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Lisbon under pressure on bail-out terms

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By Peter Wise in Lisbon

Opposition, business and trade union leaders are stepping up pressure on Lisbon to renegotiate the terms of Portugal's €78bn bail-out agreement in order to alleviate the impact of painful austerity measures on the country's recession-hit economy.

Aimed at averting a depressive cycle similar to the crisis that has pushed Greece to the edge of bankruptcy, the calls for more rescue funds and more time come amid warnings of potential ruptures in Portugal's fragile social consensus in support of the adjustment programme.

António Seguro, leader of the centre-left Socialist party, which negotiated the rescue package before losing a general election in June last year, told international lenders this week that Portugal needed "at least another year" to meet agreed fiscal targets.

It was the first time one of the three main political parties who signed up to the bail-out programme in May had publicly broken ranks over an agreement that requires deep public spending cuts, sweeping economic reforms and unprecedented tax increases.

A harsh recession and record unemployment – the consequences, Mr Seguro said, of failing to make economic growth and jobs the government priority – are placing heavy strains on Portugal's traditional social cohesion.

Tensions boiled over at the weekend when hundreds of angry demonstrators booed and jostled Pedro Passos Coelho, the prime minister, during a visit to a rural fair.

The main trade union confederation has announced a 24-hour general strike for March, the second in five months, signalling a split in the labour movement between hardliners and a more moderate group who oppose the strike and have signed up to a social pact with government and employers.

Prohibited from striking or collective bargaining, officers and other ranks in the armed forces and police are also preparing legal challenges, protests and petitions over pay cuts.

António Barreto, a sociologist, says that while there is more social cohesion in Portugal than in other European countries in crisis, "it is very fragile and could easily be broken by a few wrong words or wrong decisions".

"The Portuguese have been protected economically for more than a century by the state, the army and the Catholic church," he says. "But that is all over. After an age of certainty, we're taking a leap into the unknown."

António Saraiva, head of the Confederation of Portuguese Industry, has warned that the economy faces "collapse" if more finance is not made available to companies. He believes Portugal needs an additional €30bn in rescue funds.

Arménio Carlos, a central committee member of the hardline Communist party recently elected head of the CGTP-Intersindical, the main union confederation, will propose increasing the amount of Portugal's bail-out when he meets officials from the so-called troika – the European Commission, International Monetary Fund and European Central Bank – on Thursday.

The troika delegation is visiting Lisbon for its third quarterly assessment of Portugal's progress with its adjustment programme.

Mr Carlos also wants the government to renegotiate the interest rate and payback period and secure more time to meet fiscal targets.

After meeting troika officials, Mr Seguro said it was a "tragic mistake" to allow bank credit to export companies to be choked off.

However, none of Portugal's mainstream parties, including the Communists, advocates restructuring Portugal's debt or requiring private investors to suffer losses, as they will in Greece.

Mr Passos Coelho has repeatedly insisted that his centre-right coalition government has no plans to ask the European Union and IMF for more money or more time to pay.

But he also stresses that Portugal's international lenders are committed to "continuing their support" if external conditions "beyond the government's control" make it impossible for Lisbon to return to international markets by September 2013 as envisaged.

Many economists believe the prime minister will eventually seek more rescue funds and more time for fiscal consolidation, arguing that growth in the EU, which accounts for about 80 per cent of Portugal's exports, is below expectations, making it impossible for Lisbon to comply with its own growth targets.

In the meantime, the government is focused on holding the line on austerity, meeting fiscal targets and pressing ahead with economic reforms and privatisations, partly to draw a clear distinction between Portugal and Greece.

Yields on 10-year Portuguese government bonds soared to 17 per cent at the end of January, amid fears that Lisbon would be engulfed in contagion from the Greek crisis. They have since fallen back to around 12 per cent after suggestions from Germany that it would be prepared to adjust the rescue agreement, but they remain volatile. On Tuesday yields rose 28 basis points to 12.58 per cent.

People familiar with the progress of the bail-out programme said Lisbon was on track for a third positive rating from the troika in terms of fiscal consolidation and reform. Doubts remain, however, over how long reforms will take to filter through to the real economy and have an impact on growth.

“By the end of this year, we will have completed the most difficult tasks needed for the economy to recover,” Mr Passos Coelho told protesters at the rural fair. “The country will not be plunged into even greater difficulties.” But many of those listening did not appear wholly convinced.