



THE MIRACLE OF PORTUGAL: A TALE TO REMEMBER

MVConversations with Guilherme Machado Dray

Portugal's success story is being used as an example across Europe for hitting the sweet spot between economic growth and social justice.

Radical changes adopted since 2015 have seen Portugal hit its lowest unemployment rate since 2002, dropping from 17% in 2013 to 6.3% in 2019. The International Labour Organisation (ILO), in its report - *Decent Work in Portugal 2008-18: From Crisis to Recovery* - recently exemplified Portugal's success case, stating that Portugal stands as a solid example of successful and swift economic and labour market recovery.

Why is this so significant? "Because it sets a precedent across Europe for what is possible with the right measures, mindset and use of the rule of law as an instrument for change," says Guilherme Machado Dray.

In isolation dropping from 17% to 6.3% is impressive; but taken in the context of the country's recovery as a whole, one sees that the Government, policymakers and private investors have been taking a far more holistic approach to putting Portugal back on the map. "Aside from creating a more flexible labour market and reducing associated costs, economic and social policies have been implemented to tackle the far larger issue of improving the country's business environment and positioning in the global markets."

Rewind to the 2009-2014 Euro crisis years, and the headlines revolved around Portugal's emigrating talent, searching for opportunities abroad that were simply unavailable at home. At its height, explains Guilherme Machado Dray, economic growth stalled leading to the 2011 bailout from the European Central Bank and the International Monetary Fund (IMF) and the putting in place of austerity policies aimed at fiscal consolidation. "There was a reduction in labour costs, wages were frozen, severance compensation was reduced as well as overtime remuneration, and we saw a significant increase in taxes and labour market segmentation."

All change

2015, however, was where things started to change. Economic policies were brought in introducing a new environment of social justice side by side with economic competitiveness. The minimum wage was increased, wages were no longer frozen and collective bargaining was back in play, says Guilherme Machado Dray. "Social dialogue was promoted and as a consequence we started to see a consistent portion of economic growth, external debt was reduced, the country regained access to the international financial market, private sector investments picked up and we began to thrive again."

The Government began creating opportunities to attract foreigners to Portugal, with the Golden Visa for example, as well as bring back those millennials that left in the crisis years. Foreign investment was encouraged, and private sector investment increased, aiding in the creation of jobs and a return of confidence in the country's potential. "We've also had an amazing influx of high-tech individuals in recent years, particularly as hosts of the annual Web Summit and the booming start-up ecosystem of Lisbon's Hub Criativo do Beato, which is proving itself as a focal point for the millennial generation."



In terms of legal advice, the change has not gone unnoticed, says Guilherme Machado Dray. "We've gone from advising on collective dismissals and redundancies to helping set up new corporations, create new jobs, and better working conditions: the effects have been far-reaching."

Taking it a step further

For Portugal to continue on its current trajectory, he sees a few areas that need to be addressed: increasing private and foreign investment, tackling the issue of segmentation of the labour market, and reducing the wage gap between Portugal and the rest of the EU.

He highlights, as an example, the question of temporary employment contracts. "Across the EU, the average percentage of temporary contracts is around 14%, while in Portugal we are at over 22%. We need to put an end to precarious working conditions and take more affirmative action to put the younger generation into the labour market via open-ended contracts, ensuring that corporations that hire them receive the appropriate fiscal and social security benefits."

There is also a huge gap between monthly wages in Portugal and the European average. In Portugal the average is around €900, while in Europe it stands at over €1500, explains Guilherme Machado Dray. "Until we tackle this problem, we are not going to stop the flow of millennials emigrating for jobs that offer far better salaries. Increasing the minimum wage and implementing good wage policies would be a start, as well as attracting foreign companies with new work methodologies and wage strategies based on fringe benefits policies. And we must continue to promote collective bargaining, as it's a great instrument and asset for agreement and cohesion between corporations and Unions."

Ultimately for Guilherme Machado Dray, the key to Portugal's turnaround has been the changes made to the country's legal framework. "We now have a balance between entrepreneurship and job security, between flexibility and dignity at work and between freedom of management and collective bargaining," he explains. "As a lawyer and as someone that believes in the rule of law, implementing change without compromising vested rights is incredibly important when it comes to promoting and fostering the recovery of any country when facing a crisis."

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