Portugal

Introduction

Even on its own terms Portugal's austerity programme has been a spectacular failure. One government has collapsed. The current one, in the face of mass social protests, four general strikes and the biggest protest movement since the revolution of 1974, is teetering on the brink – rocked by the resignations in June 2013 of two prominent ministers, including finance minister Vitor Gaspar, seen as the architect of the austerity programme, who quit because of the lack of support for cuts.

GDP is expected to shrink for the third straight year in 2013. Tough austerity measures are making things worse. The human cost of the drastic cuts is being paid in falling wages, fewer jobs, a loss of social protections and plummeting public spending on health and education.

Origin of debt crisis

Following a recession in 1993, Portugal's economy grew strongly in the mid-to-late 1990s. However, much of this growth was due to large amounts of foreign lending into the economy, both to the government and private sector, following the creation of the European Monetary Union

Interest rates fell to bring them into line with those in the centre of the European economy, and the common currency encouraged more lending by European banks, to enable Portugal to buy exports from countries like Germany. The government had a deficit of 4% of GDP, on average, between 1996 and 2007, fuelling some – but not all – of the foreign loans coming into the country. While this system helped the growth of Western European banks, it is questionable how much it benefited ordinary people in Portugal, who themselves became much more indebted.

At the turn of the millennium growth stagnated. Unemployment doubled to 8% between 2000 and 2007. In the absence of growth, more loans were taken on to enable the payment of old loans.

By 2008, Portugal was heavily indebted. The external debt of the public and private sector totalled 200% of GDP.[55] A large majority was owed by the private sector – 154% of GDP – with 55% of GDP owed by the public sector.[56]

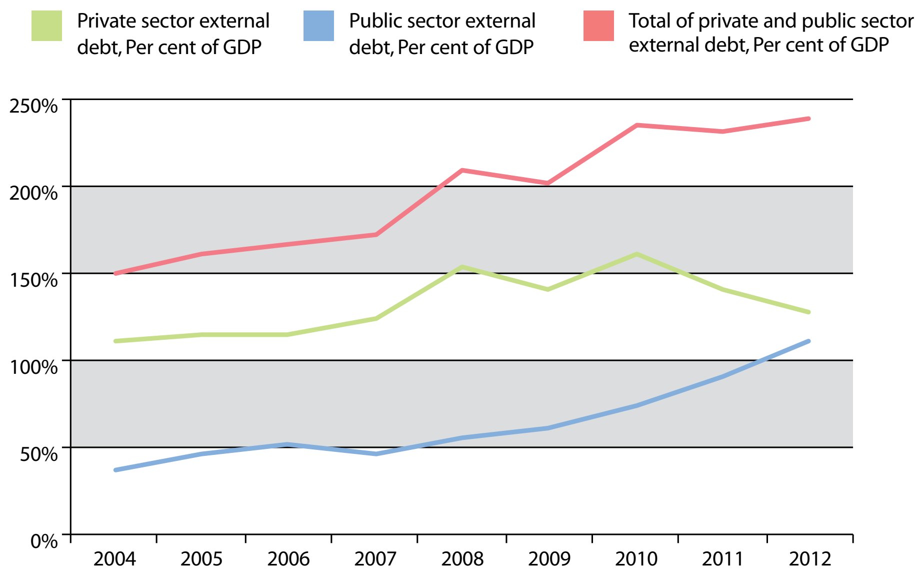
When the global financial crisis hit in 2008, foreign lending to Portugal's banks fell dramatically, fuelling the recession. GDP fell by 3% in 2009 alone. The decline in tax revenues and increase in welfare payments pushed up government borrowing.[57] In the spring of 2010, lenders began to become more concerned about the Portuguese government's ability to pay its debts. Interest rates on new debt issued by the government shot up, reaching more than 10% on 10-year loans by February 2011.[58]

Portugal's government could effectively no longer borrow the money needed to repay debts falling due. This meant the government faced defaulting on the debt, in which case reckless bank lenders would not be repaid. Instead, the EU and IMF agreed a package of bailout loans to ensure lenders were paid in full, while keeping the huge debt owed by the Portuguese government. This bailout was primarily in the interests of banks in other EU countries.

Government external debt:
- $236 billion
- 108% of GDP

Private external debt:
- $277 billion
- 128% of GDP

Government external annual debt payments:
- $17.8 billion
- 20% of revenue
- 21% of exports



In the run-up to the global financial crisis, much of Portuguese external debt was owed by the private sector rather than the government. Since the crisis began, government debt levels have increased to cope with the impacts of the bust of private borrowing and lending.

Figure C5.1: Portugal external debt (per cent of GDP)[59]

Life and debt in Portugal

Unemployment has ballooned from 8.8% in 2008 to 18.2%, with more than 42% of young workers jobless, a situation that would be worse but for the fact that 120,000 people have emigrated each year since 2010, in search of work. As well as rising joblessness, **poverty** is on the increase as a result of massive tax hikes and cuts in social protections. A quarter of Portugal's population is now living below the poverty line.[60]

"In Portugal we have to live under the rules dictated by this enormously powerful troika, making us bow to a global financial system that is unscrupulous and completely heartless and that forces us to surrender our country to that pack of vultures that are the large banks."

MARINA OLIVEIRA, UNEMPLOYED PSYCHOLOGIST

Salaries are on average 20% lower and working hours are longer than when the crisis began.[61] VAT has increased from 13% to 23%. Income tax hikes have cost the average wage earner one month's pay. The European Commission predicts a further fall in incomes in 2013. Electricity, transport, tuition and water costs have spiraled. New fees to access **healthcare** – €5 for a doctor's appointment, €20 for emergency treatment – have been introduced while spending has decreased. **Education** spending has been cut, with more than 60,000 teachers sacked or placed in mandatory relocation schemes.

For those in work, wages have been cut, pensions frozen, holidays reduced and working hours increased. The retirement age has been raised to 66. **Workers' rights** have also been under attack with a reduced scope for national collective bargaining, a 50% reduction in overtime payments and annual bonuses. Attempts to introduce new laws making it easier to sack workers with lower compensation have been rejected by the constitutional court. As part of the 2013 budget a further 30,000 public sector job cuts were announced as a result of deep cuts to spending in public health, education and social security.

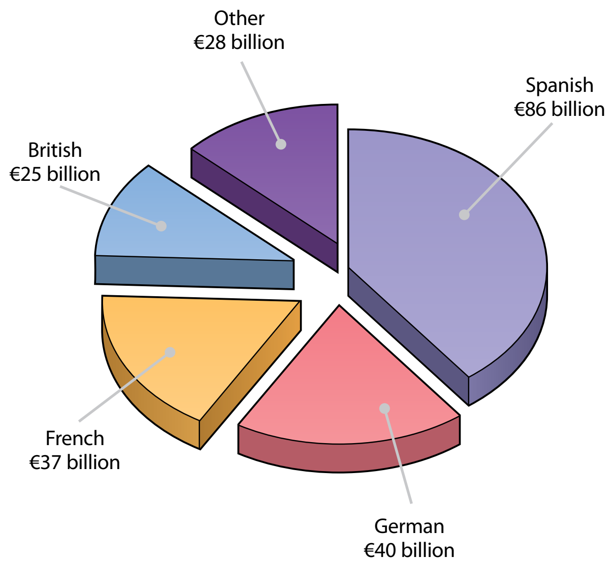


Figure C5.2: European Bank lending to Portuguese economy (Public and Private sectors) (€ billion, as of December 2010)[62]

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When workers do lose their jobs they are facing greater poverty. **Redundancy payments** have been cut from 30 days to 10 days per year for new contracts. The maximum period of unemployment benefit has been halved. Cuts have been accompanied by a fire sale of state assets, with the electricity grid and power generating companies having been sold off to Chinese state investors. More are to follow.

"This government has left the people on bread and water, selling off state assets for peanuts to pay back debts that were contracted by corrupt politicians to benefit bankers."

FABIO CARVALHO, FILM-MAKER.

The situation would be even worse but for some successes in forcing the government to back down. In September 2012 the de Coelho government announced an increase in workers' social security contributions, from 11% to 18%, while lowering employers' contributions from 23.75% to 18%. The measure amounted to the equivalent of a loss of one month's wages for many workers – the equivalent of a €2.3bn transfer directly from the pockets of workers to the bank accounts of their employers. More than a million people took to the streets in up to 40 cities and the government backed down. Other austerity measures were struck out by the constitutional court.

"This policy is applied only to social areas, never affecting the benefits of the wealthiest one percent. It is aimed at pleasing creditors and perpetuating Portugal's dependence on the financial system."

JOURNALIST JOSE VITOR MALHEIROS, *PUBLICA DE LISBOA* NEWSPAPER

Despite its failure, the troika is pushing for more of the same – a further €4.8bn of **spending cuts** are to be announced in late 2013. Up to 50,000 jobs could go. The IMF is advocating a new austerity drive claiming unemployment benefit is still *"too long and too high"*, that public sector wages should be cut by up to a further 7% and that 20% of public sector jobs should be axed, along with cuts in pensions, overtime pay and an increase in medical fees.

Poverty levels have risen to unimaginable levels in Portugal. This new poverty, caused by unemployment and the inability to repay bank loans, is also driving up the number of suicides. According to the National Statistics Institute, in 2012, a fifth of all Portuguese

Photo: Rafael Marchante / REUTERS

A man holds a placard during a protest against austerity, in front of Portugal's parliament in Lisbon, November 2012.

people were living on less than €358 a month, well under the legal minimum wage of €485 a month.

Soup kitchens have sprung up across Lisbon, bringing back memories of the *sopa dos pobres* (soup of the poor), served out by Catholic organisations to feed the impoverished of the late 1950s. Today, long lines of people queue outside charity centres, waiting to receive their only hot meal of the day. Teachers around the country report alarming cases of children coming to school on an empty stomach, dizzy and even fainting from hunger.

Resistance and the demands of activists

As representatives of the troika met government officials in March 2013 more than 1.5 million people took to the streets in 40 cities, up to 750,000 in Lisbon alone. When the troika returned in June 2013, a general **strike** by Portugal's two main union federations brought the country to a virtual halt.

It wasn't the first mass demonstration against austerity and the policies imposed by the troika, and unions, social movements and anti-debt campaigners say it will not be the last. Since November 2011 there have been four general strikes, hundreds of protests – including the largest demonstrations to hit the country since the revolution of 1974 – and growing calls to cancel the debt amid rising poverty and unemployment.

Protests against austerity policies forced the resignation of José Sócrates as Prime Minister in March 2011. On 15 September 2012 more than a million people took to the streets in dozens of cities and towns amid strike action across the public sector.

Anti-austerity flash-mobs have disrupted several ministers' public appearances and angry citizens have resorted to throwing eggs or tomatoes, shaking official cars and shouting the popular insult *gafunos* (thieves) wherever the supporters of austerity appear in public. Some of these methods are borrowed directly from previous struggles against debt in Latin America.

In February 2013, anti-austerity activists disrupted the parliamentary speech of Prime Minister Passos de Coelho by singing *Grandola* from the public gallery, the hymn which signaled the beginning of the 1974 revolution with the line *"the people have the most power"*. For days afterwards government ministers had to face singing crowds wherever they went.

Behind many of these protests has been the group Screw the Troika (*Que Se Lixe a Troika*). In their founding statement the group says: *"We stand indignant with the theft of retirement pensions, with the threat of firings and lay-offs, with each job destroyed… we stand indignant with increases in the price of bread and milk, water, electricity and gas, public transport. We are revolted to know of another friend who is forced to leave Portugal, of another family who lost their home, of another hungry child."*

As the streets echo to the calls for an alternative to debt and poverty, activists are making the case for a **debt audit** and the repudiation of illegitimate and odious debts. Under the slogan *We Don't Owe! We Won't Pay!* the Committee for the Abolition of Portuguese Public Debt and The Initiative for a Citizens' Audit of Public Debt, founded in December 2011, call for the immediate suspension of the payment of debt, an audit, and the cancellation of illegal, odious or illegitimate debt.

Isabel Castro, of the CADPP, says the purpose of the audit would be to expose the debt, who contracted it and why, the terms and who benefited: *"Public debt exists because the state gave priority to banks and decided to cover the losses and damages which the financial system racked up over the years as a result of their speculation, greed and even criminal activities. Portuguese public debt is not sustainable. The audit would check whether the debts accrue benefits to the general population. If not, the debt is illegitimate.*

"No debt which violates our human rights should be paid. No debt should be paid which requires the state not to honour its contract with citizens to ensure education, healthcare, protection in old age. No debt should be paid if it means ignoring democratic procedures and does not allow for citizen participation in the decision-making process."

As part of their attempts to tackle debt and austerity, activists have called for an end to privatisation and cuts, for an increase in wages and pensions, for the imposition of taxes on financial transactions, for higher taxes on the banks and luxury wealth, for limitations on speculative finance and capital movements, for a fair tax system and for control of the economy to be in the hands of citizens, not the financial sector.

References – Case study five

55 IMF. (2008). Portugal: 2008 Article IV Consultation—Staff Report; Staff Statement, Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Portugal. International Monetary Fund. Washington DC. October 2008. http://www.imf.org/External/Pubs/FT/SCR/2008/cr08323.pdf

56 World Bank. Quarterly External Debt Database SDDS.

57 Portugal's government credit rating was AA until March 2010. Yields on government debt began rising in spring 2010.

58 http://www.bloomberg.com/quote/GSPT10YR:IND/chart

59 Calculated from World Bank, Quarterly External Debt Database SDDS. These figures do not include debts owed to Portugal. Figures do not go back earlier than 2004.

60 Isabel Castro, Citizens' Initiative for the Audit of Public Debt, 10 May 2013

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