

Time for tough decisions

Painful measures are being implemented to put the country back on track, says Peter Wise, author of this report

"What would you say if we were in England?" José Sócrates, Portugal's Socialist prime minister, asked a class of seven-year-olds during a recent visit to a provincial primary school.

"Good morning!" the children chorused back, causing their distinguished visitor to beam with approval and colouring their teacher's face with a blush of pride.

Less than a year after taking office in March 2005, Mr Sócrates was illustrating for the television cameras that his centre-left government had kept its promise to introduce English teaching in primary schools.

Backed by a comfortable majority in parliament, Mr Sócrates has spent the past year pushing through measures to put Portugal back on a path of sustained economic growth and bring its spiralling budget deficit permanently under control.

From the deep pessimism of the previous three years of economic stagnation and political instability, the mood of the country, reflected in opinion polls and a surge of big business deals, is beginning to lift.

In spite of sluggish growth – below 1 per cent a year – rising unemployment and a warning from Mr Sócrates that "the hardest part is yet to come", there is a pervading sense that painful but indispensable reforms are at last being implemented.

Mr Sócrates enjoys more public support than would be expected for a prime minister who immediately on coming to office broke an election pledge not to raise taxes by increasing value added tax from 19 to 21 per cent.

AT A GLANCE

A difficult balancing act is required to continue the country's modernisation.

The key issues:

■ **ECONOMY:** Conflict between the need for austerity and the desire for growth will not be easily resolved.

■ **POLITICS:** Hopes are high for a period of stability after government changed four times in four years.

■ **PRIVATISATION:** Sell-offs are providing welcome liquidity and a stimulus for the stock market.

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Although from opposing parties, Mr Sócrates and Mr Cavaco Silva, the dominant figure of the Portuguese right, share a pragmatic disposition and a concern to press ahead with long-delayed reforms that are expected to make for a successful cohabitation.

Mr Cavaco Silva's support will be important to Mr Sócrates in facing down opposition from trade unions and the left wing of his own Socialist party.



ent the past year trying to put the country back on a path of sustained growth

Rachel Torr

It was the hardest decision he has had to make, he says. But he does not regret a measure that showed his

Public employees have all staged strikes and protests in recent months against reforms affecting their careers and benefits

government had "the courage and determination" to tackle the country's deficit crisis.

More tough decisions followed: phasing in an increase in the minimum retirement age for state employees from 60 to 65, cutting their sick pay from 100 to 65 per cent and holding down public sector wage increases. But the public mood remained in his favour.

"The general feeling in the country is that these eggs have to be cracked if Portugal is to make anything approaching an omelette," said John Duggan, a Lisbon-based tax partner with PwC.

Mr Sócrates' hands-on approach, his impatience with rhetoric and petty bureaucracy and his willingness to stand up to powerful vested interests have connected with voters tired of being told what the country's problems are and eager for someone to put them

Opposition to cuts in public spending, a shake-up of the costly and inefficient public administration and the stripping away of what the government sees as unfair privileges in the state sector has been vigorous.

Jerónimo de Sousa, leader of the Communist party, which is influential in the union movement, accuses the government of "demonising" the public sector with the aim of creating "a climate favourable to the liberalisation of education and health services and to cutting the rights and benefits of state employees."

Doctors, nurses, teachers, the police, the armed forces, judges, public prosecutors and public administration employees have all staged strikes and protests in recent months against reforms affecting their careers and benefits.

But there has been no groundswell of public support beyond the sectors involved.

By focusing attention on what he sees as the unreasonable privileges enjoyed by many state employees when compared with the private sector, Mr Sócrates has kept the tide of public opinion in his favour and averted a wider backlash against tough measures to discipline public finances.

"We're putting Portugal back on the right path," he said at the height of the protests last autumn.

"In spite of all the attacks by unions, the majority of voters applaud what we're doing to remove an intolerable burden from the backs of future generations."