The International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission agreed on the basis of a memorandum of understanding (MoU) with Portugal which includes several fiscal consolidation measures and important changes in the financial sector, public administration, PPP and State-owned enterprises (SOEs). The proposed MoU is subject to the approval of the European Council and the Portuguese opposition parties, but most of the work has been done.

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Portugal agrees three-year bail-out programme

The Portuguese Government announced that the IMF, the ECB and the European Commission reached an agreement with Portugal regarding the bail-out programme for the next three years (2011-2014).

The draft MoU disclosed today details the general economic policy conditions for the granting of financial assistance to Portugal leaving open the amount of the bail-out facility, which is expected to be around €80,000 million.

The draft MoU includes the following measures, among others:

Tax measures. The MoU sets out targets for the reduction and limitation of tax allowances and benefits for income tax purposes, the movement of certain goods and services from the reduced and intermediate VAT rates to higher ones, the increase of taxes on property, cars and tobacco and the introduction of electricity excise taxes.

Financial Sector. The Bank of Portugal (BdP) will direct all banking groups to reach a core Tier 1 capital ratio of 9% by end-2011 and 10% at the latest by end-2012. In the event that banks cannot reach the targets on time, the Government may inject equity, by using resources provided under the programme (up to EUR 12,000 million).

SOEs. To reduce costs further than the 15% reduction in operational costs, the Government will review the scope of the services, apply tighter debt ceilings from 2012 onwards and prepare a comprehensive assessment of a tariff structure to reduce the levels of subsidisation.

Public-private partnerships. The Government will perform an assessment of at least the 20 most significant PPP contracts, which should review the possibility of renegotiating these contracts, and avoid engaging in new PPPs projects.

Privatisations. The privatisation programme will be reviewed until March 2012. During 2011, the Government will pursue a rapid divestment in public sector companies, EDP and REN, subject only to market conditions, and privatise TAP.

Labour market. In addition to the changes to the unemployment insurance benefits, the Government will implement a reform in the severance payments in open-ended contracts, which will be aligned with those of fixed-term contracts, and introduce adjustments to cases for fair individual dismissals.

Energy and gas markets. The draft MoU contemplates a full liberalisation or the markets by January 2013. For new contracts in renewables and co-generation, the feed-in tariff should be reduced. For existing contracts, the Government will assess the possibility of renegotiating the feed-in tariff.

Housing sector. The Government will broaden the conditions for renegotiating open-ended residential leases and provide for an extrajudicial eviction procedure for breach of contract.

Competition. The Government will eliminate the special rights of the State in private companies (golden shares) by July 2011.