Portugal: Massive austerity measures to follow bailout

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9 April 2011

The European Union (EU) is demanding massive austerity measures in return for a multi-billion euro bailout requested by the Portuguese government on Thursday.

EU finance ministers met yesterday at Godollo, near the Hungarian capital, Budapest, to discuss the size of the bailout and how it will be repaid. Around two-thirds of the expected €80 billion loan, equivalent to half of Portugal's GDP, will come from the EU and the remainder from the International Monetary Fund.

Portugal is the third eurozone country after Greece and Ireland to request a bailout. The request has increased speculation that Spain—the fourth largest economy of the 17 Eurozone countries—will also request help.

Europe's political leaders have made it clear that the bailout package will require Portugal's politicians to sign up to a programme of tough austerity measures and economic reforms. EU Economic and Monetary Commissioner Olli Rehn declared, "It will have to be one fully-fledged programme, multi-annual programme, conditional programme."

"Together with Portugal, a tough adjustment programme needs to be put together to restore Portugal's competitiveness," Germany's Economic Minister Rainer Bruederle said. "In addition, Portugal needs a strict plan on how to heal its budgets."

"The package must be very strict," Finland's Finance Minister Jyrki Katainen declared, adding that in exchange for loans, Lisbon will have to slash its budget.

Moreover, austerity measures "must be harder than [those] that the parliament in Portugal voted against… here must be some structural reforms, fiscal consolidation alone is not enough."

The failure to agree the budget, the fourth in a year, led to the collapse of the minority Socialist Party (PS) headed by Prime Minister José Sócrates on March 24. Sócrates, who resigned after the vote, had warned Congress that his budget (SGP IV) was the last chance Portugal had to avoid a bailout. Portugal had to repay an estimated €14 billion of debt by mid-June and had hardly any reserves to do so. In addition, the country had a budget deficit of 8.6 percent of GDP last year, exceeding the government's target of 7.3 percent, debt stood at more than 85 percent of GDP and another recession loomed.

Sócrates budget had been intentionally harsh, proposing huge spending cuts, tax rises and a freeze on pensions. It met with mass protests, organised largely outside of political parties and the trade unions. On March 12, an estimated 200,000 people marched in Lisbon and 80,000 in Porto to denounce the government as thieves.

It was in response to this upsurge of class militancy that the opposition right-wing Social Democratic Party (PSD) voted against the budget, causing the government's collapse. It had abstained on previous budgets, allowing them to pass.

Fundamentally, the Portuguese bourgeoisie set out to provoke a crisis so as to bring in the EU and the IMF. The ruling elite is well aware that this will mean even harsher austerity measures, but they want to use these organisations to discipline the working class while hiding behind them politically.

Sócrates, who has remained as caretaker prime minister, announced he would seek a bailout on Wednesday evening after weeks of denials. It is clear, however, that talks were going on behind the scenes throughout this time and constituted what can only be described a well-planned *coup d'état* ultimately directed against the working class.

Reports reveal that Sócrates had already agreed to a bailout when the European Central Bank and the European Commission were crafting the SGP IV budget with his government in late February.

On March 2, in Berlin, Sócrates and Finance Minister

Fernando Teixeira dos Santos met with German Chancellor Angela Merkel for further discussions. Fernando Ulrich, president of BPI, Portugal's third largest bank, revealed that at a March 4 meeting of bankers which the prime minister and Teixeira dos Santos had called to ask the banks to buy more government debt, it was made clear that Portugal had reached "the end of the line" as regards funding. The bankers met again last Monday at the Bank of Portugal and decided not to lend any more money to the state and demanded the government request a bailout. At the same time the credit rating agencies cut Portuguese government bonds to just above junk status.

What is planned for Portugal is intended for the rest of Europe. In its latest publication *Going for Growth*, the Organisation for Economic Co-operation and Development is calling for far-reaching structural reforms across the continent because current policies cannot resolve the economic crisis. OECD Secretary-General Angel Gurría explained, "The capacity of fiscal and monetary policies to further support the recovery is pretty much exhausted, so a new emphasis on implementing structural reforms is the only way to boost growth and job creation."

Gurría's remarks are a reference to the enduring sovereign debt crises in Greece and Ireland despite the bailouts last year. Both countries are finding it more difficult to service the high interest on the EU/IMF loans now or how to repay the full amount in the long term. The money used for the bailouts has been used to pay creditors and speculators rather than help the countries themselves.

Public spending cuts and reduced tax revenues and consumer spending have exacerbated the problem, as will further increases in interest rates by the European Central Bank. Greece is expected to report a bigger-than-expected budget deficit for 2010 and speculation is growing that it may have to restructure its debts, which are expected to reach 160 percent of GDP this year.

When Ireland requested the EU reduce interest rates on its €80 billion bailout money by one percent, France and Germany said no, unless Dublin increased business taxes, which it refused. All this has led to further downgrades by the credit ratings' agencies and leading economists are talking about a partial default.

It is also clear the EU wants the terms of the bailout agreed before country's June 5 elections. "It will be done quickly, very quickly. Portugal really needs the money soon to service debt. There is no question of waiting until after elections," said one European Commission official. German finance minister Wolfgang Schaeuble said it should only take two to three weeks to assess Portugal's request—a hope shared by Teixeira dos Santos who added, "It is in our interest to have a quick negotiation. That will be demanding, given the political situation in Portugal....We need a commitment of the country not only a commitment of the government."

The PS and PSD have pledged to co-operate in negotiations about the terms of the bailout and accompanying austerity measures. The leader of the smaller right-wing party, CDS-PP, Paulo Portas, said his party would give "unconditional support" to the bailout request and that he "will continue to do whatever I can to ensure that Portugal is a country that honours its commitments."

Added pressure to agree the bailout terms quickly and decisively was given by the bond markets yesterday. The interest on five years rose to 9.92 percent close to the 10 percent rate recorded on April 5, just before the bailout request. Interest on 10-year bonds rose to 8.64 percent.

The Portuguese bailout has intensified concerns about the economy of neighbouring Spain. EU officials, the Spanish government and some analysts have ruled out any comparison between the two countries, claiming Portugal will be the last eurozone country to need a bailout. Rehn said the Spanish government was putting in place "very bold" fiscal and structural reforms and that the country "will not need... assistance."

EC economic affairs spokesman Amadeu Altafaj said, "Spain must be judged on its own merits" and that is was "on track to meet its objectives in terms of deficit reduction for 2010 and 2011." "Spain is meeting its commitments, so we do not make any analogy," he said. "We do not speculate in this type of scenario."

Spanish Finance Minister Elena Salgado said the risk of contagion "is absolutely ruled out" and that Spain "won't go down this way because... our economy is bigger, more diversified. We have a very good track record."

However, Spain had about €25 billion in foreign direct investment in Portugal in 2009 and Spanish banks have nearly €100 billion in total exposure in Portugal—about one-third of its foreign-owned debt.