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Back to External Pressure: Policy Responses to the Financial Crisis in Portugal

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Summary

The financial crisis caught Portugal in the midst of its long-protracted and slow fiscal consolidation process, which brought the budget deficit down to 2.2 per cent of GDP in 2008. The crisis was not a bursting bubble type of shock but it brought back the long forgotten external (liquidity) constraints. Given Portugal's accumulated external imbalances, it is argued that the government should credibly pre-commit to medium term budgetary objectives with accelerated corrective measures to the 2009 fiscal overrun. Also, it should actively promote sustainable consumption patterns and a leap forward to a new 'green' competitive basis for sustainable development, thereby increasing the country's general creditworthiness.

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