PORTUGAL’S REFORMS

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The starting point

At the outset of the crisis, Portugal had several serious internal and external imbalances

- Low growth
- Significant competitiveness problems
- Large current account deficits
- High public debt
- High corporate and household debt
Main Reforms

• large labor reform;
• privatization of national utilities, the national grid, national airports, and the post office;
• new insolvency procedures;
• zero licensing procedures for industry, commerce and services;
• new competition law and new laws for regulators;
• Judicial reforms to reduce backlogs;
• reduction of rents in the electrical sector;
• renegotiation of Public Private Partnerships;
• restructuring of SOEs of public transportation, with a 20% reduction of the workforce, and their first-ever positive EBITDA;
• the liberalization of the energy sector and tourism;
• restructuring of the dual and apprenticeship system;
• a new port labor law;
• Fiscal reforms
Growth has made a comeback
Unemployment is falling
Competitiveness improved

Export performance
Index 2000=100

The economy is more open

External imbalances were corrected

Balance of Payments (% of GDP)

Impact of reforms
The insolvency process has been reduced (but still too lengthy)

Reforms of the judicial system

Days needed to resolve civil, commercial, administrative and other cases

SOME VULNERABILITIES REMAIN
Public debt is high

General government debt, Maastricht definition, per cent of GDP

Corporate debt needs to go down

Private sector debt\(^1\)
% of GDP

1. The non-financial sector debt presented includes loans, debt securities and trade credits. Household includes non-profit institutions serving households.
Source: Banco de Portugal (2016), BPstat Database and ECB (2016), Statistical Data Warehouse, European Central Bank.
The banking sector remains fragile

Ratio of capital to risk-weighted assets
Per cent, Q2 2016

Source: International Monetary Fund, Banco de Portugal and European Central Bank.
Non-performing loans are high

NPLs as a percentage of total gross loans, Q2 2016

Source: IMF (2016), Financial Soundness Indicators (FSI Database), International Monetary Fund.
Investment is weak

Total gross fixed capital formation

2000 Q1 = 100

Portugal
Spain
Italy
Euro area¹

1. Euro area countries that are also OECD members (including Latvia).
Barriers to competition in transport sectors are high

Index scale of 0-6 from least to most restrictive, latest data

Lessons and new reforms
Ownership is crucial  
  Don't do reforms just because of external pressures

Implementation is key to boost credibility

Macro stability or structural reforms?

Front load

Deal with vested interests (one at the time)  
  don't open battles in too many fronts

Learn from mistakes
Were Adjustment Programs necessary?

• Economic conditions for Greece, Portugal, Italy and Spain after the international financial crisis hit were very challenging.

• Political conditions were very different then.

• Were the Adjustment Programs well designed? No.
  • Investment
  • Credit and and monetary policy