EUROPEAN
COMMISSION

Brussels, 2.6.2014
SWD(2014) 423 final

COMMISSION STAFF WORKING DOCUMENT

Assessment of the 2014 national reform programme and stability programme for PORTUGAL

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Portugal's 2014 national reform programme and and delivering a Council opinion on Portugal's 2014 stability programme

{COM(2014) 423 final}

CONTENTS

EXECUTIVE SUMMARY

Portugal's economic recovery is firming, with output expanding since the spring of last year, unemployment receding and the external balance improving. According to the updated macroeconomic scenario of the Macroeconomic Adjustment Programme, real GDP is forecast to grow by 1% in 2014 and 1.5% in 2015, based on a gradual recovery of domestic demand and further positive contributions from net exports. In line with output, employment started to grow from early 2013 while unemployment showed a steady decline, falling from 17.6% at the start of 2013 to 15.3% at the end of that year. Robust export performance contributed decisively to the strong improvement in Portugal's external balance, which turned into a surplus of about 0.5% of GDP in 2013 after continuous high deficits for the last 20 years. The 2013 budget deficit came in at 4.9% of GDP (4.5% excluding bank recapitalisations), significantly below the programme target of 5.5% of GDP. The 2014 budget is in line with the deficit target of 4.0% of GDP and predicated on predominantly expenditure-based measures totalling 2.1% of GDP.

Portugal successfully concluded its Macroeconomic Adjustment Programme on 17 May 2014, with the bulk of the planned consolidation and reform measures being completed. Portugal had only one country-specific recommendation in 2013, namely to adhere to the terms of the Memorandum of Understanding under the Programme. Significant fiscal consolidation has been achieved over the three-year programme period, financial stability risks have been carefully managed and the banking system's ability to extend credit to viable enterprises has been safeguarded, and major structural reforms have been implemented.

Despite these achievements, significant challenges remain in the area of budgetary, financial and structural policies.

- **Fiscal policy**. Portugal will need to engage in continuous fiscal adjustment to ensure sustainability of its public finances. The carry-over from the budgetary overperformance in 2013 and an improved economic outlook balance to some extent budgetary pressures in 2014. But non-negligible implementation and legal risks remain as various consolidation measures have been challenged on constitutional grounds. Furthermore, there are risks related to the debt management of state-owned enterprises pending further clarity on their statistical treatment under the revised rules of the new European System of Accounts 2010. For 2015, measures of around 0.8% of GDP are necessary to reach the deficit target of 2.5% of GDP, as required by the Excessive Deficit Procedure recommendation. Sustained further consolidation will be required after the correction of the excessive deficit to achieve the medium-term objective of a structural deficit of 0.5% of GDP by 2017 in compliance with the requirements of the EU fiscal governance framework; and public debt, which in European System of Accounts 95 terms is expected to stabilise at around 130.5% of GDP in 2014, will have to be brought on a sufficiently decreasing downward path towards the 60% of GDP threshold.

- **Fiscal-structural reforms.** To ensure the effectiveness of the fiscal consolidation efforts, tight expenditure restraint must be maintained at all levels of government. To this effect, the reforms of the public financial management system must be completed, in particular as regards the broader revision of the budgetary framework, the medium-term orientation of budgetary planning and risk analysis, the defragmentation of budgetary procedures and the improvement of the accounting and reporting framework. Strict enforcement of the Commitment Control Law will have to be ensured, and accountability relations strengthened. The accumulation of public-sector arrears must be stopped, including by ensuring full financial sustainability of state-owned enterprises. On the revenue side, there is still scope for making the tax-system more growth-friendly and further strengthening tax compliance.

- **Financial sector.** Financial stability has been preserved. However, weak bank profitability, high non-performing-loans ratios and elevated corporate-debt levels continue to pose challenges to bank stability. Limited access to financing, particularly for small and medium-sized enterprises remains a key impediment to growth, and work to widen the range of financing alternatives, e.g. through better access to the capital market, need to continue. A comprehensive strategy to reduce the large corporate-debt overhang needs to be implemented swiftly, including through a more efficient use of restructuring tools.

- **Labour market:** It is necessary to ensure close monitoring of the reform of the Employment Protection Legislation in tackling the high labour market segmentation. Improvements in the collective bargaining system are necessary to induce greater dynamism and make wages more flexible and responsive to economic conditions. Efforts need to continue to enhance the effectiveness of Active Labour Market Policies.

- **Poverty:** While the measures adopted in the context of the Programme have been designed with a view to minimising the impact on the most disadvantaged, Portugal's economic and financial crisis has had negative implications for poverty and inequality. The number of jobless households not covered by social benefits remains one of the highest in the EU, notably as a result of the stricter eligibility rules applied to the minimum income scheme after the reforms of 2010 and 2012.

- **Education:** Effective monitoring of the expansion of the number of schools under autonomy agreement and the measures put in place to increase the attractiveness and quality of vocational training is necessary to ensure that these reforms successfully address long-standing challenges.

- **Growth-enhancing structural reforms.** There has been substantial progress in structural reforms in recent years but there is still significant scope for additional reforms in key areas. Also, the effective implementation of adopted measures requires careful monitoring. Concerning research and innovation, cooperation between public research and business needs to be enhanced and clear priorities need to be set, taking into account the existing research strengths and the potential for the development of competitive economic activities. In the transport sector, implementation of the comprehensive long-term transport plan, integration of ports into the overall logistics and transport system and strengthening of competition in the railway and metropolitan transport sectors are required. In the energy sector, action is needed to tackle the remaining excess rents so as to reduce energy costs for the economy. The transposition of the Service Directive is yet to be completed and there is scope for further improvements in the business environment, evaluation and monitoring of the housing market reform, competition and the sectoral regulatory framework.

- **Evaluation of structural reforms.** The Portuguese government adopted a wide range of structural reforms under the Macroeconomic Adjustment Programme, but more work is needed to assess the reforms' impact on the functioning of the economy. Continued monitoring of all implemented reforms will be essential to assess if they contribute to boosting competitiveness, output and employment growth.

1. INTRODUCTION

In May 2013, the Commission proposed only one country-specific recommendation (CSR) for economic and structural reforms in Portugal. This was to implement its commitment under the EU-IMF Macroeconomic Adjustment Programme. On the basis of this recommendation, the Council of the European Union adopted this CSR in the form of a Council Recommendation. Portugal successfully completed its three-year EU-IMF-supported Programme on 17 May 2014 (Box 1).[1]

This Staff Working Document provides an assessment of the state of play regarding Portugal's implementation of the EU2020 strategy and its Fiscal Strategy for 2014-18 and assesses policy measures against the background of its achievements in the implementation of the Macroeconomic Adjustment Programme. In view of the extensive reporting requirements under Macroeconomic Adjustment Programmes and their strict monitoring and enforcement, programme countries are exempt from the obligation to submit National Reform Programmes (NRP) and Stability or Convergence Programmes (SCP) (Regulation (EU) No 472/2013, Article 10(1)). Nevertheless, Portugal submitted an updated Fiscal Strategy Document on 30 April 2014 and a letter from the Government on the update of the NRP on 1 May 2014.

In line with the provisions of Regulation (EU) No 472/2013 of the European Parliament and the Council, following the successful completion of the Programme Portugal will be fully subject to the procedures that had been suspended so far. Fiscal surveillance under the Excessive Deficit Procedure, which was embedded in the Macroeconomic Adjustment Programme, will continue. Portugal will have to submit draft budgetary plans to the European Commission starting with the budget for 2015. In addition, Portugal will be subject to post-programme surveillance until at least 75% of the financial assistance received under the Programme has been repaid.

Box 1: Implementation of the EU/IMF Macroeconomic Adjustment Programme for Portugal

The Macroeconomic Adjustment Programme for Portugal was agreed in the midst of a deep financial and fiscal crisis. Following a request by Portugal on 7 April 2011, the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) negotiated with the Portuguese authorities a Macroeconomic Adjustment Programme. The Programme's objective were to restore confidence, put public finances on a sustainable footing, safeguard financial stability and enable the economy to return to balanced growth. To this end, the Programme provided for comprehensive action on three fronts:

(1) A credible and balanced fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control over Public-Private-Partnerships and state-owned enterprises, designed to put the gross public debt-to-GDP ratio on a firm downward path in the medium term.

(2) Efforts to stabilise the financial sector through market-based mechanisms supported by back-up facilities. Relevant measures should foster gradual and orderly deleveraging of the banking sector, provision of adequate liquidity, strengthened capitalisation of banks and reinforced banking supervision.

[1] More details can be found in the reports on the state of Programme implementation which the European Commission published following each Programme review mission. These reports, along with other information related to the Financial Assistance Programme, can be found on: http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm

(3) Deep and frontloaded structural reforms to boost potential growth, create jobs, and improve competitiveness. In particular, the Programme included reforms of the labour market, the services and network industries, the judicial system, the rental market, licensing, the business environment and competition in order to strengthen the economy's growth potential, improve competitiveness and facilitate economic adjustment.

As for all Member States benefiting from a financial assistance, progress with the implementation of the accompanying policy programme was monitored in a dedicated, regular and specific manner, in line with the provisions of the Memorandum of Understanding.

The macroeconomic outlook has significantly improved over the Programme period. The labour market situation continues to improve, and the process of rebalancing from the non-tradable to the tradable sectors has started, generating a current account surplus in 2013. However, the restructuring of the economy towards an export-based growth model is not yet completed and still-elevated levels of private and public debt are likely to weigh on economic growth in the medium-term.

The fiscal policies of the Programme aimed at putting public finances on a sustainable footing. The fiscal consolidation strategy was designed to reduce the government deficit below 3% of GDP by 2015 and put the gross public debt-to-GDP ratio on a firm downward path in the medium term. Significant headway has been made in the ongoing fiscal adjustment, with the headline deficit being halved in the space of three years. The budgetary adjustment has been flanked by a range of fiscal-structural reforms to improve revenue collection and enhance control over government expenditure, including public-private-partnerships and state-owned enterprises.

The Programme envisaged substantial measures geared towards ensuring the stability of Portugal's financial sector. Financial stability has been strengthened through recapitalisation, downsizing and reorganisation of the banking sector. Work on supporting the orderly deleveraging of banks' balance sheets continues, solvency ratios at system level have increased and liquidity conditions have further eased. Significant improvements have been made to the regulatory framework and to the supervision of the banking sector. Amidst improving market sentiment towards issuers in peripheral euro-area countries, several large Portuguese banks have regained access to the international debt market. Portugal carried out a number of actions to facilitate access to finance by viable companies, particularly for small and medium-sized enterprises (SMEs).

The structural reform agenda aimed at boosting potential growth, creating jobs, and improving competitiveness. Substantial progress has been made in implementing the structural reform agenda, particularly in adopting a comprehensive labour market reform that has increased flexibility and reduced segmentation while increasing incentives to work; improving the housing market through a new urban lease law; increasing the efficiency of the judicial system; modernising the educational system; advancing the implementation of the EU Services Directive; improving public contract award practices; streamlining the licensing regime and reducing the administrative burden on businesses in general; advancing transport reform; reducing cost in the energy sector; and bringing the overall regulatory and competition framework more in line with European best practices.

These reforms have already improved Portugal's ranking in some structural reform effort comparisons, for instance those based on 'doing business indicators' calculated by the OECD or the World Bank, suggesting that Portugal has become a more flexible and attractive business location.

2. ECONOMIC SITUATION AND OUTLOOK

The economic recovery is expected to continue in 2014. According to the latest update of the macroeconomic projections underlying the Macroeconomic Adjustment Programme, the economic recovery is expected to be increasingly domestic demand-driven, in particular by private consumption and fixed investment, while net exports are forecast to continue contributing positively to growth. Real GDP growth is expected to reach 1% in 2014 (upward revised from 0.6% at the time of the 2013 Staff Working Document) and to accelerate to 1.5% in 2015, in line with the latest authorities' forecast.

The gradual rebalancing of the economy towards export-led growth is progressing steadily. Exports continued to be buoyant in 2013 ensuring gains in market shares. The share of exports of goods and services in GDP reached a new high of almost 41% in 2013, up from 28% in 2009. This was an essential factor behind the rapid turn-around of Portugal's current account from a deficit of over 12% of GDP in 2009 to a surplus of about 0.5% of GDP in 2013. The robust growth in exports has been supported by a diversification of Portugal's export markets towards fast-growing emerging economies, with their share in Portuguese exports increasing from 20% in 2001 to 25% in 2013. Going forward, exports are projected to continue their robust growth trend. In 2014, exports are expected to grow by close to 5% and then accelerate to around 6% in 2015, based on a pick-up in export markets growth and some further gains in market shares. The projected pick-up in investment will be instrumental in generating the higher capacity in the export sector which is necessary to sustain the dynamism of export growth over the medium-term.

The outlook in the labour market has improved notably. Employment has started to grow from early 2013 on and unemployment has fallen from 17.6% of the labour force to 15.3% at the end of 2013. This improvement after a long downturn in the labour market was partly driven by an increase in permanent job contracts since the second half of 2013. A further gradual decline in the unemployment rate is projected over the medium term, in line with ongoing employment gains. Rapid progress in reducing unemployment, and particularly youth unemployment, remains crucial. Youth unemployment has started to gradually come down, but progress remains slow: it reached a level of around 35% at the end of 2013, down from slightly above 40% at the beginning of that year. The percentage of young people aged 15-29 which were neither in employment nor in education or training also remained high, at 16.7% in 2013 (compared to 15.9% a year before).

Inflation fell to 0.4% in 2013, from 2.8% in 2012, but is projected to accelerate moderately over the coming years. Despite low inflation pressures at the beginning of 2014, price expectations point to some acceleration by the end of this year. This supports a forecast of a stable inflation rate around 0.4% in 2014 and a modest acceleration to 1.1% in 2015 in line with the further recovery of economic activity. Nominal unit labour costs increased by 1.1% in 2013, partly driven by the reinstatement of the 13th and 14th salary in the public sector. However, unit labour costs are expected to resume their falling trend in 2014, on the back of continued wage restraint, and to stabilise in 2015, reflecting the projected acceleration in compensation of employees. In cumulative terms, unit labour costs are estimated to have fallen by more than 6% between 2009 and 2014, contributing importantly to the improvement in Portugal's external competitiveness. Nevertheless, unit labour cost will have to fall further to reduce both high unemployment and Portugal's large negative Net International Investment Position.[2]

[2] See Box 2.5 in the Tenth Review Report of the Economic Adjustment Programme for Portugal: http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op171_en.htm

3. CHALLENGES AND ASSESSMENT OF THE POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments

The fiscal projections for 2014 and 2015 underlying the 2014 Fiscal Strategy Document (hereunder 'strategy') have been agreed with Commission, ECB and IMF Staff during the twelfth and final review of the Macroeconomic Adjustment Programme for Portugal. Therefore, all projections in the document for 2014-2015 fully correspond to the Commission projections of the twelfth Review.[3]

The strategy targets a fiscal deficit of 2.5% of GDP in 2015, thereby correcting the excessive deficit in line with the EDP recommendation of 21 June 2013. This is underpinned by detailed consolidation measures for both 2014 and 2015. However, the annual improvement of the (recalculated) structural balance planned in the strategy falls short of the recommended effort for 2014. Beyond 2015, the authorities plan to reach the medium-term budgetary objective of 0.5% of GDP by 2017, in line with the requirements of the Stability and Growth Pact.

The 2013 general government deficit reached 4.9% of GDP in ESA-95 terms (4.5% of GDP excluding the costs of bank recapitalisations), which is significantly below the programme target. This mainly reflects an overperformance of State tax collection and tight expenditure control, which more than offset the underperformance of non-tax revenue. The headline deficit improved by about 1.5% of GDP in 2013, while the deficit net of one-offs improved by about 0.5% of GDP (from 5.8% of GDP in 2012 to 5.3% in 2013). Consolidation was achieved on the back of State tax revenue and social contributions growth (by 10% and 5%, respectively). Encouragingly, in spite of continued pressure on nominal wages, personal income tax revenue rose by about EUR 3.4 billion in 2013 (2% of GDP), crucially supporting the consolidation effort. By contrast, non-tax revenue fell due to, inter alia, a lower-than-projected absorption of EU funds. On the expenditure side, restraint was achieved mainly through savings in intermediate consumption and investments. A particular challenge was the reinstatement of the 13th and 14th monthly salaries and pensions in 2013 as a result of a Constitutional Court judgment. Only a relatively small portion of the 2013 budget overperformance is expected to carry over into 2014, since part of the revenue overperformance is due to a special tax and social contributions debt-recovery scheme and other one-off factors, and some of the savings from lower investment expenditure in 2013 may have been achieved at the cost of backlogs that have to be compensated in 2014.

Box 2: Excessive deficit procedure for Portugal

Portugal is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Portugal on 2 December 2009, and recommended to correct the excessive deficit by 2013 at the latest.

The most recent Council Recommendation under Article 126(7) of the Treaty on the Functioning of the European Union was adopted on 21 June 2013. The Council acknowledged that the Portuguese authorities had taken effective action in compliance with the Council Recommendation of 2 December 2009 and that unexpected adverse economic events with major unfavourable consequences for government finances had occurred in the country. Consequently, it addressed a revised recommendation to Portugal with a view to bringing the excessive deficit situation to an end by 2015 at the latest. Specifically, to bring the general

[3] Note that the Commission 2014 spring forecast does not reflect the latest Commission fiscal forecast of the twelfth review. The assessment of the SWD is therefore based on the Commission forecast of the twelfth review.

government deficit below 3% of GDP in a credible and sustainable way, the Council recommended that Portugal:

(a) bring the headline deficit to 5.5 % of GDP in 2013, 4.0 % of GDP in 2014 and 2.5 % of GDP in 2015, consistent with an improvement in the structural balance of 0.6 % of GDP in 2013, 1.4 % of GDP in 2014 and 0.5 % of GDP in 2015;

(b) implement measures amounting to 3½ % of GDP in 2013 to limit the deficit to 5.5 % of GDP based on the measures defined in the 2013 Budget Law and additional measures included in the Supplementary Budget. These include reductions in the wage bill, increased efficiency in the functioning of the public administration, lower public consumption and better use of EU funds;

(c) building on the Public Expenditure Review, adopt permanent consolidation measures worth at least 2.0 % of GDP to attain a headline deficit of 4.0 % of GDP in 2014. This is to be accomplished by streamlining and modernising the public administration, addressing redundancies across public sector functions and entities, improving the sustainability of the pension system and achieving targeted cost savings in individual line ministries;

(d) adopt the necessary permanent consolidation measures to achieve the 2015 deficit target of 2.5 % of GDP.

In addition, the Council recommended that Portugal maintain its momentum in reforming its public financial management by revising the Budget Framework Law by the end of 2013; further strengthen budgetary procedures and principles of budgetary management, accountability, transparency and simplification; continue its work to limit contingent liabilities stemming from state-owned enterprises and public-private partnerships.

An overview of the current state of excessive deficit procedures is available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

According to the forecast underlying the 2014 Fiscal Strategy Document, the government deficit is projected to reach 4% of GDP in 2014. This projection is in line with the forecast underlying the twelfth and final review of the Macroeconomic Adjustment Programme as well as with the projection of the 2013 Fiscal Strategy Document. Fiscal adjustment in 2014 is underpinned by permanent consolidation measures amounting to 2% of GDP, complemented by one-offs with a net budgetary yield worth 0.1% of GDP; see Box 3 for a detailed list. The fiscal adjustment is predominantly based on the saving measures identified in the framework of the public expenditure review (PER), which are complemented by smaller-scale revenue-increasing measures. The PER package is estimated to encompass permanent consolidation measures worth EUR 2.8 billion (1.7% of GDP). The PER measures act along three main axes: (1) reduction of the public-sector wage bill by, inter alia, reducing over-employment in specific sub-sectors and a temporary reduction of wages; (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 streamlining personnel costs, intermediate consumption and investment across expenditure programmes and line ministries. In the education sector, the rationalisation of the school network and a convergence of the teacher/pupil ratio towards levels of other EU countries will support these goals. Hospital reform and cost optimisation contributes to savings in the healthcare sector. Among the revenue-increasing measures, the most significant items are a hike in the corporate tax rate on expenses related to company cars, higher excises for tobacco and alcohol and a special levy on energy operators. One-off revenues complementing the PER package are expected among others from sales of concessions and special dividends from the sale of excess oil reserves; the yield of these measures is estimated to slightly exceed one-off expenditures related to mutual agreement terminations of contracts.

Box 3. Main budgetary measures

Main budgetary measures 2014

FISCAL CONSOLIDATION MEASURES 2014 - AN OVERVIEW
(net yields)

REVENUES

Permanent	EUR mn	% of GDP
Public Expenditure Review (PER)-related revenues	*411*	*0.2*
ESF Funds for requalification programme	0	0.0
EU Funds top-up	-30	0.0
Contributions to ADSE, SAD and ADM	261	0.2
Other sector-specific revenue (Social Security)	230	0.1
Non-PER revenues	*555*	*0.3*
Levy on energy sector	100	0.1
Increased CIT on company cars	200	0.1
Increased excise on diesel passenger cars	50	0.0
Increased excise on tobacco and alcoholic beverages	120	0.1
Reduction of fiscal benefits of pension & real estate fund	40	0.0
Top-up contribution from financial institutions	50	0.0
Online gambling tax/fee	50	0.0
Changes to Social Security contributions from board men	5	0.0
Special levy on media spectrum	10	0.0
CIT reform impact	-70	0.0
TOTAL permanent revenues (a)	966	0.6
One-offs revenue		
CTT health fund transfer	180	0.1
EGREP special dividends from sale of oil reserves	60	0.0
PIT of upfront costs	10	
TOTAL one-off revenues (c)	250	0.1
TOTAL 2014 INCREASED REVENUES (A)	1216	0.7

EXPENDITURES

Permanent	EUR mn	% of GDP
PER: Wage bill	*626*	*0.4*
Mutual agreement termination of contracts	44	0.0
Requalification programme	8	0.0
Attrition	95	0.1
40-hour work week	18	0.0
Revision of wage scale	461	0.3
PER: Pensions	*322*	*0.2*
Extraordinary solidarity contribution	57	0.0
Increase in retirement age / sustainability factor	174	0.1
Streamlining of survivors' pensions	85	0.1
Lifelong grants for politicians	6	0.0
PER: Sector-specific measures (line ministries)	*1442*	*0.9*
TOTAL permanent expenditure cuts (b)	2390	1.4
One-offs expenditure		
Upfront costs	-278	-0.2
Marina port and real estate concession	130	0.1
Silopor concession	40	0.0
TOTAL one off expenditure (d)	-108	-0.1
TOTAL 2014 EXPENDITURE REDUCTION (B)	2282	1.4

Main measures underpinning the 2015 deficit target

FISCAL CONSOLIDATION MEASURES 2015 - AN OVERVIEW
(net yields)

REVENUES

	EUR mn	% of GDP
Horizontal	*375*	*0.2*
ESF Funds for requalification programme	50	0.0
Contributions to ADSE, SAD and ADM	75	0.0
Increase in VAT rate (by 0.25 pp)	150	0.1
Increase in Employees' Social Contribution	100	0.1
Sector-specific	*115*	*0.1*
TOTAL revenues (a)	490	0.3

EXPENDITURES

	EUR mn	% of GDP
Public Administration	*98*	*0.1*
Mutual agreement termination of contracts	48	0.0
Requalification programme	49	0.0
Attrition	140	0.1
Reinstatement of 20% of wage reduction	-139	-0.1
Pensions	*-245*	*-0.1*
Extinction of Extraordinary Solidarity Contribution	-561	-0.3
Sustainability Contribution on Pensions	316	0.2
Other measures	*366*	*0.2*
Savings on ICT costs	138	0.1
Savings in external studies/consultancy	179	0.1
Savigs from Aproximar programme	49	0.0
Sector-specific measures (line ministries)	*670*	*0.4*
TOTAL expenditure cuts (b)	889	0.5

Note: The budgetary impact in the tables is the impact reported in the programme, i.e. by the national authorities. The budgetary impact also corresponds to the impact of the measures assessed by the EC/ECB/IMF staff during the twelfth review of the Economic Adjustment Programme for Portugal. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

In spite of the substantial consolidation measures legislated for 2014, risks to the fiscal target remain tilted to the downside mainly due to legal risks, as various measures of the 2014 budget have been contested in front of the Constitutional Court. Furthermore, there are budgetary risks related to the SOEs debt management strategy recently launched by the Portuguese Government to restore the financial viability of companies with legacy-debt burden, pending further clarity on the statistical treatment of the operations under the revised rules of the European System of Accounts 2010. Should any negative risks to the budgetary target materialise, the Portuguese authorities are committed to offsetting these by high-quality measures.

Portugal remains committed to reducing the deficit to 2.5% of GDP by 2015, which, under the current macro-fiscal scenario, will require consolidation measures of about 0.8% of GDP. The 2014 Fiscal Strategy Document presents the consolidation measures on which the fiscal adjustment will advance in 2015 (for a full list of measures see Box 3). The measures consist mainly of a further restructuring and rationalisation of public services, notably across line ministries, at local level and in some transport SOEs; further reductions in public employment which will be mainly achieved through non-renewal of fixed-term contracts and a continuation of the requalification programme for civil servants; savings in ICT spending and external studies and consultancy; and a claw-back tax on pharmaceutical spending. Additional measures will be taken with a view to replacing some of the temporary measures adopted during the crisis with structural ones. In particular, in the area of pensions the temporary extraordinary solidarity contribution that has been in place for a few years will be partly replaced by structural measures aimed at improving the balance of the pension system in the medium-term. These include a progressive sustainability contribution and an equilibrium factor which links pension indexation to the economic and demographic variables driving the expenditures and revenues of the public pension system. Furthermore, the government foresees some increases in excise duties as well as minor increases in VAT and social contributions which will be fully allocated to finance public pension spending.

Looking further ahead, Portugal aims to reach the Medium-Term Objective (MTO) of a structural deficit of 0.5% of GDP by 2017. This will require sustained further efforts in line with the requirement of the Stability and Growth Pact in 2016 and 2017.

The assessment of the EDP requirements for countries under Macroeconomic Adjustment Programmes is replaced by the reviews of the Macroeconomic Adjustment Programme in line with the regulations of the Two Pack. The twelfth review of the Macroeconomic Adjustment Programme concluded that, while a number of risks remained to the achievement of the 2014 deficit target, the Portuguese authorities were complying with the Programme's objectives regarding fiscal consolidation, in particular by standing ready to implement new measures to achieve the target should any of the risks materialise in 2014 and by having defined measures of sufficient quality and quantity to underpin the achievement of the 2015 deficit objective.

Debt dynamics and fiscal sustainability

Gross public debt is expected to stabilise at around 130.5% of GDP (ESA-95 terms) in 2014 and to gradually fall thereafter. The main driving factor behind the upward revision of the public debt in 2014 compared with the eleventh review forecast is the SOE debt management operation recently launched by the Government with the aim to restore the financial viability of highly indebted SOEs. As the Treasury has accumulated substantial cash buffers, net debt is projected to remain around 122% of GDP by end-2014.

Public debt is on a firmly decreasing path under the Commission's latest long-term projections based on the 12th review macro-fiscal scenario with no policy-change as from 2016. Nevertheless, given the very high starting point, the debt-to-GDP ratio is expected to remain above pre-crisis levels for a considerable time and to fall below 100% only in the second half of the next decade. Assuming that the MTO of a structural deficit of 0.5% of GDP will be reached by 2017, as under the medium-term projections of the strategy, the public debt would be on a steeper downward path, implying that the debt-to-GDP ratio would fall below 100% in the first half of the next decade. Debt sustainability is found robust across various stress test scenarios. Still, vulnerabilities remain, in particular in the case of higher-than-projected interest rates and lower-than-projected growth.

Portugal appears to face high fiscal sustainability risks in the medium-term as measured by the medium-term sustainability gap[4]. The medium-term sustainability gap shows that reducing the debt ratio to 60% of GDP by 2030 instead of the close to 95% projected under the 12th review scenario with no policy change as from 2016, would require an overall adjustment effort of 3.0% of GDP until 2020. This high medium-term sustainability gap is primarily related to the current high level of government debt which is partially offset by the positive structural primary balances as from 2012. In the long-term, Portugal appears to face low fiscal sustainability risks as measured by the long-term sustainability gap[5], which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at -0.6% of GDP. This is primarily related to the positive structural primary balances as from 2012.

Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2005-2011. It is therefore appropriate for Portugal to continue to implement measures that reduce government debt.

The traditionally low tax burden has been increasing over the last few years. At about 37.5% of GDP (as of 2013), the ratio of government revenue to GDP is still below the EU-28 average of 40.5%, though it has increased over recent years (e.g. the cyclically adjusted revenue-to-GDP ratio increased by 3.3 percentage points between 2010 and 2013). Furthermore, relative to its per capita income, the tax burden in Portugal has moved slightly above the EU average mainly as a result of the tax measures introduced in 2013. Overall, increasing the total tax burden much above current levels could be difficult and distortionary. However, there is scope for a more growth-friendly tax structure. The implicit tax rate on capital is high compared to that of peer countries whereas revenues could be raised from less distortionary taxes. For example, despite the recent revaluation of urban properties, property taxes relative to GDP are still below the EU average and revenues from environmental taxes have actually decreased in Portugal during recent years. There is scope for improvements in environmental taxation and the recent creation of the Commission for Green Tax Reform is a

[4] See Table 1. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year until 2020 after the last year covered by the autumn 2013 forecast (year 2015) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

[5] See Table 1. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

positive initiative in this sense. Substantial progress towards a more efficient tax system has been achieved over the last years, for example through a significant reduction in tax expenditures (down from 9% of GDP in 2010 to about 5.5%, in 2014). However, specific elements of the tax system could be further reviewed. This includes the temporary surcharges on personal and corporate income tax, VAT efficiency, and the debt bias in corporate taxation. Regarding corporate taxation, there is a relevant gap between the effective marginal tax rate on debt and on equity (the 4th highest in the EU in 2012). Private sector debt – which includes debt of corporations – is high at 223.7% of GDP6. The reforms introduced during the past few years to tackle the debt bias in corporate taxation will require close monitoring.

Table 1. Medium-term and long-term sustainability gap

	Programme 12th review scenario
S2*	-0.6
of which:	
Initial budgetary position (IBP)	-0.6
Long-term cost of ageing (CoA)	0
of which:	
Pensions	-0.5
Healthcare	1.2
long-term care	0.2
Others	-0.9
S1**	3
of which:	
Initial budgetary position (IBP)	-1.5
Debt requirement (DR)	4.7
Long-term cost of ageing (CoA)	-0.4

The level of public expenditure is still high relative to countries with similar income levels. In 2013, Portugal's total public expenditure as a share of GDP (48.6%) was just slightly below the EU-28 average (49.2%), hence remedying the situation at the beginning of the Programme when public spending surpassed the EU-average by 4 percentage points. However, relative to its per capita income, public spending in Portugal is still above the EU-average; and there is scope for further reductions in expenditure in ways that will not compromise public service delivery and jeopardise equity considerations. In particular, further expenditure rationalisation could be achieved in the areas of wages and social transfers which represented 77% of primary spending in 2013. In particular, further reforms to curb the wage bill could focus on targeting permanent reductions in the number of employees in areas with excess employment (e.g. security forces). As regards social benefits, the level of social benefits other than in kind remains high relative to GDP in comparison with the Euro Area and EU average. This mainly reflects prevailing problems with the short-term affordability of the pension system as well as poorly targeted social protection expenditure as poverty and income inequality remain critical areas as also pointed out in a recent OECD study[7]. Both these issues suggest further scope for improvement. Finally, budgetary savings can still be

[6] http://ec.europa.eu/economy_finance/indicators/economic_reforms/eip/sbh/index.cfm
[7] Society at a glance 2014, OECD Social Indicators, Chapter 1, http://www.oecd.org/els/soc/OECD2014-SocietyAtAGlance2014.pdf

made by further improving the organisational efficiency and the quality of services in the public administration as well as by further restructuring public-private partnerships and state-owned enterprises.

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

- In the area of 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 mostly due to structural imbalances in some state-owned hospitals as well as in the railway company Combóios de Portugal. Strategic plans to underpin the financial sustainability of these state owned enterprises and to prevent the accumulation of new arrears in 2014 are being developed. The Budgetary Framework Law is also being reformed. The first step of the reform, ensuring the full transposition of the Fiscal Compact and the six-pack, is expected to be approved by the Parliament in May 2014. Beyond this, a broad-based reform is planned for 2014 which will include streamlining the budget appropriation structure, reducing further budget fragmentation, strengthening accountability relations and imparting a medium-term to long-term focus to public finances.

- Substantial cost-savings have been in achieved in state-owned (SOEs) enterprises which in both 2012 and 2013 reached operational balance on average. The restructuring process covers a number of areas which include (i) the optimisation and rationalisation of services and limiting operational cost through significant staff reductions; (ii) updating of tariffs; (iii) addressing high debt levels by reducing financial costs; and (iv) strengthening the balance sheet of SOEs' inside the general government perimeter by means of State loans and partial conversion of those loans into equity. In addition, a new legal framework was put in place to improve SOE's financial planning and debt management.

- Good progress was made on privatisation with proceeds exceeding the target of EUR 5 billion under the Programme and the privatisation process set to continue. Several SOEs improved their financial results ahead of the privatisation, thus reducing risks for the state budget. Higher efficiency gains, more competition and better price-quality ratios of the privatised companies induced positive spill-overs for the whole economy and ensured a better protection of consumer interests. In the process, the regulatory framework has been improved and the economic reform agenda strengthened.

- Savings from the renegotiations of public-private partnerships already materialised in 2013 and will continue in 2014. More generally, the legal framework governing PPPs has been revised and the administration's institutional capacity to manage the PPP sector increased with a view to improving operational efficiency and financial stability, while reducing the risk exposure of the public sector.

- Significant progress in reforming the revenue administration has been achieved in recent years. The agenda was ambitious and included several reforms that were largely completed: integrating tax, customs and IT services; reorganising the tax administration around taxpayers' segments (e.g. setting up a large-taxpayer unit); a massive revaluation of properties to support changes to the property tax regime; unified monthly returns on personal income tax and social security contributions; the introduction of an innovative VAT e-invoicing system that introduced mandatory invoicing and electronic transfers of invoice data, as well as tax incentives for consumers to request invoices in certain sectors. Available indicators point to a successful implementation of the measures: around 4 billion invoices were submitted to the tax administration in 2013 and notably from hard-to-tax sectors. Other reforms are progressing, although with some delays, such as the rationalisation of the tax office network, the increase in the number of auditors and the streamlining of the taxpayer dispute resolution process. Portugal needs to improve further the performance of its revenue authority, in particular tax debt collection[8], while lowering compliance costs. Scope for further reforms includes, in particular, a wider use of information from third parties (in particular financial institutions) and a strengthening of Portugal's anti-money-laundering framework. Furthermore, there are indications of substantial underreporting of income, particularly for certain categories of taxpayers, which may be the main explanatory factor for tax evasion.

- Portugal has strengthened its regional and local fiscal policy frameworks by adapting its regional and local finance laws to the principles and rules of the revised Budgetary Framework Law; strengthening fiscal accountability; limiting the possibilities for lower tax rates in autonomous regions; strengthening the central tax administration's auditing and enforcement powers; and introducing requirements for data provision to support revenue projections. As a resolution mechanism to provide assistance to municipalities in financial distress, a Municipality Support Fund is being set up and is expected to become operational by mid-2014.

- Reforms carried out since the beginning of the Programme have resulted in significant savings in the health sector, with the consolidated deficit[9] shrinking from about EUR 800 million in 2010 to EUR 126 million in 2013. Overall operating costs in 2013 remained in line with the year before, despite an increase in employee remuneration through the reinstatement of two bonus salaries. A large portion of the payment arrears that had historically been accumulated in the hospital sector have now been settled, with EUR 500 million of overdue debt remaining out of the EUR 1.9 billion in arrears at the start of the Programme. Further major efficiency measures, mostly centered on widening the scope of centralised procurement, have been implemented over the past year and should contribute to additional savings in the future. In addition, the recently agreed three-year strategic plans of state-owned enterprise hospitals are expected to deliver additional efficiency gains by further merging, restructuring and closing or redistributing hospital departments. On the revenue side, work has continued to improve the process of billing and collecting moderating fees (co-payments) and fees charged to cross-border patients. In pharmaceuticals, measures to streamline spending have led to a cost reduction of more than EUR 500 million in the outpatient sector since 2010. However, the pace of identifying incremental savings has slowed down and the 2013 target of aggregate savings in pharmaceuticals amounting to 1% of GDP has not been reached. In primary care, progress has been made in reducing the number of patients without a family doctor by creating new family care units and in extending the system of electronic medical records.

[8] The ratio of undisputed tax debt as share of net revenue collections, despite major improvements over the period 2005-2010, was still higher than 20% in 2011. OECD (2013), *Tax Administration 2013: Comparative Information on OECD and Other Advanced and Emerging Economies*. OECD Publishing, page 222.

[9] By "consolidated deficit", we refer to the balance for state-owned hospitals and Central Government healthcare spending (including transfers to these state-owned hospitals) in aggregate.

3.2. Financial sector

Financial stability risks remain controlled, but Portuguese banks suffer from weak profitability and high NPL ratios. Under the Macroeconomic Adjustment Programme, Portugal took steps to strengthen its banking sector capital ratios and its supervision and resolution frameworks. Of the top eight banks CGD, BCP, BPI and Banif continue to receive State aid and Eurosystem financing stands at about 10% of the banking system's assets. Aggregate deposits grew by about 2.5% in 2013 approaching their all-time high; deposit remuneration also continued its gradual downward trend contributing to lower funding costs for the banking system while net-interest rate income remains under pressure. Key areas of concern are the profitability of the Portuguese banks, which was extremely weak in 2013, with the top eight banks posting an aggregate loss of about EUR 1.9 billion. Asset quality deterioration is still a problem, with impairment levels remaining high at about 6% of total gross loans and non-performing loans (NPLs) at elevated levels (10.6%), in particular in the corporate segment (above 16%). However, the pace of increase in NPLs is showing signs of a slowdown, and market sentiment towards Portuguese lenders have improved notably as highlighted by the relatively strong performance of Portuguese bank equities in 2013.

Table 2: Soundness indicators of Portugal's banking sector

%	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Return on Equity (1)	6.0	8.2	7.6	7.1	6.8	6.3	4.5	2.5	-3.8	6.3	0.9	-0.3	-4.1	-3.8	-7.1	-6.7	-10.3
Gross Income on Assets	2.8	2.5	2.6	2.6	2.6	2.4	2.5	2.5	2.5	2.6	2.7	2.6	2.5	2.1	2.1	2.1	2.1
Cost to Income Ratio	56.8	57.5	57.1	57.2	57.6	59.2	58.3	59.0	61.5	56.2	53.0	56.5	58.8	67.1	68.8	69.7	71.5
Non-Performing Loans	5.1	5.4	5.4	5.8	5.2	5.5	6.4	7.3	7.7	8.3	9.5	9.8	9.7	10.3	10.4	11.1	10.6
Coverage Ratio	65.1	63.2	62.9	60.8	61.5	60.7	55.7	52.7	54.6	51.6	49.6	50.5	54.3	53.9	53.9	52.9	56.4
Capital Adequacy Ratio (2)	11.6	11.3	10.9	11.0	11.1	11.4	11.0	10.2	10.7	10.7	12.3	12.3	12.6	13.0	13.1	13.4	13.3
Core Tier 1 Ratio (3)	7.9	7.8	7.8	8.0	8.1	8.4	8.7	8.5	9.6	9.6	11.2	11.3	11.5	11.9	11.9	12.2	12.3
Loan-to-deposit ratio	161.5	163.0	166.6	158.4	157.8	156.7	149.7	146.2	140.2	136.9	136.4	133.3	127.9	124.0	122.6	120.8	117.0

(1) Income before minority interests /Average shareholders' equity before MI
(2) Excluding the banks in resolution
(3) The Core Tier 1 ratio according to Programme definition and excluding the banks in resolution

The Portuguese authorities took a number of actions to facilitate lending to viable companies, but financing conditions remain difficult, particularly for small and medium-sized enterprises (SMEs). The efforts did not substantially widen the range of financing alternatives to the corporate sector other than bank-based finance. Freshly granted loans to SMEs fell by 4.8% in 2013 compared to 2012. The average interest rates on new loans to Portuguese firms have come down by 25-50 basis points since early 2013, but remain significantly above euro area average. Nevertheless, there is significant variation by risk profile and geographical focus, with export-oriented SMEs with a good credit risk assessment receiving substantially better conditions. Against the backdrop of high corporate debt and the fact the ongoing necessary process of bank deleveraging, banks' ability to extend credit to viable firms at reasonable cost remains constrained. A comprehensive medium-term strategy will be required in a post-programme environment to resolve these constraints by ensuring that new finance will be provided to distressed but viable companies undergoing restructuring, and by enhancing the efficiency of debt restructuring tools for viable companies through the introduction of incentives for banks and debtors to engage in restructuring measures at an early stage when recovery is still possible. An enhanced role of the BdP in the oversight of debt restructuring processes may be useful as well as enforcement of legal measures to promote the recapitalisation of non-financial companies.

Payment delays by public authorities aggravate the liquidity problems of enterprises. Portugal remains one of the Member States with the longest payment delays by public authorities (133 days in 2013), well-above the EU average (65 days). This feeds negatively through on businesses’ cash-flow and can cause them to extend their overdraft facilities and borrowing.

3.3. Labour market[10], education and social policies

The employment rate had been declining since the start of the crisis but recent indicators point to a recovery in the labour market. The employment rate among 20-64 years old, which had been traditionally high in Portugal, had declined markedly since the start of the economic crisis, from 73.1% in 2008 to 65.6 % in 2013. The unemployment rate among 15-64 years old stood at 17% and the youth unemployment rate (among 15-24 years old) at 37.7% in 2013, which is 5.7 and 14.5 percentage points, respectively, higher than the EU-average. The percentage of young people currently not in education, training and employment (NEETs) under 30 years-old has been increasing since 2009 and reached 16.7% in 2013. However, the labour market situation has been improving since the first quarter of 2013.

Portugal has implemented a wide range of labour market reforms since the beginning of its Macroeconomic Adjustment Programme. With a view to fostering job creation in open-ended contracts and addressing duality, severance payments for permanent contracts have been reduced and the conditions of fair dismissals have been eased. Working time flexibility has been increased. With the aim of facilitating wage adjustment, measures have been implemented to widen the scope for bargaining at firm level. Unemployment insurance benefits have been revised to increase incentives for a rapid return to work, while guaranteeing a sufficient level of protection and enlarging its coverage. Active labour market policies have been streamlined with the aim of increasing its effectiveness in supporting employment creation, strengthening activation and offering more effective training opportunities. A reform of public employment services, with a view to increasing its efficiency, is underway. From August 2012 until end-2013, a strategic plan to fight youth unemployment - Impulso Jovem - was enacted and more than 100 000 young people were covered through measures such as professional traineeships, hiring incentives and measures to support entrepreneurship. In December 2013, the Portuguese Council of Ministers adopted the Implementation Plan for a Youth Guarantee.

Box 4: The delivery of a Youth Guarantee (YG) in Portugal[11]

The important challenges to deliver a Youth Guarantee (YG)[12] in Portugal are:

- effective coordination and engagement of different partners (across ministries, different levels of government, social partners and youth organisations);
- lack of a YG one-stop shop, which would facilitate outreach to young people and their access to the different services;
- weak early intervention and outreach measures to NEETs who are not registered with the PES;
- need to better align education and training with labour market needs through skills anticipation.

There are tentative signs that the reforms and policies carried out under the Macroeconomic Adjustment Programme are producing effects. Following the marked deterioration of the labour market situation in 2011 and 2012, employment stared increasing

[10] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.
[11] Portugal presented a Youth Guarantee Implementation Plan " in December 2013.
[12] Pursuant to the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01): "ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education".

again in the second quarter of 2013. New placements by the Public Employment Services in March this year grew by 58% year-on-year and the number of vacancies increased by 44% in the same period. Employment creation on permanent contracts is increasing. Nominal unit labour costs have been decreasing since 2010, interrupted in 2013 by the reinstatement of the 13th and 14th monthly salaries in the public sector. Unit labour costs in the private sector in 2013 declined by 1.4%.

Looking forward, ensuring a full implementation of current reforms, monitoring their effects and taking further action where needed will be key. The impact of the labour market reforms will have to be assessed against their objectives in a number of key areas: (i) the unemployment insurance system, to reduce the risk of long-term unemployment while strengthening social safety nets; (ii) employment protection legislation, to tackle labour market segmentation, foster job creation, and ease the transition of workers across occupations, firms, and sectors; (iii) working time arrangements, to manage employment fluctuations over the cycle, better accommodate differences in work patterns across sectors and firms, and enhance firms' competitiveness; (iv) the wage setting system, to promote labour cost developments consistent with job creation and enhanced competitiveness; (v) ALMPs, to ensure best practices and appropriate resources to improve the employability of young and disadvantaged workers and to ease labour market mismatches.

Further reforms in the area of employment protection and collective bargaining and further improvements to the activation system seem necessary. The revision of the employment protection legislation has so far focused on the framework governing dismissals based on redundancy and unsuitability. An independent evaluation of the effects of this reform is necessary, in particular with respect to its impact on labour market segmentation, the allocation of labour and the number of dismissals appealed to court, including their outcome. In addition, measures to foster collective bargaining and promote a more effective decentralisation of wage bargaining appear needed. Collective bargaining declined sharply since 2011. Policy options to be considered in this area include the introduction of a mutually agreed temporary opt-out from the collective agreement, when a firm is facing economic difficulties[13]. In addition, the revision of the survival of collective agreement expired but not renewed could also contribute to increase the dynamism of collective bargaining[14]. Furthermore, prudence needs to be exerted in setting the minimum wage, given the high proportion of full-time workers covered by the minimum wage (about 12%) and the relatively high minimum wage in proportion to the median wage (about 58%)[15]. It is also crucial to continue with the implementation of the planned measures to improve the job counselling/job search assistance and activation/sanction systems and to monitor the effects of the current employment incentives, training programmes as well as the implementation of the Youth Guarantee. This would help achieve the national target of 75% by 2020 which, despite the recent signs of a beginning recovery, will prove to be challenging.

[13] The Labour Code already foresees that sectoral collective agreements may define the conditions under which a firm could deviate from a collective agreement on matters regarding remuneration, working time and functional and geographical mobility. However, sectoral collective agreements have so far not made use of that possibility. As a result, firms have limited possibility of exploiting elements that would enhance their internal margin of adjustment when facing idiosyncratic shocks.

[14] The survival of collective agreements expired but not renewed is relatively long. The total survival can be longer that six years for collective agreements that contain a clause that make their expiry depend on the existence of a new collective agreement. This relatively long survival may create difficulties in the renewal of the agreements and limit the introduction of innovations in collective agreements.

[15] Data on the proportion of workers covered by the minimum wage was collected from "Boletim Estatístico, April 2014, Portugal's Ministry of Economy" and refer to April 2013. Data on the proportion of the minimum wage on the median wage were extracted from the OECD and refer to 2012.

The measures adopted in the context of the Programme have been designed with a view to protecting the most disadvantaged groups, but poverty and income inequality remain a matter of concern. Measures have been taken to fight poverty and social exclusion and the fiscal consolidation process has been implemented with a view to minimising the impact on the most disadvantaged. Salary and pension cuts have been implemented in a progressive way, ensuring the protection of lower income earners and lower pensions. Tax measures have also been designed so as to ensure that taxpayers with higher capacity bear a higher share of the burden. For example, Portugal introduced a solidarity surcharge on the personal income tax of top-income earners, higher rates on capital income and a tax on high-value properties. However, the general tax increase has been substantial[16]. In January 2013, the minimum pension was adjusted by more than the inflation rate, aiming to protect the purchasing power of those with lowest pensions. The Solidarity Complement for the elderly with low pensions was maintained, as was the minimum wage. Moreover, the temporary 10% increase in 2012 in unemployment benefits for couples where both partners are unemployed and have dependent children was maintained in 2013. The reform of ALMP under the Macroeconomic Adjustment Programme takes into account the (re)integration of vulnerable groups in the labour market. The Social Emergency Plan (adopted in August 2011) is still running. It includes several measures tackling poverty, such as the adoption of a Microcredit National Programme, enlargement of the network of social canteens, Passe Social+ supporting access to public transport for low income families and the creation of a rental social market. Social tariffs for electricity and gas as well as the Extraordinary Social Support to Energy Consumer, created in 2010 and 2011 respectively, are still in place. However, regular evaluations and reporting of the implementation of the Social Emergency Plan are missing.

Notwithstanding the efforts undertaken during the Programme to alleviate the negative social impact of the economic and financial crisis, the increase in unemployment had negative implications on poverty and inequality. The number of people at risk of poverty or social exclusion increased by 64,000 between 2011 and 2012.[17] In 2012, 25.3% of the population was at-risk-of-poverty-or-social-exclusion (0.9pps more than in 2011). The share of the population under "severe material deprivation" has increased by 0.3pps from 2011 to 2012, reaching 8.6% in 2012. In the same period, the number of people living in "low work intensity"-households saw a sharp increase by 1.8pps to 10.1%, while the inequality between the top and bottom twenty percent of the income distribution increased further and household real disposable income fell significantly (by 2.8 percent in 2012 mainly due to a drop in labour market income which was only partially compensated by increasing social transfers). Poverty is estimated to have further increased in 2013.[18] The social protection system is characterised by a high non-coverage rate of jobless poor, which at 42.3% is the 4th highest after Italy, Greece (which have no national minimum income schemes) and Bulgaria. In particular, the income threshold for eligibility of the Minimum Income Scheme (*Rendimento Social de Inserção*) has been lowered in 2010 and again in 2012[19], effectively reducing coverage especially for large families. In particular, since 2011. The income threshold for eligibility for unemployment assistance (Subsídio Social de Desemprego) has also decreased in 2010 as a consequence of a change in the equivalent scale.[20] These indicators highlight the need for sustained efforts in order to the attain the Europe 2020-target of reducing the number of people in or at risk of poverty and social exclusion by 200 000 persons by 2020.

---

[16] For instance the increase of the *Imposto sobre o Rendimento de Pessoas Singulares* (*IRS*) in 2013 raised the income tax paid by single persons by 35% (in relation to 2012).
[17] 2013 EU-SILC (EU Statistics on Income and Living Conditions) survey on 2012 income data.
[18] 2013 INE, Survey on Living Conditions and Income.
[19] Decree-Law 70/2010 and Decree-Law 133/2012.
[20] Decree-Law 70/2010.

Portugal has put in place the legal basis and a number of new monitoring tools to support an integrated reform of its education system, but effective implementation is still a challenge. The rate of early school leaving (ESL) in Portugal has dropped drastically, from 31.2% in 2009 to 19.2% in 2013[21], but still remains far above the EU average of 12%. The OECD Programme for International Student Assessment (PISA) 2012 study shows that Portuguese 15 year old pupils' performance worsened in reading, mathematics and science, and national surveys show an increase in school failure. Portugal has set up an IT based monitoring tool covering all public pre-university schools, providing data on students, teachers, schools, and indicators related to the Education and Training 2020 benchmarks, which will help to identify the early school leaving risk and link it with students' social background and academic performance. Portugal has successfully launched a new regime of school autonomy based on trust agreements that provide schools with enhanced accountability and better performance incentives. Likewise, the newly adopted schools funding formula incorporates teaching efficiency and includes a performance variable measuring quality improvements over time and assigning additional teaching hours credits accordingly. Finally, the new inspection model has been totally reformed and further professionalised with more involvement of the National Statistical Office and provisions for school support and specific follow-up action based on external evaluations. Such measures, if effectively exploited and implemented, are expected to provide a more adequate operational and institutional framework to allow a significant improvement of the quality of teaching in primary and secondary education, which would better address school failure and early school leaving. However, Portugal still needs a strategy to tackle efficiently students' difficulties identified via the monitoring tool and address recurrent social inequities related risks in this field. Stable and sustained political commitment is therefore necessary to ultimately increase the quality of education and overcome its historical deficiencies.

The vocational education and training system is undergoing a substantial reform in an effort to address early school leaving and improve labour market matching. The new flexibility between the academic and vocational education and training paths should increase vocational education attractiveness, and the new Centres for Qualification and Vocational Education should provide guidance to young pupils for their training choices. However, these measures will only serve their aim if the actual quality of vocational education and training improves and its employment perspectives are enhanced in order to avoid the identification of vocational education and training with a second chance option and aggravate the skills and social gap. Portugal has adopted a number of specific measures to enhance vocational education and better link training to labour market needs, such as increasing the amount of "on-the-job" training time, the creation of short-cycle courses for people with a technical degree organised in collaboration with local companies and focusing on concrete labour market needs, and the creation of professional schools of reference, where some companies in "strategic" sectors contribute to the training of specialised technicians.

Portugal's tertiary attainment rate is improving. It has increased from 21.1% in 2009 to 29.2% in 2013[22], although it remains far below the EU average of 36.6% and failed to proportionally boost youth employment. There is so far no clear strategy to address the skills-mismatch and lack of employability of higher education graduates, except in relation to the reform of polytechnic institutes. The academic offer is currently quite wide, yet enrolment data for 2013-2014 show that students are little interested in pursuing the higher-education options available to them.

[21] See National Reform Programme, p. 8
[22] See National Reform Programme, p. 8

Going forward, education will remain an area with significant scope for further progress. Better educational outcomes and higher average skill levels of the labour force are prerequisites for a higher growth potential.[23] Notwithstanding some progress, in particular in the area of vocational training, there is still scope for improving the organisational effectiveness and the performance of Portugal's educational system under the constraint of fiscal consolidation. Portugal would benefit from a long term skills strategy to provide stability to his education policies and better anticipate skills demands and labour market needs particularly related to higher education.

3.4. Structural measures promoting sustainable growth and competitiveness

Portugal has made substantial progress in enhancing its business environment, but the momentum needs to be maintained. Inward FDI[24], the number of firms[25] and the share of exporting businesses[26] have increased in 2012 relative to 2010. Progress has been made in transposing EU law into domestic law, in fostering better framework condition and a more entrepreneurial culture as well as in insolvency proceedings for firms in distress. A new voluntary VAT cash accounting regime was introduced in the autumn 2013, which allows SME's with a turnover of up to EUR 500 000 to pay/deduce the VAT when payments from their customers/to their providers actually take place, rather than when the invoices are issued. Going forward, full and effective implementation of the adopted measures will be critical to achieving a positive impact.

The broad set of measures aimed at reducing excessive licensing procedures, regulations and other administrative burdens for businesses is being completed. As part of the Macroeconomic Adjustment Programme, an ambitious reform agenda was developed in relation to licensing procedures, based on the overall principle of moving from an ex-ante approach, which requires prior verification and authorisation by the administration, towards a Zero-Authorisation approach with only ex-post compliance verification. Comprehensive legislative reforms based on this new principle have been completed in several key sectors, including industry, commerce and tourism. Similar reforms in the area of environmental and territorial planning as well as for mining and geological exploration licensing are expected to be adopted by June 2014. These reforms should give more management competencies to the municipal level and significantly reduce the costs and time required to obtain construction permits. The Macroeconomic Adjustment Programme also provided for various other measures aimed at improving the business-friendliness of the regulatory environment, including introducing a "one-in/one-out" rule for new regulations (adopted in late March 2014), which provides for the elimination of existing regulations with equivalent cost when creating a new regulation. The authorities plan to approve, by end-September 2014, the methodology for impact assessment of legislation which includes the "one-in/one-out" rule. Efforts are also underway to compile an inventory and cost analysis of burdensome regulations for businesses and to create of a roadmap to address them. A list of 12 administrative burdens has been identified and for six of them a total amount of nearly EUR 150 million a year has been estimated as their respective context cost of business. A further inventory will be completed by end-March 2015 covering sectors not captured so far, notably tourism, construction and agriculture. Conditional upon strict implementation, the reduction

[23] See Box 2.6 " Programme Reforms in the education sector are expected to yield positive results", The Financial Assistance Programme for Portugal, Tenth Review, p. 45

[24] FDI inflows amounted to 8.998 USD million in 2012 (4.2% of GDP) in 2012, in contrast with 2.646 USD million in 2010 (1.2% of GDP). Source: OECD.

[25] There were 379,600 businesses in Portugal in 2012, including 367,100 SMEs, up from 368.300 in 2010, including 363,800 SMEs. Source: Banco do Portugal.

[26] The share of exporting firms has increased from 16.1 per cent in 2010 to 17.9 per cent in 2012. Source: Banco do Portugal.

of excessive licensing procedures and burdensome regulations should facilitate business growth.

Various measures to support the internationalisation of businesses have been put in place. A new exporter programme was launched in September 2013 with 20 SMEs provided with training to develop products and to enter the US market. Other measures include projects aimed at promoting diplomatic and business visits with the view to facilitating business contacts. The use of venture capital to incentivise internationalisation is being promoted, but an evaluation system to systematically assess the impact of these measures is not yet in place. In addition, a streamlined online platform for requesting VAT exemptions by exporters was introduced, which has already resulted in a reduction in the average time to completion of a VAT reimbursement application from 42 days initially to 8 days as of the end of December 2013.

A more innovation-friendly business environment would introduce more dynamism into the economy. Portugal has expanded its research and innovation system over the last decade. However, it is still underperforming compared with the EU-average.[27] There is a lack of cooperation between public research and the business sector[28], and knowledge transfer and knowledge commercialisation are very weak. With the view to ensure the efficiency of the research and innovation system and to foster a transition to a more knowledge intensive economy, it is essential to set clear priorities, which take into account the existing research strengths and the potential for the development of competitive economic activities. Against this backdrop, the Portuguese government put forward the national strategy for smart specialisation (included also in the 2014-2020 Partnership Agreement), the operational competitiveness programme COMPETE and incentive schemes in dialogue with stakeholders (universities and technological centres). According to the National Reform Programme, other measures involve the establishment of the National council for entrepreneurship and science innovation (composed by members of the economy ministry and the secretary of state for youth and social society), and the SIFIDE II, a tax incentive scheme aimed at promoting R&D activities by business firms[29]. Portugal has carried out an evaluation on clustering strategy which recognized the merits of launching a cluster policy, but pointed out that there is a significant gap between the expectations and the achievements. Finally, the "Coalition for Green Growth" was launched in February 2014 in order to promote the Portuguese green economy and its internationalisation.

The impact of the urban lease law still needs to be fully assessed. A new urban lease law is now being implemented with a view to making the housing market more dynamic including by better balancing rights and obligations of landlords and tenants, introducing more flexibility in the choice of contract duration and incentivising renovation works. The impact of this reform is still limited partly because of the short time elapsed since its full implementation. More importantly, the lack of comprehensive and reliable monitoring procedures and datasets hamper the evaluation of this reform. Under the macroeconomic adjustment programme, Portugal committed to present a comprehensive study aimed at identifying any form of shadow economy in the Portuguese rental market. The information provided so far is limited and mainly relies on anecdotal evidence not underpinned by a sound methodology, reliable data and sufficient coverage. Therefore, more work is required to comprehensively evaluate the impact of the urban lease reform as well as the effects of the shadow economy in the Portuguese rental market.

[27] Cf. Innovation Union Scoreboard 2014, European Commission.
[28] Public R&D financed by business enterprise represents only 0.012% of GDP (EU: 0.052)
[29] See 2014 National Reform Programme, p. 12

Measures continue to be adopted to ensure the sustainability of the energy system and to reduce the electricity tariff debt, although these appear insufficient to eliminate the tariff debt in full by 2020 in view of the objective of limiting energy price increase. In 2013, Portugal recorded a new electricity tariff deficit of EUR 1.3 billion (leading to a EUR4 billion tariff debt), in spite of higher revenues from the increased electricity consumption in the second semester of 2013. A levy on energy producers, introduced in 2014, was targeted at closing an apparent budgetary gap rather than reducing cost inefficiencies in the system. Measures directed at consumers have resulted in a considerable increase in switching providers or tariffs between 2012 and 2013 (by over 10% in both electricity and gas markets) as well as increased consumer satisfaction with the ease of switching and the choice of providers available in both markets.[30] Another important measure is the introduction of a contribution by energy generators to address consequences of new electricity taxes in Spain. Also, a new mechanism has been introduced in the system services market to correct distortions identified by the Portuguese authorities. As regards Sines and Pego coal power plants, a new contribution applicable for seven years upon the expiry of their current framework is foreseen. The remuneration regime for public domain hydro terrains has also been modified and efforts to adjust the tariff harmonisation mechanism applicable to Madeira and Azores Autonomous Regions are underway. The authorities recently presented a third package of measures aimed at tackling remaining excess rents of energy providers, improving competitiveness as well as inclusiveness of the sector. They include, among others, a) the extension of the 2014 special levy on the energy operators to 2015 to the national electricity system, b) initiatives to increase the transparency of fuel market prices, c) legal provisions to correct the balance of the benefits under the existing long term natural gas sale and purchase agreements[31], d) the establishment of a virtual point of transactions in the natural gas network and e) amendments to widen the eligibility requirements and increase the tariff discount applicable to the most disadvantaged electricity consumers in a budgetary neutral way and without additional burden on the electricity consumers. The Portuguese electricity market has been increasingly integrated into the Iberian market since 2007. The convergence of wholesale electricity prices between Portugal and Spain, which is regarded as an indicator of market integration, increased from 40% in 2008 to 90% in 2012. Regarding the accomplishment of the pan-Iberian gas market, work needs to continue after the public consultation on the harmonisation of cross-border network tariffs between Portugal and Spain. Different models for an Iberian gas hub are being analysed and discussed with stakeholders. On cogeneration, the remuneration scheme was revised and the new reference tariffs were approved with savings exceeding projections. Nevertheless the remuneration scheme for co-generation will be further revised in line with the framework of the transposition of the energy efficiency directive. In addition to elimination of the tariff debt, further reduction of energy costs for the economy are outstanding issues in the energy sector.

Portugal reported energy savings of 16.2% in 2012 compared with 2005 in its recent update of the Europe 2020 targets. This places the country in a good position to meet the savings target of 20% by 2020, but Portugal needs to maintain a high level of ambition in its energy efficiency policy to ensure a structural decrease in energy consumption, while respecting environment. The share of renewable energy in final energy consumption has stabilised at 24½%.[32]

[30] 10th Consumer Markets Scoreboard (to be published in mid-June), http://ec.europa.eu/consumers/consumer_research

[31] The contract provides exclusivity rights to Transgas, an affiliated company of Galp Energia Group which then re-sales the natural gas

[32] See National Reform Programme, p. 8

In the transport sector, Portugal has made substantial progress in modernising its overall regulatory framework, but its integrated long-term transport plan needs to be further specified. Portugal has adopted the legal framework for its new transport regulatory authority (AMT), which replaces three former transport regulators (rail, ports and road). The implementation of the new framework needs to be closely monitored in order to ensure autonomy, independence and clout for the regulator. In addition, Portugal has published an integrated long-term plan for its transport system, with a view to prioritising infrastructure investments in a rationalised and cost-effective manner, coordinated across different transport modes and based on a well-defined long-term vision. This plan requires further improvement with respect to ensuring consistency between the overall policy goals, objectives and indicators as well as robust focus and prioritisation. Moreover, a sound transport demand analysis by sector should be included to underpin the planned investments, including traffic growth forecasts, capacity provision, economic growth and evolution prospects.

Portugal has implemented some important reforms to enhance competition and cost-effectiveness in its ports system, but there remains scope for further progress. In early 2013, a new law on port labour entered into force, which was intended to tackle key bottlenecks and significantly enhance the competitive position of Portuguese ports. This new law required re-negotiation of collective agreements in force in Portuguese ports, and together with the gradual elimination of port use fees (TUP-Carga) allowed a significant downward adjustment of port operating costs in general. In addition, Portugal started the preparation of a new package of measures further reforming ports' governance model by reviewing the distribution of responsibilities of regional authorities and reinforcing the competencies of the regulatory body. Portugal is also in the process of renegotiating port concession contracts that will prevail beyond 2020 in order to pass on a greater portion of operating cost savings to port users, to align incentives, to enhance competition and to encourage investments while achieving appropriate risk-sharing between port authorities and private-sector operators.

In railways and urban public transport, implementation of the policy agenda continues to proceed at a slow pace. Achieving operational balance of the rail infrastructure manager (REFER) by 2015 is a major medium-term railway policy objective. Some measures to this end have been effectively implemented in 2013, such as rationalisation of costs, closure of loss making lines and reduction of staff, but REFER's high debt of around EUR 7 billion remains a problem absent any clear strategy to address it. Moreover, a multi-annual contract between REFER and the Portuguese State (who actually owns the infrastructure) is still missing. REFER and road infrastructure manager EP will be merged. In addition, Portugal aims to launch the privatisation of CP Carga after the unbundling of its freight rail terminals, which would contribute to improving the governance of the company and attract more users; although a "despacho" to start the terminal unbundling was signed in April 2014 (after significant delays), the privatisation process itself is yet to start. Similarly, the introduction of competition on the commercial sub-urban railway lines (Lisbon and Porto) could create new business or investment opportunities for potential entrants, but this measure has not yet materialised either. A pilot project for the concession of the sub-urban Cascais railway line is being prepared and a public consultation on the best format and scope for this concession will start before the end of the Macroeconomic Adjustment Programme. Plans to launch new concessions for the provision of public transport services in the metropolitan areas of Lisbon and Porto have experienced long delays, but the negotiation process has now started and it appears that a significant number of bidders have expressed interest. The four concessions are now expected to be launched by end-June 2014.

Some further progress has been made in advancing the liberalisation of services and the regulated professions sector as well as in making the Point of Single Contact for entrepreneurs fully functional. Significant progress has been made in aligning sector-specific legislation with the Service Directive, with 67 out of 70 diplomas already approved by the Council of Ministers and the full set of decrees expected to be approved by the end-September 2014, including the decree on the fees for construction permits. Some changes to the higher education legislation are still required. In addition, progress has been made towards ensuring a more open access to a number of highly regulated professions. To this end, a horizontal framework law reforming professional services governed by professional associations was adopted in 2012. This was to be followed by professional associations putting forward proposals for amendment of their statutes and internal rules to bring them in conformity with the principles laid down in the horizontal framework law. Following the publication of the new legal framework, 18 professional bodies' statutes are being amended. All the bylaws are now expected to be submitted to Parliament for final approval by end-September 2014. For the Point of Single Contact (PSC), an e-government portal under the Service Directive, which allows businesses to get information and complete administrative procedures on line, a clear roadmap and work programme is in place and monthly updates on added content and procedures have been provided. The "Zero Authorisation" project, aimed at facilitating the establishment of small retail businesses by replacing authorisations with a declaration on the PSC, was brought to a completion by the fall of 2013. Work is ongoing in order to further adapt the content of the PSC to the Professional Qualifications Directive and to complete the operational deliverables needed to ensure conformity with the Services Directive. There is also some scope for further improvements of the usability and user-friendliness of the PSC platform which is under work with a roadmap running until October 2014. The authorities are committed to ensure the point of single contact is fully functional and regularly updated by end-October 2014.

Structural reforms can lead to substantial gains in potential output and employment. Structural reforms can lead to substantial gains in potential output and employment in Portugal (see Box 5). The government has already adopted a range of challenging structural reforms. The effective implementation of these reforms is crucial to rebalance the economy and boost its growth potential. To this end, the framework for implementation must be reinforced, while progress in implementation must be continuously evaluated to ensure that reforms deliver the desired results. Further reforms should focus on increasing competition and flexibility in product and labour markets so as to facilitate the reallocation of resources from the non-tradable to the tradable sector.

Box 5: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition in the economy or the tax burden on labour. Improvements on these indicators could raise Portugal's GDP by 4½% in a 10-year period. Some of the reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis in Sections 3.3 and 3.4, according to which the largest potential gains could likely be reaped from reducing final goods markups (e.g. through increased competition on product markets), measures shifting the tax burden away from labour towards consumption and by reinforcing the resources and effectiveness of active labour market policies. In the very long run, moreover, improving education could also have a strong impact on GDP, yielding a potential benefit of 17.8% over a 50-year horizon (see note).

Table: Structural indicators, targets, and potential GDP effects[33]

Reform areas		PT	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.23	0.13	2.3	3.2
Market regulation	Entry costs	2.30	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	18.0	28.6	0.3	0.5
Skill enhancing reforms*	Share of high-skilled	4.1	10.7	0.0	0.1
	Share of low-skilled	62.4	7.5	0.0	0.3
Labour market reforms	Female non-participation rate (25-54ys):			0.0	0.0
	- low-skilled	22.4	26.4		
	- medium-skilled	8.7	10.5		
	- high-skilled	4.6	4.3		
	Low-skilled male non-participation rate (25-54ys)	9.3	7.7	0.1	0.1
	Elderly non-participation rate (55-64ys):			0.0	0.0
	- low-skilled	13.8	13.4		
	- medium-skilled	4.0	4.8		
	- high-skilled	4.6	3.3		
	ALMP (% of GDP over unemployment share)	6.9	37.4	0.4	0.4
	Benefit replacement rate**	52.3	52.6	0.0	0.0
Total				3.2	4.7

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[34] *The long-run effect of increasing the share of high-skilled labour in the population could be 3.3% of GDP and of decreasing the share of low-skilled labour could be 14.5%. **EU average is set as the benchmark.

3.5. Modernising of public administration

Portugal is making substantial progress in rationalising and modernising central, regional and local public administration. A comprehensive database (Information System on the Organisation of the State - SIOE) was created in 2011, which shows that at the end of 2013 employment in the public administration was about 8% lower than at the end of 2011, exceeding the Macroeconomic Adjustment Programme target of an employment reduction of 2% per annum. To further address the size of workforce, programmes have been implemented for mutually agreed termination of contracts for operation and technical assistants, teachers and higher-qualified employees in targeted sectors. In addition, a public sector employee requalification programme was launched to facilitate a shift towards better-trained civil servants. Regarding remuneration policies, promotions and wage increases in the public administration were suspended in 2011 and temporary wage cuts introduced in the budgets. The single wage scale, to be prepared in 2014, will aim, inter alia, at correcting the misalignment of public sector wages (especially at the bottom of the wage scale) as compared to those in the private sector.[35] A revision of wage supplements is underway, with a view to reducing their number, establishing fixed amounts, and rationalising them along broader

[33] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

[34] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

[35] Mercer: *Análise comparativa das remunerações praticadas no sector público e no sector privado – relatório final*, February 2013.

categories. Steps have been taken to improve the self-financing of the public sector health insurance sub-systems and to align the rules for public sector pensions (CGA) with those in the general social security system. Less visibly, fringe benefits in the different administrations and services were reduced. Regarding working conditions, the new General Public Administration Labour Law, expected to enter into force in mid-2014, simplifies and compiles the existing rules of public sector employment along the lines of the private labour code. Important subsets of this legislation are already in force (e.g. the 40 hours working week and requalification scheme), but it includes other substantial elements such as the reduction of the number of days of annual leave, compensation for overtime work and the option of a bank of hours. To improve the organisational efficiency and the quality of services, efforts were made to reduce the number of management positions and administrative units. Furthermore, the public financial support to foundations was reduced, strategies of shared services in the areas of financial resources, human resources and ICT were implemented, and a network of Citizen Rooms ('*Espaços do Cidadão*') is being created within existing public services at local level and will help citizens to use online public services through IT infrastructure and advice.

The reform of public administration should be complemented by a comprehensive national anti-corruption strategy. According the 2013 Eurobarometer survey, corruption is perceived to be a widespread problem and an obstacle for doing business in Portugal[36]. In general, public procurement, in particular public-private partnership and urban developments are the sectors most vulnerable to corruption. The legal framework for public procurement in Portugal provides for guarantees of transparency, non-discrimination and fair competition. Amendments to the public procurement code were adopted in July 2012 and aim to improve public contract award practices and ensuring a more transparent and competitive business environment, and in the same year the Court of Auditors' powers in this area were strengthened. Regarding, public-private partnerships (PPP), in early 2012 a technical unit for project monitoring was set up in the Ministry of Finance and rules were established to limit the financial impact of the decisions of contracting authorities entering into a PPP or managing it. As regards urban planning, a study coordinated by the Departamento Central de Investigação de Acção Penal (DCIAP) found that out of 838 court cases on corruption analysed in the period 2004-2008 345 involved local government authorities and municipal enterprises and were related to urban development, commercial licensing and public procurement. While the number of investigations has increased, very few mayors or councillors have been convicted through final court decisions. Overall, despite various initiatives taken over the last decade to address corruption, including the adoption of new legislation, there is no comprehensive national anti-corruption strategy in place. According to the Commission's EU Anti-Corruption Report of February 2014, attention should be given in particular to a further strengthening of (i) law enforcement, prosecution and the judiciary in order to set a track record of successful prosecution of corruption allegations; (ii) preventive action on party funding; (iii) transparency and ex ante and ex post verification of public procurement procedures; and (iv) control systems in urban planning decisions.

[36] In that survey, 90% of Portuguese respondents stated that corruption is a widespread problem in their country (EU average: 76%), while 72% believed it had become worse over the past three years. 36% of Portuguese respondents say that they are personally affected by corruption in their daily life (EU average: 26%). Around 68% of businesses in Portugal (the second highest percentage in the EU) see corruption as an obstacle for doing business in their country (EU average: 43%). 87% of respondents to the same survey said that favouritism and corruption hamper business competition (EU average: 73%), while 79% stated that bribery and the use of connections is often the easiest way to obtain certain public services (EU average: 69%) and 76% (highest percentage in the EU) that the only way to succeed in business is through political connections (EU average: 47%).

Portugal has continued to adopt legislation to strengthen the role of key regulators and to foster competition but the Competition Authority's financing model and advocacy capacity need to be strengthened. A new framework law was submitted to Parliament and published in August 2013 setting out the main principles of the functioning of the principal National Regulatory Authorities (NRAs)[37] and the Competition Authority. This is an important milestone in empowering the different NRAs (regulators of insurance and pension institutions, securities markets, energy, communications, aviation, transport, health and water and waste services) as well as the Competition Authority with strong independence and autonomy. This is a major prerequisite for the efficient functioning of the sectors involved and an effective way to enforce competition rules in the economy. Following the adoption of this new framework law, most of the relevant bylaws have been revised and approved. Four bylaws concerning the Securities Market Commission (CMVM), the Insurance Regulator (ISP), the Communications Regulator (ANACOM) and the Civil Aviation Authority (ANAC) *diploma*, are expected to be approved by June 2014. Only the Competition Authority bylaws are still pending on the definition of the Authority's financing model for 2015 and beyond, including the respective contributions to be transferred from the different sectorial regulators to the Authority. This will address the problem of annual executive orders to provide funding for the Authority on a one-off basis for each calendar year. However, in order to guarantee the exercise of the Portuguese Competition Authority's duties, additional measures are necessary to ensure the effective functioning of its financing model after 2015, leaving room to accommodate medium-term growth needs. Beyond that, further efforts are necessary to foster competition advocacy capacity to remove the regulatory frameworks that have a negative impact on competition and to enhance innovation and dynamic competition.

Portugal's agenda for reforming the judicial system under the Macroeconomic Adjustment Programme was implemented ahead of schedule, but the 2014 EU Justice Scoreboard shows that there is still significant scope for improvement. The new Code of Civil Procedure, which aims to expedite the court process in commercial and civil litigation, became effective in September 2013. Among its key provisions are a limit on the number of witnesses that each party can call in civil cases and tight new restrictions that make it harder to delay hearing dates. Implementation was supported by an extensive team of IT specialists and a task force of legal experts who provided rapid answers and training on the new procedures. The code has been well-received by stakeholders and has begun to yield positive results. The new Judicial Organization Act, which aims to enhance the efficiency and professionalism of court management, was approved in June 2013 and is on course of full implementation by autumn 2014. This major reform includes the closure of 54 courts, enlargement of courts' territorial jurisdiction to align them with administrative districts, the creation of court clusters to allow for greater economies of scale and professional specialisation, more flexible allocation of staff resources to areas where bottlenecks emerge, and the introduction of a national system of workload measurement and performance targets. This constitutes a significant change in the organisation and management of the judiciary, with a greater focus on performance accountability and service delivery, bringing Portugal in line with best practices elsewhere in Europe. Bi-annual central management plan and annual management plans for each court should play a key role together with the reports on meeting those targets. The results of adding managerial functions to the duties of court presidents and administrative directors should be closely monitored. An audit of all pending debt-enforcement cases identified at start of the programme was carried out, with all backlogged and inactive cases now closed. Better management and the application of new legislation to close dormant cases enabled Portuguese courts to secure a clearance rate above 100% for enforcement cases in 2013. Enforcement proceedings have also been improved by the

[37] With the notable exception of Banco de Portugal, the banking sector supervisor.

adoption of legislation that enables a creditor to verify whether a debtor has assets before taking them to the court. In addition, new legislation has been adopted to further reinforce oversight, strengthen professional requirements, and increase reporting duties of and competition between debt enforcement agents. Together with a new fee structure that incentivises speedy enforcement, this new legal regime should substantially improve the efficiency of the enforcement profession and speed up resolution of long-pending cases. The promotion of civil and commercial alternative dispute resolution ADR is in line with out-of-court mechanisms envisaged in other areas, i.e. in the field of companies' and debts' restructuring (PER and SIREVE). The outcome of the implementation of these regimes should be monitored and evaluated on an annual basis. Permanent cooperation between the Ministry of Justice, Ministry of Economy, Ministry of Finance, Tax Office and Social Security Administration should be ensured to increase the success ratio of the mechanisms set up to restructure companies.

The special task forces of judges assigned to tribunals in Lisbon and Porto played a significant role improving tax courts' efficiency in cases involving over EUR 1 million. While the number of filed cases decreased, the percentage of cases won by the tax office increased. The number of pending cases in the courts of first instance decreased, although the number of appeals increased. Since the special task forces are no longer in place, a permanent solution is needed to handle this category of taxes in a systematic way. In this context, providing adequate technical support to judges dealing with tax cases would prove beneficial. Modernising Administrative and Tax Tribunals' IT system should become a priority to provide the public with reliable set of statistics on the functioning of these courts. The Tax and Administrative Tribunals' annual work programme and performance targets, and their link to the CITIUS portal is key. A system to monitor the efficiency of insolvency courts should be set up and resources should be made available if needed.

Despite the significant progress made under the Macroeconomic Adjustment Programme, further efforts appear to be necessary to achieve predictable, timely and enforceable justice decisions and consequently create an attractive business environment. According to the 2014 EU Justice Scoreboard, Portugal still shows significant scope for improvement. Measures should be put in place to improve Portugal's performance in the main efficiency indicators (length of proceedings, clearance rate, and number of pending cases) as well as to improve monitoring and the evaluation process. The recruitment of a new insolvency administration should be finalised and an assessment of the bottlenecks in the system should be carried out, including on the workload of insolvency courts.

A comprehensive system of evaluating structural reforms is missing. Under the Programme, the Portuguese government has adopted a wide range of structural reforms, but the evidence of their impact on the functioning of the economy is still thin. Setting up a central evaluation unit at government level or adding ex ante and ex post assessments to the legislative process would enable measuring the impact of adopted measures and could provide invaluable inputs for designing forthcoming reforms. Furthermore, more efforts could be placed on strengthening the dialogue and consultation with key stakeholders at an early stage in the regulatory process, as well as on carrying out comprehensive ex ante evaluations of proposed measures. In this respect, Portugal is setting up an Inter-ministerial Network for Administrative Modernization (RIMA) which is planned to be operational by Q3 2014. However, the scope of this network remains limited and will focus on promoting regulatory simplification and enhancing ex-ante assessment methodologies.

4. Conclusions

Portugal's economic performance continues to be negatively affected by high levels of public and private debt. Gross public debt stood at 129% of GDP in 2013 and further fiscal consolidation is required beyond the Programme horizon to bring the public debt-to-GDP ratio on a downward path and ensure a reduction of the budget deficit to 2.5% of GDP by 2015. The financial sector remains vulnerable with weak profitability and continued deterioration of asset quality. SMEs' access to credit remains limited. Very high levels of unemployment and of corporate indebtedness have a negative impact on investments and continue to undermine the growth potential. Continued structural reforms are needed to ensure the switch from the non-tradable sector to the tradable sector. Existing bottlenecks, in particular in network industries, services and regulated professions prevent Portuguese companies from competing in international markets. Further work needs to be done to make the Portuguese public administration more efficient and business-friendly with a view to reducing the cost of doing business.

Portugal has addressed its sole country specific recommendation for 2013, namely to continue the implementation of the Macroeconomic Adjustment Programme. Portugal has made significant progress towards meeting the programme's objectives of ensuring fiscal sustainability, safeguarding financial stability and enhancing competitiveness and growth. Despite a strong track record in implementation, challenges highlighted under the Programme and the National Reform Programme still remain.

A strong commitment to continued fiscal consolidation and structural reform remains necessary in the post-Programme period to ensure sustainable public finances and long-term economic growth. Although a major structural fiscal adjustment has been achieved over the past three years, compliance with the new European Union fiscal governance framework will require further consolidation, including through additional streamlining of public administration and a continued commitment to fight tax evasion. Addressing the sustainability of public finances will also require strengthening the public financial management, by further reforming the Budget Framework Law and stricter control of the Commitment Control system; further work in the state-owned enterprise sector, including a strategy for dealing with legacy debts; potential further privatisations; and achievement of additional efficiency gains, particularly in the healthcare sector. In Portugal's financial sector, bank profitability and deterioration of asset quality remain areas of concern, and a comprehensive strategy appears necessary to address the debt overhang of Portuguese enterprises and to help ensure access to credit for viable companies. In addition, there is still significant scope for further growth-enhancing structural reforms. Additional labour market reforms remain critical to reducing counterproductive employment protection, to enhance the collective bargaining process, and to improve the impact of active labour market policies. Additional efforts to fight poverty and social exclusion are needed. In the energy sector, long-run sustainability, elimination of the electricity tariff debt, and reduction of costs of services and excess rents remain unresolved issues that will require continued attention in the medium-term. In the transport sector, significant parts of the policy agenda, especially in the railways and ports sector, remain to be implemented. In relation to Portugal's new regulatory and competition framework, it will be important to monitor implementation of the new legislation to ensure that the new regulatory authorities are adequately funded and staffed and are able to operate with the envisaged level of autonomy and independence. In education, there is scope for further work to improve labour-market matching of training programs and to increase tertiary attainment. Monitoring the impact and implementation of current reforms will also remain essential.

OVERVIEW TABLE

Europe 2020 (national targets and progress)	
Employment rate target (20-64 years old): 75%	The employment rate, which had been traditionally high in Portugal, has declined markedly since the start of the economic crisis, from 73.1% in 2008 to 65.6 % in 2013. Despite the recent labour market reforms aiming at fostering employment creation, the achievement of the national target of 75% by 2020 still proves challenging.
R&D target: 2.7-3.3% of GDP	Between 2000 and 2009, Portugal strongly expanded its research and innovation system: its R&D intensity more than doubled (from 0.73% to 1.64%). However, since 2009, R&D intensity decreased (down to 1.5% in 2012 and in 2013, although the latter is still based on provisional data), mainly due to a decline in business R&D expenditure. At 0.7%, business R&D intensity is only about half of EU average. As a result Portugal remains also well below the EU average in terms of innovation performance. The structure of the economy, with a high share of low and medium tech production also results in a low contribution of medium/high-tech goods to the trade balance and a low share of employment in knowledge intensive activities. Also Portugal performs low as regards the employment in fast-growing innovative firms as a % of total employment in fast-growing firms. With the view to ensure the efficiency of the research and innovation system and to foster a transition to a more knowledge-intensive economy, it is essential to setting clear priorities, which take into account the existing research strengths and the potential for the development of competitive economic activities New initiatives such as the System of Tax Incentives for Companies Investment in R&D (SIFIDE), the increasing role of the Innovation Agency (AdI), the SWOT analysis of the country R&D system, the Program of Applied Research and Techno Transfer to Companies, or the reorientation of the cluster policy aim to support adequately the structural change needed by the country to improve its productivity and competitiveness.
Greenhouse gas (GHG) emissions target:	The percentage of greenhouse gases (% change compared to 2005 emissions in non-ETS) in 2013 was -12.0% (2012 data)
Renewable energy target: 31% of total energy use	The share of renewable energy in final energy consumption increased slightly from 24.5% in 2011 to 24.6 % in 2012 but stayed stable in 2013. Portugal has reached its interim 2011/2012 targets despite the lack of progress since 2010. However, considering the long lead times, Portugal should ensure urgently that further policies are put in place to incite new investments to reach the 2020 target.
Indicative national energy efficiency target for 2020: 25% reduction of primary energy consumption, which implies reaching a 2020 level of 22.5 million tonnes of oil equivalent primary energy consumption and 17.4 million tonnes of oil equivalent final energy consumption	The latest estimates show that Portugal is on track to meet its national energy efficiency target, but the 1% decrease in primary energy consumption compared to 2010 is mainly due to the economic downturn. Further efforts will be required to ensure structural changes and a sustainable reduction in energy consumption.
Early school leaving target: 10%	Early school leaving has been gradually declining over the last decade from a rate of 45% in 2002, to 20.8% in 2012 and 19.2% in 2013. However, the rate

	of early school leaving remains among the highest in the EU.
Tertiary education target: 40%	Tertiary education attainment: 29.2% in 2013 There has been remarkable progress from rates of about 11% at beginning of last decade. However, tertiary education attainment remains significantly below the EU average. There is so far no clear strategy to address the skills mismatch and lack of employability of higher education graduates in Portugal, except for the reform of the VET system. The academic offer is currently quite wide, yet recent enrolment data show that students are little interested in pursuing the higher-education options available to them.
Risk of poverty or social exclusion target: The target envisages reducing the number of persons in or at risk of poverty and social exclusion by 200 000 persons in 2020. The target is phased in three cycles: i) 2010-2013; ii) 2014-2016; iii) 2017-2020). The first phase aims to reduce the number of people in poverty by around 50 thousand, and the other two cycles aim at reducing the number of persons in poverty by 75 thousand each.	The number of people at risk of poverty or social exclusion slightly decreased from 2 757 000 to 2 665 000 (by 92 000) in the period 2008 –2012 although it has increased both between 2009 and 2010 (by 45 000) as well as between 2011 and 2012 (by 64 000). The number of people at risk of monetary poverty, after social transfers, has decreased from 18.5% in 2008 to 17.9% in 2012, remaining stable between 2009 and 2012, although this might be due to a reduction in the poverty threshold. Material deprivation has decreased from 9.7% to 8.6% between 2008 and 2012 even though it has increased 0.3 p.p. from 2011 to 2012. Lastly, the number of people living in low work intensity households has increased from 6.3% in 2008 to 10.1% in 2012. Sustained efforts will be needed in the future, specially taking into account the latest data and the expected demographic tendency.

ANNEX

Table I. Macro-economic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	4.2	0.8	0.6	-1.3	-3.2	-1.4	1.0	1.5
Output gap [1]	2.3	0.8	-0.7	-2.6	-5.0	-5.6	-4.2	-2.8
HICP (annual % change)	2.4	3.2	1.7	3.6	2.8	0.4	0.4	1.1
Domestic demand (annual % change) [2]	5.1	0.8	0.4	-5.1	-6.7	-2.6	0.6	0.8
Unemployment rate (% of labour force) [3]	5.8	6.7	9.7	12.9	15.9	16.5	15.4	14.8
Gross fixed capital formation (% of GDP)	26.3	24.5	21.4	18.0	16.0	14.8	15.4	15.9
Gross national saving (% of GDP)	19.6	16.0	11.0	11.3	14.4	15.7	16.9	17.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.8**	**-4.5**	**-6.3**	**-4.3**	**-6.4**	**-4.9**	**-4.0**	**-2.5**
Gross debt	**53.5**	**59.9**	**77.4**	**108.2**	**124.1**	**129.0**	**130.6**	**129.0**
Net financial assets	**-31.8**	**-42.7**	**-56.7**	**-54.6**	**-78.4**	**n.a**	**n.a**	**n.a**
Total revenue	37.9	40.1	40.8	45.0	40.9	43.7	43.3	43.4
Total expenditure	41.7	44.5	47.1	49.3	47.4	48.6	47.3	45.9
of which: Interest	3.5	2.7	2.9	4.0	4.3	4.3	4.3	4.3
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.8**	**-5.1**	**-6.1**	**-5.9**	**0.0**	**0.2**	**0.3**	**-1.0**
Net financial assets; non-financial corporations	**-138.6**	**-133.9**	**-155.6**	**-169.0**	**-167.2**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-9.8**	**-7.6**	**-5.6**	**-2.6**	**1.3**	**n.a**	**n.a**	**n.a**
Gross capital formation	14.0	13.5	13.4	11.7	10.9	10.0	10.2	10.8
Gross operating surplus	20.7	20.5	20.9	21.2	22.1	21.8	23.0	23.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**1.3**	**2.6**	**2.8**	**4.6**	**6.4**	**6.8**	**6.3**	**6.5**
Net financial assets	**156.0**	**126.9**	**123.8**	**125.4**	**133.0**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.9	39.1	38.7	38.4	37.1	37.0	36.2	35.8
Net property income	6.5	6.0	6.5	7.1	8.1	8.3	8.4	9.2
Current transfers received	19.9	21.5	24.1	25.7	26.3	27.5	26.9	26.3
Gross saving	7.8	7.3	6.2	7.1	8.9	9.3	8.7	9.0
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-5.3**	**-7.1**	**-9.7**	**-5.6**	**-0.1**	**2.0**	**2.4**	**2.8**
Net financial assets	**28.9**	**61.4**	**99.4**	**110.1**	**121.2**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-9.2	-8.6	-8.4	-4.4	-0.6	1.1	2.2	3.1
Net primary income from the rest of the world	-0.9	-1.5	-3.5	-3.6	-2.8	-2.1	-2.7	-3.1
Net capital transactions	2.2	1.8	1.3	1.6	2.1	1.6	1.7	1.7
Tradable sector	45.8	42.7	41.0	42.2	43.5	44.1	n.a	n.a
Non tradable sector	41.7	44.5	46.0	45.1	44.0	43.7	n.a	n.a
of which: Building and construction sector	6.8	6.9	6.1	5.1	4.4	3.8	n.a	n.a
Real effective exchange rate (index, 2000=100)	89.2	95.8	99.8	97.2	91.8	94.3	93.4	92.9
Terms of trade goods and services (index, 2000=100)	100.2	101.0	101.3	101.0	101.1	102.3	104.1	104.6
Market performance of exports (index, 2000=100)	116.6	107.4	105.4	111.3	116.7	123.2	125.7	125.9

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission 12th Programme Review for Portugal (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017	2018
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	-1.4	-1.4	1.0	1.2	1.5	1.5	1.7	1.8	1.8
Private consumption (% change)	-1.7	-1.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Gross fixed capital formation (% change)	-6.6	-6.6	3.3	3.3	3.8	3.8	4.0	4.4	3.8
Exports of goods and services (% change)	6.1	6.1	4.7	5.7	5.7	5.7	5.3	5.0	5.0
Imports of goods and services (% change)	2.8	2.8	3.7	4.1	4.2	4.2	4.3	4.3	4.2
Contributions to real GDP growth:									
- Final domestic demand	-2.5	-2.6	0.6	0.5	0.8	0.8	1.1	1.3	1.3
- Change in inventories	-0.2	-0.1	-0.1	-0.2	0.0	0.0	0.0	0.1	0.1
- Net exports	1.3	1.3	0.4	0.7	0.7	0.7	0.6	0.5	0.6
Output gap[1]	-5.6	-5.7	-4.2	-4.2	-2.8	-2.8	-1.4	-0.3	0.6
Employment (% change)	-2.8	-2.6	0.9	1.0	0.8	0.8	0.7	0.6	0.6
Unemployment rate (%)	16.5	16.3	15.4	15.4	14.8	14.8	14.2	13.8	13.2
Labour productivity (% change)	1.5	1.7	0.3	0.2	0.7	0.7	1.0	1.3	1.1
HICP inflation (%)	0.4	0.4	0.4	0.4	1.1	1.1	1.5	1.5	1.5
GDP deflator (% change)	1.7	1.7	0.7	0.7	0.9	0.9	1.7	1.8	1.8
Comp. of employees (per head, % change)	3.5	3.5	-0.9	-0.9	1.0	0.9	1.1	1.2	1.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.0	2.0	2.4	2.9	2.8	3.4	3.6	3.6	3.8

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :
Commission 12th Programme Review for Portugal (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	2018	Change: 2013-2018
	COM	COM	SP	COM[1]	SP	SP	SP	SP	SP
Revenue	**43.7**	**43.3**	**43.2**	**43.4**	**43.3**	**43.3**	**43.1**	**43.0**	**-0.7**
of which:									
- Taxes on production and imports	13.6	13.8	13.7	13.9	13.9	13.9	14.0	14.0	0.4
- Current taxes on income, wealth, etc.	11.8	11.3	11.3	11.4	11.4	11.4	11.4	11.4	-0.4
- Social contributions	12.2	11.8	11.8	11.7	11.7	11.5	11.4	11.2	-1.0
- Other (residual)	6.1	6.4	6.4	6.4	6.3	6.5	6.3	6.4	0.3
Expenditure	**48.6**	**47.3**	**47.1**	**45.9**	**45.8**	**44.8**	**43.8**	**43.1**	**-5.5**
of which:									
- Primary expenditure	44.3	42.9	42.8	41.6	41.5	40.6	39.7	38.9	-5.4
of which:									
Compensation of employees	10.7	9.7	9.7	9.2	9.1	8.8	8.6	8.5	-2.2
Intermediate consumption	4.4	4.6	4.6	4.3	4.3	4.3	4.1	4.0	-0.3
Social payments	23.4	23.0	22.9	22.5	22.4	22.0	21.6	21.2	-2.2
Subsidies	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.0
Gross fixed capital formation	1.4	1.8	1.8	1.7	1.7	1.7	1.6	1.6	0.2
Other (residual)	3.6	3.2	3.1	3.3	3.2	2.9	3.0	3.0	-0.6
- Interest expenditure	4.3	4.3	4.3	4.3	4.3	4.2	4.1	4.2	-0.1
General government balance (GGB)	**-4.9**	**-4.0**	**-4.0**	**-2.5**	**-2.5**	**-1.5**	**-0.7**	**0.0**	**4.9**
Primary balance	**-0.6**	**0.4**	**0.4**	**1.8**	**1.8**	**2.7**	**3.4**	**4.2**	**4.8**
One-off and other temporary measures	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3
GGB excl. one-offs	**-5.3**	**-4.0**	**-4.0**	**-2.5**	**-2.5**	**-1.5**	**-0.7**	**0.0**	**5.3**
Output gap[2]	-5.6	-4.2	-4.2	-2.8	-2.8	-1.4	-0.3	0.6	6.2
Cyclically-adjusted balance[2]	-2.3	n.a.	-2.0	n.a.	-1.2	-0.8	-0.5	-0.3	2.0
Structural balance (SB)[3]	**-2.6**	**n.a.**	**-2.0**	**n.a.**	**-1.2**	**-0.8**	**-0.5**	**-0.3**	**2.3**
Change in SB	*0.8*	*n.a.*	*0.6*	*n.a.*	*0.8*	*0.4*	*0.3*	*0.3*	-
Two year average change in SB	*1.7*	*n.a.*	*0.7*	*n.a.*	*0.7*	*0.6*	*0.3*	*0.3*	-
Structural primary balance[3]	1.6	n.a.	2.3	n.a.	3.1	3.4	3.6	3.9	2.3
Change in structural primary balance		*n.a.*	*0.6*	*n.a.*	*0.8*	*0.3*	*0.2*	*0.4*	-
Expenditure benchmark									
Applicable reference rate[4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-

Notes:

[1] On a no-policy-change basis.

[2] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3] Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission 12th Programme Review for Portugal (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017	2018
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**96.3**	**129.0**	**130.6**	**130.2**	**129.0**	**128.7**	**125.6**	**120.7**	**116.7**
Change in the ratio	11.1	4.9	1.6	1.2	-1.6	-1.5	-3.1	-4.9	-4.0
Contributions[2] *:*									
1. Primary balance	**3.5**	**0.6**	**-0.3**	**-0.4**	**-1.7**	**-1.8**	**-2.7**	**-3.4**	**-4.2**
2. "Snow-ball" effect	**4.0**	**3.8**	**2.2**	**1.9**	**1.1**	**1.3**	**0.0**	**-0.3**	**-0.1**
Of which:									
Interest expenditure	3.4	4.3	4.3	4.4	4.3	4.3	4.2	4.1	4.2
Growth effect	1.1	1.7	-1.3	-1.5	-2.0	-1.9	-2.1	-2.2	-2.1
Inflation effect	-0.4	-2.1	-0.9	-1.0	-1.2	-1.1	-2.1	-2.3	-2.2
3. Stock-flow adjustment	**3.6**	**0.4**	**-0.3**	**-0.2**	**-1.0**	**-0.9**	**-0.4**	**-1.1**	**0.3**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

	2013	2014		2015		2016	2017	2018
		COM	SP	COM	SP	SP	SP	SP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:								
Required adjustment[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission 12th Programme Review for Portugal (COM); Commission calculations.

Table V. Sustainability indicators

	Portugal			European Union		
	2013 scenario	**No-policy-change scenario**	**Stability programme scenario**	**2013 scenario**	**No-policy-change scenario**	**Stability programme scenario**
S2*	0.5	-0.8	-1.8	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	0.5	-0.9	-1.8	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	0.1	0.1	0.0	1.9	2.0	2.0
of which:						
pensions	-0.4	-0.3	-0.5	0.7	0.8	0.9
healthcare	1.3	1.3	1.2	0.9	0.9	0.8
long-term care	0.2	0.2	0.2	0.6	0.6	0.6
others	-1.1	-1.1	-0.9	-0.4	-0.4	-0.3
S1**	4.1	2.6	1.3	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.6	-1.2	-2.8	-0.2	-0.4	-2.0
Debt requirement (DR)	3.7	4.0	4.5	1.5	1.8	1.5
Long-term cost of ageing (CoA)	-0.2	-0.2	-0.4	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.53	:		:		
Debt as % of GDP (2013)	129.0			88.9		
Age-related expenditure as % of GDP (2013)	25.8			25.8		

Source *: Commission; 2014 stability programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

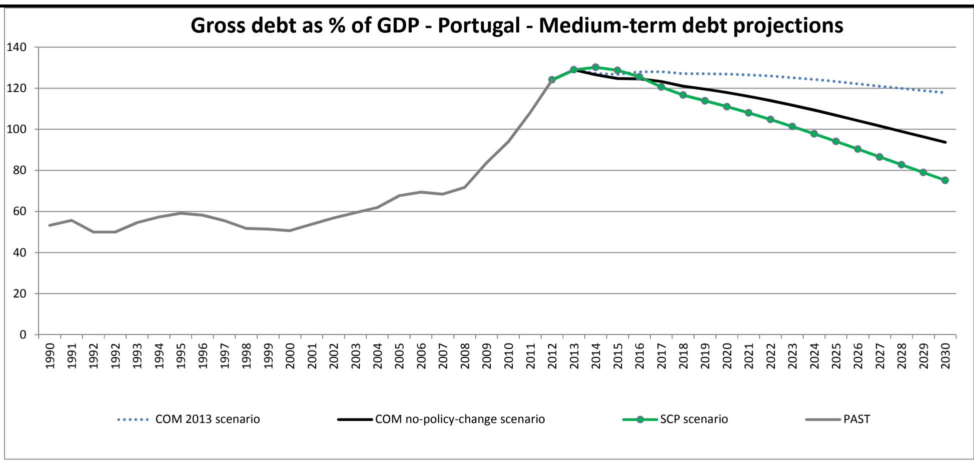

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	31.4	32.1	32.8	31.5	33.2	32.4
Breakdown by economic function (% of GDP)[1]						
Consumption	12.0	13.2	12.3	11.7	12.2	12.1
of which:						
- VAT	7.6	8.6	8.4	7.8	8.3	8.5
- excise duties on tobacco and alcohol	1.0	1.1	0.9	1.0	1.0	1.0
- energy	2.1	2.0	1.9	1.8	1.8	1.7
- other (residual)	1.3	1.5	1.2	1.1	1.1	1.0
Labour employed	11.3	11.4	11.7	12.2	12.7	12.2
Labour non-employed	0.6	0.8	0.9	1.0	1.2	1.2
Capital and business income	5.1	4.4	5.5	4.3	4.9	4.4
Stocks of capital/wealth	2.5	2.3	2.4	2.3	2.3	2.4
p.m. Environmental taxes[2]	3.0	2.9	2.6	2.5	2.4	2.2
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	53.3	52.9	53.4	46.7	46.7	48.8

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	308.6	323.3	335.0	337.4	310.7
Share of assets of the five largest banks (% of total assets)	70.1	70.9	70.8	70.0	-
Foreign ownership of banking system (% of total assets)	23.1	22.2	21.4	20.6	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1), 2), 3)]	4.8	5.2	7.5	9.8	11.0
- capital adequacy ratio (%) [1)]	10.5	10.3	9.8	12.6	13.4
- return on equity (%) [1), 2)]	7.3	7.5	-5.5	-5.4	-7.5
Bank loans to the private sector (year-on-year % change)	3.1	1.7	-3.3	-6.0	-5.0
Lending for house purchase (year-on-year % change)	4.2	3.5	-0.5	-2.8	-3.5
Loan to deposit ratio	133.3	123.9	116.1	119.5	111.4
CB liquidity as % of liabilities	3.5	8.3	9.1	11.0	10.9
Banks' exposure to countries receiving official financial assistance (% of GDP)[4)]	18.5	18.8	16.6	16.2	11.3
Private debt (% of GDP)	224.5	222.2	222.2	223.8	217.6
Gross external debt (% of GDP)					
- Public	58.8	55.6	57.5	80.0	85.0
- Private	42.8	40.2	45.5	46.7	49.7
Long term interest rates spread versus Bund (basis points)*	98.9	265.3	763.3	905.3	472.4
Credit default swap spreads for sovereign securities (5-year)*	72.4	253.0	772.8	818.7	355.8

Notes:

[1)] Latest data 2013Q3.

[2)] Beginning in 2007, the series have more comprehensive coverage.

[3)] A new calculation method for nonperforming loans that follows the methodology of the FSI Guide was introduced in September 2011.

[4)] Covered countries are CY, EL, ES, LV, HU, IE, and RO.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	73.1	71.2	70.5	69.1	66.5	65.6
Employment growth (% change from previous year)	0.5	-2.6	-1.5	-1.5	-4.2	-2.8
Employment rate of women (% of female population aged 20-64)	67.0	66.1	65.6	64.8	63.1	62.4
Employment rate of men (% of male population aged 20-64)	79.4	76.5	75.4	73.4	69.9	68.8
Employment rate of older workers (% of population aged 55-64)	50.8	49.7	49.2	47.9	46.5	46.7
Part-time employment (% of total employment, 15 years and more)	11.9	11.6	11.6	13.3	14.3	14.0
Part-time employment of women (% of women employment, 15 years and more)	17.2	16.4	15.5	16.3	16.8	16.3
Part-time employment of men (% of men employment, 15 years and more)	7.4	7.5	8.2	10.7	12.1	11.9
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	22.8	22.0	23.0	22.2	20.7	21.5
Transitions from temporary to permanent employment	33.7	20.3	29.6	28.8	:	:
Unemployment rate[1] (% of labour force, age group 15-74)	8.5	10.6	12.0	12.9	15.9	16.5
Long-term unemployment rate[2] (% of labour force)	4.0	4.7	6.3	6.2	7.7	9.3
Youth unemployment rate (% of youth labour force aged 15-24)	20.2	24.8	27.7	30.1	37.7	37.7
Youth NEET rate (% of population aged 15-24)	10.3	11.2	11.5	12.7	14.1	14.2
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	35.4	31.2	28.7	23.2	20.8	19.2
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	21.6	21.1	23.5	26.1	27.2	29.2
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	2.0	2.0	5.0	1.0	:	:
Formal childcare (30 hours or over; % over the population less than 3 year)	31.0	34.0	32.0	34.0	34.0	:
Labour productivity per person employed (annual % change)	-0.5	-0.3	3.5	0.3	1.0	1.5
Hours worked per person employed (annual % change)	-0.7	-0.2	-0.1	-1.0	0.5	1.2
Labour productivity per hour worked (annual % change; constant prices)	0.2	-0.2	3.7	1.3	0.5	0.3
Compensation per employee (annual % change; constant prices)	1.4	1.8	1.4	-0.8	-1.7	1.7
Nominal unit labour cost growth (annual % change)	3.5	3.1	-1.4	-0.9	-3.0	:
Real unit labour cost growth (annual % change)	1.9	2.2	-2.1	-1.1	-2.7	:

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	6.4	6.5	7.3	7.0	6.3
Invalidity	2.3	2.1	2.1	2.1	2.1
Old age and survivors	11.3	11.9	12.9	13.1	13.8
Family/Children	1.2	1.3	1.4	1.4	1.2
Unemployment	1.1	1.0	1.4	1.4	1.4
Housing and Social exclusion n.e.c.	0.0	0.0	0.0	0.0	0.0
Total	22.6	23.2	25.5	25.4	25.0
of which: means tested benefits	2.1	2.3	2.6	2.5	2.2
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	26.0	24.9	25.3	24.4	25.3
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	29.5	28.7	28.7	28.6	27.8
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	27.7	26.0	26.1	24.5	22.1
At-Risk-of-Poverty rate[2] (% of total population)	18.5	17.9	17.9	18.0	17.9
Severe Material Deprivation[3] (% of total population)	9.7	9.1	9.0	8.3	8.6
Share of people living in low work intensity households[4] (% of people aged 0-59)	6.3	7.0	8.6	8.3	10.1
In-work at-risk-of poverty rate (% of persons employed)	11.8	10.3	9.7	10.3	9.8
Impact of social transfers (excluding pensions) on reducing poverty	25.7	26.3	32.2	29.1	29.0
Poverty thresholds, expressed in national currency at constant prices[5]	4 770	4 726	4 997	4 777	4 565
Gross disponsable income (households)	123 499	122 959	126 612	124 810	122 851
Relative median poverty risk gap (60% of median equivalised income, age: total)	23.2	23.6	22.7	23.2	24.7

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity[1] total economy (annual growth in %)	1.2	0.3	3.5	1.0	2.0	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	2.3	-2.5	11.1	2.6	3.9	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	9.6	-8.3	13.0	0.8	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-0.2	-2.9	-0.8	-0.4	2.7	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	18.8	16.4	15.5	13.6	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	577.0	547	547	547	547	547
Time to start a business[3] (days)	29.9	5	5	4	4	3
R&D expenditure (% of GDP)	1.0	1.6	1.6	1.5	1.5	n.a.
Tertiary educational attainment (% of 30-34 years old population)	18.8	21.1	23.5	26.1	27.2	29.2
Total public expenditure on education (% of GDP)	5.1	5.8	5.6	5.3	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	1.7	n.a.	n.a.	n.a.	n.a.	1.3
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	1.8
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.6	n.a.	n.a.	n.a.	n.a.	2.2

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

Source :

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.20	0.18	0.19	0.18	0.18	0.17
Carbon intensity	kg / €	0.63	0.57	0.56	0.52	0.52	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.45	1.66	1.52	1.40	1.45	n.a.
Waste intensity	kg / €	n.a.	0.26	n.a.	0.28	n.a.	n.a.
Energy balance of trade	% GDP	-3.2%	-4.4%	-2.8%	-3.4%	-4.2%	-5%
Energy weight in HICP	%	9	10	11	12	13	14
Difference between change energy price and inflation	%	1.46	1.8	1.3	4.5	6.6	10.9
Environmental taxes over labour taxes	ratio	24.3%	20.3%	19.1%	19.5%	17.0%	n.a.
Environmental taxes over total taxes	ratio	9.2%	7.8%	8.1%	8.1%	7.1%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.24	0.22	0.22	0.23	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	8.5	n.a.	n.a.	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.08	0.09	0.09	0.09	0.10
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.03	0.03	0.03	0.04	0.04
Public R&D for energy	% GDP	n.a.	0.01%	0.02%	0.02%	0.02%	0.02%
Public R&D for the environment	% GDP	n.a.	0.02%	0.03%	0.03%	0.03%	0.03%
Recycling rate of municipal waste	ratio	35.3%	35.5%	39.2%	38.0%	41.1%	45.6%
Share of GHG emissions covered by ETS*	%	n.a.	38.3%	37.7%	34.2%	36.1%	36.8%
Transport energy intensity	kgoe / €	0.81	n.a.	n.a.	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	2.23	n.a.	n.a.	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	84.7%	83.4%	81.3%	75.2%	77.6%	79.5%
Diversification of oil import sources	HHI	n.a.	0.07	0.07	0.07	0.09	n.a.
Diversification of energy mix	HHI	0.38	0.35	0.33	0.35	0.32	0.29
Share renewable energy in energy mix	%	15.3%	17.1%	19.1%	22.6%	21.6%	19.8%

Country-specific notes:

The year 2012 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents

* Commission and EEA.

** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 5 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[38]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.

[38] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.