

# **Will Portugal be the New Greece? Structural Economic Issues in the Portuguese Economy**

# Outline

- The macroeconomic perspective
- The microeconomic perspective: productivity
- The microeconomic perspective: management quality
- The microeconomic perspective: structural reform

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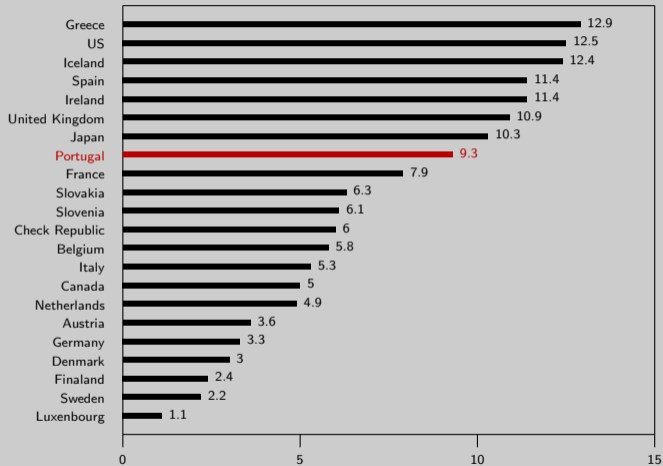
# Southern Europe in crisis

- For years, Portugal et al have lived beyond their means.
- The economic and financial crisis demanded urgent government intervention, further increasing debt levels.
- Financial markets fear default, thus increasing interest rates, thus making payment more difficult, thus justifying fears.
- Greece most acute case, but Portugal and Spain not far.

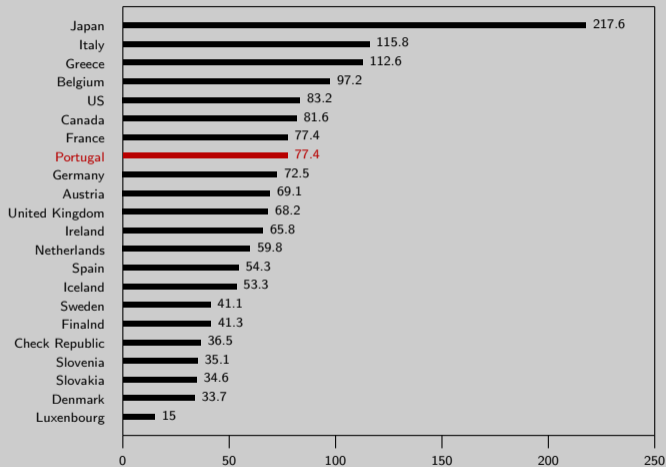
## Southern Europe in crisis (cont)

- Portugal must make an effort towards budget balancing.
- Portugal must make an effort to show that its macroeconomic shape is not very different from other European countries.
- Portugal must implement urgent structural microeconomic reforms (urgent for the past 20 years or so).

# Government deficit and GDP



# Public debt and GDP



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# Selection and productivity

Individual firm productivity									Average
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42	62	82	92	102	112	122	142	162	102.0
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		80	90	100	110	120	140	160		114.3

# The fallacy of the mean

- Average productivity in Portugal approximately one half of leading European countries (McKinsey).
- But huge variability:
  - 34% firms with productivity below one half of average.
  - 11% firms with productivity above twice the average.
- Back-of-the-envelope calculation: 20% Portuguese firms have higher productivity than median of Europe's leading countries.

# Portugal vale a pena

Efacec, Fepsa, Ydreams, Mobycomp, GALP, SIBS, BPI, BCP, Totta, BES, CGD, Stab Vida, Altitude Software, Primavera Software, Critical Software, Out Systems, WeDo, Brisa, Bial, Grupo Amorim, Quinta do Monte d'Oiro, Activespace Technologies, Deimos Engenharia, Lussospace, Skysoft, Space Services; Portugal Telecom Inovação; grupos Pestana, Vila Gal, Porto Bay, BES Turismo, Amorim Turismo,...

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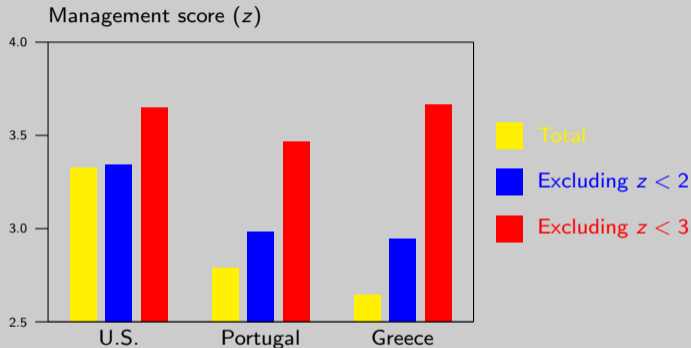
# Management quality and firm performance

- Firm performance, as measured by various indicators, is positively correlated with the quality of its management.
- Measures of firm performance include sales, sales growth, profitability, survival.
- Measures of management quality include establishment of targets, monitoring mechanisms, incentives mechanisms.

# Product market competition

$$\begin{aligned}\text{Management z-score} &= 0.180 \times \text{Import penetration} \\ &+ 1.257 \times \text{Competitiveness index} \\ &+ 0.120 \times \text{Number of competitors}\end{aligned}$$

# Management quality



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# Improving productivity levels

- Primary and secondary education.
- University education; business schools.
- Bureaucracy costs.
- Public sector / taxation levels.

# Getting rid of the left tail

- Ease of firm entry and exit.
- Economic mobility.
- Legal system.
- Competition and a level playing field.

# Takeaways

- Micro crisis more serious than macroeconomic crisis.
- To increase average productivity, get rid of the left tail.
- A level playing field is the best way to get rid of the left tail.

