



Portugal's Recent Export Rebound: Recovery or Blip?

Workshop on Portugal and the challenges of
globalization

Yuan Xiao, IMF

Lisbon, November 5, 2007

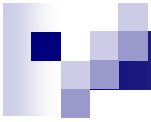
International Monetary Fund





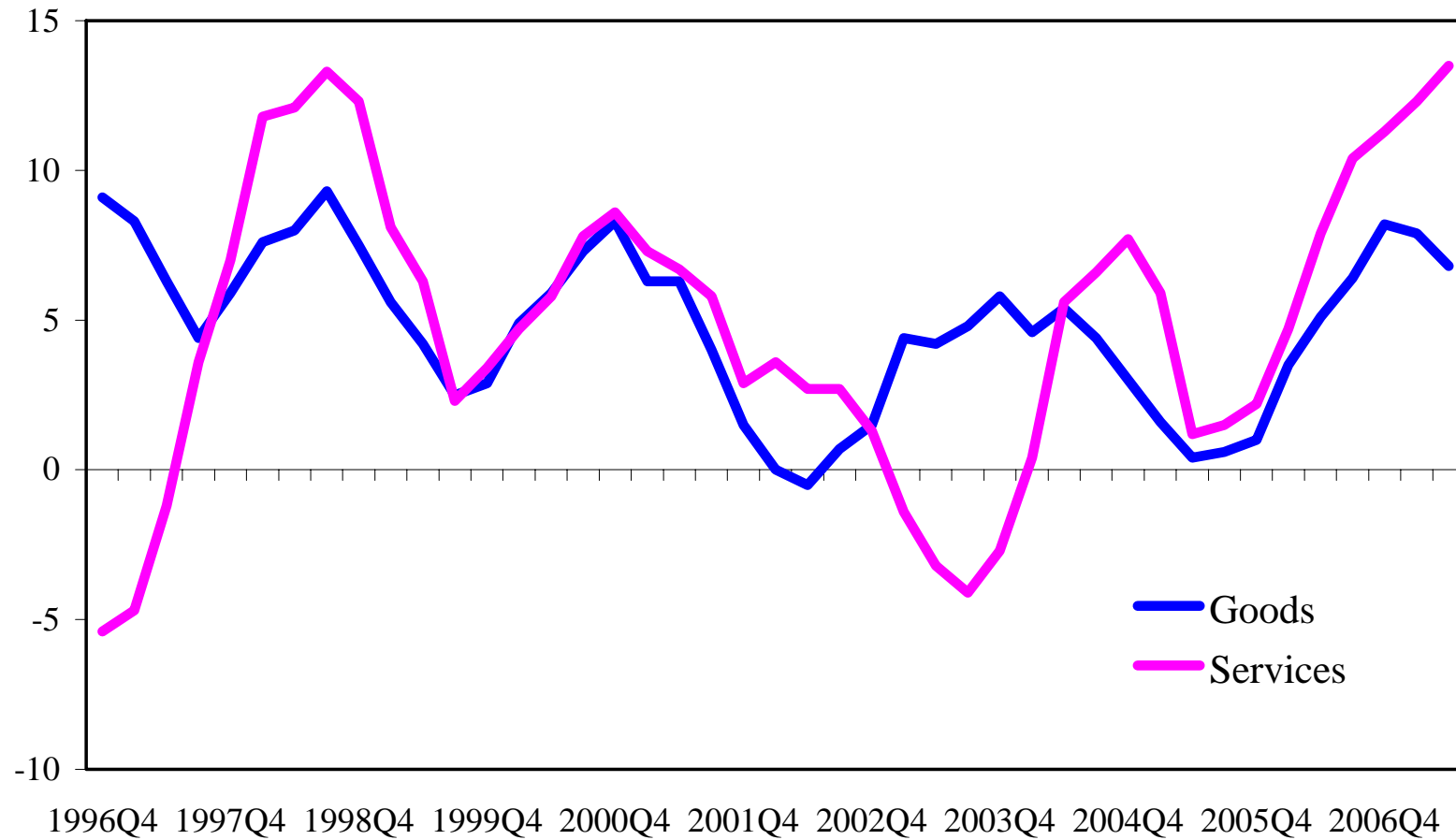
Motivations

- After several years of dismal performance, exports of goods and services picked up strongly in 2006, growing at almost 9 percent in real terms compared to an average of 2½ percent in the previous five years.
- We aim to address two questions:
 - What explains the export pickup in 2006?
 - Is it sustainable? (Trend: Are there changes to the underlying structure of the export sector?)



The good performance continued into the first half of 2007.

Exports in Goods and Services (volume, year-on-year growth)





Analytical Framework

$$\text{Export} = f(Y^*, P, \varepsilon)$$

Y^* : external demand

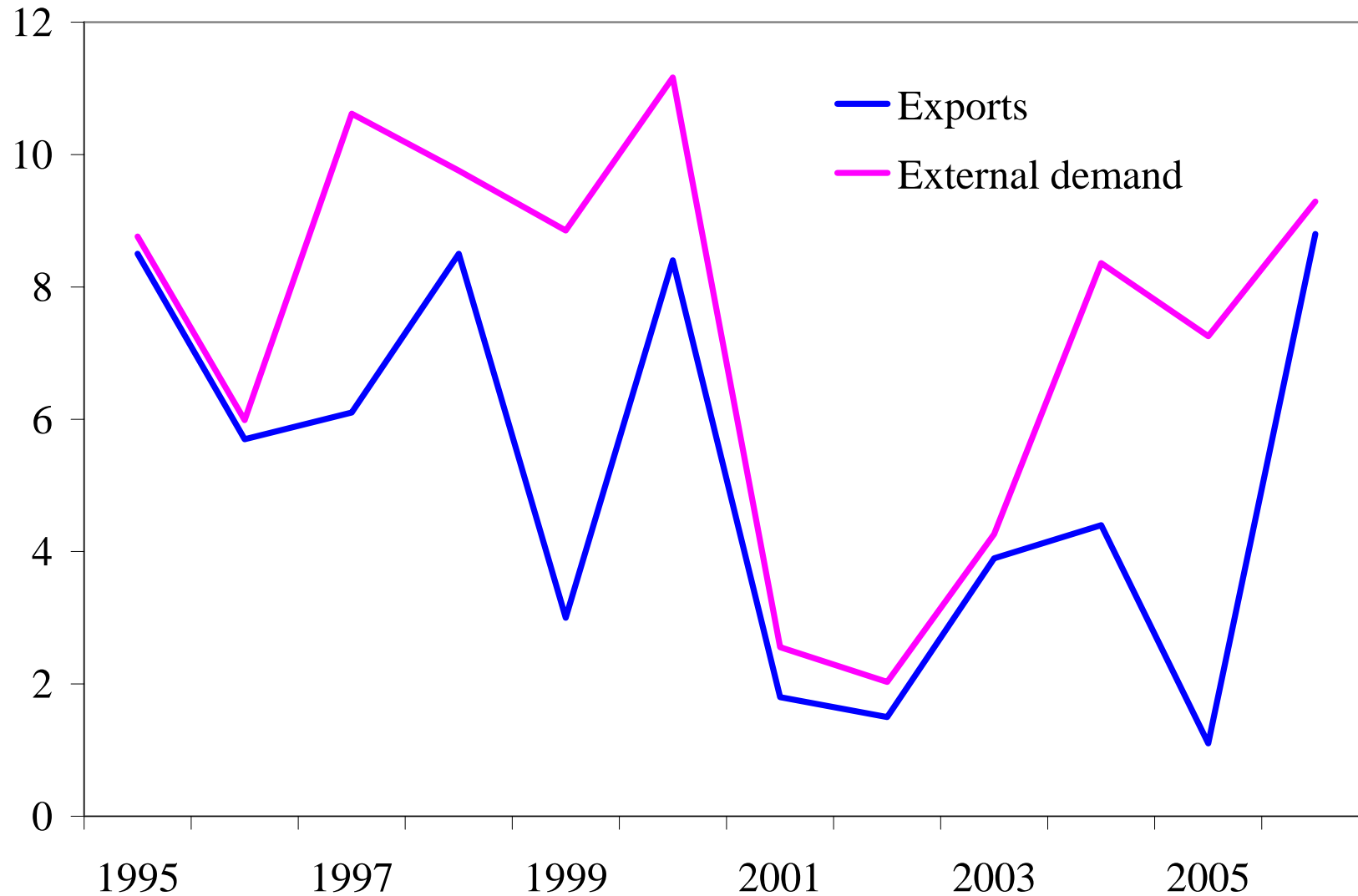
P : price of exports (effective exchange rate)

ε : structural changes (market shares, export margin, composition of exports, changes in exporting destinations, etc.)



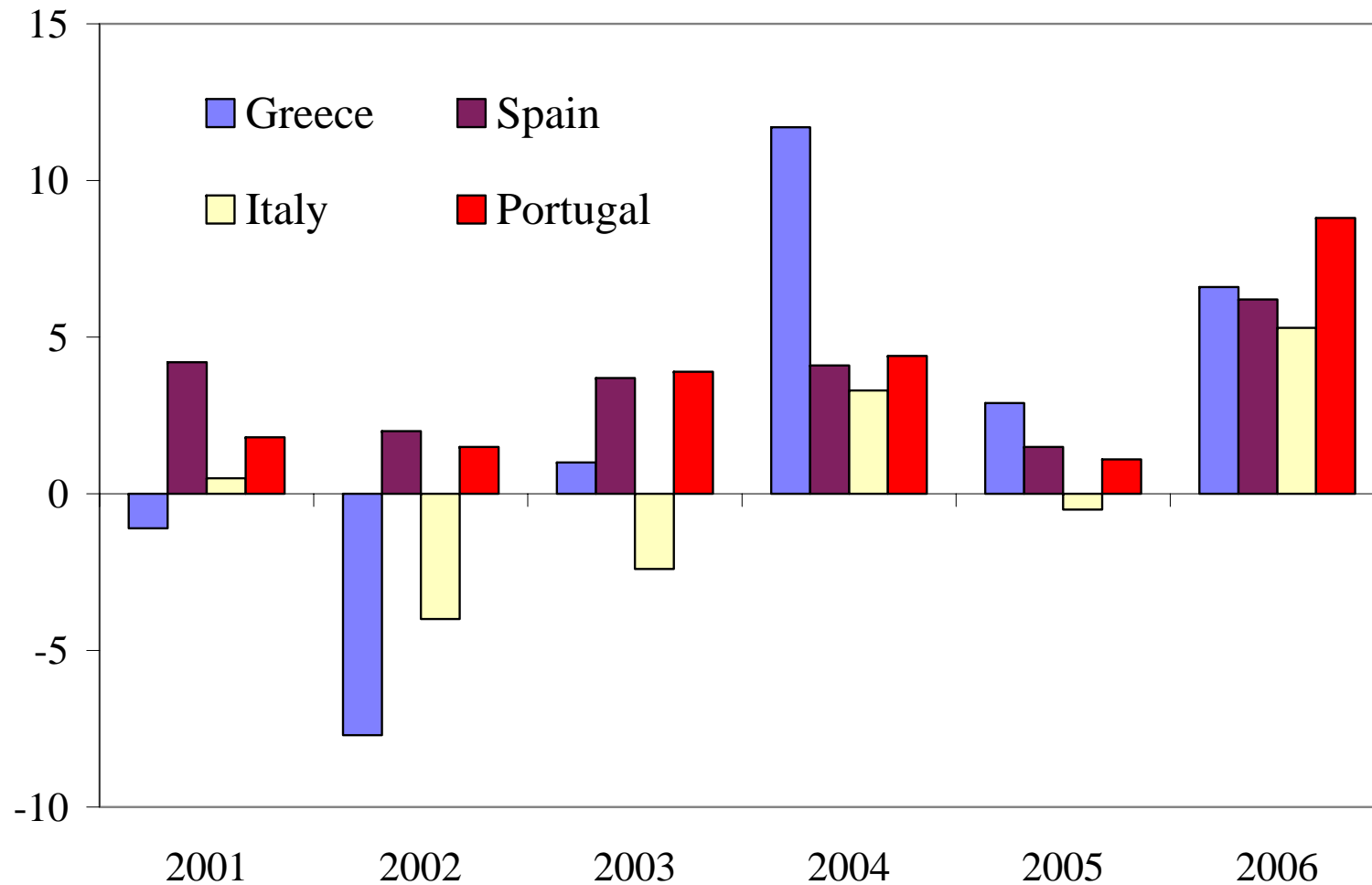
Part I. What explains the export rebound since 2006?

The export rebound was led by strong external demand.

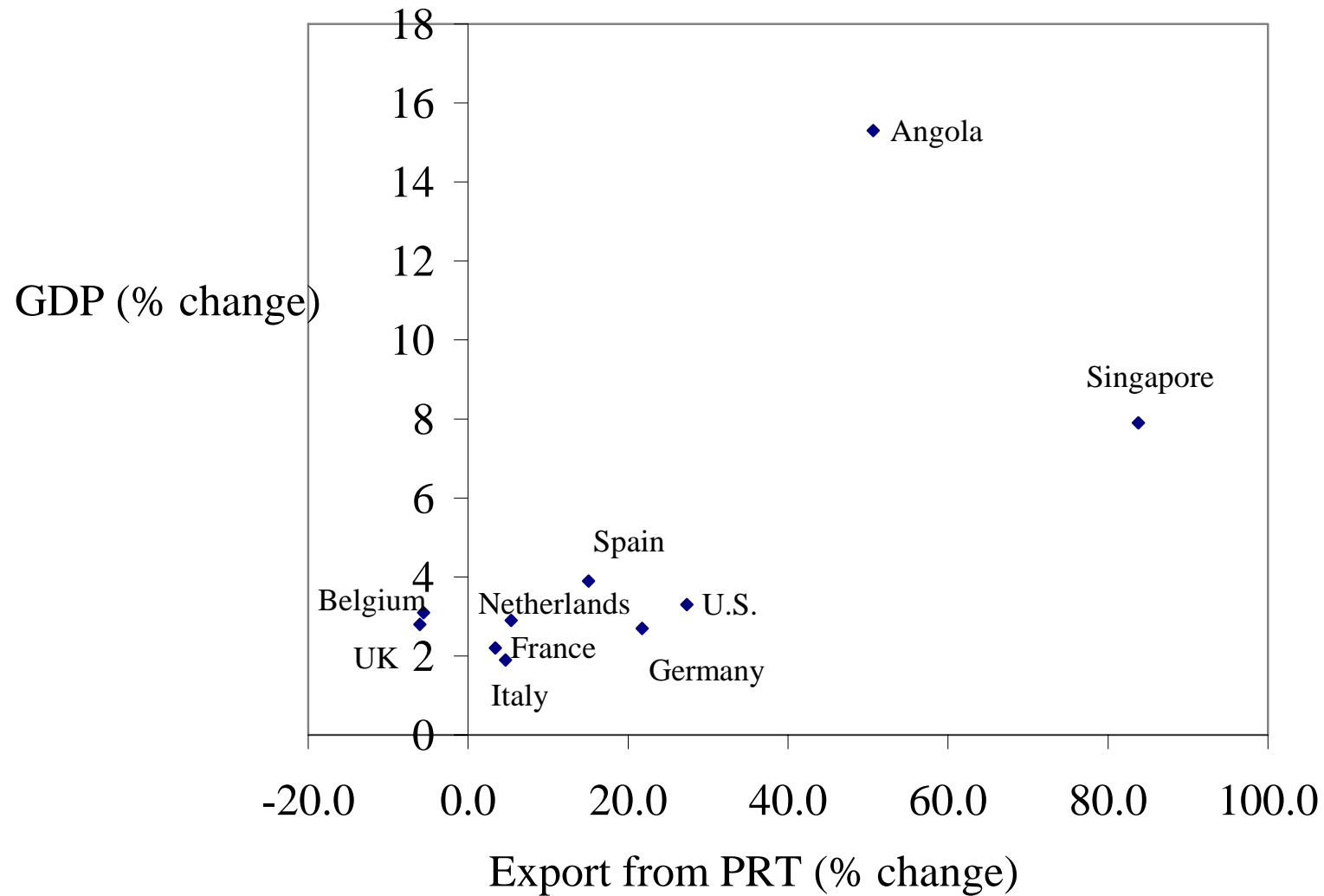


Export surge in 2006 appeared to be a global phenomenon.

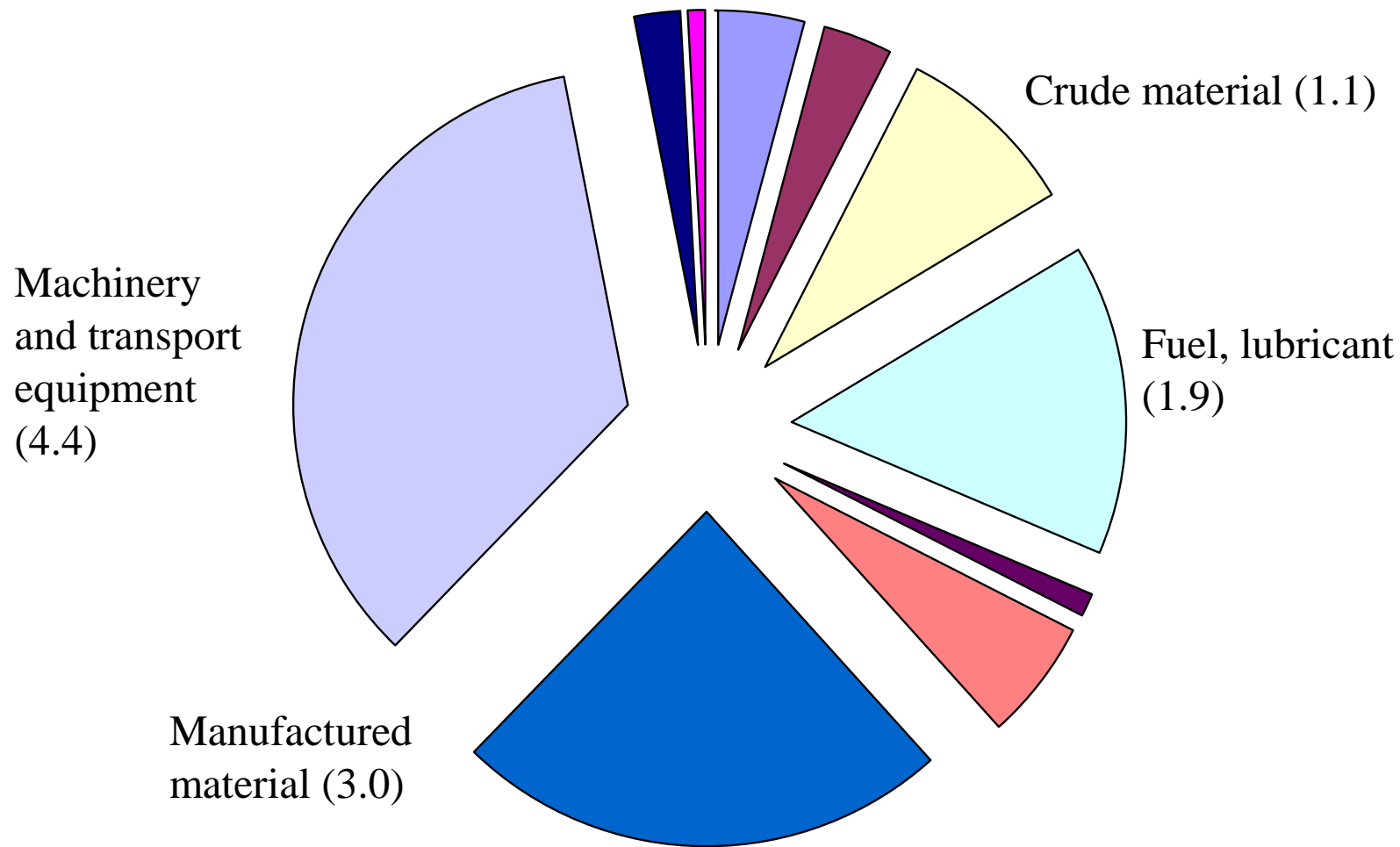
Exports of Good and Services (Constant price, % change)



Partner economies grew strongly in 2006.



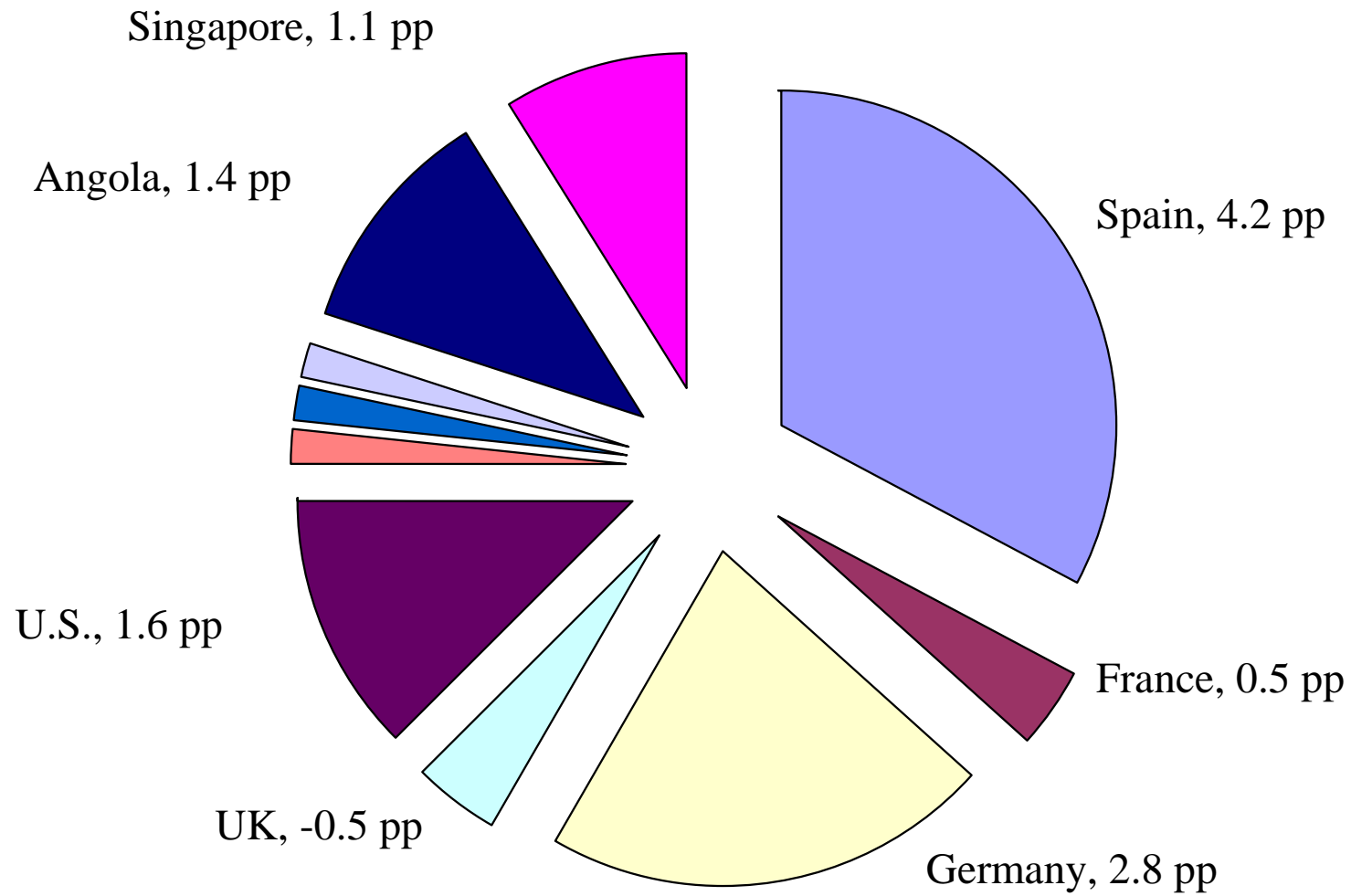
Merchandise export growth in 2006 was driven by machinery, transportation equipment, manufactured material, and crude materials ...



Total % change in goods exports in 2006 = 12.5 percent

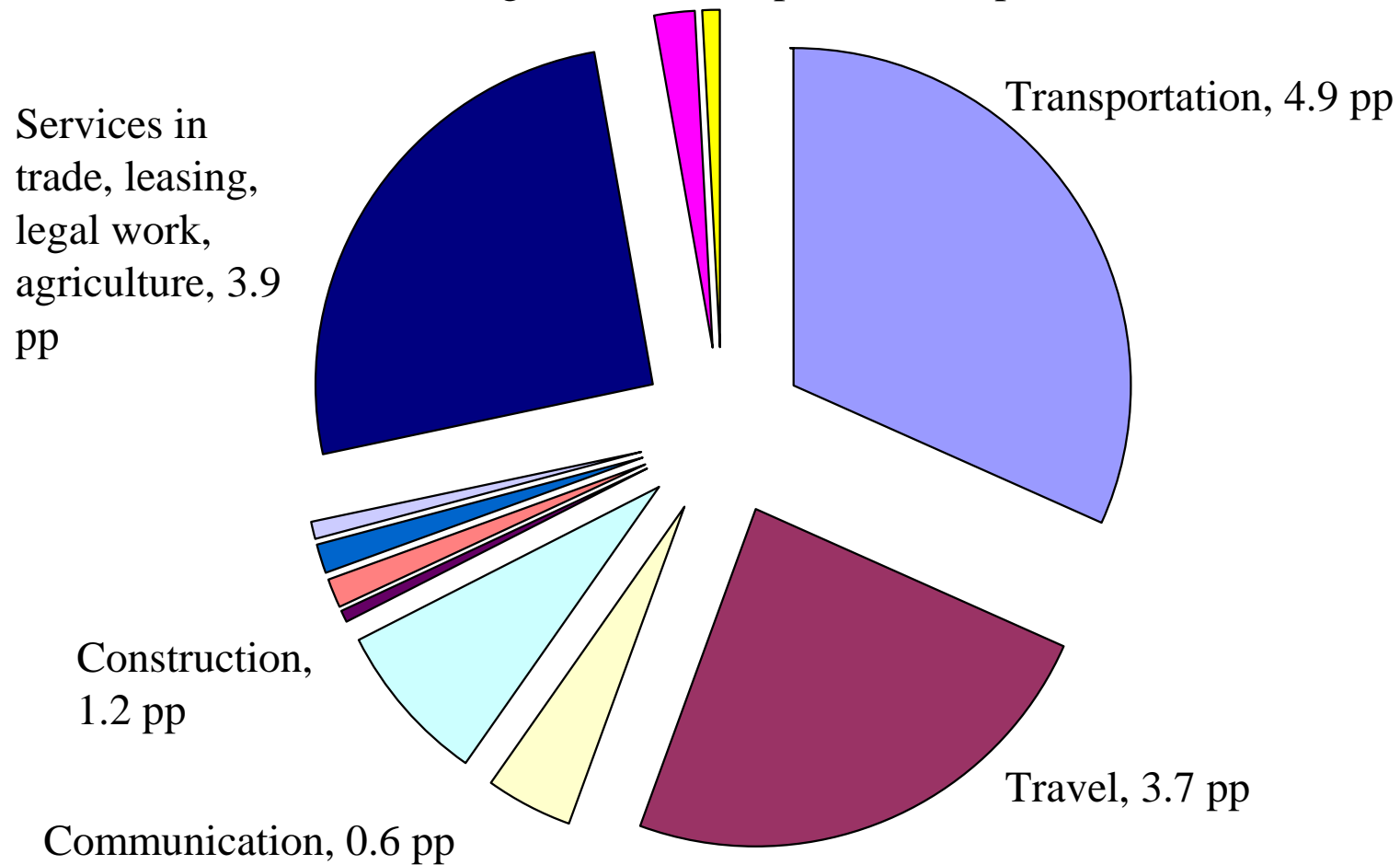


to Spain, Germany, US, Angola, and Singapore.



Contribution to Service Growth in 2006

Total % change in service exports = 15.4 percent





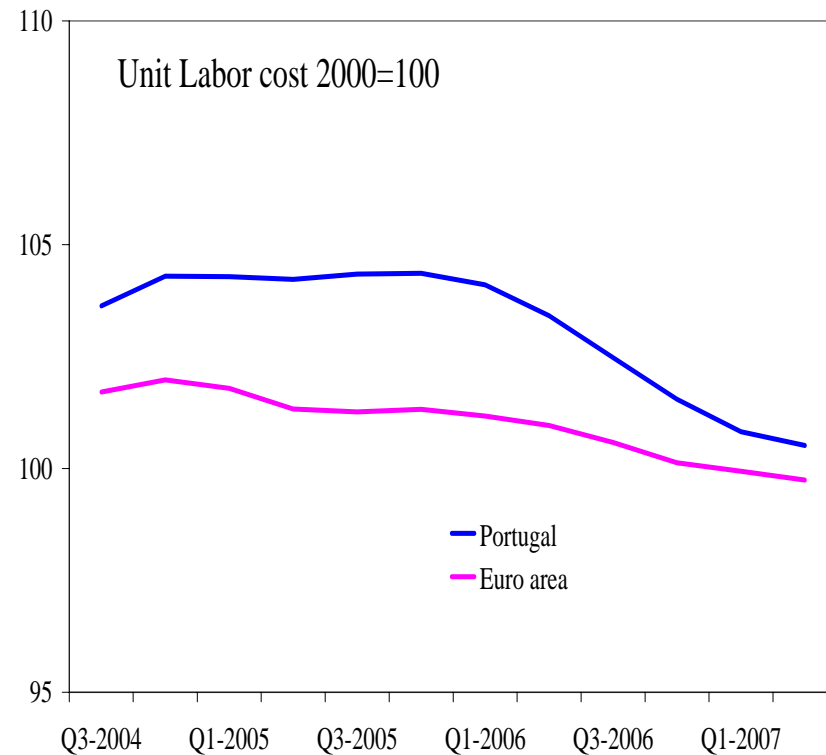
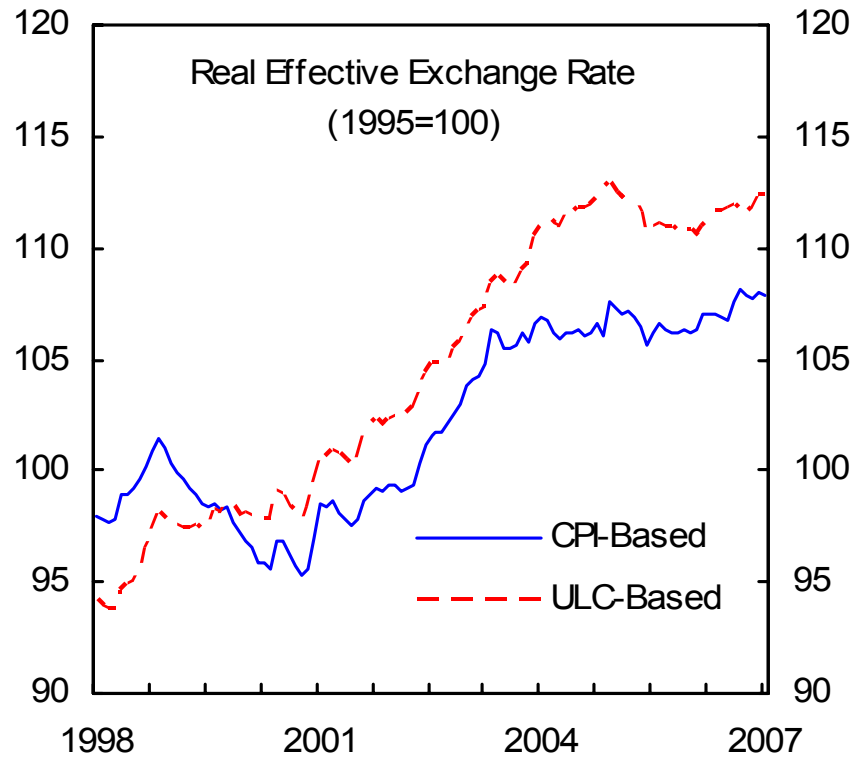
Part II. Trends in Competitiveness and Exports during the Slowdown: Are there changes to the underlying structure of the export sector?



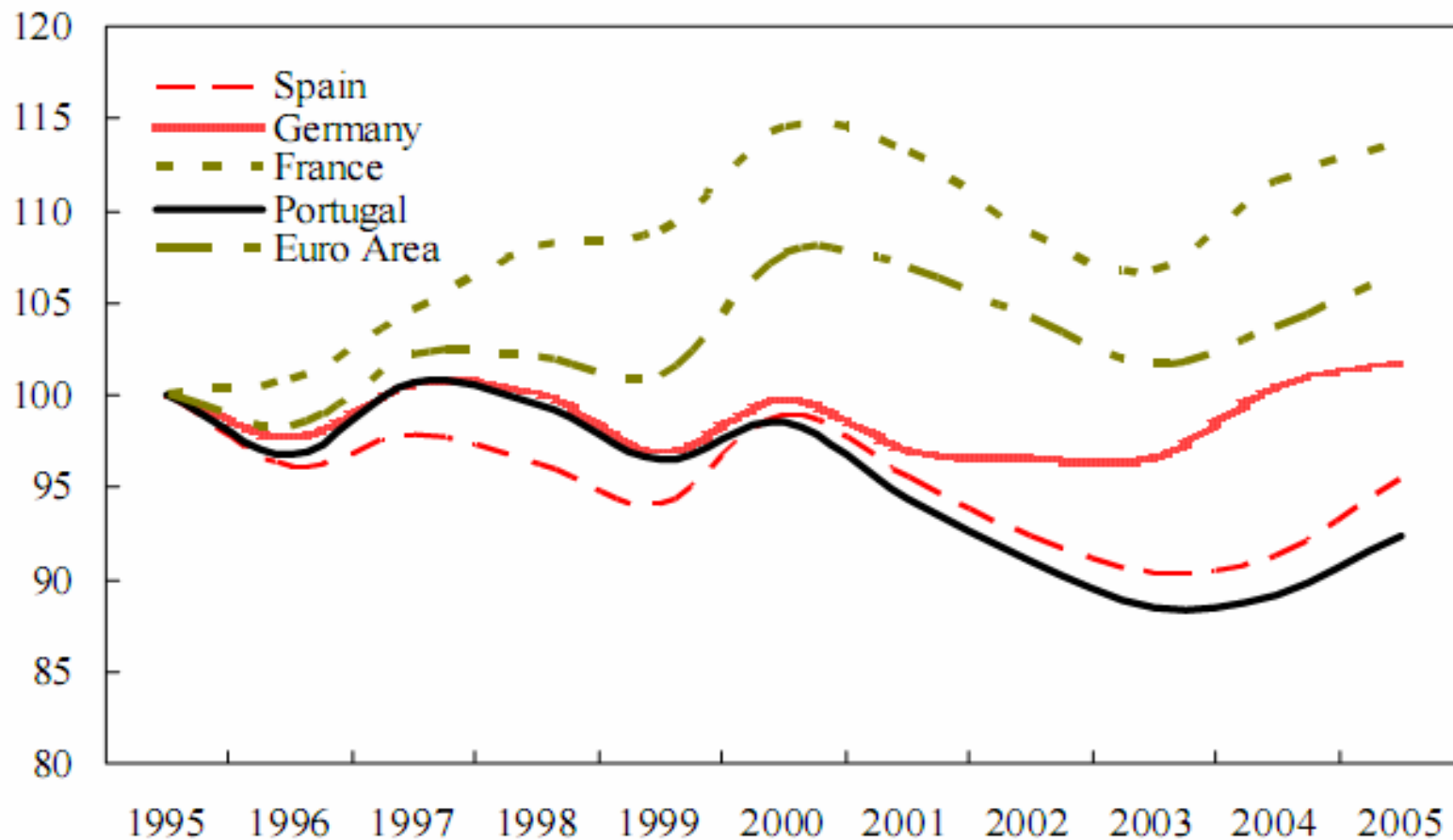
We will look at:

- Competitiveness indicators (real effective exchange rate, ULC, export margin, market shares)
- Export structure, technological composition
- Structure of employment
- Diversification in extra-EU markets
- Service exports
- FDI

The competitiveness gap has not been closed, although there were signs of falling relative unit labor cost in 2006.

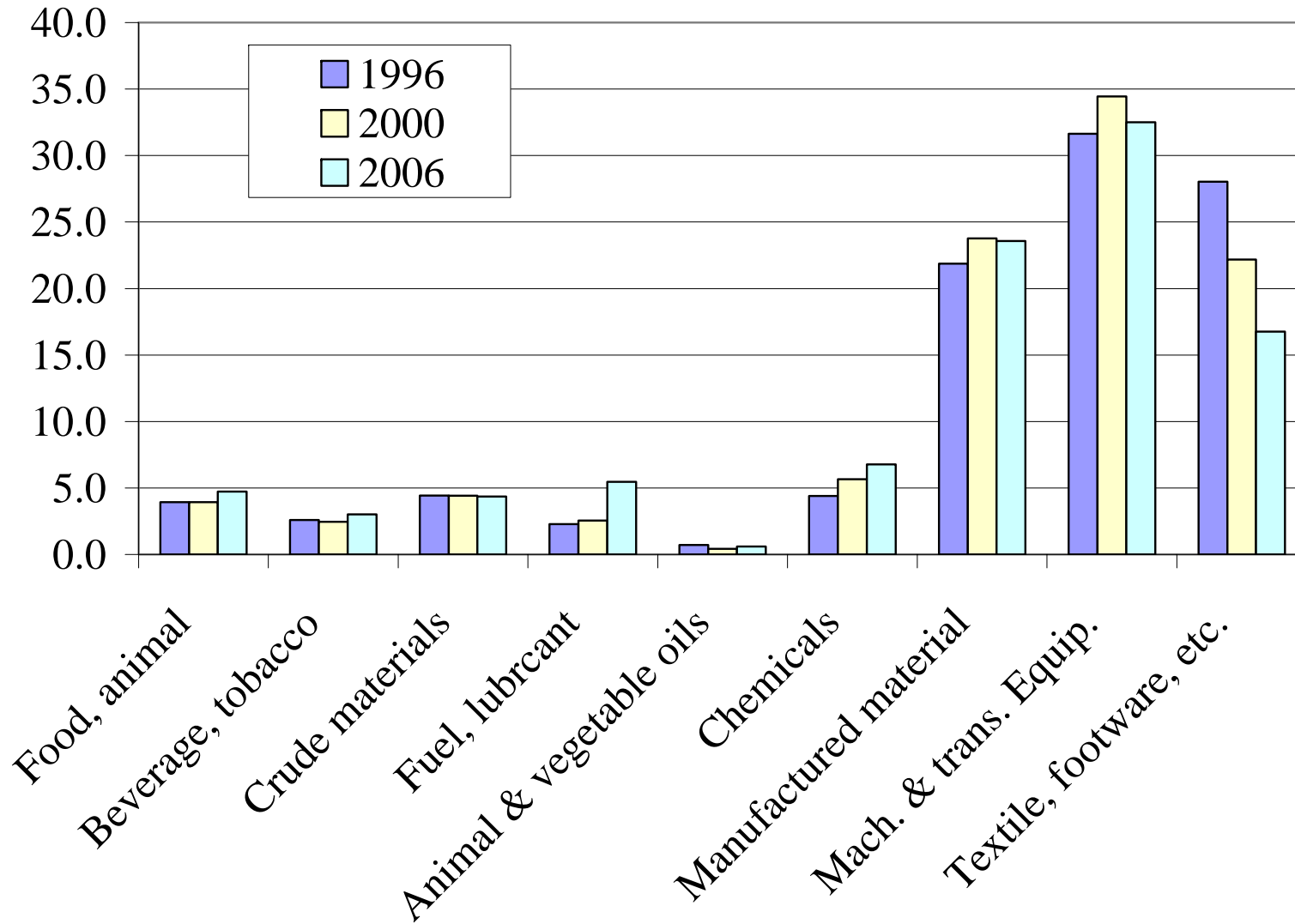


Export margin has been improving.



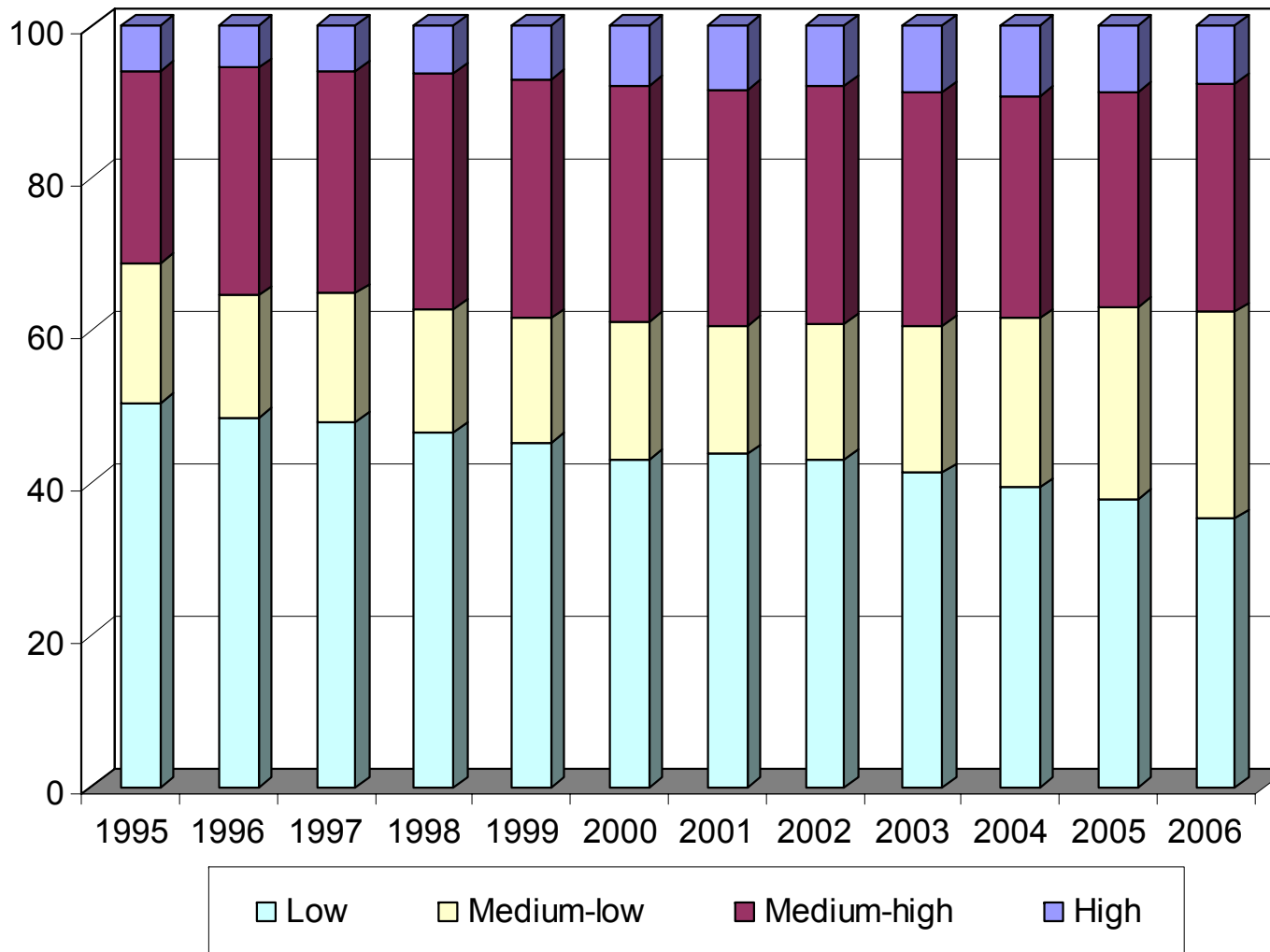
1/ The Exports Margin is calculated dividing the deflator of exports of goods by the unit labor cost in manufacturing.

Significant changes to Portugal's export structure have taken place since the mid-1990s.

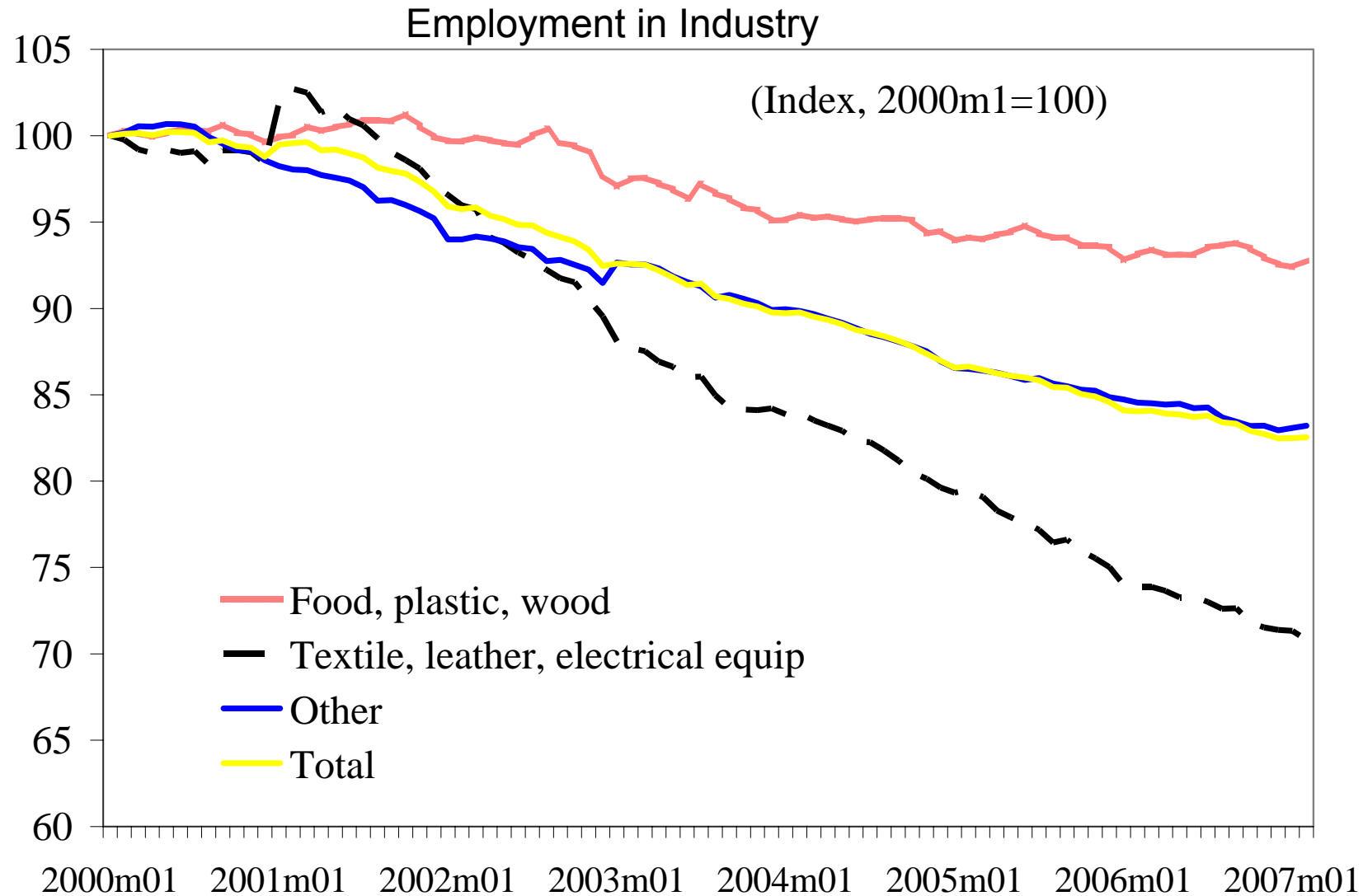


The technological contents are increasing gradually.

Technological Intensity of Portugal's Exports

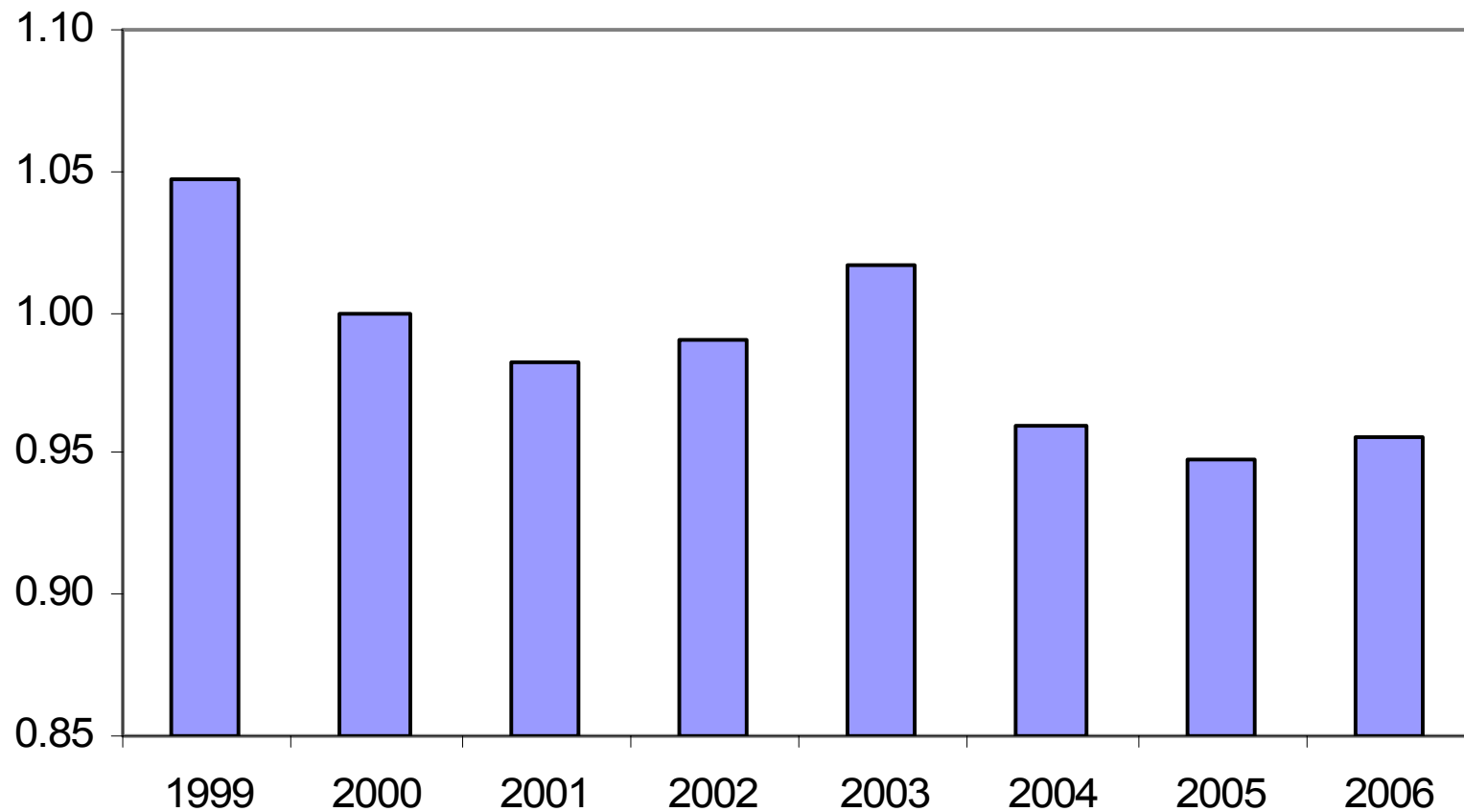


Uncompetitive production such as the textile exports is being replaced by other manufactured material.



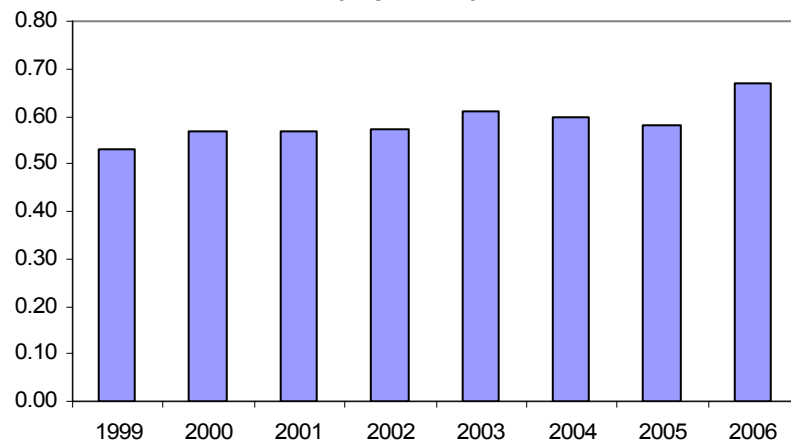
Share of Portugal in EU exports stabilized.

**Portugal's Share in EU25's Total Exports
(in percent)**

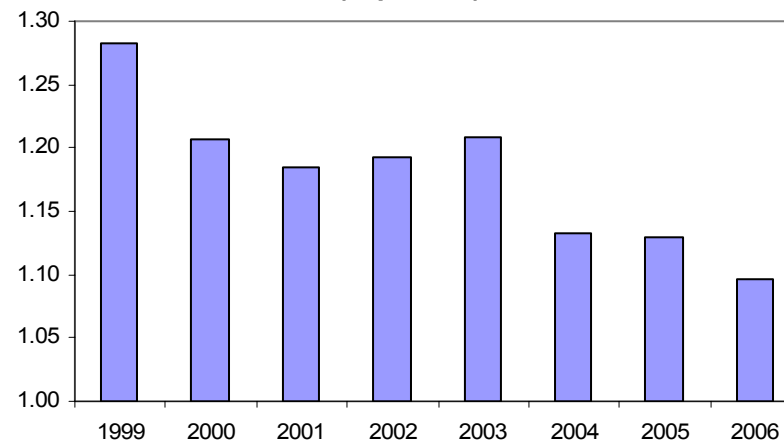


Portugal has increased penetration outside the EU; however, its share in within-EU exports has been declining.

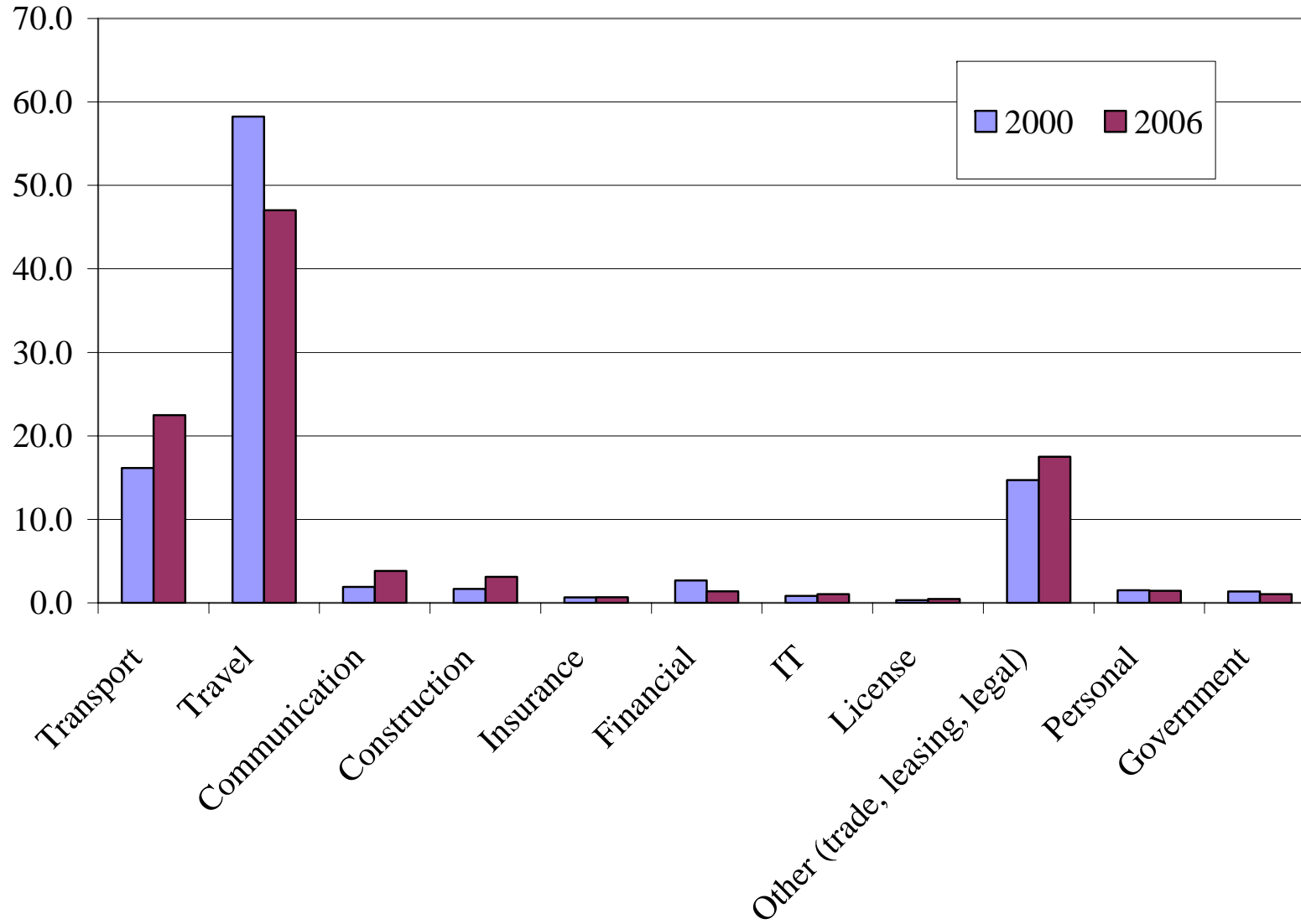
Portugal's Share in EU25's Extra-EU Exports
(in percent)



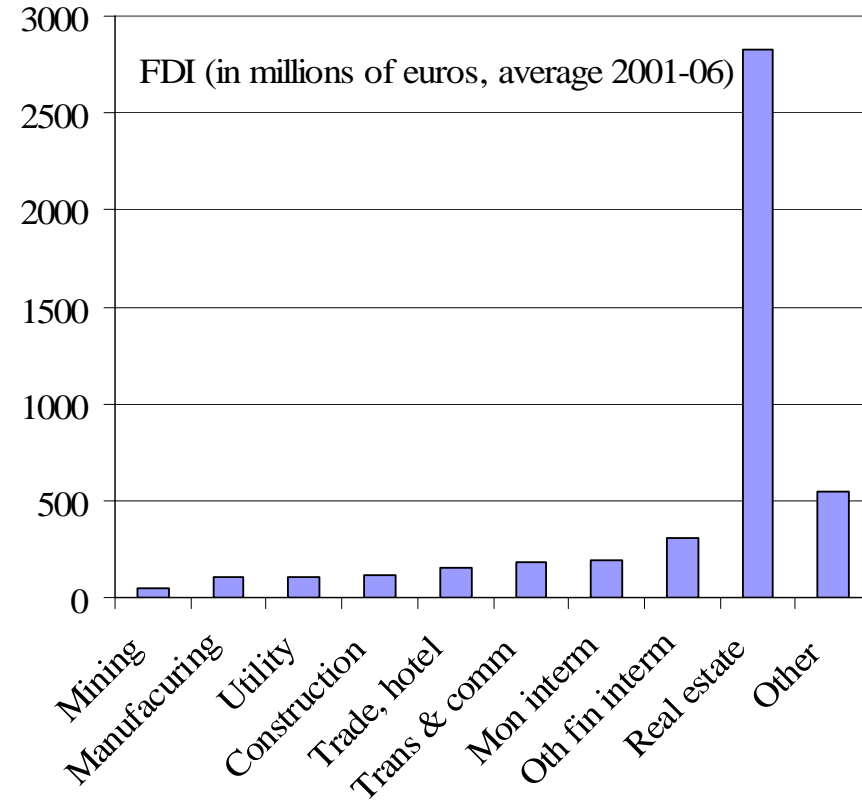
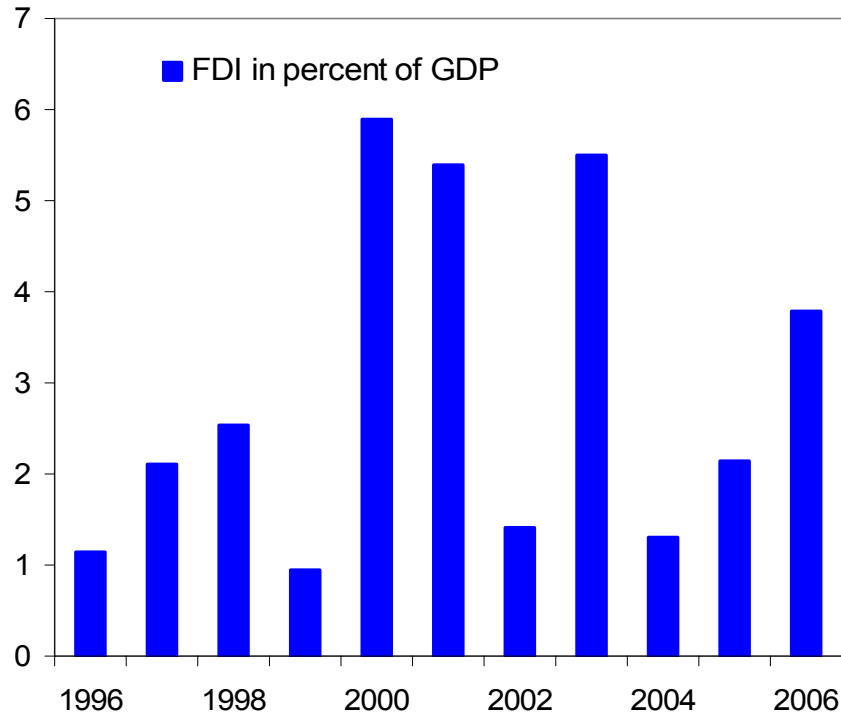
Portugal's Share in Intra-EU Exports
(in percent)



Growth in service exports has the same pattern as merchandise exports.
Service exports are dominated by tourism and transportation.

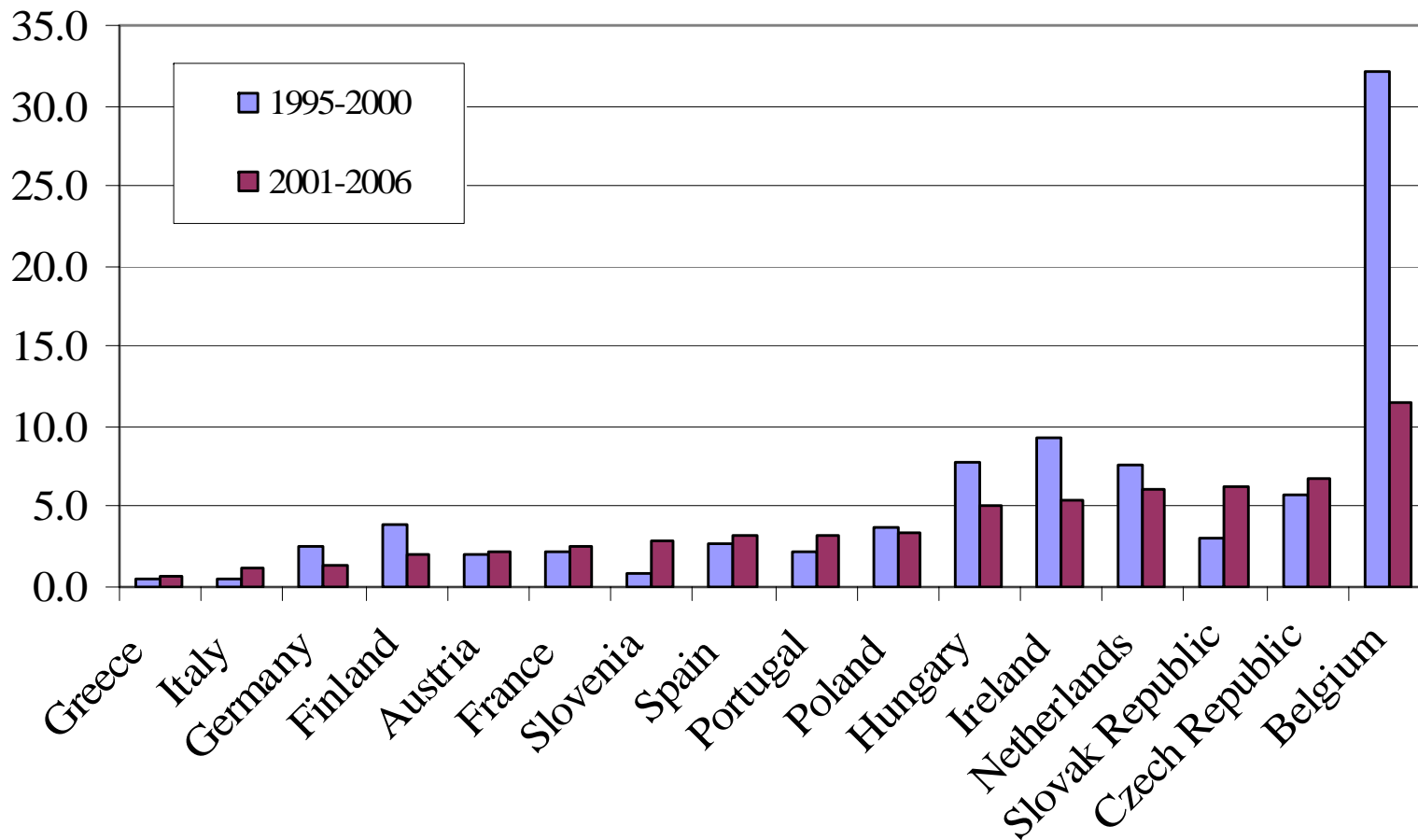


FDI shows signs of recovery, but remains very volatile.

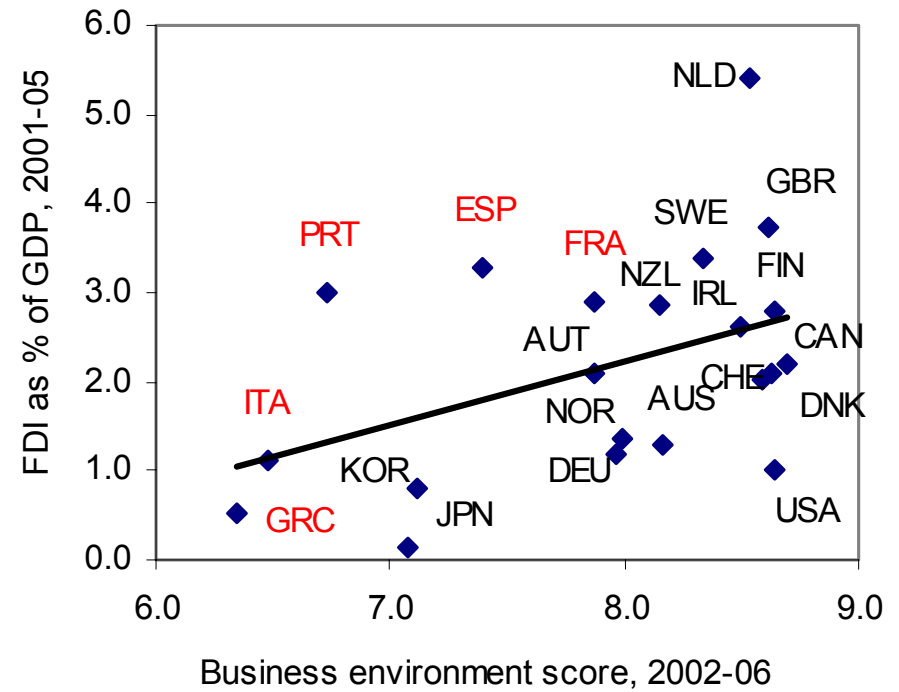
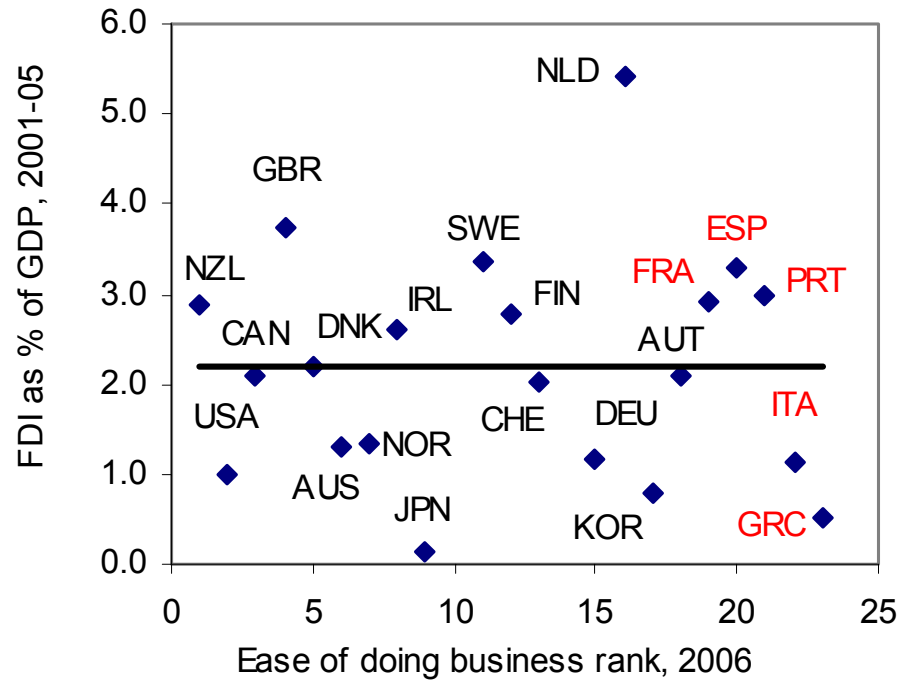


FDI inflow is about average within the euro zone, but lags behind new EU members.

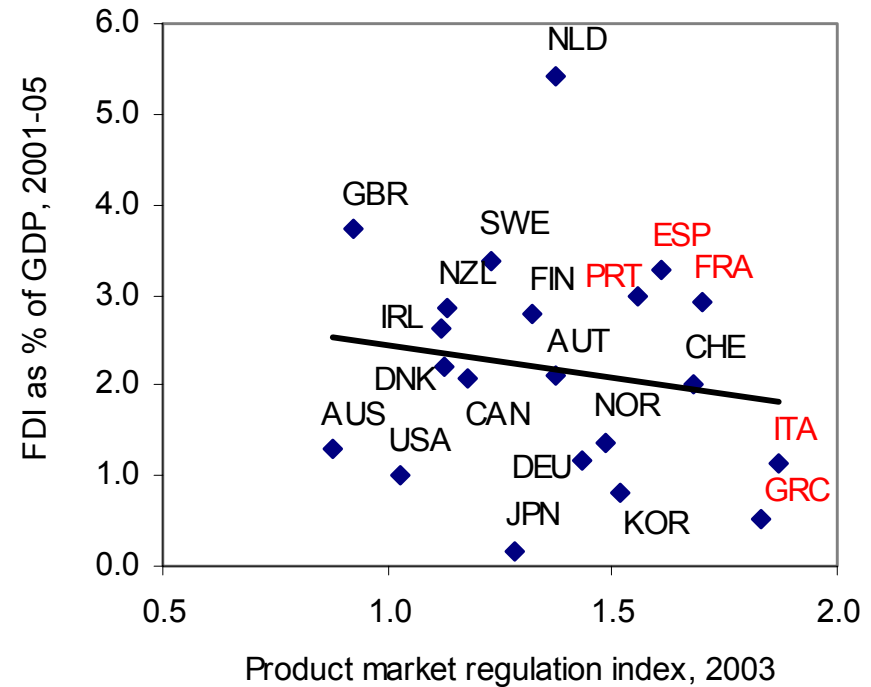
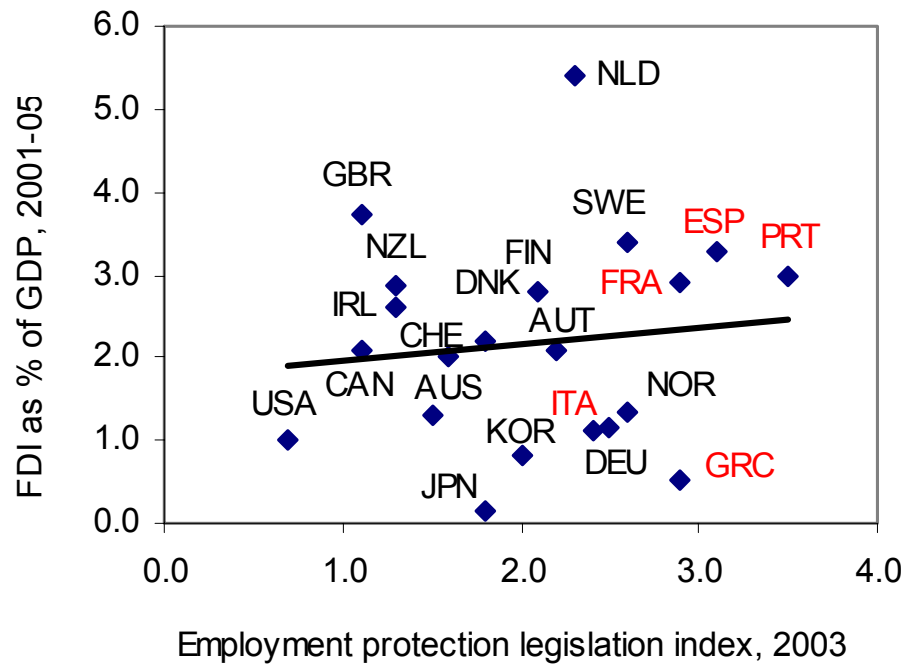
Inward FDI (in percent of GDP)



There is scope for improving the policy environment for FDI.



The main impediments seem to be employment protection and product market regulations.



Scorecard

	+	-
Competitiveness indicators	No significant further deterioration. Export margin has been improving. Sign of narrowing ULC gap.	Not closing the gap. Further wage moderation is needed. Euro could strengthen further. Productivity remains low.
External demand	Recent export data have been encouraging. External demand is forecast to remain strong in the medium term.	Export surge is largely due to strong demand, which could turn out to be unsustainable. Esp. risks exist in Spain and U.S. growth outlook. Low base in 2005.
Restructuring	Strong new export industries have yet to emerge.	Since uncompetitive industries are shrinking, a shift of the composition of exports has occurred.
Markets	Deeper penetration in extra-EU area.	Continue to lose market share in EU. Extra-EU area still accounts for a small share in Portugal's exports.
Competition	Share in EU exports stabilized.	New EU members.
Technological content	Improving.	Improvement is very gradual.
Service export	Also recovered in 2006. Tourism has potential.	Affected by competitiveness problems too.
FDI	Signs of recovery. Above average in Eurozone.	Volatile. Competition from new EU members.



What lies ahead?

- *Is the robust export growth going to continue?*

Likely, as external demand is forecast to remain strong.

- *Is Portugal going to rapidly regain export market shares in the short term?*

Not very likely. Although there are encouraging changes in some “pockets” of the export sector, a locomotive of export expansion has not emerged. The competitiveness gap needs to be closed (need productivity growth and wage moderation).