

PORTUGAL

LATEST KEY DEVELOPMENTS

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GPEARI

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Office for Economic Policy
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MINISTRY OF FINANCE

HIGHLIGHTS AND ECONOMIC ACTIVITY

According to [INE's latest data](#), in the 2nd quarter of 2020, real GDP registered a strong contraction (-16.5% y-o-y and -14.1% q-o-q), reflecting the economic impact of the pandemic. This result is largely explained by the strong negative contribution in both domestic demand and external demand, with significant contractions in private consumption, investment and in exports of tourism.

[According to INE's latest information](#), in July, the consumer confidence indicator decreased, after the partial recover observed in the previous two months. By its turn, the economic climate indicator increased between May and July, after reaching a new historical minimum in April. Confidence indicators recovered in all sectors.

[According to the latest COVID-19 effects survey](#), there was a slight improvement in the enterprises situation when compared to the previous fortnight. The percentage of enterprises in operation in the first fortnight of July was 99%, a 3 p.p. and a 16 p.p. increase when compared with the previous fortnight and April, respectively. Given the situation that could be expected without the pandemic, 58% of the enterprises reported a negative impact on turnover (compared to 66% in the previous fortnight and 80% in April) while 24% of the enterprises reported reductions in the number of persons employed effectively working (36% in the previous fortnight and 59% in April).

LABOUR MARKET

According to INE's [latest data](#), **the unemployment rate in May stood at 5.9%**, having decreased by 0.4p.p. from the previous month and by 0.7 p.p. from May 2019. In the same period, and considering the previous month, the unemployed population has decreased by 9% (less 29.2 thousand people) and the employed population has decreased by 2% (less 96.2 thousand people). The **provisional unemployment rate estimate for June** was 7%.

TOURISM INDUSTRY

In May, **tourism accommodation activity recorded 307 thousand overnight stays**, a y-o-y decreased of 95.3% (-97.4% in April). Overnight stays from residents decreased by 85.9%, while those from non-residents declined by 98.4%. INE's press release available [here](#).

EXTERNAL ADJUSTMENT

INTERNATIONAL TRADE

In May, on a y-o-y basis, **nominal exports of goods** decreased by 39.0% (-40.1% in April) while **imports of goods** decreased by 40.2% (-39.5% in April). INE's press release available [here](#).

BALANCE OF PAYMENTS

In 2020, from January until May, **the current and capital account balance stood at -€2496M** (a deterioration of -€779M when compared to the same period of 2019). This deterioration is in major part due to the behaviour of the Balance of Services which registered a decline of €2649M. BdP's data available [here](#).

PRICE DEVELOPMENTS

The estimated **CPI annual rate in July** was 0.2% (0.1% in June), while the core inflation annual rate was 0.1% (-0.1p.p. than in June). By its turn, the CPI 12-month average remained at 0.1%. In the same month, the HICP annual rate of change in Portugal was nil (0.2% in June). INE's data available [here](#).

In June, according to [INE's data](#), the **industrial production prices** index decreased on a y-o-y basis by 5.7% (-6.6% in the previous month). Excluding energy grouping, the index decreased 1.8% (-1.7% in May).

BUDGETARY OUTTURN

Until the end of June of 2020, the [general government budget on a cash basis](#) registered a €6,776M deficit, more €6,122M than in the same period of 2019. This evolution is due to an increase of 5.4% in expenditure combined with the decrease of 9.5% in revenue. The **primary deficit** reached €2,419M, when compared to the same period of the last year there was a surplus of €4,165M. The budget execution already highlights the effects of the Covid-19 pandemic on the economic performance as well as the mitigation policy measures.

On the revenue side, the decrease of tax revenue (12.9%) and social contributions (0.9%) is due to the extension of payment period, namely the CIT model 22 from June to July, which has an impact on the revenue of 1,545M, and to the economic slowdown.

On the **expenditure** side, the COVID-19 measures explained 61% of the increase: linked to lay-off measures (€629M) and acquisition of health equipment (€220M). The increase of pension expenditure (4.2%), the compensation of employees (4.8%, mainly explained by the unfreezing of career progressions and the hiring of new staff on health sector) and capital expenditure explained the remaining.

TREASURY FINANCING

According to the Debt Management Agency (IGCP), in June the Portuguese **State direct debt** decreased €5,470M vis-à-vis May, [amounting](#) to €255,099M before cambial hedging. The Treasury Bills stock and Saving and Treasury Certificates increased €1,313M and €20M, respectively. On the other hand, the net amortization of PGB was €6,364M. On July 22nd, €430M of PGB 2.875%21Jul2026 and €820M of PGB 0.475%18Oct2030 were [auctioned](#). The yields settled in -0.108% and 0.352%, respectively. Moreover, on July 15th, €500M and €1,250M (competitive tranche) of 6 and 12-month T-bills at weighted average yields of -0.471% and -0.452% were [issued](#), respectively.

GENERAL GOVERNMENT DEBT

According to [BdP](#), **general government Maastricht debt** reached €264,379M in May, i.e. more €2,333M than in the previous month. Maastricht debt **net of deposits** of the general government stood at €239,214M, which represents a monthly increase of €2,191M.