PORTUGAL'S REFORMS

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DES POLITIQUES MEILLEURES POUR UNE VIE MEILLEURE

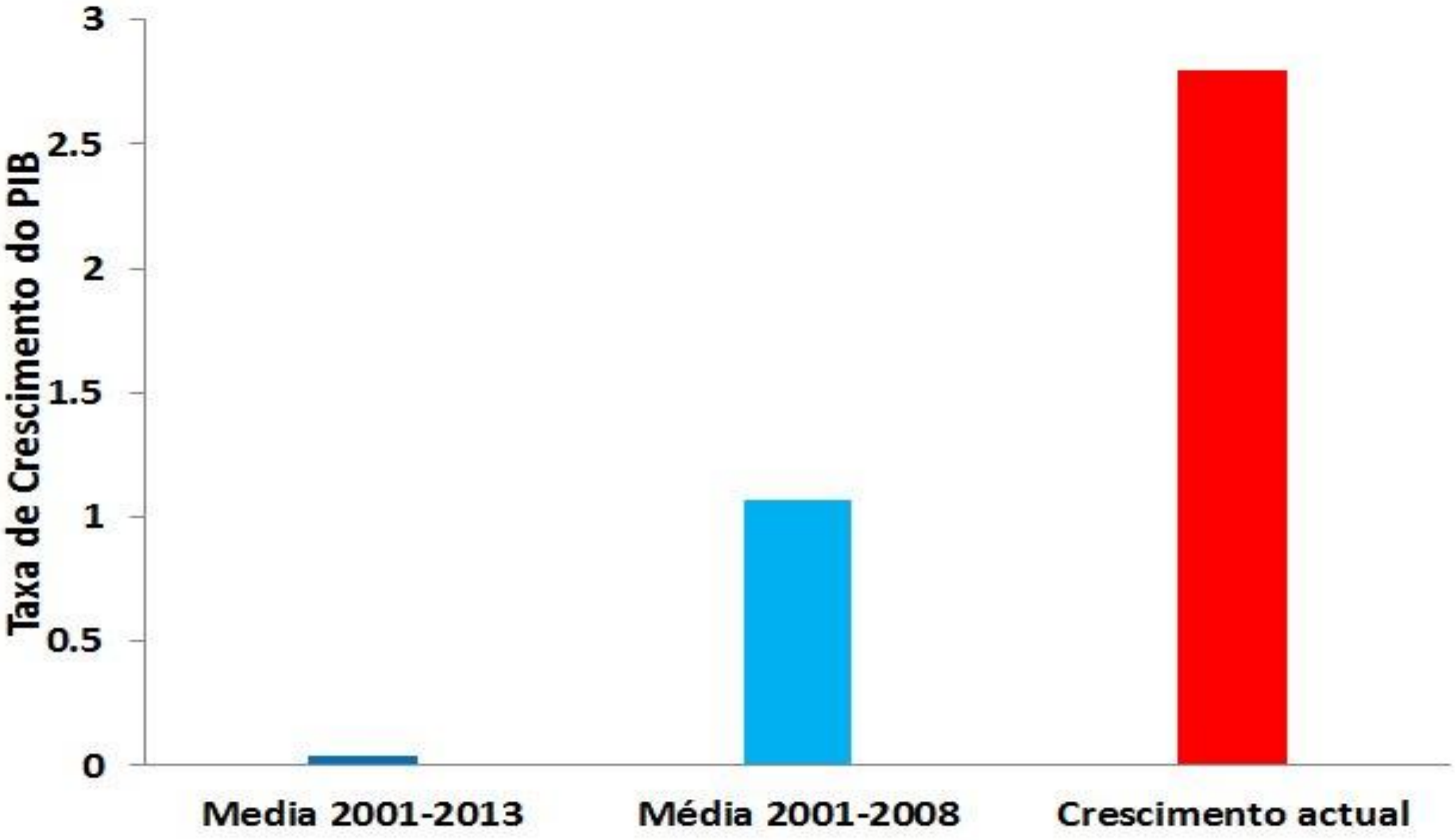
The starting point

- 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

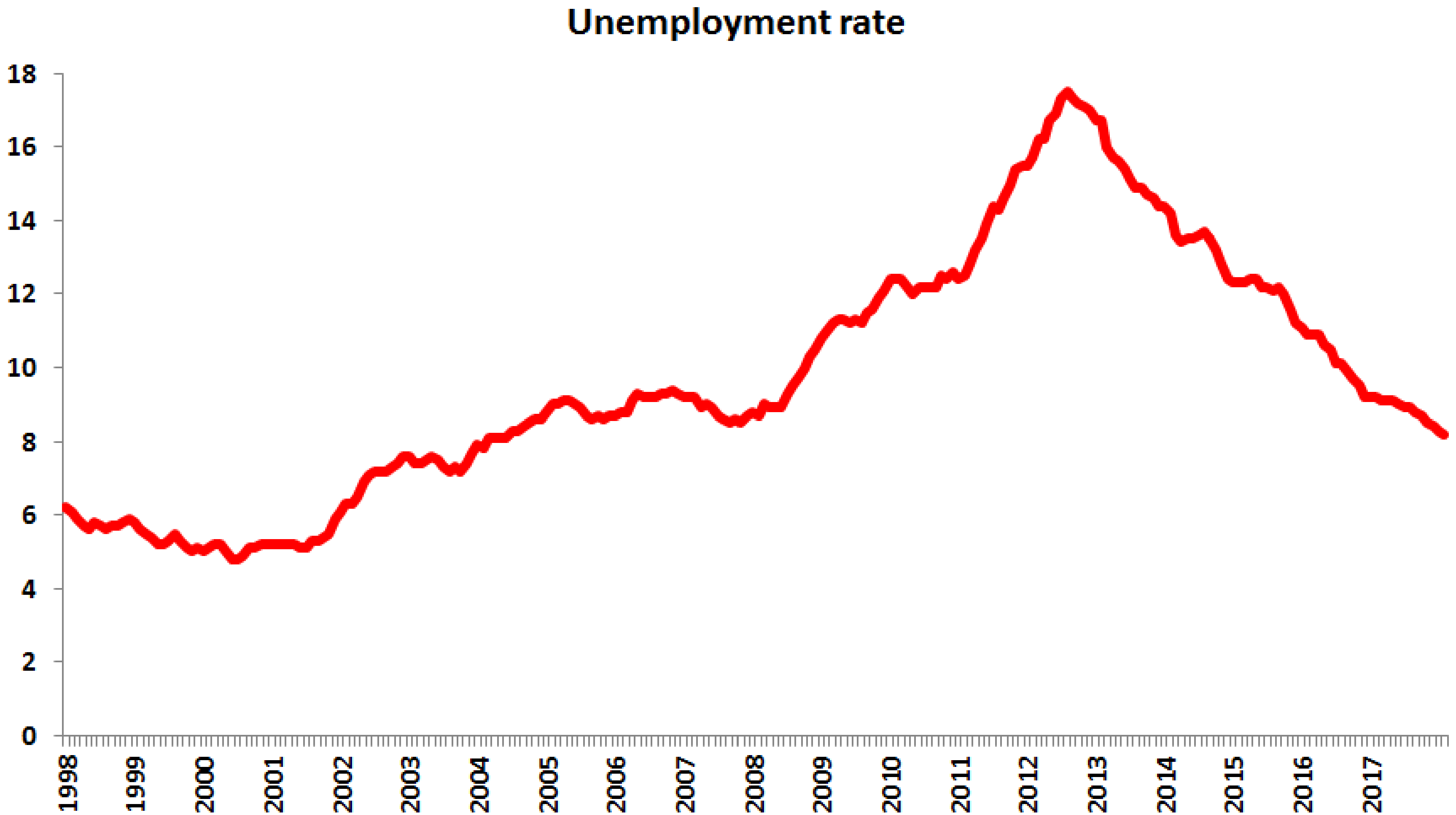
Main Reforms

- 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

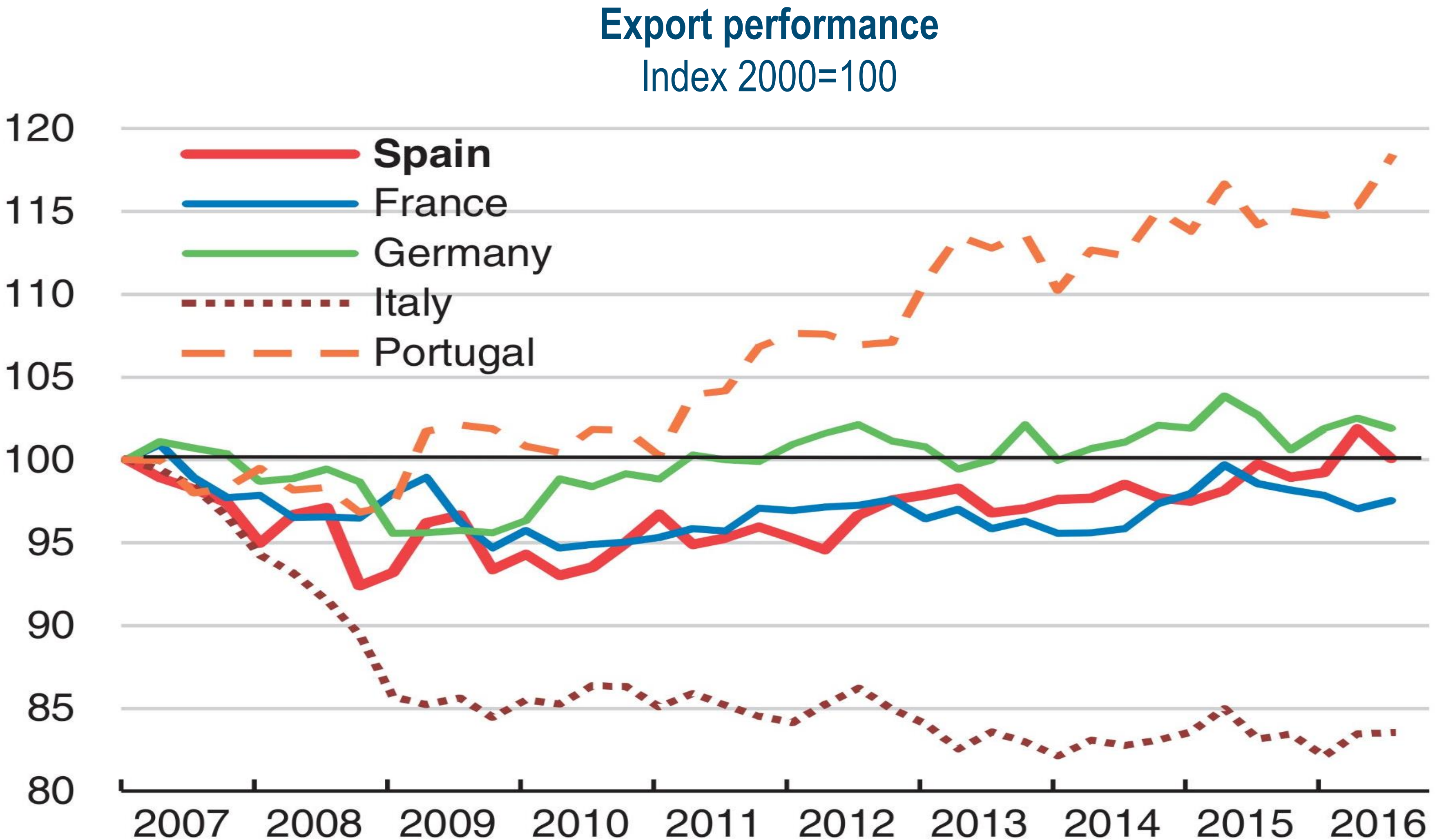
Growth has made a comeback



Unemployment is falling

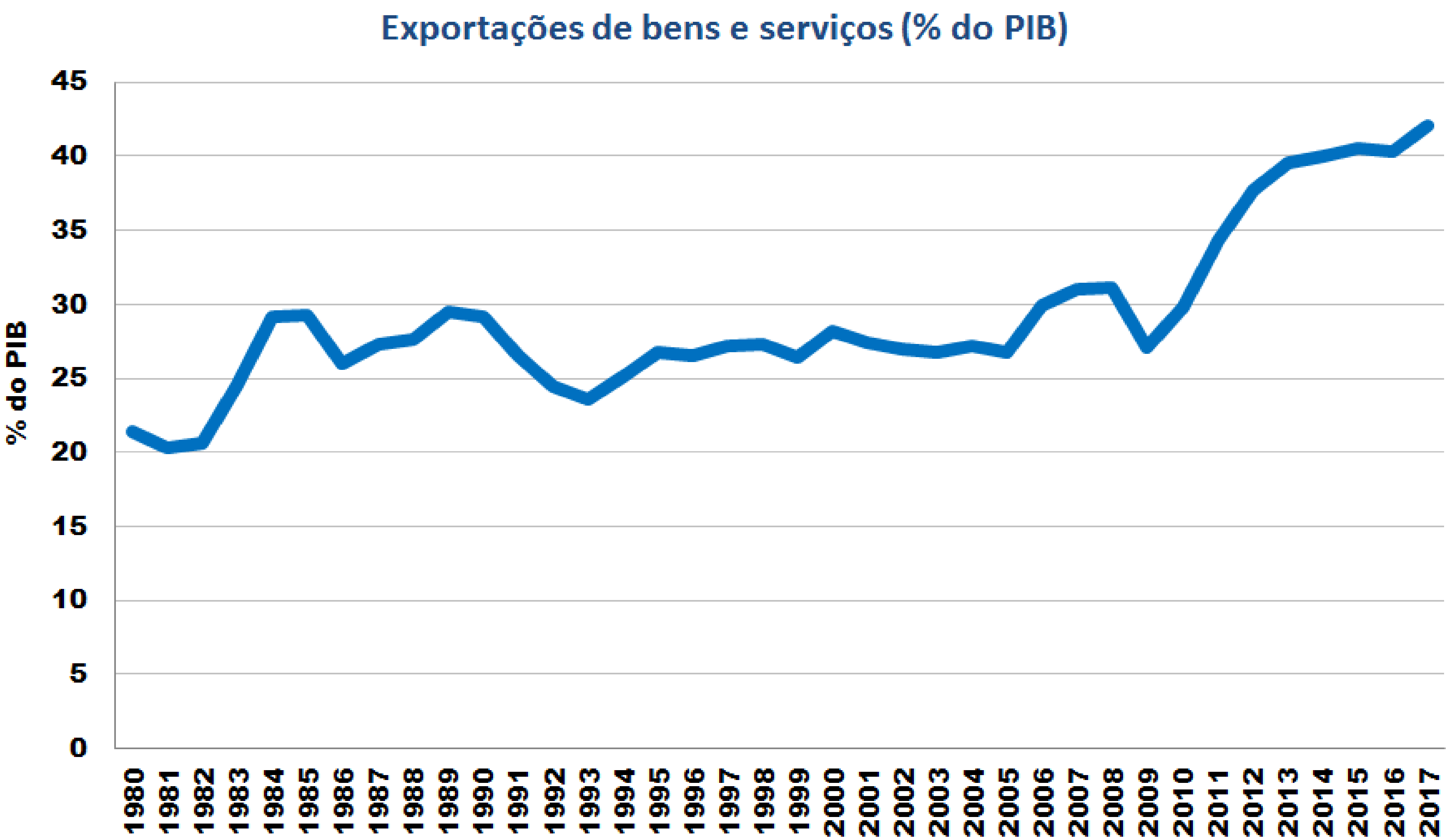


Competitiveness improved



Source: OECD (2017), OECD Economic Outlook: Statistics and Projections (database).

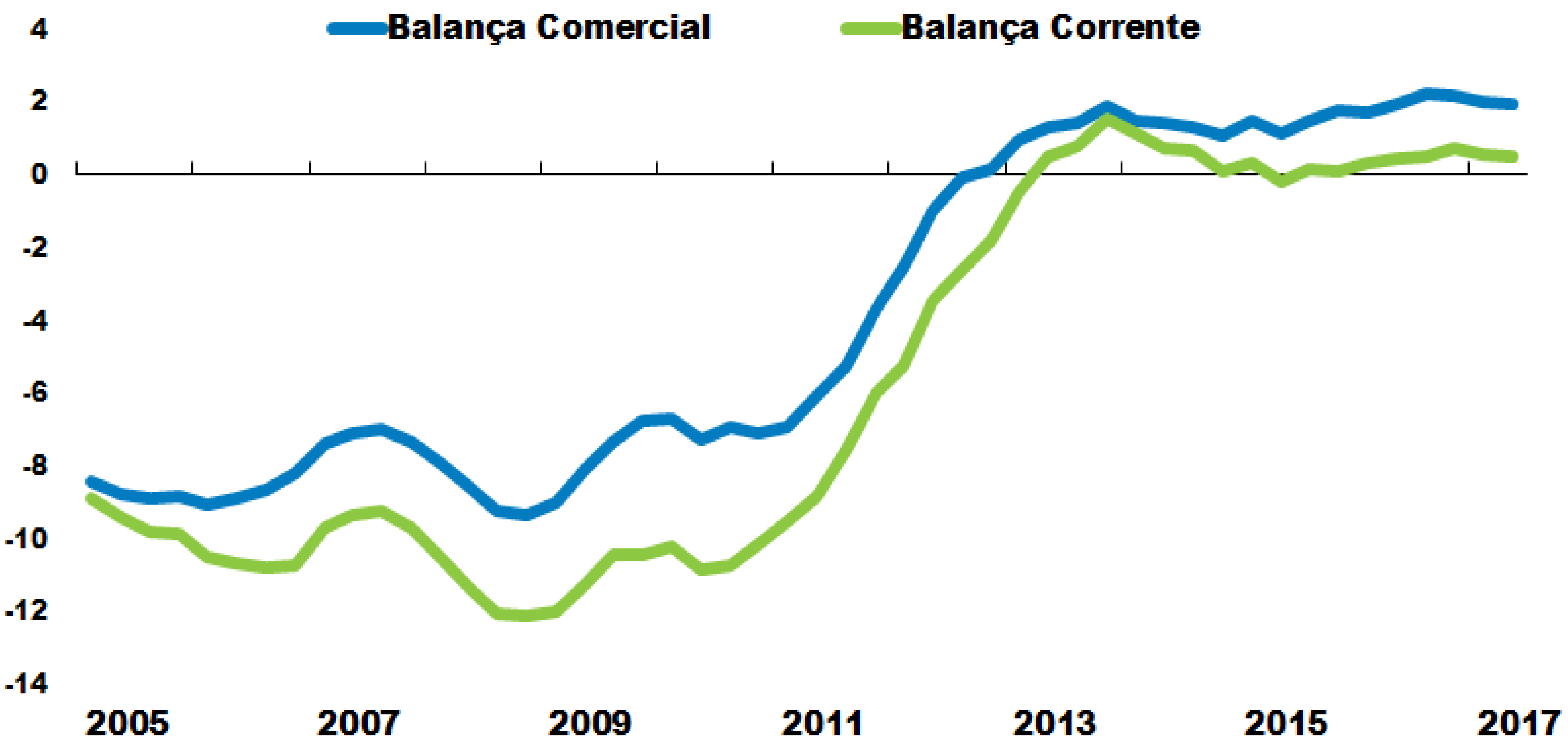
The economy is more open



Source: OECD (2017), World Bank.

External imbalances were corrected

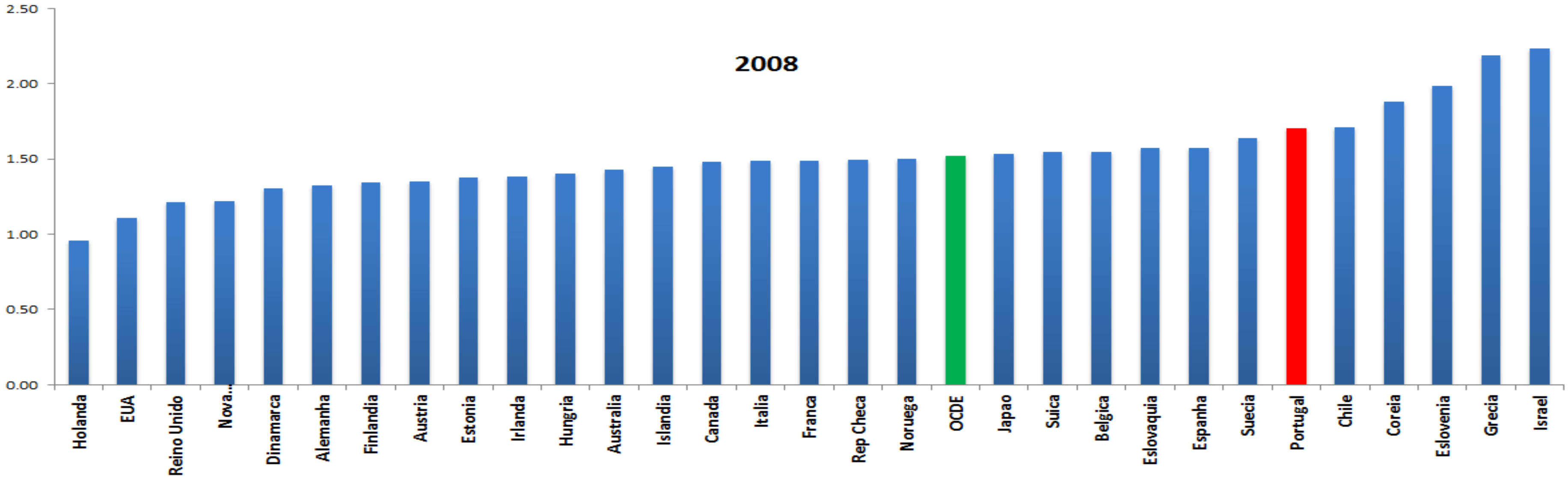
Balance of Payments (% of GDP)



1. Source: Eurostat (2017), "National accounts (ESA 2010)", Eurostat Database.

Impact of reforms

PMR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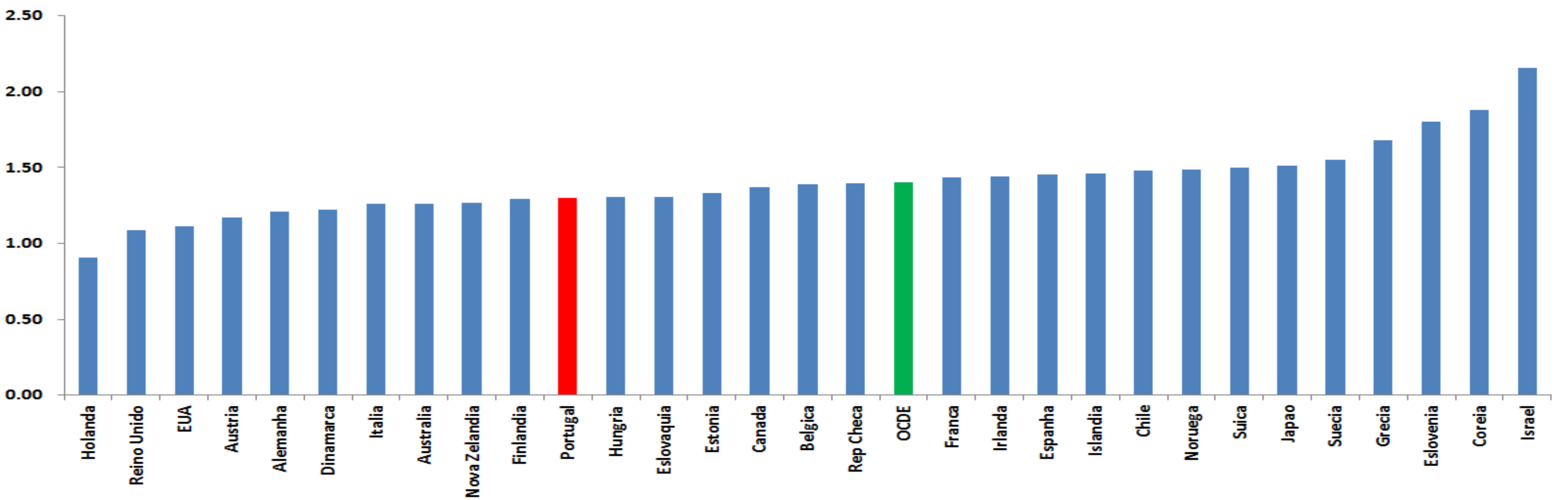
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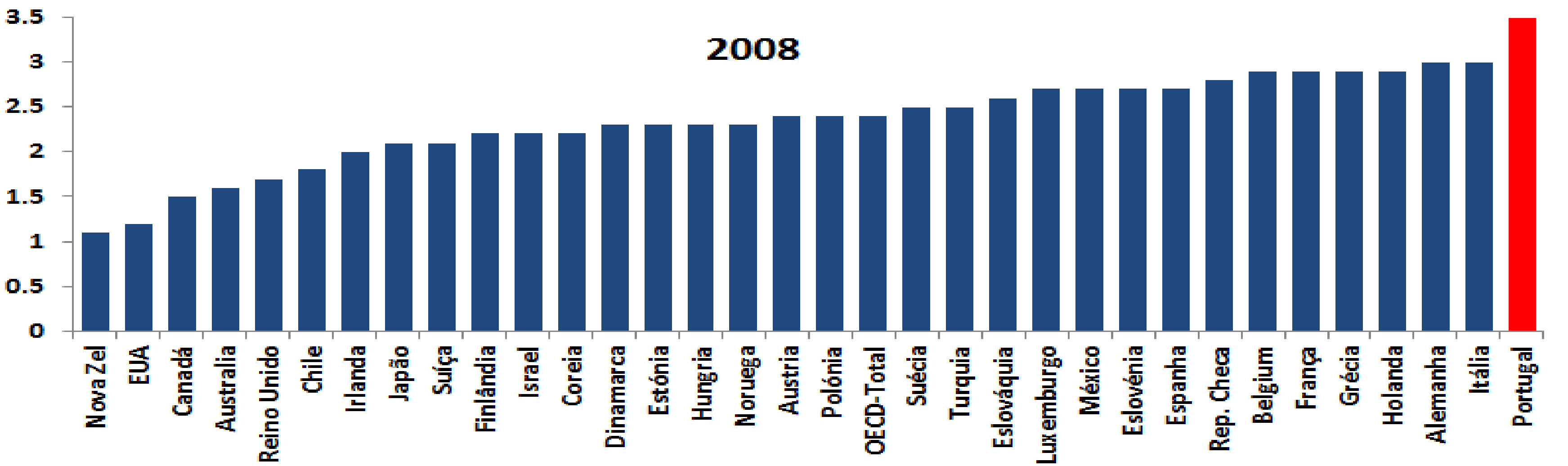
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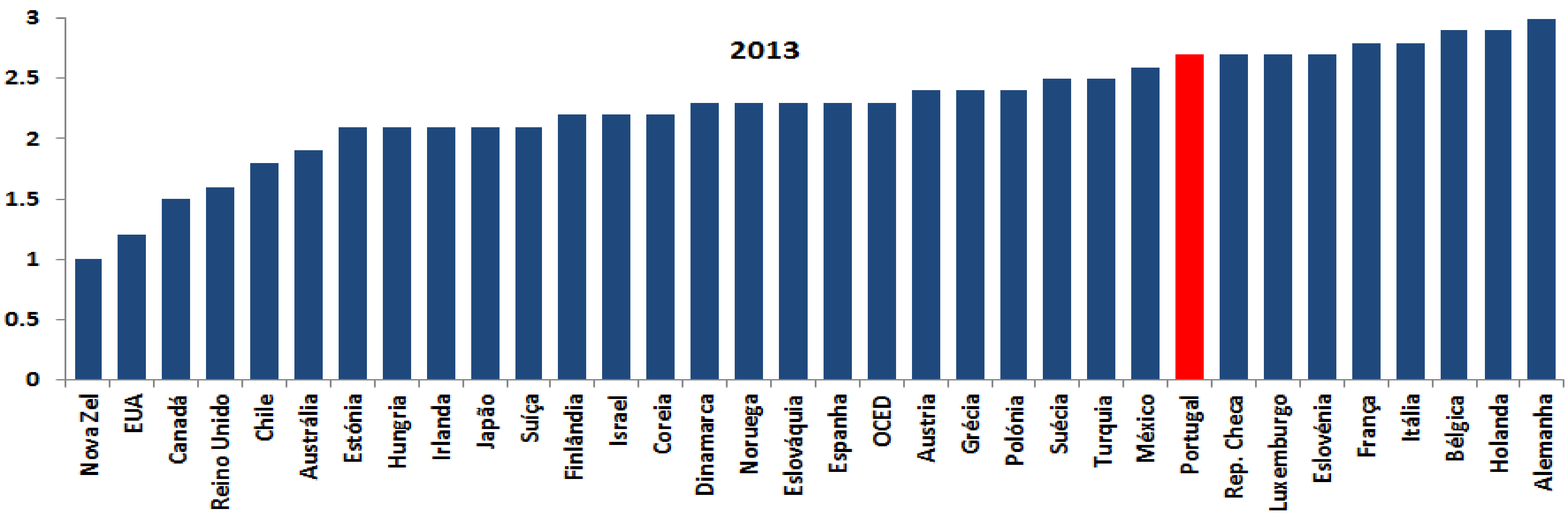
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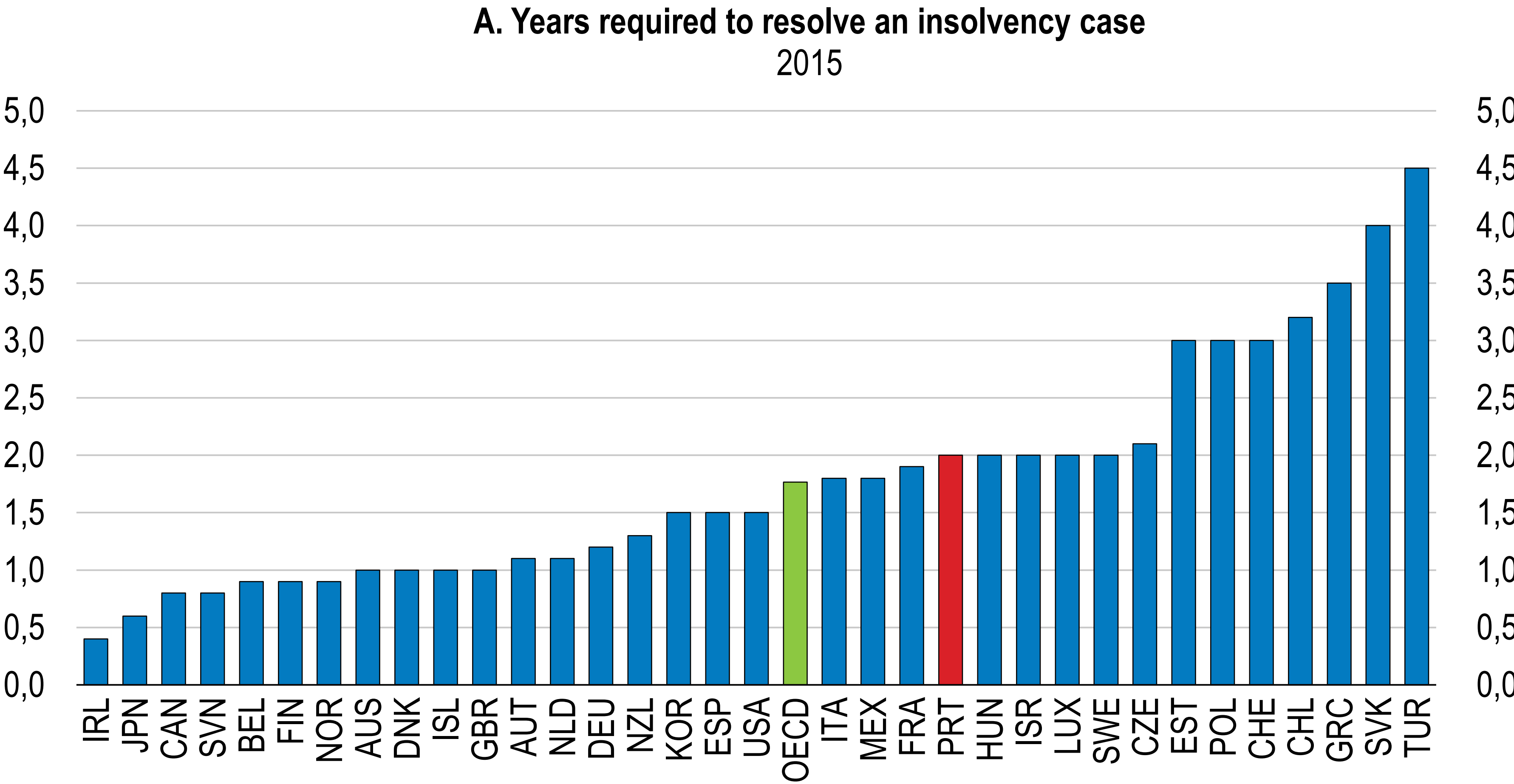
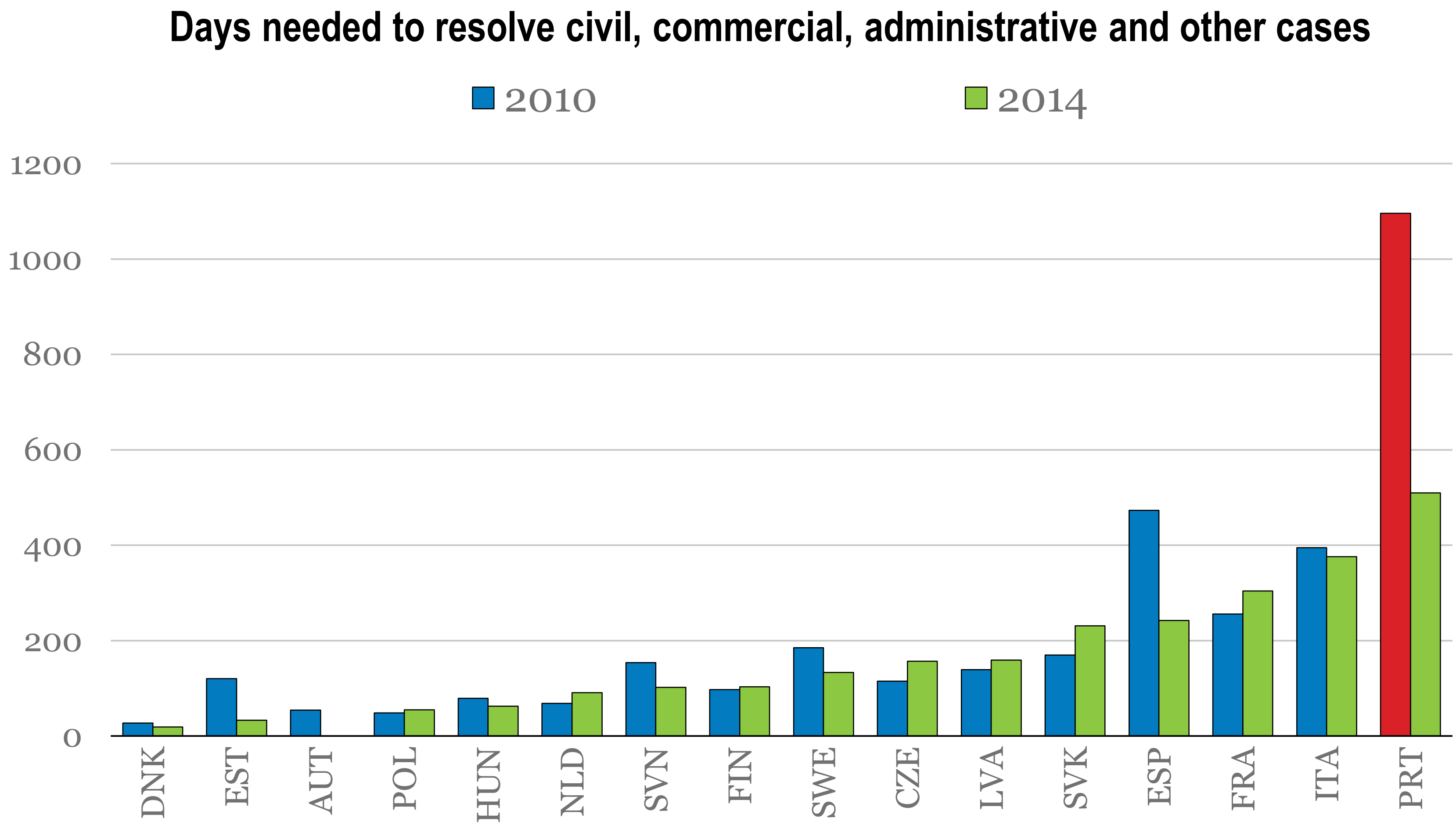
The insolvency process has been reduced (but still too lengthy)



Source: World Bank (2016), *Doing Business 2016: Measuring Regulatory Quality and Efficiency* (database) and APAJ (2015), "Processo Especial de Revitalização", *Turn Analysis*, No. 7, 2nd quarter, Associação Portuguesa dos Administradores Judiciais.

Reforms of the judicial system

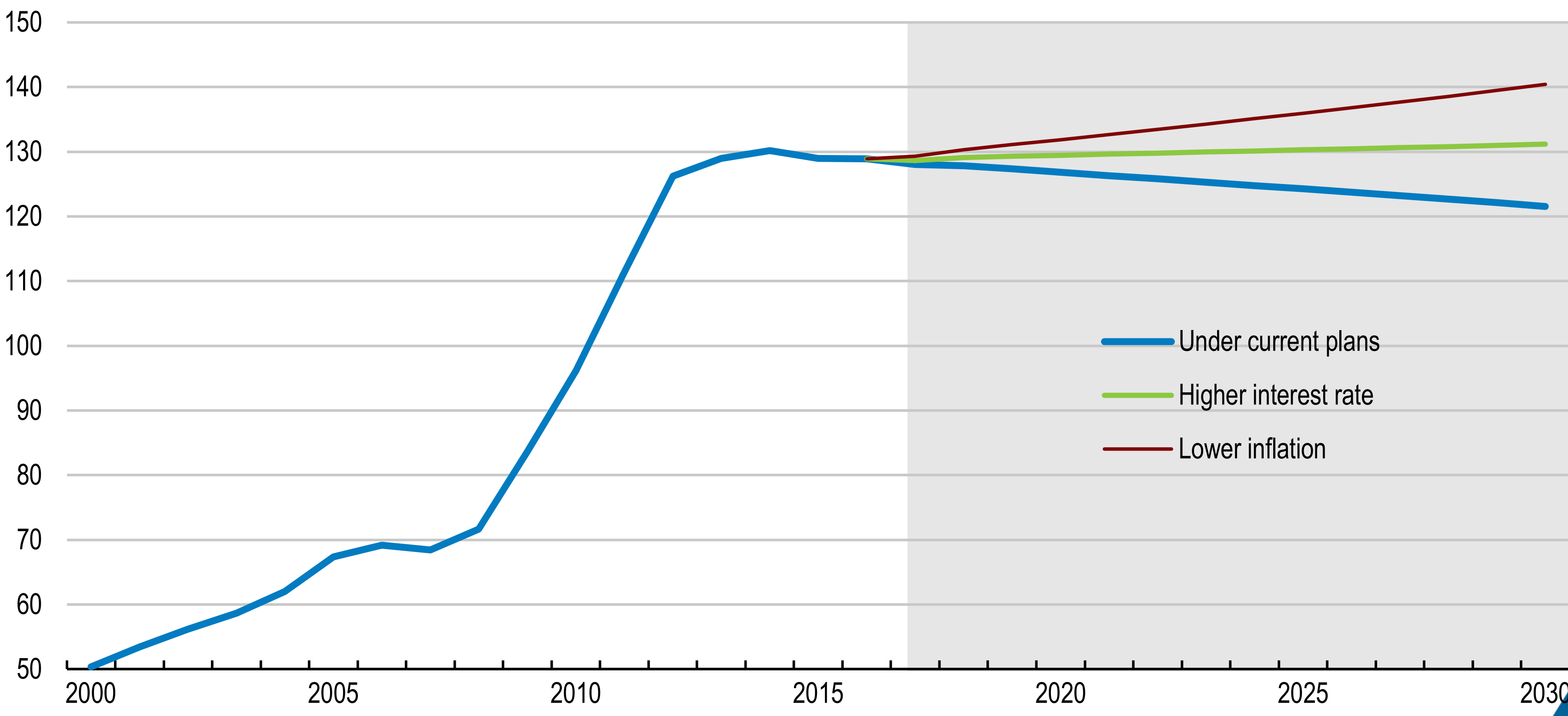


Source: European Commission (2016), *The 2016 EU Justice Scoreboard* and Direcção-Geral da Política de Justiça.

SOME VULNERABILITIES REMAIN

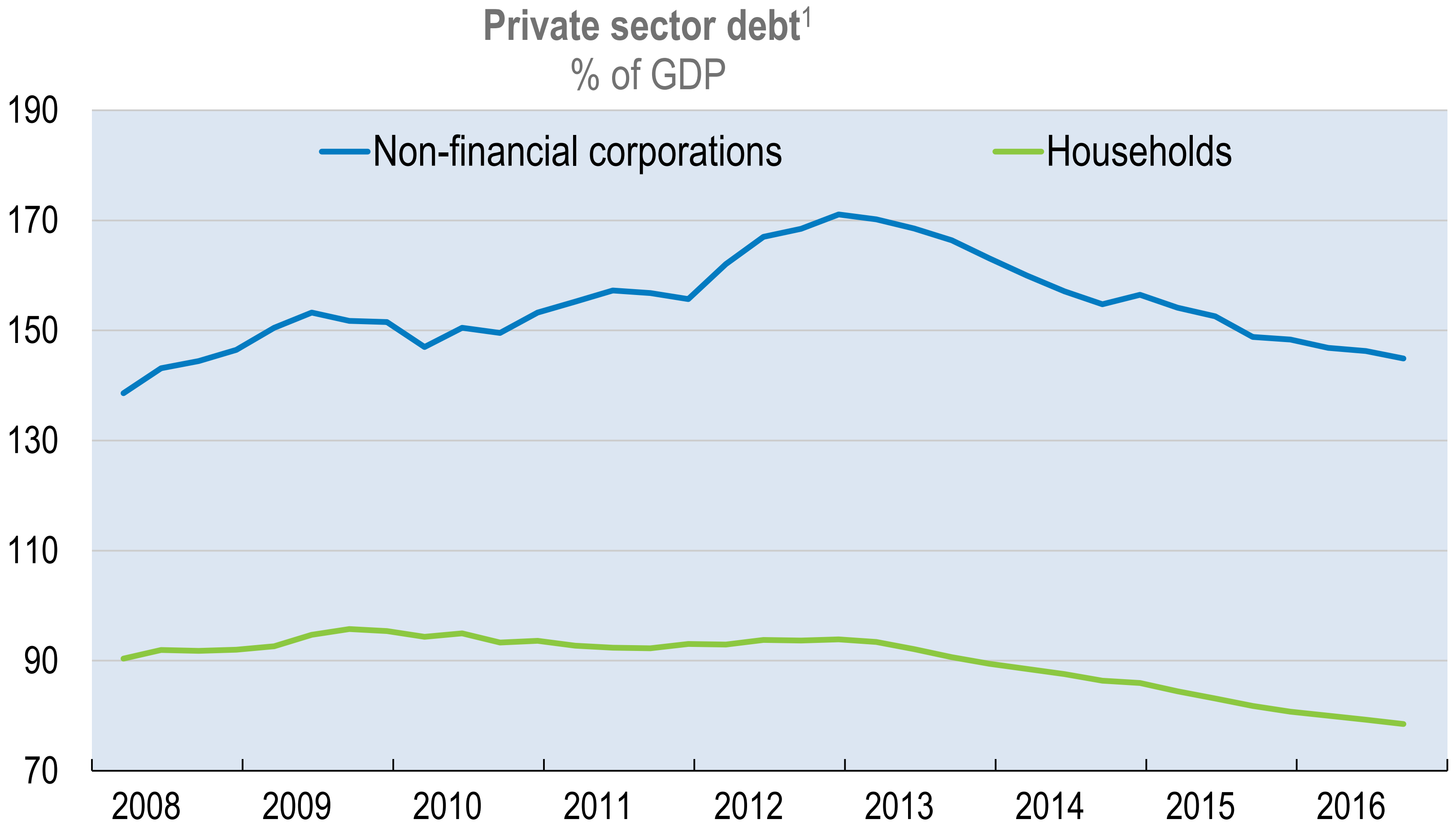
Public debt is high

General government debt, Maastricht definition, per cent of GDP



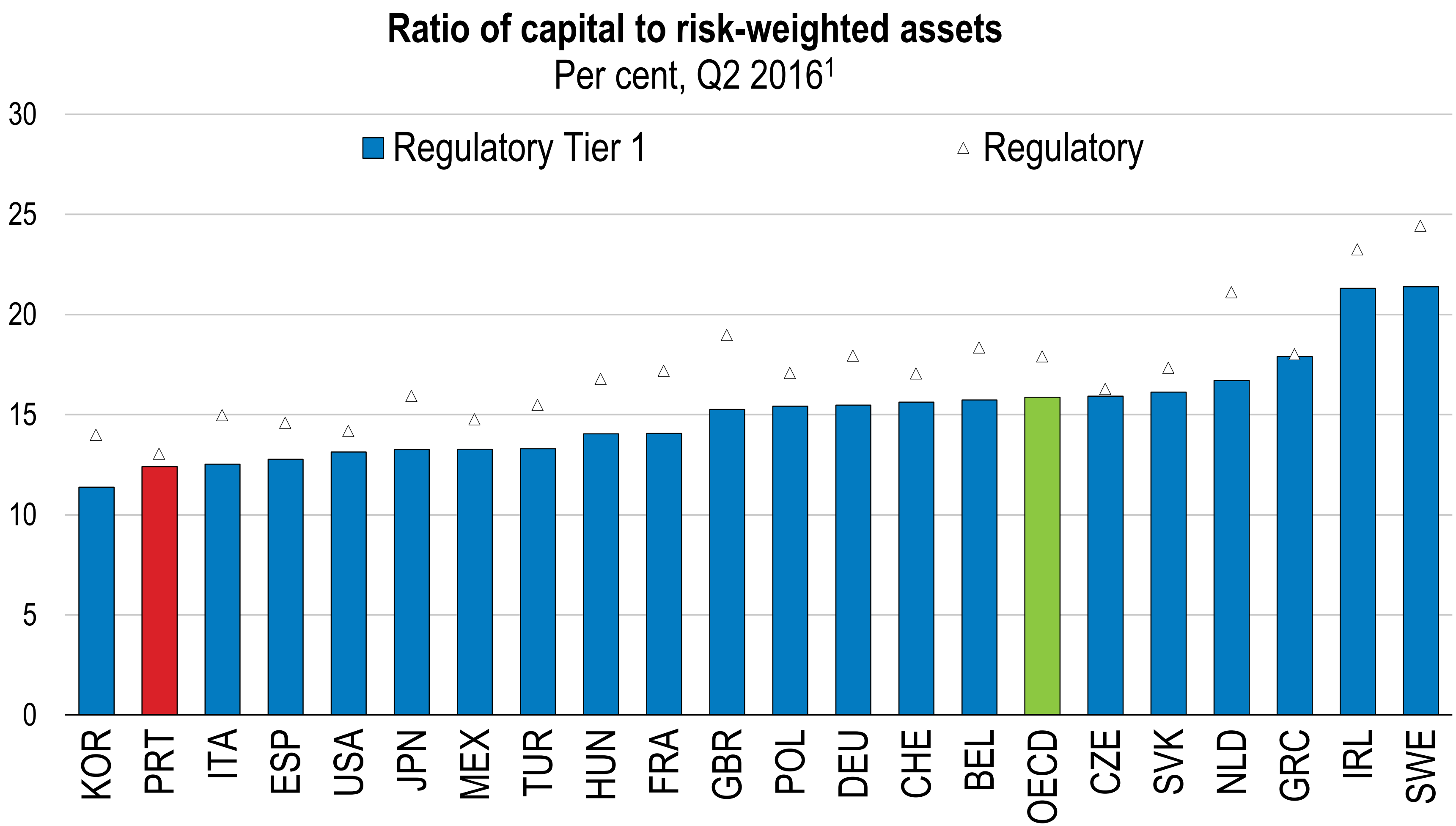
Source: Calculations based on OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database).

Corporate debt needs to go down



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.

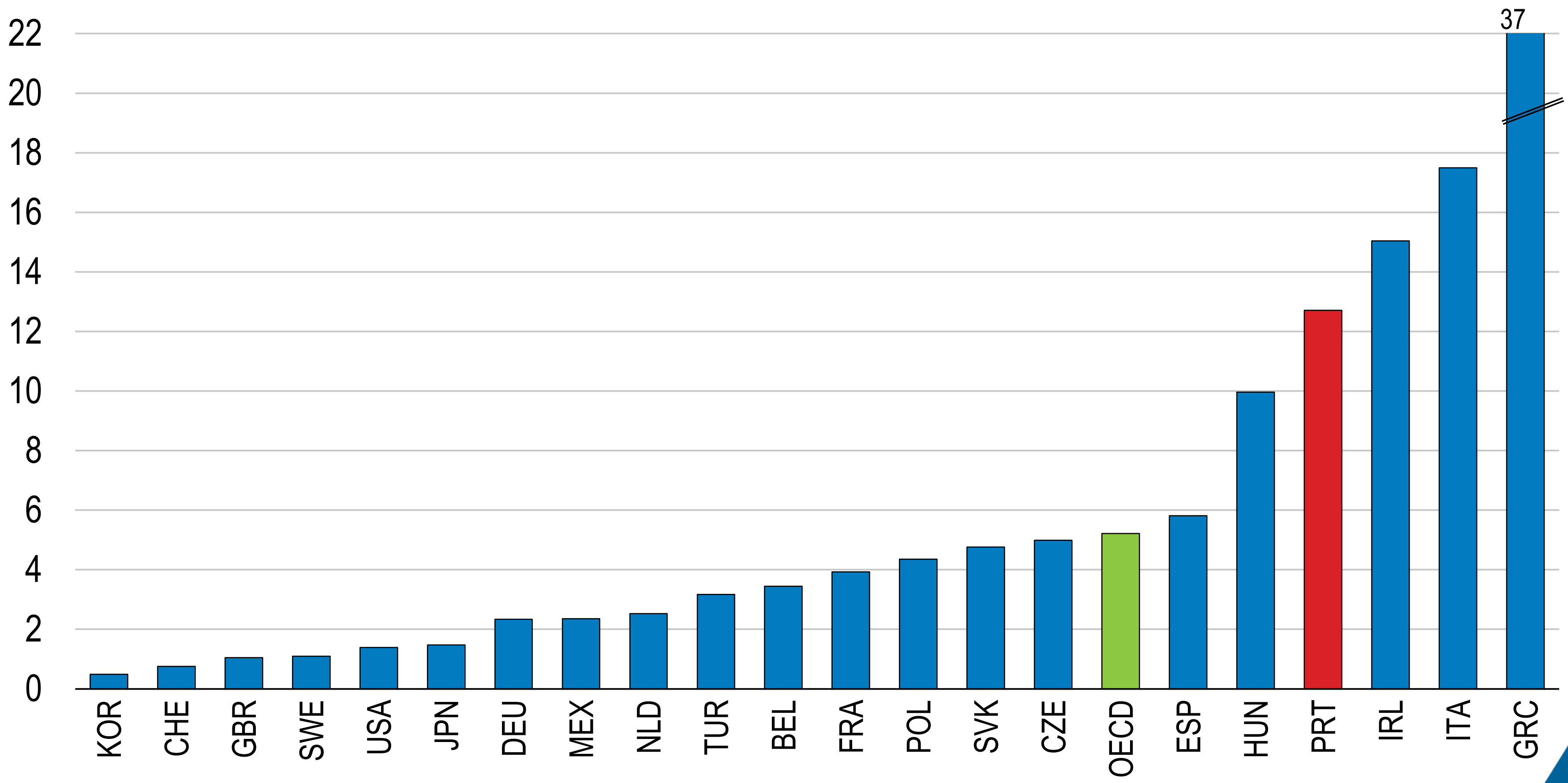
The banking sector remains fragile



Source: International Monetary Fund, Banco de Portugal and European Central Bank.

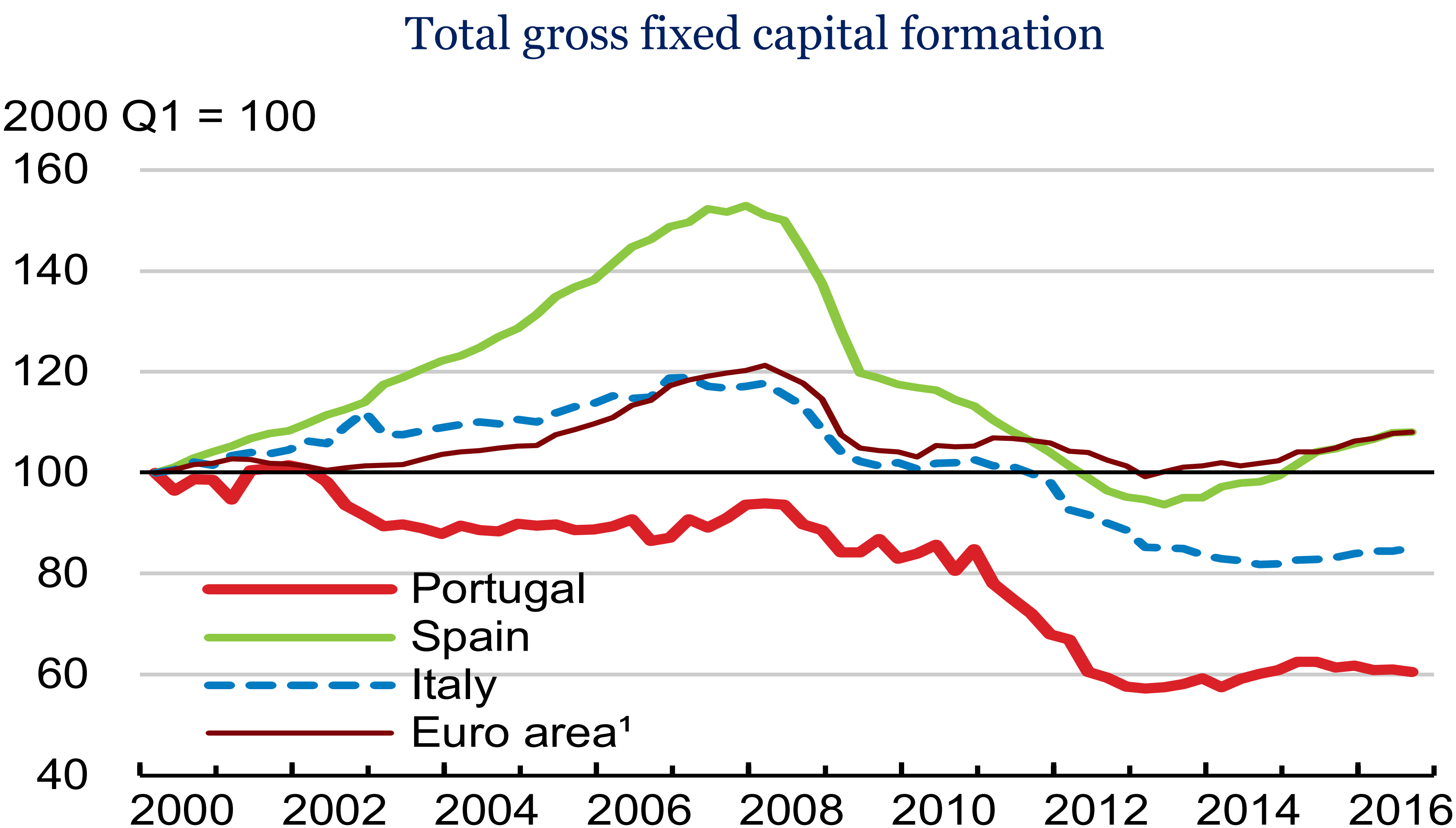
Non-performing loans are high

NPLs as a percentage of total gross loans, Q2 2016



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

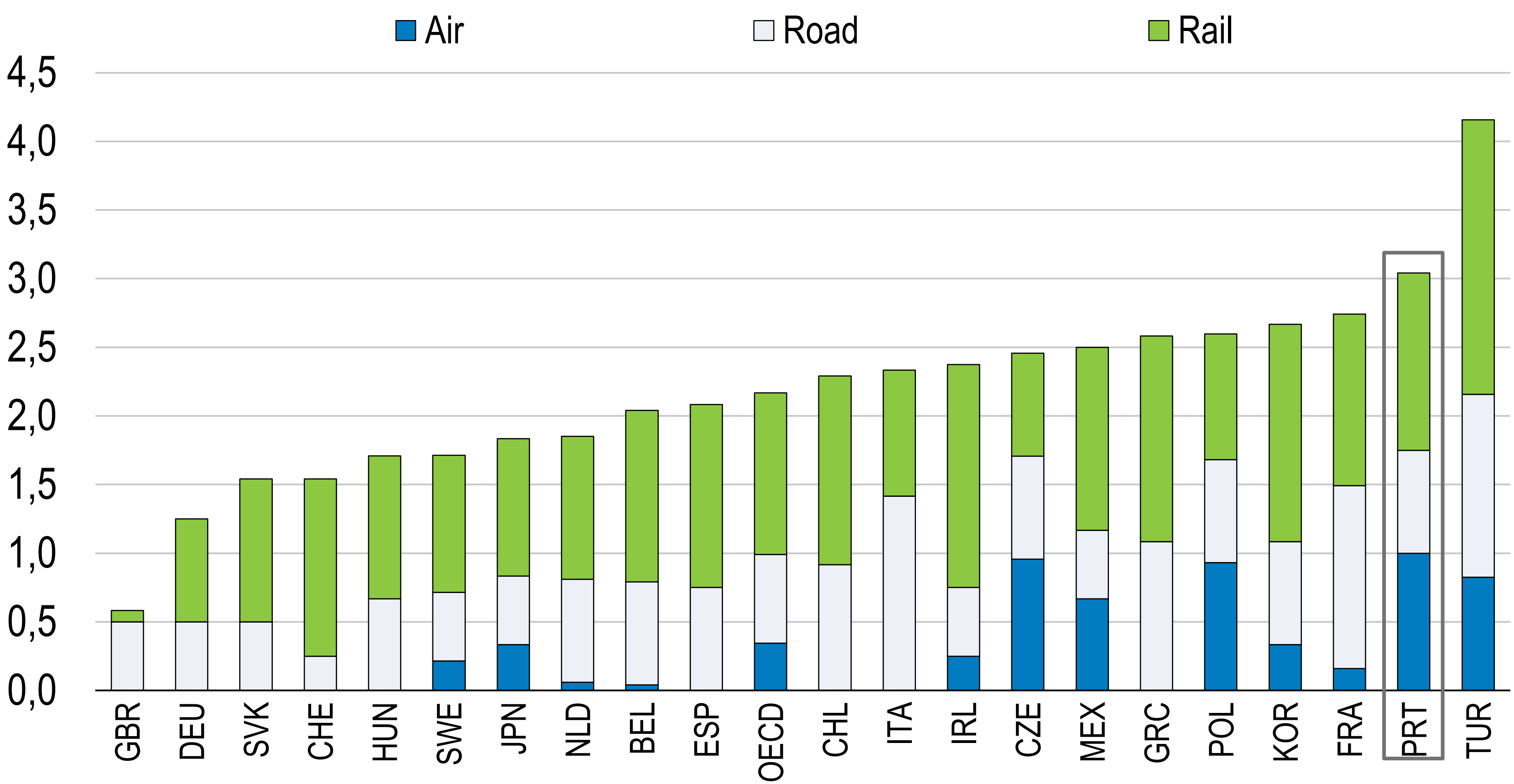
Investment is weak



1. Euro area countries that are also OECD members (including Latvia).
Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database).

Barriers to competition in transport sectors are high

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



Source: OECD (2016), *OECD Product Market Regulation Statistics* (database).

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 monetary policy