



Jose António Vieira da Silva

# The Portuguese Recovery Plan

Setting the course for a climate-neutral and digital future?

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### About this publication

The Recovery and Resilience Plan (RRP) prepared by the Portuguese government is structured along three main axes, namely increasing economic and social resilience, responding to climate change and accelerating the digital transition. A large share of investments is destined to promote sustainable mobility, combat social vulnerabilities, and further advance e-government. The RRP's priorities and their relative weight are in line with the major challenges facing the Portuguese economy. In view of the recent worsening of the COVID-19 crisis, the priorities for resource allocation may need to be reassessed to respond to the employment crisis by skilling and reskilling.

### About the author

**Jose António Vieira da Silva** is an economist who has served as Minister in several governments, most notably as Minister of Labour and Social Affairs (2005–2009 and 2015–2019). Since July 2020, he has been the executive director of the Res Publica Foundation.

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**Tobias Mörschel**, director of FES Italy

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## THE COVID CRISIS – THE FIRST IMPACTS

The COVID-19 crisis unfolded in Portugal in a period of moderate but sustained growth, positive dynamics in the labour mar-

ket, a far-reaching rebalancing of public accounts and a clear improvement in most social indicators. The onset of the spread of infection was accompanied by a broad range of public policy measures in line with what happened in all European countries.

Table 1

**Portugal: Imposition of restrictive measures – no. of days after 100 confirmed cases**

Cancellation of public events	School closures	Restrictions on international mobility	Restrictions on domestic mobility	Restrictions on public transport	Limitations on face-to-face work
0	0	0	5	5	2

Source: Hale et al. 2020 (quoted in Stability Programme 2020).

The combined consequences of these measures, coupled with the effects of the fall in international trade and tourism, were immediate. As early as May 2020, in the Stability Programme presented by the government, it was

estimated that the fall in economic activity in the first months of the crisis was widespread, exceeding 75% in over 70% of tourist companies and over 40% of transport companies.

Table 2

**Companies that reported a reduction in economic activity**  
(percentage, by sector, between March and May 2020)

	Relative weight (%)	51 to 75%	More than 75%
Accommodation and restaurants/catering	7	11	72
Transport and storage	4	14	41
Other services	16	16	37
Trade	31	18	32
Information and communication	4	18	27
Industry and energy	29	18	26
Construction and property	10	18	16

Source: INE/BDP 2020.

In this document it was estimated that the fall in annual GDP caused by one month's confinement could reach 6.5%, a figure of exceptional gravity, despite corresponding to the period of more intense restrictive measures. Although

a broad set of measures were launched to support business and defend employment and household incomes, an almost immediate degradation of the labour market was inevitable. The official data indicates that by the end of April,

in a single month, the companies that applied for the simplified lay-off arrangements included more than 1.2 million workers – corresponding to about a quarter of the working population. Despite all the measures to support job retention, the newly unemployed registered with the Public Employment Services (IEFP) in March and April accounted for more than 35% of the unemployment registered so far in those services. From the point of view of the economic sectors, the retraction in employment has mainly affected activities directly or indirectly linked to tourism, services affected by the containment measures, and activities linked to internal and external mobility (Silva et al., 2020; Paes Mamede/Pereira, 2020).

In the first phase of the effects of the crisis the indicators (registered unemployment and lay-off) do not register significant differences in gender impact, although a significant proportion of female employment is empirically evident in some sectors where the crisis has been more immediate and violent. Although it is not yet very clear how large they are, it seems clear that the imbalances that have been unleashed have hit both the most socially fragile and the youngest populations hardest. Several factors have contributed to this:

- Some of the business activities greatly affected have a high percentage of less qualified and lower paid employees;
- Some of them have come from a strong economic recovery and significant job creation, which reinforces their tendency to have a greater proportion of precarious work;
- The almost global „freezing“ of the economy has put a brake on the normal generational rotation of company staff, making it more difficult for young people to enter the labour market.

## THE ECONOMIC AND SOCIAL FRAGILITIES AND THE IMPACT OF COVID-19

From an economic point of view the main difficulty posed by the crisis is linked with the significant weight of economic activities that are strongly dependent on international mobility, particularly tourism. Not only does this activity have great weight in the GDP, as in other European countries, but it has also displayed a strong job-creating dynamic in recent years. The weight of the export sectors also affected by foreign trade restrictions must certainly have an equally heavy impact. The close integration of the Iberian market could become a factor in the worsening of the economic climate, given the impact of the crisis in Spain.

From a social point of view, we can highlight the following as the most relevant vulnerabilities:

- The fragility of precarious employment relationships mainly affects young people, addition to the existence of segments of the informal or “semiformal” economy in certain fast-growing activities in the recent past.

- The proximity of the present crisis to the severe recession that the Portuguese economy experienced in the first half of the second decade of the century may worsen the career profiles of significant sectors that are returning to situations of unemployment, inactivity or precarious labour.
- The composition of the international specialization of the Portuguese economy may make it too exposed to the global economy’s fragile pace of recovery (automotive sector, textiles and footwear...).
- The scarce room for manoeuvre in fiscal policy, despite being amplified by the positive developments in the public accounts, is still highly marked by the great weight of the external debt.

## THE RECOVERY PLAN – MAIN AXES

The Recovery and Resilience Plan (RRP) prepared by the Portuguese government is structured along three main axes, which involve:

- strengthening the resilience of the Portuguese economy and society
- investing in responses to climate change
- accelerating the digital transition.

The logic of the Recovery Plan is closely linked both to the stabilization and emergency policies and to the structuring of priorities for the next programming period.

The centrality attributed to social issues is explained by the profound impact that the pandemic is generating, as well as by the identification of existing social weaknesses and the greater demand placed on public health. Thus, the areas of health, housing and social responses (particularly those of long-term care) will occupy a decisive part of the investment planned. The upgrading of qualifications along with investment in the areas of innovation and economic modernization will strengthen economic resilience and concentrate resources in fields of recognized fragility in the country: sustainability of the transport system, economy with increasingly scarce water resources, and forestry reform, the latter being one of the main risk factors in large areas of the country.

In the Recovery Plan the axis of climate transition are industry, building and transport sectors decarbonization, sustainable mobility and energy efficiency reinforcement of renewable energy. The priority given to sustainable mobility, particularly in the freight transport sector, not only corresponds to a consensual vulnerability of the Portuguese economy, but also fits in the priority to reduce energy dependence on hydrocarbons. The plan has apparently opted to create a strong link between various investments that are today central to the economic policy of competitiveness reinforcement, as they also make a decisive contribution to Portugal’s decarbonization commitments.

The same interdependence can be identified in the link between increased investment in renewable energies, as a fac-

tor of decreasing external dependence, and as an element of economic growth stimulation in an area where Portuguese economy has important resources, accumulated experience and a competitive business cluster. Namely, in the production of equipment's for wind power, solar and water energies.

The third axis, the digital transition, is also structured with three dimensions: education and training, entrepreneurial modernization, and the digitalization of public services.

A central role seems to have been attributed to modernization of the public administration. Three fundamental reasons can justify this option. First, the need to significantly improve the performance of areas that are in great demand due to the COVID crisis, such as health, social security and long-term care. Second, the strong impact that digitalization of the administration can have in reducing the so-called context costs of economic activity, and, finally, the perception of a high degree of aging in almost all areas of the administration.

If we look at the financial envelope proposed for the Recovery and Resilience Plan, an understanding of the priorities emerges if we consider that 40% of the amounts allocated to the nine roadmaps that make up the three priorities we present in the RRP are directed at sustainable mobility, the response to social vulnerabilities, and the Digital Public Administration.

## **THE RECOVERY PLAN – PREPARATION AND DEVELOPMENT METHODOLOGY, PARTICIPATION OF SOCIETY, AND THE PARTNERS ROLE**

The preliminary and most relevant aspect of the RRP construction process is that a strategic options document was previously drawn up: The Strategic Vision for the Portuguese Economic Recovery Plan 2020-2030, drafted under the responsibility of an independent professor, António Costa Silva, who was then called before a public hearing and debate involving most of the political and social agents.

The second relevant aspect has to do with the attempt by the Portuguese government to include various strategic instruments for the next decade with a view to advancing the recovery and overcoming the effects of the pandemic, always in line with the major strategic and structural goals. These instruments are 'Portugal 2020' (the final phase of the current programming period), the instruments created by the European Union for emergency response, the 2021/7 financial framework that is in the final stages of approval, and the RRP itself.

These different instruments fulfil complementary but distinct functions. The RRP itself has apparently been assigned the function of articulating emergency responses with investment and structuring action to modernize the Portuguese economy and society. Perhaps that is why the mobilization of political and social agents has mainly focused on

national and European emergency responses, especially when there has been an increase in the terrible effect of the pandemic.

From the point of view of the development of the RRP, the Portuguese government has presented a management model that includes a monitoring structure composed essentially by social partners, regionally based bodies and non-governmental organizations.

## **EVALUATION AND FINAL REMARKS**

An initial evaluation of the preliminary version of the Recovery and Resilience Plan that Portugal submitted to the European Commission on 15 October 2020 stated that the priorities and their relative weight are in line with the major challenges facing the Portuguese economy: recovering from the impact of the pandemic, accelerating strategic change compatible with the climate threats, and recognizing the digital transition as an across-the-board concern. However, it is possible to state that, in view of the recent worsening of the COVID-19 crisis, the priorities for resource allocation need to be reassessed. This will eventually be the case for the whole of the Union, though it will tend to be more intense in countries suffering a greater impact from the crisis (Sapir 2020). This negative development may lead to the need to evaluate, in addition, the relations that exist between the different recovery support instruments being developed or prepared:

- a key dimension of this reassessment could involve a stronger response to the employment consequences of the present crisis, with the possible need for longer and more diversified ways of supporting the stability of the business fabric and its human resources.
- This more adverse scenario may require more intense attention to the need for the skilling and reskilling of human resources, considering the risk of a more intense decline in the active population in a country that already faces a very complex demographic situation.

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Front cover: Yevhen – stock.adobe.com

Design concept: [www.bergsee-blau.de](http://www.bergsee-blau.de)

Layout: [www.zumweissenroessl.de](http://www.zumweissenroessl.de)

# EUROPA

## Recovery strategies in Europe

The restrictions imposed to combat the COVID-19 pandemic have led to a pronounced drop in production, a steep rise in unemployment and public debt. As a result, profound social distortions have arisen. Further, the pandemic has also revealed the strong dependence of Europe's economy from the production of vital products beyond the continent. Accordingly, national governments as the EU have had to devise wide-ranging programmes to support and revive the economy.

The development of these "recovery" programmes is taking place at a point in time when the European economies are at a crossroads. They are faced with meeting the immediate challenges stemming from social and ecological transformation and digitalization. As a result, there is significant pressure to ensure that the measures to implement economic revival do not lead to a restructure of the pre-pandemic status quo. Instead, the countries should seize the opportunity of massive public spending programmes to start the transformation of the economy and society towards climate neutrality and social equality.

A series of reports from several European countries analyse their respective national recovery plans and assess them in view of meeting the complex challenges. A synopsis offers a comparative perspective by interpreting and classifying the events and individual measures introduced in the individual countries. The aim is to develop policy recommendations that not only meet the long-term structural challenges faced by the EU-member states, but also to combat the immediate effects of the pandemic.