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Monetary policy during two crises in a semi-peripheral economy – Portugal, 1891 and 1929

Amélia Branco(UTL-ISEG/GHES), ameliab@iseg.utl.pt
Nuno Valério (UTL-ISEG/GHES), valerio@iseg.utl.pt
Rita M. de Sousa (UTL-ISEG/GHES), martins@iseg.utl.pt

Motivation

- The study of two important international crises: 1891 and 1929.
- The impact of these crises in a semi-peripheral European economy – Portugal.
- The contribution to a comparative analysis.

What we do

- Analyze the international and domestic macroeconomic context in the two crises.

- Present a view on the transmission mechanisms, the overall impact, the economic policy response and the resulting economic performance.

- Provide explanation about the counter-cycle economic performance of Portugal:
  - rather badly during the 'belle époque' that followed the 1891 crisis
  - relatively well during the Great Depression that followed the 1929 crisis

Domestic Background

1891 ➔ more vulnerable – why?

Economic growth dependent on public investment – public investment financed by debt creation and financed by short-term international capital markets – weakness of economic growth.

1929 ➔ less vulnerable – why?

Budgetary balance, monetary stability, controlled external debt – resiliance of the economy to the external shocks.

The impact of the two crisis

1891 ➔ external payments crisis Slide 8 ; Slide 10

1929 ➔ external payments crisis Slide 9; Slide 11

Portuguese responses

1891 ➔ Protectionism and drive towards colonial endeavours; suspension of the gold-standard Slide 14; capital markets remained closed until the WW II – the problem of public debt Slide 16; Slide 18.

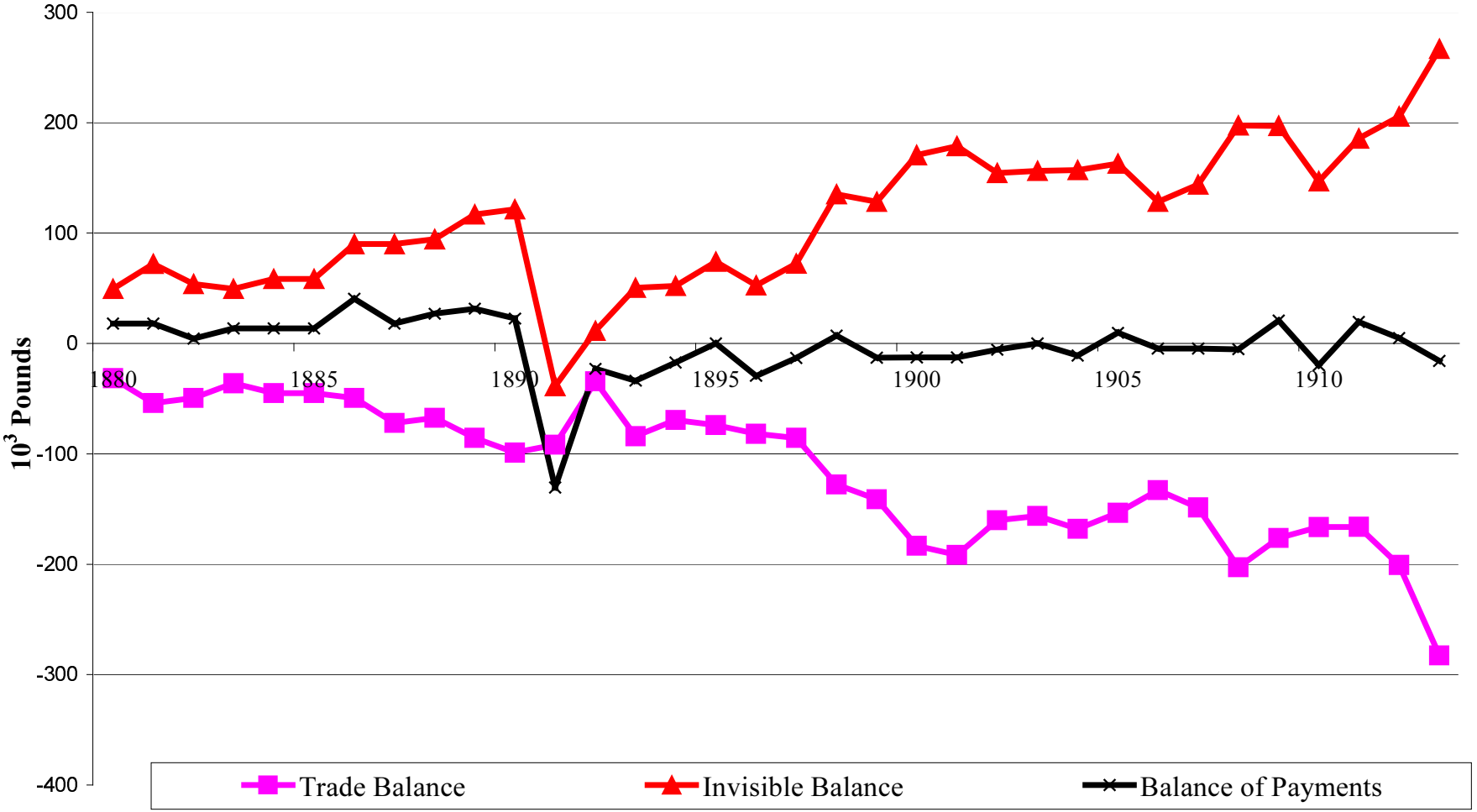
1929 ➔ Policy mix: curbing consumption, both private and public; stimulating investment, both private and public; ensuring external competitivety; a policy of stability and credibility of the currency unit Slide 15; the solution of external and internal debt Slide 17; Slide 19.

The consequences for Portugal

1891 ➔ rather bad economic performance during the *Belle Époque* Slide 12.

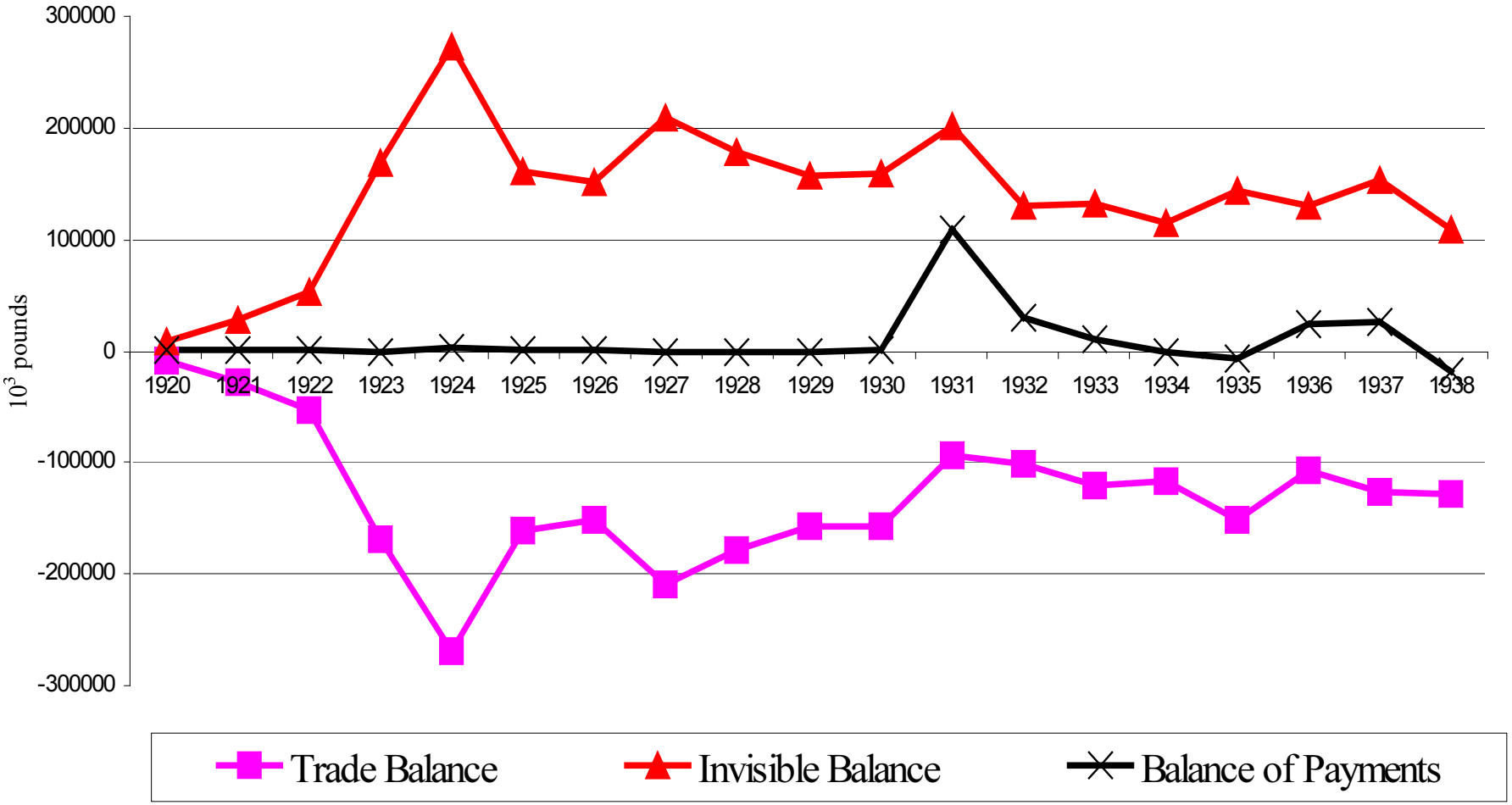
1929 ➔ relatively good economic performance during the *Great Depression* **Slide 13.**

Figure 1 - Balance of Payments (1880 - 1913)The impact of the two crises



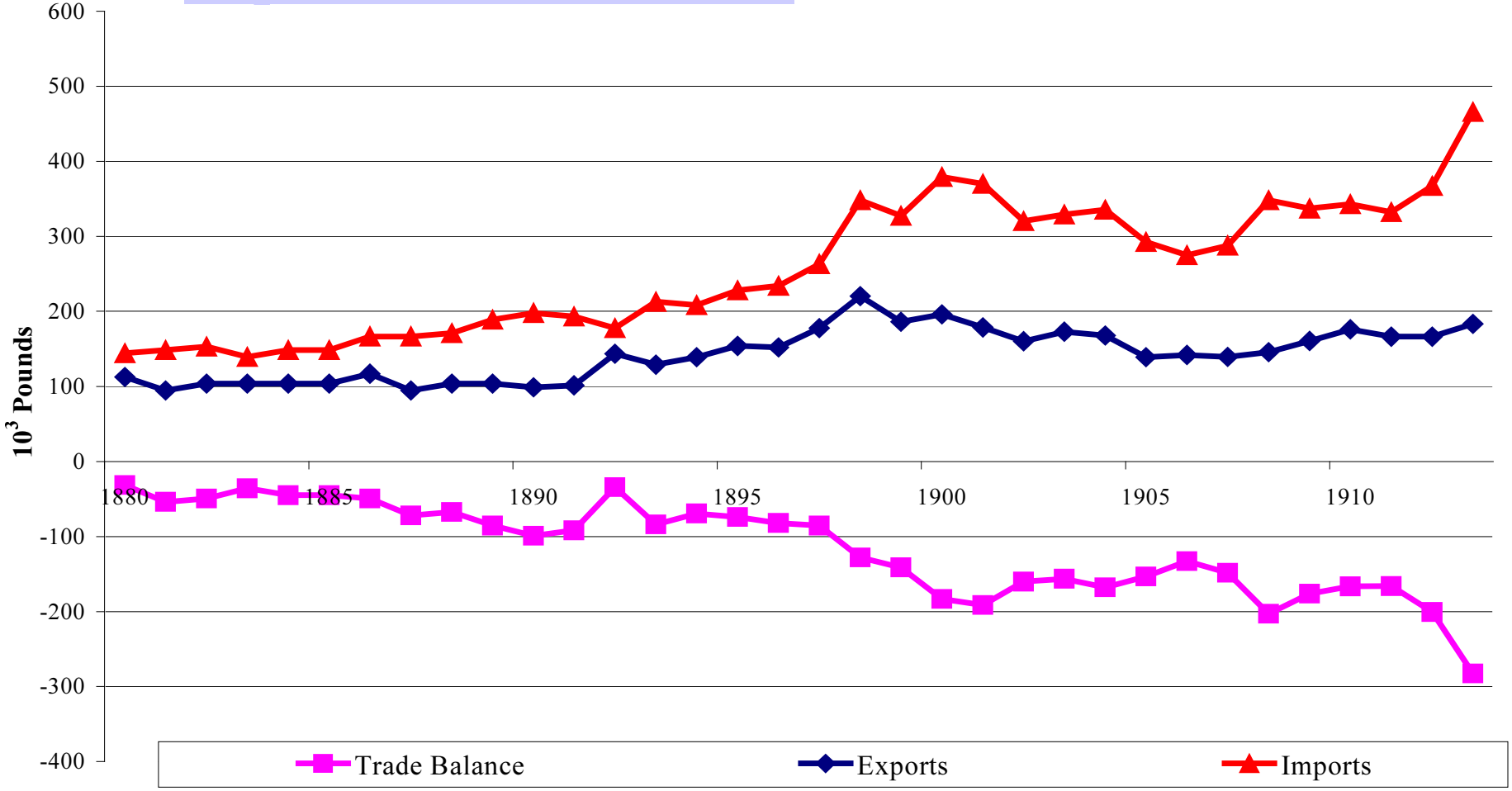
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 2 - Balance of Payments (1920-1938)The impact of the two crises



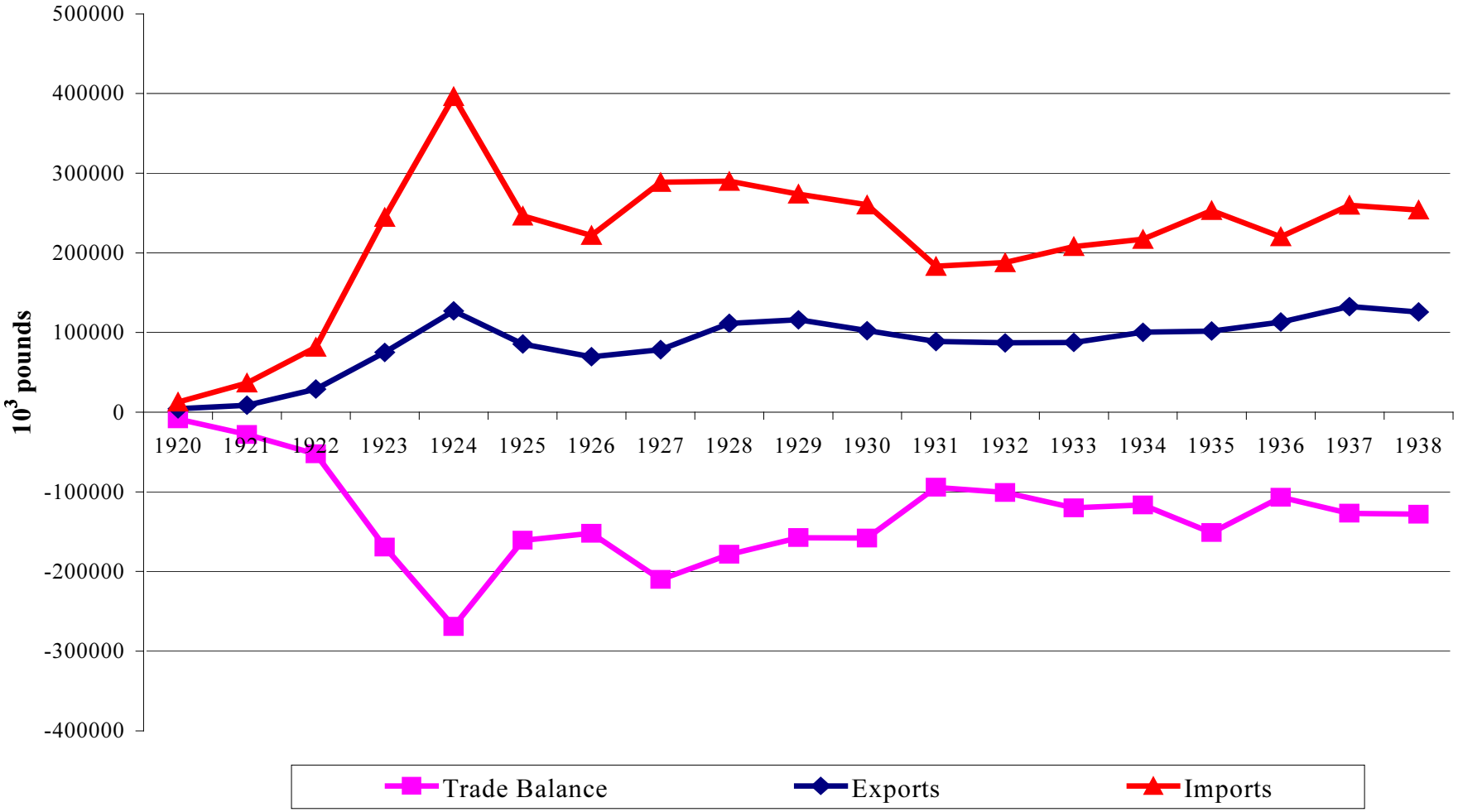
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 3 – Trade Balance (1880 - 1913) The impact of the two crisis



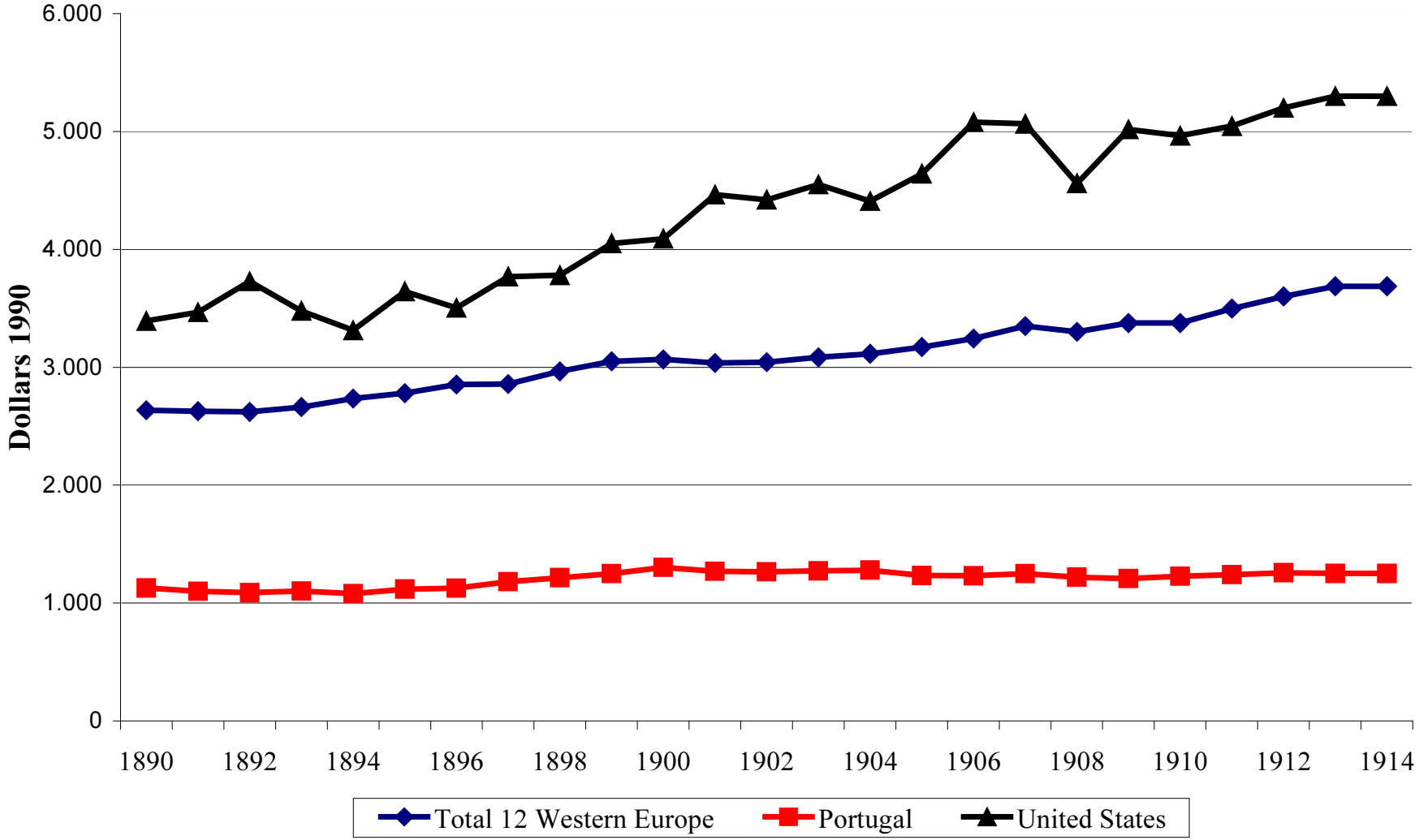
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 4 – Trade Balance (1920-1938) The impact of the two crises



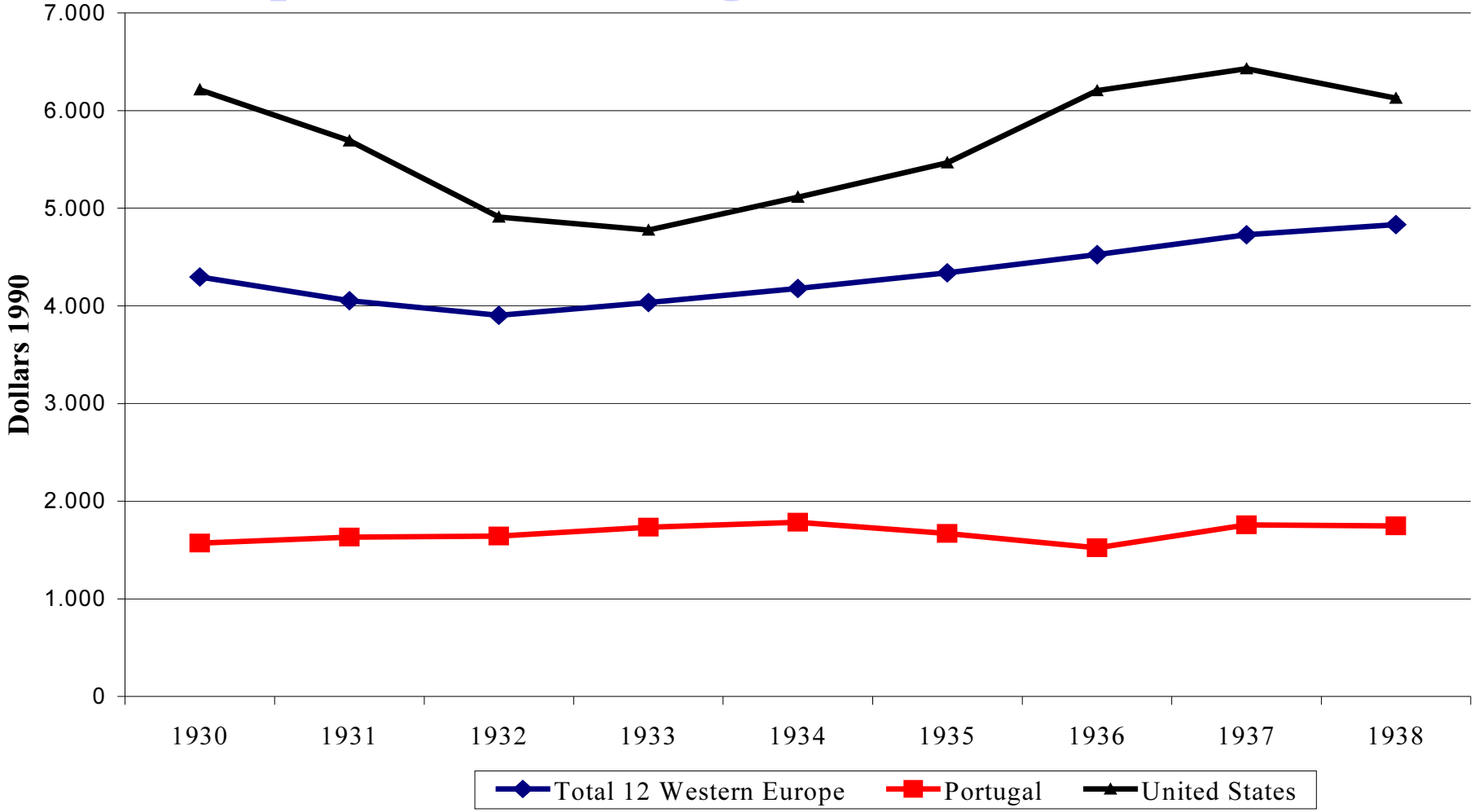
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 5 – Per capita GDP (1890 - 1914) The consequences for Portugal



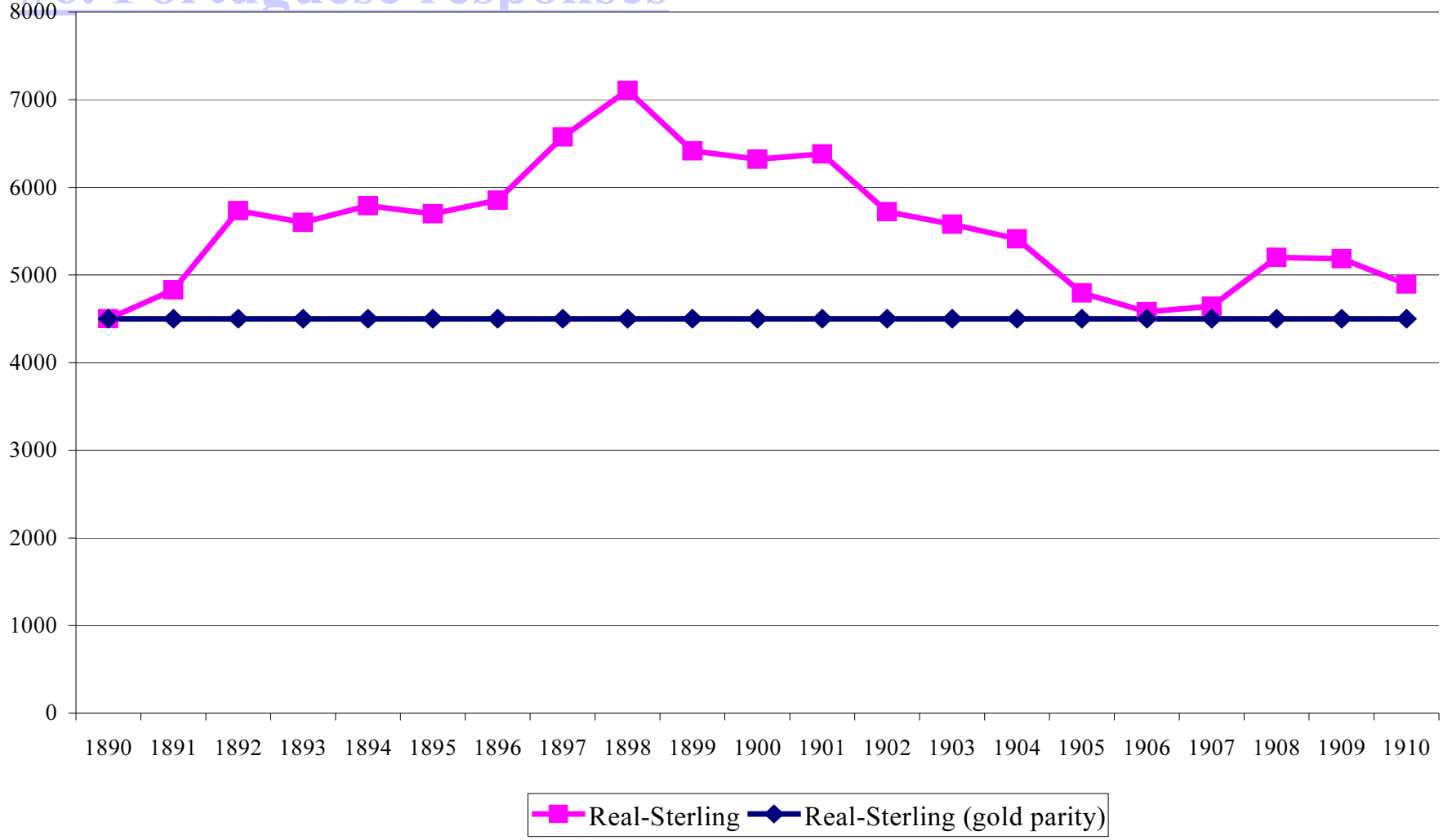
Source: A. Maddison, http://www.ggdc.net/maddison/

Figure 6 – Per capita GDP (1930 -1938) The consequences for Portugal



Source: A. Maddison, http://www.ggdc.net/maddison/

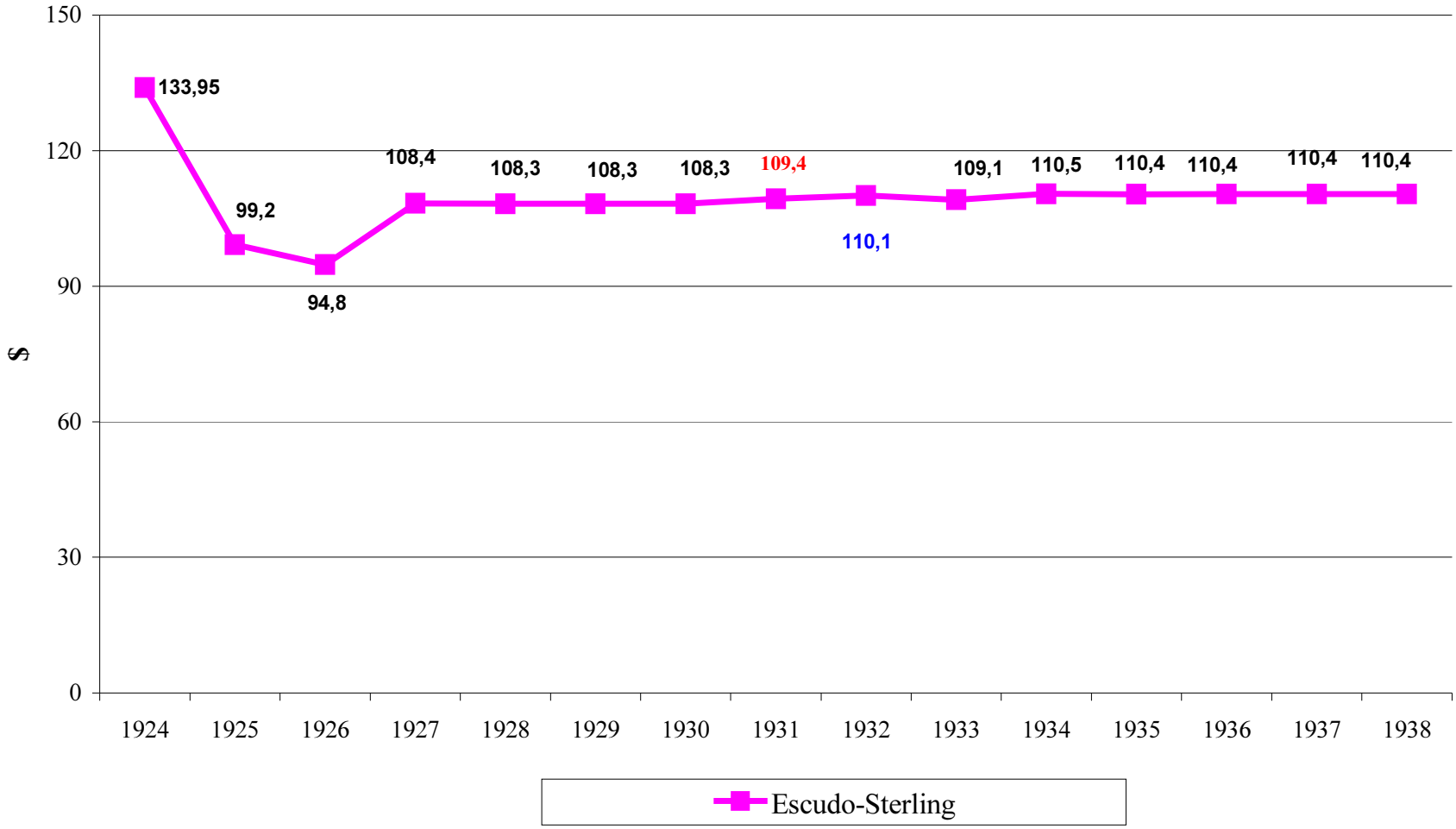
Figure 7 – Real-Sterling exchange rate (1890 - 1910)



Sources: *Portuguese Historical Statistics*, 2001, second volume.

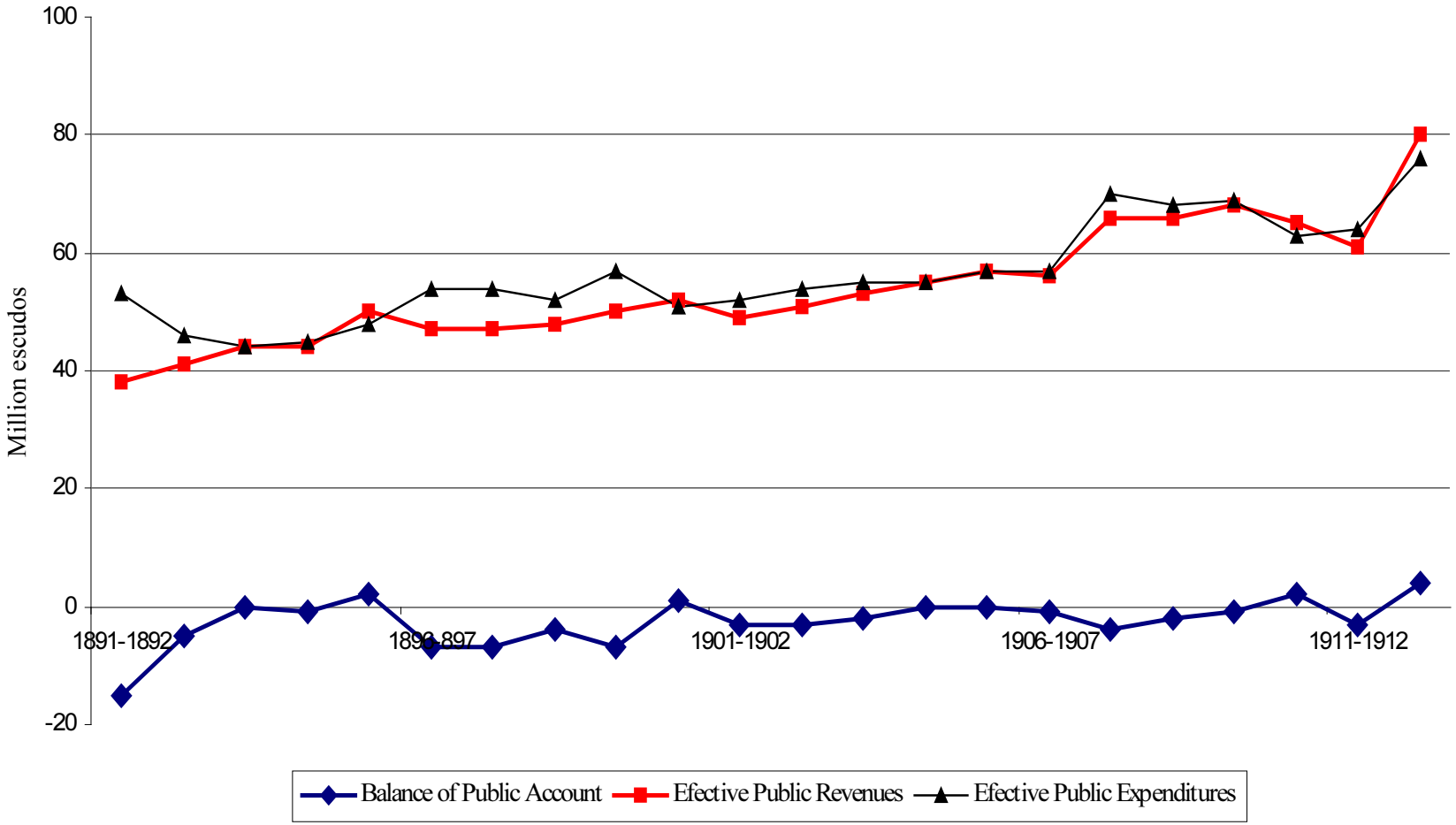
Figure 8 – Escudo-Sterling exchange rate (1924 - 1938)

#6. Portuguese responses



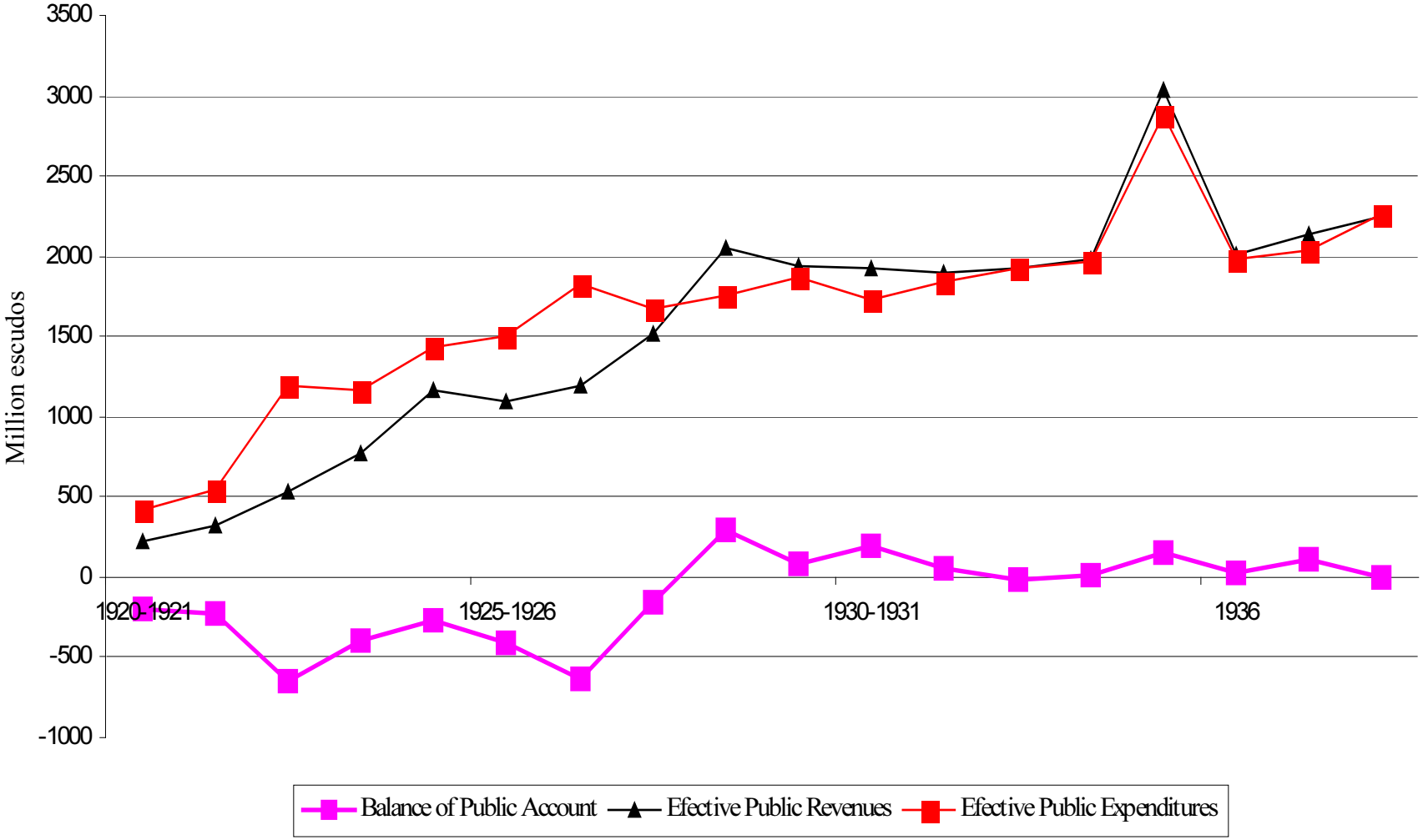
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 9 - Public Accounts (1891-1913) #6. Portuguese responses



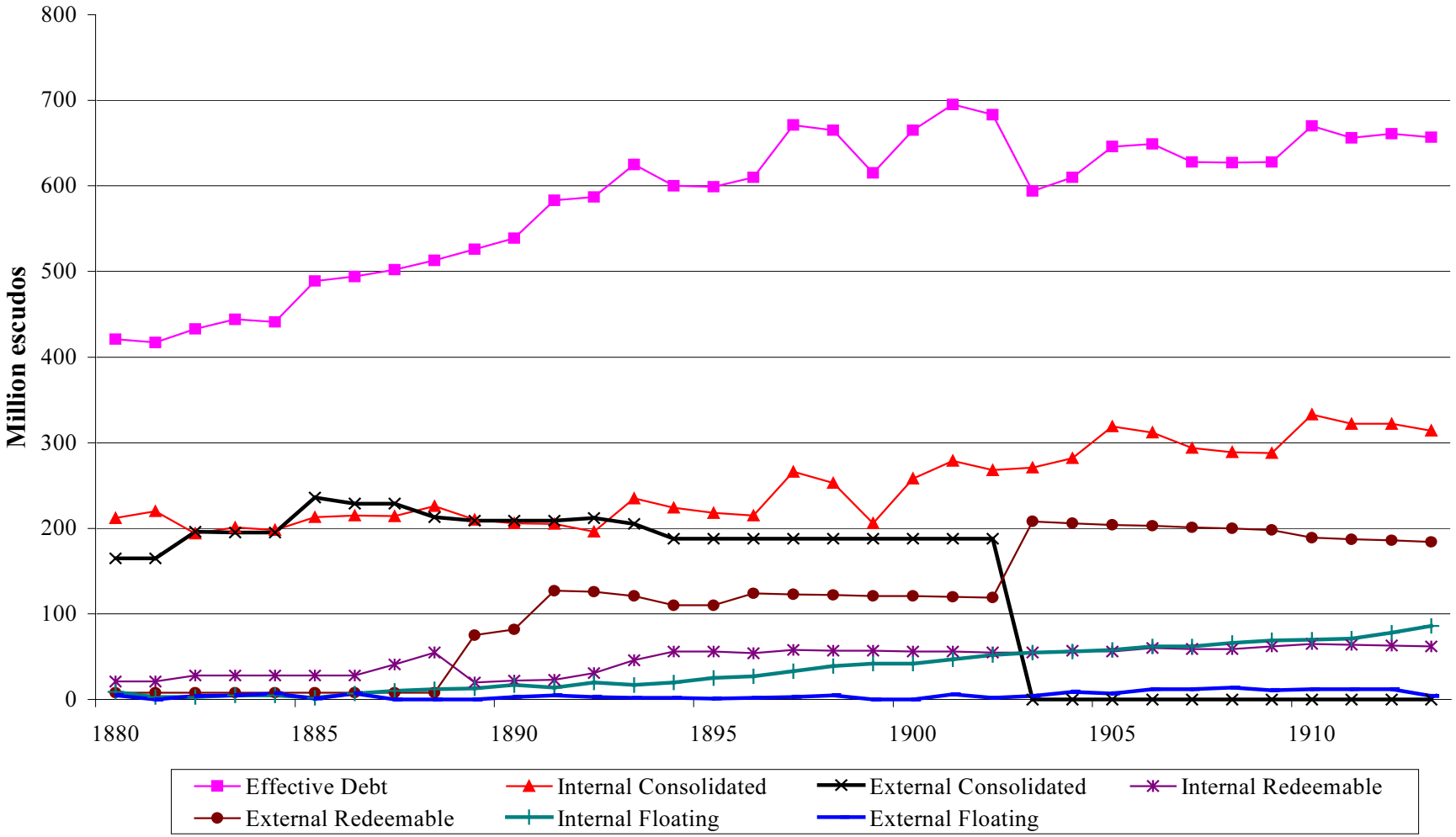
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 10 - Public Accounts (1920-1938) #6. Portuguese responses



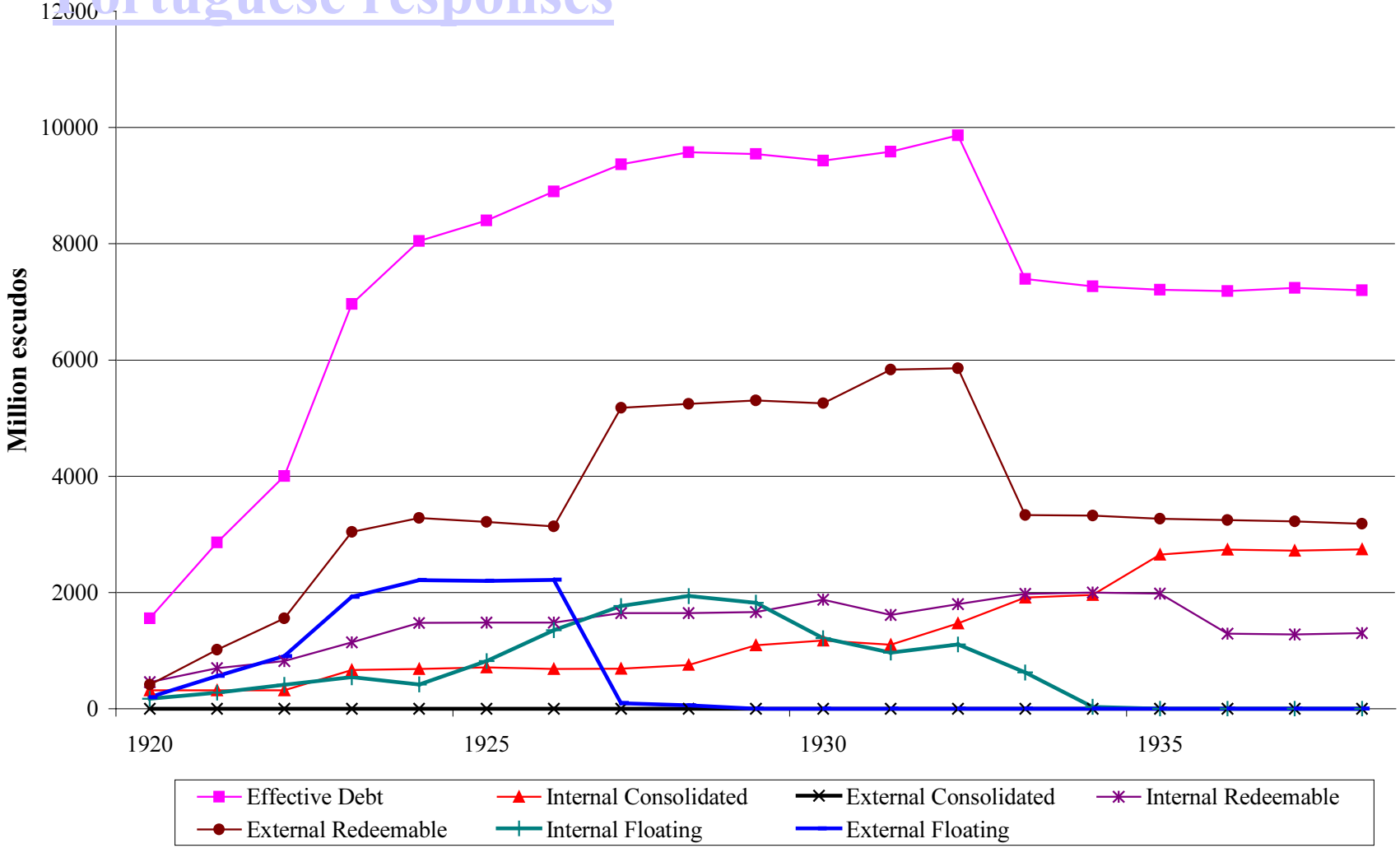
Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 11 - Public Debt (1880-1913) #6. Portuguese responses



Sources: *Portuguese Historical Statistics*, 2001, second volume.

Figure 12 - Public Debt (1920-1938) #6. Portuguese responses



Sources: *Portuguese Historical Statistics*, 2001, second volume.

Conclusions

	International background	Domestic background	Domestic policy	Monetary policy
1891	More favourable	More vulnerable	Less adequate	No active intervention
1929	Less favourable	Less vulnerable	More adequate	Active policy

Conclusions

The importance of domestic factors and especially of domestic policy, matter, whatever the international background … .