



# Beyond austerity? Phased increase of the minimum wage in Portugal

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*With the election of a new government, a policy debate emerged in Portugal regarding the phased increase in the minimum wage from EUR 505 to EUR 600 in 2019. For 2016, the amount was established at EUR 530, which was considered a very modest improvement by employees' representatives and excessive by employers. One out of three Portuguese employees earns EUR 600/month or less.*

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## Description

In late November 2015, a new centre-left government took office in Portugal. The government is led by the Socialist Party (PS) and has the parliamentary support of the Communist Party (PCP) and the Left-Wing Bloc (Bloco de Esquerda, BE). Within this context, a policy debate has emerged on a new increase of the minimum wage, after that of October 2014.

In the beginning of December 2015, the government began discussing with social partners the increase in the minimum wage from EUR 505 to EUR 530, in 2016. The new amount came into force on the 1st January 2016 and represents the first step of a phased increase in the minimum wage, up to EUR 600 in 2019. The debate is of utmost importance since in the third quarter of 2015 no less than 32% of Portuguese employees earned EUR 600/month or less.

The new amount is in line with the proposal made by the General Union of Workers (UGT, centre of the political spectrum) and received the agreement of the centre-right opposition parties. The Confederation of Portuguese Workers (CGTP-IN, left wing), the largest trade union federation, considered the proposal to be insufficient.

On the opposite side, the Portuguese Confederation of Trade and Services (CCP) and the Confederation of Portuguese Industry (CIP) warned of an increase of production costs and pointed to the need for financial compensation from the State. Moreover, they asked for any increase to be linked to the growth of the economy as well as to productivity and inflation.

A recent study from the Observatory on Crises and Alternatives reported that an increase in the minimum wage to EUR 530 would have an impact of 0.65% on companies' wage bills, and an increase to EUR 600 an impact of 2.87%. In terms of total production costs, the impact would amount to 0.13% and 0.6%, respectively. (Observatório sobre Crises e Alternativas, 2015)

Additional controversy arose from the fact that, in a book published in 2013 (Centeno, 2013), the current Minister of Finance claimed that an increase in the minimum wage by 5% - which is the current case - "reduces by three percentage points (p.p.) the probability of staying employed". The Minister also argued that every p.p. of increase in the minimum wage would reduce by 0.1 p.p. the growth of wages immediately above the minimum wage.

## Outlook & Commentary

The decision to raise the minimum wage in Portugal is certainly important from a social policy standpoint. This is particularly true in a context where low salaries predominate and where having a job is not a firm guarantee of protection against poverty.

Indeed, a household living on a salary of EUR 530 will only be above the poverty threshold if it is received by a single-person or a lone-parent household with one child. Similarly, a salary of EUR 600 will not be sufficient to

lift a two-adult household with one child out of poverty. According to the 2013 EU Statistics on Income and Living Conditions (EU-SILC), 28.6% of employees lived below the poverty threshold.

The Portuguese Social and Economic Council (a tripartite social concertation body) is expected to issue an Opinion regarding the subject during the first quarter of 2016. There is no estimated budgetary impact assessment of the measure as the country still has not presented the budget for 2016.

### Further reading

Baptista, Isabel and Perista, Pedro (2014) Increase of the minimum wage in Portugal in a context of continued austerity, ESPN Flash Report, available at: <http://ec.europa.eu/social/BlobServlet?docId=13209&langId=en>.

Observatório sobre Crises e Alternativas (2015), Barómetro das Crises nº 14, 06-11-2015, available at: [http://www.ces.uc.pt/observatorios/crisalt/documentos/barometro/14BarometroCrises\\_SMN.pdf](http://www.ces.uc.pt/observatorios/crisalt/documentos/barometro/14BarometroCrises_SMN.pdf).

Centeno, Mário (2013), O Trabalho, uma visão de mercado, Lisboa, Fundação Francisco Manuel dos Santos.

Centeno, Mário and Novo, Álvaro A. (2013), "Segmentar os salários", in Boletim Económico do Banco de Portugal – Inverno 2013, Banco de Portugal, pp. 55-64, available at: [http://www.bportugal.pt/pt-PT/BdP%20Publicaes%20de%20Investigao/AB201316\\_p.pdf](http://www.bportugal.pt/pt-PT/BdP%20Publicaes%20de%20Investigao/AB201316_p.pdf).

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