

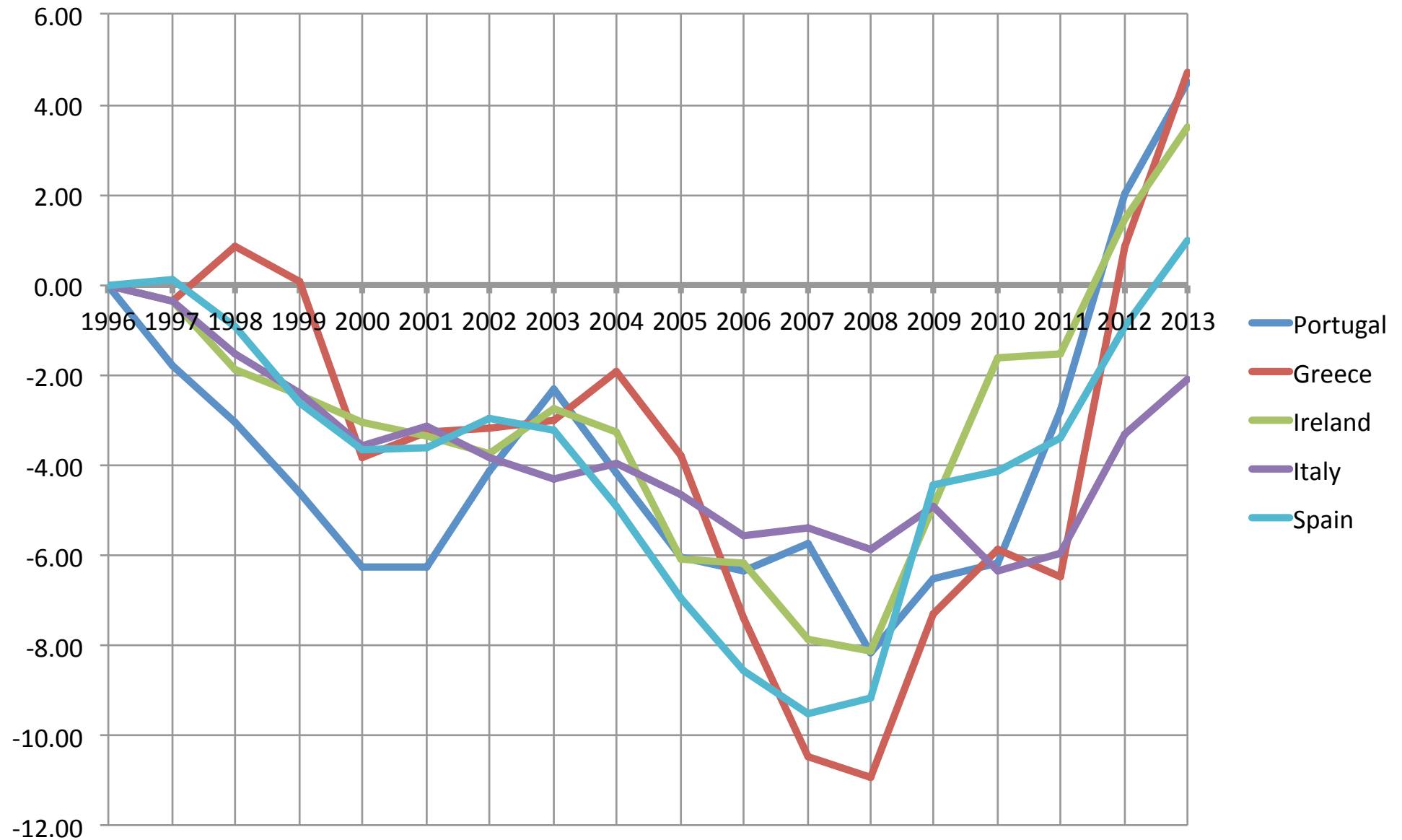
PORTUGAL IN THE EURO-CRISIS

Ricardo Reis
Columbia University and LSE

IOEB - Dakolias family
Athens, 21st of April 2016

CAPITAL, FLOWING

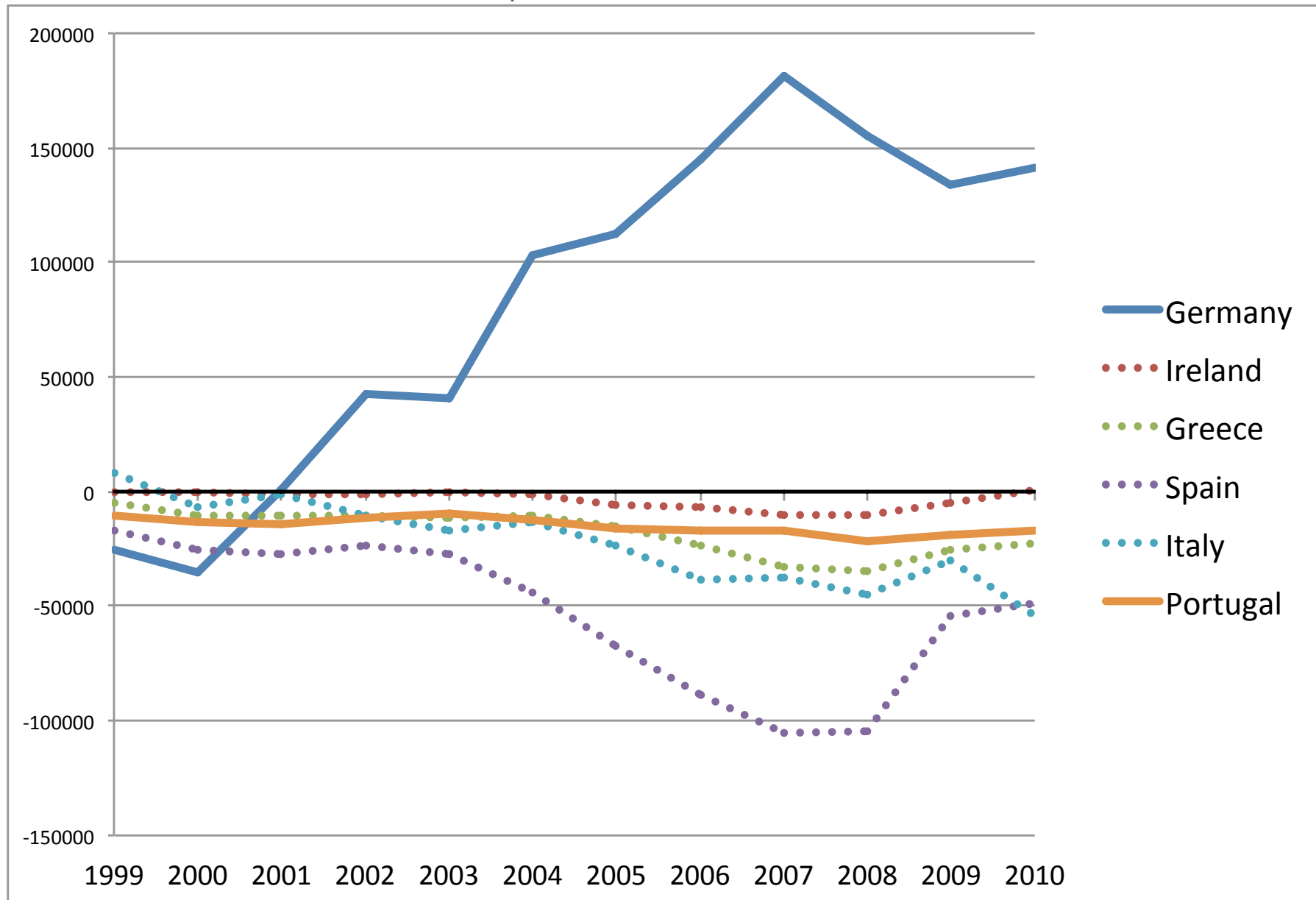
Current account / GDP relative to 1996



Source: Reis (2016)

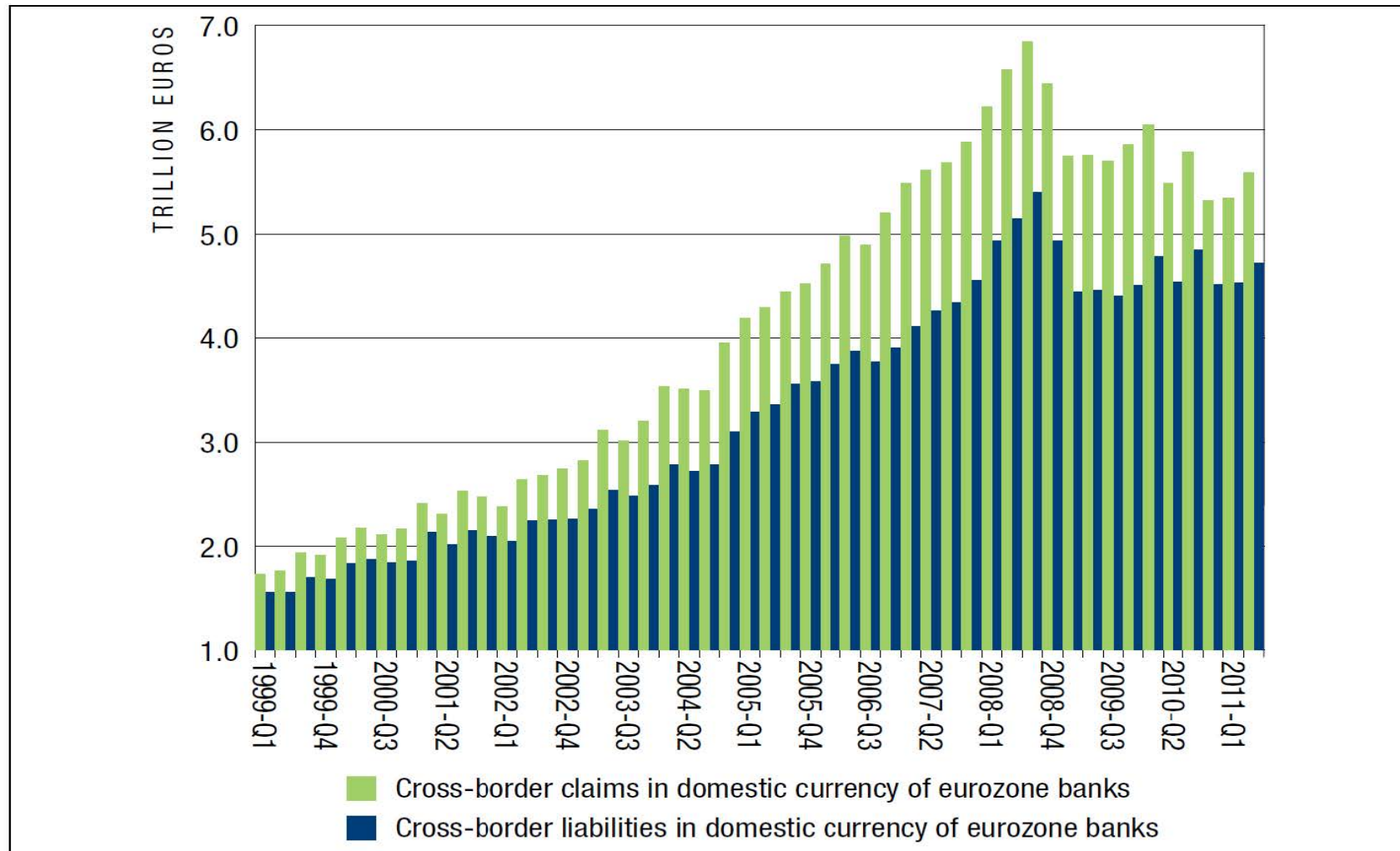
CORE TO PERIPHERY

Capital flows, Euros



DEBT, THROUGH BANKS

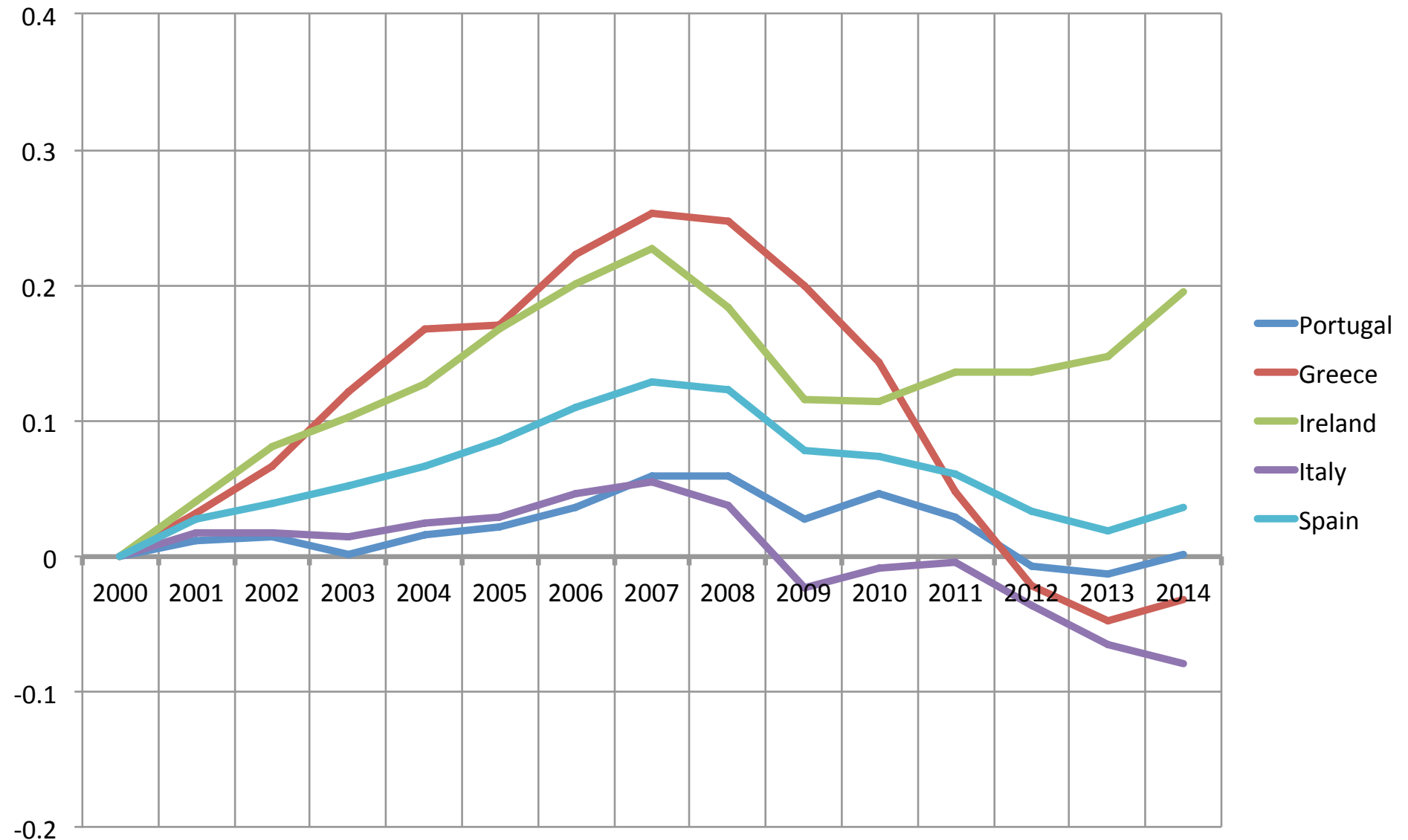
FIGURE 17: Cross-Border euro-denominated assets and liabilities of euro area banks (Billion Euros)



Source: Bank for International Settlements, Locational Banking Statistics, Table 5A

SLUMP, NOT SO DIFFERENT

Real GDP per capita relative to 2000



Source: Reis (2016)

THE 2010-11 CRASH

* **A debt crisis**

- But both sovereign and private. And ahead of sovereign, a sudden stop of private capital.
- And behind it were national banks that intermediated EA-wide credit flows

* **A deep recession**

- But roots predate crisis TFP growth stops in 2000
- In common, misallocation of resources across and within sectors.

The troika years 2011-15

SUCCESS AND FAILURE

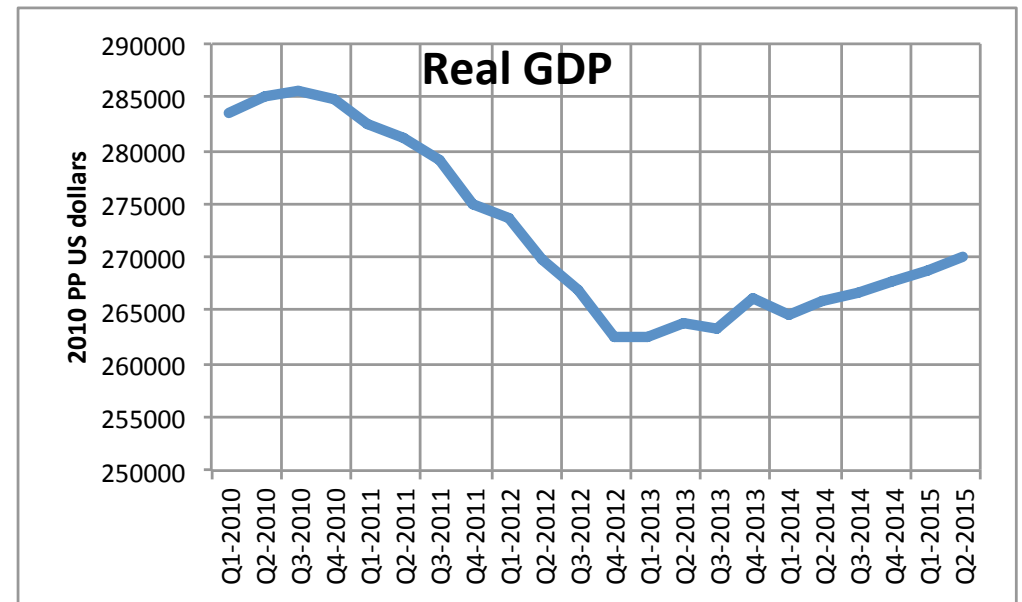
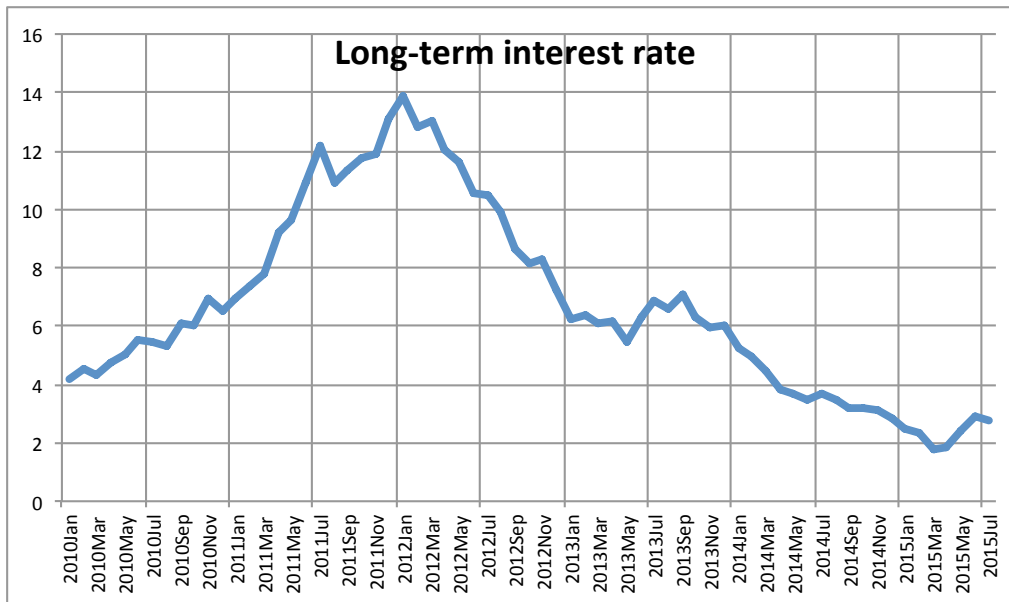


“Portugal’s reform efforts have paid off. Today’s decision by the government in Lisbon is proof of this. Portugal no longer needs European assistance and can stand on its own two feet again. This is a major success. Capital market confidence has returned, and rightly so.” June 2014.



In “Europe’s many disasters”
“Portugal has also obediently implemented harsh austerity — and is 6 percent poorer than it used to be.”
NYT, July 2015.

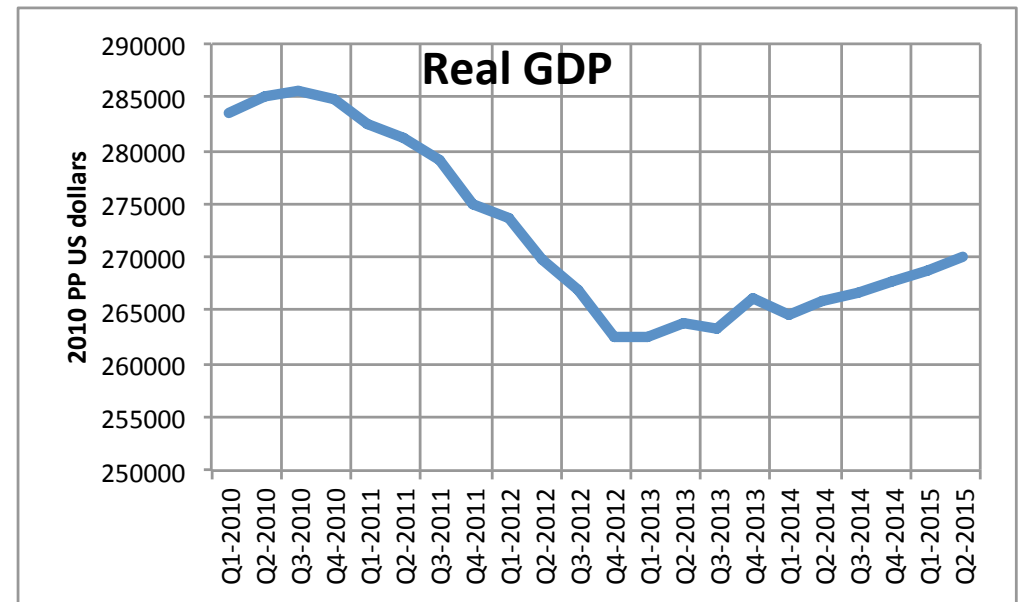
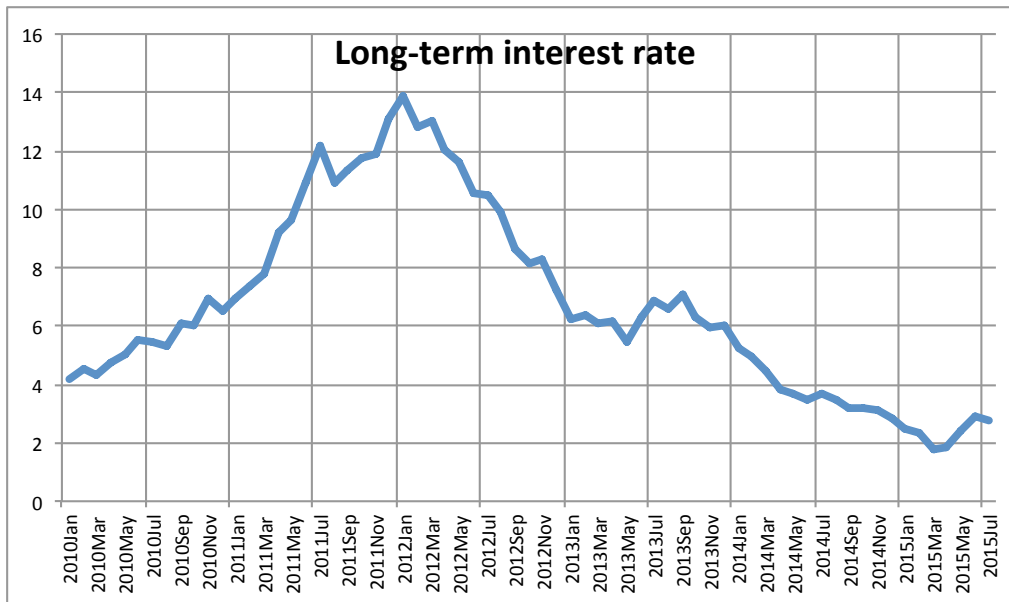
SUCCESS AND FAILURE



Public finances **success**

Macroeconomy **failure**

SUCCESS AND FAILURE



Public finances **success**
failure

Macroeconomy **failure**
success

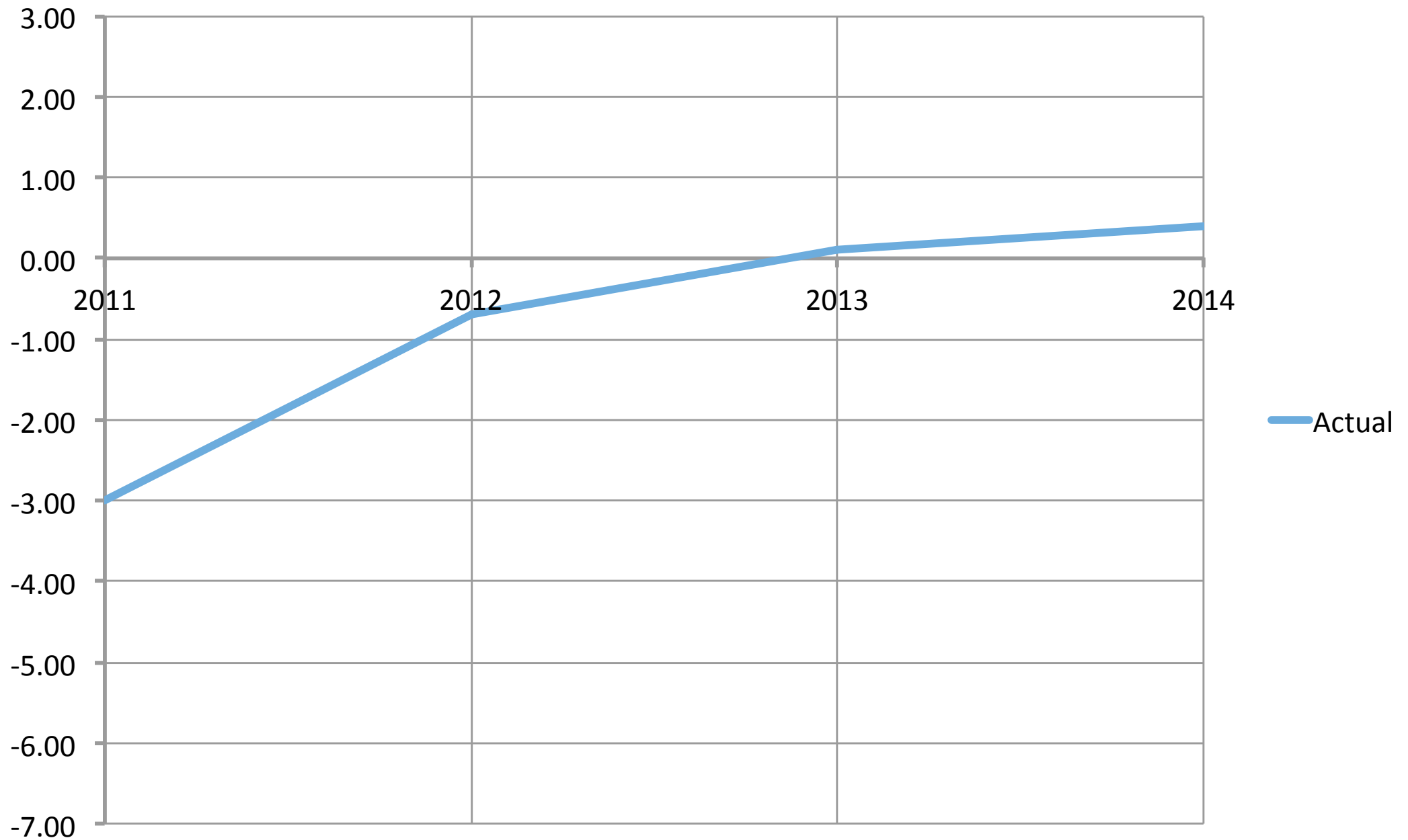
I. PAYING FOR DEBTS

	2010	2014
Trade balance	-7.1%	1.1%
Exports / GDP	30%	41%

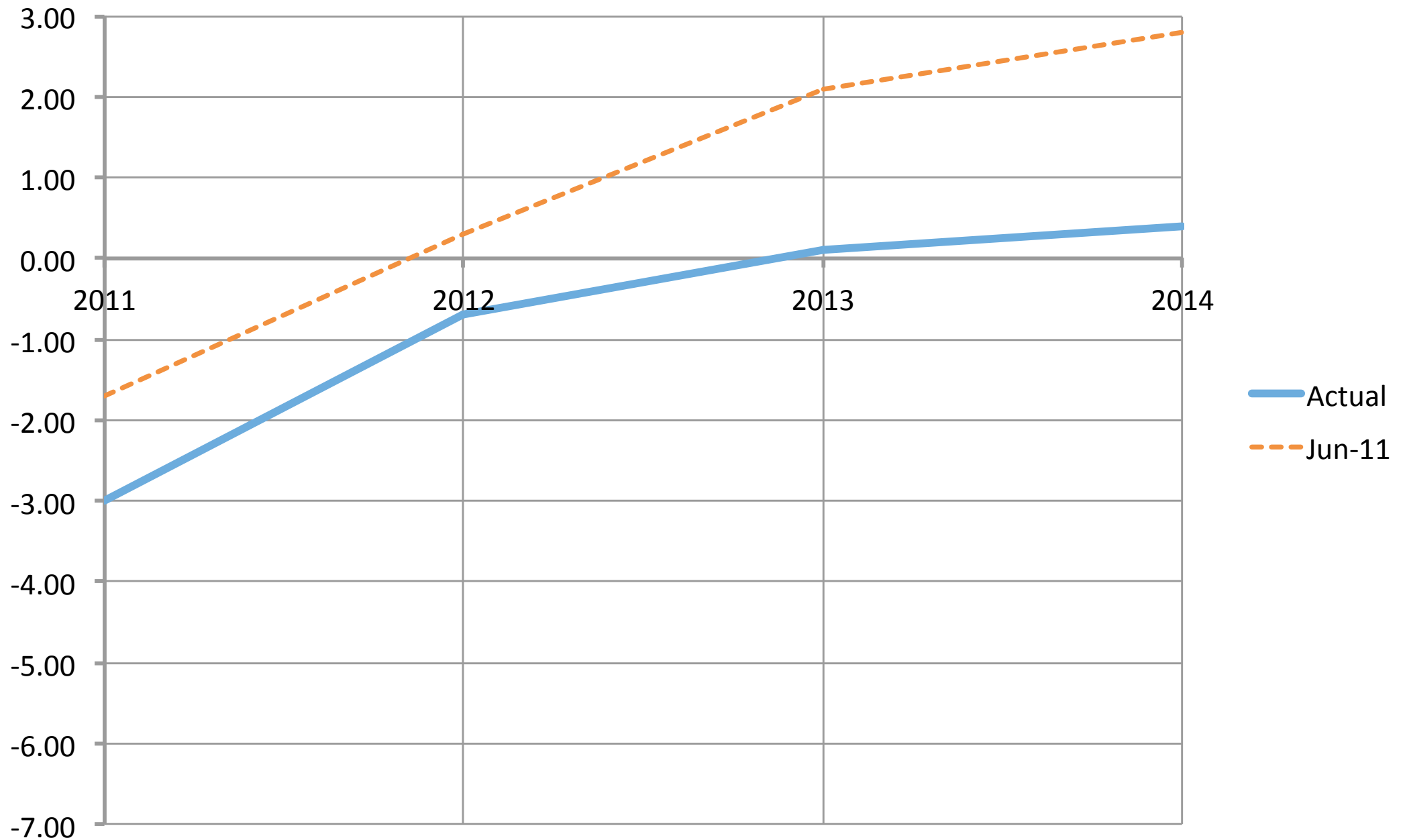
I. PAYING FOR DEBTS

	2010	2014
Trade balance	-7.1%	1.1%
Exports / GDP	30%	41%
Primary surplus	-8.2%	0.5%
Public Debt/GDP	96%	130%

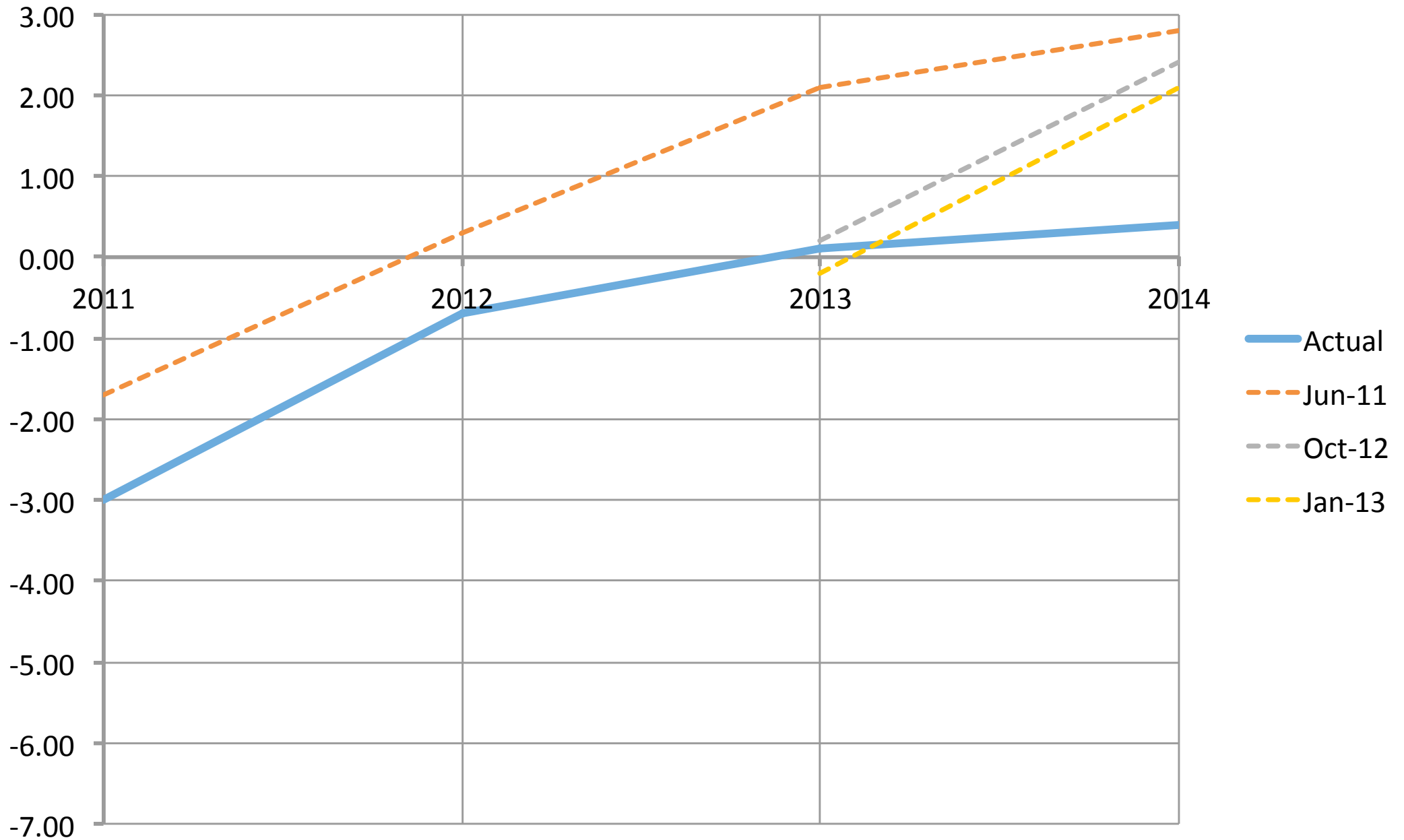
PRIMARY SURPLUS



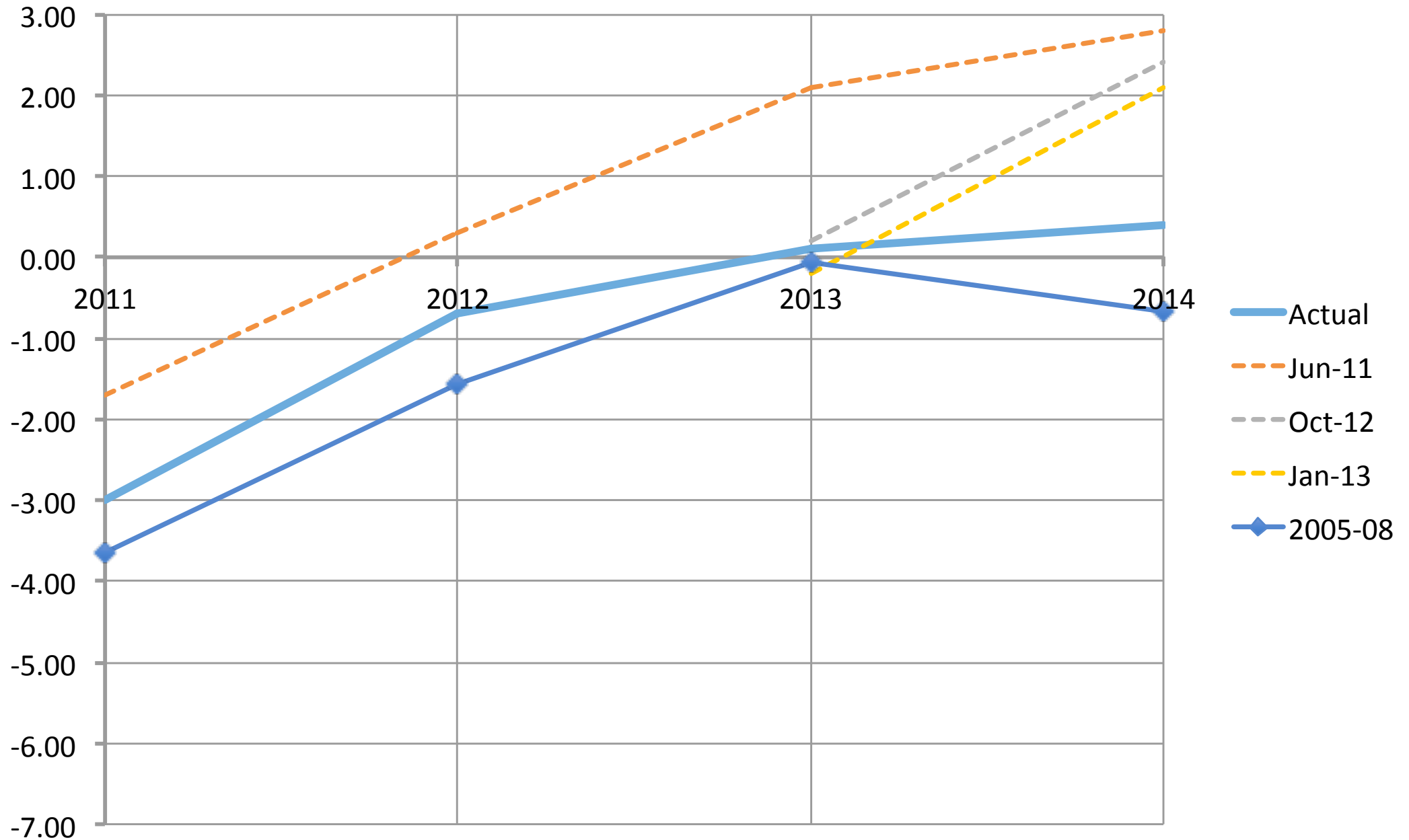
PRIMARY SURPLUS



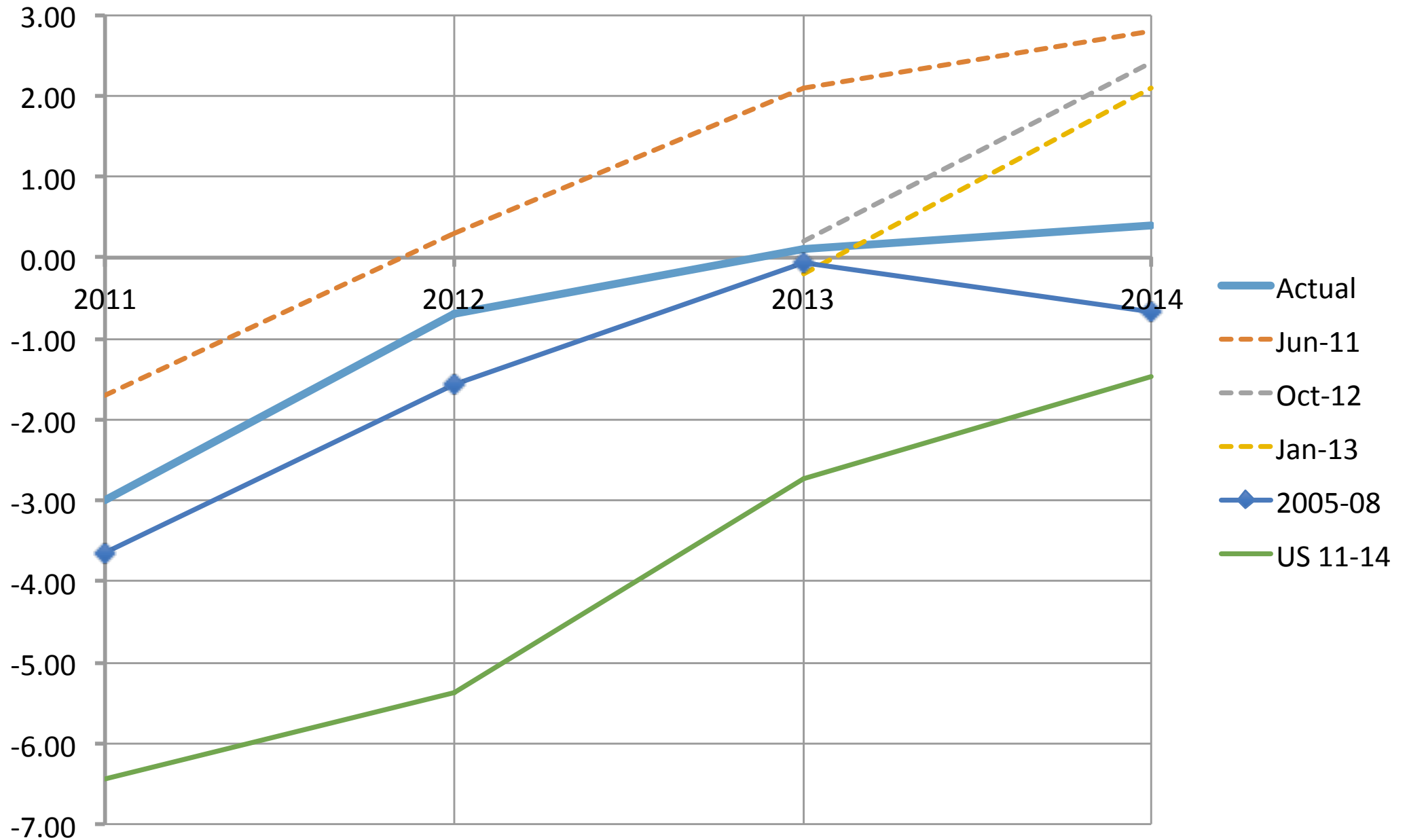
PRIMARY SURPLUS



PRIMARY SURPLUS



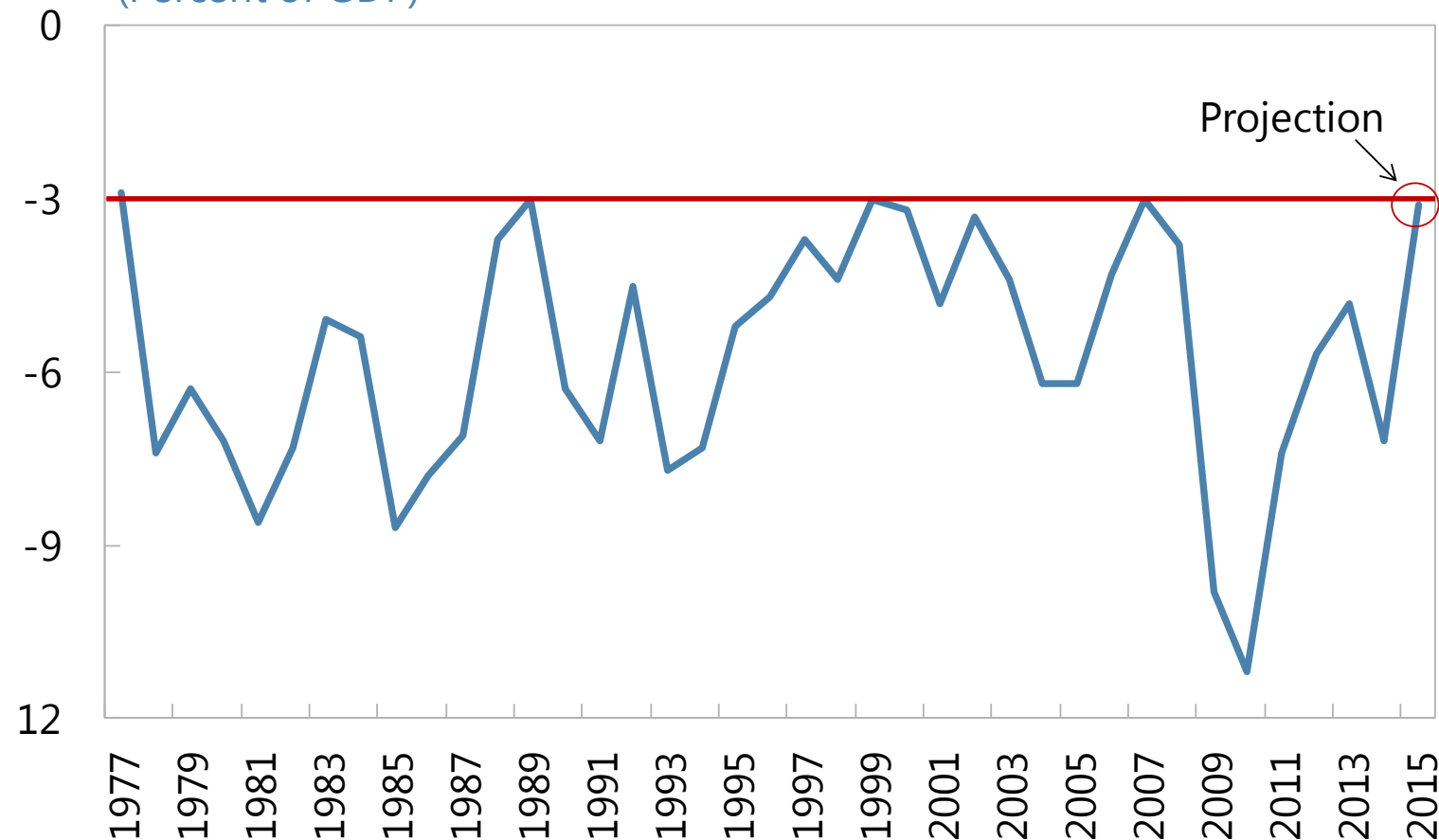
PRIMARY SURPLUS



SPOT THE AUSTERITY

Portugal: General Government Balance¹

(Percent of GDP)



Sources: Haver Analytics; and IMF staff estimates.

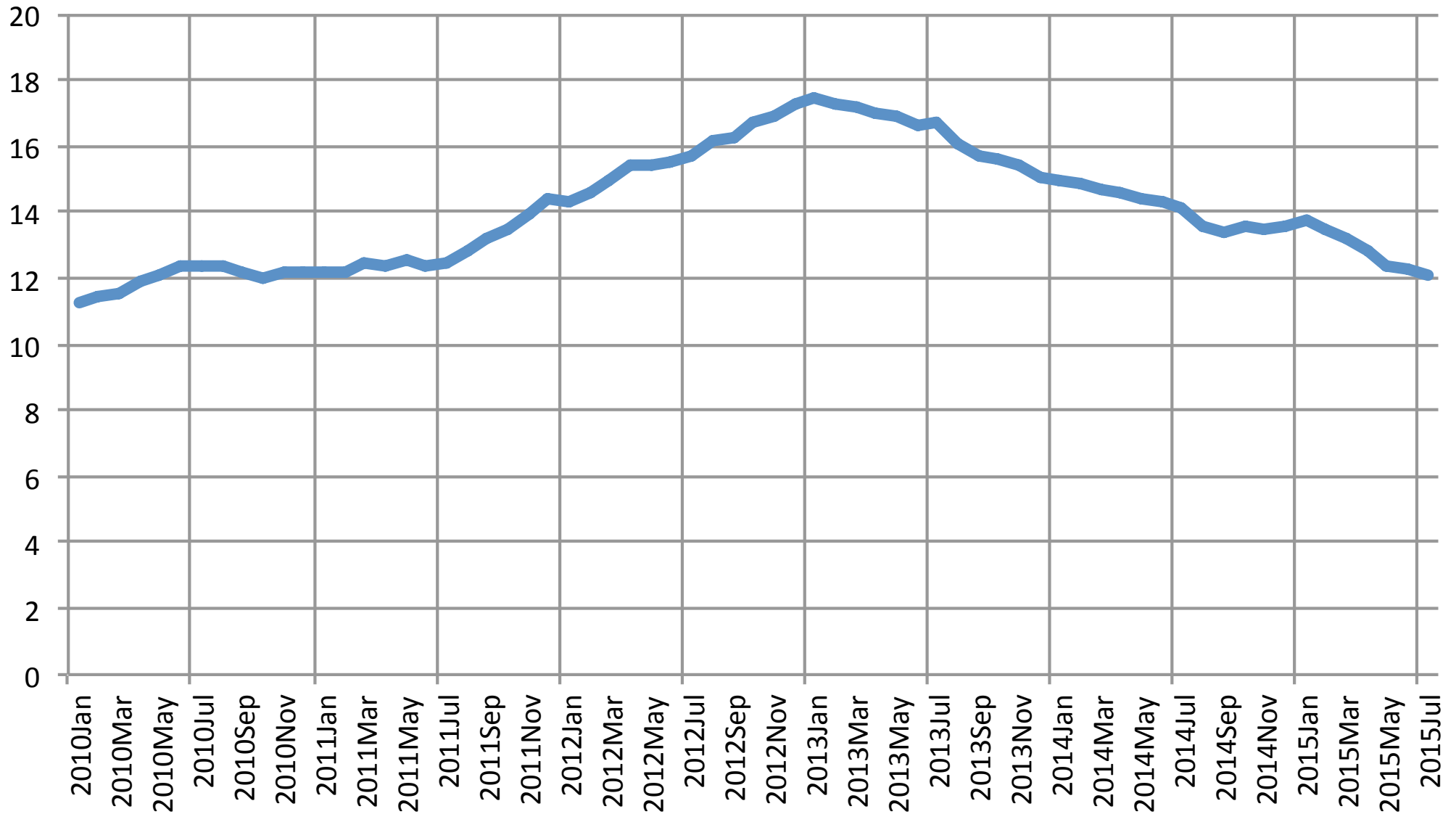
¹The data for 1977-1994 are on the ESA 1995 basis.

2. CONTROLLING SPENDING

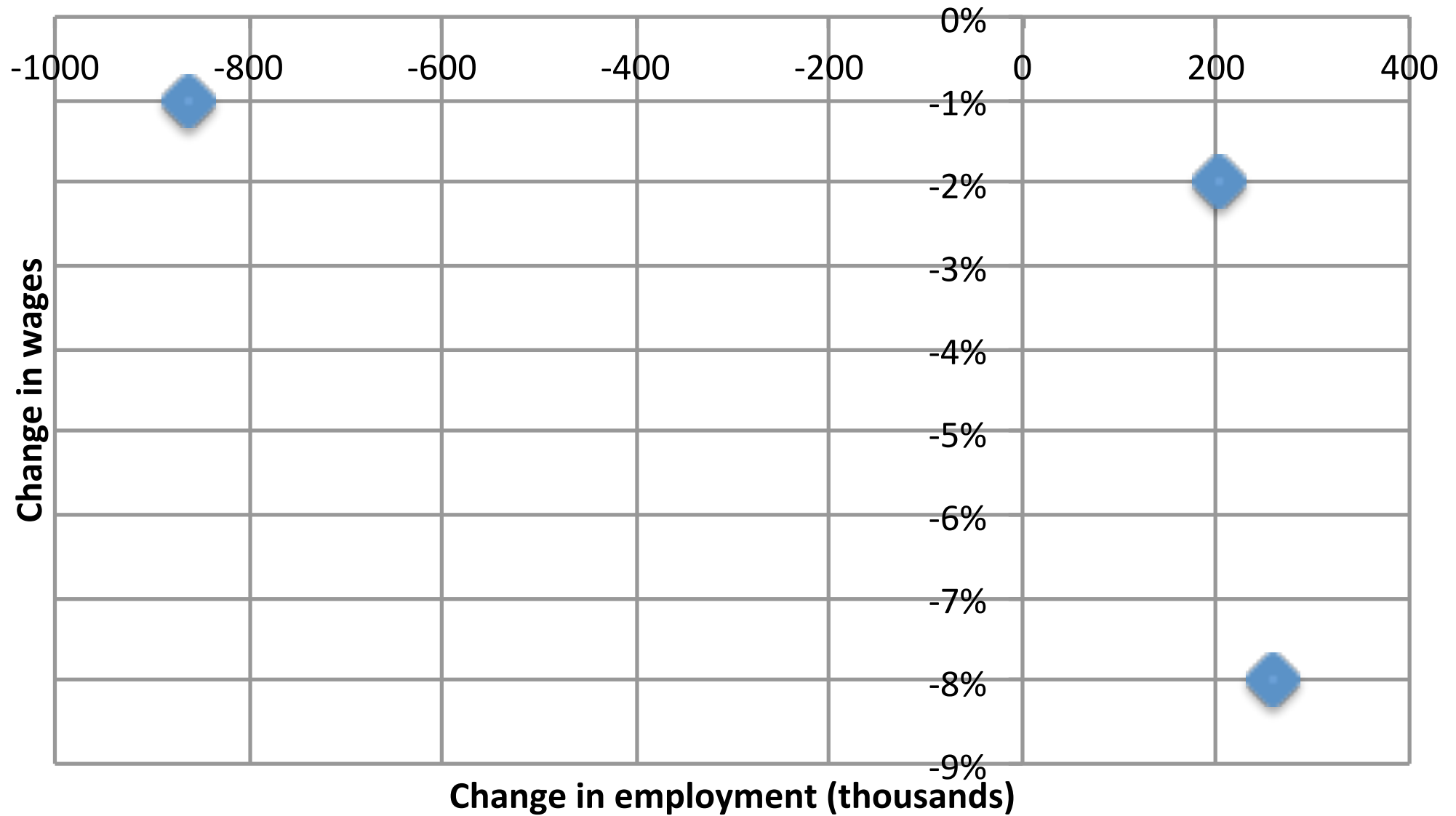
	2010	2014
Government revenue	40.6%	44.5%
Public investment	7.2%	3.2%
Transfers	22.1%	23.1%
Total spending - inv.	80bn	79bn

3. LABOR MARKET

Unemployment rate

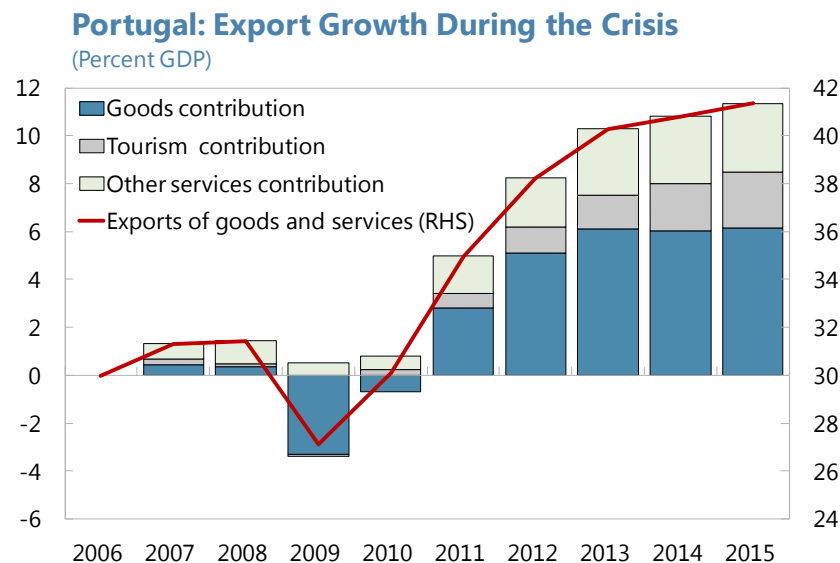


3. LABOR MARKET



4. CAPITAL ALLOCATION

- Agriculture and construction account for 2/3 of fall in employment.
- Output per hour increased the most in wholesale and retail trade and real estate.
- Tradable sector grew, exports boomed.



Sources: Haver Analytics; and IMF staff calculations.

5. CONCLUSION

- Simple aggregates suggest a public finances success, macro failure.
- But if look deeper, conclude the opposite:
 - limited success in curbing pension growth.
 - many encouraging signs of reallocation of resources.

Present and future 2015-...

NEW GOVERNMENT

- **Public finances:**

- End of austerity? Much ado about nothing.
- Redistribution. More taxes on private sector, higher wages and pensions on public sector.

- **The economy:**

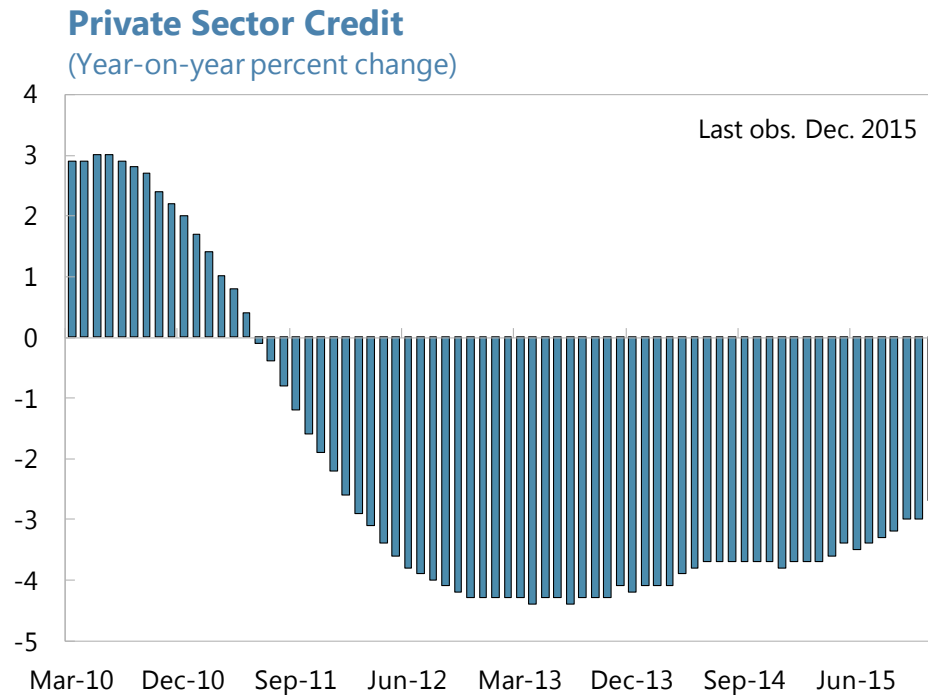
- Cancel foreign private concessions, break promise on corporate income taxes, refers airline deal.
- Investment stops, unemployment inflection.
- Use 1.7bn of Social Security to finance construction.

THE BANKING SECTOR

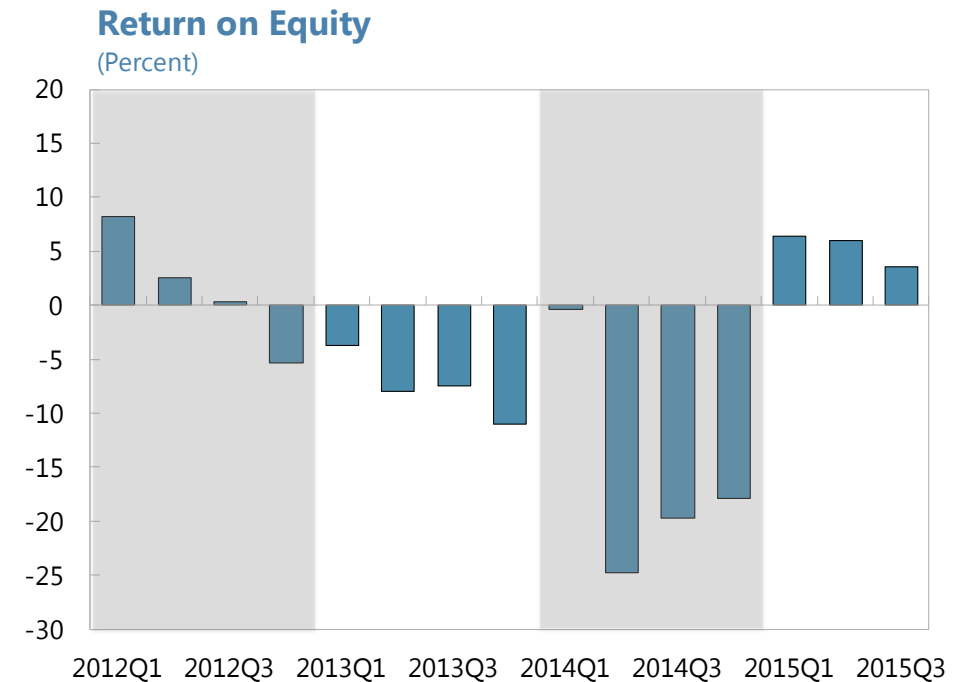
- **A view into the new banking union**
 - BANIF, now Santander
 - Bank of Portugal decides, DG Comp vetoes, ECB bullies, and government gets the bill.
- **State of major banks**
 - Novo Banco: bailed out, for sale
 - BCP: shares worth 2c, waiting for investor
 - CGD: undercapitalized, DG Comp blocking it
 - BPI: Angola troubles, takeover by Spanish Caixa.

CREDIT SHRINKING, BANKS BUST

Lending continues to contract...



...and profitability remains weak.



Sources: Haver Analytics; Bank of Portugal; and IMF staff calculations.

CONCLUSION

- **Common disease:** capital, banks, misallocation.
- **Particular response:**
 - Like Greece, extensive, like Ireland, compliance.
 - Unlike Greece, modest austerity, unlike Ireland, no growth, unlike Spain, banks not resolved.
- **Looking forward:**
 - Public debt still high.
 - Economy showing signs of stagnation again.
 - Banks a major headache.