Portugal edges towards bailout as borrowing rate hits record high

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Portugal edged closer to seeking a financial bailout this week, as the cost of government borrowing hit record highs.

The interest rate on 10-year bonds rose to a new euro-era record of 8.2 percent—far above levels that will enable Portugal to pay back its long-term sovereign debts. According to financial analysts, Portugal's government may run out of money within the next three months and be unable to repay a €5 billion loan due in June, tantamount to the country going into default.

Portugal is in a downward spiral. It is falling into another recession, the second in three years. This week, the Bank of Portugal revised its forecast of zero growth next year, made at the end of last year, to a 1.4 percent drop, blaming in part the effects of the austerity measures. At the same time it is calling for substantial new austerity measures to reduce the budget deficit, which will contribute to the crisis.

This year there have already been four austerity budgets—the so-called Programmes for Stability and Growth. Failure to agree the latest budget led to the resignation of Prime Minister José Sócrates and his Socialist Party (PS) government last week, which now functions as a caretaker government until elections expected in two months time. Sócrates insisted his budget was vital to cutting the national deficit to 4.6 percent of gross domestic product this year, from last year's estimated 7.3 percent, and to 3 percent in 2012.

The resignation of Sócrates led to renewed calls for Portugal to apply for a bailout. European Central Bank council member Ewald Nowotny told reporters, "From a purely economic point of view one could probably recommend it. The domestic political situation in Portugal has clearly worsened."

Following Sócrates's resignation, credit agency Fitch downgraded Portugal's sovereign debt rating by two points to A- and warned that further reductions were likely in the absence of a "timely and credible" European Union/International Monetary Fund "support programme", involving the European Financial Stabilization Facility, which could amount to a bailout of €60 billion to €80 billion.

The EFSF is a €750 billion bailout fund set up by the EU, the IMF, and various European governments in May 2010, at the height of the Greek debt crisis. It is designed to lend money to European governments threatened with bankruptcy when financial markets refuse to lend. Before obtaining the loan, the country has to participate in a "country programme," imposing social cuts and labour reforms negotiated with the IMF and the Eurogroup of European finance ministers.

Credit ratings agency Standard & Poor's followed Fitch's lead by slashing Portugal's sovereign debt rating for a second time within a week, to triple B -, one level above junk status. It cut the credit ratings of Portugal's five largest banks—Banco Espírito Santo, Banco BPI, Caixa Geral de Depósitos, Banco Santander Totta and Millennium BCP—to a similar status.

To make matters worse, Portugal's statistics agency said it plans to make "accounting changes" in a report to be submitted to the EU this week, which will show that the 2010 budget deficit of 7.3 percent of GDP was really over 8 percent. The agency was compelled to investigate after the EU's Eurostat agency spotted that a €2 billion ($2.8 billion) bailout for Banco Portugues de Negocios had not been included in accounts, along with loans of €500 million to mass transport companies facing bankruptcy. Finance Minister Fernando Teixeira dos Santos admitted that the figures "will inevitably affect the results for 2010", but blamed Eurostat for "changing the score after the match is over."

Sócrates resigned after all five opposition parties rejected the latest budget presented by his minority PS government, which included huge spending cuts, tax increases and a freeze or reduction in pensions intended to prevent Portugal from having to seek a bailout like those granted to Ireland and Greece last year. At the same time, the government sought to implement new measures to make the dismissal of workers easier and cheaper—a key step in meeting the demands of the EU and IMF for fundamental "structural" changes to the labour market.

Until now, the minority PS government functioned with the tacit support of "opposition" parties—above all the right-wing Social Democratic Party (PSD), which had abstained in previous votes on the austerity measures, allowing them to pass. This time the PSD decided to vote against, declaring that "a broad government coalition" was needed to force the necessary austerity measures through.

The PSD was emboldened by the re-election of PSD leader Cavaco Silva as Portugal's president in February elections, with 52 percent of the vote, though in a much reduced turnout—47 percent compared to 62 percent in the last presidential elections in 2006.

Once re-elected, Cavaco Silva refused to intervene in the budget crisis as he had done previously, claiming his ability to negotiate a compromise between the parties was limited by “the government’s sudden presentation of the measures and rapid harsh reaction by the other parties”.

Since the PS’s downfall, Cavaco Silva has had meetings with the three largest parties (PS, PSD and the rightwing Christian Democrat CDS) and told reporters that they had expressed an “unequivocal commitment” to meeting the deficit-reduction targets agreed with the EU by the outgoing PS government. According to EU sources, Sócrates has privately reassured EU leaders “that no matter what sort of government emerges after new elections, it would stick to the austerity programme”.

Media speculation about a grand coalition involving the PS, PSD and the CDS is growing, ahead of an announcement by Cavaco Silva of new elections in late May or early June. All parties deny this possibility, while posing as defenders of Portugal’s national interest and accusing their opponents of supporting a takeover by “foreign” forces.

On Sunday, four days after resigning, Socrates was re-elected PS leader with 93 percent of the votes and vowed to run in the election on a platform opposing a financial bailout. He declared, “It is the moment for the Portuguese to choose between those who want a foreign aid programme, those who want the IMF to come, and those who will give everything their best for Portugal to not have to ask for foreign aid.”

Socrates accused the PSD of sparking off the crisis without offering any alternative to the austerity measures they opposed.

PSD leader Pedro Passos Coelho said that his party was committed to the budget programme agreed with Brussels, and added, referring to a bailout, “I think we must avoid a situation like that.”

He suggested the caretaker government could apply for a bridging loan to cover Portugal’s debt obligations.

The PSD’s withdrawal of support from the PS is the sign of a shift within the Portuguese bourgeoisie over how best to impose austerity measures, amid rising social opposition in the working class that threatens to break from the control of the official parties and the unions.

Last November, a general strike brought Portugal to a halt. Millions of workers from the public and private sector stayed away from work to protest the PS government’s budget and austerity measures. As the austerity measures were being debated in parliament, a number of strikes were taking place including rail, metro and ferries that brought many areas to a halt. Further strikes are planned in the next couple of months in transport, trade and services, education, restaurants, hotels, shipyards, post offices and the energy sector.

Most ominously for the Portuguese ruling class were the March 12 demonstrations, involving hundreds of thousands of young workers and their families, who took to the streets in 11 cities. The demonstrations were organised on Facebook by Geração à Rasca (the “scraping-by” movement), outside of the political parties and trade unions. An estimated 200,000 people marched in Lisbon and 80,000 in Porto. Demonstrators demanded the resignation of the government and the dissolution of the Parliament, denouncing them as “thieves.”

The comment by Manuel Alegre about the Geração à Rasca demonstration was revealing. He said that it was the “biggest” movement he had ever seen in his life, “outside of any party structure or union” and that it represented “a manifest crisis of the system” that added to “the growing divorce between citizens and institutions” and was “dangerous for the future of democracy.”

The 75-year-old Alegre is social democracy’s “smooth operator”, promoted as “Portugal’s veteran leftist” by petty-bourgeois groups such as the Left Bloc. Hailing from an aristocratic background, he became a member of the Portuguese Communist Party in his youth and has been a PS Congress deputy since 1974—the year of the Carnation Revolution that heralded the end of the fascist Salazar dictatorship. In 2004, he lost to José Sócrates in a bid for the party leadership. He stood as an independent in opposition to the official PS candidate Mário Soares for the 2006 presidential election and received more votes. This February he became the official PS candidate for the presidential election that Cavaco Silva won, and was backed by the Left Bloc. He is also a member of the Portuguese Council of State, which advises the president.

Alegre is someone who has been intimately involved in more betrayals and defeats of workers’ struggles than perhaps any man alive in Portugal. As both a deputy and loyal oppositionist, he has specialised in the use of left rhetoric to conceal his unswerving loyalty to the social democratic bureaucracy and the capitalist social order it defends. His four decades in PS politics have given him the experience to know that the spontaneous action that is developing against austerity measures has to be contained and directed into safe official channels.