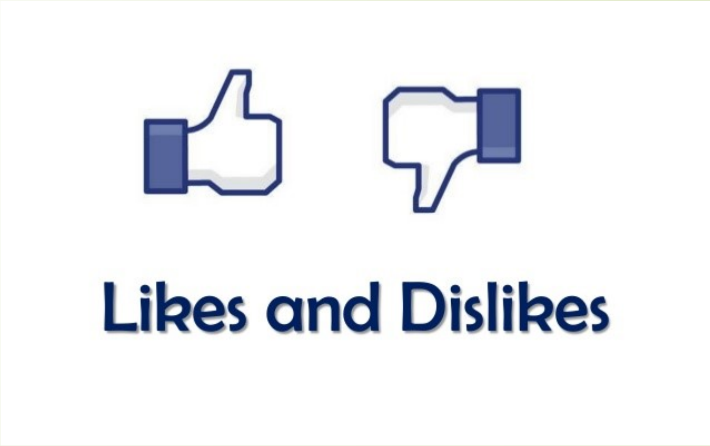
# The Portuguese Economy Investment & development

**João Duque**

**12/12/2017**



# How should Portugal ground its economic growth?

- **Investment** => to promote qualified job creation and sustainable growth
- Increase the importance of **exports** even under a constant foreign demand to:
  - Increase exposure to international competition
  - Place production costs in line with the international market
  - Increase resilience of internal economic agents
  - Decrease the relative importance of nonproductive sectors (administration and Government).
  - Changes the weights of the vital government functions on the economic mix such as education, health, national security, justice,...) facilitating their maintenance.

# What has changed in the Portuguese GDP composition? (current prices)

| | Private Consumption | Public Consumption | Investment GFCF | Exports of Goods and Services | Imports of Goods and | GDP |
|---|---|---|---|---|---|---|
| 2016 | 65.9% | 18.1% | 15.0% | 40.3% | 39.6% | 99.8% |
| 2008 | 66.2% | 19.9% | 22.8% | 31.1% | 40.8% | 99.3% |
| 1998 | 62.9% | 18.0% | 27.3% | 27.3% | 36.5% | 99.0% |
| 1988 | 62.0% | 14.4% | 29.7% | 28.8% | 36.8% | 98.1% |
| 1978 | 63.3% | 13.2% | 28.7% | 16.7% | 25.9% | 96.0% |

- Strong increase in exports
- Strong contraction in investment

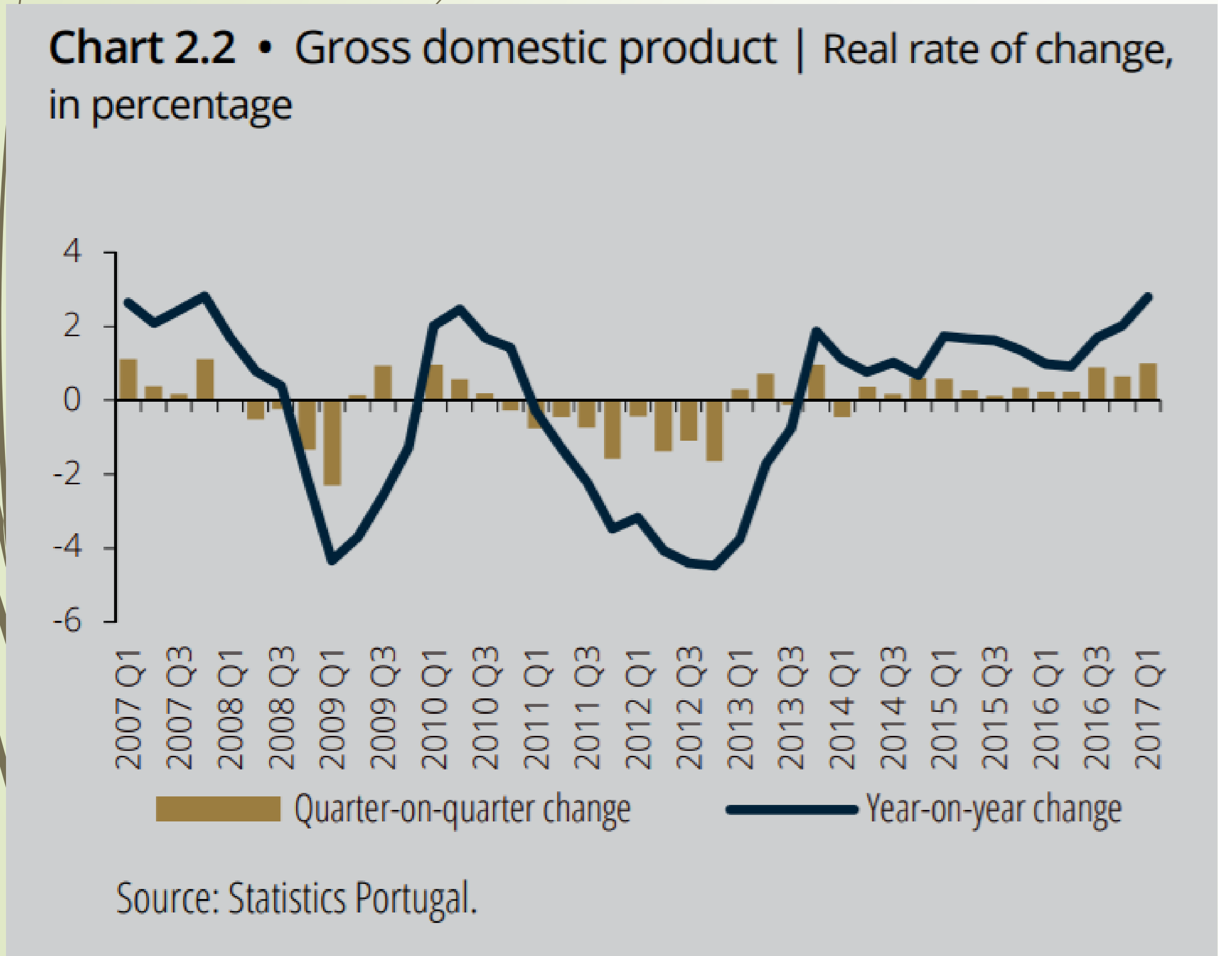
Source: Statistics of Portugal

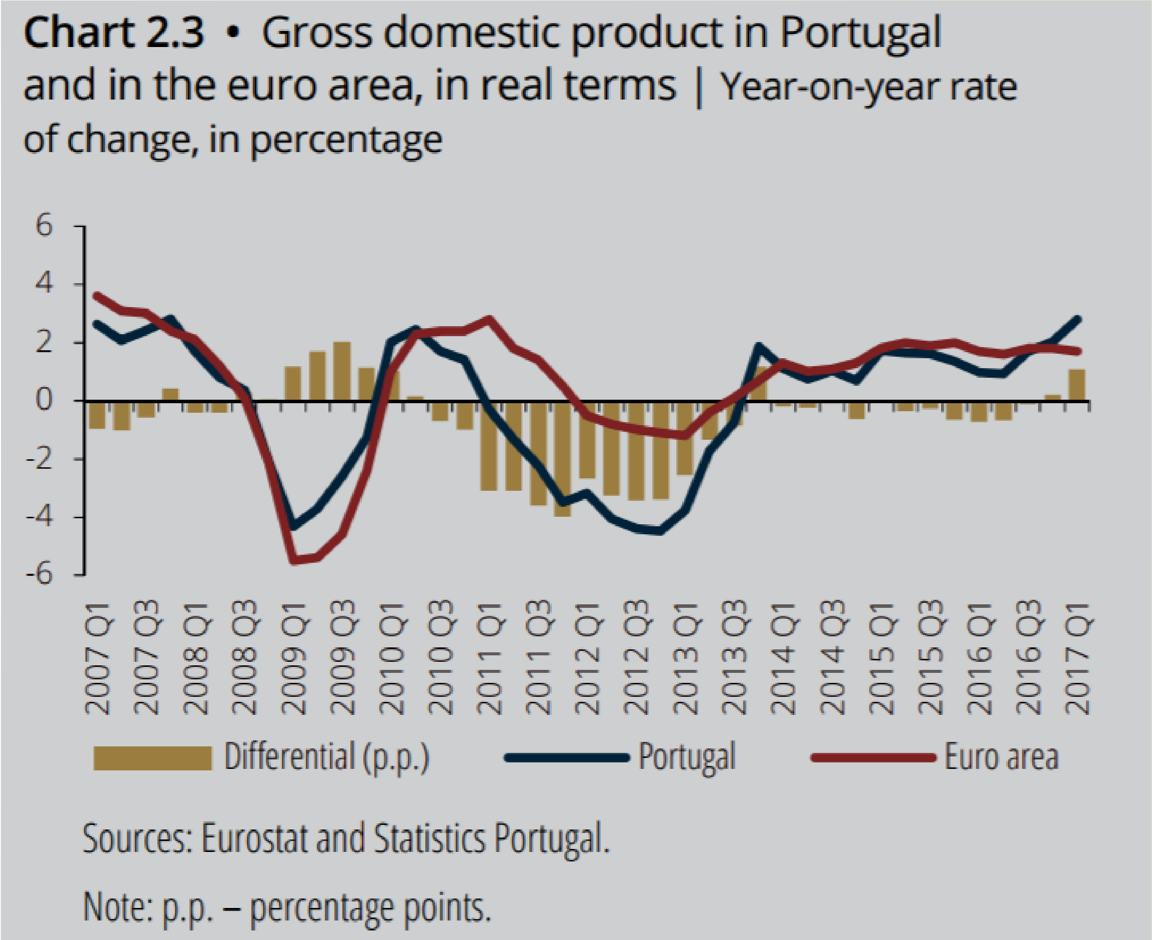
# Main conclusions:

- Strong increase in Exports

- Sharp decline in investment

# What is going on? (quarterly data)




Source: Bank of Portugal

# What is going on?

- In a first move, Portugal was protected by a massive public spending and a huge issue of public debt

- After this illusory cushion protecting Portugal from the dive it proved to expose the weaknesses of the Portuguese economy leading to an extreme market illiquidity (needed to feed our constant negative cash-flow) and a stronger crises hit us.

- Now that the recovery started with a series of ups and downs with some recent positive and surprising results

- Started to catch up Europe

# The basis of a recovery

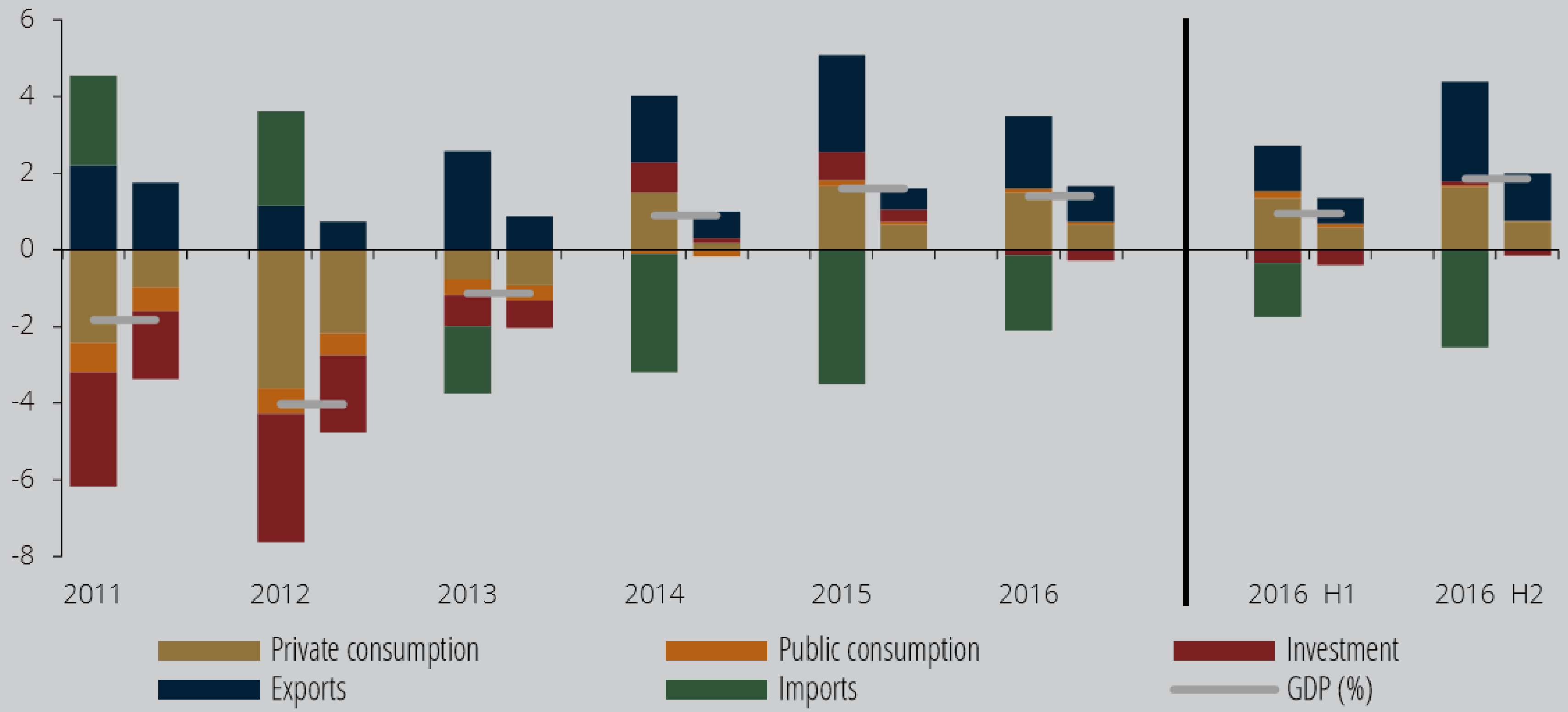



**Chart 2.1** • Contributions to GDP growth, in year-on-year terms

| In percentage points

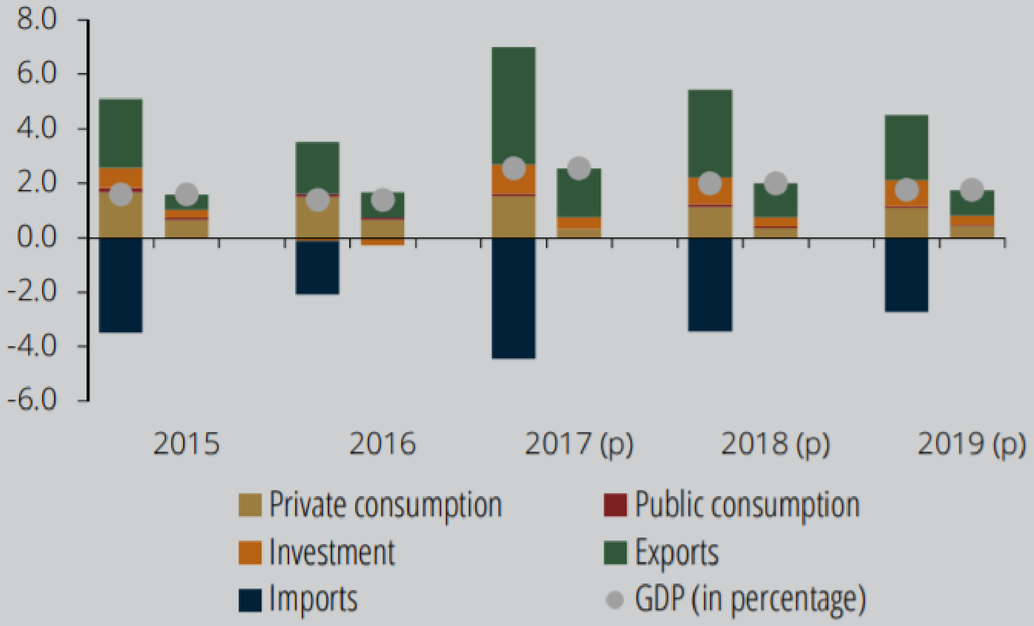
Sources: Statistics Portugal and Banco de Portugal.

Notes: For each year, the left side bar refers to gross contributions from each GDP component and the right side bar refers to the corresponding net contributions. The demand aggregates net of imports are obtained by subtracting an estimate of the imports needed to meet each component. The calculation of import content was based on data for 2005. For more information, see the Box entitled 'The role of domestic demand and exports in economic activity developments in Portugal', in the June 2014 issue of the *Economic Bulletin*.

Source: Bank of Portugal

# The basis of a recovery

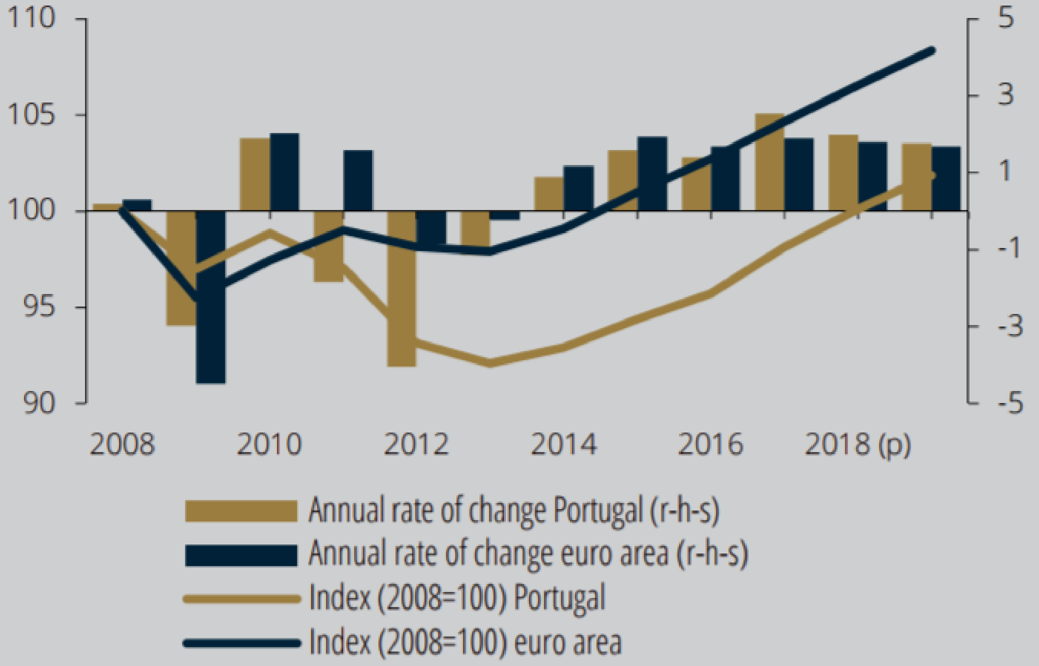
**Chart 3.1** • Gross and net contributions to GDP growth | In percentage points




Sources: Statistics Portugal and Banco de Portugal.

Notes: (p) – projected. For each year, the left-hand bar refers to gross contributions from each GDP component and the right-hand bar to contributions adjusted by the import content.

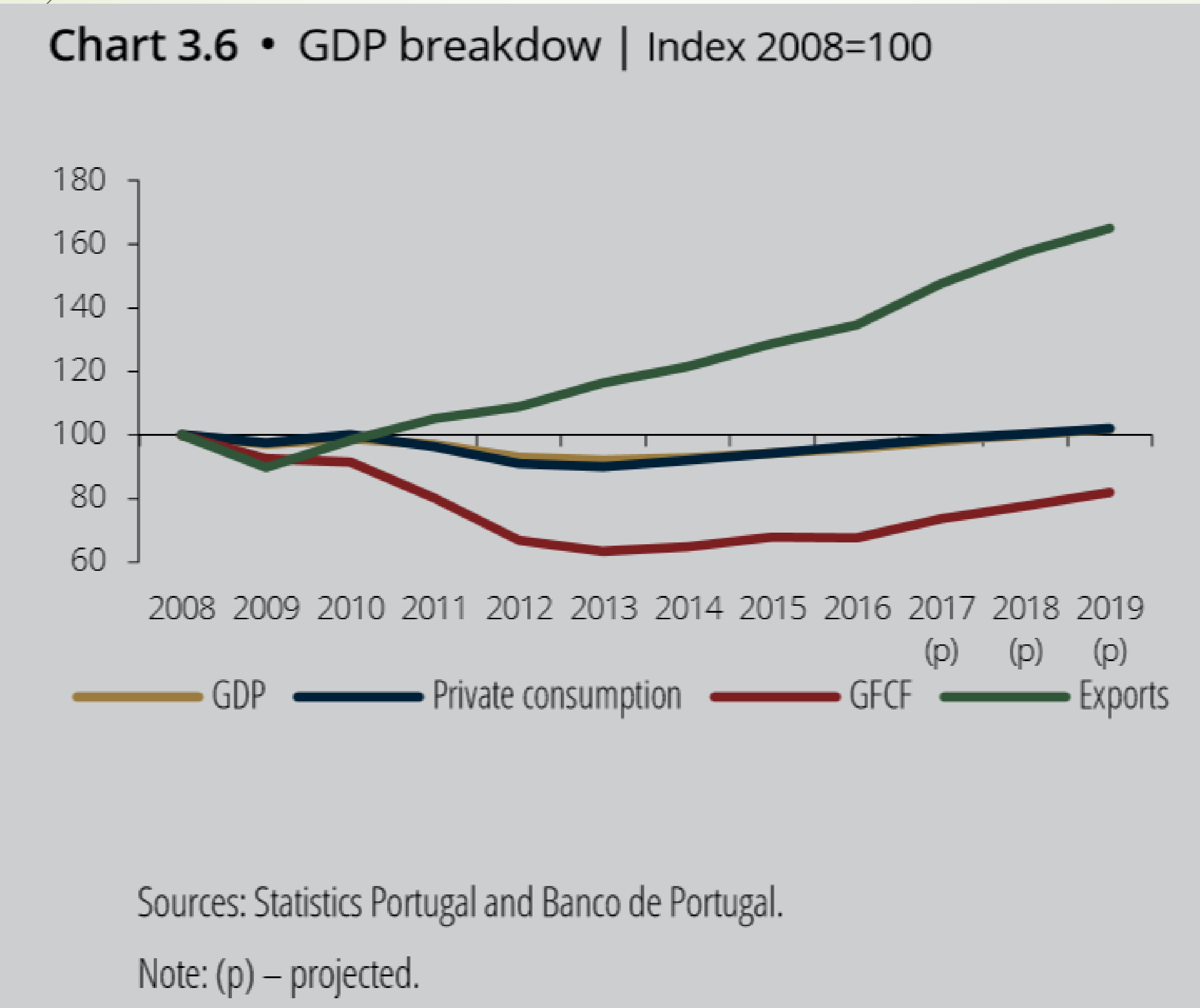
**Chart 3.2** • GDP in Portugal and in the euro area | In percentage and index (2008=100)




Sources: Statistics Portugal and Banco de Portugal.

Source: Bank of Portugal

# In another perspective…



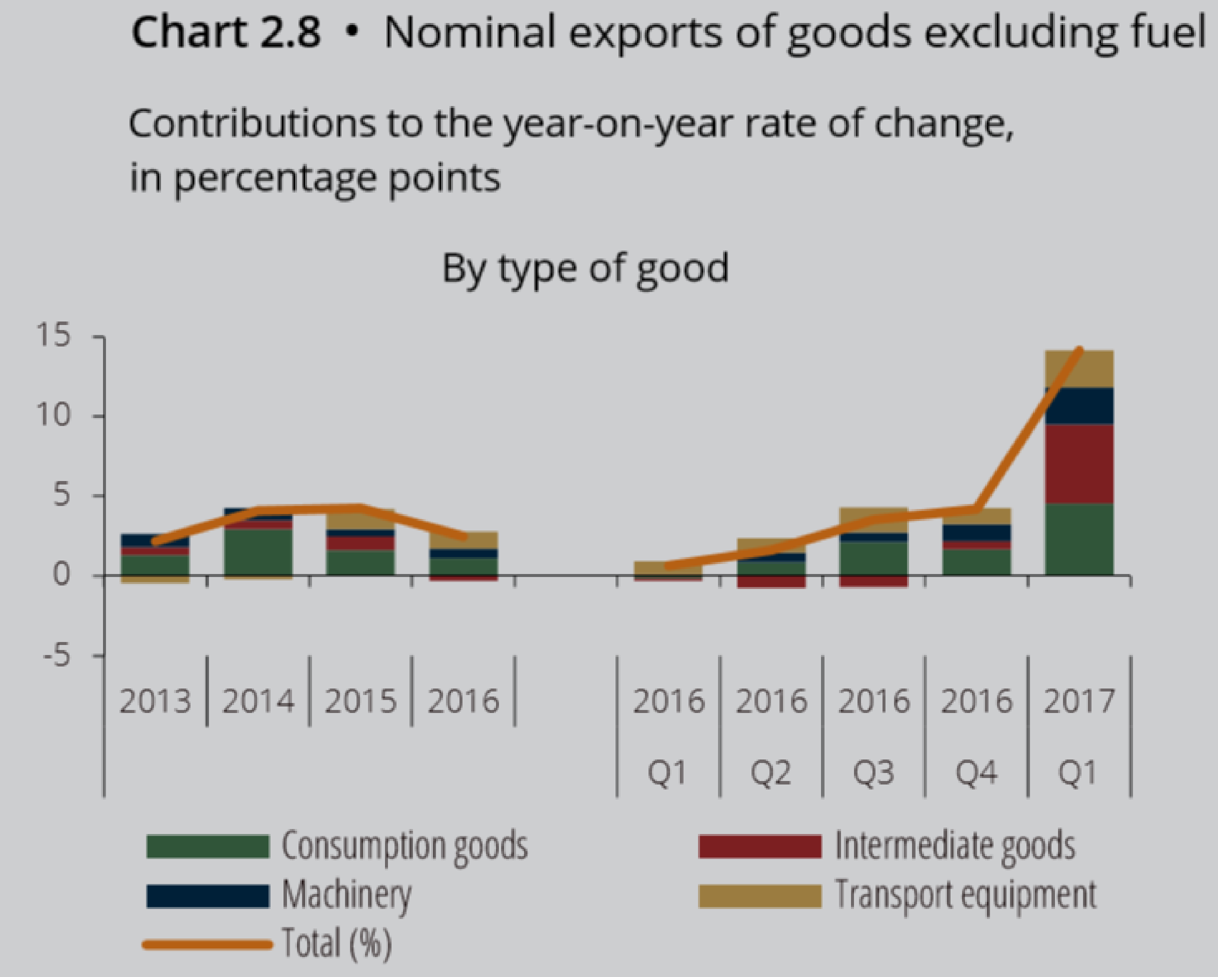

Source: Bank of Portugal

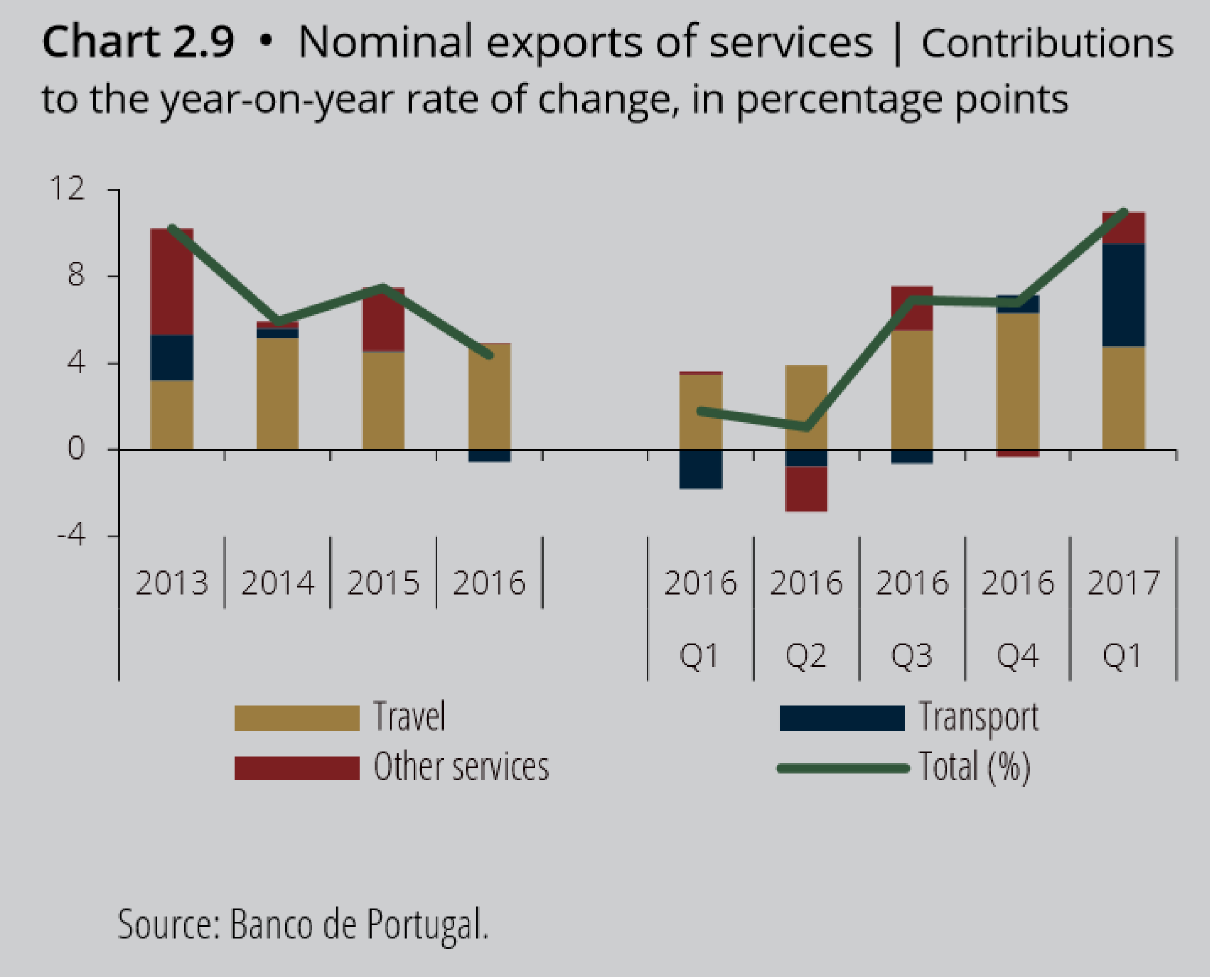
# The basis of a recovery

| | Weights 2016 | EB June 2017 | | | | Projection March 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | 2017 (p) | 2018 (p) | 2019 (p) | 2016 | 2017 (p) | 2018 (p) | 2019 (p) |
| Gross domestic product | 100.0 | 1.4 | 2.5 | 2.0 | 1.8 | 1.4 | 1.8 | 1.7 | 1.6 |
| Contribution to GDP growth, net of imports (in p.p.) (a) | | | | | | | | | |
| Domestic demand | | 0.5 | 0.8 | 0.8 | 0.8 | 0.5 | 0.8 | 0.7 | 0.7 |
| Exports | | 0.9 | 1.8 | 1.2 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 |

Source: Bank of Portugal

# Nominal exports: goods and services




Source: Bank of Portugal

# The basis of a recovery

- What is the basis of our recovery?
  - Exports + Exports + Exports
  - Exports of Goods
  - Exports of services
    - Tourism
      - Short-term rents
      - Gold Visa
      - Portuguese Non-Habitual Residency status
      - Property renewals + Hotel creation

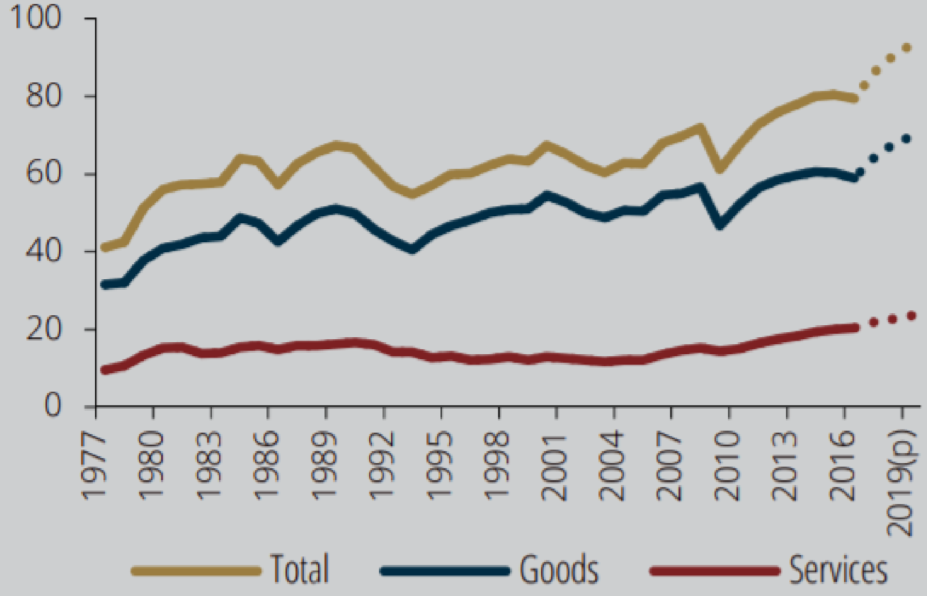
# Portuguese Exportations - Main markets Importance and behavior (2017)

| | | Spain | Germany | France | UK | Netherlands | Italy | Non-EU | Total |
|---|---|---|---|---|---|---|---|---|---|
| YoY % Change | I-Q 2017 | 15.4% | 10.9% | 10.1% | 6.9% | 12.5% | 22.9% | 32.1% | 17.1% |
| | II-Q 2017 | 3.4% | -2.8% | 5.8% | -0.7% | 24.9% | 13.3% | 15.8% | 7.5% |
| | I-H 2017 | 9.2% | 3.7% | 7.9% | 3.0% | 18.4% | 18.0% | 23.5% | 12.1% |
| | | | | | | | | | |
| | I-H Weights 2016 | 26.5% | 12.1% | 13.2% | 7.2% | 3.7% | 3.5% | 23.1% | 100.0% |
| | I-H Weights 2017 | 25.8% | 11.2% | 12.7% | 6.6% | 4.0% | 3.6% | 25.4% | 100.0% |

Souce: Statistics of Portugal

# Trade Openness

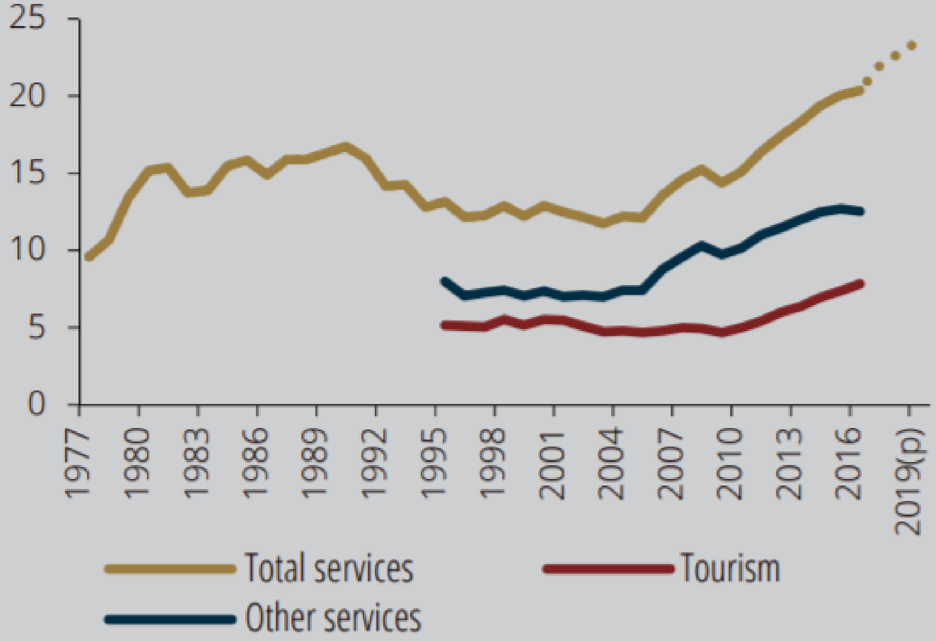
**Chart 3** • Breakdown of trade openness – goods *vs.* services, in nominal terms | In percentage




Sources: Statistics Portugal and Banco de Portugal.

Note: (p) – projected.

**Chart 4** • Trade openness in services, in nominal terms | In percentage

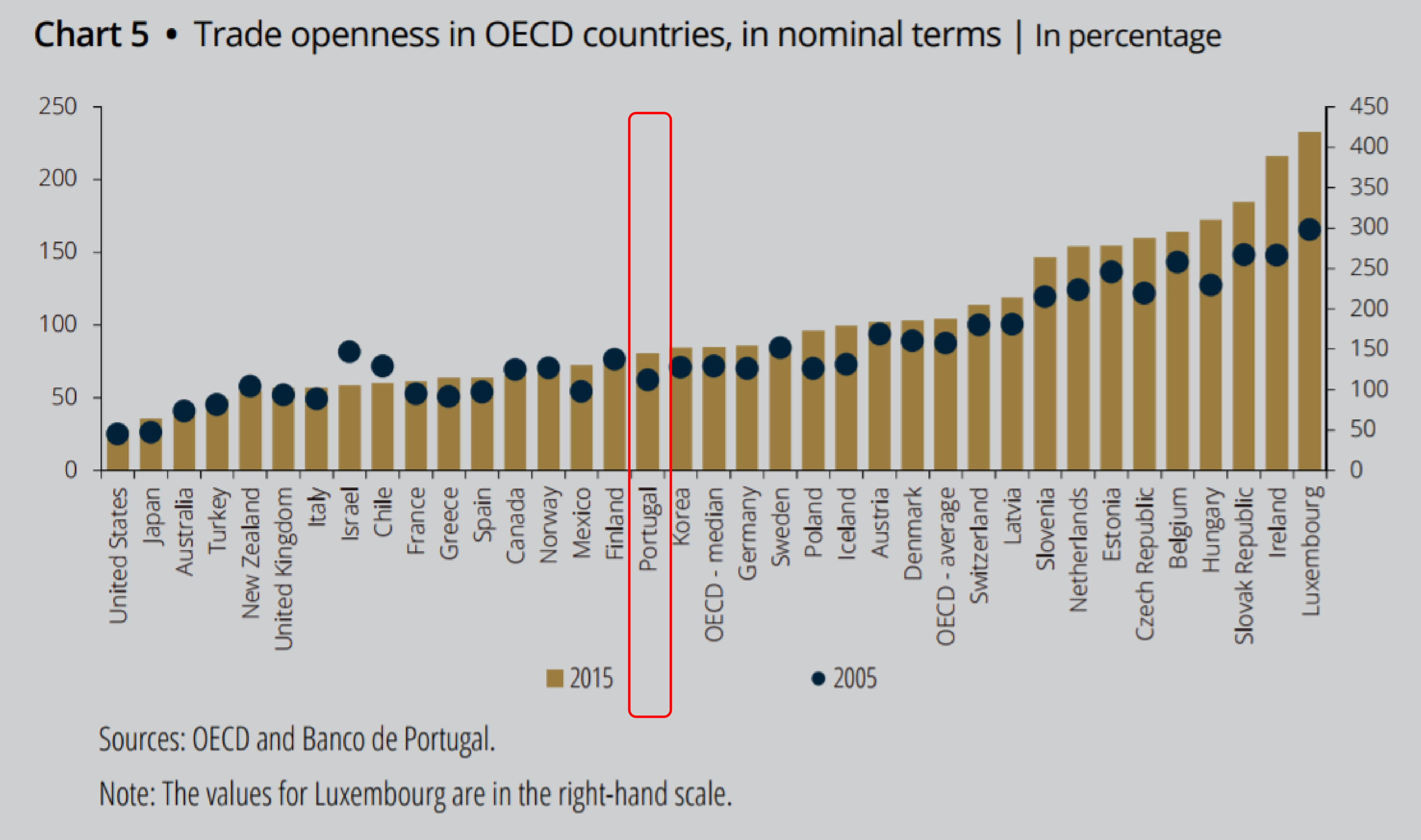



Sources: Statistics Portugal and Banco de Portugal.

Note: (p) – projected.

Source: Bank of Portugal

# Trade Openness



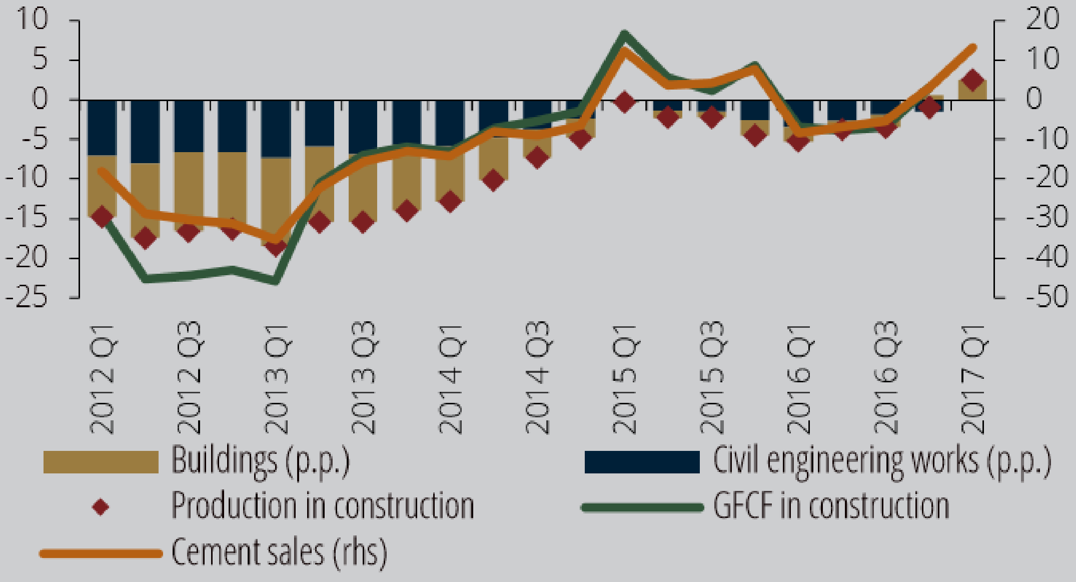

Source: Bank of Portugal

# The basis of a recovery

- The Portuguese economy today is more:
  - Internationalized 
  - Open 
  - Subject to other economies' cycles 
  - With prices compulsory in line with international competitiveness 
  - In line with the will to keep this track of openness 
  - **The Portuguese got used to see foreigners as owners of their properties (real estate or securities)** 

# What about investment?

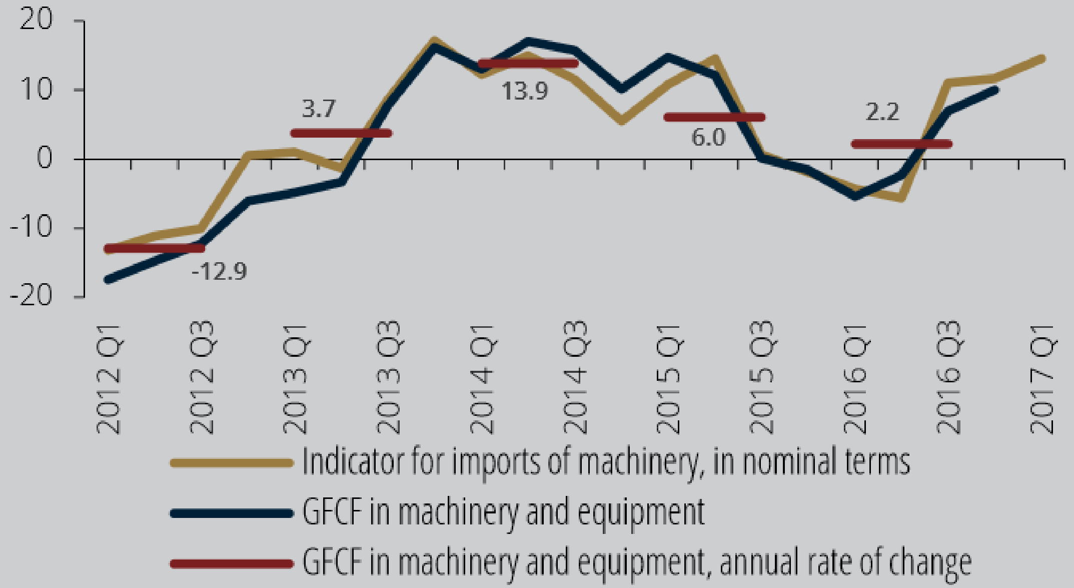
**Chart 2.6** • GFCF in construction, in real terms | Year-on-year rate of change, in percentage




Sources: Cimpor, Statistics Portugal, Secil and Banco de Portugal.

Notes: p.p. – percentage points. The columns refer to contributions from each component to the year on year rate of change of the index of production in construction. The series for cement sales is calendar and seasonal effects adjusted.

**Chart 2.7** • GFCF in machinery and equipment, in real terms | Year-on-year rate of change, in percentage

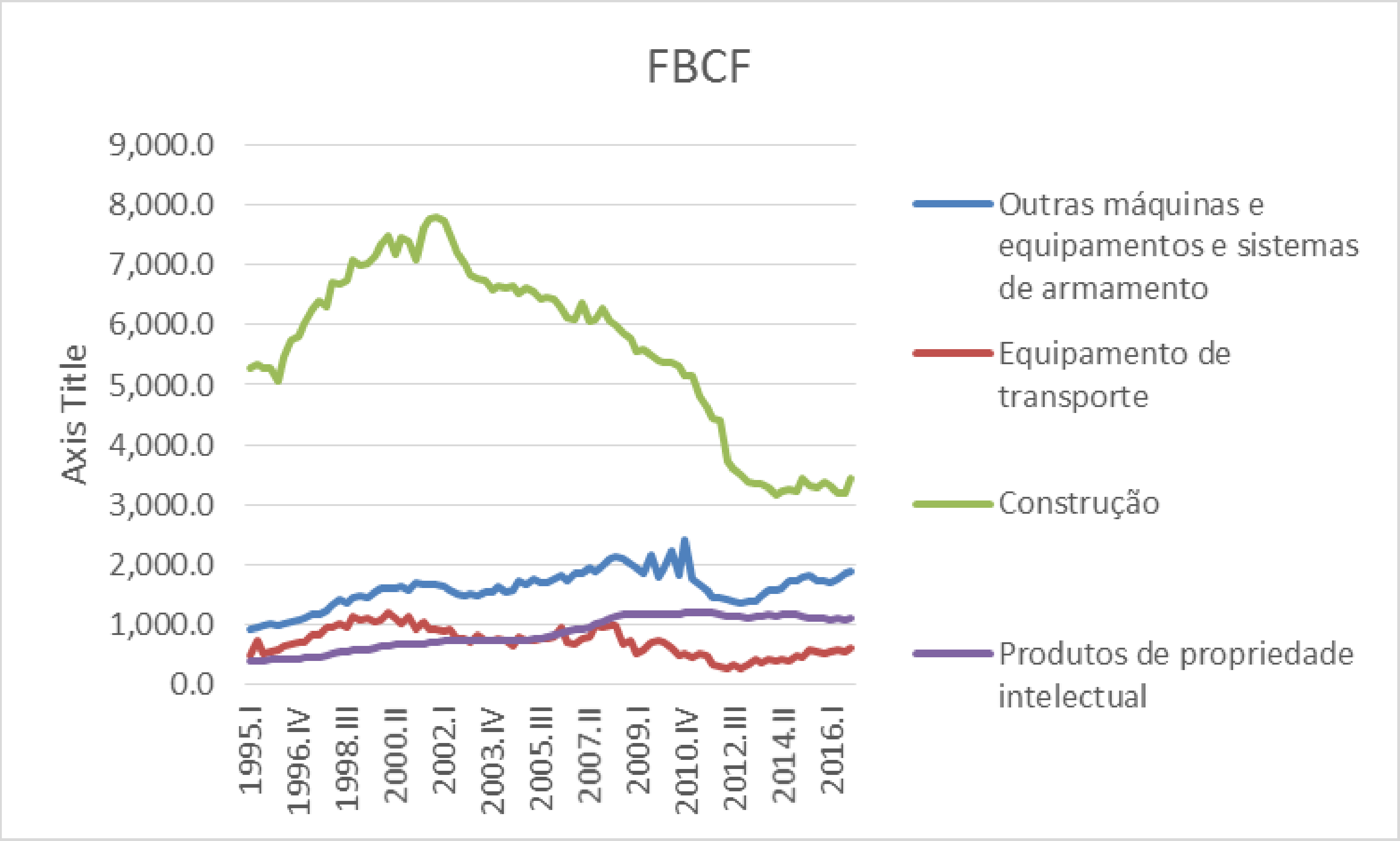



Sources: Statistics Portugal and Banco de Portugal.

Source: Bank of Portugal

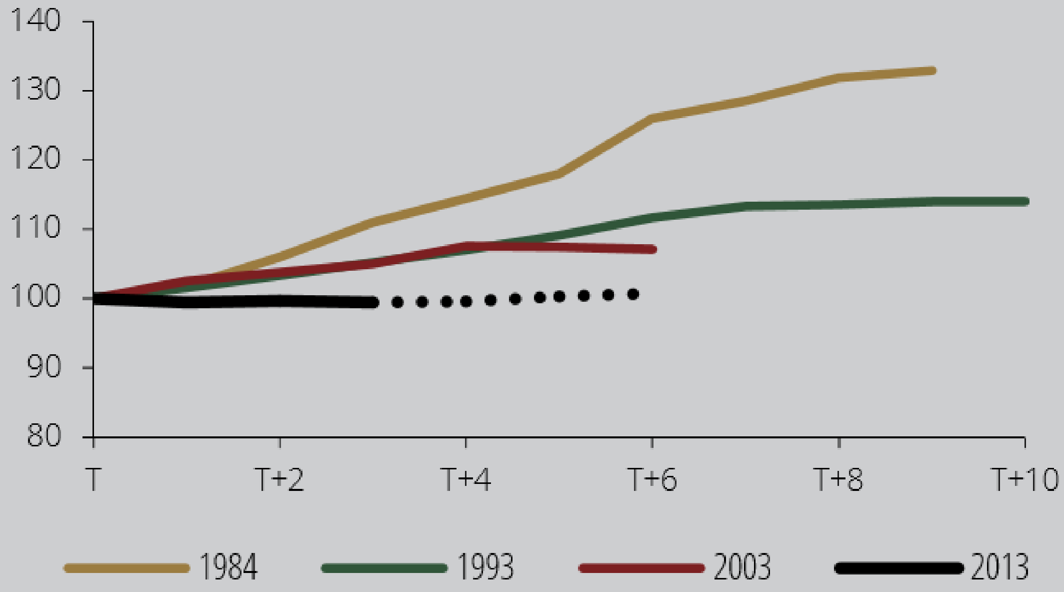
# GFCF – Gross Fixed Capital Formation

(FBCF - Formação Bruta de Capital Fixa)



# Labour productivity and crisis recovery

**Chart 3.4** • Developments in labour productivity in different economic recoveries | Index T=100




Sources: Statistics Portugal and Banco de Portugal.

Notes: The economic recoveries considered were determined on the basis of the Portuguese business cycle and started (T) in 1984, 1993, 2003 and 2013. The 2009 recovery was not considered due to its limited duration. The dotted line corresponds to the projection period.

Source: Bank of Portugal

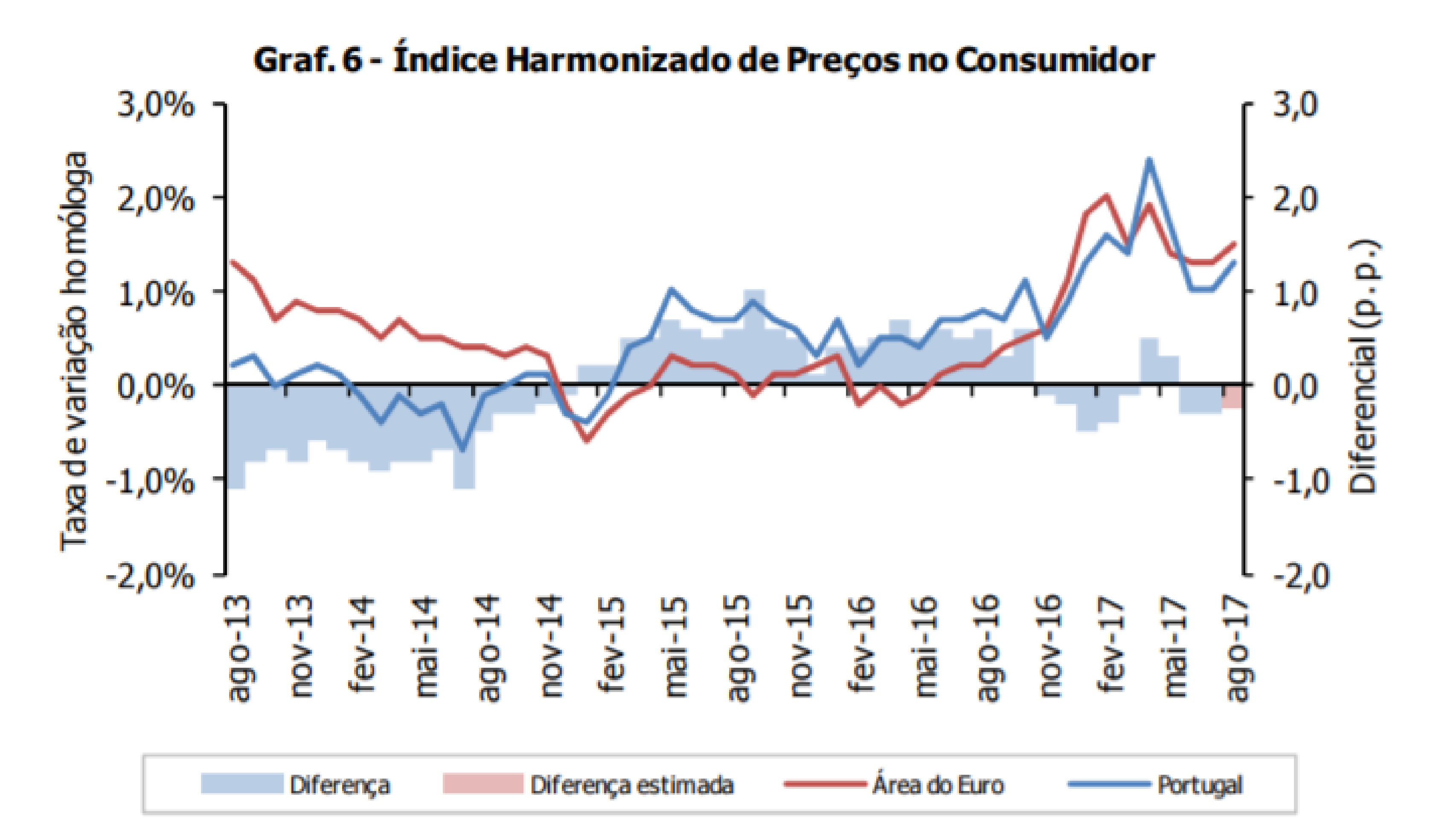
# What about investment?

- It starting to recover:
- Significantly based on:
  - Buildings
  - Cars
- Still far from the starting point (before the crisis)
  - Productivity is unchanged
  - Sound and sustainable recover is in doubt

# Harmonized Consumer Price Index –

Monthly data - Portugal and the Euro zone

Source: INE

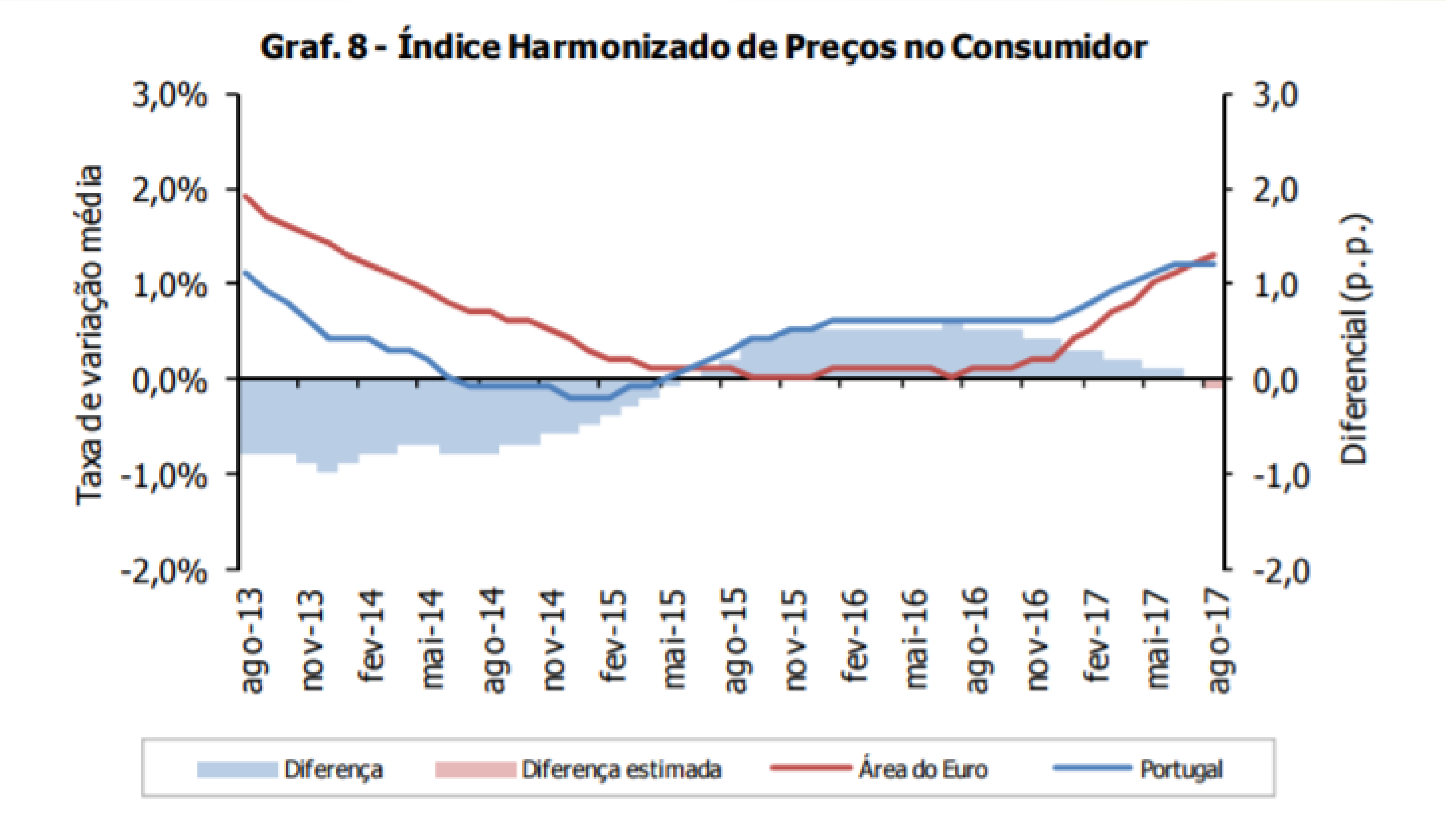



Souce: Statistics of Portugal

# Harmonized Consumer Price Index –

Average 12 months - Portugal and the Euro zone

Source: INE

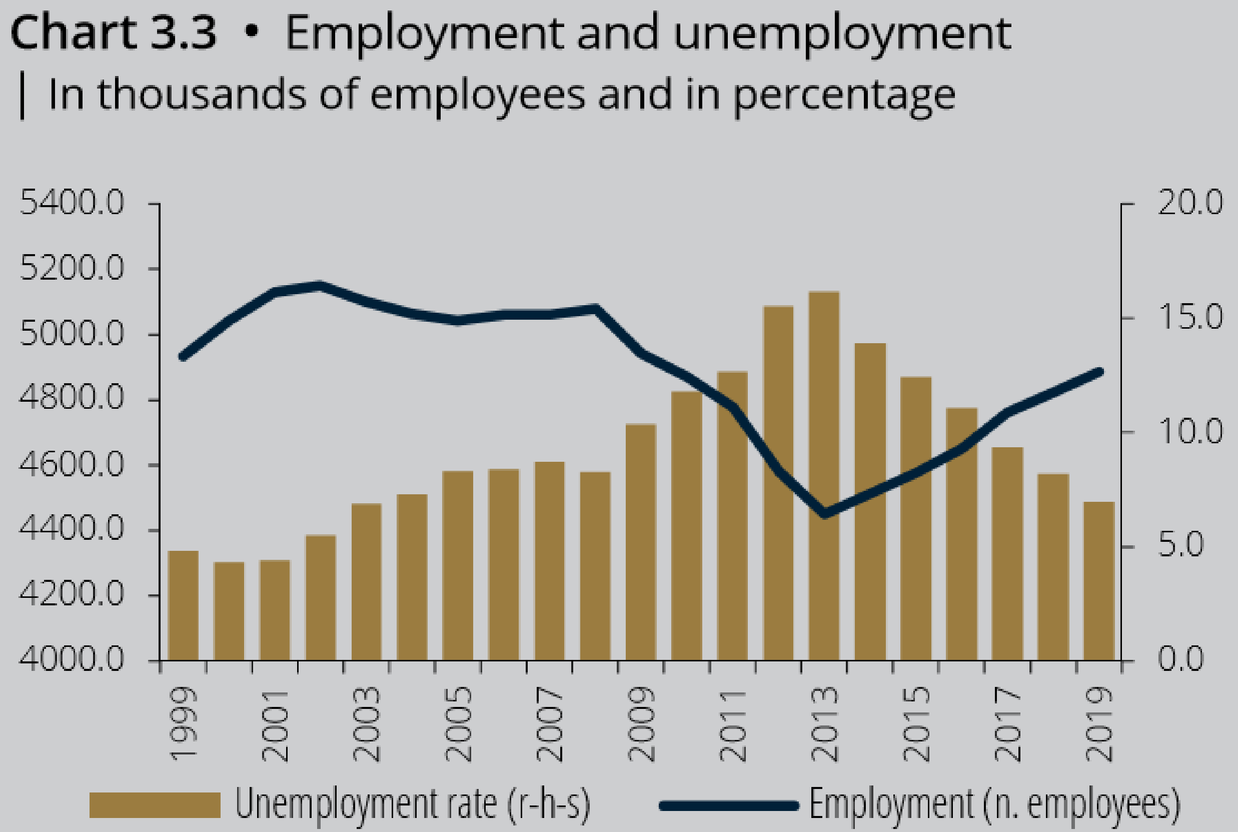



Souce: Statistics of Portugal

# Inflation

- Portuguese “inflation” starts to be in line with the EU inflation.
- This means that the monetary policy will tend to be more adequate than before to the Portuguese economy.

# Employment & Unemployment




Sources: Statistics Portugal and Banco de Portugal.

Notes: (p) – projected. Total employment, in number of persons according to the national accounts concept.

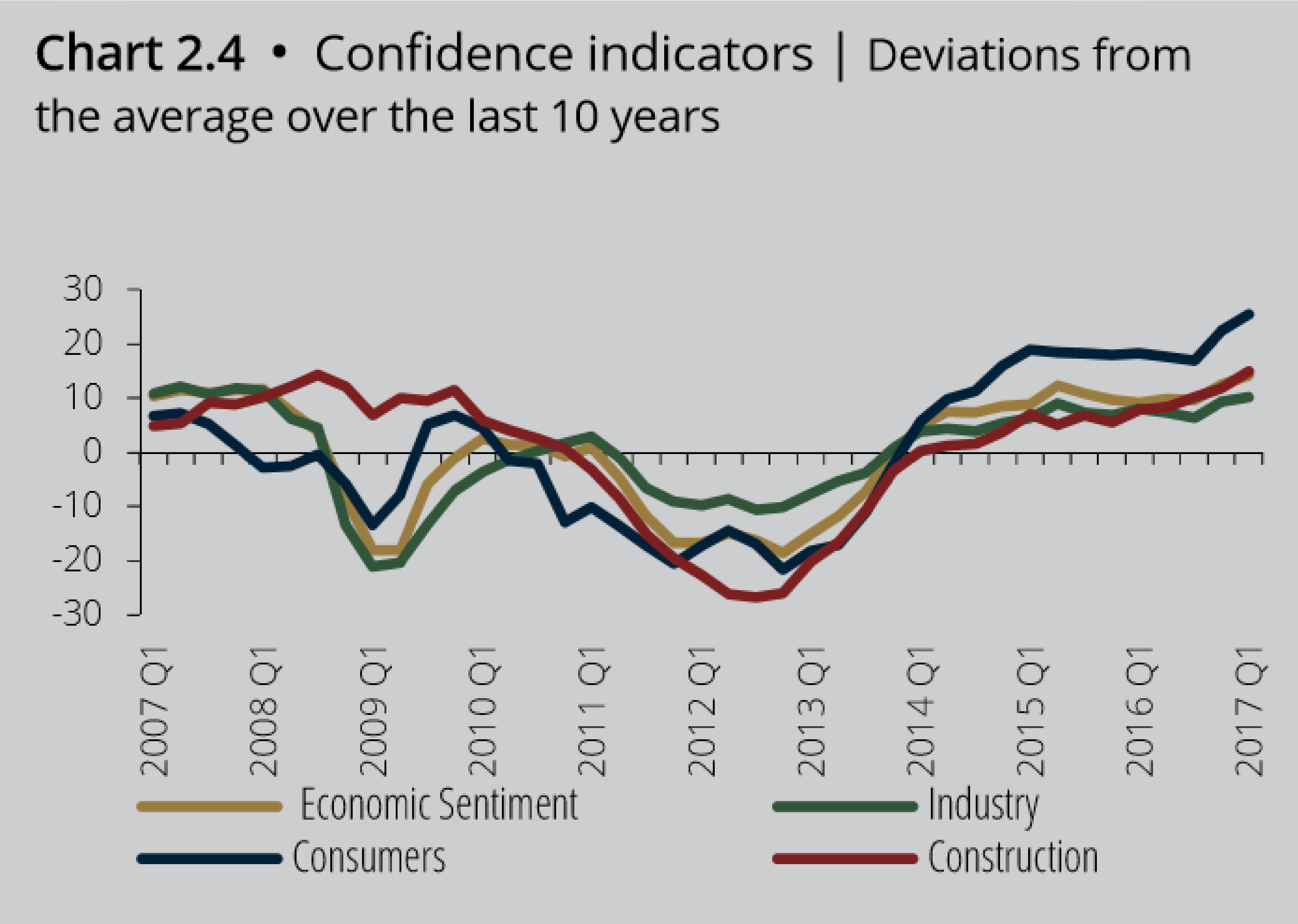
Souce: Bank of Portugal

# Employment & Unemployment

- The effects on employment are consistent along time,

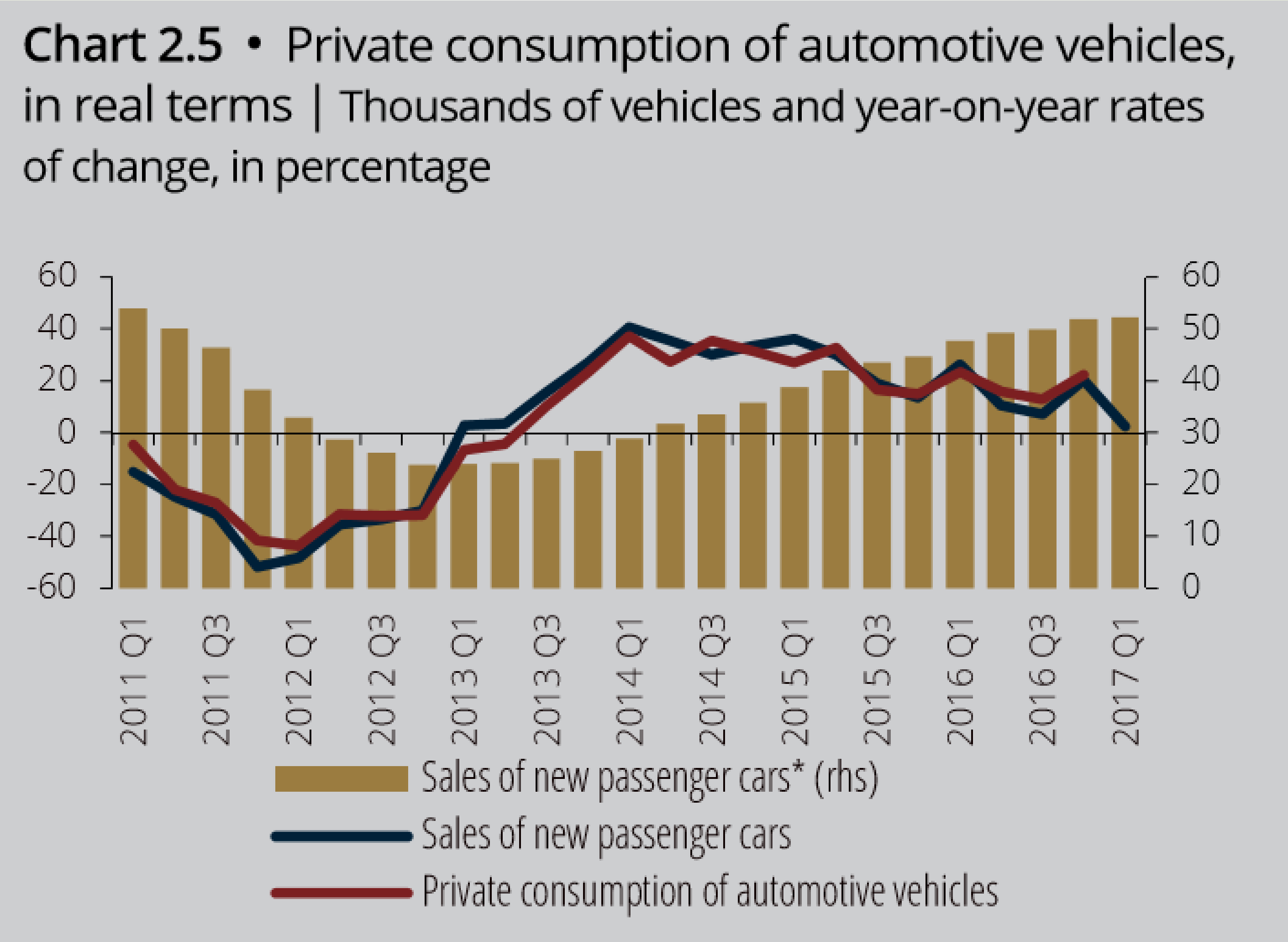
- Although not based on investment.
- This is consistent with the increase of tourism (restaurants, local rentals, travelling…)

# And everybody is happy!

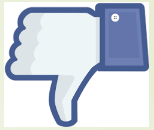



Source: Bank of Portugal

# And everybody is happy!



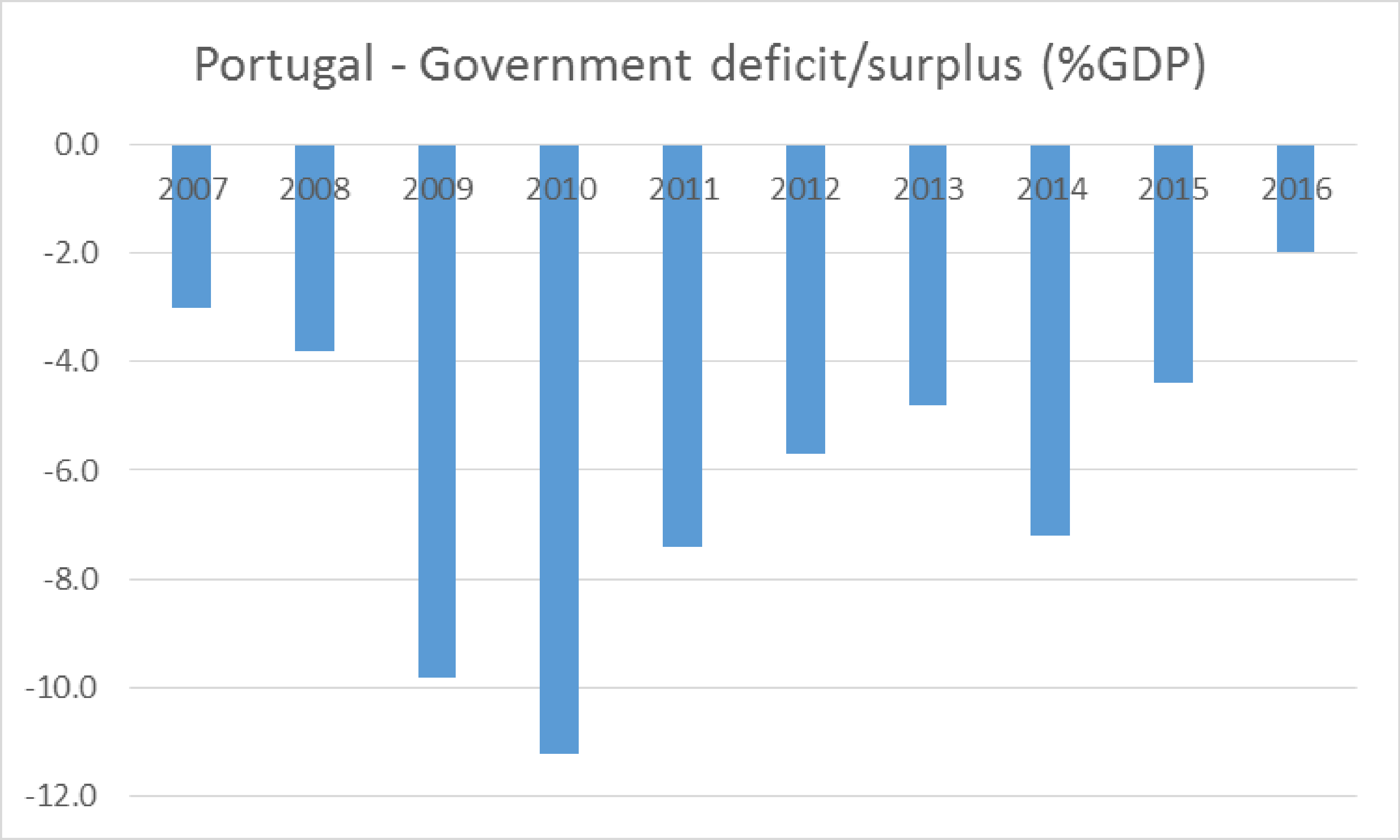

Souce: Bank of Portugal

# Endless happiness…   ?

- Cars.
- Restaurants.
- Cars.
- Travel agencies.
- Imported goods
- More cars…)
- **Household's savings are negative while firms' savings are positive!**
- **Credit to consumption is growing again… Cars…**
- **Construction is also recovering to new Portuguese buyers**

# Government deficit / surplus

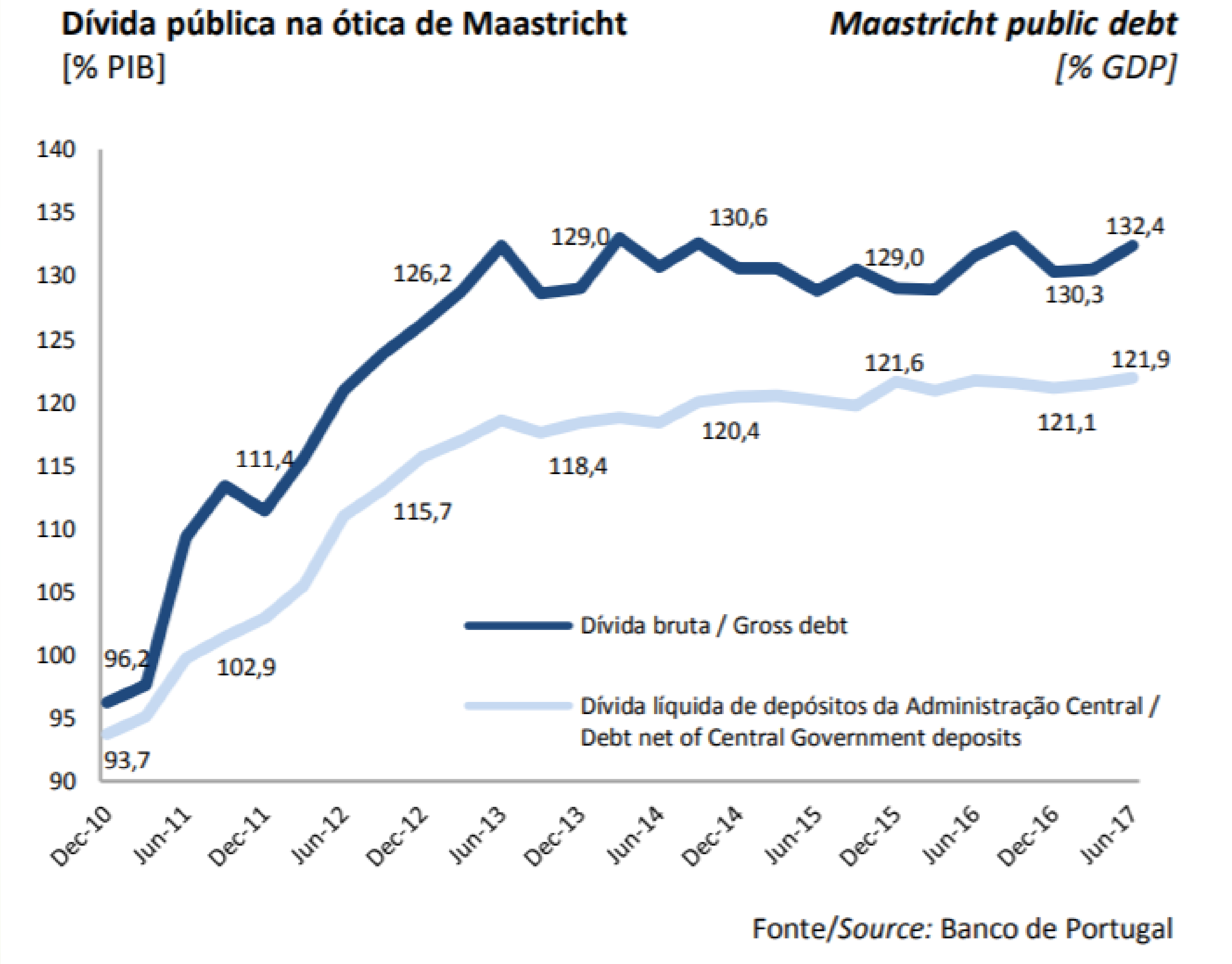
- The public deficit became priority number 1!
- It seems controlled (although there some risks that CGD equity injection may ruin some of the benefit)




Souce: Statistics of Portugal

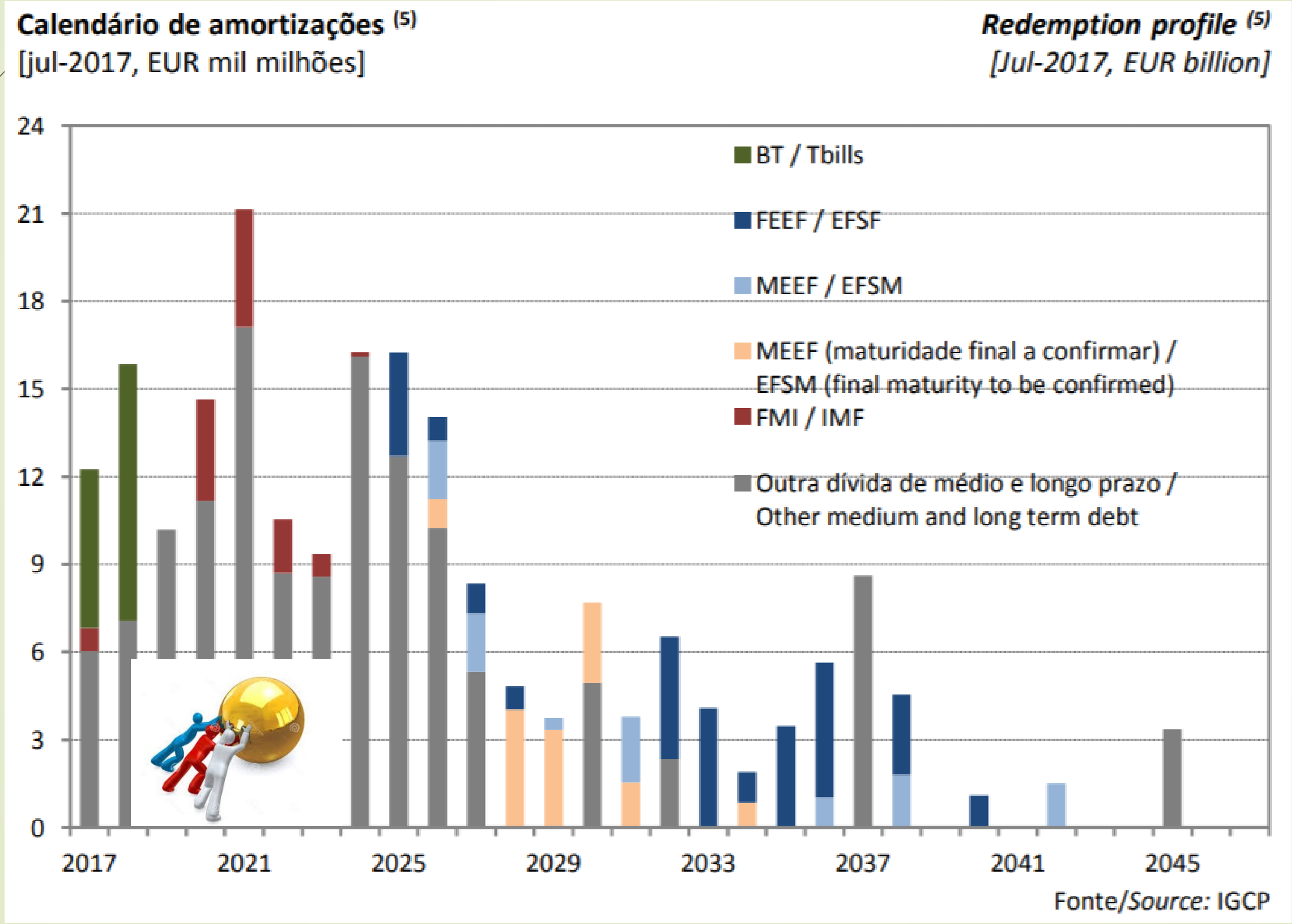
# Public deficit

- The debt!...
- Always the debt




Souce: IGCP – Port. Treasury & Debt Manag. Agency

# Public Debt Redemptions

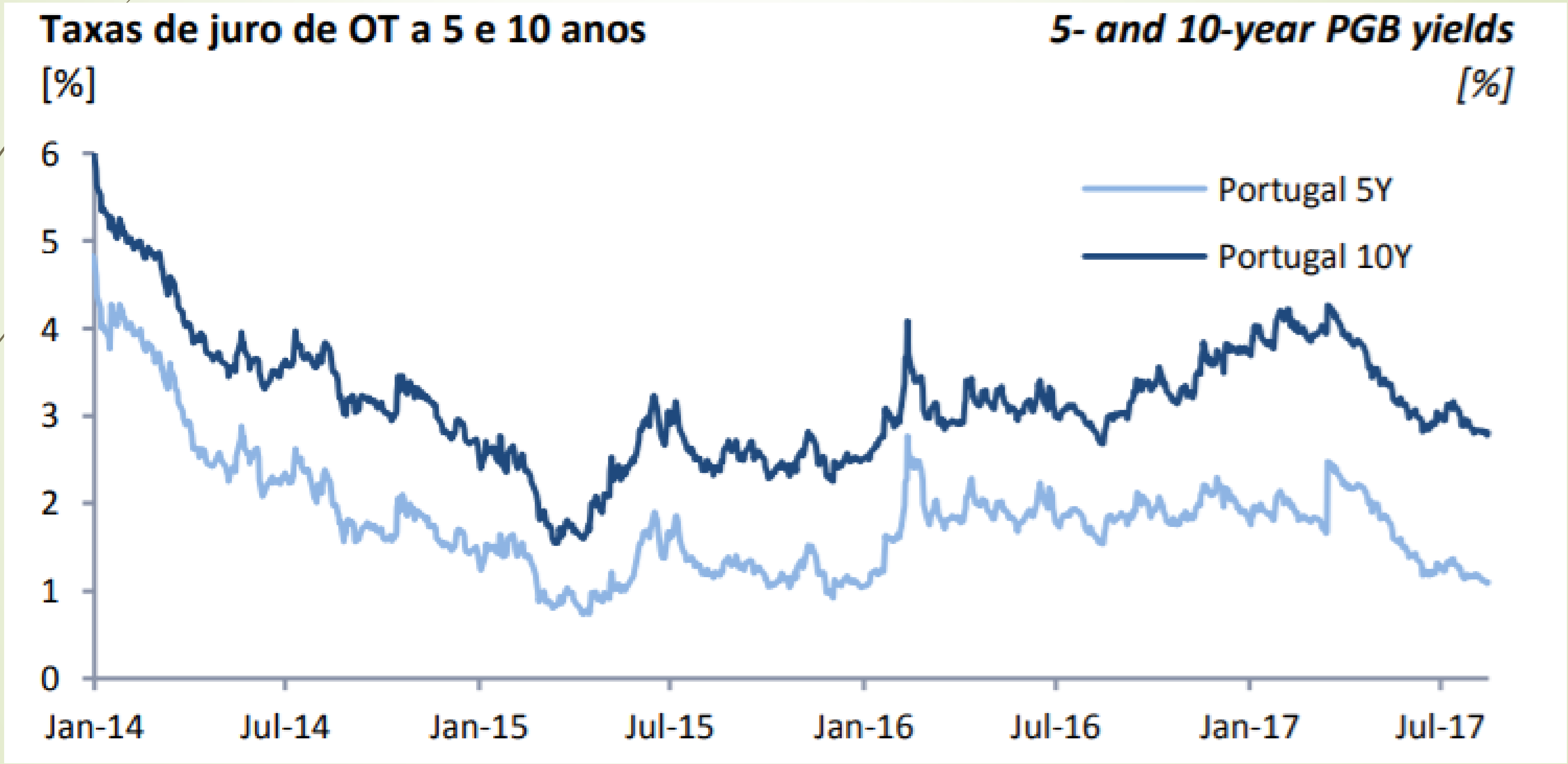



Souce: IGCP – Port. Treasury & Debt Manag. Agency

# But…

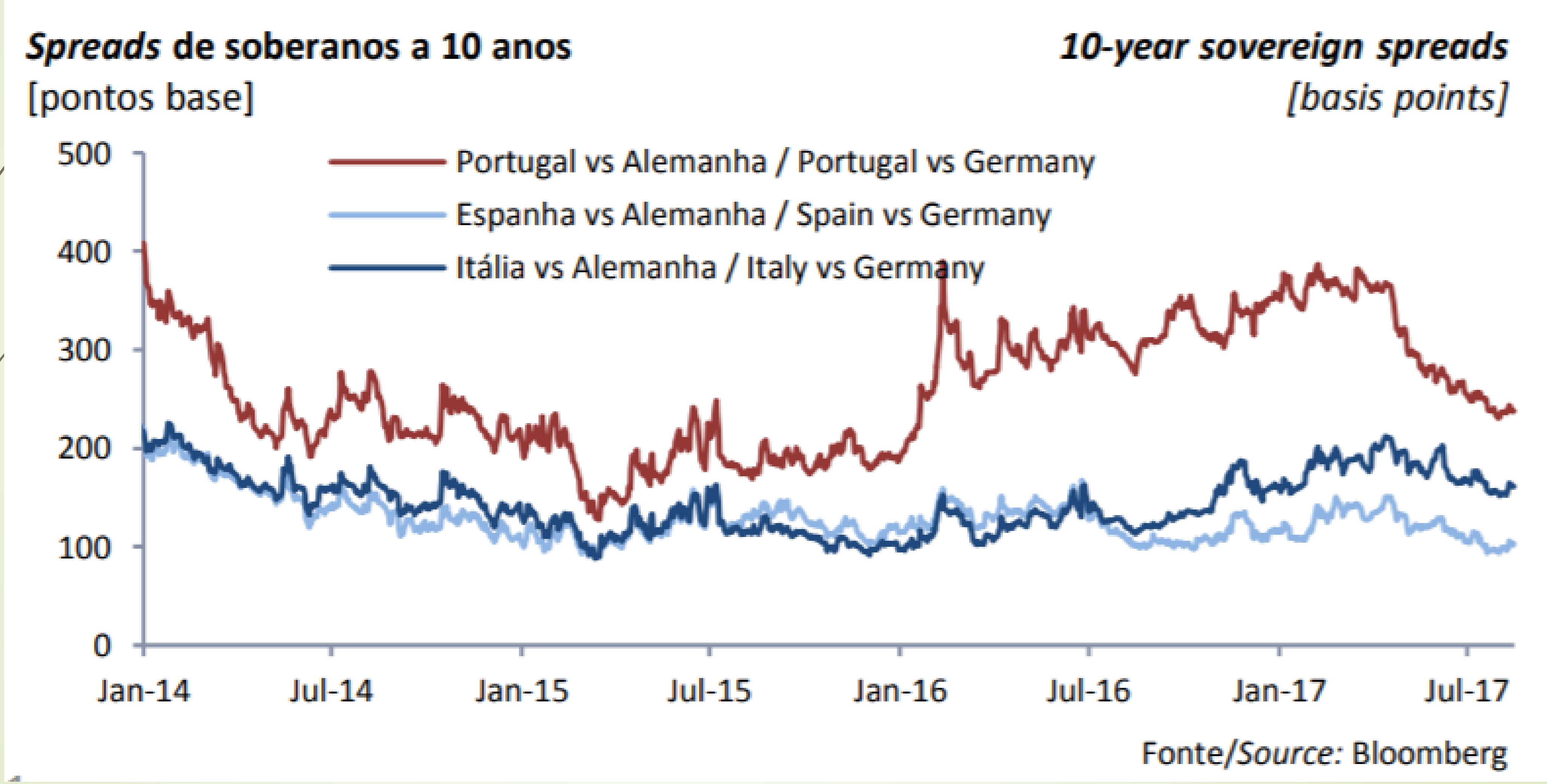
- Huge Debt!
- However it is still possible to handle the service of the debt. Until interest rates return to higher levels…

# 10-years sovereign spread




Souce: IGCP – Port. Treasury & Debt Manag. Agency

# 10-years sovereign spread

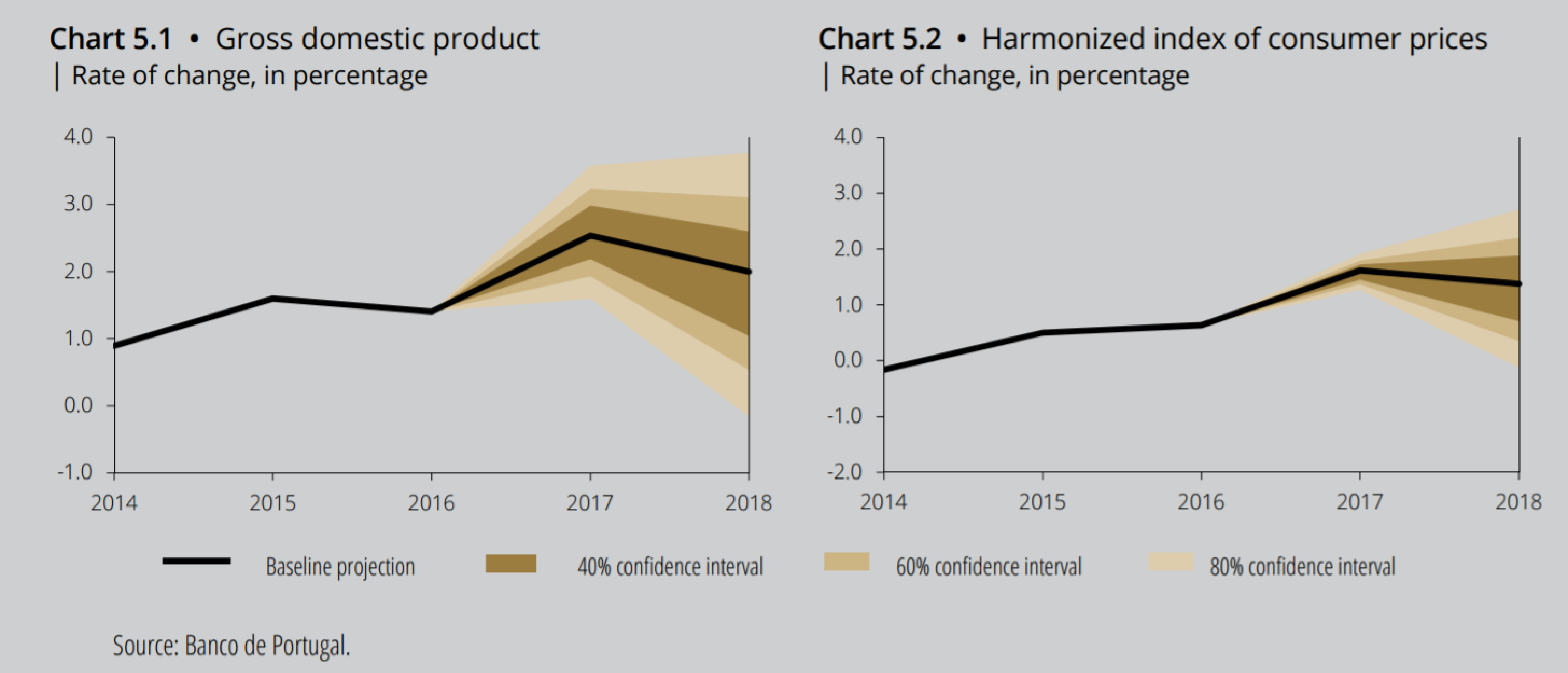



Souce: IGCP – Port. Treasury & Debt Manag. Agency

# Markets are confident.

- Reduced cost of borrowing!
- Unexpected recent S&P review of the Portuguese 10-y government rating
- Spread with German yields is lower.

# Forecasts: GDP & HICP




Souce: Bank of Portugal

**Table 1** • Projections of Banco de Portugal for 2017-2019 | Annual rate of change, in percentage

| | Weights 2016 | EB June 2017 | | | | Projection March 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | 2017 (p) | 2018 (p) | 2019 (p) | 2016 | 2017 (p) | 2018 (p) | 2019 (p) |
| Gross domestic product | 100.0 | 1.4 | 2.5 | 2.0 | 1.8 | 1.4 | 1.8 | 1.7 | 1.6 |
| Private consumption | 65.8 | 2.3 | 2.3 | 1.7 | 1.7 | 2.3 | 2.1 | 1.4 | 1.4 |
| Public consumption | 18.0 | 0.5 | 0.4 | 0.6 | 0.3 | 0.8 | 0.2 | 0.5 | 0.2 |
| Gross fixed capital formation | 14.8 | -0.1 | 8.8 | 5.3 | 5.5 | -0.3 | 6.8 | 5.0 | 4.8 |
| Domestic demand | 98.8 | 1.5 | 2.6 | 2.2 | 2.1 | 1.5 | 2.5 | 1.8 | 1.7 |
| Exports | 40.3 | 4.4 | 9.6 | 6.8 | 4.8 | 4.4 | 6.0 | 4.8 | 4.5 |
| Imports | 39.1 | 4.4 | 9.5 | 6.9 | 5.2 | 4.4 | 7.3 | 4.8 | 4.7 |
| Contribution to GDP growth, net of imports (in p.p.) [a] | | | | | | | | | |
| Domestic demand | | 0.5 | 0.8 | 0.8 | 0.8 | 0.5 | 0.8 | 0.7 | 0.7 |
| Exports | | 0.9 | 1.8 | 1.2 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 |
| Employment [b] | | 1.6 | 2.4 | 1.3 | 1.3 | 1.6 | 1.6 | 1.0 | 1.1 |
| Unemployment rate | | 11.1 | 9.4 | 8.2 | 7.0 | 11.1 | 9.9 | 9.0 | 7.9 |
| Current plus capital account (% of GDP) | | 1.7 | 2.1 | 2.4 | 2.4 | 1.7 | 1.0 | 1.1 | 1.2 |
| Trade balance (% of GDP) | | 2.2 | 2.0 | 2.2 | 2.0 | 2.2 | 1.4 | 1.3 | 1.4 |
| Harmonized index of consumer prices | | 0.6 | 1.6 | 1.4 | 1.5 | 0.6 | 1.6 | 1.5 | 1.5 |

Sources: Statistics Portugal and Banco de Portugal.

Souce: Bank of Portugal

# Previsões - FMI

- Os mercados para onde exportamos crescerão menos em 2018.
- E assim continuará até 2022...

| | Real GDP | | |
|---|---|---|---|
| | | Projections | |
| | 2016 | 2017 | 2018 |
| **Europe** | **2.1** | **2.5** | **2.2** |
| **Advanced Europe** | **1.8** | **2.1** | **1.9** |
| Euro Area[4,5] | 1.8 | 2.1 | 1.9 |
| Germany | 1.9 | 2.0 | 1.8 |
| France | 1.2 | 1.6 | 1.8 |
| Italy | 0.9 | 1.5 | 1.1 |
| Spain | 3.2 | 3.1 | 2.5 |
| Netherlands | 2.2 | 3.1 | 2.6 |
| Belgium | 1.2 | 1.6 | 1.6 |
| Austria | 1.5 | 2.3 | 1.9 |
| Greece | 0.0 | 1.8 | 2.6 |
| Portugal | 1.4 | 2.5 | 2.0 |
| United Kingdom[5] | 1.8 | 1.7 | 1.5 |

# Forecasts:

- Positive although not so bright as some whish

- Sound & good if based on investment

- Sound & good if based on exports and foreign direct investment

- Sound & good if based on productivity.

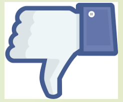
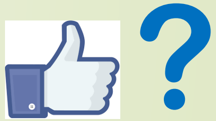
# Fatores Críticos para a **Construção**

- 1) Do lado da Oferta
  - Disponibilidade e Preços dos Fatores:
    - Matérias-Primas ?
    - Energia (estável)  
    - Mão-de-obra (custos crescentes) 
  - Licenciamentos ?
  - Taxas e Impostos (mais indiretos e menos diretos com exceção do IRC)

?

# Fatores Críticos para a Construção

- 2) Do lado da Procura
  - Obra Pública 

    - Crescimento baseado na recuperação de rendimentos não privilegia o investimento 
    - Mas está previsto um crescimento de 40,4% em FBCF para 2018! 
  - Procura externa para património imobiliário com bom potencial e interesse - REITs 
  - OE prevê um crescimento de 9,6% para a Construção! 
  - Taxa de juro a aumentar (Euribor a partir do 2º semestre / Set.º 2018 – Plano Draghi 

# Fatores Críticos para a Construção

- 2) Do lado da Procura (cont.)
  - Modelo de desenvolvimento familiar a mudar rapidamente
    - Famílias de um indivíduo 
    - Poucos casais jovens com muitos filhos 
  - Reabilitação urbana se… 

**Bloco de Esquerda quer limitar alojamento local a 90 dias por ano**


TURISMO & LAZER

**Lisboa: uma cidade com 15 novos hotéis em 2018**

Quando as vozes mais críticas já dizem que o número de hotéis em Lisboa é

# Fatores Críticos para a Construção

- 2) Do lado da Procura (cont.)
  - Espaços comerciais e industriais
  - Inv.º direto estrangeiro:
    - Capital: +6,7% (2ºT/17 sobre o 2ºT/16)
    - Dívida: +8,1% (2ºT/17 sobre o 2ºT/16)
    - Dívida apenas representa 12,3% do total do i.d.e.

# Risks:

- No reforms – just to come back from where we came from…
- Banking system still unstable
- Rating
- Economic and Tax Government policy
- European Monetary policy – Quantitative Easing
- International environment
- Forecasts are now riskier as a result of economic openness.

# Portugal

- Open economy
- Open mind
- Educated job market
- The risks are reduced as investment (foreign) increase
- **Construction** and Tourism (great) oasis in Portugal.

# Crédito ao Consumo – Avaliação Sumária

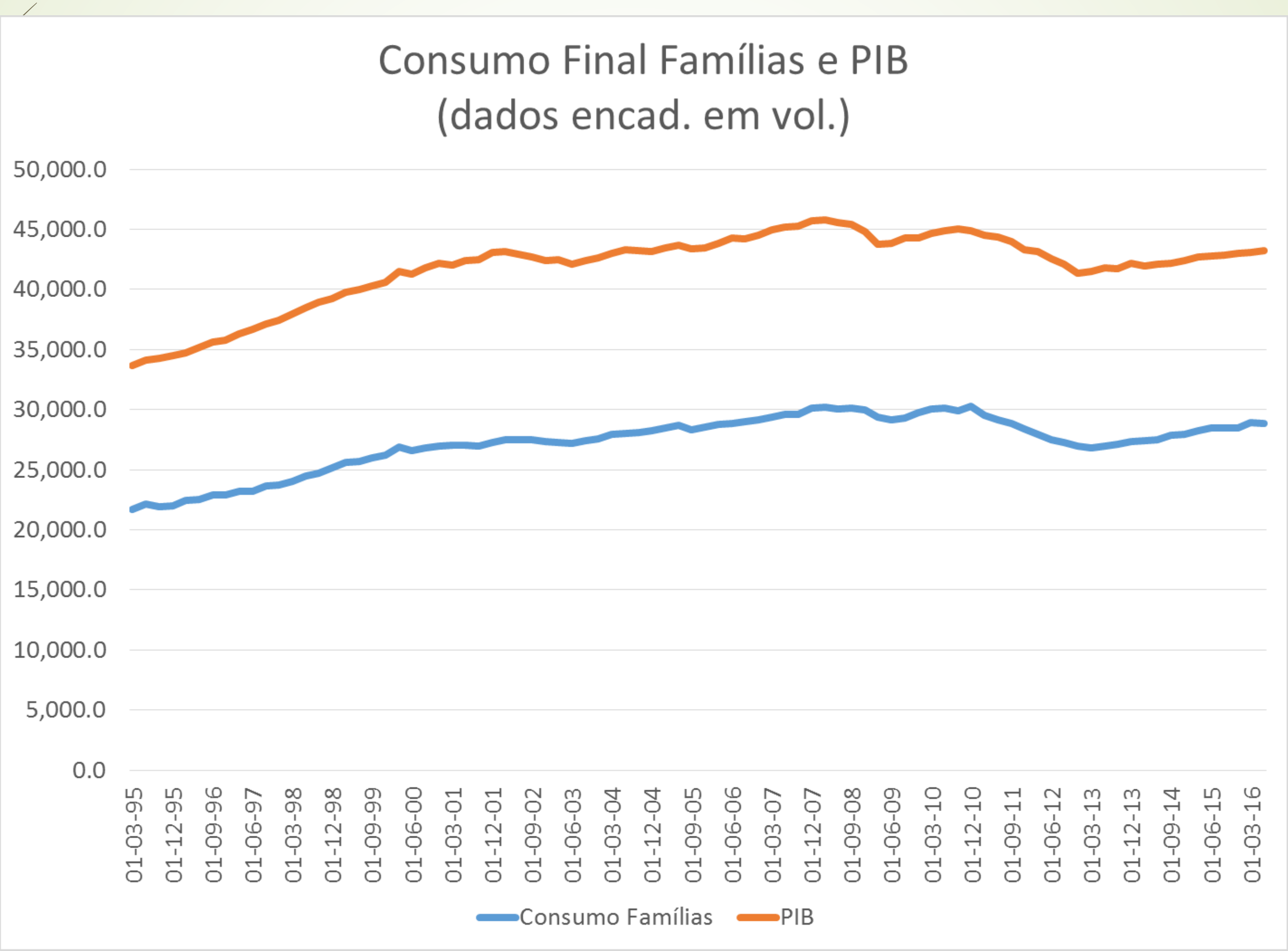
# Como Avaliar?

- Podemos ter uma visão limitada
- Podemos ter uma visão mais profunda:
  - Crédito cumpre e é reembolsado?
  - Crédito financia o quê?
  - Qual o resultado do que é financiado pelo crédito?
- Exemplo:
  - Financiamento à indústria de armamento?
  - Quantos mortos?
  - E se for uma guerra de drones?

# O que mudou em Portugal?
## Composição do PIB (preços correntes)

| | Consumo privado (de residentes) | Consumo público | FBCF | Variação de existências | Exportações de bens e serviços | Importações de bens e serviços | PIB |
|---|---|---|---|---|---|---|---|
| 2016 | 65.9% | 18.1% | 15.0% | 0.2% | 40.3% | 39.6% | 100.0% |
| 2008 | 66.2% | 19.9% | 22.8% | 0.7% | 31.1% | 40.8% | 100.0% |
| 1998 | 62.9% | 18.0% | 27.3% | 1.0% | 27.3% | 36.5% | 100.0% |
| 1988 | 62.0% | 14.4% | 29.7% | 1.9% | 28.8% | 36.8% | 100.0% |
| 1978 | 63.3% | 13.2% | 28.7% | 4.0% | 16.7% | 25.9% | 100.0% |

# PIB e Consumo (trimestrais)



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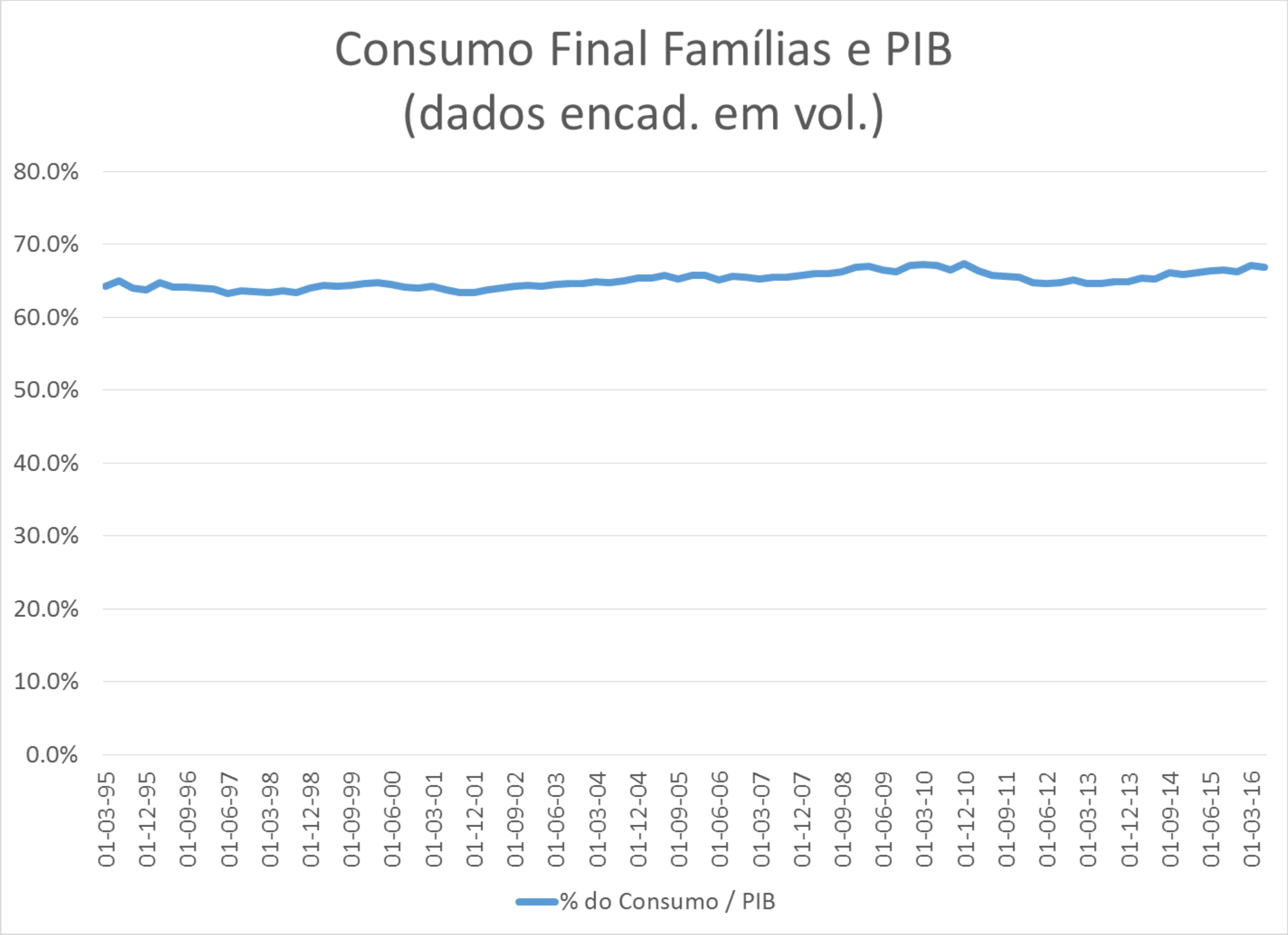
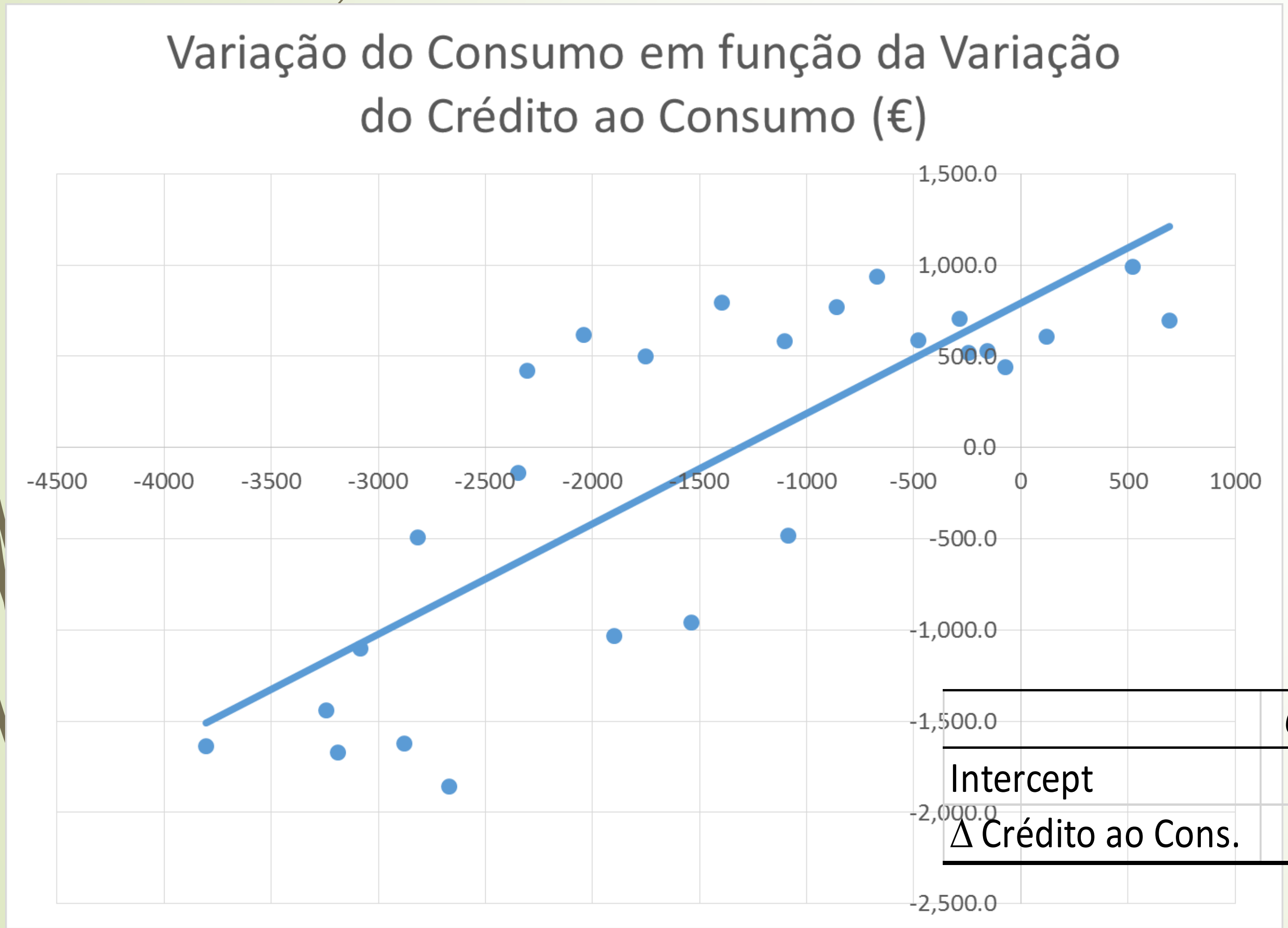


# Será o Crédito uma causa do Consumo?




- Coef. Correl = 0,799
- Dados trim. Mar/09 - Jun/16
- Variações homólogas em €

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | 791.6014 | 180.7373 | 4.3798 | 0.0002 |
| Δ Crédito ao Cons. | 0.6044 | 0.0927 | 6.5173 | 0.0000 |

# Será o Crédito uma causa do Consumo?

- Numa primeira aproximação a resposta parece ser positiva, isto é, parece haver uma associação entre a disponibilidade para crédito ao consumo e uma variação deste.
- No entanto parece ser apenas responsável por 60% daquela variação.
- Mas será que este impacto positivo é realmente positivo?

# Crédito ao Consumo
# Que avaliação?

- A Avaliação do Consumo pode ser realizada de muitas maneiras diferentes. Escolhemos o emprego.
- A questão é saber quem mais justifica a criação de emprego: se o consumo, se o investimento.

# O efeito do Consumo e do Investimento no aumento do Emprego

- Δ Emprego = f(Δ FBCF, Δ Cons)
- Dados Trimestrais [1995-I Trim a 2016 –II Trim]
- Tvh dados encadeados em volume

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.8491 |
| R Square | 0.7209 |
| Adjusted R Square | 0.7138 |
| Standard Error | 0.0108 |
| Observations | 82 |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | -0.0032 | 0.0016 | -1.9581 | 0.0537 |
| **Δ FBCF** | 0.1102 | 0.0295 | 3.7411 | 0.0003 |
| **Δ C** | 0.3146 | 0.0821 | 3.8331 | 0.0003 |

# O efeito do Consumo e do Investimento no aumento do Emprego

- O impacto na criação de emprego total de uma variação de 1% do consumo parece ser mais forte do que igual variação do investimento.
- Mas enquanto que o Consumo representa 4,39 vezes o peso do Investimento no PIB, o seu impacto no emprego é apenas 2,85 vezes.
- Mas este modelo apresenta um problema de multicolinearidade.

# O efeito do Consumo e do Investimento no aumento do Emprego

- Δ Emprego = f(Δ FBCF, Δ Cons)
- Dados Trimestrais [1995-I Trim a 2016 –II Trim]
- Tvh dados encadeados em volume

| SUMMARY OUTPUT | |
|---|---|
| | |
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| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | 0.0011 | 0.0012 | 0.8949 | 0.3736 |
| **Δ FBCF** | 0.2072 | 0.0151 | 13.7610 | 0.0000 |
| **Δ C** | 0.3146 | 0.0821 | 3.8331 | 0.0003 |

# O efeito do Consumo e do Investimento no aumento do Emprego

- Quando eliminamos a multicolieridade o impacto na criação de emprego total de uma variação de 1% do consumo ainda parece ser mais forte do que igual variação do investimento.
- Mas agora o impacto do consumo no emprego é apenas 1,51 vezes maior do que o correspondente efeito do investimento.
- E quando partimos a amostra em períodos de variação positiva ou negativa do PIB, o impacto é ainda mais visível.

# O efeito do Consumo e do Investimento no aumento do Emprego

- Períodos Δ PIB > 0

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.6346 |
| R Square | 0.4027 |
| Adjusted R Square | 0.3824 |
| Standard Error | 0.0100 |
| Observations | 62 |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | 0.0039 | 0.0018 | 2.1916 | 0.0324 |
| **Δ FBCF** | 0.1645 | 0.0299 | 5.4960 | 0.0000 |
| **Δ C** | 0.1003 | 0.1139 | 0.8811 | 0.3818 |

- Períodos Δ PIB < 0

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.7202 |
| R Square | 0.5187 |
| Adjusted R Square | 0.4621 |
| Standard Error | 0.0107 |
| Observations | 20 |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | -0.0086 | 0.0056 | -1.5415 | 0.1416 |
| **Δ FBCF** | 0.1003 | 0.0476 | 2.1079 | 0.0502 |
| **Δ C** | 0.7081 | 0.2120 | 3.3393 | 0.0039 |

# O efeito do Consumo e do Investimento no aumento do Emprego

- Em períodos de crescimento económico o investimento é a variável com mais impacto na criação de emprego.
- Mas em épocas de crise são as variações negativas de consumo que são mais destrutivas de emprego. (na razão de 1 para 7!)
- Isto mostra o cuidado que se deve ter nas políticas promotoras de crescimento por via do consumo ou de travagem da economia por sua via.

# Em síntese:

- O Consumo sempre representou uma parcela muito significativa da composição do PIB.
- O crédito ao consumo tem sido um fator de aceleração do mesmo.
- Como promotor da criação de emprego o crédito ao consumo deveria ser usado especialmente em momentos de desaceleração da economia no sentido de evitar a queda daquele.
- Quando se combina a restrição do crédito ao consumo com políticas e ciclos de contração económica o efeito tende a ser devastador para o emprego.
- Mas a recuperação económica através do consumo não parece ser a ideal nem para o emprego.

# Thank you!
# Obrigado!