Portugal enforces labour reforms but more demanded

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On August 1, Portugal's new labour reforms came into force.

The reforms have been dictated virtually word for word by officials from the troika—the European Union (EU), International Monetary Fund (IMF) and European Central Bank (ECB). The acceptance of these reforms is a condition for receiving a further portion of the €78 billion bailout agreed last year.

The reforms are aimed at increasing worker "flexibility", fundamentally affecting working hours, dismissals and redundancy payments. They are far from being the last such reforms.

The reforms include the introduction of an "hours bank", giving employers the right to increase the working day by up to two hours and slashing or eliminating overtime payments. The right to a 15 minute break for every hour of overtime worked is eliminated.

The reforms reduce the number of paid holidays from 25 to 22 working days. Four public holidays have been abolished. If companies decide to shut down on a Monday or Friday because a public holiday falls on a Tuesday or Thursday, the day will be deducted from the total annual holiday period. The tradition of giving workers up to three extra holidays if they are not absent the previous year has been done away with.

In future, companies will only have to pay 20 instead of 30 days' pay for each full year of service if they make workers redundant. The total amount of compensation must not exceed 12 times the basic monthly pay.

Workers can be sacked more easily, with the employer's previous obligation to find the displaced worker equivalent alternative employment done away with. Layoffs "where there is a crisis in the business" are made easier.

Minister for Economy Álvaro Santos Pereira of the ruling Social Democratic-Peoples' Party (PSD/PP) in the coalition government, said that the changes were fundamental for productivity and job creation and had been "discussed down to the last comma" with unions and management.

President Aníbal Cavaco Silva stressed that there was broad parliamentary agreement, with the main Socialist Party (PS) opposition abstaining on the vote. The PS was responsible for introducing the first labour reforms in 2009 and rushing through the bailout prior to losing power to the PSD/PP last year.

Since taking power, the PSD/PP government has imposed cuts in public sector workers' jobs, wages and working conditions and reduced social benefits. The single measure of cutting the traditional summer and Christmas bonuses has seen each worker lose the equivalent of one month's pay—on average about €1,600.

The current official unemployment rate is 15.2 percent and 36 percent for individuals under the age of 25. The number of jobs fell 4.2 percent in the first three months of this year—more than eight times the 0.5 percent euro zone average and way above the 1.1 percent drop at the end of 2011. The number of people signing on at job centres in June increased to 646,000, a 24.5 percent jump on June last year. In 2011, Portuguese workers earned just 77 percent of European Union workers—a drop from 81 percent in 2010.

In the first five months of this year state labour costs fell 7.2 percent, equal to €272 million, mostly due to teachers not being rehired when their short-term contracts expired. Prime Minister Pedro Passos Coelho told those without a job to "show more effort" and "leave their comfort zone" by looking for work abroad. Unemployed teachers should think about emigrating to Angola or Brazil, he added.

The National Statistics Institute (INE) reports that the average family now spends 57 percent of their annual household income on the basics of life—food, housing and transport. The goods and services VAT tax now stands at 23 percent. The six percent rate on beverages and dairy products and the 13 percent rate on canned foods, coffee, oil and margarine, snacks and restaurant meals has been raised to 23 percent.

The number of bankruptcies has risen to nearly 10,000—an 83 percent increase in one year. Personal bankruptcies make up 65 percent of all insolvencies.

The austerity measures have driven Portugal into a third year of recession, with the economy expected to contract 3.2 percent this year. The lack of confidence of the financial markets is shown by the continued hovering of the Portuguese 10-year bond interest rate at the unsustainable 10 percent mark.

The country is unlikely to meet its target of reducing the budget deficit to 4.5 percent this year.

Finance Minister Vítor Gaspar declared that attaining this year's target was "proving riskier than previously forecast". The Technical Budget Support Unit added, "Meeting budget goals for revenues and social security does not seem feasible anymore."

Most economists say Portugal will not be able to fully finance itself after the end of the bailout programme and will likely need another bailout and more time to meet its targets.

However, ECB president Mario Draghi declared that "the Portuguese authorities remain fully committed to achieving this year's fiscal target" and that it would be wrong to give Portugal more time, which would be seen as a "step back". The Organisation for Economic Co-operation and Development added that Portugal had to "deepen its" labour reform, further reducing redundancy pay and reforming collective bargaining agreements. IMF Deputy Managing Director Nemat Shafik declared, "Given the daunting challenges that Portugal still faces, it will be important to maintain the commitment to strong policies and structural reforms to foster sustainable growth, especially through labour and product markets reform."

The crisis in the banking sector still remains unresolved. Despite pumping in billions of euros, Portuguese banks owed the ECB a record total of €60.5 billion at the end of June. They all have to meet the capital requirements demanded by the European Banking Authority by the end of the year, including having 10 percent of their assets in the "safest" tier 1 funds. The true state of bank finances is unknown, with one leading analyst telling the Lusa news agency that "there was also the possibility the bottom line presented by the banks did not fully correspond to their business situation."

The INE reveals that private sector investment is forecast to fall 16.7 percent this year following a 15.8 percent fall in 2011. In some sectors—wholesale and retail trade, vehicle repair services, hotels, resorts and restaurants, transport, warehousing and innovative industries—the fall has been between 25 and 30 percent.

Last year, the austerity measures prompted hundreds of thousands to protest the economic crisis, organised through social media networks independently of the unions in the Geração à Rasca (Precarious Generation) movement. Mass protests and two general strikes have taken place in the past year. In early June tens of thousands of protesters marched in the capital Lisbon and the second city Oporto against the labour reforms. The protests were organised by the trade unions days after parliament had approved them. On June 18 ferry services in Lisbon were paralysed by a one day strike, as was public transport in Oporto on July 27.

On July 11 and 12, doctors and hospital staff held a two-day strike in opposition to rising costs that have restricted access to health care for thousands of people.

In January the PS-aligned General Union of Workers (UGT) signed a social pact with the government, betraying the aspirations of millions of workers. The Communist Party-aligned General Confederation of Portuguese Workers (CGTP) did not sign the agreement, but instead appealed to Cavaco Silva to rule the reforms unconstitutional. The president simply declared that there was "no clear evidence of constitutional violation in the legislation."

The next action being proposed by the CGTP is not until mid-October, with a march of the unemployed from Braga to Lisbon planned between October 5 and 13.