

PT @ FEDEA

Macro Situation & Fiscal Reforms

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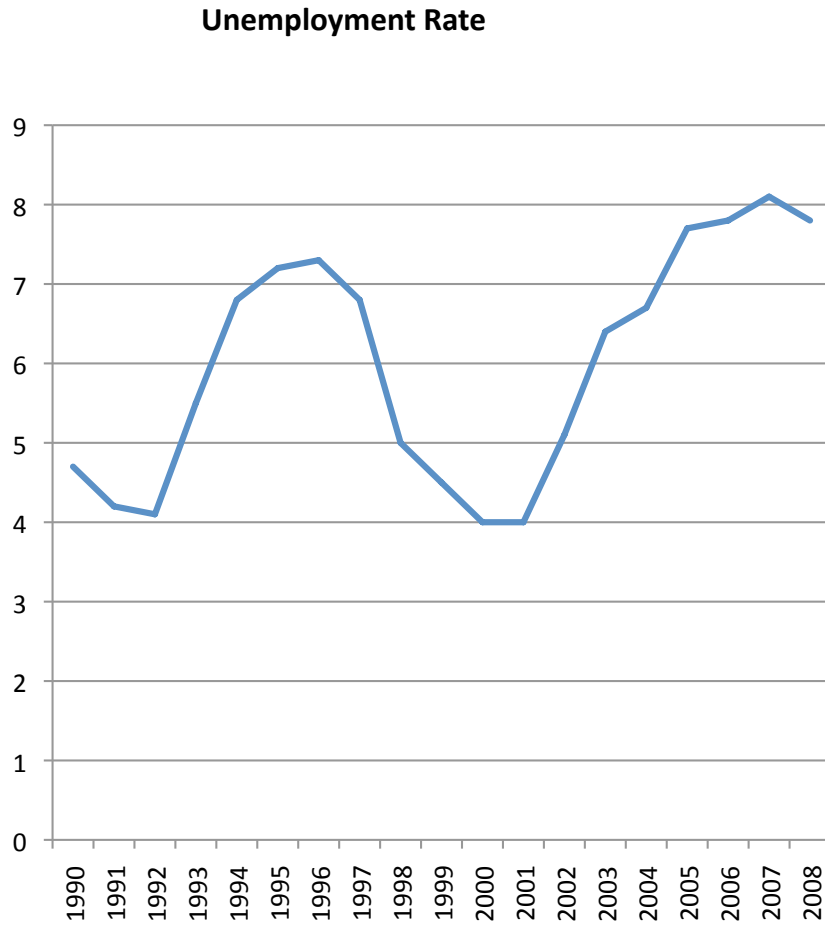
Outline

- 2000 – 2010: “Lost Decade” & the Euro
- May 2011 -...: Adjustment & Reform

(No)Growth under the Euro

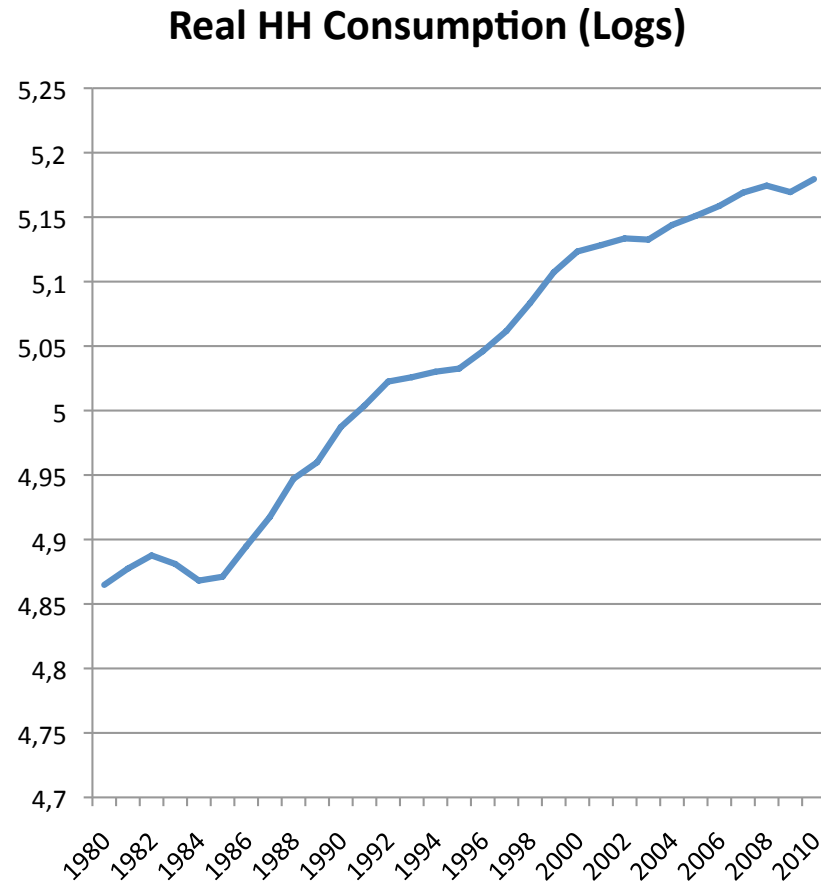
- Portuguese GDP growth 2001-2009: 1.4%
- That's total for 9 years; not yearly average (0.2%)!
- Lost decade relative to Euro area (5.1% total 0.6% average)
- Lackluster relative to itself in 90s: (2.9% average)

Unemployment



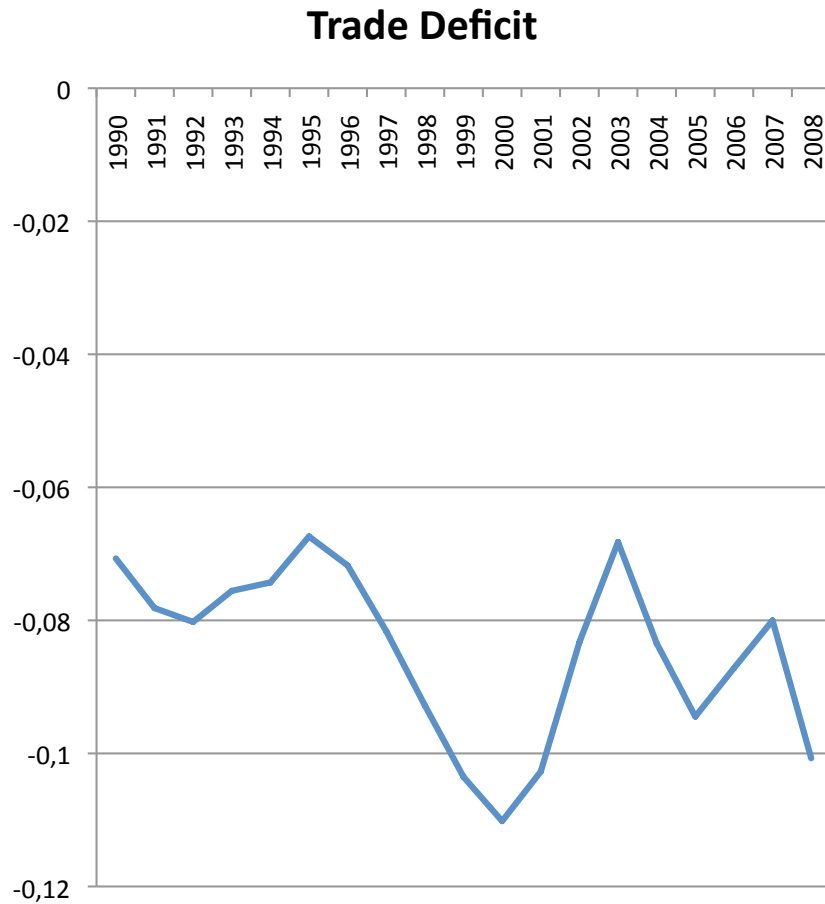
- Growth in U-rate under Euro
- Highest in 20 years by 2007

Private Consumption



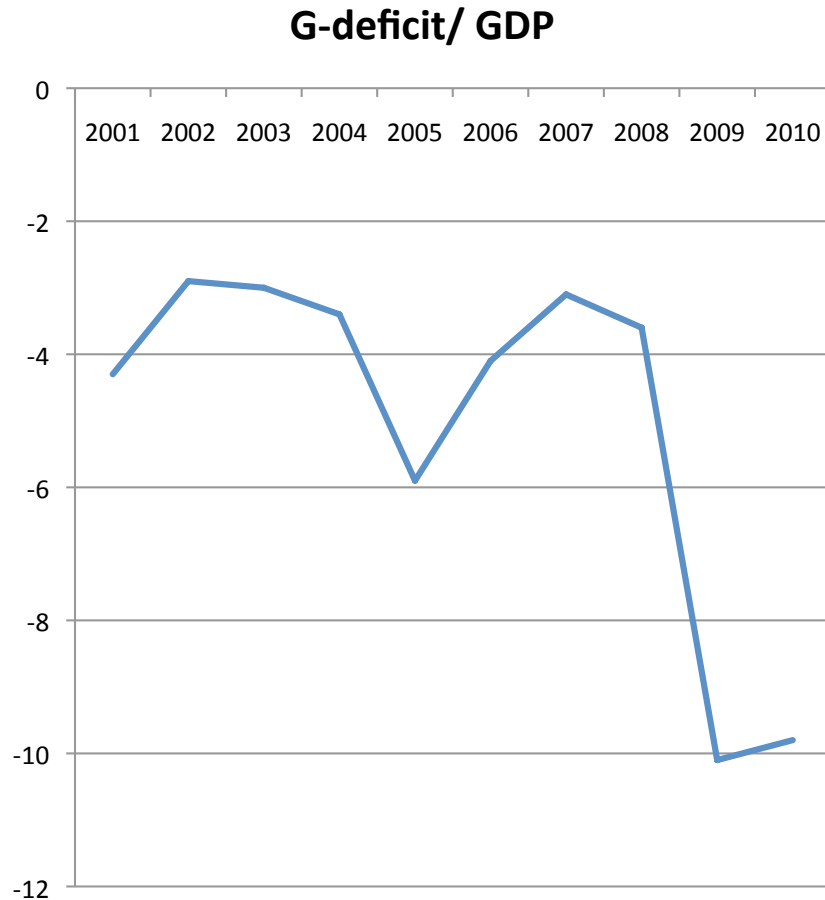
- Average growth rate 90s: 3%
- Similar to GDP growth
- Average growth rate Euro-years: 1.2%
- 5 times GDP growth

Trade Deficit & Current Account



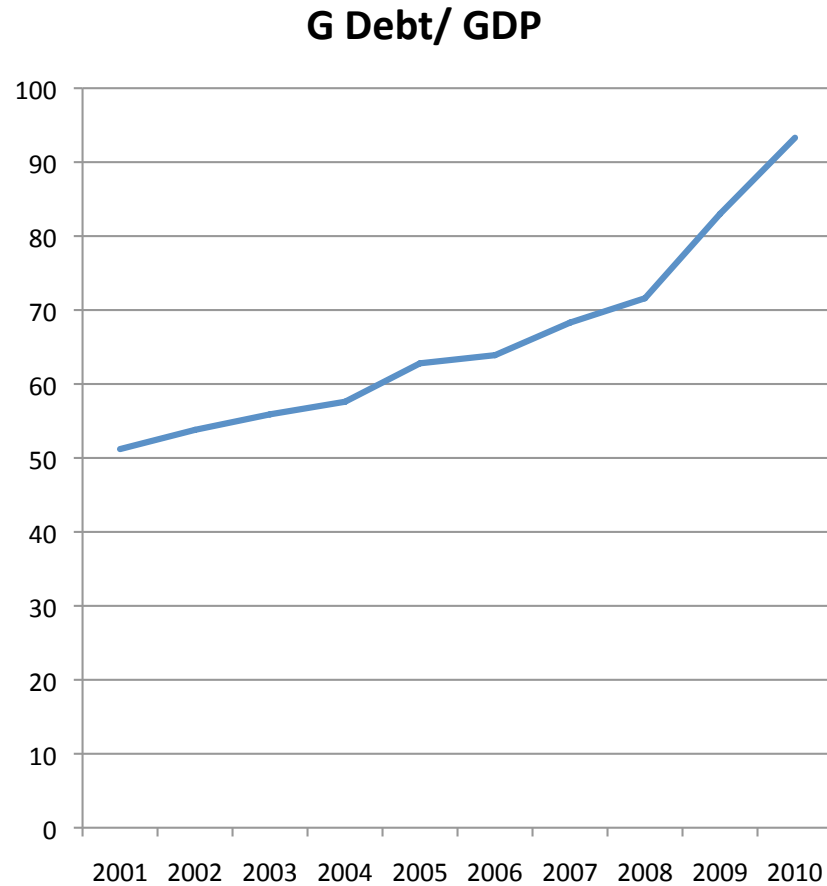
- Persistent Trade Deficits
- Deterioration of CA
- Latest Figures: Gross Foreign Debt/GDP=250%

Fiscal Side- Deficits



- Not a terrible showing till 2008 (considering above)
- OMGWAGD moment + lost decade = large automatic “stabilizer” kicks in 2008

Fiscal Side- Debt Piles Up



- Persistent deficits pile into debt
- By 2008: 70% of GDP
- By 2010: 93% of GDP
- Latest : 106% of GDP

Adjustment Package

- May 2011
- Rates in secondary market for G-debt $>7\%$
- Nth-reform package failed to pass parliament
- EU-IMF: 80 Bil. Euro External Financing
- Meant to keep country from going to markets for next 2-3 years
- Relatively high interest + Conditionality

Adjustment Package

- Overwhelming in Scope
- Many wishful thinking ideas in a cross-section of areas from financial sector regulation and support, judicial system organization, labor market policy, to local and regional administration
- Most of them: poorly defined. Little in way of cost-benefit or in-depth thinking

Adjustment Package

Fiscal side

- **Target:** 3% deficit in 2013 with debt stabilizing thereafter through
- Raise VAT+ new taxes & cut tax exemptions & allowances
- Cut & freeze (&cut again) public sector wages & freeze new hires
- Freeze (& special levy on) pensions
- Cut spending (defense in particular) & freeze public investment
- Mostly discretionary + acrobatics with social security system

Adjustment Package

Fiscal side

- Mind boggling number of difficult to implement and loosely defined measures to streamline Public sector
- Tame “shadow public sector”: SOE & PPP (with further privatization)
- Revenue administration “modernization” + “strategic plan”
- “Strategic Budgeting” + system of reports & control
- Reorganization of Local Administration