European Economic and Social Committee
Workers' Group

THE IMPACT OF ANTI-CRISIS MEASURES, AND THE SOCIAL AND EMPLOYMENT SITUATION

PORTUGAL

THE IMPACT OF "ANTI-CRISIS" MEASURES AND THE SOCIAL AND EMPLOYMENT SITUATION

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Summary

For the European institutions, the "Great Recession" officially began in March 2008, when the word "crisis" first appeared in the Conclusions of the European Council (European Council, March 2008). In the four years since then, the European response to that crisis has not always been the same; an analysis of European Union documents reveals at least three distinct stages.

In the first stage, from March to December 2008 (the "financial stage"), the main concern was the stability of the financial system. The second stage, from December 2008 to February 2010 (the "economic stage") was characterised by an attempt to avoid recession through (temporary) recourse to expansionary fiscal policy. The third stage, from February 2010 to the present day (the "fiscal stage") involves a shift in the focus of concern from economic recovery to the stability of the euro and from the euro area to efforts to regain recovery of "market confidence" by way of coordinated fiscal consolidation throughout the EU.

In each of these stages, the European response *de facto* determined national policy. In Portugal, the series of "packages" of "anti-crisis" measures announced and, in part, implemented by governments at various stages of the crisis have followed European policies almost word for word[2]. The aim of this report is to identify and summarise each of these packages and to assess their economic and social impact between the start of 2008 and the end of 2011.

In the last quarter of 2008, during the financial stage of the crisis, the Portuguese government adopted an "Initiative on Strengthening Financial Stability" (IREF), aimed at consolidating financial institutions. In January 2009, in the economic stage of the crisis, the government responded to calls from the European institutions with the "Initiative for Investment and Employment". The fiscal stage began in Portugal in March 2010, with the "Stability and Growth Programme", which became known as PEC I. This programme would be followed on 13 May 2010 by a new package (PEC II), the 2011 budget (PEC III) and the memorandum agreed with the troika of the IMF, EU and ECB.

As a whole, the packages of measures in the last stage focused almost exclusively on containing the deficit and controlling public debt, by pruning the salary costs of public administration and the public pension, reducing the administrative expenses of the State, cutting back social welfare benefits, freezing public investment, reducing transfers from the State to the business sector, "rationalising" the network of public service provision, cutting tax advantages, increasing rates of direct and indirect taxation, introducing extraordinary tax surcharges and accelerating the privatisation programme.

The financial crisis was first felt in Portugal at the beginning of 2008, with a severe credit squeeze and the collapse of two privately-owned banks. At the same time, the economic effects struck, with a fall in the growth rate that continued until the first quarter of 2009. The outline of recovery began to appear between the second quarter of 2009 and the first quarter of 2010. However, as of the second quarter of 2010 this trend reversed, and recession set in again in 2011. The correlation between this up-and-down movement in growth and the different stages identified above is noticeable, and attributable, at least in part, to shifting economic policies.

There are, however, other trends that remained unchanged since the start of 2008. The first of these relates to the deficit and the public debt – during this period, the public deficit has remained

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[2] In this study, the term "anti-crisis measures" refers to the policy measures presented and justified by the authorities as responses to the exceptional situation created by the Great Recession.

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high and the public debt has grown steadily. The second relates to the steady growth of unemployment, the third to the increase in the number of people denied access to social protection systems, the fourth to the decline in public provision in various domains and the fifth to deepening inequalities.

Developments at the end of 2011 point towards a worsening of these trends, compounded by a marked decrease in families' disposable income, and a corresponding squeeze on private consumption. Given the continued fall in public and private investment and the likely fall in exports, the outlook based on current trends is for a deep recession that will not only compromise the desired objective as to the deficit and the debt, but also lead to a social crisis without precedent in recent times. The loss of confidence in the usual parties of government also heralds a political crisis of democratic representation, the consequences of which are unpredictable.

1. From financial turmoil to the euro crisis: the three stages of a European crisis

During the "financial stage" of the European crisis between March and December 2008, the Community institutions viewed the crisis as a matter of "financial turbulence" (EC, March 2008), and focused on devising measures aimed at "avoid[ing] the failure" of the financial system (EA, October 2008). The euro area summit and the European Council of 12 and 15-16 October 2008 (EA October 2008, EC October 2008) called for more concerted action to "restore confidence and proper functioning of the financial system" (EA, October 2008). Attention focused on the state of the banks. The European Council pledged to "support the major financial institutions, to avoid bankruptcies and to protect savers' deposits" (EC, October 2008) and supported the measures taken by the euro area leaders, particularly the decisions to issue government guarantees to cover banks' senior debt issuance and, where necessary, to recapitalise the banks.

This "financial stage" of the crisis came to a sudden end and was succeeded by the "economic stage" when the European Council of 12 December 2008 realised that the crisis was after all also economic. According to the presidency conclusions (EC, December 2008), "[t]he financial crisis is now impacting on the economy. The euro area, and indeed the Union as a whole, are threatened with recession". The conclusions went on to say that Europe must act in a united manner "to avoid a recessionary spiral and sustain economic activity and employment".

This change of direction was justified by the shift in the epicentre of the crisis from the USA to Europe and from the financial markets to the economy. Hungary, Iceland and Ukraine had already turned to the IMF in October 2008 when faced with the banking and currency crises. In November, the euro area officially entered technical recession.

The measures aimed at rescuing the banks therefore needed to be supplemented urgently by a "European Economic Recovery Plan", which would have to mobilise 1.5% of EU GDP. The Council called on the Member States to adopt coordinated measures aimed at stimulating demand, with a limited duration and a focus on the most heavily affected sectors. Those measures could entail an increase in public spending, a reduction in the tax burden and in social security contributions and direct assistance to families and SMEs.

The Council was "[a]ware that [the Recovery Plan] will temporarily deepen the deficits". It reaffirmed its commitment to sustainable public finances, calling for a "return as soon as possible . . . to their medium-term budgetary targets", but only when the hoped-for "return to the path of growth and job-creation" was assured (EC, December 2008).

The size of the European Economic Recovery Plan was already estimated at 3.3% of EU GDP at the Council meeting on 19-20 March (EC, March 2009), and at the time of the Council meeting on 18-19 June (EC, June 2009) it was expected to rise to 5% of GDP in 2009 and 2010. The same Council reiterated the determination "to do what is necessary to restore jobs and growth". At the same time, however, it pointed out the tension between fiscal consolidation and stimulus policies, concluding that it was necessary to prepare "a reliable and credible exit strategy".

Six months later, on 10-11 December 2009 (EC, December 2009), the Council considered that "[t]he economic situation is starting to show signs of stabilisation and confidence is increasing." It pointed out, however, that uncertainties remained and that "[p]olicies in support of the economy should therefore remain in place and only be withdrawn when recovery is fully secured (EC, December 2009). Despite this, greater emphasis than before was placed on "exit strategies", with a separate section of the conclusions being dedicated to this subject, stating that "[f]iscal consolidation should start in 2011 at the latest".

We did not have to wait until 2011, however, to see a sudden "exit"; that is to say, a hurried return to "fiscal consolidation". On 11 February 2010, the Heads of State and Government of the euro area announced that "[e]uro area Member States will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole" (EA, February 2010). At the Council meeting of 25-26 March 2010, the demand for "better budgetary discipline" was already being made and a task force was set up to present measures to create a new disciplinary framework for fiscal policies. The "exit strategy" was taking over without waiting for the recovery, marking the start of the "fiscal" stage. This new change of direction was justified by the events in Greece.

During this stage, the euro and its ability to survive became the focus of concern, in a context in which first Greece, then Ireland and finally Portugal saw their access to refinancing on the sovereign debt markets cut off. However, the crisis was interpreted by the European institutions not as a "euro crisis", caused by imperfections in the structure of the euro, but rather as a "sovereign debt crisis" resulting from lack of fiscal discipline among the peripheral countries, which was liable to spread to the euro area as a whole and to threaten its stability. This interpretation thus supported an approach based on reinforcing budgetary discipline in the euro area as a whole, with the hope that this would lead to a return of market confidence, and to the isolation of the peripheral countries in a liquidity quarantine provided by EU and IMF funds, "austerity" and "structural adjustment".

In the words of the declaration of the Heads of State and Government of the euro area of 4 February 2011 (EA, February 2011), a "new economic governance framework" had become necessary in order to achieve, in the context of reinforced fiscal consolidation, " a new quality of economic policy coordination in the euro area to improve competitiveness, thereby leading to a higher degree of convergence, without undermining the single market." Competitiveness and convergence would complement budgetary discipline and, in line with the point of view that was dominant within the European institutions at this stage, would involve "structural reforms to encourage growth": that is to say, measures to increase the flexibility of the labour market and to liberalise product and service markets.

Economic governance and mechanisms "to safeguard the financial stability of the euro area as a whole" (EC, October 2010) – first the European Financial Stability Facility and then the European Stability Mechanism – were presented, along with steps to increase the stability of the financial system, as the three key elements of the European strategy.

On 11 March 2011, under pressure from the deepening crisis and the need to send a determined signal out to the markets, the Heads of State and Government of the euro area signed a "Pact for the Euro", which promised to go "beyond what already exists" (EA, March 2011) in bringing these three elements together, with measures to strengthen competitiveness, increase employment and improve financial stability and the sustainability of public finances. The Pact for the Euro was renamed the "Euro Plus Pact" after it was joined by some EU Member States from outside the euro area.

In October 2011, with Spain and Italy already among the countries experiencing "tensions in sovereign debt markets" (EC, October 2011), the European Council adopted new measures aimed at coordination of economic policies "at EU level . . . taking place before national decisions are taken" (EC, October 2011). At the beginning of December 2011, against the background of recognition "of the worsening economic and financial situation" (EC, December 2011), economic governance was raised to the level of a "fiscal stability union" or a "fiscal compact", involving a fiscal rule requiring a structural deficit of less than 0.5% of nominal GDP, to be introduced at constitutional level in the Member States and with automatic sanctions as a consequence of breach of the deficit ceiling of 3% of GDP.

1. The three stages of the crisis in Portugal and the relevant anti-crisis packages

The three stages of the European crisis correspond precisely to the successive packages of "anti-crisis measures" that were announced and, in part, implemented between 2008 and the present day.

During the financial stage of the crisis, in the last quarter of 2008, the Portuguese government approved an "Initiative on Strengthening Financial Stability" (Iniciativa de Reforço da Estabilidade Financeira – IREF), summarised in Table 1, which focused on strengthening the information and transparency obligations of financial institutions, strengthening deposit guarantees, granting State guarantees to banks and strengthening their financial soundness (PEC 2008-2001, January 2009 revision).

Strengthening of information and transparency obligations	(i) Provision of information to supervisory authorities; (ii) enhancement of the information available on complex financial products (iii) Duty to inform the supervisory authorities of shares held; (iv) Extension of the liability of legal persons; (v) systematising the rules, and enhancing the powers, of the National Council of Financial Supervisors.	Decree-Law No 211-A/2008, of 3 November
Revision of the system of sanction	(i) Updating the framework of penal and administrative sanctions; (ii) Rules on remuneration policy for members of administrative and supervisory bodies.	Law No 28/2009
Strengthening of deposit guarantees	Change of the coverage limit from 25 000 euros to 100 000 euros.	Decree-Law No 211-A/2008, of 3 November
Grant of State guarantees	Grant of State guarantees to all credit institutions established in Portugal that fulfil the solvency criteria provided for in the law.	Law No 60-A/2008 of 20 October, and Ordinance No 1219-A/2008
Strengthening of the financial soundness of credit institutions	Specific legal framework for direct public intervention in recovery and restructuring procedures of credit institutions with capital levels below the legal minimum.	Law No 63-A/2008 of 24 November
Other specific interventions to ensure financial stability	(i) nationalisation of Banco Português de Negócios, S.A. (BPN); (ii) grant of State guarantee to Banco Privado Português.	Law No 112/97 of 16 September (BPP), Law No 62-A/2008 (BPN)

Table 1: Measures forming part of the Initiative on Strengthening Financial Stability (IREF)

In January 2009, in the "economic stage" of the crisis, the Portuguese government answered the calls of the European institutions by means of the "Initiative for Investment and Employment", which was presented as "the national contribution [to the] coordinated counter-cyclical efforts at European level" (PEC 2008-2001, revision of January 2009). That initiative complemented a whole raft of measures that were adopted during 2008 in response to the recession (see Table 2).

Table 3 summarises the measures included in the Initiative for Investment and Employment (Law No 10/2009 of 10 March). This initiative aimed at having a "counter-cyclical effect on investment and employment" and was intended to have an effect on public spending in 2009 of 1 300 million euros or 0.8% of GDP.

Support for owners and tenants of real property	(i) 1% reduction in the Municipal Real Property Tax (IMI); (ii) extension of the exemption period, and introduction of a degressive bonus on the amount of real estate expenses deductible against personal income tax; (iii) Special regime applicable to funds and companies investing in real estate for residential letting; (iv) increase of the tax savings for families on sale of their own and permanent residence.
Fight against poverty	(i) Expansion of the scope of the solidarity supplement for the elderly; (ii) strengthening of protection in the case of total invalidity; (iii) strengthening the integration of beneficiaries of the minimum income for social inclusion.
Protection of families	(i) Increase in the amount and the scope of beneficiaries of school social work; (ii) increase in child benefit; (iii) introduction of a student's transport pass for young people between 4 and 18 years old; (iv) strengthening of the protection of disabled people.
Support for business activity	(i) creation of a general tax bracket with a reduced corporate tax rate; (ii reduction of advance payments for SMEs; mechanism for payment in advance of Community funds; (iii) "SME Invest" line of credit programme; (iv) Programme for the Extraordinary Settlement of State

	Debts.

Table 2: Measures in response to the recession announced during 2008.

Modernisation of schools	Bringing forward of the reconstruction and modernisation of 100 more public schools over the period 2009-2011
Promotion of renewable energy, energy efficiency and energy transport networks	(i) Support for the installation of solar panels and micro-generation units (mini-wind turbines); (ii) investment in energy transport infrastructure; (iii) improvement of the energy efficiency of public buildings; (iv) investments in intelligent energy networks.
Modernisation of technological infrastructure – next generation broadband networks	Support for carrying out investments in next generation broadband networks
Special support for economic activity, exports and small and medium-sized enterprises (SMEs)	(i) Grant of bank loans to undertakings established in Portugal with guarantees and partial interest rate subsidies; (ii) co-financing of merger and acquisition operations; (iii) support for export credit insurance mechanisms; (iv) activities promoting the country abroad; (v) support for private investment projects in agriculture and agro-industry; (vii) investment support tax regime; (ix) reverse charge of VAT on supply of goods and services to public administrations; reduction of the VAT reimbursement threshold; (x) reduction of the special pre-payment.
Support for employment and strengthening of social protection	(i) reduction of employer's social security contributions by 3 percentage points, in small and micro enterprises, for workers over the age of 45; (ii) support for enterprises and workers in case of a temporary reduction of activity; (iii) creation of traineeships for young people; (iv) support for enterprises for hiring young people, the long-term unemployed and the unemployed over-55s on a permanent basis; (v) Skills-Employment Traineeships Programme, aimed at the unemployed; (vi) support for the creation by unemployed people of new enterprises, through a specific, subsidised line of credit; (vii) support for the integration of 30 000 unemployed people in non-profit institutions; (viii) expansion of the supply of dual-certification courses; (ix) temporary increase of social support for the long-term unemployed.

Table 3: Measures included in the Initiative for Investment and Employment (January 2009)

On 16 March 2010, at a time when yields on Greek public debt had already begun to rise, but before the same thing had happened to Portuguese and Irish debt (see Figure 1), the government presented the Stability and Growth Programme, which became known as PEC I. It was this austerity programme that launched the fiscal phase of the European crisis in Portugal (see Tables 3 and 4).

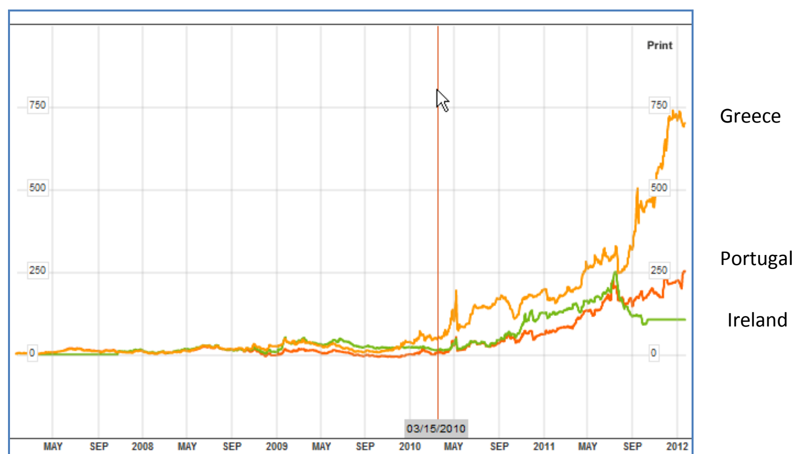

Figure 1: Yields on 10-year public debt securities (Bloomberg)

Staff costs	Wage restraint and reinforcement of the "2 for 1" hiring rule.
Social expenditure	(i) Obligatory means-testing for the grant of non-contributory social benefits; (ii) freeze in the nominal value of the majority of non-contributory benefits; (iii) reduction of expenditure on social benefits under the non-contributory social security regime; (iv) review of the link between unemployment benefit and the net remuneration previously received by the worker; (v) reduction of the level of wages required for there to be an obligation to accept a position; (vi) management and control of health expenditure; (vii) acceleration of the convergence between the public employees' pension system (Caixa Geral de Aposentações) and the General Social Security System.
Intermediate consumption expenses	(i) Ceiling of 90 million euros in 2011-2013 for outsourcing expenses; (ii) reduction of the annual appropriations set out in the Military Planning Law for expenditure on military equipment; and (iii) nationalisation of the State's fleet of vehicles and improvement of the efficiency of the National Public Purchasing System.
Public investment	(i) Postponement of the Lisbon-Porto and Porto-Vigo high speed rail lines by two years; (ii) no assumption of new commitments for road concessions.

Table 3: Stability and Growth Programme 2010-2013: expenditure reduction measures

Reduction of tax allowances and advantages	(i) Application of personal income tax at 20% to capital gains on movable property; (ii) limitation of personal income tax allowances; (iii) limitation of personal income tax advantages; (iv) freeze in the value of personal income tax allowances indexed to the minimum monthly wage; (v) reduction of the specific personal income tax allowance for pensions above 22 500 euros per annum; (vi) removal of personal income tax advantages for personal accident and life insurance; (vii) reduction of the vehicle scrapping incentive; (viii) enhancement of the taxation of fringe benefits under personal and corporate income tax
Other revenue-enhancing measures	(i) Extraordinary taxation, through personal income tax at 45%, of taxable income exceeding 150 000 euros; (ii) expansion and monitoring of the social security contribution base; (iii) introduction of tolls on toll-free motorways (SCUT)
Privatisations	Energy sector (Galp Energia, EDP, REN, Hidroeléctrica Cahora Bassa), naval and defence construction (Estaleiros Navais de Viana de Castelo, Edisoft, Eid, Empordef IT), air transport (ANA e TAP), rail (CP Carga e EMEF), financial (BPN e Caixa Seguros), communications (CTT), paper distribution (INAPA), mining (Sociedade Portuguesa de Empreendimentos) e operating concessions on the lines of the Portuguese railway company.
State enterprises and shareholdings	(i) Selectivity of investment by State enterprises and the establishment of limits on their indebtedness; (ii) contractualisation of public services with all transport companies and review of public service contracts in the media field; (iii) alignment of rules on wage increases and management of the vehicle fleet with those established by the public administration; (iv) review of pension and health plans that lack contributory support; (v) creation of central purchasing bodies at the level of each enterprise and at sectoral level; (vi) treasury management unit for non-financial State enterprises; (vii) assessment and revision of the financing model of the Portuguese road management enterprise (Estradas de Portugal).
Reform of the budget framework	Creation of a multi-annual budget framework, with defined expenditure ceilings and programme budgeting, in the form of a proposed amendment to the Budgetary Framework Law, to be presented in 2010

Table 4: Stability and Growth Programme 2010-2013: revenue enhancement measures

On 13 May 2010, the government announced "a raft of further fiscal consolidation measures aimed at strengthening and accelerating the reduction of the excessive deficit and the control of the growth of the public debt set out in the Stability and Growth Programme" (Law No 12-A/2010 of 30 June). This new austerity package became known as PEC II and is summarised in Table 5.

Revenue enhancement	(i) Increase of all VAT rates by one percentage point, to 6%, 13% and 21%; (ii) increase in personal income tax by way of an increase of one percentage point in the general tax rates up to the third income bracket and to 1.5 percentage points from the fourth

	bracket, as well as an equivalent increase in the withholding tax rates under personal income tax to 21.5%; (iii) increase in corporate income tax; (iv) increase in stamp duty on the granting of consumer credit.
Expenditure reduction	(i) reduction of transfers to State enterprises; (ii) 5% reduction in the remuneration of political office-holders, public managers and equivalent; (iii) strict control of recruitment of civil servants.

Table 5: Additional fiscal consolidation measures (PEC II, Law No 12-A/2010 of 30 June)

On 29 September, the Prime Minister announced a new austerity package (PEC 3 - see Tables 6 and 7) containing yet further measures to be included in the 2011 Budget (Decree-Law No 137/2010 of 28 December) adding to the additional fiscal consolidation measures.

Reduction of the State's operating expenses	(i) Progressive reduction of salaries in the public administration, public bodies and State authorities, for monthly salaries totalling more than EUR 1 500, resulting in a 5% reduction in salaries; (ii) freeze on promotions and step advances in the civil service; (iii) freeze on recruitment and reduction of the number of contract staff; (iv) reduction of allowances, overtime and cumulation of roles, including the receipt of public salaries at the same time as pensions from the public pension system; (v) reduction of the expenses of the State car fleet by 20%.
Reduction of expenditure on social benefits (social security and the social protection scheme for State employees (ADSE))	(i) Freeze on pensions in 2011; (ii) 20% reduction in expenditure on the minimum income for social inclusion (Rendimento Social de Inserção); (iii) removal of the extraordinary 25% increase in child benefit for the first and second brackets, and removal of the fourth and fifth brackets of this benefit; (iv) reduction of the expenses of the ADSE.
Reduction of expenditure on the national health service	
Reduction in transfers from the State to other sub-sectors of the administration	
Reduction of expenditure on the Central Administration Development Investment and Expenditure Programme (PIDDAC)	
Other expenditure reduction measures	(i) reduction of expenditure on compensatory allowances and subsidies to enterprises; (ii) abolition or merger of bodies belonging directly or indirectly to the public administration; (iii) implementation of a reorganisation and rationalisation plan for State enterprises.

Table 6: Expenditure reduction measures (PEC III, Budget 2011)

Reduction of tax costs	(i) Change to the system of personal income tax allowances and advantages (already provided for in PEC I); (ii) revision of tax advantages for corporations; (iii) convergence in the taxation of income under category H with the category A taxation regime (already provided for in PEC).
Tax revenue enhancement	(i) Increase in the standard rate of Value Added Tax (VAT) by two percentage points; (ii) revision of the annexes to the VAT Code; (iii) imposition of a contribution on the financial system.
Increase of revenue from contribution	(i) Increase in employees' contributions to the public employees' pension system (Caixa geral de Aposentações) by one percentage point; (ii) entry into force of the Contributions Code and action against contribution fraud and evasion

Table 7: Revenue enhancement measures (PEC III, Budget 2011)

A further austerity package (PEC 4) was announced on 11 March 2011 and rejected a few days later in parliament by the whole of the opposition. On the same day, the Prime Minister submitted his resignation. On 6 April, it was announced that the Council of Ministers had decided to request external assistance from the European Commission. Negotiations with the troika began a few days

later, involving the government and two opposition parties, the Social Democratic Party (PSD) and the Democratic and Social Centre (CDS). The memorandum of understanding was released on 3 May following the conclusion of negotiations with a broad consensus between the Socialist Party government, the PSD and the CDS.

In relation to 2011, the memorandum provided only for strict compliance with the budget. However, soon after taking office the new government decided to introduce an extraordinary personal income tax surcharge of 3.5% on taxable income for 2011, and to bring forward the change of the VAT rate for energy to the standard rate.

2. Impact of the "anti-crisis" measures

The financial crisis began to make itself felt in Portugal at the beginning of 2008 with a severe credit squeeze, a reduction in banks' ability to access the capital markets and the collapse of two banks: BPN, which was nationalised in November 2008, and BPP, which went bankrupt in 2010.

Of the measures included in the Initiative on Strengthening Financial Stability (IREF), particular emphasis should be placed on the grant of State guarantees, the strengthening of the financial soundness of credit institutions, the nationalisation of BPN and the intervention in BPP, given their effect on the dynamics of the public debt.

Up to 20 billion euros were available for the grant of State guarantees and the strengthening of the financial soundness of credit institutions from appropriations in the State budget and public debt issuance (PEC 2008-2001, January 2009 revision).

At the end of 2010, the banks had not made use of the mechanisms for strengthening the soundness of credit institutions, but the actual liabilities of the State under guarantees granted under the IREF came to a total of 4.875 billion euros (Court of Auditors, 2011); those granted to BPN, which were wrapped up in complex financial engineering, came to 5 billion euros and those granted to BPP, which were subsequently called as a result of the liquidation of the bank, came to about 450 million euros. The total financial impact of these measures is still not entirely clear.

The economic effects of the crisis began to be felt in 2008, as the anaemic growth of the preceding years gave way to a significant reduction in the growth rate up to the quarter of 2009.

Figure 2: Year-on-year rate of change of GDP (2007.IV-2011.III), Source: National Statistical Office (INE)

From the second quarter of 2009 to the first quarter of 2010, a recovery took shape. It is difficult to say to what extent this recovery was attributable to the expansionary anti-crisis policies that were adopted at European level and included in the Initiative for Investment and Employment (January 2009).

However, from the second quarter of 2010 this tendency reversed, and recession set in again in 2011. The reversal of European and national policies in February 2010 cannot be discounted as one of the causes of this reversal of the trend.

In relation to the dynamic of production, the Portuguese crisis is characterised by an up-and-down movement linked to the changes of direction of European and national policies in the different stages of the "anti-crisis" response.

However, there were also other trends that remained unchanged during this period. This is the case, first of all, in relation to the trends of the deficit and the public debt. Throughout the period, the public deficit remained high and the public debt grew continuously. The public deficit, which was around 3% of GDP in 2007 and 2008, rose to around 10% in 2009 and 2010. Despite the budget policies, in 2011 the deficit (excluding extraordinary measures) should be about 8%. Meanwhile the public debt, which was around 68% of GDP in 2007, exceeded 100% in 2011 (see Figures 3 and 4).

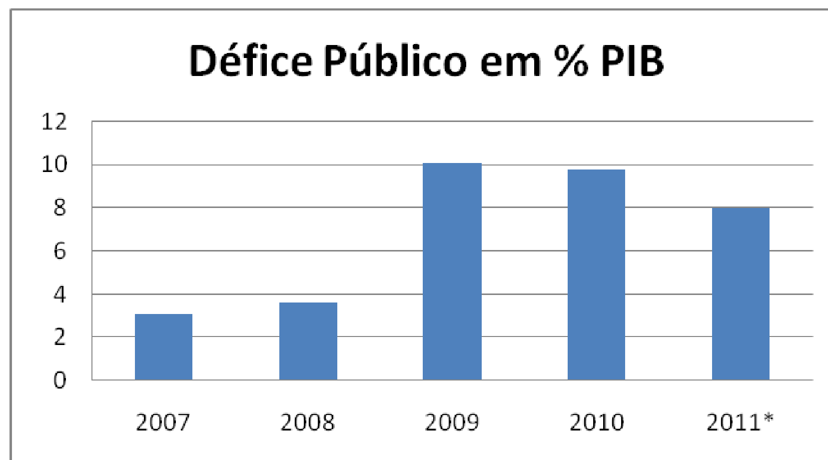

Figure 3: Public deficit as a percentage of GDP; Source 2007-2010: Eurostat; 2011 estimate

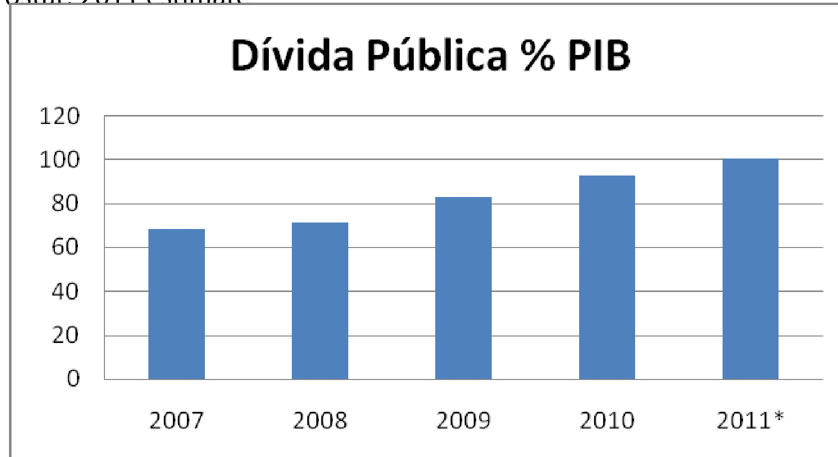

Figure 4: Public debt as a percentage of GDP; Source 2007-2010: Eurostat; 2011 estimate

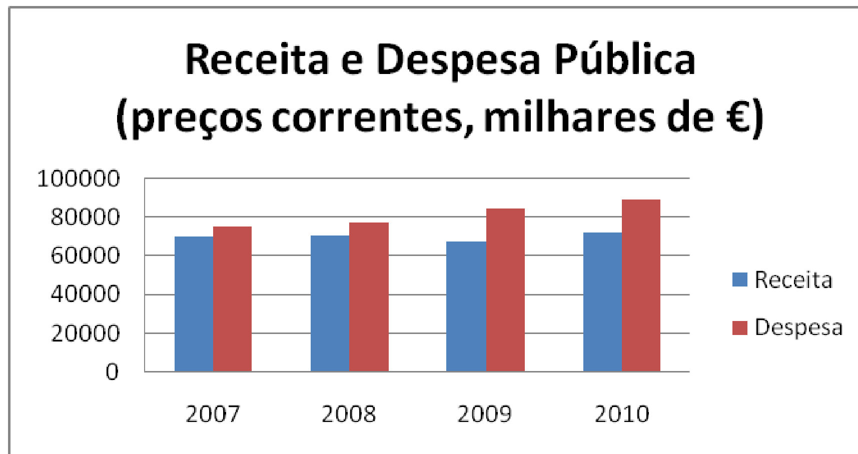

Figure 5: Public revenue and expenditure; Source: Eurostat

The dynamic of the deficit (see Figure 5) is explained, first, by the fall in tax receipts and increase in expenditure in 2009 (-5.5% and + 8.4% respectively), mainly as a result of the recession and, to a lesser extent, of expansionary fiscal policies; and by an increase in revenue of 6.8% in 2010, almost the same as the growth in expenditure in the same year (5.1%). The budgetary outturn for the first half of 2011 already shows an increase in revenue of 3.1% and a reduction in expenditure of 1.9% compared to the 2010 outturn (SB, 2012), which is, however, not enough to achieve the budget target set out in the 2011 budget over the full year without extraordinary measures.

The budgetary outturn in 2010 and 2011 suggests that the difficulty with the fiscal consolidation measures was above all the achievement of revenue increases, by increasing the tax burden, in a recessionary context that was exacerbated by those very measures.

A second trend is the steady growth in unemployment throughout the period in question. The number of unemployed people, estimated in January 2009 at 464 000 people, reached 720 000 in November 2011 (13.2% of the active population). The growth of this number did not diminish during this period except in 2010, and even then only slightly (see Figure 6).

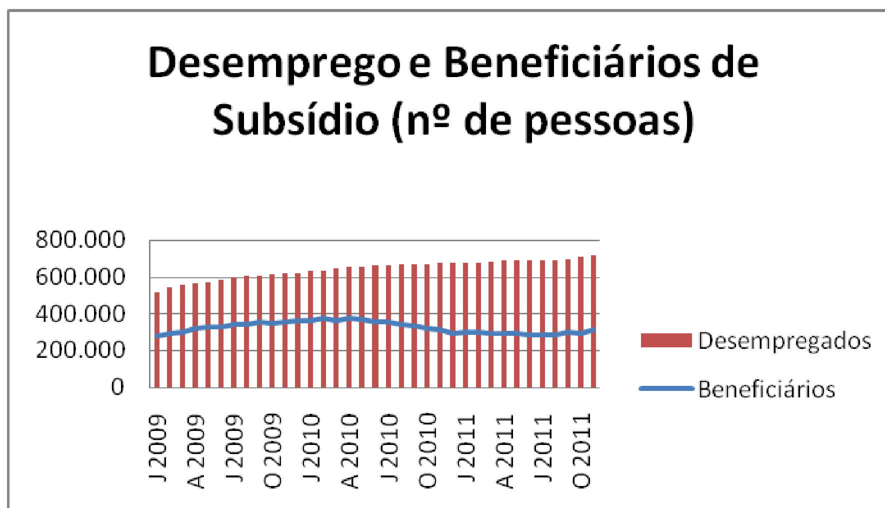

Figure 6: Number of unemployed people and recipients of unemployment benefit; Source: Social Security

A third trend is the increase in the number of people without access to social protection provision (unemployment benefit and the minimum income for social inclusion (Rendimento Social de Inserção)). The number of unemployed people without access to unemployment benefit rose from 237,000 to 410,000 between January 2009 and November 2011 (see Figure 6) and the number of recipients of the minimum income for social inclusion, which had increased from 328,000 in January 2008 to 440,000 in May 2010, fell to 332,000 in November 2011.

The fourth trend is the decline in public provision and the constraints on access to transport, communication and health and education services. The "rationalisation" of these systems tends in

reality to translate into a curtailing of provision, particularly in areas with lower population density and lower income. In the health sector, "rationalisation" also led to an increase in waiting lists for healthcare. Although presented as a "moderating fee", co-payment for services, in particular health services, tends to deny access to large sections of the population in the lower-middle income bracket The same effect occurs as a result of the increase in transport and communications tariffs.

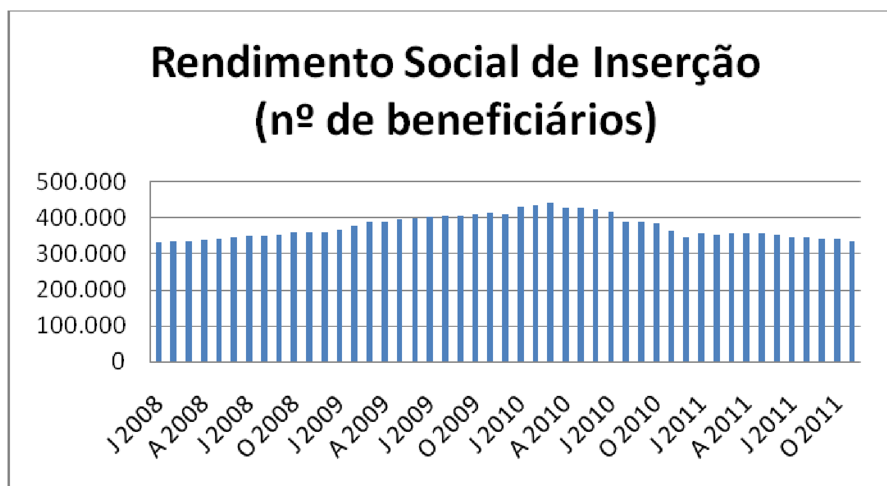

Figure 7: Number of beneficiaries of the minimum income for social inclusion; Source: Social Security

The fifth trend is the increase in inequality. According to the OECD (2011), despite a certain reduction up to 2008, Portugal has the greatest income inequality in the European Union, and the sixth greatest in the OECD. It appears that the "anti-crisis" measures adopted during the "fiscal phase" have substantially increased this inequality, and continue to do so (EU, Social Europe, 2011).

	Bank of Portugal		Budget 2012	
	2011	2012	2011	2012
GDP	-1,6	-3,1	-1,9	-2,8
Private consumption	-3,6	-6	-3,5	-4,8
Public consumption	-3,2	-2,3	-5,2	-6,2
Gross fixed capital formation	-11,2	-12,8	-10,6	-9,5
Exports	7,3	4,1	6,7	4,8
Imports	-4,3	-6,3	-4,5	-4,3

Table 8: Projections 2011-2012 (Source: Bank of Portugal and Budget 2012)

Developments in the second half of 2011 point towards a worsening of these continuing trends, which are boosted by a marked decrease in the disposable income of families (caused by the increased tax burden and the stagnation of pay) and the corresponding squeeze on private consumption. Due to the continued fall in public and private investment, and the foreseeable weakening of the growth in exports, the scenario on current trends is for a deep recession which will not only compromise the objectives set out in the troika's memorandum as to the deficit and the debt, but also lead to economic depression and a major social crisis. That much is clear from the Bank of Portugal's projections (BP, Winter 2011), which revise those taken into account in the 2012 State budget (see Table 8).

The economic and social crisis, exacerbated by the "fiscal consolidation" packages, has had a major political impact, and will continue to do so in future.

On 27 September 2009, the parliamentary elections were won by a party – the Socialist Party – that promised to protect the welfare state and return to the path of growth via measures to stimulate investment and job creation. A few months later, in March 2010, that government announced an austerity plan (PEC I), which subsequently had to be buttressed by two more.

A year later, that same government, politically worn down, was forced to resign by the rejection of a new austerity package by the entire parliamentary opposition, becoming in the process one of the first European governments to be ousted as a result of the crisis. On the eve of the elections, the outgoing government took part in the production of a memorandum with the troika that broke all the principles of its social democratic ideology.

On 5 June 2011, the elections were won by the centre-right parties (PSD and CDS) on a platform that suggested that market confidence would return simply by ousting a discredited government, cutting the "fat" of the State or imposing sacrifices on the State rather than on individuals. In the months that followed, voters were confronted with the needed to enhance austerity beyond what was required in the memorandum of the troika.

The result of this intense political test has been a generalised loss of confidence in the "natural parties of government" – the Socialist Party (PS), the PSD and the CDS. In so far as the alternatives to these "natural parties of government" do not appear credible in view of the current political environment in the European Union, a political vacuum is setting in – a crisis of representative democracy whose consequences cannot be predicted.

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