Post-crisis adjustment and fiscal consolidation processes (2010 onwards)

1. *Has your country adopted, or does it expect to adopt, contractionary fiscal policy in the aftermath of the global economic crisis?*

The Portuguese economy has been hit harshly by the international economic and financial crisis, with the economic activity being affected since 2008, which required a strong effort by the Government to support families and unemployed people, as well as to stimulate investment and employment, through an encompassing package of anti-crisis measures. However, the crisis was inevitable and this effort had a strong impact in national accounts with the Portuguese general government deficit increasing. Consequently, in March 2010, the Government launched the “Stability and Growth Programme 2010-2013” (SGP), a strategy to endorse solid budgetary consolidation aiming at the reduction of the general government deficit to 2.8% of the GDP by 2013, and to control the growth of the general government debt, in order to reverse the current trend and reduce its proportion of the GDP by 2013. Still, the international community gave clear signs that these measures were insufficient and in May 2010 the Government presented a second set of measures, based on the establishment of a new goal: the general government deficit was now to be 7.3% of the GDP for 2010 (previously 8.3%) and 4.6% of the GDP for 2011 (previously 6.6%). In order to achieve this, an additional set of fiscal and social measures to control expenditure was adopted. More recently, in September 2010, the Government presented an extraordinary package of severe austerity measures which included a rise in value-added tax and a sharp cut in civil servant wages, which is expected to be accompanied by a similar trend in the private sector. With this toughened strategy the Portuguese Government expects to accomplish some structural reforms in major areas, with impact on the recovery of economic growth and employment as well as on the competitiveness of the Portuguese economy and the reduction of external imbalances.

Last month, taking into account that the efficiency and effectiveness of the fiscal consolidation effort should go beyond the previous measures quoted, the Portuguese government proposed the revision of the current fiscal framework, in line with the international best practices, in order to guarantee a credible consolidation of public finances over the coming years. In particular, the Council of Ministers has approved, on the 2nd of December, a Draft Law, to be presented to Parliament, which revises the Budgetary Framework Law establishing: a multi-annual framework with expenditure and budget balance rules; an enlarged universe to which the Law applies; programme budgeting; an independent Council for Public Finances. This Draft Law is also fully aligned with the reinforced mechanisms of economic policy coordination in the European Union.
2. **What percentage, if any, of expenditure reductions are being or will be directed at social expenditures, including education, health, social security, housing, water and sanitation?**

The following table presents, according to State Budget to 2011, the main fiscal consolidation measures and the expected reduction of expenditure in terms of impacted produced in GDP:

<table>
<thead>
<tr>
<th>Main Fiscal Consolidation Measures</th>
<th>IMPACT % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of expenditure with social benefits</td>
<td></td>
</tr>
<tr>
<td>Freezing of pensions</td>
<td></td>
</tr>
<tr>
<td>20% Reduction of the expenditure with Social Integration Income</td>
<td></td>
</tr>
<tr>
<td>Elimination of the extraordinary 25% increase in the children allowance in the 1st and 2nd brackets and elimination of the 4th and 5th brackets of this social benefit</td>
<td></td>
</tr>
<tr>
<td>Reduction of the expenditure with Civil Servants’ Health Insurance Scheme (ADSE)</td>
<td>0.6</td>
</tr>
<tr>
<td>Reduction of the expenditure in the National Health Service</td>
<td>0.3</td>
</tr>
<tr>
<td>Reduction of the State transfers to Education and other Public Administration sub-sectors</td>
<td>0.2</td>
</tr>
</tbody>
</table>

3. **Please describe all actual or proposed reductions in expenditure on specific social protection programmes, including any reduction of benefits or number of beneficiaries.**

As a result of the national effort for budget consolidation and more balanced public accounts, some of the restraining measures adopted in the context of Stability and Growth Pact 2010-13 have, indeed, a direct impact on social protection policies and social inclusion, as they imply changes in policy design which condition levels of protection and eligibility criteria, and result in changes in expenditure levels and covered population. They can also have an indirect impact, as some have the ambition of reinforcing the efficiency and rigor in the system through a higher degree of control of fraud and avoidance. It should however be stressed that the anticipation of the phasing out of some anti-crisis measures, namely on unemployment benefits, has taken in account the good economic performance shown in 2010. Recent data from the National Bureau of Statistics shows that the real GDP growth in the 2nd and 3rd quarter accounted for 1.4% (1.7% in the 1st).

The major measures taken in the social protection field are the following:

- Redefinition of the **means-tested eligibility criteria for access to social support**, so to improve coherence in the allocation of non-contributory social benefits. The concept of household, the total income to take into account and the scale of equivalence for valuing individuals in the household where there are economies of scale, have been revised;

- Definition of a **ceiling for non-contributory benefit expenditure**, particularly in what refers to the transfer from the state budget to social security, which affects specifically the social integration income (RSI) and family benefits;

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1 Harmonisation of the criteria of access to non-contributory benefits, namely the Social insertion income, child benefits, and the social unemployment benefit (Decrees 70 and 72 of June 2010).
- Eliminate the extraordinary increase of 25% of the child allowance, set during in the beginning of the crisis (July 2008), in the 1st and 2nd brackets and eliminate the higher (4th and 5th) brackets of this social benefit;

- Stronger emphasis on the activation part of the social integration income, to strengthen the employability of the beneficiaries;

- Freezing of the nominal value of pensions and the social support reference value for the calculus of benefit levels in 2011;

- Anticipation of the phasing-out of social support anti-crisis measures;

- Change in the unemployment support regime, including i) a revision of the relationship between the unemployment benefit and the net income previously earned by the worker; ii) a reduction in the reference wage for accepting a job offer. These changes are intended to promote a faster return to active participation in the labour market;

- Aggravation of sanctions to false declarations in benefit access;

- Reinforcement of the mechanisms of management, control, supervision and sanction, to improve efficiency and fight avoidance and fraud;

- Improvements in the management and control of expenditure in health and in medicine policy.

For detailed information on the budgetary consolidation measures, ministries involved and scheduling, please consult [http://www.minfinancas.pt/inf_geral/Note_Annexes.pdf](http://www.minfinancas.pt/inf_geral/Note_Annexes.pdf), pages 6 to 21.

4. Please describe all actual or proposed reductions in expenditure on the wage bill, including any cap or cut in wages of public health and education sectors workers.

In the context of Stability and Growth Pact 2010-13, one of the most important measures announced throughout 2010 was the reduction of wages of sovereign bodies and Public Administration, including public institutes, regulatory bodies and public enterprises. This reduction is progressive and will cover only the total salaries above 1500 € / month, focusing on the total salaries and fringe benefits of civil servants, regardless of the nature of their relationship with the State. With the application of a progressive system of rates of reduction since January 2011, it is expected a 5% overall reduction in salaries.

Other measures were also taken in order to reduce public expenditure with personnel: freeze promotions and career progressions in the civil service; freeze admissions and reduce the number of hired staff; reduce travel allowances, overtime expenses and the accumulation of functions, eliminating the accumulation of public salaries with pensions granted by the public retirement system; accelerate the pace of convergence between the civil servants’ pension scheme (CGA) with the general social security scheme, including the frontloading of the new rule to penalize early retirement and the full transition, already between 2012 and 2013, to the retirement age at 65 years old, in line with the other measures already adopted in the context of the 2010 Budget.

5. Have current economic recovery policies taken into account developments in unemployment, food prices and social inequalities?
Alongside with the fiscal consolidation effort, Portugal is also committed to implement a comprehensive structural reforms package comprising measures that, taking the fiscal constraint into account, fight unemployment and inequalities, promote economic growth, and correct the macroeconomic imbalances that Portugal faces at this moment. The Portuguese government has thus approved a comprehensive set of measures, “Initiative for Competitiveness and Employment”\textsuperscript{2} (Resolution of the Council of Ministers, 15 December 2010) to improve external competitiveness, promote administrative simplification, deepen the previous labour market reform, support rental market and fight against informality, fraud and tax evasion.

The key-actions on this Initiative concerning unemployment are: **Implement active labour market policies (ALMP) over 2011 to enhance the employability of the unemployed and young job-seekers**, through the following measures: i) launch 50,000 apprenticeships for young people; ii) strengthen measures to support the hiring of young people; iii) approve the legal validation and certification of professional competences, in order to achieve its widespread use; iv) change the value of training grants, to avoid the unwanted substitution effect that results from subsidization of employment; v) adopt measures to improve coordination between the supply of vocational training and the present and future needs of the labor market; **Promote the achievement of a minimum qualification level for the unemployed during 2011 as a way to promote a rapid return to the labor market and increasing the employability of unemployed**, through: i) referral to the New Opportunities Centres of 200,000 unemployed who do not have 12 years of school, and ii) the training program in basic skills for 10,000 unemployed who benefit from the Social Inclusion Income and who have no skills to access qualification programs under the national qualifications system; **Promote vocational training for unemployed during the year 2011 in order to achieve a faster return to the labor market, especially of long-term unemployed**; **Support the creation of self-employment and promoting entrepreneurship**, by promoting i) 4,000 microcredit projects with specific components to support handicraft and female entrepreneurship and ii) mentoring programs and technical support network to the export sector; **Increase the efficiency of employment services and vocational training** through i) increasing the number of account managers in the employment agencies, ii) promotion of sector agreements between the employment agency and business associations to recruit unemployed, and iii) rationalizing the network of training centers, focusing the employment agency centers on the professional training of unemployed.

6. **Does your country expect to restore public expenditure after a certain time period and, if so, when?**

The current austerity strategy to endorse solid budgetary consolidation has two ambitious goals: by one side, aims at the reduction of the general government deficit to 2.8% of the GDP by 2013; at the same time, intends to control the growth of the general government debt, in order to reverse the current trend and reduce its proportion of the GDP by 2013. For these reasons, regarding the country’s difficult situation, expectations about public expenditure after 2013 are premature and precipitated.

**Impact of the reductions in social expenditure on those in living in extreme poverty**

7. What is the assessment of the current access of the most vulnerable groups (particularly women, children, the older people and persons with disabilities) to social goods, services and assistance which are essential to their enjoyment of human rights? To what extent is their inadequate access attributable to the reductions in social expenditure? Please provide major findings.

Benefits provided by the non-contributory scheme of Social Security depend on the fulfillment of a means test, whose conditions were reviewed by the Decree-Law No. 70/2010, of 16 June (rules for determination of income, composition of household and household income per capita taken into account for means testing). Between September and December 2010, around 905,465 means tested proofs were presented by the families.

8. Did the government carry out any impact analysis (incidence analysis) of the impact of the public expenditure reduction on the most vulnerable groups in society prior to its implementation? If yes, please provide major findings.

In terms of social inclusion policies, there were conducted estimates in order to understand the impact of changes in the allocation of the non-contributory benefits such as the Social Integration Income, the Unemployment Social Assistance, the parental social assistance and family benefits. These estimates included the number of social benefits’ recipients, families and expenditure, according to different scenarios.

9. Were any alternative fiscal policies considered and discarded, and, if so, why?

No.

10. What mechanisms are in place to ensure that the human rights of those living in extreme poverty are protected, respected and fulfilled in light of reductions in public expenditure?

The Portuguese government has been committed to pursuing policies with a high degree of positive discrimination on specific vulnerable groups. The decrease of 6pp of the poverty rate of the elderly in the last five years, the investment in childcare and long-term care services and the increase in support and services to people with disabilities are an example of such targeting. Further, most benefits were already targeted for families with children, unemployed, low skilled and older workers. The anti-crisis packages of 2008 and 2009 came to reinforce this effort with the measures already described in
previous reporting exercises, the most encompassing of which is the Investment and Employment Initiative.

During 2010, it was anticipated a set of measures initially planned for 2011 in the context of the SGP namely the implementation of the means testing condition, the strengthening of mechanisms to control the eligibility to social benefits, and the changes in the unemployment benefit scheme, which are expected to bring improvements in the targeting of the support to those most in need.

In terms of unemployment, as seen previously in question 5, a set of measures was launched in December 2010, and were presented in order to fight unemployment and to promote employability and qualification, particularly among vulnerable groups such as the referral to the New Opportunities Centres of 200,000 unemployed who do not have 12 years of school, and the training program in basic skills for 10,000 unemployed who benefit from the Social Inclusion Income and who have no skills to access qualification programs under the national qualifications system. Also the promotion of vocational training for unemployed during the year 2011 in order to achieve a faster return to the labor market, especially of long-term unemployed and the support the creation of self-employment and promoting entrepreneurship, by promoting 4,000 microcredit projects with specific components to support handicraft and female entrepreneurship.

Another measure taken recently to protect the most vulnerable groups is the creation of a discount in electricity prices, called social tariff, to shelter from variations in electricity prices economically disadvantaged people (Solidarity supplement for the elderly, social integration income, unemployment benefit and child benefit – first bracket, incapacity level). In 2011, the social tariff will ensure that, for the most vulnerable clients, the price of electricity will increase only 1%.

11. Please indicate whether there was a public consultation prior to taking measures to reduce public expenditure. If yes, please describe which non-governmental agencies or groups were consulted.

Some measures regarding labour and social legislation were presented and discussed at thePermanent Committee for Social Dialogue, where trade unions and employers confederations are represented. (http://www.ces.pt/cms/88/)