



## **Cures for the External Deficit**

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**IMF**

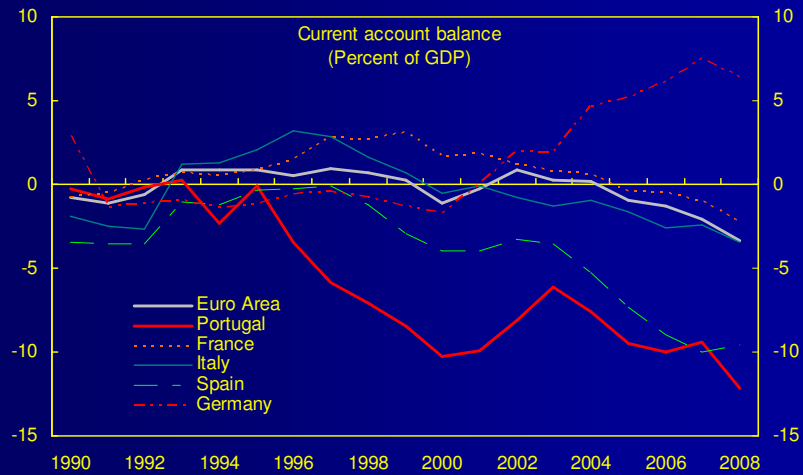


### **Comments on Miguel's Presentation**

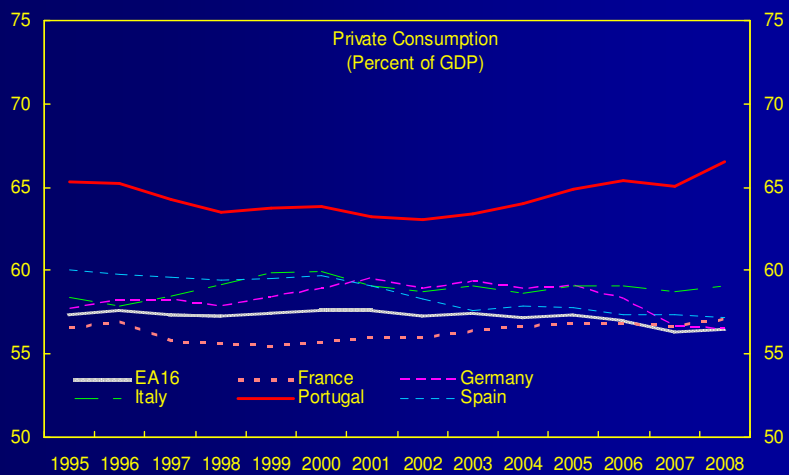
- The presentation says the external deficit is a big problem and actions needs to be taken to promote the adjustment
- I agree
- I would also stress the macro angles: e.g. debt and household consumption.



## ■ Portugal's current account deficit is very large...

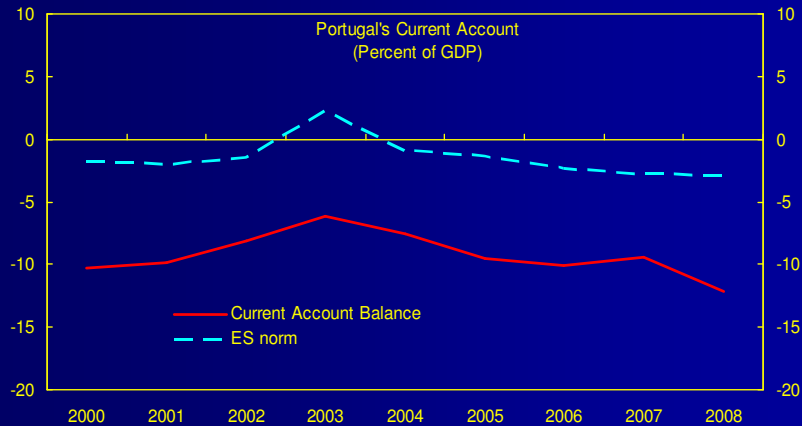


## ■ ...reflecting high private consumption...





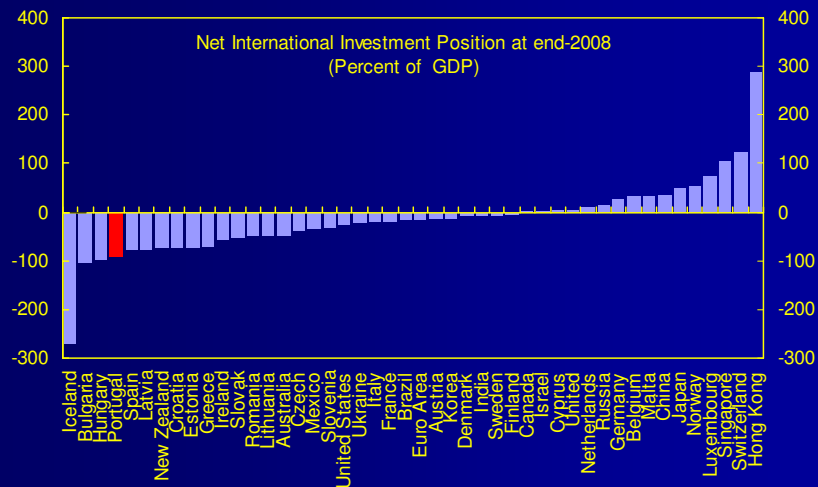
- ...and is well above that needed to stabilize Portugal's net financial liabilities to the rest of the world...



External sustainability current account norms refers to the current account balance that would stabilize the net foreign asset (NFA) position at certain level. The above figure shows the ES norm stabilizing the NFA of each year.

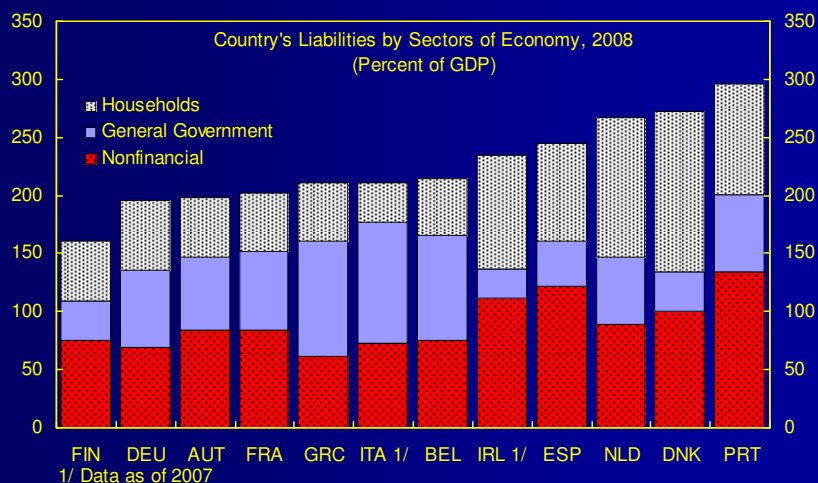


- ...which is very high...





## ■ ...reflecting the debt of individual sectors



## What to do?

- *Real depreciation – price and wage growth below euro area*
- *Reduce consumption/raise savings – households and government*
- *Increase productivity – framework conditions, liberalizing labor, product and service market reforms*
- *Role for a "Australian style "National Competitiveness and Productivity Commission"?"*