

Overview of labour market developments and challenges in Portugal (2008-2018)

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Outline

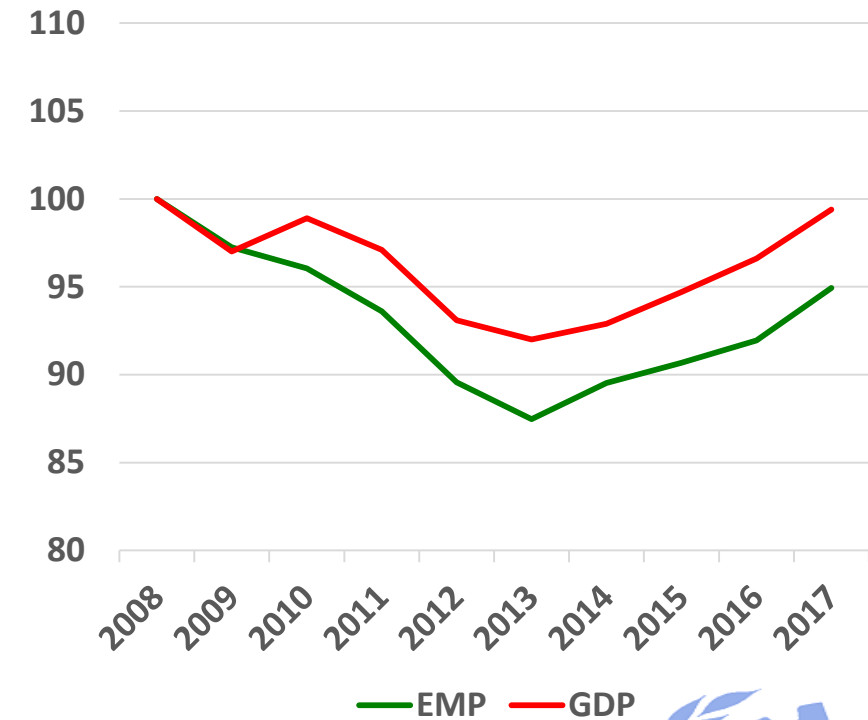
- A. Quick overview of economic trends and prospects**
- B. The labour market situation**
- C. Key policy questions**



A1. A solid recovery

	2008	2012	2016	2017	2018*
GDP annual growth rate (%)	0.2	-4.0	1.6	2.7	2.4
Export annual growth rate (%)	-0.3	3.4	4.1	7.0	6.6
Public debt (% of GDP)	72	126	130	126	122
Current account (% of GDP)	-12	-2	0.7	0.4	0.2
Unemployment rate (%)	7.6	15.6	11.1	9.0	7.8

Real GDP and Employment trends (2008=100)



A2. The conventional narrative

- **Overspending** - Portugal was severely hit by the crisis because it was living beyond its means – private capital inflows from surplus EU countries covering current account deficits
- **Adjustment** - Thanks to a heavy dose of a bitter Troika medicine, the country regained competitiveness and started recovering - rapid fiscal consolidation, labour market deregulation and wage compression (*internal devaluation*).
- **Growth** - To sustain growth and employment, the country should now:
 - Frontload fiscal consolidation
 - Further deregulate the labour market
 - Maintain wage compression



A4. An alternative view

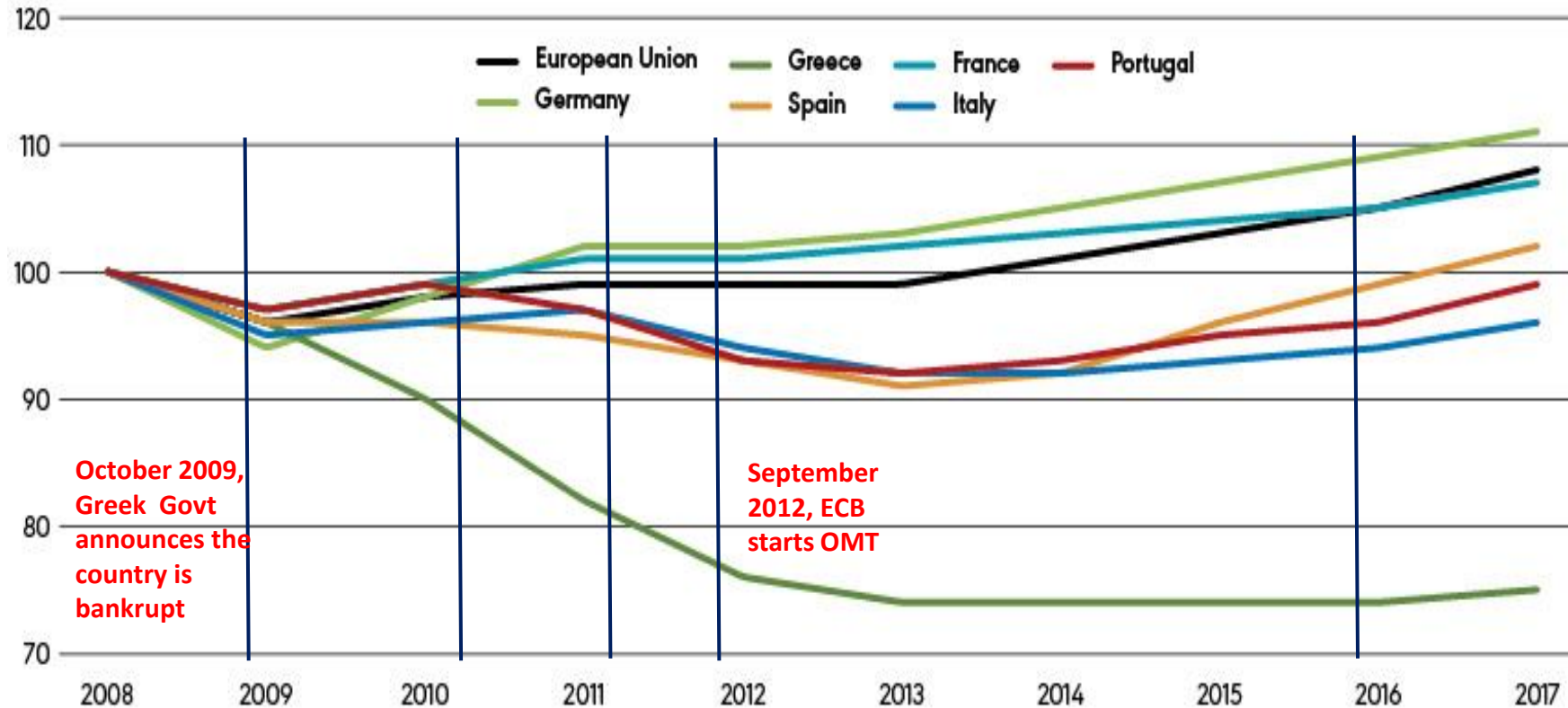
Recovery was driven by a variety of factors

1. **External macroeconomic factors** (both policy and cyclical factors)
2. **Domestic reforms and structural factors** (some of which predated the crisis) **that facilitated enterprise restructuring in tradable sectors**
3. **Domestic fiscal policy shifts** (from austerity to a countercyclical fiscal stance)
4. **Minimum wage policy** (regular annual increases)
5. **Social dialogue**



1. “Whatever it takes”

Real GDP per capita growth rate in selected European countries, 2008–17 (2008=100)



Source: Eurostat.

May 2010,
Troika goes
to Athens

May 2011,
Troika goes to
Lisbon

December 2015, new
Govt announces a shift
away from austerity



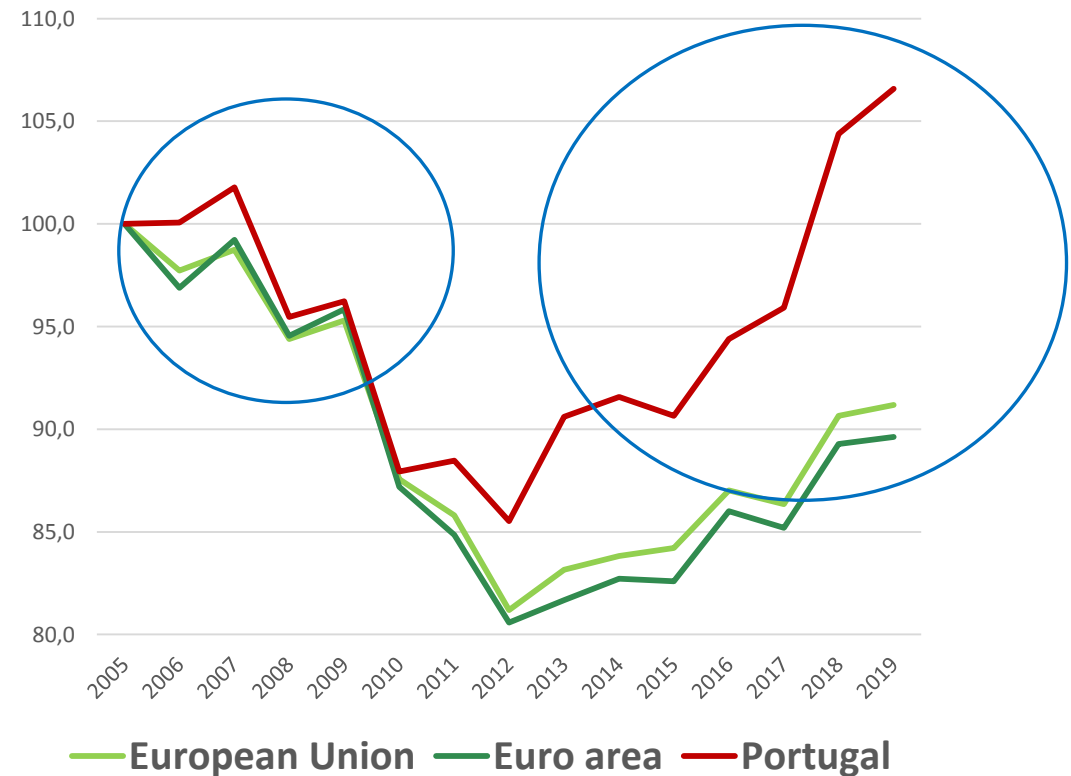
2. A strong export drive

Recovery was prompted by the increase in the volume and quality of export. This strong export drive was facilitated by structural factors and reforms some of which predated the crisis

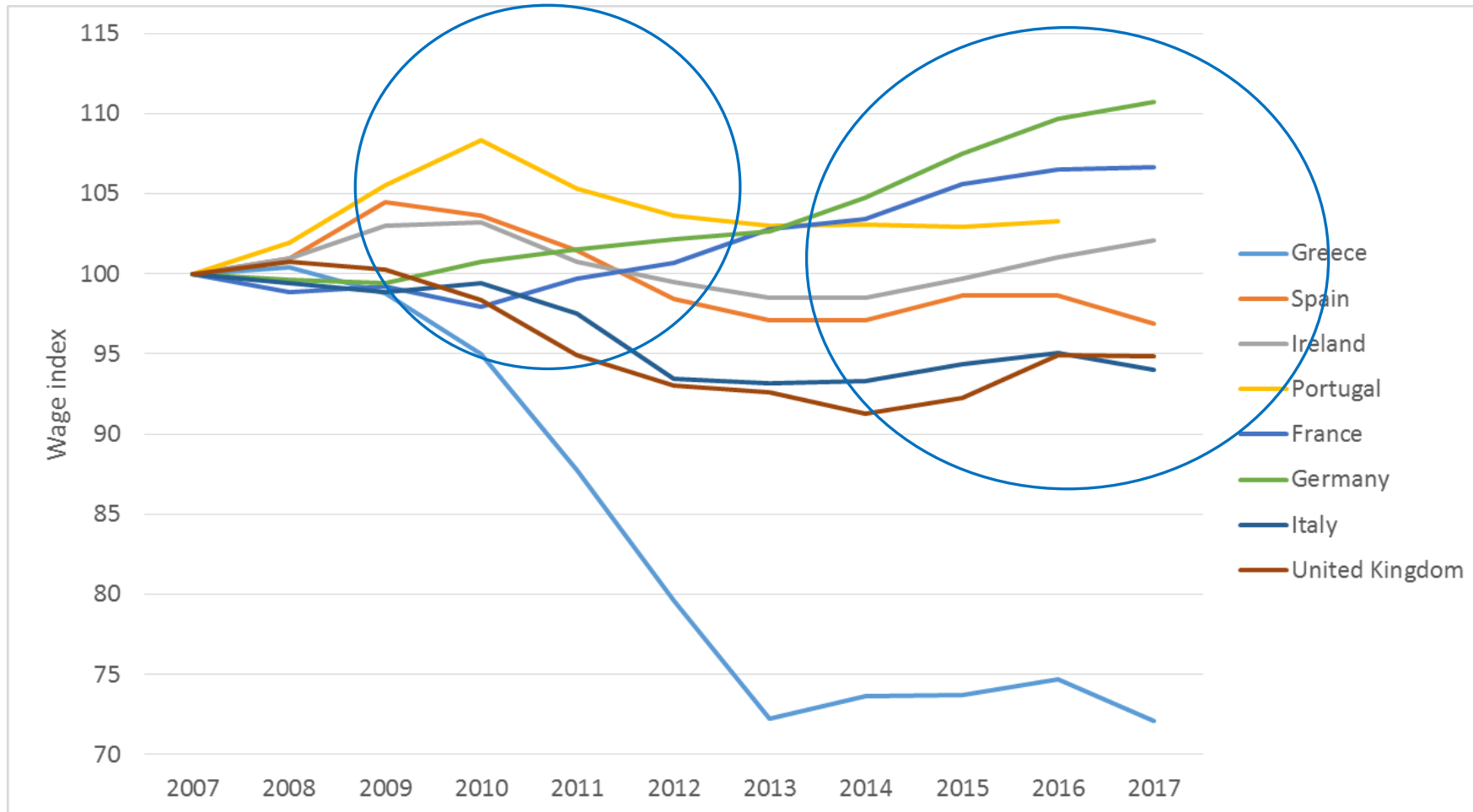
- Fast-rising education and training levels
- Good infrastructure
- Public sector restructuring
- Changes in labour market legislation
- Business environment reforms

Even before the crisis, exporters had started to adjust to competition from new EU entrants and Asia

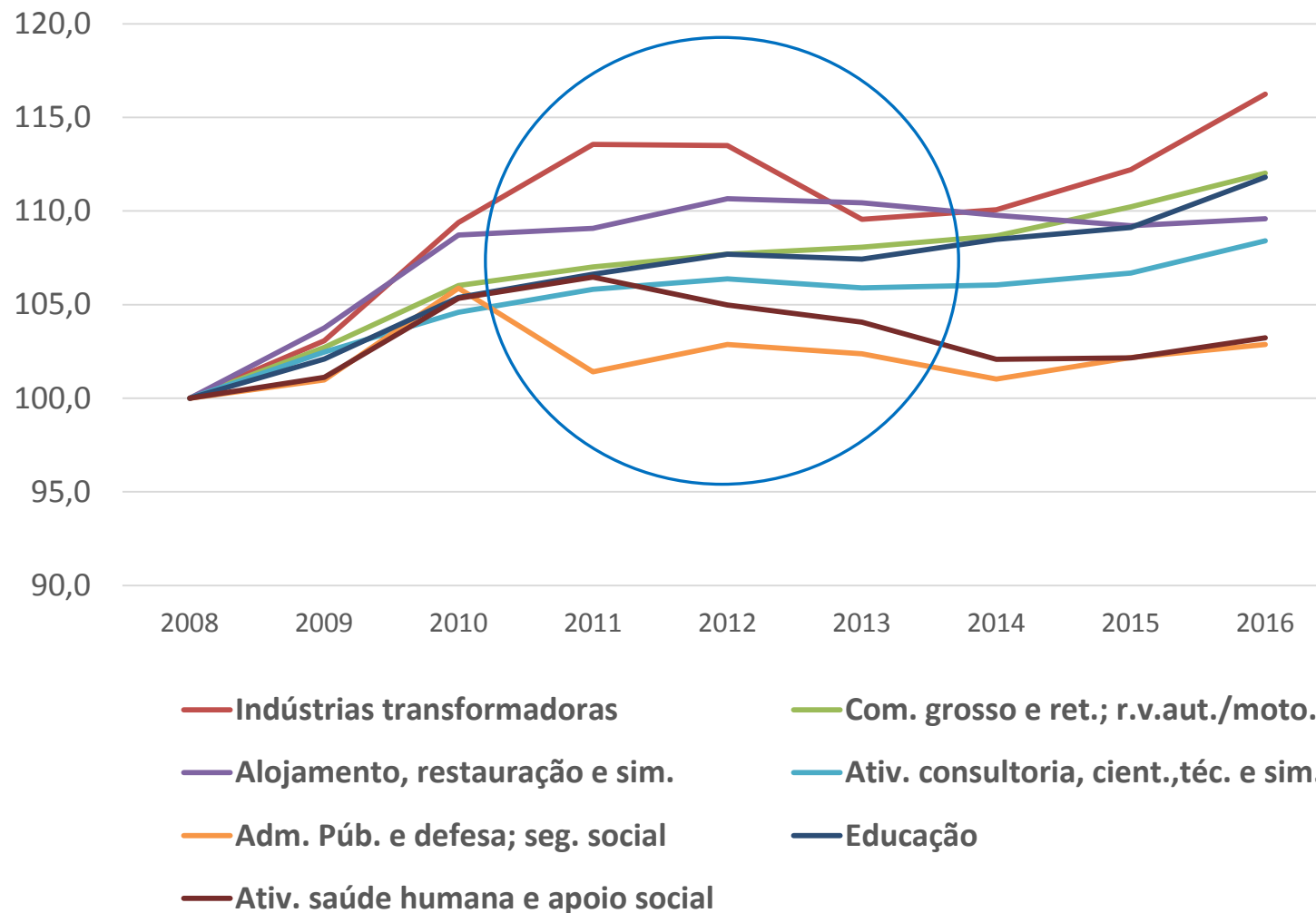
Export shares of Portugal and the EU (2005=100)



Real average wages remained stable relative to other EU countries



Increase in average nominal monthly wages by sector (2008=100)

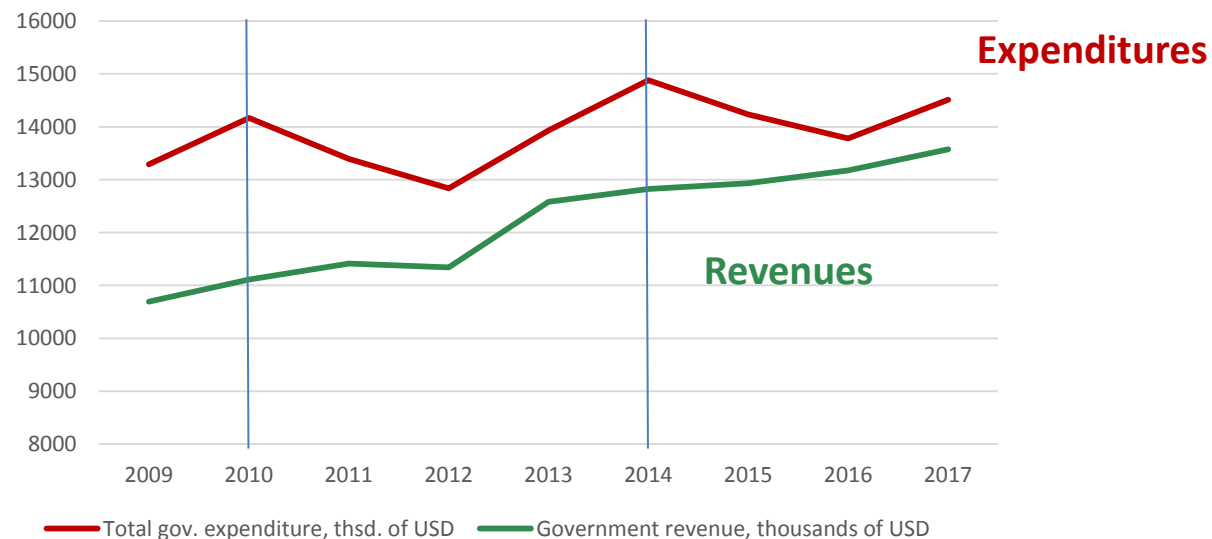


Quadro 22 - Remuneração média mensal base por atividade económica do estabelecimento



3. Domestic fiscal policy shifts

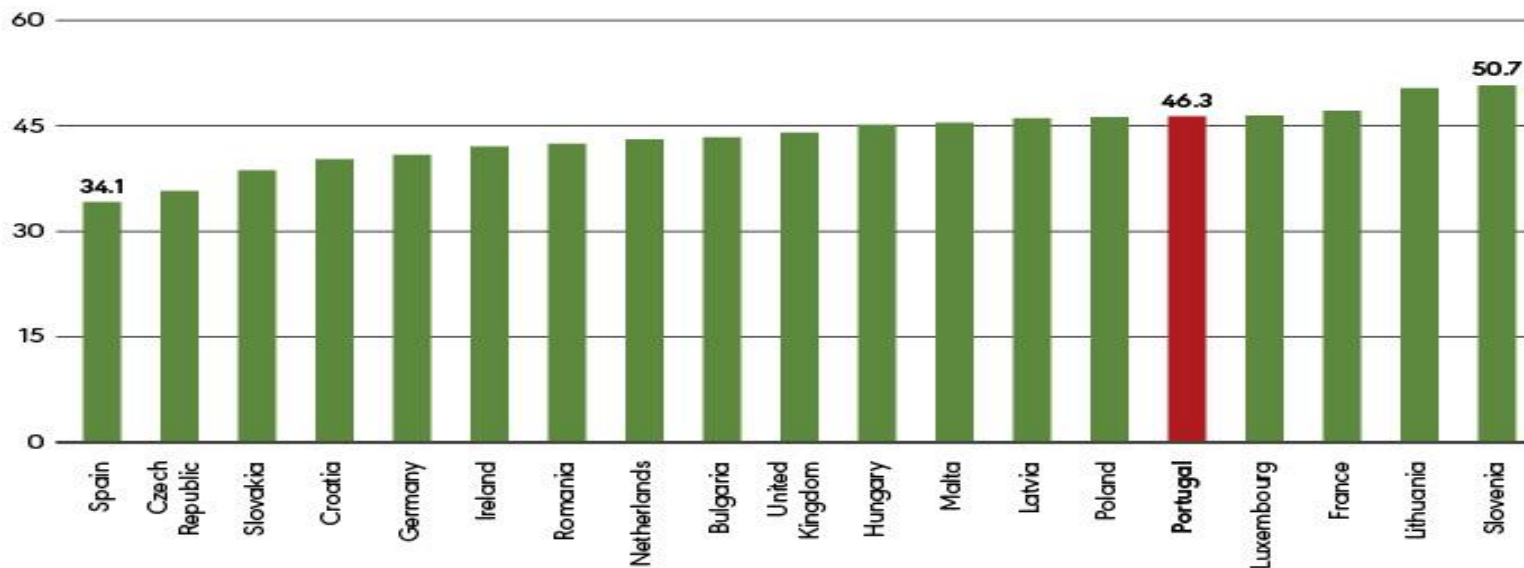
- A countercyclical fiscal stance at the start of the crisis in 2008-2009
- Austerity and Troika-driven reforms during 2011-2014
- Since then, an approach that seeks to maintain a balance between a credible commitment to gradual public debt reduction combined with the need to support incomes and job creation



4. Regular increases in minimum wage

505 Euros in October 2014
530 Euros in January 2016
557 Euros in January 2017
580 Euros in January 2018

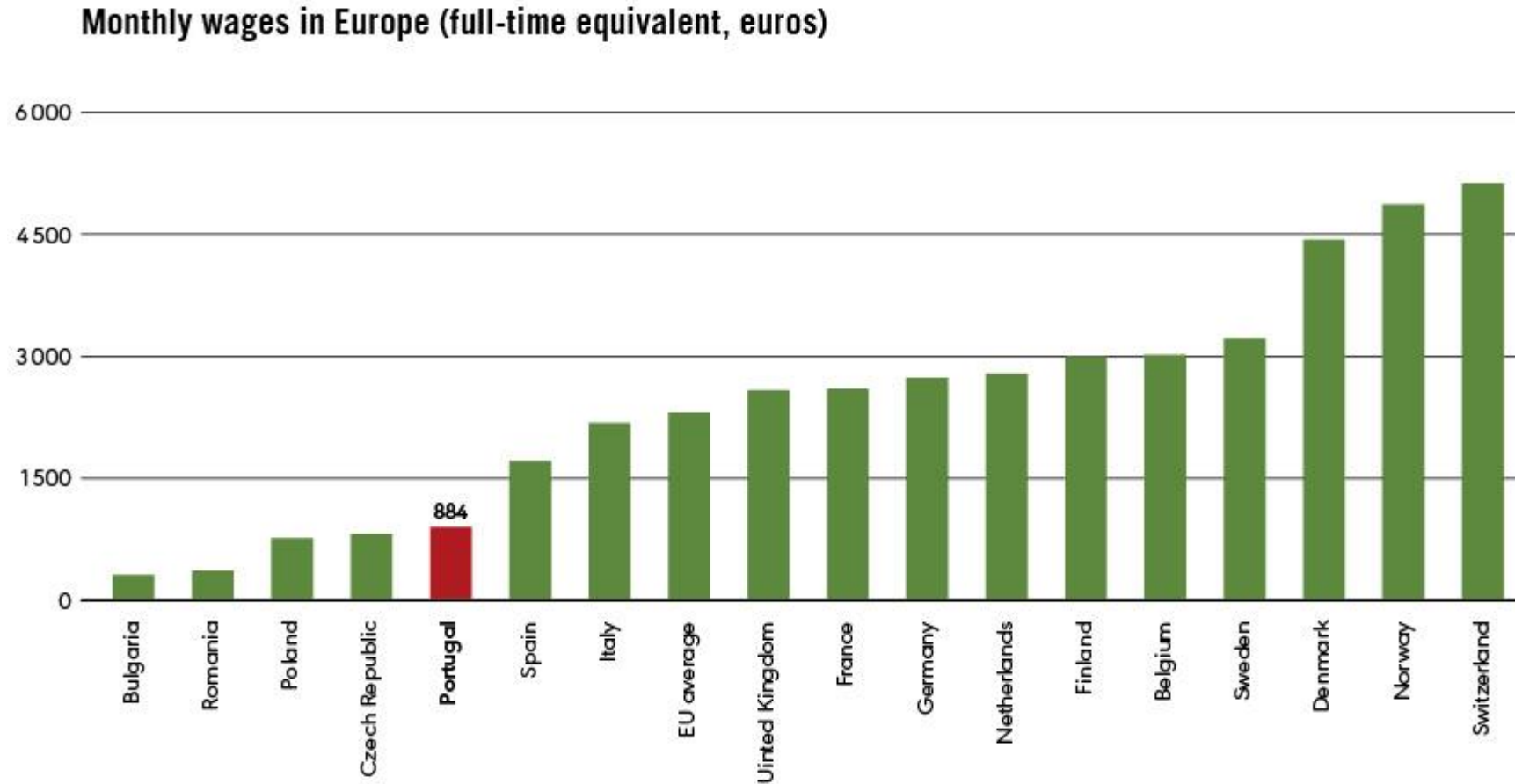
Minimum wages as a percentage of average earnings



Source: Eurostat.



Average wage relatively low

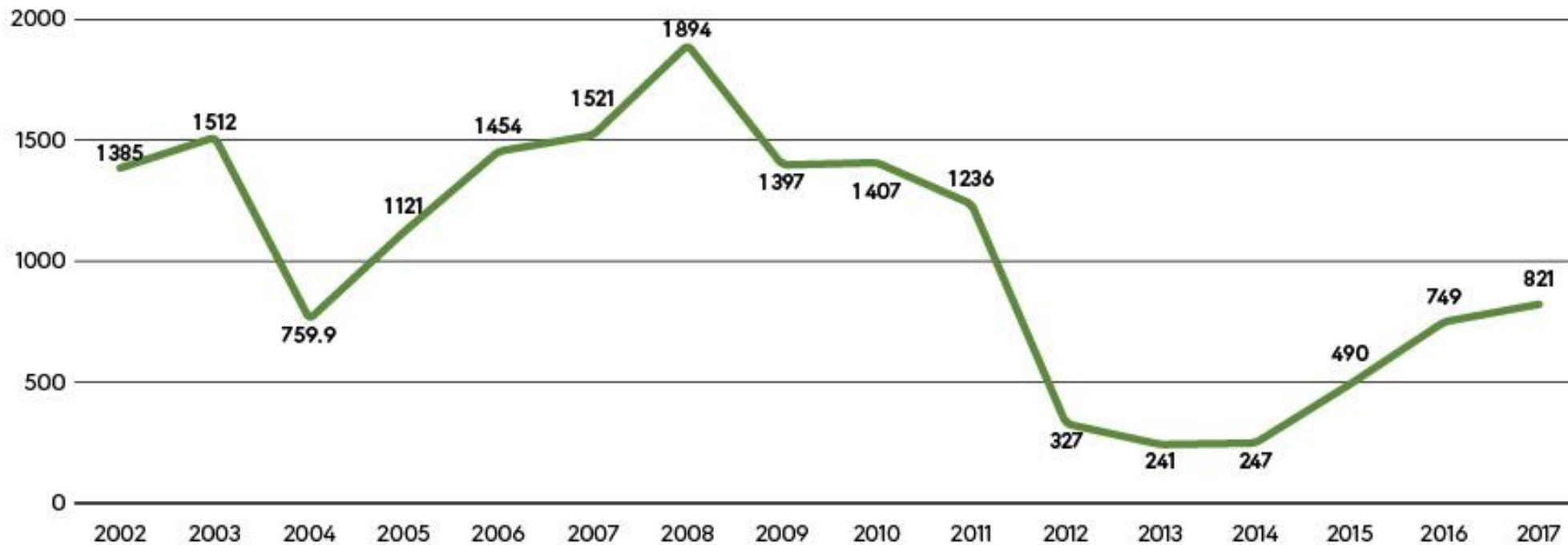


Source: ILO based on Eurostat median hourly earnings, all employees (excluding apprentices).

5. Social dialogue

Collective bargaining is regaining ground

Number of employees covered by collective agreements published 2002–17 (in thousands)

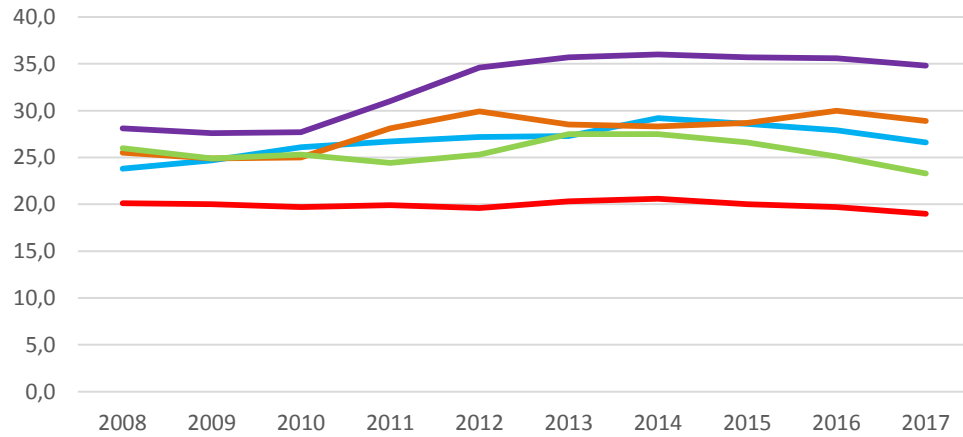


Source: DGERT (2018).

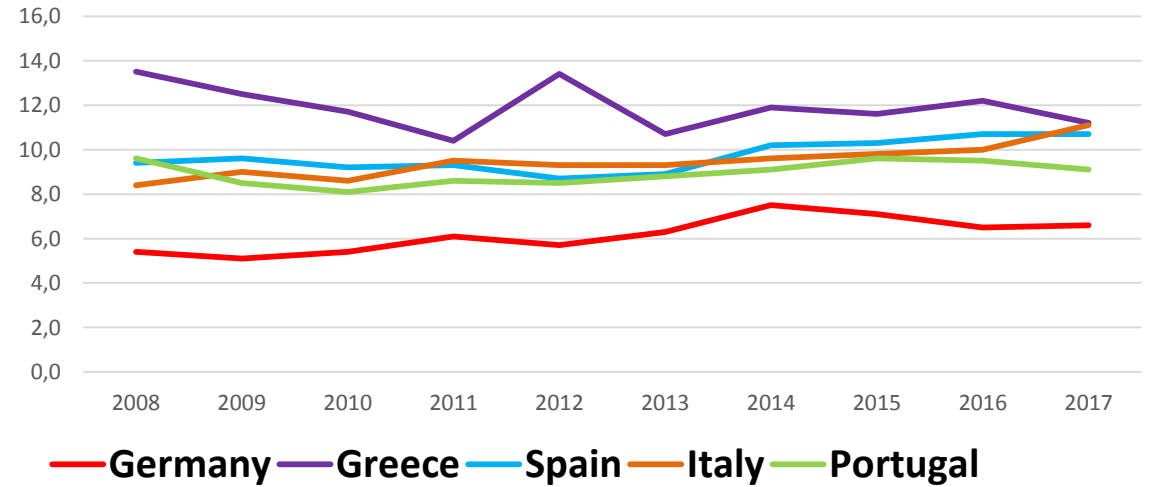


Social cohesion safeguards

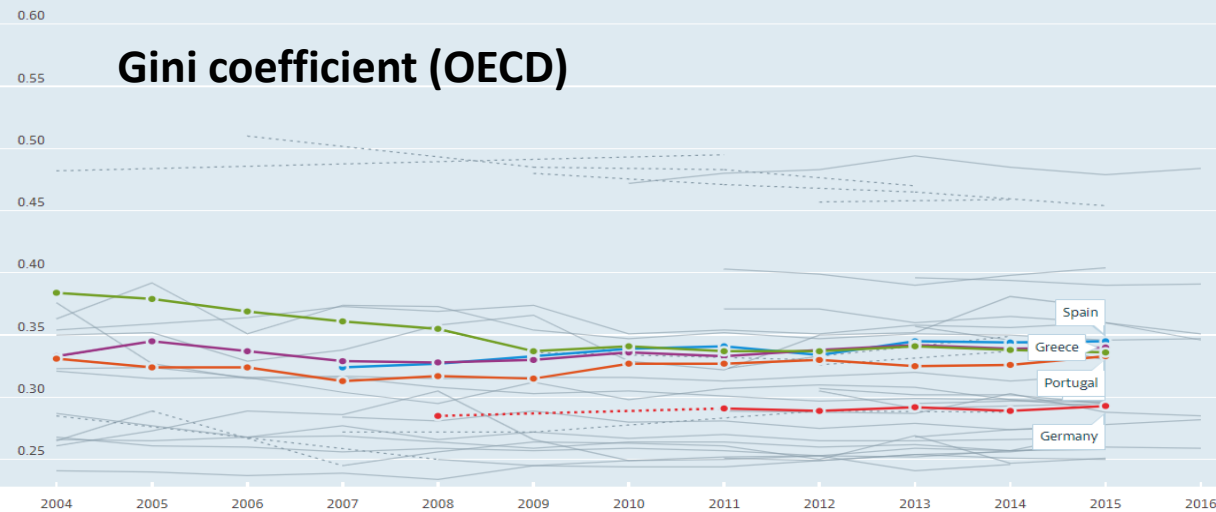
People at risk of poverty or social exclusion (EUROSTAT)



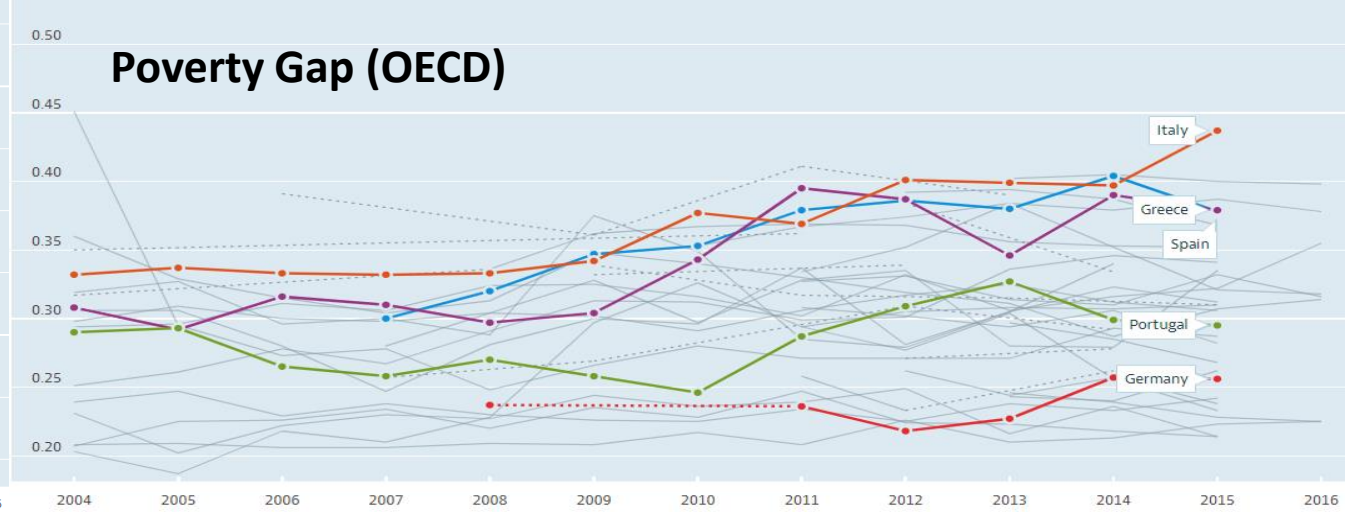
In-work at-risk-of-poverty rate (EU-SILC)



Gini coefficient (OECD)

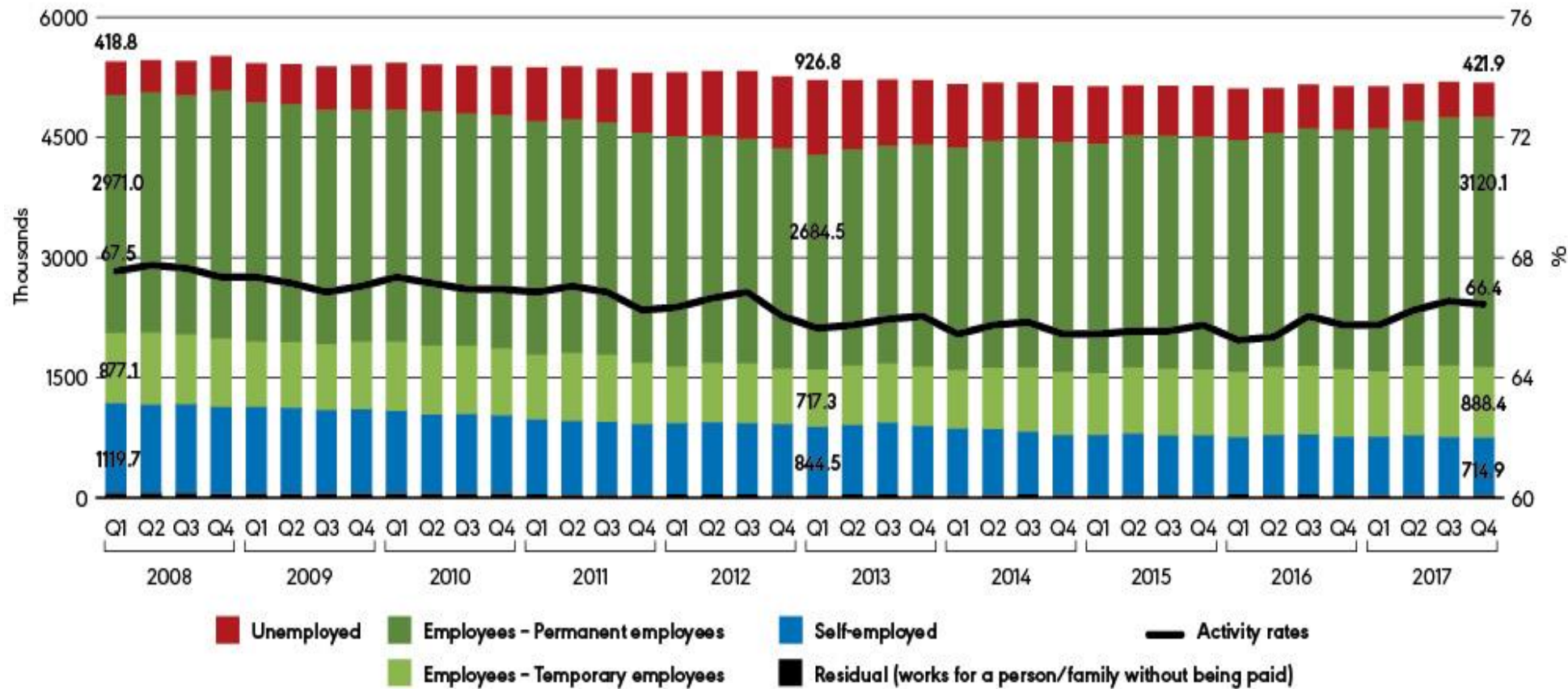


Poverty Gap (OECD)



B. Labour market trends

Key labour market characteristics, 2008Q1 to 2017Q4

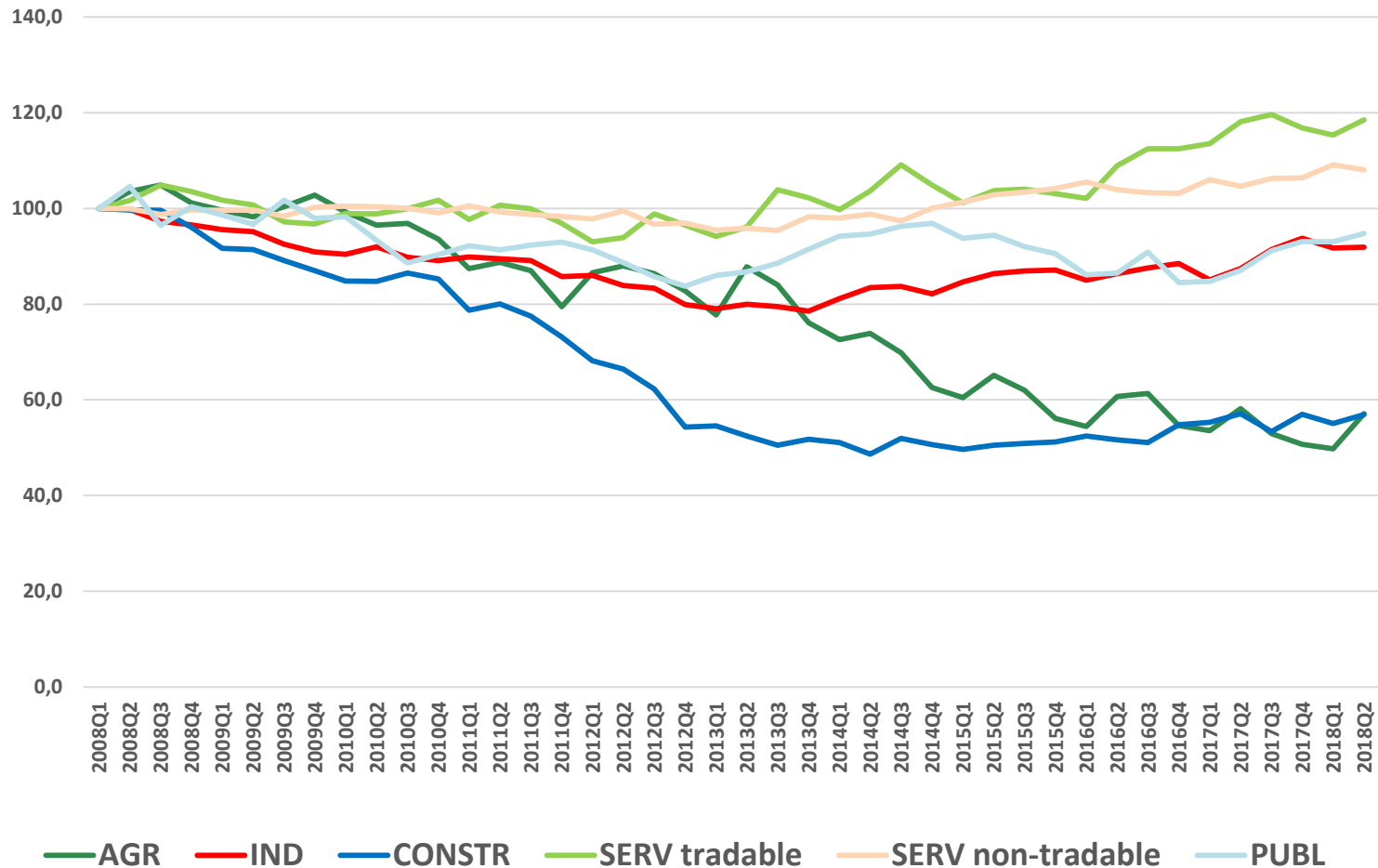


Source: LFS, Eurostat.



B1. Services led the employment recovery

2008 Q1=100



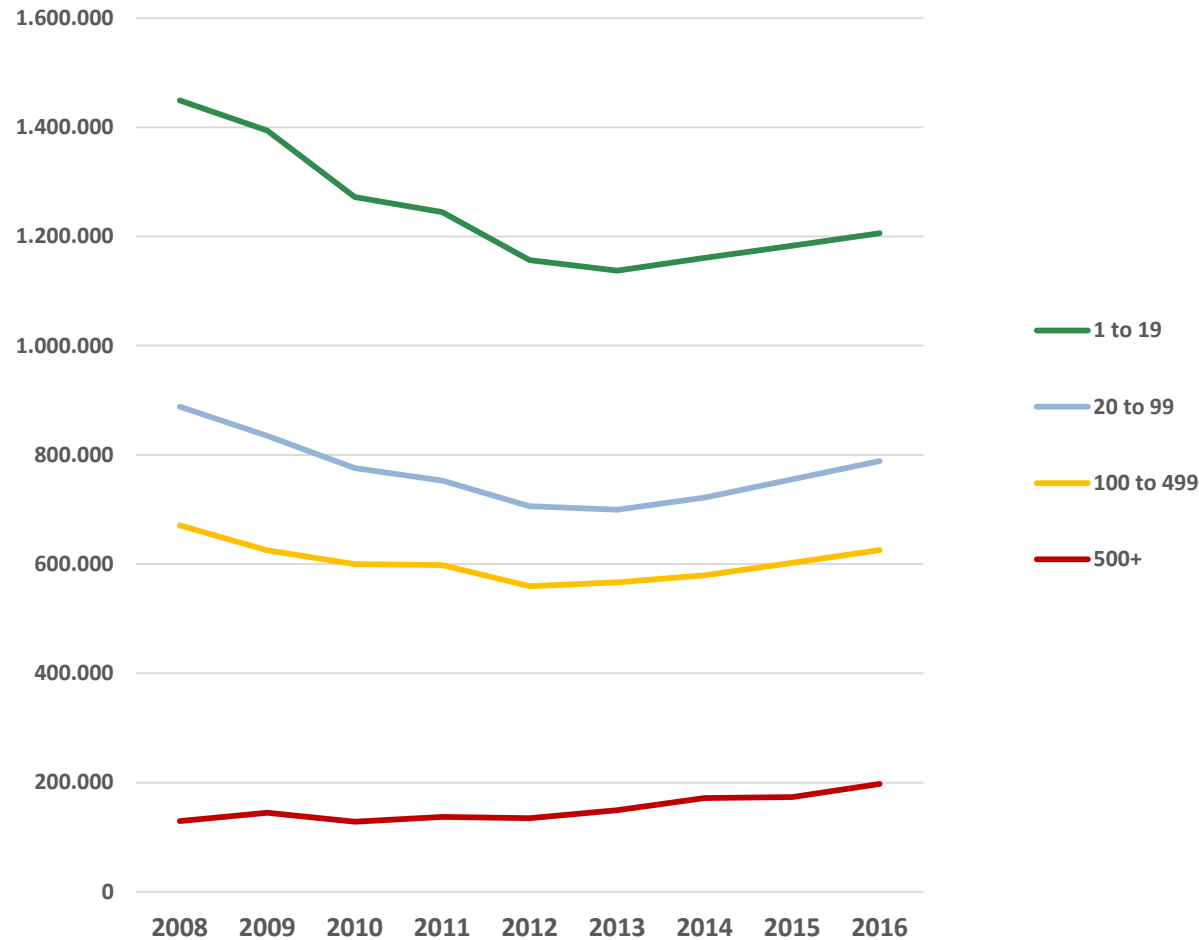
Arts, entertainment and recreation	153
Human health and social work activities	149
Education	127
Information and communication	124
Professional, scientific and technical activities	123
Financial and insurance activities	121
Other service activities	118
Transportation and storage	117
Administrative and support service activities	110
Accommodation and food service activities	105
Manufacturing	93
Wholesale and retail trade; repair of motor vehicles and motorcycles	91
Public administration and defence; compulsory social security	91
Construction	57
Agriculture, forestry and fishing	55

* The distinction between tradable and non-tradable sectors is based on GEE, WP 60 February 2016



Changes in industrial structure

Total employment by enterprise size (2008=100)

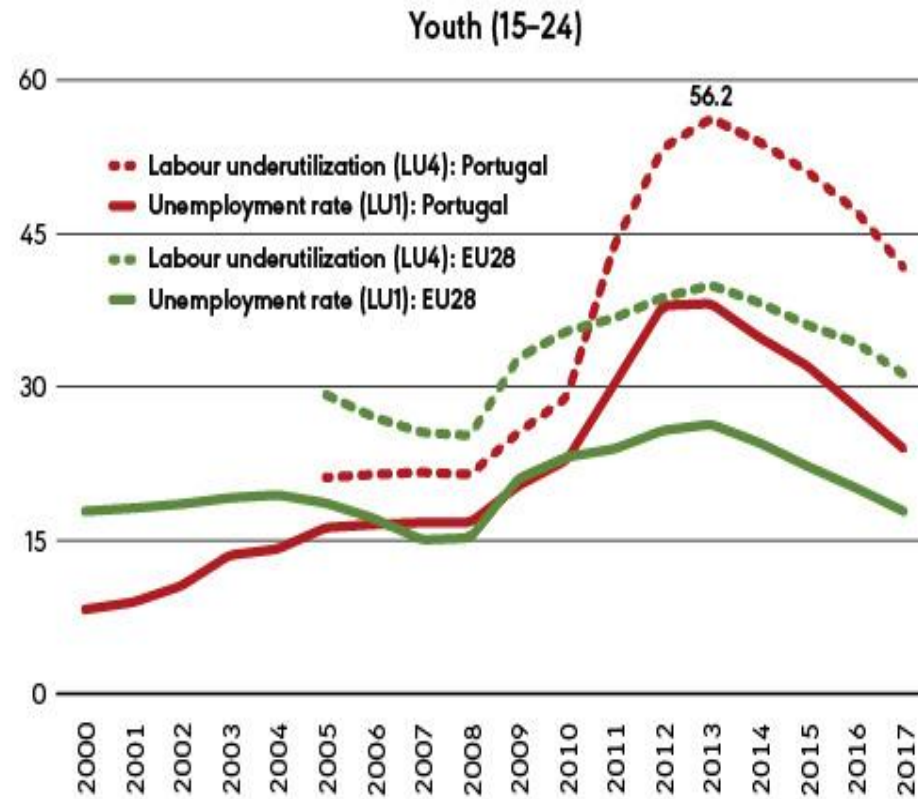
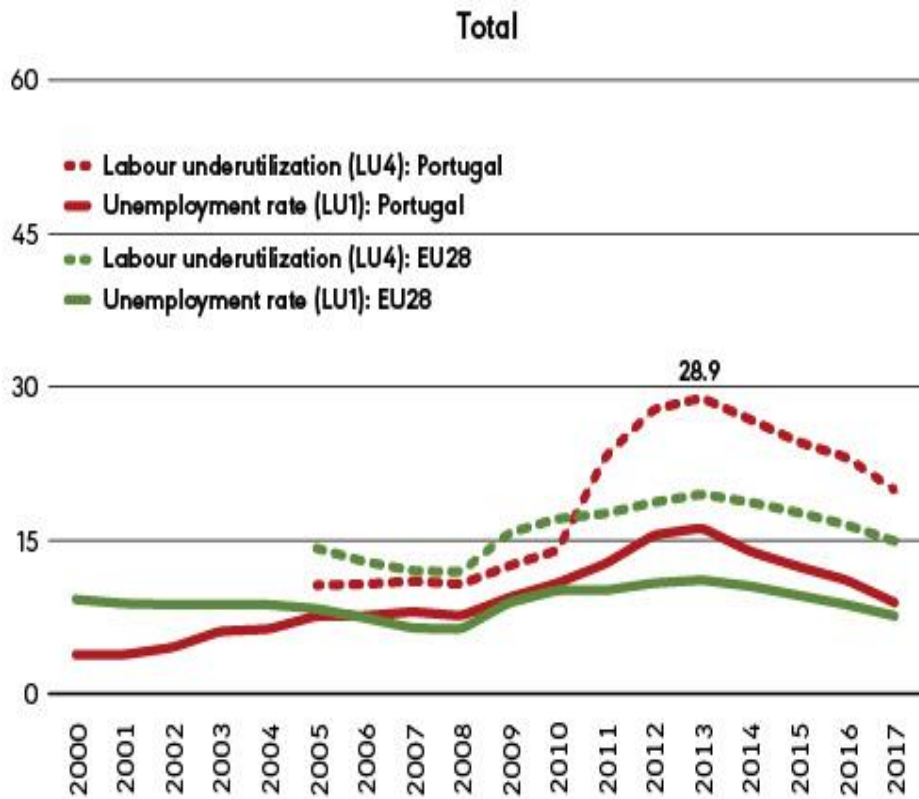


Job losses occurred mainly in SMEs (1-to 19 employees), employment in the largest firms increased steadily



B2. Rapidly declining unemployment and labour underutilization

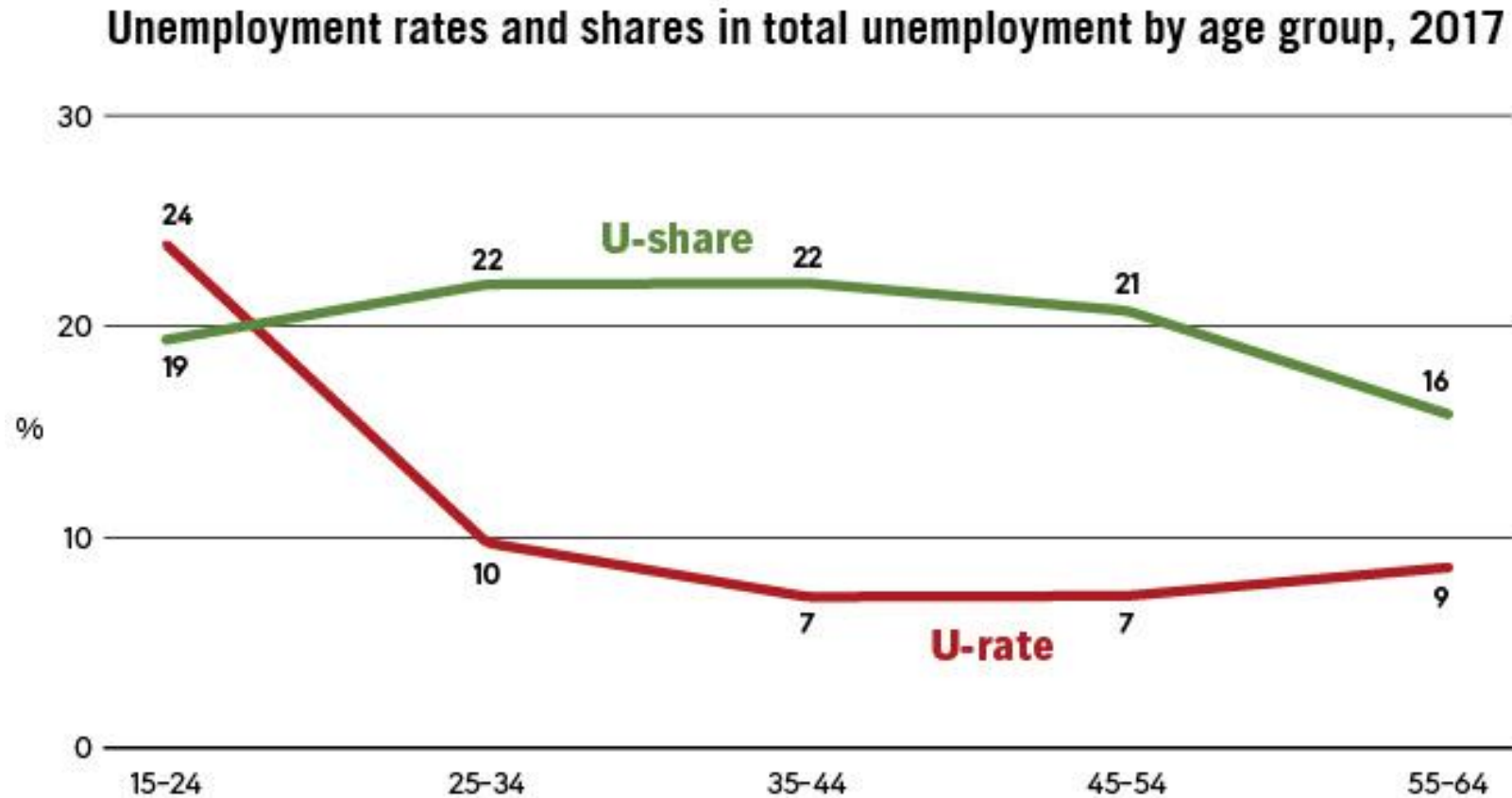
Labour underutilization (LU4) and unemployment rates: Portugal vs EU28, 2000–17 (percentage)



Source: ILOSTAT.



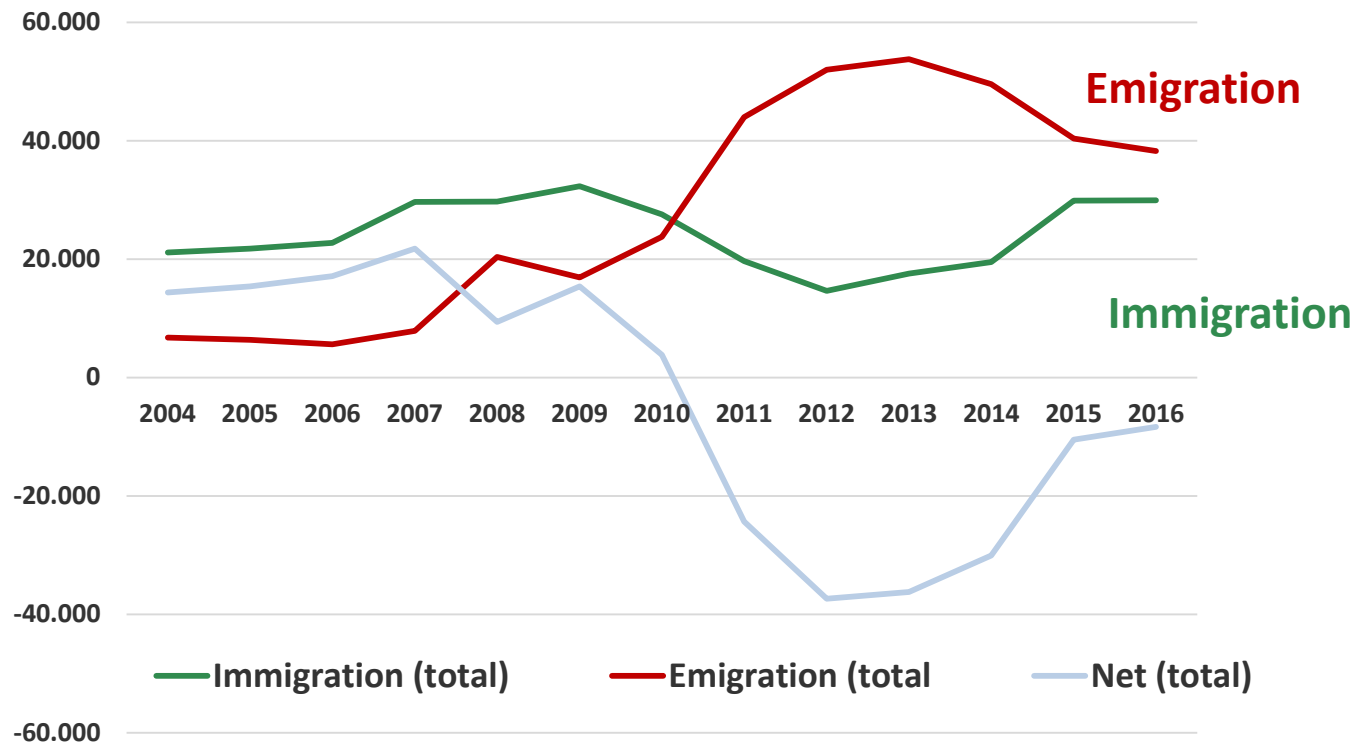
B3. School-to-work transitions remain difficult



Source: LFS 2017.

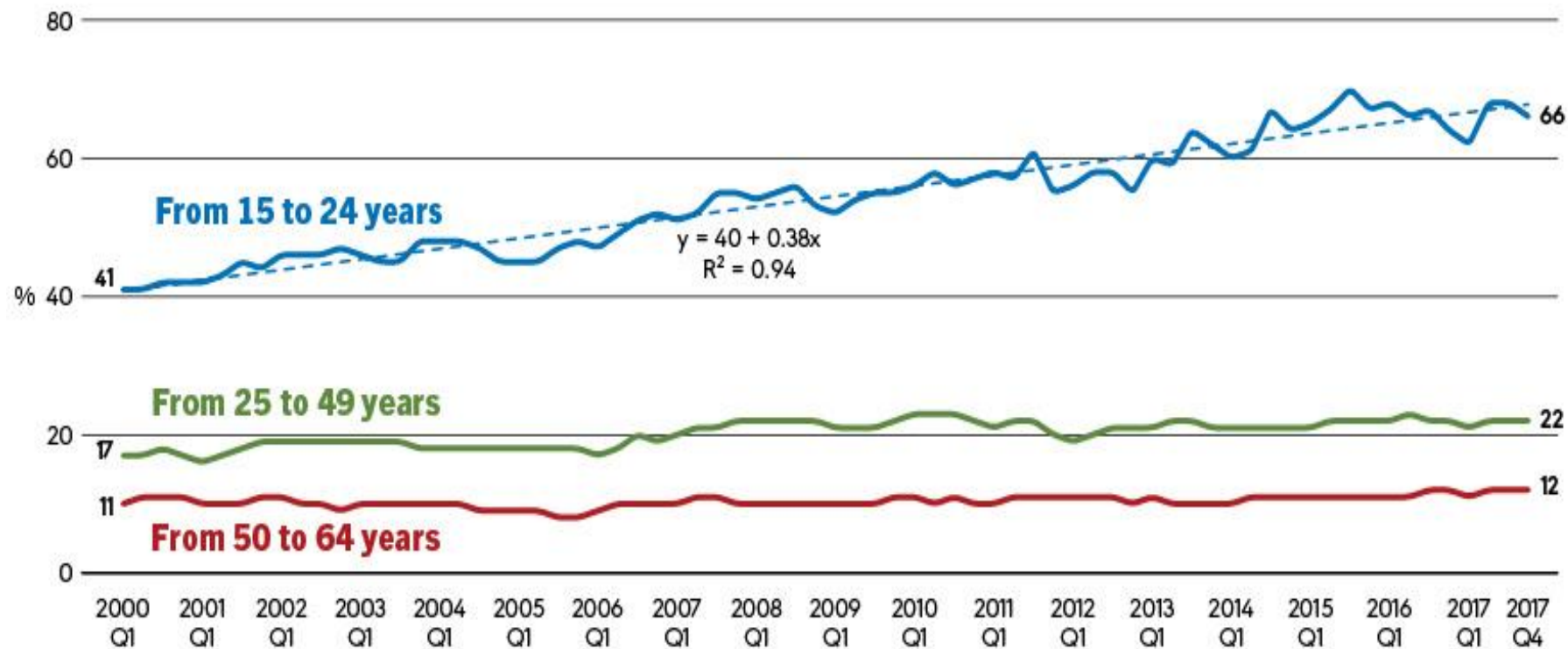


From brain drain to brain circulation?



B4. Segmentation - The share of temporary employment remained stable, except for the youth

Incidence of temporary employment by age group, 2000–17

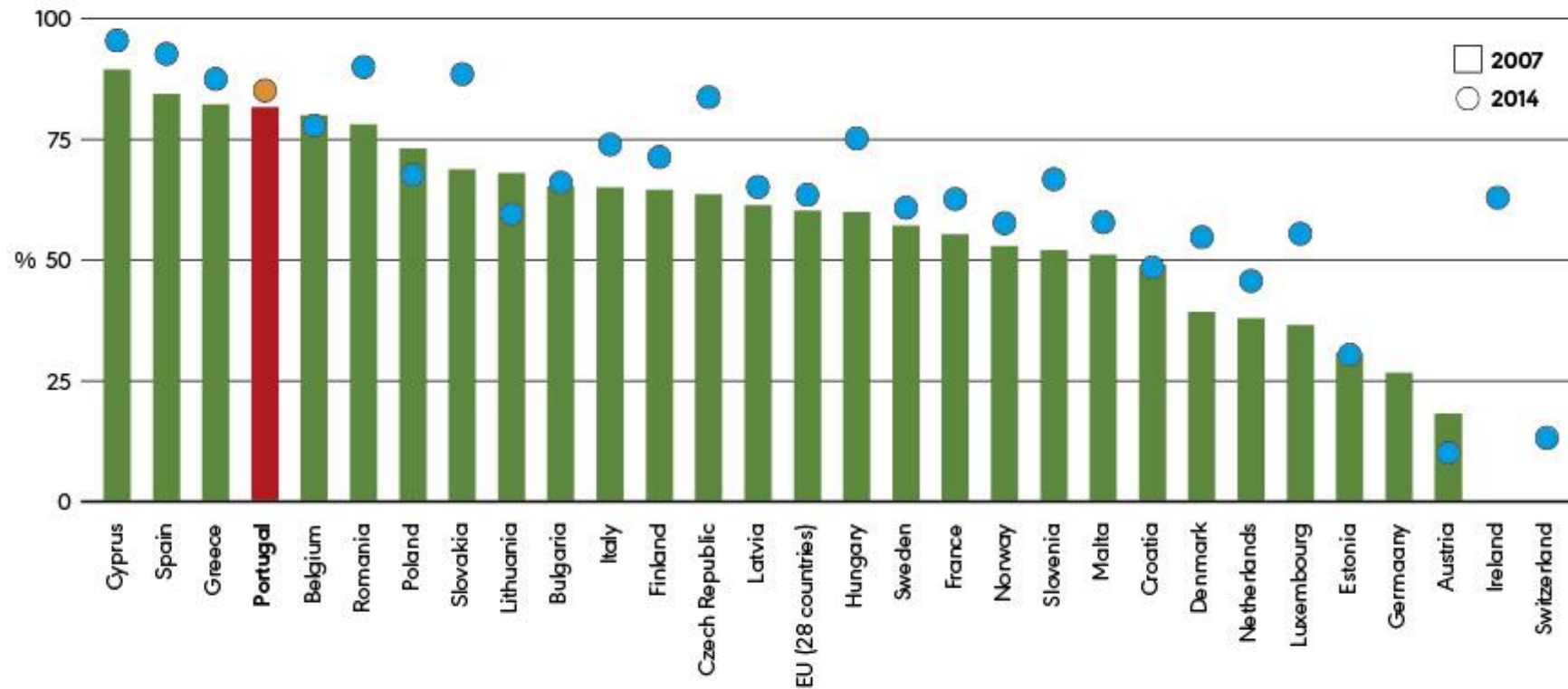


Source: Eurostat.



Temporary employment highly involuntary

Trends in involuntary temporary employment, as a percentage of temporary employment, 2007 and 2014



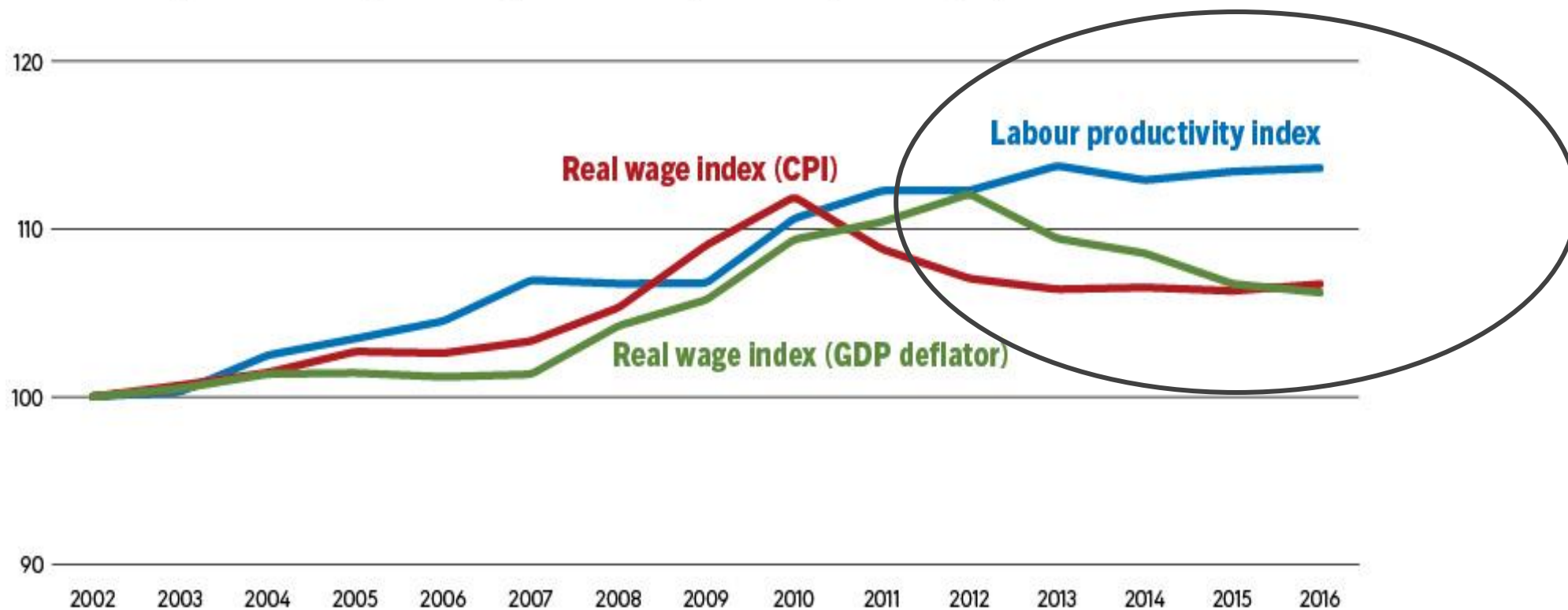
Note: Answers to the Labour Force Survey question: "Main reason for the temporary employment: could not find a permanent job".

Source: ELFS; calculations by Schmid and Wagner, 2016; adapted for the ILO (2016) report.



B5. Moderate wage growth, failing to catch up with productivity

Trends in growth in average real wages and labour productivity in Portugal, 2002–16

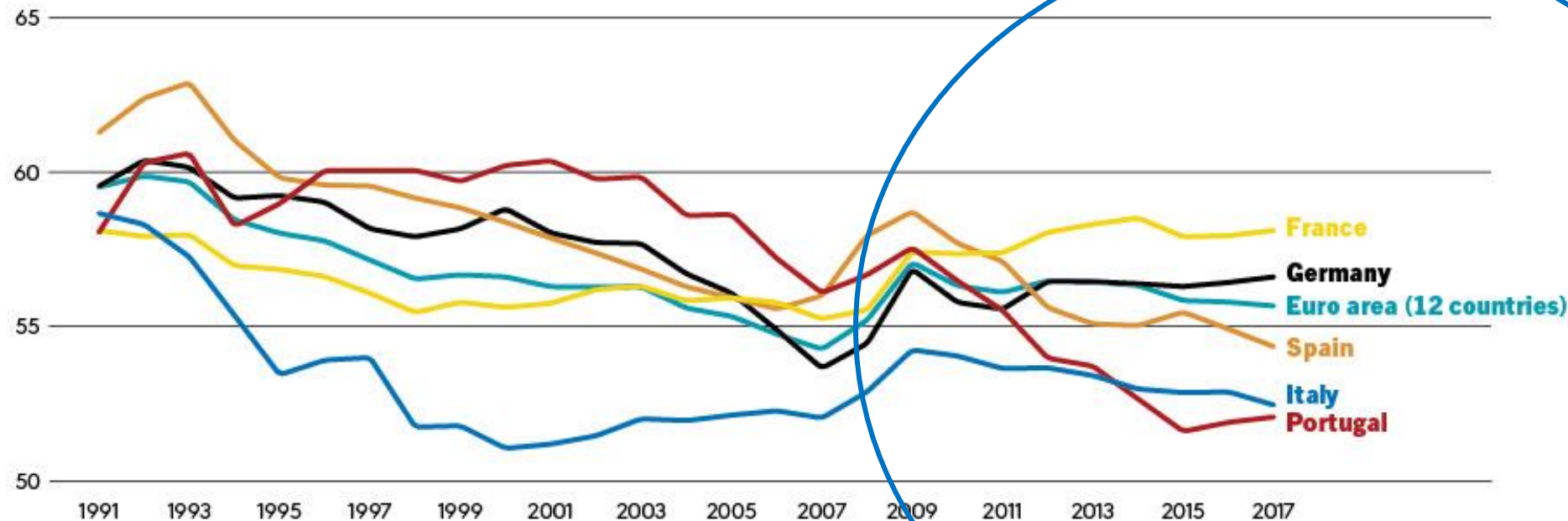


Source: ILO Global Wage Database; ILO *Global Employment Trends*. For Portugal, ILO calculations are based on Quadros de Pessoal, Gabinete de Estratégia e Planeamento (GEP) do Ministério do Trabalho, Solidariedade e Segurança Social.



A sharp decline in the labour share

Adjusted labour income share in Portugal and other selected countries



Source: AMECO/EU. Adjusted wage share: total economy: as percentage of GDP at current prices (compensation per employee as percentage of GDP at market prices per person employed) (ALCDO).



C. Policy Issues – Promoting long-run growth and decent work

Legacies from the financial and debt crisis are still lingering

- External debt is high (but interest rates are low and the current account is positive)
- Gross domestic capital formation still low (but domestic banks are returning to profitability)

And there are concerns for the quality of jobs

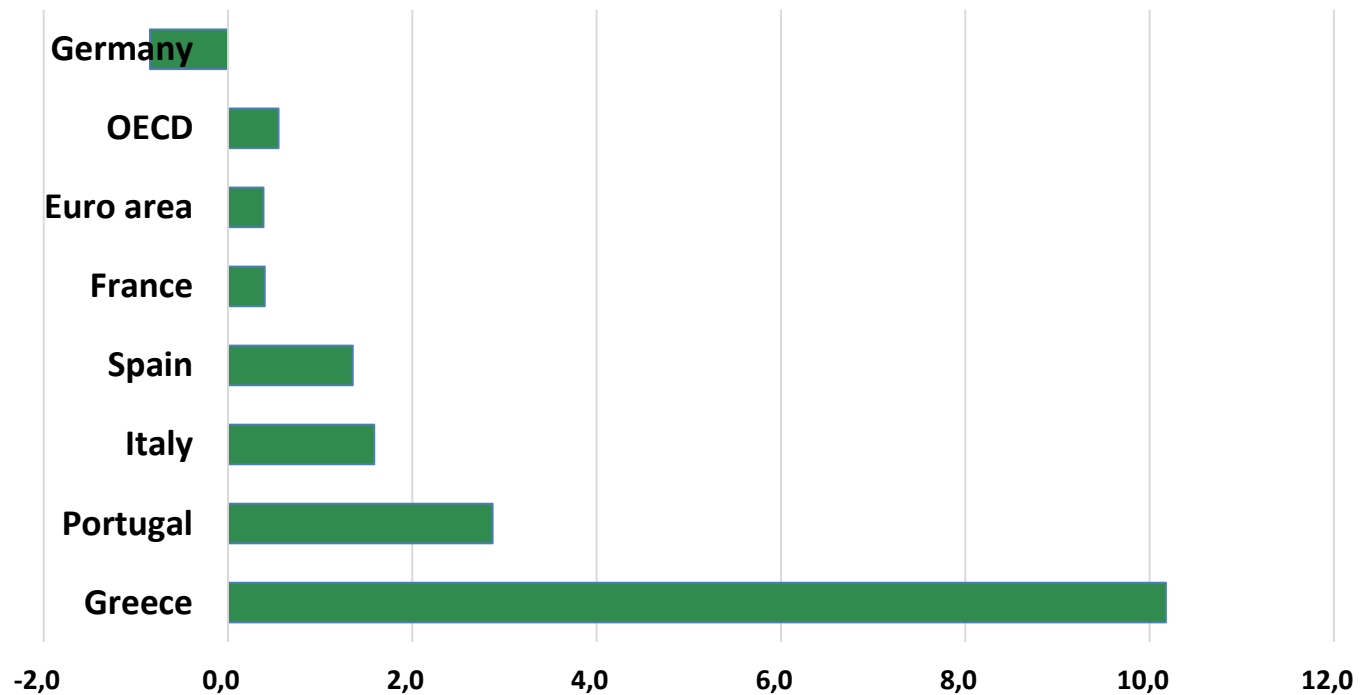
- Tertiarization
- Segmentation
- Youth transitions
- Low wages and long working hours



C1. Supporting aggregate demand

Responsible fiscal expansion – shifting to greater support of public and private investments

Output Gaps 2018 - selected countries/regions
(Deviations of actual GDP from potential GDP as % of potential GDP)



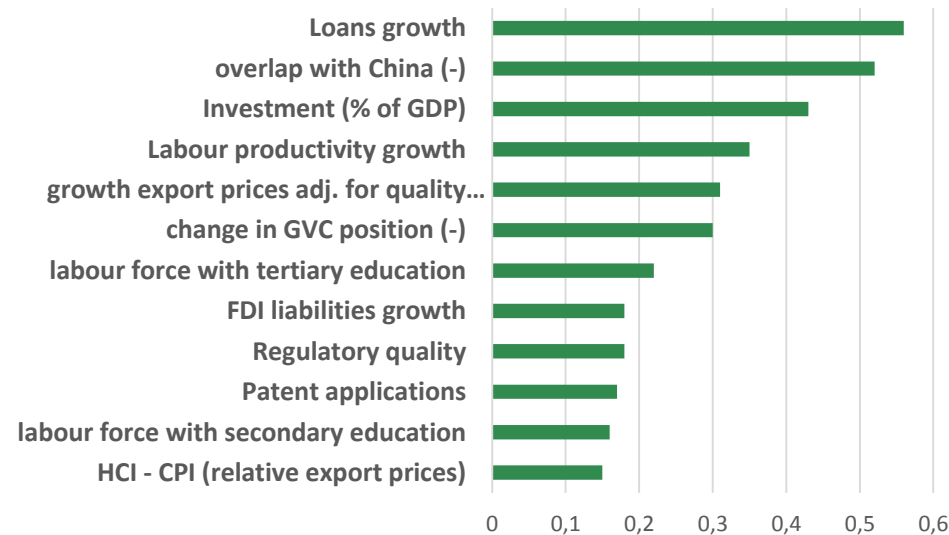
Source: OECD



C2. A growth strategy to raise investment, productivity and skills

- Focused support to key economic sectors and niches, aimed at diversifying, innovating and getting closer to the technological frontier
- The country should not be locked into low wage, low skills competition

What did drive export market shares in old EU Member States (2003-2012)?



Source: ECB WP2090/July 2017



C3. A coherent decent work policy mix

Adapting ALMPs to new unemployment realities - Strengthening PES, reach out to low-educated and NEETs, entrepreneurship, training and apprenticeship

Addressing the wage-productivity linkage - The low labour share suggests some possible scope for wage adjustments through collective bargaining to align wage growth with productivity, to support aggregate demand, and to pressure firms to invest in technical progress

Containing job insecurity linked to labour market segmentation - Limiting abuses in the use of temporary contracts; Improving transitions to regular jobs - Improving work quality across the contracts; enhancing internal rather than external flexibility

Improving working time arrangements and labour inspection

Upgrading collective bargaining - Maintain a system of extensions but uphold “sufficient representativity”; make collective agreements more dynamic (beyond wages and working hours); better articulation between different sectoral and geographic agreements (SMEs)



감사합니다 Natick

Grazie Danke Ευχαριστίες Dalu

Thank You Köszönöm

Спасибо Dank Tack Gracías

谢谢 Merci Seé
ありがとう

Obrigado