Inflation is a reality and ECB will raise interest rates

By Essential Business

Posted 3 Janeiro, 2022

In Economy, News

The Portuguese economist João Duque predicts that 2022 will be a year of recovery, but also a year in which interest rates will rise.

In an interview with TSF Radio, the university professor says that Portugal needs to attract talent and increase its productivity – two fundamental bugbears which have plagued the country for around two decades.

He also thinks the new Government (there are elections in Portugal later this month) should pursue market economy friendly and growth stimulation policies. In his interview, the professor from ISEG (Lisbon School of Economics) which he ran from 2009 to 2012, gave a snapshot economic and policy forecast for 2022.
João Duque said that 2022 had been better than 2020 – the worst year on record — which was to be expected, with the year closing with growth, but less than in 2019. His prediction for growth is 5.1% given Portugal’s installed capacity and current investment, and says Portugal needs to aspire to be a country in which, in addition to living well, people can work well and be paid well.

This means changing the structure of Portugal’s economy; with value added per unit produced, knowledge, and talent attraction/retention. In education there had been excellent examples of projects with the private sector that had born fruit, and that the country could try and do in the public sector with models that had worked so well in the private sector.

However, he said that economic activity needed to be geared towards productivity and value added because “we have a problem to face — in addition to working in a world with scarce resources — we cannot totally destroy our natural resources if we want to continue the human species”.

João Duque said that with the current demography, Portugal would have a serious problem in terms of health, welfare and pensions for the elderly because there would be less people working to sustain a growing elderly population.

“One of two things will happen: either young people will pay practically their entire salary in taxes to support the burdens of the State and its commitments, with more public debt that will have to be managed and paid, or the new generation will have to be more productive and generate income with a tax structure that is very different to the one now, which could force them go overseas,” he said. “People will either pack their bags or refuse to pay,” warned João Duque.

“If alternatives do not come from the centre, then they will come from the far left or far right, and I believe that the Portuguese understand that, and will vote either for the (current) prime minister (continuity) or choose a representative that will be part of the solution, even if that party is a small one. “We live in an extraordinary country and so we need to choose very carefully who is going to “run the condominium,” he warned.

On attracting the right talent, which should be educated and would want to enjoy a certain lifestyle, a reasonable tax regime was vital. “We cannot tax the middle class excessively, that’s a mistake. Investment should be treated and evaluated from a productivity point of view”.
“When the State tries to stimulate the economy through the RRP (Recovery and Resilience Programme) they have measures to foster productivity, but it is never explicit how these investments are chosen in terms of increasing productivity”, he said.

The economist, recalling another economist and former minister, Manuela Ferreira Leite, said it was desirable that 35% of Portugal’s GDP should come from exports with export companies structured towards this goal.

However, he said that politically the Portuguese State was hostile to Portuguese companies, particularly in terms of taxes. “And then is it any wonder large companies employ large law firms to legally reduce their huge tax burdens,” said João Duque.

As to talent needs in the private sector in Portugal, João Duque highlights a problem. “What I see is that some sectors have difficulty in attracting people with specific qualifications, and this is a serious symptom that we have got enough (highly-qualified) people to put on the market given that the demographic pyramid is inverted. The private sector normally behaves in a cold, logical manner, and doesn’t take on people for the sake of it, or because the Government says it is going to make investments, but rather when they need staff.

“In tourism, there is a lack of qualified manpower because there’s a belief that the sector doesn’t have the stability to provide adequate income, and people prefer to earn less, but have more security.” (Which they don’t currently get in tourism in Portugal) The answer: Attract young people locally through an effective immigration policy that is welcoming and pays well for those who have the right qualifications. “Portugal needs immigrants and needs to pay them well.”