

Economic Outlook Committee

- 19th February 2010 -

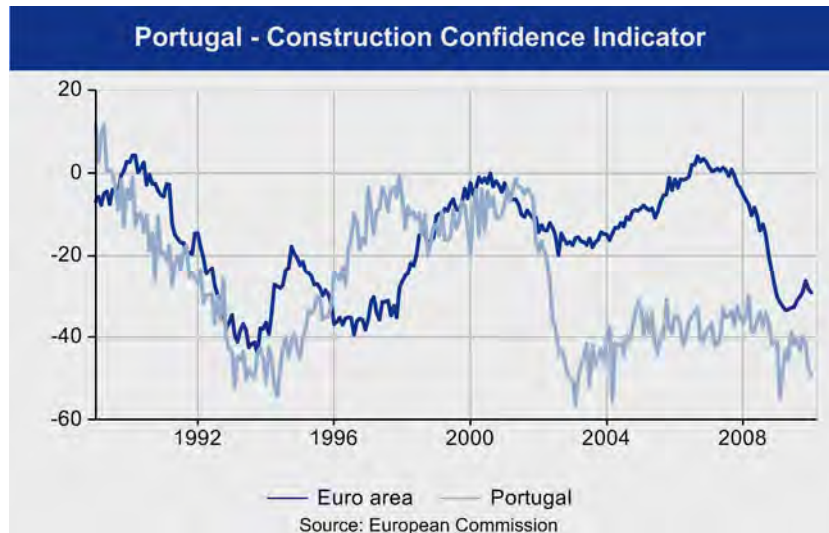
Hélène Baron

Guilhem Bentoglio

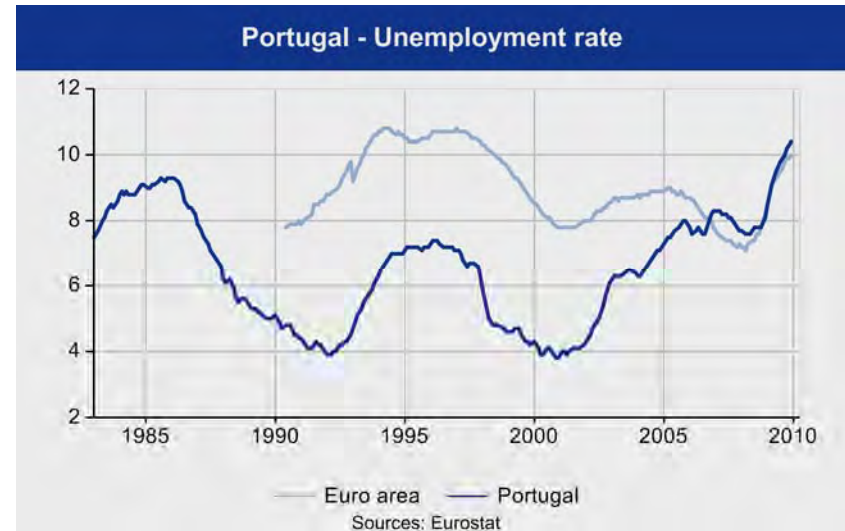
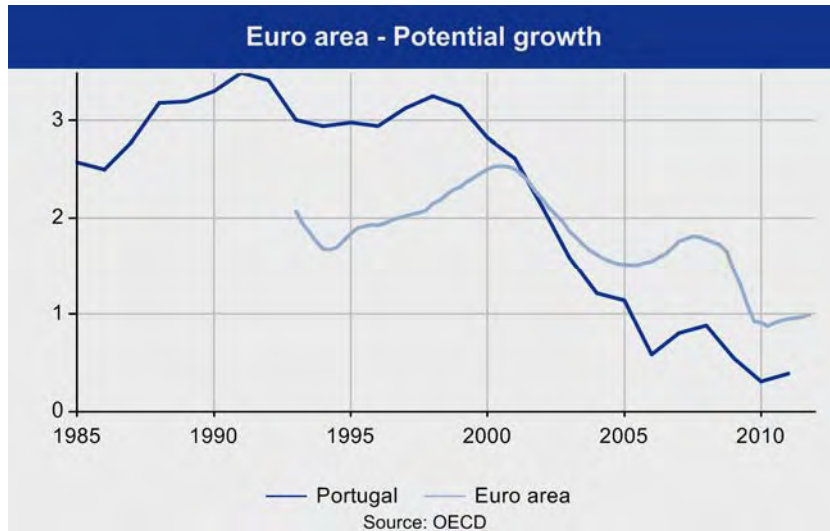
Guillaume Guidoni

Portugal – Cutting deficit without growth?

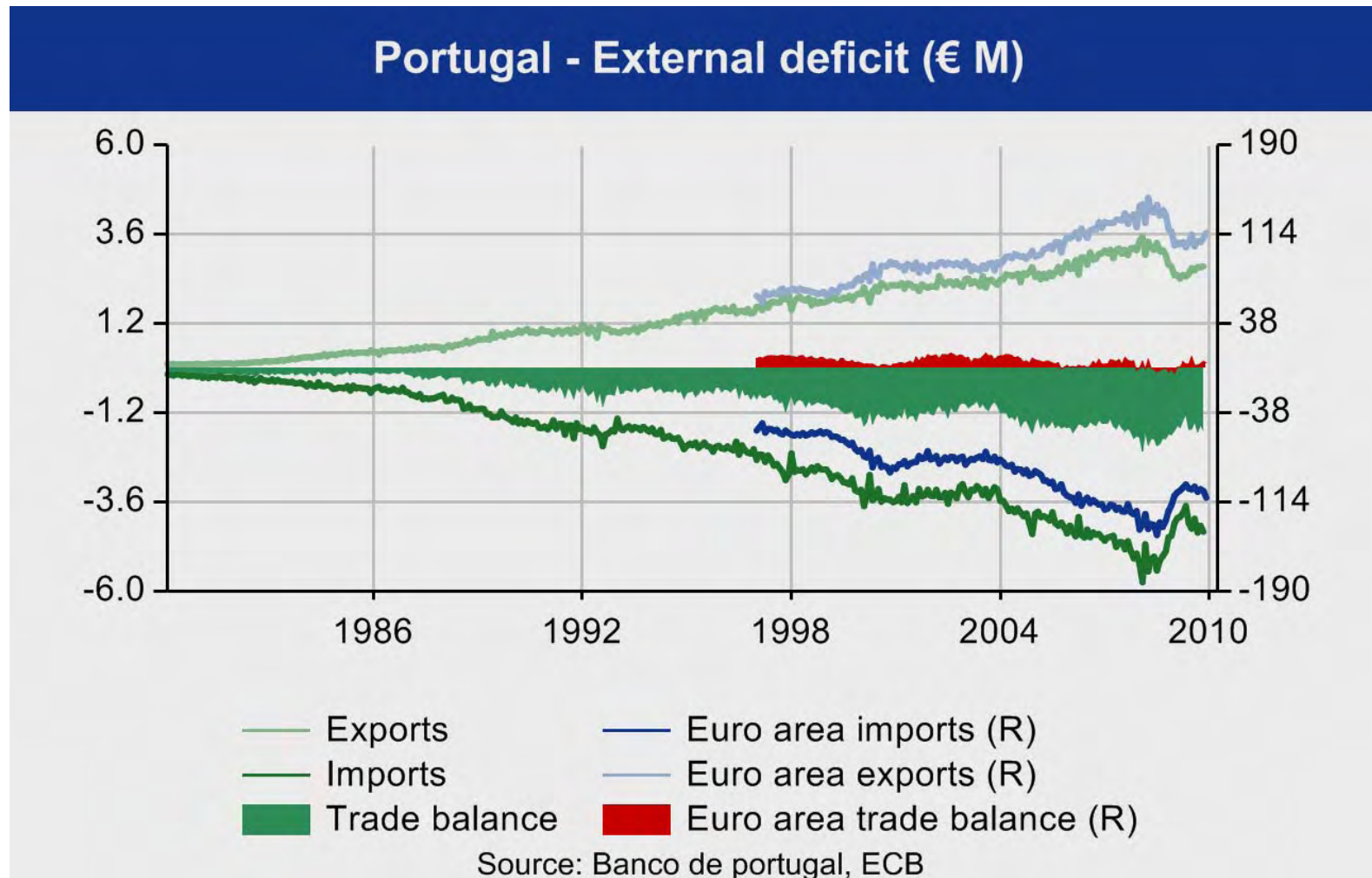
Despite strong growth in 2009 Q2 and Q3, Portugal shows no sign of persistent rebound in the short-term



Portuguese potential growth has been strongly impacted as unemployment has persistently risen since 2001



The technological content of the industry is still low and competitiveness the main issue to tackle



On the path for gradual consolidation?

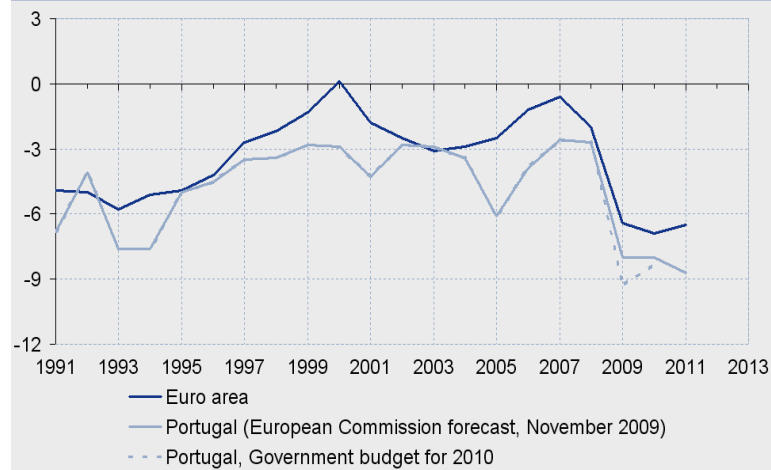
Portuguese Government's draft budget (January 2010)

| | 2009 | 2010 |
|-----------------------|------|------|
| DEFICIT TO GDP (%) | -9.3 | -8.3 |
| GDP GROWTH (%) | -2.6 | 0.7 |
| PUBLIC DEBT(% to GDP) | 76.6 | 85.4 |
| PRIVATE CONSUMPTION | -0.9 | 1 |
| INFLATION | -0.8 | 0.8 |
| UNEMPLOYMENT | 9.5 | 9.8 |

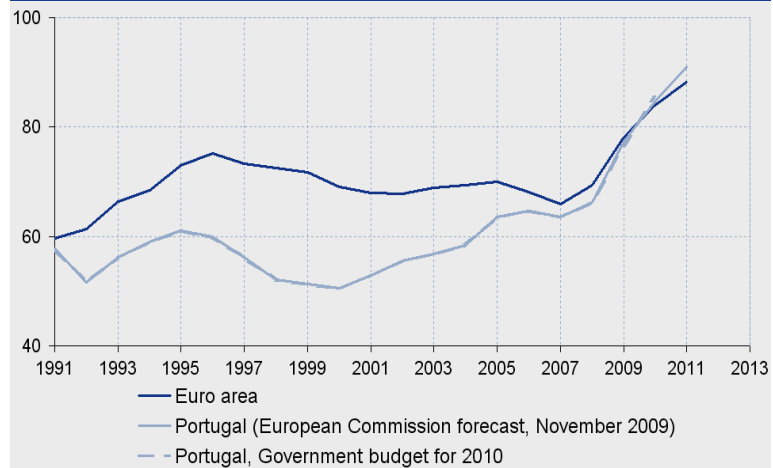
Portugal - Net interest payment as a % of GDP



Government deficit as a % of GDP



Government debt as a % of GDP



On the path for gradual consolidation?

- Fiscal budget for 2010 (curbing the budget deficit from 9.3% to 8.3% in 2010) is not ambitious but achievable
- It is mainly based on expenditure cuts:
 - Freeze of public sector wages until finances are consolidated
 - One in two vacancies will not be replaced (was already the case, but will be written by law)
 - But new stimulus measures, including a car scrappage scheme, expanded unemployment benefits, as well as massive new infrastructure projects.
- It is a compromise budget which should be voted by the Parliament even if the socialist government doesn't have a majority. It should be well socially accepted as well.
- Commitment to bring the budget deficit below 3% of GDP by 2013, but the Government has not provided details so far. It should be done for the Stability program to be released end of February/beginning of March.
- The 2011-2013 plan could show:
 - Reactivated privatizations
 - Incentives to companies in order to improve exports
 - Continued efforts to reduce the energy dependency (renewable electricity)
- The risk of European sanctions is remote
- Portugal's current rating is Aa2 under Moody's, A+ under S&P (negative outlook) and AA by Fitch (also negative outlook).
- Overall, the government seems to have the will and the possibility to cut expenditures further, but it is likely to be constrained on the revenue side by weak growth