

**EXECUTIVE
BOARD
MEETING**

SM/22/135

Correction 2

June 29, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Portugal—Selected Issues**

Board Action:

The attached corrections to SM/22/135 (6/8/22) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

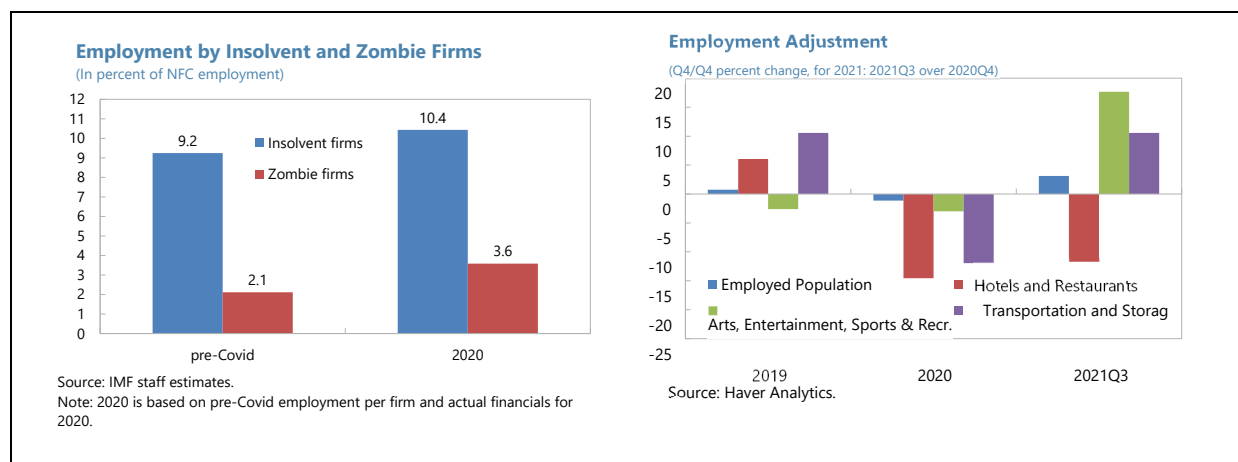
Pages 10 (subsequent footnotes renumbered)

Questions:

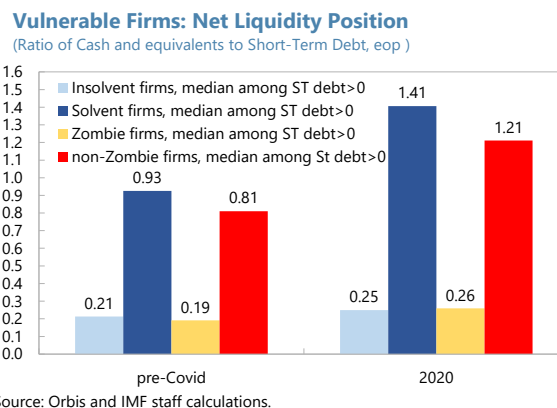
Ms. Duttagupta, EUR (ext. 38583)

D. Risks: Jobs, Economy, Financial System

13. Policy support prevented a severe impact on jobs and the economy. Without policy support, the crisis could have destroyed up to a third of NFC jobs and 20 percent of economic output. Specifically, in the absence of lifelines support (job retention schemes, tax deferrals, credit) the share of NFCs employment by illiquid firms would have jumped from about 15 percent prior to the pandemic to 33 percent. Similarly, on a value-added weighted basis, the share of economic activity of the illiquid firms would have jumped from 10 to 28 percent. As of 2020, lifeline policies are estimated to have significantly helped illiquid firms even compared to pre-Covid-19. Nonetheless, the share of NFC employment (based on pre-Covid-19 employment figures) in firms that ended 2020 with negative equity or were classified as zombies rose slightly. These have also helped ease labor market adjustment. Although in the absence of actual firm-level employment data for 2020, it is yet not possible to infer the extent of employment adjustment, even though aggregate sectoral labor market data suggest reallocation away from the sectors most affected by the pandemic.



14. Although near-term financial stability concerns are thus far contained, risks could grow over time. Support measures, such as moratorium schemes and state-guaranteed credit lines, have limited the materialization of corporate defaults. Moreover, the share of loans to firms with negative equity is estimated to have fallen from 13.3 percent at the end of 2019 to 12.5 percent by the end of 2020, as growth of total loans to NFCs (9 percent) outpaced growth of loans to insolvent firms (3 percent).¹ At the same time, the share of banking loans to zombie firms has risen from 7 percent pre-Covid-19 to almost 9 percent by the end of 2020 and is likely to have risen to almost 13 percent by the end of 2021 in line with projected increase in the share of zombie firms. Furthermore, both insolvent and zombie firms have significantly



¹ Although credit lines which accounted for about 12 percentage point increase in bank loans did not require solvency, credit growth for such companies appears to have been modest.