Council of the European Union

Brussels, 15 June 2015
(OR. en)

9258/15

UEM 193
ECOFIN 399
SOC 361
COMPET 273
ENV 356
EDUC 179
RECH 170
ENER 213
JAI 375
EMPL 234

NOTE

From:	General Secretariat of the Council
To:	Delegations
No. Cion doc.:	8932/15 ECOFIN 350 UEM 152 SOC 319 EMPL 199 COMPET 221 ENV 305 EDUC 146 RECH 134 ENER 170 JAI 319 - COM(2015) 271 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2015 National Reform Programme of Portugal and delivering a Council opinion on the 2015 Stability Programme of Portugal

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2015) 271 final.

COUNCIL RECOMMENDATION

of …

on the 2015 National Reform Programme of Portugal

and delivering a Council opinion on the 2015 Stability Programme of Portugal

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

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[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States[3]. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation[4] on Portugal's National Reform Programme for 2014 and delivered its opinion on Portugal's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council[5], the Commission presented its opinion on Portugal's draft budgetary plan for 2015.

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3 Maintained by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

4 Council Recommendation of 8 July 2014 on the National Reform Programme 2014 of Portugal and delivering a Council opinion on the Stability Programme of Portugal, 2014 (OJ C 247, 29.7.2014, p. 102).

5 Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey, marking the start of the 2015 European Semester for economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which Portugal was identified as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for fostering investment, intensifying structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Portugal. This assessed Portugal's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Portugal is experiencing excessive macroeconomic imbalances which require decisive policy action and specific monitoring. It is true that considerable progress has been achieved through the adjustment programme, both as regards economic adjustment and policies. Despite the deleveraging effort observed in the households and non financial corporations sectors, significant risks remain, linked to the high levels of internal and external indebtedness across various sectors, and these deserve close attention. There are also strong deleveraging pressures in a context of low growth, low inflation and high unemployment.

(7) On 28 April 2015, Portugal submitted its 2015 National Reform Programme and its 2015 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Portugal is currently in the corrective arm of the Stability and Growth Pact. In its 2015 Stability Programme, the Government plans to correct the excessive deficit by 2015, in line with the deadline set by the Council. It sets out to reduce the headline deficit to 2,7 % of GDP in 2015 and gradually further to 0,6 % of GDP in 2018. According to the Stability Programme, the Government plans to meet the medium-term objective - a structural deficit of 0,5 % of GDP - in 2016. The government debt-to-GDP ratio is expected to decrease to 124,2 % in 2015 and further to around 112,1 % in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible for 2015 and 2016, but rather optimistic for 2017 and 2018 for which some risks have also been identified by the Portuguese Public Finance Council. Based on the Commission's 2015 spring forecast, a timely and durable correction of the excessive deficit by 2015 is not yet ensured, but within reach. At the same time, the fiscal effort is below what is recommended by the Council. Assuming that the excessive deficit is corrected, Portugal would be subject to the preventive arm of the Pact as of 2016. Balance-improving measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified and appear to be insufficient in size. Therefore, there appears to be a risk of a significant deviation from the required adjustment towards the medium-term objective in 2016 and further structural measures will be needed. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Portugal will not comply with the provisions of the Stability and Growth Pact.

(9) Fiscal consolidation must be underpinned by increased efficiency and quality of public expenditure at all levels of public administration and further reforms of the system for managing public finances. In particular, further efforts are necessary to ensure strict expenditure control by enforcing the commitment control law and strengthening accountability. The Law on the single wage scale was published in September 2014 and has been applied since January 2015; implementation of the Decree-law on the single supplements scale is under preparation. The restructuring of state-owned enterprises has not been completed. There has been limited progress in developing new comprehensive measures as part of the ongoing pension reform following the Constitutional Court judgements of August 2014. Portugal has undergone a comprehensive reform of its tax system in the past two years, targeting corporate income tax, personal income tax and environmental taxation. The overall impact of this reform should be evaluated. There is ample scope for further reforms to modernise the revenue administration and to further improve taxpayer compliance.

(10) The collective bargaining system has recently undergone several reforms, though not all of them promote the alignment of wages to productivity at sector and firm level. The challenge of the system is to allow firms to adjust to specific circumstances. This includes effective use of existing provisions for firms to derogate from sectorial collective agreements under specific circumstances. Despite the freeze in recent years, the minimum wage has risen significantly faster than the average wage in nominal terms since 2008 and the proportion of workers covered by the minimum wage has risen from 5 % in 2005 to 12,9 % in 2014.

(11) Significant progress has been made regarding the deployment of active labour market policies and the reform of public employment services. However, challenges remain as regards reaching the young people who are neither in employment nor in education or training. There is a need to increase the digitisation of services in charge of labour market matching. Ensuring adequate coverage of social assistance, in particular the minimum income scheme, remains a key challenge. Some progress has been made in improving the quality and labour-market relevance of education. Portugal has reformed curricula and teachers' statutes in order to improve the quality of education. The use of the monitoring tool and the diversification of pathways with new vocational education and training programmes should address early school leaving and help improve performance rates. Recent reforms are designed to upgrade the vocational education and training system, but making it more attractive to students remains a challenge. Fostering knowledge transfers between higher education, private-sector firms and research organisations also represents a challenge.

(12) The high debt of Portuguese firms still weighs on their performance and impedes new investments, and households' indebtedness has declined markedly. Following up on the Comprehensive Assessment exercise, the Central Bank stepped up its monitoring of banks' liquidity and capital position, and also assessed banks' recovery plans. The ratio of non-performing corporate loans remains high (above 18 %) and is a burden on banks' balance sheets. The corporate income tax reform initiated in 2014 strengthens the limits for the deductibility of net financial expenses, but the high debt bias in corporate taxation could be further addressed. The corporate restructuring platforms/processes PER and SIREVE are being re-designed, with an enhanced focus on helping viable firms to stay in business rather than go into liquidation. Deleveraging figures for 2014 show substantial progress in implementing measures to reduce corporate debt overhang. The strategic plan for corporate debt restructuring, published in May 2014, is gradually taking shape in legislation through various measures. There is also progress in widening the range of financing alternatives available to non-financial firms by encouraging equity investments. The Development Finance Institution, formally established in September 2014, intends to address market failures that hamper SMEs' access to finance.

(13) There is scope to strengthen measures to increase the efficiency and quality of the justice system, in particular as regards the evaluation of courts' activities and the use of online tools, and to conduct surveys of court users or legal professionals. According to the 2015 EU Justice Scoreboard, proceedings in civil and commercial cases continue to be lengthy (386 days). The number of enforcement cases is still falling slightly, while disposition time remains long (1045 days in 2014). Reforms relating to the tax and administrative courts are proceeding at a slower pace than other judicial reforms. The rise in the number of insolvency cases has highlighted the need to step up resources and training for first-instance courts in this field. The liquidity of businesses continues to be aggravated by long delays in payments, in particular by the public sector. No new measures have been taken or commitments made to tackle these late payments. There is insufficient transparency as regards private-public partnerships at local and regional government levels and in the area of concessions at all levels. The prevention of corruption is hampered by the ineffective application of the existing legal framework, where monitoring, implementation and the enforcement of sanctions need improvement.

(14) The new transport regulatory authority is not yet operational. Liberalisation measures in port concessions, railways and metropolitan public transport are slow, thus failing to stimulate investment. There has been limited progress in implementing the long-term transport plan and the timetable for reform of the ports sector. Delays have been experienced in transport concessions for the metropolitan areas of Lisbon and Porto. Moreover, limited progress has been made in port concession renegotiations and in the railways sector. The merger between the railway (REFER) and the road (EP) infrastructure operators, intended to improve the financial sustainability of the new road and railway infrastructure body, is still ongoing. Staff numbers have been reduced in the state-owned enterprises in the transport sector.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Portugal's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Portugal in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Portugal but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(16) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[6] is reflected in particular in recommendation (1) below.

(17) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (4) below.

(18) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro[7][*]. As a country whose currency is the euro, Portugal should also ensure the full and timely implementation of those recommendations,

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[6] Under Article 5(2) of Regulation (EC) No 1466/97.
[7] OJ C ….
[*] Insert details for the euro-zone recommendation st 9230/15 (ex st8888/15).

HEREBY RECOMMENDS that Portugal take action in 2015 and 2016 to:

1. Ensure a durable correction of the excessive deficit in 2015 by taking measures as necessary. Achieve a fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016. Use windfall gains to accelerate the deficit and debt reduction. Enforce the commitment control law to better control expenditure. Improve the medium-term sustainability of the pension system. Safeguard the financial sustainability of state-owned enterprises. Further improve tax compliance and the efficiency of the tax administration.

2. Promote the alignment of wages and productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. Ensure that developments relating to the minimum wage are consistent with the objectives of promoting employment and competitiveness.

3. Improve the efficiency of public employment services, in particular by increasing outreach to non-registered young people. Ensure effective activation of benefit recipients and adequate coverage of social assistance, in particular the minimum income scheme.

4. Take further measures to reduce the corporate debt overhang, to address the corporate non-performing loans ratio in banks and to reduce the debt bias for corporates under tax provisions . Improve the efficiency of debt restructuring tools for viable companies by introducing incentives for banks and debtors to engage in restructuring processes at an early stage.

5. Accelerate measures and increase transparency as regards concessions, including in the transport sector, and private-public partnerships at local and regional level.

Done at Brussels,

For the Council
The President