

A stylized map of Portugal composed of a grid of dots. The dots are mostly light gray, with several red dots highlighting specific regions or points of interest on the map.

Portugal and the Global Crisis

The impact of austerity on the economy,
the social model and the performance of the state

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- Successive Portuguese governments have followed the orientations of the European institutions regarding the response to the emerging challenges, since the international financial crisis. The new conservative government (elected in 2011) took advantage of the situation of »limited sovereignty« and made a radical political shift. The new policy aims at a fundamental change in socio-economic power relations by deregulation and challenges the institutions of social dialogue created during the past 40 years.
- The austerity imposed by the Memorandum of Understanding (2011) launched the country into a deep recession that had devastating impacts on some sectors of the economy. The young and precarious workers were particularly affected, with youth unemployment rising to 37.7% (2012 and 2013). More poverty, more unemployed with less benefits, substantial cuts in old age pensions and the national health service in cost contention: Austerity and recession bring growing social problems while reducing public responses to these problems.
- Meanwhile public debt is skyrocketing, despite of recent signs of economic recovery and some success in reducing the current public deficit. The risk is that the therapy will destroy the social equilibrium the country had achieved during the past four decades without curing the disease of the unbearable public debt.



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Introduction

This report assesses how Portugal's strategy to deal with the international economic crisis that began in 2008 has affected the country's economy and social situation.

Between 2008 and 2013 Portugal adopted three different approaches to the crisis, each of which was implemented by a different government. The first approach focused on the sustainability of the financial sector. The second shifted the focus to mitigating the adverse economic and social impact of the crisis. And the third approach concentrated on fiscal adjustment. Since 2008 Portugal has had two centre-left governments, formed by the Socialist Party, and one centre-right coalition government. These governments implemented policies agreed with the EU and later with the troika of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF). The first chapter of this report examines those policies.

The second chapter looks at the economic impact of the crisis. In the aftermath of the Lehman Brothers bankruptcy, Portugal approved a plan aimed at the sustainability of the financial sector and stimulus to compensate for the credit crunch. Later the country switched from stimulus to austerity; this led to a second wave of recession that had a devastating impact on some sectors of the economy.

The economic recession also had a major effect on employment and industrial relations. In a segmented labour market, job destruction affected each age group differently as well as having an impact on the contractual status of employees. Public policy on the labour market shifted from a reformist orientation to deregulation, notwithstanding tight constitutional constraints, while the minimum wage was frozen. A downward trend in wages emerged and the dynamics of collective bargaining changed significantly. The third chapter of this report discusses those developments.

The fourth chapter focuses on family disposable income, inequality, the welfare state and poverty. It reviews major public initiatives on unemployment benefits, pensions and the health system, which have been the core social measures taken by successive governments since the onset of the crisis.

Finally, we discuss the impact on the economy of the management of the crisis. Stimulus leads to the deterioration of public finances only in the short term. This begs the question of whether fiscal adjustment can succeed under the austerity approach demanded by Portugal's partners in the troika. We assess the evolution of public expenditure, the public deficit and the public debt. And we also review the implementation of the ambitious privatization plan pursued by Portuguese governments since the beginning of 2010.

1. Political management of the crisis: Three European approaches, three national governments

The prognosis for the Portuguese economy was pessimistic even before the global financial crisis began. In 2006 the chief economist of the IMF had described Portugal as a country in serious trouble, with anaemic growth of productivity, very low economic growth, a large budget deficit and the likely prospect of competitive disinflation (Blanchard, 2006).

Portugal had little room to manoeuvre to adapt to the crisis since it had its own pre-crisis economic constraints and needed to comply with the EU's requirements, especially as a member of the Eurozone. Europe's approach to the crisis has evolved in three phases (Caldas, 2013): financial (March-December 2008), economic (December 2008 to February 2010) and budgetary (from February 2010 onwards).

Portugal has followed EU conditions to the letter, adapting national priorities to meet the demands that have been made in each of the three phases. In the first phase, it adopted the »initiative for the reinforcement of financial stability«, through which the government aimed to boost confidence in the domestic financial system and comply with EU mechanisms. Under the EU umbrella, the Portuguese government focused on preventing systemic risk to the financial system and took measures such as injecting capital into financial institutions, offering state guarantees for borrowing of banks and even nationalizing two troubled banks (BPN and BPP).

Following the European Council of December 2008, at which the focus of EU strategy changed from ensuring financial stability to overcoming the economic crisis, the

Portuguese government adopted in January 2009 the »initiative for investment and employment«. The goal of that initiative was to increase public consumption and public investment in order to support both domestic demand and enterprises in the real economy at a time when the latter were facing the dual problem of the collapse of external demand owing to the decline in international trade and severely restricted access to credit owing to the difficulties of the financial system.

When EU strategy changed once again, at the beginning of 2010, the Portuguese government shifted immediately from stimulus to austerity. In March 2010 it approved an adjustment programme under the mechanisms of EU mutual budget surveillance – the »Programa de Estabilidade e Crescimento« (PEC 1).

Both the financial sustainability and investment initiatives were adopted during periods in which the country had a Socialist Party majority government led by José Sócrates. In October 2009 ordinary general elections were held, and the approach to overcoming the crisis was a contentious issue in the election campaign. In particular, the stimulus approach was hotly debated. The Socialist Party was heavily criticized by the major opposition centre-right party, which argued that stimulus was leading the country into a deeper crisis and contributing to the economic deterioration that the government was either not acknowledging or hiding from the electorate. The Socialist Party won the election without securing an absolute majority in the parliament, and José Sócrates and the Socialist Party formed a minority government.

The shift in EU strategy came shortly after the instalment of the new minority cabinet. The political party whose election campaign had been based on the advocacy of the stimulus approach had to immediately draft a budget law shaped by the opposite argument and have it approved in a parliament in which it did not have majority support. The 2010 budget had already been drawn up under the influence of austerity, and this new approach was enshrined in PEC 1, dated 15 March 2010. The government was forced to adopt additional restrictive measures in May 2010 (PEC 2) and in the 2011 budget (PEC 3).

In March 2011 the newly revised version of the PEC (named PEC 4 in the domestic political debate) was rejected in the parliament by all opposition parties.

Following the rejection of the government's austerity approach, the Prime Minister resigned and snap elections were called for 5 June 2011.

Amid the ongoing economic crisis and the new political instability, government bond yields skyrocketed to an unsustainable level, rating agencies downgraded the country's sovereign debt and José Sócrates was forced to request the assistance of the troika in the middle of an election campaign.

A memorandum of understanding (MoU) was negotiated with the troika by the caretaker government and officially supported by the two parties that could win the general elections. It was signed on 17 May 2011, shortly before the elections, giving rise to an austerity-oriented economic adjustment programme.

The Socialist Party was defeated in the polls by the Social Democratic Party, a centre-right group affiliated with the European Popular Party and headed by Pedro Passos Coelho. Coelho's party formed a coalition with the Centre Democratic Social Party, which was right of centre too; having received the support of a majority in the parliament, the coalition government has since been overseeing the implementation of the adjustment programme. Indeed, the new centre-right government frontloaded the austerity measures contained in the MoU, sending the country back into recession. At the same time, it adopted rhetoric blaming previous governments for, in its words, »pouring money onto the problems« instead of promoting adjustment in line with the country's predicament.

The political management of the crisis led to an increased risk of the measures already taken being delegitimized. In 2009 the Socialist Party had been elected for a second term on a stimulus platform, only to introduce an austerity package immediately after the elections. Then the adjustment programme was negotiated by the outgoing Socialist government and left to be fully implemented by its successor – the centre-right coalition. Nevertheless, neither public opinion nor social dialogue was hostile to these developments. On the contrary, both the outgoing and the incoming government received a moderately favourable response from the general public, while the coalition was able to reach agreements through social dialogue.

The change of government gave the new ruling parties a breathing space before the full consequences of what had happened were understood. Meanwhile, the implementation of the adjustment programme is having increasingly negative economic and social effects. As yet, the reaction of public opinion to this development is unclear. However, there has been a change of mood towards the centre-right parties, which are now lagging the Socialist Party in the polls and suffered a heavy defeat in the local elections on 29 September 2013.

2. Economic recession, crisis and austerity

2.1 Two waves of recession

The liquidity crunch in financial markets, which intensified in the second half of 2007, seriously affected Portuguese banks, which had high levels of external debt. In recent years the economy had been funded through external financing via the banking system rather than through domestic savings. The difficulties in raising new credit, combined with the escalating cost of borrowing, led to the introduction of tighter credit policies by Portuguese banks (Banco de Portugal, 2008), which, in turn, resulted in the virtual stagnation of the economy in 2008.

The intensification of the crisis due to the Lehman Brothers bankruptcy had an immediate recessionary impact. Negative growth in the third and fourth quarters of 2008 threatened to send the country into a deep crisis. The government responded swiftly by taking measures to increase confidence in the domestic financial sector and facilitate the issuance of credit; those measures included state guarantees for borrowing by banks and capital injections to augment the banks' resources.

Nevertheless, capital inflows continued to decline, while the increase in the capital ratios of banks prevented those institutions from lending to the economy. The risk of a deep recession led to a new government initiative. The Portuguese stimulus package unveiled in January 2009 included the following measures:

- a) In construction: an intensified programme for the modernization of school buildings;
- b) In energy efficiency: incentives for renewable energy, improving the efficiency of public buildings and encouraging investment in energy transport infrastructure;

- c) In IT: support for the expansion of optic fibre networks;

- d) Special funding programmes to support small and medium-sized enterprises (SMEs) and increased exports;

- e) Stepped-up measures to boost active welfare and employment policies.

The stimulus package and the associated growth in public consumption succeeded in reversing the deeply negative economic trend but exacerbated the public deficit. The recession continued in 2009 but did not worsen; and by the end of the year, the economy was returning to growth. (See chart 1)

By the end of 2009, the government's main concern was no longer the structural weakness of the financial sector and the risk of recession but the sustainability of public finances. The switch of EU and national policy towards austerity had an immediate impact on economic growth, halting the recovery. It also led to a fall in public consumption, which started to weigh on the economy in 2010. Successive austerity measures – and especially the approach promoted by the MoU with the troika – resulted in a return to recession.

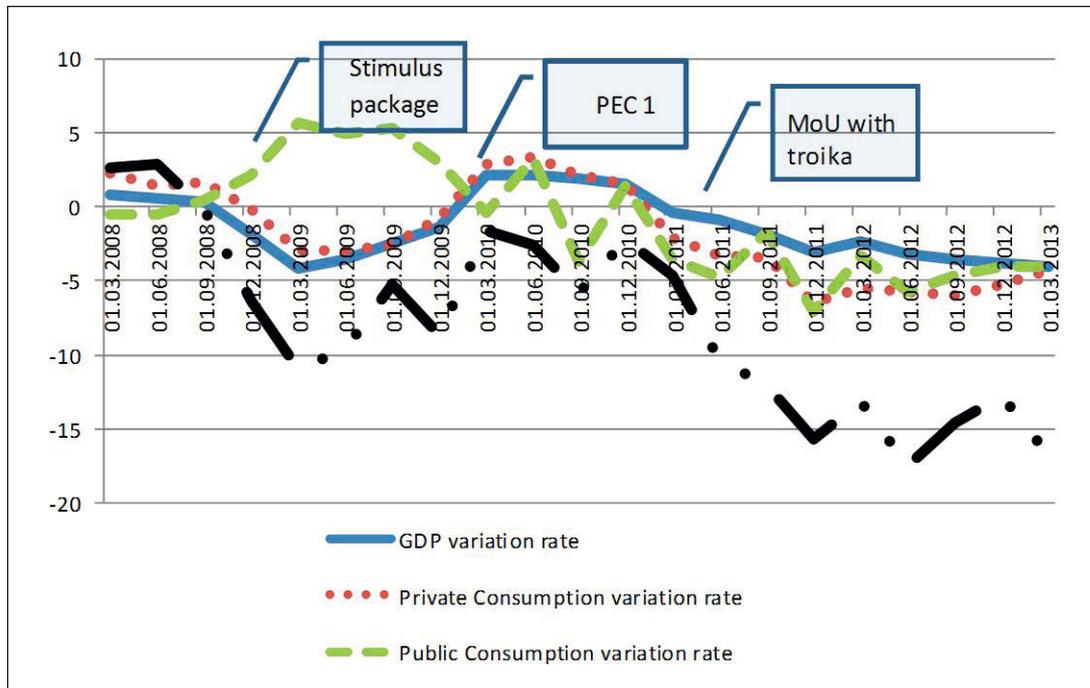
A consequence of austerity was that all domestic components of demand pushed the economy into recession. Investment and public and private consumption all decreased from the first quarter of 2011 onwards.

It is true that the stimulus package softened the impact of the crisis and eased the decline in investment in 2009. However, since the beginning of 2011 investment has been falling sharply, which will make economic recovery all the more difficult.

The return to growth continues to be forecast for 2014, although every forecast update lowers the target. The Bank of Portugal's 2013 spring forecast mentioned possible growth of 1.1% in 2014; but by the summer of 2013, this had been revised downwards to 0.3% (Banco de Portugal, 2013). It would not be surprising if the autumn forecast lowered the target once again, signalling a continuation of the recession.



Chart 1: Quarterly rates of change in GDP, private and public consumption and the gross formation of fixed capital (Q1/2008 – Q1/2013)



Source: National Accounts Department of the National Institute of Statistics (accessed in BP Stat).

2.2 Are exports the panacea?

Since the beginning of austerity, political initiatives have taken a pro-cyclical approach, reducing internal demand. To return to growth, the alternative is to increase external demand. However, this will be difficult: Portugal has a long history of external deficit and the Portuguese trade balance has been strongly negative since preparations for accession to the euro (Observatório das crises e das alternativas, 2012).

The decline in international trade in the last quarter of 2008 was felt immediately in Portugal. Like everywhere else in the world, both exports and imports fell sharply. Imports continued to record a decline in 2009 – a trend that started to change after the introduction of the stimulus package. However, the switch from stimulus to austerity led to persistently falling rates in private and public consumption and investment. The contraction of internal demand inevitably had a negative impact on imports and pointed towards the need for export-oriented strategies. Indeed, since the beginning of 2010 there have been opposing trends in exports and imports:

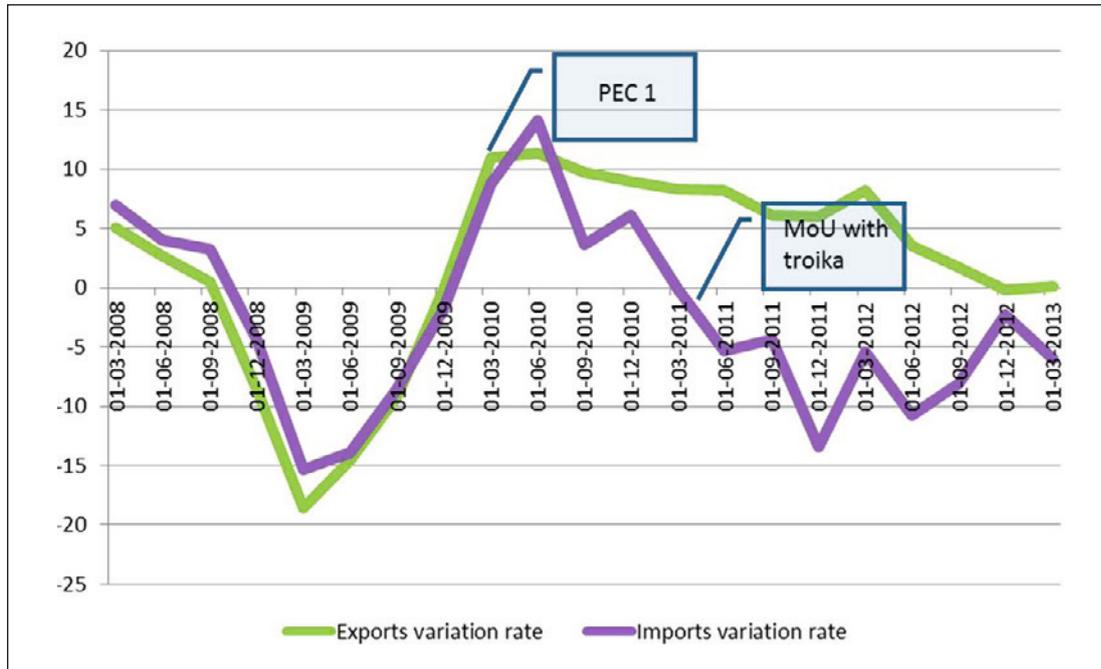
exports have been growing, although they showed a tendency to slow after 2012.

The effect of a negative trend in imports and a positive trend in exports led to a reduction in the external deficit. This success should be seen with caution. On the one hand, the improvement in the domestic economy evident from the reduction of the trade deficit is due less to an increase in exports than to the immediate effects of the contraction in consumption and investment. Therefore an improvement in domestic demand can quickly lead to the return of external imbalances. At the same time, given the current situation in Europe, the sustainability of export growth is questionable – even in the short term.

A country's export-oriented strategy is always exposed to the economic situation of its major trade partners. Even if the market quotas of Portuguese products increase, the crisis is affecting almost all its trade partners and especially Spain, its largest such partner. The attempt to diversify Portugal's external markets has had very limited results to date, although there are positive signs in two markets that have a large potential – namely, Angola and China.



Chart 2: Quarterly rates of change in exports and imports (Q1/2008 – Q1/2013)



Source: National Accounts Department of the National Institute of Statistics (accessed in BP Stat).

Table 1: Portuguese exports by country of destination (2010–12)

| | % of total exports | | | Rate of change (%) | |
|----------------|--------------------|------|------|--------------------|-----------|
| | 2010 | 2011 | 2012 | 2011/2010 | 2012/2011 |
| Spain | 26.6 | 24.9 | 22.5 | 9.4 | -4.5 |
| Germany | 13.0 | 13.6 | 12.3 | 21.4 | -4.1 |
| France | 11.8 | 12.2 | 11.8 | 20.2 | 2.7 |
| Angola | 5.2 | 5.4 | 6.6 | 21.7 | 28.6 |
| United Kingdom | 5.5 | 5.2 | 5.3 | 10.9 | 7.0 |
| Netherlands | 3.8 | 3.9 | 4.2 | 19.3 | 13.2 |
| Italy | 3.8 | 3.7 | 3.7 | 12.4 | 7.3 |
| US | 3.6 | 3.5 | 4.1 | 12.8 | 24.7 |
| Belgium | 2.9 | 3.1 | 3.1 | 27.9 | 3.9 |
| China | 0.6 | 0.9 | 1.7 | 68.8 | 96.3 |
| Others | 23.2 | 23.6 | 24.7 | 18.5 | 10.9 |
| Total | 100 | 100 | 100 | 16.6 | 5.8 |

Source: Department of International Commerce Statistics of the National Institute of Statistics, December 2011 and December 2012.

The recent slowdown in export growth may well be a consequence of Portugal's exposure to Europe and its vulnerability to the economic situation in Spain, which is expected to deteriorate in the coming years. Furthermore, the means whereby the equilibrium of trade in goods and services was achieved in Portugal is the same as that in Greece; and in itself it is not a sign of economic recovery (Observatório das Crises e das Alternativas, 2012). On the contrary, it is a reflection of the persistent domestic recession rather than of new positive dynamics in the export sectors.

2.3 Resilience and restructuring of economic sectors

The crisis is hitting all economic sectors, albeit with different levels of intensity. If we take the rate of change in gross value added (GVA) as an indicator of the resilience of a sector and the rate of change in employment as an indicator of its restructuring, we can see where the crisis has been felt more intensively.

In global terms, the Portuguese economy has shown low resilience and a high level of restructuring since the third quarter of 2008. There has been a decline in GVA (−4.8%) and huge losses in employment (−13%).

The sectors most hit by the global crisis were construction and financial services. The latter was at the centre of the crisis and felt its impact immediately. The former has been hit progressively by the downturn in domestic demand.

In the third quarter of 2008, construction accounted for 7.5% of GVA and 10.4% of employment in Portugal. Since then, it has shown a cumulative decline of 46.5% in GVA and 39.5% in employment. At the beginning of the crisis, the sector followed the general trend. The stimulus package included measures aimed at supporting it – namely, expediting the construction of new school buildings and launching public works – but fiscal adjustment created adverse conditions for both public- and private-sector construction. Unsurprisingly, the sector experienced its worst period immediately after the tightening of austerity measures. Between the third quarter of 2011 and the third quarter of 2012, it lost 19.7% in GVA and 16.5% in employment. (See table 2)

Financial and insurance activities have a different profile of exposure to the crisis. The sector accounted for 7.6%

of GVA and 2% of employment in the third quarter of 2008 and was hit immediately at the onset of the crisis. But while its resilience to the crisis was low, it refrained from employment reduction. Between the third quarter of 2008 and the third quarter of 2009, financial and insurance activities lost 15.6% in GVA but just 3.3% in employment. Government support to the sector, which was considerable in 2009, may have mitigated the negative impact of the crisis. From the third quarter of 2008 to the first quarter of 2013, the sector recorded a cumulative loss of 22.7% in GVA while employment was stable (−0.4%).

Public administration and collective services followed the trend in financial services, sharply reducing output while recording a decline in employment (between the third quarter of 2008 and the first quarter of 2010, it lost 10.2% in GVA and 3.1% in employment).

The effects of the crisis on manufacturing have been rather different. The sector has undergone intense restructuring with heavy losses in employment and a smaller reduction in GVA. In the third quarter of 2008, it accounted for 16% of employment, which declined 20% through the first quarter of 2013. During the same period it accounted for 13.8% of GVA, which recorded a much smaller decline (−2.9%). (See chart 3)

Like financial and insurance activities, manufacturing experienced its worst period at the initial stage of the crisis. Between the third quarter of 2008 and the third quarter of 2009, GVA diminished by 8% and employment by 8.1. Thereafter, the profile of the sector's exposure to the crisis changed for the better, possibly owing to the positive impact of the reorientation to exports and the recovery in production. However, the sector continued to reduce employment.

Wholesale and retail trade, transport, accommodation and food service activities show a similar trend towards restructuring but have recorded no decline in GVA, possibly owing to the balance between domestic and external demand – the sector includes the dynamic tourist industry. This is a heavyweight sector in the Portuguese economy, accounting for 22.7% of GVA and 25% of employment in the third quarter of 2008. From then until the first quarter of 2013, the sector restructured by reducing employment (−11.2%) but recorded an increase in GVA. The same trend is evident in the other services sector.

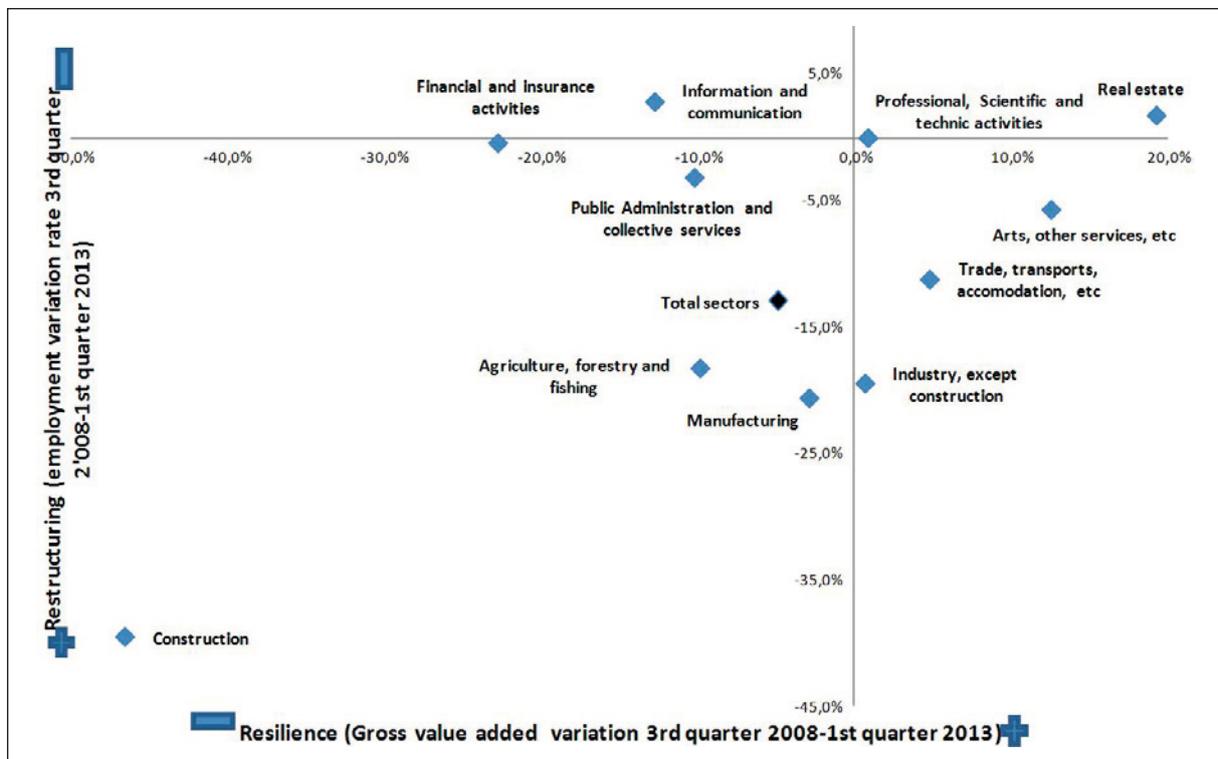
Table 2: Quarterly rates of change in GVA and employment (Q3/2008 – Q1/2013),

| | GVA (%) | | | | | Employment (%) | | | | | | |
|--|--------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | % of total in 3rd quarter 2008 | 3rd quarter 2008 – 3rd quarter 2009 | 3rd quarter 2009 – 3rd quarter 2010 | 3rd quarter 2010 – 3rd quarter 2011 | 3rd quarter 2011 – 3rd quarter 2012 | 3rd quarter 2012 – 1st quarter 2013 | 3rd quarter 2008 – 3rd quarter 2009 | 3rd quarter 2009 – 3rd quarter 2010 | 3rd quarter 2010 – 3rd quarter 2011 | 3rd quarter 2011 – 3rd quarter 2012 | 3rd quarter 2012 – 1st quarter 2013 | 3rd quarter 2008 – 1st quarter 2013 |
| Total – All NACE activities | 100.0 | -0.3 | 1.8 | -1.7 | -4.1 | -0.5 | -4.8 | 100.0 | -1.3 | -0.8 | -4.2 | -13.0 |
| Agriculture, forestry and fishing | 2.4 | -3.7 | 2.3 | -7.8 | 0.7 | -1.4 | -9.9 | 11.1 | -5.7 | -1.2 | 1.6 | -18.2 |
| Industry (except construction) | 17.4 | -3.8 | 7.1 | 0.7 | -3.3 | 0.4 | 0.7 | 17.4 | -2.1 | 0.1 | -6.2 | -19.4 |
| Manufacturing | 13.8 | -8.0 | 7.0 | 3.2 | -3.7 | -0.7 | -2.9 | 16.1 | -2.6 | 0.1 | -5.8 | -20.6 |
| Construction | 7.4 | -8.1 | -4.7 | -12.2 | -19.7 | -13.5 | -46.5 | 10.4 | -3.3 | -6.3 | -16.5 | -39.5 |
| Wholesale and retail trade, transport, accommodation and food service activities | 22.7 | 4.9 | 0.5 | 1.6 | -1.2 | -0.9 | 4.8 | 25.0 | 0.6 | -1.3 | -3.4 | -11.2 |
| Information and communication | 3.8 | 0.0 | -3.9 | -1.6 | -7.1 | -0.6 | -12.7 | 1.4 | 0.9 | 1.8 | -1.8 | 2.9 |
| Financial and insurance activities | 7.6 | -15.6 | 10.3 | -3.4 | -7.8 | -6.8 | -22.7 | 2.0 | -0.5 | 2.3 | -3.3 | -0.4 |
| Real estate activities | 8.4 | -0.6 | 2.8 | 4.9 | 5.1 | 5.8 | 19.2 | 0.8 | 0.3 | 4.7 | -1.0 | 1.8 |
| Professional, scientific and technical activities; administrative and support service activities | 6.6 | 0.8 | 0.1 | -0.3 | -0.1 | 0.3 | 0.9 | 8.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Public administration, defence, education, human health and social work activities | 20.9 | 5.1 | -0.8 | -6.3 | -9.1 | 1.0 | -10.2 | 19.1 | -1.4 | 0.9 | -2.7 | -3.1 |
| Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organizations and bodies | 2.7 | 3.3 | 4.4 | 0.4 | 2.5 | 1.3 | 12.5 | 5.6 | 0.7 | -1.3 | -1.7 | -5.7 |

Source: Eurostat.



Chart 3: Rates of change in GVA and employment by sector (Q3/2008 – Q1/2013)



Source: Eurostat.

Real estate has dealt well with the crisis. It accounted for 8.4% of GVA in the third quarter of 2008 but had only a very small share of employment (0.8%). Since the start of the crisis, it has recorded increases year on year; and in the period the third quarter of 2008 until the first quarter of 2013, it recorded an uptick of 19.2% in GVA and marginal growth in employment (1.8%).

To sum up, if we take the cumulative rate of change in GVA as a proxy for the economic resilience of a sector and the cumulative rate of change in employment as a proxy for the level of restructuring, we obtain the following picture of how Portugal's economic sectors are adapting to the crisis and the country's austerity responses:

- a) Construction: Lack of resilience and heavy restructuring;
- b) Manufacturing; public administration and collective services; and agriculture: Low level of resilience and moderate restructuring;

c) Financial and insurance activities; and information and communication technologies: Low level of resilience with no reduction in employment;

d) Trade, transport, accommodation; and arts: Resilient and restructuring;

e) Real estate; and professional, scientific and technical activities: Resilient and stable.

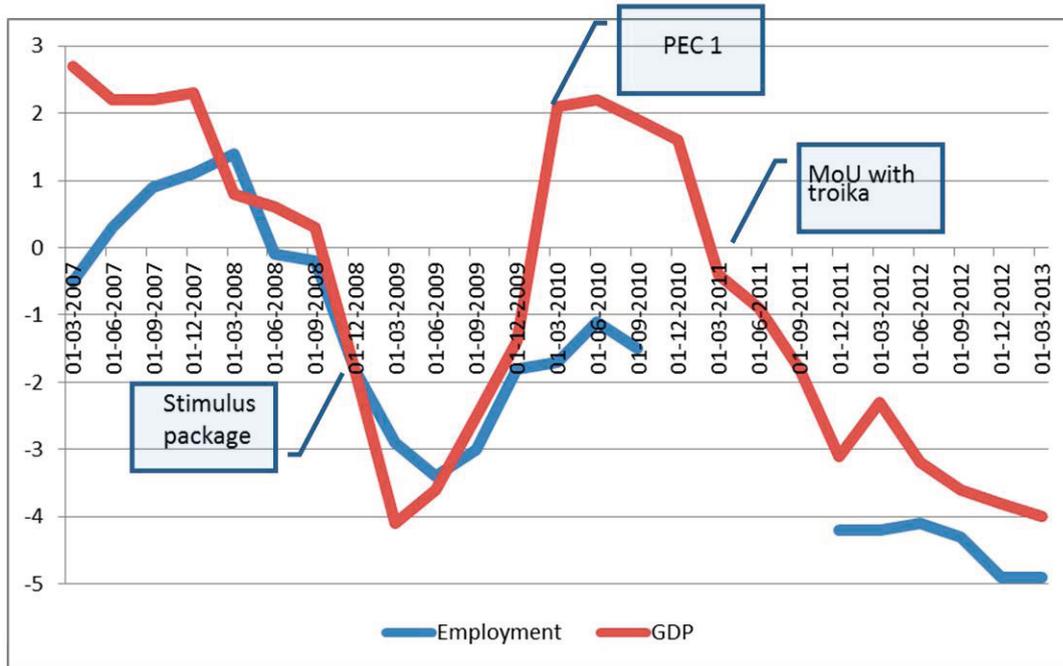
3. Employment, wages and the industrial relations model in transition

3.1 Job destruction in a segmented labour market: Youths and precarious workers most affected

The recession had an immediate (and severe) impact on employment. The flexibility of the labour market, a relatively new phenomenon in the Portuguese economy, led to the rapid shedding of labour. As a result, employment fell faster than GDP.

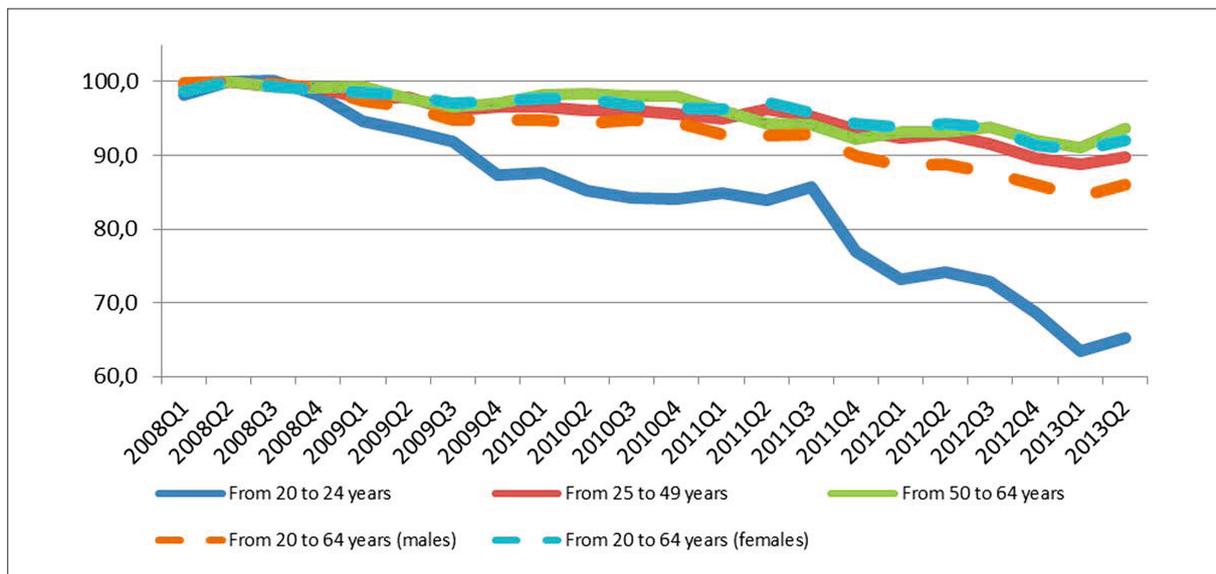


Chart 4: Rates of change in GDP and employment (Q1/2007 – Q1/2013)



Source: Eurostat.

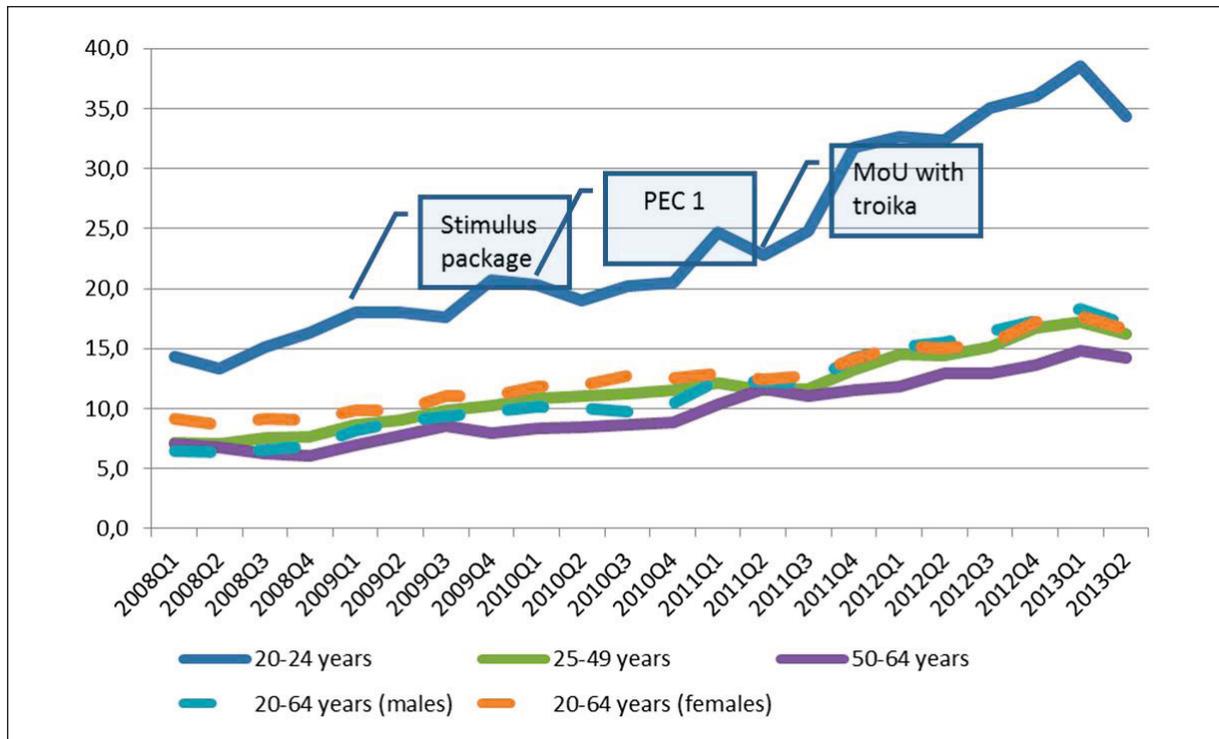
Chart 5 – Employment rates by age group and gender (Q1/2008 = 100)



Source: Eurostat.



Chart 6: Unemployment rates by age group and gender (Q1/2008 – Q2/2013)



Source: Eurostat.

The trend towards employment destruction may signal the demise of a feature of Portugal’s economy that distinguishes it from other south European countries. Unlike those states, Portugal has had persistently high employment and relatively low unemployment (Pedroso, 1999; Silva, 2002; Pedroso, 2007). In particular, the level of employment among women is very high compared with elsewhere in the region, which is a further distinguishing feature of the Portuguese labour market (Ferreira, 1998; Távora, 2012).

In the second quarter of 2008, 79.7% of men and 66.7% of women aged 20–64 were employed. Among both men and women, the employment rate for those aged 25–49 was 83.2%, while for the age groups 50–64 and 20–24 it was 59.7% and 55.7%, respectively. Employment rates have fallen since the start of the crisis. In five years, the employment rate for men has sunk to 68.5% and for women to 62.2%. This downward trend is across all age groups: the employment rate fell to 74.7% for those aged 25–49, to 55.9% for the age group 50–64 and to 36.3% for youths aged between 20 and 24.

Within the overall trend, there is a distinct pattern in youth employment. The employment rate among youths has declined by one-third, which is a much larger reduction than the decreases in all other age groups. (See charts 4 and 5)

If we look at the employment problem from the perspective of unemployment rates, we see that youth unemployment skyrocketed from 13.3% in the second quarter of 2008 to 34.3% in the same quarter of 2013. Meanwhile, the average unemployment rate among all age groups is around 17%, which, like that for youth unemployment, is unprecedented in what has traditionally been a low unemployment country. (See chart 6)

Besides facing unprecedented levels of unemployment, Portugal is confronted with the current specifics of its youth unemployment and the risk of losing the best-qualified generation it has ever had. There is some evidence, albeit inconclusive, that emigration has resumed in earnest. Nevertheless, the constant high pressure on youths in the labour market is a particularly sensitive issue – one that poses the risk of tensions between generations.

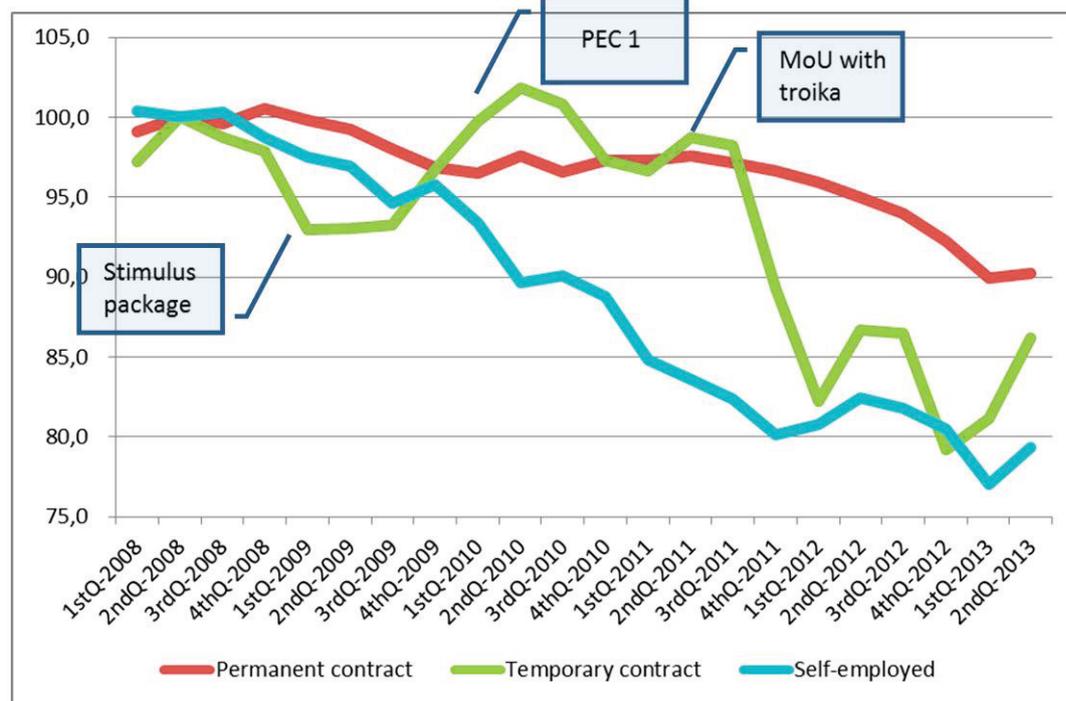


Table 3: Employees by type of contract (Q2/2008 – Q2/2013)

| | Q2/2008 | | Q2/2013 | | Rate of change Q2/2013 – Q2/2008 |
|-----------------------------|----------------|--------------|----------------|--------------|-------------------------------------|
| | 000s | % | 000s | % | |
| Employees | 3 978.3 | 76.1 | 3 523.1 | 78.2 | -11.4 |
| – On permanent contract | 3 053.4 | 58.4 | 2 754.8 | 61.1 | -9.8 |
| – On temporary contract | 738.8 | 14.1 | 636.7 | 14.1 | -13.8 |
| – On other kind of contract | 186.2 | 3.6 | 131.7 | 2.9 | -29.3 |
| Self-employed | 1 199.2 | 22.9 | 951.4 | 21.1 | -20.7 |
| Family workers | 50.5 | 1.0 | 31.1 | 0.7 | -38.4 |
| Total | 5 228.1 | 100.0 | 4 505.7 | 100.0 | -13.8 |

Source: Employment survey by the National Institute of Statistics.

Chart 7: Employment by type of contract (Q2/2008 = 100)



Source: Employment survey by the National Institute of Statistics.

The segmentation of the Portuguese labour market (Dornelas et al., 2011) is not only making it more difficult for newcomers to the labour market. It is also having an impact on the share and dynamics of atypical work.

The occupied labour force normally includes a large share of temporary workers as well as a high percentage of self-employed – a large number of whom are, in fact, so-

called precarious workers. In the second quarter of 2008, 23 % of the occupied labour force was self-employed and 14 % had a temporary contract; if all types of precarious worker are included, the total share of such workers was 41.5 % of the occupied labour force. Since then, jobs have been destroyed in all segments of the labour force, but atypical workers have been hardest hit. Between the second quarter of 2008 and the second quarter of

2013, total employment was down 13.8%, while the self-employed segment was down 20.7%, compared with a fall of 9.8% in the permanent work force (or less than half of the decline in self-employment). (See table 3)

The »core« labour force tend to be protected from unemployment. The »peripheral« labour force – that is, the segment of precarious workers – has an increased risk of rapid job loss when economic conditions change.

The quarterly rate of change in employment shows how the impact of the various phases of the crisis has varied from one segment of the labour force to the other. Not least, this is true in the case of the various groups of precarious workers. If we look at employment in the second quarter of 2008, it is evident that the self-employed were hit immediately and the employment level of this segment did not recover after the stimulus package had been introduced. Temporary workers were not immediately affected; the stimulus package succeeded in halting the downward trend in this segment, but the radical change of climate following the MoU with the troika precipitated the fall in the employment rate. This was also the case in the segment of workers on a permanent contract, although the decline was slower and less steep.

Workers on permanent contracts are losing their jobs at a slower rate than are precarious workers. Thus employment is now less precarious – but only because a larger number of precarious workers have become unemployed.

To sum up, while the crisis has hit all segments of the labour force, its negative impact has been felt most by youths and precarious workers.

3.2 Labour law changes aimed at cheaper labour and easier dismissals

Portugal is rightly seen as a country with a high level of legal employment protection. Nevertheless, in the first decade of the 21st century the country registered the largest decline in legal employment protection among the OECD countries (Venn, 2009).

The 2003 Labour Code had several consequences for the individualization of work relations, including a sharp fall in collective bargaining. In 2005, following its return

to power, the Socialist Party proposed a comprehensive reform of the Labour Code that addressed all technical issues in detail and was supported by social dialogue.¹

The 2006–09 reform took place in two stages. In 2006 the newly formed parliament approved a measure to boost collective agreements. Thereafter the government appointed an independent commission to draft a »green book« of industrial relations, which was submitted in April 2006 (Dornelas et al., 2006). In November 2007 it received a »white book« of proposals (Fernandes et al., 2007) and in June 2008 reached an agreement through social dialogue on the fundamental principles of reform.

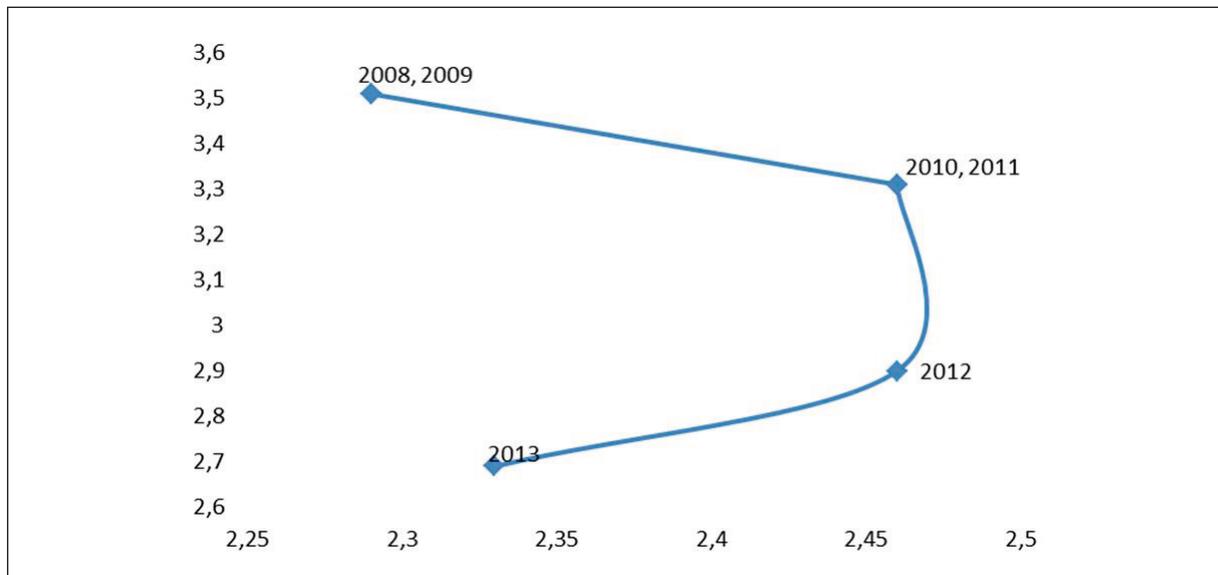
The Labour Code reform aimed at promoting the internal flexibility of the workforce (multiple functions and a changing work schedule, including the concentration of working hours and the introduction of a system of banking hours through collective agreement). At the same time, it increased the number of areas in which collective agreements could take precedence over the law, simplified individual and collective dismissal procedures and changed the mechanisms that could lead to the breakdown of a collective agreement. As regards the protection of workers, it included measures that promoted parenthood and restricted the conclusion of fixed-term contracts as well as limiting their duration.

The effect of the 2006–09 Labour Code reform, as measured by the OECD's strictness of employment protection indicator, was to slightly reduce protection against individual and collective dismissals and significantly reinforce the protection of temporary contracts. In other words, it altered the relative level of employment protection among the various labour market segments.

In 2009 the government's focus on labour law was not yet driven by the global crisis. Rather, it was programmatic and aimed at the reform of labour market regulation proposed by the Socialist Party, which itself was defined by the principles of »protected mobility« (Auer, 2006).

1. The social dialogue agreements on labour law mentioned here were signed by employers' representatives and the General Union of Workers, the Socialist-oriented trade union confederation. The General Federation of Portuguese Workers, whose members are mostly Communist and which is believed to be the more representative of the trade union confederations, has never signed a labour law agreement in the entire history of Portugal's social dialogue.

Chart 8: OECD's strictness of employment protection indicator (Version 3) for Portugal (2008–13)



Source: OECD.

It was only after the shift to austerity, and under the second government of José Sócrates, that the overhaul of the labour law framework was re-oriented towards responding to the crisis. Reflecting its concerns at that time, Socrates' government committed to reducing severance payments in the case of dismissal.

The government was keen to secure the support of social partners for its new approach. In March 2011 it reached an agreement with such partners that declared the intention to promote competitiveness and employment – at a time when the reduction of the deficit was already a priority. In accordance with that agreement, the Labour Code was amended to reduce severance payments in the case of individual and collective dismissals under work contracts signed after 1 November 2011.² (See chart 8)

As regards labour market regulation, the MoU with the troika has a programmatic character and established new objectives:

Revise the unemployment insurance system to reduce the risk of long-term unemployment while strengthen-

2. The agreement was reached by the Socialist government, but because of the early parliamentary elections the law was approved by a new parliament with a centre-right majority.

ing social safety nets; reform employment protection legislation to tackle labour market segmentation, foster job creation, and ease the transition of workers across occupations, firms, and sectors; ease working time arrangements to contain employment fluctuations over the cycle, better accommodate differences in work patterns across sectors and firms, and enhance firms' competitiveness; promote labour cost developments consistent with job creation and enhanced competitiveness; ensure good practices and appropriate resources to Active Labour Market Policies to improve the employability of the young and disadvantaged categories and ease labour market mismatches.

The new centre-right coalition government was also successful in reaching an agreement with its social partners on a new labour law reform shaped by the MoU. That agreement was concluded in January 2012 and the Labour Code was revised six months later, in June 2012. The focus of the new reform, like that of its predecessor, was to promote the internal flexibility of the workforce, largely through more flexible work schedules (the practice of banking hours was made possible by direct negotiations between employers and individual workers; payments for overtime were reduced; and the number of public holidays was cut) and easier dismissals



Table 4: Minimum wage in Portugal (2007–13)

| | Value* | Nominal annual change (%) | Real annual average change (%) | % of median wage of full-time workers | % of full-time workers receiving minimum wage |
|------|---------|---------------------------|--------------------------------|---------------------------------------|---|
| 2007 | €403.00 | 4.4 | 1.9 | 51.4 | 6.0 |
| 2008 | €426.00 | 5.7 | 3.0 | 52.4 | 7.4 |
| 2009 | €450.00 | 5.6 | 6.6 | 53.7 | 8.7 |
| 2010 | €475.00 | 5.6 | 4.1 | 56.6 | 10.5 |
| 2011 | €485.00 | 2.1 | -1.5 | 56.5 | 11.3 |
| 2012 | €485.00 | 0.0 | -2.8 | n/a | n/a |
| 2013 | €485.00 | 0.0 | n/a | n/a | n/a |

* Takes into account 14 wages a year, in accordance with Portuguese wage practice.

Source: Office for Strategic Studies of the Ministry of Economy and Employment (data up to 2012).

(flexible criteria for dismissal based on abolishing a position; more scope for dismissal based on ineptitude of the worker; and the reduction of severance payments for dismissed workers whose contracts had been signed before 1 November 2011).

In August 2013 severance payments were reduced further through a new amendment to the Labour Code, under the continued justification of fulfilling the agreement reached with the troika. For the first time during this period, the initiative was not supported by a tripartite agreement (that is, one between the government, employers' federations and trade unions).

Following the shift from stimulus to austerity, the rationale for revisions to the Labour Code was to contain labour costs and reduce the cost of dismissals. Two approaches were taken to achieve these ends. For those who kept their jobs, payments for overtime and working unsocial hours were reduced and compensation in the form of time in lieu (instead of money) was increasingly awarded for concentrated periods of work. For those who lost their jobs, cost cuts were achieved through successive reductions in severance payments.

Until recently, this strategy was endorsed by the social partners. In reaching agreements with the government in 2011 and 2012, the moderate trade union confederation showed willingness to cooperate over the adjustment of public finances and accepted the constraints of the MoU with the troika. However, social dialogue was ruptured by

the last reduction in severance payments; and it remains unclear when, if ever, the government and its social partners will be able to re-establish the conditions for successful social dialogue.

3.3 Minimum wage freeze

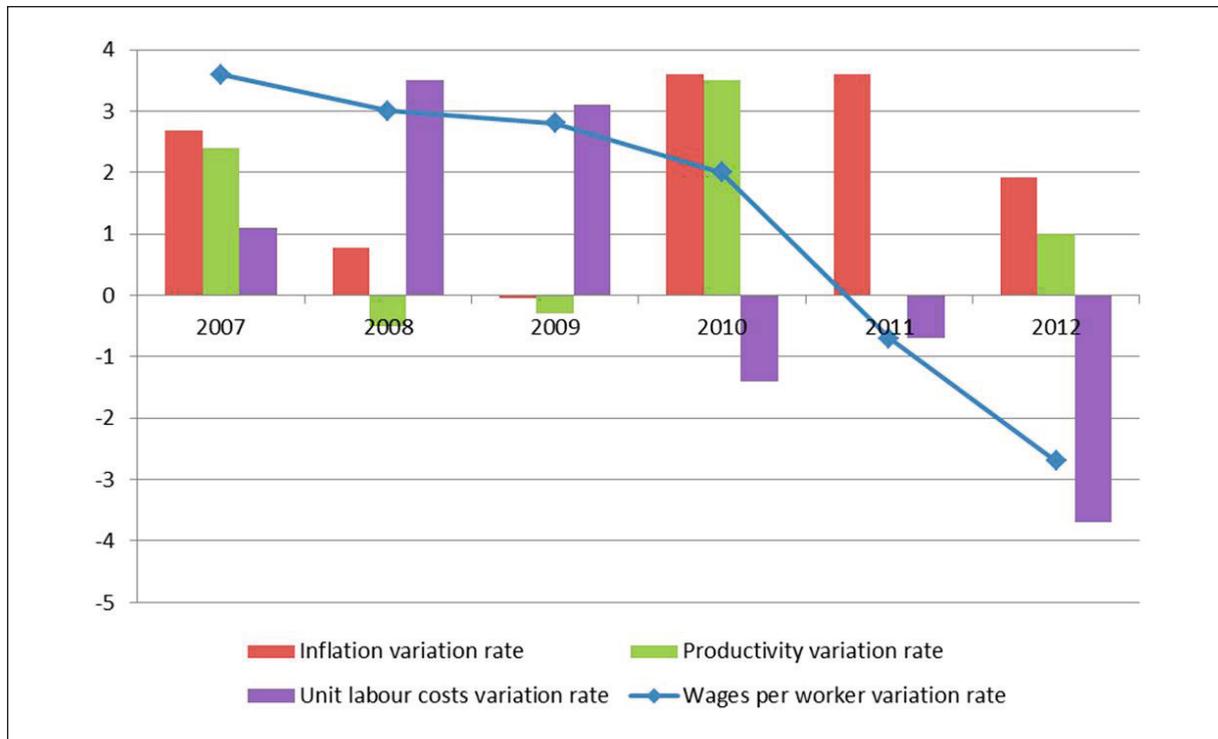
The minimum wage was established after the revolution of 1974. It is seen as one of the immediate consequences of the revolutionary movement in the labour sphere.

The Socialist government elected in 2005 included an increase in the minimum wage among its targets. In December 2006 the government and its social partners agreed a multiannual plan whereby the minimum wage would increase progressively to €500 a month by 2011. Until 2010 the government honoured its commitment and in 2011 made one last increase that was smaller than originally planned. The new centre-right government froze the minimum wage in 2012–13. (See table 4)

The Portuguese minimum wage has had an impact on the labour market since the share of full-time workers who receive it has been growing as the wage itself has increased; that share now stands at around 10%. In the first half of 2012, 11.3% of workers of all ages and 12.8% of new recruits were receiving the minimum wage (Office for Strategic Studies of the Ministry of Economy and Employment, 2012: 17).



Chart 9: Variation rates in wages, productivity, inflation and unit labour costs (2007–12)



Source: National Accounts Department of the National Institute of Statistics (accessed in BP Stat).

The decision to freeze the minimum wage stems directly from the MoU with the troika and the current austerity-driven policies aimed at boosting competitiveness by reducing wage costs. But this policy direction was anticipated by the second Socialist government when, as part of the shift to austerity in response to the crisis, it failed to meet the 2011 target for the minimum wage agreed with its social partners.

3.4 Decline in wages

Before the crisis, Portuguese wages were increasing in real terms and at a higher rate than productivity, albeit from a low base in the overall European context. The faster growth of wages compared with productivity and inflation was often criticized as one of the main reasons for Portugal's loss of competitiveness (Blanchard, 2007).

Other than fiscal adjustment, the MoU explicitly identifies containing labour costs as one of the principal targets to meet; in this respect, the memorandum is the logical

continuation of PEC 1. So far the strategy of keeping down labour costs has been successfully implemented. The very first year of austerity implied a reduction in unit labour costs; and this approach was reinforced in 2011 and especially in 2012. This reduction stems mainly from the effect of trends in wage growth, as productivity growth is very weak. In 2010 wage growth lagged that of inflation and productivity and in 2011–12 was in negative territory. (See chart 9)

The aggregate reduction in wages is the result of the creation of jobs that are lower paid than the ones destroyed and the reduction in real wages owing to the new flexible work arrangements. Indeed, it could be argued that unemployment, with the help of the new labour regulations, is pushing down wages in a way that is unprecedented in the country.

3.5 Social dialogue and collective bargaining: On hold or at serious risk?

The collective bargain was included in the 2003 reform of the Labour Code and had an immediate effect. In October 2005 the newly elected Socialist government proposed amending labour law to facilitate the return to collective bargaining.

Before the crisis worsened, the Socialist government invested in social dialogue at the macro level (Dornelas, 2010). It agreed with its social partners to implement several major reforms, including the reform of social security (agreement reached in 2006), an increase in the minimum wage (2006), the reform of vocational training (2007) and the reform of labour law (2008). By doing so, the government was following the practice established in the previous decade of focusing the discussion on specific subjects rather than strategic pacts (Naumann & Lima, 2011). The macro-dialogue was rather successful: the minimum wage agreement was signed by all employers and trade union confederations, while it was only the General Federation of Portuguese Workers (CGTP) – which, as noted above, is believed to be the largest trade union confederation, has a membership that is largely Communist and rarely agrees to social pacts – that did not sign the other agreements.

At the sector and company level, social dialogue took off once again after 2006. The increase in the number of collective agreements is believed to have resulted from the revision of the Labour Code that was aimed at promoting that dialogue.

For all the controversy it generated, the 2009 reform of the Labour Code was not driven by the government's response to the crisis but by its reformist agenda. When the government switched to a crisis-driven response in March 2010, there was no immediate major reaction from the labour movement. That situation started to change when the successive austerity packages were introduced (Lima, 2013).

In November 2010 the budget for 2011 triggered a general strike called by both the CGTP and the General Union of Workers (UGT), the Socialist-oriented trade union confederation. The budget law included measures such as an average 5 % reduction in public sector wages (the cuts ranged from 3.5 % to 10 % according to the

wage level), a freeze on promotions, pensions and social benefits and an increase in VAT.

Nevertheless, the UGT remained open to dialogue on industrial relations. In March 2011 a tripartite agreement was signed that approved an approach of so-called »organized decentralization«. This included the reduction of severance payments for dismissals under new contracts, an increase in the scope for company-level collective bargaining and greater internal flexibility of the workforce.

When the newly installed government presented its budget for 2012, the CGTP and UGT called another general strike in November 2011. This time the main budget measures were more cuts in public sector wages and pensions (cutting the 13th- and 14th-month bonus payment) and a half-an-hour increase in the maximum permissible journey time to work in the private sector.

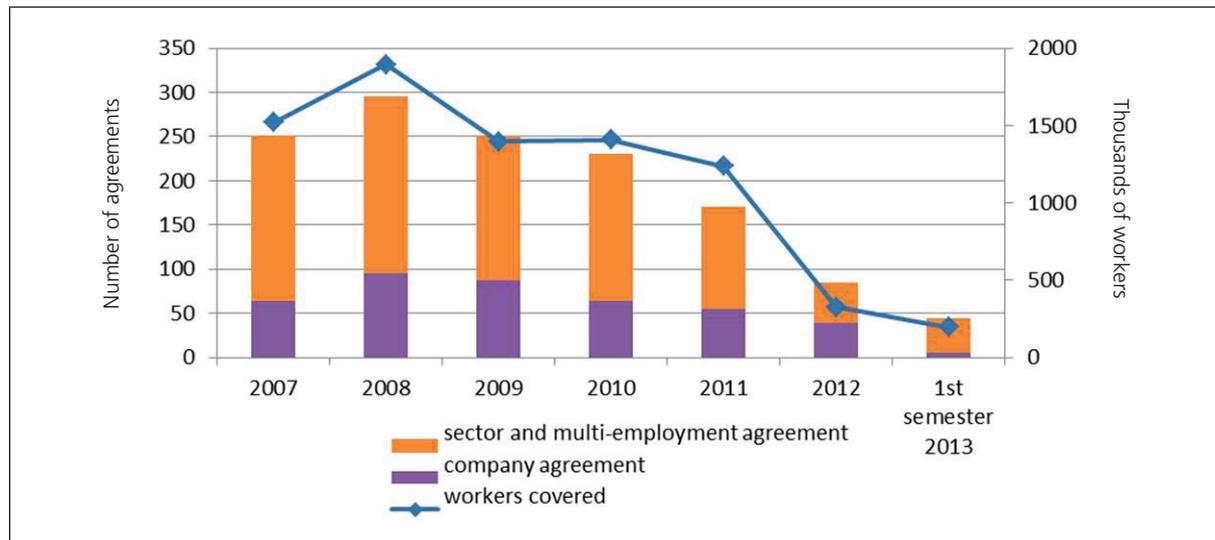
With the declared aim of preventing the government from increasing the journey time to work, the UGT returned to the negotiating table and in January 2012 signed what its own leader called a »defensive agreement«. Under that agreement, the government dropped the proposal to increase the journey time to work and the UGT accepted (together with the employers' confederations) most of the commitments Portugal had made in the MoU with the troika – namely, internal flexibility of the workforce and a reduction in holiday and overtime payments as well as in the number of vacation days. The UGT's signing of this agreement was more contentious among its members than its signing of previous ones had been. For its part, the CGTP responded to the agreement and the labour law reform by calling another general strike in March 2012.

Both the controversy caused by the agreement and the general strike changed the social-dialogue climate in the country.³ Since that time the government has been unable to launch any new negotiations. The budget for 2013 triggered yet another general strike, once again called by the CGTP. That move drew mixed responses

3. During this period, both trade union confederations held congresses at which new leaders were elected to replace the acting ones, both of whom had been in office for around two decades. In January 2012 Manuel Carvalho da Silva was replaced as head of the CGTP by Communist hardliner Arménio Carlos. In April 2013, João Proença took over from Carlos Silva as leader of the UGT. Like his predecessor, Proença is from the Socialist Party; before becoming UGT leader, he was a trade unionist in the banking sector.



Chart 10: The number of collective agreements and the number of workers covered by them (2007–13)



Sources: Directorate-General for Employment and Labour Relations (2013); UGT (2012).

from the side of the UGT. While the confederation itself did not call the strike, several of its member federations and trade unions did.

At the level of collective bargaining, the crisis has had devastating effects. Since 2008 the number of collective agreements has fallen every year. Moreover, the crisis has changed the balance of power in relations between employers and employees: it is reported that workers' proposals are now systematically rejected by employers (Lima, 2013).

The impact of the two waves of austerity is evident in the results of recent collective bargaining. While both the number of agreements concluded and the number of workers covered by those agreements increased in 2009, the trend has been sharply downwards since the signing of the MoU with the troika.

That agreement with the troika interfered directly with collective bargaining. The troika had wanted the government to refrain from the administrative extension of collective agreements to all companies in the sectors covered by those agreements until the criteria for such an extension had been approved. The Portuguese government took until October 2012 to approve the criteria; they stipulate that employers who have signed up to the collective agreement must account for more than 50 %

of the labour force in the relevant sector for an extension to be made. Even employers' associations consider this criterion to be too restrictive; they have written to the government asking for an exemption in sectors in which microenterprises and SMEs account for more than 30 % of the workforce.

The troika's rationale for this requirement is that the extension of agreements forces wage increases in companies that are unable to meet the increased costs. The employers' reason for requesting the extension is that it prevents some companies from dumping. Trade unions, for their part, have always been in favour of the extension of agreements.

The combination of an ever-more aggressive strategy by employers of settling wages on the shop floor, restrictions on the administrative extension of agreements and the economic recession has paralyzed social bargaining since 2011. (See chart 10)

The first semester of 2013 yielded negative indications about developments in collective bargaining. The available information suggests that the number of workers who are now covered by collective agreements is very low – less than 15 % of the labour force. This unprecedented step backwards threatens the prevailing model of industrial relations.

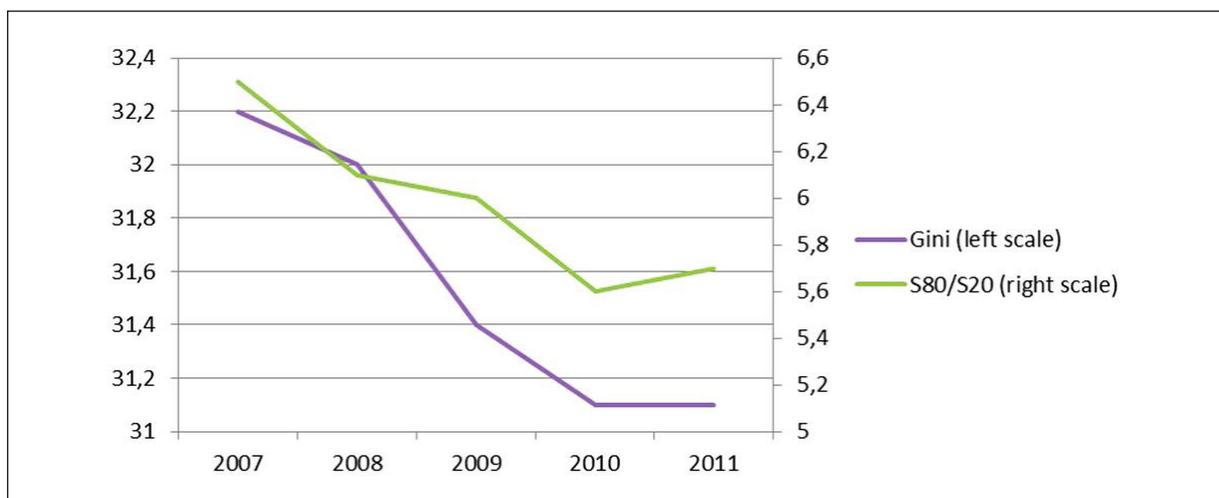


Table 5 – Mean and median equivalized net income and the number of people living in poverty (2007–11)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------|--------|--------|--------|--------|
| Mean equivalized net income (€) | 9,929 | 10,288 | 10,393 | 10,540 | 10,407 |
| Median equivalized net income (€) | 7,573 | 8,143 | 8,282 | 8,678 | 8,410 |
| % of people living in poverty (defined as below 60 % of median income) | 18.1 | 18.5 | 17.9 | 17.9 | 18.0 |

Source: Eurostat.

Chart 11 : Gini index and S80/S20 ratio (2007–11)



Source: Eurostat.

To conclude, both social dialogue and collective bargaining are currently paralyzed. It is too early to say if they are on hold or, indeed, if the model of industrial relations that Portugal has known since the 1970s is at serious risk.

Austerity led to a fall in the income of the population. Both the mean and median net disposable income fell in 2011 compared with the previous year. Since then unemployment and taxes have increased while wages have decreased; therefore, recent data on net disposable income are likely to confirm the trend that appeared to begin in 2010–11. (See table 5)

4. Income and the welfare state: More social problems, fewer public responses

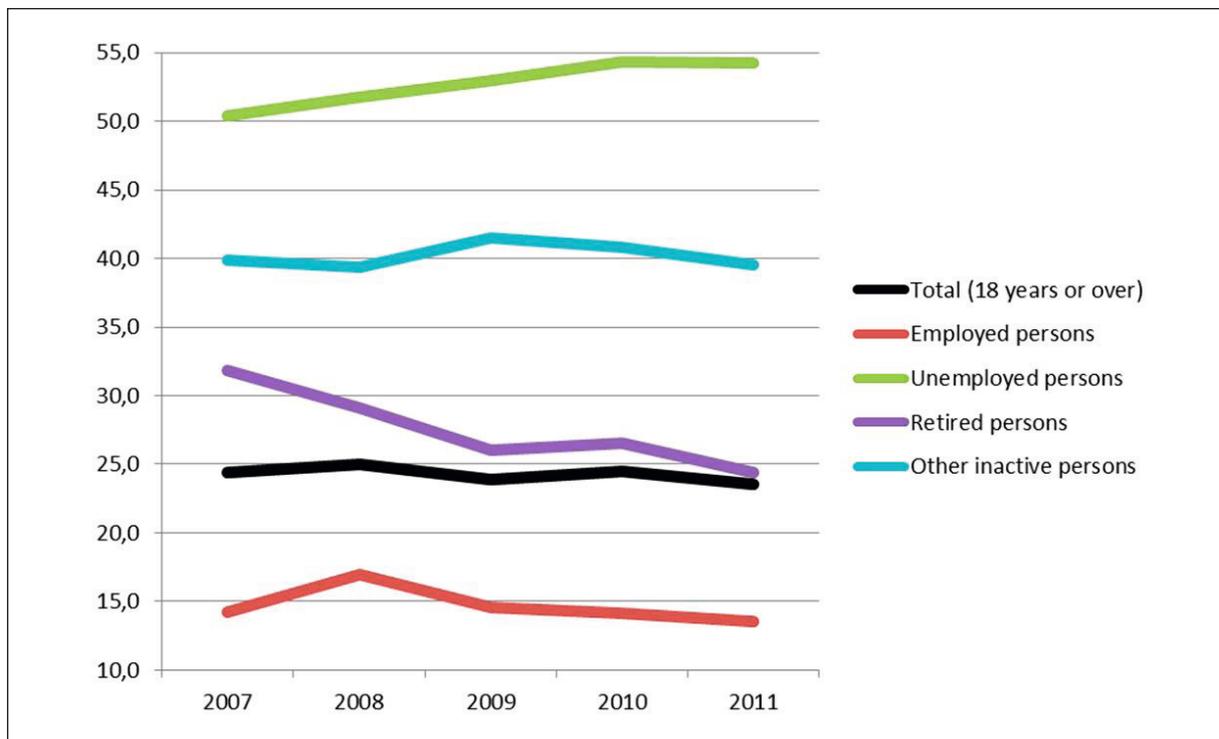
4.1 Reduction in inequalities and poverty: Paused or reversed?

It is difficult to assess the effects of the crisis on the distribution of income and poverty as the relevant data are available only until 2011, which is precisely the year in which more restrictive policies were adopted. Nevertheless, some trends can be identified.

Portugal has a high level of income inequality as well as a high level of vulnerability to poverty, which, however, has been decreasing continuously since the 1990s (Capucha, 2009; Rodrigues et al., 2011). Until 2011 (the last year for which data are available) the crisis had had no impact on this trend. The ratio between the top and bottom quintiles decreased (from 6.5 to 5.7) and the Gini index fell (from 32.2 to 31.1). Will this trend continue?



Chart 12 : Adults living in poverty by main working status in previous year (2007–11)



Source: Eurostat.

Indicators for 2010–11 suggest a trend reversion. The Gini index stopped falling (it was 31.1 for both years) and the ratio between the top and bottom quintiles moved in the reverse direction (from 5.6 to 5.7). Moreover, the changes in both the labour market and social protection mechanisms (see below) suggest that austerity will lead to the return to the growth of inequalities. (See chart 11)

Because the median income has fallen and the indicators of vulnerability to poverty are related to income distribution, the poverty threshold is now lower.⁴ As the median citizen is receiving less money, those included in the poverty count must be poorer today than they were before.

Even with the effect of the lowering of the poverty threshold, the poverty count has not fallen since 2009: 18 % of the population was living on resources that were less than 60 % of the mean income in 2011. Again, the

4. In 2011 the commonly used poverty threshold of 60 % of the median income was €5,046 per annum for a single person and €10,596 for a family of two adults and two children under 14. The corresponding figures for the previous year were €5,207 and €10,935, respectively.

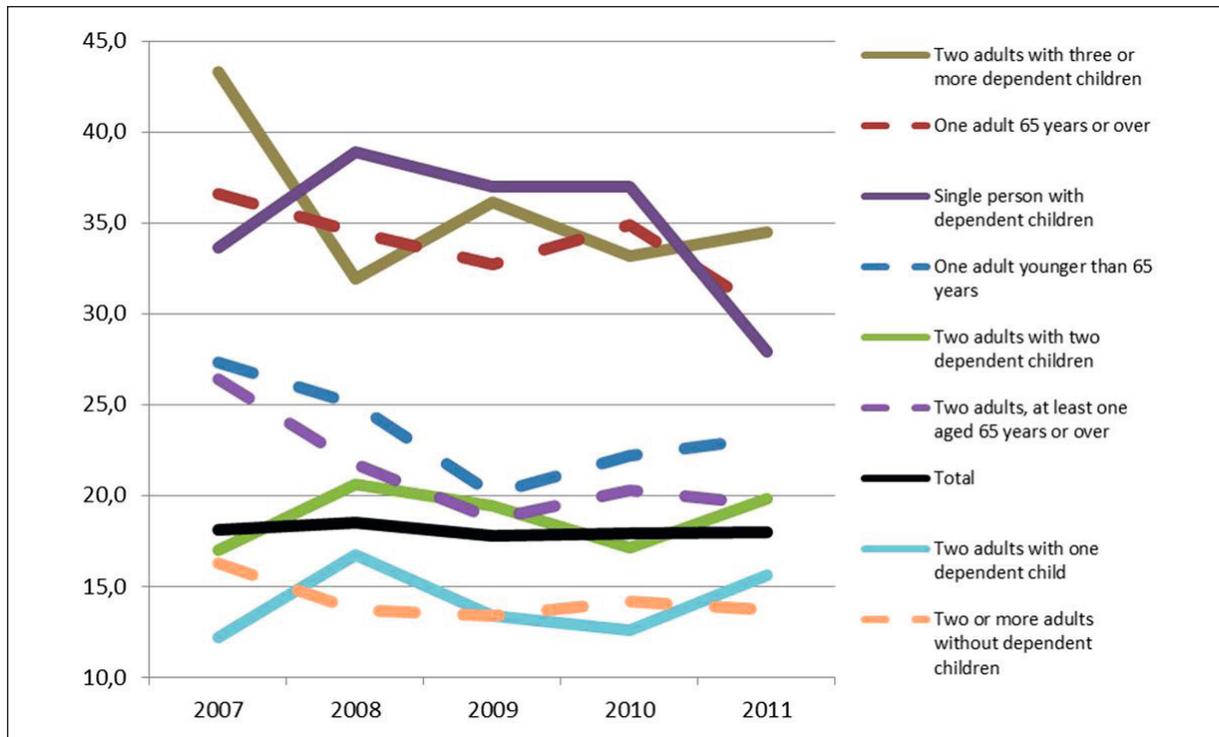
trend that can be expected in the coming years is one of two-fold deterioration: a falling poverty threshold and an increase in the number of people living on an income that is below that threshold.

A breakdown of the risk of poverty by group allows us to identify the more vulnerable segments of the population. For adults, employment status is an important factor in determining the risk of poverty. Not only did the unemployed record the highest share of those living in poverty at the beginning of the crisis, followed by other inactive persons; they were also the group for whom the risk of poverty immediately started to increase when the crisis broke out.

Above all, unemployment has hit construction workers, young people and the peripheral labour force – hence workers earning lower wages. A possible consequence of this development is that the number of working poor is diminishing, since some have become unemployed. Moreover, since individual wages have not been reduced, the lowering of the poverty threshold has taken some of the working poor out of the count. Thus we can



Chart 13: Risk of poverty by type of household (2007–11)



Source: Eurostat

ascertain that the risk of poverty among the employed has decreased. (See chart 12)

Despite pensions cuts (see below), the composition of pensioners is changing because every year the average value of newly claimed pensions is increasing.

The question that immediately arises with regard to the risk of poverty among adults is the link between unemployment and poverty. More than half of unemployed persons are living in poverty and unemployment continues to grow. If new ways to fight unemployment are not found, long-term unemployment can be expected to grow and poverty among the unemployed to increase.

The structure of households is an important factor in the differentiation of the risk of exposure to poverty. Like other south European countries, Portugal is seen as a family-oriented society where the pattern of social protection is defined by informal solidarity and strong ties among family members (Santos, 1993; Ferrera, 1996; Rhodes, 1997; Silva, 2002).

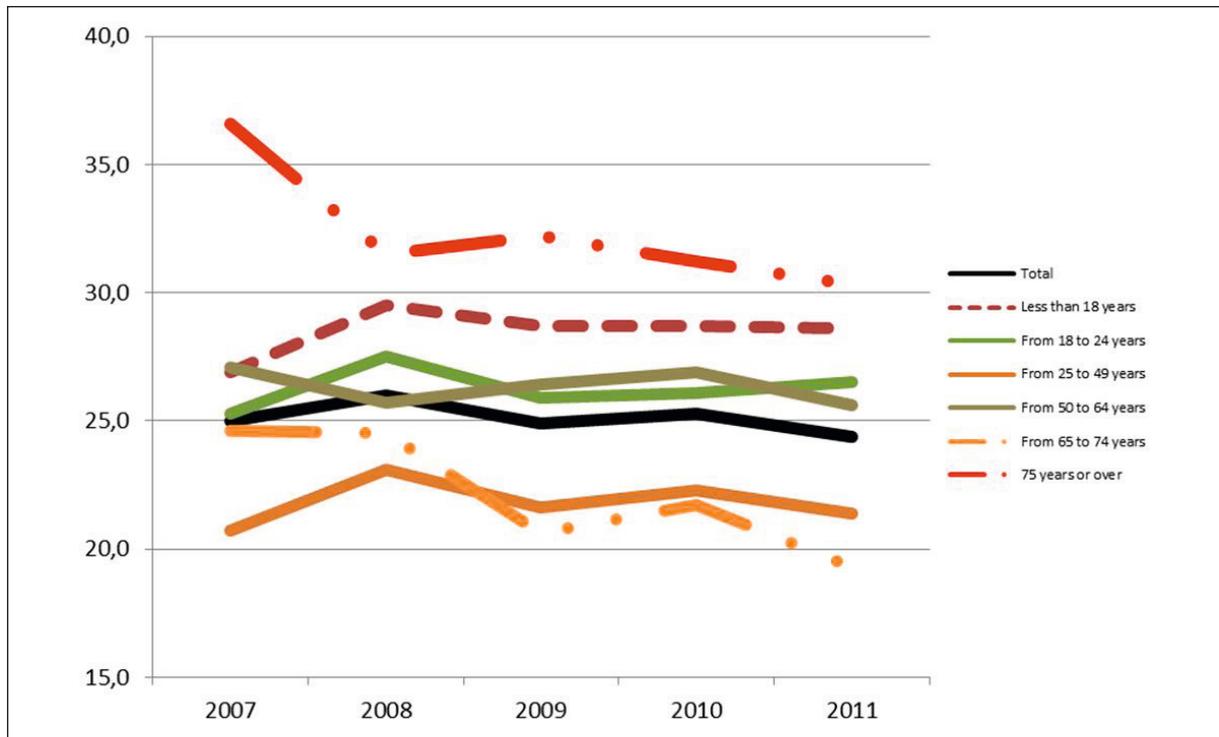
However, this view of Portugal presents a paradox. The assumption that it is a family-oriented society may be the reason for Portugal's weak family policies (Wall, 1995; Portugal, 2000; Portugal, 2008). Portuguese families with dependent children are more exposed to poverty than are other types of family. Currently, the type of household with the highest poverty level is one in which two adults and three or more dependent children are living. (See chart 13)

Families with no dependent children are the most immune to the risk of poverty. That risk increases with the number of dependent children. Because the welfare state is oriented towards preventing poverty among the elderly, families are struggling to raise their children. This may explain why there is a low fertility rate in Portugal, but at the same time it demonstrates the scale of the challenge for social policy.

The above data contest the common-sense idea that the poorer persons are the older ones. This is indeed the case for those aged 75 or over, but the next most exposed group are children and youths. What was until



Chart 14: Risk of poverty by age group (2007–11)



Source: Eurostat.

very recently the low level of pensions and the over-representation of those aged 75 or over living on survival or non-contributory pensions explains the high level of poverty risk among this age group. (See chart 14)

The risk of poverty among children is related to both household structure and unemployment. So far, young people – particularly young couples with children and single parents who have lost their jobs or fail to find employment – seem to be the main losers of the crisis.

At the other end of the spectrum, those who have recently claimed their pensions are at lower risk of poverty, as are workers who keep their jobs – despite the decline in wages. This underscores the »insider-outsider dualism« and the risk of tension between generations in Portuguese society today.

Developments since 2011 will probably have reinforced the negative trends in poverty. The number of unemployed is still rising, which suggests the risk of poverty among this group will have continued to increase. Wages have fallen, so the immunity of workers to poverty is

likely to have weakened. And because pensions continue to be frozen, the elderly will probably begin to experience more difficulties. Meanwhile, families with children are faced with higher costs and lower incomes.

All available data suggest that the poverty threshold will be lowered again. Nonetheless, the risk of poverty will increase and young couples with children will be among the hardest hit.

In times of crisis, the government has revised the conditions for eligibility to claim the main national form of support for people living in poverty – the social insertion income (RSI). This measure, which was introduced in 1996, has been successful in reducing the extent of poverty and preventing poverty and social exclusion from spreading (Capucha et al., 1998; Rodrigues, 2001, 2004, 2009 and 2012).

The creation of the social support index – not updated since 2010 – to which all social benefits are linked, was intended to constrain the growth of public expenditure. At the same time, administrative measures (including

changes in the income level required to qualify for means-testing, the definition of the family and in the adult-equivalent scale for determining family incomes etc.) reduced the number of people benefiting from anti-poverty policies. According to one independent estimate, such measures curtailed the access of families to RSI by 15 % and had a negative impact on the Gini index of 1.7 % and on S80/S20 of 6.6 % (Rodrigues, 2012). This reduction in social support for the poorer groups in society is likely to increase the risk of poverty.

4.2 More unemployed, fewer benefits

Since there is a risk of unemployment being the first step towards poverty, it is worth taking a closer look at social support for the unemployed.

In Portugal there are two kinds of unemployment benefit: one is purely contributory («subsídio de desemprego» – SD) and the other is means-tested («subsídio social de desemprego» – SSD). To be guaranteed the SD, the beneficiary must have paid contributions for a specified period. The SSD is granted to the poorer unemployed if they do not qualify for the SD or when the period for which the beneficiary can receive the SD is over.

In the initial phase of the crisis, mitigating the difficulties faced by the poorer unemployed was among the top official priorities. Both the government and the parliament adopted measures to improve access to, and increase the level of, state support to the unemployed.

In March 2009 the government prolonged for six months the period in which beneficiaries could receive the SSD if they were due to lose the benefit that year (later the period was prolonged once again, until 2010). In December 2009 it took a step towards improving access to the SD by reducing the contribution requirement from 450 days to 365 days. In May 2010 a law proposed by the parliament completed the relief package, increasing the SD by 10 % for families with children in which both parents were unemployed and for single-parent families.

As noted above, despite such measures being taken, the risk of poverty among the unemployed was increasing. However, the halting of that trend in 2010–11 may be explained by the combined effect of those measures.

The government's approach towards the protection of the unemployed changed radically following the introduction of the first austerity package (PEC 1). In June 2010 it revoked all the measures mentioned above. Furthermore, it introduced new restrictive ones:

- The unemployed were prohibited from rejecting a job offer if the wage exceeded the value of the SD plus 10 % in the first 12 months of receiving the benefit and the value of the SD alone thereafter (previously the prohibition applied if the wage exceeded the SD plus 25 % in the first six months and the SD plus 10 % after the seventh month);
- The ceiling for the monthly unemployment benefit was reduced from three minimum wages to three times the social support index, which implied a 13.6 % reduction (from €1,455 a month to €1,257.66);
- The maximum value of the SD was reduced from 100 % of the reference wage to 75 % of that wage after taxes;
- The aggregate income per capita (measured using the OECD scale of equivalence) to qualify for the SSD was lowered from 80 % of the minimum wage to 80 % of the social support index, which reduced the number of poorer unemployed covered by the benefit.

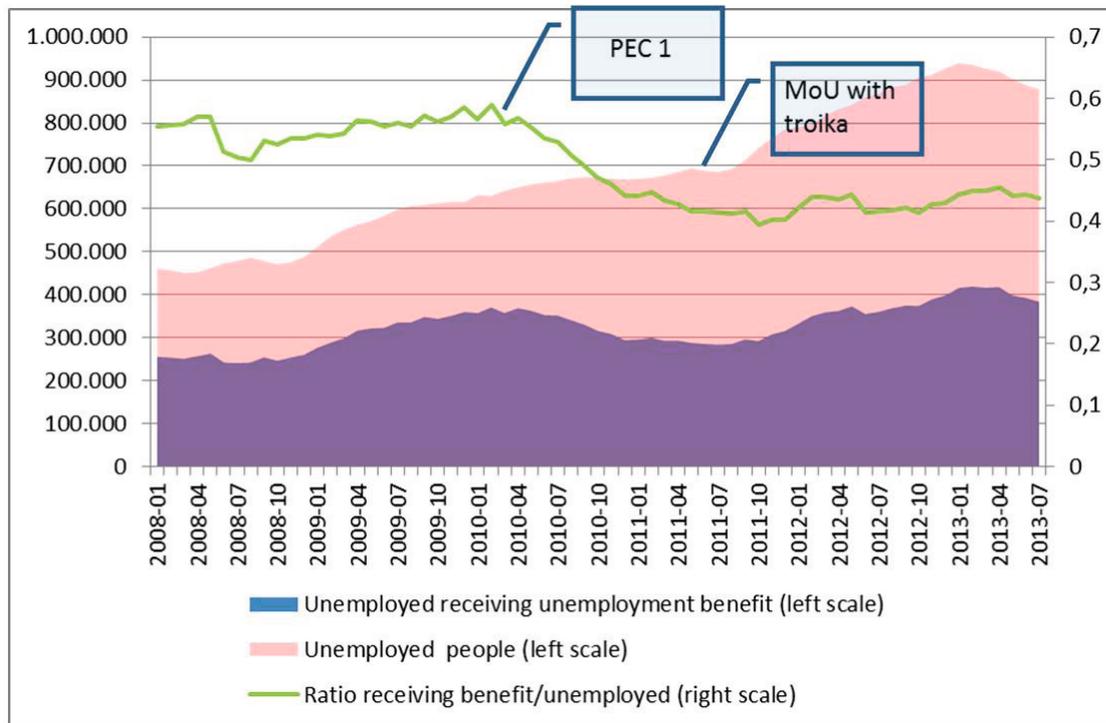
Just at the time when unemployment was beginning to increase at a rapid pace, social benefits for the unemployed were reduced. The effect of those measures will take time to show up in official data (as the measures will have affected mainly the newly unemployed) and should be evident in figures for the years 2012 and 2013.

In March 2012 the new centre-right government approved a two-pronged package of unemployment benefits. On the one hand, it reintroduced some of the measures aimed at improving access to those benefits (reducing the contribution requirement to receive the SD and increasing the SD for a couple with children who are both unemployed and for a single parent without work). On the other hand, it introduced the following draconian measures with regard to the SD:

- The value of the benefit to be cut by 10 % after six months of unemployment;



Chart 15: Unemployment total and the number of unemployed receiving unemployment benefit (January 2008 – July 2013)



Sources: Institute of Social Security; Eurostat (author's calculations).

- Its maximum value to decrease from three times the social support index to 2.5 times (that is, from €1,257.66 a month to €1,048.00), which implied a further reduction of 16.7 %;
- The maximum period for receiving the benefit to be reduced across all age groups at various rates (the hardest hit were young precarious workers – an unemployed person under 30 with less than 15 months' experience in his/her previous job saw the period in which he/she was entitled to the SD slashed from 270 days to 150 days, which implied a 44.4 % reduction in the maximum unemployment benefit that could be received).

Other measures that will have a progressive impact on unemployment in 2013–14 are:

- The lowering by 13.6 % of the threshold to qualify for means-tested benefits;
- A 28 % cumulative reduction in the maximum unemployment benefit;

- A further 10 % reduction in the unemployment benefit after six months' unemployment;
- A further reduction in the total amount of unemployment benefit for the long-term unemployed (44.4 % in the case of the unemployed under 30).

The government's approach to unemployment benefits is part of the overall strategy to reduce wages. At the same time, it will severely curtail the social protection of the growing number of unemployed – this in a country where the lack of protection for flexible workers is traditionally widespread (Alphametrics, 2009) and in a period in which growing unemployment is affecting mainly young and flexible workers, especially those on fixed-term contracts, and the self-employed.

The combination of the increased risk of unemployment among precarious workers and the introduction of new restrictive measures has led to a reduction in the ratio of the number of unemployed receiving benefits to the total number of unemployed. This ratio started to fall after first

austerity package had been introduced – in the latest data available it stood at 0.44. (See chart 15)

To sum up, unemployment is increasing, protection for the unemployed is diminishing and the amount of benefits the unemployed can receive has been cut. As a result, the long-term prospect for the unemployed is dim, not least since this is the group most vulnerable to poverty.

4.3 Real value of pensions slashed; more cuts to come

Portugal has a pay-as-you-go pension system. Its origins are to be found in a wholly Bismarckian, fragmented system catering for the various professions, the consolidation of which was begun by the state in the 1960s (Guibentif, 1997) and is about to be completed. This period witnessed the development of effective social security in Portugal together with the Europeanization of the country (Capucha, Pegado and Saleiro, 2009). Recently, major steps have been taken to further improve social security, including the inclusion in that system of all those who have entered the civil service after 2006.

Most Portuguese workers who are entitled to pensions are beneficiaries under either the »general regime« for private-sector workers or the pension system for civil servants. Until recently, each system had its own formula for calculating pensions.

The official retirement age is 65 for both men and women. During the last decade, the Socialist government introduced important reforms to ensure the long-term sustainability of the contributory social security system, including altering the formula for calculating pensions in order to take into account labour-market dynamics and demographic changes and to achieve convergence between the two pension regimes (Murteira, 2011; Pedroso, 2013). The EU believes the effect of these reforms will be to keep gross public pension expenditure stable in the long term (EC, 2012: 111). Nonetheless, pensions were among the first benefits to be hit by the shift to austerity.

In 2010 the government suspended the rule for pension increases (indexed to inflation and economic growth) and froze pensions. Ever since then, only the minimum non-contributory pension and some minimum contributory pensions have been adjusted.

In the 2010 budget, the government introduced an »extraordinary solidarity contribution« for high-value pensions – that is, more than €5,000 a month. Subsequent budgets have extended this measure to lower-value pensions. Thus in the budget for 2013, the solidarity contribution for pensions between €1,350 and €1,800 stood at 3.5%, while the levy on pensions of €5,000 a month or more was raised from 10% to 25% and on pensions of more than €7,545 to 50%.

In the 2012 budget, the government cut the two additional (summer and Christmas) pension payments, which meant a 14.3% reduction in all pensions. This measure was judged unconstitutional by the Constitutional Court, although the ruling included a clause that suspended its application to the 2012 budget. Prevented from reintroducing the cut in 2013, the government found another means of raising funds – namely, introducing an additional 3.5% income tax (paid by pensioners and non-pensioners alike). Technically, this was a tax increase and not a pension reduction, but its effect is taken into account here since the intention was to reduce pensions.

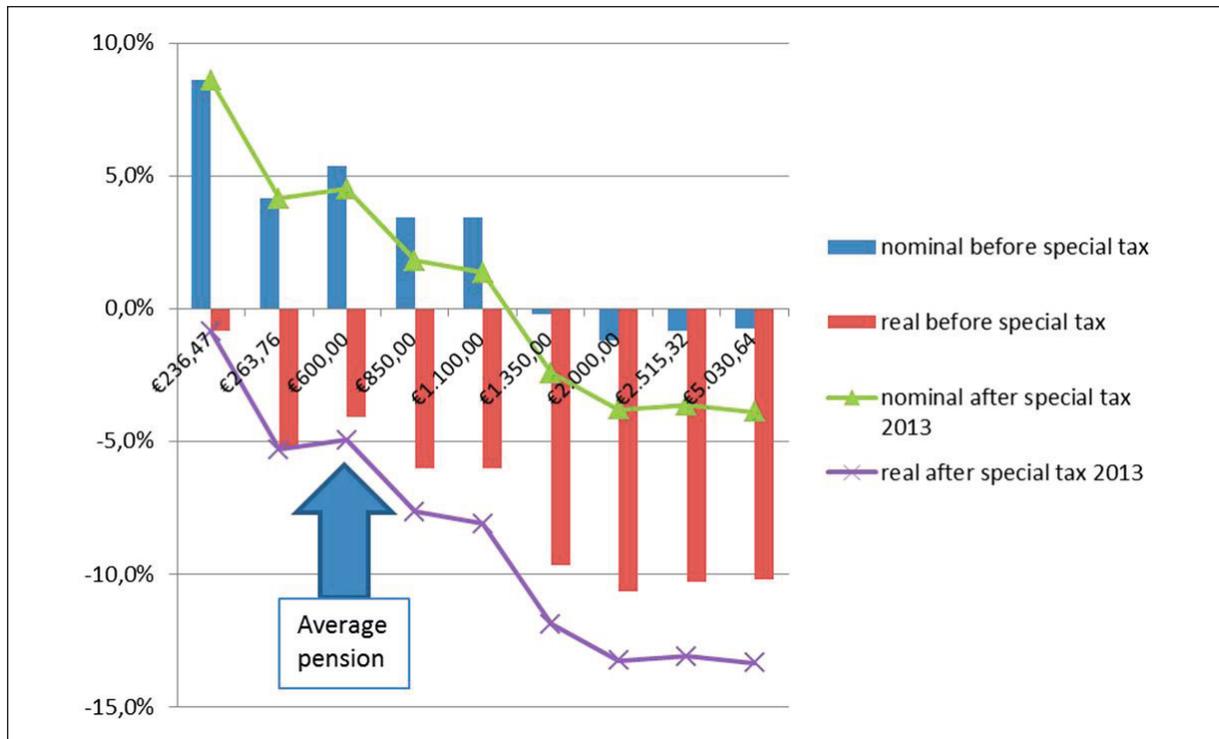
As pensions had been raised in 2008 and 2009, the measures taken after 2010 did not lead to a reduction in nominal pensions during this period, with the exception of high-value pensions. However, the real value of all pensions fell.

The 2008 average pension (around €600) had lost 4.95% of its real value by 2013. Pension devaluation increases with pension value and is more than 10% for pensions over €1,350. (See chart 16)

Additional measures announced for 2014 target the pensions of civil servants – under the pretext that they were calculated using a more generous formula than that used for private-sector pensions. The reform envisages introducing a convergence rule to be applied to old-age and survival pensions. The intention is to make an additional cut of 10% in the value of civil-servant pensions over €600. This would be the first time in the country's history that there had been a reduction in the nominal value of pensions.



Chart 16: Nominal and real values of pensions of various levels (2008–13)



Source: author's calculations based on pension values and the inflation rate.

4.4 Cost cuts in the national health service

Portugal has a universal national health service that is funded by taxes. The level of health expenditure has increased over the past decade. Each year deficits in the funding of the system have contributed to the growth of the total debt of the sector. In 2008, as part of various countercyclical measures, the government paid almost all the cumulative debt to suppliers. Since 2009 new efforts have been made to curb public expenditure on health, which, as a result, was expected to fall by around 1 % of GDP from 2009 to 2012. (See chart 17)

The MoU with the troika urged a change of approach towards public health, mainly in three areas: families' co-payments to the national health service (the intermediary fees); the price of medicines and the reorganization of the hospital network.

As regards the intermediary fees, the agreement with the troika implied increasing their value, reducing the number of exemptions) and automatically indexing the

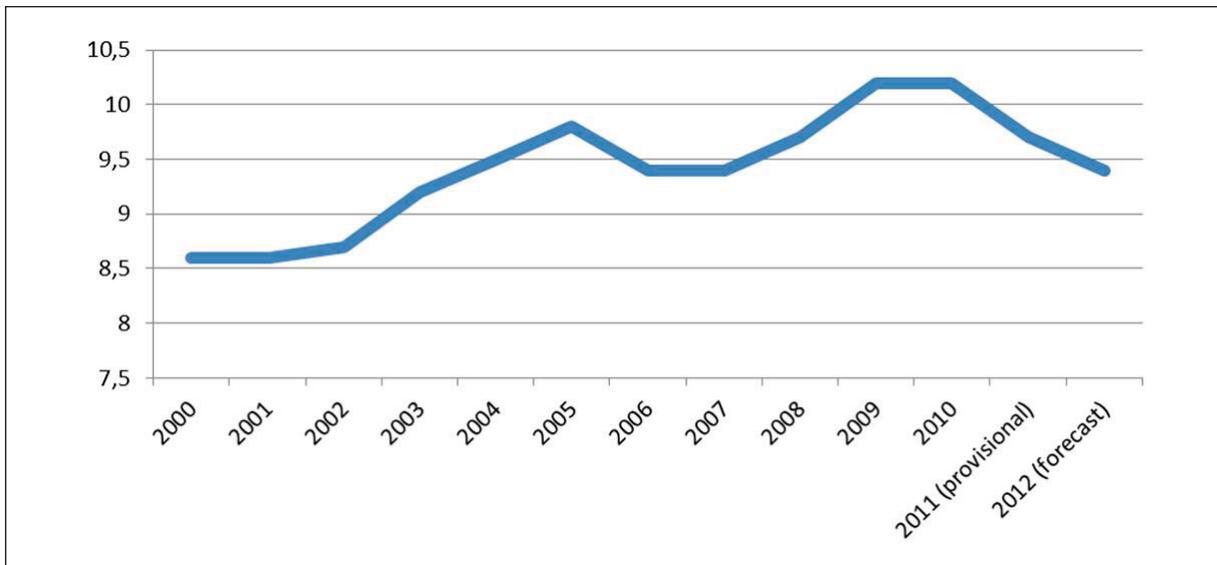
increased fees to inflation. In June 2012 the government approved the new regime of intermediary fees.

It is worth recalling that these fees were introduced a long time ago, not as co-payments but as an instrument to prevent the over- or misuse of the health service. In May 2013 nearly 60 % of the population was exempt from these payments, half of which for economic reasons (OPSS, 2013:38); and the poorer remain exempt today. At the same time, the fees have had a negligible impact on the reduction of public health expenditure: it is estimated that in the first half of 2011, they covered just 1.1 % of total costs (OPSS, 2013: 36). So why insist on hiking fees in line with the agreement with the troika? The most obvious answer to this question is that the government wants to transfer to a full-fledged system of health-care co-payments. (See chart 18)

After 2012 intermediary fees for some types of health care more than doubled. However, the impact on the financing of the health system will remain negligible.

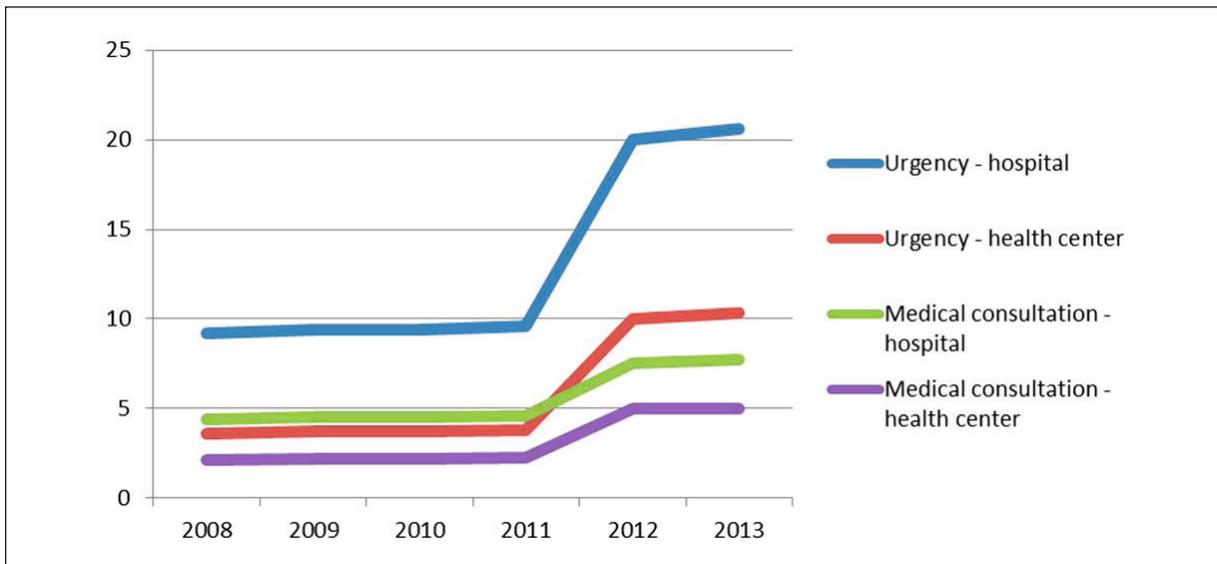


Chart 17: Health care expenditure as % of GDP (2000–12)



Source: Pordata.

Chart 18: Intermediary fees for medical consultations and emergency care (2008–13)



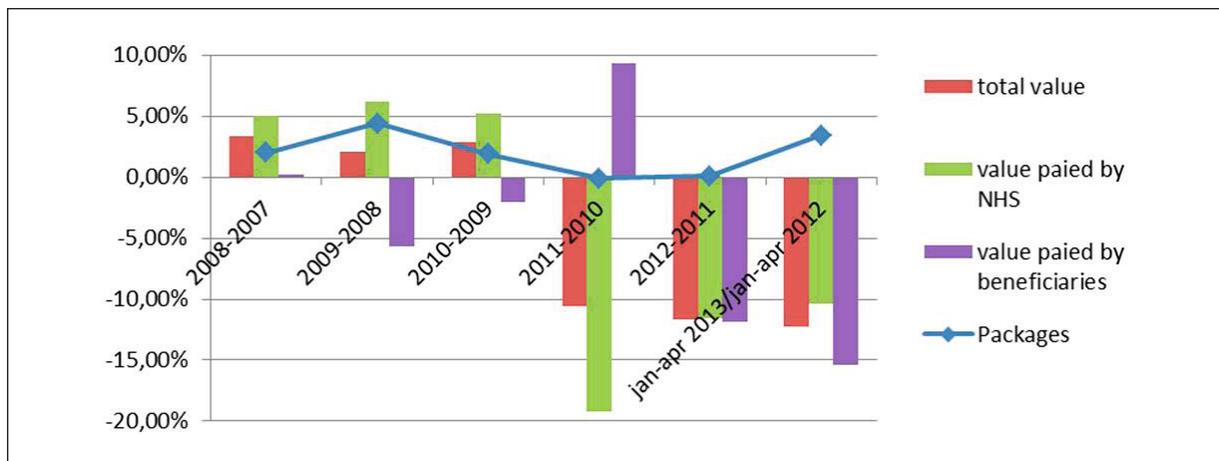
Source: Portuguese Health System Observatory (OPSS), 2013.

If in the case of intermediary fees change appears only symbolic at this stage, in the pharmaceuticals industry there is real change under way. During the last decade, several measures have been taken to reduce the cost of medicine, through both price formation and by encouraging doctors to prescribe generic substances rather than brand medicines.

The crisis provided an opportunity to push forward in this direction. In 2010 the government changed the price-formation system for medicines and the permissible profit margins for producers and distributors. This resulted in savings both for the state and for families. Between 2010 and 2011 the savings on retail medicines reportedly accounted for 48 % of the total reduction in health service



Chart 19: Changes in the value and size of the pharmaceutical market (2008 – April 2013)



Source: National Authority of Medicines and Health Products (INFARMED), 2013.

expenditure during that period (OPSS, 2013:62). At the same time, the total value of the pharmaceutical market fell by more than 10 %. (See chart 19)

However, this cost reduction was considered insufficient by the troika negotiators; thus the MoU established a more ambitious target of reducing expenditure on pharmaceuticals to 1.25 % of GDP in 2012 and 1 % of GDP in 2013 – »in line with the EU«. This target is seen by experts as too ambitious (OPSS; 2013). Nevertheless, additional measures on price formation and increasing the share of generics in the market resulted in further reductions in total expenditure on medicines both in 2012 and in 2013.

There is currently a debate about the merits of the compression of medicine prices. A study by health economists showed that the average pharmacy has been operating with negative profit margins since 2010 (quoted in OPSS; 2013) and the overall sector, which was highly profitable in the past, is now experiencing difficulties.

The lower medicine prices are also reported to have led to difficulties in accessing key medicines – some of them life-saving, such as insulin (study conducted by OPSS, 2013). Moreover, the reduction in the price of some medicines in 2012 is reported to have forced producers to turn to exports, which created shortages in the domestic market (OPSS; 2013: 59).

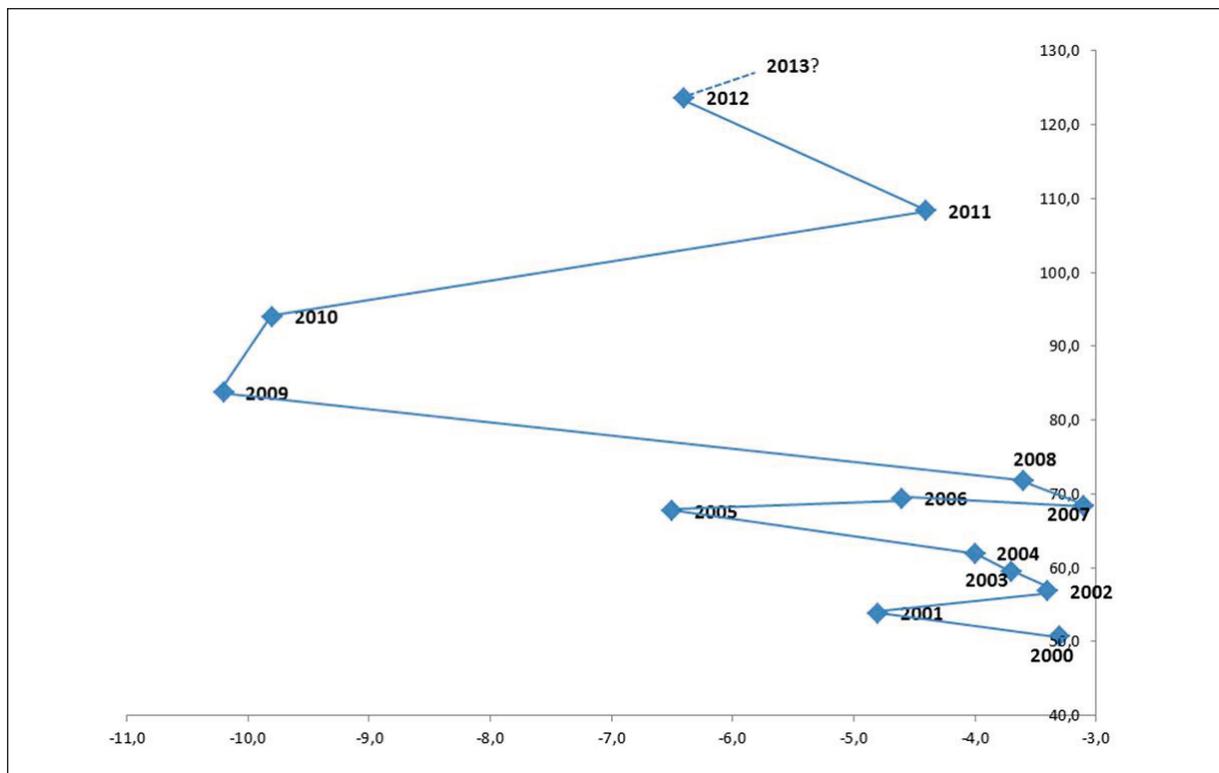
Since 2010, despite the lower medicine prices, the total volume of medicines purchased by the Portuguese has decreased. In a survey of consumers in the Lisbon area aged 65 or over who have at least one repeat prescription, 30 % of respondents said they had stopped taking the medicine or decreased the frequency with which they took it (OPSS, 2013: 16).

In general, both families and the national health service have benefitted from the downturn in medicine prices. Between 2008 and 2012 total expenditure on medicines fell by 10.8 % for families and 16.1 % for the national health service. Even though the share of families in total expenditure increased from 35.4 % to 36.8 %, this is nonetheless an achievement.

It must be borne in mind, however, that experts have warned that this cost reduction may prevent Portugal from keeping up with innovations in the pharmaceutical industry, as the licenses awarded to new substances in the market are very limited and well below the level of the new drugs being tested (OPSS; 2013).

The strategy of reducing health care expenditure is focused not only on medicines. The cost of hospital care is falling too: in the first half of 2013, it decreased by 8.5 % in public enterprise hospitals and by 16.9 % in the public administration hospitals. However, as discussed above, the danger of the current strategy of cutting costs is that, if unbalanced, it can lead to reduced accessibility and lower quality of care.

Chart 20: Gross public debt and deficit as % of GDP (2000–12)



Source: Eurostat.

5. Fiscal adjustment aimed at cutting the cost of social services

5.1 Public debt skyrockets

In 2000 Portugal had a deficit of 3.3 % of GDP and gross public debt of 50.7 %. From then until the beginning of the global crisis, successive governments tried to contain the growth of the deficit and keep the public debt under control, despite upward pressures on both. In 2007 the deficit stood at 3.1 % of GDP while the public debt had increased to 68.4 % of GDP.

The crisis and the initial stimulus response had a major impact on the deficit, which exceeded 10 % of GDP in 2009. Europe, meanwhile, had changed its strategy for dealing with the crisis, and Portugal was forced to undertake fiscal adjustment. (See chart 20)

In the first year of fiscal adjustment, Portugal did not achieve any significant deficit reduction and began to

feel increased pressure from the markets, which raised the cost of refinancing debt. The agreement with the troika implied a commitment to reduce the deficit swiftly: the government honoured that commitment, but at the cost of significantly increasing the public sector debt.

The reduction of the deficit, combined with the international situation, pushed Portugal back into recession. This made the deficit reduction targets all the more difficult to achieve and once again increased the cost of debt financing.

Recently, senior IMF economists acknowledged that strict fiscal adjustment had had a more negative impact on the economy than had been anticipated (Blanchard & Leigh, 2013). However, that acknowledgement does not appear to have influenced the strategy of the IMF or the EU towards countries receiving assistance, such as Portugal.

The extent of the fiscal adjustment that Portugal was required to undertake forced the state to review the



Table 6: Public expenditure as % of GDP by sector (2007–12)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General public services, of which: | 7.0 | 6.3 | 7.3 | 8.4 | 8.4 | n/a |
| – Executive and legislative | 3.5 | 2.7 | 3.8 | 5.0 | 3.8 | |
| – organs, financial and fiscal | 3.1 | 3.2 | 3.0 | 3.1 | 4.2 | n/a |
| – affairs, external affairs | | | | | | n/a |
| – Public debt transactions | | | | | | |
| Defence | 1.2 | 1.3 | 1.5 | 2.0 | 1.3 | n/a |
| Public order and safety | 1.8 | 1.9 | 2.1 | 2.0 | 2.0 | n/a |
| Economic affairs, of which: | 4.0 | 4.3 | 4.4 | 4.9 | 4.0 | n/a |
| – Transport | 2.3 | 2.4 | 2.5 | 3.2 | 2.5 | n/a |
| Environmental protection | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | n/a |
| Housing and community amenities | 0.7 | 0.7 | 0.8 | 0.6 | 0.6 | n/a |
| Health | 6.6 | 6.6 | 7.2 | 6.7 | 6.8 | n/a |
| Recreation, culture and religion | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | n/a |
| Education | 6.1 | 6.2 | 6.8 | 7.1 | 6.3 | n/a |
| Social protection, of which: | 15.3 | 15.7 | 17.9 | 18.0 | 18.1 | n/a |
| – Old-age and survivors | 10.8 | 11.2 | 12.3 | 12.6 | 12.7 | n/a |
| Total | 44.4 | 44.8 | 49.7 | 51.5 | 49.4 | 47.5 |

Source: Eurostat.

structure of public expenditure. Inevitably, the stimulus approach had a strong impact on the weight of the state in the economy. Total public expenditure jumped from 44.8 % of GDP in 2008 to 49.7 % in 2009. Despite the switch to austerity in 2010, public expenditure kept rising and exceeded more than half of GDP.

As a result of fiscal adjustment, public expenditure returned to below 50 % of GDP in 2011. It further decreased to 47.5 % in 2012 and is expected to continue to fall in 2013 and 2014. (See table 6)

As a result of the state’s initial response to the crisis, education, health and social protection costs all rose, while expenditure on general public services grew along with the increase in general government consumption.

The measures taken following the shift from stimulus to austerity (some of which are described above) led to compression of the cost of social services. This implied a reduction in the share of expenditure on health, education and general services in total expenditure on GDP.

By 2010 expenditure on public transport had increased, in part because the definition of public expenditure had become more precise. Once again, the strategy adopted was to cut costs and increase public transport prices. In general, the cost of using public transport grew by 4.5 % in 2010, by 15 % in 2011 and by 5 % in 2012.

In 2009 the upward trend in social protection expenditure was accelerated by the increase in unemployment and the measures taken to mitigate its social impact. The freezing of pensions along with the cuts in unemployment benefits have prevented an increase in social protection expenditures since 2011, despite the resulting exacerbation of social problems.

At the same time, the number of civil servants is being reduced within the framework of the cost reduction strategy. The government has increasingly used the mechanisms at its disposal to reduce the state labour force. These include the »special mobility« programme, which envisages rationalizing services by transferring excess staff from one sector to another and offers incentives to leave the civil service. In 2013 the government tried to



Table 7: Civil servants by type of contract (December 2012 – June 2013)

| | December 2012 | June 2013 | Variation rate (%) |
|--|----------------|----------------|--------------------|
| Temporary appointment | 17,122 | 16,767 | -2.1 |
| Appointed civil servant | 75,598 | 75,292 | -0.4 |
| Individual contract of indefinite duration | 418,341 | 414,254 | -1.0 |
| Temporary contract | 73,167 | 68,633 | -6.2 |
| Total | 584,228 | 574,946 | -1.6 |

Source: Directorate-General for Administration and Public Employment

Table 8: Civil servants by professional group (December 2011 – June 2013)

| | 31 December 2011 | | 30 June 2013 | | % change |
|---|------------------|--------------|----------------|--------------|-------------|
| | | % of total | | % of total | |
| Administrative support, workers etc. | 222,397 | 36.36 | 209,769 | 36.49 | -5.7 |
| Teachers, educators and researchers | 176,325 | 28.82 | 161,494 | 28.08 | -8.4 |
| Armed forces, police, security and fire fighters | 92,244 | 15.07 | 88,194 | 15.36 | -4.4 |
| Technical staff | 82,655 | 13.51 | 79,466 | 13.82 | -3.9 |
| Nurses and other health technicians | 12,473 | 2.03 | 11,588 | 2.02 | -7.1 |
| Mid- and upper-level managers | 11,018 | 1.8 | 9,934 | 1.73 | -9.8 |
| Medical doctors | 7,462 | 1.22 | 7,537 | 1.31 | 1.0 |
| Holder of political office, magistrates and diplomats | 7,227 | 1.18 | 6,964 | 1.21 | -3.6 |
| Total | 611,801 | 100.0 | 574,946 | 100.0 | -6.0 |

Source: Directorate-General for Administration and Public Employment

expand this programme to include easier dismissals, but the relevant law was declared unconstitutional by the Constitutional Court. Meanwhile, another programme is aimed at the non-replacement of those who leave the service to retire. It was launched before the crisis but has been slow to produce results.

As Table 7 below shows, the reduction in the number of state-sector employees has been achieved more by cutting temporary contracts than by pursuing special staff-reduction programmes. (See table 7)

As regards temporary staff, these recent statistics suggest that the reduction in the number of temporary appointments is linked to cuts in management-level positions, while significant staff reductions have been taking place among the holders of temporary contracts.

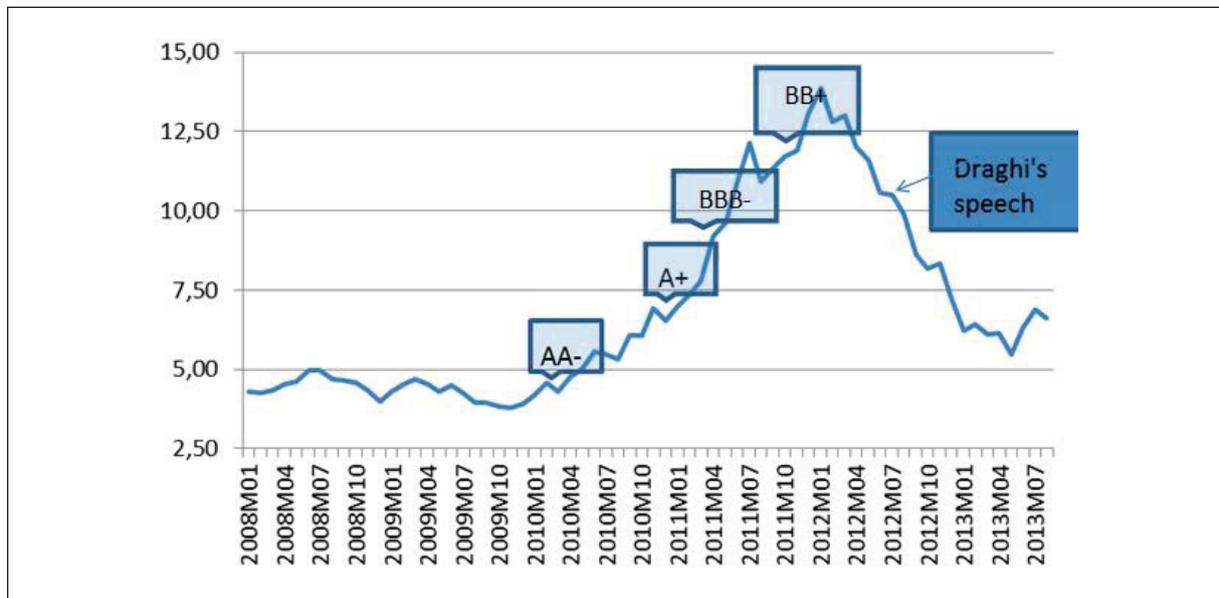
The on-going efforts of government to reduce staff at the mid- and upper-management levels has been successful (down 9.8% between December 2011 and June 2013). But the focus on reducing the number of temporary workers has led to shortages of technical staff in some key social services. (See table 8)

The reductions have been particularly significant in education and health. Today Portugal has fewer teachers, educators and researchers and fewer qualified health workers, including nurses.

Meanwhile, the effects of the government's public-sector cost reduction strategy, which is focused on general and social expenditure, have been counterbalanced by a »newcomer« in public expenditure, which appeared in 2011 and is likely to remain for long time. This new factor in public expenditure is the trend to increase the costs



Chart 21: Long-term government bond yields at 10 years, Maastricht-criterion bond yields and Fitch ratings of sovereign debt (January 2008 – August 2013)



Source: Eurostat.

associated with public debt. Between 2010 and 2011, these grew more than one percentage point of GDP, from 3.1 % to 4.2 %.

In all likelihood, the data for 2012 and 2013 will confirm the trends identified above: further cuts in health and education expenditure as well as in the number of workers in those sectors, less social protection and higher public debt management costs.

The financial markets took a very negative view of the impact of the stimulus approach on the budget. In the context of the new economic climate in Europe, rating agencies started giving out signals in early 2010 that they considered Portugal's public finances to be unsustainable. Feeling the pressure and forced to change strategy, Portugal's Socialist Prime Minister at the time, José Sócrates, explained the need for a new approach by commenting that »the world has changed«.

Despite the country's showing willingness to adopt a fiscal adjustment strategy, which was evident in the 2010 budget and in the preparations for PEC 1, the pressure from financial markets did not ease. Fitch downgraded Portuguese sovereign debt four times in 2010–11, which each time triggered a jump in government bond yields at 10 years. (See chart 21)

Successive austerity measures did not succeed in reducing the cost of refinancing the public debt. The assistance programme allowed for external refinancing, but refinancing costs did not begin to fall until the beginning of 2012. However, according to the latest data available, this reduction has not led to the cost of refinancing the Portuguese debt returning to a sustainable level. By September 2013 long-term government bond yields at 10 years were around 7 %, which is roughly the same level as when the Portuguese government was forced to ask for the assistance of the troika.

At current refinancing costs, it will be very difficult for the state to return to the markets and reduce the indebtedness level. Therefore it is likely that the fiscal adjustment programme will continue after June 2014 in a form yet to be determined. It is also likely that pressure for debt restructuring will increase in the months to come.

In the meantime, rumours of a second bailout, denied by European Institutions, had begun to spread in the specialist press by September 2013. That possibility has been admitted in public by the Prime Minister.



Table 9: Public assets privatized between 2010 and 2012

| Year | Company | Sector | % for sale | Value of stake (US\$ million) |
|------|--|-----------------------|------------|-------------------------------|
| 2010 | Galp | Utilities | 7 | 1,183.41 |
| 2011 | Energias de Portugal (EDP) | Utilities | 21 | 3,515 |
| 2012 | Redes Energeticas Nacionais | Utilities | 40 | 781.08 |
| 2012 | Banco Portugues de Negocios SA | Finance & real estate | 100 | 68.95 |
| 2012 | Energias de Portugal SA | Utilities | 21.35 | 3,515.91 |
| 2012 | CIMPOR Cimentos de Portugal | Manufacturing | 40.34 | 1,971.17 |
| 2012 | Holding da Industria Transform do Tomate SGPS SA | Manufacturing | 14.9 | 2.42 |
| 2012 | BPN Gestao de Activos | Finance & real estate | 100 | 3.88 |
| 2012 | Galp Energias SGPS | Utilities | n/a | 628.17 |
| 2012 | Aeroportos e Navegação Aérea | Transport | 95 | 4,063.75 |

Re: Value of stake

Source: Privatisation Barometer.

5.2 Privatization: An on-going story

Portugal's austerity approach includes the privatization of several important state assets. The country had heavily privatized the public sector even before the crisis – largely in the 1980s and 1990s, following the Portuguese revolution. It was one of the more extensive privatization programmes in the EU (Collin, 1995; Clifton, 2003).

Currently, public sector companies account for about 4.5 % of GDP and 3 % of total employment (DGTF, 2012:70). Their share in the financial sector in 2011 was 33.6 %, in public transportation 18.9 %, in health 12.1 %, in infrastructure 9.7 % and in the media 7 %. The sector is highly indebted and requested €3.6 billion in credit in 2010 and another €2.4 billion in 2011.

Following the shift to austerity, the government revived the country's earlier privatization strategy. On the one hand, this is a way of reducing the public debt by discarding indebted companies. On the other hand, it is a way to boost funding.

The privatization plan outlined in PEC 1 envisaged revenues totalling €6 billion in the period from 2010 to 2013. A somewhat less ambitious version of this plan was included in the MoU with the troika; revenues during the same period were now estimated at €5 billion. (See table 9)

The implementation of the privatization plan was very successful as regards the revenue target. By mid-2013 the government had raised €6.7 billion – well above the original target. Between 2010 and 2012 the state sold assets mainly in the energy sector (oil and electricity, including electricity infrastructure), transport (airports) and some manufacturers.

Despite difficult external market conditions, the government is still pursuing its privatization strategy. It is reported that the privatization of the national airline, having failed at the first attempt, will be relaunched in 2014. Currently, the privatization of the postal service, a water supply and sewage company and an insurance company is being prepared. And the government has publicly announced that it is studying the possibility of privatizing concessions for urban transport in large cities and seaports.

The government's main goal is to fully privatize the energy sector and the postal service in the short term and strongly reduce its participation in transport and transport infrastructure. It continues to discuss the privatization of water distribution. Given the current difficulties in achieving the deficit target and the increase in the public debt, it is very likely that in the near future the government will once again turn to privatization, especially if market conditions improve.

In the previous two decades, the government made use of public-private partnerships (PPPs), mainly in the transport and health sector. Portugal is considered to rank third in Europe in terms of the total value of PPPs (Kappeler & Nemoz, 2010: 9). On average, public investment in PPPs in Portugal exceeded 4 % of GDP between 1995 and 1999, 3 % between 2000 and 2004 and 2 % between 2005 and 2009 (Kappeler & Nemoz, 2010: 17).

PPPs are currently a contentious issue. It is argued that their terms are too generous for private partners and that changes to contracts made in 2009 shifted a disproportionate share of the risk from the private to the public sector.

According to latest data available, annual PPP expenditure will increase until the end of this decade. During the period 2015–18, it will peak at around €2 billion, according to official estimates, compared with €1.8 billion (1.1 % of GDP) in 2011. This will be another source of pressure on public finances in the years to come.

6. Conclusion

The EU approach to the global crisis has changed several times since 2007. First, the Union focused on financial sustainability; later it concentrated on tackling the economic recession; and finally it sought to ensure fiscal adjustment in countries with large deficits. Portugal complied fully with its strategy in each phase and in doing so risked causing legitimacy problems for those in power.

The same Prime Minister who had secured the sustainability of the banking system and run an election campaign in 2009 that praised the merits of stimulus was forced in early 2010 to present an austerity-oriented budget and after March 2011 to negotiate with the IMF-ECB-EC troika a strategy of strict budget adjustment. By the same token, the opposition leader who had campaigned until May 2011 against the extent of the austerity approach became the Prime Minister who frontloaded the austerity measures that had been negotiated with the troika, while blaming the previous government for »pouring money onto the problems«.

Nevertheless, until the end of 2012, both governments faced only limited popular discontent and were able to conclude agreements through social dialogue. But that situation started to change in 2013.

At current refinancing costs, it will be very difficult for the state to return to the markets and reduce the indebtedness level. Therefore it is likely that the fiscal adjustment programme will continue after June 2014 under a form yet to be determined. It is also likely that pressure for debt restructuring will increase in the months to come.

To sum up, in the initial stage of the crisis, successive Portuguese governments focused on saving the financial sector from collapse and then sought to boost the domestic economy. Eventually, they were forced to resort to alternative measures – namely, refocusing on exports, freezing collective bargaining and reducing wages, cutting social benefits and social services, and privatizing public assets. However, they were unable to prevent an increase in the public debt. In all likelihood, the outcome of this overall strategy will be a weaker economy, a poorer and more unequal society and an unsustainable public debt level.

What comes next? All the signs are that the same therapy will be applied and the doses increased. This poses a serious risk of changing the social equilibrium that the country painstakingly achieved through democratization and Europeanization.



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