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PROPOSAL

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	19 March 2014
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Subject:	Proposal for a COUNCIL IMPLEMENTING DECISION amending Implementing Decision 2011/344/EU on granting Union financial assistance to Portugal

Delegations will find attached document COM(2014) 185 final.

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2014/0103 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision 2011/344/EU on granting Union financial assistance to Portugal

EXPLANATORY MEMORANDUM

Upon a request by Portugal, the Council granted financial assistance to Portugal on 17 May 2011 (Council Implementing Decision 2011/344/EU) in support of a strong economic reform programme aiming at restoring confidence, enabling the return of the economy to sustainable growth, and safeguarding financial stability in Portugal, the euro area and the EU.

In line with Article 3(10) of Decision 2011/344/EU, the Commission, together with the IMF and in liaison with the ECB, has conducted the eleventh review to assess the progress on the implementation of the agreed measures as well as their effectiveness and economic and social impact.

Taking into account the recent economic, fiscal and financial developments and policy actions, the Commission considers that some changes to the economic policy conditions underpinning the assistance are necessary to secure the programme's objectives, as explained in the recitals of the proposed amendments to the Council Implementing Decision.

Article 1(2) of Decision 2011/344/EU refers to the duration of the adjustment programme, establishing that the financial assistance shall be made available during three years. This implies that the availability period of the financial assistance ends on 18 May 2014. In order to ensure a comprehensive and thorough assessment of compliance with the programme conditionality, it is essential to take the information covering the period until the end of the first quarter of 2014 into account. Therefore, the twelfth review mission under the Portuguese Programme cannot start before mid-April 2014. This means that the processes for the completion of the review and the preparation of the necessary documents would be compressed into very few weeks, with the the risk of insufficient time for the appropriate scrutiny in assessing the compliance. There would also be a risk of not meeting the end-programme deadline, in which case Portugal would lose the final disbursement. To avoid these risks, it would seem prudent that the availability period of the programme should be extended by six weeks.

It should be noted that such decision will enhance the predictability of the disbursement under the programme. At the same time, it enhances the quality of the review assessment. It is therefore considered that the changes consisting in the extension of availability period of the financial assistance are beneficial to securing the programme's objectives.

2014/0103 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision 2011/344/EU on granting Union financial assistance to Portugal

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the proposal from the European Commission,

Whereas:

(1) The Council granted financial assistance to Portugal, at the latter's request, on 17 May 2011 by means of Council Implementing Decision 2011/344/EU[2]. That financial assistance was granted in support of a strong economic and financial reform programme (the 'Programme') which aims to restore confidence, enable the return of the economy to sustainable growth, and safeguard financial stability in Portugal, the euro area and the Union.

(2) For technical reasons of data availability, which are independent from the Portuguese authorities' action, the Twelfth and Final Review under the Programme cannot start before mid-April 2014. At the same time, the availability period of the financial assistance currently ends on 18 May 2014. To allow for a full assessment of Programme compliance under the Final Review in due diligence, which is a condition for the release of the last instalment, a short extension by six weeks of the availability period of the financial assistance is a necessary formality.

(3) In line with Article 3(10) of Implementing Decision 2011/344/EU, the Commission, together with the International Monetary Fund (IMF) and in liaison with the European Central Bank (ECB), conducted, between 20 February and 28 February 2014, the Eleventh Review of the Portuguese authorities' progress on the implementation of the agreed measures under the Programme.

(4) Real gross domestic product (GDP) in 2013 performed better than projected at the Tenth Programme Review and is now estimated to have declined by 1,4% (up 0,2 percentage points). This is the result of robust positive growth in the fourth quarter of 2013 and statistical upward revisions for previous quarters. Short-run indicators point to a further strengthening of the economic recovery in the current year. On an annual basis, real GDP is estimated to move into positive territory in 2014 and to remain there in 2015, with growth of

[1] OJ L 118, 12.5.2010, p. 1.

[2] Council Implementing Decision 2011/344/EU of 17 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p. 88).

1,2% and 1,5%, respectively. The labour market outlook has improved as well, but unemployment remains high, foreseen to decline to 15,7% in 2014 and continue declining thereafter. Downside risks to the macroeconomic outlook remain, as the projected recovery crucially hinges on positive trade and financial market developments, which also depend on the broader European outlook.

(5) The general government deficit is estimated to have been reduced to around 4,5% of GDP in ESA-95 terms in 2013 (excluding bank recapitalisations, about 4,9% including them), i.e. about 1% of GDP below the target of 5,5% of GDP. The overperformance is explained mainly by better-than-expected State tax revenues (including the one-off tax and social security debt recovery scheme) and lower-than-expected expenditure at the central government level (e.g. in acquisition of goods and services and capital expenditure). By contrast, non-tax revenues were underperforming. The overall fiscal effort, measured by the improvement in the structural balance, is estimated at 1% of GDP.

(6) The stock of domestic arrears has declined by about EUR 1,2 billion (0,7% of GDP), on the back of the different debt settlement programmes (for health, local and regional sectors). Nevertheless, new arrears are still accumulating albeit at a reduced pace.

(7) The carry-over from the 2013 budget execution and the improved macroeconomic outlook for 2014 are estimated to have a positive impact of 0,7% of GDP on the baseline fiscal accounts in 2014. About 0,2% of GDP is estimated to result of the positive carry-over effect; and a further estimated 0,5% of GDP is explained by increases in revenues and social security contributions as well as lower unemployment benefit expenditures due to the upward revision of growth and employment, as well as a downward revision of the unemployment rate.

(8) The 4% of GDP deficit target for 2014 is underpinned by consolidation measures totalling 2,3% of GDP included in the 2014 budget and other supporting legislation. These measures are primarily of a permanent nature and rely predominantly on expenditure savings. Measures worth about 1,8% of GDP are drawn from the public expenditure review (PER) and are complemented by smaller-scale revenue-increasing measures worth about 0,4% of GDP as well as some one-off items of around 0,1% of GDP. The PER measures act along three main axes: (1) reduction of the public-sector wage bill by, among others measures, reducing over-employment in specific sub-sectors and a revision of the wage scale; (2) pension reform, notably by increasing the retirement age to 66 years and introducing changes to the conditions for granting survivors' pensions; and (3) sector-specific reforms mainly aimed at streamlining personnel costs, intermediate consumption and investment across line ministries. The other permanent revenue-increasing measures include increments in company cars taxation and excise duties on alcohol and tobacco. Most legislation underpinning the permanent consolidation measures has entered into force as from 1 January 2014.

(9) Given the improvement in the macroeconomic outlook and positive carry-over from 2013, risks around the achievement of the 2014 fiscal targets have become more balanced than previously as the envisaged measures cater for budgetary pressures and implementation risks. Higher pressures could especially arise for some revenue items (e.g. property income) as well as in intermediate consumption and social transfers. Moreover, beyond delays on some permanent measures, implementation risks are first and foremost of a legal nature: four measures included in the Budget Law have been sent to the Constitutional Court (including the wage scale revision and the changes to the survivors' pension entitlements) and there is a possibility that other measure in the recent Supplementary Budget will also be contested.

(10) The public debt-to-GDP ratio has reached 128,8% in 2013. Debt is forecast to gradually decline from this year on, with a projected debt ratio of 126,7% of GDP in 2014. The decline in 2014 is expected to be partly supported by the further use of cash deposits as well as the ongoing reallocation of the Social Security portfolio from foreign assets to government securities. Net debt is projected to stand at around 118,1% of GDP by end-2014.

(11) The budgetary adjustment process is flanked by a range of fiscal-structural measures to enhance control over government expenditure and improve revenue collection:

– On public financial management: the Commitment Control system is showing results by limiting the build-up of new arrears but implementation needs to be monitored closely to ensure that commitments are covered by the available funding and no new arrears are accumulated. The accumulation of new arrears is notably due to structural imbalances in some state-owned hospitals as well as in the railroad company Comboios de Portugal. Strategic plans to underpin the financial sustainability of these SOEs and arrest the accumulation of new arrears in 2014 are scheduled to be finalised by end-March. The comprehensive reform of the Budget Framework Law (BFL) is progressing. As a first step, the BFL should be amended end-March 2014 to ensure the full transposition of the Fiscal Compact and the six-pack.

– While the renegotiations of PPPs have made progress, they could not be concluded by the end of 2013 as planned. Nevertheless, savings that failed to materialise in 2013 will accumulate this year, adding to the significant savings expected for 2014 and beyond. State-owned enterprises (SOEs) reached operational balance on average in both 2012 and 2013 and additional reforms are foreseen to avoid a renewed deterioration of their results. Privatisation has made good progress and the proceeds exceed the target under the Programme.

– Reforms towards a modern compliance risk management model of the revenue administration continue. The new Risk Assessment Unit is now operational and focuses in the first place on improving compliance of certain groups of taxpayers such as the self-employed and high wealth individuals. The fight against tax fraud and evasion continues with initiatives such as the recently launched VAT lottery.

– Reforms in the public administration are being implemented with a view to modernising and rationalising public sector employment and entities. A number of key reforms in the public administration support the public expenditure review and underpin the 2014 consolidation strategy. These include: measures to address public employment and aimed at rebalancing the composition of the public sector workforce towards high-skilled and better-trained civil servants (e.g. through mutual agreement terminations and a requalification scheme); a revision of the wage scale and development of a single supplements' wage scale (expected to enter into force by end-June 2014); the compilation of the existing rules of public sector employment along the structure of the private labour code through a new general Public Administration Labour Law; and convergence of the pension system of public sector employees (CGA) to the general regime. Other recent reforms in the public administration include the implementation of the strategy of shared services in the area of financial resources in all structures to be covered by the initiative.

(12) Policy implementation and reforms in the health sector continue progressing and produce savings through increases in efficiency. The existence of an important stock of arrears is strongly (though not solely) related to the consistent underfunding of SOEs hospitals vis-à-vis their service provision. The authorities remain committed to implementing the ongoing

hospital reform and to the continued fine-tuning of the set of measures related to pharmaceuticals, centralised procurement and primary care.

(13) Further progress has been made in implementing growth and competitiveness-enhancing structural reforms. The authorities have adopted additional measures to reduce unemployment and to boost labour market effectiveness. Further improvements to the wage bargaining system and actions to reduce the highl level of segmentation in the labour market are under discussion. A draft law revising the definition of individual fair dismissals in the Labour Code has been sent to the Parliament after previous amendments were overturned by the Constitutional Court. The system of job search assistance and activation have experienced further progress.

(14) Relevant reforms in the education system have been implemented so far. The Portuguese authorities are commited to continously evaluate and supervise them. Portugal has also approved a decree law creating a short-cycle training course and another one is in the pipeline to revise and harmoinse the rules governing professional schools of reference.

(15) The Government introduced a new levy on energy operators which must be closely monitored to avoid that it is passed on to end user prices. Rent-reducing measures to eliminate the energy tariff debt by 2020 and ensure the sustainaibility of the system seem insufficient. The Government will present additional measures.

(16) Despite some positive developments over the review period, progress in transport reforms is evolving at a slower pace than expected. A clear long term vision of the transport system needs to be delivered, even though some improvement has been made with the prioritisation of infrastrucutre projects. Moreover, the legal framework of the Transport Regulator (AMT) has been finalised and it is expected to be approved in March 2014. Further policy reforms in the ports sector are necessary, in order to boost Portugal's competitiveness. As regards the railway and urban transport services, the authorities need to increase efforts to strengthen their financial sustainability, competition and efficiency.

(17) Progress on the adoption of legislative amendments to transpose the Services Directive 2006/123/EC of the European Parliament and of the Council[3] has continued albeit at a modest pace. The Construction laws, the law amending the legal regime of universities and the submission to Parliament of the amended professional bodies' bylaws following the adoption of the horizontal framework law on public professional associations have experienced further delays. Progress was observed in making the Point of Single Contact fully operational.

(18) Following the full implementation of the new legal framework, the urban lease reform is ongoing. Nonetheless, the impact of the reform needs to be continuously assessed.

(19) Following the adoption of the framework law setting the main principles of the functioning of the National Regulatory Authorities (NRAs), the bylaws of the NRAs are being amended accordingly; some of them have already been approved.

(20) Measures to improve the licensing environment and reduce the administrative burdens have advanced and an inventory of the burdensome regulations is ongoing. However, the one-in/one-out rule for new regulations, the measures for environmental and territorial planning, and the review of the geological exploration and mining licensing regimes are delayed.

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

(21) The banks' capital ratios comfortably continued to meet the European Banking Authority (EBA) regulatory capital buffers as well as the 10% Core Tier 1 Programme target. That capital buffer remains adequate across the board when using the new Capital Requirements Directive (CRD) IV rules for evaluating the banks' own funds. These new capital rules apply since January 2014 with a threshold set at 7% of Common Equity Tier 1 ratio for all banks and an add-on of 1 percentage point for the largest four banks. The system wide loan-to-deposit ratio decreased to 117,0% and is likely to decrease further until the end-of 2014.

(22) Efforts to diversify the sources of funding for the corporate sector are being continuously strengthened. The government appointed the experts for the committee that sets up a Development Financial Institution (DFI). The committee is in charge of conceiving the founding documents of the DFI, notably the by-laws, establishing the strategic business plan and devising the structure of the new entity. The DFI's aim is to streamline and centralise the implementation of financial instruments supported by the European structural and investment funds, which relate to the provision of finance for the corporate sector.

(23) The authorities agreed to prepare, in consultation with the Banco de Portugal, a strategic plan aiming at addressing the corporate debt overhang and supporting the capital reallocation towards the productive sectors of the economy, while promoting financial stability.

(24) Measures to improve the governance, efficiency and risk management practices within the National Guarantee System (NGS) which manages the government-sponsored credit lines were implemented. A new methodology to set the interest rate caps is currently being applied to guaranteed loans.

(25) In the light of these developments, Implementing Decision 2011/344/EU should be amended,

HAS ADOPTED THIS DECISION:

Article 1

Implementing Decision 2011/344/EU is hereby amended as follows:

1. In Article 1, paragraph 2 is replaced by the following:

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

2. In Article 3, paragraphs 8 and 9 are replaced by the following:

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

(a) the general government deficit shall not exceed 4% of GDP in 2014 and the accummulation of new arrears shall be halted. For the calculation of the deficit target, the possible budgetary costs of bank support measures in the context of the government's financial sector strategy shall not be taken into account. To achieve this objective, Portugal shall deliver consolidation measures worth 2,3% of GDP as defined in the 2014 Budget Law and supporting legislation adopted with this aim;

(b) to control for potential expenditure slippages, the government shall closely monitor the respect of the ministerial expenditure ceilings through monthly reporting to the Council of Ministers;

(c) Portugal shall swiftly define and implement the envisaged changes in survivors' pensions eligibility conditions as well as draft the framework law regulating the conditions for the sale of online gambling licences by mid-March. In addition, Portugal shall make decisive steps to implement the agreed sale of some port concessions;

(d) the comprehensive reform of the corporate income tax shall be implemented within the existing budgetary envelope to respect the fiscal consolidation targets;

(e) the standstill rule for tax expenditures at central, regional or local level shall be maintained. Efforts to fight tax evasion and fraud for various types of taxes shall be further strengthened, *inter alia* by the monitoring of the e-invoicing system. A study on the shadow economy in the housing market shall be carried out in the first quarter of 2014 with a view to seeking ways to reduce rental tax evasion;

(f) should adverse legal or other budgetary execution risks materialise, Portugal shall implement compensatory measures of high quality in order to meet the deficit target;

(g) the Government shall specify the measures necessary to achieve the fiscal deficit target of no more than 2,5 % of GDP in 2015. The detailed plans shall be reflected in the 2014 Fiscal Strategy Document to be published by end-April 2014, which shall also specify detailed expenditure ceilings by line ministries. In order to comply with the EU budgetary framework requirements, this document shall also provide details of the medium-term budgetary plans;

(h) the 2015 consolidation strategy shall be underpinned, among others, by the following measures: the Government shall develop a single wage scale during 2014 with a view to implementing it in 2015 and aimed at the rationalisation and consistency of remuneration policy across all careers of the public sector; the single supplements scale, expected to be implemented in 2014, shall have its full fiscal impact in 2015; a comprehensive pension reform shall be undertaken, aimed at improving the long-term sustainability of the pension system. The recently appointed Pension Reform Committee shall develop specific details of the reform. The reform shall include short-term measures further linking pension entitlements to demographic and economic criteria while also respecting progressivity principles, in line with the recent Constitutional Court ruling on the convergence of the public workers' pension regime (CGA) to the general system. The specific design of this reform shall be presented by the time of the Twelfth Review with a draft law to be submitted to Parliament in the first half of the year. Further steps ensuring the long-term sustainability of the pension systems shall be specified. In addition, the Government shall ensure that the recently increased retirement age effectively apply to CGA pensioners in 2015; other measures to reach the 2,5 percent of GDP target shall be defined before mid-April;

(i) the medium-term fiscal strategy shall build on further reforms which are, inter alia, outlined in the Proposal for the Reform of the State. These reforms shall aim at improving the efficiency of the public sector and the quality of its services**.** Building on the first round of consultations with social partners, the progress of this agenda shall be discussed at the Twelfth Review;

(j) Portugal shall publish a tax expenditure report as part of the 2014 Budget covering central, regional and local administrations;

(k) Portugal shall set up an accounting function in the Ministry of Finance to improve the public sector accounting and reporting framework by end-June 2014. As part of its tasks, it shall ensure an adequate accounting for revenues, expenses, assets and liabilities related to government bank accounts, debt, and public private partnerships;

(l) the Commitment Control Law shall be fully enforced in all public entities to arrest the creation of new arrears;

(m) Portugal shall take additional measures to further strengthen its Public Financial Management system. Portugal shall review the Budget Framework Law (BFL) to fully transpose the relevant European Union legislation by end-March. In addition, Portugal shall carry out a more comprehensive revision of the BFL to reduce budgetary fragmentation by limiting the number of budget entities and reviewing the classification of own revenues; to streamline the budget appropriation structure; to strengthen accountability; and to further anchor public finances in a medium-term framework. The key aspects and the structure of the new law shall be developed by end-April 2014. Portugal shall ensure that the measures to implement the new budgetary framework at central government level shall also be applied at regional and local level;

(n) Portugal shall fully implement the new legal and institutional PPPs framework. Renegotiations of PPPs shall proceed in various sectors in order to contain their budgetary impact. Annual reporting on PPPs shall provide a comprehensive assessment of the fiscal risks stemming from PPPs and concessions in time for the fiscal risks assessment of the budget. Following the new SOEs framework law and in line with the Ministry of Finance's enhanced shareholder role, a Technical Unit for the monitoring of SOEs shall be further staffed. The government shall continue its comprehensive restructuring programme of SOEs with a view to maintain and strengthen a sustainable operational balance. The Portuguese government shall continue with the privatisations already in the pipeline;

(o) Portugal shall continue the reform agenda towards a modern and more efficient revenue administration in line with international best practises. Portugal shall announce by March-2014 the list of 50% of local tax offices to be closed by May 2014. The number of resources devoted to auditing in the tax administration shall increase by at least 30% of the total staff by the twelfth review. A new Taxpayer Services Department, unifying various services for taxpayers, shall be created within the tax administration. The Risk Management Unit shall be fully operational in the first quarter of 2014, focusing initially on targeted projects to improve compliance of self-employed professionals and high net wealth individuals. The tax compliance situation shall be continuously monitored. The anti-money laundering legal and regulatory framework shall be strengthened to tackle more effectively money laundering and its predicate crimes, including tax crimes;

(p) Portugal shall present a report with the following objectives:

i. identifying overlaps of services and jurisdictions and other sources of inefficiencies between the central and the local levels of government; and

ii. reorganising the network of decentralised services of ministries mainly through the 'Lojas do Cidadão' (administration and utilities single points of contact) network and other approaches, encompassing more efficient geographical areas and intensifying the use of shared services and digital government;

(q) Portugal shall continue to implement a strategy of shared services in public administration, notably on human resources (GeRHuP) and ICT;

(r) Portugal shall continue implementing reforms to the management of human resources in the public administration. Based on a survey and a report on wage supplements, draft legislation for a single supplement scale shall be presented by the twelfth review with a view to its implementation by June 2014. The new general Public Administration Labour Law, simplifying and compiling the existing rules of public sector employment along the structure of the private labour code, shall be effective by March-2014;

(s) Portugal shall ensure efficiency and effectiveness in the health care system by continuing with the rational use of services and the control of expenditures including public spending on pharmaceuticals and hospital care, and eliminating arrears;

(t) Portugal shall continue the ongoing reorganisation and rationalisation of the hospital network through specialisation, concentration and redistributions of hospital services, and ensure the implementation of the multi-year action plan for hospital reorganisation;

(u) Portugal shall continue to implement measures to tackle the high levels of segmentation in the labour market;

(v) Portugal shall promote wage developments which are consistent with the objectives of fostering job creation and improving firms' competitiveness with a view to correcting macroeconomic imbalances. Over the Programme period, any increase in minimum wages shall take place only if justified by economic and labour market developments;

(w) Portugal shall continue to ensure the effectiveness of its active labour market policies in line with the results of the assessment report and the action plan to improve the functioning of the public employment services;

(x) Portugal shall continue to implement the measures set out in its action plans to improve the quality of secondary and vocational education and training and increase the business involvement in the vocational and education training system;

(y) Portugal shall implement a plan to create an independent gas and electricity logistics operator company;

(z) Portugal shall implement adequate measures to eliminate the energy tariff debt and to ensure the sustainability of the national electricity system;

(aa) Portugal shall adopt measures enhancing the functioning of the transport system; the Strategic Plan for Transport for 2011-2015 shall be fully implemented, including long term actions which ensure efficiency and sustainability;

(bb) Portugal shall continue to implement the transposition of the EU Railway Packages;

(cc) Portugal shall continue improving the governance system for ports, its economic regulation and operation;

(dd) Portugal shall continue to eliminate barriers to entry, soften existing authorisation requirements and reduce administrative burden in the services sector;

(ee) Portugal shall complete the adoption of the Construction laws and the other outstanding sectorial amendments necessary to fully implement Directive 2006/123/EC of the European Parliament and of the Council[4] and submit them to the Parliament where necessary;

(ff) the Government shall submit to the Portuguese Parliament the professional bodies' amended statutes;

(gg) Portugal shall improve the business environment by completing pending reforms on the reduction of administrative burden, in particular making the Point of Single Contact fully operational to ensure conformity with the Services directive and the Professional Qualification Directive and by carrying out further simplification of existing licensing procedures, regulations and other administrative burdens in the economy which are a major obstacle for the development of economic activities;

(hh) following the adoption of the amendments to the Law 6/2006 on new urban leases and the decree law which simplifies the administrative procedure for renovations, Portugal shall undertake a comprehensive review of the functioning of the housing market;

(ii) the Government shall approve the corresponding amendments to the bylaws of the National Regulatory Authorities and shall ensure the effective functioning of the Competition Authority financing model;

(jj) Portugal shall assess the impact of the optional VAT cash accounting regime;

(kk) Portugal shall continue implementing the comprehensive programme to tackle excessive licensing procedures, regulations and other administrative burdens in the economy.

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

(a) ensure that banks' capital buffers remain adequate and follow the new capital rules as laid down in the Capital Requirements Directive IV package (CRD IV);

(b) advise their banks to strengthen their collateral buffers on a sustainable basis;

(c) remain committed to providing further support to the banking system, if needed, encouraging banks to seek private solutions while resources from the Bank Solvency

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

Support Facility (BSSF) are available in line with the Union's-State aid rules to further support viable banks, subject to strict conditionality;

(d) ensure a balanced and orderly deleveraging of the banking sector, which is critical in permanently eliminating funding imbalances and reducing the reliance on Eurosystem funding in the medium-term. Banks funding and capital plans shall be reviewed quarterly;

(e) continue to strengthen the supervisory organisation of the Banco de Portugal (BdP), optimise its supervisory processes and develop and implement new supervisory methodologies and tools. The BdP will revise the standards on non-performing loans in order to achieve convergence with the criteria included in the relevant EBA technical standard in line with the timeframe set at the Union level;

(f) continue to monitor on a quarterly basis the banks' potential capital needs with a forward looking approach under stress conditions including through the integration of the new top-down stress testing framework into the quality assurance process, which allows for a review of the key drivers of the results;

(g) ensure implementation of the measures agreed in the restructuring plans of financial institutions having received public capital support;

(h) ensure timely disposal of the subsidiaries and the assets in all three state-owned SPVs including through the two selected service providers;

(i) analyse banks' recovery plans and issue guidelines to the system on recovery plans in line with the relevant (draft) EBA technical standards and the forthcoming Union Directive on the recovery and resolution of credit institutions, and prepare resolution plans on the basis of the reports submitted by the banks;

(j) prepare quarterly reports on the implementation of the new restructuring tools; continue to monitor the implementation of the framework for financial institutions to engage in out-of-court debt restructuring for households and smoothen the application of the framework for restructuring of corporate debt. Prepare, in consultation with the Banco de Portugal, a strategic plan aiming at addressing the corporate debt overhang and supporting the capital reallocation towards the productive sectors of the economy, while promoting financial stability;

(k) continue the monitoring of the high indebtedness of the corporate and household sectors through quarterly reports and of the implementation of the new debt restructuring framework to ensure that it is working as effectively as possible;

(l) encourage, on the basis of the proposals already made, the diversification of financing alternatives to the corporate sector, develop and implement solutions that provide financing alternatives to traditional bank credit for the corporate sector through an array of measures aiming to improve their access to the capital markets;

(m) continue to evaluate the impact of the improvements in the government-guaranteed credit instruments on actual interest rates; stand ready to pursue policy alternatives, if deemed necessary, in order to ensure that government guaranteed loans will be priced in a competitive and transparent manner in favour of end-users; regularly report on progress;

(n) establish a development financial institution (DFI) aiming at streamlining and centralising the implementation of the financial instruments supported by the European structural and investment funds for the 2014-2020 programming period. The institution shall neither accept deposits or other repayable funds from the public nor engage in direct lending, nor invest in Government debt or grant loans to the Government. The DFI's draft business model and by-laws will be designed to avoid any additional burden on or risks to public finances.’

Article 2

This Decision shall take effect on the day of its notification.

Article 3

This Decision is addressed to the Portuguese Republic.

Done at Brussels,

For the Council
The President