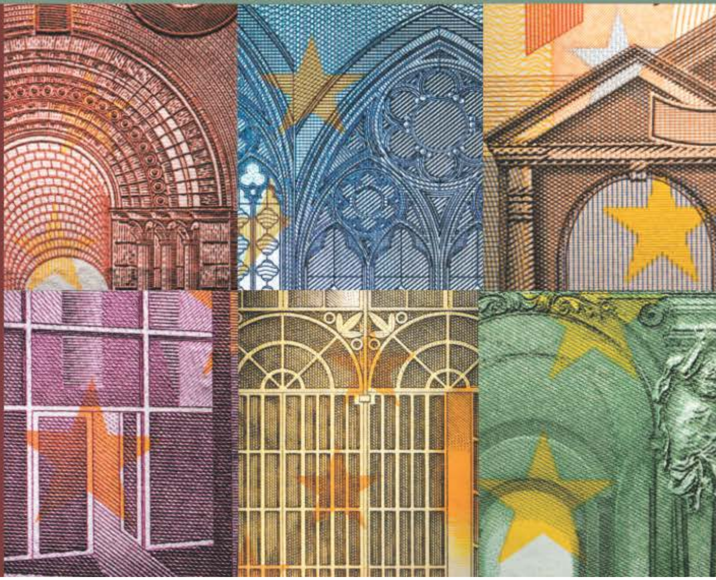
PORTUGAL POST-TROIKA THE DAY BEFORE AND THE DAY AFTER



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EUROSISTEMA

Outline

1. The day before

2. The day after

    2.1 Refinancing needs

    2.2 Public debt sustainability

    2.3 Conditions to ensure successful exit and long term sustainability in a monetary union

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1. The day before: Portugal's likely scenario at exit

Source:		*Banco de Portugal* [1]					*IMF (Seventh Review)*	
		2010	**2011**	**2012**	**2013P**	**2014P**	**2013P**	**2014P**
Real GDP Growth Rate	%	1.9	-1.6	-3.2	-2.4	1.1	-2.3	0.6
Inflation Rate (HICP)	%	1.4	3.6	2.8	0.4	0.8	0.7	1.0
Unemployment Rate	%	11.8	12.7	15.7	17.9	18.0	18.2	18.5
Public Sector Balance	%GDP	-9.8	-4.4	-6.4	-5.7	-6.0	-5.5	-4.0
Primary Balance	%GDP	-7.0	-0.4	-2.0	-1.2	-1.4	-1.1	0.4
Interest rate expenditure	%GDP	2.8	4.1	4.4	4.5	4.6	4.4	4.4
Memo item: Public Sector Balance excluding temporary measures and special factors	%GDP	-8.7	-7.1	-6.0	-5.8	-6.0		
Public Sector Debt	%GDP	94	108	124	130	134	123	124
Average Interest Rate on Public Debt	%	3.2	4.0	3.7	3.5	3.5		
10-Year Government Bond Yield	%	-	-	10.6	5.8	5.8	6.0	6.0
Household Debt	%GDP	94	93	91	n.a.	n.a.		
Non Financial Corporations Debt	%GDP	129	131	133	n.a.	n.a.		
Credit to Deposits Ratio - Major Banking Groups	%	147	129	120	115	110		
Current + Capital Account Balance	%GDP	-9.4	-5.8	0.8	3.9	4.8	1.7	1.6
Trade Balance (G&S)	%GDP	-7.2	-3.8	0.1	2.9	3.7	2.3	3.2
International Investment Position	%GDP	-107	-105	-117	n.a.	n.a.	-116	-112
External Demand Growth Rate	%	9.9	3.5	-0.2	-0.3	3.6		

Notes: (1) Projections sent to Eurosystem (June 2013 MPE), except for the Credit to Deposits Ratio.

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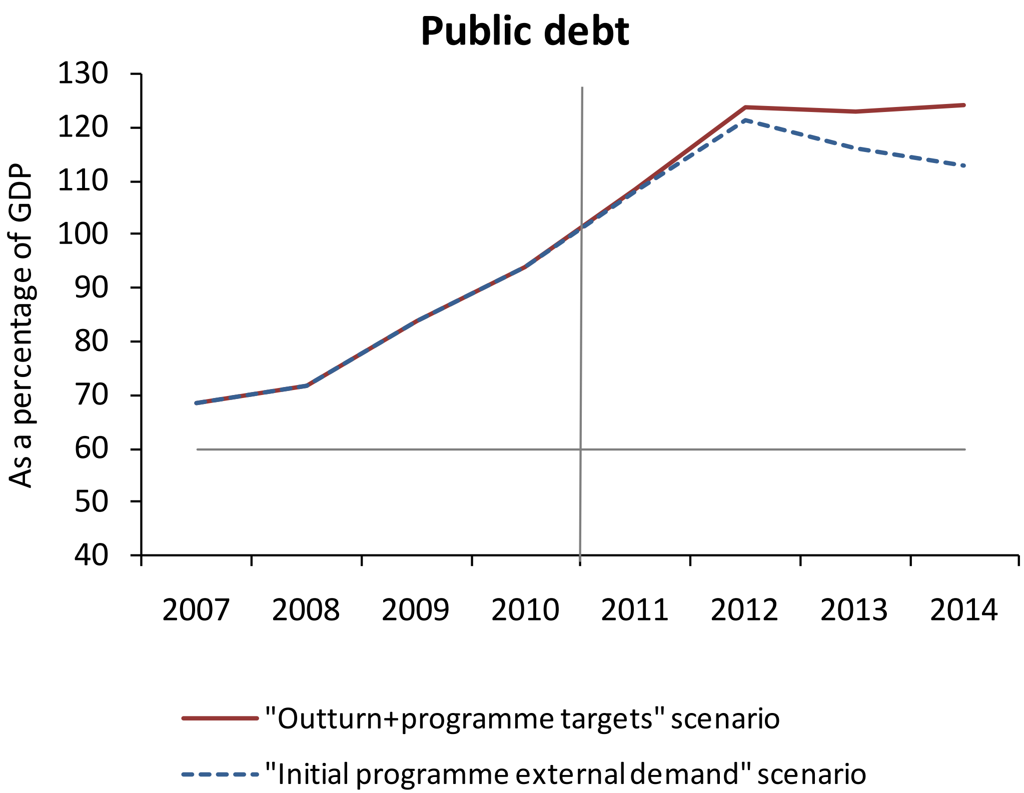
1. The day before: Impact of external environment on public debt outcome

The materialisation of the **external environment projected at the beginning of the Programme** would imply that the debt ratio would already be on a downward path



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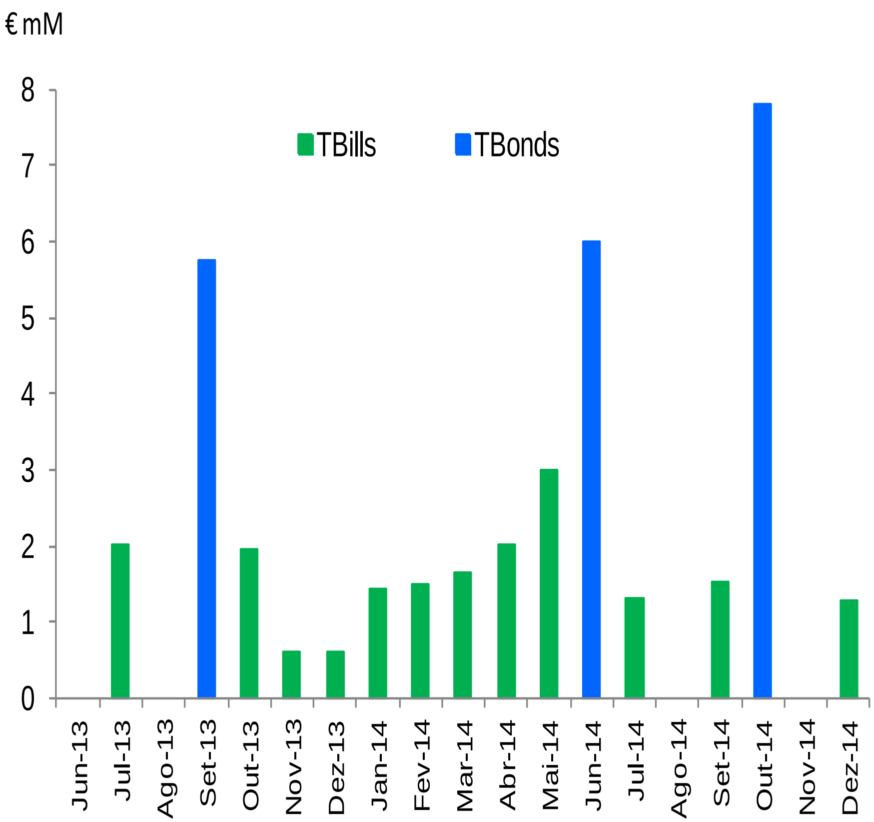
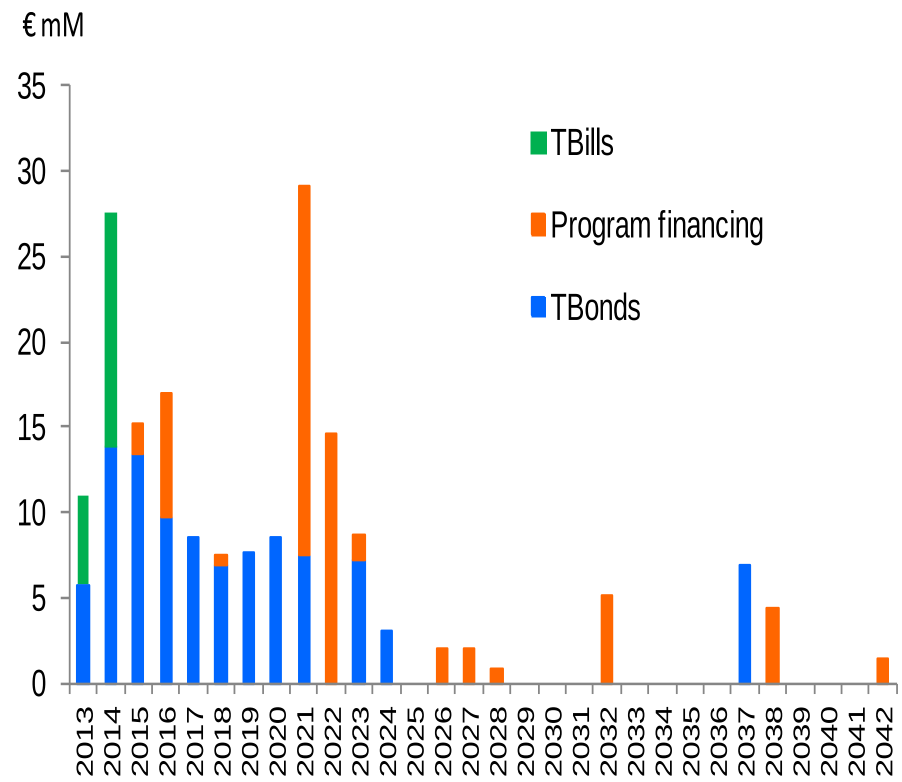
Source: Banco de Portugal

2.1 Debt refinancing needs before the maturities extension





Source: Banco de Portugal

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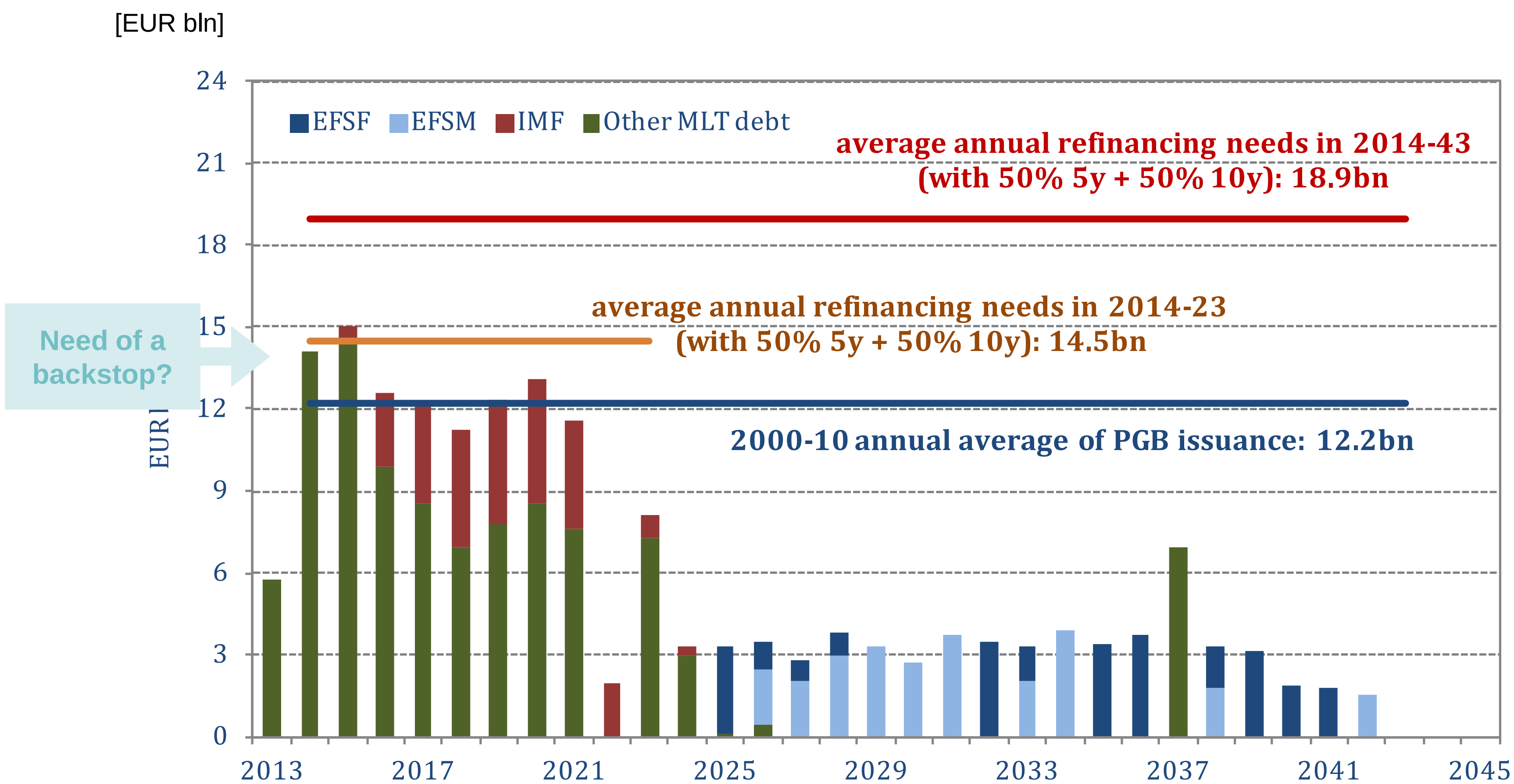
2.1 Debt refinancing needs after the maturities extension



Refinancing needs in the transition period are higher than the annual historical average of PGB issuance (and rating was AA…)

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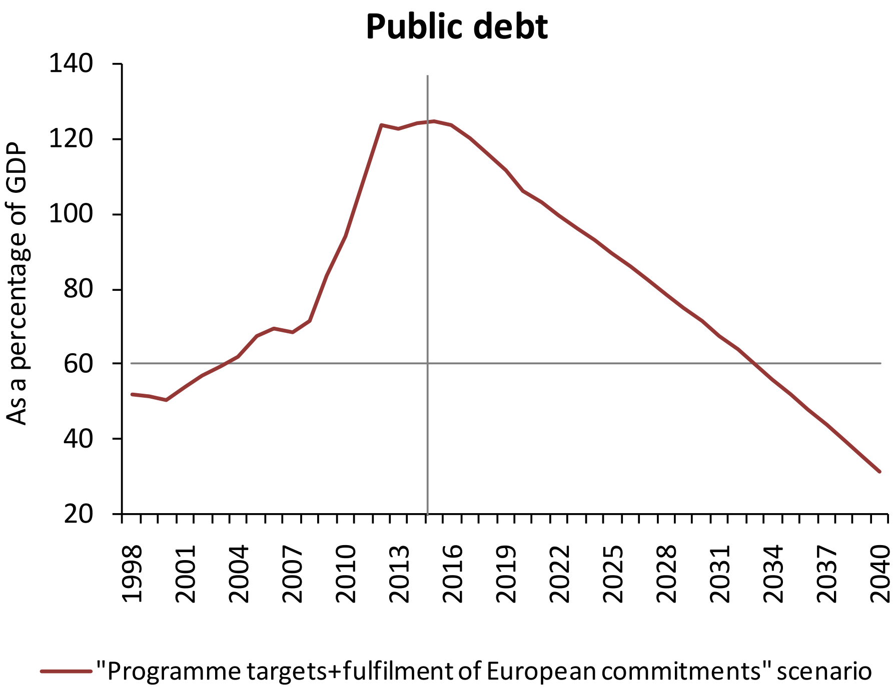
Source: IGCP

The fulfilment of the **Programme targets** and of the **commitments under the Fiscal Compact** imply a clearly sustainable path for public debt, even under conservative growth assumptions.



Main assumptions:

- Fulfilment of the Programme targets in 2013 and 2014.
- Increase of the structural primary balance by 0.5% of GDP per year until 2020, reaching the MTO.
- Consolidation effort exclusively on the expenditure side.
- Average nominal GDP growth of 3%.
- Increase in the implicit interest rate on public debt to 4.4% in 2020 (3.9% in 2012).

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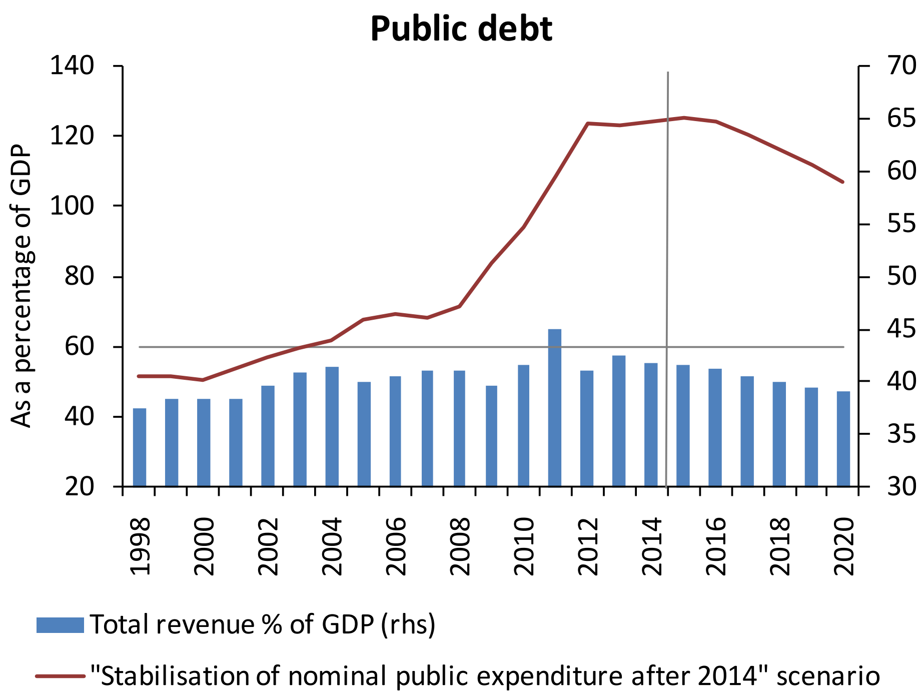
Source: Banco de Portugal

A smooth and fully credible adjustment of expenditure (stabilising in nominal terms from 2015 onwards) would give room to reduce tax burden, while maintaining debt sustainability



Main assumptions:

- Fulfilment of the Programme targets in 2013 and 2014.
- Stabilisation of nominal expenditure from 2015 onwards.
- Gradual decline of direct taxes throughout the horizon.
- Increase of the structural primary balance by 0.5% of GDP per year until 2020, reaching the MTO.
- Average nominal GDP growth of 3%.
- Increase in the implicit interest rate on public debt to 4.4% in 2020 (3.9% in 2012).

Source: Banco de Portugal

2.3 Conditions to ensure successful exit and long term sustainability in a monetary union

Portugal: The Post-Troika

How to ensure that market access is not reversed?

How to ensure a balanced and sustainable growth of the Portuguese economy within a monetary union?

DOMESTIC CONDITIONS
(Portugal)

"Ownership + Partnership"

Responsibility + Solidarity

EXTERNAL CONDITIONS
(Euro Area)

Short-term | *Long-term* (Domestic conditions)

Short-term | *Medium to Long-term* (External conditions)

CONTINUATION OF THE ADJUSTMENT

- Consolidation of **public finances**
  Multiannual budget framework
  Building capacity in Public Administ.
- **Bank** profitability
  Reduction in operational costs
  Deal with the "legacy" assets
- **NF private sector** deleveraging
  Strengthening financial autonomy of firms
- Handle **structural unemployment**
  Social support network; requalification
- Improve **potential output growth**
  Tax reform, national system of innovation, product market competition; functioning justice, etc.

NEW "SOCIAL AGREEMENT"

New **institutional framework** that encourages behaviours consistent with preservation nominal stability / competitiveness by

- **Political actors /public sector**
  Reform the budgetary process
  Public Finance Council
  Reform the public administration governance model
- **Social Partners**
  Income Distribution Mechanism

INSURANCE MECHANISM

- Protection against possible adverse **external developments**
- Ensure that investors "**do not burn their fingers**"
- **Conditionality**
  Precautionary Program

STABILITY AND GROWTH IN THE EA

- Correcting imbalances in the **surplus countries**::
  Real wages rise?
  Counter-cyclical fiscal policy?
- Break then link between **banks-sovereign**
  Banking Union
  Change in financial regulation
- Accommodative **monetary conditions**
- Promote credit to **SME**
- Deepen the **Internal Market**
- More ambitious **structural reforms**

POLITICAL AND SOCIAL CONSENSUS

Base on the constraints / limits that the economic policy face

MUTUAL TRUST BETWEEN MEMBER STATES

Integration of individual perspectives into a perspective for all
(Logic of a positive sum game)

END

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