



MINISTÉRIO DAS FINANÇAS

# Portugal: restoring credibility and confidence

**Vítor Gaspar**

Peterson Institute, Washington  
March 19, 2012

# Outline

1. On the way to become the difficult Portuguese case
2. The Economic Adjustment Program
3. Fiscal consolidation
4. Deleveraging and financial stability
5. Structural transformation
6. Conclusion: how will it work?

# **ON THE WAY TO BECOME THE DIFFICULT PORTUGUESE CASE**

# Portugal's imbalances exposed in the context of the economic and financial crisis

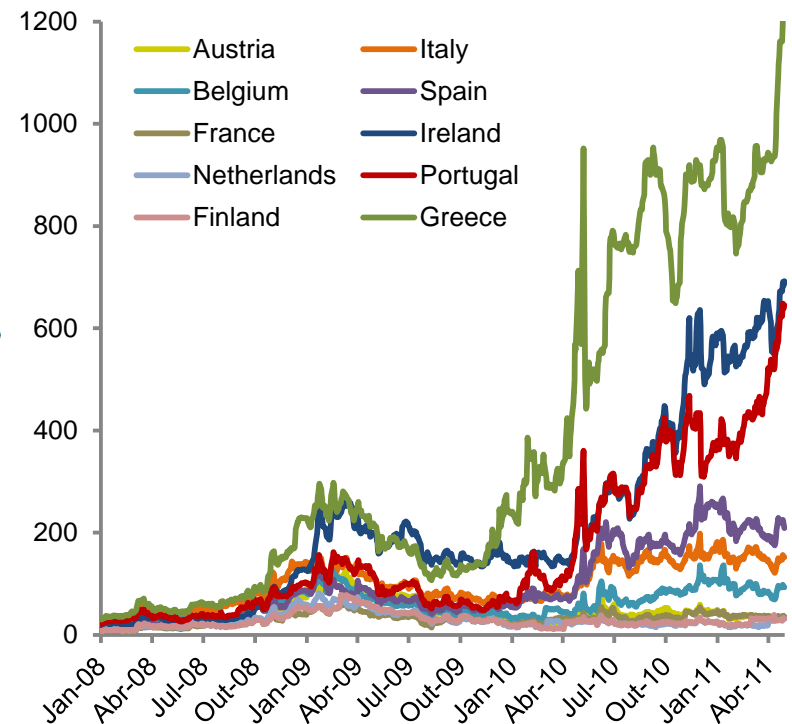
Macro-economic imbalances and structural weaknesses that have been accumulated over more than a decade

**1. Unsustainable public finances**

**2. Over-indebtedness**

**3. Anemic economic growth and low productivity**

## 10-year Government bond yields Spread against Germany in basis points

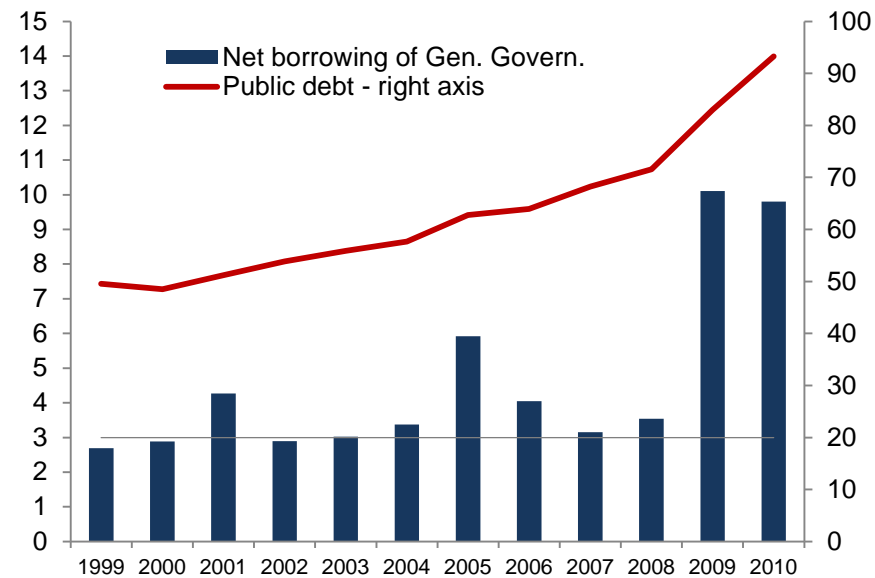


Source: Bloomberg

# Unsustainable public finances

## Persistent government deficits and increasing public debt

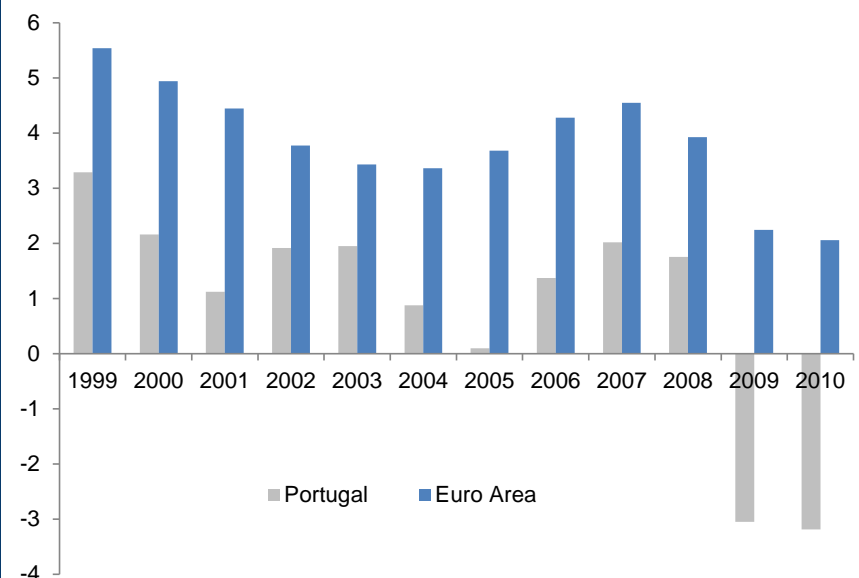
**Deficit and public debt**  
As a percentage of GDP



Source: INE, Bank of Portugal and Ministry of Finance

## Fragile public finances

**Structural Current Primary Balance**  
As a percentage of GDP



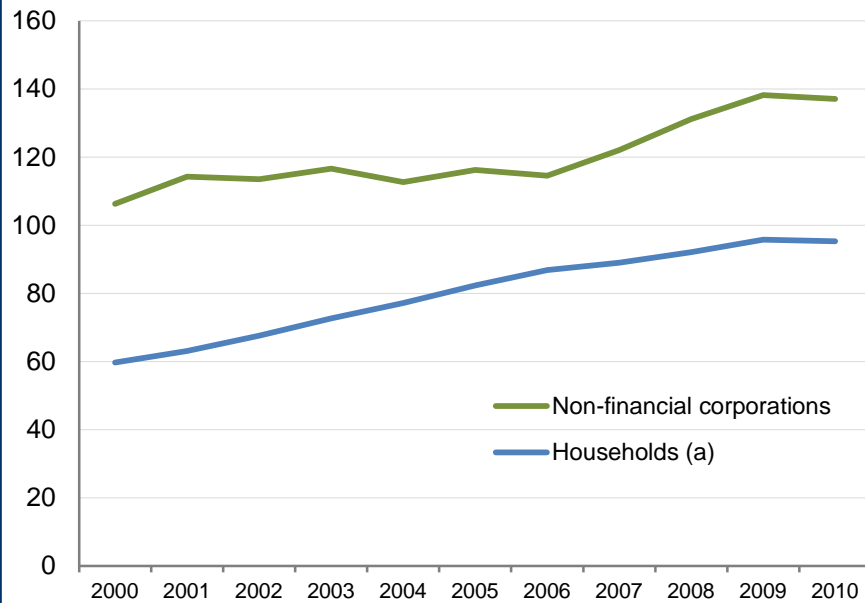
Source: AMECO and Ministry of Finance



# Debt accumulation by households and firms

## Increasing indebtedness of the private sector

Debt of the Households and Non-financial Corporations  
As a percentage of GDP

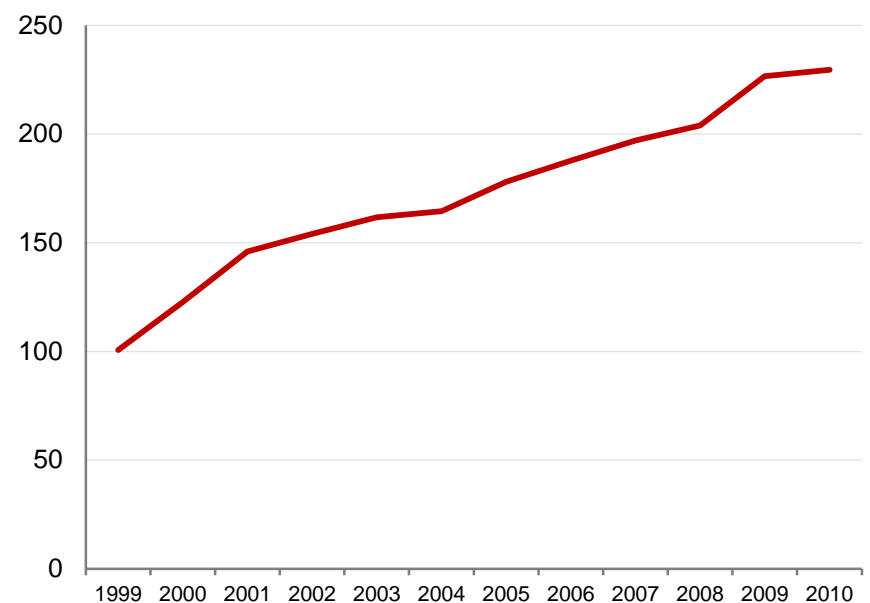


(\*) Financial Debt

Source: Bank of Portugal

## increasing external debt

Portuguese gross external debt  
As a percentage of GDP



Source: Bank of Portugal

# Insufficient conditions to foster economic growth

## Obstacles

- Restrictions on the market for corporate control
- Protection of several sectors of the economy
- Weak conditions to entrepreneurial activity
- Poor functioning of the justice system
- Rigidity of the labor market

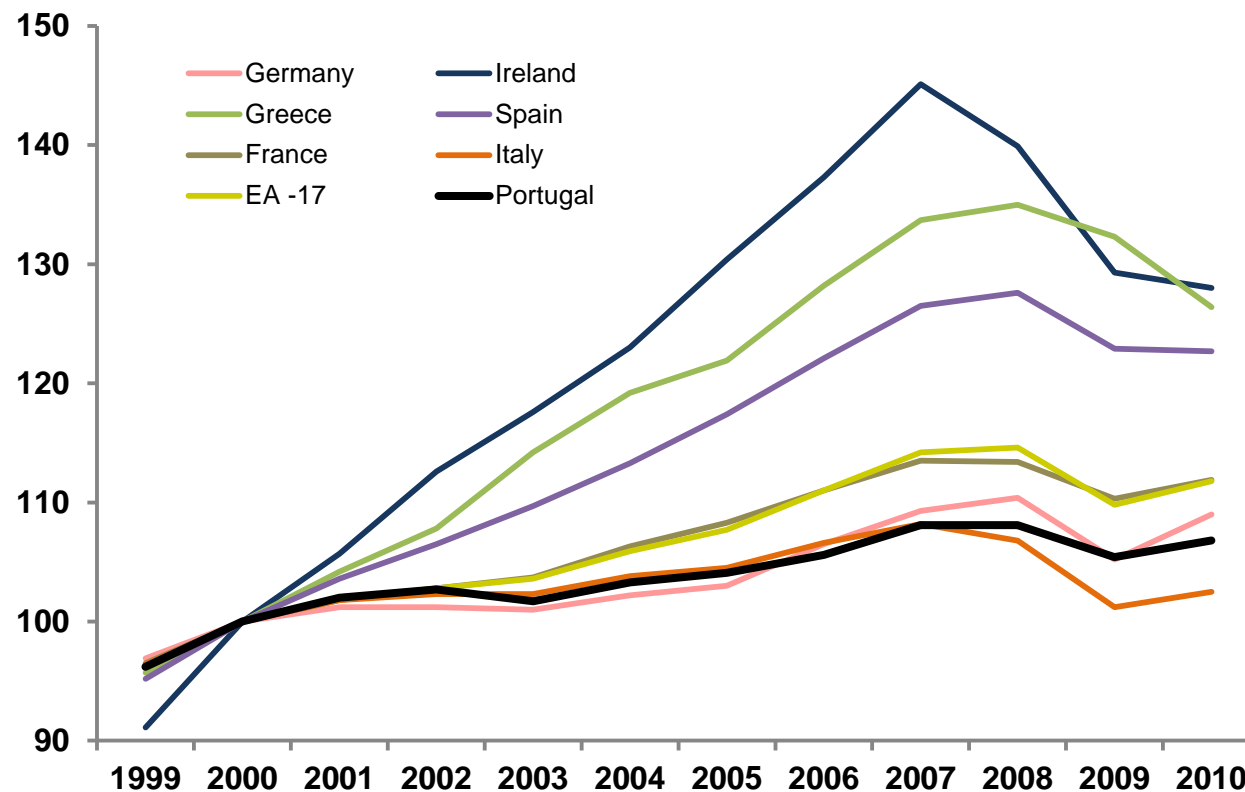
## Consequences

- Insufficient attraction of direct foreign investment
- Capital accumulation in non-tradable goods and services sectors
- Lack of competition in several sectors
- Low levels of innovation and productivity growth
- High levels of youth and long-term unemployment

# Disappointing performance of the Portuguese economy

## GDP – Portugal and some of its European partners

2000 = 100



In the period 1999-2010, the GDP of Portugal grew at an annual average rate of 1%, compared with 1.4% in the euro area



# **THE ECONOMIC ADJUSTMENT PROGRAM**

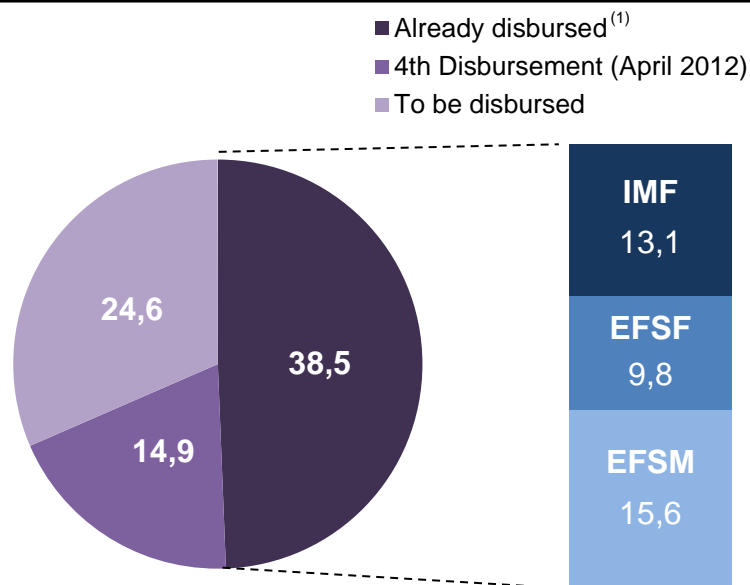


# Adjustment Program agreed with the IMF, EC and ECB in April 2011

## Key facts

- The Economic Adjustment Program covers the financing needs of General Government for the **period 2011 to mid-2014**.
- It comprises a financial package amounting to **EUR 78 billion in loans**, including EUR 12 billion for banking sector recapitalization.
- Each disbursement depends on the technical mission's **quarterly assessment about Portugal's performance** on the implementation of the Adjustment Program.

## Financial package EUR Billions

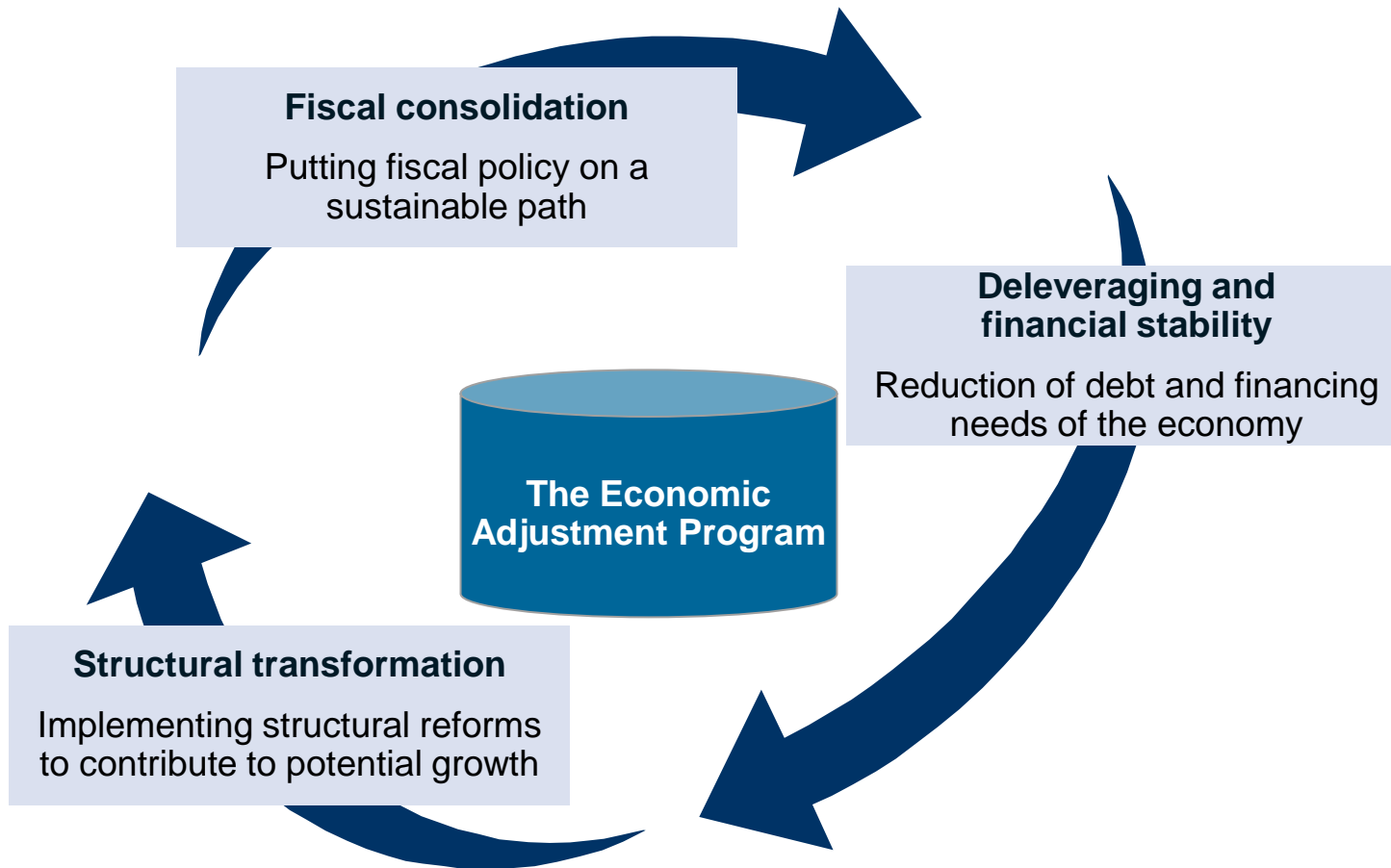


(1) Net issuances

Source: IGCP, February 2012

After the **3<sup>rd</sup> Review** (completed in February 28) the program implementation was **on track**

# A balanced Program to cope with the major challenges of the Portuguese economy



The Economic Adjustment Program **protects Government financing** from market pressures, allowing an **orderly adjustment of imbalances** and **time to build up confidence and credibility.**

# Reducing uncertainty: Portugal is delivering in all fronts

At the start of the Program (in May 2011), Portugal faced a **very uncertain outlook**

## Main risks

- 1 Weakening of political support for the Program
- 2 Unfavorable macro-economic developments
- 3 Missing the fiscal targets
- 4 Uncertainty regarding the stability of the financial sector
- 5 Insufficient pace of structural reforms

## Major outcomes

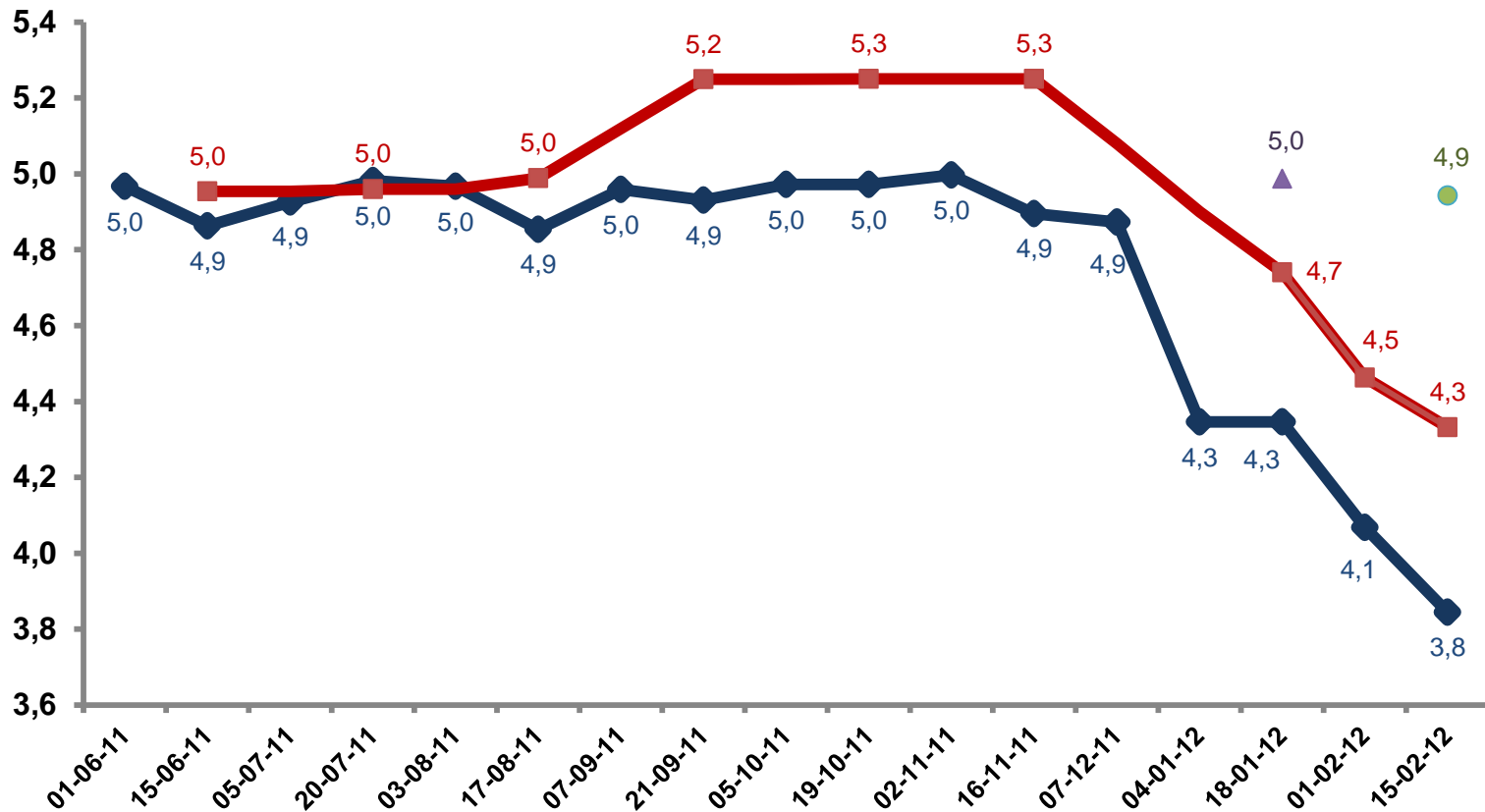
- Broad political consensus
  - Social support to the Program
- 
- Milder recession than expected in 2011
  - Stronger than expected external adjustment
  - Dynamic exports
- 
- Major reduction in overall and structural deficits
  - Progress in institutional reforms
- 
- Increase in banks' capital
  - Reduction of credit-to-deposit ratio
  - Increase in transparency: on-site inspections
- 
- Success of privatizations process
  - Labor market tripartite agreement
  - Broad range of implemented measures

# A turning point in Treasury financing

## Portuguese Treasury Bills

Weighted average yield  
Percentage

- 3 months
- ▲ 11 months
- 6 months
- 12 months



Note: Auction announcement date

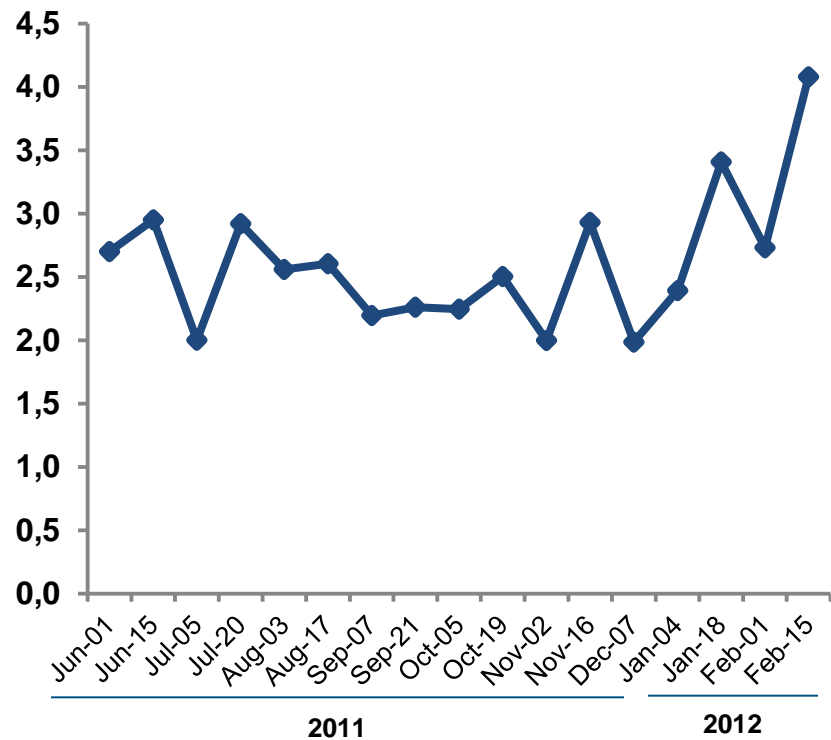
Source: IGCP



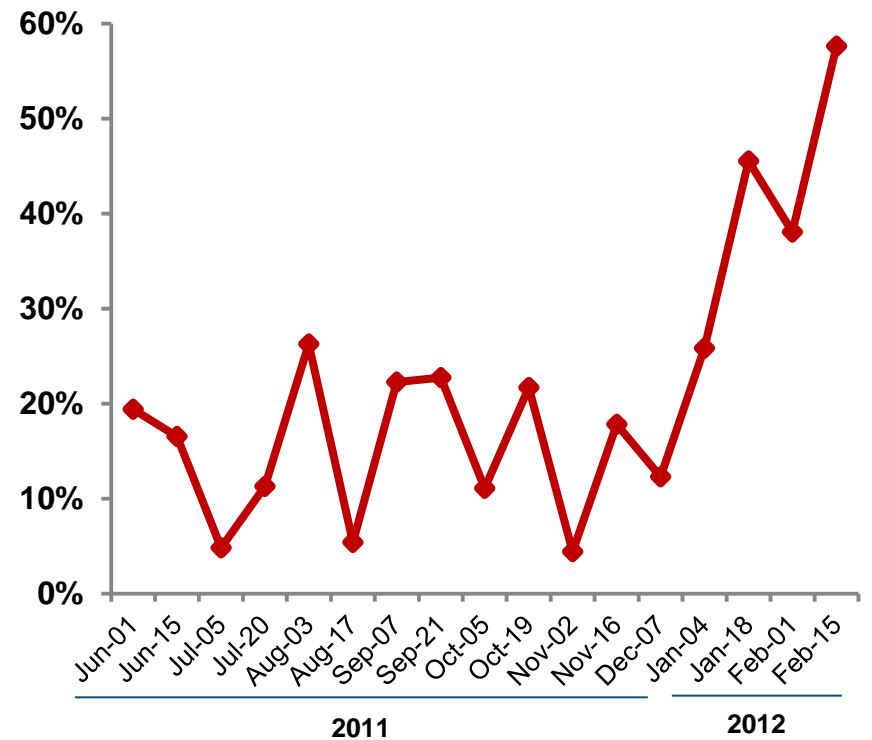
# A turning point in Treasury financing

## Portuguese Treasury Bills

Weighted<sup>(1)</sup> Bid-to-cover ratio



Weighted<sup>(1)</sup> international allocation  
Percentage



(1) Weighted average of 3 and 6 months auctions

Note: Auction announcement date

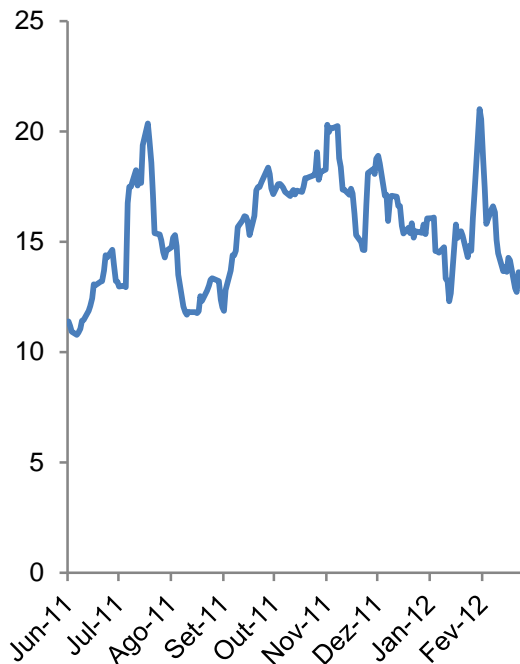
Source: IGCP



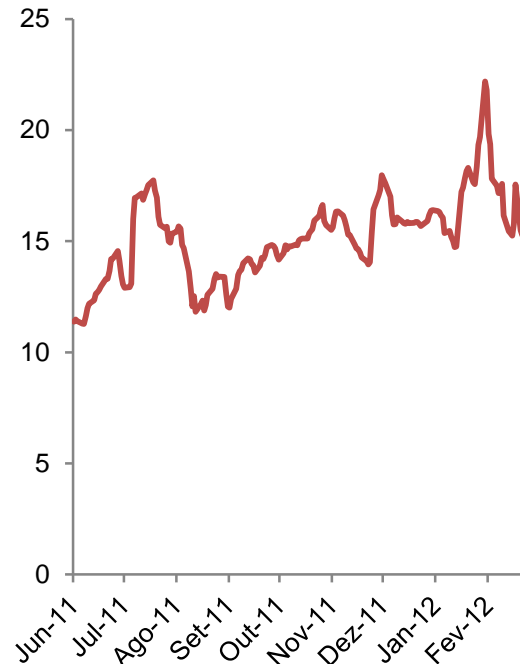
# A turning point in Treasury financing

## Portuguese Treasury Bonds

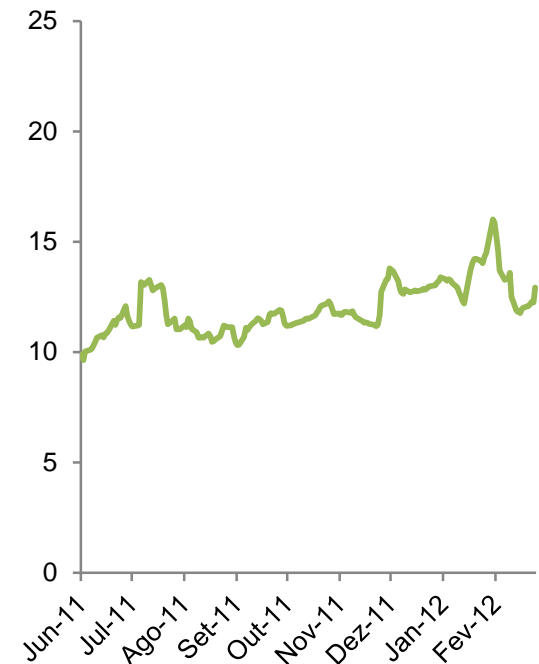
**2 Years, yields**  
Percentage



**5 Years, yields**  
Percentage



**10 Years, yields**  
Percentage



Source: 2 years – Bloomberg; 5 and 10 years – Reuters



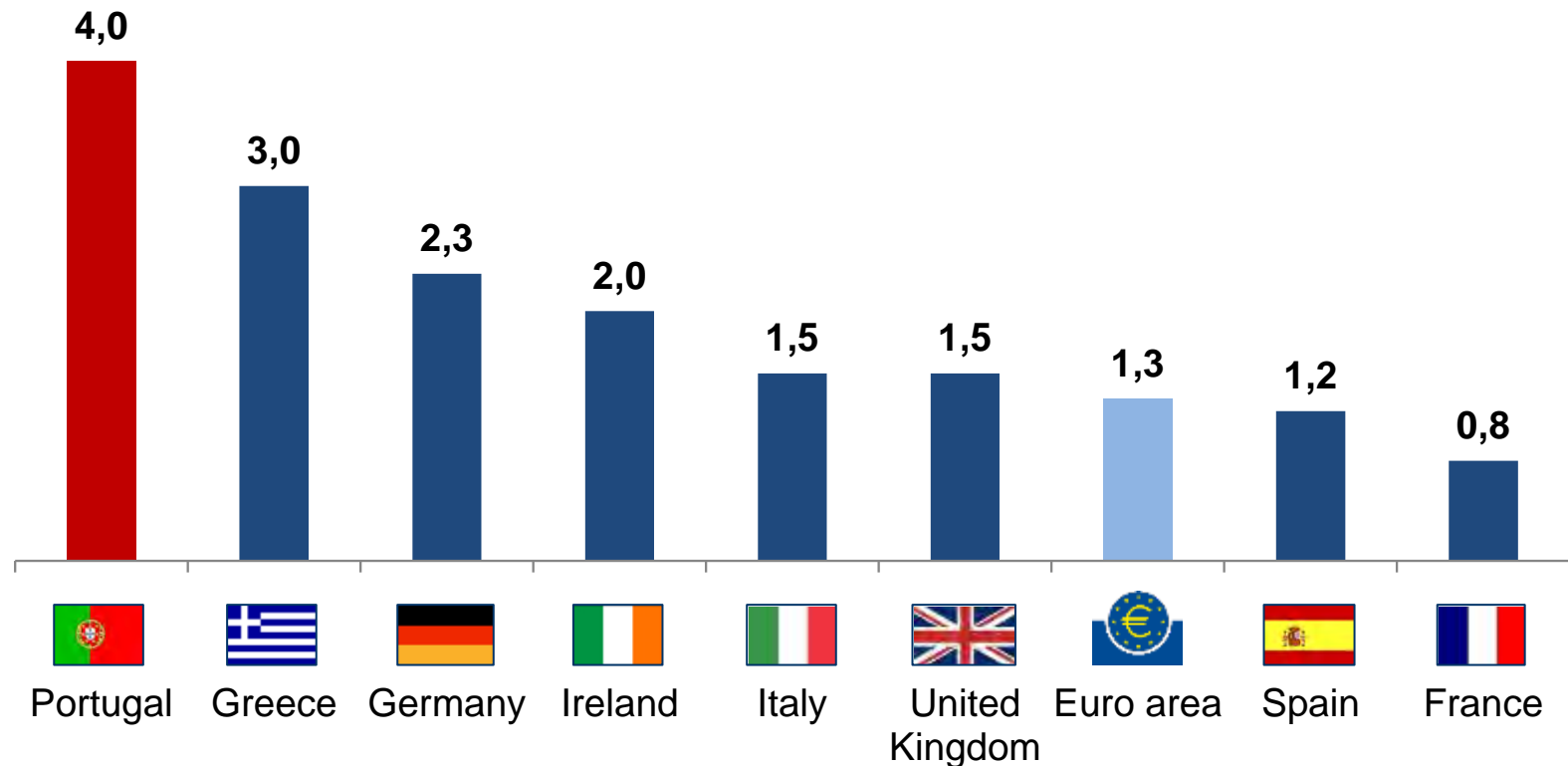
# FISCAL CONSOLIDATION



# Portugal's structural adjustment stands out

## Structural adjustment 2010-2011<sup>(1)</sup>

Percentage points of potential GDP

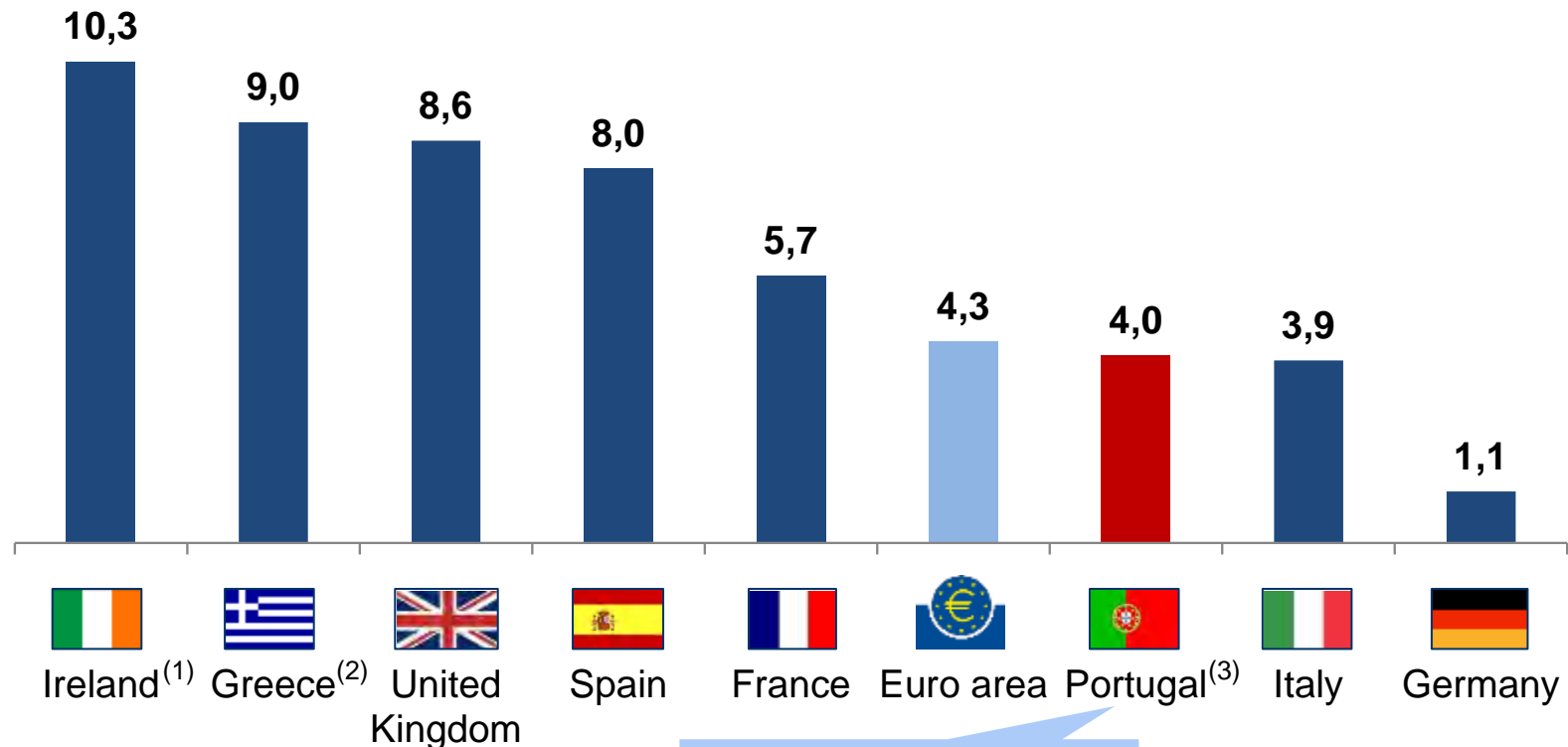


(1) Change in General Government Cyclically Adjusted Balance

Source: IMF, "Fiscal Monitor Update", January 2012

# Overall deficit below the average for euro area

## Overall deficit 2011 As percentage of GDP



(1) IMF, Staff report for the fourth review, 29 November 2011

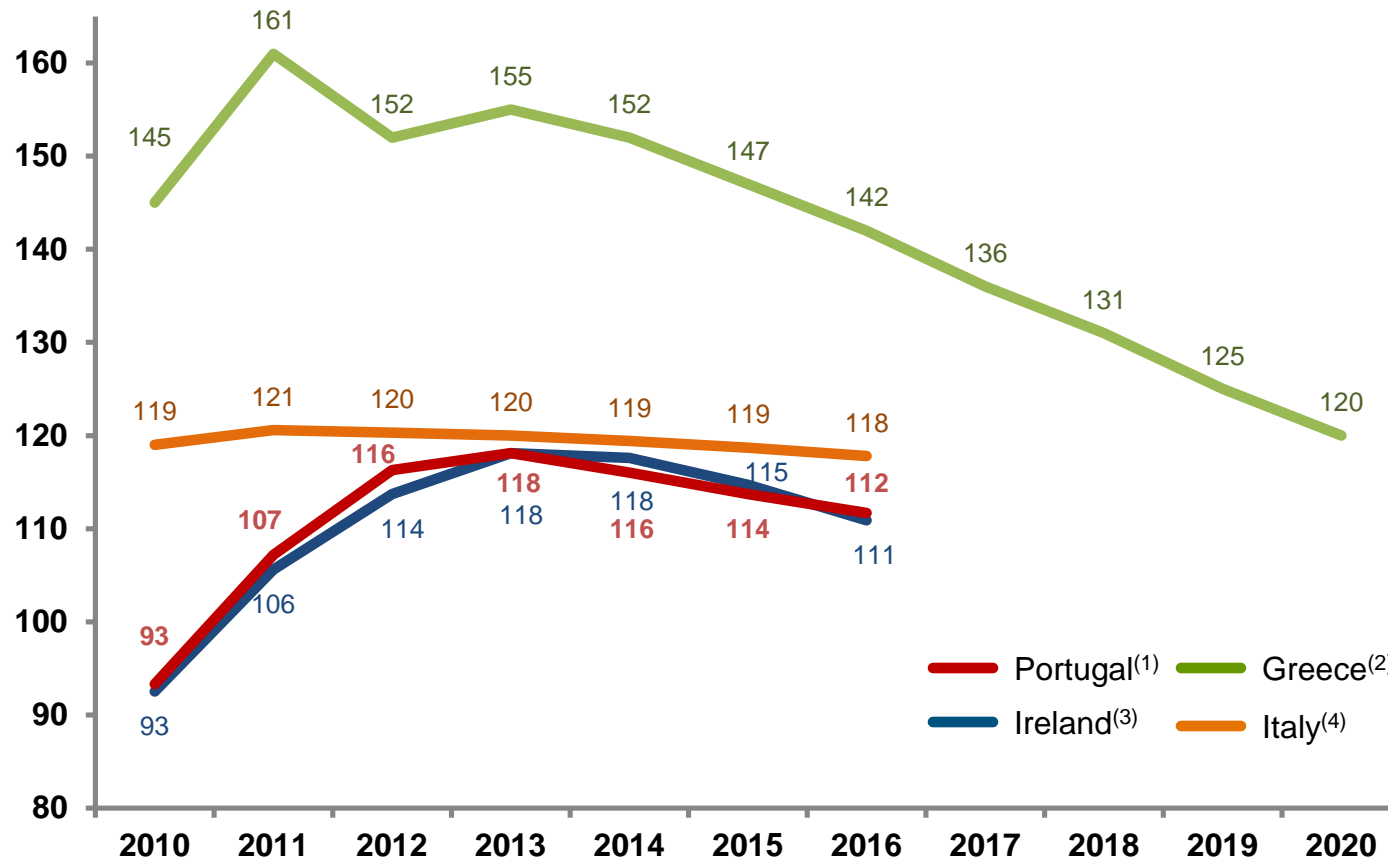
(2) IMF, Staff report for the fifth review, 30 November 2011

(3) Ministry of Finance, January 2012

Source: IMF, "Fiscal Monitor Update", January 2012 (except for PT, IR and GR for which data is not available)

# Portuguese public debt is sustainable

## Government Debt Sustainability Framework: Baseline As percentage of GDP



(1) Staff report: Second Review Under the Extended Arrangement; December, 7 2011

(3) Staff report: Fourth Review Under the Extended Arrangement; November, 29 2011

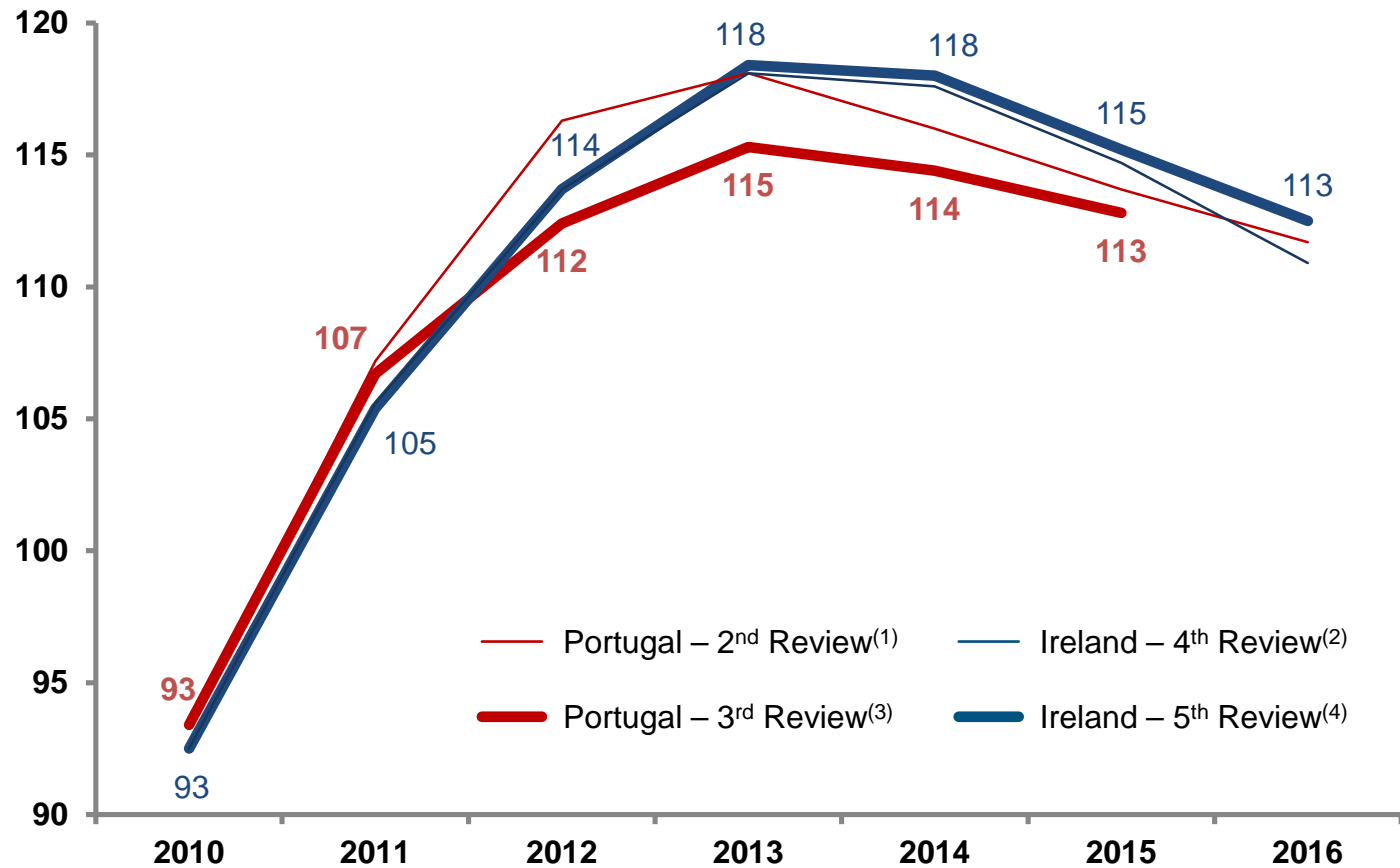
Source: IMF

(2) Staff report: Fifth Review Under the Stand-By Arrangement; November, 30 2011

(4) Staff report for the 2011 Article IV Consultation; June, 20 2011

# Portuguese public debt is sustainable

## Government Debt Sustainability Framework: Baseline As percentage of GDP



(1) Staff report: Second Review Under the Extended Arrangement; December, 7 2011

(3) Third Review; February 2012

Source: IMF

(2) Staff report: Fourth Review Under the Extended Arrangement; November, 29 2011

(4) Staff report: Fifth Review Under the Extended Arrangement; February, 13 2012

# Important progress in the institutional reform front

NON-EXHAUSTIVE

	Major actions	Next challenges
Public financial management	<ul style="list-style-type: none"><li>▪ Approval of the <b>Spending Commitments' Control Law</b></li><li>▪ Establishment of the <b>Portuguese Public Finance Council</b></li><li>▪ <b>Adjustment Program</b> for the Autonomous Region of <b>Madeira</b></li><li>▪ Creation of the new <b>Tax and Customs Authority</b></li></ul>	<ul style="list-style-type: none"><li>▪ Improve <b>budgetary control</b> across all levels of Public Administration</li><li>▪ Strategy to clear <b>stock of arrears</b></li><li>▪ Changes to national law in order to include the golden rule and the debt reduction rule from the <b>Treaty on Stability, Coordination and Governance</b></li></ul>
Public Administration	<ul style="list-style-type: none"><li>▪ Reduction of <b>management positions</b> (27%) and <b>administrative units</b> in central administration (40%)</li></ul>	<ul style="list-style-type: none"><li>▪ Extend streamline measures to <b>regional and local administration</b></li></ul>
SOEs and PPPs	<ul style="list-style-type: none"><li>▪ Significant <b>cost reductions in SOE</b> (e.g.: voluntary redundancy programs)</li><li>▪ Awarded a contract to <b>review all PPP contracts</b> to a top-tier accounting firm</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Operational balance for SOEs</b> as a whole by end-2012</li><li>▪ New fiscally-prudent <b>PPPs institutional framework</b>: enhanced role of MoF</li></ul>

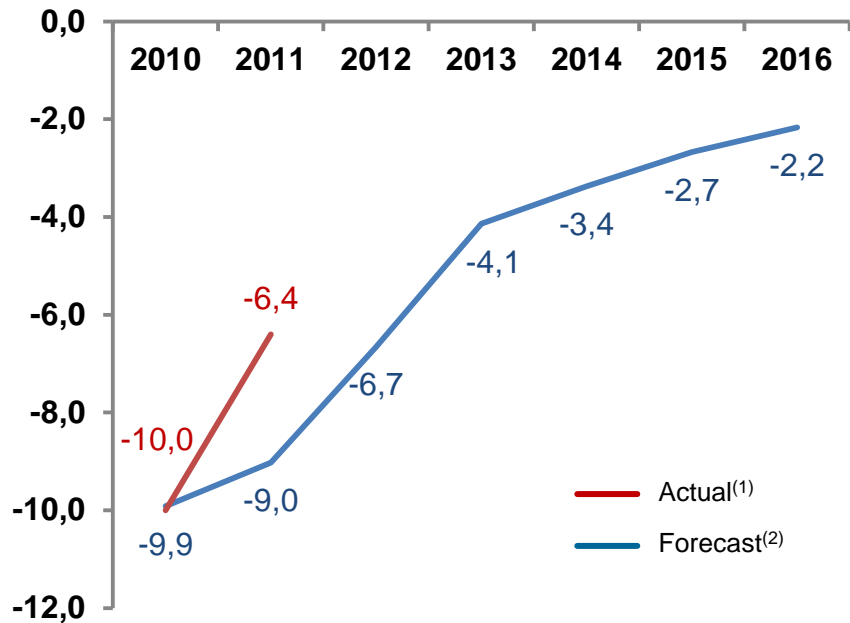
# DELEVERAGING AND FINANCIAL STABILITY

# Stronger than expected external adjustment

## Better performance of current account than initial projections

### Current account

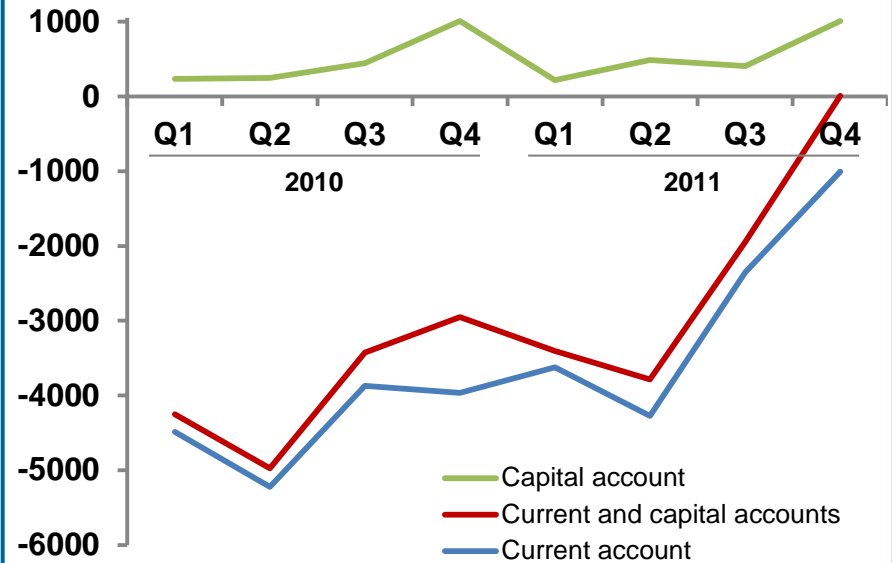
As a percentage of GDP



## External surplus in Q4

### Balance of payments

EUR Millions



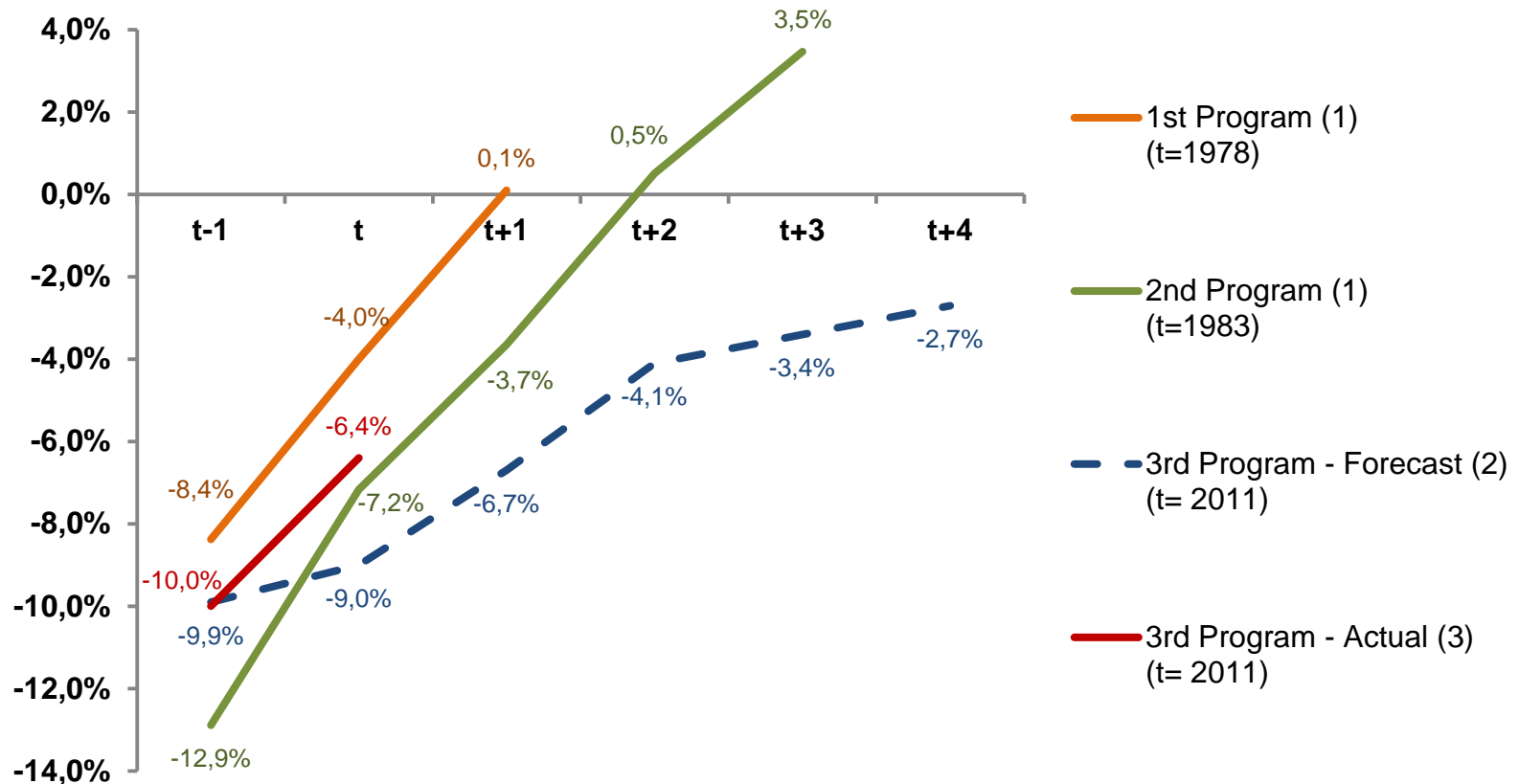
(1) Bank of Portugal, BP Stat, February 2012;

(2) IMF, Staff report: Request for a Three-Year Arrangement Under the Extended Fund Facility, May 2012

# Fast correction of external imbalances under adjustment programs

## Current account

As a percentage of GDP,  $t$  = first year of the Adjustment Programs



(1) Bank of Portugal, Long series

(2) IMF, Staff report: Request for a Three-Year Arrangement Under the Extended Fund Facility, May 2012

(3) Bank of Portugal, BP Stat, February 2012



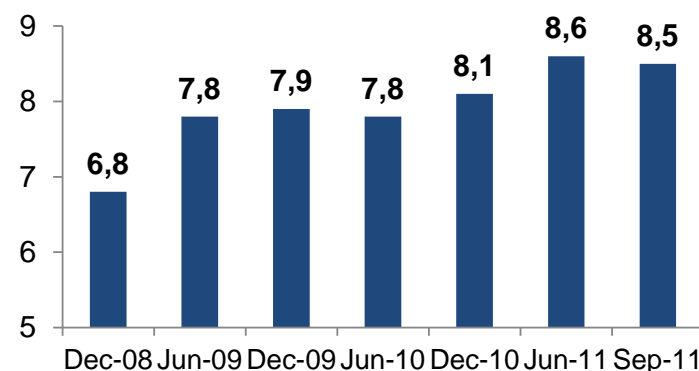
# Reinforcement of banks' capital and deleveraging process are ongoing

## Key achievements

- **Core Tier 1 target of 9%** to be reached by end-June 2012, following a prudent evaluation of sovereign debt exposures
- **Special on-site inspections** confirmed the robustness of capital adequacy
- **Regulatory framework was improved:** legislation on early intervention, resolution and deposit insurance

Reinforce  
ment of  
banks'  
capital

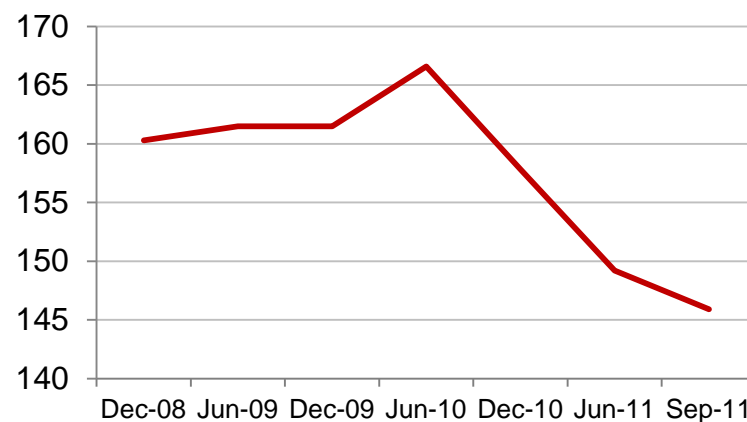
Core Tier 1 ratio<sup>(1)</sup>, percentage



Deleveraging  
process

- Adjustment is **progressing as planned**
- Important contribution of **higher deposits and sizeable asset sales**
- **Stabilization of financing** from the Eurosystem

Credit-to-deposits ratio, percentage



(1) Excluding intervened institutions

Source: Bank of Portugal, January 2012



# Easing of bank liquidity pressures

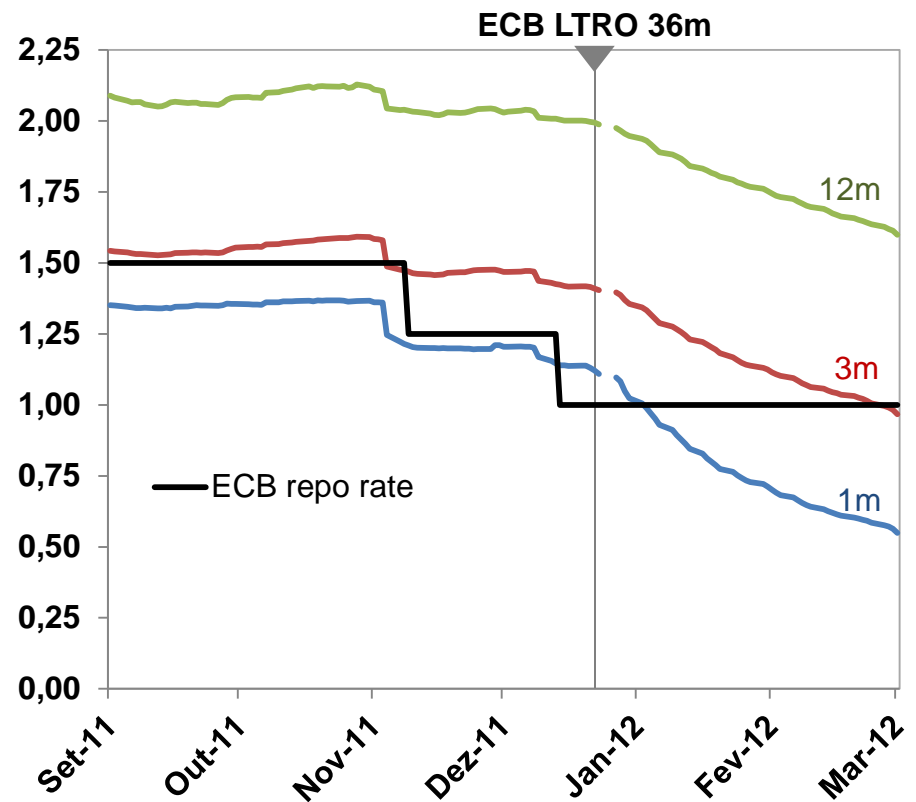
## ECB Measures (8 December)

Longer-term **refinancing operations**: 36 months  
(December 22 and March 1)

Reduction of the **reserve requirements** ratio: from 2% to 1%

Broadening of **eligible collateral**

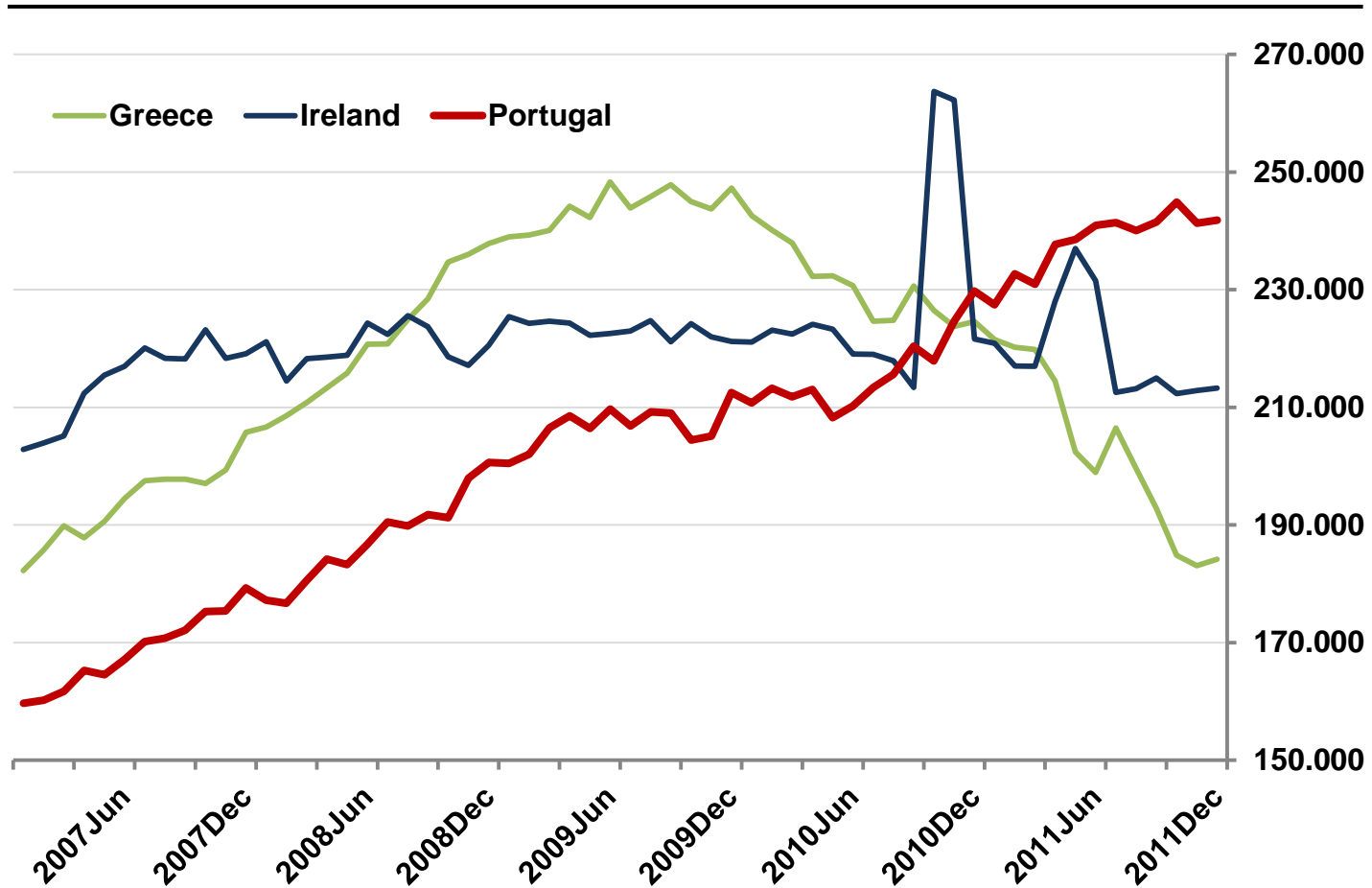
## Euribor Percentage



Source: Bank of Portugal, March 2012

# Depositors' trust in the Portuguese banking system

**Total deposits** (excluding deposits from financial institutions)  
EUR Millions



Source: ECB



# STRUCTURAL TRANSFORMATION



# Economic growth: importance of the Structural Transformation Agenda

## Pillars



**Confidence, credibility and justice**



**Openness, competition and competitiveness**



**Entrepreneurship, innovation and labor market flexibility**



**Limited State and economic democracy**

## Broad range of reforms

- Judicial system

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- Network industries: energy, telecommunications, transports
- Competition
- Housing Market

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- Labor market
- Education and training

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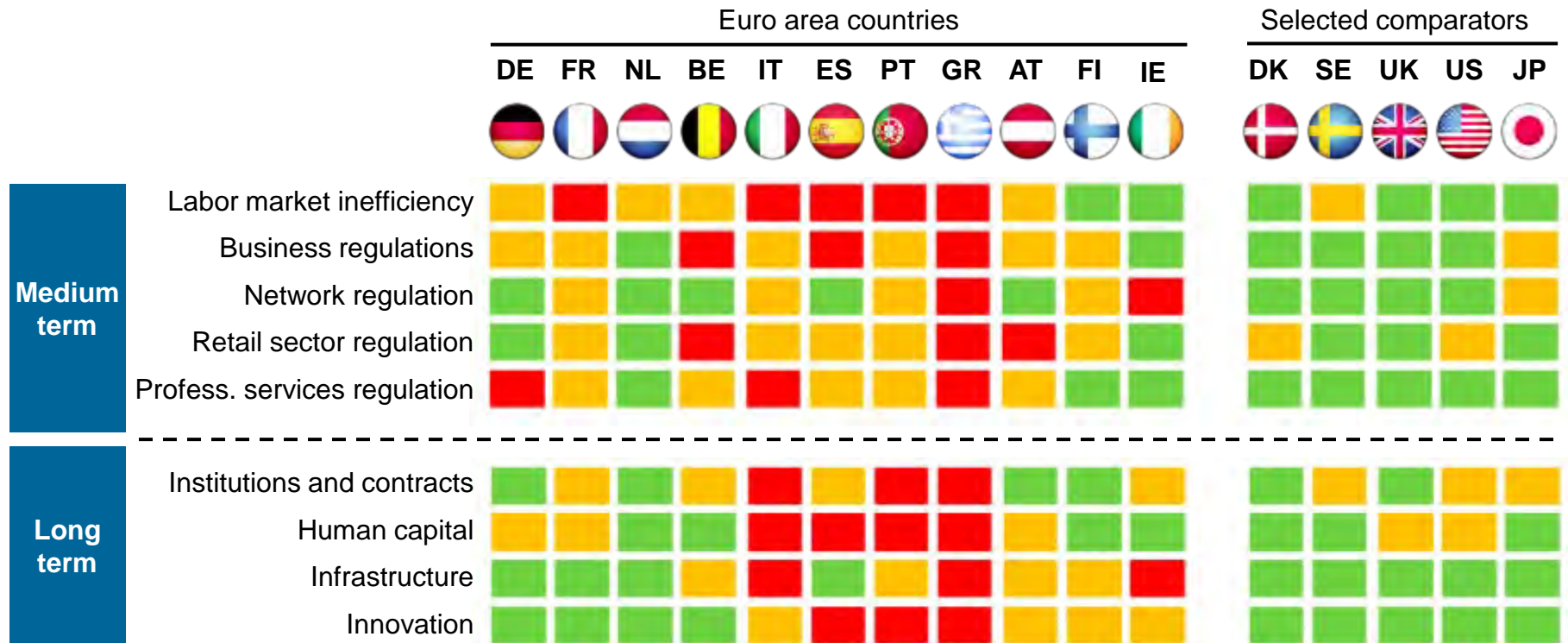
- Privatizations
- Special rights of the State
- Public procurement
- Administrative burden

## Structural transformation

- Opening to **foreign investment** and to the challenges of **international competition**
- Competitive location for **physical and human capital**
- Fully integration in the **Single European Market**
- Development of a **stability culture**

# Portugal needs a broad transformation agenda

Structural reforms gaps in European economies: a heatmap<sup>(1)</sup>



(1) The heatmap is constructed based on a variety of structural indicators from alternative sources in order to flag areas where a country has the greatest need to implement structural reforms. For a discussion of the methodology and detailed components, see IMF, 2010d, "Cross-Cutting Themes in Employment Experiences During the Crisis", IMF Report SM/10/274

Source: OECD; World Economic Forum; Fraser Institute and IMF staff calculations

# Structural reforms: long-run potential impact

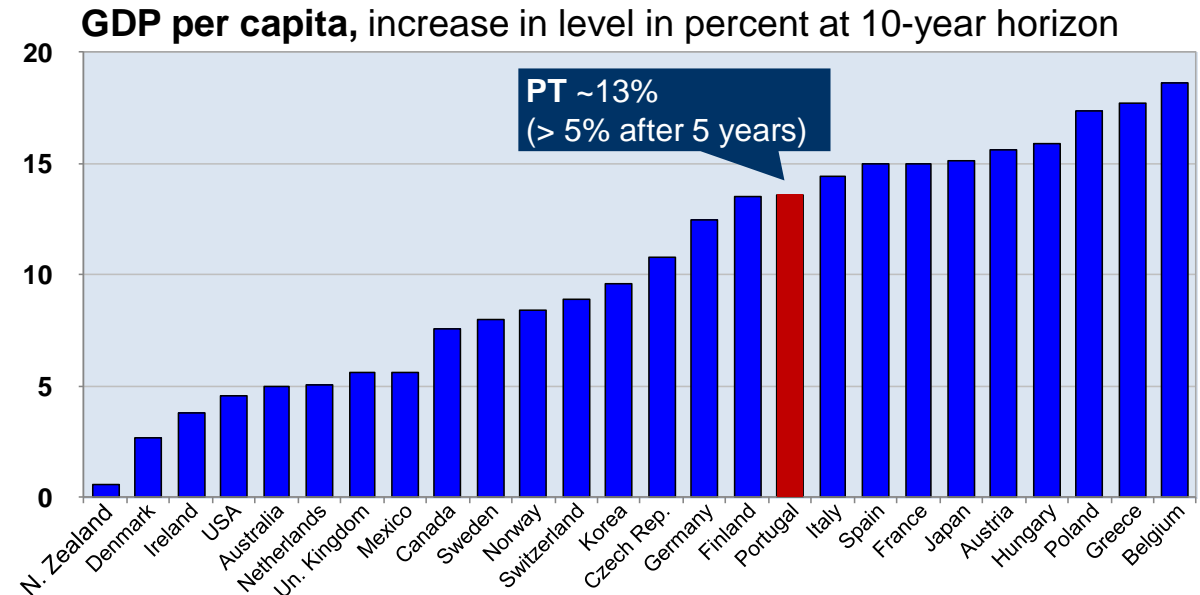
2 empirical studies for Portugal

## Approach

## Results

**Bouis and Duval (2011)**

- No model: use empirical results from several studies
- Broad range of reforms that include reforms in product and labor market and reforms of benefit, tax and retirements systems



**Gomes et al (2011)**

- Multi-country DSGE Model
- Reforms of labor and services market

**Increase in long-term output of 7.8% , after 7 years (8.6% in case of cross-country coordination of reforms in the euro area)**

# In-depth labor market reform

Agreement on Growth, Competitiveness and Employment

NON-EXHAUSTIVE

## Objectives

- Tackle labor market segmentation
- Foster job creation
- Ease transition of workers across firms and sectors

### Reducing labor costs

## Implemented measures

- Reduction of 4 national holidays
- Elimination of 3 extra days of vacation
- Decrease in 50% of compensation for overtime work
- Suspend automatic extension of collective agreements

### Labor market flexibilization

- Implementation of individual and group working time management mechanisms
- Reduction of restrictions to individual dismissal
- Reduction of severance payments to align with EU average
- Implementation of labor arbitration mechanisms

The agreement between the **Government, Unions and Enterprises Associations**: an important step to implement reforms in an environment of **social dialogue**





# Broad product market reform

NON-EXHAUSTIVE

## Objective

Reduce excessive mark-ups in network industries and non-tradable

### Telecommunications

- Reduce mobile termination rates
- Broaden access of all operators to existing networks

### Electricity

- Revise remuneration scheme of co-generation to accelerate converge to market-based pricing
- Redesign Power Guarantee mechanism

### Health

- Revised margins of pharmacies
- Set targets for reduction of pharmaceutical profit margins

Increasing **tradable sector competitiveness** by reducing **non-tradable sectors excessive costs** cascaded through the economy



# Improving business environment

NON-EXHAUSTIVE

## Objective

- Foster investment and innovation
- Incentive a more efficient use of resources

### Judicial system

## Implemented measures

- Targeted measures to accelerate the **resolution of the backlog**: 50,000 enforcement cleared since November
- Adoption of a **law on arbitration** to facilitate out-of-court settlement
- Proposal to amend the **insolvency code and corporate recovery**, focusing on speed, simplification and creation of an extra-judicial phase of corporate recovery

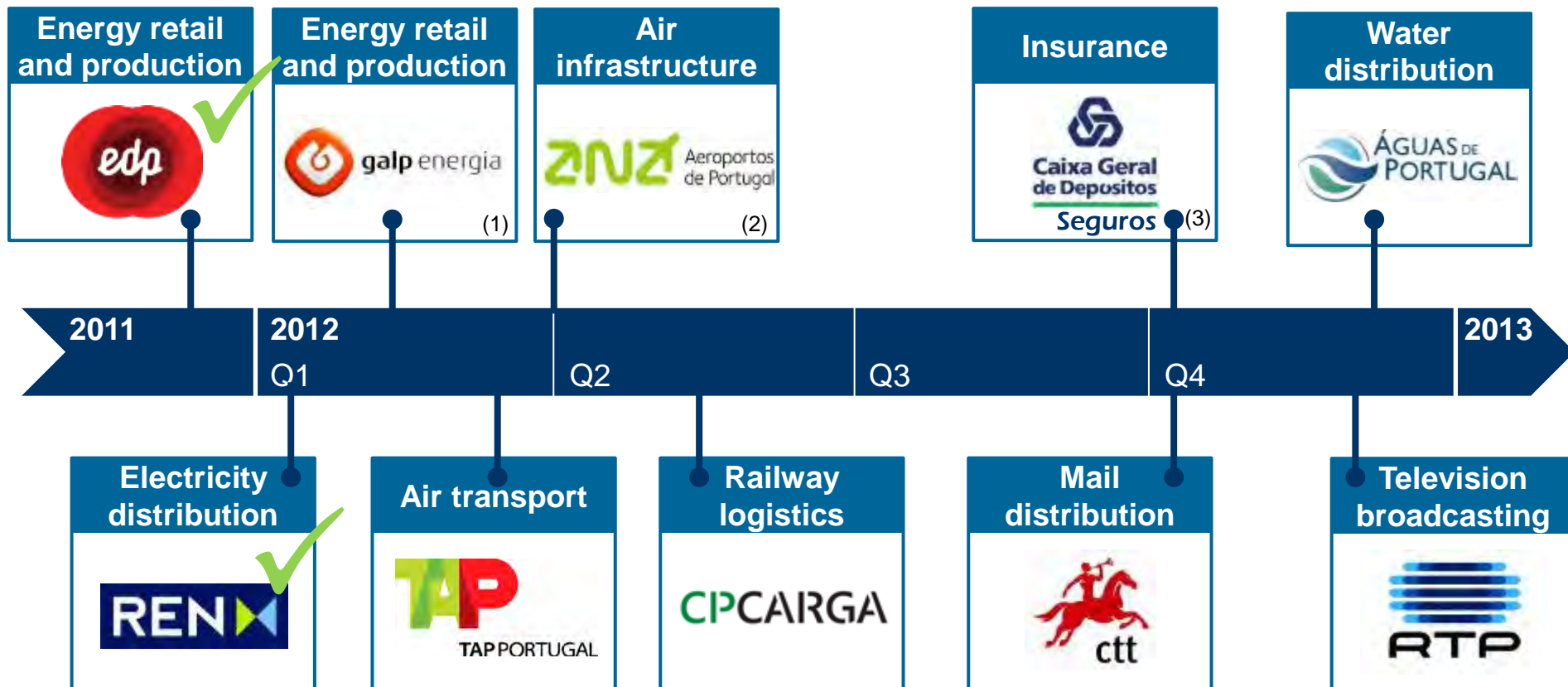
### Competition

- Approval of a new **Competition Law** harmonized with the EU legal competition framework
- Strengthen the power of the **Competition Authority**
- Approval of a specialized **court on Competition, Regulation and Supervision**

### Other services

- Liberalization of **regulated professions'** access and exercise
- Reduction of **firms' administrative burden**: licensing requirements and other legal formalities
- Revision of the **Urban Lease Law**

# Privatization program as a flagship in the agenda



- (1) Sale of "Caixa Geral de Depósitos" participation of 1%
- (2) Concession
- (3) Expected completion date by "Caixa Geral de Depósitos"

# Privatization results above expectations

Selected bidders



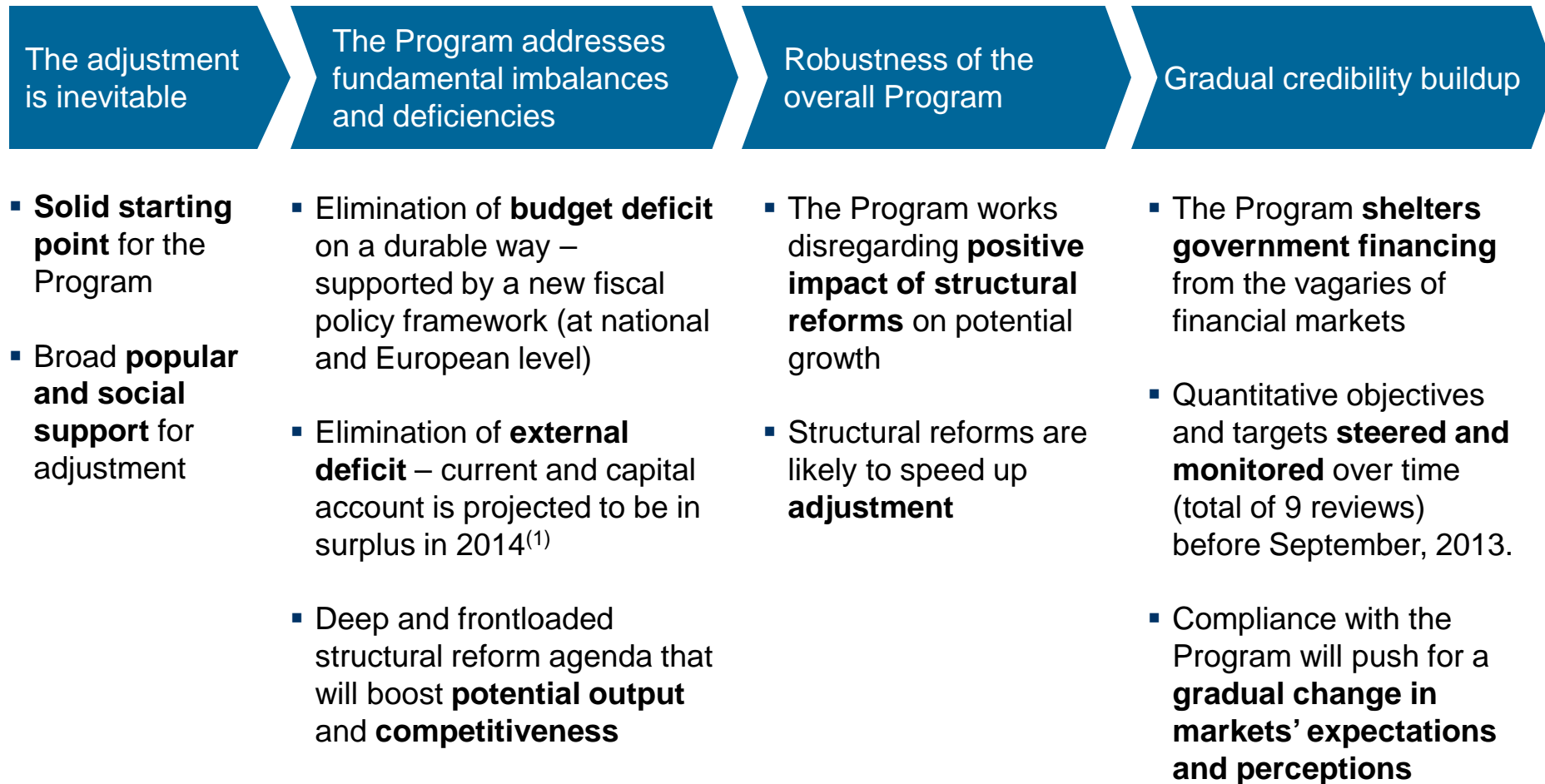
	EDP	REN
<b>% Equity</b>	<ul style="list-style-type: none"> <li>21,35%</li> </ul>	<ul style="list-style-type: none"> <li>40%</li> </ul>
<b>Bidders</b>	<ul style="list-style-type: none"> <li>Asia: China Three Gorges</li> <li>Europe: E.ON</li> <li>Latin America: Eletrobras and Cemig</li> </ul>	<ul style="list-style-type: none"> <li>Asia: State Grid</li> <li>Saudi Arabia: Oman Oil Company</li> </ul>
<b>Revenue</b>	<ul style="list-style-type: none"> <li><b>EUR 2,693M</b>: premium of 53.6% per share<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li><b>EUR 593M</b>: average premium of 33.6% per share<sup>1</sup></li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li><b>EUR 2,000M</b> through Chinese banking entities</li> </ul>	<ul style="list-style-type: none"> <li><b>EUR 1,000M</b> through Chinese banking entities</li> </ul>
<b>Investment</b>	<ul style="list-style-type: none"> <li><b>EUR 2,000M</b> until 2015 in wind farms</li> </ul>	<ul style="list-style-type: none"> <li>Strategic plan for national economy development (e.g. I&amp;D center construction)</li> </ul>

The proceeds amount to about **60% of the estimate of privatizations revenues** foreseen in the Adjustment Program

<sup>1</sup> Considering the closing price of the day before the Council of Ministers decision

**CONCLUSION:  
HOW WILL IT WORK?**

# Restoring credibility and confidence



(1) Ministry of Finance”, February 2012



MINISTÉRIO DAS FINANÇAS

# Portugal: restoring credibility and confidence

**Vítor Gaspar**

Frankfurt  
March 16, 2012

# BACKGROUND SLIDES



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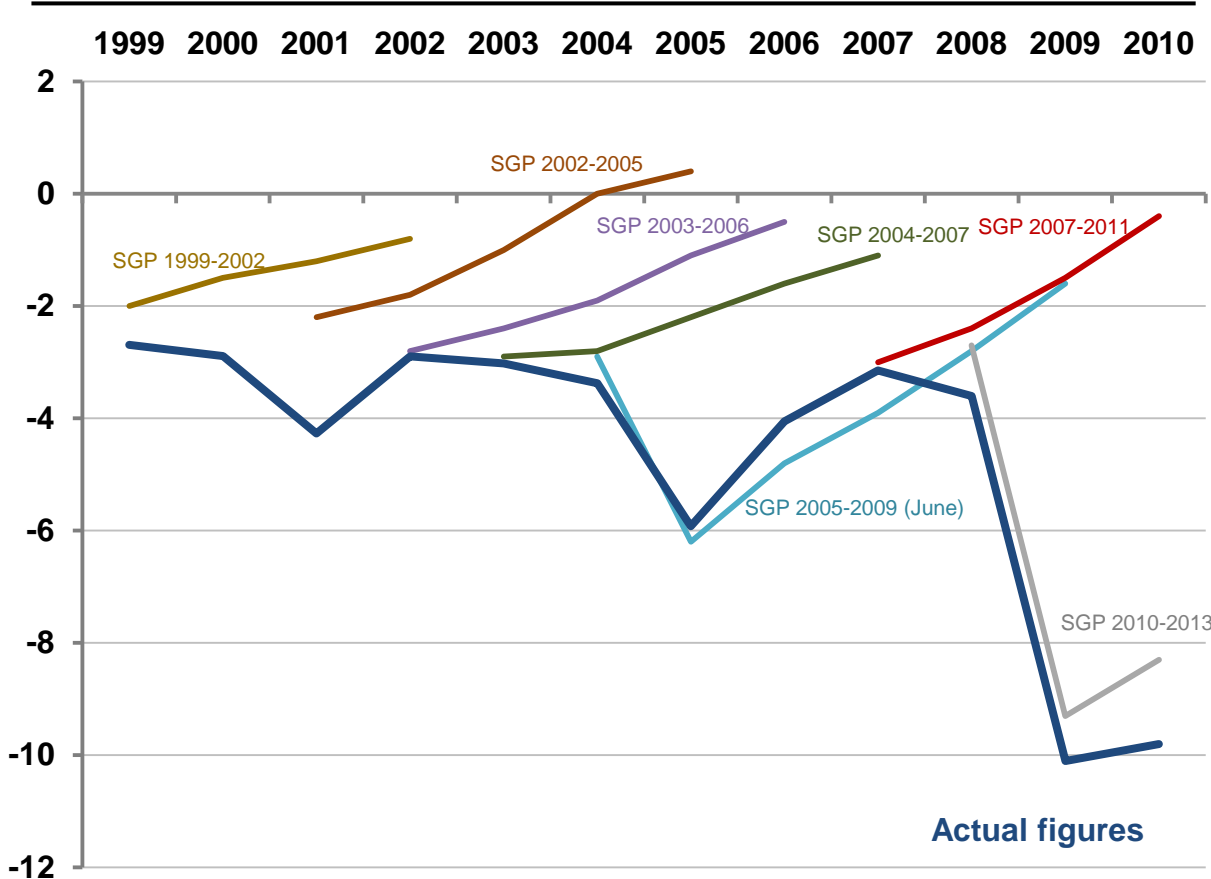
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# **ON THE WAY TO BECOME THE DIFFICULT PORTUGUESE CASE**

1. PUBLIC FINANCES ON AN UNSUSTAINABLE PATH

# Lack of discipline

**Forecasted and actual budgetary balances**  
As a percentage of GDP



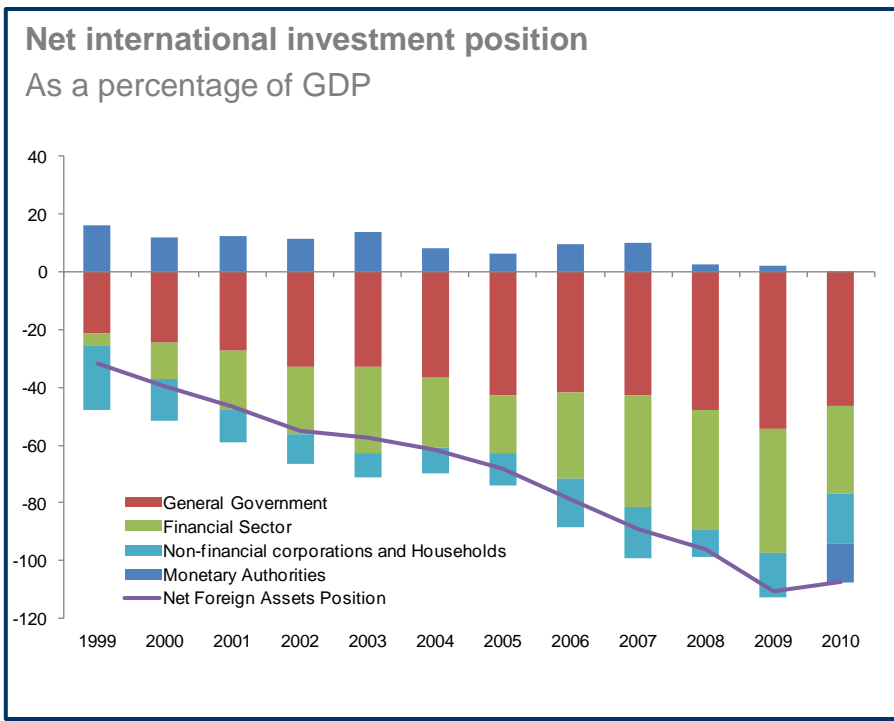
Source: INE and Ministry of Finance

Note: The figures for the forecasts correspond to the values that have been reported in the SGP updates

## 2. ENORMOUS LEVEL OF EXTERNAL INDEBTEDNESS

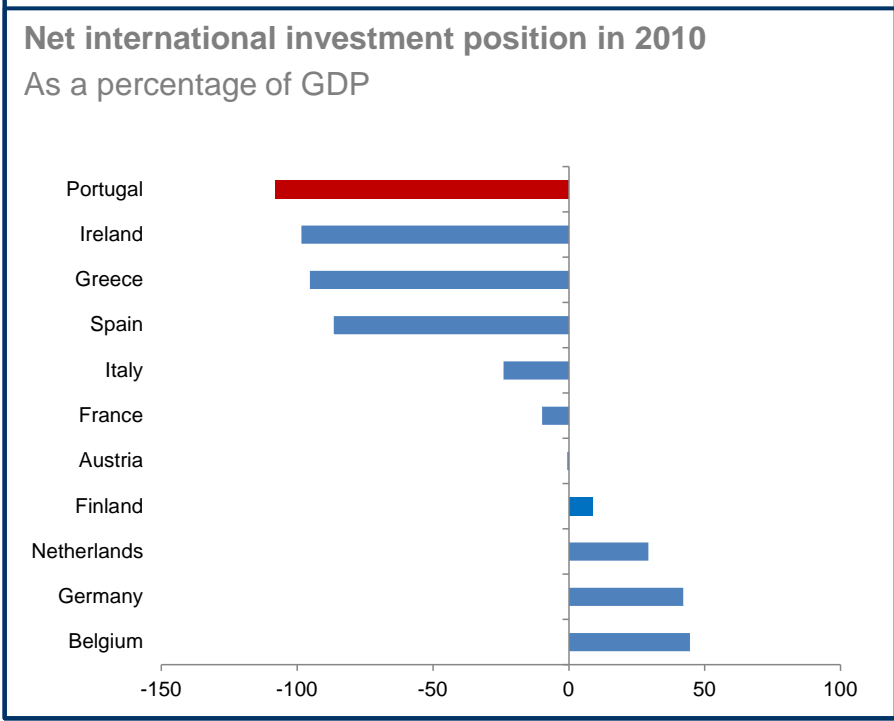
# Very high levels of the economy borrowing requirements

**The worsening of the international investment position...**



Source: Bank of Portugal

**... led to the worst position among Euro area countries**



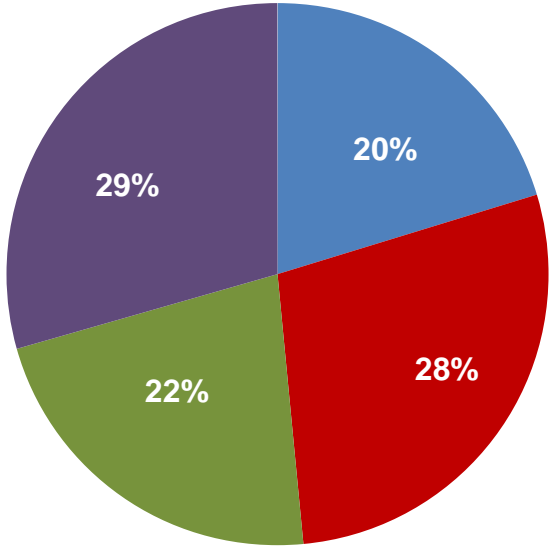
Note: The NIIP of Ireland refers to 30 June 2010

Source: AMECO, Bank of Portugal and IMF

# Unemployment in Portugal

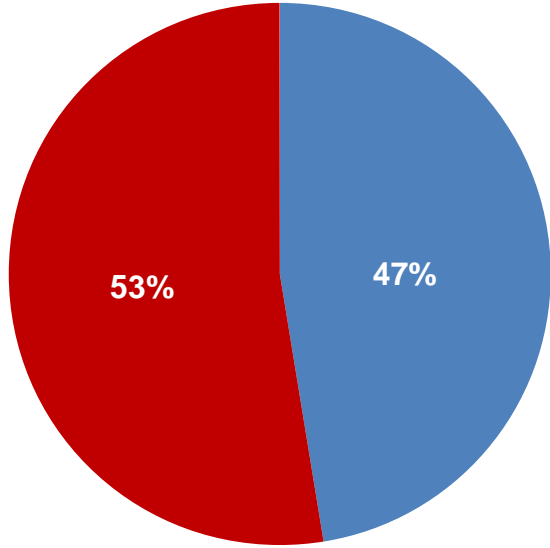
4Q 2011

**By age**  
Percentage of total unemployed



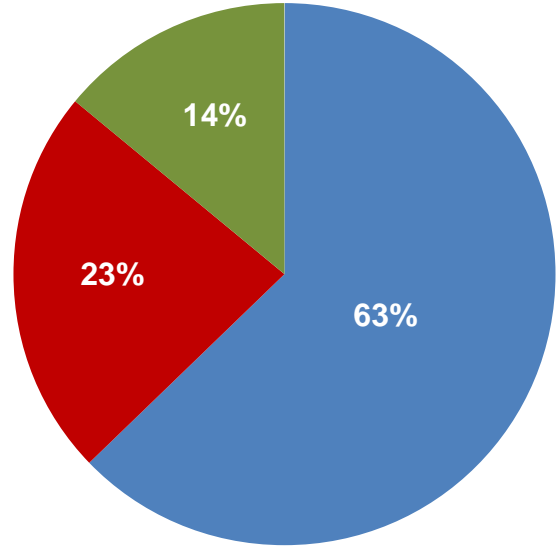
■ 15-24 ■ 25-34 ■ 35-44 ■ 45 and more

**By duration**  
Percentage of total unemployed



■ Until 11 months  
■ 12 months and more (long-term)

**By education level**  
Percentage of total unemployed



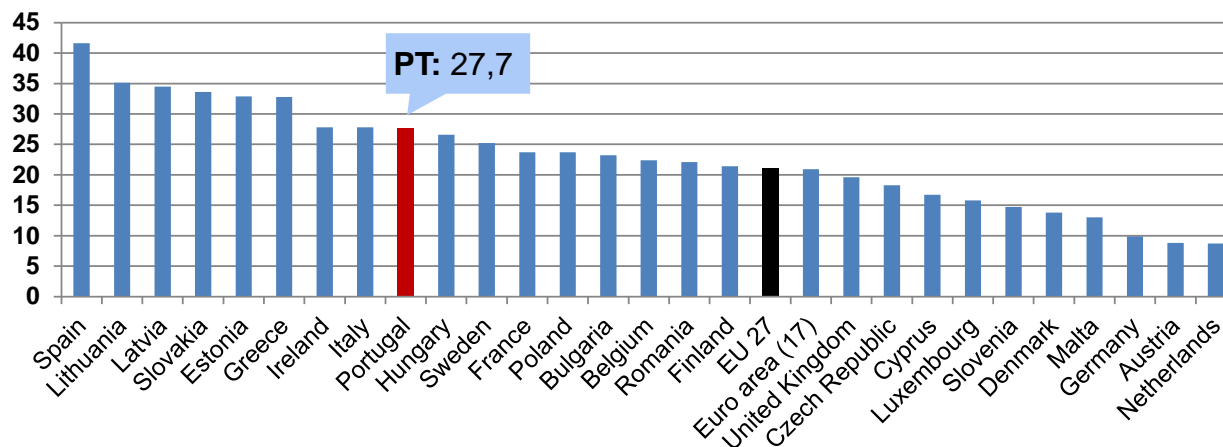
■ Until basic education ("3º ciclo")  
■ Secondary and post-secondary  
■ Higher education

Source: INE, "Estatísticas do Emprego", November 2011

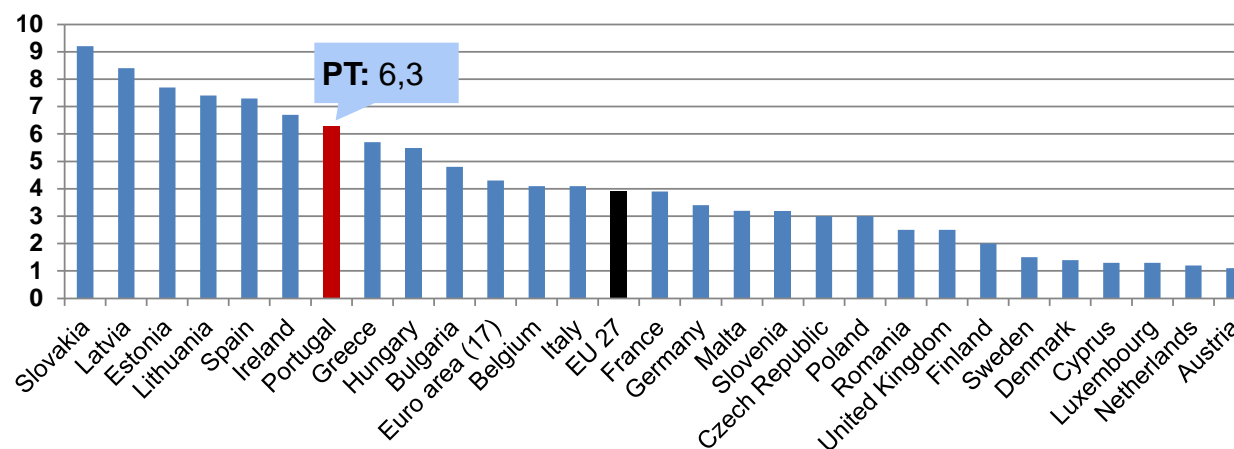
# High levels of youth and long-term unemployment

As percentage of labor force, 2010

Youth unemployment (1)



Long-term unemployment (2)



(1) Less than 25 years, annual average

(2) 12 months or more, annual average

Source: Eurostat

# FISCAL CONSOLIDATION



# Macroeconomic Scenario 2009-2012

	2009	2010	2011	2012
<b>GDP and expenditure components</b>				
Private Consumption	-2,3	2,1	-3,9	-5,8
Public Consumption	4,7	0,9	-3,9	-3,2
GFCF	-8,6	-4,1	-11,4	-10,2
Domestic Demand	-3,3	0,8	-5,7	-6,2
Exports	-10,9	8,8	7,4	2,1
Imports	-10,0	5,4	-5,5	-5,9
<b>GDP</b>	<b>-2,5</b>	<b>1,4</b>	<b>-1,6</b>	<b>-3,3</b>
<b>GDP -contributions to growth (p.p.)</b>				
Domestic Demand	-3,7	0,8	-6,1	-6,4
Net Exports	0,7	0,6	4,4	3,1
<b>GDP - Deflators</b>				
Private Consumption	-2,2	1,7	3,6	3,1
Public Consumption	2,7	-0,6	-3,8	-6,4
GFCF	-1,9	2,8	2,1	3,7
Exports	-5,0	4,2	5,5	2,7
Imports	-9,2	4,8	8,0	3,9
<b>GDP</b>	<b>0,9</b>	<b>1,1</b>	<b>0,7</b>	<b>0,9</b>
<i>memo item:</i>				
CPI	-0,8	1,4	3,6	3,1
HICP	-0,9	1,4	3,6	3,1
<b>Labour Market</b>				
Unemployment Rate (%)	9,5	10,8	12,7	14,5
Employment growth	-2,6	-1,5	-2,8	-2,5
<b>Productivity and Competitiveness</b>				
Labour productivity	-0,3	2,9	1,2	-0,8
Nominal Unit Labour Costs	3,9	-1,9	-1,1	-2,5
Nominal Unit Labour Costs (relative to UE27)	2,1	-3,1	-2,3	-3,8
Change in Market Share	2,7	1,7	2,4	0,2
Terms of Trade	4,3	-0,5	-2,6	-1,2
<b>Disposable Income and Saving</b>				
Households Disposable Income (real)	0,4	1,5	-5,3	-6,2
Households Disposable Income (nominal)	-0,4	2,9	-1,9	-3,3
Saving rate (% of Disposable Income)	10,9	10,1	8,7	8,3
Indebtness of Households	2,3	3,0	0,8	0,0
<b>Current and Capital Account (% of GDP)</b>				
Goods Account	-10,0	-10,0	-7,2	-5,1
Current Account	-10,8	-9,7	-6,5	-4,6
Capital Account	1,2	1,3	1,4	1,5
Current and Capital Account	-9,6	-8,3	-5,1	-3,1

Source: Ministry of Finance; March 12, 2012

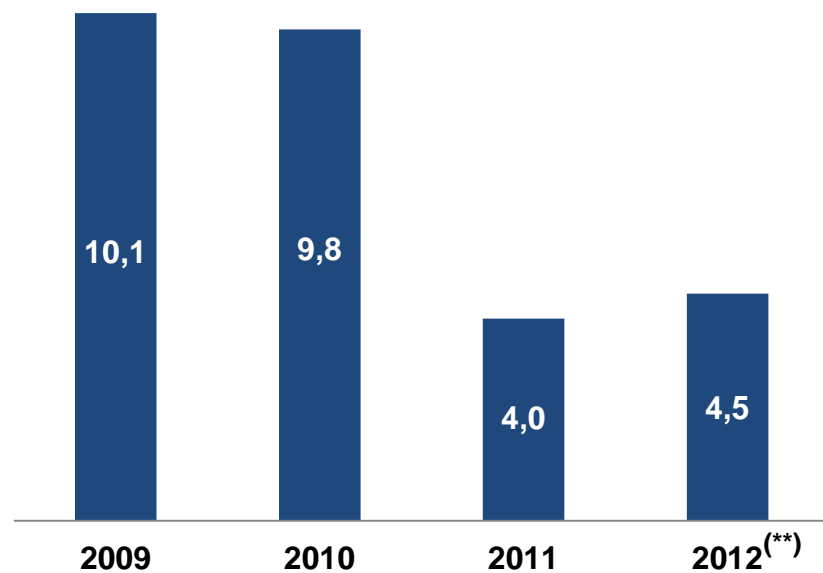




# Major reduction of structural deficit in 2011 and 2012

## Overall deficit

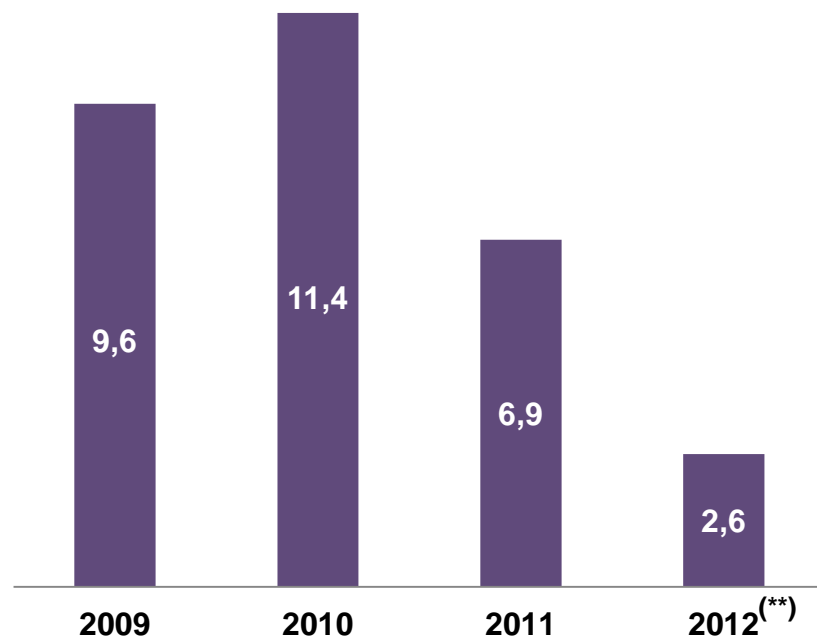
As a percentage of GDP



Limit of 5,9% prescribed in the Program

## Structural deficit (\*)

As a percentage of GDP



(\*) Deficit adjusted for the effect of the cycle; excludes transfer of pensions funds in 2010 and 2011 and concessions in 2011

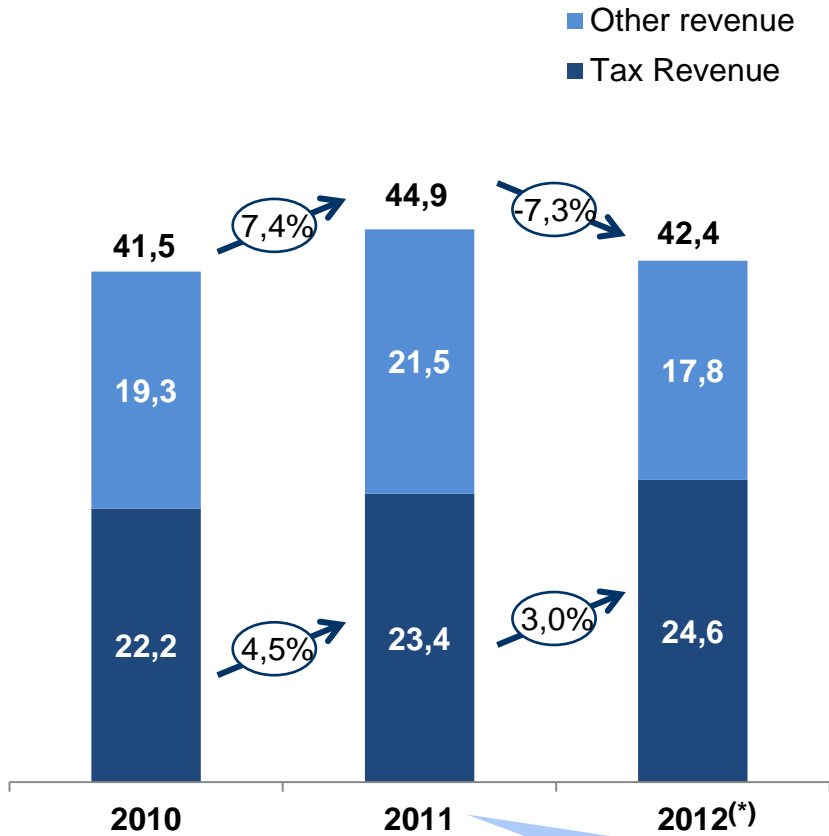
(\*\*) Excludes temporary effects in 2012

Source: Ministry of Finance, January 2012

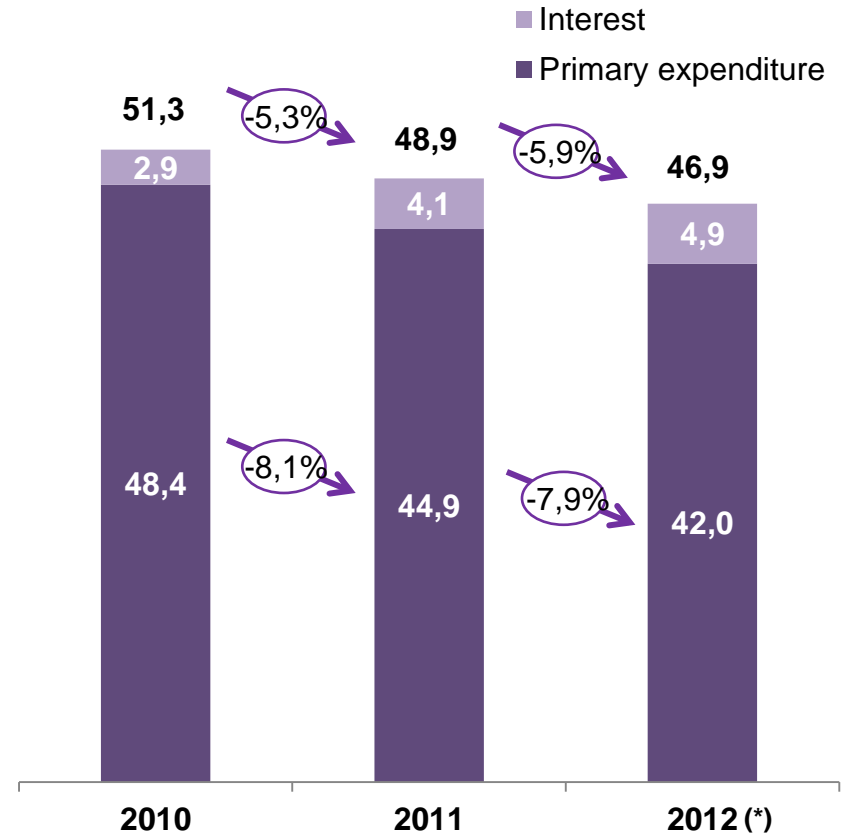
# Significant fiscal consolidation in 2011

○ Percent change in total values

**Total revenues**  
In percentage of GDP



**Total expenditure**  
In percentage of GDP



Coercive tax collection of 1.230M€ **12% above target**

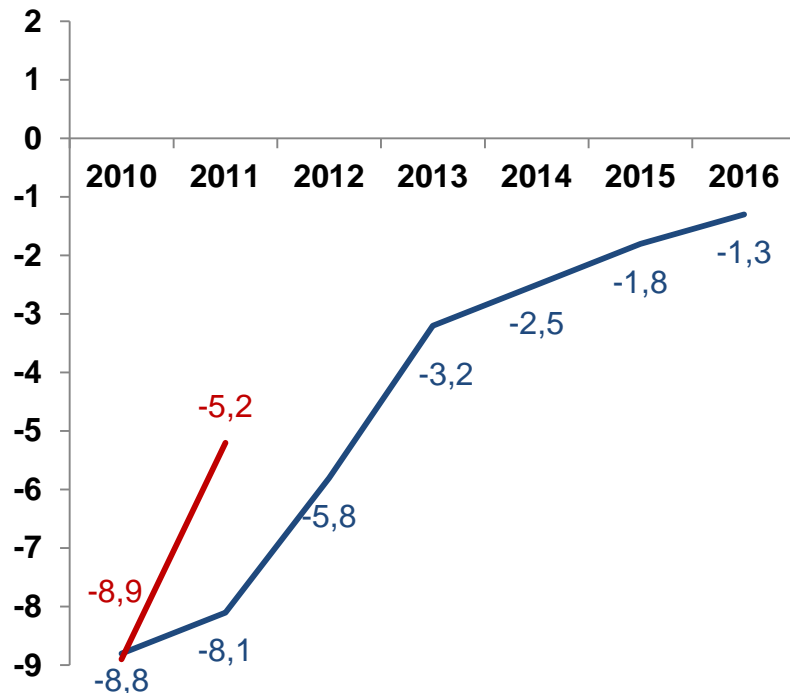
(\*) Excludes temporary effects in 2012  
Source: Ministry of Finance, January 2012

# DELEVERAGING AND FINANCIAL STABILITY

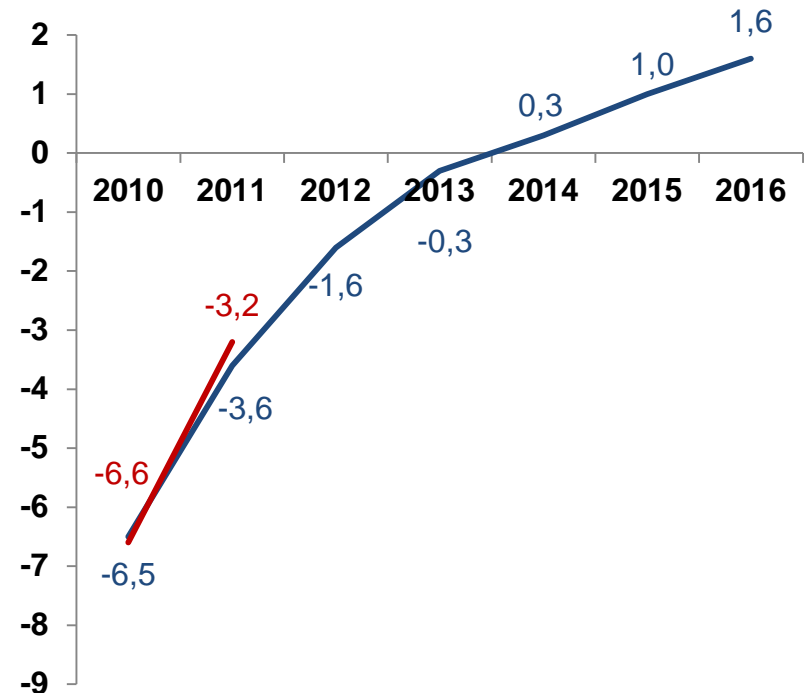
# Faster external adjustment than expected

— Actual<sup>(1)</sup>  
— Forecast<sup>(2)</sup>

**Current and capital account**  
As a percentage of GDP



**Balance of goods and services**  
As a percentage of GDP



(1) Bank of Portugal, BP Stat, February 2012;

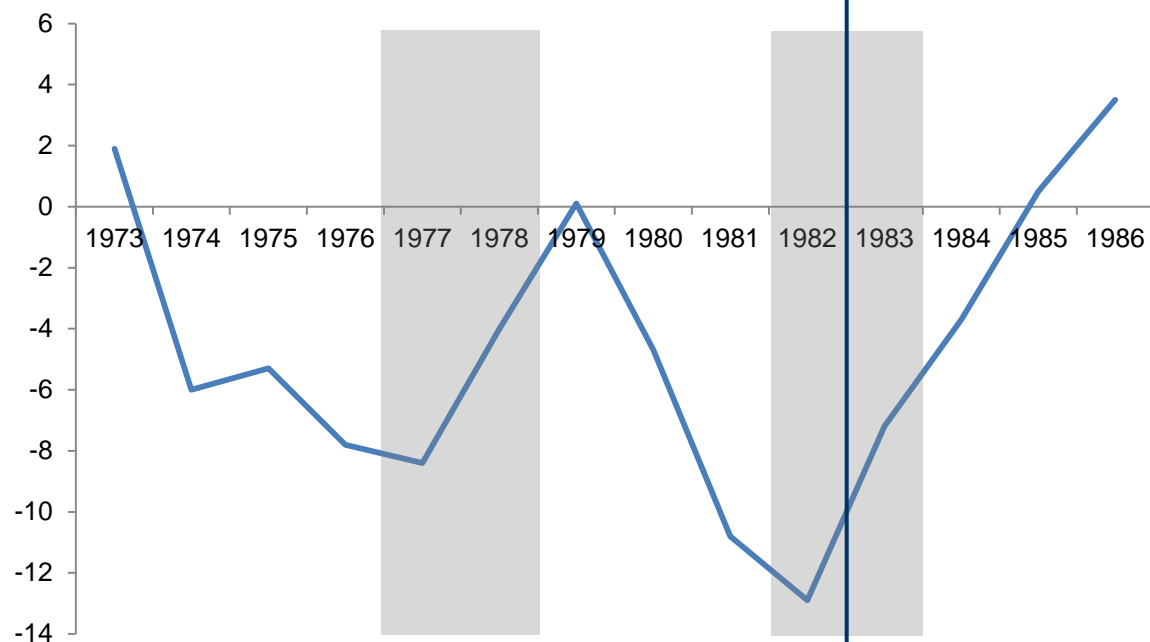
(2) IMF, Staff report: Request for a Three-Year Arrangement Under the Extended Fund Facility, May 2012

# Portugal succeeded in past adjustments

Portugal is a paradigmatic example of successful and rapid adjustments in democracy

## Current balance

As a percentage of GDP



**In the past, the adjustment was mainly due to the private sector**

**Currently, the public sector will also adjust significantly**

# Portuguese measures are aligned with the European strategy

- The European Banking Authority (EBA) published a **formal Recommendation**, and the final figures, related to **banks' recapitalization needs**. The aggregated shortfall amounts to **114.7bn Euros**.
- Banks will be required to strengthen their capital positions by building up an **exceptional and temporary capital buffer against sovereign debt exposures** to reflect market prices as at the end of September.
- In addition, banks will be required to establish an exceptional and temporary buffer such that **the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012**.
- **Sales of sovereign bonds will not alleviate the buffer requirement** to be achieved by June 2012.
- Pursuant to the Recommendation, the national authorities will require banks to submit, by 20th January, their **plans detailing the actions they intend to take to reach the set targets**.

Aggregated shortfall required by country, million Euros

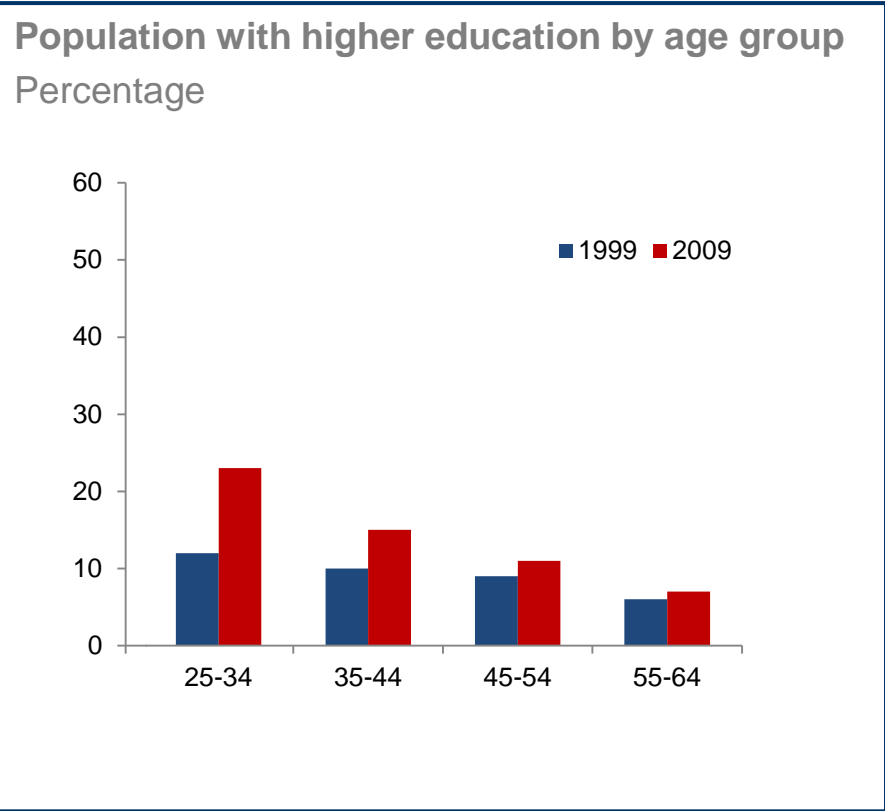
Overall Shortfall after including sovereign capital buffer	
AT <sup>(2)</sup>	3,923
BE <sup>(3)</sup>	6,313
CY	3,531
DE	13,107
DK	-
ES	26,170
FI	-
FR	7,324
GB	-
GR <sup>(1)</sup>	30,000
HU	-
IE	-
IT	15,366
LU	-
MT	-
NL	159
NO <sup>(4)</sup>	1,520
PL	-
PT	6,950
SE	-
SI	320
<b>Total</b>	<b>114,685</b>

# STRUCTURAL TRANSFORMATION

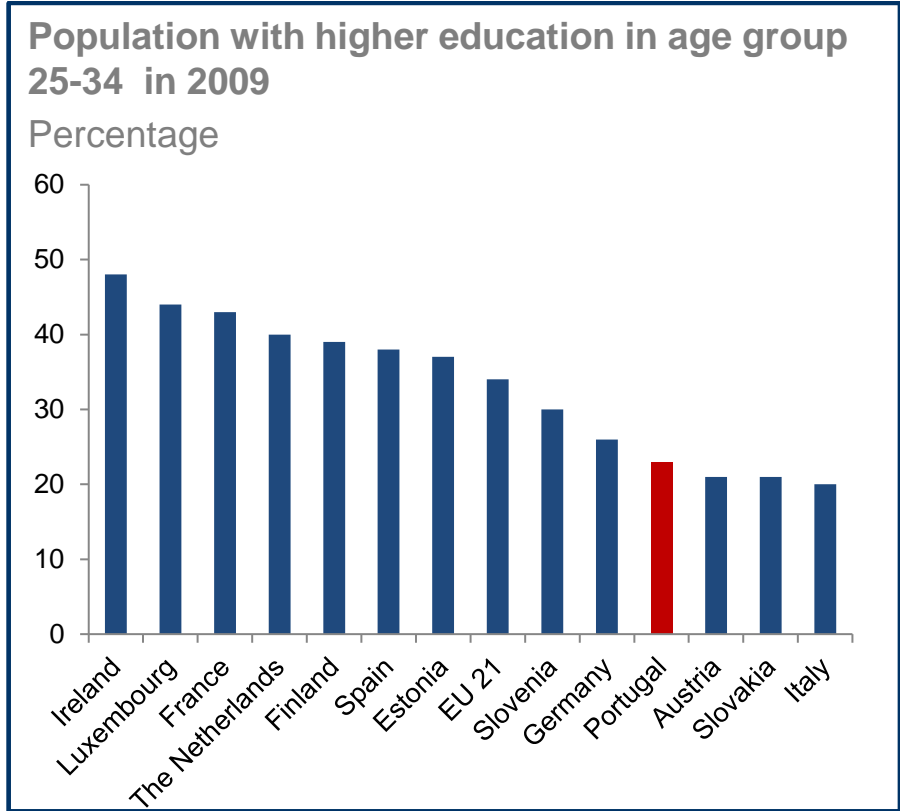
# Structural transformation is ongoing...

Higher qualifications of younger generations

**The increase in education level of younger generations...**



**... has approached the human capital qualification to its European peers**



Source: OCDE - "Education at a Glance 2011"



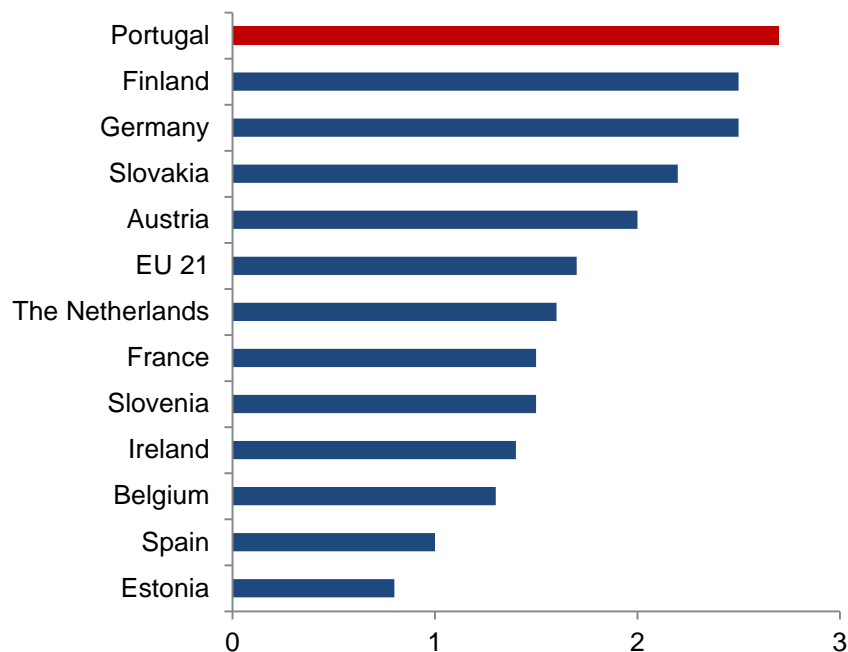
# Structural transformation is ongoing...

Very positive performance in advanced education levels

## The completion rate of PhDs is the highest in Europe

### Students completing a PhD in 2009

Percentage



Source: OCDE - "Education at a Glance 2011"

## Some Portuguese schools are among best-in-class

### Financial Times – Business Education Rankings

Position in 2011



- #33** European Business School
- #65** Master in Management
- #45** Executive education – Customized
- #54** Executive education – Open



- #39** European Business School
- #2 e #61** Master in Management<sup>(1)</sup>
- #64** Executive education – Open

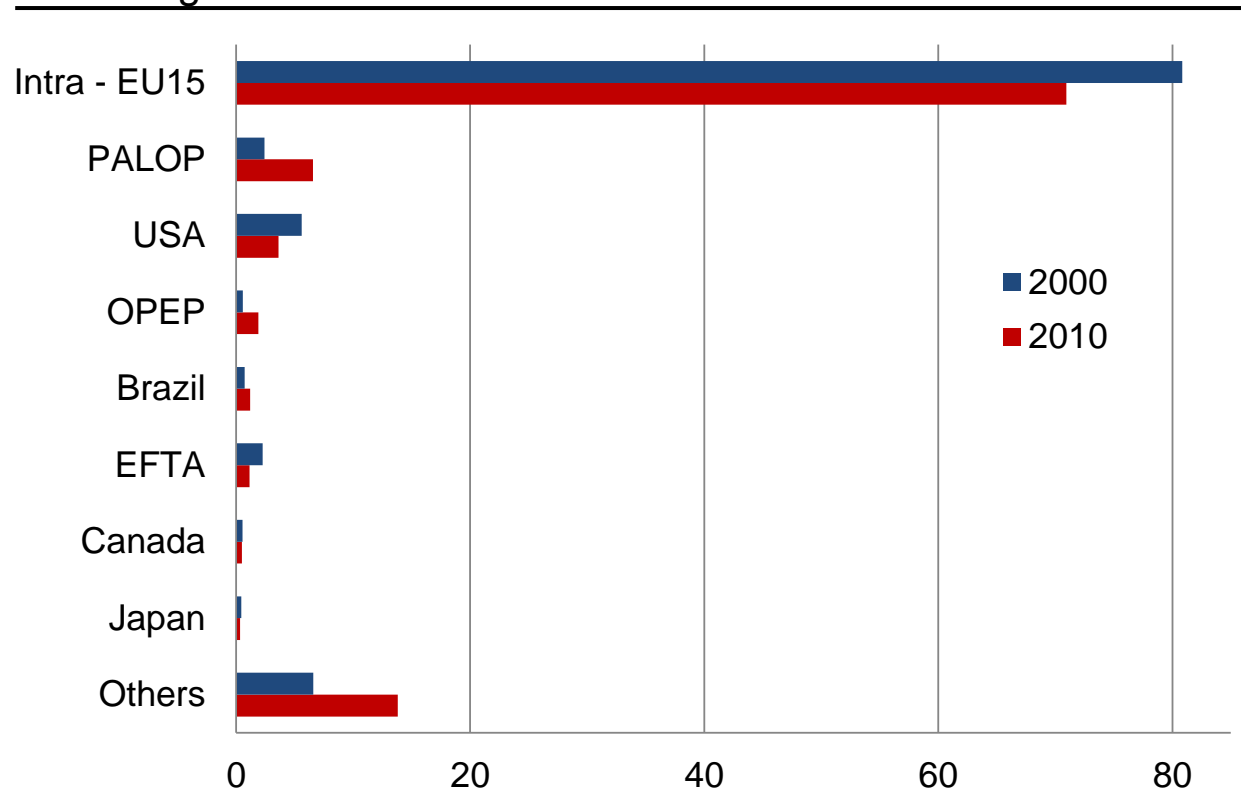
(1) The Master #2 (CEMS) is offered by a network of schools of which Nova SBE is part of

Source: Financial Times – Business Education Rankings

# Structural transformation is ongoing...

Geographic diversification of Portuguese exports

**Total weight**  
Percentage



EFTA: Iceland, Norway, Liechtenstein, Switzerland

PALOP: Angola, Cape-Verde, Guinea-Bissau, Mozambique and São Tomé and Príncipe

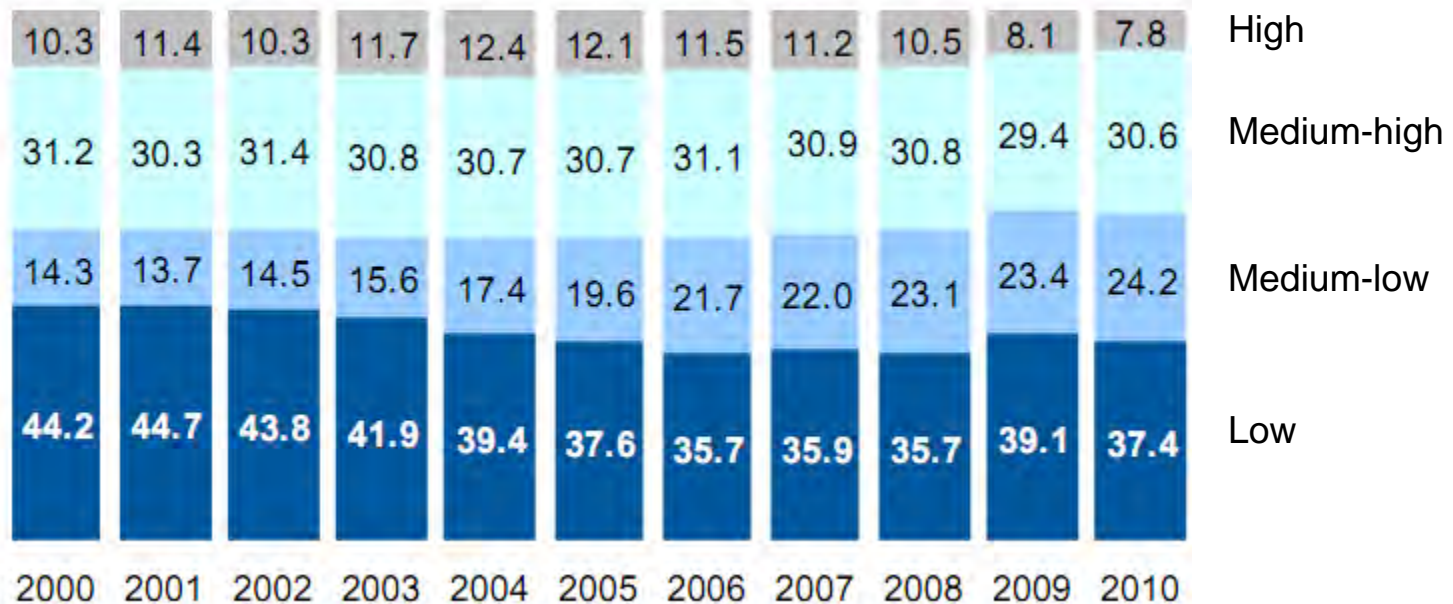
UE-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, The Netherlands, Portugal, Spain, Sweden e United Kingdom

Source: INE

# Structural transformation is ongoing...

Technology intensity of Portuguese exports

**Exports of manufacturing goods by technology intensity**  
Percentage

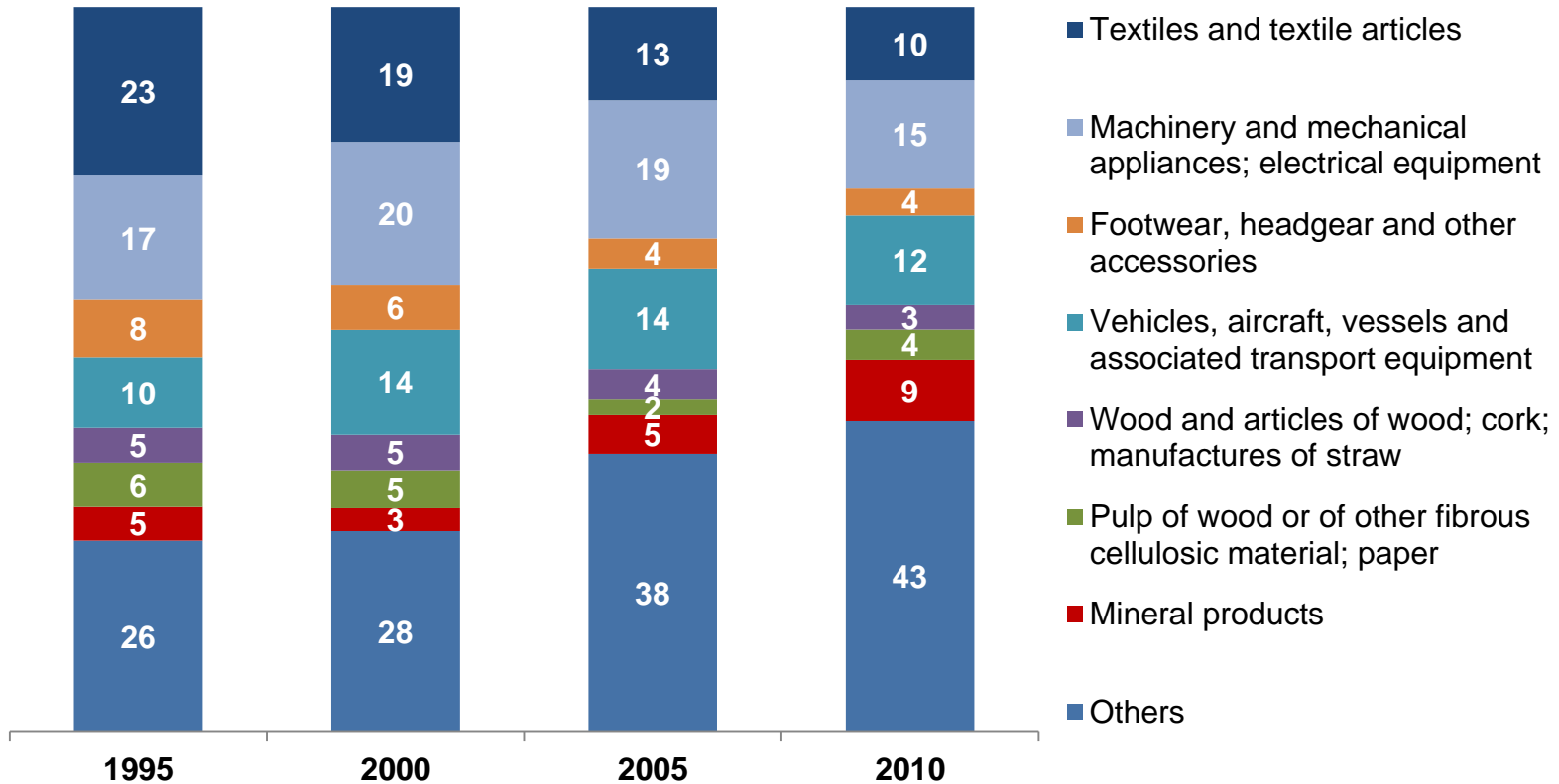


Source: INE and GEE, "Boletim Mensal de Economia Portuguesa", December 2011

# Structural transformation is ongoing...

Increasing diversity of Portuguese exports

**Exports of manufacturing goods by type of goods**  
Percentage



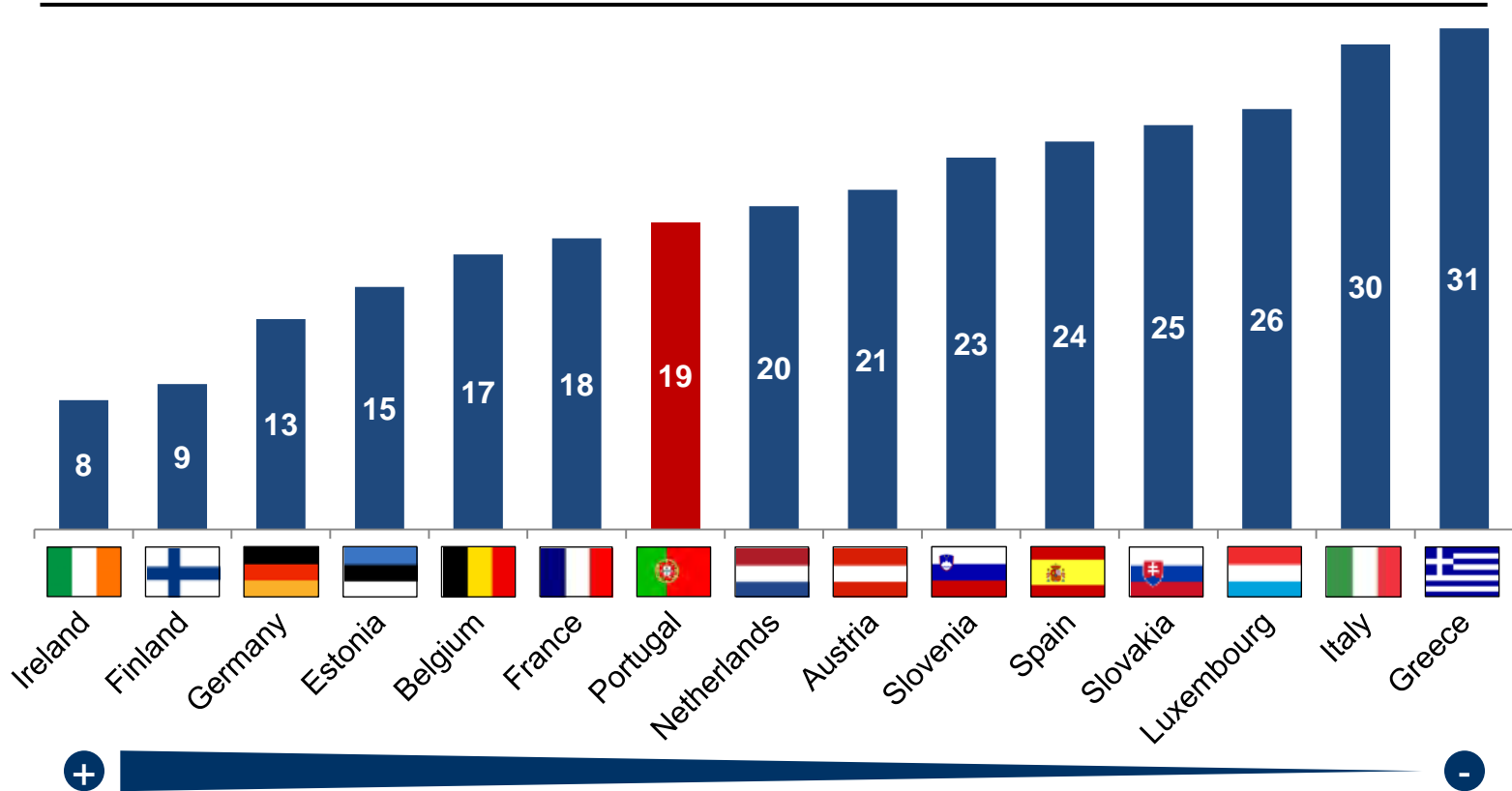
Source: INE

# Structural transformation is ongoing...

Portugal as a competitive location for business in the euro area

## Ease of Doing Business Rank (June 2011)

Country position in OECD ranking



Note: The rankings for all economies are benchmarked to June 2011

Source: World Bank and IFC; Doing Business 2012; October 2011

# **CONCLUSION: HOW WILL IT WORK?**

# Council of the European Union, 30 January 2012

## Communication by euro area Member States

Today, we have taken major steps in the implementation of our overall strategy to fight the crisis:

1. The Treaty on stability, coordination and governance in the Economic and Monetary Union has been finalized. It will be signed in March. At the same time an arrangement will be decided about the procedure to be followed to bring to the Court of Justice a case of noncompliance with the Treaty.

This represents a major step forward towards closer and irrevocable fiscal and economic integration and stronger governance in the euro area. It will significantly bolster the outlook for fiscal sustainability and euro area sovereign debt and enhance growth.

2. The Treaty establishing the European Stability Mechanism is ready for signature, and the objective is that it enters into force in July 2012. This permanent crisis mechanism will contribute to raising confidence, solidarity and financial stability in the euro area. It will have a wide range of tools available and a strong financial basis.

As agreed in December, we will reassess in March the adequacy of resources under the EFSF and ESM.

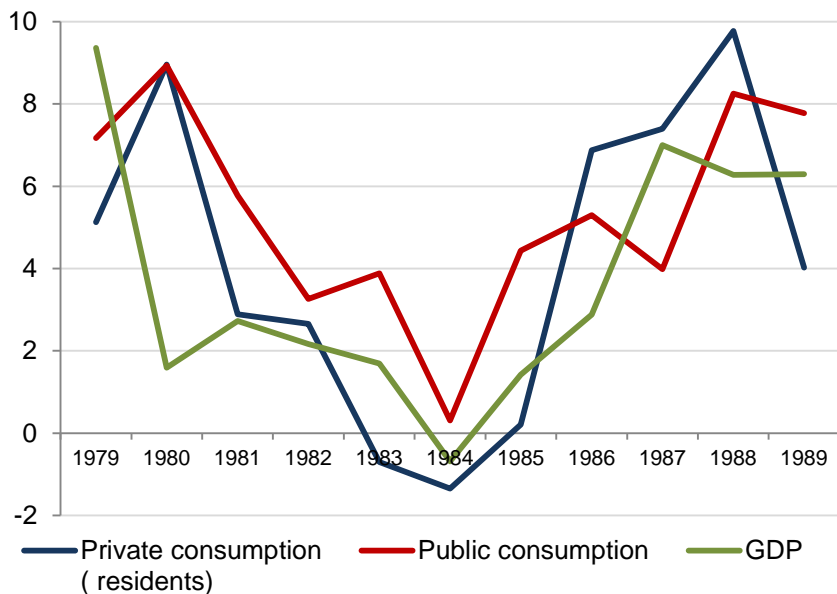
3. Concerning Greece, we note progress made in the negotiations with the private sector to reach an agreement in line with the parameters agreed upon in October. We urge the Greek authorities and all parties involved to finalize negotiations on the new program in the coming days. Restoration of credibility requires that all political parties irrevocably commit to the new program. We urge our Finance Ministers to take all necessary steps for the implementation of the PSI agreement and the adoption of the new programme, including prior actions, well in time for the launching of the PSI operation by mid-February. We recall that PSI in Greece is an exceptional and unique case.
4. **We welcome the latest positive reviews of the Irish and Portuguese programmes which concluded that quantitative performance criteria and structural benchmarks have been met. We will continue to provide support to countries under a programme until they have regained market access, provided they successfully implement their programmes.**
5. We welcome the measures decided and already enacted by Italy and Spain to reduce the public deficit and boost growth and competitiveness and call on them to pursue their important efforts for fiscal consolidation and structural reforms. These reforms as well as their swift implementation will reinforce financial stability in Italy and Spain as well as the euro area as a whole.

# Dynamism of the private sector: a key issue to ensure the success of the program

In the last adjustment program (83-84), the private sector had a rapid response

Real growth rate

Percentage

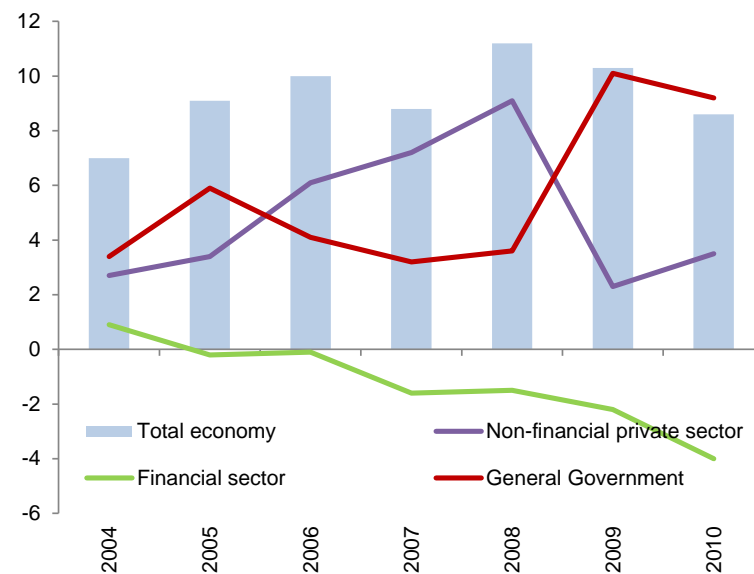


Source: Bank of Portugal

In 2009, the private sector started the adjustment process (but ...)

Borrowing Requirements by Institutional Sector

As a percentage of GDP



Source: Bank of Portugal

