Habemus pactum: the agreement on wages and competitiveness will be the benchmark until 2026

The government and social agents[1] have reached an agreement to establish a medium-term plan to improve households' incomes and businesses' competitiveness. Some of the measures were already incorporated into the draft 2023 Government Budget presented in October. In this article, we will provide an overview of the main measures and goals of this plan.

As far as households are concerned, the objectives seem promising, insofar as the plan aims to offset the impact of rising prices and interest rates, as well as the potential deterioration of the labour market. With regard to wages, the target is for them to reach 48.3% of GDP by 2026, a 3-pp increase compared to 2019. To this end, the agreement incorporates a 20% increase in the average income per worker between 2022 and 2026, as well as a rise in the minimum guaranteed monthly income (national minimum wage) to 900 euros by the end of 2026.[2]

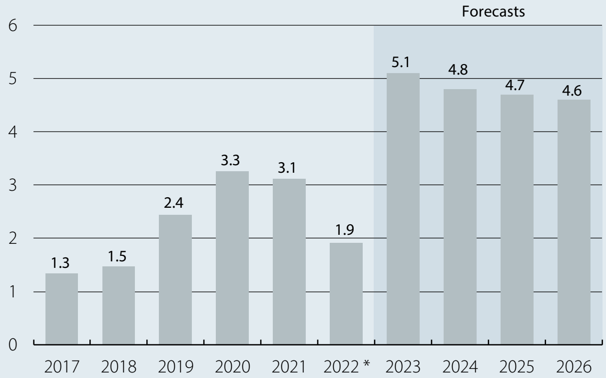
The first objective could prove to be a major challenge: if we take the historical trend in the average monthly gross base remuneration as a benchmark, fulfilling the agreement would require substantially higher increases than those seen in recent years (see first chart). As for the national minimum wage, this measure could potentially result in the percentage of workers who receive a remuneration equivalent to the minimum wage continuing to climb (as can be seen in the second chart).

In order to boost households' liquidity, the agreement also includes plans to raise the personal income tax bands by 5.1%, to guarantee fiscal neutrality in the wage updates (such that they do not result in workers falling into a higher income tax bracket, which would lead to a loss of income), as well as to bring tax withholding rates closer in line with the level of tax actually due (the degree to which this measure alters tax withholding rates could have significant ramifications for domestic demand in 2023; indeed, personal income tax reimbursements accounted for 2.2% of private consumption in 2021). It also includes an incentive to incorporate the long-term unemployed into the labour market and to boost overtime pay (from 100 hours upwards) by cutting the tax withholding rate by half. Finally, in the event of mass lay-offs or redundancy due to the elimination of a job position, the compensation is increased from 12 to 14 days.

1. Employers' confederations from industry, agriculture, tourism and the trade and services sector, as well as the UGT trade union.
2. The agreement establishes the following intentions for the minimum wage: 760 euros in 2023, 810 euros in 2024 and 855 euros in 2025. For the period 2022-2026, this represents a cumulative increase of almost 30%.

Portugal: average monthly base remuneration and objectives reflected in the agreement

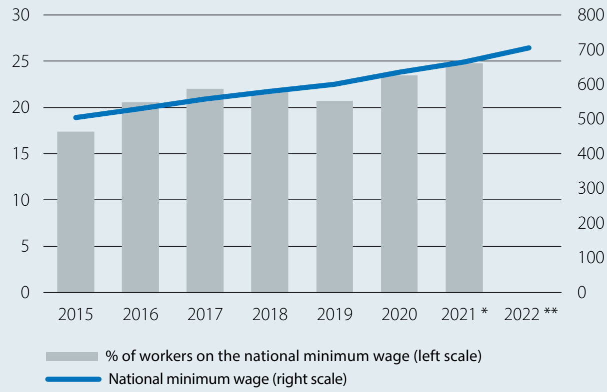
Year-on-year change (%)



Note: ** Gross base monthly average remuneration registered in 1H 2022.*
Source: *CaixaBank Research, based on data from the Wage Deal and the National Statistics Institute of Portugal.*

Portugal: workers on the national minimum wage

(% of total workers) *(Euros)*



Notes: ** Information available for 1H 2021 only. ** No information available for 2022.*
Source: *CaixaBank Research, based on data from the Portuguese Office of Strategy and Planning (GEP).*

As far as companies are concerned, it is not very clear what impact the measures might have, as on the one hand there will be an increase in personnel costs, but on the other, there will be tax relief measures and the intention to reduce administrative and transaction costs. In this regard, there will be bigger deductions in corporation tax due to the increase in wage costs for companies that meet certain milestones, such as hiring workers en masse, raising wages in accordance with the agreement and engaging in collective bargaining, as well as reducing wage inequality. Although the measure of wages as a proportion of GDP is still a far cry from the government's target, wages paid as a proportion of GVA has increased significantly since 2016: in the first half of

2022, they accounted for more than 60% of GVA, compared to 57% in 2016. On the other hand, it should also be noted that the level of non-financial firms' savings has been on the rise (over 20% of GVA), and this could prove an important buffer when it comes to dealing with the rise in costs associated with higher staff remuneration.

The agreement also includes measures which promote the capitalisation of companies, such as the creation of a tax scheme for incentivising business capitalisation, with the extension of the period during which it is possible to deduct share capital increases (from 6 to 10 years). In addition, corporation tax will be reduced for companies which invest in R&D, while the tax base limit for SMEs and companies located in the interior of the country will increase (from 25,000 to 50,000 euros), as it will for companies resulting from mergers (with the aim of promoting bigger company size). Various other tax relief/incentive measures are also adopted, such as lower taxes when buying hybrid plug-in vehicles and natural gas-powered vehicles, and the introduction of incentives to encourage the training of collaborators.

Finally, the agreement also includes measures aimed at minimising administrative costs and achieving a more favourable business environment, such as simplifying licensing, modifications to the Labour Compensation Fund (including the termination of contributions), an end to the obligation to file quarterly social security declarations for self-employed workers, new methods for making social security payments and the simplification of the process for obtaining licenses to produce energy through renewables.

This agreement is not binding or rigid: it merely contains a set of measures intended to guide the actions of social agents over the coming years, and it will be reviewed each year when the Government Budget is presented to parliament or as and when there is a change in economic and/or social conditions. A working group has been established to monitor and review the plan, composed of representatives from both the government and the social agents involved, and it will be supported by the Economic and Social Council.

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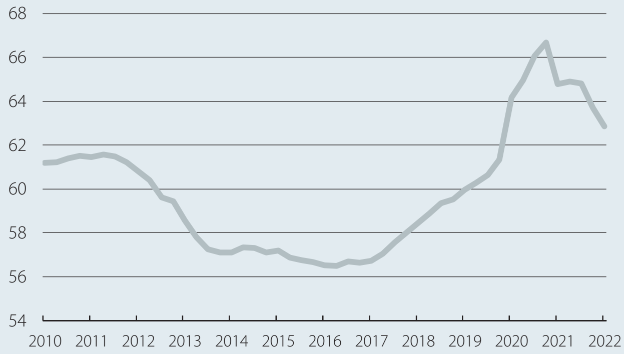
Portugal: wages as a proportion of the GVA of non-financial firms

(%)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal (National Accounts).*