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The Economic Adjustment Programme for Portugal
Sixth Review – Autumn 2012

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EXECUTIVE SUMMARY

A joint EC/ECB/IMF mission met with the Portuguese authorities in Lisbon between 12 and 19 November to assess compliance with the terms and conditions set out in the Memorandum of Understanding as updated following the Fifth Review of the Portuguese Economic Adjustment Programme. *The objectives of the Programme are to restore sound public finances, improve competitiveness and put Portugal's economy back on the path of sustainable growth and job creation. This report provides an assessment of compliance and summarises the findings of the mission.*

The mission concluded that the programme is broadly on track. *External and fiscal adjustments continue to advance, adequate capital and liquidity buffers of banks have reduced financial stability risks, and structural reforms are proceeding. Keeping the fiscal adjustment path on target implies additional consolidation efforts in 2013 and 2014. Against this background, strong commitment and perseverance need to be maintained to bring the Programme to a successful completion.*

The macroeconomic outlook remains largely unchanged from the previous review, with real GDP expected to fall by 3 percent in 2012 and by 1 percent in 2013. *Following a strong decline in 2012, economic activity is projected to recover gradually during 2013, with moderate positive growth rates from the second half of 2013. The recovery is expected to gather pace in 2014, although due to carry-over effects from softer external demand headline growth has been revised downward from 1.2 to 0.8 percent. The rebalancing of the economy towards export-led growth is set to continue, supported by further improvements in competitiveness. Risks to the projections could come from a deteriorating outlook in the euro area which could weigh on export dynamics and economic sentiment more generally.*

Fiscal consolidation efforts are in line with the revised deficit targets of 5 percent and 4.5 percent of GDP for 2012 and 2013. *Revenue collection has been somewhat weaker than envisaged in recent months, partly offset by tight spending execution. The government has implemented additional measures to meet the 2012 target. However, risks to the achievement of the target remain, not least due to continued revenue shortfalls and uncertainties with regard to the statistical treatment of the planned sale of airport concessions. The target for 2013 is underpinned by a range of measures in the 2013 budget amounting to more than 3 percent of GDP. These include, on the expenditure side, further cuts in compensations of employees; a reduction in social transfers and subsidies including for the health care sector; curtailing intermediate consumption; and cuts in investment. On the revenue side, the budget foresees a restructuring of the personal income tax that reduces the number of brackets, increases the average tax rate and curbs tax benefits; a surcharge on taxable income above the minimum wage; a solidarity surcharge on the highest incomes; limiting the deductibility of interest costs from corporate taxes; and a reduction in the threshold for the highest surcharge on profits. Overall about 80 percent of the fiscal adjustment in 2013 will come from the revenue side. In view of the risks associated with the strongly revenue-based adjustment the authorities are preparing contingency measures, predominantly on the expenditure side, amounting to 0.5 percent of GDP. Going forward, the mission supported the authorities' intention to rebalance the adjustment effort toward permanent reductions in expenditure. To this effect, the authorities are carrying out an expenditure review and results will be presented at the Seventh Review.*

Structural measures to enhance control over government expenditure and improve revenue collection are progressing at a good pace. *The authorities are planning a comprehensive reform of the budgetary framework to bring it in line with best practices in budgetary procedures and management. The new commitment controls system is starting to show results but implementation needs to be monitored to ensure full effectiveness of the system. Budgetary risks in Madeira are being addressed with corrective measures. Local administrative reform is progressing as planned. Reforms in the central administration, which have already produced significant savings, will continue. The restructuring of revenue administration is close to completion and the authorities are enhancing monitoring and strengthening revenue compliance. The renegotiation of PPPs has started and significant savings are expected for 2013 and beyond. The government expects SOEs to reach operational balance by the end of the year at sector level. The schedule for privatisations has been re-confirmed. In the health care sector, policy implementation advances broadly in line with targets and starts to produce important savings.*

The resilience of the banking sector is improving, in spite of a difficult macro-economic situation. *Impaired loans are likely to rise further due to the weakening economy, especially in the construction and real estate segments. The demand for investment credit and house purchase remains weak. On the positive side, deposits remain resilient although the previously observed rapid deposit growth, which also contributed to the overall deleveraging process, has faded. Deposit remuneration came substantially down after supervisory action by the central bank. This will help Portuguese banks to start reducing their funding costs, which should translate, at some point, into lower lending rates. Also, the capital reinforcement exercise that took place throughout the summer and still continues in some banks has raised the sector's capacity to weather a longer than previously forecasted recession. Nevertheless, access to credit remains costly and difficult, in particular for small and medium-sized enterprises (SMEs). To address this issue, government action to ensure adequate funding is ongoing, including initiatives to improve information-sharing on SMEs and facilitate their access to capital markets.*

Fostering a more competitive economy remains imperative. *In addition to strengthening active labour market policies, the authorities are committed to reducing severance payments and promoting labour market flexibility and job creation. Judiciary reforms aiming at unclogging the court system are being finalised in the areas of civil procedures and court management. A reform of port labour and port governance, including the overhaul of port operation concessions, will lead to cost reductions and operational improvements in this part of the transport infrastructure critical for exports. Reforms aiming at cutting down context costs in energy and telecommunication are coming to conclusion. The powers of National Regulatory Authorities will be reinforced to enable them to efficiently protect customers through regulating natural monopolies and promoting competition. Furthermore, a comprehensive reform of the corporate income tax has been launched to foster investment and competitiveness whilst ensuring its compatibility with EU rules. A wide array of structural reforms are in the pipeline such as the liberalisation of the regulated professions, facilitating the provision of services and streamlining licensing of activities and need to be followed through with determination so as to introduce more dynamism into the economy.*

As part of its market re-entry strategy, the Portuguese Treasury has exchanged EUR 3.75 billion of bonds maturing in September 2013 into a bond maturing in October 2015 at a yield of 5.12 percent. *On top of it the government is optimising the cash reserves in the wider public sector which leads to savings in reserve holdings. As a consequence, the likelihood of Portugal being able to cover its financing needs in 2013 has strongly improved.*

The successful completion of the Sixth Review will release EUR 1.6 billion from the EU and EUR 0.9 billion from the IMF, bringing overall financing to EUR 64 billion (more than four fifths of the total envelope). *These disbursements could take place in January 2013 subject to the approval by ECOFIN and Eurogroup for the EU loans and the IMF Executive Board for the IMF loan. The government's program is supported by loans from the European Union amounting to €52 billion and a €26 billion Extended Fund Facility with the IMF.*

I. INTRODUCTION

1. The report assesses compliance with the terms and conditions set out in the Memorandum of Understanding as updated following the Fifth Review of the Portuguese Economic Adjustment Programme. The assessment is based on the findings of a joint European Commission (EC)/European Central Bank (ECB)/International Monetary Fund (IMF) staff mission to Lisbon from 12 to 19 November.[1] In accordance with the Council Implementing Decision amending Implementing Decision 2011/344/EU on granting EU financial assistance to Portugal[2], the mission assessed compliance with the conditionality associated with the seventh disbursement and progress towards the key objectives of the Programme of sound public finances, restoring competitiveness and putting Portugal's economy back on the path of sustainable growth and job creation. It also revised the specific policy conditionality while keeping unchanged its main objectives.

2. The Economic Adjustment Programme was agreed by the Ecofin Council on 17 May 2011 and by the IMF Executive Board on 20 May. The Programme, which covers the period 2011-2014, entails an external financing by the European Union, the euro-area Member States and the IMF of some EUR 78 billion[3], for possible fiscal financing needs and support to the banking system. One third will be financed by the European Union under the European Financial Stabilisation Mechanism (EFSM), another third by the European Financial Stability Facility (EFSF), and the remaining third by the IMF under an Extended Fund Facility.

3. A successful completion of the Sixth Review will pave the way for the release of the next loan instalment of around EUR 2.5 billion. This instalment will bring EU and IMF financing to around EUR 64 billion, representing more than 80 percent of total available financial assistance.

II. ECONOMIC DEVELOPMENTS AND OUTLOOK

MACROECONOMIC OUTLOOK

4. The macroeconomic outlook remains broadly unchanged, with real GDP expected to fall by 3 percent in 2012 and by 1 percent in 2013. In line with the projections of the Fifth Review, real GDP decreased by 0.9 percent in the third quarter of 2012 compared with the previous quarter. Accordingly, the projected profile of economic activity has been left unchanged, i.e. a strong decline in 2012 is expected to be followed by a gradual recovery during 2013, with moderate positive growth rates from the second half of 2013. The decline in economic activity in 2012 is driven by a marked 7 percent contraction in domestic demand, which is only partly offset by buoyant net exports. Amid continued weak business and household confidence, domestic demand is expected to trend further downwards in 2013, with the contribution of domestic demand to growth revised down from -2.7 in the last review to -2.9 percentage points in this review. This is balanced by an upward revision of the contribution of net exports from 1.8 to 2 percentage points, as slightly lower export growth is more than offset by a stronger fall in imports, in line with the evolution of domestic demand. HICP inflation decreased to 2.1 percent year-on-year in October 2012, falling below the euro area average rate for the first time since mid-2010. Inflation at constant taxes has been below the euro area average already since early 2011 (see Graph 1), with the latest reading standing at 0.8 percent. The forecast for price and wage developments in 2012-13 has been maintained. The outlook for unemployment has also remained unchanged, with the number of jobless expected to peak towards the end of 2013 at 16½ percent of the labour force.

5. The economic recovery is expected to gather pace in 2014. Despite some headwinds for domestic demand from further fiscal consolidation, economic activity is projected to expand on an annual basis starting from 2014 with the contributions of domestic demand and net exports becoming more balanced. Headline growth has been revised downward from 1.2 to 0.8 percent compared with the previous review due mainly to carry-over effects from softer external demand. Subdued domestic demand and the weak labour market should continue exerting downward pressure on wages and prices.

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[1] The cut-off date for the macro-economic and fiscal projections of this report is 19 November 2012.
[2] OJ L 269 of 14.10.2011
3 The IMF share of the Programme was set in Special Drawing Rights. Due to the lower Euro Exchange rate, since May 2011, the projected payout by the IMF in Euro has become higher, so the current projected Programme total is EUR 79.5 billion.

6. The rebalancing of the economy towards export-led growth is set to continue at a good pace. The external balance of goods and services is expected to become positive by the end of this year and to improve further over the forecast period, notwithstanding the expected cyclical rebound of domestic demand. The current account is set to turn around faster than previously expected due to lower-than-anticipated primary income deficits and is now projected to almost balance in 2014. Competitiveness as measured by unit labour costs relative to the euro area average has improved significantly over the last three years (see Graph 2), and further progress is expected for 2013 and 2014. However, the recent adjustment in unit labour costs was to a significant extent due to labour shedding and public sector wage cuts, part of which will be reversed by the reinstatement of a monthly salary in the public sector. In addition, the high level of foreign indebtedness accompanied by still increasing primary income deficits requires a further structural improvement in external competitiveness.

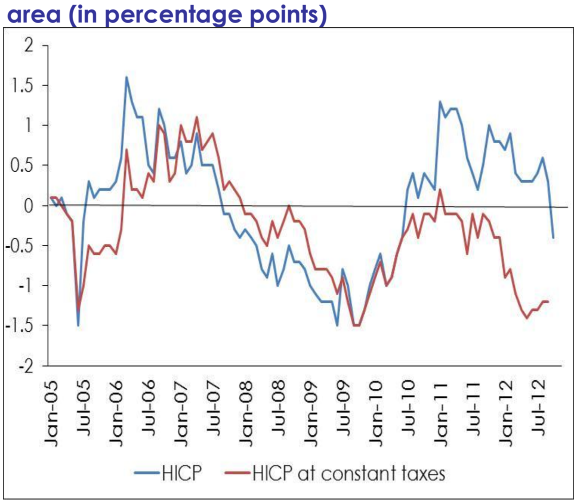
Table 1: Projections of main macroeconomic aggregates

	Nov 2012 (6th review)			Sep 2012 (5th review)			*Difference*		
	2012	2013	2014	2012	2013	2014	*2012*	*2013*	*2014*
				year-on-year volume change					
Gross domestic product	**-3.0**	**-1.0**	**0.8**	-3.0	-1.0	1.2	*0.0*	*0.0*	*-0.4*
Private consumption	**-5.7**	**-2.2**	**0.4**	-5.9	-2.2	0.2	*0.1*	*0.0*	*0.2*
Public consumption	**-3.5**	**-3.2**	**-2.0**	-3.5	-3.2	-1.5	*0.0*	*0.0*	*-0.5*
Fixed investment	**-13.7**	**-5.5**	**3.0**	-14.1	-4.2	2.7	*0.4*	*-1.3*	*0.3*
Exports of goods and services	**4.6**	**2.9**	**5.0**	4.3	3.5	5.5	*0.3*	*-0.6*	*-0.5*
Imports of goods and services	**-5.9**	**-2.1**	**3.8**	-6.5	-1.0	3.3	*0.6*	*-1.1*	*0.5*
				contributions to real GDP growth					
Domestic demand excl. inventories	**-7.0**	**-2.9**	**0.3**	-7.1	-2.7	0.2	*0.1*	*-0.2*	*0.1*
Change in inventories	**0.1**	**0.0**	**0.0**	0.1	0.0	0.0	*0.0*	*0.0*	*0.0*
Net trade	**3.9**	**2.0**	**0.6**	4.1	1.8	1.0	*-0.2*	*0.2*	*-0.4*
Employment (y-o-y change)	**-3.9**	**-1.6**	**0.5**	-3.9	-1.6	0.3	*0.0*	*0.0*	*0.2*
Unemployment rate (level)	**15.5**	**16.4**	**15.9**	15.5	16.4	15.9	*0.0*	*0.0*	*0.0*
HICP (y-o-y change)	**2.8**	**0.8**	**1.2**	2.8	0.7	1.1	*0.0*	*0.1*	*0.1*
Current external balance (% of GDP)	**-2.7**	**-0.6**	**-0.2**	-3.2	-1.9	-1.3	*0.5*	*1.3*	*1.1*

Source: European Commission

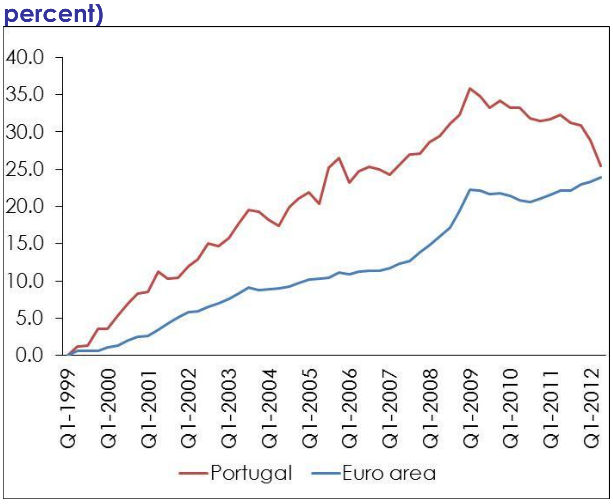
7. Risks to the macroeconomic outlook are tilted to the downside. A stronger-than-expected deterioration of the economic climate in the euro area would have serious spill-over effects on Portugal. Also, with recent business and confidence indicators having partly reached record lows, a further deterioration of economic sentiment could delay the recovery of domestic demand beyond 2013.

Graph 1: Inflation differential against the euro area (in percentage points)



Source: European Commission

Graph 2: Unit labour costs 99Q1-12Q2 (increase in percent)

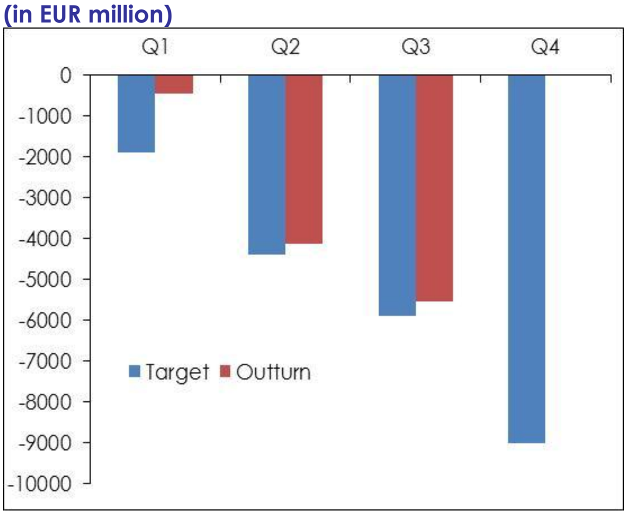


Source: European Commission

FISCAL DEVELOPMENTS

8. The third quarter target for the government cash balance of 3.5 percent of GDP was met. This was achieved despite an unfavourable evolution of tax revenues and social contributions, thanks to a tight execution of expenditures in the first nine months of the year. At the central government level, budgetary execution benefited in the last months from the suspension of some investment projects and a drawing down of budgetary buffers. Data up to September show that the operational balances of SOEs and budgetary developments in regional governments were less negative than projected whilst the surplus of local governments increased more strongly, mainly owing to a lower public wage bill. By contrast, social security deficits were higher than predicted due to unemployment rising faster than expected.

Graph 3. 2012 Quarterly Performance Criteria for General Government Balance – cash data (in EUR million)



Source: European Commission

9. In national accounts terms, the government deficit in the first half of 2012 was worse than the cash data suggests. At an estimated 6.8 percent of GDP, the government deficit in the first half of 2012 was 1.5 percentage points lower than in the same period of last year. The statistical difference with public accounts cash data, which according to the Performance Criteria show a deficit of 5 percent of GDP, is explained by time adjustments in the recording of taxes and social contributions, lags between interests accrued and paid, and a different delimitation of the general government perimeter.

10. State tax revenues have been shrinking amid weak macroeconomic developments. Tax collection until October fell by 4.6 percent compared with the same period of the year before, affecting both direct and indirect taxes. Corporate income taxes fell by 20 percent. Indirect taxes declined by 5.1 percent, as weak private consumption hit VAT revenues (-2 percent, including the effect of transfers to finance some social programmes) but also fuel taxes (-8.2 percent), vehicle taxes (-43.6 percent), tobacco taxes (-9.3 percent) and stamp duties (-9 percent, due to the decline of financial transactions). In recent months, the behaviour of tax revenue is largely explained by temporary factors, such as an unanticipated increase in reimbursements. Total tax reimbursements up to October increased by 3.1 percent on a year-on-year basis. However, gross collection before reimbursements or other transfers (which can be viewed as the best proxy for the tax base at a macro level) indicates that the declining trend of net collection could reverse once the temporary factors dissipate. Nevertheless, the fast decline in tax collection poses a downside risks to the attainment of the 2012 revenue target as included in the 2013 draft budget (which had already revised downward the initial estimate of the 2012 budget by 1½ percent of GDP).

11. Primary government expenditure has continued its downward trend over recent months, albeit at a slowing rate. Cuts in payroll costs and in investment were the main drivers of the fall in primary expenditure. Personnel expenses have decreased for all subsectors of the general government. For the State and Social Autonomous Funds, the wage bill fell by 13.7 percent year-on-year up to October. This is the result of both cuts in salaries (particularly the suspension of the summer bonus) and a reduced headcount. Until September, the reduction of public employees was twice as high as foreseen in the Adjustment Programme, mainly due to the layoffs in the education sector (5.1 percent compared with a 2 percent Programme target for the year). On current trends, the authorities expect an overall reduction of public employees by more than 3 percent for the year as a whole. Nevertheless, the attainment of the overall expenditure target is not without risks as there are indications that some payments that should have taken place earlier in the year have been delayed, which may raise expenditure in the last months of the year.

12. The social security balance fell by 0.5 percent of GDP over the first ten months of the year. On the one hand, social security contributions (which represent about half of the revenues of the social security sector) saw a year-on-year decline of 4.8 percent up to October as a consequence of falling employment and wages. On the other hand, unemployment benefits (which represent around 11 percent of the social security spending) increased by 23.4 percent compared with the same period last year, 14.6 percentage points higher than budgeted. Social transfers have also moderately moved upwards, though the increase in pensions was mainly due to the payment of pensions transferred from the banking sector to the public system (financed by the State Budget).

Arrears

13. Latest data show that arrears have started to decline. In the health sector, the decline in the stock of arrears was particularly noteworthy due to the debt settlement programme worth EUR 1.5 billion, which was close to be completed by September. The decline in arrears of local governments will accelerate over the next months as the municipalities start benefitting from the Support Programme for Local Authorities (PAEL). By mid-November, the financial plans of about 80 municipalities that requested assistance under the programme had been assessed and first transfers are expected to take place at the end of 2012 or in early 2013. At the regional level, progress has been more muted. The central government is analysing a plan by the Autonomous Region of Madeira to pay arrears and benefit from some discounts in exchange of support from the Central Government in the form of guarantees.

14. The implementation of the commitment control law to prevent the accumulation of new arrears seems to be on track. The broadbased decline in arrears, although largely driven by the settlement of the stock, also appears to reflect a decline in the accumulation of new arrears (Table 2). However, the effectiveness of the new commitment control system will have to be closely monitored during the next few months to ensure that the indicative target of non-accumulation of arrears is met.

Table 2: Stock of arrears in 2012 (in EUR million)

Subsector of the General Government	2012 (1) Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	(2) Sep	(3)=(2)-(1) Δ *Sep-Jan*	% total
Central Government excluding NHS	190	204	191	179	135	155	129	122	120	-69	3%
NHS classified in General Government	219	194	152	185	202	216	200	36	37	-182	1%
Reclassified entities	51	50	45	46	61	48	39	39	33	-18	1%
Local Government	1690	1711	1738	1760	1657	1597	1552	1531	1503	-188	38%
Regional Government	1185	1215	1287	1320	1261	1319	1304	1286	1267	82	32%
Total	3335	3373	3413	3490	3315	3334	3224	3014	2960	-375	75%
Total Consolidated	3219	3254	3289	3365	3200	3226	3117	2909	2855	-364	72%
Other entities outside General Government											
Enterprises excluding NHS	11	18	19	26	32	34	32	40	46	35	1%
NHS incorporated hospitals	*1695*	*1697*	*1856*	*1948*	*1996*	*1877*	*1806*	*1086*	*1044*	-651	26%
p.m.: health sector inside + outside GG	*1914*	*1891*	*2007*	*2132*	*2197*	*2093*	*2006*	*1122*	*1081*	-833	27%
TOTAL	4925	4969	5164	5339	5227	5137	4955	4034	3945	-979	
p.m.: percent of GDP	*3.0*	*3.0*	*3.1*	*3.2*	*3.1*	*3.1*	*3.0*	*2.4*	*2.4*		

Source: Ministry of Finance and Commission services
Note: Consolidated data concerns data net of intra-government sector arrears. Total amounts adjusted for arrears' settlement.

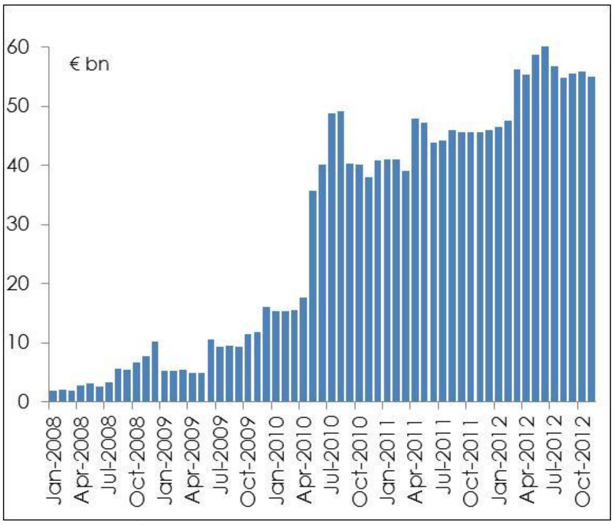
FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

15. The downward trend of bond yields has not continued in past months. Following the substantial fall in secondary market rates in the first eight months of the year, yields have been moving sideways without clear trend since. While the earlier decline in rates signalled increasing confidence in the success of the Programme in addition to the impact of ongoing initiatives at European level, the uncertainty created by the Constitutional Court decision to reinstate the cuts in public sector and pensioners holiday and Christmas bonuses have contributed to a temporary interruption in this trend. Encouragingly, rates have come down again recently which is likely to be a reflection of, amongst othe factors, returning political and social stability.

16. ECB lending to banks in Portugal decreased since the last review. Some banks reduced their lending from the ECB whilst others increased their borrowings marginally (Graph 4). A large share of the outstanding Eurosystem funding stems from the two long-term operations providing liquidity for 36 months, enhancing the stability of banks' funding.

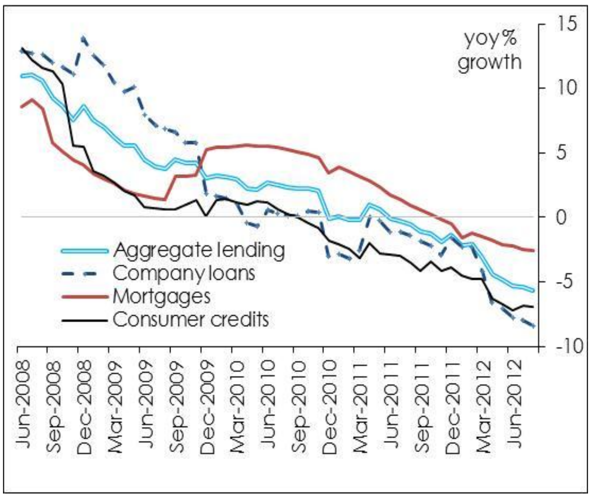
17. Deleveraging takes place in all loan sectors whereas new loans go mainly to the corporate sector. Whereas aggregate loans diminished by 5.7 percent between August 2011 and August 2012, sectorial developments differ substantially. The monthly amount of newly granted loans still reaches nearly ¾ of the past decade's average but, unlike in the years before the crisis, the lion's share (85 percent) goes to companies as the issuance of new mortgages has practically stalled. Nonetheless, given their fast roll-over, the stock of corporate loans fell by 6.5 percent between September 2012 and 2011. Corrected for the sale of loan portfolios the decrease is a more moderate 5.0 percent. Privately-owned companies saw their loan stock decrease by 7.3 percent whereas state-owned enterprises, whose share in total company loans is 5.3 percent, increased their loan stock by 10.4 percent. On the positive side, exporting companies were able to borrow 2.5 percent more than a year ago. Loans to the household sector, of which 82 percent are mortgages, decreased by 4.7 percent. Given the long maturities typical for mortgages, the stock of housing loans decreased by a mere 2.6 percent on a year-on-years basis in August (Graph 5). New mortgages amount to only 1/7 of the past 10 years' average. Loans to companies involved in the real-estate sector declined by 6.7 percent on an annual basis in the third quarter of 2012, reflecting depressed construction activity. In line with falling consumption, consumer credit decreased by 6.9 percent over the past 12 months. In early 2011, deleveraging occurred mainly through loan sales or disposing of foreign assets. Both operations have a limited impact on domestic loan supply. Given depressed prices and lesser assets on sale this two options came to a natural end. During the first 18 months of the Programme, deleveraging was largely achieved through better than expected deposit growth. With deposits now slightly diminishing, further improvements in the loan/deposit ratio will have to come from a shrinking loan stock. Because of the aforementioned movements the funding gap is closing fast (Graph 6).

Graph 4: ECB borrowing by banks located in Portugal



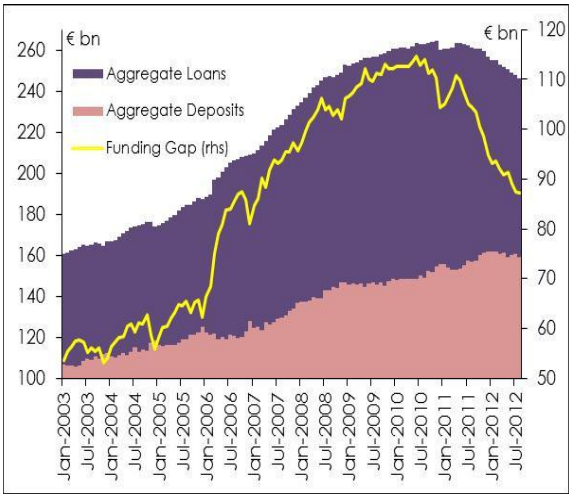
Source: Bank of Portugal

Graph 5: Trends in different loan segments



Source: Bank of Portugal

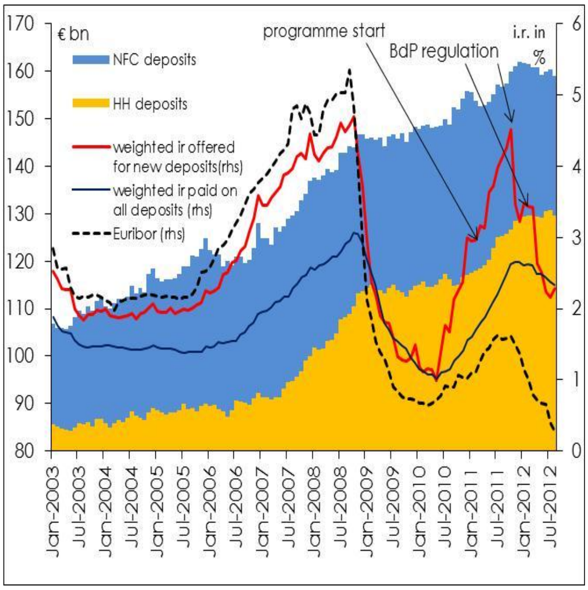
Graph 6: The funding gap is shrinking fast



Source: Bank of Portugal

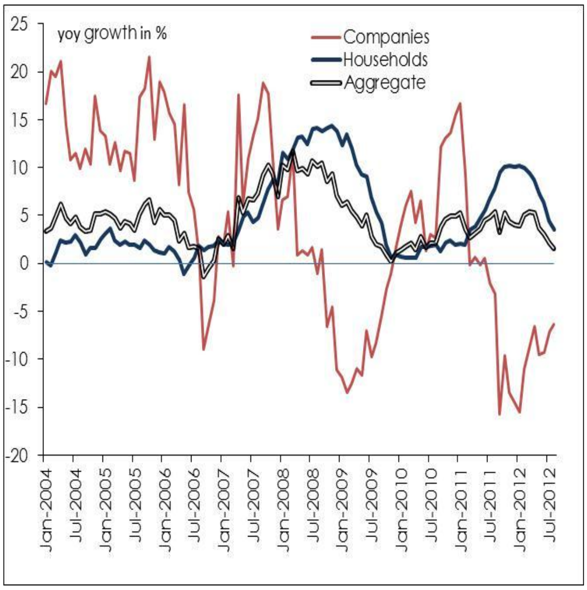
18. Aggregate deposits reach broadly the same level as one year ago. At the outbreak of the sovereign crisis in the second quarter of 2010, Portuguese banks saw themselves excluded from the interbank market and had to tap deposits as their primary funding source. In the process, banks competed for deposits by offering ever higher interest rates, which not only weakened their profitablitity but also put upward pressure on interest rates for bank loans to the non-financial sector. This development was successfully brought to a halt by a Banco de Portugal regulation on deposit remuneration, as a consequence of which the weighted interest offered for new deposits has halved over the past 12 months (Graph 7). The impressive growth previously observed was mainly due to the transformation of securities placed with customers into deposits. This growth has stalled at the aggregate level, as total deposits oscillated around EUR 160 billion since November 2011, reflecting lower money demand in a context of declining economic activity and also a portfolio shift backwards into debt securities issued by banks and companies as the latter currently offer higher interest rates than banks' deposit remuneration on offer. In addition, companies ran down deposits as a substitute for difficult to obtain and expensive corporate credit. Compared with August 2011, companies' term and sight deposits fell by 6.4 percent (Graph 8). But the decline in corporate deposits seems to have slowed down somewhat in recent months. Household deposits, although also affected by the above mentioned factors, have proved quite resilient, increasing by 3.5 percent over the same time-span, which is a clear indication of the high degree of confidence in the Portuguese banking system.

Graph 7: Deposit remuneration came down thanks to the supervisory action



Source: Bank of Portugal

Graph 8: Deposit growth by segment



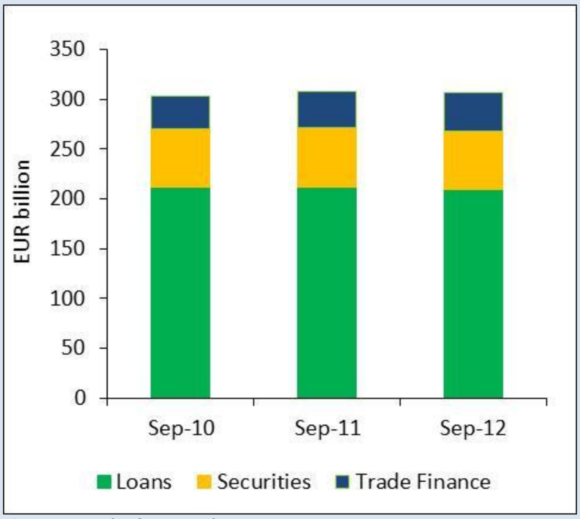
Source: Bank of Portugal

19. While bank credit to the corporate sector continues to contract, in particular to SMEs, progress towards diversifying financing sources was recorded. Total credit granted to non-fianancial private corporations (including lonas, debt securities and trade credit) has recorded only slightly negative year-on-year rates of change, due to the relaively favourable dynamics of non-domestic sources of financing. The recourse to non-domestic financing has been concentrated on large firms. The expansion of credit to large firms has also been supported by capital markets access, including in the domestic retail market, whereas loans by domestic banks to SMEs exposed to the non-tradable sector continued to contract. To mitigate the impact of banks' deleveraging strategies on their ability to finance the corporate sector, new avenues of financing are being pursued. The preparation of a pilot joint issue of corporate debt instruments for the capital market is under way. While some sort of public support may be envisaged at an initial stage, such as a capital guarantee, building on a diversified portfolio this market driven solution partially mitigates the credit risk of companies which, due to their size, are not in a position to access the capital markets individually. A detailed assessment of this measure, including an analysis of the suitable legal mechanisms, will be presented by end-January 2013. Initiatives to help mitigate risks to lenders by upgrading and promoting sharing information on SMEs are being considered. The supply of credit to microenterprises, including self-employment initiatives, is expected to increase, further to on-going applications by domestic credit institutions to the EIB Progress Microfinance Facility.

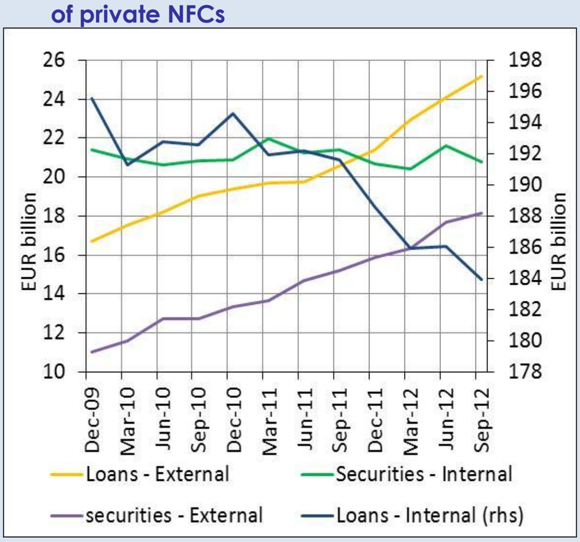
Box 1: Debt Financing to the Corporate Sector in Portugal

The Portuguese private corporate sector indebtedness is composed of a mix of loans, securities and trade credits. Over the last two years to September 2012, loans accounted for more than two thirds of the total outstanding indebtedness of private sector companies. The indebtedness structure was broadly stable during this period, although trade credits, which account for 13% of total debt sources, increased marginally, at the expense of the role of loans. The overall outstanding debt of private Non-Financial Companies (NFCs) is EUR 307 billion (September), 0.3% less than the year before, of which EUR 209.1 billion refer to loans, from both domestic and foreign sources (Graph I). The loans comprise mostly bank loans although a significant amount is not originating from the financial sector. Despite the overall stability of the indebtedness structure of private NFCs by source type, the overall figures mask a number of facts. Over the last year loans contracted 1.4%, the effect having been offset essentially by a 6.4% increase in trade credits. In the last quarter securities issuance increased 1.5%, which is explained by the issuance of retail bonds, essentially by listed companies. Credit originating from external (foreign) sources increased to an extent similar to the decrease observed in credit originating from internal sources. This substitution effect happened via both securities and through a substantial increase in external loans (22% yoy) (Graph II).

Graph I: Debt sources of private NFCs



Graph II: Internal vs. foreign debt sources of private NFCs



Source: Bank of Portugal

Although a number of large companies are able to access the debt market directly, or have access to external loans, smaller companies face difficulties in obtaining debt finance because of their high reliance on bank loans and more generally, domestic funding sources. Given that access by the corporate sector to bank credit is not normalised, SMEs are those facing the toughest financial constraints. SMEs absorb the bulk of corporate loans by financial institutions, having accounted for 77% of total EUR 110 billion of loans by financial institutions to NFCs[4]. Indeed, since December 2011, the amount of bank loans granted to NFCs recorded increasingly negative yoy changes, with a 6.5% decline in September. While these loans to SMEs declined 9%, those to large enterprises recorded a 2.8% annual increase (Graph III). Portuguese SMEs reported deterioration in the availability of bank finance since 2010[5]. The importance of "access to finance" as a concern increased for Portuguese SMEs, and despite declining turnover, the proportion of respondent SMEs who refer this topic as the most pressing concern reached a peak in September, and is amongst the five highest in the euro area. Also, the proportion of rejected demands for bank credit (24%) remains among the euro area highest, over the six months to September 2012. Only 40% of respondent SMEs report having received the full amount of credit asked to the bank. This behaviour should be read together with credit risk indicators observed. While large enterprises overdue loans account for 2.4% of total outstanding loans, small and medium enterprises display an equivalent ratio of 12.4%, 5 times higher (loans by the financial sector, BoP, September 2012). However, the relatively better credit risk record of large companies could to a certain extent reflect also a stronger impact of evergreening practices: banks have more incentives for renewing credit lines to large companies with which they already have significant exposures, to support their viability.

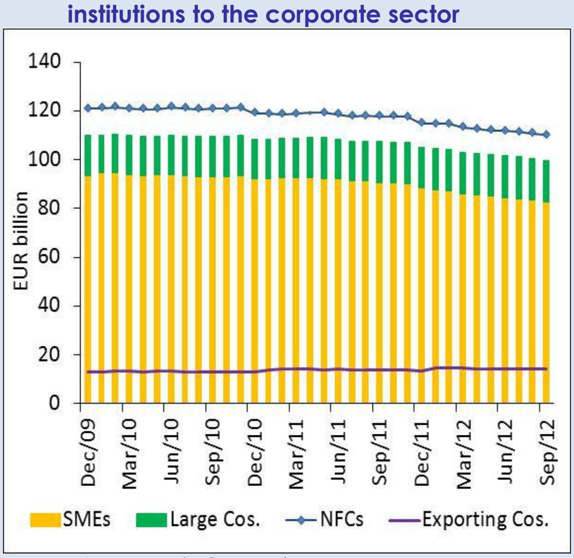
Loans extended to exporting companies by financial institutions, 13.6% of total NFCs loans, increased 2.5% (September, yoy). This is an improvement from June, though not as favourable 2011 developments.

[4] The disaggregation of financial institutions-related data refers to the whole corporate sector, i.e., including State-Owned Enterprises (SOEs), and not just to the private corporate sector. SOEs overall indebtedness decreased slightly in September (yoy), but the reduction of foreign funding sources is being compensated by internal sources (though not by resident financial institutions).

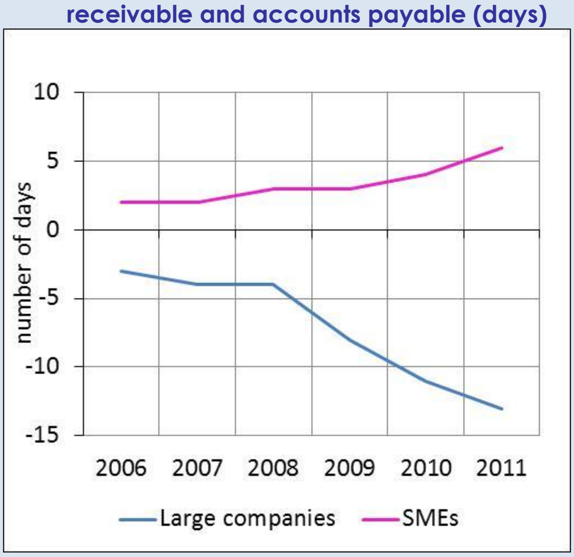
[5] ECB Survey on the Access to Small and Medium-sized Enterprises in the euro area, April to September 2012, November 2012.

Trade credits data on average claim settlement periods also show the comparative difference between SMEs and large companies. Structurally large companies receive their trade credits faster than SMEs and are able to settle their accounts payable sooner than SMEs, hence denoting a more agile financing structure. The most recent data record (2011) indicates that the average accounts receivable period of large companies was 52 days as opposed to 89 days for SMEs, while the average accounts payable period of large companies was 65 days and 83 for SME's. Graph IV depicts the performance of the time gap (in days) between the average accounts receivable period and the average accounts payable period. This indicator is understood here as a proxy for «trade finance needs» (if positive) or «trade finance resources» (if negative). Over the period 2006-2011 the indicator increased for SMEs, but was reduced for large companies, suggesting that SMEs have an increasing need to finance their working capital, while large companies increasingly use trade finance (usually with no explicit remuneration) as a financing source, thus optimizing their operations-derived financial flows.

Graph III: Loans from financial institutions to the corporate sector



Graph IV: Time gap between accounts receivable and accounts payable (days)



Source: Bank of Portugal

Notes: SMEs and large companies do not sum up to the total because holding companies are not classified according to their size. SMEs are companies with less than 250 workers and turnover inferior to EUR 50 million or total balance sheet assets of less than EUR 43 million (EC recommendation). Exporting companies are shown as an independent category, in addition to being included in the overall figures of NFCs.

There is no straightforward data that allows defining a clear border line between supply and demand factors affecting the quantity of credit extended to the corporate sector in Portugal. The analysis presented here points to a mix of both. However, on the supply side, risk aversion to an increasingly indebted corporate sector appears to be playing a role, leading banks to ask relatively high interest rates, both in historic euro era terms as in relation to other euro area members. In September the average rate for new loans offered by the resident financial sector to companies was 6.13%, 3.5 p.p. higher than in the euro area. Despite a reduction of ca. 50 bps from the year before, the gap with the euro area somehow widened. For smaller loans the equivalent rate is 6.8%. For companies to use credit at such high rates an equal or higher return on investment (ROI) is required, which did not happen in 2011 (ROI was more than 2 p.p. lower than the cost of debt) and mostly likely is not happening this year, given the more challenging economic environment. Consequently, exploring and implementing financing alternatives for companies is becoming increasingly necessary to respond to the financing needs of the most productive segments of the economy.

20. Credit lending standards and loan demand remained broadly unchanged throughout the third quarter of 2012. Banco de Portugal's latest bank lending survey confirms the bleak outlook for loan growth. In the third quarter, the declining investment credit demand is heavily affected by the weakening business confidence of the corporate sector. The drop in investment credit is, however, offset by the increasing financing needs associated with debt restructuring and related to inventories and working capital of Portuguese firms. High unemployment and fiscal consolidation dampen both consumer confidence and domestic demand affecting households' loan demand in the consumer and house purchase segments. The latter remains fragile also due to the bleak outlook for the housing market. These developments are generally expected to continue in the fourth quarter even though banks foresee keeping the criteria applied to household and business loans unchanged, in contrast to the first half of 2012. Some factors do however exert an increasingly tightening influence on banks' credit standards, with the weakening economic outlook, the deleveraging pressure, heightened rik aversion and the persistently high cost of funding coming on top of the list.

Table 3: Soundness indicators of the Portuguese banking system

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3 (1)
Return on equity (2)	7.2	7.6	7.1	6.7	6.2	4.3	2.4	-3.8	6.3	1.0	-0.3
Gross income on assets	2.5	2.6	2.6	2.7	2.4	2.5	2.5	2.5	2.6	2.7	2.6
Cost to income ratio	57.7	57.1	57.2	57.6	59.1	58.3	59.0	61.4	56.1	52.9	56.5
Non-performing loans	5.4	5.5	5.8	5.2	5.5	6.2	6.9	7.5	8.2	9.0	10.1
Coverage ratio	63.2	62.9	60.8	61.5	60.7	57.7	55.3	56.7	53.0	51.9	49.6
Capital adequacy ratio (3)	11.3	10.9	11.0	11.1	11.4	11.0	10.1	10.7	10.7	12.3	12.3
Core tier 1 ratio (4)	7.8	7.8	8.0	8.1	8.4	8.7	8.5	9.6	9.6	11.2	11.3
Loan-to-deposit ratio	163.4	166.6	158.4	157.8	156.7	149.7	146.2	140.2	136.9	136.3	133.3

Source: Bank of Portugal
Notes:
(1) Preliminary data
(2) Income before minority interests /Average shareholders equity before MI.
(3) Excluding the banks in resolution (BPN until end 2011 and BPP).
(4) The Core Tier 1 ratio according to Programme definition and excluding the banks in resolution (BPN until end 2011 and BPP).

21. Bank profitability remains depressed by rising credit impairment, continued deleveraging and relatively high funding costs. Three quarters into the year, banks continue to struggle with bad credit impairment charges and a thin net interest margin. Against a background of general uncertainty, an increase in the non-performing credit portfolio and the squeeze in interest income due to the low level of the Euribor, the key reference rate for Portuguese mortgages, banks have shown a considerable capacity to adjust quickly as the sector as a whole achieved a positive result in the third quarter[6]. The domestic result is being helped by further loan re-pricing and cost cuts. Nonetheless, the international business remains the mainstay of earnings generation for the Portuguese banking groups[7], in particular from subsidiaries outside the Euro area.

[6] Excluding BCP's write-offs associated with Greek exposure
[7] With the exception of BCP's Greek subsidiary

III. PROGRAMME IMPLEMENTATION

22. The joint EC/ECB/IMF staff mission concluded that the implementation of the Programme is broadly on track.

Table 4: Summary of compliance with policy conditionality for the Sixth Review

	Status
Fiscal policy	The quarterly quantitative performance criteria on the general government cash balance and debt for Q3-2012 were met. However, amid weak macroeconomic developments, tax revenues and social security contributions are still lower than in the same period of last year. On the expenditure side, personnel expenses fell at solid rates up to October whilst interest payments have grown considerably in 2012. The 5 percent of GDP budget deficit target for 2012 remains valid, in spite of increasing risks, notably due to continued revenye shortfall and the statistical treatment of the ANA concession. The 2013 budget makes up for the slippages in 2012, the reinstatement of one month salary and 1.1 monthly pensions, and contains consolidation measures worth more than 3% of GDP, mostly on the revenue side. Contingency measures will be specified at the Seventh Programme Review drawing on the ongoing expenditure review.
Financial sector	The large Portuguese banks fully comply with the European Banking Authority capital standards. As part of its normal supervisory tasks, a follow-up of the on-site inspection programme has been completed focusing on the loan portfolio of the real estate and construction sectors. Despite the improvement, the recovery of the assets of BPN which have been transferred to the SPV remains low and the outsourcing of its management to a professional third party is delayed. As part of the regulation concerning bank resolution, both the recovery plans and bridge banks supervisory notices were adopted; the decree-law on the funding arrangements of the resolution fund is expected to be finalised shortly. The general and extraordinary regimes pertaining to the out-of-court debt restructuring of households was published in the Official Gazette. BdP continues their efforts to avoid banks' evergreening of loans and promote prompt restructuring of problem loans. The preparation of a pilot joint issue of corporate debt instruments for the capital market is underway. Initiatives to upgrade and promote sharing information on SMEs are being considered.
Fiscal-structural	<u>Public finance management:</u> The authorities are planning an ambitious reform of the Budget Framework Law. The Law will be amended by the end of this year to incorporate the new EU fiscal governance rules. An additional reform is announced for next year to improve budgetary procedures and principles, accountability, transparency and simplification. The process will be conducted in consultation with the relevant stakeholders. <u>Arrears:</u> The stock of arrears has been significantly reduced, particularly in the health sector and further declines are to be expected in the local administration by the beginning of next year. The implementation of the commitment control law to prevent the accumulation of new arrears needs close monitoring. <u>Regional and local government reform:</u> A draft version of the regional and local finance laws was discussed during the Sixth Review and the end-year target of submission to Parliament remains achievable. Local administrative reform is progressing as planned with the reduction in the number of parishes attaining its last stage and the elaboration of a new law defining competences at the local administration and the inter-municipal entities. Budgetary risks in Madeira require corrective measures. <u>Public sector reform</u>: The reduction of managers and administrative units according to PREMAC was completed. The new legislation on working time and geographical mobility was submitted to Parliament and a reform of the 'Special Mobility' scheme is expected in 2013 to support a broader public administration reform for a better allocation of human resources. <u>SOEs, PPPs and privatisations</u>: As a result of their ongoing restructuring, SOEs should reach operational balance by the end of 2012. Additional reforms are expected in the coming years to further improve the public companies' financial results. Privatisation plans are proceeding according to schedule, with the

	transaction of the health business of CGD signed and the privatisations of ANA and TAP expected to be signed before the end of the year. The renegotiation of PPPs has started and significant savings are expected already in 2013. Health: Policy implementation is continuing broadly in line with MoU's deadlines and is starting to produce important savings both in terms of pharmaceutical expenditure and hospital operational costs. Authorities are progressively increasing primary care provision and will now focus on hospital reform, including hospital reorganisation and changes to hospital financing and performance measurement. Additional reform steps are expected regarding public healthcare sub-systems. Revenue administration: Some major organisational reforms underway should be successfully concluded by the end of the year. Bottlenecks in the tax courts continue to be tackled by clearing high-value cases. The property revaluation process has accelerated in the last months. Authorities remain committed to put in place strategies to monitor and strengthen tax compliance.
Reform of labour, goods and services markets	Labour market and Education: Legislation to reduce severance payments to 12 days per year is expected by mid-December. The design of a fund and a possible date for its implementation is to be decided between the government and social partners. A Council of Ministers Resolution, in force since 1 November, sets new rules for the extension of collective agreements. Important progress has been made in the area of activation and active labour market policy (ALMP). The dual training system is being strengthened. On education, a tool for country-wide monitoring of educational outcomes by school has been presented; the number of proposals to conclude trust agreements with selected primary and secondary schools is already over 40; the formula to monitor the cost per student in every school and the full assessment of the new inspection model are expected by the end of the year. Energy: Implementation of the electricity costs reduction and tariff debt elimination by 2020 is on-going. For wind power capacity, an agreement with most of the producers was reached. For small-hydro power, negotiations are on-going. Final draft legislation for changing the CMEC[8] annuity discount rate in line with EC/ECB/IMF proposals should be approved in coming weeks. Negotiations concerning the Sines and Pego power plants are still on-going, with estimates of the total cost reduction ranging between EUR 1.3 and 1.4 billion in NPV terms. The legislation ensuring the financial and operational autonomy of the electricity regulator has not yet been adopted. Telecommunications and Postal: The process to designate the Universal Service Provider(s) started, thereby allowing market players to enter the universal service segment through an efficient, transparent and non-discriminatory public tender in compliance with the EU law requirements. The amended framework for the provision of universal service for postal services has not yet been adopted. Transport: The draft law on port work is expected to be adopted by the Parliament by the end of the year. The government is preparing a Decree Law on port operation; t(he draft is expected by the end of the year. Most cost reductions in ports (around 25 to 30 percent compared to the current situation) are expected to come from the revision of concessions. A reduction by 20 percent in tariffs levied by the port authorities (TUP Carga) has been approved. A Decree Law which sets the legal basis for the new transport regulator has been adopted. The report on the transfer of CP Carga terminals to another entity suggests that only two terminals generate sufficient movement to be viable options for privatisation. Services and professions: Progress on the adoption of legislative amendments to align the legislation with the principles of the Services Directive has continued, albeit at a modest pace. One third of the sector-specific amendments that are necessary to fully implement the Services Directive are still pending, although work on half of them is advanced. As regards professional services, the draft law deregulating three professions and the horizontal legal framework on professional services governed by professional associations were approved by the Parliament. To complete the recognition framework of professional qualifications, main legislative pieces have been adopted. A clear roadmap and work programme was presented to

[8] Custos de Manutenção de Equilíbrio Contratual.

	make the Point of Single Contact operational. Possible lack of human resources is a clear risk that could compromise the timely implementation of this reform.
Reform of framework conditions	Housing market: The government has adopted the complementary legislation of the law on the housing rental market. However, the late publication of these legal texts may further delay the actual implementation of the law. The revision of the cadastral value of the housing stock is expected to be completed by the first quarter of 2013. Judicial system: Reforms of the judicial system continue to advance on schedule. Progress has been made on the reduction of backlogged cases, the geographical reorganisation of the court districts, and the reform of the Code of Civil Procedure. Business environment: Financing alternatives for companies, including measures to stimulate a more equity-oriented culture in the corporate sector, are under consideration. In addition, the renewal of the existing guarantee line "PME Crescimento" of EUR 2 billion has been approved wigth the 2013 budget. Specific measures funded by the EU Structural Funds such as "QREN Investe" or incentives to SMEs are already operational. The system accelerating VAT exemptions for exporting firms, which enters into force at the beginning of the next year, will reduce the time required to provide all the necessary information from an average of more than 42 days to just 4 days. Strong commitment and fast progress are necessary to ensure the timely implementation of the Late Payments Directive by March 2013. Competition and sectorial regulators: The adoption of the Framework Law, setting out main principles for the functioning of National Regulator Authorities (NRA) is expected by the first quarter of 2013. The sale of the 1 percent share of CGD in Galp was completed on 27 November 2012.
Data submission	Requirements under the Programme have been observed. Work is ongoing to improve further data submission.

FISCAL POLICY

Budgetary execution in 2012

23. The budget deficit target of 5 percent of GDP for 2012 remains valid, but risks are non-negligible. Budget execution until October points to continued revenue shortfalls. Moreover, while budget execution on the expenditure side has been in line with projections, the implementation of additional measures worth 0.3 percent of GDP to cover for revenue shortfalls, as agreed at the Fifth Review, is not yet fully completed. The freeze of investment and of the acquisition of some goods and services has already been adopted and the necessary changes to high value property taxes are also in place, but the frontloading of some social security measures envisaged for 2013 is still pending. At the current stage it is difficult to judge whether the deficit target can be achieved because the full impact of these measures will only materialise in December. As a result, and despite the authorities' expectation that revenure shortfalls will fade out in the last months of the year, there are important risks to the revenue target. In particular, the statistical treatment of the sale of an airport concession is still being assessed by the statistical authorities and may not be accounted for as a deficit-reducing operation. This by itself could raise the headline deficit by 0.7 percent of GDP, but repercussions on the 2013 budget will be limited, if any, given the one-off nature of the operation.

Fiscal consolidation in 2013

24. The 2013 budget law includes discretionary measures of more than 3 percent of GDP to achieve the deficit target of 4.5 percent of GDP. On the expenditure side, the budget foresees a sizeable reduction in the public sector wage bill through lower employment coupled with a reduction in overtime payments and other compensations. Rationalisation efforts in the health sector, SOEs, PPPs will be deepened, while social spending will be further streamlined. On the revenue side, the budget foresees a restructuring of the Personal Income Tax (PIT) that will reduce the number of brackets and increase the average tax rate in line with European standards, while preserving progressivity and curbing tax benefits. In addition, a surcharge of 3.5 percent is imposed on the part of taxable income above the minimum wage and a solidarity surcharge of 2.5 percent on the income exceeding EUR 80 000 and of 5 percent on income above EUR 250 000. Corporate tax revenues are increased by means of limiting the deductibility of interest costs, reducing the threshold for applying the highest surcharge on profits and changing the methodology for special prepayment to companies, among others. The budget also considers changes in indirect taxation by means of higher excises on tobacco, alcohol and natural gas, broadening the scope of property taxation after revaluation of properties and the creation of a financial transaction tax. In addition, social contributions will also rise as they will be also charged on supplementary payments for public employees and on unemployment benefits. Taking into account these measures, revenue increases will contribute 80 percent to the fiscal adjustment in 2013 while the remaining 20% will come from expenditure reductions. Going forward, the authorities plan to launch a comprehensive reform of corporate income taxation to make it more growth friendly without compromising tax collection.

25. **Budgetary consolidation in 2013 needs to compensate for a negative primary balance drift of about 1½ percent of GDP and the dissipation of one-off measures amounting to 1 percent of GDP in 2012**. The negative balance drift is caused by labour market developments and the shrinkage in tax revenue bases, linked to the downturn and the conintued rebalancing towards a less tax-friendly but more export-intensive economy. As the one-off measures that reduced the nominal deficit in 2012 also fade out, the deficit would rise by a further full percent of GDP in the absence of corrective action (Table 5). In addition, the budget needs to compensate the effect of the reinstatement of 1 monthly wage and 1.1 months of pension payments in the public sector following the Constitutional Court ruling (worth 0.8 percent of GDP). By contrast, the increase in interest payment is a relative modest 0.1 percent of GDP, which is less than assumed at the time of the last review. As the net result of these effects, the nominal deficit in 2013 is expected to improve by only 0.5 percent of GDP in spite of overall consolidation measures amounting to 3.9 percent of GDP.

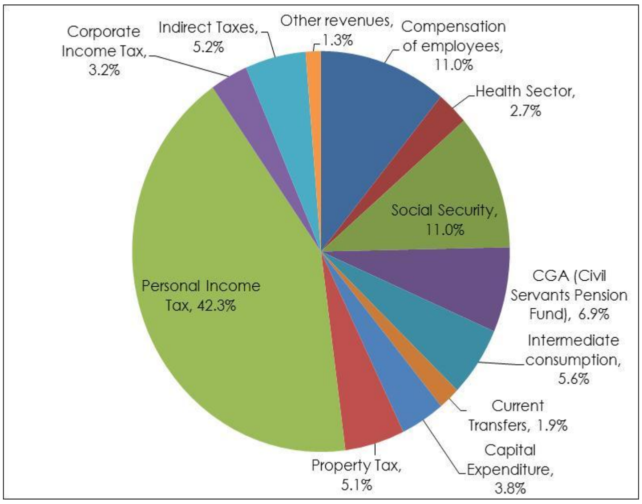
Table 5: Arithmetic of the government deficit: from the deficit in one year to the next

(+) means balance-improving impact; (-) means balance-reducing impact	% of GDP
2010 balance (observed)	**-9.8**
Primary balance drift in 2011	1.6
Change in interest expenditure	-1.1
Dissipation of one-offs and non-recurrent effects from previous year	0.7
New consolidation measures	4.3
2011 balance (estimate)	**-4.4**
Primary balance drift in 2012	-3.4
Change in interest expenditure	-0.2
Dissipation of one-offs and non-recurrent effects from previous year	-3.0
New consolidation measures	6.0
2012 balance (target)	**-5.0**
Primary balance drift in 2013	-1.6
Change in interest expenditure	-0.1
Dissipation of one-offs and non-recurrent effects from previous year	-1.0
New consolidation measures	3.9
Reinstatement of one salary and 1.1 pension	-0.8
2013 balance (target)	**-4.5**

Balance in year t equals balance in year t-1 plus nominal primary balance drift in year t, plus the impact of the change in interest expenditure in year t, plus the impact of the dissipation of the one-offs and non-recurrent measures from year t, plus the impact of new consolidation measures in year t.
The Primary Balance Drift includes the change in the balance lev el that would take place without discretionary measures. It includes the impact of economic activ ity on the balance, including the composition of growth, and the structural increase in expenditure in real terms, e.g., the increase in pension expenditure.

26. Risk to the attainment of the 2013 deficit target are elevated. The 2013 budget proposal contains a detailed fiscal risks assessment. Regarding macroeconomic risks, one scenario considers a fall in internal consumption leading to lower real GDP (1 percentage point less) which in turn would reduce tax revenues and social contributions and increase the deficit by 0.4 percentage points. Alternatively, higher-than-expected unemployment of 1 percentage point would raise the deficit by 0.3 percentage points. Other risks to public finances arise from the high SOEs indebtedness in a context of difficult access to finance, which is leading to an increase in State guarantees. Given the consolidation efforts which are to be achieved at regional and local level, risks to the general government budget also derive from this side although to a lesser extent than in previous years due to enhanced monitoring and control systems. The stronger reliance on revenue-based consolidation in 2013 poses additional risks as these measures are more directly related to macro-economic developments outside the control of the government. Finally, there is a general risk that some of the savings measures included in the 2013 budget may be challenged in the Constitutional Court.

Graph 9. Split of consolidation measures in 2013 Budget



Source: Commission Services

27. The authorities stand ready to implement additional measures in 2013 should slippages occur. With a view to addressing the risks to budgetary execution, the authorities are preparing contingency measures worth at least ½ percent of GDP. A large share of these measures consists of additional reductions in the wage bill and increased efficiency in the functioning of public administration. Moreover, budgetary appropriations will be adjusted in case budgetary execution risks materialise. The measures will be further specified once the comprehensive expenditure review currently underway (see below) is concluded.

Structural fiscal adjustment 2011-2014

28. Permanent consolidation measures of at least 1¾ percent of GDP will be implemented in 2014 to reach the deficit target of 2½ percent of GDP. A comprehensive expenditure review has been initiated with the objective of enhancing the efficiency and equity of public services, while generating targeted savings of EUR 4 billion. The identification, quantification and timetable of implementation of the measures will be fully defined by mid-February 2013 in time for the Seventh Review. The exercise aims at reducing redundancies across the public sector functions and entities and reallocating resources toward growth-friendly spending areas. The 2013 Stability Programme will further detail the results of this exercise and provide additional information on the medium-term fiscal consolidation plans. Overall, the cyclically-adjusted primary balance – net of one-off measures - is expected to improve by more than 9 percent over the period 2011-2014 (see Table 6). When including the EUR 4 billion to be identified in the expenditure review, over the whole Programme period expenditure will contribute 60 percent to the consolidation, while revenue will contribute the remaining 40 percent.

Table 6: Fiscal targets and structural adjustment 2011-2014

	2011	2012	2013	2014
Deficit targets	-4.4	-5.0	-4.5	-2.5
Budget deficit, net of one-offs	-7.4	-6.0	-4.6	-2.5
Structural balance	-6.1	-4.0	-2.6	-0.9
Primary balance	-0.4	-0.8	-0.1	2.1
Structural primary balance	-2.1	0.3	1.8	3.7
Fiscal adjustment	3.4	2.4	1.5	1.9
Fiscal effort (EDP definition)	2.2	2.2	1.4	1.6

Note: Fiscal adjustment measured as the difference between structural primary balances.
Fiscal effort defined as the difference between structural balances.

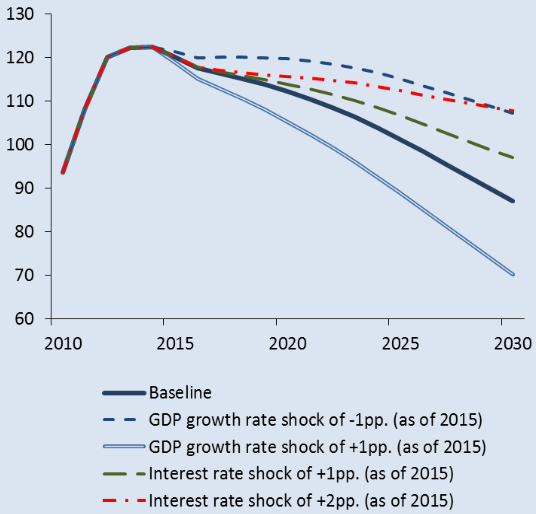
Box 2: Government Debt and Fiscal Sustainability in Portugal

Under the Programme scenario, government debt is projected to peak at 122.3 percent of GDP in 2014 and to gradually decline afterwards. The baseline long-term calculations shown below incorporate the Programme scenario up to 2016. The precise calculations for these figures are shown in Annex Table 7. The turning point is the result of achieving a primary surplus of about 3 percent of GDP, combined with a modest GDP growth. After 2016, it is assumed that: (i) the structural primary fiscal balance remains unchanged at a surplus of 3 percent of GDP;(ii) nominal interest rates are around 5 percent; (iii) nominal GDP growth stays close to 4 percent (2 percent growth in volume terms plus 2 percent inflation); (iv) ageing costs are taken into account according to the projections in the Commission's 2012 Ageing Report; and (v) the expected fiscal impact of PPPs costs and bank recapitalisation costs of EUR 12 billion over the Programme period is factored into the analysis.

Full observance of the Programme plans ensures a gradual decline of the debt ratio over the longer term. Nevertheless, for a large number of years the debt ratio would remain higher than before the current crisis. The graphs in this box present a sensitivity analysis with respect to macro-economic risks, the impact of different fiscal consolidation paths, and the potential impact of contingent liabilities such as reclassifications and other changes in the government perimeter.

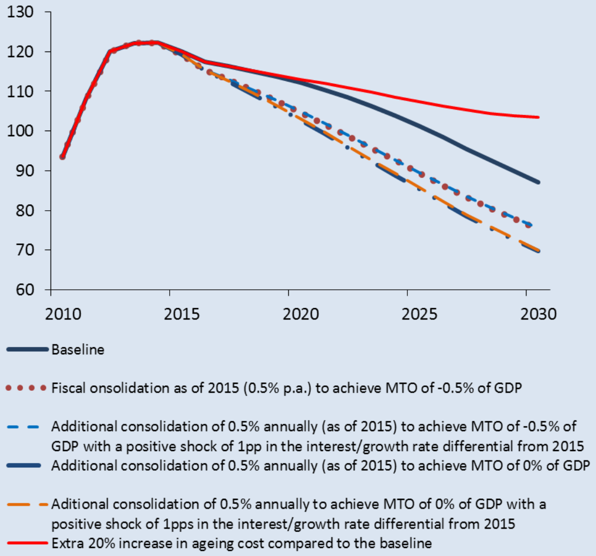
Graph I illustrates the sensitivity to macro-economic assumptions by considering a shock to real GDP growth and hikes in interest rates as from 2015. A lower GDP growth rate by one percentage point or a higher interest rate on maturing and new debt by one or two percentage points would significantly slow down the pace of debt reduction without jeopardising the declining trend over the medium-term. Conversely, a positive shock to growth in the medium-term on the account of the thorough structural reforms undertaken may result in visibly lower debt-to-GDP ratios and a higher pace of debt reduction.

Graph I: Macroeconomic risks-growth and interest rates (debt as % of GDP)



Source: Commission services

Graph II: Fiscal consolidation and ageing costs (debt as %of GDP)



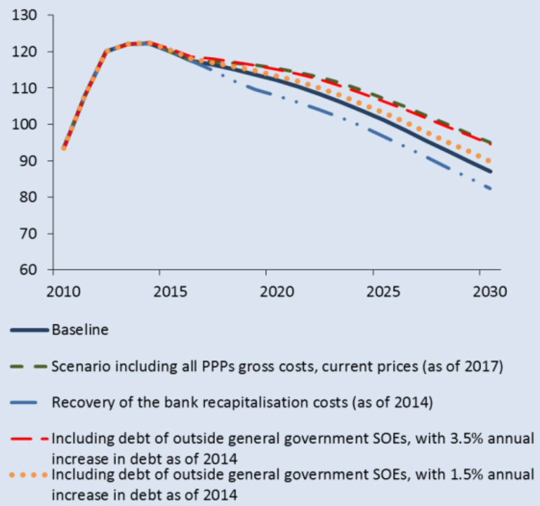
Source: Commission services

Additional fiscal consolidation beyond 2015 and the Programme horizon would clearly accelerate the debt reduction path (Graph II). Reaching the Medium Term Objective (MTO) of a structural deficit of 0.5 percent in 2015, would imply a fiscal effort of about 0.5 percent and a primary surplus of 3.5 percent. Maintaining the MTO over the longer term horizon will require primary surpluses of up to 4.4 percent in 2020 declining gradually to close to 3.0 a percent a decade later. Under these assumptions, the debt to GDP ratio will start declining already in 2015 falling below 100 percent at the beginning of the next decade and maintaining the sustainable downward path thereafter. Aiming at a more ambitious MTO of 0 percent would accelerate even further the debt decline. On the other hand, if ageing costs are allowed to rise significantly (simulated as a 20 percent increase), the fall in the ratio would be severely curtailed, stabilising at a high level in the absence of compensating fiscal consolidation.

Graph III illustrates the impact of changes in the government perimeter. The inclusion of all gross costs of PPPs and the debt of all state-owned enterprises (SOE) classified outside general government would lead to noticeable increase in government debt, especially if further increases in SOE debt are not reined in. The ongoing renegotiation of PPPs contracts will limit the cost of a reclassification scenario. Similarly, a far-reaching privatisation programme combined with the necessary reforms to reduce SOEs operational costs and a strategy to reduce their debt burden will also contain the risks stemming from SOEs. By the same token, a quick repayment of the bank recapitalisation funds to the government would quicken the adjustment towards lower debt-to-GDP ratios

Overall, the debt sustainability analysis reveals that the debt reduction path of the baseline is robust across a wide range of scenarios. Even in a setting which combines a number of adverse shocks, a solid reduction path is attainable if fiscal responsibility is maintained after the end of the Programme period.

Graph III: Changes in general government perimeter (debt as % of GDP)



Source: Commission services

29. Debt is projected to peak at slightly above 122 percent of GDP in 2014 and enter on a gradual downward path afterwards. The reduction in the debt ratio compared with the Fifth Review estimate (123 ½ percent of GDP in 2014) reflects the centralisation of cash holdings from the civil servants' and the general social security regimes at the debt management agency (IGCP), which amounts to EUR 1.3 billion already in 2012 and an additional EUR 0.5 billion in 2013. The assessment of debt sustainability remains broadly unchanged with a primary position of close to balance in 2013 and primary surpluses from 2014 onwards reflecting the recovery of the economy and the strength of the fiscal consolidation. Reaching the Medium Term Objective (MTO) of a structural deficit of 0.5 percent in 2015 would require a primary surplus of 3.5 percent. Maintaining the MTO over the longer term would require primary surpluses of up to 4.4 percent until 2020. Under these asumptions, the debt-to-GDP ratio would be on a firm downward path from 2015 onwards falling below 100 percent at the beginning of the next decade.

FISCAL STRUCTURAL REFORMS

Fiscal policy framework

30. The authorities are planning a comprehensive reform of the Budget Framework Law. A first phase, to be completed by the end of this year, consists of the transposition of the EU fiscal framework and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ("fiscal compact"). A second phase, to be implemented in the course of 2013, will enhance budgetary procedures and principles of budgetary management, accountability, transparency and simplification. The process will be conducted in consultation with the relevant stakeholders. Although much has been done in the past couple of years to improve public financial management, the Portuguese system still suffers from several fragilities, such as budget fragmentation. With a view to overcoming these shortcomings, a three-year action plan has been prepared and published as an annex to the budget.

Revenue administration

31. Major organisational reforms are underway in revenue administration and should be successfully concluded by the end of the year. These include the key reform of the structure of the *Autoridade Tributária e Aduaneira* (AT); the establishment and clear definition of competences of an organisational unit to manage the tax affairs of the large taxpayers segment (Large Taxpayers Office); and the increase of enforcement capacities of the tax administration, that will hire about one thousand new tax auditors by an internal recruitment process. The authorities are committed to streamlining the revenue administration by reducing the number of local tax offices. The process will lead to a closing of one half of the existing branches by the target date of June 2014. Although this revised plan implies some delays, due to the fact that it is being embedded in the overall framework of a rationalisation of all public services provided at local level, it is also more ambitious than the initial plan.

32. The property revaluation process has accelerated in recent months. The authorities expect to achieve the revaluation of about 4 million properties by the end of the year (out of the 4.9 million total) and to finalise the process by March 2013. The updated values of properties subject to revaluation will form the basis for the calculation of the 2013 property tax (Imposto Municipal sobre Imóveis).

33. Bottlenecks in the tax courts are being be tackled by targeting cases above EUR 1 million. The experience with the task forces of tax judges created to deal with high-value cases is considered positive and it is deemed desirable to extend their operations until June 2013 in order to gain more experience. The share of success cases for the State in all litigation cases is increasing.

34. Achieving the revenue target requires enhanced monitoring and a strengthening of compliance strategies. A new set of measures to fight non-compliance will enter into force in 2013, including a unified monthly return covering information on both social contributions and withholding taxes and the major reform of the VAT invoicing system. The government has also taken recently measures to fight fraud and evasion, notably changes in the regime of wealth signals triggering investigations and of tracking offshore transfers. Moreover, the authorities will launch an in-depth analysis of tax compliance by looking at the current revenue collection performance for different sectors and taxpayer sizes with a view to developing adequate response strategies. Furthermore, a new tax compliance management approach will be phased in over a three-year period, starting with the implementation of two pilot compliance improvement projects for key risk sectors, namely high net wealth individuals and self-employed professionals.

Regional and local governments

35. There is good progress in the revision of the regional and local finance laws to meet the end-year target of submission to Parliament. The current draft of the local finance law reflects the recommendations of the IMF/EC technical assistance mission in March 2012 but some elements still have to be defined. The draft law provides a broad framework of principles and rules together with the functioning of the Financial Coordination Council. Several key elements on the revenue side, notably the sources and size of own revenues and the calibration of transfers are still under discussion. Also, the role and financing of inter-municipal entities and the mechanisms of insolvency are not yet fully specified. The regional and local finance laws will adopt the principles of the budgetary framework law. Financial recovery rules have been inspired by the existing adjustment programme for Madeira. The definition of the fiscal rules, and in particular the debt rule, follows the model of municipalities by limiting the debt to 150 percent of net current revenues.

36. Budgetary risks in Madeira are being addressed with corrective measures. Underperforming revenues resulting from a more subdued performance of the regional economy and delays in curbing expenditure in some areas, such as investment, add up to an estimated deficit of about EUR 300 million, against a programme target of EUR 158 million. Therefore, the regional authorities have presented corrective measures, which the central government expects to bring the deficit to EUR 178 million by the end of the year. Overall, programme performance is mixed with some good results in curbing public expenditure to partly cover for revenue shortfalls.

37. Local administrative reform is progressing as planned. The reduction of the number of parishes by about 25 percent is in its final stage and expected to be concluded before the end of the year. The number of staff in local administrations declined by 3.8 percent overall in the third quarter of 2012 relative to end-2011. The elimination of one third of the positions of local administration managers is expected to be completed by the end of this year. A new framework law on the attribution and competences of local administrations and the statute of inter-municipal entities has been submitted to the Parliament. The purpose of the law is the transfer of responsibilities to the administrative level that can implement them most efficiently.

Public administration reform

38. The authorities are making significant advances in rationalising the central administration. The reduction of the number of managers and administrative units according to the PREMAC plan was concluded, with a few legal acts still pending publication. The new legislation on working time and geographical mobility has been submitted to Parliament. The 'Special Mobility' scheme is being modified in the context of the 2013 Budget and a deeper reform is to be expected next year to support a broader public administration reform, addressing training and requalification for a better allocation of human resources. The aim is to simplify procedures, limit compensations and apply it to all sectors of the public administration. The reduction of personnel is progressing at a faster pace than initially foreseen with the overall annual reduction expected to be above 3 percent compared with a 2 percent target, according to the authorities' latest estimates. The implementation of shared services is progressing in line with the Programme schedule. A comprehensive study to review wage scales in the public sector relative to the private sector is expected to be available by the end of the year.

SOEs, PPPs and privatisations

39. The government expects SOEs to reach operational balance at sector level by the end of the year. On the expenditure side, cost reductions mostly arise from the wage cuts (suspension of the 13th and 14th salary) and the reduction in employment combined with efficiency-improving measures. On the revenue side, tariffs have been increased and exemptions reduced. Authorities are exploring ways to combat rising fraud which in past months contributed to revenues below expectations. In 2013, the reinstatement of the 13th salary will be compensated by further measures lowering employment, containing salaries, cutting current expenses and streamlining of investments while ensuring a strict implementation of the commitments control law. The schedule for privatisations as set out in the Programme has been confirmed, with the privatisation of the health business of CGD signed and the privatisation of ANA and TAP expected to be signed before the end of the year with a view to completion early next year.

40. The renegotiation of PPPs has started and significant savings are expected for the 2013 budget and beyond. The government is focusing its renegotiations efforts on road PPPs which represent 74 percent of all net public cost in net present value (NPV) terms. The first stage of negotiations, which focussed on a reduction of the scope of road sub-concession contracts still in a construction phase, was completed in October and aimed at savings of €1 billion NPV (permanent impact on state budget starting in 2014), higher than the initial target. A second stage of renegotiations will be carried out in compliance with the new legal framework for PPPs and will be led by the new PPP unit in the Ministry of Finance once it is fully operational. The goal is to revise the baseline scenario of all road PPPs, allowing for more private partner risk-taking and imposing a lower internal rate of return for shareholders. This should yield a significant positive impact on the public budget, while ensuring a sustainable reduction in government liabilities. Savings in the 2013 budget beyond the immediate effects of renegotiations include, amlongs other measures, operational measures in toll collection.

Healthcare sector

41. Policy implementation is continuing broadly in line with targets and starts to deliver significant savings. Revenues from co-payments are expected to double by the end of 2012, resulting in additional EUR 80-90 million by the end of 2012 compared with 2011. Authorities also aim to reinforce non-budget revenues by increasing payment collection from insurance companies and from cross-border care and care provided to foreigners.

42. The authorities are taking steps to transform existing primary care services into family care units (USFs). Improved coverage of primary care services is a means to ensure that the referral system to specialist and secondary care is more effective and to reduce unnecessary use of emergency care. Additional family care units (USFs) have been opened during 2012, bringing their number to 344 active USFs and 83 additional applications. An agreement with the medical association has increased the number of patients per family doctor from 1500 to 1900 and the patient registries for family doctors are being updated. These measures aim at reducing the share of patients not covered by family doctors, which currently amount to 17 percent. The system of electronic medical records has been finalised and is being rolled out through NHS facilities. This system will help improve safety of care and avoid the duplication or unnecessary use of services such as diagnostics. The revision of the co-payment system also contributed to increasing patients' use of primary care and reducing the use of emergency care.

43. Important savings have been realised in the hospital sector. Operational costs were lowered by 6 percent (EUR 314 million) in 2011 compared with 2010 and are expected to decline by an additional 9 percent (EUR 400 million) in 2012. The authorities aim for an additional reduction of about EUR 250 million in 2013, in part to compensate for the reintroduction of the 13th wage. These savings are in line with MoU targets (15 percent reduction over 2011-2013). Outsourcing of diagnostics and rehabilitation has led to savings in operational costs by 5 percent (EUR 38 million) in 2011 compared with 2010 and by an additional 10 percent (EUR 60 million) in

2012, notably by renegotiating/reducing prices paid to private providers and changing remuneration systems. In addition, the stock of arrears has been significantly reduced through the debt settlement strategy. About EUR 1.5 billion have been paid and the remaining stock of about EUR 1 billion will be reduced through a combination of additional settlements and increased efficiency in the sector.

44. The authorities confirmed their commitment to reorganising hospitals, changing hospital financing and introducing performance measurement. Several mergers/closures of hospitals and departments have already taken place since 2011, leading to a concentration of medical departments and laboratories, an elimination of about 1000 beds and a reduction in overtime. The authorities have presented the principles of the 2013 hospital reform which aims at further important savings through hospital reorganisation in 2013-14. The plan will be finalised by end November and will need to be implemented throughout 2013.

45. Progress has been made in centralising purchasing, but there is still room to extend its use. Several active substances and medical devices have been tendered or are now under tender procedures. In addition, centralised purchasing has been extended to service cars, IT services and outsourcing services. The authorities are planning to extend the use of centralised purchasing to other medical devices (following the continuous development of a uniform coding for medical devices) but also in relation to utilities (telecommunications).

46. Regarding pharmaceuticals, a wide set of measures are being implemented. Among these measures are the compulsory e-prescription and INN prescription, changes in pharmacies' margins, in the international reference price system and in the pricing of generics, the removal of administrative and legal hurdles to enhance the use of generics and prescription guidelines and regular monitoring of prescription behaviour and feedback to physicians. Overall, these measures will result in important savings in outpatient public spending (-10.3 percent year-on-year for the first three quarters of 2012). They also contribute to a reduction in private pharmaceutical spending (-12.9 percent year-on-year for the first 8 months of 2012). Savings on pharmaceuticals in hospitals have been slower to materialise (-1.3 percent year-on-year in the first half of 2012), though recent centralised tenders may lead to potential important savings. Together with the agreement made with the pharmaceutical industry (including a "clawback" clause up to EUR 300 million for 2012), these measures are likely to ensure that the target for 2012, i.e. lowering expenditure to 1.25 percent of GDP, will be achieved.

47. Regarding public healthcare sub-systems (ADSE, SAD, ADM), progress has been slow so far but the 2013 budget proposes some changes to the current situation. There has been some effort to align fees paid to private providers with those of the NHS and the 2013 budget proposes that a certain set of services and corresponding expenditure will be transferred to the NHS. However, the cut in contributions paid through state transfers (from 2.5 to 1.25 percent of the individual salary) has not yet been enactecd.

FINANCIAL SECTOR

48. The large Portuguese banks comply with the European Banking Authority (EBA) capital standards. The largest Portuguese banks were required to top up their capital levels up to a minimum of 9 percent Core Tier 1 (CT1) ratio calculated according to the EBA methodology. The EBA capital reinforcement process concerned four Portuguese credit institutions and was driven by the writing down of government bond holdings down to market prices. The capital injected was in total EUR 8.2 billion, with an impact on the CT1 ratio of EUR 7.9 billion. Out of this, EUR 4.3 billion were financed from the Programme's EUR 12 billion strong backstop facility in exchange for contingent interest bearing convertible bonds, which need to be repaid within five years. One major bank was able to accommodate its EBA additional capital needs through private means. In addition to the EBA-related capital reinforcement limited to the biggest lenders, all banks are required to observe the year-end 10 percent CT1 objective set by Banco de Portugal, enabling them to weather loan losses that have substantially risen amid the economic slowdown. This capital augmentation process is still on-going though most banks already comply with this requirement.

49. Progress was achieved in the implementation of the early intervention and resolution framework. The authorities were asked to conclude the measures pertaining to the funding arrangements of the recently created resolution fund. As part of the tools to allow the intervention by the central bank in a credit institution or an investment firm in financial distress, leading to the orderly wind-up of the institution, rules governing the setting-up up and operation of bridge banks were adopted through a supervisory notice. A supervisory notice on recovery plans, which set their respective content and associated requirements, was also adopted. The recently created resolution fund will be funded by the proceeds of a bank levy as well as contributions from the financial institutions. The latter will be set in a Decree-Law, which is due for approval by end-December, in accordance with the MoU. The regulation on resolution plans will be adopted by the same date by means of a supervisory notice. Also, the government will submit to Parliament in early 2013 amendments to the law governing banks' access to public capital so as to allow the state, under strict circumstances, to exercise control over an institution and to perform mandatory recapitalisations. In making such amendments, an appropriate balance will continue to be struck between preserving the private structure of the banking system and safeguarding the use of public resources.

50. Banco Português de Negócios (BPN) legacy assets are a long way from being recovered. Further to the sale of troubled BPN in March to a foreign buyer, the authorities are managing the legacy assets of the bank which remained as property of the state, accommodated in three special purpose vehicles (SPV). These SPVs are so far operated by ex-BPN staff. *Parvalorem* holds an overwhelmingly (80 percent) non-performing loan portfolio with a nominal value of EUR 3.4 billion. *Parparticipadas* manages the legacy intragroup participations and *Parups* looks after the remaining financial and tangible assets. The financial participations and material assets accommodated in the SPVs are being either liquidated or sold. Caixa Geral de Depósitos (CGD) state-guaranteed claims will be gradually settled in cash and any net recoveries from the SPV will add to CGD's reimbursements, while BPN staff currently employed by the *PARs* will either find employment in the sold companies or will be made redundant.

51. The preparation of the tendering process aiming at mandating a third party to gradually recover the credits currently held by *Parvalorem* is nearing completion. The authorities concluded the technical specifications relating to the service contract, which will be awarded to a professional third party mandated to gradually recover the EUR 3.4 billion portfolio of non-performing loans of *Parvalorem*. The tendering process chosen for the contract award is a public tender limited by prior qualification and should be now launched until end-2012 with a view to award the contract before mid-2013. The incentive structure, predominantly based on success fees will serve as guarantee that NPLs are efficiently being recovered maximising the recovery amounts owed by debtors. Recoveries in 2012 add up to around EUR 70 million until October, denoting a better record than in 2011.

52. Further to the adoption of the legal framework for corporate and debt restructuring, the authorities are now focussed on their implementation, aiming at contributing to an orderly deleveraging while minimising the impact of defaults in banks' balance sheets. Further to proposals adopted in Parliament, the legal framework for financial institutions to engage in out-of-court debt restructuring for households was enacted by Decree-Law nº 227/2012 (general regime). The measures contained therein foresee *inter alia* banks to develop risk management systems to monitor and prevent the risk of default by households (PARI) and guidance on a standard negotiation procedure between the credit institution and the bank client aiming at non-litigious settlement of debts (PERSI). In addition, an existing network of consumer protection advisers will be put up to advise households under financial distress and prevent the recurrence of over indebtedness. A law containing an extraordinary regime to protect mortgage lenders in extreme difficult economic and financial situation was also passed (Law nº. 58/2012). These acts, which enter into force in January 2013, are an important further step to resolving the private sector indebtedness, coping with the rising levels of non-performing loans and ultimately, promote the soundness of the financial system.

STRUCTURAL REFORMS

Labour market

53. Severance payments will be reduced to 12 days per year worked, close to the EU average. The implementation of the third stage of the reform of the severance pay system is expected for mid-December 2012. A fund to finance dismissal costs will also be considered by the authorities and social partners. The design of the fund and possible date for its implementation is still to be decided between the government and social partners.

54. A Council of Ministers Resolution, in force since 1 November, sets new rules for the extension of collective agreements. Only if companies involved in the collective agreement employ at least 50 percent of workers in a sector can that agreement be extended to the rest of the sector. In addition, the request for extension must be requested by both unions and employers' associations. The quantitative criterion is waived when the request for extension concerns only firms that employ more than 249 workers. The new rules are minimum requirements. The government will also take into account the impact on competitiveness of non-signatory firms when considering extending collective agreements.

55. Important progress has been observed in the area of activation and active labour market policy (ALMP). The authorities are on track in implementing a plan to reform the Public Employment Services (PES) and improving ALMPs. Participation in ALMPs has increased by 19.5 percent in the year, covering about 400,000 people. Considerable effort is being made on the activation of subsidised unemployed. About half of the recipients of unemployment benefits have been redirected to training measures. Here, the programme *Vida Activa*, which aims at developing high-employability training modules, is playing an important role. The programme *Impulso Jovem*, an initiative to tackle youth unemployment, is in an implementation phase. Since February, about 9,000 people were employed under the wage subsidy scheme *Estímulo 2012*.

56. The dual training system is being strengthened. The government has the intention of raising dual training positions from 30,000 in 2012 to 100,000 in 2020, following the increase by 9,000 between 2011 and 2012. This system targets employees younger than 25yearswith lower secondary education. 40 percent of the training is on-the-job, for which the government tries to recruit attractive firms and make the system more demand-driven.

Education

57. The implementation of the action plans on secondary school is overall progressing as scheduled. A tool for country-wide monitoring of educational results by school has been prepared. It includes an automatic monthly report for management purposes with data on public schools and private schools with contracts. In order to assess their performance, the results of every school will be compared with an 'expected value' developed on the basis of several socio-economic data of the school. It will be a valuable instrument to adapt educational policies to the actual needs of every school, including cost saving measures. A formula to monitor the cost per student in every school has not yet been provided. A Working Group is still working on the methodology but results are expected before the end of this year. The full assessment of the new inspection model is also expected by the end of this year. The number of proposals to conclude trust agreements with selected primary and secondary schools is already over 40. These agreements, which are concluded between the government and the schools, provide significant autonomy to the schools in terms of pedagogical, curricular and organisational powers under certain performance criteria. It is expected that more than 80 trust agreement will have been signed by the beginning of the next school year 2013/2014.

58. The implementation of the action plan on vocational training has further advanced. The government has adapted the provision of educational training by focusing on exporting sectors. In addition to the programme of internships co-financed by the Structural Funds (Passaporte Emprego) presented at the Fifth Review, a reinforcement of the dual training system is under preparation (see above). The Government is also finalising the legal framework for the set-up of the professional schools of reference, with direct training offers into economic areas considered relevant to job creation, which will be fully operational by September 2013.

Housing market

59. The government has adopted the complementary legislation of the law on housing rental market. The new law entered into force on 12 November. Before that, the new regime for the determination of the gross annual income of the household (rendimento annual bruto corrigido do agregado familiar), which is an important element for the update of rents in open-ended contracts signed before 1990, was approved by the Council of Ministers. The legal text setting the Single Window for the rental market (Balcão do Arrendamento), which will be the competent body for the extra-judicial eviction procedure enshrined in the Law, was also adopted as well as the legal text setting the rules to determine the state of conservation of dwellings for the purposes of the rental market and renovation. However, as the publication of these legal texts is still pending, it may delay the actual implementation of the law. The revision of the cadastral value of the housing stock is expected to be completed by the first quarter of 2013.

Judicial system

60. Reforms of the judicial system continue to advance according to the agreed schedule. Progress has been made in the reduction of backlogged court cases, the reform of the judicial system, including the geographical reorganisation of the court districts, and the reform of the Code of Civil Procedure.

- Despite the challenges in addressing the backlog court cases, an additional 17 000 enforcement cases have been cleared, bringing down the total number by about 113 000 enforcement cases since November 2011. A decree law has been adopted with a set of urgent measures designed to combat the court case backlog. The inter-agency task forces have set quarterly targets for reviewing enforcement cases to be closed by mid-February 2013. To this end, the authorities have further stepped up their efforts by expanding the task forces to small claims court cases in specific courts.

- Tighter control and supervision of the enforcement agents by the Commission for the Efficiency of Enforcement Procedures (CPEE) resulted in an increase in disciplinary proceedings this year. In addition, a legislative proposal has been prepared to replace the CPEE as a supervisory body with a fully independent and better staffed organisation.
- Further advances have been made to improve the efficiency of the court system. A comprehensive judicial roadmap to reduce the number of courts, streamline the court structure and improve the management of courts has been submitted to parliament.
- The government has submitted to the parliament in accordance with the agreed timetable a proposal for an ambitious reform of the Code of Civil Procedure, including a number of measures to speed up judicial procedures. The proposal followed an extensive consultation with stakeholders and experts, including expert meetings held at the end of July with the IMF and EC technical assistance.

Business environment

61. The authorities envisage financing alternatives for corporations that aim at stimulating a more equity-oriented culture in the corporate sector. The draft budget 2013 foresees a legislative authorisation for the government to limit the tax deductibility of corporate interest costs to companies up to specific ceilings. Given that the envisaged ceilings are relatively high (financial costs up to EUR 3 million or 30 percent of EBITDA), the measure would only cover large companies, leaving smaller companies, notably SMEs, with no incentives to move to more stable and less risky financing structures privileging equity. The Ministry of Economy, in liaison with CGD, set up a state guaranteed quasi-equity financing line of EUR 500 million targeting SMEs. The financing instrument is expected to be up and running before end-2012. No progress was recorded in the setting up of three EUR 30-million equity funds due by end-2012 to capitalise SMEs stemming from the conditionality of the public recapitalisation of banks. *Portugal Ventures*, the EUR 600-million assets private equity and venture capital management company created in June from the merger of three public entities has launched the *Ignition Programme*, a seed capital facility which will invest in scientific and technology-based projects. Portugal Ventures has EUR 140 million available to pursue its investment policy. The renewal of the existing guarantee line PME Crescimento to EUR 2 billion more is pending budget approval. Around EUR 2.3 billion of the current EUR 2.5 billion have already been executed. Guidelines on how to better ensure the credit flow from this line to exporting companies are under discussion. Specific measures funded by the Structural Funds such as QREN Investe or incentives to SMEs are already operational. The key challenge is the promotion of investment opportunities relying on private sector initiative while minimising fiscal risks.

62. The application to accelerate the request of VAT exemptions for exporting firms will be in place at beginning of next year. This application will allow exporters to provide full on-line proof of their operations. It will reduce the time required to provide all the necessary information from an average of more than 42 days to just 4 days so that the refund of VAT will happen much faster. Strong commitment and fast progress is necessary to ensure the timely implementation of the Late Payments Directive by March 2013. This is an important factor to alleviate the financing conditions of SMEs. Negotiations with municipalities to include all of them within the scope of the Simplex programme are progressing as scheduled.

Sustainability of national electricity system

63. Electricity tariff debt elimination to ensure the sustainability of the system is on-going. Concerning wind power capacity, an agreement with about 98 percent of the capacity producers was reached. Draft legislation was shared with the mission setting the terms for the compensation after the existing feed-in tariffs For small-hydro power plants, negotiations are on-going. Final draft legislation for changing the CMEC annuity discount rate in line with EC/ECB/IMF comments should be approved still this year. This will be done in way that does not lead to an increase in the new established rate and ensures savings in Net Present Value (NPV) terms of EUR 120 million. Negotiations concerning the Sines and Pego power plants are still on-going, with uncertain outcomes. Estimates of the total cost reduction are in the range of EUR 1.3 to 1.4 billion in NPV terms, but the exact results depend on the success of ongoing negotiations with various stakeholders. As there is a need for a comprehensive assessment of the reform once all outstanding measures have been implemented the revised MoU updated some deadlines for the next review. The government presented elements of the preliminary report on the CMEC scheme and on the process for the extension of the concession of the public hydro resource to the former PPA hydro power plants.

64. A crucial step is still missing for the efficient functioning of the electricity and gas markets after their full liberalisation in January 2013. New draft legislation on the energy regulator (ERSE) bylaws including additional changes to the ones agreed in July is expected to be adopted soon. The law on the penalty system of ERSE has been in discussion at the Parliament's specific committee since 28 September. The law on the penalty system of ERSE has been generally approved in the Parliament on 28 September and is expected to be discussed in the specific committee on 5 December.

Telecommunications and postal service

65. A significant step has been taken in the telecommunication market.. The tender procedures for the designation of the universal service provider have been launched. According to the calendar of the tender process, the award of the service to one or more operator(s) is expected by Q2-2013; this has been reflected in the change of the MoU deadline. Concerning the negotiations with the incumbent operator and current universal services provider, the government reached an agreement on the terms for termination of the current contract. The amended framework for the provision of universal service for postal services has not been adopted yet.

Transport

66. The government reiterated its commitment to complete the reform of Portuguese maritime ports. The draft law on port work is expected to be adopted by the Parliament by the end of the year. The government is preparing a Decree Law on port operation. The draft shall be ready by the end of the year, too. Its goal is to increase efficiency of Portuguese ports by making the port operation concessions more performance-oriented, opening up the activity to new operators and ensuring that cost savings are passed on to port customers. A significant part of cost reductions in ports (around 25 to 30 percent compared to the present situation) are expected to come from the reform of concessions. The mentioned Decree Law will also set principles for a better coordinated ports policy in the country. Finally, a reduction of 20 percent in tariffs levied by the port authorities (TUP Carga) has been approved. The overall port tariff framework will be reviewed to further rationalise the costs incurred by the Portuguese ports users.

67. Portuguese authorities presented further progress in reforming land and air transport. A Decree Law which sets the legal basis for the new transport regulator has been adopted. It merges the three former regulators (rail, ports and road) into a single one and sets a clear division between administrative and regulatory powers. The principles of functioning of this new regulatory entity for the transport sector will also depend on the Framework Law on National Regulators Authorities. Meanwhile, a number of low-cost airlines have been attracted to Portugal. Some additional low-cost flights have been recently attracted by Lisbon, though its airport is close to its maximum capacity. Montijo, a military airport, is considered the best alternative, though whether it will be developed will depend on the new owner of the airport operator ANA. The report on the transfer of CP Carga terminals to another entity was presented; it demonstrates that only two terminals (Lisbon-Bobadela and Leixões-Porto) have enough activity to make them viable for privatization. These two terminals account for more than 80 percent of the total cargo. The public service obligation contracts for the fluvial transport in Lisbon have been signed while those regarding urban transport services in Lisbon and Porto are expected to be concluded by the end of the year. The conditions for a Public Service Obligation of rail passenger transport (CP) and REFER are still under discussion.

Other services sectors

68. Progress on the adoption of legislative amendments to align legislation with the principles of the Services Directive has continued albeit at a modest pace. One third of the sector-specific amendments that are necessary to fully implement the Services Directive are still pending although work on half of them is advanced. A clear roadmap has been submitted and the government will adopt or, when relevant, present to parliament all remaining draft amendments required by Q4-2012. These amendments are needed to reduce barriers to entry and to facilitate the operation of businesses in 68 legal regimes of varying economic significance. The law proposal simplifying the regulatory framework for real estate activities has been discussed in the specific parliamentary committee since 28 September. Concerning the regulatory framework governing construction activity, the final draft laws on construction and reserves of activity have been sent for consultation to the Portuguese Committee on the Regulation of Professions (CRAP). This additional step before its validation by the Council of Ministers has delayed the legislative roadmap. In parallel, a report was recently submitted by the authorities on the functioning of the public institute governing construction activities (InCI, I.P.) and the fees it charges to businesses for granting various authorisations and certificates, which still needs to be assessed and justified in light of the real costs of the procedure. Minor amendments to the urban planning rules and procedures (RJUE), which are needed to complement this reform, will be discussed in the working group currently reviewing this legal regime under MoU measure 7.18.

69. Work on professional services is on-going. The law proposal on the deregulation of three professions and the horizontal legal framework on professional services governed by professional associations were approved in parliament. To complete the reform on highly regulated professions, one month following the publication of the horizontal law, professional associations shall have to present proposals for the amendment of their statutes and internal rules to bring them in conformity with the principles laid down in the law by removing requirements on the exercise of the profession that are not justified or proportionate. This is a decisive step in liberalising the exercise and activity of highly regulated professions. As regards deregulation of professions, a second phase of the review of regulated professions will be initiated by the government beginning of 2013, following analysis from the CRAP. This second phase shall seek to identify and ease requirements currently laid down to access the profession that may no longer be justified or proportionate.

70. Main legislative pieces have been adopted, which will improve the recognition framework of professional qualifications. The government has adopted two Executive orders (Portarias[9]) that identify competent authorities (such as for sports activities) and which complement amendments to the Law 9/2009[10] alongside with an Executive Order (Portaria 325/2012 of 16 October) with a simplified form for services provider's declaration. An exhaustive list of those professions that require prior checks of qualification to avoid risks of public health is being revised and will be published to increase transparency of the regulatory framework. In addition, information for professionals of their rights will be added to the Point of Single Contact.

71. Further improvements on the Point of Single Contact (PSC) are needed to enhance visibility of all simplification efforts to reduce the administrative burden for entrepreneurs and attract investment. A roadmap and work programme has been presented and will be updated on a monthly basis, which shows that efforts have been stepped up in this field. However, since September, all public institutes have to fulfil a specific procedure for recruitment and the authority responsible for administrative simplification (AMA) in charge of the PSC is still waiting for a strengthening of its resources. There is a risk that a lack of human resources could prevent AMA from keeping up the pace needed for this reform. However, priorities by the government have been clarified, showing political commitment, and this should ensure continuing progress on this measure and on the Zero licensing programme.

Competition and sectoral regulators

72. The government accomplished the sale of the 1 percent share of CGD in Galp. The Portuguese government has thus ended the long-lasting situation of maintaining special rights by the State in private sector companies.

73. A text of the draft Framework Law, which is meant to set the main principles of the functioning of the main National Regulator Authorities (NRA), was discussed with the Portuguese authorities. Some progress has been made compared to the first draft put forward in the Fifth Review. Further revisions will need to ensure that the law effectively guarantees the independence and autonomy of regulators and complies with provisions in existing EU law on these matter. The NRAs covered by this Framework Law have been consulted by the authorities. Further discussions will take place in subsequent reviews before submission to the Parliament by March 2013.

Licensing

74. In parallel with the implementation of the Services Directive, a significant number of legal initiatives to reduce excessive licensing procedures and other administrative burden are expected by the end of the year. Their overall objective is to significantly reduce the number of administrative and regulatory obstacles and the time required to obtain authorisations in order to facilitate the development of economic activities, especially in the case of SMEs. In the area of environment and territorial planning the forthcoming legal provisions include the revision of the Base Law of Soil and Territorial and Urbanism Planning, the legal regime of the Territorial Management Instruments, the requirements for the Environmental Impact Evaluation and the harmonisation of

[9] Portaria 367/2012 of 6 November and Portaria 228/2012 of 3 August, *Official Gazette*
[10] Lei 41/2012, of 28 August, Diário da República, 1.ª série — N.º 166 —

the Territorial Planning Regional Plans. The legal Regime for Urbanism and Building (RJUE) will be revised at the beginning of next year. Regarding industrial licensing, a set of ordinances will soon be adopted to make the Point of Single Contact (*Balcão do Emprendedor*) fully operational. The authorities are also proceeding to the revision of the legal regime of mining and ecological production. On tourism, a set of legal provisions will be adopted by the Council of Ministers by the end of the year. The overall approach is to transfer more management powers to the lower levels of government and to move from the current system of 'ex-ante' authorisations by the public administration to a new 'ex-post' control, in which the private operator bears more responsibility. In addition, an inter-ministerial group will be set up to carry out a full inventory and an analysis of the costs of all regulations in the economy at central, regional and local levels. This should be the basis for a possible roadmap for further regulatory simplification. The Government is also assessing the feasibility of fast-tracking applications for the licensing of planned investment projects which are left unresolved or undecided for more than 12 months and of setting a rule that prohibits at all levels of government the creation of a new regulation generating costs for businesses without the elimination of an existing regulation or regulations with an equivalent cost.

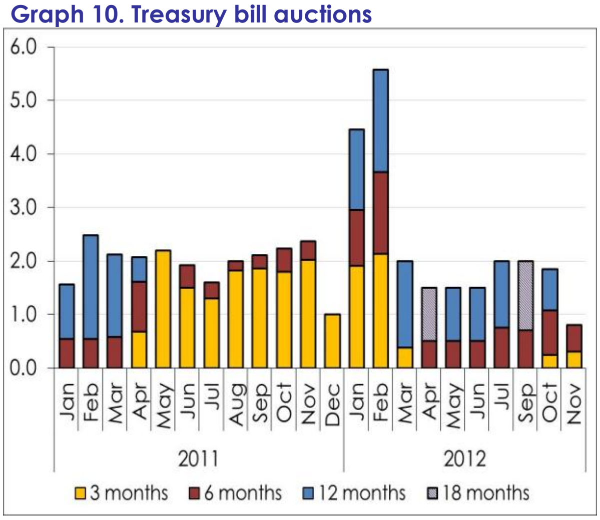
IV. PROGRAMME FINANCING

75. The Treasury enjoys strong demand for short-term debt. The Treasury regularly auctions three, six, twelve and eighteen month bills. The yields on short-term debt have significantly fallen compared with 2011. For some maturities, the Treasury could even raise funds at lower yields than other non-programme European sovereigns despite below-investment grade rating. The Treasury also started using more intensely other short-term debt instruments, such as CEDIC, where public companies can invest spare funds for a short period of time.

76. As part of the government's strategy to re-enter markets, the Treasury conducted a debt exchange operation. The Treasury successfully exchanged EUR 3.75 billion of bonds maturing in September 2013 (of a total of EUR 9.6 billion) into a bond maturing in October 2015 at a yield of 5.12 percent. The September 2013 bond is the first bond that Portugal needs to roll over without official help according to the funding plan of the Programme. As a result of this exchange, the Treasury will have to roll over only EUR 5.8 billion of bonds in 2013.

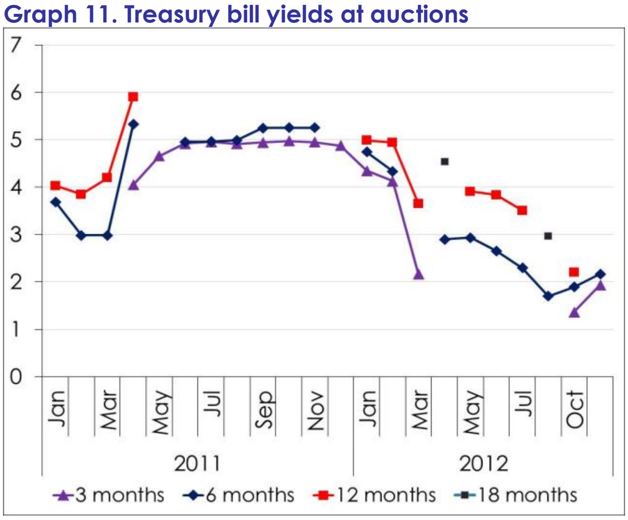
77. The Treasury actively seeks ways to broaden the investor base. The Treasury aims to revitalise relationships with retail investors. To that end, the Treasury increased interest rates on Saving Certificates, an investment product that enjoyed some popularity among domestic investors in the past, and intends to offer new products in 2013. The Treasury is also testing appetite for sovereign bonds by foregin investors. In autumn, the Portuguese authorities conducted several roadshows for investors in Europe and the US, which seemed to signal growing appetite for medium and long-term bonds. As the Treasury abstained from a new bond issuance, several investors acquired Portuguese bonds in the secondary market from domestic banks. Below-investment grade rating remains a serious hurdle to attract real money investors, though appetite from this class of investors is also increasing. The authorities will continue communication with investors and plan to visit several European countries still this year and Japan as well as the US at the beginning of the next year.

Graph 10. Treasury bill auctions



Source: Reuters

Graph 11. Treasury bill yields at auctions



Source: Reuters

BOX 3: EURO AREA AND IMF LOANS: AMOUNTS, TERMS AND CONDITIONS

The programme designed in spring 2011 foresaw a disbursement of EUR 78 billion to cover the financing needs of the Portuguese sovereign until mid-2014. According to the 2011 plan, the three lenders – European Financial Stabilisation Mechanism (EFSM), European Financial Stability Facility (EFSF), and the IMF – had to disburse EUR 26 billion each. For technical reasons and following political decisions these amounts have changed since the inception of the programme.

The IMF share for Portugal, equivalent to EUR 26 billion at the programme set-up, was expressed in SDR. In EUR terms, the IMF loan amount fluctuates subject to the SDR/EUR exchange rate. Since the start of the Programme, the SDR has appreciated versus the euro and, as a result, some of disbursements from the Fund were larger in EUR terms than originally envisaged. This may also apply for future IMF disbursements to Portugal, should the higher SDR exchange rate persist. According to the SDR/EUR exchange rates forecast assumptions implied by the IMF's World Economic Outlook, the gross IMF disbursements to Portugal would equal EUR 27.8 billion, out of which 6.5 billion remain to be disbursed.

As regards the loans provided by the EFSF, lending modalities have been revised in line with changes to the Framework Agreement and the credit enhancement structure of EFSF. In the beginning of the programme, a loan specific cash buffer was deducted up-front and retained as credit enhancement by the EFSF (this was to compensate for the fact that at that time the over-guarantee percentage for the sovereign guarantees of EFSF bonds was limited to 120%). In the summer of 2011, the over-guarantee percentage for the sovereign guarantees was increased to "up to 165%" and it was no longer necessary to deduct a loan specific cash buffer in respect of the further disbursements to Portugal. Furthermore, in May 2012, following the signature of the Master Financial Assistance Facility Agreement the margin related to credit enhancement and the cash buffer were set to zero. As a result of these revisions in the disbursement modalities, the remaining amount to disburse is EUR 8.6 billion. In gross terms, the EFSF disbursements to Portugal (Portugal's debt to the EFSF) will amount to EUR 28.4 billion but Portugal will have to repay only EUR 27.5 billion (all costs included), due to the abolition of the loan specific cash buffer and the margin.

The EFSM loans to Portugal remain unchanged and will amount to EUR 26 billion. The EFSM charges no fees on its loans and passes on the interest rate at which it borrows to Portugal, therefore the difference between the gross disbursements and net disbursements is minimal, originating from the difference between the issuance price (below par) and the nominal value of the corresponding bonds in the market as well as the need to cover the maintenance of the EMTN programme and the fees charged by the banks and rating agencies.

Loans received until Dec-2012

	Nominal value (EUR millions)	Net disbursed amount (EUR millions)	Nominal weighted average interest rate	"All in" costs [1]	Average maturity (years)
EFSM	22.1	22.0	2.9%	3.0%	12.4
EFSF [2]	18.7	17.4	3.1%	3.2%	14.4
IMF [3]	21.3	21.3	2.7%	4.7%	7.3
Total	**62.1**	**60.7**	**2.8%**	**3.7%**	**11.2**

[1] *IRR estimate, including all costs (interest, exchange rate and fees)*

[2] *The interest rate of EFSF loans obtained since May 2012 is variable and indexed to the EFSF funding pool.The IRR estimate takes into account the provisional EFSF funding program and interest rate forwards. On October 30, 2012 this rate stood at 2.0%.*

[3] *The base interest rate of IMF loans (in SDR) is refixed on a weekly basis (based on a basket composed by the Eurepo 3m, US Tbills, UK Tbills and JP Tbills rates) and available in: http://www.imf.org/external/np/fin/data/sdr_ir.aspx. In the week starting on October 22, 2012, the base rate stood at 0.08%. The cost of funding includes a remuneration rate of 100 basis points and a margin between 200 and 300 basis points, depending on the amount of funding and how long funding remains above a certain threshold (300 percent of country's IMF quota; outstanding for three years). The IRR for the entire period of the loan was estimated based on forward interest and exchange rates, applied to a tentative calendar of future payments.*

Sources: IGCP, IMF, Commission Services estimate.

The terms of all the official loans to Portugal are very favourable. In terms of maturity, the IMF loans have 7.3 years average maturity, i.e. the repayment period for an Extended Fund Facility is between 4.5–10 years (longer than for other IMF arrangements). The disbursed EFSF loans to Portugal have an average maturity of 14.4 years (the EFSF loans to Portugal can have a maximum average maturity of 15 years). The disbursed EFSM loans have an average maturity of 12.4 years, close to the established EFSM average lending maturity of up to 12.5 years.

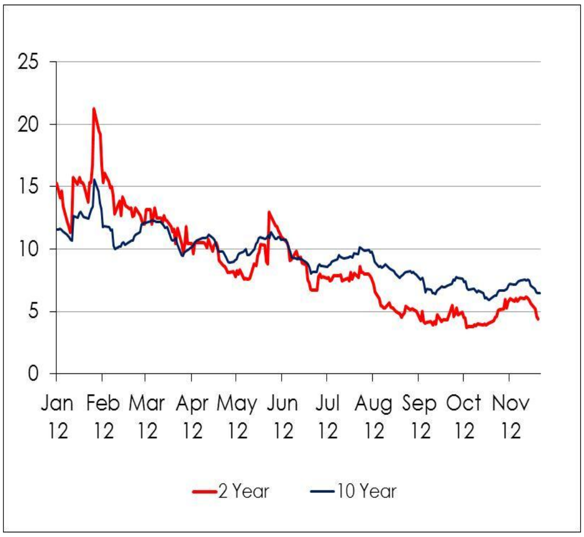
The interest rates charged by all the official lenders differ but are very favourable in all cases. The IMF interest rate is a variable interest rate based on the SDR rate plus a remuneration spread and the margin, with the latter depending on the amount borrowed (relative to country's IMF quota) and the length of the outstanding loan. The IMF also applies service charges and fees according to its standard rules. The "all in" interest rate reported in the table below for the IMF is calculated by the IGCP, the Portugues public debt agency, and takes into account surcharges, expected changes in future interest and exchange rates. The IMF lends to Portugal in SDRs and the additional interest costs indicated in the table do not accrue to the IMF in full.

The interest rate charged on euro area loans depends on the rate at which the EFSF and the EFSM borrow in the markets. This rate is passed on to the beneficiary country. In addition, the EFSF charges fees, to cover its operational costs and to comply with the constitutional requirements of some guarantors. The EFSM charges no loan-specific fees, in other words the EFSM lending rate corresponds to the EFSM borrowing rate on financial markets. Hence, for both EFSF and EFSM, Portugal benefits almost fully from the high credit rating of the facilities and hence low interest rates.

78. The Treasury engaged in a more extensive use of internal resources. A large-scale cash centralisation is ongoing, bringing cash of several public entities under the single umbrella of IGCP, the national debt management agency. The Treasury aims at achieving several goals with this strategy, ranging from better control over the public entities' spending to economies of scale in cash reserve management.

79. Portugal's risk perception has improved substantially in early autumn on the back of the impressive external adjustment of the Portuguese economy and the ECB's announcement of outright market transactions. A more positive attitude was reflected in falling bond yields, declining CDS levels and their convergence in the 5- and 10-year segment, signaling that investors consider Portugal's long-term outlook more stable than before. The ECB's decisions as regards Outrigth Monetary Transactions (OMTs), while still being under discussion with respect of their applicability to Portugal, played an important role in improving market sentiment.

Graph 12. Government bond yields (percent)



Source: Bloomberg

Graph 13. Credit default swaps (basis points difference)

Source: Bloomberg

80. The successful completion of the Sixth Review will trigger the release of EUR 2.5 billion, out of which EUR 1.6 billion will come from the EU and about EUR 0.9 billion from the IMF.

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ANNEXES

ANNEX 1: ASSESSMENT OF COMPLIANCE: MONITORING TABLE

Actions for the sixth review (to be completed by end Q3-2012)		Status
Fiscal-structural	**[3.1]** Publish a comprehensive report on fiscal risks as part of the budget	**Observed.**
	[3.2] Publish a tax expenditure report as part of the budget.	**Partly observed.** An estimation of tax expenditures was prepared for the budget, yet additional efforts are still needed to develop and apply a clear methodology to evaluate tax expenditures.
	[3.3] Prepare a document assessing reform progress and specifying areas of action over the next three years in the area of public financial management, including the reduction of budget fragmentation.	**Observed.** The strategy was published as an annex to the 2013 Budget.
	[3.5] IGF will carry out inspections to verify compliance with the commitment control law and ensure a continued reduction of the stock of arrears in line with the strategy for the settlement of arrears.	**Observed.**
	[3.6] IGF will reinforce the verification of local government's arrears claims and commitment control systems. Disbursements under the PAEL will take place where IGF has certified the commitment control systems.	**Observed.** Disbursements under PAEL have not yet started.
	[3.11] Prepare a draft proposal to revise the regional finance law and the local finance law.	**Observed.** Although some elements of the laws are still under discussion, the end-year target for submission to Parliament remains valid.
	[3.12] Create a working group to prepare a proposal for common revenue forecasting guidelines for subnational governments.	**Delayed.** Available resources concentrated in the preparation of the local finance law in detriment of this measure. Given the importance of developing a common forecasting methodology, the measure has been delayed to the next local budget cycle in 2013.
	[3.13] Proceed with identifying data needs to support the revenue projections.	**Broadly observed.** An article that specifies the data to be transmitted from the central administration to the local authorities has been inserted in the draft local finance law.
	[3.14] Follow up of the Government's economic adjustment programme with the Autonomous Region of Madeira.	**Observed.** A progress report was discussed during the sixth review.
	[3.17] Enhance annual PPP and concessions report to provide information and analysis at sectoral level together with credit flows channelled through banks.	**Observed.**
	[3.18] Inform on progress towards achieving the operational balance target by the end of the year.	**Observed.**
	[3.19] Advance draft law on SOEs governance.	**Observed.** A draft law was submitted to Parliament.
	[3.20] Enhance the annual and quarterly SOEs report to include	**Observed.**

	information on operational results, debt, restructuring and governance at central and local level.	
	[3.23] Assess progress on an inventory of assets, including real estate, owned by municipalities and regional government, examining scope for privatisation.	**Ongoing.** The deadline for concluding the inventory is the end of the year. However, no progress was reported during the review, indicating a risk of a delay.
	[3.30] Present a final report on PREMAC.	**Observed.**
	[3.31] Based on the cost/benefit analysis decide to maintain, reduce or extinguish foundations.	**Observed.** The 2013 Budget contains special provisions regarding the amounts of transfers to foundations, where some savings are already expected. Further efforts at regional and local level are still possible.
	[3.33] Reorganise and reduce the number of the municipalities and parishes.	**On-going.** The proposals are currently being assessed in Parliament and a final decision will be taken before the end of the year.
Financial sector	**[2.3]** Ensure that the programme target CT1 of 10% is reached.	**Observed.**
	[2.12] Launch the competitive bidding process aimed at selecting a professional third party mandated to gradually recover the credits currently held by Parvalorem by end-October 2012 at latest, with a view to complete the process by end-March 2013.	**Not observed.** The procurement contract has been shared with the Troika. H owever there is some delay with starting the bidding process, which should be launched shortly.
	[2.13] The authorities were asked to conclude the implementing measures pertaining to the early intervention and resolution framework; in particular: adopt supervisory notices on recovery plans by end-October 2012 and adopt rules applicable to setting-up and operation of bridge banks in line with EU competitions rules by end-October 2012.	**Observed.** The supervisory notices on recovery plans and the rules governing the setting-up and operation of bridge banks have been published on 17 and 18 October.
Health sector	**[3.42]** Accelerate the plans to achieve a self-sustainable model for health-benefits schemes for civil servants.	**On-going:** the employer's contribution rates for ADSE or budget transfers in the case of specific ministries were not changed in the 2013 budget. However, according to 2013 budget provisions, the public health systems of the various ministries will move the provision of a set of services to the NHS together with the equivalent amount of financial resources. In 2013 authorities will re-evaluate the package of services covered by these systems and reduce the contribution rate to 1.25.
	[3.60] Implement the strategy to clear arrears and avoid their re-emergence.	**On-going:** the stock of arrears has been significantly reduced through the debt settlement strategy. EUR 1.5 bn have been paid and further payments may occur (including an additional 432 million payment through a second supplementary budget). In that case the stock of remaining arrears

		will be about EUR 400 million in 2013, to be paid through savings generated within the sector. The law on commitments is being implemented.
Labour market	**[4.3]** Draft legislation submitted to Parliament to align the level of severance payments to the EU average and consider the implementation of a compensation fund for severance payments.	**Delayed.** Draft legislation to be delivered by mid-December following the agreement between the Government and EC/ECB/IMF.
	[4.5 iii] Submit to Parliament a draft legislative proposal containing criteria and modalities for the extension of collective agreements.	**Observed:** The Council of Ministers Resolution 90/2012, in force since 1 November, limits extensions of collective agreements to those subscribed by employers' associations that employ more than 50 percent of workers in a sector. In addition, the request for extension must be asked by both unions and employers' associations. The quantitative criterion is waived when the request for extension concerns only firms that employ more than 249 workers.
	[4.8 i] Set up an operational management tool for schools.	**Observed:** A monitoring tool which will enable to monitor the educational results by school throughout the country has been presented. The authorities will continue to improve the tool in order to have it fully operational by Q2-2012.
	[4.8 ii] Implement the legislation to promote trust agreements with public schools, define and implement a simple formula-based funding framework and and present an assessment of the new inspection model.	**Partially observed:** Legislation has been published and the Government is taking action to conclude trust agreements with schools. While some preliminary information was provided, the funding formula and the assessment of the new inspection model have not been presented yet.
	[4.8 iii] Present a progress report on the involvement of businesses in the provisions of traineeships.	**Observed:** In addition to the programme of internships co-financed by the Structural Funds (*Passaporte Emprego*), plans for a reinforcement of the dual training system are ongoing. Their success crucially depends on further involvement of business in offering training possibilities.
Goods and services markets	**[5.1]** Adopt the the law on penalty system and new regulators' bylaws agreed in July 2012.	**Not observed.** Draft legislation on ERSE bylaws and the penalty system of ERSE have not been adopted yet.
	[5.2 i] Present proposals to harmonise the access tariffs to the interconnection networks.	**Delayed.** The awaited reform of the Spanish network tariffs is one of the necessary prerequisites.
	[5.4] Conclude the measures to reduce excessive rents and to address the sustainability of the national electricity system.	**On-going.** The government has not concluded all measures as some negotiations are still on going. Concerning wind power capacity, an agreement with about 98% of the capacity producers was reached. Draft legislations for CMECs and renewable energy are being finalized.
	[5.5] Conclude the measures to limit the policy costs embedded in CMECs and PPAs.	**On-going.** Draft legislation for changing the CMEC annuity discount rate was shared on 15-11. Negotiations concerning the Sines and Pego power plants are still on-going. Its outcome is very uncertain.
	[5.6] Present a report on the CMEC scheme.	**Delayed.** The report has been sent on 16 November, but not yet discussed.

	[5.7] Conclude the measures to limit the policy costs of renewables under the special regime.	**On-going.** Following agreement with the industry, draft legislation was shared with EC/ECB/IMF setting the terms for the compensation for wind producers, after the existing feed-in tariffs. For small-hydro, negotiations are on-going.
	[5.9] Annual report on revising downward the feed-in tariffs and ensuring that the tariffs do not over-compensate renewable producers.	**Observed.** Report submitted
	[5.10] Annual report containing an analysis in terms of costs and consequences for energy prices of future investments in renewables.	**Observed.** Report submitted
	[5.11] Renegotiate the telecommunication concession contract by reducing the scope of the services covered so as to exclude the universal service and launch a new tender to designate the universal service provider(s).	**On-going.** The tender has been launched (Executive Order 318/2012 published on 12th October and tender notices in Portuguese and EU official Journal) and an agreement in principle was reached on the terms for termination of the concession contract with the current universal service provider.
	[5.13] Further liberalise the postal sector by amending the decree-law and renegotiate the amendment with CTT.	**Delayed.** The draft provisions are close to completion.
	[5.16 iv] Ensure that the new railway Public Service Obligation (PSO) contracts concluded on rail passenger transport respect EU legislation including Regulation (EC) N° 1370/2007and provide a detailed breakdown of state contributions for each line under PSO.	**Delayed:** The conditions of the PSOs contract for rail passenger transport (CP) are still under discussion.
	[5.17] Submit to Parliament a revised legal framework on port work	**Observed:** The draft law was submitted, though it has not yet been adopted by the Parliament.
	[5.20] Submit to Parliament of the remaining necessary amendment to the sector specific legislation to fully implement the Services Directive.	**On-going.** Internal work within the government on the preparation of the twenty reforms pending has been progressing and around half of them were shared and are being discussed with EC/ECB/IMF.
	[5.21] Approval by Parliament of the amendments in the areas of real estate.	**On-going.** The draft law is being discussed at specific committee in Parliament since 28 September. However, Parliament discussions of the 2013 state budget allowed little progress in this dossier.
	[5.21] Submit to Parliament amendments in the area of construction services.	**Delayed.** The final draft laws on construction and reserve of activity have been sent for consultation to the Portuguese Committee on the Regulation of Professions. This additional step towards its validation by the Council of Ministers was not foreseen and has delayed the legislative roadmap.
	[5.22] Improve the recognition of professional qualifications in particular through adoption of the executive order (portaria) on the services provider prior declaration following the adoption of amendment of Law 9/2009.	**Observed.** Executive Order 325/2012 published on 16 October in Official Gazette with a standard form for services provider prior declarations and Executive Order 367/2012 on sports regulated professions. A list of all those professions that require health and safety prior checks of qualifications (pursuant to Article 7.4 Professional Qualification Directive) will be made public via PSC and other websites.

	[5.23] Approval by Parliament of the law for professions where regulation does not involve a professional body.	**Observed.** The draft law was approved in Parliament on 29 November.
	[5.24] Approval by Parliament of the draft horizontal legal framework concerning the requirements affecting the exercise of regulated professions with professional bodies.	**Observed.** The draft law was approved in Parliament on 23 November.
	[5.25 i and ii] Extend on-line procedures in Point of Single Contact (PSC) to all sectors under the Services Directive and for each profession. Constantly adapt PSC to incorporate new legislation in order to reduce administrative burdens for firms.	**On-going.** Lack of sufficient human resources were mentioned as a reason for delays but the Agency for Modernization (AMA) has stepped-up its work with 28 online procedures under construction and some information content was updated and published online on the PSC.
	[5.26] Submit an updated detailed work programme of AMA.	**Observed.** A detailed work programme was submitted on 1 and 29 October, and presented on 15 November.
Competition, public procurement, and business environment	**[7.8]** Ensure that CGD alienates its participation in Galp.	**Observed.** The sale of 1 per cent share of CGD in Galp was completed on 27 November 2012.
	[7.11] Following up on the adoption of the executive order (portaria) concerning the transfers of payments from regulators to the Competition Authority and the report prepared under measure 7.12 (i), the financing model of the latter will be re-examined resulting in a technical proposal by **[Q1-2013] to** be implemented by [**Q2-2013]**.	**On-going.** A new Executive Order (Portaria 383/2012, November 23) was enacted ensuring and further clarifying the financial model applicable during 2012 and 2013. Transfers from all NRAs are yet to be confirmed. The current financial model will remain as foreseen in the Competition Authority's by-laws.
	[7.11] Review with key stakeholders the conditions for the proper execution of the Competition Authority mandate	**On-going:** progress has been made but not all conditions are yet confirmed
	[7.15] Present an action plan with measures to facilitate access to finance and export markets for companies, in particular SMEs. Make operational the procedures for requesting VAT exemptions for exporting firms.	**Observed:** A set of possible measures to facilitate access to finance to SME has been presented.
	[7.2] Set quarterly targets for closing enforcement cases and prepare quarterly reports on implementation status, with the fourth report to be completed by mid-November 2012.	**Observed.**
Judicial system	**[7.4]** Refine by extensive consultation an initial draft bill on judicial reform.	**Observed.**
	[7.4] Submit a Bill to implement the judicial reform roadmap to Parliament by end-November 2012.	**Observed.** The bill was approved at the Council of Ministers of November 22 and submitted to Parliament by November 30.
	[7.5] Submit the Bill to improve the Justices for Peace regime to Parliament by end-November 2012.	**Observed.** The bill was approved at the Council of Ministers of November 22 and submitted to Parliament by November 30.
	[7.6] Refine by extensive consultation an initial draft of the new Code of Civil Procedure. Submit to Parliament the new Code of Civil Procedure by	**Observed.** The bill was approved at the Council of Ministers of November 22 and submitted to Parliament by November 30.

	end-November 2012.	
	[7.7] Publish quarterly reports on recovery rates, duration and costs of corporate insolvency cases starting from **[Q3-2011]**, within four months after the end of the relevant quarter.	**Observed.** The statistics for Q2-2012 were published on October 31

ANNEX 2: COMMISSION SERVICES MACROECONOMIC PROJECTIONS 2011-2016

Table 1: Use and supply of goods and services (volume)

Annual % change	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1. Private consumption expenditure	-4.0	-5.7	-2.2	0.4	1.2	1.3
2. Government consumption expenditure	-3.8	-3.5	-3.2	-2.0	0.9	0.6
3. Gross fixed capital formation	-11.3	-13.7	-5.5	3.0	4.3	3.8
4. Final domestic demand	**-5.3**	**-6.7**	**-2.9**	**0.3**	**1.7**	**1.6**
5. Change in inventories	--	--	--	--	--	--
6. Domestic demand	**-5.6**	**-6.6**	**-3.0**	**0.3**	**1.6**	**1.6**
7. Exports of goods and services	7.5	4.6	2.9	5.0	5.5	5.5
7a. - of which goods	7.8	5.9	3.3	5.2	5.6	5.6
7b. - of which services	6.8	1.0	1.7	4.4	5.1	5.0
8. Final demand	**-2.7**	**-3.8**	**-1.3**	**1.7**	**2.8**	**2.8**
9. Imports of goods and services	-5.2	-5.9	-2.1	3.8	5.5	5.2
9a. - of which goods	-6.7	-6.4	-2.0	3.7	5.6	5.3
9b. - of which services	3.1	-2.8	-2.8	4.3	4.7	4.7
10. Gross domestic product at market prices	**-1.7**	**-3.0**	**-1.0**	**0.8**	**1.8**	**1.8**
Contribution to change in GDP						
11. Final domestic demand	-5.7	-7.0	-2.9	0.3	1.6	1.6
12. Change in inventories + net acq. of valuables	-0.4	0.1	0.0	0.0	0.0	0.0
13. External balance of goods and services	4.3	3.9	1.9	0.6	0.2	0.3

Table 2: Use and supply of goods and services (value)

Annual % change	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1. Private consumption expenditure	-0.5	-3.5	-1.4	1.7	2.5	2.9
2. Government consumption expenditure	-8.1	-10.4	-0.8	-4.0	2.0	1.7
3. Gross fixed capital formation	-9.4	-11.5	-4.7	4.9	5.5	5.3
4. Final domestic demand	**-3.7**	**-6.2**	**-1.8**	**1.2**	**2.9**	**3.1**
5. Change in inventories	--	--	--	--	--	--
6. Domestic demand	**-4.1**	**-6.2**	**-1.9**	**1.1**	**2.9**	**3.1**
7. Exports of goods and services	13.3	6.4	4.2	6.6	7.0	7.0
8. Final demand	**-0.2**	**-3.0**	**-0.2**	**2.7**	**4.2**	**4.3**
9. Imports of goods and services	1.9	-3.9	-1.3	4.7	6.6	6.8
10. Gross national income at market prices	-1.4	-2.7	0.2	1.6	3.4	3.4
11. Gross value added at basic prices	-1.2	-3.6	-0.1	1.8	3.1	3.3
12. Gross domestic product at market prices	**-1.0**	**-2.7**	**0.3**	**2.0**	**3.2**	**3.3**

Table 3: Implicit price deflators

% change in implicit price deflator	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1. Private consumption expenditure	3.6	2.3	0.8	1.3	1.3	1.5
2. Government consumption expenditure	-4.4	-7.2	2.5	-2.0	1.1	1.1
3. Gross fixed capital formation	2.2	2.6	0.8	1.8	1.2	1.4
4. Domestic demand	**1.6**	**0.5**	**1.1**	**0.8**	**1.3**	**1.5**
5. Exports of goods and services	5.4	1.7	1.3	1.5	1.5	1.5
6. Final demand	**2.5**	**0.8**	**1.2**	**1.0**	**1.3**	**1.5**
7. Imports of goods and services	7.5	2.1	0.8	0.8	1.1	1.5
8. Gross domestic product at market prices	**0.7**	**0.3**	**1.3**	**1.1**	**1.4**	**1.4**
HICP	**3.6**	**2.8**	**0.8**	**1.2**	**1.3**	**1.5**

Table 4: Labour market and cost

Annual % change	2011	2012	2013	2014	2015	2016
1. Labour productivity (real GDP per employee)	-0.1	1.0	0.6	0.3	1.2	1.4
2. Compensation of employees per head	-0.8	-2.9	1.5	0.5	0.8	0.8
3. Unit labour costs	**-0.7**	**-3.9**	**1.0**	**0.1**	**-0.4**	**-0.6**
4. Total population	0.1	0.0	0.0	0.0	0.0	0.0
5. Population of working age (15-64 years)	-1.3	-1.0	-0.5	0.0	0.5	0.5
6. Total employment (fulltime equivalent)	-1.5	-3.9	-1.6	0.5	0.6	0.4
7. Calculated unemployment rate - Eurostat definition (%)	**12.9**	**15.5**	**16.4**	**15.9**	**15.3**	**14.9**

Table 5: External balance

levels, EUR bn	2011	2012	2013	2014	2015	2016
1. Exports of goods (fob)	44.7	48.3	50.6	54.0	58.0	62.2
2. Imports of goods (fob)	57.0	54.6	54.0	56.5	60.4	64.6
3. Trade balance (goods, fob/fob) (1-2)	**-12.3**	**-6.3**	**-3.4**	**-2.5**	**-2.4**	**-2.4**
3a. p.m. (3) as % of GDP	***-7.2***	***-3.8***	***-2.0***	***-1.4***	***-1.4***	***-1.3***
4. Exports of services	16.0	16.3	16.7	17.7	18.8	19.9
5. Imports of services	10.2	10.0	9.8	10.2	10.8	11.4
6. Services balance (4-5)	**5.8**	**6.3**	**7.0**	**7.4**	**8.0**	**8.5**
6a. p.m. 6 as % of GDP	***3.4***	***3.8***	***4.2***	***4.4***	***4.5***	***4.7***
7. External balance of goods & services (3+6)	**-6.5**	**0.0**	**3.5**	**5.0**	**5.6**	**6.1**
7a. p.m. 7 as % of GDP	***-3.8***	***0.0***	***2.1***	***2.9***	***3.2***	***3.4***
8. Balance of primary incomes and current transfers	-4.8	-4.5	-4.5	-5.3	-5.3	-5.3
8a. - of which, balance of primary income	*-6.3*	*-6.3*	*-6.5*	*-7.2*	*-7.1*	*-7.1*
8b. - of which, net current Transfers	*1.5*	*1.8*	*1.9*	*1.9*	*1.8*	*1.8*
8c. p.m. 8 as % of GDP	*-2.8*	*-2.7*	*-2.7*	*-3.1*	*-3.0*	*-2.9*
9. Current external balance (7+8)	**-11.3**	**-4.5**	**-1.0**	**-0.4**	**0.3**	**0.8**
9a. p.m. 9 as % of GDP	***-6.6***	***-2.7***	***-0.6***	***-0.2***	***0.1***	***0.4***
10. Net capital transactions	2.6	2.7	2.8	3.0	3.1	3.3
11. Net lending (+)/ net borrowing (-) (9+10)	**-8.7**	**-1.8**	**1.8**	**2.6**	**3.4**	**4.1**
11a. p.m. 11 as % of GDP	***-5.1***	***-1.1***	***1.1***	***1.5***	***1.9***	***2.2***

Table 6: Fiscal accounts

	2011	2012	2013	2014	2015	2016
		% of GDP				
Indirect taxes	13.7	13.9	13.7	13.7	13.8	13.9
Direct taxes	9.9	9.3	11.3	11.2	11.3	11.3
Social contributions	12.2	11.7	12.0	12.0	11.8	11.7
Sales and other current revenue	4.7	4.4	4.7	4.7	4.7	4.5
Total current revenue	**40.5**	**39.3**	**41.7**	**41.7**	**41.5**	**41.3**
Capital transfers received	4.4	1.3	0.6	0.9	0.9	0.9
Total revenue	**45.0**	**40.6**	**42.3**	**42.5**	**42.4**	**42.1**
Compensation of employees	11.4	10.0	10.3	9.7	9.5	9.3
Intermediate consumption	4.7	4.7	4.5	4.1	4.0	3.9
Social transfers in kind via market producers	4.7	4.3	4.3	4.0	3.9	3.9
Social transfers other than in kind	17.3	17.9	18.3	18.0	17.8	17.7
Interest paid	4.0	4.2	4.4	4.6	4.7	4.6
Subsidies	0.7	0.8	0.7	0.5	0.5	0.6
Other current expenditure	2.6	1.9	2.2	2.0	2.0	2.0
Total current expenditure	**45.4**	**43.7**	**44.7**	**42.9**	**42.3**	**42.0**
Gross fixed capital formation	2.6	2.0	1.8	1.7	1.6	1.5
Other capital expenditure	1.4	-0.2	0.3	0.4	0.4	0.4
Total expenditure	**49.4**	**45.6**	**46.9**	**45.0**	**44.4**	**43.9**
General Government balance (EDP)	**-4.4**	**-5.0**	**-4.5**	**-2.5**	**-2.0**	**-1.8**
		% change				
Indirect taxes	1.0	-1.5	-0.6	1.8	3.9	3.7
Direct taxes	11.7	-8.4	20.8	1.5	3.6	3.4
Social contributions	-1.0	-7.4	3.2	2.2	1.5	2.1
Sales and other current revenue	8.4	-8.0	7.0	1.9	1.8	-1.2
Total current revenue	**3.6**	**-5.7**	**6.5**	**1.8**	**2.9**	**2.6**
Capital transfers received	63.2	-71.7	-50.0	36.1	2.8	2.7
Total revenue	**7.5**	**-12.2**	**4.7**	**2.4**	**2.9**	**2.6**
Compensation of employees	-7.9	-14.2	3.5	-4.8	1.0	1.1
Intermediate consumption	-8.3	-3.3	-3.5	-6.1	1.0	-0.1
Social transfers in kind via market producers	-5.8	-11.1	0.4	-4.1	1.0	3.2
Social transfers other than in kind	1.0	0.4	2.5	0.0	2.5	2.5
Interest paid	37.7	2.6	3.3	8.0	4.0	3.1
Subsidies	0.5	10.6	-8.7	-29.9	-2.4	26.7
Other current expenditure	-10.1	-29.7	19.3	-8.0	2.2	2.5
Total current expenditure	**-1.5**	**-6.2**	**2.5**	**-2.2**	**1.9**	**2.4**
Gross fixed capital formation	-28.8	-23.3	-10.0	-5.0	-4.5	-3.0
Other capital expenditure	-31.9	-114.3	-265.0	34.7	1.8	2.8
Total expenditure	**-4.7**	**-10.2**	**3.1**	**-2.0**	**1.7**	**2.2**
Nominal GDP, EUR bn	170.9	166.3	166.8	170.0	175.5	181.2

Table 7: Government debt developments

	2011	2012	2013	2014	2015	2016
EDP deficit (% of GDP)	**-4.4**	**-5.0**	**-4.5**	**-2.5**	**-2.0**	**-1.8**
EDP gross debt (% of GDP)	108.1	120.0	122.2	122.3	120.0	117.2
			levels, EUR bn			
EDP deficit	**-7.5**	**-8.3**	**-7.5**	**-4.3**	**-3.5**	**-3.2**
Gross debt	184.7	199.7	203.8	207.9	210.6	212.4
Change in gross debt	23.2	15.0	4.1	4.2	2.7	1.8
Nominal GDP	170.9	166.3	166.8	170.0	175.5	181.2
Real GDP	164.8	169.7	171.4	170.0	167.0	164.0
Real GDP growth (% change)	**-1.7**	**-3.0**	**-1.0**	**0.8**	**1.8**	**1.8**
Change in gross debt (% of GDP)	13.6	9.0	2.5	2.4	1.5	1.0
Stock-flow adjustments (% of GDP)	9.2	4.0	-2.1	-0.1	-0.4	-0.8
			% of GDP			
Gross debt ratio	**108.1**	**120.0**	**122.2**	**122.3**	**120.0**	**117.2**
Change in gross debt ratio	14.5	12.0	2.1	0.1	-2.2	-2.8
			Contribution to change in gross debt			
Primary balance	0.4	0.8	0.2	-2.1	-2.7	-2.9
"Snow-ball" effect	4.9	7.1	4.0	2.2	0.8	0.8
of which						
Interest expenditure	*4.0*	*4.2*	*4.4*	*4.6*	*4.7*	*4.6*
Real growth effect	*1.6*	*3.2*	*1.2*	*-1.0*	*-2.1*	*-2.2*
Inflation effect	*-0.7*	*-0.4*	*-1.6*	*-1.3*	*-1.7*	*-1.7*
Stock-flow adjustments	**9.2**	**4.0**	**-2.1**	**-0.1**	**-0.4**	**-0.8**
Implicit interest rate	*4.2*	*3.8*	*3.6*	*3.9*	*3.9*	*4.0*

ANNEX 3: INDICATIVE FINANCING NEEDS AND SOURCES

Table 8. Financing needs and sources (EUR billion)

	2011 Jun-Dec	2012 Year	2013 Year	2014 Year	2011-2014 Total
Public sector deficit	**11.3**	**15.8**	**13.0**	**4.8**	**44.9**
Treasury balance [1]	7.1	8.6	6.9	4.3	26.9
Other public sector cash needs [2]	4.2	7.2	6.0	0.5	18.0
Amortization	**9.5**	**26.6**	**5.9**	**14.6**	**56.6**
Medium- and long-term debt (incl debt exchange)	4.9	16.6	5.8	14.1	41.5
Other debt [3]	4.6	10.0	0.1	0.5	15.2
Banking support, net [4]	**1.0**	**7.4**	**2.0**	**0.4**	**10.8**
Financing needs	**21.8**	**49.8**	**20.9**	**19.8**	**112.3**
Market financing	**-6.4**	**9.6**	**5.2**	**14.1**	**22.5**
Medium- and long-term debt	0.0	4.9	0.0	14.1	19.0
T-Bills, net	-6.4	4.7	5.2	0.0	3.5
Own resources [5]	**-5.7**	**12.8**	**5.6**	**-2.4**	**10.3**
EU-IMF loan	**34.0**	**27.4**	**10.1**	**8.1**	**79.5**
EFSM/EFSF	21.0	19.2	6.5	5.3	52.0
IMF [6]	13.0	8.2	3.6	2.9	27.6
Financing sources	**21.8**	**49.8**	**20.9**	**19.8**	**112.3**

SOURCE: Portuguese authorities and Commission services' estimates.

1/ Calendar-year cash basis.

2/ Includes loans to state-owned enterprises and credit concessions to general government entities, contributions to the ESM, the economic adjustment programme for Madeira and repayment of arrears.

3/ Retail, repos, ECP, flows in cash collateral accounts and debt of other government entities managed by IGCP;T-Bills not included.

4/ From 2012 includes actual banking sector needs, including use of BSSF funds and loans for capitalization of Resolution Fund; for 2011 reflects payments to BSSF.

5/ Includes privatisation receipts, use of deposits, pension fund, Social Security and CGA assets.

6/ Numbers do not add up to EUR 26 bn due to changes in EUR-SDR rate compared to beginning of programme.

Table 9: Planned quarterly disbursements (EUR billion)

Review	Period covered by disbursement	Approximate disbursement period	Loan disbursements[1]	of which IMF [2] (⅓)	of which EU (⅔)
Approval	Jun-Sept 2011	Jun 2011	**18.5**	6.1	12.4
1	Q4-2011	Sept 2011	**11.6**	4.0	7.6
2	Q1-2012	Dec 2011	**8.1**	2.8	5.3
3	Q2-2012	April 2012	**14.9**	5.2	9.7
4	Q3-2012	July 2012	**4.0**	1.4	2.6
5	Q4-2012	October 2012	**4.3**	1.5	2.8
6	Q1-2013	January 2013	**2.5**	0.9	1.6
7	Q2-2013	April 2013	**2.0**	0.7	1.3
8	Q3-2013	July 2013	**2.8**	1.0	1.8
9	Q4-2013	October 2013	**2.9**	1.0	1.9
10	Q1-2014	January 2014	**2.8**	1.0	1.8
11	Q2-2014	April 2014	**2.6**	0.9	1.7
12	Q3-2014	July 2014	**2.7**	1.0	1.8
	TOTAL		**79.5**	27.5	52.0

ANNEX 4: PROVISION OF DATA (REPORTING REQUIREMENTS)

During the Programme, the following indicators and reports shall be shared with the European Commission, the ECB and the IMF by the authorities on the agreed periodic basis. Data for past periods should also be included in subsequent transmissions in case of revision. Other indicators may also be requested to and reported by the Portuguese Authorities.

	To be provided by the Ministry of Finance (or INE)	
1.	Data on cash balances of the State Budget. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published by the Ministry of Finance (MoF). Data on tax revenue should be decomposed in gross tax revenue received and tax reimbursements paid by the State (detailed per main individual taxes)	Monthly, 3 weeks after the end of the month
2.	Data on the cash balances of the other parts of General Government (Autonomous Funds and Services, Social Security and Other entities, including Incorporated State-owned enterprises (ISOEs) 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; [Regional and Local Governments (*Administrações Regionais and Locais*); 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, as defined in paragraph 4 of the TMoU) – progressively enlarged	Monthly, as soon as the data are available and no later than 7 weeks after the end of the month
3.	Accrual data on budget execution of the National Health System (NHS)	Monthly, 3 weeks after the end of each month
4.	Consolidated cash data on the General Government budget execution initially comprising the Central Government and Social Security and enlarging progressively the scope as in indicated in the TMoU, MoU and MEFP	Monthly, 7 weeks after the end of each month
5.	Publish information on: number of general government staff on a quarterly basis (no later than 45 days after the end of the quarter); stock and flows over the relevant period per Ministry or employment entity (i.e. new hiring, retirement flows, special mobility condition flows, and exit to other government service, private sector or unemployment); average wage, allowances and bonuses. The regional and local administration will transmit the necessary information. Information on employment in SOEs (central, local and regional) and other public entities and/or bodies will also be compiled	Quarterly, no later than 30 days after the end of the quarter (as of March 2012)
6.	Consolidated account on an accrual basis of the non-financial SOEs that are classified within the Central Government	Quarterly, 90 days after the end of the quarter (as of March 2012)
7.	Data on the past and projected financing needs of SOEs, including for the major SOEs details on the financing needs for the operational balance, capital expenditure, interest payments and debt principal repayments	Monthly, 4 weeks after the end of the month
8.	Data on arrears of: • the General Government, detailed by subsector • the incorporated (SOEs) government-owned hospitals that are not part of the General Government • other non-financial SOEs that are not part of the General Government	Monthly, 7 weeks after the end of each month (as of September 2011)

9.	Information on Public-Private Partnerships (PPP) related revenue and expenditure, for those PPP reclassified within the General Government (in line with paragraph 5.2 of the TMoU)	Monthly, 30 days after the end of the each month
10.	New guarantees granted by the State to SOEs, PPPs, banks and the non-financial private sector	Monthly, 30 days after the end of each month
11.	Detailed information on called guarantees of the State	Monthly, 30 days after the end of each month
12.	Data on proceeds from asset sales by the Central, Regional and Local Government	Monthly for Central Government Quarterly for Regional and Local Government 30 days after the end of reference period
13.	Quarterly data on General Government accounts as per the relevant EU regulations on statistics, showing also the main items of the transition from cash balances to the General Government balances in national accounts	Quarterly, 90 days after the end of each quarter
	To be provided by ESAME	
14.	Report on progress with fulfilment of economic policy conditionality on a quarterly basis. In addition, a short summary report should be sent on a monthly basis	Quarterly (report), two weeks after the end of each quarter. Monthly (short summary report) two weeks after the end of each month for which a report is not due.
	To be provided by the Debt Management Office	
15.	Accrual data on interest spending of the State	Quarterly, 7 weeks after the end of the quarter
	To be provided by the Ministry of Labour	
16.	Data on labour market as follows: a. layoffs by type b. collective agreements by type and number of collective agreements that are extended by the Ministry of Labour to non-signatory firms c. number of collective agreements that regulate the use of the Bank of Hours working time arrangement d. proportion of unemployed receiving unemployment benefits e. distribution of the unemployed in terms of amount of benefits received (mean of benefits received, median, number of unemployed receiving an unemployment benefit amount equal to the IAS and number of unemployed receiving the maximum amount of unemployment benefits allowed) f. unemployment duration	Every six months, 6 weeks after the end of each semester
	To be provided by Ministry of Justice	
17.	Publishing quarterly reports on recovery rates, duration and costs of corporate insolvency cases	Quarterly, starting in 2011 Q3, within four months after the end of each quarter.

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