Penguin Capital Research

Portugal's Political Parties and Policies

PS – The Socialist Party

The Portuguese Socialist Party (PSP), one of the two main political parties in Portugal, was founded April 19, 1973, in Germany. However, its roots date back to the last quarter of the 19th century. In January 1875, decisions taken at the International Workers' Association to constitute workers' parties resulted in the founding on the party by José Fontana, Sour Gneco, José Correia Noble France and José Tedeschi. The party opened in the elections of November 1875 for the Lisbon City Council, but was eventually dissolved in 1933 after the formation of the second republic in Portugal. In 1973, it was reborn as the Socialist Party and led by the incumbent prime minister of Portugal, Antonio Costa.

GLOBAL FINANCIAL MARKETS, ECONOMIC GROWTH AND POLICY

A 2017 independent report of the Portugal government gave the current government's economic policies a score of 6 out of 10. It said that the "minority government" of the incumbent prime minister, Antonio Costa, is committed to maintaining "Portugal's EU commitments to reducing public debt". It reports that, "The Costa government has reversed several austerity measures, including a reduction to public sector wages and an income surtax, while increasing welfare benefits and the minimum wage. Yet, it has still sought to achieve fiscal consolidation through increasing several indirect taxes, notably on fuel." It notes that the government has "attempted to facilitate investment" through measures that aim to make bureaucratic processes simpler.

The report claims that the goal of the government is to promote economic growth and reduce the increasing public debt of Portugal. Public debt was about 131.7% of GDP in the second quarter of 2016, being an increase from 128.7% of GDP in the same period in 2015. However, "Quarterly economic growth rates in Portugal for 2016 were 1% in the first quarter, 1.1% in the second quarter, and 1.5% in the third quarter. However, these rates fall short of government's 2016 budget forecast, which was 1.8% GDP growth over 2016. These rates are also lower than the equivalent 2015 rates (1.7% in Q1, 1.5% in Q2, 1.6% in Q3 and 1.6% in Q4), and below the EU28 and euro zone averages. "

However, there is little in the way of a more reliable economic environment following the change in government strategy even though the "government has yet to fully implement its economic policy" and macroeconomic indicators are not yet affected by the measures that have been taken.

Another paper, which examined the growth of the Portuguese economy today compared to 2007, mentions "...taking into account the internal social and political context...the government was able to appease social unrest and use the economy to improve some social indicators. Crucially, by enlarging the fiscal responsibility consensus to the left, it has contributed to the growing confidence in the Portuguese economy: not only to a more dynamic internal market but also –unexpectedly– to the attractiveness of the economy to international investors, which the government's hard left partners are supposed to despise."

LABOUR MARKET, TAX & BUDGETARY POLICIES

Unemployment in Portugal is on a downward trend and currently at the lowest since 2009 - 10.9% in October 2016 as compared with 13.6% in 2014 and 17.9% in January 2013. The factors driving this are not as clear as the figures, but there are two main possible factors:

> The first is a return to real economic growth after a contractionary period between 2011 and 2012. This is the effect of very high levels of emigration since 2011. Based on National Statistics Institute (Instituto Nacional de Estatística, INE) data, it is estimated that 101,203 people emigrated either permanently or temporarily in 2015, down from 134,624 in 2014. The expectation is that the pattern in 2016 will maintain the slight downward trajectory of 2015. While this data points to a stabilization and gradual fall in the numbers of emigration, it remains very high and above 100,000 per year. This number is relevant if we consider that, according to Eurostat, the number of unemployed people fell by 81,000 from 633,000 in October 2015 to 554,000 in October 2016.

A very significant change in the labor market policy "was the previous Coelho government's decision to increase the minimum wage to €530 per month in 2016. The decision continued a recent policy trend to increase the minimum wage, which the Costa government has pledged to further increase to €557 by 2017 and €600 by 2019." London School of Economics however notes that "gross minimum wages increased by 15% over the period 2012-2017, from €565.83/month in 2012 to €649.83/month in 2017."

Concerning the party's policies on taxation, there are still high tax levels in Portugal. An independent report stated that "Costa government's 2016 budget partially alleviated the previous government's extraordinary income surtax" but noted that this alleviation was far from equal to removal. The government has not changed the high tax rates introduced in an earlier budget in 2013 and the alleviation of "some austerity measures was compensated through an increase in consumption taxes, notably on fuel, tobacco and cars." The same report states, "While the Costa government's program indicates a commitment to combating tax evasion and making income tax more progressive", there has been almost no change in the past decade.

In 2015, Portugal had a really high budget deficit at 4.4% of GDP in 2015. This was inflated even more by the one-off bailout of the Banif bank in December 2015. Without this bailout, the deficit would have stood at around 3% or 2.8% as Eurostat estimated. The government's 2016 budget "forecasted a reduction of the deficit to 2.2% of GDP, allowing Portugal to withdraw from the existing Excessive Deficit Procedure". In 2016, the budget deficit was at 2.1% (€3.7 billion), and is noted to have been, at the time, "the lowest in 40 years". Despite this, the 2017 budget, approved in December 2016, targeted a deficit of 1.6%.

"While this trajectory is very positive, it remains vulnerable to external shocks. Portugal's fiscal policy is vulnerable to several risks, notably a slowing economy, external shocks on export demand (a driver of recent GDP growth), a rise in the interest rates on government bonds and a vulnerable banking sector" (which has seen recent bailouts from the government as mentioned above). "This vulnerability explains the IMF's cautionary statements about Portugal's fiscal consolidation, which expect Portugal to have the worst budget deficit within the euro zone in 2021 (albeit, at 2.9%, below the euro zone's 3% threshold)"

SOCIAL POLICIES — SOCIAL INCLUSION, EDUCATION & HEALTH POLICIES

"Government social policies seeking to limit socioeconomic disparities do exist, but they are poorly funded and are not very effective in preventing poverty." In the four years between 2010 and 2014, taxes were imposed on pensions and then increased. There has also been pressure to reduce contributions to poverty reduction programs which include pensions.

On more social inclusion policies, a report stated, "The pension value of several categories has increased. The retirement age is now indexed to life expectancy, and is rising slowly. Integration policy is strong. While few refugees have come to Portugal, the government has offered to host more. Crime rates are low."

With regard to education, in the first part of 2015, the OECD noted the negative impact of education budget cuts and advocated for the education budget to be increased. The 2015 UNDP Human Development Index ranked Portugal at 43 of 49 countries in the "Very High Human Development category but with only 8.2 “mean years of schooling” in 2014, Portugal still ranks below the other 49 countries, except Kuwait. Also, the act of the Costa administration to review the national system of assessing students, which took effect in the 2015/2016 school year, was noted by one analyst as the "fifteenth change in the national assessment system since 2000", and indicates a pattern of policy instability in Portugal's education sector.

The Socialist Party program document from 2015 had this stance on health, "It is urgent to recover the functioning of the hospitals upstream, through the creation of more family and downstream health units, in the implementation of the continuing care development plan for the elderly and the dependent citizens. It is essential to re-launch the reform of primary health care and integrated continuing care at the same time that a hospital reform is expected to be placed on the relaunch of the NHS."

The party also aims to "promote health through a new ambition for public health". It reiterated that health gains can only be obtained through intervening in various determinants in an integrated manner through "Policies to combat poverty, housing conditions, employment and work, food, transport, urban planning and leisure spaces...the articulation of health with social action and education, in which 'health in all policies' should be a benchmark strategy". It is also mentioned that the party "will value public health as an area of intervention" through the "creation of a national program of education for health, literacy and care..."

An independent report noted that, "Portugal’s population shows comparatively good levels of overall health. However, as in other areas of public policies, the country’s National Health System (NHS) also came under financial pressure...because of the pressure...to curb public expenditure." In mid-2015, a 200-page book published by the OECD which evaluated Portugal's health standards call attention to the "impressive array of quality monitoring initiatives" and a primary care system that performs well, with rates of avoidable hospitalization, being the best in the OECD for Asthma and COPD." The book also applauded Portugal's sustained progress with containing spending while maintaining quality improvement efforts.

CONCLUSION

The Socialist Party seems have directed all of its political will towards ensuring the reduction of public debt. This will has been exerted through a relaxed immigration stance, cutting spending across a number of sectors while still pushing to maintain quality of services, increasing taxation, even on measures aimed at improving social inclusion. These efforts have however paid off with regard to some indices such as the declining unemployment rates and reducing budget deficit in the most recent couple of years.

CDS – People's Party

The CDS/PP in coalition with the PSD make up 99 seats within the Portuguese Parliament with an estimated 36.8% of the total votes as of 2015. The CDS/PP along with a few other parties voted against the new measurements proposed within the 2018 State Budget. Department cultural spending of the CDS/PP sits at 0.21% of the total state spending as of 2015 with $132 Million, an ever-increasing low from amounts of $233 Million department cultural spending recorded in 2000.

CDS/PP OVERVIEW, ECONOMIC GROWTH, AND OUTLOOK FOR THE YEAR

The CDS/PP, or Democratic and Social Center/People's Party, was formed on July 19, 1974. They are a party member of both the International Democrat Union (IDU) and EPP. The current leader of the party is Assunção Cristas. Up until recent years, the party had minor roles within government; however, this started to alter during the 2011 elections, where the CDS/PP managed to acquire 11.7% of the total votes which returned 24 seats in Parliament to the party. These statistics resulted in the CDS/PP entering a coalition with another right-wing party by the name of PSD.

As of the 2015 elections, the CDS/PP has acquired approximately 99 seats in Parliament out of a total 230 seats with its coalition with the PSD. This equaled an estimated 36.8% of the total votes of the 2015 elections. During the 2015 elections, the CDS/PP together with the PSD lost a combined 10% of the total votes, a figure that would result in the parties (CDS/PP and PSD) losing the majority of seats in Parliament. The next general elections involving the CDS/PP are expected to be held on, or before, October 13, 2019, and the party will need 116 of 230 seats to acquire the majority in government.

During the 2018 state budget discussion in Lisbon, Portugal it was proposed that new measures towards the state budget should included. These proposed new measures include: "additional income tax bands, a thawing of the public sector pay rise and promotions freeze, and an increase in pension payments." However, the CDS/PP along with their coalition partner the PSD voted against the new measures proposed in the 2018 state budget. Also, included in the 2018 state budget was a proposed salt tax which people where referring to as the "chips tax." The tax would work by charging $0.94 per kilogram would be charged on products containing more that 1 gram of salt per 100 kilograms. However, the CDS/PP along with the Portuguese Communist Party (PCP), announced they would be voting against the imposed tax.

SOCIAL POLICIES OF THE CDS/PP

Recently within the CDS/PP there has been a steady but noticeable reduction in the department cultural spending. From previous department cultural spending being recorded at $233 Million in 2000 (0.59% of the states total spending) to currently sitting at well bellow that amount, with $132 Million (0.21% of the states total spending) as of 2015 recorded statistics. This is a trend that seems to have started/strengthened along with the party coalitions between the CDS/PP and the PSD.

In 2011 Portugal requested a financial bailout from the European Union due to the country's debt crisis. In order to do this various austerity measures were proposed and implemented within the Portuguese public health system almost instantly. These measure had a negative impact on the sector and created difficulties. However, it wasn't until the CDS/PP was placed back in Parliament that the Portuguese public health system really started developing difficulties and issues, as the CDS/PP cut the health care budget by more than twice the amount than what was requested by the Troika when the austerity measures were negotiated.

Social Democratic Party

The party was legalized on January 25, 1975, and on October 3, 1976, the party was renamed as Social Democratic Party (PSD). The motive behind the creation of this party was based on three distinct lines of thought: First, a catholic-social line of thought that was conceived between 55 and 65 as an opposition against state corporatism; Second, a social-liberal line of thought that is traced to the social democracy that protects the "democratization of the Estado Novo and is ideologically linked to the liberal wing"; Third, a social-democratic line of thought that is related to "economic development, favoring social and cultural changes as a means to promote and extend democracy". After the elections on October 2015, The Paf (which is a merger between the PSD and CDS-PP) secured 38.5% of the votes while the Socialist Party (PS) were able to secure 32.3%.

In 2011, when the government merged with two right-wing parties namely; the Social Democratic Party (PSD) and "the Social and Democratic Centre-People's Party (CDS-PP)". Portugal was undergoing an assistance program arranged by the European Commission, the ECB, and the International Monetary Fund (the troika). Within four years of active participation, marked by the troika, the following changes took place: reduction of public servant salaries, pensions and social benefits was affected, taxes were increased on private consumption and incomes, deregulation of labor market laws, privatization of transport companies, and the reduction of the public deficit.

The incumbent right-wing coalition which comprises PSD and CDS-PP came out successful during the 2015 election by securing 38.5% of the vote against the Socialist Party (PS) with 32.3%. During the October 2017 election, the centre-right PSD had its worst result during the local elections by losing the most populous cities in Portugal and winning only 79 municipalities. The party was significantly defeated in Lisbon, which is where the PSD candidate assumed the third place position with a mere 8.1% of the vote. "Rui Rio warned in particular about the reduction of 40 to 35 hours a week in health and blames the PS for having leaned against the far left". Rui Rio went further to state that the resultant effect of such decision is that the country will pay a steep price for changing from 40 to 35 hours a week in health just to please the Communist Party and the Left Bloc, and thus create the parliamentary coalition.

Portugal's aversion to far-right politics "can be explained in part by the lasting legacy of dictator António Oliveira Salazar, whose harsh regime lasted for over four decades until toppled by a 1974 revolution. Portugal has also not experienced a recent influx of refugees or a sudden surge of immigrants, like those that fueled the growth of the far-right elsewhere. Its immigrant communities, mainly from Brazil, Portuguese-speaking Africa and Eastern European countries such as Ukraine and Romania, are comparatively well integrated."

Portugal's economy has since reached a turning point. In December 2017 the budget deficit fell to a 40-year low, "freeing Portugal from the threat of EU sanctions. The unemployment rate has halved to 8.5% and the Bank of Portugal revised its economic growth forecasts upwards to 2.3 % in 2018." However, it was reported today by the Bank of Portugal that the country has reached record high debt of €250.3 billion. Today (June 3, 2018) the "Portugal 10Y decreased 0.02% to 1.74 Historically, the Portugal Government Bond 10Y reached an all time high of 17.36 in January of 2012 and a record low of 1.57 in March of 2015."

ABOUT PENGUIN CAPITAL

Penguin Capital RE is a firm founded by brothers Akbar Bawa and Ahmed Bawa.
Penguin's strategy is simple: acquire, revitalize, exit. Our geographically adaptable platform deploys a clear-cut direct investment strategy. We aim to acquire high quality, well located properties at discounted cost, install asset management activities to solve any asset issues, and sell when Penguin Capital's objectives are accomplished. Penguin's latest initiative, The Legacy Projects, seeks to bring Penguin Capital's strategy to Portugal. The aim is to deliver compelling risk-adjusted returns in the residential arena. We are targeting high quality properties in gateway cities with a more modest risk profile, medium hold periods, and strong income components. Penguin Capital RE is the group's Europe focused investment initiative with a special interest in Portugal with prospects including Spain and Italy.

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