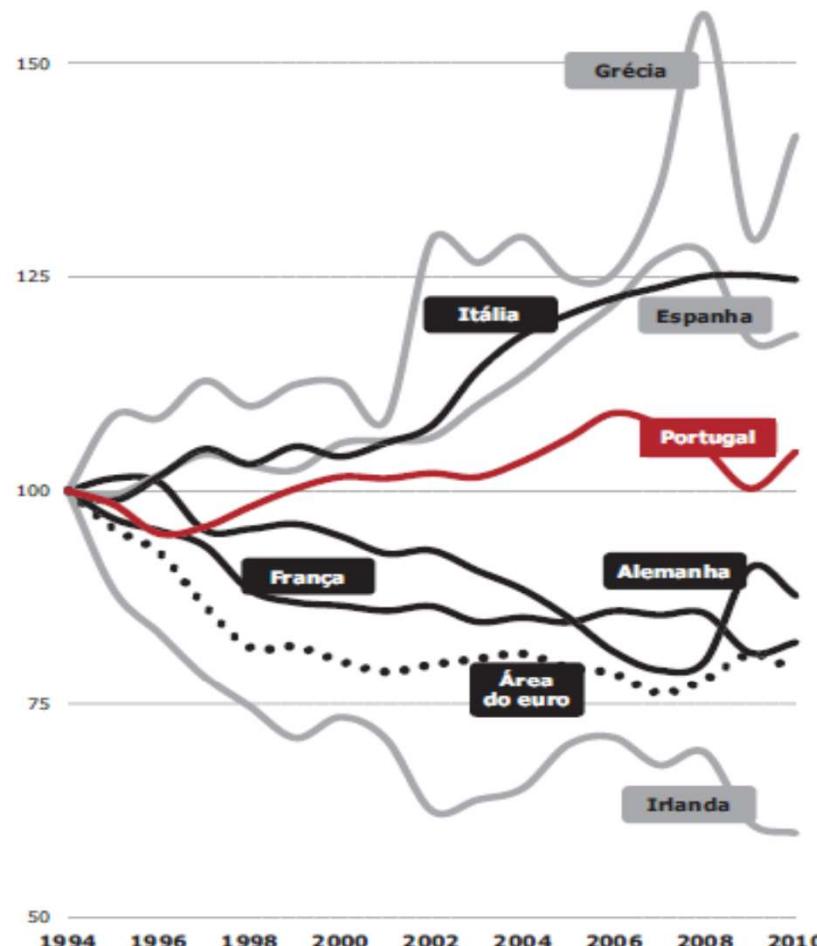


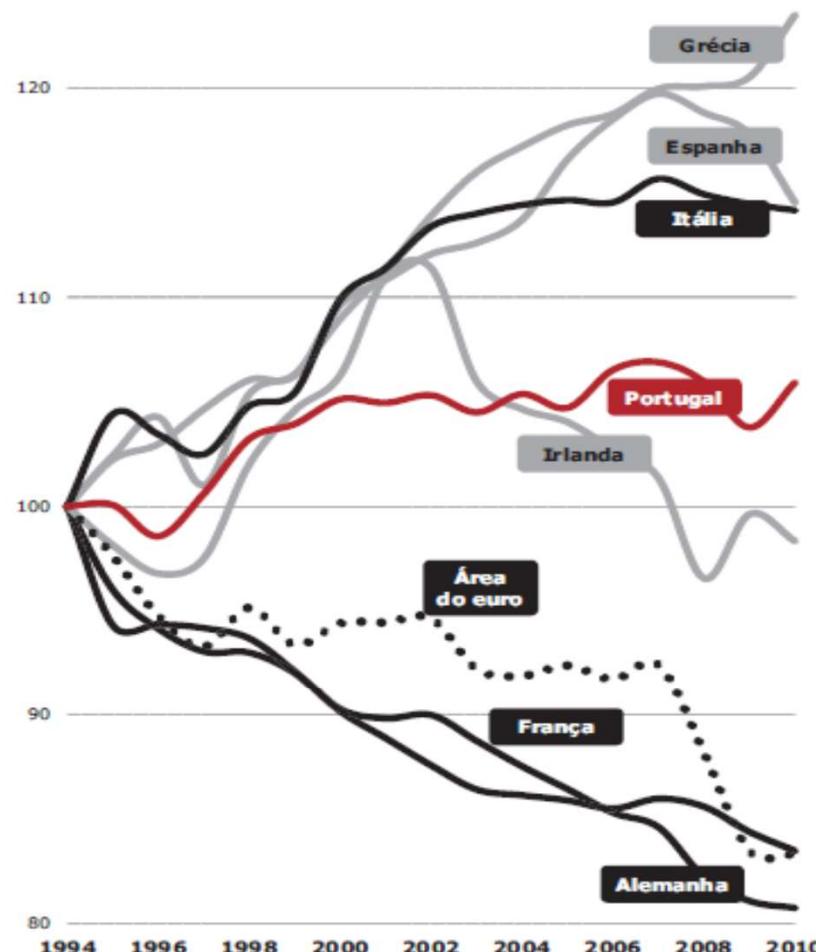
# The Crisis in Portugal (2009-2014) - Plans, strategies, reality and overcoming

Pedro Passos Coelho  
Lisbon, 17 October 2019

**Gráfico 17.5.** Custo em trabalho por unidade produzida no sector transacionável | 1994 a 2010



**Gráfico 17.6.** Preços de exportação no sector transacionável | 1994 a 2010

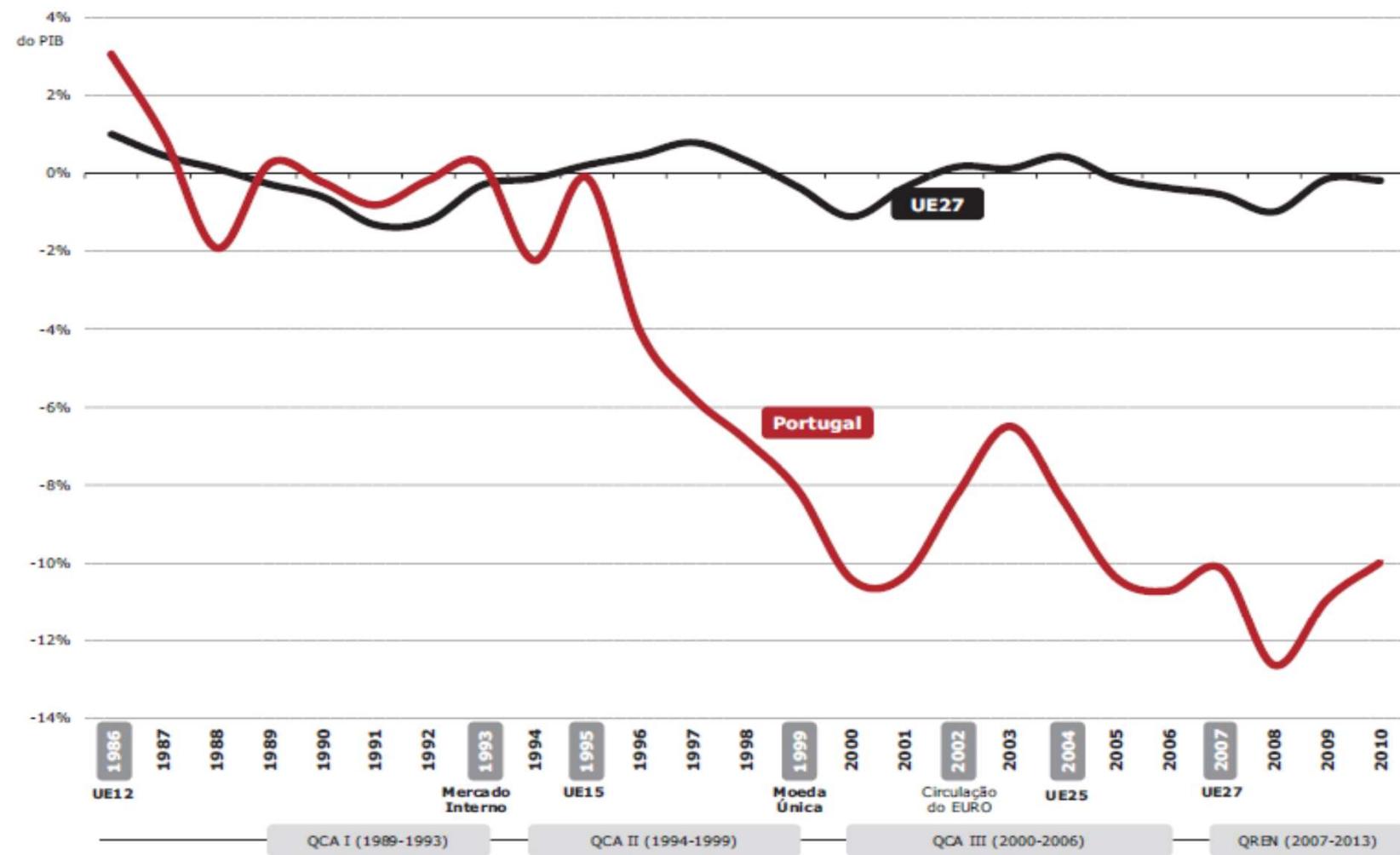


A evolução mais rápida dos preços de exportação e dos custos em trabalho por unidade produzida justifica a perda de competitividade e de rendibilidade do sector transacionável em Portugal e, sobretudo, na Europa do Sul.

Nota: Evolução face à média da UE27 com índice base 100=1994.

Fonte: Comissão Europeia (acedido em maio de 2012)

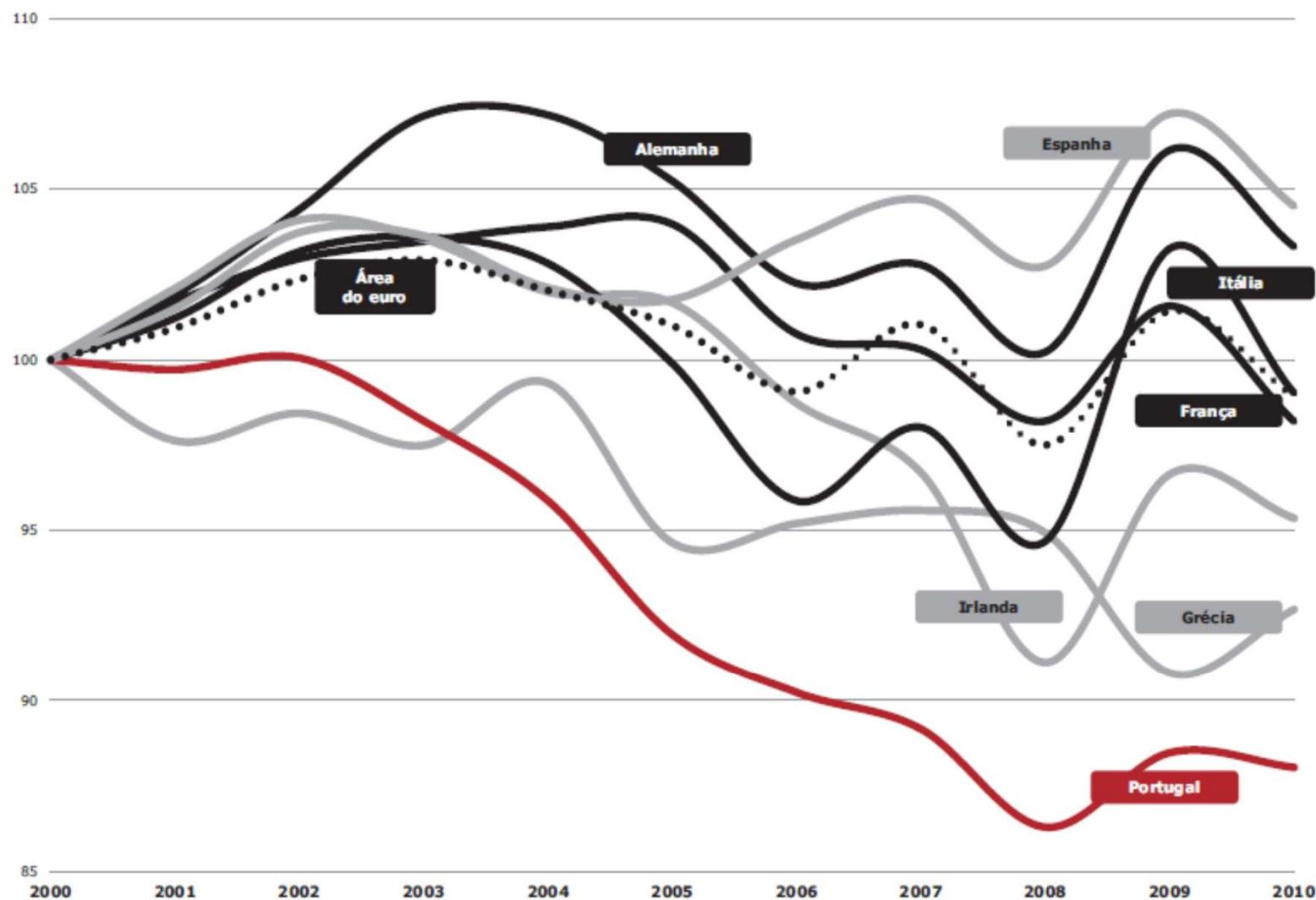
**Gráfico 15.2.** Balança corrente: comparação entre Portugal e UE | 1986 a 2010



A divergência de Portugal face ao padrão de equilíbrio externo europeu acentuou-se a partir de 1995, tendência que Portugal só consegue atenuar nos períodos de crise.

Fonte: FMI e Banco Mundial  
(acedido em janeiro de 2012)

**Gráfico 17.7.** Termos de troca: comparação entre Portugal, parceiros iniciais da coesão e maiores economias do euro | 2000 a 2010

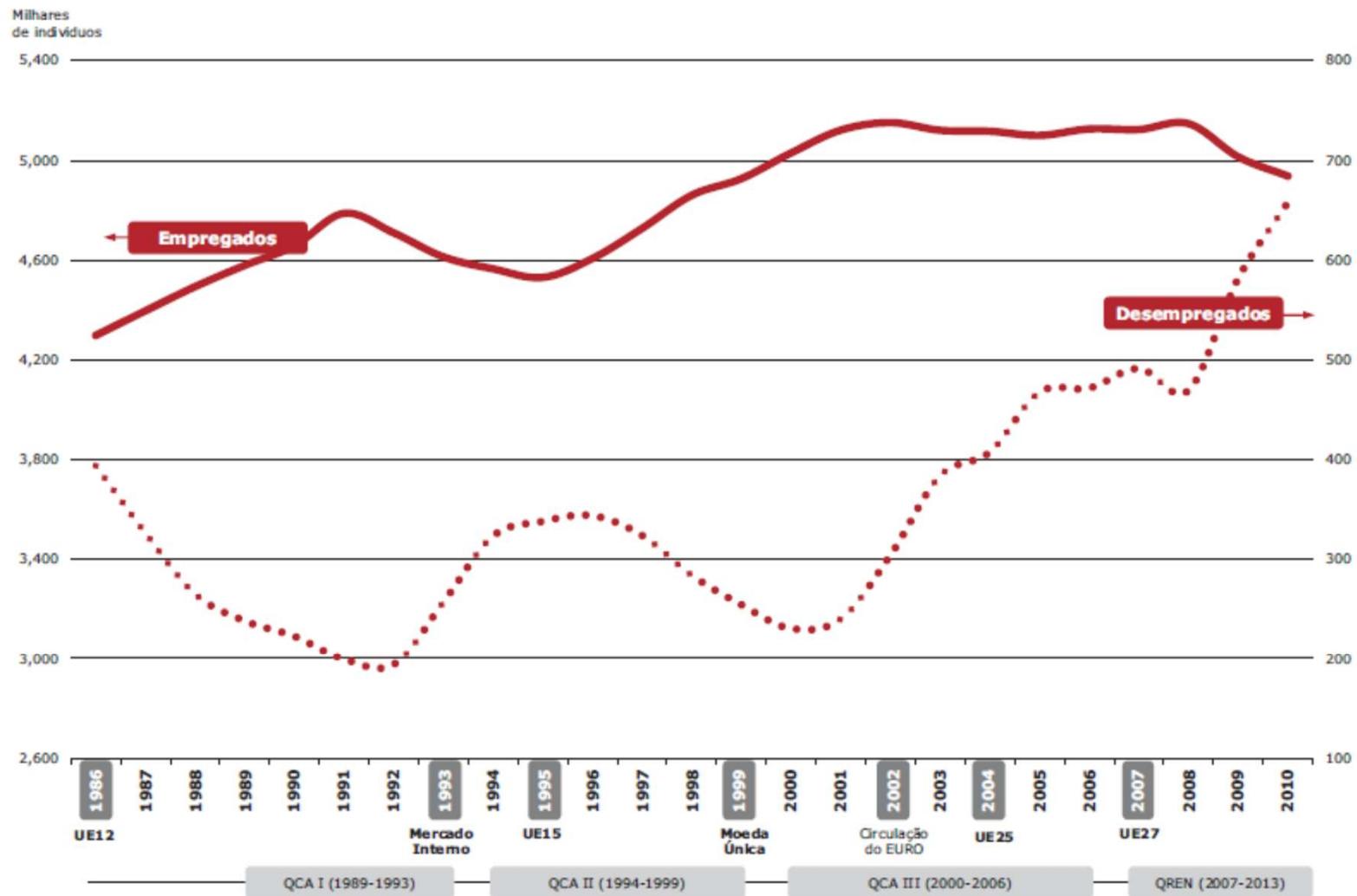


Portugal registou, entre 2000 e 2010, uma redução pronunciada dos seus termos de troca, rácio que compara o preço unitário das exportações com o preço unitário das importações.

Nota: Evolução em índice base 100=2000. Os termos de troca correspondem ao rácio entre o preço unitário das exportações e o preço unitário das importações.

Fonte: Cnuced (acedido em Maio de 2012)

**Gráfico 32.1.** População empregada e desempregada em Portugal | 1986 a 2010



Com exceção do período em torno da recessão de 1993, o emprego subiu até à viragem do século e superou a barreira dos cinco milhões entre 2000 e 2009. Os desempregados mantiveram-se abaixo do nível de 1986 até 2004, acelerando desde então.

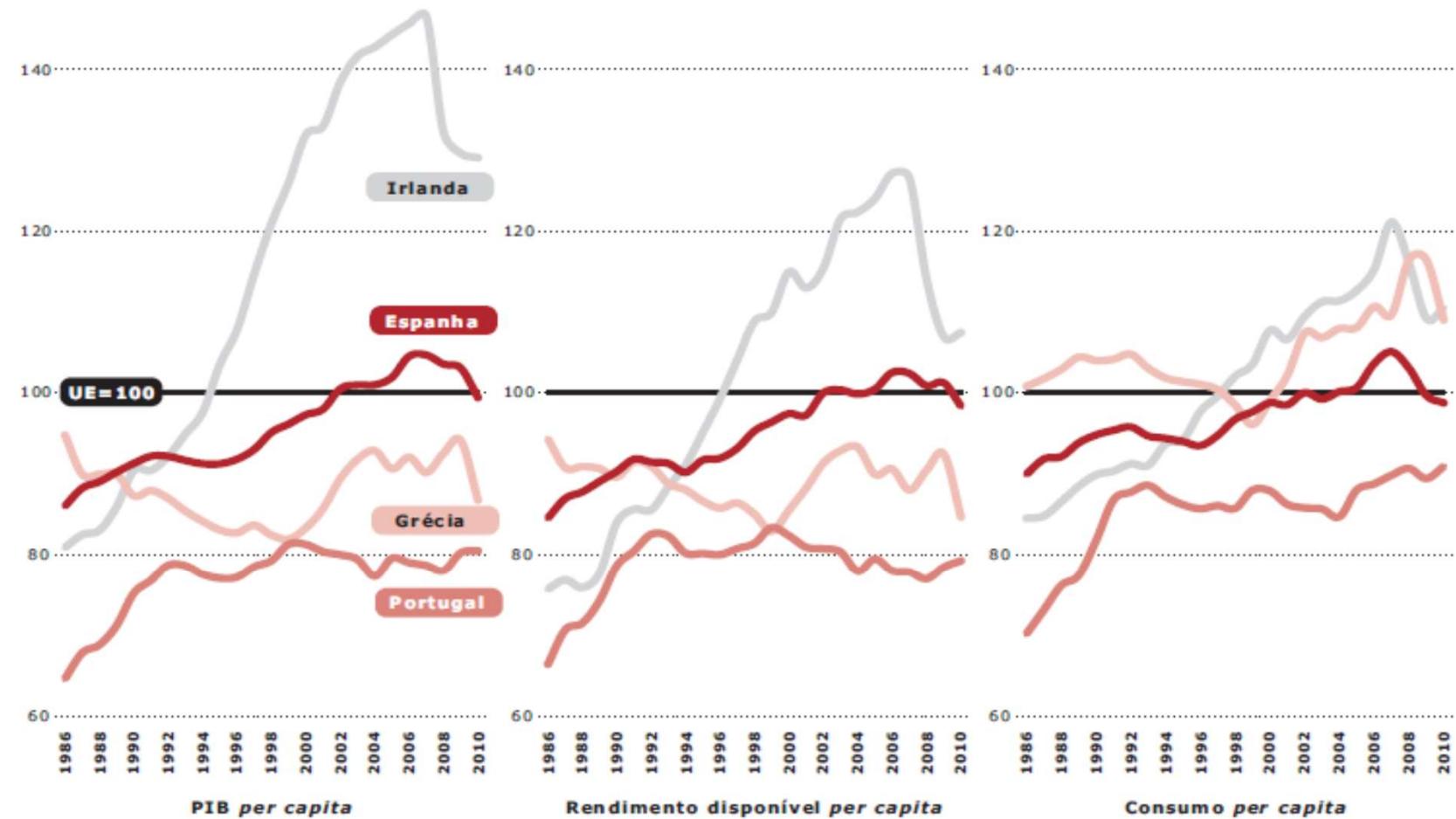
Fonte: AMECO (acedido em abril de 2012)

**Gráfico 1.4.** Óticas de convergência: comparação entre Portugal e parceiros iniciais da coesão | 1986 a 2010

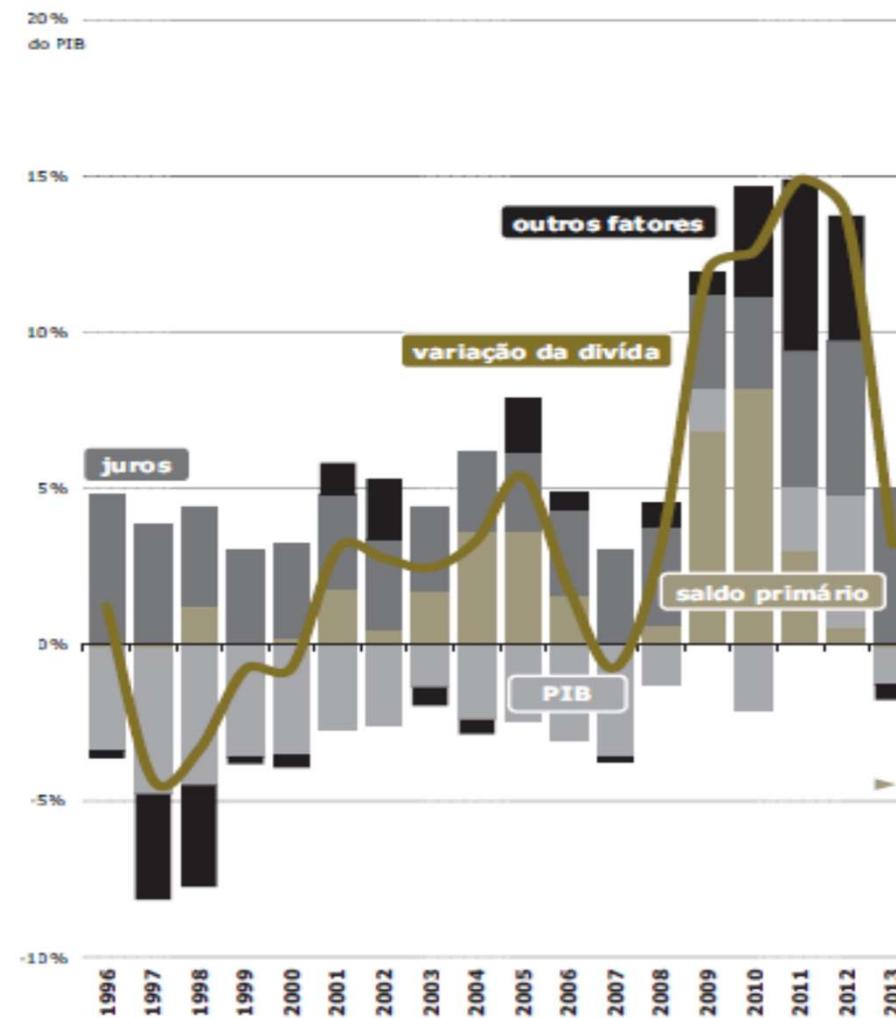
Portugal não acompanhou o ritmo de convergência dos parceiros iniciais da coesão, sobretudo Espanha e Irlanda. O atraso é maior na criação de riqueza do que no rendimento e consumo.

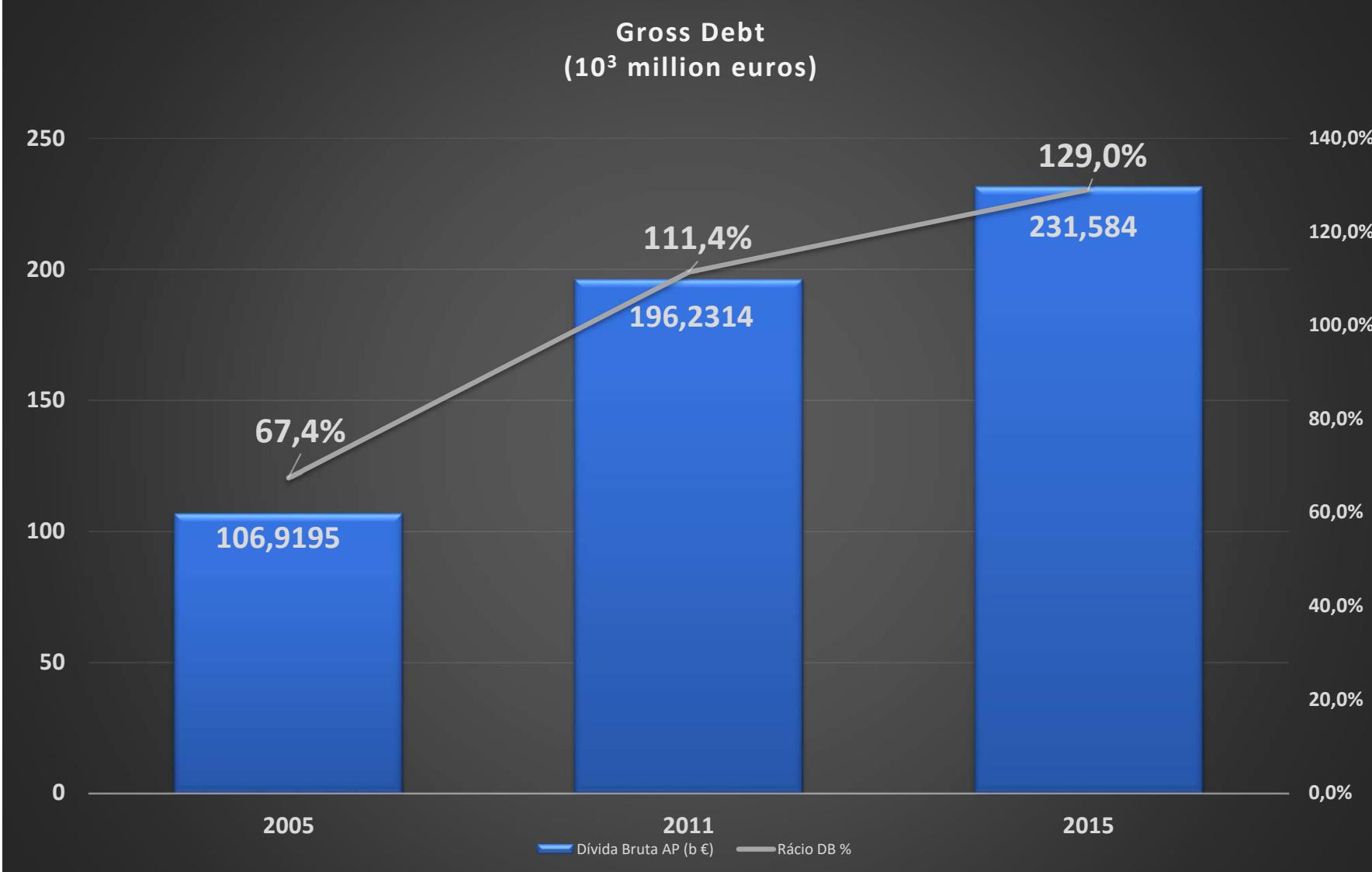
Nota: Média da UE27=100. Em paridades de poder de compra. A menor evolução da Irlanda no rendimento disponível e no consumo reflete a relevância do repatriamento de lucros para o estrangeiro.

Fonte: AMECO (acedido em fevereiro de 2012)



**Gráfico 25.4. Contributos para o crescimento anual do nível de endividamento em Portugal | 1996 a 2013**

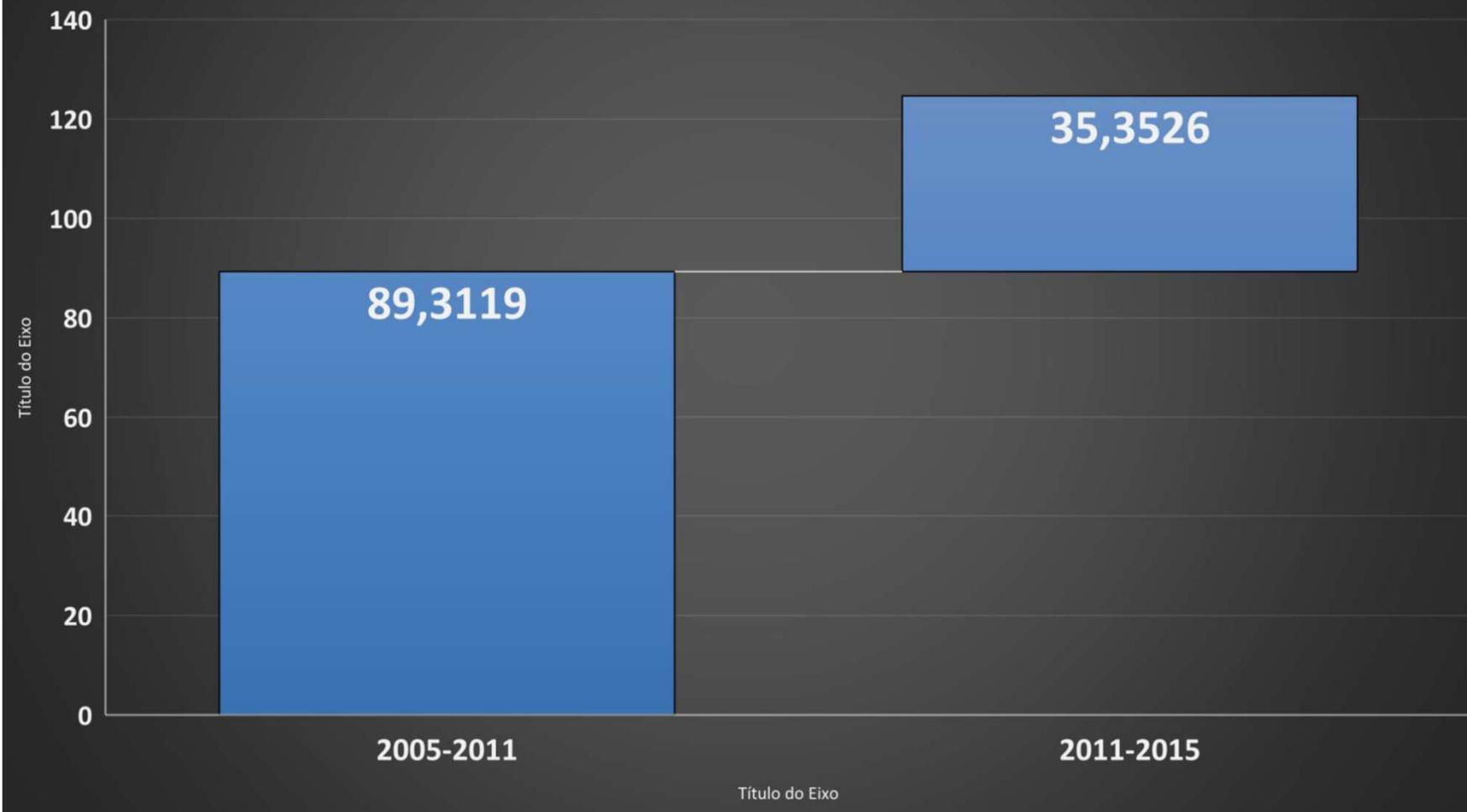




(Author calculations)

## Variação Dívida Bruta AP (De 2005-15, em b €)

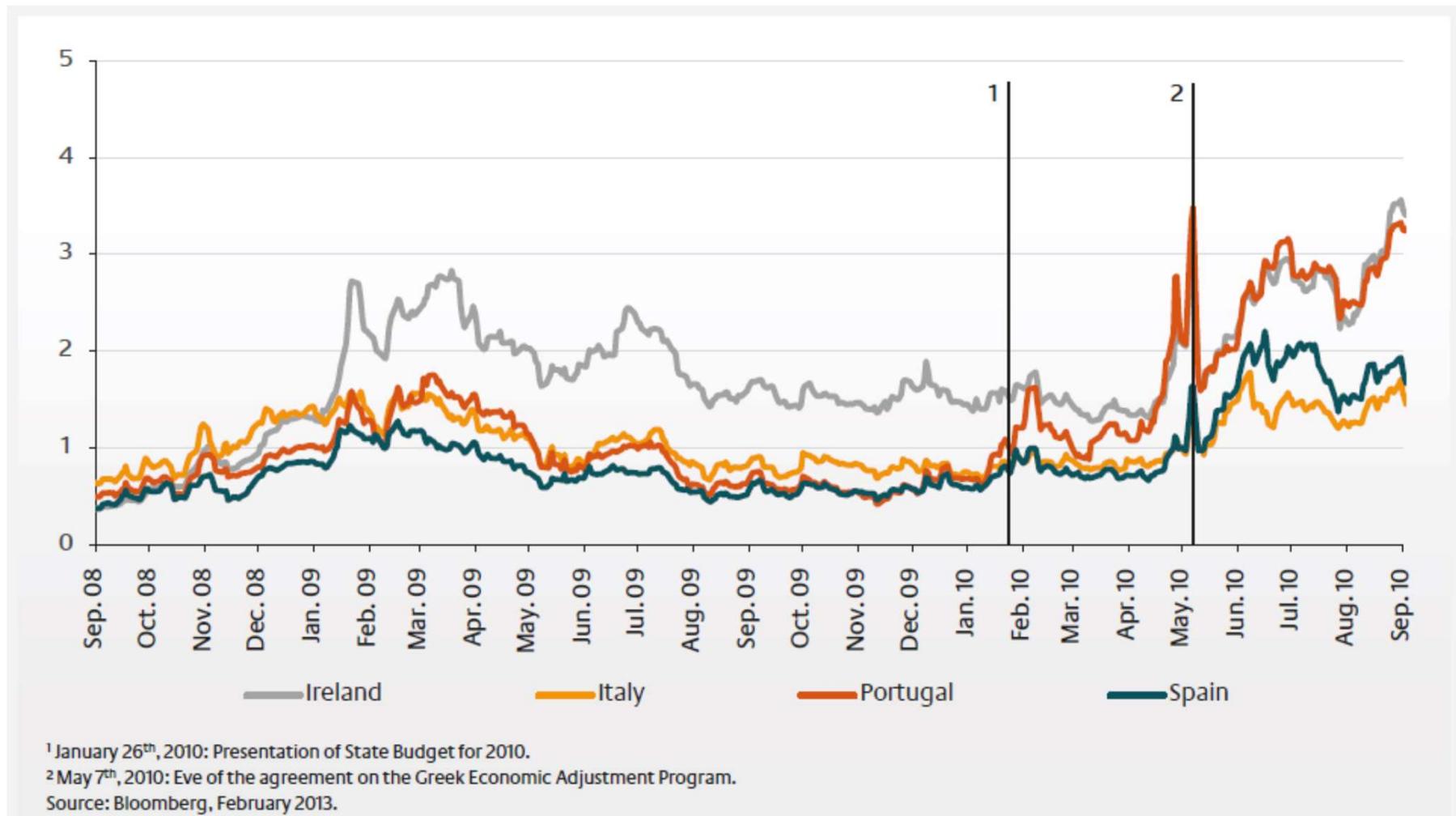
■ Aumento ■ Diminuição ■ Total



(Author calculations)

## 10-year Government Bond Yields, September 2008 – September 2010

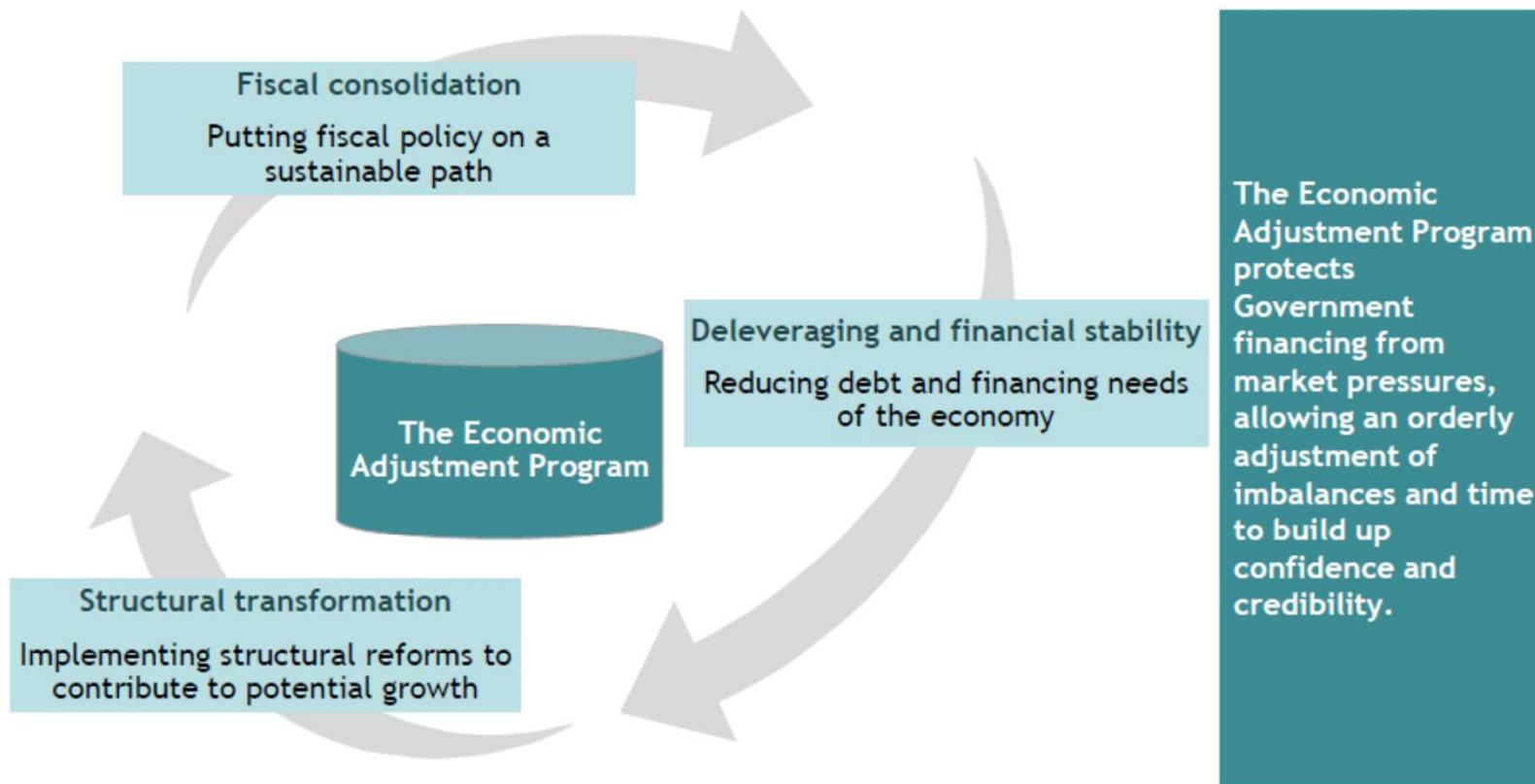
Spread against Germany in percentage points



# A balanced Program to cope with the major challenges of the Portuguese economy



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| Labour market  |
|--|
| <p><b>Implemented measures</b></p> <ul style="list-style-type: none"><li>▪ Increase in annual working days: up to 7 additional (3 vacation + 4 holidays)</li><li>▪ Reduction of total duration of unemployment subsidy to a maximum of 18 months (for new beneficiaries after 2012) and streamline of unemployment subsidy for remaining pool</li><li>▪ Reduction of restrictions to individual dismissal (when based on performance reduction)</li><li>▪ Increase of flexibility and fairness on dismissals in the cases of redundancies and unsuitability</li><li>▪ Reduction of severance payments: from 30-36 to 12 days (starting Oct-13), with a 12 months maximum</li><li>▪ Implementation of a compensation fund to finance severance payments (Oct-13) ("Fundo de Compensação do Trabalho")</li><li>▪ Restrictions on automatic extension of collective agreements: based on representativeness of employer's association</li><li>▪ Approved the new legislation on working time to allow a flexible use of pool of 150 hours/year per employee for enterprises</li></ul> |

## Key Structural Reforms Implemented (2/4)



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### Implemented measures

|                 |
|-----------------|
| Product markets |
|-----------------|

- Reduction of rents in network and sheltered sectors
  - Electricity: ca. 3.4bn€ of measures defined in order to eliminate the tariff debt in 6-8 years horizon
  - Mobile communications networks: reduction of 80% in termination rates since 2010
  - Pharmaceuticals: total savings of 700M€ since the beginning of the program
  - Infrastructure PPP: 7.4bn€ in savings since 2011 (33% reduction in the NPV of initial contracts)
- Liberalization of the electricity and gas market, with progressive elimination of regulated tariffs until 2015

|                  |
|------------------|
| Judicial reforms |
|------------------|

- New arbitration law to facilitate out-of-court settlement
- New Code of Civil Procedure to speed court proceedings and decisions
- New setup of court locations (judicial map), ensuring better allocation of resources
- Major reduction of the backlogged cases
- Definition of general principles to restructure debt through non-judicial action (in line with international benchmarks)

## Key Structural Reforms Implemented (3/4)



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| <u>Implemented measures</u> |  |
|-----------------------------|--|
| Fiscal structural           | <ul style="list-style-type: none"><li>▪ Overhaul of Regional and Local Financing Laws</li><li>▪ Creation of the Large Taxpayers Office at Tax Administration level</li><li>▪ Design and implementation of New Commitments Law</li><li>▪ Revision of real estate valuation standards by Public Administration, ensuring similar taxable amount and market values, and set periodical updates</li><li>▪ Creation of an independent Public Fiscal Council to supervise and report on potential issues on the public fiscal accounts' data</li></ul> |
| Public Administration       | <ul style="list-style-type: none"><li>▪ Freezing of any hiring initiatives and recent launch of mutual agreement terminations to reduce total permanent costs with personnel (effective reduction of 50k employees in 2.5 years)</li><li>▪ Enlargement of geographical mobility for public employees (maximizing resources' allocation) and launch of requalification scheme for public servants</li><li>▪ Pillars for comprehensive reform already set</li></ul>  |
| Health sector               | <ul style="list-style-type: none"><li>▪ Improved capacity and better issue prioritization on the National Health System through revision of Public Healthcare service fees</li><li>▪ Improvement in drug prescription system and monitoring, streamlining drug costs and reducing non-legal procedures</li><li>▪ Reform and implement new organization system of USF (Unidades de Saúde Familiar), improving basic healthcare services</li></ul>   |

## Key Structural Reforms Implemented (4/4)



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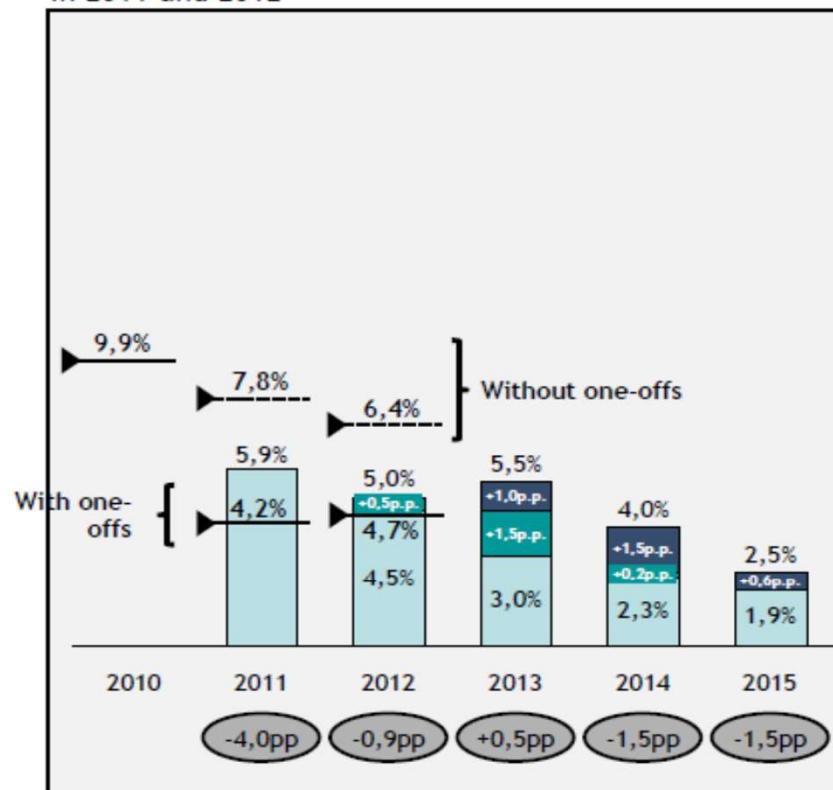


### Implemented measures

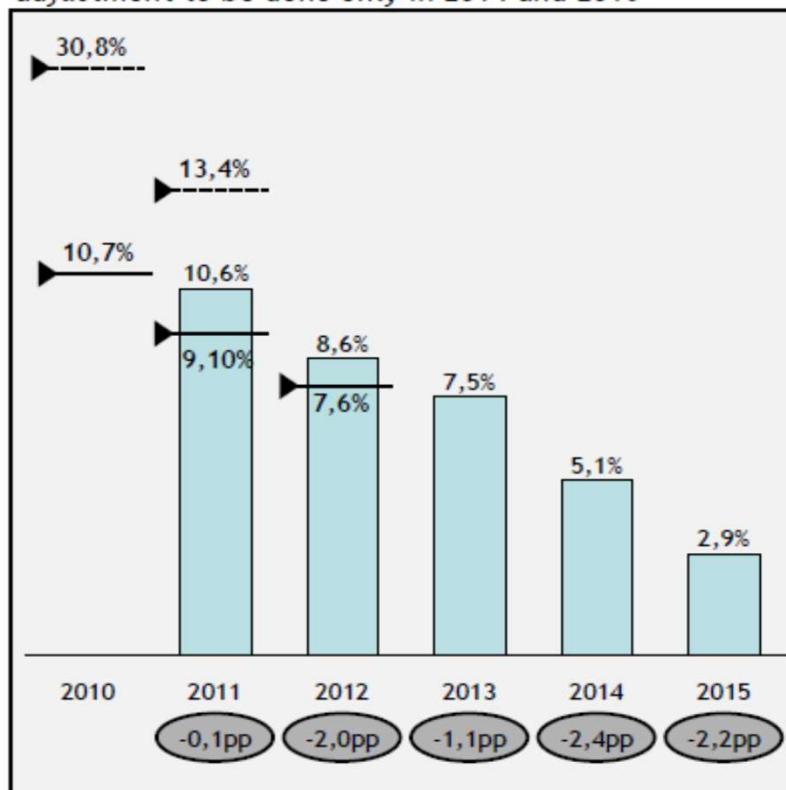
- Increase competition in internal market
  - New Competition Law harmonized with the EU legal competition framework
  - New framework law for regulators ensuring increased autonomy and independence
  - Reduction in restrictions of regulated professions and increased scrutiny for public professional bodies (Public Professional Associations Framework Law)
- Comprehensive reform of corporate income tax
- New insolvency code and new corporate recovery mechanisms
- Implementation of over 4/5 of the Services Directive
- Revise and streamline SOE's portfolio (program of privatizations, with impact above initial targets)
- Reduction of licensing requirements and barriers:
  - Reduction of administrative burdens: licensing and other legal formalities
  - Adoption of new Urban Lease, Renovation works and Urban Planning Laws

## ...in what was a highly demanding and frontloaded program...

**Portugal:** very demanding targets for the first two years, with (4,0p.p.+0,9p.p.) of adjustment required in 2011 and 2012



**Ireland:** Budget deficit adjustment in 2011 and 2012 of only (0,1p.p.+2,0p.p.), with the majority of the adjustment to be done only in 2014 and 2015



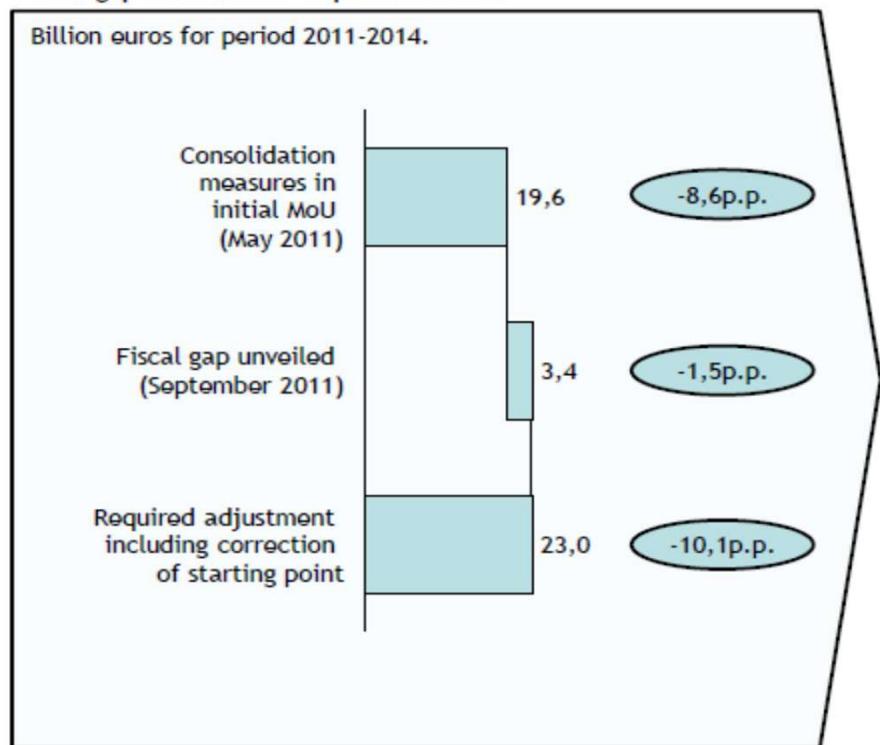
## These achievements came in spite of a design flaws in the initial program and a series of program management issues

- |   | Description  |
|---|--|
| 1 | Misleading starting point <ul style="list-style-type: none"><li>In the summer of 2011, two months into the program, the new government realized that public accounts were significantly worse than the baseline around which the program (and the adjustment path) was designed</li></ul>  |
| 2 | Stronger than expected economy contraction <ul style="list-style-type: none"><li>The impact of the fiscal consolidation of such a demanding programme and the required shift from a non-tradable to an export economy, has had a stronger negative impact than initially anticipated, suggesting that the implicit multiplier was higher than the one taken into account</li></ul> |
| 3 | Program management issues <ul style="list-style-type: none"><li>Insufficient and piecemeal revisions of the programme targets, inadequate recognition of social and political constraints and the institutional and public debate around the correct pace of adjustment affected the legitimacy of the program</li></ul>   |

# 1 The starting point in terms of public accounts was worse than expected

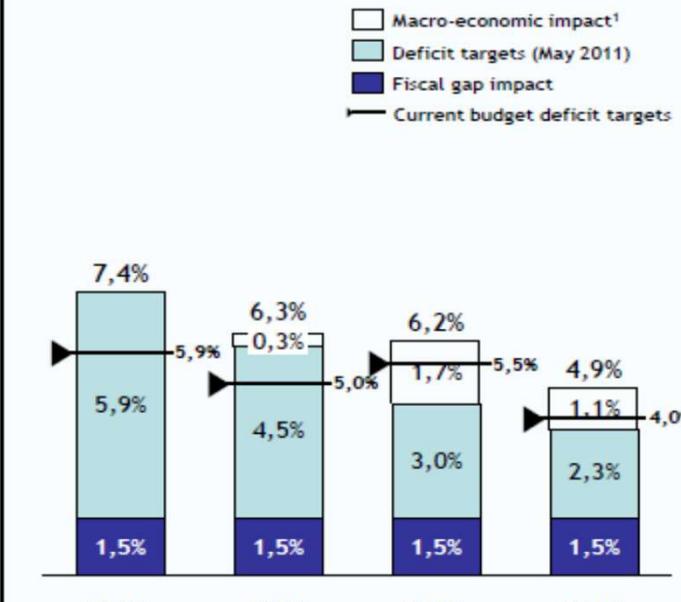
Fiscal gap found in late September 2011

Billion euros for period 2011-2014.



Equivalent deficit targets if starting point had been adjusted in the initial programme

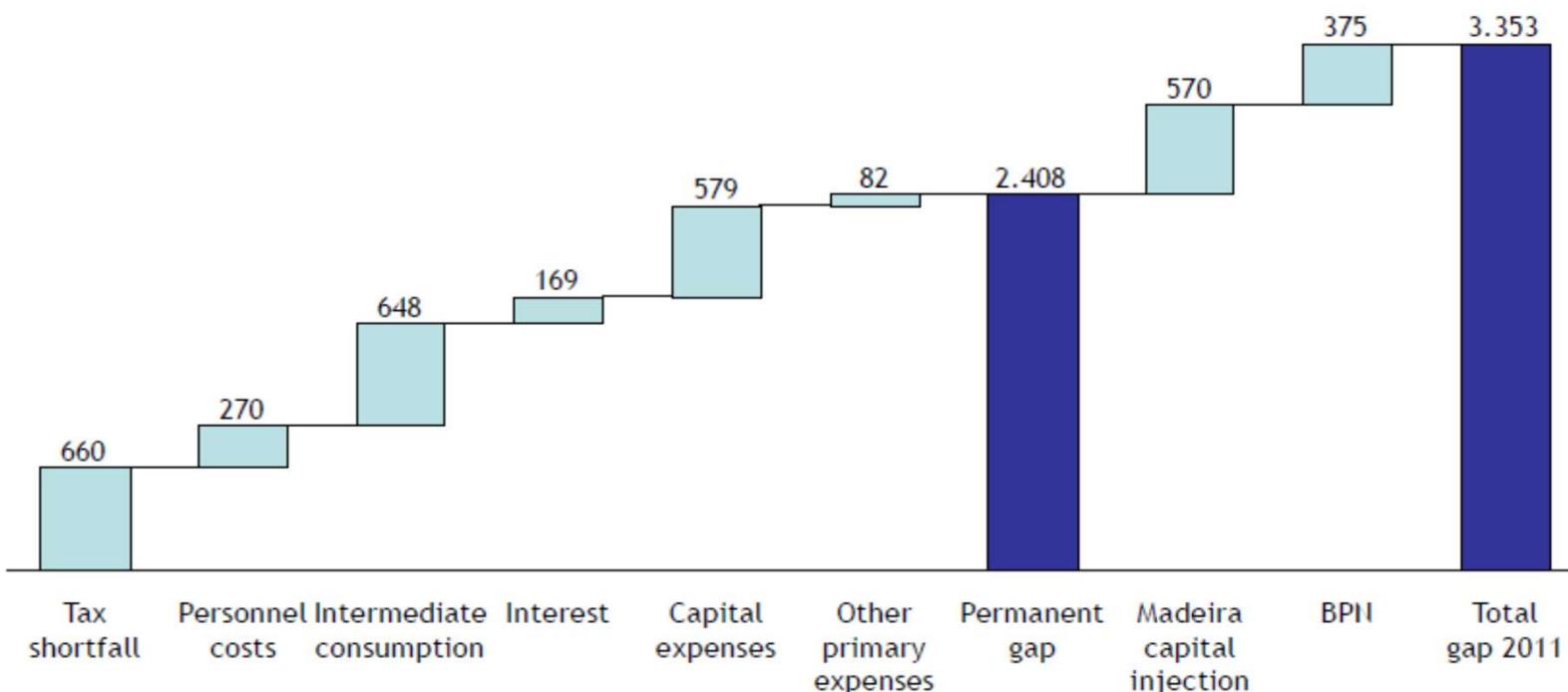
Demonstrative analysis.



<sup>1</sup> Macro-impact assumed to be 66% of the total drift and subsequent adjustment for each year, as explained in the annex (details of the 5<sup>th</sup> review of the IMF and European Commission). Assumption accounted 66% of the new targets negotiated in September 2012 and May 2013) as structural adjustments that would occur anyway.

## ① 2011 fiscal gap: 3,4 billion euros

Backup. Million euros



1 Excludes one-off measures and/or concessions.

Source: Ministry of Finance.

### 3 Some issues in the management of the programme decreased its social acceptance

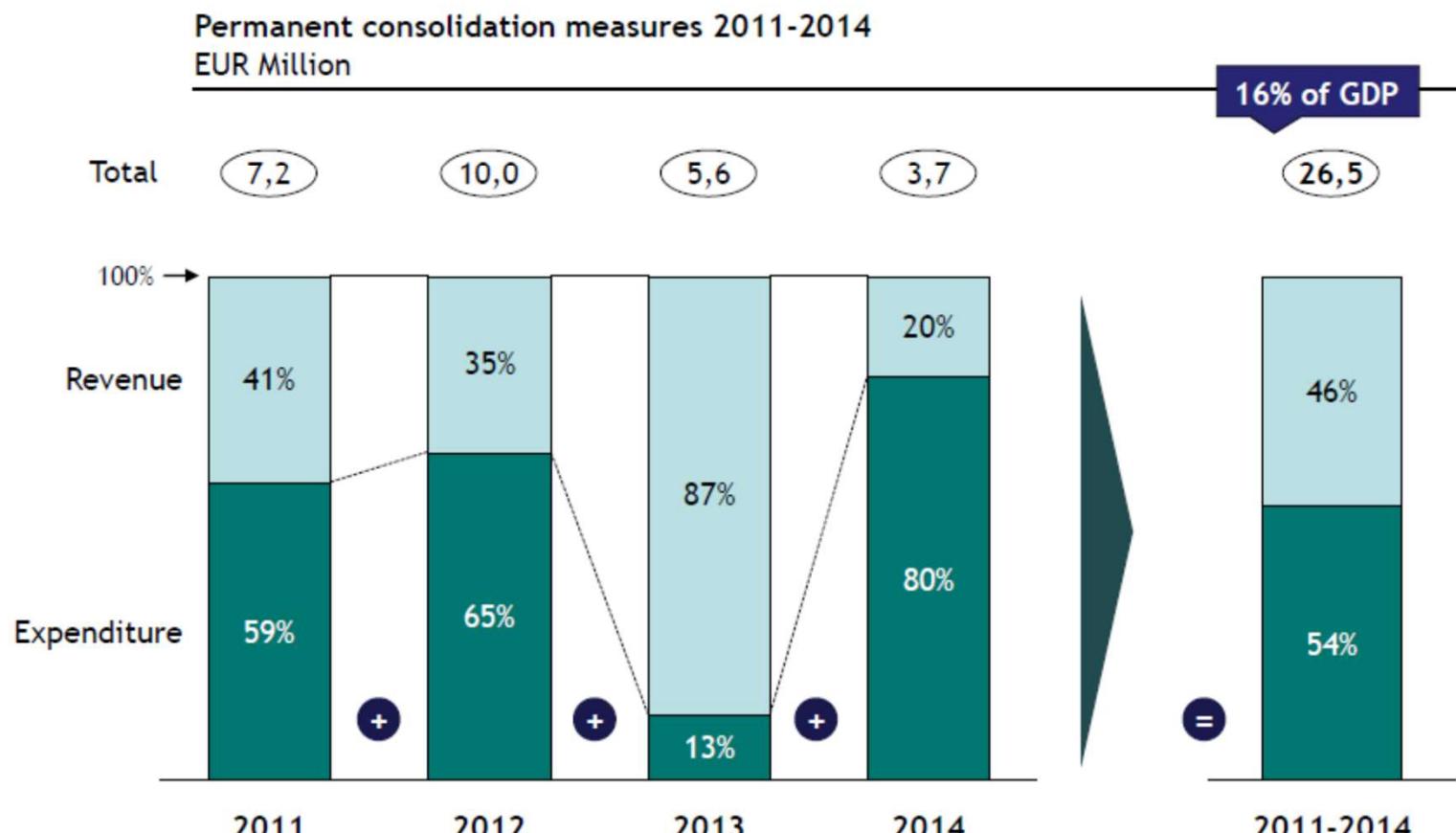
Ad-hoc successive corrections to the program vs. more structural approach

- Revisions performed on the 5th and 7th review were clearly insufficient and may have barely accommodated the negative effects coming from the deterioration of the European economy
- The successive small corrections were also detrimental to the credibility of the programme, creating a constant stream of bad news and reducing economic expectations

Misalignment between the negotiation stance of Troika vs. Public, institutional and academic debate

- Public, institutions and academics were increasingly tilted towards the necessity of relaxing the pace of adjustment to ensure that reforms “breathe”
- Rigid stance of creating fiscal consolidation measures only with the purpose of achieving the deficits targets vs. enforcing real structural measures did not help to create a goodwill in public opinion

**26.5bn€ of consolidation measures in 4 years,  
more than 50% on the expenditure side**



Note: Reflects the recent changes on the 2014 measures due to the Constitutional Court decisions.

Source: Ministry of Finance, March 2014

6

# Portugal has been regaining sustainable and continued access to markets

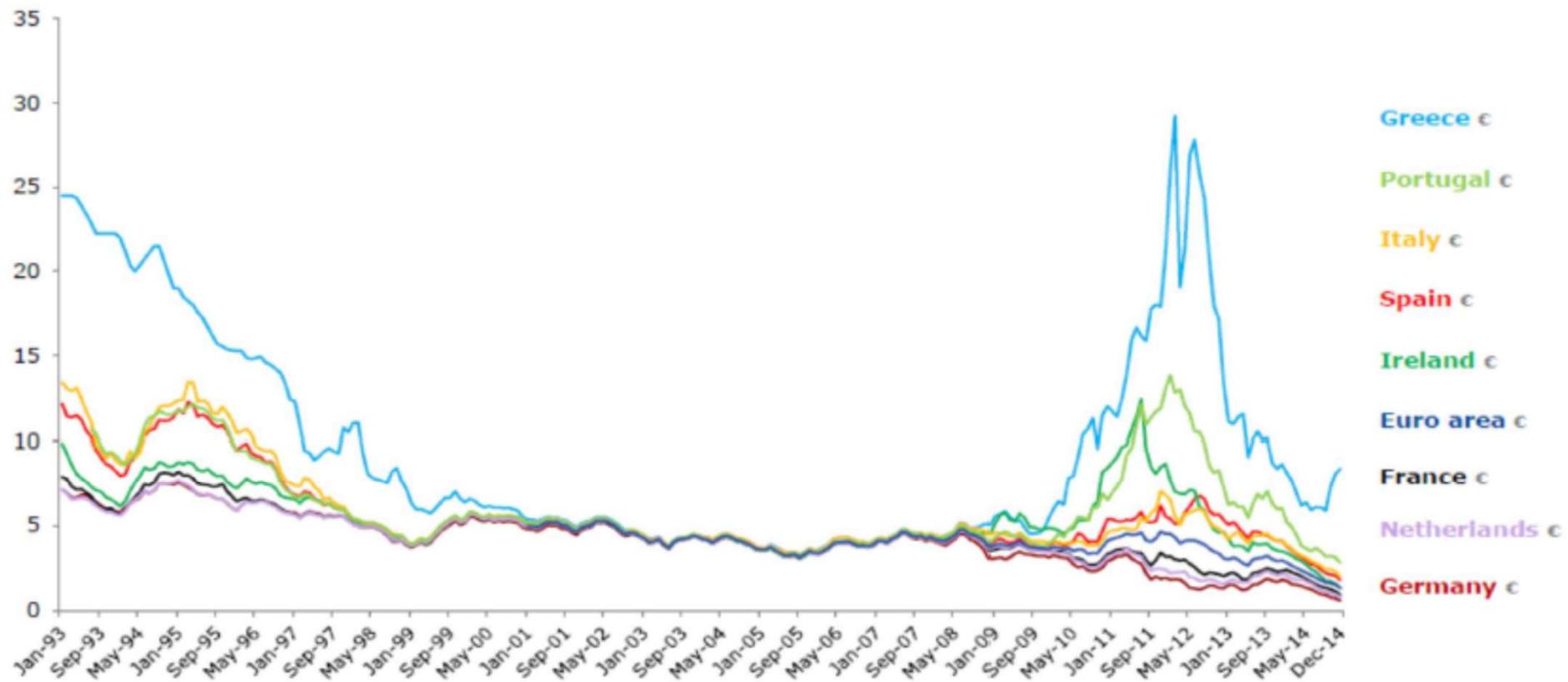


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|               | First debt issue after the PGB              | Financing needs for 2013 fully secured | Return to bond markets         |  |                                |                       |                        |
|---------------|---|--|--------------------------------|--|--------------------------------|-----------------------|------------------------|
|               | T-Bill Auction 18 months                    | Debt Exchange Offer 3 years            | T-Bond Issue ~5 years          | T-Bond Issue ~10 years   | Debt Exchange Offer 3 years    | T-Bond Issue ~5 years | T-Bond Issue ~10 years |
| Launch Date   | • Apr. 2012                                 | • Oct. 2012                            | • Jan. 2013                    | • May 2013   | • Dec. 2013                    | • Jan. 2014           | • Feb. 2014            |
| Size          | • 1166 M€                                   | • 3757 M€                              | • 2500 M€                      | • 3000 M€  | • 6641 M€                      | • 3250 M€             | • 3000 M€              |
| Yield         | • 4,537%                                    | • 5,120%                               | • 4,891%                       | • 5,669%   | • 4,67% / 4,96%                | • 4,66%               | • 5,112%               |
| Other Details | • October 2015 exchanged for September 2013 | • 93% international allocation         | • 86% international allocation | • 2.7bn€ October 2017 and 4.0bn€ June 2018 exchanged for 0.9bn€ June 2014, 1.6bn€ October 2014 and 4.2bn€ October 2015 | • 88% international allocation |                       |                        |

## Interest rates on 10-year Government bonds

Percentage yield



Source: ECB

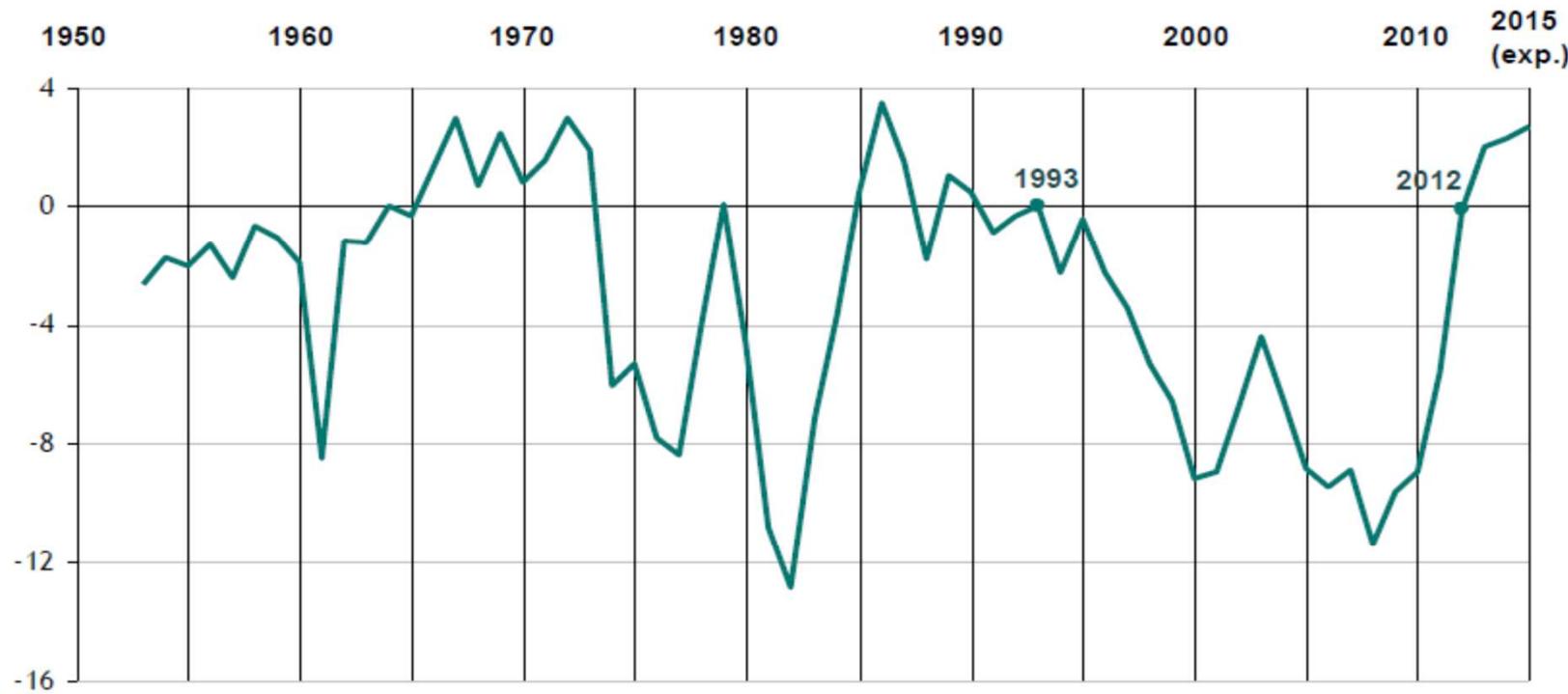
# Portugal turned a net lender for the first time in the last two decades



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## Current and capital account<sup>1</sup>

Percentage of GDP



<sup>1</sup> 1953-1995 - information from Bank of Portugal ("séries longas") on Balance of Payment; 1986 to present - AMECO data source on net lending/ borrowing of the economy.

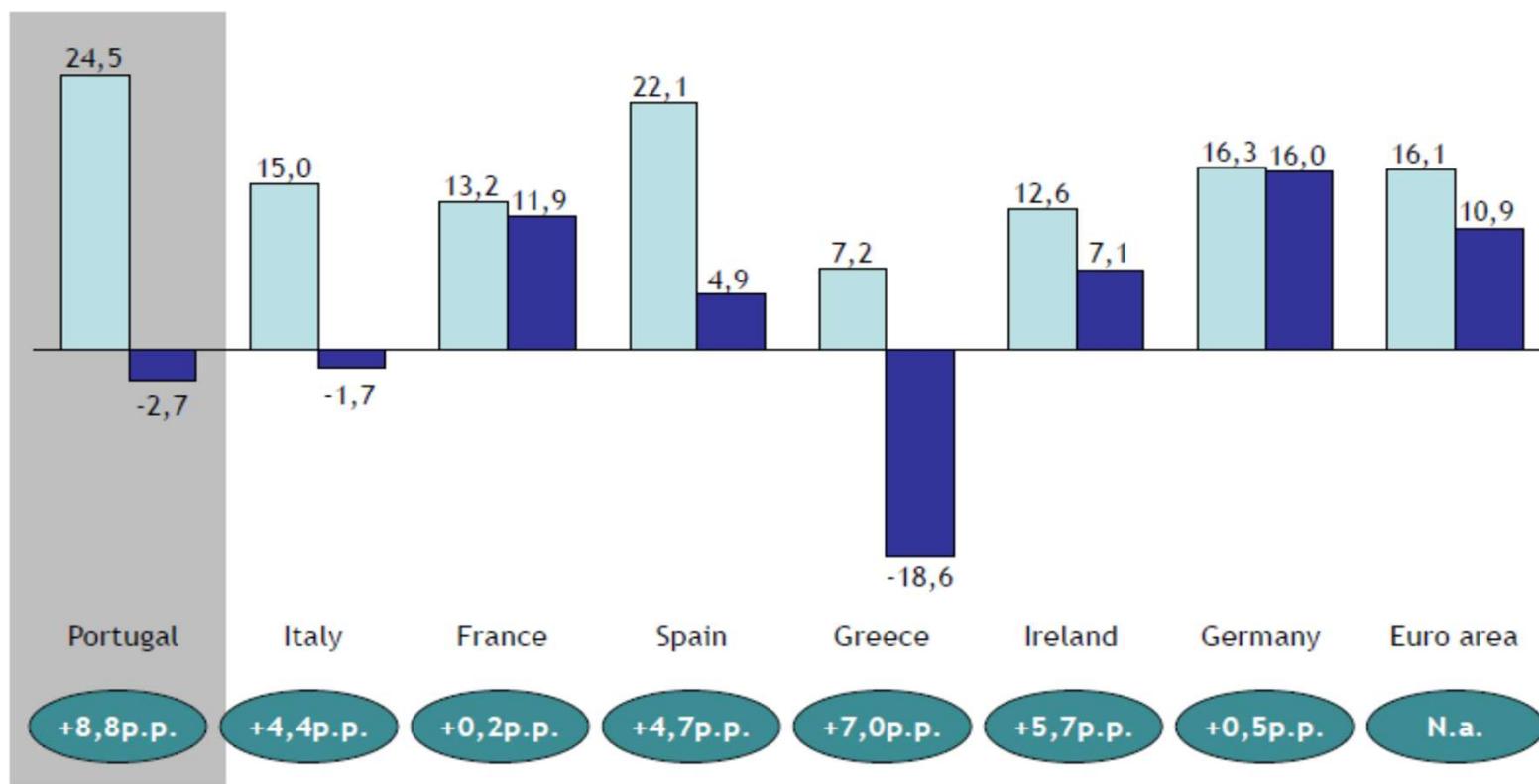
# Portuguese export performance and current account adjustment surpassed all comparable EU countries



Percentage points of adjustment in  
the balance of goods and services

Exports  
Imports

Evolution of exports and imports of goods and services for key selected countries and Euro Area  
2010-2013 percent change.





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# The Economic Impact of Selected Structural Reform Measures in Italy, France, Spain and Portugal

INSTITUTIONAL PAPER 023 | APRIL 2016

EUROPEAN ECONOMY



Table 3.d: Italy, Total impact
**Italy: sum of simulated measures from NRP 2013, 2014 and 2015**

| Years                    | 2013 | 2014 | 2015  | 2016  | 2017  | 2018 | 2019 | 2020 | 2025 | 2030 | 2035 |
|--------------------------|------|------|-------|-------|-------|------|------|------|------|------|------|
| GDP                      | 0.11 | 0.28 | 0.54  | 0.80  | 0.95  | 0.99 | 1.10 | 1.29 | 2.07 | 2.50 | 2.84 |
| Employment               | 0.03 | 0.27 | 0.66  | 0.97  | 1.18  | 1.29 | 1.39 | 1.47 | 2.10 | 2.18 | 2.24 |
| Trade balance (% of GDP) | 0.00 | 0.00 | -0.06 | -0.10 | -0.08 | 0.01 | 0.06 | 0.07 | 0.07 | 0.05 | 0.04 |
| Gov. balance (% of GDP)  | 0.06 | 0.11 | 0.26  | 0.32  | 0.39  | 0.36 | 0.37 | 0.45 | 0.69 | 0.94 | 1.16 |

Table 4.b: France, Total impact
**France: sum of simulated measures from NRP 2015**

| Years                    | 2014  | 2015  | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 | 2030 | 2035 |
|--------------------------|-------|-------|------|------|------|------|------|------|------|------|
| GDP                      | 0.11  | 0.20  | 0.25 | 0.26 | 0.30 | 0.32 | 0.35 | 0.40 | 0.43 | 0.46 |
| Employment               | 0.14  | 0.25  | 0.29 | 0.29 | 0.30 | 0.31 | 0.31 | 0.34 | 0.36 | 0.39 |
| Trade balance (% of GDP) | -0.03 | -0.02 | 0.00 | 0.02 | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.05 |
| Gov. balance (% of GDP)  | 0.07  | 0.12  | 0.18 | 0.19 | 0.22 | 0.24 | 0.27 | 0.37 | 0.50 | 0.67 |

Table 5.c. Spain, Total impact
**Spain: sum of simulated measures from NRP 2013 and 2014**

| Years                    | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 | 2030 | 2035 |
|--------------------------|------|------|------|------|------|------|------|------|------|------|------|
| GDP                      | 0.17 | 0.37 | 0.59 | 0.72 | 0.86 | 1.01 | 1.16 | 1.31 | 2.06 | 2.80 | 3.65 |
| Employment               | 0.31 | 0.58 | 0.78 | 0.89 | 0.98 | 1.07 | 1.18 | 1.29 | 1.90 | 2.54 | 3.26 |
| Trade balance (% of GDP) | 0.23 | 0.26 | 0.22 | 0.23 | 0.23 | 0.23 | 0.24 | 0.25 | 0.29 | 0.31 | 0.24 |
| Gov. balance (% of GDP)  | 0.72 | 0.97 | 1.20 | 1.33 | 1.48 | 1.64 | 1.81 | 1.98 | 3.00 | 4.14 | 5.42 |

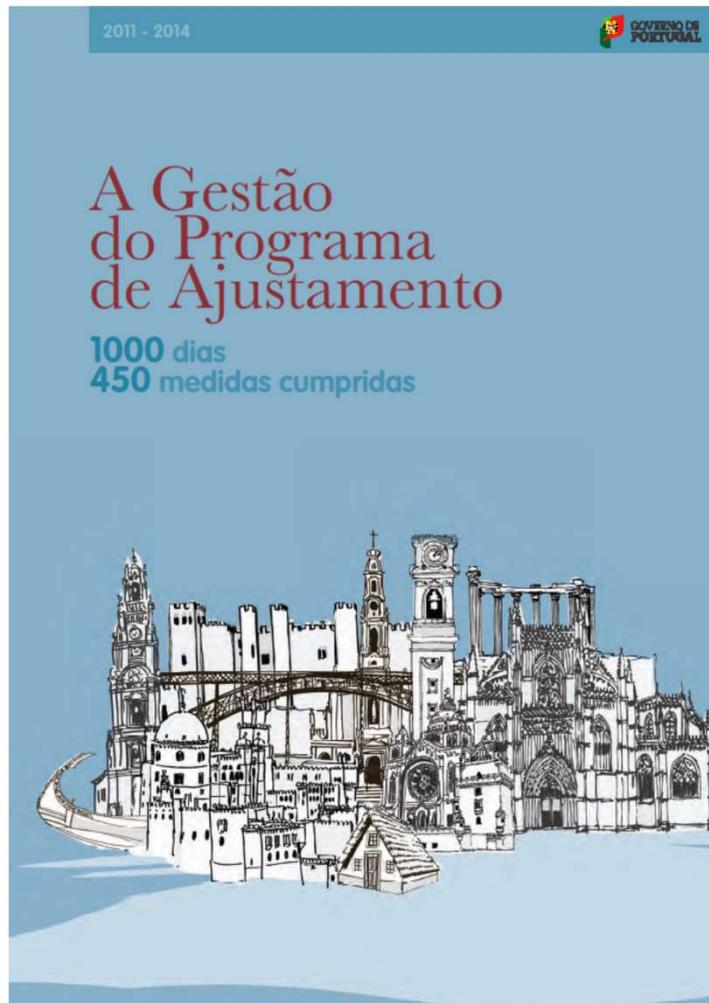
Table 6.b. Portugal, Total impact

| Years                    | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 | 2030 | 2035 |
|--------------------------|------|------|------|------|------|------|------|------|------|------|------|
| GDP                      | 0.28 | 0.64 | 0.94 | 1.19 | 1.44 | 1.66 | 1.87 | 2.08 | 2.93 | 3.77 | 4.30 |
| Employment               | 0.15 | 0.44 | 0.67 | 0.80 | 0.89 | 0.96 | 1.02 | 1.08 | 1.35 | 1.65 | 1.81 |
| Trade balance (% of GDP) | 0.21 | 0.32 | 0.34 | 0.35 | 0.35 | 0.34 | 0.34 | 0.34 | 0.34 | 0.34 | 0.32 |
| Gov. balance (% of GDP)  | 0.75 | 1.06 | 1.28 | 1.46 | 1.65 | 1.84 | 2.03 | 2.23 | 3.28 | 4.78 | 6.02 |



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# Other elements



# Privatization programme has been a flagship in the structural reform agenda



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## 2011 to today

| Stake sold                 | Amount in Euros  |
|----------------------------|--|
| edp                        | <ul style="list-style-type: none"><li>21,35% at a premium of 53.6% per share <sup>(1)</sup></li><li>EUR 2,693M</li></ul>   |
| REN                        | <ul style="list-style-type: none"><li>40% at a premium of 33.6% per share <sup>(1)</sup></li><li>EUR 593M</li></ul>  |
| ZNL Aeroportos de Portugal | <ul style="list-style-type: none"><li>100%</li><li>EUR 1,127M for the shares<br/>+ EUR 1,200M for the concession fee <sup>(2)</sup> +753M of pre-existing debt</li></ul> |
| ctt                        | <ul style="list-style-type: none"><li>70%</li><li>579M</li></ul>   |
| FIDELIDADE                 | <ul style="list-style-type: none"><li>80% of Fidelidade, Caixa Poupança, Multicare and Cares</li><li>1.000M</li></ul>  |
| galp                       | <ul style="list-style-type: none"><li>1% for GALP</li><li>HPP (CGD Health)</li><li>101M for GALP</li><li>85,6M for HPP</li></ul>   |
| Total                      | <ul style="list-style-type: none"><li>8,132M (vs. 5bn€ target)</li></ul>   |

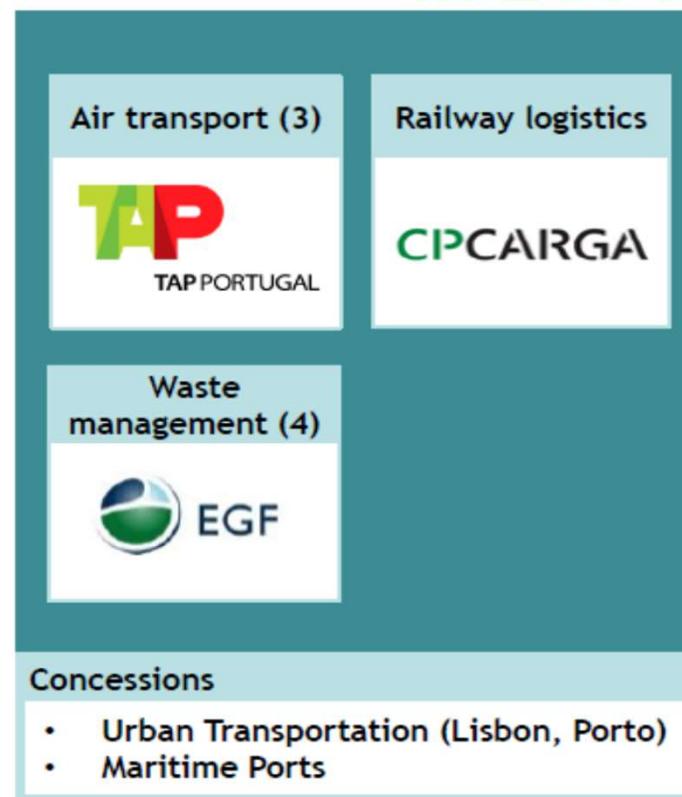
1 Considering the closing price of the day before the Council of Ministers decision

2 Equity Value (1,127M) transferred to Parpública + Concession Fee (1,200M) transferred to the State, with impact only in the debt + Pre-Existing Debt (753M) that Vinci took upon.

3 Subject to economic and market suitability.

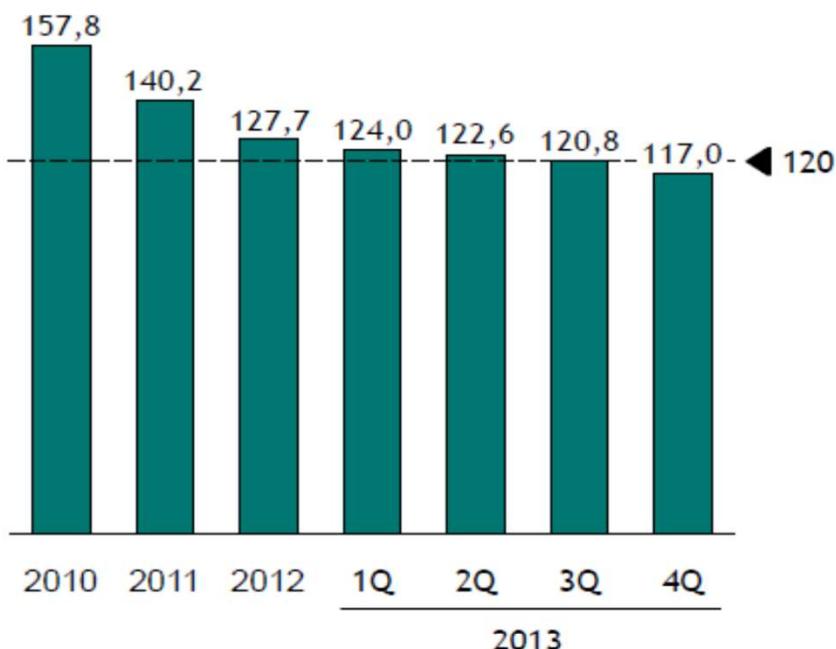
4 Procedures for privatization approved by the Council of Ministers on 30<sup>th</sup> January 2014.

## In 2014

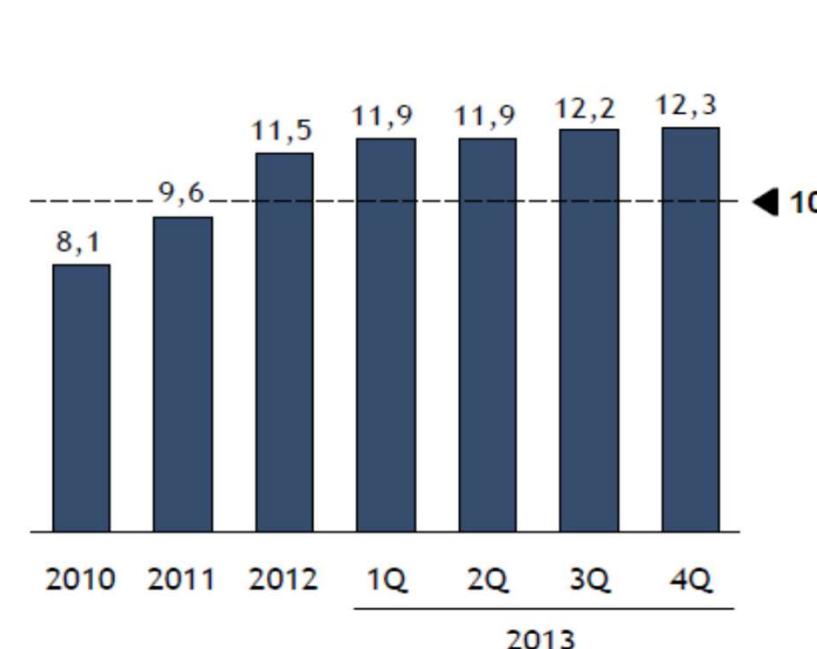


# Increasingly stable banking system

Loans-to-deposits ratio  
Percentage



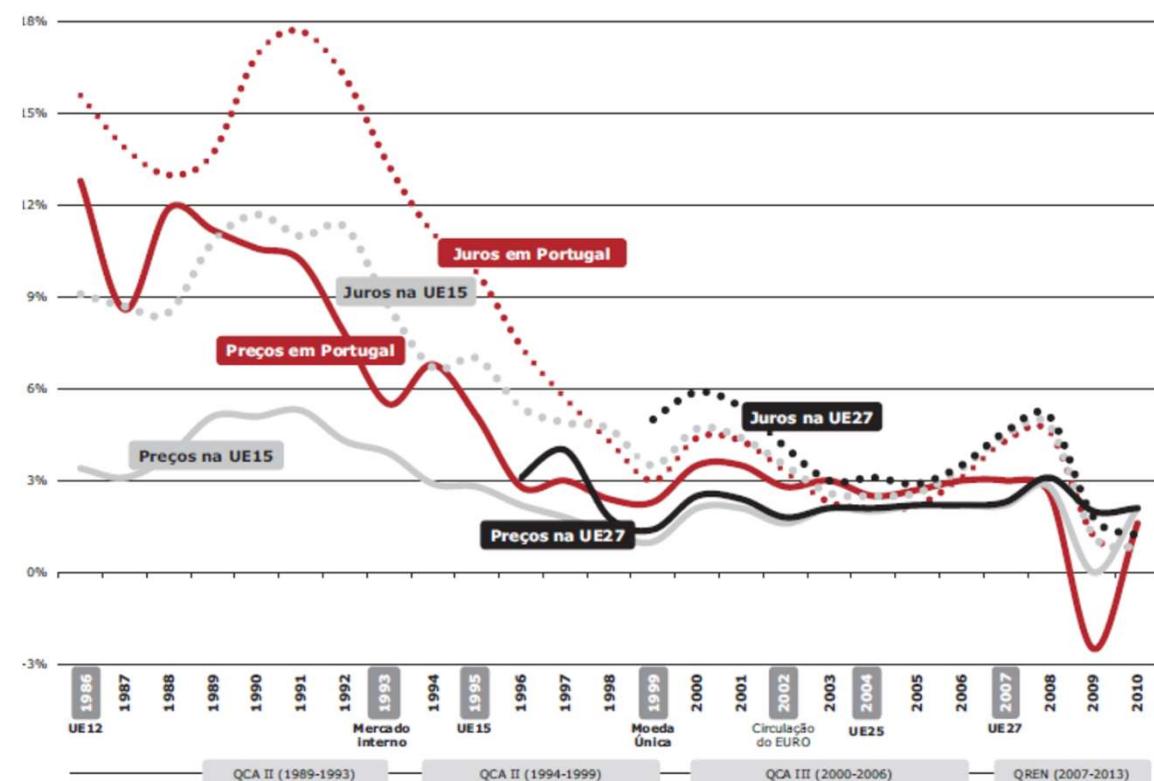
Core Tier 1 Ratio, Portuguese Banking System  
Percentage



An orderly deleveraging process is taking place, visible in the reduction of the loans-to-deposits ratio, already below the reference of 120%

The core tier 1 ratio is well above the minimum of 10% set by the Bank of Portugal since 2012

**Gráfico 3.2.** Inflação e taxa de juro nominal de curto prazo: comparação entre Portugal e UE | 1986 a 2010

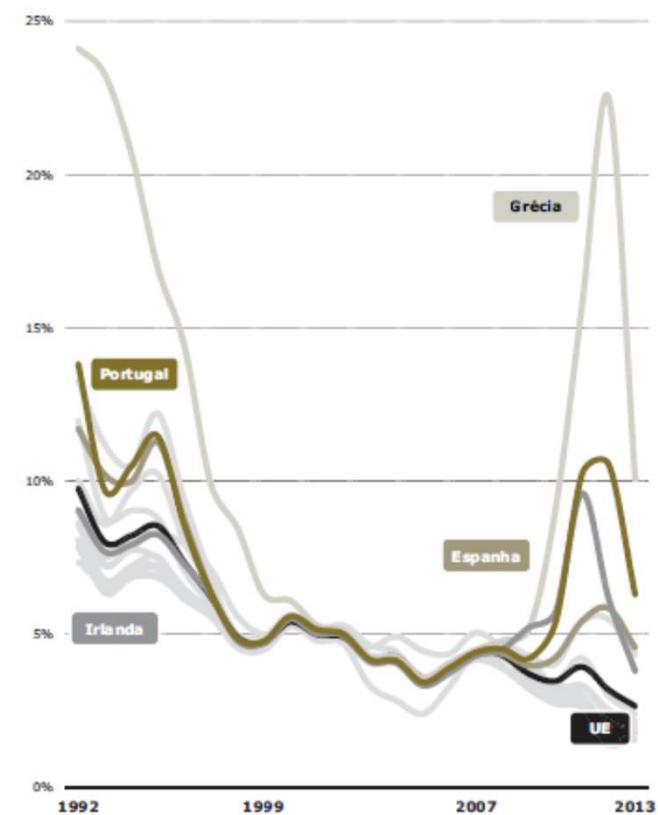


Os progressos na convergência nominal na primeira metade dos anos 90 geraram um círculo virtuoso de confiança que conduziu Portugal à fundação da área do euro, sustentando o novo regime de estabilidade cambial e de redução das taxas de juro e de inflação.

Notas: A evolução dos preços tem por base o deflator do consumo privado.

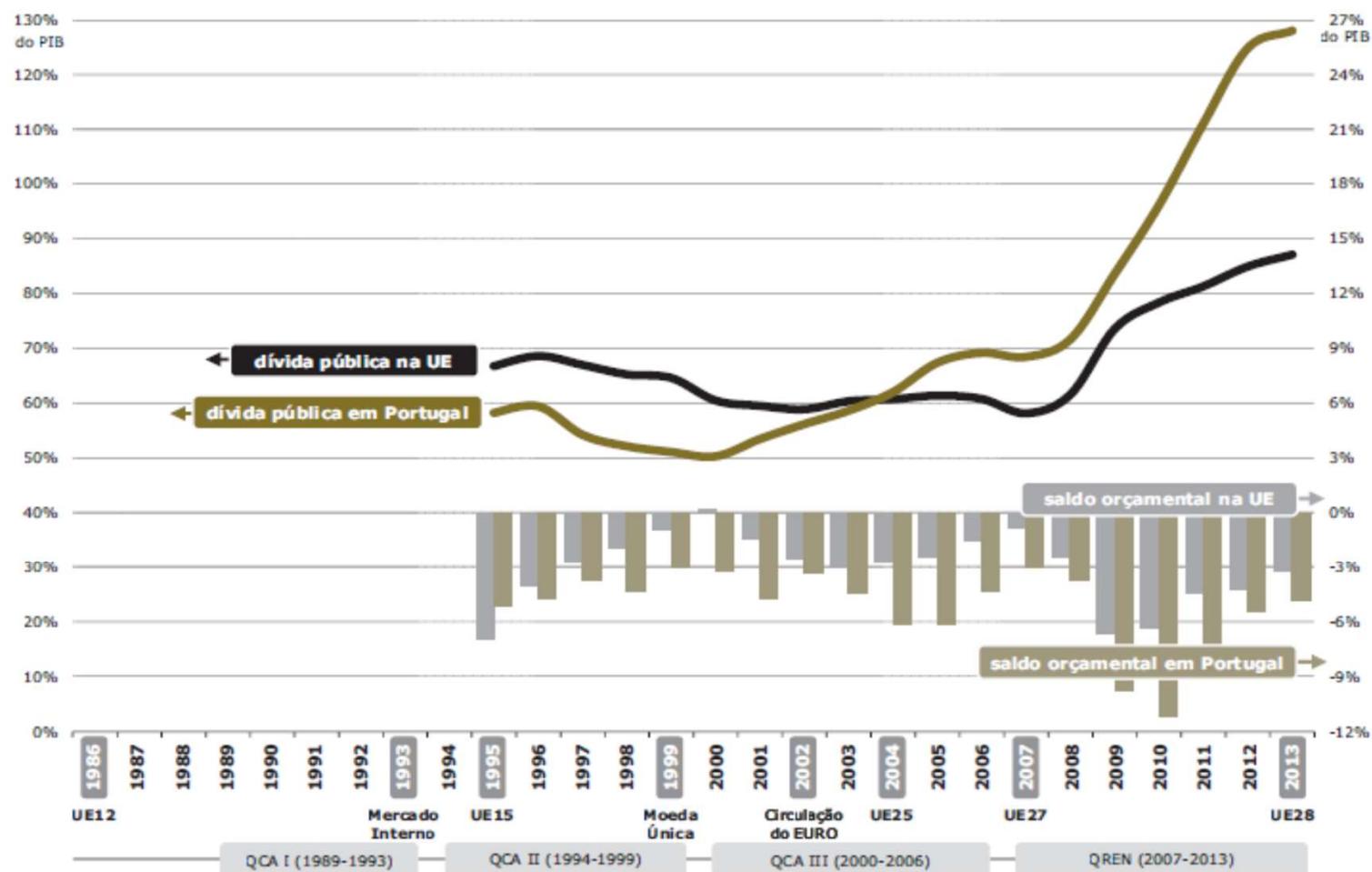
Fonte: Comissão Europeia (2012) | *Statistical annex of european economy*

**Gráfico 3.5.** Taxa de juro nominal de longo prazo: a posição de Portugal na UE | 1992 a 2013



**Gráfico 25.2.** Dívida pública e saldo orçamental: comparação entre Portugal e UE | 1995 a 2013

Apesar da tendência comum de degradação das contas públicas, com o défice europeu a exceder o valor de referência de Maastricht entre 2009 e 2013, o défice orçamental português tem superado o padrão europeu desde 1996, registando um diferencial médio superior a 2% do PIB.

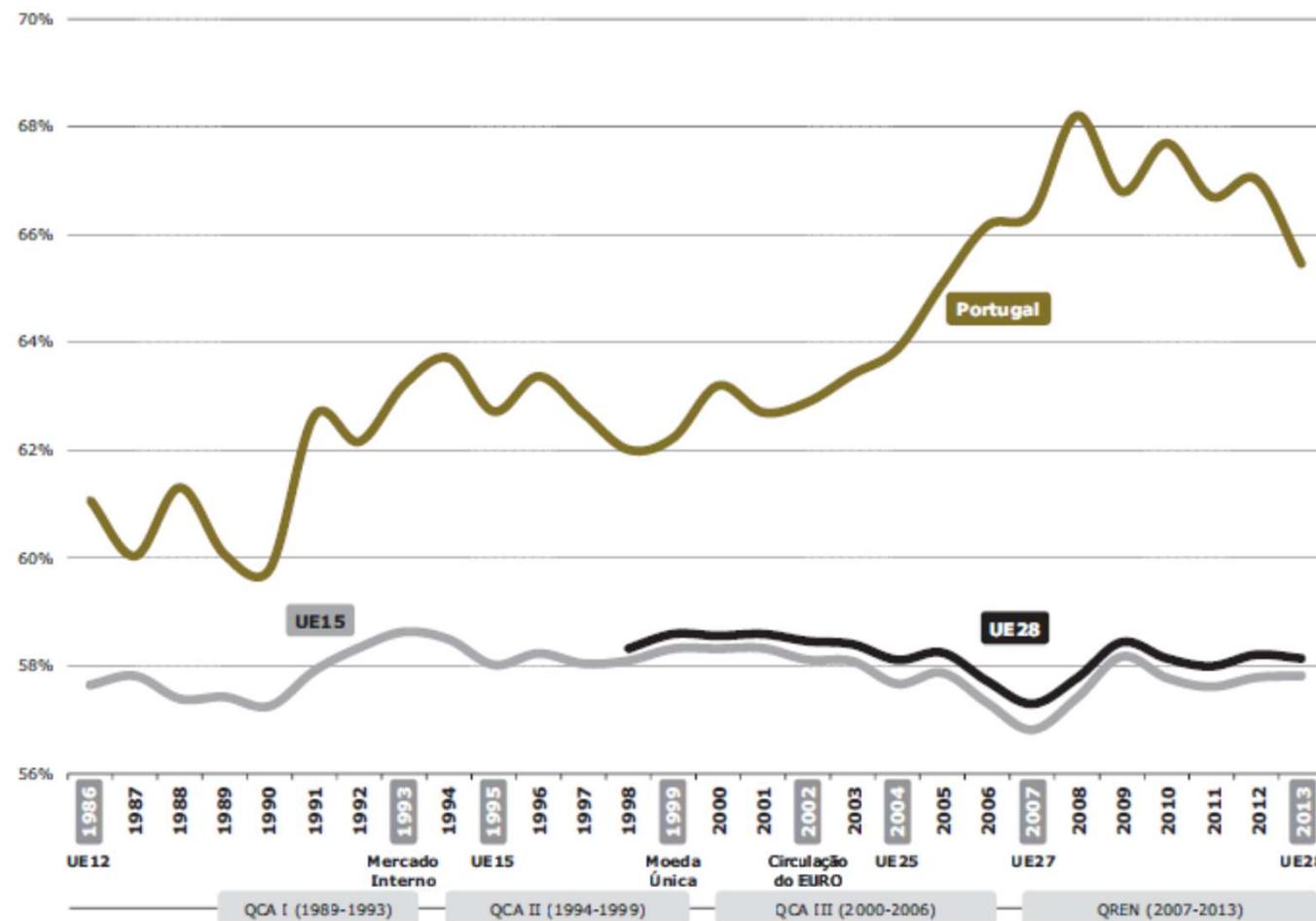


Fonte: Ameco (acedido em dezembro de 2014)

**Gráfico 5.2.** Peso do consumo no rendimento disponível: comparação entre Portugal e UE | 1986 a 2013

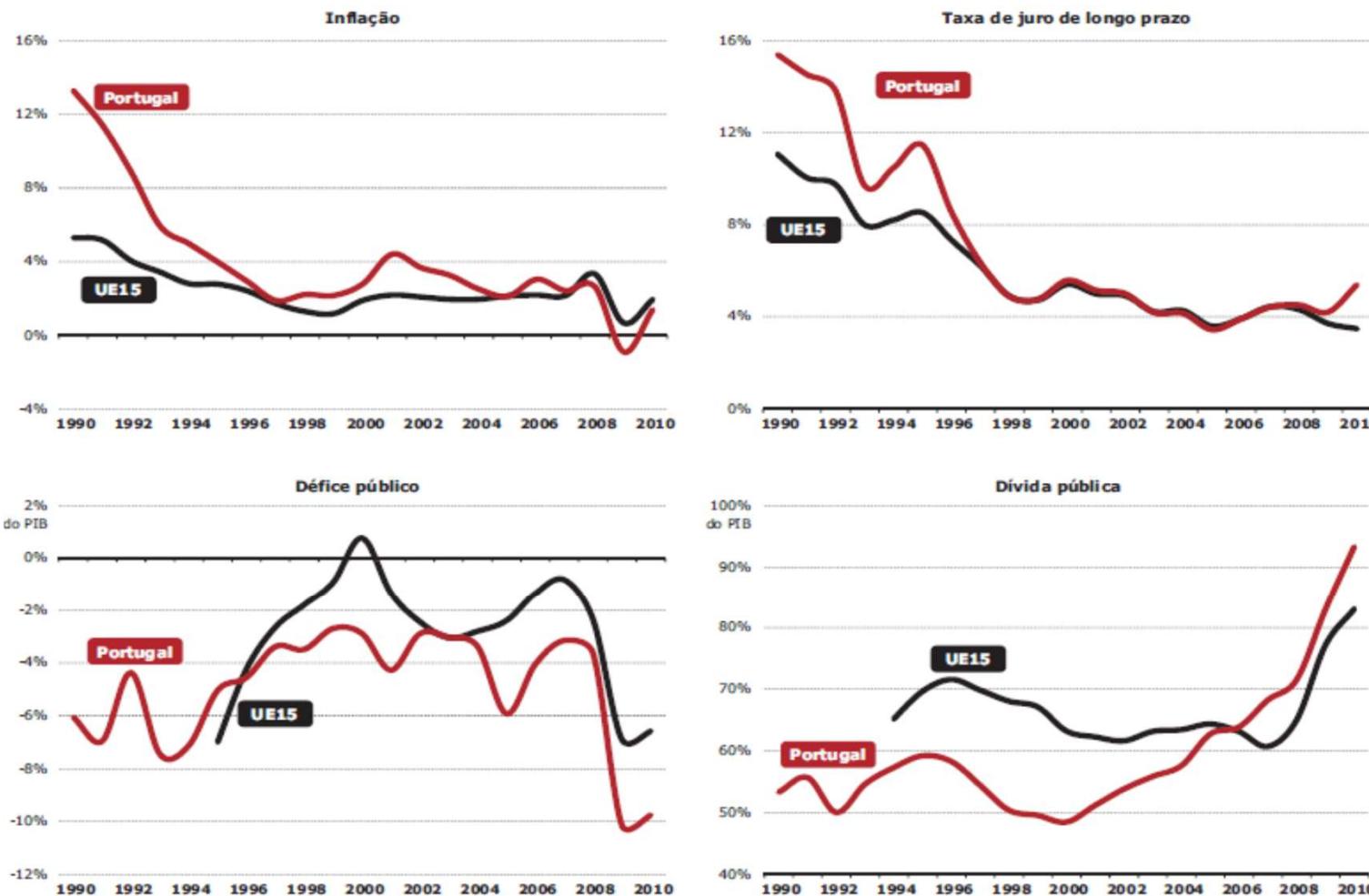
O crescimento mais rápido do consumo face ao rendimento destoa da UE15 ou UE28.

Na eclosão da crise financeira global, prolongada na crise orçamental e económica nacional, o rendimento afeto ao consumo pelos portugueses já excedia em quase 20% o padrão médio europeu. O ajustamento ocorrido desde então é ainda limitado.



Fonte: AMECO (acedido em novembro de 2014)

**Gráfico 3.5.** Critérios de convergência nominal: a posição de Portugal na UE | 1990 a 2011



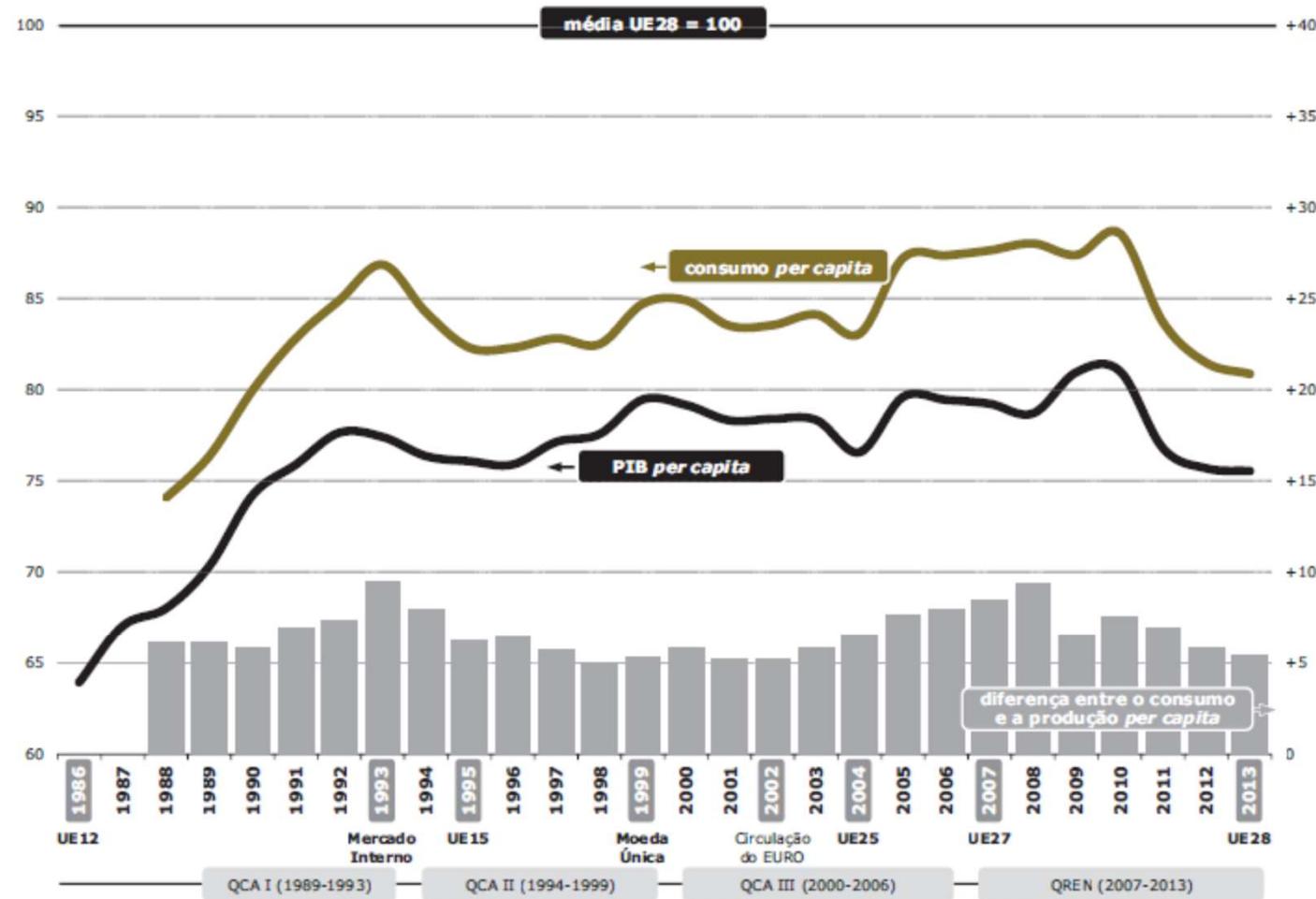
Entre os requisitos iniciais para adesão à moeda única, é na disciplina orçamental que Portugal mais se tem vindo a distanciar dos limites impostos pelo Tratado de Maastricht.

Notas: A inflação é calculada com base no índice harmonizado de preços no consumidor. No caso português e desde 1993, é considerada como taxa de juro nominal de longo prazo a taxa de juro de referência das Obrigações do Tesouro a dez anos.

Fonte: AMECO (acedido em fevereiro de 2012)

**Gráfico 1.2. Convergência na ótica da produção e do consumo: comparação entre Portugal e a UE | 1986 a 2013**

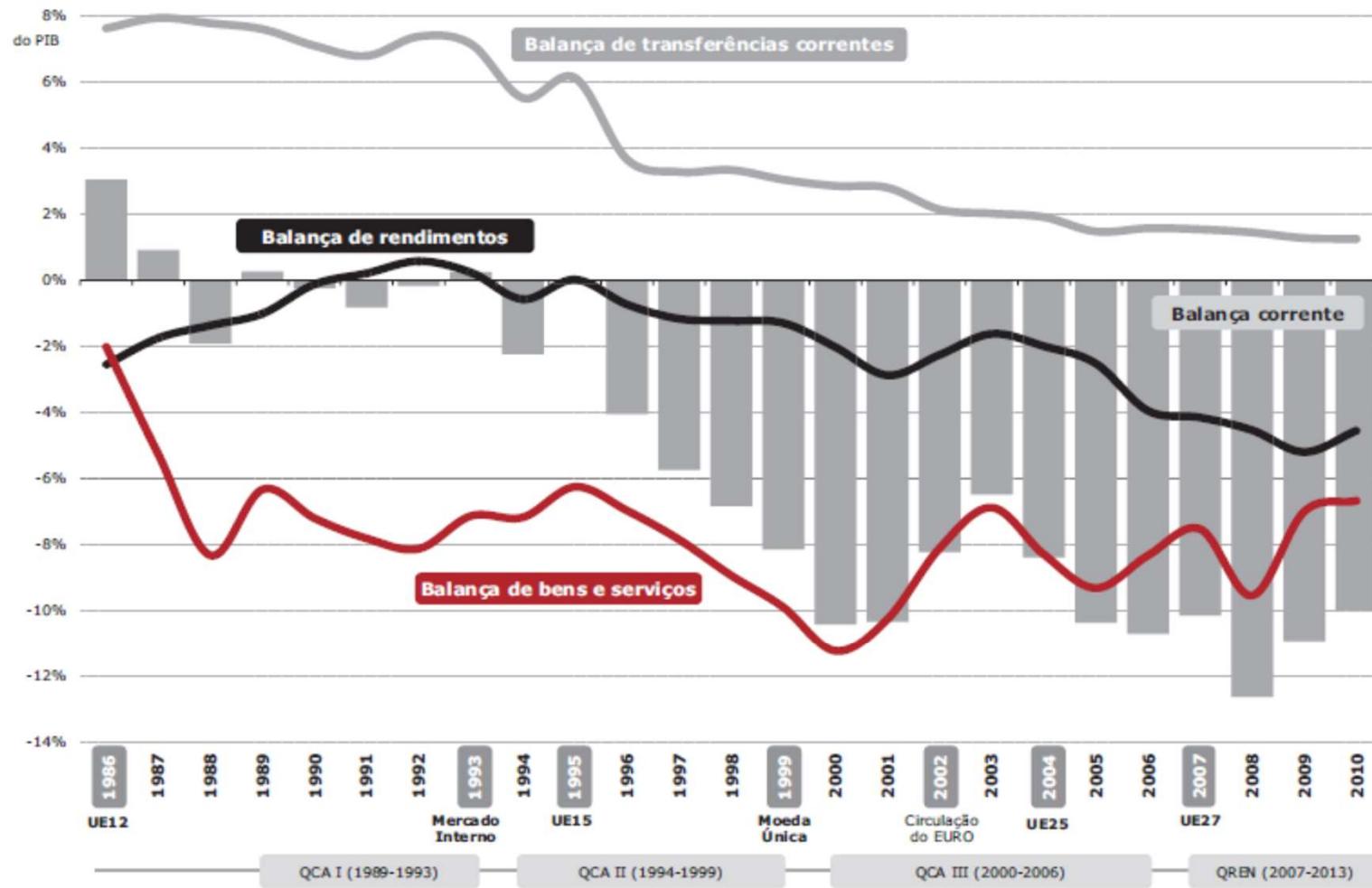
A crise financeira e os ajustamentos do PAEF tiveram um impacto maior no consumo de bens e serviços das famílias do que na criação de riqueza.



Nota: O consumo per capita inclui as transferências sociais em espécie.

Fonte: Ameco (acedido em novembro de 2014)

**Gráfico 15.1.** Balança corrente em Portugal | 1986 a 2010

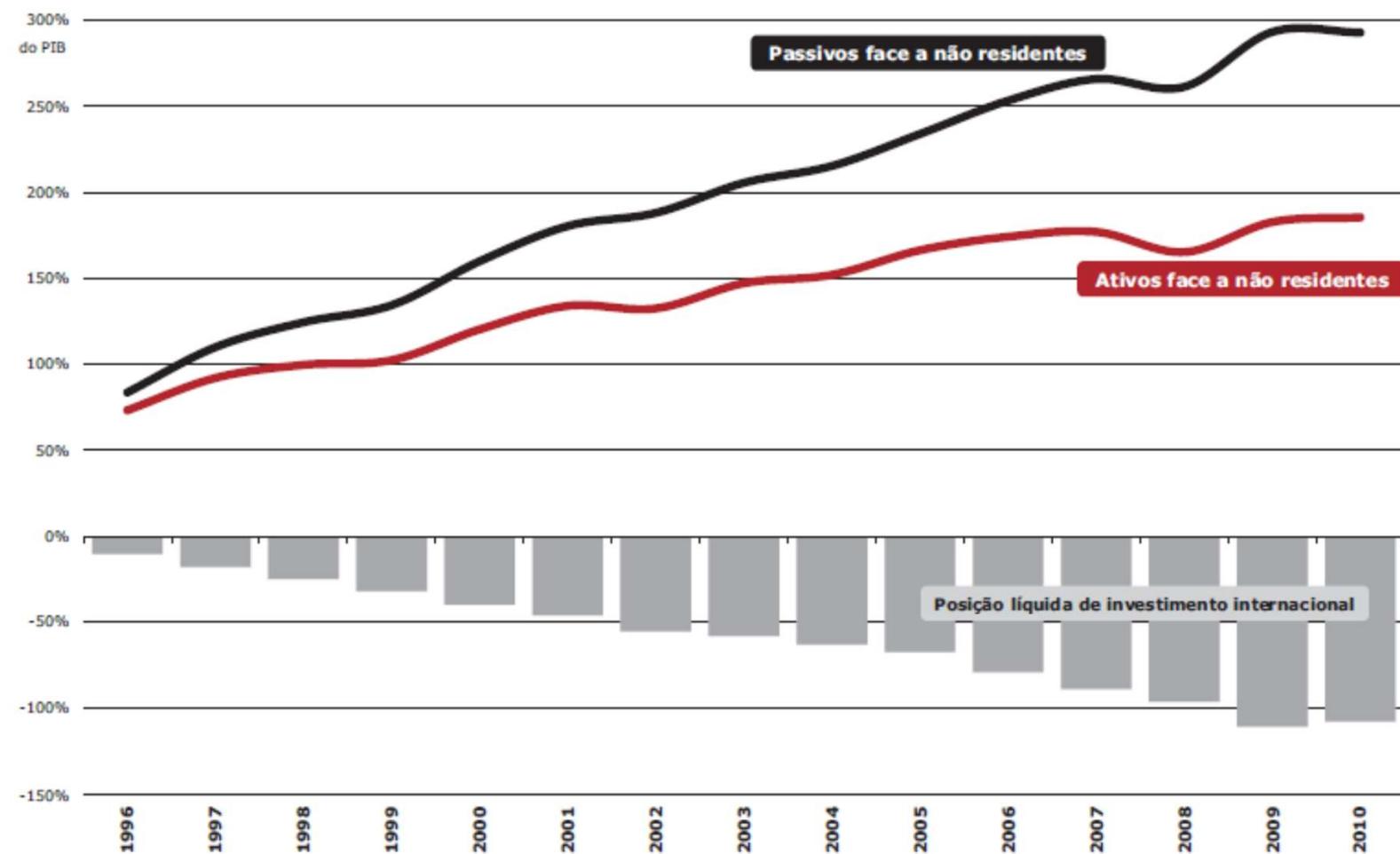


As decrescentes transferências correntes não compensam o défice de bens e serviços. A maior saída de juros, dividendos e lucros veio deteriorar a balança de rendimentos e acentuar o desequilíbrio externo de Portugal.

Fonte: FMI e Banco Mundial  
(acedido em janeiro de 2012)

**Gráfico 15.8.** Posição líquida de investimento internacional em Portugal | 1996 a 2010

O persistente desequilíbrio externo conduziu ao crescimento das responsabilidades líquidas de Portugal face ao exterior, que superaram a totalidade do PIB em 2010.



Fonte: Banco de Portugal  
(acedido em janeiro de 2012)