**Portugal's economy**

# The importance of not being Greece

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**A government desperate to persuade markets that it is better than they fear**

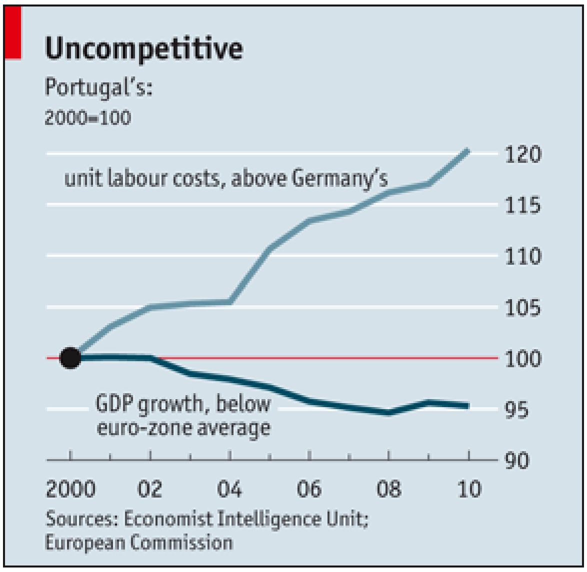
FORGET slogans about golden beaches or *vinho verde*. What the Portuguese government wants the world to know is simpler: Portugal is not Greece. Far from having the next sovereign-debt crisis, as predicted by several economists, politicians are painting Portugal as a well-behaved member of the euro, in no way comparable to wayward, mendacious Greece.

Portugal is doing better than Greece in its budget deficit (9.4% of GDP in 2009, compared with 12.7%) and public debt (85% of GDP this year, against 124% in Greece). Unlike Greece, its public accounts are credible and it has a record of taking tough fiscal measures when necessary—between 2005 and 2007, it cut its budget deficit in half, from 6.1% of GDP to 2.6%. A four-year austerity programme to chop the budget deficit again, this time to 2.8% of GDP in 2013, has been adopted.

Again unlike Greece, the centre-left government of José Sócrates is a pioneer of reform. It has linked pensions to changes in life expectancy and introduced incentives for later retirement. According to the European Commission, age-related public spending will rise by only 2.9% of GDP in Portugal over the next 50 years, compared with a euro-area average of 5.1% and a startling 16% in Greece. Despite some public-sector protests, opposition to spending cuts is less noisy than in Greece.

So why are markets fretting over Lisbon’s debt burden (yields on two-year bonds have risen to 4.8%)? And why have such figures as Simon Johnson, a former IMF chief economist, and Nouriel Roubini, a New York economics professor once labelled Dr Doom, said that a Greek-style crisis could infect Portugal?

One answer is that Portugal’s biggest problem is not primarily fiscal. It concerns growth—or the lack of it. Real GDP growth over the decade since Portugal joined the euro has been the slowest in the zone, despite a boom in Spain, its main trading partner. The country avoided a property bubble of the kind that burst so disastrously in Spain and Ireland. Though it doesn’t help much, Portugal’s already slow growth also made it less vulnerable to the global recession. “Spain was the wild tiger of Europe and had much further to fall when the recession came,” says João Talone, a private-equity manager. “Portuguese companies were already used to extracting value in a difficult climate.”




Low growth reflects a disastrous loss of competitiveness since the country joined the euro. Portugal has lost export-market share to emerging economies (including those of eastern Europe) that churn out similar low-value products. This is largely due to a steady rise in unit labour costs, as wage increases outstripped productivity growth (see chart). One consequence is that the Portuguese, once exemplary savers, have been borrowing heavily abroad. Household debt is now the equivalent of almost 100% of GDP and the debt of non-financial companies is nearly 140%.

Mr Sócrates sees himself as the modern face of a country in transition from low-cost manufacturing to knowledge-based industries. In five years, he claims, Portugal has become a European leader in renewable energy. It has also cut civil-service jobs from 747,000 to 675,000. It sends some 35% of its young people to university. It is investing over 1.5% of GDP in research, much more than Spain. At the same time, however, Portugal is losing some of its EU structural funds to the club's newer, poorer members from eastern Europe.

A slow-moving bureaucracy, inefficient courts, poor schools and state-supported pockets of the economy protected from competition combine to hold Portugal back. Businessmen moan about rigid labour laws, which there is little political will to reform. Portugal has one of Europe's toughest employee-protection regimes.

In short, Portugal is indeed different from Greece. But if the markets decided to put this to the test, chronic low growth, a drastic loss of competitiveness and high public and private indebtedness are all weaknesses which could swiftly undermine the protection that being different is meant to bring.