

LOOKING FOR A SUCCESS: THE EURO-CRISIS ADJUSTMENT PROGRAMS

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SUCCESS AND FAILURE

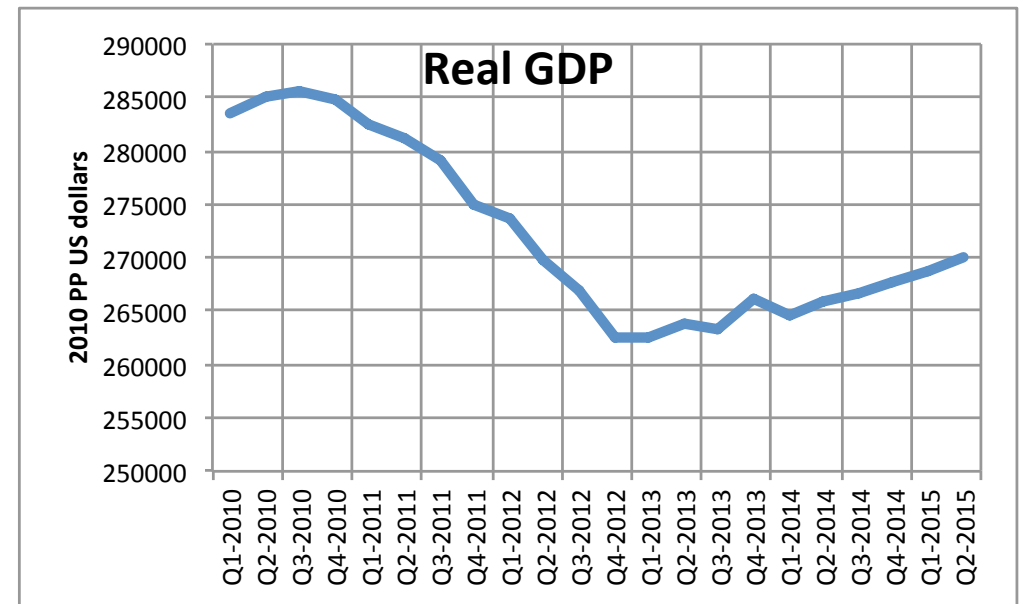
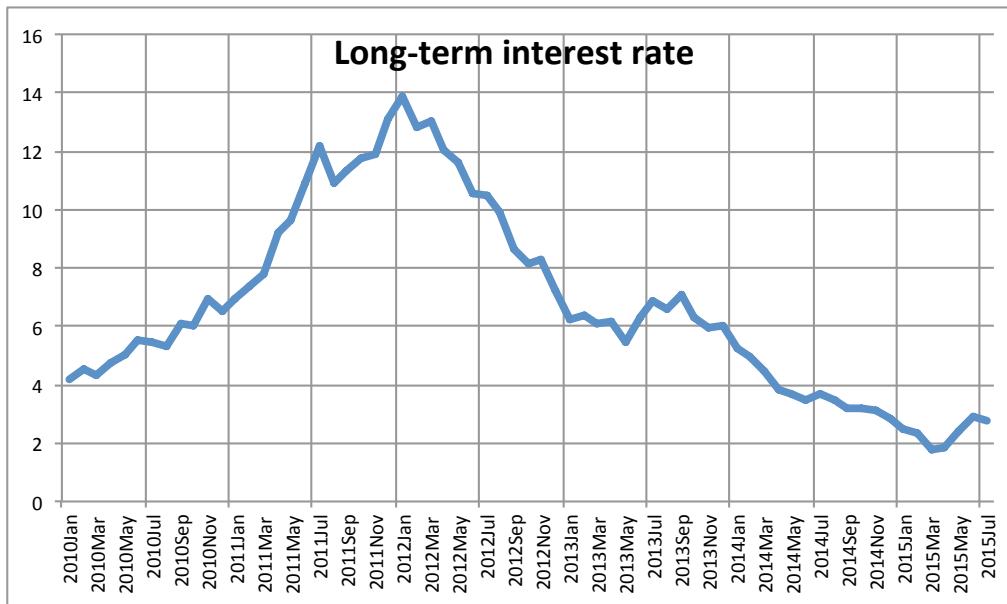


“Portugal’s reform efforts have paid off. Today’s decision by the government in Lisbon is proof of this. Portugal no longer needs European assistance and can stand on its own two feet again. This is a major success. Capital market confidence has returned, and rightly so.” June 2014.



In “Europe’s many disasters”
“Portugal has also obediently implemented harsh austerity — and is 6 percent poorer than it used to be.”
NYT, July 2015.

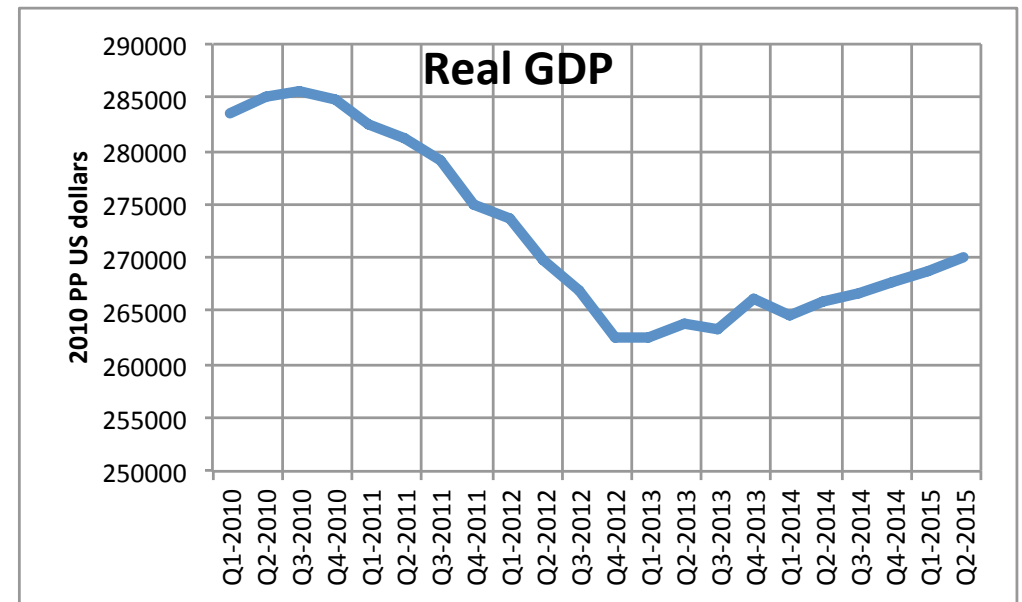
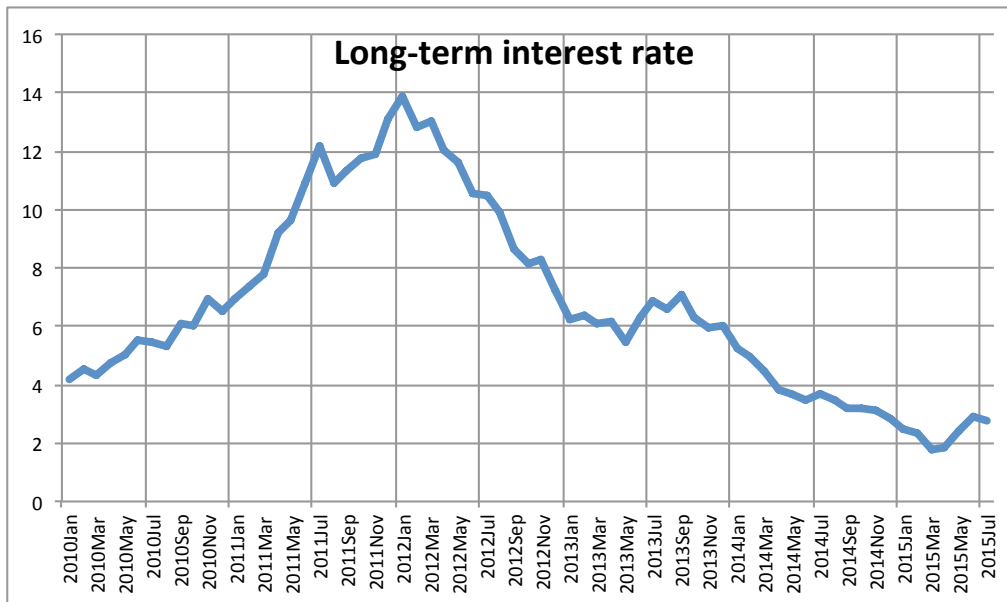
SUCCESS AND FAILURE



Public finances **success**

Macroeconomy **failure**

SUCCESS AND FAILURE



Public finances **success**
failure

Macroeconomy **failure**
success

DIAGNOSIS

* **A debt crisis**

- But both sovereign and private. And ahead of sovereign, a sudden stop of private capital.
- And behind it were national banks that intermediated EA-wide credit flows

* **A deep recession**

- But roots predate crisis TFP growth stops in 2000
- In common, misallocation of resources across and within sectors.

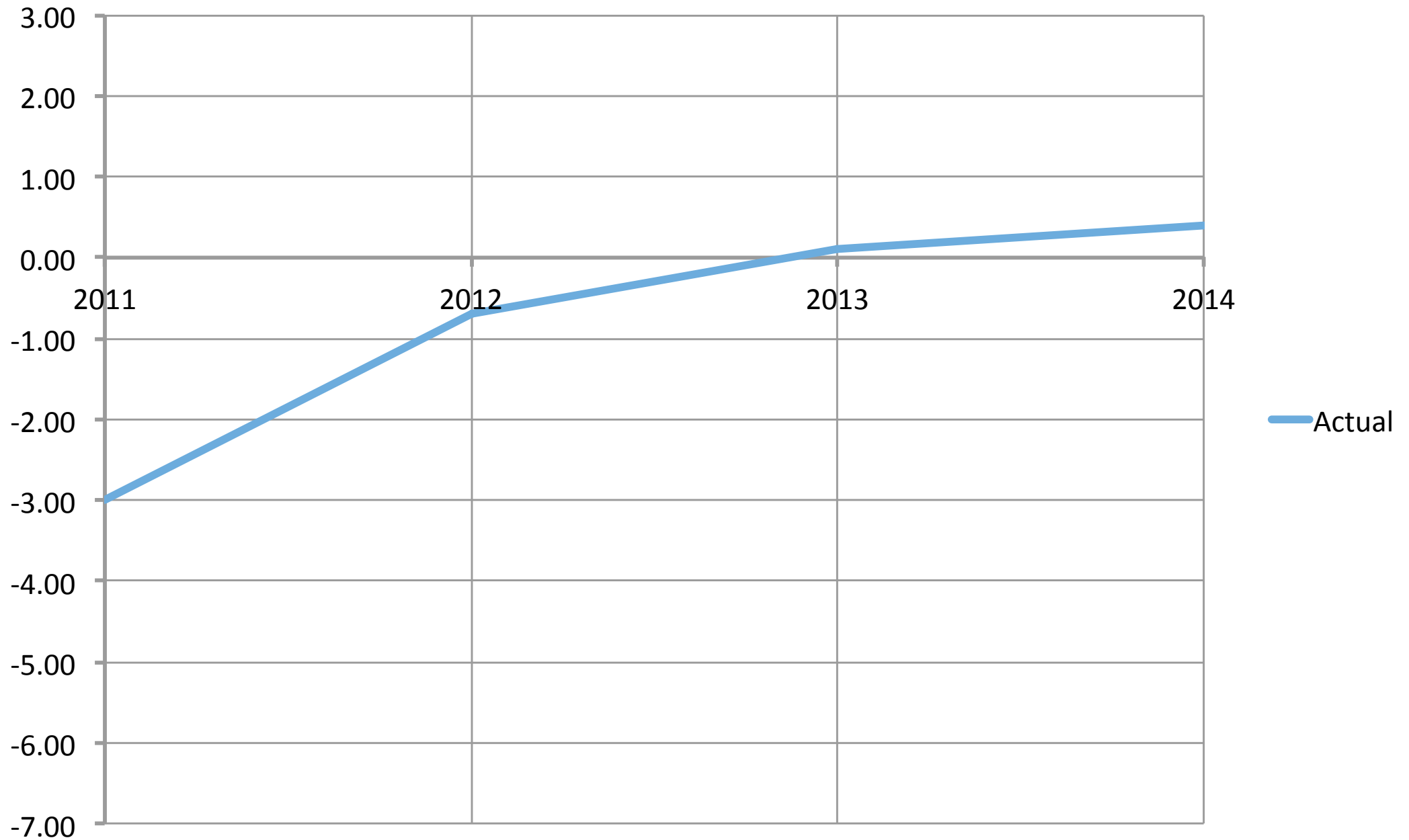
I. PAYING FOR DEBTS

| | 2010 | 2014 |
|---------------|-------|------|
| Trade balance | -7.1% | 1.1% |
| Exports / GDP | 30% | 41% |

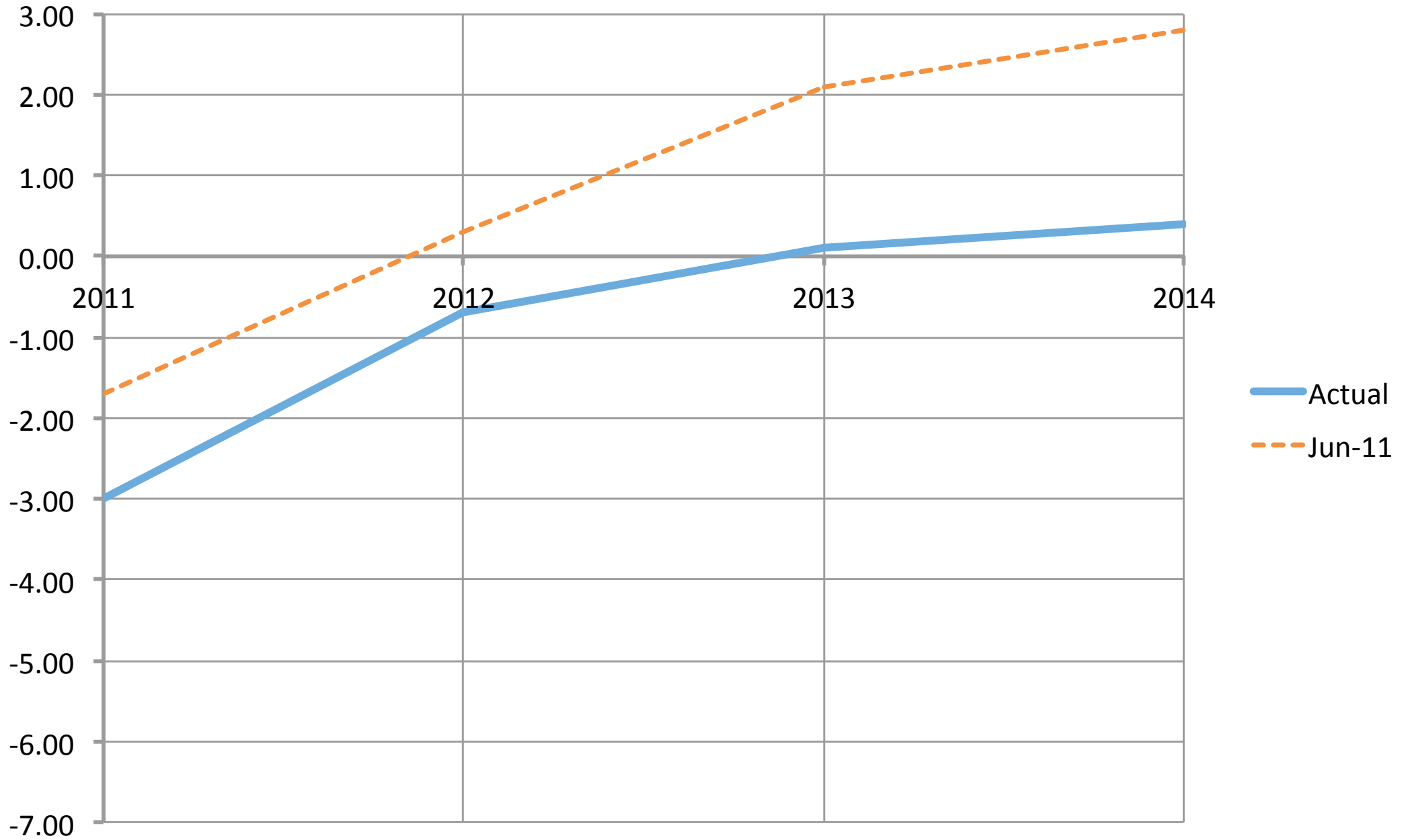
I. PAYING FOR DEBTS

| | 2010 | 2014 |
|-----------------|-------|------|
| Trade balance | -7.1% | 1.1% |
| Exports / GDP | 30% | 41% |
| Primary surplus | -8.2% | 0.5% |
| Public Debt/GDP | 96% | 130% |

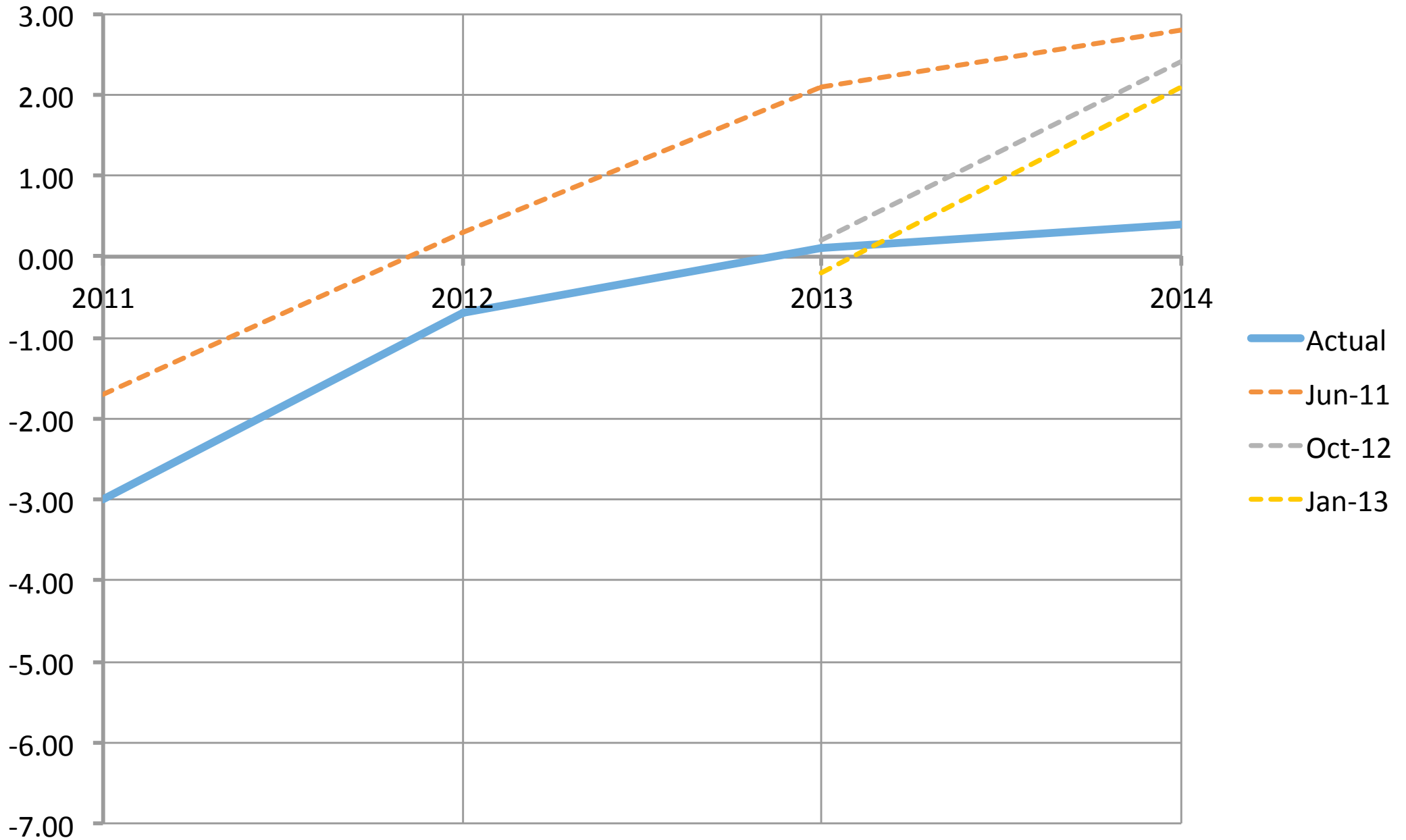
PRIMARY SURPLUS



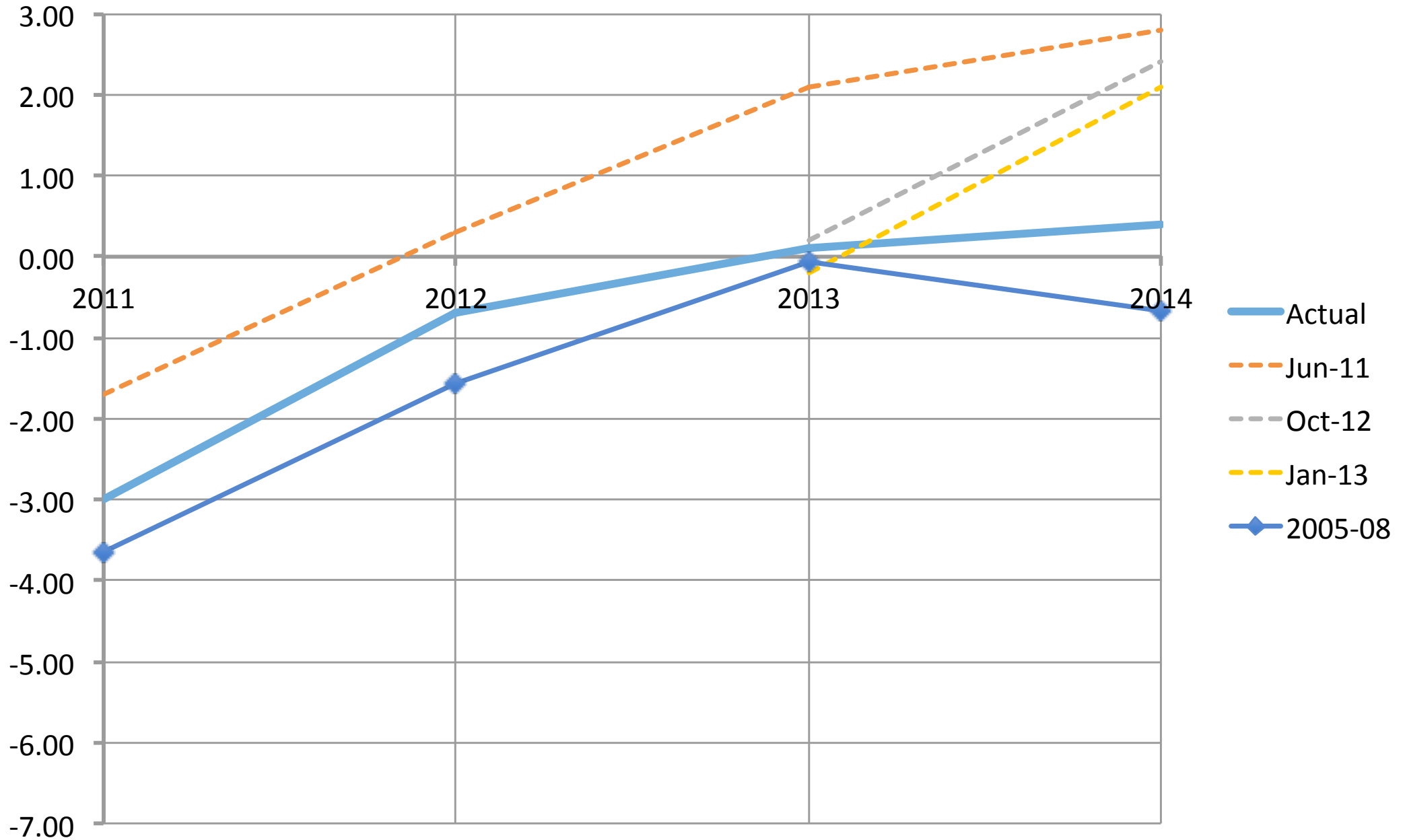
PRIMARY SURPLUS



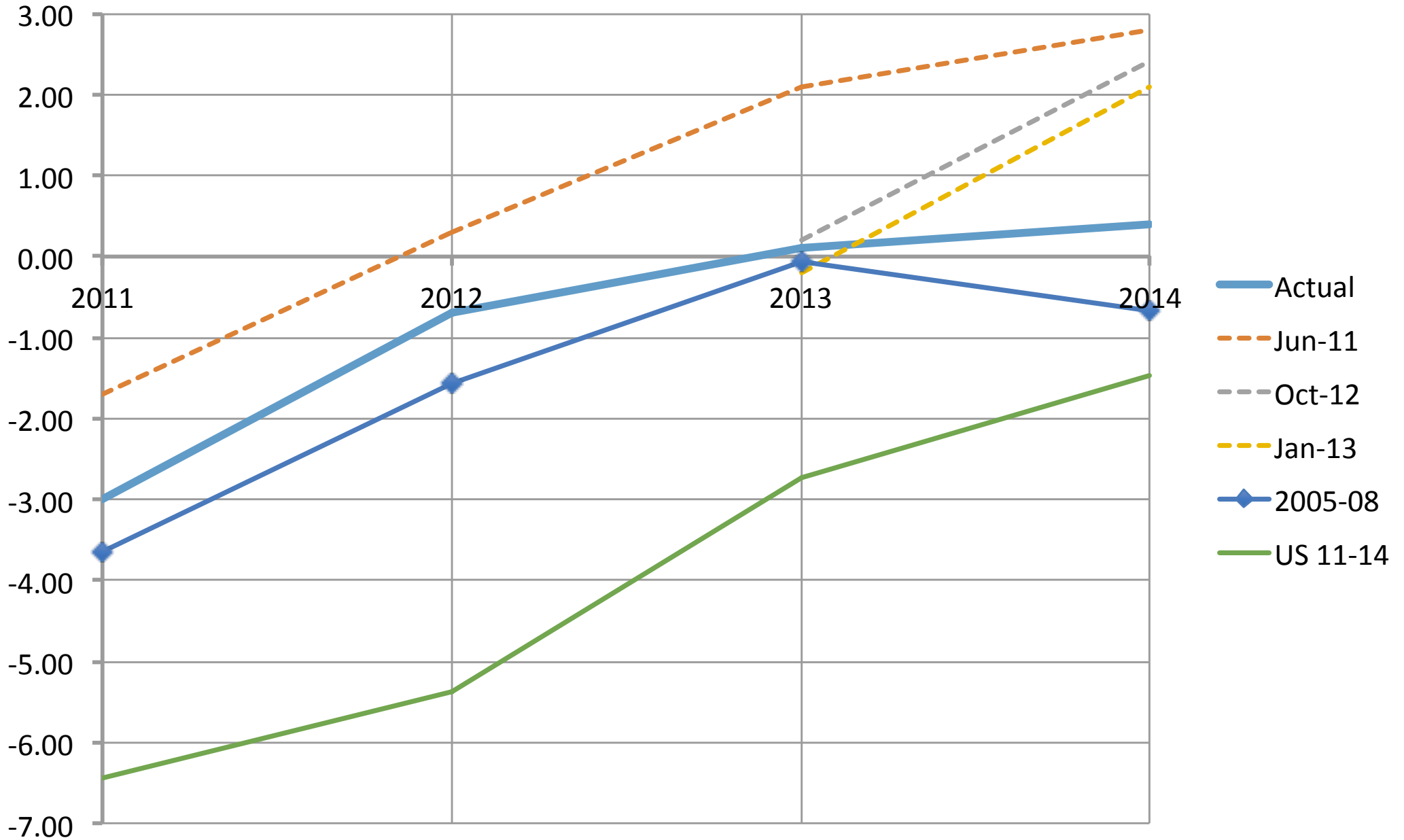
PRIMARY SURPLUS



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PRIMARY SURPLUS

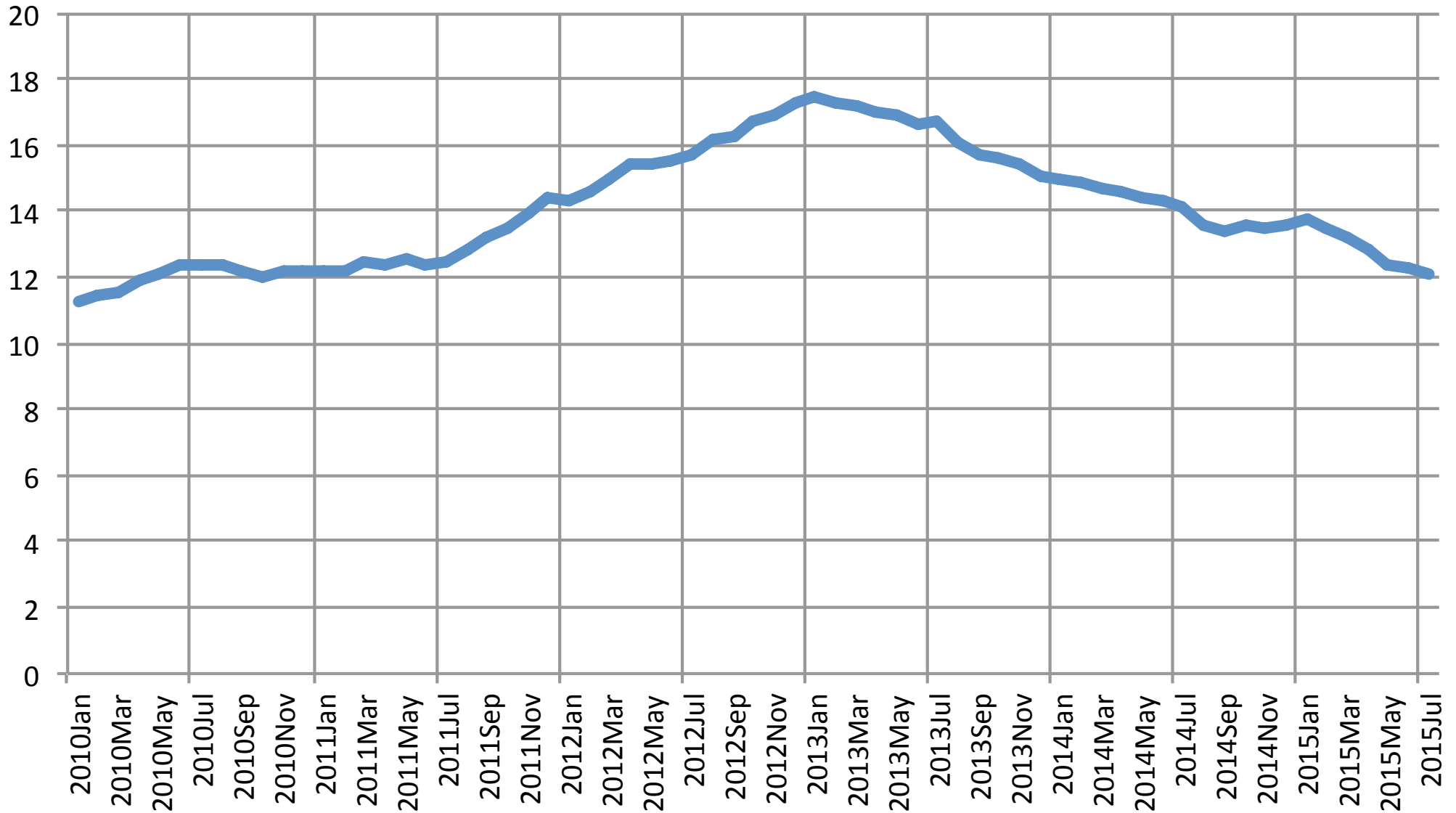


2. CONTROLLING SPENDING

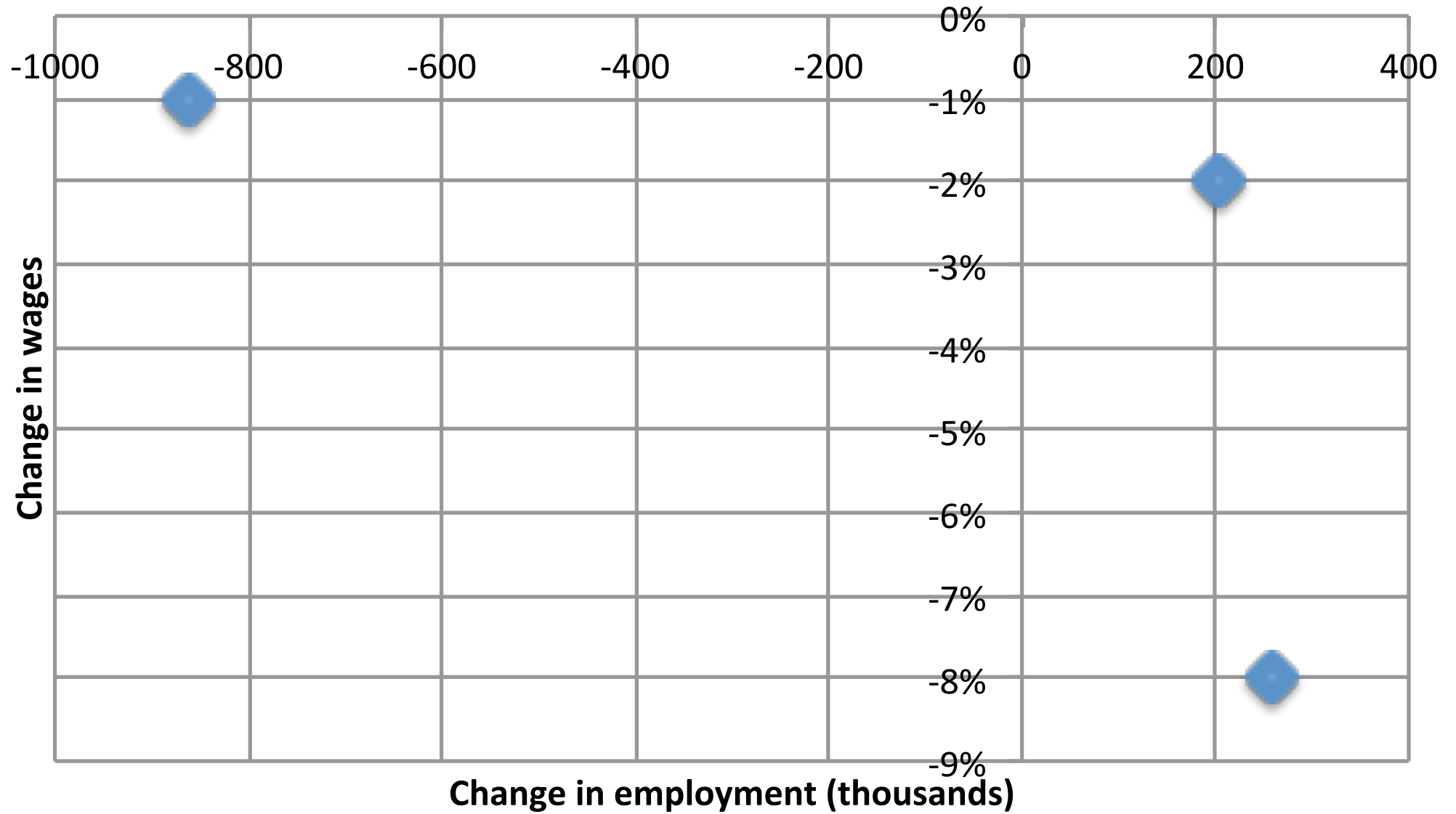
| | 2010 | 2014 |
|-----------------------|-------|-------|
| Government revenue | 40.6% | 44.5% |
| Public investment | 7.2% | 3.2% |
| Transfers | 22.1% | 23.1% |
| Total spending - inv. | 80bn | 79bn |

3. LABOR MARKET

Unemployment rate



3. LABOR MARKET



4. CAPITAL ALLOCATION

- Tradables sectors grew.
- Agriculture and construction account for 2/3 of fall in employment.
- Output per hour increased the most in wholesale and retail trade and real estate.
- All major banks were de facto restructured (but corporate debt unchanged).

5. CONCLUSION

- Simple aggregates suggest a public finances success, macro failure.
- But if look deeper, conclude the opposite: limited success in curbing pension growth and many encouraging signs of reallocation of resources.
- Near-term challenges:
 - Elections in 4 weeks
 - Feasibility of debt restructuring.