

Economics minister Alvaro Santos Pereira at ELEC Central Council: How Portugal restored competitiveness by front-loaded economic reforms

During a luncheon on occasion of ELEC's Central Council meeting in Vila Nova de Gaia Portuguese minister of economic affairs Alvaro Santos Pereira defended the economic reforms of the center right government that came into power last year. A front-loaded attack on Portugal's economic woes was launched. In only eleven months a wide range of aggressive measures were undertaken.

Minister Santos Pereira was welcomed to the picturesque villa Quinta da Boeira where the ELEC Central Council took place by Antonia Martins da Cruz, president of ELEC Portugal. He was introduced by Luis Filipe Menezes, mayor of Gaia, the "rive gauche" town opposite Porto at the other side of the Duoro river.

Santos Pereira explained that the Portuguese economy needed to get back to what was a success some decades ago. Portugal used to be a fast grower but this stopped. During the last decade public investments increased strongly but if two highways are build when one is enough, returns diminish. The introduction of the euro was a shock because devaluation was no longer possible and because low interest rates led to a boom in investments and consumption. Finally, China and Eastern Europe made their appearance on the world market, further undermining Portugal's competitiveness.

The wide range reform agenda that was launched by the Passos Coelho-government was backed by an agreement between trade unions and employers. The labor market was reorganized in several ways: holidays, wages, dismissal procedures and flexibility. The competition law was changed as well as insolvency laws, introducing a kind of chapter 11 type formula that prevented that tax payments jeopardize debt restructurings. Airlines, airports and electricity were privatized. In public companies, the "golden share" of the government ended, wages were cut and the number of employees was reduced. Other reforms regarded re-industrialization, less bureaucracy, public venture capital, cutting monopoly rents in the electricity sector, new public private partnerships in the energy sector, an infrastructure shift from motorways to ports and railways, etc. An important element in increasing competitiveness was the reintroduction of apprenticeship.

Santos Pereira stressed that the government specifically focused on competitiveness and industry, because services won't do the trick. The result of all this was that the credibility of Portugal was restored. Of course these reforms take time, also given the high public debt. That is why the attack was front-loaded. Portugal now has an unemployment rate of 15% and even 36% for youth unemployment. Emigration is increasing. But the banking sector is doing well. Santos Pereira finally underlined the policy of "residential tourism" that the government has introduced: foreigners that buy property in Portugal get a lot of facilities if they reside in Portugal for some months a year.