

PORTUGAL

LATEST KEY DEVELOPMENTS

SEP 2023

HIGHLIGHTS

On 29 Sep 2023 **Fitch Ratings** has upgraded Portugal's Long-Term Foreign-Currency Issuer Default Rating to '**A-**' from '**BBB+**'. The Outlook is Stable.

ECONOMIC ACTIVITY

According to INE, the **net lending of the Portuguese economy** increased in the year ending in the second quarter of 2023, moving from 0.5% of GDP in the first quarter to 1.6%. This improvement mainly reflected the increase in the balance of Financial Corporations (+0.4pp of GDP), while the balances of Non-Financial Corporations and Households both increased by 0.3pp of GDP. The **balance of the General Government (GG)** sector was nil in the second quarter of 2023, decreasing from 0.1% of GDP in the first quarter. INE's estimate available [here](#).

Consumer confidence decreased in August and September, after increasing between December and July. The Balance of Consumer **opinions on the past evolution of the price level** decreased in the last five months. The **economic climate indicator** decreased between July and September. **Confidence indicators** decreased in *Trade* and *Services* and increased in *Manufacturing Industry* and *Construction and Public Works*. INE's press release available [here](#).

LABOUR MARKET

According to INE estimates, the **unemployment rate in August stood at 6.2%**, 0.1pp down from July, but 0.2pp up from August 2022. The unemployed population was 326.7 thousand people in a labour force of about 5.3 million people (16 to 74 years).

TOURISM INDUSTRY

In August 2023, the **tourism accommodation sector** registered **3.5 million guests and 10.1 million overnight stays**, an historical high, resulting in y-o-y increases of 4.8% and 1.4%, respectively. Compared to August 2019, there were increases of 6.3% and 4.9%, respectively. INE's flash estimate available [here](#).

EXTERNAL ADJUSTMENT

i. International Trade

In July 2023, **exports and imports of goods decreased y-o-y by 10.6% and 8.2%**, respectively, for the fourth month in a row. The drops in exports and imports of *Fuels and lubricants* (-46.3% and -47.8%, respectively) stand out, reflecting drops in prices and volume. INE's press release available [here](#).

ii. Balance of Payments

In July 2023, in cumulative terms, the **current account (CA) balance** stood at €1,367.97M (-€3,304.77M in 2022). The CA balance is negatively influenced by the **balance of goods** (-€13,685.74M) and positively by the **balance of services** which registered a surplus of €15,347.75M. The **capital account** registered a surplus of €1,823.04M. BdP's data available [here](#).

PRICE DEVELOPMENTS

The **CPI annual rate is estimated at 3.6%** in September (3.7% in August), decreasing again after the temporary spike in August, with the index for energy products estimated at -4.1% (-6.5% in August) and for unprocessed food at 6% (6.4% in the previous month). In September, the estimated **HICP annual rate of change was 4.9%** in Portugal (5.3% in August). INE's flash estimate available [here](#).

According to INE's data, in August, the **industrial production prices index inverted its slowing down trend but decreased 5.2% y-o-y** (-6.6% in July). Excluding *Energy*, industrial production prices decreased 0.6% (increased 0.1% in July).

BUDGETARY OUTTURN

By the end of August 2023, the **general government budget on a cash basis** recorded a surplus of €5,666M, €3,076M higher than in the same period of 2022. Excluding the transfer from the public bank pensions' fund (FPCGD), the surplus reached €2,648M. The adjusted **primary surplus** reached €6,991M, an improvement of €271M year-on-year.

This evolution is associated with an increase in **revenue** by 11.1%, higher than the increase in **expenditure** by 6.7%.

On the **revenue** side, social contributions increased by 11.4% and the tax revenue grew 4.8%, mainly due to personal income tax (11.8%) and VAT (4.9%), which reflects the resilience of the labour market.

On the **expenditure** side, the trend is justified by the compensation of employees, current transfers and capital expenditure, which grew 7.6%, 2.8% and 1.2%, respectively.

The COVID-19 related measures had a monthly increase of €347M, reaching €566M. The measures aimed at mitigating the geopolitical shock amounted to €1,878M, increasing €362M compared to July.

TREASURY FINANCING

According to the Debt Management Agency (IGCP), the Portuguese **state direct debt** increased €168M compared to July, amounting to €292,579M before cambial hedging. This behaviour is mainly explained by the increase in €56M in the retail debt.

On the 13th of September, IGCP **auctioned** €485M and €522M (competitive tranche) of PGB 1.65%16Jul2032 and 0.9%12Oct2035, respectively.

GENERAL GOVERNMENT DEBT

According to **BdP**, **general government Maastricht debt** reached €280,457M in August, i.e. less €468M than in the previous month and more €8,022M than in the end of 2022. Maastricht debt **net of deposits** of the general government stood at €255,284M, which represents a monthly increase of €421M and less €3,242M than in the end of last year.