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**PORTUGAL, SPAIN, THE EURO AND
THE INTERNATIONAL FINANCIAL CRISIS**

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Abstract: In this paper we present some data of the Portuguese economy aiming to capture some of its main long trends and the way it reacted to the introduction of the single currency in Europe. Since Portugal followed a similar path with Spain in what concerns the European economic integration process, we develop a comparative analysis between the two Iberian countries trying to capture some dynamics that can aid to understand the different ways how the two economies reacted to the participation on the eurozone and, in this phase of the economic integration in Europe, how they suffered the impacts of the 2008-2009 international financial crisis and reacted to its effects.

To evaluate and compare the two countries paths we use some fundamental macroeconomic indicators as, output and employment, investment, external accounts, budget balances and public debts. The comparison with Europe's average economic performance is also present, trying to understand which country follow a more "European standard".

Keywords: Portugal, Spain, Euro, International economic and financial crisis.

JEL: E50; E52

Resumo: Neste artigo apresentamos alguns dados sobre a evolução da economia portuguesa, visando determinar algumas das suas tendências de longo prazo e o modo como reagiu à introdução da moeda única na Europa. Uma vez que Portugal seguiu um percurso semelhante ao da vizinha Espanha no que respeita ao processo de integração económica europeia, fazemos uma análise comparativa entre os dois países ibéricos procurando capturar algumas dinâmicas que ajudem a compreender as maneiras diferentes como as duas economias reagiram à participação na zona euro e, nesta fase da integração económica na Europa, como sofreram os impactos da crise financeira internacional de 2008-2009 e reagiram aos seus efeitos.

Por forma a avaliar e comparar os percursos dos dois países recorreremos a alguns indicadores macroeconómicos fundamentais, a saber, output e emprego, investimento, contas externas, orçamentos de Estado e dívidas públicas. A comparação com as médias europeias está igualmente presente, procurando determinar qual dos dois países seguiu mais um "padrão Europeu".

Palavras-chave: Portugal, Espanha, Euro, Crise económica e financeira internacional.

JEL: E50; E52

1. Introduction

In the aftermath of the democratization processes initiated, respectively, in 1974 and 1975, Portugal and Spain followed relatively similar paths with respect on the European economic integration options.

After the constitution of democratic constitutional governments, both countries started adhesion processes to the then called European Economic Communities which led to the simultaneous entry on the 1st January 1986. Since that date, they have always been together in the fundamental steps towards the economic and monetary union, having shared the same vision about the importance of European integration for economic and social development of both countries, as well as the same desire to be in the forefront of the integration developments that have taken place and culminated in the creation of the euro.

Despite this identity of vision and European path, Portugal and Spain did not experience the same economic performance nor obtained the same results. Without any pretensions to completeness, we present below some elements that seek to translate the course of the two countries within an extended period, which roughly covers four distinct periods, marked by key events that have changed their economies functioning: i) a period before the crisis of the beginning of the 1970s, known as the oil crisis. A crisis which would mark the resurgence of liberal economic conceptions, in view of the exhaustion of Keynesian ideas and practices prevailing until then, and would have direct consequences in the very processes of democratization that began shortly thereafter; ii) a period that covered the preparation for adhesion to the Communities, which would extend from democratization to the end of 1985; iii) a period following the adhesion to the Communities until the introduction of the euro; iv) and, finally, the Euro period that also includes the effects of the great economic and financial crisis triggered by the particular crisis of the American subprime mortgage market.

Of course, these are arbitrary milestones, chosen according to the aims of the analysis. But they reflect the concern to identify decisive milestones of the structural changings of the functioning conditions of the two countries' economies and, at the same time, extended enough to capture these changings.

2. Output dynamics

When looking at output dynamics, from a long-term perspective, there is a general trend towards deceleration of economic growth which is accentuated in successive moments of crisis.

The international economic crisis of 1974-75 interrupts a long period of economic growth of the world economy and of the European economy, in particular. A period which began after the Second World War and that is generally associated with the hegemony of a Keynesian paradigm of economic interventionism.

The need to rebuild the European economies created the conditions for a generalized acceptance of the idea of a strong state economic intervention, aimed at restoring the civil economy, restoring the levels of output and at absorbing the demobilized labour force. But the new political conditions in Europe, resulting from the defeat of Germany and strengthening of the Soviet bloc, also favoured the development of the new European projects of integration, the concern for growth and economic and social cohesion reducing, at the same time, the field of attraction of the more liberal ideas of the markets efficiency on the resources allocation, which, in fact, were in sharp decline since the 1930's crisis.

The stability of growth in the almost three decades following the end of World War II, with average rates around 5% per year, the reduction of asymmetries within and between countries, the non-occurrence of serious crises such as those that occurred in the pre-war period, cemented the conviction that a new era of economic and social progress had begun, soon baptized by some authors as "post-cyclical capitalism", wanting to reflect the idea that economic policy, inspired by Keynes' theory, had definitively overcome the "invisible hand" of neoclassical theorists.

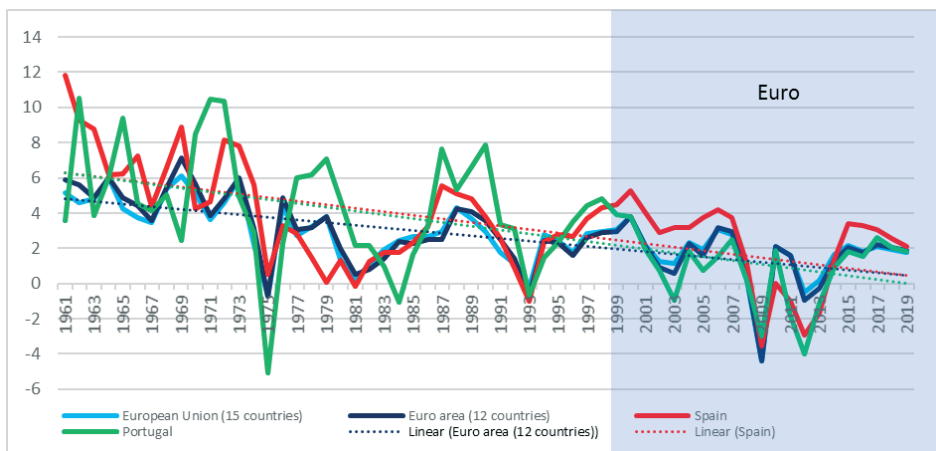
In this sense, the crisis of the 1970s, due to its breadth and depth, was a surprise that shook strongly all the established convictions, the beginning of a new era, characterized by the return of the belief in the markets efficiency and by the excommunication of interventionist ideas, that led to a new theoretical and policy reference framework that had an expression in the so-called "Washington Consensus", synthesized by John Williamson at the end of the 1980's, and which was still at the basis of the "Structural macroeconomic adjustment programs" prescribed to European countries with economic difficulties, such as Greece, Ireland and Portugal in the aftermath of the so-called sovereign debt crises.

For several reasons that it is not possible to develop within the scope of this intervention, the crisis of the 1970s represents an effective turning point in the functioning of the world economy and of the different countries'

economies which reflected, among other aspects, in the re-emergence of the economic cycle and in the general reduction of growth dynamics. The crisis of the 1970s was followed by the crisis of the 1980s, the crisis of the 1990s, the crisis of the beginning of the millennium and the crisis starting at the end of 2008, whose effects are still running.

Charts 1 and 2, below, show well what we said above, in what regards the economies of Spain and Portugal and also in what regards European Union and Euro zone. A declining trend, that accentuates after each crisis process, is well visible in each of the economies and in Europe as a whole.

Chart 1
Real GDP: 1961 - 2019
% annual changes
(2018 and 2019: Forecasts)



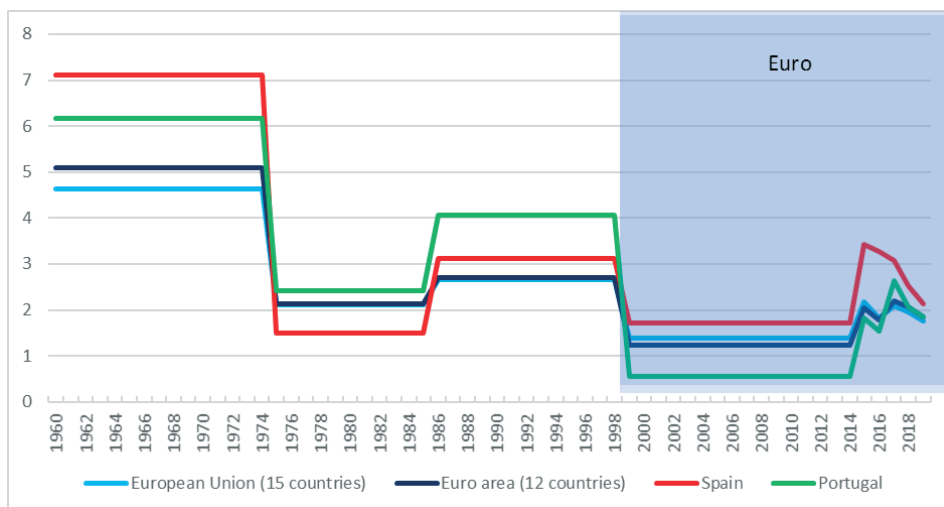
Source: AMECO, Nov. 2017

The trend is, however, more pronounced in the Portuguese economy which evolves from growth rates of more than 6% per year in the period prior to 1974, to a near stagnation after the entrance in the Eurozone, clearly beginning a diverging process from Europe.

As far as Spain is concerned, although we can detect a declining trend, which accentuates in the period that goes from the establishment of democracy to the adhesion to the Communities (1975-1985) reflecting, undoubtedly, the process of internal political adjustment, it is not so pronounced as the Portuguese trend. We can even see an inversion of relative positions after participation in the euro zone.

Contrary to what happened with Portugal, which was clearly confronted with an adverse shock that had been boosted by the 2008 crisis, Spain has an average post-euro growth rate, in the period between 1999 and 2014, of around 1.7% per year, higher than the European average, that is around 1.4% - 1.2% (EU 15 and EA 12) and clearly higher than the Portuguese average growth rate which stays by 0.5%. Although we can see a general negative effect of the creation of the euro over the economic dynamics, which reflects substantially its ineffectiveness as an instrument of macroeconomic adjustment, Spain seems to have weathered better, surpassing the European growth average rate, unlike Portugal which reveals evidence of a deep structural crisis, positioning itself in the tail of the economic growth in Europe. A situation that is particularly highlighted in Chart 2.

Chart 2
Real GDP: Annual average rates
Periods: 1960 - 1974; 1975 - 1985; 1986 - 1998; 1999 - 2014;
2015, 2017, 2018 and 2019
2018 and 2019: Forecasts



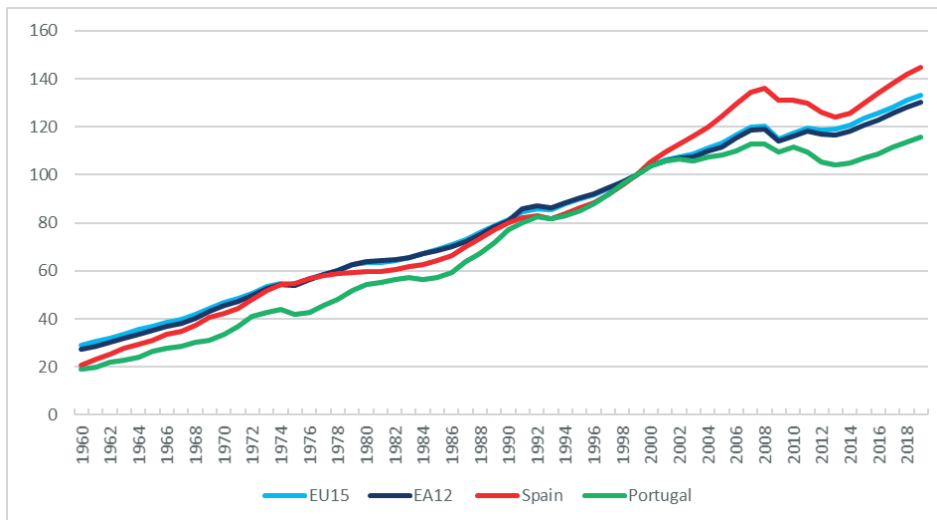
Source: AMECO, Nov. 2017

To end the analysis of the output dynamics we highlight the effects of the adjustment program that was applied in Portugal between May 2011 and May 2014. If we look behind to find a year with an output level identical to the minimum reached in 2013 we need go back until 2000, practically the

beginning of the euro. If we compare with the Spanish case the fall in output is much less significant with a decline to the level of 2005 (see Chart 3, bellow).

Of course, these falls provoked also deep structural changes in the economies of both countries with consequences that will persist for many years ahead. But it is not the aim of this paper to deal with this kind of problems. In any case, we will say that these effects can have direct consequences in terms of the conditions for growth sustainability, particularly in Portugal, a country with a not so strong economic base.

Chart 3
Real GDP: 1960 - 2019
Annual Index - 1999 = 100
(2018 and 2019: Forecasts)



Source: AMECO, Nov. 2017

3. Unemployment dynamics

Concerning the evolution of employment, the situations are also different between Portugal and Spain reflecting very different starting structural conditions and economic dynamics and, also, different economic policies priorities. And, above all, different adjustment dynamics to external shocks induced by the adhesion to the European economic integration process and by the economic crisis processes that have been produced in the meantime.

It is interesting to note the relatively low unemployment rates in the period ending in 1974 (less than 3%). Portugal verifies in this period a minimum rate of 1.7% in 1974 reflecting not only the post-war economic dynamism and the economic policy priorities of the time, centred on the goal of full employment, but also the emigration phenomenon to Europe and the military mobilization to the colonial war. And is interesting to note also the explosion of unemployment in the aftermath of the crisis of the 1970s, accentuated by the political upheavals that took place in both countries after 1974 and 1975 and which, in the case of Spain, reaches historical proportions over a period spanning more than 20 years, with unemployment rates systematically above 15%, reaching a peak in 1994 with unemployment rate at 22% of active population and declining from that point on, until reaching a minimum in the year immediately prior to the 2007 crisis with 8.2% of the labour force.

Portugal experiences a different situation from Spain with unemployment contained at substantial low levels, despite the military demobilization following the end of the colonial war, the reduction of the emigration flows and the arrival of hundreds of thousands of returned people from the former colonies of Africa. The peak of unemployment is reached in 1985, the year before the adhesion to the European Communities, with an employment rate of 9,8% of active population, while reflecting the adjustment program agreed with the IMF for the period 1983 – 1985 (see Chart 4 bellow).

The participation in the Communities and the subsequent inflow of funding, together with a high international conjuncture, due to the dollar declining and the fall of the oil prices, and a succession of good agricultural years, created the conditions for a good economic performance of Portugal that impacted positively on the return to relatively high levels of growth. In the period that goes from 1986 to the creation of the euro the Portuguese economy compares rather well with their partners by registering an annual growth rate of more than 4% versus 2,6% and 2,7% for UE 15 and EA 12, respectively, overtaking Spain Which stands at 3,1%. This period was a golden age of the Portuguese economy, nourishing all the easing illusions that would later be paid with high interests. Unemployment reduces substantially reaching a minimum level of 5% in the years of 1991 and 1992.

On the other hand, Spain, despite some inflection, continues to face high rates of unemployment, reaching as already mentioned, an historical peak in 1994, with 22% of unemployed people.

Unlike Portugal, Spain has experienced a stronger structural adjustment process, of economic renewal and modernization, while Portugal has witnessed the beginning of a resources transferring process to the non-tradable goods sector, fuelled by the injection of European funds and easy access to credit, which artificially secured unemployment, but inhibited the

in-depth restructuring of the productive sector.

Since the second half of the 1990s, the process of structural adjustment in Spain seems to have ended, with a decline in unemployment, a trend that continues after the creation of the euro, despite the cyclical increase resulting from the beginning of the millennium crisis, to reach a record low of 8,2% in the year immediately prior to the crisis in 2007. From here, an exponential increase occurs, with unemployment rate reaching in 2013 the impressive peak of 26,1% of the active population.

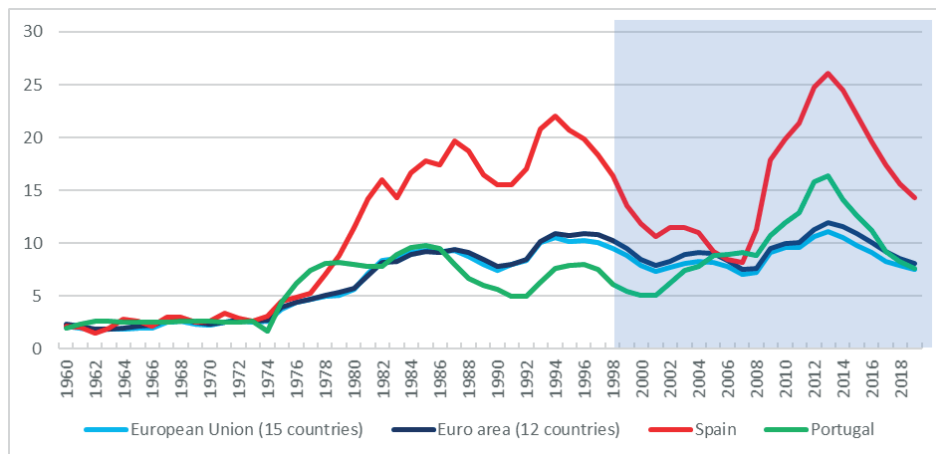
As far as Portugal is concerned, the evolution is completely different. In throughout the period from adhesion to the creation of the euro, Portugal has rates of unemployment substantially below the European average, including during the years of recession in the first half of the 1990s. This situation is completely changed from the third year of the creation of the euro in 2002, when an ascending trajectory of unemployment begins reaching a historic peak in 2013 with a 16,4% rate of unemployment. A Chart that would substantially be higher did not have the emigration to Europe and to the ex-colonies working as exhaust valve returning to levels close to the 1960s.

Also, with regard to unemployment, is true what we said about the difference in economic dynamism between the two countries after the creation of the euro.

The Spanish better economic performance, which seems to have positively reacted to the creation of the new European currency, contrary to what seems to have happened with Portugal, is reflected in a better behaviour of unemployment which reduces substantially until the outbreak of the 2007's international crisis.

As might be expected, with the crisis unemployment explodes in both countries. But, while in Spain there is a reversal of trend in Portugal we see a marked increase of the trend that came from behind. In any case it is important to note that Portugal does not reach the levels of unemployment verified in Spain, showing a different role of this economic variable as adjustment instrument, both in cyclical and structural terms.

Chart 4
Unemployment rates:1960 - 2019
(2018 and 2019: Forecasts)



Source: AMECO, Nov. 2017

4. Investment performance

Charts 5, 6, 7 and 8 seek to capture the evolution of investment, through the behaviour of Gross Fixed Capital Formation, the total economy and government in particular. In this case too, there are substantial differences between the economic dynamics of the two countries.

The first finding that results from the observation of the behaviour of this economic variable in the two countries is the greater volatility in the Portuguese economy (Chart 5 below). Spain follows a more regular pattern, closer to the European average, whereas in Portugal there is a more erratic behaviour, with large fluctuations, showing certainly, a lower consistency of the Portuguese economy and a greater vulnerability to the evolution of demand or dependence on economic policy.

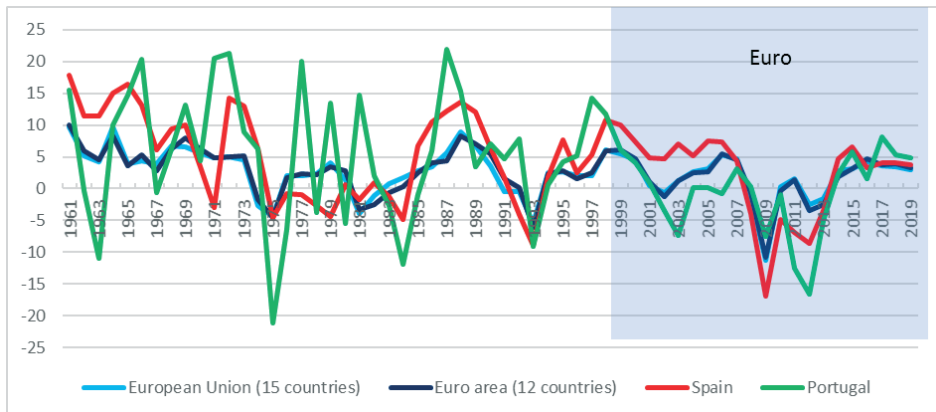
Nonetheless, there is some similarity in terms of general trends in both countries and the European average. But once again, the creation of the euro has changed everything.

In both countries, in the period up to 1974, there is a trend towards higher rates of investment, compared to the European average, reflecting a catching up process. In the following period (1975 - 1985) we can see a decline, more pronounced in Spain, once again to recover from 1985 onwards and during

the post-adhesion period, with the exception of the crisis of the early 1990s where, as one would expect, there is a further decline.

Once again, after the introduction of the euro, the paths of the two countries have diverged significantly. Spain maintains relatively high rates of investment progress, above the European average, only interrupted by the 2008 crisis, while Portugal faces a period of loss of investment dynamism, with systematically negative growth rates, reflecting a structural disinvestment trend that sporadic recoveries in some years are not enough to counteract.

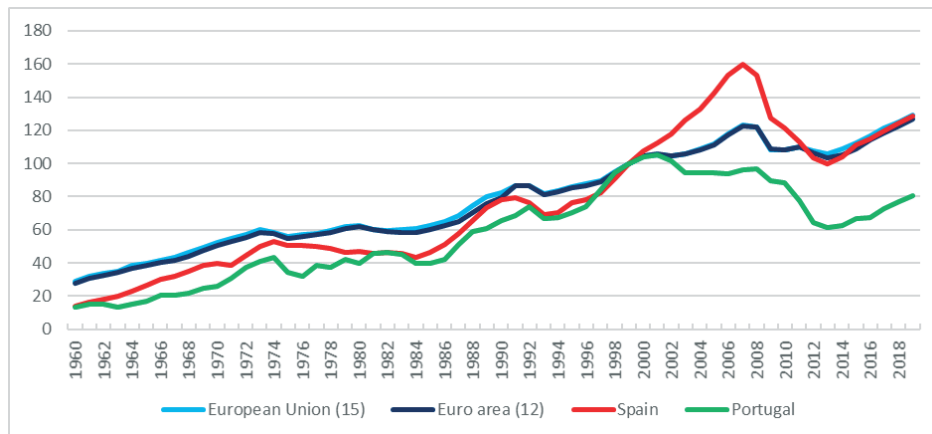
Chart 5
Gross fixed capital formation at 2010 prices: 1961 - 2019
Annual changes (%)
(2018 and 2019: Forecasts)



Source: AMECO, Nov. 2017

Chart 6 below, is particularly illuminating in the investment performance of both countries, showing the Spain's relative good investment performance that continues after the euro until the arriving of the 2007 crisis stopped everything. In the case of Portugal, we can see clearly the declining trend of investment that develops from 2001 and which is accentuated by the crisis. If we look at the year 2013, we see that Portugal declined to investment levels similar to those of 1989, while Spain has fallen much less to 1999-2000 levels, in line with previous trends.

Chart 6
Gross fixed capital formation (Volume): 1960 - 2019
Annual Index - 1999 = 100
(2018 and 2019: Forecasts)

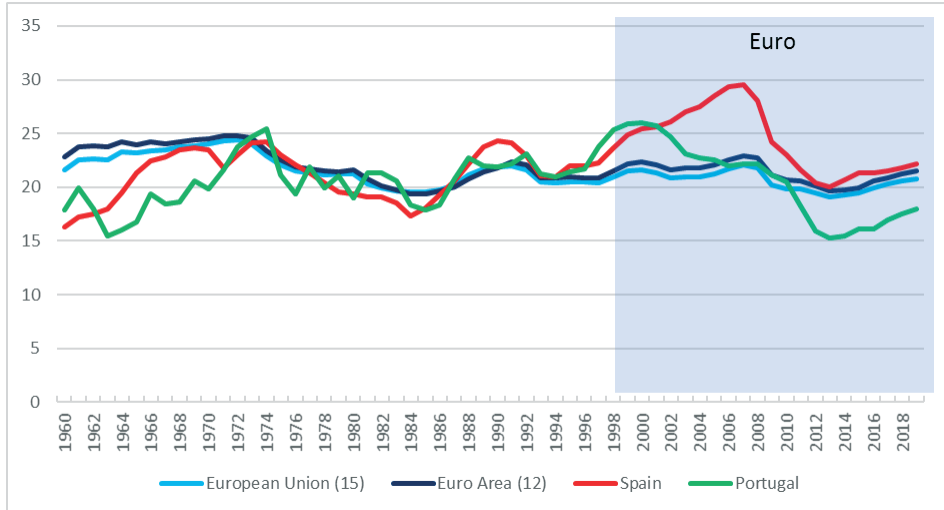


Source: AMECO, Nov. 2017

Chart 7, which shows the weight of GFCF on GDP, also illustrates the dynamics of investment in both countries. All of what was said above said has a concentrated expression here, with the catching up phenomenon being clearly evident in both countries up to 1974, when they reach a ratio GFCF on GDP of around 25%, slightly higher than the European average, to follow up the general decline during the following 10 years, between 1975 and 1985.

With the adhesion to the Communities, begins a new upward trend which, in the case of Spain, accentuates in the post-euro period, until reaching a maximum of 29.6% of GDP in 2007. Portugal already sees the peak of GFCF in 2000, with a GDP weight of approximately 26%, declining from there to a low of 15% in 2013, that compares with around 20% in Spain and 19.3% and 19.6% in the EU 15 and EA 12, respectively.

Chart 7
Gross fixed capital formation /GDP (%): total economy (2010 prices)
1960 - 2019
(2018 and 2019: Forecasts)



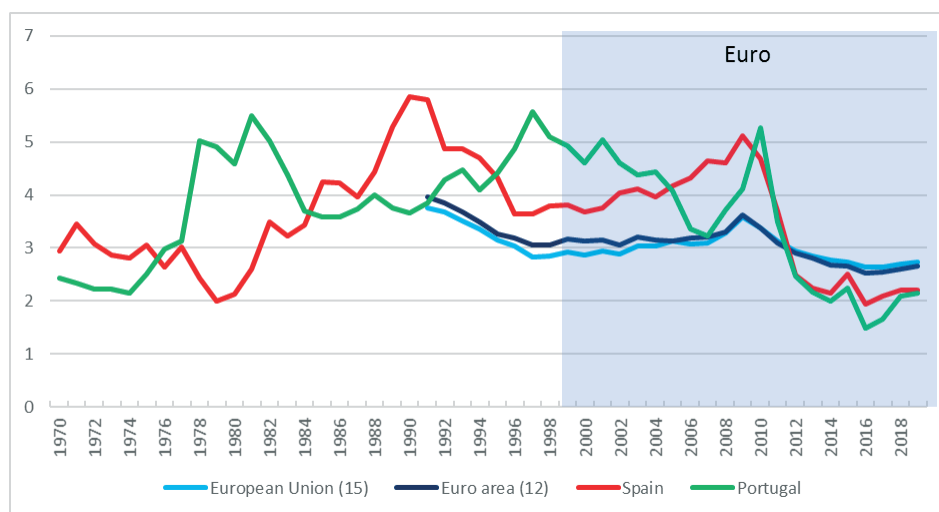
Source: AMECO, Nov. 2017

4.1. Public investment

Another interesting indicator concerns the behaviour of public investment (Graph 7). While Spain has shown a steady progression of GFCF since the second half of the 1990s, evolving from levels of 3.6% of GDP to levels above 5% in 2009, including levels around 4.5 – 4.6% in 2007 and 2008, Portugal sees public investment declining since practically the same moment, from levels of 5.5% to 3.2% of GDP in 2007, rising again in 2008, 2009 and 2010, when it reached a new peak of 5.2% of GDP. In both countries, there is a visible use of public investment as a tool to respond to the crisis, reflecting the guidelines and immediate concerns of national and European government officials. But the inflection in these guidelines at the levels of European policymakers, which redirects the focus of attention to deficits and public debts, provokes a drastic reversal of public investment in the two countries to levels around 2% of GDP, becoming a procyclical variable. Portugal still prolongs the effort in 2010 but public investment falls dramatically in the following years, until reaching a minimum in 2014 with 2% of GDP. Spain begins the inversion a year earlier in 2009, falling to the same levels in 2014. But while in Portugal there is a recover of public investment in the years of 2009 and 2010, by the

government's action at the time, in an attempt to answer the most negative effects of the crisis, in Spain the same option is verified, but in the context of a reinforcement of the trend that was running before. Comparing with the European average it is very clear the huge recession effect produced in both countries, especially if we look to the pre-crisis levels of public investment.

Chart 8
Gross fixed capital formation/GDP (%): general government (current prices)
1960 - 2019
(2018 and 2019: Forecasts)



Source: AMECO, Nov. 2017

5. Budget balances

In what concerns public finances, the performances of the two countries are very different, in result of the distinctive economic dynamics discussed above (See Chart 9 bellow).

Spain has shown a remarkable capacity for rebalancing public accounts, which has manifested since the beginning of the second half of the 1990s, being able to adjust deficits exceeding 7% of GDP into surpluses, starting in 2004 and reaching a value of 2% in the years immediately prior to the crisis, 2006 and 2007.

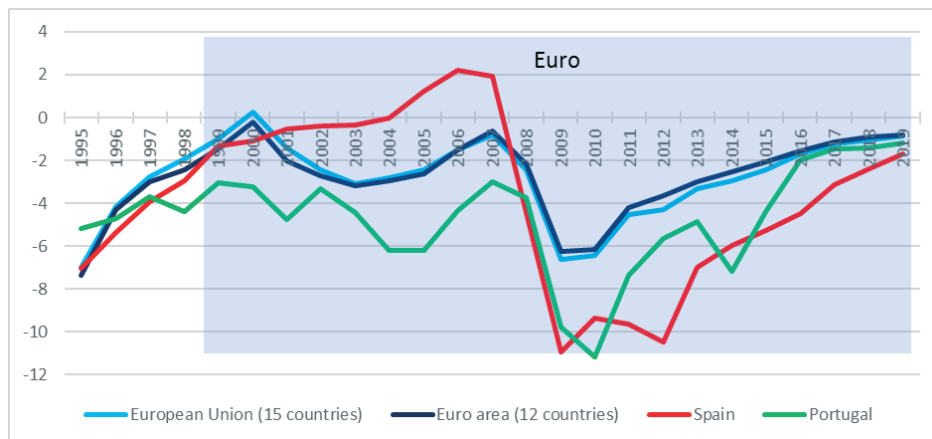
As far as Portugal is concerned, there is an adjustment in the period leading up to the euro, reflecting the concern for compliance with the

Maastricht criteria. This is followed by swings that evolve towards a further deterioration in 2004 and 2005 to more than 6% of GDP, pushed by the crisis situation at the beginning of the new millennium. The new government elected in 2005 is faced with an excessive deficit procedure by the European Commission, and has succeeded in correcting it, reaching the targets one year earlier than agreed in 2008 (values in real time).

In both cases, the crisis has led to an understandable deterioration in budget balances to levels around 10 - 11% of GDP in 2009 and 2010, plunging the two countries into deep fiscal crises, giving strength to the sovereign debt crises thesis in peripheral countries.

As is well known, Portugal applies an economic and financial adjustment program agreed with the so-called Troika, between May 2011 and May 2014, with a financing of EUR 78 billion, accepting cyclical and structural adjustment commitments with more direct and visible implications in terms of rebalancing public and external accounts. Spain, despite the financing difficulties is able to keep out of these processes, receiving only aid to support the financial sector, accepting in accordance commitments of economic and financial adjustment, but keeping outside the direct tutelage of international institutions. Maybe for this reason, but surely also for reasons of good previous economic and public accounts performance, Spain does not undergo a process of correcting the public deficit as drastically as Portugal, maintaining a deficit of 10.3% in 2012, against 5.6% in Portugal, starting only from there, truly, the process of adjustment but more in tune with its own general economic recovery. In 2014, Spain verifies a deficit of 5.8% of GDP, compared with 4.5% in Portugal.

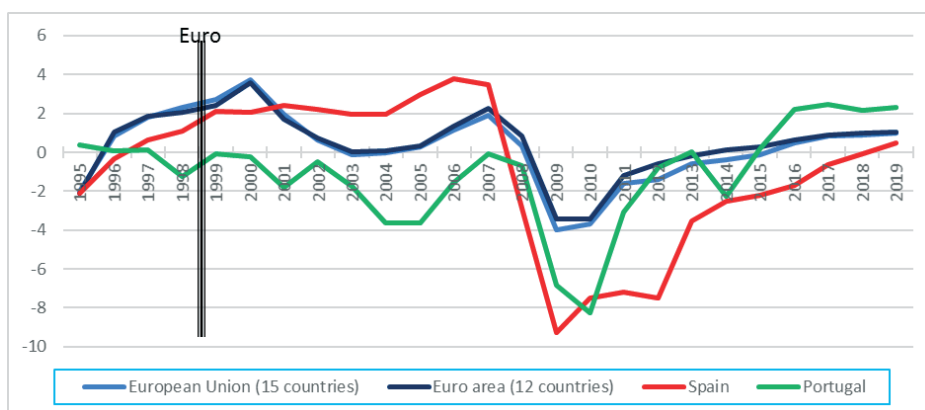
Chart 9
Net lending (+) or net borrowing (-): general government.
(Percentage of GDP at current prices (excessive deficit procedure))



Source: AMECO, Nov. 2017

These same trends are evident in the numbers of the primary deficit (Chart 10, below), with Portugal, unlike Spain, registering primary surpluses in 2013 and 2014, reflecting the more drastic fiscal adjustment in relation to that was verified in the neighbour country.

Chart 10
Net lending (+) or net borrowing (-) excluding interest: general government.
(Percentage of GDP at current prices (excessive deficit procedure))

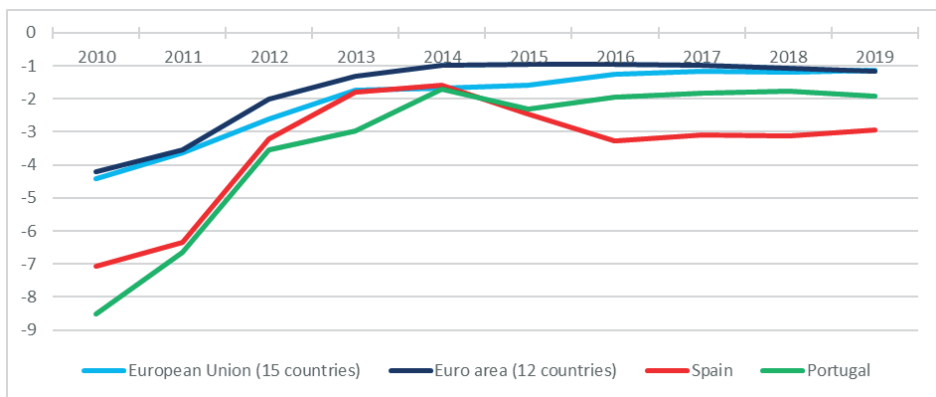


Source: AMECO, Nov. 2017

In what concerns structural deficits, Portugal and Spain, as we can see on Chart 11 below, don't match the commitments and it is possible to see some difficulties after 2014, when the economies began to recover.

Of course, we are in presence of a controversial concept that needs more discussion, but in so far as it is a requirement of the Stability Pact it is possible to anticipate here a source of additional problems that can be used with political objectives.

Chart 11
Structural balance of general government: - Adjustment based on potential GDP Excessive deficit procedure
(Percentage of potential GDP at current prices)



Source: AMECO, Nov. 2017

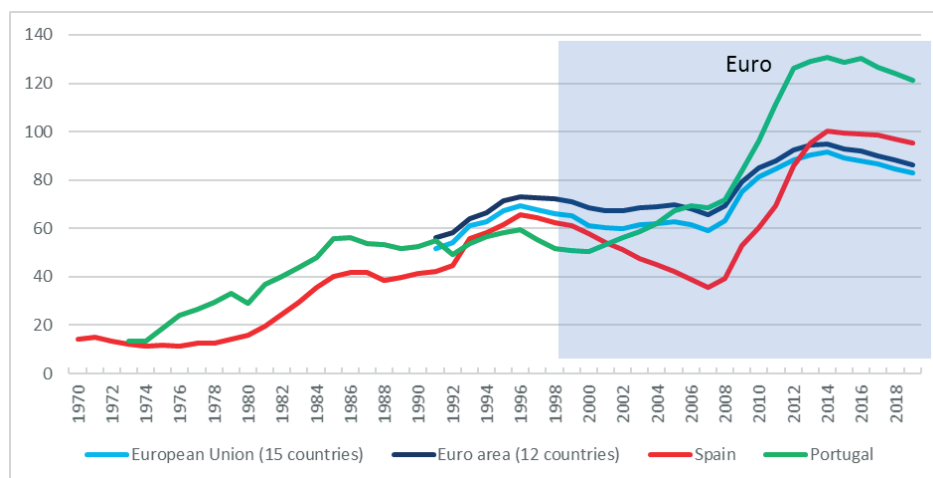
6. Public debts

The better overall performance of public accounts in Spain, as a result of the better overall economic performance in the period of the euro existence, is also present in the public debt behaviour, which shows a sustained reduction path from the peak of 65.6%, reached in 1996, to a 35.5% ratio, in the year immediately prior to the 2007 crisis. In contrast, Portugal having maintained the average debt around the 50% ratio of GDP, i.e., inside the Maastricht criteria, throughout all the period of European Union membership until 2000, when this debt reaches a minimum of 50.3% of GDP, it suffers a strong inversion of this reduction trajectory and the beginning of an upward trend that leads the debt to 68.4% of GDP in 2007, almost the double of that one registered in Spain (See Chart 12, below).

As has been the case in Europe in general, the crisis has triggered debt in both countries, reaching levels of 97.7% and 130.2% in Spain and Portugal,

respectively, face a European average of 92% and 95% %, in the EU15 and EA12. What is important to emphasize in this case is once again the difference between the two countries structural dynamics, with Spain debt deteriorating as a direct consequence of the crisis, while Portugal verifies an accentuation of a trend that came from the past, seeing all the fragilities accumulated during the euro phase become more evident.

Chart 12
General government consolidated gross debt
(Percentage of GDP at current prices (excessive deficit procedure))



Source: AMECO, Nov. 2017

7. External balances

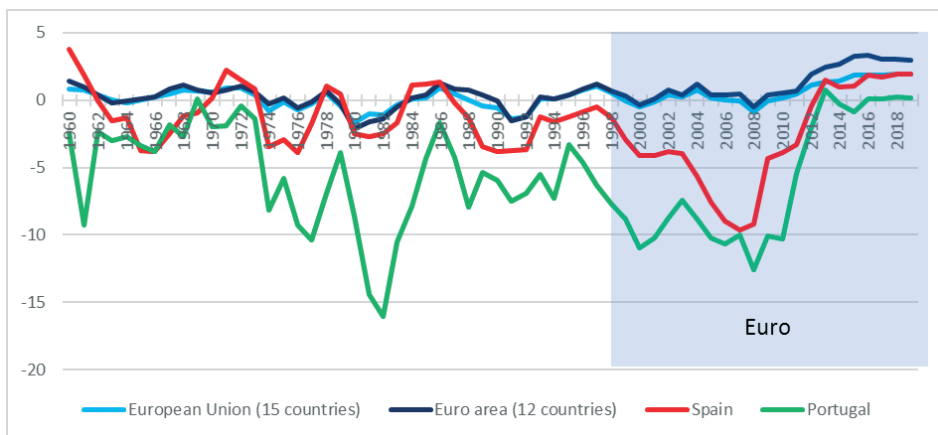
In the case of both countries, external adjustment seems to have been the most successful objective since Spain and Portugal managed to move from high current account deficits, which reached peaks of 9.3% of GDP in 2007, in the first case, and 11.4% in 2008, in the second case, to surplus from 2013 onwards (Chart 13, below). To a large extent, the success of this adjustment lies in the decrease of economic activity that has taken place in both countries in the aftermath of the crisis and the austerity measures that have been adopted which caused a sharp fall in imports. But other factors have also played a role, both on the export side and on the import side, in particular the fall of the oil prices.

In any case, the adjustment in these countries is similar to the one that took place more generally in the euro area and which has resulted in a reduction of the imbalance that had been accumulated over the years, and particularly since

the creation of the euro, between the current account of Germany and the current accounts of the generality of the euro zone countries.

In spite of the visible differences between current accounts developments in Spain and Portugal, with the latter country showing a chronic tendency for the production of large external deficits, there is some kind of a convergence between the two countries dynamics to increase external negative balances, particularly since the creation of the euro zone, with peaks during the international financial crisis. In both cases, this deterioration of the external accounts, when compared with the development of Germany's surpluses, reflects the failure of the euro system to work as an internal adjustment mechanism of the area.

Chart 13
Balance on current transactions with the rest of the world (National accounts)
(Percentage of gross domestic product at current prices)

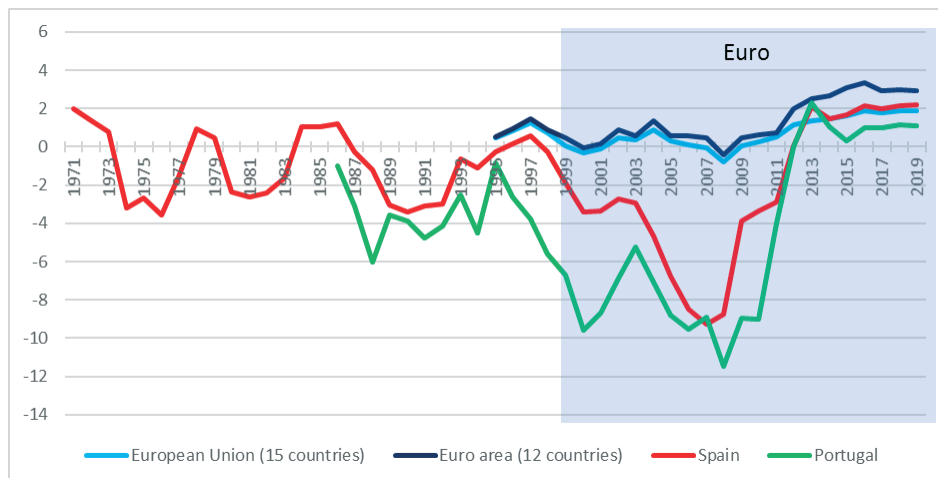


Source: AMECO, Nov. 2017

7.1. Net lending – Net borrowing

Notwithstanding the need of a deeper analysis of the reasons that led to this apparent success of the ability to balance external accounts and the degree of their sustainability in the case of a stronger economic recovery, it is an evident fact that relieved external pressures by generating net lending capacity in both countries, starting in 2012 and following the European trend (Chart 14).

Chart 14
Net lending (+) or net borrowing (-): total economy
(Percentage of gross domestic product at current prices)



Source: AMECO, Nov. 2017

8. Some conclusions

From the brief comparison we made between the evolution and performances of the two Iberian economies, it is possible to draw some conclusions that, of course, need further study.

The *first* and perhaps the *most significant conclusion* is that both Spain and Portugal are following the general European trend for the loss of economic dynamism, that has been running since the crisis of the early 1970s and became stronger after the creation of the euro. However, this loss of dynamism seems less significant in Spain than in Portugal. Spain seems having reacted much better to the euro shock, with average growth rates above the European average during this period, while the Portuguese economy practically stagnates, entering a period of clear divergence with the European average.

The *second conclusion* has to do with the different roles that unemployment seems to play in the two economies as an adjustment variable. Unemployment seems to be much more sensitive to economic cycles in Spain, possibly in result of different priorities of economic policy and different functioning of the labour market vis-à-vis Portugal. We can also see the great difference between Spain and Portugal in reaction to the euro creation. Spain shows a better capacity to adapt to the new conditions, with a reduction of unemployment, only interrupted as

a consequence of the crisis, while Portugal shows a loss of general economic dynamism that provoked the rise of unemployment in counter-cycle with the rest of Europe - a trend that the crisis only strengthened.

The *third conclusion* recognizes the better overall investment performance in the case of Spain, including at public investment level, which is most evident after the entry into the European Communities, including in the euro phase. In Portugal, on the contrary, after some initial post-accession euphoria begins a significant loss of dynamism of the investment performance, which accentuates in the euro phase, public investment included. A symptom of these different performances, is the fact that in 2014, following the effects of the crisis, Spain falls to the investment levels (measured by the GFCF), registered in 1999-2000, while Portugal falls to the levels similar to those of 1989.

The *fourth conclusion* concerns the public accounts. Spain shows a much better overall performance, including obtaining budget surpluses from 1997 and throughout the euro phase until the crisis. Portugal, on the contrary, shows a chronic difficulty in ensuring the fundamental balances of public accounts, with very few exceptions, the last of which, precisely before the crisis, in 2007 and 2008. Portugal succeeded in bringing the excessive deficit procedure, opened in 2005, to an end, one year earlier than it had agreed with the European Commission. There is also a less "austere" attitude in Spain regarding fiscal policy, which is certainly due to the slack allowed by the excellent pre-crisis performance, but also to the fact that it has managed to keep the country away from any direct intervention of the Troika, with the exception of the banking sector. In which concerns public debt, Spain shows the general trend of post-crisis Europe, also in this case revealing a more relaxed situation than Portugal whose problems precede the crisis and are in line with its overall economic performance.

The *fifth conclusion* concerns external accounts. Once again it is evident the better overall performance of Spain but, curiously, both countries converge to a similar balance deterioration during the period of the euro. In Portugal and Spain, we see an increase of the current accounts imbalances. The adjustment verified in both countries, in the aftermath of the 2009 crisis, follows the general trend towards a rebalancing in Europe, with a reduction of Germany's surpluses in parallel with the reduction of the deficits of its euro partners. But this adjustment reflects, above all, the strong decline in domestic economic activity, and it is still too early to demonstrate its sustainability, particularly in the event of a significant recovery of the economic activity with impact on imports.

The *sixth remark* is more a comment than a conclusion. The estimates and projections for 2018 and 2019 point towards a certain strengthening of the ongoing economic recovery. But uncertainties are still present at the horizon and the risk of inversion of the present dynamics is still high. That's the main reason why the ECB keeps the fundamental references of the monetary policy followed

in recent years, of low interest rates. Even in this recovery phase, Spain seems to perform better than Portugal, notwithstanding Portugal have been able to recover some convergence with Euro zone average. In any case it seems that structural problems that we talked above persist and need to be addressed, primarily at the Eurozone level.

Finally, we can conclude for the existence of a significant difference between the economic performances of the two countries over the last three or four decades, both shaped by significant changes in the international economic system and by shocks of diverse nature that profoundly affected the domestic and international dynamics of the different economies. In this period, Spain has shown a remarkable ability to adapt and take advantage of new situations, with particular emphasis during the single European currency phase. On the contrary, Portugal has shown greater difficulties in adapting to the new demands of international competition, and these difficulties have been accentuated following the introduction of the single European currency, of which it was also a founding member like Spain. Certainly, the reasons behind the economic history of the two countries largely explain these differences. But one cannot exclude, on one hand, recently different domestic economic options, which have resulted in different uses of the opportunities offered by the membership condition of the European integration project. And, on the other hand, different situations of vulnerability in the face of the progressive inefficiency of the institutions and internal adjustment mechanisms of the European Union, which were deepened by the creation of the euro. Spain saw its economy strengthened. On the contrary, Portugal saw its vulnerabilities become more pronounced.

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