



Portugal



Did you know...?

Name The name Portugal is derived from the Roman name *Portus Cale* (Port of Cale), an ancient town in the area of today's Grande Porto.

History Portugal used to be one of the major maritime powers that spearheaded the exploration of the world. It was also a colonial empire, comprising Brazil, Angola, and parts of Malaysia and India, among others. In 1999, it handed over Macau to China.

Geography Portugal is one of the warmest European countries – the temperatures in some parts can exceed 122°F (50°C).

Culture Fado is the most renowned genre of Portuguese music. It is usually associated with Portuguese guitar and *saudade*, or longing.

Fun Fact In Portugal, parents have restrictions in naming their children. The Ministry of Justice has 39 pages of officially-sanctioned names, and 41 pages of those which are banned. The latter group includes Lolita, Maradona, and Mona Lisa.

An overview of Portugal's economy

The financial crisis highlighted Portugal's issues with low productivity, weak competitiveness and high public debt.

In 1986, Portugal joined the European Economic Community (EEC), one of the predecessors of the European Union. Together with Spain, it brought EU membership to 12 states. In 1995 Portugal joined the border-free Schengen zone, and it was a founding member of the euro area, introducing the euro on January 1, 1999. Euro notes and coins entered general use three years later, replacing the Portuguese escudo.

Portugal's membership in the EU contributed to stable economic growth, largely through increased trade fostered by Portugal's low labor costs and an inflow of EU funds for infrastructure projects. The country's subsequent entry into EMU brought exchange rate stability, lower inflation, and lower interest rates. The service sector is now Portugal's largest employer, having overtaken the traditionally predominant manufacturing and agriculture sectors. EU expansion into Eastern Europe has negated Portugal's historic competitive advantage of relatively low labor costs.

However, the process of monetary integration also brought forth a number of imbalances that have contributed to the country's poor economic performance even before the recent financial crisis. Such imbalances are also perceived to have been exacerbated by deliberate policy choices. As a result of the economic crisis,

Portugal's GDP contracted by 2.7% in 2008–2009 largely due to shrinking domestic demand. The impact on the labor market and on public finances have been especially severe. Unemployment rose to 11% in 2010. The country came under pressure in 2010–11 to regain control of its ballooning budget deficits. In May 2011, Portugal agreed to strict fiscal measures as part of a €78 bn EU/IMF financial support program.

Portugal must embark on a program of comprehensive reforms to raise its longer-term growth potential, correct its imbalances, and restart the convergence process. The reforms need to concentrate on the efficiency of firms, labor productivity and flexibility, and encouragement of households to save more. In terms of Portugal's public finances, current policies may not be enough to achieve a 3% deficit target by 2013, and additional consolidation measures may be needed.





Portugal's Economy – Key Facts

- Portugal's GDP per capita is the third lowest in the euro area, after Malta, Slovakia, and Estonia
- The World Economic Forum (WEF) Global Competitiveness Report for 2011/2012 ranked Portugal 45th out of 142 countries in terms of competitiveness. It ranks well in terms of its infrastructure (23th), technological readiness (31st), innovation (32nd), and higher education (19th). However, it lags in labor market efficiency (122th), macroeconomic environment (111th) and financial market development (78th). The most problematic factors for doing business are inefficient government bureaucracy and restrictive labor regulations.
- In 2011, the World Bank's Doing Business Report ranked Portugal 31st out of 183 countries.
- According to the European Commission's Spring 2010 forecast, GDP is expected to decrease by 2.2% 2011 and 1.8% in 2012. That is driven by weak domestic demand, flagging consumption and still shrinking investment.
- The financial crisis visibly affected public finances: the budget deficit increased from 2.8% of GDP in 2008 to 9.4% in 2009 and is expected to decrease to 5.9% of GDP by 2011 and 4.5% in 2012. This translates into rapidly growing government debt, which was already 76.8% in 2009. The European Commission projects the debt to increase to 101% in 2010, and 107.4% in 2011. Under the EU-IMF program Portugal has committed to cut its deficit to 4.5% of GDP in 2012 and reinforce the stability of the financial sector.

References

- <http://www.delicious.com/eurochallenge/Portugal>
- http://ec.europa.eu/economy_finance/eu/countries/portugal_en.htm
- http://europa.eu/abc/european_countries/eu_members/portugal
- www.oecd.org/portugal
- <http://www.imf.org/external/country/prt>
- <http://www.doingbusiness.org/ExploreEconomies/?economyid=155>
- <https://www.cia.gov/library/publications/the-world-factbook/geos/po.html>

Exports Portugal's degree of openness is somewhat lower than the euro area or EU averages. Furthermore, Spain accounts for a quarter of Portuguese exports.

Wages Portugal's inferior competitiveness is one of its major problems. For years, wage growth has exceeded growth in productivity, making the Portuguese labor force relatively more expensive.

Inflation Portugal's inflation had consistently been above the euro area and EU average before the crisis. Inflation is now expected to reach an average of 3.4% for the year.

Technology Portuguese technology companies compete internationally in the field of advanced technology. The country also scored well on the amount of research carried out by small and medium-sized companies.

Agriculture Ten percent of Portugal's labor force is employed in agriculture. Although over time this proportion has been decreasing, it is still the second highest number in all the euro zone countries (after Greece), and more than double the euro area average.