IZA Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

Portugal (November 2020)

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ABSTRACT

Portugal declared the State of Emergency over coronavirus on March 18 and strict lockdown measures were imposed. To sustain the effects of the shock the government implemented a set of exceptional measures, which have cost 780 million euros until June. Although the social climate is quiet, the measures do not fully address the income loss suffered by agents and the effects of the economic slowdown. Recent forecasts by the EC suggest that the Portuguese GDP will fall by 6.8% in 2020, but will recover (5.8%) in 2021. If this happens, this cycle may in fact be closer to the "V" shape.

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Labor market impact of COVID-19

Between March and May 2020

Portugal declared the State of Emergency over coronavirus on March 18. According to data provided by the Portuguese Institute of Employment and Professional Training (IEFP, 2020), in May (March) 2020 the number of registered unemployed in mainland Portugal increased by 4.2% (9.6%) comparing to April (February) and by 36.2% (3.7%) comparing to May (March) 2019. This increase is mainly due to the increase of registered short-term unemployed (less than 12 months). Amongst the registered unemployed in May, 45% were males and 55% females. However, despite the greater share of females in the group of unemployed, the observed increase between May 2020 and May 2019 was larger for males (39.5%) than for females (33.7%).

Workers without a higher education degree were the most affected at this initial stage of the crisis, for whom we observe an average increase in registered unemployment of 38.3% between May 2020 and May 2019 – which contrasts with an increase of 22.8% for workers with a university degree. There are no significant differences by gender across levels of educational attainment.

Considering occupations, the worst hit groups were: Plant and machine operators and assemblers (62% increase comparing to May 2019); Sales and services workers (50% increase); Craft and related trades workers (42% increase); and Clerks (36% increase).

Unemployment increased by 10% between February and March 2020 in the three main sectors of economic activity. This initial situation changed during May 2020 (full month in lockdown). Compared to May 2019 the number of registered unemployed increased by 13.5% in the primary sector, by 27.8% in the secondary sector, and by 44.7% in the tertiary sector. These averages, however, hide great differences across the activities that compose the sectors. For example, within the manufacturing sector the worst hit activities were: Motor vehicles (45.9% increase, comparing to May 2019); Manufacture of basic metals and of fabricated metal products (45.4% increase); Textile, clothing and leather industries (43% increase); and Petroleum, chemical and rubber manufacturing (34.5% increase). Amongst the services sector the worst hit activities were: Lodging, restaurants and hotels (89.3% increase compared to May 2019); Transports and storage (62.8% increase) and Real estate (57.5% increase). Furthermore, the number of job offers fell by 39% when comparing May 2020 to May 2019 (although the number of job offers increased between April and May 2020 by 5%). Which makes finding a new job a difficult task for existing and newly unemployed as well as for labour market entrants. In Table 1 we provide a summary of the labour market impacts of this crisis in Portugal.

Between June and September 2020

Regarding Panel B of Table 1, in September 2020 the number of registered unemployed in mainland Portugal increased by 0.1% comparing to August and by 37.4% comparing to September 2019. This increase is mainly due to the increase of registered short-term unemployed (55.7% compared to September 2019). However, while in May homologous variation in long-term unemployment was nearly zero, the same variation in September was just over 13%. This confirms that as the labour market stagnates long-term unemployment may become more prevalent.

Workers without a higher education degree continue to be the most affected by the crisis. In particular, in September 2020 university graduates accounted for 15% of the stock in unemployment, and workers High School (ISCED 3) represented the largest share of registered unemployed (32%).

In September 2020, the distribution of unemployment across the three main sectors of economic activity was as follows: 73% in the tertiary sector, 21% in secondary sector and 3.8% in the primary sector. Yet again, these averages conceal differences across the activities that compose the sectors. Workers from activities related to Real estate, administrative work and support services account for 29% of total unemployment; those coming from services related to Lodging, restaurants and hotels and Gross and retail trade account for another 22% of total unemployment (11% each). In the secondary sector, the most relevant groups are: Construction (6.2% of total unemployment) and Textile, clothing and leather industries (4.3%).

Table 1: Labour Market Impact of COVID-19 in Portugal (as of April 2020) – Registered Unemployment, Job Offers and Placements

Panel A	May-20	Apr-20	Mar-20	May-19	Change May-20 vs. May-19	
					Abs.	%
Registered unemployment (stock)	384 504	368 925	321 164	282 292	+102 212	+36,2
< 12 months	258 368	244 142	200 082	157 146	+101 222	+64,4
>= 12 months	126 136	124 783	121 082	125 146	+ 990	+0,8
Registered unemployment (inflow)	44 718	63 643	51 432	36 209	+8 509	+23,5
Employed job seekers	36 056	37 729	37 390	42 104	-6 048	-14,4
Job offers (stock)	11 235	10 668	12 000	18 434	-7 199	-39,1
Job offers (inflow)	6 761	3 040	7 356	12 984	-6 223	-47,9
Job placements	4 287	2 233	5 773	7 496	-3 209	-42,8

Panel B	Sep-20	Aug-20	Jul-20	Jun-20	Change Sep-20 vs. Sep-19	
					Abs.	%
Registered unemployment (stock)	383 894	383 482	382 019	381 629	+104 506	+37,4
< 12 months	248 098	251 411	252 753	256 452	+88 792	+55,7
>= 12 months	135 796	132 071	125 177	120 729	+15 714	+13,1
Registered unemployment (inflow)	52 001	40 754	44 281	40 813	+3 738	+7,7
Employed job seekers	42 341	40 445	39 261	37 582	+3 292	+8,4
Job offers (stock)	14 163	13 335	12 418	11 679	-4 371	-23,6
Job offers (inflow)	11 472	8 946	9 060	10 060	- 468	-3,9
Job placements	7 984	6 503	6 466	7 513	- 639	-7,4

Source: Institute of Employment and Professional Training [IEFP].

The State of Emergency was replaced by a State of Calamity on May the 3rd. However, despite expectations and incentives for the economy to parsimoniously get back to business, labour market conditions continued to deteriorate during May, albeit at a slower rate. On May 27th 1,332,114 workers worked in firms that implemented partial or full-time layoff (which contrasts with only 72,507 on March 31st), more than half of these workers worked in Manufacturing, Gross and retail trade, and Restaurants and hotels (MTSSS, 2020). Therefore, the effort to make is to prevent these laid-off workers from being made redundant and dismissed permanently. Otherwise, unemployment is likely to increase in the medium term (not immediately because of the ban on dismissals associated with the layoff regulations) because of large-scale redundancies (see Figure 1). The State of Calamity continued through June 2020 and was replaced by a State of Alert which remained in place between July and mid-September in most of the country. On September 15 the

Government declared a State of Contingency – which is still ongoing. In the last three months the number of workers in layoff remained high, nearly 1.4 million workers and just over 115 thousand firms were covered by the layoff scheme (see Figure 1). This may help explain why the unemployment rate has not soared (see Figure 2).

Figure 1: Requests by firms to implement temporary layoff

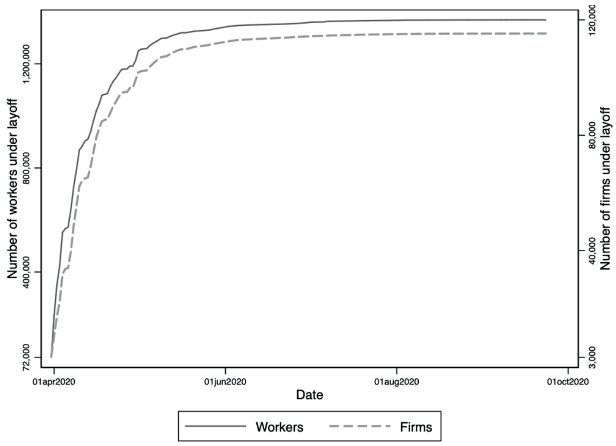

Figure 2: Employment, Unemployment and Active Population

Note: Own calculations. Source: INE, Monthly Labour Market Statistics (October 2020)

We do not have information on the type of contract of employment of newly unemployed workers. However, it is likely that firms will adjust their employment levels by dismissing the least permanent workers first. In fact, most of the extraordinary and temporary measures aimed at tackling this crisis (e.g. the simplified layoff scheme and the credit lines for firms) require that firms do not dismiss permanent workers and that they do not proceed with collective dismissals for some time (for 60 days after the layoff ends, and until December 2020 for those who take up credit lines). Self-employed workers account for 12% of total employment (14% male and 9% female), and 5% were business owners in 2019. We expect this crisis to have a significant impact on the activity and earnings of these workers. The SURE program by the EC may be an essential tool to help this group of workers.

Orientation and targeting of adopted measures

The OECD listing of measures is an appropriate summary of the government actions to tackle the impact of the health crisis over the National State of Emergency period (March 18th – May 2nd). However, since May 3rd Portugal started to ease the lockdown restrictions (and entered a National State of Calamity). New guidelines were issued, which include measures to reduce workers' exposure to COVID-19 in the workplace, such as a recommendation for telework when and as much as possible during May, and partial telework with lagged schedules or shadow teams from June.[1]

According to a report by the Portuguese Minister of Labour and Social Solidarity (Godinho, 2020), as of 16 June 2020 the set of exceptional support measures to families, workers and firms had already benefited 1,222,000 people, 144,464 firms, and 778 million euros had been paid to recipients. Employment protection measures were by far the most expensive component of the measures adopted. The simplified layoff involved, thus far, an investment of 580 million euros (this measure was extended until July 2020). Income support for self-employed and members of statutory bodies cost 104 million euros. Exceptional support measures to families, such as subsidies for prophylactic isolation, for sick leaves, and to care for children aged under 12 (schools were closed at the start of the State of Emergency) cost 43 million euros. The automatic extension of unemployment benefits and of social inclusion income (for those who were receiving these subsidies in March 2020) cost 18 million euros. Furthermore, credit lines for financial support to firms involved an investment of 6,2 billion euros. To access these credit lines, however, firms have to declare that they assume the responsibility of not dismissing permanent workers and of not initiating any collective dismissal process before the end of December 2020.[2]

All political parties approved the tools adopted to sustain the effects of the nationwide lockdown. It is difficult to sort the measures according to their relevance in social terms – all are important and each tackles a different issue. However, albeit costly, the temporary layoff scheme is arguably one of the most important measures adopted. This tool not only sustains the transition from employment to unemployment (at least for permanent workers), but can also be taken as a signalling device from the government to ensure that this is a temporary exogenous shock. In fact, the government appears to be in an active effort to avoid a shift in expectations amongst the economic agents, which could have severe consequences for the recovery phase. Therefore, the feeling is that it is "worth it" to help the labour market keep its structure and allow it to come back to business as the shock subsides. Since schools were closed during the lockdown (and will not open before the next academic year), income support for parents to stay home and look after their children is also a tool of utmost importance.

Although the social climate is quiet, the measures do not fully address the income loss suffered by all economic agents. Furthermore, temporary workers, the self-employed, small business owners and labour market entrants are particularly vulnerable groups (both in terms of income loss and of labour market status). Media also reported that the number of requests to the national network of food banks tripled in April when compared to the previous month.[3]

Following the budget revision approved on the 23rd of July, the government implemented the "Extraordinary support for progressive recovery" to take effect from the 1st of August to the 31st December. This is a financial support for companies facing a strong decrease in turnover associated and a temporary reduction of the normal working period, with the aim to keep jobs and support economic recovery and workers' pay. This support has differentiated solutions depending on the business crisis scenarios. Table 2 summarizes these measures.

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1 See plan for lifting lockdown measures: https://covid19estamoson.gov.pt/plano-desconfinamento-medidas-gerais/

2 https://www.spgm.pt/fotos/produtos_documentos/declaracao_compromisso_manutencao_postos_de_trabalho_5669791165ea16f8c56821.docx

3 https://rr.sapo.pt/2020/04/30/pais/pedidos-ao-banco-alimentar-triplicam-sem-emprego-muitos-dependem-de-apoios-para-comer/noticia/191287/

Table 2: Extraordinary support for progressive recovery – Summary

	August – September		October – December			
Eligible firms						
Decrease in turnover	=> 40%	=> 60%	=>25%	=>40%	=> 60%	=> 75%
Decrease in normal working hours	<=50%	<=70%	<=33%	<=40%	<=60%	<=100%
Wage compensation						
Working hours	100%		100%			
Non-working hours paid	66,7% normal wage		80% – 88% normal wage			
Remuneration due to the worker						
Gross normal monthly wage*	=>83%	=>77%	=>88%			
Social Security support						
Working hours	0%		0%			35%
Non-working hours	70%		70%			100%
Employer Social Security tax rates						
Micro and SME	total exemption		50% exemption			
Large firms	50% exemption		50% exemption			

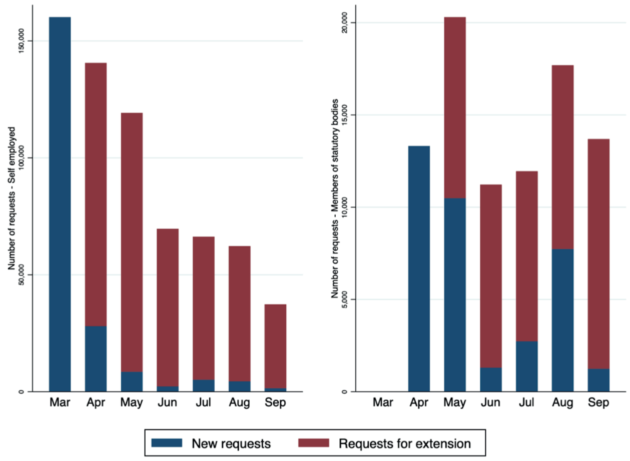
* at least 1 National Minimum Wage

Immediate liquidity support to businesses

There have been plenty of initiatives aimed at supporting the labour market (supply and demand sides). Exceptional support measures for include: (i) extraordinary support to maintain employment contracts (credit lines and simplified layoff rules); (ii) creation of an extraordinary training plan; (iii) a temporary exemption from payment of the social security contributions payable by the employer; (iv) an extraordinary financial incentive to support the normalisation of the company's activity; and (v) a ban on dismissals. According to a report by the Bank of Portugal there is a non-linear relationship between the percentage of firms without liquidity to face the fixed costs and the number of days of reduced activity. This percentage is larger amongst large firms and firms within the restaurants and hotels industry. The simplified layoff rules help alleviate this problem. Under layoff the share of firms with liquidity issues from reduced activity is similar to the share that we would observe in normal circumstances. Therefore, it is expected that the implemented measures will help preserve firms' solvency in the long term and avoid firm closures. As mentioned previously (Figure 1), as of May 27, 111,536 firms had applied for layoff (involving 1,332,114 workers, about ¼ of the active population in February 2020). Given the scale of the task, however, some concerns arise as financial support takes time to reach its recipients (Bank of Portugal, 2020).

The self-employed and the members of statutory bodies were also targeted by ALMP by being allowed to request support for reduced economic activity (from April 1). On May 8th, the income support eligibility conditions for self-employed and small business owners were enlarged in order to cover individuals not eligible for unemployment benefits. In Figure 2 we present the cumulative number of requests for financial support by the self-employed (from April 1) and by members of statutory bodies (from April 20). During April 186,000 self-employed and nearly 12,500 members of statutory bodies (of firms without registered employees) requested support.

Figure 3: Requests for support measures by self-employed and members of statutory bodies



During April the Office for National Statistics and the Bank of Portugal implemented a weekly short survey (Inquérito Rápido e Excepcional às Empresas) aimed at assessing the impact of the Covid-19 outbreak on firm activity. The report from the last week of April shows that the group of microenterprises, with less than 10 employees, was the one with the largest share of firms that considered the simplified layoff the most relevant factor to explain the decrease in working hours.

Support of dependent workers

Official data reports an increase of 91,488 registered unemployed workers between February and May 2020, which corresponds to 36% compared to May 2019 (see Table 1). We also know that 111,536 firms joined the simplified layoff scheme (thus 1,332,114 workers are at risk of being at least partially out of work, whilst still keeping their jobs). The magnitude and the conditions of access to the simplified layoff suggests that should there not be any ALMP such as those implemented to tackle the crisis, labour market outcomes could be very different.

The suspension of employment contracts (layoff) is predicted in the General Labour Law. On March 15 the government defined new conditions of access to this tool (in particular, it clarified/ adjusted the meaning of "entrepreneurial crisis" which is a necessary condition to implement layoff) and simplified the procedures for requesting layoff, e.g. firms are exempted from presenting some documental proofs, but may be subject to inspection in the future and penalties can be applied. Under layoff, workers receive ⅔ of their gross pay, up to a maximum of €1,905. 70% of the workers' pay is paid by Social Security and 30% is paid by the employer. Usually, layoff lasts for a month and can be extended monthly up to a maximum of 6 months (Order 71-A/2020, March 15). During the layoff period, and for 60 days after it has ended, employment contracts cannot be terminated under collective dismissal or by reasons of extinction of the job for workers who were under layoff (Article 13, Decree-Law 10-G/2020, March 26).[4]

Another measure aimed at supporting the income of dependent workers relates to the extraordinary extension of unemployment benefits and all benefits of the Social Security system. For example, a person for whom the period of entitlement to unemployment benefits ended from March onwards, had that period automatically extended until June 30 (Decree-law 10-F/2020, March 26).

4 Exceptions include the end of temporary employment contracts and fair cause for dismissal.

We do not have much information on support for job-seekers, which is understandable because the economy came to a halt during the State of Emergency and did not improve much during May. What we do know, however, is that the duty to actively search for a job while unemployed was suspended on March 19 (Dispatch 3485-C/2020, March 19). Once the lockdown measures are progressively lifted, and firms restart their activity, it is likely that a discussion about measures aimed at creating jobs will surface. At this moment, the government and social partners are more focussed on trying to stop the bleeding rather than on healing the wound.

Working conditions and work organization

The major novelty over this period is the shift into tele(home)work, where possible. There are some potential positive effects of such work practices on (i) workers (improving the work, family and private life balance), (ii) employers (increasing productivity and efficiency) and (iii) society at large (higher labour force participation for women and reduction in traffic congestion). 58% of the firms have workers in telework arrangements, mainly in large (93%) and medium size (73%) firms. Only 30% of micro firms have at least one worker in telework (INEa, 2020).

However, flexible working time arrangements and new working practices are not gender, age and household type neutral. The main shortcomings associated to flexible working times relate to: (i) the blurring boundaries between working and family time, which may worsen working and living conditions for workers, especially in the case of tele(home)working, with the risks of longer working hours, as well as the personal costs due to isolation, loss of visibility and lower career perspectives; and to (ii) the reduced predictability of working time, which is particularly negative for workers with care responsibilities. Workers with school-age children, who were themselves experiencing the novelty of tele(home)schooling, have reported feeling overwhelmed with the whole situation. There has been a specific subsidy aimed at financially support workers with children under age 12 who have to stay at home because of school closures. Not all eligible workers applied to this subsidy. One can guess two reasons for that: (i) it implies a loss of income (loss of 1/3 of the base pay) and (ii) people are afraid of losing their jobs. It is hard to tell if Portugal is experiencing a reactivation of traditional gender roles. Official sources do not, as yet, report how care responsibilities were organized by gender. However, a survey conducted by Catholic University Lisbon (CESOP, 2020) concluded that "*Women, more than men, are caring for the family, in lay-off and without activity. Men, more than women, have kept their jobs in the same venue.*"[5] Apart from this subsidy, to the best of our knowledge, there have been no other tools to respond to this new situation.

Sectors that report an increased or normal workload are health and ICT sectors.

New labor market entrants

Nationwide, there has not been much discussion of this topic, which is a bit worrying. After the Recent Great Recession, the EU used structural funds to tackle youth unemployment. But nothing, as yet, has been presented as a policy envisaging the integration of young

5 "Elas, mais do que eles, na assistência à família, em lay-off e sem atividade. Eles, mais do que elas, a manter as mesmas funções nos mesmos locais" online at: https://visao.sapo.pt/atualidade/economia/2020-05-14-covid-19-mais-mulheres-que-homens-em-assistencia-a-familia-lay-off-ou-sem-atividade-estudo/

people in the labour market (both at the EU and the national level).[6] We do sense some concerns in public opinion about young workers in their 30s who are now experiencing the second recession. For labour market entrants, however, discussions are mostly focused on how and/or when they will finish their degrees (national exams, university admissions, university graduations). It seems that uncertainty on the type of recession/recovery (L, U, V, W, Nike Swoosh) helps confusion and fosters the lack of action. For the optimistic, who foresee a V shape recession, the problem is only temporary – therefore the market will pick up quickly. However, we know that for recent graduates it is urgent to enter the market shortly after graduation, otherwise they will be competing with the class of 2021, and compared to these the 2020 graduates will be a rotten apple. Overall, the issue with new labour market entrants is similar to that of job-seekers: the government and social partners are mostly focussed on preventing the economy from collapsing during/after the lockdown. We can also guess that it is difficult to design any policy that fosters employment while the economy is shut-down, time stands still and everyone is asked to be at home waiting for better days. Applications for a job by employed job-seekers decreased during this period. Applications for a job by employed job seekers represented 7% of the total requests for a job in May 2020, which contrasts with 7.6% (8.2%) in April (March) 2020 and 9.7% in May 2019. Overall, the number of employed job seekers decreased by 14.4% between May 2019 and May 2020. In September 2020, however, the number of employed job seekers increased by 8.4% (see Table 1) when compared to September 2019. This increase may be due to emerging fears of job-loss in the near future by workers (who may be, e.g., in layoff).

Policy innovations and labor market trends

The simplified layoff rules, although common in other European countries, were the most important and innovative policy measure. The main concern reported by the employers was the administrative and bureaucratic burden, despite the procedures being "simplified", which implied additional costs and uncertainty regarding the eligibility conditions and the time frame to get the support.

Local authorities have also tried to ameliorate the conditions of their businesses and citizens. For example, some municipalities have exempted business from fees, others have changed regulations to allow business to operate in wider outdoor areas. We are also observing a fast digitalization of the economy. Besides tele-work and tele-school, actions are being taken to support local producers and businesses and platforms are being created to ease the communication between producers and consumers. Since local and family businesses can be an important source of support for the economy, any strategy that helps these firms to survive during the crisis are welcome. Some sectors and firms adjusted quickly, the textile sector and some tech firms are now producing all sorts of gear needed to tackle this disease (protective gear, ventilators, etc). Some firms producing canned food and cereals and its derivatives (pasta, flour) have more than tripled their production. Will these expanding sectors compensate for all other losses? The future will tell.

Most of our economic activity relies on manufacturing and services. It is possible that some change may happen in some services, e.g., employers may be less reluctant to allow working from home in some sectors and workers may be more open to new work practices. Over this crisis, it has also become apparent that long supply chains may be a problem in particular when the world shuts its doors. Will this suffice to induce structural change in what we do and how we do it? We will see.

6 http://www.bollettinoadapt.it/old/files/document/19711youth_action_tea.pdf

As of the second trimester of 2020, forecasts predict a sharp decrease in Portuguese exports, following the global economic downturn. This shock will mainly affect export manufacturing branches, in particular Metal working, Automotive components industry, and Textiles, clothing, leather and footwear sectors, that showed an impressive recent export performance, not only due to quality improvements but also due to cost competitiveness, with export prices relative to Portugal's competitors depreciating by around 6% since 2009 (OECD, 2019). The reallocation of global value chains can benefit these industries, as they compete closely with eastern Asia producers. On the other hand, since Portugal is a small open economy, any significant increase in barriers to international trade can reverse the export growth to non-European countries.

In the third quarter pf 2020, exports and imports of goods decreased by 3.3% and 13.8% respectively compared to the same quarter in 2019. Food and beverage products was the only major category which recorded, from January to September 2020, an increase compared to the same period in previous year.[7]

Next steps and fiscal viability

The strict lockdown measures and support from the government are not a long run equilibrium and cannot be sustained for a long period of time. This becomes apparent when we consider that most initiatives have an exceptional and temporary nature.

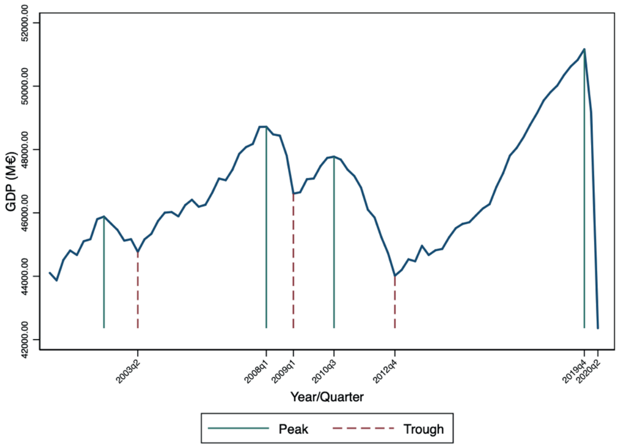
Overall, government actions tried to sustain the impact of the shock and avoid mass job destruction and firm closures. For the near future, it is important not to let the market adjust their expectations to the disrupted lockdown scenario. Instead, it is important that a majority trusts that "all will be well" and uses this positive expectation to rapidly adjust to a new way of living. If this happens, our recovery may in fact be closer to the "V" shape.

GDP evolution and forecasts

Forecasts by the European Commission (June, 2020) seem to lie on this scenario. The unemployment rate in Portugal is expected to rise by 3.2 percentage points in 2020 (6.5% in 2019 to 9.7% in 2020, and 7.4% in 2021). The projections also suggest that the Portuguese GDP will fall by 6.8% in 2020 (below the EU average of -7.7%), but will recover in 2021 (expected growth of 5.8%). Using data from the Office for National Statistics (INE b, 2020), in Figure 3 we plot the quarterly GDP series (chained volume series, in million Euros, reference year 2016) and date the phases of the cycle. We can identify a sharp decrease in GDP level during the first two quarters of 2020. The future will tell the shape of this business cycle.

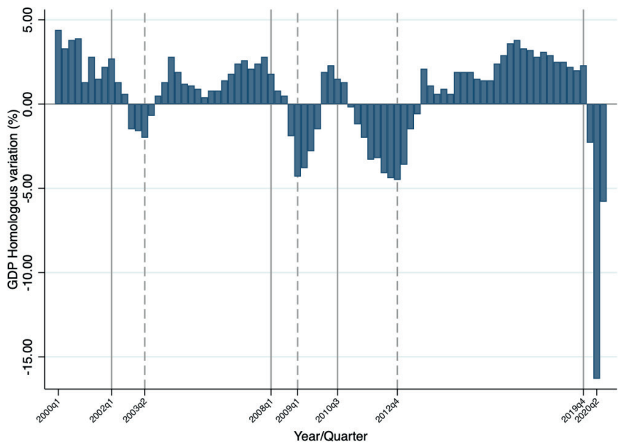
7 https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaques&DESTAQUESdest_oui=415205646&DESTAQUESmodo=2

Figure 4: Portuguese GDP



In Figure 5 we plot the quarterly homologous variation of GDP. During the first quarter of 2020 Portuguese GDP fell by 2.3% compared to the same quarter in 2019. The second quarter of 2020 was mostly spent under strict lockdown measures and GDP fell by 16.3% compared to the second quarter of 2019. In the third quarter of 2020 measures intended to slow down the spread of the virus were eased and GDP fell by -5.8% compared to the third quarter of 2019 (and increased, chain variation, by 13.2% compared to previous quarter). This improvement was mainly due to internal demand which was driven by the less negative behavior of private consumption (INEc, 2020), exports of goods have also improved during the third quarter and were the main factor that contributed to the reduction of the fall in net external demand.

Figure 5: GDP quarterly homologous variation



Key policy macro responses as of November 5[8]

The recent intensification of the virus outbreak has led to progressive reinforcement of social distancing rules and limitations on economic activity. Social distancing measures and the use of masks on public transport are mandatory. The State of Calamity was reactivated throughout mainland Portugal as of October 14, which tightens limitations on gatherings, such as in commercial and catering establishments.

The government has responded to the decline in output and employment with a range of measures to support the economy and jobs, and facilitate progressive resumption of economic activity. Recent key fiscal measures include: i) additional resources for virus-related health and education spending; ii) over €600 million per month (0.3% GDP) in

8 https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P

financial support for those in temporari leave by their employer, which has been phased out in favour of financial incentives to support progressive reopening and to normalize business activity (about €1.3 billion equivalent to 0.6% GDP); iii) up to €13 billion (6.8% GDP) of state-guaranteed credit lines for medium, small and micro enterprises in affected sectors, operated mainly through the banking system; and iii) €7.9 billion (3.7% GDP) of tax and social security contribution deferrals for companies and employees. Additional financial support is also provided for the self-employed affected by the virus, the unemployed, people forced to stay home to care for children, the national airline and those sick or in isolation due to the virus. On November 5, the Council of Ministers approved additional measures to support the economy, such as €0.8 bn (0.4% GPD) in grants to micro and small companies, and €0.8 bn in credit line guarantees, and expanded eligibility for affected companies to financial support for progressive recovery.

The Portuguese government has approved a moratorium on bank loan repayments for families and companies affected by the coronavirus outbreak and a recent extension until end-September 2021. The Banco de Portugal (BdP) has relaxed some aspects of its macro prudential measures for consumer credit and postponed the phase-in period of the capital buffers for ‘Other Systemically Important Institutions’. In addition, the BdP has announced a series of measures directed to less significant banks under its supervision, in line with the initiatives undertaken by the ECB and the EBA. These include the possibility to temporary operate below selected capital and liquidity requirements; a recommendation to restrict dividend distributions until January 1, 2021; an extension of deadlines of some reporting obligations; and rescheduling of on-site inspections and the stress test exercise.

Fiscal viability and the European response

Since Portugal was one of the countries involved in the European Sovereign Debt Crisis it is important to also note the projections made for the Public Budget Balance (as a percentage of GDP): -6.5% in 2020 and -1.8% in 2021.[9] The high public debt (118% of the GDP in 2019, 132% in 2020 and 124% in 2021) prevents a more effective public support, not only to keep interest rates below 1%, but also to prevent the transmission to the banking sector, which remains fragile in spite of recent improvements.

According to the IMF projections[10], Portugal is the fourth country out of 38 advanced economies with a lower immediate budgetary impact due to the measures taken to fight the pandemic and its impact on the economy. The measures taken so far by Portugal represent a deficit of 3.2% of GDP, a number that is well below the average of 7.3% for 38 advanced economies. However combining these forms of support with granting of loans and guarantees, or the postponement of the collection of taxes or social security contributions, the measures adopted in Portugal correspond to a value equivalent to 10.8% of GDP, one of the largest among advanced economies.

Therefore, the state’s financial effort to combat the crisis has been relatively low with regard to measures with an impact on the deficit and only higher in liquidity support measures. This raises questions on what the European response to the economic crisis that followed the outbreak of the COVID-19 disease, and support to member countries, will be. So far, the SURE (Support to mitigate Unemployment Risks in an Emergency) program has been approved by the Council of the EU (which will be running, at least, from June 2020 to December 2022). This program provides loans at favourable rates to the member states to “cover the costs directly related to the creation or extension of national short-time work schemes, and other similar measures they have put in place for the self-employed,

9 https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/portugal/economic-forecast-portugal_en

10 https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P

as a response to the current crisis" (EC, 2020). It is difficult to foresee the effects of this program in Portugal both in terms of its effectiveness on labour market outcomes (since it is focussed on short-term work and on self-employment) and in terms of the balance of national accounts (since it is a loan).

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