Financial markets press Portugal to intensify austerity

Paul Mitchell
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This week, Germany's second largest bank, Commerzbank, declared that Portugal had once again become "a problem child" in the euro zone, and that the situation in the country could "quickly evolve into something very similar to what Greece lived through last summer."

Access to the bond-buying programme of the European Central Bank (ECB) could be cut off, leading to the government having to seek a new rescue package, it warned. The report declared it had "little faith" in the claims made by Finance Minister Mario Centeno that "much stronger growth, coupled with tax revenues" would occur and therefore allow for more public spending.

Commerzbank bitterly criticised the minimal measures the new Socialist Party (PS) government has taken to partially undo measures imposed by the previous right-wing Social Democratic Party (PSD)/Peoples Party (CSD-PP) government. The changes, part of the "left agreement" made with the Left Bloc (BE) and the Communist Party (PCP), include an increase in the monthly minimum wage to €589, the reinstatement of four public holidays, and a cut to an extraordinary income tax introduced during the debt crisis to boost revenues.

The Commerzbank salvo was the latest in a series of attacks made by the financial markets and the "troika" (ECB, European Commission and International Monetary Fund) since the PS came to power last month with the support of the BE and PCP. They are piling pressure on the PS and its pseudo-left allies to deepen austerity. Portugal's debt stands at about 130 percent of GDP, one of the highest in the euro zone, well above pre-2008 levels of 84 percent.

The budget deficit in 2014 ended up at 7.2 percent of GDP, compared to the forecast 2.3 percent. The latest data shows it reached 4.2 percent in 2015 instead of the 2.7 percent agreed with the troika. Troika officials are in Lisbon next week to push for the shortfall to be rectified this year, and are reportedly demanding 18 measures to achieve a 2.8 percent target in 2016.

The PS has already made clear that it is committed to the troika's demands, offering to cut the budget deficit by more than it suggested and present its proposals in a long overdue 2016 State Budget to congress next month.

The BE has shown itself a party similar in all essentials to Syriza in Greece, which also struck a pose of "defiance" towards the European Union (EU), passing a few symbolic measures to alleviate the plight of the population in its early days in office. Within a few months, however, this pose was ditched entirely, as Syriza agreed to impose worse austerity measures than its predecessors.

When the BE signed the "left agreement" with the PS last November, it was clear that Portugal's continued access to the ECB's lifeline bond-buying programme was on a knife edge. The cash provided by the ECB allowed Portugal to raise at least €9 billion in loans it has been unable to raise from international banks. Ratings agencies Moody's, Standard & Poor's and Fitch had given Portuguese bonds junk status.

Only the "BBBL" rating (one above junk) by the little-known Canadian-based DBRS Ltd credit rating agency saved the day. DBRS is due to review its assessment in March, and analysts are speculating it too will downgrade Portugal to junk status.

One of the PS government's first acts in office was to bail out the failed bank, Banco Internacional de Funchal (Banif), with state funds. Finance Minister Centeno initially said the bailout, which could amount to €3 billion, was an exceptional expense and would not appear on the books.

On Thursday, however, he told reporters that "unfortunately the situation that began with Banif and the need for intervention poses difficulties for exiting the country's Excessive Deficit Procedure" (less control by the troika and more room to make its own decisions over public spending). It was the injection of capital into Banif that caused the budget deficit for 2015 to be revised to 4.2 percent last month, shattering the 2.7 percent posted by the PSD/CDS-PP.

The PS government also faces legal action by international investors after the Bank of Portugal took emergency action at the end of December to plug a €1.4 billion shortfall at Novo Banco, a supposed "good bank" created out of the collapse of Portugal's largest bank, Banco Espirito Santo (BES), in 2014. The Portuguese central bank moved 5 out of 52 senior (highest-rated) Novo Banco bond issues worth €2 billion back to BES, now a "bad bank" housing all its toxic debt, effectively wiping out most of the bonds' value. Investors are complaining that the action discriminated against foreign bondholders in order to protect the interests of Portuguese bondholders and contravenes the principle of "equal treatment."

This week, the economic pressure on the government increased. Planning and Infrastructure Minister Pedro Marques revealed that savings the previous government said it had made in the renegotiations of €7.35 billion public-private partnership (PPP) contracts "do not correspond to reality" and had "nothing to do with what was advertised."

Portugal's vulnerability has been particularly evident in this week's global financial turmoil. The interest (yield) on 10-year government bonds rose to 2.4 percent more than those in Germany, confirming Portugal as the euro zone's worst-performing debt market after Greece. The PSI 20 Share Index slumped 3.7 percent on Monday—the biggest fall of any developed nation.

In response to these ominous developments, the PS government perpetuates the fiction that it will be able to cut the deficit and increase public spending. Prime Minister António Costa declared this week, "We are facing a demanding and difficult financial year, but we will achieve a reduction of the structural deficit and the nominal deficit without sacrificing the commitments made to the Portuguese people and commitments with our partners. This is a fundamental guarantee for the credibility of political life."

Economy Minister Manuel Caldeira Cabral insisted that though the 2016 budget would involve "containment" and "restraint," there would still be "space" for the PS's election promises.

BE spokeswoman Catarina Martins tried to sow illusions in the PS, insisting that it would respect the agreement signed by the PS, the BE, and the PCP. She said, "There is no message coming from anywhere that could jeopardise the agreement that was signed to stop the impoverishment in Portugal and that the 2016 budget will of course mirror this agreement."

Martins insisted the BE "talked often with the government, with the parties that have made the agreement and I am sure we all have the strength to know that the political commitments, they are for real. … On the part of BE, the agreement we made we take very seriously."

In fact, there is every indication that the PS—which led the implementation of EU austerity measures in the initial years of the euro crisis—is preparing another deal with the banks to further attack the working class, under political cover provided by the BE.