



Associação de Amizade Portugal / EUA

Exclusive Sponsor:



The US–Portugal Friendship Association

Washington DC 10-14th October 2011

by António Neto da Silva – President

The current crisis openly started 4 years ago but still remains unresolved.

The World Economy continues to face strong tensions in the international financial markets. The crisis starts, now, materializing even in China. Though a significant recuperation of world economic activity was produced in 2010 and 2011, a significant risk exists that recent tensions in the very center of the international financial system may have severe repercussions over global growth. In fact:

1. Differently from precedent ones, this crisis assumed a global dimension, revealing how interdependent world economies are. Differently from precedent ones, this crisis also showed a relevant engagement of national authorities to participate on the needed coordination and multilateral cooperation on the adaptation of their economic policies.
2. This availability represents an important change on the global economic governance and is one of the main differences between the current crisis and the one that occurred on the Great Depression. In fact, the answers to the crisis of the 30's were essentially of national and unilateral nature. Currently, the degree and the complexity of the economic and financial interdependence among world economies made it clear that national economic policies have to be evaluated, discussed and negotiated at the international community level given the potential risk that a disruption in one economy can represent to the world economy.
3. Thus, the trend will be for a reinforcement of international coordination and the establishment of new rules, with the implementation of multilateral supervision mechanisms whose contribution to this process will be crucial. In this sense go recent proposals of the G20 to create and implement a set of indicators to evaluate, in a comparable way, the different economic policies and to establish a set of directives. Such directives meant to allow for timely intervention to correct the excessive and persistent disequilibria on budgetary, monetary and exchange rate policies of individual countries
4. The economic policies designed to respond effectively to crisis show, as well, a huge tension between short and long term perspectives. Currently, the biggest challenge for economic policy is to conciliate measures for short term stabilization with measures for long term structural and growth adjustment, either at national and global levels.
5. It is in this world context of crisis that the current budget crisis of Portugal has to be framed.
6. In fact, the current economic situation of Portugal reveals the potential consequences of the lack of emphasis on sustainability and structural adjustment. It can be used as a case

study not to be repeated. However, as we will see further down, the world economy is making the same error Portugal did.

7. Portugal accumulated, for more than a decade, macroeconomic disequilibria and structural fragilities, translating in the current situation of excessive indebtedness. The net external debt grew from 32% of GDP in 1999 to 89% in 2007 and to 108% in 2010. Simultaneously, for the first time in decades, the economy grew at a slow rate. Consequently, Portugal had a thin margin to adopt measures of budgetary stimulus to counteract the crisis of 2008-2009. On the basis of Portugal's today problems is the fact that the referred fragilities were underestimated. In fact, during 2008 and 2009 Portugal deliberately adopted a budgetary policy to stimulate economic activity trying to reduce the effects of the crisis of economic growth.

8. This policy drove the country into a deterioration of the budgetary deficit that got to the historic level of 10,1% of GDP in 2009. Simultaneously such policy drove the country into a deterioration of public debt in 11,4 percentage points to attain 83% of GDP.

9. However, in the short term, those measures of budgetary stimulus to growth impacted positively on economic activity – GDP grew 1,3% in 2010 after a contraction of 2,5% in 2009. But they were unable to hamper the economy to contract again in 2011. Observed from today, the 2010 push effect of budgetary stimulus revealed itself artificial and unsustainable. Though, international investor's credit risk perception of the Portuguese debt deteriorated substantially. This deterioration led to difficult conditions imposed to finance the economy, leading to the inevitable demand of international financial help materialized in April 2011.

10. Portugal is today showed as the example of a country that is exemplary applying the needed measures for short term stabilization and long term structural adjustment, going even further than the conditions imposed by the international financial groups.

11. However, as the global economy is concerned, the main action has been the implementation of measures for macroeconomic stabilization through the implementation of measures aiming at attenuating, in the short term, the effects of financial perturbations on economic activity. Differently from what we are now doing in Portugal, structural adjustment in the world economy has been continuously postponed. This world option is allowing for a relatively fast recuperation of world economic activity but does not guarantee its sustainability. As demonstrated before, such an error the world economy is undergoing was the cause of the current problems we have now in Portugal. Our example should serve as a case to implement structural adjustment at world level not to postpone the needed measures.

12. Actually, the persistence of disequilibria at a global level is a fact, namely at the public and external accounts imbalances and at the financial sector level, these translating into a huge vulnerability facing the alteration on the perception of risk of international markets. It is true that some correction has been made of global macroeconomic disequilibria but these disequilibria remain high and a huge risk exists that they can further deteriorate. Actually, most part of the corrections done was due to cyclical effects thus being of short term nature. A continuous correction has to be based on the implementation of measures of structural nature. This is what we are doing in Portugal, with important economic and social costs in the short term but with a perspective of a significant recovery already in 2012. Portugal should be considered as a case study and inspire international leaders to follow its current path to recovery.

António Neto da Silva