Portuguese government prepares second austerity package

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22 February 2016

Less than three months after it came to power with the support of the Left Bloc (BE) and Communist Party (PCP), the Portuguese Socialist Party (PS) government is preparing a second set of austerity measures.

The election promise made by Prime Minister António Costa to "reverse austerity" is in tatters, as are the claims of the BE and PCP that the PS could be pressured to oppose the "troika"—the European Commission (EC), International Monetary Fund (IMF) and European Central Bank (ECB).

Last Thursday at a meeting of the Eurogroup of Finance Ministers in Brussels, Portuguese Finance Minister Mário Centeno was given his orders, not that he needed persuading. Centeno has made it clear the PS government's first priority is to ensure Portugal complies with European Union (EU) fiscal rules.

At the meeting, European Commissioner for Economic Affairs Pierre Moscovici warned that the risk of Portugal violating the rules had "not disappeared" even after the 13 additional austerity measures, worth around €1 billion, that Centeno submitted last month to the EC, as part of Portugal's 2016 budget.

These measures are being imposed on the pretext of paying for the limited social programme the BE and PCP insisted on, in order to cover for them agreeing to support a pro-capitalist PS minority government and further integrate themselves into the political establishment. The increase in the minimum wage, changes to tax credits, the unfreezing of pensions, the replacement of pay cuts and the reduction in an emergency tax surcharge were, according to BE deputy Mariana Mortágua, "the reasons that made us sign an agreement with the PS," before adding "knowing that to stop impoverishment it is still very little."

Mortágua declared that funding the social programme with higher taxes on fuels, vehicles and tobacco was "indefensible." But she immediately attempted to let the PS off the hook and cover for the BE's own complicity in the fraud being perpetrated on Portuguese workers and youth by stating, "Contrary to what the Right says, [they] are not 'brutal' tax increases, and are not an attack on those who have less."

In fact, companies have already made it clear that the increased taxes will be recouped in the form of higher prices and fares, which will disproportionately harm the poorest.

On the day of the Eurogroup meeting, just as Moscovici was insisting that "It is in the interest of Portugal to reassure investors," the interest rates the PS government pays on its borrowing soared to a two-year high of 4.5 percent. It has risen by 2 percent since the PS took office in December.

Further warnings were made about the reaction of the DBRS credit ratings agency, which is the only major agency still classifying Portugal bonds above "junk" status, prolonging the country's eligibility for the ECB's favourable bond purchasing scheme. Should DBRS change its mind at its next review, Portugal will be forced to borrow at higher rates from private lenders increasing its huge debt, which already siphons off 10 percent of public expenditure to service each year.

Following the Brussels meeting, the Eurogroup issued a statement, approved unanimously, welcoming "the commitments of the Portuguese authorities to prepare as of now, new additional measures to be implemented when necessary to ensure compliance with the Stability and Growth Pact." The EC's decision whether to impose these measures, known as "Plan B," will be taken at the end of April when Portugal's final 2015 economic performance figures and new EU-wide economic forecasts become available.

The rise in Portugal's bond yields is a symptom of the increasing global turmoil that has seen stock markets slump and renewed worries over the viability of European banks, particularly Deutsche Bank. The fate of such a prestigious German bank was no doubt foremost in the mind of German Finance Minister Wolfgang Schäuble when he voiced his concerns about Portugal on Friday. He declared that the country still lacked "resilience," stating, "We hope that the problems we had with Portugal will not re-appear."

"Portugal should be aware that it may disrupt financial markets, if it gives the impression it is reversing the path it has travelled. Which is very delicate and dangerous to Portugal," Schäuble added. His statement was a warning to other EU governments that any retreat on austerity will not be tolerated.

Centeno responded by saying, "The message has to be consolidated in the market, the government will do everything necessary on the budget front to demonstrate that the objective is to put public accounts on a healthy trajectory from an economic and sustainable point of view."

"We are convinced that, in May when the rating agencies and the commission carry out their mid-term evaluations of the budget, the evaluation will be positive," he added.

The government is already reining back on one of the key social measures it agreed with the BE and PCP, the reduction of the 40-hour week in the public sector to 35 hours. Its introduction has been delayed to July, provoking a one-day strike earlier this month. Centeno has announced that a study will now be conducted to find out what additional costs to the state will result from implementing 35 hours, after weeks of claiming there wouldn't be any. He warned that it "will be implemented with very strict conditions" and with regard to the "cost to public finances."

Centeno has also apologised for the way large private investment companies, including Blackrock and Pimco, were made to cover some of the losses of the "good" bank, Novo Banco, which was created out of the collapse of Portugal's biggest bank, Banco Espirito Santo, in 2014. He said, "We must go to the market and explain that it was a single event… Everyone knows that it was a decision of the Bank of Portugal" and that they now have to "work together with the ECB and the Portuguese financial sector to ensure that this type of event does not happen again."

Centeno reassured the EU and financial markets about the so-called re-nationalisation of Portugal's national airline, TAP, most of which had been sold to the Gateway consortium by the previous right-wing government. Privatisation is another key element of the PS-BE-PCP agreement. After first claiming that "the nature of the company as a private company" had changed by the state acquiring half the company's shares, Centeno then said that TAP nevertheless "continues to be" a private company and "the presence of the government is restricted to strategic issues."

The BE tried to cover for yet another about-turn by the PS, claiming it was a "breakthrough," before adding that it was a "lame" breakthrough and that the party would be seeking "clarification" about the status of TAP from Minister of Planning and Infrastructure Pedro Marques.