PORTUGAL

Lessons from a Bust without a Boom

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2. The Hit (2011-2012)
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THE CRISIS BUILD-UP
(2000-2010)
Portugal 2000-2015: A Bust Without a Boom

Real GDP (CAGR)

Real Aggregate Demand (CAGR)

Debt (as % of GDP)

Source: Datastream; Eurostat; Millennium bcp
The Ugly Duckling

**Real GDP (CAGR, 2000-2010)**

- Portugal: 0.7
- Spain: 2.0

**Debt, as % of GDP (change 2000-2010)**

- Households:
  - Portugal: 32
  - Spain: 38
- NFC:
  - Portugal: 43
  - Spain: 59
- Government:
  - Portugal: 46
  - Spain: 2

Source: Datastream; Eurostat; Millennium bcp
The Ugly Duckling

**Real GDP (CAGR, 2000-2010)**

- Portugal: 0.7
- Germany: 0.8

**Debt, as % of GDP (change 2000-2010)**

- Households: Portugal 32, Germany -12
- NFC: Portugal 43, Germany -2
- Government: Portugal 46, Germany 22

*Source: Datastream; Eurostat; Millennium bcp*
The Ugly Duckling

Real GDP (CAGR, 2000-2010)

Debt, as % of GDP (change 2000-2010)

Source: Datastream; Eurostat; Millennium bcp
Crisis Build-Up: Not That Much Building

Real-estate mania was not the cause of the crisis

Source: Eurostat; Datastream; Millennium bcp
Where Did All the Debt Go?

To the irretrievable depths of private and public consumption

Source: Datastream; Millennium bcp
Together in Sickness, Not in Health

There wasn’t a shred of a boom in the good times, but there was definitely a bust when things darkened.

Source: Datastream; Millennium bcp
The Usual Culprits

Loss of competitiveness...

... compensated for with debt

Source: Datastream; Bank of Portugal; Millennium bcp
THE HIT
(2011-2012)
When Enough Is Enough

**Twin deficits**

- Current Account (as % of GDP)
- Fiscal Balance (as % of GDP)

**Sudden-stop**

- Portuguese 10-year government bond yields

Source: Datastream; Millennium bcp
A BoP Crisis on Steroids

Source: Datastream; Millennium bcp
A Pariah on its Own (Monetary) Homeland

Monetary-policy transmission fragmentation

Source: Datastream; European Central Bank; Millennium bcp
THE STABILIZATION
(2013-...)

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Myth-Busting #1: Exporting One’s Way Out Without FX flex

A miracle born out of necessity

(as % of GDP, moving average 4 quarters)

Exports  Imports  External balance (rhs)

Source: Datastream; Bank of Portugal; Millennium bcp
Textbook BoP Crisis Going in... Not Going out

A real devaluation operated under the yoke of a monetary union

Source: Datastream; Millennium bcp
Myth-Busting #2: Austerity Can Be Fairly Fair

Cumulative change in household disposable income due to simulated fiscal consolidation measures, 2008-12 (% of household disposable income)

Source: IMF, Fiscal Policy and Income Inequality, January 2014
From Basket-Case to Poster-Boy

Financial consolidation

Source: Datastream; European Commission - Winter Forecasts (February 2016); Bank of Portugal; European Central Bank - Financial Stability Review; Millennium bcp
Partying with Friends

### Government bonds bought under PSPP (as % of total outstanding)*

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*Comprises both T-bills and bonds

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### Differential from 10-year German bonds (b.p.)

- **Portugal**
- **Spain**
- **Greece (rhs)**

**Source:** Datastream; IGCP; Nomura Research, 11 March 2016; European Central Bank; Millennium bcp
Recent Developments

No scope for complacency

Source: Datastream; Millennium bcp
LESSONS From a Bust Without a Boom

- **Lesson #1**: If you work hard for a bubble (massive debt build-up), at least get one!

- **Lesson #2**: Whenever aggregate consumption systematically over performs GDP the chances are we’ll get some sort of BoP trouble.

- **Lesson #3**: Never take advantage of other people’s mistakes (especially coming from fickle investors): risk blurring will one day come into focus!

- **Lesson #4**: For a small-open economy it is crucial to keep enhancing competitiveness through reforms aimed at making product and factor markets flexible. Lower corporate taxes also help.

**THE GOOD NEWS**: Markets and peer pressure will ensure that economic policy doesn’t go astray.
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