



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

CONSEIL AU NIVEAU DES MINISTRES

23-24 MAI 2006

POINT 2

LES PERSPECTIVES ÉCONOMIQUES DE L'OCDE

Portugal

Déclaration

M. Manuel Pinho
Ministre de l'Économie et de l'Innovation

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COUNCIL AT MINISTERIAL LEVEL

23-24 MAY 2006

ITEM 2

THE OECD ECONOMIC OUTLOOK

Portugal

Statement

Mr. Manuel Pinho
Minister of Economy and Innovation



**Intervention of the Minister of Economy and Innovation
Mr. Manuel Pinho
(Portugal)**

OECD MCM, 23 May 2006

Policy Matters

Mr. President,

- Prospects for the OECD economies are positive for the 5th year in a row.
- GDP growth is expected to accelerate from 2.8 to 3.1%, the improvement being more marked in the Euro area and Japan than in the US. This would bring the unemployment rate further down from 6.5 to 6.2%. Most remarkably, inflation is expected to stage a modest decline and to remain at check, despite the strong increase in the price of oil and raw materials.
- Non OECD economies are also performing positively, not only in Asia but also in many parts of the world that have been lagging behind for decades, with special regard to a number of African economies..
- This favourable environment is a tribute to globalization, encompassing the sustained expansion of world trade, pro-market structural reforms, innovation and rapid technology adoption.
- Let us be clear. Globalization is good. Globalization has produced a marked improvement in living standards, not least the convergence between the poorest and the richest countries.
- However, globalization has brought about the need for the OECD countries to take further measures to improve competition and flexibility. The winners will be those who will invest the most on improving competition and flexibility.
- Against this positive macroeconomic environment, several tensions persist. Let me stress the four main ones.
- Firstly, oil prices are expected to remain high and volatile and the speed of the recycling of income from the oil producer countries is in a large measure uncertain. The experience of other oil shocks seems to be of no guidance on this matter.
- Secondly, geopolitical concerns are expected to persist in many areas of the world, notably in a number of large oil producing countries.
- Thirdly, asset markets remain vulnerable, as the adverse developments of the last weeks have underscored and housing prices in several large countries are very high by historical standards.
- Last, but not least, global imbalances remain at an unprecedented high level.



- The US current account deficit increased from 3.8% of GDP in 2,001 to 6.5% in 2,005, matched by an increasing surplus of oil producing countries and the emerging Asian economies. The ongoing widening of current account imbalances has been sustained far longer and with much smaller exchange rate responses that would have been judged possible.
- Therefore, the big challenge ahead is to produce an orderly and smooth current account rebalancing.
- There are reasons to believe that this correction can be gradual and orderly. On the one hand, the bulk of international financial liabilities are in dollars, so their burden to the US economy does not rise with depreciation. On the other hand, official dollar purchases by central banks in emerging Asia are unlikely to undergo a rapid reversal. Finally, the US currency does not appear to be overvalued in terms of PPP.
- Even so, a rebalancing is likely to be unavoidable and there may be substantial risks involved in the process. There is a consensus that both the dollar depreciation and the slowdown of domestic demand which are needed to correct the US trade imbalance are large, which may have negative spillovers on other economies. The effect on asset prices is unclear.
- Against this backdrop of accelerating GDP growth but persistent risks, the challenge for the Euro area is to further consolidate fiscal imbalances in a relatively benign environment, to improve flexibility and foster competition in product markets. With regard to monetary policy, the acceleration of GDP growth should not prompt any further tightening, given the negative impact of the appreciation of the Euro relative to the other currencies.
- My Government has this agenda in mind.
 - Fiscal adjustment on a sustained basis, i.e. not using once-off measures.
 - Measures to foster competition, most notably in the energy sector.
 - Deregulation and the creation of a positive environment for the private sector.
 - Investment on improving skills.
 - Just to give a few examples, Portugal became one of the countries in the world where it is easier to create a company. English is mandatory since primary school. The retirement age of the public servants has been raised by 5 years. In the public administration, over 100 institutions are about to be closed.
- The best proof that supply side measures may have structural effects and a positive impact on economic growth even in the short run is the fact that even the OECD was unable to spot the turnaround of the Portuguese economy. Indeed, the OECD projects for Portugal export growth at 4 %, when figures released yesterday show that in the first quarter exports of goods and services grew by 11.5% in nominal terms, i.e. above 8% in real terms. The OECD predicts the unemployment rate to increase by .2 p.p. while in the first quarter it has declined by .3 p.p.
- This is a testimony that Portugal is in the right track, such as it is recognized by all international organizations, including the OECD and the Commission. This is proof, if need there was, that even an institution with the expertise of the OECD may be fooled when countries gear their policies toward globalization on a credible manner. This is a proof, if need there was, that policy matters.