cife Institut européen
European Institute

LUISS School of Government

Joint Master in Global Economic Governance and Public Affairs

Does a debt crisis "always" lead to socio-economic crisis?

A study of debt restructuring failures paving the way towards a cycle of borrowing, financial crisis and economic recession

Supervised by Pr. Michel-Henry Bouchet

Tomás A. Fernandes Ferreira
2024

ANTI-PLAGIARISM AND FRAUD STATEMENT

I certify that this thesis is my own work, based on my personal study and/or research and that I have acknowledged all material and sources as well as AI tools used in its preparation. I further certify that I have not copied or used any ideas or formulations from any book, article or thesis, in printed or electronic form, or from AI tools without specifically mentioning their origin, and that complete citations are indicated in quotation marks.

I also certify that this assignment/report has not previously been submitted for assessment in any other unit, except where specific permission has been granted from all unit coordinators involved, and that I have not copied in part or in full or otherwise plagiarised the work of other students and/or persons.

In accordance with the law, failure to comply with these regulations makes me liable to prosecution by the disciplinary commission and the courts of the Republic of France for university plagiarism.

Name: ALLANO FERNANDES FERREIRA, Tomás

Date: 06/06/2024

Signature:

ACKNOWLEDGMENTS

I would like to express my gratitude to Professor Michel-Henry Bouchet for his guidance throughout this endeavor. Without Professor's Bouchet availability, advice, insights and feedback, this work would not have been possible.

To my family, especially my mother, my father, and my grandmothers, I am grateful for your emotional support, patience, and for providing me with everything I needed to follow my journey.

To my childhood friends, Afonso Rego and Pedro Almas, I want to thank them for their constant moral support, kindness, and advice worth more than gold.

It is to all these good-hearted people that constitute part of who I am, that I dedicate my work.

ABSTRACT

The main goal of the present work is to explore whether a sovereign debt crisis inevitably results in social or economic crises.

The study is divided into several key sections: The initial chapters lay the groundwork of sovereign debt theory: how sovereign debt is measured and how incomplete it is, the restructuring tools governments have at their disposal, and the main stakeholders involved in sovereign debt negotiations.

Focusing on the Portuguese debt crisis of 2010-2014, the study delves into exploring the early warning signs, the internal and external factors, and the subsequent austerity measures such as labor market reforms, public sector changes, taxation adjustments, and privatization efforts. The study also examines their subsequent socio-economic impacts on the country and suggests European debt mutualization as a route towards greater economic stability and integration.

This extensive analysis not only enhances our understanding of sovereign debt dynamics but also provides practical recommendations for policymakers to prevent future economic crises and social crisis.

TABLE OF CONTENT

ABBREVIATIONS 6
INTRODUCTION 8
LITERATURE REVIEW & METHODOLOGY 10
CHAPTER I 12
FOUNDATIONS OF SOVEREIGN DEBT RESTRUCTURING: MEASUREMENTS, STAKEHOLDERS AND DEBT CRISIS DRIVERS 12
1.1 Measuring Sovereign Debt 12
1.2 Measuring external debt 12
a) Inflation 13
b) Commitments not taken into consideration 14
1.3. Assessing debt sustainability 14
1.3.1 Meeting long-term debt obligations: solvency 15
1.3.2 Meeting short-term obligations: Liquidity 17
1.3.5 Debt owned by residents 18
1.4 Key stakeholders in supporting financially distressed nations 19
1.4.1 International organizations 19
1.4.2 Private entities 23
1.5 Triggers of a debt crisis 25
CHAPTER II 28
PORTUGAL IN THE EUROCRISIS 28
2.1 Overview of the Portuguese Economy 28
2.2 Root causes of the Portuguese debt crisis 31
2.3 Early warnings 31
2.4 Credit downgrades and banking sector vulnerabilities 32
2.5 The Portuguese Economic Adjustment Program 33
2.5.1 Flexibilization of the labor market 35
2.5.3 Rationalization of the public administration and the public sector 37
2.5.4 Promoting competition and efficiency through privatization 38
2.5.8 Restoring trust in the banking system 39
2.5.9 Deregulation of the rental market or questioning the right to housing? 39
CHAPTER III 40
SOVEREIGN DEBT RESTRUCTURING TOOL KIT 40
3.1 Haircut 40

3.2 Decrease in interest rates on debt 40
3.3 Rescheduling 41
3.4 Mix and match 41
3.5 Debt-for-equity swaps and debt-for-development swaps 41
CHAPTER IV 41
THE PATH TOWARDS DEBT RESTRUCTURING: FROM GOVERNANCE ISSUES TO EFFECTIVE SOLUTIONS 41
4.1 Procrastination and lack of commitment 41
4.3 Asymmetric information & Corruption 42
4.4 Lack of commitment 42
CHAPTER V 42
A PLEA FOR EUROPEAN DEBT MUTUALISATION 42
5.1 Proposals and precedents for mutualized debt instruments 43
CONCLUSION 45
REFERENCES 46

ABBREVIATIONS

ECB: European Central Bank
EU: European Union
EC: European Commission
EP: European Parliament
EEC: European Economic Communities
EMU: Economic and Monetary Union (EU)
ESM: European Stability Mechanism
EPU: European Payment Union
EFTA: European Free Trade Association
GATT: General Agreement on Tariffs and Trade
NGEU: Next Generation EU
TFUE: Treaty on the Functioning of the European Union
SGP: Stability and Growth Pact
MTFA: Medium-term Financial Assistance Facility
MEFP: Memorandum of Economic and Financial Policies
MoU: Memorandum of Understanding on Specific Policy Conditionality
TMC: Technical Memorandum of Understanding
IMF: International Monetary Fund
GDP: Gross Domestic Product
BES: Banco Espírito Santo
CGD: Caixa Geral de Depósitos
BCP: Banco Comercial Português
INE: Instítuto Nacional de Estatística
VAT: Value Added-Tax
IFIs: International Financial Institutions
LC: London Club of international banks
PC: Paris Club of OECD countries
RST: Resilience and Sustainability Trust
PRGT: Poverty Reduction and Growth Trust instrument
GRA: General Resources Account
ECO: Expanded Co-financing Program

"Europe will be forged in crisis, and will be the sum of the solutions adopted for those crisis"

Jean Monnet, Memoirs, 1978

INTRODUCTION

This thesis serves a dual purpose: to demonstrate how poor management of sovereign debt, characterized by the accumulation of former loans made by public administrations (such as State, local authorities, and social security[1]) leads to social crises and economic recessions. Social crises involve significant disruptions in societal order, often triggered by rising conflicts, dynamic systems interactions, or violations of social norms and expectations. These crises can arise from increased societal complexity, reaching critical junctures where existing social structures are questioned and may undergo reorganization (Cardenas et al., 2018). Economic recessions, on the other hand, are defined as a period of falling economic output identified when Gross Domestic Products declines over two consecutive quarters[2]. The mechanisms implemented by states to break this cycle and render the debt sustainable will be elucidated.

Debt, in this context, is "considered sustainable if the government can meet all its current and future payment obligations without exceptional financial assistance or going into a default"[3]. Following the Great Recession, both Greece and Portugal, whose finances were shaken, were assigned emergency loans. As an illustrative example, an analysis of the Portuguese will be presented, and the adjustment program implemented. The second objective is to explore pathways towards a more federal Europe through the mutualization of public debt. Regarded as the sharing of risk responsibilities[4] through the transfer of an existing portion of sovereign debt to a joint euro agency, European debt mutualization is a politically sensitive topic (D'Amico et al.2022). If Article 125 of the Treaty on the Functioning of the European Union, also commonly known as the "no-bailout clause", stipulates that member states are forbidden to share the burden of debt contracted by other members, the reality as shown otherwise.

If we go back in time to 2012, when Italy and Spain were facing a debt crisis with a potential default ris, Mario Draghi who was at that time President of the ECB, publically declared that "The ECB is ready to do whatever it takes to preserve the euro," signaling to financial markets and investors that the institution was prepared to launch a massive

[1] Ministère de l'Économie et des Finances
[2] The Economist Glossary
[3] IMF, What is debt sustainability, Dalia Hakura, 09/2020
[4] La mutualisation des dettes européennes implique nécessairement un renforcement de la discipline budgétaire, Frédéric Allemand, Gestion et Finances Publiques 2020/4 (N°4)

bond-purchase program to maintain the stability of the Eurozone. This powerful statement, broadcast worldwide, led to a significant drop in bond yields and borrowing costs for eurozone countries. At that moment, Mario Draghi's voice embodied the voice of the eurozone, and the impact of his three words demonstrated to opponents of a federal Europe that a united Europe, speaking with one voice, has its rightful place not only in the economic arena but also, and more importantly, on the global political stage. Years later, in 2015, speaking before the European Parliament (EP), Draghi defended the creation of pan-European institutions that would take on more responsibilities from member states, arguing that this shift was necessary for the European Union to better withstand external shocks.

Politically, governments and international and regional institutions had to swiftly navigate an unknown situation, offering varied solutions to severe economic and **social issues.** Nearly two decades after the European sovereign debt crisis and subsequent **financial crisis,** European institutions, especially the ECB and the European Commission (EC), appear to have learned from past restrictive policies. This shift towards more counter-cyclical measures is evident, as seen with the implementation of the NextGenerationEU (NGEU) recovery plan. For the first time in history, the EC, with the support of the ECB, launched a €750 billion post-pandemic economic recovery package. This package aimed to support member states through grants and loans, facilitated by jointly issued debt.

If the "austerity" measures taken in response to the 2008 recession were deemed too severe – particularly in less developed European countries – by renowned economists such as Joseph Stiglitz[5], we can also question whether we are witnessing a trivialization of the concept of sovereign debt and ineffective debt restructuring efforts paving the way "towards a cycle of borrowing, financial crisis, and economic recession".

In our research, we will aim to demonstrate how the economic concept of sovereign debt sustainability and that of "good governance" in political science are inseparable and constitute one of the key reasons why some states like Portugal are more susceptible to crises and more prone to the accumulation of debt. Ink will be spilled demonstrating the causal link between these two concepts, paper will be used exposing the existing mechanisms in debt restructuring, and energy will be employed to offer potential

[5] "Austerity has been an utter disaster for the Eurozone", Joseph Stiglitz, The Guardian, 01/10/2014

institutional reforms notably at the European level that could minimize the impact of future recession.

Our research is structured as follow. Firstly, we will lay the foundations of debt restructuring: how to measure debt, its stakeholders and its drivers (Ch. I). Secondly, we will conduct an analysis on Portugal in the Eurocrisis (Ch. II). Thirdly, we will present the toolkit available to states for debt restructuring (Ch. III). Subsequently, a case will be made for European economic federalism, advocating for a system of fiscal solidarity between member states (Ch. IV).

LITERATURE REVIEW & METHODOLOGY

In order to offer the reader a holistic understanding of sovereign debt crises, restructuring, their drivers, and the social and economic impacts related to the implementation of austerity measures, it was necessary to adopt a multidisciplinary approach. Bridging theoretical insights with empirical data is always a difficult task since my work is never entirely quantitative nor entirely theoretical, making it a hybrid product subject to criticism from both economists and political scientists. Added to this, is the formidable task of drawing conclusions on topics that still divide society and economists.

How can one take sides between a faction that defended that austerity measures in Portugal were a "necessary evil" to save the country from bankruptcy, completely forgetting what makes us social scientists—the human aspect of our profession, "doctors of the economy," more than fanatics of numbers and models—and a neo-Keynesian faction that, after the fact, that is, after a financial crisis and a recession unprecedented in contemporary economic history, proclaims the magical solution of counter-cyclical policies from an ivory tower?

It is difficult to take sides and, consequently, to draw conclusions. I hope that while not taking sides between the two factions, I have been able to present my point of view, which is that the magical solution does not exist, just as public finance is not merely a matter of numbers; the human aspect, the reaction of society to certain public policies, and those who implement these measures are non-quantifiable variables that play a predominant role in the outcome.

A wide range of sources was used to gather relevant data. The research encompassed Portuguese, French, and English sources such as research papers and analytical articles from academic journals, press releases, newspaper articles, and statistical data from Portdata, Instituto Nacional da Estatística (INE), and Instituto+Liberdade, a liberal think tank that produces statistical data and research. I wish to highlight specific sources that have been particularly useful and the authors who deserve mention given the quality and intelligence of their analysis. The theoretical foundations laid in Chapter I are primarily derived from Gregory Mankiw's Macroeconomics manual. His work provides a solid theoretical base for understanding what sovereign debt is and how to measure it. Chapter III, on the root causes of the Portuguese debt crisis, draws on the research of Ricardo Reis, A.W. Phillips Professor of Economics at the London School of Economics (LSE). His study, titled "Portuguese Economic Slump and Crash, and the Euro Crisis," serves as the foundation for this analysis. The Country Risk Assessment Guide to Global Investment, co-written by Professor Michel-Henry Bouchet, as well as his lectures on Governance and country risk I attended during this academic year, have provided the framework for the structure of this thesis as well as a more technical understanding on sovereign debt dynamics.

Although the initial intention was to include a comparative case study between Portugal and Greece, the focus was later restricted to Portugal. The decision to avoid a cross-comparison with Greece stems from a desire to prevent readers from assuming that both countries share similar causes and characteristics for their debt crises. Through my readings, I understood that such an assumption would be incorrect and unfair, particularly to Portugal.

Indeed Greece's debt crisis is essentially the result of non-economic factors such as lack of transparency in public finances, failure to comply with IMF requests, and political instability. As Wolfgang Schäuble noted, "Since this government took office, the situation has consistently got worse, and it gets worse by the day and by the hour." An example is the scandal between the Greek government and Goldman Sachs in 2001, where financial mechanisms where used to intentionally obscure the real debt of the country.

On the contrary, Portugal's issues are essentially rooted in the mismanagement of public finances and a lack of a resilient and diversified economy capable of withstanding external shocks. Portugal's challenges are further complicated by its contemporary history, having transitioned from a dictatorship only 50 years ago. This history has left a

legacy where the "culture of risk" is almost non-existent, entrepreneurship and innovation are limited, and an elderly population predominates. Despite these challenges, Portugal has made significant progress in recent decades, attracting foreign investment and high-value individuals, as evidenced by the Golden Visa measures and the Non-Habitual Tax Residency (NHR) regime. During the Troika, Wolfgang Schäuble praised Portugal's reform efforts, stating, "Portugal's reform efforts have paid off. Today's decision by the government in Lisbon is proof of this. Portugal no longer needs European assistance and can stand on its own two feet again."

The research critically examines the policy measures implemented in response to the debt crisis, including an evaluation of structural measures on a sector-by-sector basis, such as education and transportation. The effectiveness of these policies in stabilizing the economy and promoting recovery was assessed and nuanced, drawing on both statistical data and expert perspectives.

CHAPTER I

FOUNDATIONS OF SOVEREIGN DEBT RESTRUCTURING: MEASUREMENTS, STAKEHOLDERS AND DEBT CRISIS DRIVERS

1.1 Measuring Sovereign Debt

The method used to measure sovereign debt also has implications for a creditor's perception of a state's solvency and, consequently, the final amount borrowed. Despite the efforts of the international working group to promote convergence in public debt statistics and measurements[6], some countries still maintain their own public finance accounting systems. This makes it difficult for international creditors or investors to have a reference point to foster international comparability of debt levels between countries. The public sector debt includes all debt liabilities from resident public sector units to other residents and non-residents. Thus, one of the challenges we encounter when measuring a nation's sovereign debt is in determining who qualifies as a resident to correctly categorize all debt liabilities of these resident public sector units.

1.2 Measuring external debt

The international working group defined gross external debt as "the amount, given at any time of disbursed and outstanding contractual liabilities of residents of a country

[6] Public sector debt statistics, IMF/ External debt: definition, statistical coverage and methodology, 1988

to a non-resident to repay principal with or without interest or to pay interest with or without principal". However, each country has different categories of residents and distinct legal regimes with different residency criteria, making it difficult to compare external debt between the two countries. It is already complicated to identify what constitutes a resident liability.

Additionally, it sometimes happens that states mistakenly include domestic foreign currency loans as external debt, whereas this should not be measured based on the currency but on other criteria.

a) Inflation

The level of inflation in a state plays a central role in accurately measuring a country's debt level. Indeed, real debt allows expressing the debt in constant prices, neutralizing the effects of a generalized price increase that can vary over time. Therefore, the measured deficit in a given territory should correspond to the variation in the state's real debt rather than its nominal debt.

$$\Delta D = \pi D$$

Also, when a government goes into debt, it is most often because there are public expenditures that need financing. Moreover, this debt includes the debt service, which simply means the interest that must be paid to the creditor. Consequently, when a state measures its public deficit—that is, public revenues minus public expenditures—the latter should include only the real interest rate and not the nominal rate, since the difference between the two is the inflation rate (Krugman, Paul. "International Economics: Theory and Policy." Addison-Wesley, 2000)

From a political perspective, when a country goes through inflation and citizens express their dissatisfaction as their purchasing power decreases politicians in power with an incredible sense of timing often publish the ratio of public debt to gross domestic product, falsely reassuring the population about the health of public finances. Even though inflation artificially reduces this ratio (Blanchard, Olivier, and Stanley Fischer. "Lectures on Macroeconomics". MIT Press, 1989), politicians often openly state that debt decreases. For instance, in 2023, Portuguese Finance Minister Fernando Medina boasted about having managed to reduce public debt to levels below 100% of GDP, even though it was shown by the INE that the reduction of debt from 112.4% of GDP in 2022 to 98.7%

of GDP in 2023 was largely due to the effects of inflation. A nominal debt[7] figure may appear stable but if inflation is high the real value of that debt is decreasing, reducing the burden on the government (Reinhart and Rogoff, 2011).

b) Commitments not taken into consideration

When sovereign analysts study the debt of a given country and proceed to cross-comparisons with other nations, what often escapes their attention are the future commitments of governments, mainly pension liabilities, healthcare obligations, and bailouts. These burdens typically fall on future generations and penalize future economic growth. Taking these future commitments into account would provide a better understanding and a more holistic approach to the debt burden of a country (Bova et al., 2016). For instance, frugal countries such as Denmark, with a low debt-to-GDP ratio (33% for Denmark), are more skeptical about giving financial support to southern European countries ("PIGS"). These countries precisely have heavy future liabilities due to their very generous welfare systems, which are not reflected in debt measurement discussions. As life Europeans life expectancy is increasing (in 2022, 80.6 years, Eurostat), the pension will necessarily need to be reformed to ensure the viability of public finance while giving access to everyone. However, social tensions and risks might arise with such reforms as seen with the case in France when President Macron introduced the "réforme des retraites" which led to more than four months of massive strikes across various sectors.

1.3. Assessing debt sustainability

The quest to understand when and what makes debt sustainable contains two main risks, one could argue.

The first is that it might suggest there is a point where less effort can be put into maintaining the stability of public finances and efforts in reducing public expenditures, thereby trivializing the importance of managing expenditures. If, during a period of economic prosperity, a state can still find ways to reduce public expenditure without negatively impacting citizens' access to public services, why shouldn't it do so? The asymptotic ideal for a state should be that for every euro raised, one euro in expenditure should be reduced. If it is impossible in practice, the objective of this principle is to

[7] A government's nominal debt is the cumulated sum of past deficit spending.

encourage states to maintain a certain fiscal discipline even in times of prosperity. Like a rational individual who does not spend more than his income, or like a business that focuses on maximizing profit and minimizing expenditure where possible, states should always seek to identify inefficiencies and reduce public expenditure, even when public finances are sustainable or when debt is considered "sustainable." Small reductions can add up to significant savings that can be redirected toward innovation, economic growth-generating sectors, or in social segments of the administration such as healthcare and education.

The second challenge lies in the fact that sustainable debt is not so much the product of a single factor but rather a series of factors that must be coherent with each other, such as fiscal policies, economic policies, and institutional strength ("Fiscal Monitor", IMF, 2021), rather than a single one.

Attention should be paid to solvency and liquidity ratios as measures of a country's capacity to meet its debt obligations. Debt in this sense is considered sustainable if the government can meet its debt obligations (solvency) through regular income or reserves (liquidity). If a state becomes insolvent in case of default, it cannot be subject to liquidation, as most of that state's assets are subject to sovereign immunity by international law (R Jennings and A Watts (eds), Oppenheim's International Law (CUP 1992) 341–76).

1.3.1 Meeting long-term debt obligations: solvency

A state is considered solvent if it can meet its current expenditures. The solvency of a state is therefore closely linked to its ability to generate revenue to cover current expenses and meet future ones, by implementing economic policies that foster economic growth (Reinhart and Rogoff 2010). That is precisely what proponents of degrowth theories struggle to understand among others, that economic growth in this case is not a choice but a necessity for governments to meet their commitments. Alongside the importance of economic growth for state solvency, achieving fiscal surpluses is also crucial (Blyth 2013). Interesting would be to implement a unified computerized system among all public administrations that would monitor through AI all administrations expenditures and identify inefficiencies no matter how small. For example, this system would help the government avoid wasting money unnecessarily by identifying more cost-effective supplies needed for a given administration. It would also include a mechanism

to identify human resource inefficiencies, enabling the rapid allocation from areas with a surplus to those with a shortage (Mazzucato 2013).

Measuring the solvency of a state starts with assessing its financial autonomy to repay its debt, which is calculated by dividing the debt stock by the wealth created in the country (GDP) (Blanchard and Leigh 2013). It is generally agreed among investors, economists, and notably within the European Union that debt should not exceed 60% of GDP, a criterion recognized as an indicator of a country's health beyond which there is a risk of default. While it is true that in the last decade, we have witnessed a trivialization of the discourse on public debt sustainability, the current threshold should potentially be revised, especially at the European level, since most member states exceed this limit and are not legally aligned with the Stability and Growth Pact to which they have committed (Wyplosz 2019). This sends a message to non-European foreign investors of a lack of serious governance.

$$\frac{\boldsymbol{Debt}}{\boldsymbol{GDP}} < \mathbf{66}\%$$

$$\frac{\boldsymbol{Debt}}{\boldsymbol{Official\ reserves\ assets}}$$

Relationship between a country’s debt and its reserves assets which can include foreign currencies, gold among other. The higher the official reserves the better as the country can in last resort cover its debt with its reserves.

$$\frac{\boldsymbol{Debt}}{\boldsymbol{Exports}} < \mathbf{150}\%$$

Measures the total debt of a country relative to its annual export earnings. The higher the ratio, the more the country faces difficulties in repaying its debt through export revenues. A ratio below 150% suggests that the country generates enough export revenues to fulfill its debt commitments.

$$\frac{\boldsymbol{Reserves}}{\boldsymbol{Months}} > \mathbf{6}\ \boldsymbol{months}$$

The ratio shows how many months of imports a country's total reserves can cover. During a recession, having reserves that can cover more than six months of imports is considered

acceptable. The issue is that when we look at the world's biggest debtors, for instance, the United States of America, it would only be able to last 17 weeks without entering default. This highlights how important it is for small and medium economies, in addition to having strong reserves to diversify their economies and invest in innovative sectors.

$$\frac{\boldsymbol{Short\ term\ debt}}{\boldsymbol{Outstanding\ debt}}$$

Illustrates the relation between short-term debt, generally due within a year, to the total debt. A lower ratio is better in the short term as it indicates that a smaller portion of the total debt is due soon, reducing short-term pressure.

1.3.2 Meeting short-term obligations: Liquidity

Unlike solvency, which focuses more on stock-to-stock relations addressing the long-term stability of public finances, liquidity focuses more on flow-to-flow relations, on the capacity for the government to cover its maturing liabilities. To prevent a negative spiral of borrowing to service short-term debt obligations, governments should ensure that they hold sufficient liquid reserves.

$$\frac{\boldsymbol{P+I}}{\boldsymbol{X}} < \mathbf{150\%}$$

Illustrates if a country's exports are sufficient to cover the debt and its interests. The goal for a government is to ensure real interest rates remain below the growth rate of real exports, in order to stabilize the debt-to-export ratio (Sachs, 1989)

$$\frac{\boldsymbol{Current\ Account}^{8}}{\boldsymbol{GDP}}$$

A positive ratio means the country is a net lender to the world. A negative ratio means the country is a net borrower to the rest of the world.

[8] Current account balance: trade balance (X-M)– interest payments

$$\frac{\textit{Growth rate of exports of Goods and Services Income (GSI)}}{\textit{Average Interest rate}}$$

$$\frac{\textit{Short term debt}}{\textit{Liquid reserves + contingent credit lines}}$$

It illustrates the relationship between short-term debt and total reserves, along with the credit lines typically opened by IFIs to cover urgent financing needs. A low ratio indicates that the government has sufficient liquid assets and access to credit lines to manage its short-term debt.

Finally, the longer the average maturity of external liabilities the better because it allows governments to have more time to reimburse their debt, contributing to long-term solvency.

1.3.5 Debt owned by residents

If high debt levels are not necessarily synonymous with poor public finance management or low public finance sustainability, it is generally preferable for a state that a large portion of this debt is held by residents of the country in question to minimize the risk of exposure to external shocks and currency risk. (Auerbach and Gale, 2009; Reinhart and Rogoff, 2010; IMF, 2013). For example, although Japan's debt is around 200% today, it is mostly held by residents, with nearly 70% held by the Bank of Japan. This allows the government to benefit from low interest rates and keeps the money within the country, stimulating the economy (multiplier effect). All other things being equal, the risk with debt held by residents in countries with few enterprises and banks is that high levels of domestic debt contribute to concentrated financial risk within the country's economy. For example, in Portugal, one of the problems that worsened the economic recession from 2010 to 2014 was precisely the fact that Portuguese commercial banks were severely exposed to government debt, accounting for around 23% of their assets (stress tests conducted by the European Banking Authority in December 2010), which led to banks being at solvency risk. This financial risk concentration, combined with the size of Portuguese banks relative to the small size of the economy, ultimately led to repercussions in other sectors of the economy. One could argue that the catalytic effect of having debt held by residents depends really on the size of the economy and the dimension of national

commercial banks compared to the size of the economy. Lastly, it is also crucial to understand the currency in which the debt is labeled as currency devaluations can impact severely nations whose debt is labelled in foreign currency, contributing to higher servicing costs.

1.4 Key stakeholders in supporting financially distressed nations

1.4.1 International organizations

a) The Paris Club of OECD governments

The Paris Club of OECD governments, as the name suggests, handles official bilateral debt negotiated solely between governments since 50s. Like the London Club (LC)of international banks for private creditors, the Paris Club (PC) is informal but follows more established procedures. It values solidarity, consensus, and equality among creditors in restructuring agreements. Similar to the LC, government agreements may involve debt rescheduling, cancellations, or reductions, balancing official creditors' interests with the goal of economic stability in the debtor country. However, the PC faces criticism for its lack of transparency in decision-making (Eichengreen, 2000), absence of an institutionalized structure leading to enforcement and compliance challenges (Daseking and Powell 1999, 556; Rieffel 2003, 29), and selective membership, excluding major official lenders like China from negotiations.

b) International Financial institutions

IFIs include a multitude of institutions that offer financial support, such as loans, grants, and general recommendations on economic governance. This section will focus on international financial institutions that play a key role in debt restructuring for countries in distress: The IMF, the World Bank as a multilateral development bank, regional financial institutions mainly the European Stability Mechanism (ESM), the ECB, and the EC. Governments with low credit ratings tend to seek refuge with IFIs rather than private creditors, as these institutions are generally perceived as more “flexible” than private creditors to deferrals, renegotiations, and general borrowing conditions.

i) The International Monetary Fund (IMF)

When a country faces a balance of payments crisis and needs a loan to cover the financial gap, it is usually the IMF that takes upon the role of last resort lender, giving countries access to lower-interest rates funding than what the private market would offer. As with any loan, collateral is required, but unlike typical lenders, the IMF also demands

that the distressed country undertake reforms aimed at addressing structural macroeconomic issues. Usually, these reforms are based on the "ten commandments" outlined in the Washington Consensus, which are believed to restore economic growth and stability in a country. These include privatization, deregulation, trade liberalization, fiscal discipline, competitiveness, protection of private property, market-determined interest rates, and floating exchange rates, all of which are not free from criticism. Once the request to access loans is deposited to the IMF and both governments and the institution agree on the terms of the agreement, the debtor government presents what is called a "letter of intent" and a detailed "memorandum of understanding" to the executive board of the IMF.

Depending on the income and size of the member country in need of financing, the IMF uses different types of instruments. For instance, under the Poverty Reduction and Growth Trust instrument (PRGT), low-income countries facing external shocks can access interest-free loans. Additionally, to this instrument, the IMF has opened long-term credit lines for low to middle-income countries facing structural challenges (climate change for instance) under the Resilience and Sustainability Trust (RST). Even though the previously mentioned instruments are central for developing nations, the IMF's largest transactions with all members are conducted through the General Resources Account (GRA) at market interest rates, with the amount allocated varying according to their quota in the organization.

Finally, regarding the monitoring of the application of funds and the conditional structural reforms that distressed countries must implement, the IMF regularly conducts visits to engage with senior officials, policymakers, and members of national central banks to ensure the proper implementation of these measures.

ii) The World Bank

Both the IMF and the World Bank are complementary institutions. The IMF plays an essential role in providing short-term financial support to restore macroeconomic stability to countries in distress, as noted above (Boughton 2004). In contrast, the World Bank is crucial in offering financial and technical support for long-term economic development projects (such as infrastructure) and social development projects (like poverty reduction). Recognizing that structural improvements take time to manifest and that the economy and

economic agents need time to adapt, the World Bank loans have longer maturities (Ratha 2001).

In parallel to the institutions' direct lending—which can sometimes create sovereign dependencies on more favorable loans—the World Bank has been assisting sovereigns since 1989 in gaining access to private capital markets under the Expanded Co-Financing Operations (ECO). This public-private collaborative funding allows the institution to mitigate potential risks of loan defaults while strengthening sovereigns' credibility in private capital markets.

Recalling Warren Buffet's personal advice but applying to sovereigns: "It takes twenty years to build a reputation and five minutes to ruin it," co-financing allows countries to strengthen their reputation. Not repaying their debt, as in the case of Argentina, will penalize the country in the long run, as neither private nor public creditors will be willing to lend to them again.

c) European Institutions

i) The European Stability Mechanism (ESM): A recent lending institution still operating in the "shadows"

Unlike its international partners with more media attention, such as the IMF or the World Bank, the European Stability Mechanism (ESM) is a major player at the European level as the "lender of last resort," with a capacity of around €500 billion to support countries unable to refinance their debt in private capital markets at lower interest rates. Acting in the shadows, the ESM contributed more than half of the €78 billion the Portuguese government requested as part of the adjustment program during the euro crisis, also financially supporting countries like Greece, Spain, Cyprus, and Ireland.

In parallel to the bailouts, member states have access to three other lending instruments within the ESM: an instrument for the recapitalization of commercial banks facing systemic risks that affect the financial stability of member states and the Eurozone; a bond-purchase program in secondary markets to reduce borrowing costs and maintain investor confidence, authorized unlike the ECB; and a primary market support facility to prevent potential crises from harming member states' economies (Gros and Mayer 2010).

ii) The evolving role of the European Central Bank (ECB) within the Ad Hoc consortium of Troika

Even though the ECB is not directly involved in the decision-making or coordination of economic adjustment programs, as a member of the Troika, it plays a crucial role in aligning these programs with the goal of maintaining financial stability in the Eurozone. This includes ensuring monetary policy convergence among member states and avoiding monetary disparities (Claeys, Darvas, and Leandro 2016). The ECB provides technical advisory services on financial and monetary policies and monitors financial markets reactions to the reforms outlined in the adjustment programs (Pisani-Ferry, Sapir, and Wolff 2013). In 2012, the ECB showed it could play a more prominent role than advisory or monitoring. Mario Draghi’s "whatever it takes" statement restored confidence and influenced financial markets, leading to a rapid decline in bond yields for countries like Spain and Italy and reducing fears of sovereign defaults (De Grauwe and Ji 2013).

Since 2010, under the SMP temporary instrument and later the OMT, the ECB has conducted bond purchases in countries in financial distress to lower bond yields and restore confidence (European Central Bank, 2012; De Grauwe, 2013). Criticism has arisen that these purchasing programs directly constitute monetary financing to governments, which is prohibited under EU law, as falling outside the spectrum of the ECB’s mandate (Wyplosz, 2013; Beukers, 2013). Despite these valid criticisms, the legality of these purchases was confirmed by a European Court of Justice ruling in June 2015, underscoring once again the growing importance of the ECB in the Troika and generally as an active financial support for member countries facing a debt crisis (Court of Justice of the European Union, 2015).

iii) The European Commission’s (EC) mandate and political role within the Ad Hoc consortium of Troika

The EC, unlike the ECB or the IMF, is a political and executive institutional body. This means that the Commission is politically accountable for any reforms under adjustment programs imposed on member states in distress. It is the EC responsibility to justify and explain to the media measures that are not necessarily consensual or socially accepted. Finding consensus amidst social tensions arising from popular discontent (such as strikes) or political opposition at the national (national governments) and European level (European Parliament) is a challenging task that the EC needs to tackle when

assisting countries at default risk. This political role, which requires dealing with emotions, is particularly difficult considering that the EC must use reason when coordinating, designing, and monitoring any economic adjustment programs, ensuring reforms are effectively implemented (Pisani-Ferry, Sapir, and Wolff 2013) and aligned with EU Law and long-term objectives.

It falls to the EC to be the guardian of social cohesion, as previously mentioned, but also of solidarity between less developed nations ("PIGS") and the more developed northern European nations ("Frugal countries"), avoiding radical stances that could divide the Union such as the one coming from Finance Minister Schauble in favor of a temporary exit of Greece of the Eurozone.

1.4.2 Private entities

a) The London Club of international banks

In contrast to the previously mentioned institutional actors, the London Club of international banks serves as an informal negotiation forum established by the initiative of indebted countries to negotiate debt restructuring agreements with their major private creditors. The later are chosen based on their financial exposure to the country in distress and are included in a steering committee to facilitate coordination of their own interests. Precisely because commercial banks have diverse mobiles, negotiations take time and make it challenging to achieve a unified stance on restructuring agreements (Rieffel, 2003; Sturzenegger & Zettelmeyer, 2006). Creditors who refuse to participate in restructuring agreements and choose to recover the full value of their claims through legal action worsen the situation of the country in distress, prolonging their actions in the resolution of the debt crisis (Schadler, 2012).

During the restructuring process, banks often manage losses by setting aside provisions for non-performing loans, which appear as "loan loss reserves" in their financial statements (Rieffel, 2003). When a country is behind on payments or defaults, these losses are noted in the bank's portfolios. Although this means acknowledging losses on paper, there is no immediate effect on the bank's cash flows. Instead, the bank uses the funds reserved in the loan loss reserves to cover the expected loss. This approach helps banks handle the financial impact of the default while negotiations are ongoing and reach an agreement that satisfies both the debtor country and the creditors. As Sturzenegger and Zettelmeyer (2006) suggested, the success of a debt restructuring often depends on the

capacity of creditors to absorb losses without destabilizing their financial position. In summary, the practice of setting aside loan loss reserves enable banks to efficiently manage the financial consequences of sovereign defaults. By following international accounting standards and regulatory guidelines, banks can maintain financial stability while dealing with the challenges of debt restructuring negotiations.

b) Rating agencies

Credit rating agencies are seen by investors as essential for evaluating the creditworthiness of sovereign borrowers, which directly influences a government's borrowing capacity, and the interest rates it incurs. Avoiding focusing too much on the semantics of the term "creditworthiness," one can consider it surprising how a group of analysts, often situated thousands of miles away from the country analyzed consider a sort of legitimacy in defining a country's worth for credit purposes solely based on utilitarian criteria. However, the notion of worth transcends economics and encompasses broader, non-materialistic definitions. Simplifying the creditworthiness of a given country to a simple grade underscores how credit agencies often lack a holistic approach in their analysis. Factors such as the culture of a country, and its natural resources or values are difficult to quantify but crucial in determining its overall worth and seriousness in debt negotiations. This broader concept of worth includes aspects beyond economic indicators and touches on qualitative elements that can't be easily measured.

Thus, using the term "sovereign solvency" instead of "creditworthiness" would be more appropriate. Words, like numbers, have intrinsic value and can shape perceptions about a country's worth in areas beyond credit and loans and investors' behaviors (Reinhart, 2002). This shift in terminology could lead to a more just and comprehensive understanding of a country's financial and overall value.

Beyond the semantic issues, there are numerous criticisms regarding the exacerbated effect that negative ratings have on countries' economies, potentially worsening the financial conditions they aim to assess (ScienceDirect, 2023). For example, credit rating agencies were highly criticized for worsening the financial instability of European countries by increasing borrowing costs and undermining investor confidence during the European debt crisis through their downgrades (Cornaggia et al., 2018; OUP, 2023). This reality underscores how important it is to have a both quantitative and qualitative indicators to assess as objectively as possible sovereigns' creditworthiness. It is

interesting to note that the same agencies that triggered the subprime crisis which led to the Eurocrisis by giving triple-A ratings to toxic assets like mortgage-backed securities (MBS) end up downgrading countries that wouldn't be going through a debt crisis in the first place if it weren't for the lack of corporate ethics of credit agencies, an example of grading that also underlines another issue that is the conflict of interest that arises between these agencies and their customers that often are securities issuers.

Even though criticisms can be attributed to credit rating agencies regarding corporate ethics, grading methodology, and the fact that investors or creditors shouldn't solely rely on their ratings, their rating scales are still widely used because they provide a complementary, quick, synthesized, and standardized assessment that helps in making informed decisions (Cornaggia et al., 2018). Moreover, sovereigns rely heavily on these grades as they impact their ability to access international capital markets. The most famous scales are those used by the top three rating agencies—Moody's, Standard & Poor's, and Fitch—all of which dominate 80% of the market. Their grading scales typically range from high to low credit risk. For example, ratings as AAA or Aaa underline a low risk of credit default. The higher the country is terms of grading, the better its fiscal health, reassuring investors to borrow at lower interest rates. On the other hand, low grades such as BB, Ba, and below indicate a higher default probability, and sovereigns with these grades face higher borrowing costs.

1.5 Triggers of a debt crisis

"The modern world considers economic cycles much like the Egyptians once viewed the flooding of the Nile; it is a recurring phenomenon that affects everyone, and its natural causes are not perceptible"
John Bates Clark (1898)

Just as doctors do not treat the symptoms of a disease but rather its root causes, the same can applied to sovereign debt crisis. It is not so much about addressing public debt but rather identifying what factors justify a state to incur debt. These factors can be endogenous to the economy, exogenous, or multifaceted. After all, what is the point of reducing public spending or public debt if the economy is structurally inclined towards indebtedness? Instead, it is about ensuring that the state reforms sector by sector—legislation, taxation, the public sector—as we will see in Chapter II, to prevent future indebtedness.

1.5.1 Endogenous shocks

a) Socio-political turmoil

Socio-political risks include all actions peaceful or not, organized or not, legal or illegal that affect a country's creditworthiness and therefore its international reputation and access to international capital markets or financing. They can be divided into social risks characterized by collective action to influence public policies, government policy risks that affect negatively economic agents, and political risks that include any shift in the political system or a country's leadership (Miller, 1992). For instance, the armed forces movement in Portugal (social risk) led to the fall of a dictatorial regime in Portugal in 1974 (political risk) and a period of democratic consolidation (the PREC) until the 25th of November 1975, marked by expropriations, nationalizations and violence coming from Marxist political forces (government policy risks).

b) Capital Flight

Capital flights can be defined as large movements of capital out of a given country motivated by reason or emotions and by economic or political uncertainties. (Capital Flights for Developing Countries: An Examination of This Phenomenon and the Issues It Raises, S. Khan Mohsin & Ul Haque Nadeem).

Capital flight reflects investors' mistrust in the economic stability or attractiveness of a country, which can lead to a downgrading by rating agencies. This, in turn, increases borrowing costs because creditors will demand higher returns from debtors who request funds.

c) GDP Contraction

A contraction of a country's GDP can have diverse causes, but it is generally synonymous with economic slowdown, affecting businesses in need of financial support or already indebted. Indeed, if growth decelerates so does government revenue as less taxes direct and indirect taxes are collected. This makes it difficult for the government to support Investment or consumption, potentially leading to an increase in private debt, further complicating sovereigns' capacity to service debt. Moreover, a contraction in GDP leads to an increase of the debt-to-GDP ratio, affecting negatively investors' behaviors and financial resource allocations.

d) Budget deficit

Budget deficits are the result of a situation where public administration expenses surpass their collected revenues. This flow of expenditures leads to an increase of the stock of public debt, raising concerns among investors about a country's fiscal sustainability which boils down to higher borrowing cost (Alesina, Alberto, and Roberto Perotti. "The Political Economy of Budget Deficits." IMF Staff Papers 42, no. 1 (1995): 1-31). Credit agencies view this negatively in their country ratings.

e) Current account deficits

When countries face a current account deficit that is when the cost of importing goods and services surpass export earnings, government will tend to find new means to fund imports through external debt, which can potentially lead a country into distress.

f) Inflation

When a country faces inflation, the real value of its currency decreases, thus eroding the real value of sovereign debt. Avoiding the economy to overheat independent central banks will tend to raise interest rates which directly hinders national investment since the cost of accessing credit rises, resulting in a contraction of GDP. This makes it difficult for the government to finance debt based on collected income and leads to the negative spiral mentioned in point (c). Investors will also tend to look for other countries to allocate their resources, seeking better returns on investment, which basically translates into capital flight as mentioned in point (b) (Sargent, Thomas J., and Neil Wallace. "Some Unpleasant Monetarist Arithmetic." Federal Reserve Bank of Minneapolis Quarterly Review 9, no. 1 (1981): 1-17 FRB Minneapolis.)

g) Reduced savings

A reduction in household and business savings results in fewer financial resources allocated for investment, which may lead to a contraction in GDP. This makes it challenging for governments to service debt through collected taxes. Consequently, governments typically calculate whether the output from the multiplier effect of stimulus policies funded by external borrowings exceeds the principal and interest of the external borrowing.

1.5.2 Exogenous chocks

a) Larger spreads

When countries face financial instability or political uncertainties, spreads on sovereign bonds might increase. This indicates that international investors demand additional compensation for the higher risk associated with investing in these bonds. Consequently, this will naturally increase the government's debt servicing costs.

b) IMF Negative reporting

The soft power of the IMF is particularly significant, as any negative reporting on a country's macroeconomic situation can reduce investor confidence in that country. This loss of confidence can lead to capital flight, a critical factor for countries considering not repaying IMF loans ("IMF's Influence and Investor Confidence," Financial Times, March 15, 2023).

c) Competitive devaluation

Currency devaluations can lead a country to boost temporarily its exports but will lead to increased costs of servicing debt (WorldBank , 2019; IZA, 2010)

d) Worsening terms of trade

Terms of trade can be defined as the export prices of a country relative to its import prices. Worsened terms of trade can lead to economic repercussions impacting diverse economic sectors in a country. When export prices decrease relative to the import prices, the nation has to export more goods and services to be able to acquire the same amount of products, leading to a negative balance of payments. This situation can deplete foreign reserves and result in a balance of payments crisis (Krugman, 2012).

CHAPTER II

PORTUGAL IN THE EUROCRISIS

2.1 Overview of the Portuguese Economy

The contemporary Portuguese economy is singular in that it was initially shaped during the Estado Novo dictatorship under the leadership of António de Oliveira Salazar from 1933 to 1968 followed by a transition period to democracy led by Marcelo Caetano (referred to as the Marcelista Spring) more open to foreign trade starting in late 1970s and the implementation of political freedom after the 25 of April 1974, economic freedom

after the 25 of November 1975, and the formal integration of Portugal in the European Economic Communities (EEC) in 1986.

In just fifty years, the Portuguese economy has transitioned from a corporatist[9] and protectionist economy focused mainly on the imports of goods from the colonies, the agricultural sector, and an evolving industrial policy[10] characterized by state support[11] to large oligopolistic family groups[12] to a liberalized economy. Even though skeptical about European integration, the regime showed pragmatism in seizing the "growth opportunities linked to the opening of its fragile and uncompetitive economy to larger markets, especially in Europe" by participating in the creation of the European Free Trade Association (EFTA) in 1960 allowing the country to double its income per capita, joining the General Agreement on Tariffs and Trade (GATT) the following year, and attempting in 1963 to negotiate an association agreement with the EEC, thwarted by General De Gaulle's intervention. In only 15 years, Portugal recovered the economic delay it had to its partners, having GDP Growth rates above the European average until the 2000's.

Benefiting from a unique geographic position with easy access to the Atlantic Ocean and the Mediterranean Sea in the south, and having a moderate climate, Portugal finds itself in a favorable position for both its maritime resources and tourism industry. One could think that the fishing sector constitutes Portugal's main source of revenue, given the country's status as the 5th largest exclusive economic zone (EEZ) in Europe and the third in the European Union (including Continental Portugal, Madeira Island, and the Azores Archipelago). However, the fishing sector employs less than 1% of the active population and contributes only 0.4% of the GDP (OECD. "Fisheries and Aquaculture in Portugal." January 2021)

On another level, tourism remains one of the main sectors of the modern Portuguese economy, accounting for more than 12.2% of GDP. This sectoral dependence makes the country particularly vulnerable to external shocks like the Covid-19 pandemic. Even at a business level, companies tend to emphasize that the climate (60%) and the location, easy

---

[9] a third path between laissez-faire capitalism and communism. In a corporatist society, the government vertically integrates economic and social groups into the state so that it can manage labor and economic production". (A Third Path: Corporatism in Brazil and Portugal, Melissa Teixeira)

[10] Industrial containment Law 1931
[11] guarantees of public ownership of economic enterprises and privileges with restricted competition
[12] such as Grupo CUF, Grupo Champallimaud, Grupo Espírito Santo, Banco Português do Atlântico, Banco Borges & Irmão, Banco Fonsecas & Burnay, Banco Nacional Ultramarino, among others

access to European markets (70%), constitute two of Portugal's major comparative advantages[13]. These geographical and climate factors, along with friendly-fiscal incentives for foreigners, establish Portugal as a significant technological hub for entrepreneurial endeavors. This is exemplified by Lisbon's recognition as the European Capital of Innovation in 2023. The perception of Portugal as the new Silicon Valley of Europe owes much to the initiatives of former European Commissioner for Research, Science and Innovation, and current Mayor of Lisbon, Carlos Moedas. The efforts of the mayor in establishing the first major startup incubator in Lisbon led to foster 12 unicorns and to the creation of more than 18,000 new jobs in the city. Though Portugal's innovation centers can be found elsewhere in vibrant cities such as Porto, Aveiro, Braga, Coimbra, Fundão, Évora, Portalegre, Loulé among others. "Sines 4.0" is another example of Portugal's technological landscape and commitment to sustainability as this data center, will be the largest ever built in Europe fueled by 100% renewable energy.

If in recent years, Portugal, a "country planted by the sea", has managed to rebuild its image, take value of its heritage, and rediscover its identity, several structural challenges still need to be addressed particularly in terms of demography and productivity.

In demographic terms, Portugal is particularly penalized both by the decline in birth rates[14], partly due to unfavorable economic conditions in terms of wages and access to housing, but also by an aging population[15] that puts pressure on the pension system, as well as by a massive brain drain, notably among young graduates. À cela vient s'ajouté une faible productivité de la main d'œuvre face à la Moyenne européenne qui nuit à la compétitivité de l'industrie portugaise au sein du marché européen et international[16]

[13] Observatório da Competitividade Fiscal 2023, Deloitte

[14] Portuguese women have an average of 1.4 children, below the minimum replacement rate of generations (2.1) (Instituto +Liberdade)

[15]There are 39 people aged 65 or older for every 100 people between the ages of 20 and 64 ((Instituto +Liberdade). According to OECD estimates, by 2075 there will be 78 elederly people for every 100 young people in Portugal.

[16] Labor productivity in Portugal is equivalent to only 2/3 (67%) of the EU average productivity and is the 4th lowest among the 27 member states. Additionally, Portugal is the 2nd country with the highest number of zombie companies (unproductive and non-viable).

2.2 Root causes of the Portuguese debt crisis

Unlike the economic recession of 2020, which was caused by a single external shock, an epidemic that resulted in extensive fiscal to mitigate the contraction across sectors, the Portuguese financial crisis of 2010, which developed in the context of the Eurozone public debt crisis, finds its origins in a multitude of factors both endogenous and exogenous to the economy.

2.3 Early warnings

The legacy left by half a century of dictatorship included, among other things, a highly illiterate population (25.7 % in 1970), a reality that persisted until the 2000s (9% in 2001)[17], in stark contrast with a Europe with growing specialized human capital. An economy with a low-skilled workforce, and consequently a low-value-added industry, which only opened to the EEC twelve years after the end of the dictatorship, led to a dependence on low-wage and low-value-added goods, and a complete inability to compete in European and global markets.

The massive capital flows resulting from the integration into the Economic and Monetary Union could have allowed Portugal to modernize its economy and venture into more competitive new industries, but the weakness of its financial sector resulted in these capital flows being primarily allocated to the non-tradable and low productive sector, exacerbating economic imbalances (Reis, "The Portuguese Slump and Crash and the Euro Crisis," NBER, August 2013) which made the country vulnerable to the Asian competition in late 1990s.

Furthermore, Portugal's labor productivity has been lower than the European average, leading to the country being surpassed by 8 EU nations since 1995. This trend is illustrated in the line graph below, based on data from Eurostat and Portdata, published in 2023.

[17] Taxa de analfabetismo, total Sexo, INE, Pordata

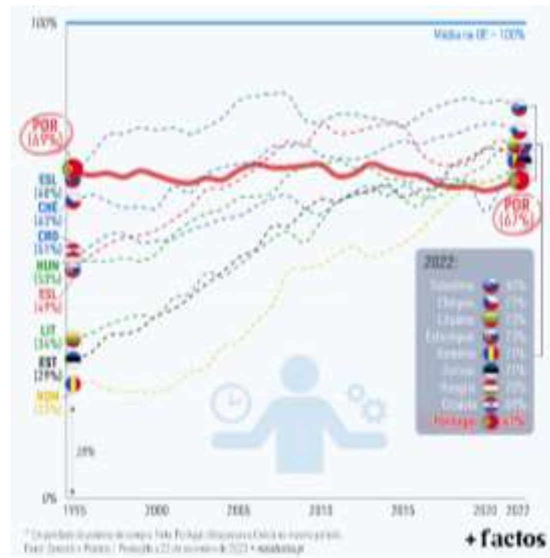

Figure 1 - Evolution of productivity per hour worked in Portugal in Purchasing Power Parity and in EU countries since 1995

Convinced that productivity would grow in the future and that economic growth would follow in the early 2000s, the government incurred debt with the aim of supporting consumption, which only worsened the state of public finances. As Blanchard (2007) points out, aligning wages with productivity would have necessitated a decline in real wages during this period, which, as noted by Stéphanie Schmitt-Grohé and Martin Uribe (2011), is an uncommon occurrence in developed economies.

Finally, following the transition to democracy, there was a significant rise in public spending, in stark contrast to the fiscal discipline of the previous regime. Although the previous regime had not implemented reforms and modernization across various sectors, the government's expansion in 1974 also contributed to the increased public expenditure. This surge in spending prompted the IMF to intervene in 1977-78 and 1983-85, which should have served as a warning signal.

2.4 Credit downgrades and banking sector vulnerabilities

Due to increasing concerns about Portugal's fiscal health and debt management capacity, credit agencies frequently downgraded its sovereign debt. This action directly impacted foreign investors, leading them to allocate their capital elsewhere. In addition to the sovereign risk, Portugal faced a general country risk. Credit agencies exacerbated the situation by sending negative signals to foreign investors, causing significant capital outflows at a time when the country desperately needed capital. Although rating agencies are not reliable early warning sources for country risk volatility—often overreacting and causing spill-over effects, as seen during the subprime crisis when they rated toxic assets

as safe—their downgrades nonetheless resulted in substantial private capital outflows from 2011 onwards leading to deep recession. Commercial banks were the most affected, being at the heart of capital flows in the country, accounting in 2010 for almost half of foreign debt.

On top of this issue, commercial banks were, so to speak, too large for the size of the economy, creating a dependency on the government to bail them out in order to avoid a deepening financial crisis and a more severe recession. This dependency can be seen in the fact that Portuguese banks held considerable amounts of government securities, with an exposure to Portuguese government debt estimated at 23% of their assets in December 2010. The failure of these banks led to increased government spending, both for bailouts and to mitigate the recessionary impacts of the banking crisis. For example, in 2008, Banco Comercial Português (BCP), the biggest Portuguese bank at that time, had liabilities equal to 54% of the country's GDP (Demigur-Kunt and Huizinga, 2010).

In other words, the increasing debt observed between 2010 and 2014 can be attributed partly to the capital flight triggered by questionable credit ratings and partly to the significant size of Portuguese commercial banks. These banks were so large that any financial crisis inevitably led to a recessionary effect, compelling the government to borrow due to a lack of financial resources from international creditors. This situation naturally resulted in a surge in sovereign debt.

2.5 The Portuguese Economic Adjustment Program

"Portugal's reform efforts have paid off. Today's decision by the government in Lisbon is proof of this. Portugal no longer needs European assistance and can stand on its own two feet again. This is a major success.

Wolfgang Schäuble

Faced with the financial crisis that shook investors' trust in the Portuguese economy, the government led by the socialist José Sócrates applied for a financial bailout in April 2011. The EC, on behalf of the Eurogroup, together with the ECB and the IMF, responded with a loan of 78 billion euros in May, which was subject to an intergovernmental agreement signed in May 2011. This agreement, the Financial Assistance Program, was designed to avoid the legislative ratification required for treaties under international law and consisted of three memorandum: the memorandum of

Economic and Financial policies (MEFP) where the government described the policies it intended to implement in the context of its request for financial support, the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) which indicates the targets and conditions imposed by the creditors on the direction of the national economic policy and the Technical Memorandum of Understanding (TMU) which expresses a convergence of will between the parties and a common line of actions. Three main objectives are at the heart of this agreement: "restore sound public finances" through tight control of expenditures and tax compliance[18], "improve competitiveness" ad put "Portugal's economy back on the path of sustainable growth and job creation"[19].

Already in March 2010, the government under José Sócrates introduced four national initiatives aimed at containing public spending[20] via uma redução de aproximadamente 10% do PIB as despesas de pessoal, bem como um aumento dos impostos nomeadamente o IVA, o IRS (income tax) e o IRC (corporate tax) e uma série de privatizações. Failing to secure approval in parliament by opposition parties, the fourth program, was rejected and led the Prime Minister to resign and new elections to be called by the President.

On one hand, the request for financial assistance of 78 billion euros was made and agreed upon by the outgoing prime minister with the Troika, but it was really the government of Pedro Passos-Coelho that implemented the structural measures conditional to the loan. Under the leadership of the elected center-right Pedro Passos-Coelho, the government achieved a series of targets, sometimes exceeding the Troika's expectations, often leading to opposition in the streets, in parliament, and in the courts. We will focus on the main structural reforms that were conducted on a sector-by-sector basis, which have drastically reduced public expenditure but whose "bill" has particularly penalized low-income households.

[18] According to a study conducted by Pr. Óscar Afonso of the School of Economic & Management of the University of Porto (FEP), the weight of shadow economy on Portugal's GDP reached historical highs of 34.37% for the period 1996-2002 which corresponds to 82 Million euros of non-taxed revenue, roughly 1/3 of Portuguese debt.

[19] The Economic Adjustment Program for Portugal, 11th review, April 2014, European Commission

[20] Stability and Growth Programs (PECs)

2.5.1 Flexibilization of the labor market

Despite efforts since the 2000s to implement new reforms for a more flexible labor market[21]most workers in Portugal, even before the 2010 financial crisis, were highly protected. This made the country the second most rigid labor market among a sample of 28 countries at that time. Olivier Blanchard and Pedro Portugal estimated in 2001 that low average productivity and low quarterly job creation in Portugal were due to considerable employment protections. These included restrictions on nominal wage cuts, prohibited under Article 129 of the labor code, and the prevalence of permanent contracts. Additionally, generous unemployment insurance further impacted the country's average productivity at that time. For these reasons, under Passos-Coelho, a revision of labor legislation was conducted facilitating layoffs for companies, reducing the associated costs namely severance payments, unemployment subsidies in amount and duration, and social security contributions. While this allowed businesses more flexibility, cost reductions, and consequently the opportunity to become more competitive, it led to unemployment rates peaking at 15% in 2013 (Europarl, 2018). Furthermore, considering the minimum wage as a "barrier" to job creation, the government froze increases, maintaining it at 485 euros instead of lowering it, as Ireland did during that period.

2.5.2 Taxation

a) Subsidies

With an already heavy tax burden on households, Pedro Passos Coelho was convinced that it was possible to overcome the public debt crisis without increasing taxes or reducing pensions. However, nine days after his election, confronted with a deficit larger than expected, the newly elected Prime Minister changed his stance and announced in parliament the introduction of an exceptional tax equivalent to 50% of the "Christmas

[21] Labor law reforms have made it easier to sign temporary contracts, which have a fixed term after which the worker can be easily let go at little cost. In 2007, temporary employment was 22% of Portuguese employment, against an EU-21 average of 15% and an OECD average of 12%.

M. Pereira (2012) documents the numerous reforms of unemployment insurance since 2000, all of which have made it considerably less generous.

M. Centeno and A. Novo (2012) estimate that between 2002 and 2006, 85% of all Portuguese workers leaving unemployment went into a temporary job, and that the share of temporary contracts was particularly large in firms expanding employment.

Labor law reforms have made It easier to sign temporary contracts, which have a fixed term after which the worker can be easily let go at little cost. In 2007, temporary employment was 22% of Portuguese employment, against an EU-21 average of 15% and an OECD average of 12%.

holiday bonus»[22], which would allow the government to collect 800 million euros. Other subsidies also began to be subject to income tax, such as the maternity and unemployment subsidies, spousal death pensions were also subject to cuts, and burial subsidies cut up to 33%.

b) Income tax & Corporate tax

Between 2011 and 2015, tax reforms were implemented to increase government revenue. which involved increased taxation on income, dividends, bank account interests, as well as improving tax compliance and reducing tax evasion, positioning the country in 2011 as with one of the highest tax burden 39%, above the OECD average according to the organization.

c) Value-added tax (VAT)

VAT is an indirect tax, proportional in nature, meaning it is applied uniformly to the consumption of all citizens. It is not, therefore, taxed on income. It is paid by the consumer and received by the seller or service provider, who then delivers the amount to the tax authority and customs administration. Currently, VAT is subdivided into three categories: the reduced rate, which, as the name implies, applies to essential goods such as pharmaceutical products; the intermediate rate, which applies to certain food items and cultural and artistic events; and the standard rate. As we can see from the linear graph below, produced on February 8, 2023, and taken from the Portuguese Ministry of Finance, between 2010 and 2014, the standard, intermediate, and reduced VAT rates increased in Portugal.

[22] In Portugal, annual salaries are divided into 14 payments instead of the standard 12. The extra two salaries are provided as a compulsory Christmas bonus paid by the 15th of December and a holiday bonus paid before the employee's annual leave (usually June).

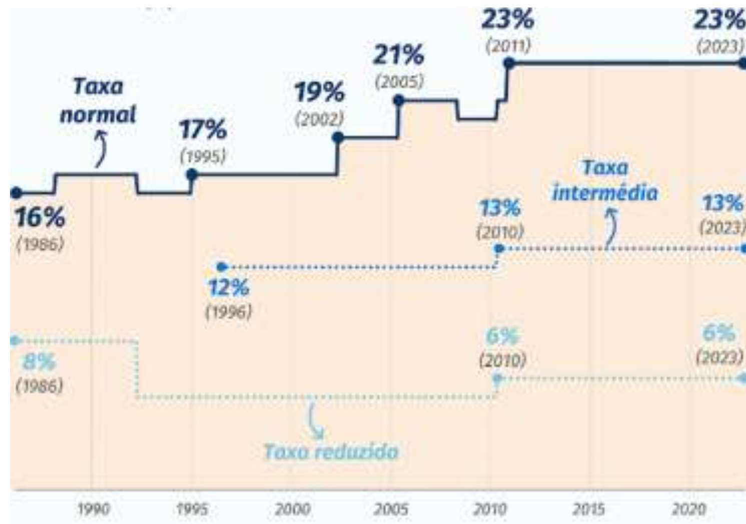

Figure 2 - Evolution of the Normal, Intermediate, and Reduced VAT Rates in Portugal since 1986, Ministry of Finance, 08/02/2023

Under the tenure of Pedro Passos-Coelho, a series of consumer goods were significantly affected by an increase in VAT, particularly sodas[23], bottled water, cigarettes, alcohol, and vehicles, as well as services like electricity, gas, and postal services. It is particularly amusing to observe that fruit juices and chocolate milk remained unchanged, in stark contrast to Margaret Thatcher's (1971) period as a "milk snatcher" of school children.

2.5.3 Rationalization of the public administration and the public sector

Under the MoU, was established the goal to reduce the public administration deficit from -5.9% of GDP in 2011 to less 4.5% of GDP in 2012 and to less than 3% in 2013. This was in part achieved by the end of 2013 as the deficit reached around 4.9% of GDP but was still far from the 3% agreed. (Expresso, January 5, 2014; Diário de Notícias, March 12, 2014).

As for regional, local, and central administration, there were layoffs up to 15% and a 37% reduction in leadership positions. Additionally, nominal public sector salaries were frozen, with cuts reaching 25% for those earning more than 1500 euros per month (IMF, 2012). Career progression was also frozen. Furthermore, there was a 30% cut in healthcare benefits for public servants, and the amount charged to access public healthcare increased, saving up to 100 million euros. There was also a ban on all

[23] Sodas became subject to a 23% VAT tax rate, bottled water VAT increased by 13%. Taxes on cigarettes increases from 45% to 50%, cigarillos, cigars from 13% to 15%, and rolling tobacco from 60% to 61.4%, VAT on electricity and gas from 6% to 23%. The average gas bill for households increased by 27% between 2011 and 2012. The electricity bill increased by 8.8% between 2010 and 2012 (ERSE price index).

administrations from creating public companies for any purpose (Expresso, January 5, 2014; Diário de Notícias, March 12, 2014; IMF, 2012).

2.5.4 Promoting competition and efficiency through privatization

With the goal of reducing public deficit below the 3% limit imposed by the Stability and Growth Pact (SGP) and raising 5 billion euros as stipulated on the Troika Memorandum, the Portuguese government carried out an intensive privatization movement of state-owned enterprises in diverse sectors from banking to insurance passing by sectors like energy and transportation. Following 8 privatizations and 6 concessions, the Portuguese government managed to raise twice the amount projected in the memorandum, reaching a total of €9.6 billion euros. This allowed the state, on the one hand, to allocate financial resources to finance the deficit and public debt, and on the other hand, to reduce the strong presence of the state in the economy, making it more agile and focused on other priority areas.

Among the most significant privatizations:

- 100% of ANA Aeroportos (2012) for €3.08 billion

The company responsible for managing Portugal's airports was sold in its entirety to Vinci.

- 51% of REN (2012&2014)– Rede Elétrica Nacional for €749.4 Million,

National Energy Network company

- 100% of CTT (2013&2014) – Correios de Portugal for €909 Million euros,

National postal service was initially sold to Investment Banks (Goldman Sachs and Deutsche Bank) and to asset management companies (Standard Life and Allianz Global Investors).

Today the biggest shareholders are Portuguese, the Manuel Champalimaud Group and Domínguez de Gor family

- 25.5% of EDP – Eletricidade de Portugal (2012) for €2.7billion

A leading company in wind energy worldwide to China Three Gorges (CTG).

- 85% of Caixa Seguradora for 85% for more than €1 billion, Caixa Saúde for €37 million were also privatized, and 6.11% of the participation of Caixa Geral de Depósitos in Portugal Telecom for €190,6 Million

Caixa seguradora was sold to Chinese Fosun, and Caixa Sáude to the Brazilians of Amil

2.5.8 Restoring trust in the banking system

To ensure the recovery of the Portuguese economy and restore the confidence of depositors and investors in the Portuguese financial system, Troika's financial support in strengthening the capitalization of banks was essential. In a country where the four largest banks, Caixa Geral de Depósitos (CGD), BCP, Banco Espírito Santo (BES), and BPI, were recording losses exceeding 5116 million euros, it was imperative to ensure that a large portion of the financial support pact from the Troika was directed to the banking sector, as most Portuguese have their deposits in these banks and as they are the engine of national investment. For this reason, more than 15% of the financial pact was allocated to bank capitalization[24], sometimes through loans, sometimes through the direct purchase of shares by the State in exchange commercial banks with systemic risks to the economy had to also to make efforts in cost reduction, with layoffs, closing branches, selling services, reducing debt ratios, and strengthening capital ratios.

2.5.9 Deregulation of the rental market or questioning the right to housing?

Of all the measures implemented by the Passos-Coelho government, the one most frequently mentioned and most criticized is the New Urban Lease Act (2012), also known as the Lei Cristas, named after the Minister of Agriculture, Sea, Environment, and Spatial Planning under Coelho's administration. This law, to put it simply, strongly liberalized the Portuguese housing market, leading to severe social consequences such as evictions, increased social inequalities, and heightened homelessness. The law sought to simplify eviction processes for tenants who didn't or couldn't pay rent (Fernandes, 2015), allowed landlords to renegotiate rent prices upwards (Fernandes, 2015), and reduced legal bureaucracy related to renting (Branco and Alves, 2015). These measures, especially the tax incentives for rehabilitation, allowed the real estate sector to flourish, making it more competitive and ensuring rehabilitated cities—an important factor considering that tourism is one of the main services of the economy. Nevertheless, the housing reforms were done to the detriment of low-income households, exacerbating the already high

[24] The adjustment program anticipated an amount of 12 billion euros for banks recapitalization needs, but state guarantees increased to 35 billion.

social and economic disparities due to the austerity measures. This goes against the basic human right to housing, recognized under Article 25 of the Universal Declaration of Human Rights (1948).

CHAPTER III

SOVEREIGN DEBT RESTRUCTURING TOOL KIT

"We have a financial system that is predicated on a belief of the perpetual benignity of the financial world even of the natural world"

Lee C. Buchheit

Countries with a history of heavy indebtedness and their creditors face conflicting interests. On the one hand, governments at risk of default prioritize continual refinancing of their debt to avoid fiscal adjustments under restructuring programs, making governance a tool for securing re-election rather than a means to implement necessary reforms for the country's long-term benefit. On the other hand, creditors want to be repaid when the debt matures, avoiding debt restructuring negotiations, which are costly, time-consuming and require changing the original agreements. This explains why sovereigns tend to seek support from IFIs during distress periods rather than from commercial banks, which want to avoid debt restructuring at all costs.

Several tools are available to creditors and borrowers when entering debt restructuring renegotiations. This can involve reducing interest rates on debt, extending maturities, reductions on the principal amount owed (haircuts), or mixing all these instruments (mix and match).

3.1 Haircut

Parties in debt restructuring negotiations can agree on a reduction of the principal amount due while maintaining interest intact (Zettelmeyer, Trebesch, and Gulati 2013). This was one of the solutions offered by the creditors to the Greek government in 2012.

3.2 Decrease in interest rates on debt

Creditors and debtors can also agree on maintaining the principal as it is while changing the interest rates, making it easier for sovereigns to service their debt. For example, the EFSF and the EFSM reduced their interest rates on the loans contracted by Ireland, facilitating the country's capacity to repay its debt (EC, 2013).

3.3 Rescheduling

Rescheduling is the tool that allows countries to delay the repayment date. It involves extending the date by which sovereigns have to repay their debt. Uruguay requested this.

3.4 Mix and match

Mix and Match is essentially a combination of different tools to restructure a countries debt. In 2012 as Greece was going through debt restructuring negotiations several tools were employed to turn debt more sustainable such as haircuts, extended maturities, and decrease in interest rates (IMF 2013)

3.5 Debt-for-equity swaps and debt-for-development swaps

Parties taking part in restructuring negotiations have also the possibility to agree on debt-for-equity or debt-for-development swap agreements. Creditors in replacement to receiving principal and interests at a given maturity, they can opt with the debtor countries on converting part of the debt owed into equity in state-owned assets (debt-for-equity). In the second case, sovereign debt can be transformed into investments in economic development projects. Naturally, private creditors will tend to be more attracted for debt-for-equity swaps than debt-for-development swaps agreements, more likely to be supported by international financial institutions (IFIs). For instance, the World Bank.

CHAPTER IV

THE PATH TOWARDS DEBT RESTRUCTURING: FROM GOVERNANCE ISSUES TO EFFECTIVE SOLUTIONS

4.1 Procrastination and lack of commitment

One of the first issues when dealing with a country facing a risk of default is that governments are often quite reluctant to enter restructuring negotiations and announce it to the public. They fear the political effects that might negatively impact their probability of re-election as well as negative reactions in financial markets (Sturzenegger and Zettelmeyer 2006, 42-43; Reinhart and Rogoff 2009, 204-206). Governments may try to delay communicating (procrastination) or mask the real financial distress the country is facing, but it's only a matter of time until the information gets out. This was precisely the case with Greece, which faced rising public debt and default risk, partly due to the costs associated with the 2004 Olympic Games. Consequently, Goldman Sachs assisted Greece

in concealing the real debt burden through financial mechanisms like cross-currency swaps.

4.3 Asymmetric information & Corruption

If in debt restructuring negotiations the debtor intentionally conceals or manipulates information to benefit from more favorable restructuring terms at the expense of the creditor, this will lead the debtor country to be mistrusted in the future in international financial markets, be perceived as a non-reliable partner for future loan request or restructuring negotiations. An asymmetry of information during debt restructuring negotiations can lead for instance to an overestimation of a country's capacity to repay its debt (Alesina, Prati, and Tabellini 1990, 3-5; Gelos, Sahay, and Sandleris 2011, 39-41).

4.4 Lack of commitment

To ensure debtor countries follow the conditions set for receiving a loan, international institutions break the requested amount into smaller parts called tranches. This approach allows for monitoring whether the country makes the necessary structural changes for each tranche provided. It encourages the country to be more dedicated to meeting the conditions. If the countries do not fully adhere to the conditions set by the creditor, the remaining loan tranches will not be released, prompting both parties to negotiate. This scenario makes the restructuring process more complex for both parties (Roubini and Setser 2004, 118-119; Trebesch 2010, 228-230).

CHAPTER V

A PLEA FOR EUROPEAN DEBT MUTUALISATION

"The Eurozone is deeply divided between creditor countries and debtor countries"

George Soros

Debt mutualization remains a contentious issue among the Union's member states, with significant opposition from those who express concerns over the risk of moral hazard. Moral hazard arises when governments with weaker fiscal discipline tend to act less cautiously, relying on other parties to bear the consequences of their actions (Arrow, 1963). Critics also raise concerns about increased financial burdens on economically

more developed member states (Delpla and Von Wizsacker, 2011) This chapter aims to demonstrate that debt mutualization in Europe is not a novel concept but has historical precedents and can enhance economic stability for member states with a history of weak fiscal discipline, thereby balancing public finances.

Considering that these less disciplined countries are frequently members of the Eurozone, their economic stability is crucial for all member states. This stability directly influences the growth of the Eurozone and overall stability due to the contagion effects stemming from economic integration and the shared use of the euro. Also mutualizing the debt of member states would reduce borrowing costs for member states. This chapter also underscores the necessity for stringent fiscal rules, which must be adhered to and enforced by robust institutions dedicated to establishing a new system of fiscal solidarity.

5.1 Proposals and precedents for mutualized debt instruments

The first clause of Article 125 of the TFUE mentions that "The Union shall not be liable for or assume the commitments of central governments, regional, local, or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project."

The "no-bailout" clause looks at preventing any spill-over effects resulting from national budgetary mismanagement over to other states, containing the responsibility to repay public debt at the hands of sovereigns rather than through burden-sharing among member-states. Thus, governments are sovereign and responsible of their own fiscal policies, the Economic and Monetary Union (EMU) serving as an economic and budgetary surveillance tool rather than a decision-maker of member's fiscal policies.

Similarly to how the convergence criteria stipulated by Articles 121 and 126 of the TFEU - SGP - are not respected or enforced among Member States, Article 125 has also not been adhered to in practice since the 1960s. In other words, there is a difference between the legal framework and its practical application.

Indeed, if debt mutualization instruments are still a contentious issue (Corsetti et al 2015), it is not something new. The history of European communities shows that as early as

1950, a form of joint budgetary effort was projected to support post-war economic recovery by pooling common resources with the establishment of the European Payments Union (EPU). This facilitated the multilateral settlement of trade balances between European countries, thereby contributing to economic stability and integration on the continent. This practice of pooling resources laid the groundwork for the issuance of joint bonds.

In 1976, amidst the oil crisis, the European Community intervened to support countries like Italy and Ireland, grappling with deteriorating balance of payments due to increasing oil prices, by raising funds on private capital markets. This instrument served to prevent member states from devaluing their currency to rectify their balance of payments, thus safeguarding the overarching goal of stabilizing the currencies of the European communities. In parallel with the CLM, member states could, through the Medium-term Financial Assistance Facility (MTFA), refrain from raising funds in private capital markets and, instead, opt for intergovernmental loans. Both instruments, MTFA and CLM, were subsequently merged in 1988 into what is now known as the Balance of Payments Facility (BPF).

If many advocated for the creation of a European institution responsible to issue union bonds (Giovanni Group Report of 2000, Boonstra 2005), visions diverged in how they would be backed. If major figures like Jacques Delors defended that the community's budget should be backed by the community's budget others, like Stuart Holland advocated for capital subscription.

Among all the temporary instruments proposed or implemented to provide member states with fiscal relief, it is notable that, even among proponents of mutualized debt instruments, there is no consensus on what forms they should take or which institutions should manage them. The "BlueBonds" proposition, introduced by Von Weizsäcker in 2010, has the advantage of balancing fiscal responsibility with solidarity. It may, hopefully, lead to compliance with the 60% threshold imposed by the SGP.

One could argue that instead of creating a fund (Boonstra, 2005) that would borrow money from capital markets to replace national debt issuance or transferring debt above the 60% threshold to a stability council as Weizsäcker defends—which would add more complexity to the already complicated organization of European institutions—mutualized debt instruments should be the sole responsibility of the ECB. This would allow the ECB

to progressively develop its growing fiscal competency alongside its role in conducting monetary policy.

CONCLUSION

In conclusion, if sovereign debt doesn't "always" lead to socio-economic crisis there ihere is a clear tendency. Governments when facing a public debt crisis, generally have three options: continue borrowing, decrease public spending, or find ways to increase public revenues. In Portugal's case, the government decision made was to cut public spending, resulting in difficulties accessing basic public services, and, at the same time increase revenue through increased taxation. A way to increase public revenues that is always more direct and quicker than to implement industrial public policies which require more time, will and planning. But well planned and consensual among the changing governments, these type of policies can generate future income for a country in development and create jobs.

The Portuguese crisis is the perfect example of how popular sentiment is an underestimated variable by both sovereign analysts and governments regarding a country's perspectives of economic recovery. As Portuguese citizens saw their living decline, worker productivity also decreased, leading to strikes and production interruptions. Thus, the social cost, difficult to quantify, can also be accounted as an economic cost. The country faced massive brain-drain movements mainly among young graduates, the underground economy developed, consumption decreased, and unemployment rose. Was the remedy well administered to the patient? Difficult to say, but the recovery took a long time, and still today, the economy bears the scars of this period.

We are in 2024 and Portugal has unfortunately still not made much progress. The economy remains largely fragile dependent on low-value added sectors, and with an industrial tissue composed essentially of SMEs highly sensitive to external shocks. More than a decade after a financial crisis that nearly led the country to bankruptcy, no real industrialization plan has been implemented by governments, whether right or left.

The median salary remains around €1,463 per month, we continue to witness to an ongoing "human capital flight," and income and corporate tax burdens are among the highest in Europe and OECD countries. Real economic reform needs to pass first for a profound constitutional reform to ensure more transparent in governance, a recycled governed opened to Europe and new ambitious policies, a governance focused on creating bridges between the social sector and the corporate world. A governance that shares more responsibilities with European institutions, particularly in fiscal matters. While there is no universal solution applicable to all countries facing a debt crisis, different elements can be implemented to prevent distress situations and instruments can be used to measure debt and detect it.

REFERENCES

Auerbach, Alan J., and William G. Gale. “Activist Fiscal Policy to Stabilize Economic Activity.” NBER Working Paper 15407, October 2009.

Baechler, L., and A. Paligne. "Le Pacte fiscal européen : retour aux fondamentaux." CIFE, 2023.

Blanchard, Olivier, and Stanley Fischer. Lectures on Macroeconomics. Cambridge, MA: MIT Press, 1989.

Blanchard, Olivier, and Daniel Leigh. “Growth Forecast Errors and Fiscal Multipliers.” American Economic Review 103, no. 3 (2013): 117-120.

Blyth, Mark. Austerity: The History of a Dangerous Idea. New York: Oxford University Press, 2013.

Bouchet, Michel Henry, Ephraim Clark, and Bertrand Groslambert. Country Risk Assessment: A Guide to Global Investment Strategy. Chichester: John Wiley & Sons, 2003.

Beukers, T. “The New ECB and Its Relationship with the Eurozone Member States: Between Central Bank Independence and Central Bank Intervention.” Common Market Law Review 50, no. 6 (2013): 1579-1620.

Brito, A., A. Campos, A. Rute Silva, L. Villalobos, L. Ferreira, J. Pedro Pereira, M. Gomes, M. Oliveira, P. Crisóstomo, R. Almeida Correia, R. Martins, R. Soares, S. Aníbal, S. Silva. Memorando da Troika Anotado. Jornal Público.

Boughton, James M. The IMF and the Force of History: Ten Events and Ten Ideas That Have Shaped the Institution. Washington, DC: International Monetary Fund, 2004.

Claeys, Grégory, Zsolt Darvas, and Álvaro Leandro. “A Proposal to Revive the European Fiscal Framework.” Bruegel Policy Contribution 2016/07 (2016).

Cárdenas, Juan Pablo, Gerardo Vidal, Carolina Urbina, Gastón Olivares, and Miguel Angel Fuentes. “Social Crises: A Network Model Approach.” Physica A: Statistical Mechanics and its Applications 505 (September 2018): 35-48.

Cornaggia, Jess, Kimberly J. Cornaggia, and John E. Hund. “The Role of Credit Rating Agencies in Sovereign Debt Markets.” Oxford: Oxford University Press, 2018.

Daseking, Christina, and Robert Powell. “From Toronto Terms to the HIPC Initiative: A Brief History of Debt Relief for Low-Income Countries.” IMF Working Paper WP/99/142, 1999.

De Grauwe, Paul, and Yuemei Ji. “Panic-driven Austerity in the Eurozone and Its Implications.” VoxEU.org, February 21, 2013.

Darvas, Zsolt, Grégory Claeys, and Alvaro Leandro. "A Proposal to Revive the European Fiscal Framework." Policy Brief, Bruegel, March 29, 2016

De Grauwe, Paul. “The European Central Bank as Lender of Last Resort in the Government Bond Markets.” CESifo Economic Studies 59, no. 3 (2013): 520-535.

D'Amico, Stefano, Lorenzo Forni, Marina Mazzega, and Valerio Paccagnini. “European Debt Mutualization: The Sharing of Risks and Responsibilities.” Journal of Economic Policy 45, no. 3 (2022): 289-312.

Eisl, Andreas, and Marion Tomay. “European Debt Mutualization: Finding a Legitimate Balance Between Solidarity and Responsibility Mechanisms.” 2020.

European Central Bank. “Technical Features of Outright Monetary Transactions.” 2012.

Gaspar, Vítor. “Enorme Aumento de Impostos.” Diário de Notícias, 2012.

Gonçalves, Sérgio. “Two Economic Paths Out of the Crisis? Greece and Portugal in Comparison.” Bertelsmann Stiftung, 2016.

Gros, Daniel, and Thomas Mayer. “How to Deal with Sovereign Default in Europe: Towards a Euro(pean) Monetary Fund.” Intereconomics 45, no. 2 (2010): 64-68.

Haas, Jürgen. “Sovereign Debt: Do We Need an EU Solution?” Bertelsmann Stiftung and Jacques Delors Institut, 2017.

Leitão, Luísa. “Inflação Foi Responsável por Até 81% da Redução da Dívida em 2023.” Jornal Económico, 2024.

Mankiw, N. Gregory. Macroeconomics. 7th ed. New York: Worth Publishers, 2009.

Mazzucato, Mariana. The Entrepreneurial State: Debunking Public vs. Private Sector Myths. London: Anthem Press, 2013.

McDougall, David, Tony Peeters, Dieter Biehl, Anne Brown, Franco Forte, Yvon Fréville, and Michael O’Donoghue. Report of the Study Group on the Role of Public Finances in European Integration: Vol I: General Report. 1977.

OECD. “Fisheries and Aquaculture in Portugal.” January 2021.

Pedro Henriques, Jorge. “Prometer e Não Cumprir, à ‘Tradição’ Política que os Eleitores Nem Sempre Prometem.” Diário de Notícias, 2023.

Pisani-Ferry, Jean, André Sapir, and Guntram B. Wolff. “EU-IMF Assistance to Euro-Area Countries: An Early Assessment.” Bruegel Blueprint Series 19, 2013.

Jean Pisani-Ferry, André Sapir, and Guntram B. Wolff. EU-IMF Assistance to Euro Area Countries: An Early Assessment. Bruegel, 2013

Programa de assistência económica e financeira. Banco de Portugal, 2012.

Ratha, Dilip. “Complementarity Between Multilateral Lending and Private Flows to Developing Countries: Some Empirical Results.” World Bank Economic Review 15, no. 1 (2001): 109-132.

Reinhart, Carmen M., and Kenneth S. Rogoff. “From Financial Crash to Debt Crisis.” American Economic Review 101, no. 5 (2011): 1676-1706.

Reinhart, Carmen M., and Kenneth S. Rogoff. This Time Is Different: Eight Centuries of Financial Folly. Princeton: Princeton University Press, 2009.

Rogoff, Kenneth, and Jeromin Zettelmeyer. "Banking Crises in Latin America: IMF Working Paper 05/137." International Monetary Fund, 2005.

Reis, Ricardo. “The Portuguese Slump and Crash and the Euro Crisis.” NBER, August 2013.

Shearer, Ivan, and Malcolm D. Evans, eds. The International Law of the Sea. Oxford: Oxford University Press, 2013

Tomás, Catarina, and Ricardo Pedroso Lima. “As 50 Medidas de Austeridade Entre Junho de 2011 e Agosto Deste Ano.” Jornal Expresso, 2012.

Trump Won’t Give Money to Ukraine if Elected, Says Hungary’s Orban. Reuters, 2023.

Wyplosz, Charles. “Europe’s Quest for Fiscal Discipline.” Economic Policy 28, no. 76 (2013): 537-586.

Wyplosz, Charles. “Fiscal Rules: Theoretical Issues and Historical Experiences.” NBER Working Paper No. 676, 2019.

World Bank. Global Economic Prospects: June 2019. Topical Issue: Currency Depreciations. Washington, DC: World Bank, 2019

World Bank. Global Economic Prospects: June 2019. Topical Issue: Currency Depreciations. Washington, DC: World Bank, 2019

“Passos Coelho Já Tinha Acertado Corte no Subsídio de Natal com Catroga.” Jornal de Negócios, 2011.

“Shadow Economy in Portugal Represent Almost 36% of GDP.” Notícias Universidade do Porto, 2023.

Krugman, Paul. "International Economics: Theory and Policy." Pearson, 2012.