

### Economic Adjustment Program

On May 30<sup>th</sup>, the Constitutional Court (CC) ruled against 3 measures of the 2014 State Budget:

- 2.5% to 12% progressive cut applied to public employees with monthly pay over 675€ (effective from May 31<sup>st</sup> onwards);
- Streamlining of survivors' pensions;
- Social contribution from the beneficiaries of unemployment and sickness subsidies.

The Government will find compensatory measures of comparable size and quality so as to ensure compliance with the 4% of GDP deficit target for 2014, as well as the remaining fiscal commitments made under the Program and the European Union's reinforced economic governance framework. The adoption of such measures, however, cannot be immediate, as the full budgetary impact of CC rulings is still uncertain, as there is a pending but unscheduled ruling on the 2014 Supplementary Budget.

Under these circumstances, the formal approval of the Program's last disbursement would require an open-ended extension which the Government feels would undermine the clarity and certainty going forward and weaken the credibility achieved over the past three years. Thus, the Council of Ministers decided not to request such an extension and, consequently, to forego the last disbursement. Notwithstanding, the Government reaffirmed all Program commitments and reiterated that the adjustment effort will proceed in the future. The official communication to the EC, ECB and IMF is available [here](#).

The three institutions took note of the Government's decision and declared they "remain ready to assist the authorities and the Portuguese people as they continue in this effort." The joint EC-ECB-IMF statement is available [here](#).

### Financial Markets

After a successful return to long-term bond auctions in April, the Debt Management Agency (IGCP) held the second auction of the PGB maturing in 2024, issuing an amount of € 975M on June 11<sup>th</sup>. Demand was 2.43 times the amount placed and the weighted average yield was 3.25% (about 0.32 p.p. lower than in the previous auction).

By resuming regular bond auctions, Portugal completed its final step in regaining full market access.

### Fiscal Consolidation Measures for 2014-2015

The Government started the preparation of the 2015 State Budget by putting forward 3 key pieces of legislation:

#### i. Permanent Solution for Pensions

The Extraordinary Solidarity Contribution on pensions (CES) will be abolished and replaced by a tripartite permanent solution: a Sustainability Contribution for Pensions, a 0.25 p.p. increase in the normal VAT rate (to be allocated to the pension systems) and a 0.20 p.p. increase in employees' contribution to public pension schemes. The Draft Law was submitted to Parliament and is currently under discussion.

#### ii. Remuneration Policy & Single Wage Scale

The Council of Ministers approved the reinstatement of the wage reduction in force in 2011-2013 (3.5% to 10% progressive cut applied to public employees with monthly pay over 1500€). This transitory measure is expected to be applied still in 2014 and to be gradually reversed in a 5-year horizon, starting with 20% in 2015 (in line with the proposal put forward in the Fiscal Strategy Document).

The Draft Law enacting this decision also ensures that the existing single wage scale is effectively applied, as of January 2015, to the base salary of all employees with a public contract, thereby increasing the transparency of remuneration policy. The diploma is now under negotiation with Unions' representatives.

#### iii. Single Supplement Scale

Taking into consideration the results of the 2013 assessment of all remuneration components, wage supplements will be further revised to ensure a standardized and controlled supplements' policy. This streamlining process, which will involve all line ministries, will lead to one of the following results: the integration of the supplement in a Single Supplements Scale (to be created); the incorporation of the supplement in the base salary; the extinction of the supplement. The Draft Decree Law was approved by the Council of Ministries and negotiations with Unions' representatives will take place in early July.

*An updated presentation on the Portuguese economy may be downloaded [here](#).*