

# PORTUGAL

## LATEST KEY DEVELOPMENTS

JUN 2023

### ECONOMIC ACTIVITY

According to INE, the **General Government (GG) balance increased by 0.5pp** in the year ending in the first quarter of 2023, to a surplus of 0.1% of GDP. This improvement was the result of a higher increase in revenue (9.3%) than in expenditure (4.3%). **Net lending of households slightly decreased by 0.2pp to 0.4% of GDP** in the year ending in the first quarter of 2023 and reflected the 2.6% increase in private consumption, higher than the 1.9% growth of disposable income.

**Consumer confidence** increased between December and June. Balance of Consumer **opinions on the past evolution of the price level** decreased significantly in May and June, moving away from the high level it was at which it stood. The **economic climate indicator** stabilized in June, after decreasing in the previous month. **Confidence indicators** increased in *Construction and Public Works* and *Services*, and decreased in *Manufacturing Industry* and *Trade*. INE's press release available [here](#).

### LABOUR MARKET

According to INE estimates, **the unemployment rate in May decreased to 6.4%**, 0.1pp down from April, but 0.4pp up from May 2022. The unemployed population was 339 thousand people in a labour force of about 5.3 million people (16 to 74 years).

### TOURISM INDUSTRY

In May 2023, the **tourism accommodation sector** registered **2.8 million guests and 7.1 million overnight stays**, resulting in y-o-y increases of 12.1% and 10%, respectively. Compared to May 2019, there were increases of 8.2% and 9%, respectively. INE's flash estimate available [here](#).

### EXTERNAL ADJUSTMENT

#### i. International Trade

In April 2023, **exports and imports of goods decreased y-o-y by 3.6% and 5.7%**, respectively. The drop in exports and imports of *Industrial supplies* (-10% and -12.4%, respectively) and *Fuels and lubricants* (-23.1% and -40.6%, in the same order) are noteworthy. INE's press release available [here](#).

#### ii. Balance of Payments

In April 2023, in cumulative terms, the **current account (CA) balance** stood at -€37.5M (-€2,383.77M in 2022). CA balance is negatively influenced by the **balance of goods** (-€7,425.36M) and positively by the **balance of services** which registered a surplus of €7,089.43M. The **capital account** registered a surplus of €730.42M. BdP's data available [here](#).

### PRICE DEVELOPMENTS

The **CPI annual rate is estimated at 3.4%** in June (4% in May), decreasing for the eighth consecutive month, with the index for energy products estimated at -18.8% (-15.5% in May) and for

unprocessed food at 8.5% (8.9% in the previous month). This deceleration mainly reflects the base effect related to the price increases in fuels, registered in June 2022. In May, the estimated **HICP annual rate of change was 4.7%** in Portugal (5.4% in June). INE's flash estimate available [here](#).

According to INE's data, in May, the **industrial production prices index kept slowing down and decreased 3.5% y-o-y** (decreased 0.9% in April). The *Energy* group was the main contributor to this evolution. Excluding *Energy*, industrial production prices increased by 2.2% (4.7% in April).

### BUDGETARY OUTTURN

In May 2023, the **General Government budget on a cash basis** registered a surplus of €3,471M, compared to a deficit of €324M in the same period of 2022. The primary surplus reached €6,662M, higher €4,078M vis-à-vis 2022. The observed improvement is the result of an increase of 16% in revenue, despite the increase of 4.8% in expenditure.

On the **revenue** side, the increase of tax revenue (8.1%) was mainly due of VAT revenue (4.2%), personal income tax (3.8%) and social contributions (11.6%); explained by the recent improvements in the labour market. Additionally, the increase in transfers (148.9%) was due to a transfer of responsibilities from CGD Pensions Fund to the civil servants' Pension Scheme (CGA) of €3,018M. Excluding this transfer, the budget reached a surplus of €722M.

The increase in **expenditure** is explained by the increase in the compensation of employees (7.5%), acquisition of goods and services (5.7%), and transfers (5.4%).

Also, the COVID-19 related measures amounted to €215M less €1,819M than in May 2022. The measures aimed at mitigating the geopolitical shock amounted to €790M, more €186M compared to the previous month.

### TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese **State direct debt reached** €290,659M before cambial hedging, more €643M than in April. To this result, it had contributed the increase in the retail debt stock (€1,716M) and in the CEDIC stock (€309M), partially offset by the decrease in Treasury Bills (€1,515M).

On July 28<sup>th</sup>, IGCP performed an **exchange offer**: €191M of PGB 2.875%Oct2025, €164M of PGB 2.875%Jul2026 and €520M of PGB 4.125%Apr2027 were bought and €315M of PGB 1.65%Jul2032 and €560M of PGB 1%Apr2052 were sold.

### GENERAL GOVERNMENT DEBT

According to BdP, in May 2023, **general government debt amounted** to €280,003M, more €30M compared to the previous month. **Maastricht debt net of deposits** of the general government stood at €256,426M, which represents a monthly decrease of €422M.