PORTUGAL

LATEST KEY DEVELOPMENTS

APR 2021

HIGHLIGHTS

The Portuguese Government handed over to Parliament, on the 15th of April, the **Stability Program 2021-2025**.

The **Recovery and Resilience Plan** (RRP) was officially delivered to the European Commission (EC) on April 22, integrating the joint work with the EC and the contributions resulting from the public consultation. The PRR amounts to **EUR 16 644 million**, of which EUR 13 944 million corresponds to grants. The exercise of quantifying the impact of the RRP in the short term allowed us to conclude that it will increase the average annual GDP growth rate by 0.7 pp (that is, GDP it will be 3.5% above what would be without RRP). The effect of the RRP in terms of the differential in the level of the potential product allowed to conclude that the level of the annual product will be 2.2% higher after 10 years than it would be without RRP, thus revealing additional gains resulting from the effects of the structural transformation, which will last in the Portuguese economy.

ECONOMIC ACTIVITY

Real GDP registered a y-o-y decrease of 5.4% in the first quarter of 2021 (-6.1% in the previous quarter), reflecting the effects of the general confinement enacted in the beginning of the year due to the deterioration of the COVID-19 pandemic. INE's release available here.

The **Consumer confidence indicator** increased significantly in April, similarly to the previous month, approaching the level observed in March 2020. This was the the highest level attained since April 2020. Moreover, the **economic climate indicator** also increased significantly in April, slightly exceeding the level observed at the beginning of the pandemic (March 2020). INE's press release available here.

LABOUR MARKET

According to INE estimates, **the unemployment rate in March stood at 6.5%** (less 0.3 pp than February)**,** and more 0.2 pp than March 2020. Furthermore, in March, the unemployed population was 328.6 thousand people in a labour force of about 5 million people (15 to 74 years).

TOURISM INDUSTRY

In March 2021, **tourism accommodation activity** recorded **636.1 thousand overnight stays** corresponding to a y-o-y decrease of 66.5% (-87.8% in February). In March, 58.5% of the tourist accommodation establishments were closed or had no movement of guests (63.9% in February). INE's press release available here.

EXTERNAL ADJUSTMENT

i. International Trade

In February 2021, nominal **exports of goods increased 2.8 % y-o-y** (-9.8% in January 2021). **Imports of goods decreased 10.9% y-o-y** (-16.6% in January 2021). INE's press release available here.

ii. Balance of Payments

From January to February, in cumulative terms, the **current account (CA)** deficit stood at €335,28M; a deterioration in relation to January. The deficit of the CA is mainly explained by negative deficit of €1,241M on the balance of goods, while the balance of services registered a surplus of €721M. At the same time, the capital account registered a positive balance of €504M. BdP's data available here.

PRICE DEVELOPMENTS

The **CPI** 12-month average rate was estimated to be 0.1% in April 2021 (nil in the previous month). Moreover, and in the same month, the CPI annual rate was 0.5% (the same value as in March), whilst core inflation was 0.1%. In April, the estimated **HICP** annual rate of change in Portugal was -0.1% (0.1% in March). INE's flash estimate available here.

According to INE's data, in March the **industrial production prices index increased 0,7%** y-o-y (-2.0% in the previous month).

BUDGETARY OUTTURN

By the end of March, the General Government budget on a cash basis registered a €2,255M deficit, €2,358M worse regarding the same period of the 2020. This results from an increase of 5.6% in expenditure and a decrease of 6% in revenue. The **primary deficit** reached €470M, that compares to the €1,964M surplus verified in March 2020.

On the **revenue side**, the decrease of tax revenue (-10%) and social contributions (-0.3%) is mainly due to the suspension of Fiscal Executions (€140M) and exemption of Single Social Fee (€72M). The total impact of the revenue related measures is €471.5M, but the decrease of the revenue is also due to the economic slowdown.

On the **expenditure site,** there are €1,432.4M of COVID-19 measures, namely lay-off measures (€272.6M) and total health related expenditure like equipments and medication, vaccines and tests (€219.6M). The increase of pension expenditure (3.3%) and of the compensation of employees (4.3%, mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector) explained the remaining growth.

TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese **State direct debt** increased €1,397M vis-à-vis February, amounting to €274,366M before cambial hedging. To this result, it had contributed the increase of the €1,496M PGB. On March 7th, €4,000M of PGB 0.3%17OCT2031 auctioned. On April 21st, €450M and €800M (competitive tranche) of 3 and 12-month T-bills at weighted average yields of -0.599% and -0.558% were issued, respectively.

GENERAL GOVERNMENT DEBT

According to BdP, **General Government Maastricht debt** reached €274,089M in February 2021, *i.e.* more €4,220M than in the previous month. Maastricht debt **net of deposits** of the General Government stood at €248,842M, which represents a monthly increase of €2,182M.