



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT
ECONOMIC AND SCIENTIFIC POLICY **A**



Portugal: Social Situation and Employment in a Post-Programme Country



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Social Situation and
Employment
in a Post-Programme Country

In-Depth Analysis for the EMPL Committee



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Portugal: Social situation and Employment in a Post-Programme Country

IN-DEPTH ANALYSIS

Abstract

This document, provided by Policy Department A to the Committee on Employment and Social Affairs, gives an overview of the social situation and employment in Portugal after the implementation of the economic adjustment programme. It analyses the implementation of the programme and also the developments regarding employment and poverty. It discusses the measures adopted to combat unemployment, focussing on those designed to combat youth unemployment. Finally, it discusses current important issues regarding employment and social affairs including the recent national elections.

IP/A/EMPL/2015-08

PE 563.474

October 2015

EN

This document was requested by the European Parliament's Committee on Employment and Social Affairs.

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Original: EN

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Manuscript completed in October 2015

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EXECUTIVE SUMMARY

This paper it is intended to reply to the request of the Committee on Employment and Social Affairs of the European Parliament in advance of its delegation visit to Portugal at the beginning of November 2015.

It presents an overview of the economic adjustment programme, assesses Portuguese employment and social developments, and also those policy approaches and reforms adopted in the employment and social fields within the framework of the European semester and its country-specific recommendations, as well as the EU 2020 goals.

Portugal has recently completed its economic adjustment programme. The general assessment is that **most of the programme has been implemented** and important results in competitiveness and fiscal consolidation were achieved. However, in areas such as employment, the social situation, the scope for wage adjustment at firm level, the rents in energy markets, the regulated professions, the judicial system, and the strengthening of social safety nets fell short of those foreseen due to incompleteness of the actions planned or taken, changes in the external conditions and insufficient social dialogue and compromise between the government and the social partners. The role of social dialogue as a mechanism to find compromise during the crisis was never significantly explored. Most reforms were not subject to discussion by the Economic and Social Council

The implementation of the programme resulted in a **deterioration of the labour market and the social situation** due to a significant contraction in aggregate demand caused by the simultaneous effect of fiscal contraction, significant banks' balance sheet deleveraging and general confidence effects. Furthermore, no comprehensive ex-ante assessment of the social impact of planned measures had been carried out.

The analysis of the evolution of these indicators throughout the programme reveals that during the first few years of its implementation most indicators of the labour market and social situation deteriorated significantly but that 2013 was a turning point for most of the indicators, even if recovery was partially small and continues to be incomplete comparing the year before the programme started with annual data for 2014. The latest data even suggest the possibility of a slow-down in this recovery.

The most recent data reveal a relatively **low employment rate** (still almost 7 percentage points below the pre-crisis level), the existence of **still a high unemployment rate** (standing at around 12 % in the second quarter of 2015) with a **significant proportion of long term unemployment** (64 % of the total unemployed are unemployed for more than 12 months, and 46 % for more than 24 months), and **high levels of poverty** (27.5 % of the total population in 2013 compared to 24.9 % are at risk of poverty or social exclusion) **and inequality** (the Gini index of income inequality, which had been decreasing before the crisis, reverted to an increase from a low of 33.7 in 2009 to 34.5 in 2013). A persisting high proportion of people employed on temporary contracts (almost 19 % of total employees in the second quarter of 2015) and other forms of precarious employment such as pseudo self-employment, characterize the **highly segmented Portuguese labour market**. The crisis brought a new situation in which **educated and skilled middle-class workers** mainly young were affected by unemployment.

When focusing on youth, the analysis for all parameters considered (employment, unemployment, long-term unemployment, NEET youth) reveals that **young people bore a disproportionate share of the adjustment** (the employment rate of those below 25 years' old decreased from over 34 % in 2007, to values close to 22 % in 2014, youth unemployment reached values close to 40 % in 2013, and is still particularly high, although showing a decreasing trend, and the share of those below 25 years neither in employment,

education, nor training (NEET) has also increased to levels around 14 % of their age group in 2013 up from 10.2 % in 2008).

Even if the prescriptions of the Economic Adjustment Programme were mostly restrictive, the programme included **recommendations to the Government to ensure good practices and an efficient amount of resources for activation policies** to strengthen the job search effort of the unemployed and for other Active Labour Market Policies (ALMPs), in order to improve the employability of the young and disadvantaged categories, and to ease labour market mismatches. With the deterioration of the labour market and the social situation during the implementation of the programme, **further attention was given to measures to combat unemployment especially for the young**, who have been particularly hit by the crisis. The main focus has been to improve the labour market prospects of the young in order **to reduce the incentives to emigration**, as considerable emigration is going to have an impact on the growth potential of the Portuguese economy. **The Youth Guarantee scheme has been a relevant response to their situation.** Despite a slow start, the implementation of this scheme is now well under way in Portugal but challenges remain, associated with implementation of Portugal 2020 Operational programmes under the European Social Fund.

A **Support Group to Portugal** was created by the European Commission in 2012 during the implementation of the programme, to help to streamline the use of EU structural funds as instruments to combat unemployment and to increase investment in the Portuguese economy.

In this post programme phase, reducing labour market segmentation, improving the collective bargaining system, reinforcing social safety nets and enhancing the impact of active labour market policies and vocational training on employability are seen as the major issues in the labour market and social situation calling for further action.

The **Portuguese general election** took place on the 4th of October this year. The ruling centre-right and right-wing coalition government lost its majority in Parliament, which now has a centre-left and left majority. Negotiations to form a new government are currently underway, and two possibilities have been presented: a government run by the centre-right and right-wing coalition that won the election, with some agreements with the Socialist Party or a centre-left government led by the Socialist Party, with support from the left-wing parties. With regards to the election and the negotiations that are taking place to form the next government, issues such as the **reform of the pension system, employment protection legislation, the unemployment benefits system, and the wage setting mechanisms** have all been central and remain so. Depending on which of the two alternative solutions forms the government, one can expect that quite different policy paths will take place in the future.

1. INTRODUCTION

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It presents an overview of the economic adjustment programme, assesses Portuguese employment and social developments, and also those policy approaches and reforms adopted in the employment and social fields within the framework of the European semester and its country-specific recommendations, as well as the EU 2020 goals.

2. OVERVIEW OF THE ECONOMIC ADJUSTMENT PROGRAMME AND EUROPEAN ASSISTANCE

Between May 2011 and June 2014, Portugal benefitted from financial assistance in support of an economic adjustment programme which also covered the surveillance of imbalances and the monitoring of corrective measures. The programme aimed to restore access to market-based funding, thus enabling the economy to return to sustainable growth, whilst safeguarding financial stability in Portugal, the Euro area and the EU. Portugal has recently completed its economic adjustment programme.

2.1 Overview of the programme

The **Economic Adjustment Programme was quite comprehensive**, entailing measures related to fiscal adjustment, financial sector regulation and supervision, as well as structural measures to overcome the main bottlenecks that were limiting the potential growth of the Portuguese economy. These structural measures included implementing changes in the labour market and education, the goods and services markets, the housing market, and framework conditions (judicial system, competition, public procurement and business environment).

The prescriptions of the Economic Adjustment Programme were mostly restrictive, even though some technical assistance from the IMF, the ECB and the European Commission was foreseen for developing the fiscal framework, solvency, and the deleveraging assessment framework for the banking system as a whole and also for each of the eight largest banks. This framework included a programme of special on-site inspections to validate data regarding assets provided by the banks as collateral for solvency assessment, the development of a corporate and household debt restructuring framework, and an initial assessment of at least the twenty most significant PPP contracts.

With regards to the goods and services markets, intervention was sought to address excessive profits and to reduce the scope of returns-seeking behaviour in such markets as electricity, telecommunications and regulated professions. Fiscal devaluation was forecast, subject to impact appraisal.

In the areas that most affect the functioning of the labour market, namely social protection and social inclusion, a set of measures¹ were introduced to reduce the risk of long-term unemployment, whilst strengthening social safety nets, such as: the reform of employment protection legislation to tackle labour market segmentation; the promotion of job creation and the easing of the mobility of employees across occupations, firms and sectors; the easing of work hours arrangements to better manage employment fluctuations over the cycle, a better accommodation of differences in work patterns across sectors and firms, and the enhancement of firms' competitiveness; the promotion of labour cost developments that lead to job creation and enhanced competitiveness; the assurance of best practices and the allocation of appropriate resources for Active Labour Market Policies, so as to improve the employability of both the young and disadvantaged categories and as a way of easing labour market mismatches. These measures were to be implemented after consultation with social partners, taking into account possible constitutional implications, whilst respecting EU Directives and Core Labour Standards.

¹ The appendix entitled "Main measures of the Memorandum of Understanding on Specific Economic Policy Conditionality" presents a summary of the initial measures included in the Programme.

With respect to **unemployment benefits**, the reforms aimed to **reduce the risk of long-term unemployment**, by reducing the **maximum duration of unemployment insurance benefits** to no more than 18 months, by **capping unemployment benefits** at 2.5 times the Social Support index (IAS), and by introducing a **declining profile of benefits** over the unemployment spell after six months of unemployment. In order to strengthen the social safety nets, the programme entailed **reducing the necessary contributory period** to access unemployment insurance from 15 to 12 months, and **extending eligibility** for unemployment insurance to clearly-defined categories of self-employed workers who provide their services to just one firm on a regular basis.

Moving to **employment protection legislation**, the reforms aimed at tackling labour market segmentation, encouraging job creation, and easing adjustment in the labour market. These reforms entailed **gradually aligning severance payments** to levels prevailing on EU, both for open-ended and temporary contracts, and fully implementing a fund to partly finance the cost of dismissals for new hires. Changes were agreed on for the **definition of dismissals, by introducing adjustments to the cases for fair individual dismissals** contemplated in the Labour Code, with a view to fighting labour market segmentation and to increasing the use of open-ended contracts.

Also included in the programme were **changes to working time arrangements**, with a view to better manage employment fluctuations over the cycle, to better accommodate differences in work patterns across sectors and firms, and to enhancing firms' competitiveness. It was decided to implement an action plan to **promote the use of flexible working time arrangements**, including: the facility to permit the adoption of a "bank of hours" by mutual agreement between employers and employees, negotiated at plant level; to fully implement commitments regarding **working time arrangements and part-time working schemes in cases of industrial crisis**; and to **revise minimum overtime pay**, by means of: (i) a reduction to a maximum of 50% (from the current 50% for the first overtime hour worked, 75% for additional hours, and 100 % for overtime during holidays), and; (ii) the elimination of compensatory time-off equal to 25 % of overtime hours' worked.

Regarding **wage setting** and competitiveness, the reforms envisaged that wage developments should be consistent with the objectives of encouraging job creation and of improving firms' competitiveness, with a view to correcting macroeconomic imbalances. To this end, there was a commitment that over the programme period, **increases in the minimum wage² should not take place**, unless justified by economic and labour market developments and in agreement with the framework of the programme review. At the same time, clear criteria should be defined to be followed for the **extension of collective agreements**. It was considered desirable to **revive tripartite negotiation of wages**, with a view to defining the norms for overall wage developments that take into account the trend in the competitive position of the economy and also a system for monitoring compliance with such norms. The **maintaining of collective agreements** that have expired, but are not renewed, should be **shortened**. In this area, it was also decided to implement commitments concerning "organised decentralisation", notably those concerning: (i) the possibility for work councils to negotiate functional and geographical mobility conditions and working time arrangements; (ii) the creation of a Labour Relations Centre to support social dialogue with improved information and to provide technical

² The minimum wage was EUR 485 during the whole programme period, and it was raised in October 2014 to EUR 505. The most recent data reveal that in 2014, 19.6 % of employees earned the minimum wage in Portugal compared to 11.3 % in 2011. According to Eurostat (2015), Portugal together with Greece, Malta, Spain and Slovenia belongs to the middle group of EU Member States with a minimum wage ranging between EUR 500 and EUR 750.

assistance to all parties involved in negotiations, and; (iii) the lowering of the firm size threshold above which work councils can conclude firm-level agreements and promote the inclusion in sectoral collective agreements of conditions under which work councils can conclude firm-level agreements without being delegated to the trade unions.

Active labour market policies were also considered in the Programme, as were **education and training policies**. The Programme envisaged that good practices should be pursued and an **efficient amount of resources should be allocated to activation policies** to strengthen job search efforts by the unemployed and to other Active Labour Market Policies (ALMPs) to improve the employability of the young and disadvantaged categories and resolve labour market mismatches. The **development of public employment services** and the **quality of secondary education services** were also issues of concern and provision was made for actions related to improving results by adopting simple result-oriented financing frameworks for schools or to increase the **quality, attractiveness and labour market relevance of vocational education and training**. In this respect, the programme called on the Government to present a report on the effectiveness of current activation policies and other ALMPs in tackling long-term unemployment, in improving the employability of the young and other disadvantaged categories, and in easing labour market mismatch. The Dias and Varejão (2012) report concluded **that the employment measures show positive** (and in some cases strong) **effects on the mid-term probability of employment of participants**. The **effects are less favorable** (no effect a horizon of three years after the start of participation) **in the case of training measures**, but are **positive in the case of continuous and modular education programs**. Measures with the **most positive effects are measures that support recruitment or that promote entrepreneurship**, which establish a direct and immediate link between the workers and employers and are less prone to lock-in mechanisms. The report recommended to limit and stabilize the cast of employment and training measures available; to focus the objectives of employment and training measures; to adapt measures for employment and training and prepare the public employment service for a predictable change in the profile of the unemployed, namely with an increase of the presence of workers with long professional experience and low or middle school qualifications, but also young people with education at the level of higher education; to strengthen the focus on employment measures.

Following the presentation of the report an **Action Plan** was adopted to promote improvements and further action on activation policies and other ALMPs, including the role of Public Employment Services. Several new programmes supported by EU funds were introduced:

Box 1: Action Plan - New programmes supported by EU funds

Estimulo 2012: provides a wage subsidy for firms that hire and train the unemployed enrolled in PES for 6 months or more;

Vida Ativa: a training initiative to ensure that all newly-registered unemployed attend a part-time training module within 45 days of enrolling in a job centre, which was an initiative that delivers high-employability training modules on a part-time basis to allow the unemployed to keep actively searching for a job;

Initiative to **bring into employment persons enrolled in Public Employment Services centres for at least 6 months:** allows them to retain up to 50% of their unemployment benefit for up to 12 months should they accept a job that pays a gross salary below their level of benefit;

Impulso Jovem: to help unemployed youth, through internships and other programmes that, providing an incentive for employers through the reimbursement of employers' social security contributions for younger (18-30 years old) formerly-unemployed employees;

Programmes aimed to **promote entrepreneurship and SME.**

On the fiscal side, the programme was mostly concerned with the **reduction of expenditure**, including measures such as the **control of costs in the health sector**, reducing costs by more than EURO 500 million per year and generating savings in pharmaceuticals with the aim of reducing public spending in this area to about 1 per cent of GDP; **reduction of pensions** above EURO 1 500, with suspension of pension indexation rules and pensions freeze, except the lowest; and **education and school system rationalisation**, in order to achieve savings of EURO 175 million per year.

2.2 General assessment of the impacts of the programme

Starting with assessment of the implementation of the programme, based on the evaluation reports prepared by the international institutions, the general finding is that most of the measures were implemented, but that the results fell short of those foreseen, either because some of the results have not fully materialised yet, or due to problems in their implementation. As the European Commission puts it "*While reforms are starting to bear fruit, "unfinished business" remains in a number of key areas, notably the labour market, network industries (particularly energy and transport), services and regulated professions and public administration.*" European Commission (2014a, page 61).

Regarding **product markets**, the most recent assessments by the International Monetary Fund (IMF, 2015), consider that the changes did not fully correct the excessive rents in energy markets. Fiscal devaluation was not implemented and progress in areas such as regulated professions and judicial system fell short of expectations.

With respect to **unemployment benefits**, reforms to lower the risks of long-term unemployment by **reducing rights and by increasing incentives** to get back to work **were implemented**, but some of those that envisaged strengthening **social safety nets** are not yet fully operational.

With respect to **employment protection legislation**, the reform implemented during the programme relaxed the definition of dismissal based on redundancy and unsuitability and lowered severance payments for open-ended contracts more than those for fixed-term contracts. Some changes in the regulation of **individual dismissals were also**

introduced, regarding the criteria used to sort workers in cases of redundancy, but others were considered by the Constitutional court to be non-constitutional and no further attempts were made to introduce these changes. Overall, the assessment is that the reforms were not sufficient to reduce segmentation, or as the European Commission puts it *"the still high employment protection of open-ended contracts may limit the impact of the recent reform to reduce the high labour market segmentation"* European Commission (2014a, page 61).

Moving to **wage setting** the international institutions consider that an **ambivalent path was followed**, with different stances being adopted throughout the process. At the outset some measures were adopted to align wage setting to firms' developments but more recently it seems that this goal was not taken into consideration. The collective bargaining system has recently undergone several reforms, although not all of them promote the alignment of wages to productivity at sector and firm level. It is considered that the challenge remains to allow firms to adjust to specific circumstances, which includes the effective use of existing provisions for firms to opt out of sectorial collective agreements under specific circumstances. The recent changes in this area are considered regressive as the European Commission underlines *"The scope for wage adjustment at firm level remains limited"*: European Commission (2014a, page 61). International organisations also considered that the 2015 increase in the minimum wage (to Euro 505) was not fully in line with developments in productivity, and may have a negative impact on the employability of low-skilled workers.

In the field of **education**, the international institutions consider that significant steps were taken in the direction of **improving the relevance of vocational education**, and a comprehensive reform of the pre-university education system was also undertaken, focused on increasing school autonomy and accountability.

According to the opinions expressed by the interview partners or in public documents or statements³, the Portuguese stakeholders hold different views on the impact of **European and international technical and financial assistance**.

Although with some differences, the two **trade union confederations**, CGTP and UGT, even if with some differences, were clear in stating that austerity was not the way out of the crisis, and they have both adopted a dispute strategy⁴, with common protests⁵, which were organised throughout the implementation of the programme by both CGTP and UGT in a united stance against the government's successive austerity packages and labour reforms. On some specific issues such as active labour market policies, the trade unions report that they were increasingly used to create a short-term buffer against the effects of the crisis, instead of being focused on increasing the long-term employability of low-skilled workers by enhancing their skills, which is one of the major issues regarding the increase of productivity and the social exclusion of those workers.

With respect to the political parties, the **more left-wing parties** also stress that in general the approach underlying economic adjustment programmes is wrong, as it entails a liberal view of the economy. With respect to the Portuguese programme, they judge it to have

³ See for instance Comissão Eventual para Acompanhamento das Medidas do Programa de Assistência Financeira a Portugal (2014). Relatório Final

⁴ Despite this dispute strategy, UGT signed the Compromise on growth competitiveness and employment on the 18th of January 2012 arguing that their signature of the social pact 2012 was aimed to prevent even tougher measures and to stop the government's plan to increase working time without compensation. The commitments of that social pact were mostly integrated into the new Labour Code of 2012, which came into force in August 2012.

⁵ Three general strikes were called during the implementation, one jointly by the two trade unions, another just by the CGTP, and another by CGTP and some trade unions affiliated to UGT.

failed given the **high social costs** associated with its implementation. They stress that the **social impact of the programme in Portugal was never considered**.

The **socialist party** stressed in the interviews a view that has been his public stance on the adjustment programmes: It pointed out that there are problems in the adjustment programmes' approach as it only focuses only on some countries and does not correct what they consider to be the true causes that underlie the imbalances, which are related to the imperfections of the construction of the Monetary Union. They consider that the programme departed from an imperfect assessment of the causes of imbalances, that it did not gave due consideration to the institutional arrangements in place in the country, and that it therefore failed to achieve better results. They stress that the social impact was never fully taken into account and that the application of the programme was not balanced, as the more right-wing government in charge of its implementation favoured the implementation of a liberal agenda, and failed to implement some of the measures more related to social safety nets.

The **business associations** acknowledged in the interviews the need for fiscal consolidation, which was a major goal of the programme, as well as the structural reforms agenda that it entailed. Whilst recognising that important developments were achieved, in general they consider that the **programme fell short in addressing important bottlenecks in the Portuguese economy**.

The **more right-wing parties** in Government during the implementation of the programme broadly agree with the general groundwork underlying the programme, although they agree that certain aspects could have been improved, such as having a better **assessment of the initial conditions, the capacity to adapt the pace of fiscal consolidation** to changes in the economy and the need to have **more flexibility** to address a changing environment.

A clear position about the programme which reflects a fairly general view was presented in a interview by the **President of the Economic and Social Council** during the adjustment period, who stated: "*We knew that this programme was going to cause a lot of pain and that it is impossible to have a strong adjustment programme like this without some pain, but now, I think the pain was more than proportional to the adjustment and that there were weaknesses that have to do with ignorance and with the limited knowledge that representatives of the troika had of the Portuguese economy.*" José Silva Peneda, 7 Feb 2015 (author translation).

Overall, the assessment of the programme's implementation by different stakeholders is clearly linked to their political positions. The position expressed by the then President of the Economic and Social Council reflects a fairly common and moderate view that Portugal had serious imbalances to correct; that it needed to address those imbalances, but that the Programme, despite going in the right direction, failed to achieve its goals due to problems in its design and some implementation issues.

Studies by academics also stress the limited impacts of the programme. For instance, Novo (2015, page 1), reports that "among the intervened countries, Greece, Ireland and (partly the banking sector in) Spain, the recovery of the Portuguese labour market is far from a success". Overall, Portugal (2015) defends also that "the adjustment programme, while successful in other dimensions, was rather disappointing in terms of employment outcomes."

With respect to **the role of the social dimension and the analysis of social impact within the Economic Adjustment programme**, there is almost unanimous **consensus** among the major stakeholders interviewed. Most stakeholders are of the opinion that its

social impact was not properly taken into consideration and that better results could have been achieved if social dialogue and compromise had been further exploited.

Overall, the implementation of the programme provoked a **considerable decline in both business climate⁶ and consumer confidence** when new measures were announced throughout the process. Since the end of the programme, and subsequent to a considerable improvement in financing conditions after action by the ECB, business climate and consumer confidence have improved a lot.

2.3 The role of social dialogue during the implementation of the programme

The **Economic and Social Council** is the major structure that exists for social dialogue, especially through its Permanent Standing Committee. The action of the Economic and Social Council may take place in response to proposals submitted by the government, or through its own initiative, which rarely occurs.

Valente and Marques (2014) present a detailed overview of the evolution of social dialogue and the role of social partners during the crisis in Portugal. Overall, they conclude that “as it concerns the evolution of social dialogue and the role of social partners during the crisis, we argue that **austerity measures and amendments to labour legislation have affected power relations in the Portuguese industrial relations system**. Indeed, there is increasing tension in the social dialogue between employers and trade unions. Industrial action and mass protests have escalated during this period despite the two tripartite agreements signed since 2011.” Based on International Labour Organization (ILO) assessments (ILO 2014, ILO 2013a, ILO 2013b, and ILO 2013c), they also report that several ILO conventions were not respected during the implementation of the adjustment programme, namely: the conventions of the Right to Organise and Collective Bargaining Convention (No.98), the Minimum Wage Fixing Convention (No.131), and the Social Security (Minimum Standards) Convention (No.102).

Campos Lima (2013) also discusses in detail the impact of the adjustment programme on industrial relations and considers that its impact has been very severe.

The head of the Economic and Social Council and the other social partners interviewed, all report that the role of social dialogue as a mechanism to find compromise during the crisis was never significantly explored. **Most reforms were not subject to discussion by the Economic and Social Council.**

⁶ Analysis of both the EU Commission’s Economic Sentiment Indicator and INE (National Statistical Office) business and consumer confidence indicators reveals that following each new round of announcements, both confidence and climate indicators declined. See Escaria (2015) for further details.

3. DEVELOPMENT OF EMPLOYMENT AND POVERTY

The implementation of the programme resulted in a deterioration of labour market and social situation, with lower employment rate, higher unemployment rate with significant share of long term unemployment and high levels of poverty and inequality compared to 2011/2010 pre-programme levels. The analysis of the evolution of these indicators throughout the programme reveals that during the first few years of its implementation most indicators of the labour market and social situation deteriorated significantly but that 2013 was a turning point for most of the indicators, even if recovery was partially small and recovery continues to be incomplete comparing the year before the programme started with annual data for 2014. According to the OECD (2015), the latest data even suggest the possibility of a slow-down in this recovery.

3.1 Key facts about the economy and indicators related to the employment and the social situation

Table 1 summarises the most recent data about the labour market and social situation in Portugal and Table A.1 in Annex 1 presents further indicators and their trends in recent years.

Table 1: Main indicators related to labour market and social situation in Portugal

Indicator	Reference period	Value
Employment rate (over 15)	2015.Q2	51.7 %
Unemployment rate	2015.Q2	11.9 %
Long term unemployment rate	2015.Q2	7.6 %
Proportion of employees on temporary contracts	2015.Q2	18.8 %
Proportion of unemployed over 12 months	2015.Q2	64.0 %
Population at risk of poverty or social exclusion	2013	27.5 %
Population at risk of poverty	2013	19.5 %
Gini index	2013	34.5 %

Source: National Statistical Office, Portugal, Eurostat

The most recent data for these indicators reveal a relatively low employment rate, the existence of still a high unemployment rate with a significant proportion of long term unemployment and high levels of poverty and inequality.

Employment has declined significantly since the pre-crisis level, however the improvement in the labour market since 2013 has not translated into significant job creation and an increase in employment levels, as part of the adjustment was made through changes in the level of activity. The **employment rate is still almost 7 percentage points below the pre-crisis level** (around 4 500 thousand employed in 2014 compared to 5 100 thousand in 2008, which equates to less 617 thousand being in employment). The **activity rate has declined by almost 2 percentage points**, revealing strong discouraging effects.

Despite a recent drop, **the unemployment rate is still high**, standing at around 12 % in the second quarter of 2015, and, most importantly, long-term (more than 12 months) or very long-term unemployment (more than 24 months) represent a disproportionate share of the unemployed. In fact, 64 % of the total unemployed are unemployed for more than 12 months, and 46 % for more than 24 months.

The Portuguese labour market is **highly segmented**: A **persistently high proportion of people are employed on temporary contracts** (almost 19 % of total employees in the second quarter of 2015) **and work as pseudo self-employed**. In particular young self-employed work for lower wages under working conditions defined by the employer and with lower social protection. The trend of these indicators during the crisis period shows how temporary contracts and also pseudo self-employment provide the margin for adjustment (the share of temporary contracts as a percentage of total employment declines during the job destruction phase, as most jobs destroyed are on temporary contracts, and it increases in periods of job creation, as most jobs created are on temporary contracts).

The strong adjustment of the labour market with high levels of job destruction and low levels of job creation associated with the difficulty of young workers to enter the market created a new situation in which **unemployment started to affect skilled and educated workers**.

It is also worth noting that the level of **under-employment of employees on part-time jobs has increased** continuously until 2013 exhibiting a reduction in 2014 (84.7 % in 2014 compared to 77.9 % in 2011 before the adjustment programme came into force and 41.3 % in 2007). This implies that most of the employees in this situation are available to work full time, and have not chosen to work part time, which **points to a significant level of involuntary part time jobs**.

Following years of immigration, the data on **emigration** reveal that **this has increased** (up from 20 357 permanent emigrants in 2008 to 49 572 in 2014 and from 56 980 temporary emigrants in 2011 to 85 052 in 2014, see appendix), and that this has been an important way out for many Portuguese during the crisis. The total number of those emigrating has more than doubled from pre-crisis levels, with a considerable proportion being temporary emigration (temporary emigrants represent, on average, almost 60% of total emigrants).

Indicators of **poverty have also increased and exhibit very high levels**, even by Portuguese standards, which are usually among the highest in the EU.

The number of individuals at risk of poverty or social exclusion has **increased by more than 200 000 from 2007 to 2013, which represented 27.5 %⁷ of the total population in 2013 compared to 24.9 % in 2007**, though the poverty threshold fell from **EUR 5 207 in 2009 to EUR 4 937** in 2013. The gap of this indicator has widened when compared to the Euro Area average. When considering the **risk of poverty** on its own, this indicator has increased from **17.9 % in 2008, to 19.5 % in 2013**. If one considers the 2009 poverty threshold, the incidence of poverty would be even higher, standing at 25.9 % in 2013, and the increase in the incidence of poverty would be around 8 percentage points from 2009.⁸ Households with low levels of labour intensity and those with children are among those that show the highest incidence of poverty or risk of social exclusion. The risk of poverty for those unemployed is over 40 %, compared to 36 % in 2010, and for children it is 25.6 %, compared to 22.3 % in 2010. **Poverty intensity has also increased** significantly, revealing that the poor are now poorer. The income gap that measures poverty intensity increased from 23 % before the crisis, to over 30 % in 2013. The share of the population facing severe material deprivation has also increased by at least 1 percentage point.

⁷ In EU SILC data, dates refer to year of income and not year of survey.

⁸ This result also reveals the decline of household incomes as the poverty threshold fell as one have seen from EUR 5 207 in 2009 to EUR 4 937 in 2013.

Inequality, which is also traditionally high in Portugal but was on downward trend before the crisis reverted its trend and **registered an increase as a consequence of the crisis**. The Gini index of income inequality, which had been decreasing before the crisis, reverted to an increase from a low of 33.7 in 2009 to 34.5 in 2013. This increase in inequality is more significant for the S90/S10 ratio⁹, which shows that the two extremes of income distribution have had completely different experiences during the crisis.

3.2 Key facts about youth unemployment, NEET-youth, and youth emigration

When focusing on youth, the analysis for all parameters considered (employment, unemployment, long-term unemployment, NEET youth) reveals that **young people bore a disproportionate share of the adjustment**. Table 2 summarises the main indicators relating to youth unemployment in Portugal and Table A.1 in Annex 1 presents further indicators and their trends for recent years. The indicators show a much higher unemployment rate amongst the youth and that a large proportion of young are neither in employment, education, nor training (NEETs).

Table 2: Main indicators related to youth unemployment in Portugal

Indicator	Reference period	Value
Youth employment rate (under 25)	2015.Q2	22.3 %
Youth unemployment rate	2015.Q2	29.8 %
Youth unemployment ratio	2015.Q2	9.5 %
Neither in Employment, Education or Training - youth	2015.Q2	13.3 %

Source: National Statistical Office, Portugal, Eurostat

The **employment rate** of those below 25 years' old **decreased** from over 34 % in 2007, to values close to 22 % in 2014. **Youth unemployment reached values close to 40 % in 2013**, and is still particularly high, although showing a decreasing trend.

The share of those below 25 years **neither in employment, education, nor training has also increased** to levels around 14 % of their age group in 2013 up from 10.2 % in 2008, which is more than 1 percentage point above the EU average in 2013 and it now stands at 13.3% (second quarter 2015).

Emigration has provided a way out for the young between 15 and 24 years old. The number of emigrants doubled during the crisis, and represented almost 3 % of the total population, or almost 8 % of the active population of this age group. Emigrants belonging to the 15-24 age group represent, on average, 23% of total emigrants, with a maximum of over 27 % in 2012. This calls for particular attention, as it constitutes a serious risk for future growth¹⁰.

3.3 Analysis of specific features and drivers of youth unemployment

One of the main features that characterises the Portuguese labour market which is seen as affecting the level of youth unemployment is the **high level of segmentation**.

⁹ The share of income of those belonging to the top 10% of income distribution compared to the income of those belonging to the lowest 10 %.

¹⁰ Bank of Portugal (2015b) estimates that demographic evolution will cause a decline in GDP per capita of -19,5 percentage points until 2050 and 19,0 percentage points in 2060.

In fact, **young people** represent a disproportionate share of those with temporary contracts or part time jobs, and who experience very high turnover levels. As the Bank of Portugal (2015, page 80) stresses, "*What accounts then for the disproportionate increase in unemployment among the young? [...] the answer to this question is also intimately connected to the increased use of fixed-term contracts and their high incidence on younger workers*". This reduces the return to skills of young workers with higher education, and reduces firm-specific skills acquisition, and thus hampers growth in productivity. Despite some gender segmentation, most segmentation is of the insider-outsider type, in which those without permanent contracts face a high turnover in the labour market. As young workers are more likely to be on temporary contracts, it is they that bear a large share of the cost of adjustment.

Despite significant improvements in recent years¹¹, which partially reversed, or at least levelled down during the crisis, the **low skill level and high early school leaving levels** of many young workers diminishes their labour market prospects and increases the likelihood of low labour market intensity.

Other issues related to skills are affecting young people labor market prospects, such as: **skill mismatches** between the skills they acquire in education and those needed or valued in the labour market; the **low esteem of manual work**; the **low quality of vocational education and training**, and; a low **degree of cooperation among firms and the education system**. In general, young people tend to be disadvantaged when entering the labour market, due to having little, or no work experience, the mismatch between the skills that young people possess, and those demanded by the labour market, a lack of career management / job search skills or access to professional networks, as well as a larger share of temporary contracts. It is worth noting, as the Commission's 2015 Country Report highlights, that "*Disparities in education performance and early school leaving (ESL) linked both to the socioeconomic and migrant background of students are considerable.*"

The recession exacerbated these persisting structural weaknesses.

¹¹ The educational attainment levels of the youth is well above average, and contributes to the general improvement in the educational attainment of the Portuguese population.

4. OVERVIEW ON MEASURES TO COMBAT UNEMPLOYMENT, TO IMPLEMENT THE YOUTH GUARANTEE, AND TO REACT TO YOUTH EMIGRATION

Even if the prescriptions of the Economic Adjustment Programme were mostly restrictive, the programme included recommendations to the Government to ensure good practices and an efficient amount of resources for activation policies to strengthen the job search effort of the unemployed and for other Active Labour Market Policies (ALMPs), in order to improve the employability of the young and disadvantaged categories, and to ease labour market mismatches. With the deterioration of the labour market and the social situation during the implementation of the programme, further attention was given to measures to combat unemployment especially for the young, who have been particularly hit by the crisis.

As we have seen, the general assessment by the international institutions is that **progress has been made regarding the deployment of active labour market policies and the reform of public employment services**. Recent assessments of developments in this area acknowledge, however, that challenges remain with regards to reaching those young people who are neither in employment, education, nor training. For instance, the IMF post-programme assessment report and the European Commission 2015 Country-Specific Recommendations to Portugal both underline that there is a need to increase the digitalisation of labour market matching services, **and that ensuring adequate coverage of social assistance, in particular the minimum income scheme, remains a key challenge**. The EU Commission report also considers that some progress has been made in improving the quality and labour market relevance of education, with the undertaking of reforms in curricula and teachers' statutes in order to improve the quality of education. It defends the use of the monitoring tool and the diversification of pathways with new vocational education and training programmes to address early school leaving and to help improve performance rates. The IMF considers that recent reforms are designed to upgrade the **vocational education and training** system, but that **making it more attractive to students remains a challenge**.

A **Support Group to Portugal** was created by the European Commission in 2012 during the implementation of the programme, to help to streamline the use of EU structural funds as instruments to combat unemployment and to increase investment in the Portuguese economy.

As the relevance of **youth unemployment** and of **the high level of youth emigration** in recent years has been recognized, measures focused on this group were introduced. The main focus has been to improve the labour market prospects of the young, in order to reduce the incentive to emigrate, as this emigration will have an impact on the growth potential of the Portuguese economy. With this goal in mind, and following the European agenda, the **Youth Guarantee programme** was prepared. This programme is considered by all the stakeholders (employment services, business associations, trade unions and experts in general) to be of the greatest importance. Portugal presented the Youth Guarantee Implementation Plan on the 31st of December, 2013, with an allocation of EURO 160.77 million (at current prices). The whole territory is eligible. The **plan for the implementation** of the Youth Guarantee scheme contains several specific measures, which are presented in the Box below.

Box 2: Measures included in the Portuguese Youth Guarantee Scheme

Active Youth Employment: aims at enabling the acquisition of social, relational or transversal skills by those young people who did not complete compulsory education, with the support of a young unemployed graduate, and through the acquisition of practical experience in a host institution for a period of 6 months, in order to plan paths for their entry into the labour market.

Young Investment Programme: aims to encourage entrepreneurship and self-employment, and to promote job creation and economic growth, and provide financial support (loans) to investment, as well as non-refundable subsidies and technical support to strengthen and consolidate the beneficiaries' entrepreneurship skills and business plans.

Resume Programme: aims at helping young people to return to higher education, after leaving university without graduating.

IT Platform (www.garantiajovem.pt): the development of this IT platform is considered by the EMCO assessment as being another relevant feature of the Youth Guarantee scheme as it enables the dissemination of information about the opportunities/measures it provides, enables young people to express an interest in joining YG, and allows partners to access a repository of documents that enables the sharing of work methodologies and enables them to proceed with the registration of the activities and interventions carried out by YG beneficiaries. As the programme focuses on skill supply and demand as well as on a specific strategy to reach out to non-registered NEETs. The **EMCO assessment considers the implementation of the IT Platform** for the registration of NEETs, and for the exchange of information on YG a **good practice** to be replicated in other Member States as a core part of their strategies to reach out to NEETs.

Source: European Commission, Youth Guarantee country by country (Portugal, July 2015)

Overall, the general assessment is that, despite a slow start, the **implementation of the Youth Guarantee scheme in Portugal is now underway**. Challenges remain which are associated with the **full implementation of the Portugal 2020 Operational Programmes (European Social Fund)** which support some of the Youth Guarantee measures.

The European Commission (European Commission 2015b) considers that through the **Youth Guarantee programme, measures have been taken to fight the upsurge of youth unemployment and the incidence of NEETs**, and that Portugal is making substantial efforts to put the Youth Guarantee into practice and to involve all relevant governmental and non-governmental partners in implementing it. The report acknowledges that implementation of the Youth Guarantee started on the 1st January, 2014, and that between March and December 2014, 67 317 people aged under 30 and neither in employment, education, nor training (NEET) took part in measures classified as a 'Youth Guarantee quality offer' once they had been registered in the Public Employment Services for a maximum of four months. Based on Public Employment Services data, these include work placements, vocational training and traineeships.

All the **stakeholders** interviewed **recognise the potential relevance of the Youth Guarantee programme**. However the trade unions and more left-wing parties, raised questions as to whether some measures foreseen in the programme are indeed effective solutions for the problem of youth unemployment and emigration, when considering that

the government may be “trying to hide the reality of youth unemployment with 'palliative' solutions, without effective labour guarantees”.

All the stakeholders agree that, in order to achieve the envisaged results, it is **of utmost importance to act on other areas such as those related to the segmentation of the labour market**, as it is this segmentation that is hindering the prospects of the youth in the labour market. The actions proposed are however quite different. **Business associations and the more right-wing parties** stress the need to increase flexibility and change dismissal rules, and consider that this will make companies more likely to hire new young workers and thus improve their labour market prospects. The **Socialist Party** recently proposed as part of its programme for the general election a new conciliatory mechanism of dismissal, and a penalisation of temporary contracts, in order to reduce the differences between open-ended and fixed-term contracts. The **trade unions and left-wing parties** have been advocating the repeal of those rules that allow fixed-term contracts for young people seeking their first job, as well as the possibility of extending fixed-term contracts beyond the time allowed by law, and that compliance with legislation regarding the contract term must be monitored, in order to prevent the replacement of permanent jobs.

5. LIST OF CURRENT IMPORTANT ISSUES IN EMPLOYMENT AND SOCIAL AFFAIRS

The issues that are commonly seen as being the most relevant for improving labour market performance and the social situation are the following:

- Reducing labour market segmentation.
- Improving the collective bargaining system.
- Enhancing the impact of active labour market policies and vocational training on employability.
- Reinforcing social safety nets.

Segmentation is probably the most important issue affecting the Portuguese labour market. It means that the burden of adjustment falls on a small proportion of the population, and it is a huge obstacle to productivity gains, as it limits investments in human capital and firm-specific training. Furthermore, it hampers the results of many other measures, as it is a barrier to adjustment.

Taken jointly with segmentation, improvements in the **collective bargaining system** are necessary to make wages more responsive to economic and firm-specific conditions. Measures recently adopted for collective agreements allowed for the extension of collective agreements to all firms in a sector, which was a step backwards from some of the previous reforms. Portugal (2015) clearly recommends that further steps need to be taken in this area.

The poor **level of skills** of a large proportion of the active population, coupled with the high level of early school leaving still registered in Portugal calls for further strengthening of the impact of active labour market policies on employability and vocational training, especially hearing in mind that, in spite of the high level of unemployment, **expenditure on active labour market programmes (as a percentage of GDP) is relatively low**, as the OECD (2015) stresses. The OECD (2015) also stresses that “expenditure on the public employment service, as well as on placement and related services tends to be low [...] there are potentially large gains to be made from additional investments in job-search assistance and targeted measures to improve the employability of job-seekers”.

Taking into account recent developments, and considering the need for further adjustment in the labour market, it is very important to reinforce **social safety** nets, so as to ensure social cohesion throughout the adjustment process.

As Arnold and Rodrigues (2015) stress, “*The economic crisis has halted a long-term gradual decline in both inequality and poverty, and the number of poor households is rising, with children and youths being particularly affected. Unemployment is one of the principal reasons why household incomes declined.*” They recommend that a number of adjustments could strengthen the equalising role of the benefit system, which is generally biased towards benefits for elderly people, whereas families with children should receive more support.

Valente and Marques (2014) also point in this direction, when they conclude that “*The introduction of new and stricter criteria has led to a **sharp decline in the number of beneficiaries of social benefits** (namely means-tested benefits). In our view, these reforms are jeopardising social inclusion in Portugal and, as a consequence, Europe 2020’s headline target of decreasing the number of people at risk of poverty or social exclusion by 200 thousand by 2020 is unlikely to be achieved with present policies.*”.

According to the European Commission: *"with regard to labour market reform, a further reduction in labour market segmentation and improvements in the collective bargaining system are necessary to make wages more flexible and responsive to economic and firm-specific conditions, while the impact on employability of active labour market policies and vocational training needs to be enhanced"*, European Commission (2014a, page 5). The report also says that *"despite good progress, the rate of early school leaving remains relatively high and tertiary attainment still quite low. Therefore, education should remain high on the policy agenda for the coming years, if it is to become a major driver of economic growth and productivity"*, European Commission (2014a, page 62).

More recently, the latest assessment report by the European Commission (European Commission (2015a), page 2) also stresses these issues:

- *"Labour market policies and the functioning of the collective bargaining system influence the risk that unemployment stabilises at its current high level."*
- *"Coverage of social assistance is low."*
- *"Education and training outcomes are not clearly aligned with the labour market, and links between public research organisations and business are weak."*

In January, 2015, the government adopted a **new framework law for employment policy**, which aims at further rationalising the set of Active Labour Market Policies and the role of Public Employment Services, as well as establishing the principle of the **systematic evaluation of the different Active Labour Market Policies programmes** by the Standing Committee for Social Dialogue. As it has only recently been approved, the impact is not yet known, and thus it is necessary to follow the implementation of this new law.

The **Portuguese general election** took place on the 4th of October this year. The ruling centre-right and right-wing coalition government lost its majority in Parliament, which now has a centre-left and left majority. Negotiations to form a new government are currently underway, and two possibilities have been presented: a government run by the centre-right and right-wing coalition that won the election, with some agreements with the Socialist Party or a centre-left government led by the Socialist Party, with support from the left-wing parties.

With regards to the election and the negotiations that are taking place to form the next government, issues such as the reform of the pension system, employment protection legislation, the unemployment benefits system, and the wage setting mechanisms have all been central and remain so.

The **centre-right coalition** in power announced its intention to increase only minimum pensions and introduce a reform to the pension system to ensure savings of at least EURO 600 million per year. The Emergency Social Programme implemented during the economic adjustment program, and in which nonprofit organizations of the third sector play a major role, is said to continue to be the most relevant instrument for fighting situations of social exclusion, even if some adjustments are considered, in order to increase the incentives for those that receive income support to return to the labour market.

The **Socialists**, while defending the increase of only minimum pensions and the freezing of all others announced, the intention to introduce new measures, such as a new conciliatory regime for the termination of contracts, the penalization of excessive turnover and the use of temporary contracts, to increase means-testing of all non-contributive social benefits, to introduce a new benefit for poor workers, and also changes to some other benefits in order to make them more effective in fighting poverty in households with children. The Socialists

also defended the idea of reversing several limitations and requirements introduced during the adjustment programme to social benefits¹².

Depending on which of the two alternative solutions forms the government, one can expect that quite different policy paths will take place in the future.

¹² Administrative burden and controls were increased and special requirements were introduced resulting in lower take up of many benefits.

ANNEXES

Annex 1: Indicators on labour market and social situation

Table A.1: Trends in main indicators regarding the labour market and social situation in Portugal

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Activity rate	%	52.5	52.4	51.9	51.9	51.4	51.2	50.6	50.3	50.1	50.4	50.6	50.1	50.1	50.3
Employment rate (over 15)	%	57.3	57.4	55.6	54.6	52.8	50.8	49.7	50.7	49.8	50.8	51.4	50.6	50.5	51.7
Unemployment rate	%	8.0	7.6	9.4	10.8	12.7	15.5	16.2	13.9	15.1	13.9	13.1	13.5	13.7	11.9
Long term unemployment rate	%	3.9	3.8	4.4	5.8	6.7	8.4	10.0	9.1	9.6	9.4	8.8	8.7	8.9	7.6
Proportion of employees on temporary contracts	%	17.5	18.3	17.9	19.0	18.3	16.9	17.6	17.8	17.3	17.5	18.6	17.9	17.7	18.8
Underemployment of employees on part time jobs (<i>proportion of employees on part time jobs that declare they are willing to work full time</i>)	%	41.3	40.5	41.2	45.1	77.9	87.1	88.5	84.7	87.3	90.1	80.1	81.7	80.5	79.5
Proportion of unemployed for more than 12 months	%	49.0	49.9	46.5	54.1	53.2	54.2	62.1	65.5	63.6	67.4	66.9	64.5	64.5	64.0
Proportion of unemployed for more than 24 months	%	27.8	28.3	26.5	29.0	31.6	33.4	38.1	44.0	39.0	43.9	45.7	48.1	43.8	46.2
Permanent emigrants	n°		20 357	16 899	23 760	43 998	51 958	53 786	49 572						
Temporary emigrants	n°					56 980	69 460	74 322	85 052						

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Population at risk of poverty or social exclusion	%	26.0	24.9	25.3	24.4	25.3	27.5	27.5							
Population at risk of poverty	%	18.5	17.9	17.9	18.0	17.9	18.7	19.5							
Poverty intensity	%	23.2	23.6	22.7	23.2	24.1	27.4	30.3							
Severe material deprivation rate	%	9.7	9.1	9.0	8.3	8.6	10.9	10.6							
Proportion of individuals living in households with low labour intensity	%	6.3	7.0	8.6	8.3	10.1	12.2	12.2							
Gini index		35.8	35.4	33.7	34.2	34.5	34.2	34.5							
S80/S20		6.1	6	5.6	5.7	5.8	6	6.2							
S90/S10		10	10.3	9.2	9.4	10	10.7	11.1							
Youth employment rate (under 25)	%	34.4	34.1	30.8	27.9	26.6	23	21.7	22.4	21.4	21.2	24.7	22.2	21.9	22.3
Youth unemployment rate	%	16.7	16.7	20.3	22.8	30.3	37.9	38.1	34.8	37.5	35.6	32.2	34.0	34.4	29.8
Youth unemployment ratio	%	6.9	6.8	7.9	8.2	11.5	14.1	13.3	11.9	12.8	11.7	11.7	11.4	11.5	9.5
Neither in Employment, Education or Training - youth	%	11.2	10.2	11.2	11.4	12.6	13.9	14.1	12.3	9.8	11.4	12.2	11.9	11.7	13.3
Permanent young emigrants	n°		5 644	4 688	6 587	9 514	14 941	12 497							
Temporary young emigrants	n°					11 112	18 037	14 820							

Source: INE (National Statistical Office), Labour force Survey and Emigration Statistics; Eurostat, Survey on Income and Living Conditions.

Annex 2:**Portuguese Memorandum of Understanding on Specific Economic Policy Conditionality - Measures in the field of employment and education****Labour market****Objectives:**

To revise the unemployment insurance system so as to reduce the risk of long-term unemployment while strengthening social safety nets; reform employment protection legislation to tackle labour market segmentation, foster job creation, and ease the transition of workers across occupations, firms, and sectors; ease working time arrangements to contain employment fluctuations over the cycle, better accommodate differences in work patterns across sectors and firms, and enhance firms' competitiveness; promote labour cost developments consistent with job creation and enhanced competitiveness; ensure good practices and appropriate resources to Active Labour Market Policies to improve the employability of the young and disadvantaged categories and resolve labour market mismatches.

To address early school leaving and improve the quality of secondary education and vocational education and training, with a view to raise the quality of human capital and facilitate labour market matching.

Reforms in labour and social security legislation will be implemented after consultation with the social partners, taking into account possible constitutional implications, and in respect of EU Directives and Core Labour Standards.

a) Unemployment benefits

1. The Government will prepare by **Q4-2011** an action plan to reform along the following lines the unemployment insurance system, with a view to reducing the risk of long-term unemployment and reinforcing social safety nets:

- reducing the maximum duration of unemployment insurance benefits to no more than 18 months. The reform will not concern those currently unemployed and will not reduce accrued-to-date rights of employees;
- capping unemployment benefits at 2.5 times the social support index (IAS) and introducing a declining profile of benefits over the unemployment spell after six months of unemployment (a reduction of at least 10% in the benefit amount). The reform will apply to persons becoming unemployed after the reform;
- reducing the necessary contributory period to access unemployment insurance from 15 to 12 months;
- presenting a proposal to extend eligibility to unemployment insurance to clearly-defined categories of self-employed workers providing their services to a single firm on a regular basis. The proposal will take into account the risks of possible abuses and will contain an assessment of the fiscal impact of extending benefits under several scenarios concerning eligibility criteria (namely the involuntary character of unemployment) and requirements for increased social security contributions for firms making use of these arrangements.

2. This plan will lead to draft legislation to be adopted by the Government by **Q1-2012**.

b) Employment protection legislation

1. The Government will carry out reforms in the employment protection system aimed at tackling labour market segmentation, fostering job creation, and easing adjustment in the labour market:

2. Severance payments.

1. The Government will present by end-July 2011 legislation to Parliament to implement reform of severance payments for new hires in line with the March 2001 Tripartite Agreement. Severance payments of open-ended contracts will be aligned with those of fixed-term contracts. The reform will re-design the system for severance payment entitlements as follows:

- o total severance payments for new open-ended contracts will be reduced from 30 to 10 days per year of tenure (with 10 additional days to be paid by an employers' financed fund) with a cap of 12 months and elimination of the 3 months of pay irrespective of tenure;
- o total severance payments for fixed-term contracts will be reduced from 36 to 10 days per year of tenure for contracts shorter than 6 months and from 24 to 10 days for longer contracts (with 10 additional days to be paid by an employers' financed fund);
- o implementation of the fund agreed in the March Tripartite Agreement partly to finance the cost of dismissals for new hires.

2. By Q4-2011, the Government will present a proposal to align severance payment entitlements for current employees in line with the reform for new hires (taking into account the revised link between entitlement and seniority and the cap to total entitlements), without reducing accrued-to-date entitlements. This plan will lead to draft legislation to be submitted to Parliament by [Q1-2012].
3. By Q1-2012, the Government will prepare a proposal aiming at:
 - o aligning the level of severance payments to that prevailing on average in the EU;
 - o allowing the severance pay entitlements financed from the fund agreed in the Tripartite agreement to be transferable to different employers by means of the creation of notional individual accounts.

On the basis of this proposal, draft legislation will be submitted to Parliament no later than **Q3-2012**.

3. Definition of dismissals. The Government will prepare by **Q4-2011** a reform proposal aiming at introducing adjustments to the cases for fair individual dismissals contemplated in the Labour Code with a view to fighting labour market segmentation and increasing the use of open-ended contracts. This proposal will lead to draft legislation to be submitted to Parliament by Q1-2012.
 - i. Individual dismissals due to unsuitability of the worker should become possible even without the introduction of new technologies or other changes to the workplace (art. 373-380, 385 Labour Code). Inter alia, a new reason can be added regarding situations where the worker has agreed with the employer on specific delivery objectives and fails to fulfil them, for reasons resting solely upon the workers' responsibility;
 - ii. Individual dismissals associated with the extinction of work positions should not necessarily follow a pre-defined seniority order if more than one worker is assigned to identical functions (art. 368 Labour Code). The predefined seniority order is not necessary provided that the employer establishes a relevant and non-discriminatory alternative criteria (in line with what already happens in the case of collective dismissals);
 - iii. Individual dismissals for the above reasons should not be subject to the obligation to attempt a transfer for a possible suitable position (art. 368, 375 Labour Code). As a rule, whenever there are work positions available that match the qualifications of the worker, dismissals should be avoided.

c) Working time arrangements

1. The Government will carry out reforms in working time arrangements with a view to contain employment fluctuations over the cycle, better accommodate differences in work patterns across sectors and firms, and enhance firms' competitiveness:
 - i. The Government will prepare an assessment regarding the use made of increased flexibility elements by the social partners associated with the 2009 Labour Code revision and prepare an action plan to promote the use of flexible working time arrangements, including ways to enable the adoption of "bank of hours" working arrangement by mutual agreement of employers and employees negotiated at plant level. **[Q4-2011]**.
 - ii. Draft legislation will be submitted to Parliament **by Q1-2012** on the following aspects:
 - o implementation of the commitments agreed in the March Tripartite Agreement regarding working time arrangements and short-time working schemes in cases of industrial crisis, by easing the requirements employers have to fulfil to introduce and renew these measures;
 - o revision of the minimum additional pay for overtime established in the Labour Code: (i) reduction to maximum 50% (from current 50% for the first overtime hour worked, 75% for additional hours, 100% for overtime during holydays); (ii) elimination of the compensatory time off equal to 25% of overtime hours worked. These norms can be revised, upwards or downwards, by collective agreement.

d) Wage setting and competitiveness

1. The Government will promote wage developments consistent with the objectives of fostering job creation and improving firms' competitiveness with a view to correct macroeconomic imbalances. To this end, the Government will:
 - i. commit that, over the programme period, any increase in the minimum wage will take place only if justified by economic and labour market developments and agreed in the framework of the programme review;

- ii. define clear criteria to be followed for the extension of collective agreements and commit to them. The representativeness of the negotiating organisations and the implications of the extension for the competitive position of non-affiliated firms will have to be among these criteria. The representativeness of negotiating organisations will be assessed on the basis of both quantitative and qualitative indicators. To this end, the Government will charge the national statistical authority to implement a survey to collect data on the representativeness of social partners on both sides of industry. Draft legislation defining criteria for extension and modalities for their implementation will be prepared by **Q2-2012**;
 - iii. prepare an independent review by **Q2-2012** on:
 - o how tripartite concertation on wages can be revived with a view to defining norms for overall wage developments that take into account the trend in the competitive position of the economy and a system for monitoring compliance with such norms;
 - o the desirability of shortening the survival (sobrevigência) of contracts expired but not renewed (art 501 of the Labour Code).
2. The Government will promote wage adjustments in line with productivity at the firm level. To this end, it will:
- i. implement the commitments in the Tripartite Agreement of March 2011 concerning "organised decentralisation", notably concerning: (i) the possibility for works councils to negotiate functional and geographical mobility conditions and working time arrangements; (ii) the creation of a Labour Relations Centre supporting social dialogue with improved information and providing technical assistance to parties involved in negotiations; (iii) reducing the firm size threshold above which works councils can conclude firm-level agreements to 250 employees. Action for the implementation of these measures will have to be taken by **Q4-2011**;
 - ii. promote the inclusion in sectoral collective agreements of conditions under which works councils can conclude firm-level agreements without the delegation of unions. An action plan will have to be produced by Q4-2011.
 - iii. By Q1-2012, present a proposal to reduce the firm size threshold for works councils to conclude agreements below 250 employees, with a view to adoption by **Q2-2012**.
Draft legislation will be submitted to Parliament by **Q1-2012**.

e) Active labour market policies

1. The Government will ensure good practices and an efficient amount of resources to activation policies to strengthen job search effort by the unemployed and to other Active Labour Market Policies (ALMPs) to improve the employability of the young and disadvantaged categories and ease labour market mismatches. The Government will present by **Q4-2011**:
 - i. a report on the effectiveness of current activation policies and other ALMPs in tackling long-term unemployment, improving employability
 - ii. of the young and disadvantaged categories, and easing labour market mismatch;
 - iii. an action plan for possible improvements and further action on activation policies and other ALMPs, including the role of Public Employment Services.

Education and training

1. The Government will continue action to tackle low educational attainment and early school leaving and to improve the quality of secondary education and vocational education and training, with a view to increasing efficiency in the education sector, enhancing the quality of human capital and facilitating labour market matching. To this end, the Government will:
 - i. Set up an analysis, monitoring, assessment and reporting system in order to accurately evaluate the results and impacts of education and training policies, notably plans already implemented (notably concerning cost saving measures, vocational education and training and policies to improve school results and contain early school leaving). [**Q4-2011**].
 - ii. Present an action plan to improve the quality of secondary education services including via: (i) generalisation of trust agreements between the Government and public schools, establishing wide autonomy, a simple formula-based funding framework comprising performance evolution criteria, and accountability; (ii) a simple result-oriented financing framework for professional and private schools in association agreements based on fixed per-class funding plus incentives linked to performance criteria; (iv) a reinforced supervisory role for the General Inspectorate. [**Q1-2012**].
 - iii. Present an action plan aiming at (i) ensuring the quality, attractiveness and labour market relevance of vocational education and training through partnerships with companies or other stakeholders; (ii) enhancing career guidance mechanisms for prospective students in vocational educational training. [**Q1-2012**].

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List of stakeholders interviewed

Luis Filipe Pereira, Head of the Economic and Social Council

Alvaro Novo, Labour Economist, Researcher at the Portuguese Central Bank

Mário Centeno, Advisor to the Portuguese Central Bank Governor and one of the most respected labour economists in Portugal

Members of the two main Portuguese trade unions

Members of CIP – the employers association (Confederação Empresarial de Portugal)

NOTES

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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ISBN 978-92-823-8295-0 (paper)
ISBN 978-92-823-8296-7 (pdf)

doi: 10.2861/014233 (paper)
doi: 10.2861/590753 (pdf)

