

# PORTUGAL

## LATEST KEY DEVELOPMENTS

AUG 2021

### ECONOMIC ACTIVITY

**Real GDP registered a y-o-y change of 15.5%** in the second quarter of 2021 (-5.3% in the previous quarter), reflecting the base effect, as the restrictions imposed on economic activity due to the COVID-19 pandemic were felt more intensely in the first two months of the second quarter of 2020, leading to unprecedented contraction of economic activity. INE's flash estimate available [here](#).

The **Consumer confidence indicator recovered in August** from the decline registered in the previous month, after increasing significantly between March and May and slightly in June. Moreover, the **economic climate indicator increased in August**, after interrupting in the previous month the ascendant profile observed between March and June. All the confidence indicators in all activities (i.e. Manufacturing Industry, Construction and Public Works, Trade and Services) are above the levels 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 July stood at 6.6%** (down 0.2 p.p. from June), and down 1.5 p.p. from July 2020. Furthermore, in July, the unemployed population was 341 thousand people in a labour force of about 5.2 million people (16 to 74 years).

### TOURISM INDUSTRY

In July 2021, **tourism accommodation sector registered 1.6 million guests and 4.5 million overnight stays**, which compares with 1 million guests and 2.6 millions overnight stays in July 2020. Comparing July 2021 with July 2019, the number of guests and overnight stays has decreased by 42.5% and 45%, respectively. INE's flash estimate available [here](#).

### EXTERNAL ADJUSTMENT

#### i. International Trade

In June 2021, nominal **exports of goods increased 21.4% y-o-y** (8.4% in June 2019). **Imports increased 29.4% y-o-y** (0.8% in June 2019). Main increases were felt in exports and imports of Industrial supplies (+38.3% and +46.6%, in the same order; +17.9% and +28.6% compared to June 2019. INE's press release available [here](#).

#### ii. Balance of Payments

From January to June, in cumulative terms, the **current account (CA)** balance stood at -€1,936.97M; a deterioration in relation to the cumulative figure of April. As usual, the CA deficit is mainly explained by the negative **balance of goods** (-€5,763.22M). **Balance of services** have registered a surplus of €2,841.30M. At the same time, the **capital account** registered a positive balance of €1,168.30M. BdP's data available [here](#).

### PRICE DEVELOPMENTS

The **CPI annual rate is estimated to be 1.5%** in August 2021, same value as in July, with the index for energy products estimated to be 9.4% (8.7% in July). In July, the estimated **HICP annual rate of change was 1.3%** in Portugal (1.1% in July). INE's flash estimate available [here](#).

**According to INE's data**, in July the **industrial production prices index increased 10.2%** y-o-y (8.9% in the previous month). Excluding the Energy grouping, the variation was 6.8% (5.6% in previous month).

### BUDGETARY OUTTURN

By the end of July 2021, the **general government budget on a cash basis** recorded a €6,840M deficit, €1,631M less than in the same period of 2020. This evolution is due to a higher increase of revenue (8%) than of expenditure (3.7%). The **primary deficit** reached €2,608M, €990M less than in the same period of the last year. The budget execution reflects the effects of the COVID-19 pandemic on the economic performance, as well as the mitigation policy measures (€3,618M until July 2021 which compares with €2,271M in July 2020).

The increase of tax revenue (7.5%), social contributions (7.3%) and Other Current Transfers, partly justified by the transfer of European funds, explained mainly the increase of **revenue**.

On the **expenditure** side, the COVID-19 measures explained 79% of the expenditure increase. Additionally, the increase of pension expenditure and of road concessions charges explained the remaining growth.

### TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese **state direct debt** decreased €2,104M vis-à-vis July, **amounting** to €273,737M before cambial hedging. The Treasury Bills and MTN stock decreased €2,485M and USD 1,124M, respectively. On the other hand, there were a PGB issuance of €1,088M.

On August 25<sup>th</sup>, IGCP, E.P.E. performed an **exchange offer**: €1,080M€ of PGB4.95%15Oct2023 and €281M of PGB5.65%15Feb2024 were bought, and €1,025M of PGB2.125%17Oct2028 and €336M of PGB4.1%15Apr2037 were sold.

### GENERAL GOVERNMENT DEBT

According to **BdP**, **general government Maastricht debt** reached €277,501M in June, i.e. more €2,690M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €256,028M, which represents a monthly increase of €1,874M.