

Opinion of the Economic and Social Council of Portugal on the Draft State Budget for 2014¹

Free translation of some aspects contained in the Introduction

The Economic and Social Council of Portugal (ESC) warns that the return of the country to the financial markets will not mean that the serious problems affecting the Portuguese economy will be solved. Those issues will continue to negatively condition economic growth and job creation. Indeed, some of them - such as unemployment and public debt as a percentage of GDP – have been aggravated by the implementation of the Economic and Financial Adjustment Programme (EFAP) sponsored by the IMF, the ECB and the European Commission.

The ESC finds four major mistakes that have conditioned the deployment of the Memorandum of Understanding - signed in the framework of the EFAP - and the policies resulting from it:

- An inadequate characterization of the crisis which underestimated its structural dimension as well as the country's high levels of indebtedness which affected not only the State but also companies and households;
- An underestimation of the importance of domestic demand and of the negative impact of its contraction on growth and employment;
- A "state reform" that ended up being limited to trimming public spending indiscriminately;
- A minimal concept of "structural reforms of the economy" achieved mainly by internal competitive devaluations.

¹ Approved by the ESC Plenary on the 4th November 2013 with no votes against (29 votes in favour and 14 abstentions).

The result of this strategy has been an ongoing gap between forecast and real in what concerns economic, social and financial figures, namely:

- A sharp economic downturn, with special emphasis on investment and consumption indicators;
- A very rapid increase in unemployment;
- A sharp drop in household disposable income and closure of a large number of companies;
- An insufficient fiscal consolidation which ended prisoner of the vicious circle austerity-recession.

Nevertheless, some positive developments have taken place, especially regarding two indicators:

- The improvement of the structural deficit and in particular of the structural primary deficit;
- The improvement of the current and capital account which has reached a surplus in 2012.

Given the persistence and worsening of the structural problems of the Portuguese economy and the continued increase in public debt, the ESC considers essential that the adjustment effort is revised in order to combine fiscal consolidation with economic growth.

In order for growth to take place it is of paramount importance to adapt the time horizon in which fiscal consolidation is to take place with a view to reduce austerity levels. For economic growth to have a virtuous effect on debt it is also crucial that the nominal growth rate of the economy is higher than the implicit interest rate for public debt.

In a context where competition is global, the model of the future will have to be based on a significant increase of productive investment capable of incorporating high added value in tradable goods and services while taking advantage of our competitive advantages. Public policies must value the factors of positive differentiation of the country that may reduce dependency on the outside. The Council understands that a Program of this nature will only be effective if it is designed to be implemented over a period of 10 years with gradual development and based on a high coherence between sectoral policies in order to contribute to higher social cohesion.