

PORTUGAL

LATEST KEY DEVELOPMENTS

APR 2020

Highlights

As a result of the Covid 19 pandemic, in the second quarter the Portuguese economy is expected to have a huge drop. In order to preserve the productive capacity of firms and protect employment, the Government presented a [package of measures](#), amounting to €9,200M: €5,200M in taxes, €3,000M in guarantees and €1,000M in social security contributions.

ECONOMIC ACTIVITY

In this context, the economic climate indicator declined sharply in April, reaching a value close to the one observed at the end of 2013. Meanwhile, the consumer confidence indicator registered in April the greatest decrease when compared to the previous month, recording a minimum value since September 2014. More information available [here](#).

In March, on a year-on-year basis, the [Manufacturing industry production index](#) decrease by 10.5%, while in February the [Construction production index](#) slowed down to 1%.

[According to the latest COVID-19 effects survey](#), 80% of the firms reported decreases in turnover while 59% reported a decrease in persons employed effectively working. 54% of the enterprises reported the use of simplified lay-off, 13% of benefit from the suspension of tax and contributory obligations and 10% from the moratorium for the payment of interests and principal on existing credits.

LABOUR MARKET

[According to INE](#), in February 2020 the unemployment rate was 6.4% (a decreased of 0.4 p.p. from January). From the previous month, the unemployed population has decreased by 20.4 thousand people (5.8%) and the employed population has decreased by 18.4 thousand people (0.4%).

TOURISM INDUSTRY

In March, tourism accommodation activity recorded 1.9 million overnight stays (a year-on-year rate of change of -58.5%). Based on a specific questionnaire, about future perspectives for tourist activity, 79.2% of respondent tourist accommodation establishments pointed out that the COVID-19 pandemic motivated the cancellation of bookings scheduled for the months from March to August 2020. INE's press release available [here](#).

EXTERNAL ADJUSTMENT

i. International Trade

In February, and in a y-o-y nominal terms, exports of goods increased 0.9% (4% in January) and imports increased by 3.4% (-2.4% in January). INE's press release available [here](#).

ii. Balance of Payments

Until February 2020, the accumulated balance of the current and capital accounts stood at -€482M (a improvement of €20M in relation with the same period of 2019). Capital account registered a positive figure of €255M while the current account registered a deficit of €736M. BdP's data available [here](#).

PRICE DEVELOPMENTS

The CPI 12-month average was estimated at 0.2% in April 2020 (0.1 p.p. lower than in the previous month). In the same month, the CPI annual rate remained in 0.0%, whilst core inflation was -0.1% (0.1 p.p. lower than in the previous month). In April, the estimated

HICP annual rate of change in Portugal was 0.1% (the same value as in March). INE's data available [here](#).

[According to INE's data](#), the Industrial Production Prices Index recorded a year-on-year change rate of -3.4% in March (-3.0% in the previous month).

BUDGETARY OUTTURN

In the first quarter of 2020, the [general government budget on a cash basis](#) stood at a surplus of €81.3M, €761.5M lower than in the same period of 2019. The execution of the first quarter already shows the effects of the Covid-19 pandemic on the economy and public services following the policy measures adopted to mitigate these effects.

This evolution is due to an increase of 5.3% in expenditure that more than offset the increase of 1.3% in revenue. The **primary surplus** reached €1,943.8M, decreasing €814.7M vis-à-vis the same period of 2019.

The **revenue** increases is mainly explained by the economic performance as social contributions grow (5.7%), other current revenue (4.5%), due to the increase of rents paid by public services and entities by the use of public spaces, and of European Union transfers to Social Security for vocational training (24.6%). The tax revenue decreases 0.2% fueled the decrease of indirect taxes (-2.2%) that was partially offset by the increase of direct taxes (+2.6%).

On the **expenditure** side, the increase of pension expenditure (4.9%), and the compensation of employees growth 4.6%, mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector.

TREASURY FINANCING

According to the Debt Management Agency (IGCP), in March the Portuguese **State direct debt** remained almost unchanged (-€20M) vis-à-vis February, [amounting](#) to €253,431M before cambial hedging. The Treasury Bills stock decreased €1,504M, while net issuance of PGB, Cash-collateral and Treasury Certificates increased (€1,142M, €160M and €82M, respectively).

On April 1st, [IGCP](#) issued a syndicated transaction of €5B, the largest amount ever syndicated on a single OT tranche issued. The new benchmark (PGB 0.7%Oct2027) is the 1st line launched in the 7-year maturity bucket since 2015.

On April 22nd, €418M of PGB 2.875%Jul2026 and €598M of PGB 3.875%Feb2030 were [auctioned](#). The yields settled in 0.843% and 1.194%, respectively. Moreover, on April 15th, €410M and €840M (competitive tranche) of 3 and 12-month T-bills at weighted average yields of -0.009% and 0.038% were [issued](#), respectively.

On April (24th and 17th) Standard & Poor's and Fitch reaffirmed the **credit rating** for Portugal (BBB), but changed the outlook from high to stable.

GENERAL GOVERNMENT DEBT

According to [BdP](#), **general government Maastricht debt** reached €255,369M in February, i.e. +€3,050M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €234,697M, which represents a monthly decrease of €275M.