Conselho das Finanças Públicas

Portuguese Public Finance Council

Vulnerability and fiscal consequences of externally induced recessions in Portugal

International Conference of Councils on Economic Policy

Luís Centeno and Nuno Gonçalves

The Hague, 22nd of June 2018

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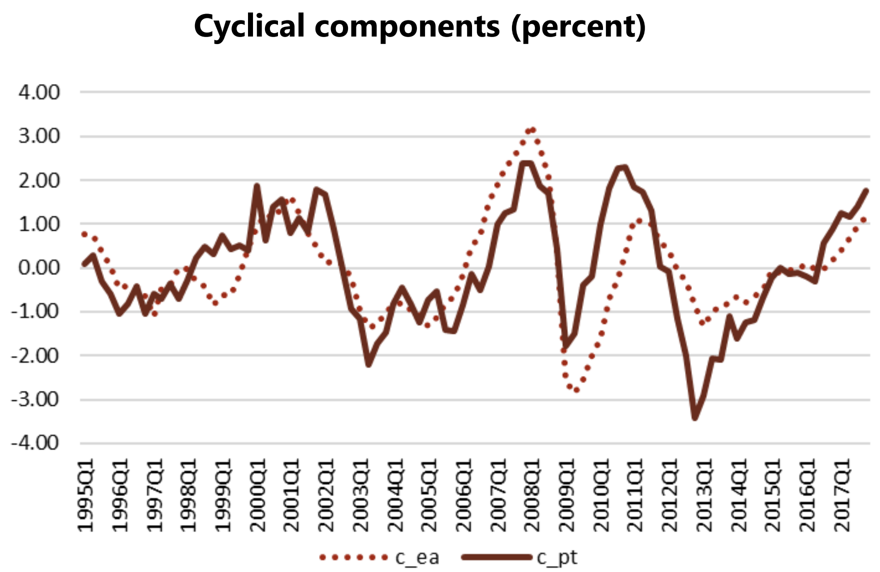
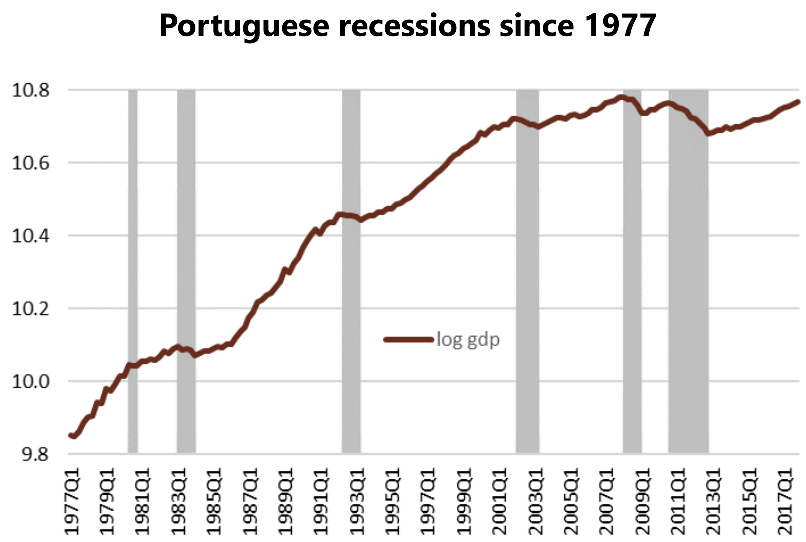
High volatility in the economy

➢ A small open economy is prone to externally induced cyclical movements and downturns are frequently not foreseen.



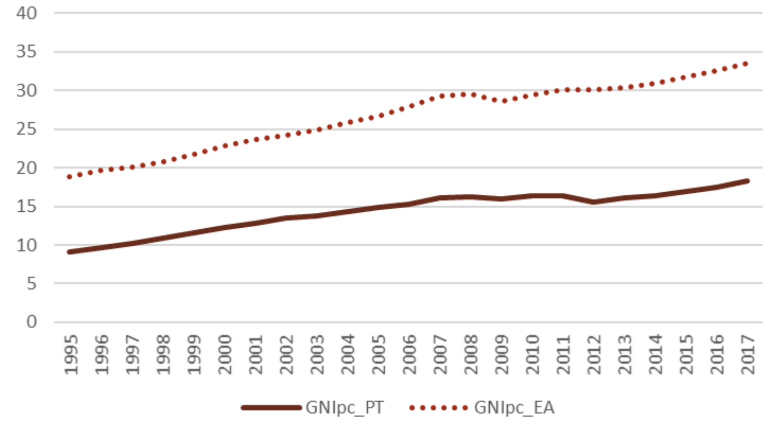


sd PT (full sample)	1.26
sd PT (pre 2008 crisis)	1.03
sd EA (full sample)	1.14
sd EA (pre 2008 crisis)	1.03

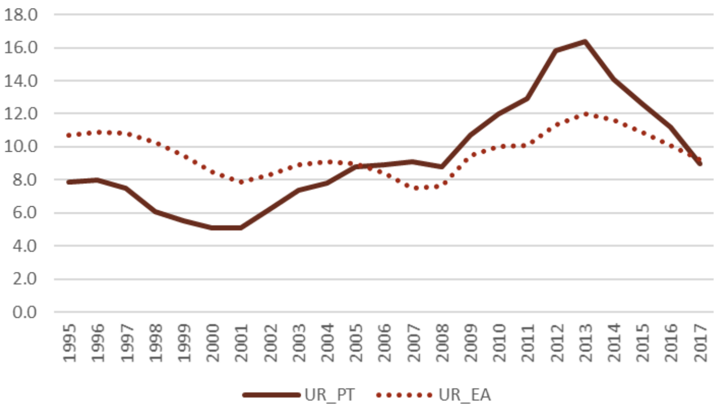
Portugal at a glance

- Portugal is a country with an economy that has a low level of GDP compared with its partners that:
  - used to have a low unemployment
  - hardly converges in terms of productivity
  - and, despite the improvement, still has high qualification gap vis a vis its EA partners

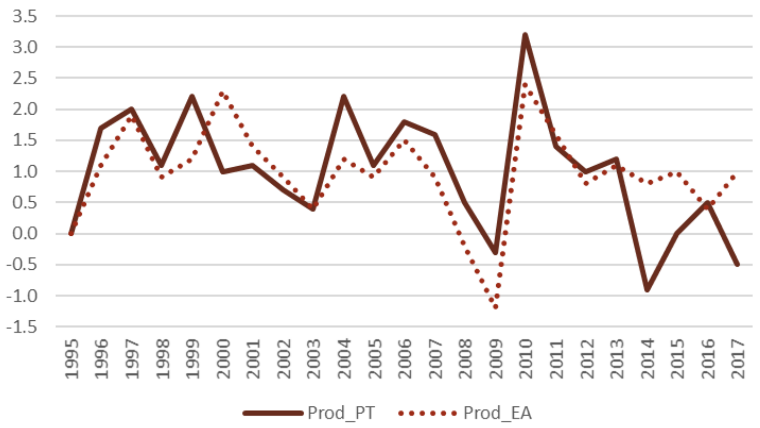
Gross National Income at current prices per capita (1000 eur)



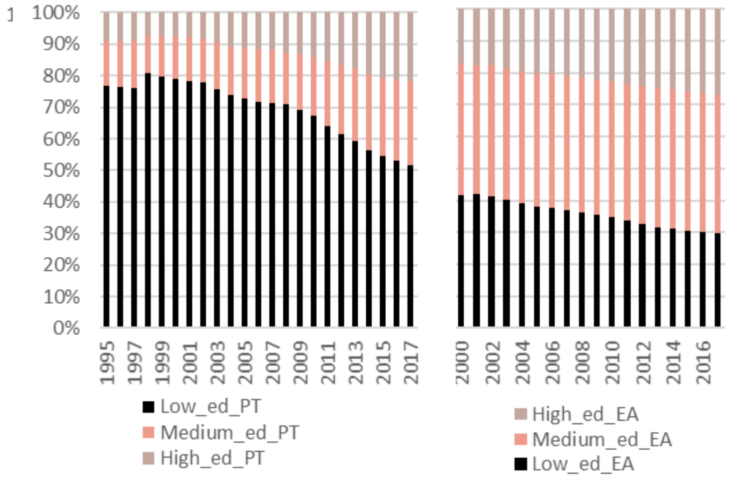
Unemployment rate (percent)



Labour productivity growth (change, %)

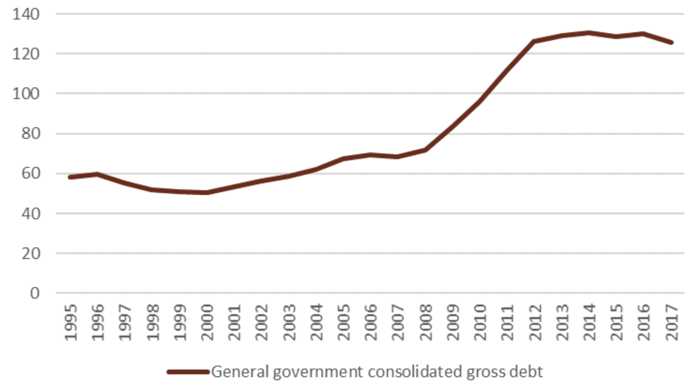


Educational levels (weight on total, %)



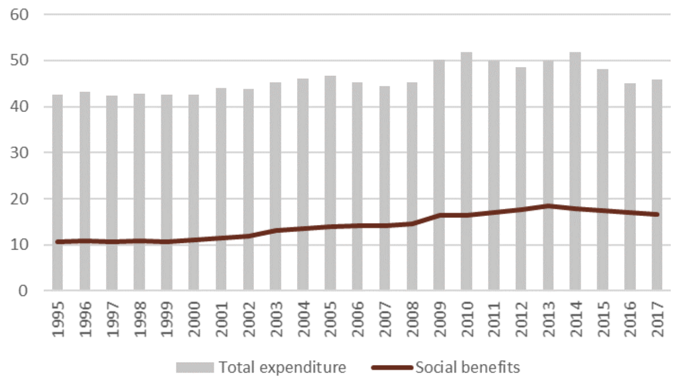
Economic policy responses

General government consolidated gross debt (percentage of current GDP)



Tax burden (percentage of current GDP)

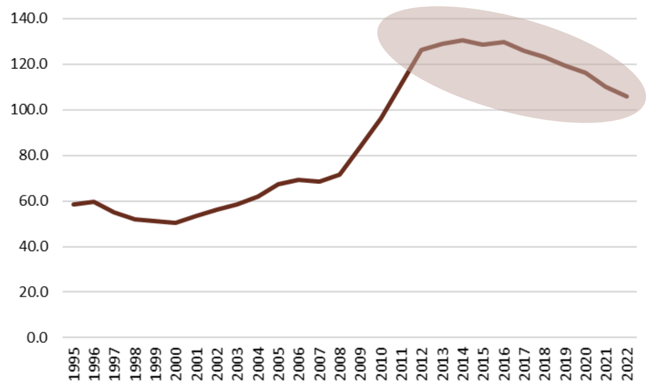
Government expenditure evolution (percentage of current GDP)



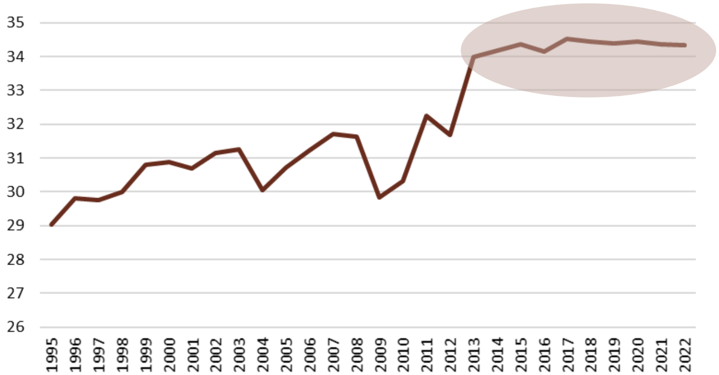
- Economic policies have been heavily marked by a deficit bias, using debt and increased taxation to finance expanding rigid public expenditure.
- It is also widely recognised the lack of commitment the country has shown in structural reforms, particularly in the promotion of a levelled playing field for businesses and increased flexibility in labour markets. The judicial system also shows enormous resilience to reform.

Between the rock and the wall

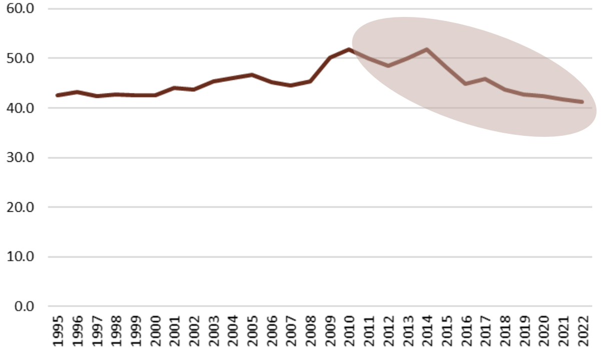
General government consolidated gross debt (percentage of current GDP)



Tax burden (percentage of current GDP)



Government expenditure evolution (percentage of current GDP)



- Under no policy change scenarios future seems sustainable and promising.
- But structural change policies have a cost.
- Debt, tax and expenditure ceilings have been reached.
- Can Portugal have traditional electoral politics without expansionary budgetary policies? But can we avoid?

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