GPEARI
Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais
MINISTÉRIO DAS FINANÇAS
Office for Economic Policy and International Affairs
MINISTRY OF FINANCE

PORTUGAL

LATEST KEY DEVELOPMENTS

MAY 2020

HIGHLIGHTS

As a result of the Covid 19 pandemic, in the second quarter the Portuguese economy is expected to drop as never before. In order to preserve the productive capacity of companies and protect employment, the Portuguese Government presented a package of measures, for the second quarter of 2020 and a Economic and Social Stabilization Program.

According to INE's latest data, economy activity contracted in the 1st quarter of 2020, reflecting the impact of COVID-19 pandemic. In this period, GDP growth rate was -2.3% on a y-o-y basis (- 3.8% q-o-q), after increasing 2.2% in the previous quarter. This evolution reflected a negative contribution of both the net external demand and domestic demand (-1.3 p.p. and -1.1 p.p., respectively).

ECONOMIC ACTIVITY

After reaching a new minimum in the previous month, the economic climate indicator increased slightly in May. More information available here.

According to the latest COVID-19 effects survey, for the first fortnight of May, the proportion of enterprises operating increased to 90% comparing to 84% in the previous survey. Given the expected state without the pandemic, 77% of the enterprises continued to report a negative impact on turnover while 50% reported a decrease in persons employed effectively working.

LABOUR MARKET

According to INE, in the first quarter of 2020 the unemployment rate remained at 6.7%, the value of the previous quarter. From the previous quarter, unemployed and employed population decreased by 4.3 and 41.7 thousand people, corresponding to a change of -1.2% and -0.9%, respectively.

TOURISM INDUSTRY

In April, tourism accommodation activity recorded only 193.8 thousand overnight stays (a decrease of 96.7%). As a consequence of COVID-19 containment measures, in April around 80.6% of tourist accommodation establishments would have been closed or did not received guests. From an additional questionnaire about the perspectives for tourist activity in the coming months, 78.4% of respondent tourist accommodation establishments referred 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

In March, nominal exports of goods decreased 13% y-o-y (+0.8% in February) while imports decreased by 11.9% y-o-y (+3.5% in February). INE's press release available here.

In 2020, until March, the current and capital account balance stood at -€696M, refleting a deterioration of €331M in relation with the same period of 2019. This evolution was mainly driven by the current account that registered a deficit of €1119M (€706 in the same period of 2019), and specifically by the services account. BdP's data available here.

PRICE DEVELOPMENTS

The CPI 12-month average was estimated at -0.1% in May 2020 (0.1 p.p. lower than in the previous month). In the same month, the CPI annual rate was -0.7% (-0.2% in April), whilst core inflation was -0.4% (0.2 p.p. lower than in the previous month). In May, the estimated HICP annual rate of change in Portugal was -0.6% (-0.1% in April). INE's data available here.

According to INE's data, the Industrial Production Prices Index recorded a year-on-year change rate of -5.5% in April (-2.1% in the previous month).

BUDGETARY OUTTURN

Until April of 2020, the **general government** budget on a cash basis registered a €1,651M deficit, more €341M than in the same period of 2019. This evolution is due to an increase of 6.1% in expenditure that more than offset the increase of 5% in revenue. The **primary surplus** reached €1,574.8M, decreasing €504M vis-à-vis the same period of 2019.

Revenue already reflects pandemic impacts. The evolution of tax revenue (+ 3.8%) is explained by the increase in net income from the PIT associated with the decrease in refunds, but which will be corrected in the following months. The remaining taxes fell, reflecting the economic slowdown (except stamp duty and other direct taxes). Drop in revenue (-€320M) with the extension of the deadlines for the delivery of withholding taxes on PIT, VAT and IRC.

On the **expenditure** side the increase is manly explained by the increase of pension expenditure (4.6%), and the compensation of employees growth 5%, mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector.

In addition, the increase in **expenses** (€345M) is also associated with lay-off measures (€144M), acquisition of health equipment (€128M) and other support supported by Social Security (€54M).

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 €259,282M before cambial hedging. The Treasury Bills stock increased €1,350M, as well as net issuance of PGB, Cash-collateral and Treasury Certificates (€6,207M, €93M and €17M, respetively).

On May 13th, €750M of PGB 2.875%Oct2025 and €742M of PGB 4.75%Oct2030 were auctioned. The yields settled in 0.258% and 0.852%, respectively. Moreover, on May 20th, €750M and €1,000M (competitive tranche) of 6 and 12-month T-bills at weighted average yields of -0.411% and -0.351% were issued, respectively.

GENERAL GOVERNMENT DEBT

According to BdP, **general government Maastricht debt** reached €254,776M in March, i.e. -€593M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €235,127M, which represents a monthly increase of €430M.