

FT INTERVIEW JOSÉ SÓCRATES

Restructure of Portugal's economy to continue apace

By Peter Wise in Lisbon

Portugal's socialist government is achieving "historic" spending cuts that will put an end to a long history of budget crises, the country's prime minister has claimed.

José Sócrates said in next year's budget public spending, excluding interest payments, would be cut by 1 percentage point of gross domestic product, bringing the state's overall share of the economy to 42.4 per cent. This would follow on a 1.6 percentage point cut this year which would reduce the level of public spending to 43.4 per cent of GDP.

These are "historic" reductions that have "not been equalled in Portugal for more than 30 years", he said.

Mr Sócrates has been battling to control Portugal's spiralling budget deficit, the eurozone's highest, since his centre-left government took office in March 2005, inheriting a deficit of 6.8 per cent of GDP from the previous centre-right government.

Under the threat of sanctions for breaching the European Union's stability and growth pact, the rules governing the eurozone, Mr Sócrates has made tough spending cuts, increased value added tax and begun far-reaching reforms of social security and the public administration.

"From a country notable for a total absence of reform, we have become one of Europe's top reformers and will continue to implement daring structural reforms," he said.

for would-be future eurozone members. Mr Sócrates successfully petitioned the Commission for three years to comply with the pact because of the "exceptional gravity" of the country's fiscal crisis.

"We are not only eradicating the deficit," he said, "but also implementing the structural reforms that will ensure the country never suffers a budget crisis again."

Measures due to be approved by parliament next month include sweeping reforms of the public administration, social security and local and regional finances.

Mr Sócrates' clampdown on state spending has already provoked strikes and protests by public sector workers, which his 2007 budget proposals are expected to exacerbate.

Schools were closed this

'We will ensure that the country never suffers another budget crisis again'

week by a two-day teachers' strike.

This followed a wider trade union protest that brought more than more 70,000 marchers onto the streets of Lisbon last week.

But Mr Sócrates said public opinion polls showed he had the support of a majority of voters.

Largely because of these measures the government would achieve its goal of cutting the deficit to 4.6 per cent of GDP this year and to 3.7 per cent in 2007, he said.

This would keep Portugal in line with a programme approved by the European Commission last year to reduce the deficit by 2008 to below 3 per cent – the maximum permitted under the stability pact.

A lasting improvement in Portugal's fiscal position would be welcomed by policymakers across the eurozone.

Portugal's poor growth performance and its economic difficulties since the launch of the euro in 1999 have highlighted the difficulties faced by some members of the 12-country currency bloc in adjusting to the disciplines imposed by a single monetary policy.

In turn, that has encouraged the European Central Bank and the Commission to interpret strictly entry rules

"It's a mistake to confuse demonstrations with public opinion," he said.

Public sector pay rises would be kept to 1.5 per cent in 2007, against an inflation forecast of 2.1 per cent.

Budget measures for 2007 include a 5.1 per cent cut in wage bill for the 734,000 state employees, which accounts for 85 per cent of government spending.

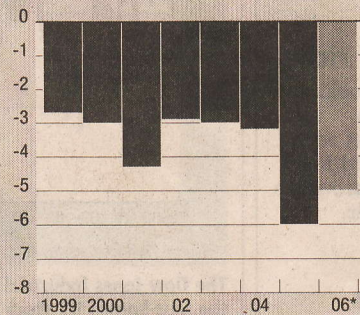
He said fiscal rigour had injected new confidence in the economy, which was expected to grow by 1.4 per cent this year and 1.8 per cent in 2007, considerably higher than official forecasts.

In spite of cuts in most areas, the government was investing strongly in science – state spending on research and development will increase 64 per cent next year – and education.

"Rigour, reform and skills are at the heart of our programme and the key to success is to stick to the programme," he said.

Portugal's deficit challenge

General government financial balance as a % of GDP



José Sócrates, Portuguese prime minister

Sources: Thomson Datastream, OECD * OECD forecast for 2006

Photo: Getty Images