



*THE NEW ECONOMIC POLICY IN  
PORTUGAL FROM 2015 – 2018  
- END OF CAPITALISM OR A NEW REFORM PERIOD -*

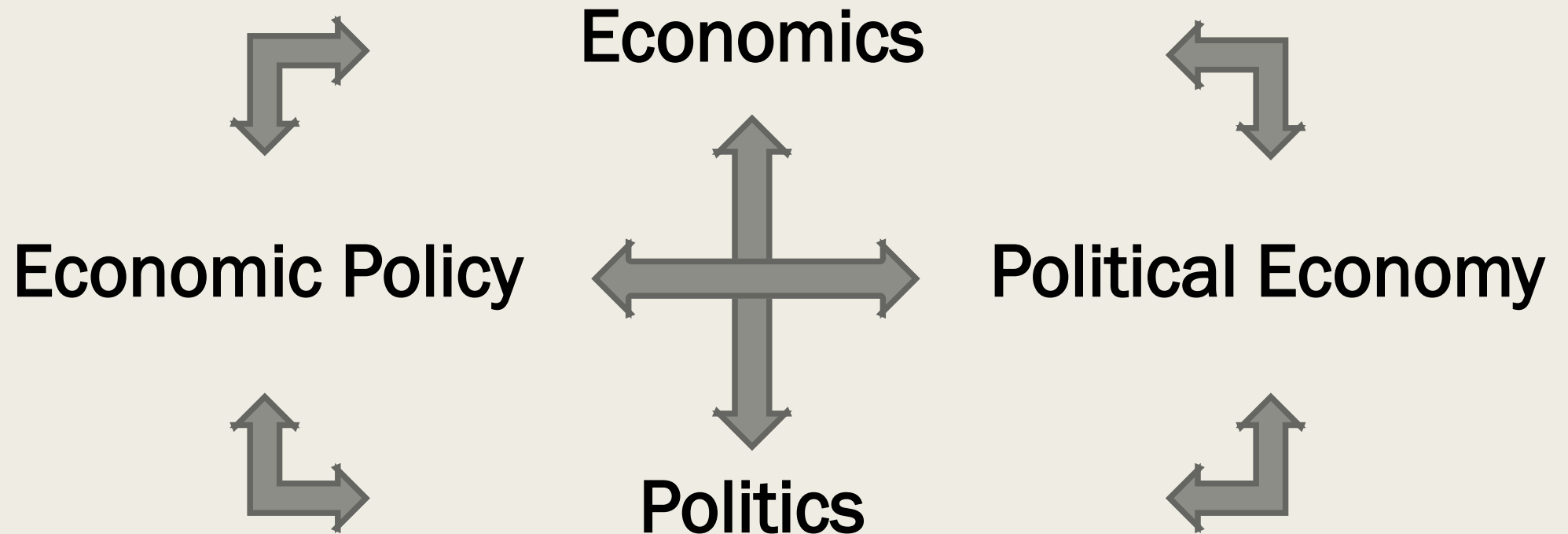
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# The new economic Policy in Portugal from 2015 – 2018: The challenge / constraints / dimensions



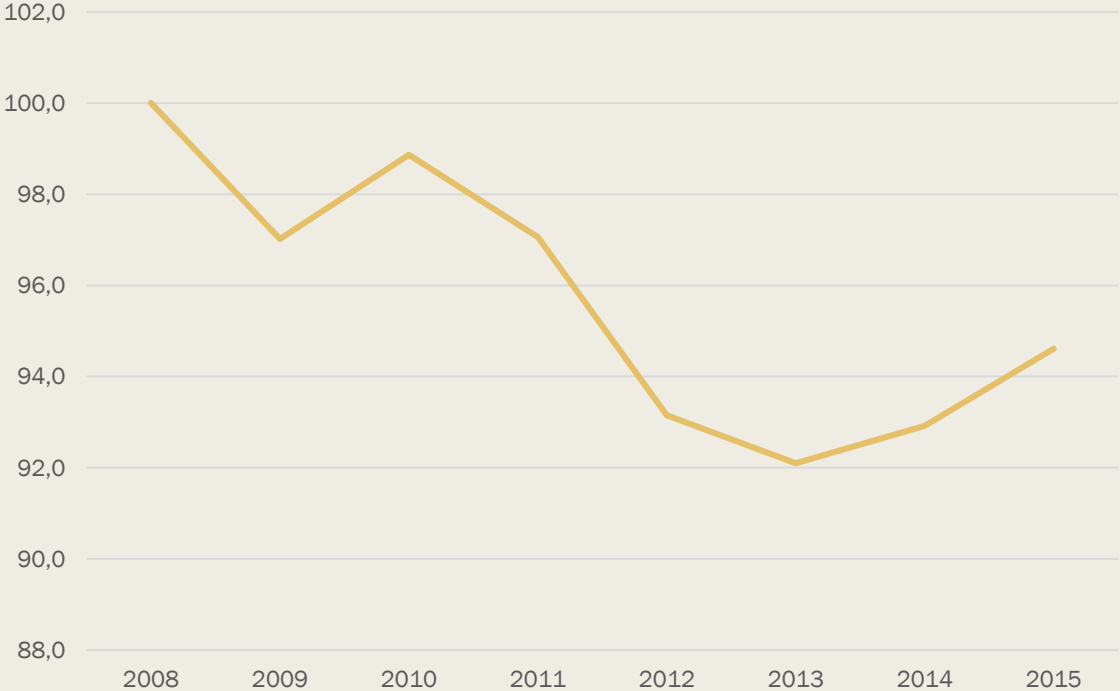
# Why Portugal needed a new economic policy?

- *The crisis of 2008 created an overly pessimistic view on potential output among policy makers that led to a large adjustment in fiscal policy. Contractionary fiscal policy, via hysteresis effects, caused a reduction in potential output that not only validated the original pessimistic forecasts, but also led to a second round of fiscal consolidation. This succession of contractionary fiscal policies was likely self-defeating for many European countries. The negative effects on GDP caused more damage to the sustainability of debt than the benefits of the budgetary adjustments.*

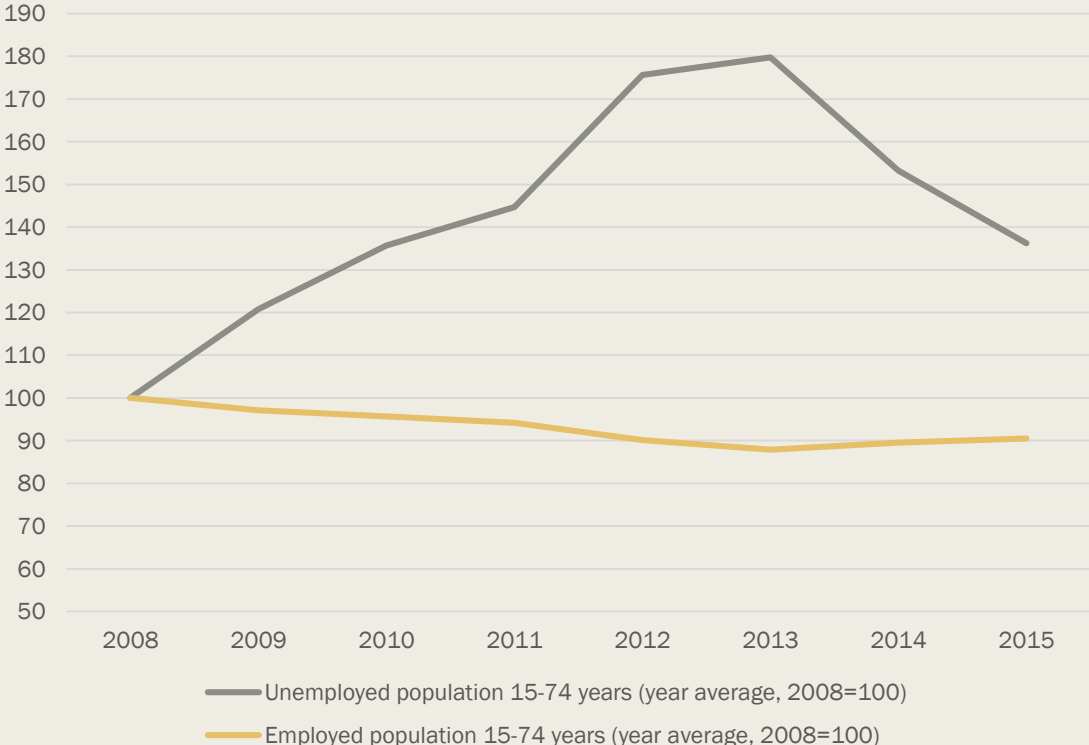
Fatás (2018, CEPR Discussion Paper No. DP13149)

# Why Portugal needed a new economic policy?

Gross domestic product at market prices  
(chain linked volume data, 2008=100)



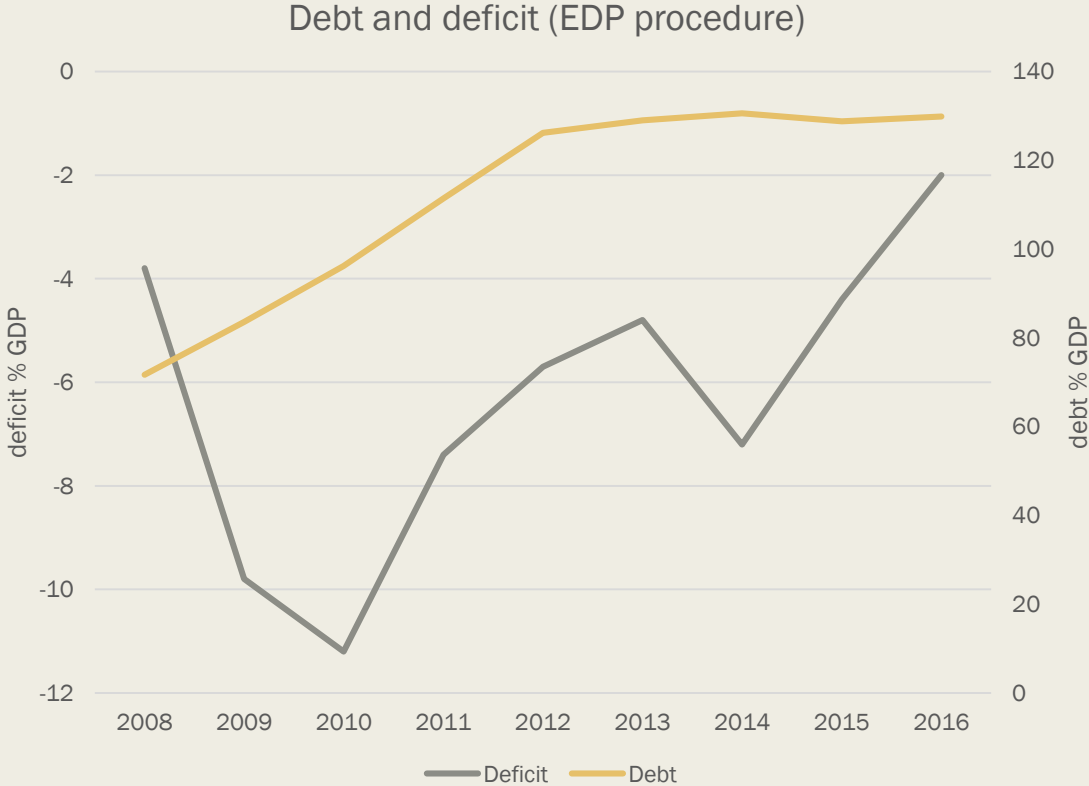
Employment and unemployment



# Why Portugal needed a new economic policy?



# Why Portugal needed a new economic policy?



# The new economic Policy in Portugal from 2015 – 2018: The main underlying idea

- It's demand AND supply. Not demand OR supply!

# The new economic Policy in Portugal from 2015 – 2018:

## The main goal

- Restore confidence



# The new economic Policy in Portugal from 2015 – 2018: The strategy

- Address structural bottlenecks but keep the patient alive in the meanwhile (Long run-compatible short run measures and policies)
- Comprehensive
  - *Stick to EU commitments*
  - *Recover family incomes*
  - *Improve conditions for business investment (address weaknesses of financial sector and improve overall financing conditions)*

# The new economic Policy in Portugal from 2015 – 2018:

## The policy

- Short run:
  - *Stick to EU commitments:*
    - Meet the targets

# The new economic Policy in Portugal from 2015 – 2018:

## The policy

### ■ Short run:

#### – *Recovery of household income:*

- eliminated the PIT surcharge
- lowered the maximum rate on housing property and reintroduced its safeguard clause
- restored social minima (CSI, RSI and Family Allowance)
- raised the minimum wage
- eliminated extraordinary contribution of solidarity and raised moderately pensions
- reduced moderating fees in health care access
- broadened the social tariff for energy

# The new economic Policy in Portugal from 2015 – 2018:

## The policy

### ■ Short run:

#### – *Improve investment conditions:*

- Foster and streamline the use of EU funds for business investment
- Address financial system weaknesses (NPL, uncertainty of impacts of bank resolutions)
- Address corporate balance sheet weaknesses – a programme on capitalization of companies
- Cutting red tape – Simplex programme

# The new economic Policy in Portugal from 2015 – 2018:

## The policy

### ■ Long run / Structural:

- *National Reform Programme 2016 encompassing 6 pillars tackling the main bottlenecks to MLT growth and address the country specific recommendations adopted by the EU Council in 2015 (Labour skills, Innovation, Territorial Enhancement, Modernization of Public Administration, Strengthening social cohesion and equality, Corporate sector capitalization)*

# The new economic Policy in Portugal from 2015 – 2018: Sailing unchartered waters and facing an adverse environment

- Mistrust and suspicion of most stakeholders
  - *A Government supported by far left and communists*
  - *A Government proposing an alternative*
  - *Doubts about the road to be walked*
  - *Doubts about the true intentions of the Government*

# The new economic Policy in Portugal from 2015 – 2018: Sailing unchartered waters and facing an adverse environment

- Resistance from EU Politics /Bureaucracy
  - *Challenges to Draft Budgetary Plan 2016 (Feb)*
  - *Sanctions in 2016 (related to the 2013/2015 period) (June)*
  - *Declarations in the press from several leaders... Schauble very vocal:*
    - “Portugal has been very successful until the formation of the new government.”
    - “Portugal does not want a new programme and will not need it, if the European rulings concerning fiscal consolidation and deficit reduction are applied”
    - “The markets are getting nervous.”

# The new economic Policy in Portugal from 2015 – 2018: Summing up

- Plan
- Stick to the plan
- Nerves of steel
- Make yourself trustworthy