

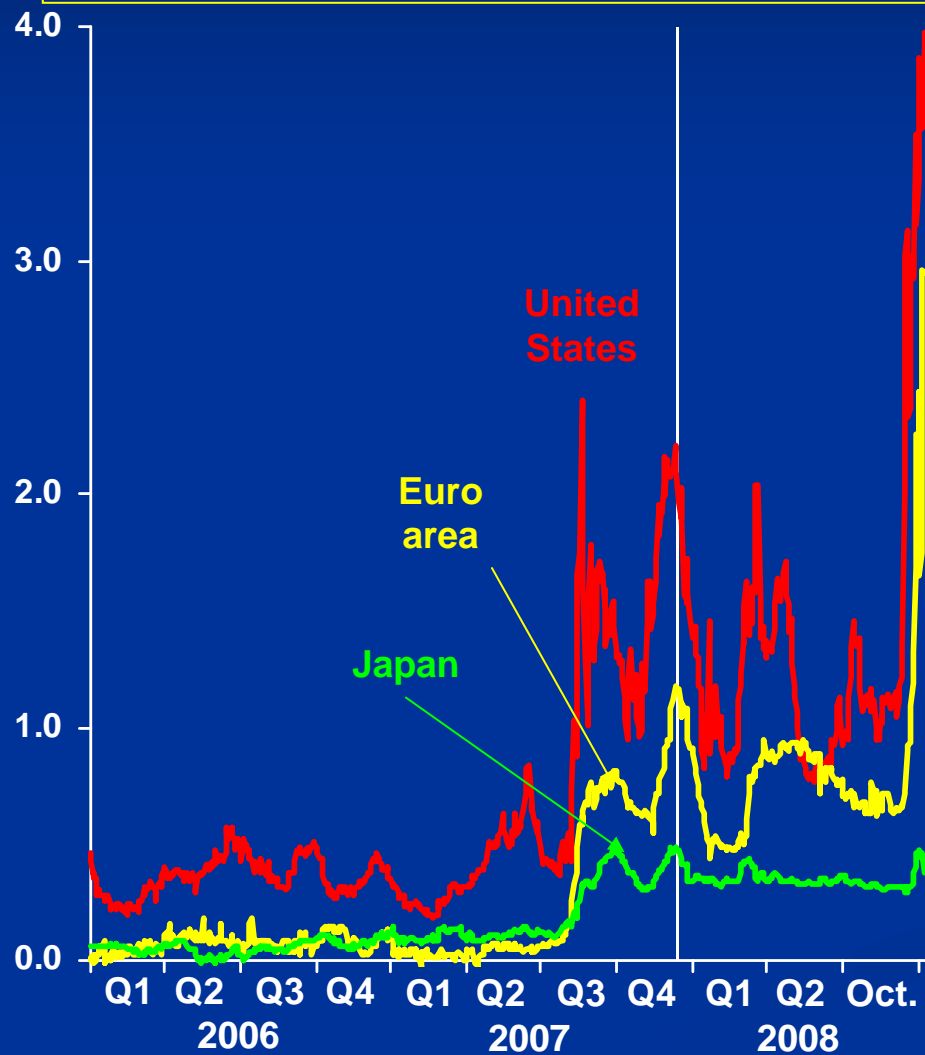


**Implications for
Portugal's Fiscal Policy
of the Financial Crisis**

An extraordinary, banking-sector shock is striking advanced economies

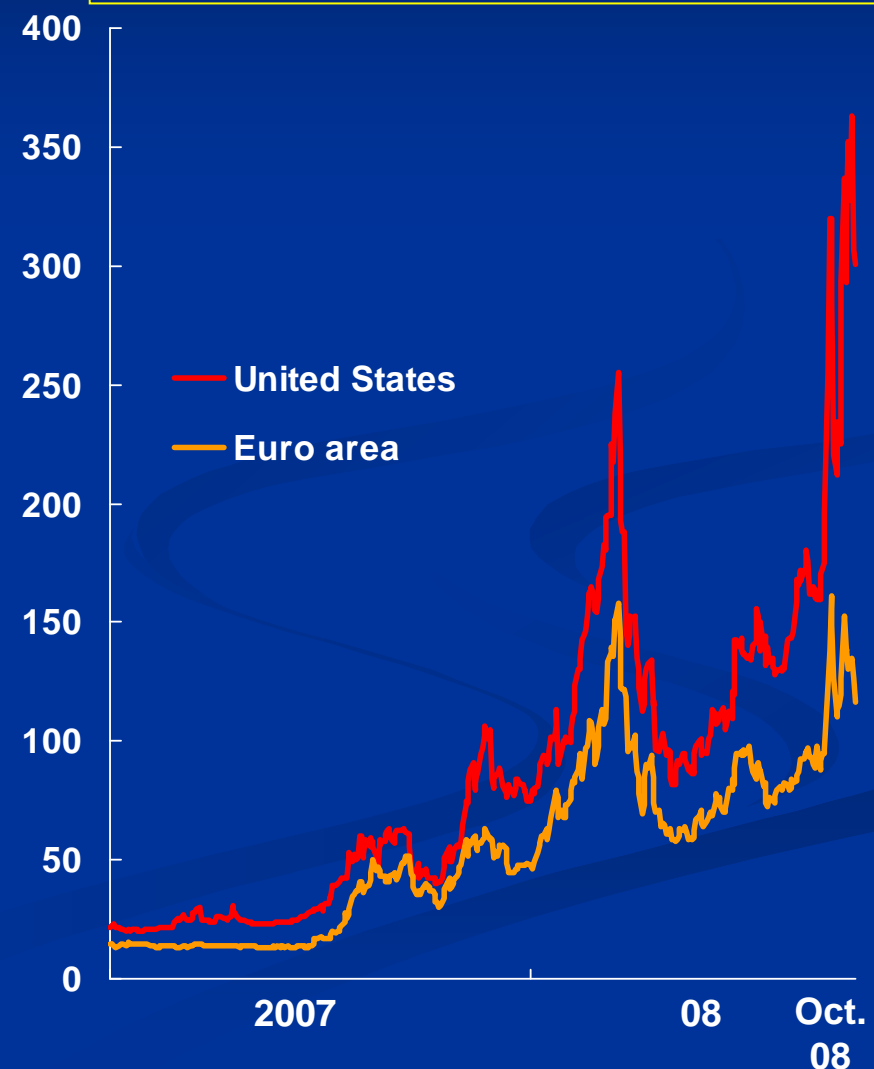
Interbank Markets

(3-month LIBOR minus T-bill rate; in percent)



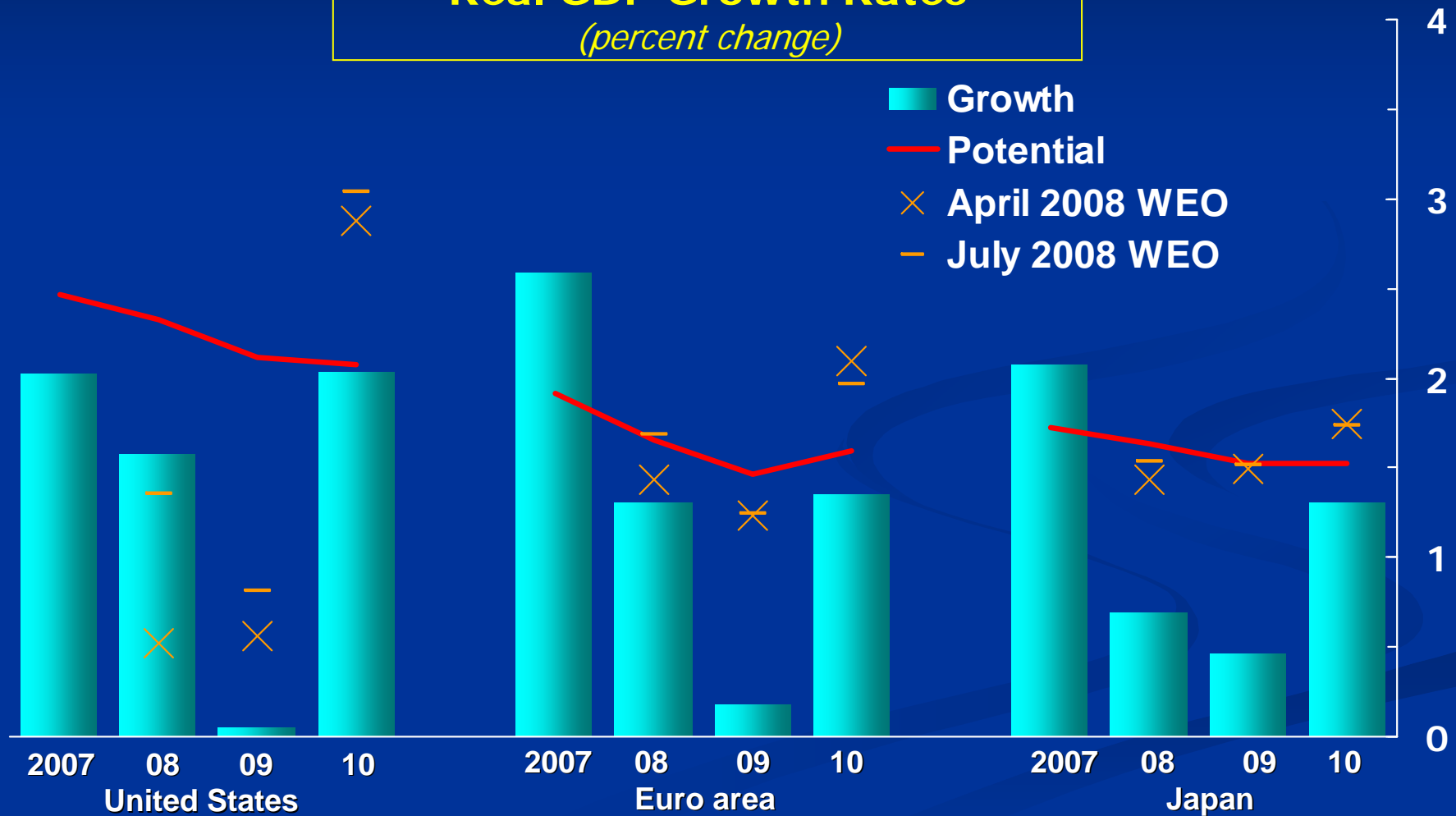
Bank CDS Spreads

(10-years; median; in basis points)



Advanced economies to come close to or move into recession

Real GDP Growth Rates
(percent change)

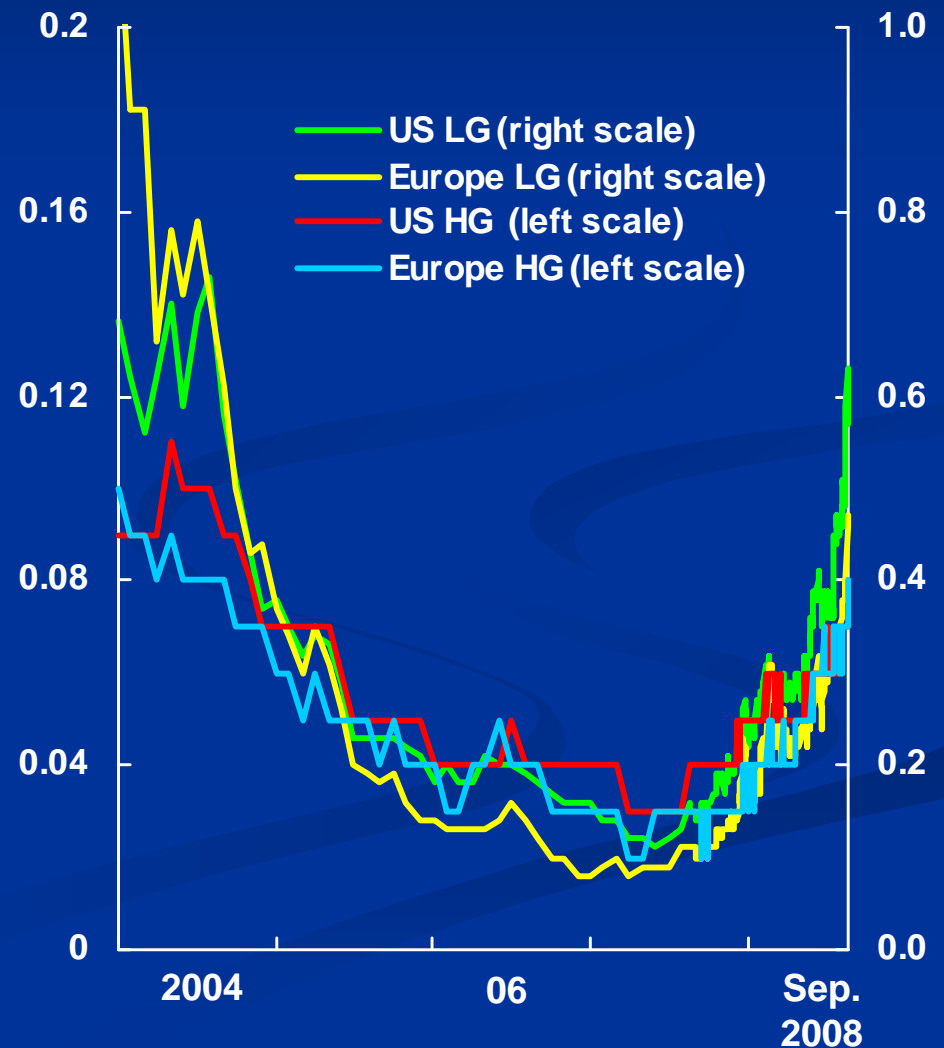


The financial sector stress is feeding rapidly into the nonfinancial sector

Advanced Economies: Sovereign and Corporate Bond Spreads, (basis points)



Median Market-Based Default Probability of Nonfinancial Corporates

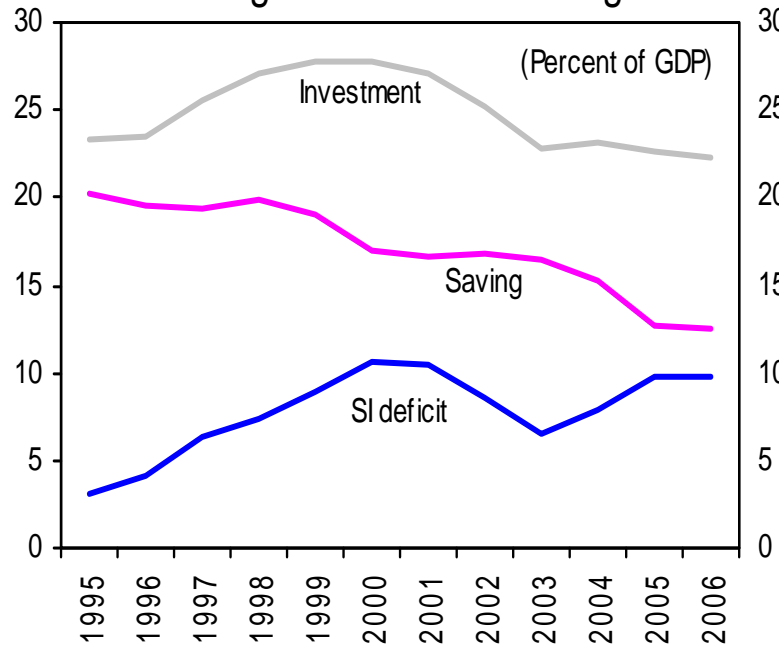


Thus, the risks are clearly to the downside

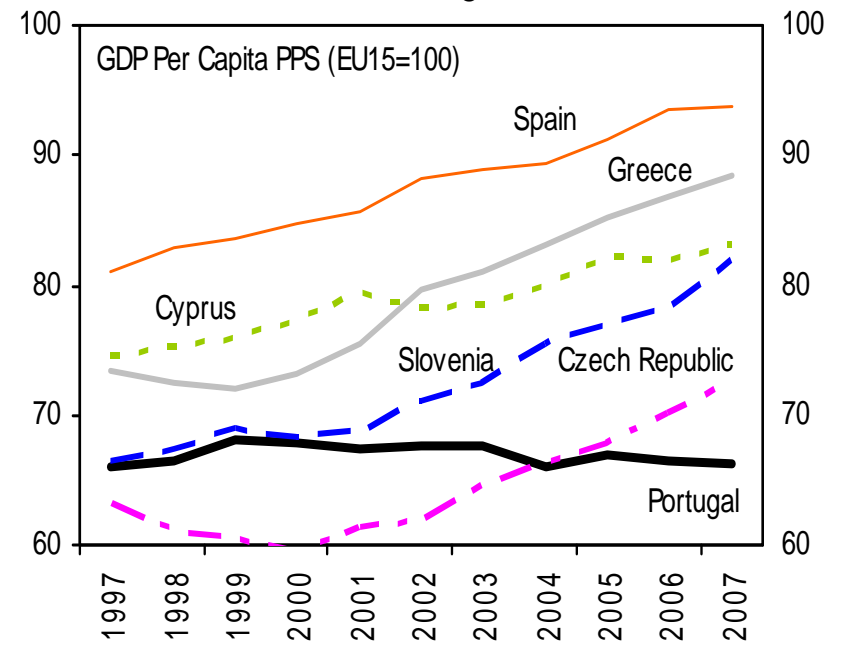
Global GDP Growth
(percent change, ppp-GDP weighted average)



Portugal has been dissaving...

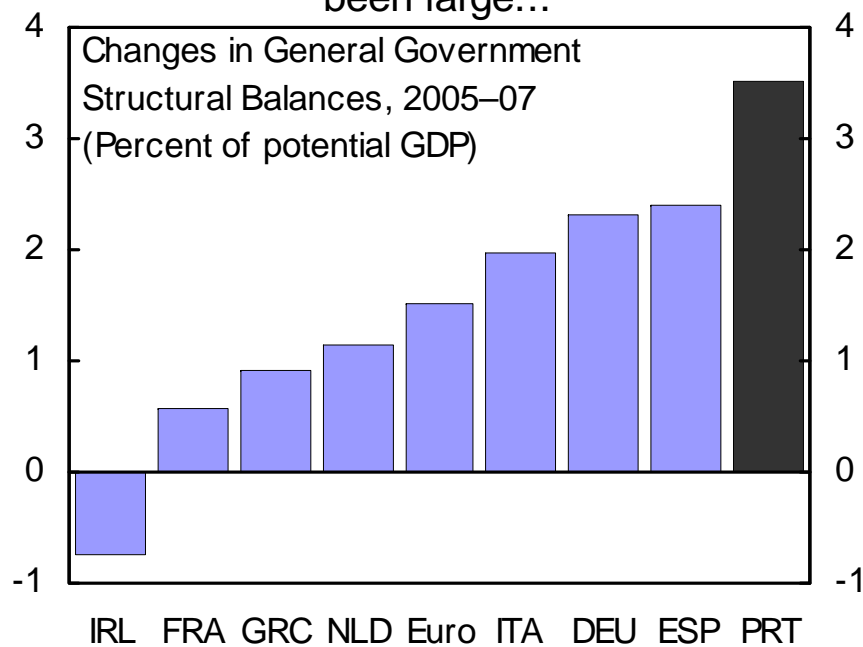


...while falling behind



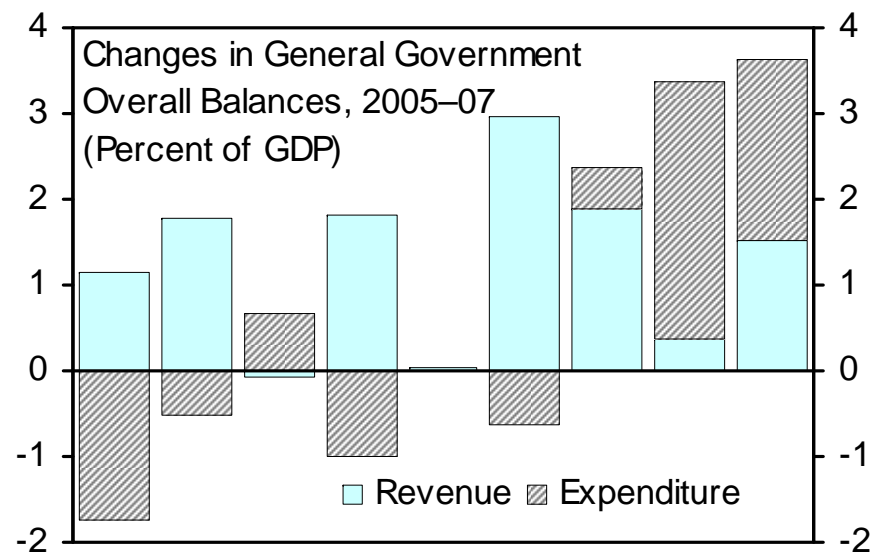
Source: Eurostat.

Portugal's recent consolidation has been large...



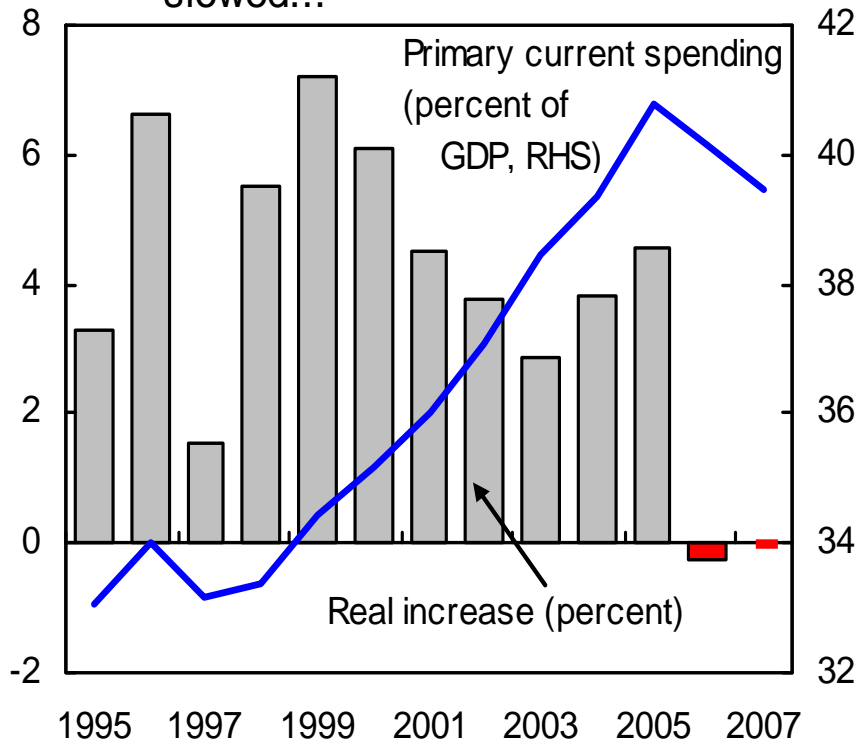
Source: WEO.

...and expenditure based

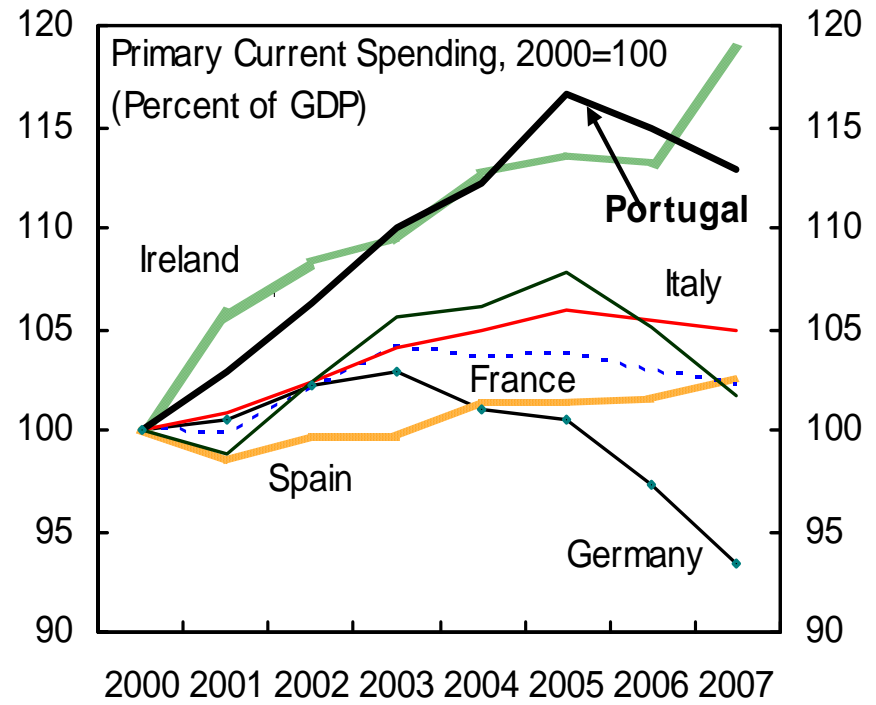


IRL ESP FRA NLD Euro ITA GRC DEU PRT
 Note: Expenditure in opposite sign. (+) means reduction.

Primary current spending has slowed...

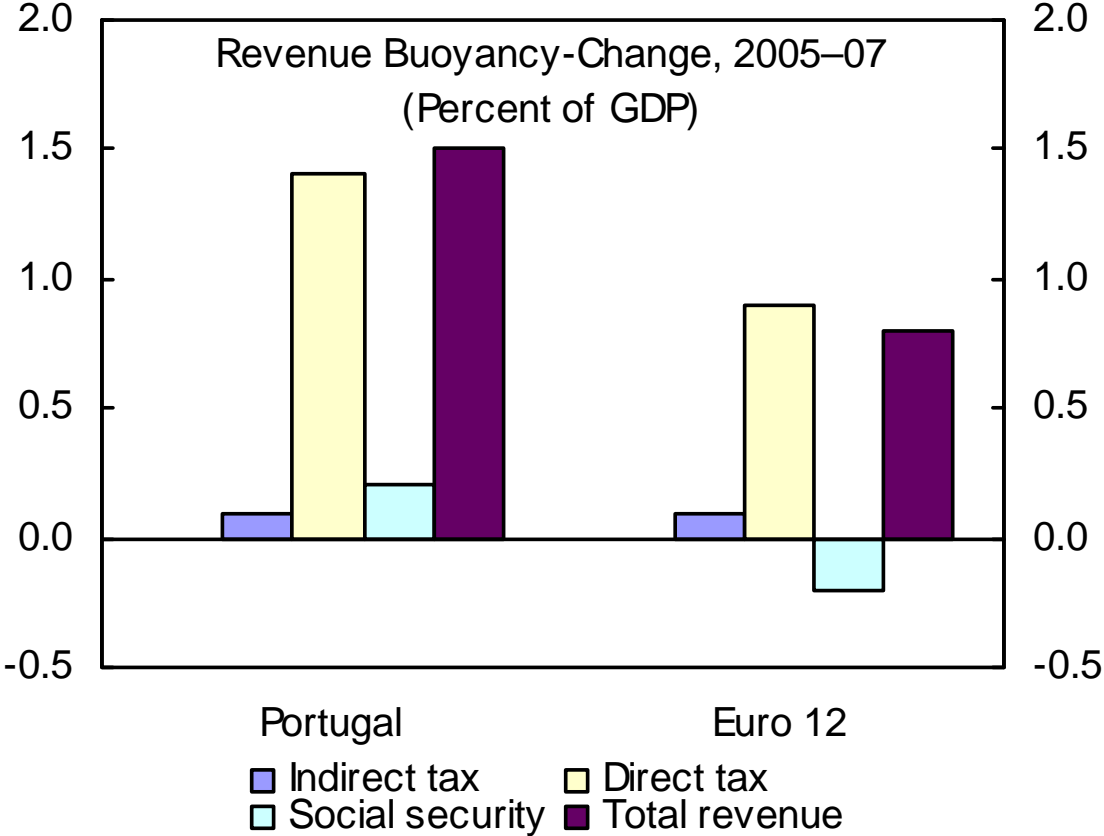


...but had increased rapidly.

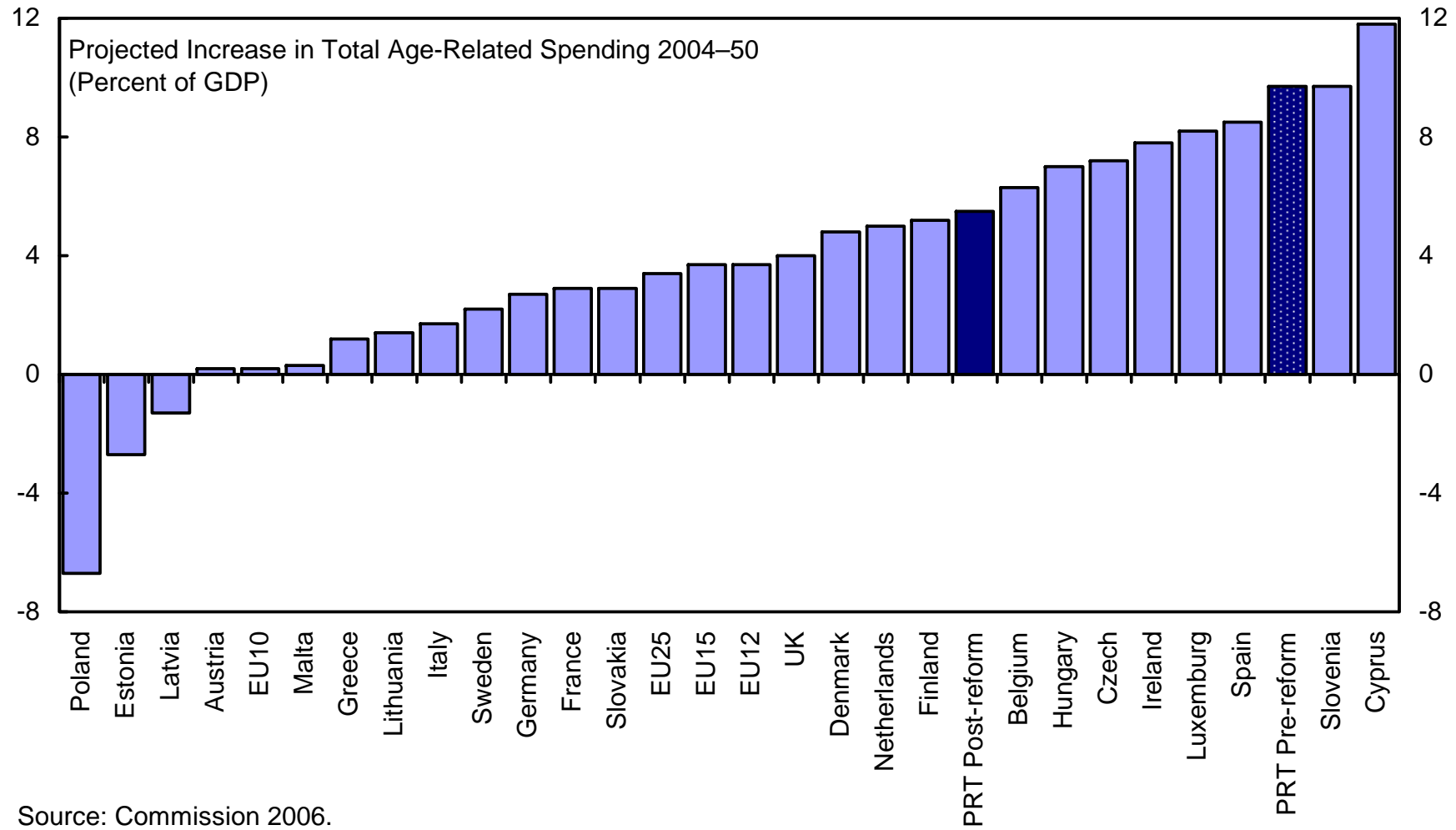


Source: Eurostat.

Revenue has been exceptionally buoyant



Age-related spending is still likely to rise sharply 1/



Source: Commission 2006.

1/ The figure for Greece does not include pension spending.