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Portugal: are more reforms on the way now that the financial assistance programme is complete?

The announcement made on 6 June 2015 by Maria Luís Albuquerque, Minister of Finance, that the Portuguese government would repay its IMF loan early did not go unnoticed as the Greek financial crisis was in full swing. An improvement in the country's credit rating means that it is now able to borrow at lower interest rates on the financial markets and make savings on the interest rates charged as part of the IMF's financial assistance programme.

Running an excessive deficit[1] since 2009, in May 2011 Portugal was finally forced to agree to implement an economic adjustment programme overseen by the European Union, the European Central Bank and the International Monetary Fund (the Troika) in return for a €78 billion financial assistance package funded in equal parts by all three. In a Memorandum of Understanding on Specific Economic Policy Conditionality[2], the Portuguese government agreed to implement structural reforms to clean up its public finances and revive the economy[3].

Twelve quarterly review missions, all positive in outcome[4], were carried out during the three-year programme by Troika experts. As economic growth returned, on 4 May, 2014, Prime Minister Pedro Passos Coelho announced that "the government has decided to exit the assistance programme without turning to any kind of precautionary programme[5]", following the same course taken by Ireland in December 2013. It will consequently be able to borrow on the financial markets once again.

Reforms aimed at eradicating social inequalities

Of the European countries that received financial assistance, many observers (including Germany, which repeatedly invokes Portugal's situation and holds it up as an example[6]) gave Portugal top marks in implementing its reform programme. Economist Ludovic Subran stated that the Troika's demands were "met to the letter[7]". More than 400 measures have been taken since the programme's introduction, resulting in huge sacrifices by Portugal's citizens and civil servants.

Of the key reforms introduced, the most noteworthy were initiatives taken to inject greater flexibility into the labour market[8]. Up until 2011, the Heritage Foundation[9]'s annual ranking found that Portugal had one of the most protected labour markets in the world. The government's measures included:

- Bringing severance pay for open-ended contracts into line with that for fixed-term contracts, introducing degressive coefficients and lowering the ceiling for severance pay to 2.5 times the basic rate of social security, i.e. €1,048;
- Introducing other criteria for redundancies than the length of time worked, which until then had been the only one taken into account;

1 http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm
2 http://economico.sapo.pt/public/uploads/memorandotroika_04-05-2011.pdf
3 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/122047.pdf
4 http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm
5 http://www.reuters.com/article/2014/05/04/us-portugal-bailout-idUSBREA4309H20140504#yooL7FRIOZGqYveD.97
6 http://www.zeit.de/news/2014-06/24/deutschland-gauck-lobt-reformerfolge-in-portugal-24175214
7 http://www.lemonde.fr/argent/article/2015/10/02/le-portugal-a-applique-a-la-lettre-les-reformes-exigees-par-la-troika_4781588_1657007.html
8 http://www.lesechos.fr/27/02/2015/LesEchos/21887-038-ECH_quand-les-reformes-du-marche-du-travail-reduisent-le-chomage.htm
9 http://www.heritage.org/index/country/portugal

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- Favouring individual bargaining agreements over collective ones by capping "administrative extensions" under which every company in a particular sector could benefit from wage agreements negotiated by another company in the same sector.

This proactive policy to boost employment helped trigger an economic recovery[10] and put a halt to spiralling unemployment[11], one of the remaining weak points flagged by its creditors. But this reversal was also achieved through the growing numbers of Portuguese leaving the country (485,000 in four years, almost 5% of the population), particularly young graduates who are leaving in greater numbers every year to set up in Portuguese-speaking countries such as Angola, Brazil or Mozambique[12].

Public sector and civil servants in the line of fire

Cutting public spending was the other main priority outlined in the programme. Some important measures had already been taken before 2011 regarding employment within the civil service (a wage freeze in 2002, merger of the civil service and general social security systems in 2005, civil servant status limited to the 15% of staff members exercising sovereign functions, and career development no longer based on seniority but performance in 2009). However, Portugal needed to come up with new proposals, which came to fruition in the autumn of 2013 in the form of a massive voluntary redundancy scheme (covering 100,000 civil servants) and successive wage cuts (of between 2.5% and 12% depending on the salary)[13].

But the toughest test came from the country's Constitutional Court which weighed into the debate on modernising the civil service and the fiscal consolidation measures introduced[14]. The Court ruled that a law cutting public-employee wages without touching the incomes of other workers violated the constitutional principle of equality and could not continue to be justified on the grounds that such cuts were in theory more effective than other cost-cutting measures. The Court ruled against:

- Cancellation of the payment of a 13th and 14th month to civil servants due to unequal treatment vis-à-vis private sector workers who are allowed to have more than one job in April 2013
- The 10% cut in civil service pensions in December 2013
- Cuts to salaries of public employees earning over €675 in June 2014, although this decision was not back-dated to 1 January 2014 when the measure was introduced
- Raising the working week for local council employees to 40 hours in September 2015 as it violated local councils' autonomy in collective bargaining negotiations

After raising taxes[15], the Portuguese government embarked upon a massive privatisation programme. In 2014, it sold off utility companies EDP and REN, followed by the CTT post office group. In June 2015, after an initial setback, it disposed of TAP, the national airline, followed in September by the Lisbon and Porto underground networks which were still central-government owned. The government also renegotiated its contracts with Portugal's motorway concession holders.

A country torn over which direction to take

On 4 October, Portugal's citizens voted in national elections. The outcome, which made it difficult to form a new government, reflected the contradictions faced by the country's electorate: despite highly encouraging economic indicators, the population appears to have had enough of belt-tightening policies[16].

The outgoing Prime Minister had promised to do away with these policies in 2019. Two weeks after his party won the elections without an absolute majority and he was returned to office by the President of the Republic, the opposition led by Antonio Costa, Mayor of Lisbon, formed a left-wing coalition. On 23 November, he was given the go-ahead to form a government on the sole condition that he continues to "seek to establish a sustainable, credible, stable solution"[17].

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10 http://www.coface.com/fr/Etudes-economiques-et-risque-pays/Portugal
11 11,9 % fin juin 2015 (17,5 %, au plus fort au début 2013).
12 http://www.franceo.fr/emissions/investigations/saudade-l-exil-des-portugais_280275
13 http://www.lesechos.fr/26/02/2014/LesEchos/21635-033-ECH_peninsule-iberique---les-fonctionnaires-touches-de-plein-fouet-par-l-austerite.htm
14 http://www.tribunalconstitucional.pt/tc/en/home.html
15 Le taux moyen d'imposition est passé de 33,4 à 37,1 % en quatre ans et la TVA a été portée à 23 %.
16 http://www.liberation.fr/planete/2015/10/27/l-impasse-politique-au-portugal-source-d-inquietude-en-europe_1409233
17 http://www.presidencia.pt/?idc=10&idi=98124