From January 27 to February 3, representatives of the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission (EC), undertook the third post-program monitoring of Portugal after the country's bailout. The Troika's visit coincided with the EC's evaluation of the Draft Budgetary Plan submitted by the Portuguese government on January 22. This is the first time that the Troika goes to Portugal after the formation of the new left-wing government in November 2015, by a coalition of the Partido Socialista (PS), Partido Comunista (PC) and the Bloco de Esquerda.

This situation allows us to analyse the potential tensions that can emerge between the neoliberal measures recommended by the Troika to achieve fiscal consolidation, and the anti-austerity measures defended by the Portuguese left government. This article analyses to what extent it is possible to implement a progressive economic program under the current neoliberal agenda of the EU.

The Portuguese Prime Minister, Antonio Costa, has insisted on the idea that the visit of the Troika was technical rather than political, so as to downplay the visit in the eyes of public opinion. The truth, however, is that the country is under political surveillance. Although Portugal has exited the bailout program, it has yet to return €72 million in interests from the €78 million that it received in 2011.

Dismantling austerity

The Troika has already warned of the risks of reversing the structural reforms undertook under the Memorandum of Understanding (MoU) during its second monitoring in the summer of 2015—and while the conservative Passos Coelho was still the prime minister. Such warnings now clashe with the objectives of the leftist coalition, which is taking steps to reverse all austerity measures that, according to them, are responsible for worsening the quality of life of Portuguese people.

In fact, the government has already undone some of these measures. First, it has increased the minimum salary from €505 to €530 and has plans to increase it up to €600 by 2019. Second, it has reintroduced two of the four bank holidays that were removed in 2013. More similar reversal measures are on their way. For instance, the government is planning to decrease the weekly working hours of public employees from 40 to 35 and to eliminate the extra 3.5 per cent applied to the Personal Income Tax.

The Troika against the reversal path

The conclusions of the international mission have shown the Troika's disappointment regarding these measures. This is the second year after exiting the bailout that the Portuguese government does not comply with European deficit rules and is therefore undergoing an excessive deficit procedure. Besides, the Troika disagrees with the government regarding the latter's short-term deficit projections. Whereas the Portuguese government sets the budgetary deficit for 2016 at 2.6 per cent, for the IMF the figure is 3.2 per cent (i.e. above the 3 per cent permitted by European rules).

The joint statement written by the ECB and EC states clearly that "the adjustment in the underlying structural deficit in 2016 reflects an insufficient consolidation effort" and argues that the government needs to assess carefully the impact of reforms such as the increase of the minimum salary on employment levels. While times are different, the style of this statement resembles those written in the days of the Portuguese bailout, when the country's interest rate spread skyrocketed as the mission "urged the authorities to pursue an ambitious reform agenda". The economic recipes of the EC and ECB are also in line with those implemented during the bailout in that they focus on the need to undertake further labour market reforms to increase flexibility.

As the latest negotiations over a memorandum for Greece showed, the bargaining power of a left-wing government decreases as its financial needs increase

Furthermore, the statement issued by the IMF contains disagreements with the Portuguese government regarding growth projections. The IMF states that the country's economy will grow by 1.4 per cent, whereas Costa's government argues that it will grow by 2.1 per cent. The predictions of the IMF in relation to internal demand are not much rosier. While the government foresees that internal demand will be 2.6 per cent, the IMF predicts a decrease from 2.7 per cent in 2015 to 1.5 per cent in 2016. Finally, the statement considers the antiausterity measures announced by the left as an obstacle to fiscal consolidation: The authorities should consider maintaining appropriate buffers to guard against fiscal risks.

These include the additional fiscal costs of proposals such as the 35-hour work week for public sector employees, and of the reconsideration of recent privatization and concession agreements, or of any contingent liabilities arising from the financial sector.

Warning or threat?

On the other hand, both statements agree in highlighting that Portuguese economic recovery has been successful so far given the good financial conditions under which the state has been able to borrow. The Portuguese state has regained the markets' confidence after the structural reforms undertaken during the bailout, and this has allowed it to access financial funding on favourable terms.

But they also warn Portugal against implementing a progressive programme while financial markets are still volatile. Between the lines one can read a threat to the left government—which is made even more realistic given the current economic context, in which warnings of a new world recession are becoming more and more frequent.

Now the ball is on the Portuguese government's court. As the budgetary plan is at risks of non-compliance with the rules of the Stability and Growth Pact, the government will need to make some adjustments to it in order to meet its fiscal obligations. It remains to be seen if the left coalition will eventually give up their anti-austerity ambitions. What is quite clear, on the one hand, is the Troika's continued belief in the neoliberal mantras of labour market deregulation.

As the latest negotiations over a memorandum for Greece showed, the bargaining power of a left-wing government decreases as its financial needs increase. So far the Portuguese government is comfortable because of its relatively good financial conditions, but as soon as financial speculation will start again, the country will find itself at a serious crossroads. Therefore, the best strategy for Portugal's government is probably to lobby for change within the EU institutions before that scenario materialises: either neoliberal mantras disappear before a new recession arrives, or austerity will stay with Europe forever.

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