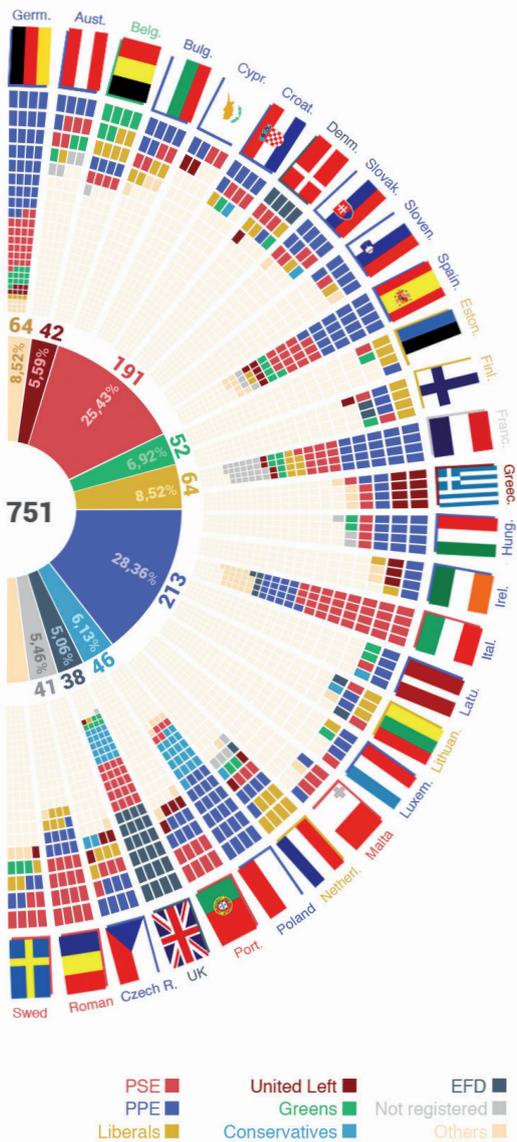


>> **From a "clean start" to a new increase on taxes**

Lisbon >> 06 >> 2014

European Elections
Parliamentary Distribution

Source: European Parliament, 28th May 2014



In mid-May Portugal concluded its adjustment programme successfully, i.e. it achieved its main goal of returning to the international markets. However, at the end of the same month the country had to face up to the new challenges immediately: alarming results in the European elections, a new blow from the Constitutional Court, certain instability in the leadership of the biggest opposition political party, economic slowdown at a European level, etc. In June, a large part of the future of national politics will be treated in a political context marked by uncertainty.

The intriguing results of the elections for the European Parliament, held on the 25th of May, allow for at least the following general conclusions to be drawn:

- Left-wing political parties triumphed in those countries under the direct influence of austerity policies (Portugal, Spain, Ireland and Greece); the right-wing won in those countries which are not directly under such influence (France, Great Britain, Denmark, Austria, Hungary, Poland, etc.).
- The parties of the European Commissioners lost, in absolute terms, millions of votes (Germany, England, France, Portugal, etc.).

However, it would not be very accurate to claim that that the left-wing parties have grown in the first group of countries and the right-wing in the second one: what has really grown is political extremism, while the political parties of both the left-wing and the right-wing of the Governmental spectrum have ended up being crushed. This phenomenon shows a deep change in the mentality of the electorate of the Member States of the EU and its origin could be explained by the consolidation of political populism associated with the rise in unemployment.

In the case of Portugal, the European results allow to observe a clear victory of the radical left (Portuguese Communist Party). The Socialist Party won in a very unconvincing way the Social Democratic Party/CDS - People's Party by less than 4%. This fact, considered together with the recent survey carried out by TVI-Intercampos (25th of May), allows one to deduce that, if the Portuguese legislative elections were held immediately after the elections on the 25th of May, the Socialist Party would win by less than 0.5% of the votes. In these circumstances, taking into account as well the very high abstention rate, that has reached an historical maximum (65.3%), Portugal would depend on a Government

of simple majority, as from another point of view some political analysts suggest, and would fall into a relatively ungovernable political framework.

On the 30th of May, the Government suffered a (new) blow from the Constitutional Court, this time related to three basic norms of the State Budget (2014). The new reprobation follows the line of the previous ones, according to which the Constitutional Court prevents any possibility of budgetary consolidation in the field of public expenditure. However, while in the past it was not clear whether an ideological interpretation of the constitutional principles was being made, this time that possibility became more evident: The Constitutional Courts declares: "the universal incidence measures, such as those concerning fiscal matters, offer better guaranties to avoid from the beginning a censorship that emanates from the implementation of the principle of equality".

This orientation of the Constitutional Court has at least two important consequences for the Portuguese society:

- The approval by the Council of Ministers of the increase in the GST, and of the Taxa Social Única (Income tax) as well as the solidarity Contribution. It is to be expected that the changes in the salaries of the civil servants will be approved the last week of June.
- It seems that the Constitutional Court is exceeding itself in its essentially juridical functions. As Maria Lucía Amaral (one of the dissident members of this fundamental

"In the national parliament, bills are going to be debated, which have the aim, among other ones, of modifying the statute of fiscal benefits, and approving a new Tax Code for investments"

juridical organ) says, a sphere that belongs to the Government and the Parliament, and not to the legal organs per se, is interfering in the political or legislative sphere.

This panorama which is in reality much more complex than what we have explained could lead to a slowing down of the national economic recovery. In fact, as a consequence of the mentioned ruling, the Government has restarted the dialogue with the Troika (2nd of June) and there are even some voices that say that the second financial rescue is about to become inevitable.

In the biggest opposition political party, the current leader, António José Seguro, is going to call primary elections for the 28th of September. There, among other matters, the leader of the party will be elected and his strategy on the current national political situation will be clarified. If António Costa, current mayor of Lisboa, were elected leader, the Socialist Party could obtain more solid results in the parliamentary elections in 2015. Such a simple fact could be very important when it comes to avoiding a politically ungovernable situation: the Socialist Party could achieve the absolute majority, both by its own merits and in coalition with the CDS - People's Party or by forming a block in the centre.

With regards economic policy, the increase of the minimum wage to 500 euros is still on the negotiating table, after the declarations of the Prime Minister along those lines. On a European level, the risk of deflation remains. This scenario could complicate even more the economic life of the countries on the geographical periphery, as it would increase the costs related to the payment of its debts and create additional obstacles for the growth of its internal consumptions. Some international analysts are worried about the possibility of Europe experiencing a similar situation to the one in Japan, where the economy suffered a process of deflation and stagnation of prices which resulted in anaemic growth rates for two decades. On a more positive note, it is known that the ECB will reduce the reference interest rates from 0.25% to 0.15% with the aim of stimulating a larger flow of currency circulation and the access to credit. Finally, there are some rumours that say that the ECB will lend about 40 billion euros to the small and medium-sized enterprises of the countries of southern Europe.

In the national parliament, bills are going to be debated, which have the aim, among other ones, of modifying the statute of fiscal benefits, and approving a new Tax Code for investments, as well as modifying the general law of credit institutions and financial societies. In terms of legislation about the constitution, rights, freedoms and guaranties, the parliamentary procedures of a bill have started for regulating the fight against corruption in accordance with the norms of the UN and the OECD, as well as white papers that could be the beginning of a broader and deeper debate in all society about the promotion of political transparency.





» **Carlos Ruiz Mateos.** Director in Imago-LLORENTE & CUENCA. Graduate in Humanities and Journalism by the Universidad Carlos III de Madrid and Postgraduate in Studies in Electoral Campaign Management by the Universidad Pontificia de Comillas. He is specialized in peaceful resolution of conflicts. In LLORENTE & CUENCA he has worked in projects such as Sociedad General de Autores y Editores (reputation crisis), Creators Coalition for achieving a legislative proposal of intellectual property on the Internet, Iberdrola and the Government of Georgia, among others. He has experience in institutional communication with the Spanish Ministry of Development in the defence of water policies between 2008 and 2009.



» **André Abranches.** Political scientist and analyst. He works as a Consultant in Imago-LLORENTE & CUENCA. Graduate in Political Science and International Relations by the Universidade Católica Portuguesa, Master in Political Theory by the Universidade Nova de Lisboa and Doctor in Political Philosophy by the same university and by the University of Chicago (2014). He has carried out an internship in the Embassy of Portugal in Argel, published scientific articles and translated several works of political thought.

d+i LLORENTE & CUENCA

d+i is the LLORENTE & CUENCA Ideas, Analysis and Trends Centre.

Because we have a new macroeconomic and social script. And communication is not lagging behind. It is progressing.

d+i is a global combination of relations and exchange of knowledge that identifies, focuses and transmits new communication patterns from an independent position.

d+i is a constant flow of ideas moving ahead of new trends in information and business management.

d+i LLORENTE & CUENCA exists because reality is not black or white.

www.dmasillorenteycuenca.com