

Restoring Stability and Growth in the Portuguese Economy



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EUROSISTEMA



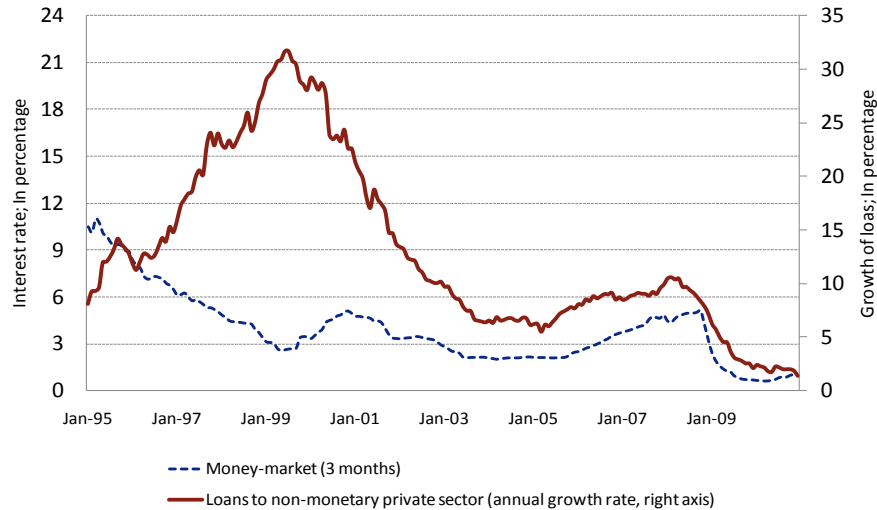
Outline

- I. The seeds of the crisis (1995-2010)
- II. The closure of markets (2007-11)
- III. The Economic Adjustment Programme (2011-14)
- IV. Looking beyond 2014

I. The seeds of the crisis (1995-2010)

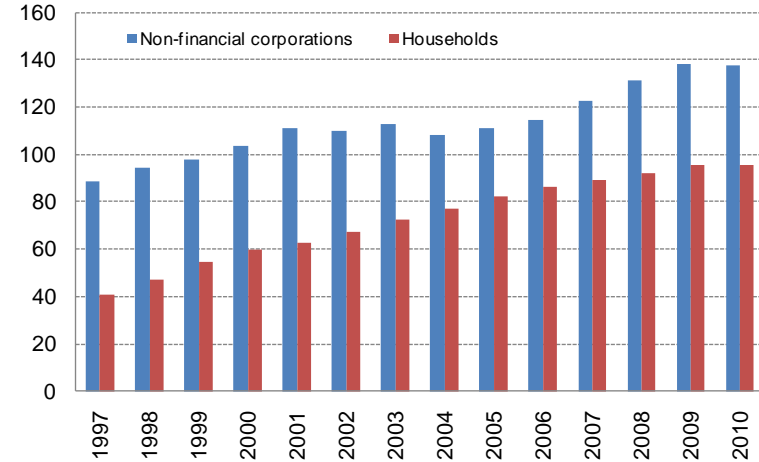
EMU enlarged the financing possibilities of domestic agents ...

Interest rate and loans to the private sector



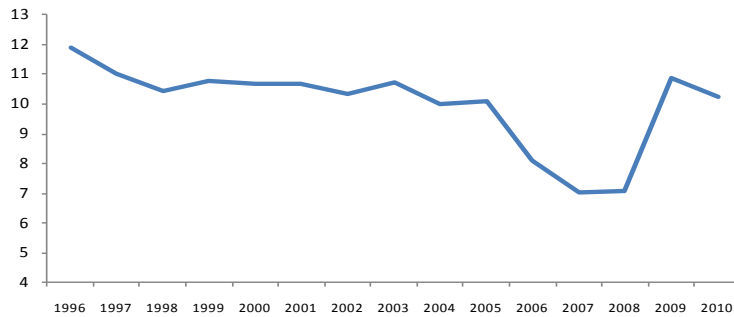
Sources: ECB and Banco de Portugal.

**Indebtness of the non-financial private sector
(% of GDP)**

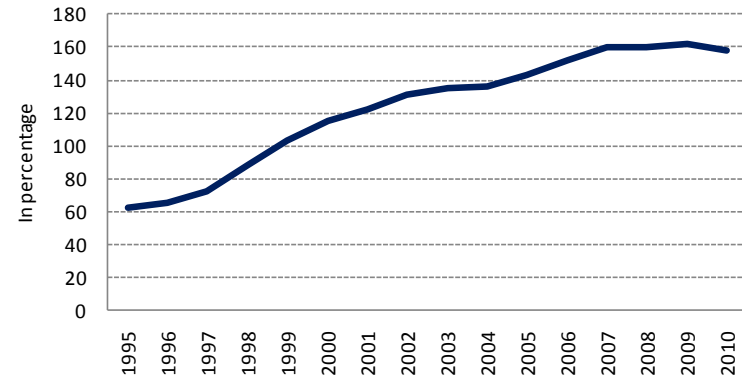


Sources: INE (Statistics Portugal) and Banco de Portugal.

**Households' Savings Rate
(% Disposable Income)**



Credit to deposits ratio

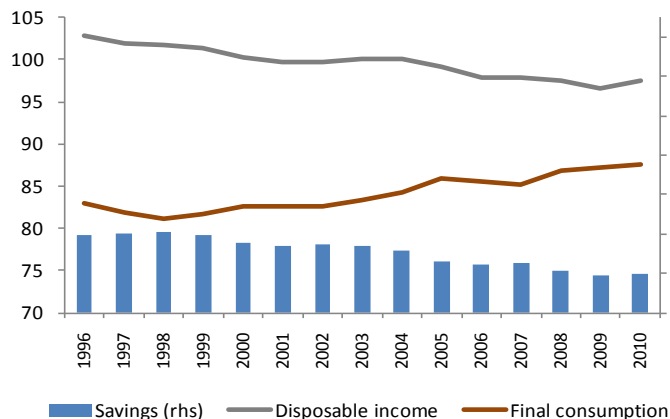


I. The seeds of the crisis (1995-2010)

Higher spending not matched by higher income ...

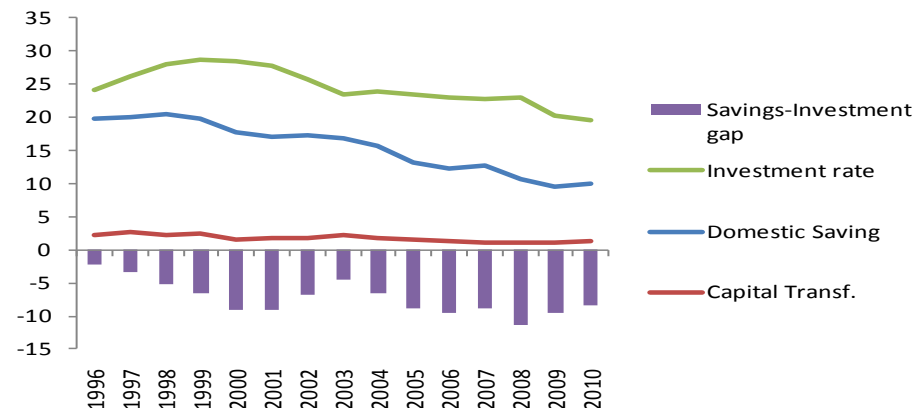
Income and Consumption

(Total economy, % GDP)



Savings and Investment

(% GDP)



A unfavourable composition of expenditure ...

Portugal - Composition of Expenditure (current prices)

(average rate of nominal growth)

	GDP	Private consumption	Public consumption	GFCF	Exports	Imports	<i>p.m. EA12</i> GDP
1996-2010	4,7	4,8	6,1	3,5	5,8	5,8	3,3
1999-2010	3,9	4,3	5,5	1,0	5,0	4,4	3,3
1996-2001	7,3	6,8	9,1	10,3	8,0	9,7	4,1
2002-2007	4,0	4,5	4,5	0,7	6,4	4,9	4,1
2008-2010	0,7	1,4	3,3	-4,3	0,1	-0,2	0,5

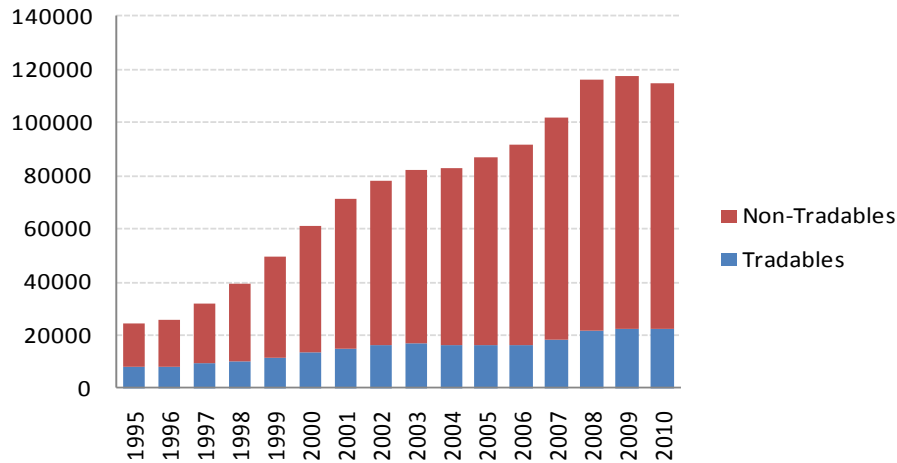
Source: INE and AMECO.

I. The seeds of the crisis (1995-2010)

A growing weight of the non-tradable sector...

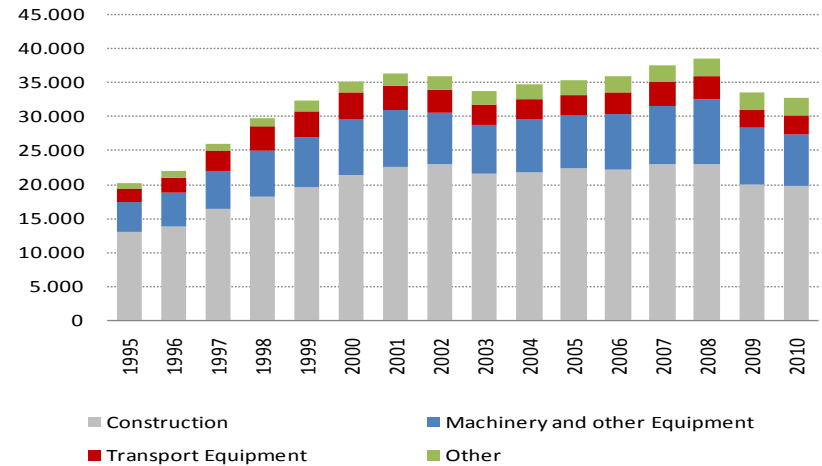
Loans to Non-Financial Corporations

Million euro



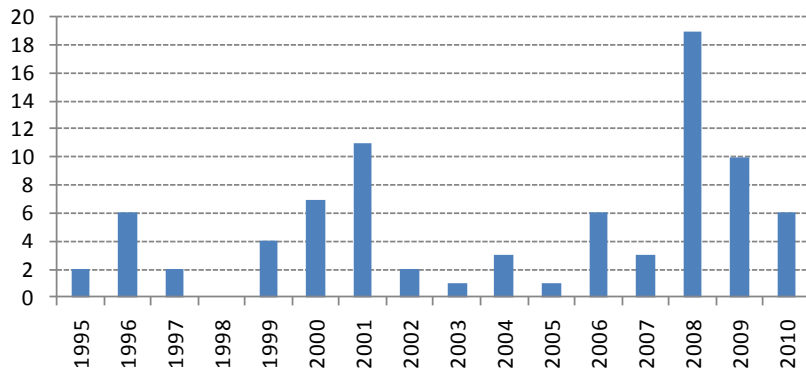
Investment by Type of Goods

Current prices; Million euro



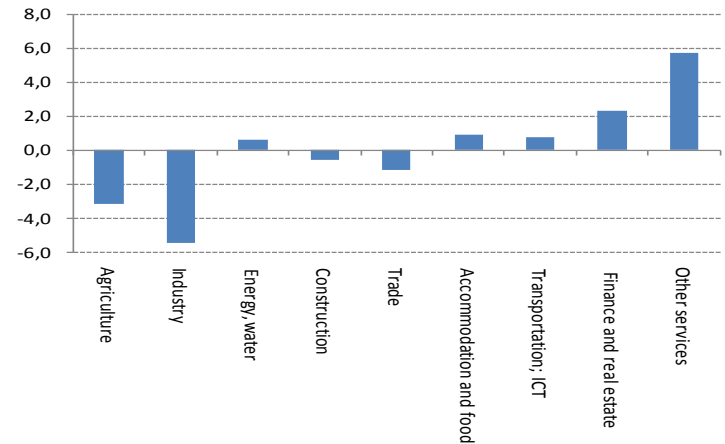
PPPs and Concessions

Number of projects launched



Weight in GVA

2010-1995; Change in p.p.

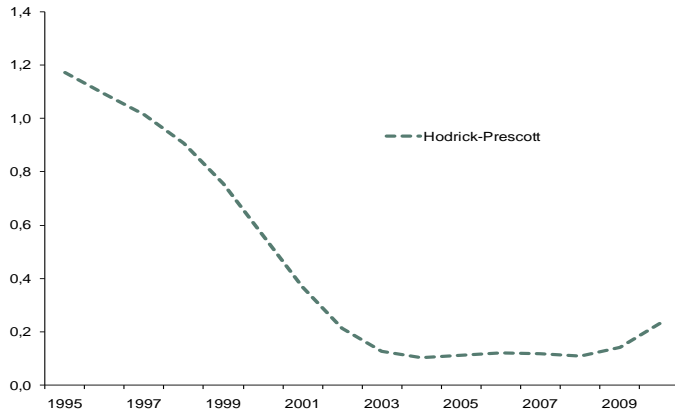


I. The seeds of the crisis (1995-2010)

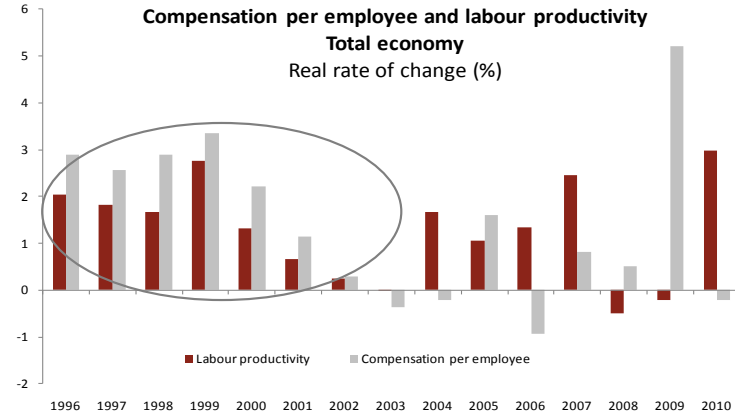
Lower productivity and wage pressures hurt competitiveness.

The effect was compounded by EU enlargement and globalisation.

Trend TFP growth

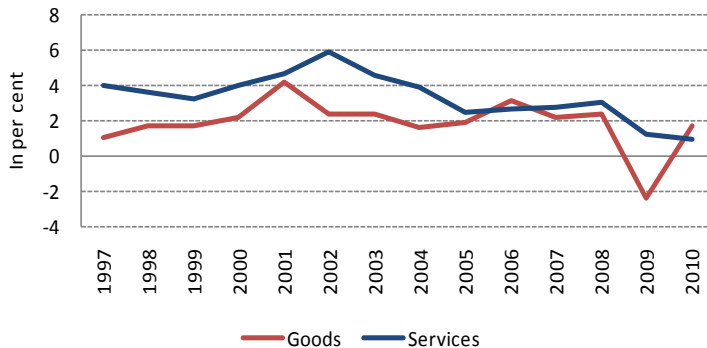


Source: Banco de Portugal.

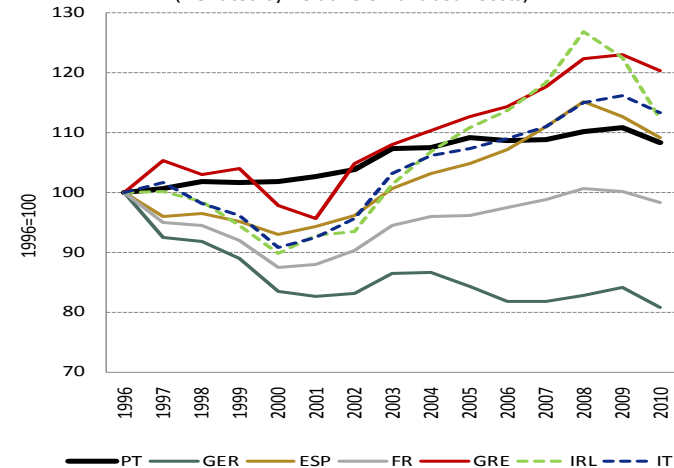


Sources: INE and Banco de Portugal.

Consumer Prices average rate of change



Real Effective Exchange Rate (Deflated by Relative Unit Labour Costs)

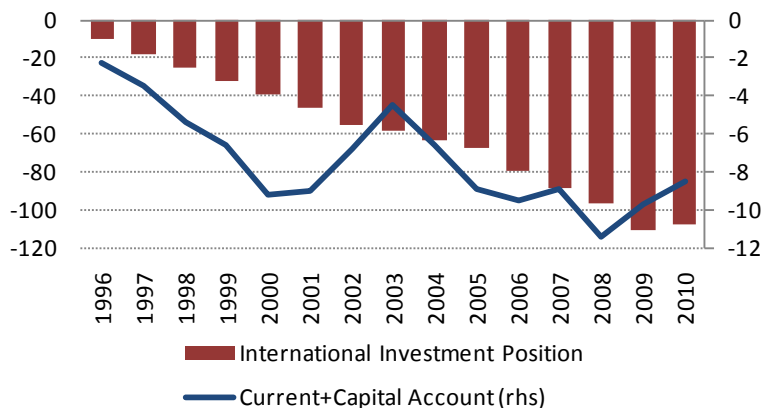


I. The seeds of the crisis (1995-2010)

Higher relative spending and lower relative output...

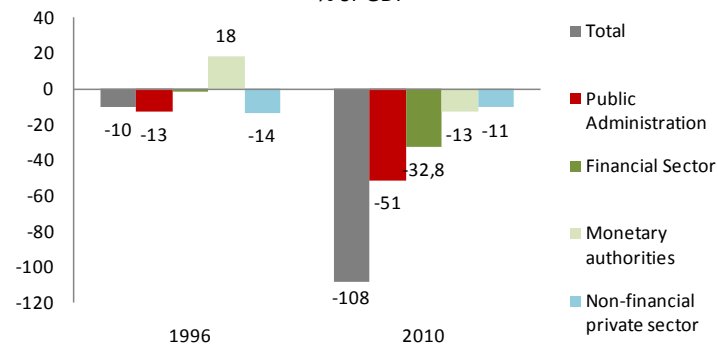
External Accounts and International Investment

Position
% of GDP



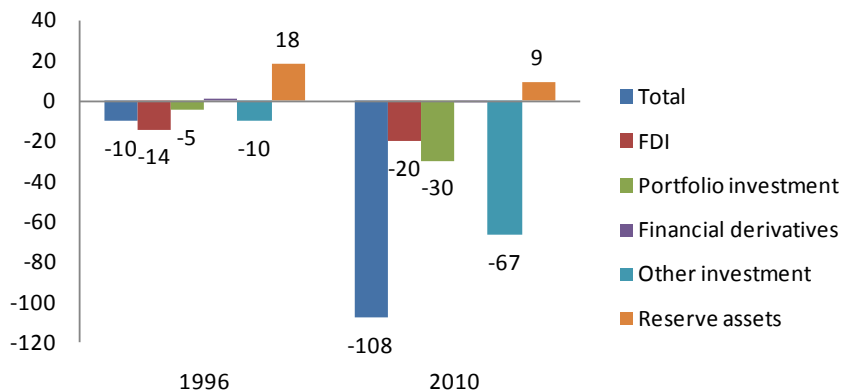
International Investment Position by sector

% of GDP



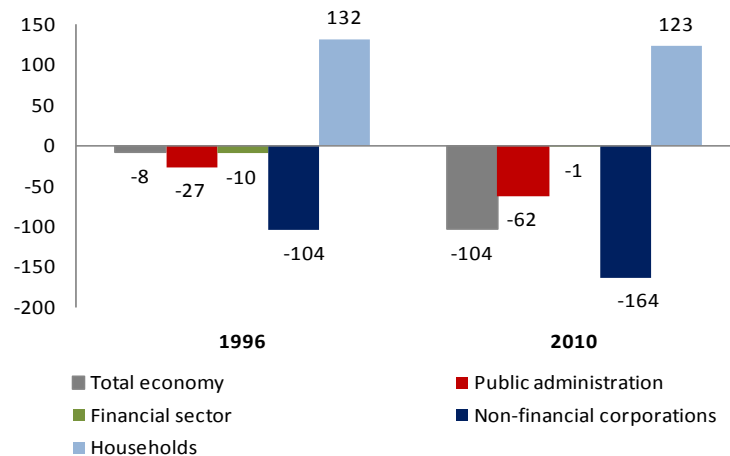
International Investment Position by instrument

% of GDP



Net financial assets

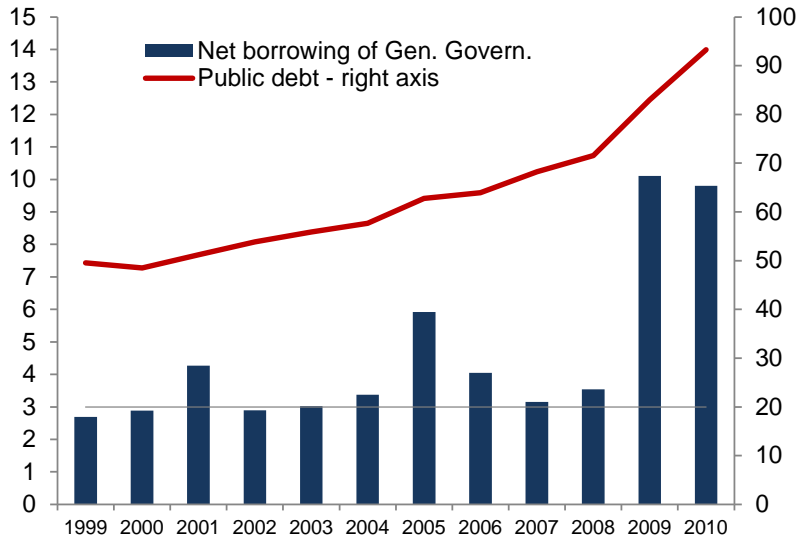
% of GDP



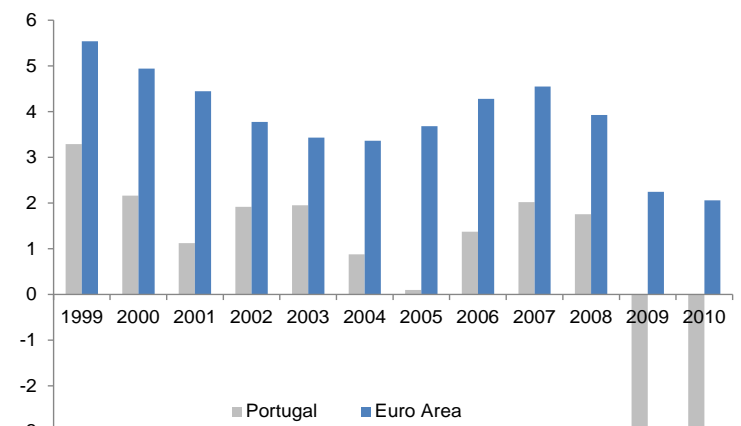
I. The seeds of the crisis (1995-2010)

Imprudent fiscal policies led to unsustainable public finances

Deficit and public debt
As a percentage of GDP



Structural Current Primary Balance
As a percentage of GDP



Fiscal indicators 2007-2010

% of GDP	2007	2008	2009	2010	Change 2010-2007
Total balance	-3,1	-3,6	-10,2	-9,8	-6,7
Structural balance	-4,3	-6,2	-11	-13,2	-8,9
Structural primary balance	-1,4	-3,2	-8,2	-10,3	-8,9
Public debt	68,3	71,6	83,1	93,3	25

Source: INE and Banco de Portugal.

Huge fiscal expansion in 2007-10

- Success in stabilising the economy was short-lived.
- Not timely-targeted-temporary.
- Risk of refinancing grossly underestimated.

II. The closure of markets (2007-11)

Macroeconomic imbalances came to the spotlight in the context of the global economic and financial crisis

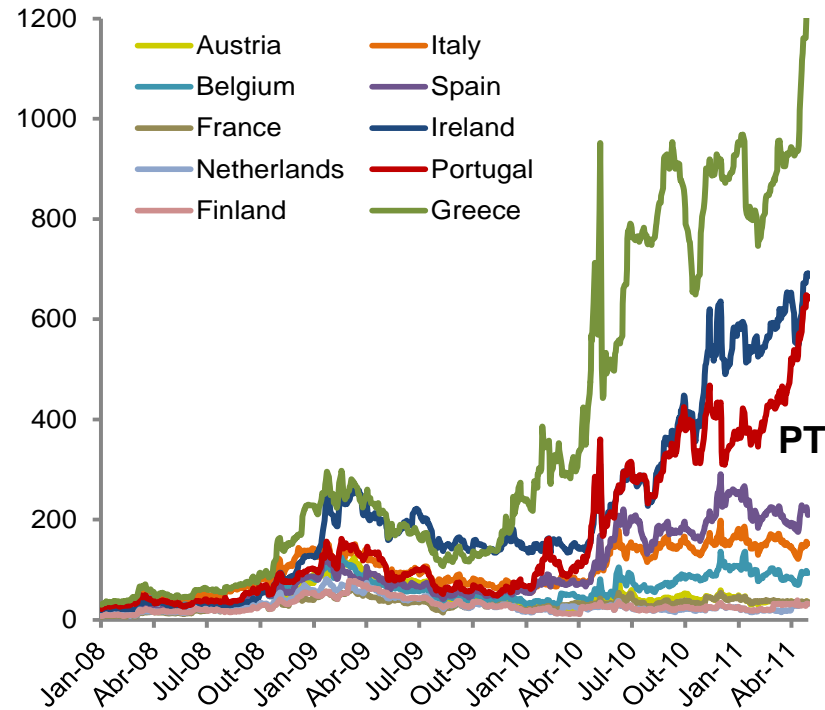
Unsustainable public finances

Over-indebtedness and excessive bank leverage

Anemic economic growth and low productivity

Markets question the ability of Portugal to repay its debts

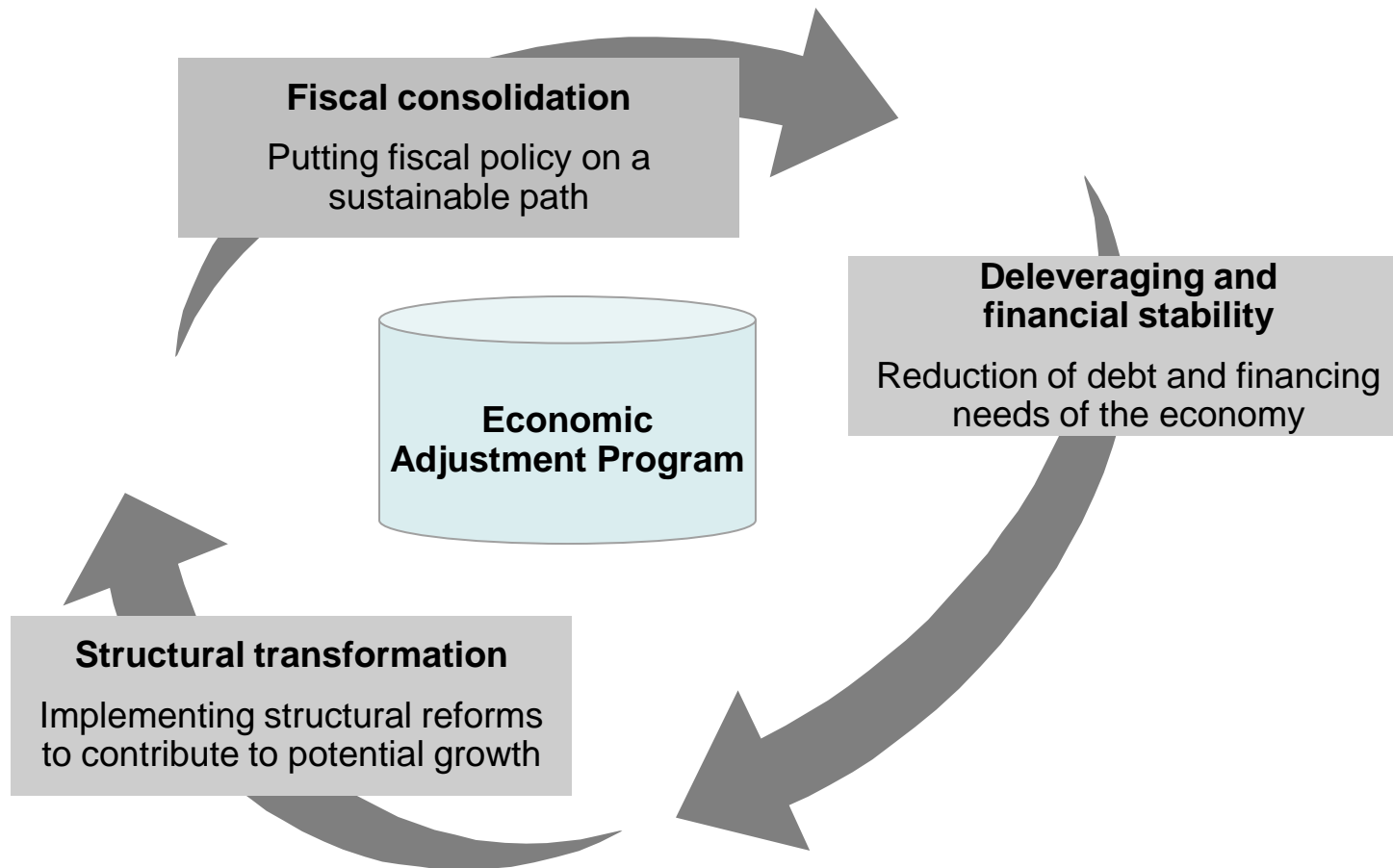
10-year Government bond yields
Spread against Germany in basis points



Source: Bloomberg

III. The Economic Adjustment Program (2011-14)

Addressing the challenges of the Portuguese economy: A strategy for sustainable growth in the euro area

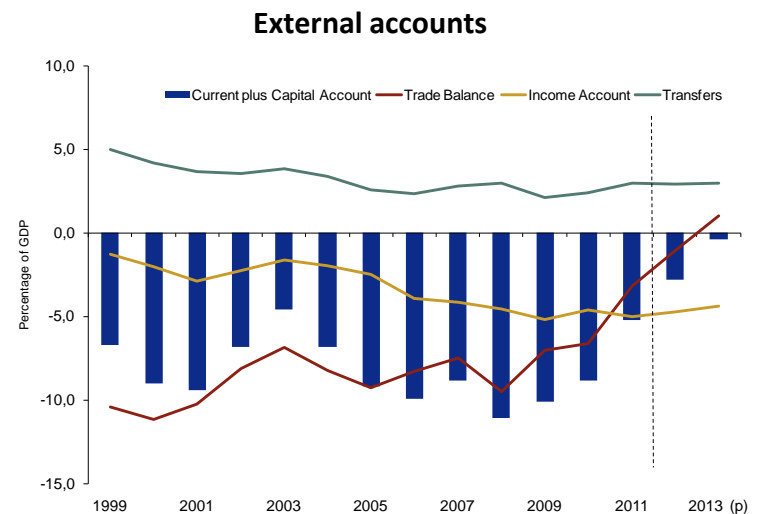
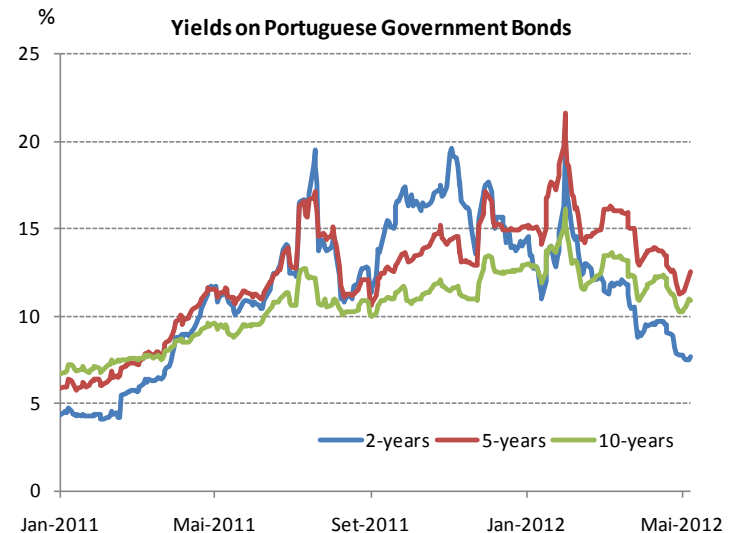


The Economic Adjustment Program **protects the financing of the economy** from market pressure, allowing an **orderly adjustment of imbalances** and **time to restore credibility**.

III. The Economic and Financial Adjustment Program (2011-14)

Portugal is delivering on all fronts...

- Banks more capitalized and less leveraged
- Significant structural adjustment of public accounts
- Structural reforms under way:
 - ✓ Fiscal framework
 - ✓ Privatization
 - ✓ Labour market
 - ✓ Utilities
 - ✓ Justice
 - ✓ Housing market



Sources: INE (Statistics Portugal) and Banco de Portugal.



III. The Economic and Financial Adjustment Program (2011-14)

The near term challenges...

- Keep momentum on program implementation
 - ✓ Reform design and enforcement are key
- Key concerns:
 - ✓ Labour market developments
 - ✓ Credit to the economy
- Return to markets in Sep 2013
 - ✓ Depends also on EU institutional developments
 - ✓ Insurance mechanism needed



III. The Economic and Financial Adjustment Program (2011-14)

The longer-term challenge: Sustainable macroeconomic stability and healthy growth

- Consolidating a new economic model
 - ✓ Debt levels will remain high
 - ✓ Significant export growth potential to be tapped
 - ✓ Redefining the role of the State
 - The State as a referee not a player
 - Highly qualified public administration
 - Ensuring the stability of the tax system and public policies
 - Promoting transparency (a “free lunch”)



The Economic and Financial Situation in Portugal

Thank You!