1993–2007 Portugal in the European Union

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The period following ratification of the Treaty on European Union was marked in Portugal by the nominal convergence policy pursued to allow membership of the single currency in 1999, and by the consequences for the Portuguese economy of adopting the euro and of the impact of globalisation and EU enlargement.

Having decided to join the first group of countries to form the single currency, Portugal followed a policy of nominal convergence. This meant that as early as 1992, the escudo joined the European Monetary System exchange rate mechanism, and its (relative) stability was maintained at the initial cost of high interest rates. The public sector deficit also had to be reduced. The convergence policy was successful, allowing inflation and, from the mid-1990s, interest rates to be cut, and also enabling the public sector deficit to be kept below 3 % of GDP, making accession to the single currency possible in 1999.

However, the effects on the Portuguese economy also had a strong negative dimension. The stability of the escudo, for example, while inflation remained high, led to a rise in real exchange rates that stimulated the production of non-tradable goods to the detriment of tradable goods, leading to a fall in the share of exports in GDP. Meanwhile, the all too rapid decline in interest rates in the second half of the 1990s led to a very swift rise in household debt, making Portuguese families the most heavily indebted in the euro zone. These negative effects, compounded by a production structure that was still very heavily dependent on poorly qualified labour, meant that the Portuguese economy reacted badly to the shock of globalisation and EU enlargement, losing market share and recording a worrying degree of foreign indebtedness. It was also no longer an attractive destination for foreign investment, after Auto-Europa’s substantial investment in the mid-1990s. In more recent years the balance of foreign investment in Portugal and Portuguese investment abroad has also sometimes actually been negative.

Reflecting these difficulties, the first decade of the new century saw very low growth, coupled with an extremely rapid rise in unemployment and a sharp divergence from other EU countries.

Portugal’s public financing difficulties were also very evident in the first half of the decade, though a committed programme to reduce the debt when the Sócrates Government took office in 2005 enabled the public sector deficit to be reduced to less than 3 % of GDP.