

THE PORTUGUESE ECONOMY: RECENT DEVELOPMENTS AND KEY CHALLENGES

***WORKSHOP « PORTUGAL AND THE
CHALLENGES OF GLOBALIZATION »***

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Lisbon, 5 November 2007

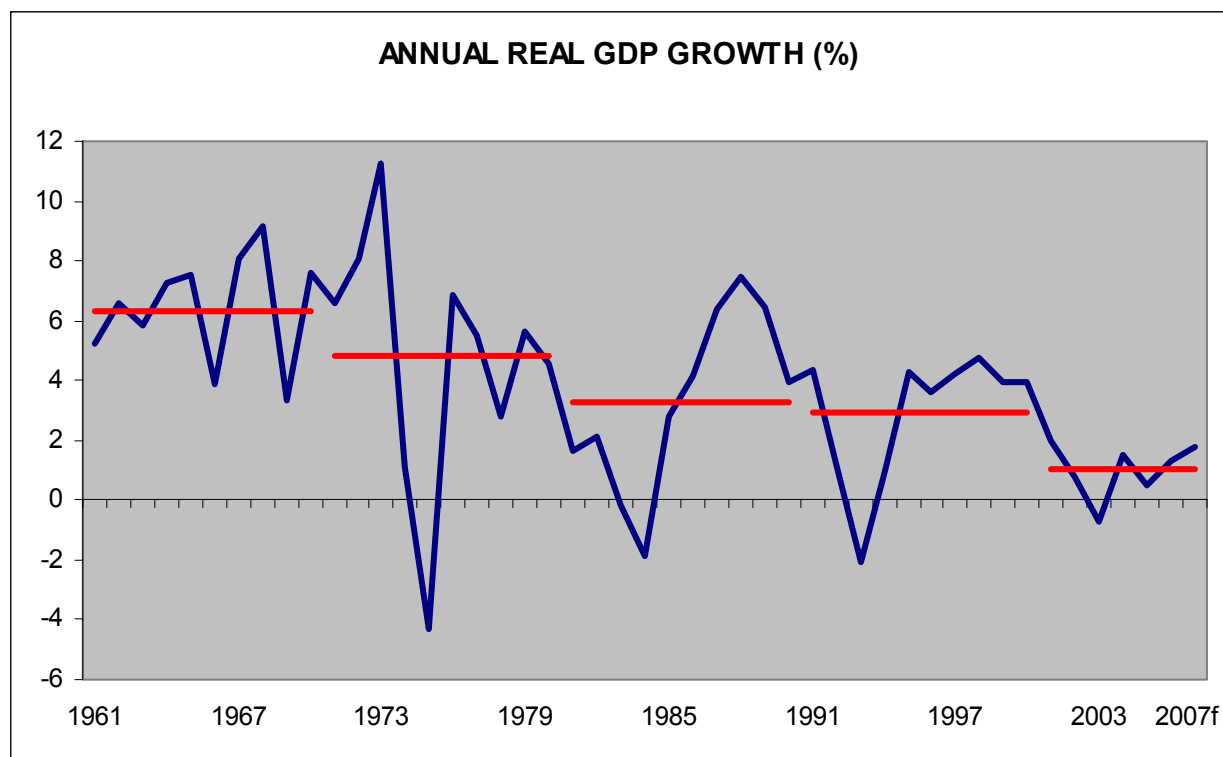


PART I:

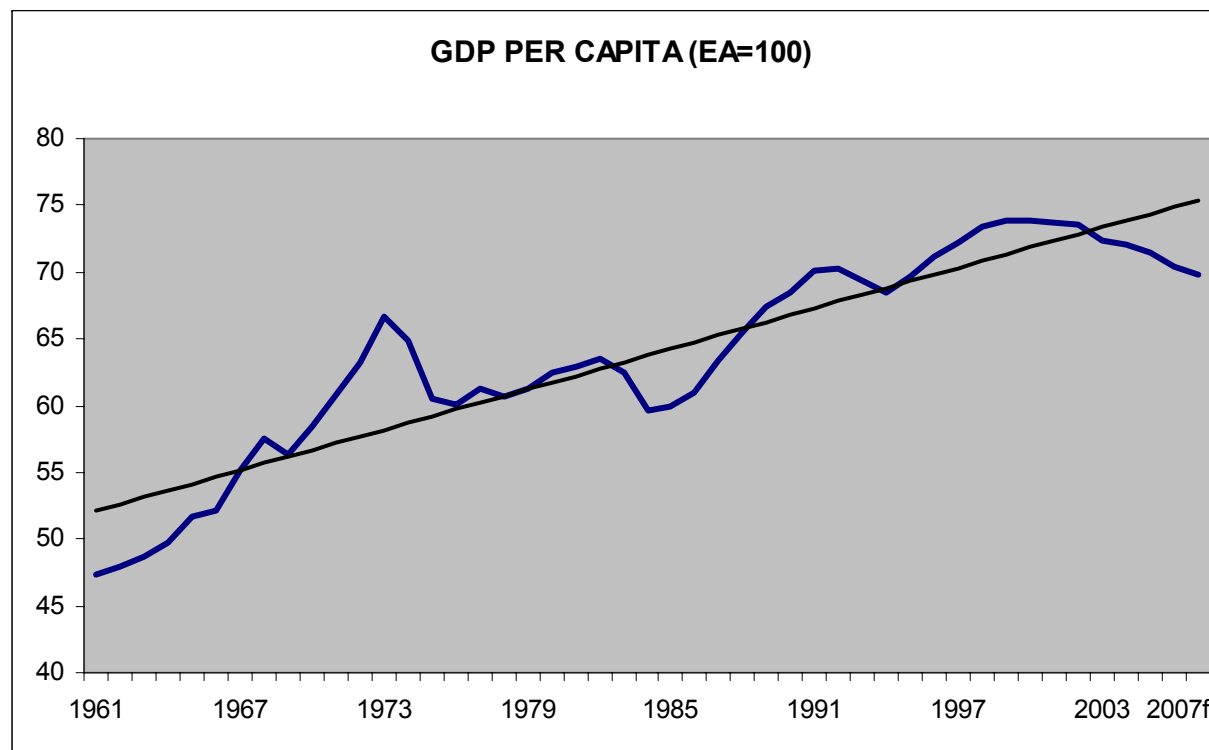
VISITING HISTORY, SETTING THE GROUND



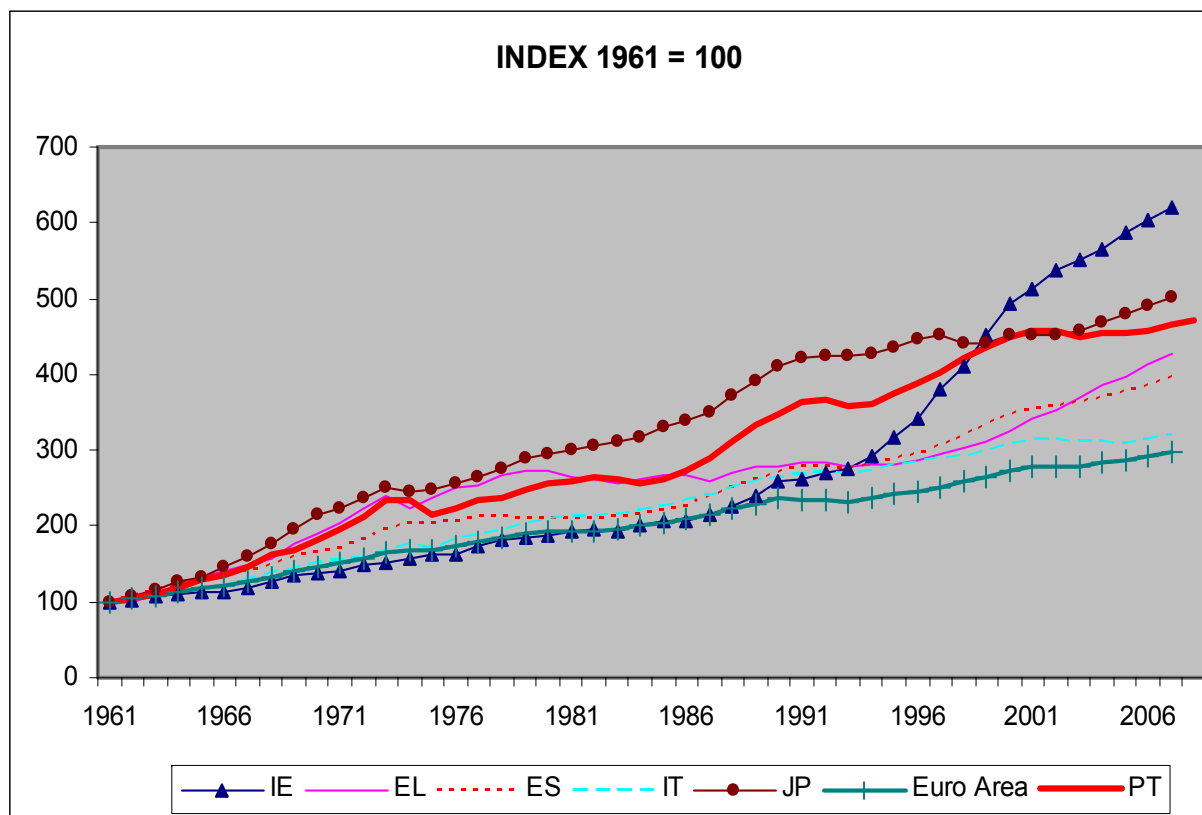
GDP GROWTH AND CATCHING UP



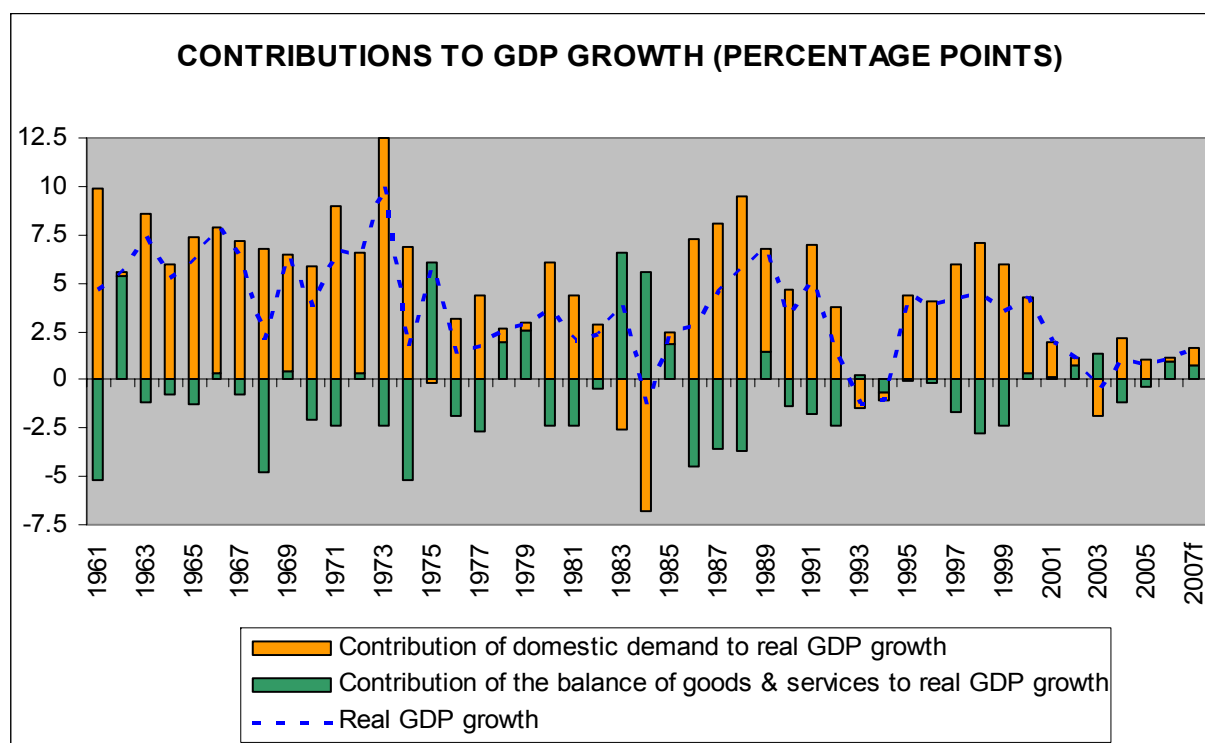
CONVERGING TO THE HIGHER EURO AREA LEVELS UNTIL RECENTLY



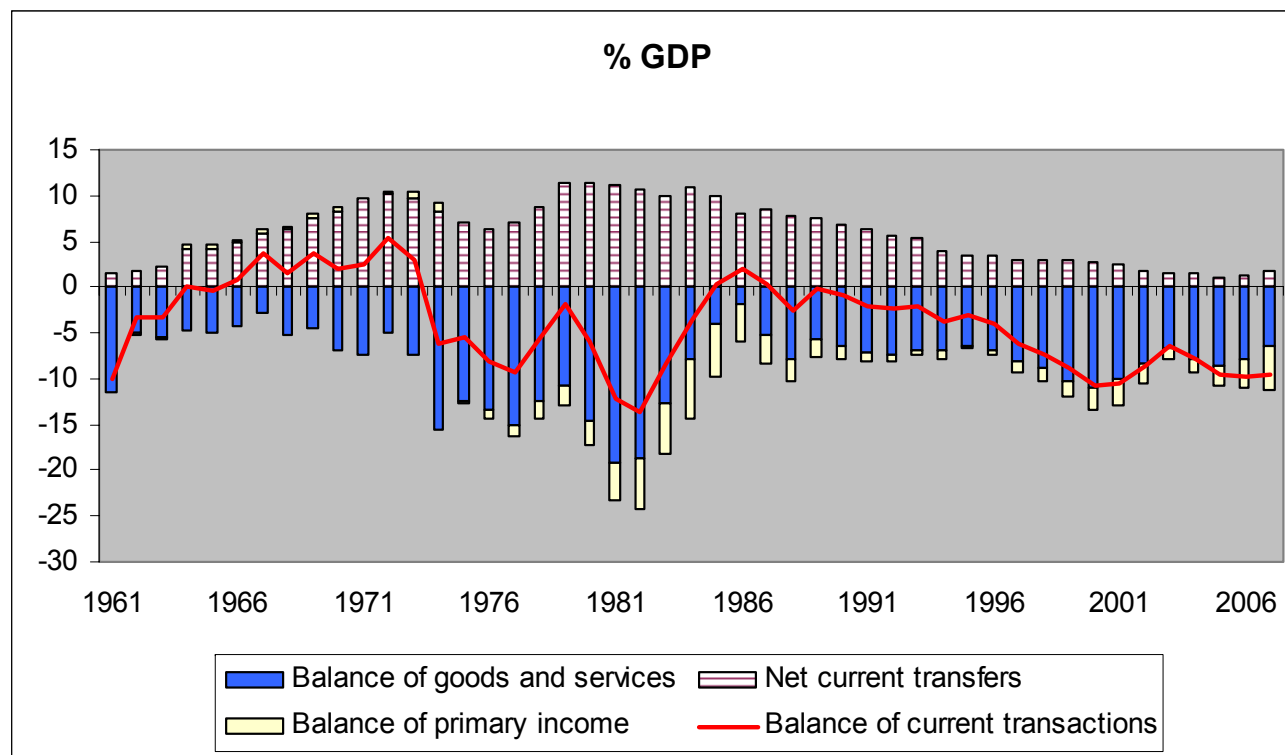
LONG-TERM PATH COMPARES WELL WITH OTHER ECONOMIES



EXTERNAL SECTOR DRAGGING DOWN GDP GROWTH



CURRENT EXTERNAL ACCOUNT: CHRONIC DEFICIT OF G&S OFFSET BY CURRENT TRANSFERS



FINANCING A LARGE CURRENT ACCOUNT DEFICIT IS NOT A (BIG) PROBLEM IN A MONETARY UNION. YET FINANCING ECONOMIC GROWTH SEEMS MORE CHALLENGING.

THEREFORE, BOOSTING THE CONTRIBUTION OF THE EXTERNAL SECTOR TO GDP GROWTH IS KEY.

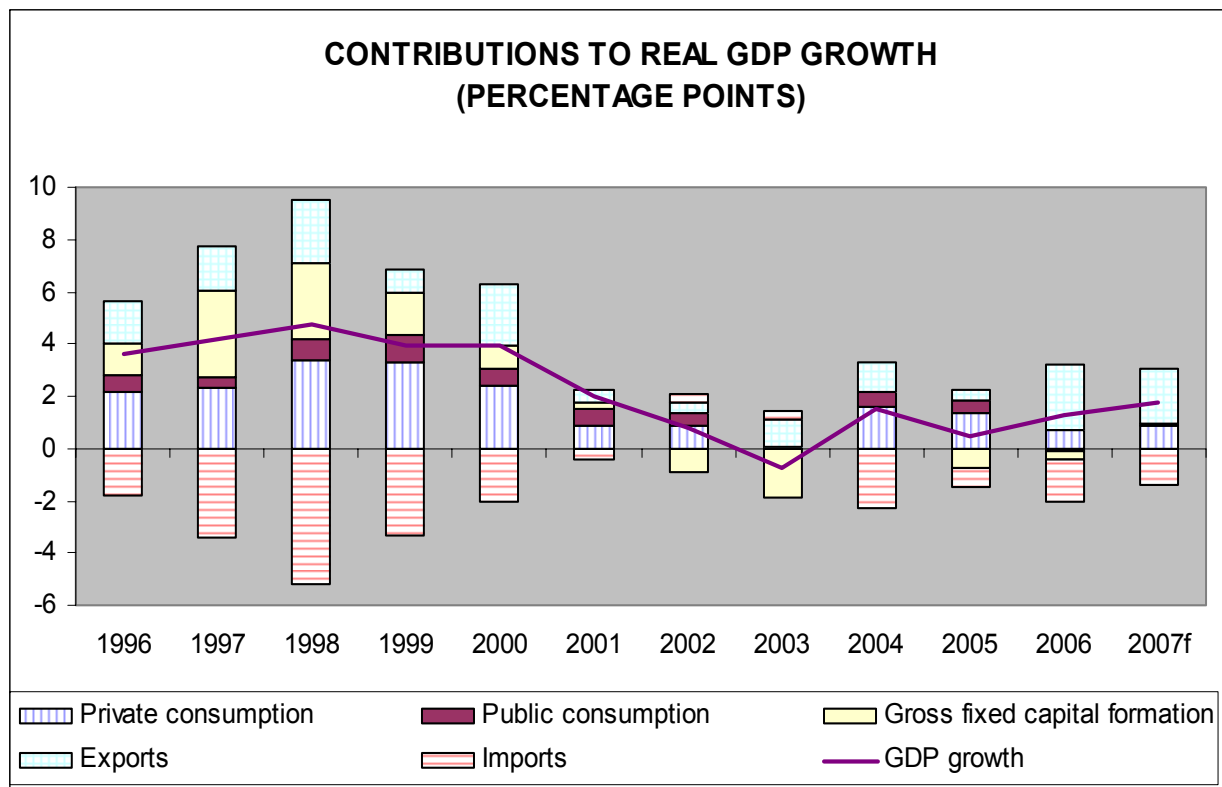


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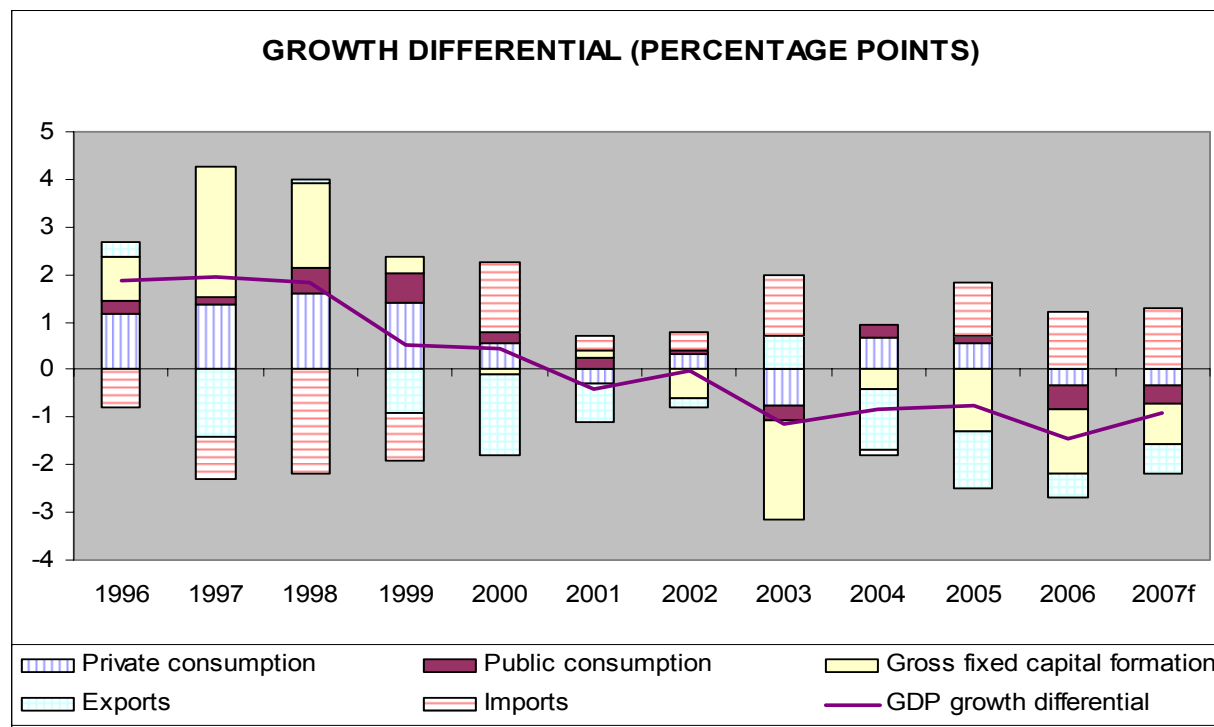
GROWTH PERFORMANCE OVER THE PAST DECADE: THE PORTUGUESE ECONOMY IN EMU



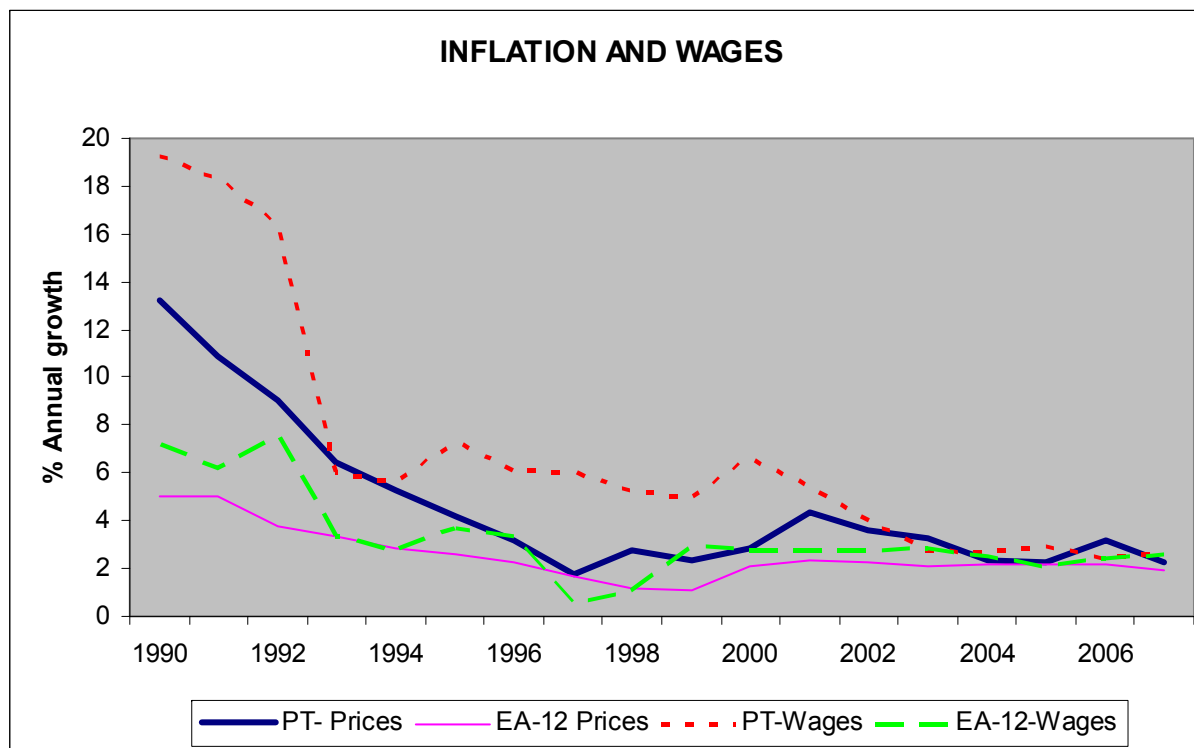
GDP GROWTH DRIVERS (1996-2007)



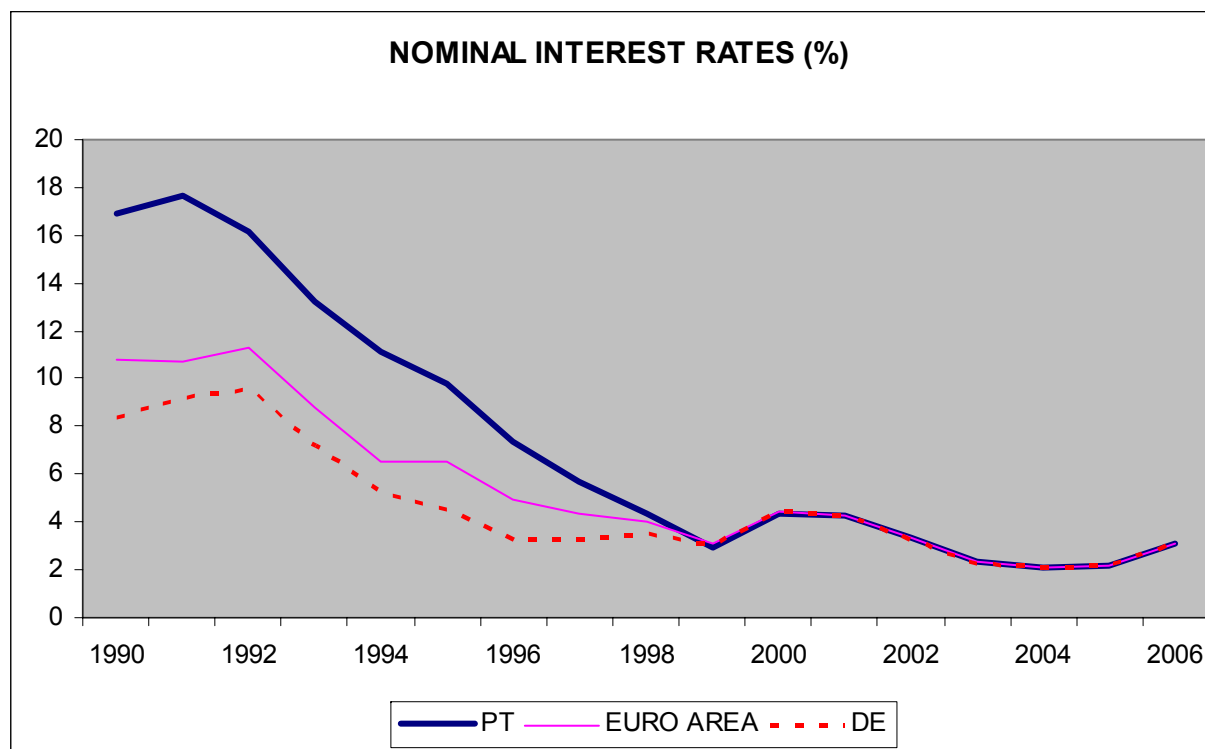
FACTORS BEHIND CONVERGENCE AND DIVERGENCE WITH THE EURO AREA



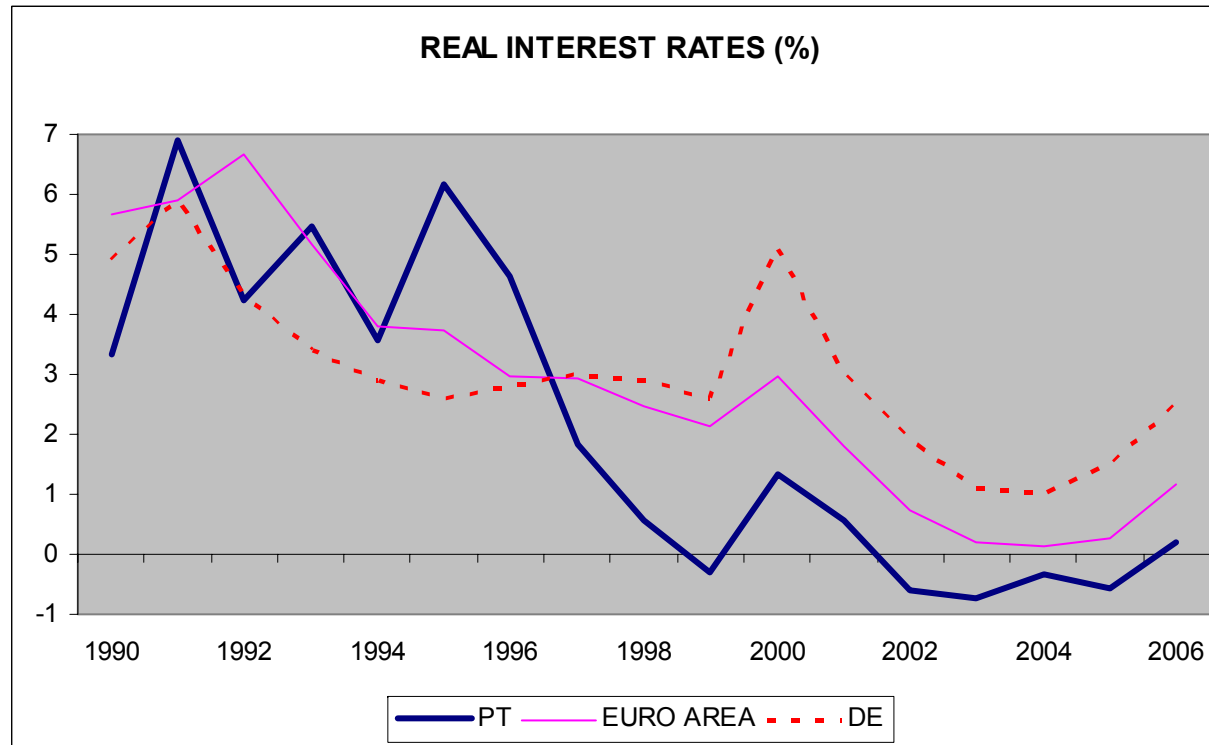
DISINFLATION PROCESS IN THE 1990s



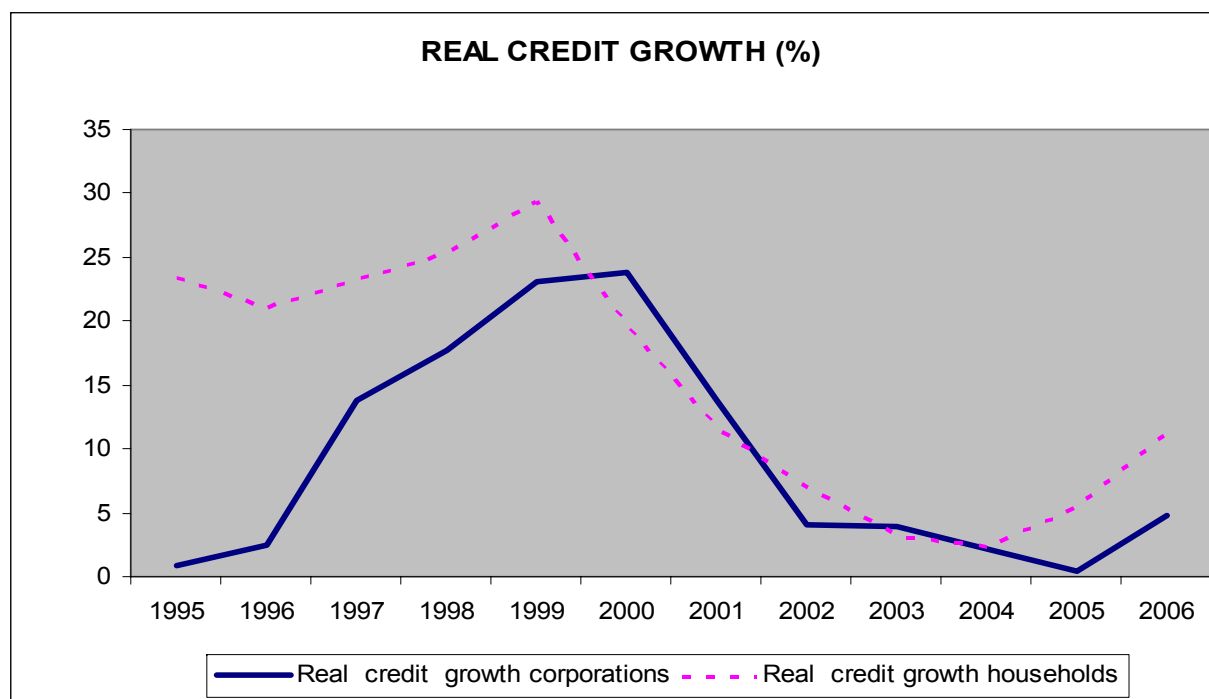
THE EURO SHOCK: EXPANSIONARY MONETAR CONDITIONS



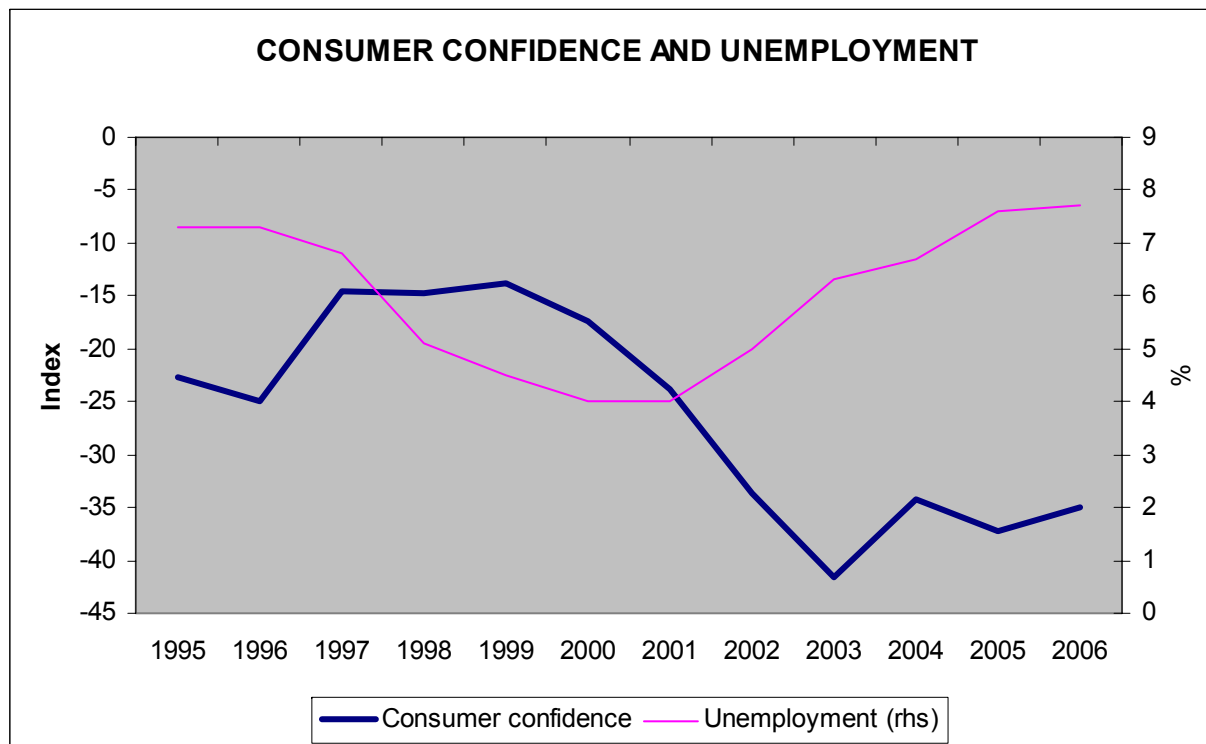
THE FALL OF RISK PREMIA



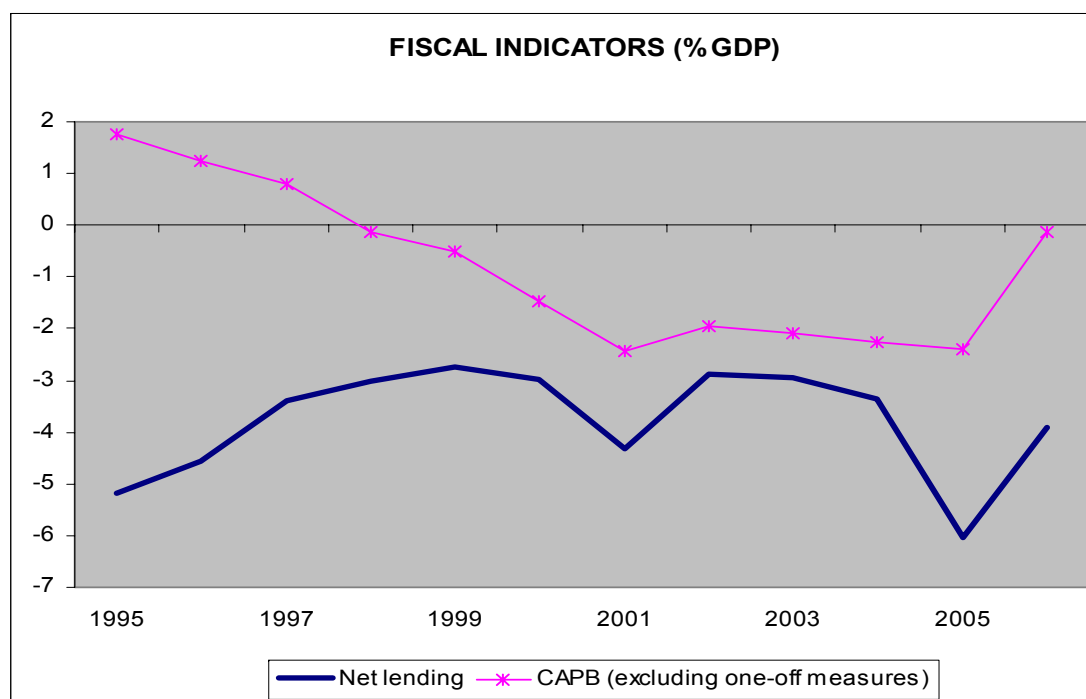
EURO SHOCK AND FINANCIAL LIBERALISATION PAVED THE WAY FOR BUOYANT CREDIT GROWTH



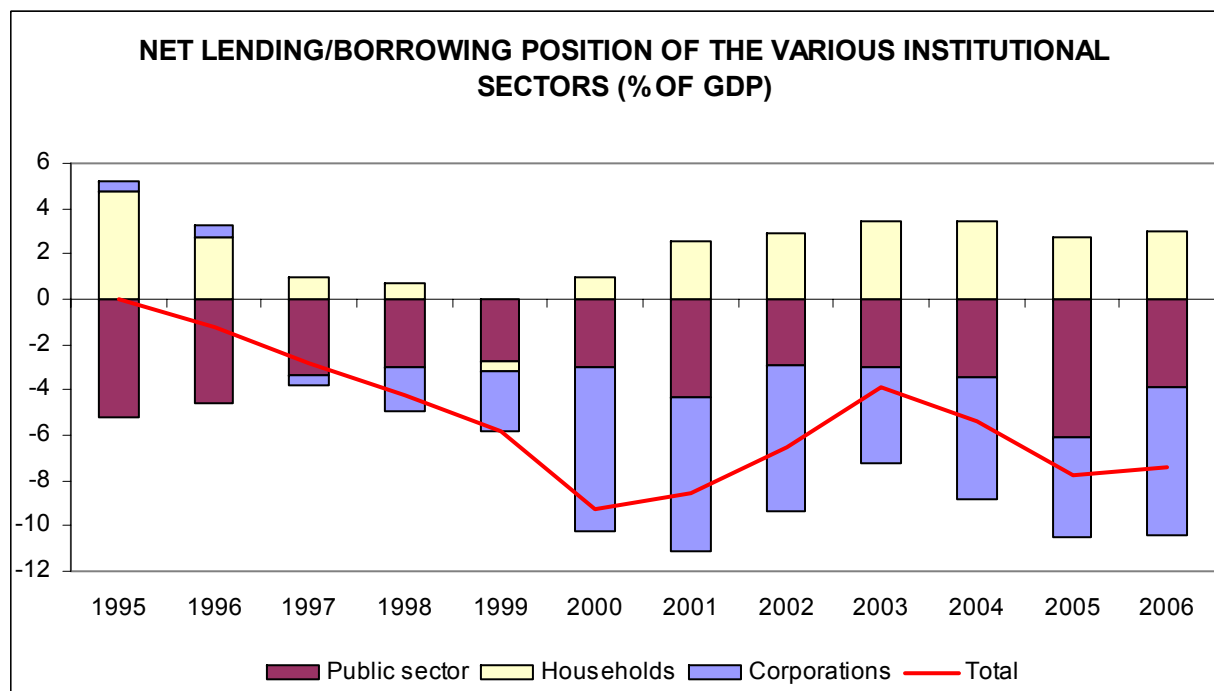
EXPECTATIONS AND FACTS



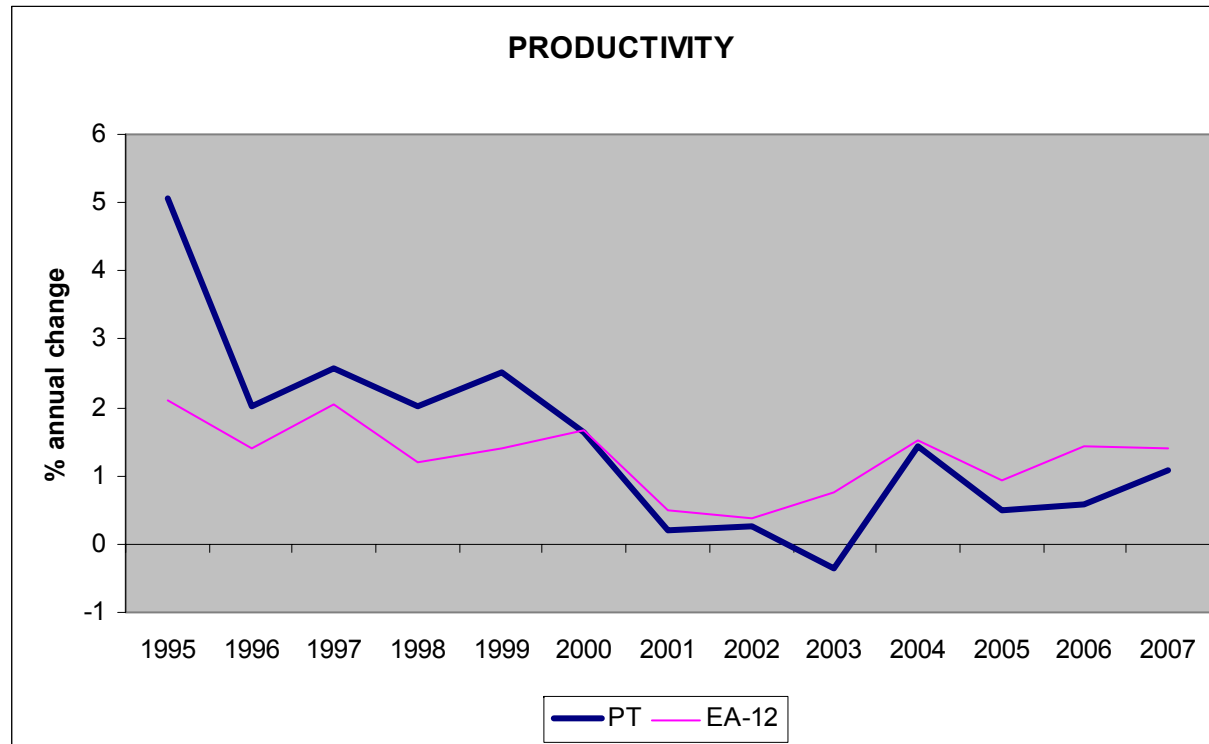
PUBLIC FINANCES DID NOT OFFSET PRIVATE SECTOR DEVELOPMENTS



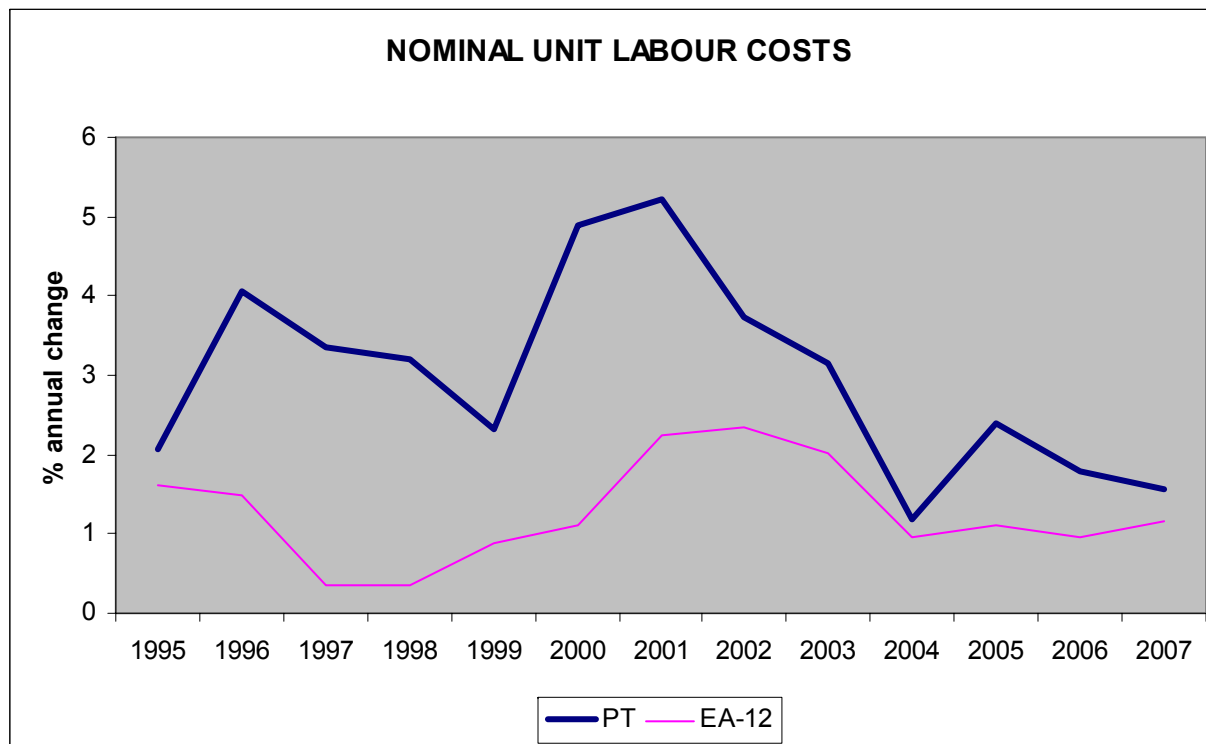
SECTORAL (IM)BALANCES



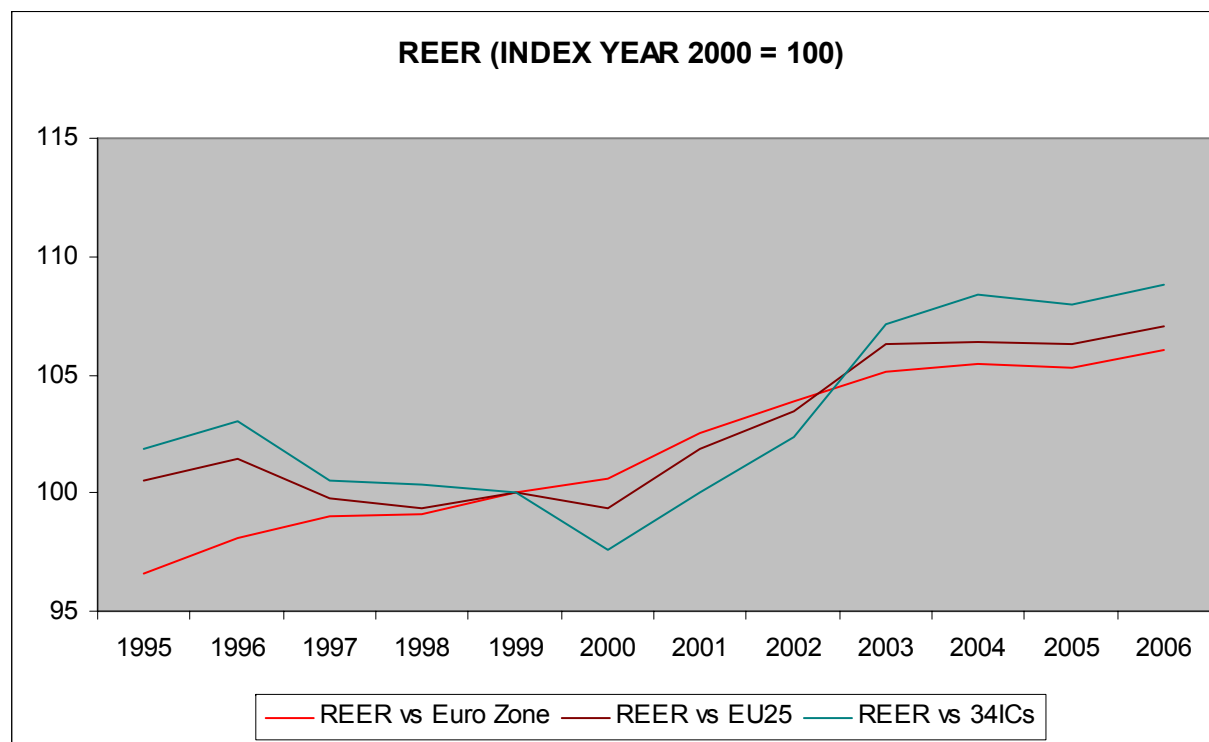
MOVING TO THE SUPPLY SIDE: PRODUCTIVITY



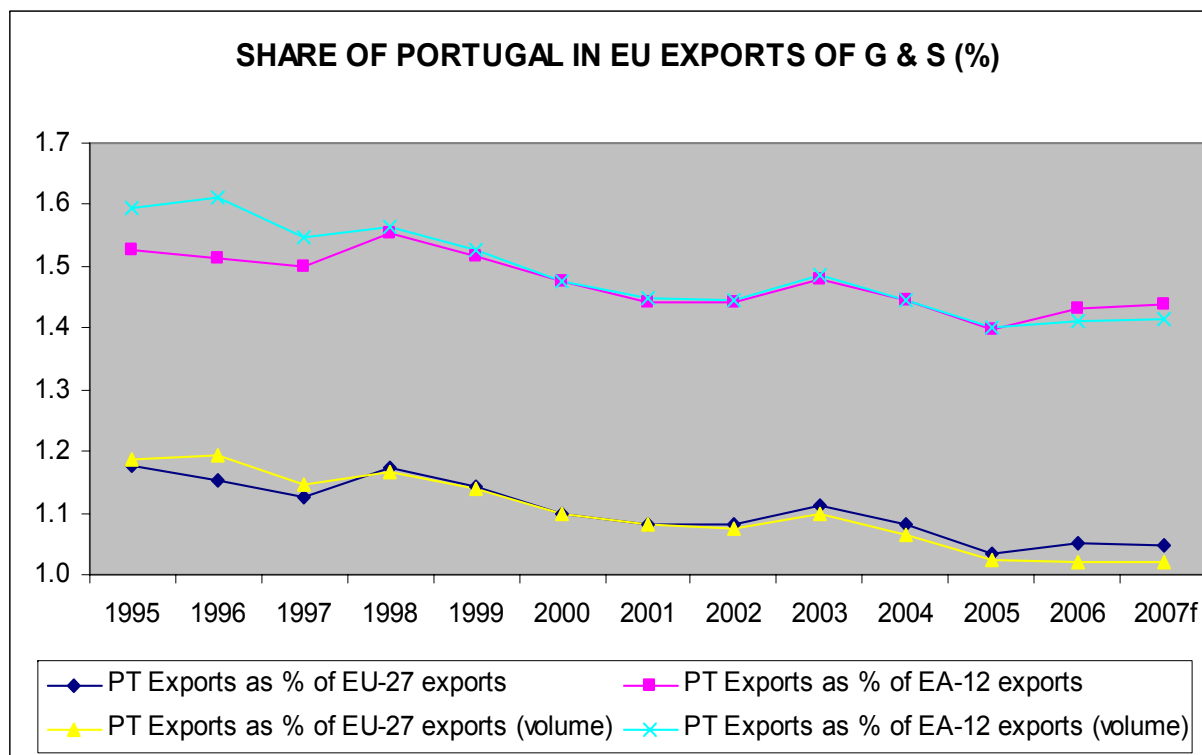
COST COMPETITIVENESS DETERIORATING



COMPETITIVENESS: THE REAL EFFECTIVE EXCHANGE RATE



COMPETITIVENESS: SHARES IN EU/EA EXPORTS



SUMMING UP

PHASE I:

DOMESTIC-DEMAND SHOCK

SUPPLY LAGGING BEHIND

REAL APPRECIATION

JUMP IN CURRENT ACCOUNT DEFICIT

WHAT IS GOING ON / WHAT IS NEXT?

PHASE II:

DOMESTIC DEMAND ADJUSTING

SUPPLY SHIFTING TOWARDS TRADABLES

REAL DEPRECIATION

GRADUAL REDUCTION OF THE CA DEFICIT

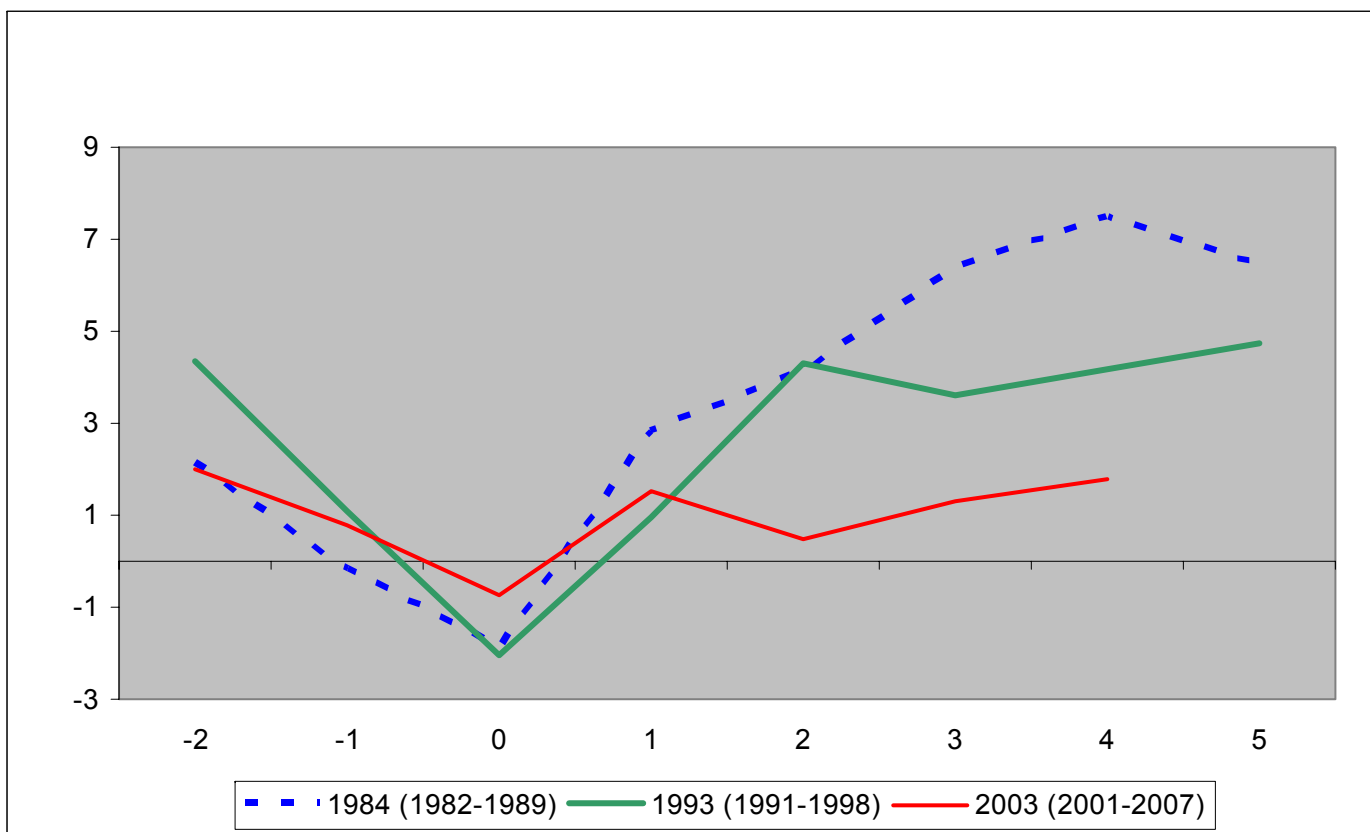


PART III:

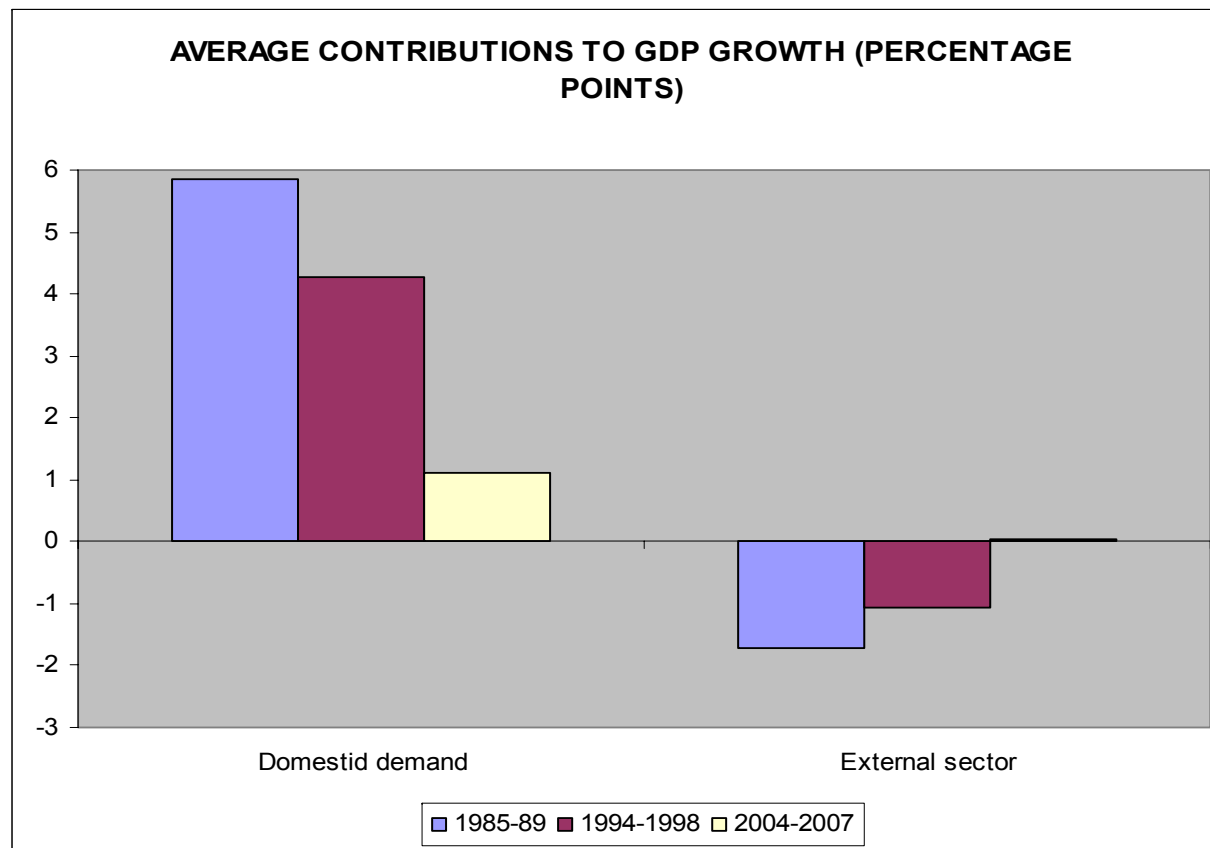
RECOVERY IN RECENT RECESSIONS



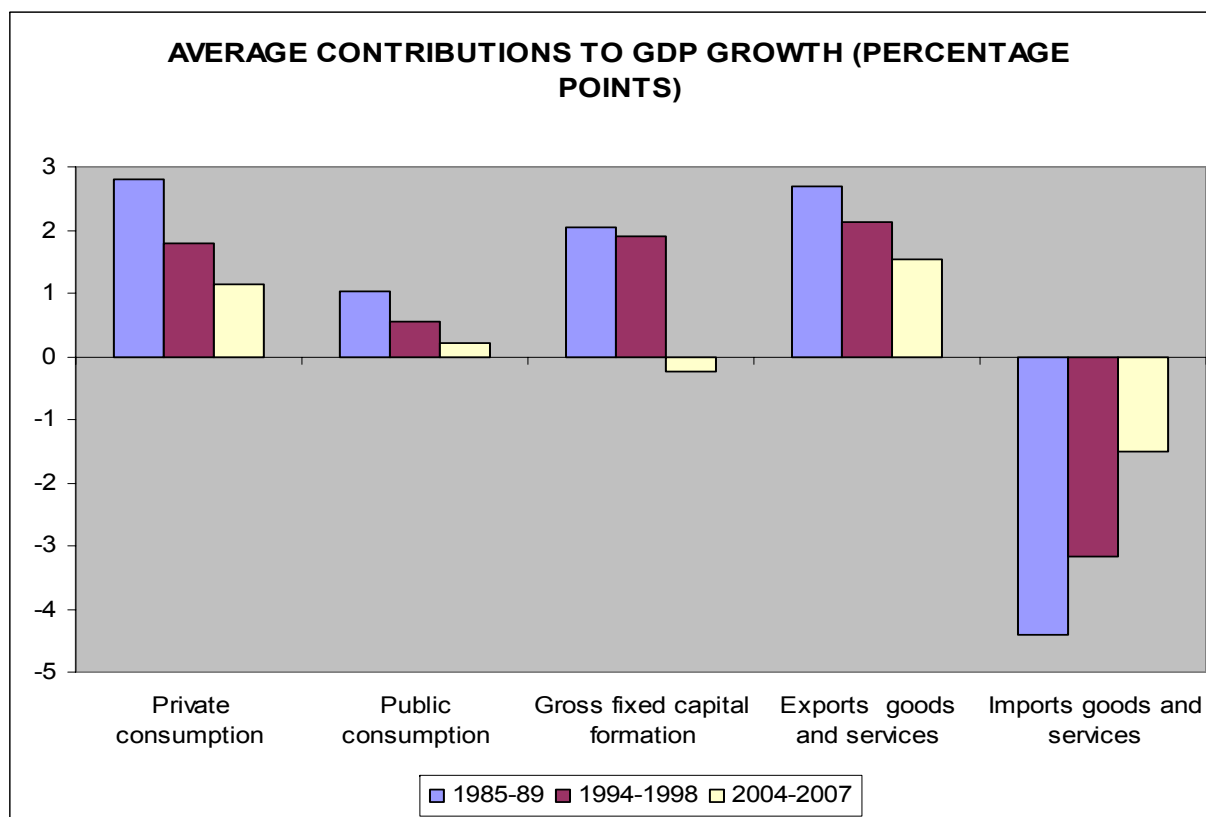
3 POST-RECESSION CASES: REAL GDP GROWTH



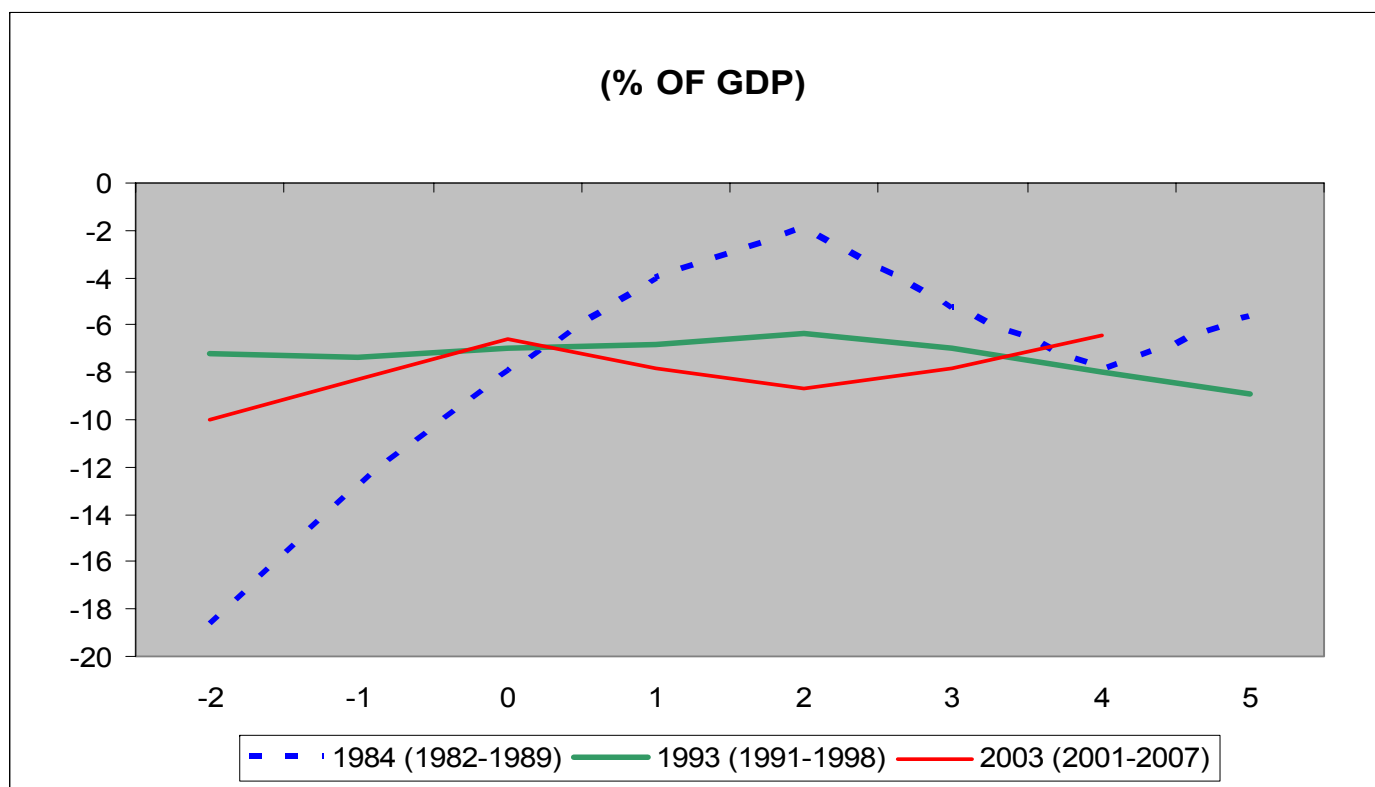
3 POST-RECESSION CASES: DRIVERS OF THE UPSWING I



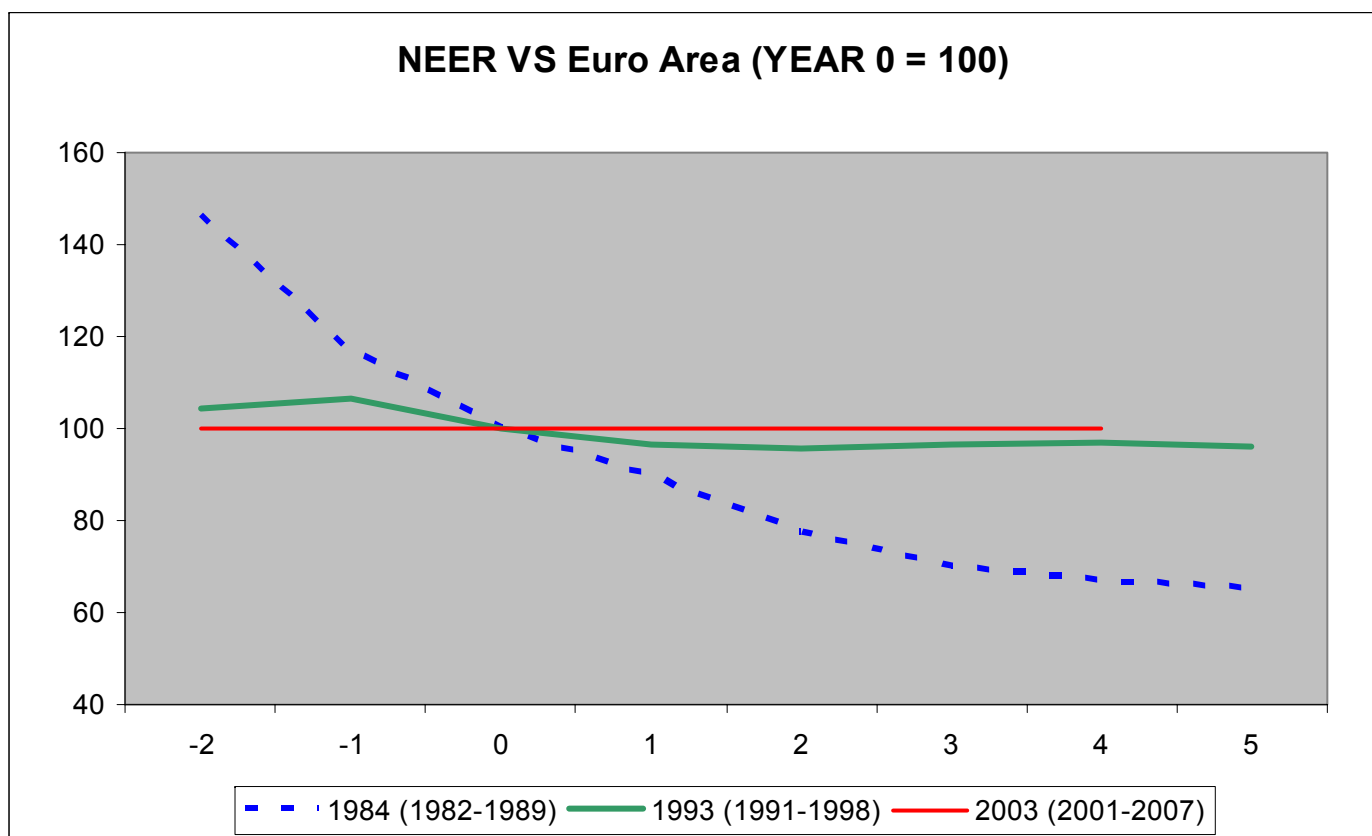
3 POST-RECESSION CASES: DRIVERS OF THE UPSWING II



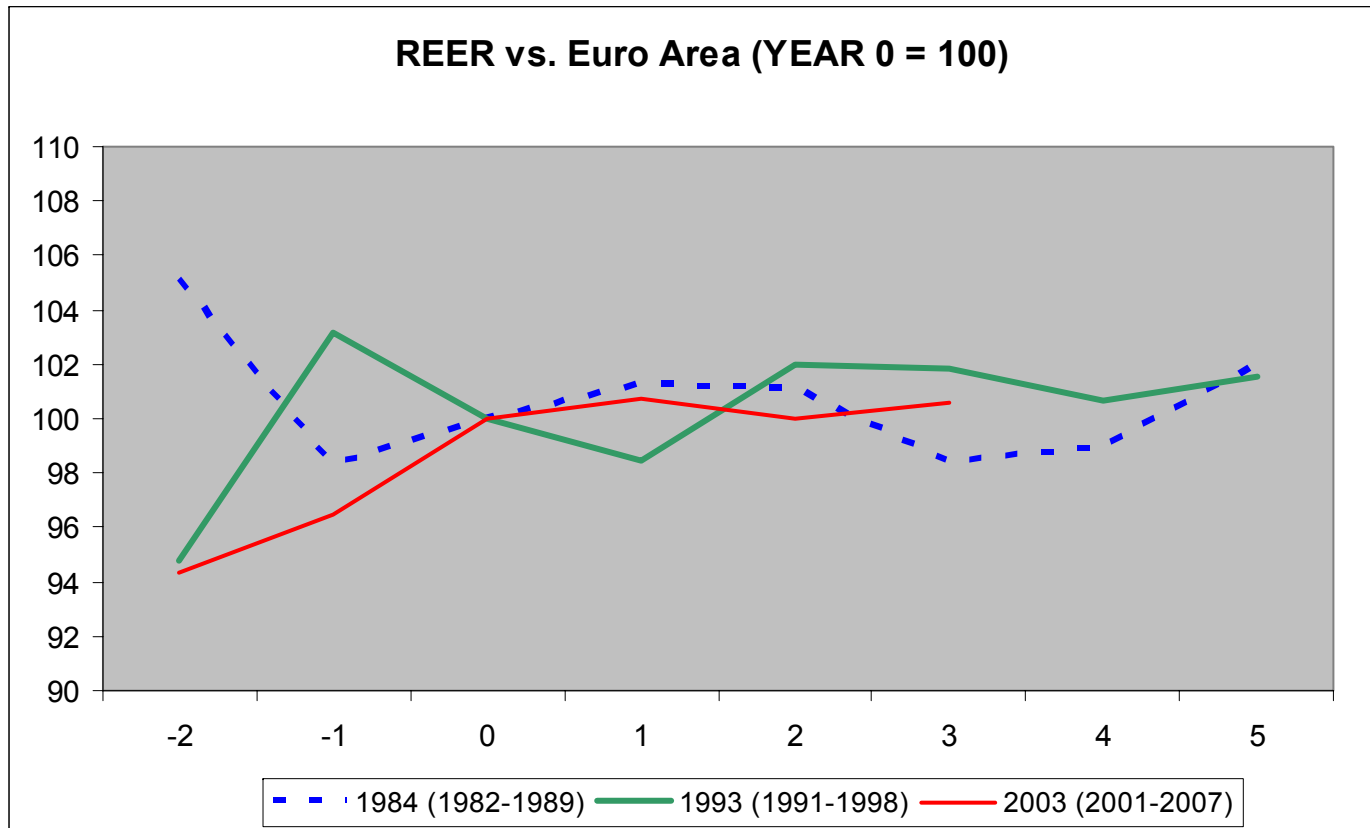
3 POST-RECESSION CASES: BALANCE OF GOODS AND SERVICES



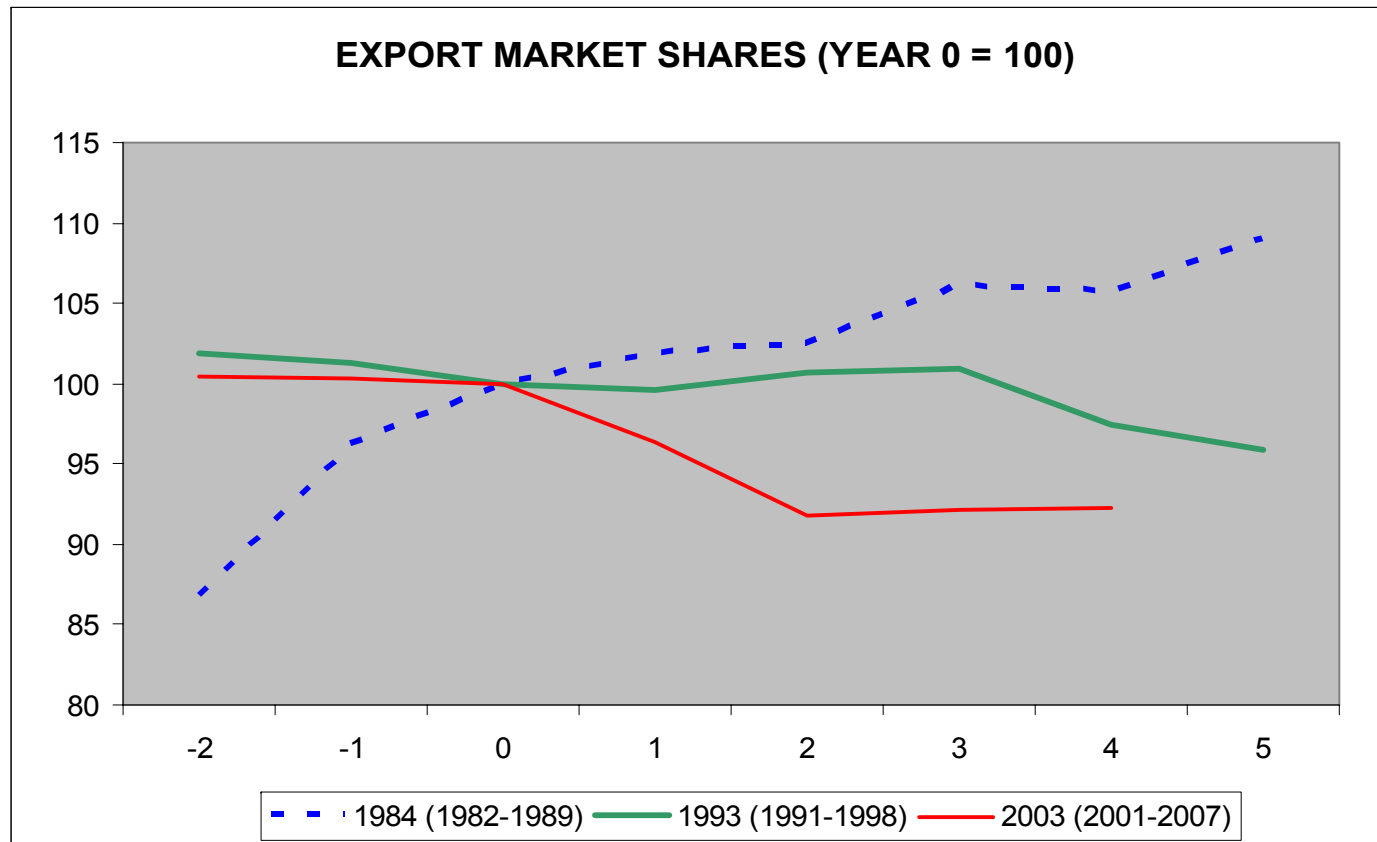
3 POST-RECESSION CASES: NOMINAL EFFECTIVE EXCHANGE RATE



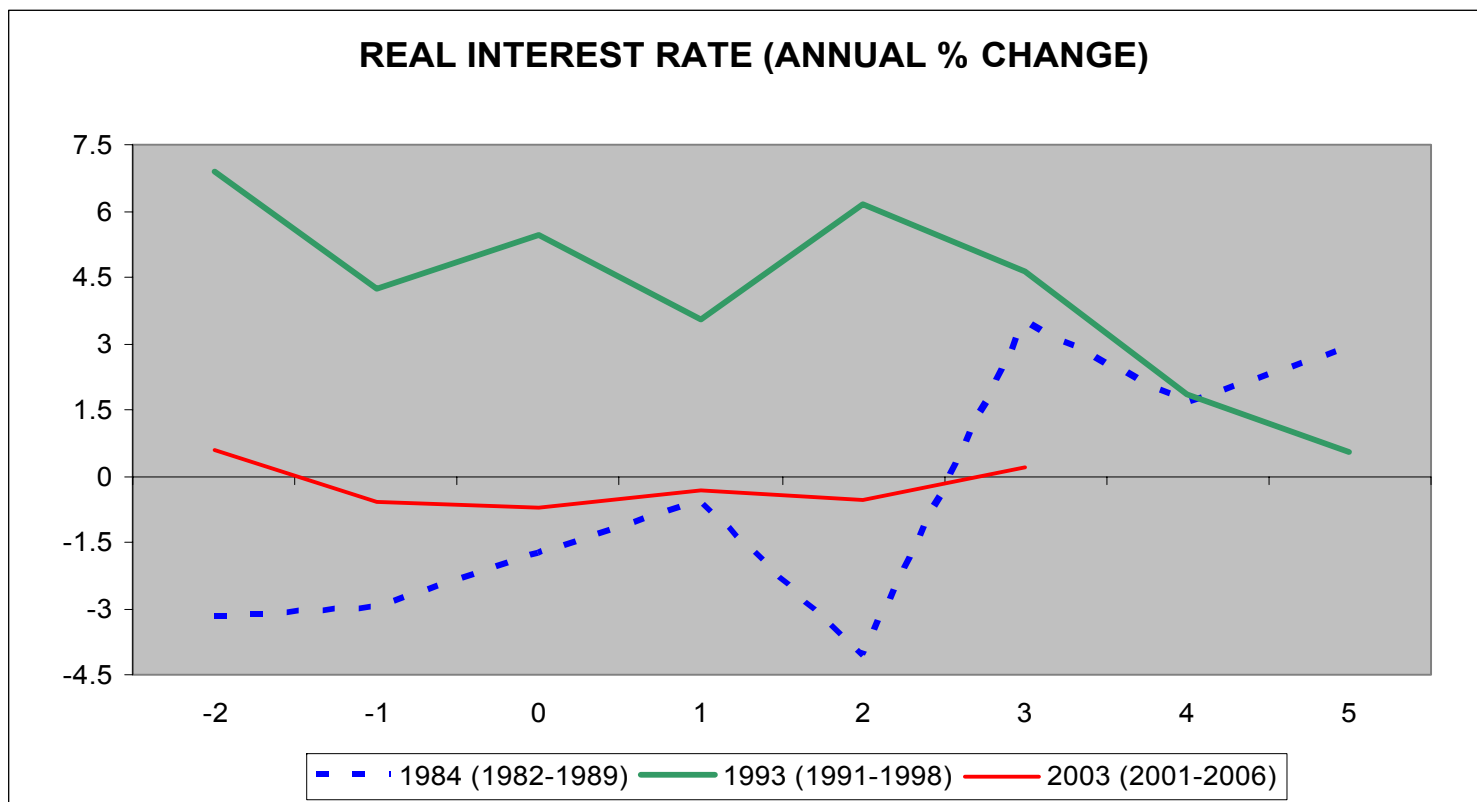
3 POST-RECESSION CASES: REAL EFFECTIVE EXCHANGE RATE



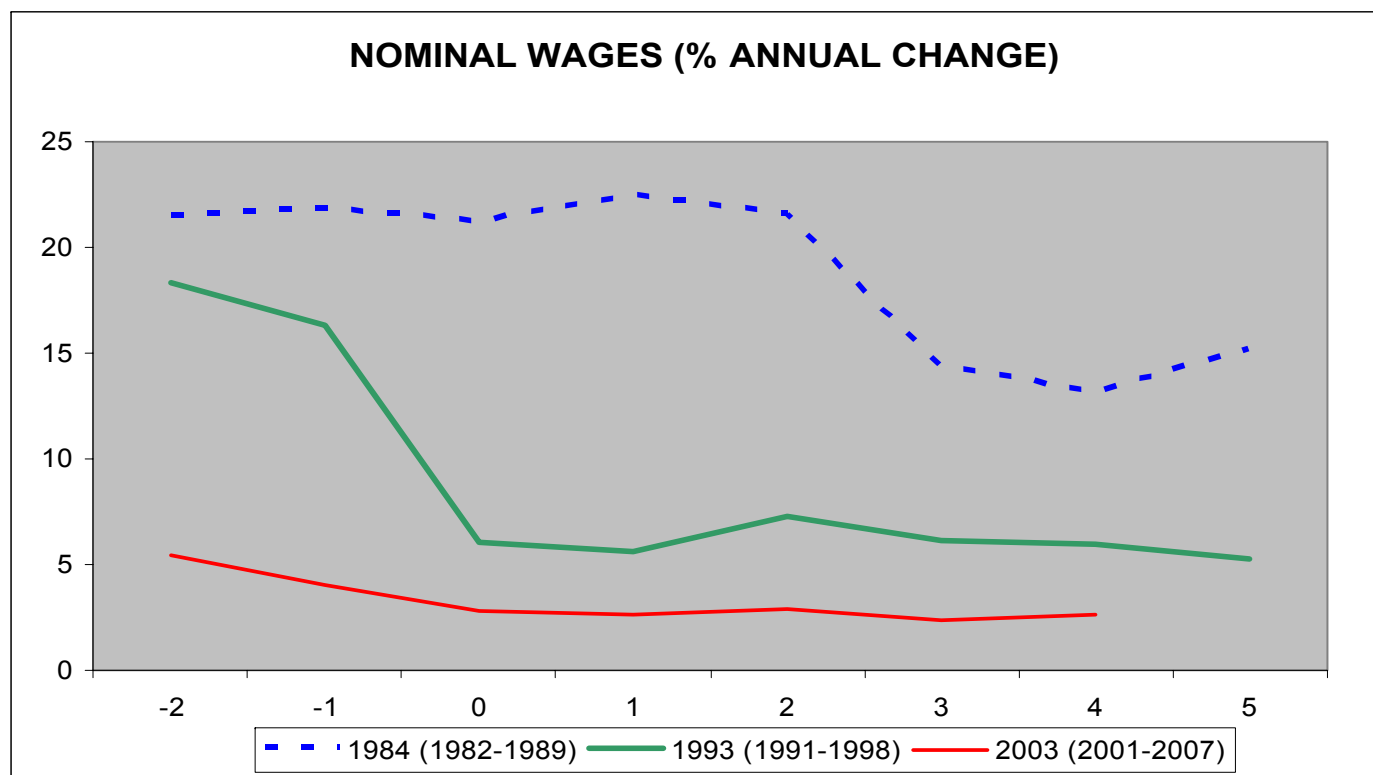
3 POST-RECESSION CASES: EXPORT MARKET SHARES



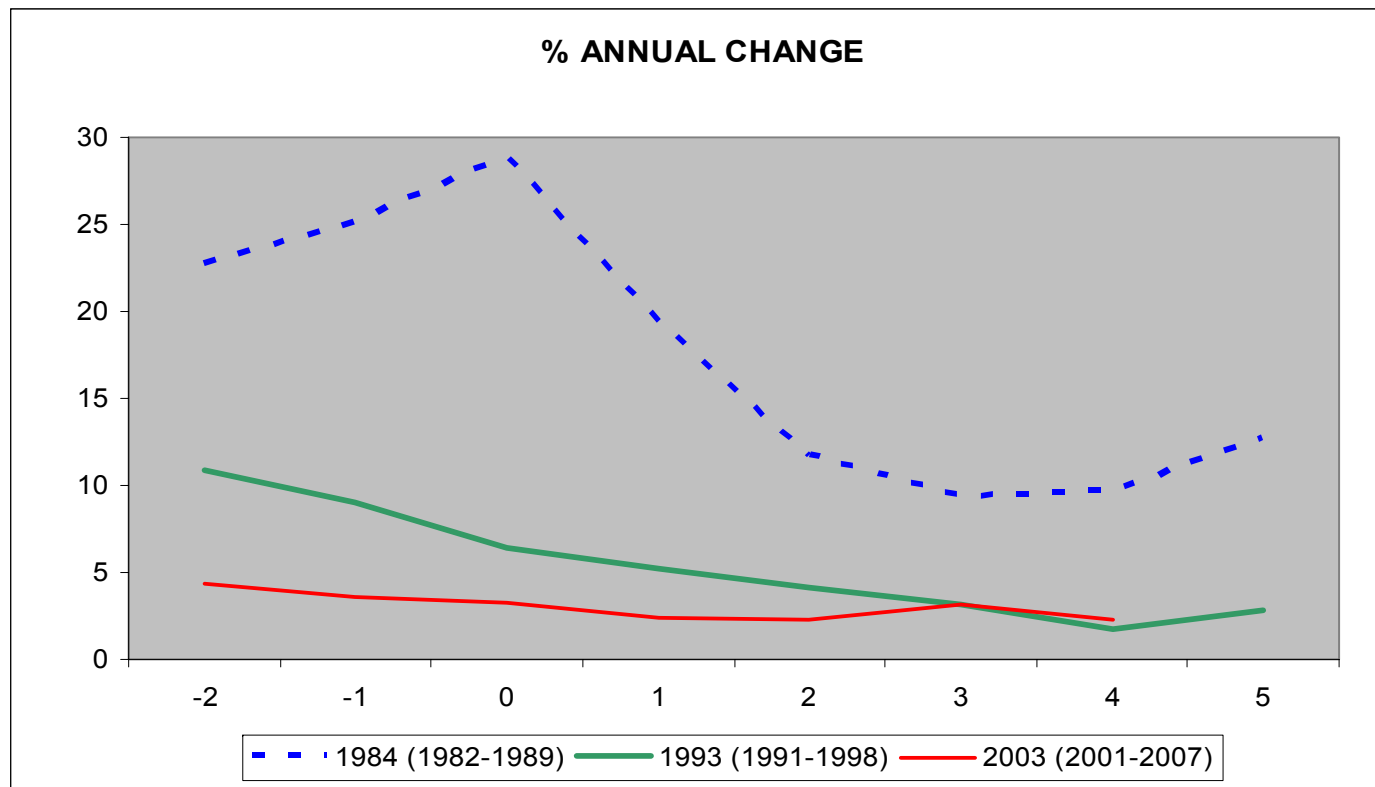
3 POST-RECESSION CASES: REAL INTEREST RATE



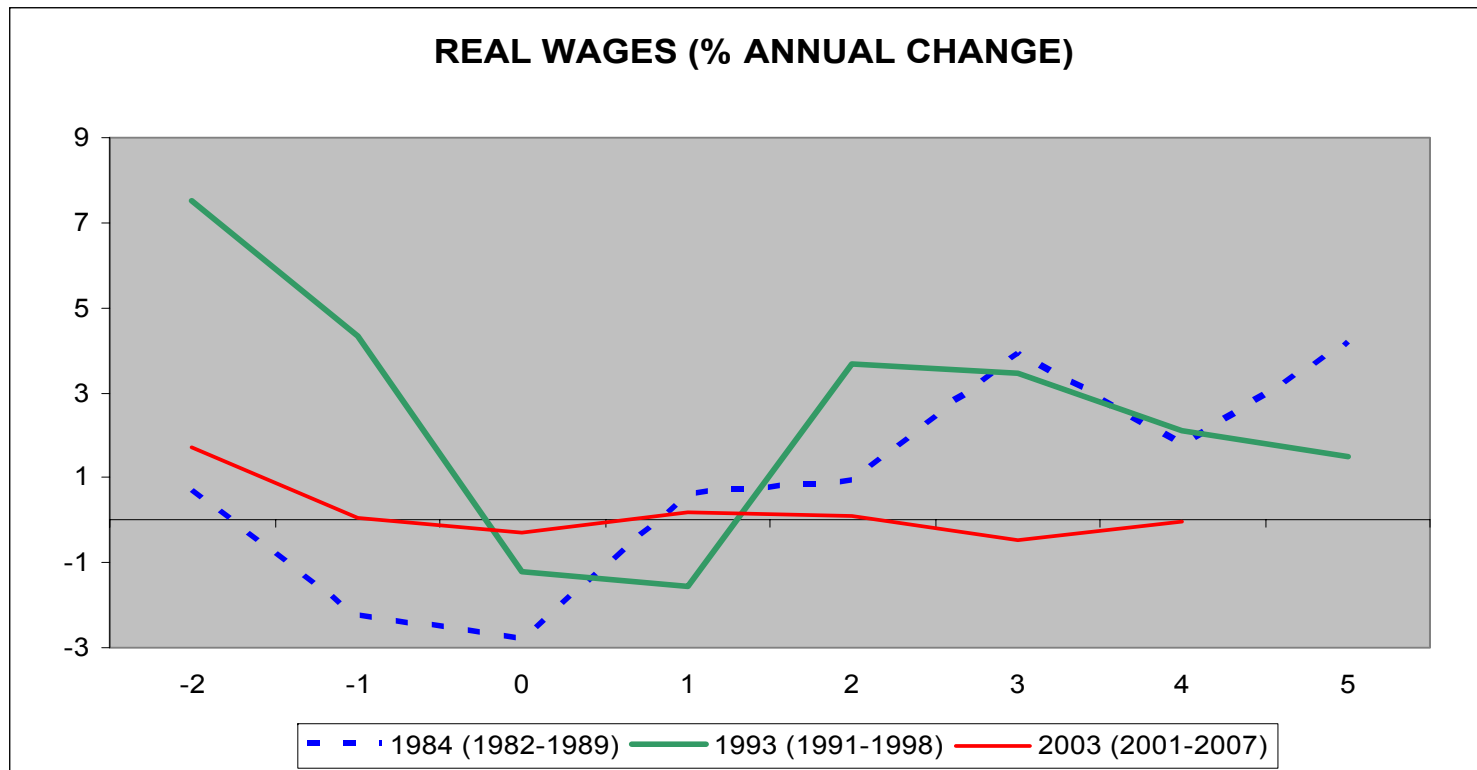
3 POST-RECESSION CASES: NOMINAL WAGES



3 POST-RECESSION CASES: INFLATION



3 POST-RECESSION CASES: REAL WAGES



WHAT IS NEW NOW:

- ▶ NO EXCHANGE RATE MECHANISM (BUT WAS OF LIMITED HELP IN 1993)
- ▶ POOR EXPORT PERFORMANCE IN 2004 AND 2005 (AGAINST A MORE BENIGN PERFORMANCE OF MARKET SHARES BEFORE 2004 AND AFTER 2005)
- ▶ WEAK REACTION OF DOMESTIC DEMAND (HIGH DEBT LEVELS OF PRIVATE SECTOR, PRO-CYCLICAL FISCAL TIGHTENING)
- ▶ LAST BUT NOT LEAST: NO APPARENT DEMAND SHOCK NOW (BEFORE: EU ACCESSION, 1986-1989; RUN-UP TO THE EURO, 1995-1998)

