the focus should now be on limiting energy price increases. To this end, the government commits to present additional concrete measures to tackle remaining excess rents and to deliver cost reductions to be reflected in energy prices. These measures shall be agreed by end-April (*structural benchmark*). Following the identification by the government of the problem of distortion on the system services market and highlighted in the reports of the relevant regulators, we are implementing measures in line with these reports to prevent the risk of overcompensation in the adjustment calculations (*revisibilidade*) of the CMEC scheme. In particular, an independent audit on the risk of overcompensation and the amount of past overcompensations will be launched soon and is expected to be finalized by the second half of the year. Finally, we will ensure that the energy sector levy introduced in the context of the 2014 budget will not be passed through to end-users.

27. **Transport.** The reform agenda in the transport sector is geared toward reducing costs for exporters and making the economy more competitive.

- The bylaws of the *transport sector regulator* have been approved by the Council of Ministers. They were drafted so as to ensure its financial and operational independence.

- A stakeholder working group has prepared a *long-term strategic transport infrastructure plan*, which prioritizes infrastructure investment projects taking into account their impact on competitiveness and the budget constraint. Following public consultation, the infrastructure investment priorities will be included in the long-term strategic vision of the transport sector, to be adopted by the Council of Minister by end-April 2014 and discussed at the time of the 12th review.

- In the *rail sector*, we continue to prepare the privatization of the freight branch of the state-owned rail operator, by implementing measures to ensure operational balance by 2015, by assessing the investment plan on rail to fully enhance the economic value of the company, and by completing the company terminals' unbundling.

- In the *ports sector*, we have taken the initiative to fully eliminate the port user fee (*TUP-Carga*) as of January 2014. Following the revision of the Ports Work Law, we are monitoring its effective implementation. We are now seeking further transmission of lower labor costs to end-users of port services. We have published a detailed timetable for other measures ensuring cost reduction and enhanced performance of both port authorities and port operators. The immediate priority will be to engage with concessionaires with a view to modifying existing concession contracts so as to foster efficiency and price reduction. To this end, we have signed in March an executive order to appoint the legally required negotiation commissions and set out detailed guidelines on the scope and objectives of the negotiations. Formal negotiations will be launched on this basis (*end-April structural benchmark*). 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 cost savings for exporters generated by the Port Work Law is being conducted, the result of which will be discussed at the time of the 12th review.

28. **Labor Market Institutions.** Significant steps have been taken over the past couple of years to make the labor market more dynamic and efficient—including reforming the Employment Protection Legislation, streamlining unemployment benefits and reforming the wage-setting mechanism. Notwithstanding the recent decline, unemployment remains high, particularly for the youth and long-term unemployed. The labor market is also segmented, with a large proportion of new employment contracts extended on short-term basis—although flows have improved recently. In light of this we intend to further advance our reforms aimed at encouraging the creation of long-term jobs and a better job matching process. We are studying policy options in dialogue with the social partners with a view to specifying measures by the time of the 12th review. Several options are available to foster more effective wage bargaining and wage developments consistent with economic fundamentals namely: (i) foster collective agreements by adjusting the current criterion for the extension of collective agreements taking into account the representativeness of SMEs in the various sectors; (ii) after the analysis of the independent study on the desirability of shortening the survival (sobrevigência) of contracts that are expired but not renewed (art 501 of the Labour Code)

the Government will present policy options, in dialogue with social partners about expiration and survival of collective agreements—in case the latter option is not implementable, we will study and present a proposal regarding mutually agreed and temporary suspensions of collective agreements; (iii) in the area of employment protection legislation, some reduction of severance pay for unfair dismissals would help reduce the gap opened up with the large reduction in severance for fair dismissal, striking a balance between limiting incentives to challenge fair dismissals in court and adequately penalizing unfair dismissals; (iv) finally, we intend to strengthen activation policies, with significant expected pay offs when vacancies pick up.

29. **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 submission of the remaining 5 (out of 68) necessary legislations—including to the Construction Law—to parliament by mid-April2014 for adoption by end-May. The related ordinance, ensuring appropriateness of fees linked to construction activities will be in enacted by the date of adoption of the Construction Law. Following the publication last year of the new legal framework aimed at improving the functioning of the regulated professions, 18 professional bodies' statutes are being amended. We expect all bylaws to be submitted to Parliament for final approval by end-April2014. These new legislations eliminate unjustified restrictions to activity and further improve the conditions for mobility of professionals in line with the EU Directives in the area of free movement of professionals.

30. **Licensing and Administrative Burden.** Tackling excessive licensing procedures, regulations and other administrative burdens—which are impeding the establishment, operation, and expansion of firms—is a government priority. We have already adopted legislation to ease licensing requirements for tourism and industrial sectors. The legislation regarding commercial activities has been submitted to Parliament. Once the Base Law of Soil and Territorial and Urbanism Planning will have been adopted by Parliament (twelfth review), the various related legal regimes will be reviewed. To prevent future growth in excessive licenses and regulations, the government will adopt—by end-March—a rule that makes it mandatory to propose eliminating an existing regulation for all new regulations generating costs for businesses. We are preparing an inventory of regulations that are likely to have higher impact in economic activity (at central, regional and local levels), selecting the most burdensome. On this basis, we will devise a cost-analysis (currently under preparation) and roadmap for a regulatory simplification by end-March. We have also taken significant steps and will continue our efforts to make fully operational the Point of Single Contact, an e-government portal which allows administrative procedures to be conducted online.

Table 1. Portugal: Quantitative Performance Criteria
(Billions of euros, unless otherwise specified)

	Jun-13		Sep-13		Dec-13		Mar-14
	Program	Actual	Program	Actual	Program	Actual	
1. Floor on the consolidated General Government cash balance (cumulative)	-6.0	-3.8	-7.3	-4.3	-8.9	-7.2	-1.7
2. Ceiling on accumulation of domestic arrears by the General Government (continuous indicative target) 1/	0	Not met	0	Not met	0	Not met	0
3. Ceiling on the overall stock of General Government debt	187.3	184.1	188.9	184.7	191.3	187.5	193.0
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

1/ As of end-December, domestic arrears for the purpose of the program declined by €0.2 billion since end-September (although the continuous indicative target was not met in October and November). The overall accumulation of domestic arrears since end-December 2012 was about €0.2 billion.

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

	Measure	Timing	Status
Prior Actions			
1	Specify fiscal measures consistent with achieving the general government deficit target of 2.5 percent of GDP in 2015 (MEFP ¶6).		Expected to be met by mid-April
Structural Benchmarks			
2	Present measures to tackle remaining excess rents in the energy sector and to deliver cost reduction to be reflected in energy prices (MEFP ¶26).	End-April, 2014	
3	Launch formal negotiations with port concessionaries with a view to modifying existing concession contracts so as to foster efficiency and price reduction (MEFP ¶27).	End-April, 2014	

Attachment II. Portugal: Technical Memorandum of Understanding

March 28, 2014

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]

- The General Government, as measured for purposes of Program monitoring in 2014, shall not include entities nor operations (including pension funds) that are re-classified into the General Government during 2014, but shall include those reclassified in 2012-13.

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

[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.

include detailed information on revenue and expenditure items, in line with monthly reports that are published by the MoF.

- 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

[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.

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 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 and 2014 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), (i) local government arrears settled through the €1 billion credit facility created in May 2012, and (ii) 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**

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

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

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

10. **Definitions.** Commitment, liabilities, payables/creditors, and arrears can arise in respect of all types of expenditure. These include employment costs, utilities, transfer payments, interest, goods and services and capital expenditure. Commitments are explicit or implicit agreements to make payment(s) to another party in exchange for that party supplying goods and services or fulfilling other conditions. Commitments can be for specific goods and services and arise when a formal action is taken by a government agency, e.g., issuance of a purchase order or signing a contract. Commitment can also be of a continuing nature that require a series of payments over

an indeterminate period of time and may or may not involve a contract, e.g. salaries, utilities, and entitlement payments. Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources (usually cash) embodying economic benefits or service potential. In relation to commitment, the liability arises when a third party satisfies the terms of the contract or similar arrangement. Payables/creditors are a subset of liabilities. For the purposes of the program payables/creditors exclude provisions, accrued liabilities. Arrears are a subset of payables/creditors. For the purposes of the Program domestic arrears are defined as payables/creditors (including foreigner commercial creditors), that have remained unpaid for 90 days or more beyond any specified due date (regardless of any contractual grace period). In case no due date is specified, arrears are defined as payables/creditors that have remained unpaid for 90 days or more after the date of the invoice or contract. Data on arrears will be provided within seven weeks after the end of each month. The continuous indicative target of non-accumulation of new domestic arrears requires that the total arrears at the end of any month are not greater than the corresponding total at the end of the previous month—based on the same perimeter with respect to the entities covered. This also includes arrears that are being accumulated by the SOEs not included in the General Government.

11. **Supporting Material.** The stock of arrears will be measured through a survey. Reports on the stock of arrears of the General Government are being published monthly. The MoF will provide consistent data on monthly expenditure arrears of the General Government, as defined above. Data will be provided within seven weeks after the end of each month and will include total arrears classified by the different constituent sectors of the General Government sub-sector as defined in paragraph 4, as well as the monthly amounts of arrears cleared under the arrears clearance strategy (see paragraph 6.3).

12. **Adjustor.** In 2013 and 2014, 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. For 2014, 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.