

# PORTUGAL

## LATEST KEY DEVELOPMENTS



JUN 2021

### ECONOMIC ACTIVITY

The **Consumer confidence indicator** increased slightly in June, after the significant increases observed in the previous three months, reaching the maximum value since February 2020 (last survey before the pandemic). Moreover, the **economic climate indicator** also increased considerably between March and June, only moderately in the last month, exceeding in the last two months the level observed in the beginning of the pandemic (March 2020). INE's press release available [here](#).

### LABOUR MARKET

According to INE estimates, the **unemployment rate in April stood at 7.2%** (up 0.2 p.p. from April), and up 1.2 p.p. from May 2020. Furthermore, in May, the unemployed population was 364.8 thousand people in a labour force of about 5,1 million people (16 to 74 years).

### EXTERNAL ADJUSTMENT

#### i. International Trade

In April 2021, nominal **exports of goods increased 82.4 % y-o-y** (7% in April 2019). **Imports increased 60.4% y-o-y** (-2.6% in April 2019). Main increases were felt in exports and imports of Transport equipment (+377.5% and +256.5% respectively; -5.4% and -25.9% compared to April 2019) and Industrial supplies (+55.2% and +58.7% in the same order; +9.8% and +12.8% in April 2019). Please notice that these growth rates compare with the month of 2020 in which the impact of the COVID-19 pandemic was most significantly felt. INE's press release available [here](#).

#### ii. Balance of Payments

From January to April, in accumulative terms, the **current account (CA)** balance stood at -€1 048.98M; a deterioration in relation to the accumulative figure of March. As usual, the CA deficit is mainly explained by the negative balance of goods (-€3 001.63M). Balance of services have registered a surplus of €1 437.46M. At the same time, the capital account registered a positive balance of €808.66M. BdP's data available [here](#).

### PRICE DEVELOPMENTS

The **CPI** 12-month average rate was estimated to be 0.3% in June 2021 (0.2% in the previous month). Moreover and in the same month, the CPI annual rate was 0.5% (0.7 p.p. lower than in May), whilst core inflation was -0.2% (0.6% in May). In June, the estimated **HICP** annual rate of change in Portugal was -0.6% (0.5% in May). INE's flash estimate available [here](#).

According to INE's data, in May the **industrial production prices** index increased 7.8% y-o-y (5.1% in the previous month).

### BUDGETARY OUTTURN

By the end of May, the **general government budget on a cash basis** registered a €5,401M deficit, worsening €1,895M vis-a-vis the same period of 2020. This evolution is due to an increase of 3.8% in expenditure and a decrease of 1,8% in revenue. The **primary deficit** reached €2,031M, a worsening compared to the €65.8M deficit verified in May 2020. The budget execution highlights the effects of the COVID-19 pandemic on the economic performance as well as the mitigation and economic relaunch policy measures.

On the **revenue side**, the decrease of tax revenue (-6.4%) is mainly due to the suspension of Fiscal Executions (€28.8M) and exemption of Single Social Fee (€179.1M). The total impact of the revenue related measures is €438.8M. The decrease of the revenue is also due to the economic slowdown.

On **expenditure site**, there are €2,269.2M of COVID-19 expenditures measures, namely lay-off measures (€360.2M) and total health related expenditure like equipments and medication, vaccines and COVID-19 tests (€491.8M). The increase of pension expenditure (2.8%) and compensation of employees (4.5%, 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 €2,322M vis-à-vis April, **amounting** to €272,359M before cambial hedging. To this result, contributed the increase of €1,250M on PGB. On June 9<sup>th</sup>, €300M of PGB 0.7%15OCT2027, and €700M of PGB 0.3%17OCT2031 were **auctioned**. On June 16<sup>th</sup>, €500M and €750M (competitive tranche) of 3 and 12-month T-bills at weighted average yields of -0.592% and -0.550% were **issued**, respectively.

### GENERAL GOVERNMENT DEBT

According to **BdP**, **general government Maastricht debt** reached €272,726M in April 2021, *i.e.* less €2,542M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €253,405M, which represents a monthly increase of €2,938M.