



CHAMBRE DES DEPUTES

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Commission des Finances et du Budget

Procès-verbal de la réunion du 18 mai 2011

ORDRE DU JOUR :

Entrevue avec Monsieur le Ministre des Finances sur le rapport du Conseil ECOFIN du 17 mai 2011 et la situation dans la zone euro

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Entrevue avec Monsieur le Ministre des Finances sur le rapport du Conseil ECOFIN du 17 mai 2011 et la situation dans la zone euro

Conformément au paragraphe 9 de l'article 22 du Règlement de la Chambre des Députés, la Commission décide de garder le secret des délibérations.

Luxembourg, le 18 mai 2011

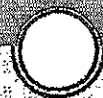
La secrétaire,
Carole Closener

Le Président,
Michel Wolter

Annexe :

Portuguese Ministry of Finance : "Economic and financial adjustment programme"

Portuguese Ministry of Finance



**ECONOMIC AND FINANCIAL ADJUSTMENT
PROGRAMME**

MAIN GUIDELINES

5 May 2011

In the context of the main challenges faced by the Portuguese economy...

- ✓ Consolidate the public finances
- ✓ Foster economic growth and correct macroeconomic imbalances
- ✓ Stabilise and strengthen the financial sector and improve the financing conditions of the economy

... the Programme is based on three pillars ...

1. Ambitious **fiscal adjustment** trajectory
2. Agenda of **structural reforms**
3. Reinforcement and dynamism of the **financial sector**

... and reflects an appropriate trade-off between the necessary adjustment to restore markets confidence and the actions to promote growth and employment, safeguarding the protection of the most vulnerable groups.

Economic and Financial Adjustment Programme

1 – Fiscal Adjustment

- **Macro scenario:**

- ✓ GDP contraction around 2% in 2011 and 2012; recovery of economic activity in 2013 onwards based on exports;
- ✓ Correction of external imbalances.

- **Fiscal targets:**

- ✓ Public Deficit (%GDP): 5.9% in 2011, 4.5% in 2012 and 3% in 2013;
- ✓ Public debt: stabilisation in 2013.

- **Fiscal consolidation strategy**

- ✓ **2011: rigorous** implementation of the 2011 State Budget and the measures announced in the SGP annual update (March 2011);
- ✓ **2012 e 2013:** measures announced in the SGP annual update (March 2011), reinforced by additional measures with a clear emphasis on the expenditure side.

Economic and Financial Adjustment Programme

1 - Fiscal Adjustment

• Emphasis on expenditure reduction

Fiscal consolidation measures in 2012 and 2013	% GDP
Reduction of expenditure	3.4
Increase of Revenue	1.7
Total impact	5.1

Expenditure reduction measures:

- Freezing of wages in the public sector and of pensions until 2013 (except for lowest pensions); promotions constraints;
- Civil servants reduction (1%/year in central administr. and 2%/year in local authorities);
- Special contribution over pensions above €1500;
- Tighter cost control on Health, Education and Defence;
- Reduce budgetary costs of health benefit schemes for government employees;
- Rationalisation in the Public Administration;
- Reduction of expenditure on social benefits with non-contributory nature;
- Costs reduction in the SOEs and Other Public Entities and Bodies;
- Reduction in transfer to local and regional governments;
- Reduction of capital expenditures.

Economic and Financial Adjustment Programme

1 - Fiscal Adjustment

Revenue increase measures: 1.7% of GDP in 2012 and 2013

- Standstill rule of all tax expenditure;
- Revision and limitation of tax benefits and deductions in terms of personal income and corporate income taxation;
- Limits to tax reductions in the regions;
- Revision of personal income taxation (PIT) of income in kind (including cash social transfers); conclusion of the convergence in the PIT regime of pensions and labour income;
- Rationalisation of VAT tax structure: reduction of exemptions and changes in the lists of goods and services;
- Review of excise taxes (tobacco, vehicles, electricity) and indexation to inflation;
- Combat to informality and tax evasion;
- Reassessment of the property values; reduction of temporary exemptions of the annual property tax (IMI); gradual rebalance of taxation on real estate (reinforcing IMI in relation to the property transfer tax -IMT).

Broad scope of application – central, regional and local administration

Economic and Financial Adjustment Programme

1 – *Fiscal Adjustment*

Ambitious and Comprehensive Privatisation Plan

- Accelerate the privatization programme previously defined;
- Transport, Energy, Communications, Insurance, among others;
- Prepare an inventory of assets owned by local and regional administration, examining the scope for privatisation.

Revenue Administration (RA): improve efficiency

- Merge tax administration (TA) services and study the merge with social security administration;
- Reduce the number of municipal offices;
- Increase in resources devoted to auditing in the TA and reinforce auditing powers of the central TA to exercise control over the whole territory;
- Address bottlenecks in the tax appeal system: integrated IT system between RA and tax courts; set up of a task force of judges to clear cases worth above 1 M€.

2 –Structural Reforms

Deepening of reforms to promote competitiveness, economic growth and employment

Economy's adjustment based on the reinforcement of the tradable sector

- Budgetary Framework and Quality of Public Finances
- SOE and PPPs
- Public Administration
- *Fiscal devaluation*
- Labour Market and Education
- Health Care
- Public Procurement
- Business Environment
- Competition: goods and services markets
- Housing Market
- Judicial System

2 – Structural Reforms

Budgetary Framework and Quality of Public Finances

Following the amendment of the Budgetary Framework Law, recently approved by the Parliament:

- Further integrate the budget process, in particular in what concerns SOEs and PPPs, and reinforce monitoring/assessment mechanisms;
- Improve transparency (additional information provided on a regular and comprehensive basis): arrears, budget execution, number of civil servants;
- Reinforce the monitoring powers of the Ministry of Finance;
- Set up the Fiscal Council.

The budgetary framework law, combined with the measures to reinforce the budgetary framework and the fiscal consolidation measures, require the adoption of the necessary changes to the regional finance law and to the local finance law .

2 –Structural reforms

State-Owned Enterprises Sector (SOEs)

- Operational costs reduction;
- Tariffs structure assessment;
- Tighter debt ceilings;
- Strength of governance;
- No additional SOEs until end of review of operations and finances of SOEs.

Public Private Partnerships and Concessions (PPP)

- Assessment of the 20 most significant;
- Assessment of the renegotiation potential of existing contracts;
- Detailed study to identify major contingent liabilities;
- Review of the legal and institutional framework for its creation and assessment;
- Commitment of avoiding engaging in any new PPP or concession before the completion of reviews and the legal and institutional reforms.

Economic and Financial Adjustment Programme

2 –Structural reforms

Public Administration Rationalisation: Improvement in the business environment at the central, local and regional level

- Reduction of management positions and administrative units; shared services ; mobility;
- Cost/benefit analysis of all public and quasi-public entities (foundations, associations and other bodies); identification of potential duplication of services;
- Reorganisation of local government administration.

Fiscal devaluation: Reducing labour costs and boost competitiveness

- Budget neutral recalibration of the tax system;
- Reduction of the social security contribution compensated by tax measures (using taxes that do not affect competitiveness) and by permanent cuts in public expenditure;
- Special attention to (i) impact of higher consumption taxes; (ii) ensure sustainability of the pensions system; (iii) changes are passed through to lower prices.

Economic and Financial Adjustment Programme

2 –Structural reforms

Foster Competitiveness, Growth and Employment

Labour Market: Employment promotion through:

- Implementation of Tripartite Agreement for Competitiveness and Employment;
- Review of unemployment benefits, changing its incentives;
- Review of employment protection legislation, fostering flexibility;
- Clarification of criteria of collective agreements extension.

Education: Facilitate labour market matching (vocational education and training); tackle early school leaving .

Health: pharmaceuticals (prices and prescription); hospitals' operational costs ; co-payments; reinforcement of means testing.

Public Procurement: review of the legal framework and reinforcement of transparency and efficiency of public spending.

Business Environment: reinforce previous measures of simplex programme, extending it to all levels of public administration .

Economic and Financial Adjustment Programme

2 – Structural reforms

Competition: goods and services markets

(energy, telecommunications, postal services, transports)

- Elimination of “golden-shares” and other special rights to the State in publicly quoted companies;
- Foster competition, namely in the energy and telecommunications sector;
- Reduction in the number of regulated professions.

Rental Market

- Promote the rental market ;
- Reduce incentives to households indebtedness;
- Foster labour mobility.



Promote the tradable
sector

Justice

- Efficiency of judicial process and restructuring of court network;
- Review of civil process/criminal process/insolvency codes;
- Sustainability and transparency of the justice budget;
- Implementation of the arbitration law for tax and debt enforcement cases.

Economic and Financial Adjustment Programme

3 – Strengthen the Financial Sector

Objectives: ensure the capacity of the banking system to continue to finance the economy.

Precautionary measures to reinforce market confidence/release of the stress tests results – backstop facility/ensure a balanced and orderly deleveraging of the economy.

- **Maintain liquidity in the banking sector:** facilitate the issuance of government guaranteed bank bonds up to EUR 35 billion, including the EUR 20 billion ceiling already in place.
- **Deleveraging:** set up clear periodic target leverage ratios and ask banks to devise institution-specific medium-term funding plans to achieve a stable market-based funding position, safeguarding the impact on the economy.
- **Capital requirements:** raising banks core Tier 1 capital ratio to 9% by end 2011 and 10% by end 2012. Backstop facility of EUR 12 billion .

Economic and Financial Adjustment Programme

3 –Strengthen the Financial Sector

- **Monitoring:** step up BdP solvency and deleveraging assessment framework for the system, quarterly updates to banks solvency needs and on-site inspections to validate banks assets data.
- **Banking Supervision:** align non-performing loans definition with international practices, intensify supervision activity by recruiting additional specialist banking supervisors. Technical assistance by IMF.
- **BPN:** bring closure to the case of BPN by launching a process to sell the bank on an accelerated schedule. As part of the program the State will take over CGD's state guaranteed claims on BPN and all related vehicles.
- **Bank resolution framework:** reinforcement of early intervention and restructuring tools to better promote financial stability and protect depositors.

3 – *Strengthen the Financial Sector*

- **Deposit Guarantee Funds:** the funds functions will be re-examined to strengthen protection of guaranteed deposits; funds will retain the ability to fund the resolution of distressed credit institutions but capped; review of the Insolvency Law to grant depositors a higher priority ranking over unsecured creditors.
- **Corporate and household debt restructuring framework:** review of the Insolvency Law and fiscal legislation to (i) introduce fast track court approval procedures for restructuring plans; (ii) implement voluntary out of court restructuring; (iii) incentivise the tax and social security administrations to opt for restructuring instead of insolvency; (iv) review tax law to remove impediments to voluntary debt restructuring; (v) promote rehabilitation of financially responsible individuals.
- **Monitoring of corporate and household indebtedness:** create a task force to prepare to deal with the challenges posed by high corporate and household sectors indebtedness.