

# EU calls for Portugal wages to fall by a further 5%



The European Commission has argued that Portugal needs a further 5% average reduction in wages to ensure a balance between the unemployment rate and wage rates.

Portugal's government responded by saying that it continued to disagree with that view, arguing that recent increases in exports show that wage adjustment in the private sector has been "sufficient".

In its report on the 10th regular review of Portugal's economic and financial assistance programme, released on Thursday, the European Union executive states that "Portugal needs wage moderation sufficient to absorb unemployment" and outlines some estimates.

According to the commission's calculations, "a reduction of one percentage point in the unemployment rate demands a reduction in real wages of about 2.4%" – which it said means real wages falling 5% if the gap is to be closed between the current jobless rate and that at which wage levels will not lead to new increases in unemployment.

The report notes, however, that its estimates should be viewed "with caution" and that they are "very sensitive to the measure used for productivity".

The commission stresses the "significant adjustment" made since 2010 in terms of unit labour costs, which have fallen by almost 6% in the private sector over three years. However, it notes that Portugal is losing net foreign investment, meaning that even an improved trade balance is not sufficient to reduce the vulnerability in relation to the global economy.

In response to the commission report, Portugal's economy minister said that the wage adjustment in the private sector is "sufficient" and that companies' competitiveness is "well demonstrated" by the increase in exports in recent months. António Pires de Lima was speaking to journalists in a break from a meeting of a council of ministers in Brussels.

"The position of the Portuguese government on this matter is that which it has been defending in the troika's reviews," he said. "We believe that the wage adjustment made in the private sector was sufficient through the rules that we implemented in the labour laws."