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### INTERNATIONAL TRENDS and Portugal's Position



### AS TENDÊNCIAS INTERNACIONAIS e a posição de Portugal

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## Actas

Universidade Autónoma de Lisboa | Fundação Calouste Gulbenkian

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## A reestruturação Financeiro e Económica da UE e Portugal o seu motor

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**Palavras chave:** Sistema Financeiro, Grécia, Portugal, UE, FEE, BCE, FMI

A UE necessita urgentemente de consolidar o seu sistema financeiro, para poder isolar-se ou impor-se ao sistema financeiro internacional. Como funciona o Sistema Financeiro Internacional? Como aparece o “dinheiro”? Como circula? A queda do referencial estruturante dos Sistemas Financeiros – O Risco Referência – associado às dívidas soberanas, é a pior referência. A crise Europeia, os juros altos do BCE/FEE e o temido FMI com os juros mais baixos. Porquê? O infernal ciclo - aumento de juros por aumento de risco de incumprimento, incremental foco financeiro secundarizando as condições económicas, aumento de medidas de austeridade para cumprimento, arrefecimento económico pela contracção das medidas, mais transferências e dependentes do Estado, menor encaixe via impostos, maior dificuldade em cumprimento, aumento do risco de incumprimento, e – aumento dos juros por aumento do risco de incumprimento. Eventualmente lá se considera uma renegociação. O ciclo que é a nova Tragédia Grega. Portugal vai cair no mesmo ciclo. Mas partirmos de uma base mais restritiva que a imposta pela Troika, legitimamos a liderarmos o processo de pormos a UE a repensar-se. O Desafio - Constituição de um FME, implementação dos Euro-bonds, sindicalização dos membros UE que são do FMI e forçar este a activar os DSEs (Direitos de Saque Especiais) sendo todos exercidos pelo BCE em nome da UEM e usados pelos países em crise sem acréscimos de encargos, emissão imediata de moeda, aumentando a liquidez no Sistema Financeiro Europeu, fomentar a depreciação do Euro, o que ajuda as exportações, evitar a “exportação das crises” e o spill-over para a Hot-Banana. Os contribuintes líquidos não podem entrar em crise. Economicamente Portugal deve continuar com conversões sectoriais profundas tendo um novo perfil económico em 2020. O Investimento deve acompanhar o desenvolvimento da população que temos. A UE deu um passo para trás, nós teremos a legitimidade, infelizmente, de a fazer dar dois passos à frente.

**João Jacques Valente** – Nasceu a 24 de Maio de 1958, em Angola. Licenciado em Gestão de Empresas. Mestrando em Relações Internacionais - Estudos da Paz e da Guerra na UAL. Desenvolveu sua actividade profissional nas áreas das TIs, sendo hoje um quadro superior de um dos principais grupos financeiros portugueses. Viveu 9 anos na Austrália, 3 anos no Canadá. É membro associado do PMI (Project Management Institute - Chapter de Toronto) sendo um PMP (Project Management Professional) com a certificação válida.

## Reestruturação Económica Europeia – Portugal o seu Motor

João Jacques Valente

I think it's time for EU to establish in the broadest sense its Financial System, in order to set the pace or being able to operate independently of the International Financial System, or yet to become the "System".

How all this work? Complicated? Not that much. Just a market, institutes and institutions, supervisionary bodies, rulers, players, investors, buyers, sellers, traders, speculators, and so on....

Money, almost exist since Mankind. Shells, stones, ceramic artifacts, coins, paper, plastic, virtual, adaptable forms and shapes to each of the rising needs of any period or time. Today, in its known shape, it finds especially its creation or genesis, in debt. It does not appear out of nothing. It is created by central banks, and starts circulating through debt creation as well. It has some objectives and characteristics associated with it. Elected Asset for trade, or transactions offsetting the need for the coincidence of needs, it is a mean of reserves or saving, for later or future use and, last but eventually the most important characteristic, to be a mean of evaluation comparatively totally unrelated goods and/or services – A chair, a cow, a surgery, a consultancy, a Software Product... Its acceptability is sustained in its universal acceptability. But we shall not mix acceptability with wishfulness, as, in fact what we wish and need, is not Money by itself but Services and Goods that we can obtain with it.

Central Banks produce money and, by taking debt instruments from financial agents, generally Banks, release money. If the market, the space under the supervision and control of the central bank considered, is filled with money, pushing inflation up, then, the central banks release the debt instruments initially taken and get hold into the excess of money that is flooding the market. It is like if Central Banks would be buying it back.

However banks, are also money makers. Through its logic of debt, associated interest or yields, are also creating money, almost out of nothing. But, underneath it lies exactly the principle of, through the debt, compounded with "Time", the economy would generate the wealth out of which the generated/expected money would come appear.

Governments, and the Public sector or services, which are the institutions responsible for the running of a State, also release Debt instruments (bonds), with an agreed and accepted yield, for short, medium and long term, which are released into the Market, in change for money. That's what generally is referred as Sovereign Debt, which used to be the unquestioned, safest (low risk) and the Financial System referential to determine Pricing, Yields and Risk of other Debt Instruments as well as for Stock or Asset titles.

By one reason or another, essentially for a lack of financial management discipline, Countries, governments and families sometimes, started to build "Debt" in such an extension that "New Debt" was required to honor (satisfy) the obligations of "Old Debt".

When we "default" or we issue "Debt" to honor "Debt" a cycle – The virtuous Cycle of Misfortune – takes place and as Risk of "Defaulting" rises, Interests and other costs associated with the new "Debt" rise as well. Generally, it is known as the Risk Premium, or the monies associated with the Risk Factor.

So, comes a time and those who have those titles in their hands, start to be affected and as per induction, their rate starts to deteriorate. The Contagious of "Bad Debt".

Programs for the rescue are set up, and, generally they are focused on financial recovery, not having as scope or concern questions or issues related with the economical system or recovery. They define what is generally essential to guarantee the payback of the loans.

Cuts in terms of Government expenditure, restrictive policies for Government investments, and, it can go far beyond the Government direct area of influence as, by forcing massive contraction on the expenditure side they also push for rises in the Government's revenue side which, nowadays, and in most part of the countries are limited to taxes. Taxes higher, cuts in expenditure and investment side

from Governments are, unavoidably, the symptom for a drop in economical growth or even a recession.

As Government cuts, economy slows down. More unemployment, more dependency from the social assistance of Government, more restrictions, and so on. It will never end.

Crisis are crises. Basically all the northern countries are in crisis. USA and the Dollar, all European countries, some more some less, some are already in it, the others, or by the contagious of “Bad Debt” or as the spill-over of the recessionary economies of those already in crises, will be in one (crisis) as well. It’s a matter of time. Systemically, it’s the way it goes.

Portugal is now in crisis. Contration at the highest level at the Government side, also a tremendous debt and lack of liquidity on the financial sector, and a not very pleasant rate – State and Financial sector – what makes money difficult and very expensive on the International financial market, resulting in a very difficult task of financing the productive side of the economy.

But we are not alone.

## Currency

So we talked about money, its characteristics. The EURO, is a strong currency. It satisfies all its requirements while a currency and as money. Supports trade and transactions, is good for reserves/savings private and corporate as well as for Governments, is a good referential asset for evaluation and pricing of goods and services.

Keynes, Baumol, Tobin and Friedman have theories and models that define the “Demand for Money”.

## Monetary zone

Lets look at the concept of a Monetary Zone. It’s a space, like the eurozone, where a group of regions or countries would stablish a system based on a Fixed Exchange Rate among them, or would use the same currency. That would imply that when in a region or country, the economy would coold down, it would imply that it would be booming in some other or others regions of the same space or zone. As we don’t have Exchange rates as a leveling factor or agent, they imply that factorial mobility would occur. Specially “L” work force, would move from the less active economies to the hotter ones. Prices would rise, and, the economy there would tend to slow down, while, the slower economies would become more competitive and they would start to converge.

## Banking Systems – the European Banking System

Latosensus, they are build by a Central Bank and all the other banks – commercial, investment, development, and other financial institutions with hability to take savings and lend money.

The EBS is known as the Central Banks European System, defined in treaties (Lisbon), and consists on the ECB and the NCBs. Mainly has as mandate to define and execute the Monetary Policy, execute the Exchange operations and manages the reserves of the State Members.

## The Financial System

It is the group of all the other banks and institutions that complement the CBES. We have the Eurosystem integrating all States (euro or non-euro states) and the Eurogroup.

Monetary policy, inflation control, currency printing (money making), promote and guarantee the good work of the payments system and look after the exchange operations as well as manage the reserves of the state members are the main tasks of the Eurosystem.

For the objectives stated in the treaties they are efficient and they work.

The ECB produces money, lends it through Open Market Operations in order to manage the interest rates, market liquidity and pre-define the monetary policy, specially in the short term.

Main refinancing operations (frequency 1w for 2 weeks term), Longer-term refinancing ops (freq 1m for 3 months), fine-tuning operations (ad-hoc) for market liquidity management and structural operations via issuing Bonds.

Governments have to get finance from the normal banks, not from the Central Banks. That's the result of the so popular now Article 123...

So, we have an efficient Banking System, an efficient currency, a not so efficient Monetary Zone and a financial system that is tremendously efficient for transactions support but highly inefficient to respond to crises and financial policies.

## The crisis, the Institutions

IMF, the European Financial Stability Facility (EFSF) and ECB, are the main players in the help process to rescue the countries in crisis. EFSF (EFSF) was created in 2010 for this specific purpose, and, in my view point it's way to obtain liquidity to assist countries after is confused. It was created in a rush so, it does the best it can but is far from being perfect. IMF use to be the "bad" boy, but, as we can see, is the one that ends up releasing help at a lower (interest) rate. For instance, from the 80X1.000.000.000,00 euros for the Portuguese help plan, it charges around 2,5% interest less than the Europeans agents.

When in crisis, one of the critical tools a government can use is its Monetary policy, adjusting Exchange Rates (depreciating currency), producing money – Monetary Expansionist Policy – making exports cheaper, imports harder and some liquidity available to face debt and finance economy.

With our European system, and specially in the Eurozone, having ECB its mandate consigned in the treaties, being the unique responsible for the Monetary Policy, countries in crisis do not have anything else apart from facing the crisis with the Budgetary Policy and, naturally, enforcing a restrictive approach in all dimensions to the economy.

Options are - to be poor through cuts, as production boosting is impossible - or change the treaties I would change the treaties. As Jean-Claude Juncker said two weeks ago here in this institution – Gulbenkian – we are one Europe, One Euro one Economic Space one EuroGroup. (Exactly the day after Merkel and Sarkozy were saying that could be considered two groups of countries in the Eurozone.... But later Merkel said that was a misunderstanding...) So, if we can change treaties in useful time to create groups within the Eurozone, depending on the economies performance, then we can change the treaty, to expand the scope of action of the ECB.

## Portugal

Portugal, regardless how restrictive will be, **won't be able to pay.**

The slowdown in the economy will impact Government in the revenue side, as won't generate as much as expected out of taxes, Assets to be privatized won't produce the expected amounts with their sales, (will be at sales price or won't be sold – one of the major problems Greece faced) and, early retirements compounded with exponential growth of poverty and unemployment will induce a greater stress on the expenditure side – Social Costs – in the government accounts. Economy will adjust to its competitive reality, so will slowdown, and, liquidity for investments will be scarce.

## So what to do?

Portugal has to endure this initial phase of restrictions. In matter of fact we are implementing much more restrictive policies than the ones recommended and required - by IMF, ESFS and ECB. That will give Portugal the legitimacy to advance in two main dimensions – Internal, by renegotiating the Help Plan, and Externally as a good pupil, to recommend –

## Liquidity

Hability to the ECB to have its scope extended being able to have full hability to produce and distribute liquidity. It produces the same balance among economies as a Flexible Exchange Rate would produce and/or the full Factorized mobility. That will help the financial sectors, and governments will be able to use that liquidity to balance out their current exercises, not defaulting. But, ECB is not a single country Central Bank. Those with External Commercial Superavit balances, will see their interests and rights losing value, directly related with the depreciation of the Euro.

## EMF

To create an equivalent to the IMF in Europe, as a relation with ECB in the same manner as IMF has with the Worldbank. The mechanisms for helping would be similar to those from the IMF and particularly, and once this crisis would finish, countries would contribute to fund this institution in order to allow access to products like the IMF Special Drawing Rights (SDRs) in subsequent crisis. SDRs are an international type of monetary reserve currency, created by the International Monetary Fund (IMF) in 1969, which operates as a supplement to the existing reserves of member countries. Within in EMF could be in Euros, Pounds, Dollars and Yens.

## Eurobonds

These are available mechanisms since 1963. Are Bonds issued in one currency other than the local currency of the issuer. But they are used by corporations or banks and not by the ECBS. They should now be used by ECB with the guarantee logic behind the Sovereign bonds, what would be a way of rizing liquidity without the need of money making.

## Crisis are exported and imported

Competitive economies, understandably, hold strongly against to assume the associated responsibility for the crisis in other countries of Eurozone, as well as they hold against the depreciation of Euro. Effectively they would be the big immedisate losers. Why they should pay for the other's mistakes? But it's better now to suffer financially, than later economically. They will end up importing the crisis as well. Yesterday, 17<sup>th</sup> November the President of Eurogroup did show is concern with the rising debt of Germany and the forecast slow down of its economy.

## Are we small

But Portugal find the legitimacy to prupose this, not only for behaving well, but because will endure what is comming now to be indured. Also founds its legitimacy on showing now to Europe that, with the extension of the coastal platform, represents half of European Sea and Oceans, with its associated economical potential and reserves. Looking back to the Atlantic, plus the potential found within the

not formal but taking shape, economical zone defined by the Countries with Portuguese with Official Language, and our privileged geographical position as being the Entrance Hall of Europe, compounded with our natural diplomatic and trade nature, are more than reasons to believe that, if we have the will, we can, now that Europe gave one step back to make Europe to move on two steps forward.