

IZA COVID-19 Crisis Response Monitoring:

# Portugal

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According to your knowledge, how do you assess the following issues:

- 1. The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms:** According to early information, who is affected the most? What do you see in terms of sectoral employment reactions, and regarding permanent, fixed-term or agency workers? Are current figures/estimates more or less in line with earlier forecasts or are there some unexpected/surprising deviations?
  - 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), in March 2020 the number of unemployed people in mainland Portugal increased by 9.6% when compared to February and by 3.7% when compared to March 2019. Amongst the registered unemployed 44% were males and 56% females. However, despite the greater share of females in the group of unemployed, the observed increase between February and March 2020 was larger for males (11%) than for females (9%), a similar result is found if we contrast it with March 2019 (4.6% vs 3% for males and females, respectively). Workers without a higher education degree were the most affected at this initial stage of the crisis, for whom we observe an increase in registered unemployment of 10% - which contrasts with an increase of 6% for workers with a university degree (IEFP, Table 2). There are no significant differences by gender across levels of education attainment. Considering occupations, the worst hit groups were (i) craft and related trades workers (20% increase compared to the previous month), (ii) plant and machine operators, and assemblers (14%), and (iii) sales and services workers (9.4%) (IEFP, Table 4). Regarding economic activities, if we look at the averages across the 3 main economic sectors – all were affected in a similar way – unemployment increased by 10% between February and March. These averages, however, hide great differences across the activities that compose the sectors. For example, within the secondary sector the worst hit activities were (i) manufacture of basic metals and of fabricated metal products (21% increase); manufacture of furniture and repair and installation of machinery and equipment (14%); the textile and leather industry (13%); and (iv) motor vehicles (12%); amongst the services sector the worst hit activities were (i) real estate (16%) and restaurants and hotels (12%) (IEFP, Table 5). Furthermore, the number of job offers fell by 11% between February and March 2020 and by 26% when compared with March 2019 (IEFP, Table 6). Which makes finding a new job a difficult task for existing and newly unemployed.<sup>1</sup>

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<sup>1</sup> <https://www.iefp.pt/estatisticas>

- Labour market has deteriorated further during April and May. On May 15 1,315,187 workers were on partial or full time layoff (which contrasts with only 72,507 on March 31st), more than half of these workers work in manufacturing, retail trade, and restaurants and hotels (Ministry of Labour, Solidarity and Social Security - MTSSS, COVID-19 statistics, Tables 1 and 2). One effort to make is to prevent these laid-off workers from being made redundant and dismissed. Unemployment is likely to increase as a result of large-scale redundancies. Between March and April more than 3,000 firms made collective dismissals (more than half of these were micro-firms with less than 10 employees) and nearly 29,000 thousand workers (7,891 in micro-firms) became unemployed as a result. 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.<sup>2</sup>
- Self-employed account for 12% of total employment (14% male and 9% female), and 5% were business owners in 2019. It is expected to observe a significant impact on activity and earnings of these workers.

**2. The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 (as listed in the OECD inventory):** Is this summary appropriate? Have there been most recent changes or new initiatives? How do you assess the overall policy set adopted so far? Have certain aspects or target groups been neglected in the policy packages adopted?

- Yes, 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 18<sup>th</sup> – May 2<sup>nd</sup>). However, since May 3<sup>rd</sup> we have 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.<sup>3</sup>
- Although the social climate is fairly quiet, the measures do not fully address the income loss observed in some groups, namely self-employed and small business owners. Media also reported that the number of requests to the national network of food banks tripled in April, compared to the previous month.<sup>4</sup> More recently (May 8<sup>th</sup>), the income support eligibility conditions for self-employed and small business owners were enlarged in order to cover individuals not eligible for unemployment benefits.

<sup>2</sup> <http://www.gep.mtsss.gov.pt/indicadores-covid-19-mtsss>

<sup>3</sup> See plan for lifting lockdown measures: <https://covid19estamoson.gov.pt/plano-desconfinamento-medidas-gerais/>

<sup>4</sup> <https://rr.sapo.pt/2020/04/30/pais/pedidos-ao-banco-alimentar-triplicam-sem-emprego-muitos-dependem-de-apoios-para-comer/noticia/191287/>

- 3. Regarding policies providing immediate liquidity to small firms and freelancers:** How do you see the actual take-up of support by small firms and self-employed? To what extent do the measures in practice help mitigate the economic impact of COVID-19? How do you see the delivery and implementation by public agencies and other entities, taking into account the trade-off between quick delivery and deadweight losses or misallocation?
- There have been plenty of initiatives aimed at supporting the labour market (supply and demand sides). Exceptional support measures for employers include: (i) extraordinary support to maintain employment contracts (credit line 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, as of May 15, 109,376 firms had applied for layoff (involving 1,315,187 workers, about 1/4 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.<sup>5</sup>
  - During April, on a weekly basis, the National Statistics Office and the Bank of Portugal publish the results of a short survey aimed to assess the impact of the Covid-19 outburst in firm activity. The most recent report (last week of April) shows that the group of microenterprises, with less than 10 employees, has the highest share of firms that consider the simplified layoff as the most relevant factor to explain the decrease in working hours.
- 4. Regarding dependent workers:** How do you assess the effectiveness of unemployment insurance and short-time work in stabilizing income and jobs at the moment? To what extent do short-time work measures help reduce or postpone inflows into unemployment (and for whom)? Is this being complemented by sectoral or firm-level agreements? What is known about the support delivered to job seekers now? Has activation by ALMPs come to a halt?
- Official data reports 72 thousand newly registered unemployed workers over the months of March and April, which means an increase of 24% in the number of unemployed workers over the period. We also know that more than 3,000 firms made collective redundancies, and that 109,376 firms joined the simplified layoff scheme (thus 1,315,187 workers are 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 these, labour market outcomes could be very different. There isn't much information on support for job-seekers, which is understandable because the economy has slowed down significantly during the State of Emergency. Once the lockdown measures are progressively lifted and firms restart their activity this issue is likely to appear in the public discussion. At this moment the government and social partners are more focussed on trying to stop the bleeding rather than on healing the wound.

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<sup>5</sup> [https://www.bportugal.pt/sites/default/files/anexos/pdf-boletim/be\\_mai2020\\_p.pdf](https://www.bportugal.pt/sites/default/files/anexos/pdf-boletim/be_mai2020_p.pdf)

5. To what extent are **working conditions and work organization within firms** changing at the moment, in particular in sectors where there is an increased or normal workload? How do working time / mobile working rules or care arrangements respond to that in practice?

- 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 .
- 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 took this. 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 to lose their jobs. Apart from this, to the best of our knowledge, there have been no other rules to respond to this new situation.
- Sectors that report an increased or normal workload are health and ICT sectors.

6. How do you assess the situation of **new labor market entrants** this year, in particular with school or university graduates? Are there policy innovations and initiatives to cope with this particular situation regarding hiring, provision of apprenticeships etc.?

- Nationwide, there hasn't 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 people in the labour market (both at the EU and the national level).<sup>6</sup> We do sense some concerns 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 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 they will be a rotten apple.

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<sup>6</sup> [http://www.bollettinoadapt.it/old/files/document/19711youth\\_action\\_tea.pdf](http://www.bollettinoadapt.it/old/files/document/19711youth_action_tea.pdf)

7. Do you see **further remarkable developments** and issues, maybe unexpected policy innovations, changes in employment, new trends? Can you already identify (**changes in medium-term or long-term trends on the labor market** that are due to the crisis (e.g. accelerated structural change)? How will the general functioning of the labor market in your country be affected in the long run?

- 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, 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 really fast, 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'll see.

8. Can the **current policy stance** (reduced economic activity, combined with public income support) be sustained, and for how long? What do you see as necessary and **useful next steps**, in particular to revive economic activity (soon)? How do you see the **current and future fiscal viability** of the crisis relief measures?

- 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. Portugal is now on the path to relieve lockdown measures.
- 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 we 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" or shape. Recent forecasts by the European Commission seem to fall in this scenario. The unemployment rate in Portugal will rise by 3.2 percentage points in 2020 (6.5% in 2019 to 9.7% in 2020, and 7.4% in 2021). The same projections 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%).

- Since Portugal was one of the countries involved in the European Sovereign Debt crisis it is important to also note that the projections for the Public Budget Balance (as a percentage of GDP), which are: -6.5% in 2020 and -1.8% in 2021.<sup>7</sup> 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. This raises questions on what the European response to the health crisis, and support to member countries, will be.

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<sup>7</sup> [https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/portugal/economic-forecast-portugal\\_en](https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/portugal/economic-forecast-portugal_en)