

# A NEW ERA IN THE PORTUGUESE LABOUR MARKET - FCASTELO BRANCO & ASSOCIADOS

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**As we enter the annus horibilis of 2012, we are witnessing a significant effort by the Portuguese Government to try to overcome the crisis and to finally tackle Portugal's Labour market, which is**

**long due for reform.**

**Indicative is the new law on severance compensation for different types of employment agreements. It is based on two key pillars: i) a total severance payment of 20 days per year of service and ii) the future creation of an Employment Compensation Fund. Likewise there are new rules enabling the extraordinary renewal of fixed term employment agreements. And the Portuguese Government is also ready to review the unemployment benefits system. The outcome of these measures is unknown. However, we believe that the Portuguese Government's legislative response will meet international expectations and show its commitment to reduce the deficit, increase competitiveness and comply with our partners' demands.**

### **A new era in the Portuguese labour market**

As we enter the annus horibilis of 2012, we are witnessing a significant effort by the Portuguese Government to try to overcome the crisis and to finally tackle Portugal's Labour market which is long due for reform. It feels as if the Government has realised that it is time to face reality and take advantage of the approaching opportunities and tackle Portugal's Labour market challenges, which was long due for a reform of growth and competitiveness.

As our European partners are starting to recover, the trust and confidence of the financial markets and foreign investors becomes a high priority. For that purpose, it is essential that the Portuguese Government complies with its obligations under the Memorandum of Understanding signed with European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) in May 2011.

Law 53/2011, of 14 October, which establishes a new framework of severance compensation for different types of employment agreements, is a good example of Portugal's commitment. This new framework of severance compensation is based on two key pillars: i) a total severance payment of 20 days per year of service and ii) the future creation of an Employment Compensation Fund – a fund to be financed by employers to partly pay for the cost of dismissals of new hires.

This law will only apply to new employment agreements entered into after November 2011, but it is likely that it will be extended to all employment agreements in the future. In fact, the Portuguese Government must prepare a bill by the fourth quarter of 2012 aimed at aligning the level of severance payments to the EU average.

Law 3/2012, of 10 January, which establishes an extraordinary renewal of fixed-term employment agreements, is another example of Portugal's effort to fight against the scourge of unemployment. As a result, all fixed-term employment agreements which reach their maximum duration by 30 June 2013 may be renewed another two times, provided that the total renewal period does not exceed 18 months.

In order to fight labour market segmentation, as well as to reduce the risk of long-term unemployment, the Portuguese Government is also ready to review the unemployment benefits system, which will lead to several reductions, namely in the duration and amount of unemployment benefits.

The true outcome of these measures is both unpredictable and unknown. However, we believe that the Portuguese Government's legislative response will meet international expectations and show its commitment to reduce the deficit, increase competitiveness and comply with our partners' demands. A new and completely different world will arise and it will no longer be a question of adapting to the financial, economic, political and social changes, but a question of reacting to them on a day-to-day basis.

The future of Europe's economies lies in their ability to recreate a confident and trustworthy environment and to enhance competitiveness. Portugal is giving its best and will honour and comply with its commitments.

2012 is not likely to mean the end of the world, according to some predictions of the ancient Mayans, but it will certainly mark the beginning of a new era for Portugal.

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